

Anchorage forecast to lose some ground

By NEAL FRIED

Anchorage has gained jobs nearly every year since 1988, but continuing low oil prices make another year of economic growth unlikely.

In the late 1990s, Anchorage's employment grew despite low oil prices, big industry layoffs, and fiscal deficits — but there are big differences between then and now. The state budget deficit is considerably larger than at any time in the past, the oil workforce is at a record high, recent years' economic growth has been muted, and oil production is less than half of what it was in 1999.

Because Anchorage is headquarters for the state's oil industry, any layoffs would spur broader economic fallout. The other dampers on Anchorage's outlook are state government job losses, which will likely accelerate with the new fiscal year in July, and low prices for all commodities, which are crimping the state's mining and fishing industries.

However, some Anchorage industries are forecast to grow in 2016. The visitor industry anticipates another stellar year and health care is also forecast to add jobs, but not enough to offset the slowdown for other industries, which translates to a modest overall job loss of 0.8 percent or 1,200 jobs. (See Exhibits 1 and 2.)

Oil won't continue to fill the gap

In the past decade, Prudhoe Bay oil industry em-



ployment grew every year except 2008 (see Exhibit 3), which in turn generated growth in Anchorage headquarters jobs. Last year was no exception, and Prudhoe Bay employment reached a new high during 2015.

The oil industry has largely buoyed the economy in Anchorage over the past two or three years, but that isn't likely in 2016, and the industry is forecast to lose about 400 jobs in Anchorage, or 11.8 percent.

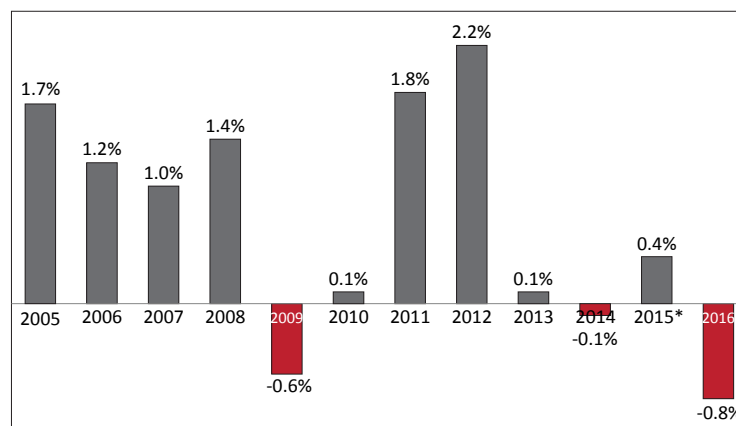
Job losses in the oil industry are nothing new. In the 1990s when oil prices were low, statewide industry employment fell from 10,500 in 1991 to 7,900 in 1999, with the largest annual loss of 1,600 jobs between 1991 and 1992.

The outlook for 2016 and beyond, isn't yet clear. Besides Shell's pullout and the modest cutback announced by ConocoPhillips, there has been very little evidence of major job loss in the oil patch.

Nationally, oil industry employment has already slipped to 2012 levels and continues to fall. Alaska's oil industry reaction to lower prices may be slower

1 Anchorage Likely to Lose Some Jobs

ANCHORAGE EMPLOYMENT, 2005 TO 2016



*Preliminary

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

2

Anchorage Employment Forecast

EMPLOYMENT BY INDUSTRY, 2014 TO 2016

	2014 Monthly Average ¹	2015 Monthly Average ¹	Change 2014 to 2015	Percent Change 2014-15	2016 Monthly Average	Change 2015 to 2016	Percent Change 2015-16
Total Nonfarm Employment ²	157,000	157,700	700	0.4%	156,500	-1,200	-0.8%
Natural Resources and Mining	3,900	4,000	100	2.6%	3,600	-400	-11.1%
Oil and Gas	3,700	3,800	100	2.7%	3,400	-400	-11.8%
Construction	8,300	8,600	300	3.6%	8,200	-400	-4.9%
Manufacturing	2,100	2,000	-100	-4.8%	2,000	0	0%
Wholesale Trade	4,800	4,800	0	0%	4,700	-100	-2.1%
Retail Trade	17,800	18,000	200	1.1%	17,900	-100	-0.6%
Transportation, Warehousing and Utilities	10,800	10,800	0	0%	10,800	0	0%
Information	4,000	4,000	0	0%	4,000	0	0%
Financial Activities	7,500	7,400	-100	-1.3%	7,300	-100	-1.4%
Professional and Business Services	20,500	20,500	0	0%	20,200	-300	-1.5%
Educational ³ and Health Services	24,900	25,200	300	1.2%	25,700	500	1.9%
Health Care	18,500	19,000	500	2.7%	19,400	400	2.1%
Leisure and Hospitality	16,900	17,200	300	1.8%	17,400	200	1.1%
Other Services	6,100	6,000	-100	-1.6%	6,000	0	0%
Government	29,400	29,200	-200	-0.7%	28,700	-500	-1.7%
Federal Government ⁴	8,500	8,400	-100	-1.2%	8,400	0	0%
State Government ⁵	10,800	10,600	-200	-1.9%	10,100	-500	-5.0%
Local Government ⁶	10,100	10,200	100	1.0%	10,200	0	0%

*Based on the first two quarters of 2015

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes public school systems

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

because Alaska's industry is more project-based, so it only shows job loss once existing projects end.

A good example is Armstrong's recent announcement that it will cut way back on the winter drilling season, which means 500 planned jobs won't materialize. Another example of a project wrapping up by the end of 2015 is Exxon/Mobil's \$3 billion-plus Point Thompson field development, which began in 2012. By early 2016 it will move into operations phase and need fewer workers.

It's important to note that there *will* be new oil projects, though, and these will stave off larger losses. There are typically fewer new projects in a lower-priced environment, but significant work continues. Examples are Hilcorp's Liberty project on the North Slope and Ninilchik plans in the Cook Inlet region. More immediate is ConocoPhillips' plan to develop its Greater Mooses Tooth project in 2017, a \$900 million venture that will begin producing in 2018 and reach 30,000 barrels a day at its peak.

Construction likely to slow

Construction employment was up 4 percent in Anchor-

age in 2015 but is likely to lose steam in 2016, with a forecast decline of 4.9 percent.

After two strong years, Anchorage building valuation was down \$145 million, or 22 percent, for the first 11 months of 2015. Building valuation data come from building permits, which hint at future construction levels. For residential construction, although interest rates remain low and Anchorage housing inventory is small, the number of building permits fell from 758 units for the first 11 months of 2014 to 609 over the first 11 months of 2015, with declines in both single and multi-family units.

Putting a further damper on Anchorage construction jobs will be the completion or near completion of several large utility projects and commercial and public buildings. Fewer federal projects will also mean fewer construction jobs. The Army Corps of Engineers program budget fell again, from \$25 million in 2015 to \$20 million in 2016, representing four years of declines after peaking at \$49 million in 2008.

Economic uncertainty will also mean less privately financed construction, and oil-related construction that boosted the industry in the past two years won't

play that role in 2016. Moreover, the state capital budget peaked in 2013 at \$3.5 billion, then fell by more than \$1 billion during the next two years. Fiscal year 2016's capital budget is the lowest in more than 15 years.

Still, a number of sizable commercial buildings will be under construction in Anchorage for much of 2016, including three or four new hotels, and highway construction jobs are forecast to remain at last year's level.

Health care a bright spot

Health care has long generated the largest number of new jobs in Anchorage. During the past decade, health care employment was responsible for over a third of the city's employment growth. In 2015, it grew by 2.7 percent, or about 500 jobs, the most of any industry.

This year is forecast to be a repeat performance, with 2.1 percent growth. Continued implementation of the Affordable Care Act and Medicaid expansion could add to that growth.

A record year for tourism

Leisure and hospitality — which includes accommodations, food services, arts, entertainment, and rec-

reation — is driven by local consumption as well as tourists. Last year it grew by 300 jobs, and this year it's expected to gain another 200.

The visitor slice of this industry should fare well again in 2016, as the ingredients for another strong visitor season are in place. Bed taxes collected for the first two quarters of 2015 were up 6 percent and air travel numbers into Anchorage this past season were up 10 percent. The national economy also continues to grow and energy prices remain low, which will likely generate more convention and visitor traffic.

The industry projects a strong season, and early bookings reflect that optimism. The Alaska Travel Industry Association predicts tourism will grow by 2 to 3 percent in 2016, and the cruise ship industry projects its passenger count will top the 1 million mark for the first time.

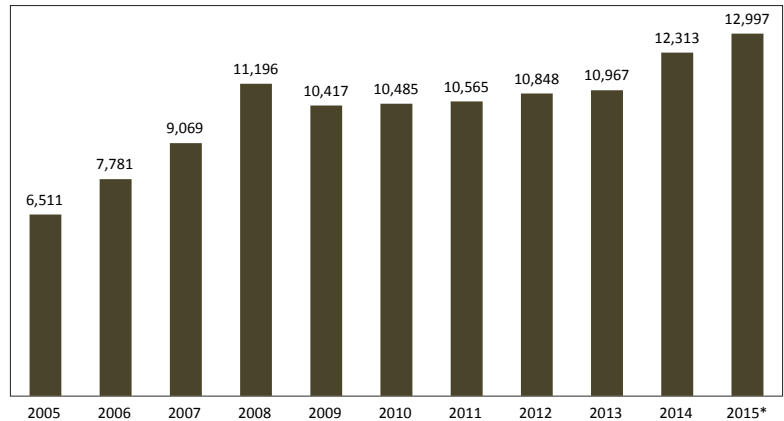
New hotel construction in Anchorage reflects these numbers as well. Three to four new hotels with 500 to 700 rooms total are either in progress or in the final stages of planning.

The likely slowdown in business and government-related travel is expected to offset some of the growth in the tourist-driven segment.

Restaurants and bars represent two-thirds of leisure hospitality

3 Prudhoe Bay Jobs Up through 2015

2005 to 2015

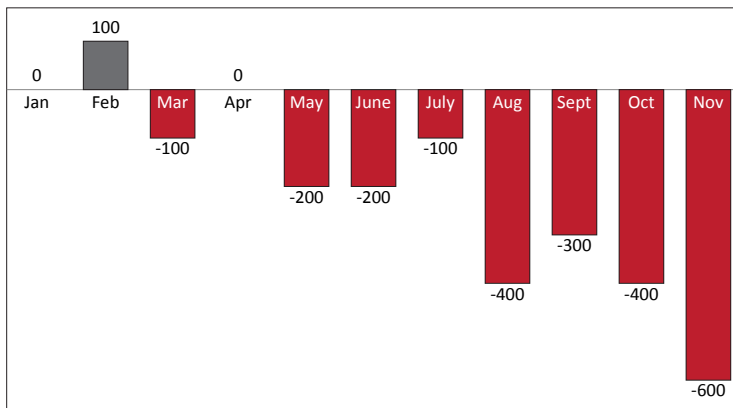


* Preliminary

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

4 State Government Losses Increasing

ANCHORAGE, OVER-THE-YEAR CHANGE, 2015



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

employment, and in 2015, they had a growth spurt after remaining flat the year before. In the past decade, restaurants and bars have added 1,500 jobs.

In 2016, two Krispy Kremes, BurgerFi, and Smash Burger will open in Anchorage. Despite these and other possible openings, potential closures and a more challenging economic environment are likely to keep job levels flat.

Retail and marijuana uncertainty

Retail racked up serious job growth in Anchorage over the past two years with a long list of new large retailers including Nordstrom Rack, Pier 1 Imports, Men's Warehouse, North Face, and H&M.

Stores often over-hire when they open and then trim down. In January 2015, jobs were up 400 over January 2014 but by June that gain fell to 100.

Because there are no plans for major retail openings in 2016, moderate job loss is forecast.

That doesn't take marijuana into account, which could provide a sizeable retail boost in 2016 because dispensaries could open in Anchorage by May. However, at the time of this publication, too many unanswered questions and variables remained to produce a reliable estimate for marijuana retail jobs in 2016. Statewide and local regulations also remain in flux, which could mean delays in implementing the regulations.

Real estate market slows

Real estate and its connected businesses are a major driver in the financial industry and are often considered a barometer for the larger economy. Real estate's related businesses include mortgage brokers and title and insurance companies.

Recent economic uncertainty hasn't spooked the Anchorage real estate market. Through October 2015, Anchorage home sales were up approximately 6 percent and prices were up 3.7 percent. The inventory of homes for sale remains historically low. However, this part of the financial sector in Anchorage is likely to slow down in 2016.

The balance, which includes banking, investments, financial brokers, and other types of insurance, is forecast to remain flat.

Oil, construction losses will affect other professional services

Professional and business services is a broad industry, responsible for 13 percent of all payroll jobs in

Anchorage. It includes law firms, engineering firms, employment services, tech support companies, and janitorial services and refuse companies. Because it has so many unrelated components, it's a tough sector to forecast.

Its weakest link for 2016 will be related to losses in the oil and construction industries. The architectural and engineering services slice, which represents 22 percent of the industry and more than 4,200 jobs, is strongly tied to oil and construction. As a result, professional and business services is forecast to lose about 300 jobs in 2016, or about 1.5 percent.

More state job losses expected

Between 2010 and 2014, Anchorage lost 1,300 federal jobs. The trend of federal losses appears to have ended though, and by the end of 2015 the numbers were up slightly from year-ago levels.

Further federal job losses are unlikely in 2016. Until recently, proposed cuts of nearly 2,600 soldiers at Joint Base Elmendorf-Richardson cast some doubt on federal employment for 2016, but those cuts are on hold.

This year, public sector losses will come from state government, and they'll likely be large enough to cause an overall decline for government jobs.

Anchorage's state government employment began to fall modestly from year-ago levels in May 2015 and losses accelerated as the year progressed. (See Exhibit 4.) That trend is forecast to continue in 2016, and the state's operating budget will be under even more pressure for fiscal year 2017, which begins in July 2016. Although there are still few specifics, larger cuts to the operating budget are certain, which means more cuts to the state's workforce.

Local government employment increased modestly in 2015 and is forecast to stay flat in 2016. The City of Anchorage is hiring additional police officers, and Anchorage School District's workforce is slightly above year-ago levels. However, because of a much tighter state budget, state support for the Anchorage School District and revenue sharing for the city will likely take a hit during the latter part of 2016, negating any gains earlier in the year.

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