

Checking Up on the Economy and Our Predictions

A common complaint about economics is that its practitioners often move on to new predictions without looking back to assess their prior performance. So, with a nod to our profession's critics we're conducting a mid-year assessment of how the predictions we made for the World Trade Center Alaska's 2009 Economic Outlook are holding up. Our forecast contained two key components:

1. We predicted that Alaska would join the country in recession sometime after the first quarter as residual strength in resource extraction dissipated and the economy experienced weaker construction and tourism seasons.
2. We predicted year-over-year (YOY) job losses would occur in each of the major sectors that make up the Alaska economy.

So, how are we doing with 6 months left to go in the year? Let's take a look at the current situation.

Changing Employment Trends

In July the Alaska Department of Labor and Workforce Development (ADOLWD) reported that Alaska's seasonally adjusted unemployment rate rose to 8.4 percent, a rate one point lower than the rate for the U.S. economy.

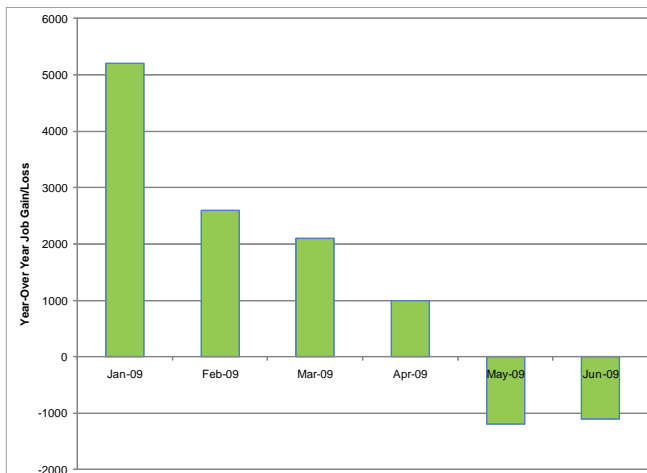
While Alaska continues to weather the current recession better than our cousins in the Lower 48, ADOLWD's preliminary estimates for June

indicate that Alaska's net year-over-year (YOY) non-farm employment has swung from positive to negative. In January 2009 non-farm employment was up 5,200 jobs over January 2008. However, the economy swung into negative net growth territory in May and June with approximately 1,100 fewer

jobs than the year before. Our full year prediction was for a loss of 3,900 jobs or just over 1 percent of non-farm employment. Current losses total just 0.3 percent of employment. We'll see how our predictions and the economy hold up in the remaining six months of the year.

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Net Year-Over-Year Employment Change



Source: Alaska Department of Labor and Workforce Development, 2009.

We're Hiring!

Northern Economics is in the market to hire an entry-level staff analyst. If you know a qualified candidate interested in tackling challenging work in a fun environment, please refer them to our website for job details: www.northerneconomics.com.

The position closes August 12th.

Coming up in the next issue:

Taking our Local Expertise on the Road

In 2008, Northern Economics was asked by the Northeast Seafood Coalition—a New England fishing vessel owners association—to apply the lessons we have learned in 20 years of assessing Alaska fishing management issues to the groundfish fisheries of New England. We'll discuss the highlights of this study and examine some of the issues facing some of America's other large fisheries.



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Alaska Economic Update

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How are we doing with our predictions by economic sector? In this area our crystal ball has proven to be a little cloudier (a bit like August in Anchorage), but we're still not doing badly with six months left to go. So far:

- Net YOY construction employment is down from -100 in January to -1,200 in June. Our full year prediction was for a reduction of -700 jobs.
- Employment in trade, transportation and utilities is down from +400 YOY in January to -1,500 in June; 600 of these jobs were in retail trade and 900 were transportation and utilities. We predicted a loss of 900 jobs YOY including 200 from retail trade and 700 from transportation and utilities. So far, YOY declines are attributable A lack of retail trade employment losses because of declining tourism exceeded our predictions.

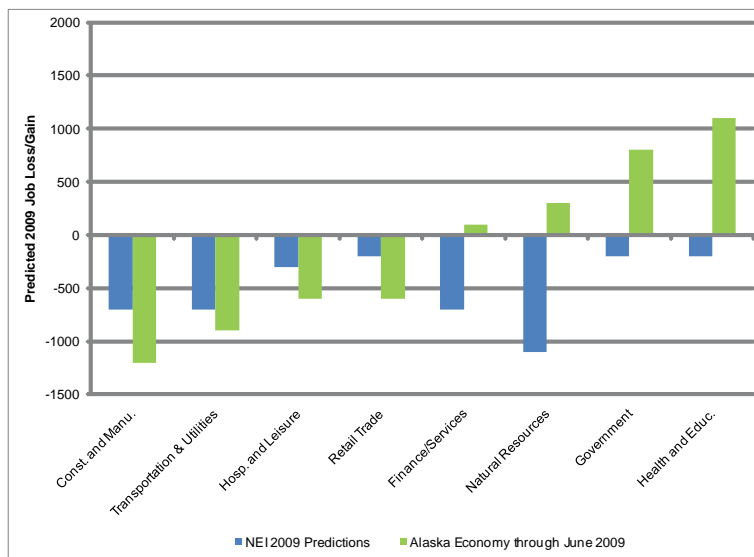
down from +500 to +200. Our full year projection was a loss of 700 jobs.

- Net YOY employment in the natural resource sector has fallen from +1,400 in January to +300 in June. Our prediction was for net YOY change of -1,100 jobs.
- The biggest surprises are the strength of the Health and Education and Government sectors. While we predicted that these sectors would be the strongest, we did not project overall growth in jobs (our estimate having come before the stimulus package). Health and Education is the only sector to show relative YOY growth. The sector was up +600 YOY in January and was up +1,100 jobs in June. YOY Government employment has fallen from +2,200 in January to +600 in June.

- Hospitality and Leisure is down from +100 in January to -600 in June. Our full year projection was -300.
- Finance and Profession Services is

Payroll Employment Change:

NEI Full Year Predictions vs. Alaska Economy through June 2009



Source: Northern Economics and Alaska Department of Labor and Workforce Development, 2009.

So What's the Verdict?

While Alaska's economy is showing signs of weakening, the surprising resilience of employers in natural resources, finance and professional services, health and education, and government are keeping the economy afloat and masking the as-expected weakness in trade, transportation, construction, and tourism.

Alaska's economy needs even these resilient sectors to reverse the monthly declines we're seeing in net YOY strength before we'll move back into a state of overall employment growth. In addition, our hardest hit sectors will only start to recover when we see signs that the American consumer is starting to spend again. We are unsure when that transition will occur, but it may be as soon as the latter part of 2009 or in early 2010 depending on resource prices and the strength of the national and international economies.