I. Economic Situation Analysis

Where Does the Money Come From?

A relatively small number of base industries—sectors that bring money into the state from outside—drive Alaska's economy. Economist Scott Goldsmith famously used the metaphor of a three-legged stool to describe Alaska's economic base: oil and gas, federal spending, and everything else. (This latter category includes tourism, fisheries, and mining.) In 2008, the three "legs" each generated about a third of all the jobs in Alaska, as they brought money into the state which circulated through the other industries. Though these proportions have likely shifted since 2008, the same set of basic industries continue to fuel the state economy.

A simple way to think about the economy of any state or region is to consider three flows of money. First, money flows into the state when goods or services produced there are sold outside. Second, money circulates internally as organizations and households purchase the goods and services they need locally. Third, money leaves the state when goods or services must be purchased from outside. Strengthening the industries bringing new money to the state while minimizing "leakages" therefore results in economic growth and greater employment.

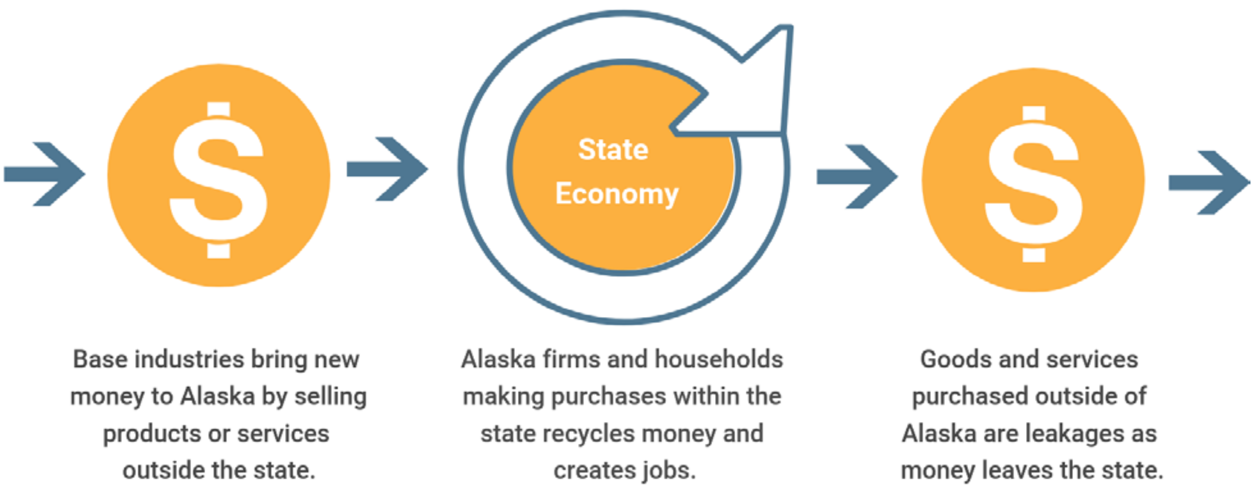

Figure 1: Simplified model of Alaska's economy showing how basic industries create jobs.

Alaska's established Economic Engines

Base Industry	Broader Impacts
Oil and gas	State government tax revenue, including the Permanent fund. Supports employment in production, construction, engineering, and support services.
Federal government (including defense)	Federal personnel and contracting activities of military and civilian agencies. Transfer payments (like Social Security), health insurance, grants to nonprofits and governments, infrastructure spending, land management.
Seafood	Processing and harvesting jobs, state and local revenues, marine trades like vessel repair.
Tourism	Accommodation, food service, transportation, tours, state and local tax revenues.
Mining	Construction, engineering, support services, state and local revenue.
Air cargo	State revenue, refined fuel sales, logistics and warehousing employment.
Forestry	Timber harvesting and milling, contractual services.

Table 1: Alaska's established Economic Engines.

In addition to the above industries, other types of activities also bring new money to Alaska. These include investments held by Alaskans, remote workers, and some small firms with out-of-state customers.

Other sources of new money to Alaska

Source	Examples
Investments	Income-producing investments owned by Alaskans generate wealth that is spent locally. Examples include in-state financial institutions and investment funds with outside holdings, the Alaska Permanent Fund, and the holdings of individual households.
Remote workers	Alaska residents working remotely for an employer based out of state. Income is spent locally.
Small exporting firms	Alaska-based firms in various industries, such as manufacturing and engineering, that serve customers in other states or abroad.

Table 2: Other sources of new money to Alaska.

Import Substitution: Plugging the Leaks

In addition to growing and sustaining the basic sectors, economic development practices that reduce leakages can also result in economic growth. As a state without a large manufacturing or agricultural base, Alaska heavily depends on imported goods. This is not inherently a bad thing economically, but the opportunity to replace imported goods with those produced in-state will usually create local jobs. Some examples of this include natural gas fields in Cook Inlet and near Utqiaġvik, which meet energy needs locally while creating high-paying jobs for Alaskans. Without these sources, these communities would likely need to purchase imported LNG or refined fuel produced out-of-state, creating jobs elsewhere.

Alaska's small agricultural sector is another example. Vegetables and meat produced in Alaska create income for farmers who continue to circulate money locally when they hire labor and purchase supplies. Other import substitution opportunities include the in-state use of timber and energy resources, value-added food product manufacturing, and production of construction materials.

Recent Economic Trends

- Prior to the pandemic, Alaska suffered a recession linked to low oil prices from 2015-2018.
- COVID-19 caused a loss of roughly 40,000 jobs during the pandemic low point.
- Alaska's economy has underperformed that of the U.S. as a whole since 2015.

Alaska's recent economic performance has brought to light certain vulnerabilities. Since 2015, two downturns have defined the state economy, leaving an economy in 2021 with 30,000 fewer jobs than in 2015.[1]

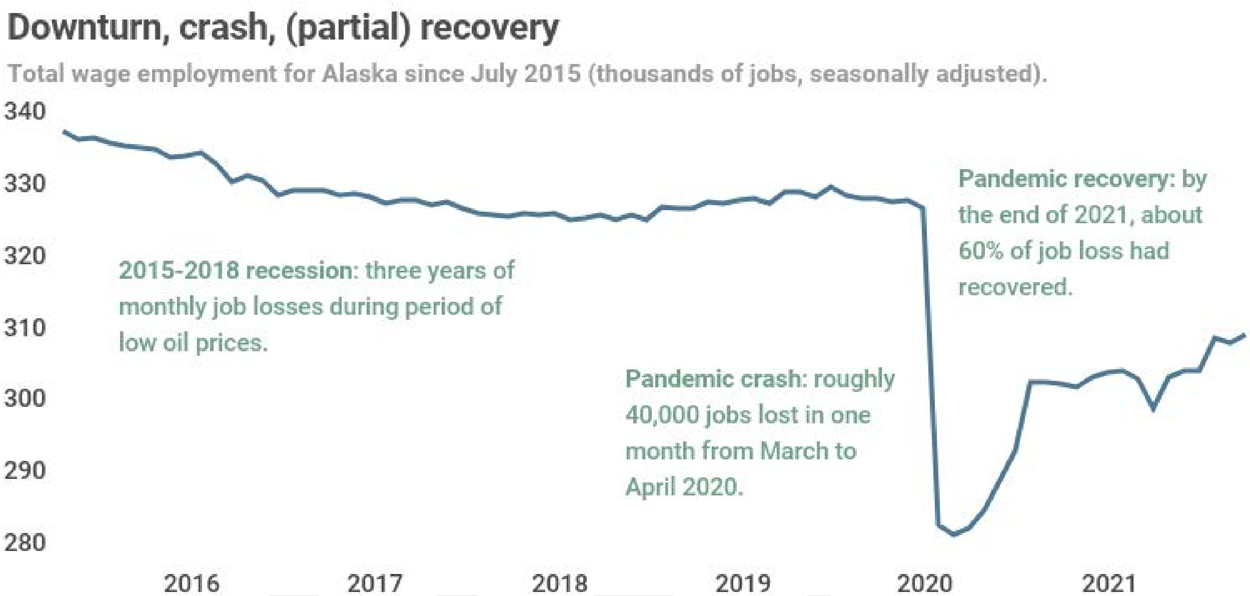

Figure 2: Total wage employment for Alaska since July 2015 (thousands of jobs, seasonally adjusted). Source: Bureau of Labor Statistics (BLS).

Like nearly all regions in the world, the COVID-19 pandemic caused a sharp decrease in employment in Alaska in early 2020. However, prior to the pandemic Alaska's economy had been in a recession from 2015 to 2018, followed by sluggish growth in 2018 and 2019. By contrast, the U.S. economy as a whole saw strong employment growth from 2015 to 2019. In February 2020, just prior to the COVID-19 recession, U.S. employment was 7.4% higher than in July 2015, while Alaska employment was still almost 3% lower (see graph below).[2]

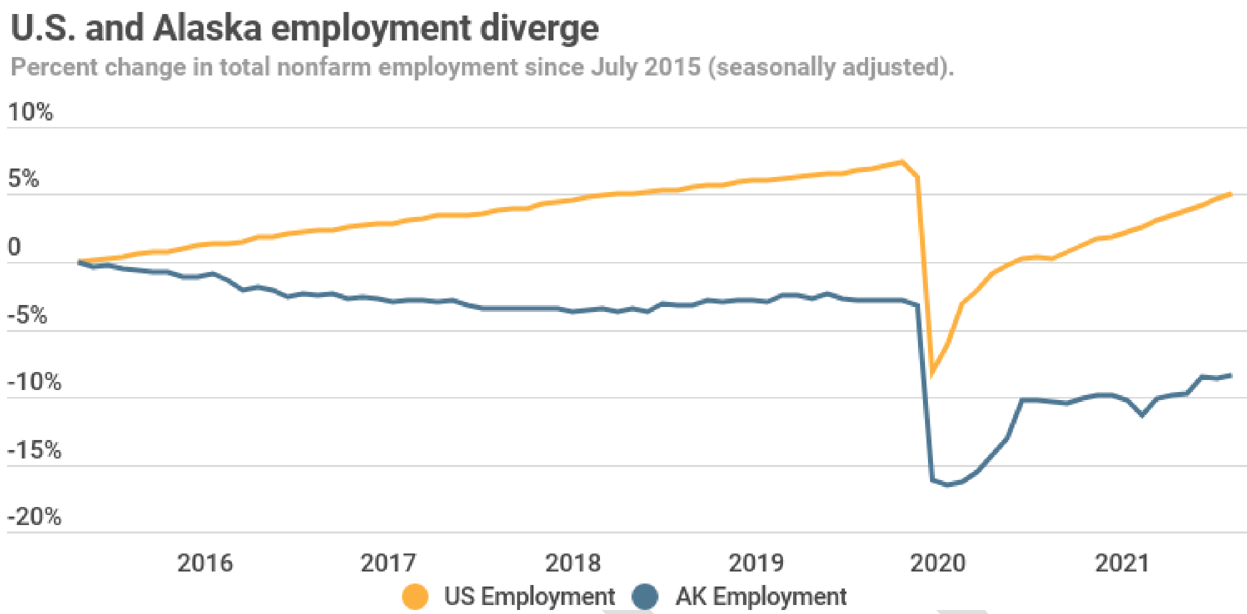

Figure 3: Percent change in total nonfarm employment since July 2015 (seasonally adjusted). Source: BLS.

Employment then fell sharply in April 2020, when the state lost nearly 40,000 jobs in one month—greater than one job in 10. Recovery from that low point has been slower in Alaska than nationally. By December 2021, the US had recovered almost 98% of its pre-pandemic employment, versus only 94% for Alaska.[3] For 2022, (Department of Labor and Workforce Development) DOLWD forecasts employment growth of 3.2%, which would leave employment below pre-pandemic levels.[4]

Industry Performance During Two Downturns

From an industry sector standpoint, it is instructive to look at two recent time periods: 2015 to 2019, encompassing the state recession, and 2019 to 2021, a period that includes the COVID-19 pandemic. During the 2015 to 2019 timespan, oil and gas shed the greatest number of jobs, followed by government, retail, professional services, and construction. Most of these losses are tied to the relatively low price of oil during those years. This rippled through the economy as the oil and gas companies reduced employment and contractual spending, and state government oil revenues slumped. While most sectors lost jobs between 2015 and 2019, health care and accommodation and food services saw notable gains—the latter tied closely to tourism.[5]

The COVID-19 pandemic disrupted all industries to some degree, but the greatest losses from 2019-2021 were in accommodation and food service, transportation and warehousing, and oil and gas. The pandemic itself caused a sharp reduction in spending on travel, many types of services, and activities that require congregating indoors, like dining. The state's tourism industry, bars and restaurants, and non-grocery retailers were hit especially hard.

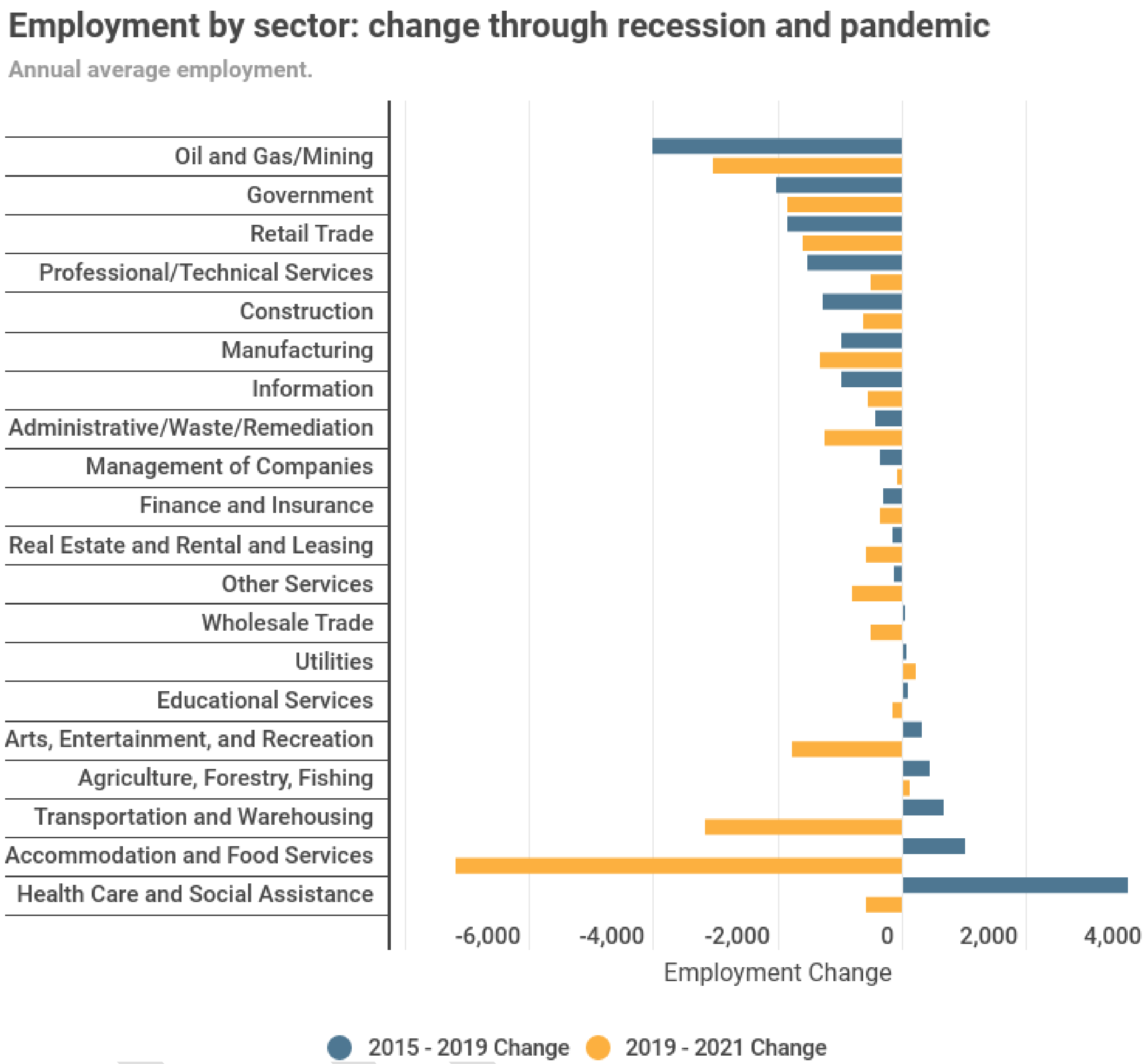

Figure 4: Annual average employment.
Source: Quarterly Census of Employment and Wages (QCEW), BLS.