Overview

We’re in a Recession
The Timing of How We Got Here
Where We are Headed
The Next Big Thing (Our healthcare system)
When does a Recession Begin?

Recession is when your neighbor loses his job, crisis is when you lose your job

~ Harry Truman ~

Layperson’s definition is two quarters of negative gross domestic or state product (GDP/GSP).

In reality, the start of national recessions are designated in retrospect by a group of economists at the National Bureau of Economic Research looking at a broad array of factors.
Predicting Recessions in Alaska

Gross State Product in Alaska is:

- The value of all of the goods and services produced in AK...
- Largely tied to the value of oil exports...
- Highly variable from quarter-to-quarter because of oil production maintenance schedules....
- Highly variable from year-to-year because of the price of oil.

If we used GSP to measure recessions we’d have to acknowledge that we’re entering our fifth full year of recession.
The Value of Our Economy

Source: BEA 2017
Looking for Consistent Year-over-Year Job Losses

Source: ADOLWD 2017
Wage Growth Trend Broken

Source: BEA 2017
Household Confidence

State and Local Expectations

Mixed Reviews

Alaska Confidence Index
High Earning Sectors

Year-over-Year Change in Jobs

-20%  -15%  -10%  -5%  0%  5%  10%  15%

2013  2014  2015  2016

Oil and Gas  Construction  Professional and Business Services

Source: ADOLWD 2017
State Employment and Retail

Source: ADOLWD 2017
Our Biggest Growth Sector

Source: ADOLWD 2017
Where Are We Headed?

2 Basic Things Determine Economic Robustness:

Money coming in....
Money going out....

Rich economies bring money in and hold onto it.

Right now we’re doing neither.
Three Legged Stool

Federal Government
- Education and Health Care
- Direct Employment
- Constructions

Oil
- Industry Direct Investment
- State Revenues

Everything Else
- Fishing
- Tourism
- Air Transport
- Mining

Graphic Courtesy of FNB Alaska
Dynamic Forecasting with the Alaska REMI Model

Comparable to ISER’s Man in the Artic Program (MAP)

Dynamic model which forecasts policy changes over time.
Best in medium to long term applications (5 – 50 years)
Model at the State and Regional (12) level
Used by Northern Economics for larger projects with dynamic policy implications:

- Shell OCS
- Alaska LNG
- Susitna Watana
- Recession Policy Forecasting
- JBER Force Reduction
2015 Fiscal Policy Forecasting

Total Employment Forecast (Wage and Salary + Self Employed, 000s)

Source: BEA 2017 and Northern Economics’ Alaska REMI Model 2015
2017-2026 Budget and Revenue Scenarios

Scenario 1
$4.2B Unrestricted General Fund; Reduced PFD

Scenario 2
$4.2B Unrestricted General Fund; Broad Based Tax

Scenario 3
3.2B Unrestricted General Fund; Full PFD; No Taxes; Step down over 2 years
Caveats and Assumptions

USEIA Oil Price Forecast

No strong recovery

Nominal Dollars

Scenarios are in $2016

Additional assumptions

No major positive economic movers such as pipelines or significant new oil production

Does not account for the eventual “pop” of the healthcare bubble

All Forecasts are Wrong

“Forecasts create the mirage that the future is knowable”

-Peter Bernstein
2017-2026 Employment Forecast under Three Budget Scenarios

Source: BEA 2017 and Northern Economics' Alaska REMI Model 2017
***REMI Summary Results: 2017-2026***

<table>
<thead>
<tr>
<th>Employment</th>
<th>Population</th>
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</thead>
<tbody>
<tr>
<td>Employment bottoms out in 2019-2020.</td>
<td>Population loss from baseline in 2016:</td>
</tr>
<tr>
<td>S1: -25,000 jobs</td>
<td>S1: -32,000 citizens</td>
</tr>
<tr>
<td>S2: -24,000 jobs</td>
<td>S2: -31,000 citizens</td>
</tr>
<tr>
<td>S3: -33,000 jobs</td>
<td>S3: -34,000 citizens</td>
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Without additional fuel for the economy, employment does not meaningfully recover between now and 2026.

While employment starts to recover around 2019, population declines start in 2017 and continue through 2026.
Key Takeaways

Without stimulus, we have years left in this recession.

In aggregate, there isn’t much difference between a PFD reduction and a broad-based personal income tax because both reduce income for all or nearly all Alaskans.

However, who pays is very different.

- PFD has outsized effects in rural/poorer areas.
- Income tax captures income from non-Alaskans.
- There’s likely a middle ground here.

The $3.2 UGF plan has the greatest overall effects because it involves directly cutting 18,000+/- State supported jobs with indirect effects accounting for the remaining 12,000+ in losses.

*People without jobs are more likely to sell homes and leave, whereas reducing everyone’s’ income a little leaves a poorer, but intact economy.*
ISER/NEI Forecast Comparison
Shifting Gears (a bit)

Alaska healthcare costs are a major cost driver of the state’s economic crisis. The state insures roughly 400,000 lives.

There are four major groups profiting from healthcare.

- Insurance companies
- Drug companies
- Hospitals
- Providers

These are all essentially oligopolies, but insurance profits are capped.
High per Capita Expenditures

Around the Nation

A breakdown of health-care spending state by state

Driven by Higher than Average Hospital and MD Costs

Hospital Care
- Hospital care is spending for services provided in hospitals, including outpatient care, operating-room fees and services of resident physicians.

Physician and Clinical Services
- Physician and clinical services is treatments in health professionals' establishments.

Prescription Drugs and Other Nondurables
- Prescription drugs and other nondurable medical products include over-the-counter drugs such as cough and allergy medications and medical sundries such as surgical dressings or thermometers.

Obesity
- Obesity is 2011 rate among adults calculated from respondents' self-reported weight and height.

Real Costs Are Going Up

In 2006 primary surgeon charges for a knee operation were roughly $6,000.

By 2008 surgeons charged nearly $10,000 or 25 percent more than the change in the consumer price index.

By 2016 AK surgeons charged nearly 160 percent of the 2006 CPI adjusted amount.

Source: Confidential Peer-to-Peer Communications, 2017
2016 Comparative Costs

Source: Confidential Peer-to-Peer Communications, 2017
So Why Are Costs Higher?

Oligopoly Power

Limited competition gives price setting power

The State’s 80 Percent Rule

Radically expanded the number and type of services in state, but handed power to specialists who can cartel to avoid “networking”

Lack of Price Transparency

The state has no law regarding price transparency

Isolation

Flying to Seattle isn’t convenient, safe, or appropriate in all instances. System not set up to accommodate it when it is.
So What?

Size in our Economy

Single largest sector by wage and salary employment (50,000+)

Very likely more than 15-20 percent of state GSP when you include private, tribal, state, federal, and local components.

Vulnerable

Customers are starting to say “no” to high costs.

Will eventually succumb to the economy in general

It’s the cost driver for schools, retirement plans, etc., but...

...no one wants to prick “the bubble” when it’s the only thing that’s growing.
Key Takeaways

Without a stabilization of the amount of money flowing into the economy Alaska will stay in employment recession until the 2018-2020. Population recession could last much longer.

The economic differences between the analyzed policy options is slight between the PFD and income tax scenarios, but the “on the ground” societal implications are quite different.

The $3.2B UGF scenario is likely to remove 20%+- more jobs from the system than the other scenarios.

Alaska’s healthcare system is an economic driver, but it takes money away from the rest of the economy. Convenience at a very high price.
Thank you from the NEI Team!

While only one presents, many hands built this presentation.