

Anchorage Forecast for 2020

By NEAL FRIED

Although Alaska emerged from its longest recession to date in the last quarter of 2018, Anchorage's path to recovery has been slower. The recession lingered in the city, but with losses diminishing each year.

Anchorage's total job count didn't move a lot in 2019, and there's no reason to think the city's economic landscape will change much in 2020. We expect Anchorage's broad trends to continue, with total employment staying essentially flat.

Reasons Anchorage has been on and will stay on a slower path to recovery

The oil industry, retail, and cuts to the University of Alaska Anchorage are the main reasons Anchorage continued to struggle while the state began to recover. The city was hit with a series of store closures in 2019, and oil patch employment resumed growing in 2018, although the job gains have been concentrated on the North Slope.

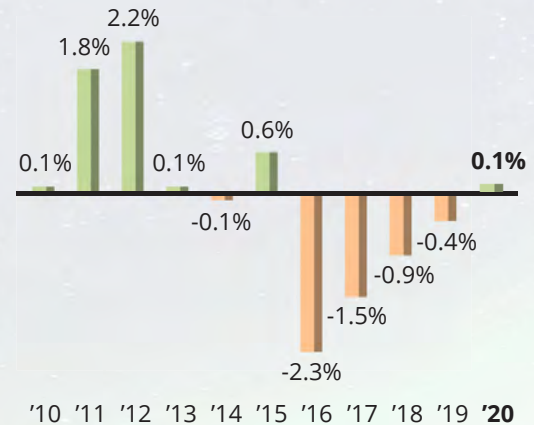
These factors will continue to play a role this year, and a few others further muddy Anchorage's forecast. One is the sale of BP to Hilcorp, and the other is the sale of Municipal Light and Power to Chugach Electric, both scheduled for the first half of 2020 and perhaps extending into the third quarter for Hilcorp. Together, these entities employ more than 2,000 people and, at least in the short term, these purchases are likely to cause some job loss.

Anchorage's long stretch of modest population loss, which we anticipate will continue in 2020, is another obstacle to growth. The city's population peaked at 301,034 in 2013 and then fell nearly every year, to 295,365 in 2018, the most recent year available. While the losses are small, they translate into less consumer demand and a softer real estate market.

The sale of BP to Hilcorp is especially relevant to Anchorage's outlook

Alaska's oil industry is positioned for another good year. ConocoPhillips, Oil Search, and other

Jobs essentially flat this year



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

producers have plans for a busy 2020, oil prices are up compared to 2015-2017, and employment continues to grow. As the industry's headquarters, Anchorage is likely to benefit. But there's one Anchorage-specific wrinkle: the sale of BP to Hilcorp.

The sale is anticipated to cause a net loss of jobs that's likely to hit the headquarters workforce harder than those in the field. We don't yet know the final numbers, but at the end of 2019, BP announced that about half of nearly 1,600 workers in Alaska had taken jobs with Hilcorp, and about 300 would likely remain with BP and leave the state.

A major construction project ends, but smaller ones are on horizon

Construction employment in Anchorage turned positive in 2018 and grew throughout 2019, although the gains got smaller as the year progressed. Given that trend and the currently known list of projects for 2020, construction's growth forecast is modest. This is also the fifth straight year of increasingly bare bones capital budgets. (See the statewide forecast.)

Office projects in Anchorage look scarce, and vacancy is still climbing for nearly all types of vertical construction, public and private. With the Midtown Mall's reconstruction complete, the horizon is

Outlook for jobs in Anchorage, by industry

	Monthly avg, 2018 ¹	Monthly avg, 2019 ¹	Change, 2018-19	Percent change	JOBS FORECAST		
					Monthly avg, 2020	Change, 2019-20	Percent change
TOTAL NONFARM EMPLOYMENT²	150,800	150,300	-500	-0.3%	150,500	200	0.1%
Total Private	123,200	123,000	-200	-0.2%	123,600	600	0.5%
Mining and Logging	2,600	2,700	100	3.8%	2,500	-200	-8.0%
Oil and Gas	2,500	2,600	100	4.0%	2,400	-200	-8.3%
Construction	7,500	7,700	200	2.7%	7,900	200	2.5%
Manufacturing	2,000	2,100	100	5.0%	2,100	0	0%
Transportation, Trade, and Utilities	33,100	32,700	-400	-1.2%	32,500	-200	-0.6%
Wholesale Trade	4,800	4,900	100	2.1%	5,000	100	2.0%
Retail Trade	17,000	16,600	-400	-2.4%	16,200	-400	-2.5%
Transportation, Warehousing, and Utilities	11,300	11,200	-100	-0.9%	11,300	100	0.9%
Information	3,400	3,200	-200	-5.9%	3,100	-100	-3.2%
Financial Activities	7,300	7,200	-100	-1.4%	7,200	0	0%
Professional and Business Services	17,500	17,600	100	0.6%	17,900	300	1.7%
Educational (private) and Health Services	26,700	26,800	100	0.4%	27,100	300	1.1%
Health Care	20,900	20,800	-100	-0.5%	21,000	200	1.0%
Leisure and Hospitality	17,400	17,600	200	1.1%	17,900	300	1.7%
Other Services	5,600	5,400	-200	-3.6%	5,400	0	0%
Total Government	27,600	27,300	-300	-1.1%	26,900	-400	-1.5%
Federal, except military	8,300	8,300	0	0%	8,500	200	2.4%
State, incl. University of Alaska	9,900	9,800	-100	-1.0%	9,500	-300	-3.2%
Local and tribal, incl. public schools	9,400	9,200	-200	-2.1%	8,900	-300	-3.4%

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section
¹Preliminary and adjusted estimates. ²Excludes the self-employed, uniformed military, most commercial fishermen, domestic workers, and unpaid family workers.

devoid of large new retail projects. However, construction of a new Courtyard Hotel is scheduled to begin in 2020 after the initial, partially built project was destroyed in a fire, and a handful of significant air cargo projects are planned at the airport.

The story is similar for new residential housing, with permits at a near-record low over the first 11 months of 2019 and a repeat likely this year. New permits stood at 316 through November 2019 compared to 398 for the same period in 2018.

Highway construction, which is largely federally funded, continues to look positive. During the past two years, many Anchorage contractors were involved in preparations to house new F-35s at Eielson Air Force Base near Fairbanks, but this construction is winding down.

Anchorage School District's proposed \$83 million bond proposal, if approved by voters in April, could be a boost this year because much of that money would go to earthquake and other repair work.

Retail will continue to shrink, but there are a few bright spots

Retail has lost jobs in Anchorage every year since

2015, when it peaked at 18,100. The forecasted 2.5 percent loss would put Anchorage's retail employment near its 1998 level.

The recession took its toll, but the "Amazon effect" is doing even more damage. Even at the national level, with the economy booming, retail is losing ground as e-commerce continues to make inroads, which it will do for years to come.

The biggest loss in 2019 was the September closure of Nordstrom, which employed about 200 people. In early 2020, both Pier 1 Import stores will close. On a positive note, Carrs-Safeway opened a new store in November 2019 in the Midtown Mall and hired nearly 130 people.

Professional services stabilize with a better oil, construction outlook

The multi-year slowdown in construction, oil, and mining exploration took a big bite out of the professional services in Anchorage that support these industries. Architectural, engineering, environmental and other consulting services are a major part of the professional and business services sector, and they've sustained three years of major losses.

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Employment finally stabilized in 2019, and we forecast it will grow modestly in 2020, due primarily to the positive outlook for construction and oil.

Visitor seasons continue to break records

The number of visitors to Alaska has grown for five years straight. With the strong national economy, the cruise industry predicts a 6 percent increase in passengers to Alaska in 2020. Convention traffic also looks positive, as the Alaska Federation of Natives' annual conference will be back in Anchorage this year and next year. This is good news for a number of industries, including leisure and hospitality, which hit record employment in Anchorage in 2019.

Restaurants and bars represent two-thirds of this industry's jobs, accommodations — mostly hotels — are another fifth, and the balance is in entertainment. Locals and tourists both drive demand, with local consumption the larger stimulus.

Accommodations employment has grown over the past two years and is forecasted to continue expanding in 2020, based on strong visitor seasons and more business-related travel. Two new hotels opened in 2019 and another is likely to open in late 2020 or early 2021.

The picture is slightly more muted for restaurants and bars, which generate nearly 12,000 jobs. Employment peaked in 2016, then dropped slightly in 2017 as consumers tightened their spending, but stabilized in 2018 and grew modestly in 2019.

We forecast modest growth again in 2020. This industry is competitive and constantly in flux, with eateries regularly leaving and entering the scene. For example, Anchorage's longstanding venerable eateries Romano's and Villa Nova closed their doors in 2019 but Mat-Su Brewing Company, Raising Cane, Tent City Taphouse, and several others have recently opened or plan to open this year.

Little change in the financial sector

Anchorage's financial sector looks solid this year. It

includes real estate and related businesses, banks and credit unions, insurance companies, property management, and brokerage houses.

While home sales were down slightly through September 2019 (2,797 compared to 2,854 in 2018), home prices are stable, interest rates and foreclosures remain low, and the market looks about the same as the year before, on an average day.

Health care flat, not likely to remain the boon it's been for many years

Health care is Anchorage's largest private sector employer, and more than half the state's health care jobs are in the city. Health care generated the largest number of new jobs each year for a long time — until 2019.

Employment dipped slightly overall last year, with small increases in hospitals and ambulatory care such as doctors' and dentists' offices, but nursing and residential care jobs declined enough to stall the industry's growth.

Alaska's oil industry is positioned for another good year, but there's one Anchorage-specific wrinkle: the sale of BP to Hilcorp.

The reasons aren't clear. It could be a temporary trend, but population loss is one possibility and saturation is another. Health care is a larger slice of Anchorage's economy than the nation's, so the supply of services might have caught up with demand. On the downside, that would mean the city could no longer rely on health care as a strong source of new jobs in the coming years.

Transportation industry's pattern likely to mimic that of the economy

Because so many businesses depend on transportation, the overall health of the economy is the best predictor of this industry's future. The forecast calls for little change in the overall economy, and transportation looks similar. Its employment dipped modestly in 2019, with air passenger traffic up some and international air cargo down.

Another strong visitor season bodes well for air passenger traffic. A number of Anchorage passenger carriers will add flights this summer, and Eurowings

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will enter the Anchorage market with direct flights from Europe.

Utilities will get a boost in 2020 when the sale of Municipal Light and Power to Chugach Electric is finalized, moving ownership from local government to a private company.

Part of the sale agreement guarantees there will be no layoffs. Chugach Electric employs about 300 people and ML&P has roughly 230, but their combined workforce will probably be at least somewhat smaller because some ML&P workers will retire and others will look for different jobs with the Municipality of Anchorage or elsewhere.

State and local government will continue to lose jobs as cuts deepen

Federal government employment growth bounced around zero throughout 2019 without a clear direction or explanation. Federal employment is forecasted to grow slightly in 2020 as the U.S. Census Bureau hires to conduct the decennial census. The bureau estimates they will hire more than 1,000 people statewide, most for a narrow window of just a few months.

State government includes the University of Alaska Anchorage, and like most areas, this year's forecast shows more job loss due to budget cuts. UAA's employment was down nearly 10 percent by the fall of 2019 (about 250 jobs) compared to the prior year, and similar losses are anticipated to carry through most of 2020 with another round of budget cuts on the horizon.

Local government employment fell in 2019. All of the loss was in the Anchorage School District, which represents 72 percent of municipal employment and is the city's largest employer.

The forecast shows further loss this year as the school district faces declines due to falling enrollment and budget constraints. The sale of ML&P to a private entity will also cause some employment decline for local government.

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Fairbanks

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buoyed by oil and gas as well as the F-35 preparations. Professional and business services grew 8.0 percent from 2017 to 2018 and 3.8 percent from 2018 to 2019, with a similar outlook for 2020.

Long-term growth in health care demand is twofold

Health care growth has been robust across the nation for years with an aging population, and we forecast the borough's health care industry will continue to grow in 2020 (2.3 percent, or about 100 jobs).

Over the last decade, Fairbanks' 65-plus age group has increased by at least 5 percent every year, as the graph on page 14 shows. In addition to the growing needs of an older population, the borough's demand for services will increase with its population projected to grow 3.4 percent between 2017 and 2025. Projected growth for the 65-plus population over that period is a whopping 50 percent.

Big cuts to university will continue, dampening overall job growth

Government jobs are a big part of Fairbanks' economy, representing 28 percent of the borough's employment in 2019. While local and state government jobs remained flat over the last year, federal employment increased by 100 jobs, primarily due to the intense firefighting season.

This year's forecast is for overall loss, with local government stable but state jobs continuing to disappear, mainly due to cuts to the University of Alaska system budget. The University of Alaska Fairbanks, the state's largest campus, faces an anticipated cut of \$12.3 million in the 2021 fiscal year. We forecast total state government job losses at 7.0 percent, or about 300 jobs.

Federal growth will mitigate about a third of the decline, however. In addition to increased federal civilian jobs associated with the F-35s, 2020 is a decennial census year, which will create a small number of temporary positions.

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