The Cost of Living in Alaska

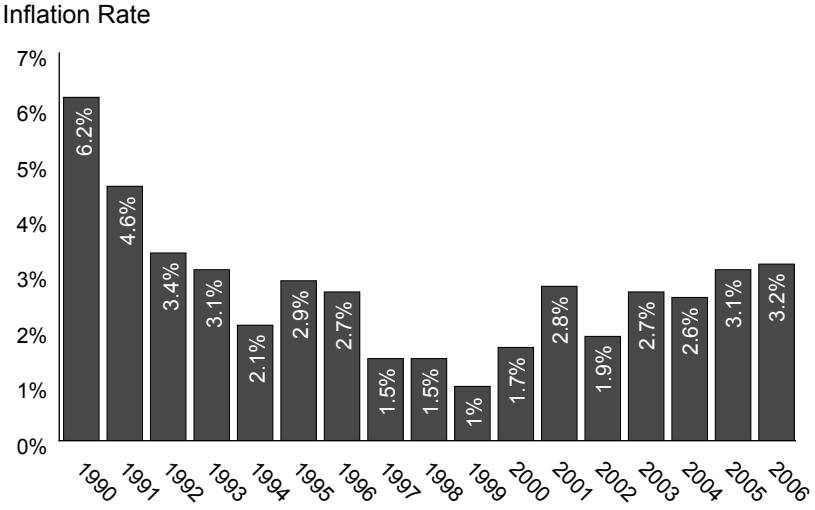
By Neal Fried and Dan Robinson, Economists

It still costs a little extra to live here

Everything costs more in Alaska, according to conventional wisdom, and for the most part it's true, though not to the extent it used to be. In fact, it's now significantly less expensive on average to live in Anchorage, Fairbanks or Juneau than it is to live in San Francisco, Manhattan or Honolulu – and a handful of other U.S. cities are at least slightly more expensive than Alaska cities.

In this annual article on the cost of living in Alaska, the subject is examined in two different ways. The first is to consider the inflation rate, or the rate at which prices are increasing over time. For that, the Consumer Price Index is the authoritative source. The second is to consider the cost differences between locations. There are a number of sources for that kind of data and several of them will be discussed.

1 Inflation Inches Higher in 2006
Anchorage Consumer Price Index



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

Inflation at 3.2 percent in 2006

Inflation, as measured by the Anchorage Consumer Price Index,[1] rose 3.2 percent in 2006 after rising 3.1 percent in 2005. Inflation rates above 3 percent are a noticeable increase from Anchorage's 10-year average of 2.2 percent. (See Exhibits 1 and 2.) In fact, 2006's increase was the highest since 1992.

Prices were up in nearly all major categories. (See Exhibit 3.) Housing costs, the category with the largest weight (see Exhibit 4), rose by 4 percent. A subcategory of housing – fuels and utilities – experienced a hike of 11.9 percent over the year.

Energy costs way up

The broad energy category, which is an important part of several major CPI components, saw one of the sharpest increases in 2006 at 13.9 percent. After lower than average inflation rates for years, energy prices shot up in 2003 and continued on that trend through 2006. (See Exhibit 5.)

From 2002 to 2006, energy prices rose 51 percent compared to just 12 percent for the overall CPI. Those higher energy prices seeped into many of the other categories as well and likely drove much of the increase to the overall inflation rates over those years.

[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. The CPI-U covers about 87 percent of the U.S. population and nearly all the Anchorage population. The Bureau of Labor Statistics also produces an index called the Consumer Price Index for all Urban Wage Earners and Clerical Workers, or CPI-W, which covers the subset of the CPI-U population who work in clerical or wage occupations.

Medical costs are rising a little slower

For the first time in five years it was possible to calculate an annual change in medical care costs in 2006. A separate CPI for medical care was not published from 2002 to 2004 because of insufficient sample data. The 3.5 percent increase from 2005 to 2006 was slightly higher than the overall 3.2 percent rate, but a slowdown from recent years. Over the past decade, medical care costs in Anchorage have risen more than twice as fast as the city's overall index – 54 percent compared to 24 percent. (See Exhibit 5.)

Lower inflation likely for 2007

CPI data for the first half of 2007 were released in August and the numbers looked quite different from 2006. Prices for the first half of 2007 rose just 1.5 percent from the first half of 2006, the lowest over-the-year increase since 2000 and significantly lower than the national increase of 2.5 percent over the same period.

The softening of the housing market appears to have put downward pressure on housing costs, which rose just 2.4 percent, compared to 4 percent in 2006. Housing costs would have risen even less if it weren't for climbing home fuel costs. Piped gas, for example, rose 29.5 percent over the period.

Four of the eight major CPI categories were deflationary. The recreation and education and communications categories fell very slightly, while transportation prices fell 0.7 percent and apparel prices 2.8 percent. The transportation number may appear odd given the current high price of gasoline and other transportation fuels, but prices were already high during the first half of 2006, the base period for the over-the-year comparisons. Falling car and truck prices were also probably a factor.

The 1.5 percent number is significant because the annual CPI inflation rate is just a simple average of over-the-year changes for the first half of the year and the second half of the year. So, for the 2007 annual inflation rate to reach the 3 percent mark, the second half

Comparing Alaska and U.S. Inflation 2

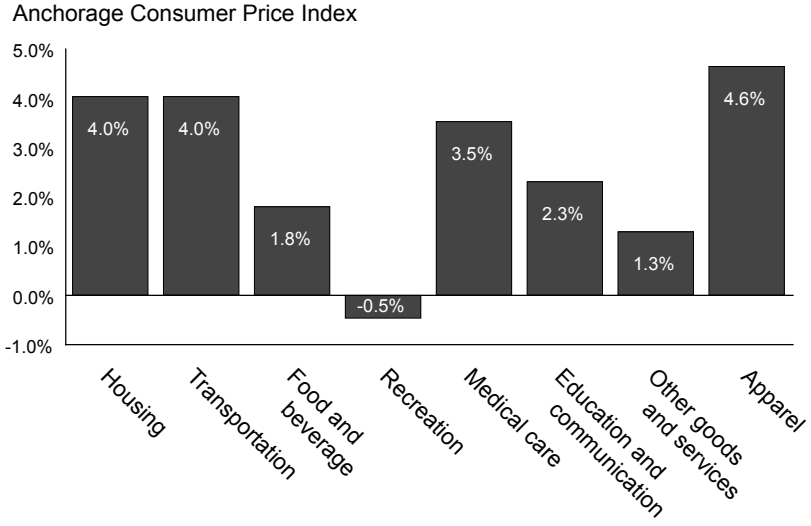
U.S. and Anchorage CPI, 1960 to 2006

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

Note: The base years are 1982 to 1984.

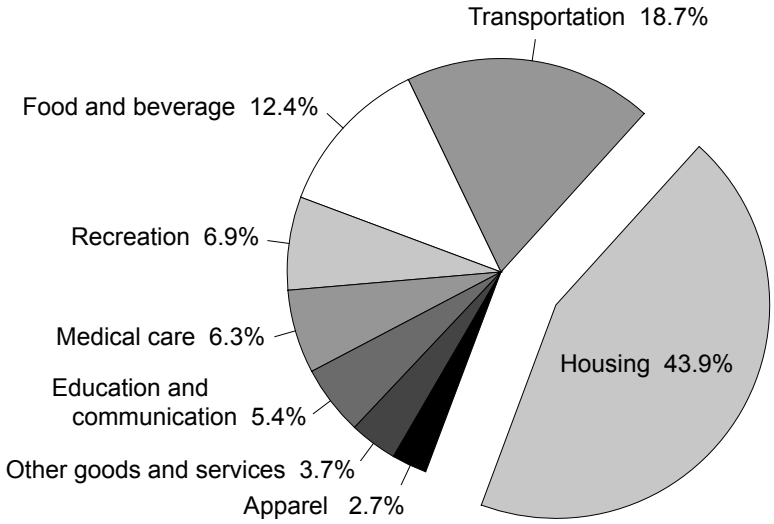
Source: U.S. Department of Labor, Bureau of Labor Statistics

3 Behind the 3.2 Percent Increase
Increase by major CPI components, 2006



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

4 Consumers Spend Most on Housing
CPI weighting, December 2006



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

of the year would have to be at least 4.5 percent.

Whether the lower rate of inflation seen in the numbers for the first half of 2007 is the beginning of a new trend is impossible to predict with any degree of certainty. Given national predictions for the index and long-term observations of the Anchorage index, it is likely that inflation won't diverge too far from the 10-year average.

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 inflation rate for the next five years.[2] But considering all the ingredients and forces that influence the CPI, forecasting inflation is more an art form than a science.

How the CPI is calculated

The CPI is undoubtedly the most commonly used measure of inflation.[3] Along with the Permanent Fund Corporation, landlords, workers, unions and employers use the CPI to adjust rents and salaries, among other things.

Despite its wide use, the CPI has its limitations and detractors. The most common complaint is from individuals who say it doesn't accurately measure the price changes they themselves are experiencing – and unless their expenditures perfectly coincide with those of the average consumer, they are completely correct.

Inflation for a person who commutes a long distance and spends a larger than average percent of his income on health care, for example, will be much higher than the rate that's based on the consumption patterns of the average consumer in that area.

Conversely, a person who rarely needs medical care, has a short commute, and uses solar energy to heat her home may experience a personal rate of inflation well below the CPI. It's not necessarily that she spends less money as a consumer or is more frugal, but just that she spends less on the goods and services whose costs are rising at an especially high rate.

To produce the Anchorage CPI, the U.S. Department of Labor's Bureau of Labor Statistics conducts detailed surveys of Anchorage

[2] The forecast comes from the Permanent Fund Corporation's investment consulting firm, Callan Associates.

[3] By federal statute, the CPI affects the income of at least 80 million people: 51.6 million Social Security beneficiaries, 21.3 million food stamp recipients, about 4.6 million military and federal civil service retirees and survivors, and more than two million workers with collective bargaining agreements that tie wages to the CPI. The CPI also plays a major role in collective bargaining negotiations for millions more.

consumers' spending habits. The surveys determine the city's "market basket" and the weight each item will have in the overall index. An item's or category's weight represents its percentage of the average consumer's total expenditures. (See Exhibit 4.)

Calculating housing CPI is especially complicated

The CPI weights housing highest, as one would expect, so housing has the most influence on the overall index. But tracking consumer expenditures on housing isn't as simple as just looking at housing prices. Since 1999, the CPI housing component has been based primarily on the prices homeowners could charge if they rented their homes, or the "owners' equivalent rent."

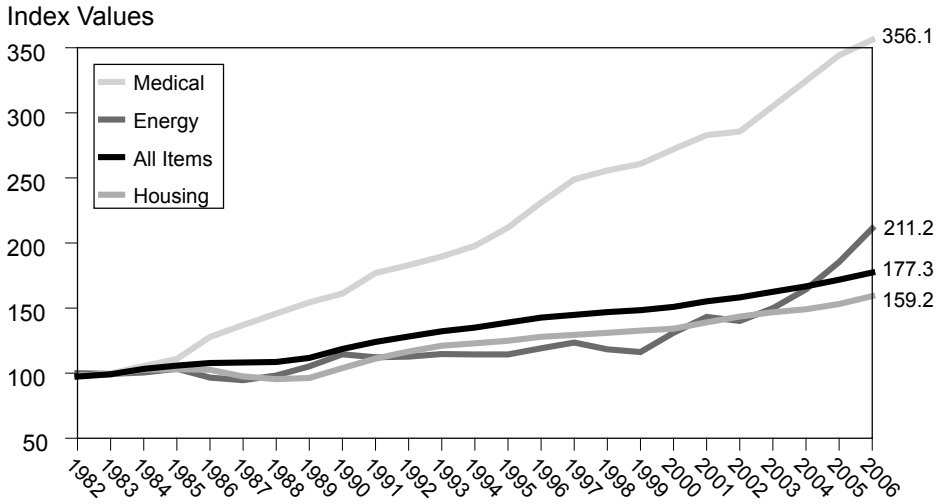
The Bureau of Labor Statistics instituted this method, in part, because it determined that home purchases are a combination of a consumer expense for actual shelter and also an investment. Consumer expenditures on investments are excluded from the CPI, so the owner equivalent rent method was implemented to exclude the investment portion of what consumers were spending on housing.

This method explains why, in recent years, CPI housing numbers have increased at a rate well below the dramatic increases in actual housing prices. Because the rental value of an owned home isn't easily determined and, in the end, can't be completely verified, the CPI housing numbers garner a lot of attention from those trying to understand what's behind changes to the overall CPI.

CPI housing numbers are also of special interest because they tend to give the CPI a local flavor. Costs for most other consumer expenditures are dictated more by national and international conditions than by local ones, but housing prices differ substantially throughout the country.

Health Care Increases Are in Their Own League 5

Selected components of the Anchorage CPI, 1982 to 2006



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

Rural Alaskans Pay More 6

Food Cost Survey, June 2007

	Food at Home for a Week[1]	Heating Oil, per Gallon
Naknek	$273.36	$3.94
Kotzebue	$255.08	$4.26
Bethel	$236.56	$4.59
Nome	$207.93	$3.70
Cordova	$188.68	$3.92
Dutch Harbor	$185.13	$5.94
Seward	$165.50	$2.84
Kodiak	$162.73	$3.00
Homer	$160.42	$2.75
Delta Junction	$159.30	$2.41
Haines	$157.08	$3.31
Sitka	$153.78	$3.35
Kenai-Soldotna	$135.84	n/a
Ketchikan	$132.81	$3.18
Anchorage	$122.95	$3.61
Palmer-Wasilla	$121.07	$2.77
Fairbanks	$120.64	$2.68
Portland, Ore.	$100.67	$1.85

Note: Juneau wasn't included in the June 2007 Food Cost Survey.
[1] The cost for a family of four with children ages 6 to 11.

Source: University of Alaska Fairbanks' Cooperative Extension Service

7 Fuel Extra Expensive in Rural Areas
DCCED fuel price survey, June 2007

Selected Communities[1]	Heating Fuel No. 1 (Residential, per Gallon)	Gasoline (Regular, per Gallon)	Method of Transportation for Importing Fuel
Arctic Village	$6.36	$7.00	air
Hughes	$6.00	$6.00	air
Nondalton	$5.55	$5.69	air
Hooper Bay	$5.15	$5.32	barge
Huslia	$5.00	$5.00	barge
Russian Mission	$4.99	$5.52	barge
Brevig Mission	$4.80	$5.10	barge
Emmonak	$4.71	$4.89	barge
Gambell	$4.65	$4.89	barge
Akiak	$4.60	$4.95	barge
Kotzebue	$4.02	$4.20	barge
Nelson Lagoon	$3.98	$4.26	barge
Dillingham	$3.77	$4.96	barge
Port Lions	$3.70	$4.00	barge
Hoonah	$3.40	$3.78	barge
Chenega	$3.30	$3.70	barge
Juneau	$3.28	$3.29	barge
Unalaska	$3.17	$3.20	barge
Petersburg	$3.06	$3.10	barge
Kodiak	$2.93	$3.64	barge
Valdez	$2.69	$3.20	refinery/barge
Homer	$2.65	$3.11	barge/truck
Nenana	$2.64	$3.16	truck
Delta Junction	$2.58	$3.01	truck
Fairbanks	$2.47	$2.89	refinery/truck
Atqasuk[2]	$1.40	$4.10	barge/air
Barrow[3]	--	$4.55	barge

[1] This is just a partial list of the 100 communities surveyed.
[2] The North Slope Borough subsidizes heating fuel prices in Atqasuk and all other communities in the borough.
[3] Barrow uses natural gas as a source of heat.

Source: Alaska Department of Commerce, Community and Economic Development's Current Community Conditions: Fuel Prices Across Alaska, June 2007 Update

This was evident in the late 1980s when Alaska was in the midst of a recession and housing prices plummeted. As a result, the overall inflation rate in both 1987 and 1988 was just 0.4 percent compared to 3.6 percent and 4.1 percent for the U.S. as a whole.

The second way to look at the cost of living: geographic differences

While the CPI gives the most authoritative answer to questions about how much prices are rising over time in one location, determining cost differences between locations is a little more complicated. There's quite a bit of information on the subject – especially for the state's larger communities – but comprehensive and definitive answers are harder to come by because consumption patterns can be so different from one area to the next.

Naknek's food costs are more than double Anchorage's

Four times a year, the University of Alaska Fairbanks' Cooperative Extension Service surveys communities around the state and Portland, Ore., to determine price differences for a low-cost, nutritionally balanced diet. Prices are also gathered for electricity, heating oil, automobile gas, lumber and propane.

The food cost survey is useful because it covers so many different communities – for many of them there is very little other price comparison data – and because it has been produced consistently for so many years. As a broad cost-of-living measure, however, its use is limited since it is restricted to food and energy costs and because it uses an identical market basket for all the communities studied, despite the fact that there may be significant differences between the food items actually consumed by a family in Anchorage and that consumed by a family in Bethel.[4]

In recent years the study began including cost calculations for the wide-spread practice in rural Alaska of having grocery items shipped from urban merchants, but items that are imported as baggage or private cargo aren't included and neither is subsistence-harvested food.

Within Alaska, according to the June 2007 survey, a family of four enjoyed the lowest food costs in Fairbanks and Palmer-Wasilla, although all the Alaska communities surveyed had noticeably higher food costs than Portland. (See Exhibit 6.) The highest cost areas tend to be the most remote, requiring delivery by air or barge. Naknek, Kotzebue, Bethel, Nome and Dutch Harbor belong in this category, with food costs

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

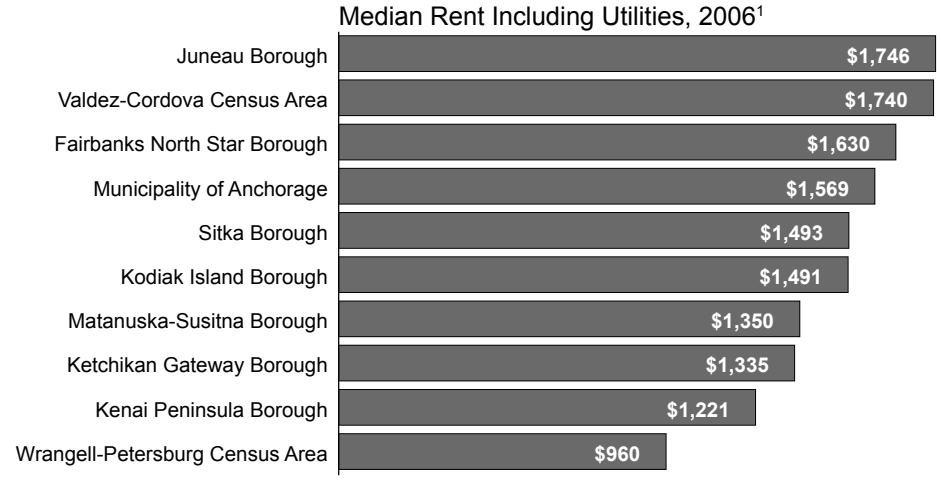
as high as twice those in the state's more urban and accessible areas.

Despite these communities' distance from the state's population centers, all of them are regional hubs, so to the extent transportation costs are responsible for high prices, Alaska's more remote villages would face even higher food and energy costs.

A semi-annual fuel price survey conducted by the Alaska Department of Commerce, Community and Economic Development confirms this. Arctic Village and Hughes, two small communities in the Yukon-Koyukuk Census Area that rely on air transportation for fuel deliveries, pay significantly more for heating fuel and gasoline than areas served by barge or truck. (See Exhibit 7.)

Rents Highest in Juneau and Valdez-Cordova
Median rent and utilities for a single-family home, 2006

8



[1] For a single-family home

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation's 2006 Rental Market Survey

Rents lower in Wrangell-Petersburg and on Kenai Peninsula

Housing costs can be a good proxy for a community's cost of living when making geographic comparisons because they make up such a large share of total household expenditures.

A 2006 survey of rental prices in 10 areas around the state, conducted by the Alaska Department of Labor and Workforce Development for the Alaska Housing Finance Corporation, shows that rent for both homes and apartments was highest in Juneau and lowest in the Wrangell-Petersburg Census Area. (See Exhibits 8 and 9). Rents were also low for both the Kenai Peninsula and Matanuska-Susitna boroughs.

Highest average sales price for homes in Anchorage

During the first quarter of 2007, Anchorage had the highest average sales price for single family homes and Ketchikan had the lowest. (See Exhibit 10.) The results from this survey of lenders' activity, also conducted by the Department of Labor for the Alaska Housing Finance Corporation, are a little less useful as a proxy for cost-of-living comparisons because the number and quality of homes sold can vary widely, especially in the smaller communities surveyed.

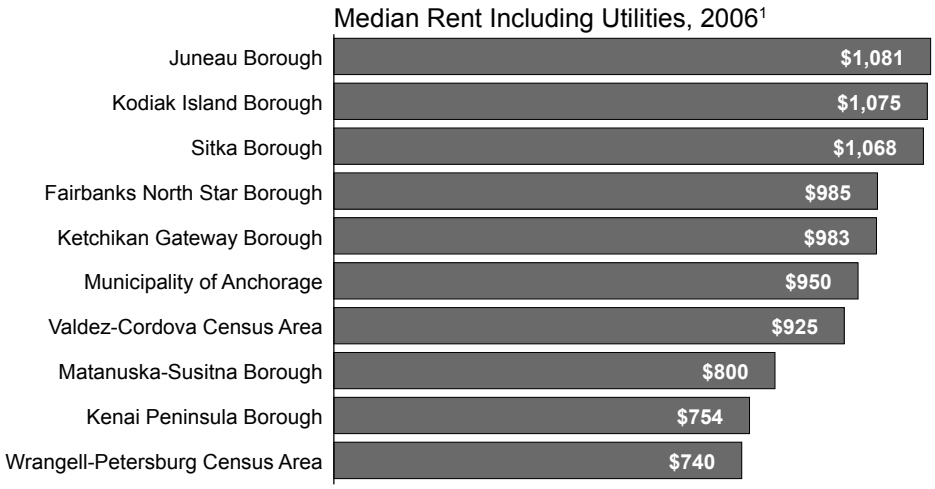
Due to the relatively small number of loans reported in the Bethel area, for example, average prices tend to rise and fall dramatically from quarter to quarter and year to year. The average home prices for larger communities will jump around less and be more useful for making comparisons, but no adjustments are made for the size, quality or age of the homes sold so the data should be viewed only as a rough approximation of actual housing costs.

ACCRA focuses on high income households

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, however, is on professional and managerial households with incomes in the top 20

[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.

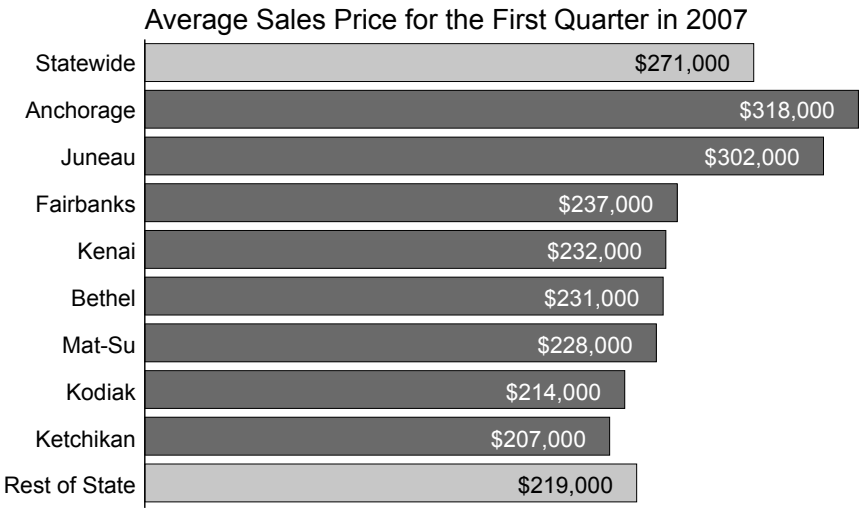
9 Apartments Cost Most in Juneau and Kodiak
Rent for two-bedroom apartments and utilities, 2006



[1] For a two-bedroom apartment

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation's 2006 Rental Market Survey

10 Home Sales Prices Highest in Anchorage
Average price for single-family home, first quarter 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation's 2007 Survey of Lenders' Activity

percent for the area. Consequently, its market basket and the weights assigned to the different components are different than they would be if the focus was on the average consumer.

The ACCRA data continue to show that the four Alaska cities surveyed (Anchorage, Fairbanks, Juneau and Kodiak) are significantly more expensive than the average ACCRA city. (See Exhibit 11.) Housing costs, which account for 28 percent of total costs, were as much as 50 percent higher than average for the Alaska cities. Costs were generally higher for all the components, with the one exception being Anchorage utilities.

Changes to the federal government COLA

For over four decades most federal workers in Alaska received a 25 percent cost-of-living adjustment to their wages. At some point in the state's history, that figure was probably related to broad cost-of-living differentials between Alaska and other states, but the federal government decided that was no longer the case and decided to phase out the adjustment in exchange for something a little more precise.

After conducting cost studies, it was determined that federal workers within a 50 mile radius of Juneau would receive an 18 percent cost-of-living adjustment, those within 50 miles of Fairbanks would get 16 percent, and those within 50 miles of Anchorage would get 14 percent. Federal workers in other parts of the state would continue to receive 25 percent.

The 25 percent adjustments for workers in Juneau, Fairbanks and Anchorage were scheduled to be reduced by 1 percent a year until the new levels were reached. The adjustments were reduced as scheduled in 2006, but the second reduction has been postponed until March 2008. An additional complication arose with proposed legislation to eliminate cost-of-living adjustments altogether and move

Alaska Cities More Expensive for Professional Households

ACCRA[1] cost of living index for selected cities, first quarter 2007

11

	Items Index Costs	Grocery Items	Housing	Utilities	Transportation	Health Care	Miscellaneous Goods and Services
Anchorage	126.1	124.7	143.8	94.0	110.2	131.7	125.4
Fairbanks	132.8	122.1	147.6	165.6	113.6	140.2	120.2
Juneau	134.5	135.8	150.0	137.8	127.1	144.6	121.7
Kodiak	122.7	145.5	115.1	127.6	132.4	135.0	114.7
West							
Portland, Ore.	121.7	122.3	133.3	104.8	125.0	110.3	117.5
Honolulu	165.3	152.9	250.1	139.3	127.8	110.0	126.7
San Francisco	172.1	148.7	273.2	88.6	131.8	126.2	140.4
Las Vegas, Nev.	109.0	96.4	129.6	110.4	112.7	107.5	95.8
Southwest/Mountain							
Salt Lake City	100.4	103.5	97.8	89.0	104.8	99.8	103.3
Phoenix	101.7	98.0	103.4	94.1	105.2	100.8	102.8
Denver	102.3	99.5	110.4	110.2	90.0	109.5	97.4
Dallas	92.5	96.7	76.1	99.3	104.0	98.5	98.1
Midwest							
St. Coud, Minn.	98.8	94.6	90.4	105.2	97.0	96.2	106.2
Cleveland	98.1	108.3	88.4	112.7	95.6	102.6	98.2
Chicago	111.7	107.6	128.3	108.6	112.7	104.2	101.2
Southeast							
Orlando, Fla.	103.4	98.0	101.8	110.4	106.1	102.4	104.0
Mobile, Ala.	92.4	98.5	77.6	101.9	89.9	84.4	100.7
Atlanta	95.3	97.0	94.8	78.7	99.8	105.8	97.5
Atlantic/New England							
New York (Manhattan)	213.7	145.3	396.2	153.0	128.3	126.9	144.7
Boston	132.8	119.6	168.1	111.0	104.7	132.4	123.8
Philadelphia	124.8	127.8	143.6	117.0	112.7	109.0	116.2

Note: Index numbers represent a comparison to the average for all cities for which ACCRA volunteers collected data. For example, 117.4 means that city has 17.4 percent higher costs than average.

[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, First Quarter, 2007

Alaska to the locality pay system used in Lower 48 locations.

The military's cost-of-living index

In order to roughly 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 12.) The index compares prices for about 120 goods and services, including food, clothing, personal care, vehicles, transportation, medical care and utilities. The index doesn't include housing, which is treated separately by the military with specific housing allowances for different locations. It also doesn't cover taxes or insurance.

The military index is helpful because it includes data for so many Alaska locations – 23 in 2007 – and also because it's updated frequently. The highest prices, according to the index, were in Barrow, Bethel, Nome and Wainwright. The

12 Military Survey: Wasilla Last

OCONUS[1] Index, Alaska 2007

Military Cost-of-Living Index	Index
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
Spuce Cape (on Kodiak Island)	128
Unalaska	128
Delta Junction	126
Clear Air Station, USAF (south of Nenana)	124
College	124
Fairbanks	124
Anchorage	122
Wasilla	120

[1] OCONUS is an acronym for Outside the Continental United States; Alaska is counted as an OCONUS location.
[2] An index number indicates the area's relationship to the average U.S. location. For example, an index of 120 means the location is 20 percent more expensive than the average U.S. location.

Source: Department of Defense, as posted in July 2007

lowest were in Wasilla, Anchorage, Fairbanks, Clear and College (within the Fairbanks North Star Borough).

With index numbers from 152 to 120, the military index indicates that even its lowest cost Alaska location is still 20 percent more expensive than average for the Lower 48.

In general, the military index confirms what the other surveys and reports show: that Alaska tends to be more expensive than the nation as a whole and that living costs are especially high in rural Alaska.

What would $100 in 1980 equal today?

The Anchorage Consumer Price Index can help determine how much money it would take today to equal a dollar amount from some earlier year. To illustrate, this equation shows how $100 in 1980 would be equal to $203 in 2006.

2006 Anchorage CPI (see Exhibit 2)
Divided by 1980 Anchorage CPI

$$\frac{177.3}{85.5} = 2.03$$

The 2.03 is then multiplied by the number of 1980 dollars in order to find the 2006 equivalent ($100 x 2.03 = $203). Another way to describe this is to say that $100 in 1985 had the same purchasing power as $203 had in 2006.