



— Summer 2024 —

ECONOMIC BRIEFING AND MARKET UPDATE

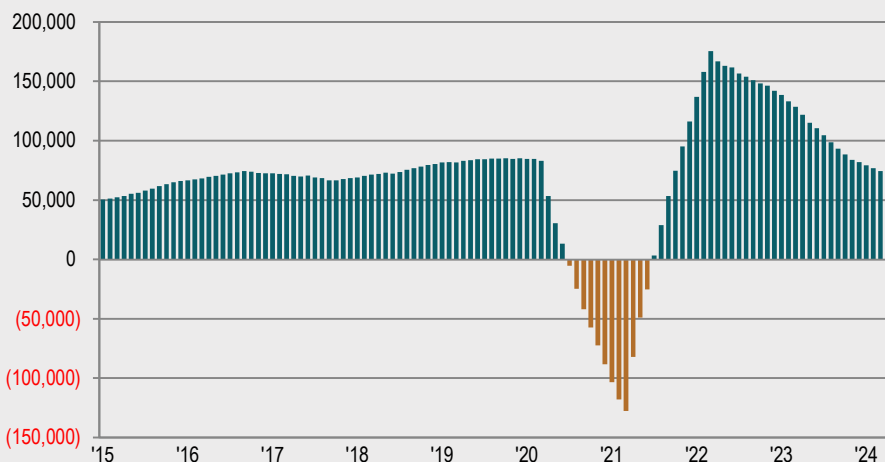
Housing affordability and availability remain challenges for families across several markets within the United States. These challenges also persist for many living within the state of Arizona. While there is a significant share of homeowners locked into below-market interest rate mortgages that remain insulated from some of these challenges, newcomers and selected segments of the market will continue to be impacted, particularly as growth limitations loom on the horizon to conserve on water resources in areas like the Phoenix metropolitan area. Importantly, cost-of-housing indices suggest that both average- and low-income families are burdened, highlighting the ongoing challenges in achieving affordable housing solutions.

Arizona authorized 60,725 residential building permits in 2022 (-6.5 percent growth from 2021). This declined further in 2023 to 57,364 permits (-5.5 percent), a decrease of 3,361 permits from the previous year. From January to April 2024, permit activity

showed growth, with increases ranging from 6.8 percent to 12.5 percent annually. April 2024 alone witnessed 5,357 permits issued (+25.5 percent year-over-year), up by 1,089. Despite recent growth, the Common Sense Institute estimates a 67,434

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ARIZONA EMPLOYMENT GROWTH
TRAILING 12-MONTH AVERAGES



ARIZONA EMPLOYMENT GROWTH

APRIL 2024
(TRAILING 12-MONTH AVERAGE
YEAR-OVER-YEAR GROWTH)

+72,467

▲ 0.4%
vs. previous period

▲ 2.0%
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	Apr-24	627,200	626,000	610,200	0.2% ▲	2.8% ▲
Education and Health Services	Apr-24	546,300	541,500	510,400	0.9% ▲	7.0% ▲
Professional and Business Services	Apr-24	475,400	473,400	470,700	0.4% ▲	1.0% ▲
Government	Apr-24	444,300	443,000	433,900	0.3% ▲	2.4% ▲
Leisure and Hospitality	Apr-24	353,000	352,100	360,900	0.3% ▲	-2.2% ▼
Financial Activities	Apr-24	241,400	239,800	242,300	0.7% ▲	-0.4% ▼
Manufacturing	Apr-24	192,400	192,800	194,500	-0.2% ▼	-1.1% ▼
Construction	Apr-24	216,000	216,000	210,200	0.0% ↔	2.8% ▲
Other Services	Apr-24	105,000	103,900	102,100	1.1% ▲	2.8% ▲
Information	Apr-24	49,200	48,800	51,500	0.8% ▲	-4.5% ▼
Mining and Logging	Apr-24	14,900	14,900	13,800	0.0% ↔	8.0% ▲

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housing unit deficit, while Arizona State University has reported a shortage of up to 270,000 units, highlighting supply challenges. Further, water scarcity has caused Arizona to face regulatory hurdles related to water sustainability in residential development.

Starting in June 2023, Arizona halted approval of new developments in Phoenix relying solely on groundwater because water capacity would not be sufficient over the next century, according to a report published by the Arizona Department of Water Resources. However, construction can continue for previously approved projects and in areas and cities served by designated water providers. Generally, areas affected most by this moratorium are the outlying suburbs and towns on the fringes of the Phoenix metro area.

Leading up to and after the moratorium, Phoenix experienced significantly slower construction activity, with building permits declining an average of 12.3 percent (year-over-year) for 17 consecutive months between August 2022 and December 2023. The timing of mortgage rate increases also played a role in overall volumes. The metropolitan witnessed similar trends to the state, with builder declines over the last two years. Builder permits fell by 4.8 percent to approximately 44,700 in 2023. Interestingly, over half (55.1 percent) of Phoenix's permits for 2023 were granted after the moratorium, which is on par with statewide trends, where 55.0 percent of permits were issued in the latter half of the year.

Housing affordability issues persist as home prices rise. In Q1 2024, the median home price in Phoenix rose to \$470,500, a 7.0 percent increase (+\$30,800) from Q1 2023. Meanwhile, the national median home price for existing homes during the same period reached \$389,400, up \$18,200 (+4.0 percent year-over-year). Notably, the nationwide median price of new homes experienced a slight decline, down 3.7 percent to \$420,000 compared to Q1 2023.

Rising housing costs have increased the burden on families in the Phoenix metro area and across the United States. The Cost of Housing Index (CHI) identifies the share of a typical family's income needed to cover the mortgage payment on a median-priced home. Areas with index scores above 30 percent are considered "cost-burdened," while those above 50 percent are deemed "severely cost-burdened." In Q1 2024, the CHI for the Phoenix area was 39 percent, slightly higher than the US average of 36 percent. Low-income families in the Phoenix metro area, earning 50 percent of the median income, faced a CHI of 78 percent, compared to 71 percent nationally. To address housing affordability, Arizona recently legalized casitas (accessory dwelling units) and expanded options for "middle housing" such as duplexes, triplexes, fourplexes, and townhomes, moving beyond single-family housing growth.

On the other side, the rental market has been experiencing growth. In 2023, Phoenix added 15,488 apartment units, up 12.1 percent or 1,677 more than in 2022. Amid this increasing supply, gains in asking rental rates have begun to cool. As of April 2024, asking rents in the Phoenix metro area decreased 0.6 percent to \$1,559 compared to March, representing less than a percentage point increase from the previous year. Since February 2023, year-over-year growth in asking rents has remained below 3.3 percent. This contrasts sharply with the period between July 2021 and December 2022, where year-over-year growth rates ranged from 8.4 percent to 26.4 percent.

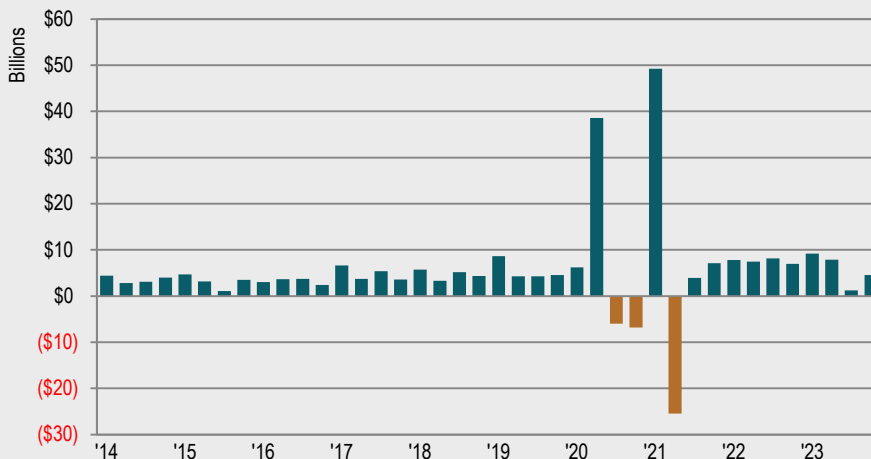
Despite continued investment in new housing inventory, Arizona housing faces supply challenges. The cost burden on average- and low-income residents remains, but the state is exploring alternatives to alleviate these disparities. Monitoring the supply and demand dynamics in the real estate market will be crucial for residents and economic development.

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	2023	7,431,344	N/A	7,365,684	N/A	0.9%	▲	
EMPLOYMENT METRICS								
Employment	Apr-24	3,265,100	3,252,200	3,200,500	0.4%	▲	2.0%	▲
Unemployment Rate	Apr-24	2.6%	2.9%	3.4%	-0.3%	▼	-0.8%	▼
Average Weekly Hours Worked	Apr-24	34.9	35.1	35.0	-0.6%	▼	-0.3%	▼
INCOME AND SPENDING METRICS								
Personal Income (Annualized)	Q4 '23	\$464.2 B	\$459.6 B	\$441.3 B	1.0%	▲	5.2%	▲
Average Weekly Wages	Apr-24	\$1,156	\$1,138	\$1,127	1.5%	▲	2.6%	▲
Transaction Privilege Tax Sales	Apr-24	\$17.3 B	\$18.1 B	\$16.6 B	-4.2%	▼	4.1%	▲
National Inflation (CPI Index)	May-24	3.3%	3.4%	4.0%	-0.1%	▼	-0.8%	▼
Phoenix MSA Inflation (CPI Index)	Apr-24	2.6%	2.2%	7.4%	0.4%	▲	-4.8%	▼
HOUSING METRICS								
Housing Price Index (Q1 1991 = 100)	Q1 '24	559.4	564.3	533.2	-0.9%	▼	4.9%	▲
Residential Units Permitted	Apr-24	5,357	5,363	4,268	-0.1%	▼	25.5%	▲
Homeowner Vacancy Rate	Q1 '24	0.8%	0.4%	1.3%	0.4%	▲	-0.5%	▼
Rental Vacancy Rate	Q1 '24	8.1%	6.7%	5.1%	1.4%	▲	3.0%	▲
30-Year Fixed Mortgage Rate	May-24	7.0%	7.2%	6.6%	-0.1%	▼	0.5%	▲
AGRICULTURAL METRICS								
Proprietors' Farm Income (Annualized)	Q4 '23	\$38.9 M	\$101.6 M	\$483.8 M	-61.7%	▼	-92.0%	▼
Agriculture, Forestry, Fishing and Hunting GDP (Annualized)	Q4 '23	\$2.4 B	\$2.4 B	\$2.8 B	-0.3%	▼	-15.5%	▼
TRAVEL METRICS								
Sky Harbor Airport Passengers	Apr-24	4,526,096	5,064,407	4,260,430	-10.6%	▼	6.2%	▲

STATE OF ARIZONA ANNUALIZED PERSONAL INCOME GROWTH QUARTER OVER QUARTER



STATE OF ARIZONA PERSONAL INCOME GROWTH

Q4 2023
(QUARTER OVER QUARTER GROWTH)

+\$4.6 B

▲ 1.0%
vs. previous period/quarter

▲ 5.2%
vs. previous year



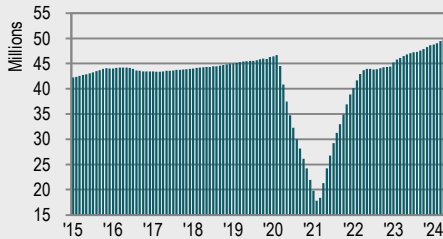
NATIONAL BANK OF ARIZONA®

ECONOMIC BRIEFING

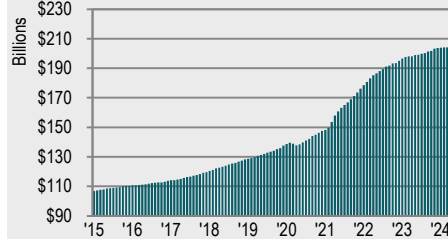
AND MARKET UPDATE

Summer 2024

SKY HARBOR AIRPORT PASSENGER COUNTS¹



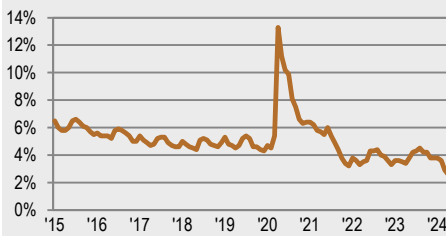
ARIZONA TRANSACTION PRIVILEGE TAX SALES¹



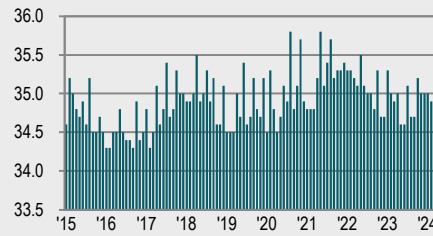
NATIONAL INFLATION (CONSUMER PRICE INDEX)²



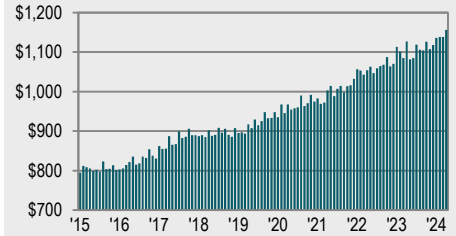
ARIZONA UNEMPLOYMENT RATE³



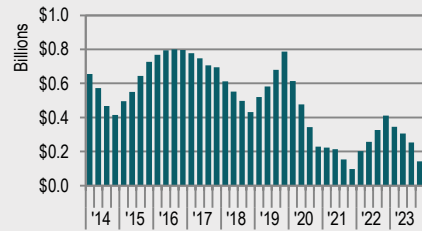
ARIZONA PRIVATE AVERAGE WEEKLY HOURS WORKED³



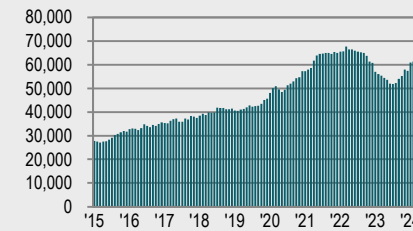
ARIZONA PRIVATE AVERAGE WEEKLY WAGES³



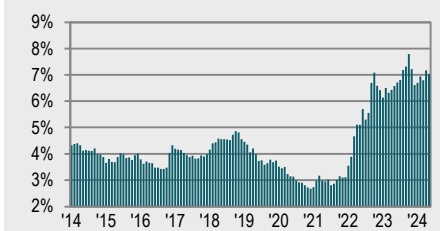
ARIZONA ANNUALIZED PROPRIETORS' FARM INCOME⁴



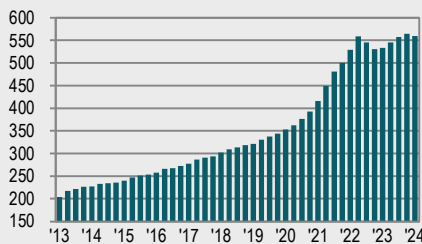
ARIZONA PRIVATE HOUSING UNITS PERMITTED¹



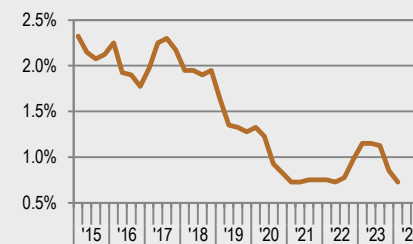
NATIONAL 30-YEAR FIXED MORTGAGE RATE³



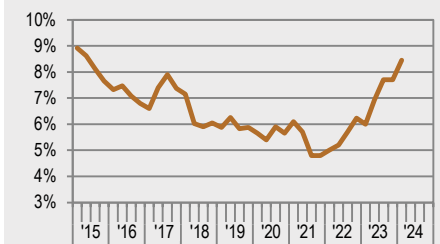
HOUSING PRICE INDEX⁵



ARIZONA HOMEOWNER VACANCY RATE⁴



ARIZONA RENTAL VACANCY RATE⁴



Note: ¹Trailing 12-month total. ²Year-over-year change. ³Monthly series. ⁴Trailing 4-quarter average. ⁵Quarterly 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.