

Alaska's \$49 Billion Economy

The makeup of the state's gross domestic product

Gross domestic product is the “big” economic number — the statistic that commands more attention from the nation’s pundits and the stock market than any other. GDP, unveiled quarterly by the federal Bureau of Economic Analysis, is considered the nation’s broadest measure of economic health because it measures everything businesses and government produce within United States borders.

Unlike the national gross domestic product, there’s a good chance you’ve never heard of Alaska’s gross domestic product. Comparable state GDPs are produced by the same national source and are calculated for Alaska, the other 49 states, and many metro areas. They, too, measure the market value of all goods and services produced within the given borders.

Alaska’s number gets little attention because it’s only produced annually and isn’t released until halfway through the following year. It’s often perceived

as last year’s news when most people are looking for more current economic data or trying to evaluate future trends.

The state GDP is also a blunter and less nuanced statistic than the national GDP, so it can be problematic to base conclusions on its subtle and sometimes not-so-subtle year-to-year changes.

Still, state GDP can provide an important look at our state’s economy. It gives us the rare opportunity to measure Alaska’s productivity relative to other states, and to explain our product mix and its differences from the rest of the nation. These differences in what we produce are likely why Alaska weathered the recession of the past decade so much better than the other states. Also, because these data have been produced since 1963, they add historical perspective to the analysis.

Oil and public sector dominate

In 2010, Alaska produced \$49 billion in goods and services. (See Exhibit 1.) The single largest slice of Alaska’s GDP is mining, and most of that is oil.

Oil and gas represented approximately 25 percent of the state’s GDP in 2010. Although direct employment in the oil and gas industry makes up just 4 percent of total state employment, these GDP figures illustrate oil’s far-reaching influence on Alaska’s economy.

Oil’s slice of the pie has not always been so large. In 1970, prior to Prudhoe Bay production, it represented just 14 percent of the state’s GDP — but by the mid-1980s, it topped 50 percent.

Alaska’s public sector makes up 19 percent of the state’s gross product, making it the second-largest contributor after oil. The single largest public share comes from the federal government, and that piece is dominated by federal military. In 2000, the federal civilian share of state GDP was larger than the military’s, but by 2002 the military surpassed the civilian value and by 2009, it was 50 percent larger

1 Alaska Gross Domestic Product By industry, 2010

	2010	Percent share
Total	\$49.12 billion	100%
Government	\$9.19 billion	19%
Private Industry	\$39.93 billion	81%
Agriculture, Forestry, Fishing	\$444 million	1%
Mining (mostly oil)	\$12.51 billion	25%
Utilities	\$688 million	1%
Construction	\$1.86 billion	4%
Manufacturing	\$1.88 billion	4%
Wholesale Trade	\$1.06 billion	2%
Retail Trade	\$1.90 billion	4%
Transportation and Warehousing	\$4.32 billion	9%
Information	\$1.14 billion	2%
Financial Activities	\$5.92 billion	12%
Professional and Business Services	\$3.05 billion	6%
Educational Services (private)	\$132 million	0%
Health Care and Social Assistance	\$2.86 billion	6%
Leisure and Hospitality	\$1.39 billion	3%
Other Services	\$790 million	2%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

than the civilian share of federal government. This is largely due to troop levels skyrocketing in Alaska between 2002 and 2009, and to the billions of dollars spent on military infrastructure.

Transportation and warehousing is another industry that captures a big slice of the state's GDP: 9 percent in Alaska compared to 3 percent for the nation. Its prominence isn't surprising given the volume of international cargo and the effort it takes to move goods and services within the state. However, the most important part of the sector's value is pipeline transportation, which represented 54 percent of transportation and warehousing in 2009, the most recent year for which detailed data are available. The trans-Alaska pipeline plays a vital role in the life of Alaska's economy, and the value it adds to the state GDP is equally remarkable.

There are plenty of smaller categories represented in Alaska's GDP. For example, retail trade accounts for just 4 percent of the GDP but 11 percent of all wage and salary employment. For other important industries in Alaska such as seafood, the numbers are not clear. The seafood industry is reported in several pieces in these figures. The harvesting share is under the forestry, fishing, and related category; and the processing share is in food product manufacturing. Fishing represents big parts of these categories, but it is difficult to calculate one solid figure for the industry.

Alaska is No. 1 in per capita GDP

At \$63,424, Alaska's per capita GDP is highest in the nation. Although there is typically a correlation between per capita income — for which Alaska

2 Per Capita GDP

By state, 2010

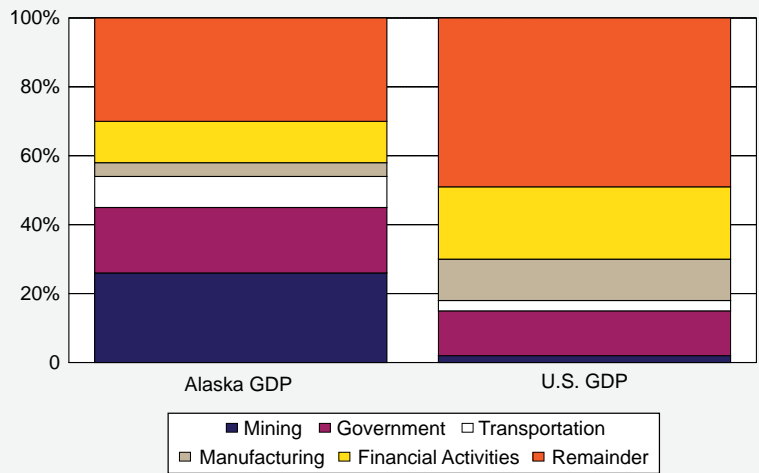
Area	Per capita GDP	Percent of U.S.
United States	\$42,429	100%
1 Alaska	\$63,424	149%
2 Delaware	\$62,587	148%
3 Wyoming	\$61,049	144%
4 Connecticut	\$59,132	139%
5 New York	\$53,377	126%
6 Massachusetts	\$52,251	123%
7 New Jersey	\$49,901	118%
8 Virginia	\$47,570	112%
9 Colorado	\$46,757	110%
10 California	\$46,488	110%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

A Tale of Two Economies

Alaska and U.S. GDP, 2010

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Source: U.S. Department of Commerce, Bureau of Economic Analysis

ranks eighth in the nation — and per capita GDP, there is an important difference. While income data are for Alaska residents only, GDP measures the market value of goods and services produced in the state without differentiating between residents and nonresidents.

For example, wages and salaries paid to people working in Alaska are part of the state's GDP, regardless of where the workers live. Similarly, the profits — or in GDP terms, the “net operating surplus” — of companies operating in Alaska are part of the state's GDP, whether or not these profits stay in Alaska.

Alaska's high per capita GDP numbers show the state's economy is especially productive relative to its population, but much of that is tied to the high value in recent years of Alaska's commodities, especially oil and minerals.

Very different from the nation

The contrast between Alaska's GDP and that of the nation and other states is dramatic. (See Exhibit 3.) Alaska's economy has a unique blend of products — the big standout is oil and gas, which represents less than 2 percent of national GDP but a whopping 20 to 25 percent in Alaska, depending on the price of oil in a given year. Oil does not play as important a role in any other state in the nation.

The public sector is also significantly larger in Alaska, due to the large presence of the military and federal civilian sectors. Another major difference is manufacturing, which accounts for 12 percent of the na-

tion's gross domestic product but only 4 percent in Alaska. The small amount of manufacturing here is dominated by seafood processing and oil refining, which are a tiny piece of the nation's manufacturing sector. Financial activities — made up largely of banks, mortgage companies, brokerage houses, and real estate companies — also play a much bigger role nationally.

These four differences helped cushion Alaska through the recent recession, as oil and mineral prices reached record levels during those years.

High oil prices also kept Alaska's state and local governments in the black while most other states operated deeply in the red and cut their workforces.

The nation's manufacturing sector also took a severe beating — but this was not the case in Alaska, due to its small size and makeup. Alaska's financial sector is also smaller and avoided much of the pain felt elsewhere, while the nation's financial sector was hit hard.

Alaska GDP grew faster

During the past decade, Alaska's GDP grew at approximately 3 percent per year versus 2 percent nationally. The recession pummeled the nation's gross domestic product figures over the past three years.

During the 1990s, which were haunted by low oil prices, GDP grew very little in Alaska. But before that, double-digit growth was the norm during the 1960s and 1970s, fueled by Prudhoe Bay exploration and Cook Inlet oil production as well as expansion in fisheries, tourism, and the service sector.

Ignore year-to-year changes

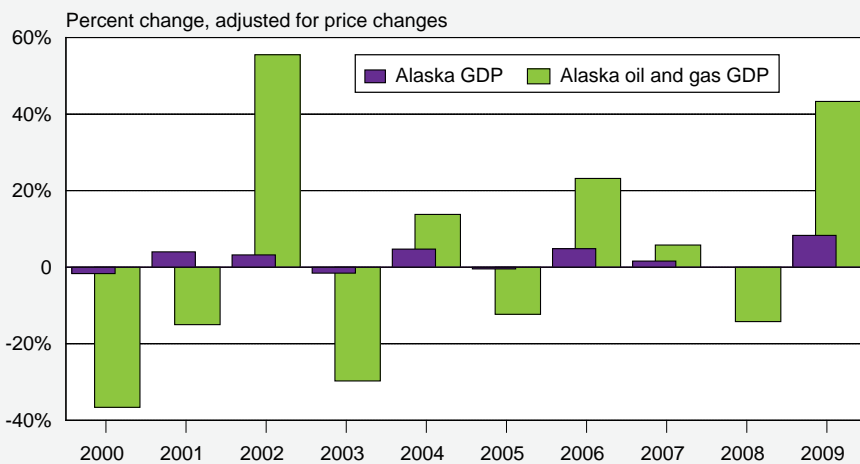
Oil gives Alaska GDP much of its year-to-year volatility and contributes mightily to its overall value. This is due to wild swings in oil prices. (See Exhibits 4 and 5.)

These year-to-year GDP fluctuations in Alaska have much less effect on the state's overall economy than they do on the national economy. For example, Alaska's inflation-adjusted GDP growth turned negative in 2000, 2003, and 2005 but employment and income in the state kept growing. That kind of year-to-year change at the national level would have spurred three near back-to-back recessions.

A more dramatic illustration is what happened in 2009. In the past 23 years, 2009 was the only year in which employment and income fell in Alaska. However, due to record oil prices, the state's GDP grew by 9 percent that same year — the decade's largest increase. This is an example of how year-to-year changes in Alaska's GDP might say very little about what's happening on the ground level of the state's economy.

4 Oil Adds Volatility to State GDP

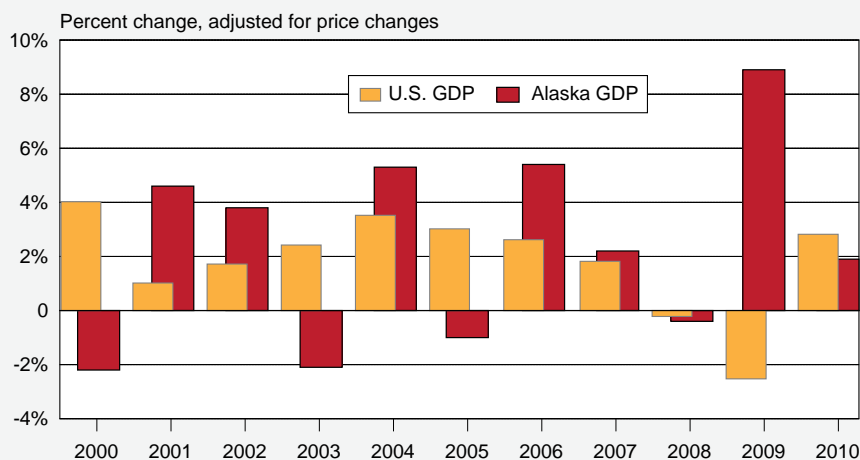
Alaska, 2000 to 2009



Source: U.S. Department of Commerce, Bureau of Economic Analysis

5 Alaska GDP Fluctuates More Than National

Alaska and U.S., 2000 to 2010



Source: U.S. Department of Commerce, Bureau of Economic Analysis