

Update on the economy and COVID-19

What we know in May and what to look for in the coming months

By DAN ROBINSON

At the beginning of May, telling but limited data were available to gauge the economic impacts of COVID-19.

Most relevant was the dramatic increase in claims for unemployment insurance benefits. In the last six weeks, more than 70,000 people filed new claims for unemployment insurance. During those same six weeks in 2019, the number was just 5,345.

That means roughly 65,000 people who normally would have been employed weren't working by the end of April. For context, Alaska's entire working-age population numbers around 500,000.

But economic data are rarely without caveats and nuances, and that's truer now than ever. One of the key questions about the surge in claims is how long those people will be out of work, given that so many *couldn't* work due to government mandates that are now being incrementally relaxed or removed.

Many service-sector workers will gradually return to work as stores, bars, restaurants, hair salons, and massage therapy businesses reopen, albeit with new restrictions. Whether customers spend freely or cautiously, though, will have a lot to do with the medium- and long-term impacts of COVID-19.

Another nuance for Alaska, which the cover article details, is the difference between layoffs and seasonal jobs that won't materialize this year. In the coming months, we'll analyze job counts by industry and area to see how far down they are from last year — but a city that has 1,000 laid-off workers has different things to consider than a city that anticipated 1,000 out-of-state workers in summer 2020 who ended up staying in their home states or countries.

What we hope to know soon

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Visitor numbers will be dramatically lower this summer even under the most optimistic scenarios, and some of the largest tourism employers have already announced they won't open or operate in 2020.

Construction will pick up as usual during the summer months, but residential and commercial construction will likely slow substantially.

It's too early to tell how fishing and seafood processing will manage the new restrictions on travel and social distancing.

On May 22 we'll release April employment estimates by industry and region. A week earlier, on May 8, the U.S. Bureau of Labor Statistics will release U.S. job numbers and the unemployment rate for April. The national job losses will be historically large, and the U.S. unemployment rate will rise dramatically.

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Alaska's April unemployment rate, which we'll also release on May 22, may be misleading because of how it's calculated. At the national level, the unemployment rate is calculated from a household survey that captures the month-to-month change in the number of people working, the number of people not working but looking for work (the definition of "unemployed"), and the number of people who aren't in the labor force (people who aren't working but also aren't looking for work because they're retired or in school, for example).

We produce state and local unemployment rates using models the Bureau of Labor Statistics creates with limited input from states. The models

struggle to capture short-term dramatic changes in the labor force, especially in small states with high seasonality like Alaska.

Consequently, we don't expect Alaska's unemployment rate to be as helpful in assessing the state's economy as employment estimates and the ongoing monitoring of claims for unemployment insurance, both of which are simpler and cleaner metrics.

Turning to the long-term population projections we recently released and summarized in this issue, another thing we don't know is whether COVID-19 will affect existing population dynamics.

A state's population changes based on the combination of births, deaths, and migration in and out. Births and deaths don't change much from year to year or respond in obvious ways to short-term shocks, but migration rates are volatile. Alaska has seen more people leave the state than move here for the last six years, but we don't anticipate that will continue in the long term.

The way states navigate COVID-19 challenges — from budget deficits to public health to dependence on certain industries — will shape the relative desirability of living in Alaska, and that will influence migration trends to and from the state.

Big questions about oil and gas

Perhaps as soon as the June issue of *Trends*, we'll take an initial look at the state's oil industry, which faces shockingly low prices, voluntary production cuts, and layoffs. The industry, which peaked at around 15,000 jobs in 2014 before dropping to as low as 9,100 in 2017, had been slowly recovering lost ground and was back up to an estimated 10,500 jobs in March.

One plus is that the state no longer depends almost entirely on oil to fund its budget. Investment revenue made up

a much larger share of unrestricted general revenue even before the oil price crash, and the Alaska Department of Revenue forecasts that petroleum revenue will represent just 17 percent of the state's total unrestricted general revenue in fiscal year 2021. There's no question, though, that oil is still critical to the state's economy and is the second-largest revenue contributor.

Because oil industry jobs pay so much and are scattered throughout the state, losses there disproportionately affect the state's economy. That plus the lost revenue will make oil especially important to monitor in the coming months.

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