The Cost of Living in Alaska

By Neal Fried and Dan Robinson, Economists

A hot topic gets a little hotter

Few economic topics generate as much consistent interest in Alaska as the state's high cost of living. For all its resource wealth, Alaska's relatively small population depends on outside sources for most of its consumer goods, and the state's remoteness creates extra costs.

Interest in the cost of living has grown even more acute in the last few years as energy prices have skyrocketed and food prices have climbed. This annual article on the cost of living in Alaska will look at the most current information available from a variety of measures and surveys in an attempt to give multiple perspectives on this high-profile topic.

Two ways to look at the cost of living

There are two basic ways to look at the cost of living. One is to consider the changes in prices over time. For that, the Consumer Price Index[1] is the authoritative source. It's popularly referred to as the inflation rate and is often used to adjust salaries and rents, among other things, so they keep pace with inflation.

The other way to measure the cost of living is to compare the costs of different locations during the same time period. This is the type of information that helps a person trying to decide whether it makes economic sense to relocate from one city to another or a company trying to equalize wages for employees in different cities. There are a variety of these types of measures available.

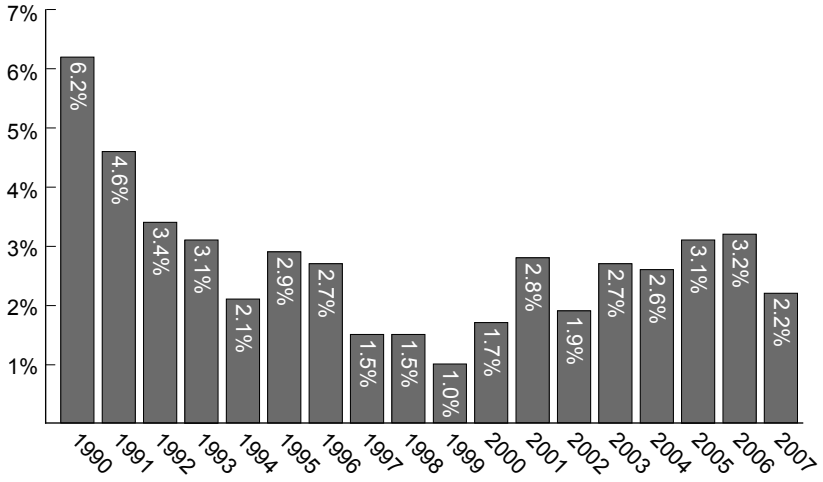
A surprisingly low inflation rate in 2007

The Anchorage CPI rose 2.2 percent in 2007 – the lowest annual increase since 2002 and below the nation's annual rate of 2.8 percent. (See Exhibits 1 and 2.) Given all the recent news of rising food and energy prices, the lower inflation numbers were greeted with surprise and, in some cases, skepticism.

To understand what is moving Anchorage's overall index it helps to look at the separate components' weights and their price increases or decreases. (See Exhibits 3 and 4.) The weights, which are adjusted every two years based on consumer expenditure surveys, represent the percentages of total consumer spending that the average household is estimated to spend on each category.

Housing costs rose 2.7 percent in 2007 compared to 4.0 percent in 2006, which partly ex-

1 Lower Inflation for Anchorage in 2007
Anchorage Consumer Price Index, 1990 to 2007



Source: U.S. Department of Labor, Bureau of Labor Statistics

[1] All references to the CPI in this article are to the CPI-U (Consumer Price Index for all Urban Consumers), produced by the U.S. Department of Labor's Bureau of Labor Statistics.

plains 2007's lower overall CPI, especially given housing's large weight – about 40 percent of total consumer spending. The next most heavily weighted component, transportation, rose just 1.2 percent in 2007 compared to 4.0 percent in 2006.

Food and beverage costs, on the other hand, rose 4.6 percent in 2007, the largest increase since 1995. Recreation and apparel costs actually fell in 2007 and medical costs rose just 3.0 percent after years of much higher increases.

High profile increases in energy and fuel costs

Despite the lower overall inflation rate, a few types of consumer expenditures rose dramatically and perhaps created a perception of higher general price increases. Most noticeable were the increases in energy costs, which include everything from gasoline to the cost of household utilities.

Natural gas prices were up 29.4 percent in 2007, and a 9.9 percent increase in the broad energy index marks four years in a row of price increases in the 10 percent range. A specific weight for energy costs is not calculated because the costs are part of both the housing and transportation components and included in the weights for those components.

Since 2003, energy prices have consistently increased from two to four times as much as the overall CPI and have been the most volatile category of consumer expenditures. Although medical costs still stand out as the component with the largest total increases since the 1982 to 1984 base period, during the last eight years energy costs have increased 100 percent compared to a relatively mild 40 percent for medical costs. (See Exhibit 5.)

Paying more at the pump

Higher gas prices have been one of the most publicized economic stories over the last few years and something that most consumers have first-hand experience with. In 2007, the price of unleaded gasoline increased 6.5 percent in Anchorage and has continued to climb in 2008.

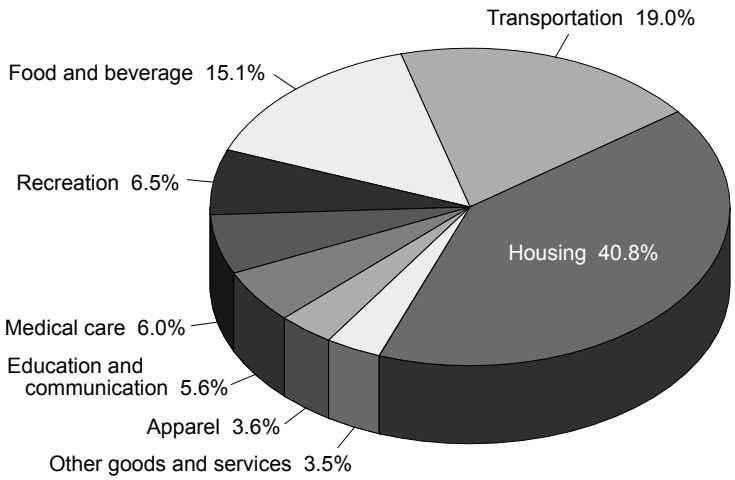
Comparing Alaska with the U.S. 2

Anchorage and U.S. CPI, 1960 to 2007

Year	Anchorage	Percentage Change from Previous Year	U.S.	Percentage Change from Previous Year
1960	34.0		29.6	
1961	34.5	1.5%	29.9	1.0%
1962	34.7	0.6%	30.2	1.0%
1963	34.8	0.3%	30.6	1.3%
1964	35.0	0.6%	31.0	1.3%
1965	35.3	0.9%	31.5	1.6%
1966	36.3	2.8%	32.4	2.9%
1967	37.2	2.5%	33.4	3.1%
1968	38.1	2.4%	34.8	4.2%
1969	39.6	3.9%	36.7	5.5%
1970	41.1	3.8%	38.8	5.7%
1971	42.3	2.9%	40.5	4.4%
1972	43.4	2.6%	41.8	3.2%
1973	45.3	4.4%	44.4	6.2%
1974	50.2	10.8%	49.3	11.0%
1975	57.1	13.7%	53.8	9.1%
1976	61.5	7.7%	56.9	5.8%
1977	65.6	6.7%	60.6	6.5%
1978	70.2	7.0%	65.2	7.6%
1979	77.6	10.5%	72.6	11.3%
1980	85.5	10.2%	82.4	13.5%
1981	92.4	8.1%	90.9	10.3%
1982	97.4	5.4%	96.5	6.2%
1983	99.2	1.8%	99.6	3.2%
1984	103.3	4.1%	103.9	4.3%
1985	105.8	2.4%	107.6	3.6%
1986	107.8	1.9%	109.6	1.9%
1987	108.2	0.4%	113.6	3.6%
1988	108.6	0.4%	118.3	4.1%
1989	111.7	2.9%	124.0	4.8%
1990	118.6	6.2%	130.7	5.4%
1991	124.0	4.6%	136.2	4.2%
1992	128.2	3.4%	140.3	3.0%
1993	132.2	3.1%	144.5	3.0%
1994	135.0	2.1%	148.2	2.6%
1995	138.9	2.9%	152.4	2.8%
1996	142.7	2.7%	156.9	3.0%
1997	144.8	1.5%	160.5	2.3%
1998	146.9	1.5%	163.0	1.6%
1999	148.4	1.0%	166.6	2.2%
2000	150.9	1.7%	172.2	3.4%
2001	155.2	2.8%	177.1	2.8%
2002	158.2	1.9%	179.9	1.6%
2003	162.5	2.7%	184.0	2.3%
2004	166.7	2.6%	188.9	2.7%
2005	171.8	3.1%	195.3	3.4%
2006	177.3	3.2%	201.6	3.2%
2007	181.237	2.2%	207.342	2.8%

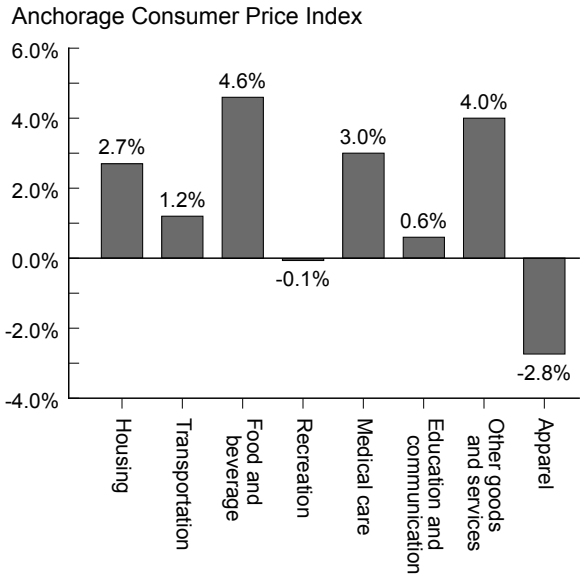
Notes: The base years are 1982 to 1984.
Beginning in 2007, the Bureau of Labor Statistics chose to display decimals to the thousandths so data could be more accurately rounded by users.
Source: U.S. Department of Labor, Bureau of Labor Statistics

3 Consumers Spend Most on Housing
CPI weighting, December 2007



Source: U.S. Department of Labor, Bureau of Labor Statistics

4 Behind the 2.2 Percent Increase
Increase by major CPI components, 2007



Source: U.S. Department of Labor, Bureau of Labor Statistics

One thing to remember, though, is that for most of the 1980s and 1990s, gas prices changed very little and were actually lower in 1999 than they were in the early 1980s. It was a long period of calm before the storm, as it turned out. Since 1999, gas prices have soared more than 120 percent and don't appear to be coming back down anytime soon.

When people see the prices at the pump increase so much and so quickly they can perhaps be forgiven for thinking inflation has gotten out of control in general, even though the dramatic increases have been limited to a few categories of consumer expenditures.

The CPI measures price increases for the "average" Anchorage consumer

Although the CPI is the most commonly used measure of inflation,[2] it has its limitations and detractors. The most common complaint is that the CPI doesn't reflect a person's own cost increases. "How can the CPI have gone up just 2.2 percent," people wonder, "when I keep very careful records and can document that my costs have gone up much more than that?"

Whether or not the CPI is an accurate measure of inflation, it's important to understand that it attempts to measure the price increases for the average consumer living in Anchorage, and that an individual's expenses can differ substantially from what is determined to be average.

To gather information on what constitutes the average consumer, the U.S. Department of Labor's Bureau of Labor Statistics conducts detailed surveys of consumers. Information gathered from the surveys determines the "market basket," or group of goods and services for which pricing information will be collected for each location. The surveys also determine the weight each category will have in the overall index, representing the percentage of the average household's total spending that goes to each.

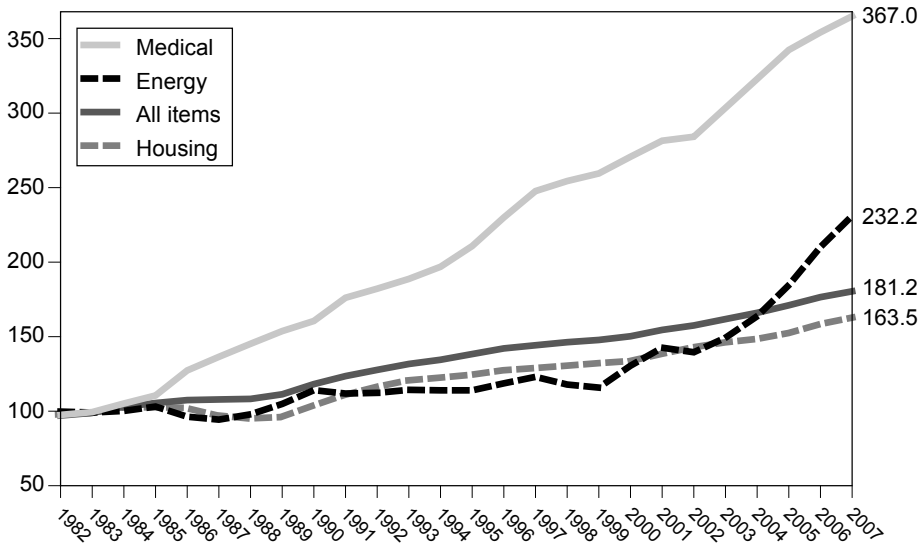
But inflation for a person who commuted a long distance and had a particularly big house to heat was considerably higher in 2007 than the CPI reflected because those items made up a larger share of that person's expenditures than they did for the average Anchorage consumer.

[2] By federal statute it directly affects the income of more than 80 million people including Social Security beneficiaries, food stamp recipients, military and federal government retirees and survivors, and workers with collective bargaining agreements that tie their wages to the CPI. It affects millions of additional people as the most commonly used measure to inflation-adjust wages, leases and rents, among other things.

On the other hand, a person who spent a larger than average share of his or her consumer dollars on clothing and walked everywhere he or she went probably saw lower than average personal inflation because clothing prices fell in 2007 and the increase in gas prices would have had little impact.

Health Care and Energy Costs Stand Out 5

Selected components of the Anchorage CPI



Source: U.S. Department of Labor, Bureau of Labor Statistics

Comparing the CPI for Anchorage and the U.S.

The main difference between the CPI calculated for Anchorage and that for the country as a whole is generally housing costs. With the exception of housing, the costs of the goods and services in the Anchorage and national market baskets are largely dictated by national or international trends and economic forces.

For example, price changes for gasoline, food, clothing and health care are generally responses to national and global market conditions rather than to anything happening locally.

But housing markets are significantly more affected by local conditions. From 1986 to 1988, for example, the Anchorage real estate market crashed and for three years in a row housing costs fell. Over that same period, national housing costs continued to rise.

Because of housing's dominant weight in the overall index, Anchorage's CPI increased by just 0.4 percent in 1987 and 1988 compared to 3.6 percent and 4.1 percent for the nation as a whole.

To look at consumer prices exclusive of the sometimes volatile housing market, the Bureau of Labor Statistics produces an index that excludes housing called the All Items Less Shelter Index. (See Exhibit 6.) This index shows smaller differences between Anchorage and the U.S than the broad all-items index.

Calculating housing CPI is more complicated

Although it might seem like calculating housing costs would be as simple as looking at housing prices or the amount of the average mortgage payment, it's a little more complicated than that since the Bureau of Labor Statistics changed its methodology in 1999. Since then, CPI housing costs have been based on estimates of the prices homeowners could charge if they rented their homes.

The Bureau of Labor Statistics made the change because it determined that the price people pay for their homes is a combination of a consumer expense for actual shelter and also an expense more appropriately characterized as an investment. Investments are specifically excluded from the CPI so the owner-equivalent rent method was implemented to exclude that portion of housing expenses.

This method of calculating housing costs explains why the housing index for both Anchorage and the U.S. increased at a rate well below actual home prices during the early part of the 2000s when real estate was a hot investment and prices were driven up. It also explains why the housing CPI continued to increase even after home prices in much of the country declined in 2007.

The rental value of an owned home isn't easily determined and can't be easily verified so the housing index garners a lot of attention from

6 Selected Components of the CPI-U, U.S. and Anchorage
Annual averages, 1983 to 2007

	ALL ITEMS EXCEPT SHELTER				HOUSING				TRANSPORTATION			
Year	U.S.	Percentage Change from Previous Year	Anchorage	Percentage Change from Previous Year	U.S.	Percentage Change from Previous Year	Anchorage	Percentage Change from Previous Year	U.S.	Percentage Change from Previous Year	Anchorage	Percentage Change from Previous Year
1983	99.8	3.7%	99.9	3.7%	99.5	2.7%	99.0	0.8%	99.3	2.4%	98.5	1.8%
1984	103.9	4.1%	103.8	3.9%	103.6	4.1%	102.7	3.7%	103.7	4.4%	104.6	6.2%
1985	107.0	3.0%	107.5	3.6%	107.7	4.0%	103.0	0.3%	106.4	2.6%	108.2	3.4%
1986	108.0	0.9%	111.2	3.4%	110.9	3.0%	102.6	-0.4%	102.3	-3.9%	107.8	-0.4%
1987	111.6	3.3%	115.1	3.5%	114.2	3.0%	97.5	-5.0%	105.4	3.0%	111.3	3.2%
1988	115.9	3.9%	117.8	2.3%	118.5	3.8%	95.4	-2.2%	108.7	3.1%	113.0	1.5%
1989	121.6	4.9%	122.3	3.8%	123.0	3.8%	96.3	0.9%	114.1	5.0%	116.7	3.3%
1990	128.2	5.4%	128.0	4.7%	128.5	4.5%	103.9	7.9%	120.5	5.6%	120.7	3.4%
1991	133.5	4.1%	131.9	3.0%	133.6	4.0%	111.2	7.0%	123.8	2.7%	121.7	0.8%
1992	137.3	2.8%	134.6	2.0%	137.5	2.9%	116.6	4.9%	126.5	2.2%	123.3	1.3%
1993	141.4	3.0%	137.9	2.5%	141.2	2.7%	121.1	3.9%	130.4	3.1%	128.8	4.5%
1994	144.8	2.4%	140.3	1.7%	144.8	2.5%	122.9	1.5%	134.3	3.0%	136.9	6.3%
1995	148.6	2.6%	144.6	3.1%	148.5	2.6%	124.9	1.6%	139.1	3.6%	143.8	5.0%
1996	152.8	2.8%	148.4	2.6%	152.8	2.9%	127.9	2.4%	143.0	2.8%	147.2	2.4%
1997	155.9	2.0%	150.6	1.5%	156.8	2.6%	129.4	1.2%	144.3	0.9%	147.0	-0.1%
1998	157.2	0.8%	152.6	1.3%	160.4	2.3%	131.0	1.2%	141.6	-1.9%	144.9	-1.4%
1999	160.2	1.9%	153.5	0.6%	163.9	2.2%	132.7	1.3%	144.4	2.0%	143.7	-0.8%
2000	165.7	3.4%	156.1	1.7%	169.6	3.5%	134.2	1.1%	153.3	6.2%	150.5	4.7%
2001	169.7	2.4%	160.6	2.9%	176.4	4.0%	139.0	3.6%	154.3	0.7%	153.0	1.7%
2002	170.8	0.6%	162.2	1.0%	180.3	2.2%	143.5	3.2%	152.9	-1.0%	151.5	-1.0%
2003	174.6	2.2%	166.5	2.7%	184.8	2.5%	146.8	2.3%	157.6	3.1%	158.3	4.5%
2004	179.3	2.7%	171.7	3.1%	189.5	2.5%	149.1	1.6%	163.1	3.5%	162.7	2.8%
2005	186.1	3.8%	177.5	3.4%	195.7	3.3%	153.1	2.7%	173.9	6.6%	171.7	5.5%
2006	191.9	3.1%	182.9	3.0%	203.2	3.8%	159.2	4.0%	180.9	4.0%	178.6	4.0%
2007	196.639	2.5%	187.664	2.6%	209.586	3.1%	163.467	2.7%	184.682	2.1%	180.744	1.2%

	FOOD and BEVERAGES				MEDICAL CARE[1]				ENERGY			
Year	U.S.	Percentage Change from Previous Year	Anchorage	Percentage Change from Previous Year	U.S.	Percentage Change from Previous Year	Anchorage	Percentage Change from Previous Year	U.S.	Percentage Change from Previous Year	Anchorage	Percentage Change from Previous Year
1983	99.5	2.3%	99.7	2.6%	100.6	8.8%	99.7	5.2%	99.9	0.7%	99.4	-0.1%
1984	103.2	3.7%	103.2	3.5%	106.8	6.2%	105.5	5.8%	100.9	1.0%	100.5	1.1%
1985	105.6	2.3%	106.2	2.9%	113.5	6.3%	110.9	5.1%	101.6	0.7%	103.4	2.9%
1986	109.1	3.3%	110.8	4.3%	122.0	7.5%	127.8	15.2%	88.2	-13.2%	96.6	-6.6%
1987	113.5	4.0%	113.1	2.1%	130.1	6.6%	137.0	7.2%	88.6	0.5%	94.6	-2.1%
1988	118.2	4.1%	113.8	0.6%	138.6	6.5%	145.8	6.4%	89.3	0.8%	98.2	3.8%
1989	124.9	5.7%	117.2	3.0%	149.3	7.7%	154.4	5.9%	94.3	5.6%	105.2	7.1%
1990	132.1	5.8%	123.7	5.5%	162.8	9.0%	161.2	4.4%	102.1	8.3%	114.5	8.8%
1991	136.8	3.6%	127.7	3.2%	177.0	8.7%	173.5	7.6%	102.5	0.4%	112.2	-2.0%
1992	138.7	1.4%	130.3	2.0%	190.1	7.4%	183.0	5.5%	103.0	0.5%	112.7	0.4%
1993	141.6	2.1%	131.2	0.7%	201.4	5.9%	189.6	3.6%	104.2	1.2%	114.7	1.8%
1994	144.9	2.3%	131.9	0.5%	211.0	4.8%	197.8	4.3%	104.6	0.4%	114.4	-0.3%
1995	148.9	2.8%	138.5	5.0%	220.5	4.5%	211.6	7.0%	105.2	0.6%	114.4	0.0%
1996	153.7	3.2%	143.4	3.5%	228.2	3.5%	231.1	9.2%	110.1	4.7%	119.1	4.1%
1997	157.7	2.6%	145.8	1.7%	234.6	2.8%	248.9	7.7%	111.5	1.3%	123.5	3.7%
1998	161.1	2.2%	147.3	1.0%	242.1	3.2%	255.7	2.7%	102.9	-7.7%	118.3	-4.2%
1999	164.6	2.2%	148.4	0.7%	250.6	3.5%	260.8	2.0%	106.6	3.6%	116.2	-1.8%
2000	168.4	2.3%	151.7	2.2%	260.8	4.1%	272.1	4.3%	124.6	16.9%	131.0	12.7%
2001	173.6	3.1%	156.4	3.1%	272.8	4.6%	282.9	4.0%	129.3	3.8%	143.2	9.3%
2002	176.8	1.8%	157.9	1.0%	285.6	4.7%	------	------	121.7	-5.9%	140.1	-2.2%
2003	180.5	2.1%	161.8	2.5%	297.1	4.0%	------	------	136.5	12.2%	149.9	7.0%
2004	186.6	3.4%	168.9	4.4%	310.1	4.4%	------	------	151.4	10.9%	164.4	9.7%
2005	191.2	2.5%	173.1	2.5%	323.2	4.2%	344.2	------	177.1	17.0%	185.4	12.8%
2006	195.7	2.4%	176.2	1.8%	336.2	4.0%	356.1	3.5%	196.9	11.2%	211.2	13.9%
2007	203.300	3.9%	184.224	4.6%	351.054	4.4%	366.953	3.0%	207.723	5.5%	232.191	9.9%

Note: Beginning in 2007, the Bureau of Labor Statistics chose to display decimals to the thousandths so data could be more accurately rounded by users.
[1] No index was created for medical care for Anchorage from 2002 to 2004.
Source: U.S. Department of Labor, Bureau of Labor Statistics

critics and those trying to understand what's behind changes to the overall CPI.

What's more, there's an especially wide range of dollar amounts that consumers spend on housing, making it more likely that a person's individual expenses will differ from the calculated average.

Some people have paid off their home loans and pay only property taxes and maintenance costs, neither of which are likely to change significantly with the vagaries of housing markets. Others spend very little on housing because they live with parents or other relatives. On the other end of the spectrum, new homeowners can pay large monthly mortgage payments and see increases far in excess of those represented by the CPI.

Where is inflation headed?

Whether inflation will stay low is impossible to predict with any certainty, but it appears unlikely. Most forecasts for U.S. inflation are generally higher, due to the current trends in both energy and food costs, and in three out of the first four months of 2008[3] the national CPI has been up at least 4 percent over the year.

The higher national inflation has been driven largely by rising energy and food prices, increases Anchorage is unlikely to escape. Consultants for the Alaska Permanent Fund Corporation, which uses the CPI to make sure the principal of the Permanent Fund keeps up with inflation, have forecasted a 2.8 percent U.S. inflation rate for the next five years.[4] Anchorage data for the first half of 2008 will be released in late July.

Alaska Cities Generally More Expensive 7

ACCRA[1] cost of living index, first quarter 2008

	All Items Index Costs	Grocery Items	Housing	Utilities	Transportation	Health Care	Miscellaneous Goods and Services
Anchorage	126.6	142.7	138.0	109.8	102.7	125.3	123.2
Fairbanks	133.3	125.7	149.1	170.6	108.2	139.8	117.9
Kodiak	123.4	148.5	116.3	144.7	115.3	128.8	115.8
West							
Portland, Ore.	119.9	108.2	138.9	101.3	109.4	105.5	117.9
Honolulu	165.3	164.0	249.1	138.5	117.1	109.8	120.5
San Francisco	173.6	131.4	292.7	96.6	114.5	118.6	131.1
Las Vegas	110.6	99.0	136.7	99.5	101.4	104.7	98.3
Southwest/Mountain							
Cedar City, Utah	91.7	95.6	89.6	82.4	96.0	88.6	93.8
Phoenix	101.6	103.8	101.0	94.7	98.7	99.0	104.7
Denver	105.1	104.7	111.4	103.4	92.8	104.0	104.2
Dallas	91.9	100.6	72.1	99.1	100.6	103.0	100.0
Midwest							
Minneapolis	109.3	124.4	117.7	105.4	96.8	104.2	101.8
Cleveland	95.1	100.5	84.5	101.0	101.7	104.0	97.7
Chicago	111.5	107.9	129.0	118.0	109.2	103.3	96.9
Southeast							
Orlando, Fla.	102.1	106.5	93.5	102.1	105.5	95.2	108.1
Mobile, Ala.	93.6	104.1	76.1	105.7	96.4	88.4	101.7
Atlanta	97.6	96.4	94.0	90.3	105.0	103.6	100.3
Atlantic/New England							
New York (Manhattan)	218.8	141.0	404.9	150.1	124.8	129.1	142.0
Boston	134.0	121.6	160.5	130.4	108.5	136.2	123.8
Philadelphia	122.6	126.5	140.6	118.5	105.2	108.6	113.3

Note: Index numbers represent a comparison to the average for all cities for which ACCRA volunteers collected data.

[1] The ACCRA Cost of Living Index was originally produced by the American Chamber of Commerce Researchers Association. It's now produced by The Council for Community and Economic Research. The focus of the index, which has been published since 1968, is on professional and managerial households with incomes in the top 20 percent for the area.

Source: ACCRA Cost of Living Index

The CPI can't be used for geographic comparisons

The CPI gives the most authoritative answer to how much prices are rising over time in a particular location, but it is not designed to say whether one location is more expensive than another. Index numbers for the U.S. CPI are higher than they are for Anchorage, but that only means that prices have increased more nationally than they have for Anchorage since the 1982-1984 base period (when the index was set at 100).

Studies and surveys designed to compare the cost of living in different locations continue to

[3] The national CPI is produced every month. Monthly CPI data are also available for the nation's four Census regions (Northeast, Midwest, South and West) and for three major metropolitan areas. Data for 11 metropolitan areas are published every other month. Anchorage is in a group of 13 smaller metropolitan areas for which data are published every six months.

[4] The forecast comes from the investment consulting firm, Callan Associates.

8 Low-Income Households Come Closer to Average
Runzheimer Plan of Living Cost Standards, February 2008

	Total Costs	Percent of Standard City	Taxation	Percent of Standard City	Trans-portation	Percent of Standard City	Housing	Percent of Standard City	Miscel-laneous Goods and Services	Percent of Standard City
Alaska Composite	$39,417	123.2%	$2,448	80.5%	$4,749	113.6%	$24,498	136.7%	$7,722	112.6%
Anchorage	$41,522	129.8%	$2,448	80.5%	$4,934	118.0%	$26,471	147.7%	$7,669	111.8%
Fairbanks	$35,112	109.7%	$2,448	80.5%	$4,714	112.8%	$20,351	113.6%	$7,599	110.8%
Juneau	$41,616	130.1%	$2,448	80.5%	$4,599	110.0%	$26,672	148.9%	$7,897	115.1%
West										
Bellingham, Wash.	$35,414	110.7%	$2,448	80.5%	$4,514	108.0%	$20,994	117.2%	$7,458	108.7%
Bend, Ore.	$38,237	119.5%	$2,723	89.5%	$4,205	100.6%	$24,635	137.5%	$6,674	97.3%
Honolulu	$57,071	178.3%	$2,448	80.5%	$5,240	125.4%	$40,689	227.1%	$8,694	126.7%
Lancaster, Calif.	$37,149	116.1%	$2,448	80.5%	$4,865	116.4%	$21,686	121.0%	$8,150	118.8%
Los Angeles	$62,636	195.7%	$2,448	80.5%	$6,132	146.7%	$45,824	255.7%	$8,232	120.0%
Reno, Nev.	$37,879	118.4%	$2,448	80.5%	$4,632	110.8%	$23,380	130.5%	$7,419	108.1%
Southwest/Mountain										
El Paso, Texas	$29,894	93.4%	$2,448	80.5%	$4,377	104.7%	$16,443	91.8%	$6,626	96.6%
Fort Collins, Colo.	$31,446	98.3%	$2,736	89.9%	$4,507	107.8%	$17,645	98.5%	$6,558	95.6%
Lake Havasu City, Ariz.	$34,868	109.0%	$2,610	85.8%	$4,479	107.2%	$20,667	115.3%	$7,112	103.7%
Pinehurst, Idaho	$27,367	85.5%	$2,674	87.9%	$4,182	100.0%	$14,356	80.1%	$6,155	89.7%
Salt Lake City	$32,033	100.1%	$2,808	92.3%	$4,442	106.3%	$18,294	102.1%	$6,489	94.6%
Midwest										
Highland, Mich.	$34,043	106.4%	$2,448	80.5%	$5,394	129.0%	$19,118	106.7%	$7,083	103.3%
Rapid City, S.D.	$26,398	82.5%	$2,448	80.5%	$4,182	100.0%	$13,607	75.9%	$6,161	89.8%
Shawnee, Okla.	$24,988	78.1%	$3,181	104.6%	$4,414	105.6%	$10,960	61.2%	$6,433	93.8%
Verndale, Minn.	$30,176	94.3%	$2,448	80.5%	$4,605	110.2%	$16,416	91.6%	$6,707	97.8%
Southeast										
Augusta, Ga.	$24,178	75.6%	$3,033	99.7%	$4,650	111.2%	$10,175	56.8%	$6,320	92.1%
Columbia, S.C.	$26,042	81.4%	$2,625	86.3%	$4,280	102.4%	$12,747	71.1%	$6,390	93.1%
Cape Coral, Fla.	$38,415	120.0%	$2,448	80.5%	$4,554	108.9%	$24,508	136.8%	$6,905	100.7%
Hessmer, La.	$26,616	83.2%	$3,036	99.8%	$4,869	116.5%	$12,057	67.3%	$6,654	97.0%
Atlantic/New England										
Fairfax, Va.	$44,941	140.4%	$2,603	85.6%	$4,645	111.1%	$30,162	168.3%	$7,531	109.8%
New York	$55,946	174.8%	$2,463	81.0%	$5,441	130.2%	$39,278	219.2%	$8,764	127.8%
Egg Harbor City, N.J.	$45,423	141.9%	$2,743	90.2%	$5,272	126.1%	$30,547	170.5%	$6,861	100.0%

Note: This exhibit shows how much more or less it would cost for a family of four to live in different cities while maintaining the same standard of living.
Source: Runzheimer International, Runzheimer's Living Cost Index*, February 2008*

show that it generally costs a little extra to live in Alaska – and in some cases more than just a little.

ACCRA index says Alaska cities cost more

Every quarter the ACCRA[5] Cost of Living Index provides comparisons of living costs for about 300 urban areas in the United States. ACCRA's focus is on professional and managerial households with incomes in the top 20 percent for the area and is often used by companies trying to equalize pay for their employees in different locations.

[5] The ACCRA Cost of Living Index was originally produced by the American Chamber of Commerce Researchers Association. It's now produced by The Council for Community and Economic Research, but the index's name hasn't been changed.

The data used in the ACCRA index are collected in each city by organizations that volunteer for the task. As a result, there is more room for error than in some surveys and ACCRA encourages users not to use the percentage differences produced by the index as exact measures.

The most recent ACCRA data include three Alaska cities – Anchorage, Fairbanks and Kodiak – and indicate that all three are at least 23 percent more expensive than the average city in the index. (See Exhibit 7.) Until recently, Juneau was regularly included in the index and was generally the most expensive of the Alaska cities studied.

The three Alaska cities are more expensive than average in every category – groceries, housing,

utilities, transportation, health care, and miscellaneous goods and services. Housing costs for the Alaska cities are noticeably lower, however, than in some parts of the country. For example, ACCRA housing costs are much higher for San Francisco, Honolulu and Manhattan.

Although housing prices rose dramatically in Alaska during the 1990s and early 2000s, they were also rising nearly everywhere else, and Alaska's increases were mild compared to coastal California and a few other parts of the country.

Lower-income households also face higher costs

The Runzheimer Plan of Living Cost Standards compares living costs at the other end of the income spectrum.[6] Runzheimer data are designed to show how much more or less it would cost for a family of four to live in different cities while maintaining the same standard of living.

According to Runzheimer, the household would need more than $41,000 to maintain the same standard of living in Anchorage or Juneau as it could with income of $32,000 in the standard U.S. city. (See Exhibit 8.) Fairbanks' costs at this relatively low level of income would be considerably less – about $35,000.

The one advantage Alaska households have over the standard U.S. city, according to the Runzheimer data, is in a lower than average tax burden. In all the other Runzheimer categories, the Alaska cities are more expensive.

Cost of food varies widely in Alaska

Transportation costs are one of the main reasons Alaska's cost of living is higher than other states'. Getting things to Alaska is a little more expensive to start with, and then distributing them further over a large geographic area to small population clusters creates additional expense. Food costs are a good example of transportation's effect on living costs.

[6] The Alaska Department of Labor's Workers' Compensation Division contracts with Runzheimer International to survey costs in specific cities in order to equalize workers' compensation payments.

Rural Alaskans Pay More 9
Food, heating oil and gasoline, March 2008

	Food at Home for a Week[1]	One Gallon Heating Oil	One Gallon Gasoline
Anchorage	$134.05	--	--
Barrow	$288.57	--	$4.45
Bethel	$237.67	$4.75	$4.84
Cordova	$197.41	$4.76	$4.43
Delta	$153.30	$3.57	$3.41
Fairbanks	$127.59	$3.69	$3.24
Glennallen	$162.57	$3.71	$3.59
Homer	$171.46	$4.10	$3.82
Juneau	$141.12	$4.03	$3.49
Kenai	$142.02	--	$3.59
Ketchikan	$142.18	$3.89	$3.47
King Salmon	$266.85	$4.04	$4.29
Kodiak	$177.65	$4.18	$3.94
Kotzebue	$261.73	$4.45	$5.50
Mat-Su	$118.64	$3.65	$3.36
Nome	$223.48	$3.80	--
Portland, Ore.	$103.68	$4.43	$3.33
Seward	$174.90	$3.82	$3.75
Sitka	$162.22	$3.81	$3.56

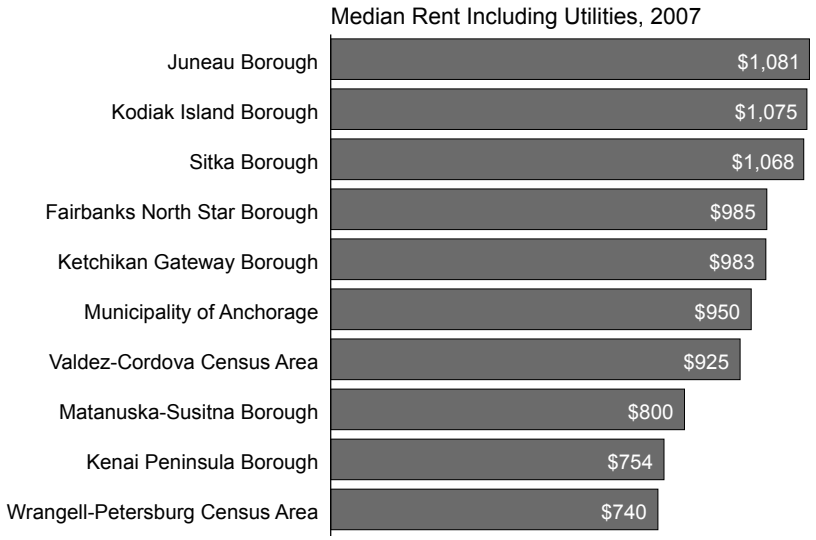
[1] The weekly cost for a family of four with children ages 6 to 11.
Source: University of Alaska Fairbanks, Cooperative Extension Service

Rural Alaska Pays Fuel Premium 10
Fuel price survey, November 2007

Selected Communities[1]	One Gallon Heating Oil	One Gallon Gasoline	Method of Transportation
Arctic Village	$9.00	$7.00	Air
Hughes	$7.50	$6.00	Air
Nondalton	$6.15	$6.13	Air
Hooper Bay	$5.05	$5.32	Barge
Emmonak	$4.85	$5.91	Barge
Gambell	$4.75	$5.85	Barge
Russian Mission	$4.75	$5.52	Barge
Akiak	$4.60	$5.00	Barge
Huslia	$4.50	$5.00	Barge
Brevig Mission	$4.45	$5.10	Barge
Dillingham	$4.24	$4.96	Barge
Kotzebue	$4.20	$4.36	Barge
Hoonah	$4.18	$3.80	Barge
Nelson Lagoon	$4.12	$4.82	Barge
Port Lions	$3.70	$4.00	Barge
Petersburg	$3.67	$3.41	Barge
Unalaska	$3.49	$3.27	Barge
Juneau	$3.48	$3.31	Barge
Nenana	$3.43	$3.51	Truck
Homer	$3.42	$3.35	Barge/Truck
Chenega	$3.30	$3.70	Barge
Delta Junction	$3.29	$3.24	Truck
Kodiak	$3.28	$3.49	Barge
Valdez	$3.25	$3.33	Refinery/Barge
Fairbanks	$3.20	$3.10	Refinery/Truck
Atqasuk[2]	$1.40	$4.10	Barge/Air
Barrow[3]	--	$4.45	Barge

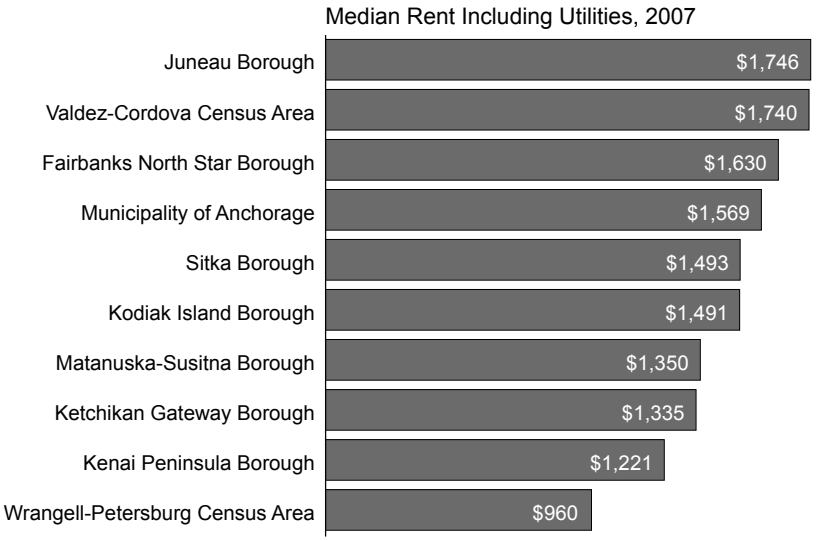
[1] The full report includes 100 Alaska communities.
[2] The North Slope Borough subsizes heating fuel prices in Atqasuk and all other communities in the borough.
[3] Barrow uses natural gas for heating.
Source: Department of Commerce, Community and Economic Development, Current Community Conditions: Fuel Prices Across Alaska, November 2007 Update. *Data for 2008 will be available in August.*

11 Rent for a Two-Bedroom Apartment
Costs are highest in Juneau and Kodiak



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, 2007 Rental Market Survey

12 Rent for a Single-Family Home
Wrangell-Petersburg pays the least



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, 2007 Rental Market Survey

Four times a year, the University of Alaska Fairbanks' Cooperative Extension Service surveys a long list of Alaska communities and Portland, Ore., to compare the costs of food. The price comparisons are made on a low-expense combination of food items that still meets the minimum recommended levels of nutrition.

The survey also gathers information on heating oil and gasoline costs.

The food cost survey is especially useful because it covers so many different communities. For many of the smaller ones it is the only source of price comparison data. Its use is limited as a broad cost-of-living measure, however, because it does not include data on housing or consumer costs other than food and energy.

The food cost survey uses an identical market basket for all the communities covered, even though there may be significant differences between the food items actually consumed.[7] The survey includes data on grocery items shipped to rural areas from urban merchants, but does not try to account for food imported as baggage or private cargo. It also does not make any adjustments for subsistence-harvested food.

Data from the March 2008 survey reveal that, within Alaska, food costs were lowest in the Mat-Su Borough and highest in Barrow. (See Exhibit 9.) Every Alaska city in the survey had higher costs than Portland's $103.68.

Food costs were highest in areas served by air and seasonally by barge. Cities in this category include Barrow, Bethel, Nome, King Salmon and Kotzebue. Food and energy costs would most likely be even higher in the surrounding villages, nearly all of which are not connected by any kind of road system and are heavily dependent on air transport.

In the next highest tier of costs are small cities served by either roads or the Alaska Marine Highway. Examples include Cordova, Kodiak, Seward and Homer. The least expensive Alaska cities are generally the ones with the largest populations and most convenient transportation access.

Although the survey is not designed to be a time series, the Cooperative Extension Service noted that after several years of relatively stable

[7] Comparing prices using an individual market basket for each community would be significantly more complicated and labor intensive.

prices in Anchorage, food prices increased 10 percent during the first three months of 2008. For the first time in years, food costs have become a hot economic issue.

Gas at $7 per gallon in Arctic Village

Since 2005 the Alaska Department of Commerce, Community and Economic Development has conducted a semi-annual survey of fuel prices in 100 communities around the state. (See Exhibit 10.) Those wholly dependent on air transportation for their supplies paid the highest prices for both heating oil and gasoline, with Arctic Village – a community of less than 200 people located about 300 miles north of Fairbanks – topping the list. With few exceptions, Alaska's smaller and more remote communities pay higher fuel prices.

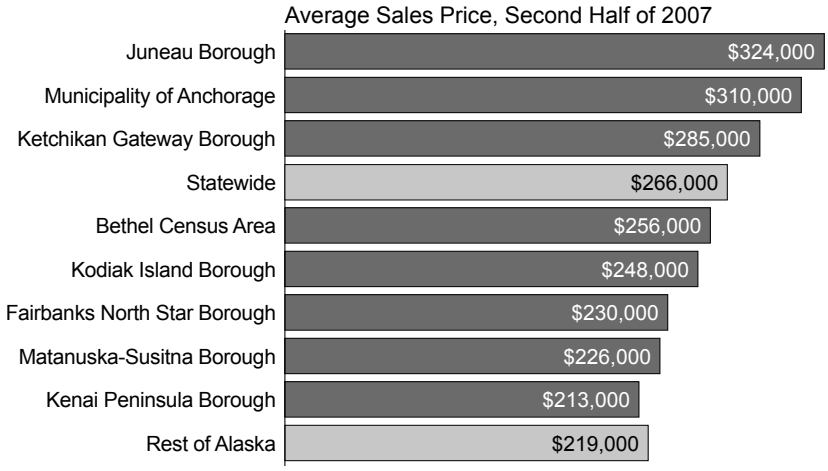
The University of Alaska Anchorage's Institute of Social and Economic Research recently examined the factors that determine the price of fuel for rural Alaska communities.[8] The study concluded that more than anything else, the variation between fuel costs in different Alaska communities was due to the transportation costs.

For example, False Pass, a small village in the Aleutian Island chain, pays just $2.90 for a gallon of fuel oil because it gets direct barge service from Anchorage or Dutch Harbor. In contrast, Lime Village, which is 250 miles east of Bethel, pays $6.25 a gallon because its fuel oil is first barged from Anchorage to Bethel then transferred to a smaller barge for transport to Sleetmute, and then flown from Sleetmute to Lime Village.

In this comparison, it's more the number of legs in the journey and shifts in transport modes than actual distance that raises costs since Lime Village is only 185 miles from Anchorage and False Pass is about 650. Another factor besides distance that affects prices is storage capacity. False Pass can store a year's supply of fuel oil in community tanks, creating economies of scale not available to Lime Village.

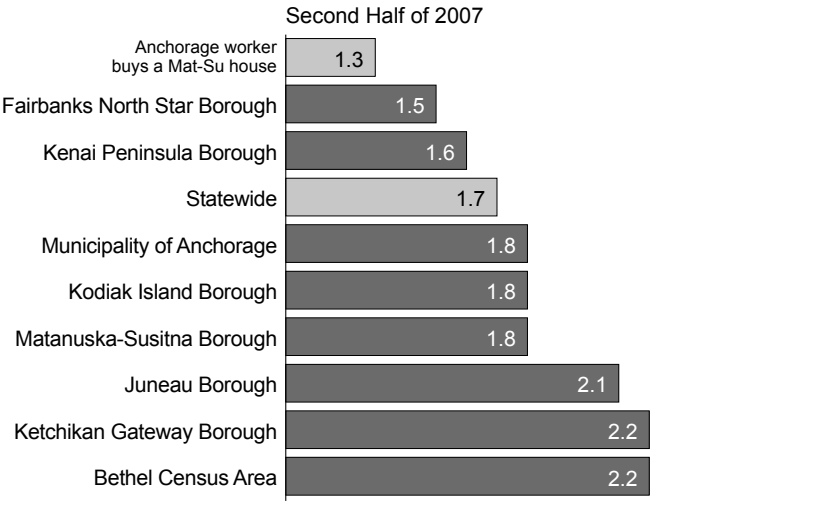
[8] *Dollars of Difference: What Affects Fuel Prices Around Alaska?*, University of Alaska Anchorage, May 2008 (research summary)

The Cost of Single-Family Homes 13
Highest in Juneau and Anchorage



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

Where is Housing Most Affordable? 14
Wage earners needed to buy average house



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

Housing costs are lower on the Kenai Peninsula and in Mat-Su

For the average consumer, housing costs make up the biggest slice of the total cost of living. So even without a comprehensive cost of living study of an area's costs, such as the ACCRA or Runzheimer studies, knowing how an area's housing costs compare provides key information on whether one area is more or less expensive than another.

15 Military Cost-of-Living Allowances
OCONUS[1] Index, Alaska 2008

Barrow	152
Bethel	152
Nome	152
Wainwright	152
Ketchikan	138
Sitka	136
Cordova	134
Homer	134
Kenai (inlcudes Soldotna)	134
King Salmon (includes Bristol Bay Borough)	134
Seward	134
Valdez	134
Tok	132
Juneau	128
Kodiak	128
Spruce Cape (on Kodiak Island)	128
Unalaska	128
Delta Junction	126
Clear Air Station (south of Nenana)	124
College	124
Fairbanks	124
Anchorage	122
Wasilla	120

[1] OCONUS is an acronym for Outside the Continental U.S. Alaska is counted as an OCONUS location for purposes of the index.
Source: Department of Defense, as posted in May 2008

The Alaska Department of Labor and Workforce Development collects several types of housing data for 10 boroughs and census areas under a contract with the Alaska Housing Finance Corporation. (See Exhibits 11 to 13.) Of the communities studied, Juneau had the highest rental costs for both apartments and houses, by small margins, and also the highest average sales price for houses. In all three categories, housing costs on the Kenai Peninsula and in the Mat-Su Borough were among the cheapest of the areas studied.

It's important to note that the data on sales prices do not indicate the average house value in the different communities since the number and quality of homes can vary widely, especially in the smaller communities where a limited number of houses are sold over the time period measured.

Affordability index combines housing costs with wages

High housing costs don't necessarily make housing less affordable to job holders if wages in the area are at least high enough to compensate. The Alaska Department of Labor's housing affordability index combines wage and housing data to determine the number of average wage earners it would take in each of the locations to afford the average sales price of a house. (See Exhibit 14.)

Housing is least affordable, according to the index, in the Bethel Census Area and Ketchikan Gateway Borough, with Juneau not far behind. For workers living and working in the same community, housing is most affordable in the Fairbanks North Star and Kenai Peninsula boroughs.

But the most affordable housing in the state belongs to people who work in Anchorage and live in the Mat-Su Borough. It takes just 1.3 average Anchorage wage earners to afford the average Mat-Su home. The combination of Mat-Su's relatively low housing costs and close proximity to Anchorage's large supply of jobs explains why it has been the fastest growing area in the state for some time now.

The federal government's COLA remains in flux

For federal government workers in Alaska, the state's higher cost of living has long meant a large upward adjustment to their wages. For more than four decades, most of the state's federal workers have received a tax-free 25 percent cost-of-living adjustment.

The federal government made an initial determination to phase out the across-the-board 25 percent cost-of-living adjustment for Alaska and gradually drop the adjustment down to 14 percent for federal workers within 50 miles of Anchorage, 16 percent for Fairbanks and 18 percent for Juneau. Federal workers elsewhere in the state were to continue receiving the 25 percent adjustment.

That decision was challenged and there have been delays in the planned decreases in the adjustments for Anchorage, Fairbanks and Juneau workers. The adjustment scheme may disappear altogether in favor of determining wages by conducting surveys and comparing federal salaries with nonfederal salaries in the various local labor markets. Federal pay in ev-

ery state but Alaska and Hawaii is determined by this locality pay method and both the Alaska and Hawaii delegations to Congress support switching to it.

The military's cost-of-living index

In an attempt to equalize payments to military personnel, the Department of Defense produces a cost-of-living index for areas where troops may be stationed outside the Lower 48. (See Exhibit 15.) The index compares prices for about 120 goods and services, including food, clothing, vehicles, transportation, medical care and utilities. The index does not include housing because the military has a separate housing allowance for different locations.

The military index is a nice addition to the library of cost-of-living information because it includes data for 23 Alaska locations and it is updated regularly. The most recent index has Barrow, Bethel, Nome and Wainwright as Alaska's most expensive locations and Wasilla and Anchorage as the least.

Construction Costs Extra in Alaska 16

Corps of Engineers' adjustment factors, 2008

ALASKA	**1.21**	Maryland	0.98
Connecticut	1.20	Idaho	0.97
New Jersey	1.20	Nebraska	0.97
California	1.18	Iowa	0.96
Hawaii	1.18	Montana	0.96
Massachusetts	1.18	Vermont	0.96
Minnesota	1.15	Virginia	0.96
New York	1.15	Arizona	0.95
Rhode Island	1.15	Kansas	0.94
Delaware	1.12	New Mexico	0.94
Illinois	1.11	Utah	0.94
Nevada	1.09	North Dakota	0.92
Oregon	1.09	Florida	0.91
Pennsylvania	1.09	Wyoming	0.91
Washington	1.07	Alabama	0.90
Wisconsin	1.07	Georgia	0.89
Washington, D.C.	1.06	Mississippi	0.89
New Hampshire	1.05	Arkansas	0.88
Michigan	1.04	Louisiana	0.88
Ohio	1.04	South Dakota	0.87
West Virginia	1.03	Tennessee	0.87
Missouri	1.02	Texas	0.86
Indiana	1.00	Oklahoma	0.85
Colorado	0.98	South Carolina	0.85
Kentucky	0.98	North Carolina	0.84
Maine	0.98		

Source: U.S. Army Corps of Engineers

Corps of Engineers' construction adjustment factors

Another useful study of the difference in costs for Alaska and other states comes from the U.S. Army Corps of Engineers, which is involved in civil works projects around the nation. The Corps has compiled an index that compares construction costs in the 50 states and Washington, D.C. (See Exhibit 16.) Alaska tops the list as the most expensive state, but a number of states are not far behind. This demonstrates that while a remote location and harsh climate can be counted on to create extra costs, other market factors also play a role.

Energy and transportation costs are especially important to Alaska

Throughout most of the Lower 48, costs tend to be lower in rural areas than in the cities. The main reason is that housing is less expensive and most other costs are either lower or not significantly different since the transportation infrastructure so completely connects cities and towns.

In Alaska the situation is reversed. Costs are generally lower in the more populated areas of the state and, in many cases, extremely high in the most rural parts of the state. Energy and transportation costs are the culprit, and since those costs continue to rise, the disparity may continue to grow.

Those costs are also of special interest statewide. For the majority of the state's population, the gap between the cost of living in Alaska and other parts of the country has gradually fallen over time, but that trend may not continue if the cost of transporting goods and services continues to rise with fuel costs.