



2013
3-YEAR
ECONOMIC
OUTLOOK
ANCHORAGE



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Anchorage Economic
Development Corporation

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3-YEAR OUTLOOK ANCHORAGE

Despite difficult national and global conditions, the Anchorage economy has seen **steady positive gains** over the past three years. With the national recession behind us, current trends indicate a continuation of sustained moderate growth.

AEDC's 2013 Business Confidence Index (BCI) shows business confidence continuing to improve in Anchorage. Business confidence is now at its highest level since the BCI survey was launched in 2009. Key economic indicators, particularly employment and income growth, provide the hard facts to support that confidence. The most recent data shows that **strong employment growth in 2011 and 2012 is continuing into 2013**. In its January employment forecast, AEDC predicted there would be 1,700 new jobs in Anchorage in 2013. Through June 2013, the economy is on track to

add 1,600 jobs, according to the latest data from the Alaska Department of Labor and Workforce Development.

The AEDC Three-Year Economic Outlook examines economic trends through eight key indicators: population, employment, personal income, air passenger and freight volumes, building permits, Port of Anchorage tonnage, visitor industry activity, and oil prices. **The forecasts contained in this report are based on historical data, interviews with businesses and organizations in various sectors, and current events.** Taken together, these economic measurements provide the basis of AEDC's outlook of moderate growth in employment and personal income. Factors such as the high cost of living and the tight supply of housing options continue to be of concern.

2012

**3,400
jobs**

**INCREASE OF
2.2%**

**SO FAR IN
2013**

**1,567
jobs**

**OVER THE
SAME PERIOD
AS 2012**

POPULATION



annual growth rate
+1.1%
2013 - 2016

298,842

ANCHORAGE RESIDENTS 2012

Anchorage marked its **fifth consecutive year of population growth** in 2012, climbing to 298,842 residents, according to ADOLWD estimates. The addition of 2,758 residents was a 0.9 percent increase from 2011, a rate slightly below the five-year average growth rate of 1.2 percent. The increase from 2011 to 2012 was driven by a natural increase (births minus deaths) of 3,134, while there was net out-migration of 376 during the same period (net migration is the difference between the number of people moving to Anchorage and the number leaving Anchorage). Conversely, the Mat-Su Borough experienced a net in-migration of 1,196 people between 2011 and 2012.

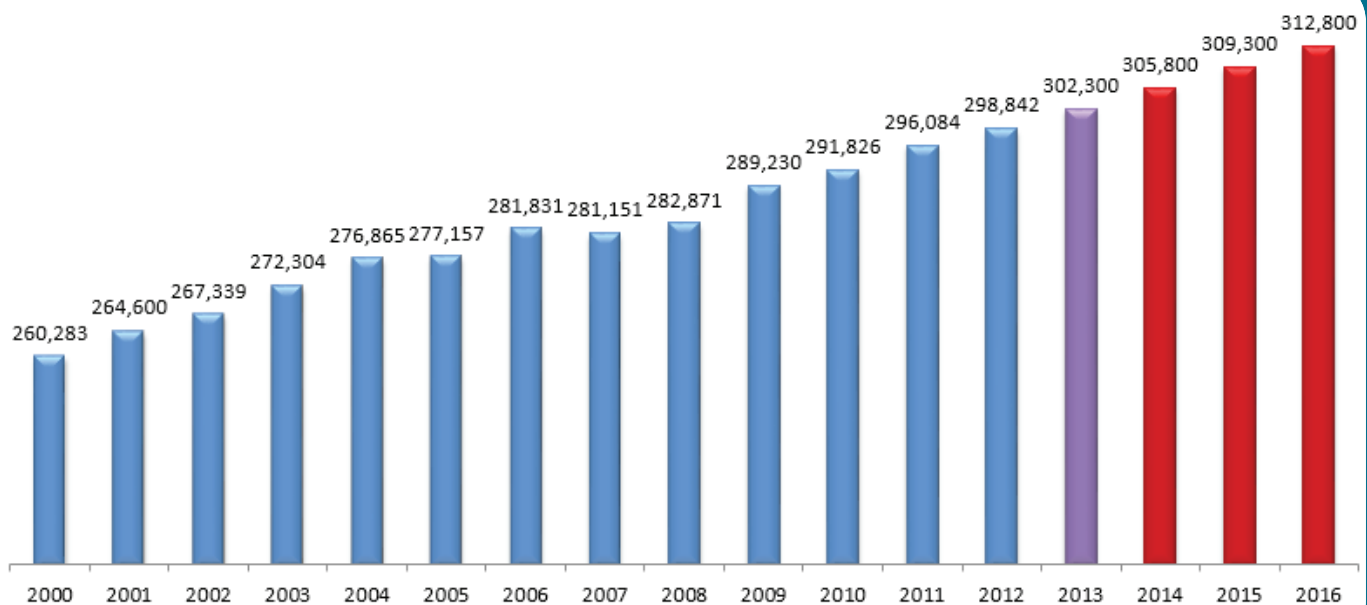
Population growth in Anchorage has not been keeping pace with employment growth (employment increased 1.8 percent in 2011 and 2.2 percent in 2012). Several factors may account for this, including increasing labor participation rates, more non-resident workers in the seasonal labor force,

out-migration of retirees, and strong population growth in the neighboring Mat-Su Borough (up 2.2 percent between 2011 and 2012), where a significant number of Anchorage workers reside.

The Municipality of Anchorage now accounts for 41 percent of Alaska's population. If combined with the Mat-Su Borough, the Anchorage/Mat-Su region accounts for 54 percent of the state's total population.

This year Anchorage's population is anticipated to top the 300,000 mark, with continued population growth of 1.1 percent estimated for 2013. Supported by additional natural increase and continuing job growth, that **1.1 percent annual growth rate is expected to continue and hold reasonably steady over the next three years.**

Anchorage Population, 2000 - 2016



Source: U.S. Census, Alaska Department of Labor and Workforce Development, 2000-2012. McDowell Group estimate (2013) and forecast (2014-2016).

EMPLOYMENT



annual growth rate

+1.2%

2014 - 2016

+2.2% 2011 to 2012
JOB GROWTH

The latest available data shows Anchorage employment growth of about 1 percent through the first six months of 2013, compared to the same period in 2012. That rate of growth is slightly lower than the 1.1 percent rate AEDC predicted in January. January through June 2013 employment in Anchorage is 1,600 jobs ahead of the same period last year. The private sector is on track to add 2,300 jobs in 2013 (up 1.9 percent); while at the current pace of decline, the government sector may lose 700 jobs.

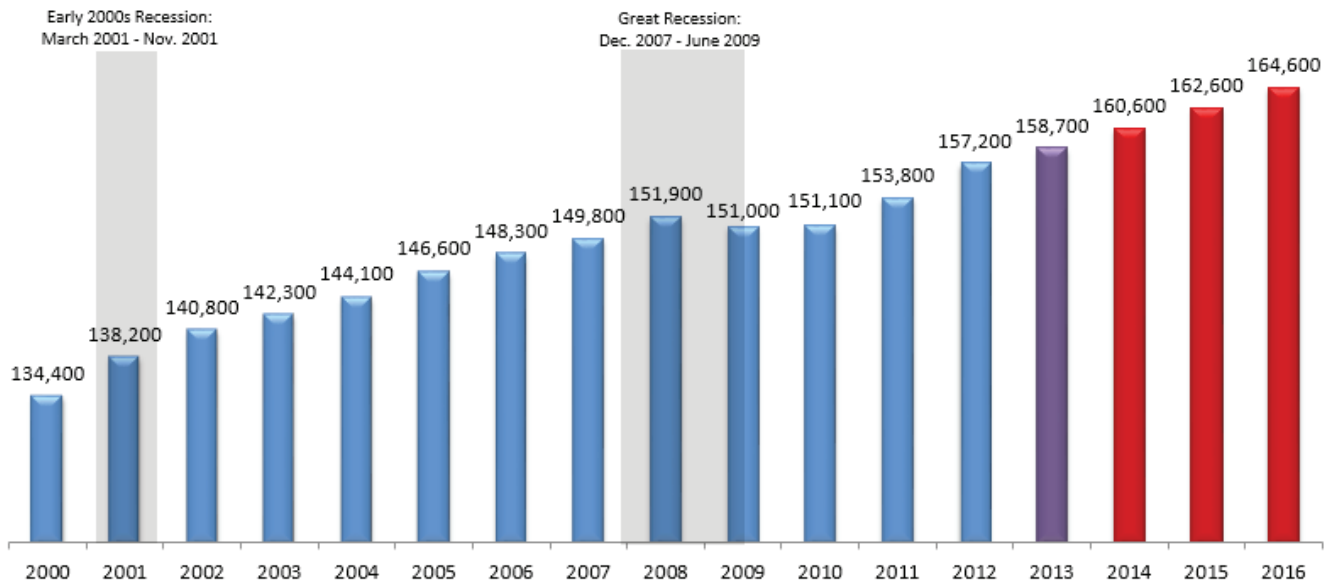
Recognizing that this data is preliminary and subject to revision, drivers of this private sector growth include health care (+470), oil and gas (+430), and professional/business services (+380) sectors. Construction and leisure and hospitality sectors are also showing growth.

Final employment counts for 2012 from ADOLWD showed job growth above AEDC predictions, with total employment increasing by 3,400 (2.2 percent), from 153,800 in 2011 to 157,200 in 2012. The

professional and business services sector accounted for the largest share of this growth, adding 1,100 jobs in 2012. The health care sector was another major contributor to employment growth adding 800 jobs. Anchorage's health care sector has added a total of 3,000 jobs over the past five years. From June 2012 to June 2013, 600 government jobs were lost in Anchorage. While total employment (private and public sector jobs) increased 1.0 percent, private sector employment alone grew faster (1.8 percent).

Anchorage is coming off of two years of robust growth; 2,700 jobs in 2011 and 3,400 jobs in 2012, both well above predicted employment growth for those years. Nevertheless, data for the first six months of the year suggest 2013 growth will be in line with AEDC's employment forecast of 1.0 percent. Beyond this year, **AEDC has growth forecasted conservatively at around 1.2 percent annually in 2014, 2015, and 2016, adding between 1,900 and 2,000 new jobs each year.**

Anchorage Employment, 2000 - 2016



Source: U.S. Census, Alaska Department of Labor and Workforce Development, 2000-2012. McDowell Group estimate (2013) and forecast (2014-2016). The dates and durations for recessions are from the National Bureau of Economic Research.

PERSONAL INCOME

\$ annual growth rate
+4.5%
2013 - 2016

Personal income is a measure of total gross income (before taxes) from all sources earned or received by Anchorage residents. It includes employment income, 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).

Anchorage resident personal income totaled \$15.1 billion in 2011 (the most recent local-level data available from the Bureau of Economic Analysis (BEA)), 5.2 percent above the 2010 total. This follows growth of 4.7 percent between 2009 and 2010. From 2009 (when income dipped by 4 percent)

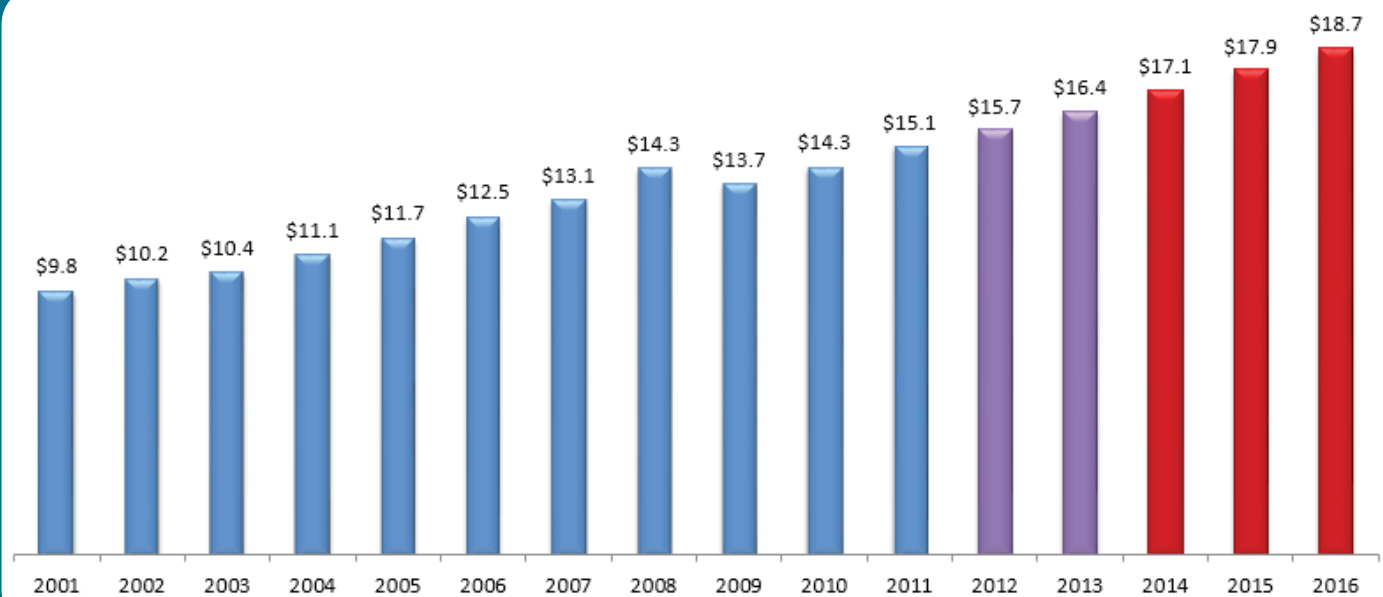
to 2011, Anchorage residents collectively enjoyed personal income growth of \$1.4 billion (in nominal, non-inflation-adjusted dollars). While **Anchorage accounts for 41 percent of Alaska's population, it accounts for 46 percent of total Alaska resident personal income.**

More recent personal income data is available for Alaska overall. With trends in Anchorage personal income generally paralleling statewide trends, the 3.7 percent increase in total Alaska resident personal income between 2011 and 2012 suggests Anchorage saw another increase in 2012, likely in the area of 4 percent.

These figures have not been adjusted to account for the effects of inflation. Inflation, based on the Anchorage Consumer Price Index, was 3.2 percent between 2010 and 2011, and 1.9 percent between 2011 and 2012.

AEDC forecasts personal income growth of 4.5 percent annually from 2013 to 2016 in keeping with long-term trends established since 2001.

Anchorage Personal Income 2001 - 2016 (\$ billions)



Source: U.S. Bureau of Economic Analysis, 2001-2011. McDowell Group estimate (2012-2013) and forecast (2014-2016).

ANCHORAGE INTERNATIONAL AIRPORT PASSENGER & FREIGHT VOLUME



PASSENGER TRAFFIC - ANNUAL GROWTH RATES

+1.5%
2013

+2%
2014 -2016

Airport passenger volume is a measure of the total number of passengers moving through the airport including enplaning, deplaning, and in-transit passengers. This indicator provides insight to trends in Alaska’s visitor sector, as well as resident business and personal travel.

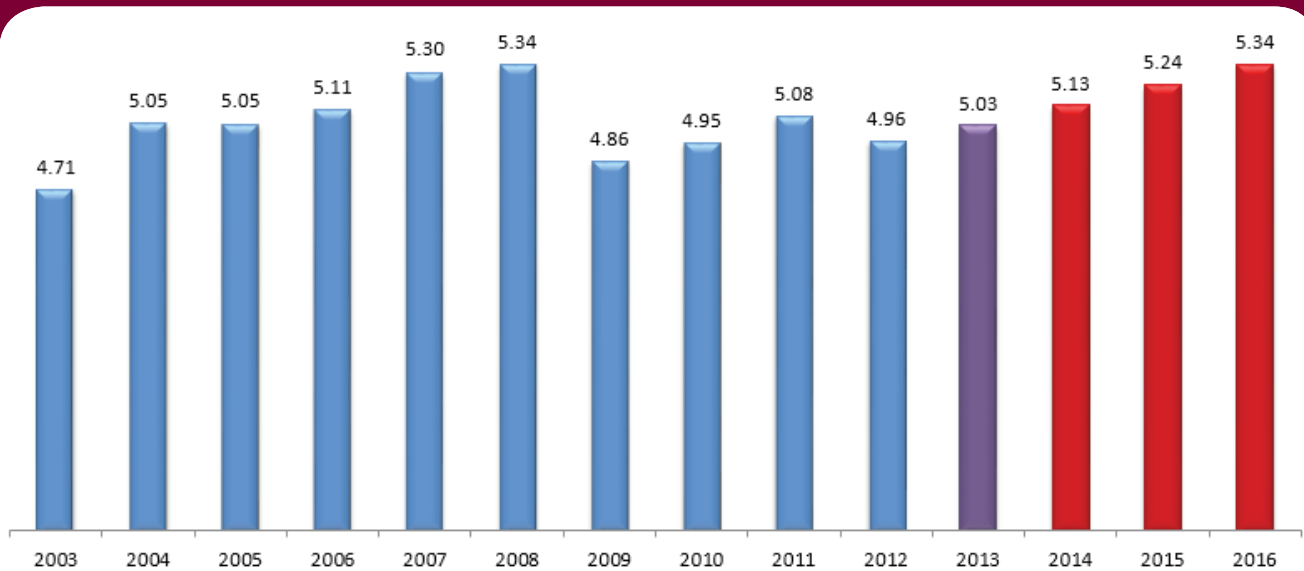
The number of travelers through Ted Stevens Anchorage International Airport (ANC) slipped to just under 5 million in 2012, declining by 120,000 passengers (a 2.5 percent downturn). ANC passenger traffic in 2012 was about 380,000 passengers below the 2008 peak volume. About a third of the decline (44,000) in 2012 was due to lower numbers of in-transit travelers, mainly fewer transiting Eva Airways and China Airlines passengers. Otherwise the decline in 2012 was due to

declining volumes on domestic carriers other than Alaska Airlines and ERA Aviation, which both posted gains. **Alaska Airlines accounts for about 60 percent of passenger enplanements and deplanements at ANC.**

New players in the Anchorage market this summer include Icelandair (twice a week summer service from Reykjavik) and Virgin America (six non-stop flights a week – summer service – to and from San Francisco).

Passenger volume for the first five months of 2013 was down slightly (0.7 percent) from the first five months of 2012, although the summer months will be key in determining traffic trends for the year. In 2012, July was the peak passenger traffic month at

Air Passenger Volume 2003 - 2016 (millions)



Source: Ted Stevens Anchorage International Airport, 2003-2012.
McDowell Group estimate (2013) and forecast (2014-2016).

AIRPORT CONT.

PASSENGER & FREIGHT VOLUME



AIR CARGO VOLUME - ANNUAL GROWTH RATES

+1%
2013

+1.5%
2015

+2%
2016

ANC, with 624,000 passengers. **AEDC expects traffic this summer to push the annual 2013 totals to about 1.5 percent higher than last year. Beyond 2013, passenger traffic is expected to increase at a rate of about 2 percent annually.**

Air cargo volume at the airport totaled 2.72 million tons in 2012, down 3.1 percent from 2.80 million tons in 2011. The decline in 2012 extends a downward trend started in 2011, when air cargo volume slipped 1.1 percent from 2010.

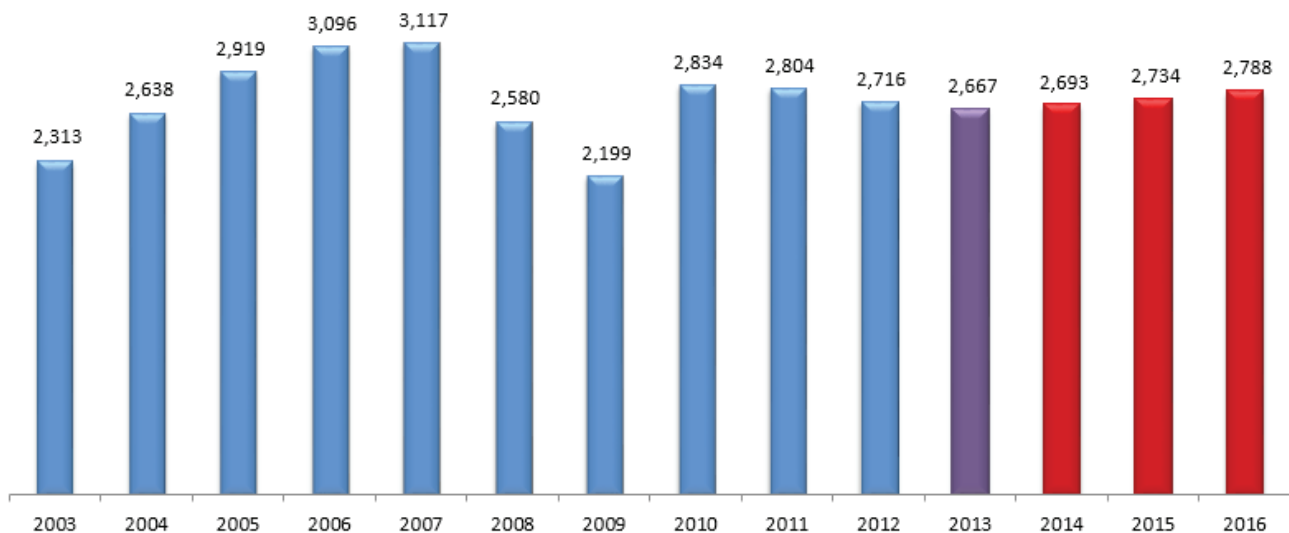
Data for the first five months of 2013 show the downturn continuing, with a 3.1 percent decline compared to same period in 2012. This recent decline was caused by an 8.9 percent decline in cargo enplaned and 10.5 percent decline in cargo

deplaned; yet in-transit cargo increased 0.4 percent. **In-transit cargo accounts for about 68 percent of the air cargo moving through ANC;** in comparison to 17 percent for cargo enplaned and 15 percent for cargo deplaned. Though much of the Eurozone remains in recession and Asian economic growth remains uncertain, the increase of in-transit volume of 0.4 percent for 2012 to 2013 year-to-date may be a reflection of gradual global economic recovery, as well as slow improvement in the U.S. economy.

Cargo aircraft landings are down 4.5 percent for the first five months of 2013 in comparison to the first five months of 2012. In terms of cargo landings, United Parcel Service

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Air Freight Volume 2003 - 2016 (thousand short tons)



Source: Ted Stevens Anchorage International Airport, 2003-2012.
McDowell Group estimate (2013) and forecast (2014-2016).

BUILDING PERMIT VALUES



annual growth rate
+6.5%
2014 - 2016

The application value of building permits issued by the Municipality of Anchorage provides a partial measure of new construction activity in Anchorage. Building permit data is categorized into residential, commercial, and government facility construction; it does not include military construction and road construction projects.

Residential, commercial, and government building permits combined totaled \$448 million in 2012, up about 3.7 percent from 2011. On an annual basis, building permit values have been increasing steadily since bottoming in 2009 at \$395 million.

Residential building permit values (not including townhouses, condominiums, and apartment buildings, which are counted as commercial) increased 34 percent in 2012 (\$150 million) compared to 2011 (\$112 million). Commercial building permit values were down 11 percent

between 2011 (\$280 million) and 2012 (\$250 million). Government construction permitting values show an increase of 20 percent from 2011's \$40 million to \$48 million in 2012.

Approximately \$380 million was permitted during the first six months of 2013, up 37 percent from \$277 million during the same period in 2012.

Data for the first six months of 2013 show growth across all three construction sectors, with residential building permit values up 22 percent (from \$75 million in 2012 to \$91 million in 2013), commercial permit values rising 45 percent (from \$167 million to \$243 million), and government permits increasing 31 percent (from \$35 million to \$46 million). It is important to note that government permit figures provide only a partial measure of government construction spending; however, as transportation and military projects are not included.

While residential construction activity is on the upswing, **there is concern that expansion of Anchorage's housing stock is not keeping pace with population growth**. According to Alaska Housing Finance Corporation data, **Anchorage's 2013 year-to-date rental housing vacancy rate is 3.3 percent**. While that rate is an improvement

Building Permit Values 2003 - 2016 (\$ millions)



Source: Municipality of Anchorage, 2003-2012. McDowell Group estimate (2013) and forecast (2014-2016).

BUILDING PERMIT VALUES CONT.

from the 2.6 percent rate recorded in 2012, it still reflects a very tight rental market. **So far in 2013, Anchorage monthly rental rates have averaged \$1,119** (up 19 percent since 2008) and higher than any other area in the Railbelt.

A few of the larger commercial and government building permit application values during the first six months of 2013 include: University of Alaska Anchorage (\$30 million), Alaska Regional Hospital (\$16 million), Alaska Native Medical Center (\$15 million), Eklutna Power Plant (\$12 million),

Providence Health and Services (\$11 million), Blood Bank (\$10 million), Coronado Park (\$9 million), and Service High School (\$6 million).

Following the strong start to the year, **AEDC estimates that Anchorage will end 2013 with combined building permit valuations about 15 percent above the 2012 level.**

Additionally, **AEDC forecasts that from 2014 to 2016 total building permit values will increase by 6.5 percent annually** based on the average annual growth rate from 2010 to 2012.

PORT OF ANCHORAGE FREIGHT VOLUME



annual growth rate
+1.4%
2013 - 2016

The total volume of freight moved through the Port of Anchorage in 2012 was down 9.2 percent from 4.1 million short tons in 2011 to 3.8 million short tons in 2012. Lessening petroleum movement accounted for the decline: shore-side petroleum tonnage was down 24 percent and dockside petroleum fell 11 percent. The total tonnage of freight in containers, vans, and flats (a

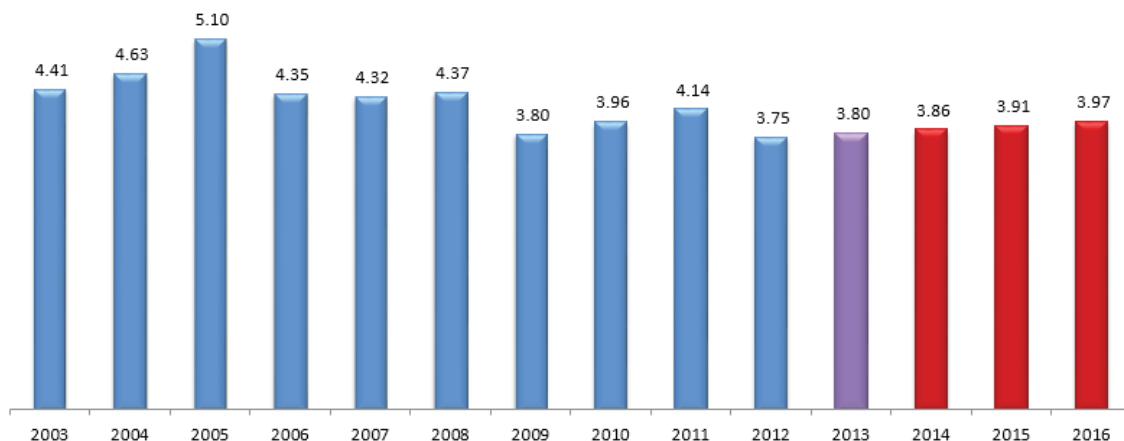
better measure of general economic activity) increased 1.8 percent. This type of freight made up 46 percent of the Port's annual tonnage in 2012, the highest percentage of total tonnage since 1998.

The volume of freight moving over the docks at the Port of Anchorage is, in part, a barometer for conditions in the Anchorage and Alaska economies.

The Port of Anchorage estimates they move about 90 percent of all Alaska consumer goods and serves about 85 percent of the state's population.

AEDC projects a modest annual growth of 1.4 percent from 2013 to 2016 based on expected growth in the economy overall (measured in terms of growth in population, employment, and inflation-adjusted personal income).

Port of Anchorage Volume 2003 - 2016 (million short tons)



Source: Port of Anchorage, 2003-2012. McDowell Group estimate (2013) and forecast (2014-2016).

VISITOR INDUSTRY

Alaska's visitor industry is slowly recovering from the 2009 and 2010 recession-era slump. After a 1 percent increase in out-of-state visitor volume in summer 2011 (May-September), **summer 2012 saw a 2 percent increase over 2011**, according to the Alaska Visitor Statistics Program (AVSP).

The increase was largely driven by a 6 percent growth in cruise passenger traffic. The air market (visitors that enter and exit Alaska via air) was down 4 percent, while highway/ferry volume was flat.

Anchorage-specific indicators for summer 2012 include a 6 percent increase in bed tax revenues, and a 6 percent decrease in vehicle tax revenues. The disparity may reflect the increase in cruise visitors (who utilizes Anchorage lodging but are less likely to rent cars) and a simultaneous decrease in the air (independent) market; air visitors are more likely than cruise visitors to rent cars. Bed tax revenues have been increasing steadily since the 2009 downturn.

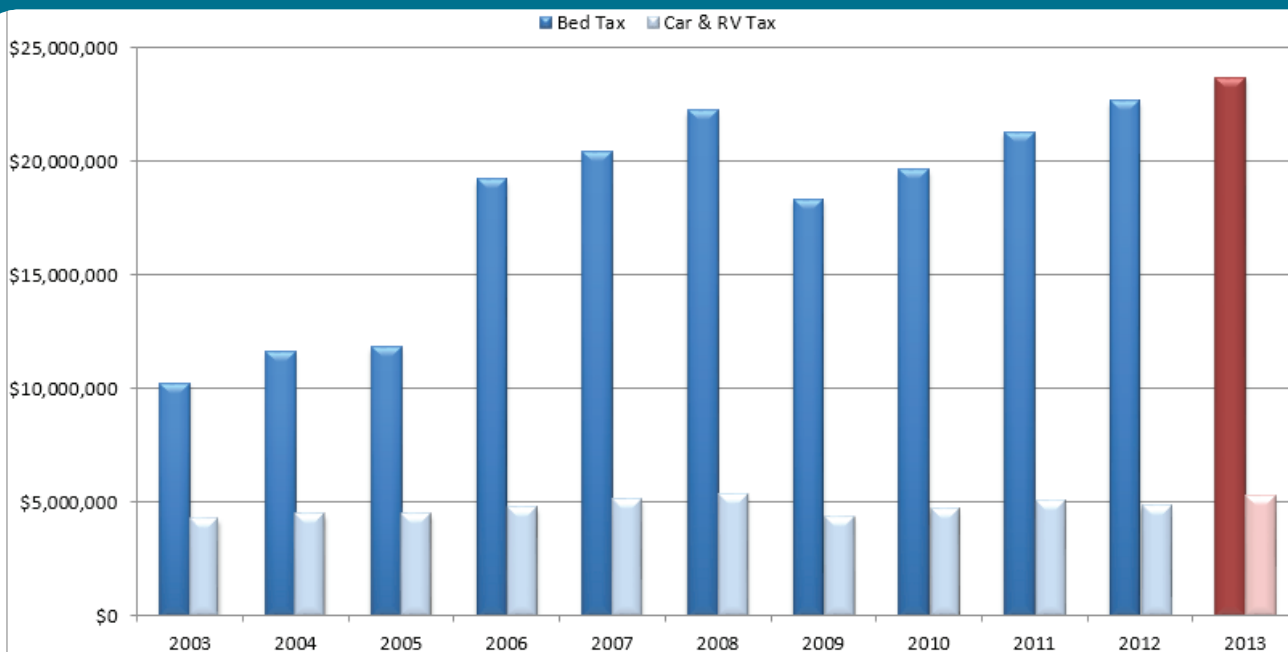
Passengers exiting Anchorage (and Alaska) via domestic air were down by 1 percent (summer

2011-12), while passengers exiting Anchorage via international air fell 3 percent. The decrease in international exits was largely due to fewer Japan Airlines passengers compared to 2011. Both Condor and Korean Air increased in passenger volume. Edelweiss discontinued service in 2012.

The fall/winter period refers to October through April. Although only 15 percent of Alaska's out-of-state visitors arrive during the fall/winter, nearly three-quarters (73 percent) of these visitors travel to Anchorage (compared to 56 percent in the summer period), according to AVSP data. **State-wide, fall/winter 2012-13 visitor volume is estimated to have decreased by 1 percent from fall/winter 2011-12.**

Anchorage-specific indicators for the fall/winter period include a 5 percent increase in bed tax revenues and a 1 percent decrease in vehicle tax revenues between fall/winter 2011-12 and fall/winter 2012-13. Passengers exiting Anchorage via domestic air were down less than 1 percent. Although passengers exiting Anchorage via international air were down by 53 percent, this refers to a drop of

Anchorage Bed Tax + Car/RV Rental Tax 2003 - 2013 (\$ millions)



Source: Municipality of Anchorage, 2003-2012. McDowell Group estimate (2013).

VISITOR INDUSTRY CONT.

only 300 passengers. (Many international visitors to Alaska exit via domestic air in the fall/winter; they also exit from Fairbanks.) Visit Anchorage reported a 2 percent decrease in convention attendance over the fall/winter months.

Looking ahead, statewide visitor volume was projected to increase in summer 2013, largely driven by a 6 percent growth in cruise passenger capacity, though there are mid-season reports of soft demand for cruise berths and some weakness in the cruise/tour component of the industry. No cruise ships are expected to directly call at the Port

of Anchorage in summer 2013 after some limited market presence in recent years (11 calls in 2011 and nine calls in 2012).

Nationwide projections indicate a continued (albeit slow) recovery in the tourism industry from the economic recession. According to the U.S. Travel Association, **domestic travel is projected to grow by 1.3 percent in 2013, then by 1.8 percent in 2014. Meanwhile, international travel to the U.S. is projected to increase at a faster rate: by 4.0 percent in 2013, then by 5.4 percent in 2014.**

AIRPORT CONT. PASSENGER & FREIGHT VOLUME

CONTINUED FROM PAGE 7

(UPS) and Federal Express are the top two carriers representing 23 percent of all cargo landings. Alaska Central Express, Eva Airways and a wide variety of other carriers account for the remaining 77 percent. **Federal Express and UPS account for most of the deplaned (75 percent so far in 2013) and enplaned (91 percent) cargo,** processing cargo at their sorting facilities at the airport. The leading transit cargo carriers are more evenly distributed and led by Polar Air Cargo Worldwide, Cathay Pacific Airways, Korean Air, Eva Airways, and China Airlines.

ANC air cargo volume for 2013 is expected to remain below 2012 levels. Longer-term, while World Bank projections of European Gross Domestic Product (GDP) show a decline of 0.1 percent in 2013, increases of 0.9 percent in 2014 and 1.4 percent in 2015 are expected. U.S. GDP growth of 1.9, 2.8, and 3.0 percent are expected over the same three-year period. Given those positive trends, **AEDC expects a turn-around in air cargo volumes, with annual growth of 1 percent in 2014, 1.5 percent in 2015, and 2 percent in 2016.**

OIL PRICES



| 2013 | 2014 | 2015 | 2016 |
|---------|---------|-------|-------|
| \$94.65 | \$91.96 | \$102 | \$105 |

By historical standards, Alaska North Slope (ANS) West Coast Spot prices were quite steady in 2012, ranging from a monthly high of \$123 a barrel in March to a low of \$98 in June. The year ended with ANS West Coast prices at about \$107. A similar range of monthly fluctuations has been observed so far in 2013, with a February high of \$133 and a June (most current) low of \$104.

West Texas Intermediate (WTI) crude oil spot prices averaged \$94.05 per barrel in 2012, just slightly under the price predicted in last year's AEDC 3-Year Outlook (\$96.80). WTI crude oil spot prices do not always move exactly in parallel with ANS prices, but WTI price forecasts have served as a reasonable proxy for expected future ANS prices. The \$17 spread in 2012 between prices for ANS crude sold on the West Coast and WTI crude oil is noteworthy, but that spread has been diminishing in

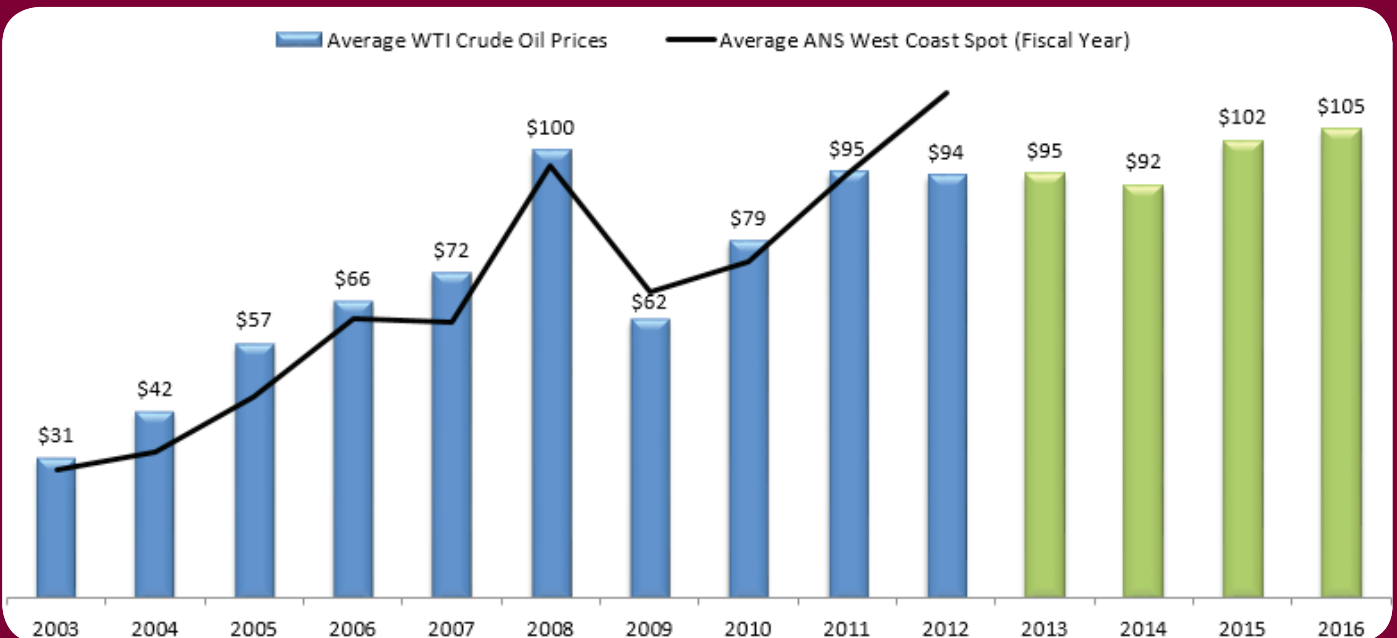
2013. The June ANS West Coast spot price of \$104 is about \$8 above June's average WTI price.

The U.S. Energy Information Administration (EIA) forecasts that WTI crude oil spot price will average \$94.65 in 2013 (an increase of just 0.6 percent), then slip to \$91.96 in 2014 (a decline of 2.8 percent).

EIA does not have an up-to-date price forecast beyond 2014. In its Spring 2013 revenue forecast, the Alaska Department of Revenue anticipates a 4.1 percent increase in oil prices in 2015 followed by a 4.3 percent increase in 2016. Another source of oil price forecasting is the Economist Intelligence Unit (EIU) which forecasts a similar trend at \$102 per barrel in 2015 and \$105 per barrel in 2016. While uncertainty abounds in the global oil market,

AEDC anticipates a rises in oil prices consistent with EIA forecasts for 2013 and 2014 and EIU forecasts for 2015 and 2016.

Average WTI & ANS West Coast Prices 2003 - 2016 (\$ per barrel)



Source: U.S. Energy Information Agency and Alaska Department of Revenue, 2003-2012. U.S. Energy Information Agency forecast (2013-2014) and Economist Intelligence Unit forecast (2015-2016).

CHALLENGES AHEAD

Robust employment growth in Anchorage over the past two years (**more than 5,000 new jobs**) has been more positive than originally anticipated. Healthcare services, along with the business and professional services sector, have been particular bright spots, though there has also been growth in the visitor industry, the oil and gas industry, and construction sector. Another indicator of a strong employment picture is Anchorage's June 2013 **unemployment rate of 5.4 percent**, well below the national average of about 7.8 percent. For the months of March, April and May, unemployment in Anchorage averaged 4.8 percent. The local unemployment picture so far in 2013 fairly characterizes a nearly **"full employment"** economic environment. Unemployment has not been consistently below 5 percent in Anchorage since 2007, when it averaged 4.9 percent, and before that in the 1998 through 2001 period, when it ranged between 4.3 percent and 4.9 percent.

Going forward, several factors could weigh on economic growth in Anchorage, including the **high cost of living, reductions in federal spending, and declines in State of Alaska oil revenues**. Though not tracked in this 3-year forecast, the relatively high cost of living in Anchorage, especially housing costs, is of growing concern. According to the Council for Community and Economic Research (ACCRA), the cost of living in Anchorage is 29 percent above the national average, with housing 50 percent above the national average. Further, it is anticipated that rental vacancy rates will remain chronically low. Employers could experience increased pressure for wage inflation due to a tighter labor market and high housing costs in Anchorage.

Federal government employment in Anchorage has declined by more than 1,000 jobs over the past few years. Sequestration may take a further toll. Military-related spending is also likely to decline going forward. The Army Corp of Engineers is adjusting to the new reality of an Alaska that has substantial military infrastructure yet reduced availability of federal dollars to support that infrastructure.

While oil and gas industry employment in Alaska is at its highest level in many years, the **North Slope production decline continues** and the industry still faces uncertainty regarding taxes – uncertainty that is now associated with efforts to place a referendum on the ballot to repeal Senate Bill 21.

Despite these challenges, **the outlook for Anchorage over the next three years remains positive**. Population, employment, and personal income continue to show up-side momentum. Similarly, the construction sector (measured in terms of building permit values and employment) is on the rise. **Altogether, these critical measures of economic progress continue to point to growth in Anchorage.**

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