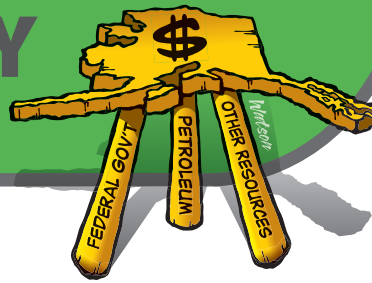


# ALASKA'S ECONOMY

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.*

- Alaska employment in the first 6 months of 2009 was about the same as last year. But in recent months a downward trend in Alaska employment has emerged (seasonally adjusted), and it now appears that employment for the entire year will be about 1 percent lower than in 2008. North Dakota was the only state to report more jobs in the first half of 2009 compared to a year earlier. All other states lost workers—the Michigan worker loss exceeded 8 percent.
- Several other leading economic indicators confirm the slowdown of the Alaska economy. Incoming freight tonnage—commodities and building materials—is down noticeably from last year. Telecommunications services are flat or slightly below last year's activity. Business travel is also down.
- The Alaska unemployment rate has increased 2 percentage points, to 8.4 percent, in the last year. In the nation as a whole, unemployment was up 4 percentage points, to 9.4 percent. (The only other time the unemployment rate in Alaska has been less than the U.S. average was in 1975, during oil pipeline construction.) Unemployment has grown in every state in the last year, with Michigan topping the list at more than 15 percent.
- The increase in the unemployment rate in Alaska ironically is a sign of our relative economic strength compared to the rest of the nation. Most analysts attribute it to an influx of people looking for work. Unfortunately, this has increased demands on public and non-profit social services agencies. Many non-profits report their revenues will not be able to keep up with demand.
- The national economy continued to contract in the second quarter of the year, as measured by gross product, but at a slower rate than in previous quarters. This has raised hopes that the worst of the recession may be behind us. (Recessions are dated by declines in gross product.) Business investment and housing prices continued to drop, but at slower rates, and worker layoffs also slowed—indicating the bottom may be in sight, but not necessarily that growth is returning.
- Alaska's tourism industry has been hardest hit by the national recession. Statistics for May show declines of 10 to 25 percent in arrivals and car rentals at Ted Stevens Anchorage International Airport, in bookings on the Alaska Railroad, and in hotel tax revenues. Visitors are also spending less. Employment has not fallen nearly as much, but some businesses in the industry are struggling. Demand is not expected to improve next year. Communities particularly dependent on tourism are feeling the most pain.

- Air cargo traffic through Anchorage is down 23 percent over the last year, due to the drop in consumer spending nationally as well as the eruptions of Mt. Redoubt earlier in the year, which diverted some traffic to other airports. Recovery in the number of landings is expected to begin later this year.
- Jobs in oil and gas remain at a high level but the drop in the oil price from the high of \$140 per barrel last year has caused some projects to be delayed and others postponed. Those businesses—everything from engineering to drilling firms—that support the activities of the majors are feeling pressure to reduce costs, and layoffs are starting to show up in that sector. On a positive note, the oil price has been stable in the range of \$60 to \$70 per barrel for several months, after falling to a low of \$32 at the start of the year. But in contrast, the price of natural gas at Henry Hub is down more than \$2 from the start of the year to about \$3.50.
- Federal stimulus funds estimated at \$1.4 billion have been allocated not only to Alaska construction projects but also to government operating programs. That money helped moderate the decline in construction employment that was predicted at the start of the year, and provides a cushion against revenue shortfalls for the state government budget.
- Alaska housing prices have remained stable this year, compared with a nationwide average decline of 12 percent from a year earlier. Although the share of housing units in foreclosure in Alaska has been increasing, it is only 0.7 percent, reflecting the underlying soundness of household finances in the state. This is underscored by the fact that although Alaska borrowers have the highest average credit card debt in the U.S., their delinquency rate is among the lowest. Alaska banks report that consumer credit continues to increase.
- The combination of a slow recovery of the national economy and a continued weakness in the tourism, air cargo, oil and gas, and construction industries in Alaska will result in a cautious business investment climate over the next year.
- When the national recovery comes, growth in employment and capital investment will be slow. With households saving more, consumer spending—which has fueled economic growth for decades—will also be slow to expand. This means that tourism will be hurt next year and beyond, and caution among Alaska consumers will slow growth in retail and services as well.
- Alaska's new governor, Sean Parnell, has announced that the economy will be one of his top priorities. The business community sees this focus—together with his experience in both the legislature and the petroleum industry—as a positive sign. In particular, business people hope he will help to resolve outstanding issues surrounding the natural gas pipeline. If that were to happen, it would have a significant positive psychological effect on the economy.

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