

■ Bill Adams ■ Waran Bhahirethan

## Arizona's Expansion to Proceed in Lower Gear in 2025

Arizona's economy is forecast to grow in 2025, but at a more modest pace than in recent years. Lower inward migration, softer labor demand, and a step down in income growth are collectively forecast to slow real GDP growth to 1.0% in 2025 from 2.7% in 2024. Employment growth in Arizona has moderated considerably from the blistering pace of the post-pandemic years, and the unemployment rate is likely to tick higher as a result. Tourism will face headwinds from wobbly U.S. consumer confidence, which is weighing on discretionary spending nationally. This will indirectly slow the broader service-providing sectors, which account for about three-fourths of all jobs in the state. Slower employment growth, higher unemployment, and slower growth of investment income sources are projected to limit total personal income growth in the state to a little under 5%—which nevertheless should outpace inflation.

Private hiring continues to slow from the post-pandemic boom, which will restrain interstate migration into the Grand Canyon State, slowing population growth this year and next. Less immigration will weigh on population growth as well. At the same time, the historically strained cost of living on the West Coast means life in the Grand Canyon State will still entice Americans, especially retirees.

Residential construction rebounded in 2024 after declines in the prior two years, and is set to expand further in 2025. Population growth remains a powerful fundamental driver of residential construction in Arizona, despite headwinds from high mortgage rates, and cooler growth of jobs and incomes. Led by a solid increase in single-family construction, nearly 60,000 new residential units are forecast to be added this year. Rental vacancy rates are the highest in a decade, limiting multifamily construction. As Arizona's housing market comes into better balance, house price increases will moderate further. The house price index is forecast to increase by 1.7% this year and 2.2% next year, slower than income growth.

Arizona Economic Outlook											
	1Q'25f	2Q'25f	3Q'25f	4Q'25f	1Q'26f	2Q'26f	3Q'26f	4Q'26f	2024a	2025f	2026f
<b>State Output</b>											
Real GDP (Chained 2017 Billions \$)	438	438	438	439	441	443	446	449	434	438	445
<b>Percent Change Annualized</b>	<b>-0.7</b>	<b>0.1</b>	<b>0.1</b>	<b>0.4</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.9</b>	<b>2.7</b>	<b>1.0</b>	<b>1.5</b>
<b>Labor and Demographics</b>											
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
<b>Percent Change Annualized</b>	<b>1.9</b>	<b>1.9</b>	<b>1.6</b>	<b>1.3</b>	<b>1.3</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>1.2</b>	<b>0.9</b>	<b>1.2</b>
Unemployment Rate (Percent)	4.0	4.3	4.5	4.8	5.1	5.1	4.9	4.7	3.6	4.4	5.0
Population (Millions)	7.7	7.7	7.7	7.8	7.8	7.8	7.8	7.8	7.6	7.7	7.8
<b>Percent Change Annualized</b>	<b>1.6</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>	<b>0.7</b>	<b>0.5</b>	<b>0.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.0</b>
<b>Personal Income</b>											
Total Personal Income (Nominal Billions \$)	504	511	515	521	531	538	543	549	489	513	540
<b>Percent Change Annualized</b>	<b>8.1</b>	<b>5.5</b>	<b>3.3</b>	<b>4.7</b>	<b>7.6</b>	<b>6.0</b>	<b>3.6</b>	<b>4.8</b>	<b>5.2</b>	<b>4.9</b>	<b>5.4</b>
<b>Housing</b>											
Housing Starts (Thousands, Annual Rate)	59.3	59.2	59.3	59.6	59.9	60.3	60.9	61.5	56.6	59.4	60.6
<b>Percent Change Annualized</b>	<b>50.4</b>	<b>-0.3</b>	<b>0.3</b>	<b>1.9</b>	<b>2.2</b>	<b>2.7</b>	<b>3.9</b>	<b>4.0</b>	<b>4.5</b>	<b>4.9</b>	<b>2.2</b>
Single-Family Housing Starts (1,000s Units, Annual Rate)	48.3	48.2	48.0	48.2	48.5	48.9	49.3	49.8	43.3	48.2	49.1
Multi-Family Housing Starts (1,000s Units, Annual Rate)	11.0	11.1	11.3	11.3	11.4	11.5	11.6	11.7	13.2	11.2	11.5
House Price Index, FHFA (1991 Q1=100, SA)	575	578	576	576	581	588	590	596	567	576	589
<b>Year/Year Percent Change</b>	<b>2.4</b>	<b>2.0</b>	<b>1.6</b>	<b>0.7</b>	<b>1.0</b>	<b>1.7</b>	<b>2.5</b>	<b>3.5</b>	<b>3.7</b>	<b>1.7</b>	<b>2.2</b>

a = actual f = forecast

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