

COVID-19 and the Alaska economy

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Outline

A basic introduction

Spending

Background
Oil snapshot

Forecast

On the forecast

I will be summarizing trends in the Alaska economy as well as my most recent forecast of the Alaska economy.

Summary

- ▶ Average weekly unemployment insurance claims averaged 930 per week. Since March 21st, 2020 weekly unemployment insurance claims averaged more than 8,000 per week. As of the week ending August 22nd, there were 29,146 continuing regular claims and another 11,375 PUA claims.
- ▶ The seasonally adjusted unemployment rate jumped from 6.2% to 11.6% from July 2019 to July 2020.
- ▶ Consumer spending as of August 30th is around 14.7% below January levels. This represents a significant improvement relative to the April lows. The spending has, however, flattened in the last month. Foot traffic has also flattened in the most recent weeks.

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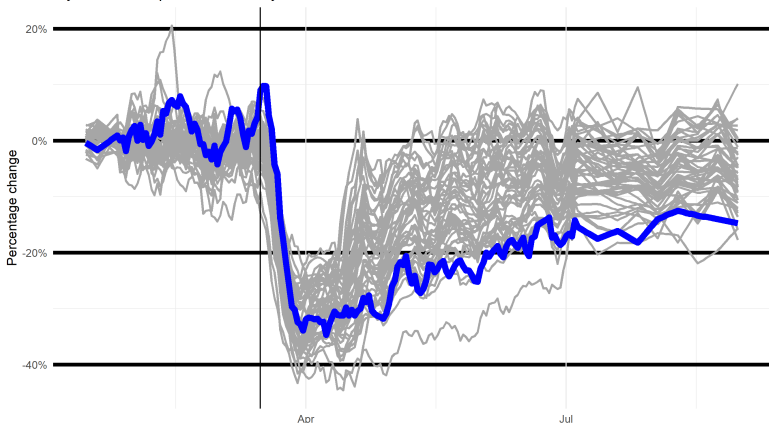
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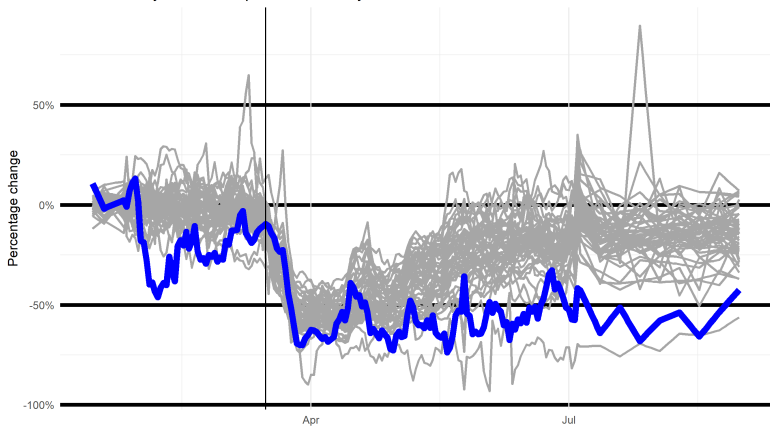
Spending improving but still well below pre-pandemic levels

In Alaska, as of August 30th 2020, total spending by all consumers decreased by 14.7% compared to January 2020.



Healthcare spending remains weak

In Alaska, as of August 02 2020, health care spending by all consumers decreased by 42.5% compared to January 2020.



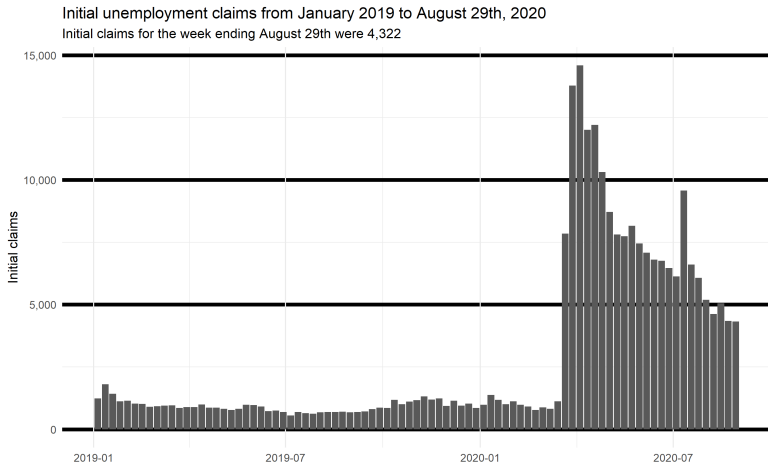
An income cliff

- ▶ Federal aid in the form of business assistance, individual assistance, and direct aid to the state exceeds 3 billion dollars or more than 7% of the state's GDP.
- ▶ It is unclear how quickly a deal to extend these important payments will occur. Alaska has decided to extend the unemployment insurance payments at the 300 dollar level.

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Unemployment insurance in a picture



What will the recovery look like? Much more talk about a K shaped recovery



: a sharp recovery is very unlikely



: a longer downturn followed by a big rebound is possible but largely dependent on virus containment and/or development of a vaccine



: an extended downturn with no bounce in activity would happen if consumer confidence/spending ability remains low and there are multiple waves of shutdowns.

Where do we see things going?

- ▶ The state's economy was expected to grow at between 0.4 and 0.7% pre-COVID. As a result of the decline in activity, we will see significant employment declines for 2020.
- ▶ Employment will turn positive positive in 2021 but we do not expect returning to pre-COVID employment levels until 2023 or beyond.
- ▶ It will be important to think in terms of year over year comparisons rather than month over month.
- ▶ Of course, the recovery completely hinges on virus containment and people's willingness to congregate and resume spending.

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Some specifics

- ▶ In 2020, we anticipate the economy to end the year with almost 25,000 fewer jobs than in 2019. The decrease would represent a 7.4% drop relative to the previous year. In 2021, we expect the economy to slowly start regaining the jobs lost the previous year and grow at a rate of 2.2%. In 2022, we anticipate a continuing climb for the Alaska as it is expected to grow at 1.1% percent. By the end of 2022, the Alaska economy should be at about 95% of the pre-pandemic levels.

Forecast assumptions: considerable downside risk

The forecast we present below makes a number of important assumptions about the federal aid, oil prices, and the pandemic.

- ▶ First, we assume that the federal government will continue to provide financial assistance to unemployed individuals either by extending the unemployment insurance payments or by investing in work share programs.
- ▶ Second, we rely on the Alaska Department Revenue's forecast that shows oil prices will remain low but stable for the next two years.
- ▶ Third, and perhaps most importantly, we assume that the virus will be contained and that the economy will not experience another round of closures.
- ▶ Lastly, we assume a normalization of travel in 2021 which significantly affects the leisure and hospitality outlook.

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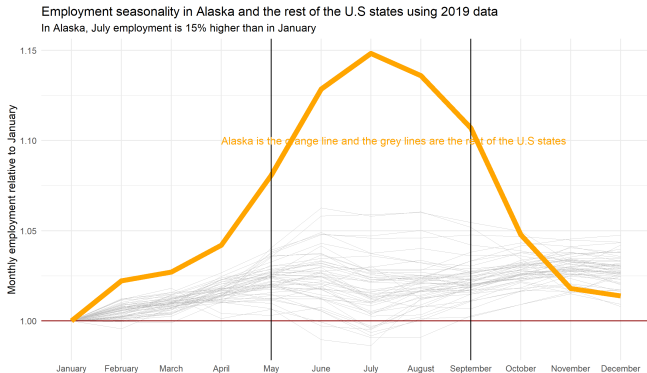
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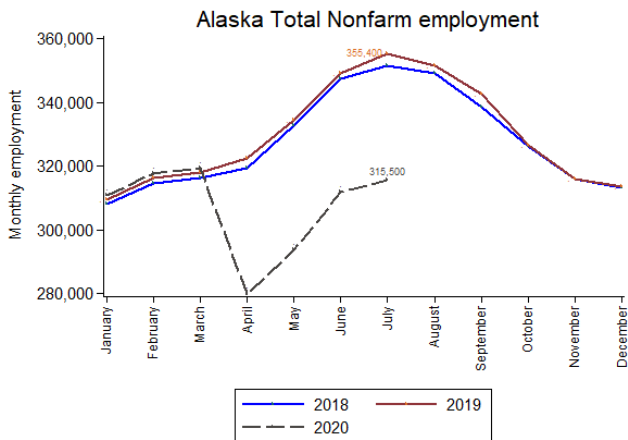
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Seasonality complicates Alaska's recovery

Seasonality



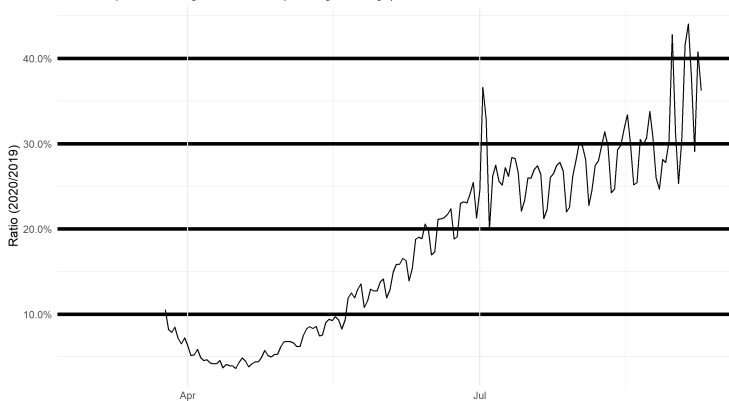
Employment declines



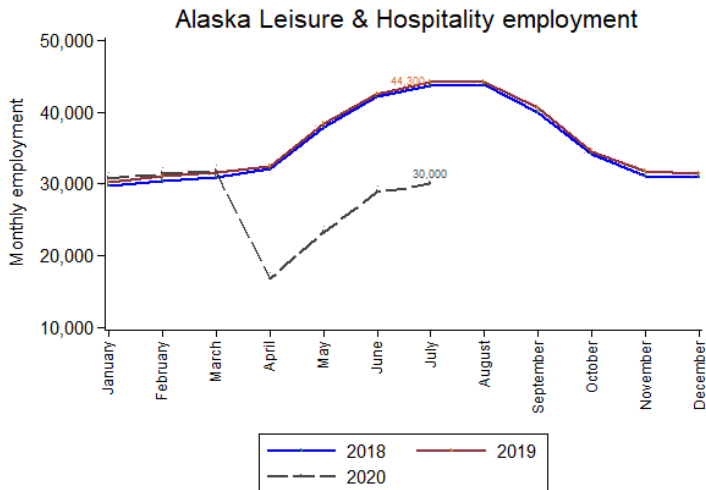
Air travel

Traveler throughput relative to the same weekday last year

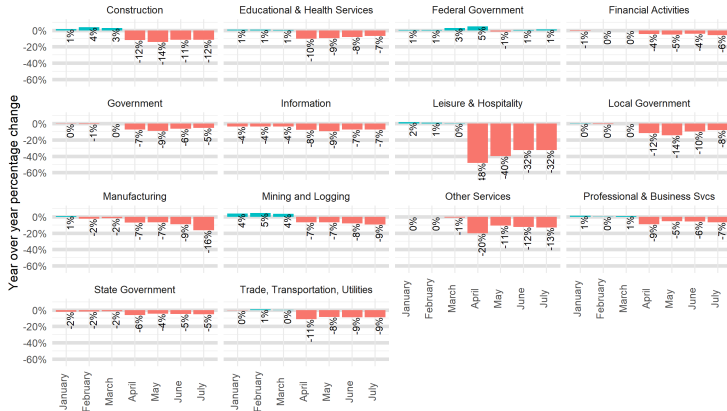
Source: <https://www.tsa.gov/coronavirus/passenger-throughput>



Leisure and hospitality



Percentage change in employment by sector



Outline

A basic introduction

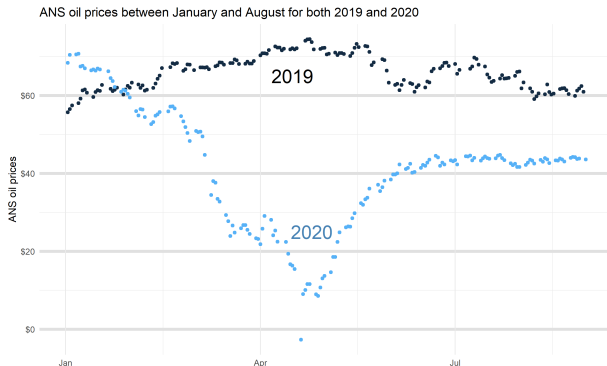
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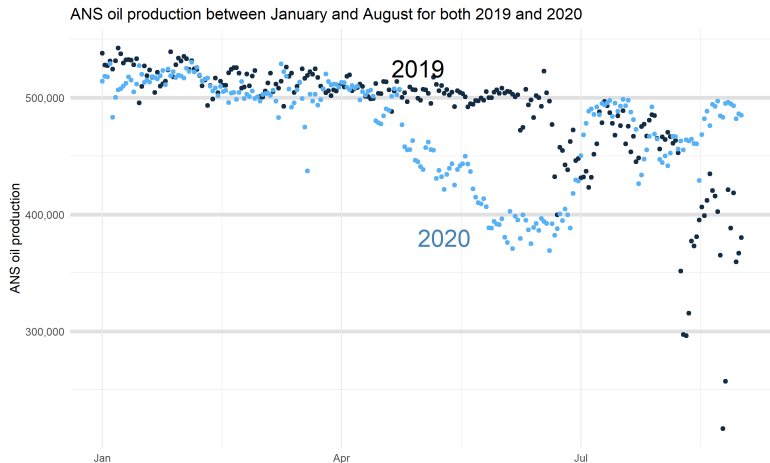
Let's start with oil prices

ANS oil prices have not looked back since reaching negative territory on April 20th. They have been over 40 dollars everyday since June 5th

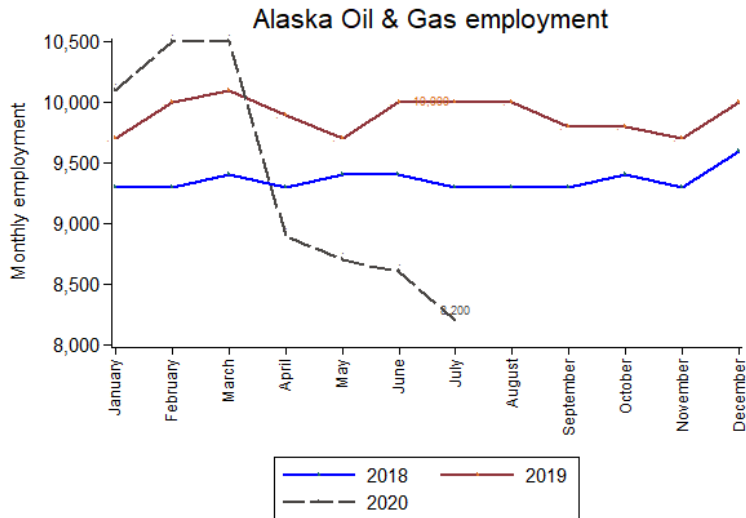


What about production?

ANS production is averaging about 24,000 fewer barrels per day in 2020.

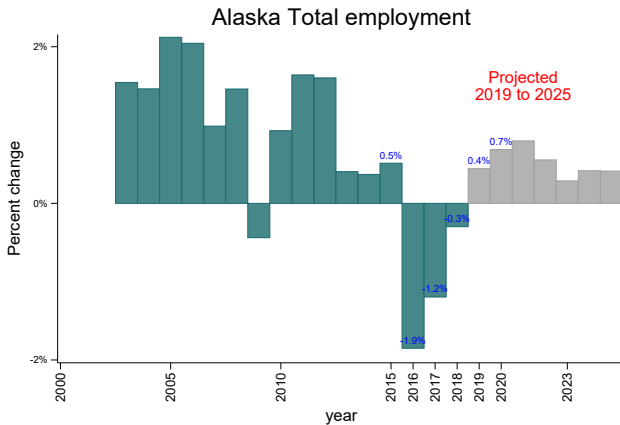


Oil and Gas employment



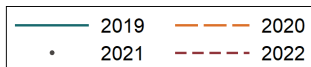
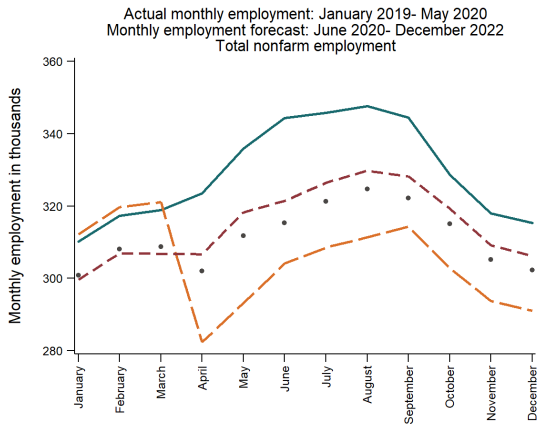
Pre-Covid forecast

Employment forecast pre-pandemic



QCEW Data

Wage and Salary forecast



Breakdown: Different paths for different sectors

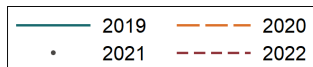
- ▶ The road back to pre-pandemic employment and output levels will be a long one as some businesses have permanently closed, the tourism shock will be long lasting, and while oil prices have recovered from negative territory the outlook is fairly bearish.
- ▶ Local governments reliant on sales tax will feel these declines for multiple seasons. It is very unlikely the Alaska economy will see a V shaped recovery due to the long lasting effects we describe above. It is much more likely that we will see a U shaped or a gradual "Nike swoosh" recovery with a slow climb in activity.
- ▶ We have very likely reached the trough of economic activity but the recovery will vary by sector and will depend on sources of demand, need for face to face interaction, and the general strength of household balance sheets.

General thoughts

- ▶ In general, industries exposed to any segment of travel will take longer to recover. The oil dependent sectors such as Professional and Business services and Construction will also be challenged as the oil industry deals with historically low demand and low prices.

Leisure and Hospitality

Actual monthly employment: January 2019- May 2020
Monthly employment forecast: June 2020- December 2022
Leisure and hospitality



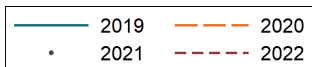
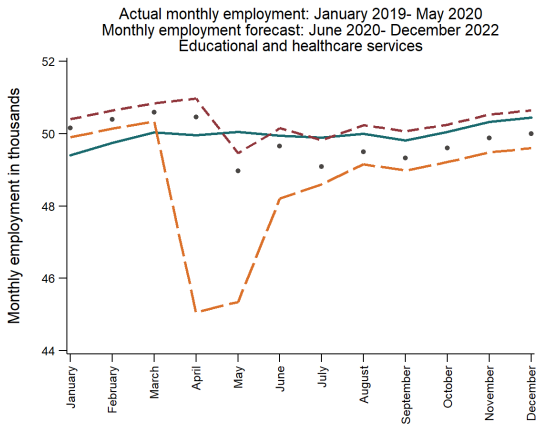
Leisure and Hospitality: Summary

- ▶ In 2020, we anticipate the economy to end the year with around 10,780 fewer jobs than in 2019. This would represent a 29% decrease relative to the previous year. In 2021, we expect the sector to resume growth as travel patterns begin normalizing. By the end of 2022, we expect that the Leisure and Hospitality sector to be at about 85% of the pre-pandemic levels.
- ▶ In addition to the sector's importance for jobs, it plays an important role as a tax base for many communities across the state which mean local government revenues will be severely challenged as long as travel levels are depressed.

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Education and Healthcare services



Education and Healthcare services: Summary

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- ▶ In 2020, we anticipate the economy to end the year with around 1,300 fewer jobs than in 2019. This would represent a 2.6% decrease relative to the previous year. In 2021, we expect the sector to resume growth at a rate 2.23%. By the end of 2022, we expect that the Education and Healthcare sector to be at about 100.7% of the pre-pandemic levels.

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Final takeaways

- ▶ We have very likely reached bottom in terms of economic activity but the path forward is not a straight line.
- ▶ No path to full economic recovery without virus containment.
- ▶ It will be important to assess the continued effects of the pandemic by region and industry.

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Thank You

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