

More Job Losses Expected in 2017

Moderate losses forecasted across most sectors this year

By **CAROLINE SCHULTZ**

In 2016, job losses spread through nearly all sectors of Alaska's economy, and more broad-based decline is forecasted for 2017.

Employment losses began in the last months of 2015 in the industries directly related to oil production, after prices fell. Initial loss was limited to the oil and gas industry and closely related sectors, including construction, professional and business services, and state government. In 2016, losses spread into sectors not directly related to the oil industry.

More downstream job losses are expected this year. After a 2.0 percent employment decline in 2016, the state is forecasted to lose 2.3 percent, or about 7,500 jobs, in 2017. (See Exhibit 1.) This reflects decline in nearly every major industry, but while the net loss will likely be bigger than in 2016, direct oil-related losses are expected to slow.

This year will be characterized by widespread reductions in the service industries that depend on consumer spending, which will be dampened by lost wages and lower confidence.

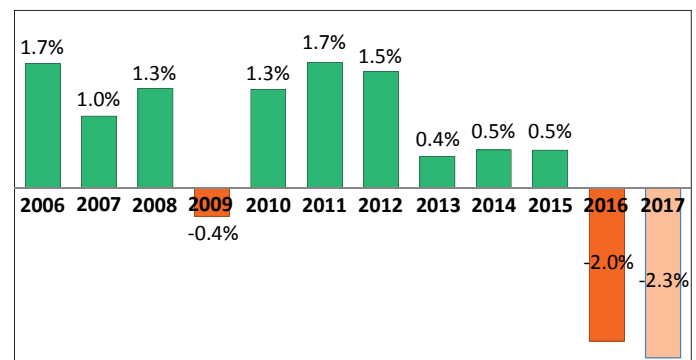
State faces two major hurdles

Alaska's economy faces two major obstacles related

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A Slightly Bigger Job Loss This Year

PERCENT CHANGE, 2006 TO 2017



Note: 2016 is preliminary and 2017 is forecasted.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

to the drop in oil prices: a significant shedding of jobs by employers sensitive to oil prices, and state government's budget dilemma. The main uncertainty about Alaska's economic future has less to do with oil prices, which are influenced by factors well beyond the state's control, and more to do with political decisions on the size and funding source of state government.

How Alaska's downturns compare

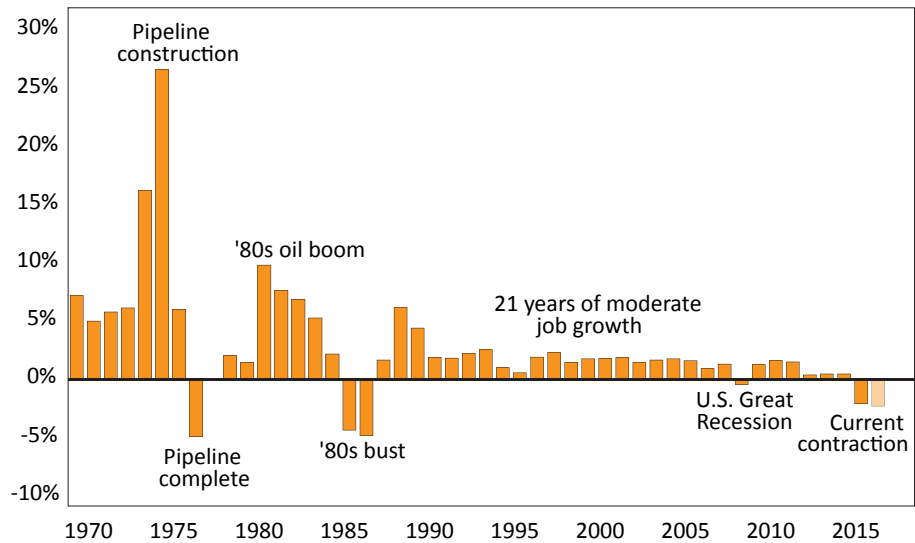
In Alaska's modern economic history, an era that began with the massive North Slope lease sales in 1969,

only three other periods showed notable job loss. (See Exhibit 2.)

The first, which followed the completion of the Trans-Alaska Oil Pipeline, lacked the somber tone of most recessions because the draw-down was expected. Then, after a period of fevered expansion, the state suffered a major bust in 1986 and 1987 when an oil price crash burst its huge bubble. Alaska then settled into sustained, moderate growth through the 1990s and early 2000s until the Great Recession rippled briefly through the state in 2009, causing a single year of minor overall job loss.

2 Ups and Downs in Alaska's Modern History

PERCENT CHANGE IN EMPLOYMENT, 1970 TO 2017



Note: The 2016 numbers are preliminary, and 2017 is forecasted.
 Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Alaska's current contraction bears the strongest resemblance to the 1980s recession, but without the pre-crash bubble. Job growth averaged less than 1 percent a year in the five years before 2016 but was over 6 percent between 1980 and 1985. Other key differences include a demographic shift toward an older population, a conservative real estate market, and the availability of rainy day funds for state government. Oil production was also on the rise in the mid-1980s but is on the decline today.



With these differences, Alaska is in uncharted territory — and for the first time in nearly 40 years, the State of Alaska will have to fund the majority of its budget with something other than oil revenue.

Decisions the Alaska Legislature makes this year probably won't be able to pull the economy out of the red in 2017, but not resolving the fiscal gap could prolong the contraction as Alaska's credit rating suffers, business are shy to invest, and consumer confidence is undermined.

Oil job losses likely to abate in 2017

The oil and gas industry, which includes the major

producers as well as drilling firms and oilfield support services, lost 2,800 jobs in 2016, a 20 percent drop.

Another tough year is expected, even as prices creep up. But because the oil industry was one of the first to begin shedding jobs in late 2015, its losses are forecasted to slow to 14 percent, or 1,400 jobs. (See Exhibit 3.) Two years of heavy losses would push oil industry employment down to its 2006 levels.

For more specifics on the oil industry, which is headquartered in Anchorage, see the Anchorage forecast on page 8.

Other oil-related losses

Industries directly related to oil and gas also lost a substantial number of jobs in 2016. The construction industry lost 1,500 jobs, or 8.5 percent, largely through cutbacks and project completions on the North Slope. Residential, commercial, and publicly funded construction were all lackluster in 2016.

The last large capital budget was in fiscal year 2013, but the two budgets that followed weren't bare bones, and money remained through 2016 for projects in many communities. Federal military and civilian construction spending was also up slightly in

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Alaska Job Forecast by Industry

WAGE AND SALARY EMPLOYMENT, 2015 TO 2017

	2015 Monthly Average ¹	2016 Monthly Average ¹	Change 2015 to 2016	Percent Change 2015-16	2017 Monthly Average	Change 2016 to 2017	Percent Change 2016-17
Total Nonfarm Employment ²	339,400	332,600	-6,800	-2.0%	325,000	-7,500	-2.3%
Total Private Sector	257,400	251,400	-6,000	-2.3%	245,500	-5,900	-2.3%
Natural Resources and Mining	17,400	14,600	-2,800	-16.1%	13,100	-1,500	-10.3%
Oil and Gas	14,200	11,400	-2,800	-19.7%	10,000	-1,400	-12.3%
Construction	17,700	16,200	-1,500	-8.5%	15,000	-1,200	-7.4%
Manufacturing	14,100	13,800	-300	-2.1%	14,000	200	1.4%
Trade, Transportation, and Utilities	65,800	65,200	-600	-0.9%	63,500	-1,700	-2.6%
Retail Trade	37,500	36,900	-600	-1.6%	35,900	-1,000	-2.7%
Wholesale Trade	6,500	6,400	-100	-1.5%	6,200	-200	-3.1%
Transp, Warehousing, and Utilities	21,800	21,900	100	0.5%	21,400	-500	-2.3%
Information	6,300	6,300	0	0%	6,100	-200	-3.2%
Financial Activities	12,100	12,100	0	0%	11,800	-300	-2.5%
Professional and Business Services	30,000	28,400	-1,600	-5.3%	27,900	-500	-1.8%
Educational ³ and Health Services	47,300	48,200	900	1.9%	48,700	500	1.0%
Health Care	34,500	35,400	900	2.6%	35,900	500	1.4%
Leisure and Hospitality	35,000	35,000	0	0%	34,200	-800	-2.3%
Other Services	11,700	11,600	-100	-0.9%	11,200	-400	-3.4%
Total Government	82,000	81,200	-800	-1.0%	79,600	-1,600	-2.0%
Federal ⁴	14,900	15,200	300	2.0%	15,200	0	0%
State ⁵	25,800	24,500	-1,300	-5.0%	23,100	-1,400	-5.7%
Local ⁶	41,300	41,500	200	0.5%	41,300	-200	-0.5%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes public school systems

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

2016, which further offset oil-related losses.

Remaining state-funded construction projects will dwindle in 2017, resulting in a forecasted decline of 1,200 jobs. Federal military and civilian transportation dollars, as well as small-scale residential and commercial work, will keep many construction workers employed, but the industry is expected to continue to decline.

The other sector that took a sizable hit from the oil industry pullback was professional and business services, a loose group of employers that includes professional, scientific, and technical services; management of companies and enterprises; and administrative and waste management services. The professional, scientific, and technical services industry, which includes engineering, architectural, and geophysical consulting firms, bore the brunt of the 1,600 jobs the sector lost in 2016.

Professional and business services' losses are expected

to slow to 500 this year, which would be less than 2 percent. With a general slowdown in the economy, demand for these services will likely drop off, but the bulk of the loss related to oil and construction has likely already happened.

Other losses took hold in 2016

A handful of other industries lost ground in 2016, but nothing like the oil industry and its periphery. Manufacturing, which is largely seafood processing, had a slow year with lower-than-expected salmon returns during a year that was already forecasted to be low-volume. Those losses will likely be recovered in 2017, which is expected to be a strong salmon year.

Manufacturing companies not related to seafood will feel the pressure of a shrinking economy. These range from industrial manufacturing such as concrete block and fabricated metal, which relies on construction, to food and beverage manufacturing, which depends

more on local demand.

Retail trade also began to lose jobs midway through 2016 after unprecedented growth in 2014 and 2015, when a number of new stores opened around the state and particularly in Southcentral. Retail had underperformed total employment growth for decades, and the industry appeared to play catch-up for a couple of years.

Some of the recent losses were likely from new employers calibrating their staffing levels after over-hiring before opening, but the state's economic downturn also played a role. Retail employers cut 600 jobs in 2016 and are expected to lose 1,000 in 2017, which would mostly undo the industry's recent growth spurt.

Wholesale trade, which is closely tied to retail trade, is expected to follow a similar pattern.

Other industries turn corner

Industries that rely on local demand for goods and services are likely to decline in 2017. The transportation, warehousing, and utilities sector, which is mostly transportation, is expected to fall 2.6 percent as freight volume in Alaska declines with less demand for finished goods and raw construction materials.

The leisure and hospitality sector, which is made up of the smaller arts, entertainment, and recreation cluster as well as the larger accommodation and food and beverage industries, is also forecasted to see sizable losses in 2017 as Alaskans spend less.

Although a strong summer tourism season will offset some loss, it can't make up for the year-round decline in local consumption. Restaurants and bars are expected to take the brunt of these losses in 2017, but less in-state travel year-round will also pinch hotels. Arts, entertainment, and recreation will remain flat as gains in visitor recreation offset reduced local demand.

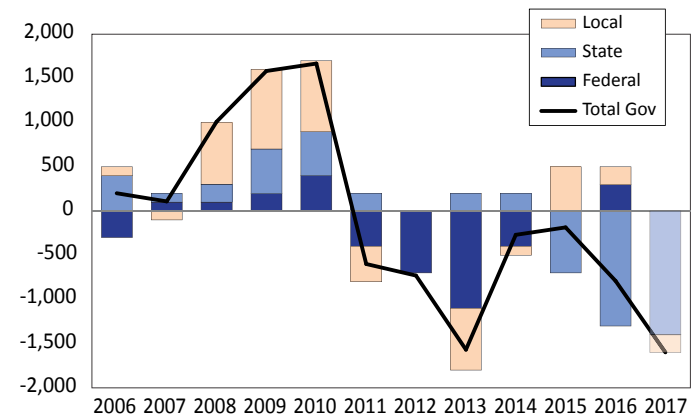
Employment in financial services is expected to decline in concert with total employment in 2017, especially as real estate and demand for commercial financing in Alaska wane. A 1980s-style financial meltdown is not expected, though, because financial regulations are stricter and the state's pre-recession real estate market was already staid.

The "other services" sector, which includes household services such as auto mechanics, dog groomers, and hair salons, will likely lose ground in 2017 as disposable income declines.

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Government Job Losses Continue

ALASKA, 2006 TO 2017



Note: The 2016 numbers are preliminary, and 2017 is forecasted.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Health care to continue growing

Other than small gains in manufacturing, health care is the only industry forecasted to grow in 2017. The population continues to age, and the increased demand from older Alaskans will eclipse any reduction among the younger population.

Any changes to federal health care policy are unlikely to be sudden enough to affect 2017 job levels, and federal funding for private social assistance and tribal health programs is already set through most of the year. Employment growth is expected to slow, however, from 900 new jobs in 2016 to 500 new jobs in 2017.

Public sector losses mounting

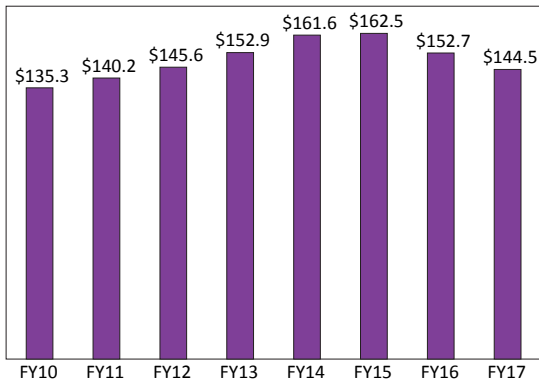
Government is expected to cut 1,600 jobs overall in 2017, double its 2016 loss. (See Exhibit 4.)

The state continues to cut its payroll, and while some losses have been layoffs, most have been through attrition. The State of Alaska, which includes the University of Alaska, shed 1,300 jobs in 2016 and is expected to shrink by another 1,400 this year. But the state's operating budget is set through June 2017, so even if larger cuts come in fiscal year 2018, they will only affect the second half of the calendar year.

Local governments were mostly resilient to cuts through 2016 despite threats to the state funding of schools and municipalities. Local government payrolls

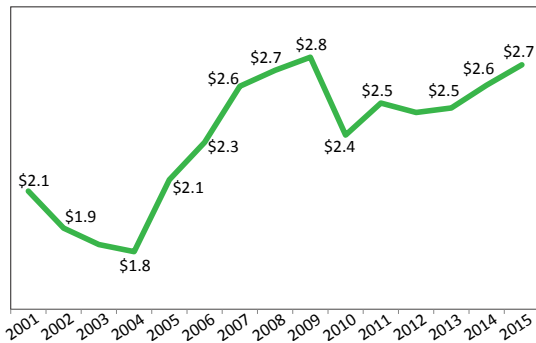
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3 Allocations to UAF Down FROM STATE GENERAL FUND, FY10 TO FY17



Note: Includes funds only for the Fairbanks campus, Fairbanks Organized Research, Cooperative Extension Service, and UAF Community and Technical College.
Source: University of Alaska Fairbanks, Office of Management and Budget

4 Tourism An Ongoing Source of Growth for Fairbanks BED TAX REVENUE, IN MILLIONS, 2001-15



Source: Fairbanks North Star Borough

try lost about 100 jobs.

While the visitor industry has gained steam since 2012, local demand appears to be flagging — and in Fairbanks it’s mainly local consumption, not tourism, that drives the leisure and hospitality industry. Leisure and hospitality is forecasted to lose another 100 jobs in 2017, as residents are spending less after job losses in other industries.

Less demand to dampen retail

Stores in the borough cut 50 jobs in 2016 as less employment in base industries, such as state government and the university, reduced consumer spending. People also tend to limit their spending to essential purchases during tough economic times.

While most industries’ losses are expected to be about the same as in 2016 or begin to abate, borough retail is expected to take a harder hit this year. Increased activity on the military bases could help somewhat, but it won’t be enough to maintain current levels of retail employment.

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STATEWIDE

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increased slightly in 2016, mostly from school district growth.

Local governments may be expected to foot the bill for more of the services they offer as the state withdraws funding, which could lead to further cuts in the near future. But because budgets are set through the first half of 2017, fiscal year 2018 losses

won’t have a large annual impact.

Federal employment, which is the smallest category, is expected to be flat in 2017 after a slight recovery in 2016. Federal employment was a source of job loss for years following the national recession, but those losses began to turn around last year. However, the incoming administration has announced plans to freeze hiring.

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