

Inflation Lowest Since 1988

Energy cost drop was the biggest change in Anchorage Consumer Price Index

By **NEAL FRIED**

It isn't big news to most Alaskans that energy prices have fallen dramatically over the past year. We're reminded every time we fill our cars or read the news, and we know that falling oil prices have put a major damper on our state budget. But inflation went up just half a percent in 2015, largely related to that price drop, and that's also big news because it affects us in a number of other ways.

The inflation rate of 0.5 percent for Anchorage, which has the state's only consumer price index, is the lowest recorded since 1988. (See Exhibit 1.) This rate is tied to bargaining agreements and wage rate negotiations,

child support payments, and real estate agreements. Also, beginning next year, Alaska's minimum wage will be adjusted annually according to the inflation rate.

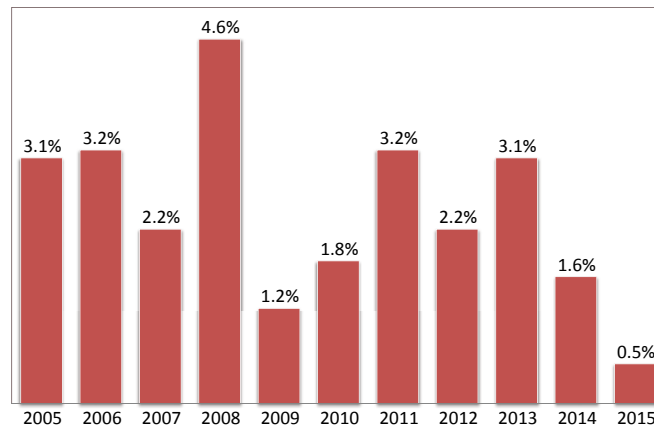
Energy prices and transportation

The Anchorage Consumer Price Index, which measures the change in the values of goods and services in the city, shows energy costs fell by 10.3 percent in 2015, the largest annual decline since 2009. (See Exhibit 2.) Gasoline prices alone fell nearly 25 percent.

Energy is the most volatile category of the consumer price index, and it has a big effect on transportation, which correspondingly fell by nearly 7 percent last

1 Inflation Was 0.5 Percent in 2015

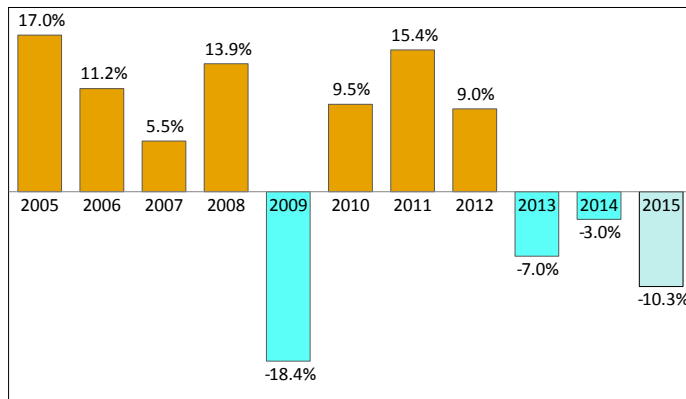
ANCHORAGE CONSUMER PRICE INDEX, 2005 TO 2015



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

2 Energy Prices Took a Nose Dive

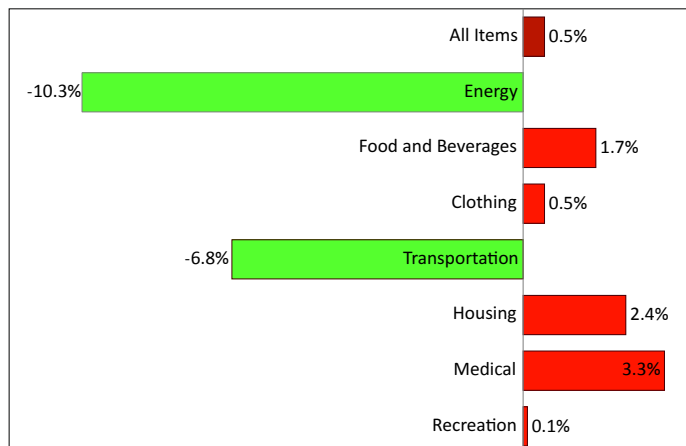
PERCENT CHANGE BY YEAR, 2005 TO 2015



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

3 Price Changes for Various Goods

ANCHORAGE CONSUMER PRICE INDEX, 2015



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

year. After housing, transportation has the second-largest “weight” in the consumer price index at 16 percent, which refers to the percentage of a household’s income they spend in that category.

The drop in energy prices has little effect on the cost of heating in most Anchorage homes, though. Most use natural gas, for which prices are regulated by the Alaska Regulatory Commission.

It may seem counterintuitive, but Anchorage’s piped gas prices *increased* by 7 percent in 2015, while in the mostly unregulated U.S. overall, they fell by 12 percent and pushed national inflation rates even lower than Anchorage’s. National inflation was 0.1 percent in 2015, the second-lowest rate since 1960.

Other categories fell too

Lower energy prices weren’t the only reason the inflation rate hit a near-historical low. (See Exhibit 3.) Food, the category with the third-largest weight, increased just 1.7 percent, in contrast to the 10-year average of 2.7 percent annually. Clothing prices also increased by just half a percent, and the cost for recreation remained nearly the same.

Housing was an exception

Because consumers spend the largest chunk of their money on housing each year, it’s the category with the largest weight at 41 percent. Anchorage housing costs went up 2.4 percent in 2015, which was above the decade average of 2.0 percent. Some of that jump was due to Anchorage homes using natural gas. If Anchorage homes used fuel oil, like most of the state outside Southcentral, the cost of housing would have increased less.

Among all the major categories in the index, medical costs increased the most. This was no surprise, as no other category has come close to health care’s cost increases since the early 1980s.

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