



ECONOMIC 2019 FORECAST

ANCHORAGE

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AEDC
Anchorage Economic
Development Corporation



Report compiled by McDowell Group. The 2019 Economic Forecast includes 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 2019.

Report released Jan. 30, 2019 at the AEDC Economic Forecast Luncheon.

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NOTE ON SOURCE OF EMPLOYMENT DATA

This employment forecast is based on historical and preliminary 2018 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.

2019 ECONOMIC FORECAST for Anchorage:

— *Employment on the rise* —

A year ago AEDC predicted Anchorage would lose another 1,000 jobs in 2018, mainly in the support sector, as the multiplier effects of previous years' losses rippled through the economy. The final accounting of Anchorage employment in 2018 will likely place the loss at about 1,200 jobs, including 600 jobs in the retail sector. Anchorage also saw further losses in the professional and business services sector (down 600 jobs) and government (down about 500 jobs). Yet again health care was there to ease the pain, adding another 500 jobs to a remarkable period of growth that now totals 3,000 new jobs over the past five years and more than 5,000 new jobs over the past ten years. There is also good news from the construction sector, which turned a corner in 2018, adding jobs for the first time since 2015. The sector showed a 3 percent uptick (about 200 jobs) in employment in 2018.

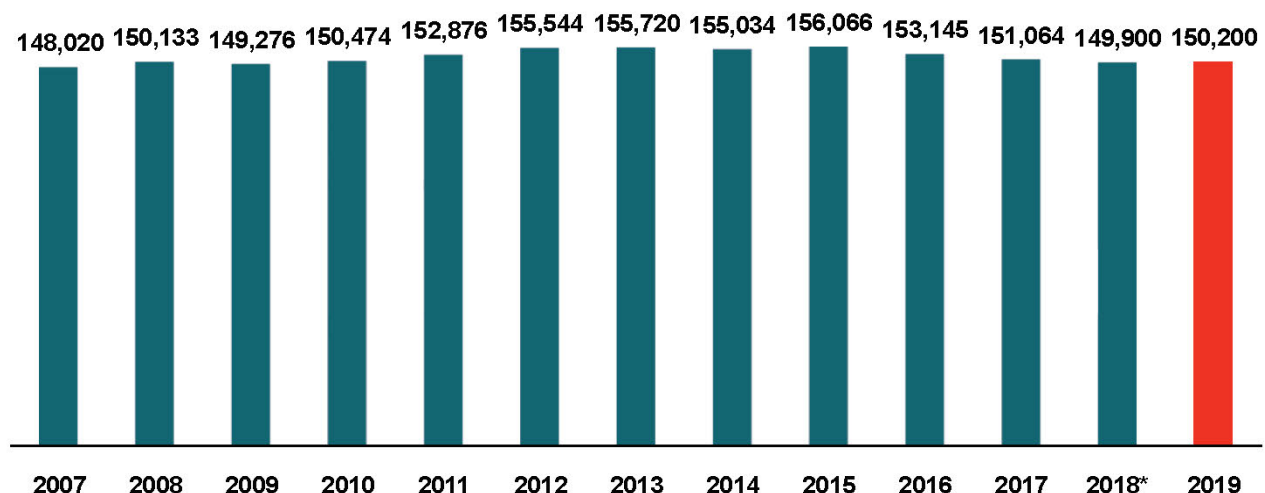
The loss of 1,200 jobs in 2018 was not good news, but it was an improvement from 2017, when Anchorage lost 2,100 jobs, and from 2016, when the local economy shed 2,900 jobs. The trajectory of employment is in the right direction and 2019 is expected to reflect continuing improvement. As described in this forecast, further decline is likely in some sectors, but another strong year for the visitor industry, still more health care-related growth, a bump in construction employment, and other forces should tip the scales into positive territory, if only slightly.

AEDC expects Anchorage employment to trend up slightly in 2019, with a net increase of 300 jobs. While this employment forecast reflects some optimism for 2019, the state's \$1.6 billion budget deficit looms large. A misstep in how that deficit is managed could easily push Anchorage employment trends back into negative territory.

This employment forecast begins with an overview of a few key indicators, including population, unemployment rate, and rate of inflation. Then the 2019 employment outlook is described for each key sector of the local economy. The forecast concludes with a few big-picture thoughts about the outlook for Anchorage's economy.

ANCHORAGE EMPLOYMENT

ANCHORAGE EMPLOYMENT, 2007 – 2018, 2019 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).

2019 EMPLOYMENT CHANGE BY SECTOR

at a glance

OIL & GAS *+100*
HEALTHCARE *+400*
TRANSPORTATION *+100*
GOVERNMENT *-400*
PROFESSIONAL &
BUSINESS SERVICES *-200*
CONSTRUCTION *+200*
LEISURE & HOSPITALITY *+200*
RETAIL TRADE *NO CHANGE*
FINANCIAL ACTIVITIES *-100*
OTHER SECTORS *NO CHANGE*
TOTAL CHANGE *+300*

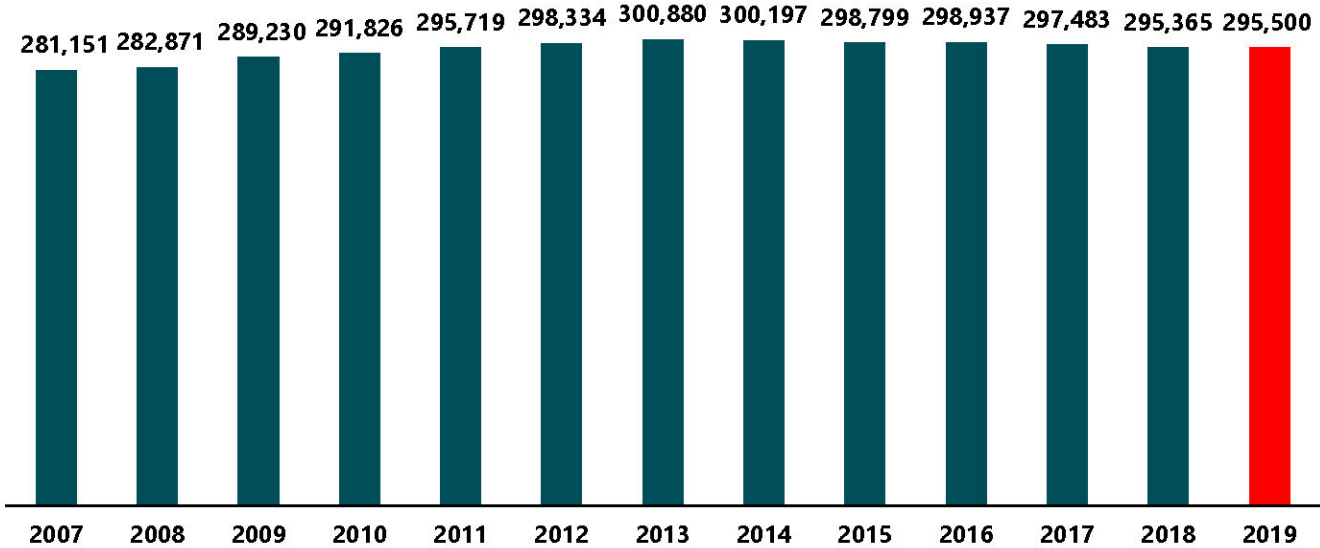
ANCHORAGE POPULATION

In July of 2018, an estimated 295,365 people lived in Anchorage, representing a loss of 2,118 residents (0.7 percent) from 2017. After climbing to a ten-year peak of 300,880 in 2013, Anchorage has since experienced a loss of 5,515 residents, or 1.8 percent.

As economic conditions continue to improve, AEDC anticipates Anchorage's population will stabilize in 2019 and hold at about 295,500, essentially unchanged from 2018.

- The population change between 2017 and 2018 included 4,091 births, 1,656 deaths, and a net loss of 4,821 residents due to migration.
- The transitory nature of Alaska's population makes Anchorage especially susceptible to population swings following economic downturns. According to IRS tax statistics, an average of 12 percent of Alaska's population turns over each year due to migration (includes in- and out-migration between 1990 and 2016). This is the highest rate of any U.S. state.
- Additionally, intra-state migration is a significant factor in Anchorage's population change, as Anchorage is involved in roughly 70 percent of all migration between boroughs/census areas. Between 2013 and 2018, 28,344 people left Anchorage for other parts of Alaska, while 26,524 people moved to Anchorage from elsewhere in the state. Unsurprisingly, Mat-Su Borough is the largest migration partner: In that time, 15,105 people left Anchorage for Mat-Su and 9,197 Mat-Su residents moved to Anchorage.
- Like much of Alaska, Anchorage's population base is aging, a trend that is expected to continue in the coming years as a greater proportion of the population enters retirement age and the fertility rate declines. Between 2000 and 2018, the portion of population above the age of 65 increased from 6.3 to 10 percent. By 2025, the Alaska Department of Labor and Workforce Development expects the proportion above 65 to reach 15 percent.

ANCHORAGE POPULATION, 2007 – 2018, 2019 FORECAST



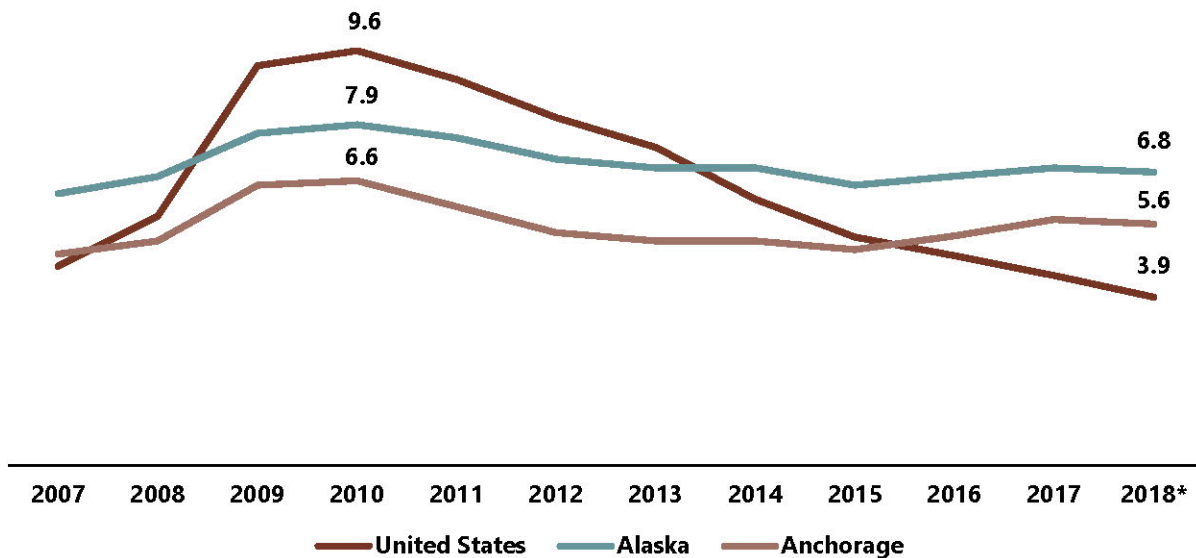
Sources: Alaska Department of Labor and Workforce Development (2007-2018), McDowell Group (2019 estimate).

ANCHORAGE UNEMPLOYMENT

Anchorage's unemployment rate in 2018 averaged 5.6 percent, down slightly from the 2017 average of 5.7 percent. In terms of unemployment, 2018 was an interesting year. In February, Anchorage unemployment reached 6.7 percent, the highest monthly rate since 2011. By August 2018, unemployment had dropped to 4.7 percent, the lowest monthly rate in more than three years.

- Anchorage's 5.6 percent unemployment rate in 2018 was below the statewide rate of 6.8 percent but higher than the national rate of 3.9 percent.
- In the third quarter of 2018, Anchorage's unemployment rate averaged 4.9 percent, nearly a percent lower than the year before and just slightly above 2015's third quarter rate of 4.7 percent. Preliminary data from November suggest that this rate remains lower.
- Although Anchorage resident employment remains about 5,000 jobs below pre-recession 2015 levels, the number of unemployed residents is just 750 above 2015.
- Between February 2018 and November 2018, the number of unemployed Anchorage residents decreased by about 2,500 while the number employed increased by a like amount. Over this period the total resident labor force held steady at about 154,000.

UNITED STATES, ALASKA, AND ANCHORAGE AVERAGE MONTHLY UNEMPLOYMENT RATE (%), 2007 – 2017 AND 2018 PRELIMINARY



*2018 figure based on preliminary data through November.

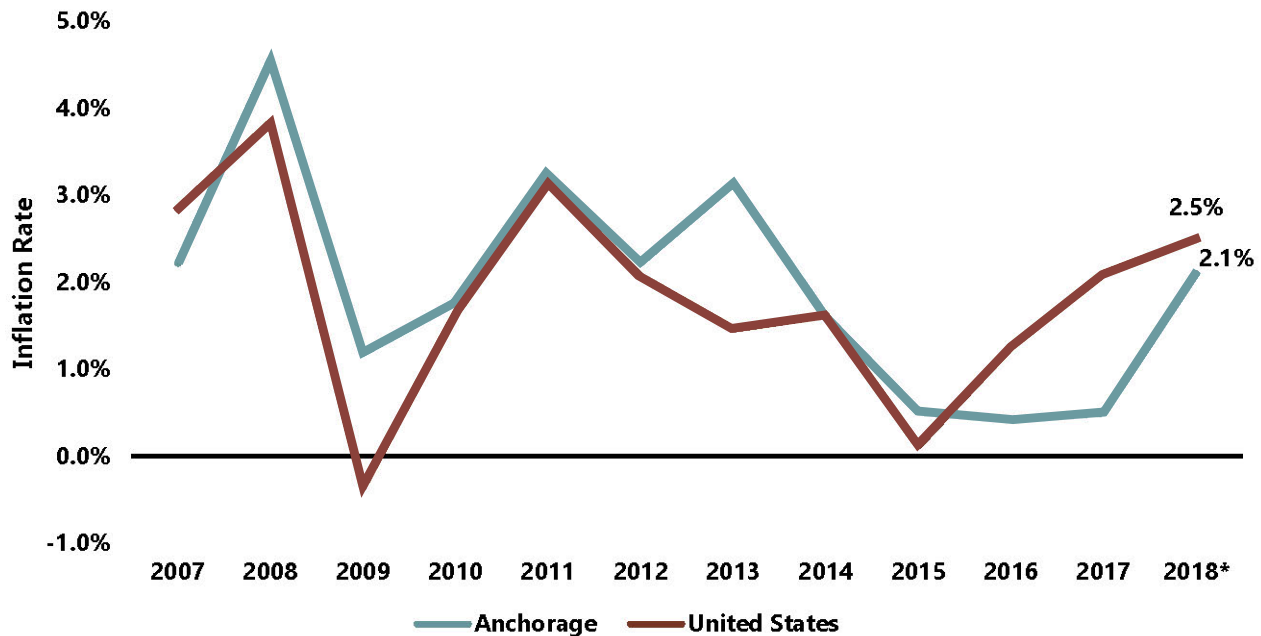
Source: Alaska Department of Labor and Workforce Development, U.S. Bureau of Labor Statistics (2007-2018).

ANCHORAGE INFLATION RATE

Through June of 2018, Anchorage prices increased 2.1 percent compared to the first half of 2017. That rate of inflation, while low by historical standards, was well above the 2013-2017 average of 1.2 percent.

- Inflation is measured with the Consumer Price Index (CPI), which considers price changes over time for commonly used consumer goods and services. The Anchorage/Mat-Su CPI is the only available measure of inflation for Alaska.
- Compared to the prior year, energy (+8.0 percent), medical care (+5.1 percent), and transportation (+6.8 percent) prices increased in the first half of 2018. These increases were moderated by declines in the price of durable goods such as vehicles or appliances (-1.9 percent) and education and communication services (-1.1 percent).
- For the past three years, the Anchorage inflation rate has been lower than the U.S. rate, likely reflecting the differing impact of economic recession in Alaska but strong national economy.

ANCHORAGE AND U.S. CONSUMER PRICE INDEX, ANNUAL AVERAGE CHANGE (%), 2007 – 2017 AND 2018 PRELIMINARY



*2018 figure based on preliminary data through first half of the year.
Source: U.S. Bureau of Labor Statistics (2007-2018).

OIL & GAS +100

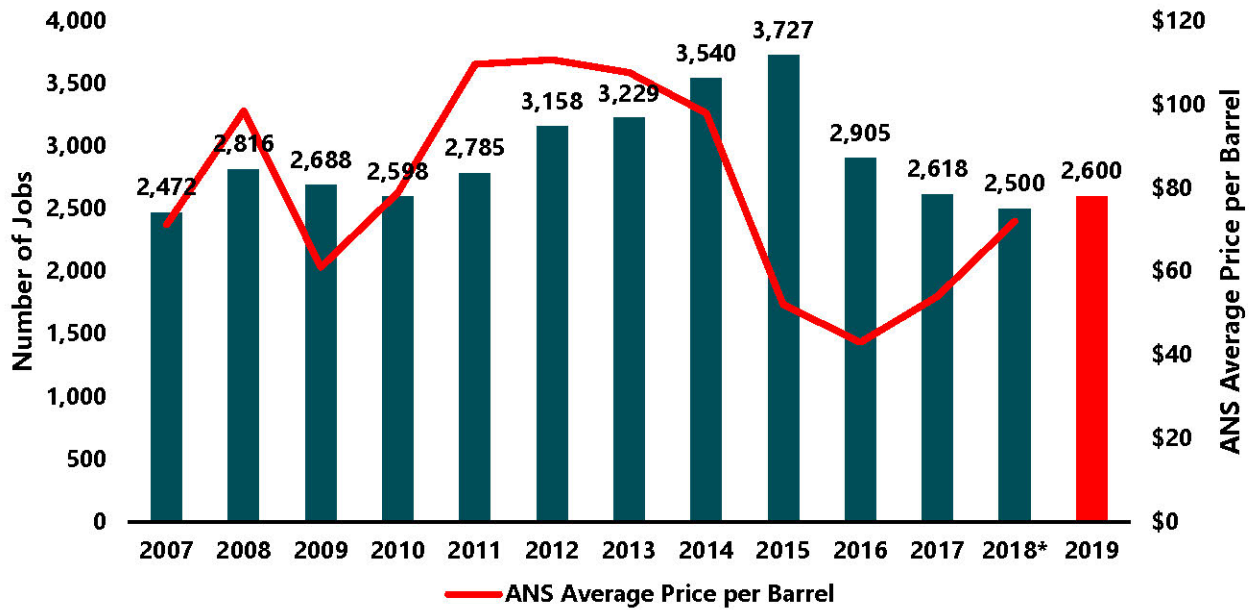


Anchorage's oil and gas sector lost approximately 100 jobs in 2018. The sector accounted for an average of 2,500 jobs in 2018, down approximately 5 percent from 2017. Since a peak of 3,727 jobs in 2015, this sector has declined by about a third, losing 1,200 positions in total. Oil and gas industry employment in Anchorage was last at this level in 2007. Statewide, the oil and gas industry has lost more than 4,500 jobs since 2014.

AEDC anticipates that an uptick in activity on the North Slope will be reflected by the addition of 100 oil and gas industry jobs in Anchorage in 2019, a 4.0 percent increase to 2,600 total positions.

- The Trans-Alaska Pipeline System (TAPS) averaged throughput of 509,000 barrels per day in 2018, a 3.4 percent decline from 2017, but higher than the low-point in 2015.
- Activity on the North Slope is higher after several years of depressed investment.
 - ConocoPhillips achieved first oil at Greater Mooses Tooth #1 in October; the development will have an estimated peak daily production of 30,000 barrels per day. Fiord West (20,000 barrels per day) is expected to begin producing in 2020 and Greater Mooses Tooth #2 (40,000 barrels per day) is anticipated to begin production in late 2021. In 2019, the company plans to drill four to six wells near the Willow discovery, expand CD5 and CD2, and continue development of other prospects.
 - Hilcorp plans to drill up to 70 wells at Milne Point (16,000 barrels per day) with first oil expected in 2020.
 - Oil Search is expected to drill at its Pikka Unit and Eni may resume development at the Nikaitchuq Unit with up to three wells. Brooks Range, Elixier Petroleum, Great Bear Petroleum, and other companies are actively purchasing leases, exploring, and pursuing development opportunities on the North Slope.
 - Longer term development includes ConocoPhillips' Willow discovery (potential of 100,000 barrels per day), Hilcorp's Liberty Project (65,000 barrels per day), and Oil Search's Nanushuk project (120,000 barrels per day). Caelus' Smith Bay development may also offer long-term potential of as much as 200,000 barrels per day.
- Most Cook Inlet activity is focused on natural gas production for Railbelt consumption.
 - Hilcorp plans to drill two wells from the Seaview Pad near Anchor Point and up to four wells targeting the Sterling and Beluga formations. The company continues to find ways to increase production from legacy fields and is developing new prospects in the Ninilchik, Cannery Loop, and Trading Bay units. Hilcorp recently finished a \$90 million pipeline to transport crude oil directly to a refinery in Kenai.
 - Furie completed a development well in the Kitchen Lights unit and has plans for an additional well in 2019. BlueCrest Alaska plans to drill in the Cosmopolitan Unit. Glacier Oil & Gas and Amaroq Resources are also active in the area.
- The federal government continues to advance plans to offer lease sales and eventual development of the Arctic National Wildlife Refuge 1002 area. While ANWR development would have important economic benefits for Alaska, it is important to note that production from federal lands do not offer the same financial benefits for Alaska as production on state-owned land.
- Technology is a double-edged sword for the Alaska economy. Using modern techniques, industry can find and extract oil otherwise not technically feasible. At the same time, automation technology generally reduces the number of workers needed to produce oil.
- Through much of 2018, crude oil traded at three-year highs. However, prices declined sharply beginning in early October, falling 30 percent in three months. While most short-term price projections are for a recovery in prices over the next two years, significant uncertainty remains.

ANCHORAGE OIL & GAS EMPLOYMENT AND ALASKA NORTH SLOPE (ANS) PRICE PER BARREL, 2007 – 2018, 2019 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2007-2016 employment); McDowell Group (2018 and 2019 employment); Alaska Department of Revenue (2007-2018 oil price).

HEALTHCARE +400



Anchorage's healthcare sector extended its decades-long trend of expansion in 2018 with the addition of about 500 jobs, a gain of 2.3 percent from 2017. In 2019, AEDC expects Anchorage's healthcare sector to add another 400 jobs (1.9 percent).

On average, healthcare accounted for 21,200 jobs in 2018 and remains the largest private-sector industry in Anchorage, in terms of direct employment. Outpatient services such as dental, imaging, and specialty care account for roughly half of the sector's employment; hospitals contribute about a third, and nursing and residential care services round out the remainder. Anchorage is Alaska's center for health care.

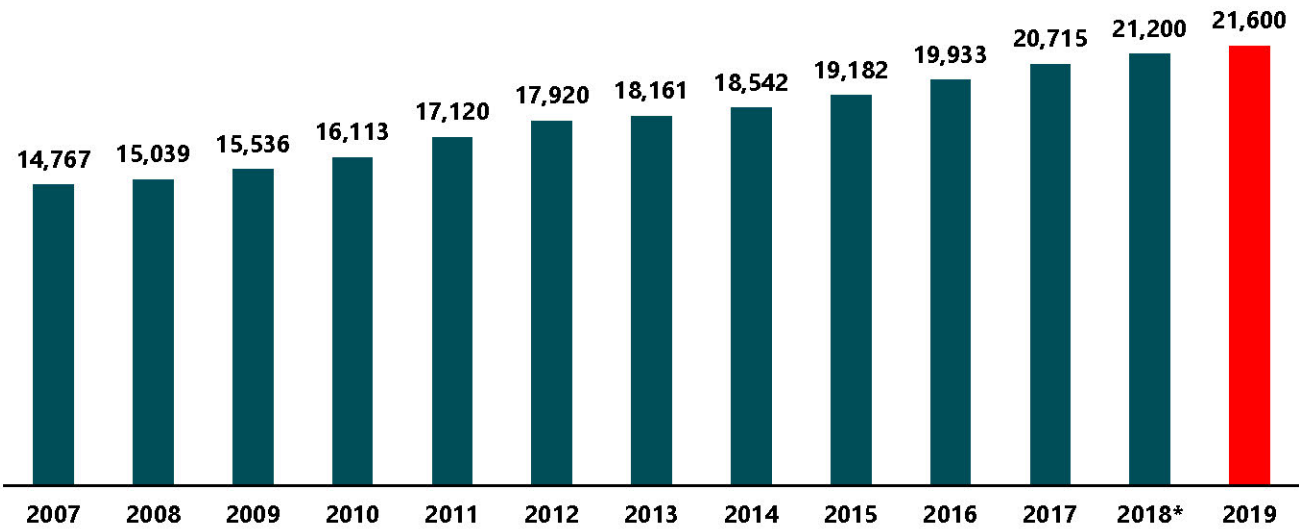
Today, health care accounts for 18 percent of private sector employment in Anchorage, a greater share than the national share of 13 percent. That differential likely reflects Anchorage's role as a statewide health care hub. Anchorage hosts about 55 percent of the state's healthcare employment, but 40 percent of Alaska's population.

Growth in health care employment in Anchorage has been impressive, though not necessarily uniform across all aspects of the industry:

- Employment at outpatient clinics averaged slightly more than 11,000 jobs in 2017, a 500-job increase (5.2 percent) from 2016. This subsector added about a job per day between 2013 and 2017 and accounted for 76 percent of total healthcare growth over this period. Early 2018 data indicate this subsector has continued to expand.
- Hospitals provided approximately 7,000 jobs in 2017, 300 more jobs (5.0 percent) than in 2016. Data through the first half of 2018 show the subsector continues to add jobs.
- Nursing and residential care employment averaged 2,700 positions in 2017, down slightly, losing 100 jobs (3.4 percent) compared to 2016. Losses in this subsector extended into 2018.
- Between 2008 and 2017, employment in Anchorage's healthcare sector expanded nearly 40 percent, more than double the national rate. All subsectors grew faster than the national average: Anchorage's nursing and residential care subsector grew 65 percent while the national rate was 10 percent; local outpatient services expanded 46 percent, beating the U.S. rate of 29 percent; and Anchorage hospital employment grew about 20 percent, roughly double the national rate of employment growth.
- The composition of local healthcare employment differs from national rates. Local outpatient services account for 54 percent of health care employment, compared to 47 percent nationally. Anchorage is below national averages in nursing and residential care; 13 percent of health care employment in Anchorage is in the subsector compared to 21 percent nationally. Though down in 2018, Anchorage might expect growth in this subsector as the population ages.
- Healthcare insurance coverage rates in Alaska have trended higher over the last decade. In 2008, 81 percent of the population (533,000 people) had either public or private coverage; by 2017, this rate had increased to 86 percent (618,000 people). Medicaid expansion is a primary driver of this increase: in 2008, roughly 93,000 Alaskans were covered by the public plan; in 2017, this number was 163,000.
- Anchorage's senior population has been growing for decades. In 2000, roughly 14,000 people above the age of 65 lived in Anchorage; in 2018, that number was 33,000. Current population projections anticipate this cohort will expand by another 13,000 people by 2025.

Although demand for healthcare will remain strong, with further employment growth expected, there is uncertainty regarding State of Alaska support for Medicaid funding, one of the largest components of the State's budget. Other challenges include continued growth of high-deductible private insurance plans which can reduce demand for care and medical tourism that shifts spending outside Alaska as patients travel for care.

**ANCHORAGE HEALTHCARE EMPLOYMENT,
2007 – 2018, 2019 FORECAST**



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).

TRANSPORTATION +100



Anchorage's transportation, warehouse, and utilities sector added about 200 jobs (2.0 percent) in 2018 for a total of 11,200. AEDC expects this sector to add another 100 jobs in 2019, mainly due to further growth in air transportation-related activity.

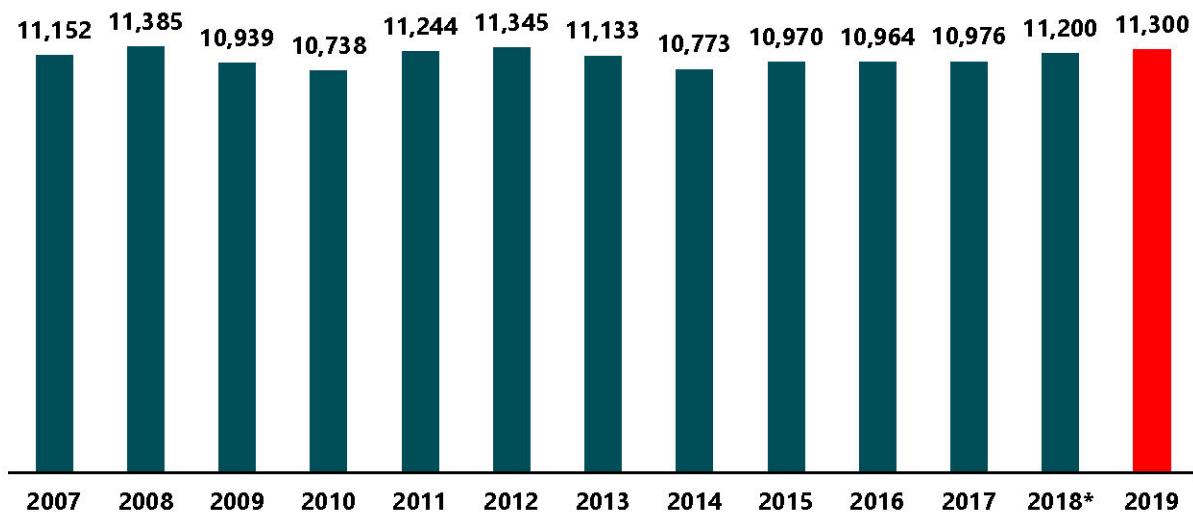
Air transportation accounts for nearly 30 percent of this category's employment. When last measured, in 2012, the Ted Stevens Anchorage International Airport (ANC) accounted for more than 15,600 jobs in Anchorage, including multiplier effects. Since then, air transportation employment is up 15 percent. As total employment has declined and air transportation employment has grown, Anchorage's role as an air transportation hub is an increasingly important part of the local economy.

Couriers (including DHL, FedEx, and UPS, among others) account for about 2,200 jobs in Anchorage. Truck transportation (accounting for about 1,300 jobs) has trended lower in recent years (down about 200 jobs) — perhaps the result of reduced construction and North Slope activity.

Anchorage is the transportation center for most of the state. Building materials, petroleum products, consumer goods, and groceries destined for communities around the state pass through the city on planes, trucks, trains, and vessels.

- Volume at the Port of Alaska totaled 3.9 million tons in 2018, a 12 percent increase from 2017. Petroleum products contributed more than half (56 percent) of all volume, and expanded 20 percent in 2018, likely as a result of robust activity at ANC and military operations. Container volume accounted for most of the remainder (42 percent) and climbed 2.4 percent, the second consecutive year of growth.
- Through October 2018, total air cargo volume at ANC was up 3.6 percent (to 2.8 million tons) from the same period in 2017.
- With more than one in four cargo plane landings at ANC originating in China, trade disputes have the potential to significantly disrupt airport activity.

ANCHORAGE TRANSPORTATION EMPLOYMENT, 2007 – 2018, 2019 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).



Government employment in Anchorage declined by 500 jobs in 2018, to a total of 27,400 positions, a loss of 1.8 percent. In annual terms, public sector employment in Anchorage is now roughly 3,100 jobs (10 percent) below the peak of 30,500 jobs in 2010. AEDC expects further decline in 2019, with the loss of another 400 jobs (1.5 percent).

Federal (non-active duty military) employment accounted for about 8,400 jobs in 2018. State government, which includes the University of Alaska Anchorage, accounted for 9,800 jobs. Local government (including the school district) accounted for about 9,200 jobs. Together, the government sector represents nearly a fifth of all wage and salary employment in Anchorage. State and federal government employment are steady throughout the year. Local government employment, because it includes the school district, dips to a low of about 4,000 jobs in the summer.

Government sector employment losses in 2019 will mainly be the result of further decline in state government in the second half of the year, as the State of Alaska continues to grapple with budget deficits. Local government employment may be more stable, though it too is exposed to state budget troubles, mainly in the form of school funding. Federal government employment might hold its own in 2019, but unsettled national politics add uncertainty.

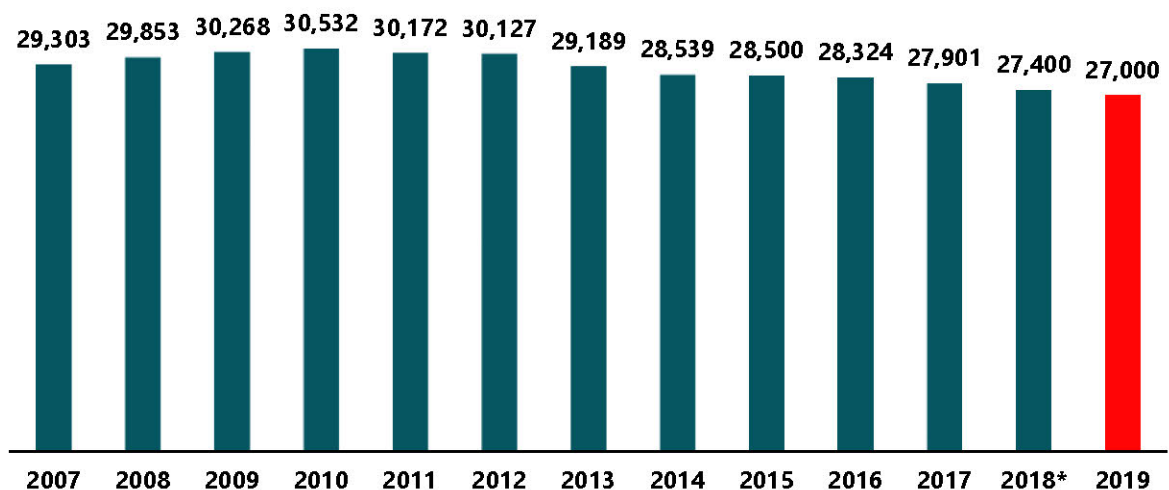
Other measures of government employment in Anchorage reflect a continuing long-term downward trend:

- Federal employment in Anchorage declined by about 100 jobs in 2018, a 1.2 percent reduction. Federal employment in Anchorage is at a 10-year low.
- State government in Anchorage also lost 100 jobs in 2018 and is now at a 14-year low. The long-term decline in State employment in Anchorage includes a reduction of 1,000 jobs since 2014.
- At 9,300 jobs, local government employment is at its lowest level since 2000. Local government employment fell about 200 jobs (2.1 percent) in 2018, driven primarily by reductions to the school district workforce, which represents about three-in-four local government employees. Although the District and the teachers' union reached a contract agreement in December, ASD may face tough staffing decisions again in 2019.

Though not included in this forecast, military-related employment and spending are critical to the Anchorage economy. JBER supports about 16,000 military and civilian workers with wages of more than a billion dollars annually. Additional economic benefits occur when Anchorage businesses provide goods and services to other military bases in the state. No significant military personnel changes are expected in 2019 in Anchorage.

Local, state, and federal government together are a major part of the Anchorage economy. According to Bureau of Economic Analysis data, government accounts for \$5 billion in economic output annually, 18 percent of Anchorage's total output. State and local government combined account for \$2.7 billion in output, highlighting the importance of careful management of the State's budget deficit.

ANCHORAGE GOVERNMENT EMPLOYMENT, 2007 – 2018, 2019 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).

PROFESSIONAL & BUSINESS SERVICES -200

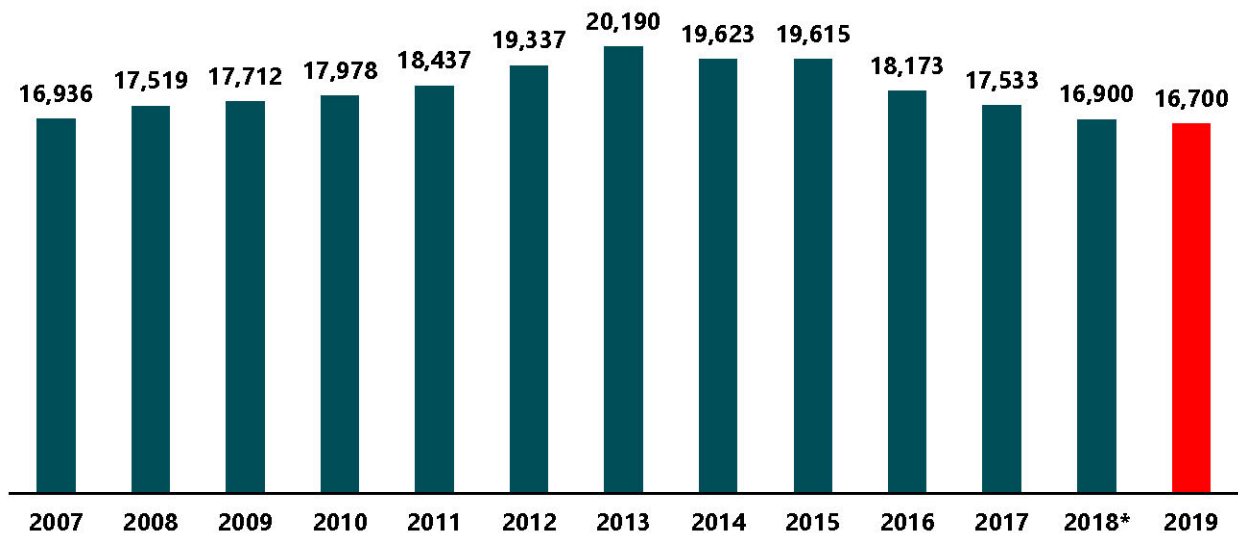


In 2018, Anchorage's professional and business services sector supported 16,900 jobs, about 600 fewer than in 2017, a decline of about 4 percent. Engineering, architectural, law, accounting, and other professional services firms account for about half of employment in this sector; management companies including Alaska Native Corporations contribute ten percent. The remainder include clerical, security and surveillance, and waste and disposal services.

In absolute numbers, this sector has been hardest-hit by Alaska's recession. Anchorage began shedding professional and business services employment in 2014 and since then has lost 3,300 jobs. While the rate of decline is easing, further loss is expected in 2019. AEDC anticipates the sector will lose another 200 jobs in 2019, averaging 16,700 jobs for the year. Bare bones state capital budgets will continue to constrain recovery in this sector, as will oil and gas industry spending that — while improving — remains below historical levels.

- State of Alaska capital spending is a significant driver of professional and business services in Anchorage. The most recent capital budget totaled \$1.5 billion, about half the peak budget of \$2.9 billion in FY2013. The FY2019 capital budget included \$190 million in Unrestricted General Funds (UGF). The FY2013 budget included \$2 billion in UGF.
- Oil and gas industry spending is well below historical levels, which greatly impacts the professional and business services sector in Anchorage. Capital expenditures in Alaska related to oil exploration, production, or development peaked in FY2015 at \$4.6 billion. In FY2018, that number had fallen more than half to just below \$2.0 billion.
- Signs of recovery in this sector are evident elsewhere in the state. Through the first half of 2018, Fairbanks added more than 200 professional and business services jobs (a 10 percent increase). That increase is largely related to increased military spending.
- Recovery in Anchorage's professional and business service sector, when it occurs, will likely be driven by increased military spending, renewed oil industry spending, and eventually some increase in state capital spending beyond the matching funds required to secure a billion dollars in federal funds each year. Mining development holds some promise; the Donlin Gold Project is first in line for development, though no final construction timeline has been established.

ANCHORAGE PROFESSIONAL AND BUSINESS SERVICES EMPLOYMENT, 2007 – 2018, 2019 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).

CONSTRUCTION +200



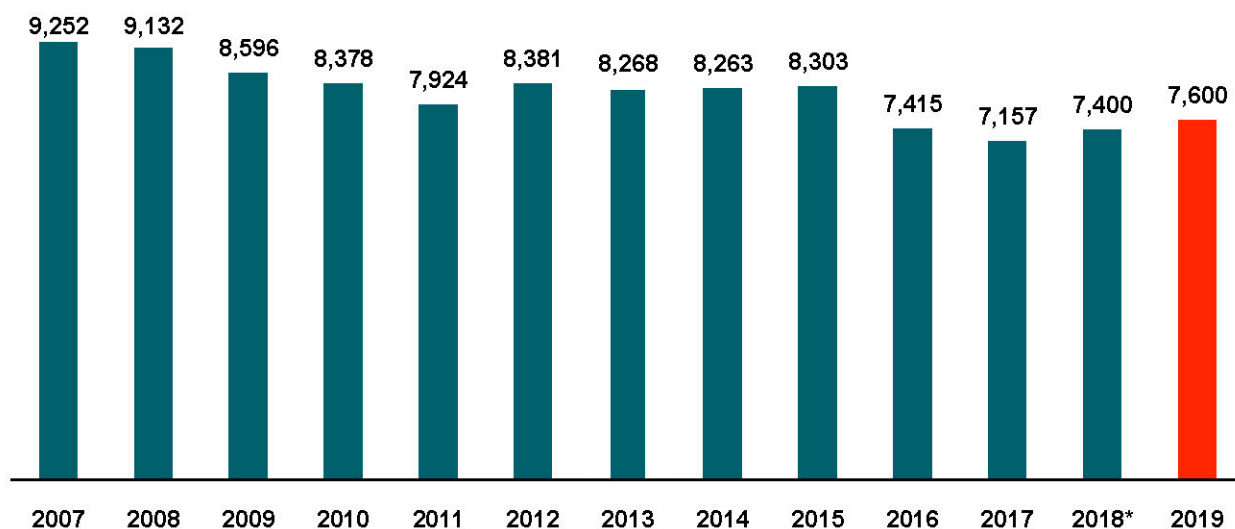
In 2018, Anchorage's construction industry added 200 jobs (3.4 percent), reversing a two-year trend of employment decline and bringing average employment to 7,400. AEDC expects construction employment to increase modestly in 2019, adding 200 jobs.

Although the construction sector added jobs in 2018, employment remains roughly a thousand jobs below the peak in 2015 and has trended lower for much of the 2007-2018 period. Between 2015 and 2017, specialty contractor employment (such as plumbers and electricians) was down 12 percent, heavy construction declined by 500 jobs (24 percent), and building construction employment fell 12 percent.

AEDC expects the recovery in construction to continue as the greater Anchorage economy stabilizes and as earthquake repair efforts intensify. Initial estimates placed earthquake damage at \$76 million, however, the total cost is likely to prove substantially higher as the full extent of damage is determined.

- Army Corps of Engineers spending in Alaska will total about \$640 million in FY 2019, a \$90 million increase from FY2018. Although most of this funding will support military projects in the Interior, Anchorage-based construction firms are actively involved.
- Anchorage building permit data provide a measure of intended construction activity. The total value of building permits in Anchorage was about \$380 million, a 10.1 percent decline from 2017. Through November 2018, residential construction permits fell 4.0 percent to \$135 million while commercial permits declined 10 percent to \$215 million. Government spending declined for the fourth straight year, falling 15 percent to \$40 million. Over the past five years, the value of permits has declined more than 40 percent.
- Projects currently under construction in Anchorage include State of Alaska Legislative Office remodeling (\$4.6 million), a new Carrs grocery store (\$7.4 million), Alaska Railroad petroleum and cement terminal (\$6.6 million), Span Alaska dock (\$6.6 million), West High School's new roof (\$5.0 million), and updates to the Hilton hotel (\$4.4 million), among others.
- Longer-term projects such as AK LNG, Donlin Gold, and Pebble Project have the potential to provide significant employment for Alaska's construction sector, including firms and workers based in Anchorage.

ANCHORAGE CONSTRUCTION EMPLOYMENT, 2007 – 2018, 2019 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).

LEISURE & HOSPITALITY +200



Anchorage's leisure and hospitality sector averaged 17,300 jobs in 2018, a slight increase from 2017. Two-thirds of employment in the sector is in food service, while accommodations account for 20 percent, and arts/recreation account for the remainder.

While 2018 saw a slight increase in leisure and hospitality employment, other indicators for the sector were mixed:

- Through October of 2018, passenger enplanements (boarding) at the Ted Stevens Anchorage International Airport totaled 2.4 million, a 3.1 percent increase from the same period in 2017.

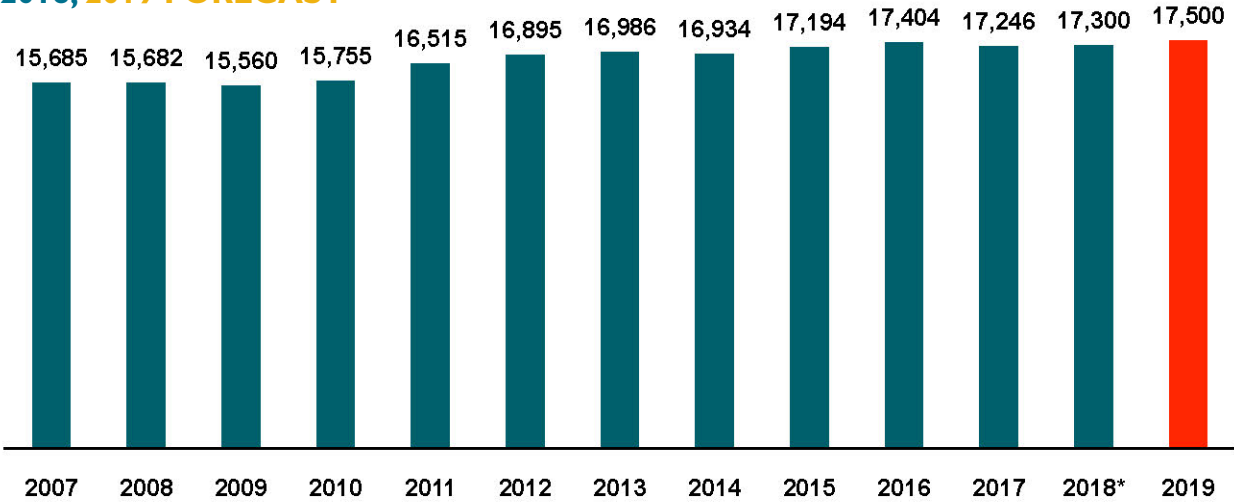
Deplanements were also up 2.6 percent.

- Much of the increase in airport passenger traffic is attributable to increased "cross-gulf" cruise traffic, which jumped 22 percent in 2018. Cross-gulf passenger volume increased from 319,000 in 2017 to 389,000 last year. (Note that a small portion of these passengers flew via Fairbanks.)
- Anchorage room tax revenue through the first two quarters of 2018 was down by 1.6 percent from the same period in 2017. (Third-quarter data is not yet available.)
- Anchorage vehicle and RV rental tax revenue increased by 2.7 percent between January-June 2017 and January-June 2018.
- The number of conventions and meetings in Anchorage fell between 2017 and 2018, from 441 to 349. The number of sporting events likewise declined, from 47 to 42, and the number of trade shows fell from 47 to 36.
- Anchorage received 11 direct cruise ship calls in 2018, up from 10 calls in 2017.

The outlook for this sector is for further growth, as cruise lines plan additional expansion in Alaska, and resident spending rebounds due to stabilizing economic conditions. In 2019, AEDC expects Anchorage's leisure and hospitality sector will average 17,500 positions, an increase of 200 jobs (1.2 percent) from 2018.

- Statewide, cruise passenger volume is projected to increase by 16 percent in 2019. This growth will certainly translate into additional Anchorage visitors, as about one-third of statewide passengers travel to Southcentral.
- Air carriers are expanding flights into Anchorage in summer 2019, with capacity increasing by 45,000 seats. Airlines including United, Delta, Sun Country, and Air Canada plan to use larger planes, and/or fly more frequently. New international flights (including connections to Harbin, China) are also planned for 2019.
- Expectations for the 2019 convention market are optimistic, with the number of events expected to increase from 2018. Key convention bookings for 2019 include the National Veterans Golden Age Games (1,200 participants), Association for Computing Machinery (1,000 participants), International Association of Women Police (800 participants), and the American Ornithological Society (500 participants).
- Anchorage anticipates 10 direct cruise ship calls in 2019, including one call from the Queen Elizabeth, a 2,500-passenger vessel visiting Alaska for the first time.

**ANCHORAGE LEISURE AND HOSPITALITY EMPLOYMENT,
2007 – 2018, 2019 FORECAST**



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.
Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).

RETAIL TRADE *no change*



In 2018, Anchorage's retail sector accounted for 16,900 jobs. Employment in this sector was down 600 jobs (3.3 percent) from 2017 and marks the third year of decline following a ten-year high in 2015. In total, the retail sector lost 1,160 jobs between 2015 and 2018, a decline of 6 percent.

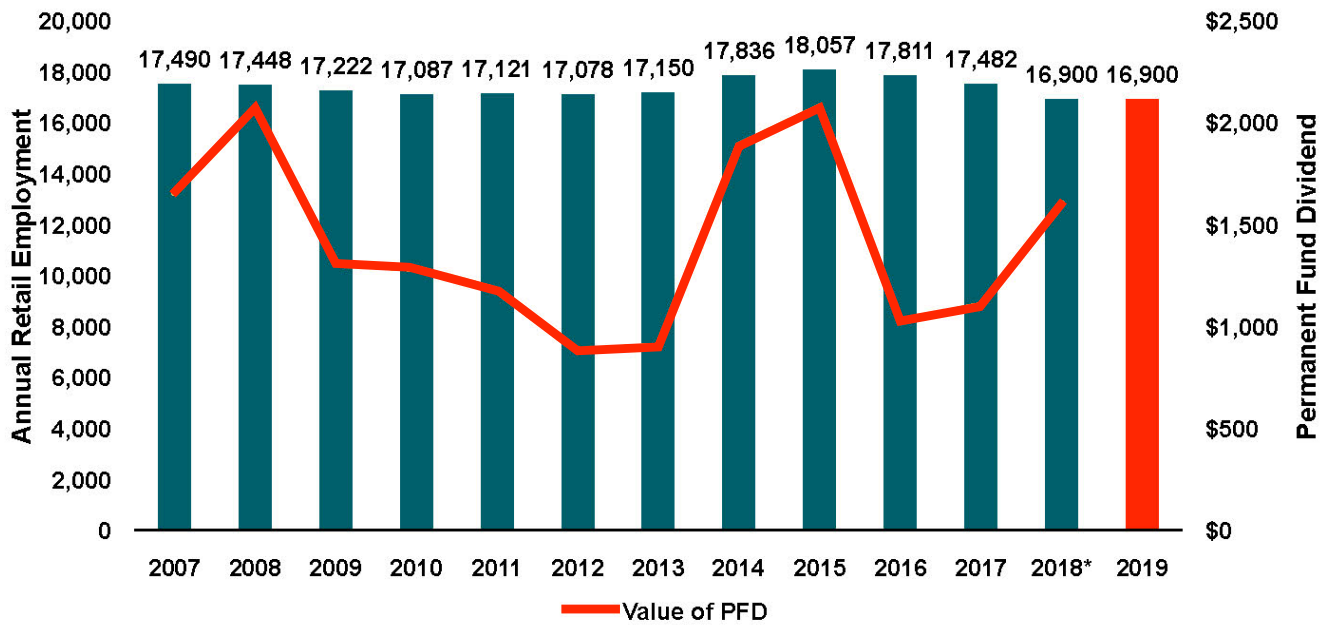
AEDC expects the retail sector to continue showing job losses through the first half of 2019 but then stabilize for the balance of the year as new retailers open shop and established stores add capacity. Overall, retail employment is expected to hold steady in 2019.

The retail sector is diverse. It includes general merchandise stores (so-called "big-box" stores), which account for about a quarter of retail employment (about 4,800 jobs) in Anchorage. It also includes auto dealerships (2,300 jobs), grocery stores (2,100 jobs), and building materials stores (1,700 jobs). A variety of other specialized stores account for the balance of retail employment in Anchorage. Job losses since 2015 have generally been across the retail spectrum, though the sub-sector that includes sporting goods has been hardest hit, losing more than 200 jobs between 2015 and 2017, a decline of 16 percent.

Anchorage's retail sector has been challenged on three fronts; the consumer spending effects of recession in Alaska, growing competition from e-commerce, and local store closures by national retail chains.

- The loss of \$400 million in annual wages in Anchorage between 2015 and 2017 took a bite out of consumer spending, with further decline in 2018. Anchorage retailers have felt the effect of fewer dollars circulating in the local economy.
- Nationally, between 2008 and 2017, e-commerce as a proportion of total retail sales increased from 3.5 to 9.1 percent, according to the U.S. Department of Commerce. E-commerce sales broke records again during the holiday season. Many Anchorage retailers, along with brick and mortar retailers everywhere, are experiencing the down-side of the "Amazon effect."
- Anchorage has experienced several large-scale closures by national chains — but these closures are not unique to Anchorage. Even with a strong U.S. economy, several national retailers are struggling:
 - o Sam's Club shut down 63 stores across the country in 2018, including two in Anchorage. About 300 positions were lost locally. Walmart has repurposed one location into a bulk sales pickup site.
 - o Sears declared bankruptcy in October, and closed over 200 stores in 2018, including one Anchorage location that supported 75 positions. The vacated area is undergoing renovation and will be the site of a new grocery store in 2019.
 - o In March, Toys "R" Us announced that it would close or sell its 880 remaining stores. The closure of their Anchorage location impacted 75 jobs.
- On the positive side, national brands with healthy bottom-lines continue to recognize Anchorage as a city with strong fundamentals. In March of 2018, Wisconsin-based Duluth Trading Company opened a store on Old Seward Highway. In April, Utah-based outdoor outfitter Black Diamond opened its first retail location outside Salt Lake City on 4th Avenue. The opening of a new Carrs Safeway store in the former Sears location will have a positive employment impact in the second half of 2019.

ANCHORAGE RETAIL TRADE EMPLOYMENT & ALASKA PERMANENT FUND DIVIDENDS, 2007 – 2018, 2019 FORECAST



*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2006-2017), McDowell Group (2018 and 2019).

FINANCIAL ACTIVITIES -100



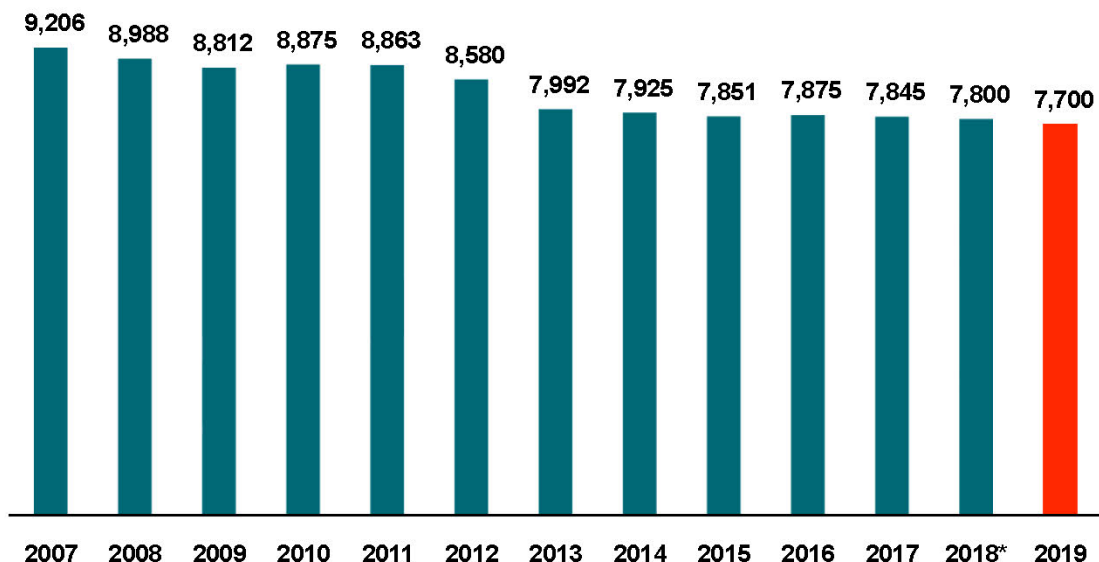
Employment in the finance, insurance, and real estate sector declined slightly in 2018, averaging approximately 7,800 jobs. The sector has been gradually trending down for the last few years and AEDC expects that trend to continue into 2019 with average employment of about 7,700.

Banks and credit unions account for about 40 percent of employment in this sector. Real estate-related businesses account for another 40 percent, and other firms including investment firms and insurance brokers compose the remainder.

There is downward pressure on most aspects of the financial sector:

- While the Anchorage residential housing market has proven resilient against the economic downturn, reduced loan activity is a challenge for the financial activities sector. In the first three quarters of 2018, roughly 1,500 single-family loans were closed, a 12 percent decline from the same period in 2017. Anchorage single-family home prices averaged \$373,000 in 2018, a two percent increase from 2017.
- Consumers are offered an increasing array of on-line tools to meet their banking needs. This trend is reducing the need for brick-and-mortar locations and constraining employment growth for the banking sector.
- Interest rates have rebounded from lows observed during the post-Great Recession period. In the third quarter of 2018, 30-year mortgage rates averaged 4.53 percent in Alaska, a seven-year high. Auto, credit card, and other loan rates are also generally higher and may increase in 2019.
- The steep reduction in financial activities employment between 2011 and 2013 was the result of reclassifying Alaska Native corporations to professional and business services firms.

ANCHORAGE FINANCIAL ACTIVITIES EMPLOYMENT, 2007 – 2018, 2019 FORECAST



* Employment estimate is preliminary. All calendar year figures are based on monthly averages.

Sources: Alaska Department of Labor and Workforce Development (2007-2017), McDowell Group (2018 and 2019).

OTHER SECTORS OF THE ANCHORAGE ECONOMY *no change*

The sectors not described above include a wide range of employers, such as wholesalers, manufacturers, information/communications providers, and variety of other service providers. In 2018 manufacturing employment was up by 100 jobs, wholesale trade employment was flat, and employment in information/communications was down about 300 jobs. Other service employment was down 100 jobs. With a stabilizing economy and improving business conditions in 2019, AEDC expects this category to hold flat in 2019.

The Big Picture

AEDC sees 2019 as marking the bottom of a four-year recession that claimed more than 6,000 jobs in Anchorage and 10,000 jobs across the state. For Anchorage, the latest indicators show an uptick in construction employment, continuing growth in health care, and a robust summer visitor season ahead. The professional and business services sector is likely to see further decline in the first half of 2019, but bottom-out before the end of the year. The retail sector may show further decline early in the year but stabilize in 2019. The sector has been hit hard by the recession and national chain store closures over the past couple years, but will benefit from improved business conditions ahead.

There are other reasons for near-term and long-term optimism. A step-up in military spending in Alaska (mainly associated with preparing Eielson Air Force Base for two new squadrons of F-35 fighter jets) is having economic benefits across the Railbelt. The cruise industry is in a remarkable period of growth and could reach 1.4 million passengers by 2020. Spending by these visitors flows through the Southeast, Southcentral and Interior economies. Though oil prices may not be cooperating entirely, the news out of Alaska's oil industry is good, with ConocoPhillips, Hilcorp, Eni, and Oil Search, among others, investing aggressively in Alaska. The tantalizing economic and fiscal benefits of gas pipeline construction continue to be just a few more years out and seemingly still just beyond our grasp. Though obstacles remain, Congressional approval of ANWR development was a giant step forward.

There is growing evidence that 2018 marked the end of Alaska's recession. The Department of Labor expects Alaska's economy to add 1,400 new jobs in 2019, after three years of decline. The bottom of the economic cycle is generally the best time to invest in new staff, equipment, or buildings. With the prospect of opportunity ahead, private investors will now be considering whether its time to invest (or reinvest) in Anchorage. We'll soon know if these investors are ready to move off the sidelines and make a commitment.

While economic conditions are improving in Alaska, the pending recovery is fragile. The roller-coaster stock market, trade disputes with China, the federal budget debacle, concern that the U.S. economic expansion (now going on nine years) may soon lose steam, oil price volatility, and Brexit, are among the many external forces that may shape Alaska's economy in 2019. We have no control over those forces, but we do have something to say about the issue of most immediate importance to Alaska, the State's budget gap. How we close that gap may well determine whether 2019 is a turning point for the economy, or whether the slide continues for another year.

Thank you
for making this report possible:



This report was
prepared by:



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