



Alaska's Fiscal & Economic Outlook



Mouhcine Guettabi

PhD

Institute of Social and Economic Research

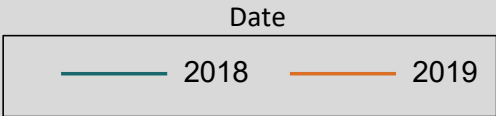
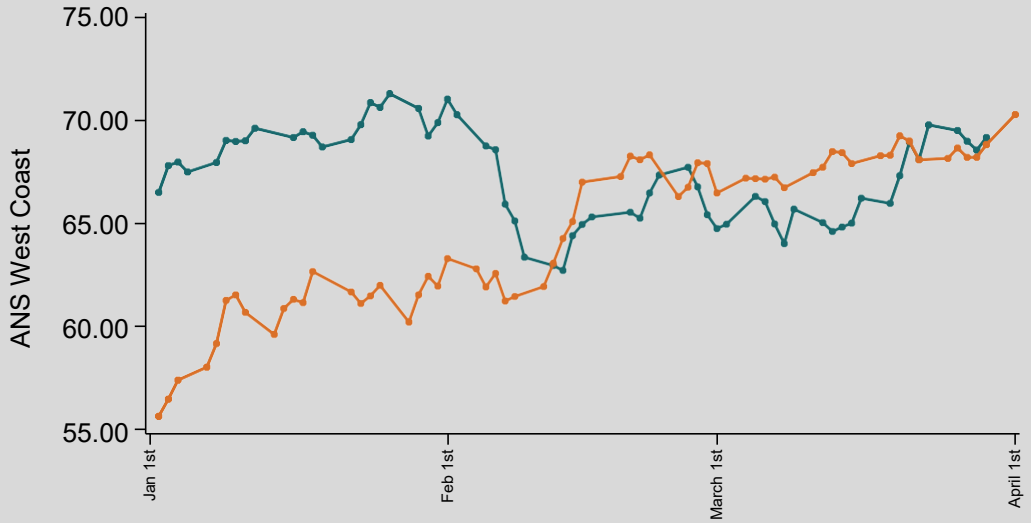
University of Alaska Anchorage



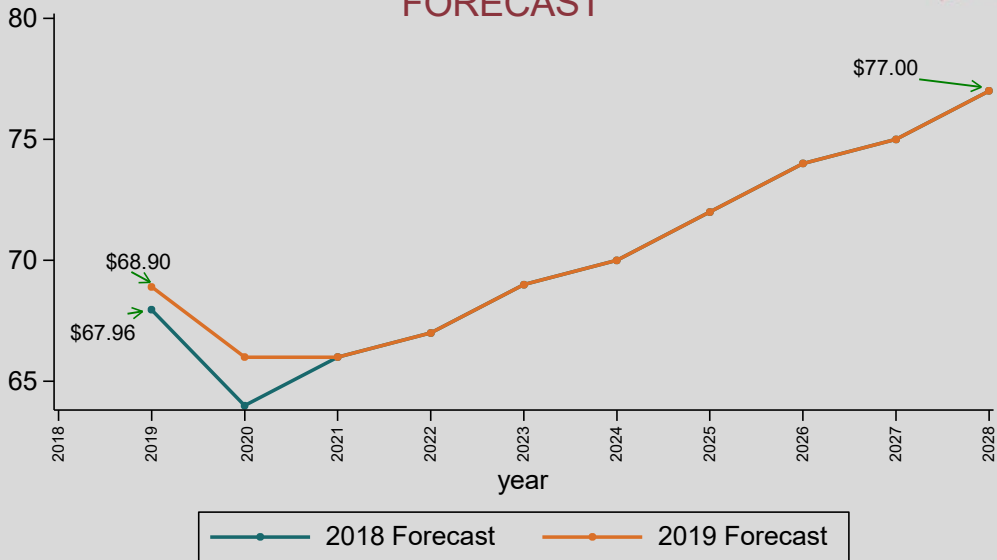
Some basics on the state of the economy

- The state economy experienced **39** consecutive months of job losses. Employment as of December, 2018 is **11,300** below December, 2015. January and February, 2019 represent the first two straight months of employment growth since July, 2015.
- This most recent growth is driven by a combination of construction, oil and gas, and a slowdown of the job losses in retail.
- The budgetary decisions will determine to a large extent the speed and the extent of the recovery.

ANS Oil Prices between Jan-April



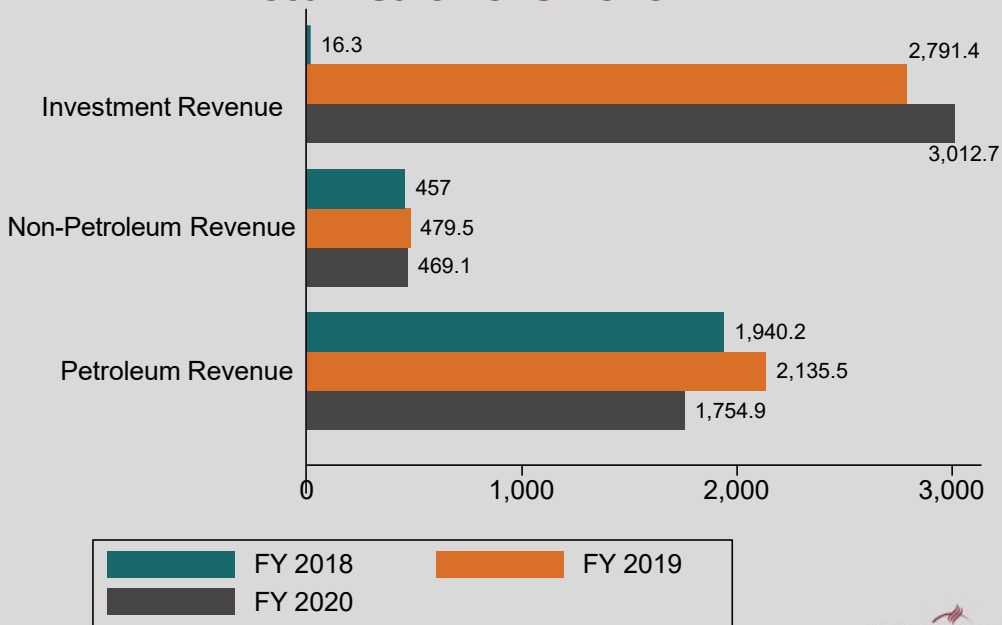
ANS WEST COAST OIL PRICE: FORECAST



Based on a review of oil market fundamentals, the department of revenue chose not to revise its view on long term oil price since the fall forecast.

Unrestricted General Fund Revenue Fiscal Years 2018-2020

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Size of the deficit for FY 2020

Operating and Capital Spending

Total Operating	5,497.2
Total Capital	246.5
Total Operating and Capital appropriations	5,743.6

Non Permanent Fund Revenues

Non PF Revenues 3,181.3

Permanent Fund Draw

Overall Draw 2,933.1
Permanent Fund Dividend 1,944
Available for government 989.1

Overall Deficit

Size of the deficit **1,626.9**

Proposed solution to the budget gap: Using legislative finance breakdown

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Reductions in Agency Operations

Agency Operations -650 M

Shifting Dollars from Local to State Government

Petroleum Property Tax -420 M

Shared Tax -28 M

School Debt Reimbursement -68 M

Debt Service -3 M

Use of Reserves

Reserve Usage -352 M

Increments

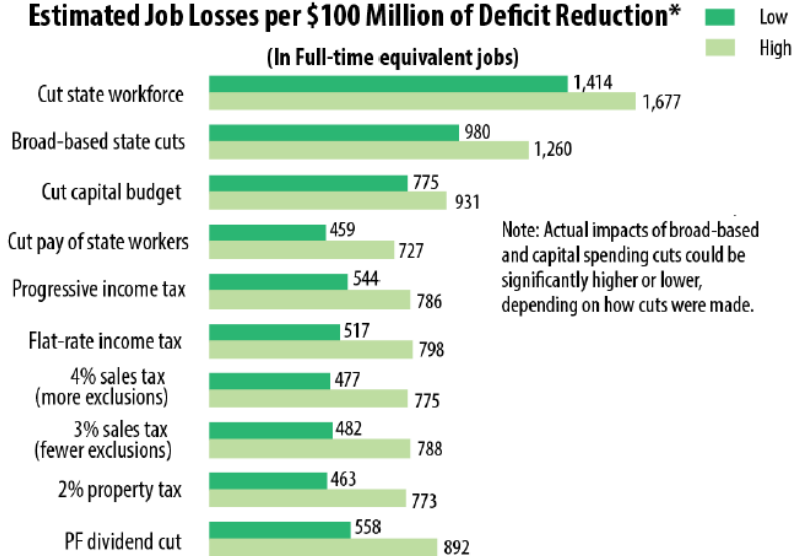
Eliminating December 15 Increments -107 M

Overall Change

1,626 M

Estimated Job Losses per \$100 Million of Deficit Reduction*

(In Full-time equivalent jobs)



Note: Actual impacts of broad-based and capital spending cuts could be significantly higher or lower, depending on how cuts were made.

*Low and high estimates are based on different assumptions about how households and markets would react to changes in disposable income.

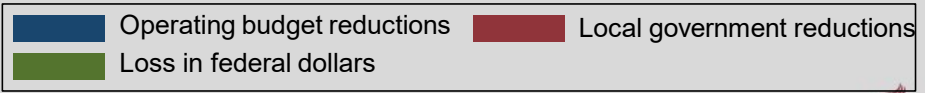
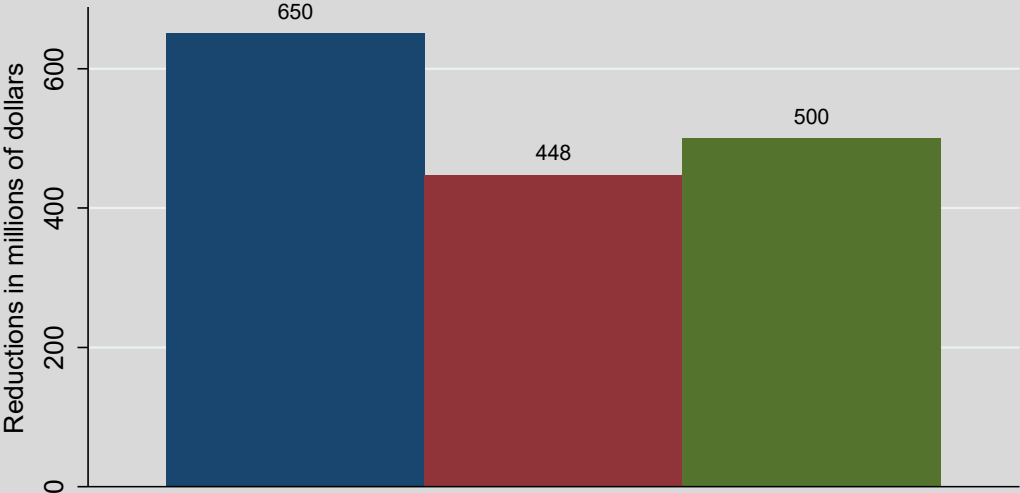
What are the effects of government cuts?

-The previous graph shows that for each \$100 million government related cut, we would expect about **1,086** jobs to be lost.

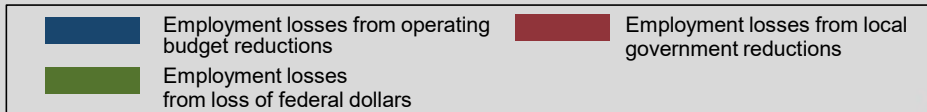
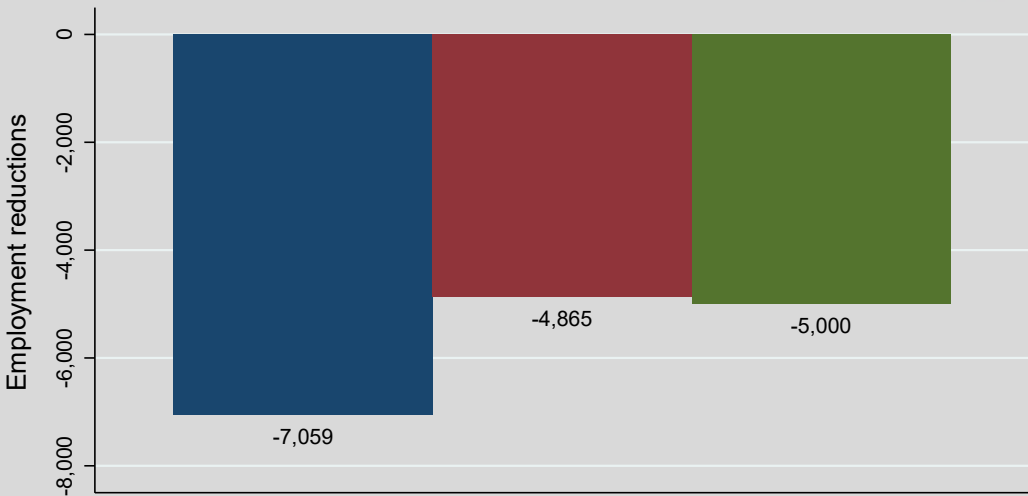
-This estimate is an average across three scenarios: Government layoffs, broad-based state cuts, and pay cuts for government workers. State government layoffs would result in the greatest job losses: between **1,414** jobs and **1,677** jobs.

-We estimate broad-based cuts to result in losses ranging between **980** and **1,260** jobs. Pay cuts would result in job losses ranging between **459** and **727** jobs.

Reductions in spending using numbers from legislative finance and estimated reductions in federal funding



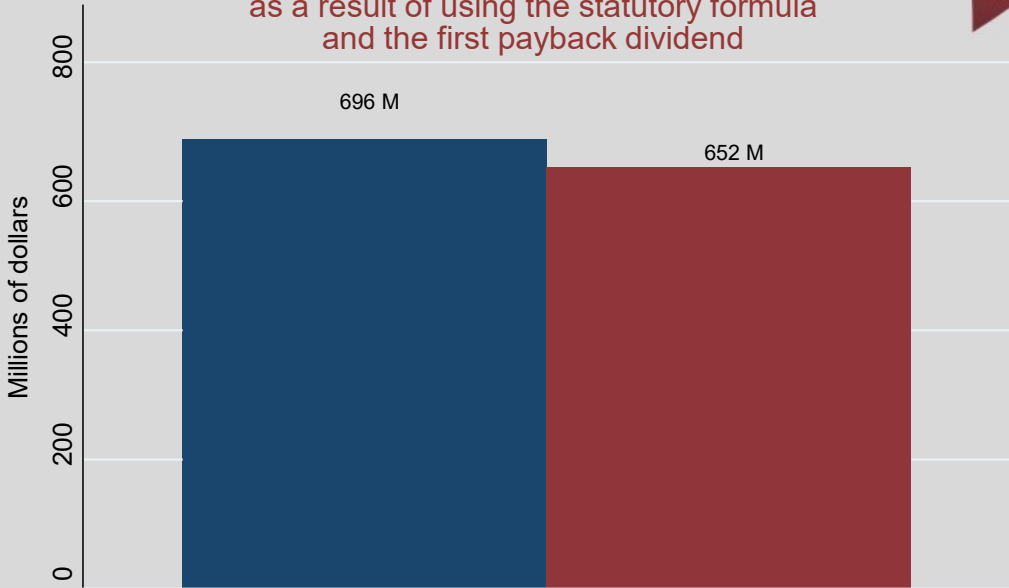
Employment reductions from declines in state spending, loss of local government revenues, and federal revenues



What about the higher PFDs?

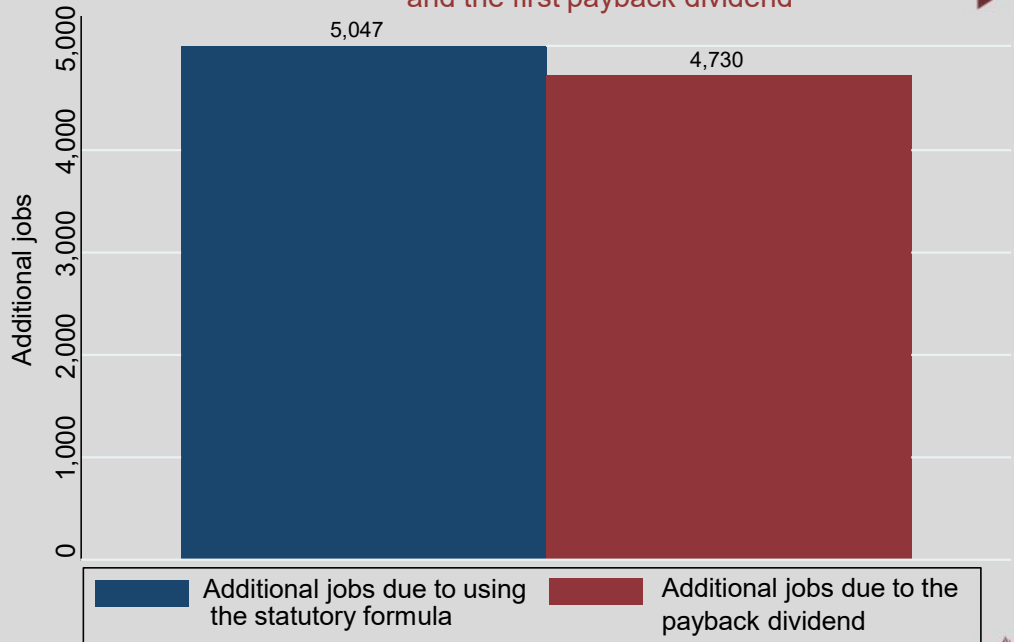
- Under the proposed budget, Alaska residents will receive \$2,932 instead of the \$1,800 that they would have received if the dividends were capped.
- This year, too, most Alaskans will receive an additional 1,061 dollars to pay back for previous capped dividends.
- This will result in a per-person increase of about \$2,193, which translates into an additional \$1.348 billion in the economy if 615,000 people receive the PFD.

Additional dollars in people's bank accounts as a result of using the statutory formula and the first payback dividend

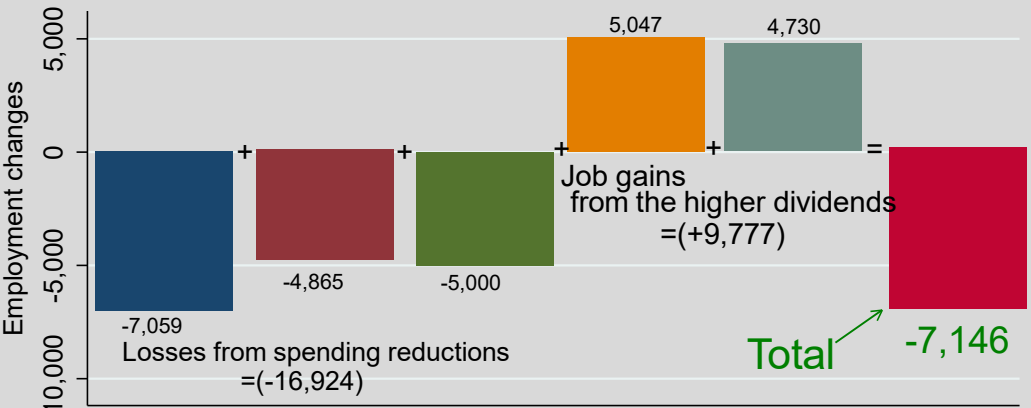


■ Additional dollars using the formula ■ Additional dollars from the payback dividend

Additional employment in the short run as a result of using the statutory formula and the first payback dividend



Employment changes from declines in state spending, loss of local government revenues, federal revenues, and employment gains from higher PFDs

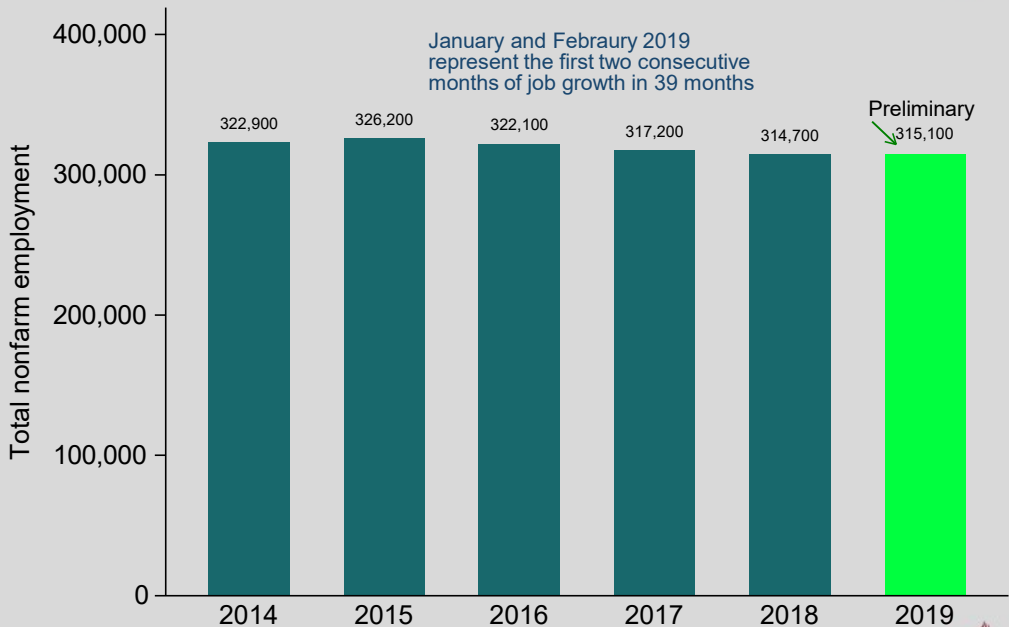


- Employment losses from 650 million in operating budget reductions
- Employment losses from local government reductions
- Employment losses from 500 million loss in federal dollars
- Employment gains from using the statutory formula
- Employment gains from 1,061 dollars in payback dividends
- Total impact

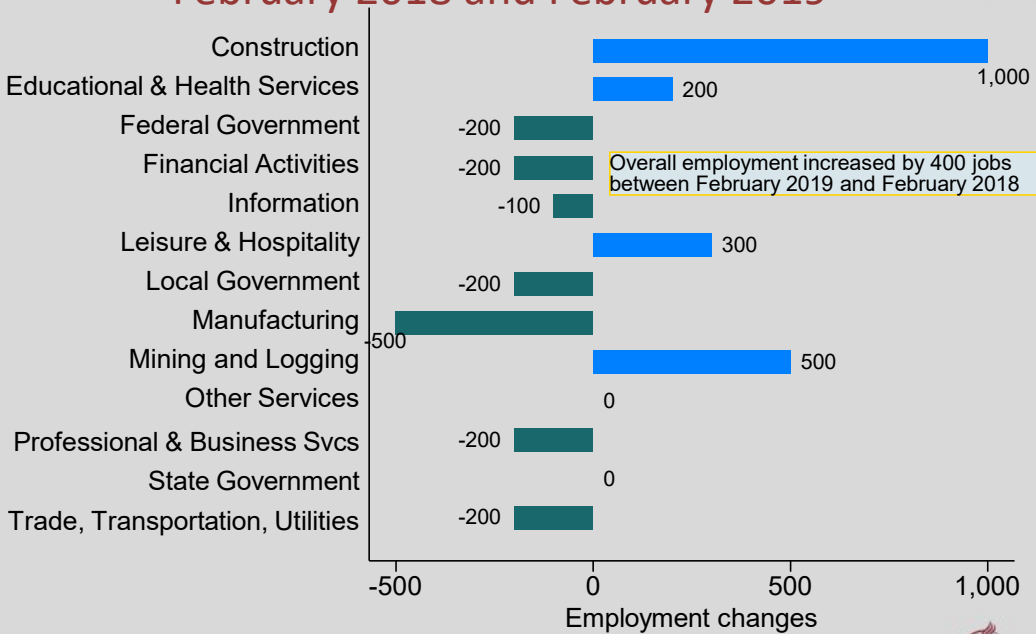
A few notes about the comparison

- It is important to note that the jobs created from the stimulating effects of the PFDs may be different than the ones lost through government cuts.
- Our recent empirical paper on the PFD's effect on the labor market shows that the employment effects are concentrated in the three months post distribution.
- There is also the question on how uncertainty may influence household spending patterns.

Total nonfarm employment February 2014-2019



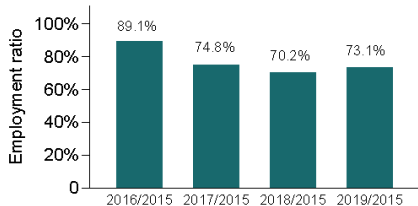
Employment changes by sector between February 2018 and February 2019



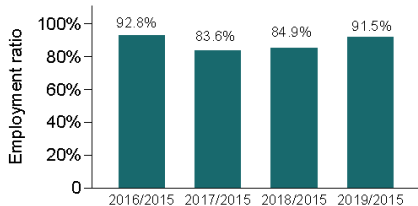
How are the hardest hit sectors doing relative to 2015?

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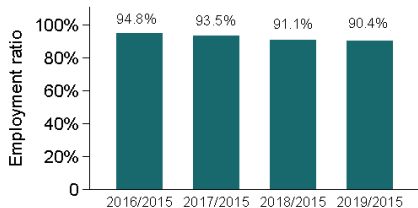
Natural resources and mining employment ratio in February relative to 2015



Construction employment ratio in February relative to 2015

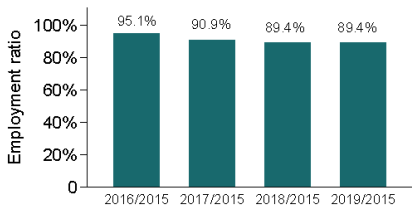


Professional and business employment ratio in February relative to 2015

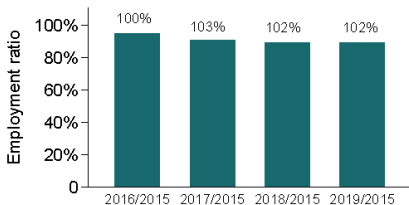


How is government doing relative to 2015?

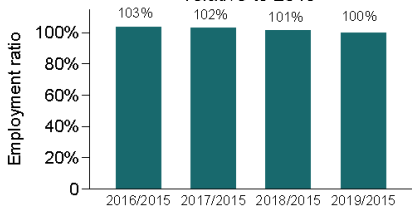
State government employment ratio in February relative to 2015



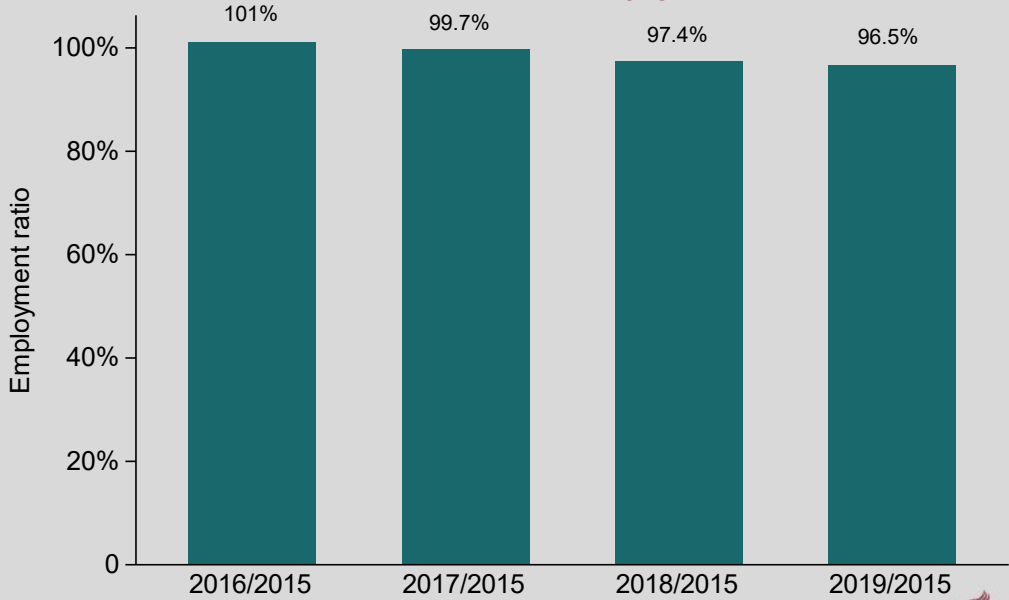
Local government employment in February relative to 2015



Federal government employment in February relative to 2015



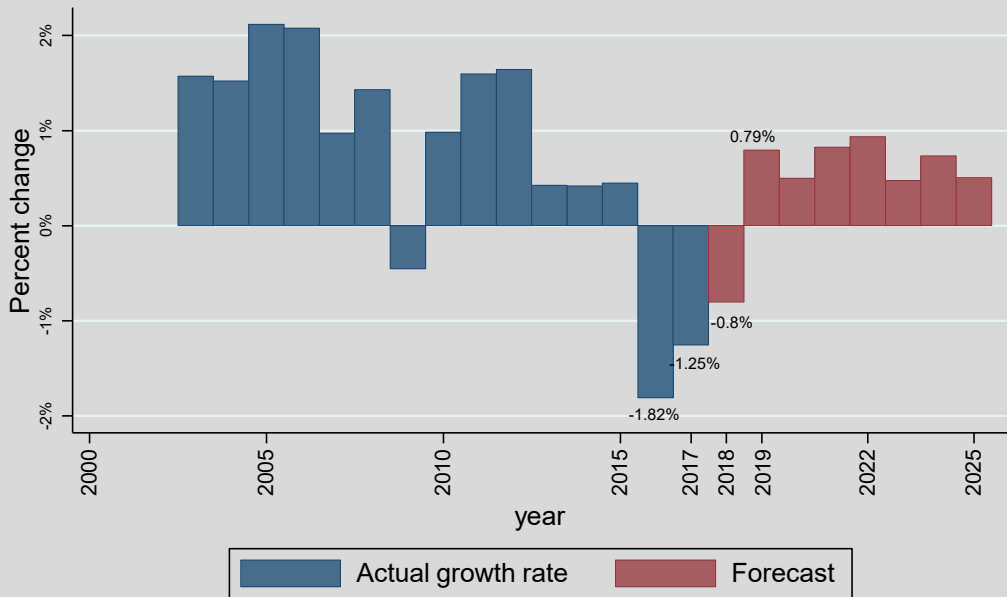
Retail trade employment ratio in February relative to 2015



Employment decline summary

- Employment in Oil & Gas and Construction have turned positive after considerable losses over the past three years. As of February 2019, the construction sector is **91.5%** of its level in February, 2015. Oil & Gas in February, 2019 is **73.1%** of its level in February, 2015.
- The retail sector held up well in both 2016 and 2017 but incurred larger losses in 2018. As of February, 2019 the sector is **96.5%** of its level in February, 2015.
- The rate of job loss has slowed.
- The growth in Construction and Oil & Gas coupled with the stabilization of the retail bodes well for the near term outlook of the economy.

Employment growth in Alaska 2002-2017 History, 2018-2025 Forecast

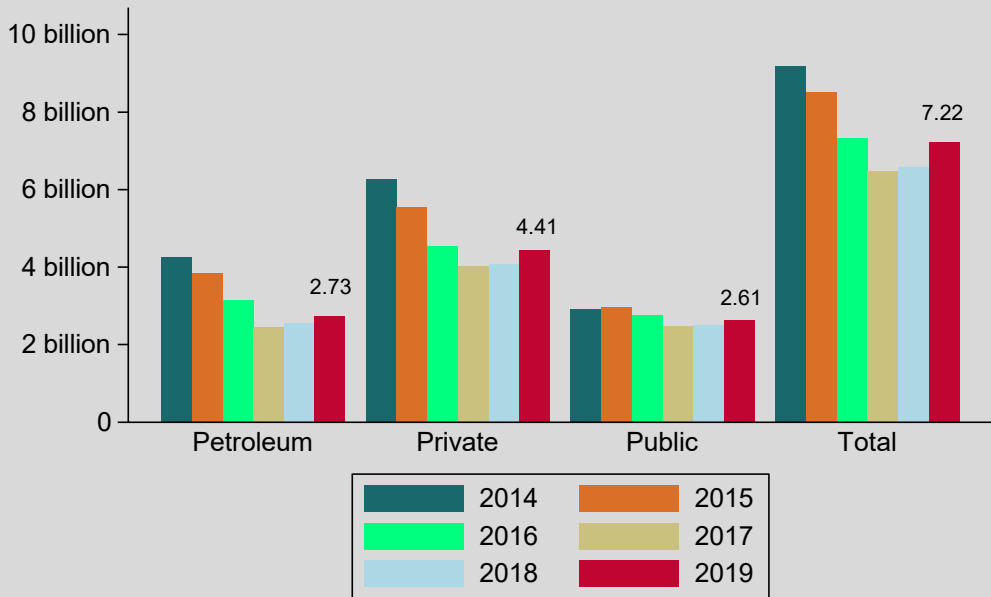


QCEW Data

Alaska's outlook summary

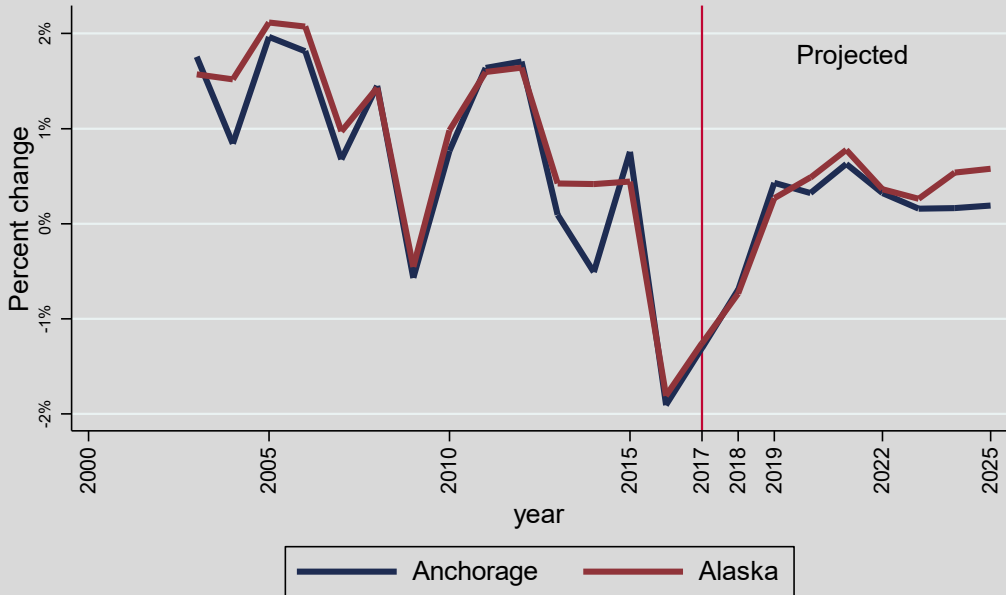
- Since the start of the recession, the state lost 1.82% of its jobs in 2016 and another 1.25% in 2017.
- We expect employment to decline by 0.8% in 2018 and anticipate positive growth in 2019 equaling 0.79%.
- Between 2019 and 2025, we anticipate employment growth to average 0.68% per year.
- The growth comes from a combination of oil and gas, construction, and professional and business services. Perhaps, more importantly a stabilization of retail.

Alaska's construction spending between 2014 and 2019*



*2019 spending is a forecast

Employment growth in Anchorage and Alaska 2010-2017 History, 2018-2025 Forecast

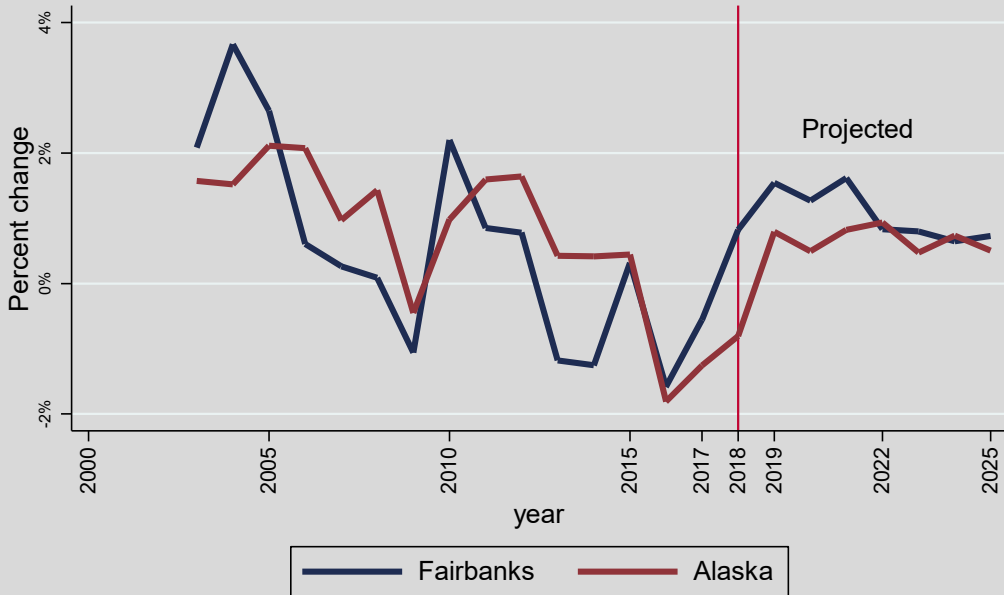


Author's calculation using QCEW Data

Anchorage

- Anchorage grew, on average, at 0.74% per year between 2010 and 2015. Since the start of the recession, Anchorage lost 1.909% in 2016 and 1.30% in 2017.
- The Anchorage economy is expected to evolve similarly to the state as a whole which is not surprising given that it represents half of the labor market. Specifically, we anticipate growth to average 0.64% per year between 2019 and 2025.

Employment growth in Fairbanks and Alaska 2010-2017 History, 2018-2025 Forecast



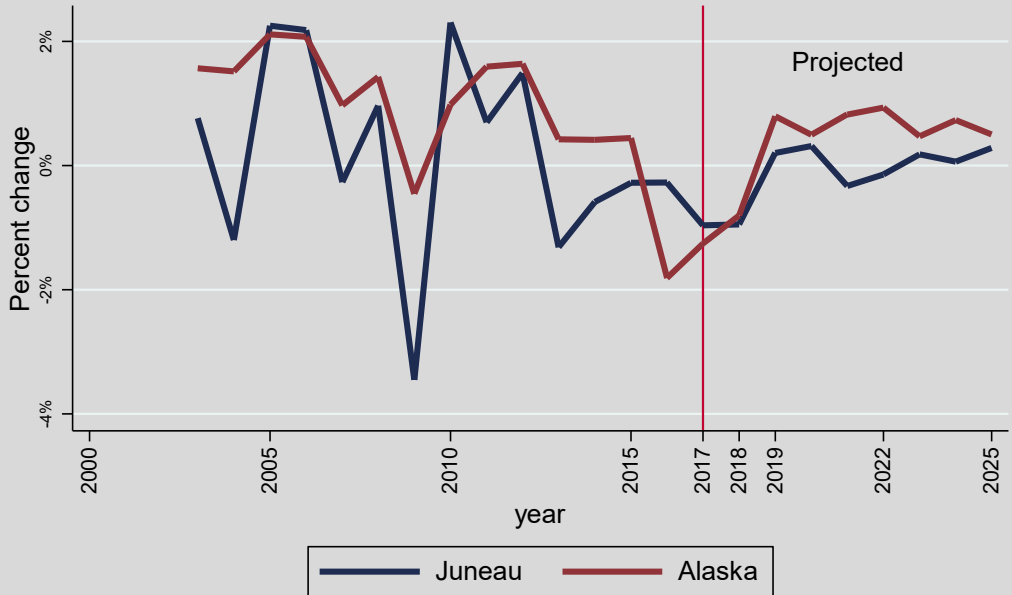
Author's calculation using QCEW Data

Fairbanks

- Fairbanks grew, on average, at 0.29% per year between 2010 and 2015. Since the start of the recession, Fairbanks lost 1.58% in 2016 and 0.55% in 2017.

- We anticipate that the Fairbanks economy will outperform the state between 2019 and 2022 as a result of the boost of activity caused by the F-35 related construction. The average growth between 2019 and 2025 will be 1.06%.

Employment growth in Juneau and Alaska 2010-2017 History, 2018-2025 Forecast



Juneau

-Juneau grew, on average, at 0.39% per year between 2010 and 2015. Since the start of the recession, Juneau lost 0.27% in 2016 and another 0.96% in 2017.

-We anticipate that the Juneau economy will grow slower than the state. We expect the average growth rate between 2019 and 2025 per year to be 0.08%.

Takeaways

- A number of positive signs indicate the recession is coming to an end. However, the path to recovery will be slow as the state lost a considerable number of jobs since 2015. The fragile recovery will, of course, be sensitive to changes in oil prices, and budget cuts.
- The trade-offs between funding government, paying the dividends, and protecting the value of the fund will be difficult to navigate.
- All the budgetary decisions should account for both the short and long term consequences on the economy, and households.



Mouhcine Guettabi

Phone Number : 907-786-5496

email : mguettabi@alaska.edu





UAA Contributions



Lifetime:

UAS: \$337,632

UA total: \$4,406,000

Presenting today: \$62,632





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