

The Cost of Living

by Neal Fried,
Brigitta Windisch-Cole, and
Dan Robinson, Labor Economists

The Alaska economy's long-running main attraction, seen through five or more different projectors

Around the water cooler and in serious circles, Alaska's cost of living has ever been a major source of conversation. Much lore and myth surround the cost of things in Alaska. Although the cost-of-living differential between Alaska and elsewhere in the nation has narrowed, it remains a topic of intense interest, ranking among the most requested economic data. This article is intended to satisfy most of these data needs.

Cost of living has two kinds of measures

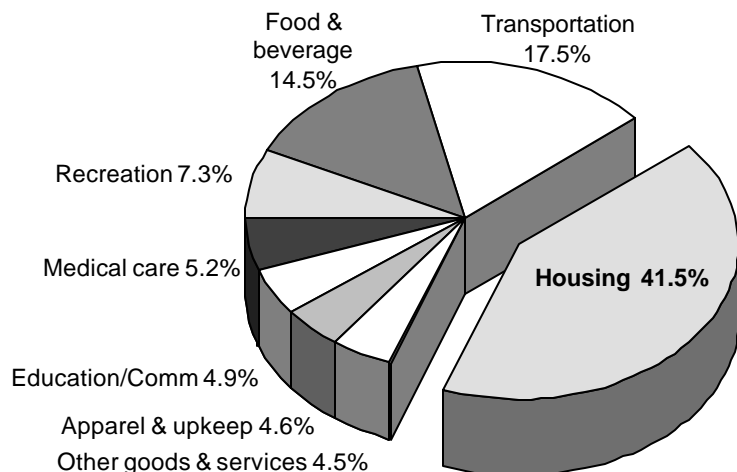
Two very different types of measurements are used for calculating cost of living. One observes the change in the cost of living from year to year in a specific place. It is popularly referred to as the inflation rate and it is measured by the Consumer Price Index (CPI). Workers, unions, employers and others pay close attention to it. Bargaining agreements and other wage rate negotiations often incorporate an adjustment for inflation. This rate also plays a role in long-term rental contracts, child support payments and other contracts. For example, each year the Permanent Fund Corporation uses the CPI to "inflation proof" the fund. If change over time is the key element in cost-of-living discussions, then the Consumer Price Index is used.

The other type of cost-of-living measure addresses the cost differences between two places, i.e., is it more expensive to live in Kodiak or Seattle?

Differentials result from comparing costs of living among different communities in Alaska and other places in the country. These studies assume a certain consumption pattern and investigate how much more or less it would cost to maintain a specific standard of living. These comparisons play a big role in relocation decisions. A variety of such measures is available, including the Runzheimer International index, the U.S. Department of Agriculture's cost-of-food at home for a week index, the American Chamber of

Housing is the Heavyweight In consumer spending **1**

Anchorage Consumer Price Index (CPI-U), December 2001



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

2 Consumer Price Index-Urban U.S. City and Anchorage averages, 1960-2001

Year	U.S. City Average	Percent Change from Prev. Yr.	Anchorage Average	Percent Change from Prev. Yr.
1960	29.6		34.0	
1961	29.9	1.0	34.5	1.5
1962	30.2	1.0	34.7	0.6
1963	30.6	1.3	34.8	0.3
1964	31.0	1.3	35.0	0.6
1965	31.5	1.6	35.3	0.9
1966	32.4	2.9	36.3	2.8
1967	33.4	3.1	37.2	2.5
1968	34.8	4.2	38.1	2.4
1969	36.7	5.5	39.6	3.9
1970	38.8	5.7	41.1	3.8
1971	40.5	4.4	42.3	2.9
1972	41.8	3.2	43.4	2.6
1973	44.4	6.2	45.3	4.4
1974	49.3	11.0	50.2	10.8
1975	53.8	9.1	57.1	13.7
1976	56.9	5.8	61.5	7.7
1977	60.6	6.5	65.6	6.7
1978	65.2	7.6	70.2	7.0
1979	72.6	11.3	77.6	10.5
1980	82.4	13.5	85.5	10.2
1981	90.9	10.3	92.4	8.1
1982	96.5	6.2	97.4	5.4
1983	99.6	3.2	99.2	1.8
1984	103.9	4.3	103.3	4.1
1985	107.6	3.6	105.8	2.4
1986	109.6	1.9	107.8	1.9
1987	113.6	3.6	108.2	0.4
1988	118.3	4.1	108.6	0.4
1989	124.0	4.8	111.7	2.9
1990	130.7	5.4	118.6	6.2
1991	136.2	4.2	124.0	4.6
1992	140.3	3.0	128.2	3.4
1993	144.5	3.0	132.2	3.1
1994	148.2	2.6	135.0	2.1
1995	152.4	2.8	138.9	2.9
1996	156.9	3.0	142.7	2.7
1997	160.5	2.3	144.8	1.5
1998	163.0	1.6	146.9	1.5
1999	166.6	2.2	148.4	1.0
2000	172.2	3.4	150.9	1.7
2001	177.1	2.8	155.2	2.8

1982-1984 = 100

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

Commerce Researchers Association index, information from Alaska Housing Finance Corporation, the web based indexes included at the end of this article, and others.

Caution is important when using these indicators

All measures of cost of living have their shortcomings. Because no two consumers spend their money alike, no index accurately captures all the differences. The average household in Barrow may spend its income quite differently than the average household in Juneau. And how those differences stack up against a household in San Francisco could be dramatic. Comparisons are not easy to make. People's spending habits are also continuously in flux. Technology keeps changing, tastes change and people react differently to changes in consumer prices. Most of the cost-of-living indexes approach the issue by measuring prices from a sample of goods and services that they believe best mimic the "average consumer" or a specific group of consumers. Items such as housing, food, transportation, medical, entertainment, etc., are included in these surveys. This list of items is often referred to as the "market basket." Some indexes go to great lengths to construct these market baskets and others are very simple. What is important is understanding the contents of this market basket and the specific consumers' buying habits it attempts to imitate.

How fast are prices rising?

The Anchorage Consumer Price Index (CPI) is the most important cost-of-living index in Alaska; indeed, it is the only CPI produced in the state. It provides a long-term record of local price changes and it is often treated as the de facto statewide inflation measure. Anchorage is one of 87 urban communities in the country where the U.S. Department of Labor's Bureau of Labor Statistics (the bureau or BLS) tracks consumer prices. In most cases, price changes in Anchorage probably do not differ radically from other communities in the state. However, some people prefer to use the national CPI.

The U.S. Department of Labor goes to great length and expense to produce the CPI. BLS conducts elaborate surveys of Anchorage consumers' spending habits to determine the location-specific weights of the goods in the market basket. The results, which affect the weights used in the CPI as shown in Exhibit 1, are published in the BLS consumer expenditure survey. To measure the price changes the bureau collects prices for goods and services in the market basket on a regular basis. The Anchorage CPI is produced on a semi-annual basis each year—for the periods January-June and July-December. After the July-December index is released in February of the following year, the annual average index, which is the most observed measure, can be calculated. (See Exhibit 2.) Two different indexes are produced—the Consumer Price Index for Wage and Clerical Workers (CPI-W) and the Consumer Price Index for All Urban Consumers (the CPI-U). The CPI-W consumer coverage is derived from a significantly smaller consumer group. The CPI-U is the more prominent and generally used measure. The rest of the references in this article to the CPI will be to the CPI-U.

CPI measures price change in single location

Although a national CPI and one for 87 communities around the country both exist, these indexes cannot be used to compare costs between different locations. The CPI only measures changes in prices in a particular location. It does not compare price levels of consumer goods in the various places. For example, in 2001 the annual average index for Anchorage was 155.2 compared to the national index of 177.1. (See Exhibit 2.) This does not mean that the cost of living was higher in the U.S. than in Anchorage. The evidence that one can glean from the other indexes is quite the contrary. What it does mean is that prices or inflation since the early 1980s have increased faster in the rest of the nation than they have in Anchorage. The reason for this is explained below. The base period for these indexes, (when they both equal 100) is 1982-1984.

Inflation generally low but did pop up

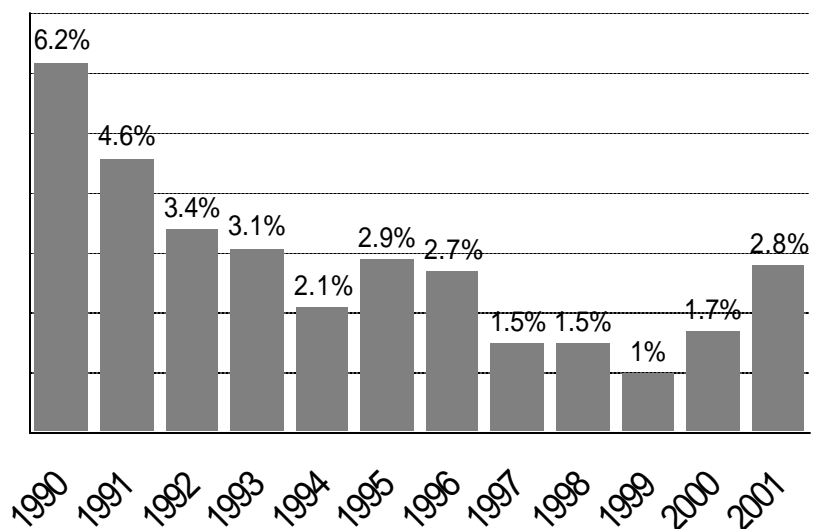
For the past eight years inflation in Anchorage has not exceeded three percent. (See Exhibit 3.) In 2001 it did increase to 2.8%, the highest level in six years, matching the national rate. The climb was largely due to a spike in natural gas prices which caused housing costs to go up 3.6%. Increases in health care costs were also a factor—rising by four percent.

Housing is the heavyweight

Exhibit 1 shows the different weights assigned within the CPI. Housing represents the single largest weight, because that is where the average consumer spends the largest share of each dollar. Housing has a powerful influence on the overall index. Housing also gives the CPI a local flavor because local market forces often influence housing prices. For example, during the mid to late 1980s when the Anchorage real estate market crashed, the overall CPI index recorded nearly zero inflation because housing costs took such a beating. During the same period the national housing market was robust, so the national index moved considerably

Anchorage Consumer Prices 3 Popped up in 2001

Consumer Price Index for All Urban Consumers (CPI-U)



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

ahead of Anchorage. During most of the past decade the Anchorage and national housing markets were not markedly different, although the national rates tended to rise a bit faster, causing inflation in the rest of the nation to be higher than in Anchorage. As already mentioned, in 2001 housing costs in Anchorage increased more than usual, driven by big increases in natural gas prices during the first half of the year. Whether this escalation in housing costs will continue is hard to predict.

The other reason why housing lends so much local character to the CPI is that costs of most other goods and services in the market basket are largely dictated by national or international trends. Price changes for gasoline, food, clothing, insurance, transportation, health care, recreation and most other goods and services are responses to national and global market conditions, not local ones.

Because of the strong weight housing carries, it is important to know some of its shortcomings as a measure. The CPI uses a housing cost configuration that is termed rental equivalency. It calculates the costs for home ownership from the current rental value of the same home on the open market. A problem develops when the housing market is in flux. When housing prices or rentals are changing quickly, the inflation rate for the housing portion of the CPI may be exaggerated. This occurs because many homeowners have long-term fixed interest rate mortgages, which reflect conditions of housing markets in the past. So in times when the local housing market becomes overheated and prices rise rapidly, property owners with fixed rate mortgages are not affected. In such an environment, the rate of inflation is overstated. The opposite scenario develops in a down market.

To eliminate the influence of the housing market on the CPI, the bureau produces an index that

4 Selected Components of CPI-U: Anchorage and U.S. City annual averages 1983-2001

Year	ALL ITEMS LESS SHELTER				HOUSING				FOOD & BEVERAGES			
	U.S. Average		Anch. Avg.		U.S. Average		Anch. Avg.		U.S. Avg.		Anch. Avg.	
	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	Percent Change from Prev. Yr.	
1983	99.8	3.7	99.9	3.7	99.5	2.7	99.0	0.8	99.5	2.3	99.7	2.6
1984	103.9	4.1	103.8	3.9	103.6	4.1	102.7	3.7	103.2	3.7	103.2	3.5
1985	107.0	3.0	107.5	3.6	107.7	4.0	103.0	0.3	105.6	2.3	106.2	2.9
1986	108.0	0.9	111.2	3.4	110.9	3.0	102.6	-0.4	109.1	3.3	110.8	4.3
1987	111.6	3.3	115.1	3.5	114.2	3.0	97.5	-5.0	113.5	4.0	113.1	2.1
1988	115.9	3.9	117.8	2.3	118.5	3.8	95.4	-2.2	118.2	4.1	113.8	0.6
1989	121.6	4.9	122.3	3.8	123.0	3.8	96.3	0.9	124.9	5.7	117.2	3.0
1990	128.2	5.4	128.0	4.7	128.5	4.5	103.9	7.9	132.1	5.8	123.7	5.5
1991	133.5	4.1	131.9	3.0	133.6	4.0	111.2	7.0	136.8	3.6	127.7	3.2
1992	137.3	2.8	134.6	2.0	137.5	2.9	116.6	4.9	138.7	1.4	130.3	2.0
1993	141.4	3.0	137.9	2.5	141.2	2.7	121.1	3.9	141.6	2.1	131.2	0.7
1994	144.8	2.4	140.3	1.7	144.8	2.5	122.9	1.5	144.9	2.3	131.9	0.5
1995	148.6	2.6	144.6	3.1	148.5	2.6	124.9	1.6	148.9	2.8	138.5	5.0
1996	152.8	2.8	148.4	2.6	152.8	2.9	127.9	2.4	153.7	3.2	143.4	3.5
1997	155.9	2.0	150.6	1.5	156.8	2.6	129.4	1.2	157.7	2.6	145.8	1.7
1998	157.2	0.8	152.6	1.3	160.4	2.3	131.0	1.2	161.1	2.2	147.3	1.0
1999	160.2	1.9	153.5	0.6	163.9	2.2	132.7	1.3	164.6	2.2	148.4	0.7
2000	165.7	3.4	156.1	1.7	169.6	3.5	134.2	1.1	168.4	2.3	151.7	2.2
2001	169.7	2.4	160.6	2.9	176.4	4.0	139.0	3.6	173.6	3.1	156.4	3.1

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

excludes housing. It is referred to as the CPI All Items Less Shelter component. (See Exhibit 4.) Using the Less Shelter index for comparison between Anchorage and the nation shows a smaller difference over the years.

Medical care rises the fastest

Although medical care is not a large enough component to push the overall index around very much, its meteoric rise in Anchorage over time has caught people's attention. (See Exhibit 5.) No other component of the CPI has approached the increases in health care prices. The national experience has been little different from Anchorage's. During the past decade medical care costs in Anchorage have grown by 63.1%, much faster than the overall index that increased by 25.1%. As the state and national population ages and the need for health care expands, ever-rising costs will continue to challenge the ability to pay for such services.

Food costs around the state

Four times a year, the University of Alaska Fairbanks' Cooperative Extension Service posts results from surveys of cost of food at home for a week in 20 communities around the state. (See Exhibit 6.) This food basket assembles items containing minimum levels of nutrition for an individual or family at the lowest possible cost. The survey also includes data on utility and fuel costs. The geographic coverage of these studies is their greatest strength. No other survey in the state covers as many communities, and it has been consistently produced for many years. Its major weaknesses are that it is largely limited to food, a small element in the cost-of-living market basket, and it fails to recognize striking differences between urban and rural Alaska. Many items that can be purchased in urban Alaska are not available in rural communities. The study assumes that the market basket consists of identical items in all locations even though buying habits in different places vary dramatically. Recently the study

Selected Components CPI-U Anchorage and U.S. City Annual Averages 1983-2001 (continued) **4**

Year	TRANSPORTATION				MEDICAL CARE				APPAREL & UPKEEP			
	Percent Change		Percent Change		Percent Change		Percent Change		Percent Change		Percent Change	
	U.S. Avg.	from Prev. Yr.	Anch. Avg.	from Prev. Yr.	U.S. Avg.	from Prev. Yr.	Anch. Avg.	from Prev. Yr.	U.S. Avg.	from Prev. Yr.	Anch. Avg.	from Prev. Yr.
1983	99.3	2.4	98.5	1.8	100.6	8.8	99.7	5.2	100.2	2.5	101.6	5.2
1984	103.7	4.4	104.6	6.2	106.8	6.2	105.5	5.8	102.1	1.9	101.7	0.1
1985	106.4	2.6	108.2	3.4	113.5	6.3	110.9	5.1	105.0	2.8	105.8	4.0
1986	102.3	-3.9	107.8	-0.4	122.0	7.5	127.8	15.2	105.9	0.9	109.0	3.0
1987	105.4	3.0	111.3	3.2	130.1	6.6	137.0	7.2	110.6	4.4	116.6	7.0
1988	108.7	3.1	113.0	1.5	138.6	6.5	145.8	6.4	115.4	4.3	119.1	2.1
1989	114.1	5.0	116.7	3.3	149.3	7.7	154.4	5.9	118.6	2.8	125.0	5.0
1990	120.5	5.6	120.7	3.4	162.8	9.0	161.2	4.4	124.1	4.6	127.7	2.2
1991	123.8	2.7	121.7	0.8	177.0	8.7	173.5	7.6	128.7	3.7	126.6	-0.9
1992	126.5	2.2	123.3	1.3	190.1	7.4	183.0	5.5	131.9	2.5	130.2	2.8
1993	130.4	3.1	128.8	4.5	201.4	5.9	189.6	3.6	133.7	1.4	131.2	0.8
1994	134.3	3.0	136.9	6.3	211.0	4.8	197.8	4.3	133.4	-0.2	128.9	-1.8
1995	139.1	3.6	143.8	5.0	220.5	4.5	211.6	7.0	132.0	-1.0	130.0	0.9
1996	143.0	2.8	147.2	2.4	228.2	3.5	231.1	9.2	131.7	-0.2	128.7	-1.0
1997	144.3	0.9	147.0	-0.1	234.6	2.8	248.9	7.7	132.9	0.9	127.0	-1.3
1998	141.6	-1.9	144.9	-1.4	242.1	3.2	255.7	2.7	133.0	0.1	125.6	-1.1
1999	144.4	2.0	143.7	-0.8	250.6	3.5	260.8	2.0	131.3	-1.3	125.8	0.2
2000	153.3	6.2	150.5	4.7	260.8	4.1	272.1	4.3	129.6	-1.3	124.5	-1.0
2001	154.3	0.7	153.0	1.7	272.8	4.6	282.9	4.0	127.3	-1.8	131.1	5.3

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

Calculating Index Changes

Movements of the indexes from one month to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The following example illustrates the computation of index points and percent changes.

Index Point Change

CPI-Anchorage 2001	155.2
Less CPI for previous period-Anchorage 2000	150.9
Equals index point change	4.3

Percent Change

Index point difference	4.3
Divided by the previous index	150.9
Equals	0.028
Results multiplied by 100	0.028 x 100
Equals percent change-Anchorage CPI 2001	2.8

included cost calculations of the widespread rural practice of mail ordering groceries from urban merchants; but items which enter rural places by barter, or are imported as baggage or private cargo are not included. Moreover, the local grocery list of base nutritional items ignores the use of subsistence-harvested meats, fowl, fish, berries, and other foods instead of store bought items.

According to the September 2001 Cost of Food study, a family of four enjoyed the lowest food costs in the state in cities such as Anchorage, Fairbanks and Juneau. The highest costs tended to be in remotely situated communities serviced by air most of the year and by barge during the summer months. Bethel and Nome belong in this category. Other high cost areas exist in small places that lie on a transportation network such as highways or the Alaska Marine Highway system. Grocery prices in these places often fall between the urban and remote-rural price ranges. Examples of such places are Kodiak and Tok. But location is not everything. The size of the market, the level of competition and proximity to a larger urban area are other major determinants.

Rents are high in Juneau and Kodiak

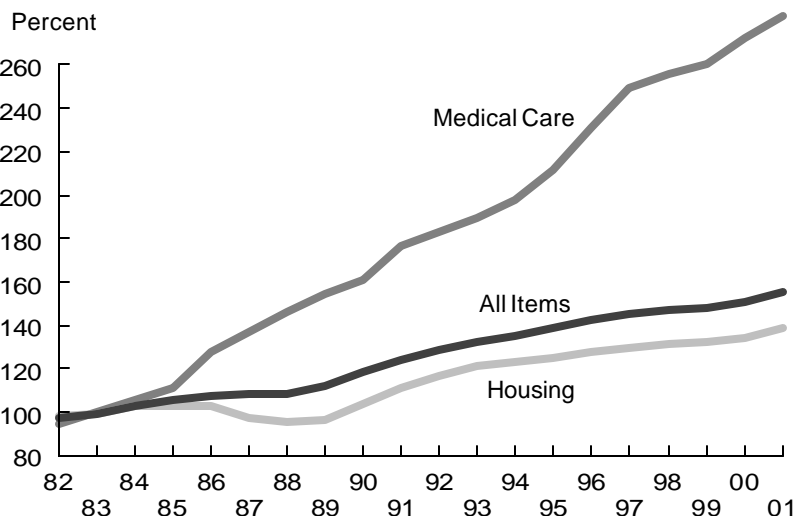
Because housing makes up such a large slice of a household's income, it often is a good proxy for the cost of living for an area. The Alaska Housing Finance Corporation contracts with the Alaska Department of Labor and Workforce Development to collect rental housing data for 10 boroughs and areas around the state. Exhibits 7 and 8 display monthly rental costs for two-bedroom apartments and three-bedroom single-family homes.

The cost of housing varies dramatically. Housing supply, vacancy rates, the quality of housing, the condition of the local economy, building costs and local demographics are factors that help explain some of the difference. The two sets of data show strong similarities and some points of difference. Rents for apartments and houses are highest in Juneau and Kodiak.

The Alaska Housing Finance Corporation also establishes a housing affordability index for six

5 Medical Costs Increase Most

Anchorage CPI-U for selected components



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

areas in the state. (See Exhibit 9.) This index examines the cost of housing, and the number of workers needed to pay for it, using the average annual wages in the respective areas. When these two factors are combined, some results are surprising. The Mat-Su Borough has some of the lowest costs for housing, but that doesn't make its housing very affordable for someone who works there. Many Mat-Su residents commute to Anchorage to earn its higher wages, and many Anchorage residents move to Mat-Su. The Mat-Su Valley's lower housing costs encourage people to live there but work in Anchorage. Interestingly, in Ketchikan and Juneau, where the annual wage tends to be above average, housing is less affordable because both places have very high home purchase prices. And in Bethel and Kodiak, housing affordability is in a league all its own.

Higher incomes make Anchorage housing market more affordable

Comparing the affordability of home ownership in Anchorage to other metropolitan places in the nation revealed that owning a home in Anchorage is not just a dream. In fact, an Anchorage family with a median annual income of \$60,500 could afford to purchase 79.7% of all homes sold there. (See Exhibit 10.) This puts Anchorage in the upper quartile of home ownership affordability. It ranked as the 32nd most affordable place among 180 metropolitan places in the nation, and is also the most affordable housing market in the West. The average selling price of \$145,000 came in 10 percent below the average for 180 metro cities. The fact that Anchorage's family income was 15

Cost of Food at Home for a Week in Eight Alaska Cities 6 For family of four with elementary school age children

Month/ Year	Anchorage	Fairbanks	Pct. of Anch.	Juneau	Pct. of Anch.	Bethel	Pct. of Anch.	Nome	Pct. of Anch.	Kodiak	Pct. of Anch.	Kenai	Pct. of Anch.	Tok	Pct. of Anch.
9/78	\$76.67	\$84.15	110	\$73.72	96	\$114.05	149	\$118.85	155	-	-	\$82.48	108	-	-
9/79	82.18	89.39	109	74.88	91	129.16	157	128.67	157	-	-	100.41	122	-	-
9/80	88.44	90.54	102	85.92	97	130.87	148	131.14	148	\$99.42	112	120.84	137	\$108.82	123
9/81	86.69	98.47	114	93.95	108	138.66	160	150.27	173	-	-	-	-	114.80	132
9/82	77.30	92.09	119	99.98	129	125.50	162	149.04	193	-	-	-	-	-	-
9/83	81.66	83.79	103	88.62	109	128.30	157	130.14	159	104.94	129	86.98	107	-	-
9/84	84.22	91.26	108	91.66	109	136.54	162	142.07	169	115.97	138	87.97	104	121.66	144
9/85	89.06	90.08	101	106.61	120	138.13	155	152.41	171	108.17	121	91.47	103	116.19	130
9/86	87.25	90.61	104	87.65	100	137.96	158	142.04	163	105.49	121	92.78	106	124.18	142
9/87	88.90	85.12	96	88.24	99	140.81	158	147.96	166	104.39	117	96.95	109	117.51	132
9/88	90.99	94.74	104	92.95	102	137.57	151	147.69	162	116.68	128	95.53	105	119.69	132
9/89	93.80	94.33	101	96.73	103	140.65	150	-	-	124.61	133	104.20	111	139.43	149
9/90	98.73	103.49	105	100.86	102	146.92	149	155.48	157	154.55	157	103.21	105	131.03	133
9/91	102.84	114.65	111	104.21	101	152.49	148	150.29	146	127.96	124	111.88	109	143.45	139
9/92	100.46	92.31	92	102.62	102	142.51	142	158.08	157	124.61	124	109.60	109	132.94	132
9/93	97.89	93.42	95	103.70	106	147.84	151	145.94	149	125.19	128	111.61	114	136.96	140
9/94	91.32	94.96	104	104.09	114	133.47	146	140.22	154	123.99	136	105.51	116	140.78	154
9/95	89.30	93.26	104	99.38	111	140.68	158	148.55	166	123.04	138	102.48	115	122.89	138
9/96	101.43	96.65	95	96.93	96	148.70	147	162.61	160	125.71	124	105.01	104	142.46	140
9/97	96.57	97.73	101	98.89	102	150.42	156	-	-	123.92	128	104.87	109	-	-
9/98	98.74	98.35	100	103.08	104	155.24	157	174.27	176	130.04	132	104.13	105	144.67	147
9/99	99.87	98.52	99	104.45	105	163.11	163	155.29	155	143.81	144	109.58	110	132.61	133
9/00	100.89	100.63	100	104.55	104	162.63	161	157.40	156	133.89	133	112.01	111	139.31	138
9/01	106.43	103.61	97	112.53	106	180.89	170	176.56	166	140.23	132	119.55	112	141.73	133

Sales tax included in food prices.

September 1979 data for Kenai not available; December 1979 data substituted.

Source: "Cost of Food at Home for a Week," September 1978 to September 2001, University of Alaska Cooperative Extension Service, U.S. Dept. of Agriculture and SEA Grant cooperating

7 Two Bedroom Apartments

Cost most in Juneau, least in Mat-Su

Median adjusted monthly rent, 2001



Source: Alaska Housing Market Indicators, Alaska Housing Finance Corporation; Alaska Department of Labor and Workforce Development, Research and Analysis

8 Single Family Homes

Cost most in Juneau

Median adjusted monthly rent, 3-bedroom home, 2001



Source: Alaska Housing Market Indicators, Alaska Housing Finance Corporation; Alaska Department of Labor and Workforce Development, Research and Analysis

percent above the metro average helped Anchorage's affordability index land in such a favorable spot.

ACCRA uses professional household as model

Every quarter the American Chamber of Commerce Researchers Association (ACCRA) publishes its results of detailed cost of living surveys in nearly 300 U.S. cities. ACCRA designed a consumption pattern that is styled after a professional and executive household in the top income quartile. The study examines costs for 59 specific consumer items and classifies survey results in cost categories such as groceries, housing, utilities, transportation, health care and miscellaneous goods and services.

Average composite costs for a U.S. city and its individual cost categories, all indexed at 100, are developed from this sample. ACCRA weighs consumer expenditures and allocates the household's market basket contents at 16% for food items, 28% for housing, 8% for utilities, 10% for transportation, 5% for health care, and 33% for miscellaneous goods and services. Although consumption patterns differ around the country, ACCRA does not take this into account. Neither does it measure taxation, where Alaska has a clear advantage.

The fourth quarter 2001 ACCRA survey reported that costs of living in Anchorage, Fairbanks, and Kodiak were well above the national average. Anchorage's cost index weighed in at 124.3 points or 24.3% above the national average. The Fairbanks index registered 119.4, Juneau at 136.4 and Kodiak's costs came in at 128.0. (See Exhibit 11.)

Housing in Alaska cities was not the only component to drive up overall local consumer costs. Consumer expenditures in most categories, with only one exception, were above the U.S. city standard. Utility costs in Anchorage, a component that carries just moderate weight in a consumer's expenditure pattern, represented the exception. Here, natural gas continued to contain costs for

Anchorage consumers. The biggest cost differentials in Alaska's marketplace were in grocery prices, health care, and miscellaneous goods and services. In each of these categories, the four Alaska cities ranked among the top six costliest places among the 292 locations tested in the current survey. (See Exhibit 12.)

ACCRA makes Alaska cities look expensive

According to ACCRA, high costs of living distinguish most Alaska cities from most other places in the nation. Only 14 other U.S. cities surveyed by ACCRA had costs above the 20 percent mark. (See Exhibit 12.) ACCRA identified New York-Manhattan as the most expensive place in the nation, where the cost of living was 232 percent of the national average, followed by San Francisco, where typical consumer costs were nearly double the national standard.

When specific expenditures are charted, as in Exhibit 13, some categories show only modest differences from other U.S. cities, but dentist visits are strikingly higher. A dentist visit in the four Alaska cities surveyed averaged \$150.14, while in Manhattan borough in New York it was \$114.00, and the all cities mean was \$75.84. Gasoline is another high cost item in Alaska.

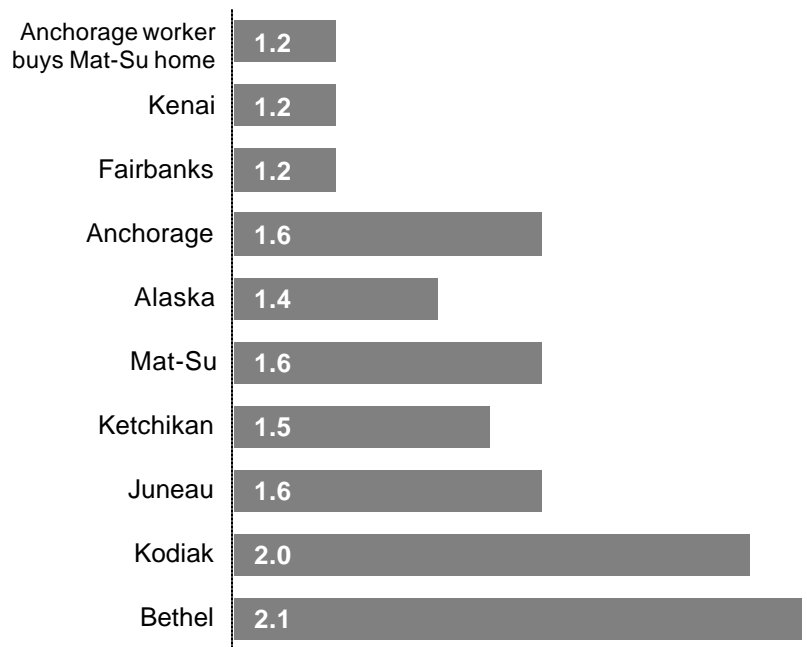
Runzheimer survey

Another survey that provides information on cost of living is the Runzheimer Plan of Living Cost Standards. Runzheimer International is a private sector research firm that specializes in national and international cost of living comparisons. While ACCRA represents consumer expenditures for an upper income professional family, the Runzheimer survey examines the consumption of families with a specific income. As a baseline it uses a hypothetical standard city. The Runzheimer survey can thus be used to provide data about households overlooked by the ACCRA survey. Another important difference is that the Runzheimer survey includes taxes in its comparisons while ACCRA does not.

The first step in a Runzheimer study is to select a household income level as the basis for comparisons among cities. In 2001, the Alaska Department of Labor and Workforce Development commissioned Runzheimer to explore the geographic differentials in costs of living for a family of four with a household income of \$32,000, an income well below average for Alaska. The Runzheimer study then calculated how much income would be required in different cities to support a standard of living comparable to that of a household earning \$32,000 in the standard U.S. city. (See Exhibit 14.) For example, a household income of \$30,937 in Dayton, Ohio would purchase the same standard of living as \$32,000 in the standard U.S. city and \$44,427 in Honolulu, Hawaii.

The Runzheimer study places consumer costs into four major groups: taxation, transportation, housing, and goods and services. Taxation data represent location-specific federal, state, income,

Housing Affordability, 2001 9 Wage earners needed to buy avg. house



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

and local wage taxes. Tax profiles of the various locations reflect amounts reported to the Internal Revenue Service on itemized tax deduction forms. Alaska's Permanent Fund dividend is not considered.

Runzheimer calculated transportation costs by

assuming a 240-day workplace commute using public transportation or a personal automobile. Commuting miles and personal travel miles are added for a total of 14,000 miles annually per household. The study then compared costs for driving and maintaining a moderately priced automobile, in this case a 1998 Ford Contour.

10 Anchorage is One of the Most Affordable Housing markets in the nation, third quarter 2001

Rank	Area	State	% of Homes Affordable for Median Income	Median Income 2001	Median Sale Price 3d Qtr 2001
1	Rockford	IL	89.4	\$57,100	\$99,000
2	Davenport-Moline-Rock Island	IA, IL	89.0	52,700	76,000
3	Kokomo	IN	88.4	57,600	99,000
4	Springfield	IL	88.3	61,100	100,000
5	Syracuse	NY	88.2	47,900	80,000
6	Binghamton	NY	85.5	44,700	72,000
7	Elkhart-Goshen	IN	85.5	56,400	117,000
8	Wilmington-Newark	DE, MD	85.5	72,100	150,000
9	Dayton - Springfield	OH	85.3	56,900	106,000
10	Vineland-Millville-Bridgeton	NJ	85.2	48,600	89,000
11	Lima	OH	85.0	49,600	97,000
12	Tallahassee	FL	83.8	54,900	118,000
13	Lafayette	IN	83.7	56,600	126,000
14	Indianapolis	IN	83.4	60,700	130,000
15	Mansfield	OH	83.3	47,300	94,000
16	Kansas City	MO, KS	82.8	62,200	117,000
17	Melbourne-Titusville-Palm Bay	FL	82.5	51,200	104,000
18	Muncie	IN	82.3	47,900	99,000
19	Albany-Schenectady-Troy	NY	81.1	53,000	102,000
19	Baton Rouge	LA	81.1	49,200	117,000
19	Peoria - Pekin	IL	81.1	55,000	95,000
22	Champaign-Urbana	IL	80.8	56,300	113,000
23	Hamilton-Middletown	OH	80.6	59,300	135,000
24	Youngstown - Warren	OH	80.4	44,300	85,000
25	Ocala	FL	80.3	40,000	88,000
26	Canton-Massillon	OH	80.1	50,300	110,000
27	Elmira	NY	80.0	43,200	74,000
27	Hagerstown	MD	80.0	50,500	125,000
29	Allentown-Bethlehem-Easton	PA	79.8	52,000	115,000
29	Fort Walton Beach	FL	79.8	48,900	118,000
29	Lakeland-Winter Haven	FL	79.8	45,000	98,000
32	Anchorage	AK	79.7	60,500	145,000
	NATIONAL AVERAGE		61.5	\$52,500	\$161,000

Source: National Association of Home Builders, Housing Opportunity Index, Third Quarter, 2001.

Costs included in the comparisons were gasoline, maintenance, license, taxes, insurance, depreciation, and interest.

Housing costs include mortgage payments stretched over 30 years, assumed after a 20 percent

down payment and applied to the value of a 1,500 square foot three-bedroom home with one and a half bathrooms. Real estate taxes, insurance, utilities and maintenance are included in housing costs.

Cost of Living for Selected Cities **11** ACCRA Index—December 2001

	Index Items Costs	All Grocery Items	Housing	Utilities	Transportation	Health Care	Misc. Goods & Services
Anchorage, AK	124.3	130.6	131.9	86.7	113.2	154.4	122.9
Fairbanks, AK	119.4	113.3	106.8	160.4	121.6	164.9	115.5
Juneau, AK	136.4	136.3	146.6	139.6	135.8	168.7	122.3
Kodiak, AK	128.0	142.3	114.0	135.6	139.2	146.7	124.9
West							
Reno, NV	108.7	119.5	105.7	99.7	118.4	128.0	102.3
Salem, OR	102.8	100.5	97.1	100.8	106.6	121.1	105.4
Oakland, CA	131.6	123.2	179.4	85.6	130.6	135.6	105.4
Salt Lake, UT	98.1	105.3	92.0	91.8	111.4	91.5	98.4
Los Angeles-Long Beach, CA	137.9	112.7	211.1	101.7	101.9	115.6	111.0
Tacoma, WA	102.1	107.5	94.9	98.5	110.6	124.1	100.6
Southwest/Mountain							
Pocatello, ID	96.9	92.4	97.4	99.7	106.4	95.3	95.4
San Antonio, TX	88.6	86.7	84.0	79.4	74.6	102.3	97.8
Pueblo, CO	92.7	105.5	79.3	117.3	94.4	101.1	90.2
Phoenix, AZ	100.2	99.6	96.8	96.0	105.2	112.0	101.2
Midwest							
Grand Rapids, MI	104.8	109.5	108.9	85.6	108.1	93.2	104.6
Cleveland, OH	105.3	110.8	104.1	126.3	105.8	112.6	97.5
Wichita, KS	100.2	98.4	90.6	107.3	101.6	104.9	106.5
Southeast							
St. Petersburg, FL	96.3	96.3	89.8	137.3	100.4	90.3	91.4
Mobile, AL	93.4	93.0	87.2	100.9	95.3	85.7	97.7
Memphis, TN	88.7	93.3	81.6	70.8	99.8	94.1	92.6
Richmond, VA	106.9	111.2	106.6	107.4	99.5	97.0	108.6
Atlantic/New England							
New York City - Manhattan	231.8	143.1	461.5	150.8	119.3	179.4	141.4
Hartford, CT	116.2	114.8	125.6	129.3	111.8	143.1	103.0

Source: American Chamber of Commerce Researchers Association (ACCRA) Urban Area Index Data, Fourth Quarter 2001 (292 urban areas surveyed)

The goods, services and other expense category describes typical household costs such as groceries, restaurant dining, furnishings, personal care items, health care, recreation, and miscellaneous services and items that are typically purchased by a family with the standard \$32,000 income. Because sales taxes are a consumption tax, they are included in the prices of goods and services whenever applicable.

The 2001 Runzheimer study showed that a household in Anchorage needed 6.7% more income than in the standard city to reach a similar standard of living. A Fairbanks household would need to make 8.7% more income, and a Juneau household

20% more. All of these percentages are slightly higher than they were in a similar Runzheimer study conducted in 2000. With the exception of taxes, family expenditures in all three Alaska locations in all other categories were higher than the U.S. standard city. The category where the three Alaska cities differed most from the standard city was housing. In Juneau housing costs were 46.3% higher, in Fairbanks, 19.9%, and in Anchorage 16.2%. (See Exhibit 14.)

The national comparison revealed just how extreme cost of living differences can be between cities. Most dramatic are the numbers for San Francisco where a household would require an

12 The 20 Highest Cost Urban Areas ACCRA Cost of Living Index, December 2001

	All Items Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc. Goods & Services
Expenditure Weight		16%	28%	8%	10%	5%	33%
New York (Manhattan), NY	231.8	143.1	461.5	150.8	119.3	179.4	141.4
San Francisco, CA	182.3	122.2	347.1	86.3	140.6	160.1	111.0
Stamford-Norwalk, CT	161.4	112.2	280.5	140.0	108.4	132.9	109.9
Nassau County, NY	144.6	121.7	186.3	165.8	110.7	145.4	125.4
Boston, MA	141.1	110.7	187.2	174.4	129.1	131.3	113.7
Framingham-Natick, MA	141.0	110.6	194.8	172.3	113.5	135.5	111.6
New York (Queens), NY	140.9	120.8	177.9	166.3	113.6	140.6	121.4
Los Angeles-Long Beach, CA	137.9	112.7	211.1	101.7	101.9	115.6	111.0
Juneau, AK	136.4	136.3	146.6	139.6	135.8	168.7	122.3
Oakland, CA	131.6	123.2	179.9	85.6	130.6	135.6	105.4
San Diego, CA	131.0	125.1	175.9	91.7	120.9	135.7	107.7
Washington, DC	130.6	116.2	169.4	114.9	118.4	114.9	114.6
Kodiak, AK	128.0	142.3	114.0	135.6	139.2	146.7	124.9
Anchorage, AK	124.3	130.6	131.9	86.7	113.2	154.4	122.9
New London-Norwich, CT	123.1	109.3	156.6	141.7	101.3	119.0	104.1
Glenwood Springs, CO	122.0	110.2	154.5	105.1	127.7	111.0	104.3
Philadelphia, PA	120.7	110.9	135.8	126.1	120.7	97.6	114.8
Washington DC Northern VA	119.6	105.9	143.4	113.7	106.3	118.8	111.7
New Haven-Meriden, CT	119.5	107.1	135.8	140.8	109.2	150.9	104.9
Fairbanks, AK	119.4	113.3	106.8	160.4	121.6	164.9	115.5

Source: American Chamber of Commerce Researchers Association (ACCRA) Urban Area Index Data, Fourth Quarter 2001 (292 urban areas surveyed)

income of \$72,240 to match the standard of living enjoyed by a family making \$32,000 in the standard U.S. city. Generally, cities with large populations or limited land availability had higher relative costs, mostly due to higher than average housing

costs. Housing costs make up the largest expenditure for households in the Runzheimer study, often as much as 50 percent of the total, and account for most of the difference among cities.

Average Price for Select Goods and Services 13 In selected U.S. cities, ACCRA, December 2001

	1 lb. Ground Beef	Potatoes	Lettuce	Bread	2 BR Apt. Rent (Unfurn. no utils)	Total Monthly Energy Cost	1 gal. Gasoline	Dentist	Movie	Pizza	Beer
Anchorage, AK	\$2.33	\$3.99	\$1.37	\$1.13	\$932	\$106.43	\$1.562	\$139.71	\$8.06	\$10.99	\$7.88
Fairbanks, AK	1.56	2.99	1.14	1.16	787	207.75	1.602	147.50	8.25	10.99	8.55
Juneau, AK	1.97	3.24	1.44	1.29	815	182.71	1.699	167.00	8.50	10.99	7.69
Kodiak, AK	1.79	5.24	1.80	1.23	950	168.95	1.819	146.33	6.50	10.99	7.79
West											
Reno, NV	1.55	2.83	1.03	1.44	826	124.29	1.645	114.60	7.92	10.66	6.95
Salem, OR	1.83	2.33	0.89	0.67	575	120.51	1.614	109.50	8.00	10.29	6.94
Oakland, CA	1.95	2.93	1.07	1.11	1,771	101.51	1.815	89.60	8.40	10.99	7.99
Salt Lake, UT	1.79	1.83	1.01	1.05	768	103.69	1.519	71.99	7.15	8.99	7.26
Los Angeles-Long Beach, CA	2.04	2.72	0.96	1.11	1,135	120.77	1.293	68.60	9.11	10.29	7.14
Tacoma, WA	2.09	3.05	1.17	0.60	717	119.20	1.572	127.49	7.25	10.55	7.39
Southwest/Mountain											
Pocatello, ID	1.27	3.08	1.02	0.94	528	116.89	1.566	78.00	6.75	10.32	7.99
San Antonio, TX	2.14	2.90	0.99	0.65	670	94.73	1.055	88.40	6.70	9.39	6.99
Pueblo, CO	1.49	2.59	1.07	1.00	463	142.37	1.405	70.20	6.75	8.99	6.89
Phoenix, AZ	1.29	3.18	1.20	0.96	662	114.79	1.363	89.60	7.30	9.29	7.89
Midwest											
Grand Rapids, MI	2.01	1.57	1.03	1.25	783	99.75	1.331	69.17	7.44	9.50	7.97
Cleveland, OH	1.96	3.69	1.39	1.10	848	157.06	1.259	80.80	7.50	7.99	7.08
Wichita, KS	1.53	3.19	1.27	1.12	558	125.58	1.177	76.60	6.90	9.29	7.42
Indianapolis IN	1.60	2.85	1.19	0.87	685	127.29	1.176	74.60	7.88	9.29	6.39
Southeast/South											
St. Petersburg, FL	1.97	4.19	1.24	1.01	705	173.90	1.291	58.50	6.44	9.25	7.01
Mobile, AL	1.61	3.35	0.94	0.93	540	119.95	1.337	75.80	7.00	9.49	7.60
Memphis, TN	1.69	3.87	0.69	1.15	604	82.97	1.297	70.60	6.90	9.49	7.17
Richmond, VA	2.84	3.44	1.26	1.27	793	127.21	1.202	76.20	7.45	8.99	6.54
Atlantic/New England											
New York (Manhattan), NY	2.60	6.98	1.59	1.10	4,080	188.93	1.517	114.00	9.90	10.32	7.89
Hartford, CT	2.67	3.35	1.45	1.68	901	160.75	1.396	110.80	8.29	9.37	6.24
ALL CITIES MEAN	1.71	3.04	1.12	0.97	691	120.37	1.350	76.84	6.92	9.48	7.24

All cities mean is the arithmetic mean price of all 292 cities in the fourth quarter 2001 survey

Source: American Chamber of Commerce Researchers Association (ACCRA) Urban Area Index Data, Fourth Quarter 2001 (292 urban areas surveyed)

Summary

Cost-of-living questions have many different answers. To determine which survey to use, users must decide whether they want to compare current costs to costs in previous years, or compare costs in one place with another place. The Consumer Price Index (CPI) compares costs over time periods.

ACCRA is an example of a survey that compares costs among U.S. cities, but does not show time series data. Each survey has unique limitations, and its use requires an understanding of these limitations. With that said, users have before them a wealth of information from which they can find meaningful answers to their cost-of-living questions.

14 Runzheimer International Living Cost Standards December 2001

	Total Costs	Percent of Standard City	Taxation	Percent of Standard City	Trans- portation	Percent of Standard City	Housing	Percent of Standard City	Misc. Goods & Services, Other	Percent of Standard City
Alaska composite	\$35,783	111.8%	\$2,448	79.4%	\$4,778	105.9%	\$17,221	127.5%	\$11,336	104.1%
Anchorage, AK	34,139	106.7%	2,448	79.4%	4,890	108.4%	15,703	116.2%	11,098	101.9%
Fairbanks, AK	34,797	108.7%	2,448	79.4%	4,796	106.3%	16,199	119.9%	11,354	104.2%
Juneau, AK	38,411	120.0%	2,448	79.4%	4,649	103.0%	19,760	146.3%	11,554	106.1%
West										
Eugene, OR	33,002	103.1%	3,604	116.9%	4,266	94.5%	14,638	108.3%	10,494	96.3%
Honolulu, HI	44,427	138.8%	2,886	93.6%	5,504	122.0%	23,854	176.6%	12,183	111.8%
Las Vegas, NV	32,683	102.1%	2,448	79.4%	5,364	118.9%	13,670	101.2%	11,201	102.8%
Los Angeles, CA	39,768	124.3%	2,448	79.4%	5,549	123.0%	19,964	147.8%	11,807	108.4%
Portland, OR	34,845	108.9%	3,518	114.1%	4,461	98.9%	15,785	116.8%	11,081	101.7%
Salt Lake City, UT	34,677	108.4%	3,132	101.6%	4,642	102.9%	15,826	117.1%	11,077	101.7%
San Diego, CA	41,661	130.2%	2,448	79.4%	4,849	107.5%	22,698	168.0%	11,666	107.1%
San Francisco, CA	72,240	225.8%	2,448	79.4%	6,174	136.8%	51,952	384.5%	11,666	107.1%
Seattle, WA	39,939	124.8%	2,448	79.4%	4,874	108.0%	20,814	154.1%	11,803	108.3%
Southwest/Mountain										
Boise, ID	29,562	92.4%	3,090	100.2%	4,342	96.2%	11,624	86.0%	10,506	96.4%
Dallas, TX	30,148	94.2%	2,617	84.9%	4,704	104.3%	12,058	89.2%	10,769	98.9%
Denver, CO	39,142	122.3%	2,781	90.2%	5,048	111.9%	20,295	150.2%	11,018	101.1%
Phoenix, AZ	31,752	99.2%	2,933	95.1%	5,079	112.6%	12,594	93.2%	11,146	102.3%
Midwest										
Columbia, MO	29,022	90.7%	3,355	108.8%	4,201	93.1%	11,008	81.5%	10,458	96.0%
Dayton, OH	30,937	96.7%	3,919	127.1%	4,070	90.2%	12,168	90.1%	10,780	99.0%
Oklahoma City, OK	28,520	89.1%	3,495	113.4%	4,404	97.6%	9,648	71.4%	10,973	100.7%
Southeast										
Augusta, GA	27,551	86.1%	3,394	110.1%	4,574	101.4%	8,753	64.8%	10,830	99.4%
Orlando, FL	28,950	90.5%	2,654	86.1%	4,415	97.9%	10,909	80.7%	10,972	100.7%
Atlantic/New England										
Baltimore, MD	34,217	106.9%	3,377	109.5%	4,571	101.3%	15,382	113.8%	10,887	99.9%
New York City, NY	45,745	143.0%	3,418	110.9%	8,349	185.0%	21,466	158.9%	12,512	114.9%
Washington, DC	38,603	120.6%	3,056	99.1%	4,542	100.7%	19,739	146.1%	11,266	103.4%

Source: Runzheimer Cost of Living Report, December 2001

Alaska Cost-of-Living Information on the World Wide Web

Beyond the information in this article web sites can provide quick cost-of-living comparisons. Most of these data provide little detail but they can be a handy quick reference.

www.labor.state.ak.us/research/relocate/relocmap.htm

The Alaska Department of Labor and Workforce Development's relocation site offers cost-of-living information, general information about Alaska, information on employment opportunities, and information about traveling to Alaska.

www.stats.bls.gov

The U.S. Department of Labor, the Bureau of Labor Statistics, Consumer Price Index site provides CPI data for Anchorage and all areas. There is also general, technical, and research information on the CPI. There is also an inflation calculator at this site.

www.homefair.com/calc/citysnap.html

The Homefair City Reports give you a side-by-side comparison of two cities' cost of living, climate, demographics, and other vital information from a database that is kept current with quarterly updates. Homefair City Reports offers one complimentary report with up to two destinations.

mazerrecruiters.com/job.htm

The Maze Recruiters and Associates web site provides a cost-of-living index that incorporates the impact of taxes. The index merges federal, state and local taxes with American Chamber of Commerce Researchers Association (ACCRA) cost of goods and services data to provide a comprehensive cost-of-living index.

A host of other web sites offer cost-of-living information. They include:

CityRating.com www.cityrating.com/costofliving.asp

Homeadvisor msn homeadvisor.msn.com/pickaplace/comparecities.aspx

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section