

Two-Year Industry Forecasts

Outlooks for Statewide, Anchorage, Fairbanks and Southeast through 2004

STATEWIDE

by Dan Robinson, Labor Economist

Alaska expected to extend growth streak to 16 years

Two more years of employment growth are in the forecast for Alaska, adding to an impressive streak that has already reached fourteen years. (See Exhibits 1 and 2.)

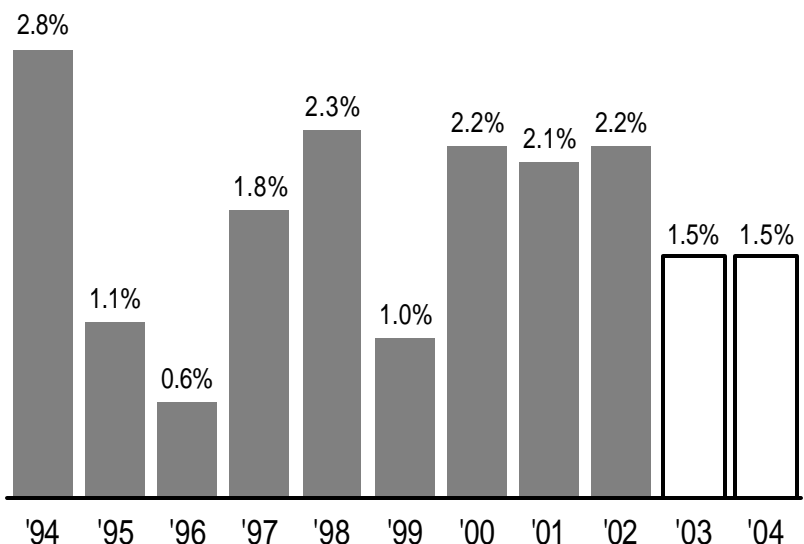
In light of the immediate concerns raised by the war with Iraq, threats of terrorism, and a weak national economy, there is a temptation to look for the sky to fall. Longer-term concerns hover around Alaska's high-profile industries: oil, fishing, and tourism. However, Alaska's labor market has proved to be remarkably resilient over the last decade and should continue to add jobs through 2004, albeit at a slightly slower rate.

This article will examine the two-year forecast for various Alaska industries as they are organized under the new North American Industry Classification System (NAICS). NAICS replaced the previous system, known as the Standard Industrial Classification System (SIC) at the beginning of 2003 for the employment numbers published in *Alaska Economic Trends*. The change was made to create one system for the United States, Canada, and Mexico and also to capture more detail in a labor market that is increasingly based on services and decreasingly based on goods production. Considering that the SIC system has been around since the 1930s, the new industry groupings will take some getting used to.

Natural resources and mining: oil down, metals up

Alaska jobs data as published in *Trends* are organized into eleven "supersectors." (See Exhibit 2.) The first of these is natural resources and mining, which includes the oil and gas industry, other metal mining, and logging. Employment in this category is expected to contract in 2003 and then rebound slightly in 2004. The oil and gas industry—which makes

Statewide Forecast to 2004 Percent change from previous year



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

up the dominant share of employment for the category—will likely see its second straight year of contraction in 2003. After opening the Alpine and Northstar fields in recent years, the major oil companies are currently maintaining existing fields rather than developing known reserves or exploring new ground. Ongoing efforts to open the Arctic National Wildlife Refuge (ANWR) to oil drilling and the sentiment that the United States is too dependent on foreign oil sources could lead to resumed growth in 2004 and beyond.

Prospects for employment growth in metal mining are optimistic. Higher gold prices have led to more exploration. Two underground gold mines, Pogo near Delta and Kensington near Juneau,

may begin operations soon, contingent on environmental impact statements. The Donlin Creek gold prospect near the Kuskokwim River is said to be one of the world's largest gold discoveries, but the project would be expensive and development depends on updated estimates. The existing Greens Creek Mine (silver, zinc, and gold) on Admiralty Island near Juneau and Fort Knox gold mine near Fairbanks are both going strong. Combined, the two mines provide more than 600 jobs and are expected to provide at least that many for the foreseeable future.

Construction still adding jobs

Over the last ten years, construction jobs have increased at an average rate of more than

2 Statewide Forecast Wage and salary employment — 2001-2004

	2001 Annual Average ⁴	2002 Annual Average ⁴	Absolute Change 01-02	Percent Change 01-02	2003 Forecast	Absolute Change 02-03	Percent Change 02-03	2004 Forecast	Absolute Change 03-04	Percent Change 03-04
Total Nonfarm Wage & Salary ¹	289,300	295,800	6,500	2.2%	300,300	4,500	1.5%	304,800	4,500	1.5%
Goods Producing ²	38,300	37,900	-400	-1.0%	37,700	-200	-0.5%	38,200	500	1.3%
Services Providing ³	251,000	257,900	6,900	2.7%	262,600	4,700	1.8%	266,600	4,000	1.5%
Natural Resources & Mining	11,600	10,800	-800	-6.9%	10,400	-400	-3.7%	10,600	200	1.9%
Oil & Gas Extraction	9,500	8,800	-700	-7.4%	8,500	-300	-3.4%	8,700	200	2.4%
Construction	14,900	15,800	900	6.0%	16,400	600	3.8%	16,800	400	2.4%
Manufacturing	11,700	11,200	-500	-4.3%	10,900	-300	-2.7%	10,800	-100	-0.9%
Seafood Processing	7,900	7,400	-500	-6.3%	7,100	-300	-4.1%	7,000	-100	-1.4%
Trade, Transportation, Utilities	60,200	61,000	800	1.3%	61,500	500	0.8%	62,300	800	1.3%
Wholesale Trade	6,200	6,200	0	0.0%	6,200	0	0.0%	6,300	100	1.6%
Retail Trade	33,200	33,900	700	2.1%	34,300	400	1.2%	34,800	500	1.5%
Trans/Warehousing/Utilities	20,800	20,900	100	0.5%	20,900	0	0.0%	21,000	100	0.5%
Information	7,300	7,200	-100	-1.4%	7,100	-100	-1.4%	7,100	0	0.0%
Financial Activities	13,800	13,600	-200	-1.4%	13,700	100	0.7%	13,800	100	0.7%
Professional & Business Svcs	22,800	23,300	500	2.2%	24,100	800	3.4%	24,700	600	2.5%
Educational & Health Services	27,900	30,300	2,400	8.6%	31,500	1,200	4.0%	32,500	1,000	3.2%
Leisure & Hospitality	28,300	29,200	900	3.2%	29,600	400	1.4%	30,100	500	1.7%
Other Services	11,900	12,300	400	3.4%	12,700	400	3.3%	13,000	300	2.4%
Government	78,800	81,000	2,200	2.8%	82,400	1,400	1.7%	83,100	700	0.8%
Federal Government	16,800	16,800	0	0.0%	17,000	200	1.2%	17,000	0	0.0%
State Government	22,900	23,800	900	3.9%	24,100	300	1.3%	24,300	200	0.8%
Local Government	39,100	40,400	1,300	3.3%	41,200	800	2.0%	41,700	500	1.2%

Notes for Exhibits 2, 4, 6, and 8:

¹ Subtotals may not add due to rounding.

² Goods-producing industries include: Natural Resources and Mining; Construction; and Manufacturing.

³ Service-providing industries include: Trade, Transportation and Utilities; Information; Financial Activities; Professional and Business Services; Educational and Health Services; Leisure and Hospitality; Other Services; and Government.

⁴ CES March 2002 Benchmark

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

four percent. The current forecast calls for another good year in 2003 and then slightly slower growth in 2004.

As noted in the Fairbanks and Anchorage forecast articles that follow, the most important source of construction growth over the forecast period will be public projects. For example, spending on military construction projects managed by the U.S. Army Corps of Engineers will increase from \$175 million in federal fiscal year 2002 to \$263 million in 2003. Another big increase will come in 2004 when \$440 million will be spent. These figures exclude missile defense spending for which an additional \$250 million was budgeted in 2002 and at least that much is likely to be spent in 2003 and 2004. Missile defense work alone is estimated to create about 400 construction jobs in 2003.

Manufacturing industries continue to struggle

Jobs in manufacturing have been disappearing at an average rate of more than three percent over the last ten years. The difficulties for Alaska's largest manufacturing industry, seafood processing, are well documented. The state has lost more than 2,000 jobs in seafood processing since 1990 and is expected to lose about 400 more over the next two years. On the positive side, the salmon runs are in excellent shape biologically and world demand for Alaska seafood products has significant growth potential.

The once-thriving wood products industry continues to struggle, as discussed in the Southeast forecast article. Other manufacturing employment in Alaska comes in miscellaneous shapes and sizes, but adds up to almost 3,000 jobs. A few of the larger employers in this miscellaneous manufacturing group are bakeries, printers, petroleum products manufacturers, fertilizer manufacturers, cement and concrete product manufacturers, fabricated metal manufacturers, and ship builders. Employment in this group is expected to show moderate growth over the next two years as it moves with the broader economy.

Trade, transportation, and utilities hold the line

The somewhat unrelated combination of jobs in this supersector—which account for more than twenty percent of the statewide total—are expected to show minimal growth over the forecast period. The closure of five Kmart stores cost the state several hundred jobs, but other stores will pick up at least some of Kmart's former retail market and many of the workers. All things considered, retail trade is expected to continue the trend of recent years and show moderate growth in both 2003 and 2004.

Jobs in the transportation industries will likely show a small net gain over the next two years. Employment in passenger air travel is likely to suffer, especially if the combination of security concerns and the weak national economy further reduce demand. Alaska Airlines is one of the few major carriers not facing significant financial problems. Air cargo, on the other hand, rebounded from a bad year in 2001 to grow in 2002. Boeing predicts three percent growth in traffic for 2003 and 2004 and a tripling of air cargo traffic over the next 20 years.

Information jobs to contract slightly

This new NAICS category, a combination of publishing and broadcasting industries and the telecommunications industry, is not expected to grow over the next two years. Jobs in telecommunications, which expanded rapidly from 1997 to 2001 are likely to repeat the slight reduction in jobs that took place in 2002. Both the publishing and broadcasting industries will grow at a modest rate as they have for the past several years, consistent with the overall economy.

Stable employment in financial activities

After a slight contraction in 2002, jobs in financial activities, which include banking and insurance employment as well as jobs in real estate and leasing, are expected to show minimal growth over the forecast period. Low interest rates continue to create refinancing activity although

there are signs that it is slowing. After some consolidation of the banking industry in 2001, no major developments are expected on the forecast horizon.

Professional and business services will benefit from construction boom

This catch-all supersector combines everything from architectural and engineering services to advertising and temporary employment placement agencies. Strong growth in construction will create greater demand in many of these industries, leading to approximately 1,400 new jobs over the next two years. Jobs in professional and business services have grown over the last decade at a steady rate of approximately two percent, and barring a major shock to the state's economy, will continue to follow this trend.

Educational and health services will continue impressive growth

The size of the two segments in this supersector category differ vastly; Alaska has approximately 28,000 jobs in health care related industries and approximately 2,000 jobs in private educational services. Almost all of the forecast job growth in this category will be in health care. Some of the new jobs will be a result of the privatizing of hospitals as noted in the Anchorage forecast article. Most of the growth, however, comes from an increase in demand and an increase in the type of services offered. In 2002 alone, 2,200 new health care jobs were created. Health care employment has grown at a rate of more than five percent a year over the last decade. The average age of Alaska's population has increased slightly in recent years, portending continued growth in health care employment.

Leisure and hospitality industries face uncertainty

The leisure and hospitality category combines many of the industries that rely on tourism, such as hotels, RV parks and campgrounds, and

museums. Somewhat less dependant on out-of-state visitors are the restaurants, cafeterias, and bars that make up approximately 60 percent of total employment in this category.

The 2002 visitor season was surprisingly stable, despite early concerns following the September 11, 2001 terrorist attacks and subsequent U.S. response. Many of the same questions about willingness to travel apply in 2003. In this climate, just maintaining the levels of previous years will be a victory. Cruise ship companies offered deep discounts to encourage summer travel last year and they are expected to do the same in 2003. Not surprisingly, passengers who pay as little as \$499 for a cruise are more reluctant to spend several hundred dollars on shore excursions or purchases of expensive art in Ketchikan, Sitka, and Juneau. Consequently, the same number of passengers does not necessarily provide the same number of jobs or the same amount of revenue to the local economies. Assuming that the national economy or a lingering conflict in Iraq do not deter cruise travel, a slight decline in employment is still expected.

Industry watchers note that the international travel market has been stagnant over the last two years, though they forecast that it may return to 2000 levels by 2004. A Euro that is stronger relative to the dollar makes Alaska travel more attractive for Europeans, while anti-American sentiment from the war in Iraq may have the opposite effect. Regionally, Fairbanks had a rough 2002 visitor season, Anchorage was flat, and both the Mat-Su Valley and Kenai Peninsula reported growth.

A number of new restaurants in Anchorage and several in Fairbanks have helped contribute growth to food and beverage industries. Alaskans are eating more of their meals away from home, as is the case with the rest of the United States, and the trend is not expected to change in the near future. This forecast calls for approximately 1,000 more jobs to be created in these industries over the next two years.

Some growth expected in other services

This supersector captures jobs in repair & maintenance; personal & laundry services; and

membership organizations involved in everything from religion to social advocacy. Employment in these areas has quietly grown at an average annual rate of almost three percent over the last ten years. The forecast for the next two years is for growth at a slightly slower rate based on concerns about the general economy and the potential for less government grant money—upon which many organizations in this category are heavily dependent.

Government growth to slow

Overall, the combination of federal, state, and local government has grown at an average rate of about one percent over the last ten years. It has grown slightly faster in the last two years, but is expected to slow again in the two-year forecast period.

The federalization of airport security contributed approximately 700 new employees to federal government in 2002, though the effect of the change will be more apparent in 2003. Some privatization at native hospitals and military installations will provide a counterweight. All told, federal government employment is expected to be nearly flat over the next two years.

Budgetary concerns will put downward pressure on state government employment for at least the next two years. The small amount of growth forecast in state government is expected to come entirely from the University of Alaska system.

Local governments will also feel the pinch of the state's belt tightening. Fewer state dollars will be available to pass along and some operations and maintenance responsibilities may move from the state to municipalities and boroughs. Higher enrollments in local schools, however, especially Anchorage and Mat-Su, will create a small amount of growth in local government.

ANCHORAGE

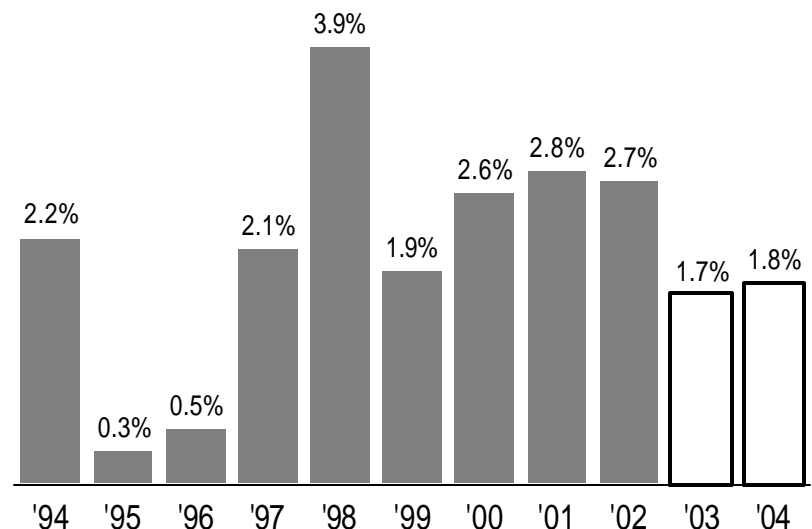
by Neal Fried, Labor Economist

Various industries will keep Anchorage in growth mode

No single industry or project is likely to move Anchorage's economy in a particular direction for the next two years. Instead, a combination of modest growth in a number of industries should keep the city's economy on the move. (See Exhibits 3 and 4.) The influx of federal dollars remains a big positive factor, touching many of the city's industries, from construction to health care and nonprofit social services. Most employment growth will likely be in the overarching service sector, led by health care and professional and business services. A strong statewide construction industry should also be a plus. Conversely, the outlook in the oil and gas and visitor industries is for little or no growth.

As with any forecast, there is always a chance the economy will be hit by a major event that could

Anchorage Forecast to 2004 3 Percent change from previous year



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

dramatically change the direction or the degree of change forecast in this article. For example, if the Arctic National Wildlife Refuge (ANWR) were opened for oil exploration, it would give the economy an immediate boost, even if development were a number of years off. Crashing oil prices could certainly have the reverse effect.

Not much movement in the oil patch

Oil industry employment in Anchorage is not expected to move notably over the forecast period, despite three years of high oil prices and the Department of Revenue's forecast for above average prices in the next two years. The state's major oil producers have no plans for significant new projects in the next two years. On the other hand, they have not announced large layoffs.

Most of the work planned is either maintenance related or drilling activity near existing fields. Exploration activity will be slower than usual. One positive development is increased exploration for oil and gas in Cook Inlet, but the employment numbers tied to the activity are small. The lackluster outlook for employment in the oil patch will reverberate throughout the city's economy. Strong years in the oil industry are almost always associated with above average performance in Anchorage's overall economy.

Public sector construction leads the way

For over a decade construction has played a positive role in Anchorage's economy, and this is not likely to change over the next two years. Two things will keep most of Anchorage's contractors busy: big public sector investments in Anchorage, and a strong all-around industry throughout the state. As headquarters to many of the state's largest contractors, Anchorage will benefit from the big upcoming construction season in the Interior as well as activity in other parts of the state. The industry's weakness is on the commercial side. Office and commercial construction will decline considerably in Anchorage over the next two years.

The \$300 million-plus expansion and

reconstruction of the Ted Stevens International Airport will continue to be Anchorage's single largest construction project. Ongoing work on the new Concourse C will hold center stage, but reconstruction of the old terminal is also an important part of the project, along with major runway work to accommodate new heavier aircraft.

School construction will contribute employment growth to the building segment of the industry. Work on the new Dimond High School is nearing completion, but work on the new South Anchorage High School will continue through all of 2003 and into early 2004. In April voters approved \$167 million in bonds for new schools and renovations, including \$51 million for a new Eagle River High School. Construction is expected to begin this year.

Another sizable building project will be the \$41 million replacement of the Alaska Psychiatric Institute. Ground was recently broken for this new 72-bed facility, which should be ready for occupancy by early 2005. The Port of Anchorage has \$100 million plans for port upgrades, including a new cruise ship dock and major dredging. Contingent on funding, work will begin in 2004.

Military construction for the next two years will take place mostly in the Interior, but there will also be building activity at Fort Richardson. Later this year, a new brigade is moving to Fort Richardson in Anchorage and Fort Wainwright in Fairbanks. Fort Richardson will get approximately 680 new soldiers. New barracks and other facilities costing from \$10 to \$20 million will be built to accommodate them.

Highway construction has seen strong growth for a number of years and it is expected to grow even more in 2003 and 2004. In the Central Region alone, approximately \$140 million of work will be done. A variety of projects will carry over from last year and a number of new projects will be started. One of the biggest projects in 2003 will be the \$44 million Glenn-Parks Highway interchange. Another \$35-\$40 million will be spent to rebuild miles 102-109 of the Glenn Highway, along with a host of repaving jobs and

other highway construction in and around Anchorage.

Very little commercial construction activity has been announced for the next two years. The lull in activity is quite a change from the past three years when a multitude of new hotels, stores, and office buildings were built in Anchorage. Among the projects were the Arctic Slope Regional Corporation's 10-story office tower, three new hotels, a new Safeway, and two new Fred Meyer stores. The Salvation Army is planning to build a \$14 million complex to consolidate its operations, but no other large projects appear on the horizon. Some smaller office buildings, restaurants, and possibly a few hotels will be built during the forecast period, but the projects are small in comparison to recent years' activity. It is always possible that by 2004 other projects will be announced, but it looks like a couple of slow seasons for the commercial builders.

The level of residential activity is not expected to stray far from that of the previous three or four years. In 2002, builders broke ground for 1,332 units and 2003 should be close to that number. Continued low interest rates and steady demand should keep the residential market healthy.

Uncertainty surrounds transportation

A variety of different forces in transportation might cancel each other out, causing transportation employment levels to change little. A lackluster visitor season could hurt domestic air transportation, charter services, and ground transportation. Many national air carriers are struggling and that could affect their presence in Anchorage. On the flip side, an improving picture for international air cargo could create jobs during the next two years.

Anchorage Forecast 4

Wage and salary employment — 2001-2004

	2001 Annual Average ⁴	2002 Annual Average ⁴	Absolute Change 01-02	Percent Change 01-02	2003 Forecast	Absolute Change 02-03	Percent Change 02-03	2004 Forecast	Absolute Change 03-04	Percent Change 03-04
Total Nonfarm Wage & Salary ¹	138,200	142,000	3,800	2.7%	144,400	2,400	1.7%	147,100	2,700	1.8%
Goods Producing ²	12,700	12,700	0	0.0%	12,500	-200	-1.6%	12,500	0	0.0%
Services Providing ³	125,500	129,300	3,800	3.0%	131,900	2,600	2.0%	134,600	2,700	2.0%
Natural Resources & Mining	3,400	2,800	-600	-17.6%	2,600	-200	-7.7%	2,600	0	0.0%
Oil & Gas Extraction	3,200	2,600	-600	-18.8%	2,400	-200	-8.3%	2,400	0	0.0%
Construction	7,500	8,000	500	6.7%	8,100	100	1.2%	8,100	0	0.0%
Manufacturing	1,800	1,900	100	5.6%	1,800	-100	-5.6%	1,800	0	0.0%
Trade, Transportation, Utilities	32,500	32,700	200	0.6%	32,900	200	0.6%	33,200	300	0.9%
Wholesale Trade	4,700	4,700	0	0.0%	4,700	0	0.0%	4,700	0	0.0%
Retail Trade	16,900	17,200	300	1.8%	17,300	100	0.6%	17,600	300	1.7%
Trans/Warehousing/Utilities	10,900	10,900	0	0.0%	10,700	-200	-1.9%	10,800	100	0.9%
Information	4,800	4,700	-100	-2.1%	4,600	-100	-2.2%	4,600	0	0.0%
Financial Activities	8,500	8,300	-200	-2.4%	8,300	0	0.0%	8,300	0	0.0%
Professional & Business Svcs	16,100	16,900	800	5.0%	17,400	500	2.9%	18,000	600	3.3%
Educational & Health Services	14,800	16,200	1,400	9.5%	17,200	1,000	5.8%	18,000	800	4.4%
Leisure & Hospitality	14,000	14,500	500	3.6%	14,700	200	1.4%	15,100	400	2.6%
Other Services	5,600	6,000	400	7.1%	6,200	200	3.2%	6,600	400	6.1%
Government	29,200	30,100	900	3.1%	30,600	500	1.6%	30,800	200	0.6%
Federal Government	9,700	9,600	-100	-1.0%	9,600	0	0.0%	9,600	0	0.0%
State Government	9,100	9,600	500	5.5%	9,700	100	1.0%	9,700	0	0.0%
Local Government	10,400	10,900	500	4.8%	11,300	400	3.5%	11,500	200	1.7%

For Footnotes, see Exhibit 2, page 12.

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

Uncertainty in new information category

Information is an entirely new category of industries created by NAICS. Its biggest components in Anchorage are newspapers and other media outlets, and telecommunications. Little change is expected to take place in the former but the telecommunication side is more of an unknown. Fierce competition, regulatory issues and technology dominate the workings of this industry, and after many years of dramatic expansion some retrenchment could occur.

Retail trade employment to show little change

Retail trade employment looks like a mixed bag in Anchorage in 2003 and 2004. Carrs/Safeway opened up its new Abbott Loop store in early 2003 to replace its much smaller Dimond store, and the new Fred Meyer in Eagle River is slated to open in early April. Combined, the new stores will boost retail employment by 300 to 350 jobs. The closure of Anchorage's two Kmart stores and the loss of approximately 400 workers will offset these gains. Other retailers are likely to pick up some of Kmart's workforce, but no other large retailers have announced plans for new stores, so little growth is anticipated for retail trade.

An unclear future for the visitor industry

The terrorist attacks of September 11 created much uncertainty for the 2002 visitor season. For 2003, the weak national economy and war in Iraq create at least as many questions. Early indicators such as bookings are mixed. Most industry observers are hoping to at least match 2002's numbers, which were lower than in 2001 but not as bad as some had expected. If the national economy strengthens and the war in Iraq is resolved, the 2004 season could put the industry back on a positive track. One known positive for 2004 is that convention bookings are already looking strong.

The employment category most affected by the visitor industry is leisure and hospitality, which includes accommodation and food services, arts, entertainment, and recreation. The forecast shows growth for this industry in both 2003 and 2004, despite the outlook for the visitor industry. Part of the reason is that three new hotels opened last year in Anchorage and some of the expansion of this workforce should carry through into 2003. Also, not all industries in the leisure and hospitality category depend on the visitor industry. For example, a number of new restaurants have opened in the last two years and there are plans for at least one more in late 2003, T.G.I. Friday's. The long awaited H2Oasis Waterpark opened in early 2003, boosting Anchorage's recreation workforce by 100 to 150.

Health care and engineering services will add service jobs

Two new NAICS categories—professional & business services; and educational & health services—are likely to provide the largest employment gains over the next two years in Anchorage. Within the category of professional and business services, architectural and engineering services will stimulate growth. The forecast growth in educational and health services will come from the health care industry. The ongoing privatization of the Alaska Native Health Center will continue to boost health services employment numbers, as will broader growth in the overall industry. The rate of growth in health services is likely to slow some over the next two years, however, because the privatizing process is slowing. The two large organizations involved, Alaska Tribal Health Consortium and Southcentral Foundation, are projecting growth, but at a more subdued level than the previous three years. Neither Providence Hospital nor Alaska Regional Hospital has any major expansion plans in the works. Alaska Regional has even trimmed its workforce in recent months. The flow of federal money will create more growth in the nonprofit social service industries, another part of the educational and health services category.

Public sector is mixed

The Ted Stevens International Airport replaced its private sector screeners and security personnel with more than 300 federal workers in 2002. This was the single largest boost to federal employment in many years. Because it happened during the last quarter of 2002, much of the growth will be seen in 2003's numbers. These gains will be largely erased, however, by the continued privatization of the Alaska Native Medical Center and some military support services. An example of the latter is the replacement of 150 to 200 federal civilians at Fort Richardson by private contractors in May 2003. This combination of federalization and privatization will result in little overall change for total federal employment over the next two years.

State government employment will likely be mixed. Employment at the University of Alaska will likely remain at least stable during the forecast horizon, but with the expected tightening of the budget, state government operations employment will probably drift downward in 2004. Local government numbers should remain slightly positive during the next two years. Enrollment at the Anchorage School district hit a record high of 50,029 this past school year, and enrollment is forecast to increase a little more in 2004. City employment is likely to remain relatively stable.

The job market could soften a bit

Anchorage's unemployment rate rose a point higher in 2002 to 5.4 percent and is likely to remain near that level in 2003. The higher jobless rate is not necessarily a reflection of the Anchorage economy, however. The national labor market is entering its third year of recession/stagnation and it is likely that more job seekers are moving to Anchorage looking for work and fewer residents are leaving. The additional job seekers have put upward pressure on the unemployment rate, and there is little evidence this trend will change in the near term. In spite of the higher unemployment rates, the job market in Anchorage will remain healthier than most other parts of the state.

FAIRBANKS

by Brigitta Windisch-Cole, Labor Economist

Fairbanks employment will continue to grow

Fairbanks will continue to enjoy employment growth in the next two years. In 2003, the forecast is for a 2.1 percent growth rate, followed by a slower 1.5 percent growth rate in 2004. (See Exhibit 5.) These growth rates equate to 750 new jobs in 2003 and 550 in 2004. (See Exhibit 6.) The construction industry will lead the way and stimulate growth in a number of other industries. Population growth will also create more demand for both public and private sector services.

Construction expected to boom

Public expenditures will fuel a Fairbanks construction boom in the next two years. The most significant growth will come from the hundreds of millions of dollars in military-related construction that is either under way or planned. Replacement of the Bassett Army Hospital will be the biggest project during the 2003 and 2004 construction seasons. Other projects include the construction of dormitories, family housing, and strategic sites and structures. A number of other projects to renew and replace base infrastructure are ongoing.

The newly formed Third Stryker Brigade Combat Team, a medium weight armored vehicle force, will use some of the new facilities at Fort Wainwright, including the Mission Support Training Facility and the Assembly Building. Contractors also remain involved with the Fort Greely missile defense project. All told, an expansive list of construction projects at Fort Wainwright, Eielson Air Force Base, Clear Air Station, and Fort Greely will contribute significant employment growth during the upcoming construction seasons.

At the state level, most of the new construction will take place at the University of Alaska Fairbanks, where most of the university's northern region \$50 million capital budget fund will be spent. The museum expansion project alone has a \$23 million price tag and will keep construction crews busy for at least two seasons. Another big project, costing \$14 million, will involve the West Ridge Research Building.

The state's 2003 road budget for the Fairbanks area is also sizeable. Projects include a \$9 million safety upgrade on the Parks Highway in the Clitter Gulch area (the hotel and entertainment district adjacent to the entrance of Denali National Park). Further north around Mile 262, crews will be working to rebuild and surface a stretch of the highway at an estimated cost of \$11.5 million. A new building phase will also start at the Fairbanks International Airport and the Badger Road overpass will be completed.

Local government will also contribute to construction growth. The Fairbanks North Star Borough public works department is managing a construction budget of more than \$100 million. Funds have been committed for schools, parks,

and other public facilities. The Hutchison vocational/technical high school and the Denali and Nordale elementary schools are three of the major projects.

Residential contractors in Fairbanks expect another respectable season. Low interest rates, which help keep mortgage payments affordable, will encourage housing construction. Commercial construction is also expected to prosper. The largest commercial project is a \$34 million expansion of the Westmark Hotel, which includes an eight-story tower featuring 265 new rooms. Several million dollars is being spent at Fairbanks Memorial Hospital for the addition of a new lab in 2003 and a new imaging center in 2004.

Gold mining will be a bright spot

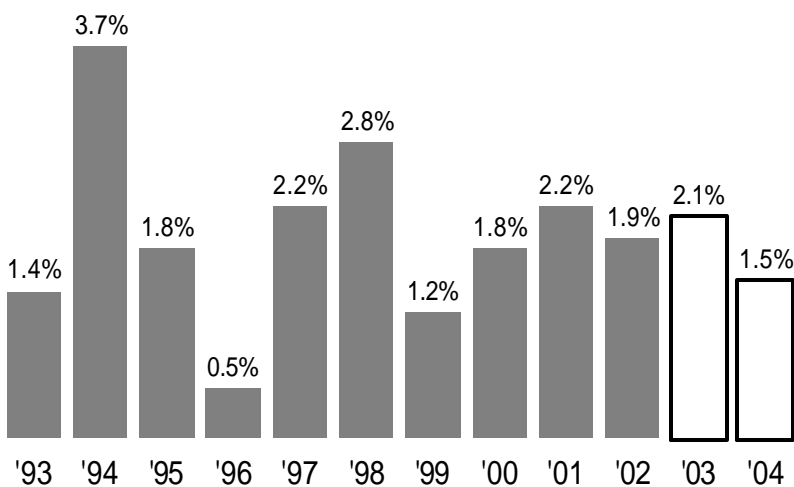
Fairbanks' largest industrial complex, the Fort Knox Mine, will expand production and increase its workforce over the forecast period. Newly identified deposits will extend the life of the mine until year 2010 and allow the company to step up production by roughly 40 percent. Gold prices have rebounded to comfortable levels, promoting exploration and development efforts. Teck-Pogo hopes to begin construction of the Pogo mine in the Delta Junction region sometime in 2003, as soon as the federal environmental impact statement process is completed.

The new jobs in gold mining will be offset in 2003 by declines in oil and gas employment. Local oil support industries have scaled back employment in response to the downturn in development on the North Slope. Once the cutbacks in oil-related employment have been fully absorbed, employment growth, led by gold mining, will resurface in 2004.

Mail service change will affect transportation sector

Under a new federal law, small planes must now carry passengers if they are to qualify as carriers of U.S. mail. Moreover, the amount of mail awarded to an individual air carrier will be proportioned according to the company's

5 Fairbanks Forecast to 2004 Percent change from previous year



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

passenger booking records. This new arrangement may lead to lower airfares for passengers flying to and from remote places, but it will challenge the survival of air carriers with limited passenger carrying experience or capacity. Some bush airlines will get a big boost in business from the new requirements, but their employment gains may not quite offset the losses resulting from businesses that close.

Another setback for the local airline industry came when Air France terminated its stops in Fairbanks. The direct employment loss is negligible but it means less business for air service companies and a loss of revenue from landing fees.

Pipeline jobs are normally associated with the oil industry, but they are recorded in the transportation sector. The average employment level in the pipeline transportation category will drop in 2003 as a result of Alyeska Pipeline Service Company's downsizing its Fairbanks business unit in 2002 and moving nearly half of its staff back to Anchorage. Because this move occurred in the latter part of 2002, the loss will appear in 2003 employment numbers.

Other transportation categories will experience minimal change. Ground transportation employment, which includes trucking as well as school bus and sightseeing bus companies, should hold steady in 2003. In 2004, two tour bus lines will consolidate with the Royal Caribbean and Princess Cruises merger. Some jobs are likely to be trimmed as a result. Trucking and warehouse employment may rise during the forecast period due to heightened construction activity.

Uncertainties remain in the trade sector

Trade employment in Fairbanks has remained flat since the mid-nineties. The spring closure of the Kmart store portends at best another slow growth year for 2003. Currently, only specialized merchandise stores, such as auto parts and building material stores, are resisting retail's eroding job base.

Persistent rumors about a big national retailer

coming to Fairbanks may finally come true. Wal-Mart is proceeding to secure land on which to build. If construction follows soon, retail employment could recover in 2004. Fairbanks' growing population—both from natural increase and migration to the area—will create opportunities for both new and existing retailers. The incoming Stryker Brigade and their families will further boost the area's population base and market for retail goods.

Service sector will expand

Population growth, changes in demographics, and an enlarged military contingent portend growth for a variety of service industries in the Fairbanks area. Health care and social services will add the most jobs. The repertoire of health care services will expand and the aging population will increasingly demand them. More social service providers will be necessary to meet the growing demand for specialized care for children, families, and the elderly.

Professional services employment will benefit as both branches of the military in Fairbanks continue to contract with private companies for basic facility support functions and some technical assistance. Demand for architectural, design, and engineering services will move in conjunction with construction cycles. Business support services—which include computer programming, accounting, and human resources jobs, among others—will also benefit from growth in other industries.

Consumer confidence key to tourism

In the past five years Fairbanks has modernized and expanded leisure and hospitality facilities. Nevertheless, the 2002 season did not go down as a big success. Room revenues were down and bookings were disappointing. Most industry analysts cited shaken traveler confidence as the main reason for the downturn. Consumer confidence will continue to play a big role in future seasons. National security and the state of the national economy will also have an effect. Some employment growth in the leisure and hospitality industries is anticipated, however, due

to increased restaurant hiring. Fairbanks' gastronomic options have expanded in recent years and the restaurant industry is expected to continue its growth trend during the forecast period.

Fiscal constraints influence government employment

Budget constraints will restrict employment growth at the federal, state, and local government levels. Small gains in federal government employment may result from the creation of the new Department of Homeland Security. Other federal offices will maintain lean staffing levels and the military will continue to outsource its support service contracts, moving federal jobs to the private sector.

Proposed state budgets for 2003 aim to keep public expenditures low and achieve more efficiency. The reorganization and realignment occurring in several departments will likely cause some job losses. Increases in university employment could offset some of the anticipated job losses in other areas.

State budget shortfalls also will impact employment in local government units as less money flows down from the state. Increases in school enrollment due to population growth, however, could create a modest number of new jobs in local education.

6 Fairbanks Forecast Wage and salary employment — 2001-2004

	2001 Annual Average ⁴	2002 Annual Average ⁴	Absolute Change 01-02	Percent Change 01-02	2003 Forecast	Absolute Change 02-03	Percent Change 02-03	2004 Forecast	Absolute Change 03-04	Percent Change 03-04
Total Nonfarm Wage & Salary	34,700	35,350	650	1.9%	36,100	750	2.1%	36,650	550	1.5%
Goods Producing	3,500	3,700	200	5.7%	3,950	250	6.8%	4,100	150	3.8%
Services Providing	31,200	31,650	450	1.4%	32,150	500	1.6%	32,550	400	1.2%
Natural Resources & Mining	950	900	-50	-5.3%	850	-50	-5.6%	950	100	11.8%
Construction	2,000	2,250	250	12.5%	2,550	300	13.3%	2,600	50	2.0%
Manufacturing	550	550	0	0.0%	550	0	0.0%	550	0	0.0%
Trade, Transportation, Utilities	7,050	7,250	200	2.8%	7,200	-50	-0.7%	7,350	150	2.1%
Wholesale Trade	500	500	0	0.0%	550	50	10.0%	550	0	0.0%
Retail Trade	3,900	4,150	250	6.4%	4,200	50	1.2%	4,350	150	3.6%
Trans/Warehousing/Utilities	2,600	2,600	0	0.0%	2,450	-150	-5.8%	2,550	100	4.1%
Information	600	600	0	0.0%	600	0	0.0%	600	0	0.0%
Financial Activities	1,300	1,300	0	0.0%	1,350	50	3.8%	1,400	50	3.7%
Professional & Business Svcs	2,100	1,800	-300	-14.3%	1,900	100	5.6%	1,950	50	2.6%
Educational & Health Services	3,400	3,550	150	4.4%	3,700	150	4.2%	3,750	50	1.4%
Leisure & Hospitality	3,700	3,850	150	4.1%	3,900	50	1.3%	3,950	50	1.3%
Other Services	1,950	2,050	100	5.1%	2,150	100	4.9%	2,200	50	2.3%
Government	11,150	11,250	100	0.9%	11,350	100	0.9%	11,350	0	0.0%
Federal Government	3,350	3,300	-50	-1.5%	3,400	100	3.0%	3,350	-50	-1.5%
State Government	4,700	4,900	200	4.3%	4,850	-50	-1.0%	4,850	0	0.0%
Local Government	3,100	3,050	-50	-1.6%	3,100	50	1.6%	3,150	50	1.6%

For Footnotes, see Exhibit 2, page 12. Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

SOUTHEAST

by Neal Gilbertsen, Labor Economist

Economy continues to contract in Southeast

The Southeast economy will continue to contract in 2003, but should begin to show a slight recovery by 2004. The broad-based services sector will account for virtually all growth, although the construction industry is expected to add jobs in 2004. The already depressed forest products industry shows no signs of short-term recovery, and will likely suffer further losses in employment. Low ex-vessel prices, the stubborn Japanese recession, and competition from farmed salmon will continue to plague the fisheries, seafood processing, and support industries. A lack of processor demand and capacity may lead to further reductions in the number of vessels participating in the fisheries. Once again, the economic pain of southern Southeast and rural areas will be greater than that experienced by Sitka and Juneau, although proposed reductions in the state budget and resulting impacts on state government employment will likely affect these communities as well.

Fewer timber jobs expected

Low prices for milled timber, the uncertainty concerning the success of Silver Bay's reorganization plans, a national glut of lumber, and sharp Canadian competition all point to continuing erosion in the logging and wood products industries. In spite of the high tariff, (27.2 percent) imposed on Canadian imports, softwood lumber from British Columbia continues to sell at prices too low for U.S. competitors. Bilateral talks aimed at resolving this situation broke down in late February, and both sides are awaiting rulings from the World Trade Organization and the North American Free Trade Agreement panel concerning the legality of U.S. duties. Decisions by both organizations are

expected by May 2003. If these bodies rule against the U.S. position, lumber prices can be expected to fall even further.

Ketchikan Gateway Borough is seeking a log transfer permit for its veneer mill that would allow the storage of logs in Wards Cove. While such a permit would make the property more attractive to a potential operator, no confirmed plans for re-opening the plant exist at this time.

Fisheries will continue to suffer from low prices

The Alaska Department of Fish and Game is predicting very strong salmon returns in 2003. While the biological outlook is encouraging, the fishery will continue to suffer from low ex-vessel prices, and fewer vessels are expected to participate.

In December 2002, Wards Cove Packing Company announced that it was exiting the Alaska salmon industry. This announcement caused concern as the economic impact of possible plant closures reverberated across the state. In Southeast, some of these concerns have been alleviated. The Wards Cove cold storage facility in Ketchikan has been acquired by E. C. Phillips and Associates, and Ocean Beauty Seafoods has announced its intention to operate the plant at Excursion Inlet. In spite of this good news, overall processing capacity in the region will likely be reduced in 2003. The Wards Cove cannery in Ketchikan is not expected to open this season. It is also questionable whether the fire-damaged J.S. McMillan plant in Prince Rupert, British Columbia, which has in recent years processed a significant share of the Southeast Alaska salmon harvest, will be operable by this summer.

Permit holder participation in the Southeast Alaska purse seine fleet fell 21 percent last year from 346 to 274. In part this was due to processors limiting the number of vessels from which they would buy. The reduction in processing capacity and continuing low prices will lead to a further reduction of as many as 50 vessels this season. Reduced canning capacity will also mean fewer jobs in the seafood processing industry.

Ketchikan dry dock facility will create jobs

If there is a bright spot in maritime endeavors, it is the \$10 million expansion of the Alaska Ship and Dry Dock facility in Ketchikan. Funded by a \$5 million federal economic grant awarded to the shipyard and a \$5 million match by state and local governments, construction of the new ship-lift is expected to be under way by the fall of 2003. Not only will the expansion provide construction jobs, the project will allow the yard to undertake more than one vessel repair project at a time. The new lift will be sized to efficiently handle smaller or medium-sized vessels of less than 2,500 tons. Ninety-five percent of the ships operating in Alaska fall into this category. Once the project is completed, the potential year-round employment at the shipyard could increase from 140 to 210.

More jobs in health care

The demand for health care services will continue to grow, partly due to Southeast's aging population. The category of educational and health services—which is dominated by health care employment—

has averaged an annual growth rate of 5.6 percent since 1998, adding a total of 700 jobs to the regional economy. Southeast Alaska Regional Health Consortium (SEARHC), headquartered in Sitka with 401 employees, is the largest provider in this industry, and is one of Southeast Alaska's largest private sector employers.

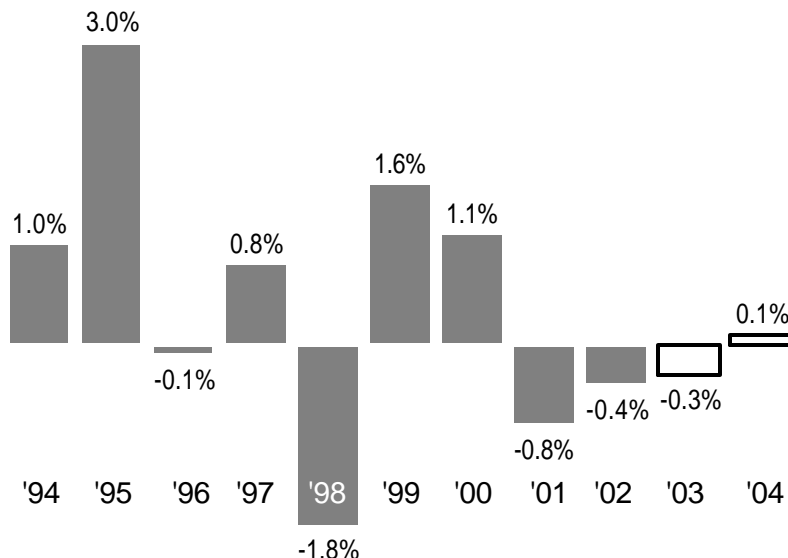
National issues likely to affect visitor industry

National problems may make themselves felt in the region during the forecast period. Weak stock markets, relatively high unemployment, war with Iraq, a sharp decline in consumer confidence and, most recently, the highly publicized severe acute respiratory syndrome (SARS) outbreak, have all contributed to growing problems in the travel industry. The economic woes of the airline industry are well known, and many carriers have experienced a 20 to 30 percent drop in passenger bookings. Whether this growing reluctance to travel will extend to the rest of Alaska's visitor industry, and Southeast in particular, remains an open question.

Consumers often delay or defer expenditures in uncertain economic times. The events of September 11, 2001 provide an example. In that case, travelers delayed making bookings, but the total number of visitors resulted in a normal 2002 tourist season for Alaska. While it is possible that 2003 could produce similar results, it seems unlikely that the number of tourists visiting Southeast Alaska will increase much this year. Rather, most indicators would point to a reduction in the number of travelers.

A merger of Carnival and Princess Cruise lines could affect the region by 2004. If the merger is approved, Carnival will control nearly two-thirds of the worldwide cruise industry. It seems likely that management will opt for fewer sailings in order to attain higher occupancy rates. While this will attain greater efficiencies it will probably not affect the number of passengers visiting Alaska. It could, however, impact employment opportunities in local support industries and cruise line subsidiaries.

7 Southeast Forecast to 2004 Percent change from previous year



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

Slight decline expected in government

As the legislature considers the state budget, addressing the deficit is clearly a priority. Cutbacks in state spending and reductions in state government employment are likely to have a short-term negative impact on Juneau's local economy. In 2002, the Southeast region accounted for 5,650 of Alaska's 24,000 state jobs, or 23.5 percent. In 2003, employment for both Juneau and the Southeast region are likely to decline slightly. While these necessary measures may prove beneficial to Alaska as a state, the immediate effects will be fewer government jobs in the region and fewer dollars in the economy.

Summary

The core economy of Southeast Alaska continues to rest on four pillars: timber, fisheries, tourism,

and government. All four have encountered setbacks in recent years. Timber and fisheries have both been eroded by the low prices of global competition and are unlikely to recover in the near future. Tourism continues to play a vital role, but the visitor industry remains very sensitive to consumer perceptions of security and the national economy. A reduction in international tensions or improved economic indicators could lead to an increase in the number of visitors, but neither issue seems likely to be resolved quickly. Finally, declining oil revenues and looming deficits clearly necessitate reductions in government spending. While fiscal responsibility will undoubtedly benefit the state over the long run, the Southeast regional economy will suffer short-term negative impacts from the resulting loss of jobs.

Southeast Forecast Wage and salary employment — 2001-2004



	2001 Annual Average ¹	2002 Annual Average ⁴	Absolute Change 01-02	Percent Change 01-02	2003 Forecast	Absolute Change 02-03	Percent Change 02-03	2004 Forecast	Absolute Change 03-04	Percent Change 03-04
Total Nonfarm Wage & Salary ¹	35,950	35,800	-150	-0.4%	35,700	-100	-0.3%	35,750	50	0.1%
Goods Producing ²	4,300	3,950	-350	-8.1%	3,650	-300	-7.6%	3,550	-100	-2.7%
Services Providing ³	31,650	31,850	200	0.6%	32,050	200	0.6%	32,200	150	0.5%
Natural Resources & Mining	800	650	-150	-18.8%	550	-100	-15.4%	500	-50	-9.1%
Seafood Processing	1,600	1,600	0	0.0%	1,600	0	0.0%	1,650	50	3.1%
Construction	1,850	1,700	-150	-8.1%	1,500	-200	-11.8%	1,400	-100	-6.7%
Manufacturing	1,300	1,300	0	0.0%	1,150	-150	-11.5%	1,100	-50	-4.3%
Trade, Transportation, Utilities	7,100	6,950	-150	-2.1%	6,900	-50	-0.7%	6,950	50	0.7%
Retail Trade	4,250	4,300	50	1.2%	4,250	-50	-1.2%	4,300	50	1.2%
Trans/Warehousing/Utilities	550	500	-50	-9.1%	500	0	0.0%	500	0	0.0%
Information	1,300	1,250	-50	-3.8%	1,250	0	0.0%	1,250	0	0.0%
Financial Activities	1,350	1,400	50	3.7%	1,450	50	3.6%	1,450	0	0.0%
Professional & Business Svcs	3,200	3,400	200	6.3%	3,600	200	5.9%	3,700	100	2.8%
Educational & Health Services	3,000	3,150	150	5.0%	3,300	150	4.8%	3,400	100	3.0%
Leisure & Hospitality	3,750	3,750	0	0.0%	3,750	0	0.0%	3,750	0	0.0%
Other Services	1,150	1,150	0	0.0%	1,200	50	4.3%	1,200	0	0.0%
Government	13,200	13,500	300	2.3%	13,400	-100	-0.7%	13,400	0	0.0%
Federal Government	1,750	1,850	100	5.7%	1,850	0	0.0%	1,850	0	0.0%
State Government	5,450	5,650	200	3.7%	5,600	-50	-0.9%	5,600	0	0.0%
Local Government	5,950	6,000	50	0.8%	5,950	-50	-0.8%	5,950	0	0.0%

Notes for Exhibits 2, 4, 6, and 8:

¹ Subtotals may not add due to rounding.

² Goods-producing industries include: Natural Resources and Mining; Construction; and Manufacturing.

³ Service-providing industries include: Trade, Transportation and Utilities; Information; Financial Activities; Professional and Business Services; Educational and Health Services; Leisure and Hospitality; Other Services; and Government.

⁴ CES March 2002 Benchmark

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