

2016

3-YEAR

ECONOMIC OUTLOOK

ANCHORAGE



AEDDC

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2016 **3-YEAR** **ECONOMIC OUTLOOK** ANCHORAGE INTRODUCTION

The final numbers for 2015 confirm that employment in Anchorage climbed to record levels last year, averaging just over 156,000 jobs, 1,000 jobs above 2014. Some observers might be surprised by the numbers; however, job growth in Anchorage last year was right in line with AEDC's forecast of 800 new jobs in 2015.

While job growth was solid in 2015, growth started tapering late in the year and by early 2016, the expected decline in employment materialized. In June 2016, employment was down about 2,500 jobs compared to June 2015, according to preliminary Alaska Department of Labor and Workforce Development (ADOLWD) estimates. The job losses are in the expected sectors - Oil and Gas, Construction, Professional Services and State Government. These areas are most directly affected by declining oil prices and revenues. Meanwhile, growth in Health Care, the Visitor Industry and other sectors are offsetting some of the decline in the oil-affected sectors.

As we look ahead and consider the forces that will shape the Anchorage economy over the next three years (and beyond), there are reasons for a mix of optimism and concern. As described in this forecast, the outlook is generally good for the Visitor Industry, the Health Care sector continues to expand, oil prices have rebounded somewhat from 2015 lows, concerns over JBER force reductions have tentatively abated and unemployment remains low.

Uncertainty around the state budget continues to be a dark cloud over Alaska's economy. A long-term fiscal plan remains elusive and until a sustainable revenue and expenditure plan for state government operations and capital projects is in place, economic uncertainty will prevail.

This AEDC 3-Year Economic Outlook describes the likely trajectory of the local economy, based on an analysis of historical and current data, interviews with representatives of businesses and organizations in various sectors and analysis of current events. The Outlook considers trends in 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

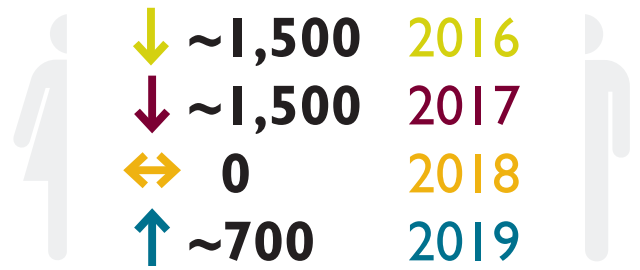
Anchorage's population declined by just under 1,500 residents in 2015, to end the year at 298,900, a drop of approximately 0.5 percent compared to 2014. This population change is the sum of births (+4,600), deaths (-1,600), and net migration (-4,500). While births and deaths have remained relatively steady, net migration (the sum of in-migration to Anchorage and out-migration from Anchorage) has been negative since 2010.

One component of net migration is population movement between Anchorage and the Matanuska-Susitna Borough. In 2014, based on Permanent Fund Dividend (PFD) applications, 3,100 individuals relocated from Anchorage to the Mat-Su. In the same year, 1,800 Mat-Su residents moved to Anchorage, totaling a net decrease of 1,300 residents from the Anchorage population. Access to more affordable housing is likely a primary factor driving that migration.

Population growth has slowed for the combined Anchorage/Mat-Su region, increasing just 300 residents in 2015, lower than the five-year average annual growth of 3,300.

A strengthening national economy also contributes to migration out of Anchorage. This is a reverse of what happened during the Great Recession in late 2007 to mid-2009 when workers from other states were attracted to Anchorage's relatively strong economy. While the national unemployment rate peaked at more than 10 percent in 2010, Anchorage's rate peaked at less than 7 percent; however, since late 2015, the Anchorage unemployment rate has trended above the national rate.

Retirement among an aging population in Anchorage also contributes to individuals leaving the city (and its labor force). In



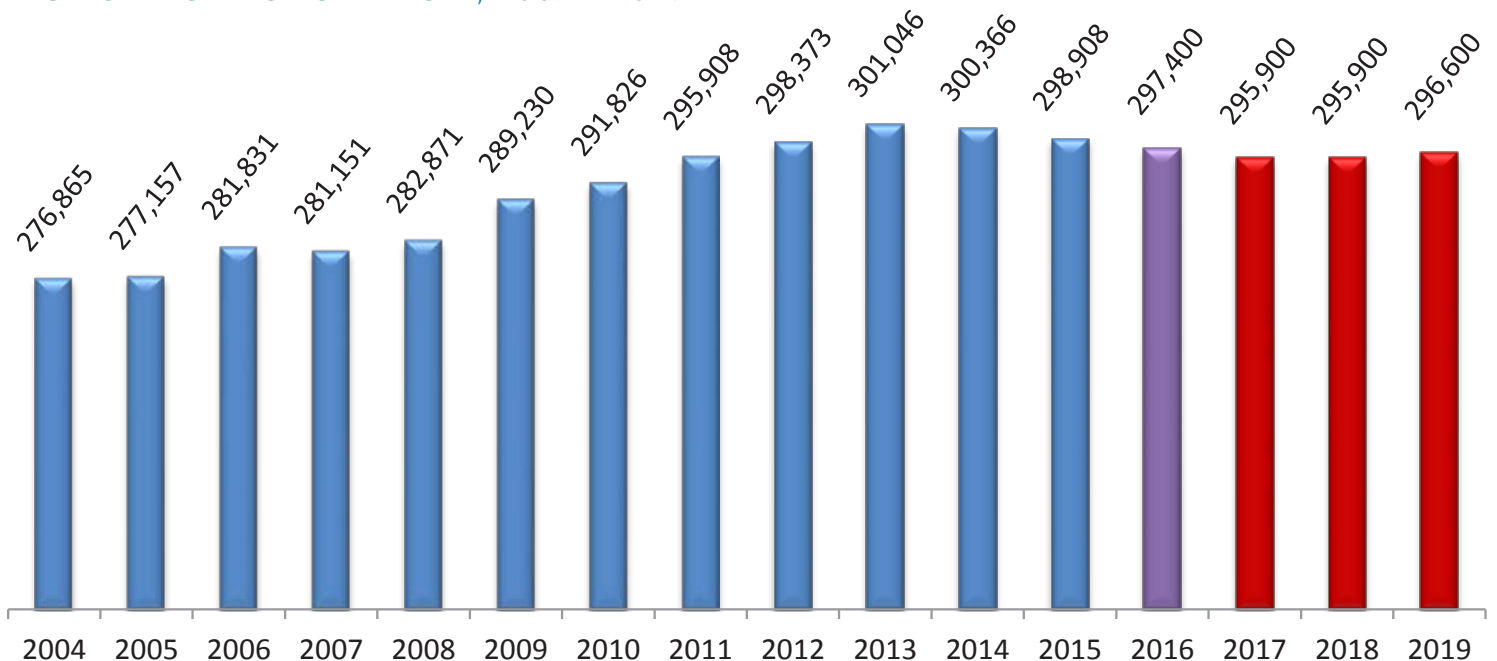
1980, the median age of Anchorage residents was 26; by 2015 it had risen to age 34. This trend is anticipated to continue, with Anchorage's average age increasing to 37 by 2030, according to projections by ADOLWD.

Finally, economic uncertainty about Alaska's oil-dependent economy is likely having some impact on migration. For historical context, in 1986, after a 50 percent fall in the price of oil and a period of economic recession in Alaska, Anchorage's population declined 4.8 percent over two years. Because Anchorage's economy is more diverse today, similar population losses are not expected to accompany the current oil price downturn.

In 2016, AEDC anticipates another modest population reduction of approximately 1,500 residents, or 0.5 percent. Additional loss (-1,500 residents) is expected in 2017, before population change is predicted to flatten in 2018 (no change from 2017). A slight increase (+700 residents) is anticipated for 2019, as population growth returns to more normal levels, influenced by modest employment increases.

Over the course of this population downturn that began in 2013, AEDC expects a total loss of about 5,100 residents by the end of 2017, a decline of 1.7 percent from the peak.

ANCHORAGE POPULATION, 2004 - 2019



Source: State of Alaska, Department of Labor and Workforce Development, 2004-2015; McDowell Group forecast 2016-2019.

EMPLOYMENT

Total employment in Anchorage continued to expand in 2015, adding 1,000 net positions over 2014, hitting an all-time high of 156,066 jobs. Compared to 2014, the Health Care (+500 jobs), Leisure and Hospitality (+300 jobs) and Retail (+300 jobs) sectors exhibited the strongest growth, while State Government and Financial Activities employment fell slightly, by 200 jobs and 100 jobs respectively. While 2015 overall (averaged over January-December) was a record year for employment in Anchorage, a comparison of June 2015 with June 2016 indicates softening in employment for Oil and Gas (-700 jobs), Construction (-1,000 jobs), Professional and Business Services (-1,000 jobs) and State Government (-400 jobs). Yet, employment in Health Care (+900 jobs) and Federal Government (+300 jobs) expanded, according to preliminary ADOLWD data.

Driven primarily by reduced oil prices, overall employment in the Oil and Gas sector is anticipated to be lower in 2016 than 2015. Layoffs at BP, ExxonMobil, ConocoPhillips and support sector companies, which began mid-2015, have extended into 2016. On the North Slope, ExxonMobil completed the Point Thompson project and will require fewer contractors; Eni, Repsol-Armstrong and Caelus Energy have postponed exploration activity; BP will idle three drilling rigs; and Shell relinquished offshore leases once worth \$2 billion.

At the statewide level, preliminary data indicates employment in the Oil and Gas sector is now about 2,500 jobs (or 17 percent) lower than the record peak of 14,800 jobs observed in March

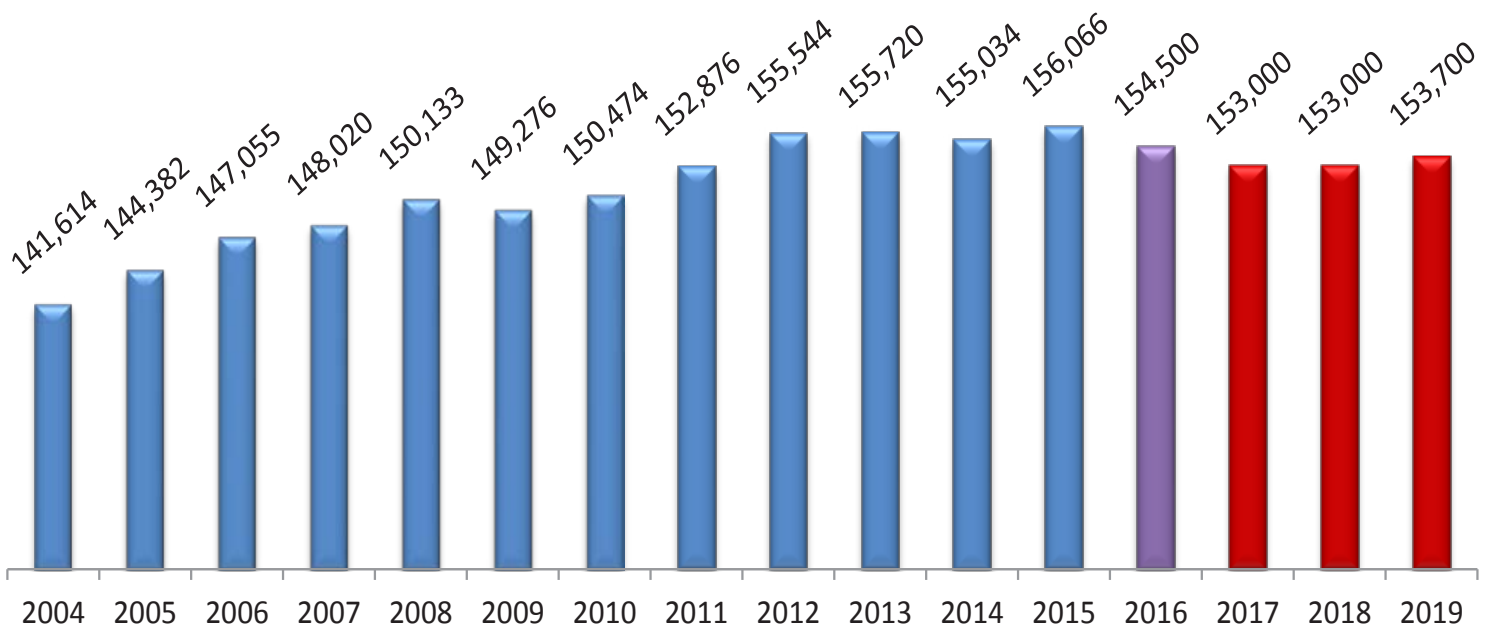
2015. Current statewide Oil and Gas sector employment is similar to levels last seen in May of 2011. Even with recent job losses, employment in this sector today is still 56 percent higher than the low point of 7,900 jobs observed in June of 2005.

One mitigating factor with respect to Oil and Gas employment losses is that a portion of the jobs in this sector are held by non-residents. While no data is available on the distribution of layoffs between residents and non-residents, likely some proportion of the affected workers are non-residents. The Alaska economy experiences less economic impact from the loss of a job held by a non-resident than a job held by an Alaskan, who spends more payroll dollars in-state.

Similarly, while no data is available on the number of former Oil and Gas employees who have retired rather than being laid off, qualitative reports indicate a material proportion of job losses include individuals who have retired. To the extent these former Oil and Gas employees remain in Alaska, economic impact of these job reductions are mitigated.

While Oil and Gas activity has slowed, portions of the industry continue to invest in infrastructure. ConocoPhillips is continuing its development of CD-5 and Greater Moose's Tooth #1 projects, Caelus Energy is actively drilling at their Smith Bay prospect and Armstrong is beginning to develop their Pikka project. In Cook Inlet, BlueCrest Energy began production from its Cosmopolitan Unit in April 2016, Furie Operating Alaska is drilling in their Kitchen Lights Unit and Hilcorp is permitting its

ANCHORAGE EMPLOYMENT, NUMBER OF JOBS, 2004-2019



Source: State of Alaska, Department of Labor and Workforce Development, 2004-2015; McDowell Group forecast 2016-2019.

EMPLOYMENT, CONT.

onshore Greystone Project. Doyon and Ahtna are drilling exploratory wells this summer near Nenana and Glennallen, respectively. While uncertainty surrounds the future of the AK LNG project beyond June of 2017, a projected \$230 million will be spent in 2016 on work associated with the pipeline's regulatory requirements and design work.

Anchorage's Retail sector continued to add jobs in 2015, increasing slightly more than 1.0 percent, bringing the Retail sector total to 18,100 positions. Clothing stores showed the strongest growth in this category, while electronics and appliance stores engaged in less hiring. The Retail sector is up 200 jobs the first half of 2016, and several new establishments plan to open (including Victoria's Secret) this year.

With the addition of new hotels and restaurants, the Leisure and Hospitality sector saw a net gain in 2015, with employment increasing 1.5 percent to 17,200 jobs. While the job trend through June 2016 has been flat, it is expected that with a healthy visitor season, the Hospitality sector will have a solid performance through the summer.

With slightly more than 20,300 positions, Professional and Business Services employment, which includes engineers, architects, and consultants, saw no growth in 2015. Employment in the sector has trended lower since a 2013 peak of nearly 20,900 positions; preliminary data for 2016 indicates that downward trend is continuing.

While Anchorage Construction employment remained flat in 2015 with 8,300 jobs, preliminary data for the first half of 2016 show marked reductions with 1,000 fewer jobs reported in June 2016 compared to the same month in 2015. Activity associated with road, bridge and other federally funded construction is anticipated to be more robust than private sector construction projects, which have seen noticeable declines in the last several months.

Overall Government employment (Federal, State and Local) of approximately 29,200 jobs was slightly down between 2014 and 2015; however, State of Alaska employment in Anchorage fell by slightly more than 200 jobs to 10,600, a 2.1 percent reduction. Over the same period, State of Alaska employment at the statewide level fell by more than 700 jobs (2.8 percent), from 26,500 to 25,800. Compared to the same month in 2015, preliminary data for June of 2016 indicate further declines in State of Alaska employment in Anchorage (-400 jobs) and statewide (-2,000).

In 2015, Local Government employment in Anchorage expanded 2.0 percent to 10,200 jobs. Federal employment was unchanged at 8,500. Compared to the same month in 2015, preliminary data for June of 2016 shows Local (+200 jobs) and Federal employment (+300 jobs) have grown in Anchorage.

In 2016, AEDC continues to forecast overall average Anchorage employment to fall 1.0 percent, or approximately 1,600 jobs. Another decline of 1.0 percent is anticipated in 2017, representing a loss of 1,500 additional jobs. Employment is projected to show no change in 2018, and return to slight growth of 0.5 percent by 2019, a result of improving economic conditions. By the 2018-2019 period, employment in the Oil and Gas, State Government and Construction sectors will have reached their low points related to the economy's adjustment to lower oil revenue. At that point, various sources of growth in the economy would be expected to result in a net increase in 2019 employment.

PERSONAL INCOME

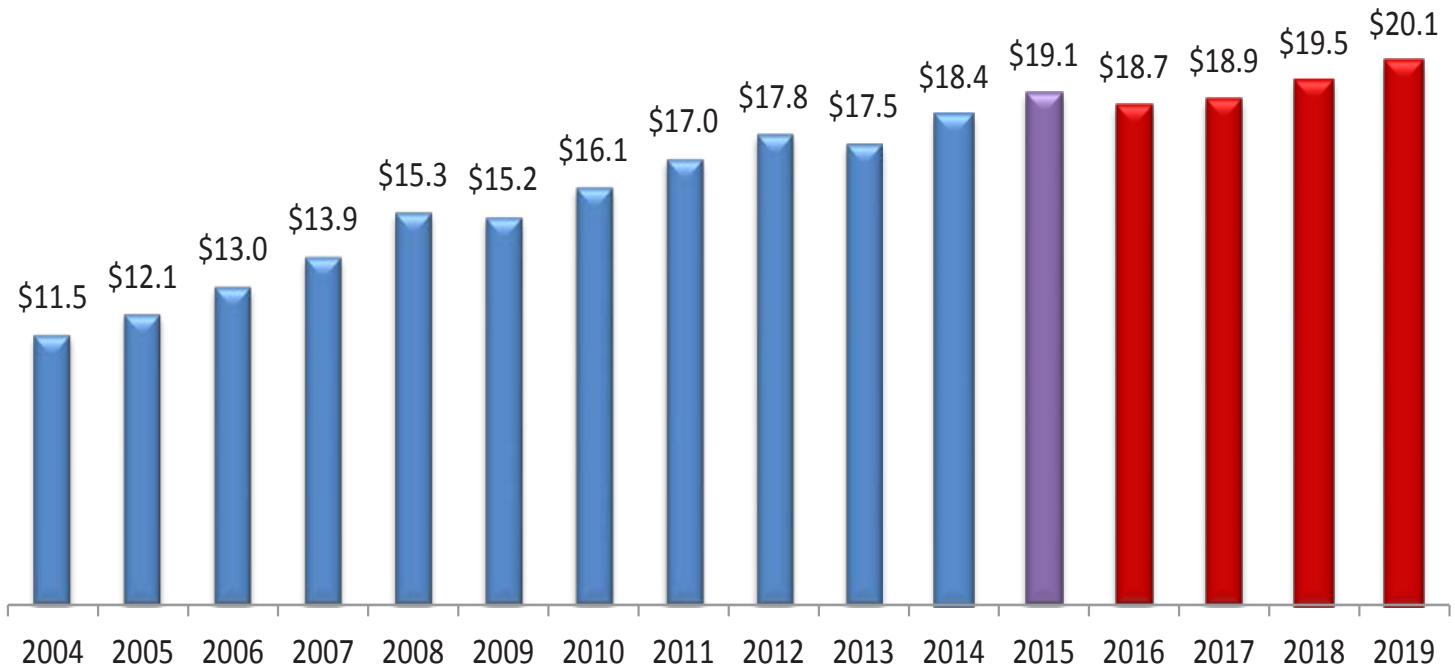
After falling slightly in 2013, the personal income of Anchorage residents (the sum of all wages and benefits, investment income and government transfers) increased 5.0 percent in 2014 to \$18.4 billion. Wages and benefits (which account for nearly 70 percent of total personal income) increased 3.1 percent to \$13 billion. Investment income such as dividends, rental income and interest, increased 3.2 percent to \$3.2 billion. Government transfers increased 20 percent to \$2.6 billion, driven in part by a doubling of the PFD from \$900 to \$1,884.

From 2003 to 2014, the annual average growth rate of personal income in Alaska (+5.2 percent) and Anchorage (+4.9 percent) has been higher than the national rate (+4.1 percent); however, in 2012 and 2013, the national growth rate surpassed the

Alaska and Anchorage rates, most notably in 2013, when personal income grew at 1.2 percent nationally compared to a decline of 1.1 percent in Alaska and 1.7 percent in Anchorage. While the Alaska and Anchorage growth rates were higher than the national rate in 2014, preliminary data for 2015 indicates personal income at the national level economy grew faster than in Alaska.

With a record PFD (\$2,072) in 2015, AEDC estimates personal income growth for Anchorage residents increased by 3.8 percent in 2015; however, with job losses and a possibly lower PFD (\$1,000), personal income is expected to fall 2.0 percent in 2016. Slight growth of 1.0 percent is expected in 2017, before a return to approximately 3.0 percent annual growth through 2019.

ANCHORAGE PERSONAL INCOME, 2004-2019 (\$ BILLION)



Source: United States Bureau of Economic Analysis, 2004-2014; McDowell Group forecast, 2015-2019.

ANCHORAGE INTERNATIONAL AIRPORT

Ted Stevens Anchorage International Airport (ANC) handles the vast majority of Alaska's air cargo and passenger traffic. An important threshold was crossed in 2015, when 5.5 million passengers transited the facility, marking a return to pre-Great Recession (2007-2009) levels. Air freight volumes continued to increase in 2015, rising to an eight-year high. ANC supports substantial direct and indirect economic activity in Anchorage and air passenger and freight volumes are important indicators of visitor industry strength and consumer and business activity.

While low energy prices are fiscally challenging for the state economy, jet fuel is one of the airline industry's main expenses. Falling jet fuel prices have contributed to lower fares and more air passengers, which benefited both passenger and air freight carriers. Over the past five years, more than 600 million gallons of jet fuel and other petroleum products have been used annually at ANC.

PASSENGER VOLUMES

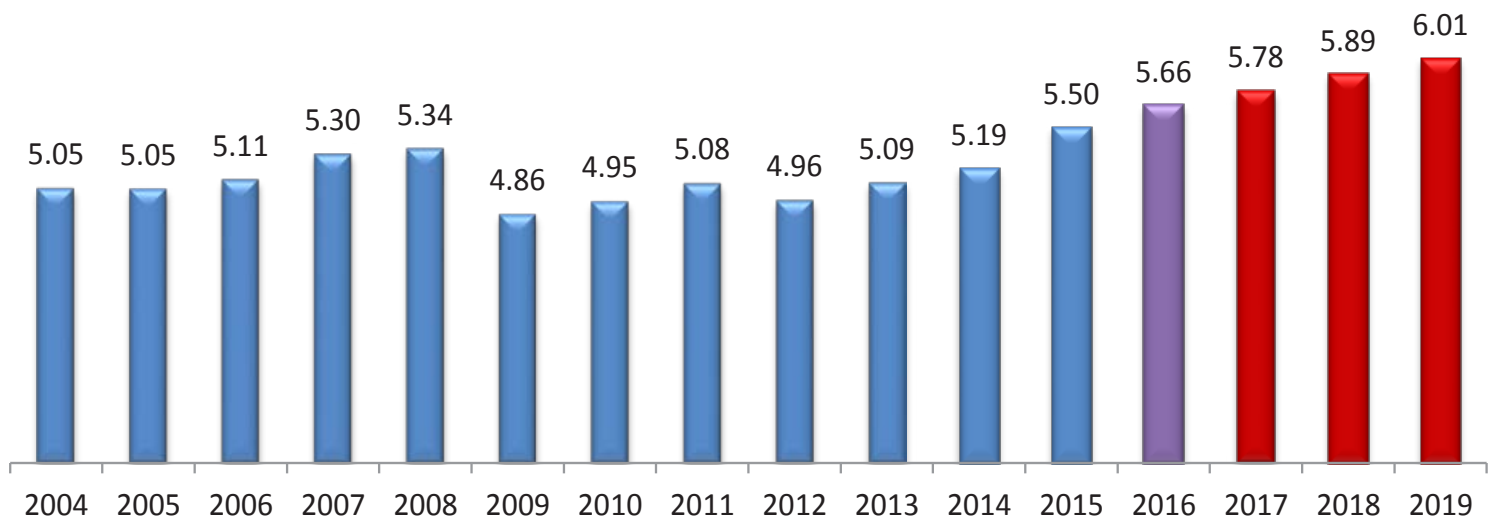
Total air passenger volume (enplaned, deplaned and transiting) increased 6.0 percent from 2014 to 2015, a higher rate than the five-year average of 1.4 percent growth. In fact, the 5.5 million visitors passing through ANC in 2015 represent the highest annual volume ever recorded.

Data through the first half of 2016 indicate the possibility of another record-breaking air travel year. The highest level of passenger activity in 2015 occurred on July 21; in 2016, the same level of activity was observed three weeks earlier. A healthy summer visitor season is bolstering passenger volumes at ANC,

including independent visitors as well as cruise passengers arriving or departing from ANC as part of their northbound or southbound cruise. These market dynamics are anticipated to outweigh reduced business and State of Alaska government travel.

Anticipating a strong 2016 visitor season, AEDC sees 2016 air passenger volume climbing to 5.7 million, an increase of 3.0 percent. Slightly lower growth of 2.0 percent is expected from 2017 to 2019, when total air passenger volume of more than 6.0 million is anticipated.

AIR PASSENGER VOLUME, 2004 - 2019
(MILLIONS)



Source: Ted Stevens Anchorage International Airport, 2004-2015; McDowell Group forecast, 2016-2018.

AIR FREIGHT VOLUMES

Strategically located within 9.5 hours of most major international markets in Asia and Europe, ANC is regularly among the top five global airports in terms of air freight tonnage. Freight volume (including enplaned, deplaned and transiting cargo) of 2.9 million tons in 2015 represented a nine-year high, and a 6.0 percent increase over 2014. In 2015, 75 percent of all cargo moving through ANC was transiting on planes landing in Anchorage to refuel. Freight loaded onto planes accounted for 13 percent and freight unloaded totaled nearly 12 percent.

The primary factor driving the growth spike observed in 2015 was a longshoreman labor strike on the West Coast which caused disruptions in marine supply chains. ANC benefited as time-sensitive shipments were temporarily transported by air to avoid these disruptions.

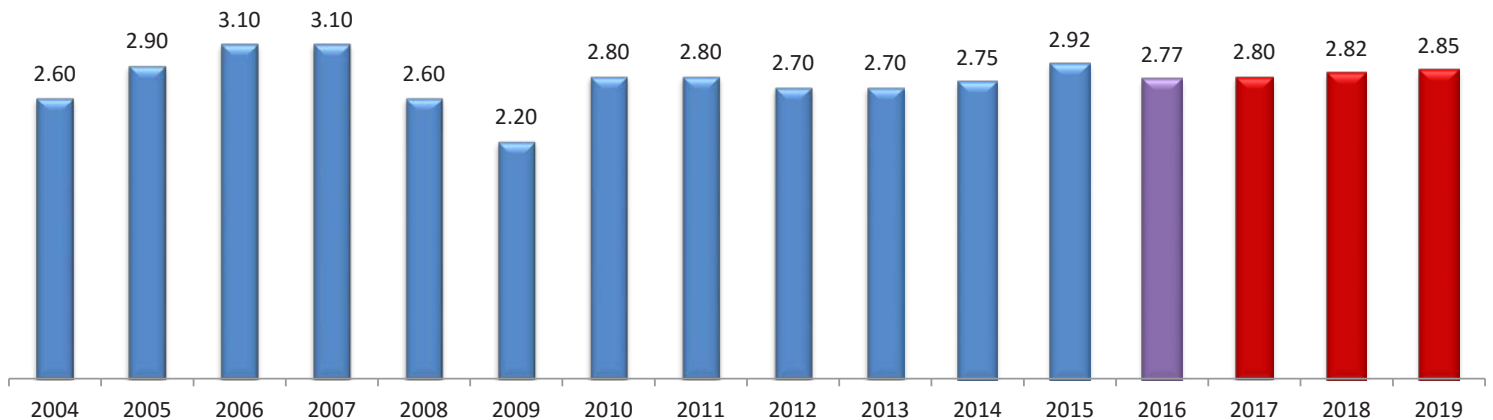
In 2015, the average cargo plane transiting ANC held 76.7 tons of freight, above the previous five-year average of 72.7

tons. Larger aircraft replacing lower-capacity planes explain this increase.

While a relatively strong domestic economy will continue to support air cargo volumes, slowing international growth may dampen air cargo growth. The World Bank recently revised its forecasted 2016 global economic growth to 2.4 percent, a 0.5 percent reduction from its previous forecast. China's forecasted 6.7 percent annual growth is a notable departure from the nearly 10 percent annual average growth experienced in the previous decade.

Absent West Coast port disruptions, AEDC anticipates freight volumes to return to a "normal" level in 2016, down 5.0 percent compared to 2015. Annual growth of 1.0 percent is anticipated through 2019.

AIR FREIGHT VOLUME, 2004-2019
(MILLION SHORT TONS)



Source: Ted Stevens Anchorage International Airport, 2004-2015; McDowell Group forecast, 2016-2019.

PORT OF ANCHORAGE FREIGHT VOLUME

The Port of Anchorage (POA) handled 3.8 million tons of cargo in 2015, an increase of 9.3 percent over 2014. The primary driver of this increase was petroleum products delivered by ship – a category that nearly tripled to 1.6 million tons and accounted for 42 percent of all volume. Freight delivered in vans, flats and containers remained the largest category at 45 percent (1.7 million tons). Volume in this category declined by 7.0 percent (130,000 tons) from 2014 to 2015. Cement, other petroleum and other freight totaled approximately 500,000 tons.

Petroleum shipments are playing an increased role at the port, driven by reductions in refining activity within the state. Major developments include the closure of Flint Hill's North Pole refinery in 2014, which provided much of ANC's jet fuel, and maintenance on Tesoro's Kenai refinery in 2015. While just four tankers called in 2013, 32 tankers called in 2015. There were eight cruise vessel port calls in Anchorage in 2015, the same as in 2014.

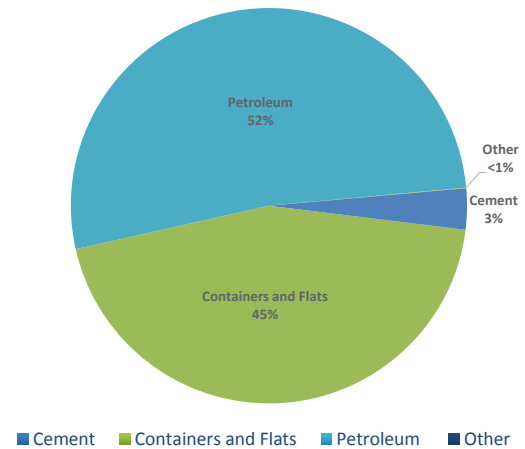
Private investment at the port has helped increase the capacity of the port and diversify products entering the facility. Alaska Basic Industries has tripled its cement storage capacity with the addition of a 40,000-ton storage dome. Delta Western's 360,000-barrel storage facility will allow transshipment of methanol to the North Slope, a product never before moved in significant quantities at POA.

Total POA volume through May of 2016 is 5.0 percent (74,000 tons) lower than the same period in 2015, with most of the reduction resulting from less petroleum delivered by ships to the port; however, port officials anticipate a year-end volume similar to 2015. Tesoro's pipeline from their Kenai refinery is back in service following a six-week maintenance outage in 2015; and 30 oil tanker calls are expected in 2016.

According to commercial shippers and other industry contacts, the best indicators of port volume are construction activity,

the unemployment rate and population levels statewide and in Anchorage. The Institute of Social and Economic Research is forecasting an 18 percent reduction in construction

PORT OF ANCHORAGE FREIGHT VOLUME, BY PERCENT AND TYPE, 2015

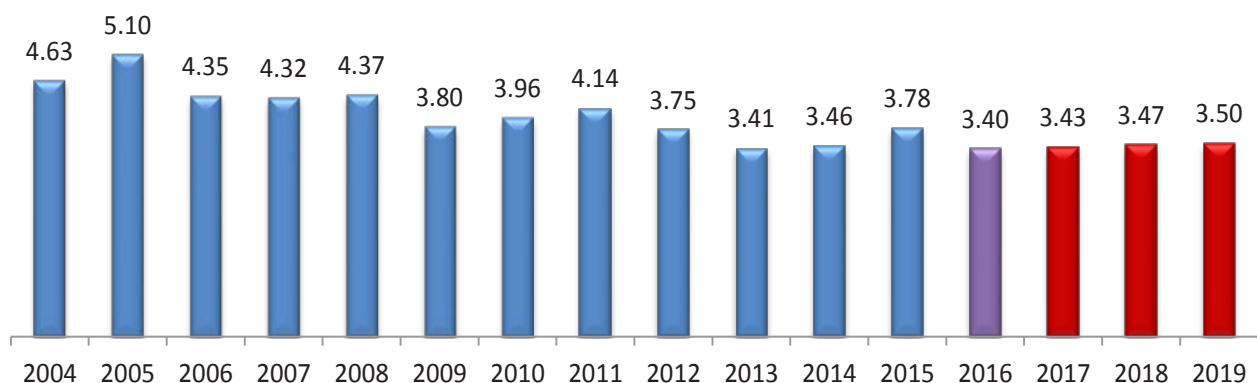


Source: Port of Anchorage, 2016.

spending across Alaska in 2016, which will reduce the amount of construction supplies entering POA.¹ At the same time, increases in unemployment and slowing population growth in Southcentral could result in less consumer spending and lower in-bound freight volumes.

Following strong growth in 2015, AEDC expects POA activity in 2016 to fall approximately 10 percent to 2013 levels. As indicated by factors outlined in the employment section, a return to job growth will increase port volume, with modest growth of 1.0 percent annually expected for 2017 through 2019.

PORT OF ANCHORAGE VOLUME, 2004-2019 (MILLION SHORT TONS)



Source: Port of Anchorage, 2004-2015; McDowell Group forecast, 2016-2019.

¹ http://www.iser.uaa.alaska.edu/Publications/2016_01-2016ConstructionForecast.pdf

BUILDING PERMIT VALUES

Building permit values are an indicator of commercial, residential and government (not including federal) building construction projects likely to take place in the near future. This data is used as a proxy for near-term building activity with the understanding that not all permitted projects are completed. Year-to-year fluctuations in permit data can be significant, with increases or decreases of 20 percent or more not uncommon.

In 2015, building permit values totaled \$549 million, a 19 percent reduction from 2014 but a 6.2 percent increase over the average of the previous five years. Total permit values in 2014 were the highest since 2007.

Residential permit activity was \$175 million and represented 32 percent of the 2015 total. Including single-family homes, duplexes and renovations and additions, this category fell 10 percent from 2014 but was 17 percent higher than the average of the previous five years.

Permitting of commercial projects such as new office buildings, store renovations and residential buildings with more than two housing units were 53 percent of the total or \$289 million in 2015. This represents a decrease of 25 percent compared to 2014 but is only 4.8 percent below the average of the previous five years.

Government-related construction permits accounted for 16 percent of all activity or \$85 million, a decrease of 15 percent from 2014 but 34 percent above the previous five-year average. Government-related building permits through the first quarter of 2016 totaled \$109 million, a slight reduction compared to the same period in 2015 (\$121 million).

Between 2014 and 2015, single-family home prices in Anchorage increased approximately 2.9 percent, a rate slightly higher than the average change over the previous five years. The inflation-adjusted average price of a home increased from \$263,000 in 2000, to \$371,000 in 2015, an average increase of 2.4 percent per year.

Building permit activity through the end of May of 2016 is higher than the same period last year; a result of several large projects including a \$41 million, 202-unit patient-housing facility near the Alaska Native Medical Center and \$52 million Southcentral Foundation dental clinic. School renovations slated for 2016 include projects at Turnagain and Gladys Wood elementary schools worth a combined \$23.7 million. Other publicly funded projects include the \$4 million Fire Station 41 in Girdwood and a \$2.9 million wastewater facility for the Municipality of Anchorage. The \$5.5 million Alaska Pacific University medical office building, \$3.4 million Ben Boeke ice arena and \$19.7 million Staybridges Inn & Suites located in midtown Anchorage also are anticipated for 2016. Cook Inlet Housing Authority is scheduled to begin construction of a \$4.6 million 33-unit, mixed apartment and retail building on the corner of Spenard Road and 36th Avenue in July of 2016.

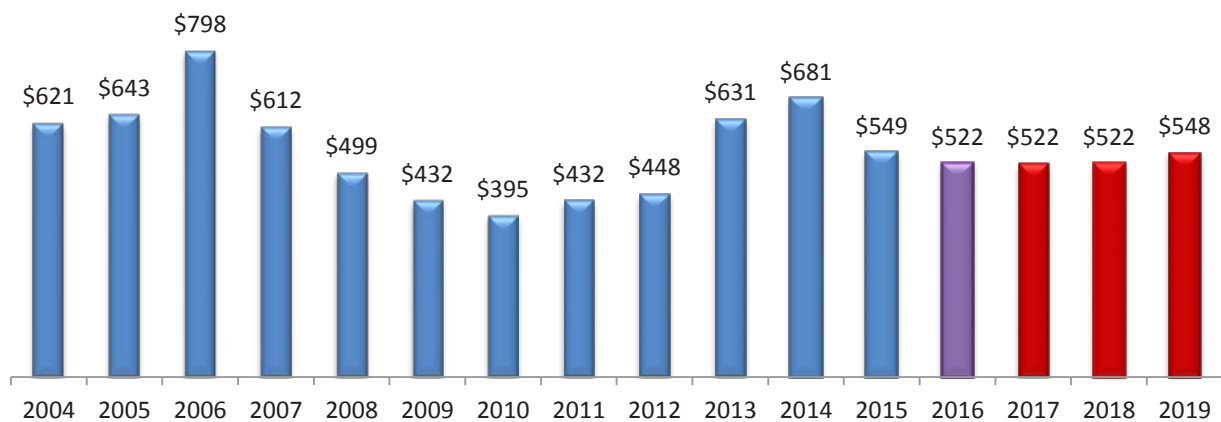
Driven by reduced public and private spending, AEDC anticipates building permit values to fall 5.0 percent in 2016, before flattening in 2017 and 2018. Slight growth of 5.0 percent is expected in 2019, as economic conditions improve.

ANCHORAGE RESIDENTIAL HOUSING MARKET INDICATORS, 2014 & 2015

Category	2014	2015
Average monthly rent	\$1,250	\$1,255
Vacancy rate	3.2%	3.9%
Average single-family home	\$360,965	\$371,423
Average mortgage rate	4.19%	3.87%

Source: State of Alaska, Department of Labor; Alaska Housing Finance Corporation

BUILDING PERMIT VALUES, 2004-2019 (\$ MILLIONS)



Source: Municipality of Anchorage, 2004-2015; McDowell Group forecast, 2016-2019.

VISITOR INDUSTRY

STATEWIDE PICTURE

Summer

A record number of out-of-state visitors traveled to Alaska in summer 2015, representing a 7.3 percent increase from summer 2014 (from 1.7 million in 2014, to 1.8 million visitors), according to the Alaska Visitor Statistics Program.¹ Every major transportation market experienced growth, including a 12.7 percent increase in air visitors; a 3.3 percent increase in cruise ship passengers; and a 13.9 percent increase in highway/ferry visitors.

Fall/Winter

The 2014-15 fall/winter visitor season (October through April) was up by 5.1 percent compared to the previous fall/winter, from 273,000 to 286,800 visitors. Statewide data is not yet available for the 2015-16 fall/winter season. Although only 14.7 percent of Alaska's out-of-state visitors arrive during the fall/winter season, 73 percent of these visitors travel to Anchorage (compared to 50 percent in summer).

ANCHORAGE PICTURE

Summer

Anchorage had very positive indicators for the summer of 2015. Outbound domestic enplanements (airplane passengers exiting Alaska from ANC on domestic flights) increased by 10 percent, from 838,000 to 921,000.

International enplanements at ANC were up by 4.3 percent between summer 2014 and summer 2015, from 19,800 to

20,600. The two biggest international carriers, Condor and IcelandAir, were up by 5.1 and 8.0 percent, respectively; however, it is important to understand 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.

Bed tax revenues showed a strong increase for the second year in a row: up 5.9 percent in summer 2015 (following an 8.0 percent increase in 2014). RV tax revenues showed a particularly strong increase at 16 percent. The only tax indicator showing no growth was rental vehicle taxes, which were flat between summer 2014 and summer 2015.

Fall/Winter

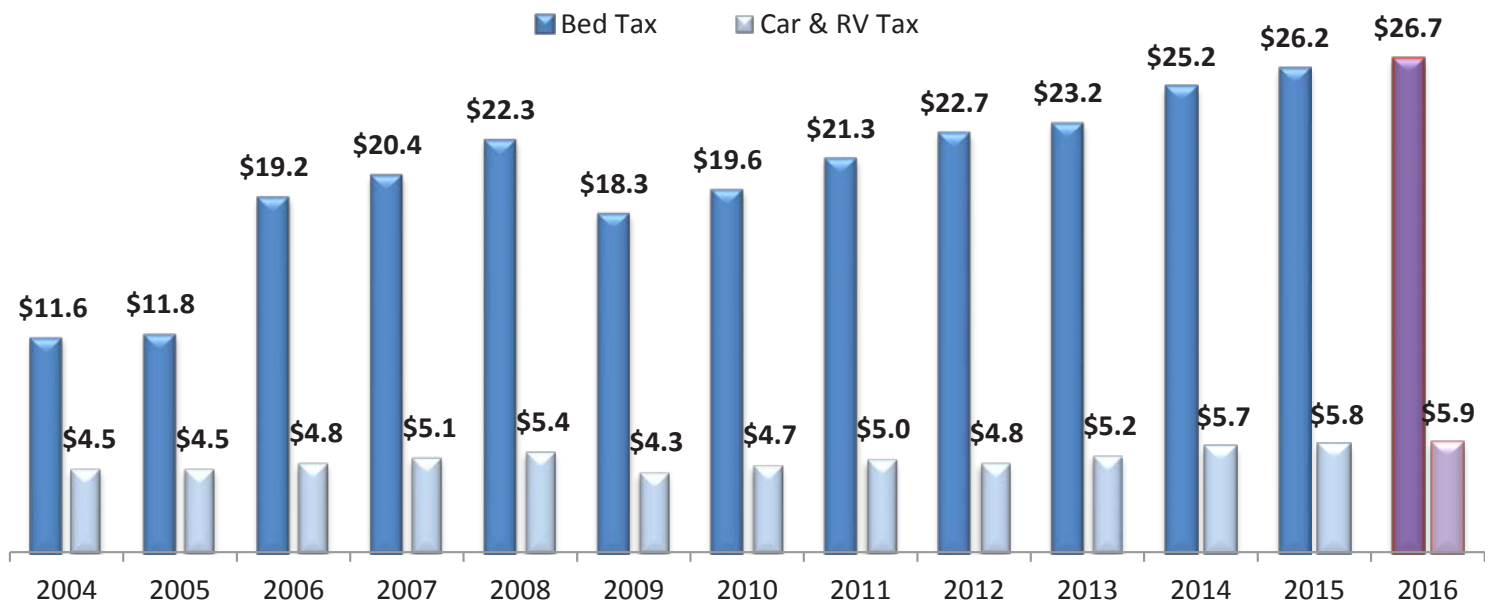
Anchorage-specific indicators for the fall/winter season of 2014-15 include a 5.6 percent increase in outbound domestic enplanements. There were no international enplanements at ANC in fall/winter 2014-15.

More recently, Anchorage bed tax revenues for fall/winter were down by 1.8 percent (from 2014-15 to 2015-16). Vehicle rental tax revenues were up by 2.4 percent over the same period. In addition, Visit Anchorage reports that 2015-16 convention attendance was up by 6.5 percent over 2014-15.

OUTLOOK

The cruise visitor segment of Anchorage's visitor market is likely to fall short of last season in terms of cruise visitor traffic to Anchorage. While statewide cruise traffic will be up by 2.0

ANCHORAGE BED TAX + CAR/RV RENTAL TAX, 2004-2016 (\$ MILLION)



Source: Municipality of Anchorage, 2004-2015; McDowell Group estimate, 2016.

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.

percent in 2016, cross-gulf traffic (ships calling at Whittier or Seward) is projected to be down by 3.0 percent, equating to a loss of roughly 10,000 visitors (virtually all cross-gulf passengers visit Anchorage). In terms of direct port calls, Anchorage will receive nine port calls from the *MS Maasdam*, a Holland America ship with a capacity of 1,250 passengers, equivalent to the direct port call volume of 2015.

Visit Anchorage representatives report a slow start to the summer 2016 season in terms of independent visitors, with lodging businesses recording flat or slightly decreased volume for May/June; however, the July/August period is anticipated to rebound, with bookings strong in the second half of the summer season.

In terms of the upcoming fall/winter season, a downturn in business travel is expected due to decreased oil and gas activity, as well as restricted State of Alaska travel. Convention business is likewise projected to be down, by about 12 percent, in part because the large Alaska Federation of Natives conference will rotate to Fairbanks (from Anchorage) in fall 2016. Looking ahead to summer 2017, statewide cruise passenger volume is expected to grow by approximately 1.0 percent. There are early indications that Southcentral and Anchorage specifically could benefit from that growth, with one major cruise line that moves passengers through Anchorage looking to add a week to its 2017 season.

The U.S. Travel Association's most recent forecast predicts a modest 1.5 percent increase in domestic person trips in 2017, and another 1.7 percent for 2018.² Overseas travel is forecasted to grow at a faster rate: 4.6 percent in 2017, and 5.3 percent in 2018.

While AEDC does not forecast visitor industry volume, with current visitor activity, new room inventory and room rates, AEDC anticipates steady growth in both bed tax and car/RV rental tax revenues in 2016 (estimated at 2.0 percent).

OIL PRICES

Following a precipitous decline in oil prices, which began in the summer of 2014 and bottomed out in early 2016 at less than \$30 per barrel, oil prices recovered to approximately \$50 by mid-June. Of all markets and industries affecting Anchorage and Alaska, global crude oil market conditions are the most important to our economy.

While the recent decline in prices is notable, it is not unprecedented. Since 1970, oil prices have fluctuated significantly over short periods of time.³ The 1970s saw a more than a 240 percent increase over two years, oil declined approximately 50 percent in 1986, and prices increased 50 percent in 2000. Today's oil prices are about 50 percent below the 2014 peak.

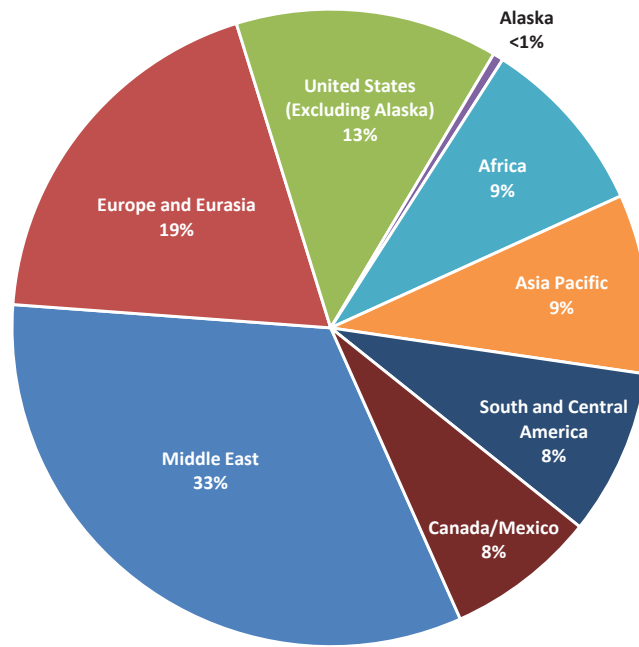
In 2015, 186 million barrels of oil flowed through the Trans Alaska Pipeline System, averaging 508,000 barrels per day. While this was the lowest amount since the pipeline was put into production, total volume declined only 1.0 percent compared to 2014, a much slower decline than the five-year average rate of 5.1 percent.

Recognizing the inherent uncertainty in forecasting oil prices, AEDC relies on a variety of forecasts from public sources, including from the Energy Information Administration, World Bank and State of Alaska. These forecasts see corrective market forces at play, contributing to slow price growth in the near-term. Based on these forecasts, AEDC anticipates prices will average about \$40 per barrel in 2016, approximately \$50 per barrel in 2017, then slowly trend up to approximately \$55 per barrel by 2019.

² "U.S. Travel Outlook" April 2016, U.S. Travel Association, www.ustravel.org

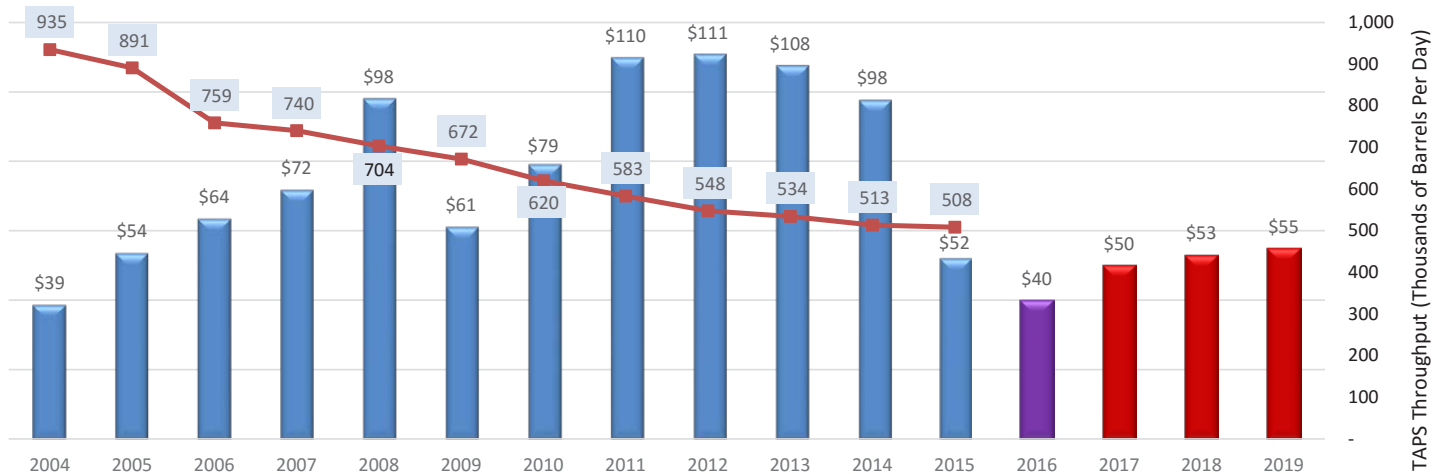
³ BP Statistical Review of World Energy, 2016.

GLOBAL CRUDE OIL PRODUCTION BY REGION, 2015



Source: British Petroleum Statistical Review of the World; Energy Information Administration.

ALASKA AVERAGE YEARLY OIL PRICES, ANS WEST COAST, \$ PER BARREL AND TRANS ALASKA PIPELINE SYSTEM THROUGHPUT, 2004-2019



Source: Alyeska Pipeline Service Company, 2004-2015; State of Alaska, Department of Revenue, 2004-2015; McDowell Group forecast, 2016-2019, based on averages of Energy Information Administration, World Banks and State of Alaska forecasts.

CHALLENGES AHEAD

Halfway through 2016, it is evident Anchorage has entered the economic downturn forecasted for this year. Employment is trending down in key, oil revenue-dependent sectors. Growth elsewhere in the economy is offsetting some of the decline, with the net effect a modest employment downturn of less than 1.0 percent.

Clearly the economic fallout of the sharp decline in oil prices is yet to fully materialize. The direct, indirect and induced “multiplier effects” of a loss of over \$3 billion in annual state spending, and a billion less oil industry spending will take time to ripple through the economy.

While further decline might reasonably be expected in 2017, we can remind ourselves that we are much better equipped to navigate rough water than in our past. Our economy is more resilient and much better diversified than in the 1986-88 recessionary period, when Anchorage lost 12,400 jobs, or about 10 percent of total employment. That period saw population and employment at the state-level decline by 5,000 residents (0.9 percent) and 19,000 wage and salary jobs (7.3 percent), respectively. Today, low unemployment rates, strong demand for housing, a healthy banking sector and strength elsewhere in the economy promise to keep Alaska clear of the damage inflicted on the economy when oil temporarily dropped to \$9 per barrel 30 years ago.

To be sure, uncertainty continues to rule, whether in the halls of the Alaska State Capitol or in the global economy. Investment in Alaska will continue to be constrained until our fiscal house is in order and we have a sustainable revenue structure in place. The recent “Brexit” vote added a dose of uncertainty to the Eurozone economy, with few analysts expecting anything but down side results. China continues to underperform as a market for natural resources. A strong U.S. dollar is making Alaska products less attractive – relative to competitors - in the international marketplace.

Looking ahead, key issues include:

- The value of capital projects in the construction “pipeline” from state government sources will continue to dwindle as the state capital budget drops to a level necessary to maintain federal matching funds, mainly for highway construction.
- Timing of gasline development remains elusive as we await word on moving the project to the billion dollar-plus front-end engineering and design phase.
- JBER force reductions, while postponed for the time being, remain a possibility. Nearly 2,700 soldiers and civilian employees, and a total military-related population of 5,000, are at stake. The military presence in Anchorage is critical with more than 11,600 active duty members and 18,200 dependents living in the city, according to ADOLWD.
- A lower PFD will reduce disposable income available to Alaskans; however, it is important to note that the Governor’s \$1,000 dividend cap, while significantly lower than what would be paid out in the absence of the cap, is above or on par with the dividend paid out in previous years, including 2012 (\$878) and 2013 (\$900).

As we look for signs of strength and durability in the economy, we note:

- Unemployment remains low at 5.3 percent in May 2016. While up slightly from May a year ago, that rate is level with the five-year average of 5.3 percent.
- Modest oil and gas investment activity continues in the state with some exploration and development work occurring in Cook Inlet and on the North Slope.
- The Health Care sector remains a source of employment growth and investment. The sector has added 2,000 jobs over the past five years.
- Alaska’s Visitor Industry is a source of stability and growth, with total regional employment of nearly 20,000.
- Federal Government employment has stabilized; in fact, after many years of steady decline, growth in Federal employment is evident in the latest available data.

In last year’s 3-Year Outlook, AEDC laid out a spectrum of possibilities for the Anchorage economy, all depending on expectations about oil prices, state spending, gas line development and the impact of military force reductions. AEDC suggested the community should expect some decline in those sectors most closely tied to State government spending and oil industry spending, but also expect resiliency and underlying strength in other sectors, preventing significant downturn in the economy overall. That remains AEDC’s message today.



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