

## The Economic Forecast for 2011

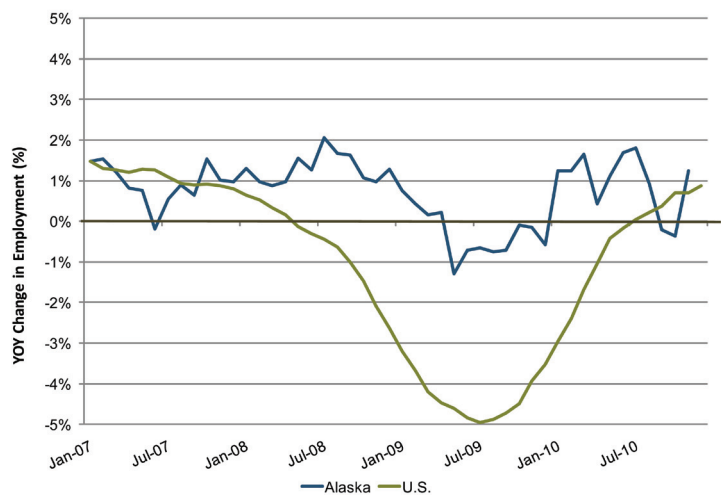
January 2011 saw the 7th presentation of Northern Economics' economic forecast at the World Trade Center's Annual Statewide Economic Forecast Luncheons, hosted in Anchorage, Fairbanks, and Juneau. The take away from this year's forecast is that we're predicting that 2011 will be a good, but not exceptional year, for Alaska's economy. We expect roughly a one percent increase in jobs year-over-year. This increase will include continued strength in the Private Education and Healthcare supersector, above average growth for the Natural Resources and Retail/Wholesale Trade supersectors, and below average growth for in the Transportation and Utilities supersector, the Hospitality and Leisure supersector, and the Finance and Other Services supersector. Finally, we expect little to no growth in the Construction and Manufacturing supersector and in Government.

### 2010 in Review

2010 was a year of healing both for the US economy and the Alaska economy. As a whole, the country has now experienced six consecutive quarters of GDP growth and overall GDP is nearing pre-recession levels. However, for many citizens, the reality is that the country still felt like it was in recession in 2010. While corporate profits and cash-on-hand were at near record levels, corporate hiring lagged. At the same time, local and state

governments are cutting jobs as the recent federal stimulus runs out, and as part of long-term fiscal restructurings. Thus, while GDP has returned to pre-recession levels, the number of people employed in the U.S. is still down more than five percent.

U.S. and Alaska Employment, 2007-2010



Source: Northern Economics, U.S. Bureau of Labor Statistics, 2011

Alaska's recession experience was markedly different. While total employment losses from pre-recession peaks hit more than six percent on the national

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## Welcome Michelle Humphrey

Northern Economics is pleased to welcome our newest member, Michelle Humphrey. Born and raised in Eagle River, Alaska, she spent the last four years at Northern Arizona University, where she received a BSBA in Marketing. After four years in the Arizona sunshine, Michelle is thrilled to be back in her home state of Alaska. Where we have the cold. And the dark. And the blowing snow. And slippery roads. And icy sidewalks. But as an avid outdoors-woman with a large extended family up here, she really is glad to be back home and working for Northern Economics!



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level, Alaska's employment decline peak-to-trough was just over one percent. In addition, Alaska's economy returned to growth more quickly than we expected in 2010. In January 2010, we predicted that the state economy would begin to grow in the 2nd or 3rd quarters. However, Alaska Department of Labor and Workforce Development data indicate the state's job economy returned to growth in the first quarter and overall job growth was roughly 0.6 percent for the year. From a supersector viewpoint, Private Education and Healthcare led the way followed by Finance and Other Services. The state's employment laggards include Natural Resources (driven by reductions in the oil and gas sector), Construction, Trade, and Transportation and Utilities. Also in January 2010, we predicted the state's GSP would increase by 6.1 percent, or roughly \$46 billion. Early Bureau of Economic Analysis data indicated that 2010 GSP was closer to \$48.3 billion; the larger than expected increase resulted from higher than expected strength in the Natural Resources sector including strong prices for fisheries products, continued strength in metals prices, and higher than expected oil prices.

### **2011: Employment Up, GSP Flat**

We expect that 2011 may be very much like 2010. In general, we see Alaska entering an era of slower growth with significant question marks about the state's ability to generate significant long-term growth without a gas pipeline or changes in the investment atmosphere. For 2011, we think that Healthcare and Private Education will continue to lead the way as measured by job growth. Investment in the oil patch is likely to remain flat. However, investment in mineral exploration and mine development will continue to be strong. Construction is likely to be driven by public funds as private funding takes a breather. In general, the short-term outlook is stable as long as high oil prices continue to mask the state's declining oil production. The longer term is considerably more difficult to forecast.

In terms of GSP, officially we predict the measure to be essentially flat overall, but we think there is the strong chance for GSP growth to outrace our official predictions. We use the State of Alaska Department of Revenue's official predictions for average oil prices in our analysis. However, the U.S.

Energy Information Agency (EIA) is predicting average oil prices that are nearly \$10 per barrel higher than the State of Alaska's more conservative estimate. If oil prices are closer to the official State of Alaska estimate, then we will see a four percent decline in GSP from the Natural Resources supersector, and our prediction calls for largely offsetting gains in other sectors for a total prediction of a 0.4 percent decline in GSP. On the other hand (we're economists; there is always another hand), if oil prices are closer to the EIA's prediction for 2011, averaging in the low \$90s per barrel range, then GSP will likely increase by four to six percent overall this year. If this second case occurs, then Alaska will set a record for highest GSP ever. Apart from the Natural Resources supersector, we anticipate slight upticks in GSP attributable to Trade (two percent gain), Hospitality and Leisure (one percent gain), and Health and Education (four percent gain). We expect Transportation and Utilities, Construction and Manufacturing, Government, and Finance and Other Services to remain flat.

As noted in our introduction, we are predicting a one percent gain in jobs this year. We expect Healthcare and Private Education employment to be up more than five percent this year, the largest gain expected for any supersector. We think that the Natural Resources supersector, led primarily by mining and fisheries, will be up roughly 1.7 percent. We predict Wholesale and Retail Trade employment to increase 1.5 percent. We predict the remaining sectors will experience less than one percent growth and we think there's a possibility that overall Government employment could fall very slightly this year.

To see our complete presentation and forecast, visit the World Trade Center Alaska website at <http://www.wtcak.org/>.

## Northern Economics Receives Kudos from NMFS Northwest Region

Northern Economics received compliments from NMFS for the excellent work performed as part of the Trawl Rationalization Regulatory Impact Review-Initial Regulatory Flexibility Analysis. Congratulations to Trina Wellman, Don Schug, and Bill Schenken for a job well done!