



March 2024

Inflation in Arizona

March 2024 Update

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Introduction

Inflation as measured by the Consumer Price Index (CPI) for the Phoenix metro area continued its decline in February, falling from a rate of 2.7% year-over-year in December to 2.2% in February - the lowest inflation rate since February of 2021. However, this latest reading represents the 36th consecutive month of inflation above the standard target of 2.0% annually.

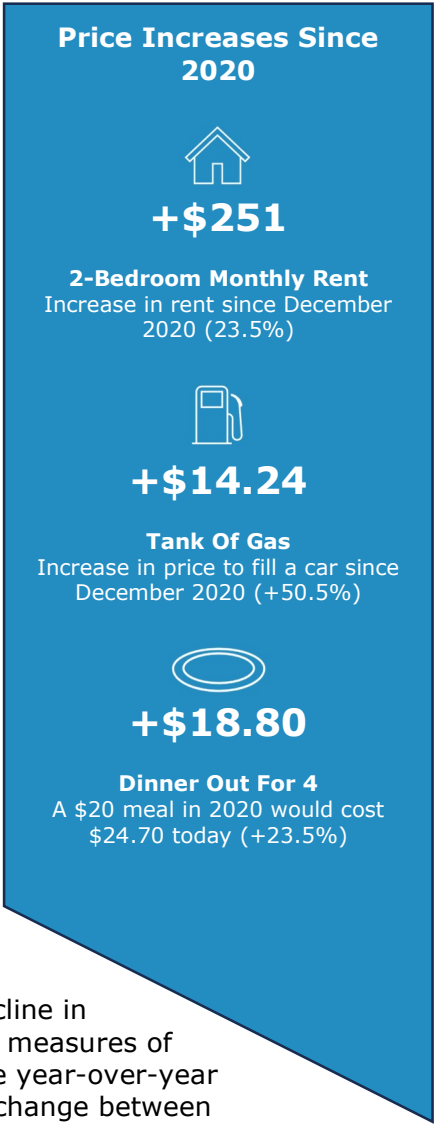
Between December and February, the CPI for the Phoenix area increased 0.7%, or an annualized rate of 4.3% (local inflation numbers are published every two months); the U.S. figure increased at an identical pace of 0.7% over the two-month span. However, national figures showed inflation *increasing* from 3.1% year-over-year in January to 3.2% in February; while the inflation rate in the Phoenix metro area has continued cooling, headline inflation in the United States stopped declining in June 2023 and has been anchored to just above 3% since. The persistent inflation at the national level suggests that hopes of the soon-to-come monetary loosening should be tempered, with the possibility of further tightening in 2024 should inflation continue to rise.

Shelter inflation – last year a significant driver of overall inflation in the Phoenix metro area – has slowed on a year-over-year basis, falling from 4.1% in December to 2.7% in February. Despite these declines, shelter continues to be a significant contributor to headline inflation in the valley, as inflation less shelter costs rose only 1.8% year-over-year – below the 2.0% target.

While the typical, backwards looking figures show continued decline in inflation, this masks the unfortunate reality that more real-time measures of price increases signal an acceleration in price levels. Despite the year-over-year figure falling 0.5 percentage points, the annualized two-month change between December and February shows inflation at a pace of over 4.3% - the highest annualized two-month change since early 2023. It remains to be seen whether inflation will continue at this pace or again slow later in 2024.

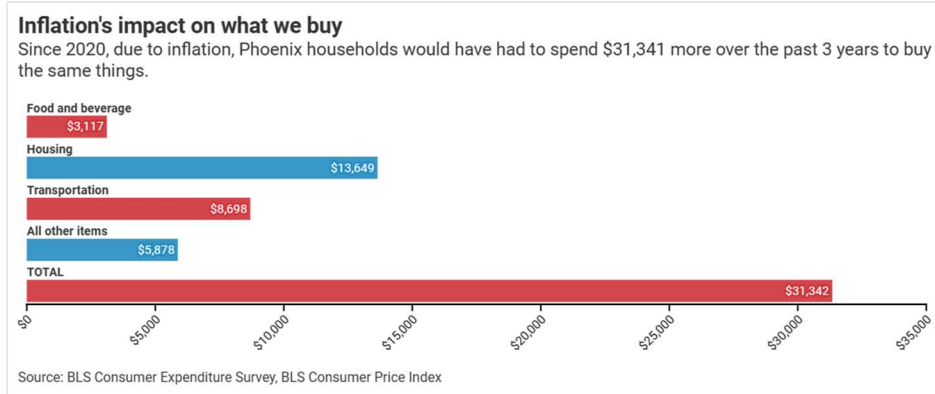
Prices in Metro Phoenix increased 0.7% (month-over-month) and increased +2.2% over the year (February '23 through February '24) - (BLS CPI Survey)

- This is a return to monthly price increases, after prices fell in December 2023. However, it would have taken 27 consecutive months of declining prices to return to the long-run 2% trend; ultimately the respite offered by one period of price decreases is fleeting. Since the end of 2020, the typical Arizona household has to spend a combined

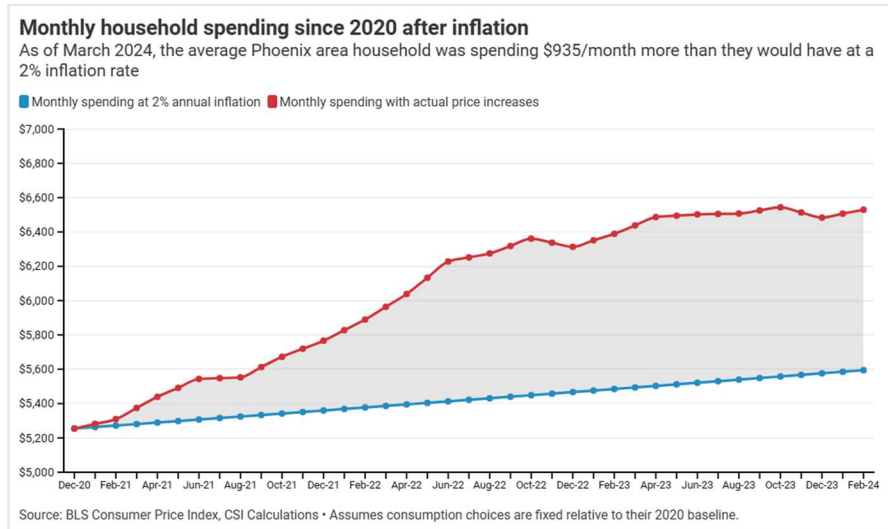


\$28,815 more on food, housing, transportation, medical care, and other goods and services to buy the same stuff as they were buying three years ago.

- **Had inflation instead run at 2%/year over the past three years, it would still cost the typical Arizona family over \$11,200/year more 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 (2.2%) remained lower than the national average (3.2%).
- Inflation excluding more volatile food and energy prices (so-called “core inflation”) is higher than overall CPI inflation at 2.5% in the Phoenix area.



- **Of the 23 urban consumer price indices tracked by the BLS in February, the Phoenix metro area had 3rd lowest rate of measured inflation (year-over-year)** – a steep drop from 2nd highest in April of 2023, and again highlighting the volatility of local prices since the pandemic.
- Slowing inflation means that real incomes in Arizona are rising again – over the past 12 months (January 2023 to January 2024), average hourly wages have risen 3.3%, while prices have increased only 2.2%. However, keeping in mind longer-term rising prices, **real wages in Arizona have fallen 7.3% since peaking in April 2020.**