

# COVID-19 and the Alaska economy

People, businesses, local effects, and the state budget

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# Outline

A basic introduction

An incomplete list of individual level assistance

Businesses

Local effects

State budget

## Summay of my economic impact analysis

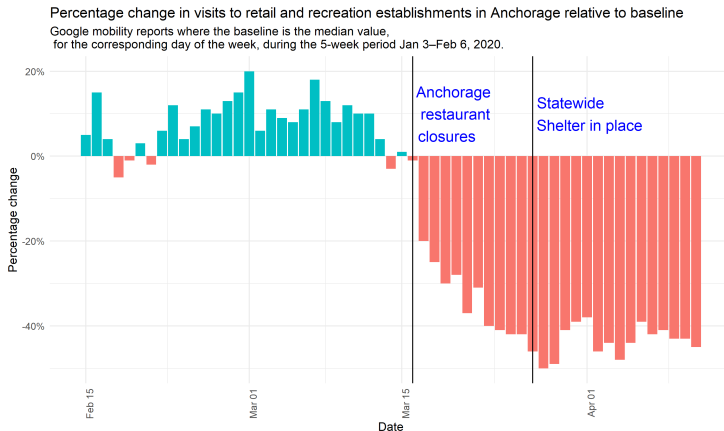
- ▶ On March 27th, I released an [analysis](#) of COVID-19's potential economic impact.
- ▶ I will discuss both these initial estimates as well as recent information we have on COVID-19's impact on individuals, businesses, local governments, and the budget.

# A changing world

- ▶ Economic data is typically issued with a lag. During these times, it is impossible to wait for such releases.
- ▶ There are, however, a few sources such as [Google mobility reports](#), [SAFEGRAPH](#), and [PlaceIQ](#) that not only provide us with information about how well people are following the shelter in place mandates but could serve as a measuring stick for how well the economy is rebounding once the virus is in check.

# A snapshot: Google mobility reports in Anchorage

Details can be found [here](#) of COVID-19's potential economic impact.



## Multiple economic shocks

- ▶ The Alaska economy has essentially been frozen for almost a month and a half due to COVID-19.
- ▶ Establishment closures have resulted in a little more than 60,000 people filing for unemployment insurance in just 5 weeks.
- ▶ There is considerable uncertainty surrounding the tourism and fishing seasons. Oil prices have been in a free fall potentially resulting in an even larger budget deficit and more layoffs.

## What do we actually know?

- ▶ Alaska's share of the Coronavirus Relief Fund is 1.25 billion dollars. No municipalities will receive direct transfers as the state has no municipalities with more 500,000 people.
- ▶ A little more than 62,000 individuals have filed for unemployment insurance in just four weeks. This represents 17% of the labor force.
- ▶ Additionally, 4,842 firms in Alaska were approved for paycheck protection plans with an average amount of 190,000 dollars. This represents 22% of all firms in Alaska.
- ▶ In this basic presentation, I show what -I think- we know and don't know about the impact of COVID-19 on people, businesses, local government, and the budget.

## A little background on previous work

- ▶ On March 27th, I released an [analysis](#) of COVID-19's potential economic impact.
- ▶ In the middle of March, we had very little sense of the potential economic consequences.
- ▶ Using the best available information at the time, I made assumptions about the losses in the most vulnerable sectors (Leisure and Hospitality, Retail, and Transportation), and calculated the ripple effects on both employment and Gross state product.
- ▶ I concluded that April employment in 2020 would be around 48,000 less than April, 2019.

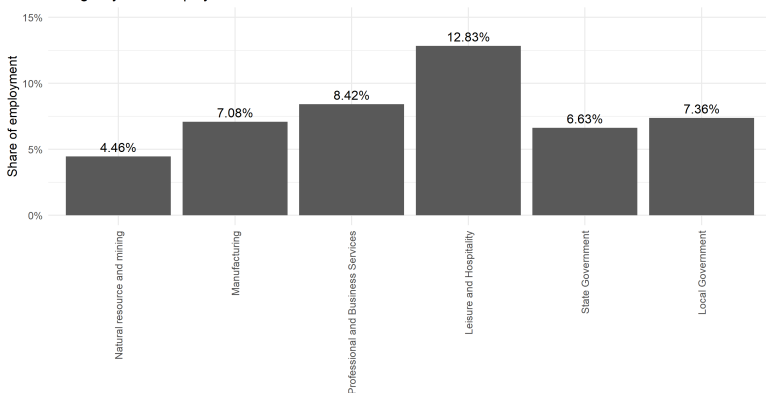


## What about GDP?

- ▶ Using similar assumptions, I find that maintaining the closures for the first two months of the second quarter results in the GDP for 2020 being almost 2 billion dollars less than GDP for 2019.
- ▶ Accounting for the multiplier effects shows that GDP in the second quarter could be 4.1 billion dollars less than the second quarter of 2019 based on the scenarios I evaluated.
- ▶ Importantly, these declines in GDP do not take into account the effect of the declines in oil prices which could further depress the state's Gross State Product.

# Almost 47% of the Alaska economy in vulnerable sectors

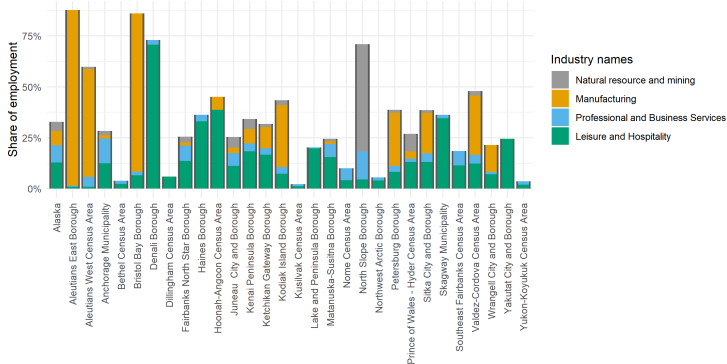
Share of overall employment in vulnerable sectors due to declines in Tourism, a smaller fishing season, lower oil prices, and potential government cuts using July 2019 employment numbers



# Almost 33% of the Alaska economy in just four sectors

Share of overall employment in vulnerable sectors due to declines in Tourism, a smaller fishing season, and lower oil prices using July 2019 employment numbers

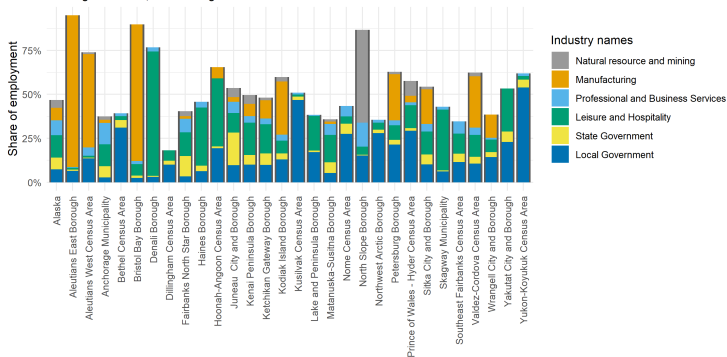
Natural resources and mining, Professional and Business Services, and Leisure and Hospitality



# Should the aid vary by place and industry?

Share of overall employment in potentially vulnerable sectors  
using July 2019 employment numbers

Natural resources and mining, Manufacturing, Professional and Business Services, and Leisure and Hospitality,  
State government, and Local government

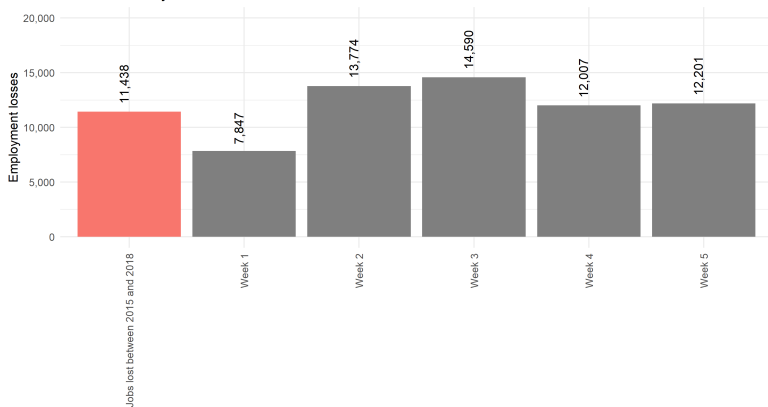


## What does all of this tell us?

- ▶ The degree of dependence on Leisure and Hospitality, fishing, and Oil and Gas varies considerably across places.
- ▶ Differences in industrial structure means that the type of jobs affected, and the timing of the declines will vary from place to place.
- ▶ The expected declines in local government revenues will likely result in layoffs at the local level.

## A little context for the initial claims

In just five weeks, the number of initial claims for unemployment is more than 5 times the number of jobs lost between 2015 and 2018



## Direct financial individual assistance

- ▶ Boosted Federal UI equal to 600 dollars a week for up to four months.
- ▶ A one time \$1,200 dollar stimulus check with a complete phase out \$99,000 dollars.
- ▶ Typical state UI which averages around 250 dollars per week.

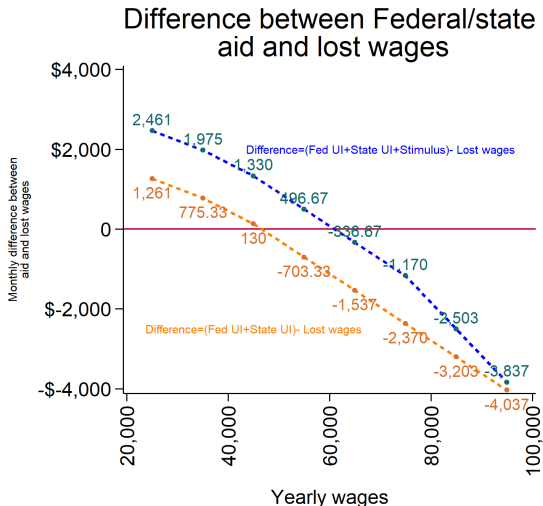
Table: Difference between monthly aid and lost wages

Yearly wages	Monthly wages	Federal UI	Stimulus checks	State UI	Difference between Aid and lost wages
25,000	2,083	2,400	1200	944	\$2,460
35,000	2,916	2,400	1,200	1292	\$1,975
45,000	3,750	2,400	1,200	1480	\$1,330
55,000	4,583	2,400	1,200	1480	\$496
65,000	5,416	2,400	1,200	1480	(\$336)
75,000	6,250	2,400	1,200	1480	(\$1,170)
85,000	7,083	2,400	700	1480	(\$2,503)
95,000	7,916	2,400	200	1480	(\$3,836)

**Note:** all calculations are for a single individual with no dependents.

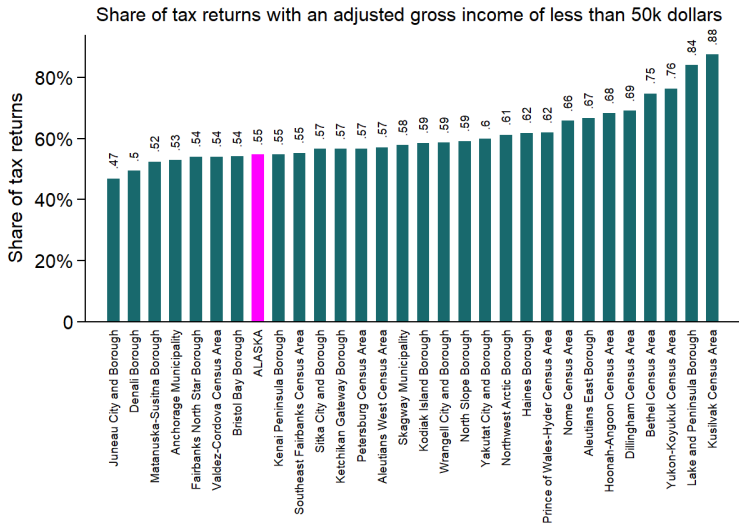


# Are the transfers enough?



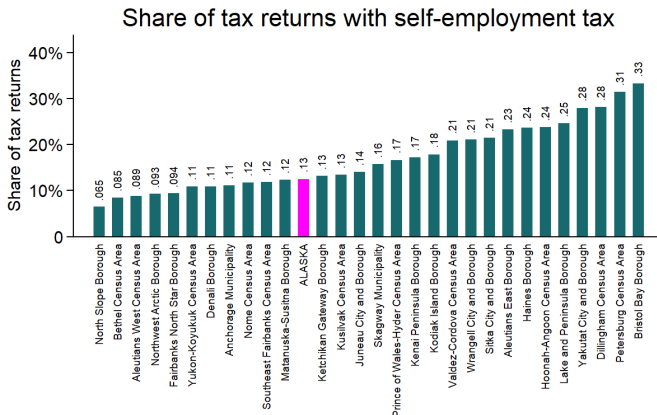
All calculations are for single individual with no dependents

# Adjusted gross income by borough



## What about self employment?

Of the 349,000 filed tax returns in 2017, almost 44,000 had self employment tax.

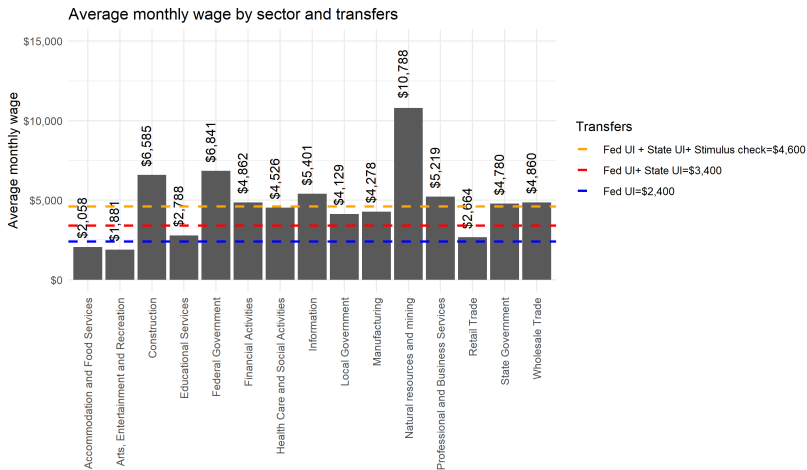


Self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves.

## What does this all mean?

- ▶ The unemployment insurance numbers, while large, represent a floor as they do not yet reflect filings by self employed individuals.
- ▶ For laid-off wage and salary workers, the federal UI, state UI, and the stimulus checks will more than replace lost wages for individuals earning less than \$60,000. In the second month, the transfers become smaller as the stimulus check is a one time distribution.
- ▶ 55% of the tax returns filed in 2017 had an adjusted gross income less than \$50,000 dollars
- ▶ Questions remain about how quickly the aid is reaching people and whether it is comprehensive.

# Transfers and sectoral wages

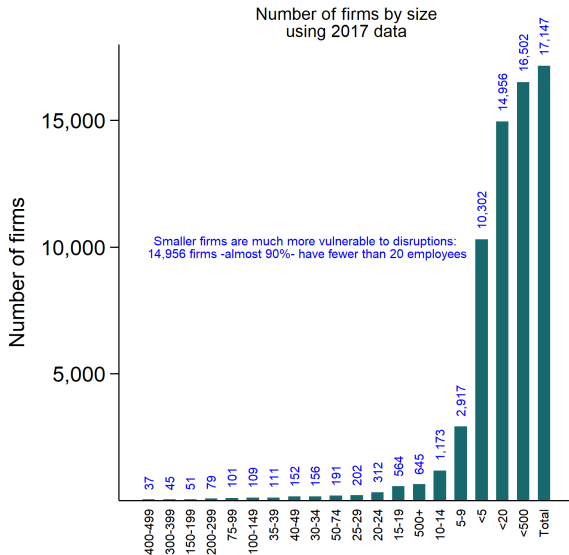


## Some things to keep in mind

- ▶ We don't really yet know what the initial claims mean in terms of the unemployment rate, and the employer-employee separation. Therefore, it is difficult to speculate about the speed of the recovery.
- ▶ This [short summary](#) lays out many of the difficulties associated with changes in eligibility and how they translate in measurement difficulties.
- ▶ It is unclear if we will see a second wave of initial unemployment claims given that we expect a much smaller tourism season.

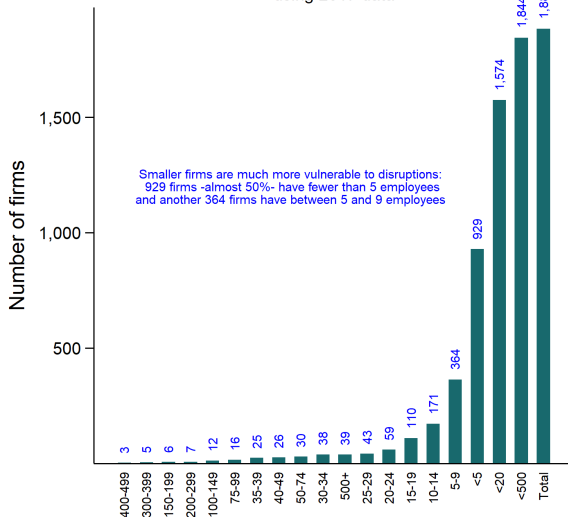
## Some basic facts

- ▶ Almost 90% of all firms in Alaska have fewer than 20 employees.
- ▶ Accommodation and food services, a subset of Leisure and hospitality, had 1883 firms with 929 -almost 50%- having fewer than 5 employees.
- ▶ GDP in the first quarter of 2019 was 54.9 billion dollars with 1.6 billion coming Accommodation and Food services, and another 2.3 billion from Retail Trade. Transportation and Warehousing, another vulnerable sector, was responsible for 7.4 billion dollars.
- ▶ In 2019, total wages were 437 million dollars higher in July than they were in January. Of that amount, 130 million is due to the Leisure and Hospitality sector. This large increase is due to the seasonal nature of tourism and the fishing industries, both of which are in jeopardy.



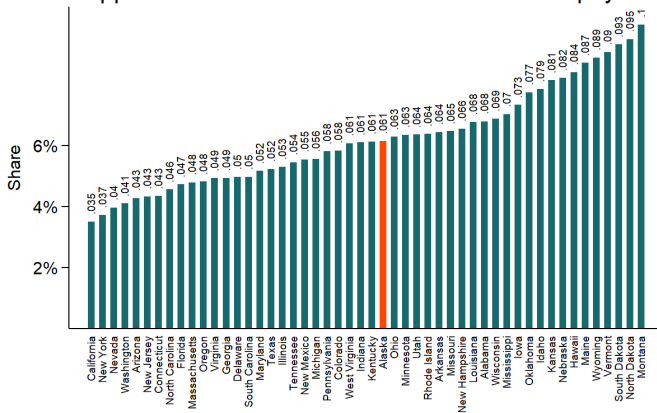


Number of firms by size in Accomodation and Food services  
using 2017 data



# Payroll

Approved loan amounts as a share of annual payroll



Data source: Number of firms comes from County business patterns 2017  
Approved loans: <https://www.sba.gov/sites/default/files/2020-04/PPP%20Deck%20copy.pdf>

## Thoughts and questions

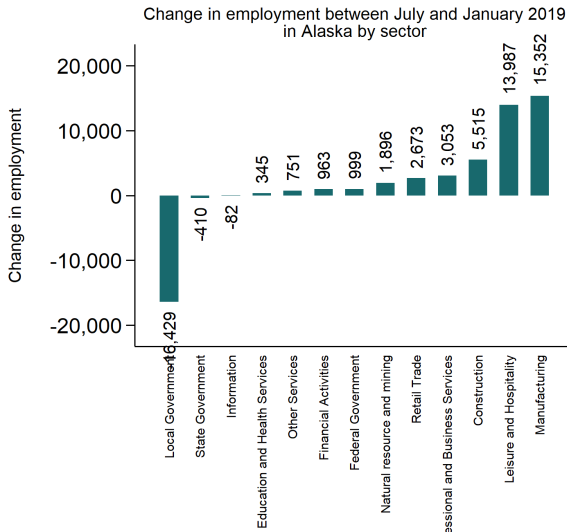
- ▶ It is critical to mitigate business failure and ensure that employer-employee relationships are not severed.
- ▶ It is also important to support business creation because despite best efforts, many small businesses will not make it.
- ▶ I still have questions about how summer businesses are helped by the current federal package(s). What should the state do?
- ▶ What are the best ways to allocate dollars that help not just in the short run but that position the state in an advantageous position going forward?

- ▶ The statewide shocks are large but will vary by place. The dependence on Tourism, Oil and Gas, and Fishing will determine the extent of the job losses and budget short falls.
- ▶ In 2019, sales tax revenues totaled over 260 million dollars and bed taxes added another 45 million.

## How seasonal is the Alaska economy?

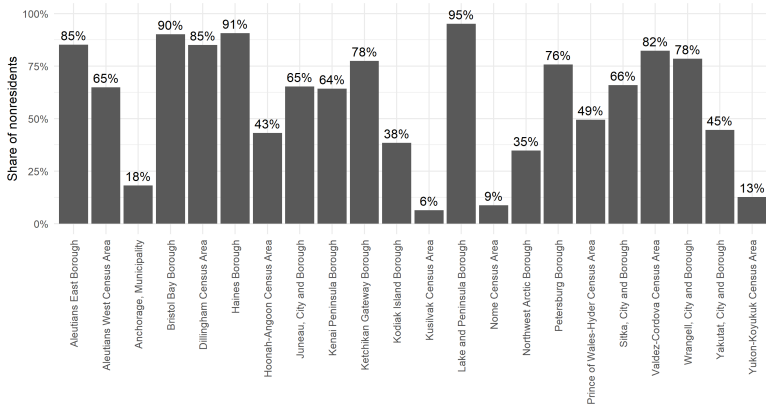
- ▶ **Employment data for 2019** shows that there were 35,369 more jobs in July than in January.
- ▶ A little more than 15,000 of these jobs were added in the manufacturing sector due to the fishing season.
- ▶ Another 14,000 were created in the Leisure and Hospitality sector.
- ▶ There is also typically a sizeable increase in Construction, Professional and Business Services, and retail. Between these three sectors, there are typically another 10,000 jobs added during the summer.

## Seasonality by the numbers



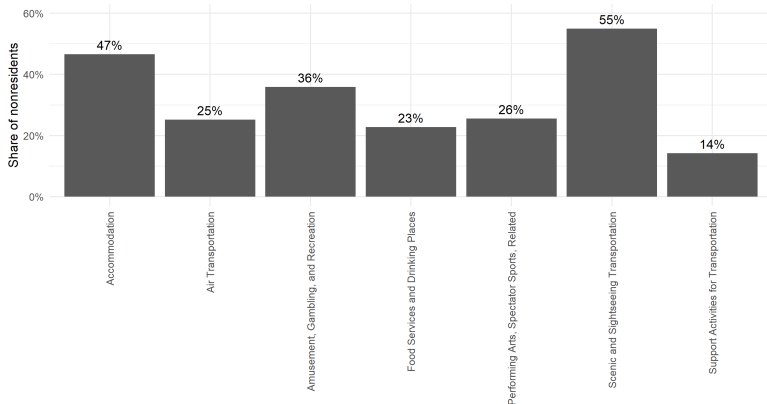
# Nonresidents in the seafood sector

Share of nonresident employees in seafood processing  
using The nonresidents working in Alaska report by the Alaska Department of Labor



# Nonresidents in the visitor sector

Share of nonresidents in visitor related industries  
using The nonresidents working in Alaska report by the Alaska Department of Labor

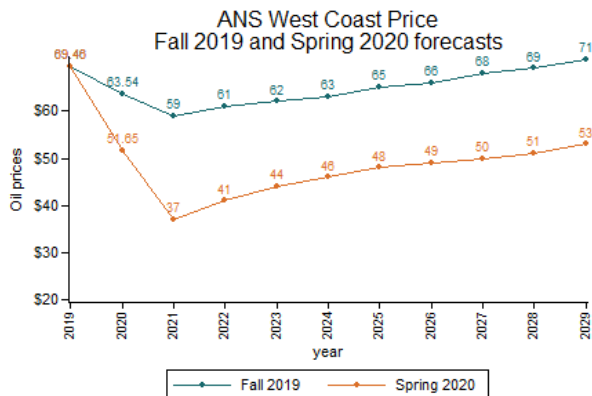




## Some final considerations

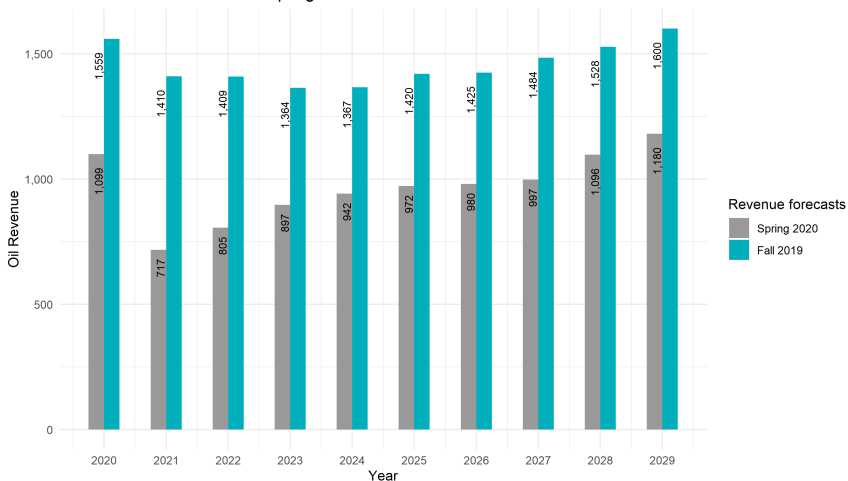
- ▶ Significant economic and fiscal pressure. The economic pause means that the federal and the state have to be nimble enough to help people, businesses, and communities.
- ▶ While the structural fiscal challenges are here to stay, it may be time to allocate resources to this economic stabilization/recovery.
- ▶ The best thing for the state's economy is containment of the virus which will help restore consumer confidence.
- ▶ Economies are not faucets. This stabilization/recovery will take a while.

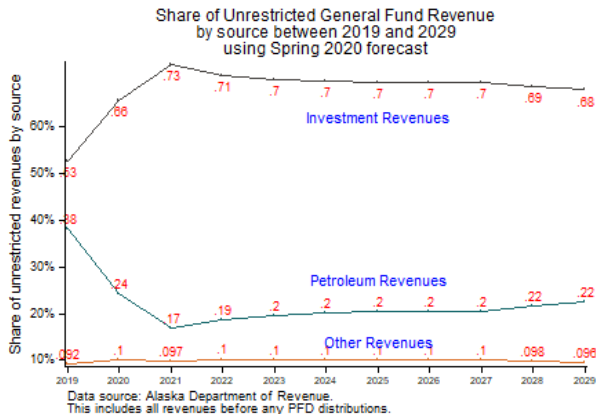
- ▶ According to the [Revenue Source Book Spring 2020 Forecast](#), Alaska's unrestricted revenues will be between 4.5 and 5.2 billion dollars before distributing any dividends over the next decade.
- ▶ Importantly, the share of revenues -before any dividend distribution- coming from the permanent fund over the next decade will be around 70% of the total.
- ▶ Therefore the state will be considerably more reliant on the large financial asset-Permanent Fund- than the oil revenues.

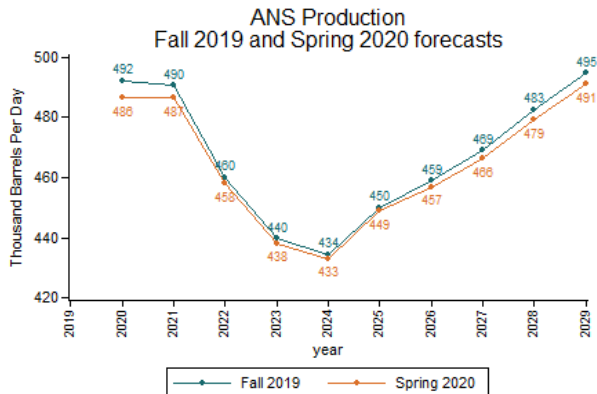


Data source: Alaska Department of Revenue

Oil Revenue: Fall 2019 and Spring 2020 Forecasts

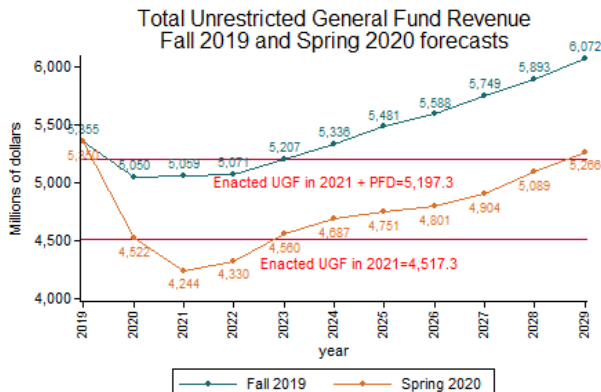






Data source: Alaska Department of Revenue

# On the state of the budget



PFD refers to the amount approved by the legislature which was \$1,000

***Thank You***

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