



ECONOMIC 2016 FORECAST

ANCHORAGE



AEDC
Anchorage Economic
Development Corporation

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Report compiled by McDowell Group. The 2016 Economic Forecast examines recent economic trends, analysis of a wide range of economic and business activity indicators, interviews with representatives of businesses and organizations in various sectors and current events to gain an understanding of forces likely to be shaping business conditions affecting job growth in Anchorage in 2016.

Report released Jan. 27, 2016 at the AEDC Economic Forecast Luncheon.

Cover photo by I Love Anchorage Instagram host Clark James Mishler (@clarkmishler)

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NOTE ON SOURCE OF EMPLOYMENT DATA

This employment forecast is based on historical and (preliminary) 2015 data produced by the Alaska Department of Labor & Workforce Development (DOLWD). DOLWD data includes full-time and part-time jobs by place of work, but excludes uniformed military personnel, business owners, the self-employed, unpaid family help, private household workers and seafood harvesters.

2016 ECONOMIC FORECAST for Anchorage:

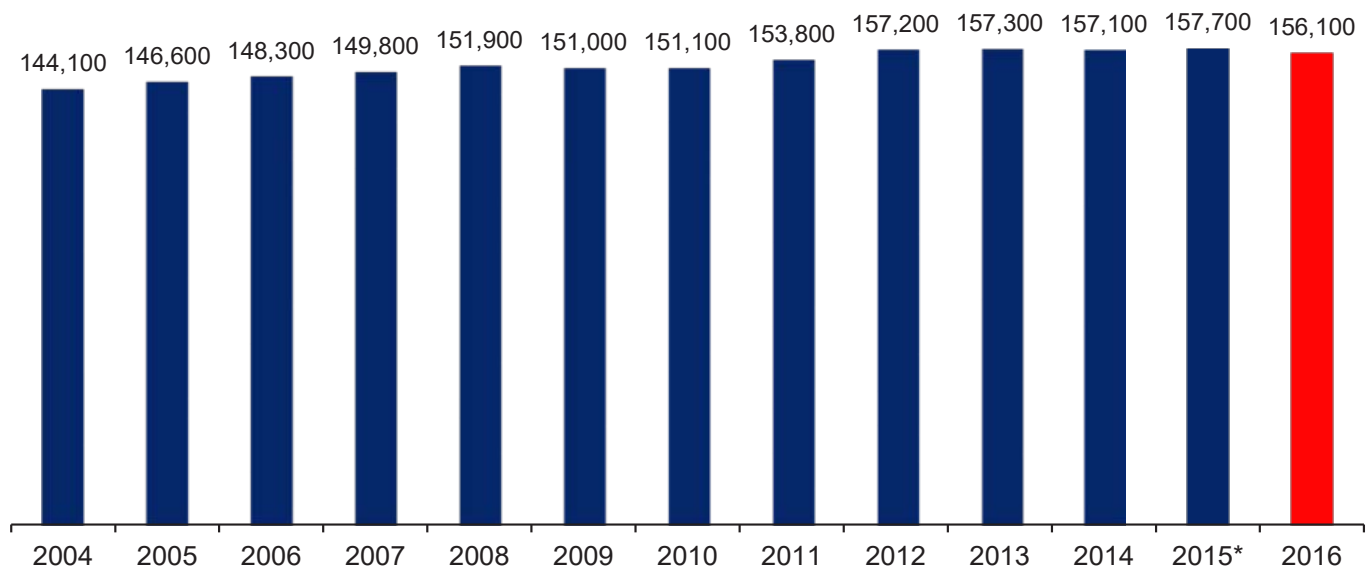
— 1% decline —

Though the price of oil started its steady retreat more than 18 months ago, the Anchorage economy showed resilience in 2015, gaining 600 jobs, in terms of annual average employment. Based on preliminary data, year-over-year employment gains persisted into late 2015. As predicted by AEDC in its January 2015 Economic Forecast, the health care and retail sectors showed notable strength in 2015, and accounted for much of the overall up-tick in employment.

Looking ahead, it's clear 2016 will be a challenging year. Cost cutting in the oil and gas sector; a thinning book of state-funded capital projects and state operating budget cuts will together result in a net job loss in Anchorage and statewide. Continuing growth in health care and a strong visitor industry will offset some of the local decline, but certainly not all of it. Overall, AEDC forecasts a net loss of about 1,600 jobs in Anchorage in 2016, a decline of 1 percent.

ANCHORAGE EMPLOYMENT

2004 - 2015, 2016 FORECAST



* Estimated based on preliminary 2015 numbers. All figures for the calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

EMPLOYMENT BY SECTOR

at a glance

OIL & GAS -600
HEALTH CARE +300
TRANSPORTATION *no change*
PROFESSIONAL &
BUSINESS SERVICES -400
CONSTRUCTION -400
LEISURE & HOSPITALITY +200
RETAIL TRADE *no change*
FINANCIAL ACTIVITIES -100
GOVERNMENT -500
OTHER SECTORS OF THE
ANCHORAGE ECONOMY -100

ANCHORAGE POPULATION -2,200

The official 2015 population estimate for Anchorage is 298,908, a decrease of 0.5 percent from 2014. Since its peak in 2013, Anchorage has lost approximately 1,900 residents. This change is the net sum of births (+4,644), deaths (-1,642) and out-migration (-4,460). AEDC anticipates Anchorage's population to decline again in 2016, losing approximately 2,200 residents (or 0.8 percent). This reduction would be slightly more than the population decline of about 1,500 residents observed in 2015.

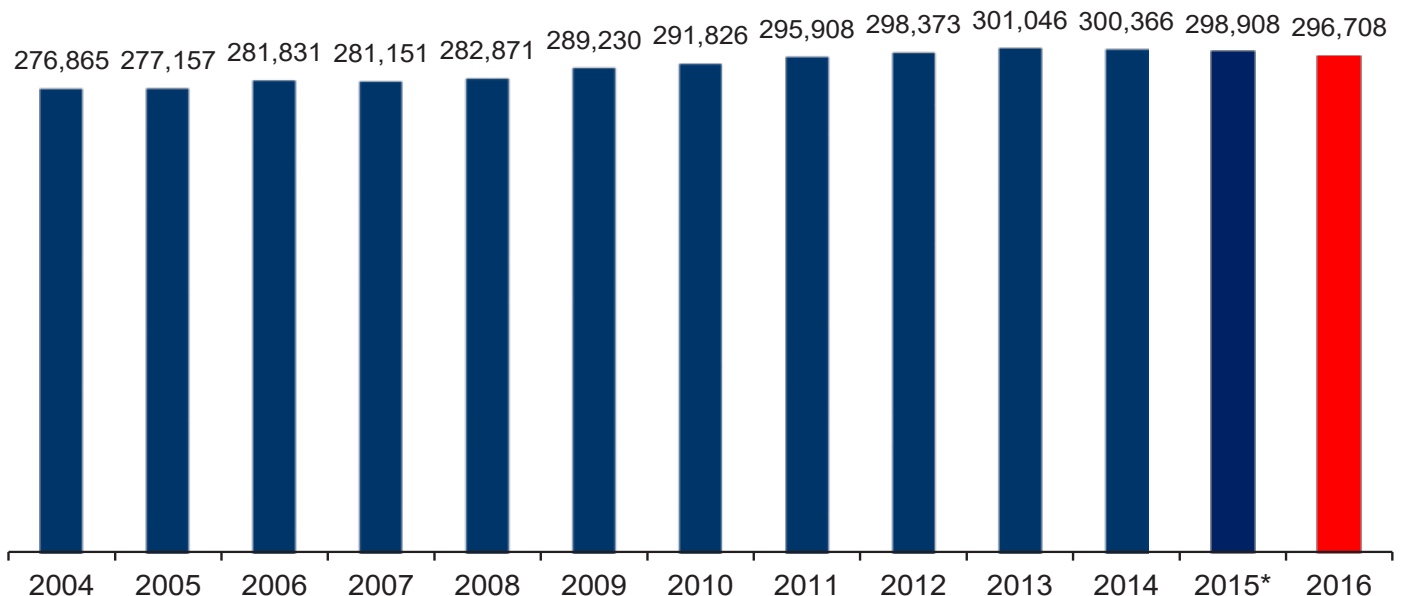
The recent population decline in Anchorage is the highest since the 1987-88 period. However, this decline pales in comparison to that loss of 11,000 residents, 5 percent of the population at that time.

While Anchorage's population fell in 2015, impacts of the decline were dampened by population growth in the broader Southcentral region. The Matanuska-Susitna (Mat-Su Borough added 1,801 residents (1.8 percent growth over 2014), likely including some former Anchorage residents as Anchorage's higher priced housing market pushes home buyers to the lower prices offered in the Mat-Su Valley. The Kenai Peninsula Borough added 348 residents (0.6 percent) in 2015.

A strengthening national economy coupled with a slowing Anchorage economy may be enticing more people to leave Anchorage for the Lower 48. At the same time, staff reductions through layoffs, internal transfers or retirement (such as those recently announced in the oil and gas sector) are expected to result in individuals leaving the Municipality. One other significant factor facing Anchorage's population is the potential impact of force reductions at Joint Base Elmendorf-Richardson (JBER). Currently under review, approximately 2,600 troops were originally slated for reduction in the U.S. Department of the Army's 2015 announcement. Further word on the proposed reduction is expected around April.

Other demographic shifts include the aging of Anchorage's population. Long-term population projections by Alaska Department of Labor and Workforce Development show the total population between ages 20 and 64 falling slightly between 2017 and 2022. However, the population of those age 65+ is anticipated to increase more than 30 percent over this same period.

ANCHORAGE POPULATION 2004 – 2015, 2016 FORECAST



*Estimate based on preliminary 2015 numbers.

Source: Alaska Department of Labor and Workforce Development and McDowell Group.

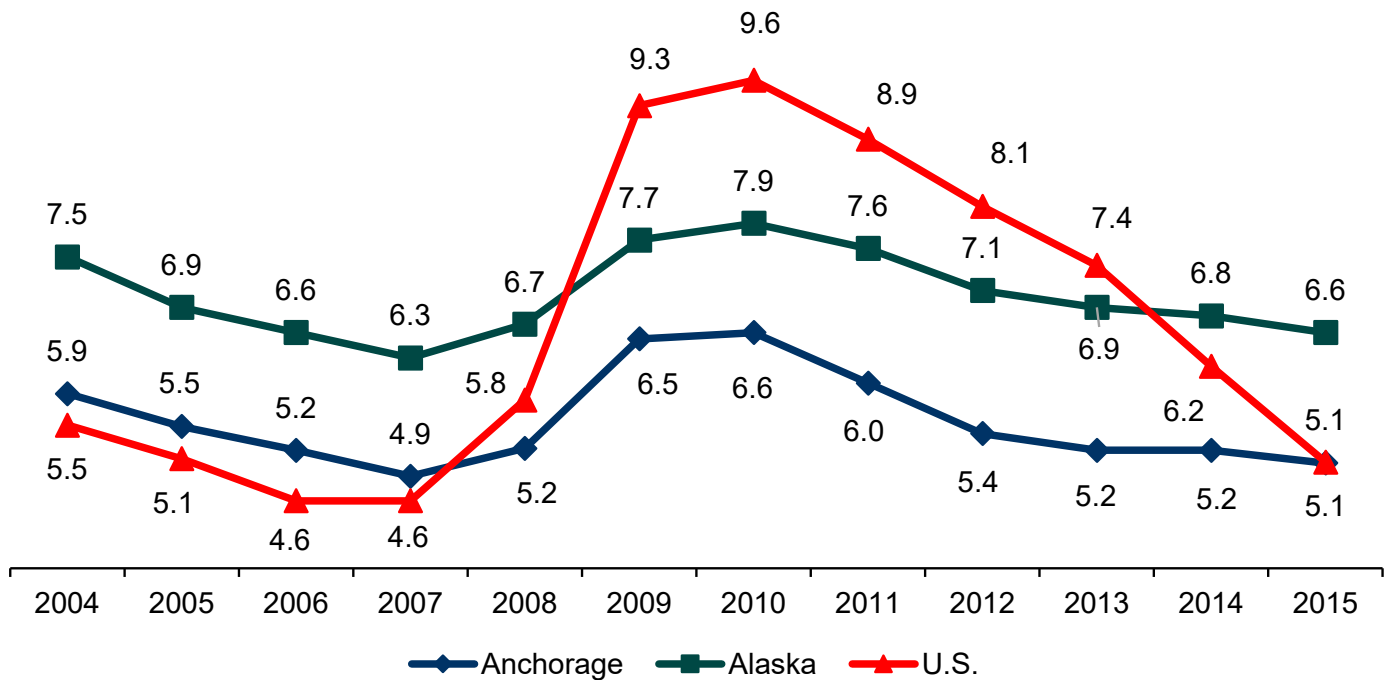
ANCHORAGE UNEMPLOYMENT

Anchorage's average 2015 unemployment rate of 5.1 percent extends the five-year trend of flat or declining annual rates. With an average labor force of approximately 160,000 people in 2015, Anchorage had a labor pool of about 8,000 individuals looking for work at any one time, the lowest number since 2008. Anchorage's labor force accounts for approximately 44 percent of Alaska's total labor force.

Historically, the national unemployment rate has been less than the Alaska level. Following the 2008/2009 recession, the U.S. unemployment rate increased from 5.8 percent in 2008 to 9.6 percent in 2010, surpassing the Alaska rate. During this time, the Alaska and Anchorage rates grew by 2.7 and 1.4 percentage points (to reach 7.9 percent and 6.6 percent), respectively.

Since 2010, the U.S., Alaska and Anchorage unemployment rates have been declining. The U.S. rate, currently at 5.1 percent, is at parity with Anchorage's rate. Anchorage and Alaska unemployment rates have slowly declined with Anchorage maintaining its average historical 1.5 percentage point differential below the statewide rate.

ANCHORAGE, ALASKA & U.S. UNEMPLOYMENT RATE (%) 2004-2015



Note: Rates not seasonally adjusted.

Source: Alaska Department of Labor and Workforce Development and the U.S. Bureau of Labor Statistics.

ANCHORAGE INFLATION RATE

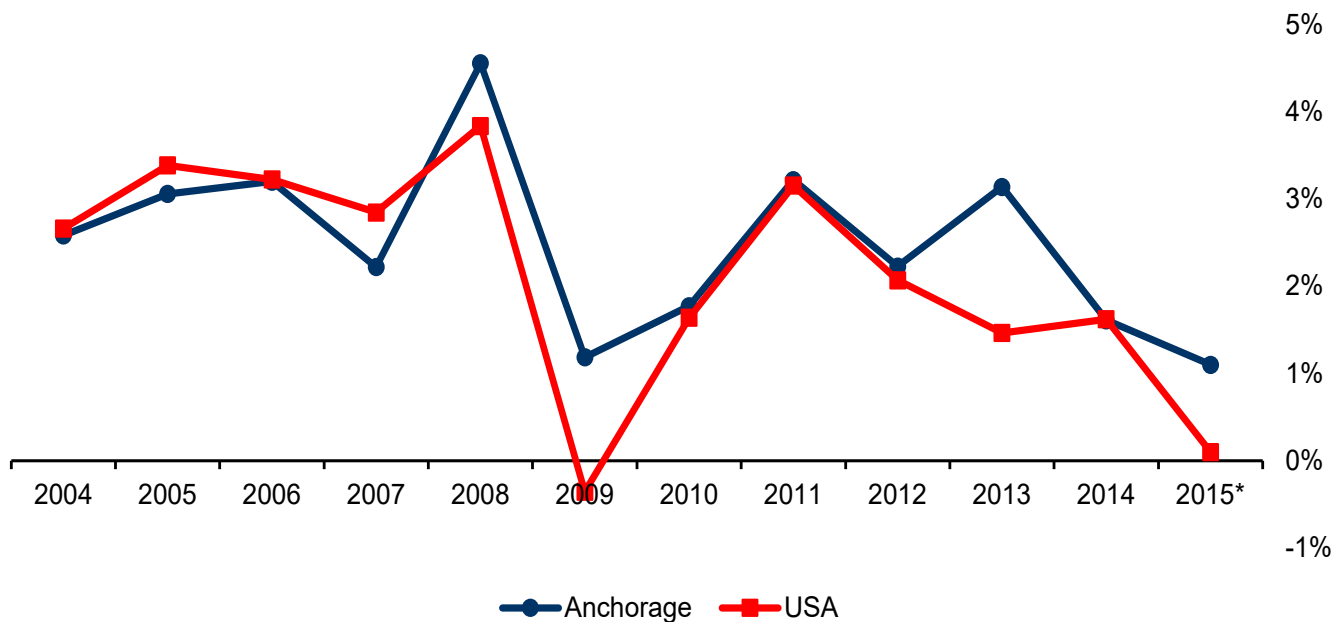
Prices in Anchorage increased 1.1 percent in the first half of 2015, over the first half of 2014, the slowest rate of increase since 2010. The Consumer Price Index (CPI), which is used to measure inflation, covers a large basket of goods, including food, medical care, energy, shelter and other common expenditures.

The average CPI measure for Anchorage includes a mixed bag of rising and falling prices. Prices increased for food (+2.9 percent), medical care (+3.1 percent) and shelter (+2.8 percent), among others. Regarding energy, the substantial reduction in gasoline prices (-23 percent) was offset by an increase in electricity (+9.9 percent) and natural gas (+21 percent). Both apparel (-1.8 percent) and household furnishings (-1.2 percent) saw declines.

Inflation in Anchorage trended higher than the national average in the first half of 2015. National prices increased just 0.1 percent, impacted in part by a reduction in energy prices, including gasoline (-22 percent) and heating oil (-22 percent).

Since 2004, Anchorage prices have increased at an annual average rate of 2.6 percent. AEDC expects inflation in 2016 to continue trending below the 10-year average, primarily a result of reduced energy prices.

ANCHORAGE AND U.S. CONSUMER PRICE INDEX ANNUAL AVERAGE CHANGE, 2004 – 2015



Note: 2015 figures are through the first half of the year. Source: U.S. Bureau of Labor Statistics.

OIL & GAS -600



Anchorage employment in the oil and gas industry is projected to decline by 600 jobs in 2016, a drop of about 16 percent, to 3,100 jobs. This decline returns oil and employment to pre-2012 levels. About 20 percent of Anchorage's employment (approximately 31,000) is directly or indirectly connected to the Alaska oil and gas industry, not including state jobs supported by oil revenues.

Oil and gas industry employment in Anchorage held steady for much of 2015, at around 3,700 jobs, though December employment estimates indicate a recent decline of about 300 jobs, suggesting the start of a downward trend in 2016. With persistent low oil prices and global oversupply, expectations for the oil and gas industry in 2016 are low in Alaska and nationally. An overall decline of 15 percent in U.S. oil and gas employment in 2015, led by states like North Dakota and Wyoming (21 percent and 23 percent declines, respectively) will be followed by further losses in 2016.

As of January 21, 2016, Alaska North Slope (ANS) Crude West Coast delivery was priced at \$26.97 per barrel. After adjusting for inflation, the last time prices were this low was in 2002. However, in 2002, ANS production averaged 1,008,600 barrels per day compared to a January 2016 production rate of about 566,000 barrels per day. Recent price projections from the Energy Information Administration have West Texas Intermediate averaging \$38.54 in 2016.

In early January, BP announced plans to reduce 4,000 jobs from its global workforce. Media reports indicate approximately 270 employees in Alaska will be impacted, or approximately 13 percent of BP's 2,100 Alaska employees. Additionally, ConocoPhillips has seen some recent workforce reductions in its Kuparuk operations. Some of these workforce reductions have been voluntary, as workers have opted to accept retirement packages.

With Shell Oil's Outer Continental Shelf exploration project placed on hold last summer, approximately 400 Alaska jobs were lost. About 40 Anchorage-based Repsol staff and contractors were laid off following Repsol's 2015-2016 drilling season deferment. This deferment represents a lost opportunity for an estimated 500 North Slope exploration jobs.

While all oil and gas companies have entered into a period of austerity, some commitments to exploration and development continue. As of December 2015, ConocoPhillips has six drilling rigs operating on the North Slope with plans for two more rigs in 2016. ConocoPhillips released a 2016 Alaska capital budget of \$1.3 billion, down just 5 percent from 2015 spending. Much of the spending will go to maintenance of facilities in existing aging fields. However, new projects include ConocoPhillips Greater Mooses Tooth Unit 1 (GMT1) oil project in the National Petroleum Reserve-Alaska, a project slated to follow up after production at CD5 started in October 2015 (daily producing up to 16,000 barrels of oil). Production from the \$900 million GMT1 is expected to come online in late 2018, producing about 30,000 barrels of oil per day (gross) at anticipated peak production. Additionally, construction is expected to continue through 2016 at Northeast West Sak viscous oil development at Kuparuk, with first oil expected in early 2017.

ExxonMobil's Point Thomson project is well-positioned to commence first oil production in early 2016. Point Thomson holds 25 percent of the state's known gas reserves, plus millions of barrels of associate condensate. While this \$2.6 billion development will increase Alaska's hydrocarbon production in the long-term, the workforce needed to operate the site is much less than the short-term workforce needed during construction. In 2015, more than 70 contractors employing 1,000 workers across Alaska were involved in this project.

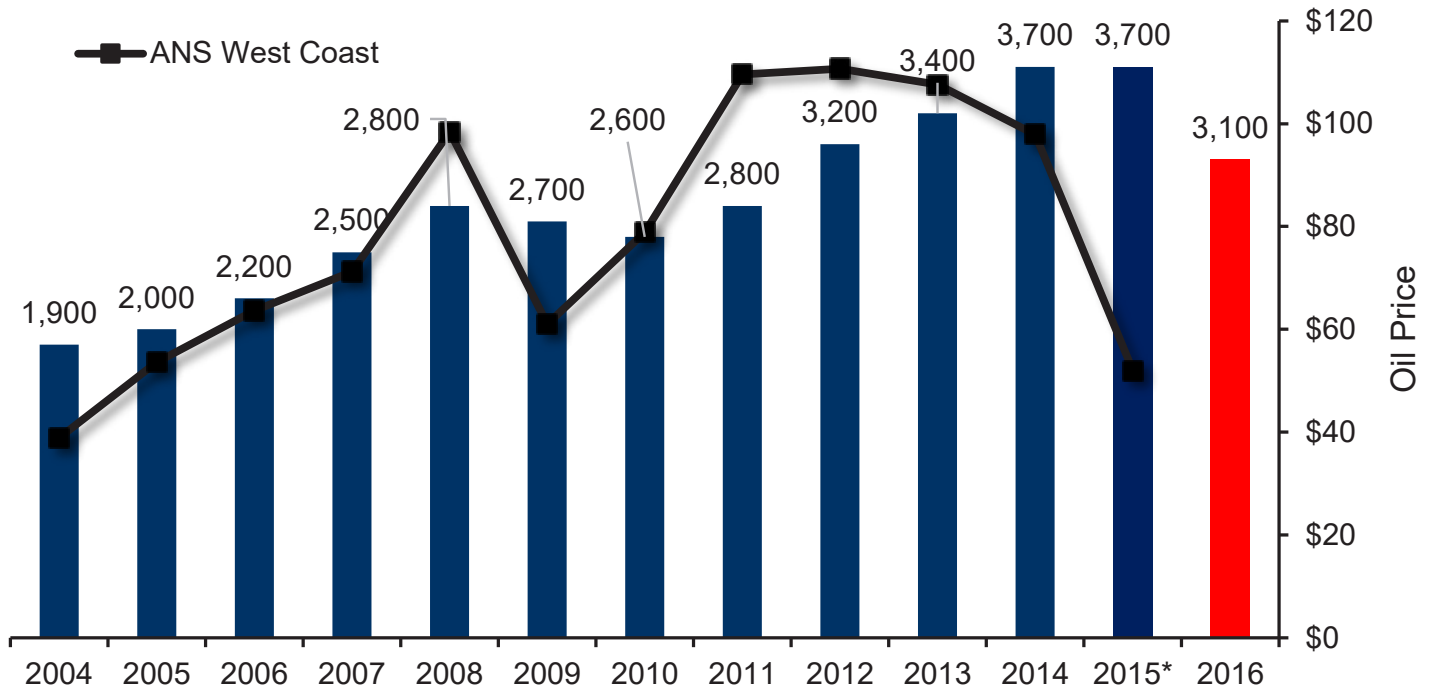
ConocoPhillips, BP and ExxonMobil will continue pre-development work on the Alaska LNG pipeline. If the Alaska LNG project goes as planned this "giga-project" would cost as much as \$65 billion.

Caelus Energy is continuing work on its Nuna Oil project (near its Ooguruk oil field on the Slope) and also plans new exploration on a near-shore Beaufort Sea prospect (Smith Bay) in early 2016.

In the Cook Inlet basin, Hilcorp Energy plans new exploration drilling near on-shore producing gas fields. BlueCrest Energy expects oil production to start off-shore at its Cosmopolitan oil and gas deposit near Anchor Point, with gas production by next summer.

Areas located outside of the traditional areas of production found on the Slope and in Cook Inlet are seeing some development. Doyon Limited expects to continue drilling its oil prospect in the Nenana basin (about 60 miles southwest of Fairbanks) in 2016. Ahtna is planning to drill a gas well near Glennallen in the spring.

ANCHORAGE OIL & GAS EMPLOYMENT AND ANS PRICE PER BARREL 2004 – 2015, 2016 FORECAST



*Estimate based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development, Alaska Department of Revenue, U.S. Energy Information Administration and McDowell Group.

HEALTH CARE +300



The health care sector is expected to add 300 jobs in 2016, up 1.6 percent, to a total of 19,100 jobs. This matches the estimated 300 jobs added in 2015. While health care employment has been on a growth trend for more than a decade, the rate of growth has been slowing since 2012.

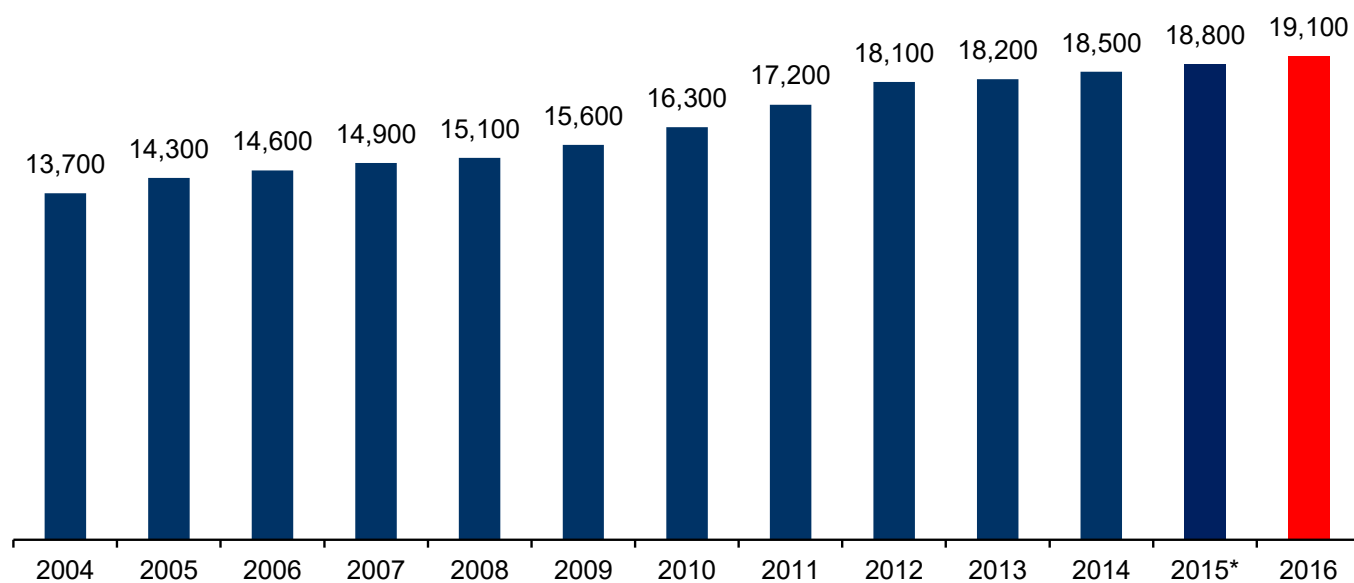
Health care employment includes hospitals (34 percent of total health sector employment), outpatient facilities (51 percent) and nursing homes and residential services (15 percent). Combined, these categories represent just over \$1 billion in annual payroll in Anchorage. All of these categories have seen employment growth over the past decade, with the strongest growth occurring in residential services. Interestingly, however, in 2014, employment in the nursing and residential care category started to decline (down 2.6 percent when comparing the first six months of 2014 and 2015).

In 2015, Providence Health & Services Alaska received permission from the Alaska Department of Health and Social Services to add eight emergency treatment rooms, less than the 14 beds requested, including a 10-room pediatric emergency treatment area. Providence has appealed the decision and expects a final decision soon. Providence's estimated budget for the expansion is \$12.8 million.

Early in 2015, North Star Behavioral Health opened an intensive in-patient treatment program, the 36-bed Chris Kyle Patriots Hospital, for veterans and active duty military in need of mental health care. This program will provide in-patient support in Alaska for post-traumatic stress or substance-related disorders that formerly require treatment Outside.

The sector continues to face considerable uncertainty due to unfolding and as yet unclear long-term effects of the Affordable Care Act (ACA), impacts of Medicaid expansion and reform implementation and the state's budget shortfall. Decreased state allocations may lead to reduced reimbursement rates or fewer services covered under Medicaid, both of which would negatively impact the health care industry. Regionally, the sector may be additionally affected by population declines (due to a slowing economy), as well as choices made by individuals to seek more affordable health treatment outside Alaska.

ANCHORAGE HEALTH CARE EMPLOYMENT 2004 – 2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

TRANSPORTATION *no change*



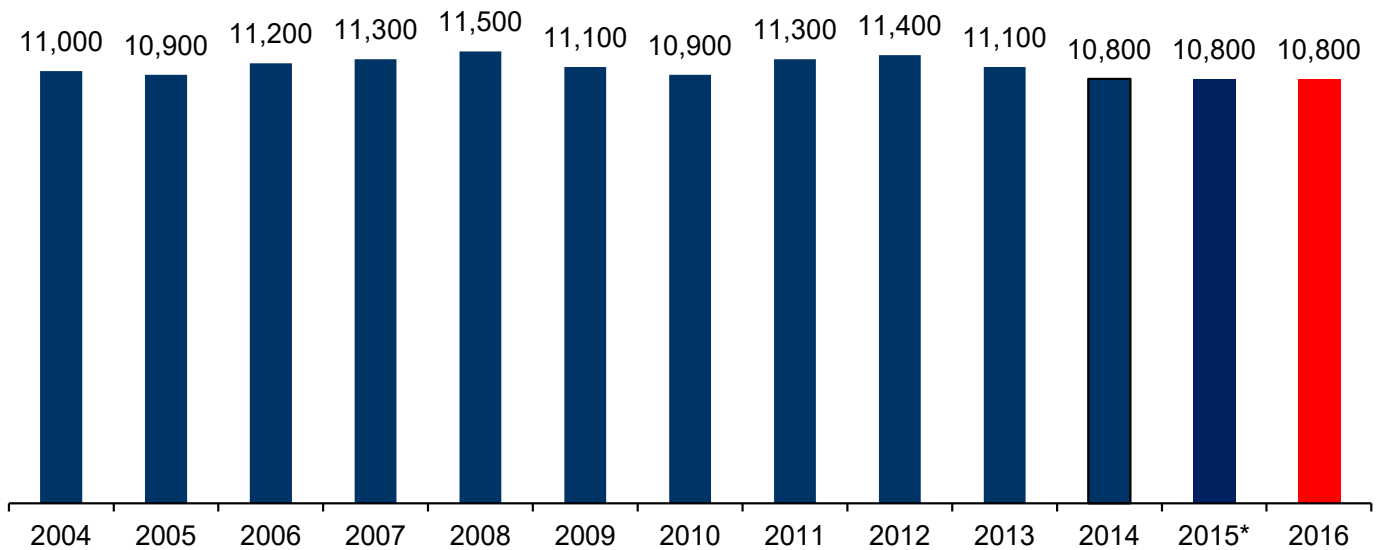
Anchorage's transportation, warehouse and utilities sector accounted for approximately 10,800 jobs in 2015, about the same as in 2014, and slightly below the ten-year average of 11,100 jobs. The transportation sector includes air transportation, couriers (e.g., FedEx and UPS), trucking and other transportation support companies. AEDC anticipates total employment in the transportation sector will remain at near its current level in 2016.

A number of factors will place downward pressure on growth in this sector: Falling state capital spending may result in reduced shipping volumes of construction materials and other supplies, and recently enacted travel restrictions affecting state employees and other austerity measures by Alaska businesses and households will reduce in-state travel. Slowing activity on the North Slope and softening statewide population growth may lower freight volumes at the Alaska Railroad and local trucking companies.

Other positive factors are expected to counter-balance downward pressures in the transportation sector: A strong 2016 summer visitor season is expected to increase non-resident passenger volume and likely support continued competition among carriers at the Ted Stevens Anchorage International Airport (ANC). Reduced fuel prices for transportation providers, particularly for air carriers, have had a positive bottom-line impact, which could spur investment in new equipment. While volume at the Port of Anchorage may be impacted, particularly container volume, growth in petroleum shipments will help offset any decline. Since 2014, petroleum volume through the port has increased over 30 percent.

Additionally, with the recent recovery of the Lower 48 economy, improved consumer confidence will lead to more retail spending on products manufactured in Asia, thereby increasing freight volumes through ANC. Data through October of 2015, shows air freight volumes have increased 12 percent from 2014.

ANCHORAGE TRANSPORTATION EMPLOYMENT 2004 – 2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

PROFESSIONAL & BUSINESS SERVICES -400



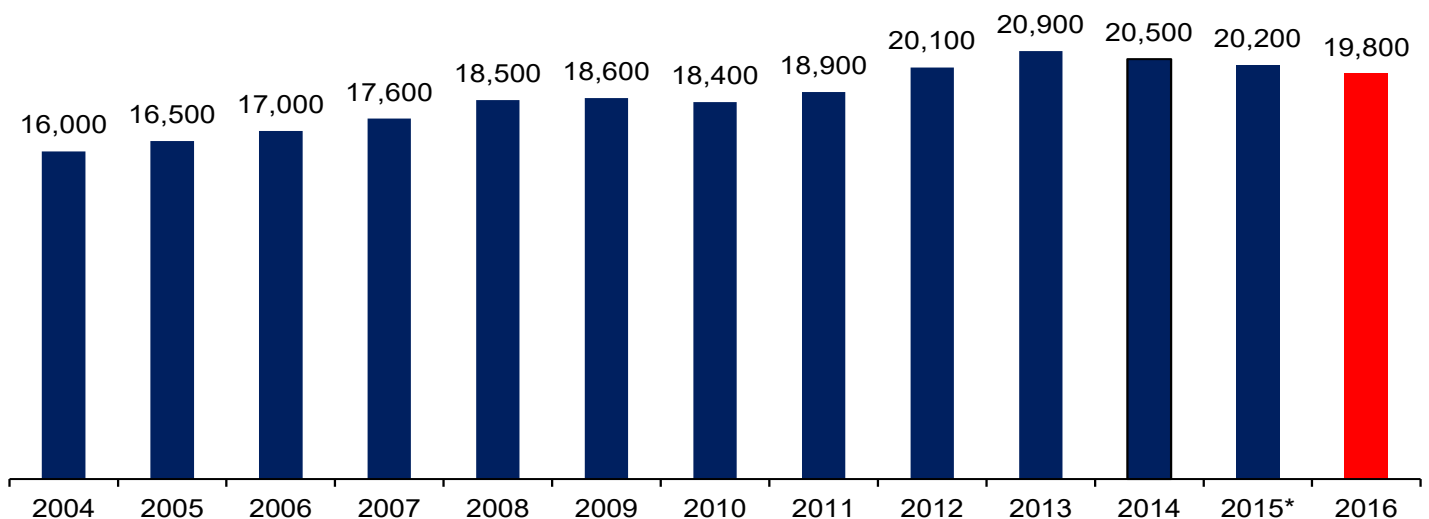
AEDC expects employment in the professional and business services sector to fall by 400 jobs, or 2.0 percent, in 2016. The sector accounted for 20,200 jobs in 2015, a decline of 300 jobs, or 1.5 percent, from 2014.

The professional and business services sector includes engineers, marketers, lawyers, architects and management professionals, among others. Administrative and waste management services are also included under professional and business services, comprising approximately 40 percent of the employment in this sector. Establishments in this sub-category include human resource firms, document preparation, security and surveillance, building cleaners and remediation of polluted sites.

A major factor impacting employment in this sector is reduced public and private spending on large-scale construction projects throughout Alaska. These projects rely heavily on the expertise of Anchorage's planning, engineering and architectural firms. Companies connected with "mega-projects" such as the Knik Arm Bridge Crossing or the Susitna-Watana Hydroelectric Project are facing particular challenges as these projects are largely on hold. Added to this, following a period of elevated activity, minimal new high-rise construction is expected in 2016. The oil and gas industry in Alaska has been an important source of business for Anchorage's professional services sector, which will feel the pinch of slowing investment and development on the North Slope and in the Cook Inlet basin. On the bright side, the Alaska LNG Project continues to employ many Anchorage professional services firms; approximately \$370 million has been spent on design and engineering. An additional \$230 million in expenditures is expected in 2016 and beyond.

In addition, there is still relatively steady work for professional services firms located in Anchorage on federal capital projects throughout Alaska, such as highways and military projects, in 2016. The U.S. Army Corps of Engineers' FY2016 budget was up slightly over FY2015, supporting the F-35A bed-down project in Fairbanks, missile defense build-up at Fort Greely, operations and maintenance build-up and missile defense at Clear Air Force Base, Formerly Used Defense Site environmental cleanup programs across Alaska and the Cape Lisburne seawall reconstruction project on the North Slope.

ANCHORAGE PROFESSIONAL AND BUSINESS SERVICES EMPLOYMENT 2004-2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

CONSTRUCTION -400



While the construction sector added approximately 200 jobs to reach an estimated annual average of 8,500 in 2015, AEDC expects construction employment to fall by 400 jobs in 2016, or 4.9 percent. This sector includes both commercial and residential building and highway-related construction employment. Construction employment in Anchorage peaked in 2006 at 9,700 jobs.

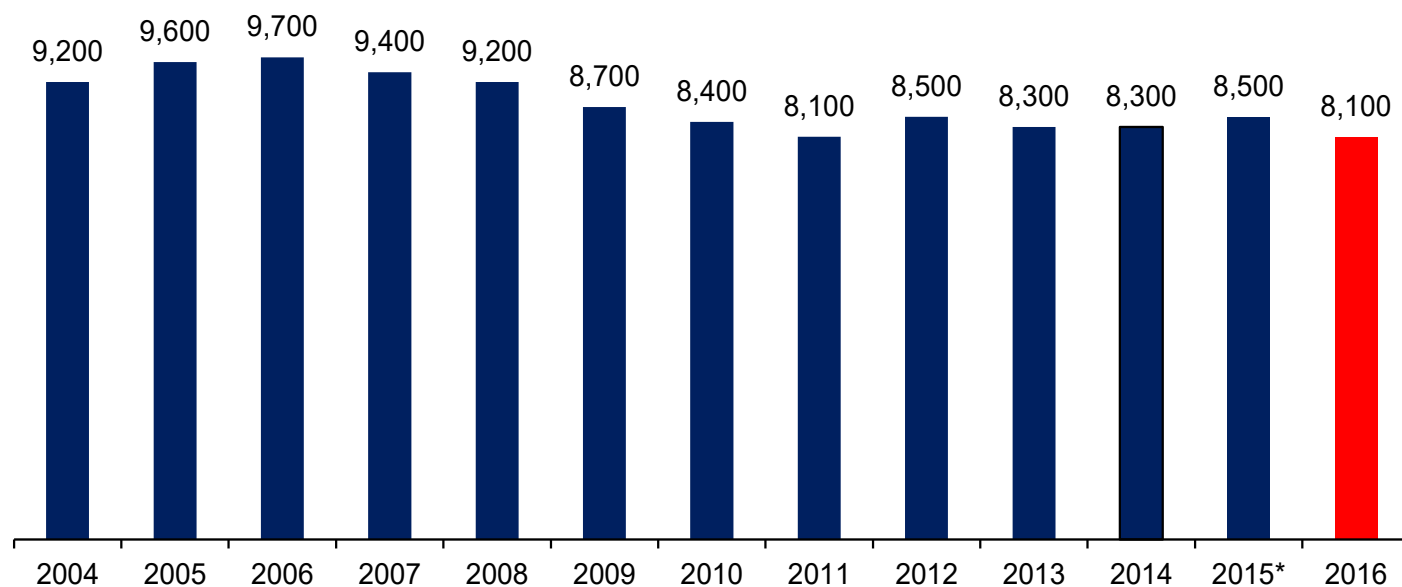
A number of downward pressures are expected in this sector in 2016. Reduced capital spending by the oil and gas industry and the State of Alaska, and slowing business investment due to economic uncertainty, will dampen construction activity. Anchorage-based construction firms are active all around the state, so reduced spending in other regions also effects local employment. Businesses involved in federally-supported infrastructure projects will likely fair better than others in the construction sector in 2016 (and beyond), as the state continues to provide matching funds necessary to secure federal dollars.

The value of Anchorage building permits provides a measure of near-term construction activity. Preliminary data suggests 2015 permit values will be more than \$100 million below 2014 (\$680 million). Year-to-date data through November 2015 suggests a reduction in permitted new residential construction units relative to 2014, declining from 758 units to 609 units. It is important to note permitted projects are not always built.

Even with reduced construction activity, there are some commercial projects underway in Anchorage in 2016. Cook Inlet Housing Authority (CIHA) continues to develop a mixed-use site at the intersection of 36th Avenue and Spenard Road, offering new housing and retail/office space. CIHA is also developing the Creekview Plaza Project, including 49 new rental units for seniors. A \$17.5 million, 25,000 square foot addition to the Anchorage Museum is scheduled for completion in 2017. Also under construction is a \$9.3 million, 21,000 square foot Class A retail space located near Debarr and Muldoon roads, scheduled to open in the summer of 2016. Other projects include a new Alaska Native Health Consortium Community Center (\$9.1 million), remodel of the Fred Meyer on Debarr Road (\$5.1 million) and remodel of the University of Alaska Anchorage College of Engineering building (\$16 million). A Courtyard by Marriott (\$13.4 million), Hyatt (\$18.3 million) and the My Place Hotel (\$4.8 million) are three new hotels currently under construction in 2016.

In 2015, Anchorage voters approved a \$60 million bond package for school-related capital spending. Maintenance and improvement projects are underway at Gladys Wood Elementary, Mountain View Elementary, Rabbit Creek Elementary and Turnagain Elementary in 2016. While a \$50 million bond package has been proposed for 2016, future capital spending by the Anchorage School District is uncertain as the State of Alaska has suspended a program where 70 percent of education capital projects are reimbursed.

ANCHORAGE CONSTRUCTION EMPLOYMENT 2004-2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

LEISURE & HOSPITALITY +200



The leisure and hospitality sector is anticipated to account for 17,300 jobs in 2016, up 200 jobs from 2015. In 2015, employment in this sector increased by 200 more jobs (or 1.1 percent) from the 2014 level. About two thirds of employment in this sector is in the food service industry, the remaining third are employed in hotels, theaters, museums and other recreational firms. While tourism has a significant impact on this sector, year-round spending by local residents is essential. Peak employment for 2015 occurred in July at 18,200 jobs, the highest monthly figure on record.

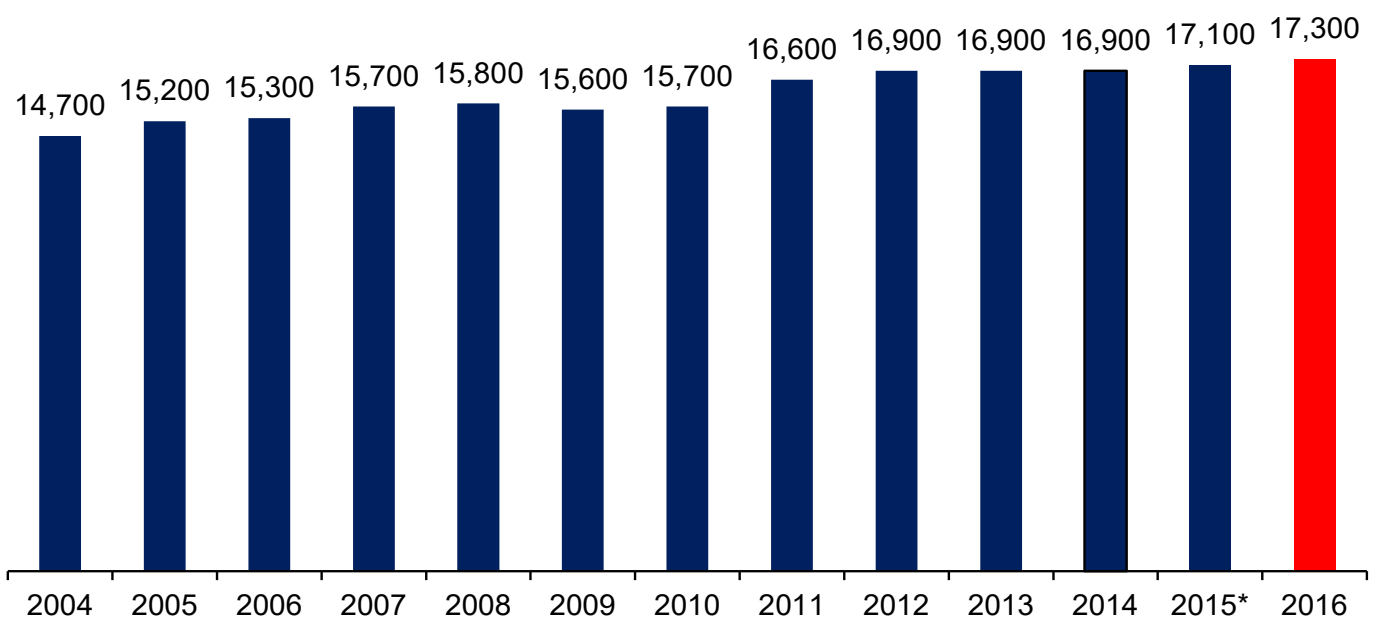
Other signals of the sector's improvement include receipts from Anchorage bed and rental vehicle tax for the first three quarters of 2015 – both up 5.1 and 2.2 percent, respectively. Comparing year-to-date data through November, passenger enplanements were up 6.3 percent over 2014, including about one-third of all cruise passengers visiting Alaska in 2015 (who fly either to or from Alaska).

AEDC expects 2016 to be a strong year for this sector, possibly better than 2015. Perceived security instability in traditional travel destinations and a strengthening national economy are expected to make Anchorage and Alaska more attractive to domestic visitors. Reduced energy prices may also result in more independent and RV travelers making the road trip to Alaska and reduced air fares could mean more visitors to Alaska. Southcentral Alaska ports are expected to receive five fewer cruise vessels than 2015; however, some ships will be larger and passenger volumes are expected to be similar in 2016.

In 2016, approximately 50 conventions will host an estimated 12,000 visitors, the largest of which is the Ducks Unlimited National Convention with 1,200 expected attendants. The theme of adventure travel will be well-represented in 2016, with two international organizations planning events in Anchorage. The Adventure Travel Trade Association and Go West Summit conferences are expected to have attendances of 700 and 550, respectively.

In addition to activity directly connected to the visitor industry, new food service establishments will support employment growth in this sector: BurgerFi, Krispy Kreme, Panda Express and Smash Burger will be opening new locations in 2016.

ANCHORAGE LEISURE AND HOSPITALITY EMPLOYMENT 2004-2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

RETAIL TRADE *no change*



Employment in Anchorage's retail sector grew to 18,200 in 2015, an increase of 400 jobs, or 2.1 percent over 2014. Retail employment started growing in 2014, gaining 600 jobs that year, after four years of no change. This sector includes grocery stores, auto dealers, gas stations, furniture retailers and other retail establishments. Anchorage is Alaska's retail hub; people from all over the state shop in Anchorage's retail sector, either in-person or mail-order. Though retail trade is often sensitive to broader economic conditions, AEDC expects retail trade employment to remain steady in 2016.

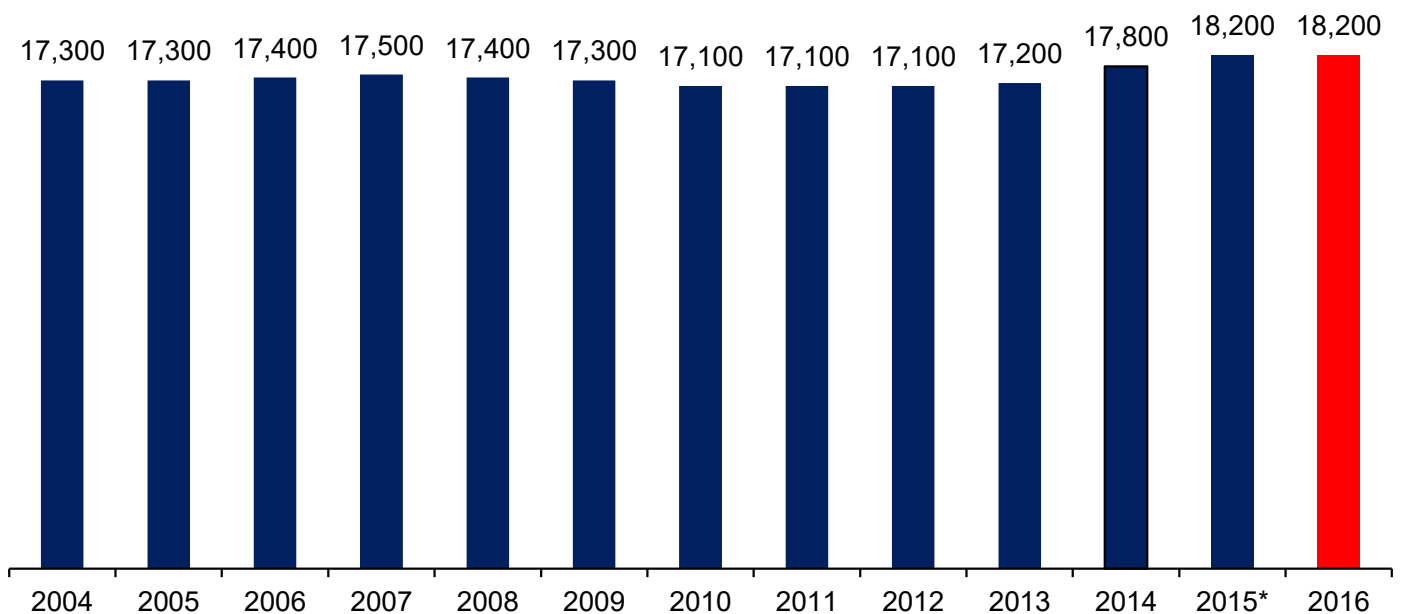
Attracted in part by the city's above average median income, new retailers—including H&M, Nordstrom Rack, North Face, Men's Warehouse, Pier 1 Imports and Ulta Beauty—moved into the Anchorage market in 2015. This level of new entries into the Anchorage market is not expected to be repeated in 2016.

Constraints on growth may include relatively low retail space vacancy rates, reflected in limited space available at Anchorage's larger retail centers such as the 5th Avenue Mall, Tikahtnu Commons or Glenn Square. One notable exception is the vacant 40,000 square foot space at the former Carrs Quality Center located in the mid-town Sears Mall. Another factor affecting growth is the availability of qualified staff. With unemployment rates remaining at low levels, coupled with a shrinking local labor force, filling retail positions will continue to be a challenge.

Both local residents and other Alaskans spend their annual Permanent Fund Dividend (PFD) in Anchorage's retail sector. In 2015, \$1.3 billion in dividends were distributed to Alaskans, of which \$600 million were paid to Anchorage residents. Potential future reductions in future PFD amounts would undoubtedly impact retail spending in Anchorage. Similarly, potential enactment of a sales tax or income tax could also impact consumer spending.

A falling population and consumer belt-tightening in response to economic uncertainty will add to this and challenge Anchorage's brick-and-mortar retail establishments.

ANCHORAGE RETAIL TRADE EMPLOYMENT 2004-2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

FINANCIAL ACTIVITIES -100



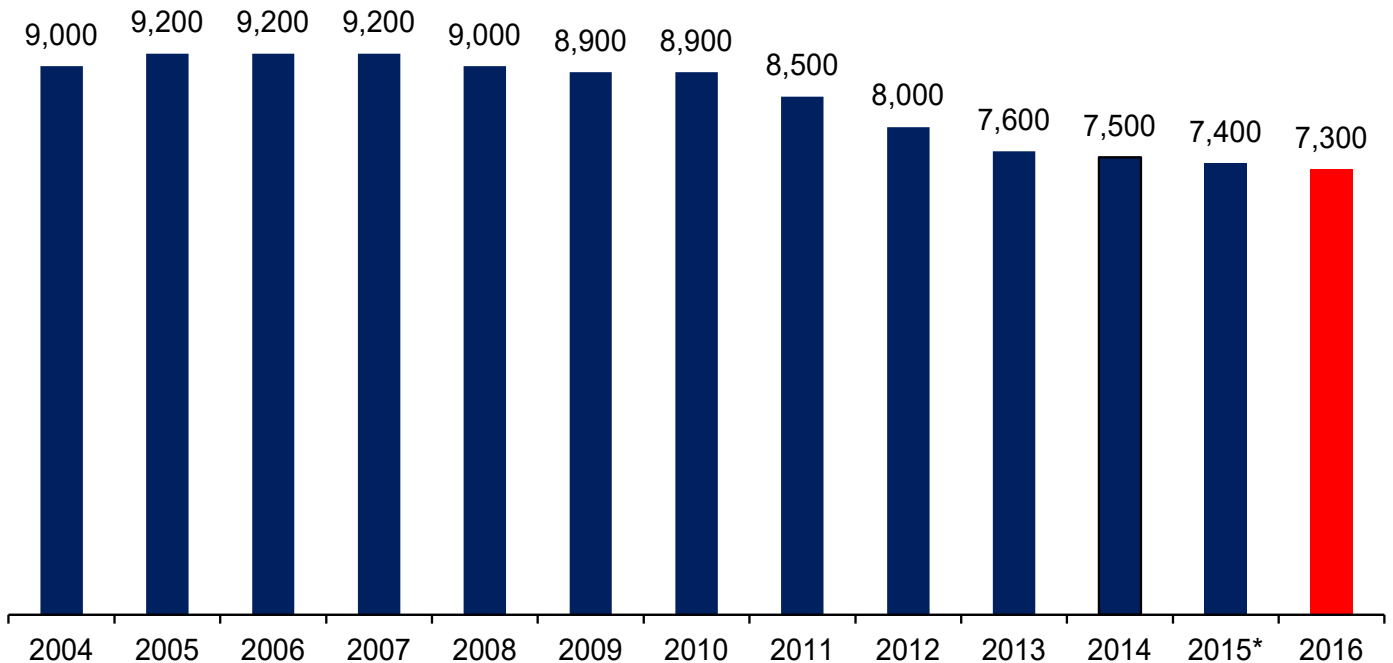
In 2015, Anchorage's Financial, Insurance and Real Estate (FIRE) sector lost an estimated 100 jobs. Since 2008, this sector has experienced flat or declining employment. AEDC predicts this sector will lose another 100 jobs, or 1.4 percent in 2016.

Of the 7,400 workers employed in this sector in 2015, 40 percent work in real estate, 40 percent in credit intermediation and 20 percent in other financial activities. Real estate includes establishments involved in managing, renting, buying and appraising real estate; credit intermediation includes banks, credit unions, mortgage brokers and check-cashing services; and other financial activities include insurance carriers, asset management firms and financial advisors.

Slowing residential real estate activity in Anchorage is one of the primary reasons employment in this sector continues to decline. For the first three quarters of 2015, 616 housing units were built in the Anchorage market, compared to 800 units for the same time period in 2014. During the same period, 1,209 single-family home loans were refinanced. While this was more than the same period in 2014 (699 loans), the number of homes being refinanced has dropped considerably over previous years, particularly the first three quarter of 2009, when 7,011 loans were refinanced. Refinancing activity has been driven in large part by historically low interest rates, a trend that could eventually change with the Federal Reserve's recent policy announcement to increase interest rates.

Another factor slowing employment in this sector is the nationwide shift from in-person banking to mobile or internet banking, a dynamic which has reduced the need for banking establishments to have employees on hand to interact with customers. Additionally, increased automation and use of electric documents have streamlined many financial establishments. Since 2009, employment in the credit intermediation category has slipped approximately 15 percent.

ANCHORAGE FINANCIAL ACTIVITIES EMPLOYMENT 2004-2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

GOVERNMENT -500



With an annual average of 29,300 workers in 2015, government employment slipped very slightly from 2014 levels, however, job losses accelerated in the second half of 2015. This sector is comprised of state (37 percent), local (34 percent) and federal (29 percent) government workers. AEDC anticipates a further reduction of 500 jobs, or 1.7 percent, in 2016.

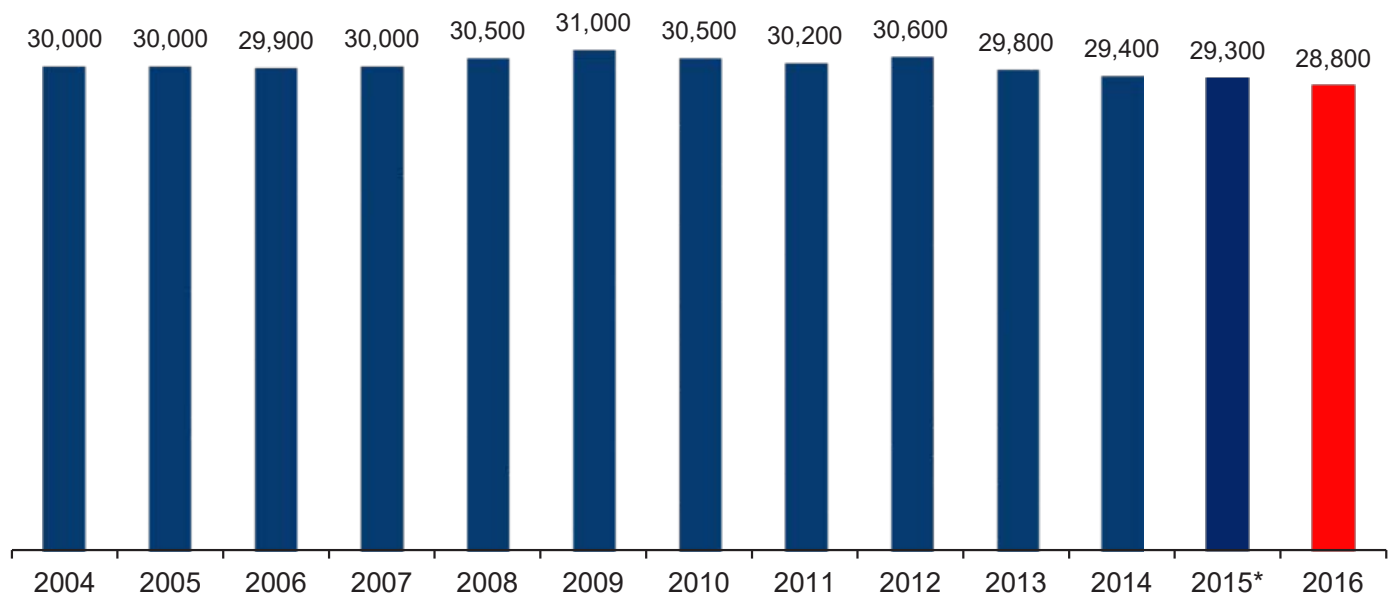
In recent years, the loss of federal jobs was the largest contributing factor in the sector's overall employment picture. After peaking in 2010 at 9,800 jobs, federal employment declined by slightly more than 13 percent to 8,500 jobs in 2015. However, employment was relatively flat between 2014 and 2015, perhaps indicating a bottoming-out of federal job losses.

State government employment weakened in 2015. For first half of the State Fiscal Year 2016 (July through December 2015), state employment in Anchorage was down 370 jobs compared to the same period in 2014, or 3.3 percent. Last year saw the first decline after more than 20 years of stable or growing state government employment in Anchorage. University of Alaska Anchorage employment (which is included under state employment) fell by approximately 100 jobs (3.8 percent), its first decline since 2001 (the first year data is available).

While state and federal government employment was either flat or down in 2015, employment in local government grew, increasing by 200 jobs (1.9 percent) to 10,300 workers. This additional employment was mainly connected with the Anchorage School District, the largest component of the local government sector, currently accounting for more than 70 percent (7,400 jobs) of all local government employment (down from its peak of 7,900 jobs in 2012).

While AEDC anticipates federal employment to be flat in 2016, reductions are likely at the state and local level as a result of the state's fiscal situation. Facing a multi-billion-dollar deficit, legislators are expected to push for additional cuts to state spending. A hiring freeze is already in place, impacting many state agencies. Declining employment is also anticipated in local government, primarily at the Anchorage School District which has proposed cutting 53 positions in response to a projected \$10.9 million deficit.

ANCHORAGE GOVERNMENT EMPLOYMENT 2004-2015, 2016 FORECAST



*Estimated based on preliminary 2015 numbers. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

OTHER SECTORS OF THE ANCHORAGE ECONOMY -100

In addition to the nine sectors previously described, Anchorage's economy includes many other jobs and industries. These industries include manufacturing, wholesale trade, information, private education and private social services, among others. Total employment from these sectors fell to 23,500 jobs in 2015, a loss of nearly 300 jobs (1.2 percent) from the 2014 level (primarily from decreases in private education, manufacturing and wholesale trade jobs). AEDC anticipates these sectors to lose 100 jobs in 2016, falling 0.4 percent.

Recently legalized marijuana retail sales, growing and recreational consumption may have long-term employment implications for Anchorage. Experiences in other states where marijuana has been legalized indicate significant employment growth is possible. Initial growth in Alaska's marijuana industry is likely to be mainly at the smaller-scale, proprietorship start-up level, which is generally not fully reflected in published employment data. As the industry matures and as marijuana-related businesses scale up, growth in this new industry will become evident in local employment statistics. At this time, no marijuana-specific employment category exists; related employment will likely to be captured across three main sectors: agriculture, wholesale trade and retail.

In Summary:

2016 ECONOMIC FORECAST for ANCHORAGE

As oil prices continue to trend down through the first few weeks of January, good news in the oil and gas sector remains elusive. With a third of Alaska's economy tied to the oil and gas industry, either for jobs in the private sector or for revenues to support state and local government operations, there is little room for near-term optimism about the local and statewide economies. Still, Anchorage's \$20 billion-plus economy has the size, diversification and resiliency to ride out the rough water ahead, much more so than during previous oil price shocks.

While conditions in global oil markets are beyond Alaska's control, how we respond to the new reality of low oil prices and dramatically lower oil revenues is entirely up to us. Missteps or delays in addressing our state government budget challenges now can make a difficult situation worse for Alaska's economy.

AEDC continues to closely monitor force reductions at JBER. With Arctic security a growing national priority, a strong military presence in Alaska is essential. A course reversal on Army down-sizing in Anchorage would be welcome news for the local economy.

The visitor industry remains a bright spot in the economy. Statewide, the industry will enjoy a 2 percent increase in cruise passenger traffic in 2016, following a 3 percent increase in 2015. A big jump in air passenger traffic at ANC in 2015 suggests strength in the independent travel market as well. Much of the transportation sector in general is benefiting from low fuel prices, especially air carriers. Other good news in the transportation sector includes a sharp increase in air cargo transiting ANC, a reflection of a strengthening national economy.

The health care sector is a mixed blessing, adding 5,000 jobs and half a billion dollars in local payroll over the past decade, with an outlook for further growth ahead. Yet rising health care and insurance costs continue to challenge employers and families in Anchorage and elsewhere in Alaska.

AEDC's Business Confidence Index (BCI) survey measured the lowest level of confidence in the Anchorage economy in the 8-year history of the survey. Still, their expectations for employment, gross sales and profits remain just on the positive side of the ledger in 2016.

In summary, looking at the year ahead, the Anchorage economy faces some significant challenges, with more down-side risk than up-side potential. Longer-term, however, we can place trust in the staying power of our business community and offer our full support in the creation of badly-needed certainty and fiscal sustainability in state government. Meantime, though there may be some tough sledding in the year ahead, AEDC remains confident in its mission to grow a prosperous, sustainable and diverse economy.



AEDC
Anchorage Economic
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Thank you
for making this report possible:



This report was
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