



REPORT DATE: APRIL 20, 2020

PREPARED BY CITY OF SCOTTSDALE
ECONOMIC DEVELOPMENT DEPARTMENT

ECONOMY REPORT

This report is designed to provide an analysis of various components of the economy. The economy is a broad term used to describe movement of goods and services, also referred to as supply and demand. Economic conditions are largely dictated by people as conveyors of goods and services and COVID-19 has dramatically altered the way society is able to participate in the economy. Upticks and declines in the economy can be traced back to a variety of indicators that, when analyzed, can help to define current conditions and establish future projections.

This report considers eight economic indicators including:



UNEMPLOYMENT CLAIMS



UNEMPLOYMENT RATES



ECONOMIC BASE VULNERABILITY



WARN NOTICES



TOURISM



SALES TAX COLLECTION



CONSTRUCTION PERMITTING



ONLINE JOB POSTINGS

New economic indicators, such as hours worked by industry, airport passenger volumes and regional consumer price index measures, will be added when data becomes available to measure the impacts of the pandemic.

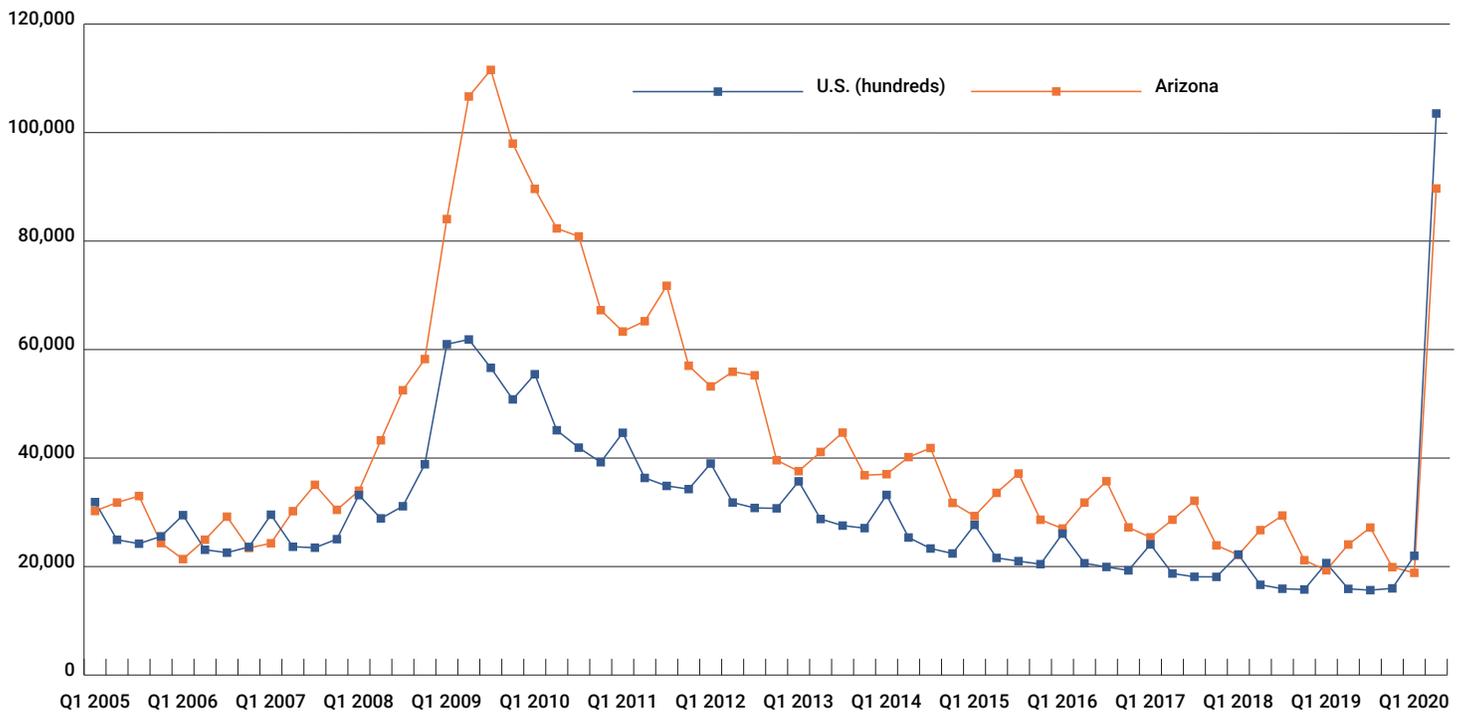
UNEMPLOYMENT CLAIMS

There are a limited number of economic indicators that are reported at a frequency that captures the events of the past month. One of those indicators is unemployment insurance claims, which are reported weekly at national and state levels. In Arizona, more than 348,000 initial claims have been filed since mid-March, which equates to over 12 percent of the covered workforce. Nationally, over 20 million initial claims have been filed since mid-March. Individuals must renew their claim every week, and so it is also possible to track the number of continuing claims. The sum of initial claims and continuing claims reflects the total number of claims filed in a given week.

Data on quarterly average continued claims for the state and the nation dating back to 2005 provides some perspective on how this current situation compares to the Great Recession. In Q3 2009, unemployment insurance claims in Arizona peaked at close to 112,000, which was proportionally much higher than the national rate of increase. In Q1 2020, national claims increased well above the peak of the Great Recession, and have continued to increase dramatically in the first two weeks of April. While there has also been a sharp increase in claims in Arizona at the end of March and continuing into April, the state is still below the 2009 peak at about 90,000 average continuing claims in April.

Quarterly Average Unemployment Insurance Claims for Arizona and the United States

Source: U.S. Department of Labor, Office of Unemployment Insurance



UNEMPLOYMENT CLAIMS (CONT.)

Weekly Unemployment Insurance Claims for Arizona and the United States

Source: U.S. Department of Labor, Office of Unemployment Insurance

Week Ending	Arizona			United States		
	Initial Claims	Continuing Claims	% Of Covered Workforce	Initial Claims	Continuing Claims	% Of Covered Workforce
2/1/20	4,152	18,421	0.6%	282,088	2,079,050	1.4%
2/8/20	3,475	18,401	0.6%	229,002	2,152,733	1.5%
2/15/20	3,807	18,854	0.7%	224,664	2,087,525	1.4%
2/22/20	3,636	18,461	0.6%	219,601	2,099,073	1.4%
2/29/20	3,538	18,516	0.6%	209,336	2,061,355	1.4%
3/7/20	3,151	18,217	0.6%	198,832	2,103,447	1.4%
3/14/20	3,086	18,137	0.6%	216,605	2,057,280	1.4%
3/21/20	3,357	17,593	0.6%	200,382	1,977,272	1.4%
3/28/20	3,844	17,595	0.6%	251,416	2,074,782	1.4%
4/4/20	29,348	18,108	0.6%	2,920,160	2,074,736	1.4%
4/11/20	88,940	26,387	0.9%	6,015,821	3,416,593	2.4%

UNEMPLOYMENT RATES

As a result of the CARES Act, the eligibility of unemployment insurance has now been extended to gig workers, self-employed and contract workers, and individuals who for any other reason are separated from work due to COVID-19. Individuals who are still working, but whose wages have been significantly reduced, are also eligible for partial unemployment payments.

Following 112 consecutive months of job growth and 79,000 new jobs added in Arizona last year, the state's unemployment rate could rise from 4.36% in February to an estimated 15.4% by July 2020, according to estimates from the Economic Policy Institute. Based on initial unemployment claims in Arizona through April 4th, statewide unemployment could rise to as high as 11% by the end of April. It is possible that Arizona could lose about as many jobs as were created in the

past two years, based on projections by Lee McPheters at W.P. Carey School of Business ASU.

The February 2020 unemployment rate for the Phoenix Metro area was only 3.86%, and the corresponding rate for Scottsdale was 3.17%, which is about as low as unemployment is ever likely to go given that there is always some frictional unemployment due to people who are between jobs. The national unemployment rate for February was 3.79%, rising to 4.53% for March 2020. March 2020 labor force data has not yet been released at the state and local level. Initial data on the decline in employment, and increase in unemployment rates, locally will be available in May, although declines did not really begin to occur until Mid-March. Much of the impacts of COVID-19 will likely occur in the second quarter.

UNEMPLOYMENT RATES (CONT.)

Labor Force and Unemployment Rate Changes

Source: Bureau of Labor Statistics, Local Area Employment Statistics

	Actuals			Year over Year Percent Change		
	Jan 2020	Feb 2020	Mar 2020	Jan 2020	Feb 2020	Mar 2020
Labor Force						
National (000)	163,497,000	164,235,000	162,537,000	0.86%	0.89%	-0.18%
Arizona	3,616,271	3,633,403	N/A	3.44%	3.49%	N/A
Phoenix Metro	2,552,106	2,566,138	N/A	3.27%	3.90%	N/A
Scottsdale	154,001	154,904	N/A	2.97%	3.61%	N/A
Unemployment Rate						
National (000)	3.98%	3.79%	4.53%	-9.70%	-6.98%	15.68%
Arizona	4.64%	4.36%	N/A	-9.92%	-7.37%	N/A
Phoenix Metro	4.05%	3.86%	N/A	-19.22%	-7.57%	N/A
Scottsdale	3.34%	3.17%	N/A	-22.00%	-7.30%	N/A

ECONOMIC BASE VULNERABILITY

Recent projections by the Economic and Business Research Center at UA suggest that the economic shock will be similar in magnitude to the Great Recession, but much shorter in duration. In advance of more detailed economic statistics, one way to understand the vulnerability of the Scottsdale economy is to look at the mix of industries represented and how likely the jobs in each of those sectors are to be impacted by the pandemic.

Low risk sectors include professional services, information, utilities, management of companies, public administration (including public schools), and real estate and leasing. These sectors account for about 23 percent of total employment in Scottsdale.

Medium risk sectors include agriculture, mining, construction, non-store retail, finance and insurance, administrative and support services, private education, health services and manufacturing. These sectors account for 46 percent of total employment in Scottsdale. For manufacturing, there is international supply chain vulnerability and there may be additional challenges related to social distancing for jobs that cannot be done from home. Some types of manufacturing will

suffer losses while others types of manufacturing may have increased production during the crisis. Health services, which accounts for 12 percent of total employment in Scottsdale, may seem like a high demand sector at this time, it is really a mix because doctors, dentists and offices of other health care practitioners, as well as surgical facilities and hospitals that are heavily reliant on elective surgeries, are experiencing significant reductions in revenue and staff, while hospitals treating COVID patients are just ramping up in Arizona.

High risk sectors include arts, entertainment and recreation, accommodation, food services, wholesale trade, retail trade, transportation and warehousing, personal services and social services. These sectors account for 30 percent of total employment in Scottsdale, with the first three sectors that make up the hospitality industry accounting for 15 percent, or half of the high risk jobs.

Chmura Economics & Analytics has used this approach to calculate a vulnerability index that measures the potential negative impacts of the COVID-19 crisis on county economies based on their current mix of employment by industry. The national

ECONOMIC DEVELOPMENT REPORT

ECONOMIC BASE VULNERABILITY (CONT.)

average score is 100 and higher scores indicate the degree to which job losses may be greater than the national average. The score for Maricopa County is 101.91, meaning that the county is only slightly

more vulnerable than the nation as a whole. This index does not account for variations in the rate of virus infection or local government policies.

Scottsdale Industry Vulnerability Analysis

Source: EMSI Q1 2020 dataset for Scottsdale ZIP codes

	2020 Employment	% of Total	Vulnerability Rating
Total	265,664		
Restaurants & Bars	23,029	9%	High
Retail (Trade-In Stores)	22,829	9%	High
Arts, Entertainment & Recreation	7,611	3%	High
Hotels & Lodging	7,980	3%	High
Wholesale Trade	7,662	3%	High
Personal Services	4,919	2%	High
Social Services	3,424	1%	High
Transportation & Warehousing	3,261	1%	High
Health Services	32,222	12%	Mixed
Administrative & Support Services	31,242	12%	Medium
Finance & Insurance	23,740	9%	Medium
Construction	11,110	4%	Medium
Education (Private)	7,352	3%	Medium
Manufacturing	5,739	2%	Medium
Agriculture	1,691	1%	Medium
Religious, Grantmaking & Professional Organizations	3,377	1%	Medium
Repair Services	2,123	1%	Medium
Retail (Non-Store)	2,049	1%	Medium
Mining	51	0%	Medium
Professional Services	25,499	10%	Low
Government (State and Local)	11,433	4%	Low
Real Estate & Leasing	10,070	4%	Low
Information*	8,587	3%	Low
Management of Companies	4,121	2%	Low
Government (Federal)	1,968	1%	Low
Utilities	20	0%	Low

*Publishing, Broadcasting, Telecommunications, Data Processing & Hosting, Internet Publishing and Web Search Portals, etc.

WARN NOTICES

Under the Worker Adjustment and Retraining Notification Act (WARN), employers are required to provide 60-day written notice to employees in advance of mass layoffs. These notices are tracked by the Arizona Department of Economic Security. Nine WARN notices have been issued by companies in Scottsdale in the past month representing a total of 1,277 jobs. However, since the pandemic

effect on the hospitality industry has happened so quickly, many hotels and restaurants (which represent the majority of recent notices) have made decisions to lay off employees on very short notice. While there are fines for companies that do not file WARN notices, they are not enforced in Arizona. However, to the extent that employers do file notices, they can continue to be tracked in real time.

Employer	Notice Date	Employees Affected
Benihana Midtown	4/5/20	52
Benihana Scottsdale	4/5/20	53
Four Seasons Resort	3/20/20	422
McCormick Scottsdale	3/30/20	65
Mind Body	4/7/20	91
Passport Health	3/23/20	65
Suit Supply	4/8/20	9
Yelp	4/9/20	375
Open Door	4/15/20	145
Total for 2020		1,277

TOURISM

Tourism is an important part of Scottsdale's economy base and has unfortunately been hit hard and very suddenly as business and leisure travel ground to a virtual halt. Sky Harbor is operating at about 15 percent of normal levels, although they are faring better than airports in hard-hit cities like Chicago and New York.

The impact to the hotel industry in Scottsdale has been devastating. Several hotels have closed, resulting in a loss of about 1,200 rooms, while occupancy rates dropped precipitously during March to a current low of about 10 percent as of the week of March 29th, compared to an average rate of 81

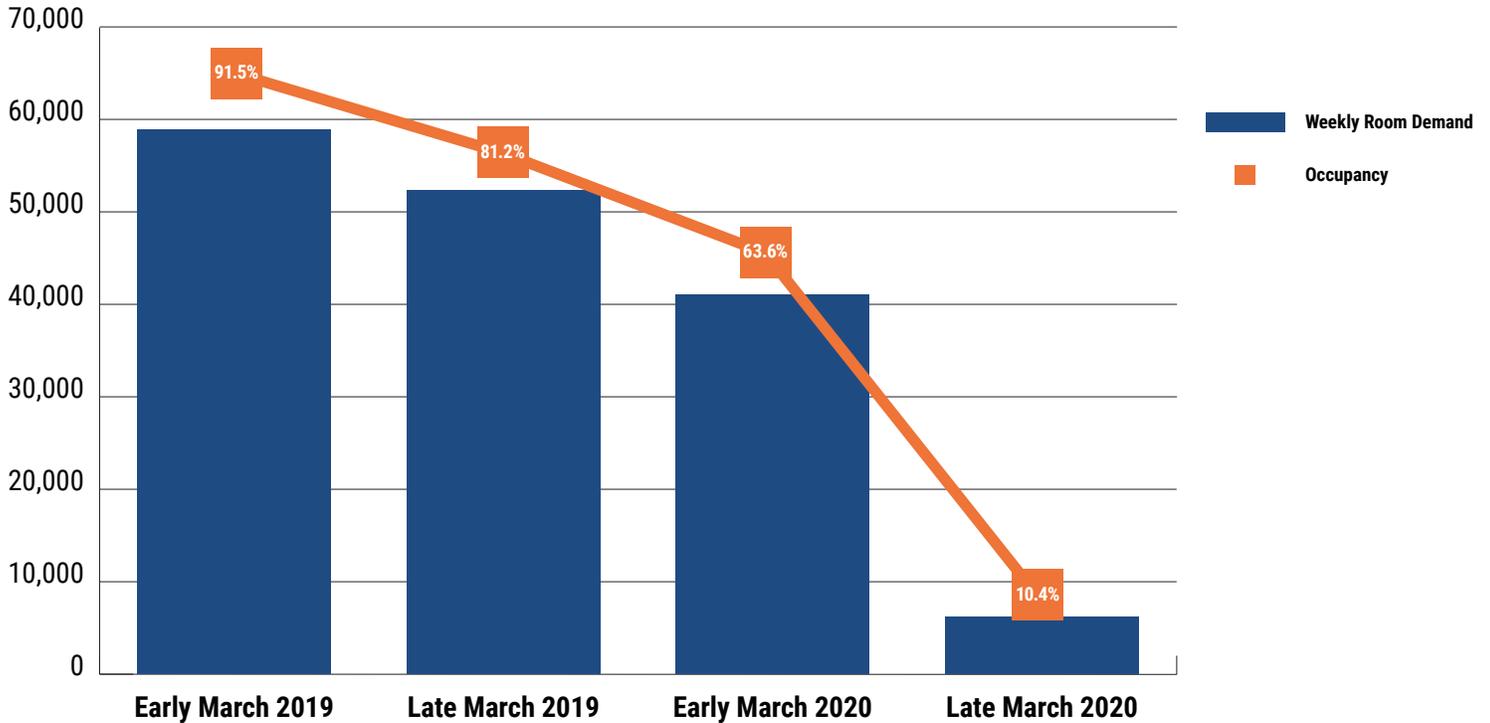
percent in the last week of March 2019. Average daily room rates for the last week of March have fallen from \$245 in 2019 to \$119 in 2020, according to Smith Travel Research. The timing of this crisis has been particularly unfortunate for Arizona and for Scottsdale, hitting at the peak of the tourist season.

As of the end of March, there was demand for about 885 rooms, or weekly demand for about 6,200 room-nights in Scottsdale. It is likely that some of this demand may be from health care workers and first responders who stay in hotels to avoid potentially infecting their families.

TOURISM (CONT.)

Weekly Room Demand and Occupancy 2020 vs 2019

Source: Smith Travel Research custom report, April 2020



Tourism Impacts in Scottsdale

Source: Smith Travel Research custom report, April 2020

	Week of			
	3/8/20	3/15/20	3/22/20	3/29/20
Room Supply	9,206	9,206	9,206	8,022
Current Occupancy Rate	63.6%	20.5%	10.0%	10.4%
Last Year Occupancy Rate	91.5%	92.2%	84.0%	81.2%
Current ADR	\$275.61	\$221.99	\$134.84	\$119.54
Last Year ADR	\$298.93	\$303.95	\$279.24	\$244.76
% Difference	-7.8%	-27.0%	-51.7%	-51.2%
Current Weekly Room Demand*	41,017	13,235	6,456	6,196
Last Year Weekly Room Demand*	58,924	59,381	54,090	52,292
% Difference	-30.4%	-77.7%	-88.1%	-88.2%

*Represents total room-nights over a period of a week.

SALES TAX COLLECTION

Sales tax collections for activity occurring in March 2020 (April collections) are not yet available from the Arizona Department of Revenue, but will yield critical information on the relative magnitude of impacts by retail sector. Retail sales statewide could drop by about 5 percent in 2020, based on projections from the Economic and Business Research Center

at UA. Cities with a greater share of sales from restaurants and bars may be hit harder. However, a rebound is projected for 2021 with a total increase of 6 percent, followed by increases of 5 percent per year in 2022 and 2023. It is important to note that these projections were issued at the end of March, prior to the statewide “stay at home” order.

CONSTRUCTION PERMITTING

Housing construction in Arizona is primarily driven by in-migration, which has accounted for more than 80 percent of statewide population growth in the past two years. With in-migration coming to an abrupt halt during the current crisis, this could create a more sustained reduction in housing demand, given disruptions in job markets. Many construction firms have three to four months of work in the pipeline, but beyond that point, the construction industry could see large job losses. According to projections by the Economic and Business Research Center at UA, residential permits are projected to drop by 3 percent statewide in 2020, cushioned by the existing pipeline of work, and then drop by 19 percent in 2021. A strong recovery for residential markets is not projected until 2022.

This is somewhat in contrast to projections of new home sales by Jim Belfiore, local real estate expert that show an 80 percent drop in new home sales contracts in the second quarter of 2020, compared to a year ago, and a 50 percent drop in sales in the third quarter of 2020, but a rebound by Spring 2021. The rebound should be bolstered by very low interest rates. While there may also be an increase in foreclosures in the short term, this is a very different than in 2008-09 because the available supply of new homes was very limited before the pandemic occurred.

New home construction is not the only sub-sector within the construction industry that will be impacted. According to the National Association

of Homebuilders, 90% of home remodeling companies are reporting a major impact due on their revenues due to cancellations or delays of remodeling projects based on homeowner’s concerns about having workers in their homes during the pandemic. Remodeling companies are also more likely to be small businesses and more vulnerable to business declines. Residential permits made up about 17 percent of all permits in Scottsdale in 2019. About 60 percent those residential permits were for additions and alterations.

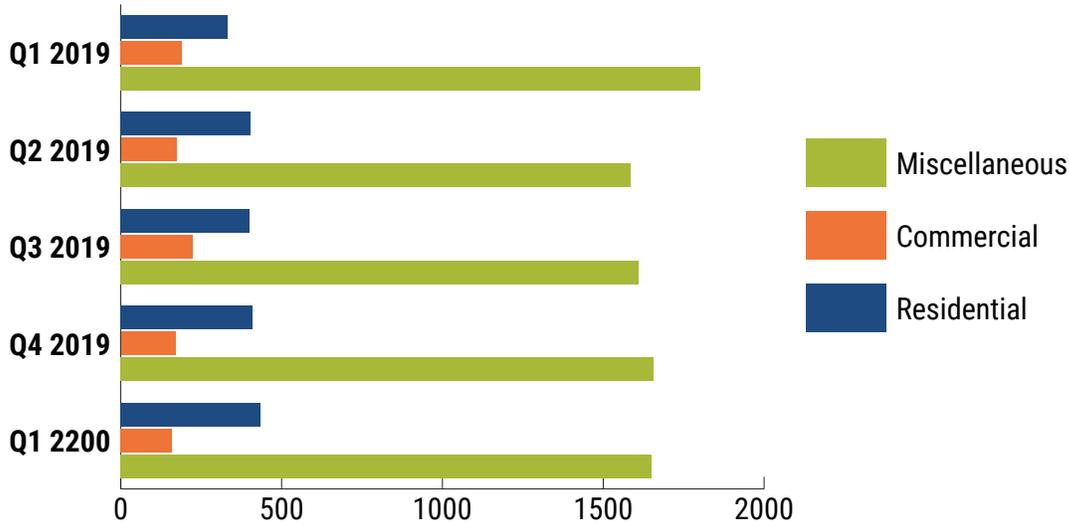
The demand for new office and industrial construction may also be impacted in a long term sense if there is a high rate of failure among small businesses and if larger companies continue to allow remote-working after social distancing ends, resulting in higher vacancy rates. This will have less of an impact in Scottsdale where only about 8 percent of permits in 2019 were for commercial projects, including both new projects and alterations and additions.

Comparing the total number of permits issued in the first quarter of 2019 to the first quarter of 2020, the impacts of COVID-19 are not yet evident. The total number of permits issued in the first quarter of 2020 is about 97 percent of the 2019 number. In general, the number and mix of permits issued from first quarter in 2019 through first quarter 2020 has been remarkably consistent over time.

CONSTRUCTION PERMITTING (CONT.)

Number of Building Permits Issued by Type

Source: City of Scottsdale, 2020



Note: Multi-family projects are included in residential for this analysis.

ONLINE JOB POSTINGS

Workers with lower education levels are losing jobs at a higher rate than individuals with higher education levels, which is generally the case during recessions. One illustration of this trend is the number of online job ads, which can be viewed as a leading indicator for labor market disruption. According to Chmura Economics & Analytics, comparing the two week period from March 22 to April 5, versus the two week period from March 1 to March 15, job postings

requiring a high school diploma dropped 47% while jobs requiring an associate's or bachelor's degree declined only slightly on a national basis.

For Scottsdale, the total number of jobs posted on online websites has dropped significantly in the past month. Most of the jobs posted in the past week are in IT, nursing, assisted living, cashiers and customer service staff at grocery stores and drug stores, and work-from-home sales positions.

Scottsdale Job Postings

Source: Various job posting websites, weeks of April 13, 2020 & April 20, 2020

	Week of April 13, 2020			Week of April 20, 2020		
	Total Postings	Posted Last 30 Days	Posted Last 7 Days	Total Postings	Posted Last 30 Days	Posted Last 7 Days
Monster						
Full Time	3,471	864	371	3,376	884	499
Part Time	210	30	5	169	17	6
Zip Recruiter						
Full Time	5,852	1,418	125	5,539	1,428	155
Part Time	358	91	23	337	90	23
AZ Job Connection						
Full Time	135	132	33	121	119	38
Part Time	7	7	1	6	6	1

OTHER CONCERNS

The pandemic will also have an impact on Census 2020 both in terms of response rates and the unusual employment situation that has been created and that will form the baseline for the next ten years. This is significant given that the Census has an impact on federal funding for a variety of public programs. Even though people are at home, answering the Census may be a low priority. The self-response phase has now been extended to August 14th, and the follow up effort has been extended to mid-August as well. This week the Census Bureau has asked Congress for a 120-day delay in delivering final apportionment numbers.

Given the pent up consumer demand that may be created by “stay at home” orders, there is a risk of higher inflation. Despite healthy national growth over the past decade, supply and demand have moved largely in tandem, keeping prices stable. However,

this shock to the economy could result in lower prices initially to draw consumers back into the marketplace, followed by higher prices as supply lags the sudden release of pent up demand. Nationally, consumer price index data has been released for March 2020 showing a 0.4 percent decline due to a combination of reduced demand from COVID stay at home orders and the drop in oil prices. This is the largest monthly decline since January 2015.

We are also tracking average weekly hours worked through the Current Employment Survey as an indicator of job losses, as well as reductions in hours for people who are still employed. Although data is available for March, the survey was conducted in early March and does reflect current conditions. Tracking this data by industry sector for the state and metro area will be an indicator of industries that are struggling.

QUESTIONS?

For questions about this report, contact Rob Millar, Economic Development Director

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