

Total prices decreased in 2020

Year of deflation was the first in Alaska's history

By NEAL FRIED

Last November, we wrote that Alaska's consumer price index was close to recording a year of deflation for the first time in the state's history. That's now official. The CPI for Urban Alaska registered a 1.1 percent decline in prices for 2020.

That means typical urban consumers¹ paid slightly less in 2020 for the same combination of goods and services they purchased the year before. Or, for every \$100 they spent in 2019, they paid \$98.90. The reverse was true the prior year. With 1.4 percent inflation in 2019, the average consumer spent about \$1.40 more on what cost \$100 in 2018. These amounts are small and might seem inconsequential, but they add up over time.

The CPI's practical value lies in how it's used. It's the most-applied cost-of-living statistic in the state, used to adjust collective bargaining agreements, rental agreements, child support payments, the minimum wage, and real estate contracts.

COVID-19 was the culprit, and it also hampered data collection

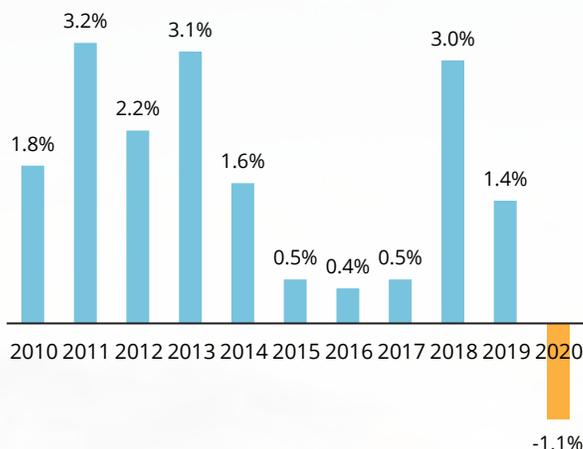
Among the 23 metropolitan consumer price indexes in the country, only Alaska's registered deflation in 2020. The reasons aren't clear, but COVID-19's disruptions complicated data collection across the country.

Since the pandemic began, the U.S. Bureau of Labor Statistics has published a cautionary note with its cost-of-living data:

When possible, data normally collected by personal visit were collected either online or by phone. Additionally, data collection was affected by the temporary closing or limited operations of certain types of establishments. These factors [increased] the number of prices considered temporarily unavailable and imputed.

¹ Measured in Anchorage and the Matanuska-Susitna Borough

Alaska had its first year of deflation



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

While the CPI program attempted to collect as much data as possible, many indexes are based on smaller amounts of collected prices than usual, and a small number of indexes that are normally published were not published this month.

Urban Alaska's index is also the nation's smallest, making it more prone to fluctuations. But even with these caveats, deflation isn't surprising given the rapid, deep recession COVID-19 caused. Demand fell hard for many goods and services last year, and Alaska's CPI registered deflation from the prior year four out of the six (bimonthly) times it was measured.

Most of the cost decline came from housing and transportation

Housing and transportation were responsible for most of last year's drop in prices. Although housing costs fell just 1.9 percent, its "weight" alone would have pushed the index into negative territory.

Housing and transportation combined represent almost 56 percent of the index's weight, which means

the typical household spends more than half of its monthly budget on those categories. Housing represents 41 percent on its own.

Alaska's four years of population decline have increased rental vacancies and put downward pressure on rents. Still, housing deflation is a surprise because Alaska's index was the only CPI to show a drop in housing costs.

Low gasoline prices also saved the average driver a significant amount of money last year. Alaska's energy costs fell a whopping 10.6 percent in 2020 because of the oil price collapse at the pandemic's onset. While oil prices recovered somewhat as the year went on, they remained well below 2019's levels.

Lower energy prices seeped into other categories, contributing to the 6.8 percent drop in overall transportation costs. Air travel was another factor in that decline; demand tanked in 2020 and plane ticket prices plummeted in response.

Clothes also got cheaper, but food and medical costs rose

While households don't spend a significant slice of their consumer dollars on clothes, clothing was near the top of the deflation list, with prices down about 6 percent over the year. Deflation isn't new for apparel, unlike most categories. It's a competitive market, with large parts of the world vying to make clothes, and the battle between e-commerce and brick-and-mortar stores persistently drives down prices as well.

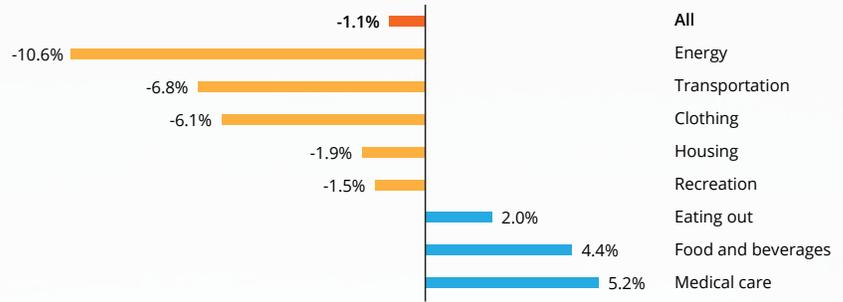
The pandemic put further brakes on this category, as consumers had fewer reasons to buy new clothes in 2020. Some were unemployed while others stayed home for work or school, and people went out less in general.

Not everything got cheaper last year. Food and beverage prices rose 4.4 percent, and medical care continued its decades-long rise in costs.

2021 probably won't be a repeat

Signs point to a different story for 2021, although cost

Urban Alaska's price changes by category in 2020



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

Price change comparisons to the U.S. by select category

Category	Urban Alaska	United States
All items	-1.1%	1.2%
Clothing	-6.1%	-4.8%
Education/communication	0.1%	1.8%
Food and beverages	4.4%	3.3%
Housing	-1.9%	2.2%
Medical care	5.2%	4.1%
Other goods and services	2.4%	2.5%
Recreation	-1.5%	1.3%
Transportation	-6.8%	-4.2%

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

increases will probably be modest.

Prices had already started to tick up by the fall of 2020, with October and December recording 0.3 percent inflation from the same periods the year before. Energy prices have already risen past their 2020 lows. Housing costs are unlikely to decline again, given how rarely that happens and the peculiarity of 2020's data and circumstances. And as the year progresses and national and local economies rebound, demand for travel and other goods and services will grow.

See the upcoming July issue of *Trends*, our yearly in-depth look at the cost of living, for an update on inflation for 2021.

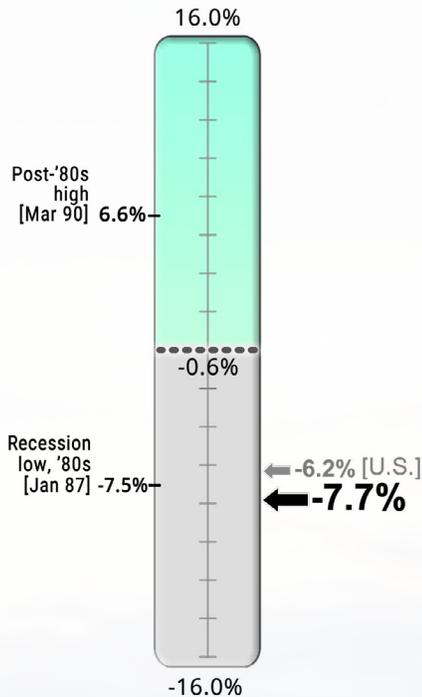
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Gauging The Economy



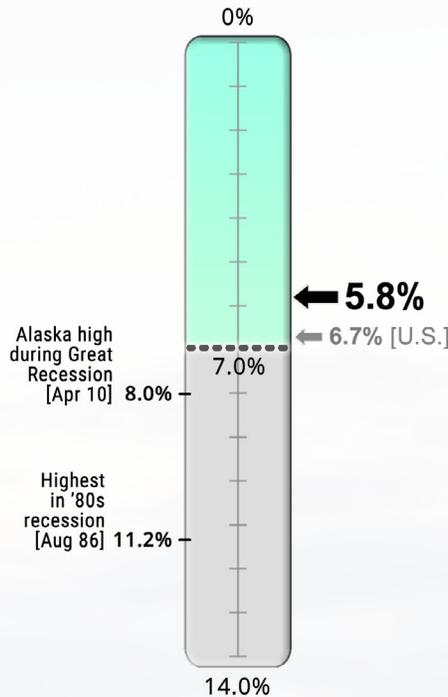
Job Growth

December 2020
Over-the-year percent change



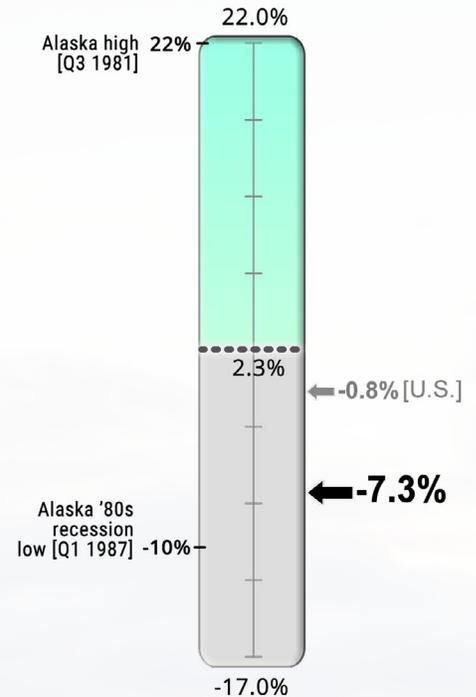
Unemployment Rate

December 2020
Seasonally adjusted



Wage Growth

3rd Quarter 2020
Over-the-year percent change



➤ The shutdowns to slow the spread of COVID-19 caused a rapid drop in employment, beginning in April 2020.

➤ Alaska's unemployment rate rose in December and is lower than the U.S. rate, but the lower rates in recent months are due to technical issues with the way the U.S. Bureau of Labor Statistics calculates them and are far less useful than normal for assessing economic health.

➤ After 10 straight quarters of wage growth, Alaska's total wages fell dramatically with the pandemic.

➤ Wage losses grew in the third quarter of 2020 as oil and gas job losses worsened and seafood processing, transportation, and federal wages all fell further below 2019 levels.

Where are the most recent numbers?

Due to scheduled annual revisions, the data we use to generate the monthly unemployment rate and job numbers aren't available for March issues of *Trends*. We will release two months' worth of data in March, then print February's numbers in the next issue.