

# 2021

## AEDC ECONOMIC FORECAST

**PRESENTED BY**



**AEDC**  
Anchorage Economic  
Development Corporation

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# Table of Contents

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<b>2021 AEDC Employment Forecast .....</b>	<b>1</b>
<b>Change by Sector.....</b>	<b>2</b>
2021 Employment Change by Sector .....	2
Population.....	2
Unemployment.....	4
Anchorage Inflation Rate.....	5
Oil & Gas (+100) .....	6
Healthcare (+400) .....	8
Transportation (+400).....	9
Government (+100).....	10
Professional & Business Services (+300).....	11
Construction (No Change) .....	12
Leisure & Hospitality (+1,700).....	13
Retail Trade (+400).....	14
Financial Activities (No change).....	15
Other Sectors (+600) .....	16
The Big Picture.....	16

# List of Figures

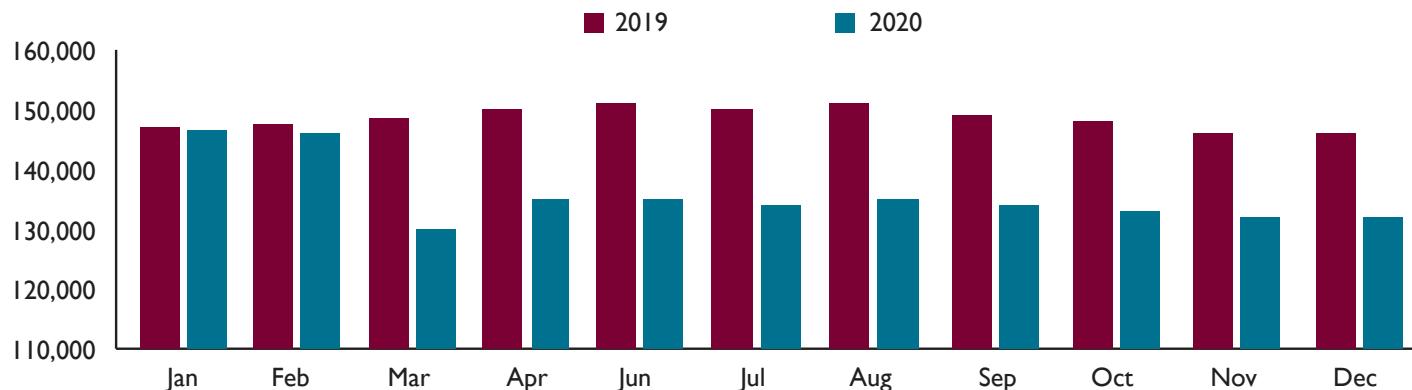
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<b>Figure 1.</b> Monthly Anchorage Employment, 2019 and 2020.....	1
<b>Figure 2.</b> Anchorage Employment, 2009-2020 and 2021 Forecast.....	1
<b>Figure 3.</b> Anchorage Population, 2009-2020 and 2021 Forecast .....	3
<b>Figure 4.</b> United States, Alaska, and Anchorage Average Monthly Unemployment Rate (%). . . . .	4
<b>Figure 5.</b> Urban Alaska and U.S. Consumer Price Index, 2008-2020 .....	5
<b>Figure 6.</b> Anchorage Oil and Gas Employment, 2009-2020 and 2021 Forecast .....	7
<b>Figure 7.</b> Anchorage Healthcare Employment, 2009-2020 and 2021 Forecast .....	8
<b>Figure 8.</b> Anchorage Transportation, Warehousing, and Utilities Employment, 2009-2020 and 2021 Forecast .....	9
<b>Figure 9.</b> Anchorage Government Employment, 2009-2020 and 2021 Forecast.....	10
<b>Figure 10.</b> Anchorage Professional and Business Services Employment, 2009-2020 and 2021 Forecast .....	11
<b>Figure 11.</b> Anchorage Construction Employment, 2009-2020 and 2021 Forecast .....	12
<b>Figure 12.</b> Anchorage Leisure & Hospitality Employment, 2009-2020 and 2021 Forecast .....	13
<b>Figure 13.</b> Anchorage Retail Employment, 2009-2020 and 2021 Forecast .....	14
<b>Figure 14.</b> Anchorage Financial Activities Employment, 2009-2020 and 2021 Forecast .....	15

# 2021 AEDC Employment Forecast

At the start of 2020, few could have anticipated how the year would unfold. Anchorage's economy had not emerged from the statewide recession and uncertainty surrounding the State budget was of primary concern. Still, AEDC was cautiously optimistic about 2020. The coronavirus pandemic upended these expectations. Between March and April 2020, Anchorage's economy shed about 18,800 jobs. While the economy regained some lost jobs, employment remains far below normal.

**Figure 1. Monthly Anchorage Employment, 2019 and 2020**



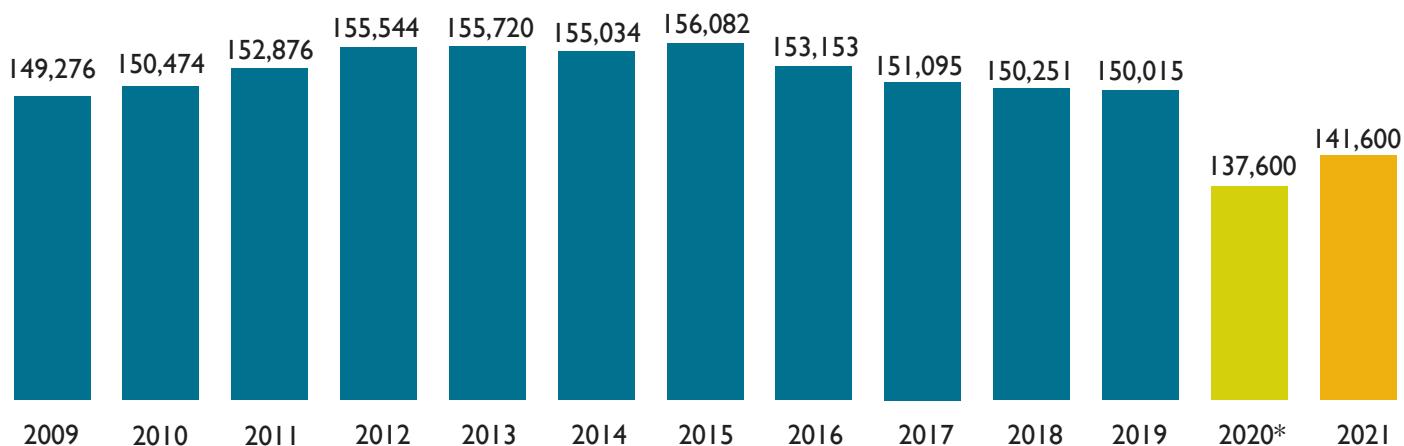
\*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Source: Alaska Department of Labor and Workforce Development (2019); McKinley Research Group (2020)

As detailed in the forecast, AEDC expects Anchorage to regain some of what was lost in 2020 but remain below pre-pandemic employment levels by end of 2021. Ultimately, the pace of recovery will depend on further injections of federal relief funds, the success of ongoing efforts to contain the virus, and the speed of the COVID-19 vaccination campaign. AEDC expects Anchorage to regain 4,000 jobs in 2021, a year-over-year increase in employment not experienced in Anchorage since 2001.

This employment forecast begins with an overview of a few key indicators, including population, unemployment rate, and the rate of inflation. The remaining sections describe the 2021 employment outlook for Anchorage's key sectors. The forecast concludes with a few big-picture thoughts about the outlook for Anchorage's economy.

**Figure 2. Anchorage Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly averages.

Source: Alaska Department of Labor and Workforce Development (2009-2019); McKinley Research Group (2020 and 2021)

## Change By Sector

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### 2021 EMPLOYMENT CHANGE BY SECTOR

Oil & Gas: +100  
Healthcare: +400  
Transportation: +400  
Government: +100  
Professional & Business Services: +300  
Construction: No change  
Leisure & Hospitality: +1,700  
Retail Trade: +400  
Financial Activities: No change  
Other Sectors: +600  
Total Change: +4,000

## Population

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Anchorage's population totaled an estimated 288,970 in July 2020, representing a net loss of about 3,500 residents, a 1.2% reduction compared to 2019. The 2020 population was 12,250 people lower (4.1%) than the peak observed in 2013.

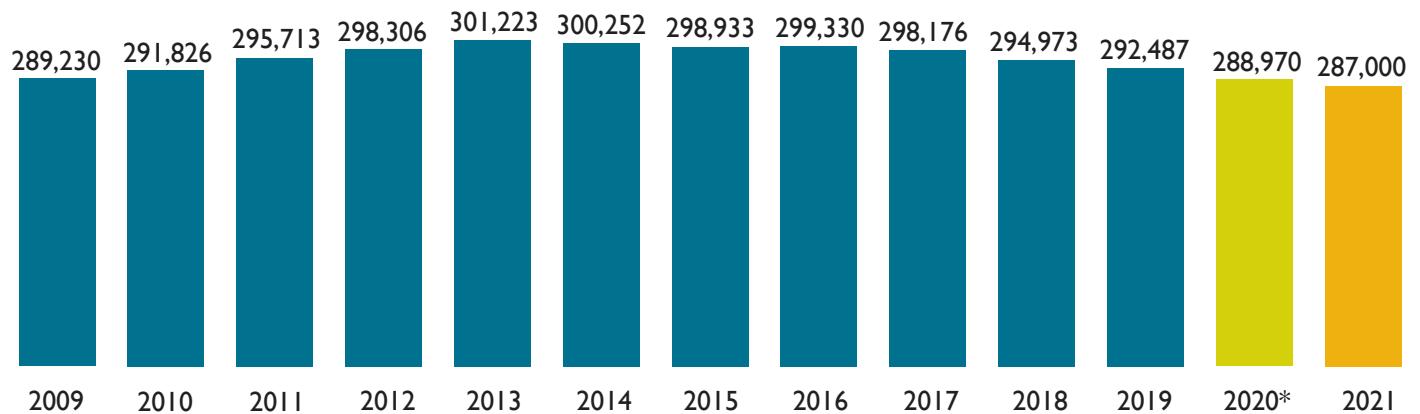
Prior to March 2020, the strength of the national economy remained a key factor in Anchorage residents leaving the state to seek employment in the Lower 48. A trend of declining birth rates and increasing death rates in Anchorage has further weighed on population growth. A higher number of retiree-age (65+) Anchorage residents leaving Alaska entirely between 2019 and 2020 contributed to the overall population loss.

The trajectory of Anchorage's population in 2021 will depend largely on the rate of economic recovery from the impacts of COVID-19 in Alaska relative to the Lower 48. If Anchorage's recovery lags behind the national economy, the city's population can be expected to continue declining. AEDC expects further population declines in 2021 and anticipates a reduction of about 2,000 residents (0.7%).

- Anchorage's net population decline from 2019 to 2020 included 3,885 births, 1,801 deaths, and a net loss of 5,601 residents due to migration.
- Between 2019 and 2020, 24,366 people left Anchorage (to other Alaska communities and the Lower 48), while 18,765 people moved to Anchorage. In-migration to Anchorage has steadily declined since 2016, with 2019-2020 in-migration the lowest level in more than a decade. Out-migration from Anchorage also has declined steadily over the past five years.
- Between 2015 and 2019 (the most recent available data), an average of 20,000 people left Anchorage annually to the Lower 48 (and other outside locations) while 17,000 non-Alaskans became residents of Anchorage. Over this five-year period, Anchorage's net migration to other non-Alaska communities totaled about 16,000 residents.

- The number of Anchorage residents leaving Alaska entirely generally fell between 2016 and 2020, with 19,963 leaving between 2019 and 2020. The number of retiree-age residents (65+) leaving increased by 39% over the last five years, climbing from 1,118 between 2015 and 2016 to 1,650 between 2019 and 2020. Working age people (20-64 years) compose the largest share of those leaving Alaska (66%) and outmigration of residents in this age range decreased by 5% between 2016 and 2020.
- Over the past decade, intra-state migration of residents has factored into Anchorage population decline. Between 2016 and 2020, an average 2,800 people left Anchorage for Mat-Su while 1,800 Mat-Su residents moved to Anchorage. Movement from Anchorage to Mat-Su Borough declined annually between 2016 and 2020.

**Figure 3. Anchorage Population, 2009-2020 and 2021 Forecast**



Source: Alaska Department of Labor and Workforce Development (2009-2019); McKinley Research Group (2020 and 2021)

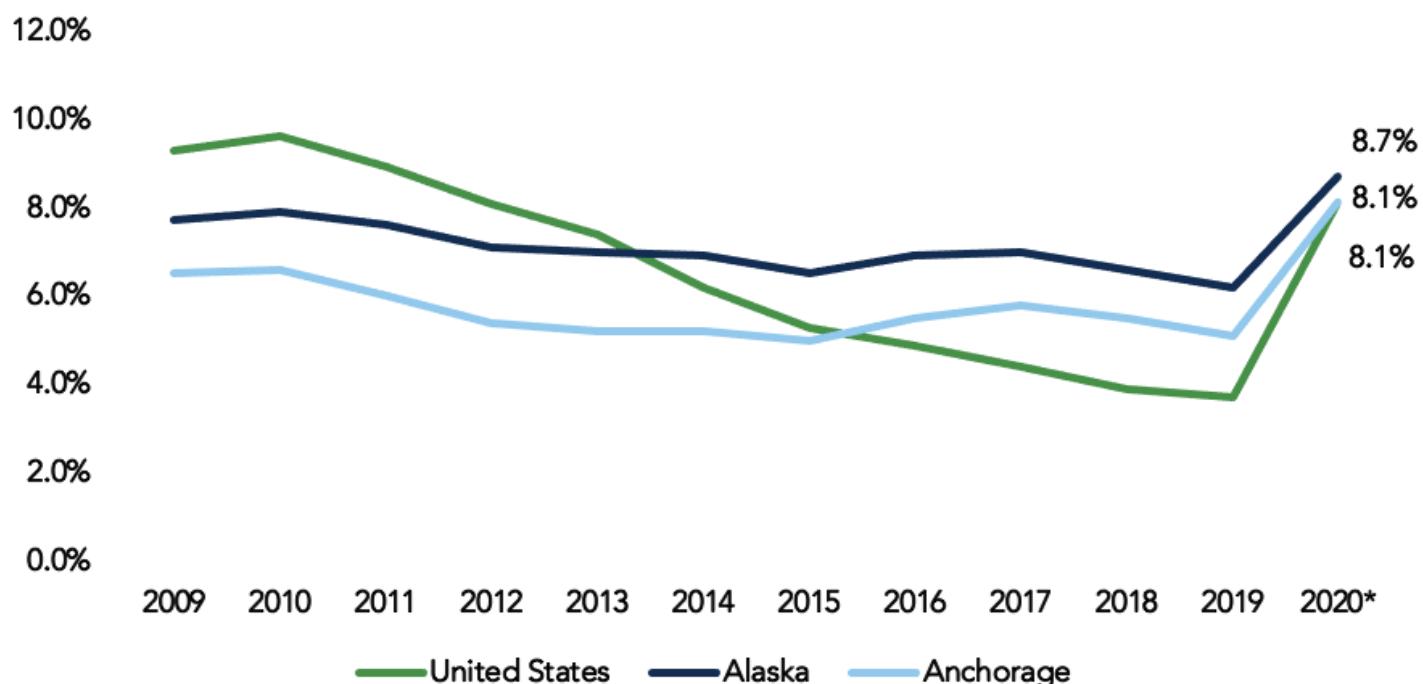
## Unemployment

Unemployment in Anchorage averaged 8.1% in 2020, according to preliminary data, up from 5.1% in 2019, reflecting the effects of COVID-19. Previously at record lows, the national and Alaska unemployment rates also increased drastically.

The yearly average unemployment rate of 8.1% masks the sharp uptick in April, when unemployment jumped to 13.9% from the March rate of 4.7%. The rate of unemployment moderated over the next few months, hitting a low point of 5.3% in October. The most recent available monthly estimate is for November, when unemployment stood at 7.6%. This may underestimate actual unemployment. Unemployment data produced by the U.S. Bureau of Labor Statistics are based on surveys, and the impacts of COVID-19 on data collection may have impacted the accuracy of these preliminary unemployment rates. The unemployment rate likely does not capture the full impact of the pandemic on ability to work, as individuals who are employed but not currently working during the survey period (due to illness, lack of child care, or other issues) are counted as “employed”.

Over the last several years, Anchorage (and Alaska) have experienced labor force declines, which kept the unemployment rate relatively low. Since 2015, the Anchorage labor force has declined by more than 10,000 people (6.9%).

**Figure 4. United States, Alaska, and Anchorage Average Monthly Unemployment Rate (%), 2009-2020 (Preliminary)**



\* 2020 figure based on preliminary data.

Source: U.S. Bureau of Labor Statistics (2009-2020).

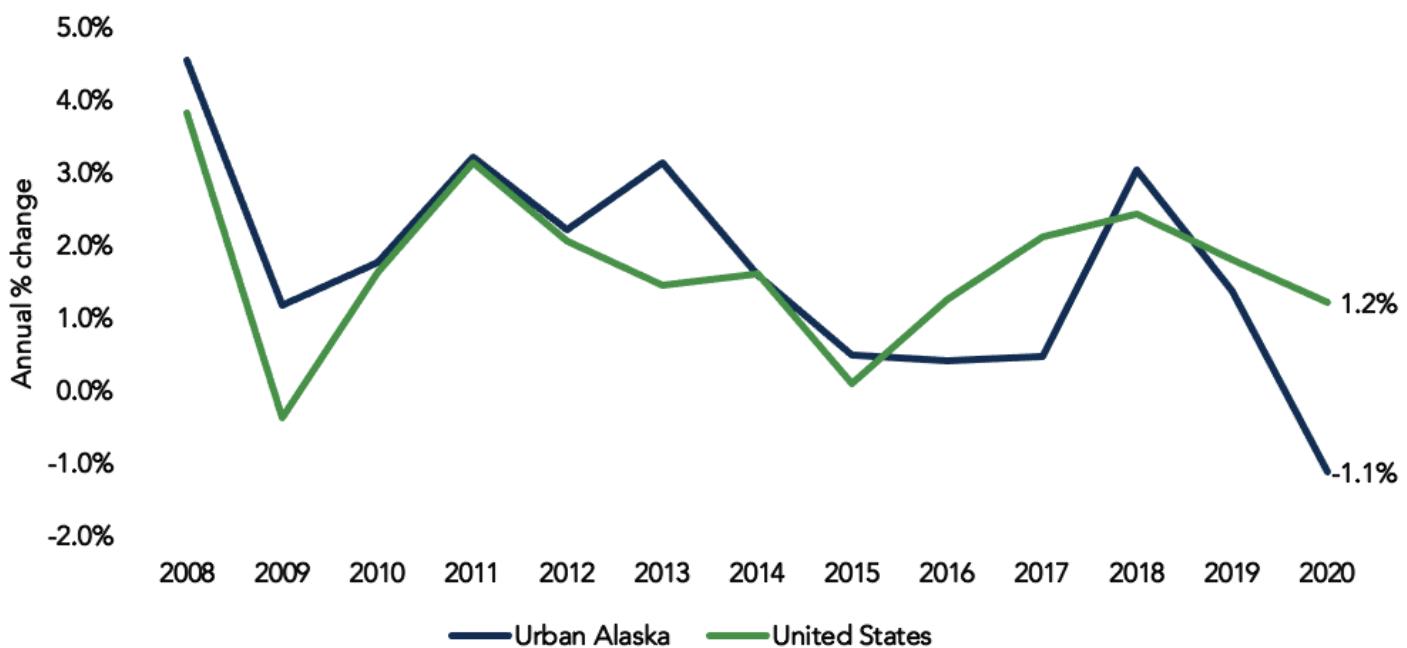
## Anchorage Inflation Rate

The Urban Alaska rate of inflation averaged -1.1% in 2020, the first year of Consumer Price Index (CPI) deflation in decades. The CPI monitors changes in price to specific goods and services over time. The Anchorage/Mat-Su CPI is the only measure of inflation for Alaska, described as the “Urban Alaska” by the U.S. Bureau of Labor Statistics.

The net decrease in prices in 2020 was due largely to decreases in energy prices (-10.6%), including electricity (-7.1%) and gasoline (-18.3%), among others. Other categories with declining costs include transportation (-6.8%), apparel (-6.1%), and shelter (-2.5%). Decreases were partially offset by increases in medical care (+5.2%) and food at home (+7.0%).

This is the first year of recorded deflation in Anchorage since the Urban Anchorage (Anchorage/Mat-Su) CPI series began in 1961. Persistent deflation can be a sign of a weakening economy, as lower prices can lead to lower consumer spending, which is a major driver of economic activity. However, deflation in Anchorage in 2020 was driven by declining energy prices, which are expected to turn around in 2021, pushing inflation back to normal levels.

**Figure 5. Urban Alaska and U.S. Consumer Price Index, 2008-2020**



\* 2020 figure based on preliminary data.

Source: U.S. Bureau of Labor Statistics (2009-2020).

## Oil & Gas (+100)

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Anchorage ended 2020 with less than 2,000 oil and gas industry jobs, down more than 20% from 2,500 in 2019. Almost all those jobs were lost in the second quarter of 2020 as the pandemic shut down North Slope activity and drove down oil prices. Also in the first half of the year, Hilcorp completed its acquisition of BP Exploration Alaska and streamlined its Anchorage workforce. A ballot initiative to raise taxes on oil production was also under consideration in 2020, stalling industry activity until November, when the initiative was defeated by Alaskan voters.

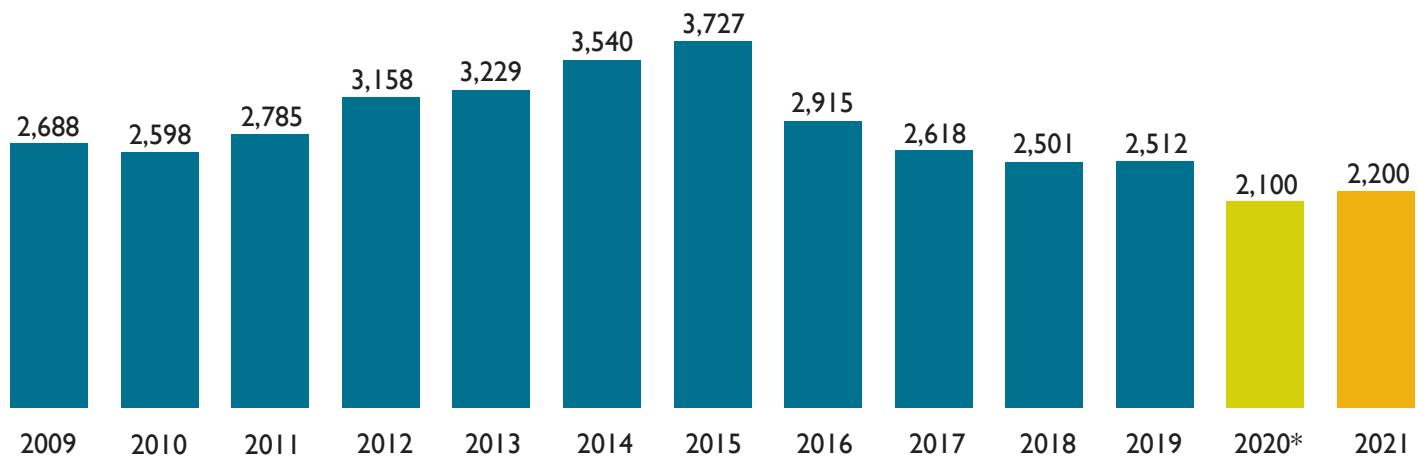
As 2021 begins, the outlook for the oil and gas industry is generally positive. Global economic recovery from the pandemic will spur demand for fuel. A Saudi promise to cut production by 1 million barrels per day in February and March will tighten supply. New oil development projects in Alaska are poised to be sanctioned in 2021. ConocoPhillips' recent decision to fund front-end engineering and design (FEED) at Willow is an important milestone.

AEDC expects oil and gas industry employment in Anchorage to average 2,100 jobs in 2021, 100 jobs above the 2020 average. The forecast of 100 new jobs is an annual average and does not reflect the full extent of the recovery. By another measure, AEDC expects by December 2021 there will be 2,300 oil and gas jobs in Anchorage, a 300-job improvement over December 2020.

Key drivers of 2021 oil and gas employment in Anchorage are:

- Ballot Measure 1, a proposed tax increase on the oil and gas industry in Alaska, was defeated. While this is positive news for the industry in 2021, Alaska still lacks a stable fiscal regime, and oil and gas investment remains at risk of future tax changes.
- Oil prices started 2020 in the mid-\$60 range before crashing to historic lows in the spring. Prices have slowly recovered, and we enter 2021 with oil prices in the mid- \$50s. As global economies begin to reopen, we expect further strengthening in oil prices.
- Hilcorp completed its acquisition of BP Exploration Alaska in 2020.
  - While many former BP employees were rehired by Hilcorp, the workforce has experienced a net reduction as Hilcorp transitions into a leaner North Slope operating model.
  - As operator of Prudhoe Bay, Hilcorp remains active in well work and has managed to increase year-on-year production during its first months of operation.
  - Hilcorp's Liberty project is being challenged in federal courts and there is now no clear timeline for project construction.
- Oil Search is planning to make a final investment decision on its Pikka project in 2021. Phase One of the project is expected to cost \$3 billion and produce 120,000 barrels per day. Full build-out of the project may cost up to \$6 billion.
- ConocoPhillips continues to be the most active investor in Alaska oil and gas. In 2021 ConocoPhillips is expected to:
  - Use four drilling rigs in Kuparuk, Alpine, and GMT-2. ConocoPhillips reports each drill rig employs 100.
  - Make a financial investment decision on Willow. If sanctioned, Willow is expected to cost \$6 billion and produce 100,000 barrels per day.
  - Bring GMT2 into production in late 2021.
- The ANWR lease sale occurred in January 2021. While it was a historic event for Alaska after a long effort to access the resources, industry participation was largely absent and recent action by the Biden Administration will challenge any near-term development. The state-owned Alaska Industrial Development and Export Authority secured nine of the eleven tracts.

**Figure 6. Anchorage Oil and Gas Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Healthcare (+400)

The healthcare sector ended 2019 experiencing its first employment decline in more than a decade, following years of high growth. COVID-19 caused a sharp decline in healthcare jobs in 2020, with employment averaging 20,100,800 jobs (3.8%) below 2019. The healthcare sector initially lost 2,000 jobs (between March and April) due to the pandemic but gradually added jobs back as providers pivoted to new service delivery and safety measures.

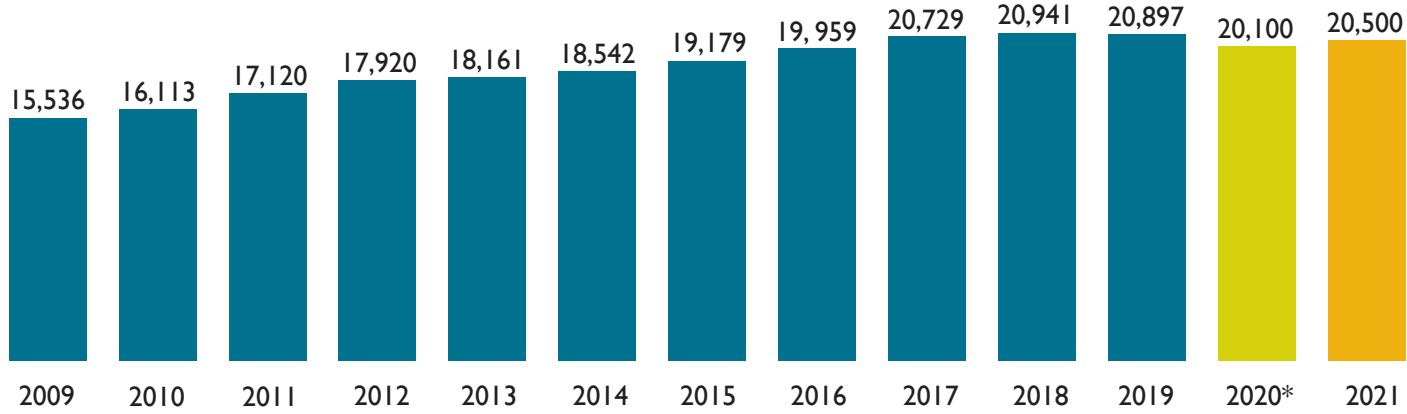
Outpatient services, which generally account for about half of industry employment, were hit hardest by the pandemic as elective procedures and routine medical care were postponed to reduce coronavirus risk. Outpatient services lost 1,800 jobs between February 2020 and April 2020. Hospitals and nursing and residential care services also shed jobs during this period, each down about 200 jobs.

Healthcare sector employment is expected to rebound as the COVID-19 vaccination campaign ramps up and access to outpatient procedures and routine care normalizes. AEDC expects the sector to add 400 jobs in 2021. The sector will likely not reach pre-pandemic employment levels in 2021 but will likely recover to 2019 levels between 2021 and 2022. Employment in 2021 may experience a modest, temporary increase through the first half of 2021 as providers seek licensed/certified employees to administer vaccinations.

Several factors may impact the trajectory of employment in the healthcare sector in the next several years:

- Anchorage's population continued to trend down in 2020 and is now about 12,250 residents below the peak in 2013. Further population decline is expected in 2021.
- Representing more than \$2 billion of the State's budget, Medicaid may again be part of the ongoing budget-balancing discussion in the legislature. Sharp declines in oil prices in 2020 have placed additional pressure on the State budget.
- Increased adoption of telehealth during the pandemic may persist and reduce future on-site staffing requirements for Alaska providers.

**Figure 7. Anchorage Healthcare Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Transportation (+400)

Anchorage's transportation, warehousing, and utilities sector lost about 1,300 jobs (9.1%) in 2020, slipping to an average of 9,900. Significant job losses occurred early in the pandemic (April and May). Although tempered, the typical seasonal trend of higher employment in summer and reduction in the fall continued in 2020.

AEDC anticipates the sector to grow by about 400 jobs (4.0%) in 2021 as air passenger traffic recovers, ending the year at an average of 10,300 jobs. The recovery will depend to a substantial extent on the strength of the visitor season.

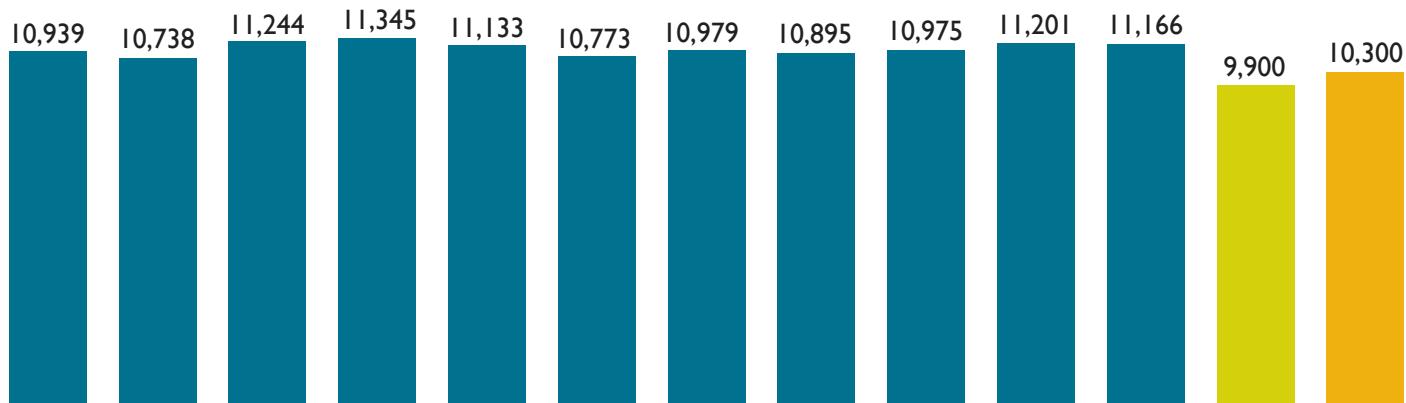
Air transportation was the most impacted by the coronavirus and bore much of the broader sector's employment loss in 2020 and nearly all the initial job losses in April and May. Further employment reductions were stemmed by federal CARES Act funding provided to airlines, including those serving Anchorage.

Elevated freight volumes at Ted Stevens Anchorage International Airport (ANC) contributed to stable courier service employment. With about 2,300 jobs, couriers such as FedEx and United Postal Service accounted for nearly 25% of sector employment in 2020.

Investments in Anchorage transportation infrastructure continue even amid global uncertainty. The Port of Alaska's modernization program in 2020 included work on the Petroleum and Cement Terminal (PCT) project, with continued work expected in 2021 and beyond. Significant new developments and expansion of existing storage and air freight logistics infrastructure at ANC are expected to begin in 2021 and extend for several years. Five major storage and logistics projects totaling \$700 million in investments are in various planning stages, with work potentially beginning on at least one project later this year. All these projects together would create thousands of temporary construction-related jobs and hundreds of permanent operations jobs. These investments and Anchorage's established position as a hub for statewide and international freight traffic are cause for long-term optimism.

- Through October 2020, cargo volume at ANC was up 15% over the same period in 2019. This stems from a decrease in cargo capacity on passenger flights due to reduced passenger travel and companies shifting to air from other transportation modes to shorten transit time, among other factors. Cargo volumes at ANC are expected to remain elevated through 2021.
- Passenger enplanements year-to-date through October 2020 at ANC were down 59% over the same period in 2019. Passenger traffic is expected to increase at ANC in 2021 as COVID mitigation measures ease and the visitor industry has a more robust season.
- The Port of Alaska moved about 4.7 million tons of freight and fuel in 2020, exceeding total 2019 volumes. Increased petroleum tonnage (+15.3%) likely related to increased air cargo traffic at ANC offset decreases in other freight categories: vans/flats/containers (-1.3%) and dry bulk goods (-7.4%).

**Figure 8. Anchorage Transportation, Warehousing, and Utilities Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Government (+100)

Government sector employment is expected to increase by 100 jobs in 2021. This relatively small change is not representative of the somewhat more significant changes in different categories of government employment and the year-on-year changes caused by the pandemic that are masked by annual averages. The projected increase in 2021 recovers a portion of the almost 800 jobs lost in 2020.

Federal government employment in Anchorage is expected to decrease by 100 in 2021.

- Federal government employment has been relatively stable over the last few years, averaging 8,300 to 8,500 jobs.
- There was an uptick of about 100 jobs in 2020 resulting from hiring for the 2020 census.
- AEDC expects the federal government to lose those 100 census jobs but otherwise remain stable.

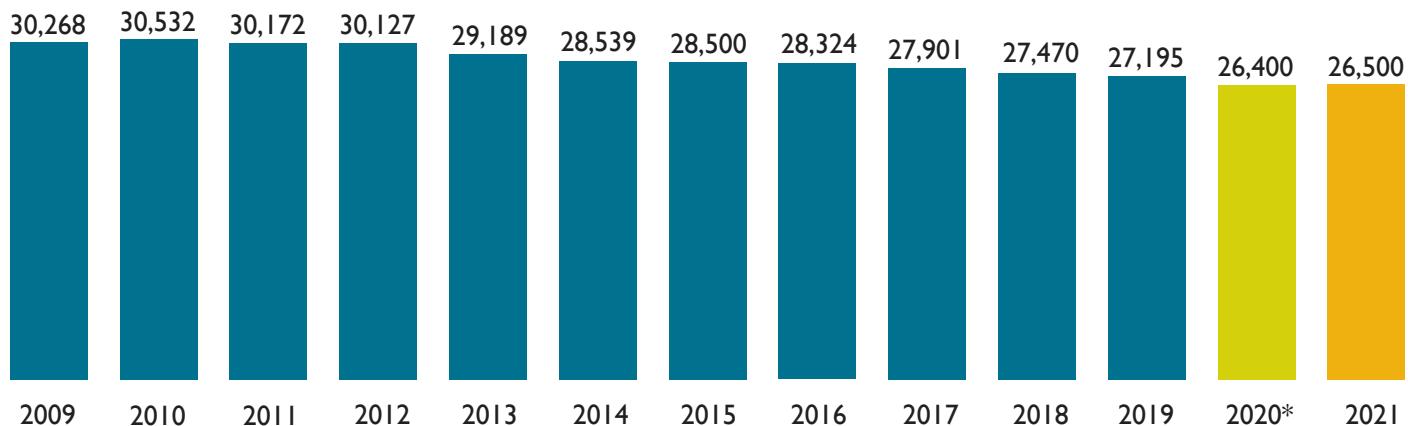
State government employment continues to decrease, largely driven by cuts to the university system.

- 2020 was a particularly rough year for the university with State education losing over 300 jobs in Anchorage in 2020.
- Non-education State jobs have been relatively stable at around 7,500 in Anchorage over the past few years. The past year actually saw an uptick in jobs in the second half of 2020, likely a result of hiring coronavirus contact tracers.
- The impact of decreased education and increased non-education state employees resulted in a net decrease of about 200 jobs in 2020.
- Further university job losses are expected and the eventual release of contact tracers to result in a net loss of 100 state government jobs in 2021.

Local government is expected to add 300 jobs in 2021, largely driven by schools reopening and school district employment increasing relative to 2020.

- Local, non-education government employment has been stable in recent years with no change in 2020 and no change expected in 2021.
- Reported local education jobs were down in 2020. The Anchorage School District did not lay off instructional or support staff when in-person schooling ended. However, a reduced need for substitute teachers and other factors contributed to a decline in reported employment of about 1,000 (mainly temporary) jobs.
- With schools reopening for in-person schooling in January, AEDC expects many of these jobs to return and for 2021 to end with about 400 less jobs compared to 2019. This will result in a year-on-year annual average increase in 300 jobs as schools transition back to in-person this spring and be entirely in-person in the next school year, starting this fall.

**Figure 9. Anchorage Government Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Professional & Business Services (+300)

The professional and business services sector experienced a COVID-19 related loss of about 1,700 jobs between March and April 2020. The employment picture improved over the next few months. However, employment at its highest point in 2020 remained about 1,000 jobs below 2019. The sector ended 2020 averaging about 16,500 jobs, 900 jobs below 2019.

AEDC expects the professional and business services sector to add back about 300 jobs in 2021, rising to an annual average of 16,800 jobs.

Workers employed in engineering, architecture, accounting, legal affairs, and other professional services firms account for about half of all employment in the professional and business services category. Wages in the subsector total about \$700 million annually and are relatively high on average at about \$80,000 annually (the economy-wide average is approximately \$58,000).

The administrative and waste services subsector contributes about 40% of the sector's total employment (about 7,000 jobs and \$310 million in total annual wages). This includes building management services, security services, and facilities support services, among a range of other services. Wages average about \$44,000 annually.

Management companies, which includes Alaska Native Corporations among other businesses, account for about 10% of the jobs in the professional and business services sector, with wages averaging about \$96,000 per year.

Employment in the professional and business sector is affected by many forces, though oil and gas industry spending and government capital project spending are especially important. This sector was hit hard by the 2015-2018 recession, losing 2,400 jobs. The sector saw an uptick in employment in 2019 and looked poised for further recovery in 2020, until COVID-19.

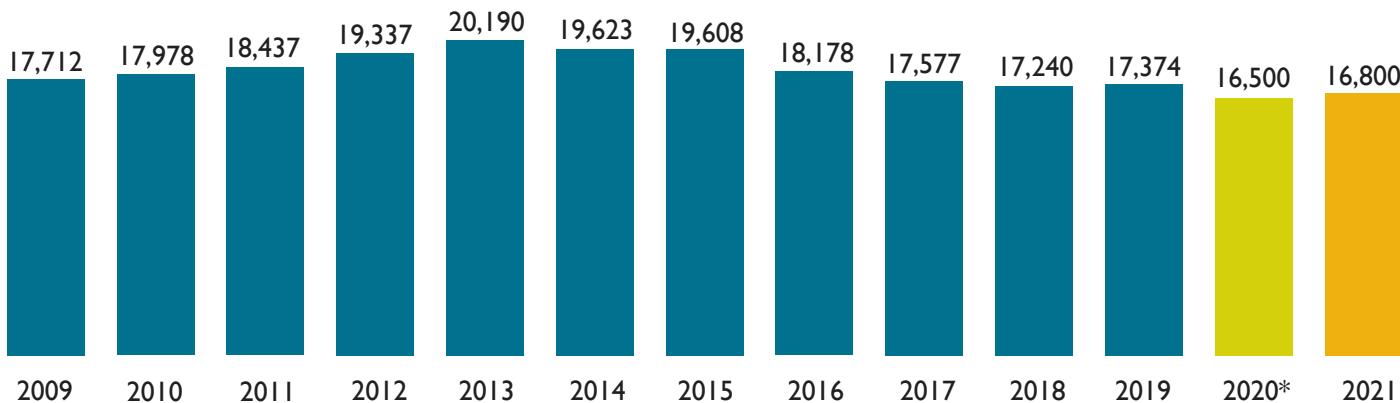
Factors that bode well for job growth in this sector in 2021 include the gradual increase in oil prices, with ANS West Coast now around \$57 per barrel (prices averaged \$40 in 2020 but dropped as low as \$16 on a monthly average basis). The defeat of Ballot Measure 1 also set the stage for renewed oil industry investment on the North Slope in 2021 and beyond.

Over the past decade, employment in this sector was highest when oil industry spending was high and state capital budgets were strong. The governor's proposed FY2022 capital budget totals \$1.46 billion (including \$1.16 billion in federal funds) and represents an increase over the past several years' capital budgets. The governor has also proposed a \$300 to \$350 million bond package to fund infrastructure development projects. The fate of the proposed capital budget and bond proposal are unclear at this time.

The pace of economic recovery in Anchorage and Alaska overall will also be key to job growth in 2021 in the professional and business services sector. Confidence that the recovery is underway or imminent and that Anchorage will return to a growth trajectory will also renew investment and demand for professional services.

Recognizing that the range of potential outcomes is broad (depending on public health, oil prices, capital budget spending, and other factors), AEDC expects this sector to gain about 300 jobs in 2021 relative to 2020, leaving the sector still about 600 jobs below pre-pandemic levels.

**Figure 10. Anchorage Professional and Business Services Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Construction (No change)

The construction industry in Anchorage lost about 500 jobs in 2020. The industry accounted for an average of 7,100 jobs, with a seasonal peak of about 8,400. While the industry did not see its full seasonal surge in employment, it gained jobs over the second and third quarters.

In 2020, building permit valuations in Anchorage totaled \$470 million, a 6% increase from 2019. Residential construction permits climbed 12%, a second consecutive year of growth despite strong economic headwinds. The relative resiliency of residential construction permitting data in 2020 is in contrast to commercial permitting activity, which was down about 23% compared to 2019. Government permits increased sharply in 2020, more than doubling permit activity in 2019.

Relatively large Anchorage projects permitted in 2020 include a Municipal Solid Waste Central Transfer Station (\$55.9 million), Aloft Hotel (\$16 million), and repairs at Eagle River Elementary School (\$11.9 million).

Many of the larger construction projects in 2021 will be continuations of 2020 work, including several Cook Inlet Housing Authority projects and renovation of the Key Bank building on Fifth Avenue. Larger projects expected to commence in 2021 include the Block 96 Flats Development (reported to be a \$6.2 million project) and storage and air-logistics projects at Anchorage International Airport.

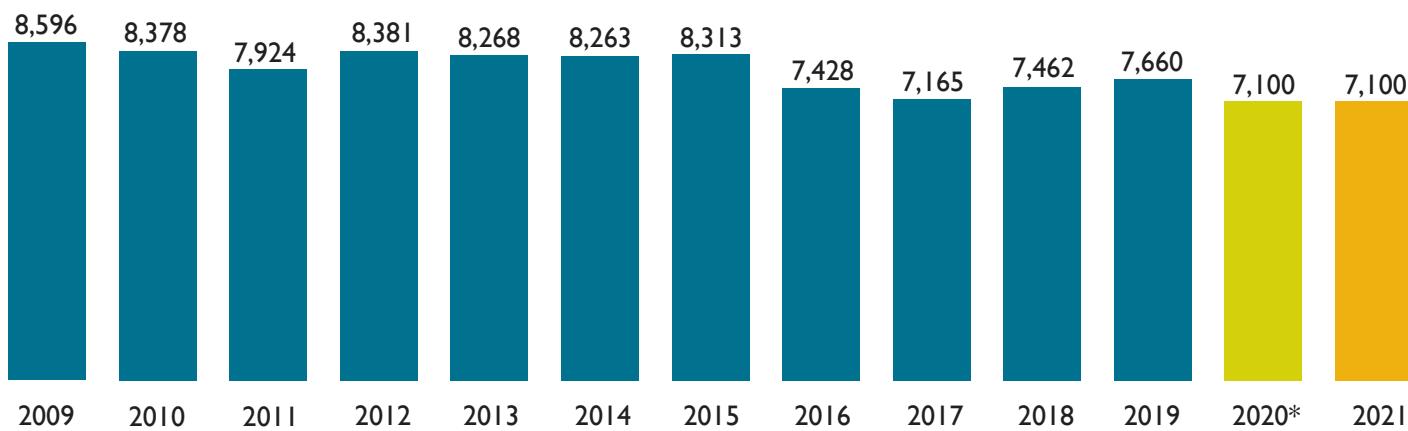
Public sector construction activity will play an important role in overall construction in Anchorage in 2021, including continued work at the Port of Alaska (\$65 million in 2021), the Solid Waste Central Transfer station previously mentioned, and continued school improvements related to repair from the 2018 earthquake.

Anchorage-based construction companies operate throughout Alaska, and statewide construction activity impacts local employment in this sector.

- Major statewide national defense construction projects funded by the Army Corps of Engineers are winding down as USACE construction projects pivot to renovation work on existing infrastructure.
- The State of Alaska's fiscal position leaves little room for expanded State-funded capital projects. The FY2021 construction-related capital budget is about \$1.17 billion, of which 85% is federal funding.
- If passed, the governor's proposed \$300-350 million infrastructure bond would boost future construction spending.

AEDC expects construction employment to remain flat in 2021.

**Figure 11. Anchorage Construction Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Leisure & Hospitality (+1,700)

Employment dropped sharply in the leisure and hospitality sector, which was particularly hard-hit by efforts to reduce the spread of COVID-19. The sector lost about 7,700 jobs between March and April of 2020. Employment improved over the next few months, but even at its peak remained about 5,000 jobs below 2019. The sector ended 2020 averaging about 13,300 jobs, 4,300 jobs (25%) below 2019.

Hotel and entertainment/recreation employment were particularly impacted as the 2020 visitor season vanished. Visitor industry indicators all point to the season's loss:

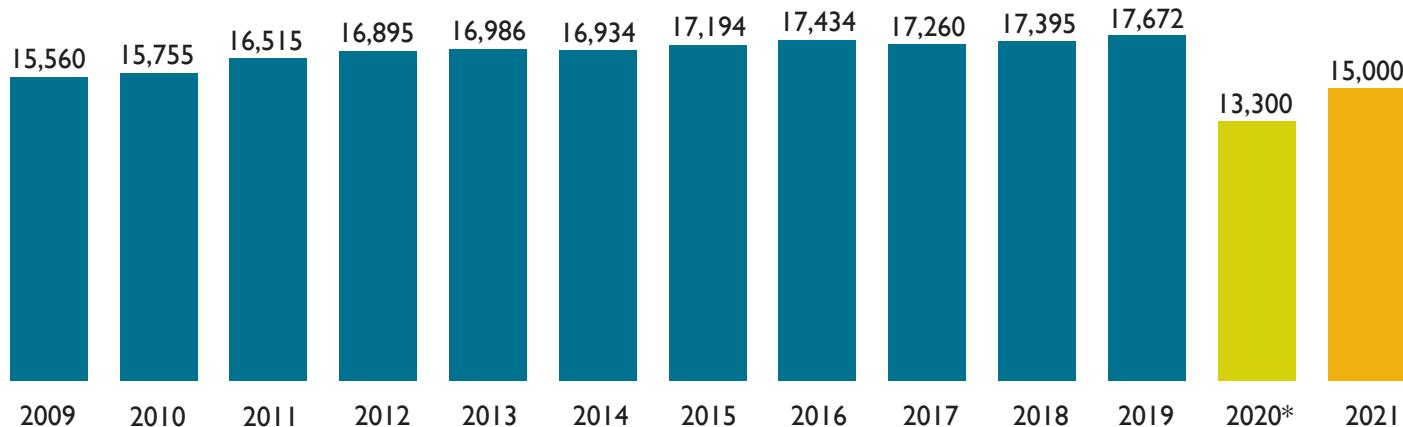
- Through October of 2020, passenger enplanements (boarding) at Ted Stevens Anchorage International Airport totaled 1.0 million, a 59% decline from the same period in 2019.
- Anchorage room tax revenue through the first three quarters of 2020 was down 61% from the same period in 2019, reflecting a 56% reduction in gross room sales.
- Anchorage rental vehicle tax revenue decreased by 59% during the first three quarters of 2020, while recreational vehicle rental tax revenue decreased by 54%. Rental car and recreational vehicle sales fell 42% in the first three quarters of 2020.
- Anchorage expected 14 direct cruise ship calls in 2020 with about 19,000 passengers, all of which were cancelled.
- According to Visit Anchorage and lodging data tracker STR, Anchorage's hotel room demand was down 41% in summer 2020 compared to the same period in 2019. Combined with average daily rates 38% lower than those in summer 2019, gross lodging revenue was down 64% in summer 2020.

Food services, which generally account for about two-thirds of leisure and hospitality sector employment, had about 3,000 fewer jobs in June of 2020 compared to June 2019, a 25% decline. While some restaurants have adapted to various indoor dining restrictions, others have not survived (including national chains and local restaurants). A fully vaccinated population may be a requirement for restaurants to return to full seating capacity, and patrons to return in pre-pandemic numbers. The number of summer visitors to Anchorage will also impact bar and restaurant recovery.

Overall, leisure and hospitality sector recovery will depend greatly on the success of the COVID-19 vaccination campaign and the strength of the summer visitor season. Recovery of the food services industry in particular would be accelerated by a successful vaccination campaign. If vaccination rates are relatively low into the second half of 2021, recovery of the industry will be much slower. Visitor-affected businesses may again face a challenging 2021 due to cancelled cruise sailings, including cross-gulf itineraries and reduced passenger capacity.

AEDC expects a prolonged recovery in this sector as visitor traffic slowly returns to pre-COVID level, adding 1,700 jobs in 2021, an increase of 13% up to 15,000 jobs. The sector will remain about 2,700 jobs below pre-pandemic levels.

**Figure 12. Anchorage Leisure and Hospitality Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Retail Trade (+400)

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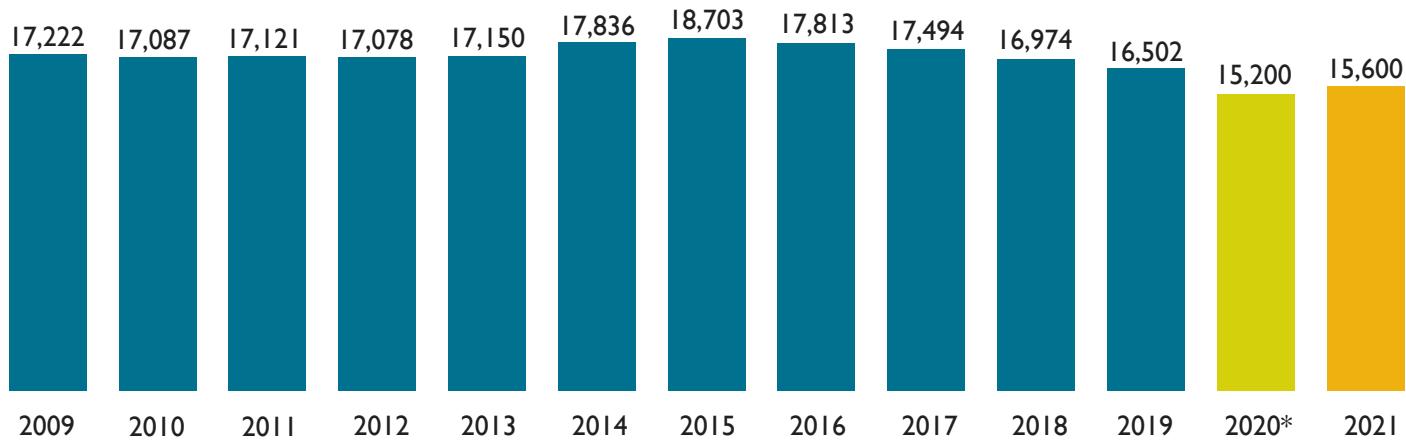
Anchorage's retail sector lost about 2,700 jobs (17.4%) as the city entered a "hunker-down" phase of the pandemic. The sector gradually added jobs back as restrictions on retail operations were eased. The retail sector employed an average 15,200 people in 2020, about 1,300 jobs (7.9%) below 2019, marking the industry's fifth consecutive year of employment decline.

AEDC expects the sector to add 400 jobs in 2021. While the retail sector will regain some of the jobs lost in 2020, average annual employment in 2021 is expected to fall short of pre-pandemic levels. Some retailers have fared better in the pandemic (grocery stores and hardware in particular), but many retailers have not survived. Anchorage saw dozens of retail closures in 2020, including two Pier 1 locations, Spenard Builders Supply in Eagle River, the Carrs Northway Mall location, Black Diamond, and many others.

The pandemic impacted the industry at a time when the sector already faced significant challenges from wider adoption of online shopping and weakness in the national retail sector.

- E-commerce continues to grow as a percentage of retail spending, accelerating during the pandemic. By the third quarter, online sales accounted for 14% of total retail sales nationally, up from 11% in the same quarter of 2019. The continued reduction in spending with traditional "brick-and-mortar" stores will likely contribute to further store closures nationwide.
- Despite a surge in spending at grocery stores early in the pandemic, other retailers saw lower traffic due to COVID mitigation measures and less in-state travel by other Alaskans visiting Anchorage, and less spending by locals who spent less in general or shifted to more on-line shopping.
- Federal relief payments to individuals (an estimated \$173 million to Anchorage residents) and expanded unemployment benefits under the Federal CARES Act likely mitigated some of the pandemic's impact to the local retail sector.

**Figure 13. Anchorage Retail Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Financial Activities (No change)

The financial activities sector, which includes banks, credit unions, investment firms, insurance companies, and real estate agents and managers, averaged approximately 7,200 jobs in 2020. Employment in the sector dropped by about 300 jobs in April, as the pandemic's economic effects first unfolded. It has since recovered about 200 of those jobs. Employment in 2021 is expected to hold steady at about the 2020 average of 7,200.

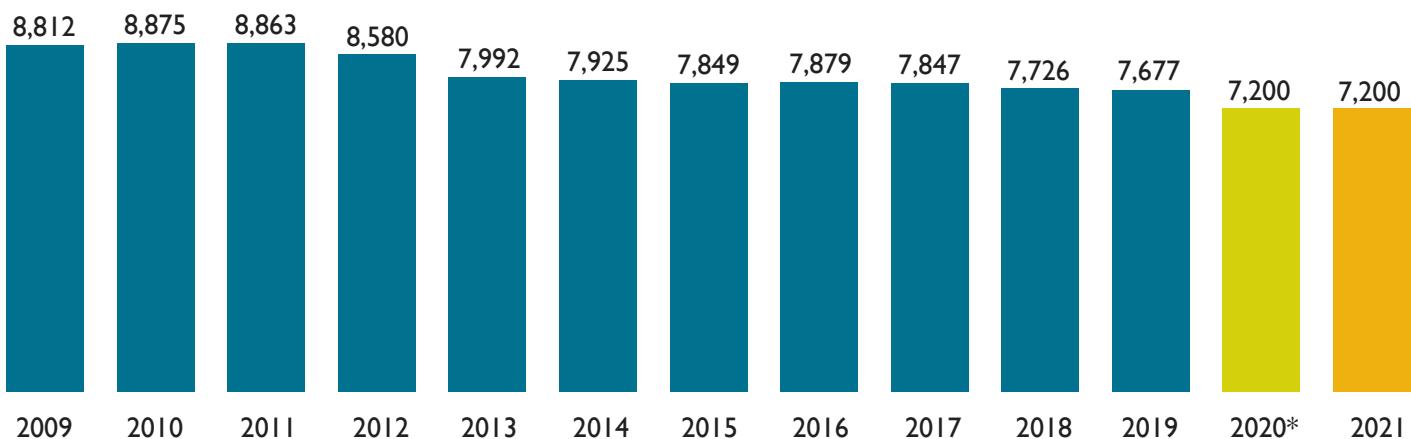
Employment in the financial activities sector has been on a slow, long-term downward trend. Most of that decline is in the banking sector, driven by steadily increasing use of online services rather than teller services. COVID-19 accelerated the digitization of the banking industry. Where there is employment growth in the U.S. banking sector, it is likely to be mainly in technology services, services that are often managed outside of Alaska.

Though a relatively small part of the sector (at about 350 jobs), employment in investment services has been growing (up 15% since 2013). This subsector is notable for its high wages, averaging \$13,000 monthly in 2019, the second highest average monthly wage in the Anchorage economy, following only the oil and gas sector.

Through the pandemic, Alaska's banking sector has proven to be a resilient, reliable, and essential component of Alaska's economic infrastructure. Billions of federal relief dollars flowed through banks to Alaskans and Alaska businesses, helping offset some the economic pain cause by COVID-19.

In 2021, some return to employment normalcy in the financial activities sector can be expected, as the recovery from the pandemic continues, but that gain is expected to be largely offset by continuation of the long-term decline in banking sector employment. Net effect will be no change between 2020 and 2021, in terms of annual average employment.

**Figure 14. Anchorage Financial Activities Employment, 2009-2020 and 2021 Forecast**



\*Employment estimate is preliminary. All figures for calendar year based on monthly average.

Source: Alaska Department of Labor and Workforce Development (2009-2019 employment); McKinley Research Group (2020 and 2021 employment)

## Other Sectors (+600)

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Most of the Anchorage economy faced significant headwinds in 2020. Sectors not specifically addressed in this forecast (accounting for a total 19,800 jobs in 2020) all saw job losses between March and April 2020. These include manufacturing, wholesale trade, information/telecommunications, social assistance services, and personal services. The social assistance sector lost 877 jobs and manufacturing lost 456. These and other sectors gradually regained some lost jobs but are expected to end 2020 below 2019 employment levels. AEDC expects these sectors to recover at various rates depending largely on a successful COVID-19 vaccination campaign. Combined, these sectors are expected to add back about 600 jobs in 2021.

## Military Employment

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Though the military is not included in AEDC's annual employment forecast, it is important to note its critical role in the Anchorage economy. In 2019, there were 10,700 active duty military personnel stationed in Anchorage, accounting for half of the 21,400 activity duty personal based in Alaska. A study recently released by University of Alaska Anchorage found that a total 30,300 jobs in the Anchorage/Mat-Su area are either directly or indirectly tied to the military, about 10% of all employment in the region. Given Alaska's strategic Pacific Rim and Arctic location, it is safe to assume the military will remain a strong and steady contributor to Alaska's economy in the foreseeable future.

## The Big Picture

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Anchorage entered 2020 with an expectation that the four-year slide in employment, totaling 6,000 lost jobs, would finally come to an end. AEDC's outlook was for 100 new jobs in 2020, essentially a flat forecast for an economy supporting 150,000 jobs. COVID-19 laid waste to the modest hope that the Anchorage economy would be stable (or even grow) in 2020.

The pandemic's impact on public health is our most important consideration, nevertheless the economic cost has been profound. In April 2020, when impacts were most severe, Anchorage had 22,000 fewer jobs than in April 2019, a loss of 15% of the city's employment base. Conditions got marginally better over the next two months. By June 2020, employment was 16,600 jobs (11%) below the same month in 2019. Preliminary data for the second half of 2020 suggests some further improvement, but employment at year-end likely remained about 10% below year-end 2019, a decline of about 12,000 jobs.

Entering 2021, economic recovery will depend on the degree to which further spread of COVID-19 can be contained and the pace of community vaccination. If the pace is slow, due to limited vaccine availability or limited acceptance, or both, recovery will be delayed. If rates of infection remain low and most of the population is vaccinated by mid-year, many of the jobs lost in 2020 could be restored in 2021.

The economic pain caused by efforts to control spread of COVID-19 has not been uniform. The leisure and hospitality sector has suffered the greatest damage. This sector typically accounts for about one in ten jobs in Anchorage but accounted for more than one-third of all jobs lost in 2020. Further, wages in this sector are typically among the lowest in the economy, averaging \$2,100 per month, less than half the citywide average of \$5,000 per month. Workers and small business owners in this sector must be a top priority as we work to rebuild our economy.

More than a billion dollars in federal relief funding was critical in easing some of the economic shock in Anchorage caused by the pandemic in 2020. Federal relief will be key again in 2021. The fate of the Biden Administration's proposed \$1.9 trillion relief package is unclear, but it is almost certain another substantial round of federal relief will come in early 2021.

Looking beyond recovery from COVID-19, we see the same persistent economic development challenges we've faced for several years. Most notable is the thus-far illusive balanced, sustainable state budget. Until policy makers can chart a revenue and expenditure course that instills some measure of confidence, investment in Alaska will remain constrained.

It's too early to know what long-term damage to the economy will result from COVID-19. But we can nonetheless have confidence in the future. Though it may take time, Alaska's visitor industry will recover. With the defeat of Ballot Measure 1, the oil and gas industry can recommit to its development efforts at Willow, Pikka, and elsewhere. A strong and growing military presence in Alaska provides a solid base of economic activity. Anchorage's role as a global air freight transportation hub is expected to grow along with investment in new facilities and services at Ted Stevens Anchorage International Airport.

One final note. It's a rare circumstance when we can articulate exactly how each and every citizen of Anchorage can help rebuild our economy. Today we can. Economic recovery is inseparably linked to our ongoing efforts to control spread of COVID-19 and vaccinate as quickly as supplies allow. Let's all do our part.