

ALASKA

ECONOMIC DRIVERS



EMPLOYMENT GROWTH RANK

2014-2016
41
5th quintile

2014-2019
47
5th quintile

Best=1, Worst=54

BUSINESS COSTS

INDEX
112%

RANK
6

U.S.=100% Highest=1, Lowest=51

VITALITY

RELATIVE
111%

RANK
8

U.S.=100% Best=1, Worst=51

BUSINESS CYCLE STATUS



STRENGTHS & WEAKNESSES

STRENGTHS

- » Abundant natural resources.
- » Household median incomes and home equity are above average.
- » Low taxes.

WEAKNESSES

- » Dependence on public sector funding.
- » Weak and worsening migration patterns.
- » Structural decline in North Slope oil production
- » Remote location and harsh weather.

FORECAST RISKS

SHORT TERM



LONG TERM



RISK EXPOSURE
2015-2020

16

2nd quintile

Highest=1
Lowest=51

UPSIDE

- » Shift of military operations toward the Pacific brings federal dollars to the state.
- » Hydraulic fracturing techniques increase oil production in the North Slope.

DOWNSIDE

- » Falling natural gas prices derail pipeline plan.
- » Fiscal drag from low oil prices lasts longer; state austerity measures grow.
- » Stronger spillover weakness from energy into consumer services.

MOODY'S RATING

Aaa

AS OF MAR 02, 2015

ANALYSIS

Recent Performance. The failure of energy prices to rebound has pushed Alaska into recession. Job growth is among the slowest in the nation, on par with that in other energy-dependent states such as North Dakota and West Virginia. Mining and energy-related firms have been steadily cutting workers over the past year, and lower state severance tax revenues are pressuring Alaska's ailing public sector. Secondary industries such as business/professional services that rely on energy are suffering as well. The jobless rate, at 6.4%, is more than 1 percentage point above the U.S. average even though the labor force is at a five-year low.

Energy. Alaska was the only state where GDP contracted in both 2013 and 2014, and output likely fell again in 2015. The sustained drop in oil prices will make a near-term rebound in Alaska's energy industry and the overall economy very difficult. Miners make up more than 5% of the Alaskan workforce, the third highest share in the country and more than eight times the national average. Therefore, industry losses will hamstring the growth of jobs along with wage and salary income since energy workers earn more than those in all other state industries.

Oil production will continue its multidecade decline as resources run dry, weighing on corporate profits and state revenues. Although there have been state initiatives to explore alternatives to the North Slope, Alaska's largest oil field, efforts have failed to secure a viable, long-term replacement. Many energy corporations are pulling investment from the state and its unexplored Arctic region because of the high costs of production relative to current price levels. Most notably, Shell Oil officially abandoned its \$7 billion Arctic investment project in September. Norwegian oil giant Statoil has also announced it would be pulling out of its leases in the area.

The loss of both projects is a significant blow to the state economy and its struggling finances,

since most state discretionary spending is funded through severance tax revenues. Following the massive \$2.7 billion budget shortfall for fiscal 2015, it is likely the state will face another budget gap in 2016. This would mean additional cuts to public education, constructions projects, and tourism-based industries.

Public sector. Army restructuring efforts darken the near-term outlook for Alaskan bases. Joint Base Elmendorf-Richardson in Anchorage will lose more than half of its stationed personnel. Cutbacks at Fort Wainwright in Fairbanks will be more modest, but civilian layoffs will occur at both bases, hurting Alaska's two largest economies. The public sector, which employs one-quarter of Alaska's workforce, can hope for stable funding at best to keep a floor under payrolls.

Spillover. The downturn in the energy sector will ripple throughout Alaska's service economy. There will be weaker demand for administrative and office-based services as firms relocate personnel to states with stronger energy prospects such as Texas, Oklahoma or North Dakota. Higher business costs will further discourage companies from setting up or expanding their back-office operations. At the same time, falling oil production will also weaken regional transportation and warehousing by decreasing oil shipping needs. Finally, weaker wage growth from fewer mining and government jobs will hurt consumer-driven industries.

Alaska's economy will struggle to find its footing in 2016 as energy and government contract. Negative spillover into other industries will create additional headwinds to growth. Longer term, strong population growth and abundant natural resources will ensure employment and output growth in Alaska performs on par with those in the U.S.

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December 2015

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2009	2010	2011	2012	2013	2014	INDICATORS	2015	2016	2017	2018	2019	2020
49.7	48.5	49.8	51.4	49.4	48.7	Gross state product (C09\$ bil)	49.1	52.2	54.8	56.5	57.4	57.8
320	324	330	335	336	338	Total employment (ths)	339	346	352	356	358	358
-0.4	1.3	1.7	1.6	0.4	0.5	% change	0.4	2.1	1.8	1.0	0.5	0.1
7.7	7.9	7.6	7.1	6.9	6.8	Unemployment rate (%)	6.5	6.3	6.1	6.1	6.1	6.1
-0.7	5.6	7.1	4.6	-1.1	5.3	Personal income growth (%)	4.2	7.0	8.2	7.6	5.3	3.7
699	714	723	731	737	737	Population (ths)	742	749	756	762	769	775
3.1	6.7	0.7	1.3	-0.4	-8.0	Net migration (ths)	-1.4	-0.3	-0.5	-0.6	-0.6	-0.7
617	753	713	818	877	1,125	Single-family permits (#)	990	1,329	1,802	2,018	1,969	1,963
299	151	164	176	202	393	Multifamily permits (#)	323	610	994	1,005	927	1,060
281	279	282	283	292	299	FHFA house price (1980Q1=100)	309	313	320	331	347	368
4.7	4.6	4.3	3.9	3.7	3.3	Mortgage delinquency rate (%)	2.9	3.2	3.3	3.4	3.7	3.8
22.8	29.2	29.2	31.2	30.8	31.4	New vehicle registrations (ths)	32.7	35.1	31.6	29.6	27.8	27.1
894	1,040	941	702	531	412	Personal bankruptcies (#)	401	423	458	559	669	725

ECONOMIC HEALTH CHECK

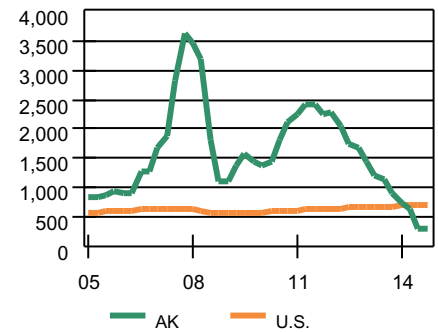
3-MO MA

	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15
Employment, change, ths	0.3	-0.2	-1.1	-1.2	-0.6	0.4
Unemployment rate, %	6.7	6.7	6.7	6.6	6.5	6.4
Initial unemployment claims, ths	5.2	5.3	5.2	5.1	5.2	5.5
Labor force participation rate, %	67.8	67.6	67.4	67.2	67.1	67.1
Merchandise exports, \$ bil	4.9	4.9	4.8	5.0	4.3	4.3
Average weekly hours, #	34.8	34.7	34.6	34.5	34.6	ND
Industrial production, 2007=100	106.0	105.7	106.1	106.8	106.6	106.4
Residential permits, #	1,457	1,430	1,503	1,405	1,506	1,445
<div> <div>Better than prior 3-mo MA</div> <div>Unchanged from prior 3-mo MA</div> <div>Worse than prior 3-mo MA</div> </div>						

Sources: BLS, Census Bureau, Dept. of Labor, Moody's Analytics

STATE TAX REVENUE

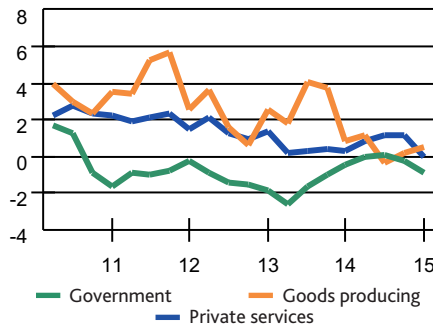
\$ PER CAPITA



Sources: Census Bureau, Moody's Analytics

CURRENT EMPLOYMENT TRENDS

% CHANGE YR AGO



Sources: BLS, Moody's Analytics

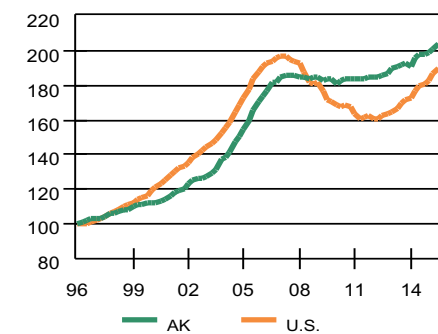
% CHANGE YR AGO, 3-MO MA

	Mar 15	Jul 15	Nov 15
Total	0.7	0.4	0.3
Mining	2.7	-1.3	-3.9
Construction	2.3	7.0	5.8
Manufacturing	-7.0	-6.9	-1.7
Trade	2.6	2.2	3.4
Trans/Utilities	5.0	6.1	4.3
Information	-0.5	-0.5	0.5
Financial Activities	0.0	-3.0	0.3
Prof & Business Svcs.	-2.1	-3.4	-3.9
Edu & Health Svcs.	0.6	2.1	2.1
Leisure & Hospitality	1.3	-0.9	-0.7
Other Services	1.1	3.1	2.8
Government	0.1	-0.5	-1.8

Sources: BLS, Moody's Analytics

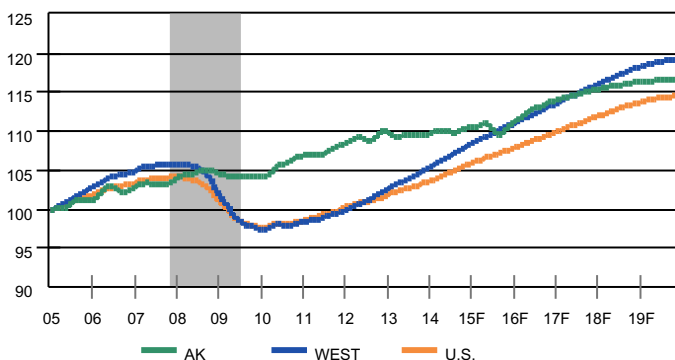
HOUSE PRICE

1996=100, NSA



Sources: FHFA, Moody's Analytics

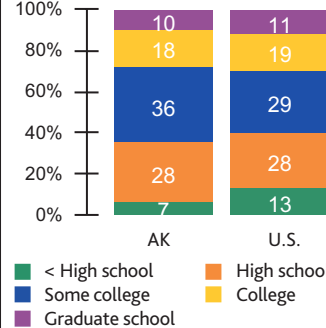
RELATIVE EMPLOYMENT PERFORMANCE (JAN 2005=100)



Sources: BLS, Moody's Analytics

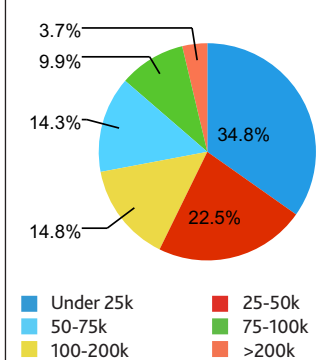
EDUCATIONAL ATTAINMENT

% OF POPULATION 25 AND OLDER



Sources: Census Bureau, Moody's Analytics, 2014

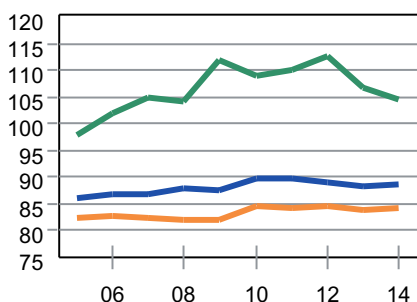
INCOME TAX DISTRIBUTION



Sources: IRS, Moody's Analytics, 2013

PRODUCTIVITY

REAL OUTPUT PER WORKER, \$ THS



2014 AK \$104,453 WE \$88,493 U.S. \$84,281

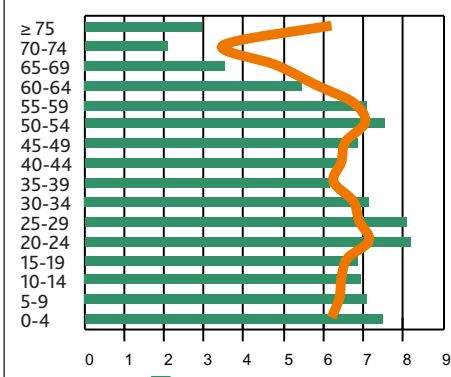
Source: Moody's Analytics

MERCHANDISE EXPORTS

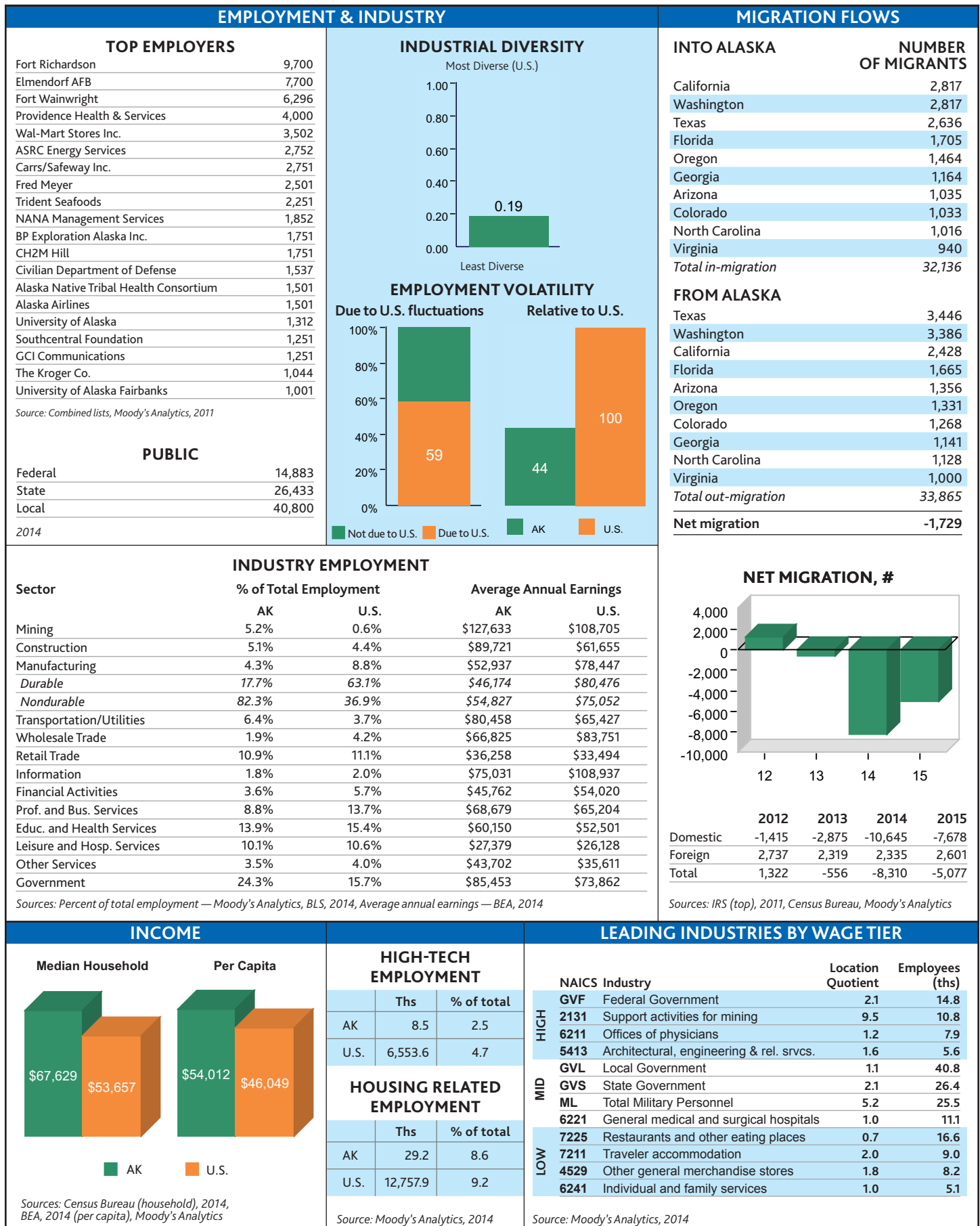
Destination	\$ mil	% of total
World	5,259.0	100.0
China	1,477.2	28.1
Japan	1,085.6	20.6
South Korea	642.3	12.2
Canada	586.4	11.2
Germany	261.4	5.0
Industry	\$ mil	% of total
World	5,259.0	100.0
Fishing, hunting, trap.	2,500.4	47.5
Mining	1,839.6	35.0
Primary metal manuf.	268.3	5.1
Oil and gas extraction	210.2	4.0
Petrol., coal manuf.	127.0	2.4

Sources: Census Bureau, Moody's Analytics, 2014

POPULATION BY AGE, %



Sources: Census Bureau, Moody's Analytics, 2014



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