ECONOMY REPORT

REPORT DATE: MAY 27, 2020

PREPARED BY CITY OF SCOTTSDALE
ECONOMIC DEVELOPMENT DEPARTMENT

This report is designed to provide an analysis of various components of the economy. The economy is a broad term used to describe movement of goods and services, also referred to as supply and demand. Economic conditions are largely dictated by people as conveyors of goods and services and COVID-19 has dramatically altered the way society is able to participate in the economy. Upticks and declines in the economy can be traced back to a variety of human-based factors that when analyzed, can help to define current conditions and establish future projections.

This report considers seven economic indicators:

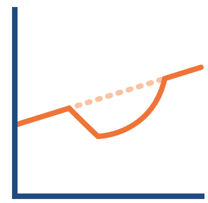
- UNEMPLOYMENT CLAIMS
- UNEMPLOYMENT RATES
- INDUSTRY CHANGES
- WARN NOTICES
- TOURISM
- SALES TAX COLLECTIONS
- CONSTRUCTION PERMITTING

RECOVERY SCENARIOS

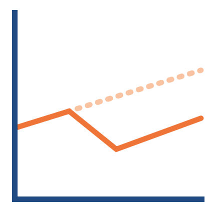
According to ASU professor Dr. Dennis Hoffman during his presentation at the W.P. Carey Economic Outlook event on May 5, 2020, there are now four possible scenarios for how this economic downturn could proceed:

- A **V-shaped recovery** would result in a deep decline in Q2 led by drops in personal consumption and business investment, but a dramatic recovery in Q3 and Q4. Given that a recovery cannot fully materialize until there is a vaccine or at least treatments to mitigate the risk and severity of COVID-19, this scenario is becoming highly unlikely.

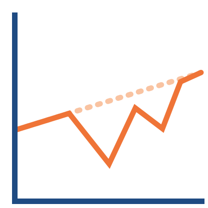
- A **U-shaped recovery** would also result in deep declines in Q2 that would persist through Q3, but a partial recovery beginning in Q4 2020 or Q1 2021. Under this scenario, the economy is projected to be back to where it would have been without the pandemic by the end of 2021. The timing difference of a U versus the V is significant in terms of state and local budgets and the peak of the tourist season.



- The most pessimistic scenario is an **L-shaped recovery**, which means that the economy declines and does not recover for several years as temporary employment losses become long-term structural losses. This scenario is less likely given the reported timing for vaccine development.



- The final scenario is a **W-shaped recovery** which means that Q4 2020 would be very similar to Q2 2020, with a temporary recovery in between. However, an equivalent downturn in Q4 suggests that we learned nothing about how to manage this situation through testing and isolation during the initial downturn.



Regardless of the timing, the first step will be to regain the confidence of consumers which will provide incentives for services and manufacturing to respond. It is generally the case that consumer confidence and business confidence move in tandem. Consumer spending accounts for about 70 percent of GDP. In Q1 2020, real GDP declined by 4.8 percent, demonstrating the depth and speed of the pandemic impact given that the economy did not really start to decline until the last two weeks of the quarter. Larger declines in GDP of 25 to 32 percent are projected for Q2 2020 according to the Philadelphia Federal Reserve Bank and the National Association of Business Economists, although recovery is projected to begin in Q3 2020, resulting in a projected decline in GDP of 5.6 percent for 2020 overall.

UNEMPLOYMENT CLAIMS

There are a limited number of economic indicators that are reported at a frequency that captures current events in something close to real time. One of those indicators is unemployment insurance claims, which is reported weekly at national and state levels. In Arizona, more than 581,000 initial claims have been filed since mid-March. To put this in context, in March there were 2,994,000 total non-farm jobs in Arizona.

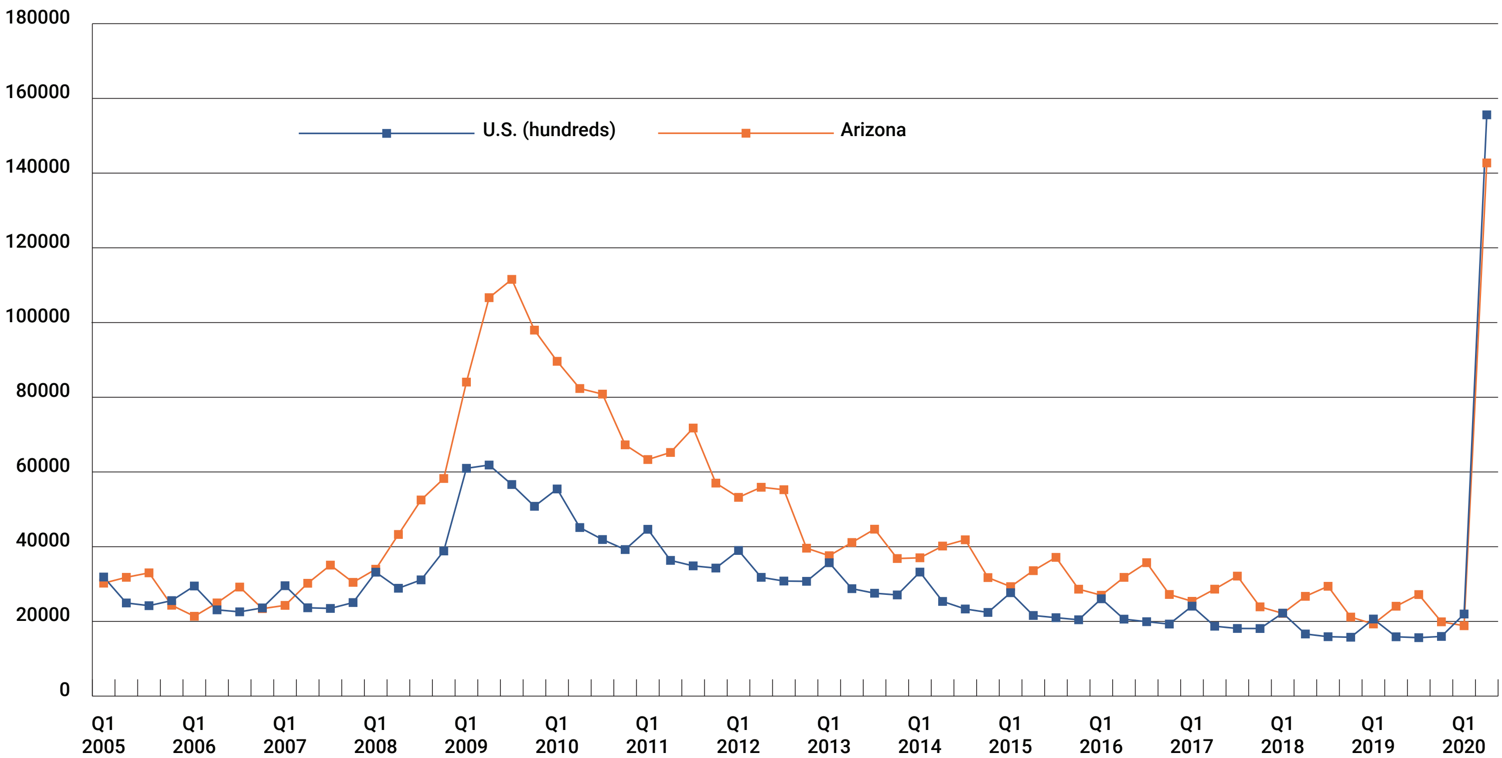
Nationally, over 35 million initial claims have been filed since mid-March. All of the job gains from the past 10 years of growth have been effectively erased in just two months. However, the number of initial claims filed peaked the week of April 4, 2020 at 6.2 million and has been declining since then. A total of 2.2 million initial claims were filed nationally the week of May 16, 2020

Individuals must renew their claim every week, and so it is also important to track the number of continuing claims. The sum of initial claims and continuing claims reflects the total number of claims filed in a given week. As the economic effects of this pandemic took hold, the number of initial claims spiked in early April, both nationally and in Arizona and has increased more gradually since early April. In Arizona, independent contractors and self-employed workers were just beginning to receive benefits as of the week of May 11th, even though their initial claims were made in March and April, so this could also increase the number of continuing claims in May.

The Arizona Office of Economic Opportunity has put together an analysis of initial claims by industry in Arizona through April 4th using data provided by the Bureau of Labor Statistics. The accommodations and food service industry accounted for over 31 percent of initial claims, followed by health care workers at 14 percent and retail trade at 12 percent.

Quarterly Average Unemployment Insurance Claims for Arizona and the United States

Source: US Bureau of Labor Statistics, 2020



UNEMPLOYMENT CLAIMS (CONT.)

Weekly Unemployment Insurance Claims for Arizona and the United States

Source: U.S. Department of Labor, Office of Unemployment Insurance

	Arizona			United States		
Week Ending	Initial Claims	Continuing Claims	% Of Covered Workforce	Initial Claims	Continuing Claims	% Of Covered Workforce
2/1/20	3,807	18,854	0.7%	224,664	2,087,525	1.4%
2/8/20	3,636	18,461	0.6%	219,601	2,099,073	1.4%
2/15/20	3,538	18,516	0.6%	209,336	2,061,355	1.4%
2/22/20	3,151	18,217	0.6%	198,832	2,103,447	1.4%
2/29/20	3,086	18,137	0.6%	216,605	2,057,280	1.4%
3/7/20	3,357	17,593	0.6%	200,382	1,977,272	1.4%
3/14/20	3,844	17,595	0.6%	251,416	2,074,782	1.4%
3/21/20	29,348	18,108	0.6%	2,920,160	2,074,736	1.4%
3/28/20	88,940	26,387	0.9%	6,015,821	3,416,593	2.4%
4/4/20	132,428	62,597	2.2%	6,203,359	8,177,965	5.6%
4/11/20	98,531	120,592	4.2%	4,971,823	12,526,711	8.6%
4/18/20	72,457	170,262	5.9%	4,281,648	16,277,222	11.2%
4/25/20	52,581	196,401	6.9%	3,495,703	17,794,976	12.3%
5/2/20	43,023	218,760	7.6%	2,855,560	21,772,592	14.9%
5/9/20	31,570	228,806	7.9%	2,356,594	20,879,551	14.3%
5/16/20	32,295	222,856	7.7%	2,174,329	22,942,103	15.7%

UNEMPLOYMENT RATES

The previous all-time high unemployment rate in Arizona was about 11 percent in 1982 during the global recession of the early 1980s. As of April 2020, the state unemployment rate is now at 12.9 percent and the national rate is 14.4 percent (not seasonally adjusted). The Bureau of Labor Statistics admitted the difficulty of accurately counting so many suddenly unemployed workers, and suggested the true national jobless rate is likely even higher, at close to 20 percent. The highest unemployment rate on record for the U.S. was 24.9 percent in 1933.

The unemployment rate in April also reflects the fact that 8.4 million people left the labor force between February and April, representing a 5 percent decline in the labor force nationally. The labor force in Arizona declined as well, but only by about 2 percent. Although these people are no longer working, they are also no longer included in unemployment counts. The data for April are based on a mid-month survey, and so May will reflect continued unemployment claims filed in the second half of April.

Prior to the pandemic, unemployment rates in Arizona were at or near historical lows, in part because of the length of the recovery cycle that began in 2012. Despite unprecedented levels of unemployment currently in Arizona, the state is fairing significantly better than some other western states including California, Washington, Oregon and Nevada.

UNEMPLOYMENT RATES (CONT.)

April labor force and unemployment data for the Phoenix Metro area and for Scottsdale show similar sharp increases in unemployment rates and declines in employment. It is likely that the region will lose all of the job gains since the Great Recession, at least temporarily. The April 2020 unemployment rate for the Phoenix Metro area was 12.3% (up from 5.4 percent in March), and the corresponding rate for Scottsdale was also 12.3 percent (up from 4.5 percent in March). Scottsdale's unemployment rate for April 2020 is similar to or less than many of the other larger cities in the metro area. Note that this data from the Bureau of Labor Statistics is based on place of residence, not place of work.

Labor Force and Unemployment Rate Changes

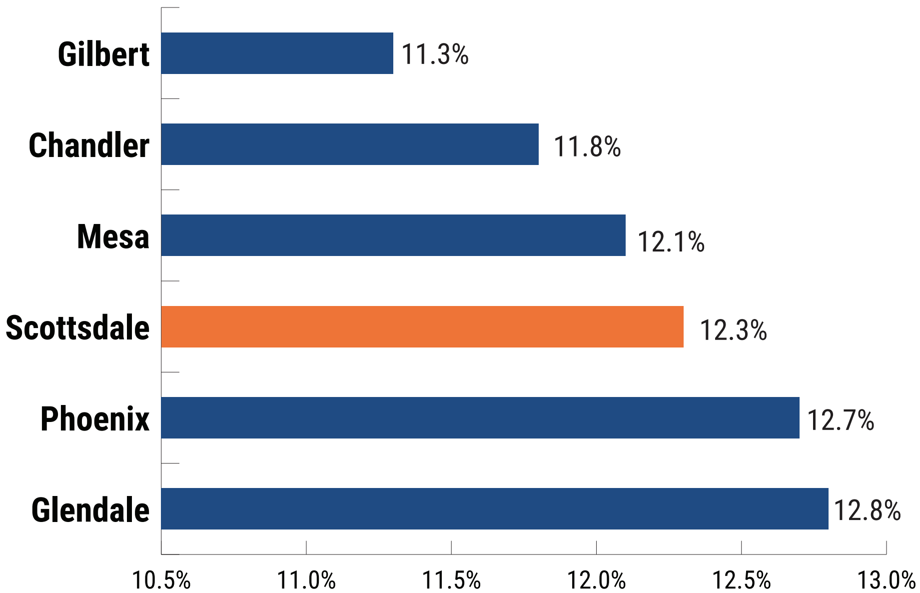
Source: Bureau of Labor Statistics, Local Area Employment Statistics

	Current Data				Year over Year Percent Change			
	Jan 2020	Feb 2020	Mar 2020	Apr 2020	Jan 2020	Feb 2020	Mar 2020	Apr 2020
Labor Force								
National	163,497,000	164,235,000	162,537,000	155,830,000	1%	1%	0%	-4%
Arizona	3,616,271	3,633,324	3,588,453	3,541,277	3%	3%	2%	1%
Phoenix Metro	2,552,106	2,565,813	2,525,513	2,492,860	4%	4%	2%	1%
Scottsdale	154,001	154,883	152,020	151,564	4%	4%	2%	2%
Unemployment Rate								
National	4.0%	3.8%	4.5%	14.4%	-10%	-7%	16%	335%
Arizona	4.6%	4.4%	6.1%	12.9%	-10%	-8%	30%	189%
Phoenix Metro	4.0%	3.8%	5.4%	12.3%	-11%	-9%	29%	212%
Scottsdale	3.3%	3.2%	4.5%	12.3%	-14%	-9%	31%	259%

Note: Not seasonally adjusted.

Unemployment Rates by City (April 2020)

Source: Bureau of Labor Statistics, Local Area Employment Statistics



INDUSTRY CHANGES

In order to better understand how this pandemic is affecting the economy, it is important to look at changes in employment by industry since not all industries are affected evenly and not all industries are equally represented in terms of jobs. Changes in industry employment between January 2020 and April 2020 can be compared for the U.S. and the Phoenix Metro area, providing useful insights about the varying level of impacts across different sectors. The Bureau of Labor Statistics Current Employment Survey showed a decline in non-farm employment of 13 percent nationwide (not seasonally adjusted), or 19.1 million jobs from January 2020 to April 2020, almost all of which occurred in the second half of March and the first half of April. Every sector except for state and federal government declined nationally since the beginning of the year. In the Phoenix Metro area, the decline in non-farm employment was 10 percent, or 213,000 jobs during this time period.

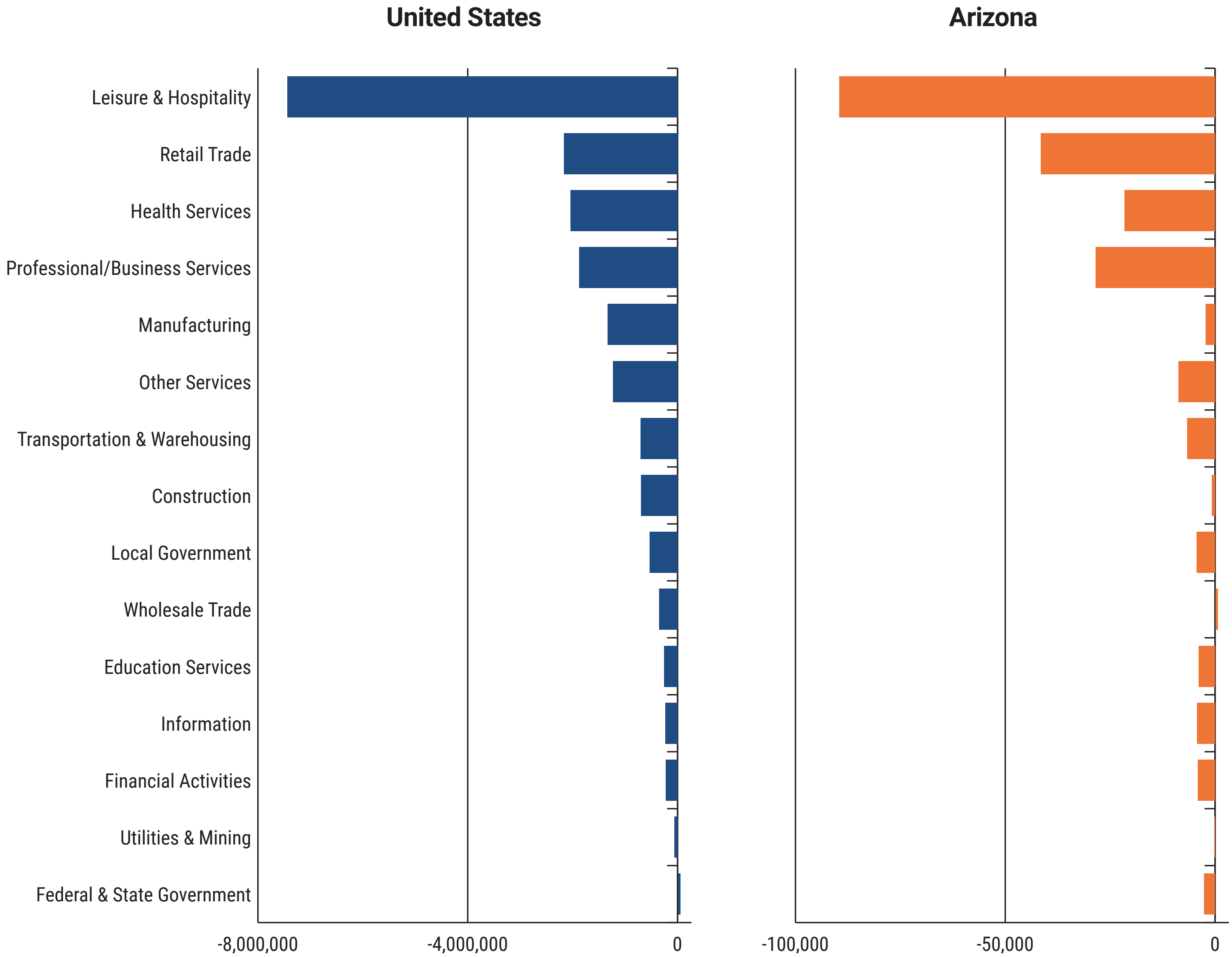
- Not surprisingly, the greatest losses nationally and locally were in **leisure and hospitality** with a 47 percent decline due to a combination of stay at home orders and consumer safety concerns about travel, although a significant part of the impact within leisure and hospitality was restaurants and is likely to be mostly temporary. Nonetheless, this means that 47 percent of the workers in this industry nationwide have lost their jobs. In the Phoenix Metro area, leisure and hospitality employment declined by 38 percent.
- There were also large declines **retail trade** with 14 percent losses (2.2 million jobs) nationally and 18 percent losses (41,500 jobs) in metro Phoenix. The retail sector ranked second in number of jobs lost both nationally and locally after leisure and hospitality. Retail losses were highest in clothing, auto sales and furniture stores, while warehouse clubs and supercenters actually gained jobs. The retail sector accounts for 1 in every 10 jobs.
- **Health services** declined by 10 percent (2.0 million jobs) nationally and 7 percent (21,600 jobs) locally between January and April. Job losses in this sector ranked third nationally and fourth locally. In the health care sector, hospitals are now re-opening for elective procedures and doctor's and dentist's office are offering more in-person visits. There is now a backlog of delayed medical and dental procedures that will help stimulate recovery in the health care sector. However, unlike the Great Recession when the health care sector in metro Phoenix added more than 23,000 jobs despite concurrent losses in most other sectors, there is likely to be some sluggishness as consumers are wary of potential contact with other patients.
- The **professional and business services** sector was also heavily impacted, despite the ability of many professional service workers to work from home. This sector declined by 9 percent (1.9 million jobs) nationally and 8 percent (28,400 jobs) locally. More than 70 percent of those losses were in administrative and support services.
- There were also sizeable and most likely temporary losses in **other services** of 1.2 million jobs, or a 21 percent decline nationally. The other services sector declined by 12 percent in Phoenix Metro sustaining a loss of 8,700 jobs. Nearly two-thirds of these jobs were in personal services like hair and nail salons and laundry services that are now re-opening.

INDUSTRY CHANGES (CONT.)

- The **manufacturing** sector lost over 1.3 million jobs nationally, with more than a 10 percent decline. The greatest impacts were in motor vehicles and parts as well as fabricated metal products. Durable goods in general were hit harder than nondurable goods. In the Phoenix Metro area, where manufacturing accounts for 6 percent of total employment, compared to 8.5 percent nationally, there was a loss of 2,200 manufacturing jobs since the beginning of the year (2% decrease).
- Other notable losses included **transportation and warehousing** (mainly air and ground passenger transportation), **construction** (mainly building construction and trades, despite small gains in heavy construction nationally), and **local government** (mainly public schools)

Changes in Employment by Industry

Source: Bureau of Labor Statistics, Local Area Employment Statistics (January to April 2020)



WARN NOTICES

Under the Worker Adjustment and Retraining Notification Act (WARN), employers are required to provide 60-day written notice to employees in advance of mass layoffs. These notices are tracked by the Arizona Department of Economic Security. Ten WARN notices have been issued by companies in Scottsdale since mid-March representing a total of 1,400 jobs. The majority of these notices are from restaurants and hotels, although many other smaller restaurants have laid off employees without issuing WARN notices. While there are fines for companies that do not file WARN notices, they are not enforced in Arizona. However, to the extent that larger employers do file notices, they can continue to be tracked in real time.

Warn Notices of Layoffs in Scottsdale

Source: Arizona Department of Economic Security, Arizona Job Connection

Employer	Notice Date	Employees Affected
Benihana Midtown	4/5/20	52
Benihana Scottsdale	4/5/20	53
Four Seasons Resort	3/20/20	422
McCormick Scottsdale	3/30/20	65
Mind Body	4/7/20	91
Passport Health	3/23/20	65
Suit Supply	4/8/20	9
Yelp	4/9/20	375
Open Door	4/15/20	145
The Scott Resort and Spa	5/4/20	123
Total for 2020		**1,400**

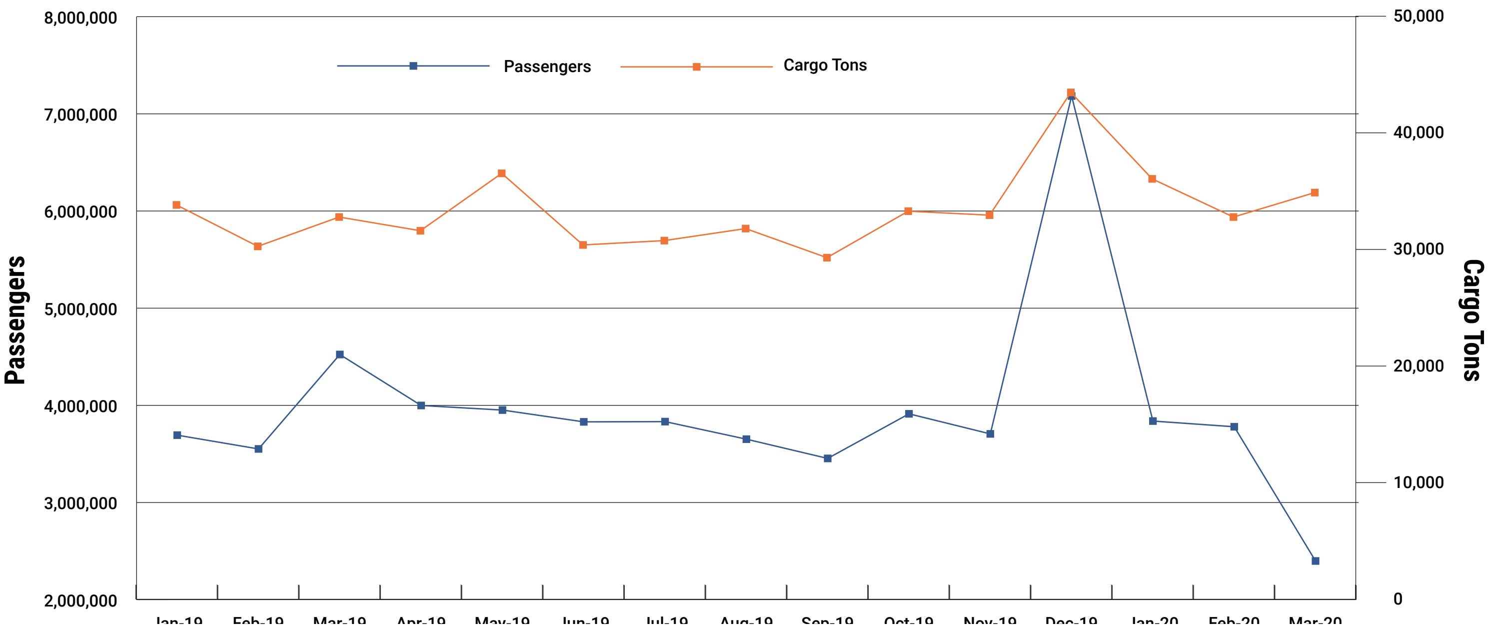
Note: All COVID-19, except Suit Supply that was listed as temporary furlough.

TOURISM

Tourism is an important part of Scottsdale's economic base and has unfortunately been hit hard and very suddenly as business and leisure travel ground to a virtual halt. Passenger enplanements at Sky Harbor dropped by 37 percent between February 2020 and March 2020, compared to a 27 percent increase during the same period in 2019. It is likely that April data, when available, will show additional declines.

Passenger and Cargo Volume Trends Sky Harbor International Airport

Source: Phoenix Sky Harbor Airport Statistics



Note: Passenger counts include enplanements and deplanements. Cargo includes mail and freight enplaned and deplaned.

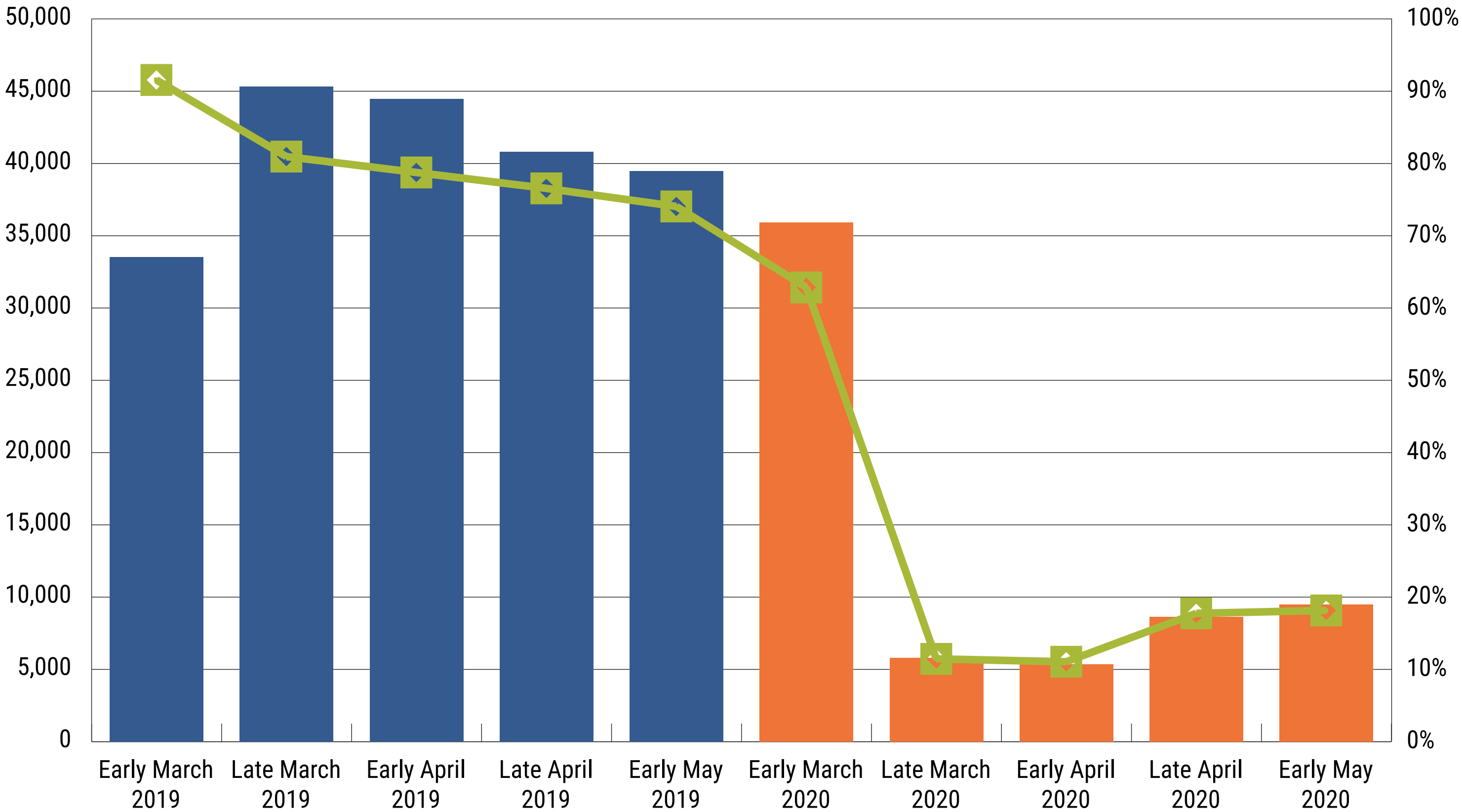
The impact to the hotel industry in Scottsdale has been devastating. Several hotels closed during March and April, resulting in a loss of about 1,100 rooms, while occupancy rates dropped precipitously during March from 63 percent in the first week of the month to a low of 11 percent in the first week of April, compared to occupancy rates of 92 to 79 percent during this time period last year, according to Smith Travel Research. Since the beginning of May 2020, several hotels including the Hyatt Regency Scottsdale Resort and The Scott Resort & Spa have re-opened and occupancy rates have increased slightly to 18.1 percent or demand of about 9,475 weekly room nights. It is likely that some of this demand may be from health care workers and first responders who stay in hotels to avoid potentially infecting their families, as well as from people who need a non-home based location for important virtual meetings.

Average daily room rates fell from about $270 in the first week of March 2020 to a low of $85 in the third week of April 2020, compared to $300 dollars in early March 2019 and $209 in mid-April 2019. As occupancy rises slightly, room rates have risen from a low of $85 to $88 in the first week of May. The timing of this crisis has been particularly unfortunate for Arizona and for Scottsdale, hitting at the peak of the tourist season. It is very uncertain at this point how the pandemic will impact summer travel to Arizona, including staycations by local residents.

TOURISM (CONT.)

Weekly Room Demand and Occupancy 2020 vs 2019

Source: Smith Travel Research custom report, May 2020



Tourism Impacts in Scottsdale

Source: Smith Travel Research custom report, May 2020

	Week of								
	3/8/20	**3/15/20**	**3/22/20**	**3/29/20**	**4/5/20**	**4/12/20**	**4/19/20**	**4/26/20**	**5/3/20**
Room Supply	8,010	8,010	8,010	7,269	6,770	6,770	6,770	6,770	7,467
Current Occupancy Rate	62.8%	17.6%	11.2%	11.4%	11.0%	12.8%	15.1%	17.7%	18.1%
Last Year Occupancy Rate	91.5%	92.2%	83.5%	80.9%	78.7%	76.4%	80.3%	76.5%	74.0%
Current ADR	$269.89	$200.18	$128.77	$108.73	$86.60	$90.84	$84.83	$85.62	$88.44
Last Year ADR	$298.93	$303.95	$269.83	$235.05	$223.58	$217.09	$208.57	$200.38	$175.71
% Difference	-9.7%	-34.1%	-52.3%	-53.7%	-61.3%	-58.2%	-59.3%	-57.3%	-49.7%
Current Weekly Room Demand*	35,912	10,075	6,385	5,809	5,368	6,045	7,160	8,642	9,475
Last Year Weekly Room Demand*	33,515	33,778	46,774	45,332	44,471	40,729	42,822	40,813	39,478
% Difference	7.2%	-70.2%	-86.3%	-87.2%	-87.9%	-85.2%	-83.3%	-78.8%	-76.0%

*Represents total room-nights over a period of a week.

SALES TAX COLLECTIONS

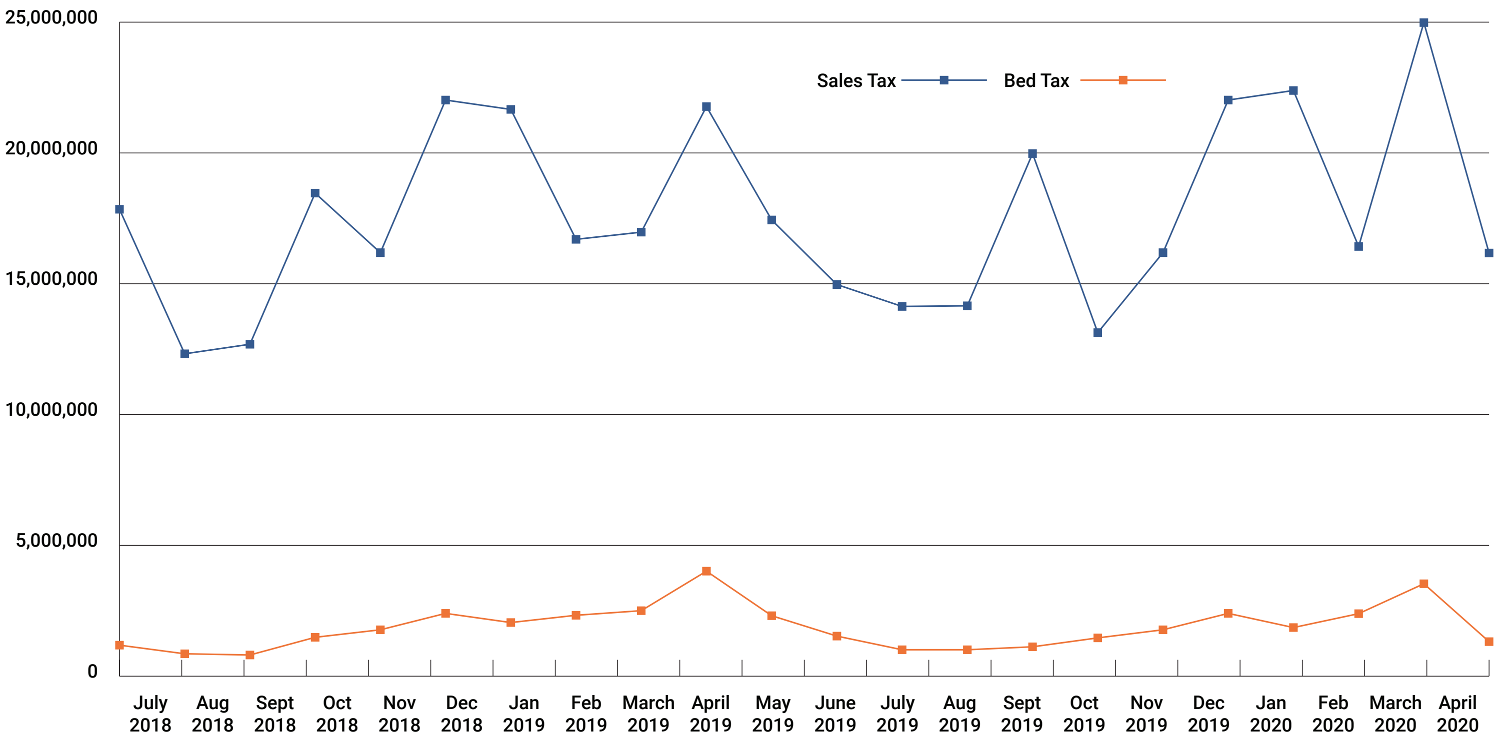
Newly released sales tax collections data for activity occurring in March 2020 show year over year declines of 26 percent for Scottsdale. Comparing April 2020 collections to March 2020 collections, the total dropped even more dramatically by 35 percent. April collections (representing activity in March) include sales taxes remitted to the Arizona Department of Revenue between March 27, 2020 and April 23, 2020. The most significant declines are in hotel/motel sales (-70 percent), restaurants and bars (-61 percent) and department stores (-42 percent), compared to April 2019. Although there were year over year declines across all sectors except miscellaneous retail, the construction, automotive and rental sectors declined by less than 15 percent each.

Nationally, clothing store sales fell by more than half and auto sales fell by more than 25 percent in March, while grocery and pharmacy sales surged. On-line sales were up by about 60 percent in April compared to this same time last year, according to a recent Nielsen survey. The greatest increases include on-line food purchases, followed by household cleaning products, health and beauty products, pet care products and baby care products.

One of the important concepts to keep in mind in terms of retail sales is the difference between deferred demand and lost demand. Deferred or pent-up demand is what drives recoveries, and it is likely that consumers will come out of this period with some degree of pent-up demand for durable goods such as vehicles, furniture and appliances. However, there will also be lost demand for personal services and restaurants, and even seasonal apparel, where purchases will not be made up when stay at home orders are lifted and stores re-open.

Monthly Sales and Bed Tax Collections

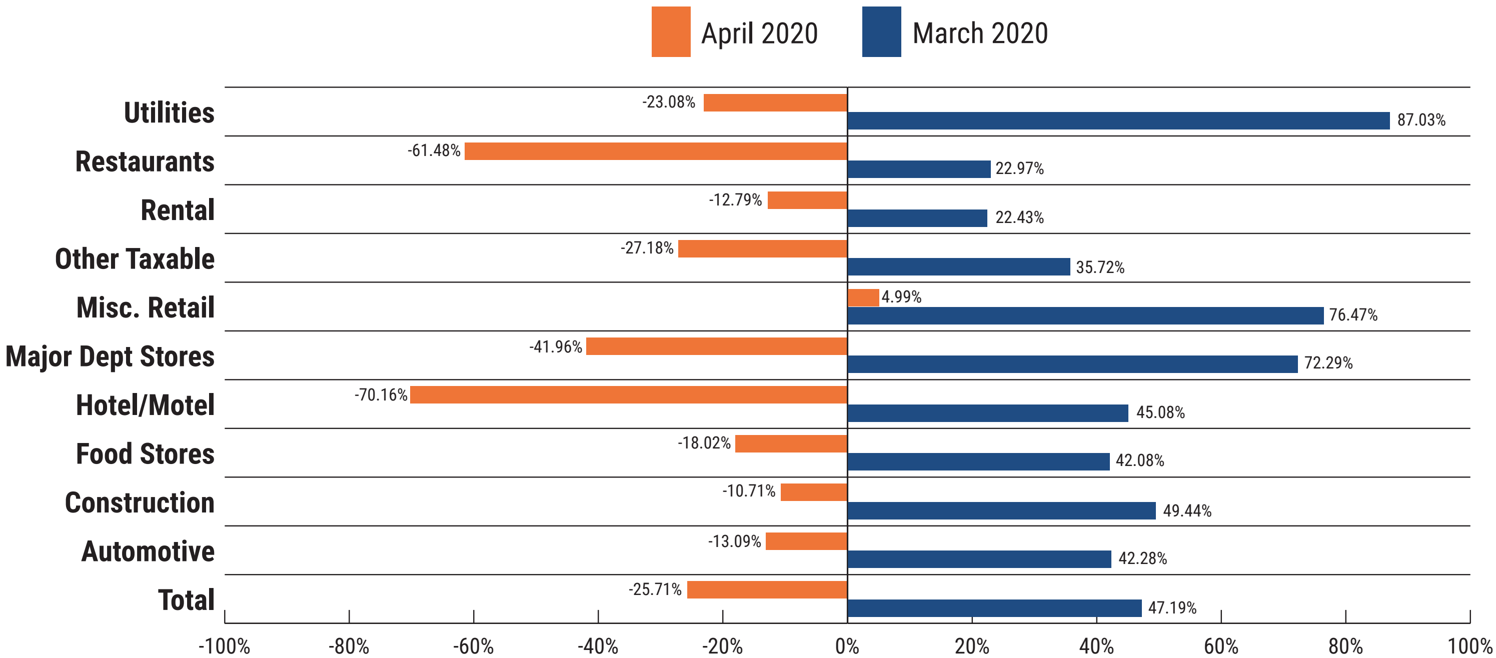
Source: Arizona Department of Revenue



SALES TAX COLLECTIONS (CONT.)

Year Over Year Changes in Collections by Sector

Source: Arizona Department of Revenue



CONSTRUCTION PERMITTING

Housing construction in Arizona is primarily driven by in-migration, which has accounted for more than 80 percent of statewide population growth in the past two years. March 2020 was the best month for new home sales since 2005, according to Jim Belfiore, local real estate expert. Revised forecasts from Belfiore estimate only 19,000 new homes built in the metro area in 2020 compared to 24,900 homes in 2019, although he is projecting recovery in 2021. Belfiore expects that July will be the biggest month for cancellations on new home contracts, but it is likely that sales will begin to drop dramatically beginning in May.

Home prices are not expected to fall dramatically because the available local supply of new and re-sale housing is very limited. According to the RE/MAX National Housing Report, home prices in the Phoenix Metro area rose about 11.1 percent in April 2020, compared to a 9.3 percent increase nationally. Low interest rates will likely stimulate demand once consumers feel confident about their employment situation.

In Scottsdale, residential permitting activity including, both single and multi-family projects as well as alterations, was up in February and March 2020, compared to the same period in 2019, but declined significantly in April 2020. The impact was more in alterations and additions than in new construction.

The pandemic will also have an impact on the office market in Scottsdale, although the direction of that impact is not yet clear. According to Andrew Cheney, a principal with Lee & Associates, absorption rates have slowed in response to the overall economic slowdown. However, the office market could take two different paths. Under the pessimistic scenario, if reduced consumer and business demand persist for a longer period it will cause more businesses to downsize or fail, resulting in a flood of sublease space on the market. To the extent that loans cannot be modified for landlords, there may be an increase in commercial foreclosures and a drop in prices as banks off-load these properties. This situation could be further exacerbated by people continuing to work from home on a more permanent basis, reducing

CONSTRUCTION PERMITTING (CONT.)

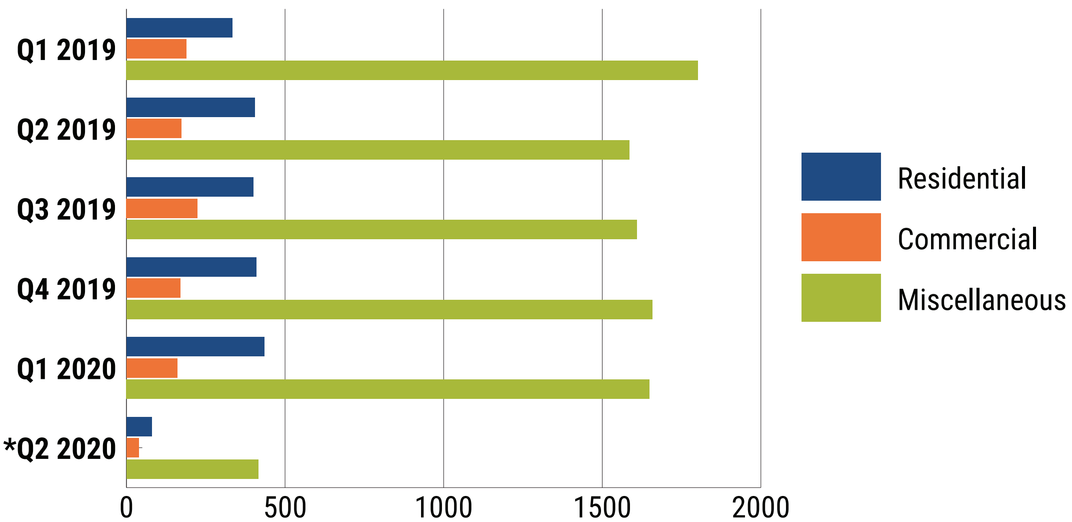
the need for office space. According to a University of Chicago study released in April that analyzed the occupational distribution of employment in Phoenix Metro, an estimated 36 percent of all jobs in the metro area could be done from home.

The optimistic alternative to this scenario offered by Cheney would be that the office market, which had strong fundamentals going into this crisis, recovers and that social distancing requirements translate into increased space needs for office users. Most of the major players in the regional office market are adopting a "wait and see" attitude right now because of the highly fluid environment and heightened uncertainty that will likely delay sales and new construction, according to AZRE: Arizona Commercial Real Estate Magazine.

In Scottsdale, the number of commercial permits issued in the first quarter of 2020 for both new construction and re-construction was down somewhat over 2019 levels despite strong construction activity in the metro area as a whole in early 2020. Permit activity in April 2020 is down about 30 percent compared to April 2019.

Number of Building Permits Issued by Type

Source: City of Scottsdale, 2020



Note: Q2 2020 data only includes April 2020.

QUESTIONS?

For questions about this report, contact Rob Millar, Economic Development Director

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