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PREPARED BY CITY OF SCOTTSDALE
ECONOMIC DEVELOPMENT DEPARTMENT

ECONOMY REPORT

This report is designed to provide an ongoing analysis of various components of the national, regional and local 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 dramatically altered the way that society was able to participate in the economy. Upticks and declines in the economy can be traced back to a variety of human-based factors that, when analyzed, can help to define current conditions and establish future projections.

This report considers eight economic indicators including:



PERSONAL INCOME



**GDP & CONSUMER
CONFIDENCE**



**UNEMPLOYMENT
INSURANCE
CLAIMS**



**LABOR FORCE AND
UNEMPLOYMENT
RATES**



**INDUSTRY
EMPLOYMENT**



**SALES TAX
COLLECTIONS**



TOURISM



**CONSTRUCTION
PERMITTING
ACTIVITY**

OVERALL RECOVERY FORECAST

Arizona was in a very strong economic position prior to the pandemic, and experienced a stronger recovery in 2020 than many other states. However, job growth slowed towards the end of the year, leaving the state 90,000 jobs below pre-pandemic levels, with a large share of those jobs concentrated in travel and tourism. Statewide job gains in 2020 were heavily concentrated in the Phoenix metro area, with other parts of the state recovering at a much slower pace.

The Arizona economic forecast from UA Economic and Business Research Center calls for the state to reach full recovery by the third quarter of 2021. This assumes that vaccine distribution will continue and that new variants of the COVID-19 virus that are vaccine-resistant do not emerge.

Transportation and warehousing, as well as the retail sector, benefited significantly from consumer spending spurred by CARES Act distributions, and from individuals who were re-directing their normal travel budget toward on-line shopping. However, other sectors like leisure and hospitality, professional and business services and local government are still lagging in job recovery. These three sectors account for 88% of the 60,000 remaining job losses in Metro Phoenix as of April 2021.

Job-related in-migration has long been a key driver of growth in the Metro Phoenix area. According to the Census Bureau, Maricopa County was the fastest growing county in the nation from 2019 to 2020 adding 86,820 new residents, including in-migration of 70,600. Official estimates for 2021 are not yet available, but according to U-Haul 2021 data on state to state migration there are significant numbers of people moving to Arizona from Texas, California and Washington. The top reasons for moving nationally include seeking a lower cost location, moving closer to family, seeking a safer location, taking advantage of the COVID housing market to buy or sell a home, and moving to be able to work from home.

Housing construction in Arizona is primarily driven by in-migration, which accounted for more than 80% of statewide population growth in 2018 and 2019, prior to the pandemic. The housing market in Phoenix Metro has remained very strong despite the economic downturn as more people wanted to work remotely and were looking for houses that would accommodate home office space. There has also been a steady flow of in-migration to Phoenix Metro from higher priced markets on both the West and East Coast. According to Redfin, about 40% of people shopping for homes in the Phoenix Metro area in the first quarter of 2021 were from out of state.

Mortgage rates have remained at record lows although housing prices have continued to increase significantly. This sharp increase in home prices has begun to slow the market with the level of home sales dropping 3.4% in May 2021, and the supply of homes increasing slightly over the past several months, according to ARMLS. Experts do not anticipate a housing market crash such as the one that occurred 2007 when the housing market in Phoenix Metro was highly over-valued, but a cooling effect is beginning to take hold, allowing the market to trend back to more normal levels of supply and demand, according to the Cromford Report.

PERSONAL INCOME

In addition to a strong housing market, and in spite of job losses during 2020, personal income growth in Arizona reached record highs last year. According to the Bureau of Economic Analysis, Arizona and Montana led the nation in personal income growth in 2020 at 8.4%. Nationally, personal income grew by 6.1% in 2020 compared to 3.9% in 2019, even though 2019 was generally considered to be a strong year for the economy. The increase in government transfer payments related to the CARES Act of 36.6% nationally accounted for the increase in personal income, while earnings increased

only 0.3% in aggregate. In Arizona, government transfer payments rose by 32.4% in 2020 while net earnings increased by 2.1%. Over the coming year, it is expected that personal income growth will drop to a more sustainable level of around 3.5%, as the economy transitions away from reliance on federal funding and shifts toward earnings growth. During the first four months of 2021, there were significant increases in personal income in January and March, offset by declines in February and April, resulting in a year to date decline in personal income of 2.3% from January to April.

GDP & CONSUMER CONFIDENCE

In Q1 2021, real GDP increased by 6.4% nationally, following a 4.3% increase in Q4 2020, reflecting a continued re-opening of the economy and the federal government stimulus response. While the growth rate for Q1 2021 was slightly lower than expected, it is significantly higher than a typical quarterly growth rate. Last year was a roller coaster year for GDP with a record 31.4% decline in Q2 2020, the largest single-quarter decline in history, followed by a whiplash increase of 33.4% in Q3 2020. Consumer spending accounts for about 70% of GDP, and was a primary driver behind the Q1 2021 increase, following lackluster spending in Q4 2020. The increase in consumer spending offset declines in net exports and changes in inventories that are also components of GDP. The Federal Reserve is projecting continued strong annual GDP growth of 6.5% in 2021 and 3.3% in 2022.

The Conference Board, which tracks consumer confidence as a leading economic indicator, reported a slight drop in the consumer confidence index

from April 2021 to May 2021 of 0.3, however overall consumer confidence is up dramatically year over year at 117.2 in May 2021, compared to 86.6 in May 2020. There are two factors that go into this index – the Present Situation Index and the Expectations Index, which interestingly moved in opposite directions in May. The Present Situation Index increased by 12.4 points, while the Expectations Index decreased by 8.8 points. The Expectations Index measures consumers' expectations for the next six months regarding the economy and labor market conditions. Despite full re-opening in most states and continuing declines in COVID-19 cases, there is uncertainty about continued increases in housing prices and the effects of inflation on price of vehicles and other consumer goods. Inflation as measured by the GDP price deflator is up 1.9% from a year ago in the first quarter of 2021 and is expected to rise to an annual rate of 2.1% in 2021 and 2.5% in 2022, according to projections from the UA Economic and Business Research Center.

UNEMPLOYMENT INSURANCE CLAIMS

There are a limited number of economic indicators that are reported at a frequency that captures current events in something close to real time. One of those indicators is unemployment insurance claims, which are reported weekly at national and state levels. In Arizona, claims have been dropping steadily since early February, although there were several weeks of temporary increases in claims in late April. As of the week of May 22, 2021 there were 4,800 initial claims 54,600 continuing claims in Arizona. At the same time in May 2020, there were 26,900 new claims and 218,000 continuing claims.

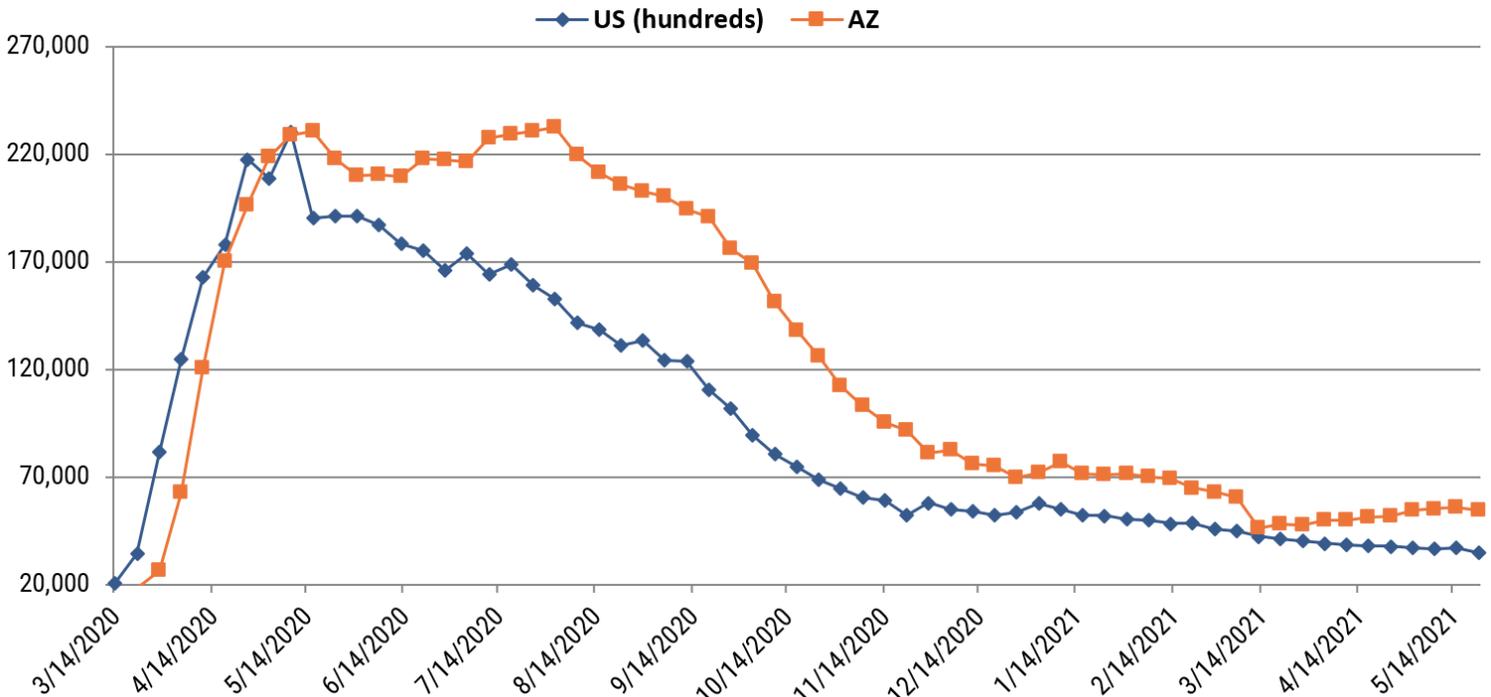
Nationally, initial claims have also been generally declining since late January 2021, with the exception of a significant uptick in early April 2021. A total of 419,000 initial claims (not seasonally adjusted) were filed nationally the week of May 22, 2021, which is the lowest level since the pandemic began, although still about 39% higher

than pre-pandemic levels in February 2020.

Individuals must renew their claim every week, and so it is also important 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. As the economic effects of this pandemic took hold, the number of continuing claims peaked in mid-May 2020, both nationally and in Arizona, but then declined sharply on a national basis through November 2020 before leveling off. In contrast, continuing claims in Arizona remained high from May 2020 through August 2020, before declining sharply through the end of the year. While significant recovery has occurred in the labor market, the country is not yet back to pre-pandemic levels due to a combination of factors ranging from the termination of additional federal unemployment benefits to lack of available child care.

Weekly Continuing Unemployment Claims for Arizona and the United States (Not Seasonally Adjusted)

Source: US Bureau of Labor Statistics, 2021



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UNEMPLOYMENT INSURANCE CLAIMS (CONT.)

Weekly Unemployment Insurance Claims for Arizona and the United States (Not Seasonally Adjusted)

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
1/2/2021	7,992	71,901	2.7%	898,610	5,756,886	4.7%
1/9/2021	12,309	76,818	3.1%	1,082,696	5,479,170	4.6%
1/16/2021	12,006	71,369	2.9%	937,313	5,218,474	4.3%
1/23/2021	13,034	70,808	2.9%	840,705	5,193,816	4.2%
1/30/2021	15,148	71,444	3.0%	849,650	5,038,663	4.1%
2/6/2021	7,670	69,884	2.7%	868,053	4,971,328	4.1%
2/13/2021	3,903	68,986	2.5%	835,045	4,828,682	4.0%
2/20/2021	4,108	64,813	2.4%	716,559	4,848,404	3.9%
2/27/2021	4,091	62,964	2.3%	756,629	4,582,021	3.8%
3/6/2021	4,244	60,271	2.2%	722,180	4,495,885	3.7%
3/13/2021	5,220	46,404	1.8%	757,202	4,233,702	3.5%
3/20/2021	4,822	48,150	1.8%	651,153	4,102,303	3.3%
3/27/2021	5,373	47,675	1.8%	723,653	4,015,277	3.3%
4/3/2021	5,177	49,810	1.9%	738,734	3,913,719	3.3%
4/10/2021	6,202	49,853	2.0%	622,628	3,840,457	3.2%
4/17/2021	6,308	51,376	2.0%	584,836	3,783,595	3.1%
4/24/2021	7,673	51,837	2.1%	612,060	3,776,257	3.2%
5/1/2021	7,267	54,641	2.2%	513,722	3,694,405	3.0%
5/8/2021	5,959	55,156	2.1%	492,029	3,671,310	3.0%
5/15/2021	5,378	55,921	2.2%	454,603	3,692,063	3.0%
5/22/2021	4,818	54,556	2.1%	419,436	3,481,303	2.8%

UNEMPLOYMENT RATES

The previous all-time high unemployment rate in Arizona was about 11% in 1982 during the global recession of the early 1980's. As of April 2020, the state unemployment rate peaked at 14.2% while the national rate rose to 14.4% (not seasonally adjusted). The highest unemployment rate on record for the U.S. was 24.9% in 1933. Since the peak in April 2020, the national unemployment rate has slowly declined to 5.5% as of May 2021.

Prior to the pandemic, unemployment rates in Arizona were at or near historical lows, in part because of the length of the recovery cycle that began in 2012. Arizona saw a quick and temporary bounce back after the pandemic began when many businesses re-opened in May 2020 and the unemployment rate dropped 3.5 points in one month to 10.7% (not seasonally adjusted). However, unemployment remained above 10%

through July 2020, although still below national levels. Since that time, unemployment in Arizona dropped to 6.4% by October 2020, followed by a moderate increase in unemployment through February 2021, then back down to 6.4% again in April 2021 (newest data available for states).

April labor force and unemployment data for the Metro Phoenix area and for Scottsdale show similar patterns. The April 2021 unemployment rate for the Phoenix Metro area was 6.0% (down slightly from 6.1% in March), and the corresponding rate for Scottsdale was 4.6% with no change since March. Scottsdale's unemployment rate for April 2021 is similar to, or less than, many of the other larger cities in the metro area. Note that this data from the Bureau of Labor Statistics is based on place of residence, not place of work.

Labor Force and Unemployment Rate Changes

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics, May 2021

Peak

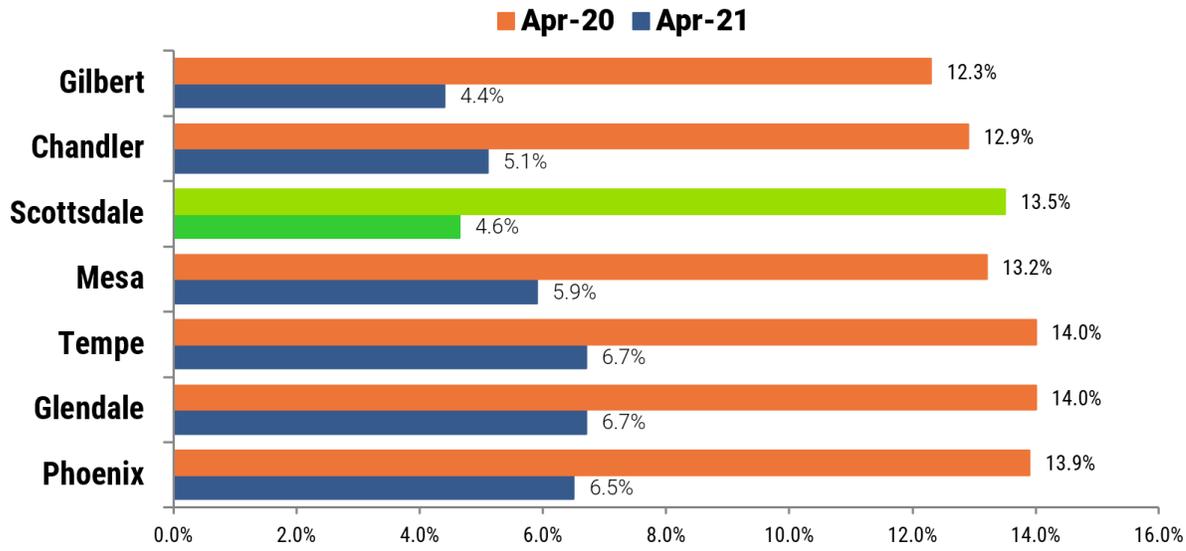
	Jan 2020	Feb 2020	Mar 2020	Apr 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021
Labor Force									
National (in thousands)	163,497	164,235	162,537	155,830	159,234	160,008	160,397	160,379	160,607
Arizona	3,587,269	3,597,043	3,585,541	3,523,144	3,572,898	3,590,240	3,599,372	3,607,237	na
Phoenix Metro	2,531,058	2,538,917	2,526,025	2,483,098	2,533,189	2,546,848	2,549,883	2,558,892	na
Scottsdale	151,569	152,095	151,173	149,993	151,065	151,407	151,490	151,490	na
Employment									
National (in thousands)	156,994	158,017	155,167	133,326	148,383	149,522	150,493	151,160	151,778
Arizona	3,413,357	3,434,158	3,399,392	3,023,400	3,325,993	3,336,407	3,367,543	3,376,796	na
Phoenix Metro	2,423,554	2,436,906	2,409,750	2,148,849	2,366,113	2,375,634	2,394,039	2,405,298	na
Scottsdale	146,252	147,070	145,381	129,738	142,749	143,366	144,459	144,459	na
Unemployment Rate									
National	4.0%	3.8%	4.5%	14.4%	6.8%	6.6%	6.2%	5.7%	5.5%
Arizona	4.8%	4.5%	5.2%	14.2%	6.9%	7.1%	6.4%	6.4%	na
Phoenix Metro	4.2%	4.0%	4.6%	13.5%	6.6%	6.7%	6.1%	6.0%	na
Scottsdale	3.5%	3.3%	3.8%	13.5%	5.5%	5.3%	4.6%	4.6%	na

Note: Not seasonally adjusted.

UNEMPLOYMENT RATES (CONT.)

Unemployment Rates by City

Source: Bureau of Labor Statistics, Local Area Employment Statistics



CHANGES IN EMPLOYMENT BY INDUSTRY

In order to better understand how the recovery is progressing, it is important to look at changes in employment by industry since not all industries have recovered at the same rate, or suffered the same initial losses. Changes in industry employment between February 2020 (pre-pandemic) and April 2021 can be compared for the U.S. and the Metro Phoenix area, providing useful insights about the varying level of recovery across different sectors.

The Bureau of Labor Statistics Current Employment Survey showed a decline in nonfarm employment of 14% nationwide (not seasonally adjusted) between February 2020 and April 2020. April represented the worst month during the pandemic. The nation lost

20.7 million jobs in that two month period. Since that time, 14.1 million jobs have been added back over the past year, leaving the nation 6.6 million jobs short of pre-pandemic levels. In the Metro Phoenix area, the decline in nonfarm employment from February 2020 to April 2020 was 11% or 242,800 jobs, of which 182,400 jobs have been added back through April 2021 (most current local data available). Overall, the Metro Phoenix area is at 97% of pre-pandemic (February 2020) employment levels. Projections from the UA Economic and Business Research Center call for continued annual job growth of 3.8% in 2021 and 3.6% in 2022 in Metro Phoenix. The following sections describe trends by sector over the past year.

- ▶ Unlike previous recessions, the **construction** sector came back strong and fast, with employment in April 2021 up 367,000 nationally, or 5% over pre-pandemic levels. Construction is one of the only sectors nationally with net gains over pre-pandemic levels. The strongest growth has been in construction of buildings. Locally, only 3,600 construction jobs were lost in early 2020 and the construction sector had fully recovered by November 2020. However, since November, there has been a slight decline in construction employment in Metro Phoenix, particularly in specialty trades.
- ▶ The most significant impact of the pandemic was in **leisure and hospitality**, which is particularly important to Scottsdale's economy. While there is significant seasonality in this sector, only 5.4 million of the 7.6 million jobs lost nationally in this sector have been recovered. In the Metro Phoenix area, 69,000 of the 100,900 lost leisure and hospitality jobs have been recovered, although jobs in this sector have increased steadily since last July 2020 without normal seasonal drops. This sector generally represents low wage seasonal jobs, and some former restaurant and hotel workers have moved on to more stable, higher paying jobs in other industries such as transportation and warehousing, leaving the hospitality industry with a shortage of labor at current wage rates.
- ▶ The **professional and business services** sector was also been heavily impacted by the pandemic, despite the ability of many professional service workers to work from home. This sector is lost 2.1 million jobs nationally from February 2020 to April 2020, and 30,200 jobs locally. Most of those losses were in administrative and support services. Employment in this sector nationally was at the highest level since the pandemic began in April 2021, despite some moderate losses early in 2021. In the Metro Phoenix area, recovery in this sector was sluggish through September 2020, but then sped up through the end of the year. Since that time, job growth locally in professional and business services has been flat or slightly negative.

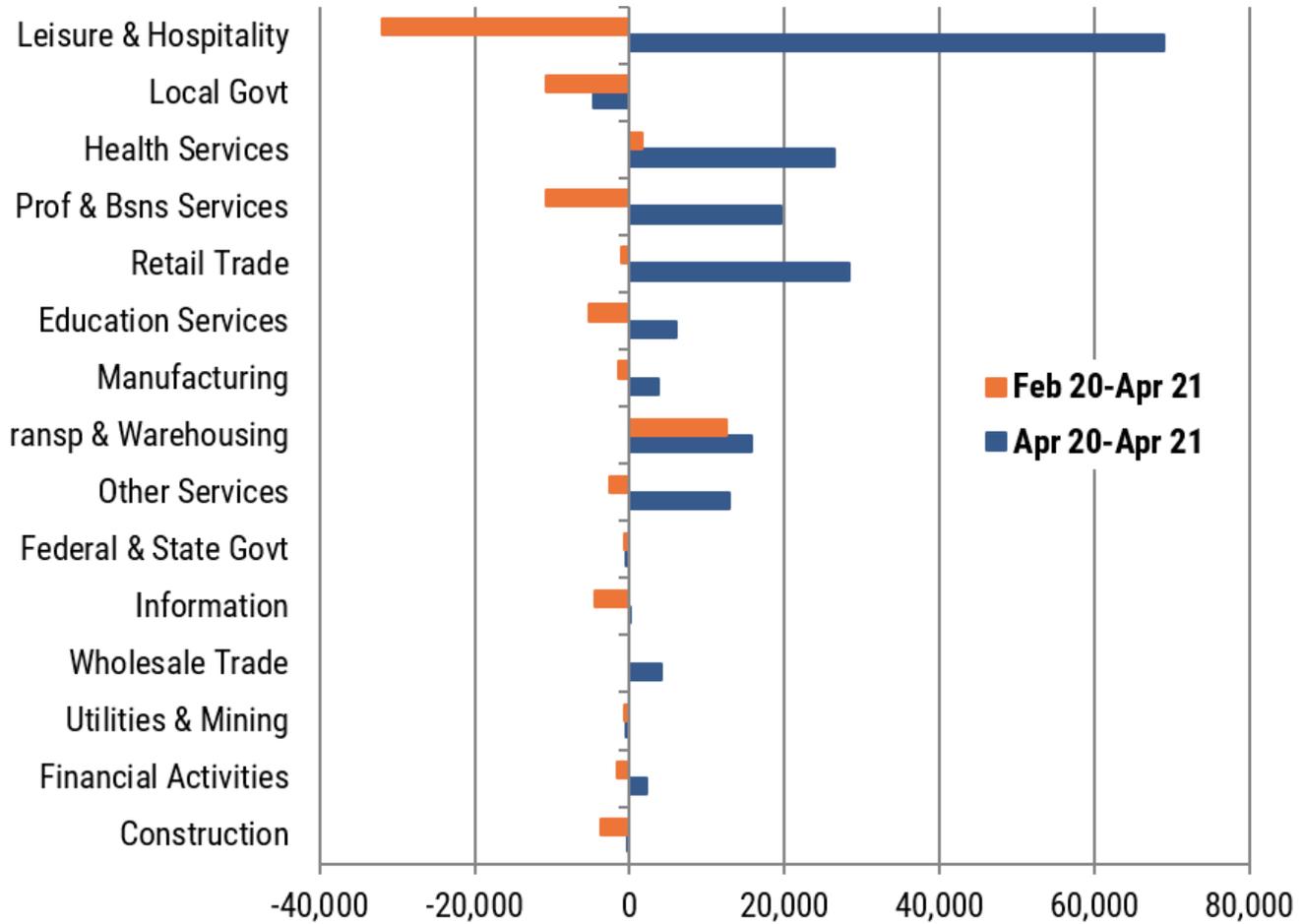
INDUSTRY CHANGES (CONT.)

- ▶ There were also large declines **retail trade** during the pandemic with the loss of over 29,000 jobs in Phoenix Metro and 2.2 million jobs nationally between February 2020 and April 2020. Most of these jobs have come back with normal seasonal increases during the fourth quarter. At this point, the retail sector has fully recovered locally and is close to full recovery nationally. The retail sector accounts for 1 in every 9 jobs in Phoenix Metro.
- ▶ One of the strongest growth sectors in the Phoenix metro area in the past year has been **transportation and warehousing**, which has added 12,600 net new jobs over the past year (since February 2020), and is significantly above pre-pandemic levels. A number of large new distribution and fulfillment centers have opened in the West Valley during the past year, fueling growth in this sector. On a national level, the transportation and warehousing sector is still slightly below pre-pandemic employment levels, down 148,000 jobs.
- ▶ **Health services** is still down 4% (777,000 jobs) nationally over February 2020 employment levels, although this sector is up about 1% (1,600 jobs) over pre-pandemic levels in metro Phoenix. Although hospital employment remained steady or increased, many medical and dental offices closed for some time during the pandemic, and it is likely there will be a delay, at least nationally, before this sector is fully recovered.
- ▶ The **manufacturing** sector lost about 1.4 million jobs nationally from February 2020 to April 2020, and although this is much less than other sectors, recovery on a national level has been hampered by supply chain challenges, particularly for durable goods. In the Phoenix Metro area, where manufacturing accounts for 6% of total employment, compared to 8.5% nationally, only 5,200 jobs were lost during the pandemic, and the region is within approximately 1,500 jobs of pre-pandemic levels. There are several very large manufacturing facilities under construction in the region currently that will grow manufacturing as a share of total employment in the region over the next several years.

Although industry employment data from the Bureau of Labor Statistics is not available at the city level, some local comparisons can be made using quarterly estimates from EMSI for Q2 2020 and Q2 2021 for the City of Scottsdale. Based on data from EMSI, overall industry employment in Scottsdale has increased by 2.7% in the past year. The largest increases have been in the information, health services and professional services sectors, which account for a combined total of 57% of all job growth in the city. The only sector with declines over this period is hotels & lodging.

Change in Metro Phoenix Employment by Industry Pre-Pandemic to Current and Trough of Pandemic to Current

Source: Bureau of Labor Statistics, Current Employment Statistics, May 2021



SALES TAX COLLECTIONS

The most current sales tax collections data available is for activity occurring in March 2021 (April 2021 collections) and shows a year over year increase of 24% for Scottsdale. The most significant increases year over year are in hotel/motel (+101%), restaurants (+89%) and miscellaneous retail (+66%). Comparing April 2021 collections to April 2019 collections reflects that total collections are still down 8% compared to April 2019, and

the only two categories with net increases over the past two years are other taxable sales (+21%) and miscellaneous retail (+22%). Hotels and restaurants are still down 40% and 27%, respectively. Nonetheless, collections in March 2021, which is typically the highest month of the year, were 1.3% higher than March 2020 (pre-pandemic) collections.

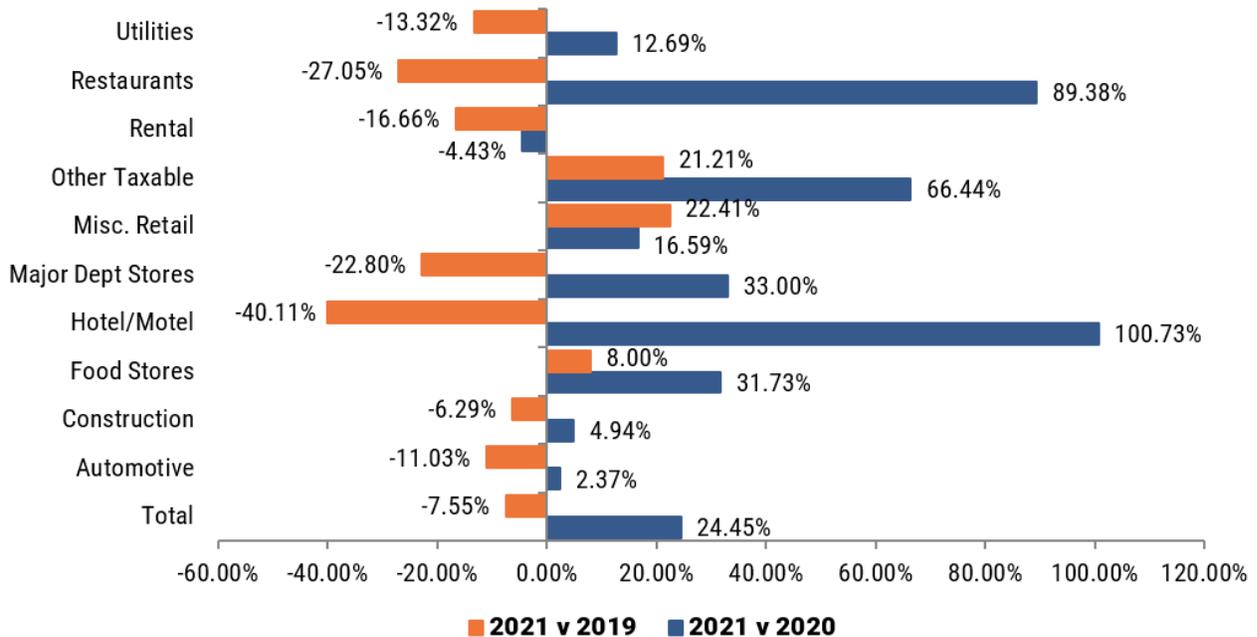
¹ This type of year over year comparison eliminates normal seasonal fluctuations.

Monthly Sales and Bed Tax Collections

Source: City of Scottsdale, 2021



April Year Over Year Changes in Collections by Sector in Scottsdale

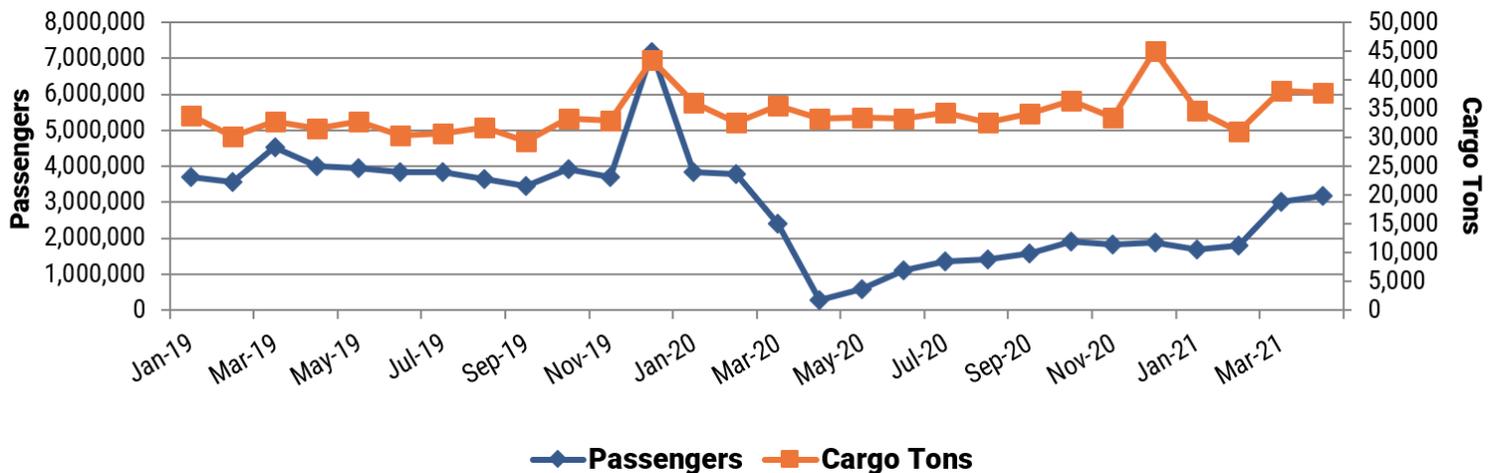


TOURISM

Tourism, which is an important part of Arizona’s and Scottsdale’s economic base, declined dramatically in Spring 2020 and has remained well below average levels through 2021, even though Arizona has remained largely open following an initial shut-down. Passenger volumes (both enplanements and deplanements) at Sky Harbor dropped by 88% between March 2020 and April 2020, compared to a 27% normal seasonal decrease during the same period in 2019. Passenger volumes for April 2021 were back to about 79% of April 2019 levels, following a 66% increase between February 2021 and March 2021. It is likely that summer 2021 will be a strong travel season and the level of activity at Sky Harbor will continue to increase.

Passenger and Cargo Volume Trends Sky Harbor International Airport

Source: Phoenix Sky Harbor Airport Statistics



Note: Passenger counts include enplanements and deplanements. Cargo includes mail and freight enplaned and deplaned.

The impact to the hotel industry in Scottsdale in March and April of 2020 was devastating. The timing of this pandemic was particularly unfortunate for Scottsdale, hitting at the peak of the tourist season. Several hotels closed during March and April, and occupancy rates dropped precipitously from 83% in February 2020 to a low of 10% in April 2020, according to Smith Travel Research. As of April 2021 occupancy rates are back up to 64%, or demand of about 239,800 monthly room nights. This is still below April 2019 levels of 80% occupancy and about 285,000 room nights demand, but conditions have improved significantly since the beginning of 2021.

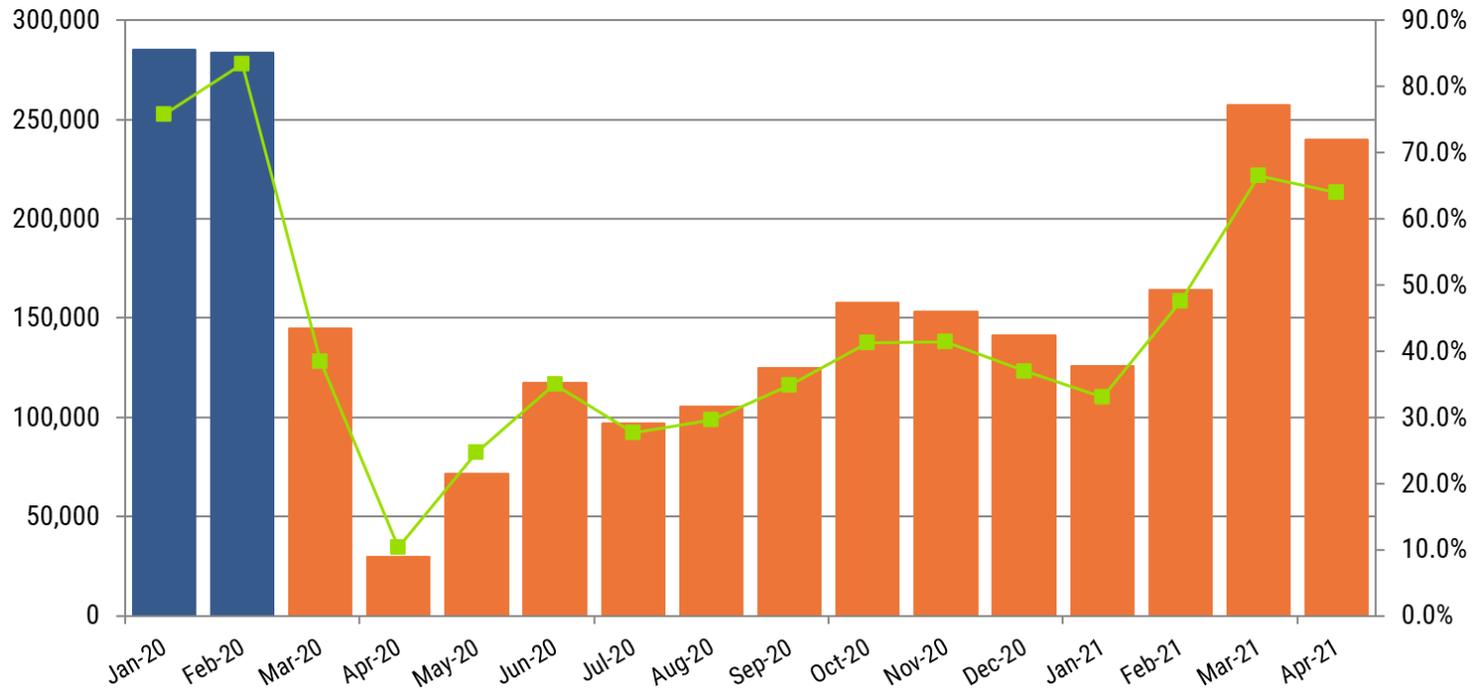
Average daily room rates (ADR) fell from \$281 in March 2020 to a low of \$96 in April 2020, compared to \$310 dollars in March 2019 and \$245 in April 2019. As of April 2021, ADR for Scottsdale is at \$261, so well above pre-pandemic levels. With the anticipated increase in summer travel this year, it is likely that local hotels will benefit from more

staycations by residents and potentially more out-of-state visitors, even in the off-season. While this return to leisure travel is very encouraging, business travel and conferences have been slower to rebound, and are complicated by larger changes in the way that people in professional services industries work and interact as a result of the pandemic.

TOURISM (CONT.)

Weekly Room Demand and Occupancy Rate, Jan 2020 to Apr 2021

Source: Smith Travel Research custom report for Scottsdale



CONSTRUCTION PERMIT ACTIVITY

Housing construction in Arizona is primarily driven by in-migration, which accounted for more than 80% of statewide population growth in 2018 and 2019, prior to the pandemic. The housing market in Phoenix Metro has remained very strong over the past year. Total housing permits statewide increased 23% year over year in 2020 to 57,281 according to the UA Economic and Business Research Center. The Phoenix metro area accounted for 80% of total statewide housing permits in 2020.

The S&P CoreLogic/Case-Shiller Home Price Index, which tracks changes in residential real estate prices in the 20 largest metro areas showed Phoenix leading the nation in March 2021 with a 20.0% year over year price increase, compared to a 13.3% national average. Both new and existing homes sales declined nationally between March 2021 and April 2021 due to lack of supply, as prices continued to increase. At the same time, new home builders continue to struggle to overcome short term supply chain issues and labor shortages.

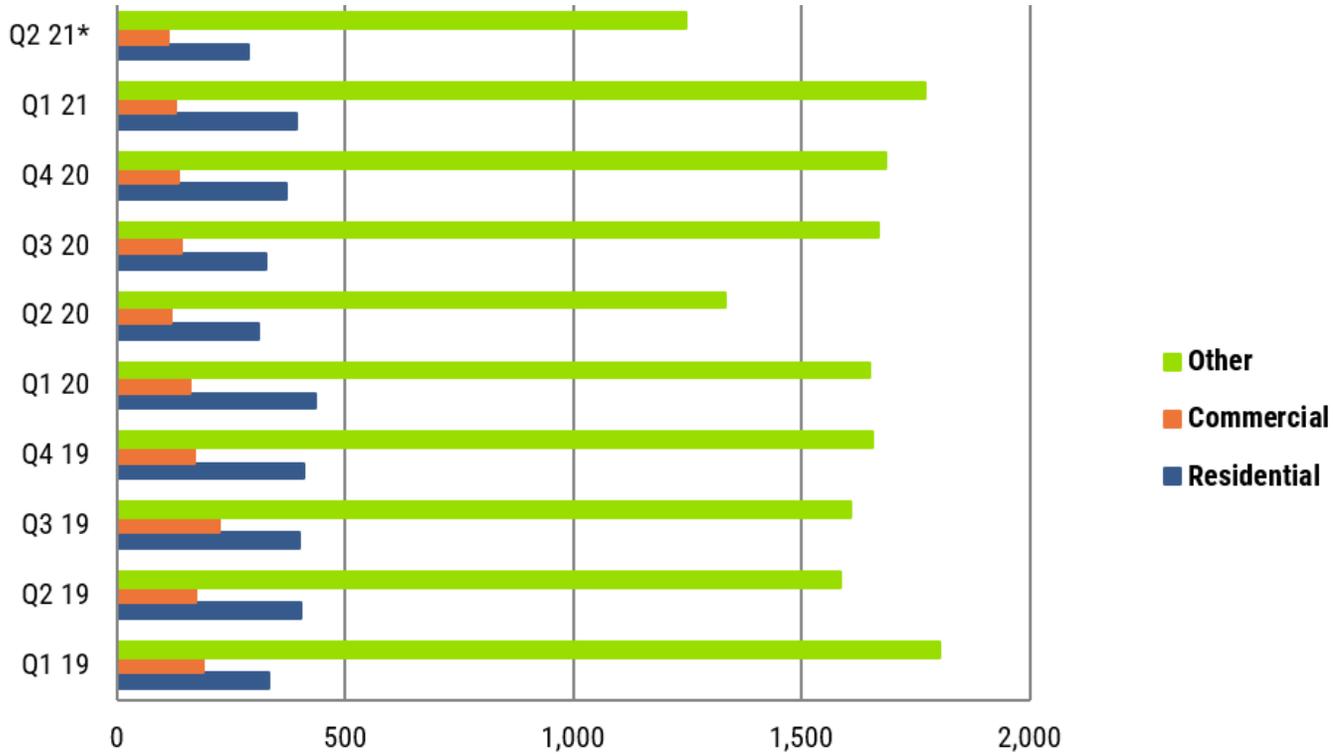
Total permitting in Scottsdale for Q1 2021 was up about 2% year over year, although both 2019 and 2020 were very strong years with limited disruption in activity due to the pandemic. Residential permitting activity including, both single and multi-family projects as well as alterations, was down about 9% year over year in the first quarter of 2021 mainly due to lower numbers in January and February 2021, but increases starting in March 2021. Residential permits are up so far for Q2 2021 in terms of both alterations and additions and new construction.

The number of commercial permits issued in the first quarter of 2021 was down somewhat over 2019 and 2020 levels for Q1. Year to date (Jan-May 2021), commercial new building activity is about half of what it was during the same period in 2020, whereas commercial alterations (which make up the bulk of commercial permits) are up about 4% year to date in 2021.

CONSTRUCTION PERMIT ACTIVITY (CONT.)

Number of Building Permits Issued by Type

Source: City of Scottsdale, 2021



Note: Q3 20 only includes April and May

QUESTIONS?

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

 480-312-2533  rmillar@ScottsdaleAZ.gov  ChooseScottsdale.com