

## ARIZONA ECONOMIC CONDITIONS AND OUTLOOK

Arizona's employment was one of the fastest growing in the nation in recent years, consistently rated amongst the top 10; however the pattern ended in 2007. The structure of the Arizona economy, highly tied to the construction industry, made Arizona one of the hardest hit states by the economic and financial crises that started in late 2007.

Bureau of Labor Statistics reports growth rate in nonfarm employment every month for each state. Compared to other states in the nation, Arizona's nonfarm employment growth has slowly climbed its way from the 49<sup>th</sup> position in 2010 to 36 as of May 2011. Arizona ranked at the 2<sup>nd</sup> position for three consecutive years (2004 to 2006), second only to Nevada. Notably, Arizona's fall in the rankings is mirrored in the same states that showed strong employment growth during the same time periods as Arizona. Looking at the performance for the Program Years 2009 and 2010, nonfarm employment declined by 5.4% and 0.3%, respectively, after posting positive gains of 0.2% in 2007 and loss of 5.3% in 2008 (**Table 1**).

**Table 1: Percentage Change in Program Year Average Employment—Arizona**

<b>Industry</b>	<b>PY 2007</b>	<b>PY 2008</b>	<b>PY 2009</b>	<b>PY 2010</b>
<b>Total Nonfarm</b>	0.2%	-5.3%	-5.4%	-0.3%
<b>Manufacturing</b>	-2.8%	-8.3%	-8.7%	-0.7%
<b>Natural Resources and Mining</b>	19.5%	1.1%	-15.1%	0.0%
<b>Construction</b>	-10.9%	-25.3%	-25.9%	-5.5%
<b>Trade, Transportation and Utilities</b>	1.2%	-5.7%	-5.4%	-0.2%
<b>Leisure and Hospitality</b>	1.0%	-3.8%	-3.9%	1.1%
<b>Education and Health Services</b>	4.8%	4.2%	3.1%	3.5%
<b>Professional and Business Services</b>	-0.6%	-8.6%	-7.0%	-1.0%
<b>Financial Activities</b>	-3.1%	-4.9%	-3.7%	-1.3%
<b>Other Services</b>	2.7%	-3.0%	-7.2%	-3.7%
<b>Government</b>	3.9%	0.1%	-2.3%	-1.1%
<b>Information</b>	-1.4%	-4.4%	-6.6%	-2.2%

Notes: Source: BLS Current Employment Statistics

1. Calculated from seasonally unadjusted data

2. PY 2010 excludes unavailable data, but includes May's preliminary estimate

For PY 2009, all the major industrial sectors posted employment losses other than Education and Health Services with moderate employment gains relative to its prior three years, indicating that the situation continued to deteriorate into 2010. The downdraft in Construction does not seem to be abating. Although the overall Nonfarm growth in PY 2010 has been negative, Education and Health services (3.5%) and Leisure and Hospitality (1.1%) have gained in employment with Natural Resources and Mining remaining flat.

The Employment and Population Statistics (EPS) unit of the Arizona Department of Administration released a forecast of Arizona's nonfarm employment on April 28, 2011 as depicted in **Table 2** below.

**Table 2: Forecasted Total Nonfarm Employment, Growth Rate**

	2010 <sup>(a)</sup>	2011 <sup>(b)</sup>	2012 <sup>(b)</sup>
Arizona	-2.1%	0.7%	1.4%
Phoenix MSA <sup>(1)</sup>	-2.1%	0.9%	1.6%
Tucson MSA <sup>(2)</sup>	-2.3%	0.0%	0.8%
Balance of State <sup>(3)</sup>	-2.3%	0.6%	1.4%

Notes:

- 1) Maricopa and Pinal counties
- 2) Pima County
- 3) Arizona less Maricopa, Pinal, and Pima counties
- a) Historical
- b) Forecast

The EPS) is forecasting a gradual increase in nonfarm employment in Arizona for the 2010-2012 projections time period. For the first time since the beginning of the economic downturn in 2007, Arizona is projected to have over-the-year gains in nonfarm employment in both 2011 and 2012. An over-the-year gain of 17,300 nonfarm jobs is expected in 2011 and 34,600 in 2012 as a result of a gradually improving economy.

**Table 2** shows in 2011, the rate of growth projected for total nonfarm employment is 0.7 percent and 1.4 percent in 2012 for Arizona. A total of 51,900 nonfarm jobs are forecast to be gained over the two projected years (2011 & 2012). In Arizona, losses continued late into 2010 past the official end of the U.S. recession in June 2009 as declared by National Bureau of Economic Research (NBER). Net positive over-the-year gain started only since January 2011. Although employment recovery has begun, the speed of recovery has been weak. Arizona continues to face a slowdown in population growth, high levels of unemployment, large debt loads, reduced income and wealth, weak housing and commercial real estate markets, rising health care costs and ongoing budget challenges in state and local governments.

Average annual growth rate in Total Nonfarm employment for Phoenix, Tucson, and Balance of State are also shown in Table 2. In 2011, Arizona, Phoenix, and Balance of State are expected to have a positive annual over-the-year growth rate in Nonfarm employment. Arizona is forecast to grow at 0.7% in 2011. Phoenix is expected to grow faster than the state at 0.9% while Balance of State is expected to grow slower than the state at 0.6%. Tucson is expected to be flat at 0%. The expected Nonfarm job gains in 2011 for the Phoenix MSA are 15,200 jobs with Tucson MSA showing essentially no gains. The Balance of State gains are forecast to be 2,100 jobs. Growth rate in 2012 is expected to be better than 2011 across all regions. Phoenix is forecast to grow at a faster pace (1.6%) than Tucson (0.8%), Balance of State (1.4%), and the state overall (1.4%). For 2012 the forecast job gains for Phoenix MSA are 27,100 jobs, Tucson MSA are 2,700 jobs, and Balance of State are 4,800 jobs

**Table 3: Unemployment Rate (Seasonally Adjusted) - End of Program Years(s)**

	May 2009	May 2010	May 2011
United States	9.4%	9.6%	9.1%
Arizona <sup>(1)</sup>	9.6%	10.0%	9.1%
Phoenix - Mesa - Glendale <sup>(1)(2)</sup>	8.7%	8.9%	8.0%
Tucson Metro <sup>(1)(2)</sup>	8.4%	8.7%	7.8%
Flagstaff Metro <sup>(1)(2)</sup>	7.1%	8.7%	7.2%
Lake Havasu City - Kingman - Metro <sup>(1)(2)</sup>	10.6%	10.8%	9.7%
Prescott Metro <sup>(1)(2)</sup>	9.7%	10.1%	9.3%
Yuma Metro <sup>(1)(2)</sup>	25.3%	27.3%	27.9%

Notes:

- 1) May 2011 Unemployment Rate
- 2) Not Seasonally Adjusted

The state's seasonally adjusted unemployment rate was 10% in May 2010, up 0.4% from May 2009, as shown in Table 3 above. Since May 2010, the state's unemployment rate has declined and is at 9.1% as of May 2011. The state has the same unemployment rate as the nation as of May 2011.

With the employment losses in the state, personal income growth (quarterly average), which stood at 2.2% in 2006 has seen a steady decline and, with it, the erosion of Arizona's national ranking. Personal income growth has declined to 1.1% in 2007, 0.1% in 2008, 0.3% in 2009 and 0.8% in 2010. Comparing annual rate of change in employment among the 50 states, Arizona ranked 2<sup>nd</sup> in 2006 with the largest growth in employment. Then the state's rank fell to 22 in 2007, 47 in 2008, 49<sup>th</sup> in 2009 and continued at the 49<sup>th</sup> place in 2010. The decline in state's average annual growth ranking over recent years parallels the decline in personal income.

The number of claimants receiving unemployment benefits in Arizona steadily increased in tandem with the negative trajectory of the employment environment, but has moderated somewhat in 2010 and 2011. From PY 2007 to PY 2008, the number of claimants increased by 37.67%, and from PY 2008 to PY 2009 the number of claimants was up 99.6%. From PY 2009 to PY 2010, the number of claimants increased further by 33.24%. However, from PY 2010 to PY 2011, the number of claimants decreased by 27.95%. Nonetheless, the average duration jumped from its level of 14.60 weeks in PY 2006 to its highest level of 19.3 weeks in PY 2010. For PYs 2007, 2008, and 2009 average duration stood at 15.0, 15.3, and 18.6 weeks, respectively. Number of Persons receiving unemployment claims increased over the years, was 33,512 in June 2007; 49,341 in June 2008; and 114,626 in June 2009. However, it started declining as the economy started slowly improving and was 87,787 in June 2010 and 69,087 in June 2011.