

Arizona Economic Overview

The Arizona Office of Economic Opportunity (OEO) produces demographic, labor force, regulatory, workforce, and economic information for Arizona. OEO submitted the following summary of economic highlights for program year (PY) 2020.

Prior to the recession (Feb. 2020 to April 2020) brought on by the COVID-19 pandemic, the Arizona economy was recording robust growth according to several key economic variables. Total nonfarm employment had increased year-over-year for 113 consecutive months, while the unemployment rate reached record lows. The recession had a notably negative impact on the Arizona economy in PY 2019, but PY 2020 fostered a strong economic recovery. Total nonfarm employment greatly increased over the program year while the Arizona unemployment rate approached pre-pandemic levels. Additionally, employment is projected to continue to increase in nearly all supersectors through Q2 2022.

Some economic highlights for PY 2020 include:

- Arizona population continued to grow across the state, and is projected to continue to increase over the next several years.
- In June 2021, the Arizona unemployment rate was 6.8%, which was higher than the U.S. unemployment rate of 5.9% in the same month.
- Arizona gained 151,900 jobs year-over-year in June 2021. These gains were recorded in all eleven supersectors.
- Ten of the eleven supersectors are projected to gain jobs through Q2 2022. Leisure and Hospitality is projected to have the highest percent change with 27.3% more jobs while Trade, Transportation & Utilities is projected to numerically gain the most jobs (86,473). Government is the only supersector projected to lose jobs (-1,649, or -1.0%).
- The State Coincident Index for Arizona, an indicator for measuring economic activity, improved to 153.0 in June 2021 from a 54-month low of 126.3 in April 2020.
- Per capita personal income growth in Arizona still lags behind the national average, but grew 6.5% from calendar year (CY) 2019 to CY 2020. U.S. per capita personal income grew 5.8% over the same period.

Figure 1: Arizona Population Projections

Year	Population	Population Change	Population % Change	Natural Change (Births - Deaths)	Total Net Migration (Inflows - Outflows)	Special Population Change ¹
2020	7,286,148	102,520	1.4%	22,250	78,574	1,693
2021	7,387,836	101,688	1.4%	22,149	77,764	1,777
2022	7,489,121	101,285	1.4%	22,059	77,363	1,865

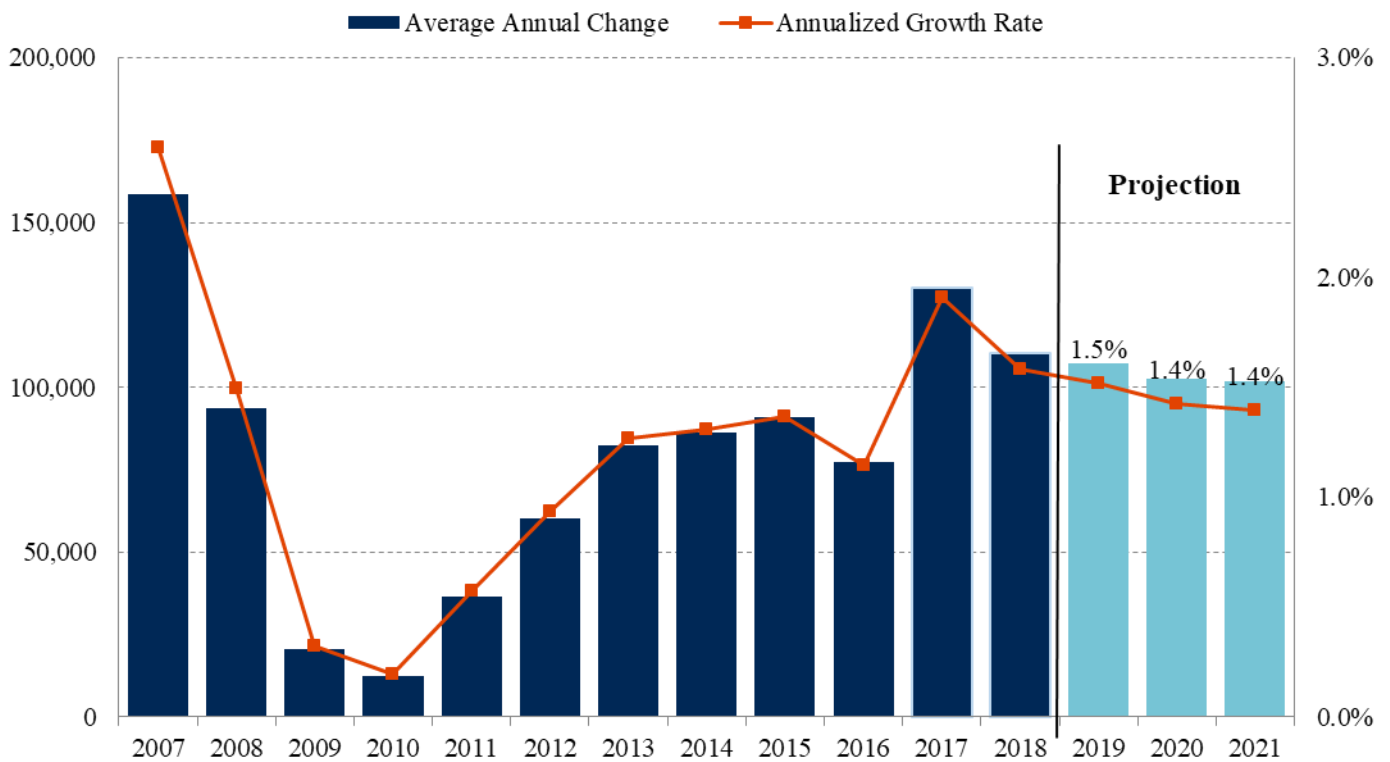
Source: Office of Economic Opportunity 2018 - 2055 Population Projections, Medium Series

¹ Special population changes are related to the temporary residencies caused by university students

Note: These projections were made prior to the 2020 Census and are therefore not consistent with the 2020 Census results

Population growth in Arizona increased by 1.4% (102,520 individuals) in CY 2020. Roughly 1/5 of this growth is attributed to natural change (more births than deaths), while nearly 4/5 of this growth is attributed to net migration (more individuals moving into Arizona than leaving). Barring the impact of COVID-19, Arizona’s population is projected to continue to grow through 2022.

Figure 2: Arizona Population Growth



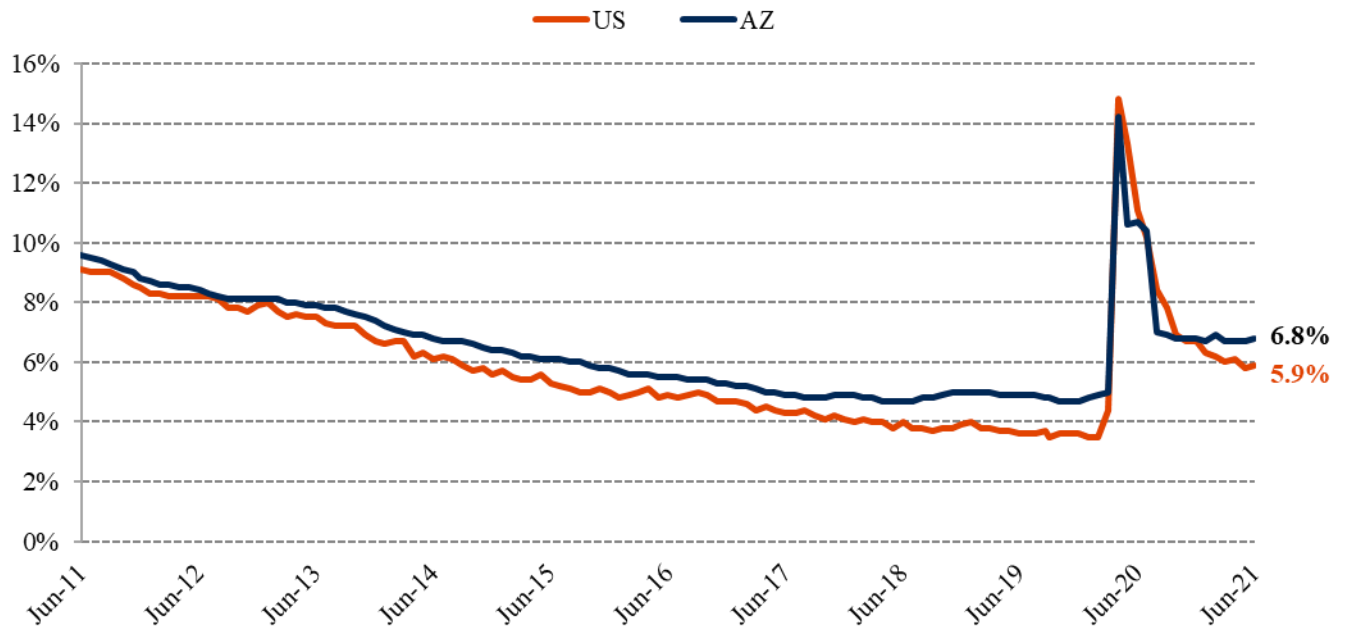
Source: Office of Economic Opportunity 2018-2055 Population Projections, Medium Series

Arizona’s population growth rate has exceeded 1.0% every year since CY 2013 (see figure 2). CY 2009 and CY 2010 had particularly low population growth rates due to the impacts of the Great Recession. The employment levels in Arizona declined during these years, and, as employment opportunity is a major driver of population increases, net migration declined as well. As the Arizona economy recovered from 2011-2019, net migration began to increase. This population growth can, in turn, fuel additional economic growth through the infusion of new consumers demanding goods and services.



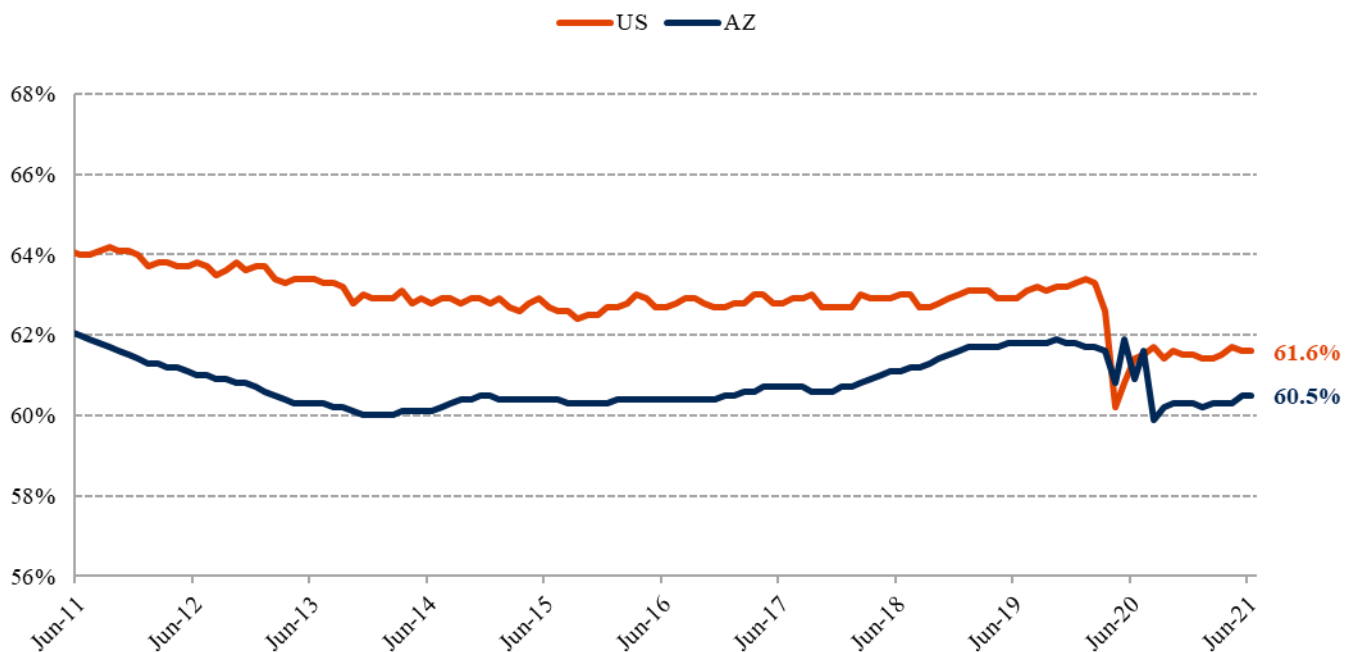
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Figure 3: Arizona and U.S. Seasonally-Adjusted Unemployment Rates



Source: Office of Economic Opportunity in cooperation with the U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics

Figure 4: Arizona and U.S. Labor Force Participation Rates



Source: Office of Economic Opportunity in cooperation with the U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics

Note: Data is seasonally-adjusted

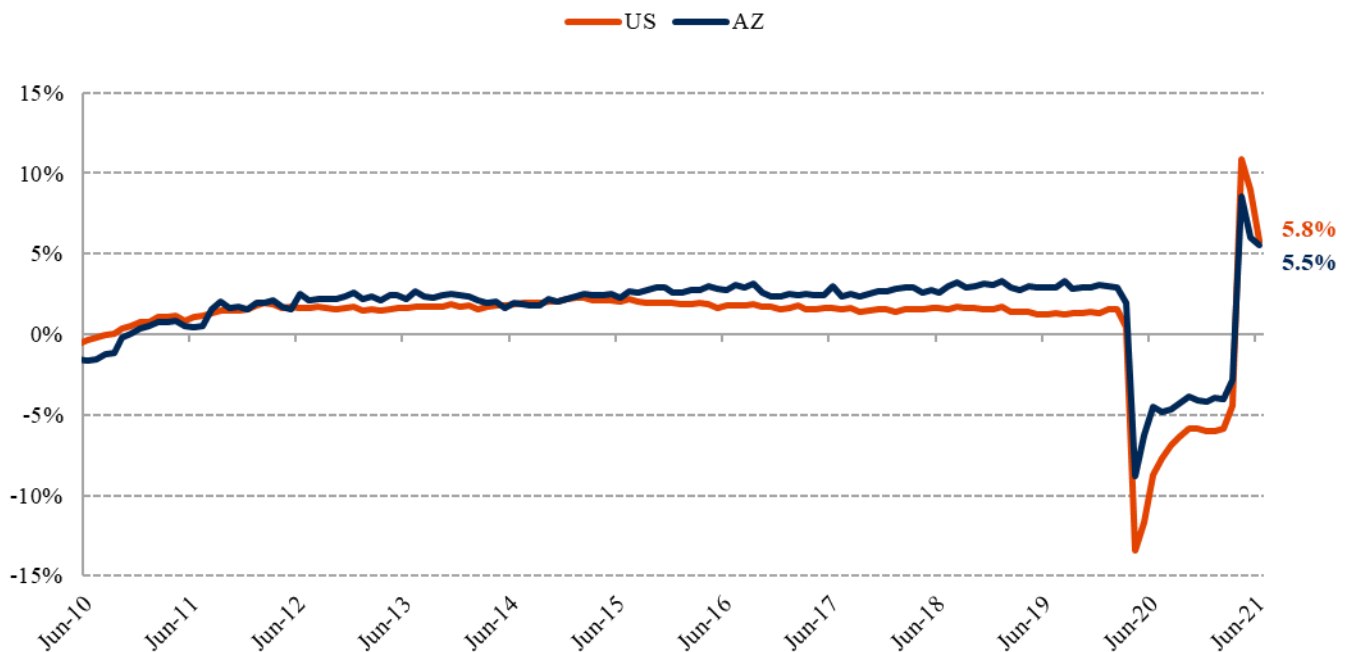


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Since the Great Recession (December 2007 – June 2009), Arizona’s unemployment rate and labor force participation rate have generally recorded positive changes. This trend ended abruptly in March 2020, when the Arizona unemployment rate increased, and labor force participation decreased. These trends mirrored national trends, and can be attributed to the effects of COVID-19. Arizona began PY 2020 with a seasonally-adjusted unemployment rate of 10.4% in July 2020 and ended PY 2020 with an unemployment rate of 6.8% in June 2021. The United States began PY 2020 with a seasonally-adjusted unemployment rate of 10.2%, and ended PY 2020 with an unemployment rate of 5.9% in June 2021.

Figure 4 compares monthly labor force participation rates between the United States and Arizona. The Arizona labor force participation rate has trended below the U.S. labor force participation rate historically. From PY 2014 to PY 2018, the Arizona labor force participation rate recorded positive growth, but in April 2020, experienced a sharp decline. This decline in labor force participation was primarily due to the economic impact of the COVID-19 pandemic. In Arizona, labor force participation was 61.6% at the beginning of PY 2020 (July 2020) and finished PY 2020 with a labor force participation rate of 60.5% (June 2021). The United States began PY 2020 with a labor force participation rate of 61.5% (July 2020) and had increased to 61.6% by the end of PY 2020 (June 2021).

Figure 5: Arizona and US Nonfarm Employment Year-to-Year Change Not Seasonally Adjusted



Source: Office of Economic Opportunity in cooperation with the U.S. Bureau of Labor Statistics, Current Employment Statistics

Figure 5 compares annual nonfarm employment growth rates between the United States and Arizona. From October 2014 through March 2021, Arizona’s nonfarm job growth rates have equaled or exceeded U.S. nonfarm growth rates in every month. Before declining to -8.8% in April 2020, Arizona nonfarm employment recorded positive year-over-year employment change for 113 consecutive months. Arizona nonfarm employment increased by 5.5% in June 2021, while U.S. nonfarm employment growth increased by 5.8% in June 2021.



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**Figure 6: Arizona Employment Growth by Industry
Not Seasonally Adjusted
(in thousands, reference month of June)**

	PY 2016	PY 2017	PY 2018	PY 2019	PY 2020
Total Nonfarm	79.6	70.8	81.5	-129.2	151.9
<i>OTY Percentage Change</i>	3.0%	2.6%	2.9%	-4.5%	5.5%
Natural Resources & Mining	0.3	1.4	0.3	-1.5	0.7
<i>OTY Percentage Change</i>	2.6%	11.8%	2.3%	-11.0%	5.8%
Construction	10.9	12.1	13.7	-2.0	1.7
<i>OTY Percentage Change</i>	8.1%	8.3%	8.7%	-1.2%	1.0%
Manufacturing	3.5	6.0	6.8	-3.0	5.0
<i>OTY Percentage Change</i>	2.2%	3.6%	4.0%	-1.7%	2.9%
Trade, Transportation, & Utilities	9.2	10.0	8.8	-3.0	46.1
<i>OTY Percentage Change</i>	1.8%	1.9%	1.7%	-0.6%	8.6%
Information	0.5	0.1	1.8	-6.4	0.9
<i>OTY Percentage Change</i>	1.1%	0.2%	3.8%	-13.0%	2.1%
Financial Activities	10.1	6.7	8.0	3.3	3.0
<i>OTY Percentage Change</i>	5.0%	3.2%	3.7%	1.5%	1.3%
Professional & Business Services	10.8	13.1	14.8	-20.9	16.7
<i>OTY Percentage Change</i>	2.7%	3.2%	3.5%	-4.7%	4.0%
Education & Health Services	17.0	10.6	17.2	-7.6	24.3
<i>OTY Percentage Change</i>	4.2%	2.5%	4.0%	-1.7%	5.5%
Leisure & Hospitality	11.5	5.6	4.7	-66.0	41.5
<i>OTY Percentage Change</i>	3.7%	1.8%	1.5%	-20.1%	15.8%
Other Services	1.2	3.0	1.5	-9.2	7.0
<i>OTY Percentage Change</i>	1.3%	3.3%	1.6%	-9.7%	8.2%
Government	4.6	2.2	3.9	-16.9	5.0
<i>OTY Percentage Change</i>	1.2%	0.6%	1.0%	-4.4%	1.4%

Source: Office of Economic Opportunity in cooperation with Bureau of Labor Statistics, Current Employment Statistics

Figure 6 shows nonfarm employment levels and the percentage change from prior program years. In PY 2020, nonfarm employment increased sharply from the year prior. This is primarily due to the impact of COVID-19 in PY 2019, when ten of the eleven supersectors lost jobs over the year. Among the eleven supersectors in PY 2020, Leisure & Hospitality had the highest year-over-year (YoY) employment growth rate (15.8%). This was followed by Trade, Transportation & Utilities (8.6%) and Other Services (8.2%). Natural Resources & Mining grew by 5.8% YoY, Education & Health Services grew by 5.5% YoY, and Professional & Business Services grew by 4.0% YoY. Manufacturing grew by 2.9% YoY, Information grew by 2.1% YoY, and Government grew by 1.4% YoY. Financial Activities, which was the only supersector to increase in employment in PY 2019, grew by 1.3% YoY in PY 2020. Construction increased by 1.0% YoY, the lowest employment growth rate among supersectors in PY 2020.



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Numerically, Trade, Transportation, & Utilities gained 46,100 jobs, Leisure & Hospitality gained 41,500 jobs, and Education & Health Services gained 24,300 jobs YoY in PY 2020. Professional & Business Services gained 16,700 jobs YoY, Other Services gained 7,000 jobs YoY, Manufacturing gained 5,000 jobs YoY, Government gained 5,000 jobs YoY, Financial Activities gained 3,000 jobs YoY, Construction gained 1,700 jobs YoY, Information gained 900 jobs YoY, and Natural Resources & Mining gained 700 jobs YoY. Total nonfarm employment increased by 151,900 YoY in PY 2020.

**Figure 7: Arizona Total Nonfarm Gains by Region
Not Seasonally Adjusted
(in thousands, reference month of June)**

	PY 2016	PY 2017	PY 2018	PY 2019	PY 2020
Arizona	79.6	70.8	81.5	129.2	151.9
<i>OTY Percentage Change</i>	<i>3.0%</i>	<i>2.6%</i>	<i>2.9%</i>	<i>-4.5%</i>	<i>5.5%</i>
United States	2,363	2,362	1,786	-13,215	8,016
<i>OTY Percentage Change</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.2%</i>	<i>-8.7%</i>	<i>5.8%</i>
Flagstaff MSA	1.5	0.6	0.3	-7.0	3.8
<i>OTY Percentage Change</i>	<i>2.3%</i>	<i>0.9%</i>	<i>0.4%</i>	<i>-10.4%</i>	<i>6.3%</i>
Lake Havasu City-Kingman MSA	1.6	1.5	0.8	-1.4	1.9
<i>OTY Percentage Change</i>	<i>3.4%</i>	<i>3.0%</i>	<i>1.6%</i>	<i>-2.7%</i>	<i>3.8%</i>
Phoenix-Mesa-Scottsdale MSA	71.7	57.9	69.0	-86.3	134.3
<i>OTY Percentage Change</i>	<i>3.7%</i>	<i>2.9%</i>	<i>3.3%</i>	<i>-4.0%</i>	<i>6.6%</i>
Prescott MSA	1.5	1.6	0.2	-3.0	3.9
<i>OTY Percentage Change</i>	<i>2.4%</i>	<i>2.5%</i>	<i>0.3%</i>	<i>-4.6%</i>	<i>6.3%</i>
Sierra Vista-Douglas MSA	0.4	0.1	-0.0	0.4	1.4
<i>OTY Percentage Change</i>	<i>1.2%</i>	<i>0.3%</i>	<i>-0.0%</i>	<i>1.2%</i>	<i>4.2%</i>
Tucson MSA	5.3	4.7	8.5	-20.9	9.9
<i>OTY Percentage Change</i>	<i>1.5%</i>	<i>1.3%</i>	<i>2.3%</i>	<i>-5.5%</i>	<i>2.8%</i>
Yuma MSA	1.0	0.9	1.8	-2.6	2.4
<i>OTY Percentage Change</i>	<i>1.9%</i>	<i>1.7%</i>	<i>3.4%</i>	<i>-4.7%</i>	<i>4.6%</i>

Source: Office of Economic Opportunity in coordination with Bureau of Labor Statistics, Current Employment Statistics

The distribution of job growth is predominantly concentrated in Phoenix Metropolitan Statistical Area (MSA), though in PY 2020, three of the seven Arizona MSAs grew at rates exceeding the job growth rate of Arizona (5.5%): Phoenix MSA (6.6%), Flagstaff MSA (6.3%), and Prescott MSA (6.3%). These three MSAs also surpassed the United States' job growth rate of 5.8%. Yuma MSA grew 4.6% in PY 2020, followed by Sierra Vista-Douglas MSA with 4.2% growth, and Lake Havasu City-Kingman MSA with 3.8% growth. Tucson MSA had the lowest job growth rate among Arizona MSAs in PY 2020 with a growth rate of 2.8%.



**Figure 8: Arizona Employment Shares
June 2011 to June 2021, Not Seasonally Adjusted**

Supersector Title	June 2011 Share	June 2021 Share	Share Change	Numeric Change
Education & Health Services	14.9%	16.1%	1.2%	116,400
Construction	4.7%	6.0%	1.3%	64,100
Financial Activities	7.2%	8.0%	0.8%	62,600
Professional & Business Services	14.5%	15.1%	0.6%	96,900
Natural Resources & Mining	0.5%	0.4%	-0.1%	1,200
Information	1.6%	1.5%	-0.1%	5,600
Manufacturing	6.4%	6.2%	-0.2%	29,000
Trade, Transportation, & Utilities	19.8%	20.0%	0.2%	111,700
Other Services	3.8%	3.2%	-0.6%	3,300
Leisure & Hospitality	11.0%	10.5%	-0.5%	45,300
Government	15.6%	12.8%	-2.8%	3,900
Total	100.0%	100.0%	0.0%	540,000

Source: Office of Economic Opportunity in coordination with Bureau of Labor Statistics, Current Employment Statistics

Figure 8 shows how the composition of Arizona’s economy has changed in the past decade. From June 2011 to June 2021, Construction increased its share of nonfarm employment by 1.3 percentage points, the largest share increase over this period. Other supersectors that recorded positive employment share gains included Education & Health Services (1.2 percentage points), Financial Activities (0.8 percentage points), Trade, Transportation & Utilities (0.2 percentage points), and Professional & Business Services (0.6%). The largest decrease in nonfarm employment share occurred in Government, losing 2.8 percentage points. This was followed by Other Services (-0.6 percentage points), Leisure & Hospitality (-0.5 percentage points), Manufacturing (-0.2% percentage points), Information (-0.1%), and Natural Resources & Mining (-0.1%).



**Figure 9: Arizona Short-Term Industry Employment Projections
2020-2022**

Supersector Title	Base Employment 2020 Q2	Projected Employment 2022 Q2	Numeric Change	Percent Change
Leisure & Hospitality	255,734	325,635	69,901	27.3%
Trade, Transportation, & Utilities	532,242	618,715	86,473	16.2%
Self-Employed	120,936	138,171	17,235	14.3%
Other Services	88,833	99,090	10,257	11.5%
Education & Health Services	606,430	669,963	63,533	10.5%
Information	45,008	49,147	4,139	9.2%
Professional & Business Services	421,533	459,728	38,195	9.1%
Financial Activities	223,935	239,295	15,360	6.9%
Manufacturing	174,008	184,899	10,891	6.3%
Construction	174,655	184,499	9,844	5.6%
Natural Resources & Mining	48,670	49,531	861	1.8%
Government	161,662	160,013	-1,649	-1.0%

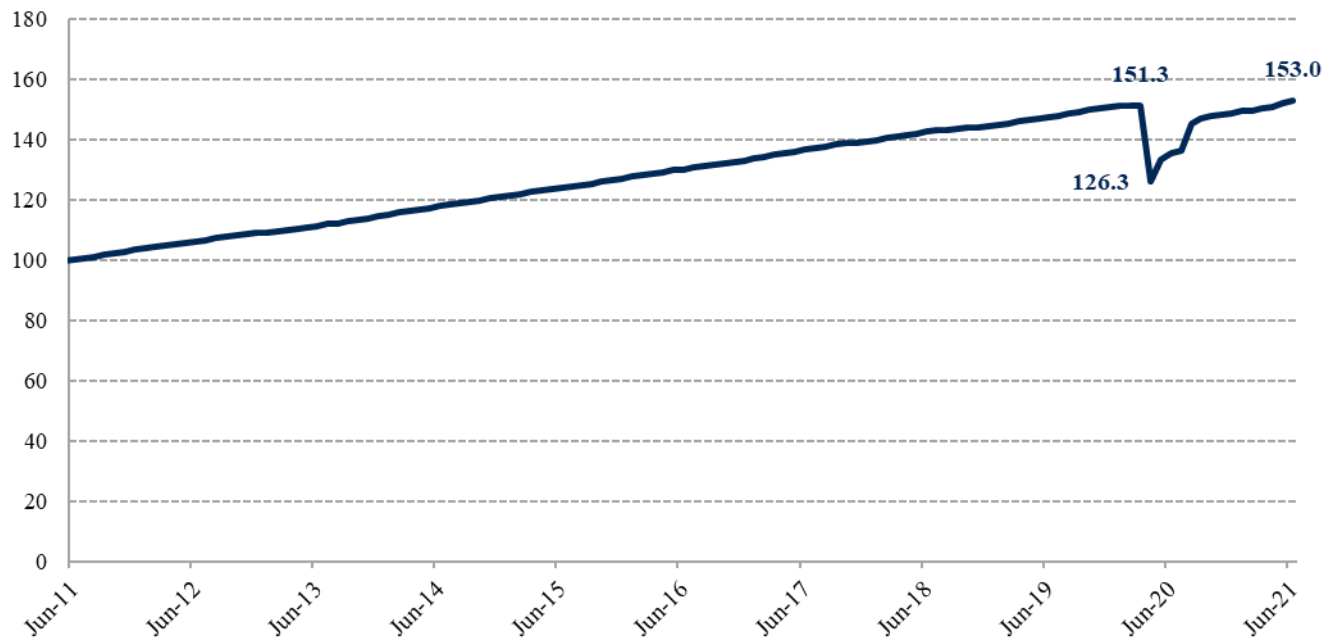
Source: Office of Economic Opportunity using Short Term Industry Employment Projections 2020-2022

Figure 9 shows the short-term employment projections for supersectors in Arizona. The short-term projections use Q2 2020 as base employment and therefore reflect the recent impacts of the COVID-19 pandemic. Because of this, short-term employment growth is projected to be relatively higher compared to previous short-term projections.

Ten of the eleven supersectors, along with Self-Employed, are projected to gain jobs in Arizona from Q2 2020 – Q2 2022. The largest percent increase is projected to occur in Leisure & Hospitality (27.3%), followed by Trade, Transportation & Utilities (16.2%), and Self-Employed (14.3%). Numerically, Trade, Transportation & Utilities is projected to gain the most jobs (86,473), followed by Leisure & Hospitality (69,901) and Education & Health Services (63,533). The only supersector projected to lose jobs is Government, which is projected to lose 1,649 jobs (-1.0%).



Figure 10: Arizona Coincident Economic Activity



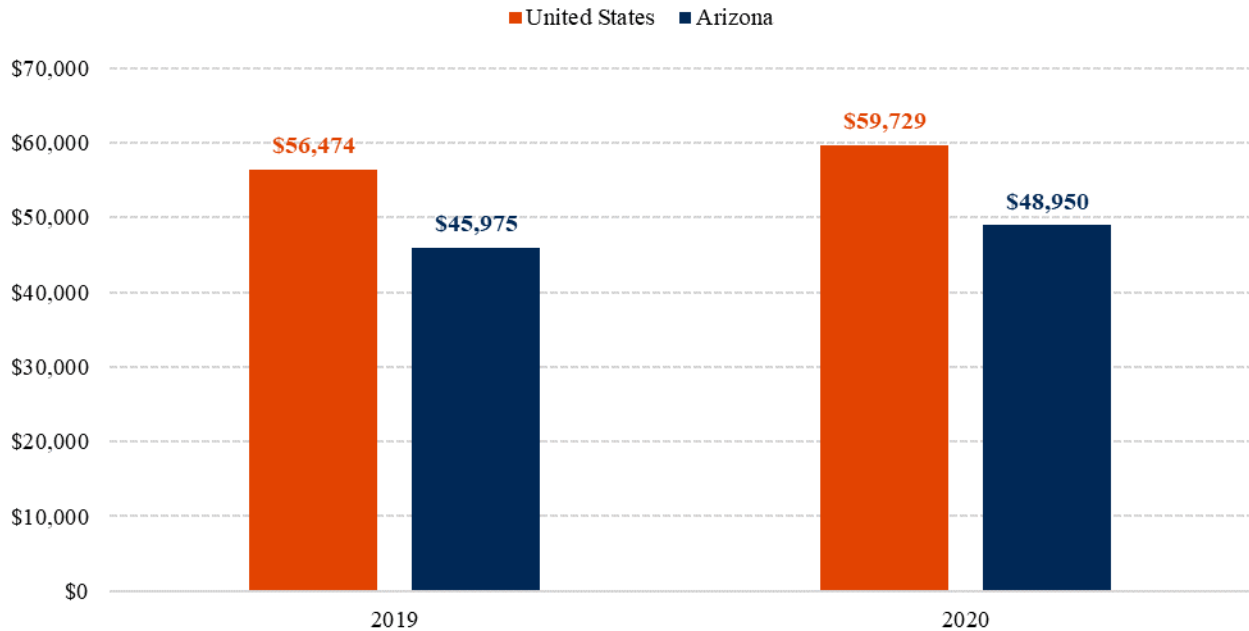
Source: Federal Reserve Bank of St. Louis

Note: This index combines four variables: total nonfarm employment, average hours worked in manufacturing, the unemployment rate, and wages

The coincident economic activity index is an economic indicator compiled by the Federal Reserve that tends to correlate with economic growth. Figure 10 shows the changes in the coincident economic activity index over the past ten years. As the coincident index increases, economic growth tends to increase. After experiencing 125 continuous months of growth, Arizona's coincident index declined by 0.1 in March 2020, dropping to 151.3. The coincident index declined again in April 2020 to 126.3. By June 2020, Arizona's index was at 135.6. In June 2021, the end of PY 20, Arizona's coincident economic activity index had improved to 153.0.



Figure 11: Arizona and US Per Capita Personal Income



Source: Office of Economic Opportunity in cooperation with the Bureau of Economic Analysis

Arizona’s per capita personal income in 2020 was \$48,950, an increase of 6.5% from 2019’s per capita personal income of \$45,975 (see figure 11). Over the same period, per capita income in the United States grew by 5.8%, going from \$56,474 in 2019 to \$59,729 in 2020. Among the states, Arizona ranked 42nd in per capita personal income in 2020.