



November 2024

Inflation in Arizona

October 2024 Update

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Inflation as measured by the Consumer Price Index (CPI) for the Phoenix metro area rose 1.56% year-over-year in October, a decrease from 2.27% in August. This latest reading ends the over 2-year streak of inflation above the standard target of 2.0% annually. The rate of price increases continues to slow nationally (now +2.6% year-over-year).

Overall Inflation Remains Stable as Fed Implements Rate Cuts

Historically, the **Phoenix Metropolitan Statistical Area¹** (MSA) has experienced significant inflationary pressures, notably in June 2022, when inflation in Phoenix peaked at a record high of 13%, well above the national rate of 9.1%. This trend made Phoenix one of the fastest-inflating areas in the U.S. However, since then, inflation has moderated, with year-over-year price growth aligning more closely with the national average over the past 12 months. In October 2024, inflation in Phoenix, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), was up **1.56% year-over-year**, a decrease of 0.71 percentage points from the rate in August. Nationally, prices registered a **0.28%** increase over the past two months, while the Phoenix-area CPI declined by **0.14%** in this period, thanks to falling energy and transportation prices.

Year-over-year inflation at the national level rose 2.58% in October – 0.2 percentage points above the rate for September and snapping the recent six-months long decline experienced since March. The Federal Reserve's recent 50-basis-point cut, which reduced the federal funds rate to a target range of 4.75% to 5%, marks its first rate cut in four years. Despite this adjustment, the Fed remains committed to quantitative tightening, reducing its holdings of Treasury and mortgage-backed securities to manage inflation close to its 2% target and avoid economic overheating.

- Between August and October 2024, prices in the Phoenix area **decreased by 0.14%**, compared to a **0.28% increase nationwide**.
- Over the past 12 months, inflation in the Phoenix area remained slightly below the national average— **1.56%** in the Phoenix area compared to **2.58%** for the U.S. overall.
- October marks the **second consecutive bi-monthly decrease in inflation** following the August figures, indicating a continued trend of moderation in price levels.

Price Increases Since 2020



+\$450

2-Bedroom Monthly Rent
Increase in rent since October 2020 (31%)



+\$14.14

Tank Of Gas (September)
Increase in price to fill a car since October 2020 (+53%)



+\$18.16

Dinner Out For 4
A \$20 meal in 2020 would cost \$24.54 today (+22.7%)

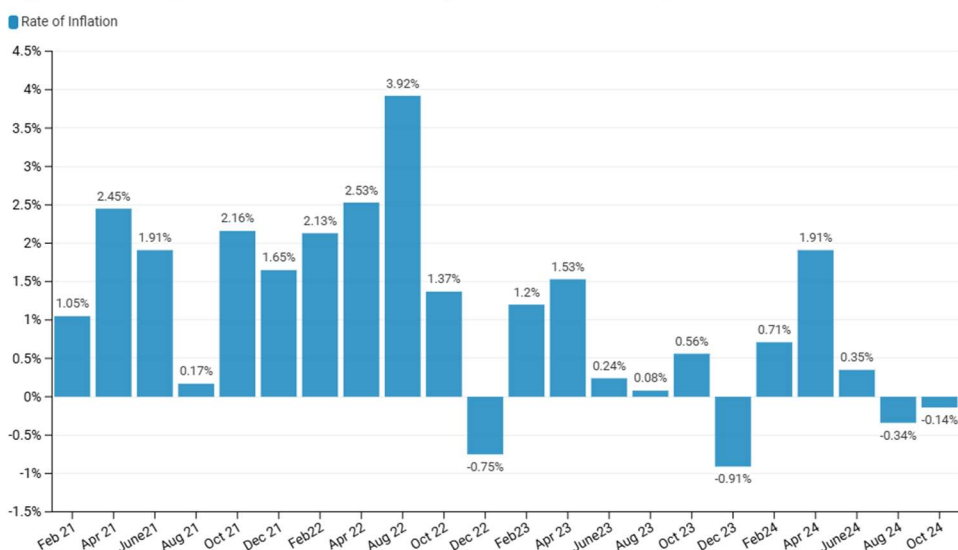


+\$311

Groceries (September)
A month of groceries for a family of 4 in October 2020 costs \$980 today (+46%)

¹Inflation data for Arizona is sourced from the Phoenix Metro Area, as reported by the Bureau of Labor Statistics (BLS) under the designation Phoenix-Mesa-Scottsdale.

Figure 1: Bi-monthly Inflation in the Phoenix Metropolitan Area since January 2021



Source: BLS CPI-U Data • Phoenix Metropolitan Statistical Area comprises Phoenix, Mesa and Scottsdale

Sectoral Breakdown of the Price Changes: What are the drivers of inflation?

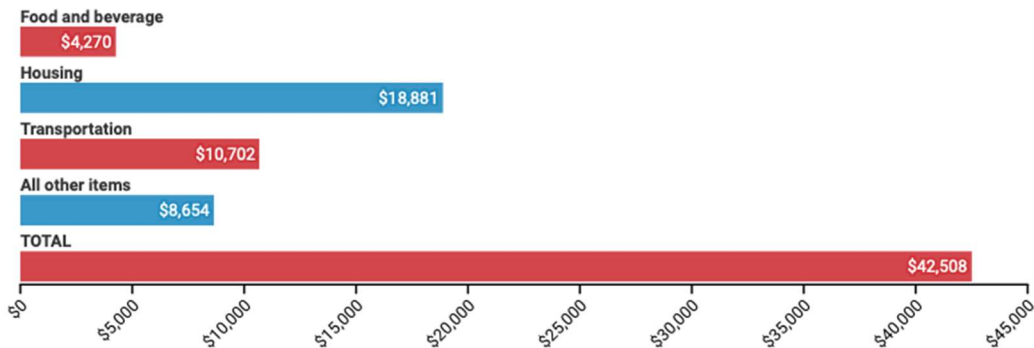
Core inflation, all items less food and energy, increased by 0.16% in the last two months. For the Phoenix MSA, the core consumer price index rose 2.56% over the year in October, down from its peak of 12.3% in August 2022. Nationally, core inflation has decelerated from its peak in September 2022 (6.6%) to 3.3% in October 2024.

Prices in Metro Phoenix decreased 0.14% (month-over-month) and increased 1.56% over the year (October '23 through October '24) - (BLS)

- Shelter inflation decreased 0.37% in the two-month period between August and October. Year-over-year, shelter costs in the Phoenix MSA rose 2.69%. **The price index for all items less shelter costs remained practically unchanged with an increase by 0.06% since August.**
- The notable **decrease in energy and apparel prices**, with a drop of -2.83% and -3.97% respectively, significantly contributed to the overall reduction in inflation.
- **Although previously above the 2.0% target, the year-over-year inflation rate has declined steadily. With this month's data release showing a rate of 1.56%, inflation is now below 2% for the first time in over two years and marks the lowest year-over-year rate in Phoenix since February 2021.**
- Transportation and energy have been significant contributors to the year-over-year decline in prices, with transportation costs dropping by 4.18% and energy prices decreasing by 11.94%. These reductions have played a crucial role in easing overall inflation pressures.
- Since the end of 2020, the typical Arizona household would have had to spend a cumulative \$42,508,722 more on food, housing, transportation, and other goods and services to buy the same stuff as they were buying three years ago.

Figure 2: Inflation's impact on what we buy

Since 2020, due to inflation, Phoenix households would have had to spend \$42,508 more over the past 4 years to buy the same things.

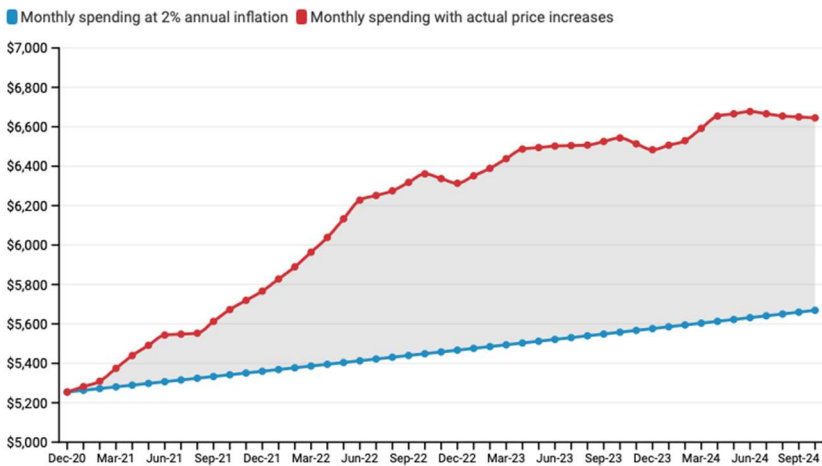


Source: BLS Consumer Expenditure Survey, BLS Consumer Price Index

- **Had inflation instead run at 2%/year over the past four years, it would cost the typical Arizona family over \$10,627/year less to purchase the same goods and services today.**
- 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 (1.56%) remained lower than the national average (2.6%).
- Inflation in metro Phoenix **of the 23 urban consumer price indices tracked by the BLS, the Phoenix metro area once again had the 4th lowest rate of measured inflation over the past year (backwards-looking) and 6th lowest month-over-month (real-time).**
- Real incomes in Arizona are again falling; while inflation rose 1.56%, real average hourly earnings increased by 1.4%.

Figure 3: Monthly household spending since 2020 after inflation

As of October 2024, the average Phoenix area household was spending \$976 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.