

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.

Statewide



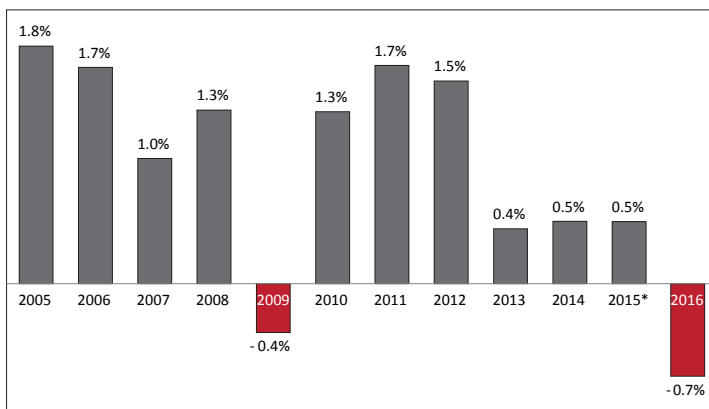
Anticipated job losses are tied directly to low oil prices, which averaged close to \$53 per barrel in 2015, and to a lesser extent to declining oil production. Sustained low oil prices impinge Alaska's economy on two fronts: directly, through cuts to oil industry investment and employment, and indirectly,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

1 Minor Job Loss Likely Statewide

ALASKA EMPLOYMENT, 2005 TO 2016



*Preliminary

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

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,

2

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.

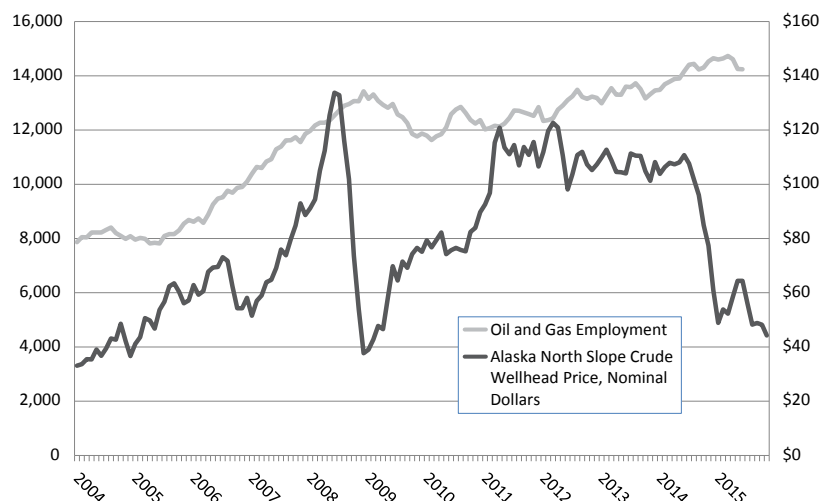
Publicly funded construction will also decline in 2016. Hefty capital budgets from the past five years, when state government was flush, are still pumping cash into construction projects. Some of this work will continue into 2016, but no new state-funded projects will backfill those that wrap up.

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

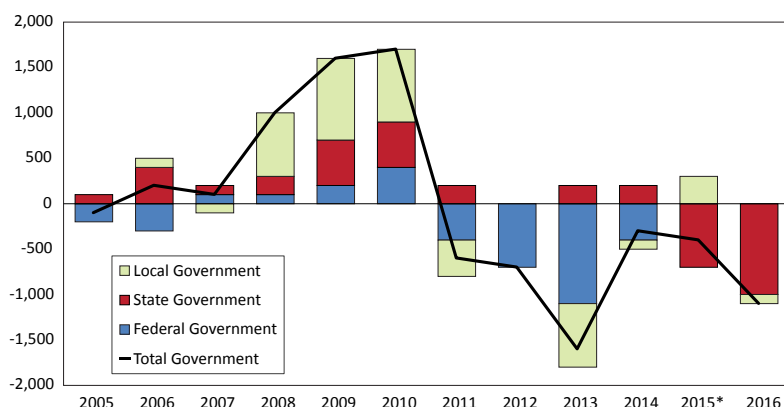


Source: Alaska Department of Revenue, Tax Division

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.

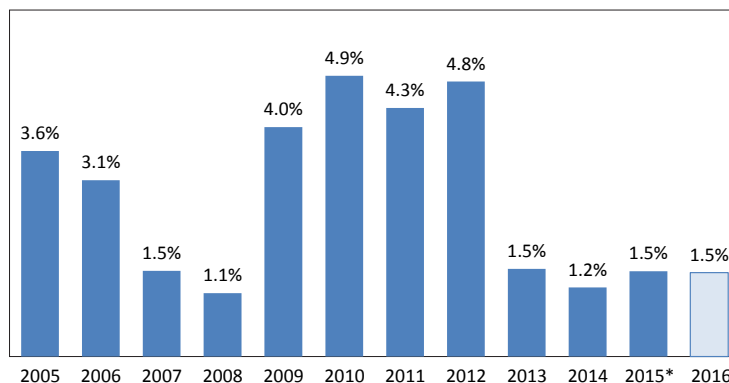
Health care, tourism will grow

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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