

Arizona's Economic Growth to Rebound in 2026

Arizona's economy was on a rollercoaster in the first half of 2025, with a deep contraction in the first quarter followed by a sharp rebound in the second. The Artificial Intelligence boom (AI) and a combination of fiscal and monetary stimulus will be tailwinds to the state's economy in 2026, which are forecasted to fuel a rebound in growth that will outpace the rest of the nation. The state is a natural destination for AI investment with its burgeoning talent pool, cost competitiveness, supportive government incentives, and stable weather. Even so, employment growth is forecast to soften, as critical sectors, such as healthcare, tourism, and government take a breather after strong hiring in recent years. Employment in construction, however, will likely buck this trend, as investment in data centers and power generation infrastructure picks up. Matching national trends, Arizona's unemployment rate will probably edge higher to a peak in the second quarter of 2026 before gradually retreating during the remainder of next year. Population growth probably will moderate in 2026 as softer labor demand weighs on inward migration. Stringent immigration enforcement and fewer Canadian snowbirds will be further headwinds to population growth. Income growth, particularly disposable income growth, is expected to be boosted next year, as the One Big Beautiful Bill Act raises exemptions and deductions for seniors, tips, and state and local taxes.

As in most other parts of the country, residential investment faced mounting challenges in 2025 from stretched affordability, high mortgage rates, and rising construction costs. Residential construction is projected to rebound in 2026, as the Fed's rate cuts bring down mortgage rates. Trade disputes look likely to reach settlements next year. This should reduce costs and uncertainties for homebuilders, since Canada is a key source for building materials like lumber and steel. Overall, around 50,000 units are anticipated to be added to Arizona's housing supply in 2026. Arizona's rental vacancy rates are the highest in several years, a significant headwind limiting multifamily construction. As Arizona's housing market comes into better balance, house prices will likely give back a bit more of recent years' big increases, but a major correction seems unlikely.

Arizona Economic Outlook											
	1Q'25a	2Q'25a	3Q'25f	4Q'25f	1Q'26f	2Q'26f	3Q'26f	4Q'26f	2024a	2025f	2026f
State Output											
Real GDP (Chained 2017 Billions \$)	450	454	456	458	460	464	467	470	447	454	465
Percent Change Annualized	-3.8	3.6	2.1	1.7	1.6	3.2	3.4	2.1	4.5	1.7	2.4
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	1.8	1.8	0.8	0.3	0.2	0.1	0.1	0.1	1.2	0.7	0.3
Unemployment Rate (Percent)	4.0	4.1	4.1	4.2	4.2	4.3	4.2	4.1	3.6	4.1	4.2
Population (Millions)	7.7	7.7	7.7	7.7	7.7	7.8	7.8	7.8	7.6	7.7	7.8
Percent Change Annualized	1.4	1.1	0.8	0.7	0.6	0.5	0.4	0.4	1.6	1.5	0.6
Personal Income											
Total Personal Income (Nominal Billions \$)	511	521	526	532	539	547	555	565	499	523	551
Percent Change Annualized	2.6	7.7	4.0	4.6	5.2	6.1	6.5	6.9	5.9	4.7	5.5
Housing											
Housing Starts (Thousands, Annual Rate)	59.1	46.7	44.1	44.7	46.0	48.6	51.8	53.7	57.0	48.6	50.0
Percent Change Annualized	33.6	-61.0	-20.9	5.5	12.2	24.6	29.8	15.5	4.9	-14.7	2.8
Single-Family Housing Starts (1,000s Units, Annual Rate)	47.0	34.7	31.9	32.1	33.3	35.7	38.6	40.4	43.6	36.4	37.0
Multi-Family Housing Starts (1,000s Units, Annual Rate)	12.1	12.0	12.2	12.6	12.6	12.8	13.2	13.3	13.4	12.2	13.0
House Price Index, FHFA (1991 Q1=100, SA)	572	565	555	546	539	550	561	558	565	559	552
Year/Year Percent Change	2.7	-0.4	-1.9	-4.3	-5.8	-2.6	1.1	2.2	4.0	-1.0	-1.3

a = actual f = forecast

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