

# ALASKA ECONOMIC UPDATE

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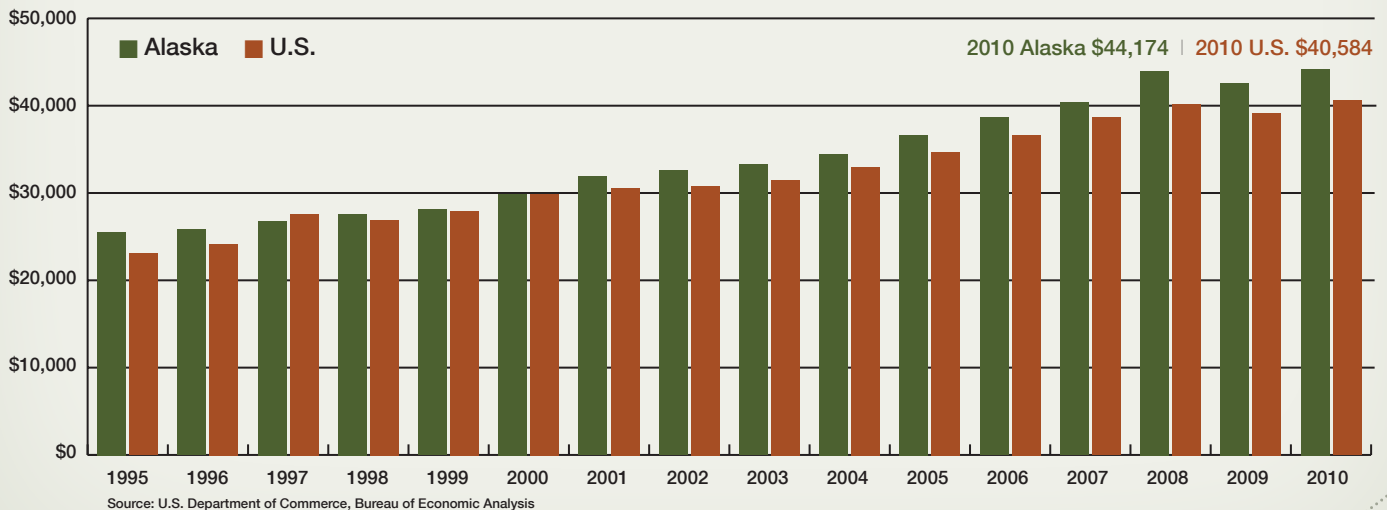
The Alaska economy appears to have avoided the worst of the national recession. Alaska's value-added economic output and personal income in 2008 and 2009 improved while the nation as a whole declined. Gross State Product (GSP) figures are only available through 2009. Alaska was the 3rd fastest growing state in the country for GSP that year, increasing in real terms by 8.6%. Alaska was one of only 10 states to increase in 2009, while the national average was a decrease of 2.4%. Alaska continued positive growth in 2010 in both income and jobs.

## PER CAPITA INCOME:

According to the Bureau of Economic Analysis (BEA), Alaska's personal income rates have grown for eight straight quarters. In 2010, Alaska added \$1.2 billion in personal income, up 3.9%. This made Alaska the 4th fastest growing state for income and placed it 8th overall for per capita income. Growth in wage earnings was the largest contributor in Alaska (+\$660 million, +3%), though government transfer payments rose the fastest in percentage terms (+\$443 million, +10%). Income from dividends, interest and rents increased slightly (+\$89 million, +2%) and was passed by government transfer payments as the second most important source of personal income nationally for the first time in history. The BEA said this was due to longer unemployment benefits and more claims; the burgeoning retiree population using more social security and Medicare benefits; and increases in public assistance such as food stamps, refundable tax credits, Pell Grants, and Medicaid. Many of these programs increased with the Federal stimulus plan.

## ALASKA & U.S. PER CAPITA PERSONAL INCOME

Alaska 8th highest state in the U.S. • Alaska 2010 = 3.9% Increase



## JOB GROWTH:

The only major indicator to briefly see negative returns in Alaska during the U.S. recession was jobs. Department of Labor statistics reported that payroll jobs declined 0.3% on average in 2009. This ended 21 years of consecutive gains, but we have returned to positive territory with 1% growth in 2010. The monthly average for 2010 was 324,500 jobs, 3,150 more than the prior year.

Health care led a majority of the gains, adding 2,600 jobs while government increased by 950 in 2010. Government growth came evenly from local education, state, and federal increases. In 2011, cuts in local government due to budget factors and declines in Federal jobs as the Census ended may slow the growth in this sector, though State jobs should remain steady.

Job growth has not kept up with population gains and Alaska's unemployment rate has inched about 1% higher than normal to 8.1% at the end of 2010. The rest of the nation suffered 7.5 million lost jobs during the recession and finished the year at 9.4% unemployment. Anchorage was significantly better at 6.4%. All three areas were 0.5% better than at the end of 2009. Wasilla ended 2010 with an unemployment rate of 9.5%, a 0.7% improvement from last year. The Fairbanks North Star Borough rate was 7.1%, down nearly a full point from 8% at the end of 2009.

The common theme among states around the country that were resistant to the recession was natural resource development. The negative outside economic forces were offset in Alaska by high commodity prices including oil, fish, minerals and precious metals. Oil has been trading stably over \$70 a barrel and is currently over \$100, while gold prices are above \$1,400 an ounce.

Commodity prices are projected to remain high in the near term as the global economy recovers. Demand in developing economies continues to grow along with the world's population and standard of living. Meanwhile, on the supply side, environmental and regulatory challenges have limited mining and energy production, putting further upward pressure on prices. The future of Alaska's economy depends on its ability to continue to develop abundant natural resources. Trillions of dollars in known resources exist around the state. This drives billions of dollars in new investment capital into Alaska each year, attracts skilled labor, modern technology, and infrastructure development.

## ALASKA PAYROLL JOBS 1% HIGHER

Monthly average 2009-2010

### (+) Growing Sectors

|                  |        |      |
|------------------|--------|------|
| Health Care      | +2,600 | 7%   |
| Government       | +950   | 1%   |
| Finance          | +300   | 2%   |
| Mining & Logging | +200   | 1%   |
| Hospitality      | +100   | 0.4% |

### (-) Declining Sectors

|                  |      |    |
|------------------|------|----|
| Air Transport    | -440 | 7% |
| Retail           | -280 | 1% |
| Manufacturing    | -280 | 2% |
| Information Svcs | -240 | 4% |
| Construction     | -130 | 1% |
| Oil & Gas        | -120 | 1% |

Source: Alaska Department of Labor

## GOVERNMENT:

Government spending helped offset declines in other sectors. The State government has enjoyed a revenue surplus for seven straight years, even with increased operating and capital budgets. This has almost entirely been a result of higher oil prices and production taxes. Oil taxes alone contributed \$6.2 billion of the \$10 billion spent by the State government in fiscal year 2010. The added benefit of \$900 million in Permanent Fund dividends and sustained military activity has kept economic activity in Alaska balanced.

Nationally, the Federal stimulus plan added \$787 billion in spending with the goal of jump-starting the economy and to create and save jobs. Approximately \$2.1 billion in funds were awarded to Alaska with about \$900 million received by the third quarter of 2010. The debt the nation incurred to provide this spending will be a drag on long-term growth rates. The Federal Reserve has been very accommodative with all-time historically low interest rates. Interest rates are expected to remain relatively low throughout 2011 as they continue to focus on reviving the national economy. Rates are likely to trend upward if economic activity continues to improve.

**POPULATION:**

Alaska’s population has grown at over 1% a year for the last decade to 710,231 people according to the 2010 U.S. Census. Anchorage and Fairbanks have grown slightly faster than the rest of the state. The Mat-Su region is growing at over 4% a year on average and now accounts for 12% of the entire state population.

The State Department of Labor predicts that by 2034 Alaska will grow to 862,750 people with the Anchorage/Mat-Su region adding 38%, while the Southeast declines 14%. The most significant change will be in the over-65 age group nearly doubling from 7.5% of the population to 14.5%. Life expectancies are predicted to increase from 75 years to 80 for Alaskan men and 80 to 84 years old for Alaskan women.

**HOUSING:**

All time historically low interest rates kept home refinance activity strong; though this should wane in 2011 as most of the people who could refi have already taken advantage of the situation. Home prices and sales levels have been maintained in Alaska mainly due to stable jobs and incomes, low interest rates, and a lack of new construction to compete with existing homes.

Alaska continues to have some of the lowest levels of residential mortgage delinquencies and foreclosures in the nation according to the Mortgage Bankers Association fourth quarter 2010 survey. Alaska ranked third best in the nation behind North and South Dakota as having the lowest percentage of mortgage loans delinquent.

**FORECLOSURE AND DELINQUENCY RATES**

**1-4 Unit Residential Properties**

|                                 | National Rank | Alaska | U.S.  |
|---------------------------------|---------------|--------|-------|
| Delinquencies, total 4Q 2010    | 3rd best      | 4.3%   | 8.9%  |
| Foreclosures, started 4Q 2010   | 2nd best      | 0.5%   | 1.3%  |
| Foreclosures, total in progress | 2nd best      | 1.1%   | 4.6%  |
| Subprime delinquencies          | 1st best      | 10.9%  | 25.3% |
| Subprime foreclosures           | 1st best      | 4.4%   | 14.5% |

Source: Mortgage Bankers Association of America  
Seasonally adjusted rates based on 4th quarter 2010 data.

Alaska’s fourth quarter delinquency rate of 4.25% was significantly better than the national average of 8.9%. The U.S. improved 0.5%, while the delinquency rate in Alaska improved 0.7% from the third quarter of 2010. Alaska ranked 2nd best of all 50 states in both total foreclosures in progress and those started in the fourth quarter of 2010. Alaska’s total foreclosure rate remained unchanged at 1.1%, compared to 4.6% nationally.

Subprime loans to traditionally unqualified borrowers were a major source of the mortgage problems that plagued the country recently. However, Alaska continues to have the lowest level of subprime loans delinquent or foreclosed in the nation. Alaska’s subprime delinquency rate is 10.9% while the national average is 25.3%. The second lowest state is Colorado at 18.4%, so Alaska is far ahead of the pack in this key category.

**PRICE, UNITS SOLD AND INVENTORY:**

Anchorage Multiple Listing Service (MLS) statistics indicate that the number of single-family home sales was down 6% in 2010 and condominium sales increased 2.4%. The average sales price for a single family home was \$329,052, up 2.5% while condos decreased 2.4% to \$191,358. The average days on market for single family homes sold in the last 13 months was 65 days and condos averaged 93 days. At year end 2010 there was a 3.8 months supply of single family home inventory and 4.8 months of condo inventory. The \$750,000 and above market segment remains a concern. At year end there was over 15 months of inventory in this price range and 26 months for homes over \$1 million.

The MLS data for the Matanuska-Susitna Valley combines single family homes and condo sales. The number of units sold decreased slightly by 1.4% to 758 in 2010 while prices increased 4.5% on average to \$220,685. The average number of days on market for units sold in the last 13 months was 81 days. At year end there were 334 active listings with 58 sales per month on average for a 5.8 months supply. Fairbanks data was compiled by the State Department of Labor. It shows 1,116 single family homes sales in 2010, a 6.5% increase. The average sale price increased 2.7% to \$235,695.



## INFLATION:

The consumer price index for Anchorage rose 1.8% in 2010 compared to 1.5% for the U.S. Anchorage is the only community in Alaska tracked by the Federal Bureau of Labor Statistics, which reports on local inflation every six months. The ten year average inflation rate has been a modest 2.6%. Housing costs are the largest component of personal spending and they climbed 2.3% in 2010 in Anchorage. Medical care rose 5.3%, Recreation and Entertainment added 1.4% and Clothing 0.4%. Household furnishings declined 0.2%.

## OIL AND GAS:

The development of a large diameter natural gas pipeline to deliver 35 trillion cubic feet of known gas reserves on the North Slope of Alaska would mean significant tax and royalty revenue for the State, in addition to the positive economic impact from the construction and maintenance of the pipeline. However, the projected costs of the project, competing alternative global sources of natural gas, low natural gas prices, and disputes over North Slope leases have all caused concerns about the viability of the project.

The price for a barrel of Alaska North Slope crude oil has moved above \$100 in 2011. During the 2010 fiscal year prices averaged \$74.90. The U.S. Energy Information Association (EIA) believes growing demand from developing countries and a global economic recovery should keep prices high in the next two years. They project \$93 in 2011 and \$99 in 2012. The EIA stated world oil demand was up 2.2 million barrels per day (bpd) in 2010 to 86.6 million bpd. Most projections expect it will approach 88 million bpd this year.

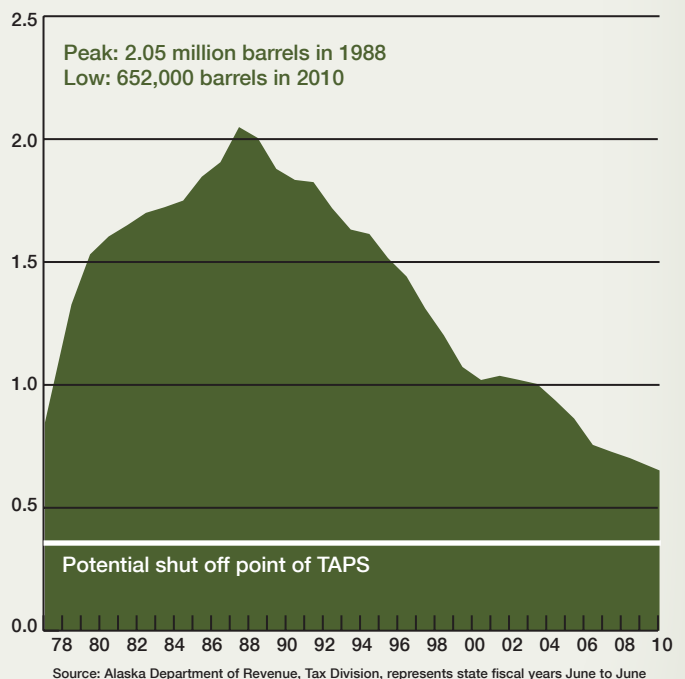
Higher than predicted prices during the first half of the current fiscal year should lead to the seventh consecutive year of budget surplus for the state government. Oil prices are volatile, but any deficits in the current and near term fiscal years will be covered out of the sizable savings accounts the state has accumulated. There is approximately \$12 billion in liquid savings available for spending in case of budget shortfalls and another \$38.5 billion in the Alaska Permanent Fund at year-end 2010.

Alaska North Slope crude oil production declined 7.3% in state fiscal year 2010 to 652,000 bpd. This is following declines of 5.3%, 2.5% and 12.5% over the last three years. State economists predict this declining production trend to continue unless very large capital investments are made in new exploration. Alaska's oil production is now less than one third the level of its peak production of 2.1 million bpd in 1988.

Alaska's production problems are not due to a lack of resource supply. Tens of billions of barrels of recoverable oil still exist throughout the state and off-shore. However, limitations imposed by the State and Federal government through excessive tax policy, regulations, permitting delays and lack of legal access to explore in restricted areas are inhibiting progress.

Alaskans have many things to be thankful for as the state fared better than the rest of the nation during difficult economic times. Significant natural resources remain to be developed that can ensure economic prosperity for decades to come. State and Federal policies will be the driving factor determining the pace of future economic growth in Alaska.

## ALASKA OIL PRODUCTION 1978-2010



**About the Author:** Mark Edwards is a commercial loan officer and bank economist with Northrim Bank. He served the State of Alaska as its state economist in the Department of Commerce, Community and Economic Development; as the director of the Office of Economic Development; and in the Department of Revenue. Read Mark's postings at [Alaskanomics.com](http://Alaskanomics.com).