



# Economic Outlook

METRO PHOENIX 2021

**NAI**Horizon

## The 30,000-Foot View

### EMPLOYMENT

The number of Americans filing for unemployment benefits dropped sharply in September and early October – a sign that states started to end several federal pandemic benefits programs as well as the overall tight labor market.

However, earlier this summer economists expected U.S. employers would add 500,000 jobs in September, but that didn't pan out. The surge from the Delta variant halted job growth and instead, the Labor Department reported in early October that employers added a mere 194,000 jobs in September – the smallest gain since December 2020 and down considerably from the 366,000 U.S. jobs that were added in August.

Even so, the U.S. unemployment rate ended September at a post-pandemic low of 4.8 percent, in part because so many potential workers gave up job searches.

### GDP

The Delta variant of the Covid virus appeared to temper economic growth this summer. Consumers slowed spending on meals out, hotels and airlines reported fewer bookings, and the Covid-19 surge delayed school re-openings and complicated office openings in September. Taken together, it dampened the expected boom for the beginning of autumn. Forecasting firm HIS Markit projected in late September that U.S. gross domestic product for the third quarter would end up near 3.6 percent at an annual rate – well below the firm's mid-July forecast for 7.8 percent growth in the quarter, reflecting the spending dent from the Delta strain. The government is expected to release its GDP estimate on Oct. 28.

However, economists expect the recovery from the pandemic to reaccelerate as the virus's toll eases, and there are signs that the summer spending slowdown is beginning to ease. In the week ending Sept. 28, the number of diners seated at tables was just 8 percent down from the same period in 2019 – less severe than summer months, according to data from reservations site OpenTable. Further, U.S. hotel occupancy reached 63 percent for the week ending Sept. 18, the highest level since early August, data from STR, a global data and hospitality analytics company show.

The Federal Reserve has raised its 2022 growth forecast to 3.8 percent, up from 3.3 percent in its June projections.

### SUPPLY CHAIN DISRUPTION

The global supply chain continues to be a drag on the economy without near-term relief. And the top executives at the nation's largest ports are predicting shipping logjams to extend far into 2022.



*Ships line up at the Port of Long Beach, awaiting a berth to unload cargo. By unofficial count, there were approximately 60 cargo ships waiting off the California coast when this photo was taken October 3 on landing approach to John Wayne Santa Ana Airport.*

Griff Lynch, executive director of the Georgia Ports Authority, which operates one of the nation's largest ocean gateways at the Port of Savannah, was quoted in a recent article and said: "We think at least midway through 2022 or the entire year could be very strong for port activity."





The consequences have moved beyond the threat to retailers that their shelves won't be chock full of goods for the coming holiday season, as the lack of berth space at Southern California's ports has begun to disrupt warehouse and distribution networks across the country.

Despite the logjams, U.S. ports are on track to exceed the number of imported containers of the previous record year – 2020, when 22 million containers, measured in 20-foot equivalent units, reached American shores. In August, the Global Port Tracker produced by Hackett Associates for the National Retail Federation (NRF) reported 2.37 million containers for the month. It was the most for any month since 2002, and NRF projects overall inbound volumes for the year will reach 25.9 million containers.

## GLOBAL CONCERNS

The semiconductor chip shortage, particularly for autos and smart devices, is also likely to continue deep into 2022. As we have noted earlier the chip shortage is already idling car manufacturing plants in the U.S. With a significant supply of chips and other supply chain products coming from Taiwan, China's bellicose behavior toward the island nation is disconcerting on many levels, including the reliable supply of semiconductor chips.

Chinese infrastructure also poses a threat to the global economy, with its recent power shortages. Manufacturing and assembly plants there ("the world's factory") that typically run five or six days are being told to operate four days a week. All of which is a reminder of what we wrote a year+ ago when we expected reshoring to be one of the biggest industrial trends to happen in 2021. That hasn't materialized as anticipated but perhaps with Congress inching toward a new spending bill, the Department of Commerce will get a slice of it to energize manufacturing stateside with the aid of some good domestic infrastructure policy. Another potential boost for reshoring is the international passage of a minimum 15 percent corporate tax. While it will take a few years to materialize in any meaningful way, discouraging our largest companies from placing manufacturing and other intellectual process work overseas can only help the U.S. economy.

## The Arizona Economy

The California Exodus of companies moving their headquarters out of the Golden State continues almost unabated. In the first half of 2021, 74 companies left California for a monthly average of 12.3. By comparison, 62 companies took their HQs to other states, or 5.2 per month, in 2020, while 78 did so in 2019, with a monthly average of 6.5, according to a report by site selection consultant Joseph Vranich, president of Spectrum Location Solutions and Lee Ohanian, a UCLA economics professor and senior fellow at the Hoover Institute.

Tesla made big headlines in October when it announced its HQ relocation to Austin. While Texas is getting the lion's share of corporate moves, a little more quietly in August proptech company HomeLight decamped from San Francisco and set up shop in Scottsdale.

While fewer companies are making Arizona its headquarters location than Texas and Florida, there's no question that people continue to move here in droves. As we are also reporting in our Self Storage report this month, more than 89,000 people moved to the Phoenix region from July 2019 to July 2020, or about 224 per day, according to U.S. Census data.

One metric to measure the Valley of the Sun's rebound from the pandemic is in flight capacity and hotel occupancy. In a special report published by American City Business Journals (the parent company of the Phoenix Business Journal), data revealed that flight capacity in Phoenix had returned to 83 percent of its pre-pandemic levels in the first six months this year, compared with the first six months of 2019, while hotel occupancy had rebounded to 81 percent in the same January-through-June period of 2021. Jacksonville and Ft. Lauderdale had the best recoveries, respectively, in hotel-occupancy rebounds at 94 percent and 93 percent. Miami and Fort Worth had the best rebound figures for flight capacity at 91 percent and 89 percent, respectively. Among the lowest on the list was San Francisco, which had only recovered 50 percent of its flight-capacity traffic and 50 percent of its hotel occupancy.

As of July, Arizona had replaced 93.7 percent of jobs lost from February to April last year, which left the state 20,900 jobs short of the prior peak, according to the University of Arizona Economic and Business Research Center (EBRC). The EBRC expects Arizona to regain all of its lost jobs due to the pandemic by the fourth quarter this year or first quarter in 2022.

Arizona housing permit activity was very strong in the first half of 2021. Seasonally adjusted total permits were up 26.4 percent in the first half this year, compared with the same period in 2020. Single-family permits drove the increase by rising 41.7 percent while multifamily permits fell 4.6 percent, according to the EBRC. Population growth and new housing should support the region's retail real estate sector as well as its warehousing and distribution enterprise.



## 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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