

ALASKA ECONOMIC **TRENDS**

JULY 2017



THE COST OF LIVING

ALSO IN THIS ISSUE

Alaska GDP down for a fourth year

ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT

ALASKA ECONOMIC **TRENDS**

JULY 2017

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The COST of LIVING

Inflation lowest since 1988, mainly due to falling energy costs

By NEAL FRIED

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Fourth year of decline due to continuing oil losses

By NEAL FRIED

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Our future rests on Legislature's next steps



Heidi Drygas
Commissioner



Follow the Alaska Department of Labor and Workforce Development on Facebook (facebook.com/alaskalabor) and Twitter (twitter.com/alaskalabor) for the latest news about jobs, workplace safety, and workforce development.

This month's *Trends* identifies a troubling milestone: Alaska's GDP has declined for four straight years, the longest downturn in our state's history. While I'm pleased that the Legislature averted a catastrophic government shutdown by passing an operating budget, the Legislature has failed to pass a comprehensive fiscal plan, meaning there is no plan for stabilizing our state's economy.

We face an existential risk: Without a comprehensive fiscal plan, we will inevitably see deep cuts to public safety and public education. Educated professionals will leave the state as our neighborhoods become unsafe and our public schools decline.

As the business community has made very clear, economic development is tied inextricably to quality of life in our communities. Without the most basic public services, our economy will further deteriorate and it may take generations to recover.

It's time to set aside divisive ideology and think about our own well-being as residents of Alaska. No community in America has been able to grow its economy while having unsafe streets and declining public schools. Our economy can't stabilize — much less grow — without basic public services, and we cannot sustain our public safety and public education infrastructure without a comprehensive fiscal plan.

This month's *Trends* also features our annual comparison of the cost of living in Alaska communities versus others around the country. As usual, Alaska

has costs of living that are higher than the national average but are comparable to or lower than Pacific Northwest cities such as Portland and Seattle. Costs of living, particularly housing, are going to be higher in places people want to live. We should certainly work to control costs, particularly for health care, but recognize that strong demand for housing is a good thing.

As with fiscal questions, we should examine cost of living through the lens of economic competitiveness: Can we attract the smartest, most productive workers, or will they move to Seattle or Portland because the mix of housing, public secondary and higher education, and quality of life is better there? Cost of living is a factor, but when our costs are similar to or lower than competing communities, Alaska's primary challenge is retaining and attracting talented, productive workers.

When looking around the country, you can see which economic development strategies work. Some states have invested in infrastructure and in public and higher education, plus they have developed policies that support job security and opportunities. Those states and regions prosper. Meanwhile, states that hollowed out their public schools and failed to provide safe communities are plagued with economic stagnation and crime.

The Legislature faces a simple choice: Pass a comprehensive fiscal plan and sustain Alaska's prosperity, or slash public services and make our communities undesirable places to live and work.

the COST of LIVING



Inflation lowest since 1988, mainly due to falling energy costs

By NEAL FRIED

Alaska's energy prices dropped again in 2016, spurring the smallest increase in overall costs since 1988 and the second year in a row under 1 percent. (See exhibits 1 through 4.)

In Anchorage, the only place in Alaska where the U.S. Bureau of Labor Statistics measures inflation, consumer prices went up 0.4 percent in 2016, far below its decade average of 2.1 percent and the nation's increase of 1.3 percent. (See the sidebar on page 7 for more about the Anchorage Consumer Price Index.)

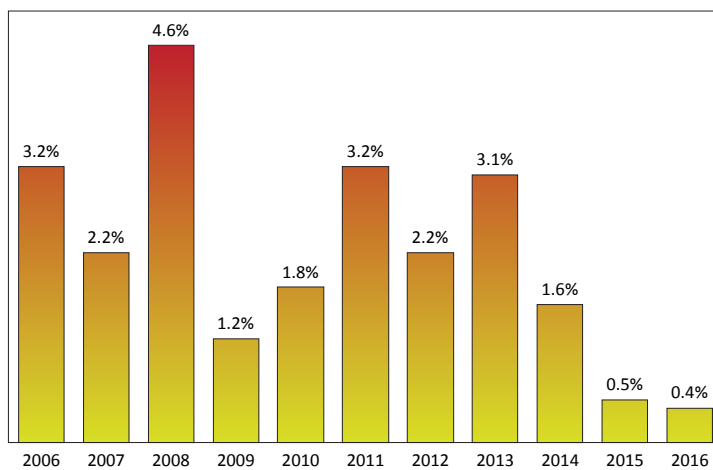
The continuing decline in energy costs also dampened inflation in categories that depend on fuel, particularly transportation and, to a lesser extent, housing.

But while energy prices play a role in housing costs, Anchorage's softer economy due to the state recession is probably the main reason housing prices didn't increase much last year.

1

Another Year of Low Inflation

ANCHORAGE CONSUMER PRICE INDEX CHANGE, 2006-16



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

Housing rise smallest in decades

Housing is the category where consumers spend the largest percentage of their income, so it has a big influence on the overall inflation rate. (See Exhibit 5.) The housing cost increase of 0.9 percent was the

smallest since 1988, when home prices fell by 2.2 percent.

Housing is also unique because it gives local flavor to a city's CPI. Unlike most goods and services in the index, house prices aren't dictated by national and international trends. For example, the change in the price of an apple or a gallon of gasoline has little to do with local events and depends more on farm production elsewhere in the country and on international oil markets.

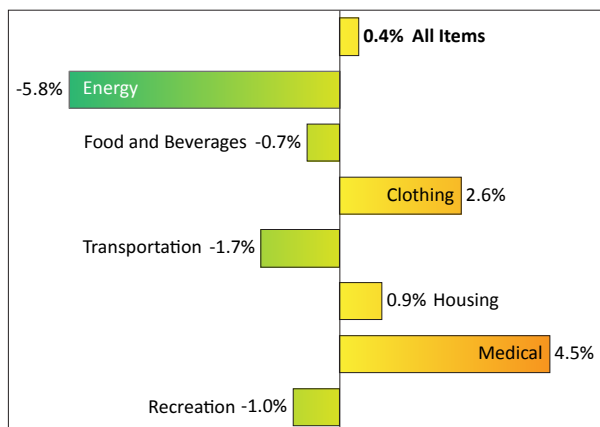
Health care costs keep climbing

The other expenditure categories in the Anchorage Consumer Price Index were a mix of minor ups and downs that mostly balanced each other out, with a notable exception: health care costs went up 4.5 percent.

While medical costs are a small enough category not to sway the overall inflation rate too much, no other component has come close to health care's skyrocketing costs in Alaska. Medical costs have gone up an average of 4.1 percent a year for the past decade. (See Exhibit 6.)

3 Big Drop in Energy Costs

INFLATION BY COMPONENT, 2016



Source: U.S. Department of Labor, Bureau of Labor Statistics CPI-U for Anchorage

2 Anchorage and U.S. Metro Inflation

BY TYPE OF EXPENDITURE, 2006 TO 2016

ALL ITEMS			ALL ITEMS MINUS HOUSING		
Year	Anchorage % chg from previous yr	U.S. % chg from previous yr	Year	Anchorage % chg from previous yr	U.S. % chg from previous yr
2006	3.2%	3.2%	2006	3.0%	3.1%
2007	2.2%	2.8%	2007	2.6%	2.5%
2008	4.6%	3.8%	2008	5.5%	4.5%
2009	1.2%	-0.4%	2009	0.6%	-1.0%
2010	1.8%	1.6%	2010	1.5%	2.6%
2011	3.2%	3.2%	2011	3.4%	4.0%
2012	2.2%	2.1%	2012	1.7%	2.0%
2013	3.1%	1.5%	2013	3.0%	1.1%
2014	1.6%	1.6%	2014	1.0%	1.1%
2015	0.5%	0.1%	2015	-0.3%	-1.3%
2016	0.4%	1.3%	2016	0.3%	0.2%

HOUSING			TRANSPORTATION		
Year	Anchorage % chg from previous yr	U.S. % chg from previous yr	Year	Anchorage % chg from previous yr	U.S. % chg from previous yr
2006	4.0%	3.8%	2006	4.0%	4.0%
2007	2.7%	3.1%	2007	1.2%	2.1%
2008	2.5%	2.2%	2008	10.5%	5.9%
2009	3.7%	0.4%	2009	-4.8%	-8.3%
2010	0.9%	-0.4%	2010	4.4%	7.9%
2011	2.9%	1.3%	2011	4.7%	9.8%
2012	2.7%	1.6%	2012	2.0%	2.3%
2013	3.1%	2.1%	2013	7.0%	—
2014	2.7%	2.6%	2014	-0.6%	-0.7%
2015	2.4%	2.1%	2015	-6.8%	-7.8%
2016	0.9%	2.5%	2016	-1.7%	-2.1%

FOOD AND BEVERAGES			MEDICAL CARE*		
Year	Anchorage % chg from previous yr	U.S. % chg from previous yr	Year	Anchorage % chg from previous yr	U.S. % chg from previous yr
2006	1.8%	2.4%	2006	3.5%	4.0%
2007	4.6%	3.9%	2007	3.0%	4.4%
2008	4.4%	5.4%	2008	3.7%	3.7%
2009	-0.2%	1.9%	2009	4.3%	3.2%
2010	-0.2%	0.8%	2010	5.7%	3.4%
2011	3.6%	3.6%	2011	5.3%	3.0%
2012	2.4%	2.6%	2012	4.3%	3.6%
2013	0.4%	1.4%	2013	3.2%	2.5%
2014	1.3%	2.3%	2014	3.2%	2.4%
2015	1.7%	1.8%	2015	3.3%	2.6%
2016	-0.7%	0.3%	2016	4.5%	3.8%

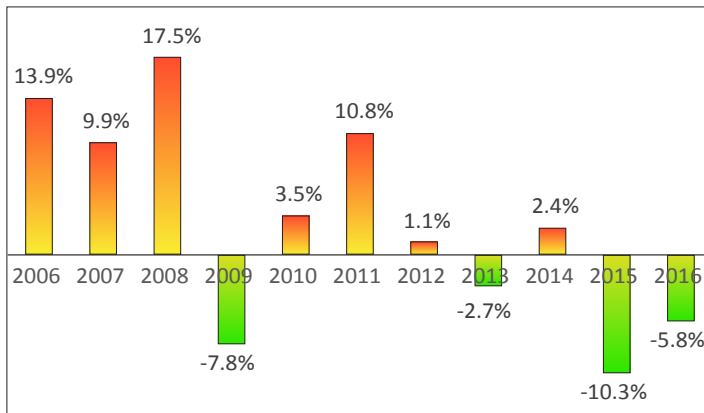
CLOTHING			ENERGY		
Year	Anchorage % chg from previous yr	U.S. % chg from previous yr	Year	Anchorage % chg from previous yr	U.S. % chg from previous yr
2006	4.6%	0%	2006	13.9	11.2%
2007	-2.8%	-0.4%	2007	9.9	5.5%
2008	6.1%	-0.1%	2008	17.5	13.9%
2009	3.6%	1.0%	2009	-7.8	-18.4%
2010	3.0%	-0.5%	2010	3.5	9.5%
2011	2.2%	2.2%	2011	10.8	15.4%
2012	4.3%	3.4%	2012	1.1	0.9%
2013	4.8%	0.9%	2013	-2.7	-0.7%
2014	1.5%	0.1%	2014	2.4	-0.3%
2015	0.5%	-1.3%	2015	-10.3	-16.7%
2016	2.6%	0.1%	2016	-5.8	-6.6%

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

4

Another Year of Falling Energy Prices

ANCHORAGE, ENERGY COST CHANGE, 2006 TO 2016



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

Figuring out how much your dollar is worth

While the Consumer Price Index shows how much prices have gone up in a year, it's also useful for figuring out the purchasing power of your dollar over time.

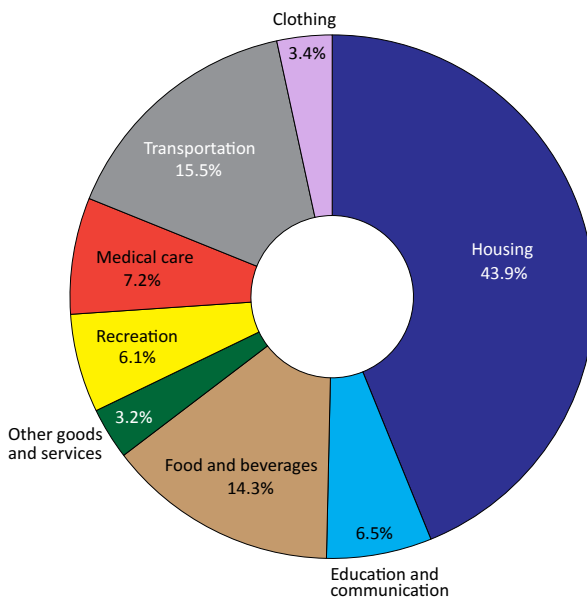
For example, in 1988, a Quarter Pounder in Fairbanks was \$1.57, and today it's \$4.96. We know \$1.57 in 1988 would be worth more now, but was the Quarter Pounder a better deal back then? Yes. In 2016 dollars, 1988's Quarter Pounder would cost \$3.15. (See Exhibit 10 for more burger values.)

Try our inflation calculator at: labor.alaska.gov/research/cpi/inflationcalculator.htm.

5

How We Spend Our Money

ANCHORAGE CONSUMER PRICE INDEX, 2016



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

Our premiums are the highest

Individual market insurance premiums confirm what other measures show — that health care costs in Alaska are especially high.

Alaska's average monthly premium for health insurance purchased on the individual market in 2017 is more than \$300 higher than that of the next-highest state. (See Exhibit 7.)

Alaska's premiums also went up 29 percent last year, and some states' increased even more.

Alaska cities are expensive, but other U.S. cities now higher

The Consumer Price Index looks only at cost changes in a specific place over time, so other sources are necessary for comparisons between places.

The Council for Community and Economic Research, or C2ER, is the most widely cited source for comparing the cost of living in different cities. C2ER conducts detailed surveys of more than 250 U.S. cities, including four in Alaska: Anchorage, Juneau, Fairbanks, and Kodiak.

The survey's consumption pattern represents a professional or executive household in the top income quartile and includes 57 specific items in categories such as groceries, housing, utilities, transportation, and health care.

Two ways to measure the cost of living

1. In a single place over time (inflation)

Because Anchorage has the only consumer price index in Alaska, it's treated as the de facto statewide measure of inflation. In general, price changes in Anchorage don't differ radically from other urban Alaska areas.

Anchorage is one of 27 cities where the U.S. Bureau of Labor Statistics tracks changes in consumer prices, and it's the smallest. It's unusual for a city as small as Anchorage to have a CPI; as of 2018, even much-larger Portland will no longer have its own. Although there's a CPI for the U.S. and for a number of its cities, these indexes cannot be used to compare costs between locations.

BLS goes to great lengths and expense to produce the CPI through elaborate surveys of consumer spending habits. These surveys look at a "market basket" of items, to which BLS assigns location-specific weights. A market basket, used in most cost-of-living indexes, is a sample of goods and services believed to best mimic the average consumer or a specific group of consumers. The CPI basket includes housing, food, transportation, medical care, and entertainment.

The inflation rate, or how much prices have gone up in a year, is used to adjust the value of the dollar over time. Workers, unions, employers, and many others pay close at-

tention to the CPI because bargaining agreements and other wage rate negotiations often incorporate an adjustment for inflation. The CPI also plays a role in long-term real estate rental contracts, annual adjustments to the state's minimum wage, child support payments, and budgeting. Most Alaskans are affected when the Permanent Fund Corporation uses the CPI to inflation-proof the fund, and nearly all senior citizens are affected when Social Security payments are adjusted each year using the CPI.

The Anchorage CPI is produced twice each year, for January to June and July to December. Information for the latter period and the annual average come out in January of the following year.

2. In different places at the same time

The other way to assess the cost of living is to look at cost differences between places. For example, is it more expensive to live in Barrow or Fairbanks? A variety of studies and data sources this article uses compare the costs of living among Alaska communities and other places around the country.

These studies assume a certain consumption pattern and investigate how much more or less it might cost to maintain a specific standard of living elsewhere. Some of these data are more comprehensive than others, and because there can be several sources for the same areas, it's important to weigh the strengths and weaknesses of the data sets. Some may better suit a particular need, or in some cases it may work best to cobble together several sources.

The survey's shortcomings are that it doesn't take into account how consumption varies around the country, and it doesn't factor in taxation, where Alaska has a clear advantage over most states.

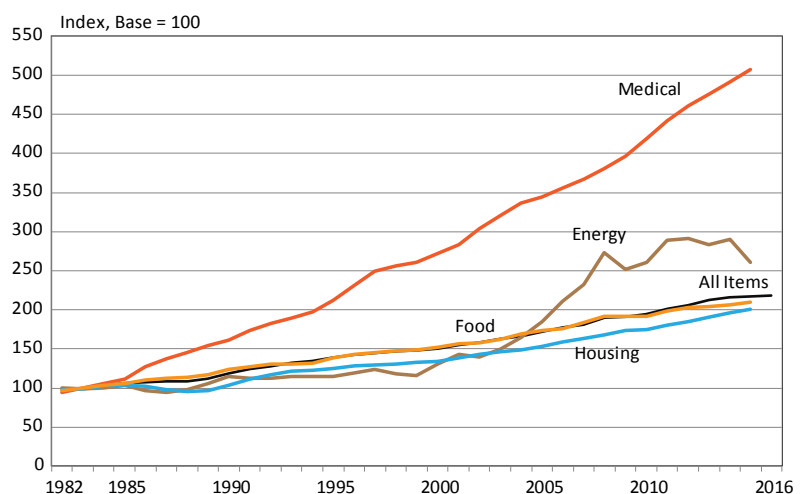
The survey reports that the costs of living in Anchorage, Juneau, Fairbanks, and Kodiak remain well above the national average. (See Exhibit 8.) Alaska's index values haven't changed much in the past 30 years. Before then, the index included only Anchorage. In the 1960s, Anchorage's index was typically in the 160s and as high as 174.7, meaning Anchorage costs were 74.7 percent higher than the average U.S. city.

Alaska's cities aren't the highest in the country, though, and a growing number are more expensive to live in than the four in Alaska.

6

Rising Medical Costs Eclipse All Others

ANCHORAGE CONSUMER PRICE INDEX, 1982 TO 2016



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

What Some Common Items Cost in Early 2017

Peaches, 15 oz. Can



Hunt's, Del Monte, Lady Alberta, or Libby's

Anchorage	\$2.06
Fairbanks	\$2.09
Juneau	\$2.36
Kodiak	\$2.39

U.S. Average
\$1.71

Iceberg Lettuce 18 oz.



U.S. Average
\$1.31

Anchorage	\$1.84
Fairbanks	\$2.29
Juneau	\$1.92
Kodiak	\$1.79

Potato Chips 10 oz.



U.S. Average
\$3.12

Anchorage	\$4.37
Fairbanks	\$4.48
Juneau	\$5.23
Kodiak	\$4.75

Coca-Cola, 2 Liters



U.S. Average
\$1.62

Anchorage	\$2.22
Fairbanks	\$2.20
Juneau	\$2.62
Kodiak	\$2.64

Rib-Eye Steak, Pound



U.S. Average
\$11.12

Anchorage	\$9.46
Fairbanks	\$10.96
Juneau	\$11.32
Kodiak	\$7.31

Whole Wheat Bread, 24 oz.



Oroweat, Nature's Own, Arnold, or Brownberry

U.S. Average
\$3.29

Anchorage	\$4.95
Fairbanks	\$5.03
Juneau	\$5.42
Kodiak	\$4.53

Eggs, Dozen Large



U.S. Average
\$1.63

Anchorage	\$1.88
Fairbanks	\$1.99
Juneau	\$2.26
Kodiak	\$2.74

White Wine 750 ml Bottle

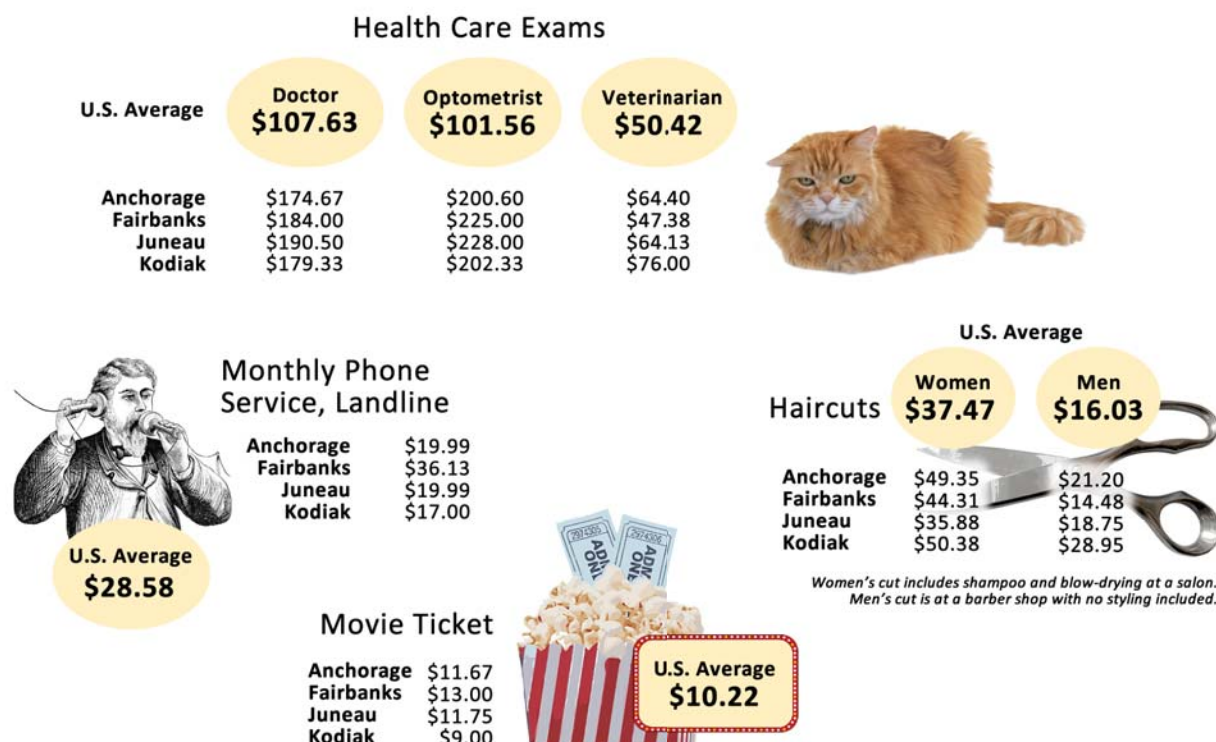
U.S. Average
\$8.63



Anchorage	\$16.56
Fairbanks	\$9.71
Juneau	\$14.32
Kodiak	\$12.99

Source: Council for Community and Economic Research Cost of Living Index for 265 Urban Areas, Published May 2017 for the first quarter of 2017

What Some Common Services Cost in Early 2017



Source: Council for Community and Economic Research Cost of Living Index for 265 Urban Areas, Published May 2017 for the first quarter of 2017

In the first quarter of 2017, 15 cities' indexes registered higher than any Alaska city. These included Washington, D.C. and its surrounding suburbs; some of the larger metropolitan areas in California; Stamford, Connecticut; Honolulu, Hawaii; Boston; and much of New York City.

With the U.S. average set at 100, Manhattan was highest at 230.8. At the opposite end was McAllen, Texas, at a low of 76.1.

Alaska ranked third most expensive state

A range of other cost-of-living reports are spinoffs from C2ER's data. The Missouri Economic Research and Information Center publishes a cost-of-living series by state by averaging C2ER's participating cities to get a statewide index, without applying any weight to the size of a city.

The average of Anchorage, Juneau, Kodiak, and Fairbanks — cities that represent about 60 percent of

7 Highest Medical Premiums

INDIVIDUAL MARKET AVERAGE, 2017

State	Avg monthly premium
1 Alaska	\$1,041
2 West Virginia	\$702
3 North Carolina	\$662
4 Oklahoma	\$620
5 Wyoming	\$614
6 Arizona	\$611
7 Nebraska	\$595
8 Tennessee	\$587
9 Montana	\$581
10 Alabama	\$575
U.S. Average	\$476

Note: These premiums are before any tax credits, which can be significant.

Source: U.S. Department of Health and Human Services, Office of Assistant Secretary for Planning and Evaluation

8

How Alaska Cities Compare to Other U.S. Cities

1ST QUARTER 2017 INDEX FOR PROFESSIONAL HOUSEHOLDS, U.S. AVERAGE = 100

	Total Index	Groceries	Housing	Utilities	Transportation	Health Care	Misc.
Category's weight in total index	100.0%	13.61%	27.59%	10.06%	9.59%	4.00%	35.15%
Region and City							
Anchorage, AK	127.6	130.6	143.9	104.6	113.2	143.7	122.4
Fairbanks, AK	134.3	127.1	123.9	222.7	120.8	150.9	121.7
Juneau, AK	132.1	140.7	145.4	121.7	122.1	153.9	121.5
Kodiak, AK	131.8	149.4	142.6	125.7	128.7	140.7	118.2
West							
Portland, OR	127.3	116.0	175.9	80.1	100.9	109.3	116.2
Honolulu, HI	187.7	165.7	299.3	193.3	133.3	119.3	129.6
San Francisco, CA	188.5	121.9	351.8	114.4	130.3	123.7	130.7
Los Angeles/Long Beach	146.3	112.3	238.9	111.5	124.9	110.0	106.7
Las Vegas, NV	100.4	101.7	108.8	86.4	105.9	102.7	95.6
Reno, NV	102.8	95.3	105.0	85.2	110.0	108.0	106.5
Seattle, WA	145.1	128.5	181.7	120.7	128.4	125.7	136.5
Spokane, WA	95.7	94.3	91.1	76.7	108.5	115.3	99.5
Tacoma, WA	106.2	111.1	94.0	111.9	95.2	118.3	113.8
Boise, ID	92.0	91.0	86.6	84.8	106.3	102.7	93.6
Bozeman, MT	98.0	101.6	107.8	79.4	92.9	99.2	95.5
Southwest/Mountain							
Salt Lake, UT	95.8	105.4	92.1	76.2	101.4	95.9	99.1
Phoenix, AZ	94.7	97.5	97.8	98.1	90.7	98.9	90.9
Denver, CO	111.8	99.7	133.0	95.1	108.4	104.7	106.3
Colorado Springs	95.3	99.3	102.0	76.4	94.0	101.3	93.6
Dallas, TX	101.2	90.6	102.4	102.3	101.2	103.4	103.7
Houston, TX	97.0	84.8	104.8	99.3	92.9	90.6	96.7
McAllen, TX (lowest)	76.1	83.2	63.6	90.6	84.6	75.0	76.8
Midwest							
Cleveland, OH	101.4	110.8	89.7	98.7	103.3	102.0	107.1
Chicago, IL	123.0	109.3	152.5	89.1	129.3	102.6	115.5
Minneapolis, MN	104.8	109.4	106.2	92.2	108.6	104.6	104.5
Southeast							
Fort Lauderdale, FL	119.0	108.5	157.4	99.9	110.4	98.7	103.0
Miami, FL	114.3	108.1	138.4	99.9	119.3	99.7	102.3
Birmingham, AL	90.2	96.1	82.5	102.4	91.7	85.3	90.7
Atlanta, GA	97.7	104.7	91.1	89.2	101.4	107.8	100.4
Atlantic/New England							
New York City/Manhattan, NY (highest cost of living)	230.8	129.0	479.9	119.2	130.6	114.6	147.1
Boston, MA	148.6	107.1	204.4	146.6	111.5	134.1	133.1
Philadelphia, PA	116.2	115.3	129.0	121.9	112.2	105.4	107.3
U.S. Average	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The Council for Community and Economic Research

9 The 10 Most Expensive States

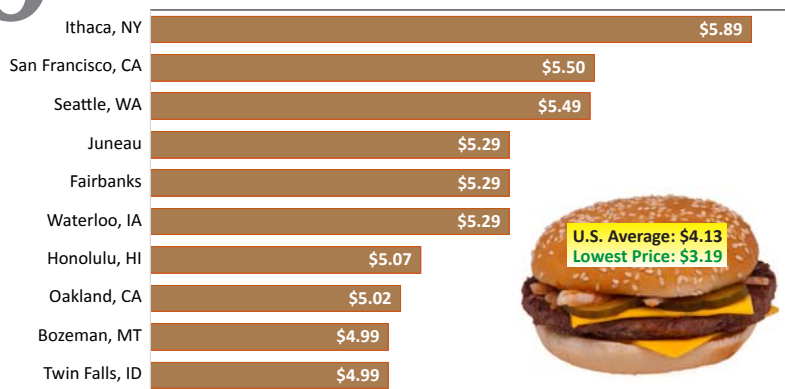
1ST QUARTER 2017

	State	Index
1	Hawaii	187.7
2	California	136.3
3	Alaska	131.5
4	New York	131.1
5	Massachusetts	129.4
6	Connecticut	129.1
6	Maryland	129.1
8	Oregon	127.3
9	Rhode Island	123.2
10	New Jersey	121.2

U.S. Average 100.0

10 Ithaca's Quarter Pounder Costs Most

QUARTER POUNDER INDEX, 1ST QUARTER 2017



Note: Exhibit 9 excludes the District of Columbia, which would come in second at 153.3.

Sources for exhibits 9 and 10: Missouri Economic Research and Information Center; and the Council for Community and Economic Research

Alaska's population — was 131.5 in the first quarter of 2017, making Alaska the third most expensive state. (See Exhibit 9.) By this measure, Alaska has ranked in the top five since 2000, when the series started.

Juneau no longer has most expensive burger

A popular use of this series is the Quarter Pounder Index, which looks at the prices of the iconic McDonald's burger around the country in participating cities.

All four of Alaska's cities often rank among the priciest 10, but this year Kodiak and Anchorage fell off the list and Ithaca, New York, took Juneau's place for the most expensive sandwich. San Francisco and Seattle ranked

Is there really an 'average consumer'?

All cost-of-living measures have their shortcomings. No two consumers spend their money alike, and no index can accurately capture all the differences.

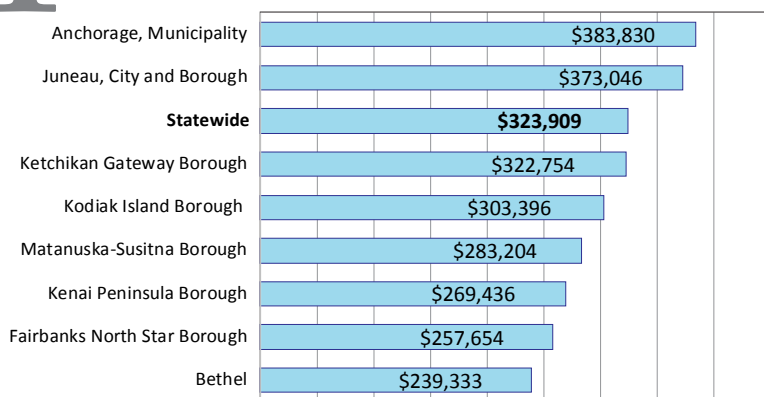
For example, the average household in Kotzebue may spend money differently from the average household in Petersburg, and they may differ even more dramatically from a family in Seattle. An index may or may not take these differences into account, depending on how sophisticated it is.

Also, in Alaska's case, none of these measures take the consumption of subsistence goods into account.

Consumer spending habits are also continuously in flux. Technology advances, tastes change, and people react differently to changes in prices.

11 Anchorage Home Prices Are Highest

AVERAGE PRICE OF SINGLE-FAMILY HOUSE, 2016



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, Quarterly Survey of Mortgage Lending Activity

second and third. (See Exhibit 10.)

In 2015, all four Alaska cities were in the top 10 and the most expensive three were Juneau, Seattle, and Bozeman, Montana.

Bethel has the least expensive houses

Over the years, Juneau and Anchorage have traded places for the most expensive place to buy the average single-family home. In 2016 it was Anchorage, at \$383,830, and Bethel had the least expensive average home at \$239,333. (See Exhibit 11.) In 2015, Juneau was highest and the Fairbanks North Star Borough was the lowest.

Because housing makes up such a large slice of a household's expenditures, it can be a good proxy for an area's overall cost of living. In Alaska, local housing costs vary dramatically around the state. Supply, vacancy rates, home quality, local economy, building costs, and demographics are the biggest factors in the disparity.

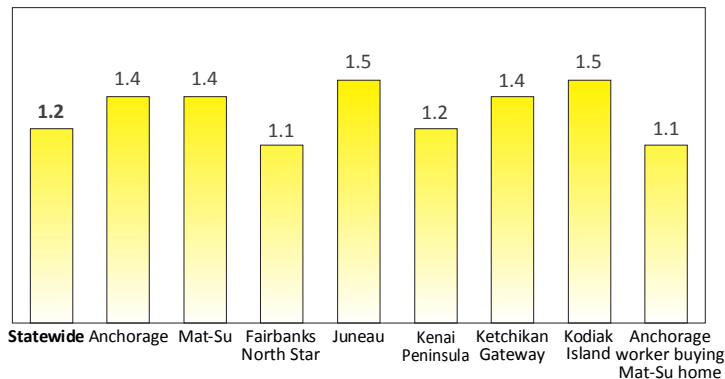
Higher earnings help offset higher house prices, however, so factoring in an area's average wage paints a better picture of an area's affordability.

The affordability index represents how many average

12

Paychecks Needed To Afford a House

USING AVERAGE WAGE AND SINGLE-FAMILY HOME, 2016



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, Quarterly Survey of Mortgage Lending Activity

paychecks it takes to afford a 30-year mortgage in a given area, with an average interest rate and a 15 percent down payment. (See Exhibit 12.)

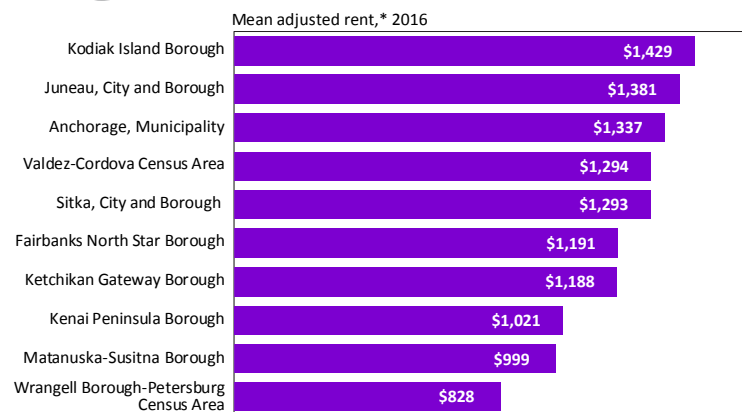
This changes the equation for some scenarios, such as buying a home in the Matanuska-Susitna Borough but commuting to Anchorage. It takes 1.4 average paychecks earned in the Mat-Su Borough to afford the average home there, but only 1.1 paychecks earned in Anchorage.

Anchorage's average earnings are higher and Mat-Su's housing prices are lower, which helps explain why

13

Kodiak Has Highest Rent

AVERAGE 2-BEDROOM APARTMENT, 2016



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, Rental Market Survey

14

Price Comparisons for Select Staples

MARCH 2017 SURVEY

	Eggs (1 doz)	Milk (1 gal)	Bread	Gas (1 gal)
Anchorage	\$2.00	\$3.69	\$2.50	\$2.55
Juneau	\$1.99	\$3.89	\$2.39	\$2.98
Fairbanks	\$1.99	\$3.89	\$3.59	\$2.91
Kenai	\$1.97	\$3.88	\$1.68	\$2.84
Kodiak	\$2.19	\$4.19	\$2.79	\$3.14
Valdez	\$2.29	\$4.09	\$2.39	\$3.32
Glennallen	\$5.50	\$5.95	\$3.95	\$3.27
Nome	\$2.79	\$6.49	\$2.59	\$4.67
Bethel	\$4.39	\$8.29	\$2.69	\$4.99
Barrow	\$3.79	\$10.29	\$4.99	\$6.50
Average	\$2.89	\$5.47	\$2.96	\$3.72

Source: Alaska Department of Commerce, Community, and Economic Development

15 Rural Alaska Pays Much More for Fuel

PRICE SURVEY, JANUARY 2017

Selected communities ¹	Heating fuel no. 1, residential	Gasoline, regular
Angoon	\$3.50	\$3.49
Arctic Village	\$12.00	\$10.00
Atka	\$6.85	\$6.65
Utqiagvik (was Barrow)	Natural Gas	\$5.90
Bethel	\$4.78	\$5.02
Chignik	\$3.31	\$4.00
Circle	\$2.46	\$2.96
Deering	\$4.38	\$4.64
Dillingham	\$2.56	\$3.93
Eagle	\$3.50	\$3.95
Fairbanks	\$2.50	\$2.89
Galena	\$5.95	\$6.40
Gambell	\$4.65	\$5.00
Golovin	\$4.00	\$4.00
Holy Cross	\$5.55	\$6.00
Homer	\$2.58	\$2.92
Hooper Bay	\$5.20	\$5.35
Huslia	\$5.70	\$5.50
Juneau	\$2.88	\$2.21
King Cove	\$3.07	\$3.81
Kokhanok	\$6.10	\$6.02
Kotzebue	\$5.34	\$5.45
Nenana	\$2.94	\$3.09
Noorvik	\$5.64	\$6.06
Nuiqsut	Natural gas	\$5.00
Nulato	\$4.35	\$5.00
Pelican	\$3.21	\$3.43
Pilot Station	\$7.32	\$6.81
Port Lions	\$3.45	\$3.75
Ruby	\$3.45	\$4.60
Sand Point	\$4.32	\$3.80
Unalaska	\$3.90	\$3.64
Wales	\$7.21	\$8.24
Wrangell	\$3.00	\$3.47

¹This is a partial list of the 100 communities surveyed.

Source: Department of Commerce, Community, and Economic Development, Current Community Conditions: Fuel Prices Across Alaska, January 2017 Update

that commute is so popular. Note, though, that the affordability index doesn't account for commuting costs.

Lowest rent in Wrangell-Petersburg

Areas with more expensive homes tend to have higher rents as well, as the similarities between exhibits 11 and 13 show. Kodiak is an exception in that despite

16 Military's Index for Alaska Towns

EFFECTIVE JAN 2017, BASE = 100

Location	Index
Anchorage (inc. Eagle River)	128
Bethel	150
Clear AFS	134
College	132
Cordova	138
Delta Junction	134
Eielson AFB (Fairbanks)	128
Fort Wainwright (Fairbanks)	132
Homer (includes Anchor Point)	136
Juneau	140
Kenai (includes Soldotna)	136
Ketchikan	136
King Salmon (incl Bristol Bay Borough)	136
Kodiak	132
Nome	148
Petersburg	148
Seward	130
Sitka	142
Spruce Cape	136
Tok	132
Unalaska	136
Utqiagvik (was Barrow)	148
Valdez	138
Wainwright	148
Wasilla	122
Other	148

Source: Department of Defense, effective January 2017

it having lower-than-average house prices, Kodiak's rent for a two-bedroom apartment was highest in the state in 2016, a spot it's held for the past five years. One theory is that the relatively generous housing allowances its large Coast Guard population receives drive up area rents.

Staples cost less in urban areas

Four times a year, the Alaska Department of Commerce, Community, and Economic Development works with partners throughout the state to produce quarterly surveys for the prices of four staples in several communities. (See Exhibit 14.)

Similar to the results from so many other surveys, staples tend to be less expensive in Alaska's urban areas where there's more competition and cheaper shipping. These items often cost less than half of what they would in smaller and more remote places.

Continued on page 16

Alaska GDP Down in 2016

Fourth year of decline due to continuing oil losses

By NEAL FRIED

Alaska's gross domestic product declined for a fourth straight year in 2016, falling 5 percent to \$50.7 billion after peaking at \$60.9 billion in 2012. The value of the state's goods and services in 2016 was roughly equivalent to where it stood in 2009. (See Exhibit 1.)

Alaska's percent decline in 2016 was 49th nationally behind North Dakota, whose GDP fell by 6.5 percent. Six states, all energy-producing, lost ground in 2016. In contrast, the nation's gross domestic product grew by 1.5 percent.

Current decline the longest in Alaska's modern history

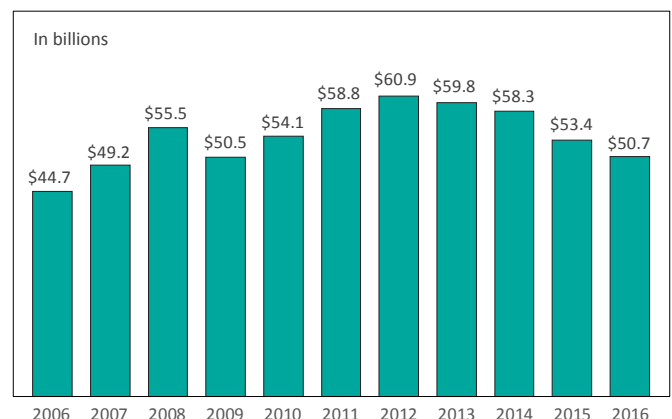
The four-year decline in the state's gross domestic product is the longest downward slide since its inception in 1963. Alaska's GDP has dropped 10 times in its history, but declines never lasted more than a year. The steepest loss was in 1986, when Alaska GDP fell by 27 percent during the trough of the state's housing bust.

The 2016 drop is tied to Alaska's current recession,

1

GDP Down For Fourth Year

ALASKA'S GROSS DOMESTIC PRODUCT, 2006-16



Source: U.S. Bureau of Economic Analysis

and like every other GDP decline in Alaska's history, nearly all of the loss has been attributable to the oil and gas sector. (See Exhibit 2.)

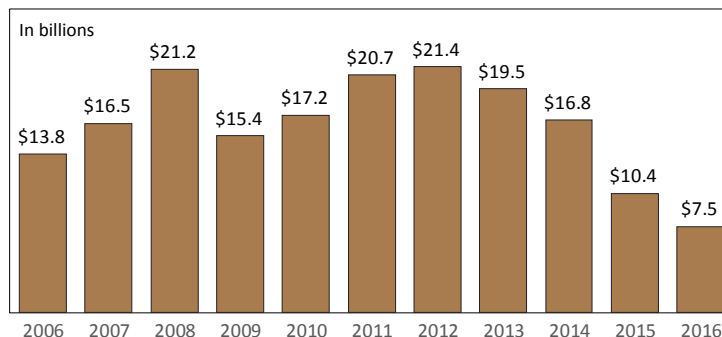
Oil's unusually large role

Because of the volatility of oil prices and oil's massive role in the state's economy, Alaska's petroleum industry can swing the state's total GDP value like no other.

2

Most of the Volatility Due to Oil

MINING* SHARE OF STATE GDP VALUE, 2006 TO 2016



*The oil and gas industry represents about 90 percent of mining's value.
Source: U.S. Bureau of Economic Analysis

Oil makes up 90 percent of the mining sector in Alaska, and even at its diminished 2016 value, mining still represented 14 percent of Alaska's total gross domestic product.

Still, mining has taken a huge hit. Between 2012 and 2016, the sector's overall value fell by nearly two-thirds, from \$21.4 billion to \$7.5 billion. In fact, oil and gas was the only industry whose GDP value was less in 2016 than in 2012.

Mining's share of Alaska GDP is second only to gov-

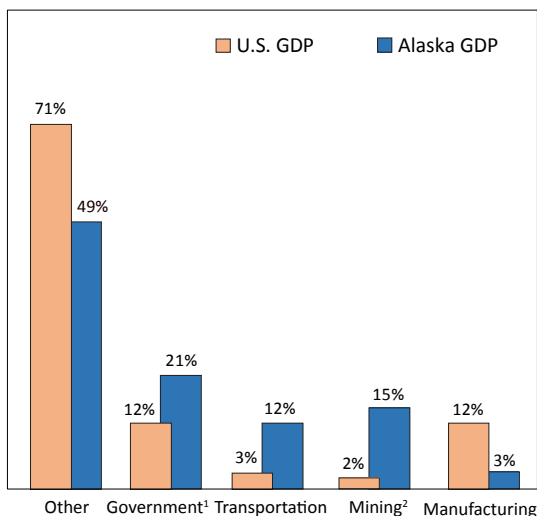
ernment (see Exhibit 3), with which it volleys for the top spot from year to year. Over the past two decades, mining's share of Alaska GDP ranged from 13 percent to 35 percent, with an annual average of 25 percent. Nationally, the oil and gas industry represents less than 1.5 percent of total GDP.

Alaska isn't the only state whose GDP is so heavily influenced by oil, and other oil states have also seen large GDP swings in recent years. Wyoming or North Dakota recorded the fastest state GDP growth in eight of the last 16 years and the slowest growth in five.

3

What Goes Into the GDP

ALASKA AND THE U.S., 2016



¹Federal (including military), state (including the University of Alaska), and local (including K-12 public schools and tribal government)

²In Alaska, mining is mostly oil and gas.

Source: U.S. Bureau of Economic Analysis

Alaska's GDP mix is unique

One strength of GDP figures is they allow us to compare Alaska's economy with that of the nation and

Why we don't hear about state GDP very often

At the national level, gross domestic product is considered the broadest measure of the nation's economic health. Although the states' measures are similar, they don't get nearly as much attention because they aren't as reliable. For example, not everything a state produces is owned or consumed by its residents. It is also difficult to measure the inflow and outflow of goods, services, and labor between states. And unlike income data, the state's gross domestic product data are not resident-adjusted.

Because of these shortcomings, year-to-year changes in the state's GDP should be treated with caution. However, while a single year of decline could be almost ignored, a fourth straight year is worth noting.

COST OF LIVING

Continued from page 13

The department also conducts a semi-annual survey of fuel prices in 100 communities around the state, which show fuel prices were down somewhat in 2016, commensurate with the overall drop in energy costs.

As with other essentials, smaller and more remote communities have much higher fuel prices than urban areas. Communities with the highest fuel prices depend on planes for their supplies and include Arctic Village and Pilot Station, where a gallon of gasoline costs as much as \$10. (See Exhibit 15 on page 13.)

Military considers Alaska an ‘overseas’ location

The U.S. Department of Defense produces a cost-of-living index for all of its overseas locations, and includes places in Hawaii and Alaska as “overseas.” The Alaska communities’ resulting higher-than-average index values are similar to what other sources report. (See Exhibit 16 on page 13.)

The military’s cost-of-living index is unique in that it’s calculated on spendable income only, which is total income minus housing expenses. The military handles housing separately through an allowance program.

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the 49 other states. The differences are dramatic. Alaska’s GDP has one of the most unusual industry blends in the country. Besides oil, three other industries set Alaska apart: government, manufacturing, and transportation.

Gross domestic product is the value of all the goods and services the state produced in a year.

Transportation’s share of Alaska’s GDP is four times larger than it is nationally. Transportation has an obvious outsized role in Alaska because of the volume of inter-

national cargo and the increased effort and expense it takes to move goods around such a large state, but it’s pipeline transportation that truly drives up the percentage. In 2015, pipeline transportation represented over half the value of Alaska’s transportation industry.

At the opposite extreme, manufacturing’s share of GDP is about four times smaller in Alaska than it is in the U.S. as a whole, because the only sizable manufacturers in Alaska are seafood processors and oil refineries.

Government’s large share of state GDP is due mostly to the federal government’s prominence in Alaska’s economy.

These differences are part of the reason the state is now struggling economically while the nation prospers and, likewise, why Alaska’s economy escaped the past decade’s national recession nearly unscathed while most of the country suffered heavy declines.

Neal Fried is an economist in Anchorage. Reach him at (907) 269-4861 or neal.fried@alaska.gov.

The Month in Numbers

Unemployment Rates

	Prelim.		Revised
SEASONALLY ADJUSTED	5/17	4/17	5/16
United States	4.3	4.4	4.7
Alaska Statewide	6.7	6.6	6.6

NOT SEASONALLY ADJUSTED			
	5/17	4/17	5/16
United States	4.1	4.1	4.5
Alaska Statewide	6.8	7.0	6.6

Anchorage/Mat-Su Region	6.3	6.4	5.9
Municipality of Anchorage	5.8	5.8	5.3
Matanuska-Susitna Borough	8.2	8.7	7.8

Gulf Coast Region	7.0	7.7	7.5
Kenai Peninsula Borough	7.6	8.3	8.0
Kodiak Island Borough	4.6	4.6	4.7
Valdez-Cordova Census Area	6.8	8.4	7.9

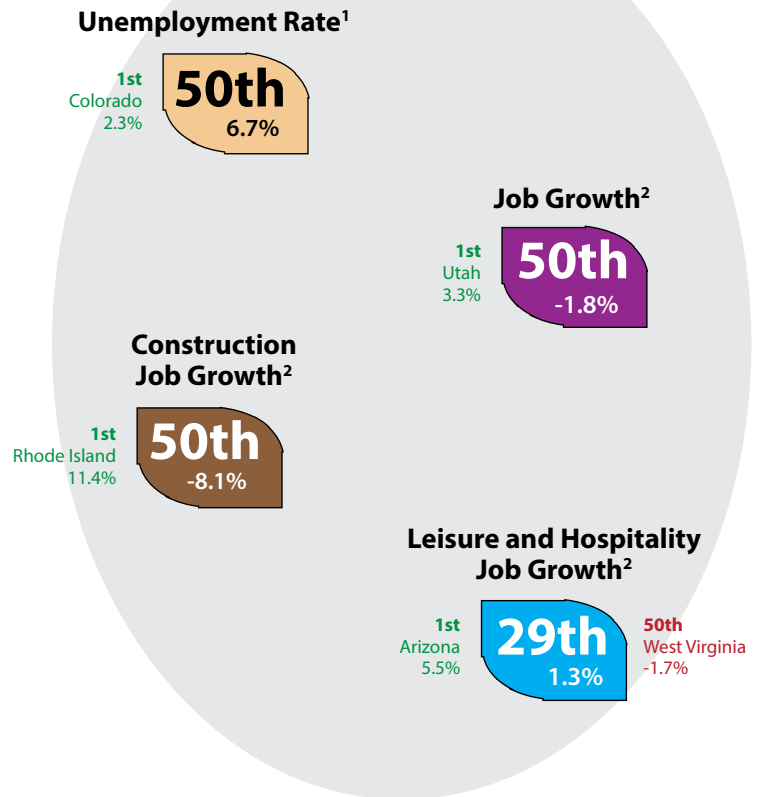
Interior Region	6.7	7.1	6.3
Denali Borough	6.2	16.2	5.1
Fairbanks North Star Borough	6.0	6.1	5.5
Southeast Fairbanks CA	8.6	9.7	10.0
Yukon-Koyukuk Census Area	17.0	18.1	17.1

Northern Region	12.9	12.4	11.7
Nome Census Area	13.7	13.3	12.9
North Slope Borough	7.5	7.0	6.9
Northwest Arctic Borough	18.9	18.6	16.6

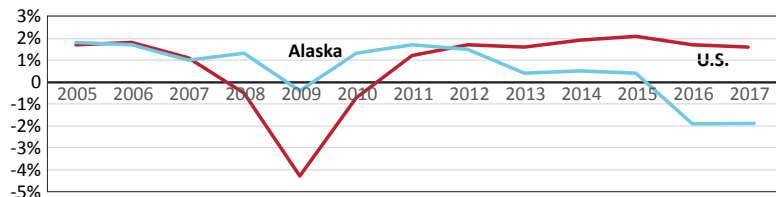
Southeast Region	5.2	5.9	5.6
Haines Borough	7.4	9.2	8.7
Hoonah-Angoon Census Area	9.6	13.4	10.1
Juneau, City and Borough	4.1	4.5	4.1
Ketchikan Gateway Borough	5.7	6.3	5.9
Petersburg Borough	6.7	7.4	8.5
Prince of Wales-Hyder CA	9.0	10.1	11.1
Sitka, City and Borough	4.1	3.9	4.3
Skagway, Municipality	4.2	11.8	4.7
Wrangell, City and Borough	5.9	6.2	6.1
Yakutat, City and Borough	6.5	6.4	6.2

Southwest Region	12.5	10.3	13.3
Aleutians East Borough	4.7	2.3	5.7
Aleutians West Census Area	5.7	3.6	5.8
Bethel Census Area	14.9	13.7	15.4
Bristol Bay Borough	5.2	7.8	6.0
Dillingham Census Area	10.0	9.7	10.7
Kusilvak Census Area	21.1	20.3	22.7
Lake and Peninsula Borough	11.6	13.8	13.3

How Alaska Ranks



Job Growth in Alaska and the Nation



All data sources are U.S. Bureau of Labor Statistics and Alaska Department of Labor and Workforce Development, Research and Analysis Section, unless otherwise noted.

¹May seasonally adjusted unemployment rates

²May employment, over-the-year percent change

Safety Minute

Many Alaska workers face the risk of drowning

Drowning is the fifth leading cause of death in the United States, according to the Centers for Disease Control and Prevention. The CDC also reports that over 50 percent of nonfatal drowning victims require hospitalization versus a hospitalization rate of 6 percent for all unintentional injuries. Near-drownings can cause severe brain damage resulting in long-term physical disability.

Drowning is a risk any time a worker is near water. In Alaska, people frequently work on, near, and over oceans, bays, inlets, lakes, ponds, rivers, streams, and manmade impoundments. The shock of an unexpected immersion in cold Alaska waters can also profoundly affect breathing, nerves, and muscle strength, which significantly reduces a victim's swimming and self-rescue abilities. When drowning is a danger, employers should:

- Provide U.S. Coast Guard-approved life jackets or buoyant work vests.
- Provide guardrails or other protection against falls into the water.
- Develop and evaluate a plan for rescue in case a worker falls into the water.
- Provide ring buoys with at least 90 feet of line and make them readily available for emergency rescues.
- Have at least one lifesaving skiff immediately available where employees are working over or adjacent to water.

Safety Minute is written by the Labor Standards and Safety Division of the Alaska Department of Labor and Workforce Development.

Employer Resources

Reducing recidivism rates through employment opportunities

Statistics show that gainful employment is a key factor in reducing recidivism rates. However, employers may be reluctant to hire people with a felony record because of the perceived risk in employing those with "questionable" backgrounds, and as a result employers might miss out on workers who could help make their businesses even more successful. As all employers know, finding good, qualified workers is essential to running a business.

The Department of Labor and Workforce Development's Division of Employment and Training Services administers two programs designed to save employers money and alleviate fears of employee dishonesty: Fidelity Bonding and the Work Opportunity Tax Credit.

Fidelity Bonding offers employers financial insurance against potential employee dishonesty. Often, an employer finds a candidate who is a perfect match for the job, but the candidate is a felon and the employer is understandably hesitant to make a job offer. Fidelity bonds mitigate the employer's financial risk.

The department issues these bonds, usually in \$5,000 increments, at no charge to the employer. There is no deductible,

and the bond insurance reimburses the employer for any loss due to employee theft of money or property.

The Work Opportunity Tax Credit reduces an employer's federal income tax liability by giving a tax credit of up to \$2,400 for hiring a qualified felon. If the candidate is also a qualified veteran, the tax credit can be as high as \$9,600.

Lack of employment increases Alaska's crime and recidivism rates, and felons face significant barriers in finding a job. Employers who hire former inmates recognize the return on investment to their businesses and communities and can help make Alaska a safer, more prosperous home for all Alaskans. Fidelity Bonding and WOTC help employers achieve these civic goals.

To learn more about saving money through Fidelity Bonding and WOTC, employers can contact their nearest Alaska Job Center at (877) 724-2539 or visit the Business Connection site at <http://jobs.alaska.gov/employer.htm>.

Employer Resources is written by the Employment and Training Services Division of the Alaska Department of Labor and Workforce Development.