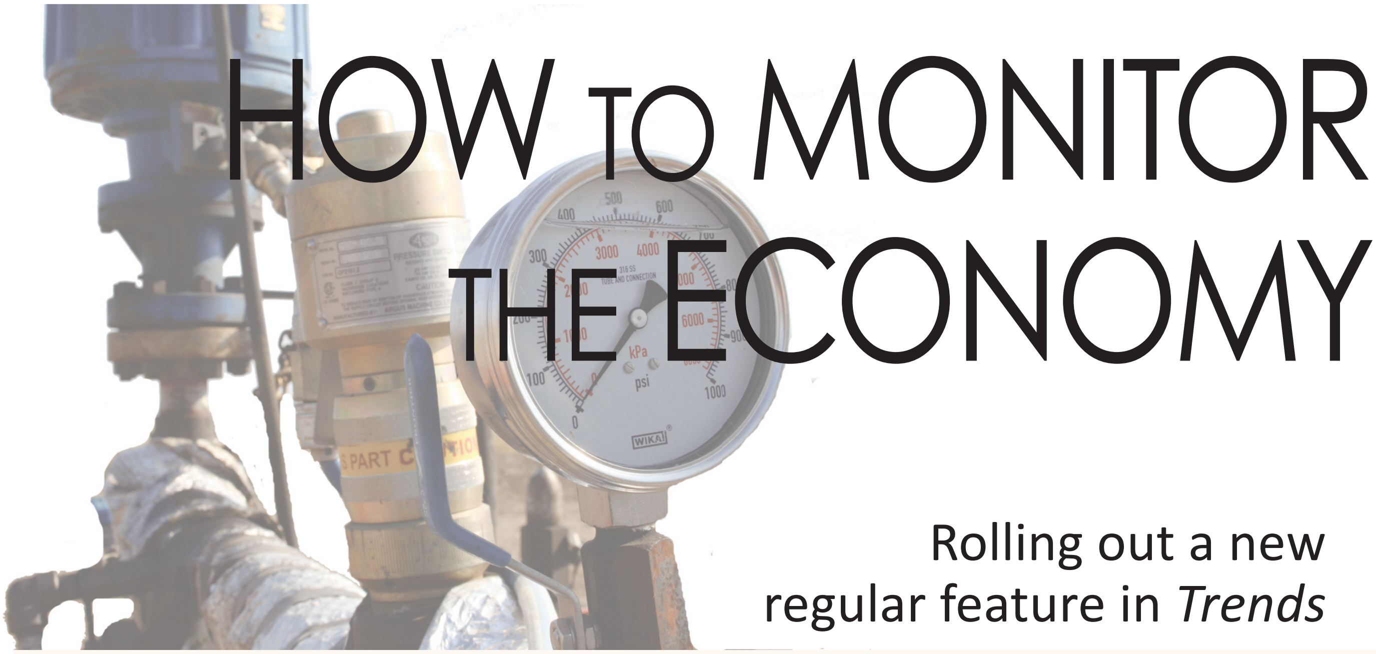


HOW TO MONITOR THE ECONOMY

Rolling out a new regular feature in *Trends*

By **DAN ROBINSON**

Picture how complicated the instrument panel looks when you glance into the cockpit of an airplane. A few main screens are prominent in the middle of a pilot's viewing area, but the rest of the surface is covered with dozens of other gauges.

An economy is similar in that no one measure can tell you everything you need to know, but a handful of relevant indicators warrant constant attention and many more should be regularly monitored.

Starting with this issue, *Alaska Economic Trends* will include an expanded set of economic measures, each of which offers insight into a key aspect of the state's economic health. (See page 14.) The measures are presented as "economic gauges" that show at a glance whether the most recent data put the state above or below its 10-year average, with some providing additional context through historical benchmarks and comparisons to the U.S. economy.

The three major gauges

As with a cockpit dashboard, the three big, detailed gauges — job growth, the unemployment rate, and gross domestic product growth — provide some of the most fundamental information about the health of Alaska's economy.

In most economies, jobs are front and center when assessing economic health, and how many is generally less important than whether the number is increasing or decreasing.

Second, the unemployment rate is a related but complicated measure of the percentage of people who aren't working but are actively seeking work, meaning it excludes those who retire or enter college, for example. Although the unemployment rate can send mixed signals about economic health, it has long been one of the most prominent economic measures.

The third gauge, state gross domestic product, is similar to job growth in that its relevance lies more in whether the value of what the economy produces is increasing or decreasing than in the value itself.

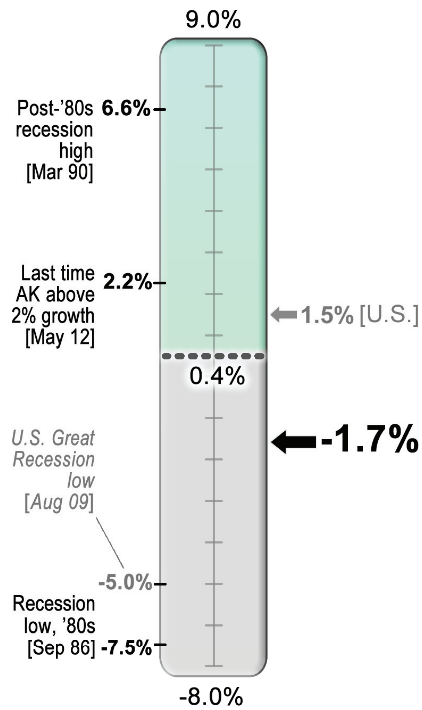
The upper and lower limits of the gauges give some sense of how high and low the measures could move based primarily on history. Some of those telling moments in history, both for Alaska and the United States, are identified on the left side of the gauges. On the right side are the most current data point for Alaska and, for comparison, the same data point for the U.S.

Timing is an issue

When interpreting what the individual measures are saying, especially collectively, it's important to keep in mind that unlike airline pilots, economic analysts

1 A More Detailed Look at Job Growth

June 2017



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

Individuals' stories often differ from the story the numbers tell

Economic data showing the relative health of an economy are frequently met with the very human response of, "Nonsense. Things are much worse (or better) than that for me and my neighbors." A person who has just lost a job or had to lay off employees because of an economic downturn may not want to hear that things aren't that bad or that they were much worse back in the day.

The nature of economic data is to provide information in aggregate for an economy. Anecdotes about individuals' experiences with job loss, lower wages, foreclosures, or bankruptcy, for example, humanize the information and make it more real and comprehensible for general interest newspaper and magazine readers. However, the fact that some people's experiences are better or worse than what the aggregate economic data show for the population as a whole doesn't mean the data are faulty.

Knowing to what extent the economy as a whole is under stress is key information for businesses, policy makers, and job seekers. An individual story of economic hardship may have more emotional punch, but the aggregated data — all of those individual stories rolled up into one more complete picture — are the foundation for good economic decision-making.

often have to wait months to more than a year for reliable information on key economic indicators.

A steep drop in jobs, for example, would typically precipitate declines in population and affect house prices. But because job numbers are available monthly and population numbers only annually, there will be periods when an economic shock or an economic boost will be visible in one indicator but not yet in another.

Zooming in on the big three

The job growth gauge shows that Alaska's job count was down 1.7 percent in June 2017, the most recent month available, from the previous June and that our 10-year average for job growth is 0.4 percent. (See Exhibit 1.)

The gauge also shows that U.S. employment grew 1.5 percent over the same period and that Alaska's current job loss is much smaller than the worst of Alaska's deep 1980s recession, when it bottomed out at -7.5 percent, and smaller than the nation's job loss (-5.0 percent) during the trough of the past decade's "Great Recession."

The gauge also shows high-water marks for the state as it roared out of the '80s recession, recording growth as high as 6.6 percent, and the last time Alaska added jobs at a rate of over 2 percent: May of 2012.

The second gauge shows that the state's unemployment rate of 6.6 percent, though substantially above the U.S. rate of 4.4 percent, is slightly below its 10-year average (7.0 percent). However, more revealing than how Alaska's current rate compares to its 10-year average or historical rates is the fact that it's the highest in the country. With the exceptions of the few other oil-dependent states, most of the U.S. economy is doing well, and unemployment rates for other states and the country as a whole have been on a long downward trend.

The fact that Alaska's rate hasn't risen more, given more than a year of job losses, raises a handful of questions. The answers are mostly speculative for now, given data limitations, but the most likely explanation is that people who lose their jobs have strong incentives to look for work in other states with low unemployment and strong hiring while Alaska's prospects remain uncertain at best.

The third gauge shows Alaska's gross domestic product growth. Because GDP data at the state level can be volatile, the gauge gives a four-quarter moving average, not adjusted for inflation.

As of the fourth quarter of 2016, the value of the goods and services produced in the state was down 0.5 percent from the prior year, well below the 3.0 percent GDP growth in the U.S. economy when using a comparable calculation.

Alaska's most recent decline is much more moderate than both the low point during the state's current recession — a drop of 8.4 percent in the fourth quarter of 2015 — and the U.S. declines during the worst part of the Great Recession.

Old gauges, by Felix Padrosa Photography

What the gauge doesn't show is that it represents the fourth year in a row of decline and the first time in the state GDP's modern history that the value has decreased for more than a year. For more detail on the state GDP, see the July issue of *Trends*.

Seven additional measures

Page 15 provides seven additional measures — initial claims for unemployment insurance, wage growth, personal income growth, change in house prices, foreclosure rates, population growth, and net migration — using simple gauges displaying the most recent data, the state's 10-year average, and highs and lows that roughly correspond with historical highs and lows.

In five of these seven measures, Alaska is below its 10-year averages. In two, though — initial claims for unemployment insurance and the foreclosure rate — Alaska is on the positive side of the decade average.

Up usually means strength, and down shows weakness

For all of the gauges, the top half represents relative economic strength and the bottom half indicates weakness. Some of the measures demand a closer look, though, especially when they don't seem to mesh with what the others suggest.

For example, initial claims for unemployment insurance, an indicator where more claims generally signals economic distress and fewer claims means the opposite, are substantially lower than the state's 10-year average.

That might reflect fewer-than-normal layoffs in recent weeks, but because initial claims have been low throughout the state's current recession, it might also mean people aren't filing for unemployment insurance, despite losing their jobs. As discussed above, that could be because people who lose their jobs in Alaska are quickly finding work in other states and not filing. But it also raises the question of whether eligible people in the state, for whatever reason, are choosing not to file for benefits.

This highlights one of the objectives of presenting the information this way: to show how complex economies are, with many moving parts and information that can appear contradictory. Often, those apparent contradictions are opportunities for closer examination in accompanying or future *Trends* articles.

On the other hand, foreclosure rates, the other measure showing that Alaska is in a position of relative economic strength, is refreshingly simple. Fewer foreclosures are nearly always positive.

Foreclosures and housing prices have both attracted a lot of attention during the current recession because both showed such dramatic change during the state's 1980s recession. This time, though, foreclosures have remained very low and housing prices have held up well, although a decline in the first quarter of 2017 suggests the recession is beginning to affect the housing market.

Monitoring doesn't necessarily mean controlling

Finally, with all the comparisons to control panels, it's important to note that the ability of policy makers, businesses, or anyone else to move the measures in the short term is limited. Sound policy making, wise investments, and an entrepreneurial citizenry can help create long-term economic health, but state economies are far too large, stable, and complicated to either crash or soar in the short term based on the pull of this or that lever.

In that sense, our economy is more like a glider than a plane. If it's well constructed and maintained, it's much more likely to fly well in a variety of conditions, many of which are largely out of our control.

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RENTAL MARKET

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average for Ketchikan and lower than it was in five of the last 10 years. Ketchikan's decade average vacancy rate is 10.4 percent.

Wrangell-Petersburg

Wrangell-Petersburg's survey results were mixed, with rent and vacancies both spiking in 2017. Average rent was $944, up 6.3 percent, which was the second-largest rent increase this year, after Sitka.

Until 2016, Wrangell-Petersburg's rent had been on a slow decline for much of the last 10 years. The area has the lowest rent but also the lowest average wages of surveyed areas.

The area vacancy rate hit 12.7 percent this year, up from 9.7 percent in 2016 and far above the decade average of 6.9 percent. This year's rate is also the highest since it topped out at nearly 19 percent in 2005, after which it remained elevated for the next two years.

Wrangell-Petersburg is the smallest area surveyed, and small areas tend to have large swings in vacancy rates.

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