July 2025

Inflation in Arizona

June 2025 Update

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Introduction

Inflation Over Time

Since June 2019
AZ: +29.7%
US: +25.9%

Since June 2024
AZ: +0.2%
US: +2.7%

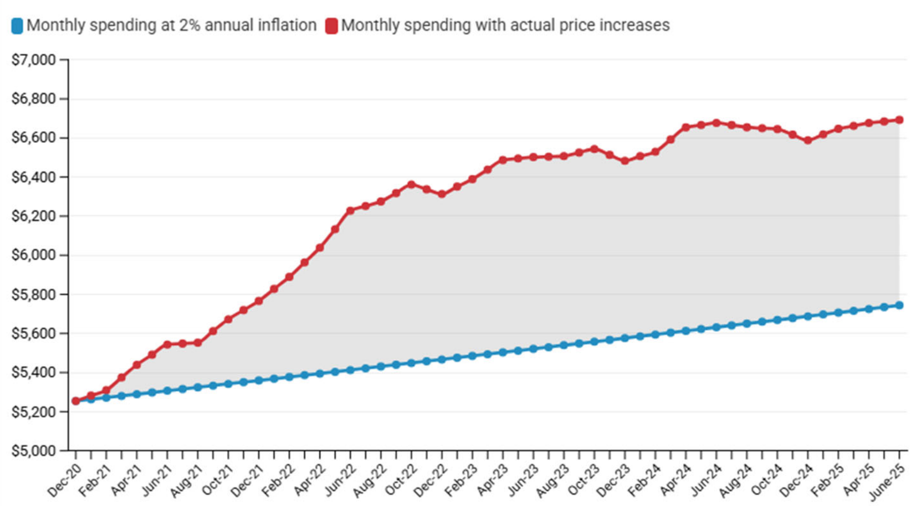
Since Dec 2024
AZ: +1.6%
US: +2.2%

Inflation as measured by the Consumer Price Index (CPI) for the Phoenix metro area rose 0.2% year-over-year in June, a decrease from 0.3% in April. The recently low inflation readings have coincided with slowing employment growth in the state.

Nationally, the rate of inflation is up since April (now +2.7% year-over-year, up from +2.4% last month). While inflation has remained above the 2.0% target for more than two years, June's inflation rate is higher than March, April, and May, marking a slight reacceleration in national price growth.

- Since June 2019, inflation in the Phoenix metro area has increased 29.7%. The resulting increase in average monthly costs for a typical Arizona household is now $1,507.
- Nationally, consumer prices are up 26.0% since June 2019. In a typical 5-year period, cumulative inflation should run closer to 10.4%.
- On a month-over-month basis, inflation in the Phoenix metro area rose 0.2% from April to June, a decrease from the 0.4% increase in the last release (from February to April). In the U.S., inflation increased 0.4% between June and April.
- **Among the 23 metro areas measure in the CPI each month, Phoenix ranks 23 in year-over-year inflation (1st lowest).** This continues our recent dramatic change from 2022-2023, when the region consistently ranked among the highest**.**
- Shelter costs have long driven inflation both in the Phoenix MSA and nationally, but now appear to be suppressing inflation in the Valley. Shelter inflation in Phoenix *fell* -0.7% year-over-year in June after falling -0.1% in April; CPI for all items less shelter *increased* +0.7% in June – still low compared to national trends but more than double the headline rate of 0.2% (which incorporates falling shelter costs).

Monthly household spending since 2020 after inflation
As of June 2025, the average Phoenix area household was spending $943 month more than they would have at a 2% inflation rate.

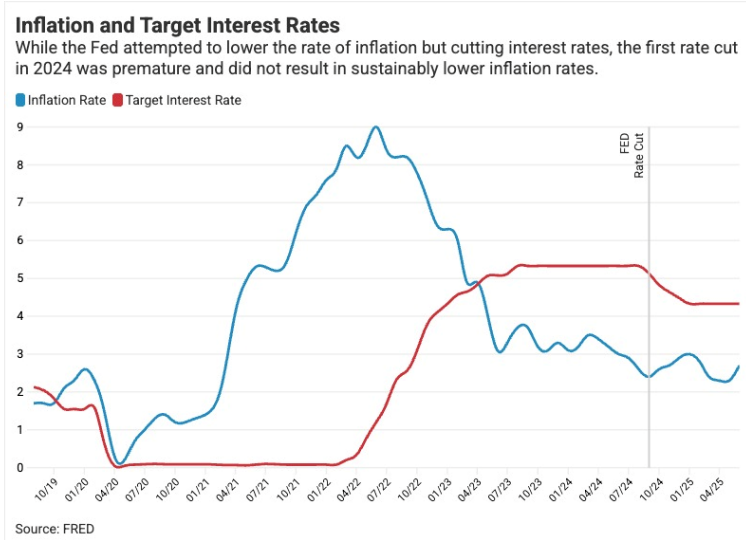


Source: BLS Consumer Price Index, CSI Calculations • Assumes consumption choices are fixed relative to their 2020 baseline.

Inflation and Federal Policy

While inflation in the Phoenix area has been below-target (2.0%) for 9 months now, 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. The Board has since paused further rate cutting, even as the inflation rate resumed its decline in February 2025



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. For context, the average annual federal deficit between 2020 and 2024 was $2.2 trillion; since 2020 the average inflation rate has been 4.2%. **As of the most recent data, the annualized federal deficit for this year is $1.3 trillion, with the U.S. posting a budget surplus in the month of June for the first time since 2017.** This is the second monthly fiscal surplus of 2025, so far.

The Federal Reserve was premature in its shift to a more accommodative monetary policy last year. Further reductions in target interest rates and other easing should depend on both sustained decreases in the rate of consumer price inflation *and* sustained reductions in federal deficits.