

Fairbanks bank's forecast for '87: Recession expected to continue

The First National Bank of Fairbanks released its "1987 Preliminary Forecast" recently in which it projects the recession Alaska entered in April of this year will last from two to three years if oil prices stay low.

"Where oil prices will ultimately stabilize is anybody's guess at this point," said Scott Hawkins, the bank's corporate economist.

"We still believe that Saudi Arabia's long-term goal is \$20 per barrel, but it remains to be seen how long it will take for supply and demand to respond to these lower prices and for a new OPEC to emerge.

"For the next two years we are assuming an average of \$15 per barrel, although prices will undoubtedly remain volatile," he said.

Based on that assumption, the bank's economists predict that Alaska's economy will undergo a period of consolidation as oil-driven sectors adjust to lower prices. The weakest sectors will be construction, real estate, petroleum and state government.

Strong sectors are expected to be federal military spending and virtually all of Alaska's traditional, nonpetroleum basic industries.

"It must be remembered that fishing, fish processing, forest products, tourism and mining all benefit from lower oil prices," Hawkins said. "They benefit from lower transportation costs, lower operating costs, lower interest rates and — perhaps

most importantly — a lower value of the U.S. dollar."

Hawkins said, however, that for the next two to three years the declines in oil-related sectors will outweigh the gains in the military and non-oil private industries.

"The growth in non-oil industries will help to buffer the impact of declining state spending and oil industry layoffs, but it will take time before their growth will be sufficient to put Alaska's trade and service industries back on a moderate growth path," he said.

The report also pointed out that Alaska's economy has historically been dominated by the unexpected. Every four to six years since statehood Alaska has been dealt a "joker," or something that could not have been predicted, it states.

"Our forecast does not assume a 'joker,' but the potential for surprises such as a sharp oil price rebound, another large crude oil discovery, or Japanese investors providing the capital for a trans-Alaska gas pipeline must at least be acknowledged," said Hawkins.

But, given current trends, the report estimated that jobs in Alaska will fall 1.3 percent this year, 3 to 4 percent in 1987, and 1 to 2 percent in 1988.

"The year 1988 should be the third and final year of decline. By 1989, Alaska's economy should be back on a moderate growth path," Hawkins said.