

Highest inflation in 30+ years

Urban Alaska's prices increased 4.9 percent in 2021

By NEAL FRIED

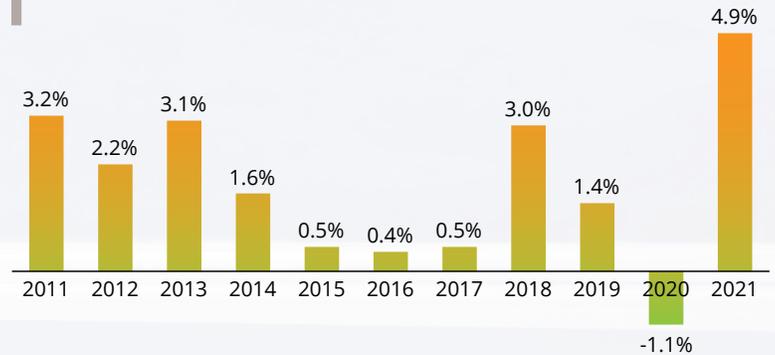
Costs jumped 4.9 percent in 2021, the highest annual inflation rate measured by the Consumer Price Index for Urban Alaska since 1990.

Looking at inflation at various points throughout the year, which is measured from the same month the year before, shows prices rose faster as the year went on.

It's important to keep in mind that 2021's inflation is relative to 2020, a year when prices fell and in some cases hard, so some increase was anticipated in 2021 as the economy started to recover.

In February, prices were up just 1.3 percent from the prior February, before the pandemic hit. The

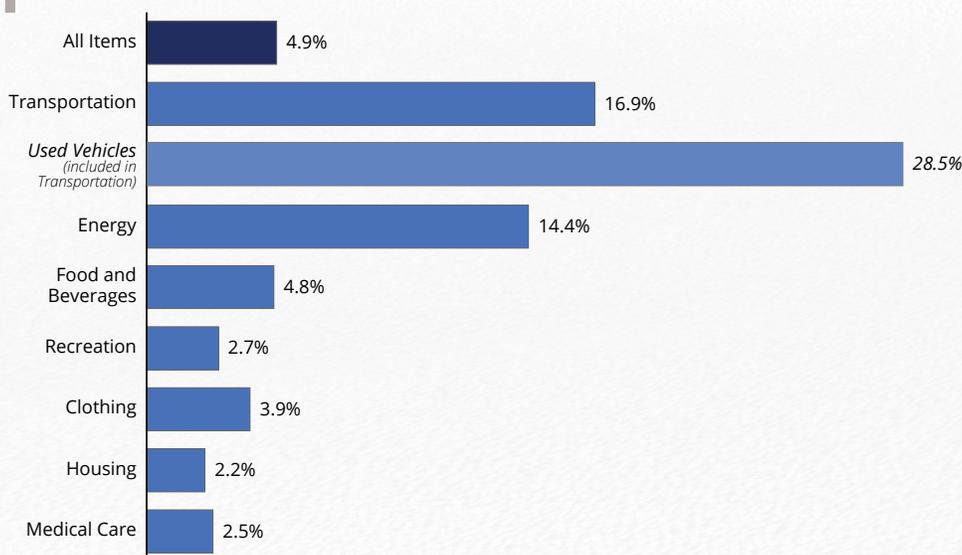
Costs spike after historic 2020 deflation



Source: U.S. Bureau of Labor Statistics, Consumer Price Index (CPI-U) for Urban Alaska

inflation rate climbed to 4.8 percent for April and 7.2 percent by December. (See the sidebar on the next page for more on the consumer price index.)

Alaska price increases by category for 2021



Source: U.S. Bureau of Labor Statistics, Consumer Price Index (CPI-U) for Urban Alaska

A close look at 2 unusual years

The story of COVID-19's influence on costs is one for the books. 2020 was the first time in Alaska's history that the CPI annual rate registered deflation, or at least since we began measuring in 1961. Overall, prices fell 1.1 percent in 2020.

The demand for goods and services plummeted early in the year when the pandemic began, prompting prices to drop in nearly every expenditure category — especially energy.

Energy costs fell 10.6 percent with the oil price collapse, which seeped into several other categories; for example, it helped push transportation costs down 6.8 percent. The cheaper plane tickets that followed the evaporation of air travel demand also contributed.

Clothing prices fell 6 percent over the year, and housing costs decreased 1.9 percent.

The great reversal in 2021

The economy began to rebound in 2021, and oil prices reversed course. Air travel resumed and grew more popular as the year progressed.

Resurging demand for a wider variety of goods and services accompanied the overall recovery in the local and national economies, and prices followed suit.

At the same time, the supply chain problems the pandemic wrought in 2020 continued to haunt us, adding fuel to the rise in prices when demand couldn't be met.

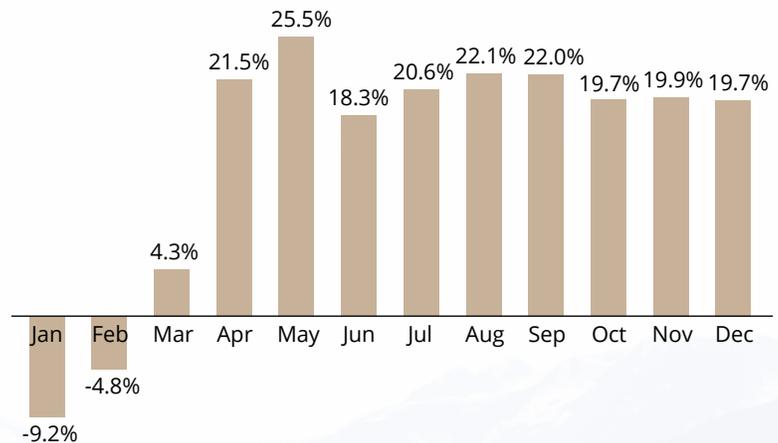
A look at price increases by spending category last year

Energy costs dropped the most in 2020, which brought an incredible spike in 2021 when oil prices rebounded. The collapse in demand for oil in 2020 depressed prices near all-time lows, but they moved closer to long-term averages in early 2021 as demand resumed.

While energy costs were still low when the year began, by May they were nearly 26 percent above the year before. Energy costs rose 14.4 percent in 2021 overall, which drove the 16.9 percent inflation in the transportation category.

The shortage of used cars that began in 2020 has persisted. In 2021, used car prices skyrocketed another 28.5 percent.

Energy costs surged in spring 2021



Source: U.S. Bureau of Labor Statistics, Consumer Price Index (CPI-U) for Urban Alaska

Food costs rose 4.8 percent. The largest culprit was higher meat prices, the result of supply chain problems from plant outbreaks.

In 2020, supply chain disruptions for new cars, the upside-down car rental market, stimulus checks, and low interest rates fired up demand for used vehicles.

Fewer new cars hit the market, especially the more affordable models. People became less likely

to trade in their cars or end their leases on new ones, making used cars harder to come by.

At the same time, car rental companies thinned their fleets as business waned with the start of the pandemic, then found themselves short-handed when demand resumed in 2021. As a result, rental car companies have been hanging on to the vehicles they have rather than regularly moving inventory into the used car market, exacerbating the shortage.

Food and beverage prices were another contributor to 2021's higher inflation. Food costs rose 4.8 percent in 2021, which was the biggest annual rise since 1995. For December alone, it was nearly 9 percent. The largest culprit was higher meat prices, the result of supply chain problems that followed plant outbreaks.

Housing costs rose modestly in 2021, a reversal of the moderate 2020 decline. Housing has a powerful influence on overall inflation, however, because it

carries the largest “weight” in the consumer price index. That means housing is where the average household spends the largest chunk of its monthly income.

While clothing is a small part of the consumer price index, it too changed course and rose in 2021. Unlike the other categories, clothing costs had already been decreasing before the pandemic. Similar to food, the rise in clothing costs was modest for 2021 overall, but in December it was 10 percent.

What to watch in 2022

Forecasting inflation can be a fool’s errand, so what the index will bring in 2022 remains a question mark.

Some economic observers at the national level expect inflation to slow this year as energy prices play a smaller role in the year’s numbers — the price of oil isn’t likely to rise much further — and supply chain issues work themselves out. However, others expect the opposite, that supply chain problems will persist and we’ll enter a long period of higher inflation.

We’ll have a better picture for 2022 when we release our annual cost-of-living issue in July. By then, the inflation rates for February and April 2022 will be available.

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About the consumer price index

To track inflation, the U.S. Bureau of Labor Statistics produces a national consumer price index and CPIs for 31 cities and larger areas around the country. The CPI for Urban Alaska is Alaska’s only inflation measure.

BLS releases the index bimonthly, starting with February, as well as annually and semiannually. The energy category and gasoline are exceptions; the bureau started releasing those data on a monthly basis in 2018.

Every January, BLS releases the annualized numbers for the previous year and calculates the annual rate, which is the most-used inflation number.

Consumer price indexes track costs over time in a single area and can’t be used to compare costs between places. Many businesses, organizations, and individuals use the inflation rate to adjust contracts or provide budgetary guidance. The rate is also used to adjust the value of the dollar over time.

For further detail and more 2021 inflation data, see the [July 2021 issue on the cost of living](#).