

## ECONOMY

# ASU forecast: Arizona, U.S. could be back near economic normal in 2021

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*Corrections & Clarifications: An earlier version of this article misstated the dollar amount of pandemic-related unemployment assistance and business support in Arizona.*

As Arizona State University forecasters see it, 2021 will mark a return to near normalcy for the state and national economies — assuming a vaccine next year stems the COVID-19 outbreak and Congress adopts a stimulus package to keep the rebound on track.

The most telling sign of improvement: An eventual recovery in the number of overall statewide jobs lost during the pandemic as rising in-migration pushes Arizona's population above 7.5 million sometime in 2021.

But it isn't a painless recovery, with lingering reminders such as an increase in federal debt. Certain sectors — lodging, restaurants and entertainment in particular — could continue to struggle, and so might lower-income workers and others.

"We need about 100,000 (statewide) jobs to get us back to where we were when the downturn started," said Lee McPheters, an ASU professor and director of the university's JPMorgan Chase Economic Outlook Center.

Arizona should do better than that, adding about 115,000 net new jobs for a 4% growth rate by the end of 2021, he predicted. That scenario assumes one or more COVID-19 vaccines are widely distributed in the first half of the year and Congress comes through with a stimulus bill during that time frame.

Under those scenarios, Arizona's rebound, fueled by the Phoenix metro area, could be stronger than all but a few other states. As the service sector recovers, traditional Arizona growth industries including health care, tourism and transportation will benefit, McPheters explained prior to the university's annual economic forecasting presentation on Tuesday.

## Jobless rate underestimated

Unlike the Great Recession, when employment took eight years to recover, the rebound from this year's downturn is more brisk, tracing a V-shaped pattern, McPheters said. Through October, two-thirds of the jobs lost earlier this year were recouped.

But the pain and resulting gains aren't shared equally. Many workers in the hardest-hit sectors such as hotels and restaurants earn modest wages, which means the "cost of this recession has been disproportionately borne by low-income households," said Bart Hobijn, an ASU economist and another presentation speaker.

"The good news is that the cost is less than initially expected," he added, citing a fairly rapid recovery in the U.S. jobless rate from 14.7% in April to 6.9% in October.

Arizona's jobless rate, currently at 8%, is projected to ease to around 6.1% by the end of 2021, according to the ASU forecast. Arizona's unemployment rate typically is above the national level, largely because the many young newcomers to the state take a while to land jobs and get situated, McPheters said.

Despite progress, those and other figures might overstate the strength of the recovery. Many workers have given up looking for work, have dropped out of the labor force and thus no longer are being counted as unemployed. If all of them were counted, the U.S. and state unemployment rates would be around 2.5 percentage points higher, Hobijn said.

Conversely, many individuals might be voluntarily opting to stay on the sidelines — not because they can't find jobs but because they fear catching the virus, he added.

Even as the economy continues to mend, many people are still facing hardships, and those could get worse when jobless benefits run out, eviction moratoriums expire and so on. It's unclear when, and how, the federal government might act, but the ASU researchers indicated some new stimulus incentives would be helpful, even if they're on a smaller scale than those adopted earlier this year.

McPheters said he favors another round of \$1,000 or \$1,200 checks sent to individuals. "That seems to have given a real boost to the economy," he said.

**WORK OUTLOOK:** State's jobs picture shows some improvement, but unemployment rate rose to 6.7% in September

## Other signs of progress

Personal incomes in Arizona are rising, up 8.1% through the first half of 2020, the latest numbers available, McPheters said. Personal income includes wages, dividends, interest and more, along with \$10 billion in pandemic-related unemployment assistance and business support doled out statewide in the second quarter of 2020.

All that has helped consumer spending recover from a plunge of more than one-third earlier in the year.

After one or more vaccines are made widely available, the demand for many goods and services could increase more rapidly, including for restaurants, travel, entertainment and sporting events and even elective medical treatments postponed during the pandemic, Hobijn said.

Arizona had added 79,700 net new jobs in 2019 and 80,500 in 2018 — the two best years for growth in more than a decade. As of October 2020, the state's economy was still down 73,800 jobs from October 2019.

Transportation, warehousing, wholesaling and retail trade are among industries faring well in Arizona now, and they highlight the state's emergence as a regional distribution center, McPheters. The largest job losses are in the hospitality sector and food services.

McPheters noted that this year's recession is different from previous downturns triggered by excesses such as overinvestment in residential construction or

monetary tightening to control inflation. This time, the economy succumbed to a global pandemic that affected supply chains and consumer behavior while leading to job losses. As risks and restrictions abate, normal growth patterns should emerge, he said.

**ON TOP:** These metro Phoenix cities were named most 'prosperous' in the U.S.

## Still a popular destination

As Arizona's economy recovers, more people likely will move here, as they have in the past. The state's population growth over the past five years averaged 1.6% annually, approximately triple the national pace of growth, and the latest estimates for 2019 show growth at 1.7% annually, equivalent to about 120,000 new residents. Arizona's recent 1.7% increase is the third largest nationally, trailing only Idaho and Nevada.

The biggest number of recent newcomers came from California, followed by Washington, Texas and Colorado. Those leaving Arizona, curiously, largely have gone to those same four states — California, Texas, Colorado and Washington, in that order,

McPheters said.

The state's favorable population-growth trends have helped fuel a robust housing market. After peaking at above 80,000 annual units in the early 2000s, single

family housing permits in Arizona slumped to around 10,000 in 2011, in the wake of the Great Recession. McPheters said he expects permits will exceed 40,000 this year, then rise to nearly 47,000 in 2021.

Strong ongoing housing demand is supported by low mortgage interest rates and a greater focus on working and schooling from home during the pandemic. The housing situation right now also is an anomaly, given where we are in the economic cycle. "Housing usually is dead in the water during a recession," McPheters said.

During 2019, the Phoenix metro area contributed eight of every 10 new jobs created in the state and 74% of single family housing permits, McPheters said. The metro area also has accounted for more than 80% of Arizona's recent population growth.

The Phoenix-area economy, with a current unemployment rate of 7.5%, is projected to add 90,000 net new jobs in 2021, for a 4.2% growth rate, as the area's population reaches 5.1 million next year.

## **Legacy of debt**

Another ramification of the economic downturn triggered by the COVID-19 outbreak is a sharp escalation in federal borrowing. The government resorted to more deficit spending to ease the plight of suffering workers and businesses and to stimulate growth.

While this debt spike likely won't get addressed anytime soon — debts and deficits weren't discussed much on the presidential campaign trail, for example — the issue will exert an impact down the road.

But more than the coronavirus relief measures, spending for Social Security and Medicare/Medicaid are the real problems, Hobijn warned, and fixing them could require tax increases and reforms such as raising the Social Security retirement age.

"Governments in many countries, including the U.S., are expected to continue to run deficits mainly due to the growth of entitlement programs," he said. Improving this long-run picture by implementing unpopular solutions will be "one of the main political challenges going forward."

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