March 2025

Inflation in Arizona

February 2025 Update

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Introduction

Inflation as measured by the Consumer Price Index (CPI) for the Phoenix metro area rose 1.8% year-over-year in February, an increase from 1.6% in December. This latest reading represents the 6th consecutive month of local inflation below the standard target of 2.0% annually. Nationally, the rate of inflation is down since January (now +2.8% year-over-year). This is the 49th consecutive month of national inflation above the 2.0% target.

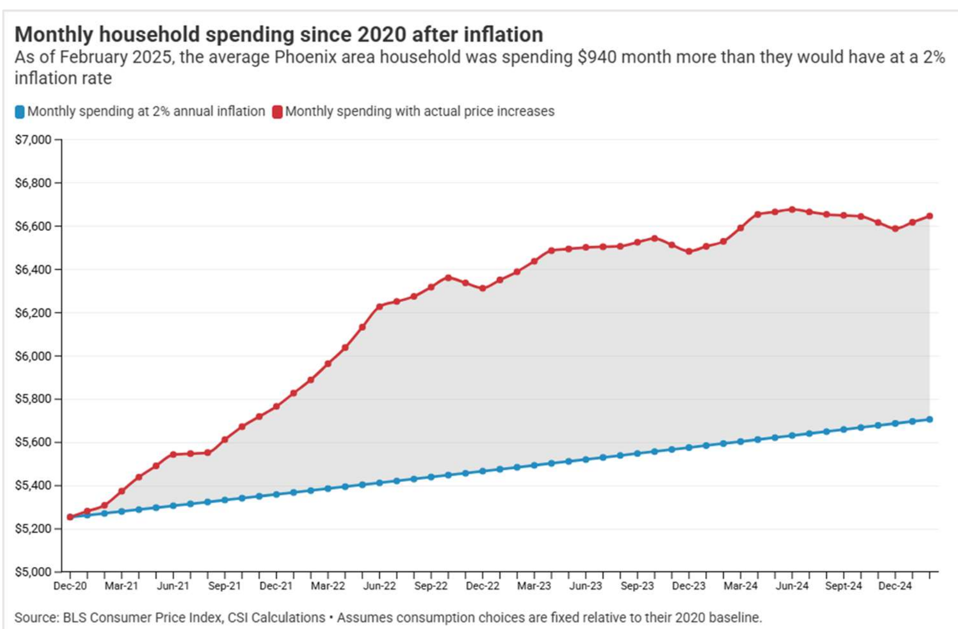
Inflation Over Time

Since Feb 2019
AZ: +31.94%
US: +26.2%

Since Feb 2024
AZ: +1.8%
US: +2.8%

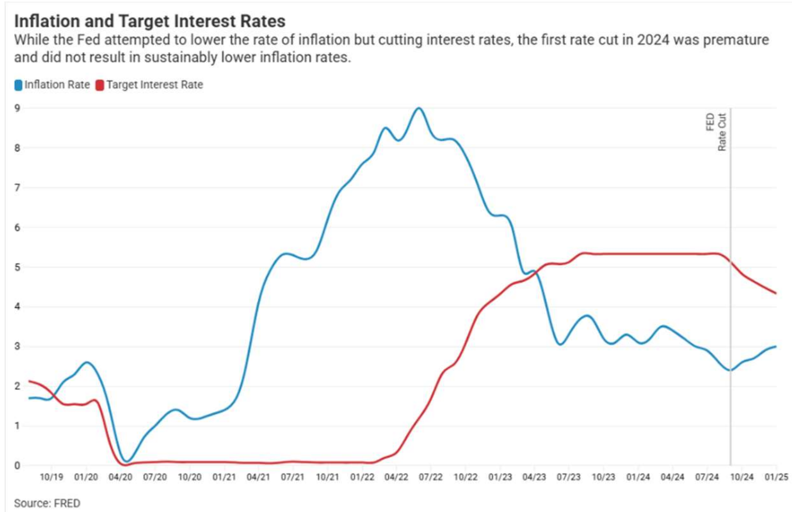
Since Dec 2024
AZ: +0.9%
US: +0.7%

- Since February 2019, inflation in the Phoenix metro area has increased 31.9%, resulting in an average monthly increase in spending of $1,476 since 2019 in Pheonix. Nationally, inflation is up 26.2% since February 2019.
- On a month-over-month basis, inflation in the Phoenix metro area rose +0.9% from December to February, a reversal from the -0.8% decrease in the last CPI release from October to December. In the U.S., inflation increased 0.2% month-over-month in February – down 0.2 percentage points from the 0.4% increase in January.
- **Among the 23 metro areas measure in the CPI each month, Phoenix ranks 22 in year-over-year inflation (2nd lowest).** This is a 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. Shelter inflation was +0.7% in February (up from -0.6% in December), and annual shelter costs are now rising 1.2% (year-over-year).



Inflation and Federal Policy

While inflation in the Phoenix area has been below-target (2.0%) for 6 months now, nationally consumer prices never grew slower than 2.4% (month year). Since then, the national rate of inflation has increased again to 2.8%.



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. In February, the federal deficit increased to $307.0 billion (+139% month-over-month, and +3.6% year-over-year). In 2019, the federal deficit was $102.2. billion.

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 wait until the national inflation rate shows several months of consistent declines and approaches or reaches 2.0% annually.