

Oil losses to slow state's job growth

Alaska's economy will continue to grow through 2000, although forecast employment growth rates in 1999 and 2000 will be among the slowest in Alaska during the last 10 years. (See Exhibit 1.) A contracting oil and gas industry and the associated impacts in other sectors of the economy will put the brakes on the state's job growth. In addition, Alaska's public sector is expected to lose jobs in the next two years. Some of these job losses will be due to privatization and others are expected as a result of revenue-related downsizing.

The economy will move forward, though, on the strength of activity in other key industries. Services, air cargo handling, telecommunications, manufacturing, trade, and the visitor sector are expected to combine forces and overcome the job losses expected in the oil industry. (See Exhibit 2.)

This forecast is based on several assumptions. The most important is that there will be no dramatic deviation from the oil price or production levels forecast in the Alaska Department of Revenue's Spring 1999 revenue forecast. Other assumptions key to an industry's outlook are mentioned in pertinent sections later in this report.

Low prices reverse oil industry's momentum

Alaska's oil and gas industry was a key component in the economic rebound that occurred in 1997 and 1998 and is the overriding factor in the state's slower job growth outlook. In the last quarter of 1998, the cumulative effect of more than a year of low crude oil prices began to manifest itself in the

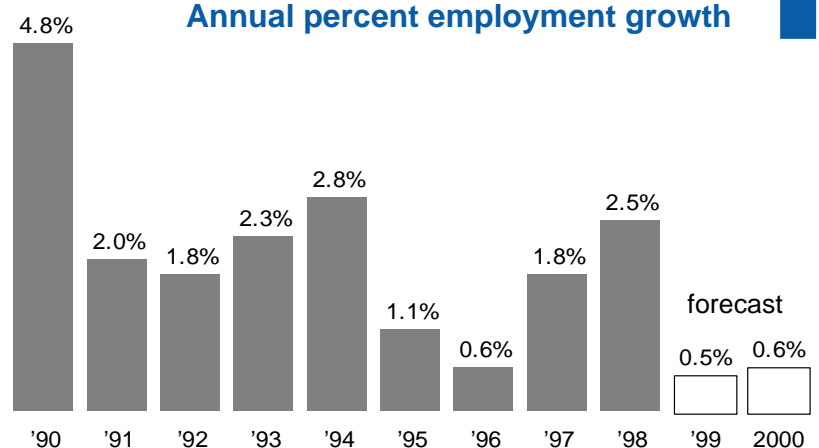
state's oil and gas industry. An industry climate that was decidedly optimistic turned sour. Layoffs mounted and development projects were scrapped. This change in the outlook for one of Alaska's key industries slowed Alaska's job growth.

Oil field service providers are expected to take the lion's share of the oil industry employment losses. Job losses will occur on Alaska's North Slope, but Anchorage, Fairbanks, Kenai and Mat-Su will also be impacted. British Petroleum (BP) laid off personnel in March, and another cut will occur when ARCO's Alpine project winds down. Other industry consolidations and ownership changes are likely.

The planned merger of ARCO and BP would also have a large impact, but probably not until next year. The companies have indicated that at least 400 jobs will be shed in a merger.

Alaska Growth Slows thru 2000

Annual percent employment growth



Source: Alaska Department of Labor, Research and Analysis Section

Services continues growth leadership

As it has for most of the 1990s, the services industry will drive job growth. (See Exhibit 3.) Pacesetters for services growth include hotels and lodging places, amusement and recreation services, business services, social services and the health care industry.

The number of visitors to Alaska has climbed, resulting in increased visitor-related services employment. In the next two years, more tourists than ever will visit Alaska, boosting the number of jobs in the services industry. Employment at hotels and lodging places will grow on the strength of the visitor industry. Hotels that came on line last year will contribute to employment growth by operating for a full year. In addition, new hotels or expansions are scheduled; the biggest single boost will come from the full-service Columbia-Sussex Hotel, which is scheduled to open in Anchorage in 2000. In rural destinations, seasonal lodges catering to fishing, hunting and wildlife-watching tourists will boost summer lodging employment. Amusement and recreation services

employment will also expand along with the number of visitors. Excursion tours, such as float trips, walking tours, and numerous other recreational services are counted in this sector.

A fairly healthy outlook for many parts of the construction industry will help keep professional service providers busy, but they will experience cutbacks due to the tough times in the oil industry. The outlook for business services is also mixed due to the downturn in the oil patch. Some firms, such as data processing firms, are expected to keep staff busy as the deadline to address the "Y2K" problem approaches. For other business services, such as temporary help agencies that provide contract labor to the oil and gas industry, the outlook is for cutbacks in employment.

Privatization of state government services, particularly social services, has been an important source of growth for the services sector. Halfway houses, prison contracts and health and social services for individuals with developmental disabilities are some examples of the state's transfer of employment to the private sector. With the

2 Employment Forecast 1999-2000 Nonagricultural wage and salary — Alaska

	1997 Annual Average	1998 Annual Average	Percent Change 97-98	1999 Annual Average	Absolute Change 98-99	Percent Change 98-99	2000 Annual Average	Absolute Change 99-00	Percent Change 99-00
Nonag. Wage and Salary	268,800	275,500	2.5%	276,800	1,300	0.5%	278,550	1,750	0.6%
Goods-producing	38,000	38,500	1.3	36,950	-1,550	-4.0	36,350	-600	-1.6
Mining	10,000	10,500	5.0	9,300	-1,200	-11.4	8,700	-600	-6.5
Construction	12,800	13,400	4.7	13,300	-100	-0.7	13,100	-200	-1.5
Manufacturing	15,200	14,600	-3.9	14,350	-250	-1.7	14,550	200	1.4
Seafood Processing	9,400	9,200	-2.1	9,100	-100	-1.1	9,300	200	2.2
Forest Products ¹	2,100	1,700	-19.0	1,600	-100	-5.9	1,500	-100	-6.3
Service-producing	230,800	236,900	2.6	239,850	2,950	1.2	242,200	2,350	1.0
Transportation	24,200	25,500	5.4	26,200	700	2.7	26,950	750	2.9
Trade	55,900	56,900	1.8	57,600	700	1.2	58,500	900	1.6
Wholesale Trade	8,800	9,000	2.3	9,000	0	0.0	9,000	0	0.0
Retail Trade	47,100	47,900	1.7	48,600	700	1.5	49,500	900	1.9
Finance/Insur/Real Estate	12,200	12,500	2.5	12,650	150	1.2	12,650	0	0.0
Services & Misc.	65,300	68,500	4.9	70,300	1,800	2.6	72,000	1,700	2.4
Government	73,200	73,500	0.4	73,100	-400	-0.5	72,100	-1,000	-1.4
Federal	17,300	17,200	-0.6	17,000	-200	-1.2	16,900	-100	-0.6
State	21,300	21,400	0.5	21,100	-300	-1.4	20,500	-600	-2.8
Local	34,600	35,000	1.2	35,000	0	0.0	34,700	-300	-0.9

¹ Includes pulp mills and Lumber and Wood Products
Subtotals may not add due to rounding.

Source: Alaska Department of Labor, Research and Analysis Section

state bent on trimming expenditures, further expansion of privatization of this type is certain.

Health care services, the single fastest growing industry during the 1990s, should also grow, although not at the rates posted the last several years. This dynamic sector is expanding due to a number of factors. The rapid aging of Alaska's population is one of these and the migration to Alaska of health care providers to escape managed health care is another. This forecast assumes that between 200-300 of the employees at the Alaska Native Medical Center in Anchorage will move to the private sector through the end of the year 2000. If that facility privatizes in a more rapid fashion, a substantial gain in private health care services would occur, while federal government employment would show a concurrent drop.

Air cargo, ATU privatization drive transportation gain

The air transportation sector, particularly the air cargo business, was one of the state's most dynamic industries last year. Growth will slow during the next two years, but this industry will remain an important source of new jobs. This year will mark the beginning of a major capital improvement effort at the Anchorage International Airport, which will position the industry for future growth.

Outside of air cargo, the airline industry expects some incremental growth, primarily driven by tourism. Lower fuel prices and a healthy national economy should mean some increase to Alaska destinations this season. Smaller air carriers, which are dependent more on the health of the regional economies, will have mixed success.

Communications and utilities, among the fastest growing sectors of Alaska's economy in 1998, will experience continued employment gains. The biggest boost in private sector communications employment will come midway through 1999 when the Anchorage Telephone Utility is privatized. When the transfer occurs, more than 700 local government jobs will move to the private sector. Besides growth due to privatization,

this sector will continue to grow as communications providers expand the products, services and markets they serve in Alaska.

Other segments of transportation have mixed outlooks. Bus and ground transportation will grow in response to increased numbers of tourists. Trucking employment is expected to fall off due to the decreased activity in the oil industry. Trucking of materials to the North Slope, for example, is expected to be significantly down. Pipeline transportation of oil will also be impacted by lower oil prices. Alyeska Pipeline has been undergoing a slow but steady contraction, and its employment levels will continue to decrease as pump stations along the Trans-Alaska Pipeline are closed and the company downsizes.

Alaska's water transportation sector will do well to maintain its 1998 levels. The slower economy is bound to impact the volume of goods barged to and within Alaska. However, tourism-related sectors of water transportation will help offset those losses. For example, boat charters and water-based sightseeing excursions should benefit from an increased number of visitors.

Mining industry regroups

After a period of rapid expansion, mineral mining fell back in 1998. Low gold prices hit placer gold mining operations particularly hard, and several small to mid-size mines curtailed or ceased operations. Alaska Gold in Nome and the Illinois Creek mine were among the operators downsizing.

Expectations for continued low minerals prices, particularly gold, during the next two years mean a low profile for this industry. The two most promising projects for a major boost in employment, the Pogo project near Delta Junction and the Kensington north of Juneau, will not deliver more jobs during the forecast.

Expansion of Alaska's existing mines may provide some incremental increases in employment. For example, the consolidation of several gold properties near the Fort Knox mine in Fairbanks may create some additional jobs.

Construction stays on course

Alaska's construction sector put in a solid performance last year, and although a slight downturn is expected, it should hold relatively steady through 2000. Highway and street construction activity will bolster the industry due to the tremendous planned increase in federal highway funds. Residential building construction is likely to fall off in most areas of the state, but the economic momentum of low interest rates and employment growth should still mean a fairly good performance. Commercial construction's performance will hinge on the extent of building that occurs related to large retail outlets. Some of these projects appear certain to occur, while others may not materialize. Tourism-related construction should augment the expected retail construction.

The last two years have been fairly strong for residential construction. Last year, the total number of building permits for residential construction increased 11 percent over 1997. Anchorage, the Mat-Su Borough, and Fairbanks were the hotspots in 1998, while activity slowed elsewhere in Alaska. Early indications for 1999 portend a slower year. Anchorage, Fairbanks and the Mat-Su Borough are expected to have the most activity again in

1999. In rural Alaska, residential activity should run close to last year's levels. In 1998, the U.S. Department of Housing and Urban Development and the Alaska Housing Finance Corporation financed most rural residential construction. The state's regional housing authorities will again be active with pockets of housing activity occurring throughout rural Alaska.

Federally funded building construction will also provide a significant stimulus through 1999. Military construction projects will be a major source of activity, with retail facilities, base infrastructure and housing upgrades all contributing during the next two seasons.

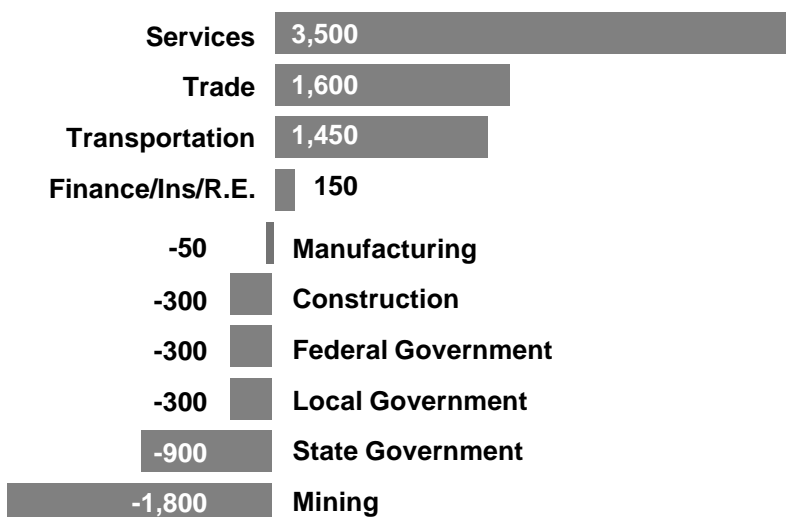
State-funded building construction will occur at both the University of Alaska and state agencies. Research facilities and maintenance projects are the big ticket projects on the University's docket. A \$22 million state courthouse facility in Fairbanks will be among the larger agency facilities under construction. Youth detention facilities, a 15-bed facility in Palmer and a 30-bed expansion of Anchorage's McLaughlin Youth Center are also scheduled. A \$40 million replacement of Anchorage's Sixth Avenue Correction Center is also on the state's construction docket.

At the local level, both Anchorage and Fairbanks will continue on projects related to previous school bond issues. A number of schools are scheduled for renovation or construction. Juneau will build a new police station, and if a bond issue passes, the beginning phases of a new high school could be underway in the 2000 construction season.

An increased budget in each of the next two federal fiscal years insures that highway, street and community transportation programs will make a solid contribution to construction employment. Airport-related construction will also make a significant contribution to employment, particularly the planned renovation and expansion projects slated for Anchorage International Airport.

Commercial construction will make a significant contribution in the next two years. Hotel construction will continue at a reduced pace, but

3 Job Growth 1999-2000 Led by Services, trade, transportation



Source: Alaska Department of Labor, Research and Analysis Section

the biggest boost could be from a new round of retail expansion. Wal-Mart is considering as many as five new locations, and Fred Meyer is planning on at least two new stores. In addition, Office Max and Home Depot may be positioning themselves for building in new locations.

Retail poised for growth

With new facilities on the verge of opening and more under consideration, the retail sector is poised for expansion. General merchandise stores, led by planned Wal-Mart and Fred Meyer expansions, should contribute to job growth, particularly by 2000.

Alaska's food stores are going to be subject to downsizing, partly due to the sale of Alaska's largest grocer, Carrs, to its second largest, Safeway. Under current sale conditions, Safeway must sell seven stores throughout the state for the merger to go through. While it is anticipated that the stores will be sold, any new entrant will probably come in with a lower level of employment than currently exists at those stores. In the longer term, the loss of the Carrs' administrative functions is also likely.

Eating and drinking establishments will be a critical factor in retail employment growth during the next two years. Last year, this sector surged on the strength of new establishments and food service activity associated with the tourism and oil industries. New establishments will continue to ratchet up employment during the next two years; however, an overall slower economy portends fewer new restaurants opening. Catering and food service firms are also unlikely to be the source of growth that they were in 1998. It's more likely that these firms will drag industry growth downward during the next two years. This points to slower growth in eating and drinking places.

In the building materials and furniture store sectors, employment will receive a boost if the rumored Home Depot store comes to fruition. If it doesn't, a slower residential construction outlook is likely to limit any gains. Elsewhere, Alaska's burgeoning tourism industry should lift retail trade employment as new gift shops vie for the growing tourist trade.

Financial sector stable

The finance, insurance and real estate portion of the economy will hold steady during the next two years. Alaska's Native corporations show the most potential for growth during the next two years; however, the varied business activities that they are currently investing in will show up in a broad range of industries, including finance. Rural housing authorities have been particularly active the last several years, and they could provide some stimulus for growth. Alaska's banking sector is relatively healthy, but competitive pressure and technological changes are forcing banks to cut back on personnel. One exception to this trend has been a steady flow of refinancing activity spawned by low interest rates.

Fish plant may stem manufacturing slide

After losing jobs last year, Alaska's wood products industry has dim prospects for the next two years. In the seafood processing sector the outlook is uncertain; however, the new Alaska Seafood International plant could reverse the manufacturing industry's fortunes.

Alaska's forest products industry is expected to experience slight job losses in 1999 followed by slightly sharper declines in 2000. This year staff levels associated with closure of the Ketchikan Pulp Company pulp mill are expected to wind down. The Asian market for round log exports is not expected to recover enough to raise the low level of logging activity experienced in 1998. In 2000, it appears that more sawmill jobs will be lost as harvest from the Tongass continues to decline.

Alaska's seafood processors are entering the 1999 season with caution. Salmon, Alaska's primary species, faces an uncertain outlook. Underlining the uncertainty is the Alaska Department of Fish and Game's 1999 forecast for sockeye salmon returns in the Bristol Bay region. The forecast calls for nearly 14 million fish to be harvested, but the expected range swings from nine million to 43 million. The good news for fishers is that if the fish come in there could be better prices. Last February, frozen Bristol Bay sockeye was selling for nearly

\$2.60/lb.; now it's close to \$4.40. The uncertainty of the run has already taken one processor out of the picture. Trident Seafoods announced that it will not operate its South Naknek plant this year. Bristol Bay isn't the only place feeling the pinch though; salmon processors are struggling all over the state. For example, Ward Cove Packing shut its Kenai plant after operating there for over 75 years, and it looks as if Icicle Seafoods will not reopen its Homer facility.

The most positive employment development for Alaska's seafood industry in years could be the opening of the Alaska Seafood International plant in Anchorage later in 1999. The plant will face extreme challenges, but if all goes as planned there could be 450 new manufacturing jobs in the seafood processing industry by the end of 2000.

Privatization, fiscal pressures will shrink public sector

Most of the federal government's downsizing effort appears to be over in Alaska. However, even if the federal government held steady, privatization at the Alaska Native Medical Center would lower employment levels. Other areas are vulnerable to slight losses. Civilian jobs associated with Alaska's military installations could fall. The Forest Service is likely to continue shedding personnel associated with the Tongass timber harvesting program. The forecast assumes that there will be no takeover of subsistence management by the federal government and that the privatization of the Alaska Native Medical Health Center results in gradual reductions to federal employment. Offsetting these losses somewhat will be a temporary boost in employment associated with the 2000 Census.

State government employment is forecast to move steadily downward. Spending is being ratcheted down, and lower employment counts are likely to result. Attrition, retirements and privatization of some state services will also reduce employment levels. The University of Alaska is also feeling the budget pinch, but it is expected to hold its employment counts relatively stable for the forecast period.

Local government, particularly in Anchorage, will also decline due to privatization of the municipally owned Anchorage Telephone Utility. This will amount to a job loss of about 700 during the next two years. Current state government plans to reduce local government revenue sharing will also place additional fiscal constraints on local government employment. For the last several years, the element of local government that has grown the most has been school districts, in response to increased enrollment and the call for lower teacher/pupil ratios. It is anticipated that this trend will continue but at a much slower pace.

Growth continues to 2001

This two-year employment forecast predicts continued employment growth, with gains under one percent in 1999 and 2000. Services, tourism, telecommunications, the air cargo industry, manufacturing and retail trade will spur job gains despite grim outlooks for the oil and gas and public sector. If projections come to pass, by 2001 Alaska will enter the new millennium riding a 13-year growth wave.

Given the uncertainties about oil prices, caution is advised. If events play out differently than assumed, job growth could easily surpass what is forecast.

What if?

Several key assumptions underpin this forecast. Different assumptions could change the outlook. First, world oil prices or Alaskan oil production always have the potential to substantially impact employment. At this writing, the price of Alaska North Slope crude oil has recovered to nearly \$14 per barrel. If prices were to continue improving for most of the year, the outlook for oil and gas mining, the public sector, and support sectors of the oil industry would be significantly brighter.

While it's not as important a commodity to the Alaska economy as oil, gold with its current low price affects the poor outlook for Alaska's mining industry. If gold prices improve significantly, developments currently on the back burner could be pushed forward.

Uncertain times ahead in 1999-2000

Due to rock bottom oil prices, "murky" is the best description of the forecast for the years 1999 and 2000. Oil layoffs, merger of the state's two largest oil companies, and state government's fiscal problems loom large. But there is more to Anchorage's economy. Only last year, employment in Anchorage showed the most robust growth since 1990. This momentum and other developments should enable Anchorage's economy to eke out some growth over the next two years.

There will be growth in services, transportation, the visitor industry and possibly a bit from retail. Construction, the federal government and a few other industries will help provide stability. The booming national economy is also providing Anchorage with a shot in the arm. A lot of money is finding its way into retail, health care, hotels and other local industries. Erasure of the federal budget deficit has freed up federal money for Alaska.

The oil industry will lose substantial ground and the state government workforce is likely to shrink. The headquarters city to the oil industry and home to the largest state government workforce cannot ignore developments affecting these industries.

Not much good news in the oil patch

After coming off a stellar year, the oil industry quickly began to implode with the dawn of 1999. Low oil prices are bringing the industry some of its biggest losses. A growing list of promising oil projects has quickly become a string of indefinite delays and cancellations. British Petroleum (BP) led off with the bad news by announcing a 620-person layoff, 410 of them in Anchorage. Approximately 220 of these lost jobs were actual

BP employees and the rest were contract workers. Most of these contract workers were service industry employees, not employees of the oil industry. NANA services was the single largest group of contract workers that lost jobs.

Beyond BP's layoffs, many oil field service companies have either already cut workforces or plan to in 1999. A spate of consolidations among oil service companies is likely. The merger of ARCO-BP will cost the oil patch at least an additional 400 jobs in the year 2000. As headquarters city to both these companies, Anchorage will feel the brunt of these losses.

Oil industry employment is forecast to decline nearly 15 percent in 1999 and another 17 percent in 2000, leaving Anchorage with its smallest oil industry workforce in 20 years.

One positive is the development of the Alpine oil field. When it comes on line in 2000, it is expected to slow the decline in North Slope production.

Construction should remain strong

Construction will maintain its role as one of Anchorage's most stable industries. 1998 was construction's best year in Anchorage in over a decade. In 1999 and 2000 employment levels should remain healthy, even if the construction mix changes. Hotel construction will wind down but retail-related construction will take up some of that slack. Publicly funded construction will move to the forefront with the reconstruction of the Anchorage International Airport, the biggest highway construction season in years, and a new \$40 million jail.

Anchorage highway contractors will be major beneficiaries of the new highway appropriation bill passed last year by Congress. Federal dollars in Alaska will climb to \$312 million in future years, a 47 percent increase. The biggest highway project will be the \$59 million Whittier access tunnel, which opens to the public in May of 2000. Most of the work on the \$20 million Minnesota/International Airport Road will be completed this year. There is a host of other smaller highway projects in Anchorage. Other large projects on the Glenn/Parks Highway and the Sterling Highway will provide work for Anchorage's road contractors.

New federal construction dollars are also flowing into projects for the Alaska Railroad and the Corps of Engineers. During the next two years, both organizations have plans for very busy construction seasons.

Over the past five years, growth in air transportation at Anchorage International Airport has represented one of the strengths in the city's economy. During the next three years, the reconstruction and expansion of the airport may represent Anchorage's single largest construction project. The total price tag for all related activity may run as high as \$200 million. Demolition of Concourse C and some road construction will dominate this project in 1999. By the year 2000, major building construction will begin. The private sector will also play a role at the airport. Williams-Mapco/Lynx is building a \$10 million CargoPort project

this year. There is a good possibility of more private investment for warehouse/apron space in 2000.

School construction should also pick up in 1999. Three new elementary schools and four major renovations are already funded. If voters approve the school district's \$172 million bond issue, a new high school will be built and other major renovations take place in coming years.

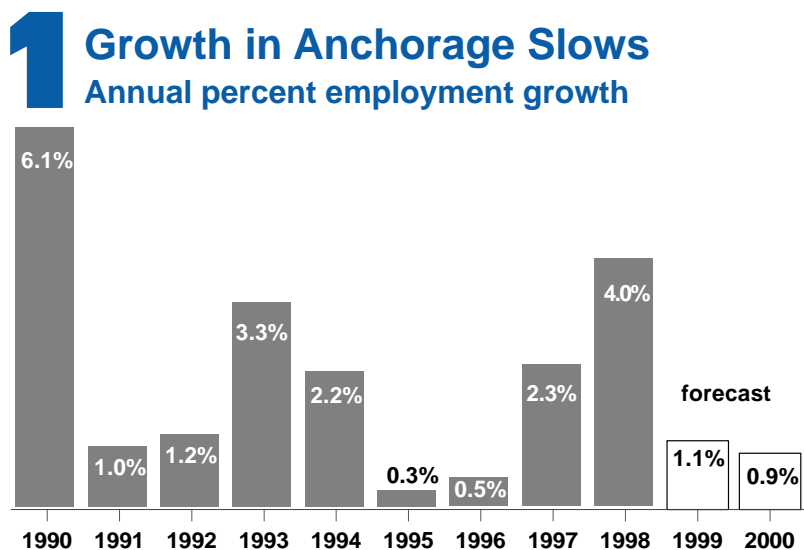
Except for the Columbia-Sussex, nearly all new hotel construction will be completed by mid-year. A spate of new retail-related construction activity will then move into place. This includes new Fred Meyer and Wal-Mart stores and a 20-store outlet mall in Eagle River, an Office Depot (possibly two) and possibly another Home Depot. A new Fred Meyer and Wal-Mart being built in Wasilla are also good news for Anchorage contractors.

In 1998, Anchorage had its biggest year for home construction since 1985 and the fifth straight year of growth. Uncertainties created by very low oil prices are likely to put a crimp on the housing market in the coming years. There are positives, however; inventory is low and interest rates remain very attractive.

Air transportation should remain aloft

One of the star players in Anchorage's economy in the 1990s has been air transportation, and this trend should continue through the year 2000. It is hard to overstate the importance of the airport to Anchorage's economy. Anchorage International Airport generates \$890 of payroll per capita in Anchorage, the highest of any city in the nation. This is because the airport provides the major intra- and interstate links, and has become one of the nation's largest international cargo centers. The biggest player in this market is Federal Express, whose employment crested the 1,000 mark in 1998 and will continue to grow in 1999.

The air cargo industry predicts moderate growth in 1999 and stronger growth in 2000 as the Asian economy recovers. Atlas Air, a major cargo carrier, will soon base more of its crew in Anchorage.



Source: Alaska Department of Labor, Research and Analysis Section

Healthy visitor seasons should also bode well for air transportation. However, the slowdown in the oil patch, two back-to-back fish busts in Bristol Bay and travel restrictions in state government will continue to dampen segments of this market. A few regional carriers with operations in Anchorage closed their doors or curtailed operations in recent months. Even with these potential negatives, air transportation employment should grow through 2000, albeit at a more moderate pace than last year. Long-term optimism for air transportation's potential is translating into current major public and private sector investments at the airport (see construction section).

Manufacturing and communications up

The opening of the new Alaska Seafood International plant could turn manufacturing into a real factor in the Anchorage economy. It will be the first company in Alaska to mass-produce value-added, ready-to-eat seafood products for national and international markets. It plans to gear up with a workforce of over 100 in 1999, and by the end of 2000 it could reach 450.

The communications sector will continue transforming. Its biggest boost will come from the transfer of the Anchorage Telephone Utility to the private sector (see discussion under public sector). Given the rapid changes taking place in communications technology and an increasingly competitive environment, existing providers will continue to grow and new providers will enter the market, further boosting employment.

Another solid visitor season predicted

The visitor industry remains a positive in Anchorage's economy, providing major benefits to the transportation, retail and service industries. Another good visitor season is on its way. The national economy remains remarkably healthy, and Alaska's largest source of visitors, older Americans, continues to grow. In addition, Anchorage will be offering both new hotel capacity and new visitor attractions.

Three new hotels will be open for business this visitor season. They are the Holiday Inn Express,

the Marriott Residence Inn and the Hawthorne Inn. By the end of this year, more than 1,000 rooms will have been added to Anchorage's inventory since 1997. Although more hotel rooms do not guarantee that more visitors will come, it signals that many believe that plenty of potential for growth still exists in this industry. Increased choices for visitors and a more competitive market during the peak season should bode well for growth. Anchorage's largest new hotel, the Columbia-Sussex, will be in full operation for all of 2000. Two new major attractions will vie for visitors. The Native Cultural Center will employ approximately 120-140 workers between May and September. Prince William Sound will become more accessible by road from the Anchorage area in 2000 with the completion of the Whittier tunnel.

Services to create the largest number of jobs

Anchorage's labor force would be hard pressed to grow without help from services in 1999 and 2000. Given its eclectic nature and the broad economic trends that grip the economy, services will nearly always be the largest generator of jobs. The industry includes a diverse mix of activity from health care, hotels, engineering and management services, personnel services, computer services, law firms, social services and many others. Growth in tourism, the privatization of public services, the increasing use of out-sourcing and the contract workforce, growth in health care and the expansion of technology ensure its future growth. Sometime during the next decade, services will surpass the public sector as Anchorage's largest employer.

Services growth during the next two years will be moderated by tough times in the oil patch. For example, the lion's share of BP's layoffs will be in the service sector, not the oil industry (see oil patch discussion). This means some personnel supply firms, technology companies, engineering and management firms are feeling the adverse effects from the troubled oil patch. Falling state revenues could also slow services' momentum. Cuts in state spending could translate into less money flowing to the nonprofit social services agencies. However, the positives should still outweigh the negatives.

Health care, the single largest player and biggest

contributor to services' job growth, will continue to march forward. Some of this growth will come from privatization of the Alaska Native Medical Center. By the end of the year 2000 between 200-300 of these 1,200 now federal positions will move into the private health care sector. However, most of the growth in this sector will come from real growth in health care services. This is because of technology, an aging population, and the migration of health care professions to Alaska to escape managed care. This expansion of health care services has also meant more Alaskans seeking health care can now find it locally, which in turn further increases demand. Both local hospitals will expand their facilities over the next two years and offer more services. Other health providers, such as Health South, are also planning expansions.

Another boost to services is coming from the boom in hotel construction that began in 1997. Four new hotels in Anchorage will open their doors in 1999 – three of which will be ready for the visitor season (see discussion under tourism). The three that will be open in 1999 provide limited services, and will employ a combined workforce of approximately 100-120. The full service, 370-room Marriot Columbia-Sussex will employ a workforce of approximately 250-300.

City's finance sector will remain stable

After four years of no change in the banking community, low interest rates, a strong housing market, and healthy balance sheets provided the finance industry with a moderate boost to employment in 1998. Over the next two years, employment in this industry will remain largely unchanged. Even if the housing market cools, continued healthy balance sheets and low interest rates should ensure stability. Northrim Bank recently bought out most of Bank of America's interests in Anchorage. Northrim is offering nearly all of Bank of America's employees jobs. It believes this acquisition will translate into a net gain in employment because Bank of America had been shipping some of its work Outside, while Northrim plans to handle this work locally.

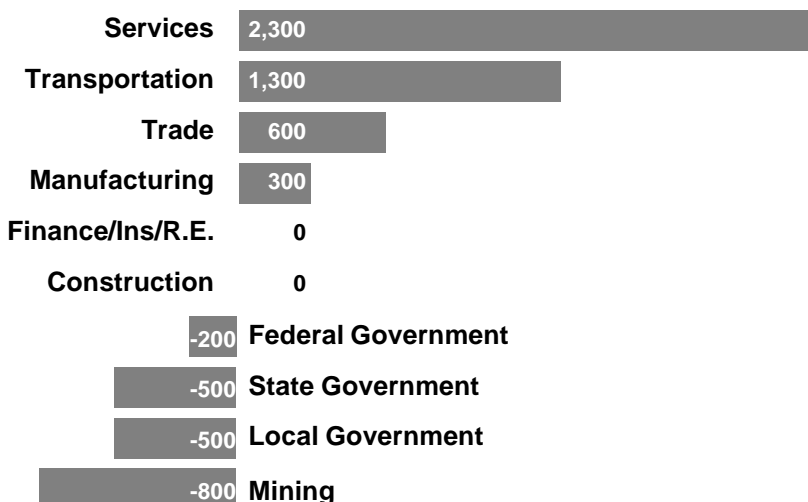
Carrs buyout muddies the retail picture

After a year of moderate employment growth, 1999 employment should remain close to present levels. By 2000, when several new retailers begin to open their doors, there could be a small growth spurt. One reason for the lackluster performance is an expectation that the Carrs buyout will ultimately cost some retail jobs. No new large retailers plan to enter the market in 1999. Although it is assumed that all of the current Carrs and Safeway stores will remain open through the forecast period, staff levels at some stores are likely to fall. A larger impact will be felt eventually when many of Carr's administrative functions now performed in Anchorage are shifted to Safeway's out-of-state offices.

One very dynamic segment of retail in 1998 was the restaurant trade. Half of the new retail jobs in Anchorage came from eating and drinking places. A new Benihana's will open and there will be others. The outlook is influenced by the trend toward people eating out more and expected healthy visitor seasons.

The year 2000 should shape up as a stronger year for retail trade. By 2000 a new Wal-Mart, Fred Meyer and a 20-store Eagle River Outlet Mall will open their doors, adding approximately 500-600 retail jobs. Other retailers could also appear.

2 Services and Transportation Will create most new Anchorage jobs



Source: Alaska Department of Labor, Research and Analysis Section

State budget bad news for public sector

After years of downsizing, it appears federal employment will remain relatively stable across the forecast horizon. The 2000 Census conducted by the U.S. Census Bureau will boost federal government employment. Federal employment drifts down a bit in the forecast due to the transfer of the Alaska Native Medical Center to the Alaska Native Tribal Health Consortium, a nonprofit health organization, in January. As turnover occurs, these federal employees will be replaced by private sector health workers in the service industry. Most people believe this transition will be a slow process.

State government is facing a tough period. With an expected billion-dollar deficit for the upcoming fiscal year and low oil prices forecast for the following year, the state's workforce is forecast to decline over the next two years. At the time of the forecast, it was uncertain what shape the solution to this fiscal problem would take. Deep cuts were not assumed in this forecast. Instead, a combination of moderate cuts along with a continued hiring freeze will cause the state workforce to decline over the next two years. If cuts are more drastic, these losses could be considerably larger.

Local government's employment numbers are

forecast to decline because the sale of the municipally owned Anchorage Telephone Utility (ATU) will be finalized by this May. The ATU workforce of 700 will then be moved to private sector communications, reducing local government employment by 350 in each forecast year. Moderate growth in school enrollments is predicted. However, state budget cuts, such as revenue sharing, could offset any of these possible gains.

Summary: Economy will slow

Unlike last year, the economy will dish up a mixed story over the next two years. Greater uncertainty will be part of the economic environment, thanks to very low oil prices. The strong gains of last year will become much smaller gains. Employment increases in services, the visitor sector and air transportation should offset job losses in the oil patch and the public sector.

Although growth is forecast to slow and layoffs will be a more common feature of the landscape, the job market will perform a bit better than expected given the circumstances. Unemployment rates could remain below average. The nation's booming labor market should continue to keep job seekers from looking North, staving off what could develop into a very competitive job market.

Wage and Salary Employment Forecast Anchorage 1999-2000 3

	1997 Annual Average	1998 Annual Average	Percent Change 97-98	1999 Annual Average	Absolute Change 98-99	Percent Change 98-99	2000 Annual Average	Absolute Change 99-00	Percent Change 99-00
Nonag. Wage and Salary	123,900	128,900	4.0%	130,300	1,400	1.1%	131,500	1,200	0.9%
Goods-producing	10,900	11,600	6.4	11,400	-200	-1.7	11,200	-200	-1.8
Mining	2,400	2,700	12.5	2,300	-400	-14.8	1,900	-400	-17.4
Construction	6,600	7,000	6.1	7,000	0	0.0	7,000	0	0.0
Manufacturing	2,000	2,000	0.0	2,100	100	5.0	2,300	200	9.5
Service-producing	113,000	117,300	3.8	118,900	1,600	1.4	120,300	1,400	1.2
Transportation	12,300	13,200	7.3	13,800	600	4.5	14,500	700	5.1
Trade	30,700	31,300	2.0	31,600	300	1.0	31,900	300	0.9
Wholesale Trade	6,300	6,500	3.2	6,500	0	0.0	6,400	-100	-1.5
Retail Trade	24,400	24,800	1.6	25,100	300	1.2	25,500	400	1.6
Finance/Insur/Real Estate	7,200	7,500	4.2	7,600	100	1.3	7,500	-100	-1.3
Services & Misc.	34,900	36,600	4.9	37,600	1,000	2.7	38,900	1,300	3.5
Government	27,900	28,600	2.5	28,300	-300	-1.0	27,500	-800	-2.8
Federal	10,000	10,100	1.0	10,000	-100	-1.0	9,900	-100	-1.0
State	8,100	8,300	2.5	8,200	-100	-1.2	7,800	-400	-4.9
Local	9,900	10,300	4.0	10,100	-200	-1.9	9,800	-300	-3.0

Subtotals may not add due to rounding.

Source: Alaska Department of Labor, Research and Analysis Section

Fairbanks Forecast

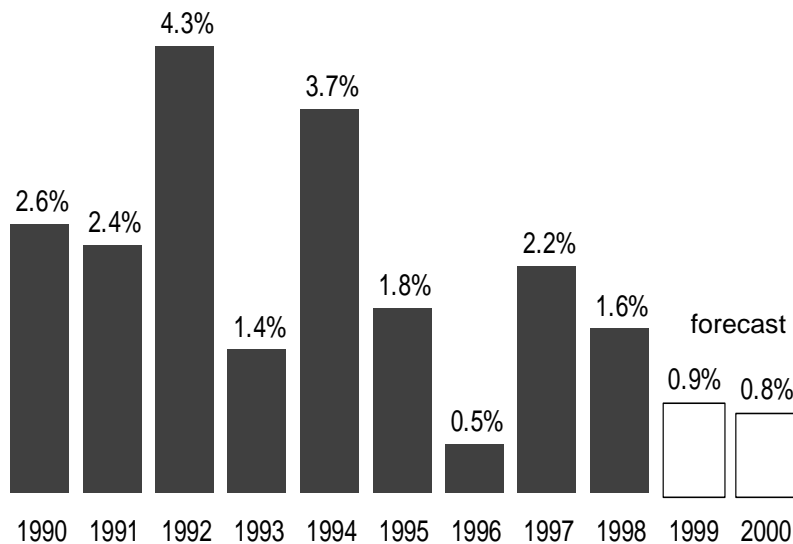
by
Brigitta Windisch-Cole
Labor Economist

Economy will stay on track in 1999-2000

Wage and salary employment in Fairbanks will continue to grow, albeit at a slower pace during the next two years. This forecast calls for 0.9 % growth in 1999 and 0.8 % in 2000. (See Exhibit 1.) Although Fairbanks' economy will not create many jobs in the next two years, no major setbacks should occur in either year. In spite of the uncertainties surrounding the oil and gas industry and the state's budget, Fairbanks' economy will most likely stand on firm ground.

During 1999, only a few changes will occur. (See Exhibit 2.) The services sector is expected to create the most jobs, whereas in the year 2000 retail employment will increase the most. Construction employment will grow during 1999 but it will slow in 2000. Tourism will again help boost summer employment levels. The transportation, communications and utilities industries will net a small gain in employment in 1999 and remain level in 2000. There will be fewer jobs in both the oil and gas and gold mining industries. (See Exhibit 3.) Vendors and service providers under contract with the oil industry will feel the downturn in oil industry-related activity. A tight university budget and the state's hiring freeze will subtract from state employment. The school district will drive up employment in local government but only marginally in both years. Employment changes in other industry sectors will be minimal.

1 Fairbanks Keeps on Plugging Away Annual percent employment growth



Source: Alaska Department of Labor, Research and Analysis Section

Construction stands on solid ground

Although building activities have picked up in recent years and will be strong again in 1999 and 2000, construction employment is far from reaching the highs of the building boom of the mid-1980s. No single project dominates the overall construction scene but a string of good-size projects will keep Fairbanks crews busy. In fact, the 1999 and 2000 seasons could become the second and third best since the building heyday of the early to mid-1980s. So far in the 1990s, 1995 was the best year for construction employment, when building the Fort Knox Mine coincided with the Healy Clean Coal Project. Combined costs of these projects were over half

a billion dollars. Despite a lack of huge dollar projects, Fairbanks' construction schedule is heavily booked this year and is already filling up for the 2000 season.

Public sector construction will dominate the construction scene in 1999. Three school projects—Danby Middle School, West Valley High and North Pole Elementary carry over from last year. Renovation of the Hunter and Badger elementary schools, estimated to cost about \$5 million, will start this year. If voters pass bond issues this fall for school capital projects, the upgrades of Denali and Nordale elementary schools and the Hutchison Career Center will be put on the year 2000 construction list.

The University of Alaska Fairbanks plans to spend about \$5 million on construction from its 1999 capital budget. Deferred maintenance work on campus, the Lidar Research Laboratory and Range Administrative Center, both on Poker Flats, are the

main projects. Next year, the university will add a new wing to the museum and will receive \$2.5 million in federal funds for this expansion.

The largest construction project in Fairbanks will be the Alaska State Court House, a \$22 million project scheduled to start this year. There will be about \$13 million worth of road work in 1999, including work on the Richardson Highway, Steese Highway, and the College Road-University Avenue intersection. Upgrades to the Fairbanks Airport terminal parking area are scheduled. The Fairbanks economy should also benefit from work on the Dalton Highway including two replacement bridges at Atigun. Several significant projects will be let later this year, including continued reconstruction on the Steese Highway, Trainor Gate Road and the McGrath Road Bike Path. Fairbanks contractors will work on two other state projects in 1999—the Department of Fish and Game's Hunter Education Building and the National Guard Readiness Center.

Wage and Salary Employment Forecast Fairbanks 1999-2000 2

	1997 Annual Average	1998 Annual Average	Percent Change 97-98	1999 Annual Average	Absolute Change 98-99	Percent Change 98-99	2000 Annual Average	Absolute Change 99-00	Percent Change 99-00
Nonag. Wage and Salary	32,050	32,550	1.6%	32,850	300	0.9%	33,100	250	0.8%
Goods-producing	3,350	3,200	-4.5	3,225	25	0.8	3,125	-100	-3.2
Mining	1,150	900	-21.7	850	-50	-5.9	800	-50	-6.3
Construction	1,650	1,750	6.1	1,800	50	2.8	1,750	-50	-2.9
Manufacturing	550	600	9.1	575	-25	-4.3	575	0	0.0
Service-producing	2,500	2,950	18.0	2,975	25	0.8	2,975	0	0.0
Transportation	28,750	29,350	2.1	29,625	275	0.9	29,975	350	1.2
Trade	6,800	6,950	2.2	7,000	50	0.7	7,250	250	3.4
Wholesale Trade	850	850	0.0	900	50	5.6	900	0	0.0
Retail Trade	5,950	6,100	2.5	6,100	0	0.0	6,350	250	3.9
Finance/Insur/Real Estate	1,050	1,100	4.8	1,125	25	2.2	1,125	0	0.0
Services & Misc.	7,900	8,050	1.9	8,250	200	2.4	8,350	100	1.2
Government	10,550	10,300	-2.4	10,275	-25	-0.2	10,275	0	0.0
Federal	3,350	3,300	-1.5	3,300	0	0.0	3,325	25	0.8
State	4,200	4,200	0.0	4,150	-50	-1.2	4,100	-50	-1.2
Local	2,950	2,800	-5.1	2,825	25	0.9	2,850	25	0.9

Subtotals may not add due to rounding.

Source: Alaska Department of Labor, Research and Analysis Section

The military will spend about \$41 million on Eielson Air Force Base this year. The largest project will be the conversion of eight-plexes into four-plexes for Air Force personnel and their families. The project will cost over \$10 million. In 2000, the Eielson runway will be repaired. Fort Wainwright lists the barracks renewal project as its largest this year. In 2000, a power plant refurbishment project and an emissions reduction program will start.

Among private sector construction investments, the Doyon office building complex, costing about \$10 million, will be the most prominent. JL Properties will start a renovation program on the Northward Building which will last about three years. In addition, this company is negotiating with the City of Fairbanks to purchase Block 13, a downtown city block, for business development. Construction could start in 2000 and it will cost over \$10 million to renovate. The Fairbanks Memorial Hospital will add a radiation treatment center this year and expects to spend about \$5 million on construction.

Weak commodity prices hold back mining employment

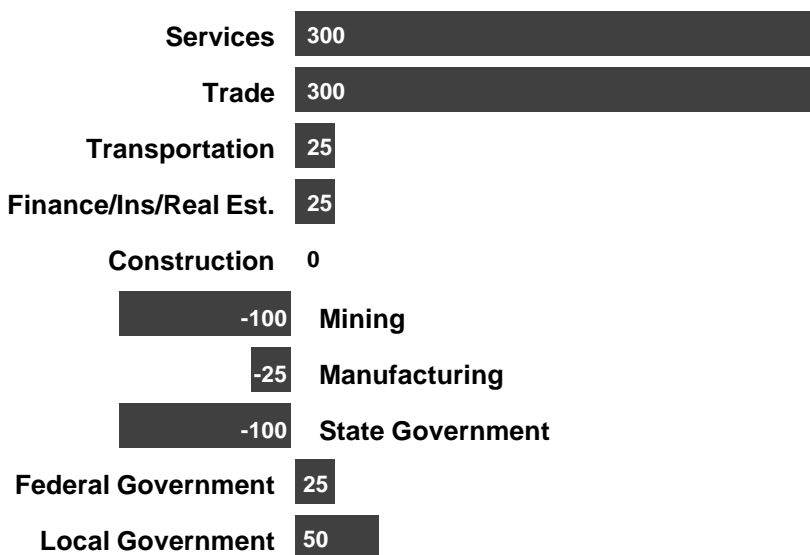
Fairbanks' mining industry outlook is affected by low prices for oil and gold. Low oil prices have halted the development of new oil fields and low gold prices have made mine development chancy. When work on the Alpine oil field is completed, the outlook for oil patch employment will turn bleak. Fewer Fairbanks residents will be working on the North Slope in 1999 and 2000. Although oil and gas employment is small within Fairbanks, many residents earn their livelihood on the North Slope. Fairbanks businesses that supply goods and provide services for the oil industry will be impacted by the slowdown as well.

Exploration of gold deposits around Fairbanks and the Pogo site will continue for the next two years. So far, test results have kept optimism high. Kinross Gold Corporation has acquired several properties in the Fairbanks district and will push ahead with exploration efforts. Moreover, it intends to keep the Fort Knox Mine operating at full capacity. Teck Corporation and Sumitomo Metal Mining will continue their joint venture study at Pogo, a promising site near Delta Junction. The project, however, will not be started within the next two years. Placer miners are adversely affected by low precious metal prices because their unit production costs run high. A few may be forced to scale back operations.

Services employment will grow

Since 1990, services employment in Fairbanks has grown by an average of 3.3% per year. Employment will continue to grow, albeit at a slower pace, in 1999 and 2000. An increasing population, good visitor seasons, and more frequent service contracts with government or other businesses will continue to fuel employment growth. Although no new hotel openings are in the offing, a healthy visitor season is expected in 1999. Business contracts between private sector providers and government will become more common and stimulate services employment.

3 Fairbanks Services and Trade Will create most new jobs in 1999/2000



Source: Alaska Department of Labor, Research and Analysis Section

Although health care will not grow much in 1999, a new cancer treatment center, expected to open early in 2000, will create jobs that year.

Retail will pick up again in 2000

Retail employment growth fell out of step last year when several businesses closed. However, it will take only a short time for retail to regain ground. New restaurants and three new auto parts dealers already have filled some of the void. Although no major new businesses have announced that they will enter the Fairbanks market, it is likely to happen soon. Smaller retail stores and restaurants will fill the gap during 1999, and by 2000 Fairbanks should see a revival of retail business. A new Wal-Mart is still a possibility.

Transportation employment will change little

Transportation employment will grow only marginally in Fairbanks during 1999 and 2000. While pipeline and communications employment may lose some ground, air and ground transportation will grow. Less production at the oilfields could translate into some downsizing at Alyeska Pipeline Service Company. Air cargo flight traffic stopping in Fairbanks for refueling has increased slightly since last year. Lufthansa now lands more often in Fairbanks, and Volga-Dnepr, a Russian cargo airline, makes a fuel stop en route between Japan and Canada. Tourism will also help to keep employment aloft in air and ground transportation.

State government employment levels could topple

The outlook for public sector employment has dimmed with the persistence of low oil prices. State and local government expenditures will be trimmed. Federal spending, however, may increase. Although this forecast assumes that federal employment will not change in Fairbanks in 1999, military station strength could rise.

(Uniformed military personnel are not counted in wage and salary statistics.) Fairbanks' economy would benefit if its bases became deployment centers for military personnel. In 2000, federal employment will grow slightly because Census 2000 workers will conduct their surveys in Fairbanks neighborhoods.

Plagued by low oil prices, state and local government will feel a budget squeeze. Less revenue in the state's coffers will compel some curtailment in employment. Local government will also be affected by slim contributions from the state. It is still uncertain how state government fiscal policy will narrow the budget gap. Assuming that reductions in expenditures will be conservative, job losses in both years should be moderate. Local government, in spite of the squeeze, will increase slightly because of a rise in school district employment.

Summary

Fairbanks' economy will move ahead at a slower pace. Construction will be strong for the next two years. Services will continue its relentless march ahead and create new jobs in both years. The drought in retail will be over soon because new business entrants will compete in Fairbanks' market. Transportation employment will hold its level with only minor changes. However, oil industry-related employment will suffer losses, which will affect Fairbanks' North Slope workers as well as businesses with close ties to the oil industry. Gold mining employment will slow a bit because of low gold prices. Among government employers, the state will suffer most from the bleak outlook for oil revenue, and job losses are predicted. Although local government will receive reduced funding from the state, school employment will go up and mask the downsizing effort of other local government entities. Federal government will be flat except during the Census 2000 surveys. In all, changes in employment will be small in Fairbanks and its economy will remain on firm ground.

Employment expected to slide in 1999-2000

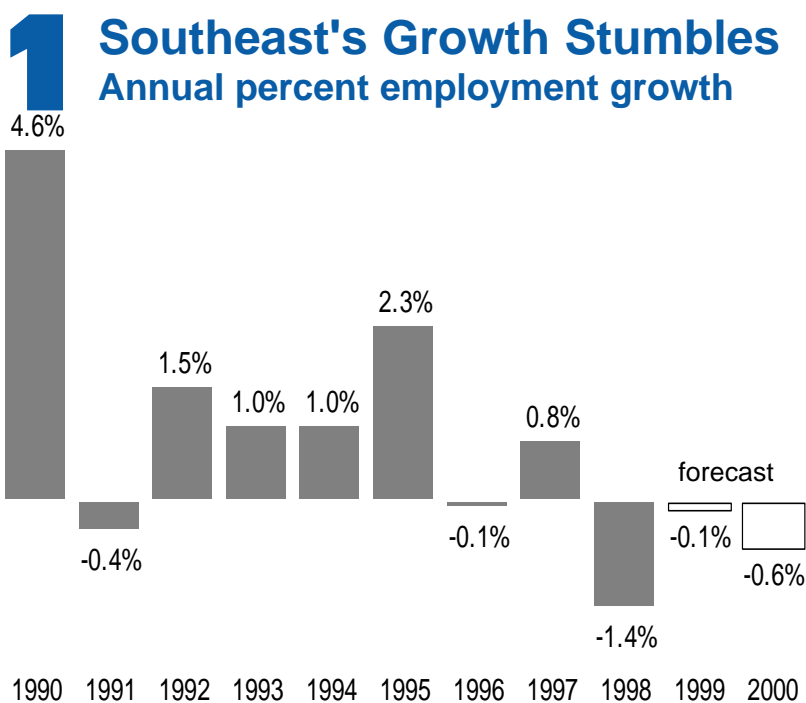
Southeast employment is forecast to drop slightly in 1999. (See Exhibit 1.) Although some industries are expected to post job gains during the year, reduced timber harvests will continue to affect the economy in Southeast. Job losses are expected in the forest products, government and transportation sectors in 1999. Job gains will come from services, seafood processing and retail trade. Tourism will continue to be a significant boost to many sectors of Southeast's economy. However, public sector job losses and low timber harvest levels are likely to carry the region's job losses into 2000. (See Exhibit 3.)

Services will continue to grow

Growth in services employment is expected to continue during 1999 and into 2000. (See Exhibit 2.) The additional jobs are likely to come from amusement and recreation services, health services and business services. Modest employment growth should take place as the Ketchikan General Hospital completes its expansion and incremental employment gains are made in social services. Employment at hotels and motels should remain stable throughout the forecast period. Business services employment is likely to increase as companies prepare their computer systems for the year 2000.

Amusement and recreation services employment should grow in response to increased tourist traffic. Southeast visitor bureaus predict another good tourist season in 1999. Although the number of cruise ships visiting towns will remain about the same, some cruise lines will replace older ships with larger ones that hold more passengers. This increase in the number of passengers will have a positive effect on employment in tour and guiding services and other services provided to cruise ship visitors.

Advance bookings on the Alaska Marine Highway System also look strong for the 1999 season. Response has been good to plans for day boat schedules that sail from Ketchikan and Juneau. The southern day boat will make one round-trip each day between Ketchikan and Metlakatla and on to Prince of Wales. The Lynn Canal trip will provide a daily round trip between Juneau and Haines and Skagway.



Source: Alaska Department of Labor, Research and Analysis Section

Retail should regain some lost ground

In 1999, Southeast should regain some of the retail jobs it lost during 1998 from the closure of JC Penney and Rite Aid. A Wal-Mart is planned for Ketchikan, with construction originally scheduled to start in the spring of 1999. If construction does take place this year, jobs at the store could be included in employment figures for a portion of 1999. The size of the store has not been determined so how many people will be employed when it opens is still unclear. Retail employment growth should also occur with an increase in the number of tourists visiting Southeast communities.

Employment at food stores will stay flat or increase slightly for the next two years. The purchase of Carrs by Safeway should not affect employment in the stores in Ketchikan and Juneau. Likewise, Kroger's purchase of Fred Meyer is not likely to affect staffing levels at the Juneau store.

Mining will provide some job growth

Mining will continue to be a stable employer in Southeast in 1999. Greens Creek will likely maintain 1998 employment levels during the year. Employment should also remain steady at smaller mines in Southeast like Sealaska's limestone mine on Prince of Wales. Incremental job gains from Greens Creek and the smaller mines in Southeast are expected to push up mining employment in 2000.

Coeur Alaska continues to work on a development plan for the Kensington mine. The company had to rework the original plan because recent gold prices would not have produced enough revenue to cover operating costs. Coeur Alaska is waiting for approval of the new plan from the U.S. Environmental Protection Agency (EPA). If the EPA approves the project, work could begin in 2000. Initial gains in employment would be

Employment Forecast 1999-2000 Wage and salary — Southeast

2

	1997 Annual Average	1998 Annual Average	Percent Change 97-98	1999 Annual Average	Absolute Change 98-99	Percent Change 98-99	2000 Annual Average	Absolute Change 99-00	Percent Change 99-00
Nonag. Wage and Salary	35,950	35,450	-1.4%	35,400	-50	-0.1%	35,200	-200	-0.6%
Goods-producing	5,500	5,050	-8.2	5,050	0	0.0	5,050	0	0.0
Mining	350	350	0.0	350	0	0.0	400	50	14.3
Construction	1,700	1,600	-5.9	1,600	0	0.0	1,650	50	3.1
Manufacturing	3,450	3,050	-11.6	3,100	50	1.6	3,000	-100	-3.2
Seafood Processing	1,450	1,400	-3.4	1,500	100	7.1	1,500	0	0.0
Forest Products ¹	1,550	1,200	-22.6	1,150	-50	-4.2	1,050	-100	-8.7
Service-producing	30,450	30,450	0.0	30,350	-100	-0.3	30,150	-200	-0.7
Transportation	2,900	2,900	0.0	2,850	-50	-1.7	2,800	-50	-1.8
Trade	6,600	6,500	-1.5	6,550	50	0.8	6,600	50	0.8
Wholesale Trade	600	600	0.0	600	0	0.0	600	0	0.0
Retail Trade	6,000	5,900	-1.7	5,950	50	0.8	6,000	50	0.8
Finance/Insur/Real Estate	1,550	1,500	-3.2	1,500	0	0.0	1,500	0	0.0
Services & Misc.	7,050	7,350	4.3	7,450	100	1.4	7,500	50	0.7
Government	12,400	12,200	-1.6	12,000	-200	-1.6	11,750	-250	-2.1
Federal	1,950	1,800	-7.7	1,750	-50	-2.8	1,700	-50	-2.9
State	5,350	5,300	-0.9	5,200	-100	-1.9	5,050	-150	-2.9
Local	5,150	5,100	-1.0	5,050	-50	-1.0	5,000	-50	-1.0

¹ Includes pulp mills and Lumber and Wood Products
Subtotals may not add due to rounding.

Source: Alaska Department of Labor, Research and Analysis Section

concentrated in construction, and significant employment gains in mining from Kensington are unlikely within this forecast period.

Construction could gain jobs in 2000

Construction employment is expected to remain flat during 1999. Although residential construction remains strong, job losses in heavy and special trades construction will restrict growth in construction employment. During 1999, crews will work on municipal projects around Southeast, such as the improvements on Tongass Avenue in Ketchikan and road work on Prince of Wales. Construction also began recently on a new police station in Juneau.

Although road projects will be limited to small jobs in 1999, the outlook could change for heavy construction employment in 2000 if work begins on the Southeast Transportation Plan. Details are still being worked out for the plan, but it could involve significant road construction and improvements and ferry terminal upgrades. Several large projects are being planned that could also increase construction employment later

in the forecast period. These projects include a high school in Juneau, development at the Spruce Mill site in Ketchikan, and a museum in Wrangell.

Positive signs for manufacturing in 1999

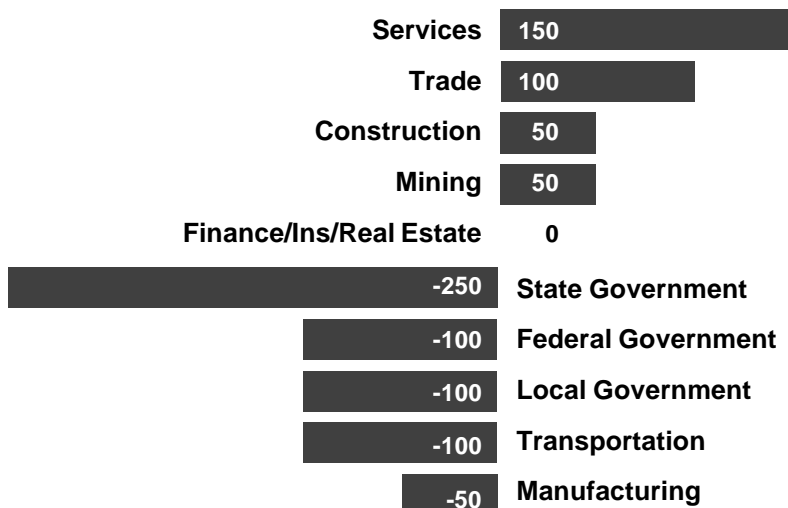
Manufacturing employment is expected to increase this year. Seafood processing will drive the increase. In Petersburg, Norquest will add a canning plant to its seafood processing operations this year. The canning plant will require 100 to 150 peak season employees in addition to approximately 100 seasonal employees hired by Norquest each year in Petersburg. Also, many seafood processing companies were shorthanded during the 1998 season and are looking to employ more workers in 1999.

The timber industry will continue to lose jobs in Southeast, largely due to residual effects from reduced employment at the Ketchikan pulp mill. Low prices for lumber and increased competition from Canada, Russia, and other countries will continue to pressure logging companies. Harvests in the Tongass National Forest and on private land will probably remain similar to 1998 levels. Although the Forest Service has plans to offer several timber stands for harvest during 1999, it is unclear whether there will be sufficient demand for the timber. Sawmill employment is expected to hold steady or decline during 1999. In 2000, it is anticipated that jobs will be lost in sawmills due to reduced timber harvest levels.

Transportation in for a rough ride

Transportation employment is expected to decline during 1999. The declines will come primarily from air transportation, but water transportation could lose jobs as marine cargo handling remains slow in response to reduced logging levels. The air transportation sector will lose jobs from the closure of AirOne and a service cutback by Haines Airways. AirOne employed about 20 workers during the summer of 1998, and the Haines Airways cutback affected 19 workers. Taquan Air, the owner of

3 Services Lead SE Job Growth Employment growth 1999 and 2000



Source: Alaska Department of Labor, Research and Analysis Section

AirOne, plans to hire most of the laid-off AirOne employees for the summer season, but it seems likely that annual employment in the air transportation sector will decrease.

Although the summer tourism season is sure to provide business for the regional air carriers, reduced logging will continue to hurt the airlines during the remaining months of the year. Demand for flights has decreased, especially in rural areas. The service reduction in regional air carriers and reduced logging levels are expected to cause a further decline in transportation employment in 2000.

Finance sector should hold steady

Employment in finance, insurance and real estate is expected to remain flat for the forecast period. Incremental job losses will come from bank closures and reductions in Native corporation employment, but overall employment levels should not vary significantly for the next two years.

Two bank branches will close in Southeast when Northrim Bank purchases Bank of America's operations in Alaska. Northrim will continue to operate branches in Southcentral Alaska, but the branches in Ketchikan and Juneau are not included in the sale. These offices will close just prior to the sale completion, which is expected to take place in the second quarter of 1999. The Southeast branches employ about 10 people. Besides the Bank of America closures, no major changes are expected in the banking sector during the forecast period.

The depressed Asian market for timber hit Southeast Native corporations hard, and some corporations will make small staff reductions in 1999. The Tlingit and Haida Regional Housing Authority provided a large amount of job growth in the past, but that organization does not anticipate growth during 1999.

Public sector employment will continue to decline

Government is projected to be the region's largest job loser during the forecast period. State government employment will begin to show the effects of recently implemented budget cuts. Reductions in state government spending will ripple into local governments that depend on state funding, and local government employment could see a drop as well. Federal government employment should also decrease as the Forest Service continues to downsize. Some of the job losses will be in response to reduced timber harvests.

Summary

Southeast should experience small decreases in employment for the next two years. Government employment is likely to drive the decline as reductions in federal employment and potentially significant cuts in state government spending reduce the number of public sector jobs. Continued growth in services, positive signs in the retail market and solid tourist seasons should provide some employment gains for the Southeast economy.