



July 2023

Inflation in Arizona

July 2023 Update

Author: Kamryn Brunner

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Inflation in Metro Phoenix 1

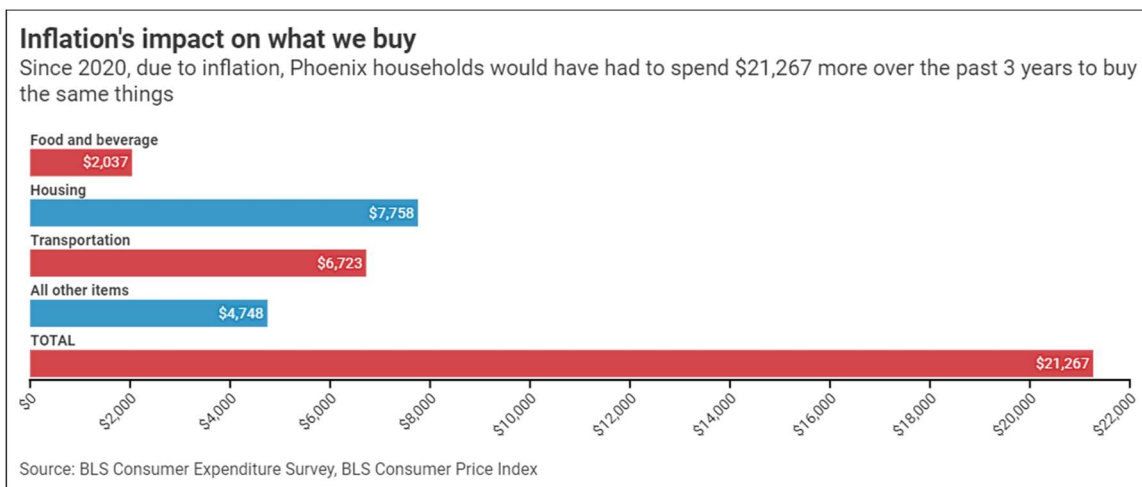
Introduction

On a year-over-year basis, Consumer Price Index (CPI) inflation in the Phoenix metropolitan area and United States is down to its lowest point since March 2021 when it was 2.9%. At 4.4%, year-over-year price inflation in the Phoenix metropolitan area last month was 3 percentage points below its April reading of 7.4%. Between April and June Phoenix area inflation was 0.2%, a 0.7 percentage point decrease from April (local inflation numbers are published every two months).

The rapid change in CPI inflation is being driven by the volatility in energy prices, with the price of gas actually *declining by -20.7%* year-over year. While some prices are continuing to rise, these increases are increasingly concentrated in a handful of areas (now, shelter and services). Shelter inflation (+12.1% year-over-year) remains elevated in the Phoenix area and is likely to continue putting upward pressure on official measures of local prices as CPI surveys of rent catch up with actual market rates (more real-time measures of market rent appear to already be in decline). Services inflation accelerated nationally and remains high (+8.0% year-over-year) locally.

Inflation in Metro Phoenix was +0.1% (month-over-month) and +4.4% over the last 12 months (June '22 through June '23) - (BLS CPI Survey)

- The typical Arizona household has spent a combined \$21,266 more on food, housing, transportation, medical care, and other goods and services since the end of 2020. The cost of food, housing, and gasoline accounts for nearly 60% of this increase.
- **Inflation today is costing households over \$7,000 more per year to purchase the same goods and services as they were two years ago.** Even if inflation cools, it would take a sustained period of *deflation* to restore historical price levels.
- Inflation in metro Phoenix over the past 12 months (4.4%) was 1.4 percentage points higher than the national average of 3.0%. Unlike two months ago, both month-over-month and year-over-year inflation readings are lower in June.



- While we had one month of increasing monthly inflation rates in April, we would have needed to see a few months in a row of rising inflation to expect an end to its slow downward trend. Instead, June’s monthly inflation rate decreased 0.7 percentage points. **This is the largest decrease in monthly inflation that Arizona has seen since August 2022.**
- Large increases in the cost of some core goods and services, like shelter (+0.6% in June, month-over-month), are keeping overall (annual) price increases in the Phoenix area high relative to the broader US. On the other hand, rapid price declines in more volatile products (like gasoline) have contributed to recent more rapid decreases in month-over-month prices here relative to the US.
- Inflation excluding more volatile food and energy prices (so-called “core inflation”) is at 5.9% in the Phoenix area – still elevated but also declining.
- Of the 23 urban consumer price indices tracked by the BLS in April, the Phoenix metro area had 3rd lowest rate of measured inflation (month-over-month) – a steep drop from 2nd highest in April, and again highlighting the volatility local gas prices have had on the headline measure.
- On a (smoother) year-over-year basis, June prices in the Phoenix area rose at the 9th fastest rate in the country (down from 3rd highest in April).
- Although average hourly wages in Arizona have increased 6.0% year-over-year, inflation has increased 4.4% causing a gain in real wages of 1.6% year-over-year. Wages continued their rapid increase, and in June inflation failed to outpace these increases and caused a gain in total wages. However, keeping in mind long-term rising inflation, **real wages in Arizona have fallen 10.1% since peaking in April 2020.**

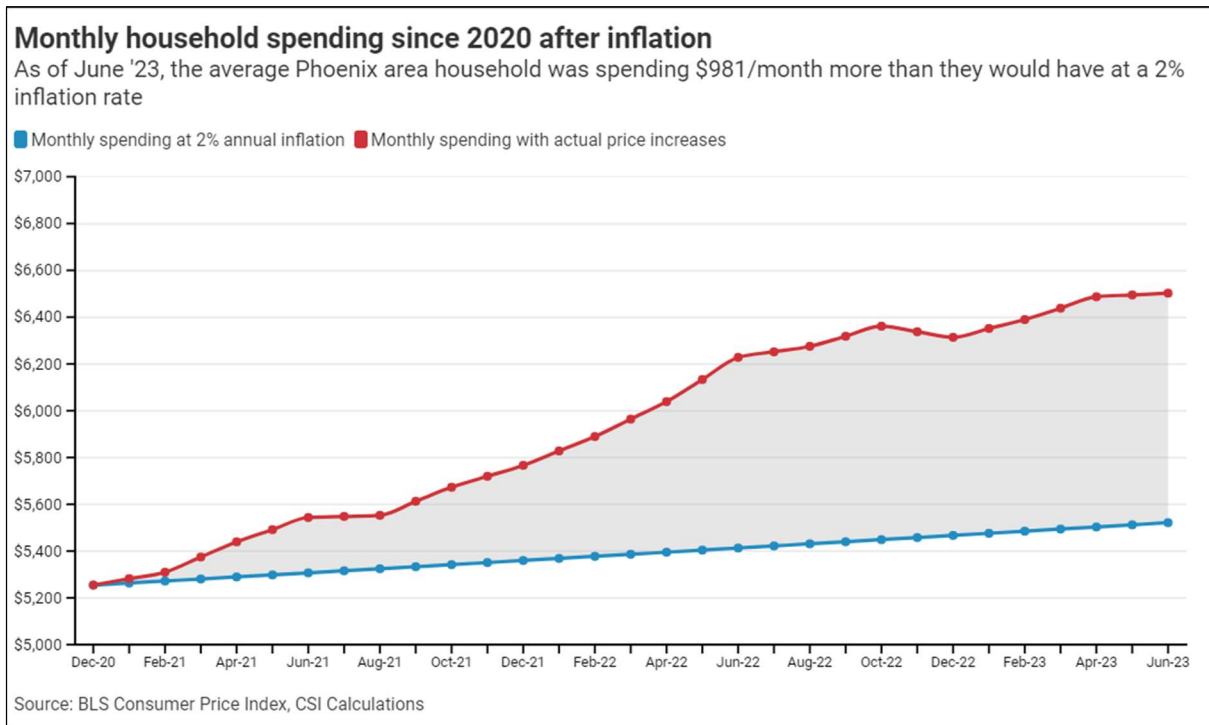


Figure 2