

# 2020 hints at a first: deflation

## Consumer prices continue to fall as pandemic dents demand

### About the data

The Consumer Price Index for Urban Alaska is the de facto inflation measure for the state.

Alaska's index is based mainly on Anchorage price data, but it also draws from the Matanuska-Susitna Borough and Fairbanks.

The Bureau of Labor Statistics produces the CPI for Alaska every other month, starting with February, which means two-thirds of 2020's data has been released.

The CPI is tied to bargaining agreements, wage negotiations, rental agreements, child support payments, and real estate contracts. Alaska's minimum wage is also adjusted annually based on this index – effective January 2021, the state's minimum wage will increase from \$10.19 to \$10.34 per hour.

By NEAL FRIED

Our annual cost-of-living issue, released in July, detailed the pandemic's downward pressure on Alaska's consumer prices through April. Now, additional data through August show that deflation has continued. So far, 2020's prices have dropped 2.0 percent relative to the same period last year.

Alaska's urban consumer price index comes out every other month, beginning with February, which means two-thirds of 2020's releases are already available. The numbers suggest annual deflation for the first time since the index was first calculated in 1960. All four available reporting periods show deflation, from a low of -0.3 percent in February to a high of -3.8 percent in June.

Alaska's economy began to shut down in March due to COVID-19 and remains weak. With global demand tanking for many goods and services, this ongoing weakness isn't unique to Alaska – but of all the nation's consumer price indexes generated at the state or city level, Alaska's is the only one showing consistent overall deflation this year. The reasons aren't yet clear, and it will take time to know whether it's a temporary aberration, especially if the economy rebounds with any vigor.

Lowest inflation in Alaska's history:

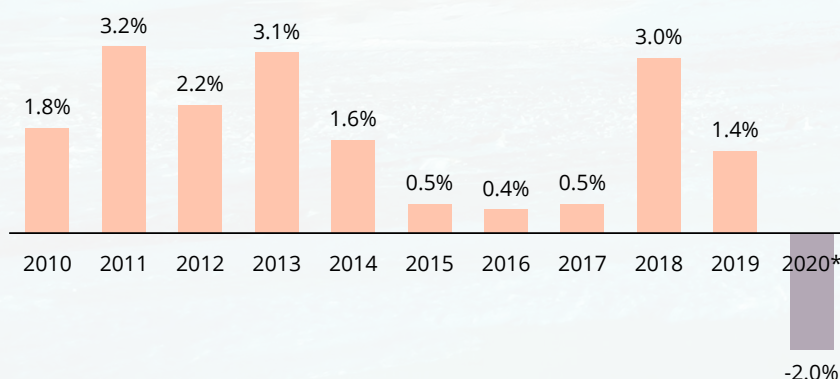
0.3% in 1963

0.4% in 1987 and '88

0.4% in 2016

0.5% in 2015 and '17

### Alaska's urban consumer price index shows deflation this year



\*Based on indexes for February, April, June, and August

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

## A closer look at August, by category

The most recent release recorded -1.5 percent deflation for August from August 2019, and the breakdown by spending category at right shows most categories were down.

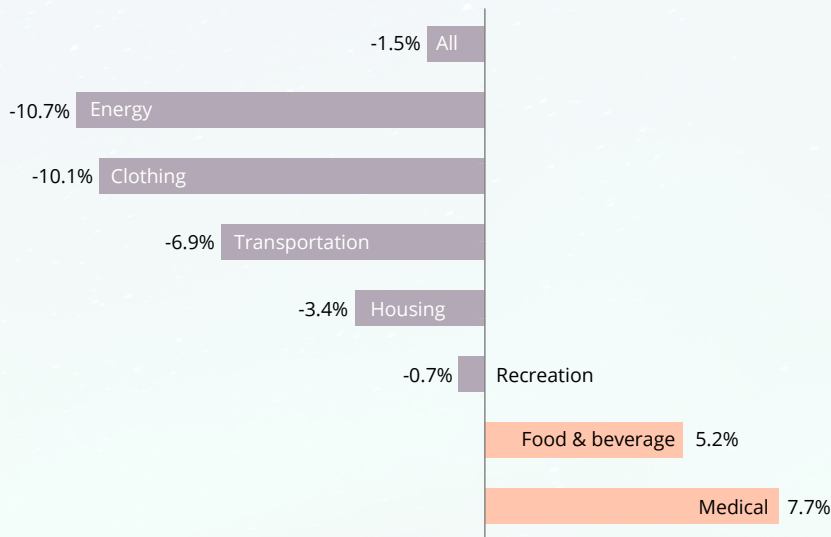
COVID-19 is a clear driver. Energy prices fell 10.7 percent from last August due mainly to the oil price collapse at the pandemic's onset and the corresponding fall in consumer gas prices. While oil prices have recovered somewhat, they remain well below year-ago levels.

Transportation costs dropped in concert (-6.9 percent). The drop in flight demand and resulting lower-priced plane tickets also contributed to transportation's decrease.

Clothing's price decline was second-largest at over 10 percent. Unlike most items, apparel costs have declined before. It's a competitive market, with large parts of the world competing to make clothes, and the battle between rising e-commerce and brick-and-mortar stores is a compounding factor. Either way, fewer people have bought clothes during the pandemic, as many are unemployed and even more are working or attending school from home.

Housing is the most important category because it's where people spend the largest portion of their income. It influences the overall index value the

## Health care, food prices continued to rise in August as other items declined



Note: Compares August 2020 to August 2019

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

most, representing 42 percent of the total.

Housing costs declined by 3.4 percent from last August. In addition to the pandemic, increasing rental vacancy rates and record low interest rates have pushed prices down, and so has lower demand due to population decline.

Some items' costs have continued to rise. Food and beverage costs increased 5 percent over the year and medical costs continued their long historical streak of robust price increases.

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