

# COVID-19 and the Alaska economy

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# Outline

A basic introduction

Federal spending

On the structure of the Alaska economy

Looking back

On the forecast

A quick decomposition

Significant policy questions

Revenues and the economy

What does research tell us?

On the budget

## On the forecast

I will be discussing the structure of the Alaska economy as well as [my most recent forecast of the Alaska economy](#).

## Summary

- ▶ In creating the forecast, I developed an Econometric model that relied on historical relationships across sectors, as well as spending data, foot traffic data, and assumptions about the path of the virus, oil prices, and federal aid.
- ▶ The forecast I created generates employment by sector/month until 2022.
- ▶ I will discuss some of the key assumptions and how the landscape has changed since June.

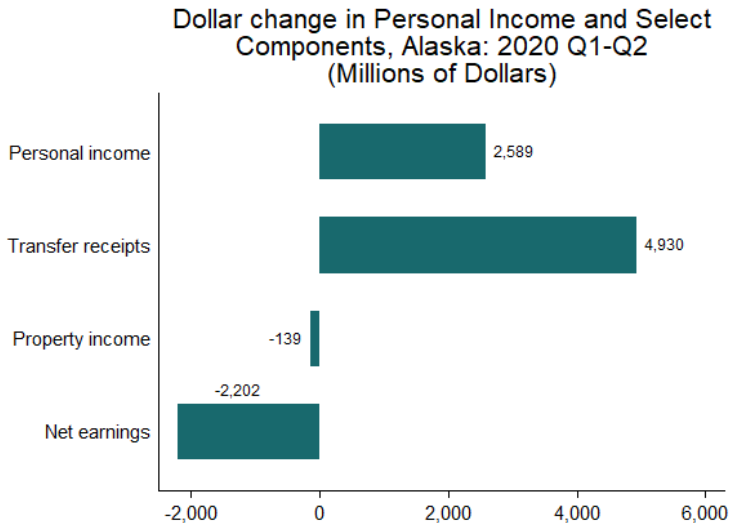
## Where do we see things going?

- ▶ The state's economy was expected to grow at between 0.4 and 0.7% pre-COVID. As a result of the decline in activity, the economy is expected to end the year with considerably fewer jobs than in 2019.
- ▶ Employment will turn positive positive in 2021 but we do not expect returning to pre-COVID employment levels until 2023 or beyond.
- ▶ It will be important to think in terms of year over year comparisons rather than month over month.
- ▶ Of course, the recovery completely hinges on virus containment and people's willingness to congregate and resume spending.

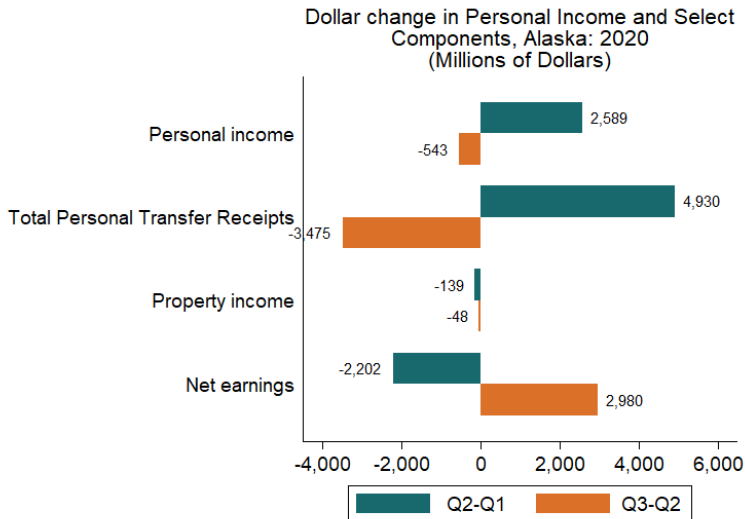
## Some specifics from our June forecast

- ▶ In the June 2020 forecast, we wrote that we anticipate the economy to end the year with almost 25,000 fewer jobs than in 2019. The decrease would represent a 7.4% drop relative to the previous year. In 2021, we expect the economy to slowly start regaining the jobs lost the previous year and grow at a rate of 2.2%. In 2022, we anticipate a continuing climb for the Alaska as it is expected to grow at 1.1% percent. By the end of 2022, the Alaska economy should be at about 95% of the pre-pandemic levels.

## Important to remember the scale of the federal aid



## Spending optimism?





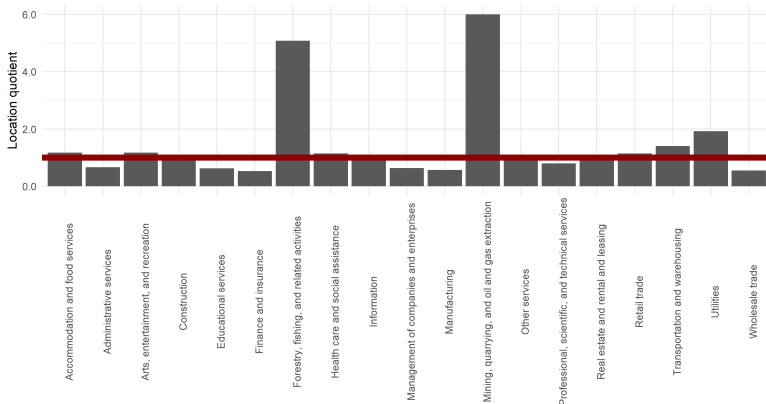
# How does Alaska compare?

Share of private non-farm employment by sector

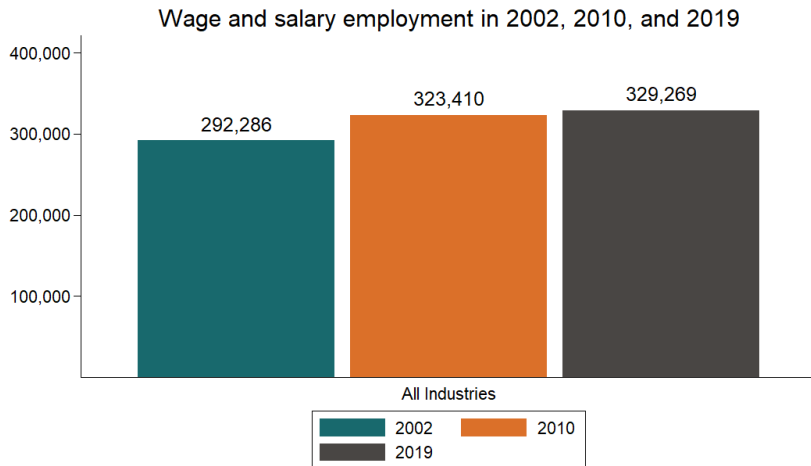


# Where does Alaska have a higher concentration of jobs?

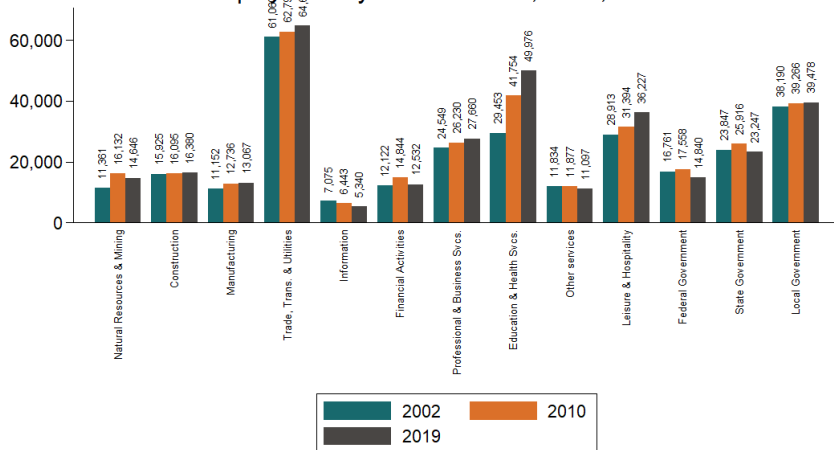
Employment concentration by sector relative to the United States



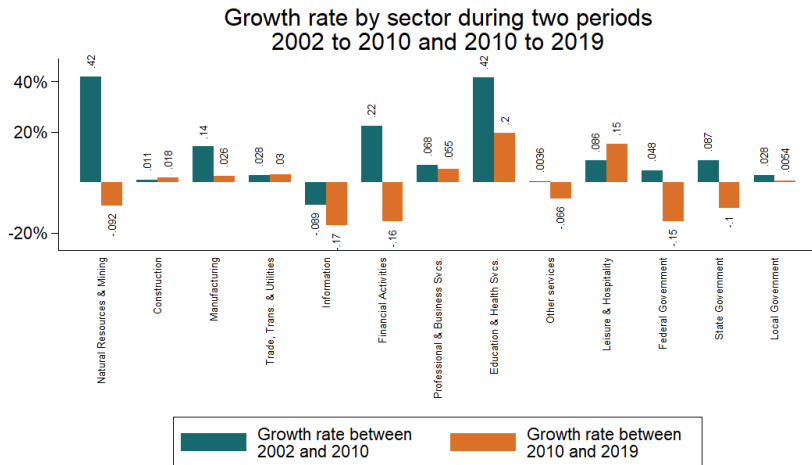
## Wage and salary employment over the years



Employment by sector in 2002, 2010, and 2019



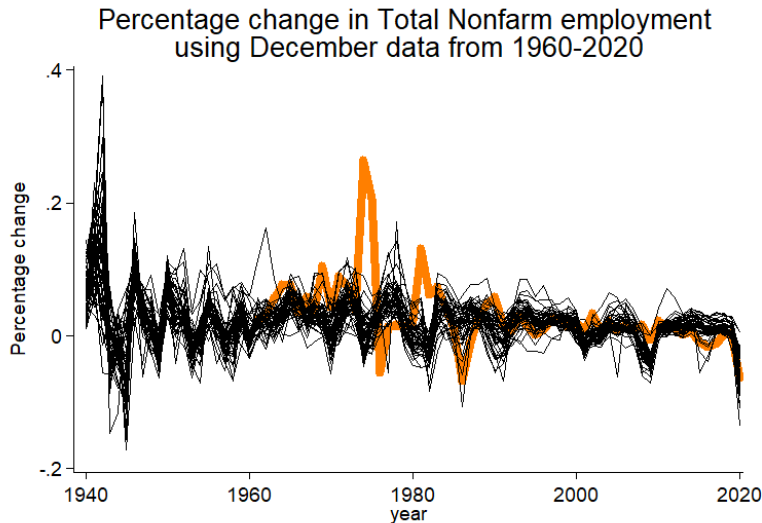
# Growth rates by sector



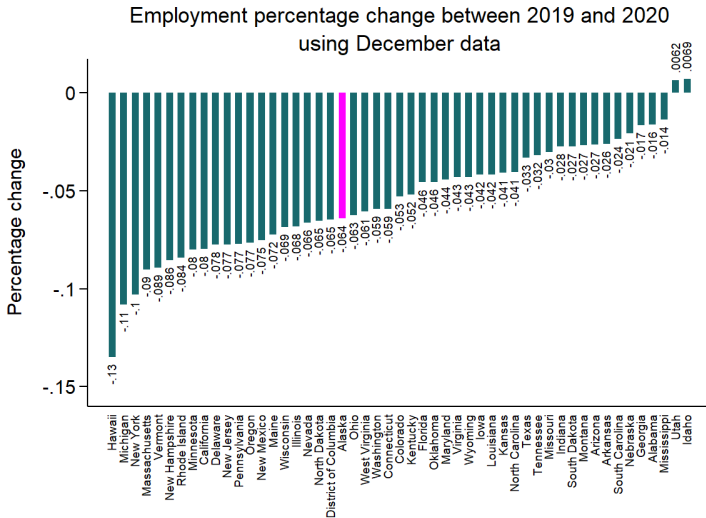
## Original Forecast assumptions: considerable downside risk

- ▶ First, we assumed that the federal government will continue to provide financial assistance to unemployed individuals either by extending the unemployment insurance payments or by investing in work share programs.
- ▶ Second, we relied on the Alaska Department Revenue's forecast that showed oil prices will remain low but stable for the next two years.
- ▶ Third, and perhaps most importantly, we assumed that the virus will be contained and that the economy will not experience another round of closures.
- ▶ Lastly, we assumed a normalization of travel in 2021 which significantly affects the leisure and hospitality outlook.

## Clearly not just an Alaska issue



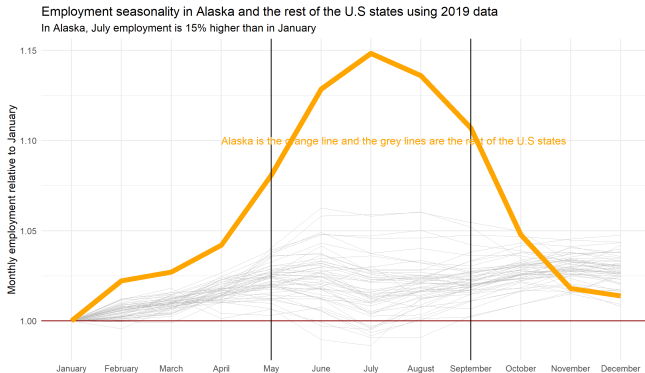
# How does Alaska compare?



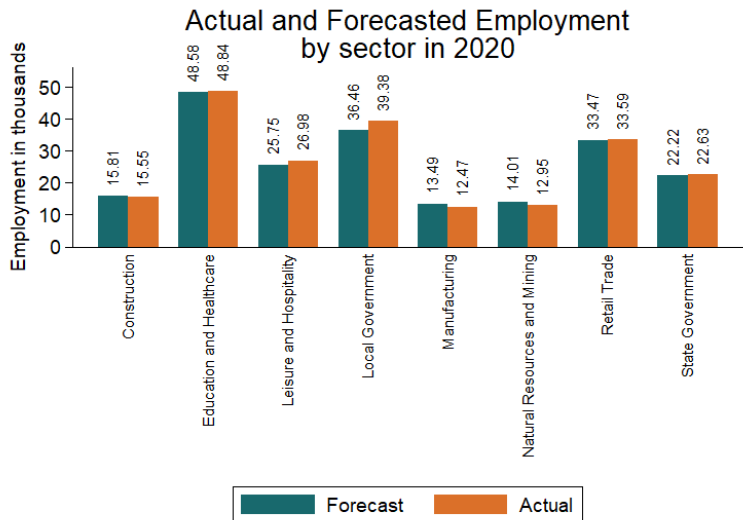


# Seasonality complicates Alaska's recovery

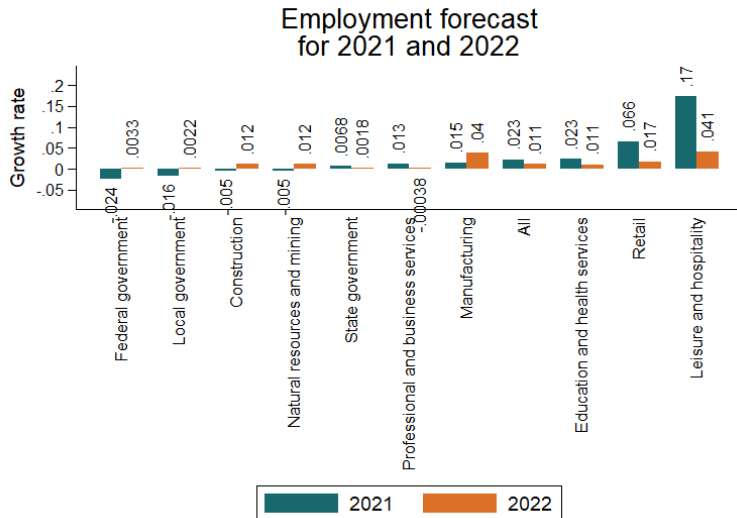
## Seasonality



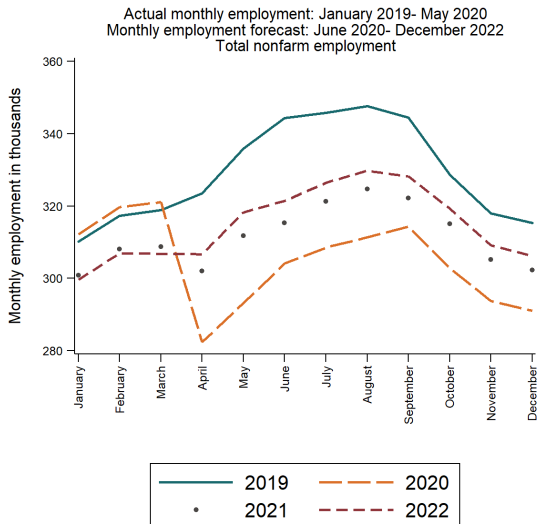
## How did we do in 2020?



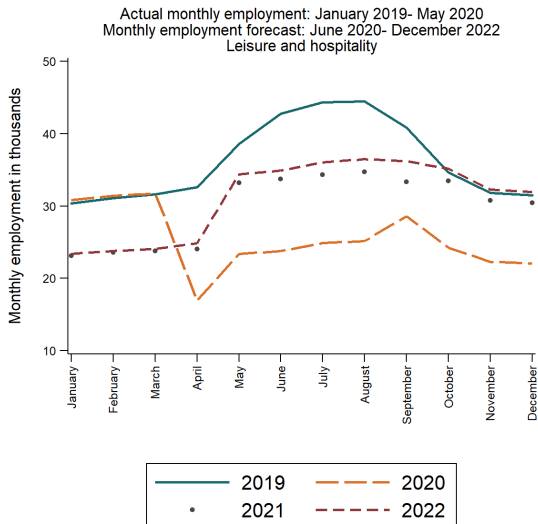
# Beyond 2020



# Wage and Salary forecast



# Leisure and Hospitality

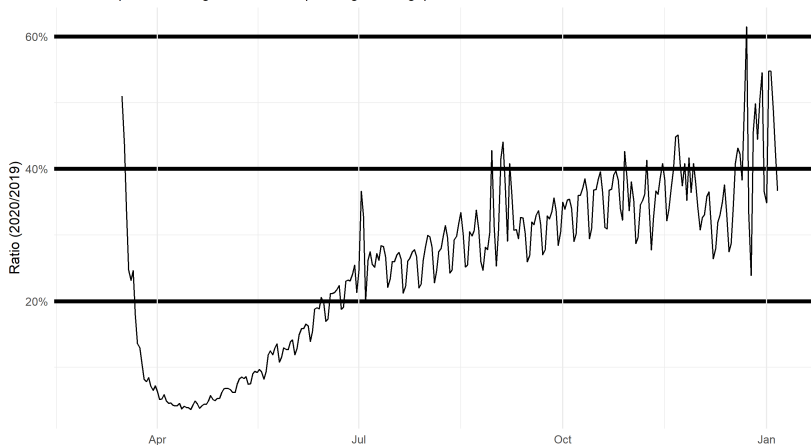


# Travel improvement

## Air travel

Traveler throughput relative to the same weekday last year

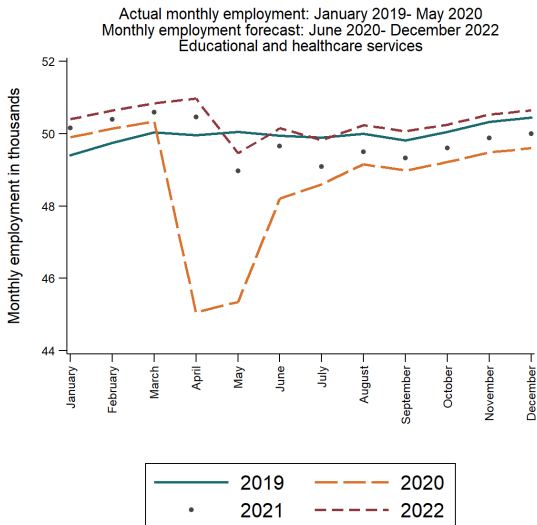
Source: <https://www.tsa.gov/coronavirus/passenger-throughput>



## Leisure and Hospitality: Original Summary

- ▶ In 2020, we anticipate the economy to end the year with around 10,780 fewer jobs than in 2019. This would represent a 29% decrease relative to the previous year. In 2021, we expect the sector to resume growth as travel patterns begin normalizing. By the end of 2022, we expect that the Leisure and Hospitality sector to be at about 85% of the pre-pandemic levels.
- ▶ In addition to the sector's importance for jobs, it plays an important role as a tax base for many communities across the state which means local government revenues will be severely challenged as long as travel levels are depressed.

# Education and Healthcare services: Original Summary





## Education and Healthcare services: Summary

- ▶ As a result of the pandemic and the suspension of non-essential visits, healthcare employment declined precipitously but it is expected to rebound much faster than the rest of the Alaska economy as many people who delayed procedures are now returning to healthcare facilities as evidenced by the much higher foot traffic to physician offices.
- ▶ In 2020, we anticipate the economy to end the year with around 1,300 fewer jobs than in 2019. This would represent a 2.6% decrease relative to the previous year. In 2021, we expect the sector to resume growth at a rate 2.23%. By the end of 2022, we expect that the Education and Healthcare sector to be at about 100.7% of the pre-pandemic levels.

## Breakdown: Different paths for different sectors

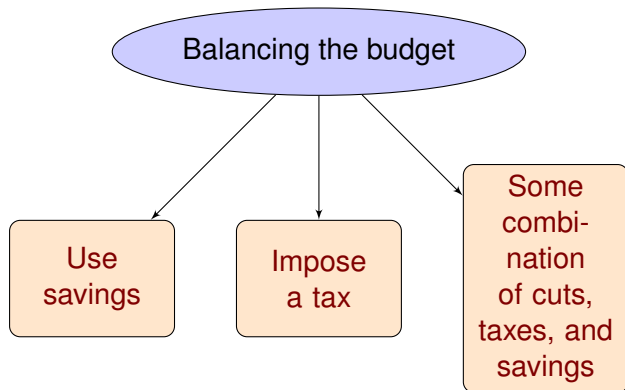
- ▶ The road back to pre-pandemic employment and output levels will be a long one as some businesses have permanently closed, the tourism shock will be long lasting, and while oil prices have recovered from negative territory the outlook is fairly bearish.
- ▶ Local governments reliant on sales tax will feel these declines for multiple seasons. It is very unlikely the Alaska economy will see a V shaped recovery due to the long lasting effects we describe above. It is much more likely that we will see a U shaped or a gradual “Nike swoosh” recovery with a slow climb in activity.
- ▶ We have very likely reached the trough of economic activity but the recovery will vary by sector and will depend on sources of demand, need for face to face interaction, and the general strength of household balance sheets.

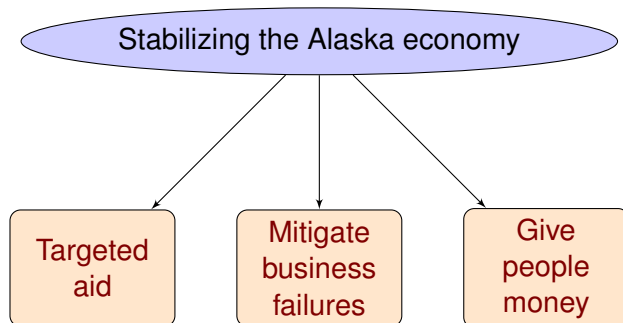
## General thoughts

- ▶ In general, industries exposed to any segment of travel will take longer to recover. The oil dependent sectors such as Professional and Business services and Construction will also be challenged as the oil industry deals with historically low demand and low prices.
- ▶ The service sector will benefit this upcoming year as households are able to congregate. Most of the spending during the pandemic was on goods and it will shift towards services as restrictions are eased.

## Policy and the different horizons that need to be considered

- ▶ There are many important questions looming that concern both ways to stabilize the economy and those to balance the budget. A (very) incomplete list includes:
- ▶ How large should the aid to communities, individuals, and businesses be?
- ▶ What kind of new revenues should the state pursue?
- ▶ How much should the state withdraw from the Permanent fund and how should the money be allocated?





## Resources

- ▶ [A collection](#) of research papers assessing several dimensions of the pandemic ranging from the effect of the CARES act on job search to the spending response of households to the Stimulus payments.

- ▶ The differential impact of COVID-19 is mostly captured by observed changes in people's mobility. The deterioration of economic conditions preceded the introduction of these policies and a gradual recovery also started before formal reopening, highlighting the importance of voluntary social distancing, communication, and trust-building measures.
- ▶ Research from England shows that those with precarious employment, aged under 30 and from minority ethnic groups faced the biggest labour market shocks. Almost 50% of individuals have experienced declines in household earnings of at least 10%, but declines are most severe in the bottom pre-pandemic income quintiles. Methods of mitigation vary substantially across groups: borrowing and transfers from family and friends are most prevalent among those most in need.



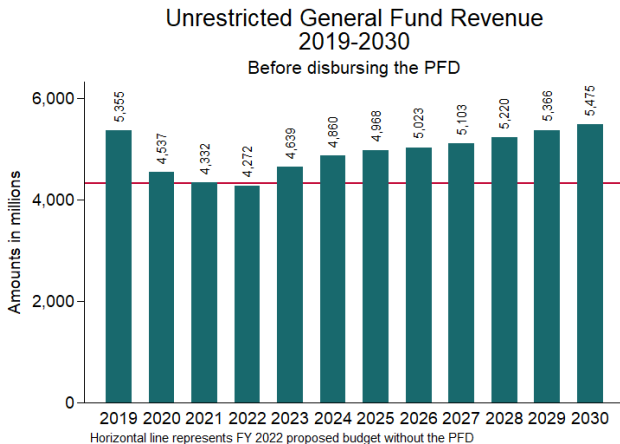
## Aid and job search

- ▶ **Research from the Federal reserve** shows that the \$600 UI benefit supplement in the CARES Act had little or no effect on the willingness of unemployed people to search for work or accept job offers.

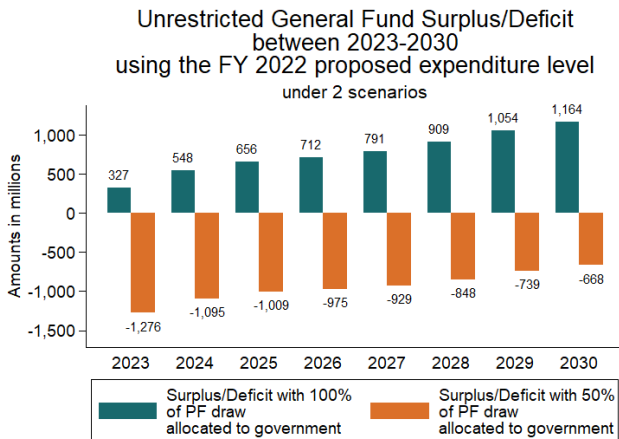
## Final takeaways

- ▶ We have very likely reached bottom in terms of economic activity but the path forward is not a straight line.
- ▶ No path to full economic recovery without virus containment.
- ▶ It will be important to assess the continued effects of the pandemic by region and industry.

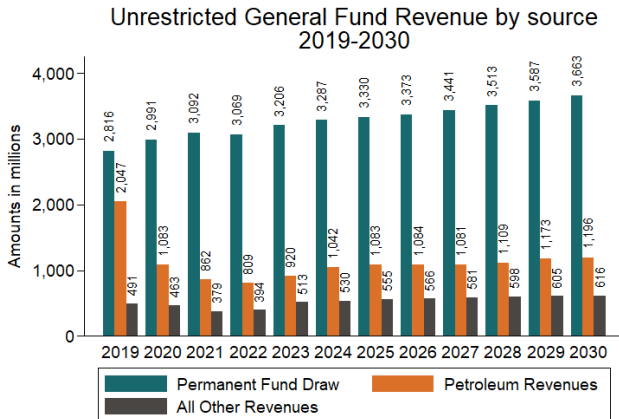
# Unrestricted General Fund Revenues



# Budget

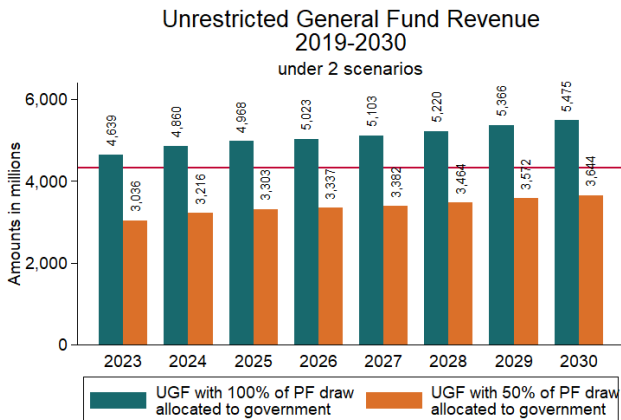


# Budget



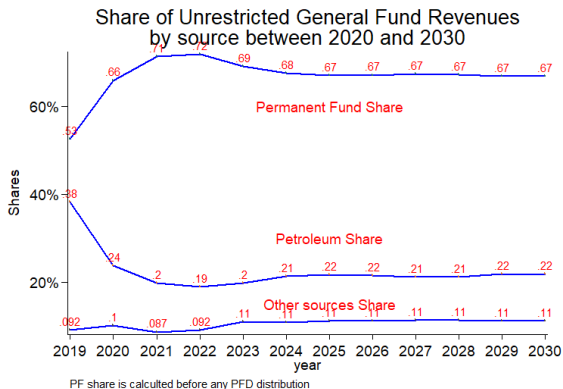
PF revenues are before any PFD distribution

# Budget

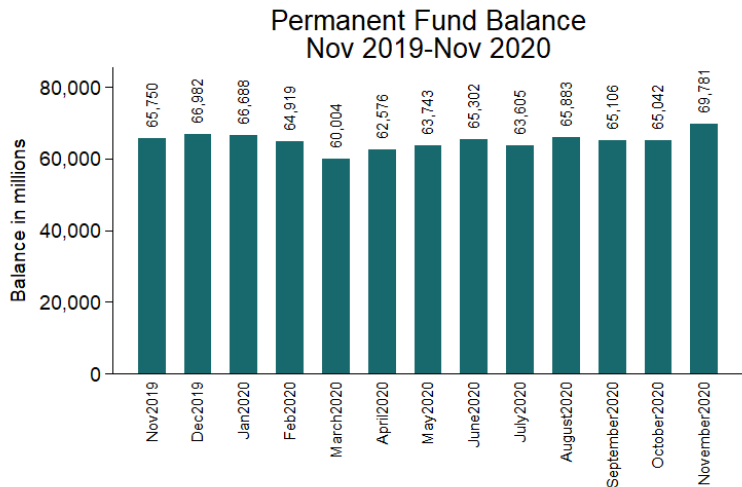


Horizontal line represents FY 2022 proposed budget without the PFD

# Budget



## Permanent Fund balance



The Permanent fund gained 4.3 billion dollars between Nov2019 and Nov2020



***Thank You***

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