January 2026

Inflation in Arizona

December 2025 Update

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Introduction

Inflation Over Time

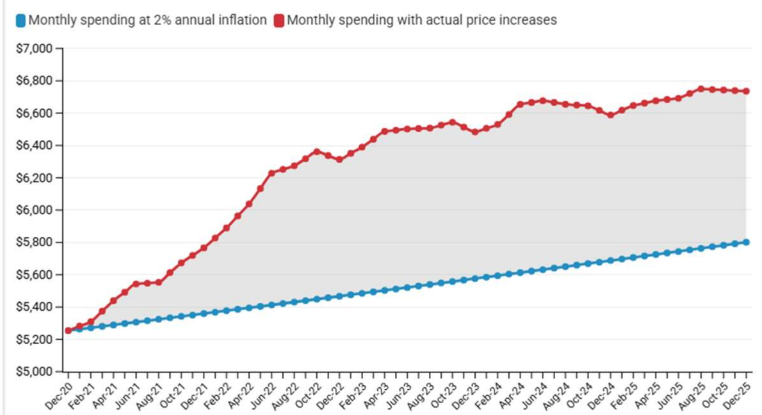
Since December 2019
AZ: +28.9%
US: +26.1%

Since December 2024
AZ: +2.2%
US: +2.7%

Inflation as measured by the Consumer Price Index (CPI) for the Phoenix metro area rose 2.2% year-over-year in December, an increase from 1.4% in August – the last time the CPI was released for the Phoenix Metro.[1] This month's inflation reading marks a return to more normal inflation levels in the Phoenix area. For much of last year, inflation in the Phoenix metro area was running closer to 1% - well below historical norms. Still, these cool months were sufficiently offset by growth in other periods, and overall last year's price increases were "historically typical" for greater Phoenix – a shift from post-pandemic volatility in this measure.

Nationally, inflation remained unchanged from November's rate of 2.7% but marked a sustained reduction from the rates seen in August and September (2.9% and 3.0%, respectively).

- Since December 2019, inflation in the Phoenix metro area has increased 28.9%. The resulting total increase in average monthly costs for a typical Arizona household is now $1,441.
- Nationally, consumer prices are up 26.1% since December 2019. In a typical 5-year period, cumulative inflation should run closer to 10.4%.
- **Among the 23 metro areas measured in the CPI each month[2], Phoenix ranks 16th in year-over-year inflation (8th 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 prices increased 0.4% year-over-year in December – meaning shelter inflation has remained below 1% since February of 2025. CPI for all items less shelter increased +3.2% in



Monthly household spending since 2020 after inflation
As of December 2025, the average Phoenix area household was spending $935 month more than they would have at a 2% inflation rate.

Source: BLS Consumer Price Index, CSI Calculations • Assumes consumption choices are fixed relative to their 2020 baseline.

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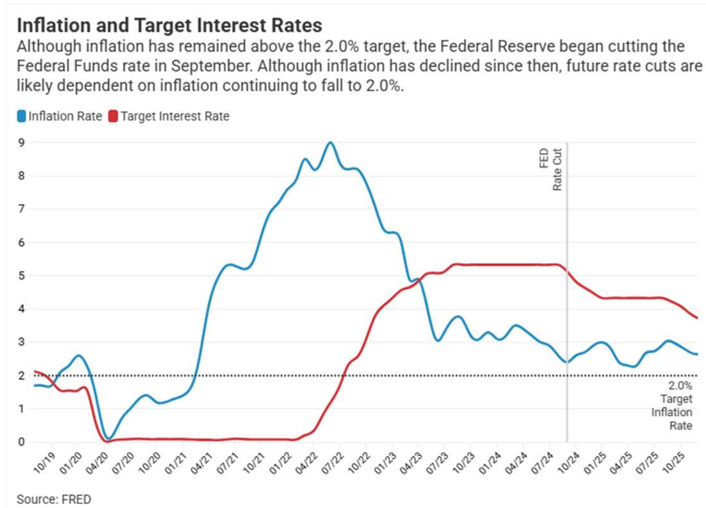
[1] The Data for October was not released due to the federal shutdown.
[2] All metros are measured on a bimonthly basis. Inflation readings for 9 of the 23 metros reflect data from November.

December – the highest reading for this category since April of 2023, and above the 2.4% rate experienced at the national level.

Inflation and Federal Policy

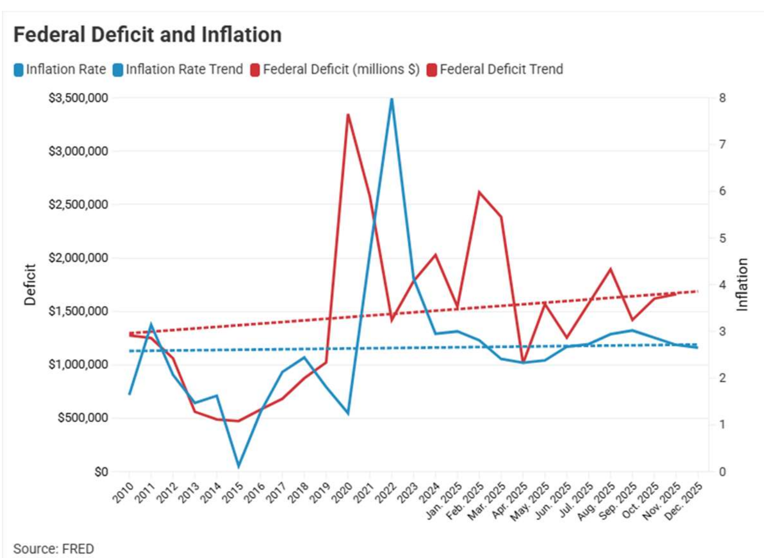
Although December marks the first month in over a year that inflation in the Phoenix area posted above 2%, nationally prices have not grown slower than 2.3% (April 2025) since 2021.



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 4.5%. As of the most recent data, the annualized federal deficit for this calendar year is $1.7 trillion, with the U.S. posting a budget deficit in the month of November**.**



As we have pointed out in our employment reports, recent job growth in the U.S. – the second piece of the Federal Reserve's dual mandate – has been sluggish and in decline. On the other hand, productivity and GDP growth have been strong.

Although the Federal Reserve was likely premature in its shift to a more accommodative monetary policy last year based on conditions at that time, current employment dynamics may warrant future rate cuts should current trends continue.