

Katharine Wellman Selected for Puget Sound Partnership Science Panel

We are happy to announce that Northern Economics associate Dr. Katharine Wellman has been



selected to serve on the Puget Sound Partnership's Science Panel.

The Puget Sound Partnership (PSP) is a Washington State agency established to lead efforts to protect and restore the Puget Sound.

The Science Panel was created to provide independent scientific advice to the PSP as it seeks to fulfill its mission to restore and preserve the Sound. The panel includes nine members from varied backgrounds, and affiliated with a wide range of entities, mostly governmental agencies and universities.

Dr. Wellman is the only member of the team from a private sector firm, and the only social scientist selected.

Alaska Economic Forecast for 2008

For the fifth year now, Northern Economics provided the keynote address for the World Trade Center Alaska's Annual Economic Forecast luncheon in January. This year the program was expanded to three presentations in three cities: Anchorage, Fairbanks, and Juneau. President Patrick Burden made the presentations in Anchorage and Juneau, and Vice President Marcus Hartley spoke at the Fairbanks event.

In the interest of letting you get on with your busy day, we'll start with a summary of our predictions, then give some of the factors behind those predictions. A copy of our presentation, with accompanying charts and data can be found at the World Trade Center Alaska website.

Summary

- ❖ Civilian job growth will be flat; with military expansion, jobs will increase by 1,000 to 453,000 jobs by the end of 2008
- ❖ Gross State Product will increase by \$1.9 billion to \$43.8 billion; 95 percent of that increase is oil price related
- ❖ Earnings will increase \$300 million but only grow at 1.3 percent due to layoffs and reduced hours in certain industries

All things considered, we expect that it will be a challenging year for the Alaska economy. Several industries, including construction, manufacturing, finance and real estate will see downturns in 2008. While we expect other sectors to make up the difference, if they don't, Alaska's string of 19 consecutive years of growth may be at risk.

Major Economic Drivers for 2008

For the forecast we identified five issues as major influences on the state's economy for 2008:

- ❖ Stalled residential construction in the U.S. and in Alaska, coupled with the mortgage loan crisis
- ❖ Potential for a recession in the national economy
- ❖ Declining U.S. dollar
- ❖ Higher oil and commodity prices
- ❖ State revenue surplus

U.S. housing starts

If you've been following the national economic news at all, you know that U.S. housing starts are down. In fact, they began declining in 2006 and fell further in 2007. The residential housing sector in Alaska has also been affected. Furthermore, Alaska has not been exempt from the mortgage loan crisis—banks are foreclosing on several Alaska housing projects as well as individual homes—and the crisis is affecting the entire U.S. as well as the Alaska economy.

Thus the Big Question is: Are we going into a recession? We're not going to predict whether we are or are not going into a recession, but there are several factors we should consider.

Recession in the national economy?

First, there's unemployment. The seasonally adjusted unemployment rate shows increasing unemployment in both the nation and Alaska, and suggests that the U.S. economy may be entering a recessionary period.

Alaska consistently has a higher unemployment rate than the U.S. economy, and while many believe that our economy is not closely linked to the national economy, it is obvious that our

AK Forecast, contd.

economy responds to changes in the national economy.

While the Alaska economy may see higher unemployment in 2008, remember that during the last recession in 2001-2003, the state's economy still managed to grow and add more jobs each year.

Further evidence that the U.S. economy is slowing is provided in trends of Federal Tax deposits. The year-to-year increase in deposits has slowed over the last two years. The rate of increase for FY 2007 was 8.45 percent over FY 2006. The rate of increase for FY 2008 over FY 2007 at the same point in time is 3.3 percent. This is the lowest rate of increase since 2004.

Declining U.S. dollar

Since January 2003, the dollar has lost a third of its purchasing power relative to the Euro. In other words, the price of your Paris vacation that you took in 2003 would cost you one third more if you took another one this spring.

The declining dollar has also affected the prices that we pay for oil and other commodities.

Higher oil and commodity prices

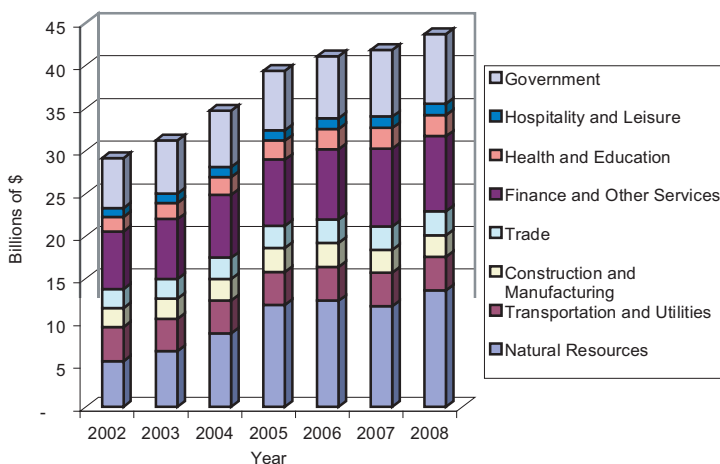
Demand from China, India, and other countries has contributed to price increases in oil, metals, and other commodities, and the decline of the dollar has also contributed to this increase. While this increase is very dramatic for the U.S. consumer, it is not as dramatic for someone buying these commodities with Euros. Of course, since Alaska is a natural resource exporting economy, commodity increases are good for the state's economy.

State revenue surplus

Petroleum Revenues are why the state will have a budget surplus this year and next. In FY 2008 the state will receive about \$6.5 billion in total petroleum revenues. A combination of high prices and the new production tax have resulted in an estimated \$4.5 million revenue surplus for the next two years. With oil prices at about \$90 per barrel, the effective tax rate on production from the large North Slope oil fields is about 40 percent of net revenues. Petroleum revenues are about 90 percent of total state unrestricted general fund revenues, and about half of the total revenues to the state. The state's total budget, including investments from the Permanent Fund and receipts from the Federal Government is about \$13.2 billion for FY 2008. This is roughly \$19,500 for each state resident.

So will there be a recession in 2008? The shortest answer is, it depends. While it is possible that GDP has fallen, recent actions by the Federal Reserve Board, and likely actions by Congress and the Administration may be able to avoid an extended period of declining economic activity. In Alaska, the state capital budget that comes out of the legislative session this year, and other programs such as the proposed rebate to offset higher heating and fuel costs can offset some of the adverse impacts of a slowdown in the national economy.

To see our complete presentation, including our detailed outlook by sector, visit the World Trade Center Alaska website at: <http://www.wtcak.org/EL2008/NE2008.pdf>.



Gross State Product by Sector

Economic Feasibility Studies for Ports

At a recent Washington Public Ports Association (WPPA) annual meeting, Pat Burden, President of Northern Economics, facilitated a roundtable discussion on Economic Feasibility Studies for WPPA members. Port districts in Washington State are tasked with facilitating trade and economic development for their constituents, and there was tremendous interest in the topic and extensive dialogue regarding the use of feasibility studies for the ports.

A number of ports mentioned that they receive a large number of project ideas from a variety of sources and that responding to these inquiries and attempting to determine the viability of the project ideas was very time consuming. In addition, they often didn't have enough information to make an informed decision on the ideas put forward by project proponents. Pat offered the following suggestions:

First, establish investment criteria for ideas that are submitted to the port, such as a minimum number of jobs per acre, a minimum average wage per employee, an identified target industry, etc.

Second, establish minimum information requirements before the port will accept a project concept for consideration, such as a description of the concept, a market analysis including a discussion of competitors, and a capital cost estimate and annual operating cost estimates.

Northern Economics, Inc. was invited to lead the roundtable because of its extensive experience in port and harbor planning work. Our Harbor Economic Impact Model is a planning tool developed for Alaskan harbors to evaluate the fiscal and economic impacts of harbors. More information about the model and a free copy for download are available at <http://www.harbormodel.com/>.