

Alaska inflation slowed in 2023

After two high years, inflation rate drops to 1.5 percent

By GUNNAR SCHULTZ

Similar to the U.S., Alaska's inflation rate dropped considerably in 2023 after prices rose faster than usual in 2021 and 2022.

Costs in Urban Alaska's consumer price index,¹ Alaska's only inflation measure, rose 1.5 percent last year after jumping 4.9 percent in 2021 and 8.1 percent in 2022.

While the inflation rate fell in 2023, this does not mean that prices decreased, only that prices went up less than the year before. When the inflation rate falls, or price increases slow, it's called "disinflation." Deflation is when prices drop and inflation is negative — the outlier we saw in 2020.

The price level rises over time

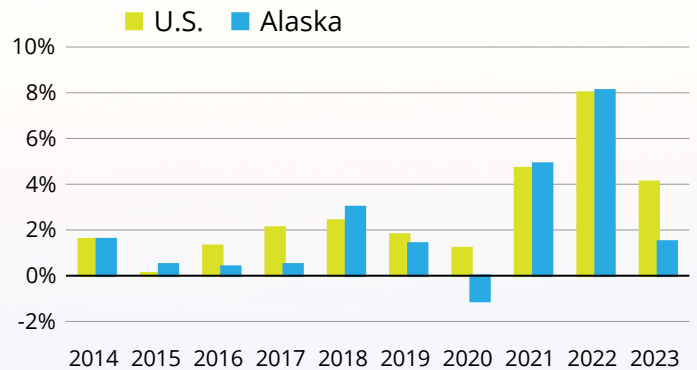
While prices in some categories did decrease last year, average prices, or "the price level," continued to rise, which is the norm. Overall prices rarely decrease from one year to the next.

The chart at the top of the next page shows how the price level in Alaska's consumer price index has increased over time relative to the base period, which is set at 100 and reflects average prices as measured from 1982 to 1984. The index value of about 260 for 2023 means that Urban Alaska's prices last year were 2.6 times higher than they were in 1982-84.

Except for 2020, when economic activity fell sharply, the price level in Urban Alaska has never declined from one year to the next, at least since 1962. That includes during other economic downturns, such as the state recessions in the late 1980s and late 2010s, and after past high inflation periods, including much of the 1970s and early 1980s as well as 1990 and 1991.

¹The CPI for Urban Alaska is measured in Anchorage and the Matanuska-Susitna Borough.

U.S. and Alaska inflation rates, 2014-23



Source: U.S. Bureau of Labor Statistics, consumer price indexes for the U.S. and Urban Alaska, CPI-U

As average prices go up over time, rather than rise in some years and fall in others, economies adjust to the new higher price levels. Wages, for example, go up to compensate for the decreases in purchasing power.

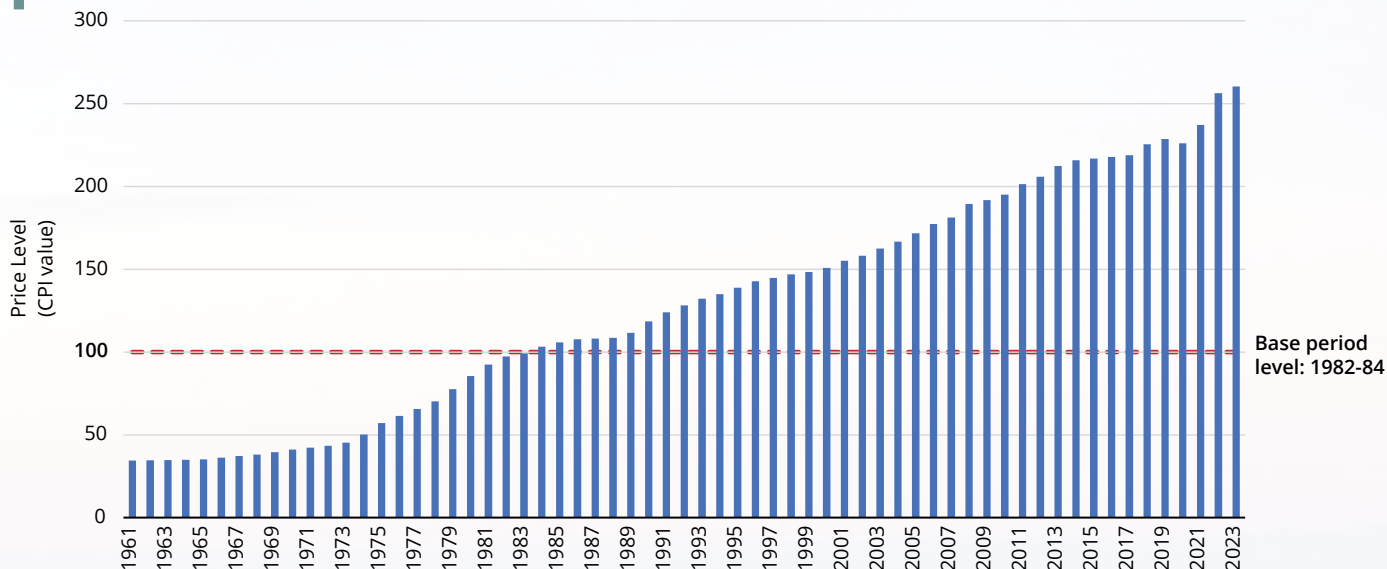
While people may be feeling sticker shock from how quickly prices shot up in 2021 and 2022, average wages rose by a similar amount in Alaska. Inflation only slightly outpaced average wage growth. Between 2019 and 2022, however, Urban Alaska's prices went up about 12 percent and wages grew 13 percent. (Wages for 2023 won't be available until later this year.)

Another reason for sticker shock may be that the jump followed Alaska's lowest decade of inflation on record, which ended in 2020. Urban Alaska prices increased almost as much from 2020 to 2023 as they did the entire preceding decade.

One value in 2022 skewed some of the numbers for this article

Before getting into the details of recent inflation, it's important to note that a data quality issue in

The overall price level* for Urban Alaska, 1961 to 2023



*The price level shows how much average prices in a given area have gone up since the base period. The base period is set at 100, which represents the price level from 1982-1984.

Source: U.S. Bureau of Labor Statistics, Consumer Price Index for Urban Alaska, CPI-U

Urban Alaska’s food-away-from-home category in June 2022 affected 2022 and 2023 inflation rates. The box on page 6 explains the problem in detail, but at its root was a temporary sharp increase in the food-away-from-home category that didn’t reflect actual price changes.

While this data issue was noteworthy and requires some explanation, especially where this article talks about food and beverages, in the end, it probably overstated Alaska’s annual rate by about one percentage point in 2022 and understated it by a similar amount in 2023.

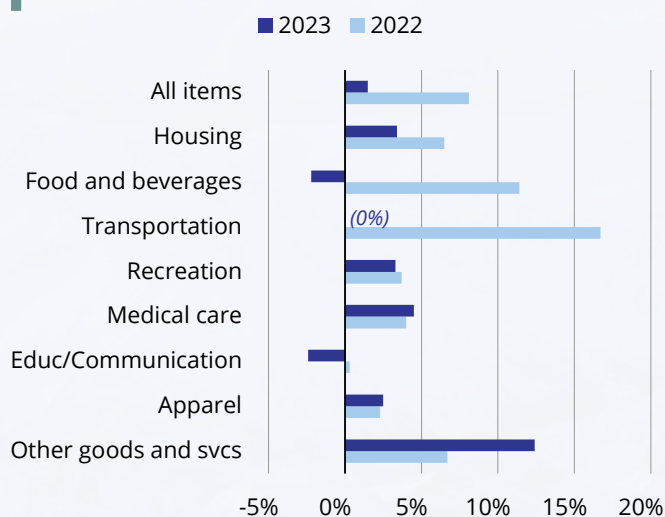
Groceries, transportation, and housing drove slower inflation

Alaska’s inflation rate eased throughout most of 2023, a slowing that began in late 2022. Prices in February 2023 were up 4.3 percent from the previous February but just 1.1 percent higher over the year in October and 1.8 percent in December.

The price level rose slower last year because of flat transportation costs and falling food and beverage prices as well as slower housing cost increases.

Transportation costs held steady in 2023 after jumping almost 17 percent for two years in a row.

Urban Alaska inflation by category



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for Urban Alaska, CPI-U

A data quality problem affected some Alaska numbers in 2022 and 2023

The U.S. Bureau of Labor Statistics builds consumer price indexes using weighted averages of the smaller indexes they contain, so one category's changes affect all the broader indexes it falls under.

Urban Alaska's CPI had a data collection and imputation issue in June 2022 that produced an artificially high index value in the food-away-from-home category for that month and for the year. Because food away from home falls under the broader food and beverages category, the anomaly also drove up the

values for that category and the overall CPI for June and 2022. Overstated 2022 index values led to overstated inflation rates in 2022 and understated rates in 2023 to varying degrees, with the June rate for the food-away-from-home category affected most.

It appears the errant value overstated Urban Alaska's 2022 inflation rate by about one percentage point, then understated 2023's rate by about the same amount and by more in the related categories, such as food and beverages.

Over that period, transportation prices rose faster than any of the seven other major cost categories in the CPI, and by a wide margin. Transportation costs also rose more in those two years than any other year on record, at least since 1972 when they were first measured.

Within the transportation category, the prices of gasoline and used cars and trucks both dropped after rising sharply in 2021 and 2022. New vehicle prices rose at a rate similar to 2022 (about 3 percent).

Food and beverage costs registered a decrease in 2023 after a record rise in 2022. Like transportation, food prices also rose more than overall inflation in 2021 and 2022.

Food inflation rates might have been lower by multiple percentage points in 2022 and correspondingly higher in 2023 had it not been for the data issue mentioned earlier (see the box above), but it's clear that food prices rose much faster than usual in 2022 and little if any in 2023, at least overall.

The cost of groceries, or "food at home," which accounts for about two-thirds of food and beverage costs and was not affected by the data problem, rose 7.5 percent in 2022. This was a bigger jump than any year since the late 1970s.

Grocery prices then fell in 2023 (-1.3 percent), driven by a significant drop in the meat, poultry, fish, and eggs category and smaller price decreases in the cereals and bakery products category and "other," which includes, snacks, candy, and butter/margarine. Inflation in every food-at-home category was down from 2022.

For food *away* from home, though, the months not affected by the data problem suggest that in

U.S., Alaska inflation by category

Expenditure category, 2023	U.S.	Alaska
All items	4.1%	1.5%
Housing	6.4%	3.4%
Food and beverages	5.7%	-2.2%
Transportation	0.2%	0%
Recreation	4%	3.3%
Medical care	0.5%	4.5%
Education and communication	1%	-2.4%
Apparel	2.8%	2.5%
Other goods and services	6.1%	12.4%

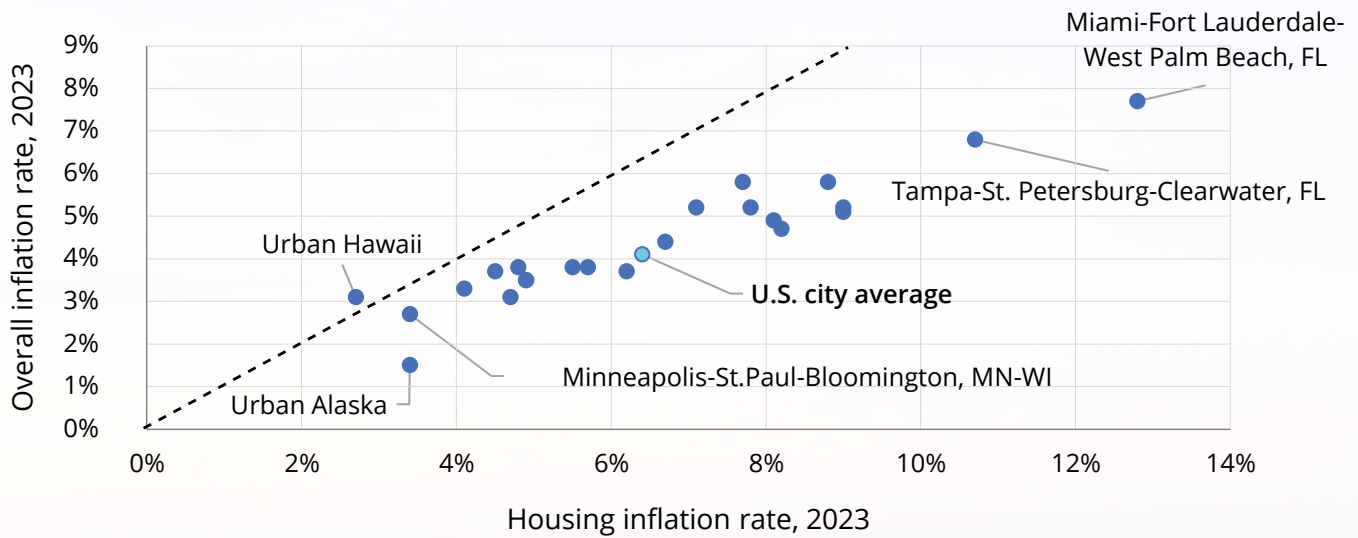
Source: U.S. Bureau of Labor Statistics, consumer price indexes for the U.S. and Urban Alaska, CPI-U

actuality, the cost of dining out increased more than usual in both 2022 and 2023. Compared to groceries, food away from home is more sensitive to changing labor costs in bars and restaurants.

In contrast, housing costs increased more than usual for the second year in a row, but at a slower pace. Housing costs in the CPI are based mostly on rents and a calculation for homeowners called "rental equivalencies."

The slowdown in housing inflation from 6.5 percent in 2022 to 3.4 percent was less pronounced than for the previous two categories, but because housing represents nearly 40 percent of Alaska's consumer price index, it also played a major role in lowering Urban Alaska's overall inflation rate last year.

On the other hand, housing's weight and continued price growth made it the single largest driver of inflation for 2023. If we exclude "shelter" (which is the lion's share of housing costs) from 2023's calculations, the remainder of the index shows total inflation of just a few tenths of a percentage point.



Overall and housing inflation rates for U.S. and metro areas, 2023

Source: U.S. Bureau of Labor Statistics consumer prices for U.S. metro areas and the U.S.

Metro area	Overall inflation	Housing inflation
Miami-Fort Lauderdale-West Palm Beach, FL	7.7%	12.8%
Tampa-St. Petersburg-Clearwater, FL	6.8%	10.7%
Seattle-Tacoma-Bellevue, WA	5.8%	7.7%
Detroit-Warren-Dearborn, MI	5.8%	8.8%
Dallas-Fort Worth-Arlington, TX	5.2%	7.1%
Phoenix-Mesa-Scottsdale, AZ	5.2%	9.0%
Denver-Aurora-Lakewood, CO	5.2%	7.8%
San Diego-Carlsbad, CA	5.1%	9.0%
Atlanta-Sandy Springs-Roswell, GA	4.9%	8.1%
Riverside-San Bernardino-Ontario, CA	4.7%	8.2%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	4.4%	6.7%
U.S. city average	4.1%	6.4%
New York-Newark-Jersey City, NY-NJ-PA	3.8%	4.8%
St. Louis, MO-IL	3.8%	5.5%
Baltimore-Columbia-Towson, MD	3.8%	5.7%
San Francisco-Oakland-Hayward, CA	3.7%	4.5%
Boston-Cambridge-Newton, MA-NH	3.7%	6.2%
Houston-The Woodlands-Sugar Land, TX	3.5%	4.9%
Los Angeles-Long Beach-Anaheim, CA	3.5%	4.9%
Chicago-Naperville-Elgin, IL-IN-WI	3.3%	4.1%
Wash.-Arlington-Alexandria, DC-VA-MD-WV	3.1%	4.7%
Urban Hawaii (Honolulu)	3.1%	2.7%
Minneapolis-St. Paul-Bloomington, MN-WI	2.7%	3.4%
Urban Alaska (Anchorage/Mat-Su)	1.5%	3.4%

Housing and food drove the gap between Alaska, U.S.

While U.S. and Alaska inflation rates both slowed in 2023 after reaching their highest points since the early 1980s, prices increased far less in Alaska last year (1.5 percent versus 4.1 percent nationally).

The gap would have been smaller if Alaska's rate hadn't been slightly understated in 2023, but it still would have been notable because housing and food costs rose faster nationally than in Urban Alaska.

Increased housing costs were also the single largest driver of national inflation in 2023, given housing's weight and the fact that U.S. housing inflation significantly outpaced overall inflation. In contrast to Alaska, though, U.S. housing inflation fell by less than one percentage point from 2022 and at 6.4 percent in 2023 was significantly higher than Alaska's 3.4 percent.

Prices for food and beverages, a category with less weight in the index, jumped almost 6 percent nationally but fell in Alaska (-2.2 percent). The gap would have again been smaller without the data quality issue in Alaska's index, perhaps by a few percentage points, but it didn't appear to be the main driver of the difference — it didn't affect the grocery category, where prices rose about 5 percent nationally while falling about 1 percent in Alaska.

While the reasons for this large difference aren't entirely clear, location may have been a factor if

Continued on page 18

INFLATION

Continued from page 7

lower fuel prices alleviated shipping costs more for remote places. Urban Alaska and Urban Hawaii had the two lowest inflation rates in 2023 for food at home.

Housing inflation also topped the overall rates in 21 of the 22 other metro consumer price indexes (Urban Hawaii was the exception) and was the biggest driver of differences in inflation rates across these areas. (See the exhibits on the previous page.)

Urban Alaska was at the low end of the inflation spectrum, ranking second-to-last for housing cost increases in 2023 (tied with Minneapolis) and lowest for overall inflation.

Like Urban Alaska, some of the other metro areas where housing costs rose less than they did nationally were in states that lost people to net migration in 2023, including New York, California, Hawaii, and Illinois.

In contrast, the two metro areas with the highest housing and overall inflation rates were both in Florida, which had the second-highest migration inflow in percent terms among states in 2023.

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POPULATION

Continued from page 13

of their growth came from migration. Their in-movers typically come from elsewhere in Alaska, especially from Anchorage, so these areas' gains usually come at the expense of other parts of the state.

Migration has been the main cause of recent population loss in rural areas. In the Northern and Southwest regions, natural increase has historically made up for net migration losses, but that hasn't been the case over the last few years. Within those regions, only the Northwest Arctic and Bristol Bay boroughs grew.

Rural areas' migration has turned increasingly negative so far this decade. From 2020 to 2023, the Northern Region lost more population to net migration (-1,900) than it had the entire previous decade (-1,400). The Southwest Region's net migration losses have also accelerated. Southwest lost 3,750 people to net migration from 2010 to 2020 and another 2,850 in just the last three years.

Within the Interior, the Denali Borough grew but Fairbanks' losses were steep enough to bring the entire region down. Fairbanks' population is still larger than it was in 2020, but it decreased in the few years that followed the boost from the F-35 transfer to Eielson Air Force Base. Before 2020, the Fairbanks North Star Borough's population had mostly been declining since 2012.

In Southeast, three boroughs grew in 2022-23 but the broader region shrunk through both net migration and natural decrease, or deaths outnumbering births. Juneau was the only Southeast area with more births than deaths.

This was the first time a region has recorded natural decrease. Southeast is considerably older than the rest of the state, though, so natural decrease likely won't happen to another region any time soon.

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