

■ Bill Adams ■ Waran Bhahirethan

Arizona's Economy to Grow Above Trend Again in 2025

Driven by strong population growth, Arizona's economy is forecasted to grow by 2.8% in 2025, faster than last year, and a notch above Comerica's forecast for 2.7% national economic growth. Arizona's employment growth is likely to moderate again in 2025 as a strong dollar and weaker global economies, especially in key tourist source nations, weigh on the state's critical tourism sector. Tougher immigration enforcement could be an additional headwind to employment growth, especially in the leisure and hospitality and construction sectors. Arizona's unemployment rate is set to edge higher, but remain below the national rate.

The Grand Canyon State's population is anticipated to grow solidly again this year as its enduring strengths such as milder winters, a lower cost of living, housing that's more affordable than big West-coast metros, comparatively lower tax rates, and less susceptibility to natural disasters, continue to attract residents. Inward migration of higher income retirees is likely to continue, supporting solid growth of total personal income at around the same pace as last year.

The rebound in residential investment in 2024, following two years of sharp declines, is likely to continue this year. Population growth is expected to again be the key driver of residential demand, offsetting notable headwinds from higher mortgage rates and moderate employment growth. 58,400 new dwellings are expected to be added to the Grand Canyon State's housing stock. Single-family housing construction is expected to pick up as the year progresses and account for the bulk of starts. Vacancies remain elevated and are well above the national rate. Coupled with tighter lending standards for multifamily homebuilders and high interest rates, they present a considerable headwind to this segment of the housing market. Nonetheless, multifamily housing remains the most affordable option in the state, spurring demand and translating to the construction of around 14,000 units. Higher supply and strained affordability are forecast to translate into modest house price increases. House prices are expected to increase by 2.0% in 2025, roughly in line with the national increase forecast for the year.

Arizona Economic Outlook											
	1Q'24a	2Q'24a	3Q'24a	4Q'24f	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024f	2025f
State Output											
Real GDP (Chained 2017 Billions \$)	429	432	435	438	440	443	447	451	422	433	445
Percent Change Annualized	2.1	3.1	3.1	2.3	2.4	2.9	3.3	3.5	3.0	2.6	2.8
Labor and Demographics											
Payroll Jobs (Millions)	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.3	3.3
Percent Change Annualized	2.9	2.0	0.6	1.3	1.8	1.8	2.2	2.4	2.6	2.1	1.7
Unemployment Rate (Percent)	4.0	3.4	3.4	3.6	3.7	3.7	3.7	3.8	3.9	3.6	3.7
Population (Millions)	7.5	7.6	7.6	7.7	7.7	7.7	7.8	7.8	7.5	7.6	7.8
Percent Change Annualized	2.3	2.3	2.2	2.1	2.0	2.0	2.0	2.1	1.1	2.1	2.1
Personal Income											
Total Personal Income (Nominal Billions \$)	484	487	491	497	504	512	520	528	465	490	516
Percent Change Annualized	10.4	2.8	2.8	5.2	6.0	6.3	6.2	6.3	7.0	5.4	5.4
Housing											
Housing Starts (Thousands, Annual Rate)	61.5	57.5	53.5	55.7	56.8	57.8	59.0	60.0	54.1	57.1	58.4
Percent Change Annualized	-22.7	-23.8	-24.7	17.1	7.9	7.7	8.5	6.4	-7.2	5.4	2.4
Single-Family Housing Starts (1,000s Units, Annual Rate)	44.9	43.6	42.9	42.4	43.3	44.1	44.9	45.7	35.0	43.4	44.5
Multi-Family Housing Starts (1,000s Units, Annual Rate)	16.6	13.9	10.7	13.3	13.5	13.8	14.1	14.2	19.1	13.6	13.9
House Price Index, FHFA (1991 Q1=100, SA)	561	567	566	581	574	577	576	595	547	569	580
Year/Year Percent Change	5.4	5.5	2.8	2.5	2.3	1.6	1.8	2.3	1.6	4.0	2.0

a = actual p=provisional f = forecast

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