September 2025

Inflation in Arizona

August 2025 Update

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Introduction

Inflation as measured by the Consumer Price Index (CPI) for the Phoenix metro area rose 1.4% year-over-year in August, an increase from 0.8% in June. This month's reading marks a change from the previous four months in which the year-over-year inflation rate posted below 1.0%. The recently low inflation readings have coincided with slowing employment growth and a slowing housing market in the state.

Inflation Over Time

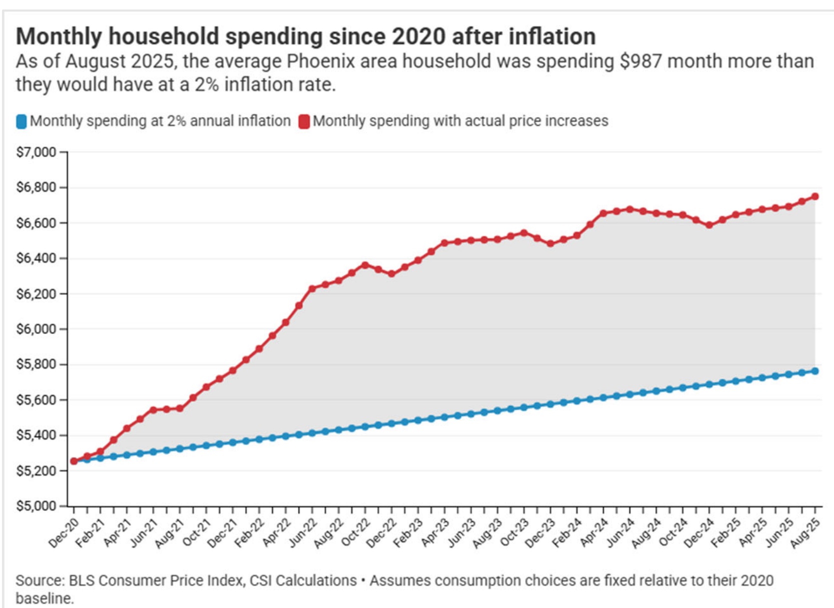
Since August 2019
AZ: +30.2%
US: +26.3%

Since August 2024
AZ: +1.4%
US: +2.9%

Since Dec 2024
AZ: +2.4%
US: +1.8%

Nationally, inflation ticked higher in August to 2.9% year-over-year versus 2.7% the two months prior. While inflation has remained above the 2.0% target for more than two years, the August figures continue the recent trend of accelerating price increases nationally.

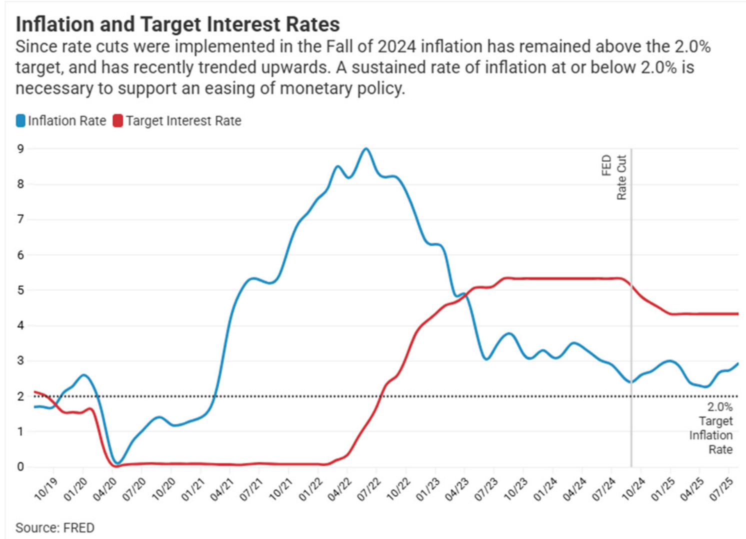
- Since August 2019, inflation in the Phoenix metro area has increased 30.2%. The resulting increase in average monthly costs for a typical Arizona household is now $1,525.
- Nationally, consumer prices are up 26.3% since August 2019. In a typical 5-year period, cumulative inflation should run closer to 10.4%.
- On a bi-monthly basis, inflation in the Phoenix metro area rose 0.9% from June to August, tying January for the largest two-month increase this year. In the U.S., inflation increased 0.6% between August and June.
- **Among the 23 metro areas measured in the CPI each month, Phoenix ranks 20 in year-over-year inflation (4th slowest).** This continues our recent dramatic change from 2022-2023, when the region consistently ranked among the highest**.**
- Shelter costs continue to suppress overall inflation readings in the Valley. Shelter inflation in Phoenix *fell* -0.1% year-over-year in August – the fourth month of negative year-over-year growth in shelter prices, and sixth month of inflation under 1%; CPI for all items less shelter *increased* +2.3% in August – still low compared to national trends but nearly double the headline rate of 1.4% (which incorporates falling shelter costs).



Inflation and Federal Policy

While inflation in the Phoenix area has been below-target (2.0%) for nearly a year, nationally consumer prices have not grown slower than 2.3% (April 2025) since 2021.

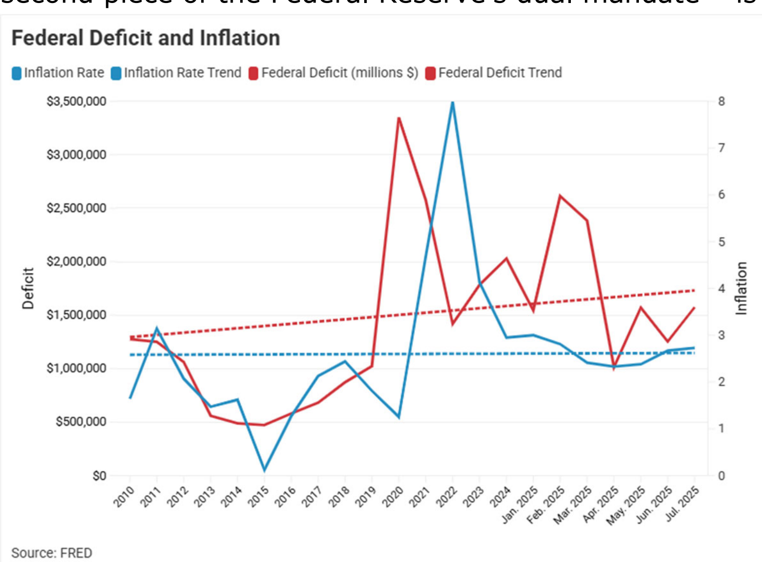
Despite this, in September 2024 the Federal Reserve initiated its first of three cuts to target interest rates. Not coincidentally, national inflation began growing again immediately thereafter.



Since 2010, the rate of national inflation has followed trends in the federal deficit with a 12-24 month lag. Local inflation rates – like in Phoenix – are then subject to their own regional dynamics but move about the national rate. Today, the size of the national debt and persistent deficits make it more difficult for monetary policy – changes in target interest rates – alone to control inflation.

Permanently restoring inflation to its long-term trend and at or below its 2.0% target will require taming the large and persistent federal deficits along with sound monetary policy. For context, the average annual federal deficit between 2020 and 2024 was $2.2 trillion; since 2020 the average inflation rate has been 4.6%. As of the most recent data, the annualized federal deficit for this year is $1.6 trillion, with the U.S. posting a budget deficit in the month of July**.**

As we have pointed out in our latest employment report, recent job growth in the U.S. – the second piece of the Federal Reserve's dual mandate – is sluggish. Although the Federal Reserve was premature in its shift to a more accommodative monetary policy last year based on the price level and apparently strong labor market at that time, current employment dynamics may warrant future rate cuts despite recently accelerating inflation.



We will further discuss ongoing issues in the state and national labor market in its monthly jobs release, next week.