

## BUILDING A STRONGER WYOMING

April 1986 Update

Given the new economic concern in Wyoming, it seems worthwhile to revisit the SRI report produced last Fall. This memo briefly reviews the major economic trends affecting Wyoming today and addresses possible strategies for dealing with near-term problems and opportunities.

### Update

Since SRI completed its work for the Wyoming Futures project last Fall, three "wild cards" have been introduced into the situation. First, the collapse of OPEC production agreements have caused a free fall of oil prices. The effects are already being felt., The number of completed wells (oil and gas) in the first six weeks of 1986 was approximately half of what was experienced during the same period in 1985 (a down year). Coal and gas production is generally stable, but prices are falling as oil becomes a more attractive fuel, and CO<sub>2</sub> production plans are being curtailed and jobs eliminated as the economics of FOR deteriorate. Secondly, Congress passed the Gramm-Rudman-Hollings Act that is intended to systematically reduce the federal budget deficit. The State Geologist reports that Wyoming could lose \$8 million this year, \$43 million in 1987, and millions more in succeeding years from reductions in royalties paid for production from federal lands. Even if parts of the law are deemed unconstitutional, strong downward pressure on federal spending will remain. Because of significant federal presence in the state, Wyoming is likely to be one of the most heavily impacted states in the nation. A modest .... *[illegible]*..... overvalued dollar has declined relative to many other currencies. Although it is unlikely that agriculture (or trona) operators have seen an upturn in their foreign sales, some improvements may be seen over the next few months.

## Likely Impacts

The precise impact of these new economic forces are not easily predicted over the next year or two, but clearly will be severe. Wyoming unemployment has rapidly increased to 10.8%, and is likely to climb significantly higher (Louisiana unemployment hit 13.2% last month and is climbing very fast). Five banks have closed in the past few months and others are rumored to be in serious trouble. State revenues are falling so fast that precise projections seem meaningless until some stable point is reached. The state's Research and Statistics Division has estimated a \$100 million drop in 1986 revenues if oil prices stabilize at \$18 barrel. With Gramm-Rudman and the effects of oil's downturn rippling through the economy, it is obvious that Wyoming is in for economic hardships more serious than any experienced in the past decade or two.

## Strategies Revisited

SRI's recommended strategies built on the underlying philosophy that states need to create new capacity to *[illegible]* pe: economically, educationally, socially, etc. In our report, we pointed out the risky aspects of an economy heavily dependent on commodities. We did not foresee the convergence of events that have occurred nor the speed at which their effects would be felt; SRI's recommendations were framed as relatively long-term strategies to diversify the economy, make improvements in higher education and in physical infrastructure, and so forth. These are obviously not areas where results would be seen in a year or two but are still, SRI is convinced, the right overall approach.

Nevertheless, Wyoming's current conditions raise an obvious question. Is there anything the state can do to quickly stem or appreciably slow the decline? This is a question we asked ourselves during the course of the project and we answered in the negative. Any short-term-oriented initiative, we concluded, would do little to improve the state's overall competitiveness.

Looking harder now seems prudent, if not easier. While overall we see few obvious opportunities, there may be some areas where near term action would result in near term benefits. The attached table revisits each of the economic sectors originally examined, updates their economic situation as we understand it to be today, outlines the forces now affecting the sector, and then suggests some ideas for near term action. Generally, the ideas fall in four categories:

- (1) Aggressive and highly targeted marketing programs to seize opportunities that may be opening. This can be a very good year for tourism as gasoline prices have fallen and much of the country's economy has improved. Agriculture could see an upturn in foreign sales as the dollar has declined.
- (2) State loan guarantees backed by realistic repayment plans to prop up in-state small business that may rebound in 1-2 years. Wyoming cannot afford to lose its energy-related economic capacity due to near-term failures when most agree that some rebound in oil prices is likely.
- (3) Retain employment but reduce costs. This is especially the case for state and local government which is one of the few stable sectors today. Pressures for employment reductions and program cuts may arise. Wyoming should view its government sector as a counter-cyclical tool and make adjustments that have only the highest overall economic benefit.
- (4) Survey to identify new markets. The manufacturing and support/service sectors may have near-term opportunities in those areas of the economy still showing strength (e.g., seizing markets at Warren AFB, USFS, etc.)

SRI may be able to help with some specific ideas in the first and last areas. In each case, there are specific methodologies that could be used to identify opportunities for Wyoming firms in the near term.

### Conclusion

In many ways, the Wyoming Futures Project is more important to the state today than ever before. The WFP process is helping Wyoming carefully choose its direction at a time that many may want to react to a near-term crisis. Using a crisis as an excuse for sectors not collaborating would be unfortunate. Clearly, it would be unwise for the project to get off track at this point. Wyoming's leaders need to work within the project to rally the state around the many strengths and few, but ripe, opportunities for realizing near-term benefits.

WYOMING ECONOMY

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Sector	Current Status	Relevant Forces at Work 10/85 to 4/86	Prospects	Suggested Near Term Strategies	Initiatives to Consider	Responsible Sector
Agriculture	Flat	<ul style="list-style-type: none"> <li>Stabilizing commodity markets</li> <li>Weakening dollar</li> <li>Lower fuel costs</li> </ul>	<ul style="list-style-type: none"> <li>Some modest rebound as foreign markets improve, costs decline</li> </ul>	<ul style="list-style-type: none"> <li>Design and implement an aggressive foreign marketing program</li> </ul>	<ul style="list-style-type: none"> <li>New promotion packages w/new services offered</li> <li>Trade missions to best markets</li> </ul>	<ul style="list-style-type: none"> <li>State government and industry</li> </ul>
Resources	Declining	<ul style="list-style-type: none"> <li>Collapse of oil prices.</li> <li>Declining capacity</li> <li>Ripple effects pushing gas and coal prices down</li> </ul>	<ul style="list-style-type: none"> <li>Further oil declines w/possibility of losing significant industrial infrastructure by 1987-88</li> <li>Export markets for trona may improve</li> </ul>	<ul style="list-style-type: none"> <li>Implement policies to ensure state's industrial infrastructure isn't lost; wait for likely rebound in oil prices</li> </ul>	<ul style="list-style-type: none"> <li>State loan guarantees to critical in-state industries</li> </ul>	<ul style="list-style-type: none"> <li>State government</li> </ul>
Tourism	Improving	<ul style="list-style-type: none"> <li>Lower gasoline prices</li> <li>More leisure time</li> <li>Economic improvement in much of U.S.</li> </ul>	<ul style="list-style-type: none"> <li>Very good</li> </ul>	<ul style="list-style-type: none"> <li>Aggressive targeted marketing; programs to build tourism infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Significantly increase state's marketing budget and target best prospects</li> <li>Loan program to build industry's capacity and support advertising by tourism sectors</li> </ul>	<ul style="list-style-type: none"> <li>State government</li> </ul>
Manufacturing	Flat	<ul style="list-style-type: none"> <li>Same as earlier (e.g., geographic isolation; lack of industrial capacity)</li> </ul>	<ul style="list-style-type: none"> <li>Little change</li> </ul>	<ul style="list-style-type: none"> <li>Aggressively seek new opportunities to produce for regional markets</li> </ul>	<ul style="list-style-type: none"> <li>Undertake survey of regional purchasing officers to identify opportunities for Wyoming import substitution</li> </ul>	<ul style="list-style-type: none"> <li>State government w/support from Chambers of Commerce and UM</li> </ul>
Government	Flat	<ul style="list-style-type: none"> <li>Gramm-Rudman pressures</li> <li>Lower S&amp;L govt. revenues</li> </ul>	<ul style="list-style-type: none"> <li>Some decline as Fed deficits reduced and S&amp;L govt. revenues decline</li> </ul>	<ul style="list-style-type: none"> <li>Retain (or build) employment base at reduced costs</li> </ul>	<ul style="list-style-type: none"> <li>Reduce costs; consider salary freezes, cuts in benefits, fewer contracts</li> </ul>	<ul style="list-style-type: none"> <li>State government</li> </ul>
Support/Service	Declining	<ul style="list-style-type: none"> <li>Statewide economic decline</li> </ul>	<ul style="list-style-type: none"> <li>Decline as general economic decline hits sector even harder</li> </ul>	<ul style="list-style-type: none"> <li>Aggressively seek new small business opportunities for increased import substitution especially in remaining strong areas</li> </ul>	<ul style="list-style-type: none"> <li>Undertake survey of major employers to identify opportunities for new small businesses for import substitution</li> </ul>	<ul style="list-style-type: none"> <li>State government w/support from Chambers of Commerce and UM</li> </ul>