



2015
3-YEAR
ECONOMIC
OUTLOOK
ANCHORAGE

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2015 3-YEAR ECONOMIC OUTLOOK ANCHORAGE INTRODUCTION

Following five years of robust growth, including 7,500 new private sector jobs resulting in an all-time record high of 155,720 average annual total jobs in 2013, employment in Anchorage settled back in 2014, shedding about 690 jobs. Most of the decline in 2014 was in the government sector, but even private employment stepped back very slightly, recording about 40 fewer jobs in 2014 than in 2013. The last time private sector employment in Anchorage lost ground was in 2009, when the local economy shed about 1,275 jobs. Then much of the world's economy was in recession and oil prices had taken a big dip.

Anchorage population growth has slowed after several years of increases. Anchorage added 11,550 residents between 2009 and 2013, then slipped very slightly in 2014, losing about 200 people (less than one-tenth of one percent). While hardly noticeable, it is notable that Anchorage has not seen a decline in population since the 2006-2007 period.

Looking ahead, the resiliency of the Anchorage economy will once again be tested by volatility in oil prices and oil revenue-related spending. So far there has been no decline in oil industry employment in Anchorage, and oil and gas employment serving the North Slope and Cook Inlet has increased by 100 jobs through the first half of the year. Nevertheless, the Fiscal Year (FY) 2016 State capital budget is half a billion dollars below FY 2015 and statewide agency operations spending will dip 4 percent. Force reductions at Joint Base Elmendorf-Richardson (JBER) is the latest unwelcome news among events shaping local economic trends over the next few years.

The business community expects Anchorage to feel some pain; AEDC's Business Confidence Index survey measured expectations for the economy at the lowest level in five years, though business leaders remain optimistic about the outlook for their individual businesses in the coming year.

On the positive side, key indicators attest to persisting strength in the local economy. Preliminary monthly estimates available from the Alaska Department of Labor and Workforce Development show a return to employment growth in 2015. June 2015 employment in Anchorage was 1,000 jobs above the same period in 2014. Further, the June 2015 unemployment rate in Anchorage stood at 5.5 percent, the lowest level for the month in eight years. Other indicators described in this forecast also suggest underlying economic strength.

This AEDC 3-Year Economic Outlook examines economic trends based on historical data, interviews with representatives of businesses and organizations in various sectors and current events. It discusses trends in terms of eight key indicators: population, employment, personal income, air passenger and freight volumes, building permits, Port of Anchorage tonnage, visitor industry activity and oil prices.

POPULATION

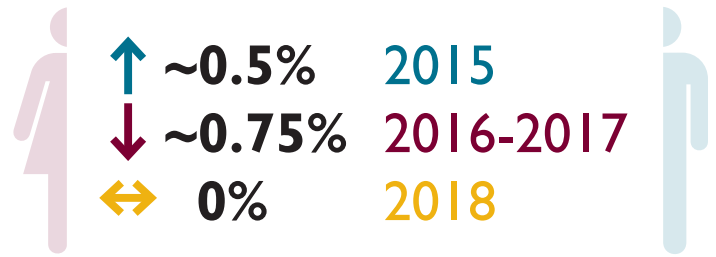
Anchorage's population remains above the 300,000 threshold, first crossed in 2013, though the 2014 estimate of 300,549 residents is slightly less than the 2013 figure of 300,780.

Population change is the summation of births, deaths, in-migration and out-migration. Compared to previous years, birth and death rates are stable, while negative net migration (in-migration plus out-migration) has increased. According to Alaska Department of Labor and Workforce Development, out-migration had been averaging about 600 residents annually since 2010 before jumping to a 3,435 reduction during the July 2013 to July 2014 period.

A strengthening national economy is likely driving some of the increase in out-migration. Just as high unemployment in the Lower 48 pushed job-seekers to Alaska during the most recent national recession, an improving employment picture elsewhere in the country may now be drawing workers from Alaska.

Another factor impacting out-migration in Anchorage is an aging population. While many seniors choose to retire in Alaska, a segment of this growing population prefer to relocate to warmer climates or be closer to family.

Looking ahead, force reductions at JBER will have population effects. As of 2013, Anchorage was home to 31,362 active military and dependents. Among that population, 6,200 may be affected by force reductions (20 percent of the local military population). It is important to note, however, that Anchorage is not expected

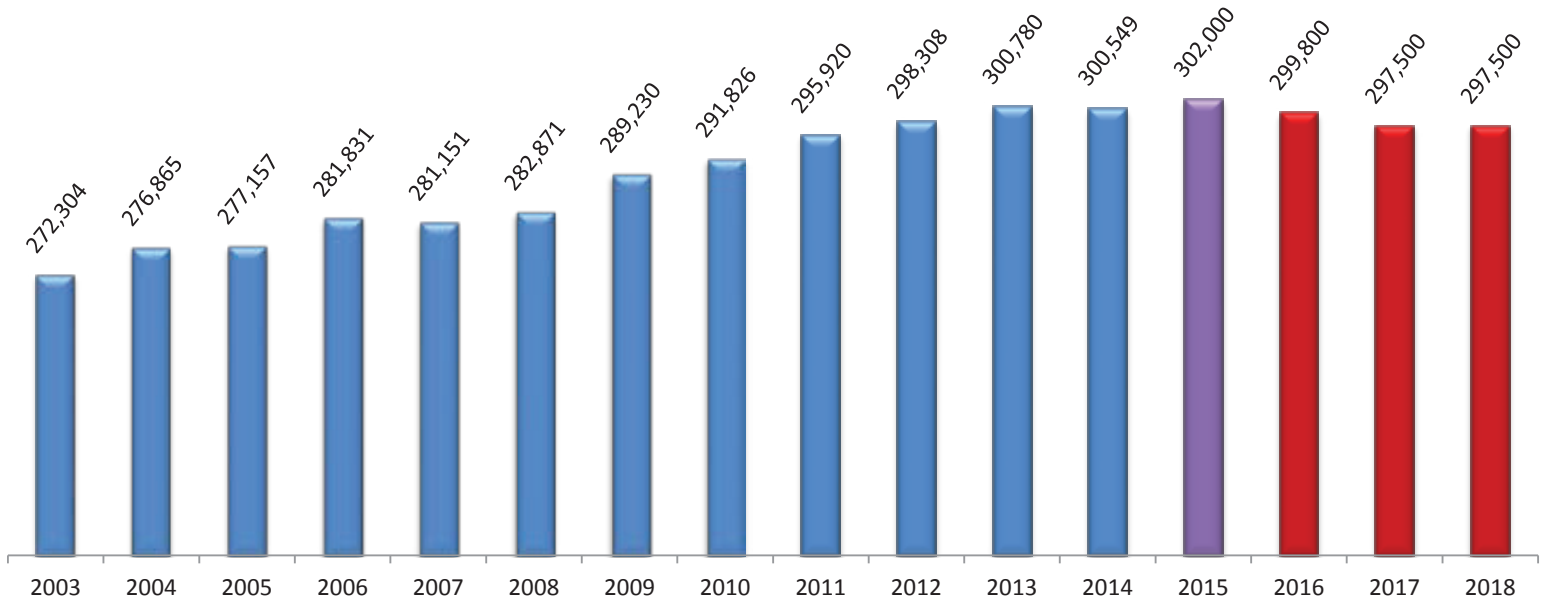


to lose all those residents. Some may choose to remain in Anchorage as their tour of service ends.

One other factor to consider is the potential for increased migration from rural to urban Alaska. To the extent that State of Alaska spending cuts impact rural areas, residents of outlying communities may be drawn to the employment opportunities available in Anchorage.

Overall, AEDC expects Anchorage's population to increase slightly (about 0.5 percent) in 2015, consistent with local employment growth already seen this year (see next section of this forecast). JBER force reductions are expected to be the key factor in population declines in 2016 and 2017 (approximately 0.75 percent each year), with population stabilizing in 2018.

ANCHORAGE POPULATION, 2003 - 2018



Source: State of Alaska, Department of Labor and Workforce Development, 2002 to 2014; McDowell Group forecast 2015 to 2018.

EMPLOYMENT

Total employment in Anchorage averaged 155,034 positions in 2014, approximately 686 jobs below the 2013 level. The decline ended a sustained five-year employment growth trend. The government sector accounted for 95 percent of the job losses. For all practical purposes, private sector employment held steady in 2014 (slipping by just 37 jobs).

Government positions at the federal and local level fell by 284 and 400 jobs, respectively, while the State of Alaska added 36 jobs. Private sector employment growth occurred in the retail (+686 jobs), healthcare (+375), oil and gas support (+314) and information (+169) sector. Job losses occurred in the professional and business services (-567), social services (-414), transportation and warehousing (-322), financial (-67), wholesale trade (-87) and manufacturing (-129) sectors.

Preliminary monthly estimates for 2015 indicates a return to employment growth for the Anchorage economy, with approximately 1,000 jobs more jobs in June 2015 than the same period in 2014. The retail, healthcare, and oil and gas sectors show growth, while the professional and business services, government and financial sectors are showing some weakness in the first half of 2015. Healthcare is poised for continued growth as a result of Medicaid expansion in Alaska.

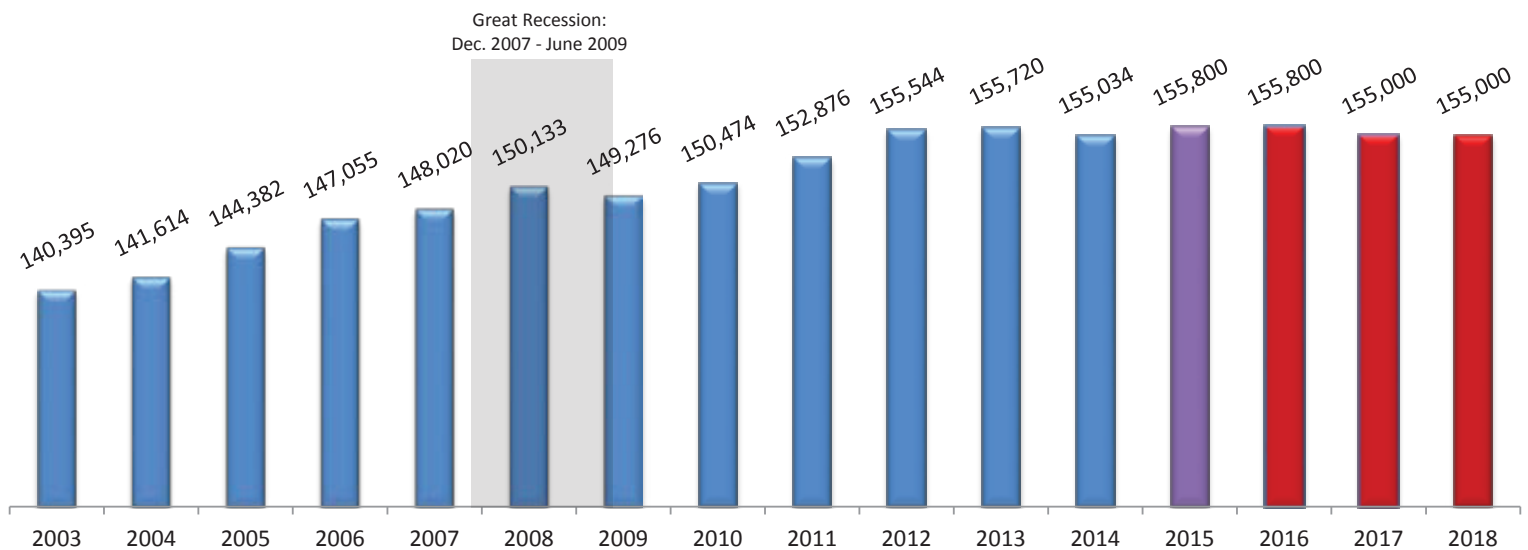
Force reductions at JBER represent a challenge in the short-term and perhaps an opportunity in the medium-term. Taking place over two years beginning October 2015, Anchorage should not necessarily anticipate the full loss of 2,700 troops and civilian po-

sitions from its population, as some troops and their families may elect to stay in Anchorage. With proactive recruitment of these displaced troops, the impacts of the troop reduction can be further mitigated by connecting ex-military personnel with employers seeking skilled workers.

Reduced oil prices have already impacted spending at the state level. For example, State of Alaska spending on capital projects for Alaska for the fiscal year 2016 is \$1.184 billion, down from a high of more than \$2 billion in FY2013. This will negatively affect the construction and professional services sectors as spending on large capital projects is reduced. Similarly, employment at the State of Alaska is expected to fall as operating budgets are reduced.

In sum, strength in the health care, tourism and air transportation sectors will soften declines associated with military reductions, capital (construction) spending and state employment. **Following the growth already recorded in the first half of this year, AEDC expects 2015 employment to end above 2014, gaining about 0.5 percent. Next year, in 2016, employment is expected to hold steady at about the 2015 level, but then decline by about the same amount in 2017. AEDC forecasts 2018 employment to match 2017.**

ANCHORAGE EMPLOYMENT, NUMBER OF JOBS, 2003-2018



Source: State of Alaska, Department of Labor and Workforce Development, 2002-2014; McDowell Group forecast 2015-2018.

PERSONAL INCOME

Personal income of Anchorage residents (the sum of all wages, investment income and government transfers) increased 1.4 percent between 2012 and 2013, reaching \$16.5 billion. Wages earned from employment, which account for more than two-thirds of total personal income, increased 2.1 percent to \$11.3 billion. Investment income (dividends, rental income and interest) increased 1.8 percent to \$3.1 billion. Finally, transfer payments from federal, state and local government fell 2.6 percent to \$2.1 billion.

Over the last decade, average wages in Alaska have grown at a faster rate (3.6 percent) than wages at the national level (2.7 percent). While national wage growth fell to almost zero as a result of the recession, growth rates in Alaska remained relatively strong. Anchorage wage growth has followed the statewide trend, but at a slightly lower rate, averaging 2.9 percent over the ten-year period. Still, the average annual wage in Anchorage (\$55,300)

remains approximately 5 percent higher than statewide wages (\$52,800).

Transfer payments (including the Permanent Fund Dividend, or PFD) vary year-to-year. This year's PFD, expected to be near \$2,000, will account for \$540 million in Anchorage resident personal income, about \$40 million more than last year. Assuming 90 percent of Anchorage residents get a PFD, this payment is worth about one-quarter of all transfer payments.

While 2014 data are not yet available for Anchorage, statewide growth of 6 percent indicates personal income in Anchorage likely surpassed \$17 billion last year. **AEDC expects growth in 2014 to be consistent with the statewide level, before slowing to approximately 3.5 percent in the following three years, closer to the long-term average growth rate of 4.4 percent observed from 2002 to 2013.**

ANNUAL AVERAGE WAGE GROWTH RATES IN ANCHORAGE, ALASKA, AND NATIONALLY, 2005 TO 2014



Source: Alaska Department of Labor and Workforce Development.

ANCHORAGE PERSONAL INCOME, 2003-2018 (\$ BILLION)



Source: Bureau of Labor Statistics (2002-2013); forecast (2014-2018).

ANCHORAGE INTERNATIONAL AIRPORT

Two thousand fourteen was a year of continued recovery for the Ted Stevens Anchorage International Airport (ANC). Cargo volume increased for the first time in three years, and the number of passengers increased for the second consecutive year. Passenger volume reflects tourism travel, local and state business activity and residential travel. Air cargo, which is dominated by cargo that transits through Anchorage en route to other destinations, responds directly to global economic conditions. **Both air passenger and air freight indicators are important measures of economic activity in Anchorage.**

PASSENGER VOLUMES

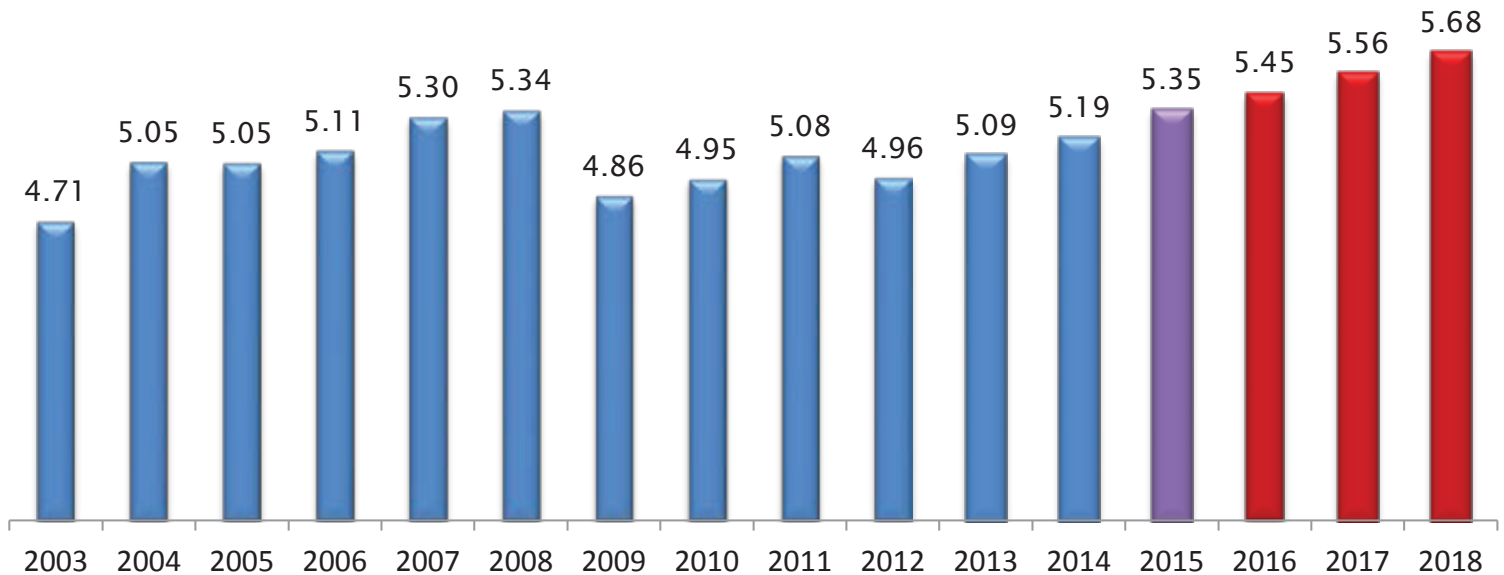
Total ANC passenger volumes (enplaned, deplaned and in-transit) reached 5.2 million passengers in 2014, 1.9 percent above 2013, and marking the second consecutive year of growth. Like many aspects of Alaska's economy, passenger traffic at ANC is seasonal, with the summer months of June through August seeing much higher traffic levels compared to other months. While annual passenger traffic was higher in 2014, summer travel in 2014 was down by 1.6 percent from 2013 levels (1.88 million passengers in 2014 to 1.85 million passengers in 2013).

Encouragingly, the growth trend that began in 2013 appears to be building momentum. Passenger travel during the first five months of 2015 was up 6.0 percent over the same period in 2014. The

2015 summer season is expected to remain strong, bolstered by a solid cruise volume increase (many passengers cruise one-way and arrive or depart from Anchorage by air). However, growth may be muted by two factors: a decline in state government employee travel, and the dampening effect of the strong U.S. dollar on international travel.

AEDC expects 2015 passenger traffic to be about 3 percent above 2014 levels. With the expected strength of future tourist seasons, ANC passenger volume is expected to continue growing though at a slightly lower rate (2 percent) from 2016 to 2018, reaching 5.68 million passengers in 2018.

AIR PASSENGER VOLUME, 2003 - 2018
(MILLIONS)



Source: Ted Stevens Anchorage International Airport, 2003-2014. McDowell Group estimate (2015) and forecast (2016-2018).

AIR FREIGHT VOLUMES

ANC remains the second busiest cargo airport in the U.S. (after Memphis) in terms of weight landed. In 2014, Anchorage moved up to fifth place internationally, slightly behind Incheon International Airport and ahead of Dubai International Airport. In 2014, 2.75 million short tons of cargo moved through the airport. While this represents an increase of 3.0 percent from 2013, it remains 3.0 percent below the post-recession peak of 2.83 million short tons in 2010. The number of cargo landings in 2014 was relatively stable, down only 0.2 percent 2013 to 2014 (from 35,545 to 35,471 landings).

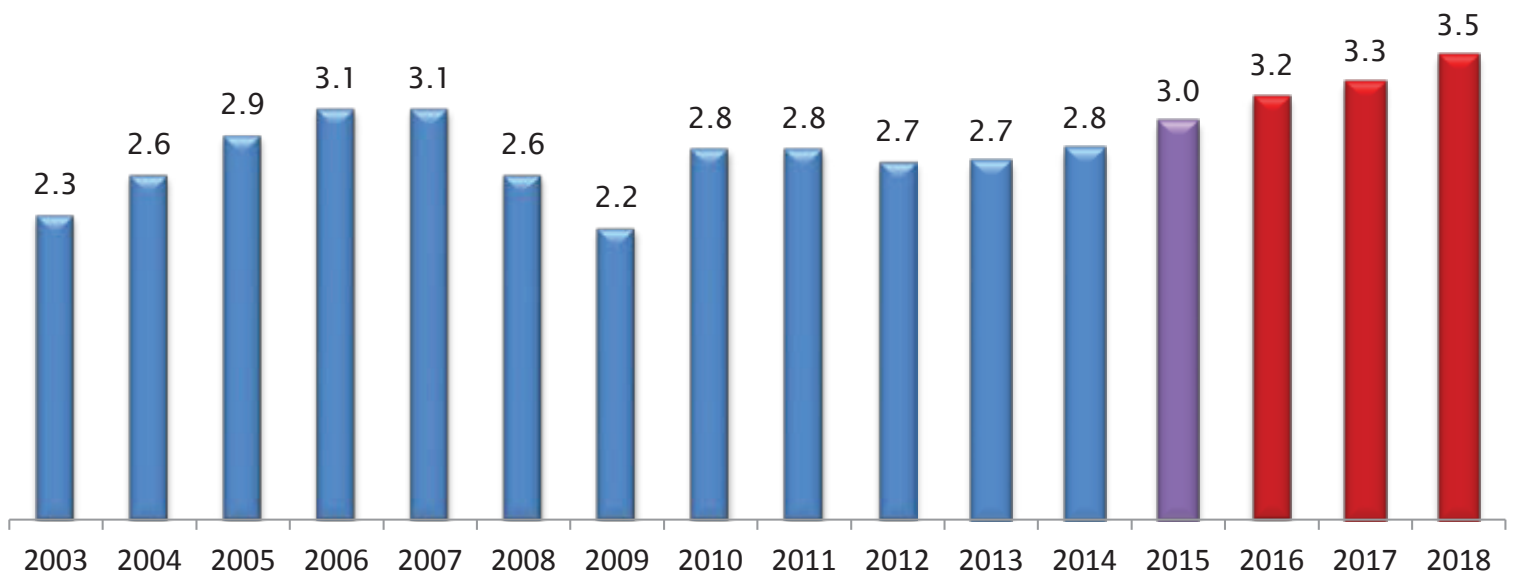
Since the end of the 2008-09 recession, the weight of cargo carried per flight has increased steadily, from an average of 133,000 pounds per landing in 2010 to 160,220 pounds in the first five months of 2015. As larger and more efficient planes enter the market, the freight-weight per landing is expected to continue increasing.

Air freight statistics for ANC include deplaned, enplaned and transit cargo. Transit cargo accounts for almost three-quarters of all air freight. During the first five months of 2015, transit cargo moving through ANC was 23 percent above the first five months of 2014, while deplaned/enplaned cargo are holding steady.

Overall, the total cargo volume was up 16 percent for the first five months of 2015. Based on the first five months, 2015 cargo volume is expected to grow significantly from 2014 levels.

The World Bank is forecasting global Gross Domestic Product (GDP) growth of 2.8 percent in 2015, 3.3 percent in 2016, and 3.2 percent in 2017. This growth will occur predominantly in low-income countries (collectively expected to be up 6.2 percent in 2015) and developing economies (expected 4.4 percent increase in 2015). Global growth leads to more international trade and potentially more air freight activity through ANC. In addition, general improvement in domestic economic conditions will likewise encourage growth in air freight. **AEDC anticipates that ANC air freight volume will increase by 10 percent in 2015, and 5 percent in each of the subsequent years (2016 to 2018), to reach 3.5 million short tons in 2018.**

AIR FREIGHT VOLUME, 2003-2018
(MILLION SHORT TONS)



Source: Ted Stevens Anchorage International Airport, 2003-2014. McDowell Group estimate (2015) and forecast (2016-2018).

PORT OF ANCHORAGE FREIGHT VOLUME

Freight volume at the Port of Anchorage totaled 3.45 million tons in 2014, a slight increase (1.4 percent) over the 3.40 million tons moved in 2013. Shipments by containers and flats (groceries, construction materials and vehicles) increased approximately 4 percent to 1.81 million tons in 2014. Over the same period, incoming petroleum shipments by barge and tanker fell 4.8 percent to 1.49 million tons.

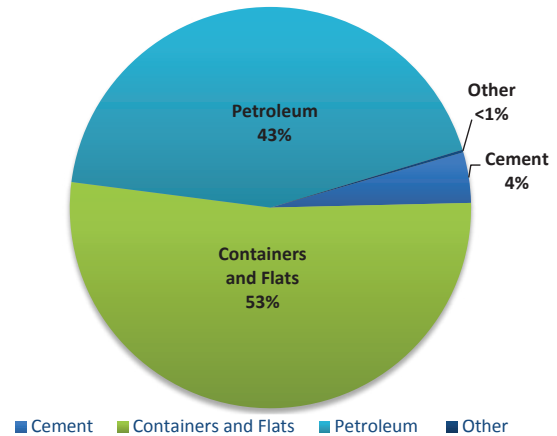
In the first half of 2015, activity at the port has increased more than 13 percent over the same period in 2014 for all categories, with petroleum jumping 30 percent. Port officials expect 2015 to finish with a substantial increase in volume compared to recent years.

The drivers of the increase in port traffic seen in 2015 include changes in Alaska petroleum refinery capacity and port disruptions on the West Coast, according to Port officials. The closure of Flint Hills Resources' North Pole refinery, as well as maintenance activities at Tesoro's Kenai refinery, have resulted in lower in-state refined products capacity, leading to an increase in shipments of petroleum products through the Port. Concurrently, a labor dispute in West Coast ports caused congestion which resulted in increased air shipments as companies tried to avoid supply-chain disruptions. This increase in air traffic resulted in higher demand for jet fuel at the Ted Stevens Anchorage International Airport, contributing to increased petroleum shipments at the Port.

Recent private sector investment at the Port will increase its capacity to handle both refined products and cement. Delta Western is constructing a 360,000 barrel facility for transshipment of several refined petroleum product lines, including methanol for use on the North Slope, and Crowley plans to increase jet fuel storage capacity in support of military operations in the Pacific Theater. These additions will increase the Port's refined petroleum

storage capacity to more than 3.2 million barrels. Alaska Basic Industries is tripling storage capacity of cement with the addition of a 40,000 ton facility.

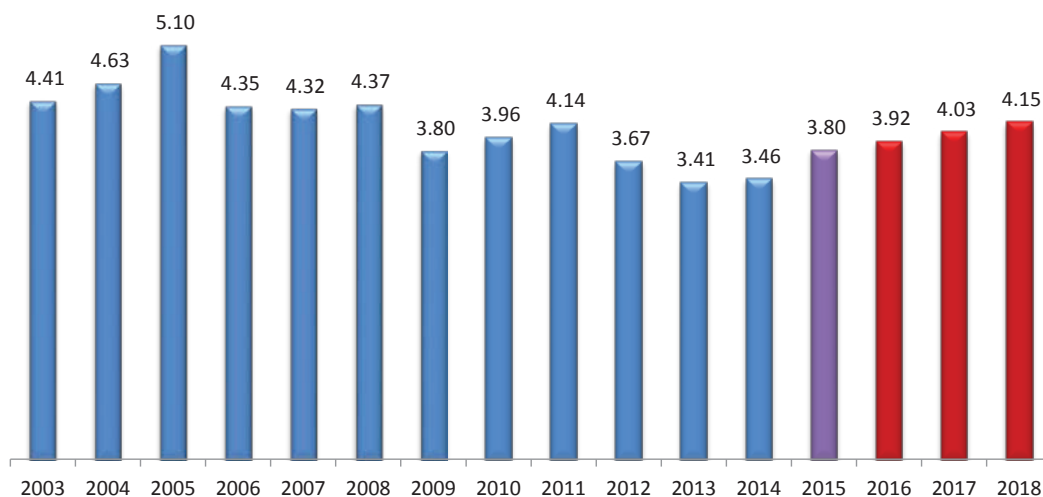
PORT OF ANCHORAGE FREIGHT VOLUME, BY PERCENT AND TYPE, 2014



Source: Port of Anchorage, 2015.

According to Port and industry contacts, container volume is driven by population trends and general economic activity in Anchorage and the Railbelt. With these two indicators likely to be flat, at least in the near term, AEDC expects container volume to follow suit. However, continued growth is expected in the petroleum and cement category. **In summation, AEDC expects total volume at the Port of Anchorage to grow at rate of approximately 10 percent in 2015, setting a new "norm" for tonnage, before slowing to a growth rate of 3 percent in 2016 through 2018.**

PORT OF ANCHORAGE VOLUME, 2003-2018 (MILLION SHORT TONS)



Source: Port of Anchorage, 2014. McDowell Group estimates (2015) and forecast (2016-2018).

BUILDING PERMIT VALUES

The value of building permits issued by the Municipality of Anchorage provides a partial measure of construction activity in Anchorage. Building permits are categorized into residential, commercial and government facility construction; the data does not include military construction and road construction projects. Building permit values are a measure of the anticipated cost of the construction project. Actual construction spending may be higher or lower than anticipated.

A combination of residential, commercial and government building permit values totaled \$681 million in 2014; a healthy increase of 7.9 percent over total values in 2013; marking the fourth consecutive annual increase in total building permit values since 2010.

Residential building permit values (not including townhouses, condominiums and apartment buildings, which are counted as commercial) increased 15 percent in 2014 (\$194 million) compared to 2013 (\$169 million). Commercial building permit values were up 2.8 percent between 2013 (\$376 million) and 2014 (\$386 million). Government construction permit values showed an increase of 16 percent from \$87 million in 2013, rising to \$101 million in 2014.

However, examination of permit values for the first five months of 2015 suggests a down-shift from the gains made in 2014. Approximately \$233 million in construction was permitted during the first five months of 2015, down 23 percent from \$302 million during the same period in 2014. In all three categories, building permit values decreased from 2014 levels; however, they still remain above 2010-2011 levels. For the first five months, residential building permit values fell 16 percent (from \$79 million in 2014 to \$66 million in 2015), commercial permit values fell 33 percent (from \$159 million to \$107 million) and government permits decreased 4.3 percent (from \$63 million to \$60 million). It is important to note that government permit figures provide only a partial measure of government construction spending, as transportation and military projects are not included.

BUILDING PERMIT VALUES, 2003-2018 (\$ MILLIONS)



Source: Municipality of Anchorage, 2003-2014. McDowell Group estimate (2015) and forecast (2016-2018).

Almost 120,200 residential units, including commercial (multi-family), mobile home, single-family and duplexes, currently make up the Municipality of Anchorage residential inventory. During the 1990s, 10,615 new residential units were built. In the 2000s, the number of new units totaled 13,719. Since 2010, 2,924 new units have been added to the inventory. The remaining 92,924 residential units (or 77 percent of all current inventory) in Anchorage were built prior to 1990.

According to Alaska Housing Finance Corporation (AHFC) data, Anchorage's 2015 year-to-date rental housing vacancy rate is 3.9 percent, higher than the 3.2 percent recorded in 2014. Of the ten areas surveyed by AHFC, only four Alaska communities had lower vacancy rates than Anchorage. Median Anchorage monthly rental rates remained relatively stable (up only 0.9 percent in 2015), reaching \$1,189 – the fourth highest rate of the surveyed ten areas in Alaska.

A few of the larger commercial and government building permit application values recorded during the first five months of 2015 include housing projects, such as the Riviera Terrace Housing Project (\$20 million), 66th Ave. mobile home improvements (\$9 million) and Cook Inlet Housing's Alaska Village (\$7 million) and Creekside developments (\$5 million); Loussac Library improvements (\$8 million); UAA's Eugene Short Hall Improvements (\$6 million); Sullivan Arena improvements (\$3 million); and various Anchorage School District projects, such as Mountain View School (\$10 million), Rabbit Creek School (\$9 million), Bayshore School (\$4 million), Susitna Elementary School (\$3 million), Eagle River Elementary School (\$3 million), Service High School (\$2 million) and Chugiak High School (\$1 million).

The economic impacts of the State of Alaska capital budget are typically delayed due to time lags between project budgeting and actual construction. However, the capital budget for Anchorage has been dropping precipitously each year since FY 2013. In FY 2013, the capital budget (all funds) was \$637 million, tumbling 55 percent to \$286 million in FY 2014, falling another 19 percent to \$231 million in FY 2015, and continuing the downward trend (-48 percent) to \$120 million in FY 2016.

AEDC expects the five-month, year-to-date trend in 2015 will continue throughout the year with a total decline of about 15 percent in combined building permit valuations from the 2014 level. Total building permit values are then expected to dip slightly (another 5 percent) in 2016, and then hold steady in 2017 and 2018, as oil prices start to recover.

VISITOR INDUSTRY

STATEWIDE PICTURE

Summer

The summer 2014 visitor season saw a 2 percent decrease in overall visitors to Alaska (from 1.69 million in 2013 to 1.66 million in 2014), the first decrease in four years, according to the Alaska Visitor Statistics Program (AVSP).¹ Nearly all of the decline was attributable to a 3 percent decrease in cruise passenger traffic; air traffic increased by 1 percent.

Fall/Winter

The 2013-14 fall/winter visitor season (October through April) was up by 4 percent compared to the previous fall/winter. (Statewide data is not yet available for the most recent fall/winter season.) Although only 14 percent of Alaska's out-of-state visitors arrive during the fall/winter season, 73 percent of these visitors travel to Anchorage (compared to 56 percent in summer).

ANCHORAGE PICTURE

Summer

Anchorage had mixed visitor-industry indicators for the summer of 2014. Outbound domestic enplanements (airplane passengers exiting Alaska from Anchorage on domestic flights) declined by 2 percent, from 853,300 to 837,500. Because the summer of 2013 saw a significant increase of 9 percent from the previous summer (due to increased capacity and "fare wars"), a small decline in 2014 is not surprising.

International enplanements at the Anchorage airport were down

by 1 percent between summer 2013 and summer 2014, from 19,900 to 19,800. While passenger enplanements for Korean Air went down by 62 percent, Japan Air enplanements went up by 34 percent, and IcelandAir enplanements increased by 19 percent. (These figures do not reflect Anchorage's overall international visitor market. Most of Alaska's international visitors travel to Alaska by domestic, rather than international air.)

In contrast to passenger enplanement data, visitor-related tax revenues were higher across the board for Anchorage in summer 2014: bed tax revenues increased by 8 percent, vehicle tax revenues by 11 percent and RV tax revenues by 8 percent.

Fall/Winter

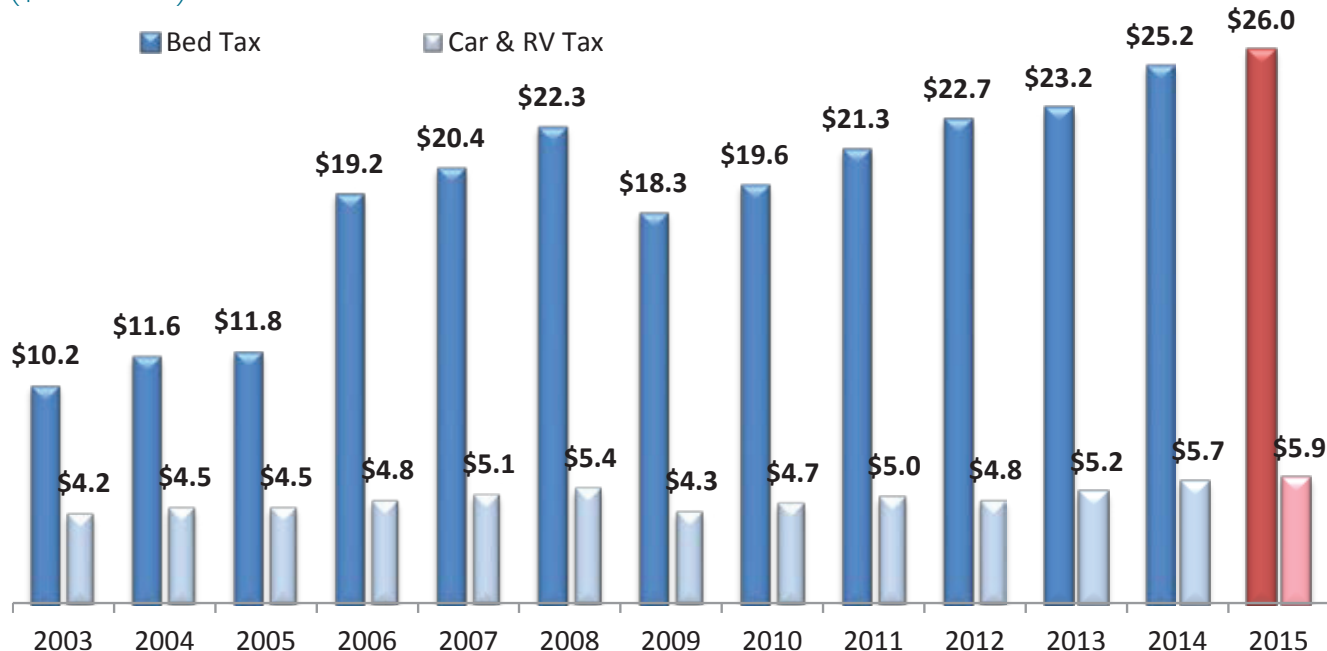
Anchorage-specific indicators for fall/winter of 2014-15 include a 6 percent increase in outbound domestic enplanements. There were no international enplanements at ANC in fall/winter 2014-15. The previous fall/winter, there had been only 197 passengers, all on Condor Air, in October.

Other indicators for the most recent fall/winter season were also positive: Anchorage bed taxes were up by 8 percent between 2013-14 and 2014-15, and vehicle taxes were up by 3 percent. In addition, Visit Anchorage reports that 2014-15 convention attendance was up by 11 percent over 2013-14.

OUTLOOK

Statewide visitation is very likely to bounce back in 2015, as statewide cruise volume is projected to grow by 5 percent, according to Cruise Lines International Association Alaska. Anchorage is

ANCHORAGE BED TAX + CAR/RV RENTAL TAX, 2003-2015 (\$ MILLION)



Source: Municipality of Anchorage, 2003-2014. McDowell Group estimate (2015).

¹ Unless otherwise noted, all figures in this section are from the Alaska Visitor Statistics Program VI, conducted by McDowell Group, Inc. for the Alaska Department of Commerce, Community, and Economic Development, Division of Economic Development.

VISITOR INDUSTRY, CONT.

likely to benefit from this growth as it captures around one-third of cruise passengers. Anchorage will also benefit from nine port calls from the MS Statendam, a Holland America ship with a capacity of 1,250 passengers, up from four calls in 2014. Looking ahead to 2016, cruise passenger volume is expected to increase slightly as a result of larger capacity ships replacing smaller ships.

Visit Anchorage reports a very positive start to the 2015 summer season, according to its members, in terms of bookings of both rooms and tours. Hoteliers are also reporting record-high hotel room prices during peak travel periods. In terms of the fall/winter season, Visit Anchorage reports that convention attendance is projected to grow by 7 percent in 2015-16, including prominent conferences such as the International Economic Development Council's October 2015 conference (over 1,000 economic development professionals expected to attend). State of Alaska budget reductions will likely constrict State government travel in the near term. Although State employees do not pay bed tax, pending reductions will likely be felt by accommodations, car rental and dining establishments.

The U.S. Travel Association's most recent assessment of the industry indicates that travel continues to outperform other sectors of the national economy, and that consumer optimism is improving.² The Consumer Sentiment Index grew from 81.9 in May 2014 to 90.7 in May 2015.³ Lodging metrics are at "all-time highs." However, growth projections for domestic travel are fairly modest at 1.6 percent for 2015 and 1.8 percent for 2016. Meanwhile, though the strong U.S. dollar may have a dampening effect, overseas travel to the U.S. is projected to increase at a faster rate: by 5.7 percent in 2015 and 5.3 percent in 2016.

While AEDC does not forecast visitor industry volume, given current visitor activity, new room inventory and room rates, AEDC does predict a 3.0 percent increase for both bed tax revenues and car/RV rental tax revenues in 2015.

² "U.S. Travel Outlook" April 2015, U.S. Travel Association, www.ustravel.org

³ www.statista.com

OIL PRICES

The precipitous drop in oil prices in 2014 and early 2015 is the most influential factor affecting Anchorage and the Alaska economy. International oil prices had fluctuated around \$100 to \$120 for nearly four years before falling to less than \$50 in January 2015, a level not seen since 2008.

The main factors affecting oil prices have been an unprecedented increase in domestic supply, and willingness on the part of OPEC (Organization for Petroleum Exporting Countries) to maintain production levels in a lower price environment. Since 2005, U.S. oil production has increased more than 140 percent, from a daily average of 4.0 million barrels in September 2008 to 9.7 million barrels in April 2015.⁴ OPEC's production is currently at a four-year high of approximately 32 million barrels per day, with additional supply potentially coming online in Libya, Iraq and Iran.⁵

Global production of crude oil averaged more than 88 million barrels per day in 2014, of which 0.6 percent came from Alaska.

The Middle East (including Saudi Arabia) produced 32 percent of total global production, Europe and Eurasia (including Russia) produced 19 percent and the U.S. produced 13 percent (excluding Alaska's 0.6 percent). For the first time in nearly 25 years, the U.S. surpassed Saudi Arabia as the largest producer of oil in the world, on an individual-country basis. Russia is the third-largest oil producer.

While international oil production increased in 2014, Alaska's production fell 3 percent to an average of 497,000 barrels per day. This reduction is consistent with a long-term decline that has averaged 5 percent (56,000 barrels) annually since production peaked at approximately 2 million barrels per day in 1988. Through the first half of 2015, Trans Alaska Pipeline System throughput is to be

higher than 2014, which could extend the recent slow-down in the rate of decline. Furthermore, recent projections by the Alaska Department of Revenue have production increasing in 2016 and 2017.⁶

Historically, the Alaska North Slope (ANS) price per barrel has closely followed other market prices such as West Texas Intermediate (WTI). This relationship softened in late 2011 when ANS traded at an approximate \$30 premium over WTI. Over the last 12 to 18 months, the price differential has reduced, with ANS now valued at approximately \$4 more than WTI.

Both the Energy Information Administration (EIA) and the Alaska Department of Revenue are forecasting the price of oil to increase to the mid-\$60 range for the remainder of 2015 and 2016. EIA forecasts WTI to average \$55.51 through 2015 and \$62.04 in 2016. Alaska Department of Revenue expects ANS to average \$67.49 in 2015 before falling slightly to \$66.03 in 2016. Longer-term forecasts by the Alaska Department of Revenue predict an average of \$86.66 in 2017 and \$89.06 in 2018.

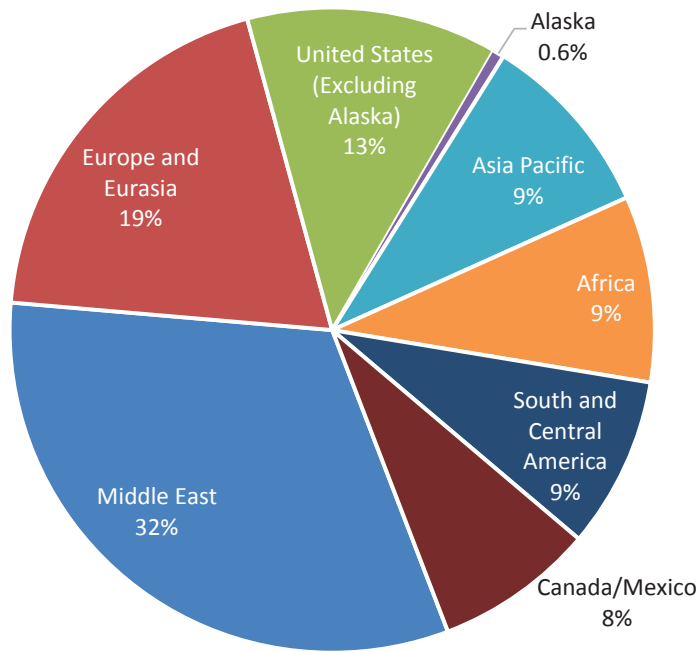
Generally consistent with other forecasts, and recognizing the highly unpredictable nature of oil prices, AEDC expects ANS to average about \$60 in 2015, \$70 in 2016, \$80 in 2017, and \$90 by 2018.

⁴ Energy Information Administration, 2015.

⁵ Bloomberg, 2015

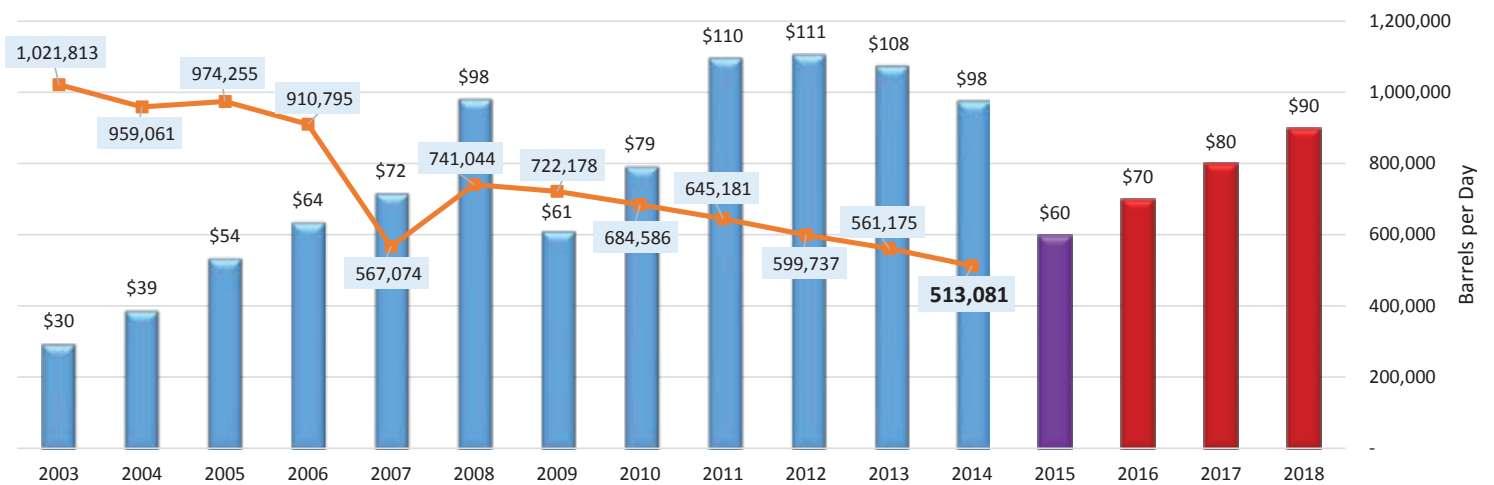
⁶ Alaska Department of Revenue, Tax Division, 2015.

GLOBAL CRUDE OIL PRODUCTION BY REGION, 2014



Source: British Petroleum Statistical Review of the World; State of Alaska, Department of Revenue.

ALASKA AVERAGE YEARLY OIL PRICES, ANS WEST COAST, \$ PER BARREL AND AVERAGE DAILY ANS PRODUCTION, 2003-2018



Alaska Department of Revenue, 2003-2014, McDowell Group Forecast (2015-2018).

CHALLENGES AHEAD

There is little doubt the strength and resiliency of the Anchorage economy will be tested over the next two to three years. The critical connection between oil prices, oil revenue and Alaska's economy is plainly evident. In Anchorage, oil and gas industry spending in the private sector accounts for more than 30,000 direct, indirect and induced jobs; and thousands more jobs are created in the local economy as a result of State spending of oil-related taxes and royalties. While the good news is that North Slope production has stabilized at around 500,000 barrels per day, few analysts expect prices to return to the \$100 level any time soon.

Force reductions at JBER will present another challenge for the Anchorage economy. However, Anchorage can be proactive in mitigating that impact, by working to retain the effected military population that may be transitioning to civilian life. Connecting these people with the jobs available in Anchorage is an opportunity for our community.

Though there is certainly reason for concern, perhaps it's useful to remind ourselves that Anchorage's \$30 billion economy - as measured in terms of total output - is today more diversified than ever. Major contributors to that output, in addition to the oil and gas industry, include the military, freight and cargo transshipment, the visitor industry, health care and a professional and business services sector that serves not only Alaska but an increasingly global market.

The surprisingly strong employment picture so far in 2015 is good news, with 1,000 more jobs in June 2015 than in June 2014. Further, we have previously noted the persistent low unemployment rate in Anchorage as a marker of underlying opportunity for growth. Many employers continue to report they would hire more workers, if people with the right skill sets were available, and the high cost and tight inventory of housing wasn't acting as a barrier to recruitment.

Also on the bright side, a strengthening national economy bodes well for Alaska, in some respects. Growing domestic demand for consumer goods means more ANC air freight activity. In addition, a number of Alaskan-owned and Anchorage-based corporations have national and international business interests that will benefit from a more robust U.S. economy. Alaska's visitor industry is also poised for growth this year and next.

Nevertheless, the trajectory of the Anchorage economy over the next three years is uncertain, with potential to move along several divergent tracks. If oil prices remain low (or even decline further) and state spending is further reduced as a result, and if little or no progress is made on gas line development, Anchorage might expect a couple years of economic contraction, until a "new normal" is realized as one possible scenario.

Observers with a much more optimistic outlook would see a different scenario with the gas line project soon moving to the \$1 billion front-end engineering and design (FEED) phase, the outfall of JBER force reductions are muted, other federal spending takes an uptick and oil prices rise, pushing more money through the Alaska economy than would otherwise be the case.

Between these two scenarios is AEDC's expectation for the next two to three years; some decline in those sectors most closely tied to State government spending, but resiliency and underlying strength in other sectors prevents significant downturn in the economy overall. AEDC sees businesses doing some belt tightening but otherwise keeping the long-term in mind and riding out whatever rough water lies ahead.

Anchorage has experienced similar situations when the economy was less diverse and we were less prepared; oil prices dropped 60 percent in 1986, then recovered over the next two years. Same story in 1993, when prices dropped 40 percent, with a two-year rebound. The 70 percent price drop in 2008 was mostly recovered within two years. Today, Anchorage is facing some challenges, but if history is any guide, the Anchorage economy will survive intact and emerge stronger than ever. From a statewide perspective, Alaska's challenge is to effectively leverage \$90 billion in financial assets to avoid state spending-related economic shock.

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