4 Things to Know in 2019

Understanding Alaska's big picture three years into recession

By **DAN ROBINSON**

Two months into 2019, here are a few basic things to understand about Alaska's economy and job market as we teeter between resumed growth and a lingering recession.

ONE: Alaska has been losing jobs for 39 months

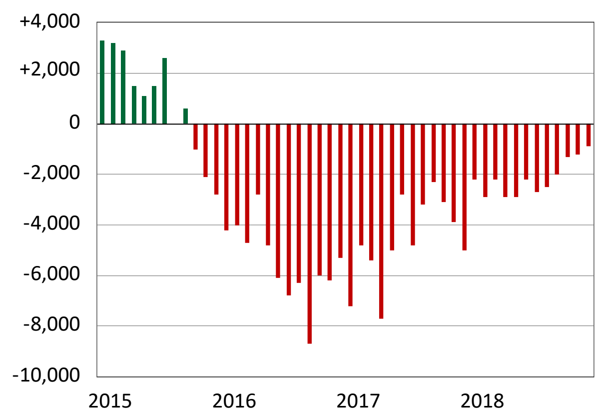
Alaska has been losing jobs since October 2015: 39 months and counting. (See Exhibit 1.) A steep drop in oil prices from above $100 a barrel to below $30 caused big oil and gas job losses, which reverberated through the broader economy.

Cumulative loss is now 12,700 jobs

Alaska has lost a cumulative 12,700 jobs so far. This means the state's job count is back down around its March 2011 level. (See Exhibit 2.)

1 Alaska Job Losses Slowing

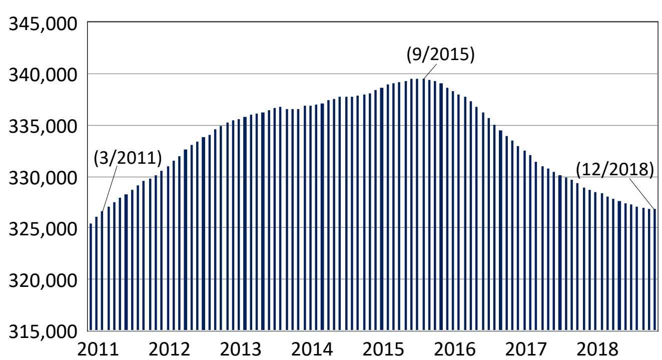
Change from prior year, 2015 to 2018



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

2 Job Loss Nears 13,000

Total Alaska employment,* 2011-2018



*12-month moving average
Note: Excludes self-employment and the military.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

The biggest losses have been in areas of the state with relatively high concentrations of oil and gas activity, professional and business services firms, state government, and construction companies. (See Exhibit 3.) The North Slope Borough has been hit hardest, but Anchorage, Juneau, and Fairbanks have also recorded substantial losses.

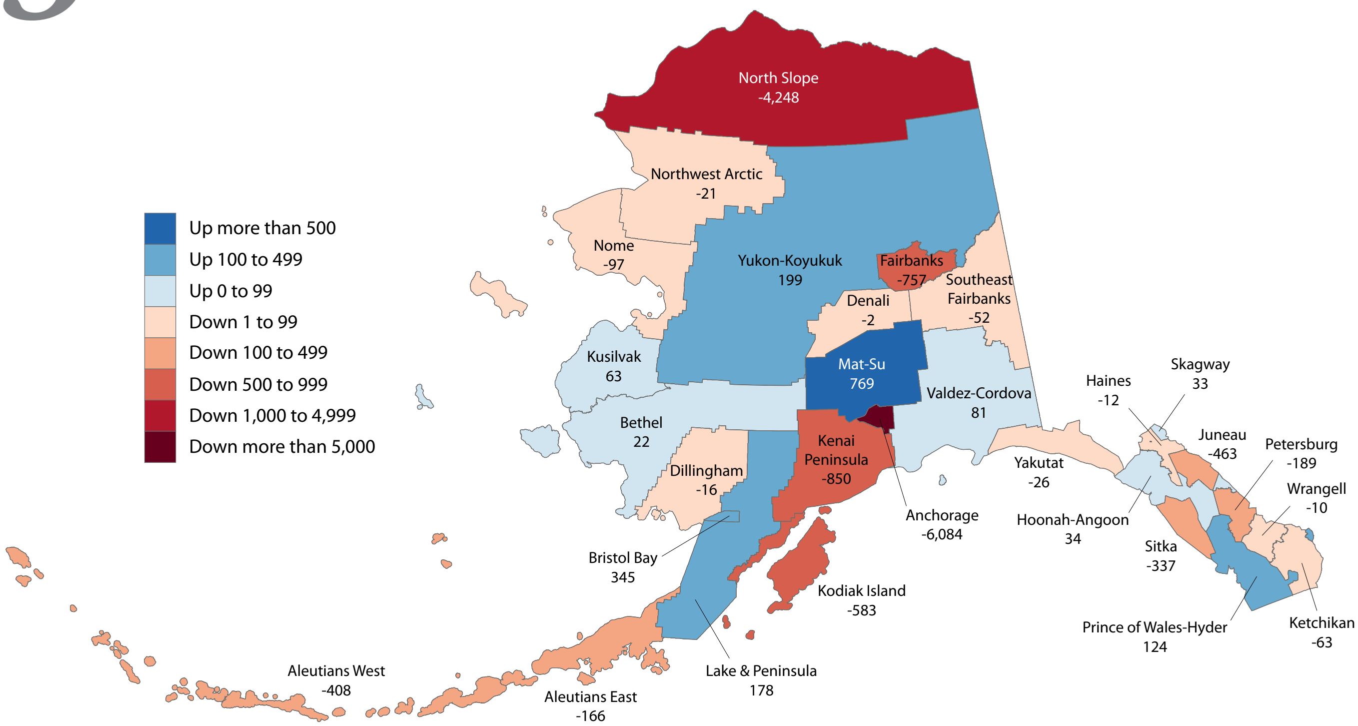
Some areas added jobs from 2015 to 2018

Other parts of the state lost jobs just briefly and recorded higher employment in 2018 than they had in 2015. The Matanuska-Susitna Borough's job count rose 3.4 percent over that period, for example, and much of interior Alaska had at least mild job growth. Most of those gains can be traced back to health care. Of Mat-Su's total growth of 750 jobs, 450 were in health care and social assistance, for example.

The Mat-Su Borough also benefitted from strong, continued population growth. From 2013 to 2018, the borough added about 10,000 people — a distinctly different pattern from the state as a whole, which

3 Total Job Loss or Gain by Alaska Area Since 2015

BOROUGHS AND CENSUS AREAS, BASED ON THE FIRST THREE QUARTERS OF EACH YEAR, 2015 TO 2018



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

There's been no 'mass exodus' with this recession. In fact, the migration loss has mainly come from a decrease in the number of people moving here.

had almost no population growth over that period.

... But all Alaskans have felt some impact

The downturn has affected all areas of the state, even those that didn't lose local jobs. North Slope workers who lost their jobs live scattered throughout the state, which means the loss of income from those high-wage jobs also rippled into their home communities.

Further, all Alaskans are affected to some degree by state government's struggles. Permanent Fund Dividend amounts have changed, state-funded services and operations have an uncertain future, and big changes appear necessary in either the size of state government, the types and amounts of revenues collected, or both.

4 Ongoing Net Migration Loss

ALASKA, 2009 TO 2018

Year	In-migrants	Out-migrants	Net migration
2009	43,147	40,138	3,009
2010	45,363	36,873	8,490
2011	40,651	40,247	404
2012	47,478	46,281	1,197
2013	50,626	52,490	-1,864
2014	41,500	48,619	-7,119
2015	39,695	46,134	-6,439
2016	41,415	45,597	-4,182
2017	40,084	48,249	-8,165
2018	38,630	46,207	-7,577

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

TWO: More people have left Alaska than arrived for six straight years

Starting in 2013 and for six years straight, more people have left Alaska than have moved in. (See Exhibit 4.) Gains from natural increase — births minus deaths — were large enough to more than compensate for migration losses until 2017. The state's total population declined in 2017 and 2018 by less than 2,000 each year.

The cumulative net migration loss of about 35,000 people over those six years is not particularly large — the state lost almost that much in just two years from 1986 to 1988 — but it's the first time since at least 1945 that we've lost more people than we've gained for so many consecutive years.

The biggest change has been to in-migration

Although some speculated people would flee Alaska in droves with this recession — perhaps because they did during the 1980s recession — the losses from migration have been due less to an increase in people leaving than to a decrease in people coming.

The number who left Alaska in 2018, 46,000, was relatively large compared to pre-2012 levels, but it was 6,000 people fewer than the 52,000 who left in 2013. However, the number of people moving to Alaska has fallen by about 12,000 since peaking above 50,000 in-migrants in 2013.

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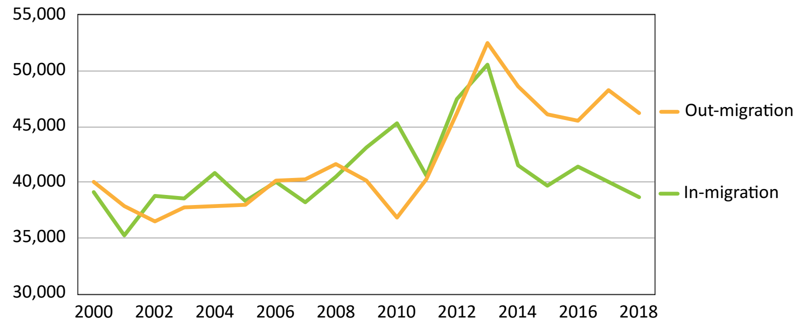
Fewer Leaving, But Also Fewer Arriving

ALASKA'S MIGRATION FLOWS IN AND OUT, 2000 TO 2018



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

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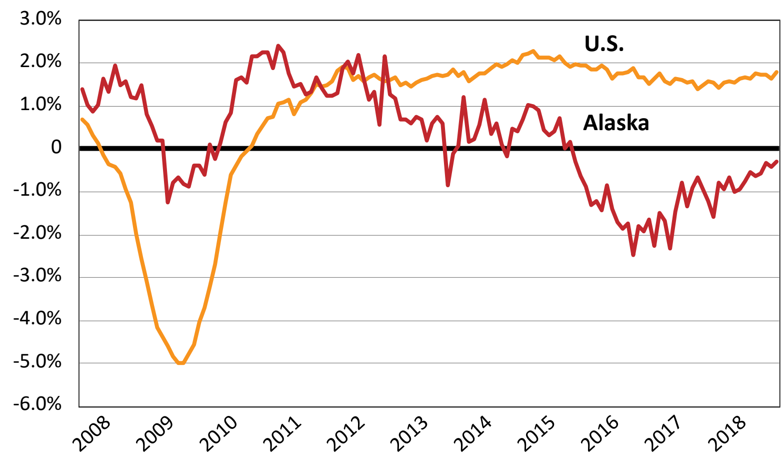
Alaska, U.S. Job Growth Patterns Diverge

YEAR-OVER-YEAR CHANGE, 2008 TO 2018



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section and U.S. Bureau of Labor Statistics

What's driving Alaska's migration-related losses?

People move for a variety of reasons, but they fall into a handful of recognizable categories. A long-running United Van Lines National Movers Study, which doesn't include Alaska or Hawaii but is still relevant for identifying why people move, sorts the primary reasons into five groups: jobs, retirement, family, lifestyle, and health.

Jobs are the most frequently cited primary reason people move, followed in different years and states by retirement, family, and lifestyle. Health is the least cited of the five.

Relationship between Alaska, U.S. economies affects migration

As we've written about before in *Alaska Economic Trends*, net migration tends to be positive in Alaska when the U.S. unemployment rate is high, and it's almost always negative in Alaska when the U.S. unemployment rate is low. (See the October 2015 article "Alaska Migration and U.S. Recessions.")

Alaska last had strong positive net migration in 2010, when the U.S. economy was emerging from its deepest recession since the Great Depression. Out-migration from Alaska that year was the lowest it had been since 2002.

An Alaskan would have had difficulty finding work outside the state during those years, and similarly, job seekers from elsewhere considering a move to Alaska in the last few years would have had good reason to wait for a more favorable economy here.

In contrast, during the state's 1980s recession, people really did leave the state in droves, even as fewer people moved here. The number of out-migrants soared from 40,000 in 1983 to 57,000-plus in 1986 and 1987, and the number of in-migrants fell from all-time highs of nearly 65,000 in 1983 to about 34,000 in 1988. The combination created an unusually large single-year net migration loss of nearly 20,000 people in 1987.

The older, more rooted population in Alaska today has been less likely to leave despite the extended period of job loss, which is one reason the state's housing market has been remarkably stable in stark contrast to the '80s recession when it crashed. (See the August 2018 article "Why Home Prices Haven't Dropped During Recession.")

Alaska has larger migration flows than other states, both in and out

Large numbers moving in and out each year is normal for Alaska. Over at least the last 25 years, no state has had larger migration flows than we have, which means migration is especially relevant in defining the size and characteristics of Alaska's population.

From 1990 to 2016, Alaska had average gross migration rates (the combined total of in and out migration divided by the total population) of more than 12 percent. Nevada ranked second, followed by Wyoming and Hawaii. At the low end were Michigan and Ohio, where gross migration rates averaged below 4 percent.

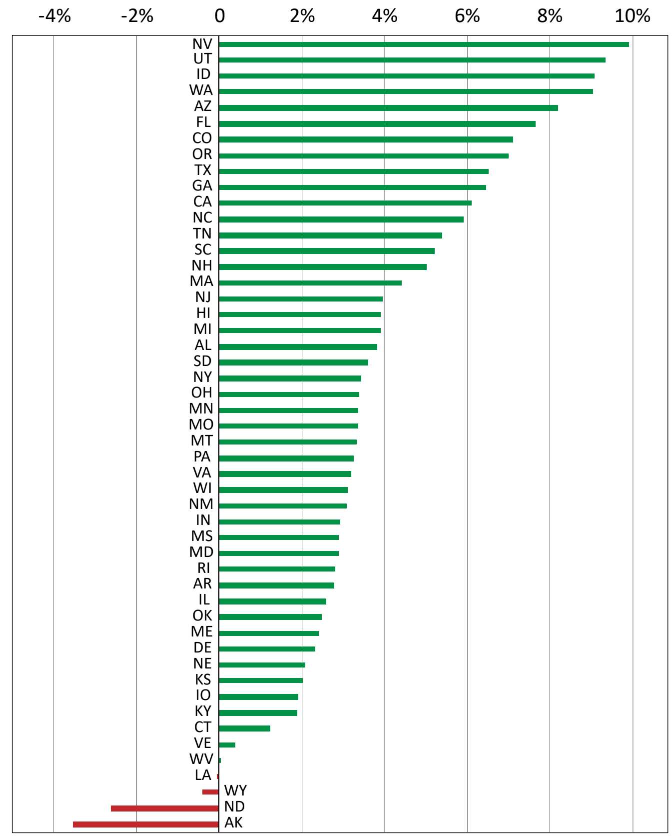
Why the negative migration trend matters

Because we're in new territory with extended negative net migration, it's not yet clear what it means. One possibility is we'll soon return to the normal pattern of intermittent gains and losses from migration, although we'll likely have at least one more year of net migration loss.

Another more concerning possibility is net migration will stay negative for an extended period due to negative perceptions about the vitality of our job market, the quality of our schools, the level of crime, and the overall quality of life here. That possibility raises the stakes on some of the decisions we're in the process of making as a state when it comes to the size of state government and the way we pay for it as well as the future of the Alaska Permanent Fund and Permanent Fund Dividend.

7 Job Gain or Loss by State

NOVEMBER 2015 TO NOVEMBER 2018



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section and U.S. Bureau of Labor Statistics

THREE: Alaska's economy ranked last in U.S. from 2015 to 2018

From 2008 to about 2012, Alaska's economy was noticeably stronger than the U.S. economy. (See Exhibit 6.) But Alaska started to underperform relative to the U.S. economy, well before the state started to lose jobs in late 2015.

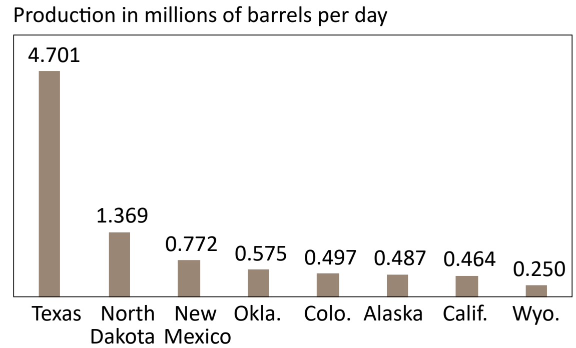
Although Alaska's losses moderated in 2017 and 2018, our economy remains far weaker as measured by job growth than the country overall.

Nevada ranks first for job growth since 2015

Over the past three years, no state has lost a larger percentage of its jobs than Alaska, and the vast majority of states grew. (See Exhibit 7.) Nevada was strongest over that period, adding 10 percent to its job count, followed by four other western states: Utah, Idaho, Washington, and Arizona.

8 What Oil States Produce

PER DAY, OCTOBER 2018



Source:Energy Information Administration

At the other end of the spectrum, the only two states with noticeable losses besides Alaska were North Dakota and Wyoming, suggesting that sparsely populated states that depend heavily on oil were especially vulnerable to the oil price shock.

Alaska's oil production now ranks sixth among states

Although Texas produces the most oil among states by far (see Exhibit 8), its economy and population of 28 million were large enough to absorb the oil price drop without losing jobs overall.

The same is true of most other states with high oil production and larger populations. Oklahoma, for example, which produces about as much oil as Alaska, lost overall employment for a brief period and then quickly recovered.

Downturns in North Dakota and Wyoming were deeper but shorter

More relevant to Alaska are states like North Dakota, which has a population of about 755,000 (close to Alaska's 736,000), and Wyoming, the least populous state at about 580,000. Those states also depend heavily on oil-related jobs and revenue, and their economies dipped well into the red when prices fell. (See Exhibit 9.)

All three states started losing jobs in 2015, and the losses in North Dakota and Wyoming were much worse in 2015 and 2016 than they were in Alaska. There are a variety of possible reasons, and one is that those states didn't have the level of savings Alaska had to cushion the blow from the loss of oil revenue. However, the more relevant point is that Wyoming's economy was growing again by mid-2017 and North Dakota's growth resumed by mid-2018.

Why is Alaska's recession lingering?

In a study of extended periods of state job losses — loosely defined as recessions — from 1961 to 2016, we found that 93 percent of the time, states didn't lose jobs for more than three years. (See the April 2017 article "When Recessions Linger.")

We identified 259 state-level recessions and determined that when a recession lingered beyond three years, it was usually due to structural shifts in a state's economy.

One example is Oregon, which shed jobs for more than three years in the early 1980s when it was in the process of losing much of its timber industry. The value of Oregon's lumber and wood products fell from a high of nearly 13 percent of the state's gross domestic product (the market value of all the goods and services produced in that state) to less than 2 percent. Southeast Alaska saw similar declines when pulp mills in Sitka and Ketchikan closed in the 1990s.

Alaska isn't in the process of losing any of its major economic drivers, but we remain in an already long and messy transition away from relying almost entirely on oil-related revenue to pay for state government.

In 2018, the state made the major move of tapping earnings from its $60 billion Permanent Fund to generate billions of dollars in annual revenue ($2.7 billion in the first year and an expected $2.9 billion in the second).

But major work remains, as evidenced by an expected deficit of $1.6 billion in the coming fiscal year, even with the additional funds from the Permanent Fund investment earnings. The state has been able to delay some of the hardest choices in recent years by spending money from its savings accounts, but accounts that once added up to nearly $18 billion are now down to around $2 billion.

Unlike Alaska, North Dakota and Wyoming aren't in the midst of restructuring their state governments. Their economies have largely absorbed the oil-related shock, and although they haven't yet completely recovered, they're growing at healthy rates.

Similar to those states, Alaska's has begun adding oil jobs again and more growth is likely in the near and mid-term future. But until we figure out our state government situation, we'll struggle to grow or we'll grow at restrained rates.

FOUR: We have a rare amount of control over our economic future

Many of the factors that have historically determined

Alaska's economic health are out of our control. We can do little to move oil prices, for example. At various points in our history, Alaska's mineral and seafood production has been a large enough share of the world market to affect prices, but it's far more common for national and international factors to determine prices.

In 2019, however, we have more control than usual over our economic future. If Alaska's current recession is lingering because we haven't yet resolved our state government challenges, which appears to be the case, we can do something about that.

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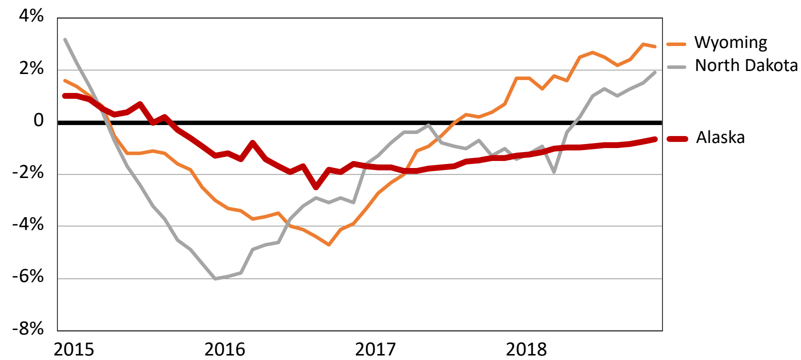
Oil-Producing States' Change in Jobs

2015 to 2018



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section and U.S. Bureau of Labor Statistics

We've made one big change so far

Nearly two years ago, we wrote that this recession could last longer than a state downturn typically would because we'd need to do more than simply absorb the shock from an oil price plunge. We noted that while oil and gas wasn't on its way out as one of the pillars of the state's economy, "a structural change that appears necessary ... is the way we fund state government."

"The options going forward," we said, "include some combination of using investment earnings from the state's Permanent Fund, continuing to reduce the size of state government, implementing new taxes, or reducing the size of Permanent Fund Dividends."

Alaska took the first big step last year when we passed a law that creates a new revenue stream from the Permanent Fund's investment earnings. That revenue stream is forecasted to provide $2.7 billion in state fiscal year 2019 (July 1, 2018 to June 30, 2019) and $2.9 billion in fiscal year 2020, according to the Department of Revenue's Fall 2018 Revenue Sources Book.

It's hard to exaggerate the importance of that step. In one fiscal year, the state will go from depending on petroleum revenue for 80 percent of its unrestricted general fund revenue — the funds most available for general state government services and capital budgets — to 40 percent. The Department of Revenue forecasts that by 2020, petroleum revenue will represent just 32 percent of the state's unrestricted general fund revenue.

That change is significant for two reasons. The most obvious is it's a lot of money, and it reduced what had been massive budget deficits that we accommodated only by spending most of our savings. The second and less obvious reason is the investment earnings will be far more consistent and dependable than Alaska's petroleum revenue has been over the years.

Harder choices lie ahead

Even with the influx of nearly $3 billion from investment earnings, the state expects revenue to fall short by about $1.6 billion of the preliminary budget for fiscal year 2020. That means major choices remain, and none of the options are painless or universally popular.

Until we act, however, the uncertainty will continue to dampen the state's economy. As just one example of the cost of uncertainty, Mouhcine Guettabi, an economist at the University of Alaska Anchorage's Institute of Social and Economic Research, estimates that the effects of "policy uncertainty" cost the state between $200 million and $600 million a year in private investment.

All of our possible choices have pros and cons, and from an economic perspective, none will be cost-free. But until we make those decisions, our economy will struggle.

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