



AEDC

Anchorage Economic
Development Corporation

2014 ECONOMIC FORECAST ANCHORAGE

Sponsored By:

bp



2014 ECONOMIC FORECAST for Anchorage

AEDC's 2014 Economic Forecast: **GROWTH**
+1,200 jobs Increase of **0.8%**

Measured in terms of jobs growth, the Anchorage economy continues to grow steadily. Preliminary numbers indicate about 1,000 additional jobs were added to the Anchorage economy in 2013, a 0.6 percent overall increase. Job growth is slightly behind earlier forecasts. Last January, AEDC predicted 1,700 jobs (an increase of 1.1 percent) would be added to the Anchorage economy in 2013.

Since the drop in employment in 2009, the Anchorage economy has added jobs each year. Including 2013's growth, over 7,000 jobs have been created since the recession. However, the rate of growth is slowing. Preliminary employment estimates for the 4th quarter of 2013 show Anchorage employment about 700 net jobs above the 4th quarter of 2011 (0.4 percent growth).

It is important to note that growth in Anchorage's economy is being driven by the private sector (about 1.4 percent growth overall or 1,800 new jobs in 2013), **while losses in the public sector (-900 jobs) are offsetting some of those gains.**

The strength in the local economy is also reflected in unemployment data. Anchorage unemployment rates dropped again in 2013, dipping to an annual average of 4.9 percent, the lowest level since 2007. Anchorage area unemployment remains well below the U.S. 2013 unemployment rate of 7.4 percent.

On the cautionary side, while oil industry employment in Alaska reached a two-decade high in 2013, the oil tax debate continues, as does the steady decline in North Slope production. State spending is likely to be trimmed this year and federal spending is expected to continue its decline in 2014, including some restructuring of Army forces at JBER and lower Army Corp of Engineering spending.

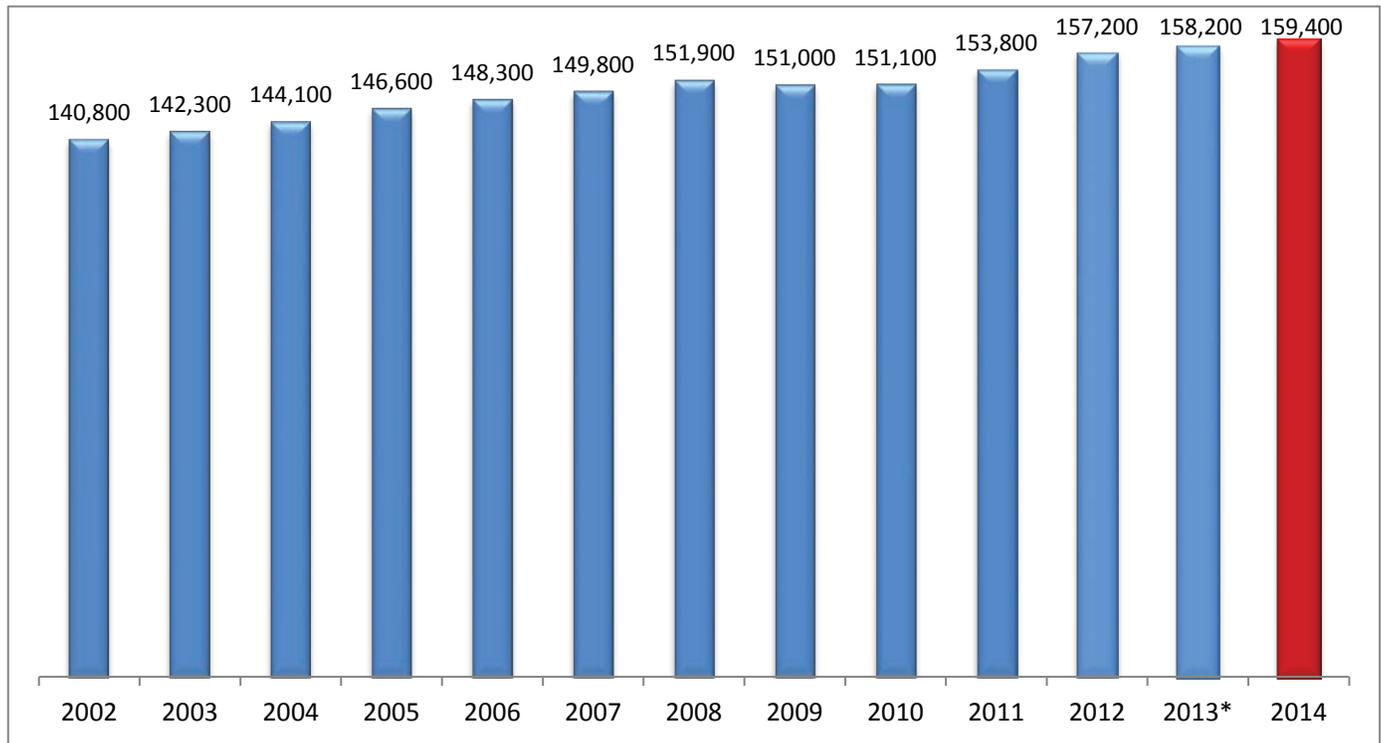
In summary, Anchorage can expect more growth in 2014, but slower than in recent years and with a mixed performance, including continued losses in public sector jobs. However, the loss of additional government jobs should be more than offset by gains in business and professional services, health, leisure and hospitality, retail, and construction sectors.

NOTE ON SOURCE OF EMPLOYMENT DATA

This employment forecast is based on historical and 2013 (preliminary) data produced by the Alaska Department of Labor & Workforce Development (ADOLWD). ADOLWD 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 fishermen.

ANCHORAGE EMPLOYMENT

2002 - 2013, 2014 FORECAST

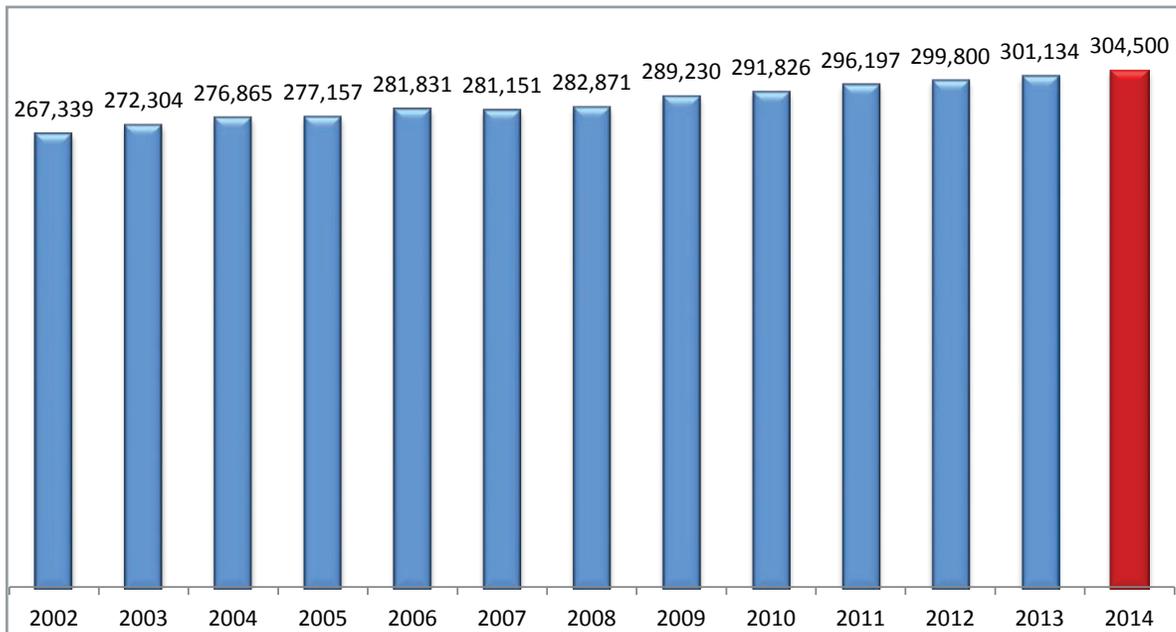


* Estimated based on preliminary 2013 numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

POPULATION

AEDC predicted that 2013 would be the year when Anchorage's population topped the 300,000 mark, and it happened. Alaska Department of Labor and Workforce Development recently released its 2013 estimates – 301,134, up 0.9 percent since 2012. Based on AEDC's 1.1 percent projected growth in 2014, almost 3,400 more people will make Anchorage their home this year, pushing total population to 304,500.



**ANCHORAGE
POPULATION
2002-2013**

**2014
FORECAST**

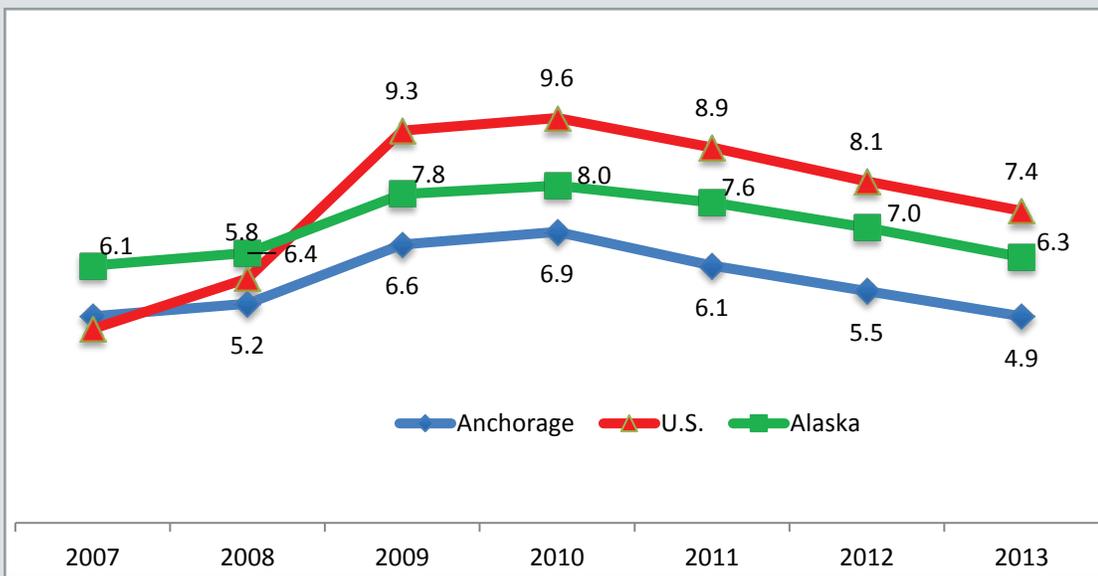
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

UNEMPLOYMENT

Anchorage's unemployment rate has been falling since 2010.¹ The estimated 2013 average monthly unemployment rate was 4.9 percent, hovering around the 2007 pre-recessionary level after peaking at 6.9 percent in 2010. While low unemployment rates are generally a good thing, a rate under 5 percent likely presents labor supply challenges for some local employers.

Since 2007, the Anchorage unemployment rate has been lower than both the Alaska and U.S. unemployment rates. The 2013 national unemployment rate of 7.4 percent marks a continued improvement from 2012 and is at its lowest rate in five years yet still well above what most economists would consider a natural or "healthy" unemployment rate of around 5.6 or 5.7 percent.

¹ The unemployment rate is a calculation of the percentage of the labor force that is unemployed. The labor force consists of two parts: 1) people who are working, and 2) people who are not working, but actively seeking work. The unemployment rate is often misunderstood to be the percentage of the total population that is not working.



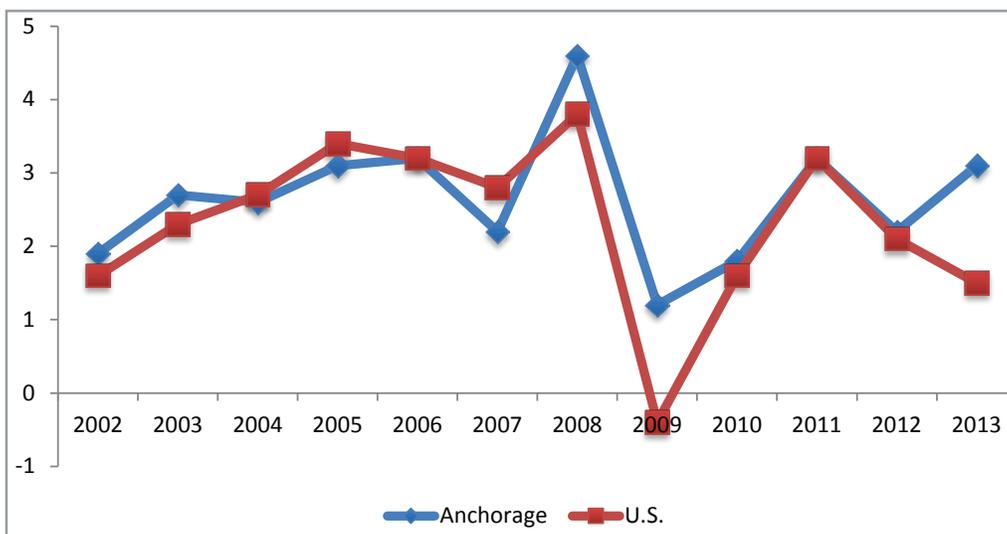
ANCHORAGE, ALASKA, & US UNEMPLOYMENT RATES (%) 2002-2013

Note: Annual averages of unadjusted monthly rates. Sources: U.S. Bureau of Labor Statistics and Alaska Department of Labor and Workforce Development

ANCHORAGE INFLATION RATE

The U.S. Bureau of Labor Statistics reports that the Anchorage Consumer Price Index (CPI), an indicator of inflation in Anchorage, rose by 3.1 percent between 2012 and 2013, even though the national inflation rate dropped in 2013 by 1.5 percent.

Rising shelter costs are contributing to the departure of Anchorage CPI from national trends.



ANCHORAGE & U.S. INFLATION RATES, ANNUAL AVERAGE CHANGE, 2002-2013

Source: U.S. Bureau of Labor Statistics, Consumer Price Index

EMPLOYMENT BY SECTOR



OIL & GAS +150

Oil and gas industry employment in Anchorage averaged approximately 3,600 jobs in 2013, continuing to climb by another 300 jobs from 2012 (even though the prediction had been for no growth). Employment in this sector is expected to continue trending up. AEDC predicts 150 new oil and gas sector jobs in 2014.

In 2013, statewide direct oil and gas industry sector jobs peaked at 14,800 – the highest level since before 1990. When considering the role of the oil and gas industry in Anchorage’s employment base, it is important to note the industry’s impact is much greater than indicated by published data. In fact, when last measured (2011), the oil and gas industry accounted for approximately 25,000 Anchorage area jobs and \$1.6 billion in annual payroll, including all direct, indirect, and induced employment effects.

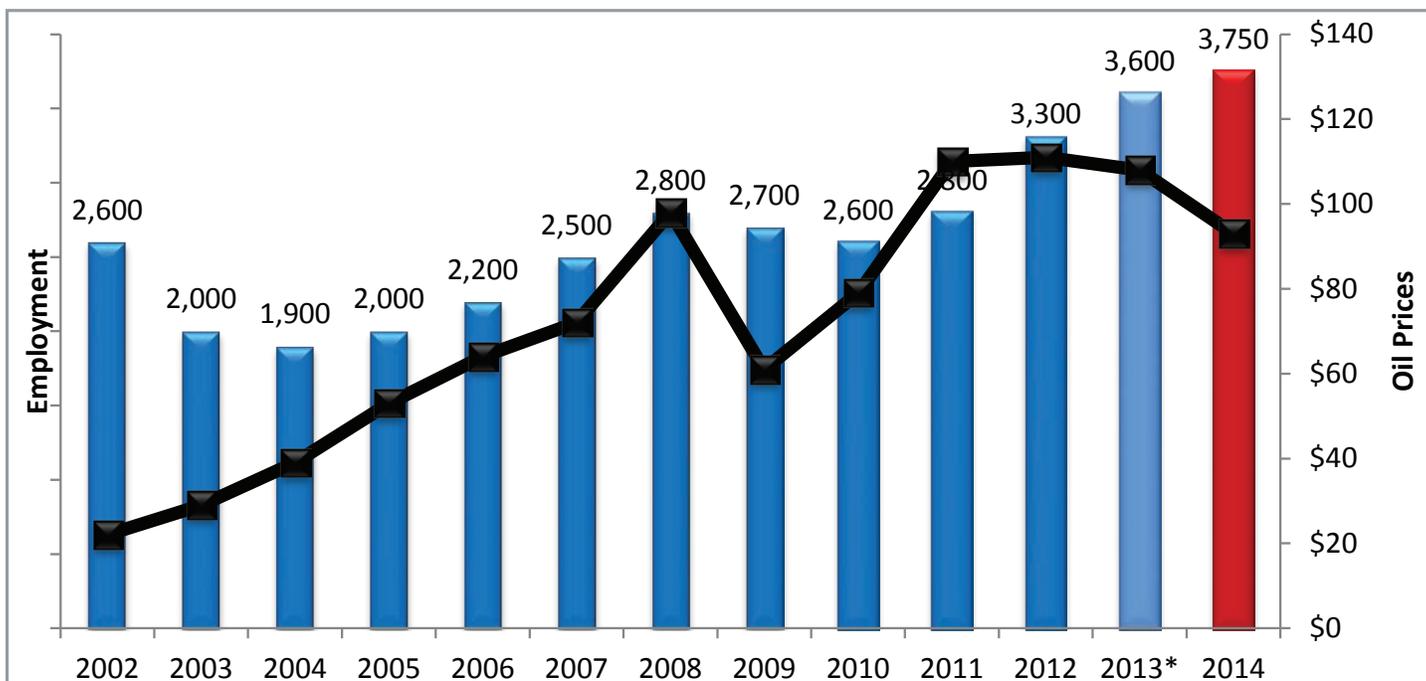
On a monthly average basis, Alaska North Slope (ANS) West Coast average spot prices ranged between \$101 and \$113 per barrel in 2013, averaging \$108 for the year overall and falling below the 2012 average (\$111). Recently, the Energy Information Administration adjusted their West Texas Intermediate price projections (consid-

ered a reasonable proxy to ANS prices) to \$93 per barrel during 2014 with the 2015 price dropping further still (\$90 per barrel).

While national crude oil production increases, oil production from the North Slope continues its steady decline. In 2013, North Slope production averaged 534,100 barrels per day, down 2.7 percent from 548,750 barrels per day in 2012 and 2.5 percent below 2011 production of 547,500 barrels per day. On the North Slope, legacy field renewal and maintenance remains a priority. BP expects more oil development work for the North Slope with \$1 billion in new drilling at Prudhoe Bay and Milne Point fields. In addition, with support from ConocoPhillips and ExxonMobil Corporation, BP will evaluate an additional \$3 billion worth of new development projects located in the west end of the Greater Prudhoe Bay area. ConocoPhillips’ 2014 capital budget for Alaska is \$1.7 billion with new projects in the Kuparuk River field, as well as in the National Petroleum Reserve-Alaska, up from \$1.1 billion budgeted in 2013, and more than double the capital spent in 2012 (\$828 million) and 2011 (\$775 million).

Oil and gas activity in Cook Inlet accounts for jobs in

ANCHORAGE OIL & GAS EMPLOYMENT & OIL PRICES, 2002 - 2013 2014 FORECAST



* Estimated based on preliminary 2013 numbers

Sources: Alaska Department of Labor and Workforce Development, Alaska Department of Revenue, and McDowell Group

OIL & GAS, continued

Anchorage and the Kenai Peninsula Borough. Hilcorp continues its investment in redeveloping mature producing fields in the Inlet. After reopening the Drift River oil tank farm, Tesoro is now pursuing construction (with Cook Inlet Energy) of a 29-mile pipeline to connect west side oil production with east side processing facilities. Furie Operating Alaska expects to install a gas production platform (Kitchen Lights Unit) in the summer of 2014 and to build a subsea gas pipeline to connect with existing onshore pipelines on the east side of Cook Inlet. Buccaneer Energy is selling its interest in its jack-up rig and its share of the Cosmopolitan oil and gas prospect, but will continue to operate a land rig and conduct further exploration work in Cook Inlet. Apache is expected to continue its onshore and offshore 3D seismic data project, and drilling program near Tyonek. NordAq Energy, Inc. recently purchased a portion of CIRI's oil and gas estate to develop gas in the Kenai National Wildlife Refuge. Cook Inlet Energy is expanding their drilling into two new fields. Armstrong Oil and Gas and Linc Energy are also among the active Cook Inlet players. ConocoPhillips filed an application with the U.S. Department of Energy to resume LNG exports from its Kenai facility. Further, Agrium continues work to evaluate reopening its Nikiski fertilizer plan.

In January, Governor Parnell announced ending the AGIA deal with TransCanada and authorized the state-owned Alaska Gasline Development Corporation to participate in the North Slope natural gas pipeline and liquefied natural gas project with the three producers (BP, ConocoPhillips and Exxon) and TransCanada. At an estimated cost of \$45 to \$65 billion, the state's share could total about 20-25 percent of the project. The Governor's plan will require legislative approval.



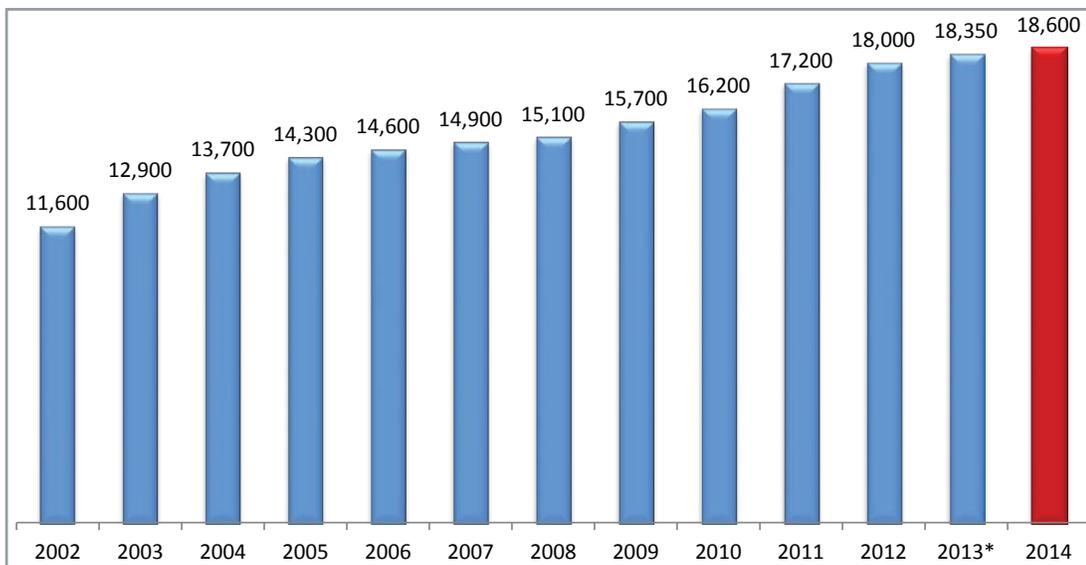
HEALTH CARE +250

The expansion of the health care sector in Anchorage continued in 2013, adding another 350 jobs. AEDC had predicted growth of 400 jobs last year. The Health care sector now accounts for about 18,350 local jobs. With budget uncertainty and reforms taking hold, slower growth is expected. AEDC predicts 250 new health care sector jobs in 2014.

Outpatient services make up about half of all health care jobs in Anchorage, followed by hospitals (about a third) and nursing and residential care (the remainder). While overall growth has been strong, much of that new growth has come from the outpatient and residential services. Since 2010, hospital employment has grown 1.4 percent (to 6,200 jobs), compared to out-

patient health care employment, up 15 percent (now totaling about 9,000 jobs), and nursing and residential care, up 37 percent (now with 2,800 jobs).

While there is uncertainty within the health care sector associated with the potential effects of the Affordable Care Act, it is certain the demand for health care services will continue to grow as the population grows and ages. According to U.S. Census Bureau data, Anchorage's population in 2010 included 21,000 residents over 65 years of age or about 7 percent of the population. ADOLWD projects that by 2020 the senior "bubble" will surpass 40,000 (12 percent of the population), and get even bigger by 2035 (60,000 or 17 percent of the population).



ANCHORAGE HEALTH CARE EMPLOYMENT, 2002-2013

2014 FORECAST

* Estimated based on preliminary 2013 numbers
Sources: Alaska Department of Labor and Workforce Development, Alaska Department of Revenue, and McDowell Group



TRANSPORTATION, +50

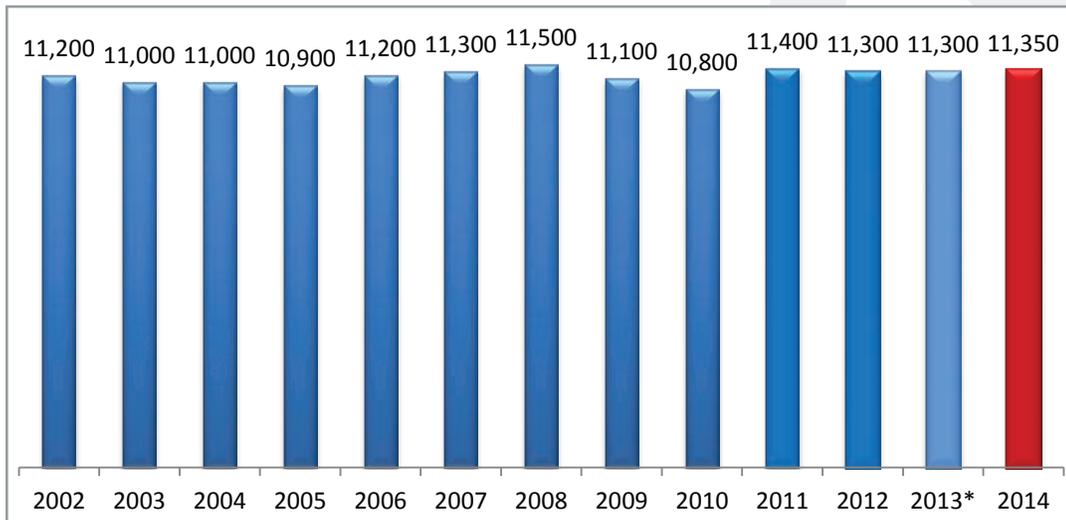
Employment in the transportation sector has hovered around the same level over the past several years. This sector accounts for about 11,300 jobs, with two-thirds of those jobs connected with passenger or freight air transportation services (including the FedEx and UPS facilities). Last year, AEDC has predicted a small level of growth (+100 jobs) in 2013; however, there was no overall change. With more cargo and passengers expected to be flowing through the Ted Stevens Anchorage International Airport (ANC), employment should tick up slightly. AEDC predicts 50 new transportation sector jobs in 2014.

In 2013, ANC still ranked 2nd (after Memphis) in North America in terms of air cargo volume and 4th in the world. As shifts occur to larger planes (such as the 777), the number of planes, but not necessarily the volume, of cargo could decline. Cargo transiting through ANC and air passenger

volumes both increased 3 percent since 2012. Alaska Airlines recently announced it will be adding 60 employees in Alaska (many of whom will be located in Anchorage) in support of the new Q400 aircraft that will be serving Fairbanks and Kodiak beginning in March.

The Port of Anchorage saw a 12 percent decline in total tonnage in 2013. However, much of that decline was associated with lower volumes of petroleum products (-19 percent) while container tonnage dropped 4 percent in 2013. While tonnage volumes on the Alaska Railroad were down 3 percent in the first three-quarters of 2013 compared to the same period in 2012, this decline is much slower than the 10 percent decline of cargo volume between 2011 and 2012.

Overall, economic and population growth in Anchorage and all along the Railbelt promise to keep the transportation sector on at least a slow growth track.



ANCHORAGE TRANSPORTATION EMPLOYMENT, 2002-2013

2014 FORECAST

* Estimated based on preliminary 2013 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group

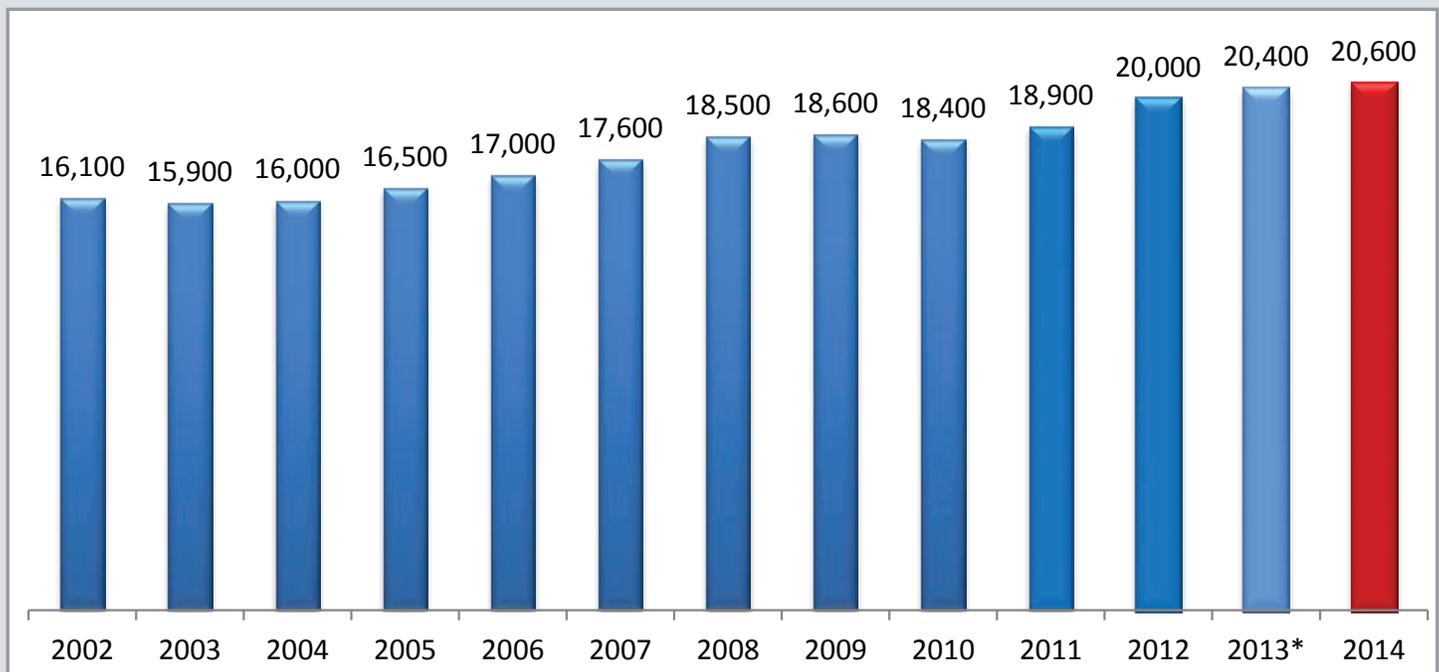


PROFESSIONAL & BUSINESS SERVICES, +200

The professional and business services sector has remained on a strong growth path, adding 1,100 jobs in 2012 and another 400 jobs in 2013, now accounting for total employment of 20,400 – on target with AEDC’s prediction of 400 new jobs last year. Most of the growth in this sector continues to be in the “professional, scientific, and technical” category. The latest available employment estimates from ADOLWD indicates growth in this sector is likely to continue. However, there are a few large projects, such as the \$5.2 billion Susitna-Watana Hydroelectric Project, which is expected to scale-back its 2014 work programs after a robust 2013 study period when an estimated 200 scientists, surveyors, archeologists, biologists, and other technical or scientific personnel were conducting field studies on the project. AEDC predicts 200 new professional and business services sector jobs in 2014.

The Governor’s proposed \$1.7 billion FY15 capital budget includes several infrastructure projects and programs that will directly affect this sector; including transportation, state government infrastructure, resource development and energy projects.

ANCHORAGE PROFESSIONAL AND BUSINESS SERVICES EMPLOYMENT, 2002-2013 2014 FORECAST



* Estimated based on preliminary 2013 numbers

Source: Alaska Department of Labor and Workforce Development and McDowell Group



CONSTRUCTION, +200

Construction employment in Anchorage added 300 jobs, growing to about 8,700 jobs in 2013 (AEDC had predicted no growth); and is expected to grow. AEDC predicts 200 new construction sector jobs in 2014.

The seasonal nature of the construction industry is evident in the employment numbers. August employment reached 10,300 jobs (300 more jobs than in August 2012) while the low-point of the year was in March, at 7,400 jobs.

Across the board, building permit value saw gains in 2013. Permit applications for commercial construction were up

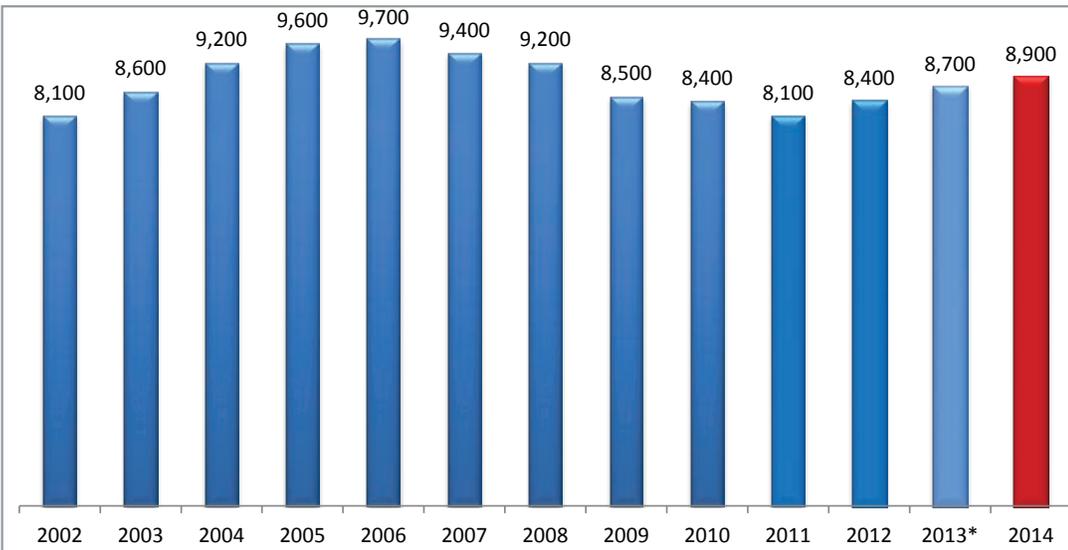
49 percent (to reach a value of \$371 million), government applications were up 80 percent, and the residential sector remained strong, with a 12 percent rise in permit values. Some of the large applications included \$28.9 million for UAA projects, and \$16 million for Service Hanshew School Site developments.

Home sales data also reflect a continuing strengthening of the residential market. The number of residential units sold in 2013 (3,073 units) was 16 percent above the 2012 total (2,658), and the average value of residential sales was up 2.9 percent, from \$337,250 to \$347,021. A total of \$1.1 billion in residential housing changed hands in 2013.

CONSTRUCTION, continued

For FY14, the Army Corps of Engineers expects a continuing decrease in its civil and military programs in Alaska, down to \$270 million from previous levels of around \$300 million. At the state level, the Governor's proposed FY15 capital budget of \$1.7 billion is somewhat level with the FY14 capital budget. This will have implications beyond the 2014 construction season.

While there will be less vertical commercial construction in Anchorage in 2014; two retailers, Bass Pro Shops (Glenn Square) and Cabela's (South Anchorage) will be opening 100,000 square foot stores, and a number of new restaurants, including Hard Rock Café, Texas Roadhouse, and Tilted Kilt Pub and Eatery will complete construction in 2014. Construction is continuing on the UAA Sports Complex and the Engineering Building, and renovations of the Legislative office building downtown. Other major projects include the Matanuska Electric Association plant at Eklutna and Alaska Municipal Light and Power replacement for its plant in northeast Anchorage.



ANCHORAGE CONSTRUCTION EMPLOYMENT, 2002-2013 2014 FORECAST

* Estimated based on preliminary 2013 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group

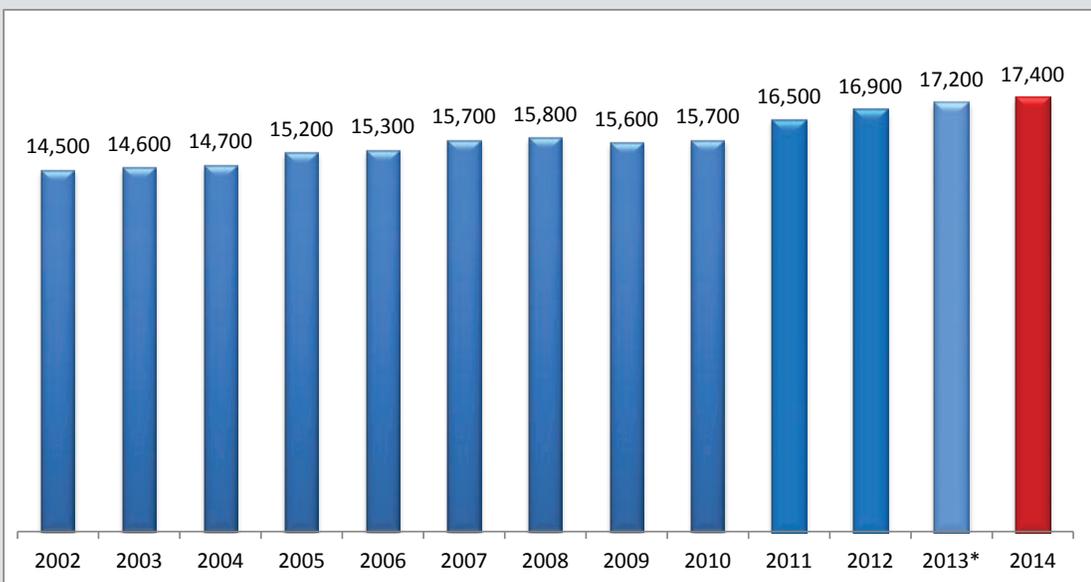


LEISURE & HOSPITALITY, +200

The leisure and hospitality sector continued its steady climb since 2009, adding another 300 jobs in 2013. AEDC had predicted 400 new jobs last year. In 2014, AEDC expects this sector to continue its growth, but at a slightly slower rate. AEDC predicts 200 new leisure and hospitality sector jobs

in 2014.

Employment in food services and drinking places make up about two-thirds of this sectors employment and its vitality is dependent on rises and falls in consumer confidence, disposable income, and volume of visitors. Comparing the first three-quarters of 2013 with the same period in 2012,



ANCHORAGE LEISURE AND HOSPITALITY EMPLOYMENT, 2002-2013 2014 FORECAST

2014 FORECAST

* Estimated based on preliminary 2013 numbers.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

LEISURE & HOSPITALITY, continued

Anchorage bed tax receipts grew about 4 percent increase in bed tax revenues. While it is anticipated the cruise passenger volume to Alaska may slow down by 3 percent in 2014 (totaling 970,000 passengers), the national economic recovery may spur more domestic independent visitor travel to Alaska in 2014.

Airport passenger statistics show some increases in 2013. Overall (including passengers enplaning, deplaning and transiting through ANC), air passenger traffic at ANC was up 3 percent from 2012. In 2014, Alaska Airlines is going to replace its Boeing 737s for flights between Anchorage and Fairbanks with smaller prop planes operated by Horizon Air, and increase daily service from seven to nine flights.

Reasons for that optimism include a potential uptick in international travel. Two direct non-stop flights from Europe (from Frankfurt on Condor Air, and from Reykjavik on Iceland Air) were available in 2013, with hopes these flights will continue in 2014.



RETAIL TRADE, +250

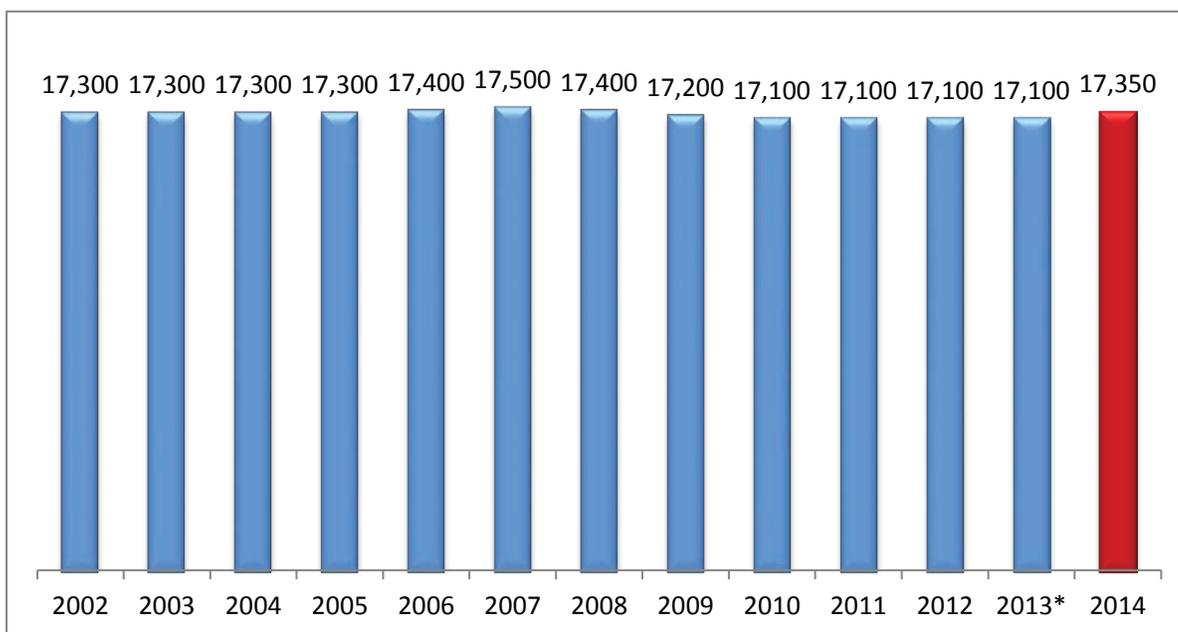
Retail trade employment in Anchorage in 2013 did not change from 2012 levels, with total employment in that sector about 17,100 jobs. Expecting some new retail entries to be fully open in 2013 (rather than delayed to 2014), AEDC had predicted 200 new retail jobs last year. With several additional large retailers entering the market over the course of this year, AEDC predicts retail employment in 2014 to average 250 new jobs above the 2013 level.

Anchorage's retail sector is large with approximately 822 retail establishments generating over \$4 billion in annual sales. This sector of the economy includes 109 clothing stores, 91 food and beverage stores, 93 motor vehicle and parts dealers, 60 gas stations, and a broad variety of other retail outlets. Anchorage's 34 "general merchandise" stores

account for 4,300 jobs (an average of 136 full and part-time jobs per store). While the addition of large national retailers to Anchorage's retail sector over the past decade has not coincided with retail employment growth overall, the number and size of new entries are expected to create new jobs, not just balancing shifts in employment between new and established businesses.

In 2014, new retail outlets will be seeking hundreds of workers, including Bass Pro Shops (+175 jobs), Premier Outlet Stores (+300 jobs), Cabela's (+200 jobs), Sam's Club (+80 jobs), and dozens more at Verizon stores and other new businesses. As many new store openings will not occur until the latter half of 2014, the full effect of this job growth will not be felt until the end of the year.

ANCHORAGE RETAIL TRADE EMPLOYMENT, 2002-2013 2014 FORECAST



* Estimated based on preliminary 2013 numbers

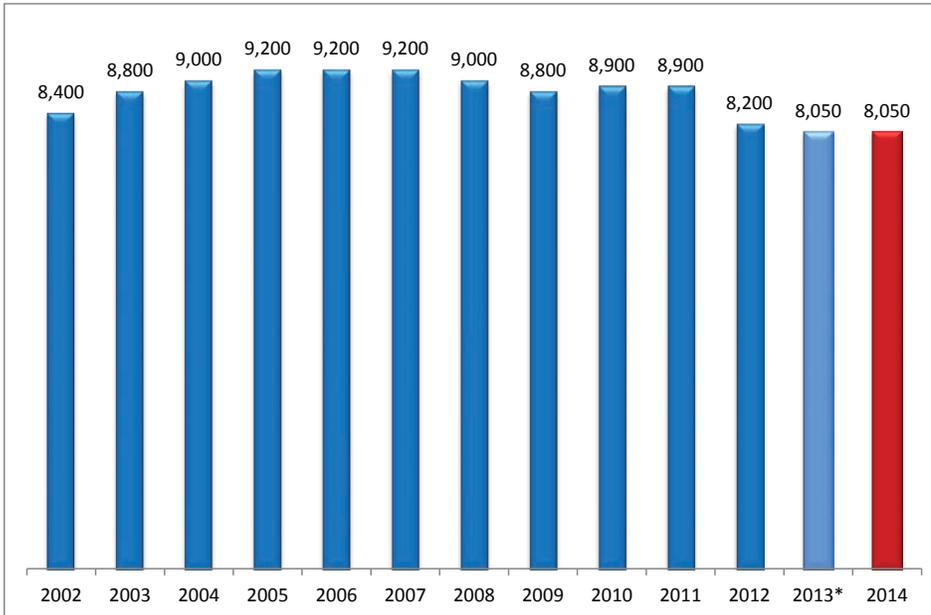
Source: Alaska Department of Labor and Workforce Development and McDowell Group



FINANCIAL ACTIVITIES, +0

The financial activities sector includes banks, credit unions, financial advisors and stockbrokers, insurance companies, as well as real estate brokers and managers. The “financial activities” sector in Anchorage continues to lose jobs, about 150 in 2013 (AEDC had predicted jobs would level off in 2013). AEDC predicts no change in financial activities sector jobs in 2014.

This sector is closely linked with the health of the local housing market. The 2013 increases in average sales prices for single-family homes (up 3 percent) and number of sold units (up 16 percent), reflect a more robust housing market.



FINANCIAL ACTIVITIES, 2002-2013

2014 FORECAST

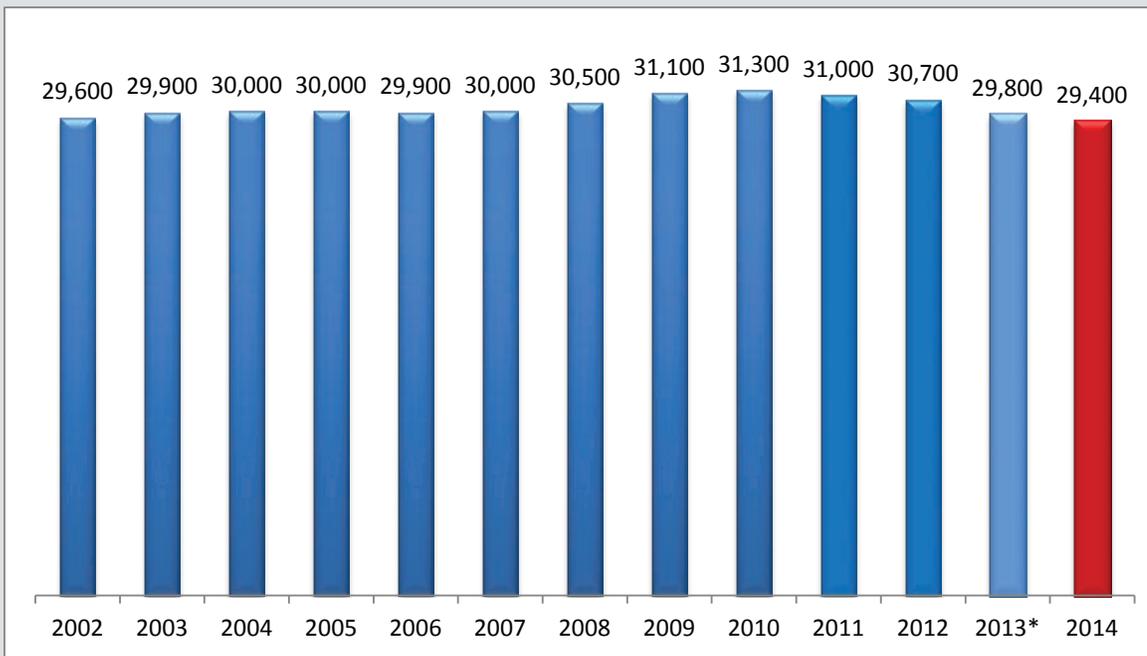
* Estimated based on preliminary 2013 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group



GOVERNMENT, -400

In 2013, government employment in Anchorage decreased by 900 jobs, led by a loss of 500 Anchorage School District jobs, and 400 federal jobs. In 2013, there were 29,800 local, state and federal government jobs in Anchorage.

AEDC had not anticipated such a sharp decline (predicted only 300 fewer jobs). But it appears the downward trend in government employment in Anchorage will continue in 2014. AEDC predicts a loss of 400 government sector jobs



ANCHORAGE GOVERNMENT EMPLOYMENT, 2002-2013

2014 FORECAST

* Estimated based on preliminary 2013 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group

GOVERNMENT, continued

in 2014.

School district jobs account for 72 percent of the most of the roughly 10,400 local government-related jobs in Anchorage. School districts across the state, including Anchorage, will continue to struggle with balancing staffing needs with available funding. The Anchorage School District's is proposing budget cuts of \$23 million and 209 full-time equivalent positions. A similar cut in the next year's budget is also anticipated.

The Anchorage economy includes approximately 10,750 state government jobs. State government employment has been flat, and with the Governor's proposed budget cuts, some downward pressure on jobs could reasonably be expected. Longer-term, steadily declining North Slope oil production and related revenues do not bode well for state employment anywhere in Alaska.

Federal government employment dipped to under 8,700 jobs in 2013, down below pre-1990 levels. With plenty of uncertainty on the federal budgeting scene, it is difficult to have any certainty at all around federal employment this year or next, though continuing downward pressure is a reasonable expectation.

In 2013, there were approximately 13,300 active military personnel along with 28,000 dependents at Joint Base Elmendorf-Richardson (JBER). However, the Army recently announced it will be restructuring the 2nd Engineer Brigade headquarters, the 4/25th IBCT Troops Battalion, the 6th and 70th Engineer Battalions, and the 793rd Military Police Battalion. The Army at JBER will drop to 4,598 soldiers, a net loss of 780, by the end of Fiscal Year 2015.

OTHER SECTORS OF THE ANCHORAGE ECONOMY, +300

The Anchorage economy includes more than the nine sectors described above. In fact, other sectors of the local economy account for about 24,000 jobs.

The largest of these other sectors is Education (which includes the University of Alaska Anchorage and private education services, but not the Anchorage School District) with 6,900 jobs.

"Wholesale Trade" activity generates 4,600 jobs in Anchorage.

The "Information" sector accounts for 3,800 jobs.

"Manufacturing" accounts for about 2,400 jobs.

The general category of "Other Services" generates 5,900 jobs in Anchorage.

These sectors combined are expected to account for about 300 new jobs in 2014.

IN SUMMARY:

2014 ECONOMIC FORECAST for Anchorage

Growth in 2013 (a preliminary estimate of approximately 1,000 new jobs) was below, but generally consistent with AEDC's January 2013 forecast predictions (+1,700 new jobs).

Private sector job growth remained solid, even in the face of significant losses to government employment.

AEDC's July 2013 Three-Year Outlook predicted 1.2 percent (+1,900 new jobs) for 2014. Given the advantage of updated preliminary data, AEDC is now forecasting a smaller rate of growth.

While Anchorage businesses continue to be optimistic about the Anchorage economy (as seen in the AEDC Business Confidence Index survey), **growth is expected to be steady in 2014** – about 0.8 percent, or another 1,200 net new jobs in Anchorage.

Of continued concern, however, is the historically low unemployment rate and how it may constrain job growth and lead to rising wages to attract workers in a highly competitive environment.

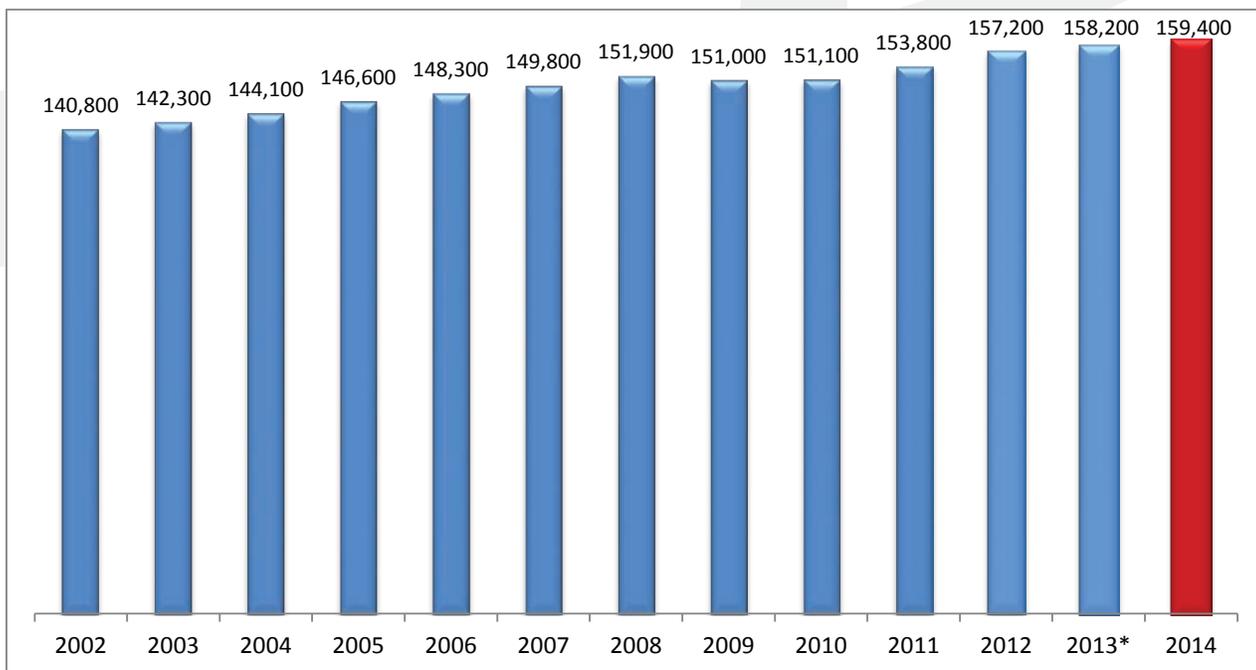
Regarding the long-term outlook, the same yellow flags of caution noted by AEDC in the past few years, persist today. **At the top of the list is the continuing decline in North Slope oil production.** The state's dependence on oil revenue is clear. However, it is not clear how we can sustain that flow of revenue in the face of steady declines in production.

Federal employment and spending is expected to decline, but with continued enthusiasm for North Slope and Cook Inlet oil and gas development, new national chain retail offerings, an upswing in the real estate market, and renewed potential for gas pipeline construction,

an overall positive note about Anchorage's economy is justified.

ANCHORAGE EMPLOYMENT

2002 - 2013, 2014 FORECAST



* Estimated based on preliminary 2013 numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

Thank you to the
Economic Forecast Report
Sponsor:

bp



This economic forecast
prepared for AEDC by:



AEDC
Anchorage Economic
Development Corporation

(907) 258-3700 • www.AEDCweb.com