

Anchorage forecasted to lose 2,800 jobs

By NEAL FRIED

After nearly 30 years of modest but mostly steady growth, Anchorage lost more than 3,000 jobs in 2016, or about 2.3 percent of its employment. With those losses came a 4 percent drop in total wages.

Because oil prices remain relatively low and the state still faces budget challenges, 2017 is expected to be similar, with a forecasted job loss of about 2.0 percent, which equates to 2,800 jobs. (See Exhibit 1.)

Last year's losses began in oil, construction, professional and business services, and state government and have spread into secondary industries such as leisure and hospitality, retail, transportation, and financial services.

There are some bright spots for growth, as Anchorage's visitor industry will likely add jobs again in 2017 and health care continues to grow. However, these gains will fall well short of offsetting other industries' losses.

Oil losses will likely slow down

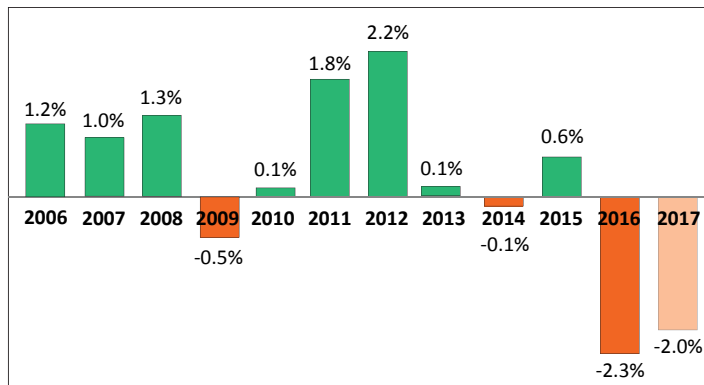
Anchorage is headquarters for most of the state's oil industry employers, and over 40 percent of the state's oil workers are from Anchorage — 5,200 workers and more than \$700 million in wages — so industry changes have an especially large impact. Job losses will probably continue into 2017, but will be more modest.

Oil layoffs are nothing new in Alaska. If that were the only negative playing out in the economy, the broader market could still grow — something that's happened three times in Alaska's modern history. This time is different because during the three to four years preceding the drop in price, oil industry expansion and near-record oil revenue expenditures were the biggest factors propping up the state's modestly growing economy. When that stimulus evaporated in 2015 and 2016, the broader economy lost steam.

The industry hit record highs in 2014 and 2015 after a decade of steady growth, then began to lose jobs in the last quarter of 2015. By November 2016, statewide

1 Second Year of Moderate Job Loss

ANCHORAGE, PERCENT CHANGE, 2006 TO 2017



Note: The 2016 number is preliminary, and 2017 is forecasted.

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

oil industry employment was at 11,700, its lowest level since 2007. Most of the loss was in oilfield service companies, which make up nearly three-quarters of industry employment. By the second quarter of 2016, Prudhoe Bay employment fell to 10,400, its lowest level since 2010. (See Exhibit 3.) Nationally, industry employment began to fall in early 2015 and has also dropped to 2010 levels.

Alaska's decline was brought on by low oil prices plus ExxonMobil's near-completion of the giant Point Thompson project and Shell Oil's pullout. Low prices also spurred delays or cancellation of other projects, and fewer

new projects are on the horizon. ConocoPhillips' capital expenditures fell by nearly half in 2016, for example.

Alaska's oil patch won't come to a standstill, though. New projects will come, and work will continue on existing developments, such as Hilcorp's pursuit of the Liberty project on the North Slope and its MacArthur River field redevelopment program in the Cook Inlet region. ConocoPhillips plans to develop Greater Moose's Tooth and is continuing its CD5 work on NPR-A lands.

Caelus Energy Alaska's recent discovery is a potential game changer as well, possibly adding hundreds of thousands of barrels of oil per day to the Trans-Alaska Oil Pipeline, and Armstrong Oil and Gas Company's recent discovery could produce as much as 120,000 barrels per day.



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Anchorage Job Forecast by Industry

WAGE AND SALARY EMPLOYMENT, 2015 TO 2017

	2015 Monthly Average ¹	2016 Monthly Average ¹	Change 2015 to 2016	Percent Change 2015-16	2017 Monthly Average	Change 2016 to 2017	Percent Change 2016-17
Total Nonfarm Employment ²	157,800	154,200	-3,600	-2.3%	151,400	-2,800	-1.8%
Natural Resources and Mining	3,900	3,300	-600	-15.4%	3,000	-300	-10.0%
Oil and Gas	3,700	3,000	-700	-18.9%	2,700	-300	-11.1%
Construction	8,300	7,400	-900	-10.8%	6,900	-500	-7.2%
Manufacturing	2,100	1,900	-200	-9.5%	1,900	0	0%
Wholesale Trade	4,800	4,700	-100	-2.1%	4,600	-100	-2.2%
Retail Trade	18,100	17,800	-300	-1.7%	17,200	-600	-3.5%
Transportation, Warehousing, and Utilities	11,000	10,900	-100	-0.9%	10,700	-200	-1.9%
Information	4,100	4,000	-100	-2.4%	3,900	-100	-2.6%
Financial Activities	7,400	7,400	0	0%	7,200	-200	-2.8%
Professional and Business Services	20,300	18,700	-1,600	-7.9%	18,300	-400	-2.2%
Educational ³ and Health Services	25,300	26,000	700	2.8%	26,500	500	1.9%
Health Care	19,100	19,800	700	3.7%	20,400	600	2.9%
Leisure and Hospitality	17,200	17,200	0	0%	16,800	-400	-2.4%
Other Services	6,000	5,800	-200	-3.3%	5,700	-100	-1.8%
Government	29,200	29,100	-100	-0.3%	28,700	-400	-1.4%
Federal ⁴	8,500	8,600	100	1.2%	8,700	100	1.1%
State ⁵	10,600	10,200	-400	-3.8%	9,800	-400	-4.1%
Local ⁶	10,200	10,300	100	1.0%	10,200	-100	-1.0%

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

A similar low year for construction

Anchorage is also headquarters for the state's construction industry, so its contractors are especially hard-hit by the statewide slowdown. The capital budget hit a 15-year low last year, and oil industry-related projects that were a boost for the past six or seven years have fallen off. Anchorage lost 900 construction jobs in 2016, an 11 percent decline, with more losses to come.

Anchorage building valuation was down \$49 million, or 10 percent, for the first 11 months of 2016 and the number of permits for new residential housing fell from 609 to 331 — possibly the lowest level in more than 25 years. Commercial activity also looks sparse, with rising vacancy rates and uncertainty keeping new investments at bay. There are no known plans for new large office or retail buildings in 2017.

A few bright spots include the construction of a new \$40 million maintenance hangar for Alaska Airlines and a new \$40 million warehouse for The Odom Corporation. A few new hotels are also possible for 2017.

Highway and airport related construction projects, which are largely federally funded, will also continue.

Local contractors could also benefit from some of the \$500 million in construction tied to the arrival of two F-35s at Eielson Air Force Base near Fairbanks.

Professional and business services hit hard, with more to come

Last year was a low point for Anchorage's professional and business services. The sector lost 1,600 jobs, which was larger than any other industry. (See Exhibit 4.) Anchorage is the statewide headquarters for this industry, and it was hit hard by a combination of big losses in oil and construction and the near-evaporation of mining exploration.

Architectural, engineering, environmental, and other consulting services represent more than half of this industry, and these employers sustained the biggest losses in 2016.

Although losses could slow in 2017, they'll likely persist while the oil and construction industries continue to contract and plans for future projects remain few and far between.

The share of this industry tied to legal, accounting, computer, and other professional services is also likely to follow the overall downward trend.

Softer economy will dent transportation demand

Because nearly every Alaska business depends somewhat on transportation, the overall health of the economy is the best predictor of the industry's future in Anchorage. Because a softer economy is marked by less moving around, transportation will lose some ground in 2017.

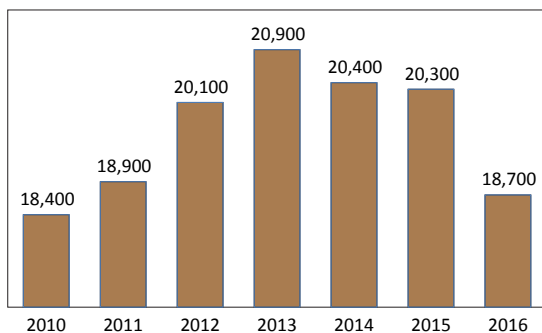
Two of the major shipping companies operating from the Port of Anchorage reported declines in freight volume in late 2016. The Alaska Railroad's freight has also dropped off because coal is no longer being exported, the Flint Hills refinery closure means fewer petroleum product shipments, and the overall economy has softened.

The industry component that's tied to tourism is expected to keep growing, but business and government-related travel will decline again in 2017.

On a positive note, international cargo moving through the Anchorage airport is at high levels and expected to remain high in 2017.

4 Professional and Business Services Jobs Hit Hard

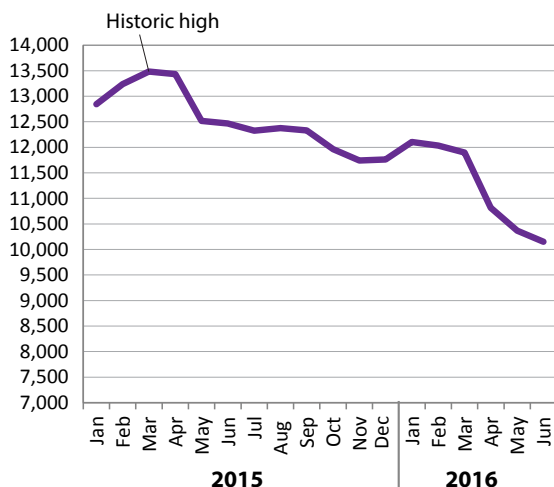
ANCHORAGE, 2010 TO 2016



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

3 Oil Workforce Drops From 2015 Historic High

PRUDHOE BAY EMPLOYMENT, 2015 TO 2016



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

Tourism will have another good year

Leisure and hospitality includes accommodations, food services, and the arts, entertainment, and recreation sector, all of which rely on local consumption as well as tourists. Anchorage's industry employment was flat overall in 2016. In 2017, the visitor-dependent slice of this industry is expected to grow.

The Alaska Travel Industry Association predicts a 2 percent increase in tourists this year. Americans are traveling in ever-larger numbers, and cruise ship bookings are up. Based on this optimism and strong occupancy numbers during Anchorage's tourist season over the last couple of years, two new hotels are under construction and others are possible.

The outlook for locally generated activity is weaker, with intrastate meetings and conferences down and less business and government-related travel. Anchorage-based bed and car rental taxes collected during the first three quarters of 2016 were slightly down from 2015, a year when both registered gains. These losses will offset some of the growth in the tourist-driven market in 2017.

Restaurants and bars represent two-thirds of the industry's employment, and they lost a small number of jobs during the first two quarters of 2016 after adding 200 jobs in 2015. A number of new restaurants opened in 2016, but jobs began to decline moderately, possibly because local consumers spent less. These losses are likely to pick up in 2017 under similar conditions. New restau-

rants will open in 2017, but other establishments closing or scaling back will more than offset those gains.

Health care growth continues

The health care industry has led growth for more than 30 years, and its gains in Anchorage are expected to continue in 2017.

Between 2006 and 2016, health care employment grew by nearly 3 percent per year compared to less than half a percent for overall employment. During some of those years, Anchorage's overall employment would have fallen had it not been for health care's gains.

In 2016, Anchorage added about 600 health care jobs. Because Alaska's demographics are shifting toward an older population, growth is likely to continue.

Marijuana will be a small boost for retail

Anchorage retail employment continued to grow during the first quarter of 2016 but by June it was down by 500. This was a clear sign that job losses in oil and construction were reverberating into other industries.

Unlike past years, no large retailers have announced plans to open in Anchorage in 2017, so retail trade is expected to lose some jobs.

One niche that will mitigate some retail job loss is the sale of marijuana. Just a few dispensaries had opened in Anchorage as of December 2016, but an estimated 20 more are scheduled to open soon.

These new jobs aren't likely to cancel the industry's overall losses, though. If Alaska's stores follow the lead of places like Oregon, each store will employ only about six salespeople. However, marijuana will also generate jobs in manufacturing, wholesale, and growing operations.

Finance will take bigger hit in 2017

Despite economic uncertainty and overall job loss, Anchorage's real estate market remained remarkably stable in 2016. Through September 2016, home sales were down by just 4 percent: 2,905 sales compared to 3,040 in 2015. Prices were largely unchanged.

Real estate and its related businesses — mortgage, title, banking, and insurance — drive the financial services industry, and though sales remain healthy, this part of the financial sector is likely to slow somewhat in 2017. New home construction is down, the inventory of homes for sale has increased, and the inventory of higher-end homes is climbing. Interest rates also play a role, and they're expected to rise in the near future.

The balance of the industry, which includes banks and credit unions, is also likely to soften. Both report lower demand for loans.

Government jobs largely flat

Anchorage's government employment is forecasted to remain close to current levels in 2017. Federal and local government employment will remain at about the same levels, and state government will continue to shrink.

After nearly five years of employment declines, federal civilian employment resumed growing in 2016 but the newly elected administration has announced plans to freeze hiring.

No big change is on the horizon for uniformed military. Planned cuts to Joint Base Elmendorf-Richardson, which would have been significant, have been canceled or delayed.

State government employment, which includes the University of Alaska Anchorage, began to fall in May 2015 and was down 4 percent by 2016. Similar cuts are likely in 2017. Pressure on the state's operating budget will continue in fiscal year 2018 and more budget cuts are in the works. Job losses could be large enough to cause an overall drop in Anchorage's government employment in 2017.

Local government employment grew some in 2016 and will probably hold steady in 2017 unless education sustains unforeseen state funding cuts. Budgets for 2017 are expected to be relatively stable for both the Municipality of Anchorage and for the largest local government employer, the Anchorage School District.

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