

Forecasting Alaska's Economy: 2017-2026

A presentation to the Alaska House Finance Committee

February 10, 2017



Overview

We're in a Recession

We just completed Phase 1 lead by the oil industry and allied sectors.

The Timing of How We Got Here

Where We are Headed

What does Phase 2 look like?

How much does the State of Alaska and the consumer sector pull back?

Predicting Recessions in Alaska

Layperson's definition is two quarters of negative gross domestic or state product (GDP/GSP).

Gross State Product in Alaska is not a great measure:

- The value of all of the goods and services produced in AK...

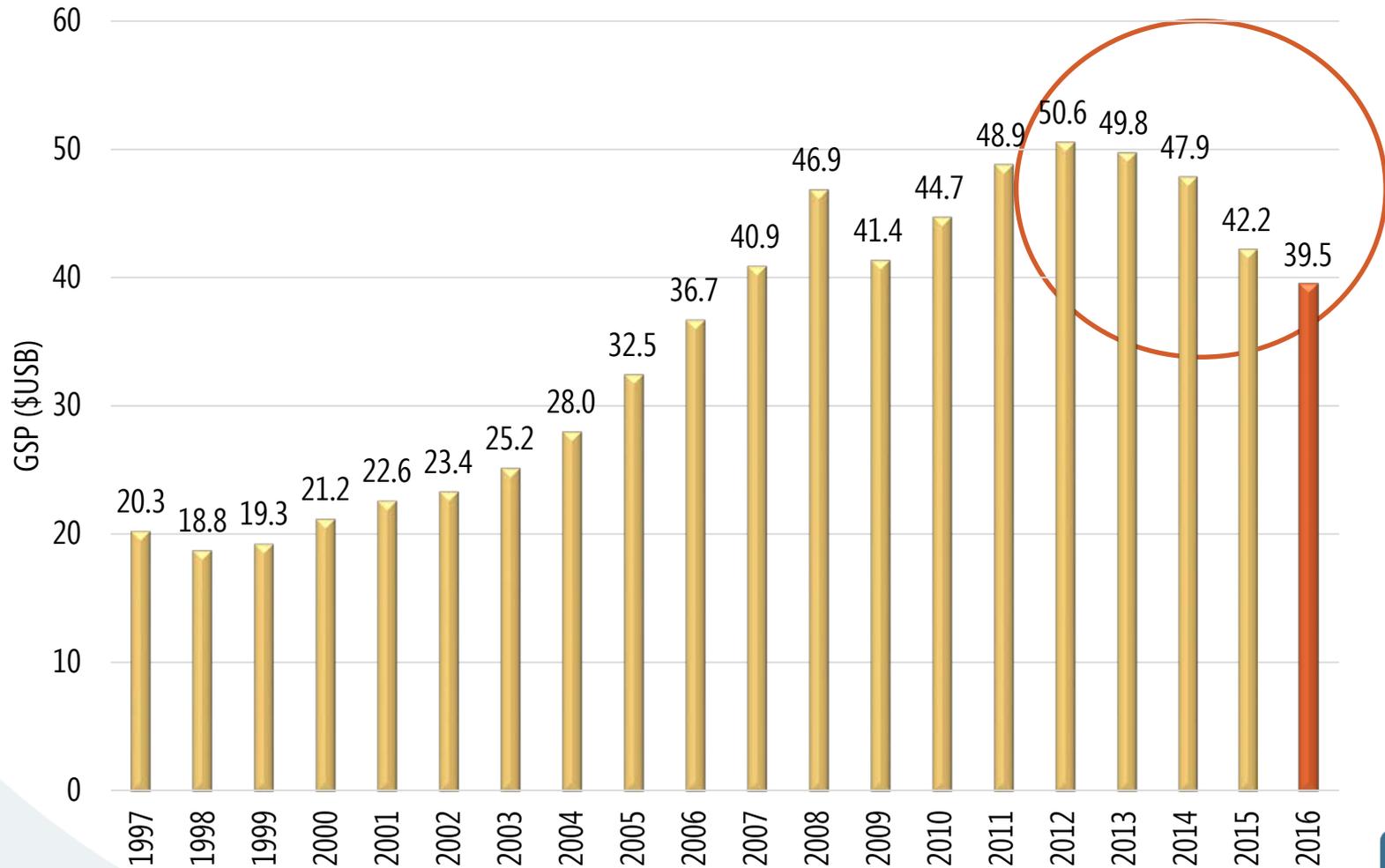
- Largely tied to the value of oil exports...

- Highly variable from quarter-to-quarter because of oil production maintenance schedules....

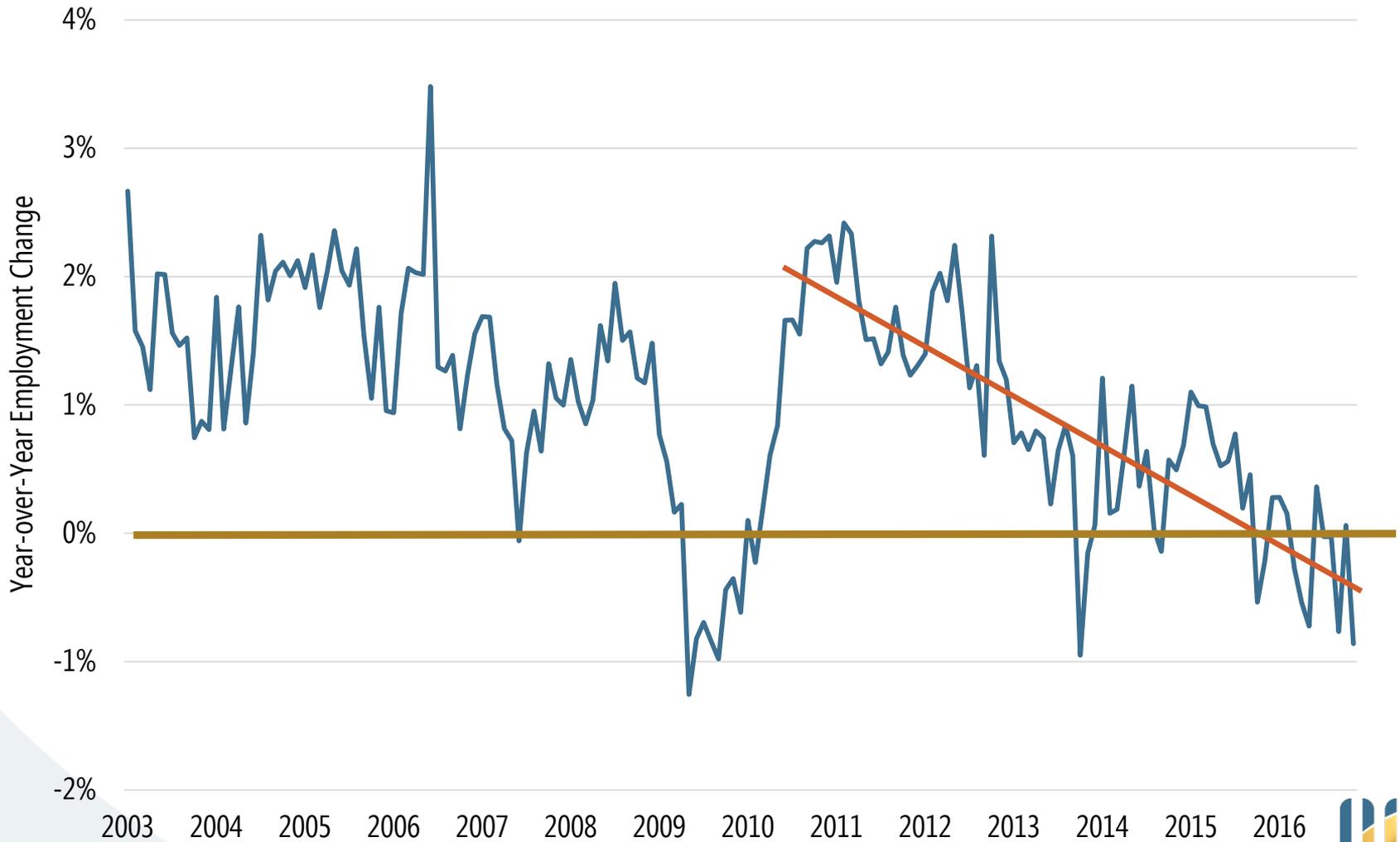
- Highly variable from year-to-year because of the price of oil.

If we used GSP to measure recessions we'd have to acknowledge that we're entering our fifth full year of recession.

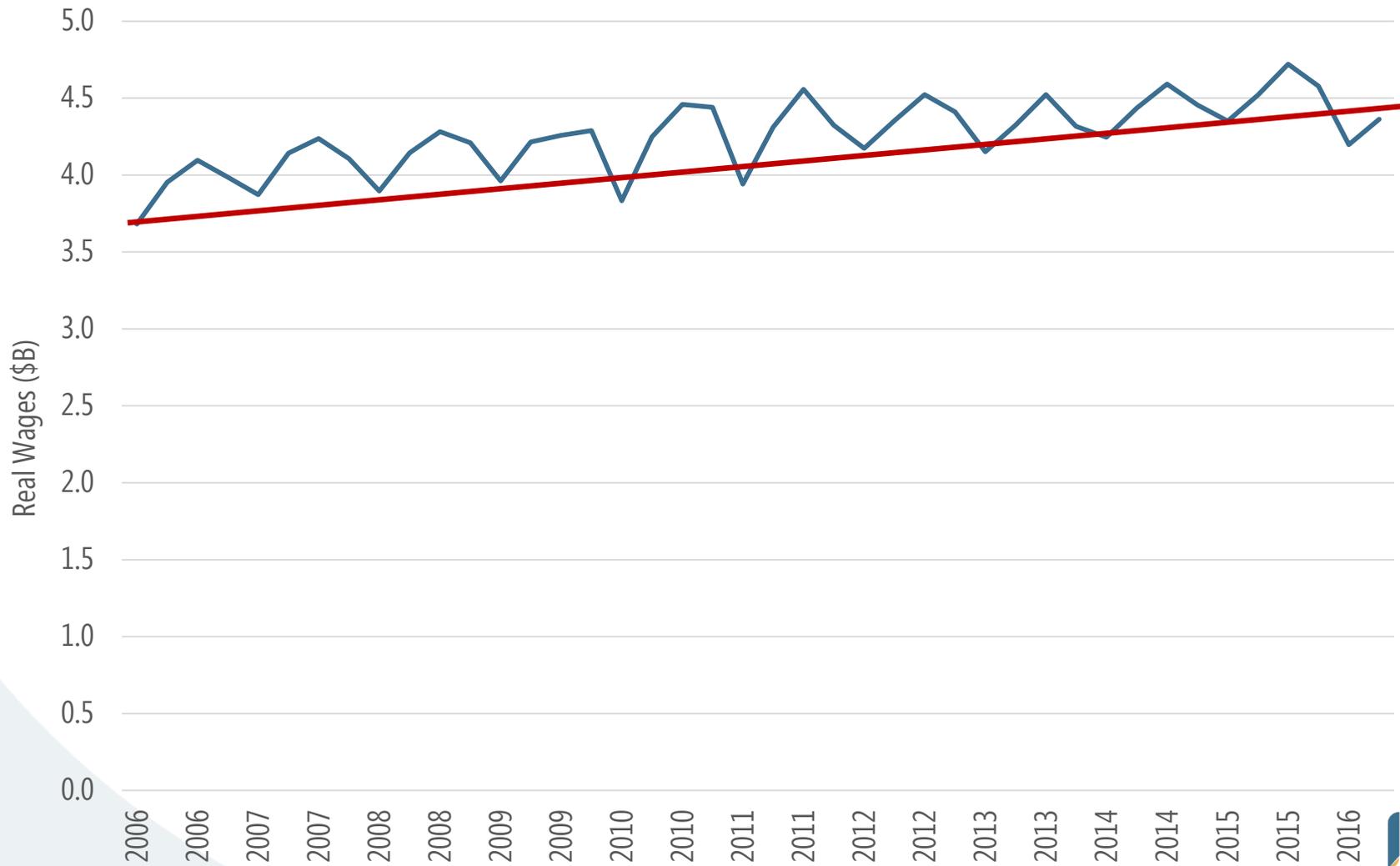
The Value of Our Economy



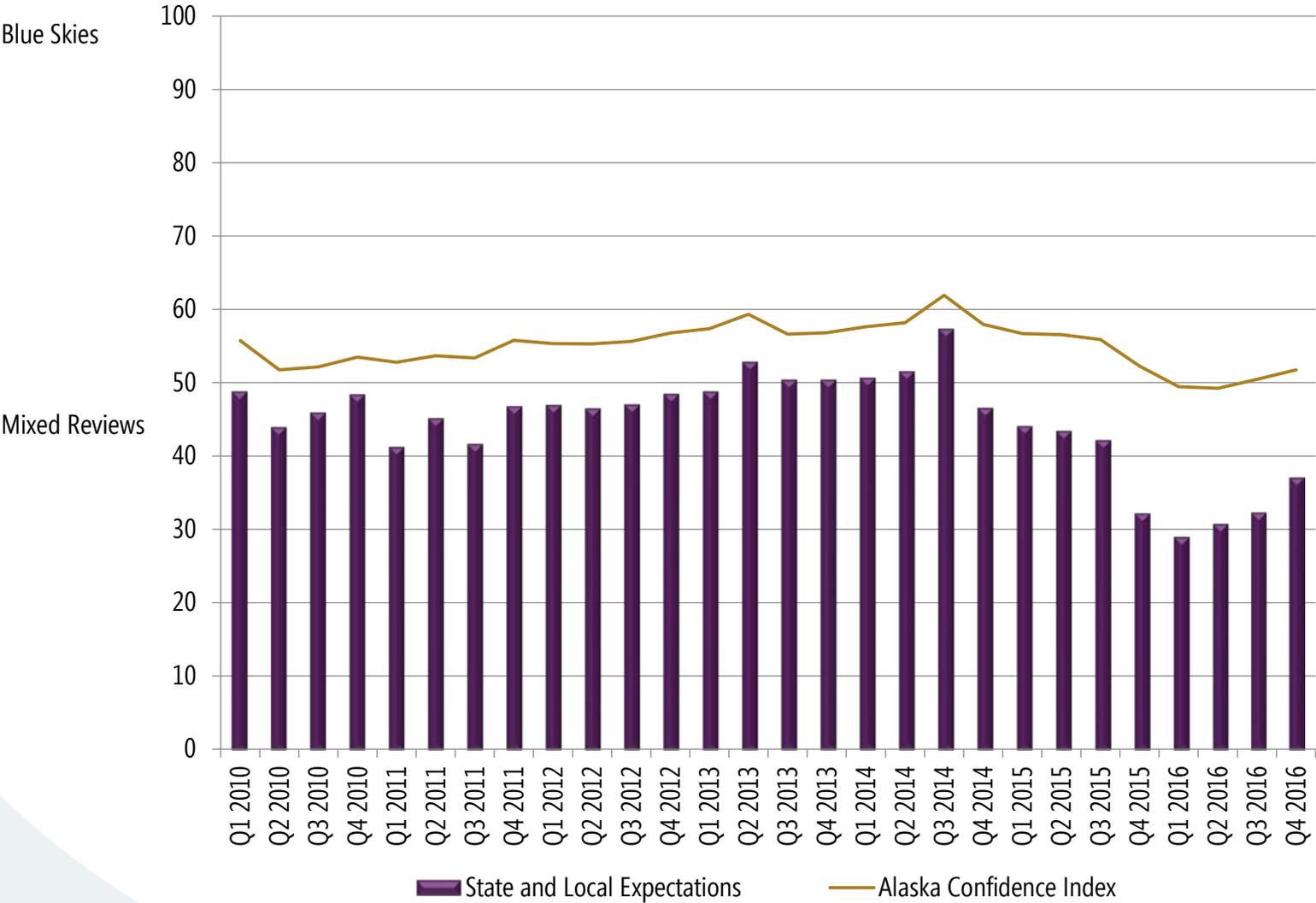
Looking for Consistent Year-over-Year Job Losses



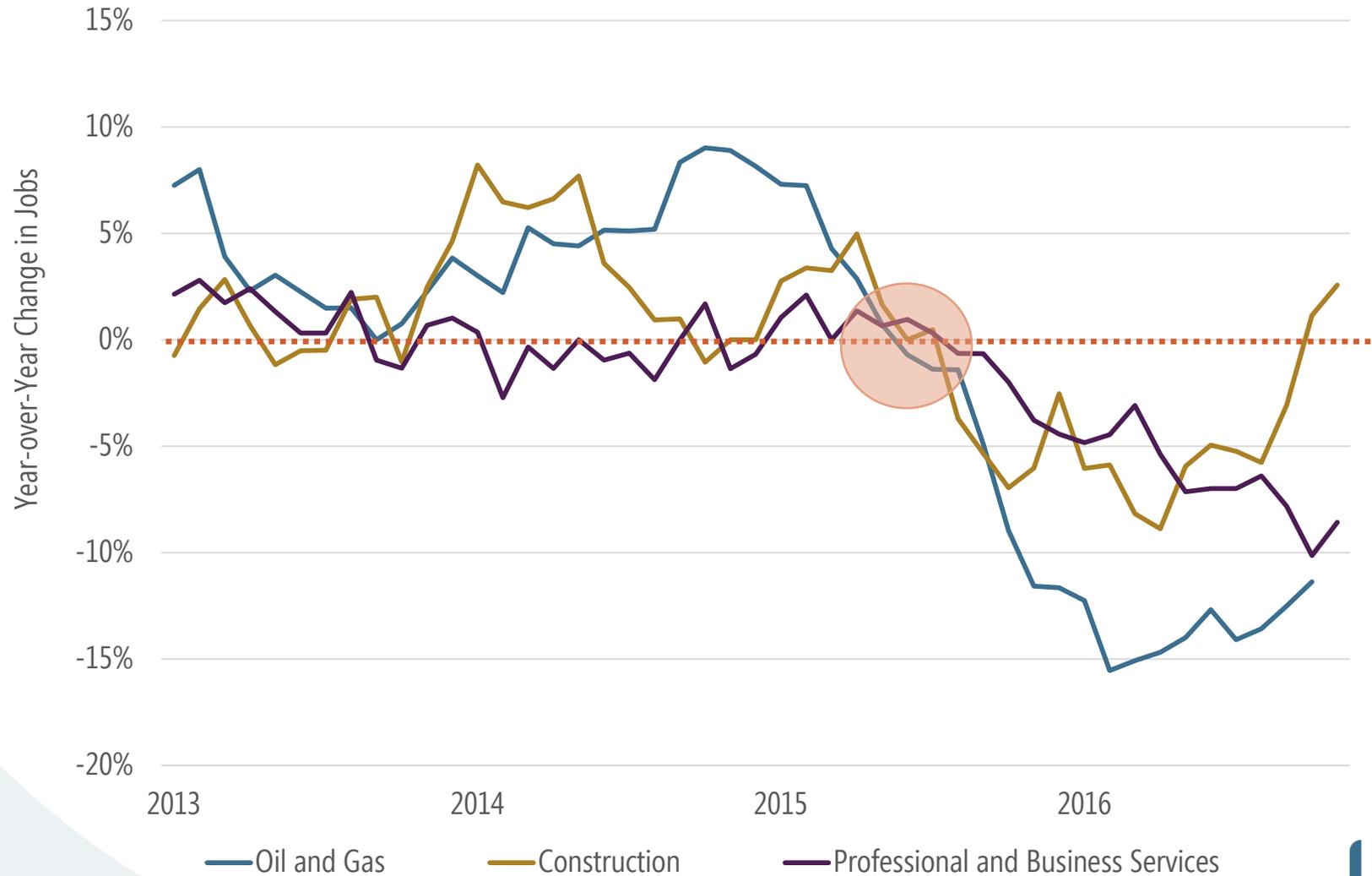
Wage Growth Trend Broken



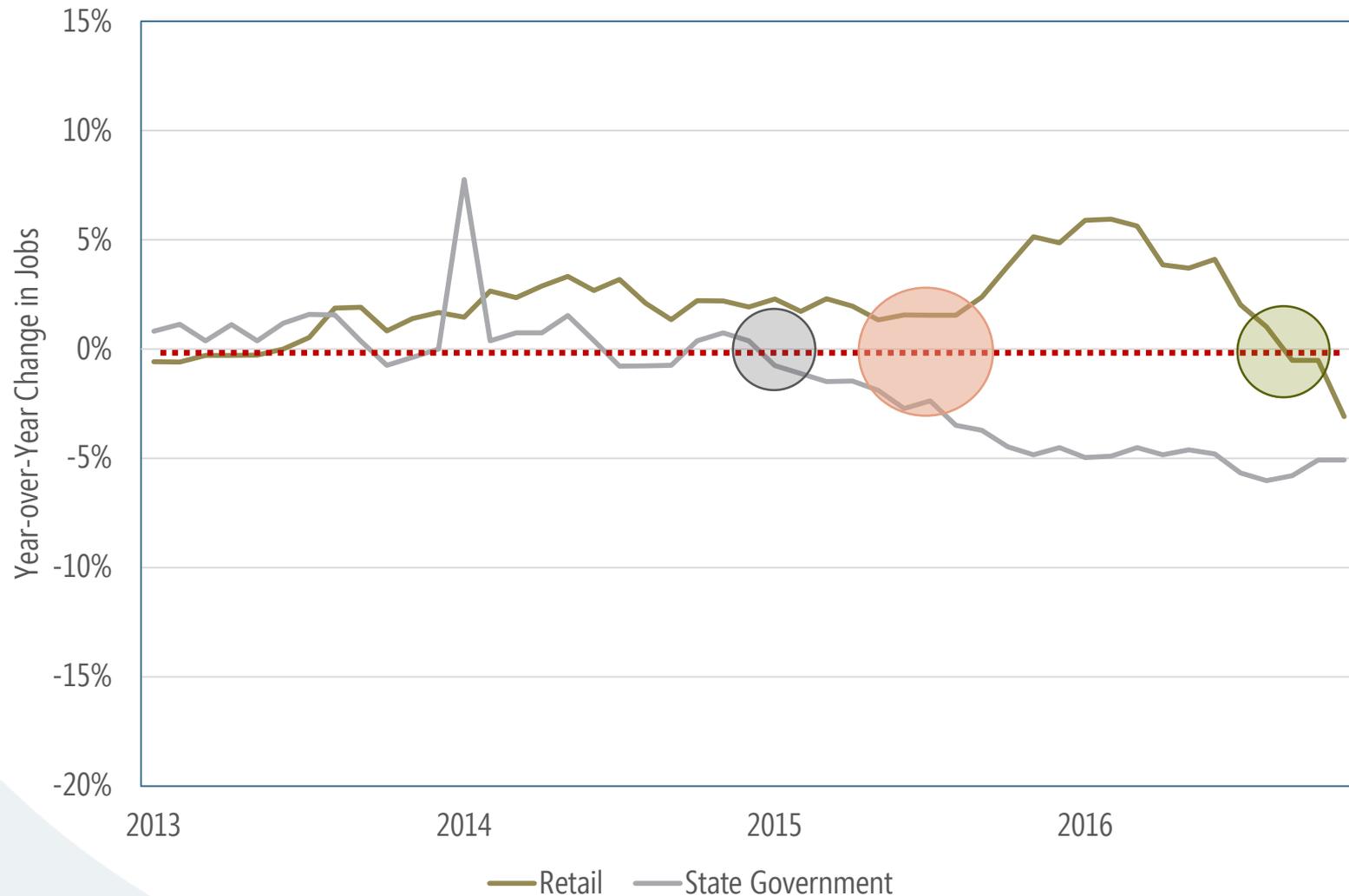
Household Confidence



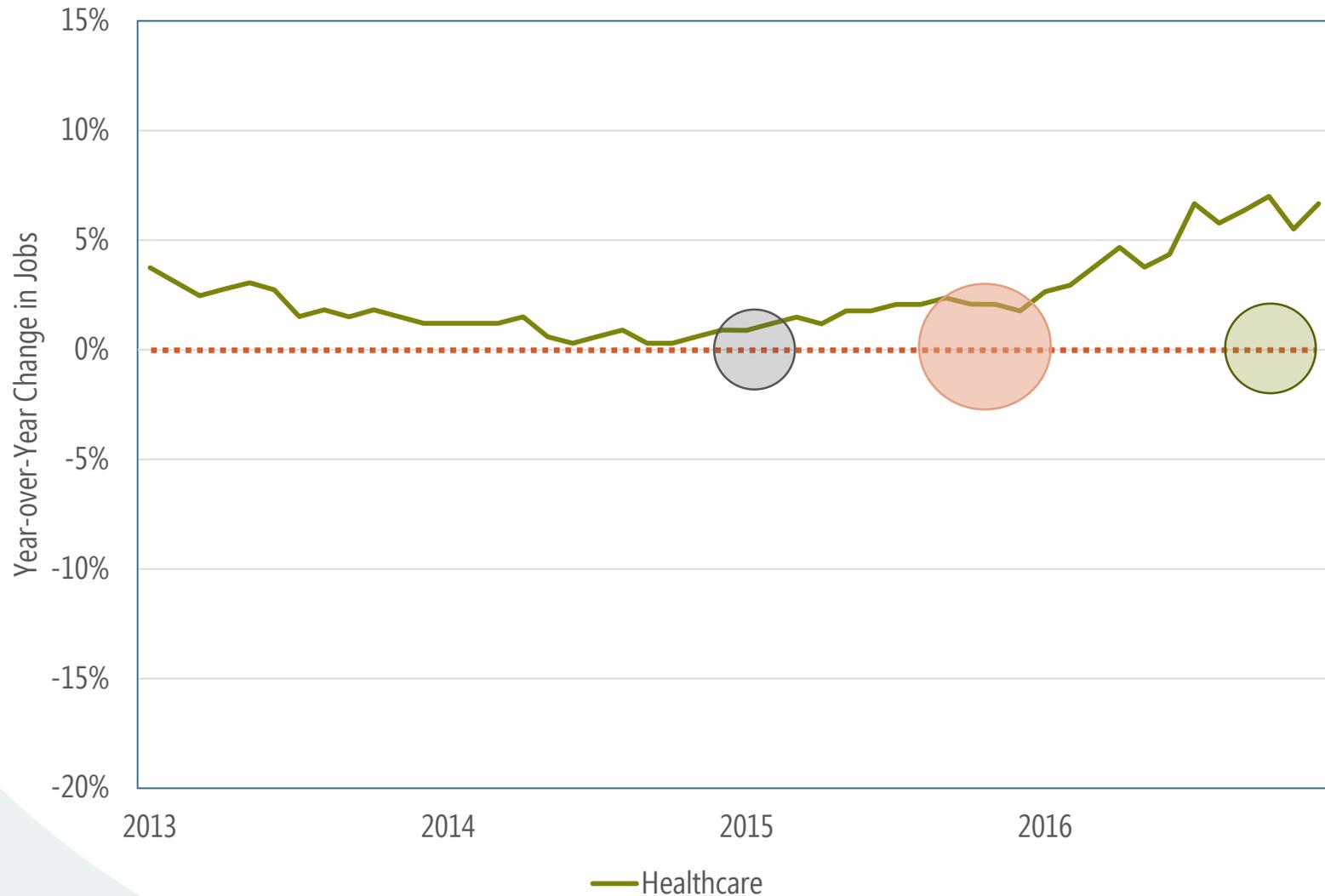
High Earning Sectors



State Employment and Retail



Our Biggest Growth Sector



Where Are We Headed?

2 Basic Things Determine Economic Robustness:

Money coming in....

Money going out....

Rich economies bring money in and hold onto it.

Right now we're doing neither.



Three Legged Stool

Federal Government

- Education and Health Care
- Direct Employment
- Constructions

Oil

- Industry Direct Investment
- State Revenues

Everything Else

- Fishing
- Tourism
- Air Transport
- Mining



Budget context

- FY2017 budget gap: \$ 3.0 billion
- Approx. max sustainable flow from Permanent Fund (incl. ER, CBR):
 $4.5\% \times \$60 \text{ B} = \$ \underline{2.7 \text{ billion}}$
\$300 million

So the long run gap:

\$1000 PFD: \$300 M + \$700 M = \$1.0 billion

\$2000 PFD: \$300 M + 1.4 B = \$1.7 billion

Dynamic Forecasting with the Alaska REMI Model

Comparable to ISER's Man in the Arctic Program (MAP)

Dynamic model which forecasts policy changes over time.

Best in medium to long term applications (5 – 50 years)

Model at the State and Regional (12) level

Used by Northern Economics for larger projects with dynamic policy implications:

- Shell Offshore

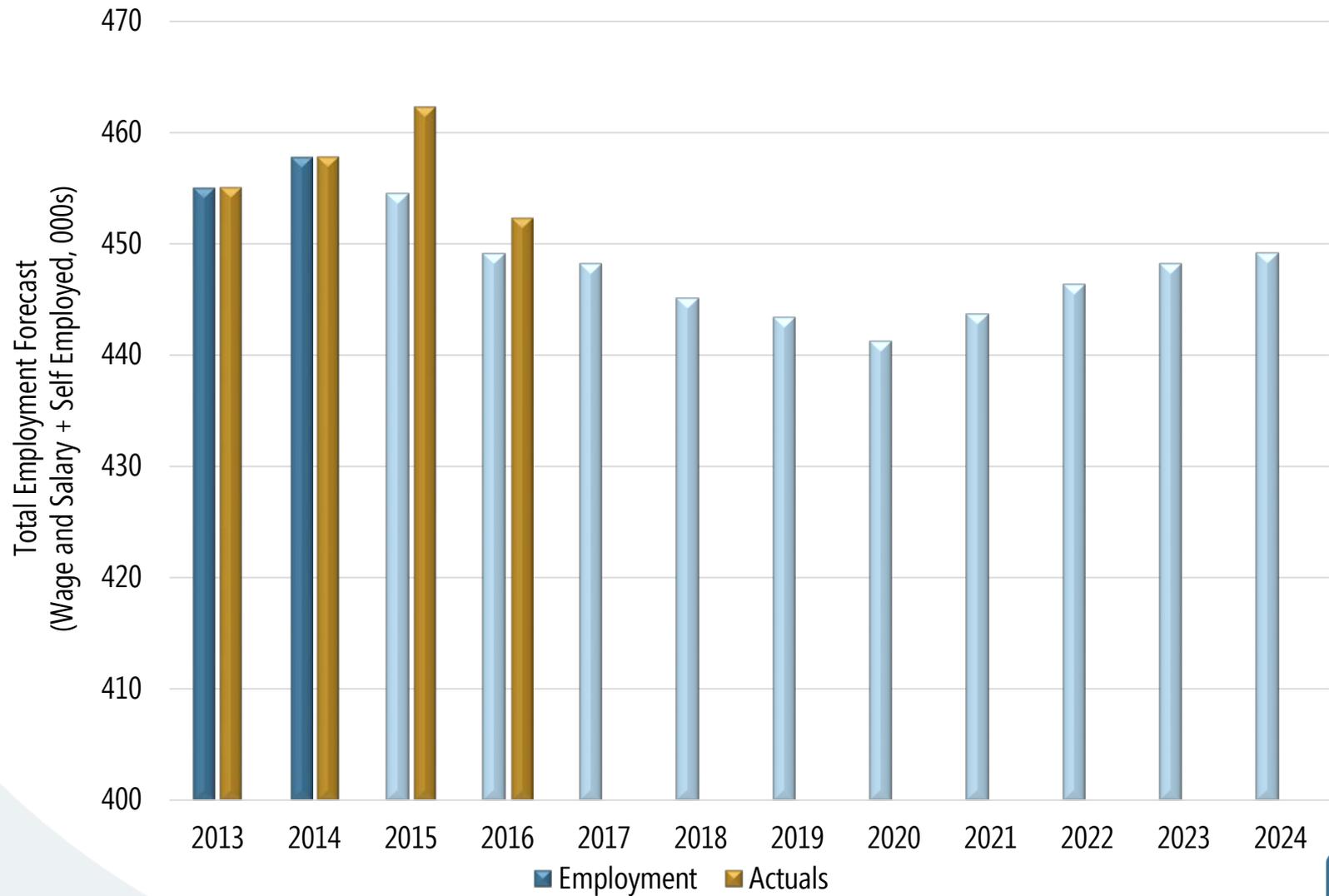
- "Big Gas Pipeline"

- Susitna Watana

- Recession Policy Forecasting

- JBER Force Reduction

2015 Fiscal Policy Forecasting



2017-2026 Budget and Revenue Scenarios

Status Quo

\$4.2B Unrestricted General Fund;
Spending from reserves

Scenario 1

\$4.2B Unrestricted General Fund;
Reduced dividend

Scenario 2

\$4.2B Unrestricted General Fund;
Broad Based Tax

Scenario 3

\$3.2B Unrestricted General Fund;
Full PFD; No Taxes; Step down over 2 years

Northern Economics does not advocate for any of these individual scenarios.

Our purpose is always to help society make better, more informed decisions.

Caveats and Assumptions

USEIA Oil Price Forecast

No strong recovery

Nominal Dollars

Scenarios are in \$2016

Additional assumptions

No major positive economic movers such as pipelines or significant new oil production

Does not account for other potential black swans (healthcare)

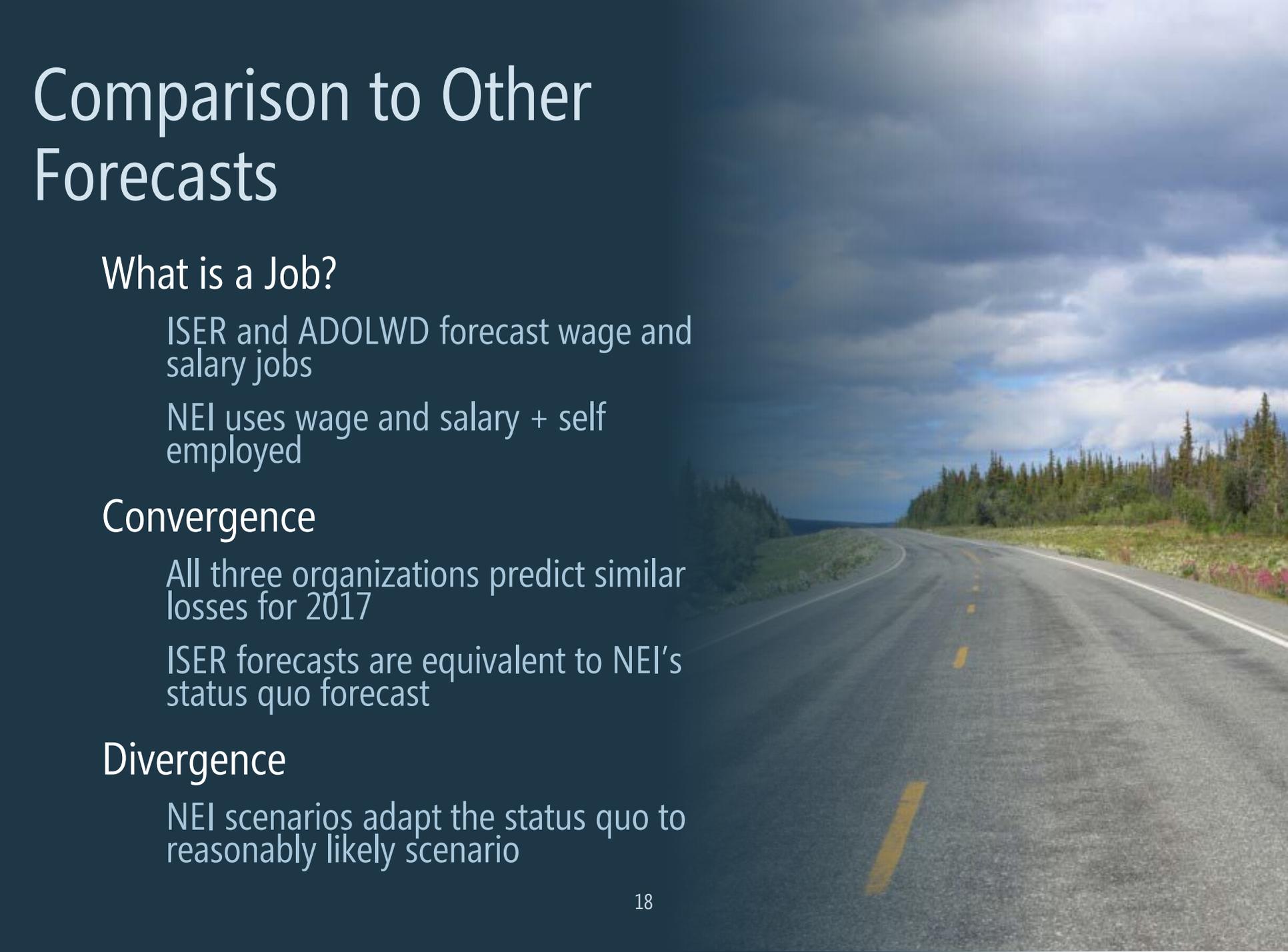
Small amounts of continued deficit spending.

All Forecasts are Wrong

"Forecasts create the mirage that the future is knowable"

-Peter Bernstein

Comparison to Other Forecasts



What is a Job?

ISER and ADOLWD forecast wage and salary jobs

NEI uses wage and salary + self employed

Convergence

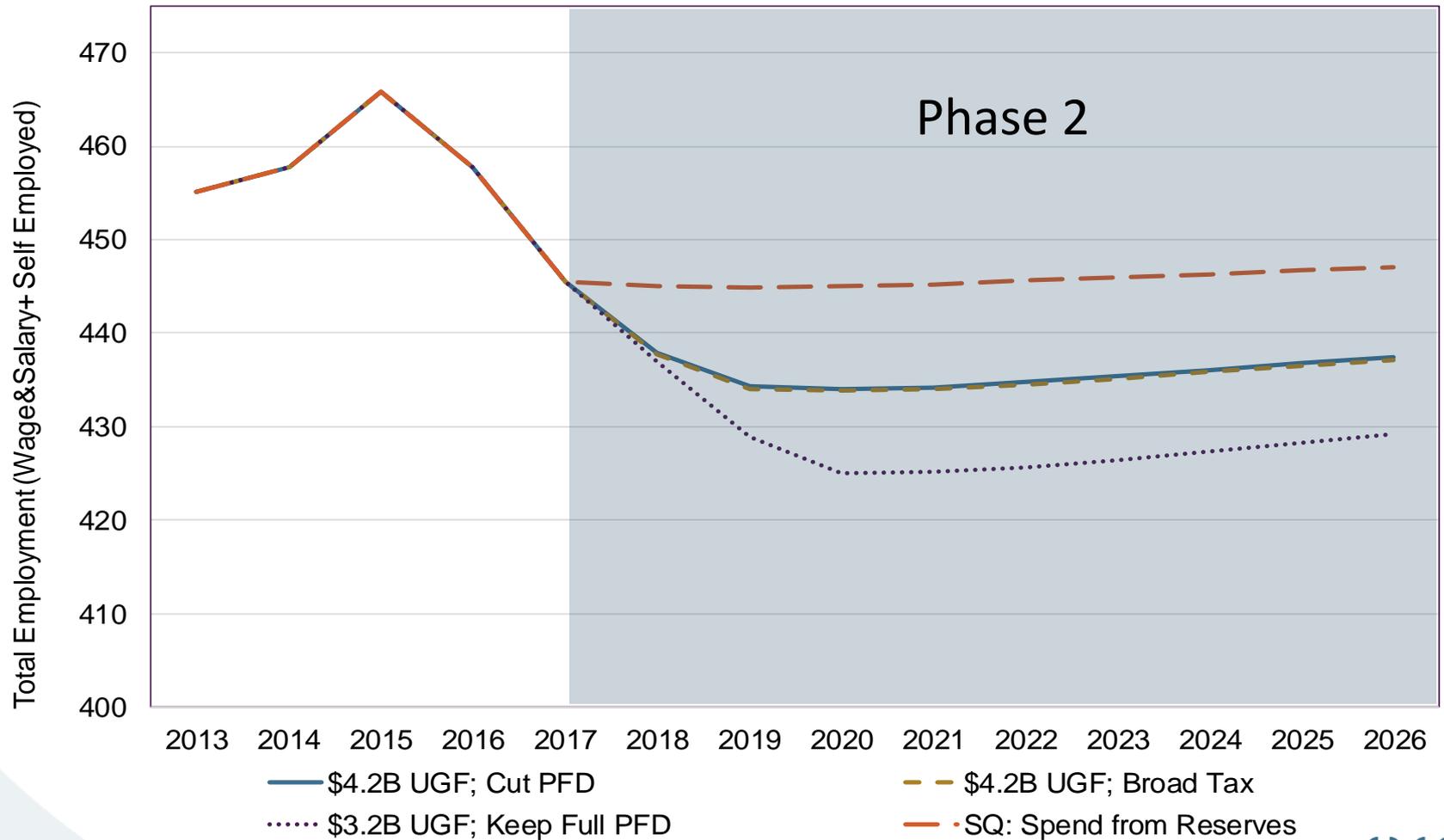
All three organizations predict similar losses for 2017

ISER forecasts are equivalent to NEI's status quo forecast

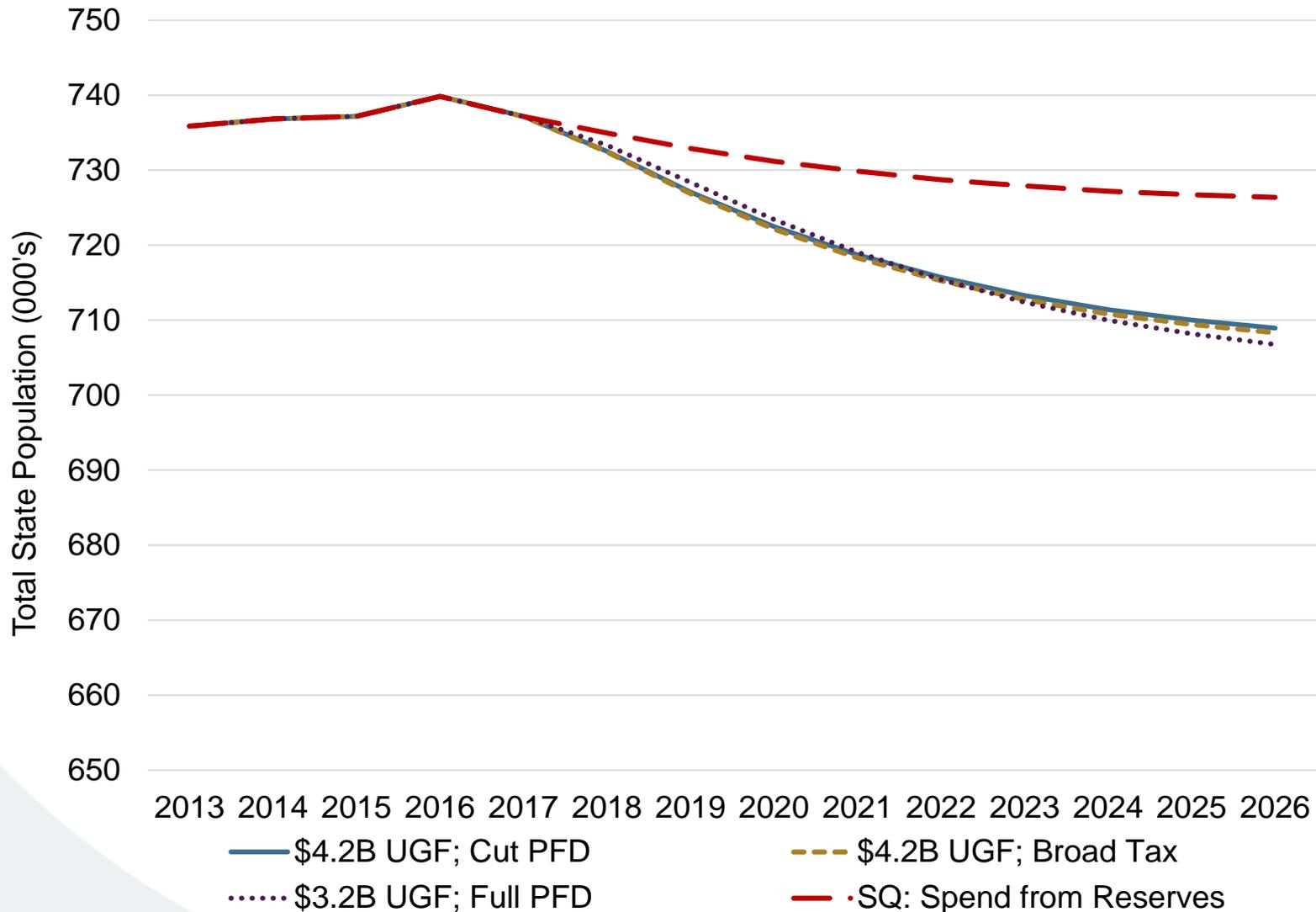
Divergence

NEI scenarios adapt the status quo to reasonably likely scenario

2017-2026 Employment Forecasts



2017-2026 Population Forecasts



REMI Summary Results: 2017-2026

Employment

Employment bottoms out in 2018-2020.

Sq: -13,000 jobs

S1: -25,000 jobs

S2: -24,000 jobs

S3: -33,000 jobs

Without additional fuel for the economy, employment does not meaningfully recover between now and 2026.

Population

Population loss from baseline in 2016:

Sq: -13,000 residents

S1: -32,000 residents

S2: -31,000 residents

S3: -34,000 residents

While employment starts to recover around 2019, population declines start in 2017 and continue through 2026.

Key Takeaways 1

Mathematically, solving the “fiscal gap” is not a challenge.

The resources are there.

Solving the “expectations gap” is an incredible challenge.

The hardest myths to bust are those we tell about ourselves.

There is no such thing as a universal essential service.

We are in an ideological struggle over what our state should look like now.

Our progress has been hampered by denial and uncertainty about the duration of our situation.

Key Takeaways

Without stimulus or spending stabilization, we have 2-3 years left in this recession.

The size of second phase of the recession will be a direct function of oil prices and the battles being wages in Juneau.

Not much aggregate difference between PFD reduction and a broad-based personal income tax because both reduce income for all or nearly all Alaskans.

The \$3.2 UGF plan has the greatest overall effects because it involves directly cutting 18,000+/- State supported jobs with indirect effects accounting for the remaining 12,000+ in losses.

People without jobs are more likely to sell homes and leave, whereas reducing everyone's income a little leaves a poorer, but economy more intact.

Thank you from the NEI Team!



While only one presents, many hands built this presentation.

