

Modest job growth on Anchorage's horizon

By NEAL FRIED

Job loss has been the headline for the last three years in Anchorage, and although the decline became smaller each year, this has been the longest recession in the city's history.

The city will inch back into positive territory in 2019 with 0.2 percent forecasted growth, not through any major project or event but by small gains in a number of industries.

Although some Anchorage industries will continue to lose jobs, improving consumer sentiment and growth in tourism, construction, air freight, health care, and military spending will likely offset any declines. (See exhibits 1 and 2.)

Forecasts are based on what we know now, however, so a dramatic oil price decline, big state government cuts, a national recession, or another economic shock would change the outlook considerably.

Oil industry turned a corner with projects, higher prices

The oil industry, which is headquartered in Anchorage, lost 6,100 statewide jobs between December 2014 and November 2017.

Its employment has been mostly stable since then, and small gains are on the horizon for 2019. (See Exhibit 3.)



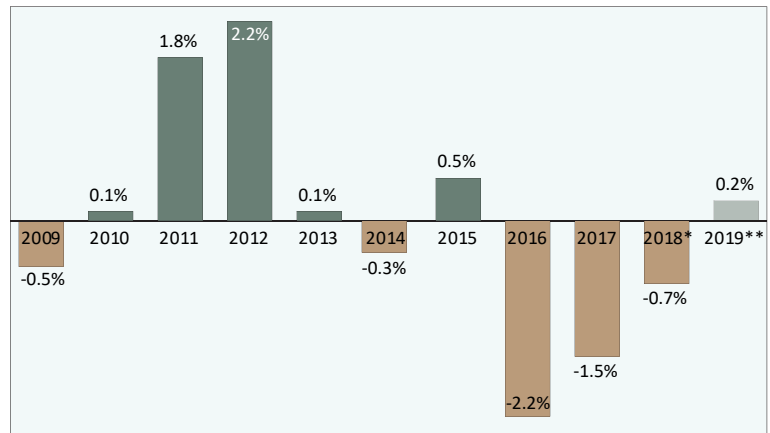
Better oil prices are one factor. The 2016 average was \$43 per barrel, and 2018 averaged \$71, although prices fell during the last two months of the year.

The past two years have brought a growing list of discoveries as well, and access to these resources has improved.

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Minor Job Gains After 3 Years of Loss

ANCHORAGE CHANGE IN JOBS, 2009 TO 2019 FORECAST



*Preliminary **Forecast

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

ConocoPhillips plans to drill six to eight new wells in 2019, which would make this one of their busiest seasons in years. They are also increasing their Alaska budget from \$900 million in 2018 to \$1.2 billion in 2019.

Independents such as Hilcorp, Great Bear Petroleum, and Caelus also have bigger plans for 2019. This means the industry is hiring again after three years of cuts, which bodes well for Anchorage employment.

Construction begins to rebound

Construction suffered a similar fall between 2015 and 2017, losing 1,100 jobs in Anchorage before the tide turned in 2018.

This trend of modest gains is likely to continue in 2019 — again, not due to big projects but because activity had fallen to such a low level.

Construction losses didn't begin with the current recession, as the industry has weathered several rough patches over the last decade-plus. By 2018, Anchorage's construction employment had dropped to 2001's level of about 7,400 jobs — a big contrast to 2005, when industry employment stood at 9,800.

Office and industrial projects in Anchorage remain scarce, and vacancy rates are still climbing. This is the

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Anchorage Job Forecast by Industry

WAGE AND SALARY EMPLOYMENT, 2017 TO 2019

	2017 monthly average ¹	2018 monthly average ¹	Change in jobs 2017-18	Percent change 2017-18	FORECAST		
					2019 monthly average	Change in jobs 2018-19	Percent change 2018-19
Total Nonfarm Employment ²	151,900	150,800	-1,100	-0.7%	151,100	300	0.2%
Natural Resources and Mining	2,700	2,600	-100	-3.7%	2,800	200	7.1%
Oil and Gas	2,600	2,500	-100	-3.8%	2,700	200	7.4%
Construction	7,200	7,400	200	2.8%	7,700	300	3.9%
Manufacturing	2,000	2,100	100	5.0%	2,100	0	0%
Wholesale Trade	4,700	4,700	0	0%	4,700	0	0%
Retail Trade	17,500	16,900	-600	-3.4%	16,700	-200	-1.2%
Transportation, Warehousing, and Utilities	11,200	11,500	300	2.7%	11,700	200	1.7%
Information	3,800	3,500	-300	-7.9%	3,400	-100	-2.9%
Financial Activities	7,400	7,300	-100	-1.4%	7,300	0	0%
Professional and Business Services	18,200	17,600	-600	-3.3%	17,400	-200	-1.1%
Educational ³ and Health Services	26,400	26,800	400	1.5%	27,300	500	1.8%
Health Care	20,700	21,200	500	2.4%	21,600	400	1.9%
Leisure and Hospitality	17,200	17,300	100	0.6%	17,600	300	1.7%
Other Services	5,700	5,600	-100	-1.8%	5,600	0	0%
Government	27,900	27,500	-400	-1.4%	26,800	-700	-2.6%
Federal Government ⁴	8,500	8,400	-100	-1.2%	8,200	-200	-2.4%
State Government ⁵	9,900	9,800	-100	-1.0%	9,500	-300	-3.2%
Local Government ⁶	9,500	9,300	-200	-2.1%	9,100	-200	-2.2%

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

Note: Sectors may not sum due to rounding.

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

case for nearly all vertical construction, both private and government.

Anchorage has some retail construction with the near-rebuilding of the Sears Mall, now called the Midtown Mall. In 2019, it will house three new large tenants: REI, Carrs-Safeway, and Planet Fitness. Two new hotels are nearly complete and a third will open late in the year, adding approximately 450 rooms to Anchorage's accommodations.

Residential housing is on a similar sluggish track, with building permits at a near record low over the first 10 months of 2018. The city permitted 387 new units, down from 432 for the same 10 months in 2017. (See Exhibit 4.) We expect a near-repeat performance this year, although three major multi-family buildings are under construction in downtown Anchorage, something the city hasn't seen in many years.

Highway and airport related construction, which is largely federally funded, looks positive for 2019,

mainly because of projects outside the area. Many Anchorage contractors are involved in the half-billion dollars' worth of work at Eielson Air Force Base near Fairbanks, which is preparing for the arrival of two F-35 fighter jet squadrons. Building projects are also under way at two of the Interior's other bases: Clear Air Force Station and Fort Greely.

Retail's woes will continue as online shopping takes a toll

Retail was one of Anchorage's biggest job losers in 2018, exacerbated by a rash of store closures, and the industry is on the same track in 2019.

The largest loss last year was the closure of two Sam's Club warehouses, which employed about 200 people. Other closures included Sears, Toys "R" Us, and Bed Bath and Beyond. Although the recession has certainly taken its toll on stores, all of these closures were

due to corporate restructuring nationwide rather than the local economy.

Online shopping is hurting traditional retail employment as well. This is a nationwide trend, even with a booming U.S. economy, as more consumers turn to e-commerce.

Professional service losses will taper

The recession has taken a big bite out of architectural, engineering, environmental, and other consulting services through a multiyear slowdown in construction and oil and mining exploration.

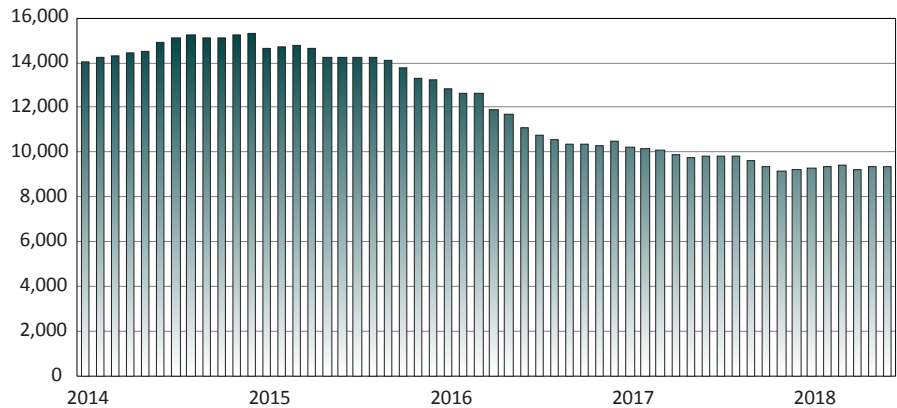
These services are part of the larger professional and business services category, which began to lose jobs in 2014 and continued declining through 2018, shedding 3,300 so far. We forecast a smaller loss this year because the improved outlook for construction and oil will increase demand for related services.

Outlook mostly positive for bars, restaurants, and hotels

The number of cruise ship passengers visiting Alaska broke records in 2017 and 2018 and is likely to reach

3 Oil Industry Employment Stabilizes

ALASKA, 2014 TO 2018



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

another high in 2019. This is good news for a number of Anchorage industries, especially leisure and hospitality.

Restaurants and bars represent two-thirds of Anchorage's leisure and hospitality employment, hotels account for another fifth, and the balance is in entertainment. Visitors and locals both drive demand for this industry, with local demand as the larger stimulus.

Accommodations employment has grown slightly over the past two years and is forecasted to continue growing in 2019, mainly as the result of strong visitor seasons and more business-related travel. Two hotels opening in early 2019 and a third later in the year will also produce more jobs in accommodations.

The story is different for bars and restaurants, which have about 11,500 jobs in Anchorage. Employment peaked in 2016, then fell 2 percent in 2017 as consumers spent more conservatively. Employment stabilized in 2018 and will likely stay close to that level in 2019.

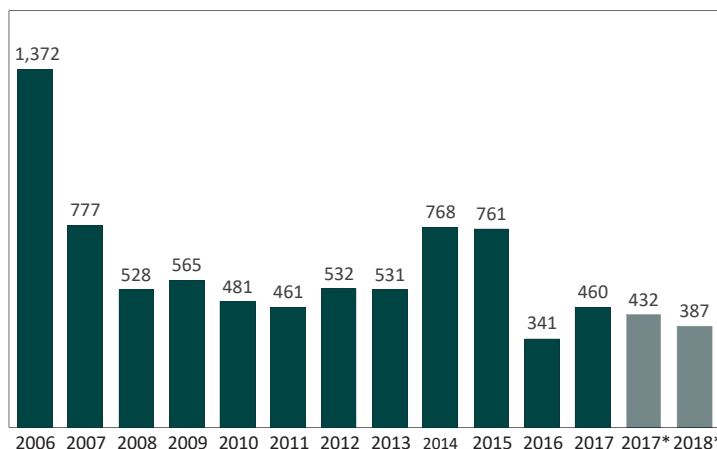
Some of Anchorage's venerable eateries closed their doors in 2018, but others such as Dave and Buster's arrived. In 2019, the Bear's Tooth will open a food hall.

Little change in the financial sector

The financial industry is broad, covering

4 Residential Building Remains Slow

ANCHORAGE HOME BUILDING PERMITS, 2006 TO 2018*



*First 10 months of the year
Source: Municipality of Anchorage

real estate and all the businesses connected to it such as mortgage activity, title work, banking and credit unions, insurance, property management, and brokerage houses.

The balance sheets for most of the state's financial intuitions remain solid. Home sales in Anchorage rose slightly through September 2018, at 2,854 compared to 2,839 for that period in 2017. Foreclosures show no sign of increasing. Average house prices rose 2 percent, while condo values dipped. Inventory remained about the same.

Rental vacancies increased, from 5.1 percent in 2017 to 6.2 percent in 2018, and commercial vacancies remain in the double digits. We expect that trend will continue as Anchorage adds a modest number of new homes to its inventory this year without an increase in population.

Rising interest rates could dampen the market, which is something to watch as they inch up.

Health care growth will continue, but slower

Health care is Anchorage's largest private sector employer and has generated the largest number of new jobs for a very long time.

The industry added about 500 jobs in 2018, for 2.4 percent growth. This was a slowdown from the 10-year annual average of 3.6 percent, and we forecast slower growth again in 2019.

Transportation remains strong

Transportation has performed remarkably well during the recession. The industry lost a small number of jobs in 2016, bounced back the next year, then grew in 2018.

Summer airport passenger traffic increased 4.5 percent in 2018, and cargo rose 6.5 percent.

Strong visitor seasons and continued growth in international air cargo has propped up this industry, and for these reasons, 2019's outlook remains positive.

Decline will continue at all levels of government

Employment shrank at all levels of government in Anchorage in 2018. The losses were small, and the forecast for 2019 is similar.

Federal employment has oscillated between small gains and losses for years with no clear direction or explanation. This year, Anchorage is forecasted to lose a small number of federal jobs.

State government, which includes the University of Alaska Anchorage, lost 400 jobs in 2016, 300 jobs in 2017, and 100 in 2018. A freeze or other hiring restrictions would produce more loss in 2019 through attrition even without layoffs. For comparison, when the state instituted a hiring freeze in 2016, it shed 400 jobs.

Anchorage's municipal government employment dropped somewhat in 2018, all in the Anchorage School District, which represents about 70 percent of local government. The balance is the Municipality of Anchorage.

We expect local government employment to decline further in 2019 as the Anchorage School District will likely cut jobs again.

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