



# ALASKA

NORTH TO OPPORTUNITY

ALASKA'S ECONOMIC REPORT  
THIRD QUARTER 2016



## Introduction

The State of Alaska Department of Commerce, Community, and Economic Development (DCCED) - Division of Economic Development (DED) compiles this report on a quarterly basis to assist in the assessment of Alaska's economic health and business climate.

Legacy economic trends like energy prices and overall cost of living are examined alongside emerging rural and urban trends, allowing for a comprehensive assessment of Alaska's economic landscape. The data used in this report is a combination of statistical information from state and federal resources and anecdotal information collected from regional economic development and community organizations throughout the state. This combination allows for a unique, realistic look at the economic indicators of Alaska's economy from a statewide and regional perspective.

### Key Findings

**Commodity Prices:** Most commodity prices showed encouraging signs in the third quarter of 2016. Oil, natural gas, gold, and silver saw increases, while coal prices continued a downward trend.

**Consumer Prices:** Average prices for consumer goods statewide decreased between January and September 2016 by 5.8 percent. The statewide monthly average for DED's basket of goods (combined price of bread, milk, eggs, and gas in each community) declined from \$15.55 in January 2016 to \$14.69 in September 2016. Anchorage and Fairbanks were the only survey communities where consumer goods prices increased during this period by 2.3 percent and 15.8 percent respectively.

**Seafood:** Lower than expected salmon harvests in 2016 are resulting in a lower overall resource value, even as prices have somewhat increased. The 2016 pink salmon harvest was extremely challenging for Alaska fishermen. Low returns prompted Governor Bill Walker to appeal for a pink salmon disaster declaration on September 19 in the Kodiak, Prince William Sound, Lower Cook Inlet, and Chignik areas.

**Year to Date Rise in Zinc:** The international zinc price surged in 2016, reaching its highest level in nine years. The price increased 73 percent from \$1,500 per ton in December 2015 to \$2,600 per ton in late 2016. This rise is good news for the Red Dog Mine in Northwest Alaska, one of the world's largest zinc producers, and Greens Creek Mine in Southeast Alaska, which produces smaller amounts of the widely used metal.

## Comprehensive Economic Development Strategy

In partnership with the federal Economic Development Administration (EDA), DCCED is undertaking the project of producing a statewide comprehensive economic development strategy (CEDS) for Alaska.

A CEDS is an economic development planning tool that combines the input of local community leaders, institutions of learning, private industry, and local government officials to create a regionally driven, industry influenced economic development plan. Alaska's statewide CEDS will be utilized to determine the steps required to build economic prosperity and resiliency throughout the state.

Producing a CEDS is a process with broad and diverse stakeholder engagement that addresses economic potential and barriers across the state. Because Alaska is such a large state with great diversity in culture, landscape, infrastructure, and industry, a carefully balanced approach is required to ensure the needs and interests of the entire state are well represented. Staff from DCCED has been engaging with Alaskans around the state through community and industry forums along with online surveys, all of which are intended to inform the final strategy.

A regional CEDS already exists in most regions of the state, which the statewide document will build upon, along with being informed by economic development efforts of the past.

*Northern Opportunity: Alaska's Economic Development Strategy* is the marketing brand for the effort, and the statewide CEDS process is meant to:

- Identify opportunities to maximize Alaska's unique advantages, while providing flexibility to adapt to changing national and global economic conditions.
- Recommend the most efficient use of public and private assets to grow, develop, and diversify Alaska's economy.
- Prepare Alaska to better deal with disruptions to its economic base.
- Identify ways for communities to thrive, including a clear path to jobs for the next generation of Alaskans.

A draft strategy will be produced in spring 2017, and will be available for public comment for 30 days after its release. DCCED will then make any necessary changes and release the final CEDS. The strategy includes action items and benchmarks for moving forward that will be measured and adjusted on a yearly basis.

## Export and Import Values

Export values for Alaska's products are driven by demand for the state's world-class natural resources, especially seafood and mineral ores. In the third quarter of 2016 Alaska's general exports of non-manufactured commodities (typically raw resources) came to \$3.23 billion, and its general exports of manufactured commodities amounted to \$249 million, compared to \$3.64 billion and \$285 million respectively from the same period in 2015.

### Alaska Exports of Goods

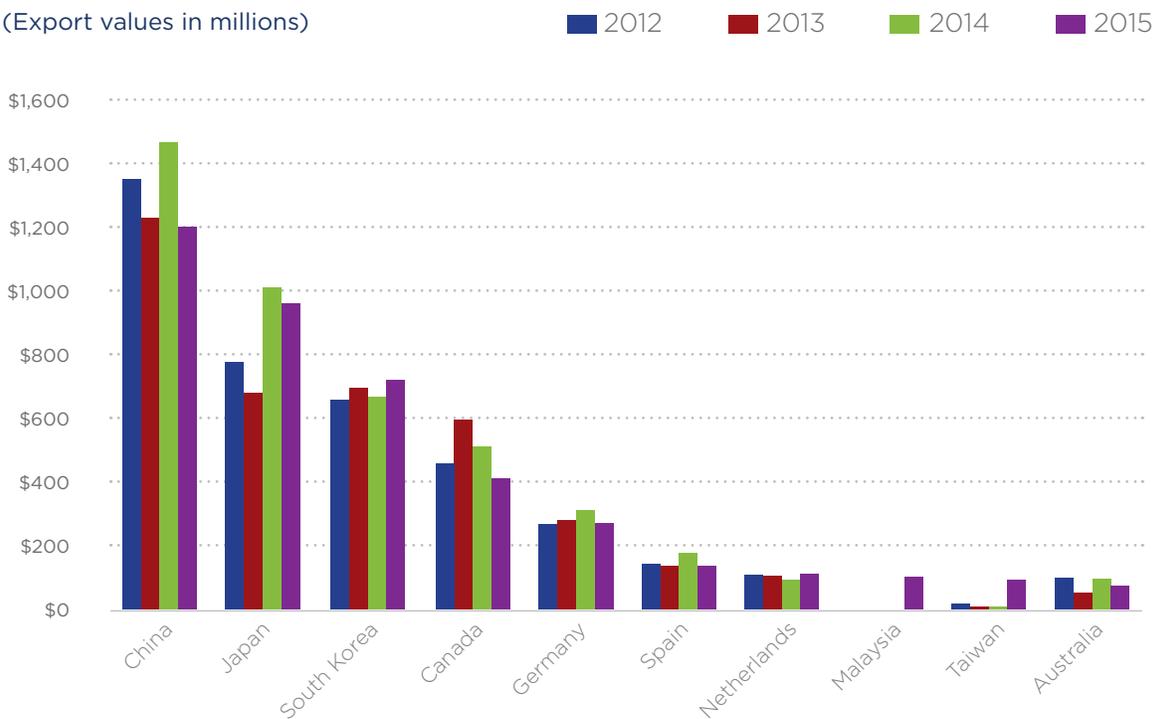
(Millions - Internationally: Yearly Through Q3 Only)



Source: U.S. Census Bureau

### Alaska's Top 10 Trading Partners

(Export values in millions)

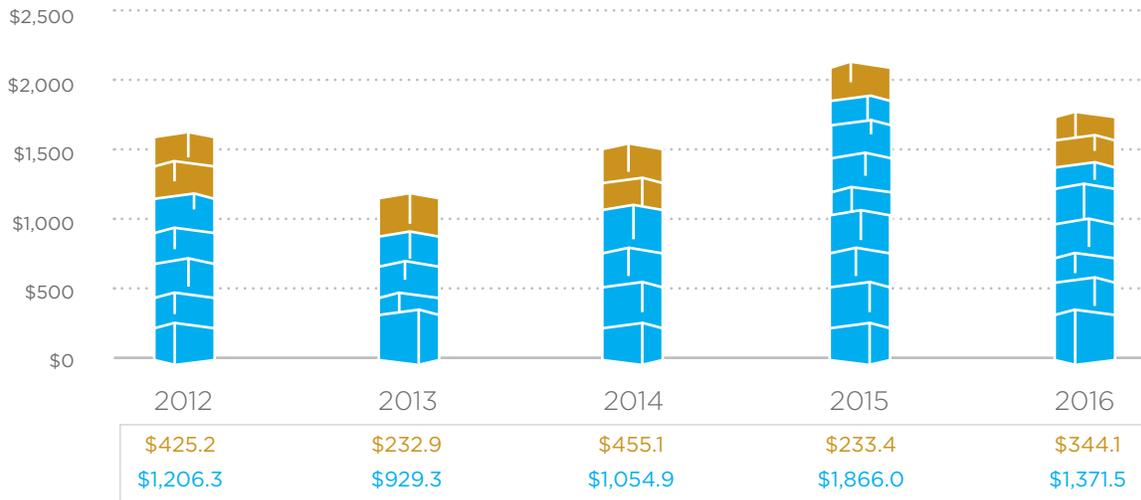


Source: U.S. Census Bureau - No quarterly data available

Through the third quarter of 2016, Alaska's general imports of manufactured commodities amounted to \$1.37 billion, and its general imports of non-manufactured commodities came to \$344 million, compared to \$1.87 billion and \$233.4 million respectively from the same period (Q1-Q3) in 2015.

### Alaska Imports of Goods

(Millions - Internationally: Yearly Through Q3 Only)



Source: U.S. Census Bureau

### Cargo Traffic

Nearly all cargo comes into the state via maritime shipping with smaller volumes arriving via air cargo and by truck over the Alaska-Canada (AICan) Highway.

### Maritime Cargo

Alaska maritime cargo trends can be shown by looking at the outbound and inbound tonnage at the major ports serving Alaska: Seattle and Tacoma. Freight going to Alaska tends to be food and other merchandise, while the larger south-bound tonnage is dominated by Alaska crude oil on its way to Pacific Northwest refineries.

### Alaska Tonnage (Ports of Seattle and Tacoma)

(Millions of metric tons)



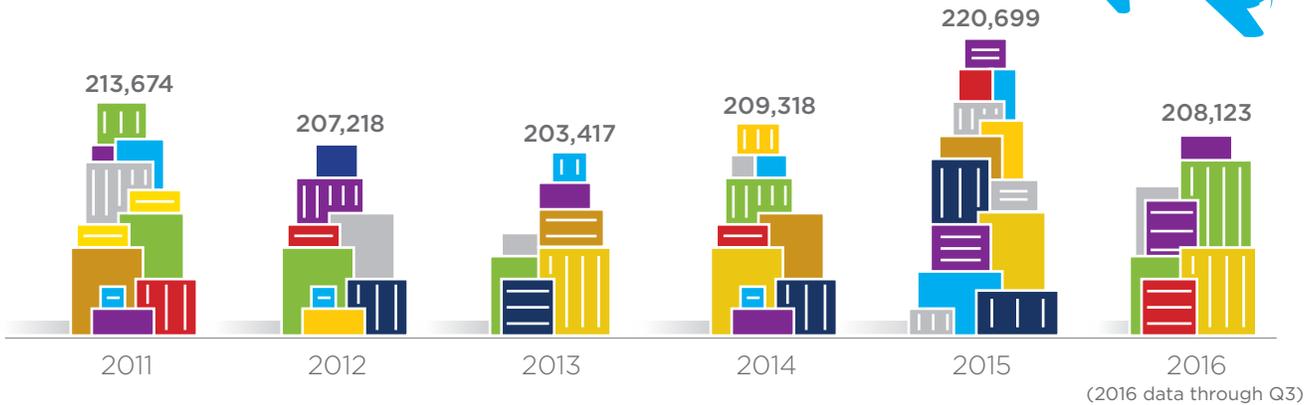
Source: The Northwest Seaport Alliance

## Alaska Air Cargo Throughput

Alaska's International Airports are a major component of the state's transportation system; air cargo throughput is an effective measure of that activity. The high 2015 air cargo levels represent increased air freight through Alaska due to union disruptions on the west coast.

### Alaska Air Cargo Throughput (ANC and FAI)

(Metric tons monthly average)



Source: Alaska Department of Transportation & Public Facilities

## AICan Border Crossings

Trucks crossing the AICan border provide another measure of Alaska's transportation activity.



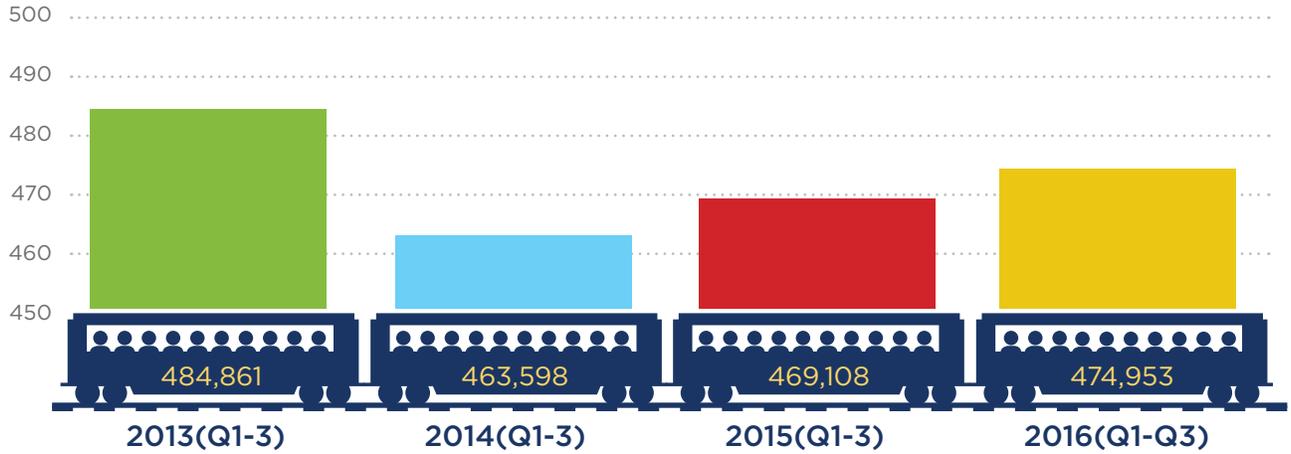
Source: Port of AICan, Office of Field Operations

## Alaska Railroad Statistics

The Alaska Railroad's annual freight and passenger numbers reflect activity from both the visitor industry and the private sector in the state.

### Alaska Railroad Passenger Volume

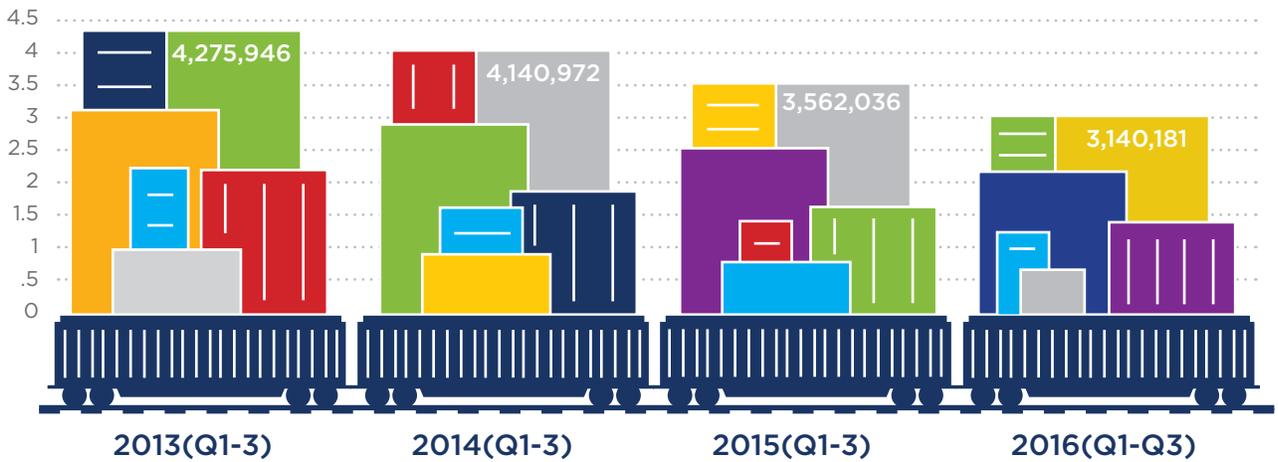
(Thousands of passengers - Annually through Q3 only)



Source: Alaska Railroad Corporation

### Alaska Railroad Freight Tonnage

(Millions of tons - Annually through Q3 only)



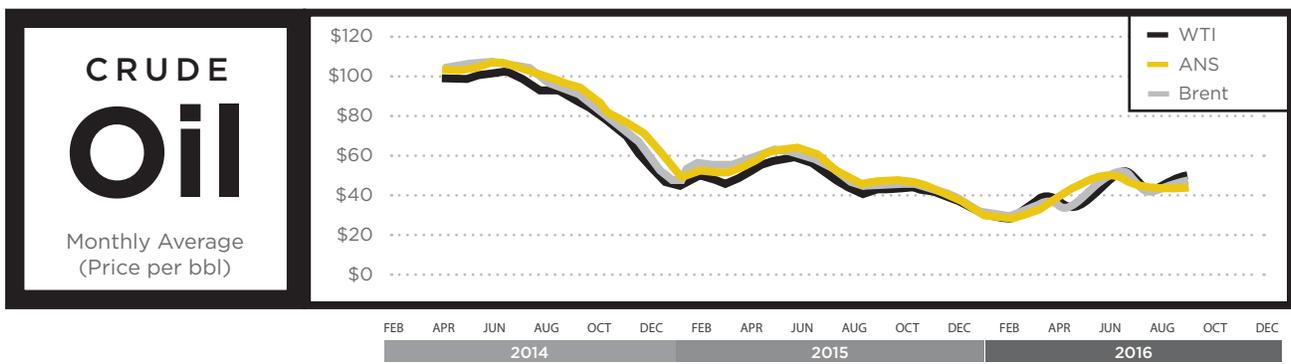
Source: Alaska Railroad Corporation

## Commodity Prices

### Oil Price

Following years of dropping oil prices, the commodity has begun to stabilize, and has rebounded slightly. Commodity prices for both crude oil and natural gas are trending slightly upward. The U.S. Energy Information Administration's (EIA) Short-Term Energy Outlook (STEO) released in September 2016, forecast that North Sea Brent crude oil prices would average \$43 per barrel (b) in 2016 and \$52/b in 2017. EIA expects that West Texas Intermediate (WTI) prices will average about \$1/b less than Brent prices in 2016 and 2017. The values of futures and options contracts indicate continued uncertainty in the price outlook.

According to the EIA, despite continued increases in global oil inventories and U.S. oil rig counts, market reactions to a potential OPEC deal to freeze production at current levels put upward pressure on prices in August 2016, increasing spot prices for Brent crude.

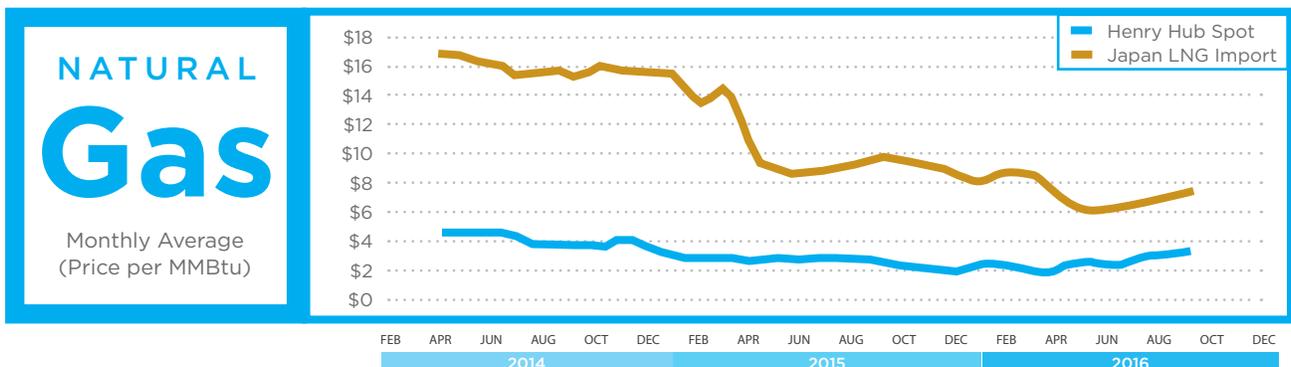


Sources: U.S. Energy Information Administration and State of Alaska Department of Revenue Tax Division

### Natural Gas Price

The average Henry Hub natural gas spot price in September 2016 was \$2.99 per million British thermal units (MMBtu), an increase of 40 cents/MMBtu from June. EIA's September STEO forecasts that Henry Hub natural gas spot prices will average of \$2.42/MMBtu in 2016 and \$2.87/MMBtu in 2017.

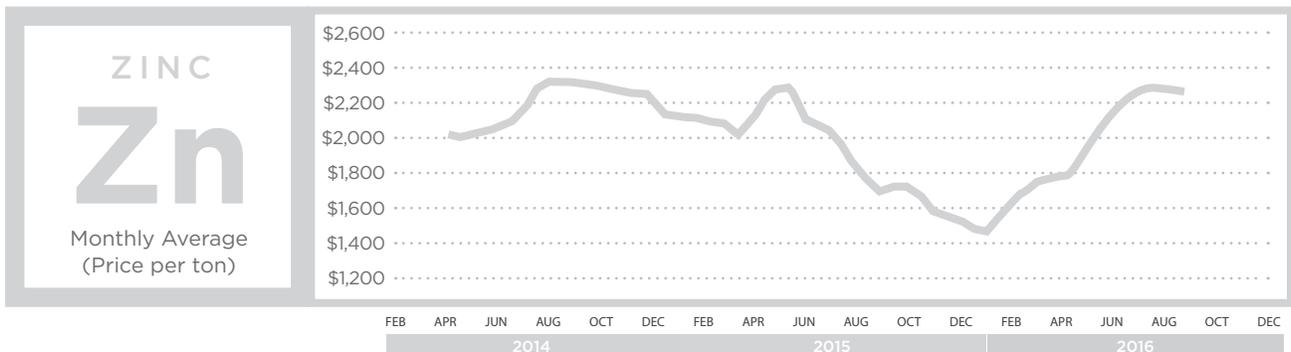
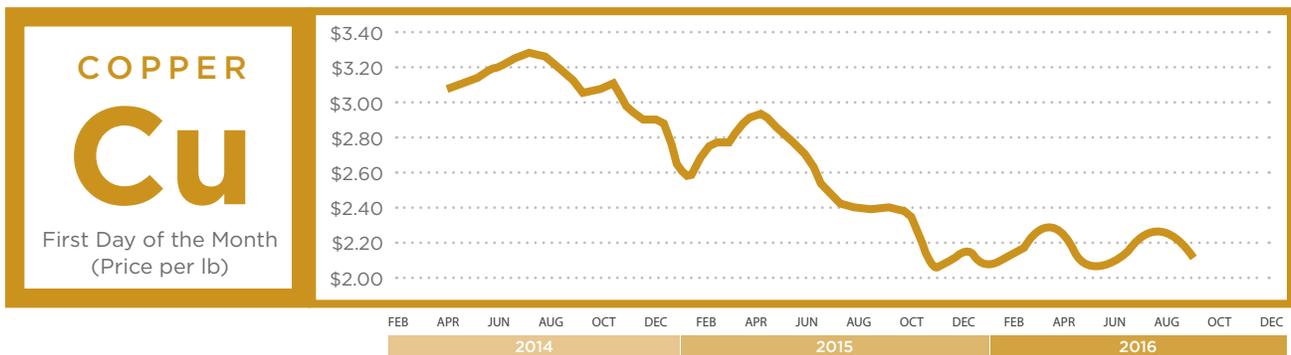
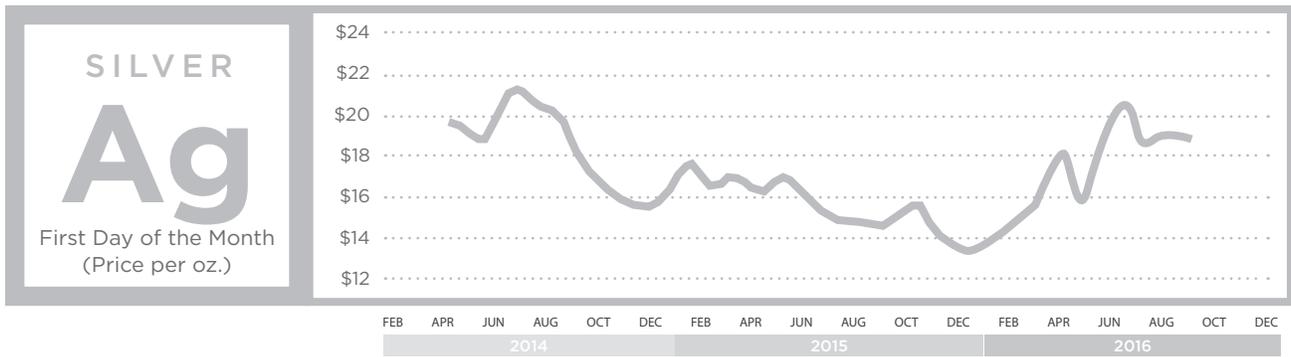
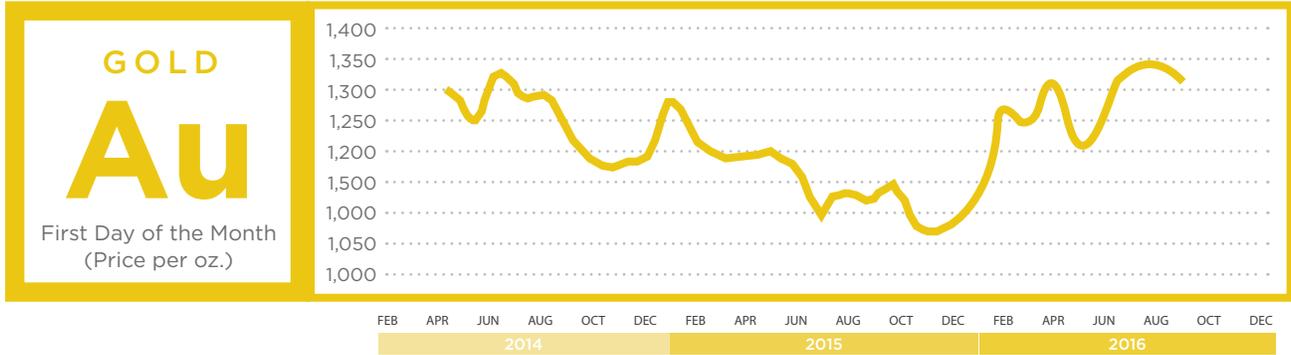
The EIA September 2016 STEO data shows that natural gas production in the U.S. in June 2016, the most recent month available, averaged 77.5 billion cubic feet per day (Bcf/d), down from the record-high daily average production in February 2016 of 79.43 Bcf/d. EIA September 2016 STEO forecasts production increases in the second half of 2016 and through 2017 in response to forecast increase in prices and liquefied natural gas (LNG) exports. The September STEO forecasts natural gas production to rise by 0.6 percent in 2016 and by 3 percent in 2017.



Sources: U.S. Energy Information Administration and World Bank

## Metal Prices

After a lower start to 2016, global prices for gold, silver, and zinc made gains into the third quarter of 2016, while copper remained relatively flat. Due to a drop in global supply and a surge in demand, the market rally for zinc that started in early 2016, if sustained, could benefit Alaska's zinc producers at Red Dog Mine and Greens Creek Mine.

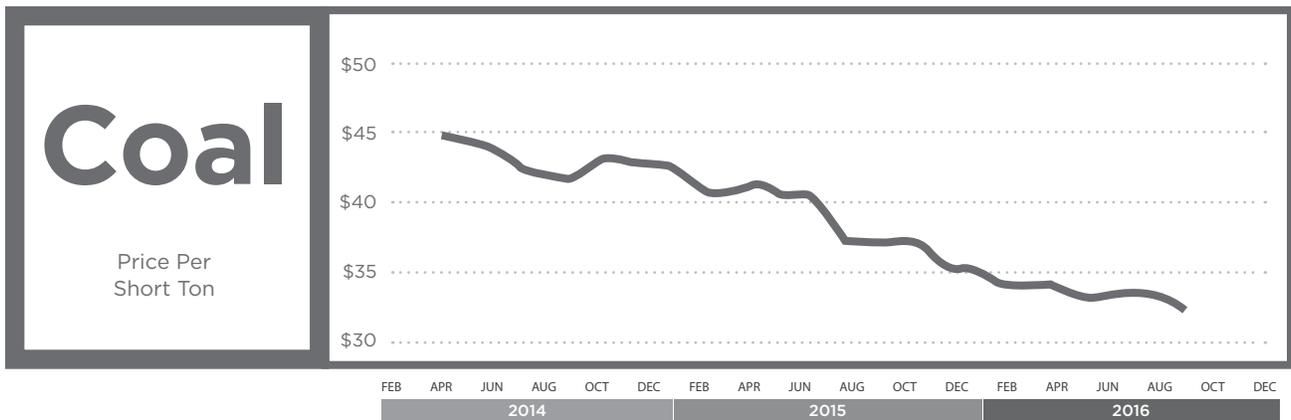


Sources: Gold, Silver, and Copper - Investing.com | Zinc - London Metal Exchange

## Coal Price

Since reaching a high point in 2008, coal production in the United States has continued to decline. According to the September 2016 EIA STEO, the forecasted annual coal production will decline by 18 percent in 2016, which would be the largest annual decline in terms of both tons and percentage based on data going back to 1949. Coal production is forecast to increase by 4 percent in 2017.

Both slower growth in world coal demand and lower international coal prices have contributed to a decline in U.S. coal exports. According to the EIA Quarterly Coal Report, third quarter 2016 U.S. coal exports (12.6 million short tons) decreased 11.7 percent from second quarter 2016, and decreased 25.8 percent from third quarter 2015. The average price of U.S. coal exports during the third quarter of 2016 was \$67.24 per short ton.



Source: U.S. Energy Information Administration

## Alaska Salmon Prices

According to the Alaska Seafood Marketing Institute, the 2016 summer salmon season produced over 112 million salmon, based on preliminary harvest records. Although this is a substantial number of fish, it is well below the expected total harvest. Pink salmon harvests fell 59 percent short of the preseason forecast, which prompted Governor Bill Walker to ask for a federal disaster declaration in several pink salmon harvest areas. Sockeye posted the second-largest harvest of the last 20 years, with last year being the largest harvest during that time. Large sockeye harvests were seen in Bristol Bay and the Alaska Peninsula, while Cook Inlet, Prince William Sound, Kodiak, and Chignik came up short of their forecast. Chinook harvest fell 23 percent short of the forecast. Coho salmon fell two percent short of the forecast.

### Alaska Salmon Prices

(Headed, gutted, and frozen average wholesale price)



Source: Alaska Department of Revenue, Tax Division

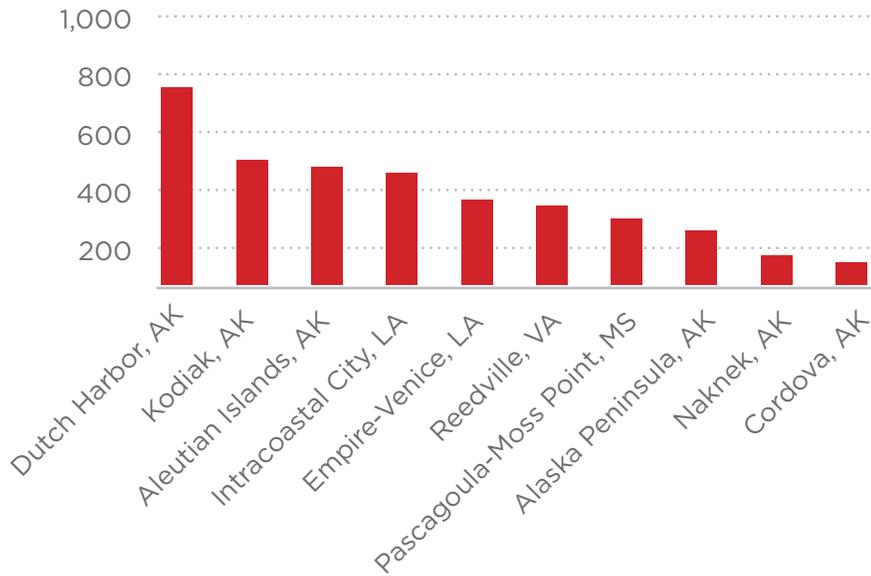
Data through August 2016

## Commercial Fishing Statistics

Alaska is home to six of the top 10 U.S. Commercial Fisheries Ports by volume of seafood landed, and is the only Pacific Coast state in the top 10. In addition, Alaska has half of the top 10 U.S. Commercial Fisheries Ports by value of seafood landed. Alaska's 160 commercial fish processing and wholesaling plants employed 10,182 people in 2015 and accounted for about one of every six commercial fishing industry jobs in the entire U.S. (16.5 percent).

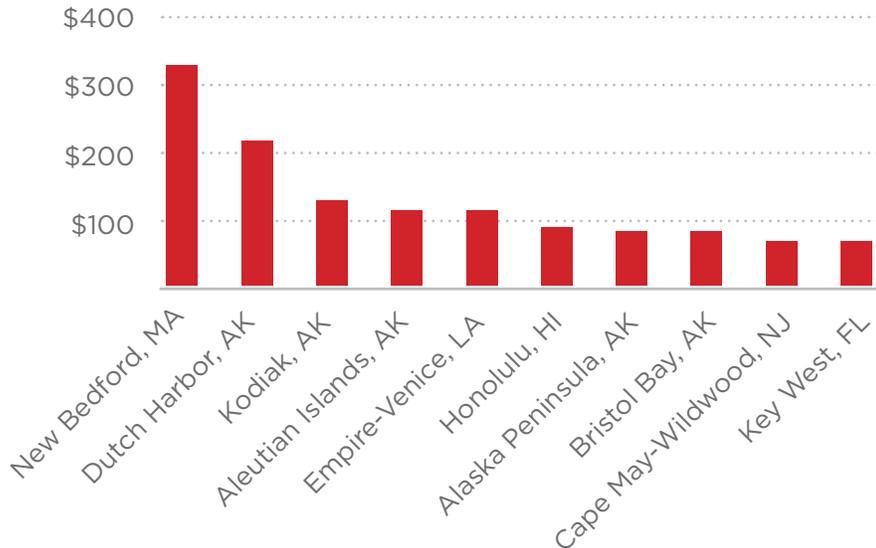
### Top Ten U.S. Fishery Ports by Quantity

(2015 Quantity – Millions of Pounds)



### Top Ten U.S. Fishery Ports by Value

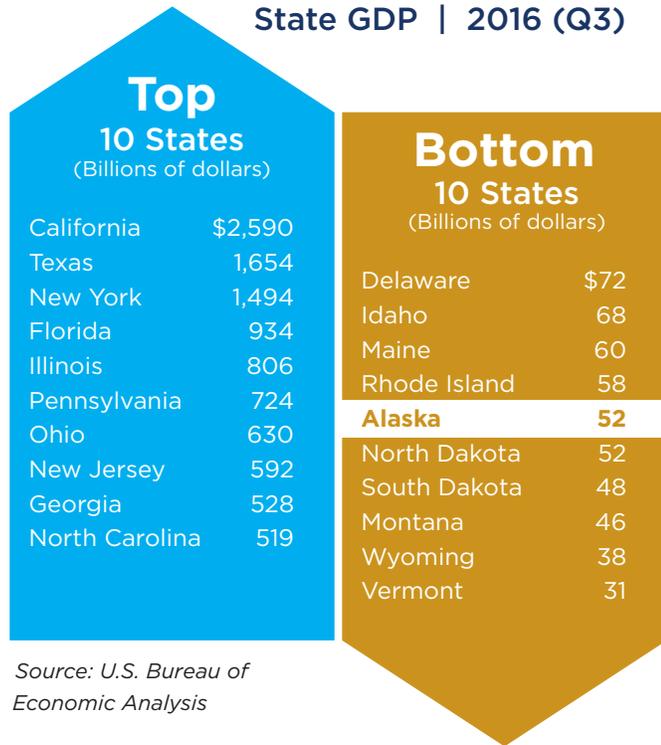
(2015 Value – Millions of Dollars)



Source: National Marine Fisheries Service - Fisheries of the United States, 2015

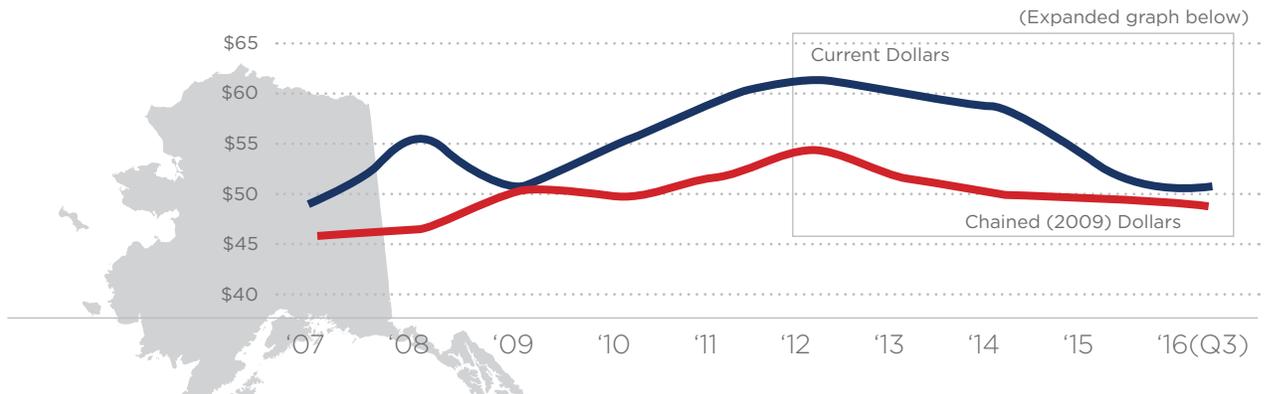
### Gross Domestic Product (GDP)

Alaska ranks 45<sup>th</sup> in GDP in the U.S. and the state's GDP makes up just 0.3 percent of the national GDP. Alaska's real GDP declined a modest 0.1 percent in the third quarter of 2016 due largely to a 0.85 percent decline in gross output in mining (includes mining, quarrying, and oil and gas extraction), and a 0.65 percent decrease in real estate and rental and leasing. Transportation and warehousing saw a slight increase (0.43 percent) in the same quarter.



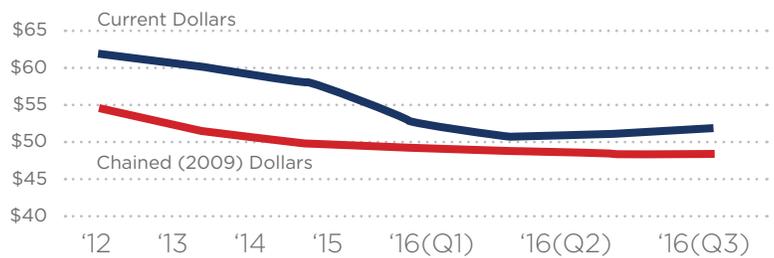
### Alaska GDP: 10-year Trend

(Billions)



### Alaska GDP: 5-year Trend

(Billions)



Source: U.S. Bureau of Economic Analysis

## Regional Economic Highlights

(Anecdotal economic activity and indicators as reported by Alaska Regional Development Organizations.)



### **Anchorage:**

Anchorage Economic Development Corporation (AEDC) reported that consumer optimism in Anchorage broke trend in the third quarter of 2016 and rose slightly to an overall neutral indicator of 50.3 (out of 100). While the overall reading for the quarter was up 2.1 points compared to the second quarter, the Personal Finance Confidence component, traditionally the strongest and least volatile component, decreased 3.8 points to 61.9, a sign of residents' wavering feelings of financial security.



### **Bering Strait:**

The Port of Nome has seen a spike in docked vessels since 2011, and growth in traffic anchored at the port since 2014. The Crystal Serenity visited Nome during summer 2016, the largest cruise ship to ever visit the community. The bulk of the 2016 traffic increase is directly related to more foreign fuel tankers, research vessels, domestic and foreign government vessels, gravel, and cargo. Some activity in the region in 2016 is also due to Quintillion Subsea Operations, which is running a fiber optic cable project to bring high speed internet to northern Alaska.



### **Copper Valley:**

The Copper Valley Development Association completed phase III of the regional energy plan in June 2016, in partnership with the Alaska Energy Authority. The plan documents the energy needs of each community and ranks energy projects by community, serving as a path forward for development of projects.



### **Fairbanks:**

Two squadrons of F-35A fighter aircraft will be sent to Eielson Air Force Base near Fairbanks. The new F-35As are scheduled to arrive in Fairbanks in 2020, and construction at the base should begin in FY2017. This will bring nearly 3,000 people to the region connected to the F-35A program, including airmen and contractors. In September 2016 the U.S. Congress agreed to spend more than half a billion dollars on military construction projects in Alaska – most of them in Fairbanks to prepare Eielson Air Force Base for the arrival of F-35A aircraft.



### **Kenai Peninsula:**

The regional CEDS was finalized in May 2016 and submitted to the federal Economic Development Administration. The Kenai Peninsula Economic Development District (KPEDD) is motivated to use the CEDS tool to increase community engagement around economic development and focus on critical issues identified in the CEDS.

KPEDD has been supporting the efforts of Agrium, a natural gas-to-fertilizer plant in Nikiski, as it seeks to reopen its facility.



### **Mat-Su and Denali Boroughs:**

The State of Alaska continues attempts to sell the Mt. McKinley Meat and Sausage plant, Southcentral Alaska’s only USDA-certified slaughterhouse. The state Board of Agriculture and Conservation declined two proposals to take over the plant as one did not meet minimum proposal requirements and the other lacked financial viability. The Alaska State Legislature approved one more year of funding to operate the state-run plant through June 2017, but has urged private industry to take over or face permanent closure. Without the facility, livestock farmers won’t be allowed to sell meat to restaurants and grocery stores.



### **Prince William Sound:**

Prince William Sound Economic Development District (PWSEDD) updated the regional CEDS for 2016-2021 to reflect the region’s priorities. PWSEDD began implementation of the CEDS in July 2016 as the plan was being finalized and adopted.

PWSEDD completed Phase III of the regional energy plan, in partnership with the Alaska Energy Authority. PWSEDD will meet with leaders in each community and assist in funding efforts to implement solar, wind, tidal, and natural gas projects.

PWSEDD is a member of the Alaska Marine Highway System Reform Project, working with Southeast Conference and other organizations to help re-imagine and revitalize the state’s ferry service, which is vital to the region’s economy.



### **Southeast:**

Southeast Conference (SEC) released the CEDS for the region in May 2016, a guide for the region’s economic priorities to 2020.

SEC is continuing to lead the Alaska Marine Highway System Reform Project, a task force that is identifying alternative governance models for the state ferry system, seeking a model that optimizes efficiencies and ensures the ferry system’s solvency for the next 25 years.



### **Southwest:**

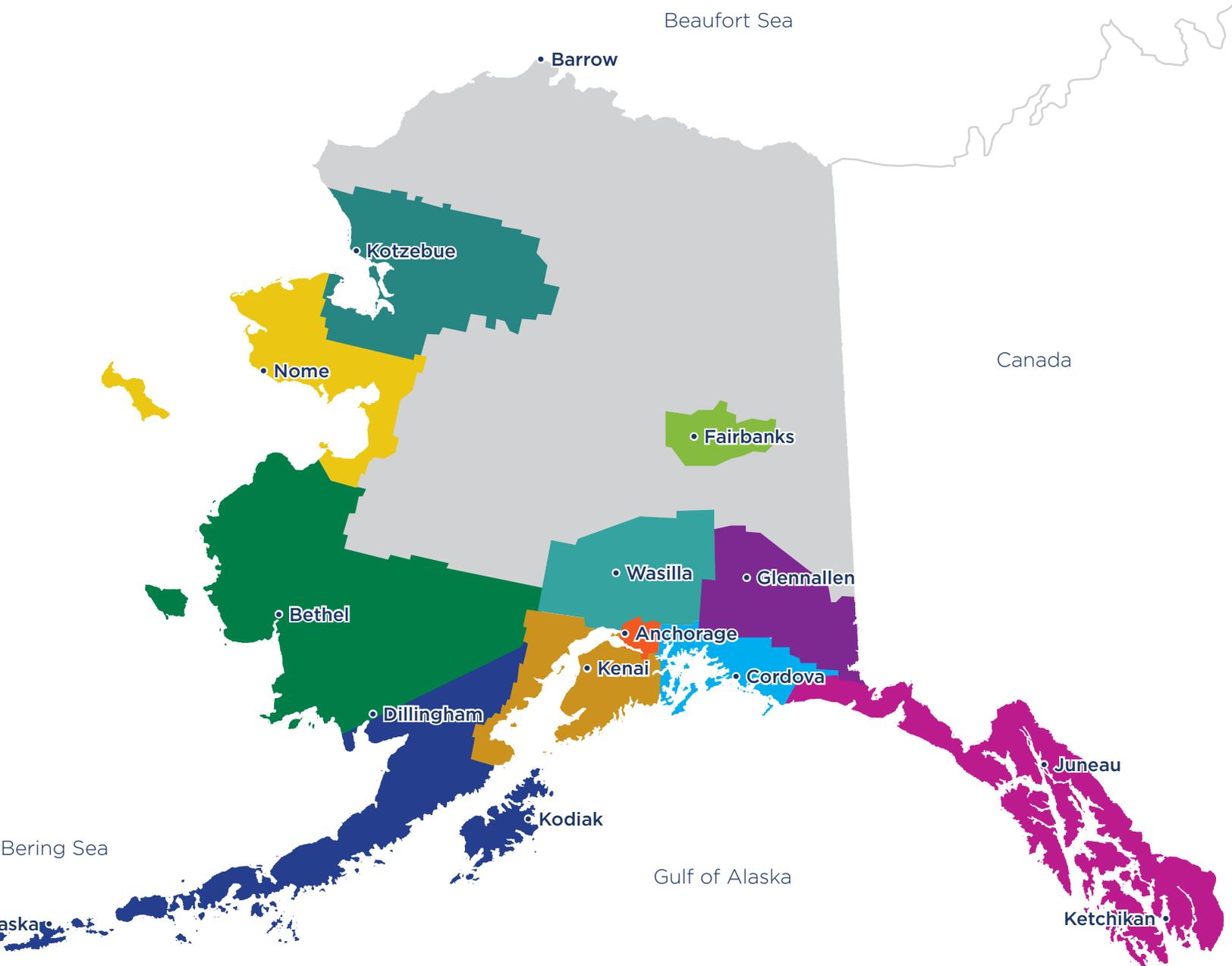
Beginning in January 2016, Southwest Alaska Municipal Conference (SWAMC) became the designated Manufacturing Extension (MAKE) Partnership for the State of Alaska, working with the National Institute of Standards and Technology to support Alaskan manufacturers. Through the MAKE partnership, SWAMC staff will work to survey manufacturers and develop services relevant to their needs. MAKE intends to deliver programs and services that train manufacturers in best practices and transfers technology into the field. The Sea Grant Marine Advisory Program has joined SWAMC as a partner in delivering MAKE training and workshops to seafood processors utilizing the Kodiak Fish Tech Center.





### Yukon Kuskokwim:

The Yukon-Kuskokwim Economic Development Council (YKEDC), in partnership with the Fairbanks Cold Climate Housing Research Center (CCHRC) and the Association of Village Council Presidents (AVCP), has been promoting affordable and energy efficient homes utilizing new truss construction technologies. YKEDC has assessed the feasibility of an integrated truss manufacturing plant and sawmill in Bethel, utilizing a former fish processing plant as the location. In partnership with CCHRC, AVCP and the University of Alaska Center for Economic Development, YKEDC developed a business plan, economic impact analysis and preliminary design and cost estimates for the plant. YKEDC is currently seeking potential truss plant operators.





## Northwest Arctic Borough:

The Northwest Arctic Borough Economic Development Commission (NWABEDC) worked with the Borough Assembly to conduct a comprehensive tourism assessment in the region, which was finalized during the third quarter of 2016. The project assessed the potential for visitor industry growth, potential effects on culture and community resources, market competitiveness in all 11 of the region's communities and recommendations for paths forward. NWABEDC is exploring the formation of a cooperative for ecotourism, and will support the offering of a guide certification course.

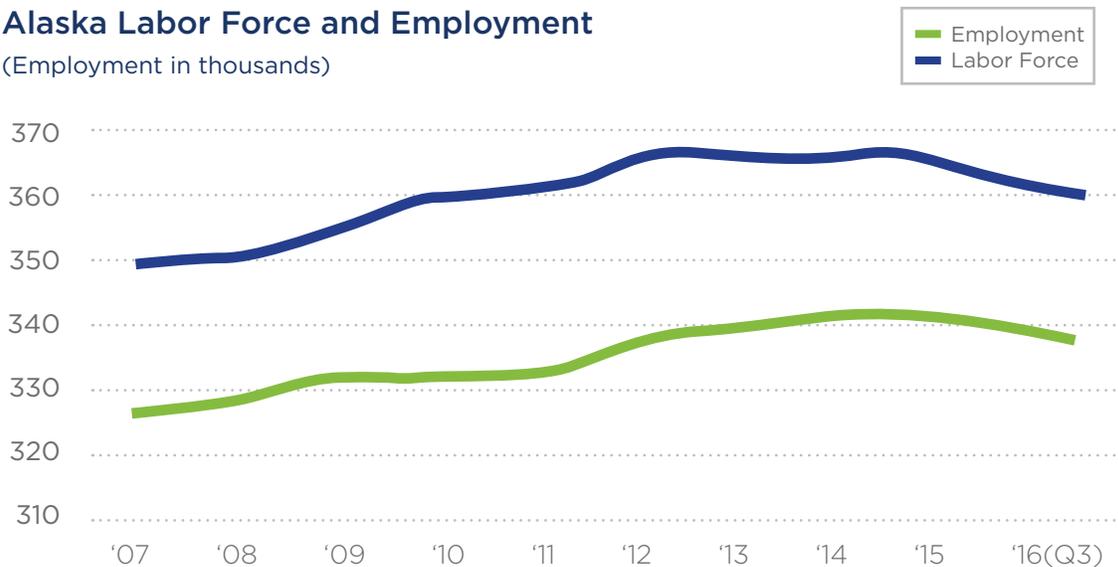
Arctic Greens, a hydroponic vegetable growing business, began growing and selling produce such as spinach, lettuce, basil and cilantro, in summer 2016 in Kotzebue. The company is the first above the Arctic Circle to be certified as Alaska Grown, and sells its product at the local grocery store. Arctic Greens is owned by Kikiktagruk Iñupiat Corporation.

## Total Workforce Versus Unemployment Rate

Total average employment through the third quarter of 2016 was 336,723 workers in a total average labor force of 360,596. Alaska's seasonally adjusted unemployment rate increased from 6.4 percent during the third quarter of 2015 to 6.6 percent during the third quarter of 2016. The increase follows a downward trend in unemployment from 2010 to 2015.

### Alaska Labor Force and Employment

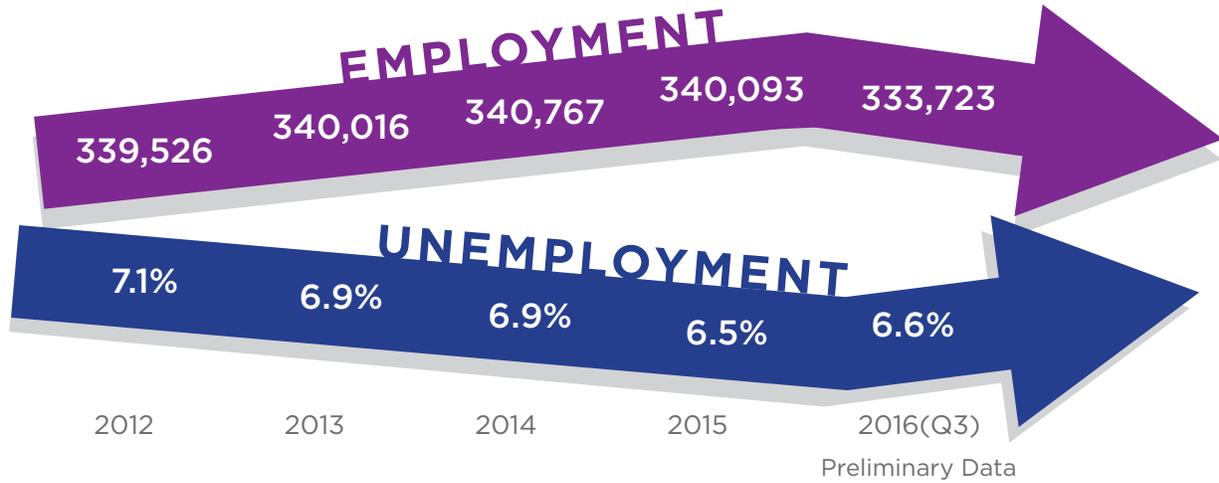
(Employment in thousands)



Source: U.S. Bureau of Labor Statistics

## Alaska Employment Status

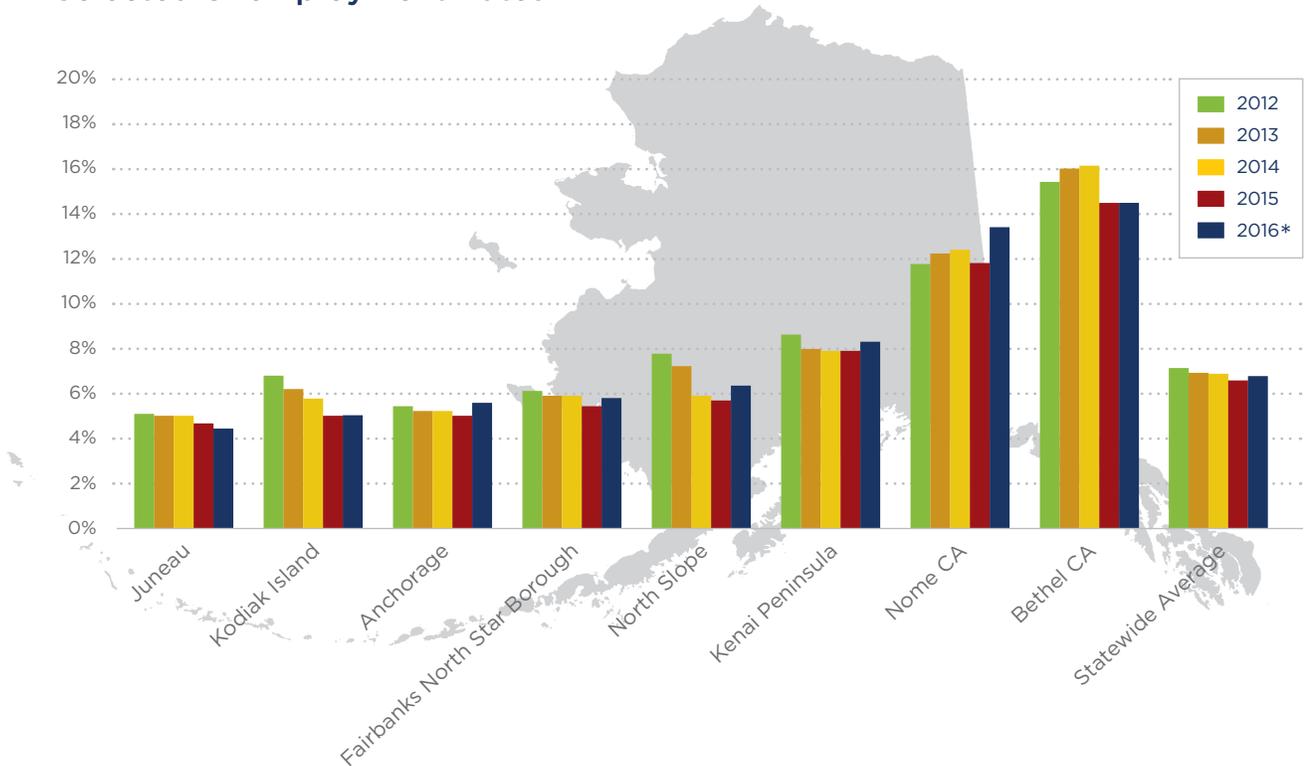
(Employment in thousands | Unemployment rate in percentages)



Source: U.S. Bureau of Labor Statistics

Locally, particularly in rural areas of the state, unemployment levels are double, or even triple statewide (6.6 percent) and national average (5 percent) through the third quarter.

## Selected Unemployment Rates



Source: U.S. Bureau of Labor Statistics

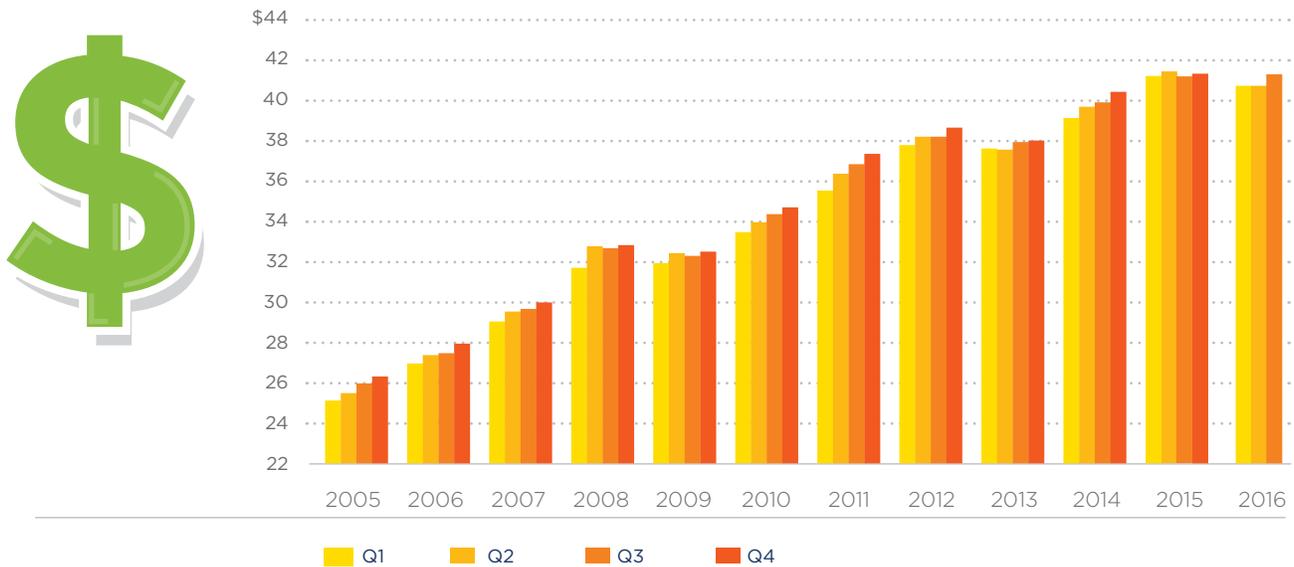
\*2016 data through Q3 only

## Personal Income

After trending upward through 2015, personal income in Alaska declined during 2016 compared to 2015. Statewide gross personal income was \$41.1 billion in the third quarter of 2016 compared to \$41.5 billion in the third quarter of 2015. That represents \$55,588 per capita for each of Alaska's 739,885 residents. In the third quarter of 2016, Alaska's per capita personal income ranked eighth among the states, behind Connecticut (#1), Massachusetts (#2), New Jersey (#3), New York (#4), New Hampshire (#5) Maryland (#6), and California (#7).

### Alaska - Gross Personal Income\*

(Billions | By quarter, 2004 - 2016)

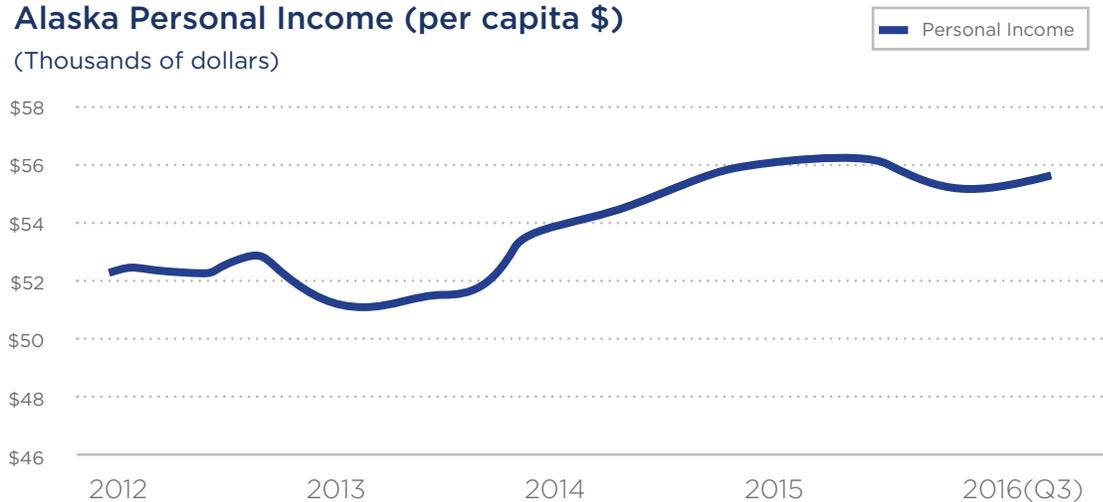


\* The sum of wages and salaries, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

Source: U.S. Bureau of Economic Analysis

### Alaska Personal Income (per capita \$)

(Thousands of dollars)



Source: U.S. Bureau of Economic Analysis

## Cost of Living in Alaska

A cost of living index measures the relative cost of living over time across geographical regions by taking into account differences in the price of goods and services needed to maintain a basic standard of living; such as the cost of food, housing, energy and basic goods.

The Division of Economic Development works with community partners throughout the state, including the Alaska Regional Development Organizations (ARDOR) to produce a quarterly survey of the prices of four staples in several communities: 1 dozen eggs, 1 gallon of milk, 1 loaf of white bread and 1 gallon of unleaded gasoline. These prices were recorded near the last day of September 2016.

The statewide monthly average for this basket of goods declined from \$15.55 in January 2016 to \$14.69 in September 2016. Anchorage and Fairbanks were the only survey communities where consumer goods prices increased during this period by 2.3 percent and 15.8 percent respectively.

### DED-ARDOR Community Price Comparison

(2016 Q3)

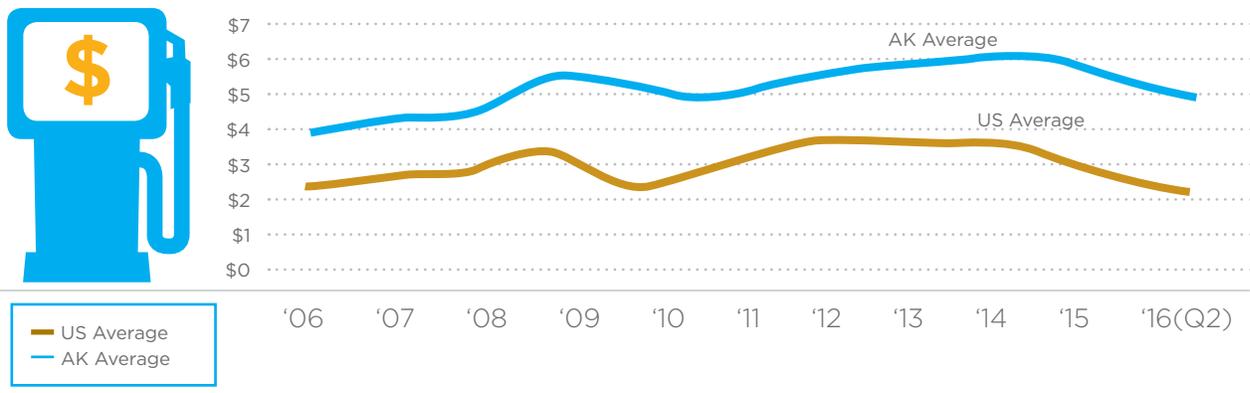
	EGGS	MILK	BREAD	GAS	Total
Anchorage	\$2.19	\$3.69	\$2.49	\$2.52	\$10.89
Juneau	\$1.89	\$3.69	\$2.79	\$2.77	\$11.14
Fairbanks	\$2.29	\$3.79	\$4.59	\$2.64	\$13.31
Kenai	\$1.48	\$3.69	\$1.98	\$2.52	\$9.67
Kodiak	\$2.19	\$3.89	\$2.39	\$2.99	\$11.46
Nome	\$2.79	\$6.49	\$2.59	\$4.67	\$16.54
Bethel	\$4.39	\$7.75	\$2.69	\$5.27	\$20.10
Barrow	\$4.49	\$9.99	3.99	\$5.90	\$24.37
Average	\$2.71	\$5.37	\$2.94	\$3.66	\$14.69
	1 dozen	1 gallon	1 loaf	1 gallon	

Sources: Alaska Division of Economic Development and Alaska Regional Development Organizations

## Gasoline Prices Average

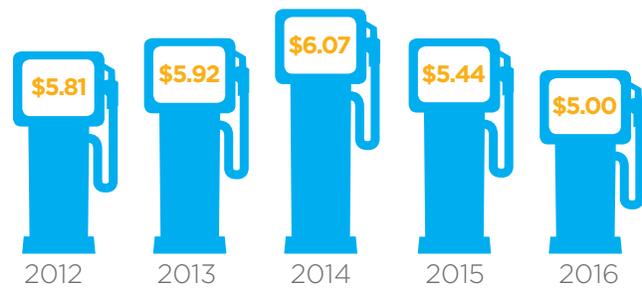
(Current price per-gallon)

In Alaska, another important gauge of the cost of living is the price of fuel. The per gallon price of gasoline over time is illustrative of the general trend of prices in Alaska versus the U.S. average:



## Alaska Gasoline Prices: 5-year Trend

(Current price per-gallon)

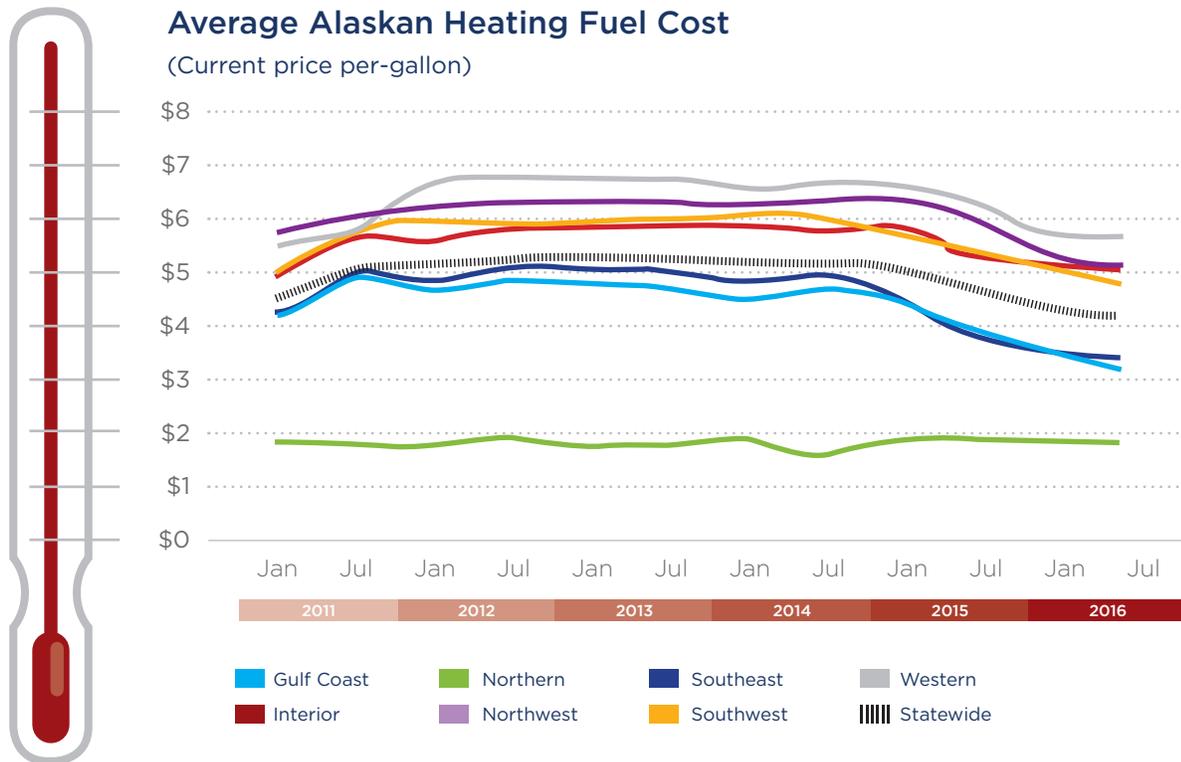


Data through 2nd Quarter 2016

Sources: U.S. Bureau of Labor Statistics and Alaska Division of Community & Regional Affairs

## Energy

The Alaska Division of Community and Regional Affairs conducts a biannual survey of energy (heating fuel and gasoline) prices around the state. These prices vary widely based on a community's location within the state and its accessibility. In the latest survey (published in July 2016), Alaska communities in the Western Region reported the highest average heating fuel retail price at \$5.62 per gallon, while the Northern Region reported the lowest average retail price at \$1.74 per gallon (Note: The North Slope Borough subsidizes residential heating fuel costs in five of its seven communities, reducing their average prices substantially). Excluding the Northern Region, the Southeast Region tends to experience the lowest heating fuel prices.



Source: Alaska Division of Community and Regional Affairs

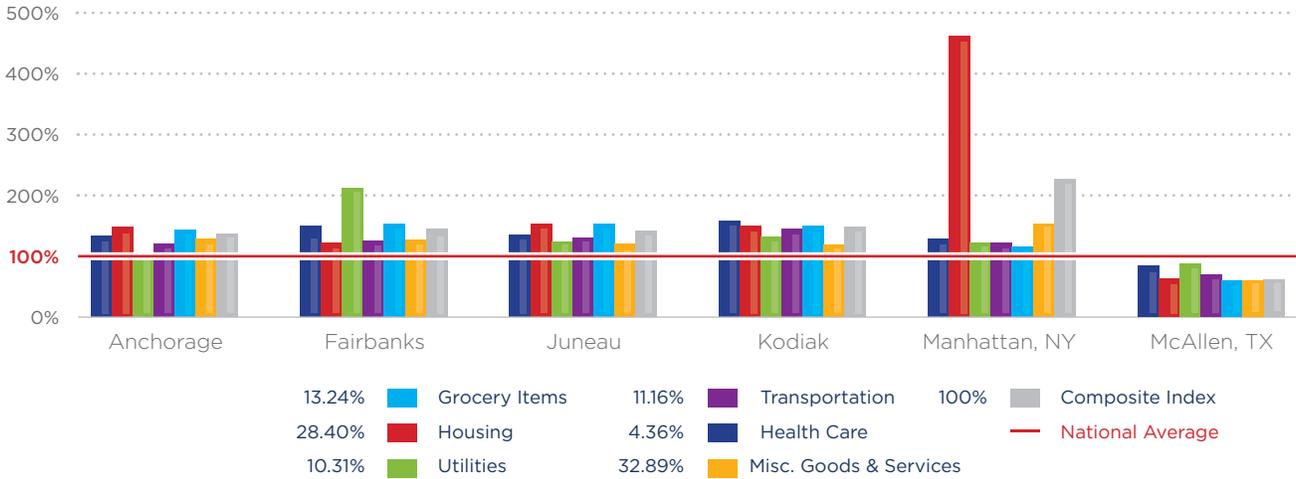
The cost of living can also be compared to find out how expensive it is to live and work in Alaska communities versus communities outside of the state. The Council for Community and Economic Research publishes a quarterly Cost of Living Index (COLI) which provides a useful and accurate measure to compare cost of living differences among urban areas nationwide. The COLI is based on a comprehensive basket of items which reflects cost differentials for professional and executive households in the top income quintile.

In the third quarter 2016 COLI report, among the 261 U.S. cities participating, McAllen, Texas continued its streak to have the lowest index at 76.4 percent (national average for all areas surveyed is 100), and New York, New York (Manhattan) maintained its reputation for the highest index at 232 percent.

Utica, New York and Bismarck, North Dakota were closest to the national average at 100.3 and 99.6 percent respectively. Alaska communities participating are Anchorage, Fairbanks, Juneau and Kodiak which were all in the top 21 most expensive communities in the country. Anchorage came in at 129.4 percent (ranked 21/261), Juneau's index was 131.1 percent (ranked 20/261), Fairbanks at 131.2 percent (ranked 19/261), and Kodiak had the highest cost of living of Alaska communities surveyed at 132.5 percent (ranked 18/261).

## 2016 Q3 Cost of Living Index

(National average = 100% | weight in index)



Source: Council for Community & Economic Research

While prices in Alaska tend to be higher than many other jurisdictions, third quarter 2016 COLI data shows that Hawaii, the District of Columbia, California, and Massachusetts have higher average COLI prices than Alaska. However, it is important to note that this is based only on price data from Anchorage, Fairbanks, Juneau and Kodiak. Prices in rural Alaska can be significantly higher which, if included, would likely change Alaska's rank.

## State Price Parities | 2016 Q3



Source: Council for Community & Economic Research

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THIRD QUARTER 2016

