



3-YEAR OUTLOOK REPORT | 2019

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This year, given the level of uncertainty in our local and state economy, AEDC is temporarily providing our customary 3-Year Outlook Report in an undesigned format. For us, and our partners at the McDowell Group, providing up-to-minute, accurate information is the utmost priority. A final version will be available shortly after our July 31st event. Content will not change.

Introduction

Last year's 3-Year Forecast headline read: "A growing body of evidence indicates the recession is likely near its bottom and the local economy is poised for recovery." Today's reality no longer supports such optimism.

Significant cuts to the State budget, as they stand now, essentially eliminate any chance of economic recovery and in fact promise to keep the local economy in recession for two to three more years. As we look ahead, while the news is not all bad, sources of renewal in the economy cannot compensate for the damage being done by Alaska's ongoing policy-induced recession.

This 3-Year Forecast describes the expected economic outfall in Anchorage from State budget cuts. The \$138 million reduction to the University of Alaska (UA) budget will be particularly damaging in the near and long-term. How UA administrators address a 40 percent budget cut remains to be determined, but major program and staffing reductions will be required. In addition to harmful near-term economic impacts, significant cuts to the university system will stunt Alaska's continuing efforts to build a high-quality, resident workforce. Many Alaskan students and instructors may well seek more secure opportunities elsewhere in the country.

Cuts in Medicaid funding (including loss in federal funds) total over \$77 million. The health care sector has been the source of steady employment growth statewide and in Anchorage over the past decade. That growth has already slowed and cuts to Medicaid are likely to result in the first losses in health care employment in more than a decade. Health care and social services account for about 25,000 jobs in Anchorage and \$1.4 billion in annual wages.

Anchorage's retail sector continues to suffer, mainly the result of national retailers closing Anchorage outlets. Retail employment declined by 1,100 jobs between 2015 and 2018. Data for the first few months of 2019 show the decline continuing, and with the planned September closure of another large retail outlet (Nordstrom), the decline will persist into late 2019, at least.

On a more positive note, industries most affected by the oil-recession; oil, construction, and professional services, are all at least stable or on the rebound. Supported in part by earthquake repair work, construction employment is up about 9 percent through the first half of the year. Employment in professional and business services through the first half of 2019 is even with last year, which is good news after the loss of more than 3,000 jobs in the sector over the past three years. Oil industry employment in Anchorage is showing a slight uptick.

Another piece of good economic news is the continuing growth in Alaska's visitor industry. Alaska cruise passenger traffic was up 7 percent in 2018 and will be up another 17 percent in 2019, with further growth expected in 2020. A strong visitor industry is contributing to record levels of passenger traffic at ANC.

This forecast articulates AEDC's deep concern that these glimmers of good news will not be enough to shine through the dark economic clouds forming from Alaska's budget gridlock. Meantime, AEDC will continue to offer its best assessment of things to come.

Population

In 2018, Anchorage's population totaled 295,365, down about 2,400 residents (0.8 percent) from the prior year. While there were 4,100 births and 1,700 deaths in 2018, the city experienced a net migration loss of 4,800. An overall loss of approximately 5,700 residents since the peak population of 301,034 in 2013 has brought the Municipality back to 2011 levels. Reduced employment opportunities in Anchorage and elsewhere in Alaska combined with historically low unemployment in the Lower 48 are among the key factors resulting in population decline.

Population trends are directly connected with the strength of the economy and employment opportunities. State budget-induced job losses in 2019 and 2020 will likely result in further population decline. AEDC expects a decline of approximately 1,000 residents (0.3 percent) in 2019, with further decline of 1,500 (0.5 percent) in 2020. These losses will return Anchorage to 2010-era population levels.

If some of the Governor's FY2020 vetoes are restored, these population losses could be moderated. If the budget stands, with more than half a billion dollars in FY2020 cuts, and further cuts are made in FY2021, the declines in the coming three years will be greater. Based largely on a high level of uncertainty, this forecast assumes no change in population in 2021 and 2022.

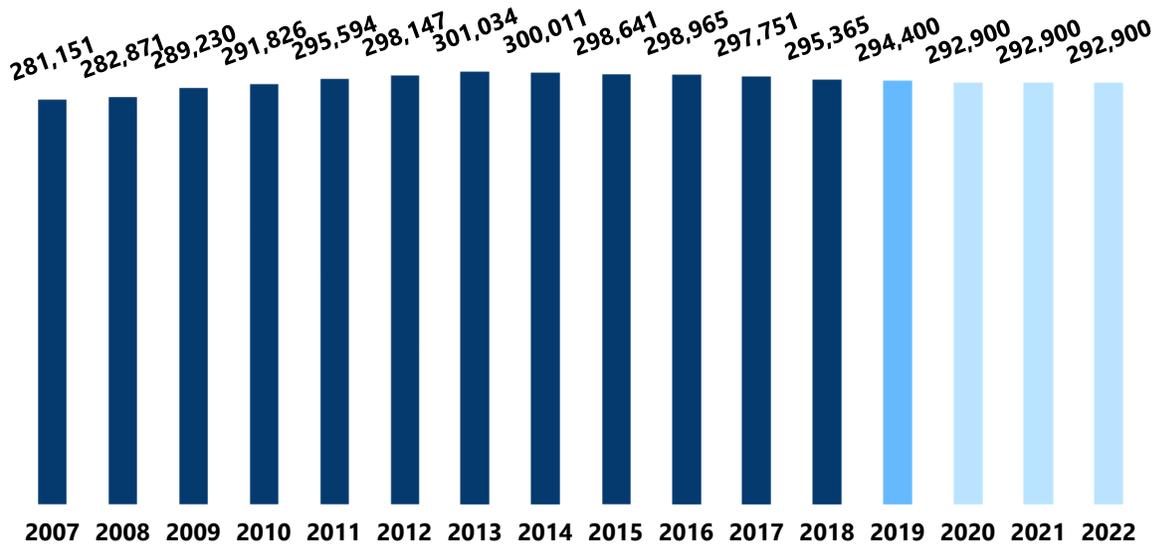
Here are several population change-related details:

- A shrinking labor force in Anchorage may be signaling further population decline in 2019. Through the first five months of this year, the size of the local labor force is down 1.6 percent from the same period in 2018 (a decline of 2,400 workers). Between 2013 and 2018, a total labor force decline of 6,500 workers parallels the total population decline of about 5,700 over the same period.
- Most population change in Anchorage is related to movement into and out of the state. Over the past five years, an annual average of about 20,000 people left Anchorage for the Lower 48 while 16,000 non-Alaskans became residents of Anchorage. Anchorage's net outmigration to the Lower 48 totaled about 20,000 residents over the five-year period. National unemployment rates below 4 percent reflect a strong and attractive job market.
- Relocation between the Mat-Su Valley and Anchorage (in both directions) accounts for roughly a third of Alaska's intrastate migration in any given year. Between 2014 and 2018, at least 15,000 Anchorage residents moved to the Mat-Su Valley while 9,200 Mat-Su Valley residents moved to Anchorage. This movement represents a five-year low for Anchorage residents leaving for the Mat-Su Valley and a five-year high for Mat-Su Valley residents moving to Anchorage.
- Several factors may be driving that loss to Mat-Su. Housing cost and availability is likely a factor. Another may be employment opportunities in the borough. Mat-Su has added 2,250 jobs over the past five years (mainly in health care and the visitor industry) while Anchorage as lost about 5,600. It is worth noting how important Anchorage is in supporting the Mat-Su economy. The Mat-Su economy provides about 23,650 jobs, yet 44,000 Mat-Su residents are employed. Some residents are employed in shift

work on the North Slope or Alaska mines, but the vast majority of Mat-Su residents not working in the borough are employed in Anchorage.

- While the total population of Anchorage has declined in recent years, population change at the neighborhood level has varied. Between 2013 and 2018:
 - The Core Downtown area’s population declined by 407 people (nearly 40 percent); Spenard and Midtown lost 386 and 425 people respectively, a 10 percent decline for each.
 - The Ptarmigan area expanded by 800 people (13 percent), while the population of Lower Hillside grew by 600 (8 percent) and Muldoon by 220 (4 percent).
- Anchorage’s population is getting older. In the past five years, the age 65+ cohort has increased from 26,150 (9 percent of the population) to 32,892 people (11 percent). By 2030 these older residents are projected to account for 17 percent of the population. The aging population will increase demand for healthcare, senior housing, and other senior services.

Anchorage Population, 2007-2022



Source: Alaska Department of Labor and Workforce Development (2007-2018); McDowell Group Estimates (2019-2022).

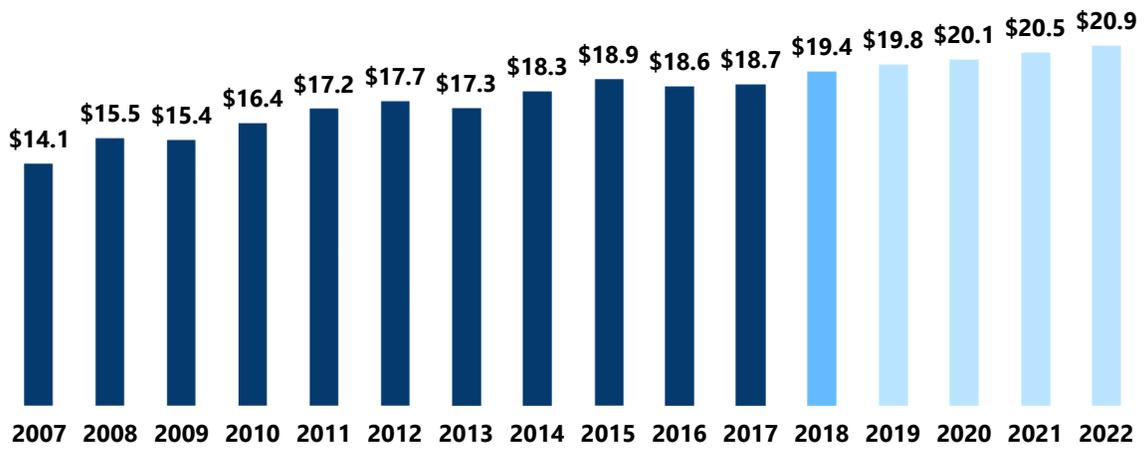
Personal Income

Alaska resident total personal income grew by 4.1 percent between 2017 and 2018. Although data specific to Anchorage has not yet been released, personal income in the Municipality generally follows statewide trends. Anchorage residents accounted for about 43 percent of total personal income in Alaska in 2017.

AEDC anticipates total personal income in Anchorage will grow by about 2 percent in 2019, essentially keeping pace with inflation but not growing in real dollar terms. We expect some growth in investment income this year softened by slower growth in wage earnings. In 2020 a slower rate of growth is anticipated, about 1.5 percent, then back to 2 percent through 2022, though with significant uncertainty. The Permanent Fund Dividend (PFD) is a wild card in these forecasts. For each \$1,000 paid out in the form of a PFD, there is a 1.3 percent increase in total personal income in Anchorage in the year of the pay-out. However, while a large PFD may provide an infusion of personal income, its short-term benefits from an economy-wide perspective will not compensate for the permanent salary and benefit reductions caused by significant State budget reductions.

- In 2017 (the most recent data available), Anchorage residents had a total of \$18.7 billion in personal income. Personal income falls into three general categories:
 - Salaries and benefits (including proprietors' income): \$12.2 billion in 2017
 - Investment income (including dividends, interest and rents): \$3.7 billion
 - Personal transfers receipts: \$2.8 billion (includes the PFD)
- Anchorage residents will receive about \$400 million if the 2019 PFD is \$1,600 (equal to the 2018 dividend) or roughly \$760 million with a \$3,000 PFD.
- The net outflow of income – that is, wages earned by non-residents in Anchorage minus wages earned by Anchorage residents working outside of the municipality – was over a billion dollars for the first time in 2017. In 2017, the most recent data available, \$587 million in earnings accrued to Anchorage residents working outside the Municipality. An example of this type of worker is the Anchorage resident working on the North Slope. In the same year, non-Anchorage residents earned \$1,593 million while working in Anchorage. Examples of this category include construction workers, traveling physicians and nurses, or seasonal tour operators. As Anchorage's resident labor force continues to shrink, nonresident workers will capture a growing share of the wages generated in the local economy unless this trend can be slowed. The Anchorage resident labor force has 6,500 fewer workers than it did five years ago.

Anchorage Personal Income (\$Billion), 2007-2022



Source: Bureau of Economic Analysis (2007-2017); McDowell Group Estimates (2018-2022).

Anchorage International Airport

The Ted Stevens Anchorage International Airport (ANC) handles more passengers than all other airports in the state combined and is the 5th busiest airport in the world based on cargo volume. The airport is an important driver of local economic activity. Operations at ANC support about 22,000 jobs, or about 1 in 10 jobs in the local economy.

Located less than 10 hours by air from most of the industrialized world, ANC's geographic advantage will continue to support operations at the airport. To strengthen its competitive position in global trade, ANC significantly reduced landing fees in 2019. Further, the North/South Runway Renewal Project will provide needed capacity for the next generation of aircraft.

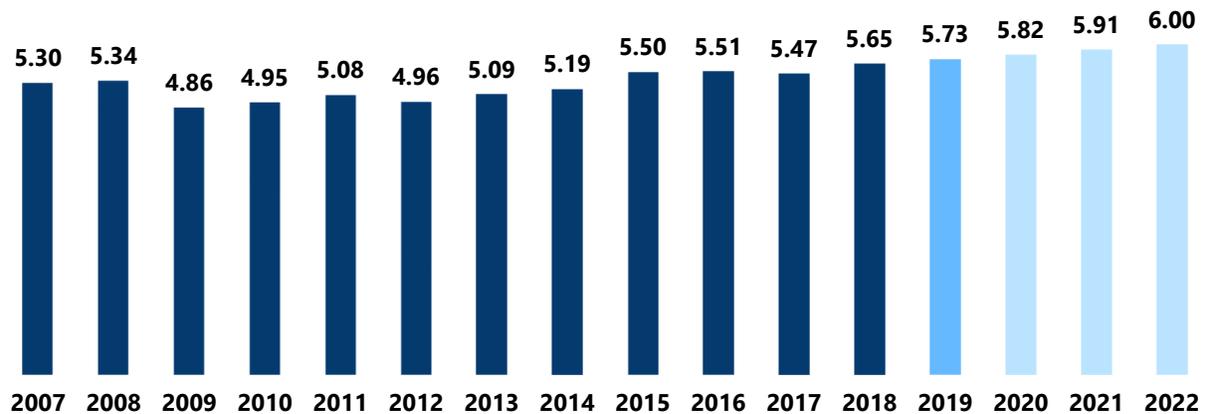
ANC's strategic location continues to attract private sector interest. Planning is underway for two projects that would add more than a million square feet of cargo handling facilities worth nearly a half billion dollars.

Air Passengers

AEDC expects 2019 passenger volume of 5.73 million, exceeding the 2018 record by 1.5 percent. Strong visitor industry activity in the state will support passenger volume growth of about 1.5 percent annually through 2022.

- Passenger volume totaled 5.65 million passengers in 2018, a 3.3 percent increase from 2017. This figure included about 2.8 million passengers that deplaned and an equal number that enplaned. About 50,000 passengers were recorded in transit.
- Through May of this year, passenger volume is up 1.4 percent from the same period in 2018.
- June through August are the busiest time of year for passenger travel. In 2018, this three-month period (a quarter of the year) accounted for 37 percent of total volume. February is typically the slowest month of the year.
- Sun Country, Allegiant Air, United Airlines, and other air carriers have started flying into Anchorage or expanded existing ANC operations. Airport officials anticipate adding gate capacity to handle increased passenger volume.

ANC Air Passenger Volume (Million Passengers), 2007-2022



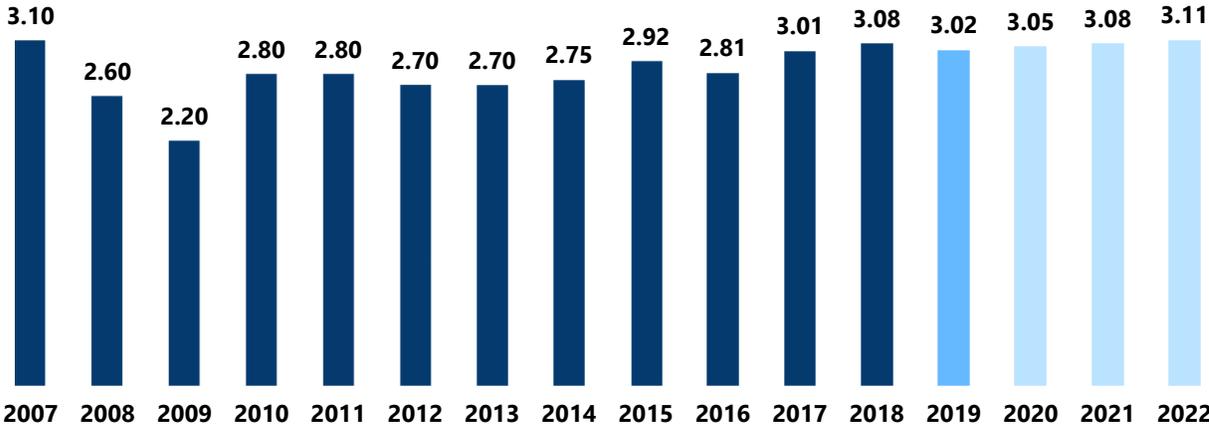
Source: State of Alaska Department of Transportation & Public Facilities (2007-2018); McDowell Group Estimates (2019-2022).

Air Cargo

After strong growth the previous two years, AEDC expects air cargo volumes to retreat slightly in 2019, down about 2.0 percent from 2018. While ecommerce growth and the airport's strategic location will support activity, trade disputes and softening global economic growth could impact volume. Absent an escalation in trade disagreements or national recession, AEDC expects steady growth of around 1.0 percent annually between 2019 and 2022.

- Cargo volume expanded to 3.08 million tons in 2018, a 2.3 percent increase from the prior year. Most of this volume comes from cargo destined for markets outside Anchorage.
- Through May of this year, cargo volume is 2.2 percent lower than the same period in 2018. While the total number of airplane landings is roughly flat, the average plane is carrying about 2.0 percent less cargo.
- Global trade disputes have the potential to impact ANC activity. Approximately one in four cargo planes that land at ANC originate in China.
- The Asia to North America air corridor is the busiest on the globe and about 80 percent of all planes traveling it stop at ANC.
- Airport operations resumed just 15 minutes after the 7.1 magnitude earthquake in November 2018.

ANC Air Cargo Volume (Million Tons), 2007-2022



Source: State of Alaska Department of Transportation & Public Facilities (2007-2018); McDowell Group Estimates (2019-2022).

Employment

Anchorage employment declined for the third consecutive year in 2018, averaging 150,137 jobs, 900 (0.6 percent) fewer than in 2017. Since hitting a record employment peak in 2013, Anchorage has shed a total of 5,600 jobs (a 3.6 percent decline).

Although the economy has shown signs of improvement since late 2018, weakness persists in some sectors and State of Alaska budget cuts will most likely derail any potential recovery. If the vetoes stand, State budget cuts will cost Alaska 4,700 jobs in total, including all multiplier effects. Perhaps 40 percent of those cuts will be in Anchorage. Anchorage will quickly lose hundreds of jobs, mainly at the University of Alaska Anchorage (one of Anchorage's largest employers) but also in health care and other sectors. Expected employment growth in the oil & gas, construction, and leisure & hospitality sectors is not likely to overcome State-budget driven declines. A spike in local spending associated with an increased PFD would be welcome in the retail sector, but few long-term jobs would be created.

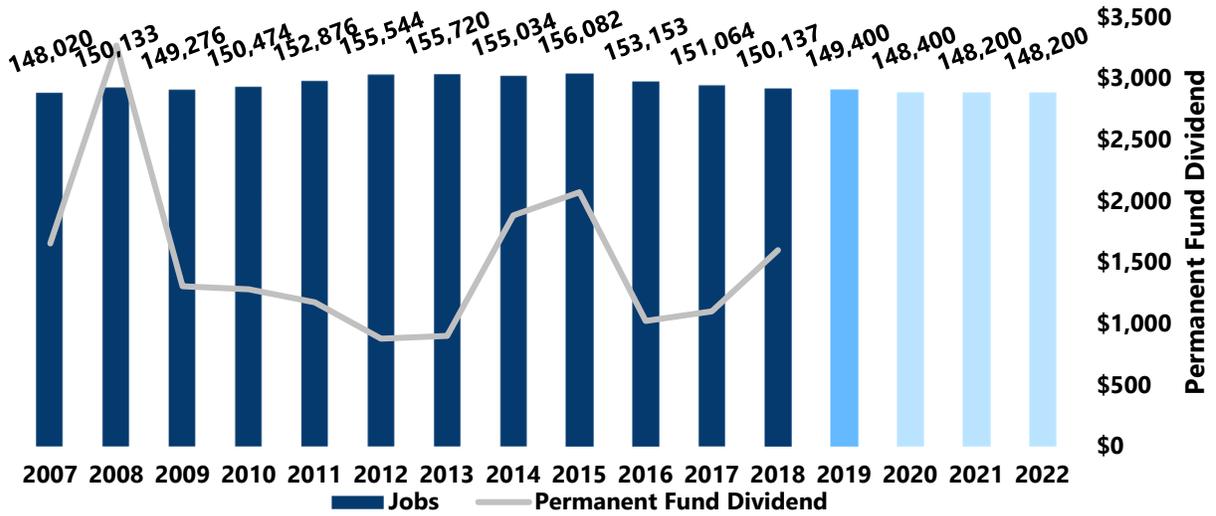
Absent some restoration of the \$600 million in state budget cuts, AEDC anticipates the Anchorage economy will remain in recession in 2019 and see a net loss about 700 jobs compared to 2018. Anchorage employment through the first half of 2019 is about equal to the same period in 2018, signaling what would otherwise be the start of anticipated economic recovery. However, employment losses in the second half of the year will push 2019 overall into negative territory (down 700). Greater losses – around 1,000 jobs – would be expected in calendar year 2020, as FY2020 budget cuts take full effect. State fiscal policy could make matters better or worse in 2020 and beyond. Assuming no further cuts from the State's FY2021 budget, Anchorage employment losses will moderate by 2021, when a decline of about 200 jobs is forecast. We see stability at best in 2022, with no net change in employment, again with the critical caveat about future state budgets.

AEDC's employment forecast reflects the net effect of a mix of positive and negative forces in the local economy, as outlined below.

- Anchorage's shrinking resident labor force is evidently presenting significant challenges for local employers. Anecdotal evidence suggests that many employers are having difficulty filling open positions. The phenomenon is not unique to Anchorage. Economic recession coupled with an aging workforce is creating a mismatch between the resident labor supply and labor demand. Increasing reliance on non-resident workers is the likely result.
- Construction employment in Anchorage has trended lower since the early 2000s. This sector was among the hardest hit by the recession, with job losses of 14 percent between 2015 and 2017. However, the sector expanded to 7,500 jobs in 2018, an increase of 300 (4.1 percent) from 2017, and early data for 2019 shows growth, supported by increased oil & gas, defense, and earthquake-repair activity.
- The oil & gas sector lost jobs in 2018 for the fourth year in a row, declining by 100 (4.4 percent) to 2,500 total jobs. However, this was the smallest annual loss since the sector began trimming jobs after oil prices fell drastically in 2014. Preliminary data for 2019 is favorable for the sector, with year-over-year gains of 100 to 200 jobs.

- Healthcare employment continued its sustained growth through most of 2018, adding 200 jobs (0.9 percent) for total employment of 29,900. However, this was the smallest increase in more than 15 years. While outpatient services and hospital jobs expanded in 2018, employment in nursing and residential care weakened. Monthly employment for the first five months of 2019 has been flat compared to 2018. Reductions in Medicaid spending by the State of Alaska will negatively impact this sector.
- In 2018, the professional and business services sector accounted for 17,200 jobs, 200 fewer jobs (2.3 percent) than 2017 and the sixth consecutive year of losses. This sector—which includes accountants, engineers, lawyers, and architects, among other professionals—has lost 3,000 jobs (15 percent) from the peak in 2013. Two-thirds of Alaska’s employment in this sector occurs in Anchorage. Early data for 2019 indicate losses are continuing, but at a slowing rate.
- Retail employment totaled 17,000 in 2018, down 500 jobs (3.0 percent) from 2017. With the closure of Sam’s Club, Toys “R” Us, and Sears, among others, the sector has shed 1,100 jobs (6.1 percent) since a peak in 2015. The closure of Nordstrom in 2019 will affect about 170 employees, though losses will be moderated by expansion at the Midtown Mall and steady occupancy rates at Tikahtnu Commons, 5th Avenue Mall, and Dimond Center. Preliminary data for 2019 indicates continuing job loss through the first five months of the year.
- Government employment in Anchorage is at a 21-year low. In 2018, government accounted for 27,500 jobs, down 400 (1.5 percent) from 2017. State government accounts for 36 percent of the total while local and federal government account for 34 and 30 percent, respectively. Budget cuts will continue to shrink State of Alaska employment, including at the University of Alaska Anchorage. UAA accounts for about 3,100 regular and temporary jobs. Preliminary data indicates government sector losses are continuing at all levels into 2019, though hiring for the 2020 Census should soon spur federal employment.
- The Anchorage leisure and hospitality sector returned to record employment in 2018, after a slight decline in 2017, with the addition of 100 jobs (0.8 percent). About 85 percent of the sector’s 17,400 jobs are in accommodations and food services; the remaining 15 percent are at fitness centers, theaters, and a variety of other entertainment and recreational sites. Early data for 2019 shows a slight increase in leisure and hospitality employment. Growth in Alaska’s visitor industry bodes well for this segment of Anchorage’s economy.

Anchorage Average Employment and Permanent Fund Dividend Amount, 2007-2022



Note: The 2008 figure includes a \$1,200 "Energy Rebate" which was proposed by the Palin Administration and approved by the Legislature.

Source: Alaska Department of Revenue (PFD; 2007-2018); Alaska Department of Labor and Workforce Development (2007-2018); McDowell Group Estimates (2019-2022).

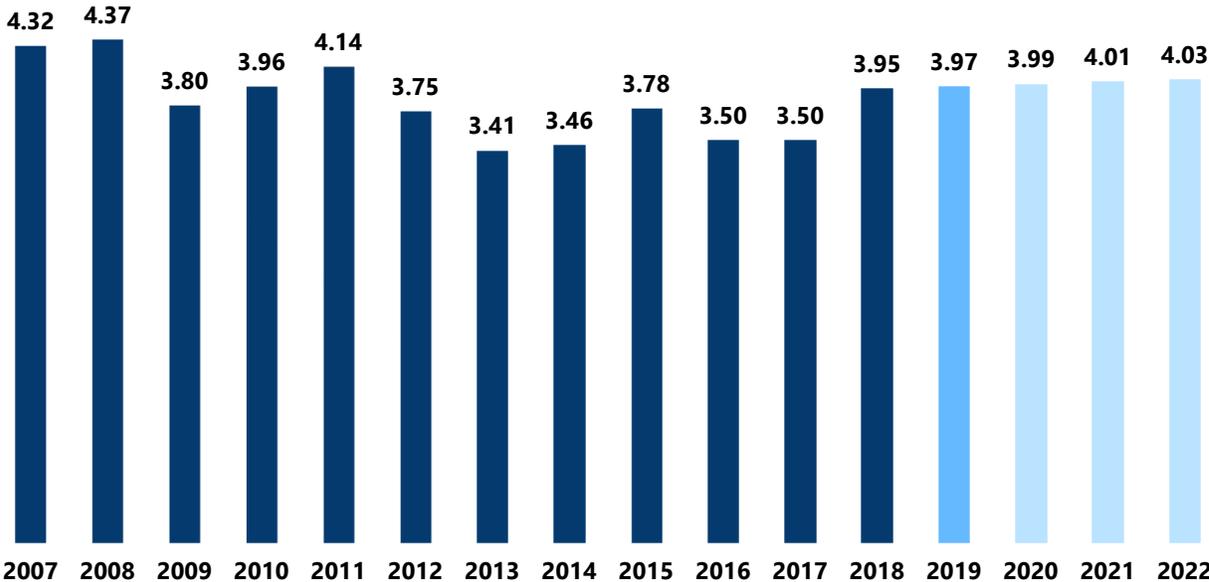
Port of Alaska

The Port of Alaska (POA) is the state's most efficient and important marine inbound freight infrastructure asset. Petroleum products, consumer goods, and cement handled by the port are distributed to every region in Alaska.

Although AEDC anticipates a 2.0 percent increase in volume for 2019, near-term job losses in Anchorage and a declining population could weigh on demand for consumer goods. Fuel volume will remain strong and potentially grow with airport demand. As a result of the prolonged recession, AEDC is revising the port's medium-term growth rate lower: from 1.0 percent per year to 0.5 percent between 2020 and 2022. The port is expected to exceed four million tons in annual freight and fuel movement by 2021, the first time since 2011.

- In 2018, 3.95 million tons of cargo was handled by POA, a 13 percent increase from 2017. Nearly all growth came from the petroleum category, which expanded 23 percent and contributed 56 percent to the total. Vans, flats, and container volume totaled 41 percent of 2018 volume with slight growth of 2.4 percent from the prior year. All other categories (mainly cement) accounted for about three percent of the total with growth flat relative to 2017.
- Through the first five months of 2019, volume at the port totaled 1.55 million tons, a pace 2.0 percent ahead of 2018. Vans, flats, and container volume is nearly nine percent higher year-to-date while the petroleum category is roughly flat.
- The Port anticipates 10 cruise ships, four dry-bulk (cement) freighters, and about 25 petroleum tankers will call on POA in 2019, a level similar to 2018.
- POA handles between one half to two-thirds of all jet fuel sold to airlines at the Ted Stevens Anchorage International Airport (ANC). With airport volume regularly exceeding 600 million gallons of jet fuel annually, ANC is dependent on efficient POA operations. The Port handles all jet fuel used by Joint Base Elmendorf-Richardson.
- Modernization efforts at the port are underway, as much of the infrastructure is well past its useful life. The initial phase of the construction effort began in 2018, with in-water dock construction targeted by the city administration to begin in 2020. However, funding for the complete modernization program has not yet been fully secured.
- Mining development elsewhere in Alaska may within the next decade spur cargo movement through POA. For example, Trilogy Metal's Upper Kobuk Minerals Project in northwest Alaska includes plans to ship mineral concentrates from the mine to POA via truck and rail.

Port of Alaska Volume (Million Tons), 2007-2022



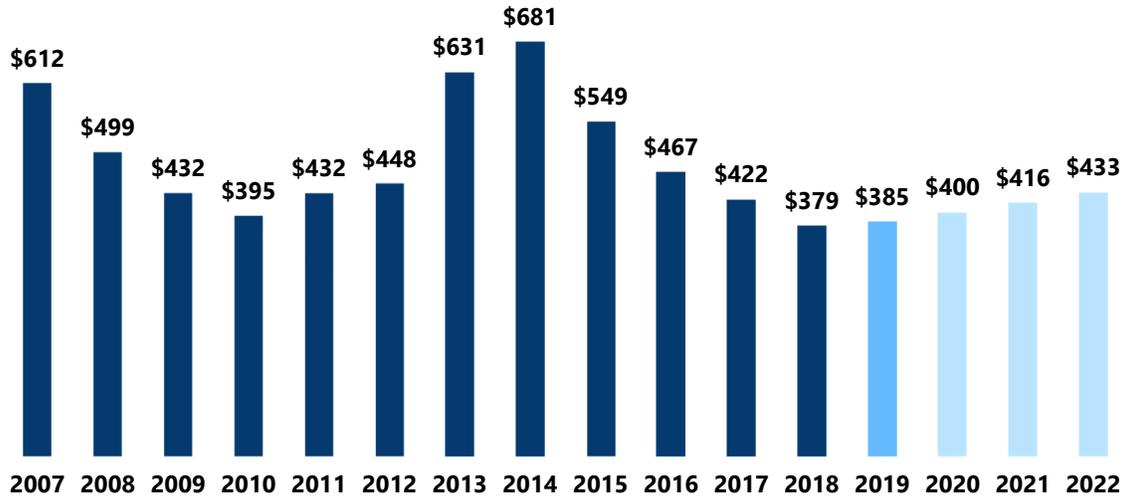
Source: Municipality of Anchorage (2007-2018); McDowell Group Estimates (2019-2022).

Building Permit Values

In 2019, AEDC expects Anchorage building permit values will total nearly \$385 million, a level slightly above 2018. This would mark the end of four consecutive years of decline. However, renewed uncertainty about the direction of the economy could pause or slow a return to growth. For this reason, AEDC is revising the long-term growth rate lower, from 5 percent annually to 4 percent.

- In 2018, building permit values totaled \$379 million, an 8.2 percent decline from 2017 and the lowest level in at least 12 years.
- Commercial projects typically account for the largest share of total permit value. In 2018, the category accounted for \$220 million or 57 percent of the total. Through May of this year, this category is slightly behind 2018. The following projects are currently underway:
 - A \$5.0 million project at Safeway; \$3.7 million for a new Planet Fitness located in the Midtown Mall; and \$8.0 million of investment by the Cook Inlet Tribal Council.
 - Tesoro's improvements at the Port of Alaska worth \$5.8 million, and Providence Health & Service's pharmacy build-out and parking garage projects totaling \$4.4 million.
 - Renovations for several hotels, including \$2.4 million for the Downtown Marriott.
 - Longer-term prospects include significant potential investment at the airport, including a hotel and several cargo handling facilities.
- Residential construction permits contributed \$132 million to the total value; an amount roughly equal to 2017. Early data for 2019 indicates the category is ahead of recent years. Through the first five months of 2019, residential building permits are up 18 percent from the previous year. Most residential permit values come from new construction of single and multi-family buildings. Activity associated with additions or alterations to existing residential housing is also included.
- In 2018, the government category of building permit values fell to a 16-plus year low with a total of \$35 million, a decline from 2017's value of \$46 million. The previous five-year average was around \$75 million annually. Early data for 2019 indicate values continue to trend lower. However, government projects are underway throughout the city including improvements to area schools and upgrades to Municipality of Anchorage infrastructure.

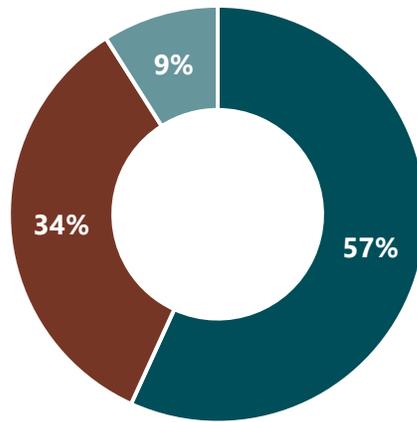
Anchorage Building Permit Values (\$Million), 2007-2022



Source: Municipality of Anchorage (2007-2018); McDowell Group Estimates (2019-2022).

Anchorage Building Permit Values by Type, 2018

■ Commercial
 ■ Residential
 ■ Government



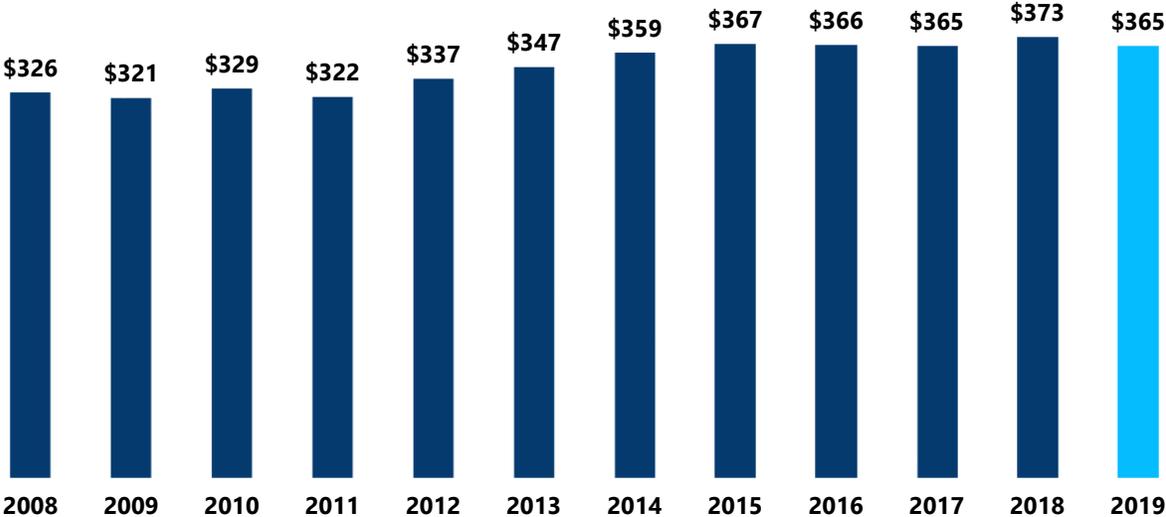
Source: Municipality of Anchorage.

Average Single-Family Home Sales

Average single-family home prices in Anchorage increased slightly (2.2 percent) to \$373,000 in 2018. However, market weakness in the first part of 2019, resulting from the November 2018 earthquake, is expected to be amplified by general economic uncertainty stemming from State of Alaska budget cuts. AEDC expects single-family home prices to return to levels similar to the 2015-2017 period.

- Comparing the first quarter of 2019 with the same period in 2018, loan origination activity for single-family residences fell roughly 25 percent (401 to 297). It's likely the November 2018 earthquake slowed markets as buyers were wary of damaged homes.
- Foreclosures remain at low levels across the city. In the first quarter of 2019, 52 mortgages in Anchorage were foreclosed, a figure lower than the five-year quarterly average of 62.
- After several years of historic lows, mortgage rates in Alaska are at an 8-year high. Average rates climbed from about 4.0 percent in 2017 to 4.5 percent in 2018. Mortgage rates averaged 4.6 percent in the first quarter of 2019.

Anchorage Average Single-family Home Sales Price (\$1,000), 2007-2019



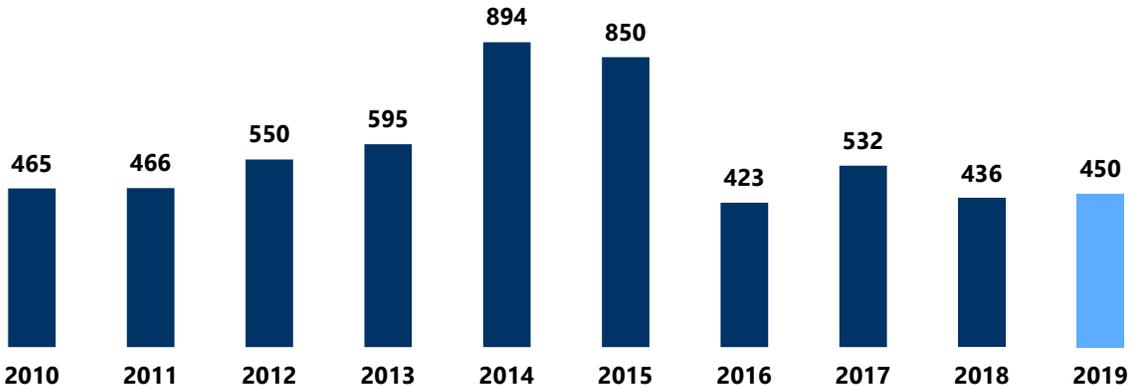
This representation is based in whole or in part on data supplied by, and to the Subscribers of Alaska Multiple Listing Service, Inc. (AK MLS). Information contained herein is deemed reliable but not guaranteed. Data maintained by AK MLS is for its own use and may not reflect all real estate activity in the market.
Source: Alaska Multiple Listing Service, Inc. (2008-2018); McDowell Group Estimates, (2019).

New Housing Units

Based on data through the first five months of the year, AEDC anticipates Anchorage will add about 450 housing units in 2019. While this level of activity represents improvement from 2018, it remains at a historically low level.

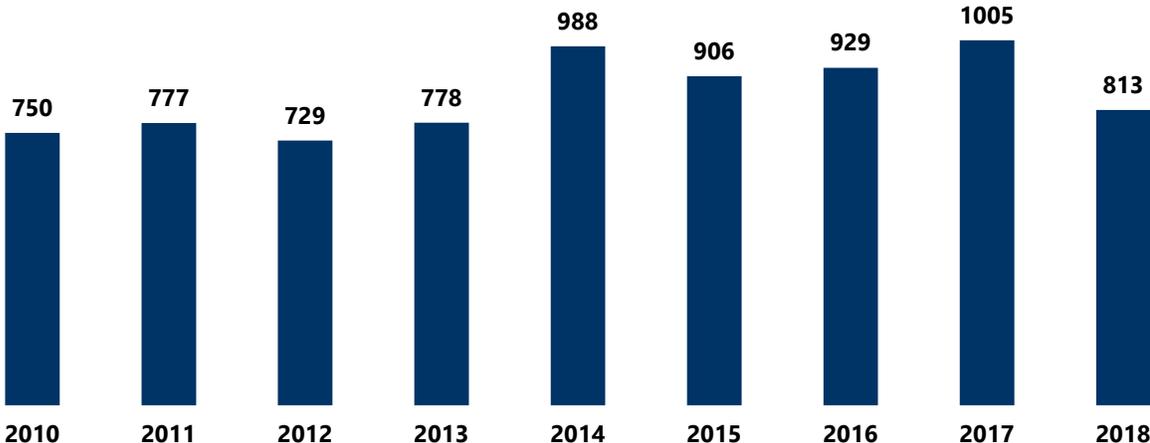
- In 2018, Anchorage added 436 housing units, roughly 100 units fewer than 2017. Multi-family homes accounted for 221 of these units while single-family homes contributed 193 units. 22 mobile homes were added in 2018.
- At the neighborhood level, Anchorage’s housing stock has experienced notable change between the 2008-12 and 2013-17 periods. Some areas have expanded, including 16 percent growth in the Fort Richardson Census Area, as well as near 10 percent growth in the Dimond and Girdwood areas. Among the areas which have seen a decline in housing units, a 12 percent decline in Northeast Muldoon and 10 percent reduction in the Downtown Core are the most significant.
- In 2017, the Mat-Su Borough added a record 1,005 units. While the pace slowed to 813 in 2018, the region is adding housing at a rate double Anchorage’s.

Anchorage New Housing Units, 2010-2019



Source: Alaska Department of Labor and Workforce Development (2010-2018); McDowell Group Estimate (2019).

Mat-Su Borough New Housing Units, 2010-2018



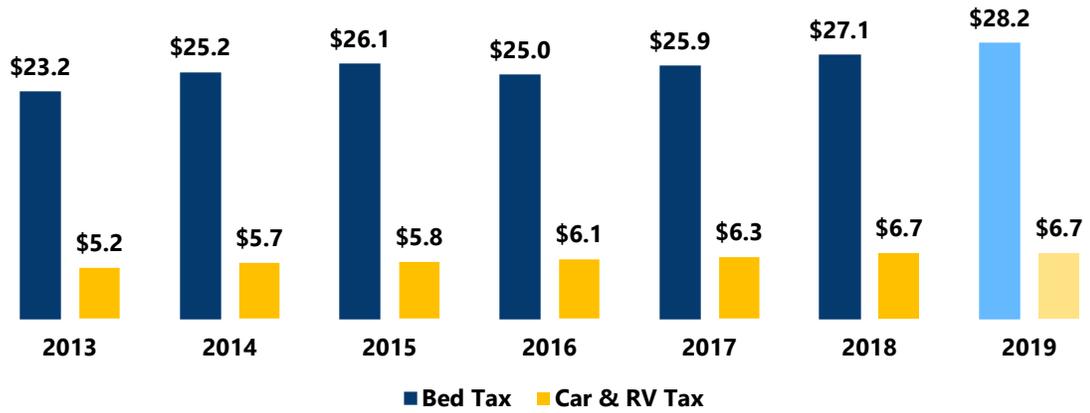
Source: Alaska Department of Labor and Workforce Development (2010-2018).

Visitor Industry

The visitor industry is one of the few bright spots in Anchorage's economy. The number of visitors to the community has been growing for several consecutive years, largely attributable to the strong growth in cruise passenger volume. Visitor-related tax revenues showed healthy increases in 2018, with continued growth expected for 2019.

- In the first three quarters of 2018, Anchorage bed tax revenue increased by 5.7 percent over the same period in 2018 (data for fourth quarter 2018 is not yet available). This growth follows a 3.8 percent increase between 2017 and 2018.
- Anchorage car and rental RV tax revenues increased by 7.8 percent to \$6.7 million in 2018, on the heels of 3.2 percent growth in 2017.
- Domestic enplanements at Ted Stevens Anchorage International Airport were up 3.9 percent in summer 2018, reflecting the strong cross-gulf cruise market (see below). International enplanements were down by less than 1 percent.
- Statewide cruise traffic was up by 7.3 percent in 2018. Cross-gulf traffic (passengers embarking or disembarking at Whittier or Seward) showed particularly strong growth, rising 22.9 percent. (Virtually all cross-gulf passengers transit Anchorage either before or after their cruise.)
- Visit Anchorage reports the convention and meeting market was down in 2018, from 535 events in 2017 to 427 events in 2018. Associated spending is estimated to have fallen from \$116 million to \$94 million. However, the decline was due in part to 2017 being a near-record convention year.
- In 2019, statewide cruise volume is projected to increase by 16.5 percent, including an increase of 15.3 percent in cross-gulf volume. Next year (2020) is projected to show a growth of 5.8 percent in statewide volume, including 2.6 percent in cross-gulf volume.
- Other preliminary indicators for the 2019 visitor season are mostly positive:
 - Visit Anchorage reports a strong start to the year in terms of hotel performance. According to STR, hotel occupancy is up by 10 percent January through May; ADR (Average Daily Rate) is up by 14 percent, and RevPar (Revenue Per Available Room) is up by 25 percent.
 - First quarter 2019 car/RV rental tax revenues (the latest available) showed no change from 2018; however, first quarter represents only about one-tenth of the annual total.
 - Anchorage airport enplanements are up by 1.1 percent in the January through May period.
 - Bed tax data for first quarter 2019 is not yet available.
 - Visit Anchorage estimates that 2019 will be "a good year" for conventions, with a significant number of national and international groups on the schedule.

Anchorage Bed Tax and Car/RV Rental Tax (\$Million), 2013-2019



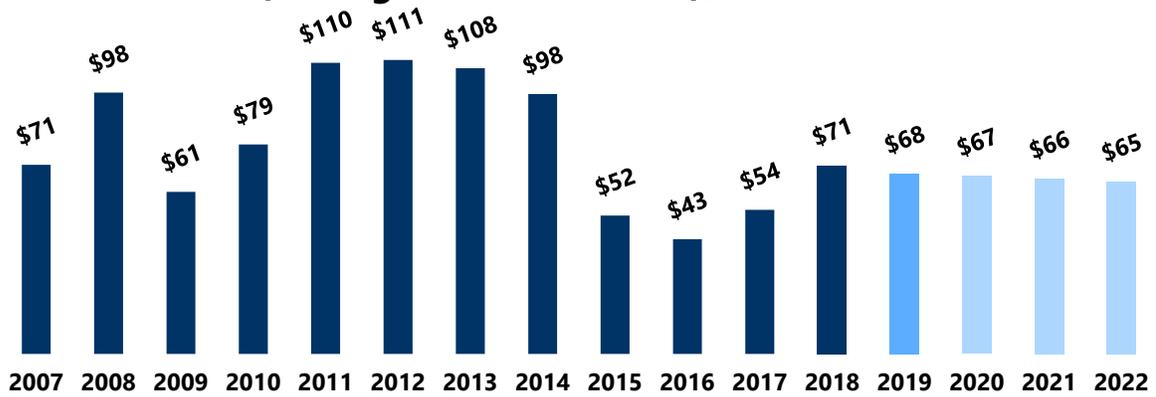
Source: Municipality of Anchorage (2013-2018); McDowell Group Estimates (2019).

Oil Prices

AEDC expects Alaska North Slope (ANS) oil prices to follow a gradual decline indicated by most public and private industry forecasts through 2022. In 2018, a barrel of ANS crude oil sold for an average of \$71. Through mid-July of this year, prices have averaged \$67 per barrel.

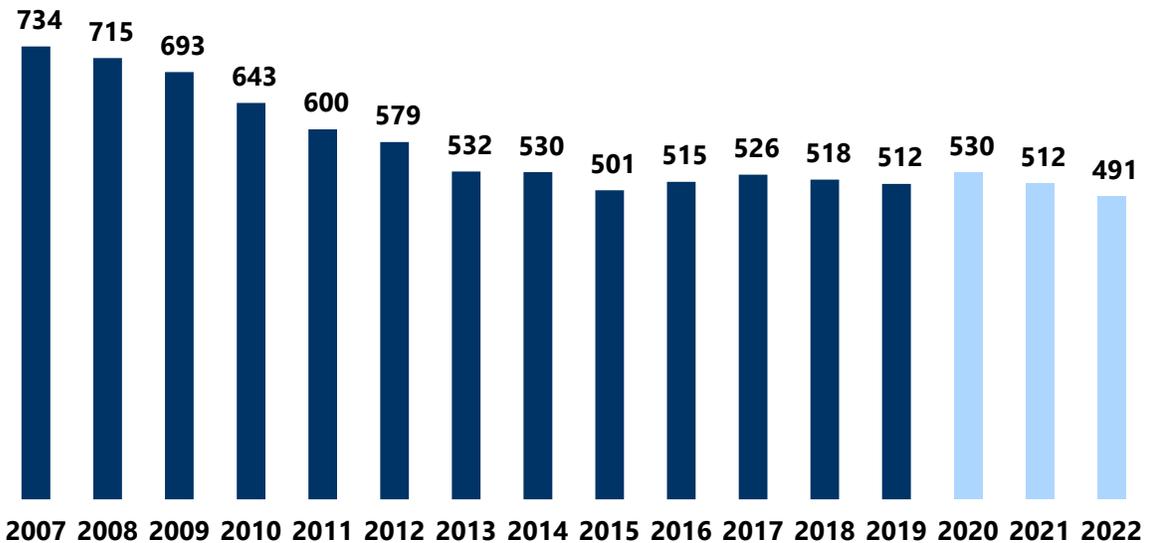
- Although employment in oil and gas is unlikely to return to pre-recession levels in the near-term, robust activity on the North Slope is an encouraging sign of optimism among producers:
 - ConocoPhillips began production at Greater Moose's Tooth 1, which will ramp up to roughly 25,000 barrels per day in coming months. The company's recent exploration season was the most ambitious in over a decade.
 - Hilcorp's Moose Pad will produce over 20,000 barrels per day when fully operational. Production at the development came online in April 2019.
 - Though the date of first production is unclear, the Liberty Project has potential to add more than 60,000 barrels per day to the Trans Alaska Pipeline System (TAPS). The project continues to gain the approximately 60 federal, state, and local permits needed for production to begin.
 - Oil Search's Pikka Unit is expected to produce up to 120,000 barrels per day with first production expected in 2022.
 - Cook Inlet continues to see exploration and development activity focused primarily on natural gas production. Hilcorp, Furie, BlueCrest Alaska, and Glacier Oil & Gas are among the companies pursuing opportunities in the region.
- Oil markets are being driven by near-term expectations about global economic growth and availability of supply.
 - Global crude oil supply has been tightened by production cuts from Organization of the Petroleum Exporting Countries (OPEC) along with outages in Venezuela and Iran. However, strong output from the U.S. is making up the difference.
 - The Organization for Economic Co-operation and Development (OECD) anticipates global economic growth will slow to 3.2 percent in 2019, a rate below the previous two years. The International Monetary Fund (IMF) recently revised lower its outlook for economic growth in 2019 and 2020.
- The U.S. Energy Information Administration expects an average Brent Crude price (ANS' closest comparable in global markets) of \$67 per barrel in the second half of 2019 and remain at that level in 2020. Banks including Morgan Stanley have lowered expectations for near-term oil prices, and futures markets also implies decline in the next few years.
- The State of Alaska expects North Slope oil production to average 530,000 barrels per day in the current fiscal year before declining to approximately 491,000 barrels per day by fiscal year 2022. Production is anticipated to rebound to above 500,000 barrels per day in the late-2020s as several key projects come online.

Alaska North Slope Crude Oil (Average Price Per Barrel), 2007-2022



Source: Alaska Department of Revenue (2007-2018); Alaska Department of Revenue, Energy Information Administration, International Energy Agency, Chicago Board Options Exchange, Morgan Stanley (2019-2022).

Alaska North Slope Crude Oil Production (Thousands of Barrels per Day), FY2007-2022



Source: Alaska Department of Revenue.

Looking Ahead

Anchorage has been buffeted by powerful external global market forces in recent years which, combined with a years-long inability to develop a state fiscal policy, cost the local economy 5,900 jobs. Just as the economy is showing signs of recovery, state agency budget cuts are expected to eliminate another 4,700 Alaska jobs, including 2,000 in Anchorage, over the next few years.

Anchorage rode through a recession caused by a sharp and sustained drop in oil prices. Alaska industry has largely adjusted to a new oil price reality and is emerging on a leaner, more efficient trajectory. Now we are on the verge of a policy-driven continuation of the ongoing recession.

We remain optimistic about the long-term outlook for Anchorage. But that optimism is based on the ability of our community to rally to overcome the challenges we face. We can no longer rely solely on others to solve our problems. Our economy is diverse, including the military, transportation, health care, tourism, education, professional services, and other important sectors. The strength of this economic diversity will ultimately prevail. Admittedly, it is difficult to see much beyond the immediate economic shock created by state budget cuts. In the absence of any form of long-term fiscal plan, we can probably expect further budget turmoil next year and some additional spending cuts.

Whether Anchorage's economy has the resilience to overcome those cuts and return to growth sooner than the next three years remains to be seen. AEDC is hopeful that we can reemerge from recession within this 3-year outlook period. If the state can create some degree of fiscal certainty and sustainability that will be an important step. In the meantime, Anchorage as a community must begin to take steps to do what we can to take more control of our city's future, and AEDC will continue to work to make Anchorage a great place to live, work, and play.