

# Alaska GDP Down in 2016

Fourth year of decline due to continuing oil losses

By NEAL FRIED

**A**laska'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.

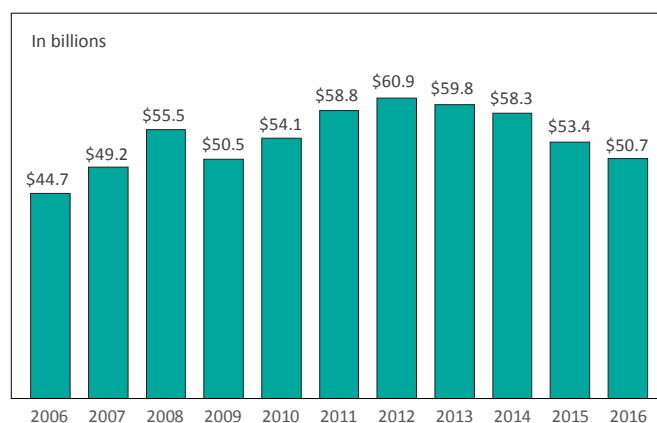
## Current decline the longest in Alaska's modern history

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.)

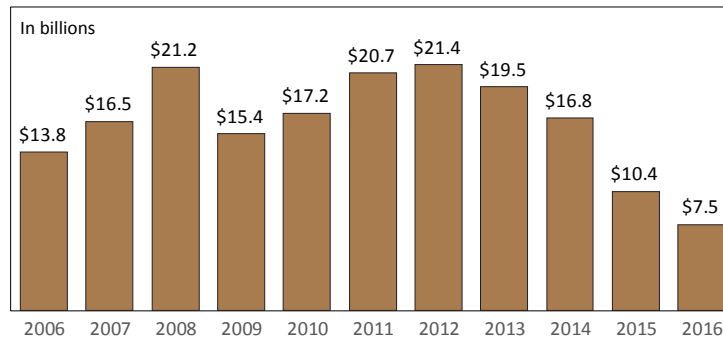
## Oil's unusually large role

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-

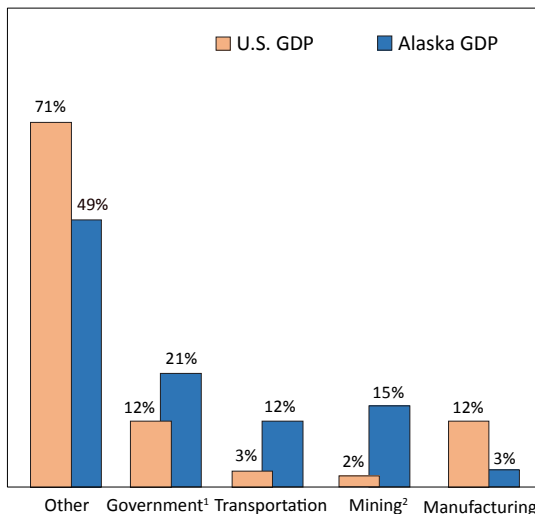
ernment (see Exhibit 3), with which it volleys for the top spot from year to year. Over the past two decades, mining's share of Alaska GDP ranged from 13 percent to 35 percent, with an annual average of 25 percent. Nationally, the oil and gas industry represents less than 1.5 percent of total GDP.

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



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

<sup>2</sup>In 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.

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