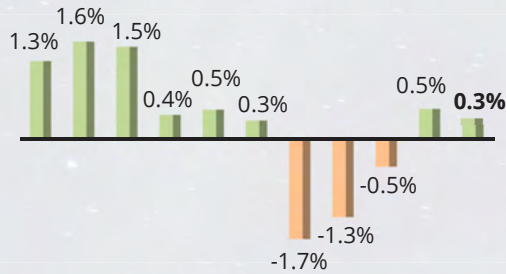


Statewide Forecast for 2020

Slight job growth likely this year



'10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20

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

By KARINNE WIEBOLD

Alaska added about 1,600 jobs in 2019 after losing more than 11,000 during the recession of the prior three years. We forecast that trend will continue this year, but at a slower rate of 0.3 percent, or about 1,100 new jobs.

While most industries' growth will be tepid, record anticipated numbers of cruise ship visitors and the first wave of new military personnel at Eielson Air Force Base in the interior will be bright spots in 2020.

Growth is the economic default

Without significant counterpressure, growth is the default economic setting. Absent a major shock, Alaska will keep adding jobs in 2020, but a few

Statewide outlook for jobs, by industry

	Monthly avg, 2018 ¹	Monthly avg, 2019 ¹	Change, 2018-19	Percent change	JOBS FORECAST		
					Monthly avg, 2020	Change, 2019-20	Percent change
TOTAL NONFARM EMPLOYMENT²	327,700	329,300	1,600	0.5%	330,400	1,100	0.3%
Total Private	247,200	249,300	2,100	0.8%	251,200	1,900	0.8%
Mining and Logging	12,700	13,100	400	3.1%	13,600	500	3.8%
Oil and Gas	9,400	9,700	300	3.2%	10,100	400	4.1%
Construction	15,800	16,500	700	4.4%	16,700	200	1.2%
Manufacturing	12,600	12,800	200	1.6%	12,900	100	0.8%
Transportation, Trade, and Utilities	64,400	64,500	100	0.2%	64,700	200	0.3%
Retail Trade	35,800	35,600	-200	-0.6%	35,500	-100	-0.3%
Wholesale Trade	6,400	6,500	100	1.6%	6,500	0	0%
Transportation, Warehousing, and Utilities	22,200	22,400	200	0.9%	22,700	300	1.3%
Information	5,600	5,400	-200	-3.6%	5,300	-100	-1.9%
Financial Activities	11,700	11,600	-100	-0.9%	11,400	-200	-1.7%
Professional and Business Services	27,300	27,600	300	1.1%	27,800	200	0.7%
Educational (private) and Health Services	50,400	50,800	400	0.8%	51,200	400	0.8%
Health Care	38,000	38,400	400	1.1%	38,800	400	1.0%
Leisure and Hospitality	35,600	36,000	400	1.1%	36,500	500	1.4%
Other Services	11,100	11,000	-100	-0.9%	11,100	100	0.9%
Total Government	80,500	80,100	-400	-0.5%	79,200	-900	-1.1%
Federal, except military	14,900	14,800	-100	-0.7%	15,000	200	1.4%
State, incl. University of Alaska	23,600	23,400	-200	-0.8%	22,700	-700	-3.0%
Local and tribal, incl. public schools	42,000	41,900	-100	-0.2%	41,500	-400	-1.0%

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

¹Preliminary and adjusted estimates. ²Excludes the self-employed, uniformed military, most commercial fishermen, domestic workers, and unpaid family workers.

conditions will keep recovery sluggish.

First, some of last year's job growth was due to temporary factors rather than true economic improvements. The biggest was the federal government injecting nearly half a billion dollars into the state to house two new squadrons of F-35 fighter planes at Eielson.

Second, Alaska's economic recovery continues to face headwinds. Ongoing population loss dampens job growth, and state government is still grappling with balancing spending and revenue.

While budget talks for fiscal year 2021 are in the early stages, the proposed budget would transfer more than \$1 billion from savings, even with the influx of nearly \$3 billion from investment earnings. This would leave Alaska with another year of dwindling savings accounts and unresolved choices about the size and role of state government, the size of the Permanent Fund Dividend, and how to pay for it all.

As we wrote early last year, all 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 be hampered by uncertainty. (See the February 2019 issue of *Trends*.)

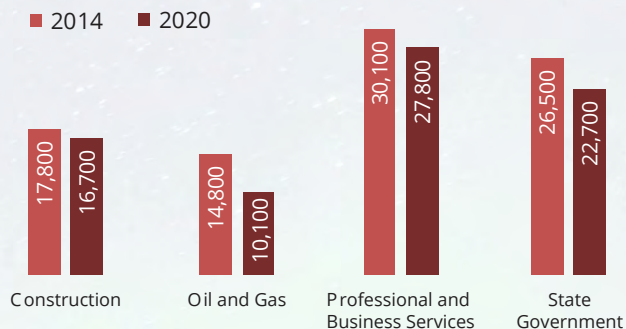
What will drive job growth in 2020

Tourism numbers keep reaching new heights, and 2020 is expected to break another record with an anticipated 6 percent jump in cruise ship passengers. According to McDowell Group, nearly half of Alaska's visitors arrive on cruise ships, 47 percent fly, and 4 percent come by land or ferry.

Alaska remains a powerful draw for visitors, and a strong national economy means more people have the disposable income necessary for a trip north. The number of foreign tourists in the winter, many of whom travel to the interior to view the northern lights, has also grown in recent years.

The military is another positive driver. Nearly 2,500 troops from Fort Wainwright in Fairbanks deployed to Iraq in September and will begin returning in May. The deployment depressed demand at local

Employment in key industries remains below 2014 levels



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

Without significant counterpressure, growth is the default economic setting. Alaska will likely add jobs in 2020, but a few conditions will keep recovery sluggish.

restaurants, bars, and stores, and returning soldiers will stimulate eating, drinking, and shopping activity.

Eielson Air Force Base will welcome the first installment of F-35 personnel and their families early this year, infusing the Fairbanks North Star Borough with new residents — a major boost for a borough that has lost

3,500 people since its population peaked in 2012 at slightly more than 100,000 people. (See the Fairbanks forecast on page 13.)

Oil and gas will add jobs in 2020, although the sale of BP's assets to Hilcorp will likely result in at least temporary job loss, as is customary when companies restructure. In late 2019, BP reported that about half of its nearly 1,600 Alaska employees had taken jobs with Hilcorp.

What will slow the economy in 2020

State government's financial situation remains the primary drag on Alaska's economy. Even after several years of deep budget cuts, Alaska still spends more than it brings in. Savings have bought the state time and mitigated cuts, but drawing from savings remains controversial and a short-term solution.

The state cut the University of Alaska's funding by \$25 million last year (state fiscal year 2020),

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resulting in rapid job losses. By fall, employment had fallen by 400 from the year before. Additional cuts are likely over the next few years.

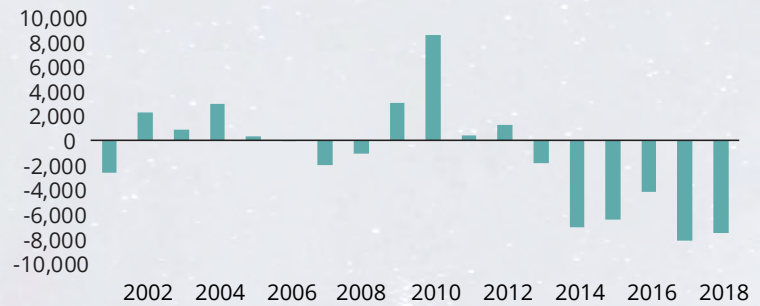
The Alaska Marine Highway System, a network of ferries serving southeast, southwest, and southcentral coastal towns, took a huge hit in 2019. Ferry service to a number of communities has been significantly reduced, and some places, such as Cordova, have lost winter service.

The effects on small, isolated communities will be far-reaching. Reduced ferry service may boost private transportation companies as communities such as Angoon look to charter boats and small aircraft to meet critical transportation needs, but the costs of living and working in these places will increase.

Finally, population loss remains an ongoing issue. After growing for nearly 30 years, Alaska's total population declined for a second year in a row in 2018 when natural increase (births minus deaths) was no longer able to offset net migration losses.

Alaska has the largest migration rates of any state — every year, between 35,000 and 50,000 people both to and from Alaska — but for the last six years, the state has lost more movers than it's gained. Fewer Alaskans means less demand for schools, stores, homes, and services.

More people have left Alaska than arrived for six straight years



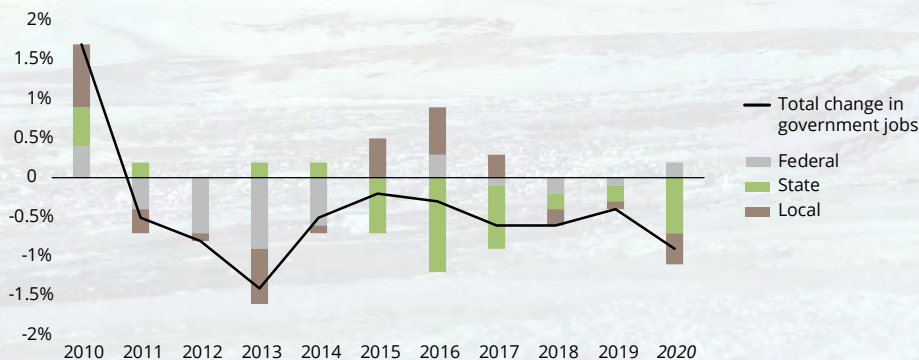
Note: Shows net migration, or in-migrants minus out-migrants.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

A look at forecasted growth and loss by private industry

Most of Alaska's industries are forecasted to grow in 2020, at least a little. Tourism will bolster a handful of related industries, from leisure and hospitality (which includes eating and drinking as well as accommodations) to retail, transportation, and the arts, entertainment, and recreation industry.

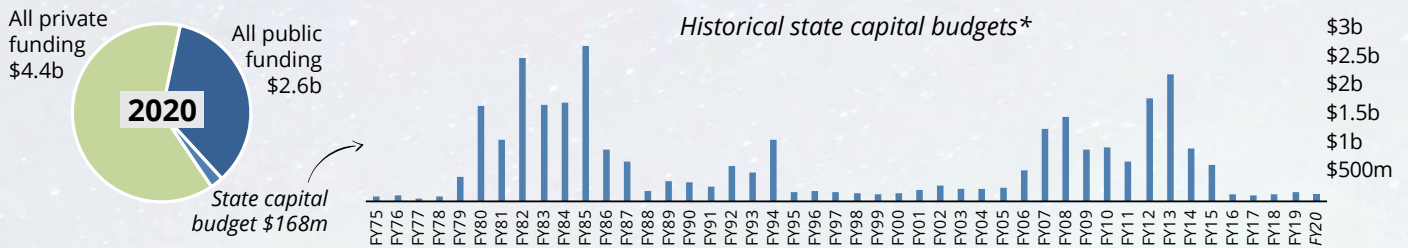
We forecast 100 additional jobs for mining over the next year as existing mines operate and expand. A number of new projects around the state are possible, but it's too soon to incorporate them into the 2020 job forecast. These include Pebble in the southwest, which continues to progress through regulatory requirements, and explorations in Haines, near the existing Red Dog Mine, and in the interior.

Government jobs continue decade-long decline



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

Capital budgets and share of total construction funding shrinking



*In 2019 dollars. Sources: Institute of Social and Economic Research, Alaska's Construction Spending Forecast 2019; and Alaska Division of Legislative Finance

(See the metal mining article in the May 2019 issue of *Trends*.)

Despite a dip in oil prices (averaging \$65 per barrel in 2019 versus \$71 the year before), we expect the oil industry will continue growing, adding 400 jobs in 2020 after gaining 300 last year. The biggest variable is Hilcorp's assumption of BP's North Slope assets in early 2020, which will probably cause some job loss, mainly in Anchorage. (See the Anchorage forecast on page 10 for more.)

Health care, historically a major source of growth, is forecasted to add a modest 400 jobs in 2020. Hospitals and ambulatory health care continue to expand, but at a slower rate. Nursing homes and group homes, on the other hand, have been losing jobs for several years and the losses are accelerating.

Alaska's population is aging faster than the nation's, and with age comes additional health care needs. This will spur some growth in the industry, but recent cuts to Medicaid, with more looming, will mute health care growth.

Some of the industry's recent job growth is a reclassification of existing jobs from local government to private health care through the City of Sitka's recent sale of its community hospital to the Southeast Alaska Regional Health Consortium, or SEARHC.

Construction is forecasted to add 200 jobs in 2020, but there's little activity on the horizon. New home construction has slowed in recent years, falling from 4,774 new units in 2004 to 1,659 in 2018. For a

while, there was talk of new housing demand from the Eielson expansion, but with high vacancy rates in the Fairbanks area and its population down, that talk has quieted.

The Army Corp of Engineers' spending in Alaska will drop precipitously this year, from \$640 million in fiscal year 2019 to \$310 million: a 52 percent cut. State government's FY 2020 capital budget was also down, reducing state spending on construction projects, although the governor has proposed a slightly higher capital budget for fiscal year 2021.

The impact of state capital spending on overall construction spending has varied greatly over the years, as the chart above shows. State investment in facilities and infrastructure topped \$2 billion as recently as 2013, but in 2019 it was a tiny fraction of public construction spending, dwarfed by federal contributions. (For more on the construction industry, see the December 2019 issue of *Trends*.)

After growing for nearly 30 years, Alaska's population fell in recent years when natural increase could no longer offset net migration losses.

Professional and business services includes professional, scientific, and technical services (nearly half of its employment); management of companies and enterprises (10 percent); and administrative support and waste management (around 40 percent). This sector lost nearly 3,000 jobs during the recession, then resumed growing in 2019, adding 300 jobs. We forecast 200 additional jobs for 2020.

Transportation, warehousing, and utilities is forecasted to add 300 jobs in 2020, but a significant chunk of the gain will be through the sale of Anchorage's Municipal Light and Power to Chugach Electric Association, which will simply move jobs

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from local government to the private utilities sector. Transportation will account for the additional growth, mostly through increased tourism, but reduced ferry service might also increase demand as coastal residents seek travel alternatives.

The retail, information, and financial activities industries will continue losing jobs in 2020. All three are subject to the cumulative effects of our recent state recession as well as national trends.

The internet continues to alter the employment landscape. Online retail is reducing local demand across the country, newspapers and radio stations are losing jobs as technology changes, and financial activities employment is falling as more services become accessible online.

Major losses on the horizon for state and local government

Government employment will decline considerably again in 2020. State government will take the biggest hit, shedding a forecasted 700 jobs over the year, but it could be more. We forecast a loss of 400 for local government, although that's a more complex story, as we will explain below. Federal government will add 200 jobs, mostly through temporary positions conducting the decennial census.

State government employment has fallen every year since 2015. From its high in 2014 through 2019, state government lost 3,100 jobs, as shown on page 6.

Big funding cuts to the university last year have already eliminated jobs, and those cuts are still fresh as the next round approaches. In addition, the marine highway system significantly cut its ferry workforce after a major budget hit last year.

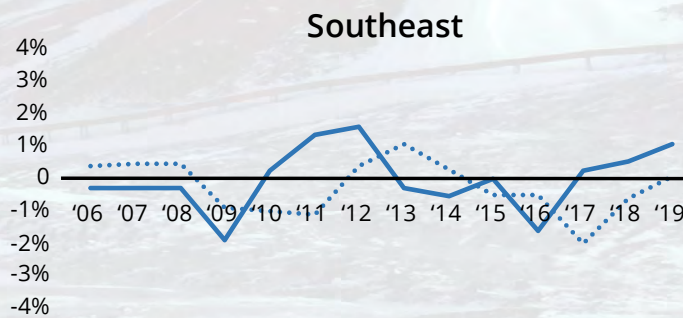
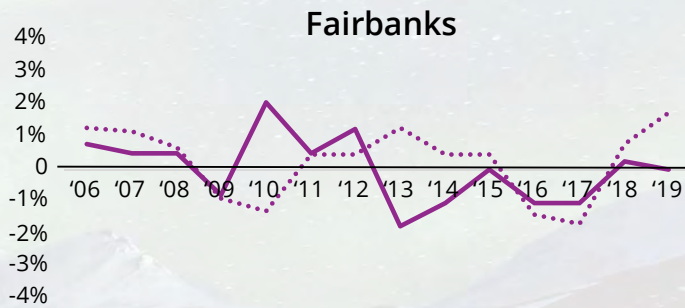
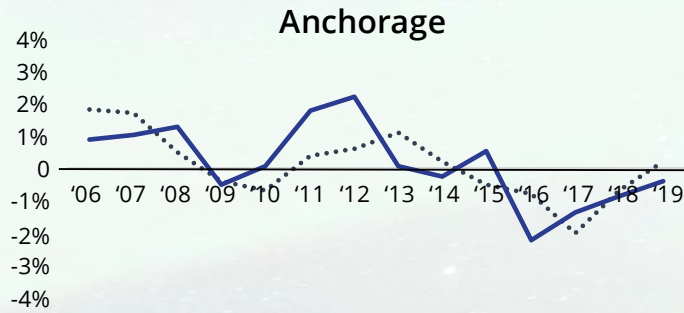
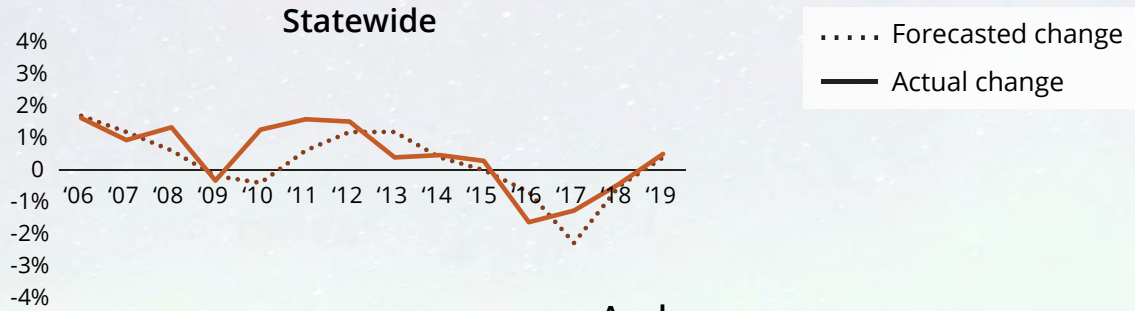
State government employment in the second half of 2020 is more uncertain, as the fiscal year 2021 budget remains far from final. The recently released governor's budget proposes essentially flat spending with high expectations for the Permanent Fund Dividend payout. The proposal hinges on drawing down three-quarters of the constitutional budget reserve, and opinions differ on whether the state should take that approach.

While local government will lose about 400 forecasted jobs, most of those will simply move to the private sector, as mentioned earlier, so they won't be a true loss. Local government employment continued to grow during the first two years of the recession, but started to drop in 2018. That trend will continue in 2020 with a forecasted loss of about 100 jobs after accounting for the private sales in Anchorage and Sitka.

Despite federal employment falling nearly every year for the last decade, we forecast a modest gain this year as temporary census workers canvas the state, starting in Toksook Bay on Jan. 21. While the census is modernizing and collecting more data online, in-person enumeration is necessary in Alaska's remote communities where internet access is limited and additional resources are required to get an accurate count.

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How our job forecasts have panned out in recent years



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