Alaska Economic Outlook 2015

Presentation with

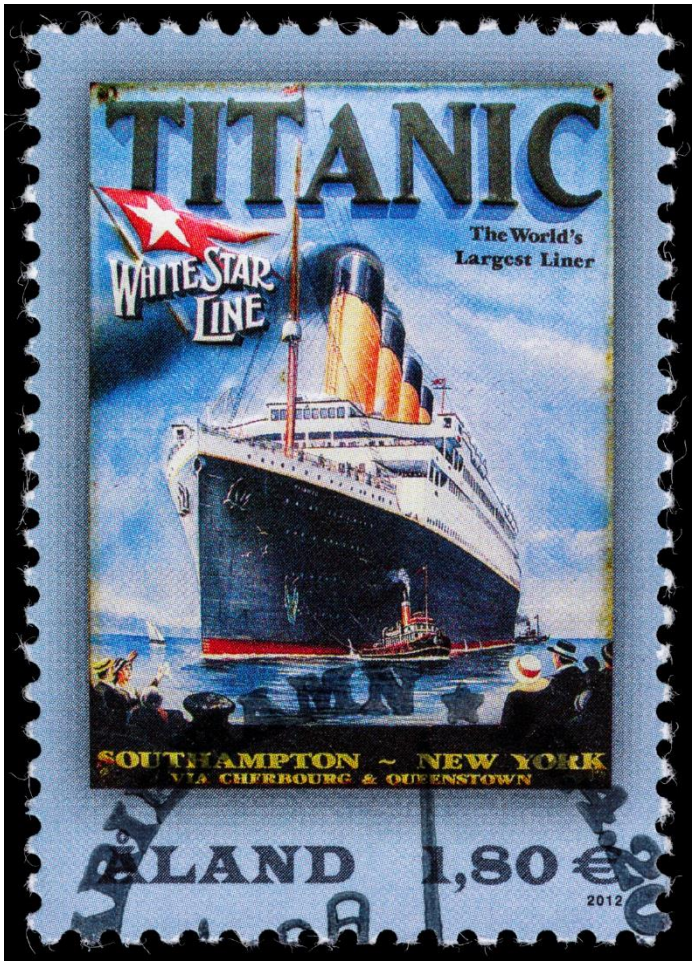
World Trade Center Alaska

Marcus Hartley

January 27, 2015

Northern Economics

Now is Not the Time to Panic

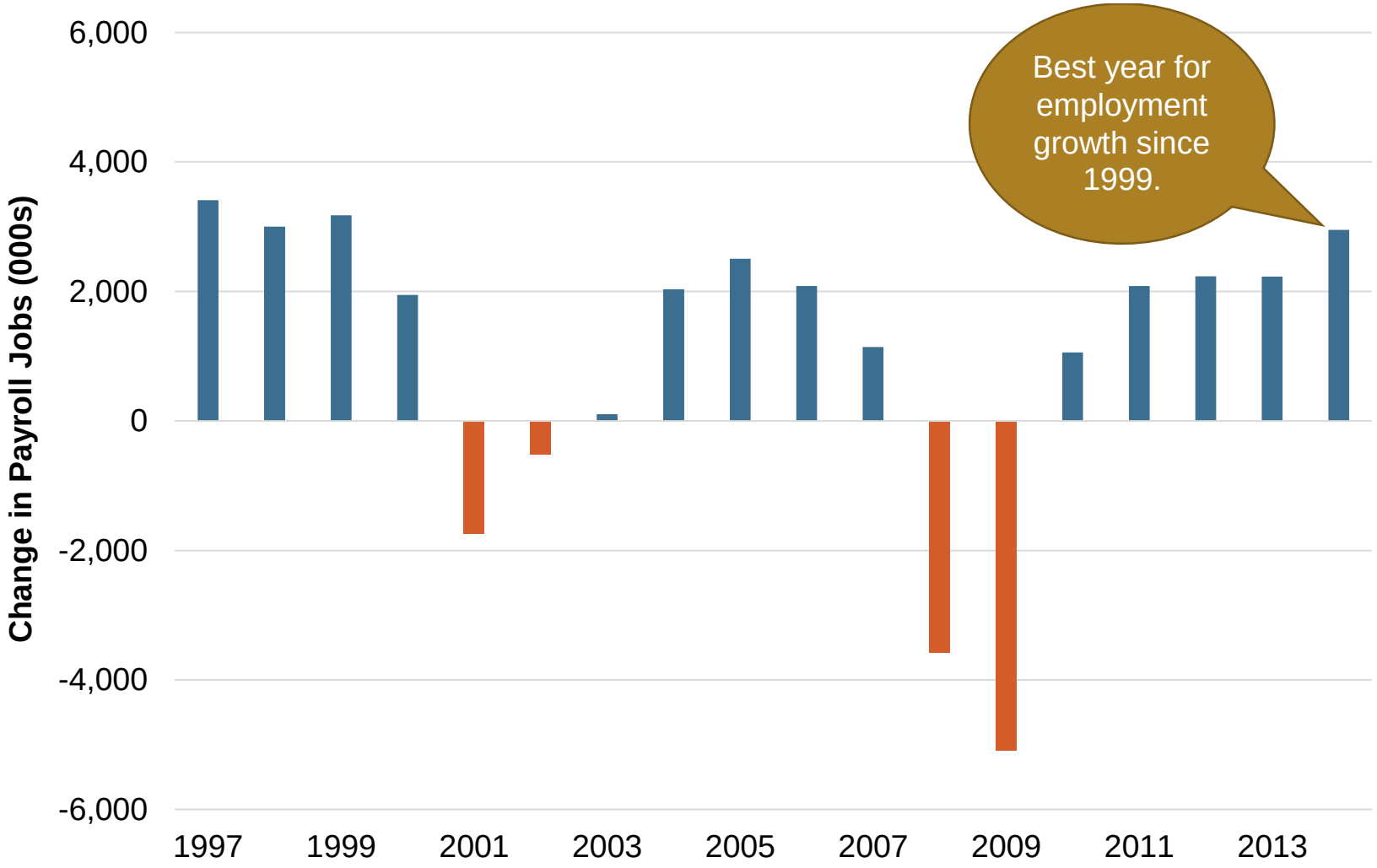


- Recession? Yes!
- Time for Panic? No!
  - The icebergs are known.
  - We have reserves.
  - We have to do more than rearrange the deck chairs.
- 2015 will be a challenge, 2016 more so, but this is not 1988 (yet).

Trading Places

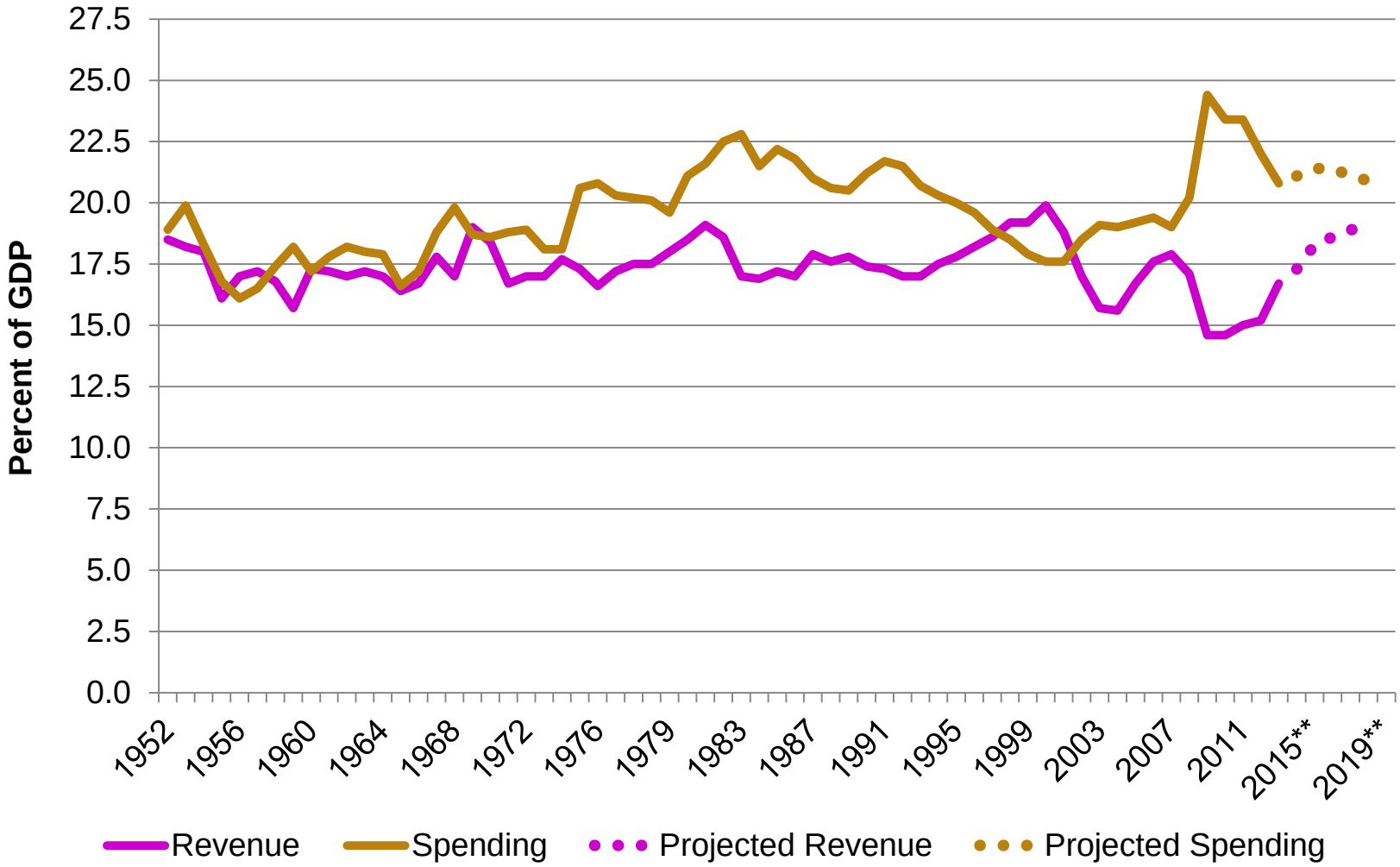
- The national and state economies have crossed courses.
- The national economy is in its best shape in over a decade.
- Alaska's economy is transitioning to recession with the oil price collapse.
- Glide Path will be determined by State Gov't and Oil Industry spending, along with attitudes and input of the Public

US Economy is Creating Jobs



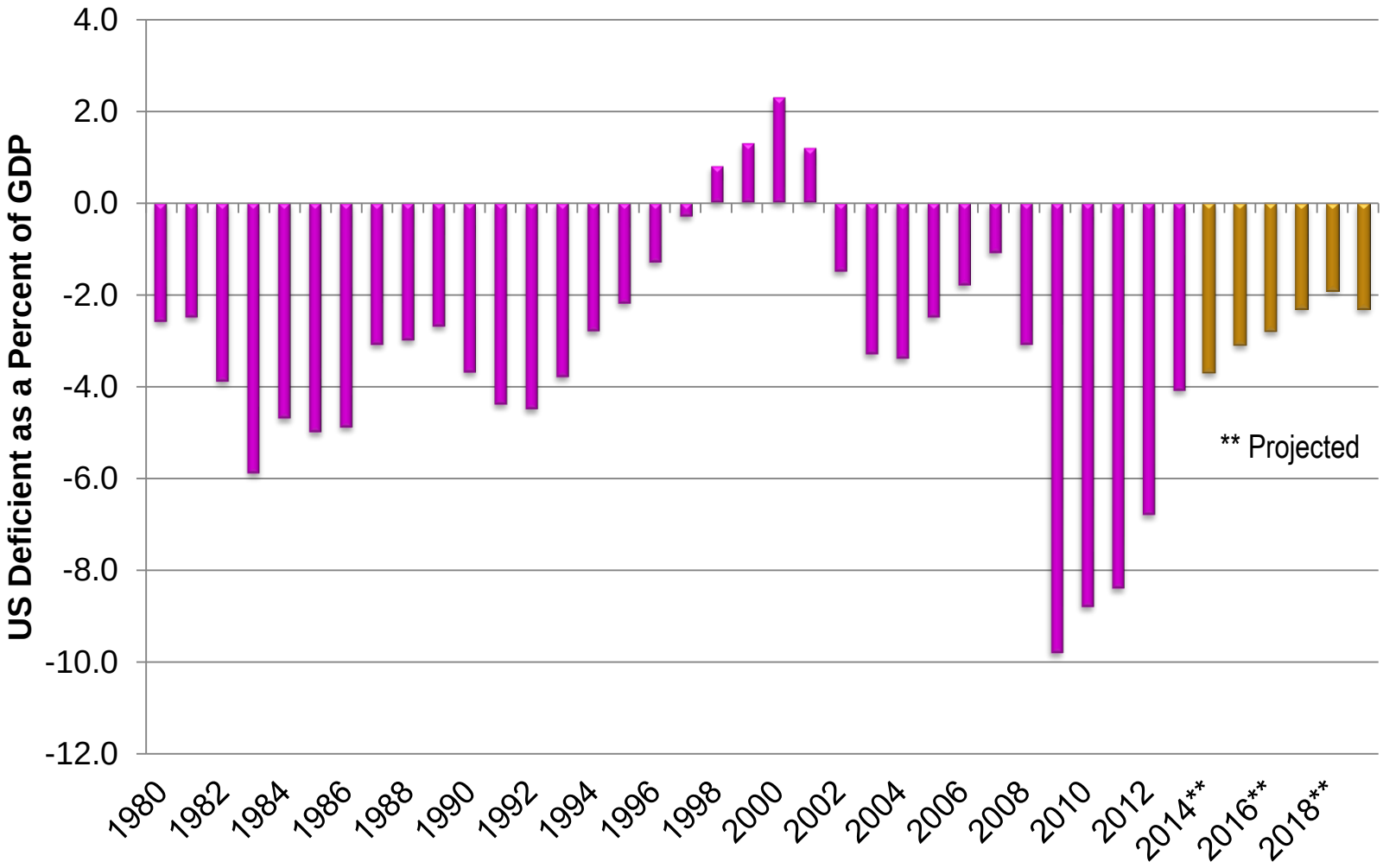
Courtesy US BEA 2015.

Gov't Spending & Income as a Percent of the US Economy



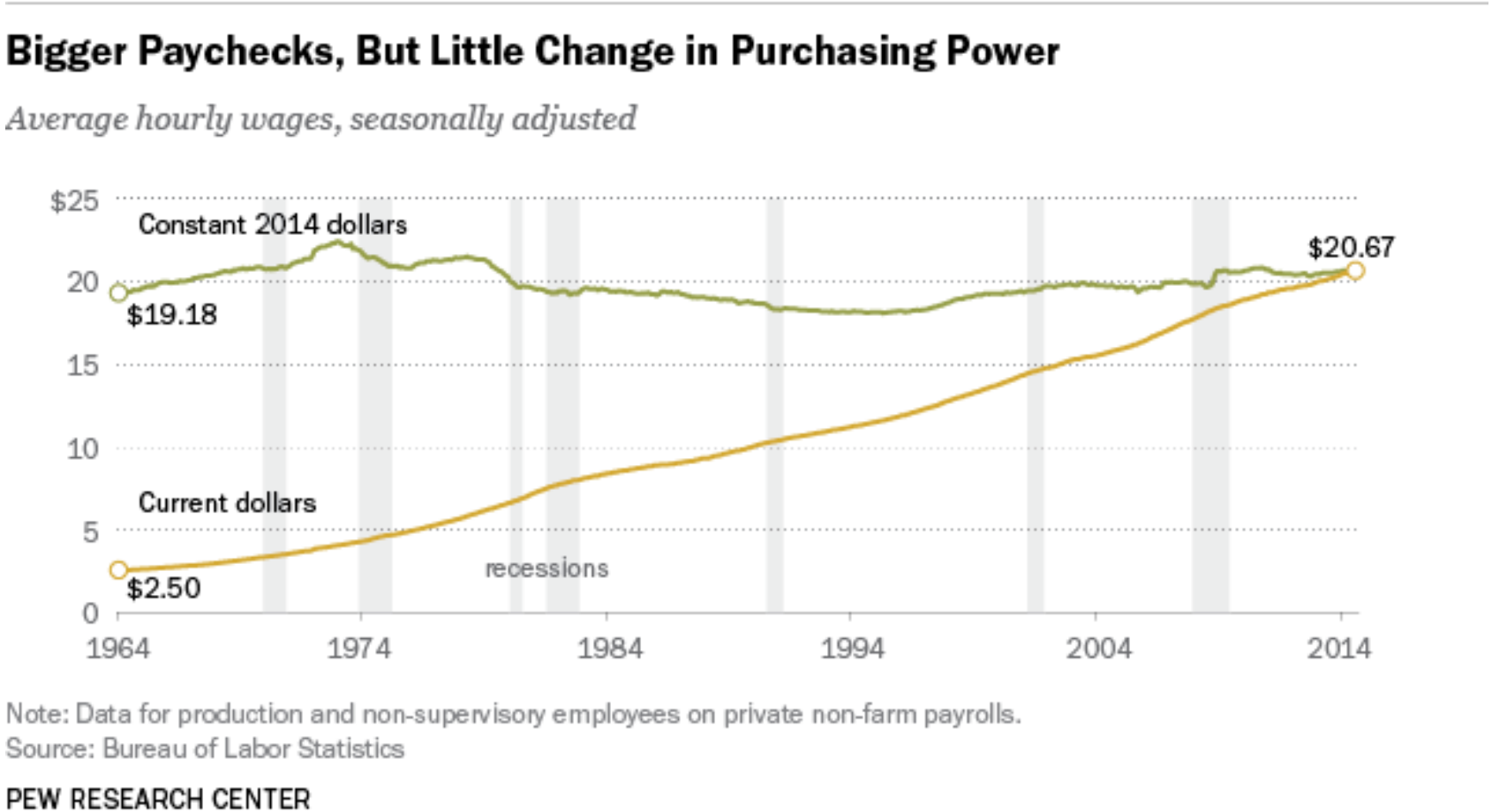
Source: OMB, 2014

Our Annual National Deficits are Shrinking



Source: OMB, 2014

On the Down Side – US Wages are Stagnant

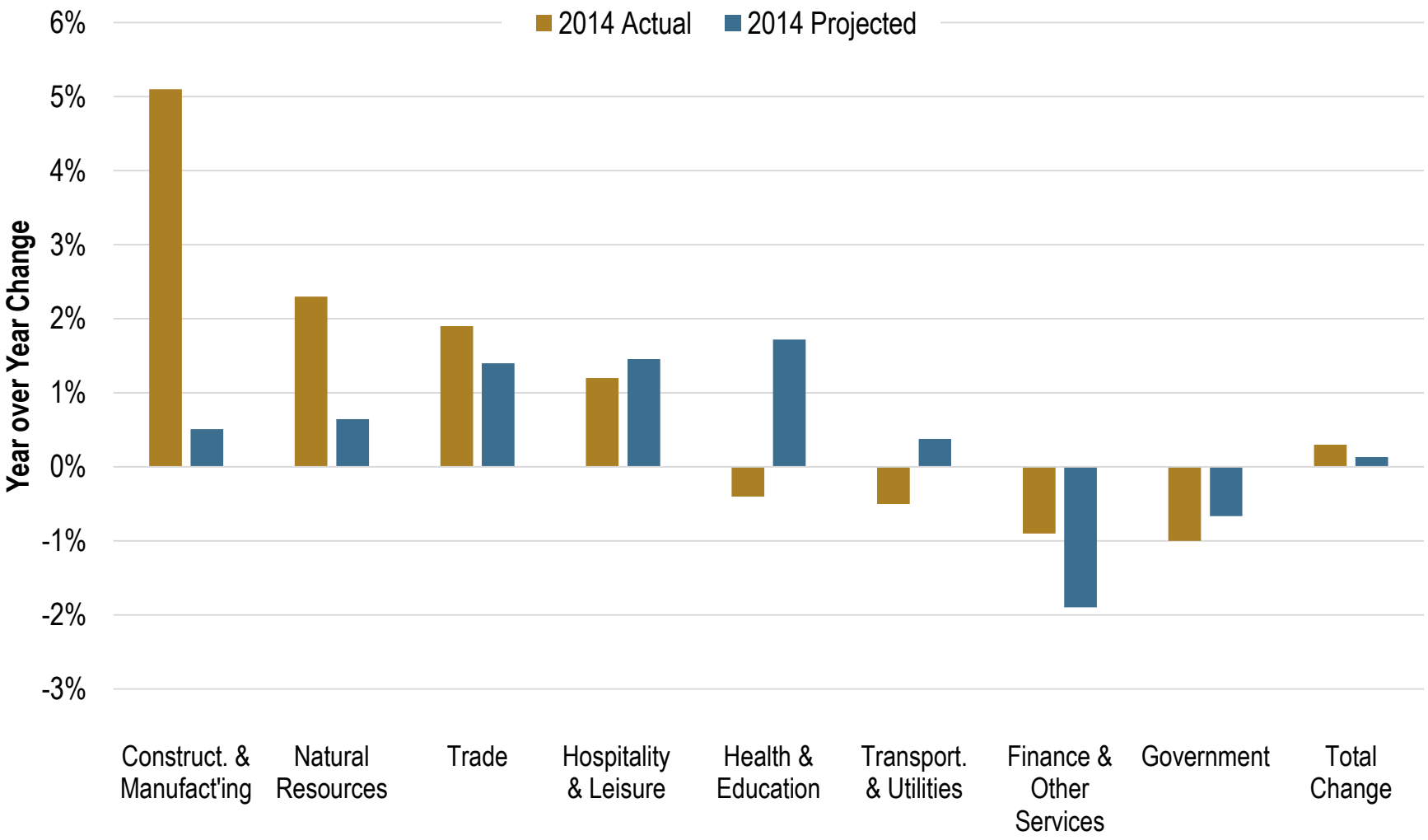


Courtesy Pew Research Center 2015.

Alaska in 2014

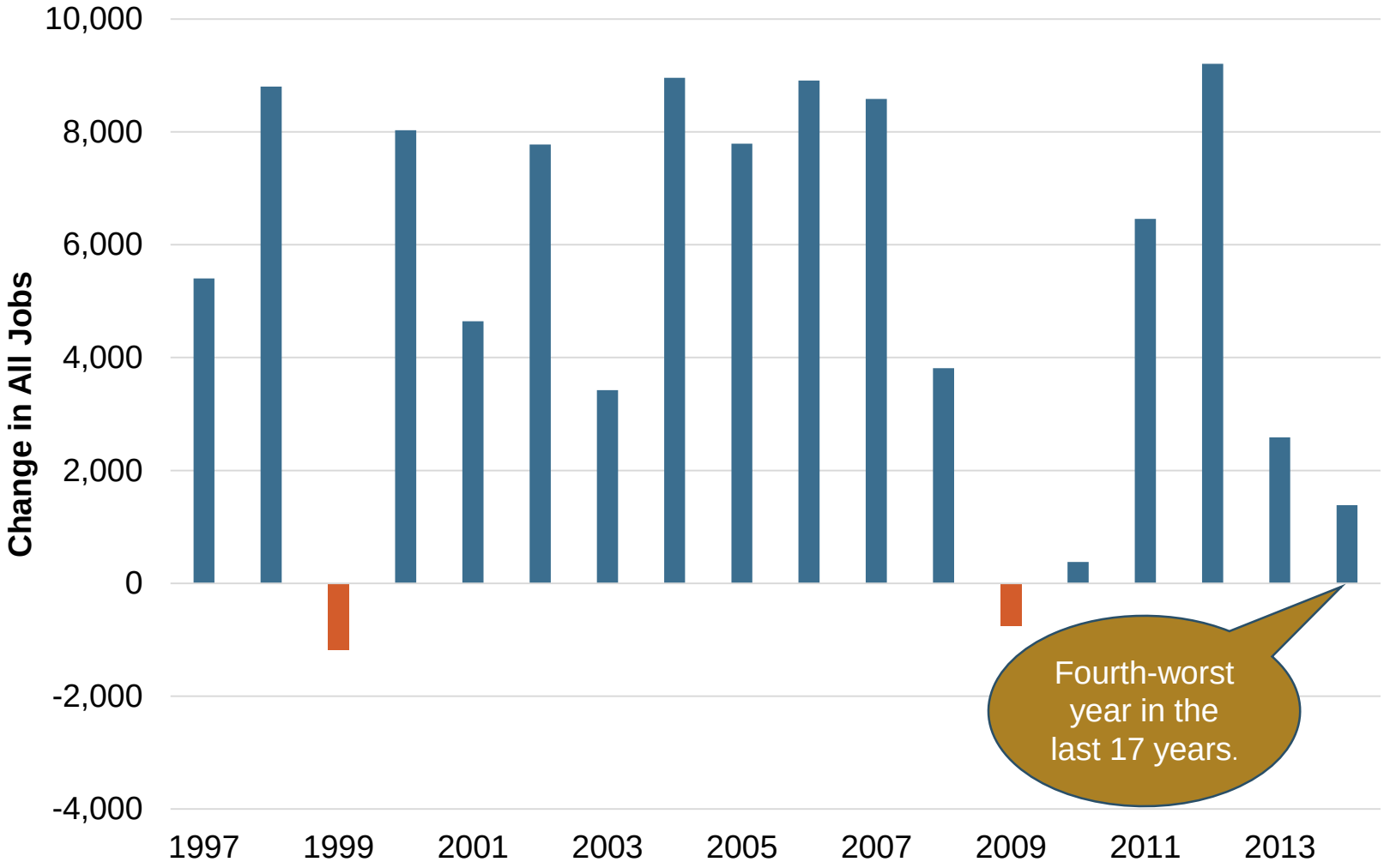
- Employment grew 0.3%. *We predicted 0.1%.*
- Four sectors lost jobs while four gained jobs.
- GSP fell by 4.6 percent to $56.6 billion.

How'd We Do for 2014?



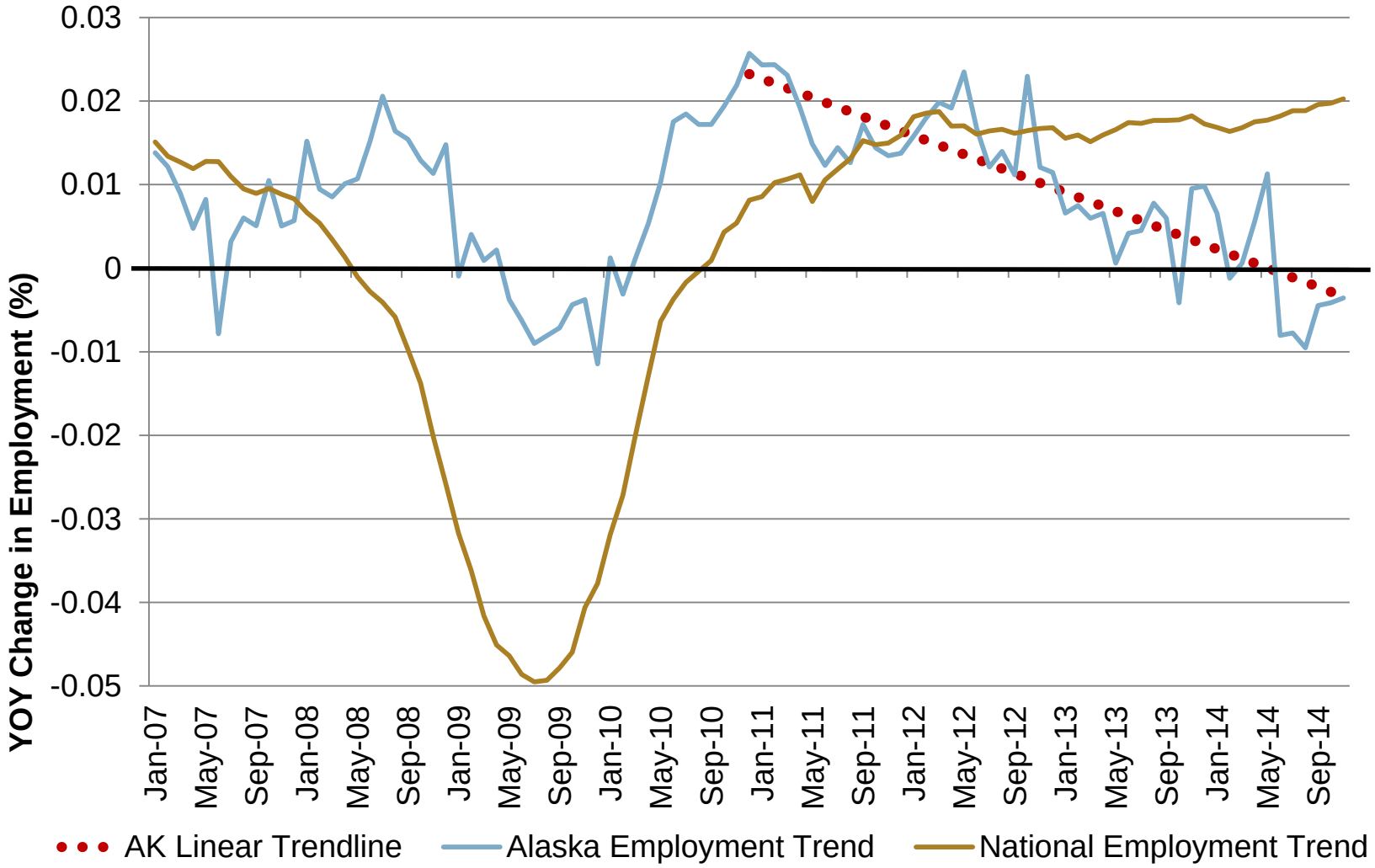
Source: ADOLWD 2015 and NEI 2014.

Alaska's Employment Growth is Already Slowing

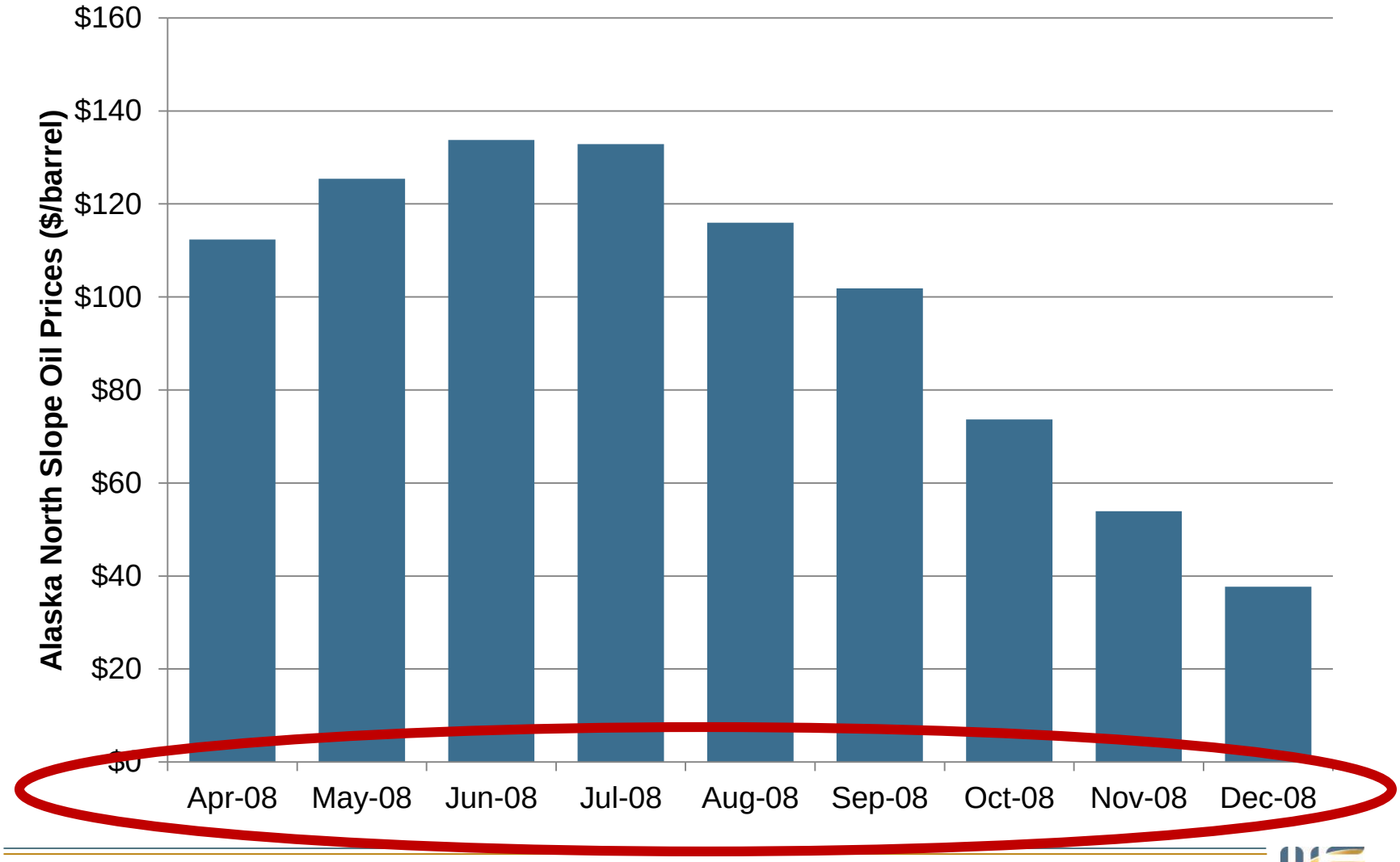


Source: BEA 2015

Trends in Year-over-year Employment



The Real Story — Oil Prices Tanked



Source: Alaska Department of Revenue–Tax Division

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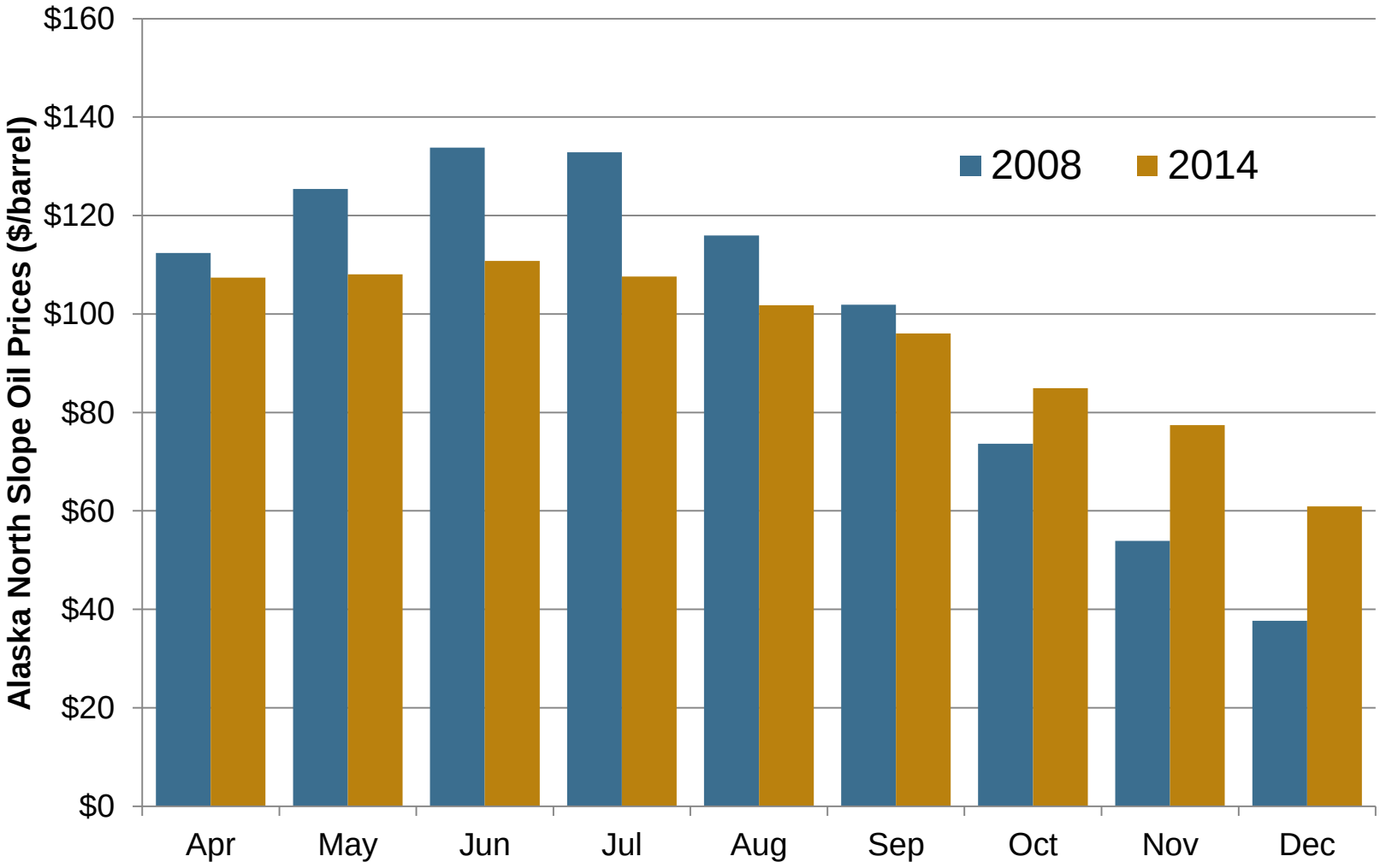

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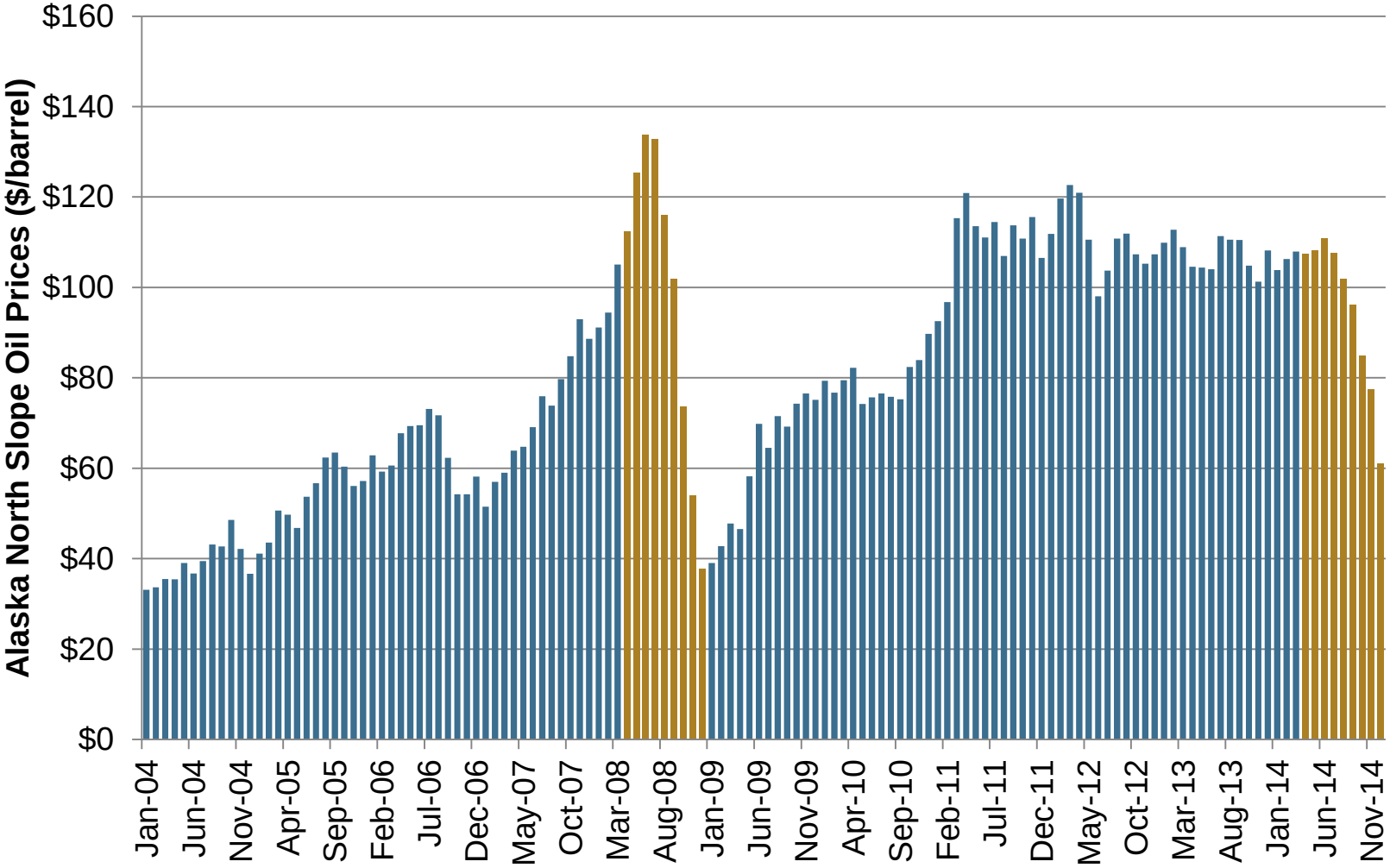

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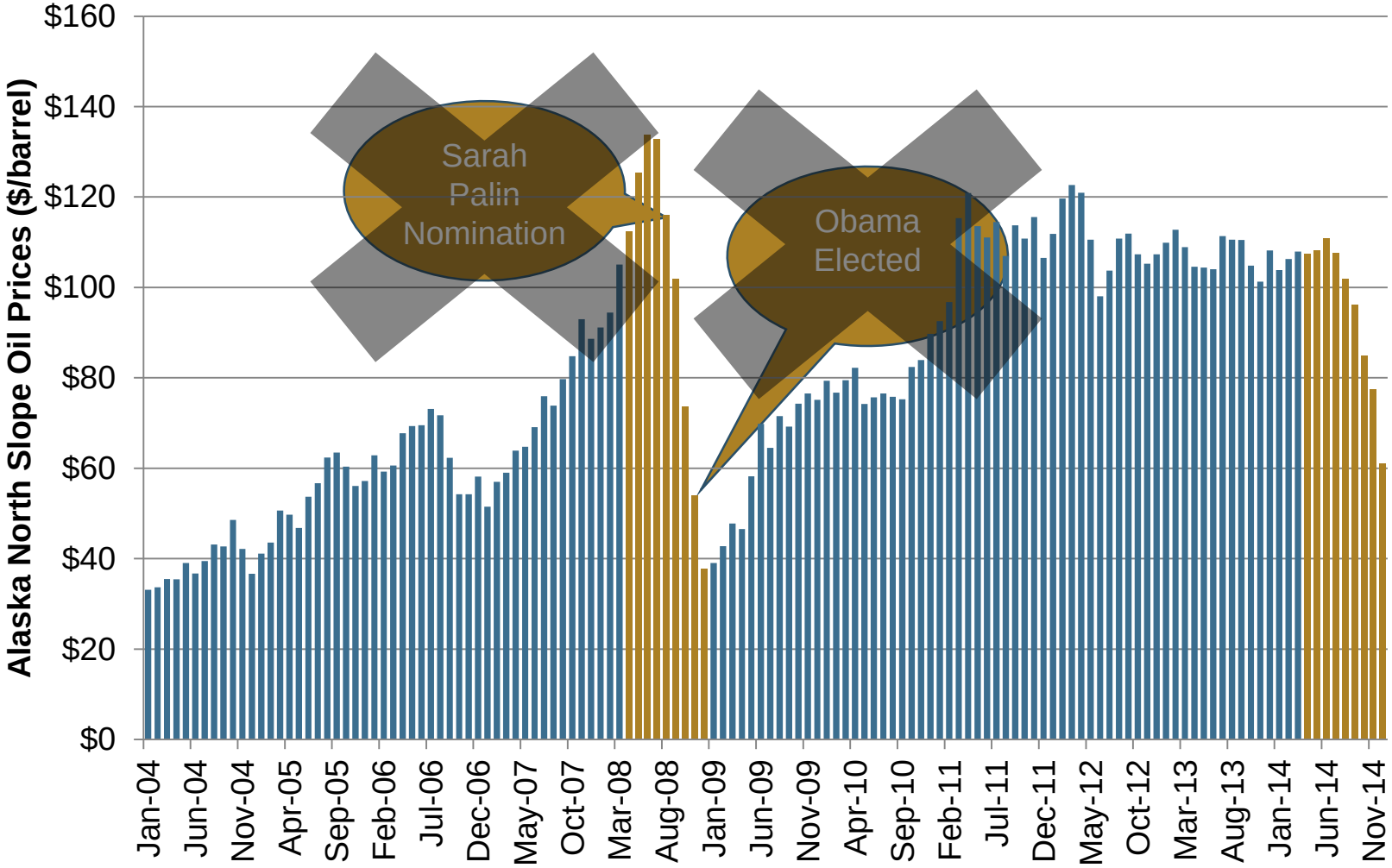

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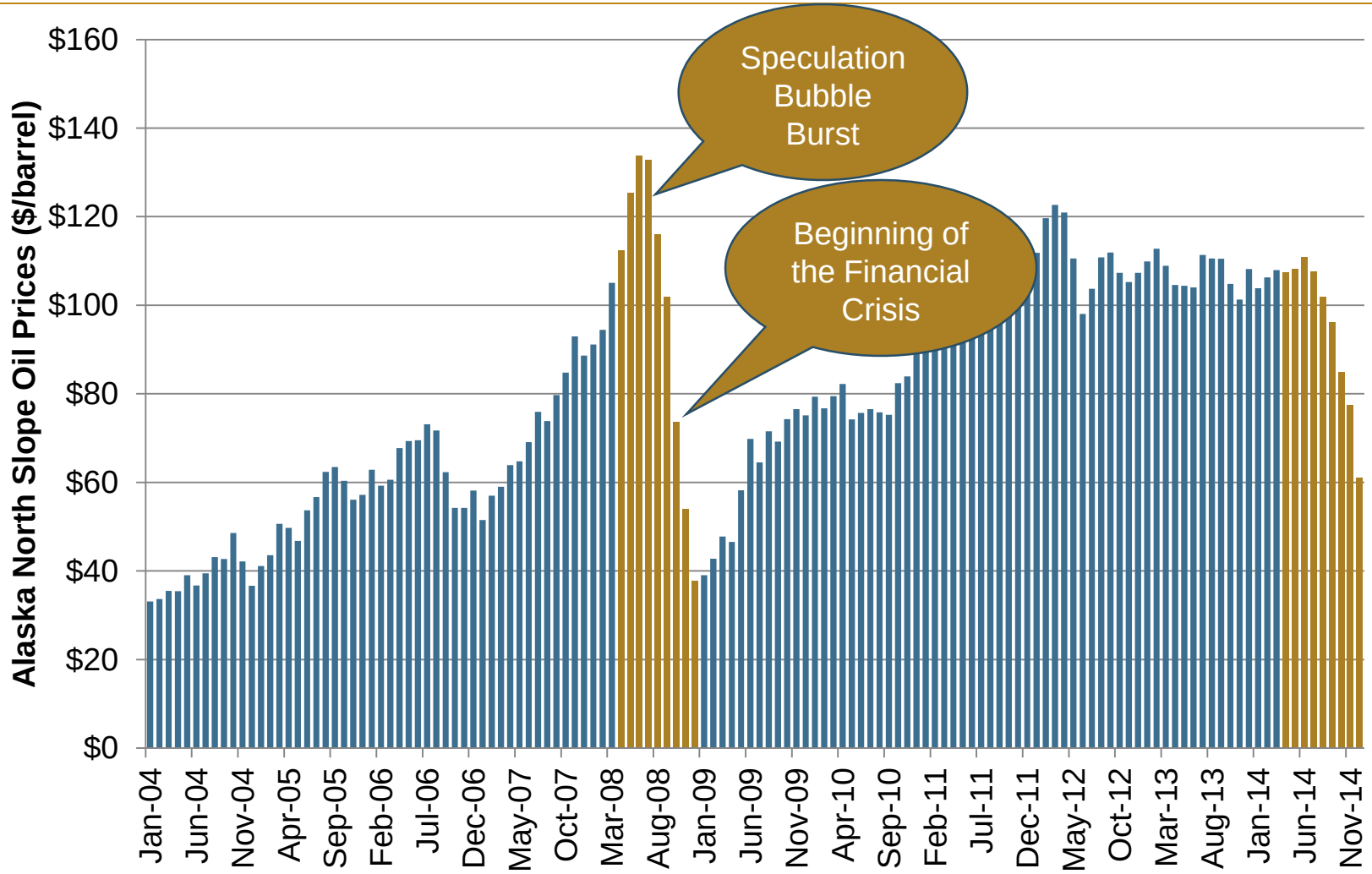

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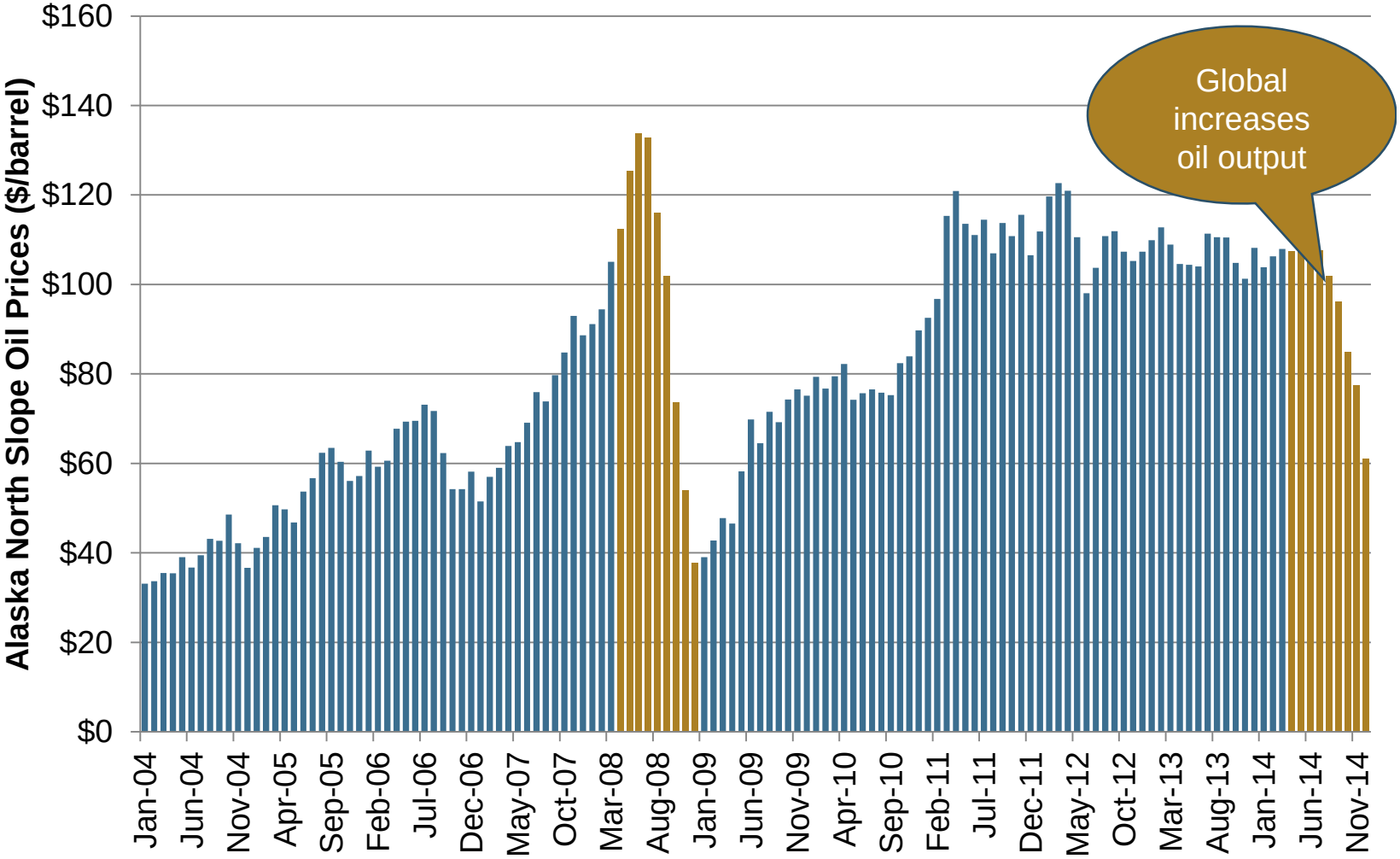
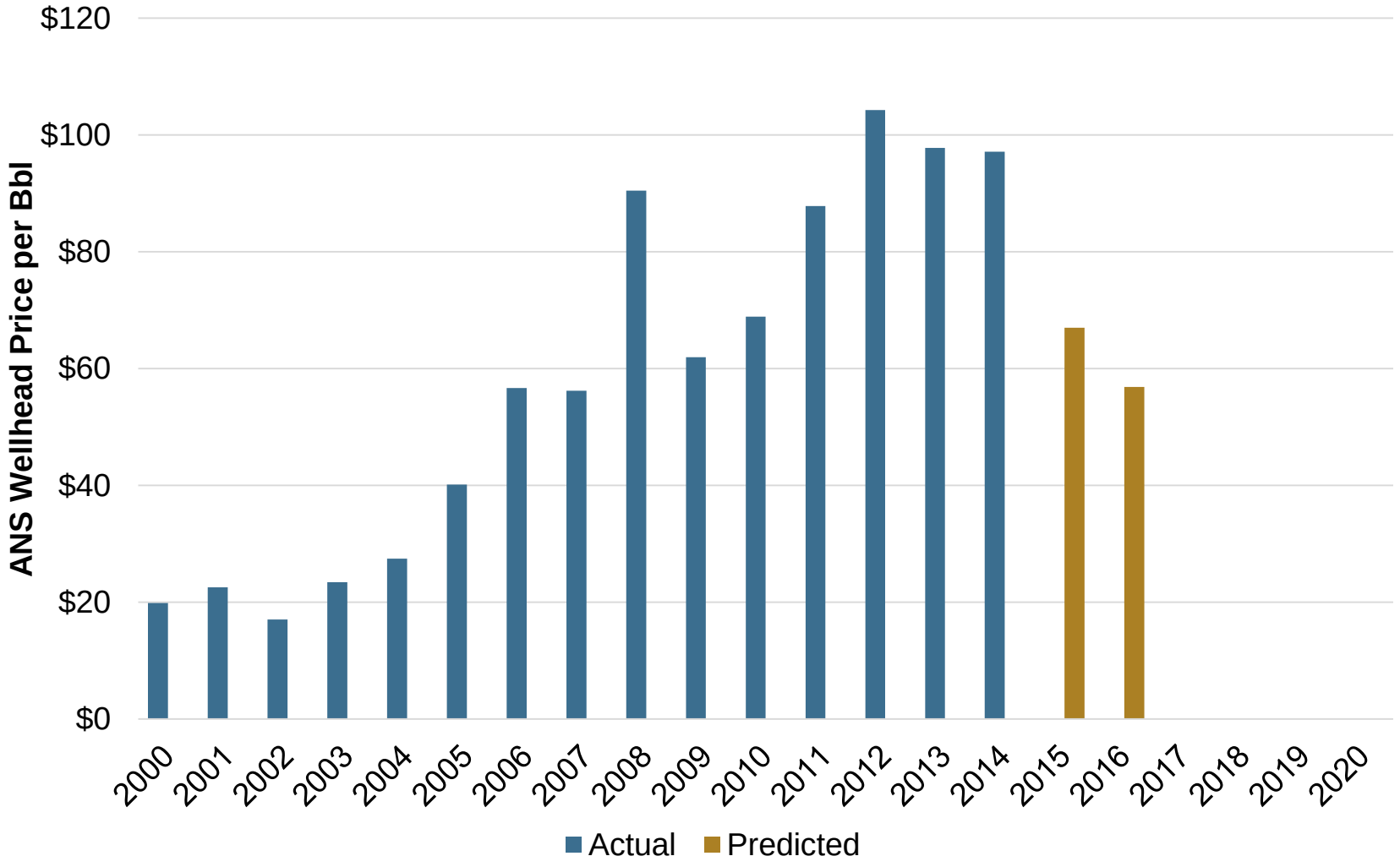


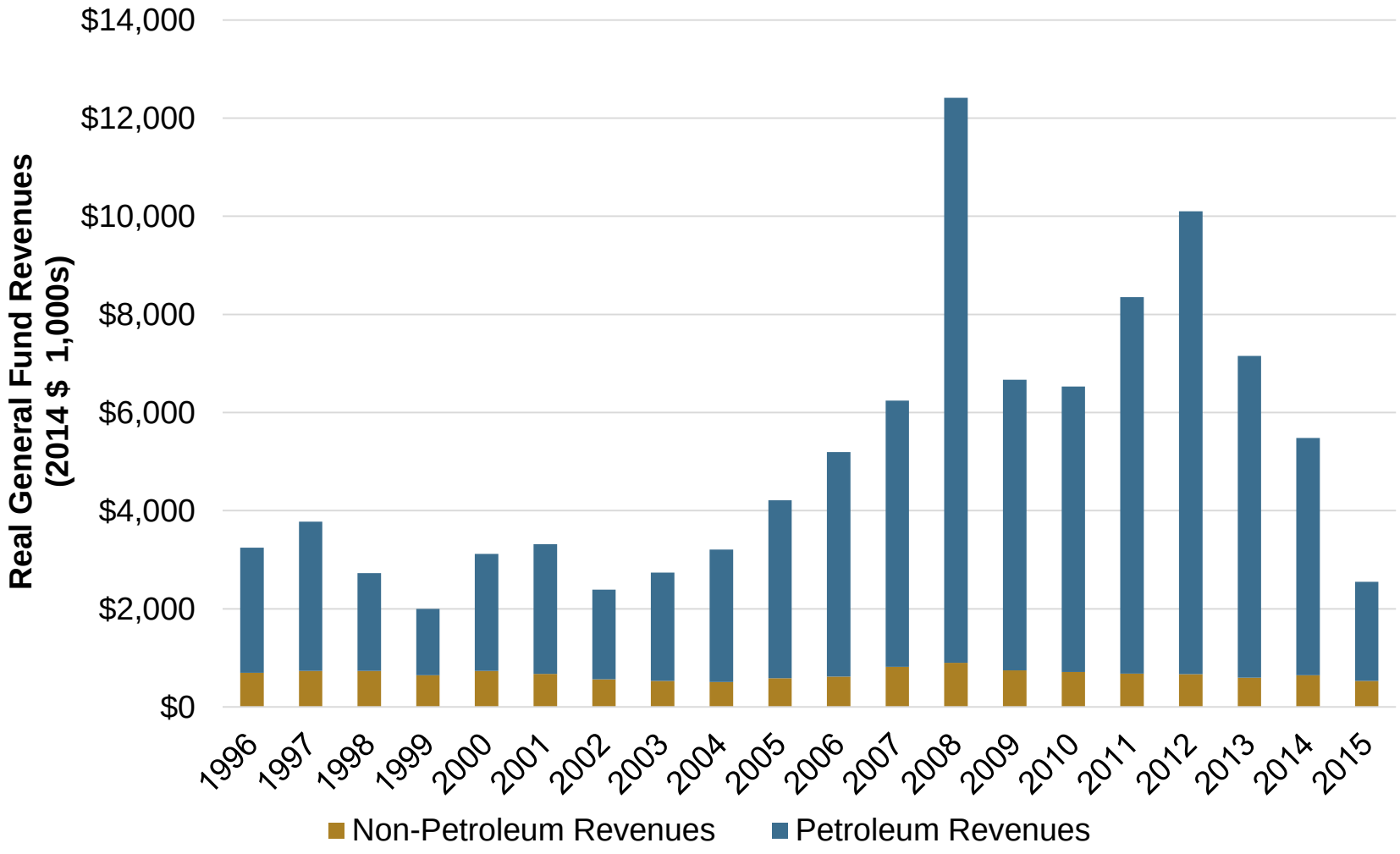
Source: Alaska Department of Revenue–Tax Division

Oil prices are falling …



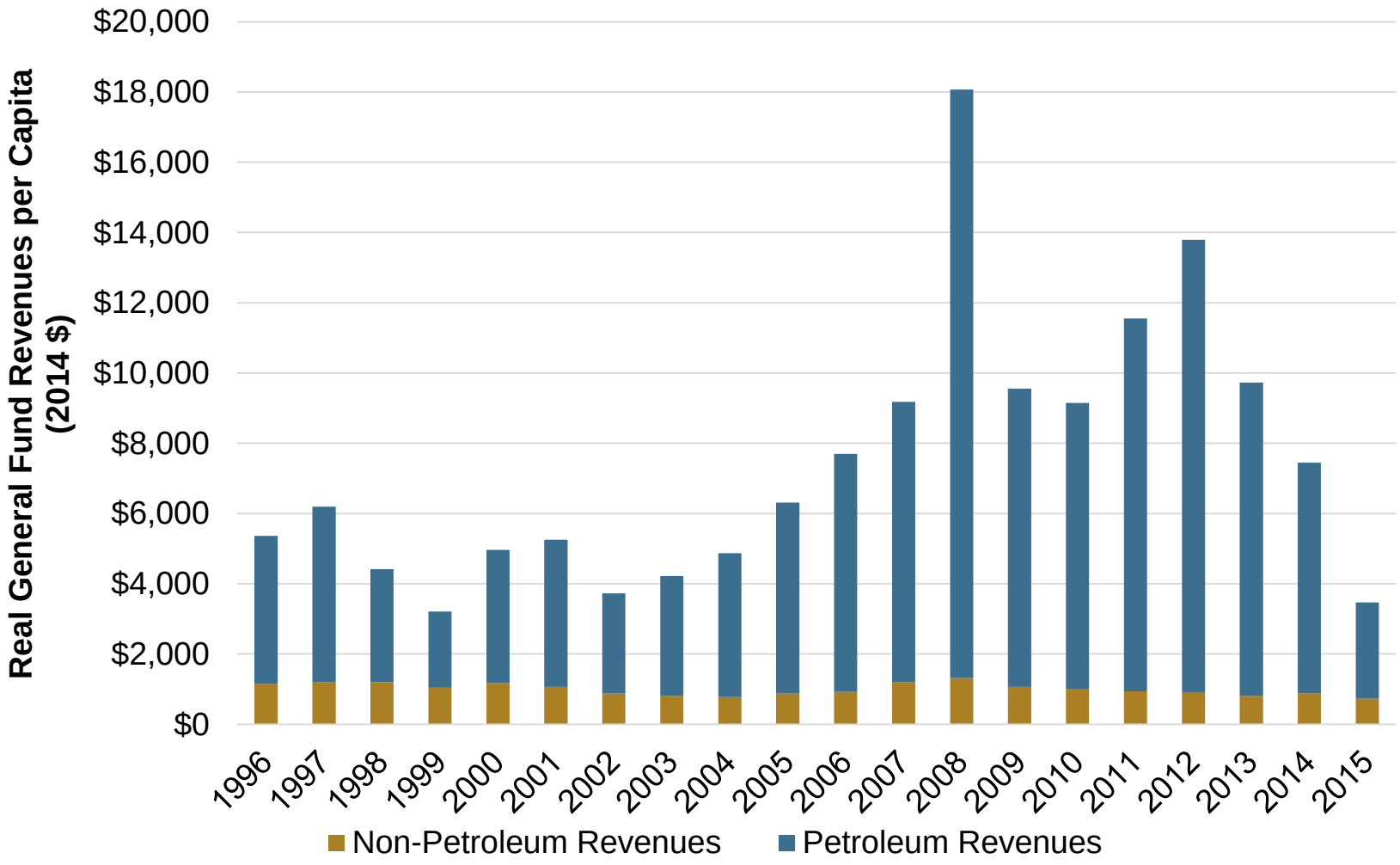
Source: DNR Fall Revenue Book 2014

… and General Fund Revenues will Follow



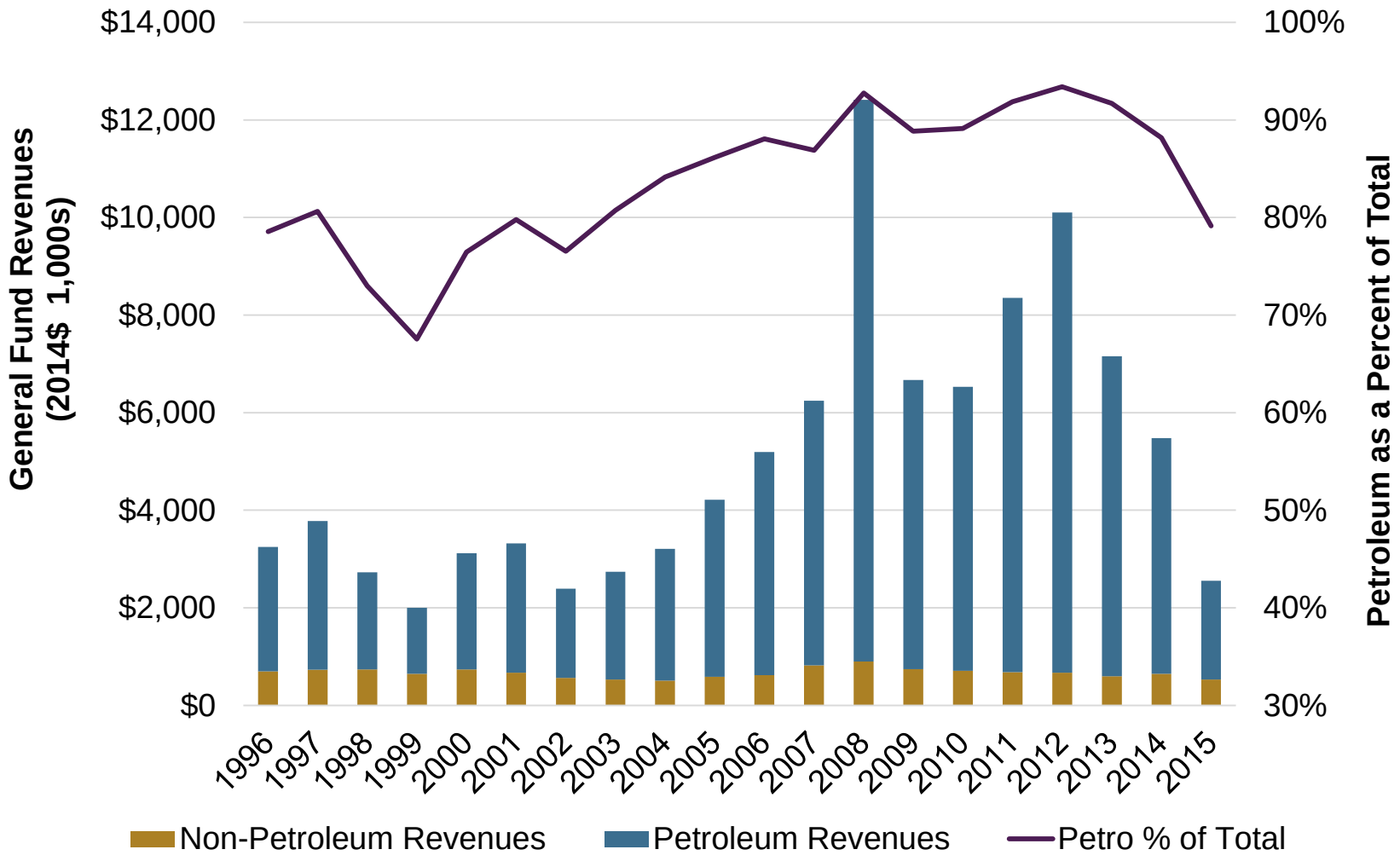
Source: DNR Fall Revenue Book 2014 and 2005

It's Even Worse if we Look at Revenues per Capita

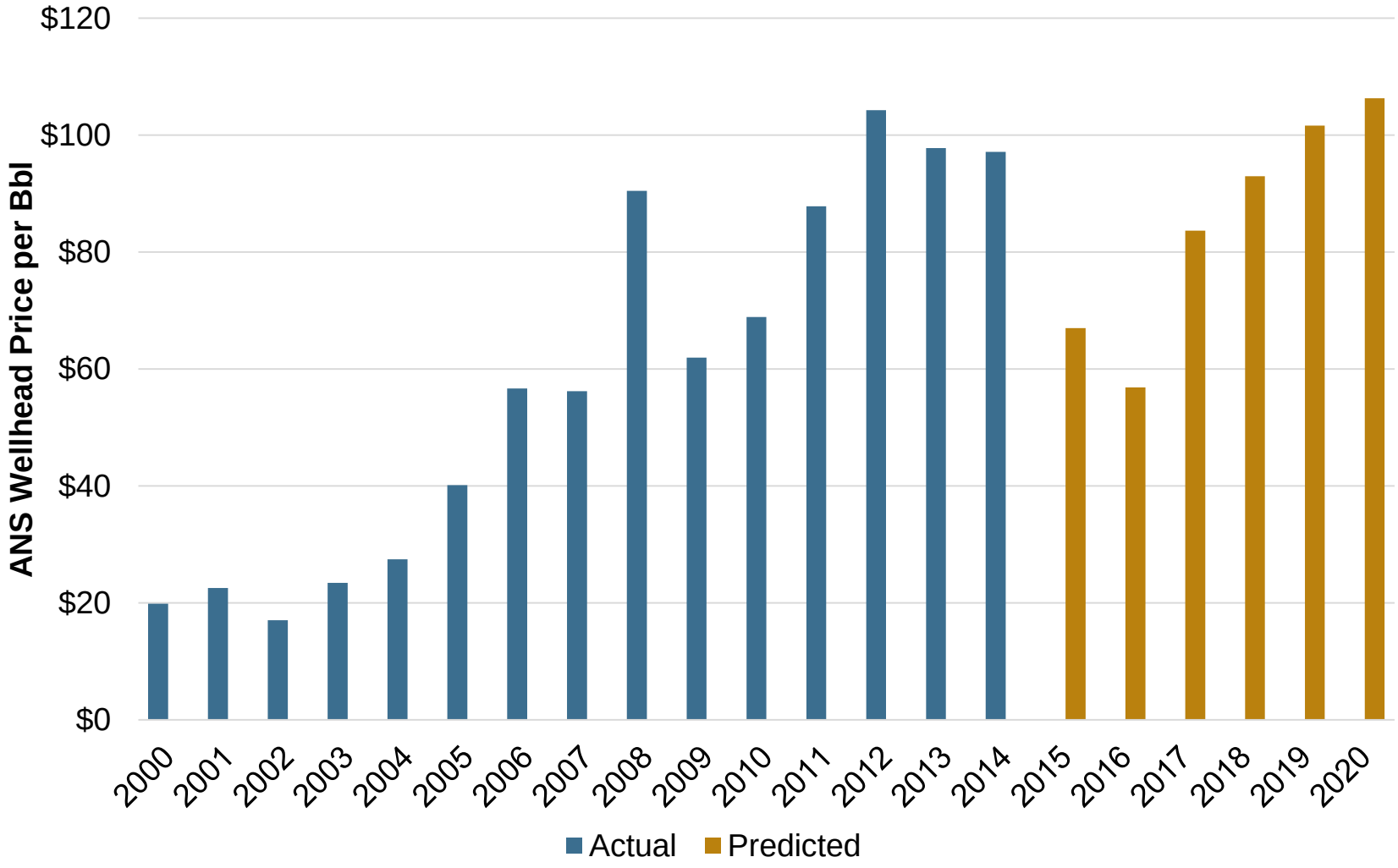


Source: NEI from DNR Fall Revenue Book 2014 and 2005

On the Bright Side – We're less dependent on oil



… and What Comes Down can Go Back Up



Source: DNR Fall Revenue Book 2014

Falling Short by 57 Cents on the Dollar

Overview of Alaska's Fiscal Situation, Fiscal Year 2015

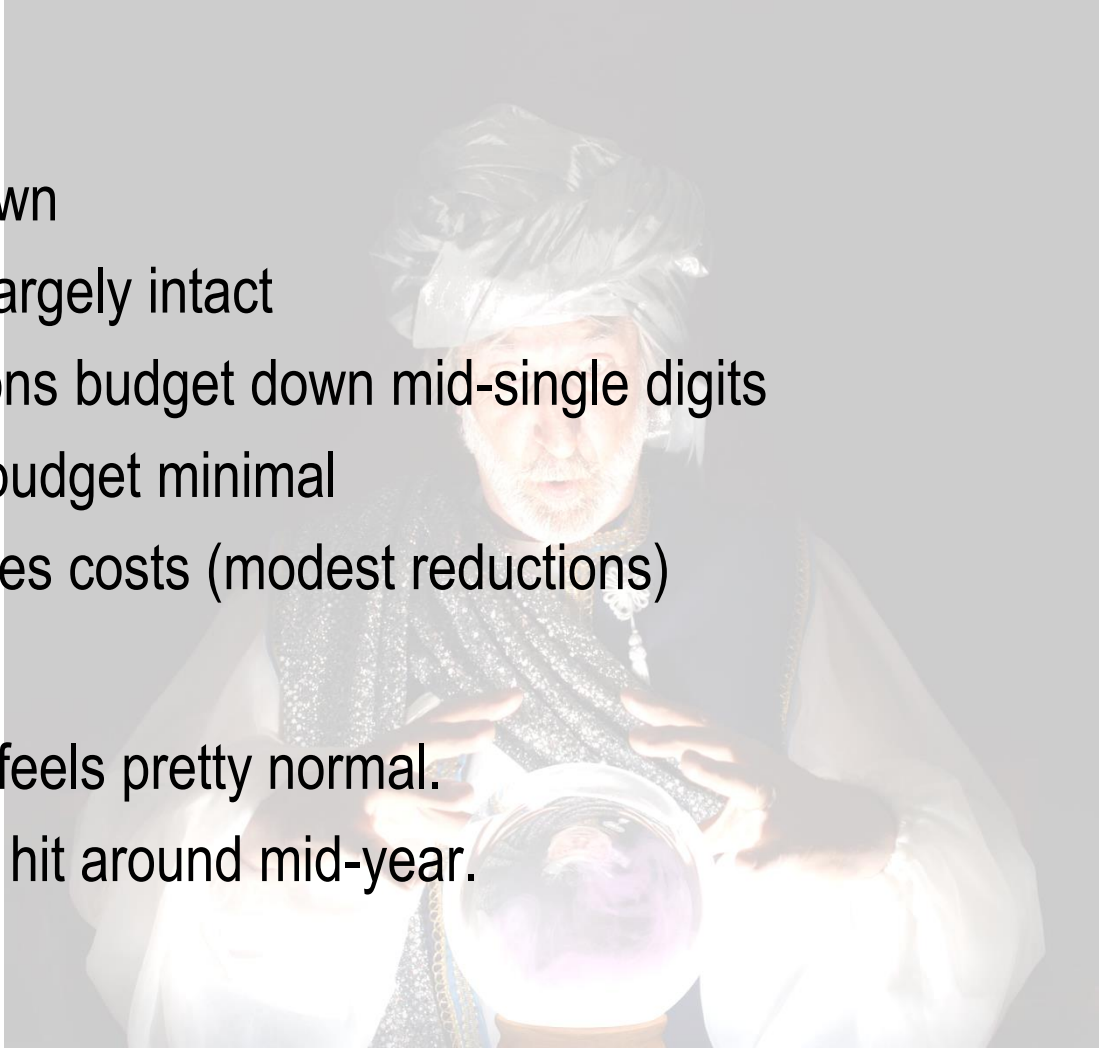
(unrestricted general funds)

	Measured in:	
	$ billions	$ per Alaskan
State spending *(budgeted level)*	5.9	8,022
Projected revenues *(Fall 2014 projections)*	2.6	3,465
Projected deficit	-3.4	-4,557
Cash savings at the start of the year	12.2	16,616
Years it would take to deplete savings at this year's spending levels *(assuming Fall 2014 revenue projections)*	7	
Projected deficit as share of spending	-57%	

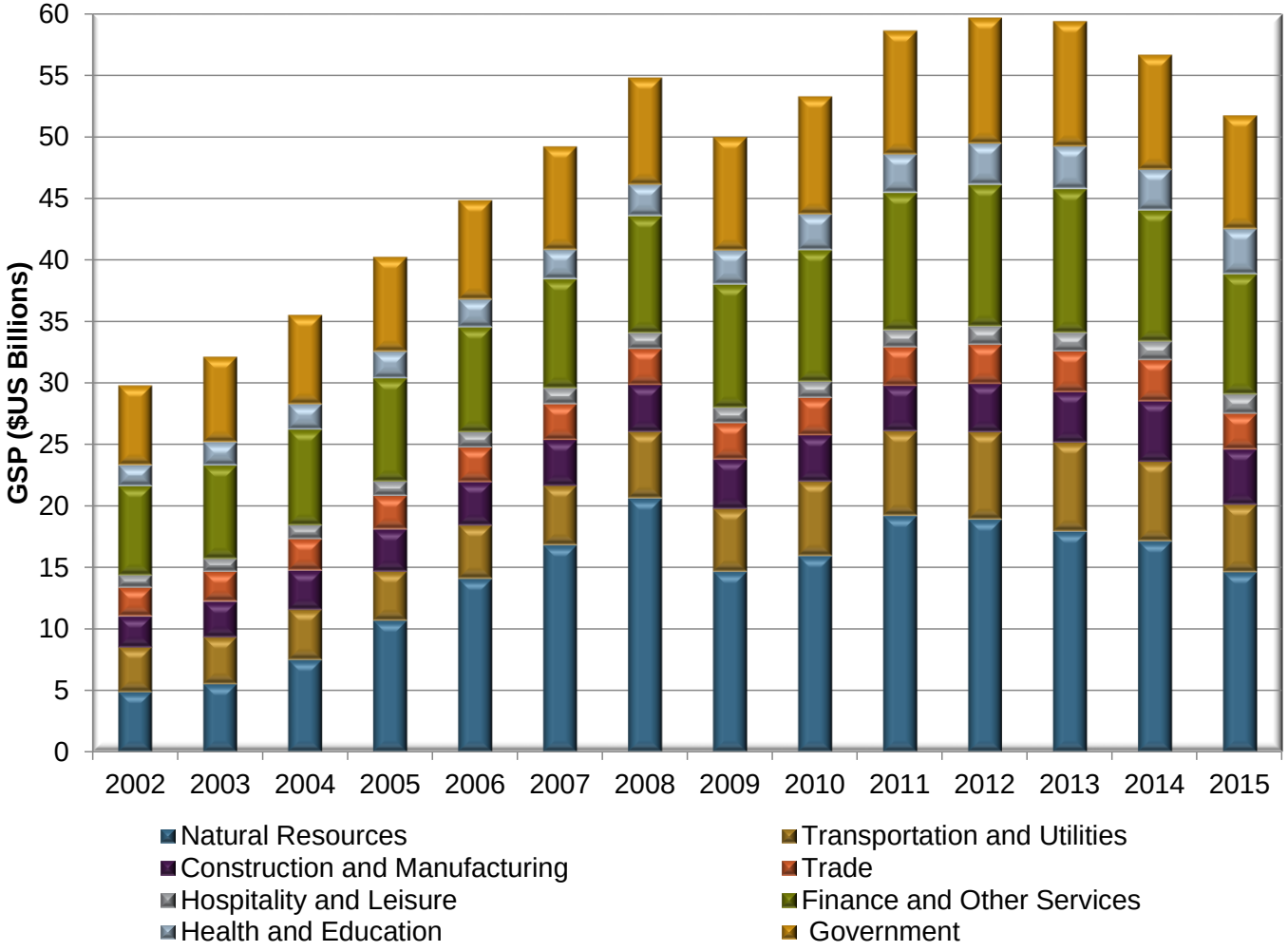
Courtesy Gunnar Knapp, ISER, 2015.

2015 Forecast

- Assumptions
  - Oil prices stay down
  - FY 2015 budget largely intact
  - FY 2016 Operations budget down mid-single digits
  - FY 2016 Capital budget minimal
  - Oil industry reduces costs (modest reductions)
- Net Effect
  - First half of 2015 feels pretty normal.
  - The pain starts to hit around mid-year.



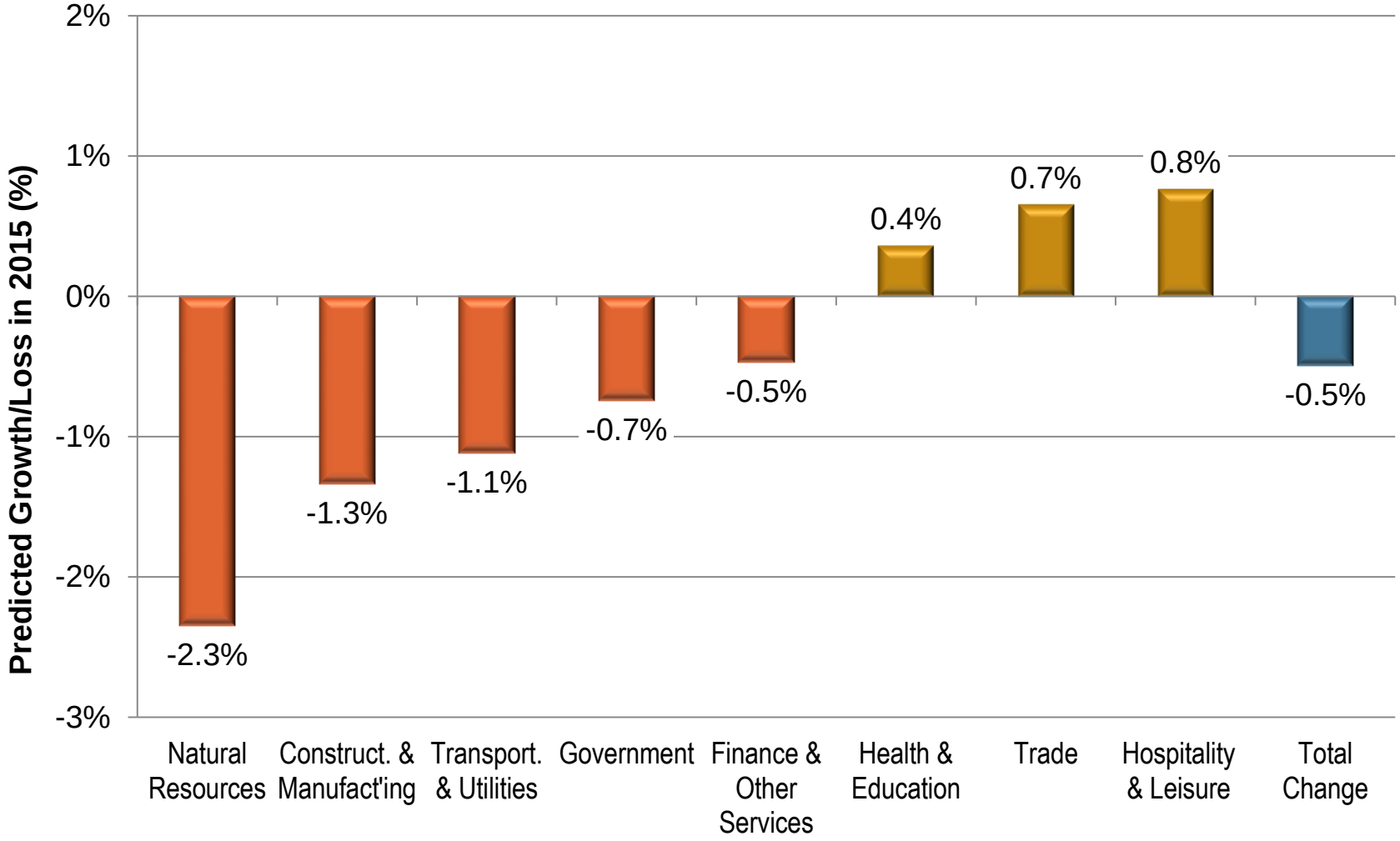
2015 Gross State Product Projection



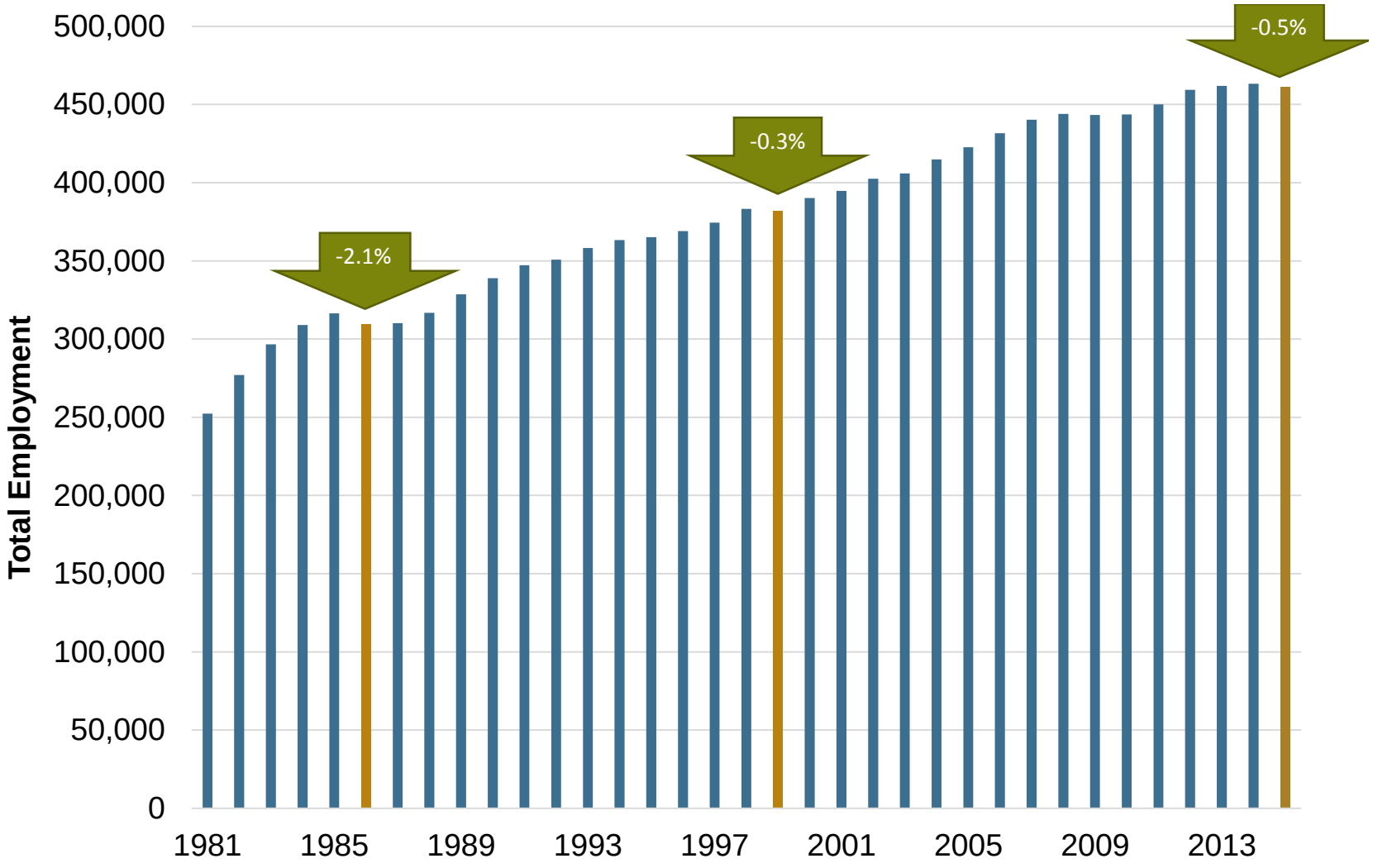
2015 Employment Projection

Industry	Change in Jobs	
	Number	Percent
Natural Resources	-800	-2.3%
Construction and Manufacturing	-550	-1.3%
Transportation and Utilities	-300	-1.1%
Government	-800	-0.7%
Finance and Other Services	-400	-0.5%
Health and Education	200	0.4%
Trade	250	0.7%
Hospitality and Leisure	350	0.8%
Total Change	-2,050	-0.5%

2015 Employment Projection



Putting Our Forecast in Perspective



Source: BEA 2015.

Wrap Up

- Oil prices have fallen by half and the state's revenue is only covering 43 cents on the dollar.
- The state has significant reserves.
- The state will go into recession this year, but has been trending towards recession for some time.
- Is the situation serious? *Yes!*
- Is it time to panic? *No!*
- We have the ability to adapt to this changing situation if we work together.

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