

## What is the Consumer Price Index and what does it mean?

The Consumer Price Index (or CPI) measures changes in costs of goods, such as food and automobiles, and services such as dry cleaners and plumbers.

Since prices generally increase, the CPI is often considered a measure of the inflation rate and changes in the index are used by many to adjust for inflation over time.

The CPI number is constructed from eight categories of goods and services that are weighted to reflect the average consumer's spending pattern.

### How is Alaska's CPI calculated?

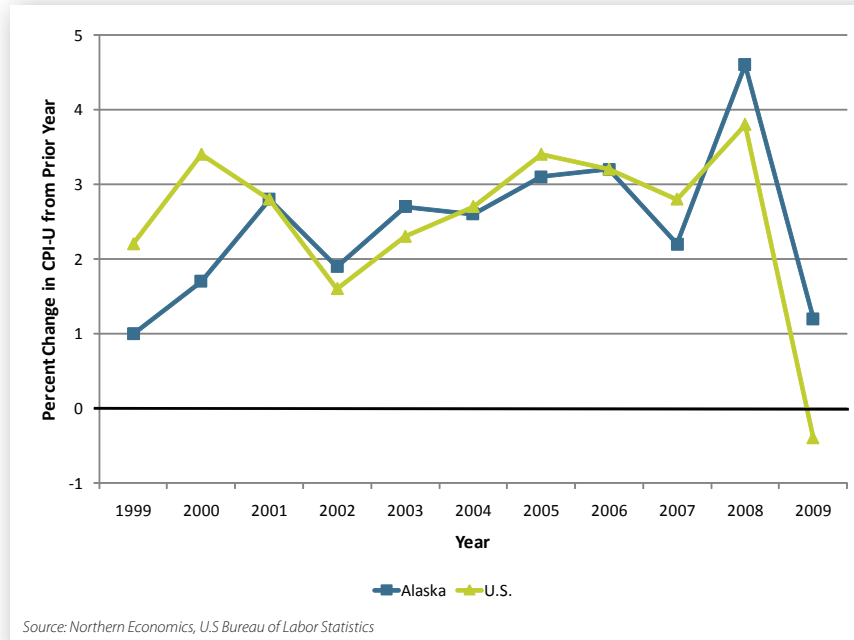
Specifically, the CPI mentioned here is the CPI-U or the index for urban consumers; the only CPI-U for Alaska is measured in Anchorage and it is updated every six months. Both the federal Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)) and the State of Alaska, Department of Labor and Workforce Development ([www.laborstats.alaska.gov](http://www.laborstats.alaska.gov)) publish these numbers, along with a host of other price and cost data.

### How do changes in Anchorage's CPI compare to changes in the National CPI?

The figure below shows the annual changes in Anchorage's CPI-U (blue line) compared to the CPI-U for the U.S. (green line), for the years 1999 to 2009. Since 2001, both CPI indexes seem linked closely in direction and amount.

The figure suggests that in 1999 and 2000, Anchorage had lower inflation

than the country as a whole, while in 2009 inflation in Anchorage was higher than the U.S., a fairly rare event. Another rare event was a decrease in the consumer price index (deflation) shown in 2009 for the U.S. as a whole.



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## Welcome Alejandra Palma Riedel

Northern Economics is excited to welcome project consultant Alejandra Palma Riedel. Alejandra joined Northern Economics in July 2010, coming to us from the Inter-American Development Bank, where her work focused on the economic and financial analysis of rural development projects in Latin America, including agricultural irrigation, technology adoption, small-scale rural infrastructure, and export initiatives. She also contributed to the development of business plans and value chain analyses for the agro-industrial sector.

Alejandra earned her M.A. in Economics with a concentration in environmental and natural resource economics and fulfilled Ph.D. course requirements in Agricultural & Resource Economics, both from the University of Maryland.



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## What is the CPI?

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### Who uses the CPI?

Typical users include employers, who use the CPI to adjust worker's salaries. Also, many rental agreements use the CPI to adjust the cost of rental properties and commercial leases.

Economists use the CPI to calculate costs, prices, and revenues in constant dollars. For example, building a natural gas pipeline may take several years and expressing those costs as of a base year helps decision makers understand different alternatives.

As the only CPI published for Alaska, Anchorage's CPI is often referenced in contracts, purchase agreements, union negotiations, government cost of living adjustments, and retirement calculations.

### So what's an example of using the CPI?

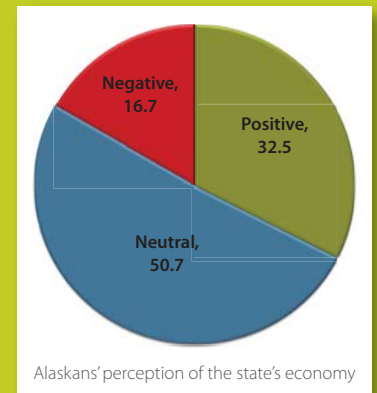
Anchorage's 2009 annual average CPI-U was 191.744 and in 2008 the CPI-U was 189.407. The difference between the two index numbers is divided by the base (2008) number and expressed as a percentage.

For this example, 191.744 minus 189.497 is 2.247, which is divided by 189.497 to derive .01185 or, as a percentage, 1.185 (1.2 percent, rounded) change in the index for 2009. This calculation suggests that typical Anchorage urban consumers paid about 1.2 percent more for goods and services in 2009 than they did in 2008.

## Alaska Confidence Review: Second Quarter Results

The second quarter of Northern Economics' Alaska Confidence Review shows Alaskans' confidence in their local communities' economies and their family household finances slipping from the first quarter of 2010; also, more Alaskans now say that local and statewide economic conditions are worsening than say conditions are getting better. Some of the more interesting results include:

- ❖ As in the first quarter of 2010, a majority of Alaskans would not describe the current condition their local economy as good and said that conditions are not improving over time:
  - The portion of respondents who rated their local economy as good or better fell by 3 percentage points to just over 35 percent, while those who rated their local conditions as poor or worse increased by nearly the same amount to 18 percent.
  - While 60 percent of respondents said they felt the economic conditions in their local communities were staying the same, the portion that felt things were getting worse increased by 8 points to nearly one quarter of the respondents. Less than 15 percent of respondents felt things were getting better in their local community.
- ❖ Alaskans' rating of the state's economic condition stayed steady in the second quarter. Only 32 percent of respondents rated Alaska's economy as good or better, while just over 16 percent rated the economy as poor or worse.
- ❖ At the same time, more Alaskans felt that economic conditions in the state are worsening. More than one-quarter of respondents said economic conditions in the state are getting worse. Most of the increase in this category came from respondents who felt that conditions were stable in the first quarter; the portion of respondents who felt things were getting better overall stayed roughly constant in the second quarter.
- ❖ While Alaskans still feel comparatively good about their personal finances, the percentage of respondents who rated their family's financial situation as secure or very secure fell to 50 percent in the second quarter from 60 percent in the first quarter. Respondents who felt their family's financial situation is getting better outnumbered those who felt it is getting worse by just five percentage points.



For more information regarding the Alaska Confidence Review, please contact Jonathan King at 907-274-5600.