



ALASKA ECONOMIC
TRENDS

JANUARY 2016

**EMPLOYMENT
FORECAST** **for
2016**

EMPLOYMENT FORECAST for 2016

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Energy Retrofits: More Jobs, Lower Costs for State & Local Governments



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nance Corporation



Follow the Alaska Department of Labor and Workforce Development on Facebook ([facebook.com/alaskalabor](https://www.facebook.com/alaskalabor)) and Twitter (twitter.com/alaskalabor) for the latest news about jobs, workplace safety, and workforce development.

Alaska's construction economy is in transition. Today, we still have healthy construction sector employment as state capital budget transportation projects from the high oil price era continue to spend down. Unfortunately, that will not last much longer, and we face an economic imperative to sustain construction sector employment in other ways. Expansion of loan-financed energy efficiency projects for public buildings is one of our greatest opportunities.

Further, the state's budget crunch means that it is more important than ever to reduce our government utility bills. Did you know that in 2012, the first major look at public facilities energy use in Alaska estimated the state spent \$641 million on utilities every year, much of that wasted on older, highly inefficient buildings? That review estimated the state could save approximately \$125 million every year with more efficient buildings. At a time of low oil prices and constrained state budgets, we can't afford to waste public funds on inefficient buildings.

Fortunately, cost savings in the building sector can directly contribute to preservation of core services, primarily public education. Alaska Housing Finance Corporation (AHFC) helps plan and finance energy efficiency upgrades for school districts, with the potential to save millions of dollars in operating costs. Every dollar that we save on more efficient buildings is a dollar we can invest in our children's education, and we would much prefer to cut spending on energy bills rather than see teachers laid off. Our state and local governments, which share the cost of public education, are at a critical juncture: loan-financed energy efficiency projects for school districts are a viable solution. These projects provide both cost saving opportunities without harm-

ing the education system, and construction jobs when we need them most.

Schools are far from the only opportunity to save money with energy efficiency upgrades. The Department of Transportation and Public Facilities worked with AHFC on an ambitious suite of energy efficiency projects financed at extremely low interest rates. Governor Walker has championed cost savings projects like this one, and AHFC is working with other agencies to explore additional efficiency projects. Cities and boroughs also have the opportunity to work with AHFC and save money for local property tax payers. AHFC is working with Mayor Ethan Berkowitz to implement projects to save money in Anchorage. Cost savings are easier to achieve now more than ever, partly because AHFC has posted open-source energy management software online. (<https://code.ahfc.us/energy/bmon>)

We have a great record of energy efficiency and weatherization work in Alaska. Contractors and apprenticeship programs in the building trades came together to train Alaskans with the technical skills to assess buildings' efficiency and implement efficiency upgrades. The legislature has consistently supported weatherization and efficiency grants and loans that have led to weatherizing an incredible 20% of Alaska's housing stock, in addition to many public buildings.

We cannot rest on our laurels, nor can we count on grants that previously funded these projects. During a period of very low interest rates and disappearing grants, we must transition to loan-financed efficiency projects. Doing so can save the state \$125 million annually while sustaining a construction sector that is absolutely vital for the health of our state's economy. Delay costs us more every day.

ECONOMIC FORECAST FOR 2016

Alaska expected to lose about 2,500 jobs

By **CAROLINE SCHULTZ**

Alaska's economy faces significant headwinds in 2016, largely due to sustained low oil prices. The state is forecast to lose about 2,500 jobs in 2016, a 0.7 percent decline, after gaining 1,700 jobs in 2015. (See Exhibit 1.)

This would be the first year of job losses since 2009, when Alaska felt the wake from the national recession. The state's job growth rebounded quickly in 2010 and remained relatively strong through 2012, buoyed by the federal stimulus package, large capital budgets, and high oil prices. Growth slowed to a crawl in 2013, and employers added jobs at a yearly rate of half a percentage point or less between 2013 and 2015.



Anticipated job losses are tied directly to low oil prices, which averaged close to \$53 per barrel in 2015, and to a lesser extent to declining oil production. Sustained low oil prices impinge Alaska's economy on two fronts: directly, through cuts to oil industry investment and employment, and indirectly, through state government budget deficits that lead to spending cuts.

Consequently, job losses will be concentrated in the oil and gas industry and state government as well as the construction industry, which will be hit by reduced investment from oil companies and capital budgets.

Despite downward pressure, 2016's job losses are anticipated to be fairly isolated. The ripple effects of lower employment and spending aren't likely to extend into other industries this year. (See Exhibit 2.)

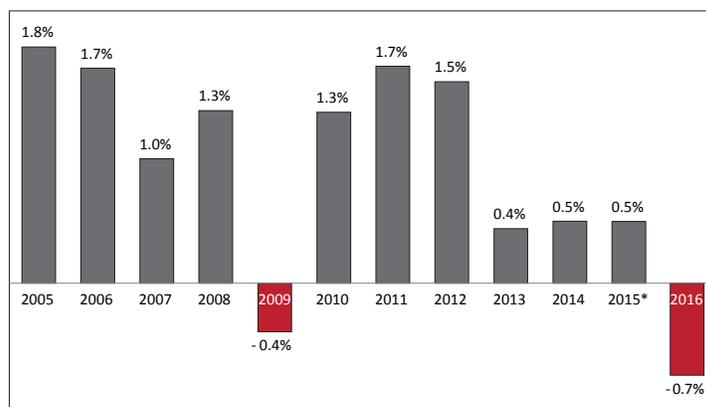
Historical job losses

Alaska is sometimes characterized as a boom-or-bust economy, but in recent history, the opposite has been true. Since 1987, Alaska has gained jobs in 27 out of 28 years.

Alaska dodged the most serious consequences from the national recession that cost the nation millions of jobs in the past decade. From 2008 to 2009,

1 Minor Job Loss Likely Statewide

ALASKA EMPLOYMENT, 2005 TO 2016



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

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Statewide Employment Forecast

EMPLOYMENT BY INDUSTRY, 2014 TO 2016

	2014 Monthly Average ¹	2015 Monthly Average ¹	Change 2014 to 2015	Percent Change 2014-15	2016 Monthly Average	Change 2015 to 2016	Percent Change 2015-16
Total Nonfarm Employment ²	337,600	339,300	1,700	0.5%	336,800	-2,500	-0.7%
Total Private Sector	255,400	257,500	2,100	0.8%	256,100	-1,400	-0.5%
Natural Resources and Mining	17,300	17,500	200	1.2%	16,500	-1,000	-5.7%
Oil and Gas	14,100	14,300	200	1.4%	13,300	-1,000	-7.0%
Construction	17,800	18,000	200	1.1%	17,100	-900	-5.0%
Manufacturing	14,400	14,000	-400	-2.8%	14,200	200	1.4%
Retail Trade	36,800	37,300	500	1.4%	37,400	100	0.3%
Wholesale Trade	6,500	6,400	-100	-1.5%	6,400	0	0%
Transportation, Warehousing and Utilities	21,500	21,700	200	0.9%	21,700	0	0%
Information	6,200	6,200	0	0%	6,200	0	0%
Financial Activities	12,100	12,300	200	1.7%	12,300	0	0%
Professional and Business Services	30,000	30,300	300	1.0%	30,000	-300	-1.0%
Educational ³ and Health Services	46,800	47,100	300	0.6%	47,400	300	0.6%
Health Care	33,900	34,400	500	1.5%	34,900	500	1.5%
Leisure and Hospitality	34,200	34,900	700	2.0%	35,200	300	0.9%
Other Services	11,800	11,800	0	0%	11,700	-100	-0.8%
Government	82,200	81,800	-400	-0.5%	80,700	-1,100	-1.3%
Federal Government ⁴	14,900	14,900	0	0%	14,900	0	0%
State Government ⁵	26,500	25,800	-700	-2.6%	24,800	-1,000	-3.9%
Local Government ⁶	40,800	41,100	300	0.7%	41,000	-100	-0.2%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes public school systems

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

U.S. employment fell 4.3 percent while Alaska lost 0.4 percent. Alaska's 2009 dip was about half of what the state is forecasted to lose in 2016.

Alaska's last recession was in the 1980s. Total employment fell 4.3 percent in 1986 and 4.8 percent in 1987, or more than 20,000 lost jobs in two years.

Key differences between Alaska's current economy and the helter-skelter early '80s suggest a repeat of that crash is unlikely. The economy still depends heavily on oil, but the early 1980s economy was characterized by frenzied and speculative growth. Alaska's economy and population are more mature today.

That's not to say projected job losses won't be serious or that they'll be short-lived. Alaska faces a future of declining oil production in a low commodity price environment. Simply put, Alaska is producing less wealth than it used to, and the oil industry may not serve as a lifeline in the long run. But regardless of whether 2016 becomes an isolated year of loss or the beginning of a drawn-out downturn, dips in employment will be more common in the next 28 years than they were in the last.

The role of oil and gas

For the past decade, the oil industry has been an important contributor to net job gains, adding more than 6,000 jobs from 2005 to 2015. Growth wasn't steady throughout the period, however, especially following the 2008 oil price crash — and large swings in employment aren't unprecedented. (See Exhibit 3.)

In 2008, prices started falling well before employment levels began to erode, but once the losses began, employers cut more than 1,500 jobs in 12 months. Prices then rebounded, and employment regained its late 2008 peak by mid-2012 and kept growing into 2015.

The industry is forecast to lose 1,000 jobs in 2016, returning employment to roughly its 2012 level. This relatively conservative forecast accounts for significant industry cutbacks in 2016, but also allows for continued project work and the ever-increasing repairs and maintenance required by aging infrastructure in harsh environments.

Construction loss

The construction industry is expected to lose jobs in 2016 following a year of mild growth. Many of last year's new construction jobs were related to oil and gas development and took place in the off-season. Other large projects around the state kept summer construction employment level with the previous year.

The same volume of off-season oil and gas-related work isn't likely this winter, especially with the completion of construction on ConocoPhillip's CD5 and Exxon's Point Thompson projects. Other privately funded construction will likely taper in 2016 because of economic uncertainty.

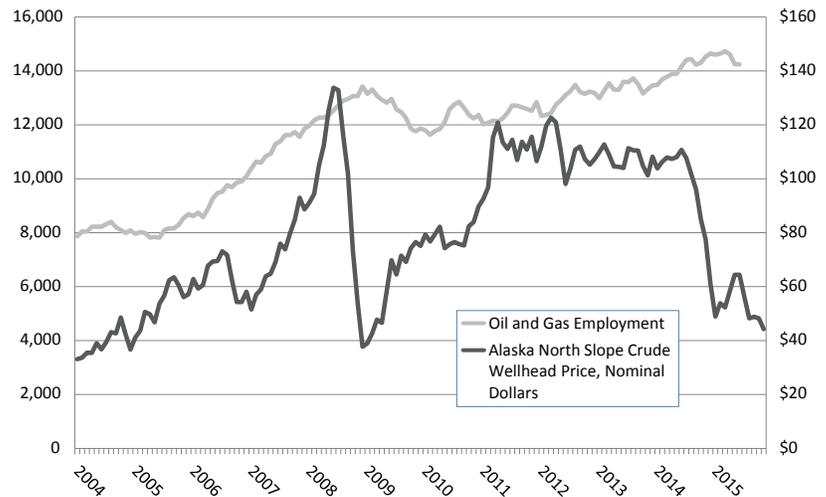
Publicly funded construction will also decline in 2016. Hefty capital budgets from the past five years, when state government was flush, are still pumping cash into construction projects. Some of this work will continue into 2016, but no new state-funded projects will backfill those that wrap up.

Federal construction will likely be flat in 2016. A boost in federal transportation dollars could offset a smaller Army Corps of Engineers budget for 2016.

Pinched by reductions in public and private investment, the construction industry is expected to lose 900 jobs

3 Low Oil Prices' Impact on Jobs

OIL PRICE AND OIL EMPLOYMENT, 2004 TO 2015

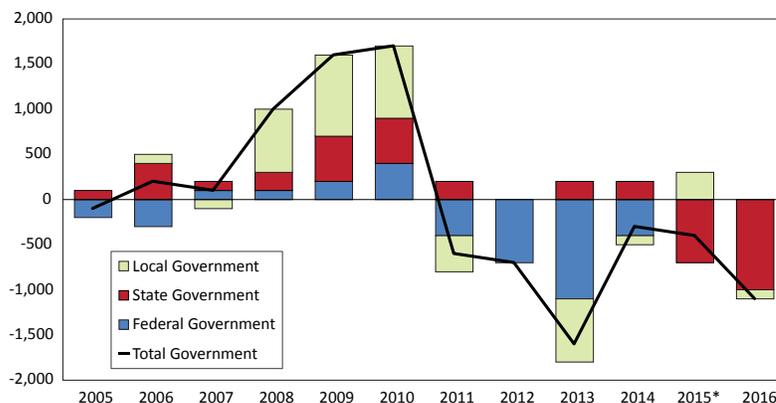


Source: Alaska Department of Revenue, Tax Division

this year. The industry is no stranger to rapidly changing fortunes, though. After strong growth from 2000 to 2005 driven by a residential construction boom in the Matanuska-Susitna Borough, the industry lost jobs for six consecutive years. Job cuts were initially mild as demand for new housing subsided, but the national housing market collapse and recession exacerbated losses toward the end of the decade. Between 2005 and 2011, the construction industry lost 2,800 jobs, with 1,000 disappearing between 2008 and 2009. The forecasted loss for 2016 is well within the range of historical average declines.

4 Breakdown of Government Job Changes

ALASKA, 2005 TO 2016



*Preliminary

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

State government loss accelerates

State government led all industries for losses in 2015, shedding 700 jobs. (See Exhibit 4.) State employment, which includes the University of Alaska, had grown slowly for the past decade. Between 2004 and 2014, state government added 2,400 jobs for about a 1 percent growth rate per year. Historically, state government employment has been a source of economic stability.

Losses accelerated in the second half of 2015, spurred by fiscal year 2016 operating budget

cuts. Retirements and attrition have also contributed to the decline.

State government employment is forecast to lose another 1,000 jobs in 2016, carrying over last year's trend. Until the FY 2017 operating budget is passed by the Legislature and signed by the governor later this year, we won't know how severe losses will be in the second half of 2016. Losses through attrition and retirement are also expected to continue throughout the year.

Other industries will be affected

Although job losses will be mostly isolated to industries directly affected by low oil prices, employers that provide services to the oil and construction industries will feel pressure as well.

Professional and business services is an amalgamated sector of firms that serve other businesses, ranging from accounting and engineering firms to waste management companies and employment service agencies. Many of these firms support the mining, oil, and construction industries through geophysical work, engineering, architecture, and other scientific and technical services. This sector is expected to lose 300 jobs in 2016.

The transportation, warehousing, and utilities sector — specifically the transportation and warehousing part — will also be affected. Less development and construction will mean fewer materials to transport and store, which will pinch some employers in 2016. However, an anticipated strong tourism season and the continuing recovery of the national economy will likely offset losses related to oil and construction.

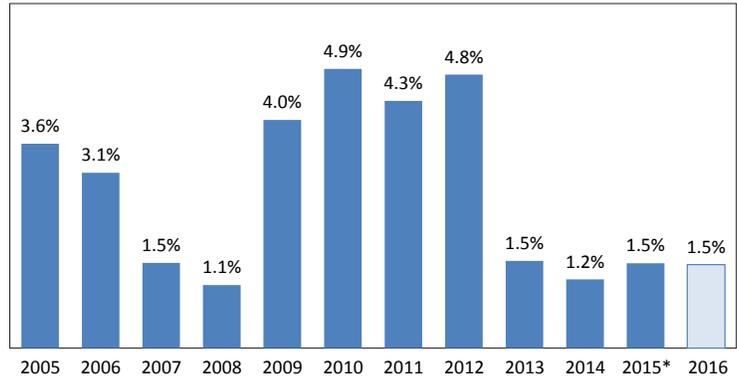
Health care, tourism will grow

The state is expected to host a bumper crop of tourists this year, which will lead to job growth or at least offset loss in the leisure and hospitality, retail trade, and transportation industries. Retail and leisure and hospitality racked up strong job growth in 2015, mostly through new restaurants and stores catering to locals as well as visitors.

5

Health Care Continues to Add Jobs

ALASKA, 2005 TO 2016



*Preliminary

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

Growth is expected to be slower this year, with 100 new jobs in retail trade and 300 in leisure and hospitality. Retail growth will likely taper throughout the year as the dust settles from the last two years' spate of store openings, which added more than 1,000 jobs over the period.

The leisure and hospitality sector, which includes eating and drinking establishments, hotels, and entertainment and recreation employers, will benefit more directly from this year's strong tourism season, especially during the summer.

The health care industry is also expected to continue adding jobs in 2016, continuing a multi-decade streak of job gains. (See Exhibit 5.) Demand for health care services will escalate as Alaska's population ages, and especially as urban Alaskans seek the services available in the Lower 48. Last year's expansion of Medicaid eligibility also will boost employment in the industry.

Health care growth, which is forecast at 500 jobs, will be somewhat offset by continued losses in the social services category. Tighter grant funding from federal and state governments has pinched social service employers in the past few years, and the state's crack-down on Medicaid fraud shut down several firms. The private education and health services sector, which includes social services and health care along with private educators, is expected to add 300 jobs in 2016.

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Anchorage forecast to lose some ground

By NEAL FRIED

Anchorage has gained jobs nearly every year since 1988, but continuing low oil prices make another year of economic growth unlikely.

In the late 1990s, Anchorage's employment grew despite low oil prices, big industry layoffs, and fiscal deficits — but there are big differences between then and now. The state budget deficit is considerably larger than at any time in the past, the oil workforce is at a record high, recent years' economic growth has been muted, and oil production is less than half of what it was in 1999.

Because Anchorage is headquarters for the state's oil industry, any layoffs would spur broader economic fallout. The other dampers on Anchorage's outlook are state government job losses, which will likely accelerate with the new fiscal year in July, and low prices for all commodities, which are crimping the state's mining and fishing industries.

However, some Anchorage industries are forecast to grow in 2016. The visitor industry anticipates another stellar year and health care is also forecast to add jobs, but not enough to offset the slowdown for other industries, which translates to a modest overall job loss of 0.8 percent or 1,200 jobs. (See Exhibits 1 and 2.)

Oil won't continue to fill the gap

In the past decade, Prudhoe Bay oil industry em-



ployment grew every year except 2008 (see Exhibit 3), which in turn generated growth in Anchorage headquarters jobs. Last year was no exception, and Prudhoe Bay employment reached a new high during 2015.

The oil industry has largely buoyed the economy in Anchorage over the past two or three years, but that isn't likely in 2016, and the industry is forecast to lose about 400 jobs in Anchorage, or 11.8 percent.

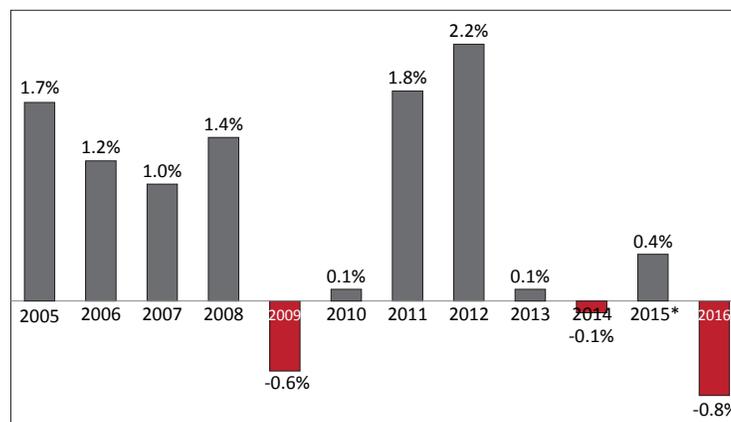
Job losses in the oil industry are nothing new. In the 1990s when oil prices were low, statewide industry employment fell from 10,500 in 1991 to 7,900 in 1999, with the largest annual loss of 1,600 jobs between 1991 and 1992.

The outlook for 2016 and beyond, isn't yet clear. Besides Shell's pullout and the modest cutback announced by ConocoPhillips, there has been very little evidence of major job loss in the oil patch.

Nationally, oil industry employment has already slipped to 2012 levels and continues to fall. Alaska's oil industry reaction to lower prices may be slower

1 Anchorage Likely to Lose Some Jobs

ANCHORAGE EMPLOYMENT, 2005 TO 2016



*Preliminary

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

2

Anchorage Employment Forecast

EMPLOYMENT BY INDUSTRY, 2014 TO 2016

	2014 Monthly Average ¹	2015 Monthly Average ¹	Change 2014 to 2015	Percent Change 2014-15	2016 Monthly Average	Change 2015 to 2016	Percent Change 2015-16
Total Nonfarm Employment ²	157,000	157,700	700	0.4%	156,500	-1,200	-0.8%
Natural Resources and Mining	3,900	4,000	100	2.6%	3,600	-400	-11.1%
Oil and Gas	3,700	3,800	100	2.7%	3,400	-400	-11.8%
Construction	8,300	8,600	300	3.6%	8,200	-400	-4.9%
Manufacturing	2,100	2,000	-100	-4.8%	2,000	0	0%
Wholesale Trade	4,800	4,800	0	0%	4,700	-100	-2.1%
Retail Trade	17,800	18,000	200	1.1%	17,900	-100	-0.6%
Transportation, Warehousing and Utilities	10,800	10,800	0	0%	10,800	0	0%
Information	4,000	4,000	0	0%	4,000	0	0%
Financial Activities	7,500	7,400	-100	-1.3%	7,300	-100	-1.4%
Professional and Business Services	20,500	20,500	0	0%	20,200	-300	-1.5%
Educational ³ and Health Services	24,900	25,200	300	1.2%	25,700	500	1.9%
Health Care	18,500	19,000	500	2.7%	19,400	400	2.1%
Leisure and Hospitality	16,900	17,200	300	1.8%	17,400	200	1.1%
Other Services	6,100	6,000	-100	-1.6%	6,000	0	0%
Government	29,400	29,200	-200	-0.7%	28,700	-500	-1.7%
Federal Government ⁴	8,500	8,400	-100	-1.2%	8,400	0	0%
State Government ⁵	10,800	10,600	-200	-1.9%	10,100	-500	-5.0%
Local Government ⁶	10,100	10,200	100	1.0%	10,200	0	0%

*Based on the first two quarters of 2015

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes public school systems

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

because Alaska's industry is more project-based, so it only shows job loss once existing projects end.

A good example is Armstrong's recent announcement that it will cut way back on the winter drilling season, which means 500 planned jobs won't materialize. Another example of a project wrapping up by the end of 2015 is Exxon/Mobil's \$3 billion-plus Point Thompson field development, which began in 2012. By early 2016 it will move into operations phase and need fewer workers.

It's important to note that there *will* be new oil projects, though, and these will stave off larger losses. There are typically fewer new projects in a lower-priced environment, but significant work continues. Examples are Hilcorp's Liberty project on the North Slope and Ninilchik plans in the Cook Inlet region. More immediate is ConocoPhillips' plan to develop its Greater Mooses Tooth project in 2017, a \$900 million venture that will begin producing in 2018 and reach 30,000 barrels a day at its peak.

Construction likely to slow

Construction employment was up 4 percent in Anchor-

age in 2015 but is likely to lose steam in 2016, with a forecast decline of 4.9 percent.

After two strong years, Anchorage building valuation was down \$145 million, or 22 percent, for the first 11 months of 2015. Building valuation data come from building permits, which hint at future construction levels. For residential construction, although interest rates remain low and Anchorage housing inventory is small, the number of building permits fell from 758 units for the first 11 months of 2014 to 609 over the first 11 months of 2015, with declines in both single and multi-family units.

Putting a further damper on Anchorage construction jobs will be the completion or near completion of several large utility projects and commercial and public buildings. Fewer federal projects will also mean fewer construction jobs. The Army Corps of Engineers program budget fell again, from \$25 million in 2015 to \$20 million in 2016, representing four years of declines after peaking at \$49 million in 2008.

Economic uncertainty will also mean less privately financed construction, and oil-related construction that boosted the industry in the past two years won't

play that role in 2016. Moreover, the state capital budget peaked in 2013 at \$3.5 billion, then fell by more than \$1 billion during the next two years. Fiscal year 2016's capital budget is the lowest in more than 15 years.

Still, a number of sizable commercial buildings will be under construction in Anchorage for much of 2016, including three or four new hotels, and highway construction jobs are forecast to remain at last year's level.

Health care a bright spot

Health care has long generated the largest number of new jobs in Anchorage. During the past decade, health care employment was responsible for over a third of the city's employment growth. In 2015, it grew by 2.7 percent, or about 500 jobs, the most of any industry.

This year is forecast to be a repeat performance, with 2.1 percent growth. Continued implementation of the Affordable Care Act and Medicaid expansion could add to that growth.

A record year for tourism

Leisure and hospitality — which includes accommodations, food services, arts, entertainment, and rec-

reation — is driven by local consumption as well as tourists. Last year it grew by 300 jobs, and this year it's expected to gain another 200.

The visitor slice of this industry should fare well again in 2016, as the ingredients for another strong visitor season are in place. Bed taxes collected for the first two quarters of 2015 were up 6 percent and air travel numbers into Anchorage this past season were up 10 percent. The national economy also continues to grow and energy prices remain low, which will likely generate more convention and visitor traffic.

The industry projects a strong season, and early bookings reflect that optimism. The Alaska Travel Industry Association predicts tourism will grow by 2 to 3 percent in 2016, and the cruise ship industry projects its passenger count will top the 1 million mark for the first time.

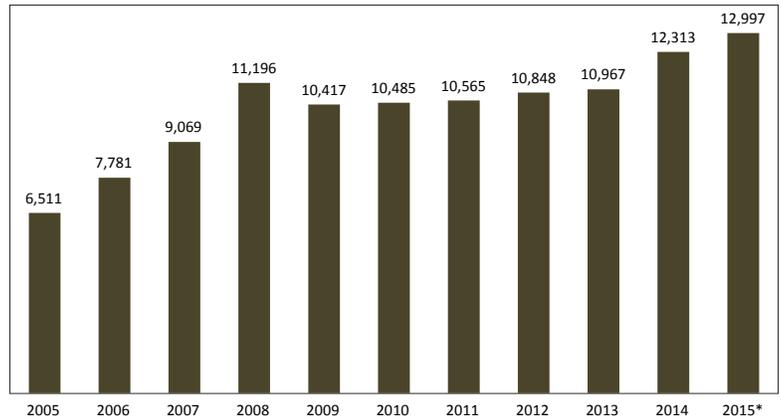
New hotel construction in Anchorage reflects these numbers as well. Three to four new hotels with 500 to 700 rooms total are either in progress or in the final stages of planning.

The likely slowdown in business and government-related travel is expected to offset some of the growth in the tourist-driven segment.

Restaurants and bars represent two-thirds of leisure hospitality

3 Prudhoe Bay Jobs Up through 2015

2005 to 2015

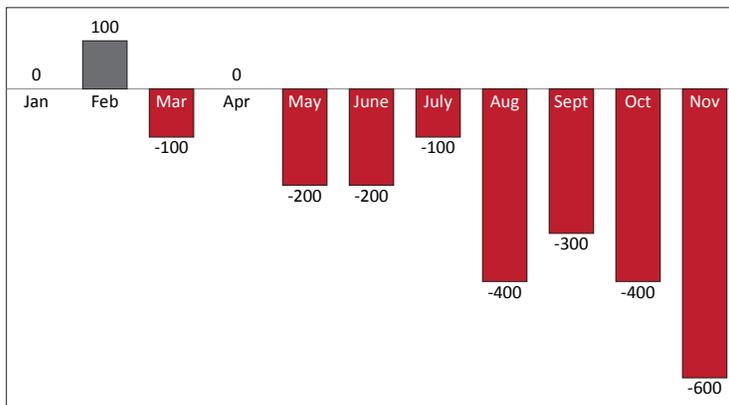


* Preliminary

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

4 State Government Losses Increasing

ANCHORAGE, OVER-THE-YEAR CHANGE, 2015



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

employment, and in 2015, they had a growth spurt after remaining flat the year before. In the past decade, restaurants and bars have added 1,500 jobs.

In 2016, two Krispy Kremes, BurgerFi, and Smash Burger will open in Anchorage. Despite these and other possible openings, potential closures and a more challenging economic environment are likely to keep job levels flat.

Retail and marijuana uncertainty

Retail racked up serious job growth in Anchorage over the past two years with a long list of new large retailers including Nordstrom Rack, Pier 1 Imports, Men's Warehouse, North Face, and H&M.

Stores often over-hire when they open and then trim down. In January 2015, jobs were up 400 over January 2014 but by June that gain fell to 100.

Because there are no plans for major retail openings in 2016, moderate job loss is forecast.

That doesn't take marijuana into account, which could provide a sizeable retail boost in 2016 because dispensaries could open in Anchorage by May. However, at the time of this publication, too many unanswered questions and variables remained to produce a reliable estimate for marijuana retail jobs in 2016. Statewide and local regulations also remain in flux, which could mean delays in implementing the regulations.

Real estate market slows

Real estate and its connected businesses are a major driver in the financial industry and are often considered a barometer for the larger economy. Real estate's related businesses include mortgage brokers and title and insurance companies.

Recent economic uncertainty hasn't spooked the Anchorage real estate market. Through October 2015, Anchorage home sales were up approximately 6 percent and prices were up 3.7 percent. The inventory of homes for sale remains historically low. However, this part of the financial sector in Anchorage is likely to slow down in 2016.

The balance, which includes banking, investments, financial brokers, and other types of insurance, is forecast to remain flat.

Oil, construction losses will affect other professional services

Professional and business services is a broad industry, responsible for 13 percent of all payroll jobs in

Anchorage. It includes law firms, engineering firms, employment services, tech support companies, and janitorial services and refuse companies. Because it has so many unrelated components, it's a tough sector to forecast.

Its weakest link for 2016 will be related to losses in the oil and construction industries. The architectural and engineering services slice, which represents 22 percent of the industry and more than 4,200 jobs, is strongly tied to oil and construction. As a result, professional and business services is forecast to lose about 300 jobs in 2016, or about 1.5 percent.

More state job losses expected

Between 2010 and 2014, Anchorage lost 1,300 federal jobs. The trend of federal losses appears to have ended though, and by the end of 2015 the numbers were up slightly from year-ago levels.

Further federal job losses are unlikely in 2016. Until recently, proposed cuts of nearly 2,600 soldiers at Joint Base Elmendorf-Richardson cast some doubt on federal employment for 2016, but those cuts are on hold.

This year, public sector losses will come from state government, and they'll likely be large enough to cause an overall decline for government jobs.

Anchorage's state government employment began to fall modestly from year-ago levels in May 2015 and losses accelerated as the year progressed. (See Exhibit 4.) That trend is forecast to continue in 2016, and the state's operating budget will be under even more pressure for fiscal year 2017, which begins in July 2016. Although there are still few specifics, larger cuts to the operating budget are certain, which means more cuts to the state's workforce.

Local government employment increased modestly in 2015 and is forecast to stay flat in 2016. The City of Anchorage is hiring additional police officers, and Anchorage School District's workforce is slightly above year-ago levels. However, because of a much tighter state budget, state support for the Anchorage School District and revenue sharing for the city will likely take a hit during the latter part of 2016, negating any gains earlier in the year.

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Fairbanks forecast to lose 200 jobs

By ALYSSA RODRIGUES



The Fairbanks North Star Borough's employment has had mild ups and downs over the last few years. After a small bump in employment in 2015, the borough is forecast to lose 200 jobs, or half a percentage point in 2016.

Fairbanks' economy is built on the military and state government, which includes the University of Alaska Fairbanks, and both face uncertainty this year. Other small parts of Fairbanks' economy can stand on their own, but most of the area's jobs rely in some way on the military or state government for stability.

Both of those economic drivers will weaken in 2016. The number of active duty troops and dependents has declined since 2012 (see Exhibit 3) and the outlook for state government employment has darkened due to declining oil revenue and budget deficits.

Long-term boost for military

Eielson Air Force base has been selected as home to 48 new F-35s fighter jets, which are scheduled to arrive in the third quarter of 2019. In preparation, Eielson has approved funding to build a \$35 million F-35 flight simulator and building to house it. Preparations will likely begin in 2016, though the immediate effect on employment will be small. Related jobs will pick up in 2018 at the earliest.

The decline in military presence in Fairbanks over the last few years affects the number of customers for everything from restaurants to car repair shops. The addition of the F-35s will boost those numbers, but for now, their biggest effect will be increased confidence in Fairbanks' future economy.

Also this year, a \$34 million boiler overhaul will begin on Eielson, and its contracted projects will help support private construction in Fairbanks.

Another boost will come from hosting the Grey Eagle Unmanned Aerial Vehicles, or UAV, for which Eielson is the first choice and Fort Wainwright the second. No matter which base is chosen, the benefits will be similar, and small.

It's important to note that while the military is a major driver of the area's economy, military jobs aren't included in the payroll job numbers in this article.

University hit hard in 2015

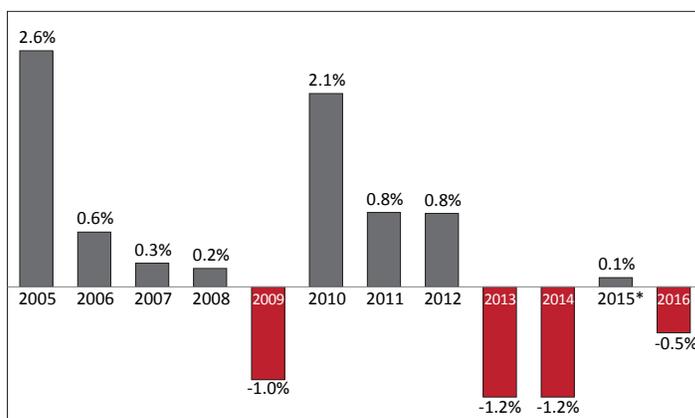
State government — which represents 14 percent of all jobs in Fairbanks — faced possible layoffs in mid-2015. They didn't materialize for general government workers, but shrinking budgets produced major job cuts at the University of Alaska Fairbanks.

Overall, state government in Fairbanks was down 200 jobs in 2015 and at its lowest level since 2008. The majority of the losses were at UAF, although enrollment has been on the rise in recent years.

General state government in Fairbanks hasn't declined as much as in other areas of the state, and losses in 2016 will likely be smaller as well. Any layoffs wouldn't materialize until July when the new fiscal year begins, which mutes their possible effect on the 2016 forecast.

1 Small Loss to Follow Small Gain

FAIRBANKS EMPLOYMENT, 2005 TO 2016



*Preliminary

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

2

Fairbanks Employment Forecast

EMPLOYMENT BY INDUSTRY, 2014 TO 2016

	2014 Monthly Average ¹	2015 Monthly Average ¹	Change 2014 to 2015	Percent Change 2014-15	2016 Monthly Average	Change 2015 to 2016	Percent Change 2015-16
Total Nonfarm Wage and Salary ²	38,300	38,350	50	0.1%	38,150	-200	-0.5%
Goods-Producing ³	4,600	4,650	50	1.1%	4,600	-50	-1.1%
Service-Providing ⁴	33,700	33,700	0	0%	33,550	-150	-0.4%
Mining	750	800	50	6.7%	800	0	0.0%
Construction	3,250	3,300	50	1.5%	3,250	-50	-1.5%
Manufacturing	600	550	-50	-8.3%	550	0	0%
Trade, Transportation and Utilities	7,750	7,850	100	1.3%	7,850	0	0%
Retail Trade	4,700	4,800	100	2.1%	4,750	-50	-1.0%
Transportation, Warehousing, and Utilities	1,950	1,950	0	0%	1,950	0	0%
Information	450	450	0	0%	450	0	0%
Financial Activities	1,300	1,350	50	3.8%	1,350	0	0%
Professional and Business Services	2,250	2,300	50	2.2%	2,300	0	0%
Educational ⁵ and Health Services	5,150	5,200	50	1.0%	5,250	50	1.0%
Health Care	3,900	3,950	50	1.3%	4,000	50	1.3%
Leisure and Hospitality	4,200	4,200	0	0%	4,200	0	0%
Other Services	1,150	1,100	-50	-4.3%	1,100	0	0%
Government	11,450	11,250	-200	-1.7%	11,050	-200	-1.8%
Federal Government ⁶	2,850	2,900	50	1.8%	2,900	0	0%
State Government ⁷	5,450	5,250	-200	-3.7%	5,050	-200	-3.8%
Local Government ⁸	3,150	3,100	-50	-1.6%	3,100	0	0%

¹Preliminary estimate

²Excludes self-employed workers, fishermen, domestic workers, unpaid family workers, and nonprofit volunteers

³Goods-producing sectors include natural resources and mining, construction and manufacturing.

⁴Service-providing sectors include all others not listed as goods-producing sectors.

⁵Private education only

⁶Excludes uniformed military

⁷Includes the University of Alaska

⁸Includes public school systems

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

A mixed picture for construction

Fairbanks is the hub for construction projects throughout Northern and Interior Alaska. The industry gained a small number of jobs in 2015, but will likely lose them in 2016 due to oil industry weakness.

On the up side, Alaska Department of Transportation and Public Facilities construction for the Northern Region — which is based in Fairbanks — will remain steady, softening the blow of oil-related construction losses. The military flight simulator and new boiler will also lessen industry declines this year.

Construction projects in the city for 2016 include resurfacing Peger Road, Aurora Drive, and Auburn Drive; up-grading Noble Street; and adding pedestrian and bicycle facilities along Gold Hill Road.

In Northern Alaska, construction work will pick up on the north end of the Dalton Highway including reconstruction from miles 379 to 414 and work on the Moutonnee Creek Bridge at mile 265. In the Interior, near McCarthy, the

Edgerton Highway Lakina River Bridge will be replaced.

More visitors this year

Nearly 26 percent of the leisure and hospitality sector is made up of hotels and other accommodations usually associated with visitors. Approximately 63 percent is made up of restaurants and bars, which locals patronize at least as much as tourists. The smallest piece, at 11 percent, is entertainment businesses such as movie theaters, gyms, and museums.

Despite higher bed tax receipts due to more visitors, leisure and hospitality jobs held steady in 2015, which has been typical in recent years.

The Alaska Travel Industry Association is forecasting 2 to 3 percent growth for tourism in 2016 statewide, and many of those visitors will reach Fairbanks. But the losses in state government related business will likely offset growth in visitors, so the sector is expected to hold steady in 2016.

Utility industry slowly warms

While 2016 looks stable for the utility industry as it has for years, the distant future looks warmer. The Alaska Railroad received approval to transport commercial quantities of gas to Fairbanks. Tesoro recently announced its entrance into the Fairbanks fuel supply chain through the purchase of Flint Hills' wholesale fuel marketing contracts. This move won't affect job levels in 2016, however.

A slight drop for retail

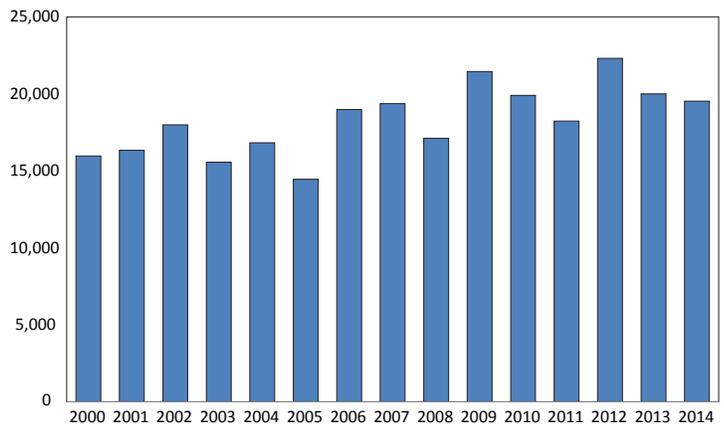
Retail is closely tied to the military and tends to rise and fall with deployments, of which there were none in 2015. As of now, there are also none planned for 2016.

Fairbanks gained about 100 retail jobs in 2015 with the openings of a new Walgreen's and Ulta Beauty. It's typical for companies to over-hire when they open and drop down slightly after a few months, so this combined with a population decline likely means a loss of about 50 retail jobs in 2016.

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3 Up and Down Military Numbers

FAIRBANKS MILITARY POPULATION, 2000 TO 2014



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

About these numbers

The 2014 and 2015 employment numbers this forecast uses as base years may not match the employment numbers available on our Web site as of January 2016.

Employment numbers go through several revisions before they are considered final. The first and largest revisions occur early in the following year. We will release revisions of 2015 data in March 2016, and economists had a portion of the updated data when producing these forecasts.

All job numbers are calendar year monthly averages.

Economists model statewide and regional industry employment using previous years' trends. Forecasts are professionally reviewed, modified, and interpreted based on the best available information.

These forecasts are based on the assumption that the dynamic processes governing employment demand in specific industries will not change dramatically. While it is unlikely these forecasts will be precise, they're considered the most likely middle outcomes, given specified assumptions.

Government losses hardest on Southeast

By CONOR BELL

Job losses aren't new for Southeast Alaska. The region lost employment in five of the past 10 years while the state as a whole had just one year of overall loss. While Southeast's employment remained essentially stable in 2015, it's expected to decline by about 500 jobs, or 1.4 percent, in 2016. (See exhibits 1 and 2.) With low oil prices and a growing state budget deficit, that prospect has been looming.

Southeast has also lost population in the last few years after a period of population growth from 2008 to 2012 due to positive net migration. (See Exhibit 3.) While a significant number of people are still moving to Southeast, more people have been leaving than arriving in recent years, a trend that's expected to continue.

Different industry mix for 2016

In 2015, Southeast lost a significant number of state government jobs through attrition and some layoffs, while local government gained jobs. In the private sector, losses in construction and manufacturing were matched by gains in leisure and hospitality and other services.

In 2016, losses will primarily come from state and local government. State government will continue its decline, and local government will reverse its 2015 gains. Federal job levels, however, will likely remain stable.



Southeast

For private industries, there's little potential for growth outside of tourism. Falling government employment will eventually dent demand for goods and services and drive down private employment, but this probably won't be significant in 2016.

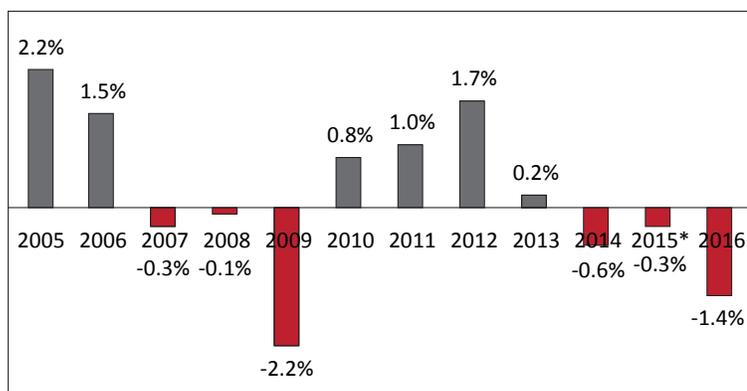
Government is key in Southeast

Southeast is particularly sensitive to the current fiscal climate, as it has a higher concentration of state government jobs than any other region. It has also been shedding these jobs at a faster rate. Within the region, Juneau will be hit hardest because it has the majority of the region's state jobs.

State government numbers will decline this year regardless of any feasible scenario that unfolds in the Legislature this spring. (See Exhibit 4.) Some layoffs will likely come in the next fiscal year, but most losses will be through attrition. Retirements will continue to increase as baby boomers age, and an uncertain fiscal future will likely keep many of the positions vacant. Cuts are also expected for the University of Alaska Southeast.

1 Southeast Faces Modest Job Loss

SOUTHEAST EMPLOYMENT, 2005 TO 2016



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

2 Southeast Employment Forecast

EMPLOYMENT BY INDUSTRY, 2014 TO 2016

	2014 Monthly Average ¹	2015 Monthly Average ¹	Change 2014 to 2015	Percent Change 2014-15	2016 Monthly Average	Change 2015 to 2016	Percent Change 2015-16
Total Nonfarm Employment ²	37,100	37,000	-100	-0.3%	36,500	-500	-1.4%
Total Private	24,050	24,100	50	0.2%	24,050	-50	-0.2%
Mining and Logging	1,000	950	-50	-5.0%	950	0	0.0%
Construction	1,600	1,500	-100	-6.3%	1,400	-100	-6.7%
Manufacturing	2,250	2,150	-100	-4.4%	2,100	-50	-2.3%
Trade, Transportation, and Utilities	7,000	7,100	100	1.4%	7,150	50	0.7%
Information	500	500	0	0%	500	0	0%
Financial Activities	1,050	1,100	50	4.8%	1,100	0	0%
Professional and Business Services	1,600	1,700	100	6.3%	1,650	-50	-2.9%
Education ³ and Health Services	3,900	3,850	-50	-1.3%	3,900	50	1.3%
Leisure and Hospitality	3,900	4,050	150	3.8%	4,100	50	1.2%
Other Services	1,250	1,200	-50	-4.0%	1,200	0	0%
Government	13,050	12,900	-150	-1.1%	12,450	-450	-3.5%
Federal Government ⁴	1,450	1,450	0	0%	1,450	0	0%
State Government ⁵	5,500	5,250	-250	-4.5%	4,900	-350	-6.7%
Local Government ⁶	6,100	6,200	100	1.6%	6,100	-100	-1.6%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes elementary and secondary public school systems

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

Although local government grew last year, losses are anticipated this year because municipalities are tied to the state's budget through education funding and community revenue sharing. So far, cuts to these areas have been minor.

Local revenues are also liable to take a hit, though not immediately. With economic decline, fewer workers will lead to a shrinking tax base. As this is gradual, though, the impact should be minimal in 2016.

Federal government is the bright spot in Southeast's public sector. It has shed jobs for most of the past decade, reflecting gradual attrition and tightened federal budgets along with the federal government shifting focus away from logging in the Tongass National Forest. Many of the lost jobs were in the U.S. Forest Service.

Federal employment leveled off in 2015 and is likely to hold steady in 2016. Federal jobs tend to be high-paying, which means they have a larger impact on the broad economy. The average federal job in Southeast pays more than \$80,000.

Processing hit by low runs, prices

Manufacturing in Southeast is primarily seafood pro-

cessing, an industry characterized by low wages and 67 percent nonresident workers. Still, it is a major component of some Southeast economies. In Petersburg, food manufacturing jobs are 26 times more common than in the U.S. as a whole. The fisheries resource itself is one of the region's key economic drivers.

The Alaska Department of Fish and Game forecasts the 2016 Southeast pink salmon run at 34 million, below its 10-year average and the same as the 2015 harvest. Pinks make up over half the salmon poundage caught in Southeast each year, and prices remain low, largely due to a surplus of canned pinks dating back to 2013.

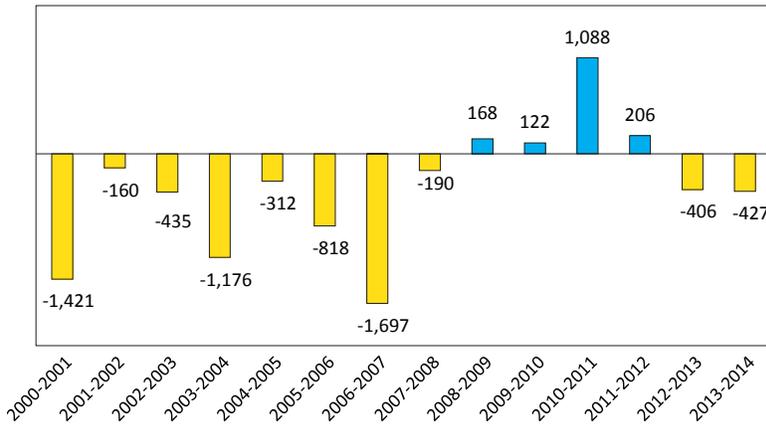
Seafood processing is a rare Alaska industry where minimum wage is the norm, and the minimum wage is rising 26 percent over two years. A second consecutive year of minimum wage increases, combined with lower runs and prices, suggest job counts will be slightly lower than last year.

Weak year for construction

The construction industry tends to respond swiftly to changing conditions. Employment in Southeast began to slow in summer 2015, hurt by a capital budget down 37 percent from the prior year, and the industry is expected to lose about 100 jobs in 2016.

3 More Migration Losses than Gains

NET SOUTHEAST MIGRATION, 2000-2014



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

Most of the money in the capital budget comes from federal sources, and the Fixing America's Surface Transportation Act, or FAST, signed in December 2015, ensures strong funding for transportation projects through 2020. State funds carried over from past years will also help mitigate losses in 2016, though that money will not last much longer.

Upcoming and continuing projects include the rehabilitation of the Yakutat Airport, Tongass Highway in Ketchikan, and Egan Drive in Juneau.

federal funding, and health care has been flat. But with the expansion of Medicaid, more people will seek medical care. In the long term, Southeast's population continues to age, increasing demand for services.

Mining employment is also expected to remain stable in 2016. Southeast has two operating mines, both within Juneau's city limits. No additional sites are scheduled to open in the near future, and exploration will continue to contribute few jobs. The investment climate remains weak, in part due to low mineral prices.

Conor Bell is an economist at the Department of Labor in Juneau. Reach him at (907) 465-6037 or conor.bell@alaska.gov.

Bright spots in private sector

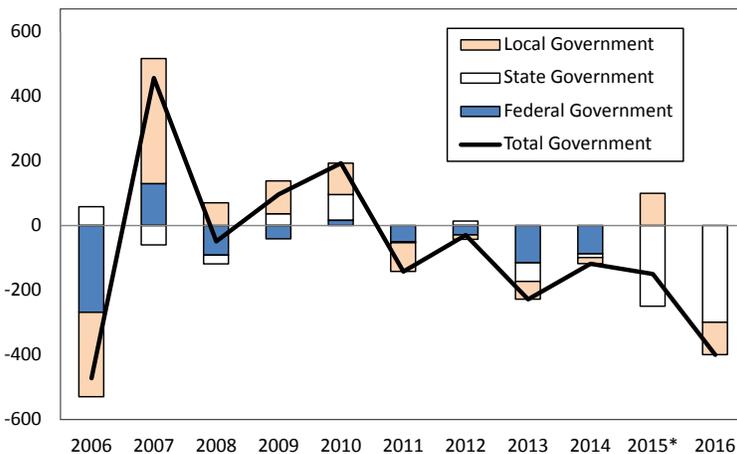
Southeast tourism flourished in 2015, producing job growth for the leisure and hospitality sector. As the U.S. continues to rebound from the effects of the recession, domestic travel spending keeps increasing.

An uptick in cruise traffic is predicted for Southeast in 2016. Because the vast majority of Southeast's visitors arrive by cruise ship, more visitors and spending can be expected.

Southeast's private education and health services sector has declined the past few years, but that trend is likely to reverse in 2016. Social assistance has been hit by decreasing state and

4 Breakdown of Government Jobs

SOUTHEAST GOVERNMENT LOSS/GAIN, 2006 TO 2016



*Preliminary

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

The Month in Numbers

Area Unemployment Rates

	Prelim.		Revised
SEASONALLY ADJUSTED	11/15	10/15	11/14
United States	5.0	5.0	5.8
Alaska Statewide	6.4	6.4	6.5
NOT SEASONALLY ADJUSTED			
United States	4.8	4.8	5.5
Alaska Statewide	6.4	6.1	6.4
Anchorage/Mat-Su Region			
Municipality of Anchorage	4.9	4.7	4.8
Matanuska-Susitna Borough	7.7	7.2	7.4
Gulf Coast Region			
Kenai Peninsula Borough	7.8	7.4	7.6
Kodiak Island Borough	4.9	4.1	5.7
Valdez-Cordova Census Area	10.0	9.2	10.3
Interior Region			
Denali Borough	17.2	9.5	19.6
Fairbanks North Star Borough	5.5	5.2	5.6
Southeast Fairbanks CA	11.1	10.1	11.9
Yukon-Koyukuk Census Area	16.8	15.7	16.9
Northern Region			
Nome Census Area	10.2	10.1	9.9
North Slope Borough	5.6	5.5	5.6
Northwest Arctic Borough	14.1	14.0	13.3
Southeast Region			
Haines Borough	11.3	9.0	11.7
Hoonah-Angoon Census Area	16.3	13.3	16.5
Juneau, City and Borough	4.7	4.5	5.0
Ketchikan Gateway Borough	7.5	6.8	7.9
Petersburg Borough	9.5	7.8	10.0
Prince of Wales-Hyder CA	12.2	11.3	12.3
Sitka, City and Borough	5.0	4.4	5.3
Skagway, Municipality	20.7	16.7	19.4
Wrangell, City and Borough	8.5	7.2	9.3
Yakutat, City and Borough	10.5	5.8	9.0
Southwest Region			
Aleutians East Borough	5.1	3.4	5.6
Aleutians West Census Area	3.8	4.2	5.7
Bethel Census Area	12.5	12.8	13.6
Bristol Bay Borough	12.4	11.8	13.1
Dillingham Census Area	10.9	10.8	10.3
Kusilvak Census Area	19.4	19.9	19.7
Lake and Peninsula Borough	14.0	11.5	14.2

How Alaska Ranks

Average Hourly Earnings,¹ Leisure and Hospitality Sector



Government Job Growth¹



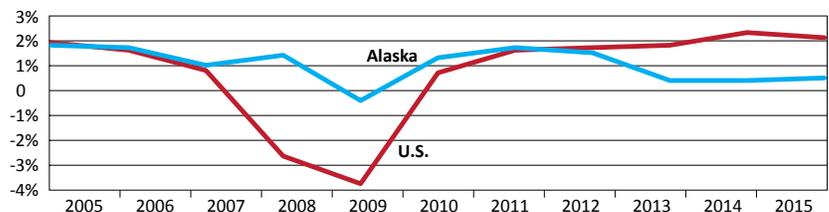
Per capita spending, recreational goods and vehicles²



Unemployment Rate³



Job Growth in Alaska and the Nation⁴



All data sources are U.S. Bureau of Labor Statistics and Alaska Department of Labor and Workforce Development, Research and Analysis Section, unless otherwise noted.

¹November 2015

²Bureau of Economic Analysis, 2014

³Seasonally adjusted November rates

⁴Annual average percent change

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2. Have been discharged or released from military service:
 - a. Less than 10 years before the date employment begins for disabled veteran (service-connected disability through the Veterans Administration); or
 - b. Less than two years before the date employment begins for veteran who is not disabled.



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