The Cost of Living

by
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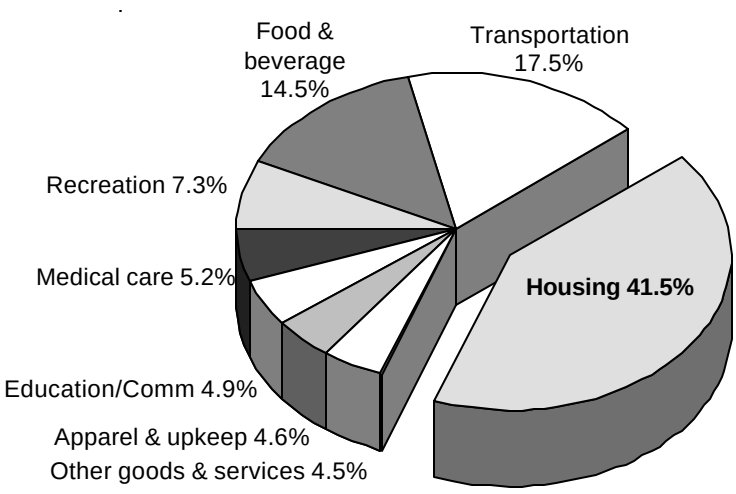
A look at the various measures and their limitations

Cost-of-living questions have long been a topic of interest for Alaskans and anyone who has considered doing business or moving here. Myths abound, some of them probably dating back to gold rush days. Although it is still true that living in Alaska costs more than living in most other states, the gap has narrowed substantially over the past 20 years. This article looks at the current data from the various cost-of-living measures and the answers they provide on this important issue.

1 Component Weighting
In Anchorage CPI 2002



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

Two kinds of cost-of-living measures

Cost-of-living measures come in two very different types. One type examines the change in costs from year to year in one specific place. The Consumer Price Index (CPI) is this type of measure. It is popularly referred to as the inflation rate; workers, unions, and employers pay close attention to it because bargaining agreements and other wage rate negotiations often incorporate an adjustment for inflation. The CPI also plays a role in rental contracts, child support payments, and other contracts. Each year the Alaska Permanent Fund Corporation uses the CPI to determine how much money must be added to the principal of the Permanent Fund to keep up with inflation.

The other type of measure addresses cost differences between places. Measures of this type can answer the question of whether it is more expensive to live in Fairbanks or Ketchikan, for example. These measures generally select certain items and then compare how much it would cost to purchase those items in different locations. The question is often how much more or less it will cost to maintain a specific standard of living in different cities. Comparisons such as these play a big role in relocation decisions. Several measures of this type will be discussed below.

Use indexes with caution

All cost-of-living measures have shortcomings. Because no two consumers spend their money

alike, no index can completely capture all the differences between price changes over time or price differences between one city and another. The average household in Kenai may spend its income quite differently than the average household in Dillingham, depending on prices, personal tastes, or other factors. The differences will be dramatic when comparing a Dillingham household with one in San Francisco. Most households' spending habits are also constantly in flux. Technology changes, tastes change, and people substitute one item for another in response to price or other changes. Accounting for all of this complexity would be nearly impossible for any one measure or index. Consequently, most simply select a sample of goods and services designed to approximate the consumption pattern of an average household. Items such as housing, food, transportation, medical care, and entertainment are a few of the components included in these surveys. This list of items is often referred to as the "market basket." Some measures go to great length to construct the market basket and others do so very simply. In order to understand the strengths and weaknesses of a specific cost-of-living measure, it is important to be aware of the contents of the market basket and the approximate income of the household used for comparison.

The CPI–keeping tabs on prices

The Anchorage Consumer Price Index (CPI) is the most used cost-of-living index in Alaska. It provides a long-term record of price changes in the city and is often treated as the de facto statewide inflation measure. Anchorage is one of more than 80 urban communities in the country where the CPI tracks changes in the prices of consumer goods and services, and the only community in Alaska where the index is calculated.

The U.S. Department of Labor's Bureau of Labor Statistics (BLS) conducts elaborate surveys of Anchorage consumers' spending habits to determine the market basket of goods and the location-specific weight of each item. (See Exhibit 1.) The Anchorage CPI is produced on a semi-annual basis, January to June and July to December.

Consumer Price Index-Urban 2

U.S. City and Anchorage averages, 1960-2002

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

1982–1984 = 100

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

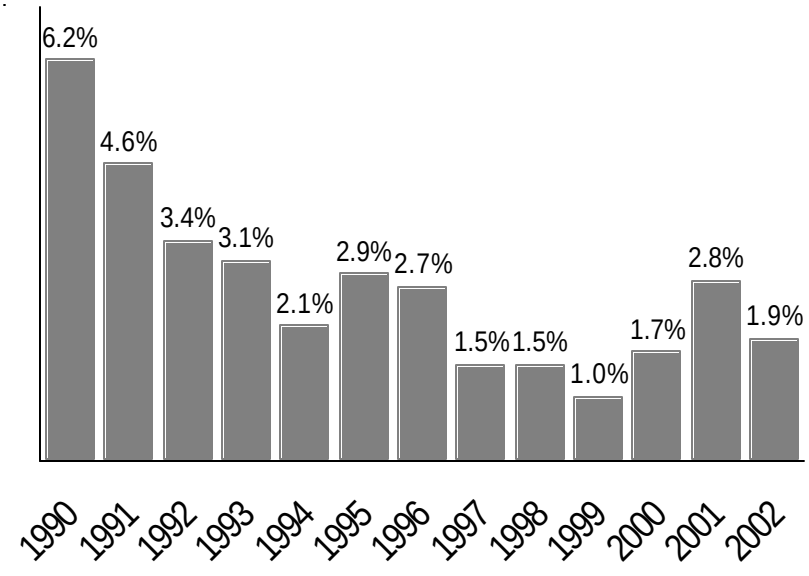
(See Exhibit 2.) After the July to December index is released, the annual average index, which is the most observed measure, can be calculated. The CPI-U (Consumer Price Index for all Urban Consumers) is the most prominent and most frequently used measure. All references to the CPI in this article are to the CPI-U.

CPI is specific to one location

As mentioned earlier, the CPI cannot be used to compare costs between different locations. For example, in 2002 the annual average index for Anchorage was 158.2 compared to the national index of 179.9. This does not mean that the cost of living was higher in the U.S. than in Anchorage. As the other indexes in this article show, the contrary is true. What the higher number for the national index does indicate is that since the early 1980s prices have increased faster in the nation as a whole than they have in Anchorage.

3 Anchorage Consumer Prices
2002 increase is moderate

Anchorage Consumer Price Index for All Urban Consumers (CPI-U)



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

Inflation stayed low in 2002

For the past eight years inflation in Anchorage has not crested the three-percent mark. (See Exhibit 3.) In 2002 the cost of living in Anchorage rose by 1.9 percent, about equal to the eight-year average and just slightly higher than the national rate of 1.6 percent. The major component in the rising prices was housing, which increased by 3.2 percent. Other items measured either showed more moderate increases, or even declines. Food costs rose by one percent while both transportation and apparel costs fell.

Housing dominates the CPI

Exhibit 1 shows the different weights assigned in calculating the CPI. Housing represents the single largest weight because that is where most consumers spend the largest share of their consumption dollars. Housing exerts a powerful influence on the overall index. It also gives the CPI a local flavor, creating index changes that often diverge from those seen in the national CPI, because it is usually local market forces that affect housing prices. For example, during the mid- to late 1980s when the Anchorage real estate market crashed, the overall Anchorage CPI recorded nearly zero inflation because the cost of housing took such a beating. During the same period the national housing market was robust, so the national index moved considerably ahead of Anchorage.

The other reason the local character of the CPI derives chiefly from housing is that costs of the other goods and services in the CPI market basket are largely determined by national and international trends. Price changes for gasoline, food, clothing, insurance, transportation, health care, and recreation are generally responses to national and global market conditions, rather than local ones.

Because of the strong weight housing carries, it is important to know its shortcomings as a measure. The CPI uses a housing cost configuration termed "rental equivalency." It calculates the costs for

Selected Components of CPI 4

Anchorage and U.S. city annual averages 1983-2002

Year	ALL ITEMS LESS SHELTER				HOUSING				FOOD & BEVERAGES			
	U.S. Average	Percent Change from Prev. Yr.	Anch. Avg.	Percent Change from Prev. Yr.	U.S. Average	Percent Change from Prev. Yr.	Anch. Avg.	Percent Change from Prev. Yr.	U.S. Avg.	Percent Change from Prev. Yr.	Anch. Avg.	Percent Change from Prev. Yr.
1983	99.8	3.7	99.9	3.7	99.5	2.7	99.0	0.8	99.5	2.3	99.7	2.6
1984	103.9	4.1	103.8	3.9	103.6	4.1	102.7	3.7	103.2	3.7	103.2	3.5
1985	107.0	3.0	107.5	3.6	107.7	4.0	103.0	0.3	105.6	2.3	106.2	2.9
1986	108.0	0.9	111.2	3.4	110.9	3.0	102.6	-0.4	109.1	3.3	110.8	4.3
1987	111.6	3.3	115.1	3.5	114.2	3.0	97.5	-5.0	113.5	4.0	113.1	2.1
1988	115.9	3.9	117.8	2.3	118.5	3.8	95.4	-2.2	118.2	4.1	113.8	0.6
1989	121.6	4.9	122.3	3.8	123.0	3.8	96.3	0.9	124.9	5.7	117.2	3.0
1990	128.2	5.4	128.0	4.7	128.5	4.5	103.9	7.9	132.1	5.8	123.7	5.5
1991	133.5	4.1	131.9	3.0	133.6	4.0	111.2	7.0	136.8	3.6	127.7	3.2
1992	137.3	2.8	134.6	2.0	137.5	2.9	116.6	4.9	138.7	1.4	130.3	2.0
1993	141.4	3.0	137.9	2.5	141.2	2.7	121.1	3.9	141.6	2.1	131.2	0.7
1994	144.8	2.4	140.3	1.7	144.8	2.5	122.9	1.5	144.9	2.3	131.9	0.5
1995	148.6	2.6	144.6	3.1	148.5	2.6	124.9	1.6	148.9	2.8	138.5	5.0
1996	152.8	2.8	148.4	2.6	152.8	2.9	127.9	2.4	153.7	3.2	143.4	3.5
1997	155.9	2.0	150.6	1.5	156.8	2.6	129.4	1.2	157.7	2.6	145.8	1.7
1998	157.2	0.8	152.6	1.3	160.4	2.3	131.0	1.2	161.1	2.2	147.3	1.0
1999	160.2	1.9	153.5	0.6	163.9	2.2	132.7	1.3	164.6	2.2	148.4	0.7
2000	165.7	3.4	156.1	1.7	169.6	3.5	134.2	1.1	168.4	2.3	151.7	2.2
2001	169.7	2.4	160.6	2.9	176.4	4.0	139.0	3.6	173.6	3.1	156.4	3.1
2002	170.8	0.6	162.2	1.0	180.3	2.2	143.5	3.2	176.5	1.8	157.9	1.0

Year	TRANSPORTATION				MEDICAL CARE*				APPAREL & UPKEEP			
	U.S. Avg.	Percent Change from Prev. Yr.	Anch. Avg.	Percent Change from Prev. Yr.	U.S. Avg.	Percent Change from Prev. Yr.	Anch. Avg.	Percent Change from Prev. Yr.	U.S. Avg.	Percent Change from Prev. Yr.	Anch. Avg.	Percent Change from Prev. Yr.
1983	99.3	2.4	98.5	1.8	100.6	8.8	99.7	5.2	100.2	2.5	101.6	5.2
1984	103.7	4.4	104.6	6.2	106.8	6.2	105.5	5.8	102.1	1.9	101.7	0.1
1985	106.4	2.6	108.2	3.4	113.5	6.3	110.9	5.1	105.0	2.8	105.8	4.0
1986	102.3	-3.9	107.8	-0.4	122.0	7.5	127.8	15.2	105.9	0.9	109.0	3.0
1987	105.4	3.0	111.3	3.2	130.1	6.6	137.0	7.2	110.6	4.4	116.6	7.0
1988	108.7	3.1	113.0	1.5	138.6	6.5	145.8	6.4	115.4	4.3	119.1	2.1
1989	114.1	5.0	116.7	3.3	149.3	7.7	154.4	5.9	118.6	2.8	125.0	5.0
1990	120.5	5.6	120.7	3.4	162.8	9.0	161.2	4.4	124.1	4.6	127.7	2.2
1991	123.8	2.7	121.7	0.8	177.0	8.7	173.5	7.6	128.7	3.7	126.6	-0.9
1992	126.5	2.2	123.3	1.3	190.1	7.4	183.0	5.5	131.9	2.5	130.2	2.8
1993	130.4	3.1	128.8	4.5	201.4	5.9	189.6	3.6	133.7	1.4	131.2	0.8
1994	134.3	3.0	136.9	6.3	211.0	4.8	197.8	4.3	133.4	-0.2	128.9	-1.8
1995	139.1	3.6	143.8	5.0	220.5	4.5	211.6	7.0	132.0	-1.0	130.0	0.9
1996	143.0	2.8	147.2	2.4	228.2	3.5	231.1	9.2	131.7	-0.2	128.7	-1.0
1997	144.3	0.9	147.0	-0.1	234.6	2.8	248.9	7.7	132.9	0.9	127.0	-1.3
1998	141.6	-1.9	144.9	-1.4	242.1	3.2	255.7	2.7	133.0	0.1	125.6	-1.1
1999	144.4	2.0	143.7	-0.8	250.6	3.5	260.8	2.0	131.3	-1.3	125.8	0.2
2000	153.3	6.2	150.5	4.7	260.8	4.1	272.1	4.3	129.6	-1.3	124.5	-1.0
2001	154.3	0.7	153.0	1.7	272.8	4.6	282.9	4.0	127.3	-1.8	131.1	5.3
2002	152.9	-1.0	151.5	-1.0	285.6	4.7	———	———	124.0	-2.6	126.7	-3.4

*No second half or annual index was produced for medical care in 2002.

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

home ownership by the current rental value of the same home on the open market. A potential problem develops when the housing market is in flux. When housing prices or rents are changing rapidly, the inflation rate for the housing portion of the CPI may be exaggerated. This occurs because most homeowners have long-term fixed interest rate mortgages that reflect conditions of housing markets in the past. So in times when the local housing market becomes overheated and prices rise quickly, homeowners with fixed rate mortgages are not affected. In such an environment the rate of inflation would be overstated. The opposite scenario develops in a down market.

To isolate price changes other than those caused by the housing market, a CPI is produced that excludes housing. It is referred to as the CPI All Items Less Shelter. (See Exhibit 4.) Using the Less Shelter index for comparison between Anchorage and the nation shows a smaller difference over the years.

What does $100 in 1980 dollars equal today?

The Anchorage CPI-U can help answer the question, how much money would it take today to equal a dollar from some earlier year? Use the equation below:

2002 Anchorage CPI (See Ex. 2)	158.2	=	1.85
Divided by 1980 Anchorage CPI	85.5		

Multiply 1.85 by any number of 1980 dollars and you will have the 2002 equivalent. So, $1.85 in 2002 would have the same purchasing power as $1.00 did in 1980.

The formula can be reversed to deflate current dollars to some earlier year. Inflation calculators that require only the years and a dollar amount are also available on many web sites, including ours: http://almis.labor.state.ak.us/

Medical costs continue upward spiral

The costs of medical care in Anchorage have shot upwards, although they are not weighted heavily enough to have a major effect on the overall index. (See Exhibits 1 and 5.) No other component of the CPI has come close to matching the increases in health care prices. The story is the same at the national level. During the past decade medical care costs in Anchorage have grown by 60 percent, triple the 20 percent rate of the overall index. As the state and national population continues to age and the need for health care expands, rising costs will bring critical focus to issues surrounding the affordability of such services.

Food costs around the state

Four times a year, the University of Alaska Fairbanks Cooperative Extension Service conducts a survey of the costs of food at home for a week in 20 Alaska communities, and Portland, Oregon. (See Exhibits 6 and 7.) The food basket includes items that will provide the minimum level of nutrition at the lowest possible cost. The survey also includes information on utility and fuel costs. The strength of this survey is its geographic coverage. No other survey in the state covers as many communities. Another strong point is its long-running history. Problems with the survey pertain to different food consumption patterns in urban and rural Alaska. The study assumes that the same items would be purchased in all of the communities, even though buying habits of urban and rural residents differ dramatically. Many items that can be purchased in urban Alaska are not available in rural communities. Recently the study began including cost calculations for grocery items mail ordered from urban merchants, a practice widespread in rural Alaska, but items that enter rural areas by barter or that are imported as baggage or private cargo are not included. Moreover, the study's list of basic grocery items ignores the consumption of subsistence meat, fowl, fish, berries, and other foods, instead of store-bought items.

According to the September 2002 study, a family

of four enjoyed the lowest food costs in the state in urban areas such as Anchorage, Fairbanks, and Juneau. The highest costs tended to be in remote communities, which are serviced by air most of the year and by barge during the summer months. Bethel, Nome, and Dillingham belong in this category. Communities that lie on a major transportation system, such as a highway or the Alaska Marine Highway system, have grocery prices that fall between those in the urban and remote areas. Examples of such places are Kodiak, Tok and Haines. But location is not everything; the size of the market and the level of competition are other major determinants.

Juneau tops the list in rents

Housing costs are often a good proxy for an area's cost of living because they make up such a large slice of a household's total expenditures. The Alaska Housing Finance Corporation (AHFC) contracts with the Alaska Department of Labor and Workforce Development to collect rental housing data for ten areas around the state. Exhibits 8 and 9 display monthly rental costs for two-bedroom apartments and three-bedroom single-family homes.

As is the case with food and other items, the cost of housing varies dramatically from place to place in Alaska. Supply of housing, vacancy rates, quality of housing, the economic condition of the local economy, building costs, and local demographics are all factors that help explain differences. The trends in the cost of food and housing show strong similarities, but also highlight a few differences. Overall, rental costs of both apartments and houses are highest in Juneau and the Valdez/Cordova area.

AHFC also creates a housing affordability index for six areas in the state. (See Exhibit 10.) This index takes into account not only the cost of housing, but also the ability to pay for housing (the number of workers needed), using the average annual wages earned in the respective areas. The two factors combined produce some interesting

Calculating Index Changes

Movements of the indexes from one period to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example below illustrates the computation of index points and percent changes.

Index Point Change

CPI-Anchorage 2002	158.2
Less CPI for previous period-Anchorage 2001	155.2
Equals index point change	3.0

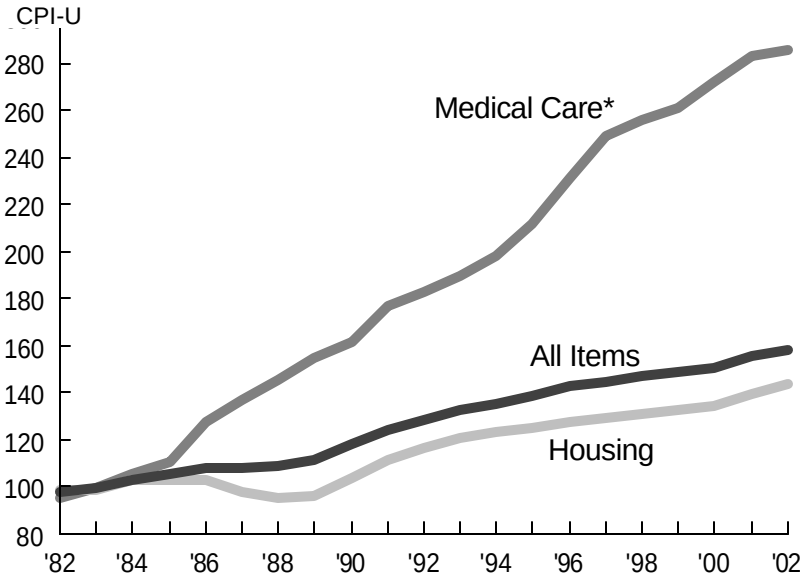
Percent Change

Index point difference	3.0
Divided by the previous index (Anchorage 2001)	155.2
Equals	0.019
Results multiplied by 100	0.019 x 100
Equals percent change (Anchorage CPI 2002)	1.9

Medical Costs Head Skyward

Anchorage CPI 1982-2002

5



*First quarter 2002 data; no data available for 2nd half 2002.

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

6 Cost of Food at Home

For family of four with elementary school age children

December 2002

Anchorage	$100.61
Bethel	$187.96
Cordova	$163.61
Craig-Klawock	$134.65
Delta	$127.32
Dillingham	$189.52
Fairbanks	$100.80
Copper River Basin	$137.86
Haines	$160.01
Homer	$138.87
Juneau	$110.52
Kenai-Soldotna	$119.12
Ketchikan	$111.06
Kodiak	$143.36
Mat-Su	$125.70
Nome	$179.76
Seward	$123.53
Sitka	$124.35
Tok	$126.92
Valdez	$120.39
Portland, Oregon	$ 86.99

Source: University of Alaska Fairbanks Cooperative Extension Service

results. One such case is the Mat-Su Borough. Despite some of the lowest housing costs, it is less affordable for Mat-Su residents who work there to purchase a home than it is for Anchorage residents to purchase homes in Anchorage. It should come as no surprise then that so many Mat-Su residents commute to Anchorage in order to combine low housing costs with Anchorage's higher wages. In Juneau, where wages tend to be above average, housing is still less affordable because of the high price of homes. Another finding of the AHFC survey is that an ordinary house in Bethel is well beyond the means of the average Bethel wage earner.

Anchorage has an affordable housing combo

Housing affordability studies show the relative ease of purchasing a home in Anchorage compared

7 Cost of Food at Home for a Week in Eight Alaska Cities

For family of four with elementary school age children

Month/ Year	Anchorage	Fairbanks	Pct. of Anch.	Juneau	Pct. of Anch.	Bethel	Pct. of Anch.	Nome	Pct. of Anch.	Kodiak	Pct. of Anch.	Kenai/ Soldotna	Pct. of Anch.	Tok	Pct. of Anch.
9/83	$81.66	$83.79	103	$88.62	109	$128.30	157	$130.14	159	$104.94	129	$86.98	107	-	-
9/84	84.22	91.26	108	91.66	109	136.54	162	142.07	169	115.97	138	87.97	104	$121.66	144
9/85	89.06	90.08	101	106.61	120	138.13	155	152.41	171	108.17	121	91.47	103	116.19	130
9/86	87.25	90.61	104	87.65	100	137.96	158	142.04	163	105.49	121	92.78	106	124.18	142
9/87	88.90	85.12	96	88.24	99	140.81	158	147.96	166	104.39	117	96.95	109	117.51	132
9/88	90.99	94.74	104	92.95	102	137.57	151	147.69	162	116.68	128	95.53	105	119.69	132
9/89	93.80	94.33	101	96.73	103	140.65	150	-	-	124.61	133	104.20	111	139.43	149
9/90	98.73	103.49	105	100.86	102	146.92	149	155.48	157	154.55	157	103.21	105	131.03	133
9/91	102.84	114.65	111	104.21	101	152.49	148	150.29	146	127.96	124	111.88	109	143.45	139
9/92	100.46	92.31	92	102.62	102	142.51	142	158.08	157	124.61	124	109.60	109	132.94	132
9/93	97.89	93.42	95	103.70	106	147.84	151	145.94	149	125.19	128	111.61	114	136.96	140
9/94	91.32	94.96	104	104.09	114	133.47	146	140.22	154	123.99	136	105.51	116	140.78	154
9/95	89.30	93.26	104	99.38	111	140.68	158	148.55	166	123.04	138	102.48	115	122.89	138
9/96	101.43	96.65	95	96.93	96	148.70	147	162.61	160	125.71	124	105.01	104	142.46	140
9/97	96.57	97.73	101	98.89	102	150.42	156	-	-	123.92	128	104.87	109	-	-
9/98	98.74	98.35	100	103.08	104	155.24	157	174.27	176	130.04	132	104.13	105	144.67	147
9/99	99.87	98.52	99	104.45	105	163.11	163	155.29	155	143.81	144	109.58	110	132.61	133
9/00	100.89	100.63	100	104.55	104	162.63	161	157.40	156	133.89	133	112.01	111	139.31	138
9/01	106.43	103.61	97	112.53	106	180.89	170	176.56	166	140.23	132	119.55	112	141.73	133
9/02	100.61	100.80	100	110.52	110	187.96	187	179.76	179	143.36	142	119.12	118	126.92	126

Sales tax included in food prices.

- Data not available

Source: "Cost of Food at Home for a Week," September 1978 to September 2002, University of Alaska Cooperative Extension Service, U.S. Dept. of Agriculture and SEA Grant cooperating

to other communities in the nation. In fact, an Anchorage family with the median annual income of $60,500 could afford to purchase 75.6 percent of all homes sold. That number compares favorably to the average of 64.8 percent for all of the communities surveyed by the National Association of Homebuilders. (See Exhibit 11.) Anchorage ranked as the second most affordable housing market in the western region. The average selling price of $153,000 came in four percent below the national average. The low selling price and Anchorage's higher-than-average family income combined to produce the favorable ranking.

ACCRA looks at higher income households

Every quarter the American Chamber of Commerce Researchers Association (ACCRA) publishes the results of its detailed cost-of-living surveys of nearly 300 cities. ACCRA's market basket was created to replicate the consumption patterns of professional and executive households with incomes in the top fifth of all households. Consumer expenditures (housing, groceries, transportation, etc.) for each city are compared to the average for all cities surveyed, which is assigned a score of 100. The survey does not include taxes, a significant point for Alaskans, whose tax burden is the lowest in the country.

The ACCRA survey reveals that the cost of living for Alaska's higher income residents is still well above average. Anchorage, Fairbanks, Juneau and Kodiak all recorded composite index scores of at least 121.8. (See Exhibit 12.) Compared to last year, however, when all four Alaska cities were in the top twenty highest cost urban areas, only Kodiak made the top twenty list in 2002. (See Exhibit 13.) With the exception of utilities in Anchorage, the four cities score above 100 (the average for all cities surveyed) in every component measured.

Health care costs stand out as particularly high in the Alaska cities surveyed. Health care is cheaper

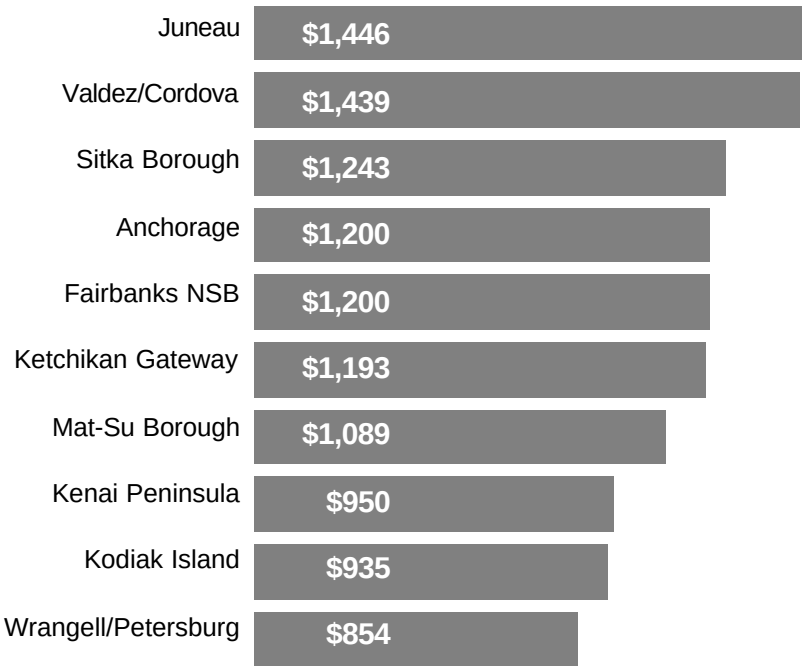
Two-Bedroom Apartments 8
Cost most in Juneau, least in Kenai

Median adjusted monthly rent 2002

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

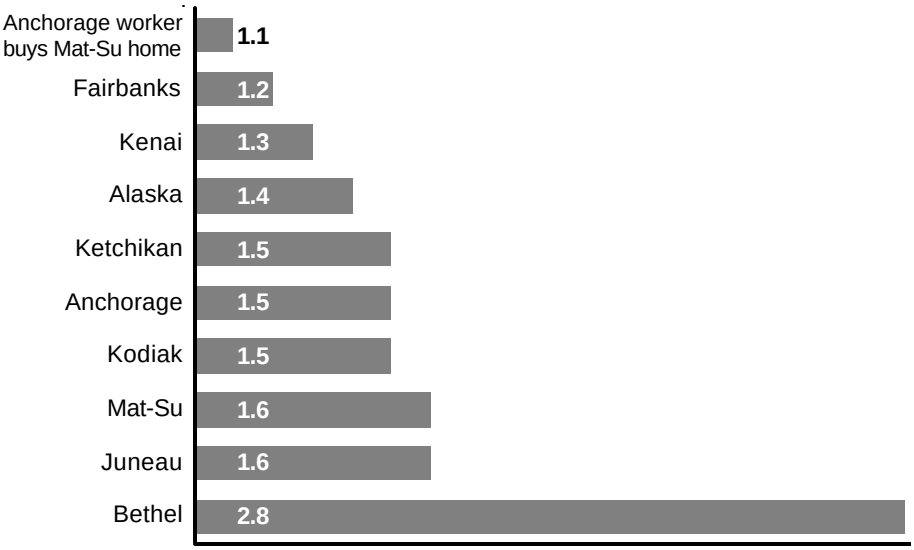
Three-Bedrm Single Family Home 9
Costs most in Juneau, Valdez/Cordova

Median adjusted monthly rent 2002



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

10 Housing Affordability, 2002
Wage earners needed to buy average house



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

11 Anchorage Enjoys a Very Affordable Housing Market
In relation to other cities in the nation, first quarter 2002

Area	State	% of Homes Affordable for Median Income	Median Family Income	Median Sale Price 1st Qtr 2002
Fargo-Moorhead	ND-MN	94.5%	$55,900	$88,000
Muncie	IN	89.1	48,900	99,000
Kansas City	MO-KS	86.4	64,500	125,000
Tallahassee	FL	85.1	57,200	122,000
Lansing-East Lansing	MI	80.9	60,100	112,000
Fort Worth	TX	79.7	61,300	127,000
Washington	DC-MD-VA-WV	78.3	91,500	200,000
Boise	ID	77.7	54,500	131,000
St Louis	MO	77.6	61,400	126,000
Milwaukee-Waukesha	WI	76.0	67,200	130,000
ANCHORAGE	**AK**	**75.6**	**60,500**	**153,000**
Phoenix-Mesa	AZ	75.4	57,900	146,000
Chicago	IL	73.7	75,400	176,000
Birmingham	AL	73.4	52,700	134,000
Dallas	TX	70.5	66,500	155,000
Las Vegas	NV	70.2	54,300	153,000
El Paso	TX	68.8	36,300	86,000
Salt Lake City-Ogden	UT	68.3	57,200	154,000
Houston	TX	67.8	59,600	138,000
Spokane	WA	66.1	46,600	125,000
NATIONAL AVERAGE		**64.8**	**54,400**	**160,000**
Seattle-Bellevue-Everett	WA	63.1	77,900	234,000
Salem	OR	50.4	46,700	131,000
Sacramento	CA	43.7	57,300	218,000
Los Angeles-Long Beach	CA	34.4	55,100	240,000

Source: National Association of Home Builders, Housing Opportunity Index, First Quarter, 2002

in Kodiak than in Anchorage, Fairbanks or Juneau, though still more than 40 percent higher than the average city surveyed by ACCRA. Health care is most expensive in Juneau, where it costs nearly 80 percent more than the average city.

Exhibit 12 shows that living costs are generally lower in the Southeast, Midwest, and Southwest-Mountain regions. Among cities shown in the West, Las Vegas had the lowest costs. Housing costs four times the national average in Manhattan, New York City, made it the most expensive place in the nation.

Exhibit 14 shows some of the detail produced by the ACCRA survey. Some of the numbers that stand out are high rental costs in all four surveyed Alaska cities; high energy costs in Fairbanks, Juneau, and Kodiak; high dentist prices in all four cities, Juneau in particular; and high prices across the board for the popular trio of haircuts, movies, and beer.

Cost of Living for Selected Cities 12

ACCRA Index—December 2002

	Index Items Costs	All Grocery Items	Housing	Utilities	Transpor-tation	Health Care	Misc. Goods & Services
Anchorage, AK	121.8	129.0	130.7	91.9	110.6	144.4	117.9
Fairbanks, AK	127.5	124.0	131.4	154.0	114.3	158.0	118.9
Juneau, AK *	128.6	126.9	137.2	139.0	128.5	178.5	112.1
Kodiak, AK	135.4	147.8	133.2	143.0	134.5	140.3	129.1
West							
Seattle, WA *	148.2	116.0	228.2	123.3	111.5	160.3	111.2
Portland, OR	116.4	112.8	131.5	100.1	107.0	119.7	111.5
Los Angeles-Long Beach, CA	137.8	110.5	207.6	109.3	111.6	112.9	110.3
Oakland, CA	139.6	130.5	206.5	101.2	113.6	143.9	103.9
Las Vegas, NV	105.1	113.3	102.6	99.4	109.4	109.0	102.6
Southwest/Mountain							
Boise, ID	96.4	87.4	91.3	86.9	101.5	104.9	104.7
Provo-Orem, UT	94.1	97.8	88.8	87.8	101.9	86.5	97.1
Phoenix, AZ	95.1	102.8	83.8	97.1	103.8	108.4	95.9
Denver, CO	105.7	106.8	111.3	81.6	110.9	122.3	102.2
Dallas, TX	97.4	98.5	92.7	98.2	95.4	97.0	101.2
Midwest							
Minneapolis, MN	110.5	101.8	118.9	113.7	120.3	118.3	102.7
Cleveland, OH	105.0	111.7	95.2	143.1	109.9	105.2	99.3
Wichita, KS	94.7	90.2	80.1	101.8	107.9	98.9	103.1
Southeast							
Orlando, FL	98.0	102.5	86.0	100.2	95.7	101.3	105.8
Montgomery, AL	92.3	93.2	84.5	102.0	93.8	87.9	96.4
Raleigh, NC	101.0	108.0	96.8	99.5	97.4	102.0	102.4
Atlantic/New England							
New York City - Manhattan	216.2	146.2	411.3	158.9	117.5	165.3	136.0
Boston, MA	135.5	114.5	178.2	157.9	112.5	135.0	111.0

* Data from third quarter 2002; no fourth quarter 2002 data is available for Seattle or Juneau

Source: American Chamber of Commerce Researchers Association, Urban Area Index Data, fourth quarter 2002, except where noted

Runzheimer survey

The Runzheimer Plan of Living Cost Standards differs from ACCRA in that it is based on a lower income family. The Runzheimer survey calculates the geographic differentials in cost of living for a family of four with a specific income. The Alaska Department of Labor and Workforce Development contracted with Runzheimer to provide differentials for an income level of $32,000 in a hypothetical standard U.S. city, an income level well below that of the average Alaska household. Unlike the ACCRA survey, Runzheimer includes taxes.

The Runzheimer study places consumer costs into four major groups: taxation, transportation, housing, and goods and services. Tax data represent location-specific federal, state, income, and local wage taxes. Transportation costs are calculated by assuming a 240-day workplace commute using public transportation or a personal automobile. Commuting miles and personal travel miles are combined for a total of 14,000 miles annually per household. The study then compared costs for driving and maintaining an automobile considered moderately priced, in this case a 1999 Ford Contour. Costs included in the comparisons were gasoline, maintenance, license, taxes, insurance, depreciation, and interest.

13 The 20 Highest Cost Urban Areas and Selected Alaska Cities

ACCRA Index—December 2002

City	All Items Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc. Goods & Services
Expenditure Weight		16%	28%	8%	10%	5%	33%
New York (Manhattan), NY	216.2	146.2	411.3	158.9	117.5	165.3	136.0
San Francisco, CA	182.3	129.7	331.2	109.2	122.1	173.5	118.6
Jersey City, NJ	182.7	118.1	343.0	130.6	112.8	200.4	109.1
San Jose, CA	168.1	135.2	271.3	121.9	133.2	167.7	118.4
Honolulu, HI	154.6	158.2	217.8	171.8	135.5	120.1	106.1
Seattle, WA *	148.2	116.0	228.2	123.3	111.5	160.3	111.2
Stamford-Norwalk, CT	147.6	112.8	233.5	127.1	125.7	127.2	106.2
Bergen-Passaic, NJ	146.5	115.2	206.4	129.7	115.8	182.4	118.8
Oakland, CA	139.6	130.5	206.5	101.2	113.6	143.9	103.9
Chicago, IL	139.0	123.0	199.0	114.7	117.6	137.2	108.3
Newark-Elizabeth, NJ	139.0	111.8	180.5	136.7	111.5	181.8	119.4
San Diego, CA	138.2	130.2	195.5	77.5	119.9	135.1	114.0
Los Angeles-Long Beach, CA	137.8	110.5	207.6	109.3	111.6	112.9	110.3
Washington DC/Suburban MD	137.6	117.9	188.1	113.0	124.8	116.1	117.5
Middlesex, NJ	137.5	117.9	171.3	130.7	110.6	203.8	118.1
Boston, MA	135.5	114.5	178.2	157.9	112.5	135.0	111.0
Framingham-Natick, MA	135.5	115.1	194.1	127.9	116.1	124.6	105.1
Kodiak, AK	**135.4**	**147.8**	**133.2**	**143.0**	**134.5**	**140.3**	**129.1**
Nassau County, NY	134.3	118.3	174.8	126.0	110.6	139.3	116.3
Juneau, AK *	**128.6**	**126.9**	**137.2**	**139.0**	**128.5**	**178.5**	**112.1**
Fairbanks, AK	**127.5**	**124.0**	**131.4**	**154.0**	**114.3**	**158.0**	**118.9**
Anchorage, AK	**121.8**	**129.0**	**130.7**	**91.9**	**110.6**	**144.4**	**117.9**

* Data from third quarter 2002; no fourth quarter 2002 data is available for Seattle or Juneau

Source: American Chamber of Commerce Researchers Association, Urban Area Index Data, fourth quarter 2002, except where noted

Housing costs include mortgage payments stretched over 30 years, assumed after a 20 percent down payment and applied to the value of a 1,500 square foot three-bedroom home with one and a half bathrooms. Real estate taxes, insurance, utilities and maintenance are included in housing costs.

According to the Runzheimer survey, a household in Anchorage would need an income of $34,325 to maintain the standard of living that could be purchased with $32,000 in the standard city. Slightly more income would be required in Fairbanks, and several thousand dollars more in Juneau. (See Exhibit 15.) Not surprisingly, all three cities are well below the standard city in taxes. Housing in Anchorage

Average Price for Selected Goods and Services 14

In selected U.S. cities, ACCRA, December 2002

	1 lb. Ground Beef	Potatoes	Bananas	Bread	2 BR Apt. Rent (Unfurn. no utils)	Total Monthly Energy Cost	1 gal. Gasoline	Dentist	Haircut	Movie	Beer
Anchorage, AK	$2.31	$3.27	$0.95	$1.18	$974	$108.35	$1.549	$139.71	$13.54	$8.06	$9.37
Fairbanks, AK	2.05	3.03	0.85	1.18	862	193.60	1.549	149.75	13.39	8.25	9.28
Juneau, AK *	2.39	3.82	0.82	1.01	950	176.18	1.596	185.00	15.00	8.50	7.59
Kodiak, AK	2.51	3.40	1.04	1.15	917	175.08	1.732	145.00	14.00	6.50	8.94
West											
Seattle, WA *	1.66	3.75	0.76	1.01	958	147.83	1.422	161.67	9.33	7.75	7.97
Portland, OR	2.21	3.45	0.73	0.89	768	117.97	1.458	113.75	10.34	7.50	7.05
Los Angeles-Long Beach, CA	1.89	1.60	0.64	1.10	1,242	129.49	1.645	71.60	11.10	9.50	6.88
Oakland, CA	1.58	3.85	0.68	2.06	1,521	116.38	1.586	112.50	13.25	8.75	7.99
Las Vegas, NV	1.68	3.72	0.57	1.30	892	120.67	1.431	98.80	11.42	8.07	6.95
Southwest/Mountain											
Boise, ID	1.84	2.95	0.38	0.84	742	97.82	1.49	92.50	11.06	7.50	7.59
Provo-Orem, UT	1.54	3.00	0.49	0.77	766	100.01	1.399	71.20	10.31	7.00	7.28
Phoenix, AZ	1.92	3.12	0.47	0.91	660	114.79	1.380	91.80	10.60	7.75	7.79
Denver, CO	1.87	5.05	0.57	1.15	857	92.22	1.509	105.33	11.87	7.95	6.65
Dallas, TX	1.72	4.24	0.44	0.91	902	118.62	1.384	73.63	11.69	7.28	7.41
Midwest											
Minneapolis, MN	1.65	3.89	0.51	1.15	1,018	128.92	1.508	88.40	13.40	7.30	7.46
Cleveland, OH	1.87	3.59	0.55	1.08	888	178.33	1.481	80.80	11.94	7.50	7.55
Wichita, KS	1.38	2.85	0.40	1.06	556	116.96	1.418	80.70	11.59	7.10	7.46
Southeast											
Orlando, FL	1.94	5.07	0.47	1.13	730	117.38	1.388	81.00	9.17	7.91	7.12
Montgomery, AL	1.77	5.58	0.47	0.82	594	120.63	1.395	64.33	10.79	6.50	7.72
Atlanta, GA	1.89	4.59	0.46	1.08	757	105.94	1.312	97.71	11.11	7.67	7.52
Raleigh, NC	2.77	4.99	0.58	0.99	763	121.89	1.367	91.25	12.71	6.85	7.31
Atlantic/New England											
New York City-Manhattan	2.11	3.55	0.79	1.10	3,560	197.41	1.583	113.00	19.40	10.00	8.39
Boston, MA	1.87	4.29	0.58	0.98	1,115	196.16	1.523	123.60	11.80	8.92	7.11
ALL CITIES MEAN	1.69	3.67	0.50	0.97	727	117.93	1.421	82.01	10.59	7.14	7.34

* Data is from 3rd qtr 2002; no 4th qtr 2002 available.

Source: American Chamber of Commerce Researchers Association, Urban Area Index Data, fourth quarter 2002, except where noted

and Fairbanks are from 15 to 20 percent above that of the standard city, while Juneau's housing is more than 47 percent higher.

In San Francisco it would require an eye-popping $70,689 to maintain the standard of living that $32,000 would afford in the standard city. Not surprisingly, the culprit is housing costs, which are 366.2 percent of the standard city. At the other end of the spectrum is Augusta, Georgia where housing is 59.1 percent of standard city cost.

State of Alaska geographic differentials

One of the most comprehensive data sets of intra-state cost differentials was produced in a 1985 State of Alaska survey. (See Exhibit 16.) The results of this survey still dictate geographic differential pay for nearly all state workers. One summary of the report stated: "The district differentials fall into four distinct groups. One group consists of districts dominated by larger urban communities in which the cost of living is

15 Runzheimer International Living Cost Standards
December 2002

	Total Costs	Percent of Standard City	Taxation	Percent of Standard City	Trans-portation	Percent of Standard City	Housing	Percent of Standard City	Misc. Goods & Services, Other	Percent of Standard City
Alaska Composite	35,986	112.5%	2,448	76.5%	4,529	107.8%	17,482	127.3%	12,291	107.9%
Anchorage	34,325	107.3%	2,448	76.5%	4,641	110.5%	15,909	115.8%	12,195	107.1%
Fairbanks	34,778	108.7%	2,448	76.5%	4,547	108.3%	16,329	118.9%	12,380	108.7%
Juneau	38,856	121.4%	2,448	76.5%	4,400	104.8%	20,206	147.1%	12,299	108.0%
West										
Eugene, OR	32,905	102.8%	3,552	111.0%	4,136	98.5%	14,892	108.4%	11,437	100.4%
Honolulu, HI	44,327	138.5%	2,835	88.6%	5,341	127.2%	23,854	173.7%	12,741	111.9%
Las Vegas, NV	32,895	102.8%	2,448	76.5%	5,238	124.7%	14,352	104.5%	11,161	98.0%
Los Angeles, CA	40,675	127.1%	2,448	76.5%	5,489	130.7%	20,853	151.8%	12,249	107.5%
Portland, OR	34,843	108.9%	3,459	108.1%	4,331	103.1%	16,144	117.6%	12,021	105.5%
San Diego, CA	44,189	138.1%	2,448	76.5%	4,716	112.3%	25,470	185.5%	11,960	105.0%
San Francisco, CA	70,689	220.9%	2,448	76.5%	5,950	141.7%	50,291	366.2%	12,313	108.1%
Seattle, WA	40,824	127.6%	2,448	76.5%	4,634	110.3%	21,679	157.9%	12,184	107.0%
Southwest/Mountain										
Boise, ID	29,347	91.7%	2,919	91.2%	4,223	100.5%	12,209	88.9%	10,643	93.4%
Salt Lake City, UT	33,437	104.5%	3,126	97.7%	4,531	107.9%	14,923	108.7%	11,235	98.6%
Denver, CO	39,750	124.2%	2,727	85.2%	5,016	119.4%	21,167	154.1%	11,547	101.4%
Phoenix, AZ	32,594	101.9%	2,803	87.6%	4,957	118.0%	13,683	99.6%	11,549	101.4%
Dallas, TX	30,873	96.5%	2,457	76.8%	4,693	111.7%	13,120	95.5%	11,216	98.5%
Midwest										
Columbia, MO	28,369	88.7%	3,357	104.9%	4,211	100.3%	10,733	78.2%	10,470	91.9%
Dayton, OH	30,165	94.3%	3,919	122.5%	4,127	98.3%	11,926	86.8%	10,838	95.2%
Oklahoma City, OK	28,467	89.0%	3,394	106.1%	4,466	106.3%	9,782	71.2%	11,090	97.4%
Southeast										
Augusta, GA	26,535	82.9%	3,302	103.2%	4,564	108.7%	8,119	59.1%	10,768	94.5%
Orlando, FL	29,354	91.7%	2,547	79.6%	4,467	106.4%	11,455	83.4%	11,335	99.5%
Atlantic/New England										
New York City, NY	47,376	148.1%	3,300	103.2%	8,397	199.9%	23,036	167.7%	12,840	112.7%
Washington, DC	40,977	128.1%	2,958	92.5%	4,469	106.4%	22,732	165.5%	11,473	100.7%

Source: Runzheimer's Living Cost Index, December 2002

approximately the same as in Anchorage. There are seven districts in this group with differentials between .98 and 1.03 (eight districts, with the inclusion of Palmer/Wasilla at .94, the difference from Anchorage being due entirely to less expensive housing). The second group is the seven rural districts characterized by small communities and villages, lack of retail development, small but expensive housing, remoteness, and lack of ground transportation access to major Alaska regional centers. Six rural districts have differentials between 1.26 and 1.39, a surprisingly narrow range considering the smaller sample sizes and lack of consistency in retail outlets and market basket item availability. The highest differential is, as expected, in the Barrow/Kotzebue district at 1.45. An intermediate group of Gulf Coast districts has differentials somewhat higher than the urban area but much below the remote/rural districts."

Summary

When looking for cost-of-living information, the first question is what kind of comparison needs to be made. For price change over time, use the Consumer Price Index (CPI). For cost-of-living comparisons between one place and another, there are several options.

Rarely will any of the measures discussed in this article give a perfect answer to cost-of-living questions. Each survey has specific limitations that affect the data produced. With that said, users have before them a wealth of information to explore one of Alaska's most intriguing economic issues.

Alaska Cost-of-Living Information on the World Wide Web

In addition to the information in this article, web sites can provide quick cost-of-living comparisons. The sites generally provide little detail, but they can be handy as quick reference sources.

http://www.labor.state.ak.us/research/relocate/relocmap.htm
The Alaska Department of Labor and Workforce Development's relocation site offers cost-of-living information, general information about Alaska, information on employment opportunities, and information about traveling to Alaska.

http://www.stats.bls.gov
The U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index site provides CPI data for Anchorage and all areas. There is also general, technical, and research information on the CPI. There is also an inflation calculator at this site.

http://www.homefair.com/calc/citysnap.html
The Homefair City Reports give you a side-by-side comparison of two cities' cost of living, climate, demographics, and other vital information from a database that is kept current with quarterly updates. Homefair offers one complimentary report with up to two destinations.

Many other web sites offer cost-of-living information. They include:
CityRating.com http://www.cityrating.com/costofliving.asp
Homeadvisor msn http://homeadvisor.msn.com/pickaplace/comparecities.aspx

ACCRA http://www.accra.org/

Alaska State COLAS 16
By region

	Cost of Living Pay Differential (%)
Aleutian Islands	127
Aniak, McGrath, Galena	130
Anchorage (base district)	**100**
Barrow, Kotzebue	142
Bethel	138
Bristol Bay	127
Delta Junction, Tok	116
Fairbanks	104
Fort Yukon (above Arctic Circle)	142
Juneau	100
Kenai, Cook Inlet	100
Ketchikan	100
Kodiak	109
Nenana	120
Nome	134
Palmer, Wasilla	100
Seward	100
Sitka	100
Skagway, Haines, Yakutat	105
Valdez, Cordova, Glennallen	111
Wade Hampton	130
Wrangell, Petersburg	100

Sources: The McDowell Group, and Alaska Department of Administration, 1986