

Alaska's economic outlook

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Outline

General Overview: patterns of economic activity

Assumptions

Putting the recession in perspective

Statewide forecast

Permanent fund

Budget

Borough forecasts

Table: Employment between 2010 and 2017

Year	Alaska	Anchorage	Juneau	Fairbanks	Matanuska-Susitna
2010	323,409	150,341	17,932	38,688	19,842
2011	328,565	152,803	18,057	39,017	20,301
2012	333,951	155,408	18,326	39,322	20,807
2013	335,365	155,556	18,085	38,858	21,400
2014	336,763	154,764	17,979	38,371	22,284
2015	338,262	155,936	17,930	38,491	22,835
2016	332,138	152,959	17,881	37,882	23,293
2017	327,963	150,960	17,709	37,670	23,213

Quick 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.

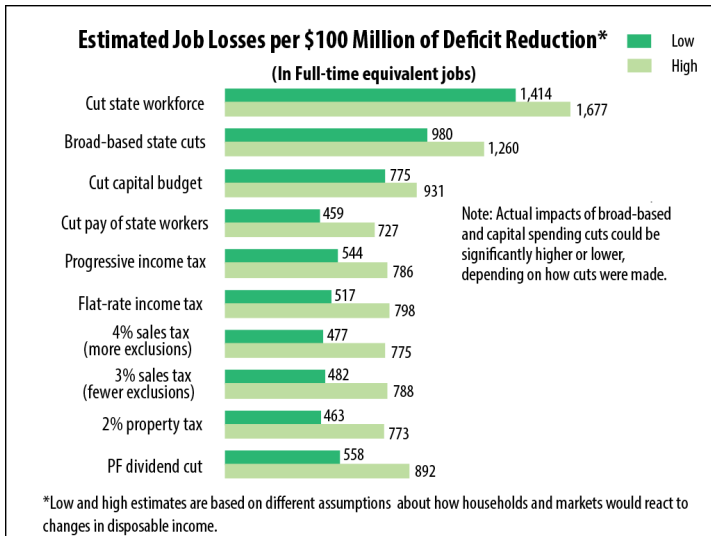
Risks to the forecast

- We assume a long term average oil price of 60 dollars which is in line with market consensus. However, fluctuations in either direction have the potential to change the outcomes. In a previous report, we estimated that a **10%** change in oil prices is associated with a **1.7%** change in employment in the long run.
- We make a critical assumption about capital spending by assuming it will increase to 500 million dollars in 2020 due to the multiple years of deferred maintenance and will remain at the level until 2025.

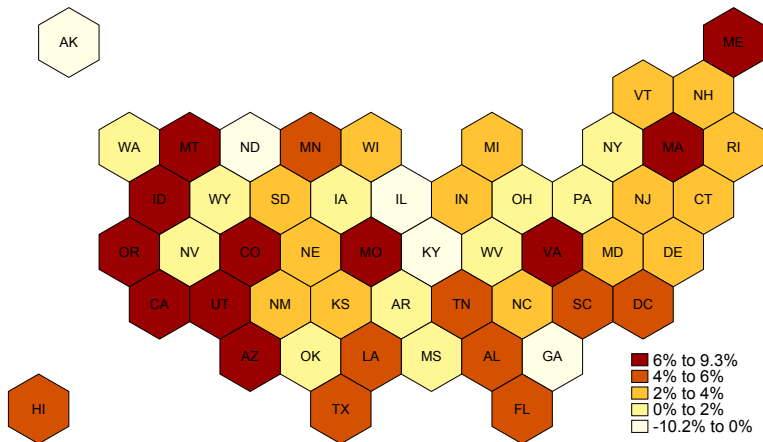
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- These baseline forecasts assume "only" a 2% decrease in state government employment. Given that the deficit is 1.6 billion dollars, declines in state government activity can be much more pronounced. In a 2016 report, we estimated the employment and income losses stemming from different fiscal policy decisions.
- We found that reducing the deficit through a 100 million dollars reduction in state workforce results in somewhere between **1,414 and 1,677** jobs lost. Broad based state cuts in about **980 and 1,260** job losses.

Employment losses from deficit reduction measures



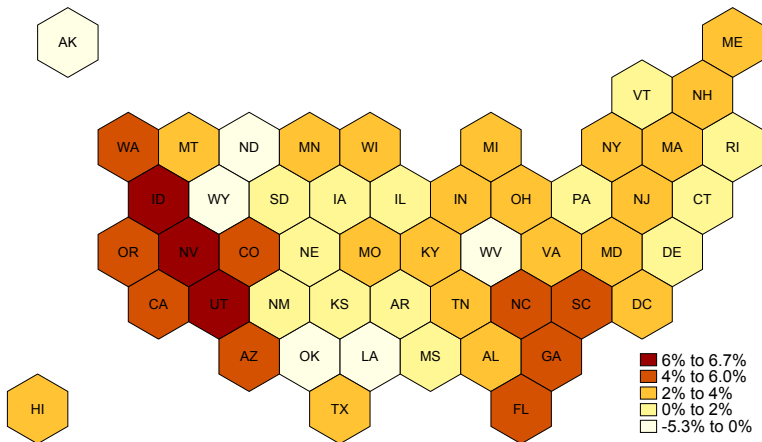
Cumulative growth in the number of establishments between 2015 and 2017



What does it tell us?

- An establishment is a single physical location where one predominant activity occurs. A firm is an establishment or a combination of establishments and, for the purposes of this article, is defined by its unique Employer Identification number (EIN) issued by the Internal Revenue Service (IRS).
- At -1.9%, Alaska had the third lowest growth rate in the number of establishments. Only Illinois and Georgia had worse outcomes.
- The state with the fastest growing number of establishments was Idaho. It had 9% more establishments in 2017 than it did in 2015.

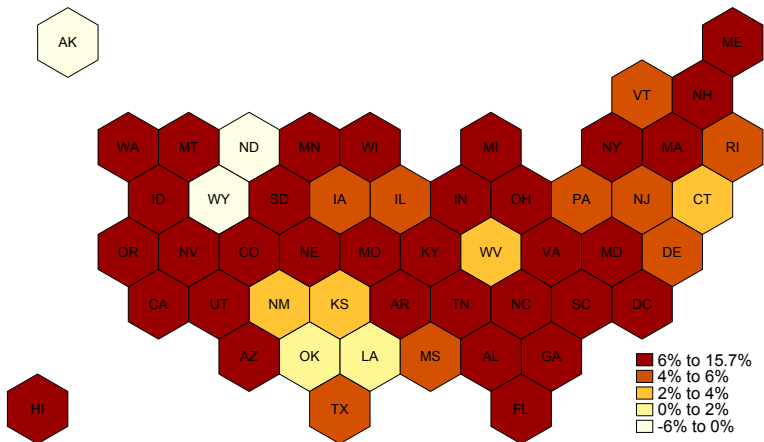
Cumulative growth in employment between 2015 and 2017



What does it tell us?

- Employment in Alaska went from 331,681 to 322,136 between 2015 and 2017.
- At -2.87%, Alaska had the third lowest growth rate in employment. Only North Dakota and Wyoming fared worse.
- The state with the fastest growing employment was Nevada. Its employment increased by 6.5 % between 2015 and 2017.

Cumulative growth in annual wages between 2015 and 2017

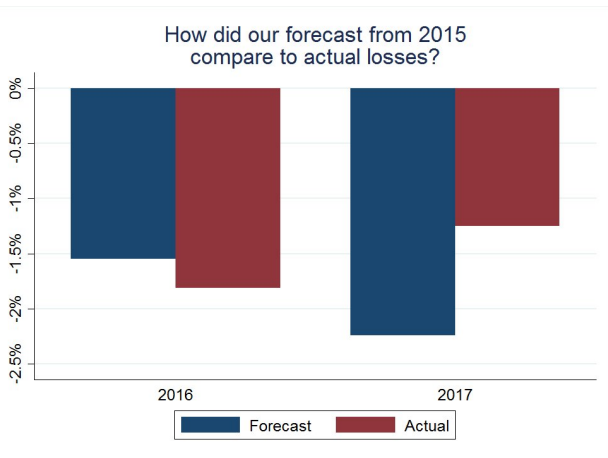


What does it tell us?

- Between 2015 and 2017, overall wages went from 18,161,200,730 to 17,303,197,044. That represents a decline of 858 million dollars.
- At -4.72%, Alaska had the second lowest growth in wages. Only North Dakota performed worse.
- The state with the fastest growing wages was Idaho. Its wages increased by 13% between 2015 and 2017.

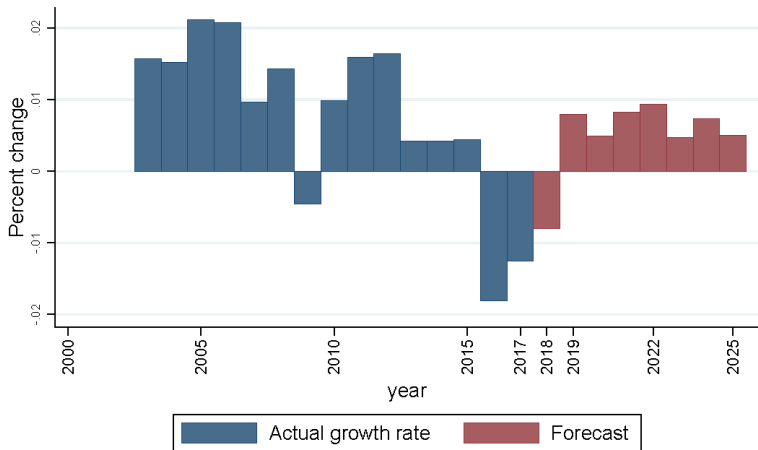
Let's start with transparency

- Given that I will be discussing my forecast for the Alaska economy for the next few years, I thought it was only fair to show how my earliest forecast (2015) about the recession fared.



Alaska employment outlook

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



QCEW Data

Where does this magical growth come from?

- 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.

Oil and mining

- Conoco's GMT1 has produced oil ahead of schedule.
- GMT2 is set to begin construction soon and first oil is planned for the latter part of 2021.
- Part of the justified optimism is due to new information about recent discoveries such as Willow which will require considerable construction.
- Additionally, there are promising mining projects and ANWR but the uncertainty there is fairly significant.

Decomposition by sector

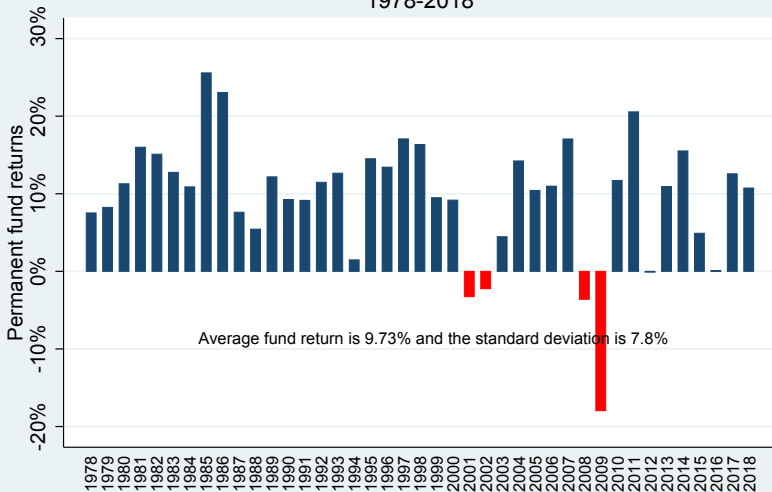
- We anticipate the construction sector will average 2.02% growth per year between 2019 and 2025.
- Employment in the oil and gas sector is also forecast to grow faster than the last few years and average 3.64% per year between 2019 and 2025.
- The health care sector is anticipated to average 1.8% growth per year between 2019 and 2025.
- The trade sector is expected to stabilize in 2019 and resume growth in 2020.

A few notes on the permanent fund

- The value of the fund as of January 3rd was 61 billion dollars. A little more than 28% of that amount is in the earnings reserve and therefore available for spending.
- 24 of the 61 million dollars is invested in stocks. Another 8.16 million is in private equity.
- The fund has averaged 9.73% in returns but the spread is non-negligible. The standard deviation is 7.80%

Historical returns

Permanent fund return by year 1978-2018



- The fund has performed very well for a long period of time.
- Recent stock market volatility has, however, raised questions about the near term outlook for the U.S. and other large economies.
- The health of the U.S. economy is important for Alaska not just because residents from other states visit Alaska, and purchase goods made in state but the state's most important financial asset - the permanent fund- is widely invested and therefore sensitive to nationwide shocks.

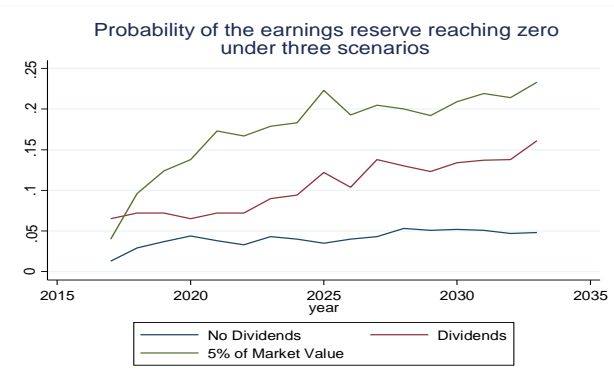
Table: Money needed from the Permanent fund

Year	Actual dividend	Dividend using formula	Difference	Amount needed to fund
2016	1,100	2,042	942	636.42 M
2017	1,022	2,313	1,291	866.228 M
2018	1,600	2,845	1,245	835.14 M
2019	2,932	2,932	0	1.96 Billion
Total				4.3 Billion

What does it all mean?

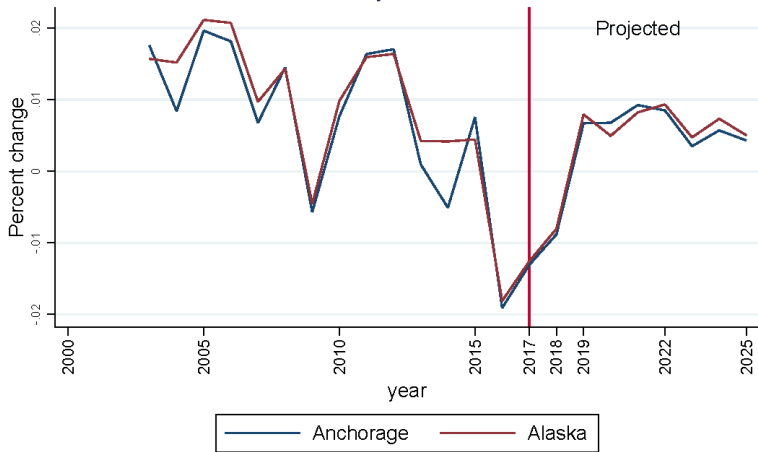
- Assume we withdraw 4.3 billion for the dividends, another 1.6 for the government, and 1 billion dollar for inflation proofing.
- The 6.9 billion withdrawal would represent 11% of the overall size of the fund. Alternatively, it would represent more than a third of the earnings reserve balance.

How do withdrawal amounts affect the earnings reserve?



Anchorage employment outlook

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



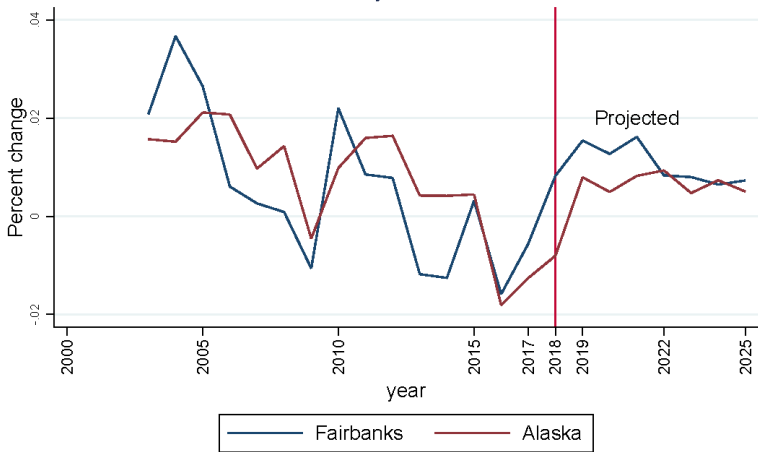
Author's calculation using QCEW Data

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.

Fairbanks employment outlook

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



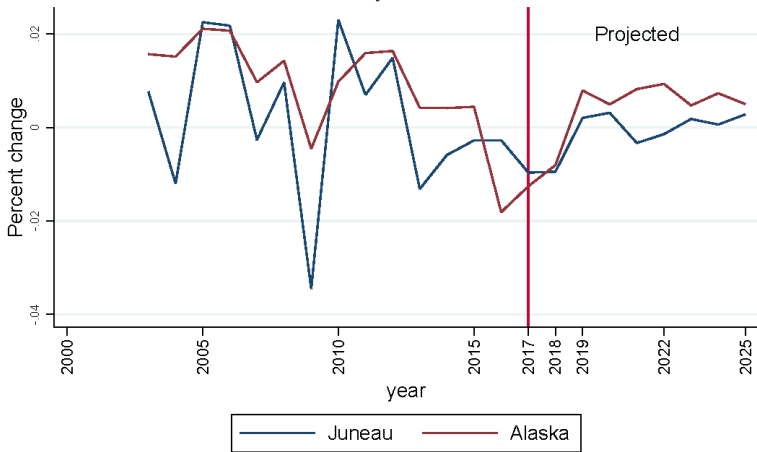
QCEW Data

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 1.062%

Juneau employment outlook

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



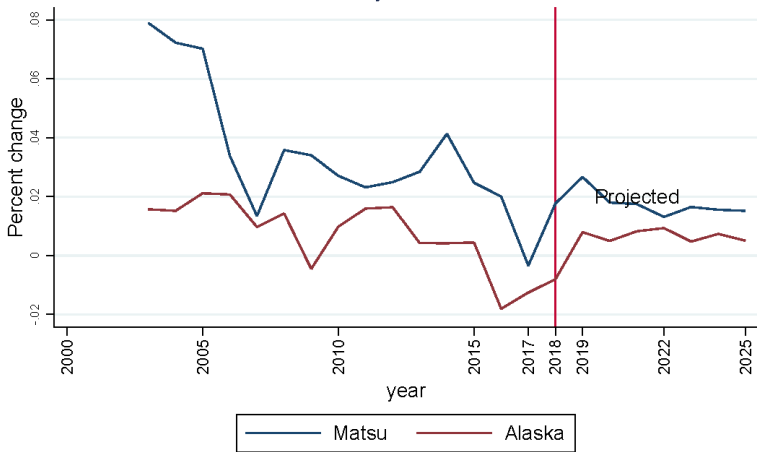
QCEW Data

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%.

Matanuska employment outlook

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



QCEW Data

Matanuska-susitna borough

- Matanuska-Susitna borough grew, on average, at 2.82% between 2010 and 2015. Since the start of the recession, the Matsi grew by 2% in 2016 and lost 0.343% in 2017.
- We anticipate that the Matanuska borough will continue outperforming the state. Between 2019 and 2025, growth will average 1.22% per year.

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.
- The stock market and the U.S economy will play a much more prominent role in the Alaska budget and economy.

What else are we working on?

- A number of papers on the socioeconomic effects of the Permanent fund dividend. We believe lessons from the PFD can be applied to future universal income implementations.
- So far, we have looked at the effect of the PFD on crime, childhood obesity, and labor. Our next paper will be on migration.
- Additionally, we will be releasing an updated analysis of the permanent fund and its sensitivity to different withdrawal schemes.

Thank You

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