AEDC
Anchorage Economic
Development Corporation

2021
3-YEAR ECONOMIC OUTLOOK REPORT

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INTRODUCTION

Halfway through 2021, Anchorage is on a gradual climb out of the economic crater caused by COVID-19. However, employment remains thousands of jobs below pre-pandemic levels. At its worst, in April 2020, Anchorage had lost 23,000 jobs, a wrenching 15% drop. Pain was spread across the private sector but most intense in restaurants, bars, hotels, the transportation sector, other visitor-affected sectors, and personal services. The most recent data indicates employment is still about 10,000 jobs below pre-pandemic levels (down about 6%).

While it's little consolation for the thousands of workers who lost jobs last year, it is a small blessing that total wages earned throughout Anchorage dropped only 1.3% in 2020. At this time last year, we expected COVID-19 to result in a significant decline in total personal income in Anchorage. In fact, personal income actually increased by about 3% in 2020. A billion dollar jump in transfer payments (in the form of federal COVID-19 relief payments) more than offset declining workplace earnings. In total, it was about $2 billion in federal relief funding flowing into the Anchorage economy that prevented much greater economic disaster.

Further population decline was anticipated in 2020, but the drop of 1.2% (3,517 residents) was more than double the loss expected. Anchorage's 2020 population was estimated to be 288,970, about 12,000 below the 2013 peak of just over 301,000. Anchorage has seen population decline in six of the past seven years, with the sharpest annual drop recorded in 2020.

Another troubling trend is the shrinking labor supply in Anchorage. Labor supply (or lack thereof) could very well be what determines employment growth in Anchorage over the next few years. Anchorage has jobs to offer, but not the people to fill those jobs. Some of that is pandemic-related (including a big reduction in labor force participation among women) and some of it is related to long-term demographic shifts.

While there is plenty to worry about, there are bright spots in the economy. Independent visitor traffic has come roaring back this summer, reflecting substantial pent-up demand for tourism. Record volumes of airfreight are moving through Ted Stevens International Airport (ANC), and hundreds of millions of dollars are teed up to expand ANC's role as a top global airfreight hub.

This three-year forecast articulates in some detail the economic damage done by the pandemic, the pace of recovery, the substantial degree of uncertainty that persists, and where long-term opportunities offer reason for optimism.

POPULATION

Anchorage's population declined by 3,517 between 2019 and 2020, the highest single-year loss since Anchorage started losing population in 2014 (and in fact the largest loss since the 1987-88 recession). High net outmigration (-5,601 people) drove this decline. Anchorage has lost over 12,000 residents since its peak in 2013. This recession-era trend was related to declining employment opportunities and historically low unemployment in the Lower 48 prior to the COVID-19 pandemic. The ability of Anchorage's economy to finally move out of the recession pre-dating the pandemic will be key to stemming the flow of outmigration. The pace of national economic recovery compared to Anchorage will also figure in the municipality's near-term prospects.

AEDC anticipates moderate additional population losses at least through 2022, driven by the same demographic and economic forces that have pushed the population lower over the past seven years. Where the decline in population might bottom out is unclear, but within this three-year forecast period it is expected that the outflow will ease and stabilize at around 285,000 residents.

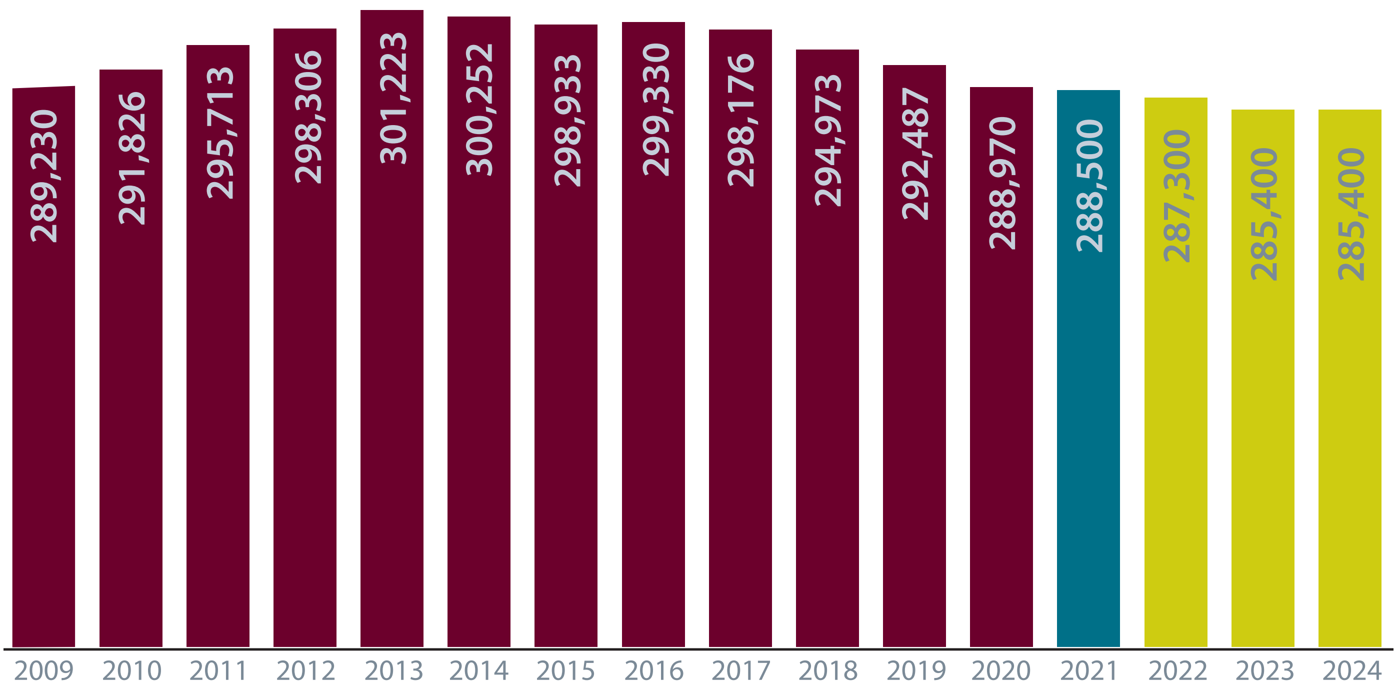
Several key factors have shaped population change in Anchorage and are anticipated to play a continuing role in the near-term:

- Movement between Anchorage and the Lower 48 accounts for the highest share of the municipality's population change. Between 2015 and 2020, an annual average of about 19,900 people left Anchorage for the Lower 48, while 16,300 non-Alaskans moved to Anchorage: net outmigration to the Lower 48 totaled about 18,000 residents. On average, net outmigration between Anchorage and the Lower 48 accelerated during Alaska's 2015-2018 economic recession. Lower annual in-migration in recent years accounts for the highest proportion of the change.
- Relocation between Anchorage and the Mat-Su Valley has played a significant role in intra-state migration, though movement has softened somewhat in recent years. Outmigration to Mat-Su between 2019 and 2020 was at its lowest level in more than a decade.
- Anchorage's working age population[1] has declined annually since the beginning of the 2015-2018 statewide recession, with net outmigration of this population accelerating from 2015 to 2020 compared to the preceding five years. Lower in-migration of working-aged people has contributed to this decline; annually, about 17,000 working-age people moved to Anchorage between 2010 and 2015, compared to 14,000 between 2015 and 2020. Against this backdrop, Anchorage's labor force has also shrunk, declining annually by more than 1% on average between 2015 and 2019.

[1] Working-age population is defined as the population age 16-64.

- Net outmigration of the age 55+ population has accelerated in recent years. Between 2010 and 2015, Anchorage had an annual net outmigration of 1,107 among the 55+ population, or about 2% annual decline. That average annual rate of net outmigration climbed to 5% between 2015 and 2020. This trend is anticipated to continue. In 2021, AEDC commissioned a survey of older Anchorage residents which found that 38% of the population age 55+ planned to move out of Anchorage in the future.

Anchorage Population, 2009-2024



Source: Alaska Department of Labor and Workforce Development (2009-2020); McKinley Research Group estimates (2021-2024).

EMPLOYMENT

In January, AEDC predicted 2021 employment in Anchorage would average about 141,600 jobs. Through June, preliminary data suggests employment is on track to reach that mark. At that level, employment would still be about 8,000 jobs below pre-pandemic levels, but about 4,000 jobs above 2020.

Here are a few numbers that describe job losses in 2020, along with the latest available employment estimates:

- Anchorage lost 8.2% of its employment base in 2020, on an average monthly basis, or 12,292 jobs.
    - 2020 employment averaged 137,774, with wages totaling $8.887 billion. In 2019, employment averaged 150,066 jobs with $9.008 billion in total annual wages.
- At the worst of the job losses in 2020, employment was down 15.3% (in April), a loss of 22,968 jobs.
- The latest available monthly employment estimates, for June 2021, show employment up 7,700 jobs from June 2020 but still 10,000 jobs below June 2019.

Labor supply is weighing down Anchorage's employment counts, i.e., many employers are currently unable to fill vacant positions. It is difficult to know how much higher Anchorage's employment numbers would be if not for a labor shortage, but certainly by hundreds of jobs.

The following table details AEDC's sector-by-sector forecast for 2022, 2023, and 2024. Employment data for 2019 and 2020 are also provided to illustrate damage done by the pandemic.

Anchorage Employment Forecast by Sector, 2022-2024

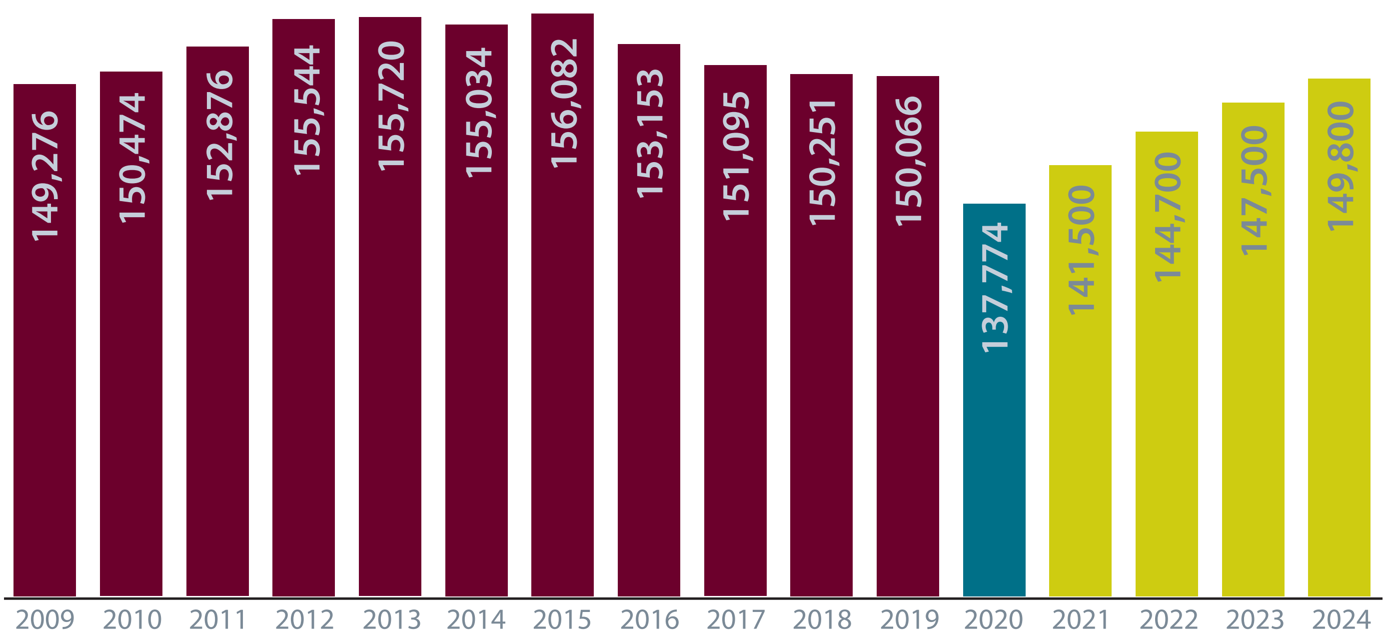
Sector	2019 Actual	2020 Actual	2019-2020 Change	2021 Estimate	2022	2023	2024
Retail	16,500	15,578	-1,422	15,300	15,500	15,500	15,500
Professional & Business Services	17,367	16,177	-1,190	16,400	16,600	16,800	17,000
Health Care	20,893	20,274	-619	20,500	20,800	21,000	21,200
Construction	7,670	7,039	-631	7,300	7,600	7,800	7,800
Leisure & Hospitality	17,661	13,374	-4,287	14,500	15,500	16,500	17,500
Transportation	10,490	9,569	-921	10,200	10,700	11,000	11,300
Oil and Gas	2,512	2,073	-439	2,000	2,200	2,400	2,400
Government	27,195	26,553	-642	27,000	27,300	27,500	27,600
Other	29,778	27,637	-2,141	28,300	28,500	29,000	29,500
Total	150,066	137,774	-12,292	141,500	144,700	147,500	149,800

Source: 2019 and 2020 from Alaska Department of Labor and Workforce Development.
All other are McKinley Research Group estimates or forecasts.

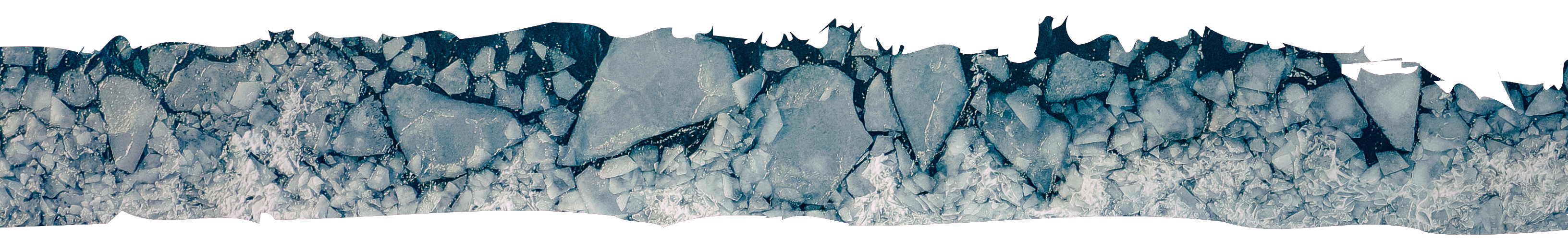
SUMMARY

In summary, AEDC expects the Anchorage economy to add 3,200 jobs in 2022, another 2,800 jobs in 2023, then another 2,300 jobs in 2024. The 2024 forecast of 149,800 jobs leaves total employment about 300 jobs below the 2019 pre-pandemic job count. Strongest growth is expected in the transportation sector, related mainly to new employment at ANC. The leisure and hospitality sector will also see strong growth as visitor traffic gradually returns to pre-pandemic levels. As noted previously, growth in this sector may be constrained by a shortage of workers.

Anchorage Average Employment, 2009-2024



Source: Alaska Department of Labor and Workforce Development (2009-2020); McKinley Research Group estimates (2021-2024).



PERSONAL INCOME

Total personal income is one measure of how much money Anchorage residents receive, either from salaries and wages, investments, business ownership, or government transfers like unemployment insurance benefits. Personal income can be viewed as an index of changes in potential spending by residents in the local economy.

Personal income has three components: salaries, wages, and proprietors' income; investment earnings; and government transfers. The first component is the largest and includes the cost of employer-provided benefits. The second category includes earnings from financial investments, dividends, and returns from real estate ownership. The smallest of the three categories is government transfer payments which include the Permanent Fund Dividend, unemployment benefits, and Social Security payments, among others.

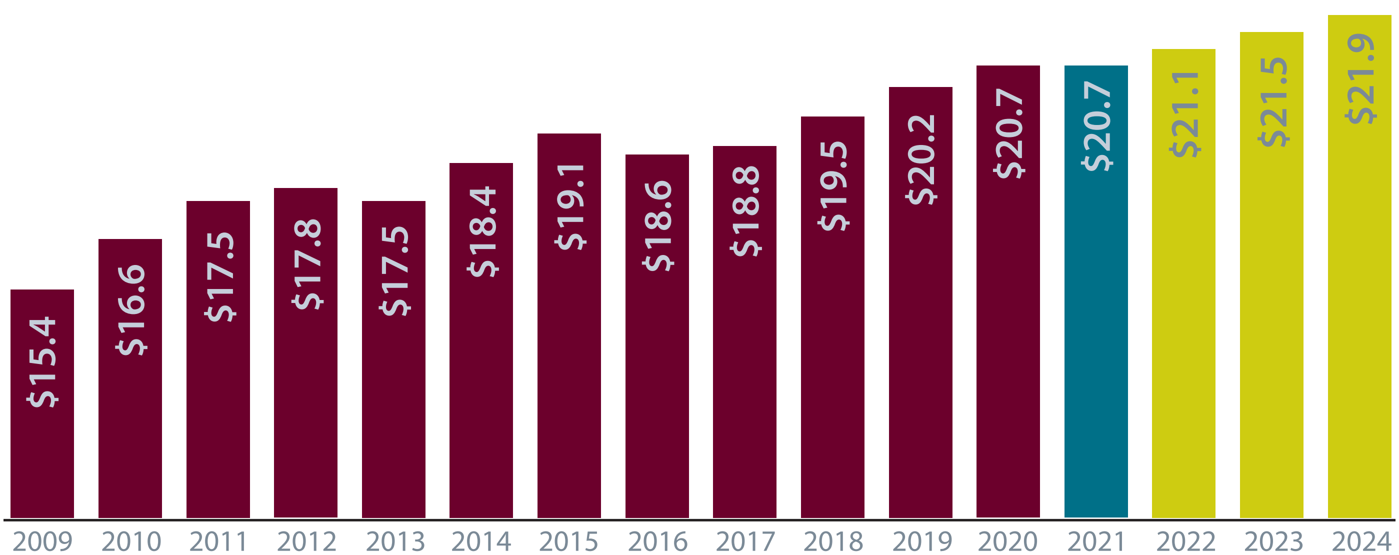
Contrary to expectations early in the pandemic, total personal income in Alaska increased by 3% between 2019 and 2020. A 24% increase in personal transfer receipts out-weighed total losses in salaries and benefits, and investment income.

AEDC anticipates total personal income in Anchorage will hold steady at about $20.7 billion in 2021. The pace of economic recovery will impact the trajectory of income from salaries, wages, and proprietors' income. Longer-term, continued population decline in Anchorage will put downward pressure on total personal income, especially given declines in the working-age population. Over the next several years, modest wage inflation is likely to offset this downward pressure. In 2022, personal income from salaries and wages should return to a slow growth trend (relative to 2019), continuing through 2024, as inflation impacts personal income and transfers return to historic levels.

- In 2019 (the most recent data available), Anchorage residents had $20.2 billion in personal income, including
    - Salaries, wages, and proprietors' income (including benefits): $12.8 billion
    - Investment income: $4.2 billion
    - Government transfer payments (including the PFD): $3.2 billion

- The number of unemployed individuals in Anchorage peaked at 21,231 in May 2020. In 2020, unemployment insurance (UI) benefits paid to Anchorage claimants (including regular and federally funded extended benefits), totaled $307 million, a massive increase from $22 million in 2019. At the peak of UI claims, in May 2020, unemployment benefits replaced about 68% of earnings for recipients. By April 2021, claims had declined to about one-third of May 2020 levels.
- In June 2021, Alaska ended its participation in the Federal Pandemic Unemployment Compensation program which paid a weekly $300 supplemental benefit to unemployment claimants. Winding down supplemental benefit programs will contribute to normalization of government transfer payments in 2022 and beyond.
- In April 2020, $126 million in state and federal unemployment benefits were paid to more than 48,200 Alaskans, including $52 million paid to 19,500 Anchorage residents. The federal government's temporary weekly benefit of $600 was in addition to the average weekly state payment of $247.
- In 2020 and 2021, nearly 6,000 Anchorage businesses received a combined $1 billion in federal Paycheck Protection Program funding. A variety of other federal, state, and local programs have offered unprecedented support of Anchorage businesses.

Anchorage Personal Income ($Billion), 2009-2024



Source: Bureau of Economic Analysis (2009-2019); McKinley Research Group estimates (2020-2024).

ANCHORAGE INTERNATIONAL AIRPORT

Ted Stevens Anchorage International Airport's (ANC) strategic location less than 10 hours by air from most of the industrialized world is an important asset for the Anchorage economy. Throughout the pandemic, ANC weathered sharp declines in passenger volume while providing stability to air cargo carriers experiencing increased demand.

As the world emerges from the pandemic, AEDC is confident ANC will capture new opportunities and expand its value to the local economy.

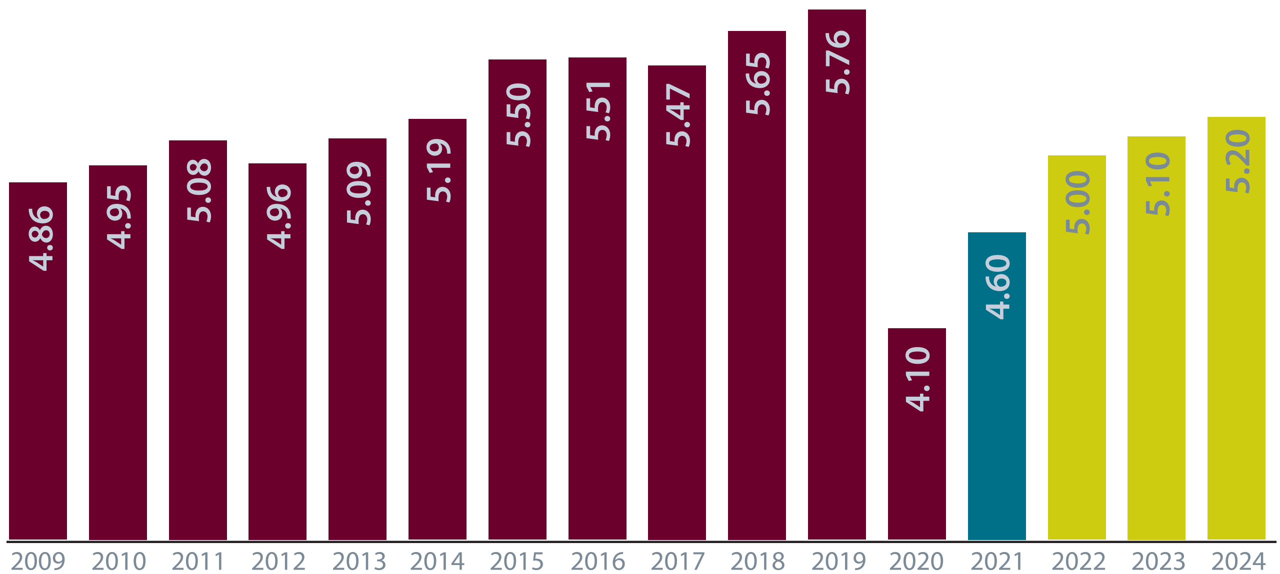
AIR PASSENGERS

Prior to the COVID-19 pandemic, ANC's 2020 passenger volume was expected to exceed records set in 2019 given the growth trajectory of Alaska's visitor industry. As the pandemic's impact on travel unfolded, it was clear ANC would see steep passenger reductions. Since the easing of travel restrictions and increased vaccine availability, passenger volume at ANC has made a strong recovery in 2021, even considering a visitor season with no cross-Gulf cruise traffic.

AEDC expects 2021 passenger volume to end well above lows in 2020, but fall short of pre-pandemic levels. With resumed cruise traffic, AEDC expects further improvement in 2022 and beyond.

- A total of 4.1 million passengers used the airport in 2020, a 29% decrease from 2019.
- While traffic has rebounded from the steep drop off due to the pandemic, passenger volume through May 2021 remained 36% below the same period in 2019.
- By June of 2021, seat capacity on flights to and from Anchorage returned to near 2019 levels. In 2022, a resumption of flights from carriers like Air Canada is expected to further increase seat capacity.
- In June 2021, Ravn Alaska announced plans to explore service from Anchorage to the Lower 48 and Asia, a move which would open new direct destinations like Tokyo, Seoul, Orlando, Las Vegas, Newark, Oakland, and Ontario, California. No expected launch date is available at this time.

ANC Air Passenger Volume (Million Passengers), 2009-2024



Source: State of Alaska Department of Transportation & Public Facilities (2009-2020); McKinley Research Group estimates (2021-2024).

AIR CARGO

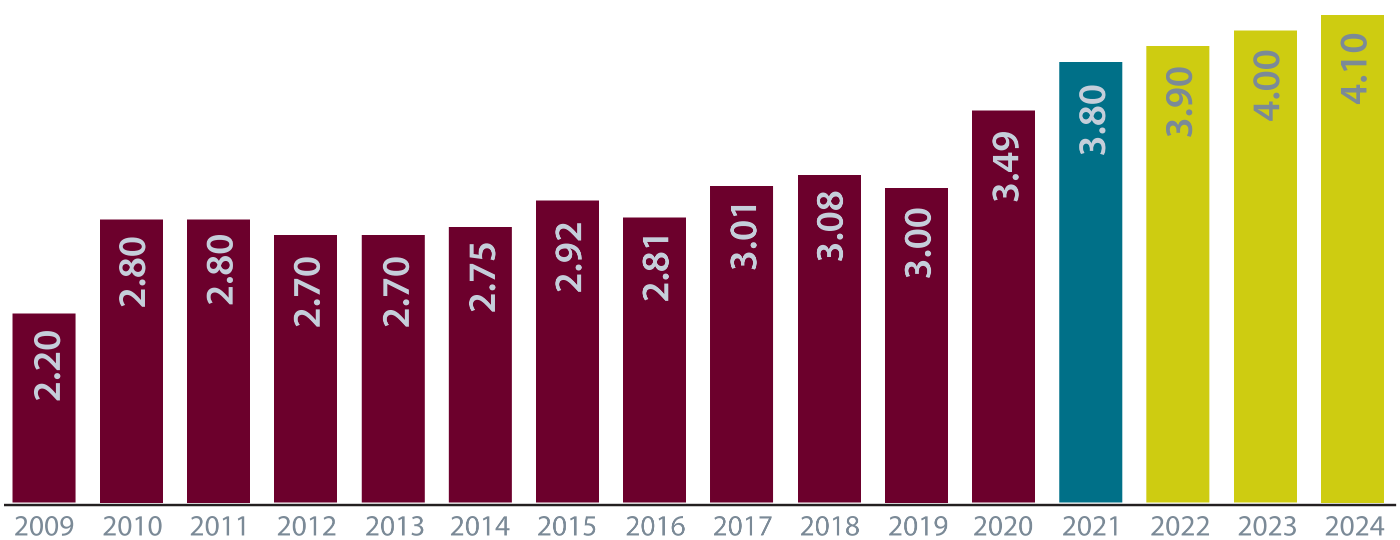
Unlike passenger volume, the pandemic boosted ANC air cargo volume. Roughly half of air cargo transported directly between the U.S. and Asia transits through Anchorage. In addition to replacing lost passenger plane freight capacity, air cargo has picked up volume from the ocean-going freight market as waterborne freight rates have soared amid significant disruptions due to port congestion at major gateways in North America. By July 2021, worldwide container shipping costs had tripled compared to July 2020. Elevated air cargo demand is anticipated to hold through the near-term due to port congestion, restocking inventories across the U.S., and continuing growth of e-commerce related air freight.

Longer-term, new developments and expansion of existing air freight logistics infrastructure at ANC could capitalize on the airport's strategic location. Five major projects representing a combined $700 million in investments are at various planning stages. Two developers, Alaska Cargo and Cold Storage (ACCS) and 6A Aviation Alaska Consortium, have entered lease agreements with the airport related to these developments. Construction activities related to ACCS are expected to begin in late 2021 or 2022; 6A Aviation's construction is slated for summer 2022. These projects together are expected to support several hundred construction jobs over a several-year period and create several hundred ongoing operations jobs.

AEDC anticipates air cargo traffic will remain at elevated levels through 2021, then generally match global rates of economic growth through 2024. Due to uncertainty on the timing of proposed cargo infrastructure projects, this outlook does not include the potential impact of any specific projects, which have potential to push growth in air cargo substantially higher, towards the end of this forecast period.

- Cargo volume totaled 3.5 million tons in 2020, a 16% increase from 2019.
- Through the first five months of 2021, cargo volume was up 27% compared to the same period in 2020.
- According to Bollore Logistics, air cargo capacity on the Asia to North America route was up 5% as of June 2021 compared to the same period in 2019, even as worldwide capacity remained 11% below 2019 levels.
- The Asia to North America air corridor is the world's busiest with about four-in-five planes stopping at ANC. The Boeing World Air Cargo Forecast has volume along this air cargo route increasing through 2039, with freight moving from East Asia to North America growing at 4.2% annually.

ANC Air Cargo Volume (Million Tons), 2009-2024



Source: State of Alaska Department of Transportation & Public Facilities (2009-2020); McKinley Research Group estimates (2021-2024).

PORT OF ALASKA

Anchorage's Port of Alaska (POA) is a critically important marine freight infrastructure asset for Alaska. Refined petroleum products, cement, consumer goods, construction materials and other supplies handled at the port are distributed throughout Alaska. Two key drivers have long been associated with volume at POA: airport activity and population trends. POA handles around one half to two-thirds of all jet fuel used at ANC. As airport activity rises or falls, the petroleum component of port tonnage responds accordingly. Strong air cargo activity in 2020 drove higher POA volumes, a trend expected to persist through at least 2022.

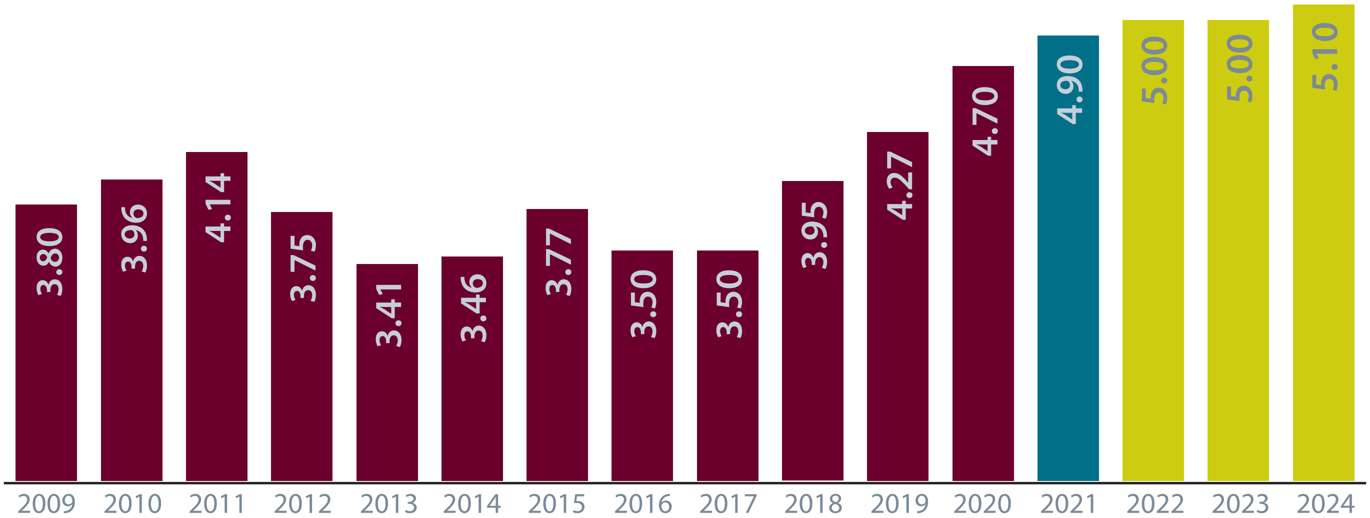
Anchorage and the Railbelt require a steady flow of consumer goods, construction materials, and other supplies. Population growth spurs POA volume and, conversely, population decline will reduce demand for goods and materials. Over the last several years, total Railbelt population has remained relatively flat as has container volume at POA.

Other factors such as the severity of recession, competition with other Southcentral ports, and capital spending by private enterprise and government will also impact port volumes. Proposed federal infrastructure spending packages could spur capital spending in Alaska, boosting volume at the Port in the near-term.

AEDC anticipates port volume will remain elevated through 2021 with modest growth in through the 2022-2024 period as strong fuel demand persists.

- POA volume in 2020 totaled 4.70 million tons, a 10.3% increase from 2019 and the highest volume since 2008. Volume included 3.0 million tons of refined petroleum, totaling 63% of all tonnage at POA in 2020. Vans, flats, and containers accounted for 1.6 million tons (35% of the total). Other volume (mainly cement) accounted for the remaining 2%.
- All growth in Port volume came from the petroleum category, which jumped 18% between 2019 and 2020. Volume from vans, flats, and containers and all other freight declined by 1% and 8%, respectively.
- Through May 2021, volume at the port totaled 1.9 million tons, 13% higher than the same period in 2020. Petroleum volume is nearly 19% higher year-to-date, while vans, flats, and container volume is up 4%.
- Modernization efforts at the Port continue with work on the new Petroleum and Cement Terminal, which is expected to be operational by late 2021. POA is beginning the formal design process for the next phase of modernization, which will focus on cargo dock replacement.

Port of Alaska Volume (Million Tons), 2009-2024



Source: Municipality of Anchorage, Port of Alaska (2009-2020); McKinley Research Group estimates (2021-2024).

BUILDING PERMIT VALUES

The pandemic has continued to impact Anchorage construction activity through 2021. High building material prices have proved especially challenging for developers and contractors: through summer of 2020 and into 2021, lumber prices soared to four to five times pre-pandemic levels. Price increases have been primarily driven by supply-side challenges with national labor shortages slowing production and transportation bottlenecks disrupting the supply chain. Global logistics challenges have further impacted statewide construction activity in Alaska. While these heightened costs exerted upward pressure on construction budgets and therefore permit values, increased cost of lumber and steel also led to project postponements. While building material prices are easing somewhat, supply chain challenges will likely continue to impact construction activity through at least the latter half of 2021.

Local labor shortages too have constrained construction activity in Anchorage. The construction industry in Alaska faced labor shortages for several years prior to the pandemic and workforce challenges intensified through 2020 and 2021. The industry's ability to attract skilled labor will likely impact construction activity in Anchorage and statewide in the long-term.

AEDC expects 2021 total building permit values to be below 2020. Over the next several years, building permit values are expected to remain around $415 million as inflation absorbs some impacts of lower levels of construction activity. Airport-related construction and other projects that may soon be in the pipeline will offset what otherwise would be a decline in commercial construction activity. Little new office space will be constructed over the next few years as work-from-home practices persist. Further, hotel construction, which has been a prominent part of the construction scene in recent years, will likely be slow. This trajectory does not account for new federal infrastructure spending. If passed, these spending packages could be a key driver of activity throughout Alaska in coming years.

Looking back to 2020, permit values totaled $470 million, a 6% increase over 2019.

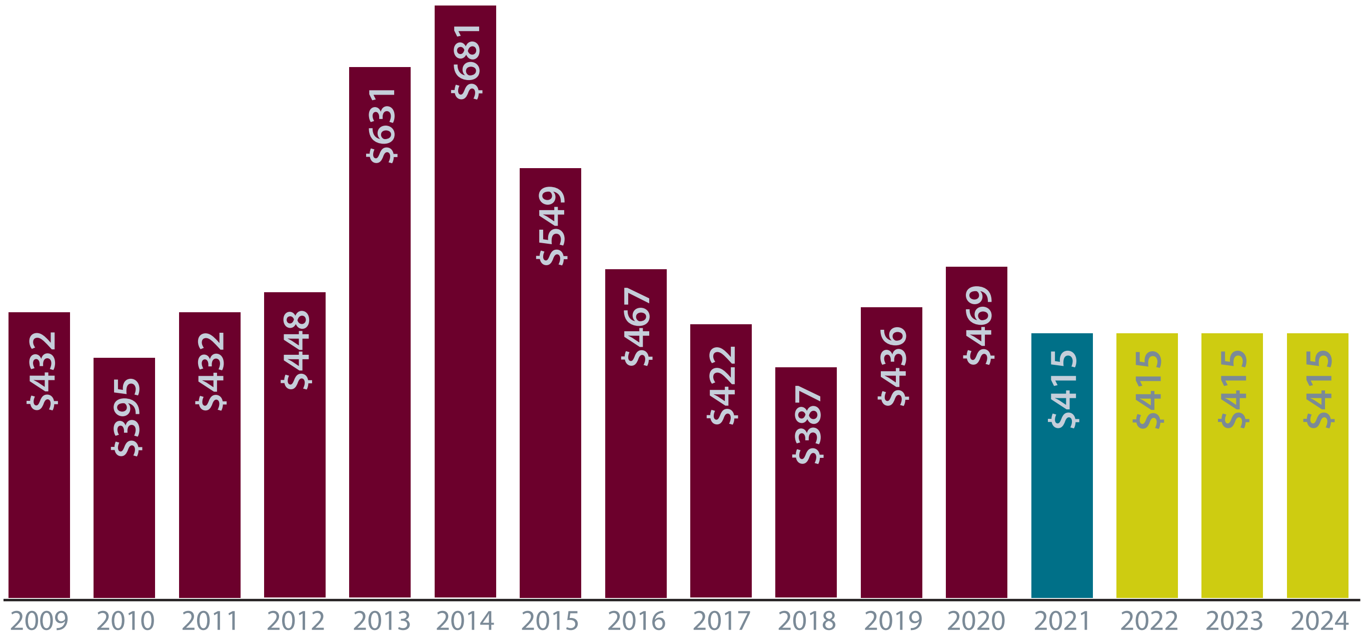
- Government construction permits drove the increase in total values, including larger projects like repairs at Gruening Middle School and the Municipal Solid Waste Transfer Station.
- Residential permitting (including new construction and remodels) was also up, reaching $165 million, the highest level of residential permitting since 2015 but still well below the decade high of $194 million in 2014. The number and value of permits for new residential construction was up compared to 2019.
- While the number of permitted residential alterations/additions in 2020 increased year-over-year, the total value of these permits was slightly below 2019 levels.
- Throughout 2020, investors faced significant uncertainty which was reflected in the sharp decline in commercial permit values, down about 23% from 2019.

Through May 2021, total permit values were 10% below the same period in 2020 but remained higher than 2019 values:

- In the first five months of 2021, commercial permit values nearly rebounded (but not quite) to levels seen in the same period of 2019.

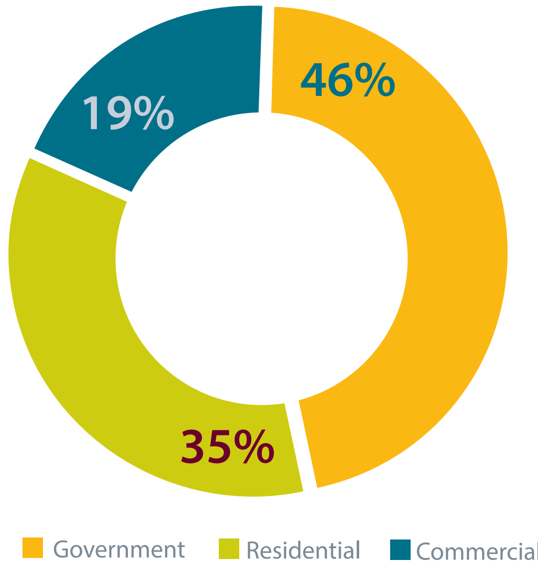
- Also in the first five months of 2021, government permitting decreased by 50% from the same period in 2020 but remained above the same period in 2019.
- Residential permitting through May is up 19% over 2020. The number of new construction permits rebounded back to year-to-date 2019 levels after falling amid significant uncertainty in the first half of 2020. Alteration/additions residential permits through this period rose above 2019 levels.
- A sample of large projects permitted by mid-year 2021 includes:
  - The dual-branded Holiday Inn Express/Candlewood Suites valued at $22 million was permitted but high building material costs have delayed construction.
  - Additional water storage by Anchorage Water and Wastewater Utility, valued at $10.7 million.
  - Several school repair projects including Taku Elementary, West High/Romig Middle School, and Lake Otis Elementary.
  - Construction of Cook Inlet Housing Authority's Spenard East housing project with permits totaling over $6 million in 2021.

Anchorage Building Permit Values ($Million), 2009-2024



Source: Municipality of Anchorage, Port of Alaska (2009-2020); McKinley Research Group estimates (2021-2024).

Anchorage Building Permit Values by Type, 2020



Source: Municipality of Anchorage

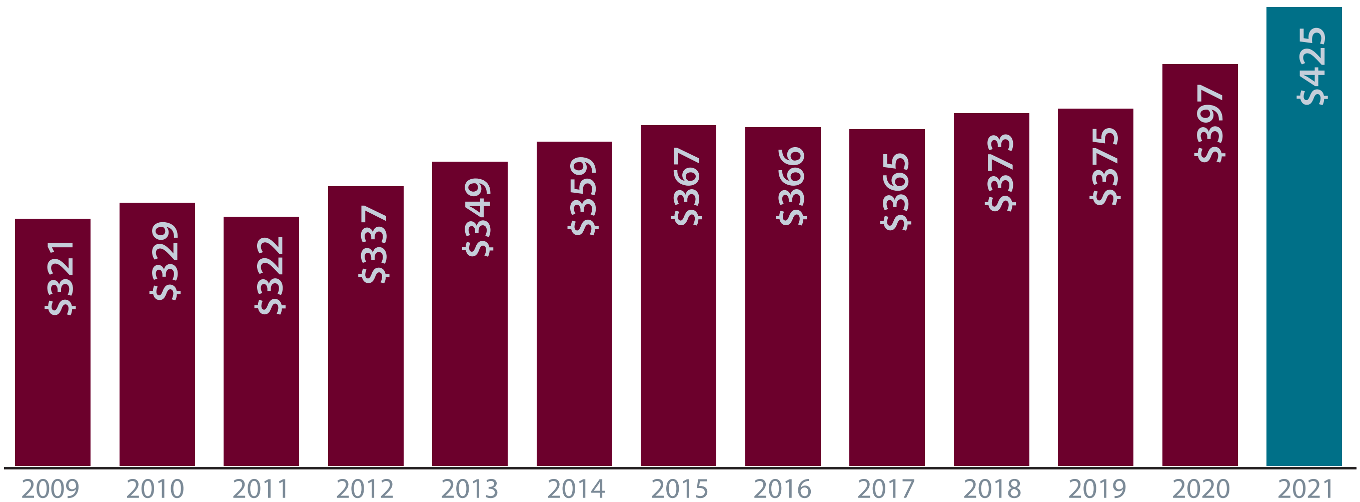
SINGLE-FAMILY HOME SALES

Contrary to expectations at the beginning of the pandemic, Anchorage's housing market remained strong in 2020. Against the backdrop of historically low mortgage rates, both the average single-family home sales price and volume of sales increased compared to 2019. As the average price reached new highs, the number of homes sold rose above those last seen before Alaska's most recent recession.

AEDC anticipates 2021 prices will end above 2020. Due to constrained housing supply and high building costs, single-family home values have remained steady throughout Alaska's recession. Longer-term, continued population loss may slow sales activity in Anchorage. Rising housing prices too may signal higher cost of living to prospective newcomers and continued increases in home prices may constrain population growth.

- Through May 2021, average single-family home prices rose 8% while the number of sales was up 29% compared to the same period in 2020.
- The ratio of average sales price compared to the price at which a home is listed on the market illustrates the strength of Anchorage's housing market. In the first half of 2020, homebuyers on average paid 99% of the list price, the ratio rose above 100% over the same period in 2021.
- Mortgage rates declined to historic lows during the pandemic and remained low in the first quarter of 2021 (2.78%). For Anchorage homebuyers whose income was not negatively impacted by the pandemic, lower interest rates translated into lower monthly payments or increased affordability of higher-priced homes.
- State and federal foreclosure moratoriums in effect during the pandemic meant Anchorage foreclosure levels remained at historically low levels. Expanded unemployment benefits in 2020 and 2021 helped newly unemployed individuals make mortgage and rent payments. As moratoriums on evictions and foreclosures are lifted and the expanded unemployment benefits are phased out in Alaska, Anchorage can expect an increase in foreclosures and evictions.

Anchorage Average Single-Family Home Sales Price ($1,000), 2009-2021



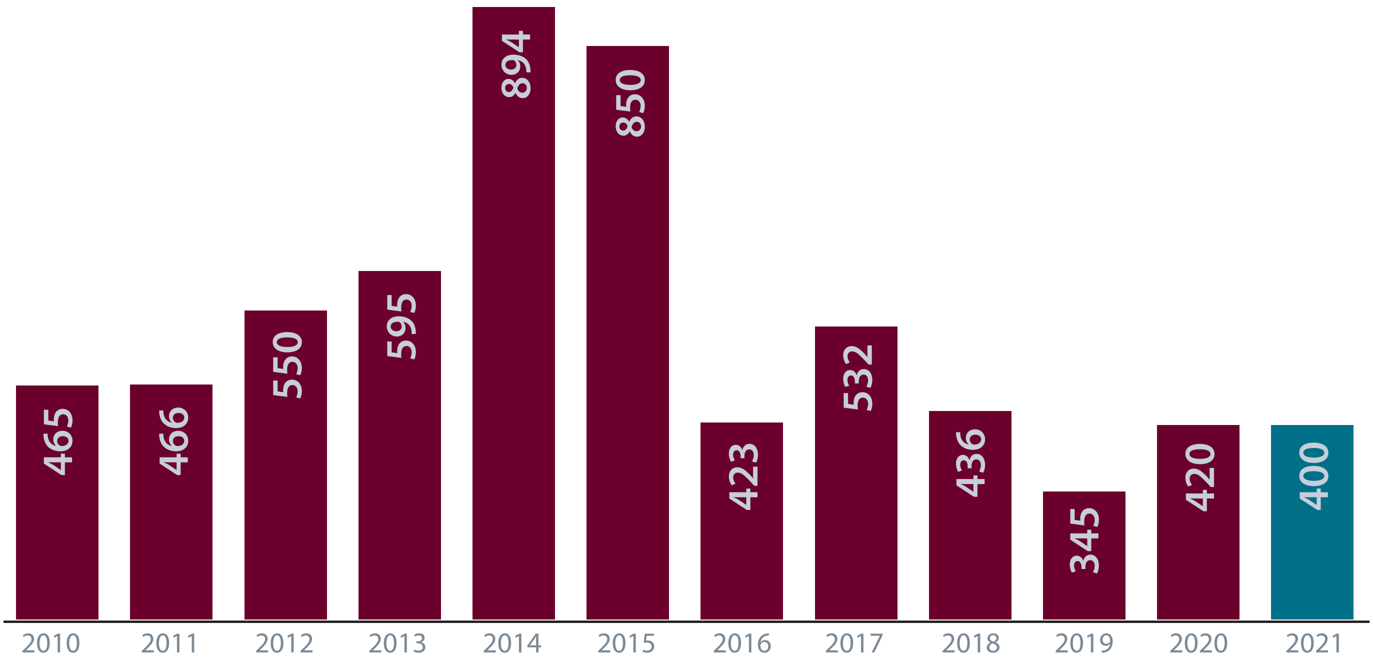
Note: This representation is based in whole or in part on data supplied by, and to the Subscribers of Alaska Multiple Listing Service, Inc. (AK MLS). Information contained herein is deemed reliable but not guaranteed. Data maintained by AK MLS is for its own use and may not reflect all real estate activity in the market. Source: Alaska Multiple Listing Service, Inc. (2009-2020); McKinley Research Group estimates (2021).

NEW HOUSING UNITS

Based on the current level of residential permitting and Alaska Housing Units Survey data through the first quarter of 2021, AEDC anticipates Anchorage will add about 400 housing units in 2021. With about 117,000 housing units in the current inventory, the annual rate of housing construction has hovered around 0.3% for the last several years and multi-family units have accounted for about half of all new units.

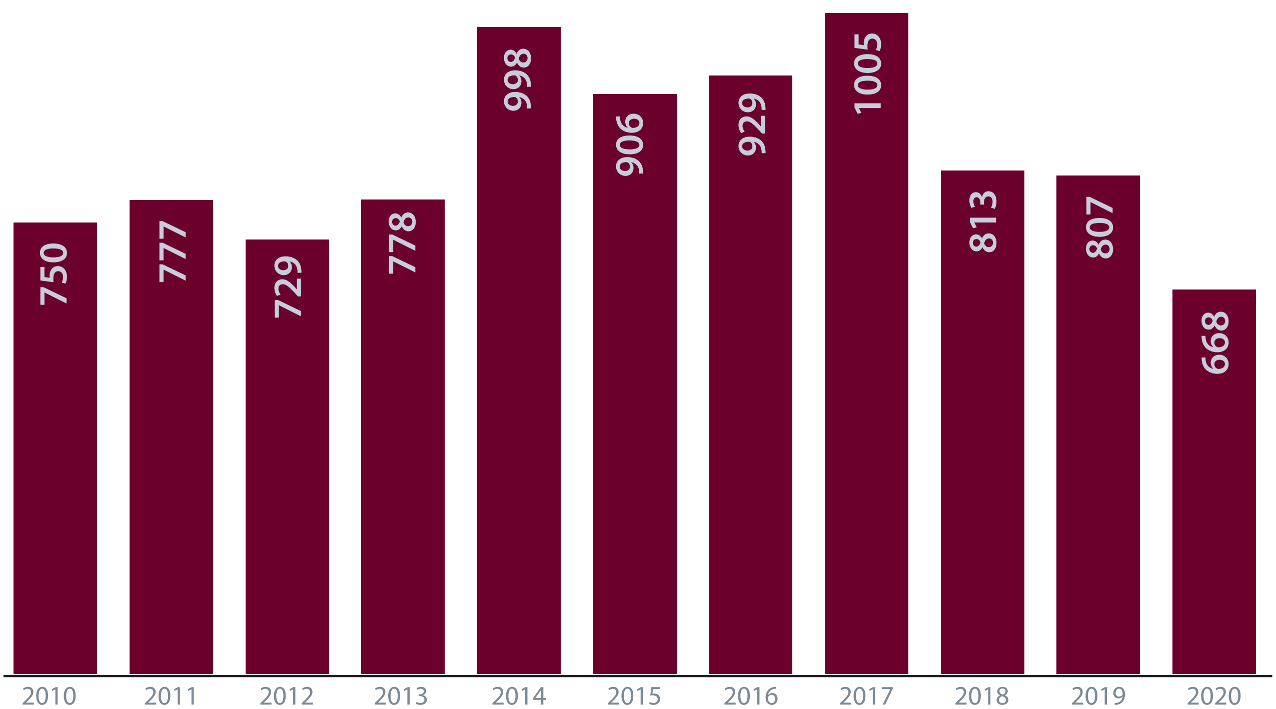
- In 2020, Anchorage added 420 housing units, about 75 units more than in 2019. The rate of new units added is still well below the pre-recession high of 894 in 2014.
- Multi-family projects accounted for 197 new units, while 210 single-family homes were added in 2021.
- The number of housing units added in Mat-Su fell for a third consecutive year from a high of 1,005 in 2017 to 668 units in 2020 but remained above those added in Anchorage. Single-family homes continue to represent a higher share of construction in Mat-Su (89%) compared to Anchorage (50%).

Anchorage New Housing Units, 2010-2021



Source: Alaska Department of Labor and Workforce Development (2010-2020); McKinley Research Group estimate (2021).

Mat-Su Borough New Housing Units, 2010-2020



Source: Alaska Department of Labor and Workforce Development (2010-2020).

VISITOR INDUSTRY

Anchorage's visitor industry has started its recovery from the devastation of the pandemic. Early indicators for 2021 show positive signs in terms of air passenger traffic, hotel occupancy and revenue, car rental tax revenues, and convention scheduling. Many businesses are reporting a strong start to the summer (certainly a boost from the nearly nonexistent 2020 season) and some are seeing more independent travelers than in 2019. However, most indicators have not reached pre-pandemic levels and recovery has been uneven across industry subsectors.

While several major cruise lines resumed sailing to Alaska in July, all itineraries are round-trip between Seattle and Southeast Alaska; none will cross the Gulf. Anchorage businesses catering to cruise passengers are, therefore, facing a second challenging summer. Businesses catering to international visitors have also been hard hit due to travel restrictions. Some businesses have been able to pivot to the influx of independent visitors.

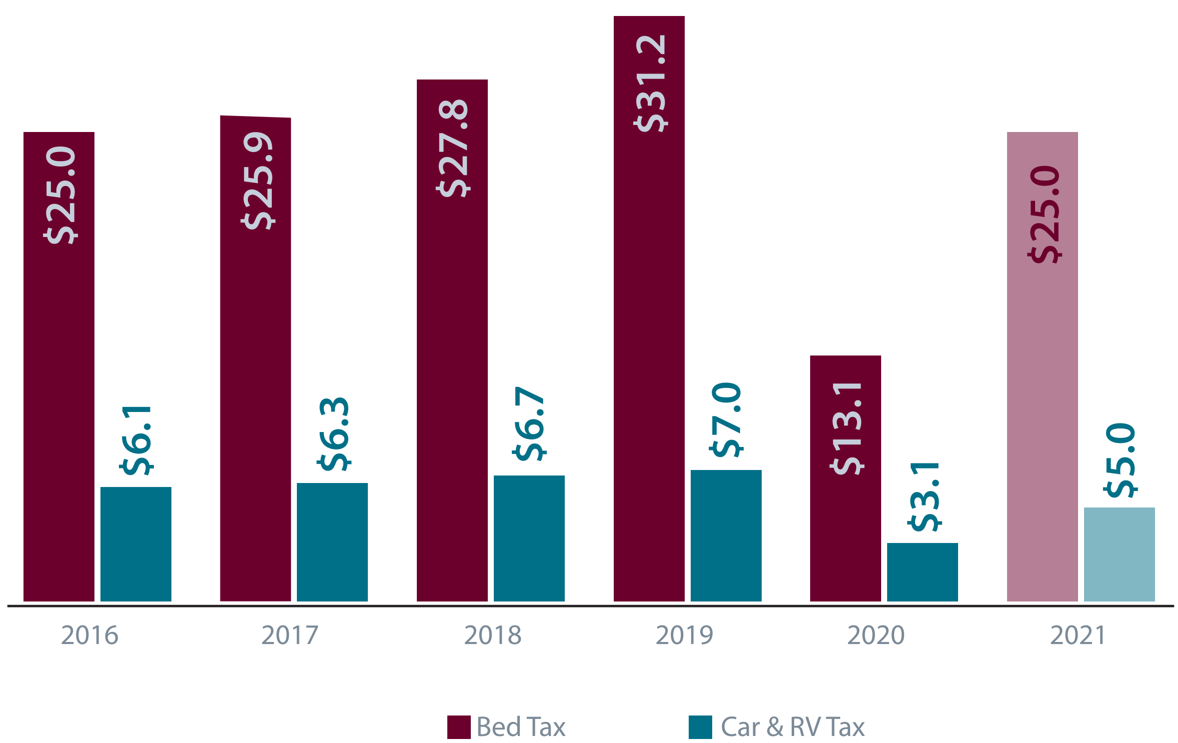
Another issue for many tourism businesses is a staffing shortage, with some businesses forced to cut back hours or, in the case of hotels, block off rooms.

Despite these challenges, the 2021 visitor season is bound to represent a significant recovery from 2020, and all signs point to a full recovery in 2022, particularly considering the resumption of cross-gulf cruises. Following are selected indicators for Anchorage's tourism sector.

- Visit Anchorage reports that hotel demand was down 33% between 2019 and 2020, while the average daily hotel rate (ADR) was down 28% and revenue per available room (RevPAR) was down 52%.
    - As of June 2021, year-to-date hotel occupancy in Anchorage is up 35% over the same period for 2020. However, it is still down 9% compared to 2019. ADR is up 25% from 2020 and down 5.4% compared with 2019; RevPAR is up 70% from 2020, and down 14% compared with 2019.
- 2020 showed a 56% decrease in bed tax compared to 2019. This followed a 12% increase in 2019.
    - The first quarter of 2021 showed a 1.3% decrease from the same period in 2020.
- Anchorage car rental and rental RV tax revenues were down 54% in 2020 compared to 2019.
    - Car and RV rental tax revenues were down 14% in the first quarter of 2021 compared to the same period in 2020.
- Passenger enplanements at ANC were down 59% in 2020.
    - For January to May 2021, enplanements were up by 16% over 2020, though still down by 35% from the same period in 2019.

- Alaska received no cruise ships in 2020, following a record-breaking 1.3 million passengers in 2019, including 432,000 that sailed cross-gulf to or from Seward or Whittier.
    - While a limited number of cruise ships will be sailing to Alaska between July and October 2021, they will be on round-trip itineraries from Seattle; none will be sailing across the Gulf.
    - Current cruise schedules show the potential for 460,000 passengers to sail across the Gulf to or from Seward or Whittier in 2022.
- The convention market was among the hardest hit sectors of the visitor industry. Virtually all in-person meetings scheduled in Anchorage for 2020 were canceled after mid-March, leading to an 82% decline in convention attendee spending between 2019 and 2020.
    - Conventions have started to rebound in 2021, with attendee spending projected to reach $30 to $35 million; this compares with $17.9 million in 2020 and a usual range of $90 to $100 million annually.
    - Bookings for 2022 are "off to a good start," according to Visit Anchorage, with projected spending of $10.7 million so far.

Anchorage Bed Tax and Car/RV Rental Tax ($Millions), 2015-2020



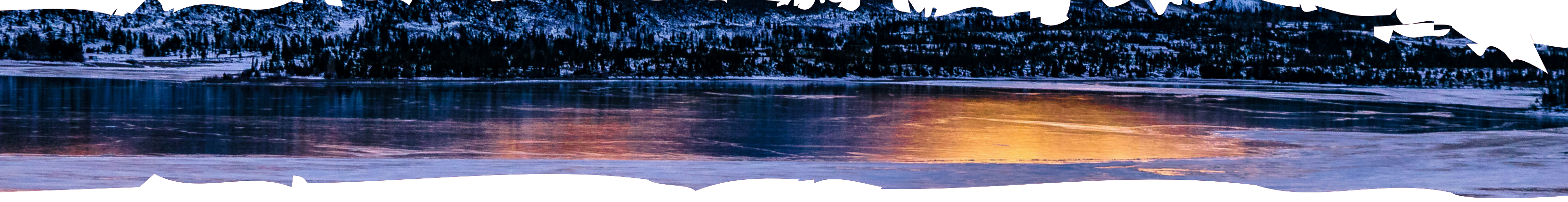
Source: Municipality of Anchorage (2016-2020); McKinley Research Group estimate (2021).

OIL & GAS

PRICES

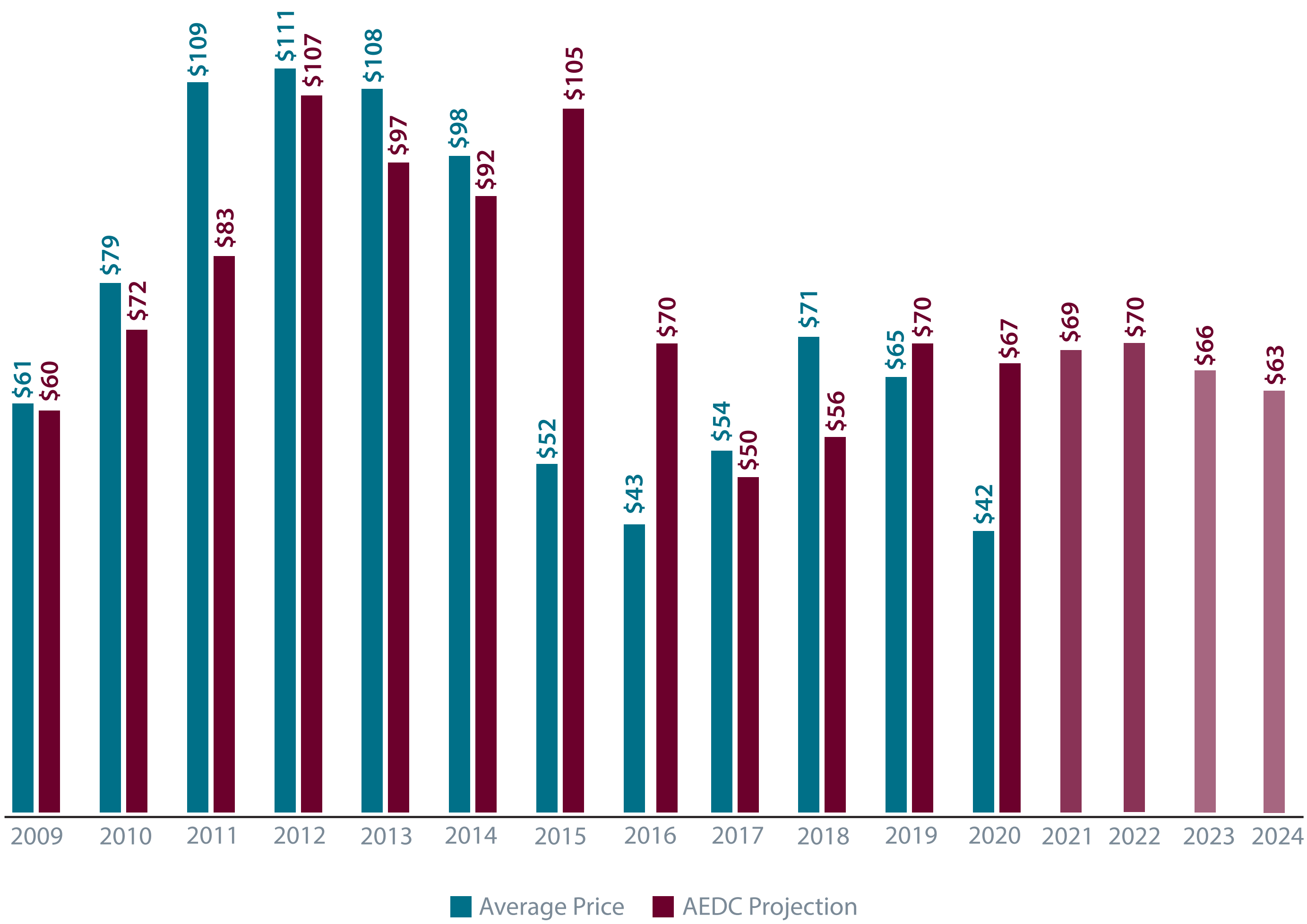
Alaska North Slope (ANS) crude oil prices have recovered from historic lows seen in 2020. Through the first half of 2021, ANS market prices averaged $65 per barrel with further recovery expected, bringing the expected average price to $69 per barrel by December. Over the next several years, increased oil production is expected to outpace global demand, exerting downward pressure on prices. Given this trajectory, ANS crude is projected to sell for $70, $66, and $63 per barrel in 2022, 2023, and 2024, respectively.

- After weeks of consideration, the Organization of Petroleum Exporting Countries (OPEC) reached a decision regarding oil output policy, agreeing to increase production by 400,000 barrels per day (bpd) starting in August. Production increases will continue on a monthly basis until OPEC members are producing at pre-pandemic levels.
- U.S. rig counts have begun to recover from their unprecedented drop in 2020, with about 500 rigs currently active. Although rig counts have nearly doubled in the last year, they are still down from 2019's high of over 1,000. Any increased production related to re-mobilizing rigs could put downward pressure on prices.
- While global oil consumption has rebounded somewhat in 2021 as economic activity and consumer travel increased, global demand in 2021 is still expected to fall short of pre-pandemic levels.
- Longer-term, changing demand for oil resulting from increased renewable energy production could exert downward pressure on prices. Expectations of when global peak oil demand will occur are varied. In BP's 2020 Energy Outlook, oil demand is presumed to have already peaked in 2019.



Alaska North Slope Crude Oil (Average Actual and Projected Price per Barrel), FY 2009-2024

Source: Alaska Department of Revenue (2009-2024).



PRODUCTION

After experiencing oil price driven production cuts during the pandemic, ANS production has increased in 2021 for the first time in four years. Average ANS production is forecasted at 482,000 bpd for 2021, an increase of 2.2% from 2020. In 2022, oil production is expected to drop to 459,700 bpd and then rise to 476,600 and 502,400 in 2023 and 2024, respectively. These projections assume companies will continue to invest in developments on the North Slope, and that production in key units, including National Petroleum Reserve-Alaska (NPR-A) and Point Thompson, will increase.

Persistent uncertainty in the State of Alaska budget will continue to impact oil and gas development throughout Alaska. The State has not made payments on its $700 million+ oil and gas tax credit obligation since 2019, and the Legislature failed to approve a $114 million minimum payment owed to companies during the most recent session. Continued delay in payment of this minimum obligation could impact future investment.

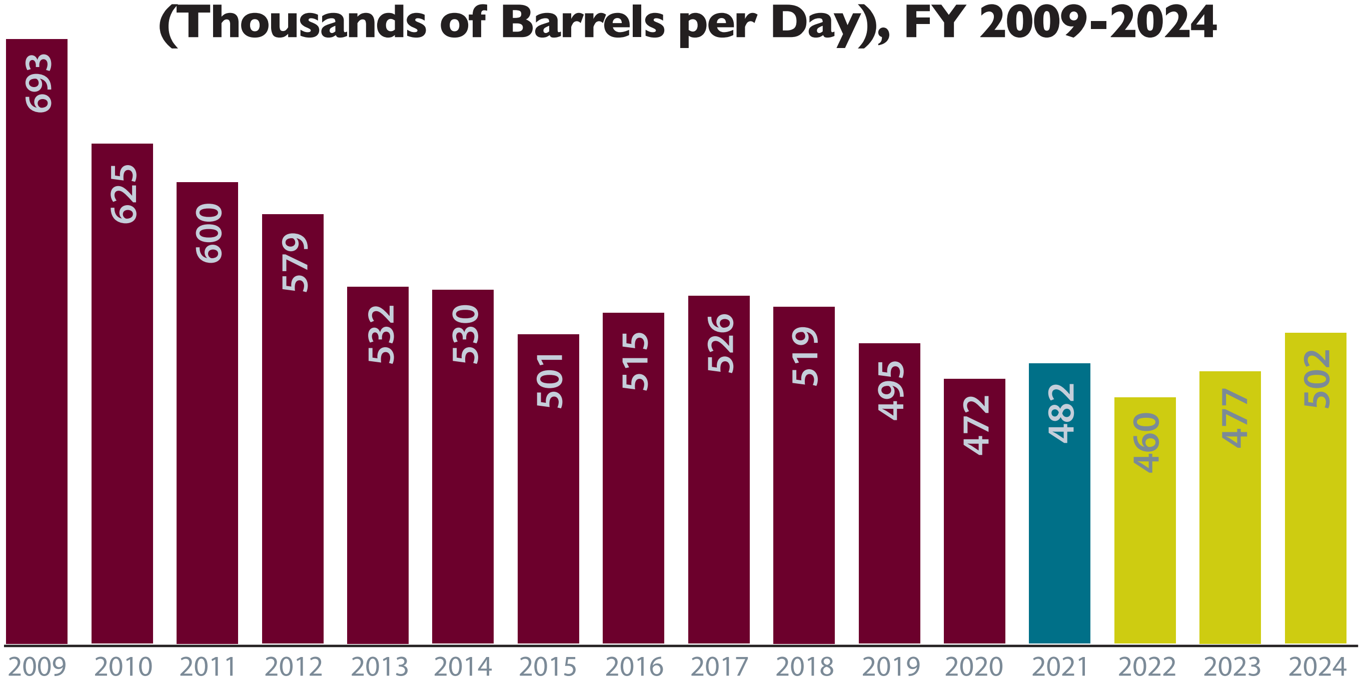
Despite this uncertainty, activity on the North Slope continues to be encouraging:

- Oil Search's Pikka project has entered the front-end engineering and design phase. The company expects the field to have the capacity to produce 80,000 bpd, with first oil in 2025 if the project is ultimately approved for development.
- The Biden Administration has issued its support for the Willow prospect in NPR-A. In late May, a federal court stated the Bureau of Land Management and U.S. Fish and Wildlife service properly followed environmental laws in the approval phase.
- Hilcorp will resume drilling in the western satellite area of Prudhoe Bay. The company expects six wells to be completed in the coming months, including four producing wells and two injector wells. The decision to resume drilling was motivated by improving market conditions, as well as approval from working interest owners.

Oil markets are driven by near-term expectations of global supply and demand.

- ANS oil production has been declining in recent years with annual decreases of 4.5% and 4.7% in 2019 and 2020, respectively. Production in 2021 is expected to see a slight rebound of 2.2%, as producers recover from the shortened drilling season and the low oil price environment resulting from the pandemic.
- Currently, there are four rotary rigs operating in Alaska. Rig counts have seen a slight increase since their historical lows in 2020 but have not recovered to pre-pandemic levels. Prior to the COVID pandemic and corresponding oil price crash, there were 10-12 drill rigs operating in Alaska. The historically long period of low active drill rig counts seen over the last year and a half may be reflected in oil production in the coming years.

Alaska North Slope Crude Oil Production (Thousands of Barrels per Day), FY 2009-2024



Source: Alaska Department of Revenue (2009-2024).

LOOKING AHEAD

As we look ahead, recovery from the pandemic's devastating economic impacts remains our principal concern. Anchorage has recovered 40% of the jobs lost last year, important progress but still leaving the economy more than 10,000 jobs behind pre-pandemic levels.

As this forecast is being written, COVID cases in Alaska and across the country are again on the rise. Concerns about a fall surge of infections are growing. The economy will not return to any degree of normalcy until the virus no longer significantly constrains how we do business. That can only happen when a substantial majority of residents are vaccinated. Each of us can do our part by getting vaccinated and encouraging others to do the same.

We have to remind ourselves that federal stimulus and other extraordinary government supports that have helped households, businesses, non-profits, and governments through the pandemic will not go on forever. Supplemental unemployment insurance payments have ended, no further Economic Impact Payments to individuals are expected, nor PPP opportunities. Also, the moratorium on evictions has ended and the suspension of loan payments on federal student loans ends in September.

Economic forces within our control also cloud the future. Yet another year without a sustainable state fiscal plan will continue to weigh on investor confidence in Alaska and our own confidence that we can maintain essential public services.

As noted previously in this forecast, the mismatch between labor supply and demand is a key challenge. This has been an underlying issue in Anchorage for many years, though the challenge was mainly in professional services and highly skilled trade occupations. Today the challenge is spread across most sectors of the economy. We expect to see more people returning to work as the need for wage income returns. But it may take years for labor supply and demand to return to a pre-pandemic balance. Importantly, we need to turn the ebbing tide of population. The more attractive we can make Anchorage as a place to live, work, and eventually retire, the better off we will be.

As we work to recover from COVID and wrestle with other challenges facing the economy, it is easy to lose sight of the bright spots in the economy and the significant untapped opportunities that may lie ahead.

As growth in international travel and trade has made the world a smaller place, Anchorage's advantages become more evident with each passing year. With ANC within 9.5 hours of 90% of the world's industrial economies, the airport is certain to continue expanding its role as one of the world's top air cargo hubs. Anchorage is Alaska's marine freight gateway, accounting for 80% of all containerized freight traffic into Southcentral and serving 90% of Alaska's population. More than half of the jet fuel used at ANC moves through Anchorage's Port of Alaska.

Geography also gives Alaska its strategic national defense value. The military plays a key role in Anchorage's economy and the economy of Alaska overall. Persistent (if not rising) political tensions with China and Russia are only increasing Alaska's national defense value. Here too climate change is enhancing Alaska's geopolitical value. Alaska's essential role in protecting the nation's interests in Arctic waters is clear and growing.

The visitor industry, hit hard by the pandemic, will have a strong rebound over the next couple years. In fact, independent visitor travel in 2021 is exceeding expectations, reflecting pent-up demand from last year's nearly non-existent season. The 2022 cruise season, if it unfolds as expected, will bring record numbers of cruisers to Alaska.

Projected increases in North Slope oil production over the next few years promise a measure of stability if not growth in Alaska's oil industry. Climate change and efforts to reduce carbon emissions present challenges and opportunities for Alaska. Oil production is a pillar of Alaska's economy. It will remain so for the foreseeable future, but meanwhile Alaska must aggressively explore new opportunities to diversify its economy in existing and new lines of business that offer opportunities for significant growth in the coming decade and beyond. Globally, greater reliance on natural gas will play a role in reducing carbon emissions. In that regard, Alaska's vast natural gas resources remain a tantalizing yet illusive opportunity.

With all the uncertainty, challenges, and opportunity in front of us, AEDC remains committed to providing the research, investor support, and leadership needed to keep our city on a path to economic prosperity.