

ALASKA'S ECONOMY

Understand it. Support it. Grow it.



Volume 3
February 2015

Scott Goldsmith, Professor of Economics, Institute of Social and Economic Research at the University of Alaska Anchorage, shares his views on the Alaska economy.

North Slope Oil Price Stops Falling

The ANS (Alaska North Slope) oil price stopped falling in early February and experienced a slight recovery. The average for the current fiscal year is now \$80 which is on track to finish at about the Alaska Department of Revenue forecasted level of \$67. **Figure 1**

The future direction of the price is uncertain as the world oil market struggles to absorb about two million barrels per day of excess supply. Only when demand rises and supply falls will the market return to balance and the price stabilize. Unfortunately as of today neither supply nor demand has shifted appreciably.

Employment Growth Slows in 2014 3rd Quarter

Alaska employment growth slowed in the 3rd quarter last year to an annual rate of .3 percent according to the Alaska Department of Labor. **Figure 2**

The slowdown was concentrated in the private sector where the employment level in September 2014 was identical to a year earlier. **Figure 3**

Employment in oil and gas is on track to increase about five percent in calendar year 2014 to 14,700—an all-time high. **Figure 4**

Flat Anchorage Employment Forecast for 2015

Growth in retail trade and healthcare services is projected to offset declines in government and the oil and gas sectors resulting in 2015 employment unchanged from 2014 according to the Anchorage Economic Development Corporation. **Figure 5**

Alaska Employment Projected to Decline in 2015

Alaska employment is projected to decline by .5 percent or about 2,000 in the second half of 2015 according to a new study presented by the World Affairs Council. Most of the drop would be in the natural resources (800), government (800), and construction (550) sectors. Modest growth in the health, trade, and hospitality sectors would offset some of this decline. **Figure 6**

Anchorage Business Confidence Index for 2015 Falls

The Anchorage business confidence composite index for 2015 fell according to the Anchorage Economic Development Corporation. The index is based on an online survey conducted in November and December for which 245 local businesses responded. Expectations for 2015 for all five of the components of the index—Anchorage economy, overall gross sales, net profits, employment, and capital expenditures—declined. **Figure 7**

The most important barriers to growth, according to respondents, were the condition of the state economy, availability of a professional/technical workforce, the condition of the national economy, health insurance, and the cost of labor. The most important issues facing Anchorage's economy are declining North Slope oil production, a natural gas pipeline from the North Slope to Cook Inlet, Cook Inlet resource development, and the sustainability of the State of Alaska operating budget.

Construction Spending Forecast at \$8.5 Billion for 2015

Construction spending is forecast to be \$8.5 billion in 2015 according to a new report from the Institute of Social and Economic Research of the University of Alaska Anchorage. **Figure 8**

Spending will be three percent lower than last year due primarily to a decline in private spending excluding the oil and gas sector. Although the petroleum sector initially anticipated an increase in spending of 18 percent, this forecast makes a downward adjustment based on the fall in the price of oil at the end of 2014 which dramatically reduced the cash flow for most companies. Public spending is projected to be one percent higher due to strong federal and state budgets. (Although state capital appropriations have fallen for several years, money from earlier budgets is just now “hitting the street”). **Figure 9**

Petroleum Capital Expenditure Projected to Peak in 2016

Petroleum industry capital expenditures are projected to peak in fiscal year 2016 at \$5.4 billion and subsequently decline according to the Alaska Department of Revenue. **Figure 10**

Production tax credits are expected to fall with the level of capital spending. **Figure 11**

The fall in credits, along with a recovery of the oil price, should lead to a return to a positive value for the petroleum production tax, after netting out all credits. **Figure 12**

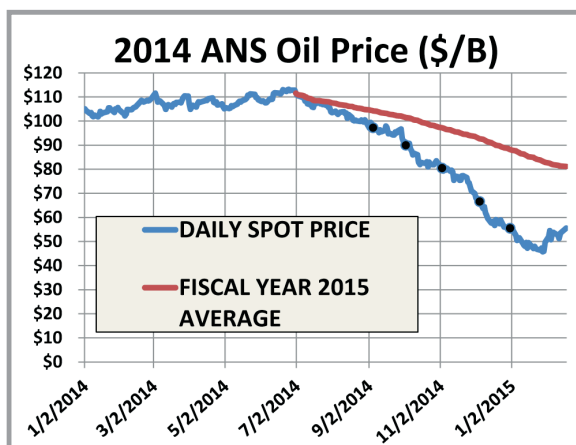


Figure 1

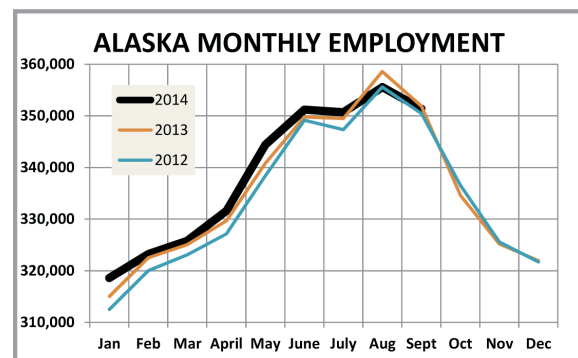


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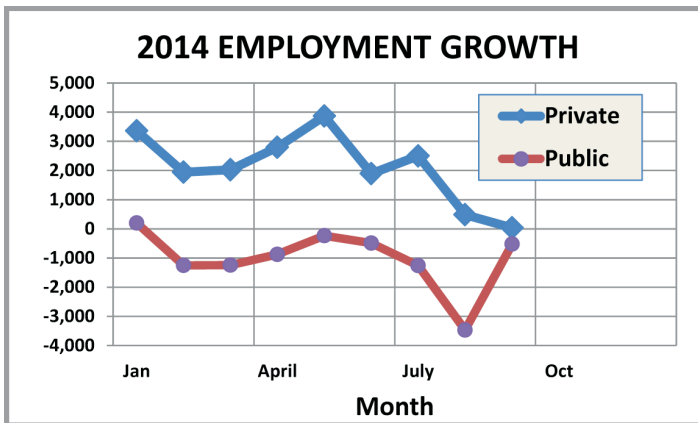


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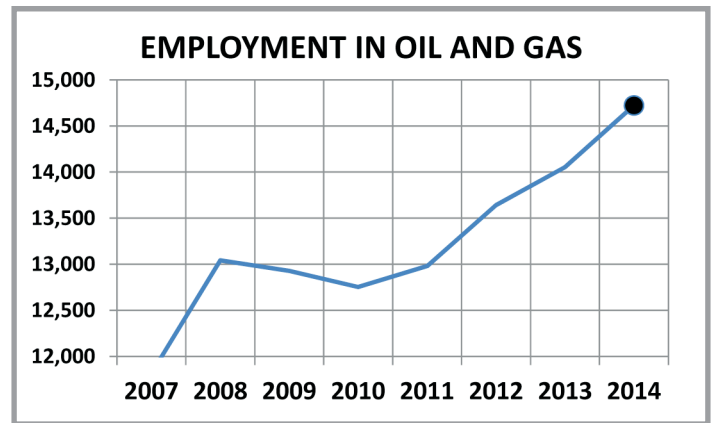


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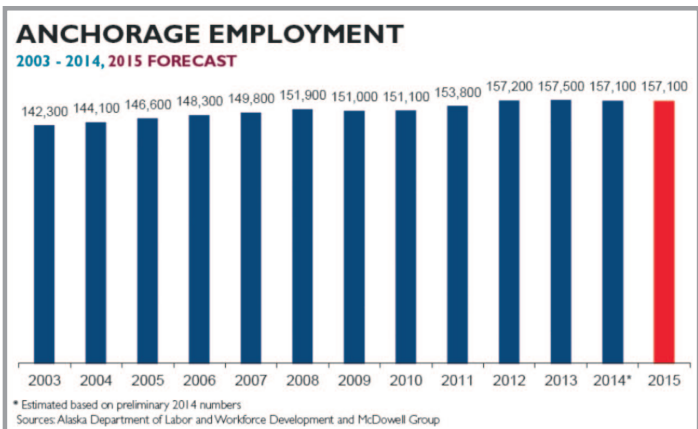


Figure 5

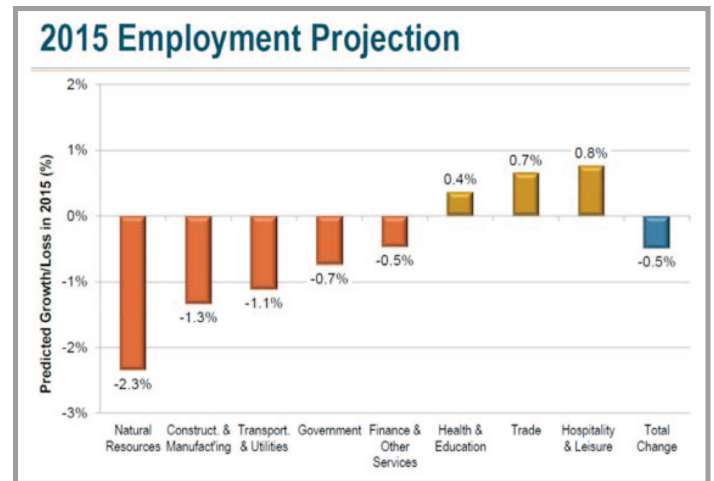


Figure 6

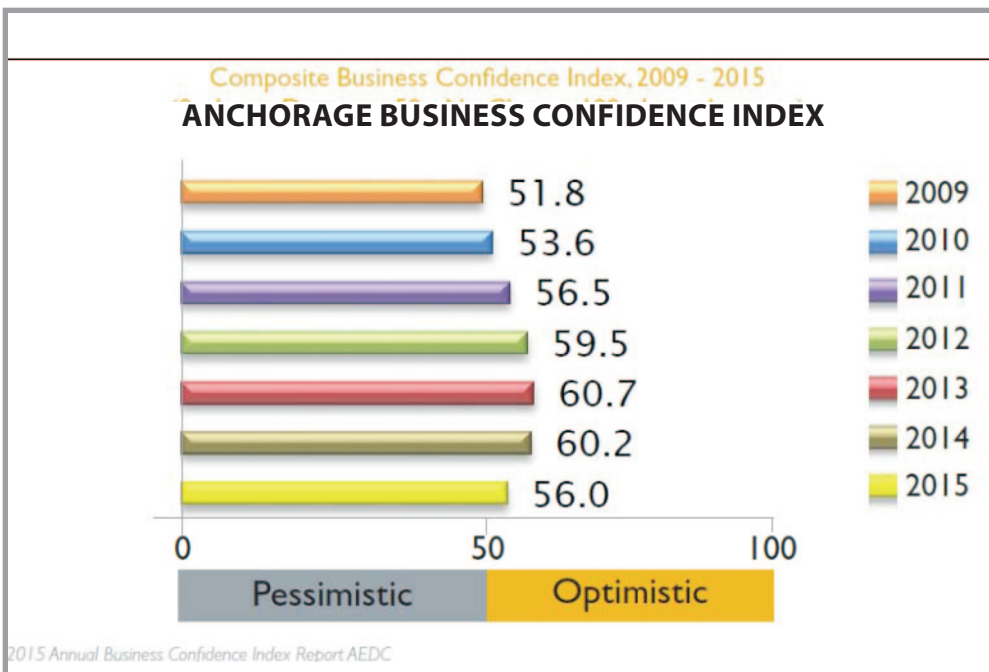


Figure 7

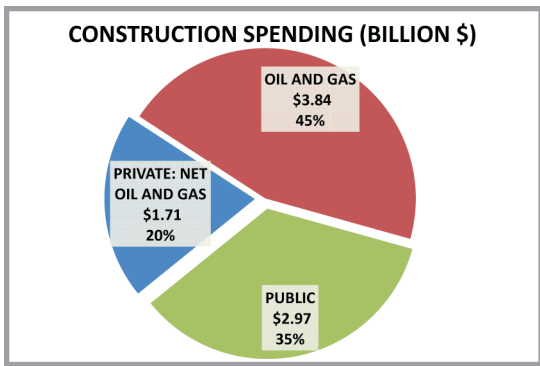


Figure 8

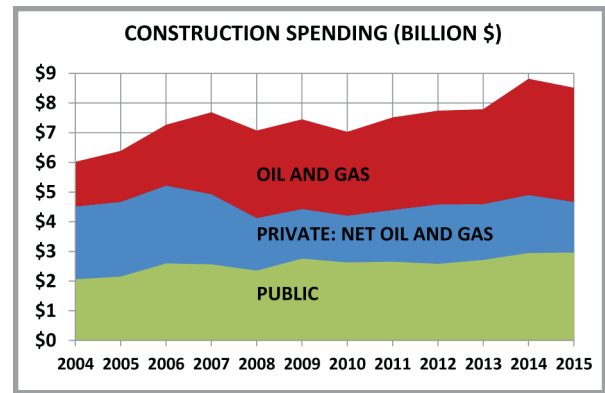


Figure 9

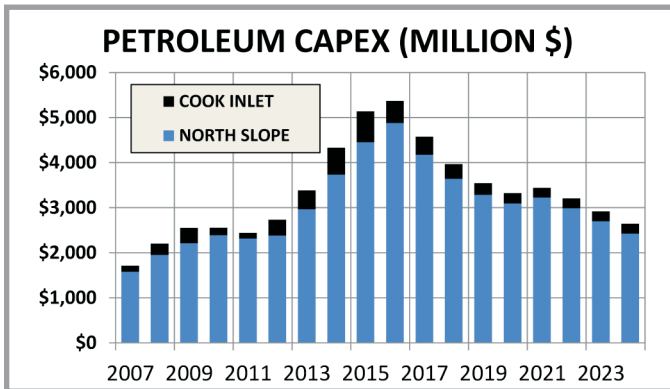


Figure 10

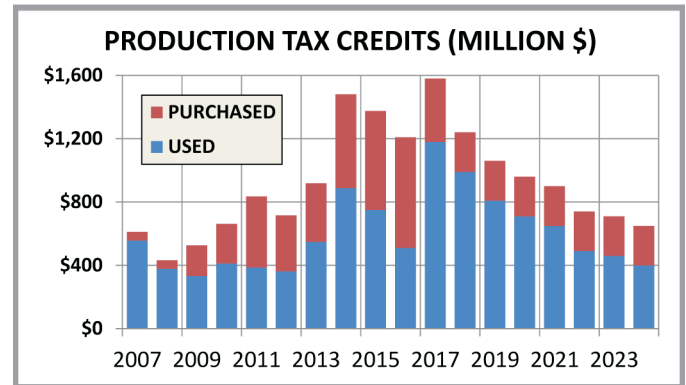


Figure 11

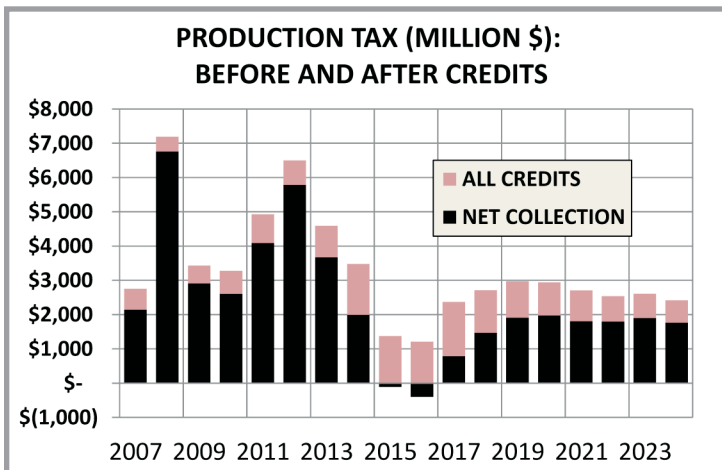


Figure 12