

2022

AEDC ECONOMIC FORECAST

PRESENTED BY



AEDC
Anchorage Economic
Development Corporation

PREPARED BY



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Table of Contents

2022 AEDC Employment Forecast	1
Change by Sector	2
Population	2
Unemployment	4
Anchorage Inflation Rate	5
Oil & Gas (No Change)	6
Healthcare (+200)	8
Transportation (+200)	9
Government (+200)	10
Professional & Business Services (+400)	11
Construction (+200)	12
Leisure & Hospitality (+800)	13
Retail Trade (+200)	15
Financial Activities (No Change)	16
Other Sectors (+200)	17
The Big Picture	18

List of Figures

Figure 1.	Anchorage Employment	1
Figure 2.	Anchorage Population	3
Figure 3.	United States, Alaska, and Anchorage Average Monthly Unemployment Rate	4
Figure 4.	Urban Alaska and U.S. Consumer Price Index	5
Figure 5.	Anchorage Oil and Gas Employment	7
Figure 6.	Anchorage Healthcare Employment	8
Figure 7.	Anchorage Transportation Employment	9
Figure 8.	Anchorage Government Employment	10
Figure 9.	Anchorage Professional and Business Services Employment	11
Figure 10.	Anchorage Construction Employment	12
Figure 11.	Anchorage Leisure and Hospitality Employment	14
Figure 12.	Anchorage Retail Employment	15
Figure 13.	Anchorage Financial Activities Employment	16

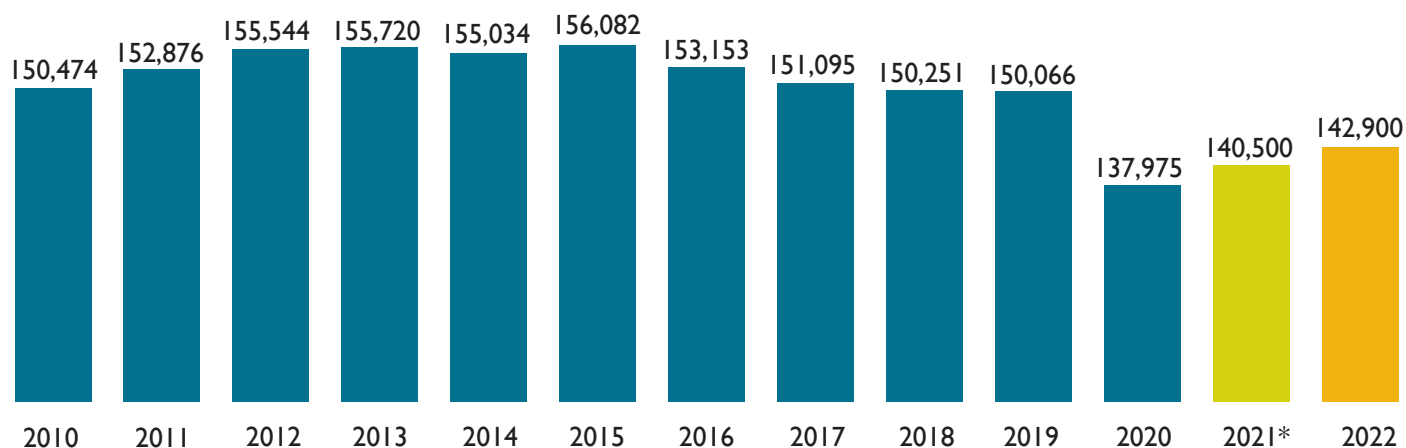
2022 AEDC Employment Forecast

At the start of 2021, AEDC was hopeful that declining COVID-19 case counts, a successful vaccination campaign, and further federal relief would drive economic recovery in Anchorage. The spread of COVID-19 variants (delta and omicron) added new uncertainties, health concerns, and supply chain disruptions worldwide. Across many sectors, labor shortages likely further constrained the pace of recovery. Despite these setbacks, a growing transportation sector, strong (non-cruise) visitation in summer 2021, and other employment gains were bright spots in a year of slow recovery. Passage of the federal Infrastructure Investment and Jobs Act in late 2021 is another source of optimism and should boost professional services and construction in the coming year and beyond.

As detailed in this forecast, AEDC expects Anchorage to regain 2,400 more jobs in 2022 but remain below pre-pandemic employment levels. The pace of recovery is likely to match that of 2021. Ultimately, however, recovery will depend on how quickly COVID eases its grip on the economy. In particular, job growth will depend on the availability of a labor force prepared to fill open positions.

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 2022 employment outlook for Anchorage's key sectors. The forecast concludes with a few big-picture thoughts about the outlook for Anchorage's economy.

Figure 1. Anchorage Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010-2020 employment); McKinley Research Group (2021 and 2022 employment)

2022 EMPLOYMENT CHANGE BY SECTOR

Oil & Gas: No Change

Healthcare: +200

Transportation: +200

Government: +200

Professional & Business Services: +400

Construction: +200

Leisure & Hospitality: +800

Retail Trade: +200

Financial Activities: No Change

Other Sectors: +200

Total Change: +2,400

Population

Anchorage's population totaled 289,697 in July 2021, representing a net loss of about 1,550 residents, a 0.5% reduction compared to 2020.

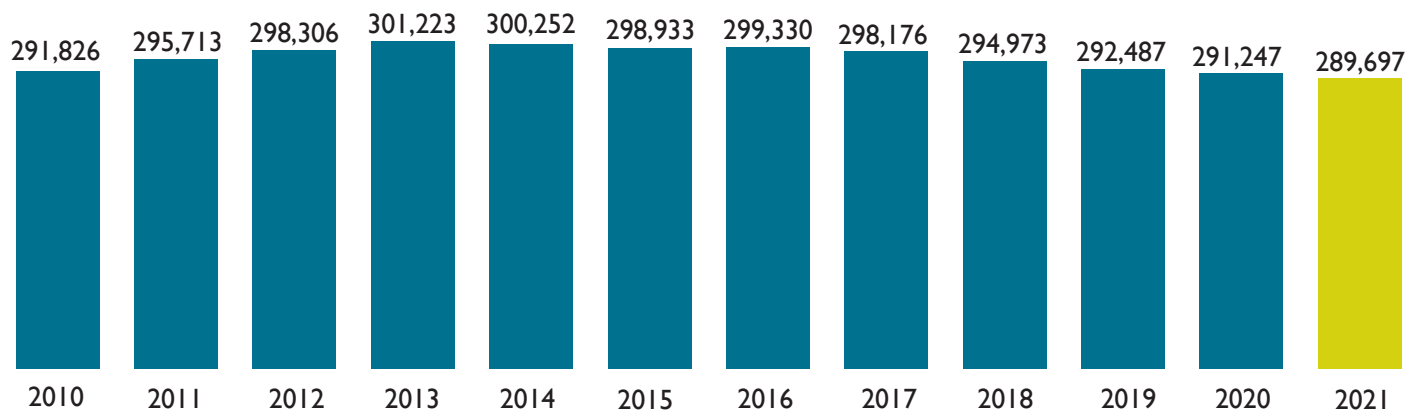
Population growth in Anchorage has often been strongest when economic opportunity in Alaska is greater relative to the rest of the nation. Prior to the pandemic, Alaska's recession and strong economic conditions in the Lower 48 contributed to outmigration of Anchorage residents.

The trajectory of Anchorage's population in 2022 will continue to depend largely on the pace of economic recovery in Alaska relative to the national economy, and Anchorage's ability to finally move out of the recession pre-dating the pandemic. The following demographic forces have contributed to Anchorage's population change over the last several years.

- Anchorage's net population decline from 2020 to 2021 includes 4,620 births, 2,536 deaths, and a net loss of 3,634 residents due to migration.
- Based on 2021 Permanent Fund Dividend (PFD) applications, Anchorage saw in-migration of 19,763 and out-migration of 21,729 between 2020 and 2021.¹ This represents the lowest number of new Anchorage applicants in more than a decade, and a reduction in the number of previous applicants no longer living in Anchorage. Due to the lag between residency and PFD-eligibility, the Alaska Department of Labor and Workforce Development (DOLWD) makes additional adjustments this data to estimate total migration each year.
- Anchorage's working age population declined by 2,339 (1%) in 2021, continuing a trend beginning with the 2015-2018 statewide recession.² While 2021 migration data by age is not yet available, a reduction in in-migration of working-age people between 2010 and 2020 has contributed to this longer-term decline. Annually, about 18,500 working-age people moved to Anchorage between 2010 and 2015, compared to 15,000 between 2015 and 2020.³

- Related to a contracting working-age population, Anchorage’s labor force has also been on a declining trend since the beginning of the statewide recession. Based on preliminary data, Anchorage’s labor force grew by 0.4% between 2020 and 2021, likely reflecting a return to work for some workers who temporarily left the workforce due to the impacts of COVID-19.
- Anchorage has an aging population. In 2010, residents aged 55 and above represented 19% of the city’s population. By 2021, that share grew to 25%. Despite the increase in this population (by percentage and number), net outmigration of residents age 55+ has accelerated in recent years. Between 2010 and 2015, net migration climbed from an annual average 1,107 between 2010 and 2015 to 1,452 between 2015 and 2020. This trend in outmigration is anticipated to continue. In 2021, AEDC commissioned a survey of older Anchorage residents, finding 38% of the population age 55+ planned to move out of Anchorage in the future.

Figure 2. Anchorage Population, 2010-2021



Source: Alaska Department of Labor and Workforce Development.

1 PFD application data adjusted for births and deaths.

2 Working-age population is defined as the population age 16-64.

3 Average annual out-migration declined; annually, about 19,600 working-age people moved out of Anchorage between 2010 and 2015, compared to about 17,900 between 2015 and 2020.

Unemployment

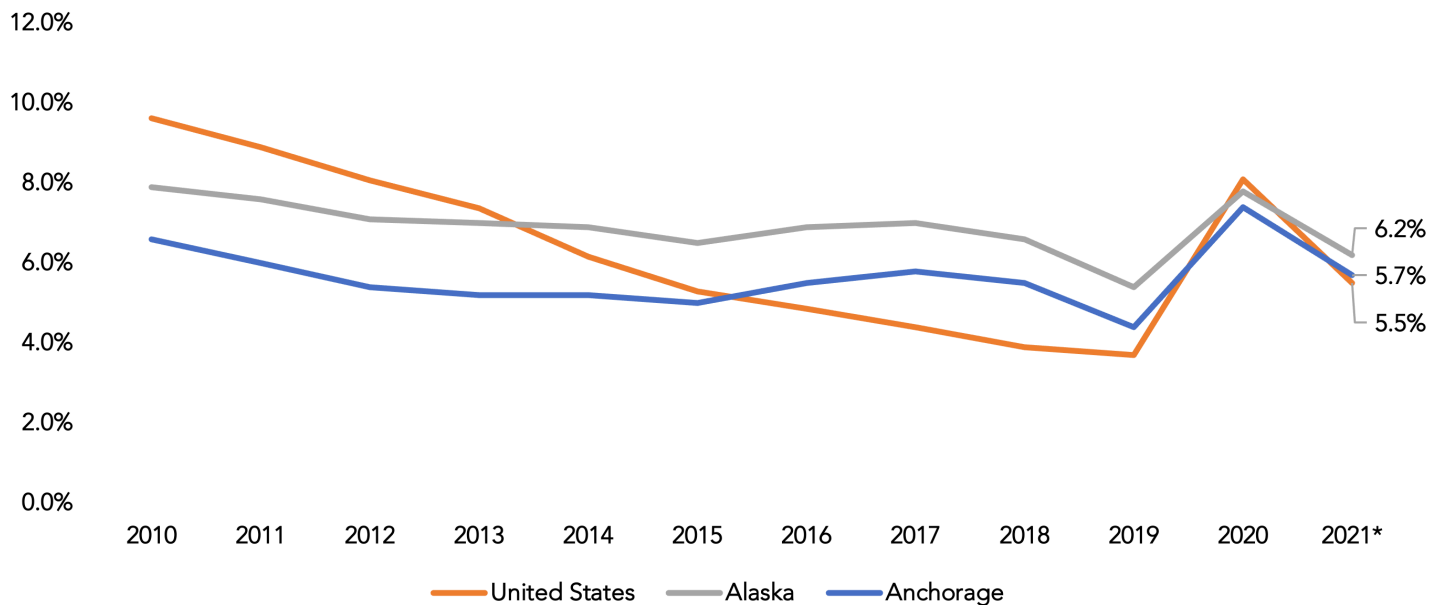
The preliminary unemployment rate for Anchorage in 2021 is 5.7%, down from the pandemic-driven annual average of 7.4% in 2020. While the national unemployment rate increased beyond the Anchorage and Alaska rates in 2020, US unemployment has since fallen back below the Anchorage rate.

Anchorage's overall labor force decline preceded the pandemic, with 2020 marking the sixth consecutive year of contraction in the number of people employed or unemployed but actively seeking work. Side-effects of the COVID-19 pandemic (lack of available childcare, health care concerns, among others) are slowing recovery of Anchorage's labor force in 2021 relative to pre-pandemic levels.

Statewide data available through the Bureau of Labor Statistics point to the mismatch between labor supply and demand. The number of job openings in Alaska escalated in 2021, topping out at 36,000 openings in July and surpassing the number of statewide job openings over the past decade by an estimated 15,000 jobs. Despite robust openings, the number of unemployment insurance claims, statewide and in Anchorage, remained above 2019 levels through much of 2021.

Looking ahead, the pace of Anchorage's economic recovery relative to the national economy will determine the trajectory of the labor force, and unemployment rate, in Anchorage (and Alaska).

Figure 3. United States, Alaska, and Anchorage Average Monthly Unemployment Rate, 2010-2021 (Preliminary)



* 2021 figure based on preliminary data through November 2021.
Source: U.S. Bureau of Labor Statistics (2010-2021)

Anchorage Inflation Rate

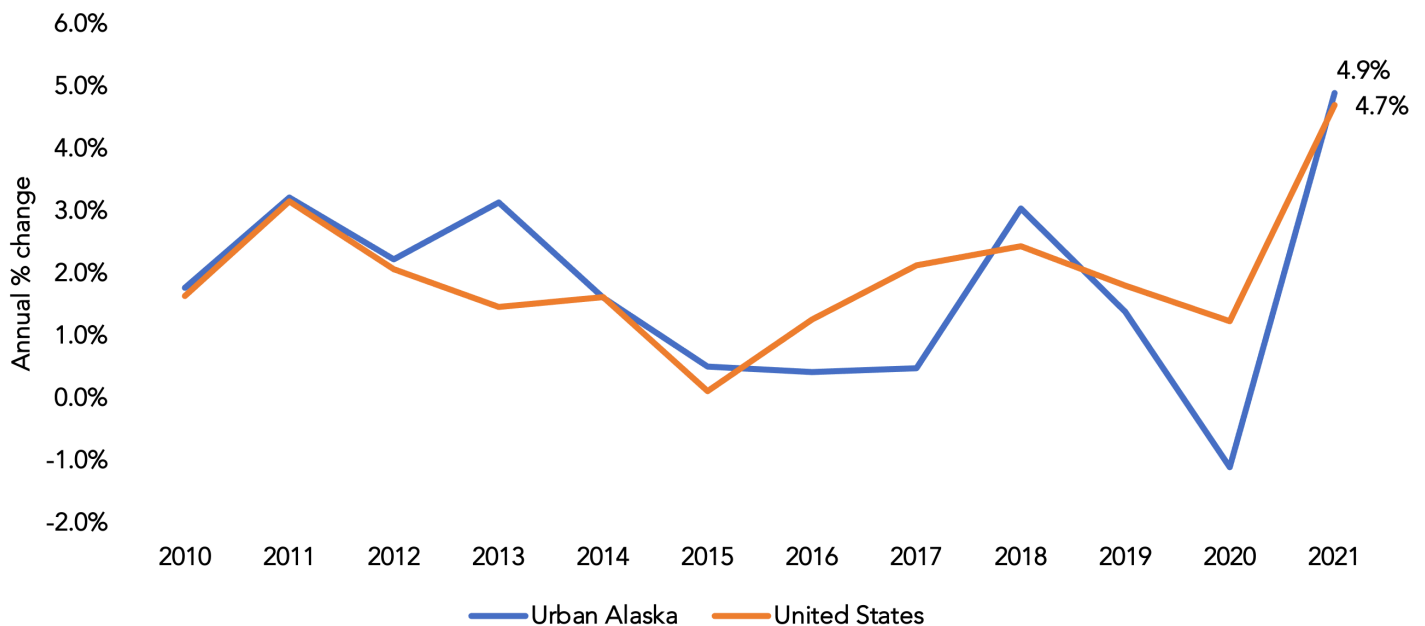
The Urban Alaska rate of inflation averaged 4.9% in 2021, following a period of deflation in 2020. Prices were also up over pre-pandemic levels (3.5% higher than 2019). The Consumer Price Index (CPI) is the primary measure of inflation and reflects changing prices for a specific goods and services. The Anchorage/Mat-Su CPI is the only measure of inflation for Alaska, described as “Urban Alaska” by the U.S. Bureau of Labor Statistics.

Urban Alaska’s price increases are part of a national rise in inflation brought on by increased demand for consumer goods, manufacturing slowdowns related to COVID-19, supply chain bottlenecks, and other global factors. These factors contributed to price volatility across a range of products.

Rising, volatile oil prices resulted in gasoline prices which were up about 12% compared to pre-pandemic levels on an annual average basis. Transportation price increases of 10% compared to 2019 point to low microchip availability which led to slowdowns in car manufacturing in 2021. Prices also increased for food (10.8%), medical care (8.0%), recreation (1.4%), and housing (0.5%). Electricity prices declined by 11.6% compared to pre-pandemic levels, likely reflecting the acquisition of Municipal Light & Power by Chugach Electric in 2020.

Outside of consumer goods, high material prices impacted construction costs and investment. These COVID-19 pandemic-related impacts are expected to persist into 2022. The trajectory of inflation nationally, and in Alaska, will depend on return to manufacturing and supply chain normalcy, along with fuel price trends and a range of other factors.

Figure 4. Urban Alaska and U.S. Consumer Price Index, 2010-2021



Source: U.S. Bureau of Labor Statistics

Oil & Gas (No Change)

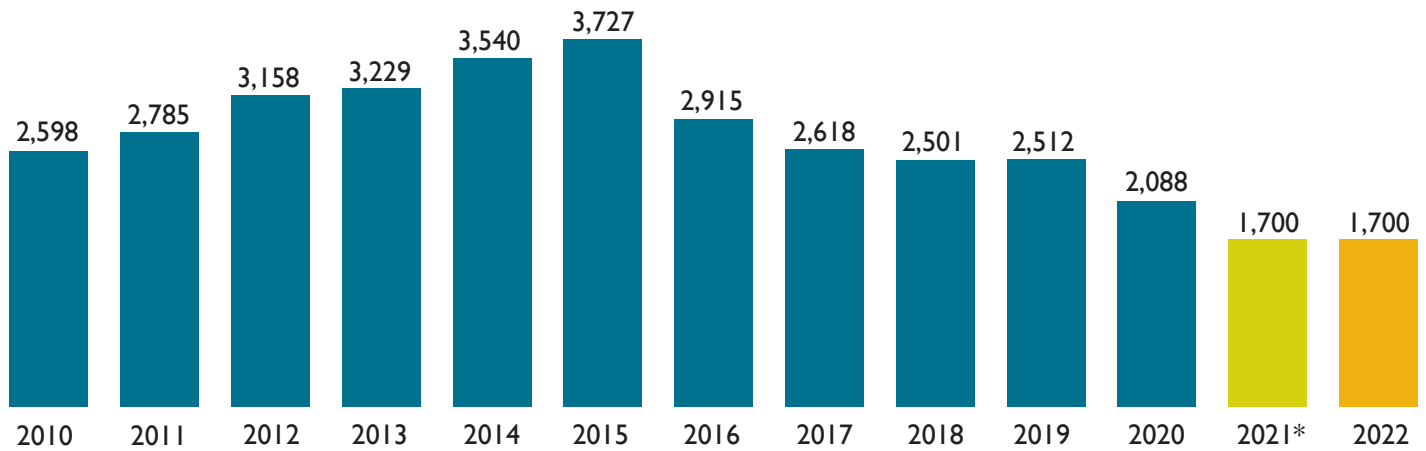
Anchorage's oil and gas sector ended 2021 with just 1,700 jobs, down by more than 15% from 2020, and 30% below 2019. Oil prices recovered from historic lows in 2020, yet oil and gas industry employment in Anchorage is yet to show signs of return to pre-pandemic levels.

Employment in Anchorage's oil and gas sector has been on a downward trend since 2015. The pandemic accelerated losses in the sector, and employment is now 2,000 jobs less than the 2015 peak (down more than 50%).

With the employment repercussions of Hilcorp's acquisition of BP Alaska assets now in the rear view mirror, AEDC expects oil and gas employment in Anchorage to hold steady in 2022. Several other key factors are impacting Alaska's oil and gas industry:

- Oil prices have been volatile over the past two years. Prices started 2021 around \$55 a barrel following historic lows in 2020 and peaked at around \$85 a barrel in mid-October 2021. By year end, prices settled to the low \$70 range. Lower volatility is expected in 2022 as prices remain in the low \$70s (though prices as of January 2022 were around \$86/barrel).
- ConocoPhillips has been the most active investor on Alaska's North Slope over the last several years:
 - o Greater Mooses Tooth #2 (GMT-2) started production on December 14, 2021. The company expects GMT-2 peak production of 30,000 barrels per day. Thirty-six wells are being drilled for the project, several of which have been completed.
 - o An investment decision on the Willow project was expected in 2021, however, construction is on hold due to legal challenges related to the project's federal environmental permits. If constructed, the \$6 billion Willow project would produce 100,000 barrels per day.
 - o Initial production from Narwhal and Fiord West is expected to begin in 2022. Development work is continuing at Nuna, and the company plans to drill additional appraisal wells in 2022.
- In December 2021, Santos (an Australian oil and gas corporation) merged with Oil Search, owner of a 51% interest in the Pikka unit. Santos is planning for first oil from Pikka by 2025 and expects peak production near 120,000 barrels per day.
- Hilcorp is actively investing in Cook Inlet. Gas production from Seaview began in 2021, and production at Whiskey Gulch is expected in the coming years. The company is also investing in around 100 small projects at Prudhoe Bay, including well workovers and maintenance projects.
- Some oil and gas exploration companies have reportedly faced challenges raising capital to fund exploration in Alaska's arctic as many banks have announced they will no longer finance Arctic drilling projects.

Figure 5. Anchorage Oil and Gas Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

Healthcare employment declined in 2020 even as the sector was at the heart of COVID-19 response. In the latter half of 2020 and into 2021, the sector added back jobs as providers pivoted to new service delivery and safety measures and pursued an aggressive vaccination campaign. Healthcare employment average 20,500 in 2021, falling short of pre-pandemic levels by 400 jobs (2%).

All subsectors in health care remain below 2019 employment levels. Outpatient services and hospital employment added back jobs in 2021 as routine medical care resumed, although elective surgeries were again postponed briefly in July and August due to hospital capacity constraints. Though a relatively small part of the sector (about 11% of jobs), employment at nursing homes and other residential care facilities declined further in 2021, based on preliminary data through June.

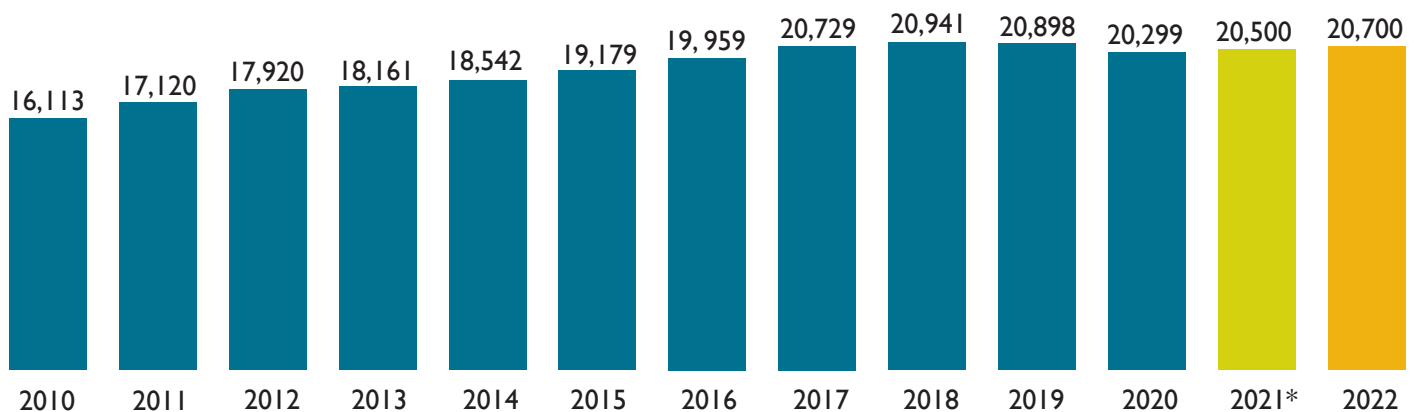
Healthcare employment is expected to further recover in 2022, assuming hospital capacity and outpatient services remain stable and COVID-related impacts on health care continue to ease.

The healthcare sector is facing ongoing labor challenges as providers work to meet the demands of treating COVID-19 patients while providing usual healthcare services. Healthcare providers are working increased hours and suffering from shortages in staff caused by exposure, illness, and burnout.

Clinical staff are in high-demand and clinical labor costs have increased over the past two years as healthcare facilities compete for staff. Employers are making a concerted effort to retain clinical staff, further increasing labor costs. Considering the persistence of COVID-19 and the potential emergence of new variants, challenges with employee retention and recruitment will persist in 2022.

AEDC expects the sector to add 200 jobs in 2022. This forecast is highly contingent on COVID-19 case counts decreasing throughout the coming year.

Figure 6. Anchorage Healthcare Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

Transportation (+200)

Anchorage's transportation, warehousing, and utilities sector gained about 1,000 jobs in 2021, settling at an average of 11,250. Strong cargo volumes and an improved visitor season supported increases in 2021. The category is one of a few with employment above pre-pandemic levels.

AEDC anticipates the sector to grow by about 200 jobs in 2022 as cargo traffic remains strong and above pre-pandemic levels. Transportation and tour providers in the visitor industry will benefit from resumed Cross Gulf cruise traffic, which has the potential to reach record levels, based on scheduled capacity. However, the latest COVID-19 variant is adding uncertainty to the outlook for cruise and independent visitors.

Air transportation, the sector's largest source of growth, added about 800 jobs between June of 2020 and June 2021 as more freight and passengers moved through Ted Stevens International Airport (ANC).

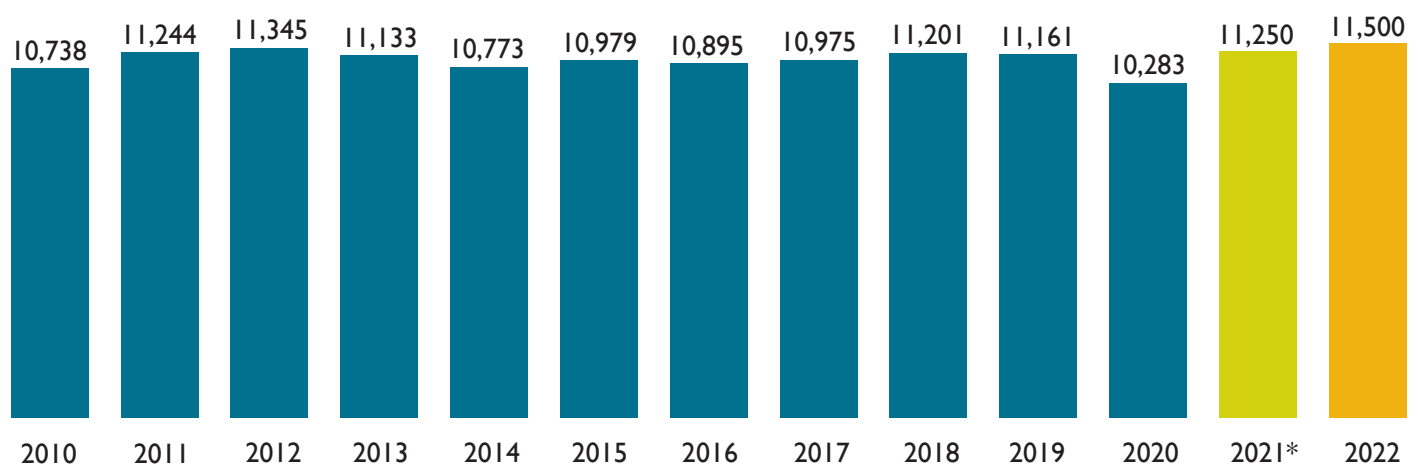
Higher freight volumes at ANC also contributed to increased courier service employment compared to pre-pandemic levels (2,450 jobs as of June 2021 compared to 2,200 jobs in June 2019).

- Total 2021 cargo volume at ANC was up 14% over 2020. Global shipping bottlenecks and strong national demand for consumer goods drove this increase.
- Total ANC passenger volume in 2021 was up by 93% over 2020.
- The Port of Alaska moved nearly 5.0 million tons of freight and fuel in 2021, about 280,000 tons more than 2020. Increased petroleum tonnage (up 300,000 tons 10.2% compared to 2020) likely related to increased air cargo traffic at ANC offset decreases in dry bulk goods (down 14,000 tons). Vans/flats/containers remained relatively unchanged, decreasing by just 0.3% (4,000 tons).

Several developments related to transportation and warehousing services in Anchorage may impact over the next several years:

- Northern Pacific Airlines intends to adopt the Icelandair model, offering Anchorage as a stopover for passengers flying to and from Asia. The service is expected to begin in the third quarter of 2022, adding about 50 jobs.
- A feasibility study for ANC's Anchorage Pacific Air-to-Sea Service (ANC PASS) was completed in 2021. ANC PASS would see cargo flown from Asia to Anchorage and shipped on to Tacoma via the Port of Alaska. The initiative, taking advantage of Anchorage's strategic location, comes in response to global shipping bottlenecks which have caused significant delays in waterborne transportation.
- Major transportation infrastructure development projects together could create thousands of short-term construction-related jobs and hundreds of permanent operations jobs. Five major air cargo storage and logistics projects at ANC, totaling \$1 billion in investment, are in various stages of planning. Initial construction work for some of these projects is set to begin in 2022.

Figure 7. Anchorage Transportation Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

Government sector employment average 26,300 in 2021, down about 200 jobs from 2020. Although government employment has been on a downward trend over the last decade, the sector saw smaller losses over the course of the pandemic than other industries.

Government employment in Anchorage is reasonably well balanced between State government (including the University of Alaska Anchorage) with about 9,400 jobs, local government (including the Anchorage School District) with 8,600 jobs, and federal government (excluding active duty military) with 8,500 jobs. Combined, the sector accounted for 19% of jobs and 22% of wages paid in Anchorage in 2020.

Anchorage is home to 35% of all public employment in Alaska, including 55% of federal employment, 42% of State of Alaska employment, and 23% of local government employment.

AEDC expects government sector employment to increase to 26,500 jobs in 2022, an increase of about 200 jobs.

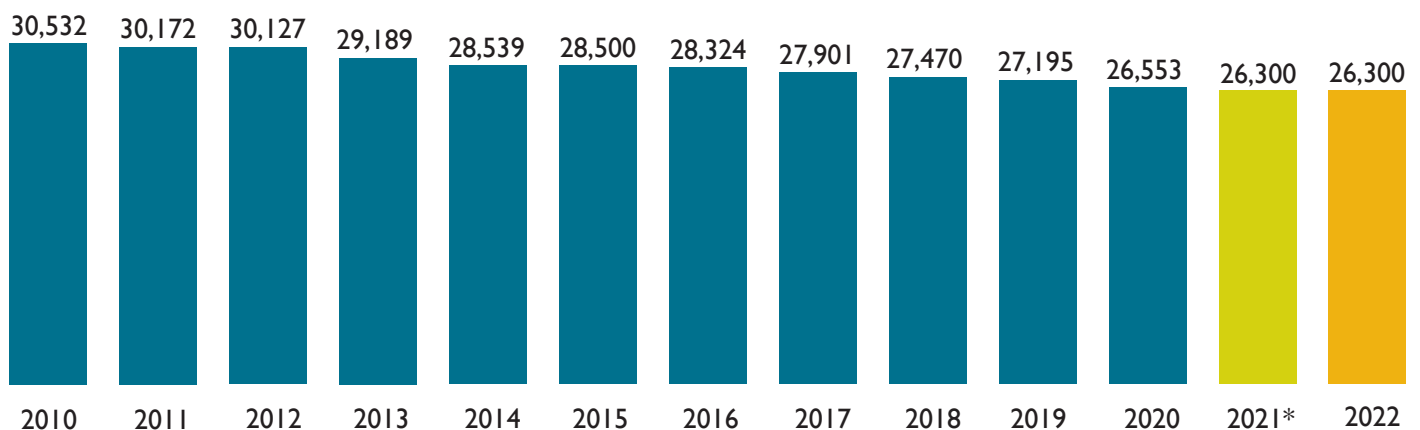
Federal government employment in Anchorage has remained stable over the last few years:

- Federal employment grew by about 200 jobs in 2020 in conjunction with the 2020 census. Employment declined in 2021 as these temporary jobs ramped down.
- Passage of the Federal Infrastructure Investment and Jobs Act is likely to increase federal employment as jobs are added to manage the \$5 billion in federal funding expected to flow into Alaska over a five-year period.
- State government employment declined over the past two years: Declines in state government employment have largely been driven by cuts to the University system. Preliminary data indicates 2021 UA employment in Anchorage fell to an average 1,850 jobs, a 30% reduction from the peak of state education employment in Anchorage in 2014.
- Employment at the university has yet to recover to pre-pandemic levels, and the university has experienced further losses in 2021 due to state funding cuts. The governor's proposed FY2022 budget includes a further \$20 million cut in UA funding, in addition to a \$25 million reduction in FY2021.
- According to the Alaska Office of Management and Budget, unfilled state positions across many departments will be cut from the budget in 2022.

Local government has experienced job losses over the past two years, primarily due to reductions in school district employment as educators first adjusted to remote learning then resumed in-person instruction.

- The mayor's proposed FY2022 Municipal Operating budget would see funding for unfilled positions in local government cut in 2022.
- Local education jobs were down in 2021. Preliminary data suggests that employment at the Anchorage School District has remained below pre-pandemic levels, even as schools reopened. Funding gaps are expected at ASD, and the budget is not yet resolved.

Figure 8. Anchorage Government Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

Professional & Business Services (+400)

Based on preliminary data, employment in Anchorage's professional and business services sector remained largely unchanged between 2020 and 2021, averaging about 16,300 jobs during 2021. AEDC expects the professional and business services sector to grow by about 400 jobs during 2022, increasing the annual average to 16,700.

Engineering, architecture, accounting, legal affairs, and other professional services firms account for about half of employment in the sector. Wages are relatively high, averaging about \$82,000 annually compared to the economy-wide average of \$65,000.

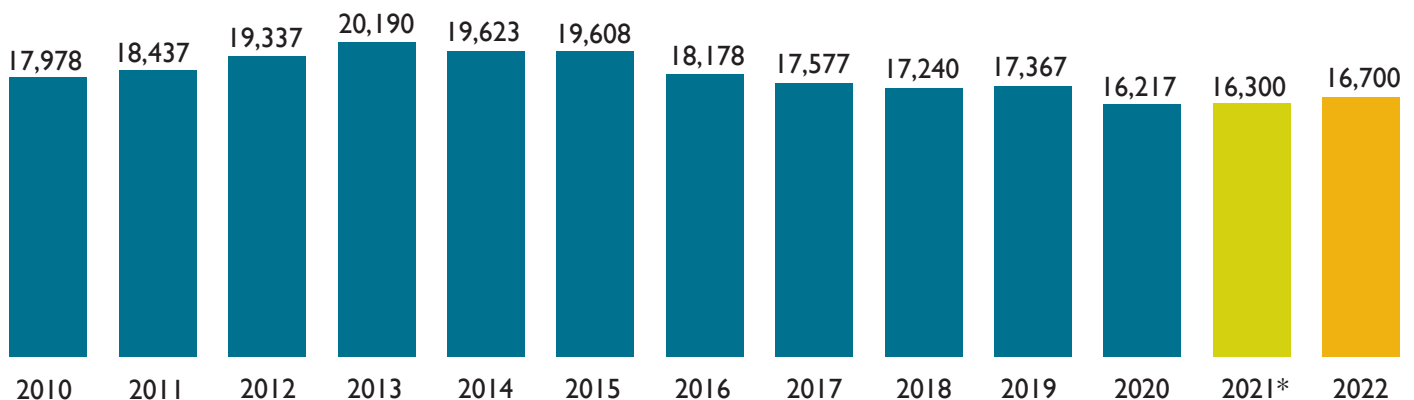
Administrative support and waste management accounts for about 40% of sector employment. This includes building management services, security services, and facilities support services, among a range of other services. Employment with these firms expanded by 150 jobs between 2020 and 2021 but remained 1,100 jobs below 2019.

Management of companies and enterprises make up about 10% of employment for the professional and businesses services sector, paying \$164 million in wages annually with an average annual salary of about \$105,000. The sector is one of few with growth over 2019, gaining 50 jobs in 2021 compared to pre-pandemic levels. This subsector includes Alaska Native Corporations which often maintain offices in Anchorage. As of 2017, the latest year data was available, Alaska's regional Native Corporations employed 17,500 people statewide.⁴

AEDC expects this sector to expand in 2022 amid increased construction activity, a key driver of employment in the professional and business services sector.

- The federal Infrastructure Investment and Jobs Act is poised to increase demand for engineering, architecture, environmental and other professional services. The Act is expected to inject \$5 billion in infrastructure funding into the Alaska economy over a five-year period. This infrastructure work will require feasibility, design, and other planning work prior to construction efforts.
- The enacted FY2022 (\$1.98 billion) and proposed FY2023 (\$1.41 billion) state capital budgets represent an increase over pre-pandemic levels largely related to higher federal funding. In recent years, state capital budgets have leveled off at the minimum required to secure federal matching funds yet continued to provide a predictable level of demand for engineering services.

Figure 9. Anchorage Professional and Business Services Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

⁴ANCSA Regional Association. 2017 Economic Report.

The construction industry in Anchorage added about 200 jobs in 2021, but employment remains below pre-pandemic levels. The industry saw a surge of employment in the summer months totaling approximately 2,500 jobs, equivalent to seasonal employment surges seen in 2019.

In 2021, Anchorage building permit valuations totaled \$407 million, down 13% from \$468 million in 2020. Much of the decline is related to decreases in government projects following a spike in 2020 related to the large Gruening Middle School and Solid Waste Services Central Transfer Station projects. Residential construction also fell by 7% compared to 2020 as the number of new units added and remodeling activity fell in 2021. Although up over 2020, commercial permit values continued to lag pre-pandemic levels.

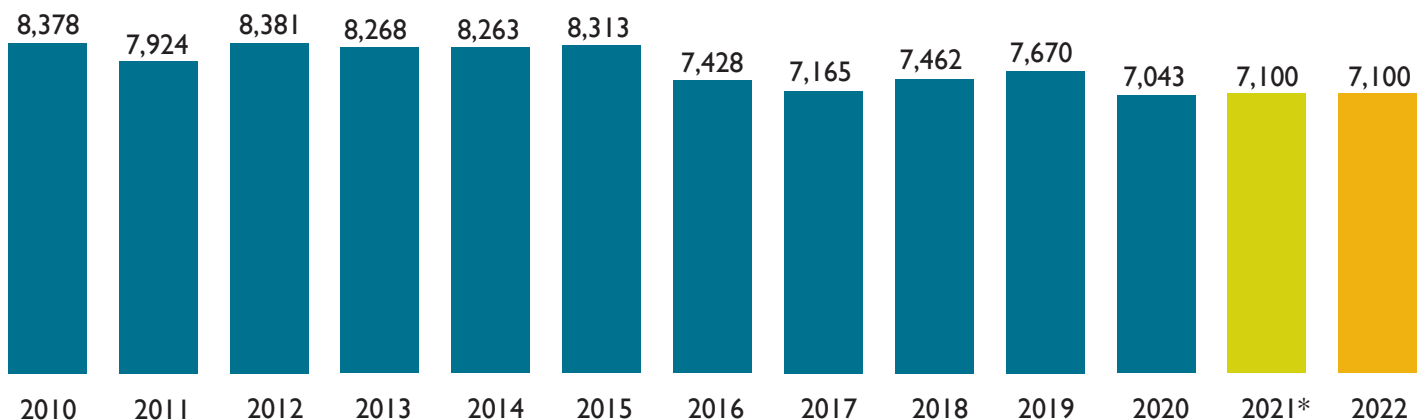
Material availability, high prices, and transportation bottlenecks created risk and uncertainty for investors and construction firms over the last year. Rising prices and long lead times for a range of goods – from steel and lumber to windows and ovens – contributed to construction delays and higher costs. Anchorage projects like the KeyBank building on Fifth Avenue are among those which faced delays in 2021.

Many of the larger construction projects in 2022 will be continuations from 2021 work, including the Municipal Solid Waste Central Transfer Station, renovation of the KeyBank building on Fifth Avenue, and the Fedex ramp expansion at Anchorage International Airport. While not yet permitted, air cargo and logistics projects valued at more than \$1 billion could get underway at ANC in 2022.

AEDC expects construction employment to increase again in 2022. Factors expected to impact construction employment include:

- The recently passed federal Infrastructure Investment and Jobs Act is expected to bring more than \$5 billion in new funding to Alaska, including additional highway, airport, marine highway, water and wastewater treatment, and energy funding, among others. Anchorage firms that operate across the state will benefit from this massive spending package. Most construction work related to this new funding is expected to happen in 2023 and beyond.
- The supply chain and price volatility experienced in 2021 is expected to extend into 2022, potentially slowing the pace of commercial construction in Anchorage in the coming year.
- Construction firms in Alaska have long contended with a shortage of skilled workers, and the pandemic has widened this labor gap. Lack of skilled labor may constrain the pace of construction activity in Anchorage and in Alaska overall, even as demand for construction increases with the influx of federal infrastructure dollars.

Figure 10. Anchorage Construction Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

The leisure and hospitality sector was particularly hard-hit by efforts to reduce the spread of COVID-19, losing more than 4,000 jobs (with peak monthly losses of more than 6,000 jobs). The sector regained some ground in 2021, adding 1,300 jobs, but remained well below pre-pandemic levels. Employment in the sector averaged 14,750 jobs, well below the 17,700 employed in 2019.

The return of “independent” travelers to Anchorage spurred some recovery in the hotel and entertainment/recreation category but did not fully offset the loss of Cross Gulf cruise passengers in 2021.

- Through October of 2021, passenger enplanements (boardings) at Ted Stevens International Airport remained 22% below the same 10-month period in 2019.
- Room tax revenue rebounded in 2021, ending the year up 132% from 2020 and just 2.5% below 2019 levels.
- According to Visit Anchorage and lodging data tracker STR, Anchorage’s hotel room occupancy was down only 4% through November 2021 compared to 2019 levels. Average daily revenue rates were nearly recovered, falling just 1% short of 2019.
- Anchorage rental vehicle tax increased 146% relative to 2020 during the first three quarters of 2021, representing a 4% increase from 2019. Total car and recreational vehicle rental revenues increased 145%, relative to 2020, and 23% relative to 2019. Anecdotally, increased rental revenues reflect higher average rental rates in summer 2021 as rental car demand outpaced supply.
- Nearly all “cross-gulf” cruise passengers (on sailings beginning/ending in Seward or Whittier) transit Anchorage at some point in their trip, bringing visitor spending to the city. Cross-gulf itineraries in 2022 are expected to bring ships with record total capacity of 476,000 passengers, though further COVID-19 mitigation measures could mean the ships might not be operating at capacity.

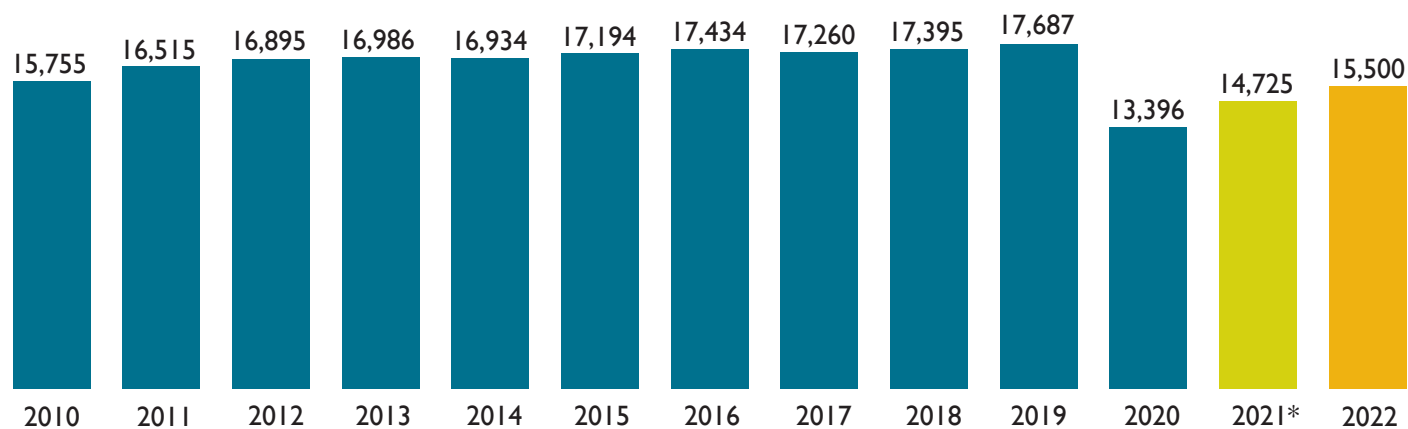
Food services added back about half of the jobs lost in 2020 but remained about 1,300 jobs behind 2019 by June of 2021. Several factors may impact the trajectory of food services employment into 2022:

- Restaurants have been among the businesses most impacted by labor shortages. Based on JobsEQ data, restaurants in Anchorage posted 1,000 more job openings in 2021 than in 2019.
- Despite the lifting of in-person dining capacity constraints in many areas, national indicators point to continued lower demand for food services. Based on a national survey conducted by the National Association of Restaurants, 63% of restaurant operators reported 2021 sales continuing to lag 2019 levels.
- Over the last two years, many Anchorage restaurants pivoted to offer takeout and delivery options to fill the hole left when in-person dining was limited. Nationally, the volume of food delivery transactions was 58% higher in April of 2021 compared to the same period of 2020, indicating the magnitude of this shift. To the extent demand for these services persists, off-site dining may continue to impact the trajectory of employment in food services.

Continued recovery in leisure and hospitality sector will depend on the trajectory of the pandemic and the strength of the summer visitor season. Anecdotal information suggests this sector has been particularly impacted by the economy-wide labor shortage. Looking ahead, continued employment recovery in this sector may hinge on the ability of restaurants, hotels, and others to attract workers, especially in seasonal positions.

AEDC expects this sector to add 800 jobs in 2022, with the return of cruise passengers being a key driver of employment growth. The sector will remain 2,200 jobs below pre-pandemic levels.

Figure 11. Anchorage Leisure and Hospitality Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

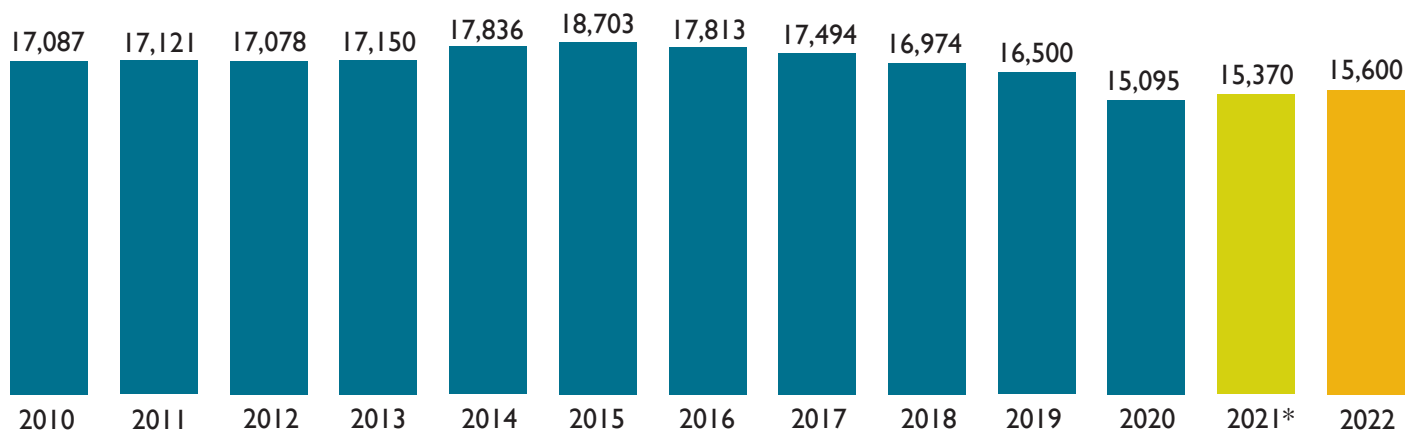
The Anchorage retail sector added back about 300 jobs in 2021, just one-fifth of those lost between 2019 and 2020 due to the pandemic. The sector gradually added jobs as hunker-down orders were lifted, and further rebound occurred over the summer of 2021. However, retail jobs are still down by over 1,000 compared to 2019.

General merchandise businesses are the largest subsector within retail trade, accounting for over a quarter of total retail employment (4,100 jobs). Auto dealers and car parts stores contribute about 13% (2,000 jobs) with food and beverage retailers supporting about 11% (1,700 jobs). Accounting for about 13% of sector employment, building and garden supply stores were the only retail subsector to expand beyond 2019 levels in 2021 (adding about 100 jobs). A variety of furniture, electronics, health care, clothing, and other stores make up the remainder.

Four consecutive years of declines in Anchorage's retail employment preceded the pandemic. Weakness in the national retail sector drove many of the larger closures, including Sam's Club, Sears, Nordstrom, and others. Nationally, the sector continues to face significant challenges from the accelerated adoption of online shopping. Additionally, the growing popularity of self-checkout stands at general merchandise and other stores has put downward pressure on retail employment.

- Nationally, retail is among the industries experiencing the highest number of employee exits. According to the Bureau of Labor Statistics (BLS), national retail quit rates reached highs of 4.8% in August 2021, compared to 3.5% in August 2019.
- The pandemic has introduced new strains to retail work, including longer hours, understaffed stores, and childcare difficulties. Some companies are offering better pay and benefits to rebuild their staff. Nationally, Target and Best Buy, among others, have increased starting minimum wages to \$15 an hour.
- E-commerce sales accelerated over the last two years. Compared to the same quarter in 2019, third quarter 2021 e-commerce sales climbed 45% while total retail sales were up 21%. By the third quarter of 2021, online sales accounted for 13% of total retail sales, up from 11% in 2019.
- Several rounds of federal relief payments to individuals and expanded unemployment benefits under the Federal CARES Act likely mitigated some of the pandemic's impact to the local retail sector. The retailer sector may see continued impacts as the effects of this stimulus wind down.

Figure 12. Anchorage Retail Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

Financial Activities (No Change)

The financial activities sector is comprised of banks, credit unions, investment firms, insurance companies, and real estate agents and managers who together employed an average 7,200 people in 2021.

Employment in Anchorage's banks, which accounts for about 40% of sector employment, has been on a slow decline since 2011 due to the digitization of the industry, a trend which COVID-19 accelerated. Financial technology services ("fintech") are expected to be a source of growth in the sector nationally, however these services are generally managed outside of Alaska.

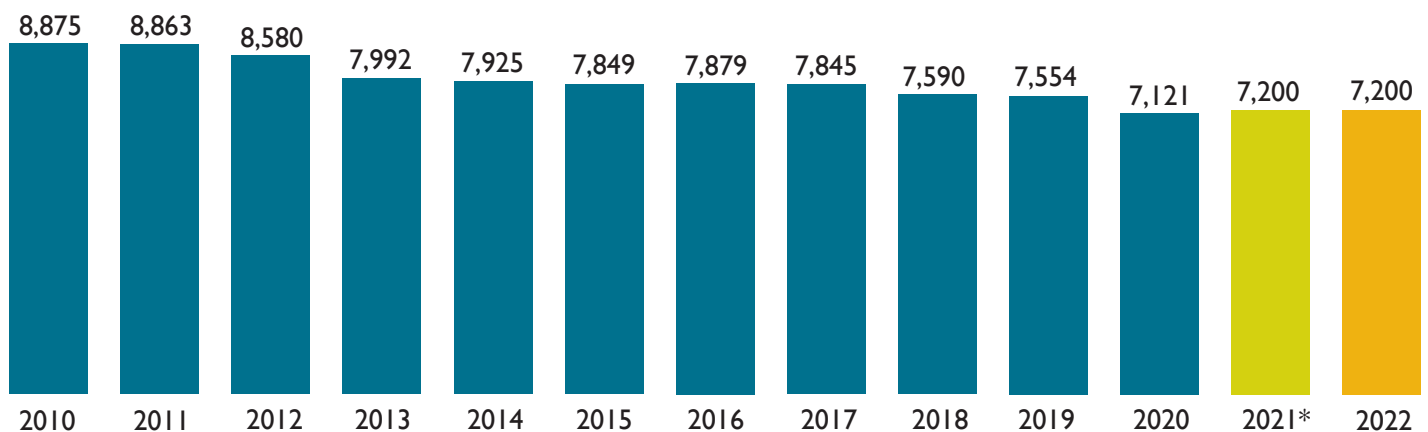
Real estate and rental and leasing service businesses, accounting for about 40% of sector employment, recovered 150 of the jobs lost in 2020 but remained 50 jobs short of 2019.

A relatively small part of the sector, investment services, experienced an 8% decline in employment in 2020 (30 jobs) and remained flat into 2021.

Modest, slow recovery is still anticipated in the financial activities sector. Yet, the long-term movement of banking services online is likely to offset employment gains. Labor supply will likely play a role in the outlook for financial services employment in Anchorage. Anecdotal information suggests that a shortage of labor, particularly in the banking sector, may constrain any recovery in sector employment over the coming year. Combined, these factors suggest no change in average annual employment for the financial activities sector in 2022.

- The American Bankers Association cites that about 80% of bank customers now use online or mobile platforms as their primary channel to conduct business and 97% of banks say the pandemic further accelerated mobile adoption among their customers.
- Mortgage rates have edged up since reaching historic lows in the first quarter of 2021 (2.78%). Increased mortgage rates and high material costs may put downward pressure on home sales into 2022.
- The Anchorage housing market grew in 2021 compared to 2020 and 2019. About 1,700 loans for new and existing single-family residential homes were closed through the third quarter of 2021, an 18% increase over the same period in 2019. Average home sale price continued to rise in 2021, reaching \$444,000 in the third quarter of 2021, up 17% from \$378,000 in the third quarter of 2019.

Figure 13. Anchorage Financial Activities Employment, 2010-2021 and 2022 Forecast



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

Source: Alaska Department of Labor and Workforce Development (2010 – 2020 employment); McKinley Research Group (2021 and 2022 employment)

Other Sectors (+200)

The Anchorage economy includes a variety of other sectors, many of which have seen only modest recovery as businesses wrestled with the impacts of COVID-19 variants and labor shortages. Sectors not specifically addressed in this forecast (accounting for a total 19,800 jobs in 2021) include manufacturing, wholesale trade, information/telecommunications, social assistance, and personal services.

Employment in personal services (hair salons, dry cleaning, and others) and in social assistance (childcare centers, housing relief services, and others) continues to lag 2019 levels and employers will likely face continuing challenges filling open positions. Reduced service availability particularly in the childcare sector has a critical impact on workforce availability in Anchorage. A 2021 survey of Alaska parents found about 7% reported voluntarily leaving a job and 11% moved from full-time to part-time employment due to childcare issues over the past year.

Changes in the telecommunications sector also point to labor shortages. In March of 2021, GCI announced the closure of its consumer call center in Anchorage, citing difficulty filling positions at the center. AEDC expects these sectors to continue recovering at various rates depending on labor availability and further COVID-19 related challenges. Combined, these sectors are expected to add about 200 jobs in 2022 yet remain below pre-pandemic levels.

Though the military is not included in AEDC's annual employment forecast, it provides important stability to the Anchorage economy. In 2019, about 10,700 active-duty military personnel were stationed in Anchorage, about half of the 21,400 active duty personnel based in Alaska. Given Alaska's strategic Pacific Rim and Arctic location, the military is expected to remain a strong and steady contributor to Alaska's economy in the foreseeable future.

Coming into 2021, the nation and Anchorage faced a mountain of uncertainty after nine months of unprecedented changes – health and safety concerns, job loss, working from home, school closures, and more. AEDC's outlook was for slow, steady recovery of 4,000 jobs as COVID-19 vaccines became available. New COVID variants, volatile material prices, and labor shortages disrupted the recovery, and preliminary data suggest Anchorage added back about 2,500 jobs in 2021.

As 2022 continues, these factors will impact further recovery. Yet, we have many reasons for optimism. Anchorage's transportation hub is expected to grow with substantial new investments at Ted Stevens Anchorage International Airport, new Air-to-Sea services, and new passenger routes to Asia. The return of cruise ships in 2022 will be a welcome sight for the visitor industry.

On the horizon is funding from the federal infrastructure bill, expected to pour more than \$5 billion into the Alaska economy over five years. This massive investment promises to ripple through the Anchorage economy and will result in infrastructure that fosters and sustains statewide economic growth and development into the future.

Anchorage's steadily declining population and labor force are key concerns that predate the pandemic. While the size of Anchorage's labor force rebounded somewhat in 2021, the city experienced a fifth year of consecutive population decline. Anchorage's working-age population has dropped by 15,000 since 2015. Fewer new residents moving to Anchorage and a continued flow of working-aged out of Anchorage, the majority of whom have moved to the Lower 48, have contributed to this decline.

COVID-19 has brought the shrinking labor supply into sharp focus. Employers across all sectors are struggling to fill their labor needs. The labor shortage could constrain the pace of employment recovery in the short term, particularly in sectors with public-facing, low-wage occupations. In the longer term, building a steady population and stable workforce will be key to growing the economy. As the world continues to recover from the two-year pandemic, staying focused on measures to make Anchorage an attractive, affordable place to live will be critical to stemming population decline and rebuilding a robust workforce.

THANK YOU TO OUR DIAMOND INVESTORS



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