ACMA Economic Update

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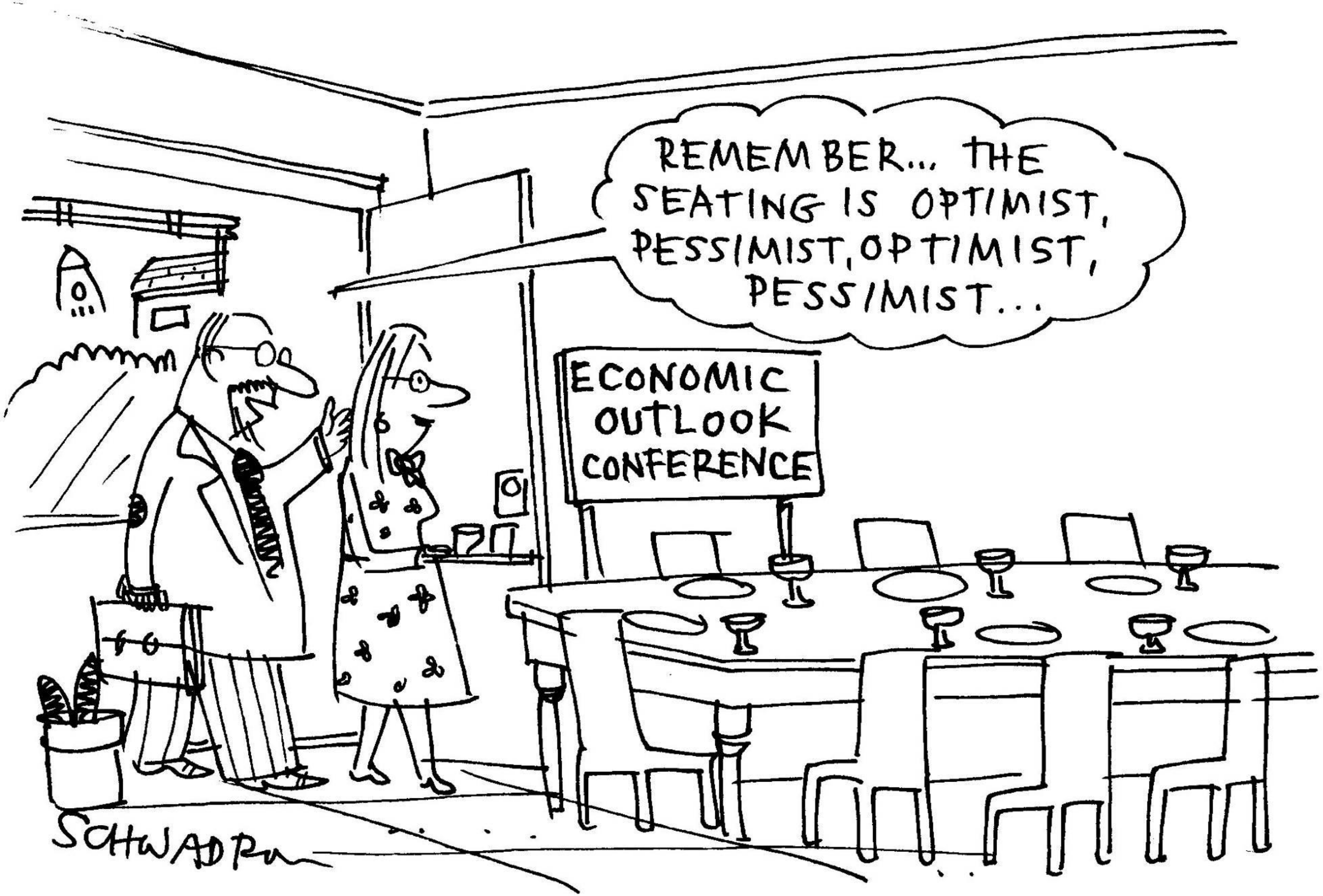
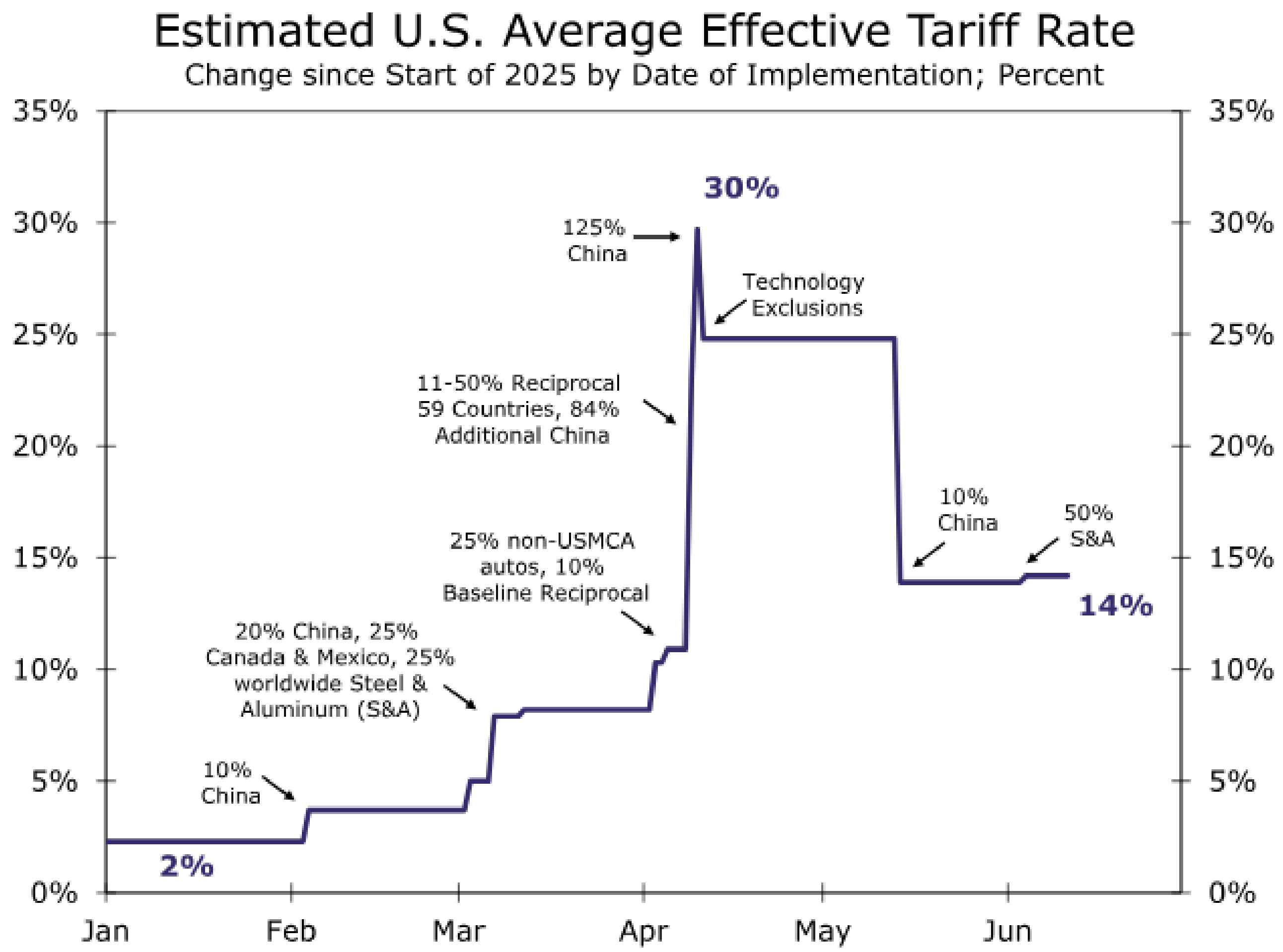

REMEMBER... THE SEATING IS OPTIMIST, PESSIMIST, OPTIMIST, PESSIMIST...
ECONOMIC OUTLOOK CONFERENCE
SCHWADRON

2025 macroeconomic trends strongly influenced by tariff policy



Source: U.S. Department of Commerce and Wells Fargo Economics

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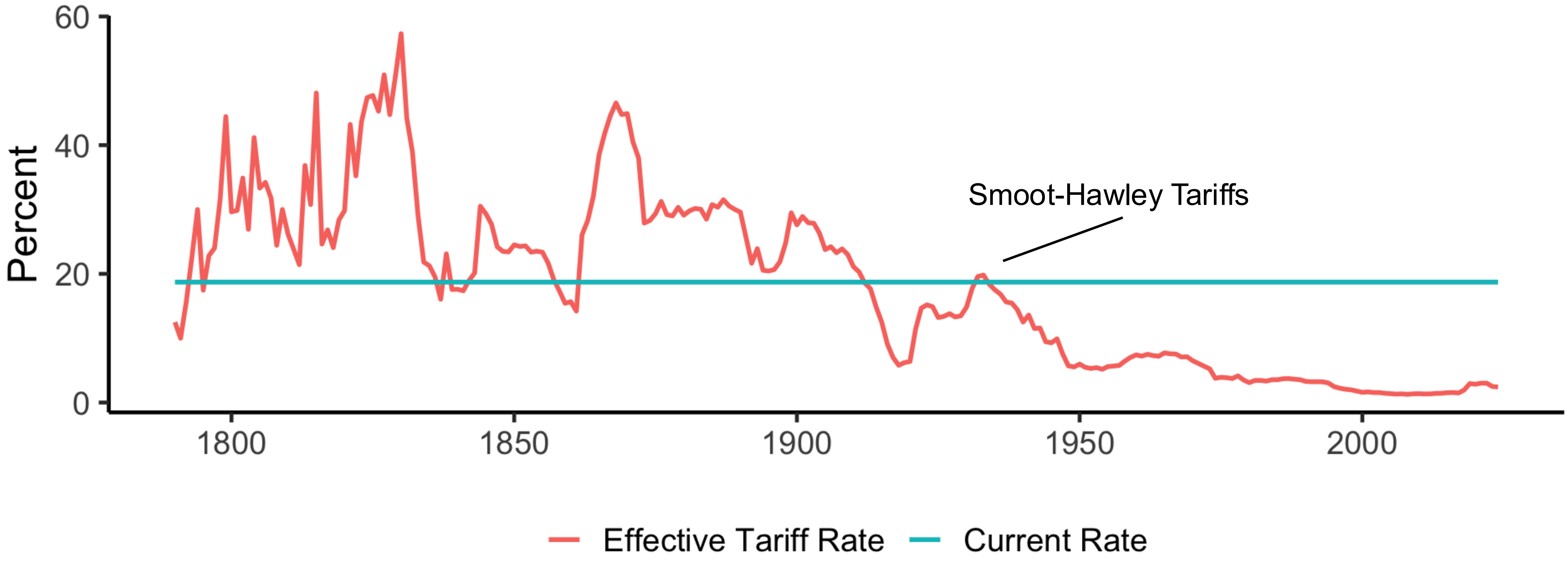
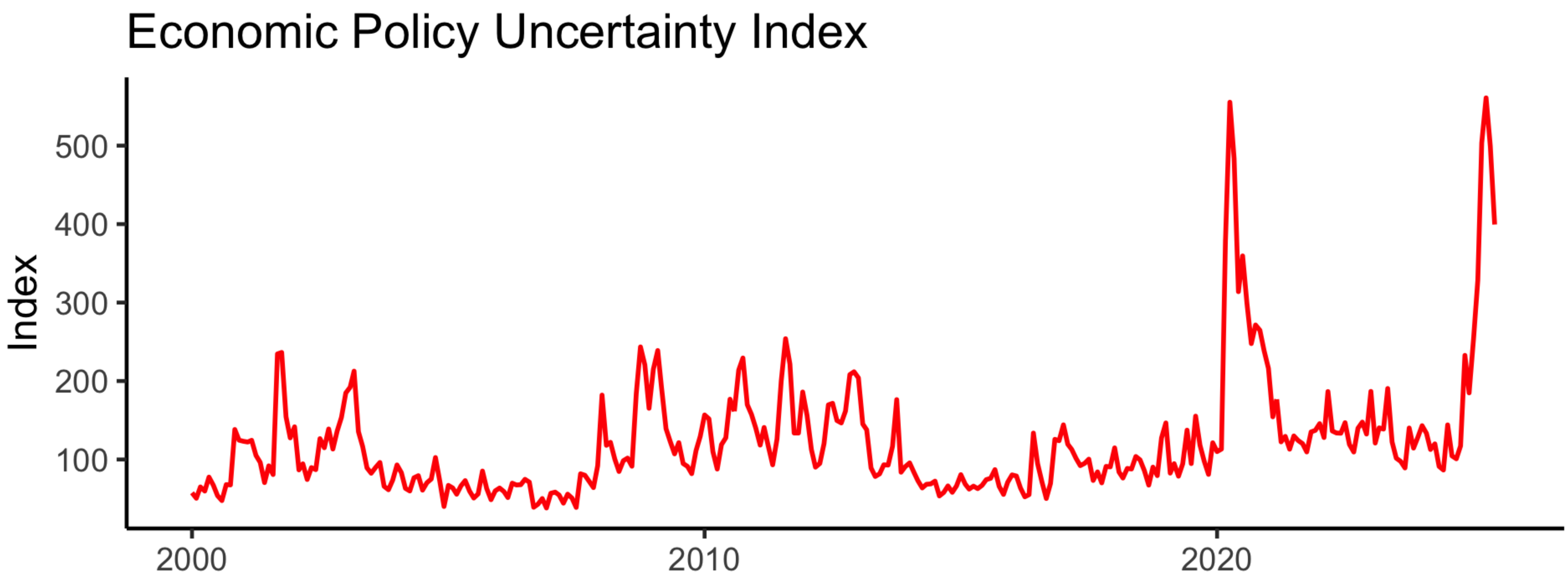
Average effective tariffs highest since 1930s



Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, Yale Budget Lab

Tariff fluctuations drive policy uncertainty



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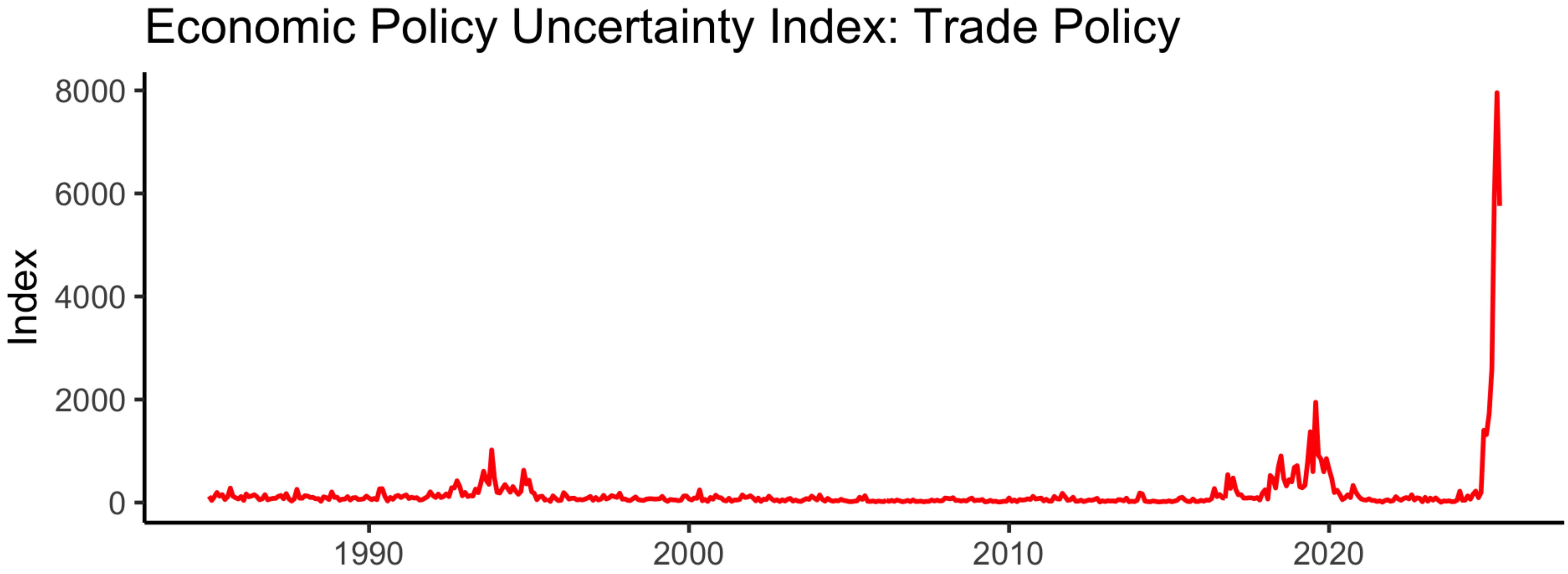
Source: policyuncertainty.com

Trade policy uncertainty highest since data available



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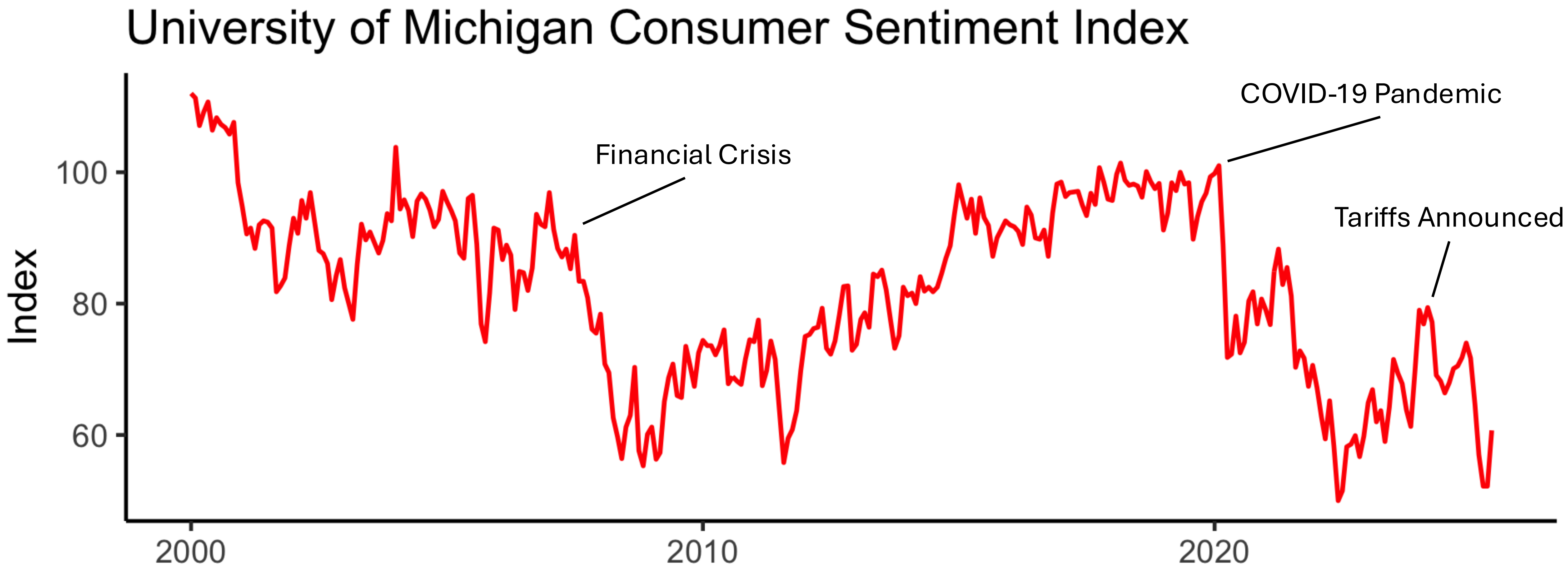
Source: policyuncertainty.com

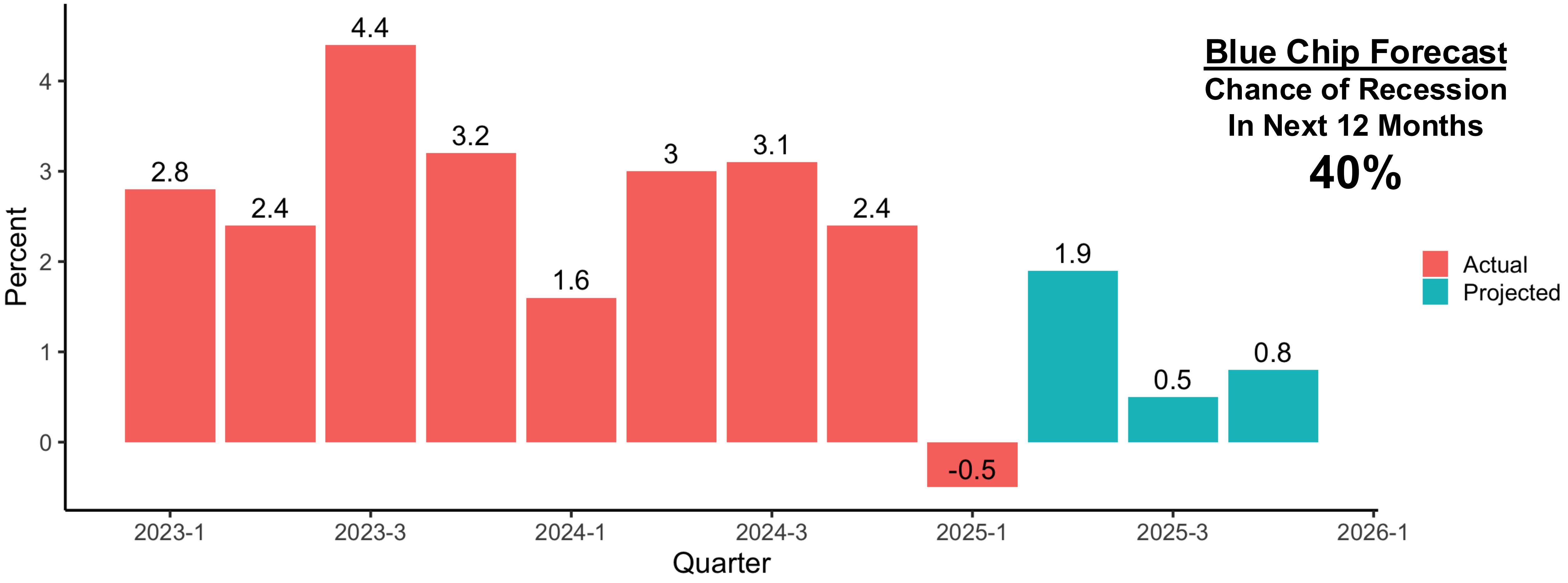
Consumers believe economic outlook is bleak



Source: University of Michigan: Consumer Sentiment

GDP Growth - Slow But Positive in 2025

(Real GDP: Percent Change from Prior Period)



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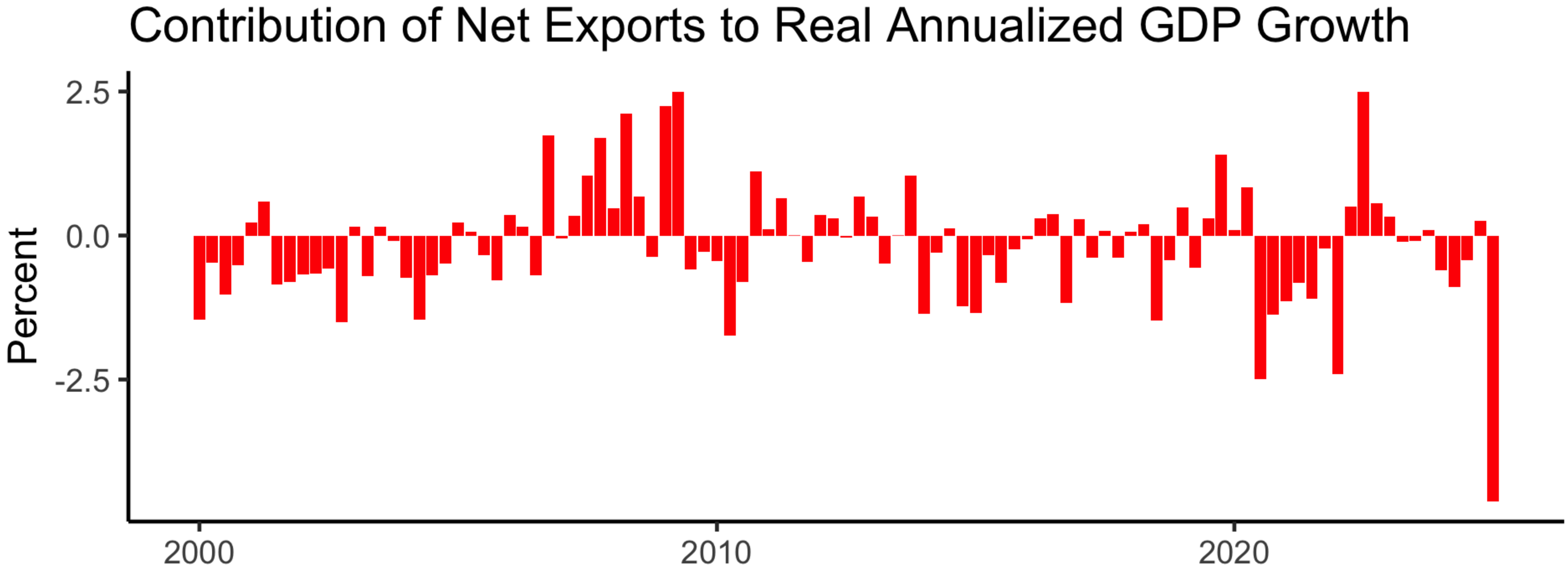
Source: Bureau of Economic Analysis, forecasts Blue Chip Economic Indicators June 2025

Key Contribution: Net Exports



Source: Bureau of Economic Analysis

Q1 imports surged ahead of tariffs

Source: Bureau of Economic Analysis

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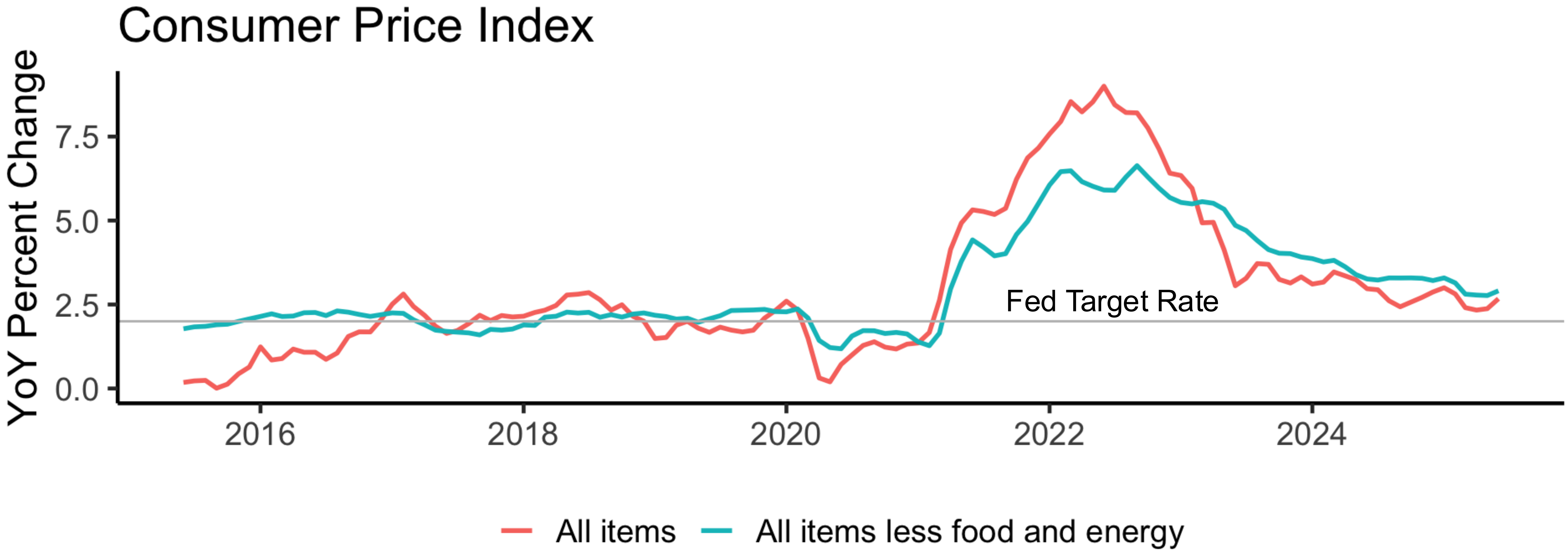
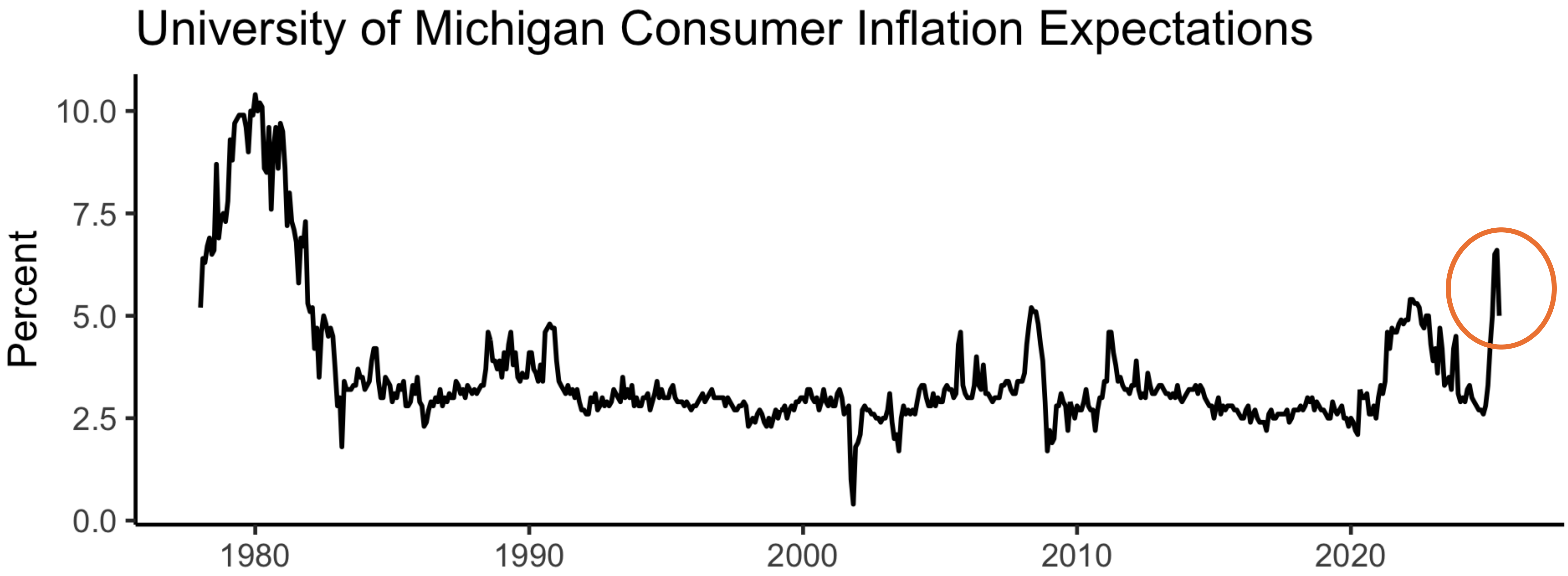
Inflation above Fed target; 2.7% in June



Source: Bureau of Labor Statistics

Tariffs prompt inflation fears

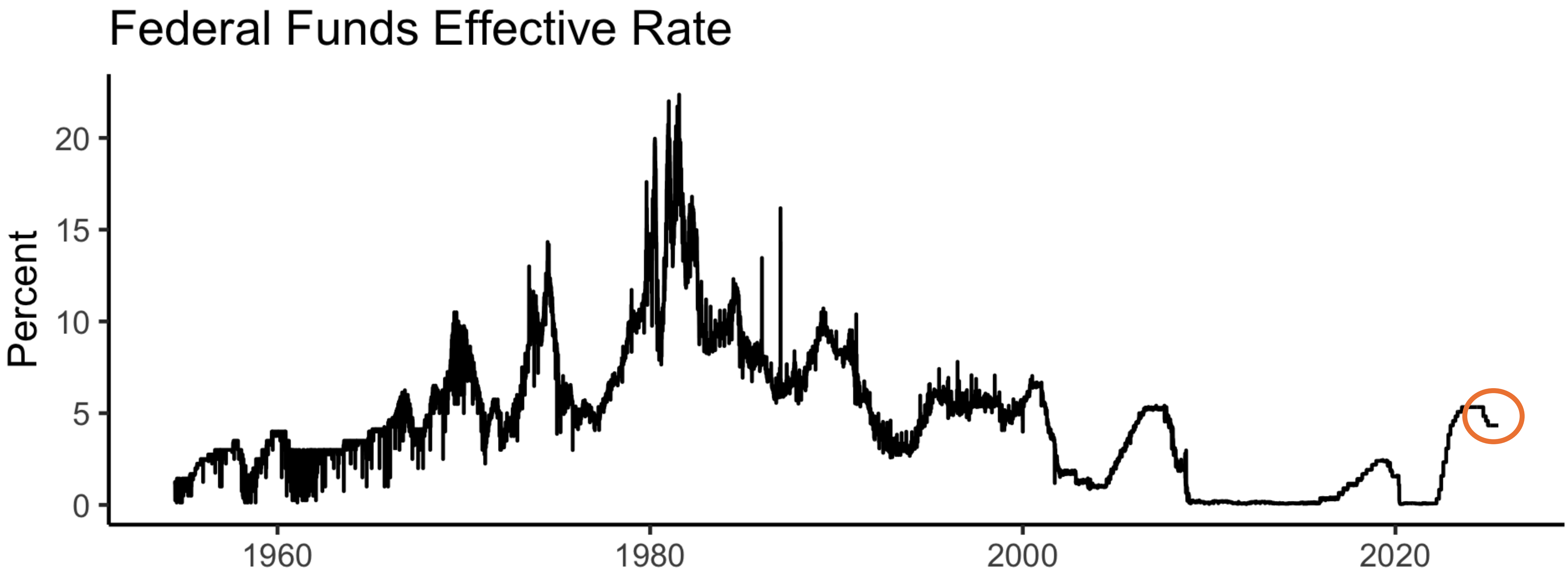


Source: University of Michigan: Inflation Expectation

Are we seeing tariff-driven inflation?

- Seems likely, but July/August updates will provide more evidence
- June price increases for tariff-sensitive goods:
  - Furniture
  - Toys
  - Clothes
- June price decreases for tariff-sensitive goods:
  - Cars
- Producers front-loaded inventories in 2025, delaying price hikes

Fed Policy: Wait and See

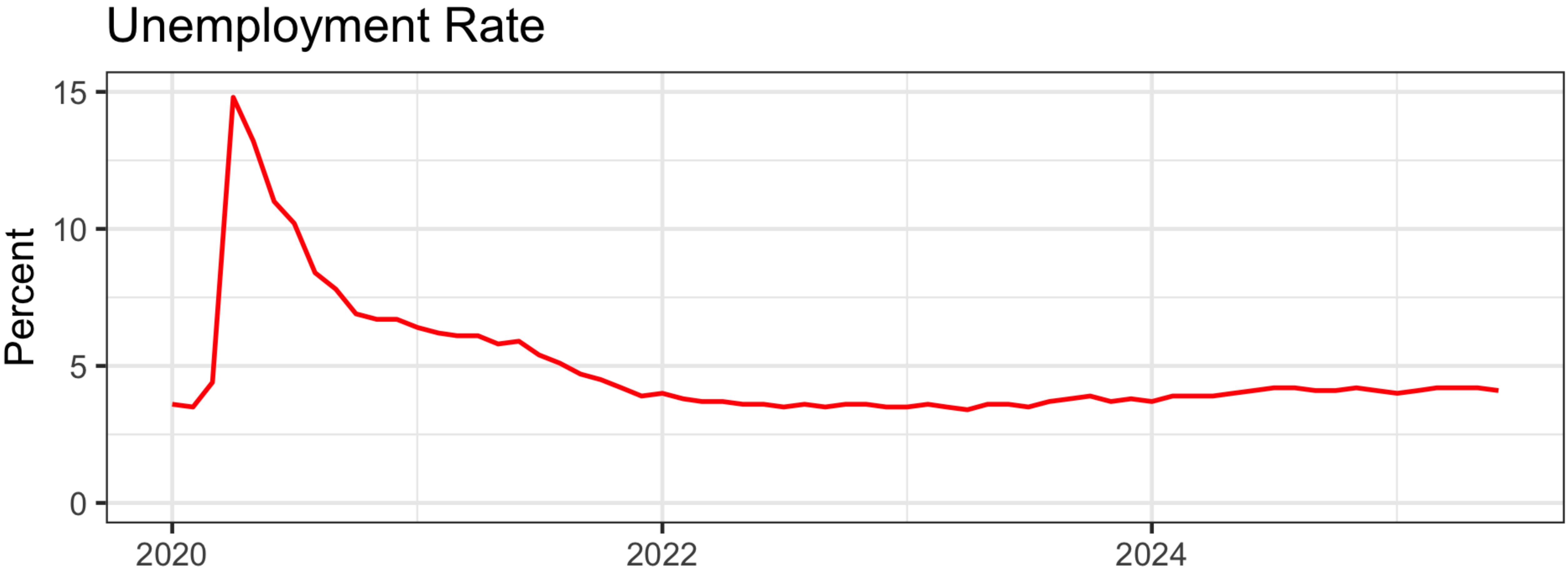


Source: Board of Governors of the Federal Reserve System

Monetary Policy Under a Cost Shock

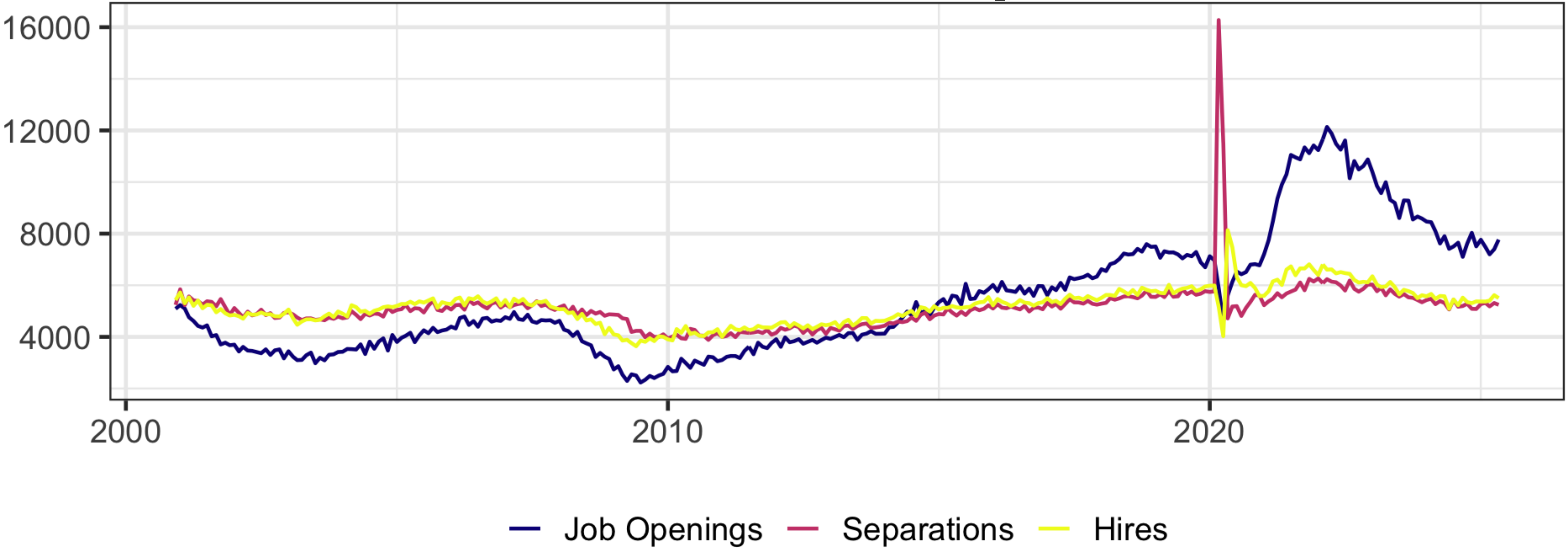
- Fed has dual mandate:
  - Keep inflation low
  - Keep unemployment low
- Tariffs are a cost shock: they increase prices (inflation) and depress economic activity (increase unemployment)
- Under a cost shock, Fed must choose whether to accommodate inflation to keep unemployment low, or let unemployment rise to fight inflation
- Unemployment hurts more in the short run, but inflation is stubborn and *extremely* costly to deal with when it gets out of hand

Unemployment rate 4.0-4.2% since May 2024



Source: Bureau of Labor Statistics

Job openings, separations, hires stable, but down from 2022 peak



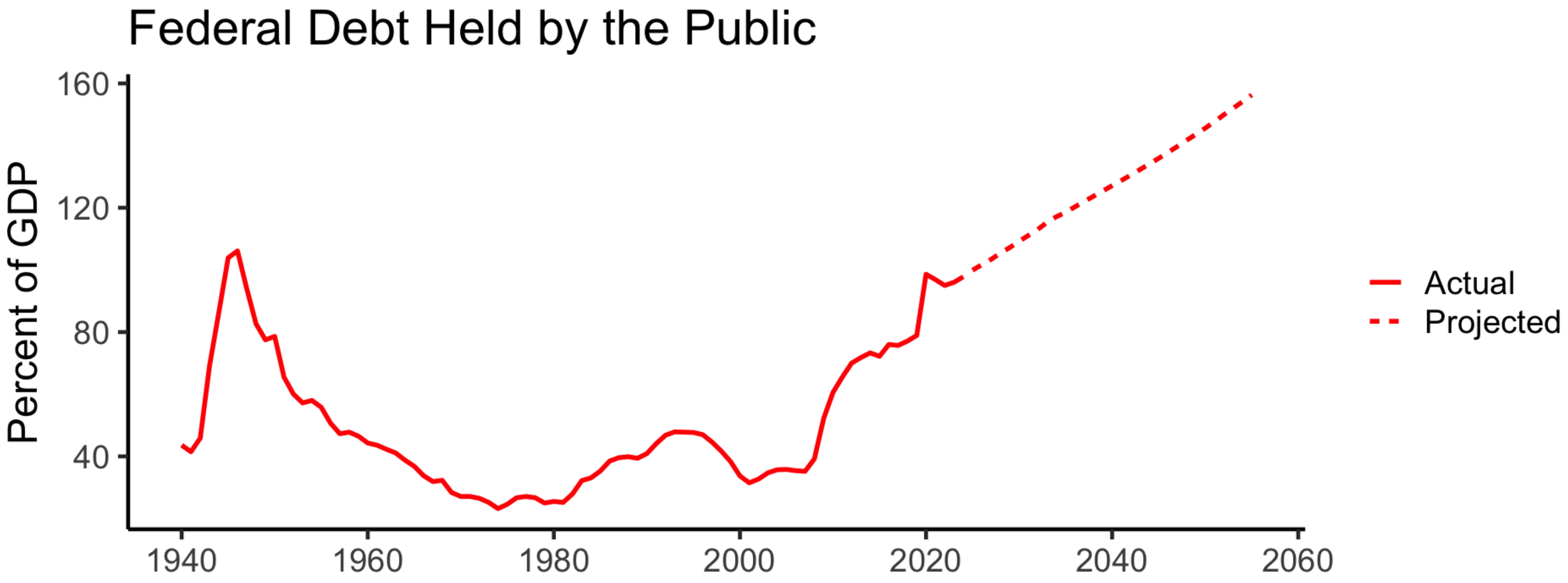
Source: Bureau of Labor Statistics

Tariff Fears Not Realistic – Yet!

The Sky is Not Falling

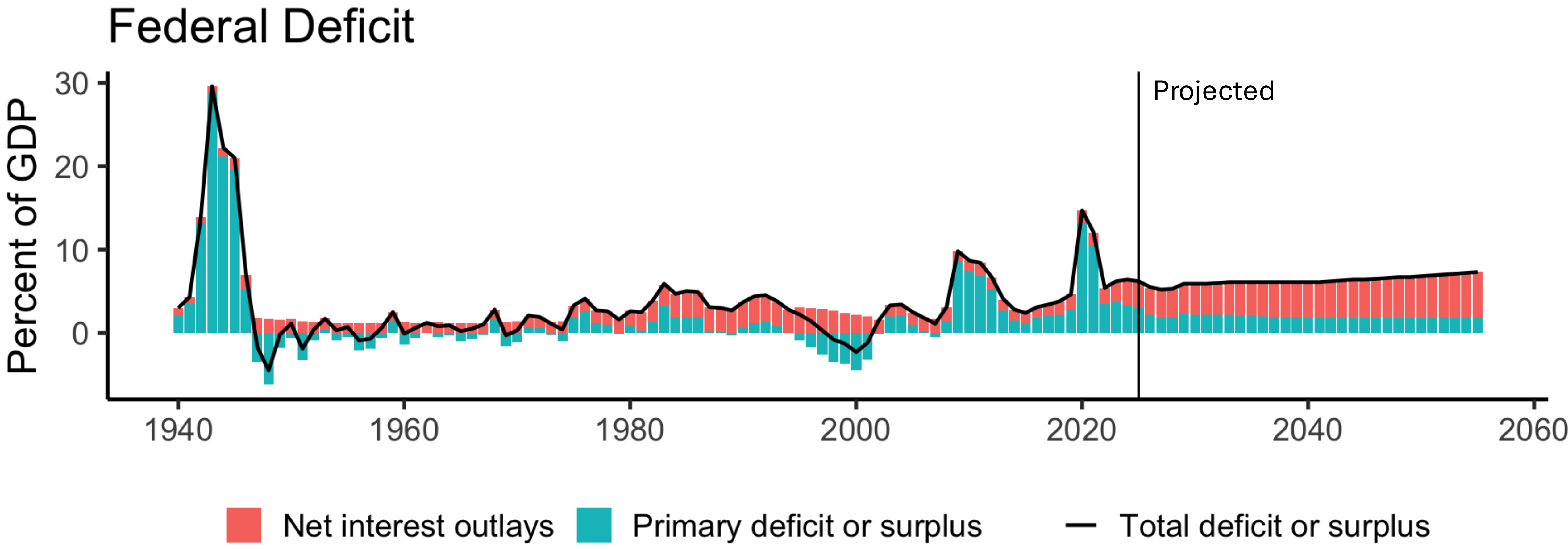
- Positive GDP growth continues
- Inflation remains near Fed target
- Labor markets remain stable
- Hiring steady – 139,000 new jobs
- Unemployment steady – 4.2%
- Consumer "still in the game"
- Stock market rebounds, holds up
- Second half 2025 VERY uncertain

Long-run Outlook: Federal Debt is on an Unsustainable Path



Source: Congressional Budget Office

By 2055, net interest outlays will be 5.4% of GDP



Source: Congressional Budget Office

Consequences of High Federal Debt

- Lower economic growth
- Reduced fiscal flexibility – can't respond optimally to recessions
- Increased probability of fiscal crisis

Why?

- High debt makes bond markets skeptical of U.S. is creditworthiness
- Buyers of U.S. debt demand higher interest rates
- Higher interest rates feed through to corporate bonds, mortgages, etc.; decrease investment

U.S. economy – strong, but several challenges ahead

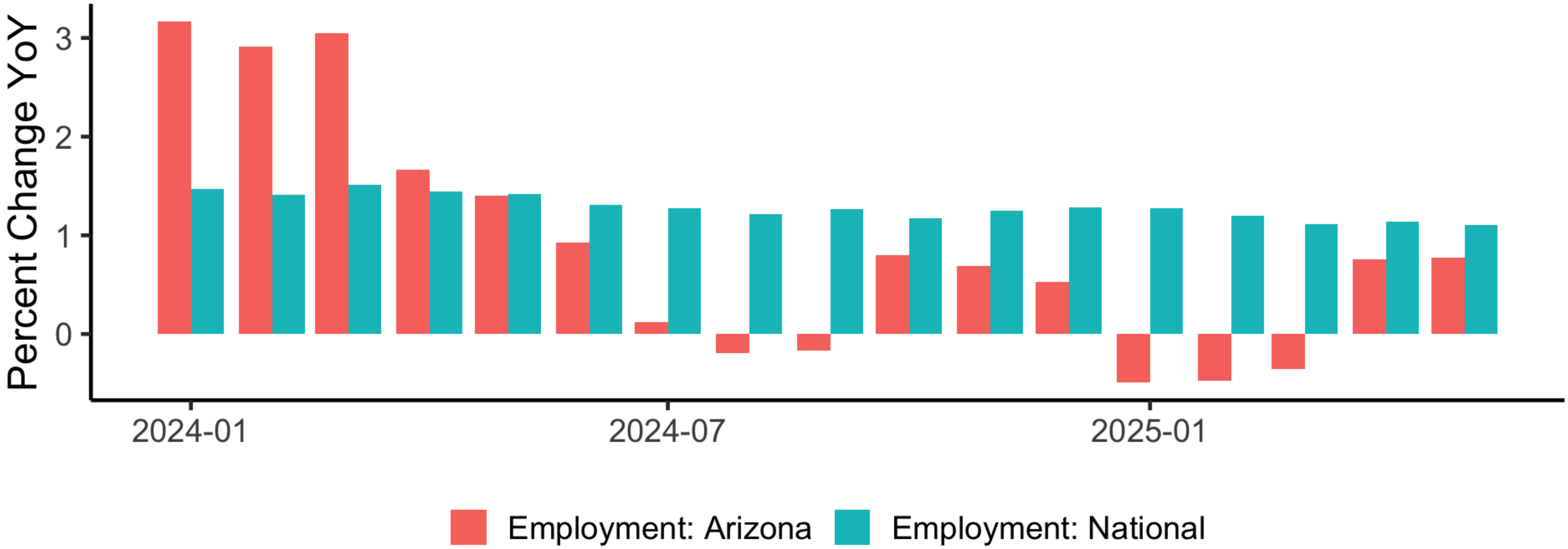
- U.S. economy faces major headwinds in the form of tariffs and policy uncertainty
- Despite this, labor markets remain tight and consumption is strong
- Fed faces tough decision: prioritize raising rates to fight further inflation or lowering rates to fight economic contraction?
- Long-run outlook: lawmakers must adjust taxes/spending to rein in Federal debt

Arizona Outlook

Indicators	2024	2025	2026
Employment Growth %	1.3%	1.0%	1.2%
Job Creation	40,500	32,400	39,200
Unemployment (Q4)	3.9%	4.4%	4.2%
Population Growth %	1.5%	1.3%	1.4%
Population Increase	109,357	98,500	107,000

Source: W. P. Carey School of Business based on data available June 2025

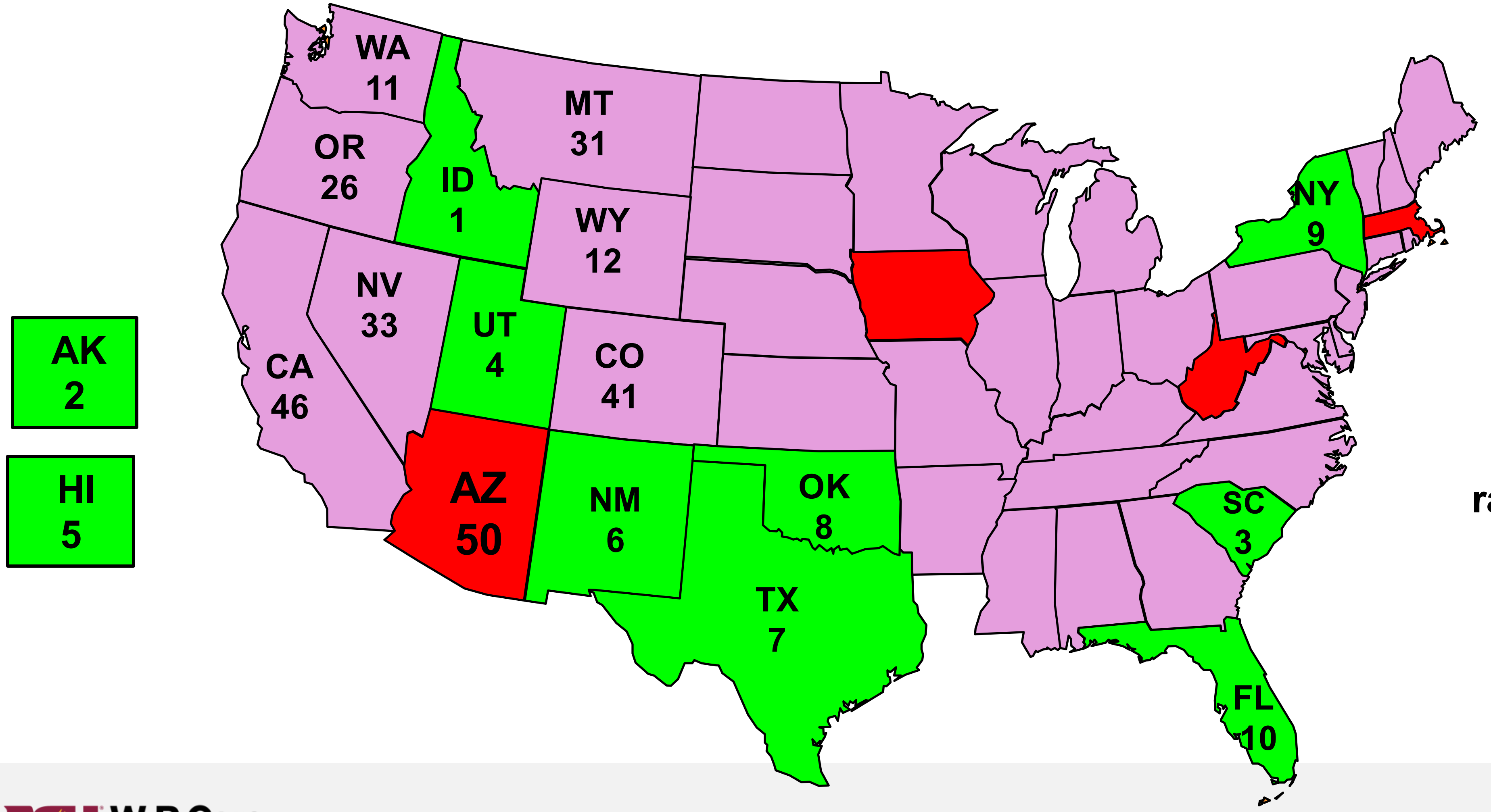
Arizona employment growth slowed in 2024



Source: Bureau of Labor Statistics

Arizona Job Growth Ranks Last For Q1 2025

Ranked by Percent Change in Employment: Q1 2025 vs Q1 2024



One year ago, in Q1 2024 Arizona ranked FIRST among all states in Yr/Yr rate of Job Growth

Source: Job Growth USA website, Bureau of Labor Statistics

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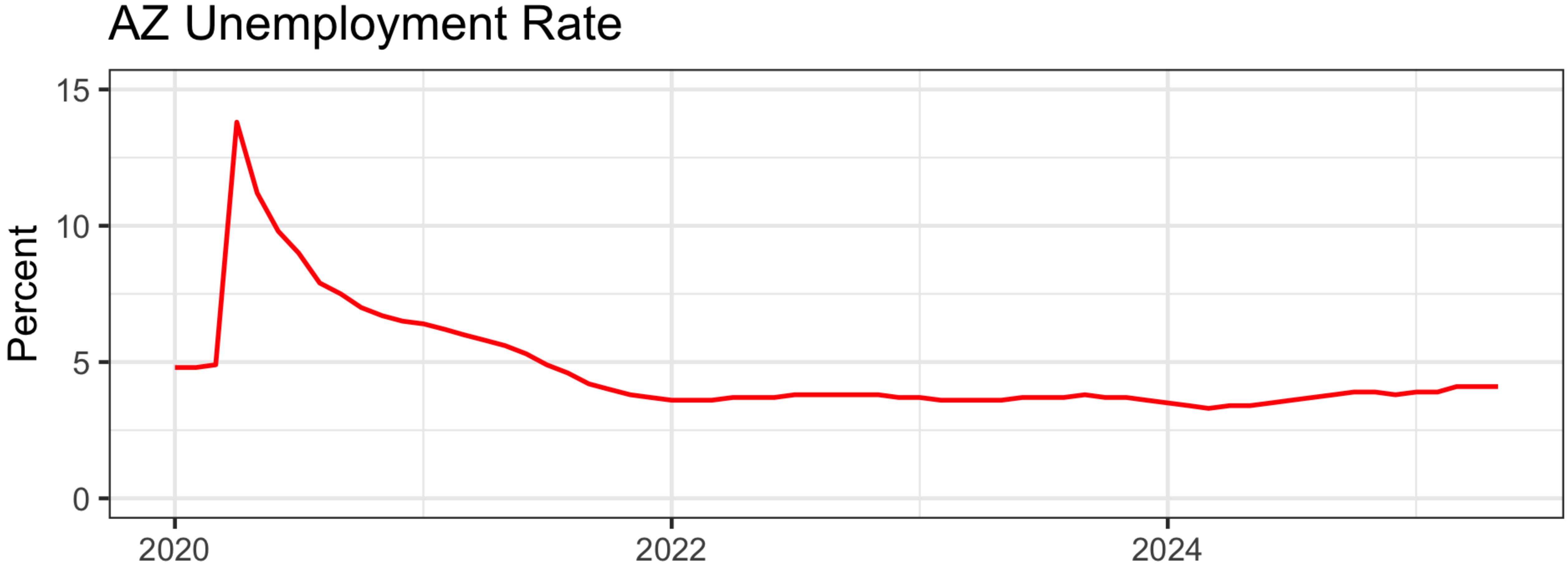
AZ reached record-low 3.6% unemployment in 2024; ticked up to 4.1% in May 2025



Source: Bureau of Labor Statistics

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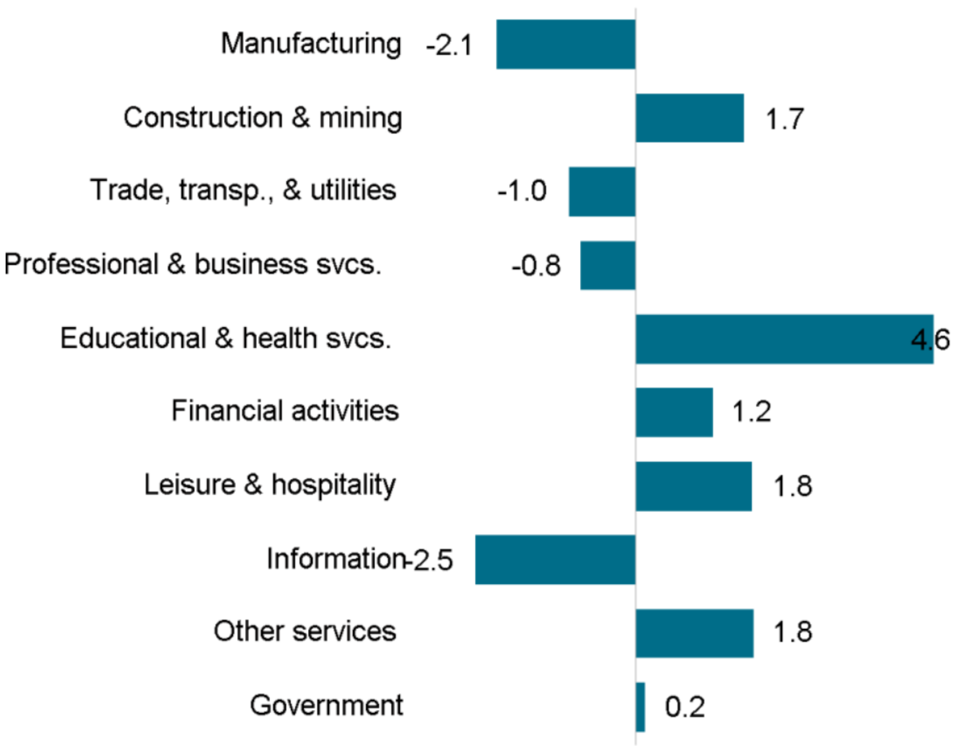
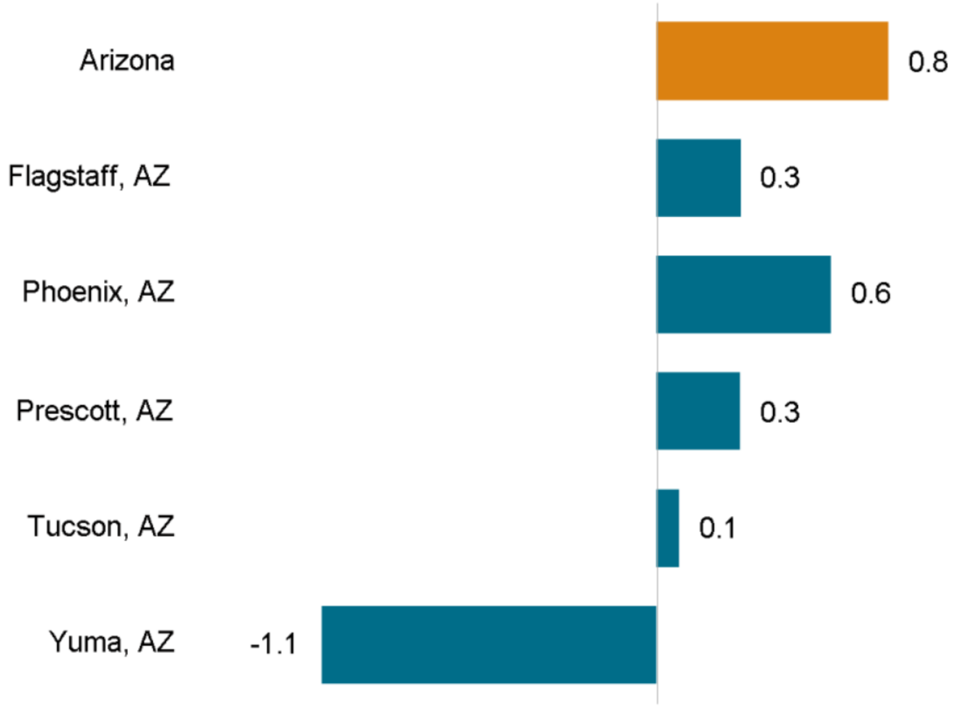
Health/education services posted highest job gains in May

Employment growth by sector, May 2025



Data compiled June 2025.
Source: S&P Global Market Intelligence.

Employment growth by MSA, May 2025

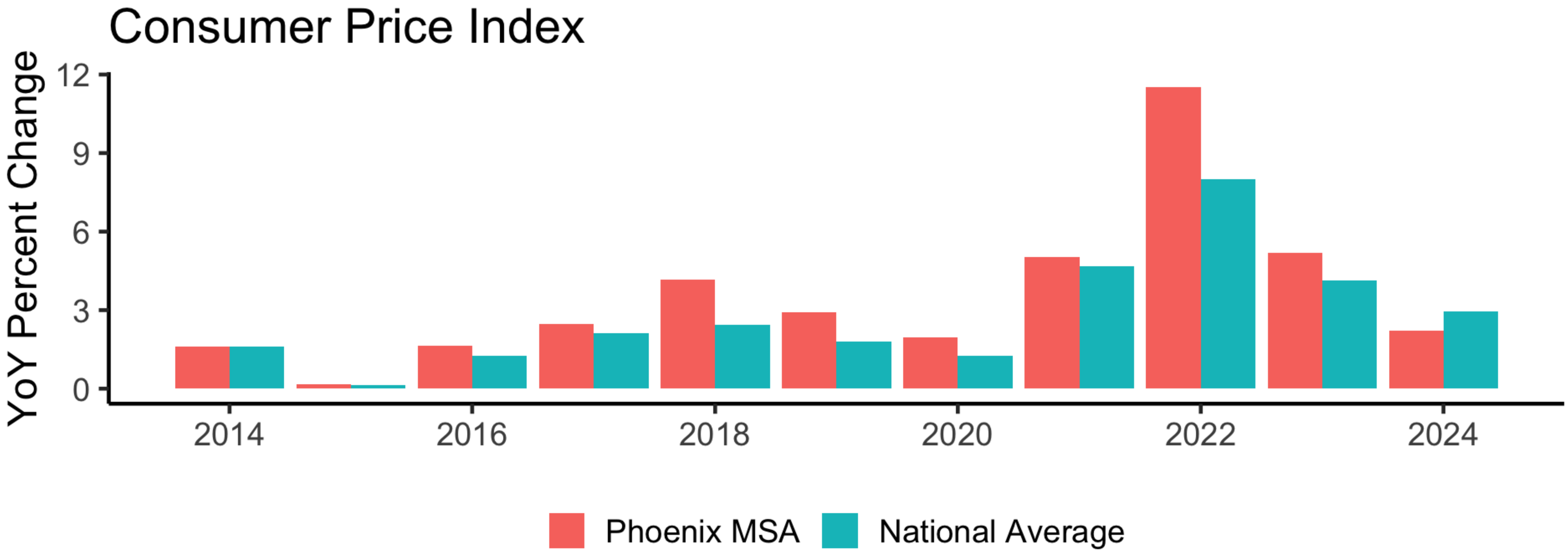


Data compiled June 2025.
MSA = metropolitan statistical area.
Source: S&P Global Market Intelligence.

Health Care in Arizona has posted positive growth in every year since 1990 (except 2020 Pandemic downturn)

Health Care and Professional & Business Services are Arizona's two largest employers (460,000 +/-)

AZ inflation cooled in 2024 after high post-pandemic cost growth



Source: Bureau of Labor Statistics

Arizona International Trade

Arizona Trade ($74.4b) Was Highest on Record in 2024

ARIZONA EXPORTS ($32.2b)

Top Markets: Mexico ($9b), Canada ($2.8b), Netherlands ($1.9b), China ($1.7b), UK ($1.4b)

Top Arizona Export Products

- Computers, Electronics ($9.9b)
- Aerospace Parts, Products ($6.2b)
- Machinery for Industry ($2.6b)
- Minerals, Ores ($2.3b)
- Electrical Equipment ($2.0b)

ARIZONA IMPORTS ($42.2b)

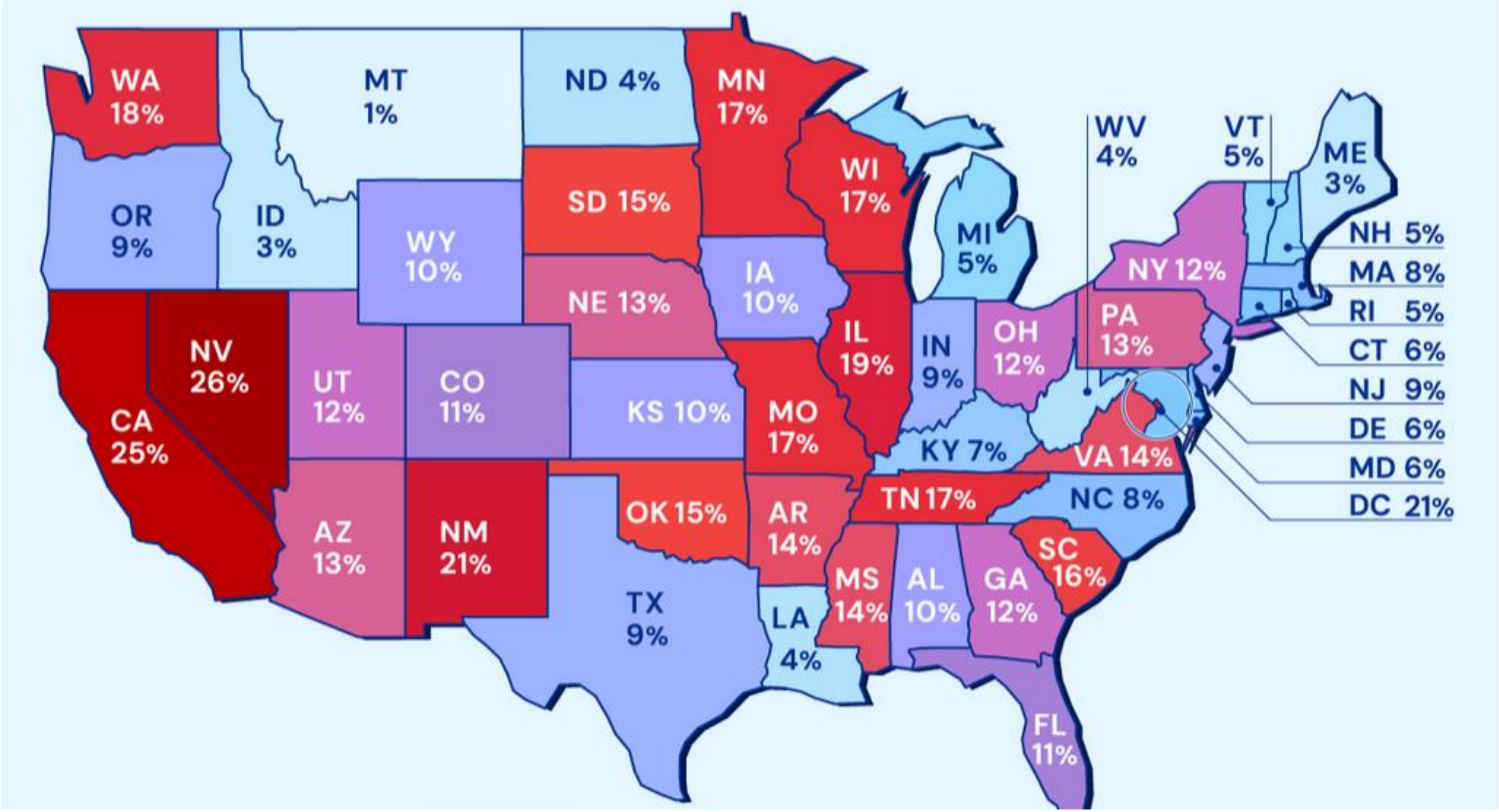
Top Sources: Mexico ($11.6b), China ($5.4b), Taiwan ($3.6b), Canada ($2.7b), Japan ($2.5b)

Top Arizona Import Products

- Computers, Electronics ($10.6b)
- Machinery for Industry ($6.3b)
- Electrical Equipment ($5.6b)
- Agricultural Products ($3.8b)
- Aerospace Parts, Products ($2.9b)

U. S. Census Bureau, U.S. Trade Online

Share of State Imports From China: AZ 13%



Arizona's History: Population Growth is "Ace in the Sleeve"

Decade	Rank
1970 - 1980	2nd
1980 - 1990	3rd
1990 - 2000	2nd
2000 - 2010	2nd
2010 - 2020	9th

U. S. Census Bureau

Arizona Migration - A Key Growth Catalyst

Potential Headwinds to Migration

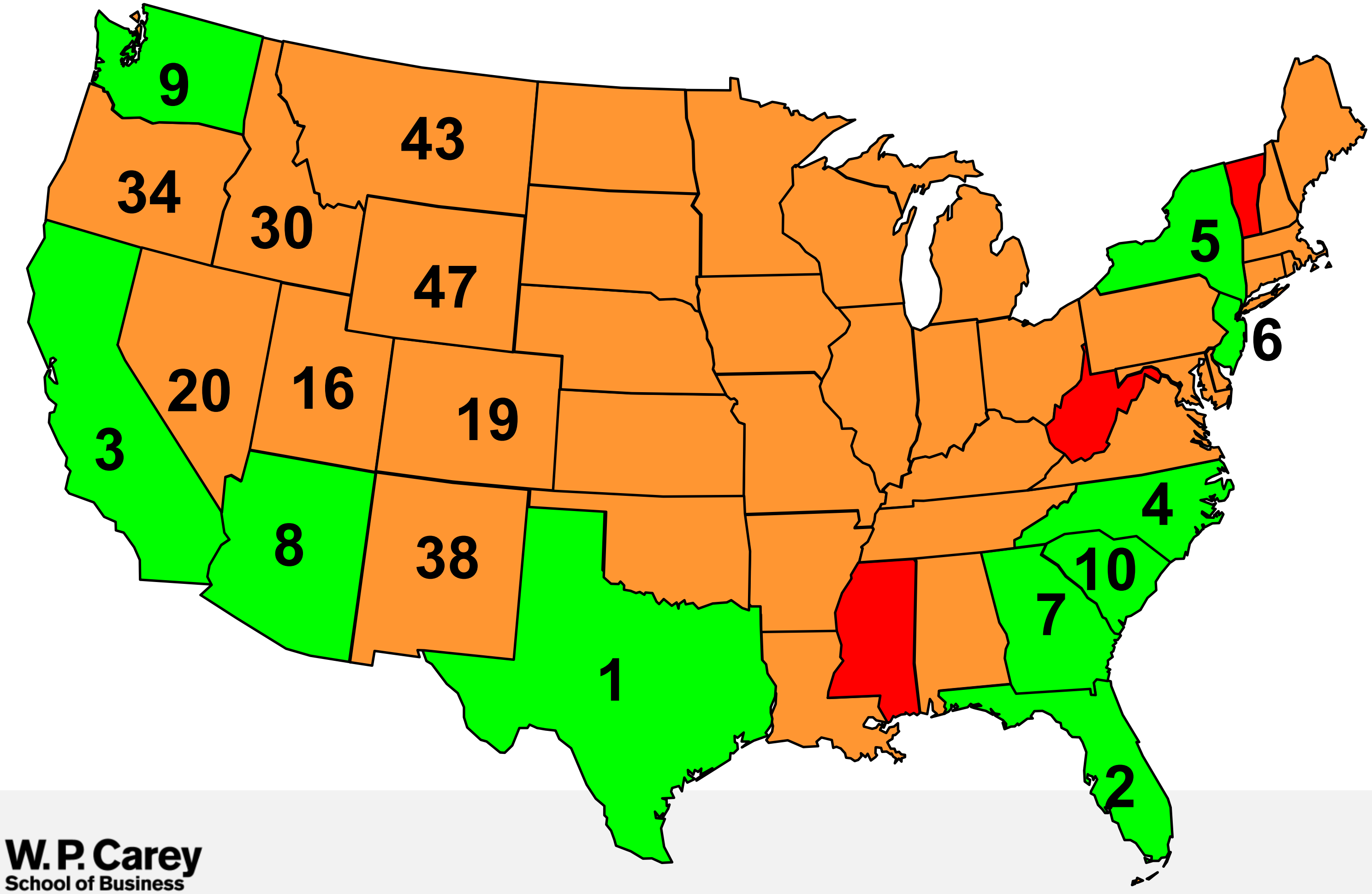
- Climate Change – Triple Digit Temperatures, Water Availability
- Historical Image of Affordable Housing Threatened
- Social Services Poorly Funded and Public Education Consistently Ranks at or Near Very Bottom

What Drives Migration?

- Historically Strong Arizona Labor Markets
- Evolving As High Tech & Distribution Center
- Tax Burden Lower Than Far Western States
- Retirees Increasingly Larger Share of Migrants

AZ Population Growth Ranked 8th in 2024

Ranked by Number of New Residents: Natural + Migration

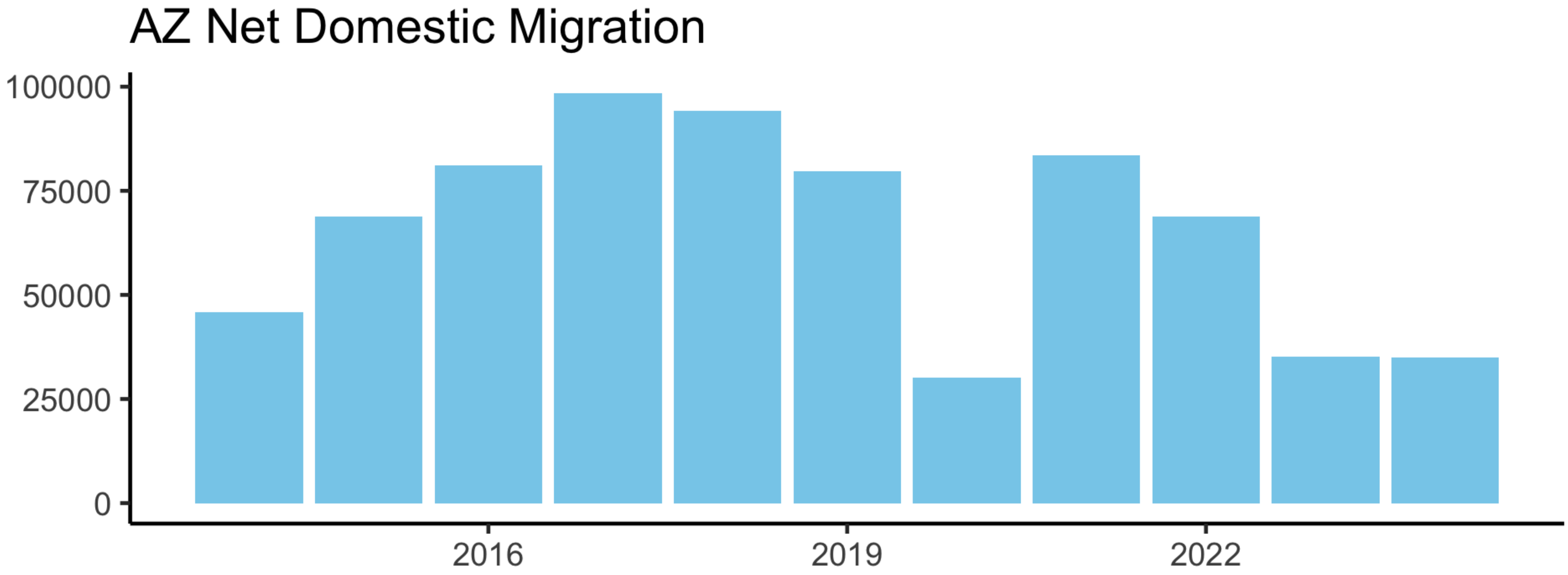


Arizona Population Change: 2024	
Births	78,322
Deaths (-)	68,662
Natural	9,660
Domestic Migration	34,902
International Migration	64,486
Total Change	109,048

3 States Lost Population

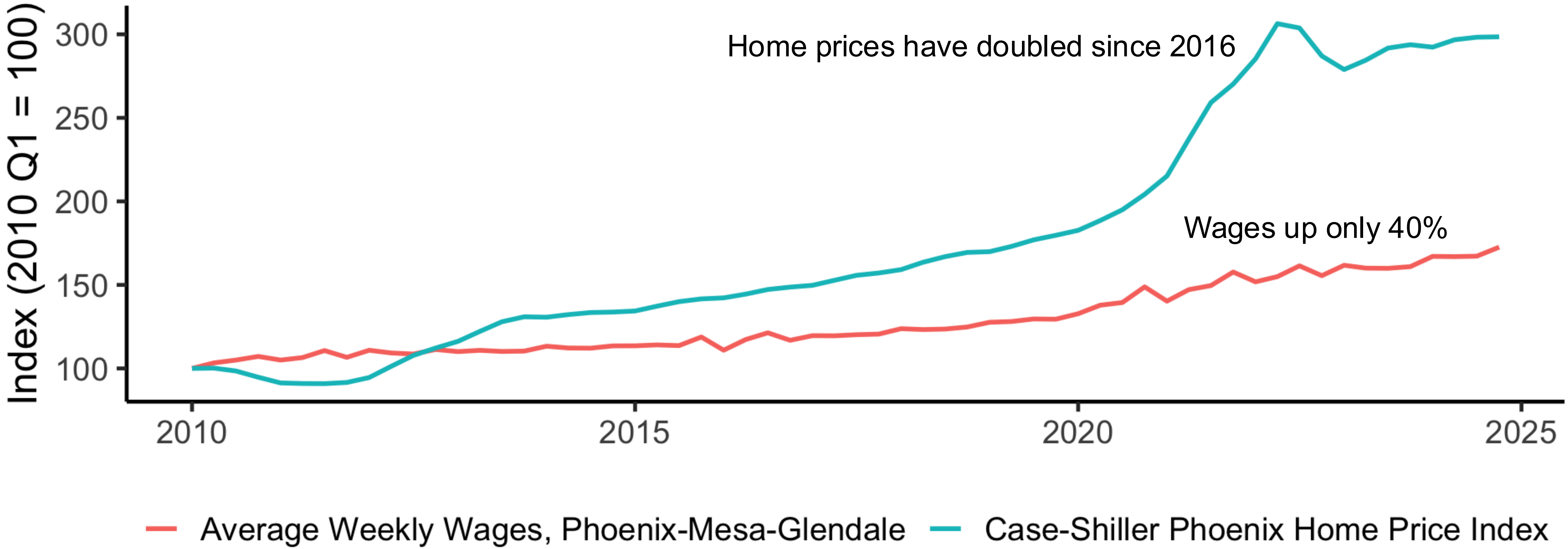
U. S. Census Bureau, Dec. 2024

But – AZ Net Domestic Migration Has Decreased in Recent Years



Source: Census Bureau

Possible Culprit: Housing Affordability

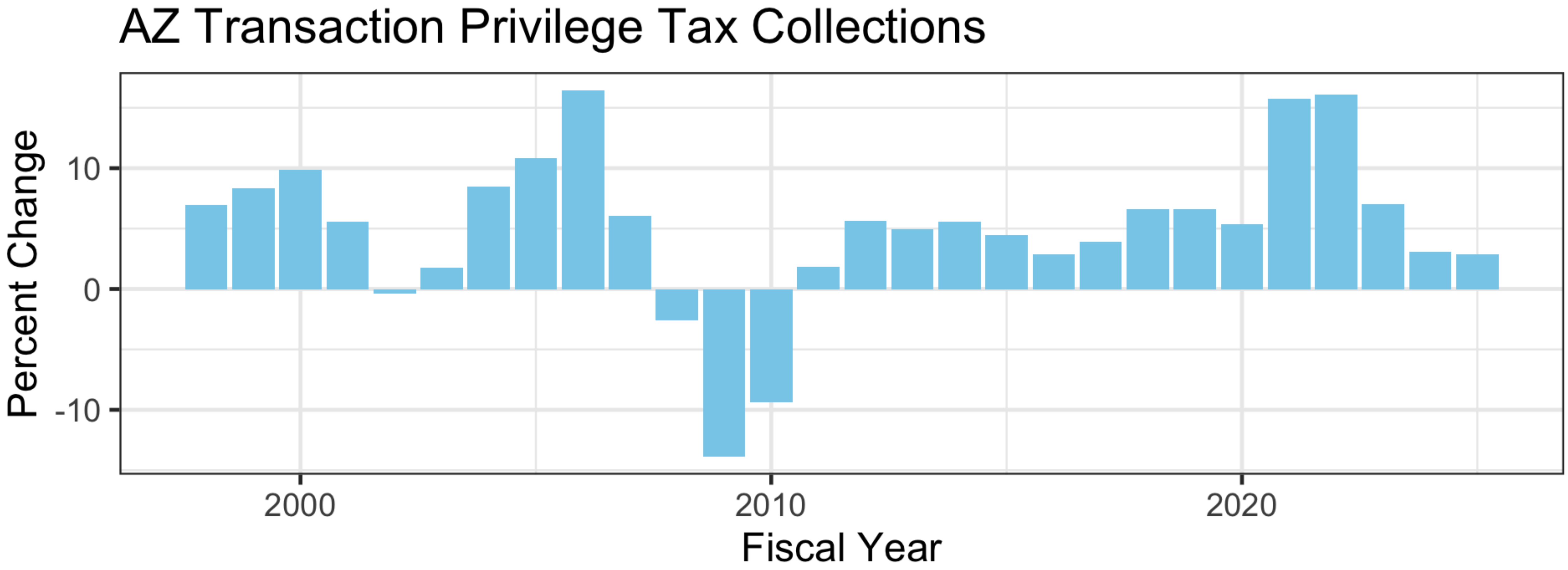


Source: S&P CoreLogic, Bureau of Labor Statistics

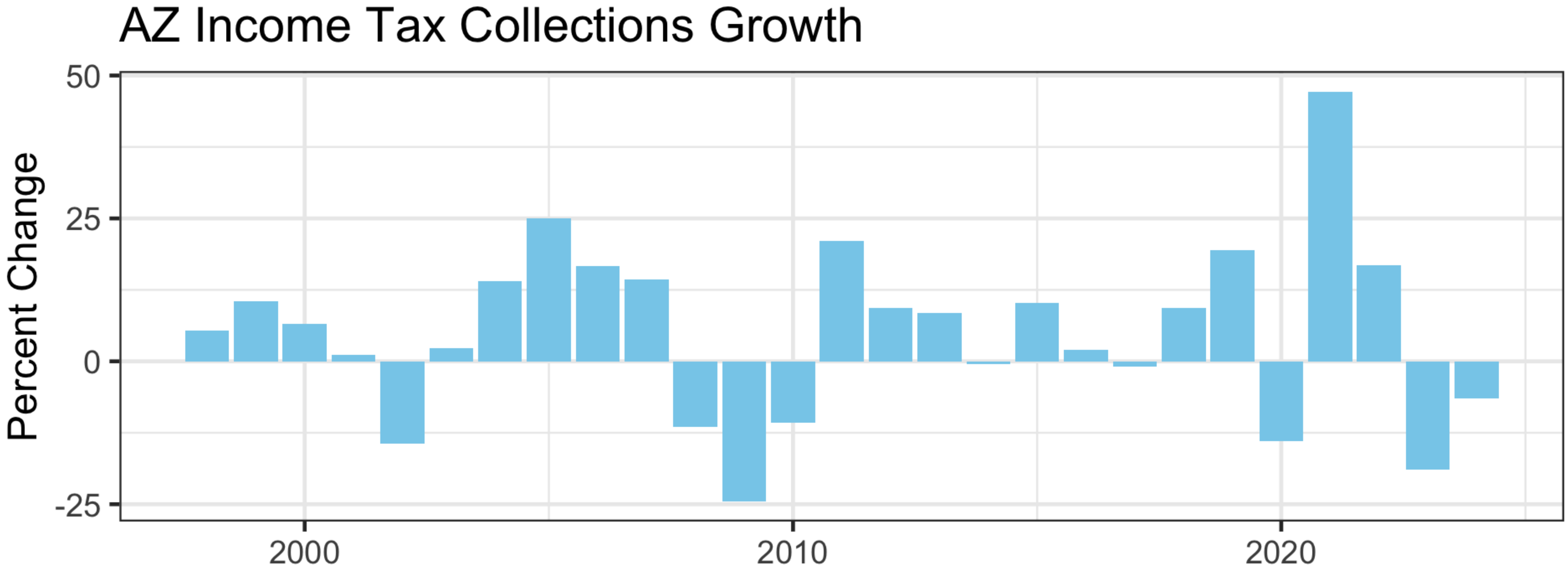
State and Local Revenue Picture

- Property tax base is generally steady but for some segments of commercial real estate
- Urban revenue sharing of income taxes is slated to rise modestly in 2026 and then slightly faster in 2027
- State shared TPT revenue growth has been weak due primarily to weakness in the state base
- Overall TPT collections slowed significantly in 2025. Going forward the pace will be dictated by inflation and the strength of the overall Arizona economy

Recent years see slow-down in sales tax growth



Income Tax Growth Negative in Recent Years



Arizona Budget Outlook

Risks

- Slow-down in employment growth
- Revenue volatility due to state actions and constraints
  - Proposed food tax prohibition, rental tax prohibition
- Unfunded mandates from Federal and state immigration law, cuts to Federal programs like Medicaid

Arizona Budget Outlook

Opportunities

- Arizona continues to attract the interest of businesses looking to expand or relocate
- Large investments from e.g., TSMC, Mayo Clinic drive growth
- In-migration into Arizona continues to rank high among the States
- Fiscal space to fund capital and infrastructure projects

Outlook Summary – Arizona Big Picture

- Uncertainty clouds outlook for U.S. & Arizona economies
- Arizona job growth slowing BEFORE tariff policies started
- Negative Yr/Yr Q1 2025 job growth suggests weakness ahead
- Long term very positive – migration & high tech evolution
- Greatest AZ economic threat is still national business cycle

Thank You

Questions or comments

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