What do we know and where are we heading?
An Assesment of the Alaska Economy

Mouhcine Guettabi, PhD

Institute of Social and Economic Research
University of Alaska Anchorage

5/11/2016
1. General Overview
   - Alaska’s Economy: Historical Context

2. Alaska’s Economy
   - Overview of the sectors
   - General Fund
   - Capital Spending
   - Basic Forecast
   - short term effects of policy options

3. Summary
Outline

1. General Overview
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   - Short term effects of policy options

3. Summary
Alaska as a state used to be known for rising employment and population, characterized by periods of **boom and bust** such as the construction of the **trans-Alaska oil pipeline** in the mid-1970s, the recession following completion of the pipeline in the late 1970s, the government spending and construction driven boom of the early 1980s, and the **oil price crash driven deep recession** of the late 1980s. While true once, that picture is no longer true.
For the past quarter-century, Alaska’s economy has been characterized by relatively **slow and steady growth** in population and employment driven by growth across many sectors such as the federal government, mining, tourism, air cargo, healthcare, and retail trade, and with significant regional variation.
Wage and Salary Jobs

Wage and salary jobs 1969-2013

Wage and Salary Jobs | Growth rates
---|---
0 | 50,000 | 100,000 | 150,000 | 200,000 | 250,000 | 300,000 | 350,000
-5% to 20%
At present, jobs have been lost in the oil and gas sector but have not made their way into the rest of the economy. We have yet to experience the multiplier effects of those losses. Some of the reasons may be:

There is a lag and we will feel these effects soon enough. The type of jobs that have been cut are not very connected to other sectors.
Alaska’s Economy may be divided in basic and support industries.

- **Oil and Seafood** are basic industries because they sell products to markets outside Alaska.
- **Tourism** is a basic industry because tourists spend money in Alaska.
- **The federal government** is a basic industry because the federal government injects money in Alaska.
How does the economy compare to that of 1985?

- The economy, measured by jobs, is about 50 percent larger than it was in 1985.
- Several industries (mining, tourism, air cargo) are considerably larger.
- PF dividend is three times the size it was then.
- Assets have increased in value.
- Federal payments to individuals have also risen.
- Share of people over 65 has increased (Payments related to retirement and other transfers have increased sevenfold).
Overall Assessment (1985 Versus 2015)

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Age structure

4

The Population Has Gotten Older

ALASKA'S AGE STRUCTURE, 1985 AND 2014

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section
The **basic sector** includes those industries that are traditionally thought to drive the economy by bringing in income from outside the state. The second part of the economy is **support sector**; the part that provides goods and services to the residents and businesses of the state. Since the 1980s **both parts of the economy have diversified**; they’ve not only expanded, but the variety of activities in each has increased.
### Concentration

<table>
<thead>
<tr>
<th>Area</th>
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<tbody>
<tr>
<td>Aleutians East</td>
<td>Manufacturing and Local Government</td>
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</table>

Mouhcine Guettabi

Basics
## Alaska's Economy Summary

### Overview of the sectors
- General Fund
- Capital Spending
- Basic Forecast
- short term effects of policy options

## Role of Government

### Share of Government Employment by borough and year

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3. Summary
### Five Largest sectors in Anchorage

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Healthcare and Social Assistance</td>
<td>12.68%</td>
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<tr>
<td>Retail Trade</td>
<td>10.15%</td>
</tr>
<tr>
<td>Accommodation and Food services</td>
<td>7.69%</td>
</tr>
<tr>
<td>Professional and scientific</td>
<td>7.53%</td>
</tr>
<tr>
<td>State and Local</td>
<td>9.87%</td>
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</tbody>
</table>
Industrial Structure in 2014

Alaska's industrial structure:
- Trade, 19.23%
- State Gov, 7.87%
- Fed, 4.42%
- Construction, 5.07%
- Locgov, 11.52%
- Nat resources, 5.58%
- Other, 3.53%
- Professional, 8.89%
- Manuf, 4.27%
- Leisure, 10.14%
- Information, 1.86%
- Unknown, 0.17%
- Finact, 3.84%
- Educ and Health, 13.60%
Historical growth in Alaska

- 2003: 1.57%
- 2004: 1.52%
- 2005: 2.11%
- 2006: 2.07%
- 2007: 0.97%
- 2008: 1.43%
- 2009: -0.45%
- 2010: 0.98%
- 2011: 1.70%
- 2012: 1.64%
- 2013: 0.42%
- 2014: 0.30%
- 2015: 0.00%
- 2016: 0.50%
- 2017: 1.00%
- 2018: 1.50%
- 2019: 2.00%
- 2020: 2.50%

Overview of the sectors
General Fund
Capital Spending
Basic Forecast
short term effects of policy options
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3. Summary
General Overview

Alaska's Economy

Summary

Overview of the sectors
General Fund
Capital Spending
Basic Forecast
short term effects of policy options

General Fund Budgets, FY07-FY16
($ millions)

- Capital Budget
- Oil tax credits, fund capitalization & special appropriations
- Debt Service & Retirement
- All Other Agencies
- Health & Social Services
- Education & Early Dev
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Capital Appropriations

State Govt Capital Appropriation: From Own Sources (Million 2015 $)

- GENERAL FUND
- OTHER
- GO BONDS

Cash on the street vs. Appropriation

STATE CAPITAL APPROPRIATIONS: SPENDING TIME LAG

FISCAL YEAR AFTER APPROPRIATION

SHARE SPENT

- 18%
- 16%
- 14%
- 12%
- 10%
- 8%
- 6%
- 4%
- 2%
- 0%

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Mouhcine Guettabi
Basics
Summary of the Forecast

Employment growth projections under two scenarios

We have experienced slower year over year growth since 2011

- Actual Growth Rate
- Forecast w/pipeline
- Forecast without pipeline
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3. Summary
Effect of taxes on households

Average Per Capita Disposable Income Reduction per $100 Million in Deficit Reduction

- Dividend cut
- Sales tax: fewer exclusions
- Sales tax: more exclusions
- Income tax: flat rate
- Income tax: progressive
- Property tax

Household per-capita income percentile

Income reduction per person

0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0% 3.5%

0-10 10-20 20-30 30-40 40-50 50-60 60-70 70-80 80-90 90-100
Short run economic impacts of spending cuts depend on what is cut

- What is cut affects the extent to which the cuts directly affect jobs and income of government and contractor workers and the resulting multiplier effects on the economy.
- You can’t generalize about economic impacts of spending cuts. Our estimates illustrate a range of potential impacts.
Short run economic impacts of spending cuts depend on what is cut

- What is cut affects the extent to which the cuts directly affect jobs and income of government and contractor workers and the resulting multiplier effects on the economy.
- You can’t generalize about economic impacts of spending cuts. Our estimates illustrate a range of potential impacts.
Income impacts

Estimated Income Impacts per $100 Million of Deficit Reduction ($ millions)

- Spending cut: workers
  - Low: 56
  - High: 64
  - Actual impacts of broad-based and capital spending cuts could be significantly higher or lower depending on how cuts are made.

- Spending cut: broad-based
  - Low: 98
  - High: 115

- Spending cut: capital
  - Low: 64
  - High: 138

- Spending cut: pay
  - Low: 64
  - High: 143

- Income tax: progressive
  - Low: 124
  - High: 138

- Income tax: flat rate
  - Low: 122
  - High: 138

- Sales tax: more exclusions
  - Low: 115
  - High: 138

- Sales tax: fewer exclusions
  - Low: 117
  - High: 135

- Property tax
  - Low: 129
  - High: 146

- Dividend cut
  - Low: 134
  - High: 149

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending cut: workers</td>
<td>459</td>
<td>517</td>
</tr>
<tr>
<td>Spending cut: broad-based</td>
<td>544</td>
<td>727</td>
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<tr>
<td>Spending cut: capital</td>
<td>775</td>
<td>798</td>
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<td>Spending cut: pay</td>
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<td>798</td>
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<tr>
<td>Income tax: progressive</td>
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<td>786</td>
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<tr>
<td>Income tax: flat rate</td>
<td>477</td>
<td>788</td>
</tr>
<tr>
<td>Sales tax: more exclusions</td>
<td>477</td>
<td>775</td>
</tr>
<tr>
<td>Sales tax: fewer exclusions</td>
<td>482</td>
<td>773</td>
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<tr>
<td>Property tax</td>
<td>463</td>
<td></td>
</tr>
<tr>
<td>Dividend cut</td>
<td>558</td>
<td>892</td>
</tr>
</tbody>
</table>

- **Spending cut:** Workers and broad-based categories have the highest impact, with spending cuts in these areas resulting in the largest number of job losses.
- **Income tax:** Progressive income tax cuts have a lower impact compared to spending cuts.
- **Sales tax:** More exclusions in sales tax have a higher impact than fewer exclusions.

*Actual impacts of broad-based and capital spending cuts could be significantly higher or lower depending on how cuts are made.*
### Estimated Total Short-Run Economic Impacts of Selected Options for Reducing the Deficit by $100 Million:

**Low and High Scenarios**

<table>
<thead>
<tr>
<th>Option</th>
<th>Income Impacts (millions of $ of income)</th>
<th>Employment Impacts (FTE jobs in Alaska)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low scenario</td>
<td>High scenario</td>
</tr>
<tr>
<td>Spending cut: workers</td>
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<tr>
<td>Property tax</td>
<td>114</td>
<td>132</td>
</tr>
<tr>
<td>Dividend cut</td>
<td>130</td>
<td>149</td>
</tr>
<tr>
<td>Saving less</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Alaska is going to lose jobs in 2016, as the state continues to face downward pressure from low oil prices and tightened government budgets.

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Thank You

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