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 continued a slow decline during the third quarter (seasonally adjusted), ensuring an end to the long streak of 22 years of continuous annual job growth that began in 1987. Although this is not good news, compared with the rest of the nation our economy continues to hold up well. However, the modest current job losses mask the deterioration of the balance sheets of many businesses and an erosion of confidence in the future of the economy. Further decline in jobs can be expected next year, and the prospects for the economy in the longer term are uncertain.

- The national economy is starting a slow recovery, measured by an increase in the value of production (gross product). But unemployment will continue to grow in 2010, and a number of factors – the weak housing market, the quality of consumer and commercial debt, concerns about inflation and the size of the federal deficit, and the winding down of stimulus from the American Recovery and Reinvestment Act—will slow and could still derail the recovery. Consumers drive the economy, and they have not yet returned to the marketplace.

- The Alaska unemployment rate (seasonally adjusted) now stands at 8.7 percent, compared with 6.8 at this time last year. But some of that increase has probably been due to an increase in the number of people coming to Alaska to look for work.

- Reductions in tourism, air cargo, oil and gas, and consumer spending have been the primary causes of the Alaska slowdown, but job losses are now rippling across all industries except for health care and government. These two sectors have added close to 2 thousand jobs compared with this time last year, and without that growth, the decline in jobs would be twice as large.

- For example, the job cuts recently announced by the Alaska Railroad are largely due to reductions in tourism and air cargo traffic through Anchorage. This reflects the fragility that is a characteristic of our small economy.

- The weak tourist season is reflected in a 16 percent decline in Anchorage hotel receipts through September, compared with last year, as well as an 8 percent decline in passenger arrivals at Ted Stevens International Airport. Although tourism related employment has not fallen that much, the decline in tourist spending has eroded the finances of tourist businesses. With the announced loss of 3 cruise ships next year, representing 14 percent of the Inside Passage market, the tourism industry will continue to contract.
• The drop in air cargo traffic through Anchorage that began in late 2007 continued through this fall, but at a slowing rate, and landings and volume are showing signs of a rebound. But the recovery will be slow due to continued high unemployment and low consumer confidence throughout the country.

• Petroleum employment was at an all time high in 2008 but the majors have been cutting costs this year because of lower profits, due to the lower prices for both oil and gas compared with last year’s record highs. This has primarily affected petroleum support businesses that are now reporting workforce reductions. Projects already underway like Liberty and Point Thomson, are continuing, but no new large projects have been announced, suggesting activity will continue to taper off next year.

• On a positive note, due to the drop in the value of the $, the oil price has trended upward this year and is currently about $80 per barrel. This price could support a state budget with increased revenue sharing and capital construction to offset some of the effects of the recession. In that vein, the governor has proposed a 5-year spending program targeting deferred maintenance of state infrastructure.

• Federal stimulus funds estimated at $1.4 billion have been allocated not only to Alaska construction projects but also to government operating programs and transfer programs to individuals. Only a small share of those funds has been spent, so they will be a source of strength for the economy next year.

• Retail trade will move into 2010 weaker. Consumers will continue to shift their purchases to basics and remain cautious as long as there is uncertainty about both the national and local economies.

• Alaska balance sheets, of both consumers and businesses, remain stronger than in most of the nation, but many businesses are reporting weaknesses due to falling demand. Housing prices have remained stable this year, although sales are down. The mortgage delinquency rate is rising, but it remains the fourth lowest in the nation. The commercial real estate market is starting to soften due to the drop in employment.

• The slow economic contraction will continue into next year although Alaska will continue to perform better than most of the nation. Until there are clear signals indicating a resumption of growth—particularly in tourism, air cargo, and petroleum --businesses will exercise caution in hiring and investment decisions. The long term prospects for the economy remain strong, but returning to a growth path will require the combined efforts of our driving industries in partnership with state and local governments.

First National Bank Alaska paid for the production and distribution of this publication. For further information or to unsubscribe, call 777-3409.