

# ALASKA'S ECONOMY

Understand it. Support it. Grow it.



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*Scott Goldsmith, Professor of Economics, Institute of Social and Economic Research at the University of Alaska Anchorage, shares his views on the Alaska economy.*

- Until the end of last year Alaska had largely been insulated from the direct effects of the national recession.
- Since the beginning of the year through April the Alaska economy has contracted by several thousand jobs and is currently about as large as last year at this time (after adjusting for changes due to seasonal variation).
- The contraction is being led by declines in oil and gas, construction, and to a lesser extent the hospitality sector. We expect these sectors to continue to weaken through 2009 with job losses spilling over into the retail, service, and business support sectors.
- After several years of robust expansion, the oil and gas industry has been hit not only by falling prices, higher costs, and problems with the availability of credit, but also by a new tax regime and increased uncertainty over government policies regarding development opportunities. Although a number of new fields are moving towards production this year, including Liberty, Point Thomson, and Oooguruk, several companies have announced reductions in their Alaska spending plans for this year in recent weeks. Most of this impact is falling on the suppliers of the oil companies, but layoffs by the majors are likely given their rapid expansion in recent years. On the positive side, the price of Alaska crude oil topped \$60 per barrel for the first time this year during the week of May 18.
- Weakness in private construction spending, lead by smaller capital budgets in the oil and gas and mining industries (Like oil and gas, mining is plagued by lower prices for zinc and lead—though gold and silver prices remain high—higher costs, and credit availability), is dragging down employment in that sector.
- Advance bookings for cruises and hotel space for the 2009 summer tourist season were down as much as 30 percent at the start of the year, but the outlook has since improved somewhat since visitors have chosen to wait until the last moment this year to book their vacations. All indications are that tourist visitors will be down significantly and spending less in spite of price cuts by the major cruise lines.
- Concern about the fallout from the national recession has impacted business and consumer confidence and resulted in reductions in spending driven by caution. A number of retailers reported a drop in year-over-year sales of 40 percent in February. Sales volumes have since partially recovered, partly because the economic news from Washington has been more upbeat since then.

- The continued uncertainty about the state of the national economy, reflected in the conflicting information coming out of Washington, is making it difficult not only for businesses and households to plan for the future, but also to conduct business successfully on a day-to-day basis. When sales fluctuate as they have in recent months, simply keeping the appropriate level of inventory is a challenge.
- With some of the lowest foreclosure rates in the nation, Alaska has largely avoided the housing market problems that precipitated the national recession. Record low mortgage interest rates are proving to be a boon to those with good credit. The national problems with credit availability are, however, negatively impacting some consumers and businesses looking outside the state for credit.
- The large Permanent Fund dividend payment that pumped \$2 billion of discretionary income into the economy last year will not repeat in 2009. The smaller dividend this year together with smaller oil and gas, construction, and hospitality payrolls will weaken consumer spending in the retail and service sectors, particularly for consumer durables (car sales were particularly strong last year).
- The temporary impact of the federal stimulus package will buoy up public construction spending and government operations spending this year, but although its objective is to jumpstart a permanent economic recovery, it is unlikely to have a lasting effect in Alaska.
- Barring a dramatic turnaround in oil prices, all current trends suggest the decline in employment will continue into 2010. These trends are weakness in the oil and gas, mining, and tourism sectors, tight government spending after the stimulus money is spent, a smaller Permanent Fund dividend, and a cautious attitude toward spending by businesses and consumers. This caution is likely to grow more important as a drag the longer the Alaska economy contracts and will be particularly important if the contraction in Alaska continues after the national economy begins to recover.

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