

Forecasting Alaska's Economy: 2016-2027

A presentation by Jonathan King

January 18, 2017



Overview

We're in a Recession

The Timing of How We Got Here

Where We are Headed

The Next Big Thing (Our healthcare system)

When does a Recession Begin?

**Recession is when your
neighbor loses his
job, crisis is
when you lose
your job**

~ Harry Truman ~

www.StatusMind.com

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

In reality, the start of national recessions are designated in retrospect by a group of economists at the National Bureau of Economic Research looking at a broad array of factors.

Predicting Recessions in Alaska

Gross State Product in Alaska is:

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

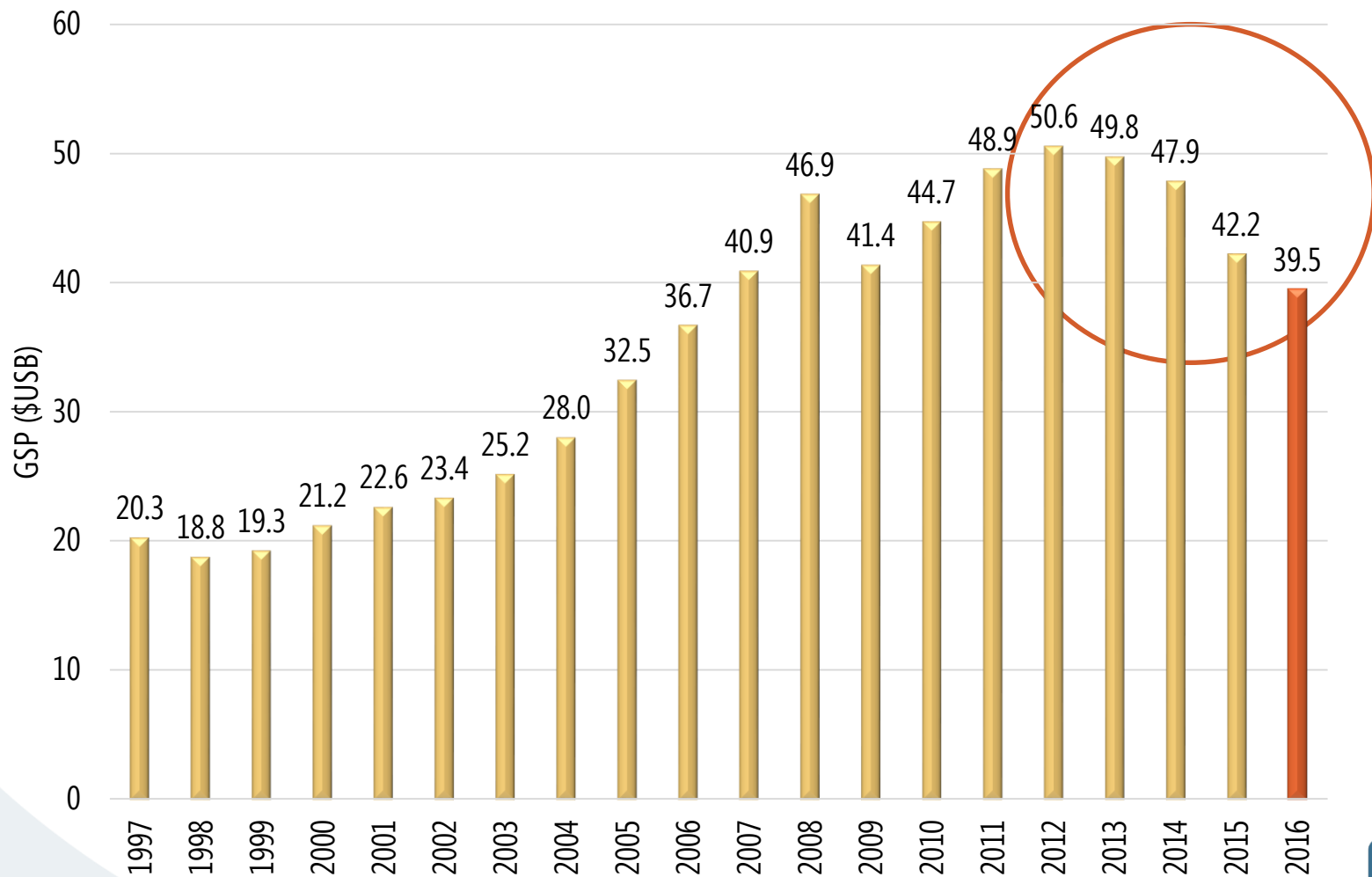
Largely tied to the value of oil exports...

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

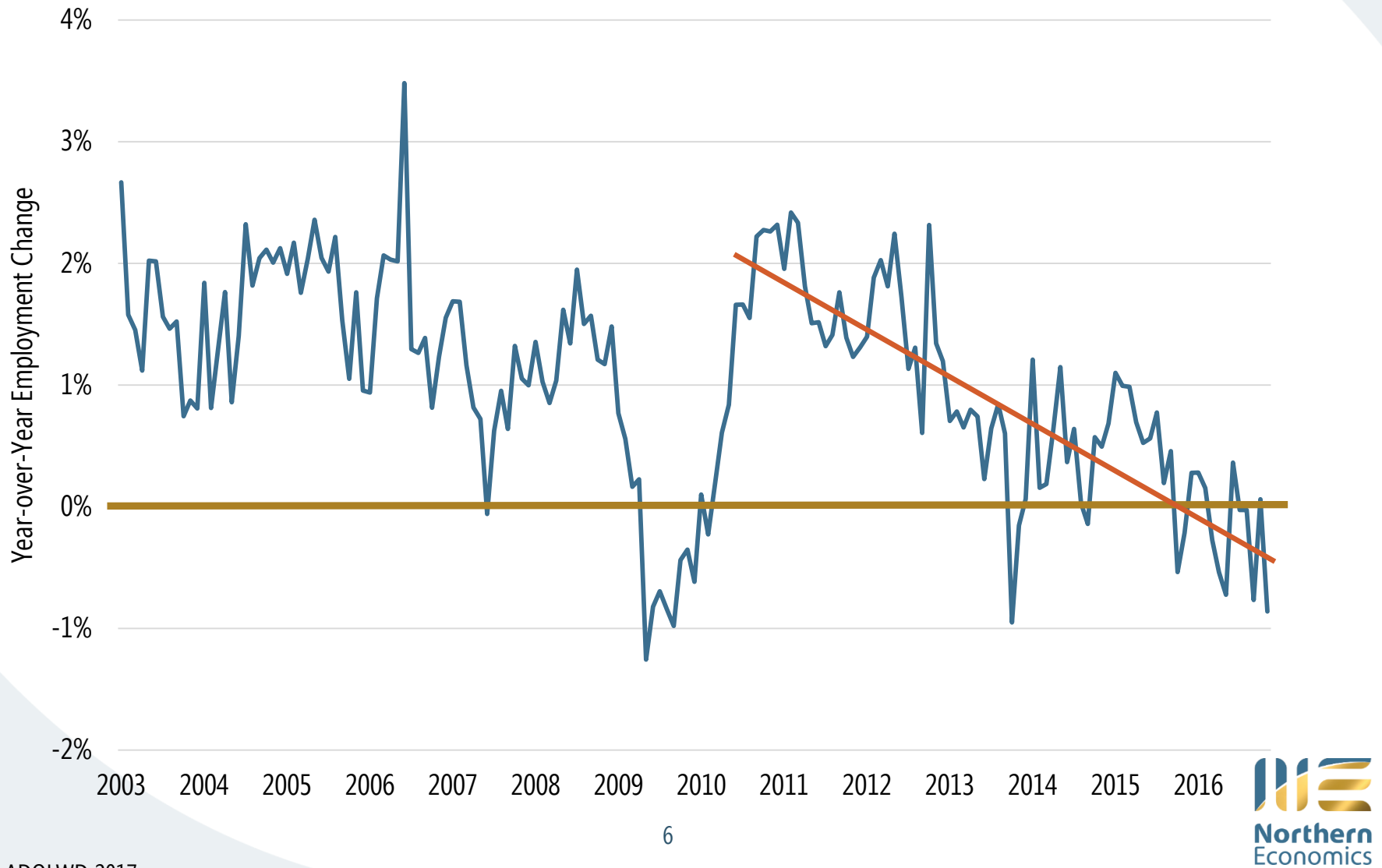
Highly variable from year-to-year because of the price of oil.

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

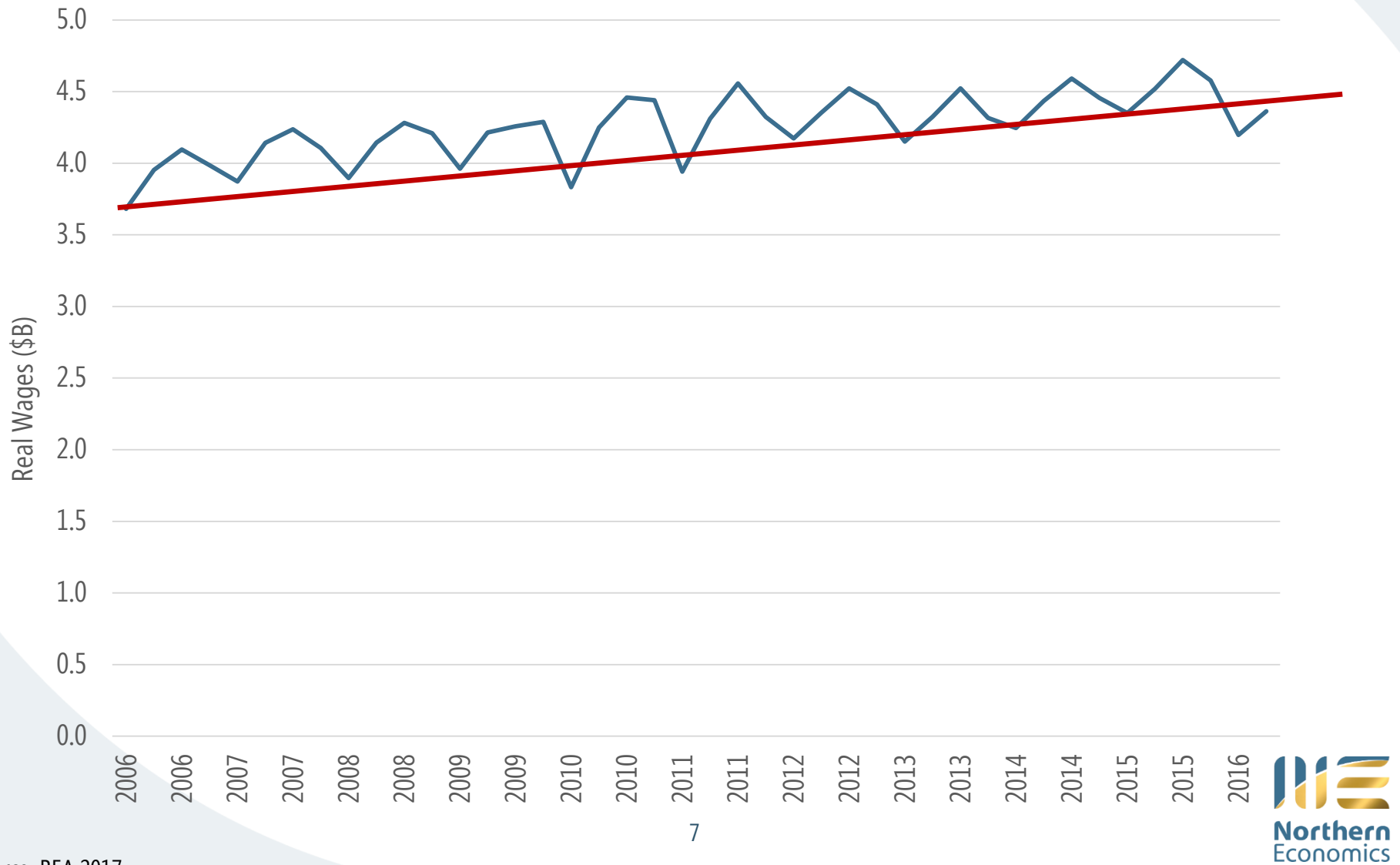
The Value of Our Economy



Looking for Consistent Year-over-Year Job Losses

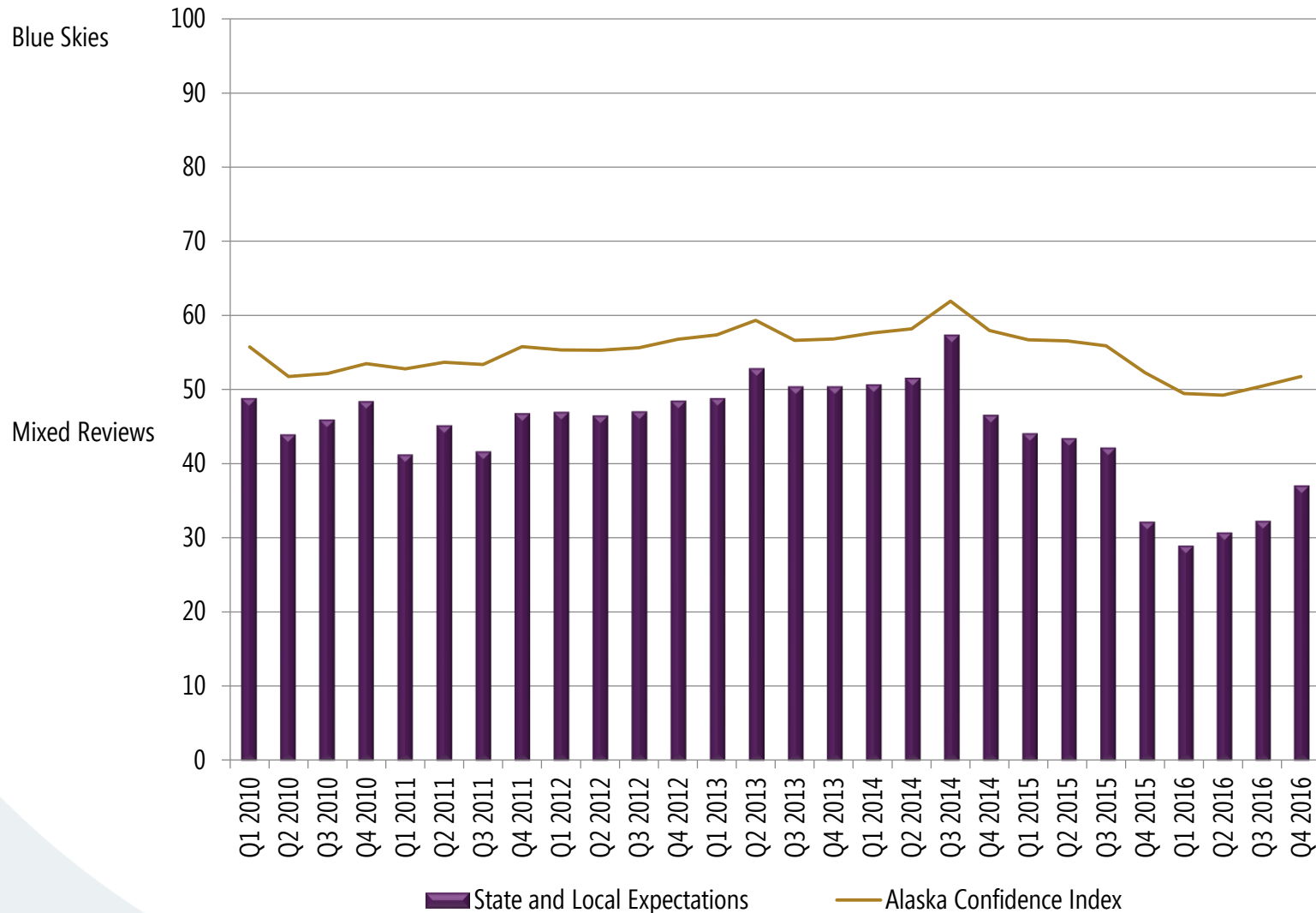


Wage Growth Trend Broken

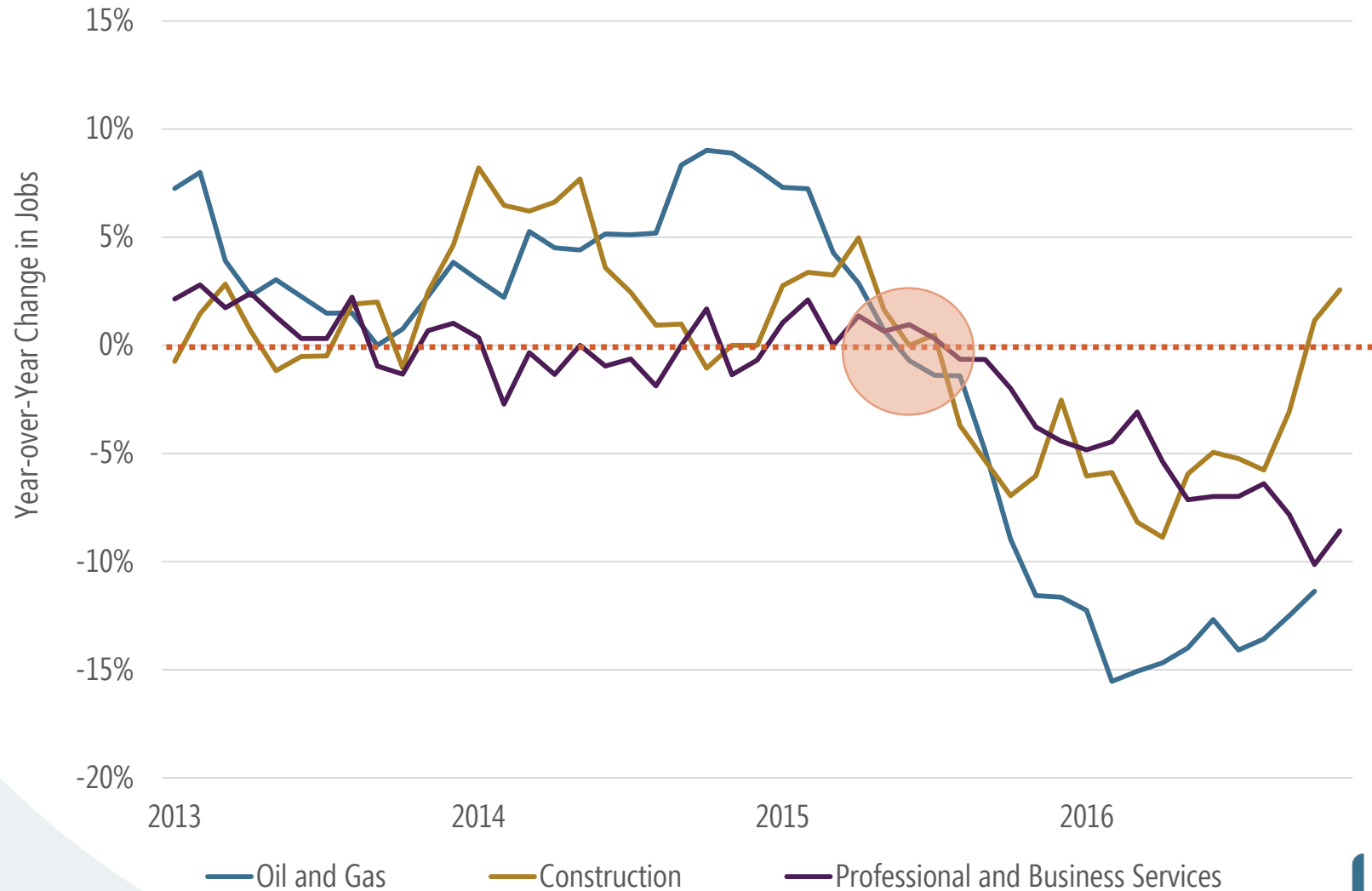


Source: BEA 2017

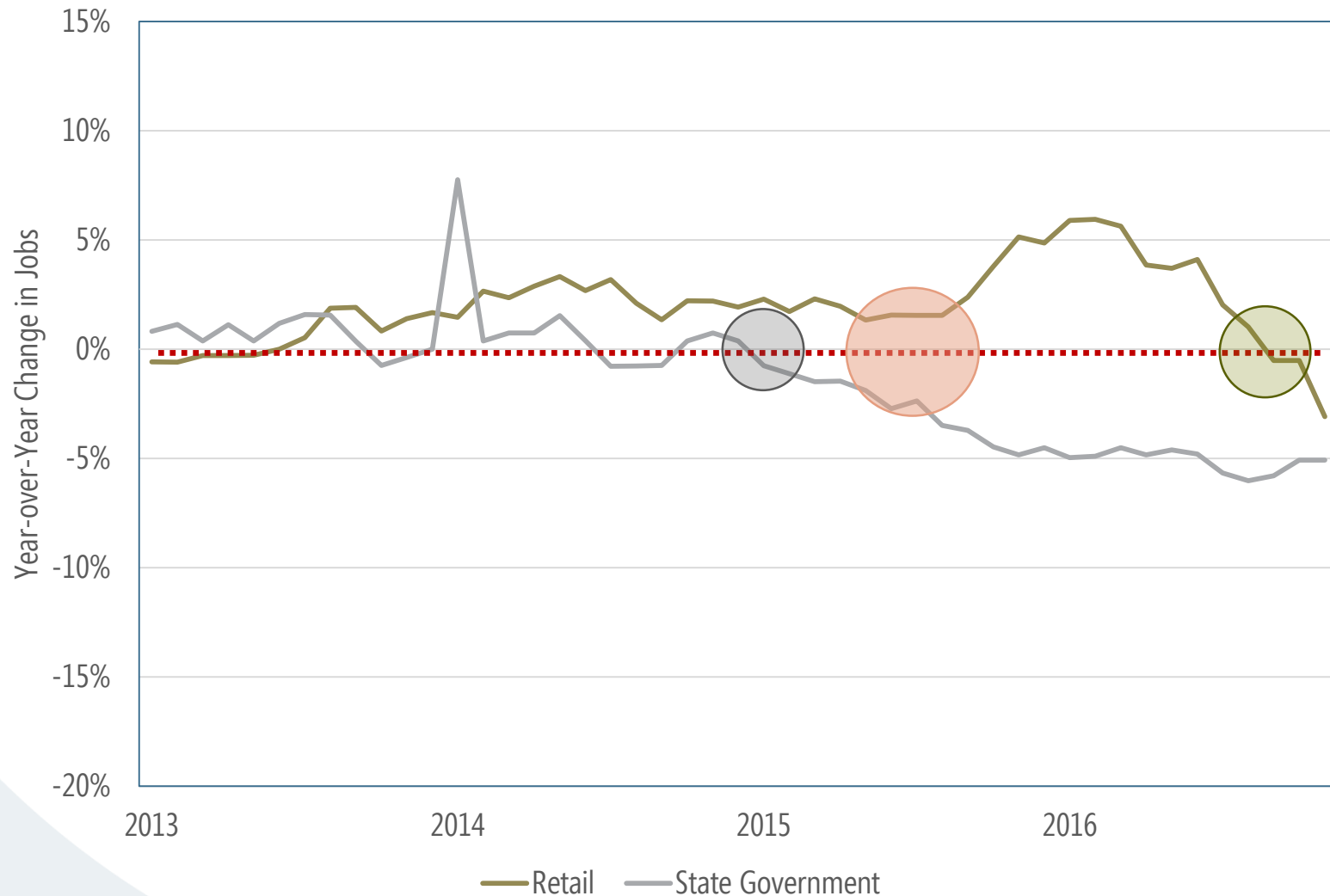
Household Confidence



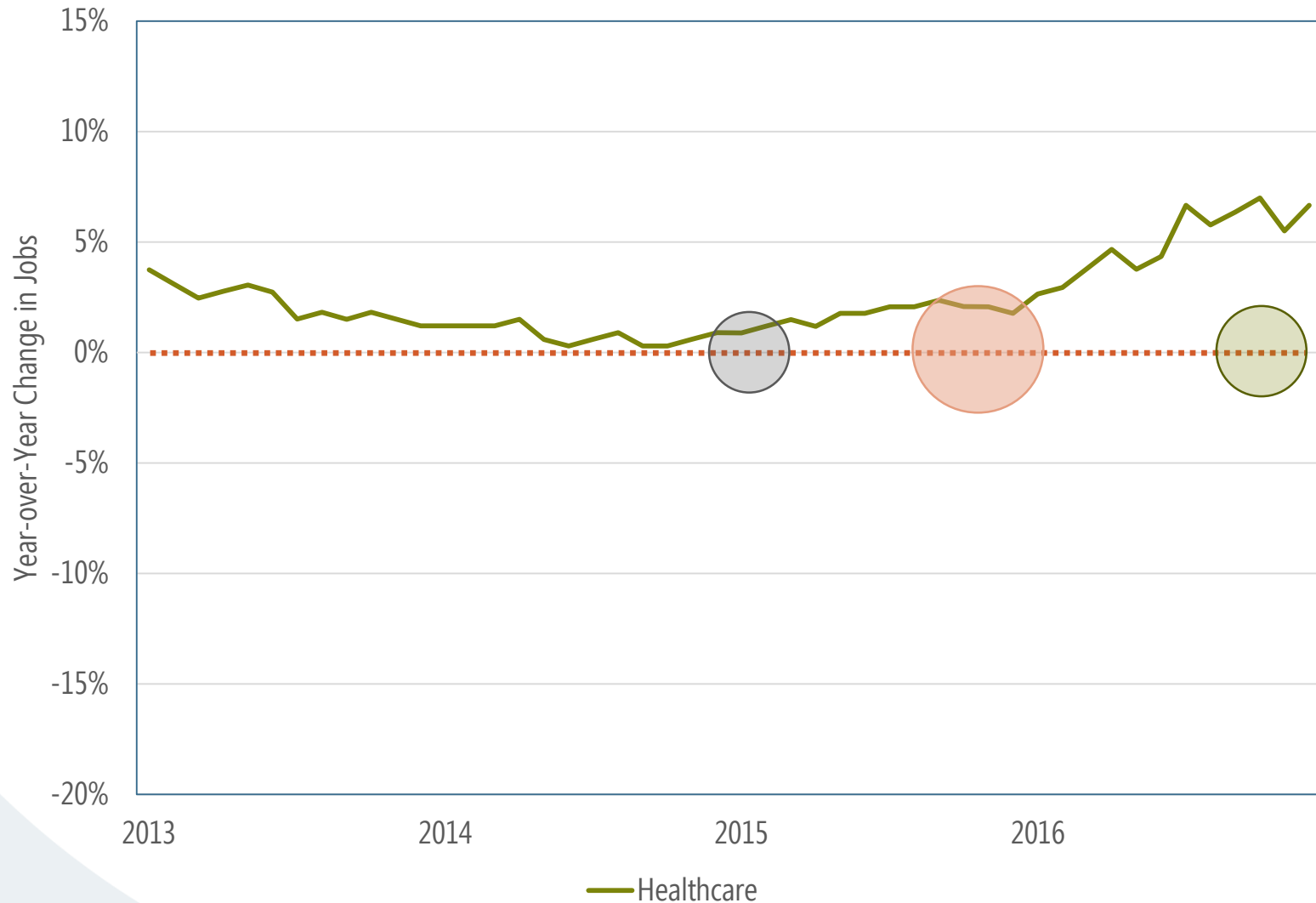
High Earning Sectors



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



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 OCS

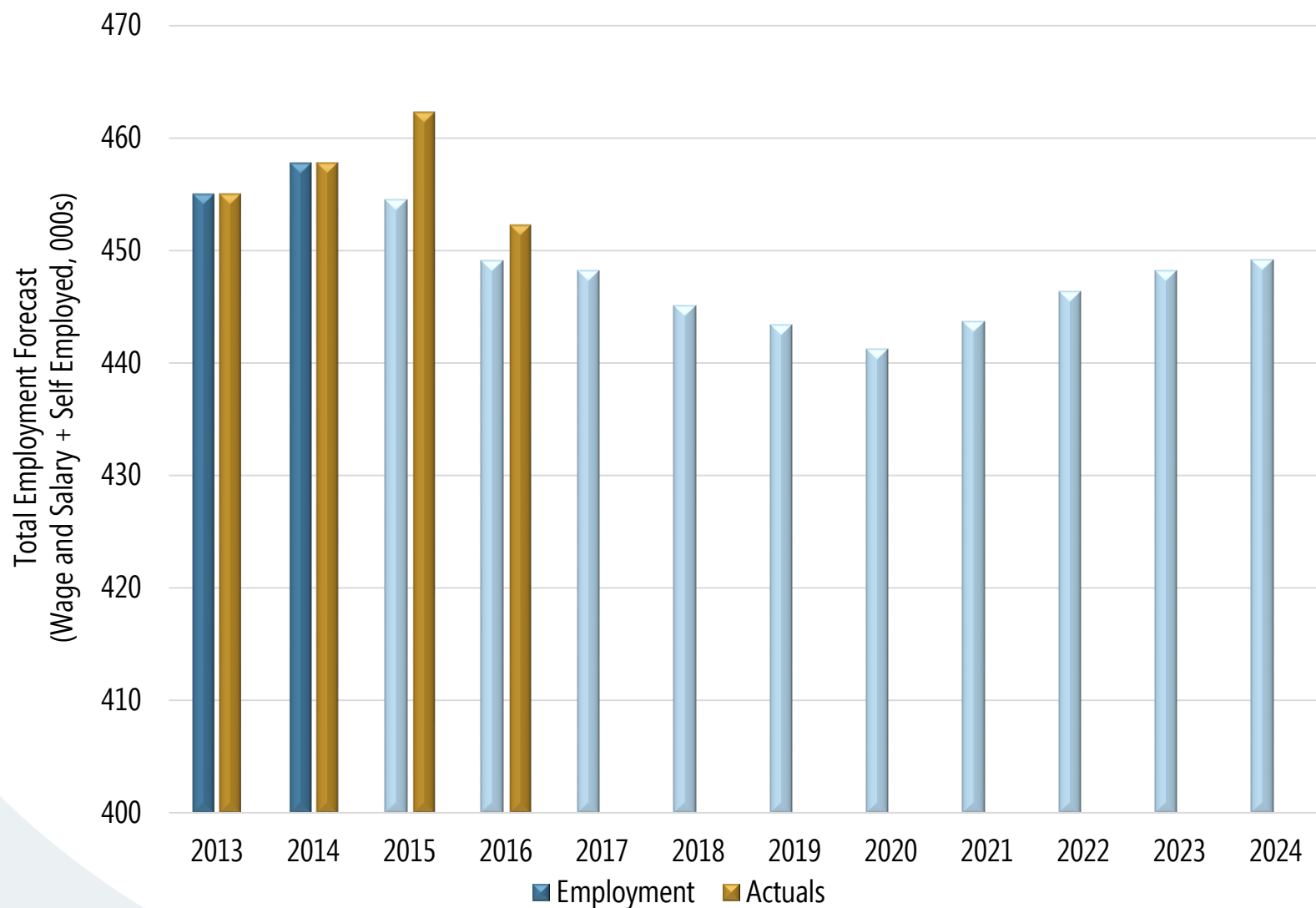
- Alaska LNG

- Susitna Watana

- Recession Policy Forecasting

- JBER Force Reduction

2015 Fiscal Policy Forecasting



2017-2026 Budget and Revenue Scenarios

Scenario 1

\$4.2B Unrestricted General Fund;
Reduced PFD

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



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

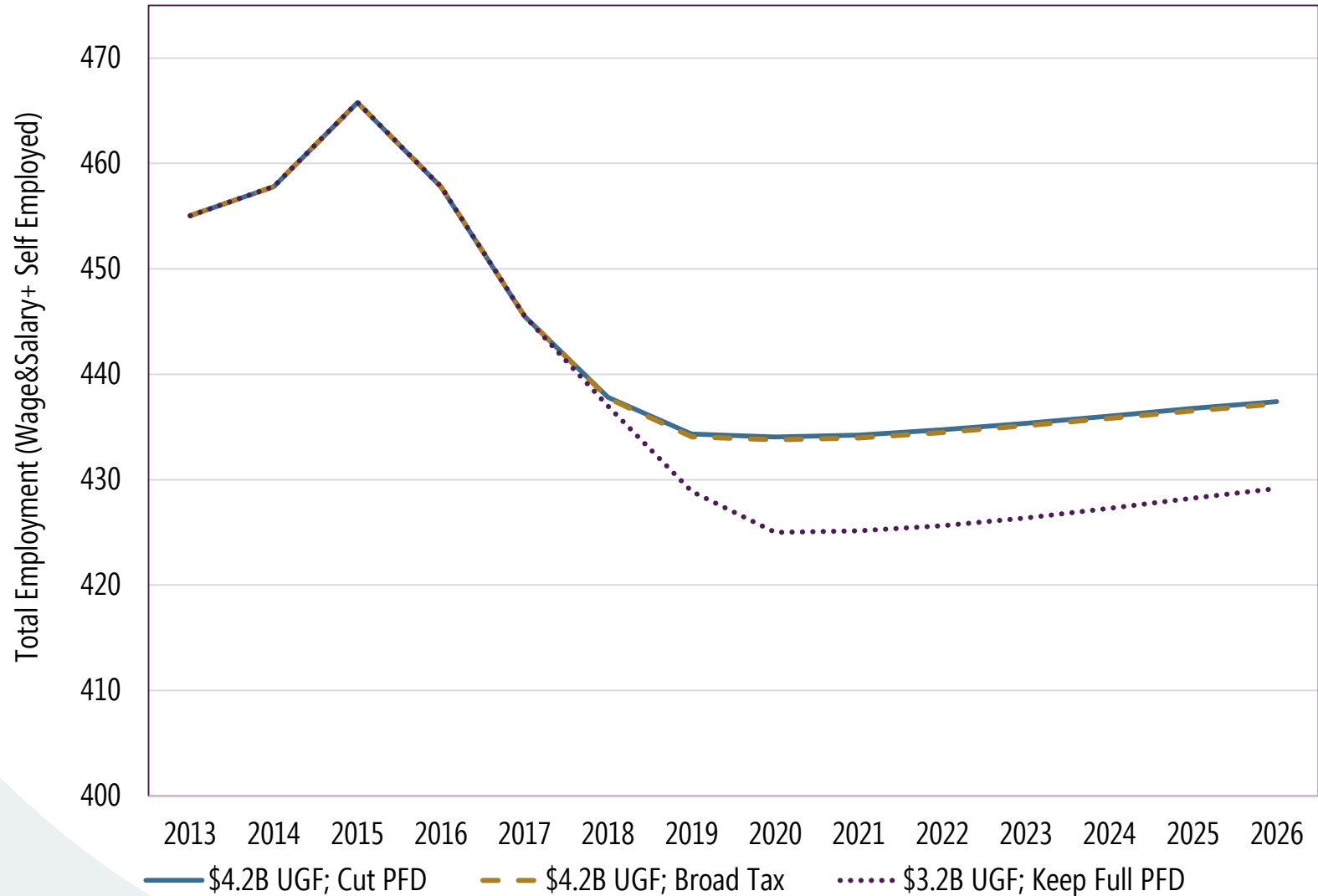
Does not account for the eventual "pop" of the healthcare bubble

All Forecasts are Wrong

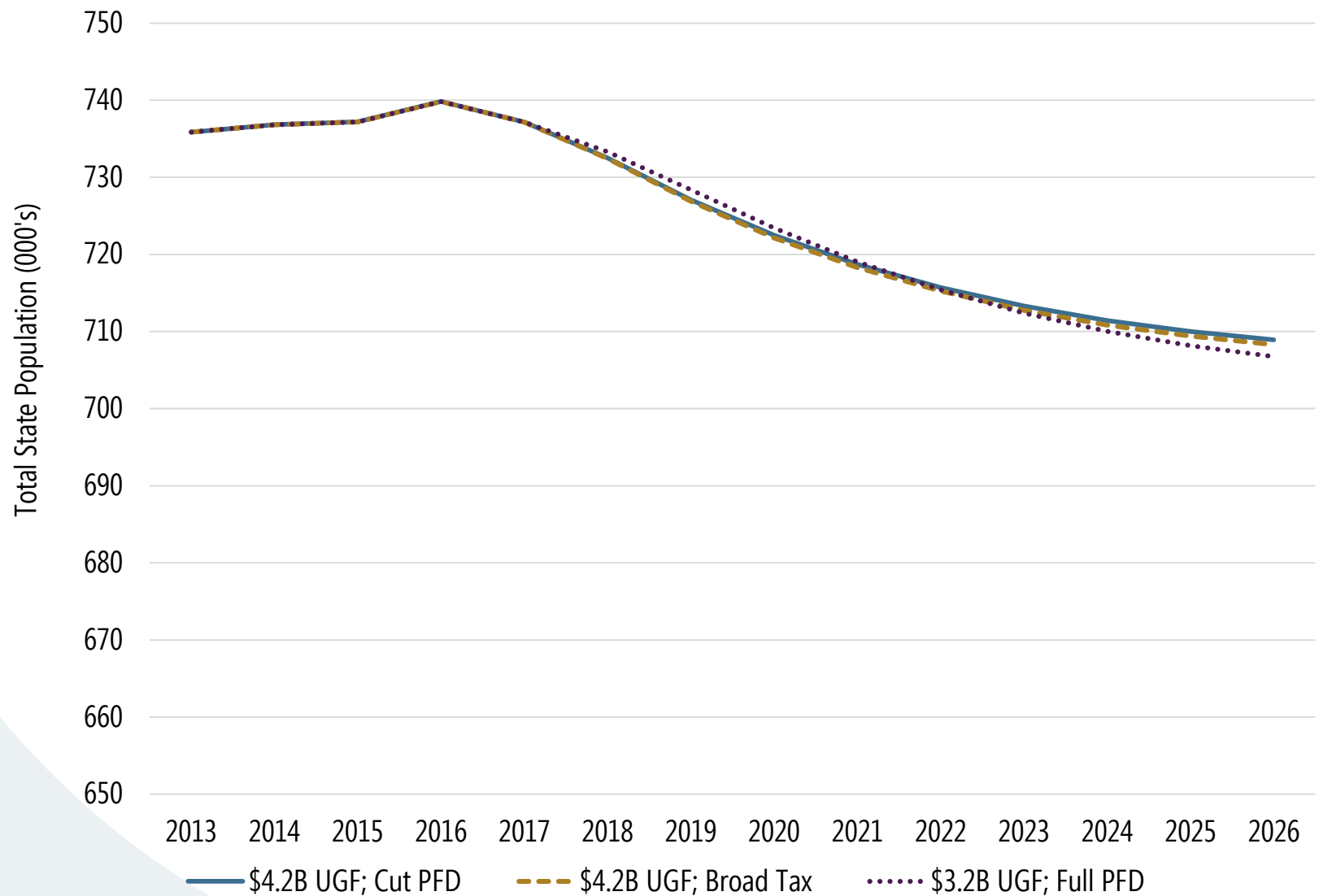
"Forecasts create the mirage that the future is knowable"

-Peter Bernstein

2017-2026 Employment Forecast under Three Budget Scenarios



2017-2026 Population Scenarios



REMI Summary Results: 2017-2026

Employment

Employment bottoms out in 2019-2020.

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:

S1: -32,000 citizens

S2: -31,000 citizens

S3: -34,000 citizens

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

Key Takeaways

Without stimulus, we have years left in this recession.

In aggregate, there isn't much difference between a PFD reduction and a broad-based personal income tax because both reduce income for all or nearly all Alaskans.

However, who pays is very different.

PFD has outsized effects in rural/poorer areas.

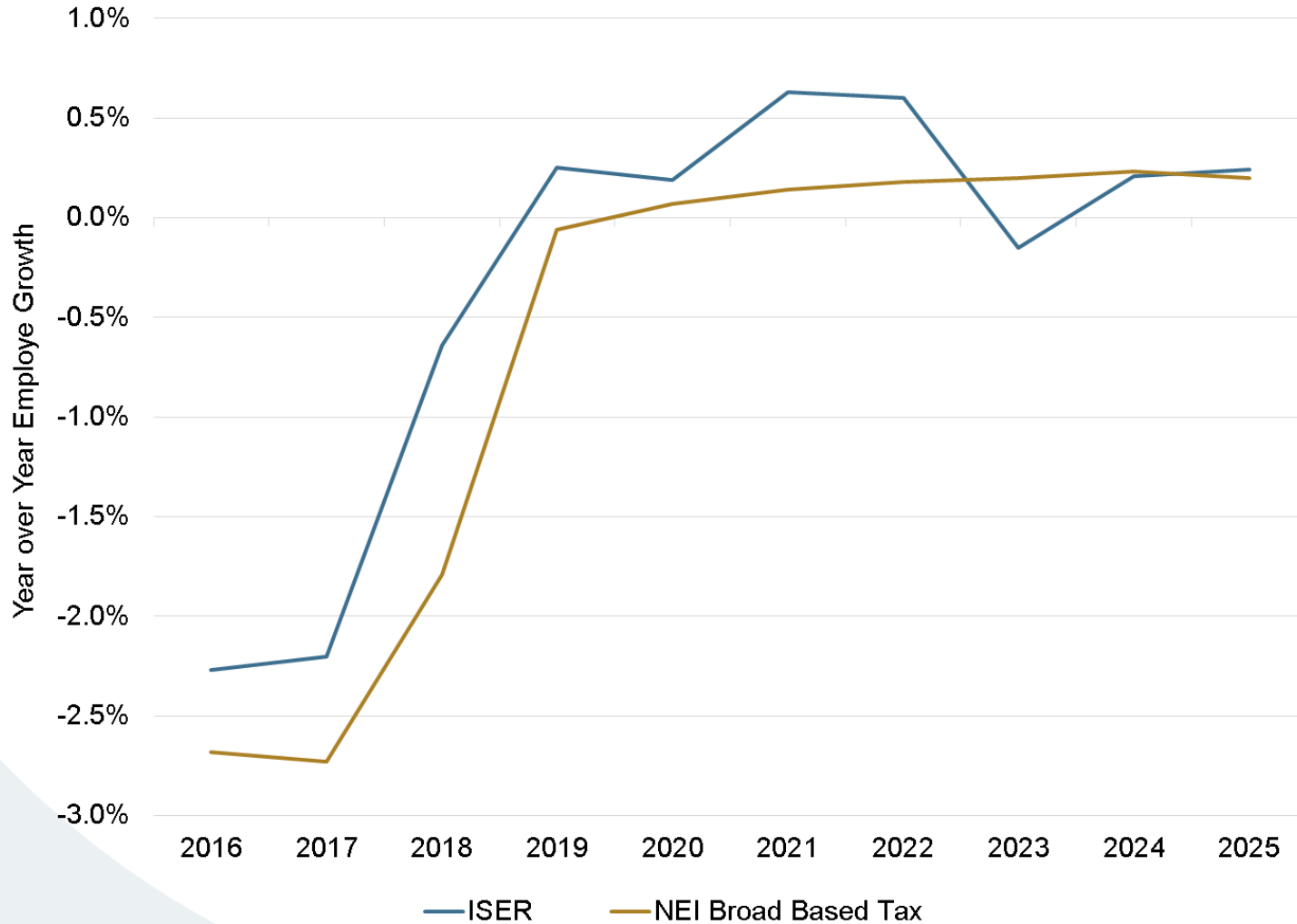
Income tax captures income from non-Alaskans.

There's likely a middle ground here.

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 intact economy.

ISER/NEI Forecast Comparison



Shifting Gears (a bit)

Alaska healthcare costs are a major cost driver of the state's economic crisis. The state insures roughly 400,000 lives.

There are four major groups profiting from healthcare.

Insurance companies

Drug companies

Hospitals

Providers

These are all essentially oligopolies, but insurance profits are capped.



Around the Nation

Overall Outlays

Overall Outlays

Health care spending per person by state for 2009, latest data available

Legend:

- \$5,000-\$5,999
- \$6,000-\$6,999
- \$7,000-\$7,999
- \$8,000+

States and Spending (in \$):

- Alaska: \$9,128
- Hawaii: \$6,856
- Wash.: \$6,782
- Ore.: \$6,580
- Idaho: \$5,658
- Mont.: \$6,640
- N.D.: \$7,749
- Minn.: \$7,409
- Wis.: \$7,233
- Wyo.: \$7,040
- S.D.: \$7,056
- Neb.: \$7,048
- Iowa: \$6,921
- Mich.: \$6,618
- Ill.: \$6,756
- Ind.: \$6,666
- Ohio: \$7,076
- Pa.: \$7,730
- N.Y.: \$8,341
- Calif.: \$6,238
- Nev.: \$5,735
- Utah: \$5,031
- Ariz.: \$5,434
- Colo.: \$5,994
- Kan.: \$6,782
- Mo.: \$6,967
- Okla.: \$6,532
- Texas: \$5,924
- Ark.: \$6,167
- La.: \$6,795
- Miss.: \$6,571
- Ala.: \$6,272
- Ga.: \$5,467
- Tenn.: \$6,411
- Ky.: \$6,596
- Va.: \$6,286
- N.C.: \$6,444
- S.C.: \$6,323
- Fla.: \$7,156
- Maine: \$8,521
- Vt.: \$7,635
- N.H.: \$7,839
- Mass.: \$9,278
- R.I.: \$8,309
- Conn.: \$8,654
- N.J.: \$7,583
- Del.: \$8,480
- Md.: \$7,492
- D.C.: \$10,349
- W.Va.: \$7,667

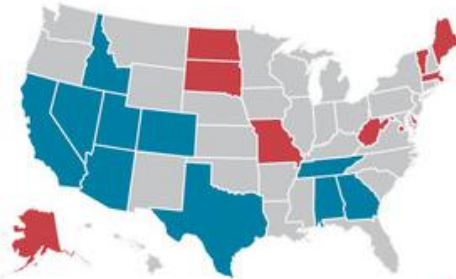
Driven by Higher than Average Hospital and MD Costs

H Hospital Care

■ Highest ■ Lowest

D.C. \$4,948	Utah \$1,830
Alaska 3,879	Ga. 1,922
Mass. 3,505	Nev. 1,949
Vt. 3,408	Ariz. 1,977
Maine. 3,268	Calif. 2,077
N.D. 3,183	Ala. 2,111
S.D. 3,147	Idaho 2,115
Mo. 3,143	Texas 2,138
Del. 3,109	Conn. 2,150
W.Va. 3,073	Tenn. 2,160

- Hospital care is spending for services provided in hospitals, including outpatient care, operating-room fees and services of resident physicians.

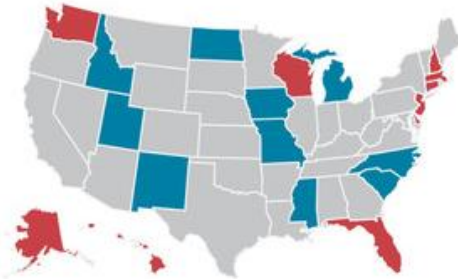


Physician and Clinical Services

■ Highest ■ Lowest

Alaska ... \$2,570	Utah \$1,189
Mass. 2,078	Mo. 1,277
N.J. 2,049	Idaho 1,287
Del. 1,978	N.D. 1,306
Conn. 1,952	Mich. 1,366
Fla. 1,950	Iowa 1,381
Wis. 1,879	Miss. 1,391
Hawaii ... 1,873	S.C. 1,399
N.H. 1,863	N.C. 1,401
Wash. ... 1,842	N.M. 1,440

- Physician and clinical services is treatments in health professionals' establishments.

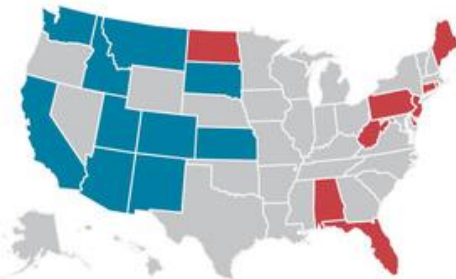


Prescription Drugs and Other Nondurables

■ Highest ■ Lowest

Conn. \$1,269	Colo. \$690
R.I. 1,230	Mont. 733
Del. 1,219	Idaho 739
Fla. 1,213	Utah 741
N.D. 1,185	S.D. 768
Ala. 1,179	Calif. 786
W.Va. 1,175	N.M. 791
N.J. 1,171	Ariz. 804
Maine 1,126	Wash. 807
Pa. 1,113	Kan. 822

- Prescription drugs and other nondurable medical products include over-the-counter drugs such as cough and allergy medications and medical sundries such as surgical dressings or thermometers.

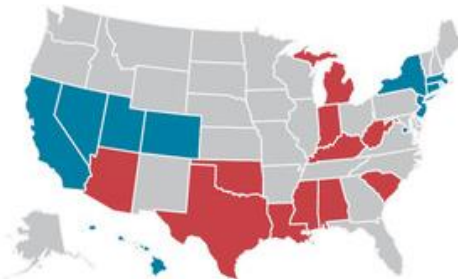


Obesity

■ Highest ■ Lowest

Miss. ... 34.9%	Colo. 20.7%
La. 33.4	Hawaii ... 21.8
W.Va. ... 32.4	Mass. 22.7
Ala. 32.0	D.C. 23.7
Mich. 31.3	N.J. 23.7
Okla. 31.1	Calif. 23.8
Ariz. 30.9	Utah 24.4
Ind. 30.8	Conn. 24.5
S.C. 30.8	Nev. 24.5
Ky. 30.4	N.Y. 24.5
Texas ... 30.4	

- Obesity is 2011 rate among adults calculated from respondents' self-reported weight and height.

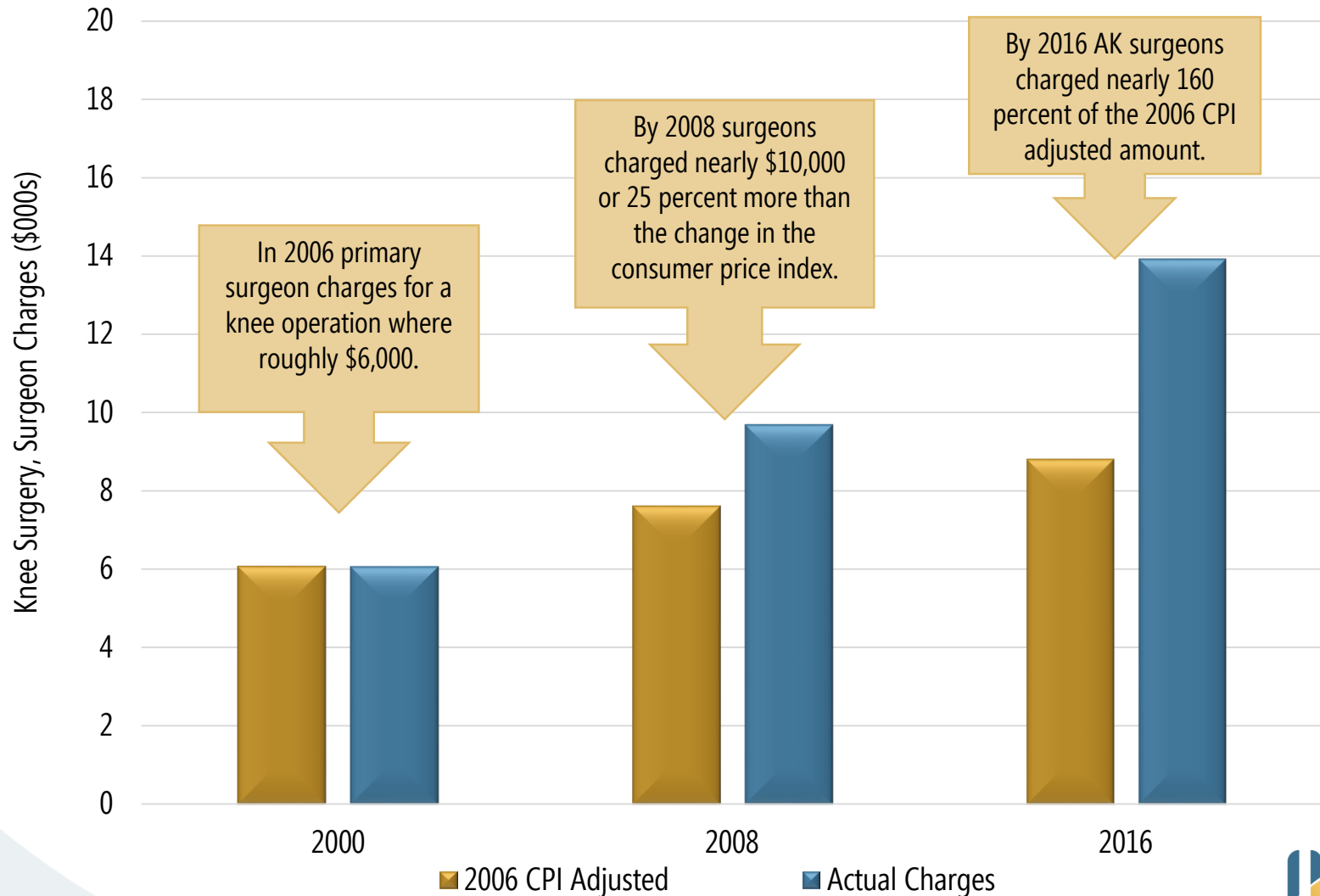


Note: All spending figures are per capita in 2009.

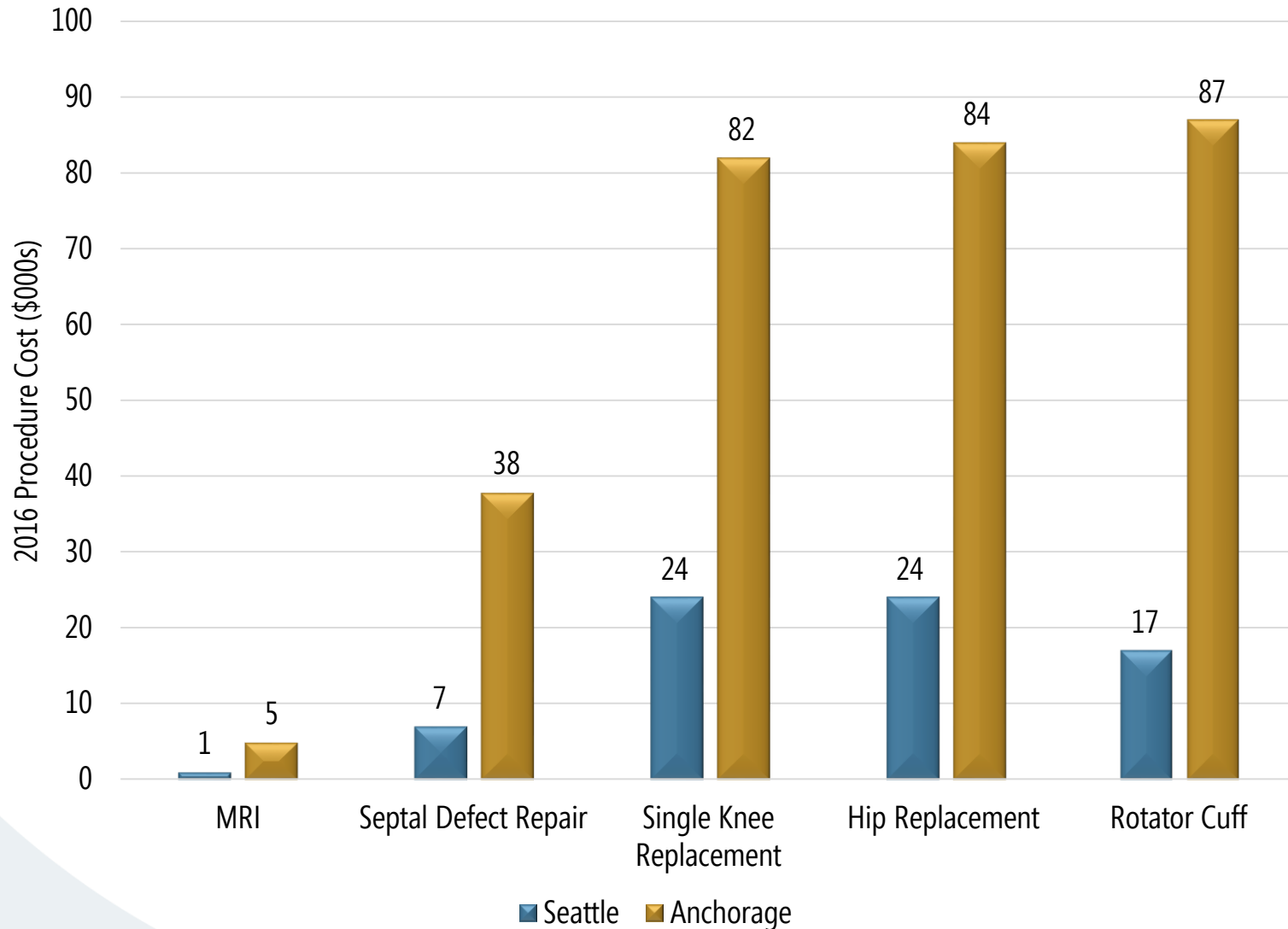
Sources: Centers for Medicare and Medicaid Services (spending data); Census Bureau (population); Centers for Disease Control and Prevention (obesity)

The Wall Street Journal

Real Costs Are Going Up



2016 Comparative Costs



So Why Are Costs Higher?

Oligopoly Power

Limited competition gives price setting power

The State's 80 Percent Rule

Radically expanded the number and type of services in state, but handed power to specialists who can cartel to avoid "networking"

Lack of Price Transparency

The state has no law regarding price transparency

Isolation

Flying to Seattle isn't convenient, safe, or appropriate in all instances.

System not set up to accommodate it when it is.

So What?

Size in our Economy

Single largest sector by **wage and salary** employment (50,000+)

Very likely more than 15-20 percent of state GSP when you include private, tribal, state, federal, and local components.

Vulnerable

Customers are starting to say “no” to high costs.

Will eventually succumb to the economy in general

It's the cost driver for schools, retirement plans, etc., but...

...no one wants to prick “the bubble” when it's the only thing that's growing.

Key Takeaways

Without a stabilization of the amount of money flowing into the economy Alaska will stay in employment recession until the 2018-2020.

Population recession could last much longer.

The economic differences between the analyzed policy options is slight between the PFD and income tax scenarios, but the “on the ground” societal implications are quite different.

The \$3.2B UGF scenario is likely to remove 20%+/- more jobs from the system than the other scenarios.

Alaska’s healthcare system is an economic driver, but it takes money away from the rest of the economy. Convenience at a very high price.

Thank you from the NEI Team!



While only one presents, many hands built this presentation.

