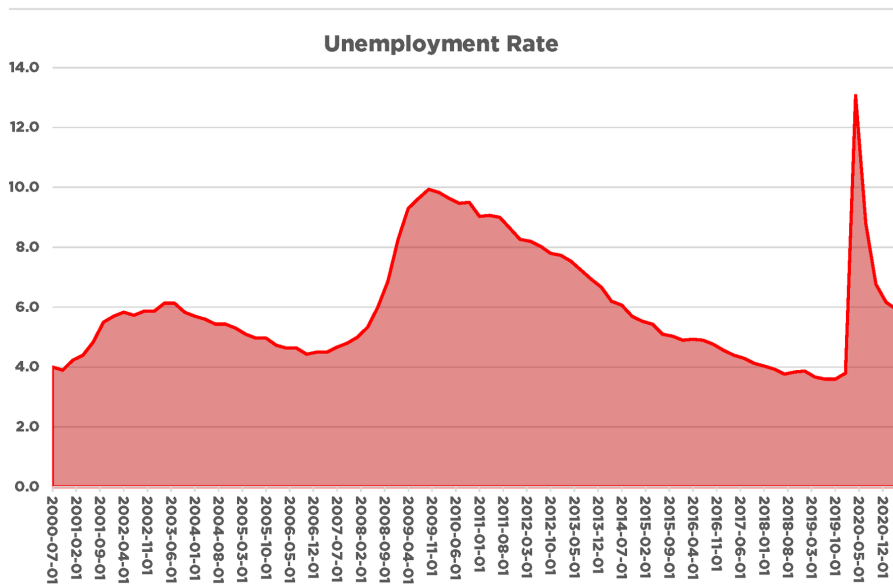


## The Mid-Year U.S. Economic Outlook

The U.S. economy has grown exponentially this spring, with economists in one survey average estimates at a 9.1 percent seasonally adjusted annual clip in the April-to-June period. That would be the second-fastest pace since 1983, exceeded only by last summer's rapid rebound when businesses started to re-open after being locked down.

Yet, economic growth is fraught with issues and challenges.

The economy added 850,000 non-farm jobs in June and 559,000 jobs in May, bringing the national unemployment rate down to 5.9 percent, yet these times are still anything but normal and the U.S. is 7.6 million jobs short of its pre-pandemic level.



A recent survey conducted by job-search Indeed found that among unemployed job seekers who said they weren't urgently looking for work, the biggest hurdle was continued worries about Covid-19. In addition to care responsibilities and unemployment benefits, they cited spousal employment and having financial cushions as reasons for their lack of urgency.

With widespread reports of unmotivated workers who have stopped looking for work, it's hard for even the experts to forecast a return to a 'normal' job market. One economist from Harvard, University – Lawrence Katz, has one explanation.

“Many employers might want things to go back to the way they were before the pandemic, while many workers have something else in mind; it's a mismatch of expectations and aspirations.”

Meanwhile, U.S. manufacturing continued to expand at a solid, yet slightly slower pace in June while a measure of prices paid for material jumped to an almost 42-year high. Factory activity measured at 60.6 in June compared with 61.2 in May according to the Institute for Supply Management data. Any number above 50 indicates an expanding economy. With production consistently on the rise, it is allowing manufacturers to make modest headway on well-elevated order backlogs caused by the disruption in supply chains during the pandemic.

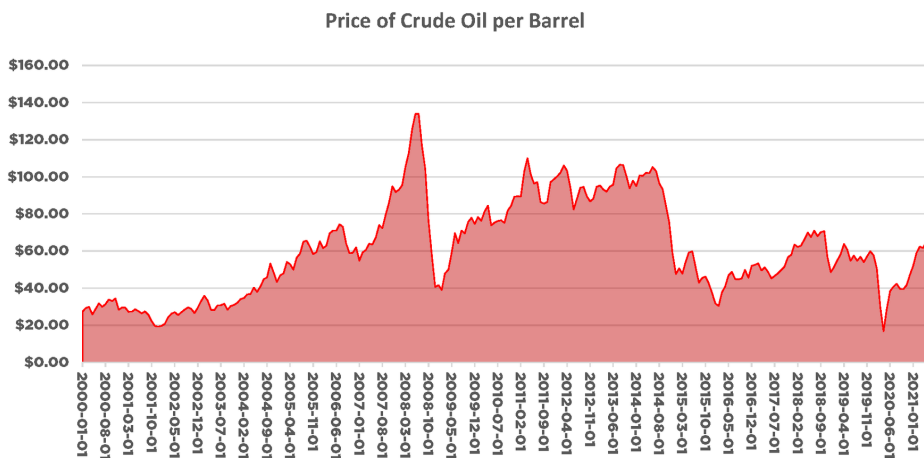
In other measures of the U.S. economy that also point to a comeback, West Texas Intermediate (WTI) Crude Oil passed \$75 a barrel after the 4th of July weekend for the first time since late in 2014. On April 20 last year, WTI crude oil slumped into negative territory for the first time in history, falling to negative 37.63 U.S. dollars per barrel.

However, Federal Reserve Chairman Jerome Powell said recently that the central bank wouldn't hesitate to raise interest rates to keep rampant, post-pandemic inflation under control, but he repeatedly emphasized he still expects price pressures and rising consumer goods to ease later this year.

His comments came the day after the government reported the fastest monthly rise in consumer prices in 13 years.

One of the elements associated with rising consumer prices remains the jam in global supply chains that in addition to inflationary prices, is causing delays and uncertainty for businesses. Only about 39 percent of container ships around the world were on time arriving at ports in May, according to Sea-Intelligence, compared with about 75 percent in May last year and about 80 percent in May 2019.

Consequently, the cost to transport goods has gone up and in many cases, by a lot. The average price world-wide to ship a 40-foot container overseas reached \$8,795.77 as of July 8, according to Drewry Shipping Consultants, which is up 333 percent from a year earlier. Once that container comes off the ship, there are additional shipping costs and they, too, are rising. In June, prices for transporting goods by truck were up 15 percent from a year earlier, according to the Labor Department, while the costs for freight forwarders, customs brokers and other businesses that arrange freight and cargo for transportation increased 58 percent from a year ago.



## The Mid-Year Arizona Economic Outlook

The Arizona economy continues to recover from the pandemic, but progress has been uneven. The travel and tourism sector is improving, but still has a long way to go. Transportation and warehousing continues to add jobs at a rapid pace, thanks to accelerated online shopping and demand for delivery services. Fiscal stimulus has driven strong income growth, which boosted consumer spending, but that will end later this year. House prices continue to surge, driving down affordability. Arizona's population rose at a faster pace than most states during the past decade, but growth was slow relative to the past.

The outlook for the state remains positive, but the pandemic will still influence the pace of recovery. The baseline projections call for state jobs to regain their pre-pandemic peak in the first quarter of 2022 and to increase by 643,000 over the next decade. The pessimistic scenario calls for that to happen in the third quarter of 2022 and for the state to add 577,000 jobs by 2030. The optimistic scenario calls for Arizona jobs to regain their pre-pandemic employment high in the fourth quarter of 2021 and to rise by 778,000 during the next decade.

Arizona added 759,485 residents from 2010 to 2020 according to the latest decennial count from the U.S. Census Bureau. That translated into a growth of 11.9 percent during the decade, which outpaced the U.S. at 7.4 percent and ranked the state 10th in the nation (including DC). Utah ranked first with 18.4 percent growth, while West Virginia ranked last with a decline of 3.2 percent. While Arizona's population growth was faster than most states and the nation, it was very slow compared to the state's own past history. Population growth of 11.9 percent in one decade was the slowest pace recorded since (at least) 1900.

Leisure and hospitality jobs remain hardest hit, with employment down 45,900 from February 2020, followed by government (down 24,100), professional and business services (down 17,000), and education and health services (down 8,300). Only trade, transportation, and utility jobs were up from February of last year (by 16,400), with all of that growth concentrated in transportation and warehousing.



# Q2 Industrial Market Report

## METRO PHOENIX 2021

As of April 2021, Arizona's unemployment rate was 6.7 percent, seasonally adjusted. That was slightly above the U.S. rate at the time of 6.1 percent. Arizona's rate in April was far below its pandemic high in April of 14.2 percent but above its February 2020 level of 4.9 percent.

### Looking Ahead

In April HIS Markit forecast that U.S. real GDP would rise to 6.2 percent in 2021, 4.3 percent in 2022 then decelerate to growth just over 2 percent in 2023-2024 – which is about where GDP was before Covid-19 struck.

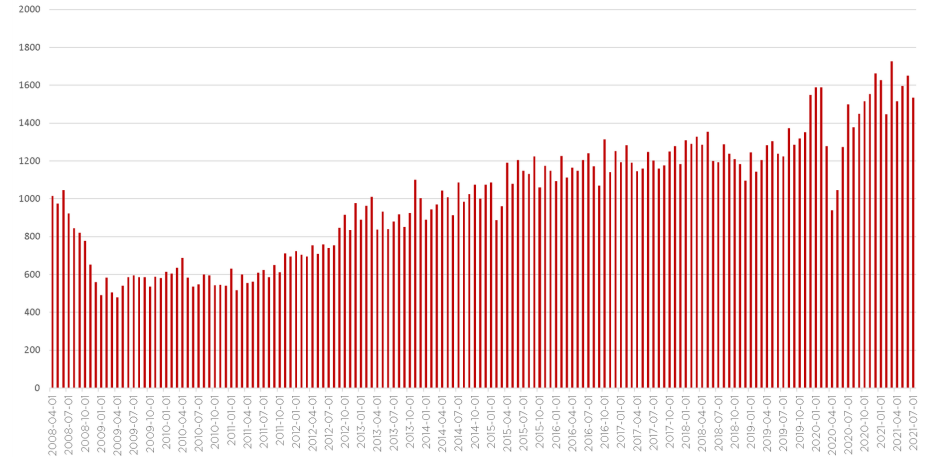
The outlook for Arizona calls for accelerating growth through 2022, with jobs in the state expected to rise by 2.5 percent this year, 4.2 percent in 2022 and 3.2 percent in 2023.

During the next two years, leisure and hospitality; trade, transportation, and utilities; professional and business services; and education and health services add the most jobs. Together these four sectors account for just over three-quarters of total job gains. Through 2030, these four sectors are forecast to account for 79.4 of job gains. The nature of the expected job gains is a harbinger of things to come, namely and since most of those jobs are not highly paid positions, Arizona should experience even greater pressure on housing and particularly affordable housing.

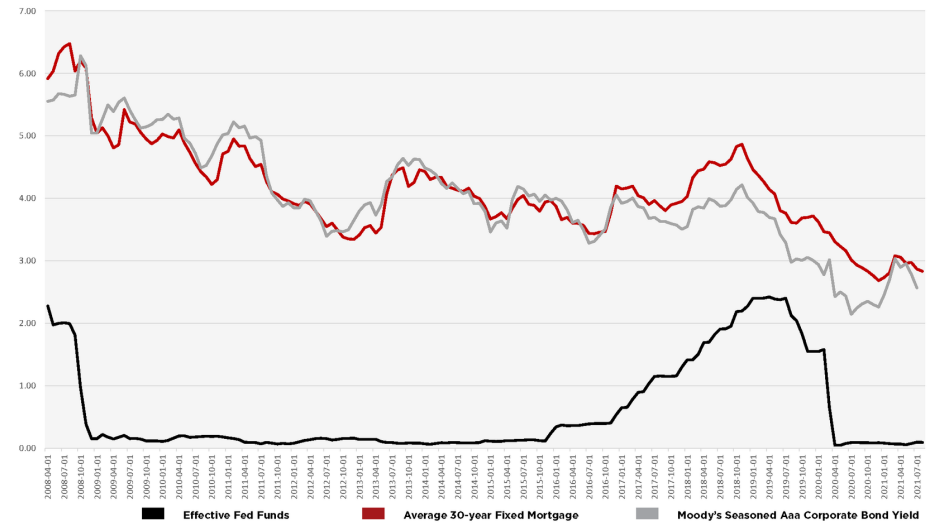
In fact, the Phoenix-area median existing-home price was \$399,900 in June, up 31 percent from a year earlier, according to the Arizona Regional Multiple Listing Service. In addition, Phoenix home prices have risen faster on an annual basis than any other metro areas in the S&P CoreLogic Case Shiller 20-City Composite Home Price Index for 23-straight months, matching the record streak by Portland from 1990 to 1992.

AZ economy source: Economic and Business Research Center (The University of Arizona), Wall Street Journal and other publications

National Housing Starts (in Thousands)



Interest Rates in the Economy



## About NAI Horizon

Exceptional global commercial real estate solutions begin with local market leadership and expertise. Established in 1992, NAI Horizon is a full-service commercial real estate company serving Arizona with offices located in Phoenix and Tucson. NAI Horizon is passionate about the commercial real estate business, providing Brokerage and Property Management Services for local, national and international clients. NAI Horizon is a member of the NAI Global commercial real estate network providing real estate solutions to more than 300 offices worldwide. For more information visit [www.naihorizon.com](http://www.naihorizon.com).

## About NAI Global

Advisory Services | Leasing | Property Management  
Property & Note Sales | Tenant Representation

NAI Global is a leading global commercial real estate brokerage firm. NAI Global offices are leaders in their local markets and work in unison to provide clients with exceptional solutions to their commercial real estate needs. NAI Global has more than 300 offices in 43 countries strategically located throughout North America, Latin America and the Caribbean, Europe, Africa and Asia Pacific, with 5,100 local market professionals, managing in excess of 1.1 billion square feet of property and facilities. Annually, NAI Global completes in excess of \$20 billion in commercial real estate transactions and a gross revenue of \$1.5 billion.

NAI Global professionals achieve extraordinary results for clients locally and globally through creativity, collaboration and the consistent delivery of exceptional knowledge and service that only market-leading firms can provide. NAI Global provides a full range of corporate real estate services, including brokerage and leasing, property and facilities management, real estate investment and capital market services, due diligence, global supply chain and logistics consulting and related advisory services.

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## NAI Horizon Marketing/Research Team

### MEG ZEMLIKA

Director of Marketing  
[Meg.Zemlicka@naihorizon.com](mailto:Meg.Zemlicka@naihorizon.com)

### SABRINA DRUMMOND

Marketing Manager  
[Sabrina.Drummond@naihorizon.com](mailto:Sabrina.Drummond@naihorizon.com)

### ANTONIO CARMONA

Research/GIS Specialist  
[Antonio.Carmona@naihorizon.com](mailto:Antonio.Carmona@naihorizon.com)

### LARSON WILCKE

Research/GIS Intern  
[Larson.Wilcke@naihorizon.com](mailto:Larson.Wilcke@naihorizon.com)

