



ECONOMIC 2020 FORECAST

ANCHORAGE



AEDC
Anchorage Economic
Development Corporation

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Report compiled by McDowell Group. The 2020 Economic Forecast includes recent economic trends, analysis of a wide range of economic and business activity indicators, interviews with representatives of businesses and organizations in various sectors, and current events to gain an understanding of forces likely to be shaping business conditions affecting job growth in Anchorage in 2020.

Report released Jan. 29, 2020 at the AEDC Economic Forecast Luncheon.

To view more AEDC reports, go to www.AEDCweb.com.

NOTE ON SOURCE OF EMPLOYMENT DATA

This employment forecast is based on historical and preliminary 2019 data produced by the Alaska Department of Labor & Workforce Development (DOLWD). DOLWD data includes full-time and part-time jobs by place of work, but excludes uniformed military personnel, business owners, the self-employed, unpaid family help, private household workers, and seafood harvesters.

2020 ECONOMIC FORECAST FOR ANCHORAGE

At this time last year, AEDC expected the Anchorage economy to add 300 jobs over the course of 2019, marking the end of three consecutive years of employment decline. The promise of steep State budget cuts brought an end to that optimism, prompting AEDC to revise its mid-year expectations for 2019 to a net loss of about 700 jobs. However, HB 2001 restored more than \$150 million in vetoes; so while the final fiscal year 2020 budget cuts were deep (about \$650 million in total), the picture wasn't as bleak as it was last July. The bottom-line is that Anchorage lost jobs again in 2019; preliminary numbers suggests a decline of approximately 300 jobs, bringing the four-year total decline over the course of the recession to about 6,000 jobs.

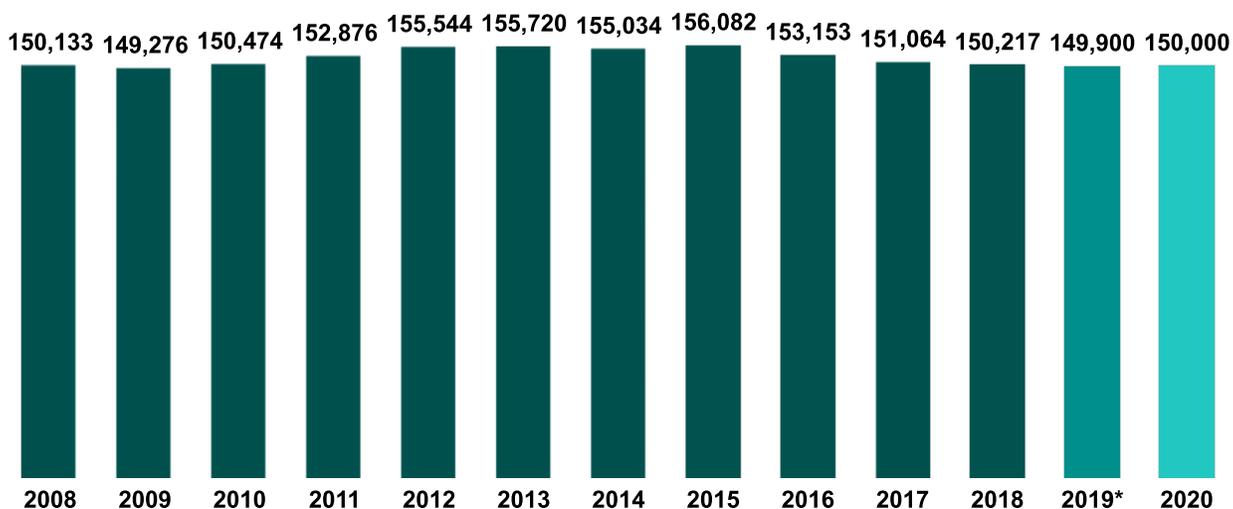
The good news is that oil and gas, construction, and professional services all stopped shedding jobs in 2019. Those sectors bore the brunt of the recession, so their turn-around marks a big change in the trajectory of the economy. It was losses in the retail and government sectors that kept total employment in negative territory again in 2019. Retail employment has been trending down since 2015, but that's more about national chains reorganizing and less about local economic conditions. The loss of more state government jobs (including University of Alaska Anchorage) is the expected result of budget cuts.

As detailed in the forecast, AEDC expects Anchorage to (at last) gain jobs in 2020. The gain will be slight, about 100 jobs total. Additional growth in health care, the visitor industry, construction, professional services, and federal (census-related) government will be tempered by further cuts in retail and state government employment. Employment in the oil and gas industry is also likely to dip slightly in 2020 with the BP/Hilcorp transition.

This employment forecast begins with an overview of a few key indicators, including population, unemployment rate, and rate of inflation. Then the 2020 employment outlook is described for each key sector of the local economy. The forecast concludes with a few big-picture thoughts about the outlook for Anchorage's economy.

ANCHORAGE EMPLOYMENT

2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

2020 EMPLOYMENT CHANGE BY SECTOR

at a glance

OIL & GAS *-200*

HEALTHCARE *+200*

TRANSPORTATION *+200*

GOVERNMENT *-200*

PROFESSIONAL &
BUSINESS SERVICES *+200*

CONSTRUCTION *+100*

LEISURE & HOSPITALITY *+200*

RETAIL TRADE *-300*

FINANCIAL ACTIVITIES *-100*

OTHER SECTORS *NO CHANGE*

TOTAL CHANGE *+100*

ANCHORAGE POPULATION

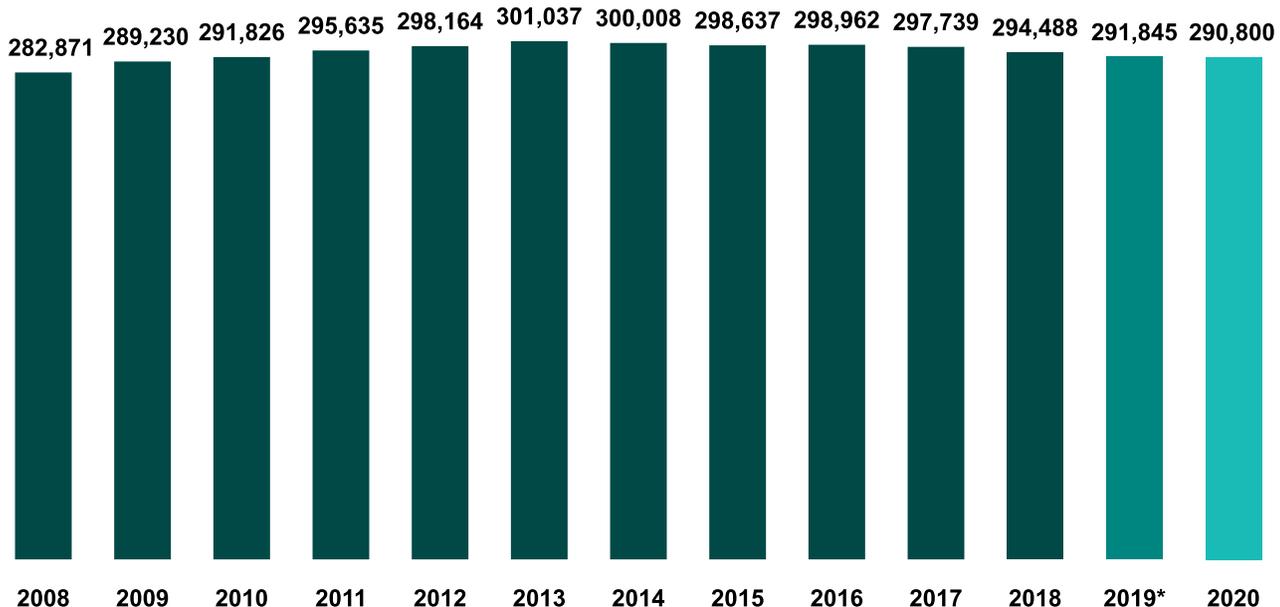
Anchorage's population totaled an estimated 291,845 people in July 2019, representing a net loss of about 2,600 residents compared to 2018, a 0.9% reduction. Current population levels are 9,200 people lower (3.1%) than peak observed in 2013.

Several factors are contributing to population losses in Anchorage. Recession in Alaska coupled with strong economic conditions and record-low unemployment elsewhere in the U.S. prompted many residents to seek employment elsewhere and stemmed the tide of Lower 48 residents who might otherwise come to Alaska for work. At the same time, a falling birth rate and increasing death rate (due mainly to an aging population) weighs on population growth.

AEDC expects further modest population declines in 2020, even as local economic prospects improve and the national economy shows signs of slowing. The anticipated reduction of about 1,000 residents (0.4%) will be the smallest loss of the previous three years.

- Anchorage's net population decline from 2018 to 2019 includes 3,913 births, 1,811 deaths, and a net loss of 4,745 residents due to migration.
- Between 2014 and 2018 (the most recent available data), an average of 20,000 people left Anchorage annually to the Lower 48 (and other outside locations) while 16,000 non-Alaskans became residents of Anchorage. Over this five-year period, Anchorage's net outmigration to other non-Alaska communities totaled nearly 20,000 residents.
- The number of Alaska residents leaving the state declined to a 9-year low in 2019. However, the number of people moving to Alaska fell to a 30+ year low, according to preliminary data. A low unemployment rate nationally is strongly correlated with reduced migration to Alaska.
- Intra-state movement of residents also has implications for Anchorage population levels. According to data from 2018, about 4,900 residents moved to Anchorage from other Alaska communities and about 5,200 Anchorage residents moved to other areas of the state. The largest intra-state exchange of Anchorage residents occurs with the Mat-Su Borough: in 2018, about 1,900 Anchorage residents moved to the Borough while roughly 2,800 Borough residents moved to Anchorage.
- The natural rate of population growth (births versus deaths) has trended lower in Anchorage over the past decade. With an aging population overall, birth rates have been trending down while death rates have been trending up.

ANCHORAGE POPULATION, 2008 – 2019 AND 2020 FORECAST



*2019 figure based on preliminary data.

Sources: Alaska Department of Labor and Workforce Development (2008-2019), McDowell Group (2020 estimate).

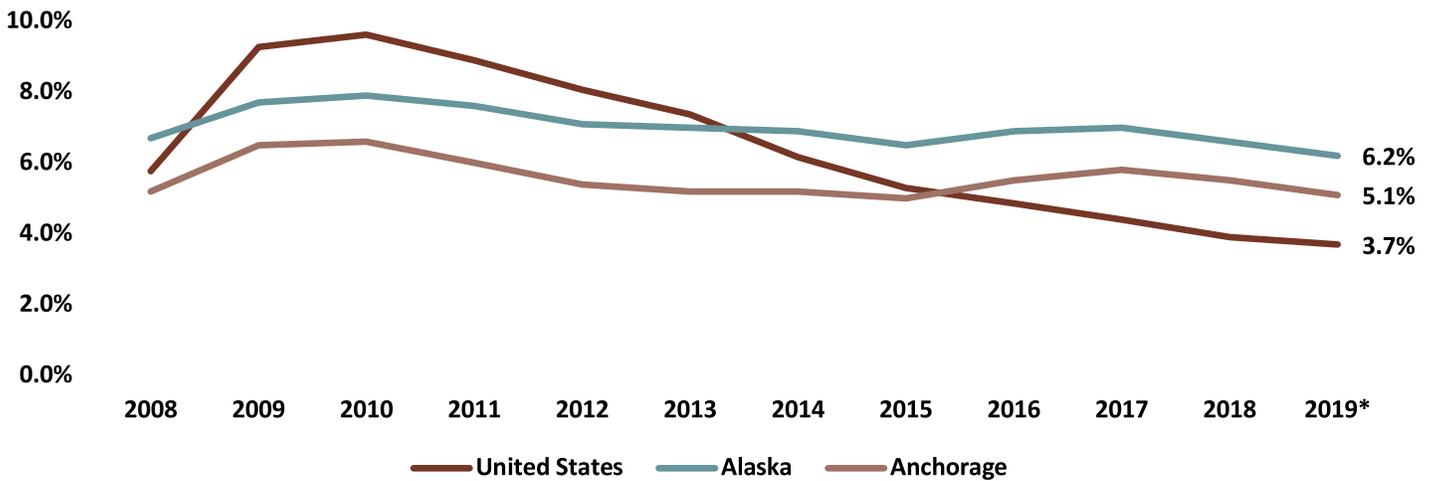
ANCHORAGE UNEMPLOYMENT

The preliminary Anchorage unemployment rate for 2019 is 5.1%, the lowest measurement in nearly 20 years. Both Alaska's rate of 6.2% and the national rate of 3.7% are at record lows. A lower unemployment rate is nearly always preferred to a higher rate; however, this simple metric is only one part of the story.

The labor force is defined as the total number of individuals employed plus the portion of individuals unemployed but actively searching for work. The unemployment rate is calculated by dividing the latter component with the former component.

While the national unemployment rate is low, primarily because of sustained job growth, the Anchorage (and Alaska) rate is low because the labor force is shrinking. Since 2015, the Anchorage labor force has declined nearly 10,000 people (6.3%) to settle at 149,000, roughly equal to 2004 levels.

UNITED STATES, ALASKA, AND ANCHORAGE AVERAGE MONTHLY UNEMPLOYMENT RATE (%), 2008 – 2019



*2019 figure based on preliminary data.

Source: Alaska Department of Labor and Workforce Development, U.S. Bureau of Labor Statistics (2008-2019).

ANCHORAGE INFLATION RATE

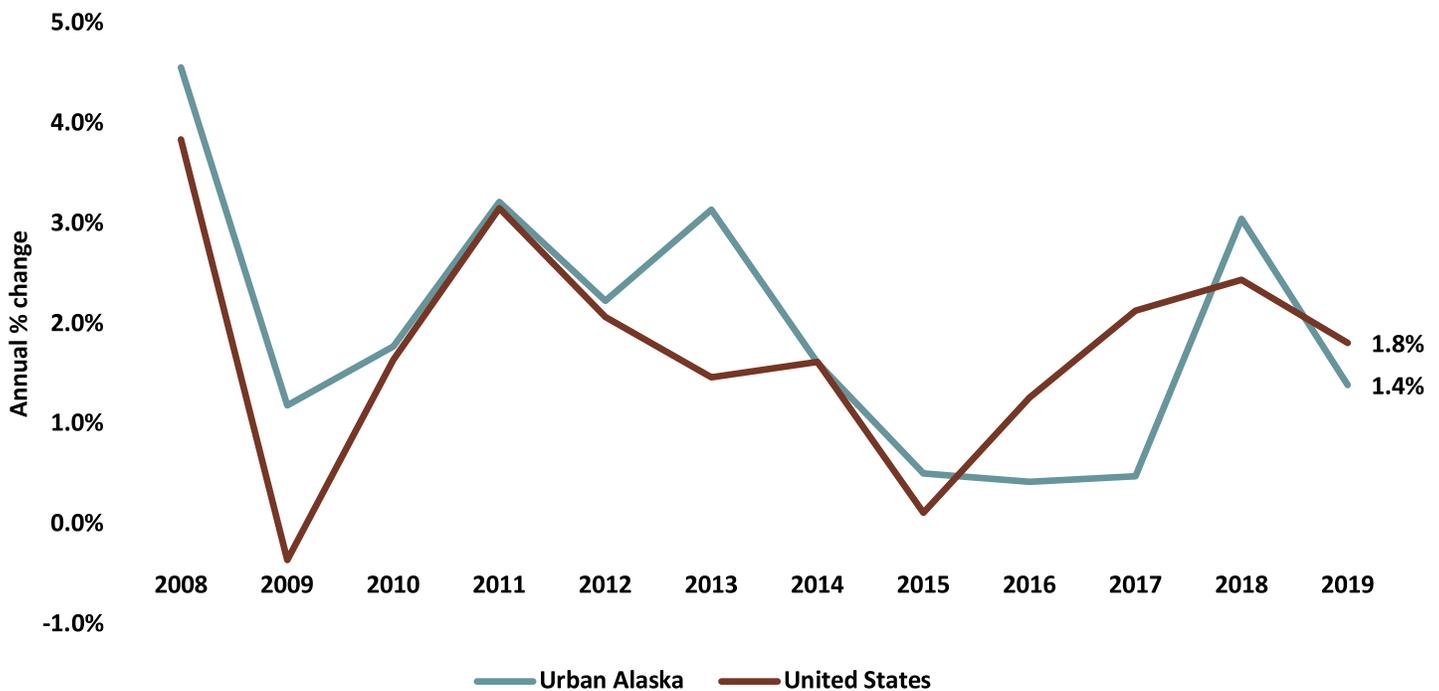
The Urban Alaska rate of inflation averaged 1.4% in 2019, a slight uptick from the average rate of around 0.5% during the 2015-2017 period.

Inflation is measured with the Consumer Price Index (CPI), which monitors changes in prices to specific goods and services over time. The Anchorage/Mat-Su CPI is the primary measure of inflation for Alaska, described as the *Urban Alaska* by the U.S. Bureau of Labor Statistics.

The slight net increase in prices was due to increases and decreases across a variety of expenditure categories. Medical care increased in 2019 (+4.7%), along with food (+2.1%), energy utilities (+1.4%), and household furnishings (+0.9%), among others. These increases were moderated by reductions in apparel prices (-4.0%), used vehicles (-1.5%), housing (-0.7%), and gasoline (-0.2%), among other categories.

Absent significant changes in energy prices, AEDC expects inflation to remain at moderate levels in 2020.

URBAN ALASKA AND U.S. CONSUMER PRICE INDEX, 2008 – 2019



Source: U.S. Bureau of Labor Statistics (2008-2019).

OIL & GAS -200



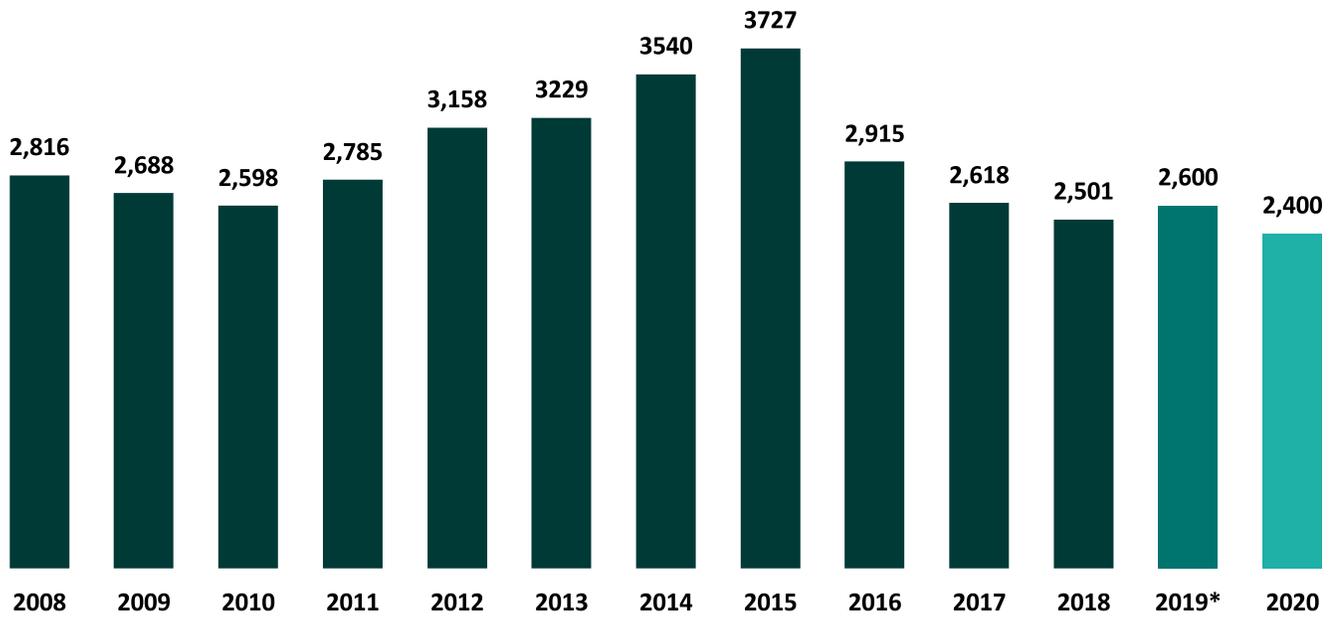
The oil and gas industry in Anchorage added jobs in 2019, the first such increase since 2015. Employment in the sector averaged approximately 2,600 jobs, 100 more than in 2018. The slight increase is welcome, however, oil and gas industry employment in Anchorage is still 1,100 jobs off its peak in 2015 of over 3,700 jobs.

BP's departure from Alaska clouds what would otherwise be a good employment outlook for the oil and gas industry in Anchorage. While Hilcorp will pick up a significant number of BP workers, and local hiring is expected by other firms (such as Oil Search), the net effect in Anchorage is likely to be a decline in oil and gas industry employment of about 200 jobs. AEDC sees 2020 as a year of transition, as a legacy producer exits and new investors step up to help carry the industry into the future.

Noteworthy factors in Alaska's oil and gas industry include:

- At the statewide level, employment in the oil & gas industry peaked in 2014 at approximately 14,800 jobs before declining to a low of 9,400 in 2018. Although employment expanded about 500 jobs in 2019, current levels are about a third lower than peak employment.
- The Trans-Alaska Pipeline System (TAPS) moved its 18 billionth barrel of ANS crude in December 2019.
- TAPS averaged throughput of approximately 490,000 barrels per day in calendar year 2019, a 3.7 percent decline from 2018. Throughput in 2019 was the lowest in the pipeline's history.
- State of Alaska forecasts have North Slope production declining through 2024, to about 434,000 barrels per day, before new production changes the tide and pushes daily production back up to 495,000 barrels per day by 2029.
- Oil prices were remarkably steady in 2019, with monthly ANS prices averaging from \$60 to \$72 per barrel, the narrowest range in the last five years. Prices averaged about \$65 per barrel in 2019.
- ConocoPhillips continues to invest aggressively in Alaska:
 - Greater Mooses Tooth #2 (a \$1.4 billion investment) is on track for first production in late 2021 (estimated peak production of 35,000 to 40,000 barrels per day).
 - The Nuna discovery (acquired from Caelus in 2019) has a 2022 production start-up target (Caelus estimated production at 20,000 barrels per day)
 - Narwhal production scheduled to start in 2022 (into Alpine facilities).
 - Six appraisal wells were completed at Willow, with four more wells planned in 2020. With positive investment decision, first production from Willow could be by 2025-26.
 - Narwhal and Willow together have gross resource of 600 million to 1.2 billion barrels, with a combined potential peak production rate of 70,000 barrels per day.
 - Across all its Alaska assets, ConocoPhillips will invest \$25 billion over the next 10 years.
- Oil Search's Pikka (Nanushuk) project is on track for first production in 2022 at 30,000 barrels per day, before ramping up in the following years to 120,000 barrels per day or more. A Final Investment Decision (FID) is expected mid-2020.
- Hilcorp's Liberty Project (peak production of 65,000 barrels per day) has a 2021 start-up date, targeting a total resource of 167 million barrels.
- Cook Inlet oil production is expected to average about 16,000 barrels per day in 2020, and trend down steadily over the next decade to about 9,000 barrels in 2029, according to State of Alaska figures.
- Yet another tax initiative is casting a shadow of uncertainty on Alaska's oil industry. Just as the industry regains its footing after several difficult years, the threat of increased taxes places at risk the billions of dollars in planned investment in new production.

ANCHORAGE OIL AND GAS EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2008-2018 employment); McDowell Group (2019 and 2020 employment)

HEALTHCARE +200



Though final numbers are not yet in, the long stretch of uninterrupted growth in health care employment in Anchorage may have come to an end in 2019. Best case is that the industry held steady, with no actual decline in employment. Through the first half of 2019, employment was down about 100 jobs compared to the same period in 2018. Monthly employment estimates for November 2019 show no change in health care employment compared to November of 2018.

While high growth rates experienced over the past decade are not expected in coming years, AEDC does expect health care to stay on a growth trajectory in 2020, adding another 200 jobs.

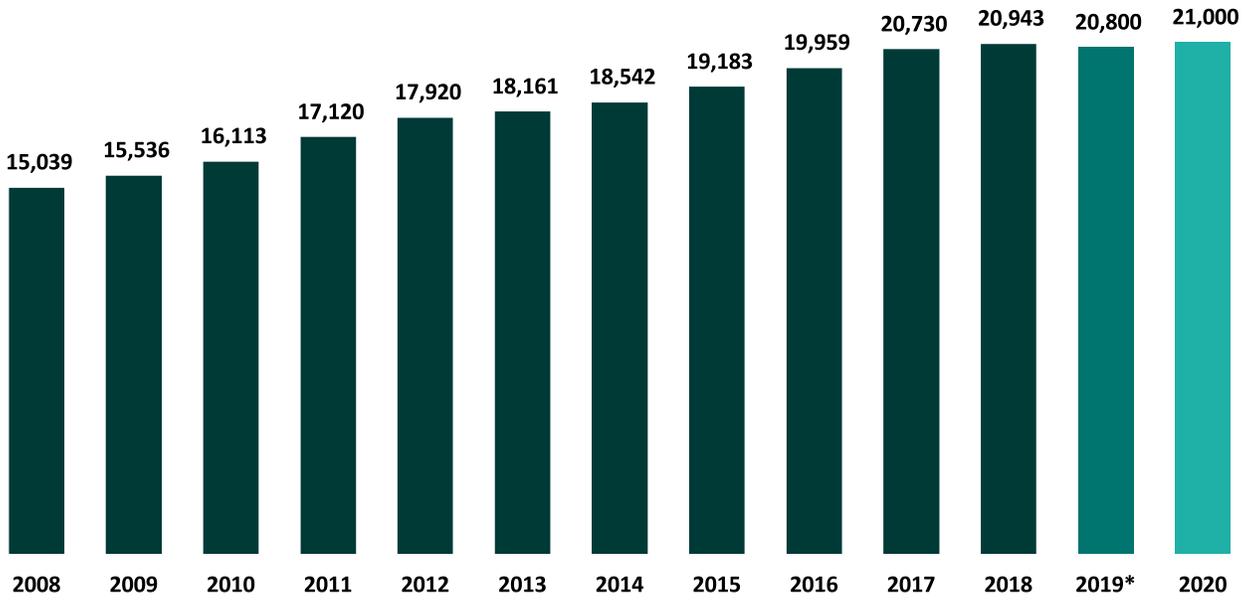
On average, healthcare generated approximately 20,800 jobs in 2019. Outpatient services account for roughly half of the sector's employment; hospitals contribute about a third, and nursing and residential care services round out the remainder. Both outpatient services and hospitals showed growth in 2019, based on preliminary data. An as yet unexplained drop in nursing and residential care employment accounts for the slow-down in employment in the health care sector overall in Anchorage.

Several factors may present headwinds to employment growth in the health care sector going forward:

- Anchorage's population has trended down in recent years and is now about 9,000 residents below the peak in 2013. Further population decline is expected in 2020.
- Uncertainty about the future of Medicaid coverage for Alaskans persists. As a \$2 billion piece of the State's budget, Medicaid will again be part of the budget-balancing discussion this legislative session. A federal effort to convert Medicaid funding to block grants adds another layer of uncertainty.
- Health care providers will continue to look for ways to reduce costs, such as greater use of telemedicine technologies, which can ease need for on-site staff.
- An inadequate supply of suitably trained and skilled workers in the local labor force may constrain growth in health care, among other industries.

The health care sector added almost 1,800 jobs to the Anchorage economy between 2015 and 2018, a period when the local economy was in recession and badly in need of new jobs. A slow-down in health care growth was inevitable; better now that the sectors hardest hit by recession are regaining their footing.

ANCHORAGE HEALTHCARE EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

TRANSPORTATION +200



Employment in Anchorage's transportation, warehouse, and utilities sector fell slightly in 2019, losing about 100 jobs (0.9%) to an average of 11,100. Even with this small decline, the category has been among the City's most stable sources of employment, providing about 11,000 jobs since 2008.

AEDC anticipates the sector to grow by approximately 200 jobs (1.8%) in 2020, mainly the result of increasing airport-related activity.

The largest component of the sector is air transportation, which contributes nearly a third of all employment in the transportation sector (3,400 jobs). Air transportation employment has expanded steadily in recent years, adding about 400 jobs (12%) between 2014 and 2018.

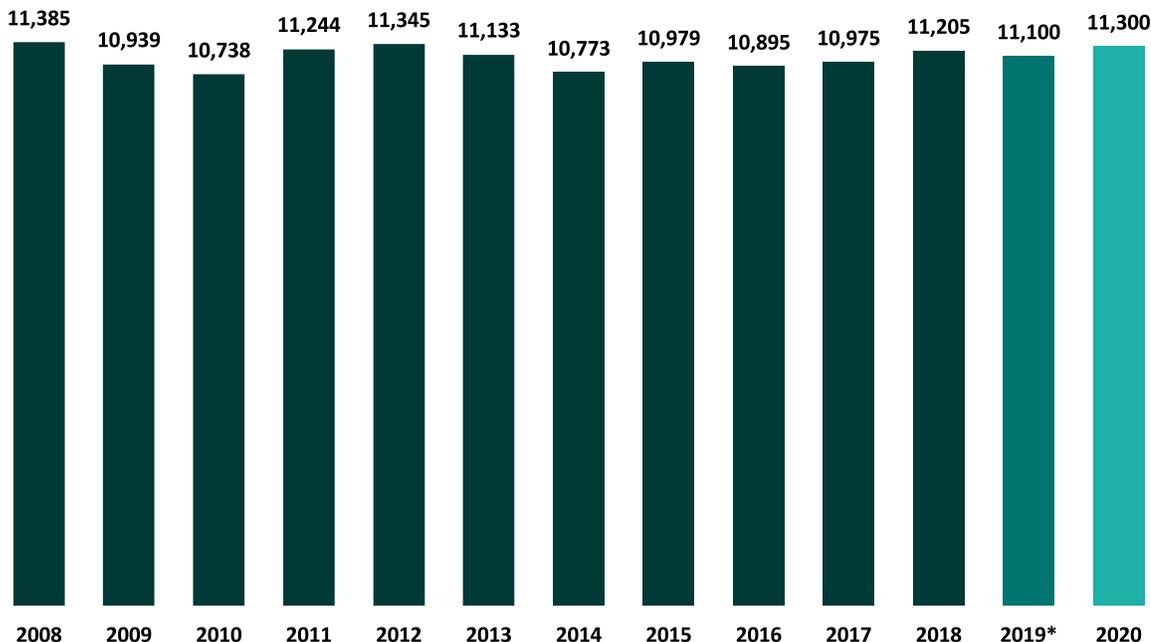
About a fifth of employment (2,200 jobs) in the transportation sector comes from couriers such as FedEx and United Postal Service. Anchorage is home to 90% of all Alaska courier jobs—a benefit directly attributable to Ted Stevens Anchorage International Airport (ANC).

Truck transportation accounts for 12 percent of employment in this sector, with about 1,300 jobs. The remainder includes sightseeing and other passenger services, water and pipeline transportation, warehousing, and utilities.

Anchorage has a well-developed transportation infrastructure. The Port of Alaska handles goods used statewide with frequent scheduled transportation from the Lower 48 and robust intermodal connectivity. Rail and highway extension north and south allow reliable movement of supplies and people. Lastly, Ted Stevens Anchorage International Airport (ANC) is ranked top five globally by freight volume and is the primary gateway for air cargo moved in and out of Alaska. This unparalleled portfolio of logistics options will continue to support local employment while providing vital services statewide.

- Through July 2019, airport volume at ANC was up 2.7 percent for the same period a year earlier. Enplaned, deplaned, and transited cargo volume totaled 1.64 million metric tons; the transited component accounted for 52% of the total.
- ANC supports about 16,000 jobs in Anchorage or 1 in 10 local jobs.
- Trade disputes have the potential to impact activity at the airport. More than one in four cargo planes landing at ANC originated from China.
- The Port of Alaska moved about 4.3 million tons in 2019, the highest volume in at least 10 years. All major categories were higher, led by petroleum (+13%), vans/flats/containers (+2.0%), and dry bulk goods (+4.4%).

ANCHORAGE TRANSPORTATION EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages. Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

GOVERNMENT -200



Anchorage's government sector totaled 27,100 jobs in 2019—a 22-year low. The sector lost about 400 jobs from 2018 (-1.3%). While federal government will see a temporary jump in employment as a result of hiring for the 2020 Census, further cuts in state government are expected to push total public sector employment in Anchorage lower again this year. AEDC expects a loss of another 200 jobs in 2020.

Government employment in Anchorage is reasonably well balanced between State government (including the University of Alaska Anchorage) with about 9,800 jobs, local government (including the Anchorage School District) with 9,100 jobs, and federal government (excluding active duty military) with 8,300 jobs.

Although military-related activity is not included in this forecast, its employment and spending are critical to the Anchorage economy. JBER supports roughly 16,000 military and civilian workers with wages of more than a billion dollars annually. Additionally, other military bases and activity statewide are supported by Anchorage businesses.

The government sector generated \$1.9 billion in total wages in Anchorage in 2018, including \$710 million in federal government, \$561 million in state government, and \$610 million in local government. Combined, government accounted for 21% of all wages paid in Anchorage in 2018.

Anchorage is home to 35% of all public employment in Alaska, including 65% of federal employment, 42% of State of Alaska employment, and 24% of local government employment.

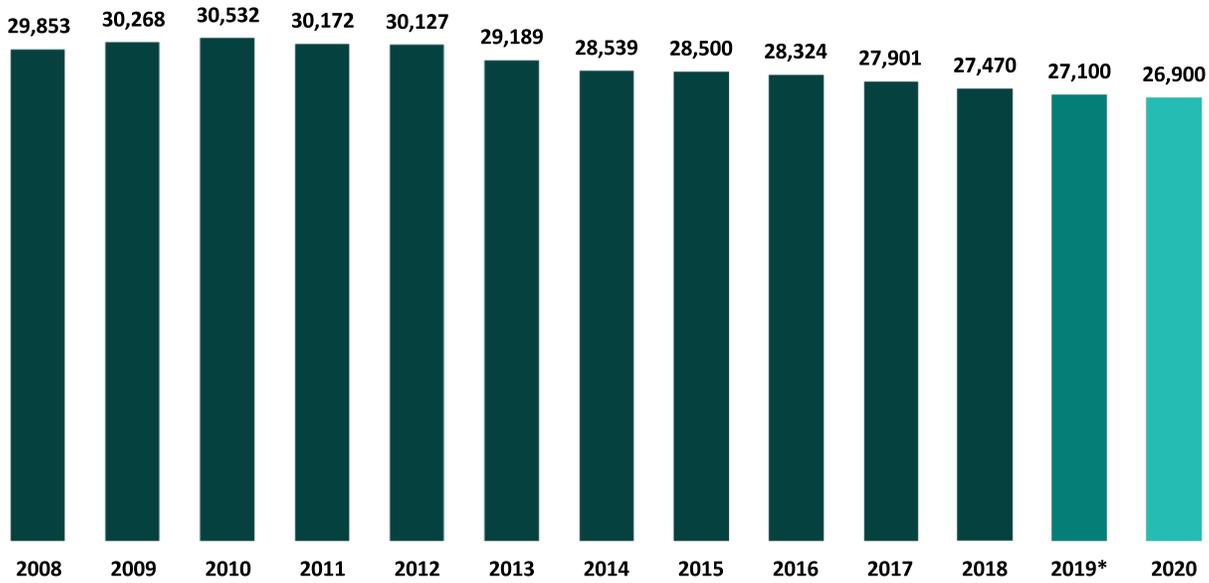
The government sector's contribution to employment in Anchorage has been on a steady long-term decline.

- State of Alaska employment in Anchorage is -9.1% lower (1,000 jobs) than the peak of about 10,800 jobs in 2014 and equal to 2005-era levels. Preliminary data indicates current University of Alaska employment in the city is about 500 jobs (19%) lower than a peak of 2,700 jobs in 2014.
- Federal employment in Anchorage is at the lowest level in more than 30 years.
- Local government employment in Anchorage is at a 21-year low and about -11% below (1,100 jobs) a peak of about 10,300 jobs in 2012.
- At the statewide level, government employment has declined about 5.6% or nearly 4,700 jobs since a peak of 82,700 jobs in 2010.

Until state government budgets have some sustainable footing, pressure to cut services and programs will persist. The Governor's proposed operating budget has a revenue deficit that would require the use of \$1.5 billion from the Constitutional Budget Reserve account, about three-quarters of what's left in the state's savings account. That much of a draw on savings is not likely to pass muster with the legislature. This all points to further cuts in state government employment.

As noted above, federal employment will spike temporarily this year while the decennial 2020 Census is conducted. For the 2010 Census, federal employment in Anchorage expanded by several hundred jobs, for a few months.

ANCHORAGE GOVERNMENT EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

PROFESSIONAL & BUSINESS SERVICES +200



For the first time in five-years, Anchorage's professional and business services sector added jobs. Although growth was modest—up 200 jobs (0.9%)—it's a welcome improvement to a sector that turned sharply lower during the recession, mainly as a result of lower State of Alaska capital budgets and reduced oil and gas industry activity. The sector lost 2,900 jobs between 2015 and 2018, a 15% decline.

Looking ahead, AEDC expects the momentum seen in this sector in 2019 to carry into 2020, with the addition of another 200 jobs, an uptick of about 1.1%.

Employment in the sector totaled 17,400 jobs in 2019. Engineering, architectural, design, accounting, and other professional services firms account for about half of all jobs in this broad category. Wages are relatively high in this subsector, averaging just under \$80,000 annually.

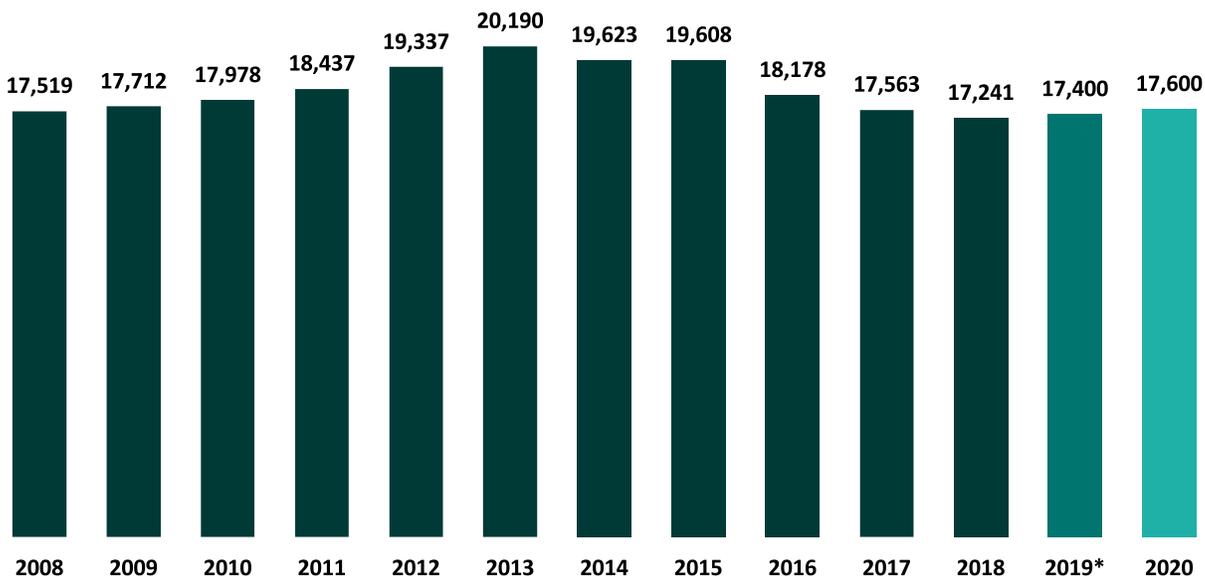
Management companies, including Alaska Native Corporations, account for about 10% of the jobs in the professional and business services sector. Wages in this subsector average about \$88,000 per year (the economy-wide average is approximately \$58,000).

The administrative and waste services subsector contribute about 40% of the sector's total employment. This includes building management services, security services, and facilities support services, among a range of other services. Wages are lower in this subsector, averaging about \$43,000 annually.

Local and statewide construction activity, and oil and gas industry development, are key drivers of employment in the business and professional services sector.

- The near-term spending outlook for the oil and gas industry is good, with ConocoPhillips, Oil Search, and Hilcorp all investing heavily in development of new North Slope resources.
- State capital budgets have leveled off at the minimum required to secure federal matching funds. The FY2020 State capital budget of \$1.15 billion, while down slightly from \$1.31 billion in FY2019, provides a predictable level of demand for engineering services.
- Commercial construction activity in Anchorage is expected to see an uptick in 2020, though declining population may temporarily put the brakes on residential design and construction.

ANCHORAGE PROFESSIONAL AND BUSINESS SERVICES EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages. Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

CONSTRUCTION +100



The construction industry in Anchorage added 400 jobs in 2019, marking the second consecutive year of employment growth. The industry accounted for an average of 7,900 jobs, with a seasonal peak of about 9,200. AEDC expects construction employment to increase again in 2020, though at a slower rate, adding about 100 jobs.

In 2019, building permit valuations in Anchorage totaled \$451 million, a 17% jump from 2018. Residential construction permits climbed 11% to \$147 million while commercial permits were up 19% to \$261 million. Government spending increased 23% to \$43 million. Earthquake repair work accounted for a portion of the increase, as did an uptick in permit applications submitted in advance of an increase in permit fees. AEDC appreciates the work of the Municipality of Anchorage Development Services Department in providing the current permit activity reports that allow close tracking of construction trends in Anchorage.

Relatively large projects in Anchorage permitted in 2019 include a Medline warehouse (\$19.4 million), an Alaska Surgery Center ambulatory surgery center (\$9.4 million), the Maple Springs Senior Living facility (\$20 million), and renovation of a former Key Bank building on 5th Avenue (\$15 million).

Larger projects expected to commence in 2020 include the Indigo Hotel/Downtown Transit Center project (reported to be a \$45 million project). Cook Inlet Housing Authority will be breaking ground for a couple large construction projects in 2020, including a \$13 million, 50-unit South Anchorage Senior Housing project and a \$6 million, 20-unit West 32nd Avenue family housing project.

Public sector construction activity of note in Anchorage includes \$42 million at Port of Alaska in 2020 and another \$67 million in 2021. More than \$20 million in school improvements is slated for 2020.

Though the timing is uncertain, TSAIA is expected to see significant construction activity in the near future. UPS is considering a \$110 million investment in a new operations building and warehouse. Fed Ex has plans for a \$57 million domestic operations center. Three other large air cargo warehouse and transfer facilities are also in the planning stage, with combined total development costs of \$540 million.

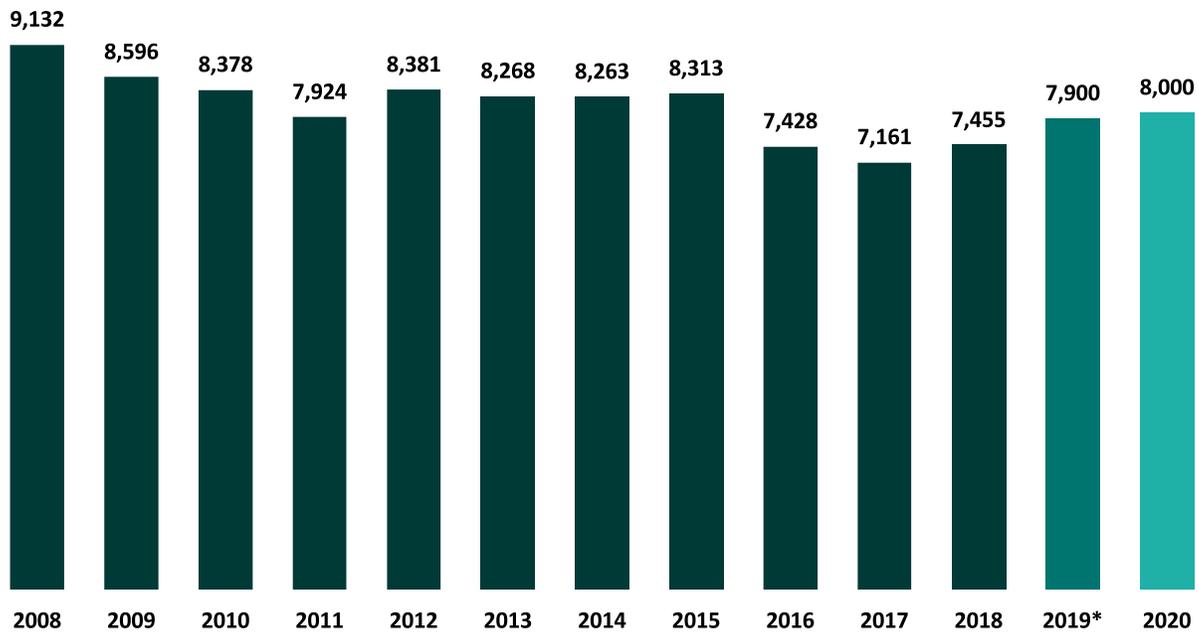
Declining population has suppressed demand for new housing. Anchorage's population slipped to 291,845, down 0.9% from 2018. Anchorage has lost 9,000 residents since peaking at 301,000 in 2013. That represents reduced demand for about 3,500 housing units (out of a total inventory of about 116,000 units).

Anchorage-based construction firms are engaged in work throughout Alaska, so statewide trends are relevant in the local employment outlook.

- Statewide Army Corps of Engineers construction funding for FFY2020 is approximately \$330 million, well below the FFY2019 total of \$640 million. Funding for military projects is lower, as construction work on Eielson Air Force Base F-35 bed-down facilities winds down.
- State capital budgets have ranged from \$1.13 billion to \$1.58 billion over the past five years. Federal funds account for over 80% of the total State capital budget. The FY2020 capital budget is \$1.15 billion, down slightly from \$1.31 billion in FY2019.

Labor supply is another factor to consider in the outlook for construction employment in Anchorage. Anecdotal information suggests that a shortage of skilled workers may be constraining the pace of local construction activity. Looking ahead, construction sector employment growth may be more closely tied with the community's ability to attract and retain people with the right set of skills and experience.

ANCHORAGE CONSTRUCTION EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

LEISURE & HOSPITALITY +200



Anchorage's leisure and hospitality sector averaged 17,600 jobs in 2019, a gain of about 200 jobs from 2018 or 1.2%. This increase returns the sector to record employment levels after slight losses in 2017 and 2018.

Two-thirds of employment in the sector is in food service, while accommodations account for 20 percent, and arts/recreation the remainder. Growth in the accommodations sector is credited with supporting expansion for the entire sector as food service and arts/recreation employment growth has been flat to slightly positive.

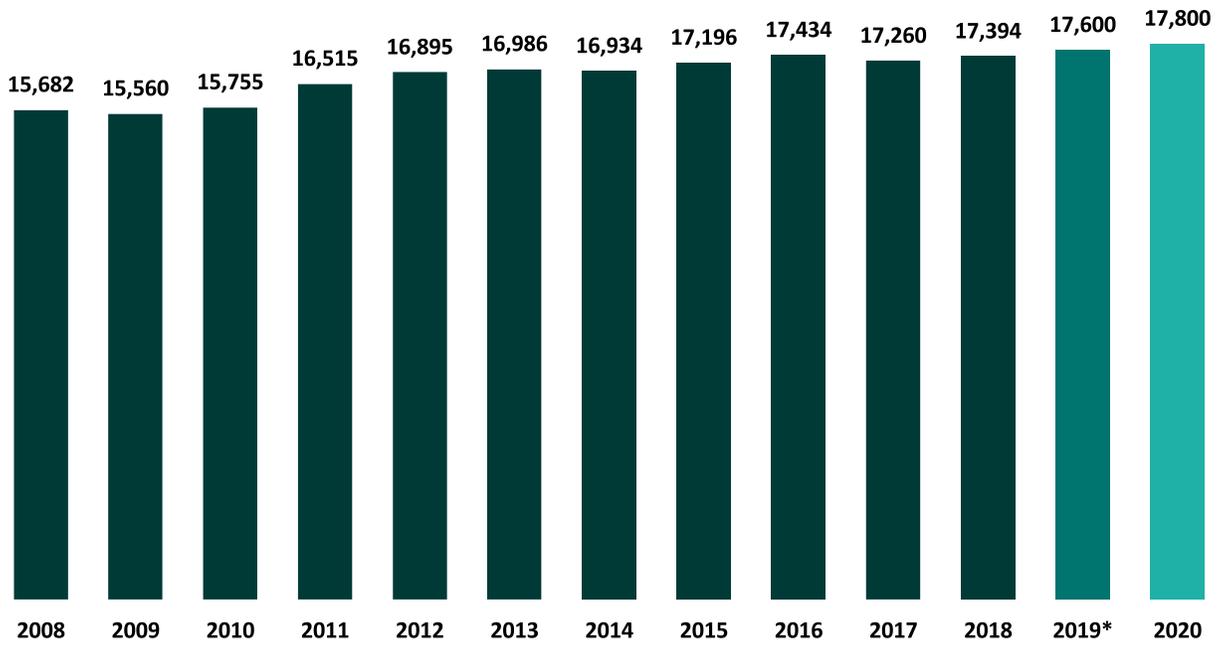
Anchorage's visitor industry indicators appear mostly positive for 2019:

- Through October of 2019, passenger enplanements (boarding) at Ted Stevens Anchorage International Airport totaled 2.5 million, a 2.2% increase from the same period in 2018.
- Similar to 2018, much of the increase in airport passenger traffic is attributable to more "cross-gulf" cruise traffic, which increased by 11% in 2019. Cross-gulf passenger volume increased from 389,000 in 2018 to 432,000 in 2019. (Note that a small portion of these passengers flew via Fairbanks.)
- According to Visit Anchorage and lodging data tracker STR, Anchorage's hotel room demand and average daily revenue were both up 8% in summer 2019, while revenue was up 15%.
- Anchorage room tax revenue through the first three quarters of 2019 was up 15% from the same period in 2018.
- Anchorage rental vehicle tax revenue increased by 7.0% during the first three quarters of 2019, while recreational vehicle rental tax revenue decreased by 8.4%.
- Visit Anchorage data shows that the number of conventions and meetings in Anchorage was about the same in 2018 and 2019; the number of out-of-town attendees decreased by 2.4%.
- The number of cruise ship passengers calling directly at Anchorage increased slightly between 2018 and 2019, from 13,700 to 14,200.

The outlook for this sector is generally upbeat, with AEDC anticipating 200 new jobs created in 2020, an increase of 1.1%. An economy stabilizing after several years of decline will shore up resident spending in local eateries and the City continues to benefit from visitors coming to the state of Alaska.

- Statewide, cruise passenger volume is projected to increase by 5.9% in 2020. However, cross-gulf volume will decline by about the same percentage, the first decline after years of strong growth. Some round-trip itineraries will replace cross-gulf itineraries, giving fewer passengers the opportunity to travel to Anchorage.
- Domestic air carriers including Delta, Alaska, and United plan to increase their flight frequency to meet anticipated growth in non-resident travel. One new international carrier has been announced for 2020: Eurowings, which will fly between Anchorage and France in summer months.
- The 2020 convention market is expected to be down slightly from 2019, with direct spending by attendees estimated to decrease from \$100 million to \$95 million.
- Anchorage anticipates 14 direct cruise ship calls in 2020, up from 10 in 2019.

ANCHORAGE LEISURE & HOSPITALITY EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

RETAIL TRADE -300



In 2019, employment in Anchorage's retail sector declined for the fourth year in a row, losing about 400 jobs (2.2%) to settle at 16,600 jobs. Challenged by a statewide economy in recession, competition from ecommerce, and local store closures by national chains, employment in the sector stands at a 30+ year low.

The difficult environment faced by the sector is expected to extend into 2020. AEDC anticipates a loss of approximately 300 jobs, down about 1.8 percent to 16,300 jobs.

As the retail hub of Alaska, the local sector includes a wide variety of stores. General merchandise businesses support slightly more than a quarter of employment (4,600 jobs) in the sector. Auto dealers and car parts stores contribute about 13% (2,100 jobs) with grocery stores accounting for about 12% (2,000 jobs). Building and garden supply retailers support about 10% (1,700 jobs) of employment while a variety of furniture, electronics, clothing, gasoline, and other stores total the remainder.

Weakness in the national retail sector has impacted local employment. Closure of Nordstrom, Sam's Club, Sears, Toys "R" Us, and other stores were part of multi-store closure plans executed by national chains.

- Ten years ago, about 4% of national retail spending occurred online. Today this proportion is 11% with expectations of sustained increases into the future. The reduction in spending with traditional "brick-and-mortar" stores has contributed to closures of stores nationwide including Anchorage.
- After being underutilized for an extended period, the Midtown Mall has experienced a recent revitalization. The strategically located property now offers Recreational Equipment Inc., an upscale Carrs grocery store, Planet Fitness, and a Guitar Center, among others. This growth has helped moderate employment losses in other areas of the retail sector.
- The closure of Nordstrom in September impacted about 170 jobs. This closure was not unique to Anchorage however; the company also shuttered other stores around the country, including Seattle — one of the strongest economies in the US.
- Wages paid to Alaska residents statewide fell about \$900 million between 2015 and 2017. Because Alaskans from all over the state spend money in Anchorage's retail sector, this reduction has meant fewer dollars flowing to retailers. Wages did rebound in 2018 with improving Alaska economic conditions elsewhere in Alaska.

ANCHORAGE RETAIL TRADE EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

FINANCIAL ACTIVITIES -100



Anchorage's finance, insurance, and real estate sector averaged 7,600 jobs in 2019, a loss of 100 jobs from 2018. The sector has trended lower in recent years, falling about 1,300 jobs or 14% since 2010.

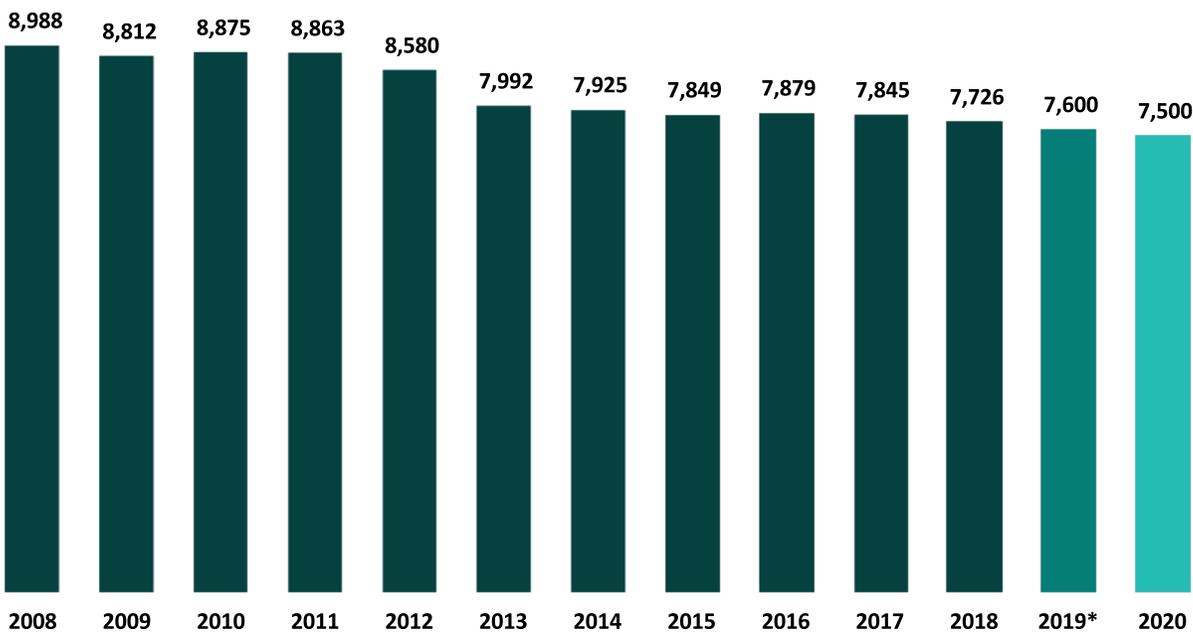
A key factor contributing to employment losses in this sector is the increase of online banking, mortgage, insurance, and other financial services. With fewer brick-and-mortar locations needed to serve customers, employment opportunities have declined.

Real estate businesses account for about 40 percent of employment in the sector. Banks and credit unions contribute an equal amount, and other firms including investment firms and insurance brokers compose the remainder.

AEDC expects the long-term trend of slight declines to continue into 2020 with the loss of about 200 jobs, or 1.3 percent.

- Loan activity for the Anchorage real estate market has slowed considerably. Survey data indicate about 1,400 loans for new and existing single-family residential homes were closed in 2019, a 31% decline from 2018.
- The local residential real estate market has maintained resiliency during the economic downturn. The average single-family home sold for about \$375,000 in 2019, nearly identical to 2018.
- Reclassification of Alaska Native corporations to professional and business services firms resulted in a decline in financial activities employment between 2011 and 2013.

ANCHORAGE FINANCIAL ACTIVITIES EMPLOYMENT, 2008 – 2019 AND 2020 FORECAST



* Employment estimate is preliminary. All calendar year figures are based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development (2008-2018), McDowell Group (2019 and 2020).

OTHER SECTORS OF THE ANCHORAGE ECONOMY *no change*

Anchorage also includes a variety of other important sectors not included above. These sectors include manufacturers, wholesalers, communication/information providers, and variety of other industries. Manufacturing employment rose about 100 jobs in 2019, along with wholesale trade, also up 100 jobs. These gains were tempered by the loss of about 200 jobs at communication/information businesses. Changes seen in 2019 are expected to extend into 2020, with AEDC expecting no net change.

The Big Picture

At this time last year, AEDC saw 2019 as marking the bottom of a four-year recession that claimed more than 6,000 jobs in Anchorage and 10,000 jobs across the state. For the state overall, 2019 was a turn-around year, with employment climbing 0.5%. The construction industry led that growth, along with oil and gas, health care, and visitor industry-related employment. But Anchorage continued to lose jobs in 2019, not at the pace seen earlier in the recession, but a loss of about 300 jobs nonetheless.

While the job numbers for 2019 were discouraging, they mask underlying recovery and growing strength in the economy. The retail sector accounted for most of the decline in employment in Anchorage and that had little to do with the health of the local economy. Much broader national trends, driven by rapid growth in e-commerce, and contraction of national chains, have been key drivers of the retail decline in Anchorage. Any job losses are unwelcome, but while retail employment continued its long-term slide, the oil and gas industry, construction, and professional services sectors all notched employment gains in Anchorage in 2019. Those high-wage sectors suffered mightily (along with state government) during the recession. Leveling and even modest growth in those sectors marks a major milestone for the local economy and is a clear indication the worst is behind us.

The outlook for 2020 is a mixed bag. The BP/Hilcorp transition is expected to result in a temporary net loss of jobs in Anchorage's oil and gas sector. However, ConocoPhillips, Hilcorp, Oil Search and others continue to aggressively invest in Alaska, which is great news for Anchorage and the state overall. Yet another attempt to raise taxes on the oil industry is casting a shadow on what is otherwise a bright outlook.

We will again be watching closely our elected officials' efforts to resolve the state budget gap, with some hope that the makings of a long-term, sustainable plan might materialize. Uncertainty is the bane of investors. Until Alaska gets its fiscal house in order, investment dollars will remain on the sidelines.

One source of growing concern is the steadily-diminishing size of Anchorage's labor force. The resident labor force is down 10,000 workers since 2015. Anecdotal evidence indicates employers are challenged to fill their labor needs. The strength of the national economy coupled with the recession in Alaska is one reason for the flight of labor. An aging population moving in larger numbers into retirement is another. In any case, efforts to attract working age adults to Anchorage are likely to be an essential ingredient in future employment growth.

Finally, it bodes well for 2020 and beyond that investors are showing confidence in the local economy. Plans for major investment at the airport are gaining momentum. Other developers are pulling the trigger on housing and other commercial development. The ongoing state fiscal crisis is a major headwind to the full economic recovery of Anchorage. A solution to this state crisis is critical to getting Anchorage back on track to growth.

Thank you

for making this report possible:



Northrim Bank

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