Arizona's Economy:
Current Performance and Outlook

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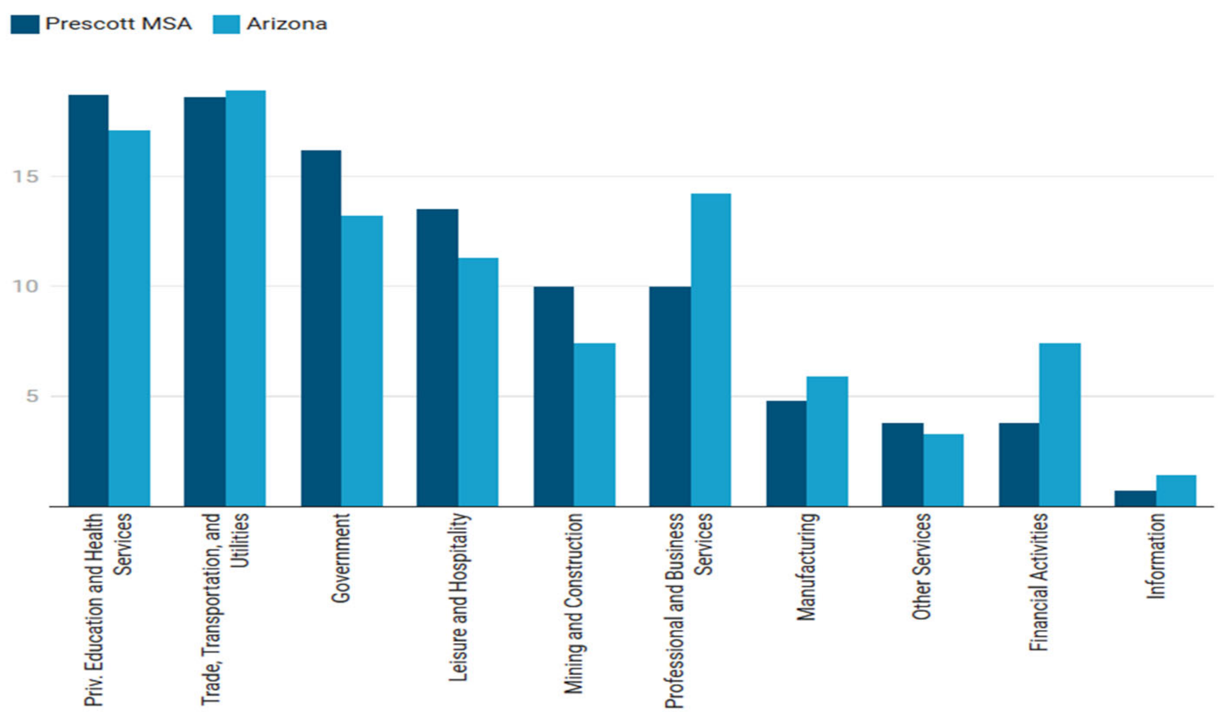
Key Topics

- **Arizona job growth has significantly slowed**
  - Driven by sharply lower hiring and modestly elevated layoffs
  - Private education and health care still driving gains
- **Phoenix MSA shelter inflation remains well below the U.S.**
  - Which is keeping Phoenix all-items inflation low
- **Housing cost burdens remain elevated**
  - And housing permit activity is down so far this year
- **The baseline forecast calls for modest improvement in growth next year**
  - But recession risks remain a concern, with elevated federal government policy uncertainty, elevated tariffs, reduced international migration, increased deportations, and elevated interest rates

Arizona and Prescott MSA Employment Shares

Percent of Total Nonfarm Jobs in 2025



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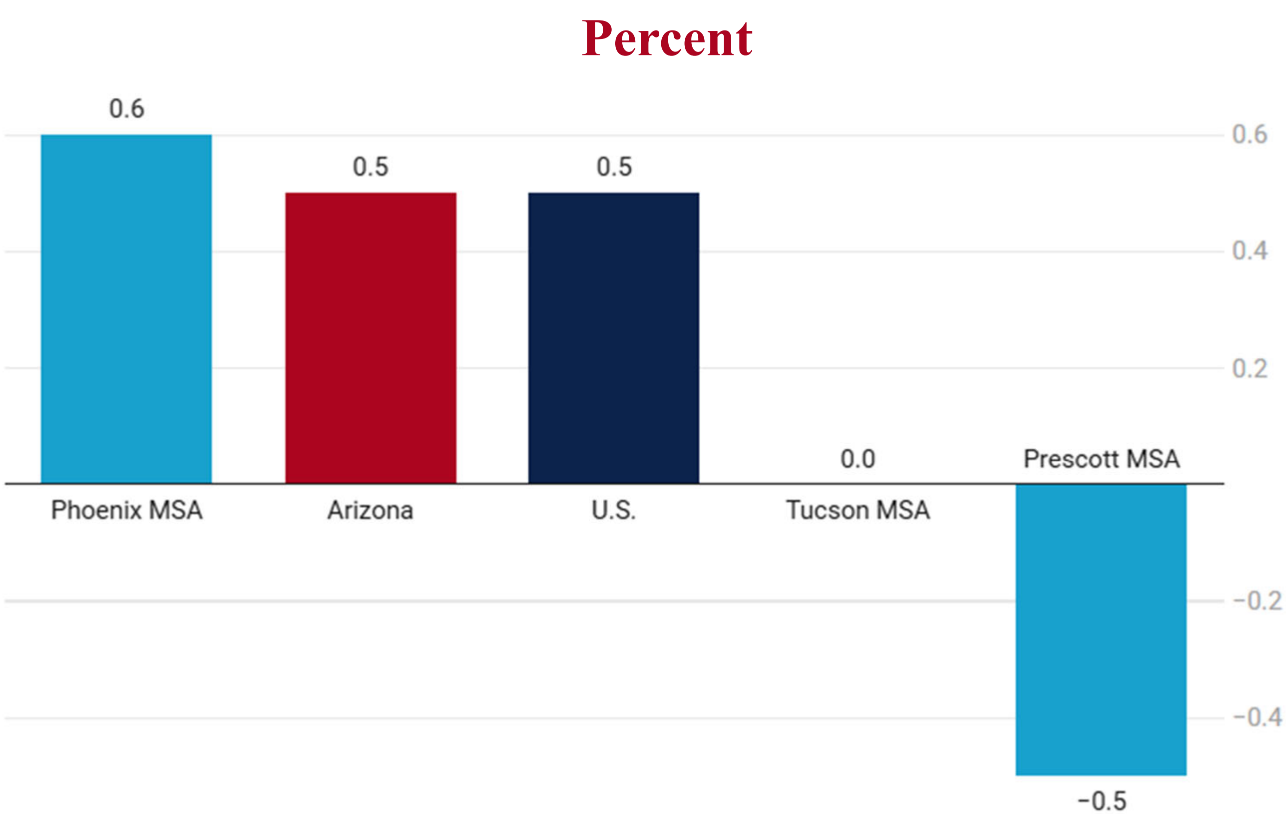
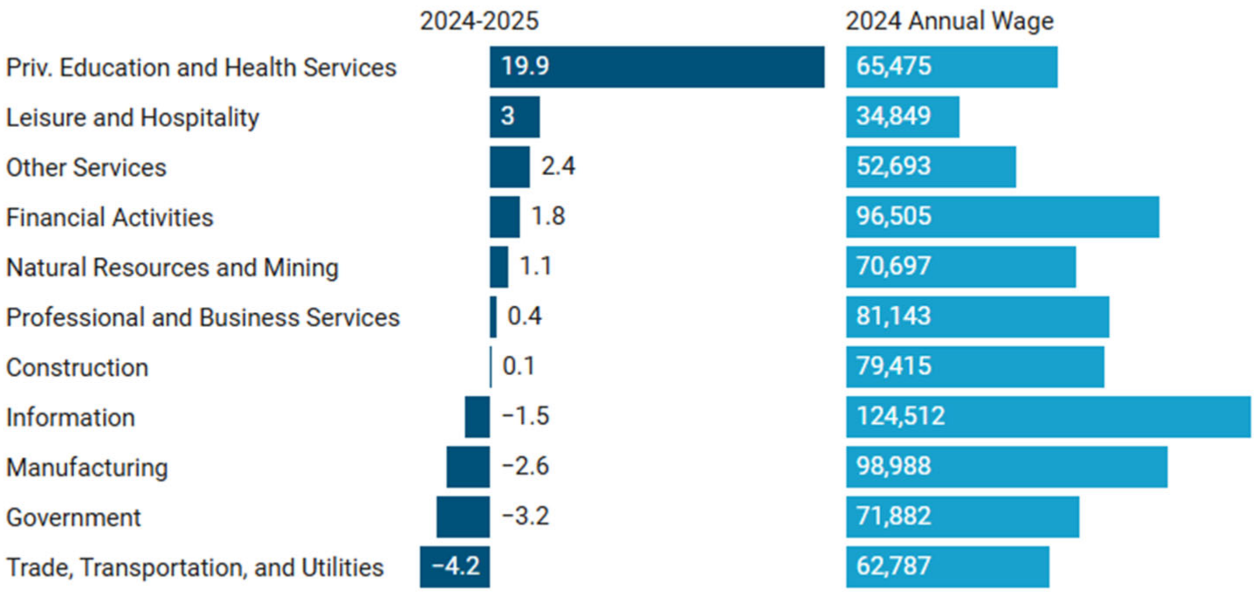
Arizona Job Growth



Arizona Job Growth by Industry

Thousands of Jobs and 2024 Annual Wage



Total Nonfarm Jobs	Percent Change
2024-2025 Annual Average	
Arizona	0.5%
U.S. (Revised)	0.5%

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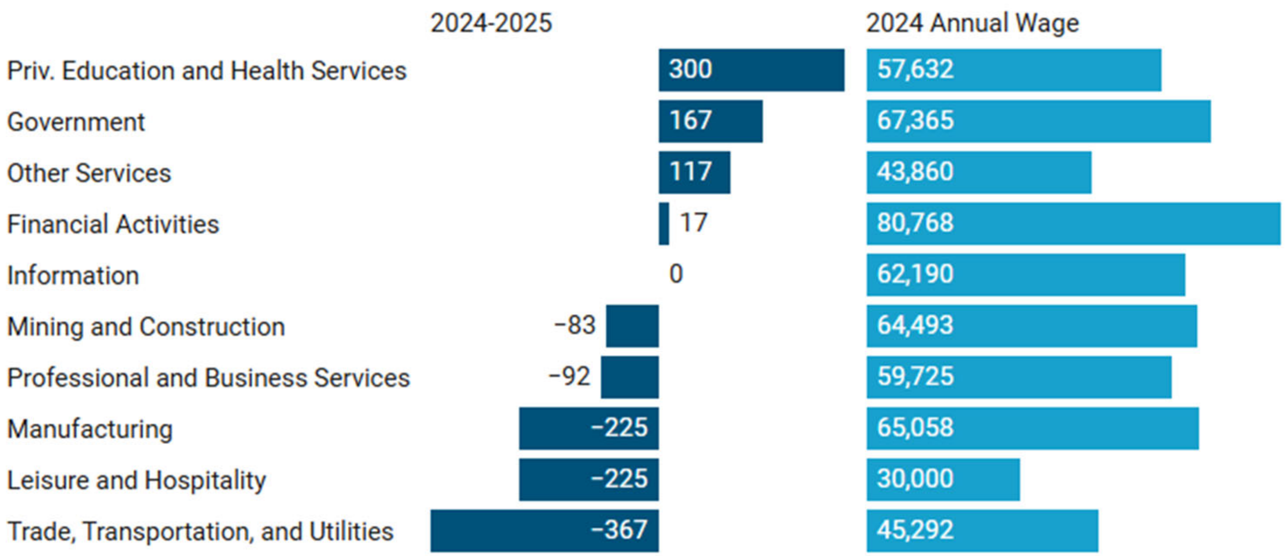
Prescott MSA Job Growth by Industry

Jobs and 2024 Annual Wage



Total Nonfarm Jobs	Percent Change
2024-2025 Annual Average	
Prescott MSA	-0.5%
U.S. (Revised)	0.5%

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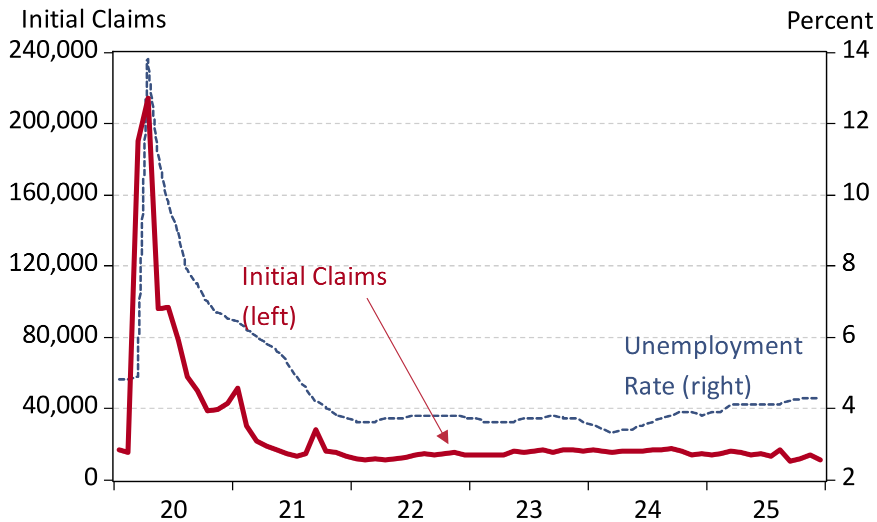
Selected Labor Market Outflows

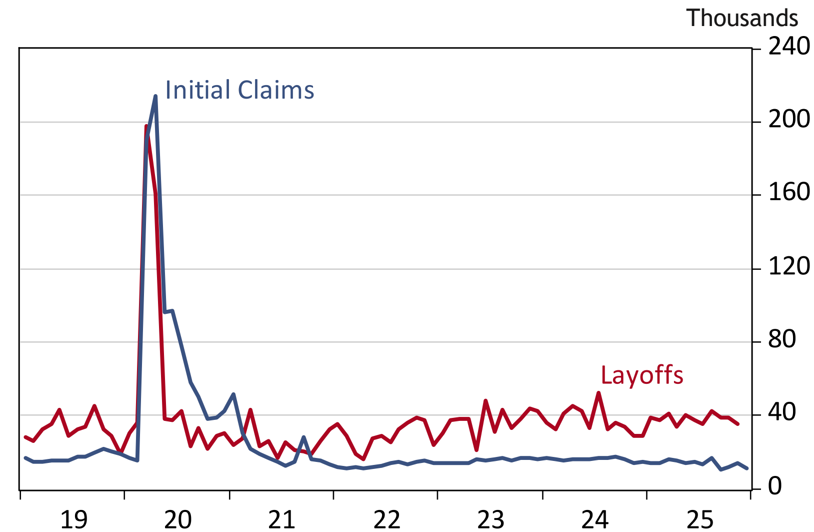
Seasonally Adjusted

Unemployment Rate	December 2025
Arizona	4.3%
U.S.	4.4%

Arizona's Unemployment Rate and Initial Claims for Unemployment Insurance



Arizona's Initial Claims for Unemployment Insurance and Layoffs (JOLTS)



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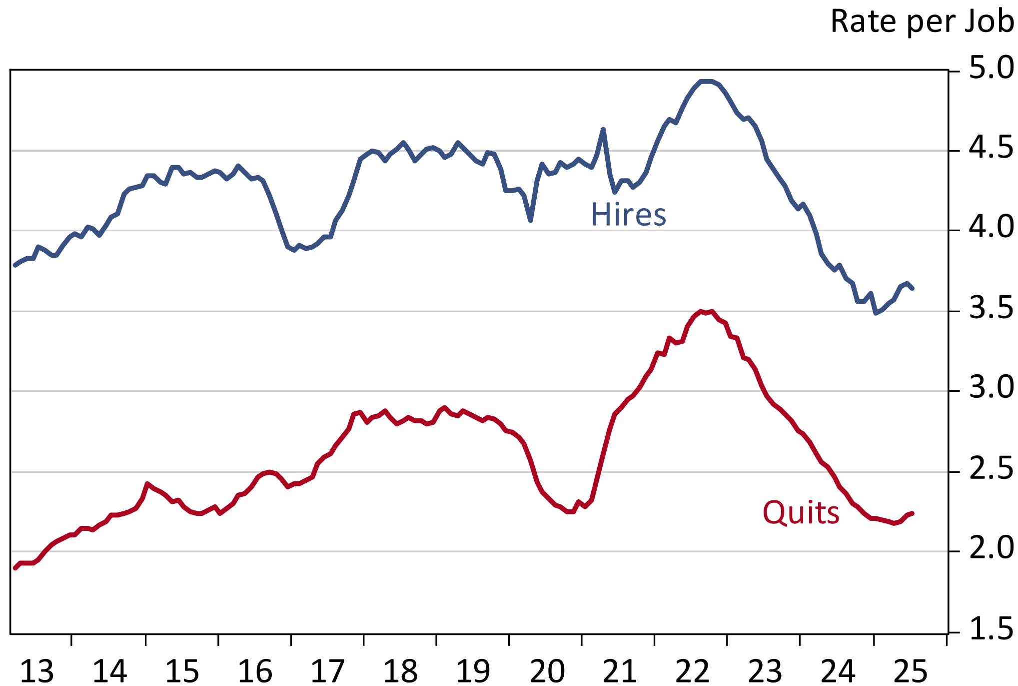
Arizona Quit and Hire Rates

Seasonally Adjusted, Twelve-Month Moving Average



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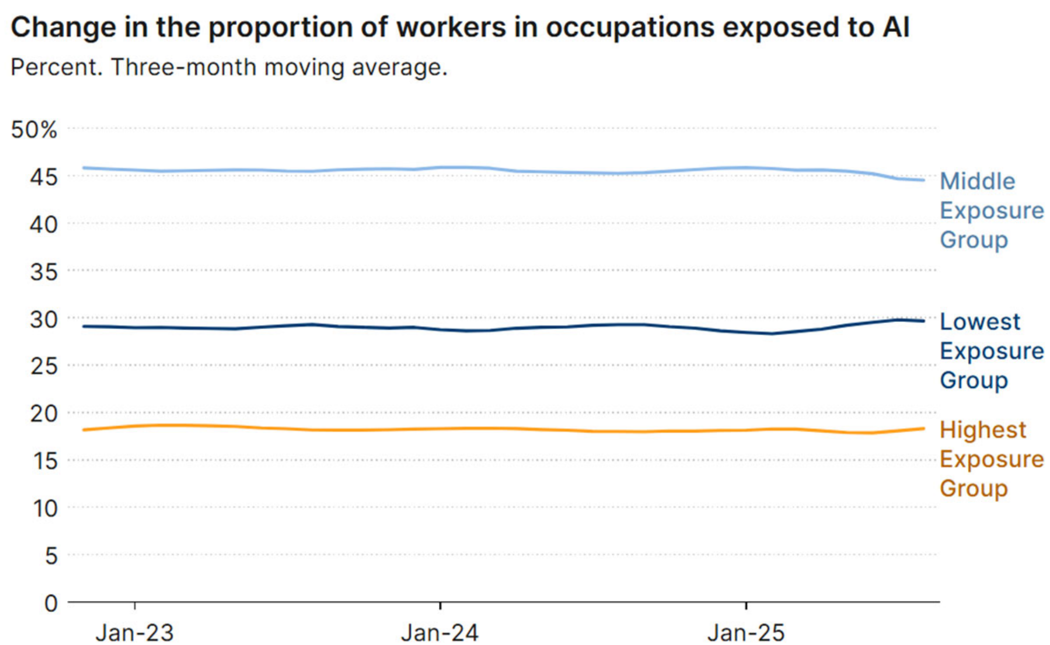
Impact of AI by Occupational Group

Brookings, October 2025



Jobs that are highly "exposed" to generative AI technologies have the highest percentage of tasks that ChatGPT can be used for to save significant time.

https://www.brookings.edu/articles/new-data-show-no-ai-jobs-apocalypse-for-now/

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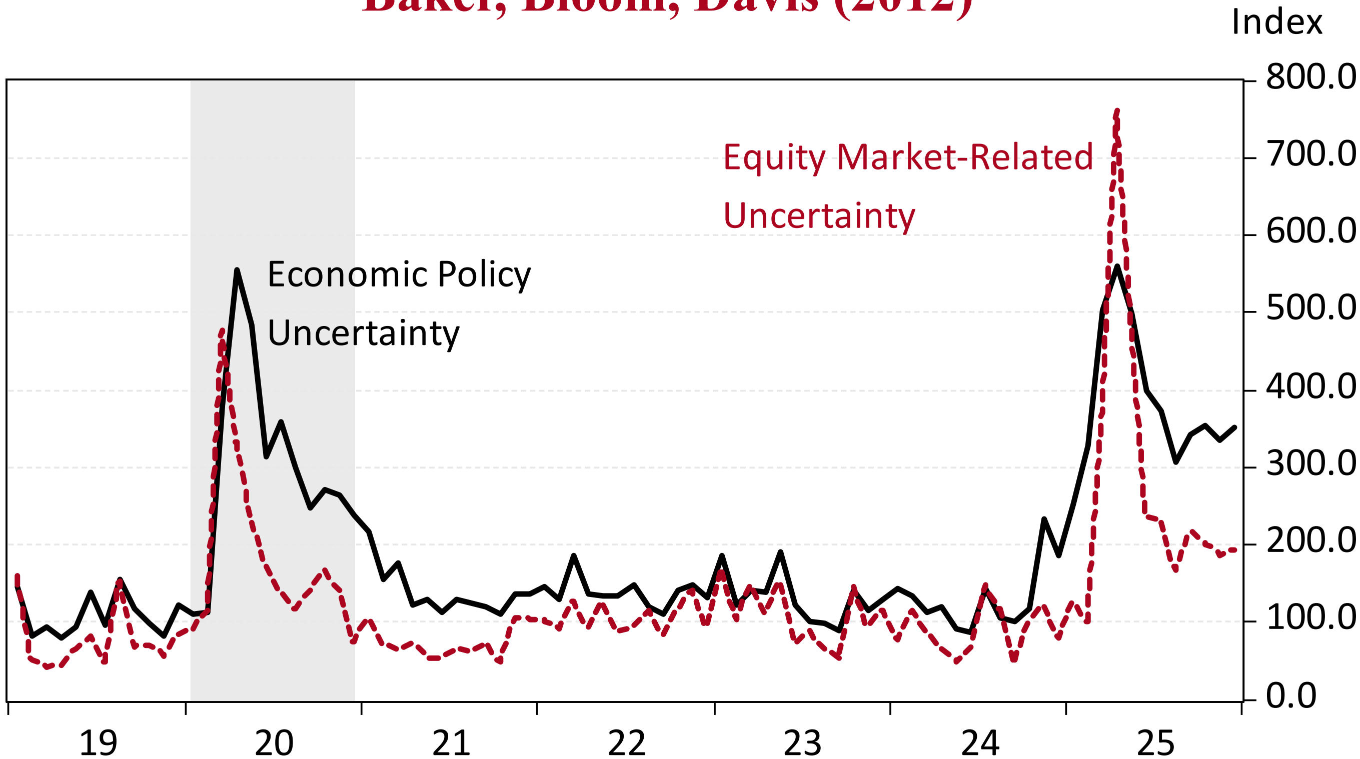
A Huge Increase in Economic Policy Uncertainty

Baker, Bloom, Davis (2012)



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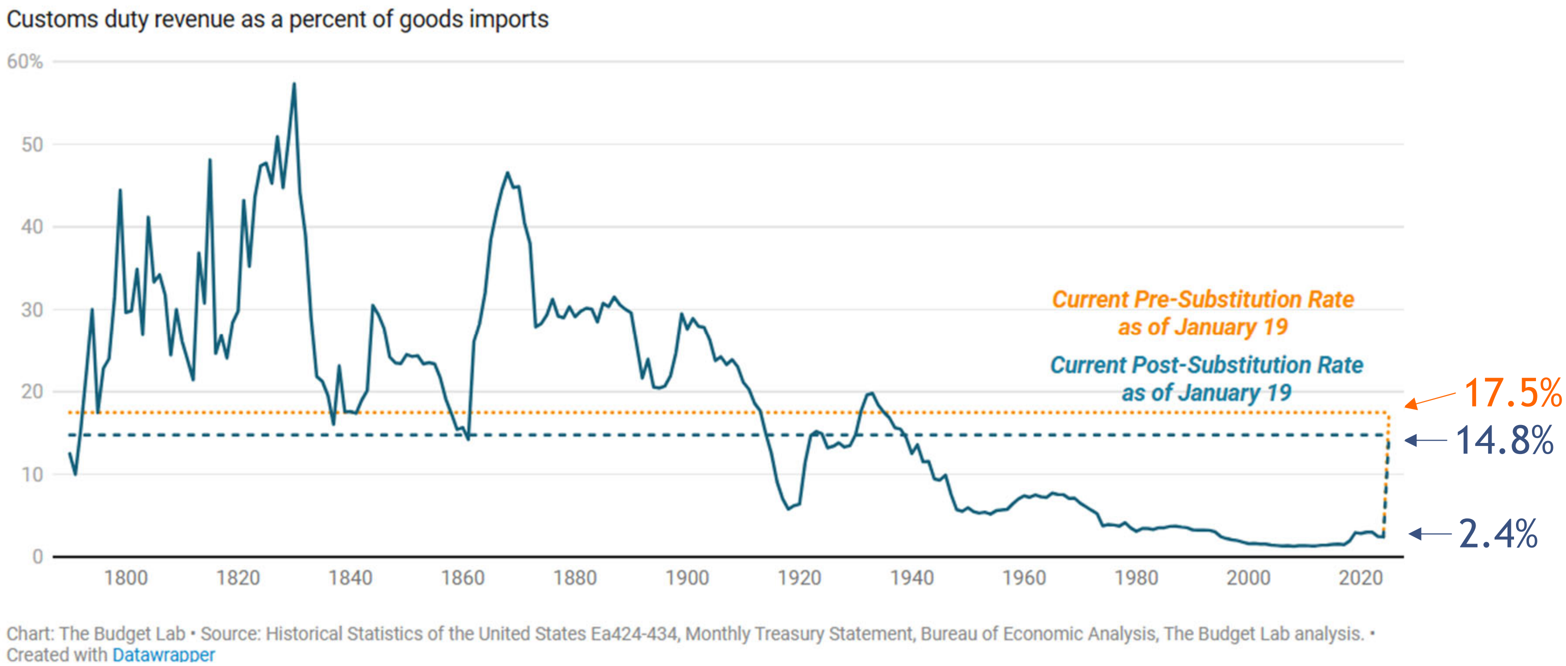
A Huge Increase in Tariffs

U.S. Average Effective Tariff Rate



Unauthorized Immigrants

Pew Research Center (Data for 2023)

	Arizona	U.S.
Unauthorized immigrants in labor force (rank)	190,000 (13th)	9,650,000
Share of labor force (rank)	5.2% (16th)	5.6%
Industry with most unauthorized immigrants	Construction	Construction
Industry with highest share unauthorized immigrants	Construction	Construction

Employment Cost Index

- **There are many measures of labor income**
  - **The pandemic has distorted some of the common measures**
    - Like headline average wages per job (total wages paid divided by total jobs) and headline average hourly wages
    - Detailed industry breakdowns can help
  - **The Employment Cost Index is less subject to these problems because it is adjusted to account for shifts of workers across industries and occupations**
    - Total compensation and wages & salaries
    - Data show over-the-year changes by quarter
    - Available for large metropolitan areas, including Phoenix

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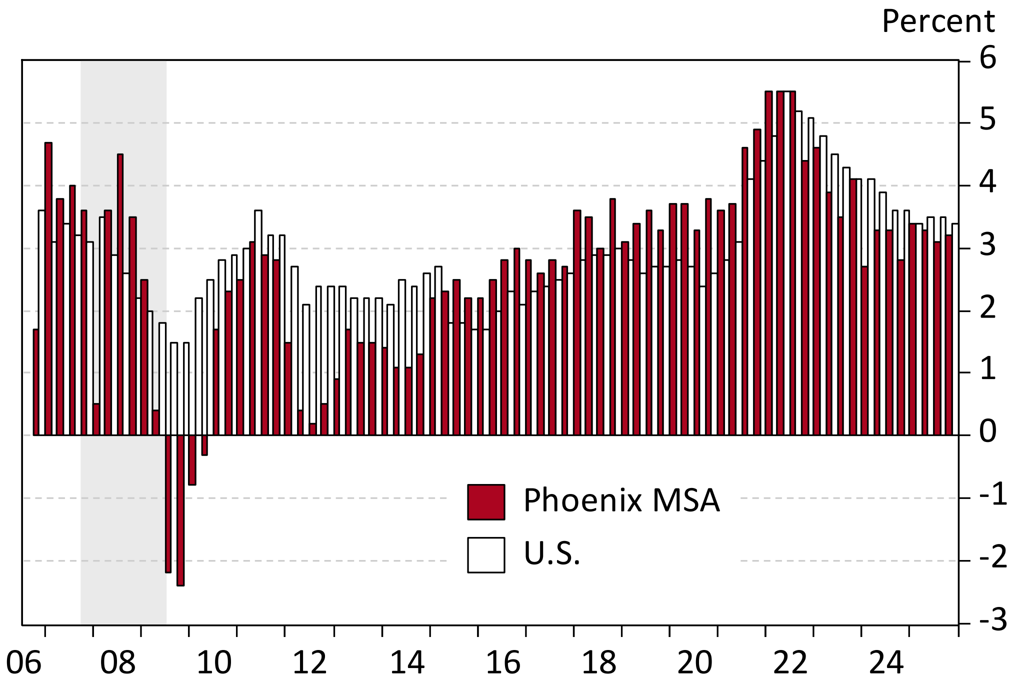
Employment Cost Index

Total Private-Sector Compensation for U.S. and Phoenix MSA



https://www.bls.gov/regions/west/news-release/employmentcostindex_phoenix.htm

Year-Over-Year Percent Change

	Phoenix	U.S.
2023Q4	4.1	4.1
2024Q1	2.7	4.1
2024Q2	3.3	3.9
2024Q3	3.3	3.6
2024Q4	2.8	3.6
2025Q1	3.4	3.4
2025Q2	3.3	3.5
2025Q3	3.1	3.5
2025Q4	3.2	3.4

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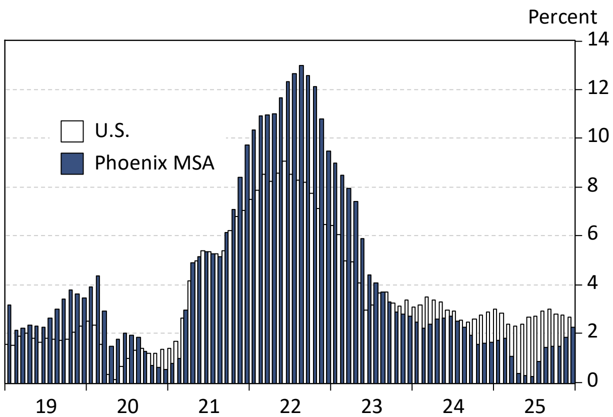
Phoenix MSA Inflation Is Below the U.S.

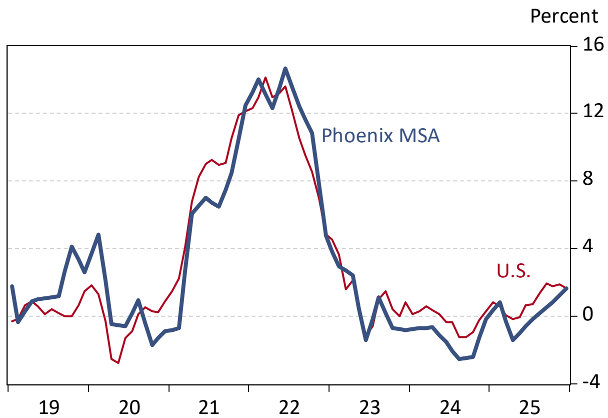
CPIU, Over the Year

All Items



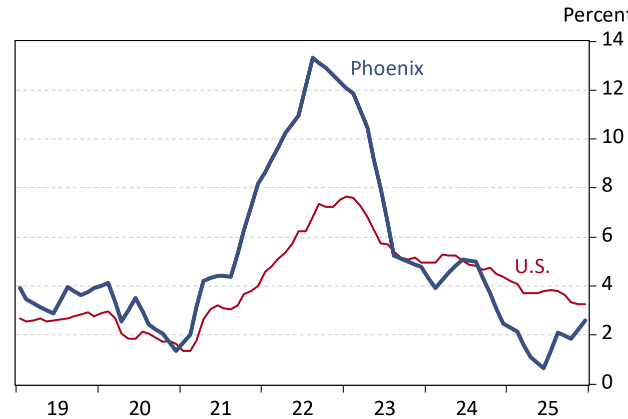
	December 2025
Phoenix MSA	2.2%
U.S.	2.7%

Commodities



	December 2025
Phoenix MSA	1.6%
U.S.	1.7%

Services



	December 2025
Phoenix MSA	2.6%
U.S.	3.3%

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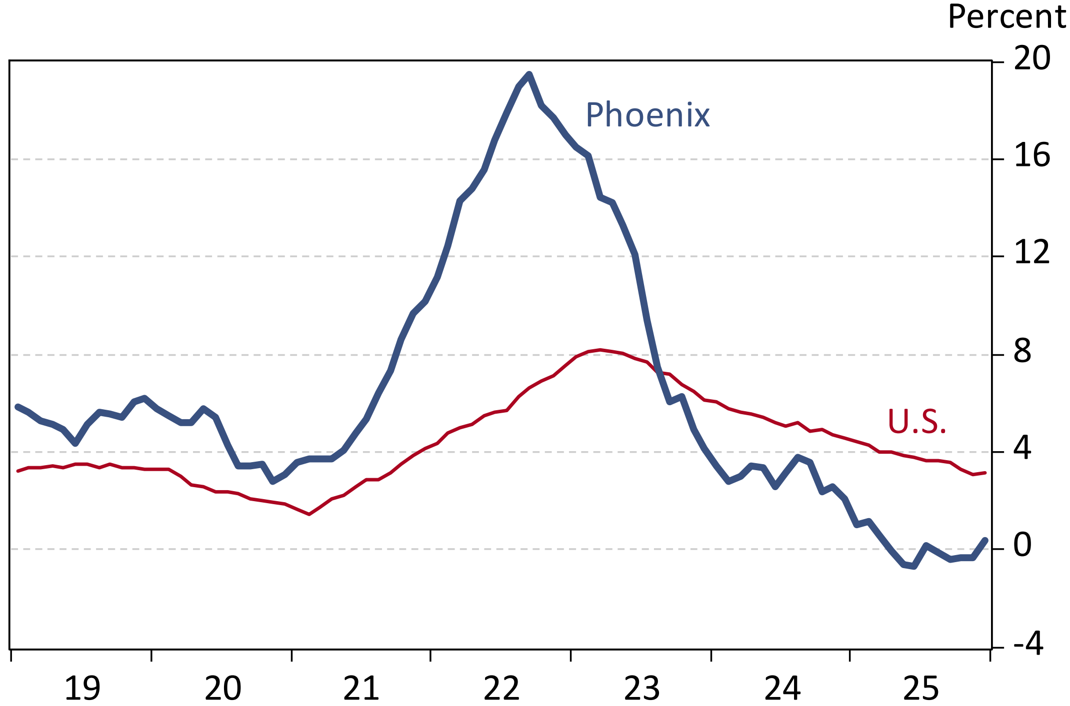
Phoenix MSA and U.S. Shelter Inflation

Consumer Price Index, Over-the-Year Growth, Percent



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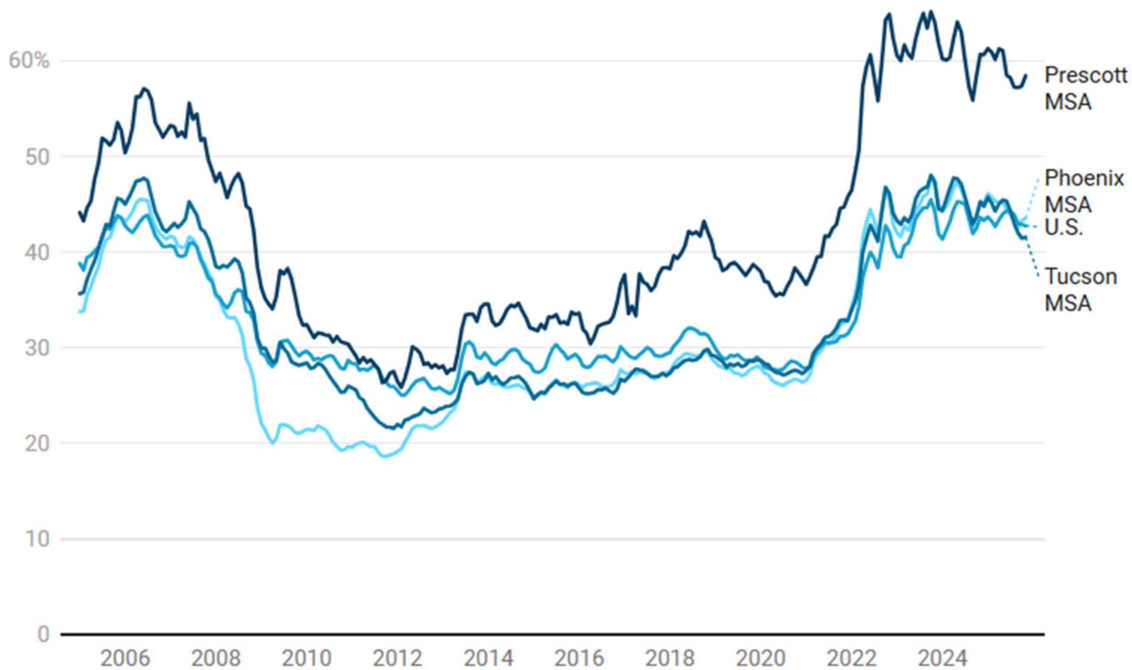
Housing Cost Burden

Federal Reserve Bank of Atlanta, Through November 2025, Percent



Share of local median household income needed for a mortgage, based on median sale price.

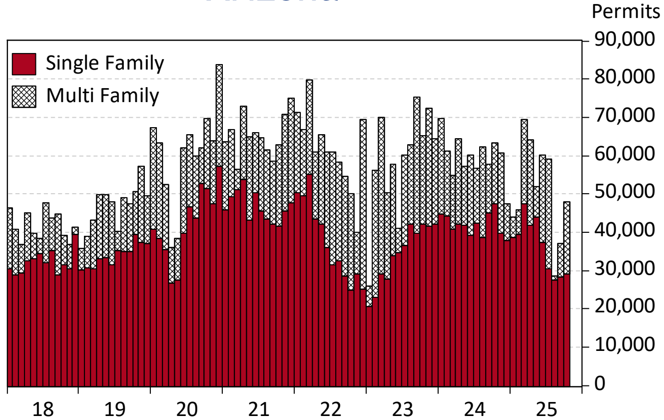
Takes into consideration the monthly principal and interest cost, given the current mortgage interest rates, as well as the costs associated with taxes, property insurance, and private mortgage insurance.

Arizona Housing Permits

Seasonally Adjusted Annual Rates

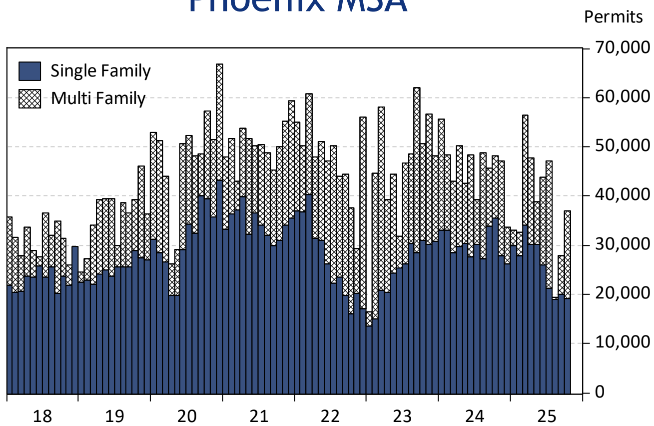
Arizona and Phoenix monthly data benchmarked to sum to revised annual data through 2024.

Arizona



YTD	Oct. 2025
Total	-16.4%
Single Family	-14.6%
Multi Family	-20.7%

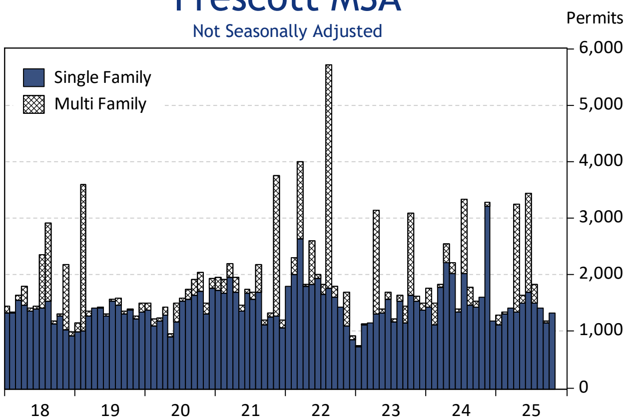
Phoenix MSA



YTD	Oct. 2025
Total	-18.3%
Single Family	-16.6%
Multi Family	-21.7%

Prescott MSA

Not Seasonally Adjusted



YTD	Oct. 2025
Total	-6.7%
Single Family	-16.2%
Multi Family	-43.9%

Source: U.S. Census Bureau

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S&P Global Forecast Assumptions

S&P Global, February 2026

- **Includes the OBBBA**
- **Tariff assumptions include:**
  - 10% tariff on imports from China
  - 35% tariff on imports from Canada and 25% tariff on imports from Mexico, which each decline to 15% by mid-2026
  - Various other tariffs too varied and numerous to list
- **Net international migration forecast reduced by 500,000 per year for the next four years**
- **The Federal Reserve reduces the policy interest rate**
  - The Fed holds the policy rate constant until June 2026
  - The policy rate falls to the neutral rate of 3.00%-3.25% by September 2026

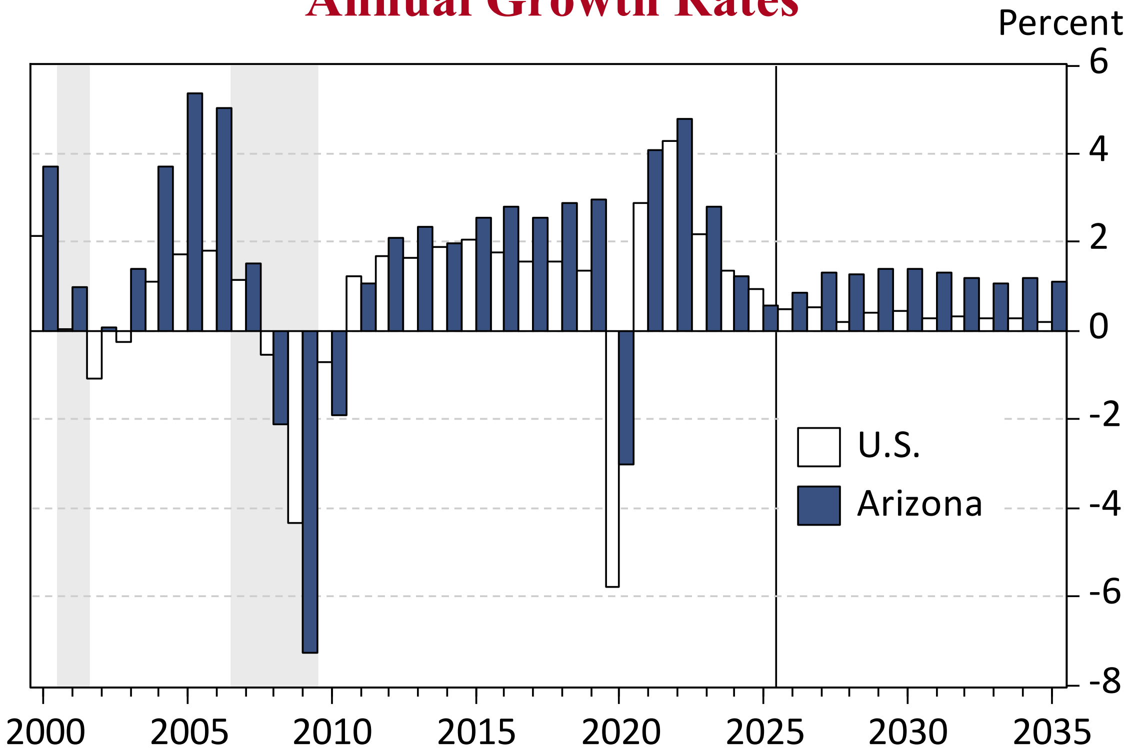
U.S. Short-Run Forecast Summary

S&P Global, February 2026

	2024	2025	2026	2027	2028
Real GDP Growth	2.8	2.2	2.7	2.0	1.7
Pers. Cons.	2.9	2.7	2.8	2.1	2.1
Bus. Fixed Investment	2.9	4.2	2.5	2.3	2.2
Res. Investment	3.2	-2.4	-2.1	2.4	2.5
Government	3.8	1.3	1.6	0.3	-0.2
Exports	3.6	1.9	2.6	4.7	4.2
Imports	5.8	2.6	0.1	5.2	4.2
Nonfarm Job Growth	1.3	0.9	0.4	0.5	0.2
Unemployment Rate	4.0	4.3	4.6	4.6	4.5
Federal Funds Rate	5.1	4.2	3.4	3.1	3.1
AAA Corporate Rate	5.0	5.4	5.4	5.5	5.4
Inflation (CPIU)	3.0	2.7	2.5	2.8	2.5
Housing Starts (Mil.)	1.37	1.35	1.31	1.31	1.32
Consumer Confidence (U.Mich.,%)	11.0	-20.6	1.5	8.2	9.3

Arizona Job Growth

Annual Growth Rates



Forecast completed February 2026.

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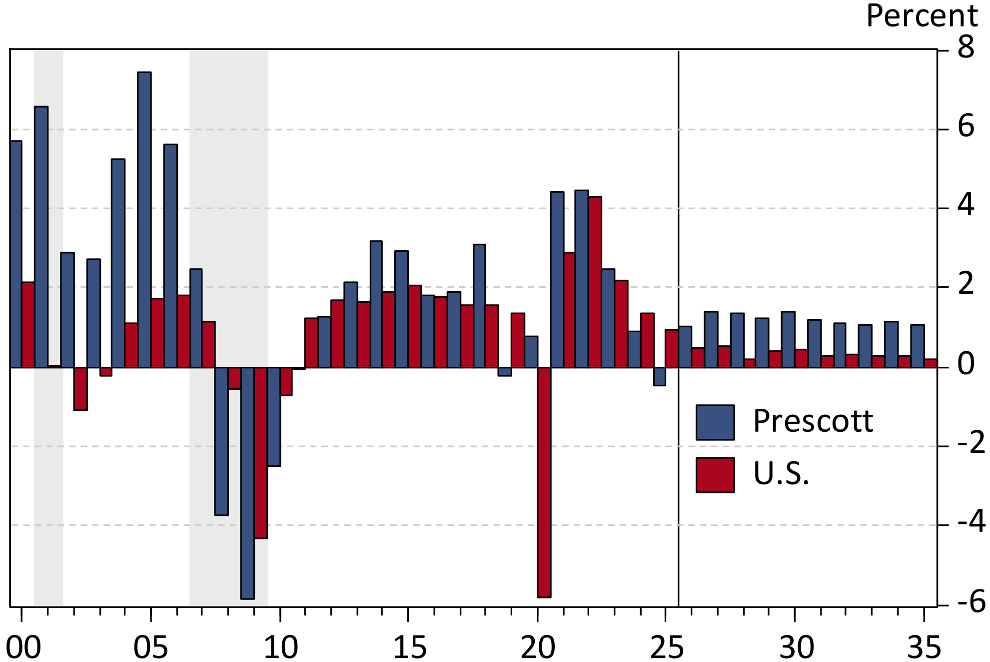
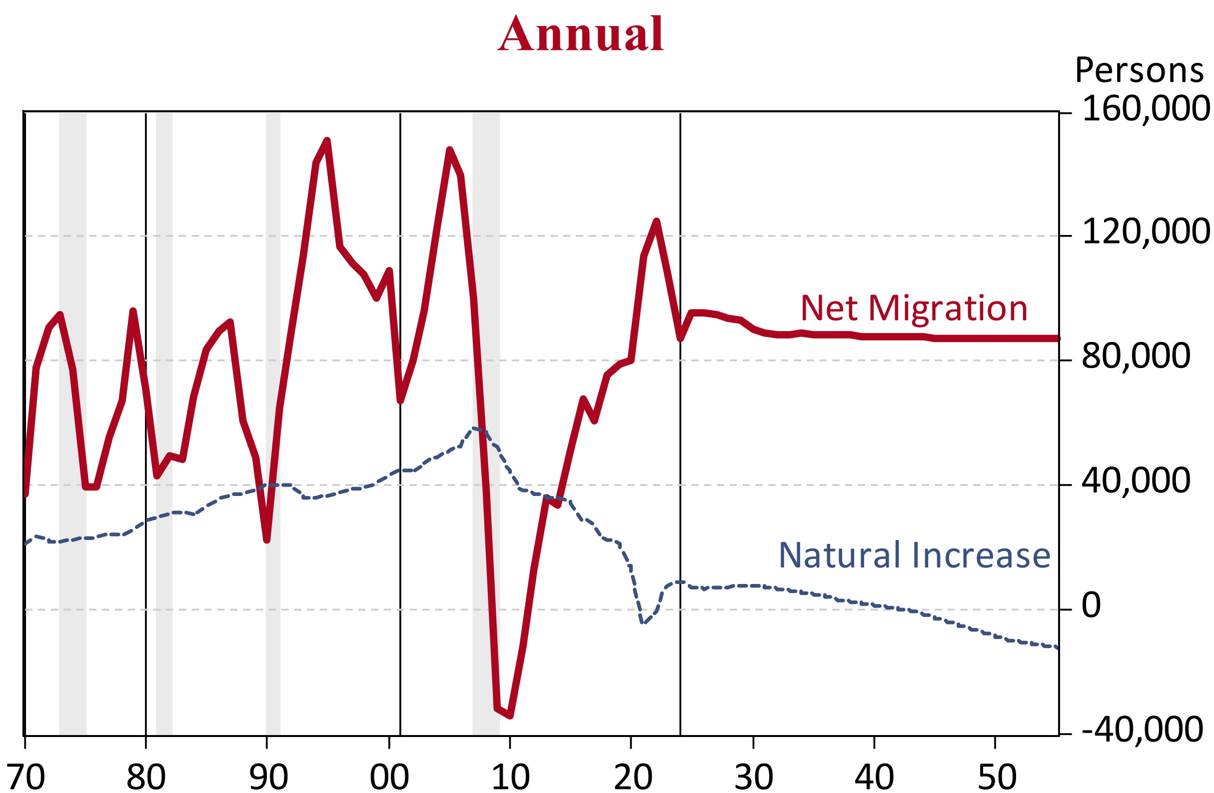
Prescott MSA Employment Growth

Wage and Salary Jobs Plus Nonfarm Proprietors



Prescott forecast completed October 2025. U.S. measure is nonfarm payroll jobs only.

Arizona Net Migration and Natural Increase



Forecast completed August 2025.

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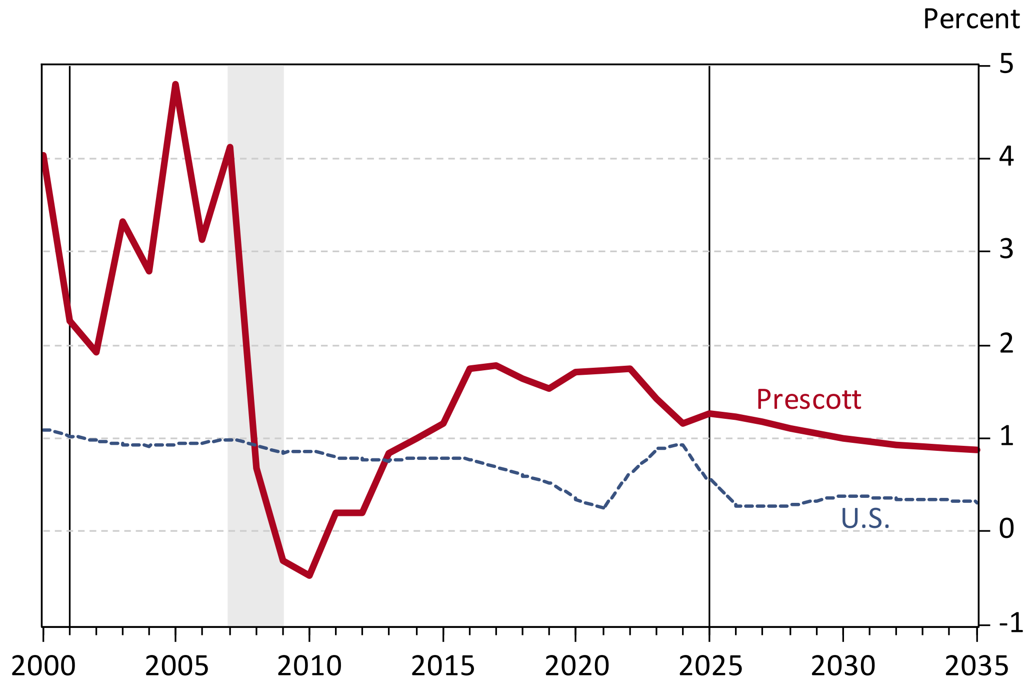
Prescott MSA and U.S. Population Growth

Annual Growth



Prescott history from Arizona Office of Economic Opportunity. EBRC forecast completed October 2025.

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Main Takeaways

- **Arizona is generating unusually slow job growth**
  - Hiring is down and layoffs are modestly elevated
  - Elevated interest rates and federal economic policy uncertainty seem to be the cause
- **Shelter inflation has significantly slowed in the Phoenix MSA**
  - And that has brought overall inflation below the national average
- **Housing cost burdens have improved modestly**
  - But remain very much elevated
- **The outlook calls for a small acceleration in growth next year**
  - But important risks remain, mostly originating from federal policy