

Anchorage Forecast for 2021

By NEAL FRIED

Anchorage's 2020 job loss was the largest in its history — even bigger than the 1980s bust. The city lost nearly 14,000 jobs in less than 12 months as the pandemic damaged every industry, and some big unknowns persist as we enter 2021.

The biggest questions usually center on the price of oil and a few other key influences on the economy's direction, but these appear simple relative to the new uncertainties this year. Knowing how soon the vaccine will put the pandemic behind us and how it will spread until then would solve a big piece of the puzzle. Consumers are a related wild card, as we don't know when people will resume normal habits, but there's little doubt that pent-up demand will play a role in the recovery.

Anchorage lacked momentum even before the pandemic hit because the city hadn't yet pulled out of the statewide recession. Similarly, 2021 shows no strong catalysts for growth, such as high oil prices, hoards of visitors, or an increase in military spending. Because none of those boosts appear likely, Anchorage's employment gains will come from mending. In other words, Anchorage needs to recapture some of those 14,000 lost jobs, and it will take more than a year to claw back all the losses.

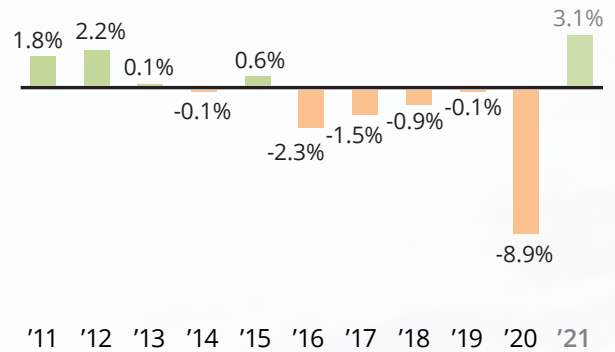
Oil prices and activity both show signs of recovery

The state's oil industry, which headquarters in Anchorage, lost a massive number of jobs during the recession, then began to recover in 2018 and continued adding jobs in 2019. As 2020 began, it looked like a good year. ConocoPhillips, Oil Search, Hilcorp, and other producers planned a busy 2020, but the oil price collapse early in the year deep-sixed those plans, and oil employment statewide plummeted to 1999-2000 levels.

Anchorage also had to contend with the sale of BP to Hilcorp, finalized in June of 2020. Hilcorp's smaller workforce disproportionately removed jobs from headquarters in Anchorage, and because the transfer began in July 2020, the losses will carry into 2021.

Even though oil price expectations remain relatively

Recovery to start after years of loss



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

low, we forecast some rebound for the industry this year. Prices show signs of improvement, and activity is picking up. For example, ConocoPhillips recently announced they would put four of their rigs back to work in 2021. They ceased all drilling after the first quarter of 2020, when oil prices crashed.

Visitors will return, but full recovery not likely in 2021

Because the number of tourists shrunk to almost nothing in 2020, it can only improve in 2021. In June 2020, Anchorage had just 2,095 jobs in hotels, in contrast to 3,834 the prior June. Hotel room revenues fell from \$254 million during the first three quarters of 2019 to \$113 million for the same period in 2020. Car rentals and restaurants followed a similar pattern. According to Opportunity Insights, restaurant and hotel spending was still down 38 percent in Alaska in the first week of November.

With a vaccine on the horizon and demand for travel building, Alaska will receive more visitors in 2021 — but it's too soon to predict whether the number will approach 2019's levels.

Many businesses that profit from tourism will struggle to stay afloat until summer arrives, but there's light at the end of the tunnel for tourism-linked industries such as transportation, lodging, eating and drinking, and local government.

The outlook for jobs in Anchorage, by industry

	Monthly avg, 2019 ¹	Monthly avg, 2020 ¹	Change, 2019-20	Percent change	JOBS FORECAST		
					Monthly avg, 2021	Change, 2020-21	Percent change
TOTAL NONFARM EMPLOYMENT²	151,700	138,200	-13,500	-8.9%	142,600	4,400	3.1%
Total Private	123,600	110,600	-13,000	-10.5%	115,700	5,100	4.4%
Mining and Logging	2,700	2,200	-500	-18.5%	2,200	0	0%
Oil and Gas	2,500	2,100	-400	-16.0%	2,100	0	0%
Construction	7,800	7,200	-600	-7.7%	7,200	0	0%
Manufacturing	2,100	1,800	-300	-14.3%	1,900	100	5.3%
Transportation, Trade, and Utilities	32,800	29,600	-3,200	-9.8%	31,000	1,400	4.5%
Wholesale Trade	4,900	4,700	-200	-4.1%	4,800	100	2.1%
Retail Trade	16,700	15,000	-1,700	-10.2%	15,700	700	4.5%
Transportation, Warehousing, and Utilities	11,200	9,900	-1,300	-11.6%	10,500	600	5.7%
Information	3,300	3,000	-300	-9.1%	2,900	-100	-3.4%
Financial Activities	7,300	6,900	-400	-5.5%	7,000	100	1.4%
Professional and Business Services	17,800	16,400	-1,400	-7.9%	16,600	200	1.2%
Educational (private) and Health Services	26,800	25,600	-1,200	-4.5%	26,400	800	3.0%
Health Care	20,900	20,300	-600	-2.9%	20,900	600	2.9%
Leisure and Hospitality	17,600	13,100	-4,500	-25.6%	15,600	2,500	16.0%
Other Services	5,400	4,800	-600	-11.1%	4,900	100	2.0%
Total Government	28,100	27,600	-500	-1.8%	26,900	-700	-2.6%
Federal, except military	8,400	8,500	100	1.2%	8,400	-100	-1.2%
State, incl. University of Alaska	9,800	9,400	-400	-4.1%	9,100	-300	-3.3%
Local and tribal, incl. public schools	10,000	9,400	-600	-6.0%	9,400	0	0%

¹Preliminary and adjusted estimates. ²Excludes the self-employed, uniformed military, most commercial fishermen, domestic workers, and unpaid family workers.

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

We forecast Anchorage leisure and hospitality will add 2,500 jobs in 2021, or 16 percent. While this would fall far short of 2019's numbers — the industry lost about 4,500 jobs last year — it's the largest forecasted gain for any part of Anchorage's economy.

Restaurants and bars represent two-thirds of Anchorage's leisure and hospitality employment. Local consumption and tourism both drive demand, and local spending is the bigger stimulus. Still, eating and drinking employment dropped from 11,237 jobs in February 2020 to 6,431 in April, the fewest on record since 1993. The industry typically starts adding jobs in April and peaks in August, but the list of restaurants that have closed permanently is long and growing. Other restaurants are still operating at partial capacity.

The industry will begin its long and arduous recovery whenever the pandemic ends, visitors return, and consumers resume their normal eating-out habits.

Home-building remains healthy but commercial is tenuous

We forecasted construction employment in Anchorage would grow modestly in 2020, but COVID-19 put the brakes on that — mainly through crippling

uncertainty. That was especially true for the commercial segment. Two or three new hotels planned to break ground in 2020 but stalled with the loss of tourism. The dramatic increase in teleworking, fewer visits to bars and restaurants, and the rise of e-commerce put a damper on retail-related and other commercial construction projects.

The outlook for residential housing is positive, though. Anchorage permitted the largest number of new homes in five years through October. A near-repeat performance is likely in 2021.

The rest of the construction industry in Anchorage looks good as well. Significant air cargo projects at the airport and work on the new cement dock at the Port of Anchorage will begin in 2021. Highway construction, which is mostly federally funded, also looks promising. Earthquake repairs and the \$83 million bond package passed for the Anchorage School District boosted the 2020 construction season, and that will continue in 2021.

Air cargo thrived in 2020 but other transportation took a hit

Because so many Anchorage businesses depend on

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transportation, the health of the economy is the best predictor of this industry's future. In 2020 that meant the broader transportation sector lost 11 percent of its jobs, which was more than the 9 percent decline overall.

The biggest losses were tied to air transportation and tourism. Passenger traffic through the Ted Stevens Anchorage International Airport dropped by over 80 percent in March and April and remained over 50 percent lower in October and November. Scenic and sightseeing transportation employment declined from 424 in the second quarter of 2019 to 97 in 2020.

The pandemic didn't hobble all transportation. International air cargo thrived because of increased e-commerce, pandemic-related cargo, and less cargo competition from passenger airlines. The number of landings increased by 40 to 60 percent, which helped companies like FedEx, UPS, and Atlas Air.

We forecast the transportation industry will regain about half of the lost ground this year as the economy begins to rebound and more visitors arrive.

The biggest threat to retail is not the pandemic

Anchorage retail employment shrank every year from 2016 onward as the recession took its toll and e-commerce did even more damage. Specialized stores and department stores suffered the most. In just the last few years, Anchorage lost Nordstrom, Pier 1 Imports, Forever 21, one Jo-Ann Fabrics location, and Sears, to name just a few.

COVID-19 meant even fewer people were willing to shop in stores, which accelerated the switch to e-commerce. By the end of 2020, total retail employment had fallen to levels last seen in the 1990s.

Some retailers flourished last year. Grocers such as Costco, Walmart, Fred Meyer, and Safeway benefited as eating at restaurants dropped off, and they will remain strong in 2021. Home improvement stores followed a similar path, and so did marijuana retailers. Marijuana sales in Anchorage grew from \$6.8 million in September of 2019 to \$9.1 million in September 2020. These three types of retailers are also largely shielded from e-commerce competition.

We predict consumers will shop more as 2021 goes

on, and retailers will recover some of 2020's losses. However, the rapid increase in online purchasing will make it almost impossible for retail employment to ever recover fully.

The financial sector escaped most of the negatives

One part of the city's economy that weathered 2020 with relatively modest losses and is forecasted to grow slightly in 2021 is the financial sector, which covers real estate and all the businesses connected to it. These include mortgage brokers, title companies, banking and credit unions, insurance agents, and property managers.

Anchorage home sales were up slightly through September 2020 (3,055, an increase from 2,797 in 2019). Average prices rose last year and refinancing skyrocketed with record-low interest rates. Foreclosures show no sign of increasing.

Near-full recovery forecasted for Anchorage health care

Health care is Anchorage's largest private-sector employer, and Anchorage is home to over half of the state's health care jobs. Health care commonly generates the largest number of new jobs each year, and it has for a long time.

Last year broke that expansion streak, counter to expectations that the pandemic would fuel demand for services. Doctors' offices and outpatient surgery facilities lost the most through closures and Alaskans delaying elective procedures and checkups.

This "ambulatory" employment fell by 906 jobs in May from the previous year, and employment in hospitals dipped slightly, but jobs began to return as the year progressed. We forecast that as the pandemic subsides and vaccine coverage grows, regular and delayed demand will push health care to a near-full recovery by the end of 2021.

School district faces enrollment decline, and state cuts continue

Federal employment grew modestly during the 2020 Census, but with this small temporary stimulus gone,

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we forecast flat employment for 2021.

State government, which includes the University of Alaska Anchorage, will continue to lose jobs in 2021. UAA employment fell by 15 percent, or 344 jobs, during the first half of 2020 because of deep budget cuts. Because 2021 is part of the three-year planned reduction, it will likely spur similar job losses.

General state government also faces continued budget constraints brought on by low oil prices and the spending-down of the constitutional budget reserve.

In 2020, all local government losses came from the Anchorage School District, which represents nearly three-quarters of local government employment. Its 2021 picture is murky. School employment fell 7 percent during the first half of 2020, which was a loss

of about 500 jobs, and the loss grew to 1,100 by the end of the year. The shift to remote learning required fewer staff, and it isn't clear whether the district will remain online or begin a mixture of online and in-person learning for the rest of this school year.

A return to normal schooling next year is probable, and this will boost employment. However, enrollment fell by nearly 4,000 last year, and decreased funding will follow if numbers remain depressed. Because decisions on delivery and funding are pending, we held the public education forecast at last year's levels.

The Municipality of Anchorage represents the balance of local government. Job levels were stable in 2020 and that scenario remains likely for 2021. The sale of Municipal Light and Power didn't cause a net loss, but it privatized some city jobs. The city ran ML&P until October 2020, when 200 city employees transferred to Chugach Electric.

Neal Fried is an economist in Anchorage. Reach him at (907) 269-4861 or neal.fried@alaska.gov.

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on Admiralty Island to extend its life to at least 2031. Kensington Mine will also expand waste storage facilities to extend its life another 10 years. The Niblack Project on Prince of Wales Island — a potential copper, gold, silver, and zinc mine — halted exploration in 2016 but will resume this year. The industry is also considering Skagway's docks for Yukon mining activity, a throwback to Skagway's past.

Mining wasn't unscathed by COVID-19, but 2020's damage appears temporary. The sector lost 100 jobs, a drop of 9.1 percent, but is forecasted to rebound to its 2019 employment level this year.

Additional funding sources will further boost construction

State and federal funding tend to steer construction trends in Southeast, and future stimulus packages might include additional infrastructure funding that will boost jobs this year. For now, the federal CARES Act has also waived some requirements for cities to

add matching funds. For example, Juneau anticipates winning a \$15 million FAA grant this year for its ongoing airport terminal reconstruction project.

Southeast construction has been remarkably resilient throughout the pandemic. Employment fell during the initial shutdown but rebounded to its prior levels within just a few months. After a flat 2020, we forecast 7.7 percent growth this year: a gain of 100 jobs.

Health care probably won't recover completely

Southeast health care took a hit in 2020, with the broader sector shedding 200 jobs (-4.8 percent) at the pandemic's onset. As in the rest of the state, the losses were mainly in doctors' and dentists' offices and other outpatient facilities that closed temporarily. Nursing homes and social assistance providers also lost some jobs.

Employment rebounded somewhat as services resumed, but it didn't recover completely. The industry will likely recover about half of its losses in 2021.

Sara Teel is an economist in Juneau. Reach her at (907) 465-6027 or sara.teel@alaska.gov.