

The Economy Before COVID-19

Alaska's pre-pandemic standing and how states compare

By DAN ROBINSON

All 50 states were hit hard by COVID-19, and all will face similar challenges in the months ahead as we get the virus under control and gradually return to more normal business and personal interactions.

One factor in how quickly states' economies will recover, once the pandemic is behind us, is how healthy they were before COVID hit — and in Alaska's case, two specific weak spots had us underperforming most states.

The first was the Alaska oil and gas industry's slow and unsteady recovery from a steep 2015-2018

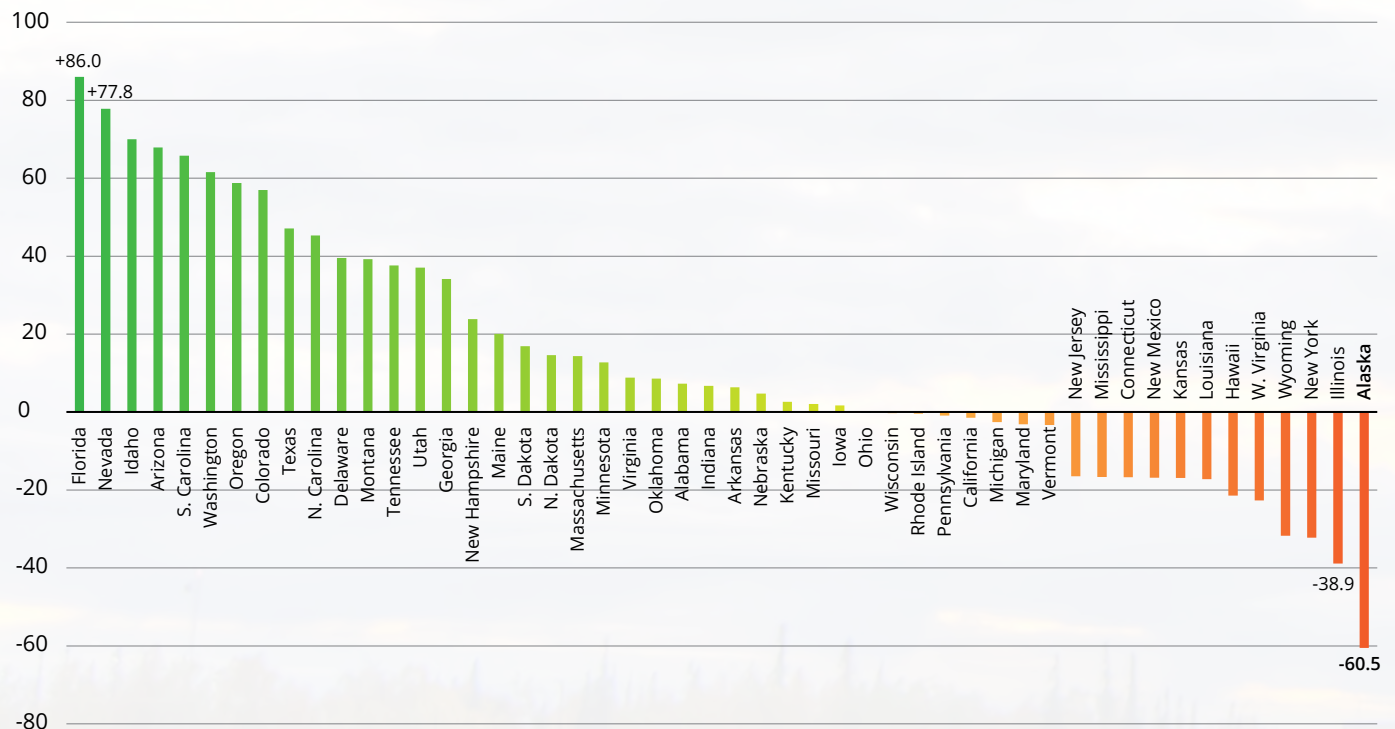
decline. The second was a large structural budget deficit the state was struggling to address.

8 years of net migration losses

Healthy economies tend to bring in more people than they push out, and Alaska's net migration has been negative for eight consecutive years.

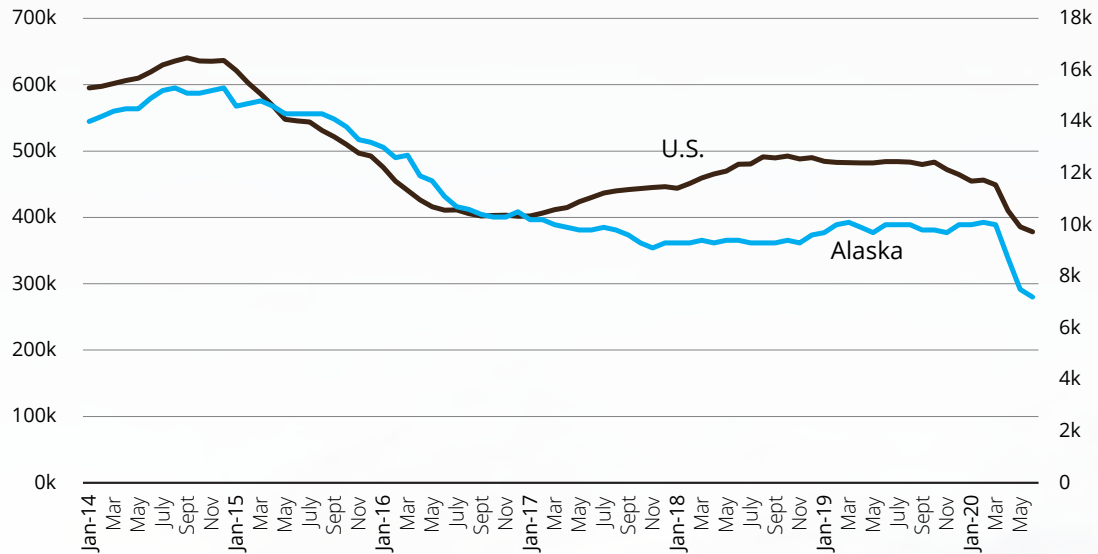
Some annual volatility in net migration — the number of people who move to Alaska minus the number who leave — is normal, and Alaska has long had the nation's highest rate of yearly migration flows. Historically, 40,000 to 45,000 people have moved

Net migration* per 1,000 in population, 2014 to 2019 by state



*Net migration is the number of people who moved in minus the number who moved out.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

National and Alaska oil and gas employment, 2014 to 2019



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

both in and out of Alaska every year, in a state with just 730,000 people. But before this negative streak, Alaska had never recorded more than three consecutive years of negative net migration.

Our losses have come more from fewer people arriving than more people leaving. From 2019 to 2020, 45,000 people left Alaska — a typical number — but just 36,000 moved in. The last time we had positive net migration, 48,000 people arrived and 46,000 left.

People move to a new state for many reasons, but the major factors are job and educational opportunities, family, climate and lifestyle, housing and other costs of living, and health concerns such as cost, quality, and availability of care.

Losing market share to other states

Economically, consistent migration losses are a red flag about the overall attractiveness of living in a state. During the five years leading up to 2020, Alaska lost population to other states at a higher rate than any other. As the chart on the previous page shows, Alaska lost 60.5 people for every 1,000 from 2014 to 2019. Illinois was second at -38.9.

At the other end of the scale, net gains were largest in Florida, Nevada, and Idaho. States with strong net migration over those five years were either warm — Arizona, South Carolina, and Texas were also in the top 10 with Florida and Nevada — or they were Western and Northwestern. Migration gains were big in

Idaho, Washington, Oregon, Colorado, Montana, and Utah. It's no coincidence that five of those six states were also in the top 10 for job growth.

A look at who comes and goes

An article in next month's *Trends* will detail Alaska's migration patterns by age, but we'll note here that the large baby boomer population (those born between 1946 and 1964) has been leaving Alaska at a slightly higher rate than previous generations. The reasons are at least partly speculative, but it's likely connected to the large in-migration in the early 1980s when wages were high and the state's economy boomed as the U.S. economy weathered a recession. Nearly 65,000 people moved to Alaska from 1982 to 1983, easily the largest influx ever. Net migration that year was about 25,000, as just 40,000 left the state.

Because many of those 1980s in-migrants were attracted by high wages, they were less likely to stay at the end of their careers than previous generations attracted by noneconomic factors such as lifestyle.

To get a better sense of who's coming and going, we also looked at working-age migrants to and from the state in recent years. Out-migrants made slightly less money during their time here than in-migrants and nonmigrants, which reinforces that economic opportunity is an important part of the decision to move.

In terms of the jobs that in- and out-migrants worked

Job growth by state, 2014-19

	Total growth	Private sector	State govt	State univ*
Utah	1	1	2	3
Nevada	2	3	4	4
Idaho	3	2	7	9
Florida	4	5	13	10
Arizona	5	4	5	2
Washington	6	6	35	41
Colorado	7	8	1	1
Oregon	8	10	NA	NA
South Carolina	9	7	14	18
California	10	11	3	5
Georgia	11	9	32	28
Montana	12	19	37	32
Tennessee	13	13	25	30
North Carolina	14	12	22	27
Texas	15	14	9	8
Massachusetts	16	16	36	34
Virginia	17	18	28	31
New York	18	17	18	7
Arkansas	19	15	20	13
Alabama	20	20	10	15
Delaware	21	24	21	14
New Hampshire	22	21	27	35
Indiana	23	23	12	19
Michigan	24	28	6	12
New Jersey	25	22	40	33
Minnesota	26	26	33	43
Missouri	27	27	11	NA
Maryland	28	25	26	11
Maine	29	31	39	38
Pennsylvania	30	33	30	29
Ohio	31	35	24	36
Wisconsin	32	32	42	44
New Mexico	33	29	43	45
Rhode Island	34	36	16	25
Kentucky	35	30	48	47
Hawaii	36	34	34	20
Illinois	37	37	31	37
South Dakota	38	39	29	26
Nebraska	39	40	8	6
Mississippi	40	38	38	16
Oklahoma	41	41	47	39
Iowa	42	42	17	17
Kansas	43	43	15	23
Vermont	44	44	19	22
Connecticut	45	45	41	24
Louisiana	46	46	23	21
West Virginia	47	47	44	42
Alaska	48	48	49	48
Wyoming	49	49	46	40
North Dakota	50	50	45	46

*This category is formally named “state education,” but most of its jobs in Alaska and other states are in state universities. Labeling it “state university” avoids confusion with K-12 public schools, which are counted in local government.

Source: U.S. Department of Labor, Bureau of Labor Statistics

from 2014 to 2019, the largest numbers of both were in food serving and preparation (mainly restaurants) and office/administrative support. Those occupations have the most workers overall, so that’s not particularly telling, but more revealing — and perhaps concerning — were the occupational groups with relatively large numbers of out-migrants.

For business/financial and architecture/engineering occupations, 32 percent more workers left Alaska than moved in over those five years. In other words, 1,586 people came here to work as architects or engineers, but 2,333 who held those jobs in Alaska over those same years left.

It’s not clear why people in these positions were much more likely to leave, although oil and gas job losses and uncertainty about the state’s business climate probably played a role.

The only occupational group with more in-migrants than out-migrants was health care practitioners and technicians, a group that’s important to distinguish from health care support occupations that require less training and pay less. Two likely reasons for the net gains in higher-level health care jobs were the industry’s dramatic growth and Alaska’s need to import these workers because of our limited training capacity (we don’t have a medical school, for example).

Other negative net migration states

While state economies are too complex for parallel comparisons, Alaska has clear similarities to several other states with large net migration losses.

Second-place Illinois has struggled for years with state government budget problems and has the nation’s worst bond ratings, which are rating agencies’ assessments of a state’s fiscal soundness and ability to pay back any debts incurred by issuing bonds. According to the *Chicago Tribune*, Illinois has “an underlying structural deficit” that “has not been addressed for years.” Illinois acknowledges the need to make major changes in revenue, expenditures, or both.

Alaska’s bond ratings remain strong, but rating agencies have issued downgrades and warnings in recent years, concerned about the budget and the pace of dealing with current and anticipated imbalances absent structural changes.

After Alaska and Illinois, the states with the next-largest loss rates were New York and Wyoming at -32 per 1,000. The oft-cited reasons for New York’s losses include the high cost of living, poor job growth (especially outside of New York City), high taxes, and harsh winters. That list could also apply to Alaska, aside from taxation. Alaska has the nation’s lowest individual taxes and the third-lowest state and local taxes, according to the Independent Tax Foundation.

Wyoming has two things in common with Alaska: budget troubles and an economy that depends on oil and gas for jobs and tax revenue. Wyoming is one of only two states with a smaller

population than Alaska (Vermont is the other), and it has projected budget deficits in the hundreds of millions of dollars because of its dependence on oil and coal. Oil also plays a major economic role in Louisiana and New Mexico, two other states with net migration losses.

It's been a difficult decade for the oil and gas industry nationwide; job numbers fell from as high as 640,000 in late 2014 to around 400,000 in 2016 before partially rebounding over the next few years, as the graph on page 5 shows.

In Alaska, oil and gas jobs hit a peak of more than 15,000 in late 2014, then plummeted over the next two years and bottomed out around 9,000 before creeping back up to 10,000. COVID made a new mess of things last year, driving jobs down below 7,000, where they remained at the end of 2020.

Job growth tells a similar story

Economists and demographers debate which comes first, people or jobs. Sometimes people move to a place for a job, and sometimes they move just because they want to live there. If they bring money — retirees, for example — then their arrival and spending create jobs. If they come for a job and spend their wages locally, that creates additional jobs. So economists and demographers are both right, and it's hard to talk about migration flows without mentioning jobs.

As the table on the previous page shows, there's substantial overlap between states with strong net migration and those with high rankings for job growth. And the reverse is also true. The three states with the worst overall job numbers in the five years before the pandemic were North Dakota (-4.9 percent), Wyoming (-2.9 percent), and Alaska (-2.6 percent). The common thread is oil, and two other oil states, Louisiana and Oklahoma, weren't far up the list.

Strong job growth states also echo the net migration rankings. Job growth in Utah, Nevada, and Idaho topped 16 percent. Additional rankings for private-sector job growth, state government job growth, and state university job growth highlight that those parts of the economy tend to move together.

Alaska's private-sector job loss of 2.5 percent was substantially smaller than our 12.1 percent drop in state government, which ranked us last among states with available data. Even more extreme was our 18.8 percent drop in state university jobs. Kentucky was the only state whose state government job cuts approached Alaska's over those five years. Kentucky cut its overall state government employment by 8.7 percent and its state university jobs by 16 percent.

The one-two punch for Alaska

For years, oil revenue paid for most of state government while providing billions in seed money for the Alaska Permanent Fund, which was valued at \$72 billion at the end of 2020. As recently as 2012, when oil prices were high, 93 percent of our unrestricted revenue came from oil.

Prices fell hard, though, and Alaska's oil-related revenue plunged from about \$8.9 billion in 2012 to just \$880 million in 2017. Even before then, it was clear that oil revenue couldn't pay the bulk of state government costs indefinitely.

The state dipped into rainy-day savings accounts, reduced Permanent Fund Dividends, and cut spending. We also passed a law that created a new endowment-type revenue stream from the Permanent Fund that will produce at least \$3 billion a year for the foreseeable future without ever eating into the fund's inflation-adjusted principal.

In 2020, that \$3 billion made up two-thirds of the state's \$4.5 billion in unrestricted revenue — but we still have a deficit and more politically difficult work to do before we have a structurally stable budget for the coming years. Our choices are now familiar: 1) Continue to cut state government expenses, 2) generate new revenue (i.e., some form of new taxes), or 3) reduce or eliminate Permanent Fund Dividends. Most likely, the long-term solution will combine elements of all three.

Problems we can and can't fix

There's a limit to what Alaska can do to effect change in global oil markets. We're not powerless, but because many of the dominant forces are outside the state's control, our influence is marginal.

Our budget situation is different, though. As we wrote in 2016 when Alaska entered a three-year recession, "Alaska has substantial economic assets, and there's no reason to think the state's long-term economic future is bleak. But that doesn't mean a recession will be easy, short, or pain-free. ... How and when Alaska deals with issues that are within its control will play a major role in shaping a likely recession and recovery."

The pandemic justifiably shifted attention to short-term mitigation and crisis management, but how Alaska's economy performs once COVID-19 is behind us will depend in part on how and when we resolve our long-term budget issues.

Dan Robinson is chief of the Research and Analysis Section. Reach him in Juneau at (907) 465-6040 or dan.robinson@alaska.gov.