

COVID-19 and the Alaska economy

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Outline

What do we know about the current state of the economy?

Employment

Personal Income

Gross Domestic Product

What do we know about the Federal Aid and its impact(s)?

Direct Aid to households by round

Spending

How many jobs has PPP saved?

On the budget

Oil prices

Does the federal aid solve the state budget issues?

Delays are costly

Summary

- ▶ The economy was weak even before the pandemic. The state experienced a three year recession between 2015 and 2018. The growth in 2019 was modest but most sectors were still well below their 2015 levels.
- ▶ The pandemic related job losses are still significant. In March 2021, there were 21,900 fewer jobs than in March 2020.
- ▶ The job losses vary by region, income group, sector, and even within sector. In my [forecast](#), I detail my analysis on the sector specific effects of the pandemic.

Summary

- ▶ While the job losses have been significant, personal income has actually increased in 2020. This is largely due to the significant transfers from the Federal government. Personal income was 1.4 billion dollars higher than in 2019.
- ▶ Gross Domestic Product decreased by 2.6 billion dollars or 4.9% between 2019 and 2020.
- ▶ It is near-impossible to isolate the effects of the individual transfers and assistance programs.
- ▶ We do, however, have findings from research on the effect of the stimulus payments, and on the Payment Protection Program.
- ▶ There are many aspects of the third round of stimulus that have yet to enter the Alaska economy.

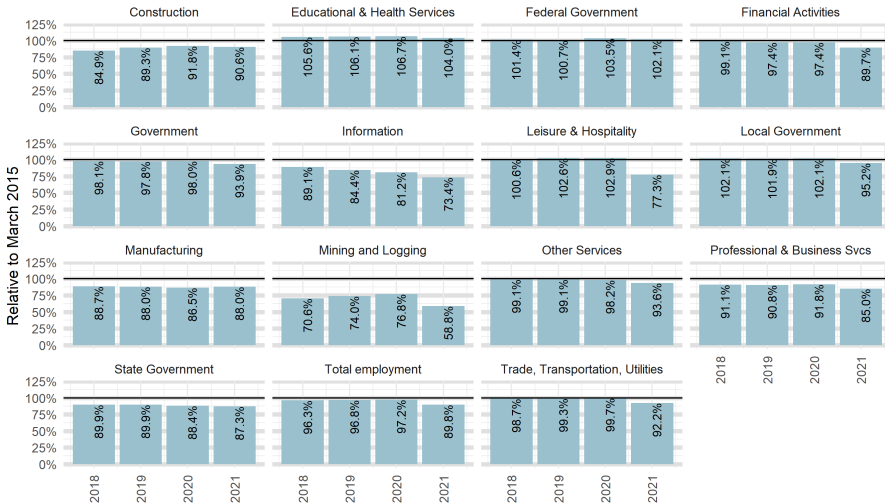
Budget summary

- ▶ A one time injection in federal dollars \neq not mean a solution to structural issues.
- ▶ Oil prices in March 2021 were at the same level as August 2019 when the vetoes went into effect.
- ▶ The permanent fund draws cannot support paying both a statutory dividend and funding a substantial portion of government.

What do we know about the current state of the economy?

Employment

Employment in March by year relative to 2015

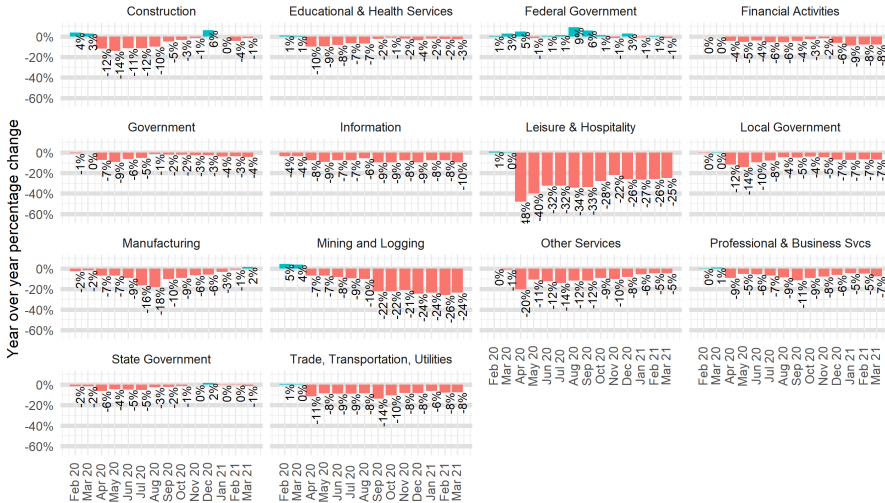


Basics

What do we know about the current state of the economy?

Employment

Percentage change in employment by sector in Alaska

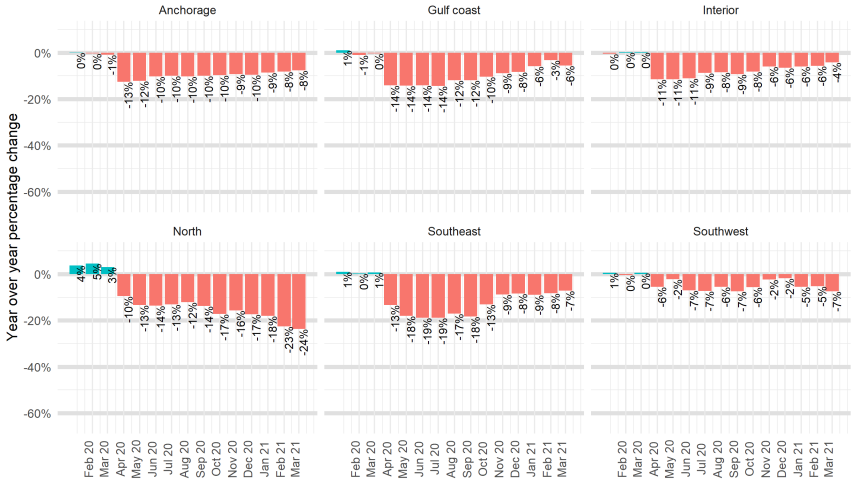


What do we know about the current state of the economy?

Employment

Regional employment

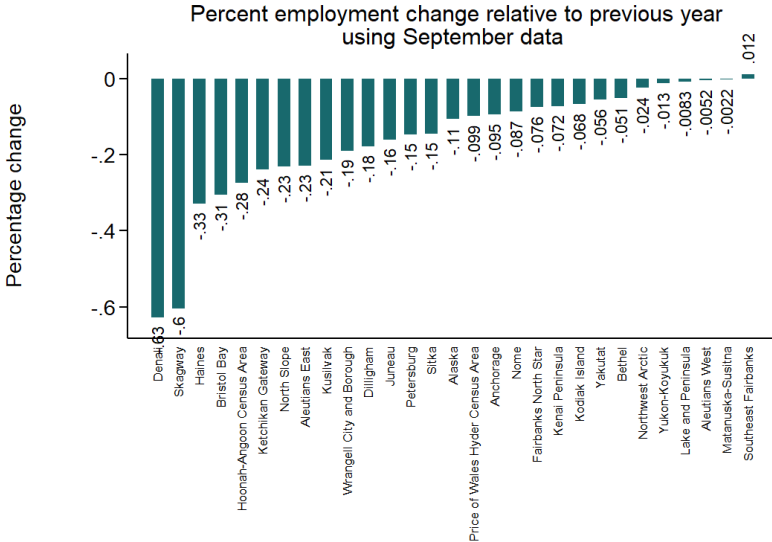
Percentage change in employment by region



└ What do we know about the current state of the economy?

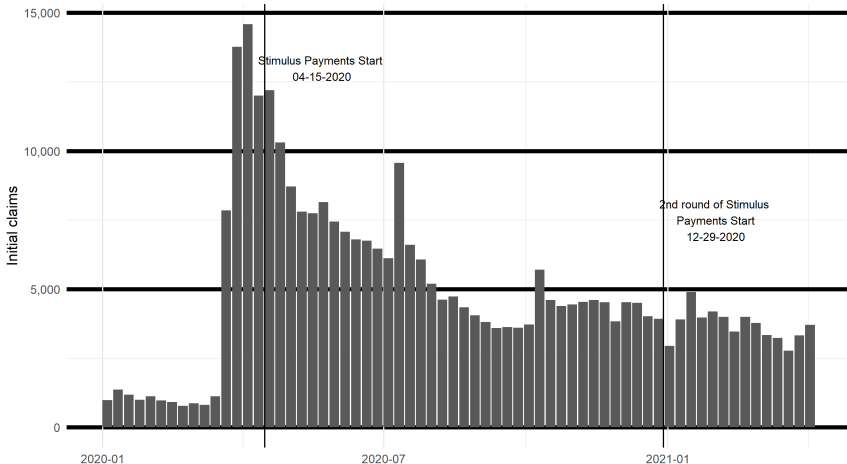
└ Employment

By borough



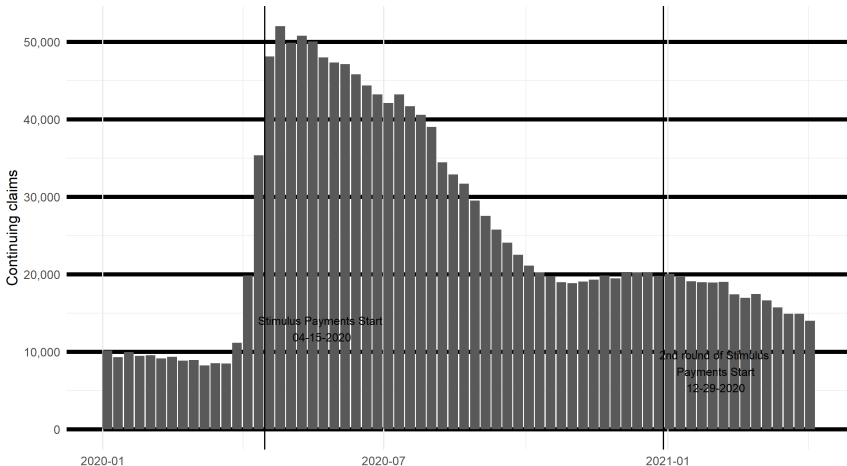
Initial claims

In Alaska, as of the week ending March 6th, there were 4 times as many initial claims as the same week last year.



Continuing claims

In Alaska, as of the week ending March 6th, there were twice as many initial claims as the same week last year.

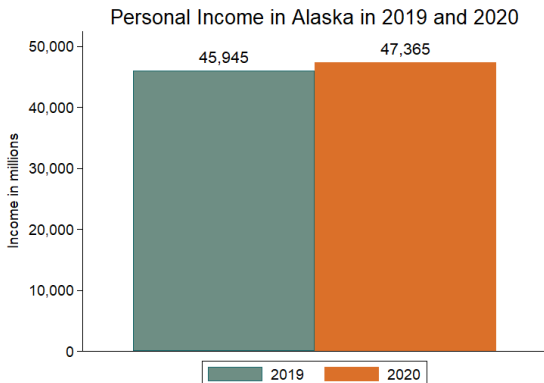


Aid and job search

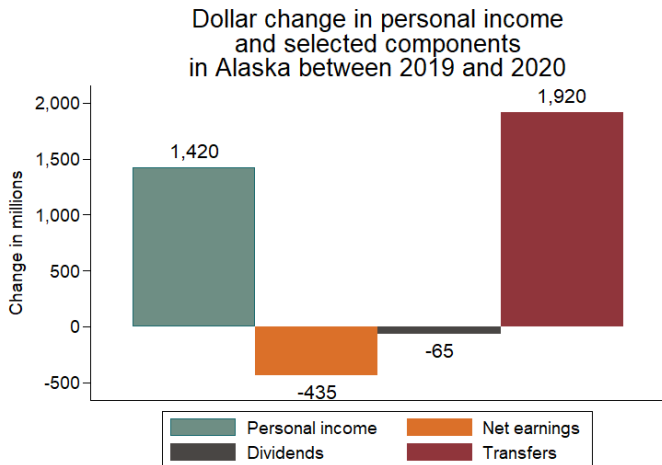
- ▶ **Research from the Federal reserve** shows that the \$600 UI benefit supplement in the CARES Act had little or no effect on the willingness of unemployed people to search for work or accept job offers.
- ▶ **The most recent paper** on the topic shows that a 10% increase in unemployment benefits caused a 3.6% decline in applications, but did not decrease vacancy creation; hence, FPUC increased tightness (vacancies/applications).

Personal Income

Personal income includes wages, benefits, proprietor income, dividends, interest, rent, and transfer payments like Social Security and veteran's benefits.



Personal Income: decomposition



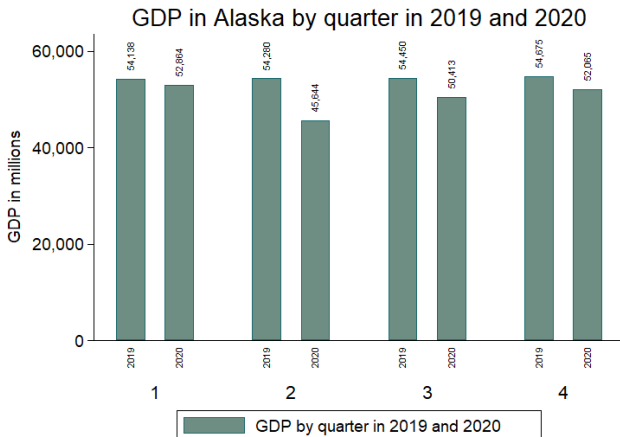
Personal income increased in every state

- ▶ In 2020, the increase in transfer receipts was the leading contributor to personal income growth in all states and the District of Columbia. The percent change in personal income across all states ranged from 8.4 percent in Arizona and Montana to 2.4 percent in Wyoming.
- ▶ Alaska's percentage change increase in personal income of 3.1% between 2019 and 2020 was the the third lowest in the country.

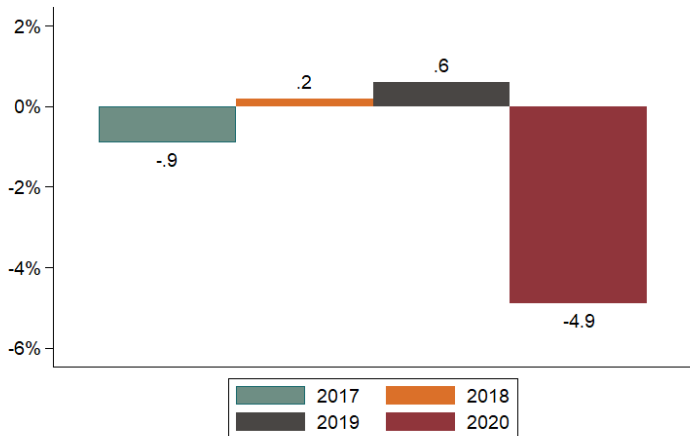
└ What do we know about the current state of the economy?

└ Gross Domestic Product

Gross Domestic Product (GDP) is the total value of all goods and services produced by economic activity in an economy. GDP is equal to the total amount of sales from Alaska businesses, minus the total non-wage input costs.



Percent Change in Real Gross Domestic Product
in Alaska 2017-2020



GDP takeaways

- ▶ Real GDP decreased in all 50 states and the District of Columbia in 2020. The percent change in real GDP ranged from -0.1 percent in Utah to -8.0 percent in Hawaii.
- ▶ Alaska's GDP declined by 2.66 billions dollars from 54.44 to 51.77 billion dollars.
- ▶ Alaska's GDP decline was the 9th most pronounced.

Basics

└ What do we know about the Federal Aid and its impact(s)?

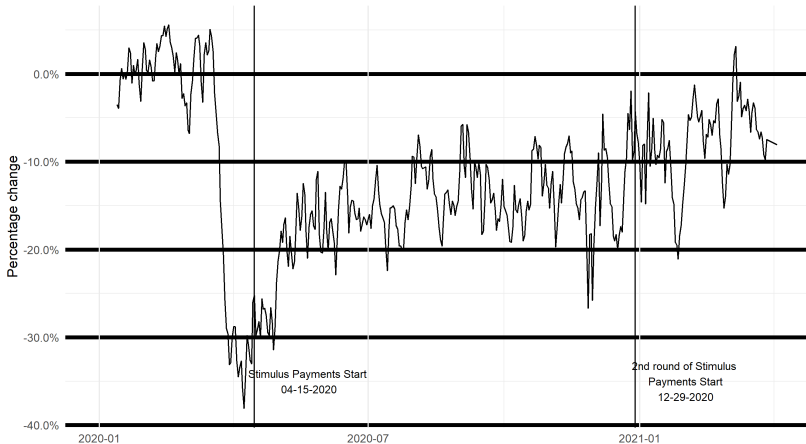
└ Direct Aid to households by round

Pandemic relief to households

Pandemic related individual distributions					
Individual Aid	Eligibility criteria	Amount received	Federal cost	Approx. amount received by Alaskans	Amount received by a family of four contingent on full eligibility
Round 1 (April 15th)	Single: \$99,000 HOH: \$136,500 Married: \$198,000	\$1,200 per Adult \$500 per child	\$262 billions	\$598,205,713	\$2,400 for Adults \$1,000 for children
Round 2 (Dec 29th)	Single: \$87,000 HOH: \$124,500 Married: \$174,000	\$600 per Adult \$600 per Child	\$164 billions	\$368,705,000	\$1,200 for Adults \$1,200 for children
PFD (July 1st)		\$992 per person	N.A	\$628,177,056	\$1,984 for Adults \$1,984 for children
Round 3 (March 12th)	Single: \$80,000 HOH: \$120,000 Married: \$160,000	\$1,400 per adult \$1,400 per child	\$411 billions	\$924,000,000	\$2,400 for Adults \$2,400 for children

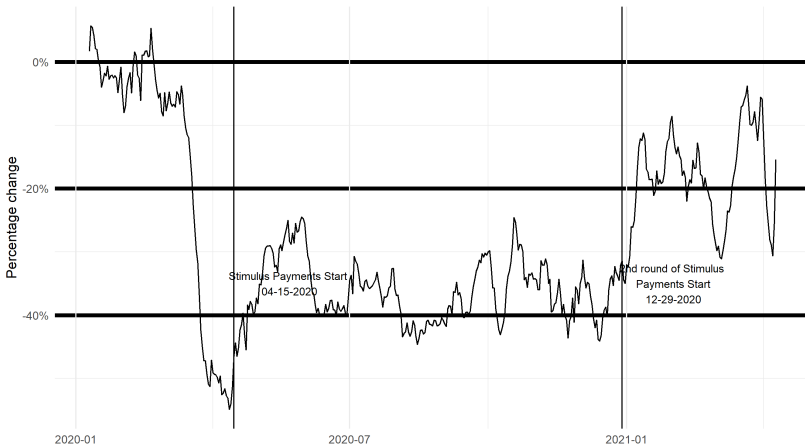
Spending

In Alaska, as of the week ending April 4th, 2021, total spending by all consumers decreased by 8.1% compared to January 2020.



Small Business Revenues

In Alaska, as of April 10 2021, total small business revenue decreased by 15.4% compared to January 2020..

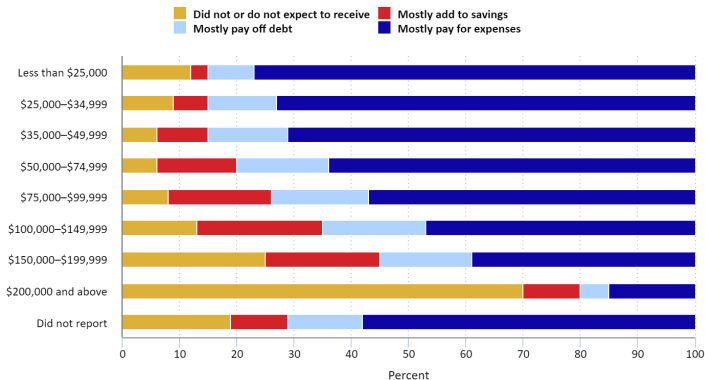


Do we have evidence these payments made a difference?

- ▶ **Analysis of the first stimulus payments** found a sharp and immediate response as payments started hitting bank accounts. Within the first 10 days, households spent an average of 29 cents from every dollar received. The bulk of this spending was on food, rent, and bills. When providing a detailed breakdown of how they used their checks, individuals report having spent or planning to spend only around 40 percent of the total transfer on average.
- ▶ **Opportunity Insights research** found that Stimulus payments increased spending substantially, especially among low-income households. But they did not lead to large gains for the businesses most affected by the crisis or to increases in employment.

Survey findings

Chart 2. Stimulus payment use, by household gross income, June 11–June 16, 2020



Click legend items to change data display. Hover over chart to view data.

Note: Not all rows sum to 100 due to rounding.

Source: U.S. Census Bureau, Household Pulse Survey.



A quick reminder on the effects of the PFD

- ▶ [Kueng \(2018\)](#) finds that consumption increases by 11 cents for each dollar of PFD received in October, 5 cents in November, and another 7 cents in December. Overall, this points to an increase of between 22 and 24 cents for every PFD dollar in the three months post distribution.
- ▶ [Knapp, Berman, and Guettabi \(2016\)](#) find that a 100 million increase in the aggregate size of the PFD is associated with the creation 725 jobs in the short run.
- ▶ [Bibler, Guettabi, and Reimer \(2019\)](#) find that for every 100 million dollars in the total PFD distribution, there are approximately 475 jobs created. On the other hand, they find that women who are already employed tend to decrease the number of hours worked in the three months following the distribution.

└ What do we know about the Federal Aid and its impact(s)?

└ How many jobs has PPP saved?

What about PPP? No perfect answer

- ▶ The first round of PPP Loan applicants had to indicate a number of jobs at their organization that would be retained as a result of the PPP loan. Alaska applicants stated they would retain 114,000 jobs in the state during the active loan period. This is best thought of as the number of jobs supported by the loans and not the ones that would have disappeared in the absence of the loans.
- ▶ The equivalent number at the national level is over 51 million jobs.
- ▶ While it is difficult to identify the exact effect, recent research [here](#), [here](#), and [here](#) shows that the actual number of jobs saved is smaller than the 51 million number. It ranges from 1.2 million to 13.6 million jobs.

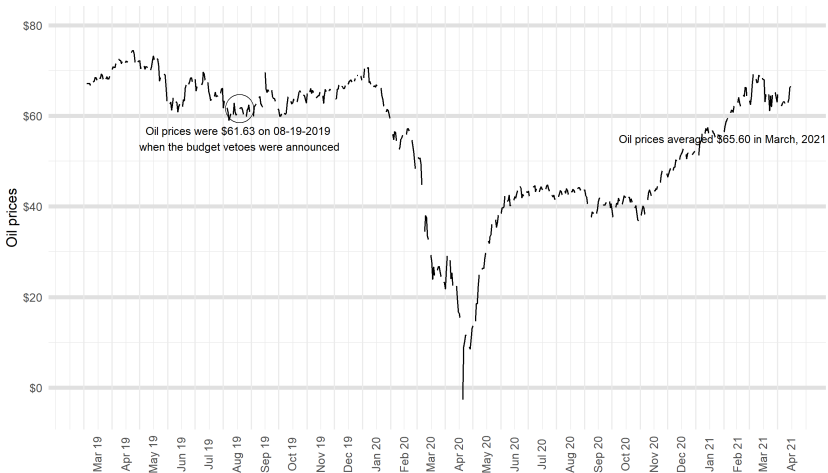
- └ What do we know about the Federal Aid and its impact(s)?
- └ How many jobs has PPP saved?

A quick note on the child tax credit

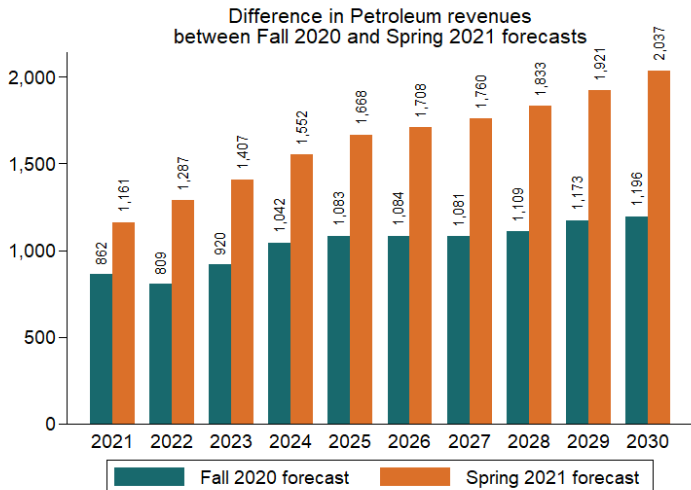
- ▶ First, it allows 17-year-old children to qualify for the credit.
- ▶ Second, it increases the credit to \$3,000 per child (\$3,600 per child under age 6) for many families.
- ▶ Third, it makes the credit fully refundable and removes the \$2,500 earnings floor.
- ▶ Fourth, it requires half of the credit to be paid in advance by having the IRS send periodic payments to families from July 2021 to December 2021. In 2018, there were 90,490 tax returns with child tax credits.

Oil prices

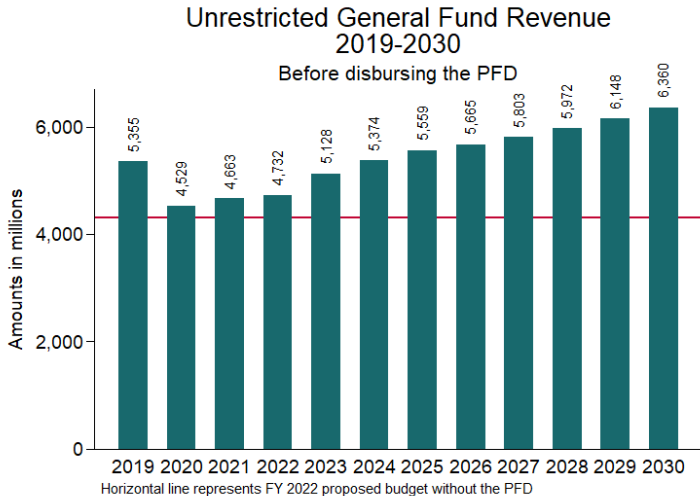
ANS oil prices between March 2019 and April 2021.



A big jump in oil revenues forecasted

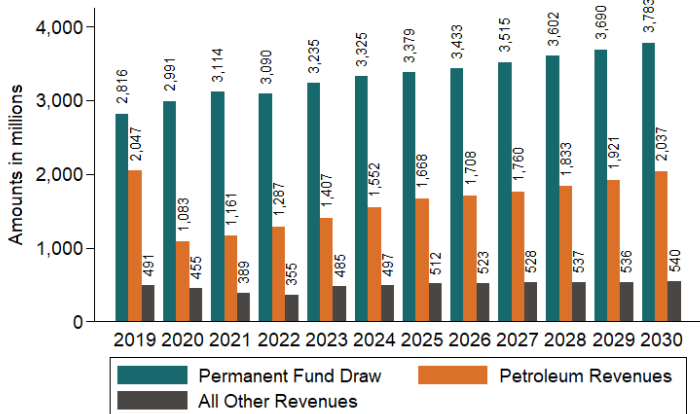


What does that mean?



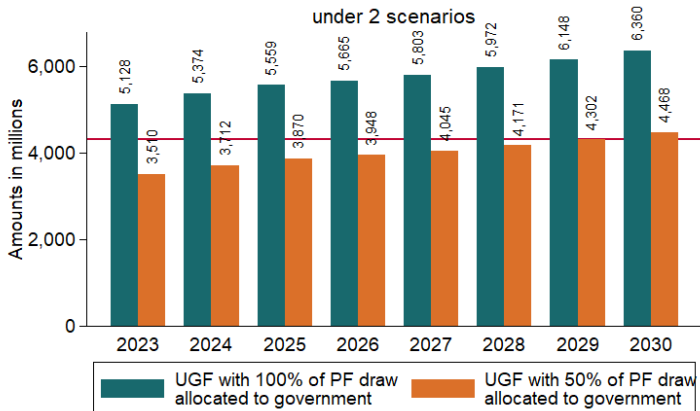
A quick decomposition

Unrestricted General Fund Revenue by source 2019-2030



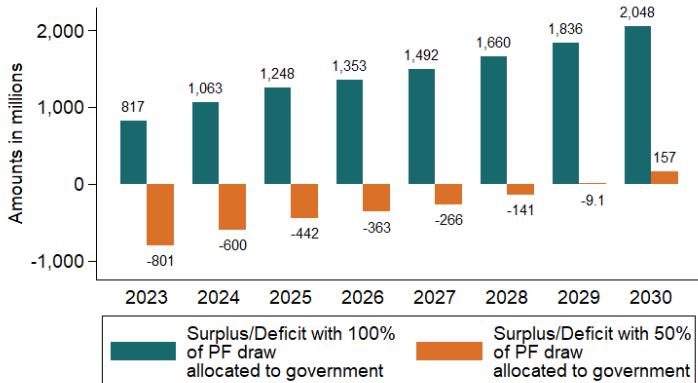
PF revenues are before any PFD distribution

50/50

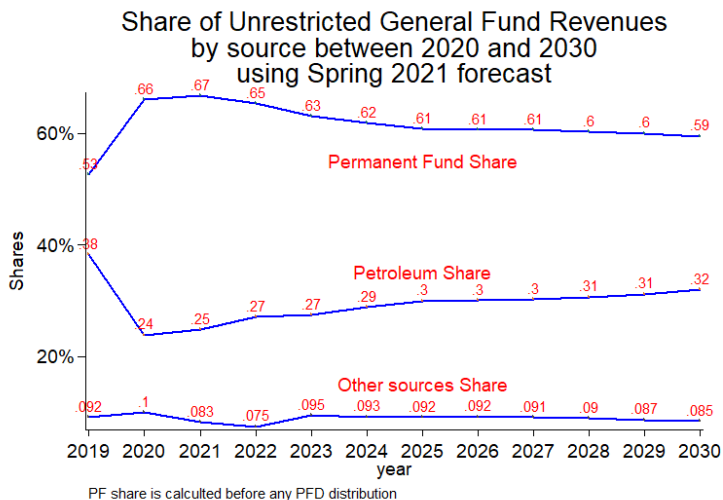
Unrestricted General Fund Revenue
2019-2030

Problem solved?

Unrestricted General Fund Surplus/Deficit
between 2023-2030
using the FY 2022 proposed expenditure level
under 2 scenarios



A shift in importance



On policy uncertainty

- ▶ In a 2018 report, I showed that the direct effects of policy uncertainty is costing the state somewhere between 200 and 600 million in private capital spending. The decline in spending due to policy uncertainty would indicate that waiting is not a costless option. In fact, the losses due to uncertainty are important and similar in magnitude to the ones the economy would experience due to a tax or further government cuts.

Where does all of this leave us?

- ▶ Labor market activity is still weak even if Personal income was higher in 2020 than in 2019. The effects of the most recent Federal distributions have yet to enter the Alaska economy.
- ▶ Based on my forecast [here](#), I do not anticipate a return to pre-pandemic employment levels until after 2022.
- ▶ Targeted Aid makes the most sense given the variation in economic pain across income groups, regions, and sectors.

Where does this leave us?

- ▶ The federal funding does not solve the state's fiscal difficulties. The long term structural questions are unchanged.
- ▶ It is important to recognize that waiting to address these issues is not a cost-less option.
- ▶ Economic activity was weak pre-pandemic. The historical catalysts have been under pressure and it is unlikely that we will see a quick rebound.

Thank You

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