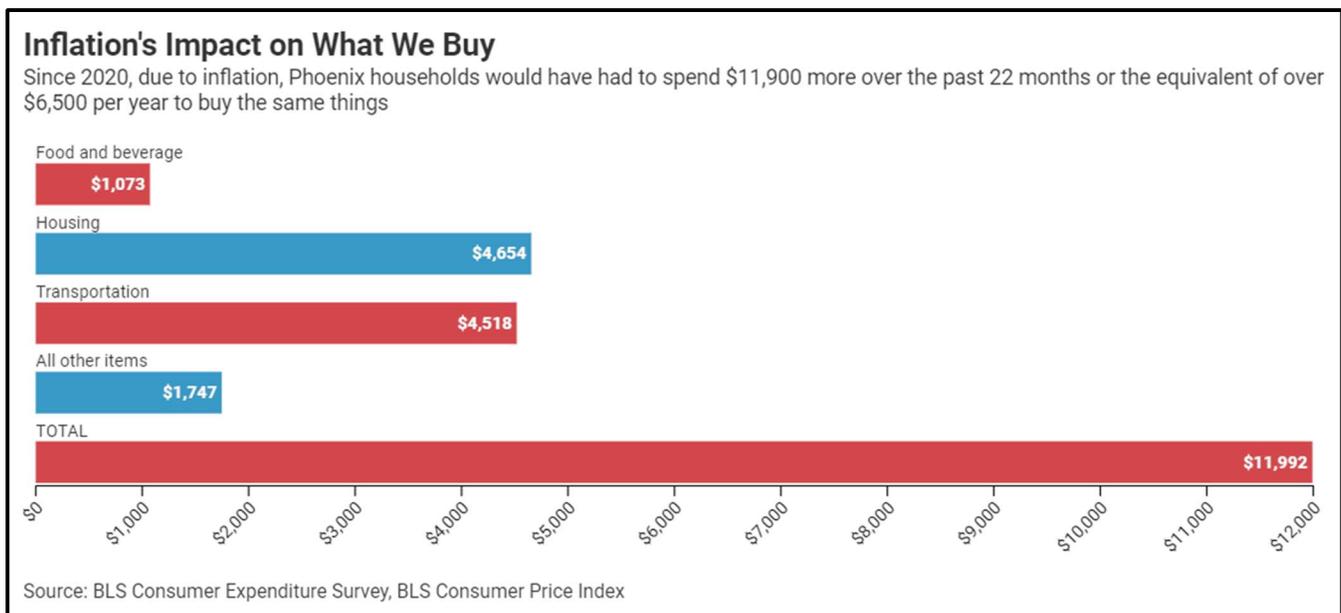


Inflation in Arizona: November 2022 Update

Though Consumer Prices continued their record ascent in October, nationally and in the Phoenix metropolitan area year-over-year growth rates slowed slightly to 7.7% and 12.1%, respectively. Core inflation slowed markedly to 0.3% (from 0.6% in September). At 12.1%, year-over-year price inflation in the Phoenix metropolitan area last month was 0.9 percentage points below its August reading of 13.0%. Since the end of 2020 prices in Phoenix have risen a combined 21.1% - more than anywhere else tracked by the BLS. On a month-over-month basis, prices rose 0.7% in October. It appears that real-time price inflation for the current cycle peaked in June and has been slowing since.

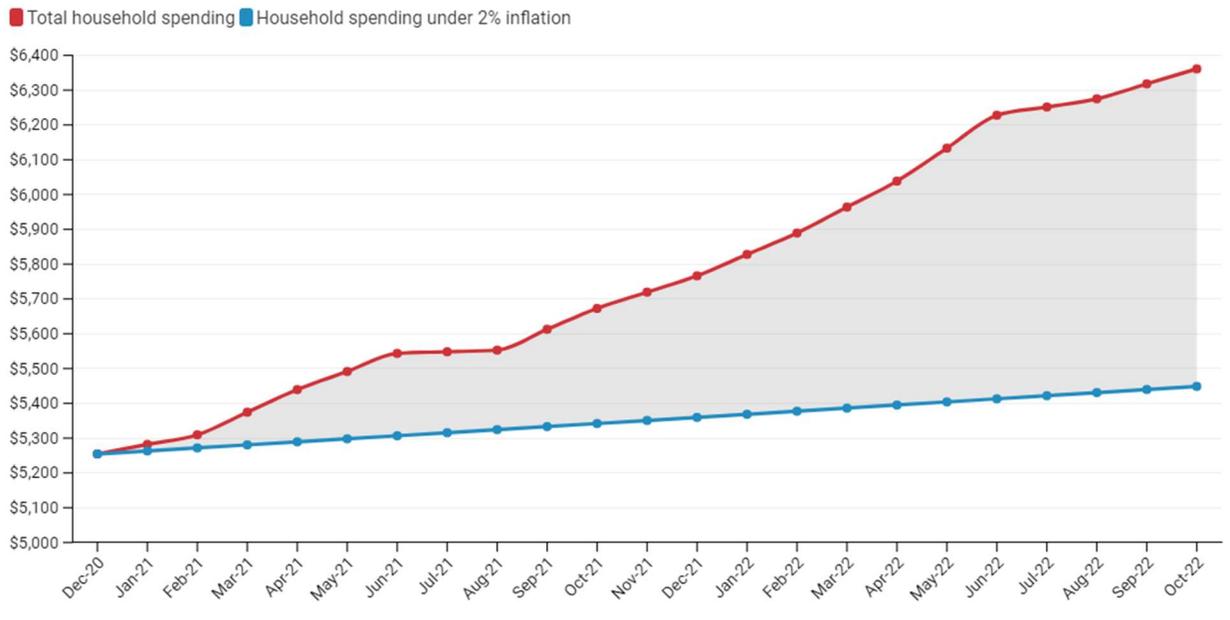
Inflation in Metro Phoenix was 1.4% between August and October and 12.1% over the Last 12 Months – October '21 through October '22 - (BLS CPI Survey)



- The typical Arizona household has spent a combined \$11,992 more on food, housing, transportation, medical care, and other goods and services since the end of 2020.ⁱ The cost of food, housing, and gasoline accounts for over 60% of this increase.ⁱⁱ
- Inflation in metro Phoenix over the past 12 months was 4.4 percentage points higher than the national average of 7.7%.
- Inflation remains high since spiking in the first quarter of 2021. Even as the housing market generally has been in a correction since June, the lagging shelter component of CPI continues to catch up – rising 19.5% in September and 18.2% in October, on a year-over-year basis. These large increases are keeping overall prices in the Phoenix area so high relative to the broader US.

Monthly Household spending since 2020 after inflation

As of October, the average Phoenix area households is spending \$912/month more than they would have at a 2% inflation rate



- Of the 23 urban consumer price indices tracked by the BLS, the Phoenix metro area again had the highest rate of inflation in October, due mostly to pressures from shelter costs.
- If prices in Phoenix and San Francisco continued rising at their respective current rates, the cost of living here would be higher than in San Francisco by 2034.ⁱⁱⁱ
- The shelter component of CPI will come down in the coming months as the survey catches up with the reality of a rapidly cooling housing market. While this will bring headline inflation rates down nationally, it should be particularly impactful in the Phoenix metro.^{iv}
- At current rates, the monthly household 'inflation tax' for the Phoenix area increased to \$912 in October. This amount is rising by an additional \$43/month. It is important for analysts to recall that even as headline inflation slows, compounded price increases remain 'baked in' to existing consumer prices.
- Market relief at cooling headline rates is likely driven more by a belief that policy interventions intended to bring inflation down are reaching their apex, and less by any improvement in consumer or general economic conditions by a deceleration in already lofty price increases.

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ⁱ This figure corresponds to the data in the first graph. These are generated by distributing the consumer expenditure estimates from <https://www.bls.gov/cex/tables/geographic/mean/cu-msa-west-2-year-average-2020.pdf> across the individual months of 2020 and weighting them according to their corresponding CPI levels. We then assume that any price changes since January 2021 have resulted in increased costs relative to this average 2020 price level.

ⁱⁱ https://www.bls.gov/regions/west/news-release/consumerpriceindex_phoenix.htm.

ⁱⁱⁱ According to nerdwallet.com, the cost of living in San Francisco is roughly double Phoenix currently. Assuming the current 13% and 6% inflation rates for Phoenix and San Francisco, respectively, persisted for 10 years, that gap would close and reverse.

^{iv} For more on housing and what this means for the cost of living here, see our regular [Housing Affordability Update](#) reports. Our latest update was released on October 31.