NATIONAL BANK OF ARIZONA®

Winter 2024

ECONOMIC BRIEFING
AND MARKET UPDATE

Arizona has made progress in tax competitiveness, securing 15th place in the Tax Foundation's recently released 2025 State Tax Competitiveness Index (previously called the State Business Tax Climate). While fiscal policy is a key factor in a state's economic competitiveness, other policy variables—such as economic performance, labor market conditions, and regulatory and legal frameworks—also play important roles. Arizona's position on fiscal policy underscores its appeal to businesses and residents, fostering economic growth and enhancing its reputation as a pro-business destination.

The Tax Foundation's new 2025 index differs both in name and methodology from the report that has been published for the past two decades. As a result, state rankings have shifted, more so in some regions than others. Arizona ranked slightly higher in previous reports (14th in 2024 under the old methodology) but has largely retained the same position with the amended methodology. More importantly, the state has consistently improved since 2020, where it ranked 19th under the new study methodology.

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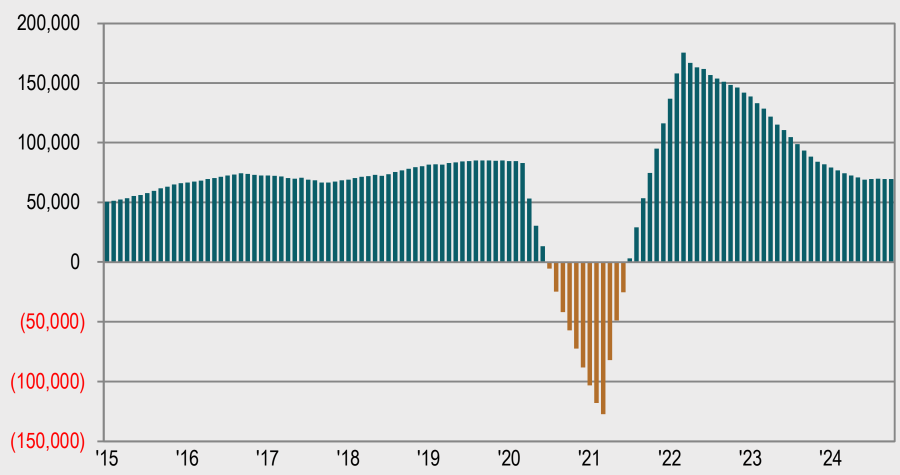
ARIZONA EMPLOYMENT GROWTH
TRAILING 12-MONTH AVERAGES



ARIZONA EMPLOYMENT GROWTH

OCT-24
(TRAILING 12-MONTH AVERAGE YEAR-OVER-YEAR GROWTH)

+ 69,650

▲ 0.2%
vs. previous period

▲ 2.2%
vs. previous year

EMPLOYMENT
INDICATOR SERIES

	MOST RECENT DATA AVAILABLE	INDICATOR VALUES			GROWTH RATES			
		CURRENT PERIOD	PREVIOUS PERIOD	SAME PERIOD PREV. YEAR	VS. PREV. PERIOD		VS. SAME PERIOD PREV. YR.	
Trade, Transportation and Utilities	Oct-24	630,500	624,600	623,400	0.9%	▲	1.1%	▲
Education and Health Services	Oct-24	564,300	558,600	535,200	1.0%	▲	5.4%	▲
Professional and Business Services	Oct-24	478,400	476,700	467,500	0.4%	▲	2.3%	▲
Government	Oct-24	445,300	444,200	439,400	0.2%	▲	1.3%	▲
Leisure and Hospitality	Oct-24	354,300	346,600	351,500	2.2%	▲	0.8%	▲
Financial Activities	Oct-24	246,100	244,300	240,300	0.7%	▲	2.4%	▲
Manufacturing	Oct-24	191,700	192,200	194,100	-0.3%	▼	-1.2%	▼
Construction	Oct-24	219,200	218,000	215,700	0.6%	▲	1.6%	▲
Other Services	Oct-24	104,100	104,500	102,100	-0.4%	▼	2.0%	▲
Information	Oct-24	49,100	49,100	50,000	0.0%	●	-1.8%	▼
Mining and Logging	Oct-24	15,600	15,400	14,400	1.3%	▲	8.3%	▲

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A significant factor behind Arizona's improved competitiveness is its recent tax reform. Between 2020 and 2022, Arizona operated a progressive individual income tax system, with rates ranging from 2.59 percent to 4.5 percent. Legislative changes in 2023 introduced a flat tax system and reduced the rate to 2.5 percent, giving Arizona the lowest individual income tax rate across the nation (among states that impose this type of tax).

Arizona's corporate income tax rate of 4.9 percent, which ranks 13th nationally in the Tax Foundation's 2025 report, further enhances its competitive edge. The corporate income tax rate was significantly reduced between 2013 and 2017 by approximately 2.1 percentage points, placing Arizona among the states with the lowest corporate tax burdens in the country. This reduction in corporate tax rates is part of a broader effort to promote a pro-business environment, which has been effective in spurring economic activity throughout the state. Between 2013 and 2023, Arizona experienced a 40.7 percent surge in new business establishments, equating to the addition of more than 63,000 businesses. By comparison, the United States as a whole saw a 21.2 percent increase during this same time period. Arizona's rising appeal is evidenced in industries related to advanced manufacturing and emerging technologies.

Investments in semiconductor manufacturing in Arizona have been significant. Ranked as the leading state for the semiconductor industry by Business Facilities in 2024, Arizona has seen over 40 semiconductor expansions and an excess of $100 billion in federal funding investments since 2020. Over the last ten years, Arizona has added 33,900 jobs in the manufacturing industry (+21.5 percent growth), ranking among the top five states for manufacturing job growth. With an additional $18.8 billion in planned public infrastructure investments targeting transportation, clean energy, climate change resiliency and clean water, among others, Arizona's pro-business policies and robust economic environment continue to attract major investments and drive job creation.

As of July 2024, Arizona's property tax collections stood at $1,253 per capita, or 2.4 percent of personal income - ranking 15th lowest in the nation and considerably lower than neighboring states. For example, California's property tax burden is $2,097 per capita (2.8 percent of personal income), while Colorado's per capita property tax collections are $2,071 (3.1 percent of personal income). Arizona's lower property taxes make it more attractive to incoming businesses and residents.

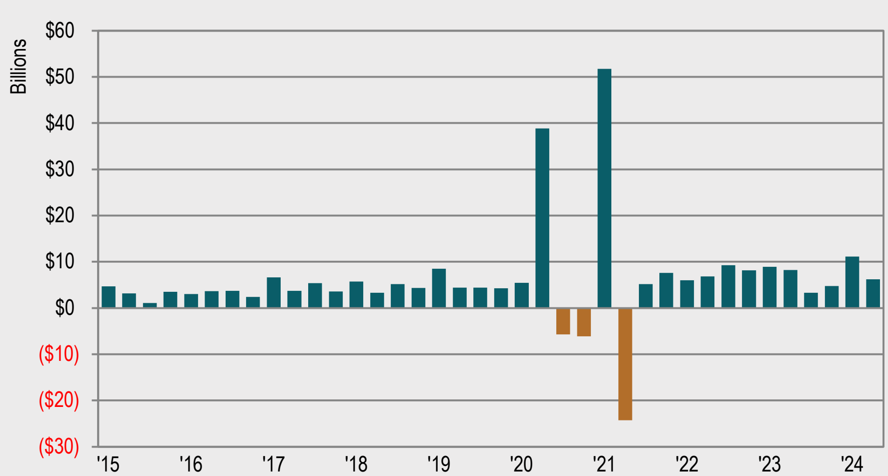
Between 2014 and 2024, Arizona's population grew by 849,511, and its total reached 7.6 million—a 12.6 percent increase that places the state 9th in growth nationwide. Migration is a driving factor behind this growth. From 2023 and 2024, 90.9 percent of the state's 109,357 population growth was driven by net migration, with 31.9 percent specifically attributed to domestic migration. This places Arizona as the 6th most popular state in the country for domestic migration. According to the most recently published IRS data, migration into Arizona between 2021 and 2022 resulted in $3.7 billion in net new income flowing into the state.

Even with changes in the methodology of the Tax Foundation Tax Competitiveness Index, Arizona has maintained its tax competitiveness. With the nation's lowest flat individual income tax rate, competitive corporate tax policies and manageable property tax burdens, the state promotes a favorable tax climate attractive to both businesses and residents. Combined with a favorable cost of living and positive economic fundamentals, Arizona continues to offer opportunities for businesses and residents alike.

ECONOMIC
INDICATOR SERIES

	MOST RECENT DATA AVAILABLE	INDICATOR VALUES			GROWTH RATES	
		CURRENT PERIOD	PREVIOUS PERIOD	SAME PERIOD PREV. YEAR	VS. PREV. PERIOD	VS. SAME PERIOD PREV. YR.
POPULATION METRICS						
Population	2024	7,582,384	N/A	7,473,027	N/A	1.5% ▲
EMPLOYMENT METRICS						
Employment	Oct-24	3,298,600	3,274,200	3,233,600	0.7% ▲	2.0% ▲
Unemployment Rate	Oct-24	3.8%	3.9%	4.2%	-0.1% ▼	-0.4% ▼
Average Weekly Hours Worked	Oct-24	35.0	35.4	35.2	-1.1% ▼	-0.6% ▼
INCOME AND SPENDING METRICS						
Personal Income (Annualized)	Q2 '24	$489.4 B	$483.2 B	$464.0 B	1.3% ▲	5.5% ▲
Average Weekly Wages	Oct-24	$1,173	$1,201	$1,126	-2.4% ▼	4.2% ▲
Transaction Privilege Tax Sales	Oct-24	$17.3 B	$17.4 B	$16.8 B	-0.5% ▼	3.2% ▲
National Inflation (CPI Index)	Oct-24	2.6%	2.4%	3.2%	0.2% ▲	-0.6% ▼
Phoenix MSA Inflation (CPI Index)	Oct-24	1.6%	2.3%	2.9%	-0.7% ▼	-1.3% ▼
HOUSING METRICS						
Housing Price Index (Q1 1991 = 100)	Q3 '24	570.4	573.3	555.0	-0.5% ▼	2.8% ▲
Residential Units Permitted	Oct-24	4,919	4,413	5,110	11.5% ▲	-3.7% ▼
Homeowner Vacancy Rate	Q3 '24	0.8%	1.0%	0.8%	-0.2% ▼	0.0% ●
Rental Vacancy Rate	Q3 '24	8.9%	6.8%	9.8%	2.1% ▲	-0.9% ▼
30-Year Fixed Mortgage Rate	Nov-24	6.8%	6.7%	7.2%	0.1% ▲	-0.4% ▼
AGRICULTURAL METRICS						
Proprietors' Farm Income (Annualized)	Q2 '24	$486.0 M	$342.2 M	$606.5 M	42.0% ▲	-19.9% ▼
Agriculture, Forestry, Fishing and Hunting GDP (Annualized)	Q2 '24	$3.0 B	$2.7 B	$2.8 B	12.0% ▲	6.2% ▲
TRAVEL METRICS						
Sky Harbor Airport Passengers	Oct-24	4,578,540	3,895,425	4,349,631	17.5% ▲	5.3% ▲

STATE OF ARIZONA ANNUALIZED PERSONAL INCOME GROWTH
QUARTER OVER QUARTER



STATE OF ARIZONA PERSONAL INCOME GROWTH

Q2 '24
(QUARTER OVER QUARTER GROWTH)

+ $6.2 B

▲ 1.3%
vs. previous period/quarter

▲ 5.5%
vs. previous year

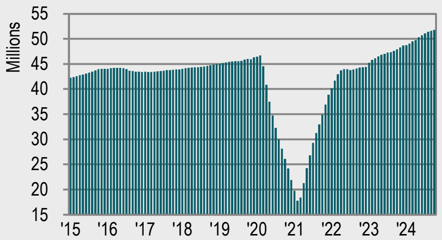
NATIONAL BANK OF ARIZONA®

ECONOMIC BRIEFING

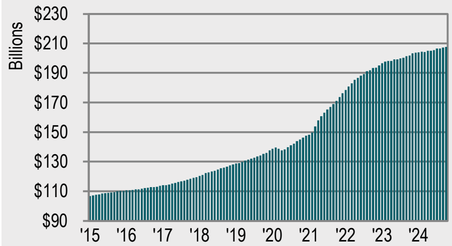
AND MARKET UPDATE

Winter 2024

SKY HARBOR AIRPORT PASSENGER COUNTS[1]



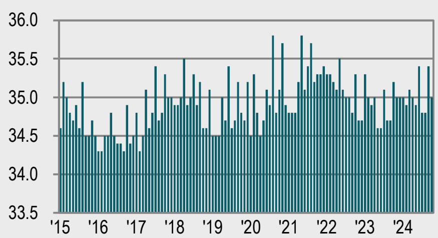
ARIZONA TRANSACTION PRIVILEGE TAX SALES[1]



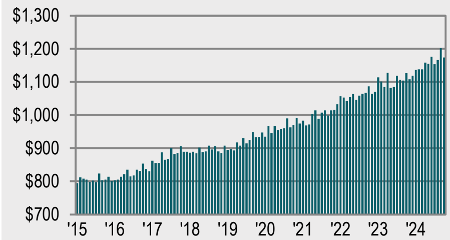
NATIONAL INFLATION (CONSUMER PRICE INDEX)[2]

ARIZONA UNEMPLOYMENT RATE[3]

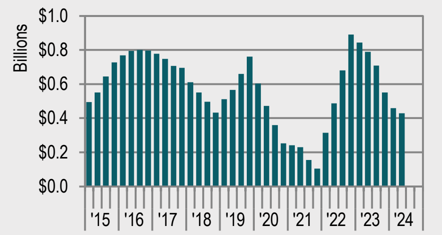
ARIZONA PRIVATE AVERAGE WEEKLY HOURS WORKED[3]



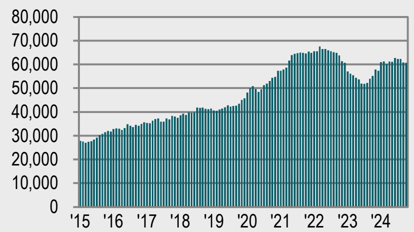
ARIZONA PRIVATE AVERAGE WEEKLY WAGES[3]



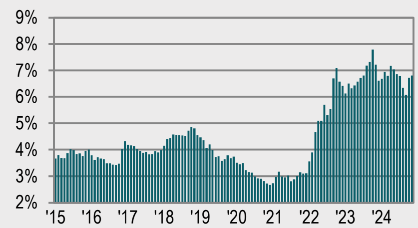
ARIZONA ANNUALIZED PROPRIETORS' FARM INCOME[4]



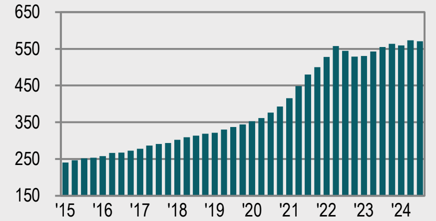
ARIZONA PRIVATE HOUSING UNITS PERMITTED[1]



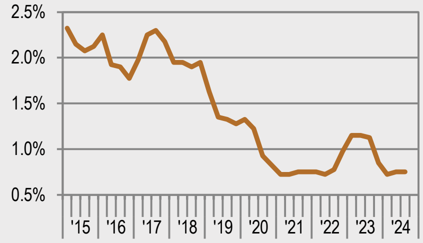
NATIONAL 30-YEAR FIXED MORTGAGE RATE[3]



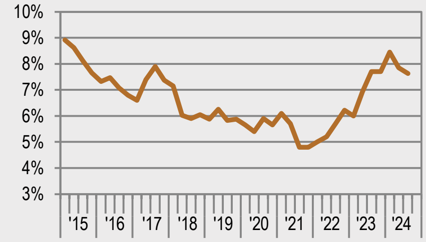
HOUSING PRICE INDEX[5]



ARIZONA HOMEOWNER VACANCY RATE[5]



ARIZONA RENTAL VACANCY RATE[5]



Note: [1] Trailing 12-month total. [2] Year-over-year change. [3] Monthly series. [4] Trailing 4-quarter average. [5] Quarterly series (Q1 1991 = 100).

Methodology: *Applied Analysis ("AA") was retained by the National Bank of Arizona to summarize and analyze a series of key economic indicators on a recurring basis. Relevant data were obtained from AA's internal databases as well as national, regional and local data providers, including, without limitation, state and local governments and universities. While we have no reason to doubt the accuracy of any of the data reported, we have not performed an audit or assurance procedures on these data, and as such, we cannot attest to their completeness. Generally speaking, data reported are for Arizona.*

APPLIED ANALYSIS