



May 2023

Inflation in Arizona

May 2023 Update

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Inflation in Metro Phoenix 1

Introduction

On a month-over-month basis, Consumer Price Index (CPI) inflation in the Phoenix metropolitan area and United States remained elevated in April after a slight decrease towards the end of last year, although smoothed and backwards-looking year-over-year inflation is at its lowest level in at least 18 months. At 7.4%, year-over-year price inflation in the Phoenix metropolitan area last month was 1.1 percentage points below its February reading of 8.5%. While year-over-year inflation is lower, month-over-month inflation is up to 0.8%, a 0.2% increase from February. Prices are continuing to rise after a brief respite in December of last year. Much of these increases are concentrated in a handful of areas (now, shelter and services). Shelter inflation (+14.2% 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. Services inflation accelerated nationally and remains high (+10.4% year-over-year) locally.

Inflation in Metro Phoenix was +0.8% between month-over-month and 7.4% over the last 12 months (April '22 through April '23) - (BLS CPI Survey)

- The typical Arizona household has spent a combined \$18,779 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 over 60% of this increase.
- Inflation in metro Phoenix over the past 12 months was 2.5 percentage points higher than the national average of 4.9%. Month-over-month inflation in both metro Phoenix and the U.S. increased while year-over-year they both continued to show decreasing inflation. Although year-over-year provides a smoother picture, month-over-month inflation gives a real time but volatile sense of where the trend is heading. While we had one month of increasing monthly inflation rates, we would need to see a few months in a row of rising inflation to expect an end to its slow downward trend.

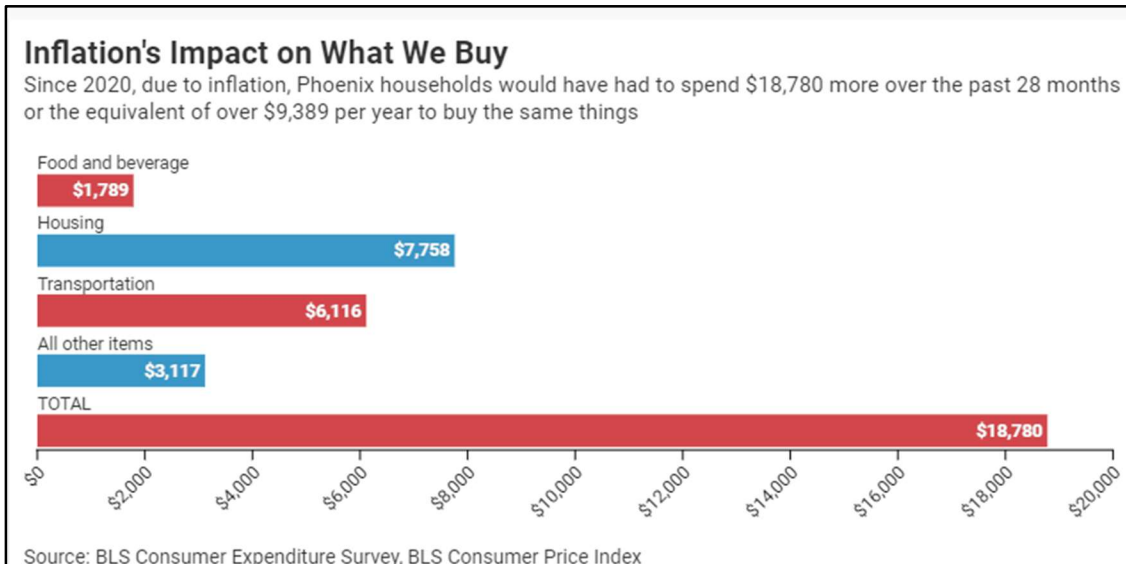


Figure 1

- Shelter tends to be a lagging measure of home and rental prices and has continued rising in Phoenix even as the housing market itself has been cooling. These large increases (+0.7% in April, month-over-month) are keeping overall prices in the Phoenix area so high relative to the broader US.
- Of the 23 urban consumer price indices tracked by the BLS in April, the Phoenix metro area had the 2nd fastest rate of measured inflation (month-over-month) – climbing again from its #10 spot in February.
- On a year-over-year basis, prices in the Phoenix area rose at the 3rd fastest rate in the country.
- At current rates, the monthly household ‘inflation tax’ for the Phoenix area increased to \$983 in April. This inflation has risen by \$48/month, thanks to price increases since February. Recall that ‘baked in’ price increases mean that, for prices to return to their prior 2% trend, prices would need to fall at their December rate of \$23/month for 30 consecutive months.
- Although average hourly wages in Arizona have increased 5.1% year-over-year, inflation has increased 7.4% causing a loss in real wages of 2.3% year-over-year. While wages continued their rapid increase, inflation outpaces these increases and causes a loss in total wages as households must spend more to consume at the same level. Real wages in Arizona have fallen 7.1% since peaking in January 2021.

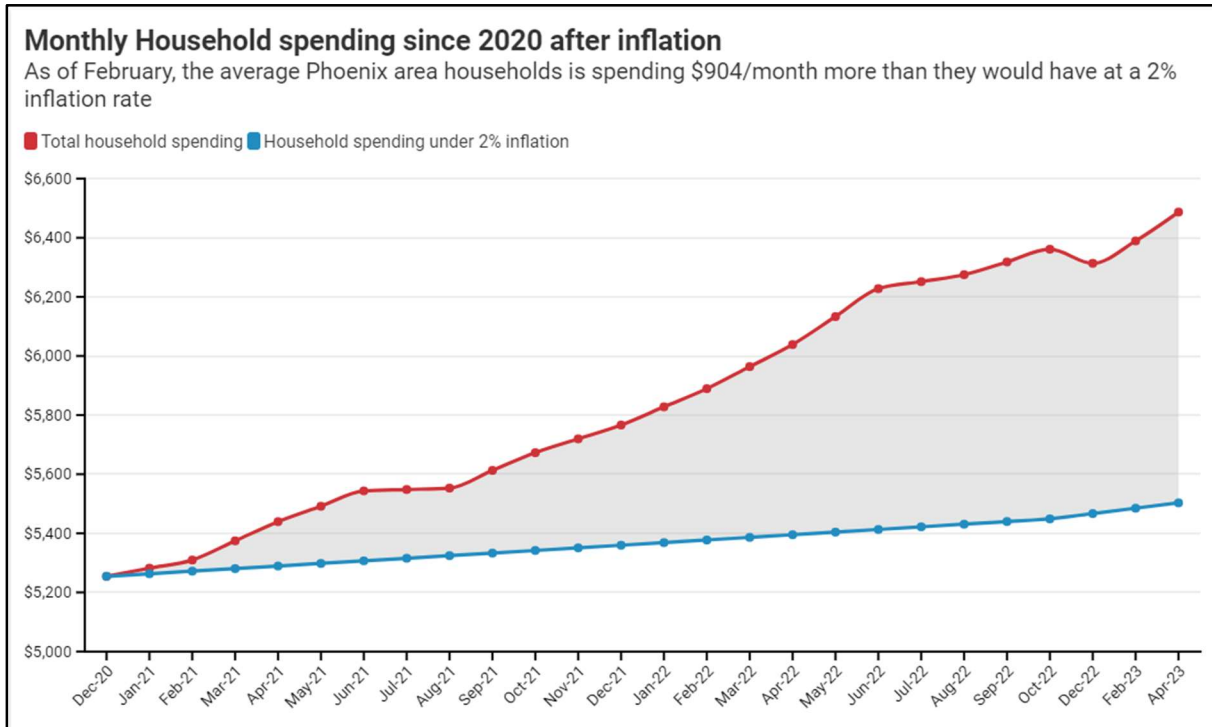


Figure 2