



January 2024

Inflation in Arizona

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Introduction

Despite a disappointing increase at the national level, the rate of Consumer Price Index (CPI) inflation in the Phoenix metropolitan area decreased again in December – returning to levels last seen in March 2021. At 2.7%, year-over-year price inflation in the Phoenix metropolitan area is now less a third of its 9.0% reading in January of last year. While this is the lowest rate of inflation the Phoenix area has seen since **March 2021**, it is the 34th consecutive month of the inflation rate being over 2.0%.

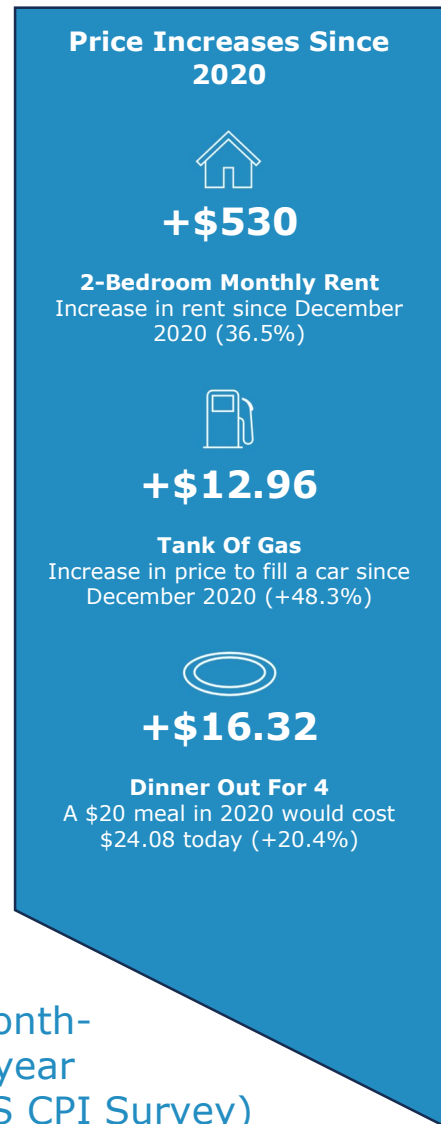
Between October and December Phoenix area inflation rates decreased 0.9 percentage points (local inflation numbers are published every two months); over the same period the year-over-year U.S. inflation rate increased 0.2 percentage points from 3.2% to 3.4%.

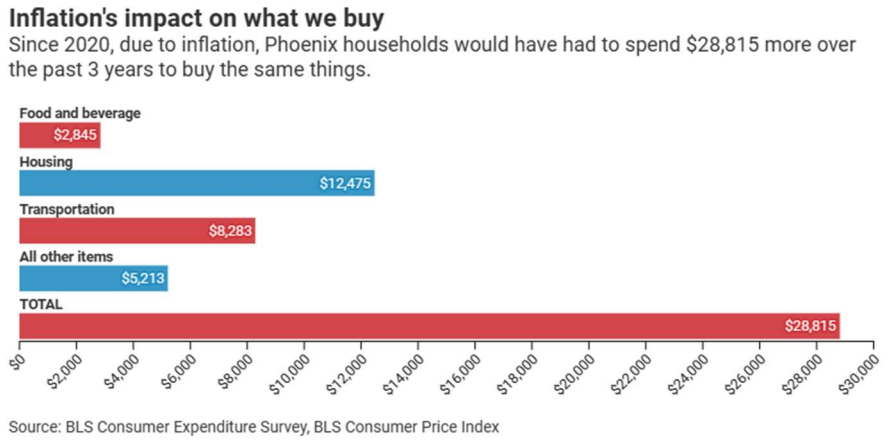
After running higher than the nation since August 2021, the Phoenix metro area - for the **third** period in a row - has a lower inflation rate than the U.S. Further, officially measured price inflation in the Phoenix metro area continues to be partly driven by the lagging measure of Shelter costs – excluding Shelter, year-over-year CPI inflation was just 1.7% (well below 2.0%). Shelter costs – the price of rent and owners’ equivalent rent – rose 4.1% over the past year.

Measurement lag in owners’ equivalent rent, specifically, means these reported price increases in CPI are occurring even as more real-time measures of rent in the Phoenix metro market are reporting declines.

Prices in Metro Phoenix decreased -0.5% (month-over-month) and increased +2.7% over the year (December '22 through December '23) - (BLS CPI Survey)

- **This is the first month-over-month decline in Phoenix area prices since December 2022.** However, it would still take 27 consecutive months of declining prices to return to the long-run 2% trend.
- Since the end of 2020, the typical Arizona household would have had to spend a combined \$28,815 more on food, housing, transportation, medical care, and other goods and services to buy the same stuff as they were buying three years ago.
- **Because of inflation, today it costs the typical Arizona family over \$4,100/year more to purchase the same goods and services as it would have cost in December 2022.** Even if the rate of inflation slows, it would take a sustained period of *deflation* to restore historical price levels.





- Inflation in metro Phoenix over the past 12 months (2.7%) is again lower than the national average (3.4%).
- While overall prices are still rising on a year-over-year basis, the cost of transportation (including sales of vehicles) in the Phoenix metro market fell 7.4% from October to December – this is transportation's largest month-over-month decrease in the rate of inflation since April 2020.
- Inflation excluding more volatile food and energy prices (so-called “core inflation”) is higher than overall CPI inflation at 2.8% in the Phoenix area (again reflecting the disproportionate impact of Shelter costs on the Index).
- **Of the 23 urban consumer price indices tracked by the BLS in December, the Phoenix metro area had 5th lowest rate of measured inflation (year-over-year) – a steep drop from 2nd highest in April, and again highlighting the volatility local gas and food prices have had on the headline measure.**
- Slowing inflation means that real incomes in Arizona are finally rising again – over the past 12 months, average hourly wages have risen 5.1%, while prices have increased only 2.7%. However, keeping in mind longer-term rising prices, **real wages in Arizona have fallen 8.5% since peaking in April 2020.**

