

visitor numbers  
employment  
personal income  
population  
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building permit values

Economic Forecast for  
Anchorage, Alaska



AEDC  
Anchorage Economic  
Development Corporation

# 2011

## Introduction

A year ago, AEDC noted the national and global economies had stabilized after a deep recession, but also warned the road to recovery would be a bumpy one. Six months ago, AEDC cited renewed job growth for Anchorage, improvement in the Anchorage Business Confidence Index, and clear signs of recovery in the national economy. In the first half of 2011, however, U.S. economic indicators weakened – from housing and gross domestic product, to jobs and the unemployment rate – and the recovery looks more tenuous.

As a reminder of the relevance of the U.S. economy to Anchorage, in 2009 the national recession pushed seven out of the eight indicators AEDC tracks and forecasts into negative territory. All but one of the indicators then turned positive in 2010 as the national economy stabilized.

But as AEDC and others have noted, Alaska has also been partially sheltered from the national economic storm. That will continue to be the case as long as oil prices remain high. Simply stated, oil revenue has generated large state government surpluses, which have allowed Alaska to invest, build, and provide crucial economic stability during a period when most other states are cutting budgets, services, and jobs.

Looking ahead to the remainder of 2011 and the 2012-14 forecast period, Alaska and Anchorage are still in a position of relative economic strength, and modest growth is forecasted in all eight of the indicators discussed on the following pages.



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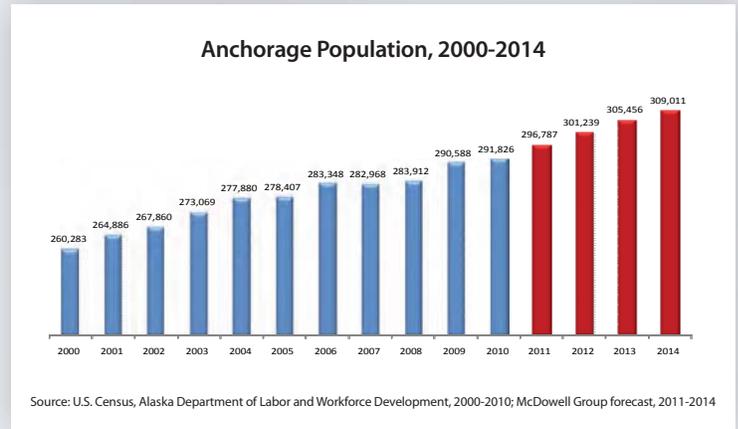
## Population

Perhaps the most basic economic indicator of all is population. A city with a growing population, all other things being equal, is a city with a growing economy. Anchorage's population in 2010, according to the U.S. Census, was 291,826, a 12 percent increase since the 2000 Census was taken. The Census numbers also show that roughly 40 percent of the state's population lived in Anchorage in 2010 and nearly 55 percent lived in either Anchorage or the Mat-Su Borough.

Anchorage's population growth for the decade was slightly below the statewide percentage of 13 percent, but a notch above the national growth rate of 10 percent. Within the state, the strongest growth continues to come from the Mat-Su Borough, with a 50 percent increase from 2000 to 2010. The Anchorage and Mat-Su economies are increasingly intertwined, however, and much of Mat-Su's population growth has been tied to the Anchorage job market.

Looking ahead, most of Anchorage's population growth will continue to come from natural increase (births minus deaths). Net migration numbers turned positive in 2009 after two years of losses and will likely stay positive for as long as Anchorage's job market and economy remain healthy compared to other U.S. cities and the Pacific Northwest in particular.

AEDC forecasts population growth of 1.7 percent in 2011, decelerating slightly over the next three years to 1.2 percent as the U.S. economy improves and migration gains slow.



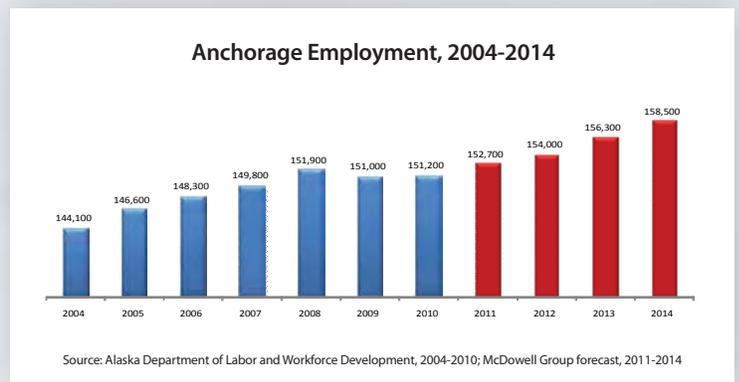
## Employment

A decline of 900 jobs in 2009 ended Anchorage's 20-year streak of job gains, but growth resumed – by a slim margin – in 2010. Preliminary numbers for 2011 show continued growth, thanks mostly to health care, professional and business services, and leisure and hospitality. Government jobs are down 260 through May compared to the same five months in 2010.

After years of steady losses, construction jobs have leveled off and the preliminary 8,300 May job count matched May 2010 numbers. The last time May construction jobs equaled or exceeded year-ago levels was 2005 when the job count was 18 percent higher at 9,800. Construction activity reaches its seasonal peak in August, but the early summer numbers suggest better news for an industry that began shedding jobs in Anchorage well before the global recession hit the broader U.S. construction numbers hard.

Health care deserves mention for its perpetual growth, irrespective of whether the economy is in expansion, recession, or recovery mode. Through May, health care's job count is up 740 over the same five-month period in 2010, and as Baby Boomers enter their senior years, more growth is nearly certain from 2012-14.

Health care-related construction is also one of the few bright spots in private sector commercial construction. Providence's \$150 million "Generations" project, which is expanding and renovating the maternity center and expanding cardiac surgery facilities, is the largest private project in progress in 2011 with construction expected to last through 2014. AEDC forecasts employment growth of around 1 percent for 2011 and 2012, accelerating slightly to 1.5 percent annually in 2013 and 2014.



## Personal Income

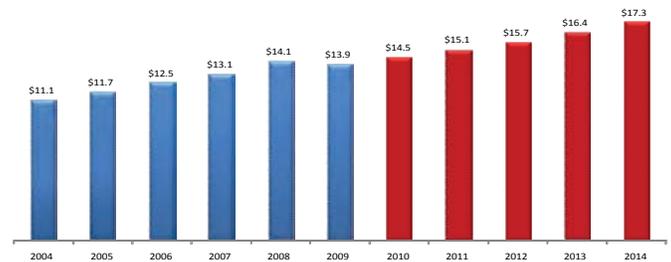
Personal income is a broad measure of economic health that includes employment income as well as income from other sources such as investments (dividends, rental income, and interest income, among others) and government transfer payments (which include Social Security, Medicaid and Medicare, unemployment benefits, and the Permanent Fund Dividend).

Of Anchorage's \$17.5 billion in 2009 personal income, 69 percent came from employment (including self-employment income), 16 percent from investments and other non-employment sources, and 15 percent from government transfer payments (of which 15 percent came from Permanent Fund Dividends).

Anchorage personal income fell in 2009 for the first time in decades as a result of the recession and the drop-off from 2008's especially large Permanent Fund Dividend and one-time "resource rebate." Data for 2010 is not yet available for Anchorage, but personal income for Alaska increased by almost 4 percent and Anchorage personal income likely grew by a similar percentage in 2010.

AEDC forecasts personal income growth of 3.9 percent in 2011, accelerating to 5.2 percent by 2014 as general economic conditions improve outside Alaska's borders and local conditions remain mostly favorable.

**Anchorage Personal Income, 2004-2014 (\$billions)**



Source: U.S. Bureau of Economic Analysis, 2004-2009; McDowell Group estimates and forecast, 2010-2014

## Anchorage Passenger and Freight Volume

Nearly 5 million people passed through the Ted Stevens Anchorage International Airport in 2010, a 2 percent increase over 2009 numbers. There is still a significant amount of pre-recession ground to recover, however, after the 9 percent drop in 2009.

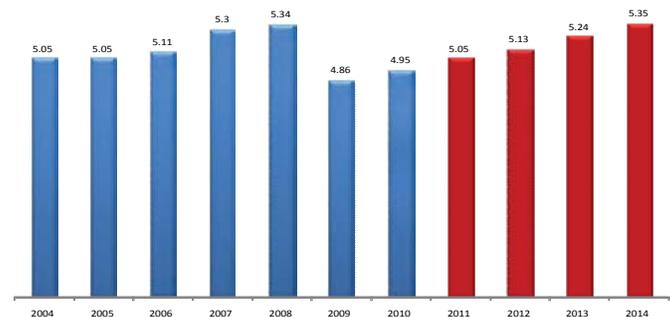
The first four months of 2011 look strong with passenger traffic up 6 percent, although the peak summer months will play the largest role in determining what kind of year 2011 turns out to be. As with many of the other indicators, much depends on the U.S. economy in 2011 and over the 2012-14 forecast period. Consumer confidence has weakened in recent months and travel is often a discretionary purchase that can be delayed or foregone if household budgets feel pinched. Nevertheless, Anchorage air passenger traffic is expected to continue its rebound in 2011, climbing 4 percent, followed by slightly slower growth over the next three years as a result of more conservative consumer spending.

Cargo traffic through the airport – the fifth busiest airport in the world by cargo volume and the second busiest in North America by cargo throughput – provides a uniquely direct insight into the economic health of the national and international economies. Cargo volume through Anchorage closely mirrored the timing of the recession: volume peaked in December 2007 at nearly 300,000 tons then fell in fits and starts to a low of just under 100,000 tons in April 2009. Not coincidentally, the National Bureau of Economic Research – the acknowledged authority in dating U.S. recessions – determined that the U.S. recession began in December 2007 and ended in June 2009.

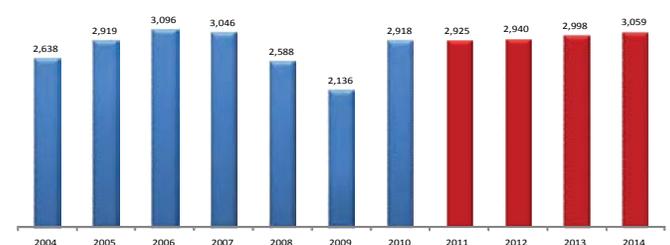
Volume of air cargo through the airport in 2010 bounced back to about 90 percent of pre-recession highs. Airport officials note that the growth in air cargo has slowed, however, and expect a flatter growth trajectory for the rest of 2011 and over the next several years.

AEDC forecasts growth of 0.5 percent in air cargo volume in 2012 followed by growth of 2 percent in both 2013 and 2014 in general correlation with global economic conditions.

**Air Passenger Volume, 2004-2014 (millions)**



**Air Freight Volume, 2004-2014 (thousand tons)**



Source: Ted Stevens Anchorage International Airport, 2004-2010; McDowell Group forecast, 2011-2014

## Building Permit Values

The value of Municipality of Anchorage building permit applications provides a partial measure of new construction activity in Anchorage. Building permit data is separated into residential, commercial, and government facility construction. Two large and important parts of local construction activity not included in the permit data are military construction and road projects, both of which have been at high levels over the last several years.

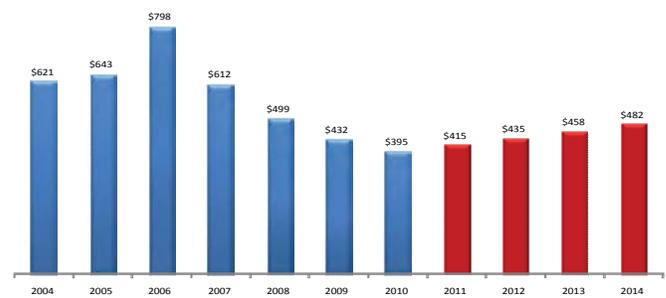
Residential permit values, not including townhouses, condominiums, and apartment buildings, which are counted as commercial, increased by 12 percent in 2010 – the first annual increase since 2003 – but at \$125 million, the 2010 value is still far below 2003's ten-year peak of \$336 million. The numbers continue to climb through the first quarter of 2011 and the \$23 million permitted was the highest first quarter total since 2007.

Commercial construction permits fell 3 percent in 2010, and at \$227 million are also significantly down from highs earlier in the decade. Commercial permitting hit a high point in 2006 at \$412 million. First quarter numbers from 2011 are up, however, with \$80 million permitted, almost twice the \$41 million permitted in the first quarter of 2010.

Government construction permitting numbers are especially volatile, ranging from \$2 million in some quarters to more than \$100 million in others. The annual numbers, which smooth some of that volatility, show a decline from 2009's \$85 million to \$43 million in 2010. First quarter 2011 numbers are also down from first quarter 2010, although the figures can be misleading considering that much of the state capital budget money being spent is on transportation projects and not included.

AEDC forecasts that the combined building permit numbers will increase for the first time in five years in 2011 and continue to rise at about 5 percent a year over the 2012-14 period as the investment climate slowly improves.

**Building Permit Values, 2004-2014 (\$millions)**



Source: Municipality of Anchorage, 2004-2010; McDowell Group forecast, 2011-2014

## Port of Anchorage Freight Volume

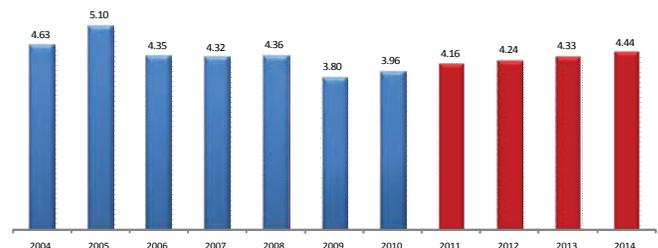
About 90 percent of all consumer imports to Alaska arrive through the Port of Anchorage. The total volume of freight that moved through the Port of Anchorage in 2010 was up 4 percent from 2009 to 4 million short tons, though still well off 2005's high point of 5 million short tons. Through the first four months of 2011, overall tonnage is up an estimated 20 percent over the year, due primarily to an increase in tanker port calls and, to a lesser degree, an increase in vehicle deliveries.

There are ongoing discussions to prioritize the northern section of the large-scale port expansion project and construction work has temporarily slowed. If funding is secured, construction is expected to recommence in 2013 and continue through 2016. The expansion project, and the new barge berth in particular, is stimulating interest from several potential new commercial customers.

Following what is expected to be a solid growth year in 2011 of 5 percent, port officials expect more modest increases over the 2012-14 period. Assuming no unexpected shocks to the local or outside economies – never a small assumption – demand for petroleum in support of Anchorage's air cargo business is expected to show moderate growth and shipment of other goods is expected to be flat or slightly positive.

AEDC forecasts a freight volume increase of 1.9 percent in 2012, growing incrementally to 2.5 percent annually by 2014.

**Port of Anchorage Volume, 2004-2014  
(million short tons)**



Source: Port of Anchorage, 2004-2010; McDowell Group forecast, 2011-2014

## Visitor Numbers

There are reasons for optimism in the visitor industry, despite the fact that shaky national and international economic recoveries tend to overshadow other news. Statewide, early indicators for 2011 are generally positive and total visitor numbers are expected to be up slightly from last year.

The number of visitors who came to Alaska by highway or ferry – though small compared to visitors who come on cruise ships or by air – were both up noticeably in 2010 for the first time in years, and Anchorage bed taxes were up 7 percent in 2010. Car rental taxes were up 8 percent in 2010 and both bed taxes and car rental taxes were up 8 percent over the year in the first quarter of 2011.

Much of the cruise ship-related visitor traffic through Anchorage comes at the beginning or end of one-way itineraries, but for the second season in a row Holland America's *Amsterdam* will make a port of call in Anchorage every other Friday with a capacity for about 1,400 passengers and 600 crew members. Silver Seas and Oceana cruise lines are also making port calls in Anchorage for the first time in 2011. In all, the three lines are expected to make a total of 11 calls during the 2011 season.

The industry reports that demand for Alaska cruises is strong in the globally competitive cruise market. Political unrest in the Mediterranean and North Africa has driven some cruise passengers away from those destinations. A weak dollar is also spurring domestic travel. There is less need for discount ticketing to fill berths on ships headed to Alaska than in recent years.

The Alaska cruise industry has matured and will probably not generate double-digit annual percentage gains the way it did in the 1990s and early 2000s, but the waters have calmed after cruise ship redeployments were announced a few years ago amid the tussle over head taxes and a weakening global economy. Total Alaska cruise passenger volume peaked at just over 1 million in 2008 before dropping to about 880,000 in 2010 due to the redeployments. In total, 885,000 cruise passengers are expected to visit Alaska in 2011, increasing to 930,000 passengers in 2012.

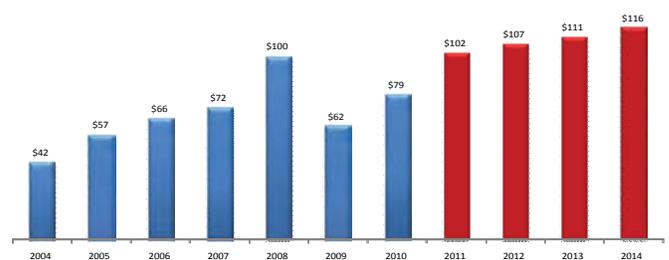
## Oil Prices

In recent years oil forecasting has been rife with uncertainty and surprises on both the upside and downside. The Alaska North Slope oil price through the first half of calendar year 2011 has ranged from \$89 in January to \$125 in April. That is still a wide spread, but nothing compared to the volatility from a few years ago when prices bounced from above \$140 to below \$30 in 2008.

Long-term forces of growing world demand and limited oil supply suggest that prices will remain high by historical standards. Overall, that is a clear net benefit to the Alaska and Anchorage economies, though not without its downside in the form of higher transportation costs to individuals and businesses and higher heating and electricity generation costs for rural Alaska in particular.

The U.S. Energy Information Administration forecasts West Texas Intermediate (WTI) crude oil spot prices will average \$102 in 2011 and then continue to rise by 4 to 5 percent annually over the 2012-2014 forecast period.

Average WTI Crude Oil Prices, 2004-2014 (\$Per Barrel)



Source: U.S. Energy Information Administration and McDowell Group estimates.

# 2011

## Challenges Ahead

Despite the forecasted gains, there are two economic clouds on the horizon. How they develop and how the city and state prepare for them will consume much of the economic and political discussion over the next decade.

The first is the near certain belt-tightening by the federal government, which has always played an outsized role in the health of the Alaska and Anchorage economies compared to most other U.S. states and cities. Everyone from the Federal Reserve to credit rating agency Standard & Poor's have warned that current deficit levels are unsustainable, leaving little doubt that cuts are coming. When they come is still uncertain and the democratic process is not a fast one, so the heaviest impacts will likely come farther down the road than the 2012-14 period.

The other challenge facing Anchorage and the state in the coming years is the ongoing decline in oil production. The issue is not new or unexpected – Prudhoe Bay is the largest oil field in North America and the 18th largest ever discovered in the world, so production declines after a certain point were part of the bargain – but the issue becomes more pressing as declines continue. Since reaching a peak of more than 2 million barrels a day in 1989, production has steadily fallen and averaged 607,000 barrels a day through the first half of calendar year 2011.

The development of several smaller new fields has slowed the decline and there is significant potential for more onshore and offshore Alaska oil to be produced, but reversing the decline will be a major undertaking whose feasibility depends both on world market conditions and the politics of taxes and environmental regulations. In the longer-term, demand for oil is expected to grow and higher prices have given many oil-producing regions new life.

A resurgent interest in oil would be even more important to Alaska considering that prospects for a natural gas pipeline have dimmed. Long believed to be the next big thing for Alaska, a pipeline through Canada looks less likely after BP and ConocoPhillips announced they were abandoning their joint venture Denali Project. A separate project led by TransCanada is still being pursued although a fall in natural gas prices due to large scale development of shale gas in the U.S. is a significant hurdle.

Ultimately, it is very clear that the health of the Anchorage and Alaska economies is closely tied to the state's abundant natural resources. Of those resources, oil has easily been the most important economically for at least the last 30 years, and will likely remain so for the foreseeable future.



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