

## STATEWIDE IN ALASKA

*This month the Trends looks at some of the reasons for the increasing parity between Anchorage prices and national average costs of living.*

One of the outstanding features of the Alaska economy in recent years has been the tremendous economic growth and expansion of the greater Anchorage area. In the last six to eight years, the population of the area has increased very rapidly, which has in turn generated a tremendous demand for housing, retail trade, and service facilities. One of the most interesting aspects of this rapid economic expansion and of central concern here, is the behavior of consumer price indices in this growth economy, for they have not followed the typical pattern for consumer price indices in such a growth setting. In an area such as Anchorage, typified by rapid but seasonal growth, large construction expenditures, a relatively inelastic supply of skilled labor, goods, and investment capital, and the dependence on the lower 48 states, prices should logically rise very quickly. Anchorage prices have however, behaved in just the opposite manner. Since 1965, Anchorage price indices have risen about 19%, compared to a national average increase of about 28% in the same period. This comparison suggests that (1): there are certain elements of the Anchorage economy that isolate it from national inflationary pressure, or (2): certain "deflationary" forces in the Anchorage economy are offsetting national inflationary influences, or (3): some combination of both factors is at work, holding down the rate of inflation.

Analysis of the Anchorage situation seems to indicate that sheer remoteness is the only factor that serves to isolate the Anchorage economy from national inflationary pressure. Although Anchorage has more contact with the "outside" than any other city in Alaska (because of news coverage, presence of many national corporations, immigration from other States, and heavy military influence, plus other facets of the "outside") separation from the contiguous states has fostered an economic uniqueness in Anchorage, as well as the rest of the State. To some extent the remoteness of Alaska and Anchorage does provide some insulation from national economic trends, but these do not appear to be the primary factor in the lower-than-national rate of inflation in the Anchorage area. Hence, there must be powerful deflationary forces at work, countering the national trend.

Demand—pull inflation of consumer goods and

service prices, a common phenomena of economies with rapidly expanding populations, has been tempered in Anchorage by intense competition among sellers in the retail sector. Despite the fact that the ratio of retail outlets to population in Anchorage is lower than the nationwide average, few companies control a disproportionate share of retail outlets, hence, competition and lower prices have been the result. There is true competition among sellers in almost every retail category in Anchorage. In addition to the factor of competition, the increasing size of the Anchorage market has brought with it economies of scale, which act as a counter-inflationary force. Sellers can obtain lower wholesale prices by buying and selling in quantity, and can lower retail prices without changing their profit margin.

A "revolution" in the transportation of cargo into the Anchorage economy has been as important (if not more so) a deflationary factor in recent years as the aforementioned competition and economies of scale. This revolution, brought about by the advent of water-borne containerized freight, has had a tremendous deflationary effect on this economy. The prime container shipper into Anchorage, Sea-Land Service Inc., has steadily increased the quantity and quality of its container freight service into the area, and the results are manifested in lower freight rates from Seattle to Anchorage in 1971 than in 1964. These reductions have served to cut the potential inflationary effect of transportation costs, and have narrowed the gap between Anchorage and U. S. average prices on commodity goods handled. For example, canned goods could be shipped from Seattle to Anchorage for \$1.36 per hundred pounds in 1971, compared to \$2.42 per hundred in 1964. Building materials could be shipped for \$1.85 per hundred in 1971, compared to \$3.00 in 1964. Meat could be shipped for \$2.90 per hundred in 1971 versus the \$6.00 tariff in 1964. These reductions in transportation costs have been a major deterrent to rapidly increasing inflation in the Anchorage area.

Still another deterrent to inflation in Anchorage is the seasonality of many wages, particularly in the construction industry. Construction employment, which has tremendous inflationary impact, is

generally limited to a six to eight month period each year, and in the off-season construction workers live off accumulated savings, if any, and unemployment insurance. A survey of expenses in the Anchorage area shows that unemployed construction workers curtail spending considerably in the off-months, limiting the inflationary impact of these wages. Other industries in the area have a degree of seasonality also, and the effect on the economy is the same. There is also significant out-migration of seasonal workers during the fall months, and these people take a good deal of money out of the Anchorage economy which would otherwise contribute to local inflation.

To be sure, prices have been rising in the Anchorage economy, but this inflation has been of the "normal" variety, averaging 2.7% per year for the last seven years rather than the runaway type that has occurred nationally, prompting drastic action by the federal government. The gap between Anchorage and U. S. average prices has been steadily decreasing, particularly in the category of food consumed at home. Other indices such as housing have been increasing at approximately the same rate in Anchorage as in the lower 48. As the Anchorage economy continues to expand, greater parity between U. S. average prices and those in Anchorage will probably be achieved, although certain factors such as the construction of the Trans Alaska pipeline could boost Anchorage's inflation considerably.

## ALASKA'S ECONOMY IN FEBRUARY

**Mining:** The low levels of employment that have typified the mining industry this winter continued in the month of February. The lack of activity in the oil and gas exploration sector is primarily responsible for this year's employment figures totaling 500 less than last year.

Observers are optimistic that break-up will trigger a good deal of exploratory activity in the hardrock mineral sector.

**Construction:** The start of a few construction projects in February caused employment to increase 200 over the month. Total employment in the industry is virtually the same as last year at this time. The number of unemployed construction workers increased rather drastically during February, jumping by more than 600 persons, and now closely approximates the number of unemployed noted last year in February.

**Manufacturing:** Employment in manufacturing was unchanged during the month, as there were no factors

working to upset the stable winter employment pattern. The water shortage and cannery closure in the city of Kodiak have depressed employment figures by approximately 500 positions, not including fishermen also idled. Limited fishery operations are taking place in Kodiak, as two processing plants utilizing saltwater instead of freshwater have continued to operate.

INDUSTRY	(Thousands)			Changes From:	
	2-72	1-72	2-71	1-72	2-71
CIVILIAN WORKFORCE.....	116,700	113,100	111,900	3,600	4,800
INVOLVED IN WORK STOPPAGES.....	200	200	0	0	200
TOTAL UNEMPLOYMENT.....	15,800	12,700	14,300	3,100	1,500
Percent of Workforce.....	13.5	11.2	12.8	-	-
TOTAL EMPLOYMENT <sup>2/</sup> .....	100,700	100,200	97,600	500	2,100
Nonagricultural Wage & Salary <sup>3/</sup> .....	89,300	88,900	86,300	400	3,000
Mining.....	1,900	1,900	2,400	0	- 500
Construction.....	4,300	4,100	4,200	200	100
Manufacturing.....	4,700	4,700	5,200	0	- 500
Food Processing.....	1,500	1,500	2,100	0	- 600
Logging-Lumber & Pulp.....	2,000	2,000	1,900	0	100
Other Manufacturing.....	1,200	1,200	1,200	0	0
Transp.-Comm. & Utilities.....	9,000	9,100	9,100	- 100	- 100
Trucking & Warehousing.....	1,000	1,100	1,200	- 100	- 200
Water Transportation.....	500	500	600	0	- 100
Air Transportation.....	2,600	2,600	2,800	0	- 200
Other Transp.-Comm. & Utilities..	4,900	4,900	4,500	0	400
Trade.....	15,800	15,700	14,800	100	1,000
Wholesale Trade.....	3,300	3,200	3,000	100	300
Retail Trade.....	12,500	12,500	11,800	0	700
General Merchandise & Apparat...	3,400	3,500	3,100	- 100	300
Food Stores.....	1,800	1,700	1,700	100	100
Eating & Drinking Places.....	3,000	3,100	2,800	- 100	200
Other Retail Trade.....	4,300	4,200	4,200	100	100
Finance-Insurance & Real Estate...	3,400	3,400	3,100	0	300
Service & Miscellaneous.....	12,300	12,200	11,700	100	600
Government <sup>4/</sup> .....	37,900	37,800	35,800	100	2,100
Federal.....	16,300	16,400	16,300	- 100	0
State.....	12,000	11,800	10,800	200	1,200
Local.....	9,600	9,600	8,700	0	900

<sup>1/</sup> Estimated in accordance with techniques recommended by U. S. Bureau of Labor Statistics.

<sup>2/</sup> Includes domestics, nonagricultural self employed and unpaid family workers, and agricultural workers.

<sup>3/</sup> Prepared in cooperation with the U. S. Bureau of Labor Statistics.

<sup>4/</sup> Includes teachers in primary and secondary schools, and personnel employed by the University of Alaska.

**Transportation, Communications, and Public Utilities:** No significant change in employment levels occurred in February in any sector of this industry, which is traditionally very stable throughout the winter months. The longshoremen's strike in southcentral Alaska was largely responsible for the loss of approximately 150 jobs during the month.

**Trade:** "No change" is again the word to describe the employment situation in February, and this should continue to be the case until the summer months. Employment is remaining steady, approximately 1,000 positions higher than last year, indicative of the expansion of retail trade outlets, primarily in the Anchorage area.

**Finance, Insurance, & Real Estate:** Estimated employment in the finance and real estate industries