

REGIONAL ECONOMIC UPDATE

Phoenix-Mesa-Scottsdale Metropolitan Area

Greater Phoenix Region's Economy Continues to Expand

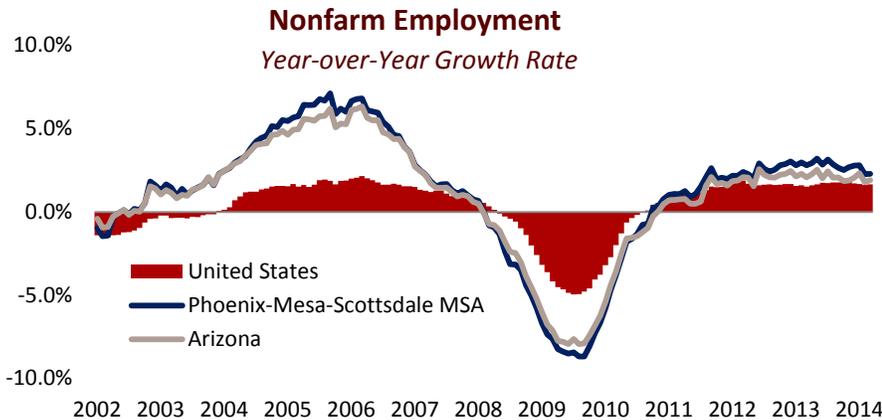
April 22, 2014

Overview

The economy of the Phoenix-Mesa-Scottsdale metropolitan statistical area (MSA) continues to expand at a modest rate. Economic growth as measured by real gross domestic product (GDP) outpaced that of the state and the nation in the last two years, growing at 3.2 percent in 2012 and 2.1 percent in 2011. The region has recovered more than 51 percent of economic activity lost during the recession that ended close to five years ago, reporting \$176 billion in real gross domestic product in 2012. Real GDP for 2013 and 2014 is expected to come in ahead of the state and national average.

Employment

The Phoenix metropolitan area has been adding payroll jobs at a faster rate than the rest of the state and the U.S since January 2011 (see graph).



Data Sources: Office of Employment and Population Statistics, Arizona Department of Administration

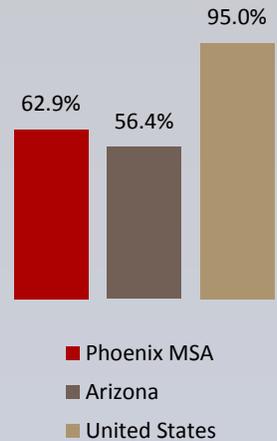
Nonfarm employment in the Phoenix MSA grew at 2.3 percent in 2013, exceeding both the state and national rates of 1.9 percent and 1.7 percent respectively. Data for 2014 indicates that the region's economy added 39,900 jobs in March 2014 compared to March 2013. Private sector added 40,300 jobs while the government lost 400 jobs. This was the second year in a row that the public sector lost jobs in March mostly due to the budget reductions put in place by the Budget Control Act of 2011 and sequestration that began in March 2013. Despite this, the economy created 48,500 jobs overall in 2013, the highest annual increase since the economy started adding jobs in 2010. The Region has so far recovered 63 percent of jobs lost during the 2007-09 recession.



Downtown Phoenix, Arizona

"The Phoenix MSA has recovered 63 percent of jobs lost during the recession. The job recovery rate for the state is 56 percent while the U.S. average is 95 percent."

Job Recovery Rate, as of March 2014

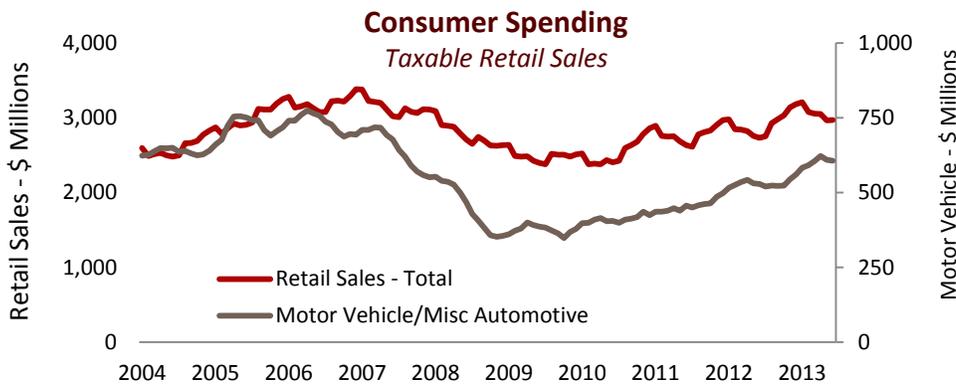


Labor Market

Job gains and a decline in the number of people reporting as unemployed have contributed to a decline in the unemployment rate. The Phoenix MSA unadjusted unemployment rate has dropped to 6.4 percent in March compared to 6.8 percent a year ago, and is lower than the U.S. average of 6.7 percent and the Arizona average of 7.3 percent for the same month. Retiring baby boomers and a weak job market have contributed to a decline in the labor participation rate – the number of people working or actively searching for a job - from 66 percent in 2008 to 62.7 in 2012.

Consumer Spending and Sentiment

Overall consumers remain cautiously optimistic, and wary of the current job market. The Consumer Confidence Index for the Greater Phoenix Region released by the Behavior Research Center increased from 69.6 in October 2013 to 72.2 in January. While the increase represents consumers’ positive expectations of improving business conditions and rising incomes in 2014, the Index has hovered around the 70 mark since January 2012. Consumers remain a major driver of the economy and are loosening their spending on durable goods. In addition, historic low interest rates have propped up motor vehicle spending since the end of the recession. Spending in the retail sector, which accounted for 53 percent of total taxable spending in 2013, was up by 1.6 percent in January 2014 compared to the same month a year ago.



Data Sources: Arizona Department of Revenue

Housing

Employment gains and the return of migration-driven population growth in 2012 have nudged traditional home buyers back to the housing market. Prices of resale homes, as measured by the S&P/Case-Shiller Home Price Index rose by 13.8 percent between January 2013 and January 2014. The rise in home valuations is slowing as the housing market normalizes and investor participation diminishes. Over-the-year increases in home values as measured by the S&P/Case-Shiller Home Price Index have been declining since January 2013.



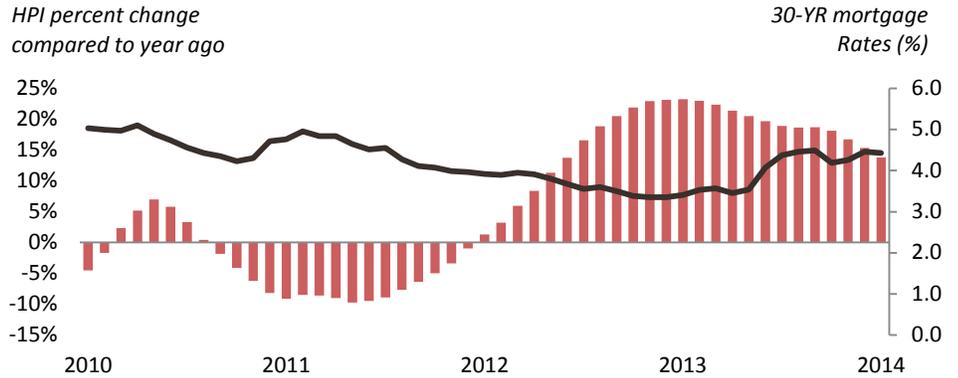
Downtown Phoenix, Arizona

“Consumers have an optimistic view of the business environment in the short-term but are less upbeat about the job market.”



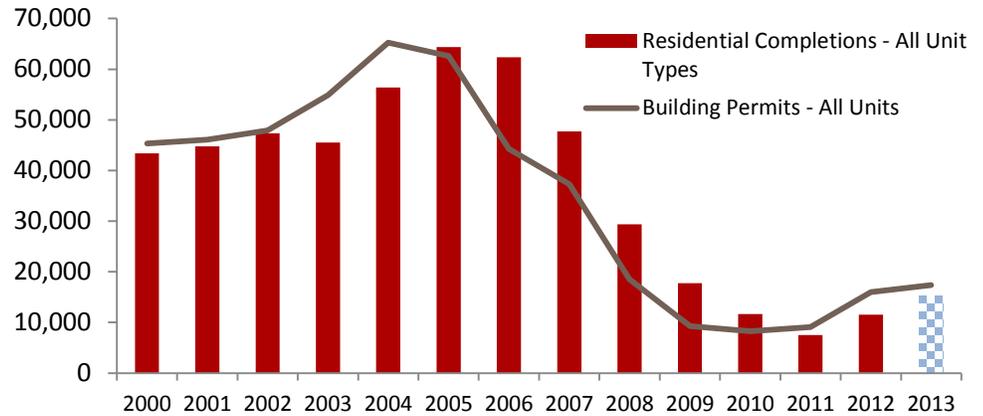
Scottsdale, Arizona

S&P/Case-Schiller Home Price Index



Data Source: S&P Dow Jones Indices

Employment gains coupled with a consistently declining inventory and strong price appreciation of resale homes are boosting new residential construction. Applications for building permits ticked upwards in 2011 and have rose to 17,411 in 2013 after reaching a low of 8,300 in 2010, indicating investor optimism and rising demand for new homes. Residential completions tracked the uptick in building permits in 2012, reporting the first increase in new residential completions since 2005. Net residential completions increased by 33.2 percent - to 15,312 in 2013. The sale of new homes remains in low gear mainly due to relatively low household formation as a result of slow job growth especially among younger adults, and rising mortgage rates.



Data Sources: MAG Residential Completion database and U.S. Census Bureau

Take Away

Economic growth is expected to pick up in 2014 boosted largely by less fiscal drag and accommodative monetary policies that are expected to continue through the end of the year. The increased certainty and rising global demand as the Euro Zone extends economic growth into 2014 all point to a better year ahead. Businesses are already positioning themselves to increase capital expenditures (CAPEX) in both facilities and equipment. An industry survey performed by the National Association for Business Economics in January revealed that 61 percent of businesses interviewed are planning to increase their capital investments. It is a good time to brush up on the business plans and prepare to court businesses looking to locate, relocate, or expand their operations in the Region.

“Sixty-one percent of companies plan on increasing CAPEX investments” – NABE Industry Survey.

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Regional Economic Indicators

	Period	Value	Change from Prior Period	Change from Prior Year
<u>Economy</u>				
Population	July 1, 2013	4,338,672	na	1.5%
<i>Share of State</i>		65.9%	na	0.2%
Gross Domestic Product (millions of chained 2005 dollars)	2012	\$176,321	na	3.2%
<i>Share of State</i>		76.4%	na	0.6%
Exports of Merchandise to the World, million dollars	2013	\$10,834	na	-0.7%
<i>Share of State</i>	2012	65.8%	na	-1.8%
<u>Labor Force (NSA)</u>				
Labor Force	March	2,078,771	1.8%	1.8%
Employment, by place of residence	March	1,944,895	1.5%	2.2%
Unemployment, by place of residence	March	133,876	6.7%	-3.6%
Unemployment Rate (NSA)	March	6.4%	4.9%	-5.9%
Initial Unemployment Insurance Claims	March	20,574	16.5%	11.1%
Unemployment Insurance Recipients	March	35,748	3.1%	-3.3%
<u>Employment</u>				
Nonfarm Employment - Total (SA)	March	1,839,700	0.1%	2.3%
Manufacturing (NSA)	March	116,100	0.5%	-0.7%
Average Weekly Hours	March	41	0.5%	1.0%
Average Weekly Earnings	March	\$768	-0.2%	-0.1%
Average Hourly Earnings	March	\$19	-0.7%	-1.0%
Construction (NSA)	March	93,200	0.9%	2.5%
Average Weekly Hours	March	38	2.4%	-5.0%
Average Weekly Earnings	March	\$841	2.6%	0.4%
Average Hourly Earnings	March	\$22	0.1%	5.7%
<u>Commercial Real Estate</u>				
Retail - Vacancy Rates	2014Q1	10.3%	-0.8%	-8.5%
Office - Vacancy Rates	2014Q1	17.8%	-3.0%	-8.6%
Industrial - Vacancy Rates	2014Q1	13.1%	4.9%	10.1%
<u>Residential Market</u>				
S&P/Case-Shiller Home Price Index	January	145.4	0.4%	13.8%
ARMLS Active Listings - single family	March	24,600	1.4%	49.3%
ARMLS Active Listings - all	March	30,167	0.9%	45.5%
ARMLS Median Sold Price - single family	March	\$205,000	3.0%	14.6%
<u>Consumers</u>				
Consumer Confidence Index (Maricopa Region)	January	72.7	4.5%	Na
Taxable Retail Sales, millions of dollars*	January	\$2,946	-37.9%	1.6%
Total Taxable Sales, millions of dollars*	January	\$5,701	-18.2%	2.6%
<u>Prices and Inflation</u>				
Consumer Price Index - all items	2nd Half 2013	125.9	0.2%	1.3%
Consumer Price Index - all items less food & energy	2nd Half 2013	118.3	0.6%	1.8%
30 Yr. Mortgage Rate, national average	April	4.34	0.0%	25.8%

* Retail sales are highly seasonal, and in some cases monthly data may seem high due to large accounting adjustments.

Data sources provided at the bottom of page 5.

Local Economic Indicators

Jurisdiction	Local Area Unemployment Statistics (LAUS) data, 2013				Building Permits By Place, 2012	
	Labor Force	Employment	Unemployment	Unemployment Rate	1-unit	Total Units
<u>Maricopa County</u>						
Avondale	36,374	33,531	2,843	7.8%	5	5
Buckeye	22,142	20,254	1,888	8.5%	679	679
Carefree	1,568	1,522	46	2.9%	8	8
Cave Creek	2,399	2,335	64	2.7%	27	31
Chandler	134,110	126,448	7,662	5.7%	585	585
El Mirage	14,217	13,076	1,141	8.0%	47	47
Fountain Hills	11,714	11,010	704	6.0%	9	9
Gila Bend	747	706	41	5.5%	0	0
Gilbert	118,162	111,972	6,190	5.2%	2,394	2,460
Glendale	115,732	107,713	8,019	6.9%	281	281
Goodyear	29,942	27,648	2,294	7.7%	976	976
Guadalupe	2,374	2,128	246	10.4%	7	7
Litchfield Park	2,716	2,647	69	2.5%	78	78
Mesa	222,413	207,826	14,587	6.6%	861	863
Paradise Valley	5,325	5,249	76	1.4%	39	39
Peoria	76,999	72,038	4,961	6.4%	642	642
Phoenix	726,323	675,630	50,693	7.0%	1,650	4,434
Queen Creek	13,701	13,052	649	4.7%	478	478
Queen Creek*	13,483	12,849	634	4.7%	na	na
Scottsdale	119,685	112,990	6,695	5.6%	275	941
Surprise	43,930	40,287	3,643	8.3%	532	568
Tempe	99,662	93,697	5,965	6.0%	33	417
Tolleson	2,417	2,166	251	10.4%	0	0
Wickenburg	2,443	,2228	215	8.8%	2	2
Youngtown	2,603	2,326	277	10.6%	0	0
<u>Pinal County</u>						
Apache Junction	14,974	13,642	1,332	8.9%	183	271
Casa Grande	20,788	18,978	1,810	8.7%	58	58
Coolidge	4,631	4,252	379	8.2%	4	4
Eloy	3,962	3,435	527	13.3%	45	45
Florence	3,141	2,832	309	9.8%	138	138
Kearny	919	883	36	3.9%	na	Na
Mammoth	425	363	62	14.6%	na	na
Maricopa	19,859	18,254	1,605	8.1%	283	289
Winkelman	168	137	31	18.5%	na	na

* Within Maricopa County only

Data Sources: The U.S. Census Bureau, U.S. Department of Commerce; Arizona Regional Multiple Listing Service, Inc. Home Sales Reports; Office of Employment and Population Statistics, Arizona Department of Administration; U.S. Bureau of Economic Analysis, U.S. Department of Commerce; International Trade Administration, U.S. Department of Commerce; Costar Inc.; The University of Arizona, Arizona Department of Revenue data; and Behavior Research Center Poll Results.