

# Employment Forecast for 2007 and 2008

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## More growth forecasted

By Dan Robinson, Economist

For the 19th consecutive year, Alaska added jobs to its economy in 2006. The year-to-year growth has generally been moderate, but 19 years without a downturn is an impressive streak, especially given the two national recessions that occurred over that period, declining oil production from the North Slope and oil prices throughout much of the 90s below \$15 a barrel.

The economics behind this long stretch of relative stability are reviewed here in the context of

trying to determine whether significant changes should be expected in the near future. In the end, this forecast concludes that growth should continue, but at a slightly slower rate than the last few years. (See Exhibit 1.) Although Alaska may someday return to its roots as a boom-and-bust state, there appears to be little chance of either a boom or a bust in the next two years.

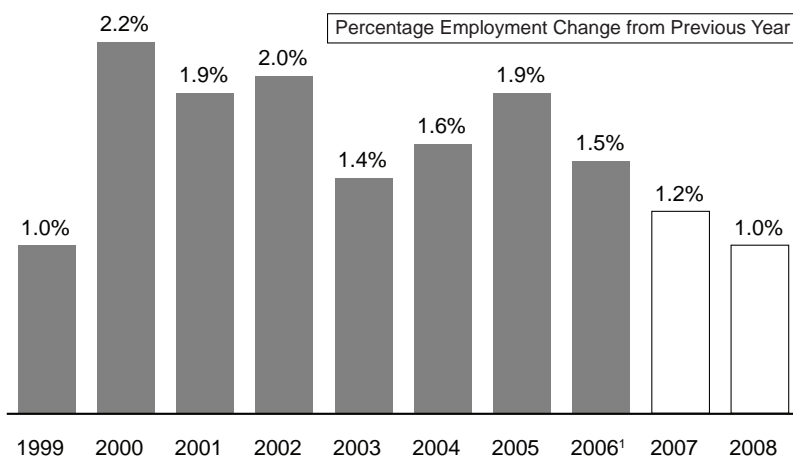
## Oil is the unchallenged king

Since the 1968 announcement that oil had been discovered at Prudhoe Bay, nothing has been more important to the ups and downs of Alaska's economy than oil. Construction of the Alaska pipeline in the 1970s created a dramatic boom in jobs that slowed only briefly after the pipeline was completed. High oil prices and production of more than 1.5 million barrels a day in the early 1980s generated billions of dollars in tax revenue to the state and fueled another round of dramatic economic growth, especially in the construction and real estate industries.

Oil prices, which had been as high as \$40 a barrel in 1981, fell to around \$27 in 1985 and then below \$15 in 1986. State revenues fell by more than a billion dollars, 10,000 construction jobs disappeared and nine out of 15 banks in the state failed. After a combined loss of 20,000 jobs in 1986 and 1987, the state began adding jobs again in 1988 and has done so every year since.

To cushion the impact of future drops in oil prices, in 1990 the state created the Constitutional Budget Reserve, a savings account funded by the proceeds of settlements of tax and royalty disputes with oil companies. Well over \$7 billion has been deposited into the account since its inception, but throughout most of the 1990s and early 2000s, significant withdrawals were made from the account to fund state government.

## 1 Moderate Job Growth Expected Statewide forecast for 2007 and 2008



<sup>1</sup> Preliminary estimate

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

Before oil prices began rising, the CBR balance had fallen to around \$2 billion in 2004.<sup>1</sup>

These withdrawals from the CBR were effective in preventing potentially destabilizing swings in state government spending and have been factors in the relative economic stability and steady job growth that the state has enjoyed for almost two decades. Alaska is not the only state to have created a rainy day fund as insurance against lean revenue years, but the state's oil wealth puts it in a special category in terms of its ability to save.<sup>2</sup>

The Alaska Permanent Fund, with a value of about \$35.7 billion in November, is a different type of savings account made possible by oil money. Earnings from Permanent Fund investments have not been used for general expenditures, but after Alaskans receive their individual dividends and the fund is inflation proofed, remaining earnings are available for appropriations, providing another source of funds if necessary.

Earnings from the Permanent Fund have actually exceeded oil revenue during some years and are projected to do so regularly as oil production declines and fund earnings grow over time. What's more, the state's economy has been boosted considerably by the combination of around \$14 billion in dividend payouts to Alaskans since 1982 and the low tax burden on individuals that is made possible by oil revenue.

### **Oil revenue expected to grow in 2007**

Total oil revenue in fiscal year 2006 was about \$3.7 billion. The Alaska Department of Revenue expects that amount to grow to \$4.3 billion in 2007 and then fall to \$3.3 billion in 2008. For perspective, total oil revenue was just \$1.3 billion in 2002 before oil prices began rising. Revenue will jump in 2007 because of contin-

ued high prices and a new method of taxing production that generates additional revenue at high prices and creates incentives for investment in exploration and development.

High oil prices, and the growing consensus that they're likely to stay high, have also invigorated exploration activity and boosted industry employment. The state added about 1,000 oil and gas jobs in 2006 and the total number rose to levels not seen since the early 1990s.

Simply maintaining that level would be impressive since oil and gas jobs are often project-based, meaning that a steady stream of new projects is required just to replace those being completed and keep the job count stable. It's especially noteworthy, then, that more growth is expected in 2007 and 2008 as a host of small firms – many of them new to the state – explore both the North Slope and Cook Inlet. Spending by the majors, including Shell Oil, which recently returned to Alaska, is also expected to be very high.

### **Federal money matters**

If anything could challenge the oil and gas industry as the state's dominant economic force, it would be federal spending. In federal fiscal year 2004,<sup>3</sup> the federal government sent \$8.4 billion to Alaska through a combination of grants, wages and salaries, and direct payments to individuals. Federal spending in Alaska was nearly \$13,000 per capita in 2004, the highest of all states and nearly twice the national average.

Since the mid-1990s, federal spending in Alaska has nearly doubled. Part of the increase has come from a growing investment in Alaska's military installations. Defense-related expenditures have grown from \$1.4 billion in 1995 to \$2.5 billion in 2004. But even more dramatic has been the growth in nondefense-related expenditures, which have swelled from \$2.8 billion in 1995 to \$5.9 billion in 2004. The majority of that increase – nearly \$2 billion – has come in the form of grants.

Such an infusion of funds into the state's economy has gone a long way toward helping the state

<sup>1</sup> The CBR had a balance of about \$2.4 billion at the beginning of state fiscal year 2007.

<sup>2</sup> In 2002, as most states faced budget shortfalls related to the national recession, very few had sufficient savings account balances to cover even a small fraction of their general expenditures. Massachusetts, for example, had about \$1.3 billion in a rainy day account, the second largest amount of all the states but enough to fund just 5.7 percent of the previous year's general expenditures and not quite enough to pay for its expected budget shortfall in 2002. That same year, Alaska had \$2.4 billion in the CBR, enough to fund more than 99 percent of the previous year's total general expenditures.

<sup>3</sup> More recent numbers are not available. The federal fiscal year runs from Oct. 1 through Sept. 30.

# Statewide Wage and Salary Employment Forecast for 2007 and 2008

# 2

## Forecast

	2005	2006	Change 2005 to 2006	Percent Change 2005 to 2006	Forecast					
	Monthly Average	Monthly Average <sup>1</sup>			2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007	2008 Monthly Average	Change 2007 to 2008	Percent Change 2007 to 2008
Total Nonfarm Wage and Salary <sup>2</sup>	309,900	314,600	4,700	1.5%	318,500	3,900	1.2%	321,600	3,100	1.0%
Goods-Producing <sup>3</sup>	41,700	42,900	1,200	2.9%	43,700	800	1.9%	44,000	300	0.7%
Service-Providing <sup>4</sup>	268,200	271,700	3,500	1.3%	274,800	3,100	1.2%	277,600	2,800	1.0%
Natural Resources and Mining	10,700	11,900	1,200	11.2%	12,600	700	6.5%	13,000	400	3.2%
Oil and Gas Extraction	8,700	9,700	1,000	11.5%	10,300	600	6.9%	10,700	400	3.9%
Construction	18,600	18,800	200	1.1%	18,700	-100	-0.5%	18,500	-200	-1.1%
Manufacturing	12,400	12,300	-100	-0.8%	12,400	100	0.8%	12,500	100	0.8%
Seafood Processing	8,500	8,400	-100	-1.2%	8,500	100	1.2%	8,500	0	0.0%
Trade, Transportation and Utilities	63,200	64,300	1,100	1.7%	65,100	800	1.3%	65,800	700	1.1%
Wholesale Trade	6,300	6,400	100	1.6%	6,400	0	0.0%	6,500	100	1.6%
Retail Trade	35,900	36,600	700	1.9%	37,100	500	1.4%	37,400	300	0.8%
Transportation, Warehousing and Utilities	21,000	21,300	300	1.4%	21,600	300	1.4%	21,900	300	1.4%
Information	6,900	6,900	0	0.0%	6,900	0	0.0%	7,000	100	1.4%
Financial Activities	14,700	14,900	200	1.4%	15,000	100	0.7%	15,100	100	0.7%
Professional and Business Services	23,800	24,200	400	1.7%	24,600	400	1.7%	24,900	300	1.2%
Educational <sup>5</sup> and Health Services	35,700	36,600	900	2.5%	37,200	600	1.7%	37,800	600	1.6%
Health Care	25,800	26,400	600	2.3%	26,900	500	1.9%	27,300	400	1.5%
Leisure and Hospitality	31,100	31,600	500	1.6%	32,100	500	1.6%	32,500	400	1.2%
Other Services	11,400	11,600	200	1.8%	11,800	200	1.8%	12,000	200	1.7%
Government	81,400	81,800	400	0.5%	82,100	300	0.4%	82,500	300	0.4%
Federal Government <sup>6</sup>	17,000	16,700	-300	-1.8%	16,600	-100	-0.6%	16,600	0	0.0%
State Government <sup>7</sup>	24,200	24,500	300	1.2%	24,800	200	0.8%	25,000	200	0.8%
Local Government <sup>8</sup>	40,200	40,600	400	1.0%	40,800	200	0.5%	40,900	100	0.2%

<sup>1</sup> Preliminary estimates

<sup>2</sup> Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers.

<sup>3</sup> Goods-producing sectors include natural resources and mining, construction and manufacturing.

<sup>4</sup> Service-providing sectors include all others not listed as goods-producing sectors.

<sup>5</sup> Private education only

<sup>6</sup> Excludes uniformed military

<sup>7</sup> Includes the University of Alaska

<sup>8</sup> Includes public school systems

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

add jobs year after year since 1988. It's interesting to note, however, that the actual number of federal government employees has declined over the last decade, falling from 17,300 in 1996 to 17,000 in 2005. Instead, the growth from all those federal expenditures has been spread throughout the economy with construction, social services, health care, and state and local government all receiving substantial benefits.

## Federal spending may slow, but not right away

With growing federal budget deficits and increasing pressure to deal with the problem, there's an increasing sense that federal spending in Alaska can't be sustained at the current high levels.

Alaska has also received a noticeable amount of negative attention over the last few budget cycles for the amount of federal money spent here.

Sometime in the next decade the state may have to make do with fewer federal dollars, but any reductions that could affect job counts in 2007 or 2008 are unlikely to be dramatic. Still, the forecast for slightly slower growth in 2008 is due in large part to uncertainty about continued federal largesse.

## Modest improvement in fishing

Alaska's fisheries produced estimated gross earnings of \$1.1 billion in 2005. Add to that number the almost \$300 million in seafood processing workers' wages, tax revenue to local communities and the

state, and all the indirect jobs that fishing generates, and fishing's value to the state is obvious.

Overall, the economic health of the fisheries has improved slightly from a low point in 2002, although the challenge of competing with farmed salmon still remains. After consistent declines throughout the 1990s and into the early 2000s, the state's fisheries ought to contribute economic stability over the next two years, if not strong growth.

### **More contribution from visitors**

It's difficult to measure the precise impact the hundreds of thousands of annual visitors have on Alaska's economy, but it's undoubtedly large. Cruise ship travel increased by 7.7 percent in 2005 and appears to have grown again in 2006, although not by nearly as much. Independent travel to the state has been flat in recent years, but lower gas prices may have helped the numbers in 2006.

Throughout the 1990s, when many of the state's resource-based industries were declining or stagnant, the visitor industry was one of the economic bright spots. Interest in Alaska as a tourist destination shows no sign of waning and, absent a shock to the national or international economies, visitor dollars will continue to be an important contributor to Alaska's economic health in 2007 and 2008.

### **A healthy climate for mining**

High prices for precious and base metals have invigorated Alaska's mining industry, with the total value of mining and exploration expected to exceed \$2 billion in 2006. Industry watchers don't expect the market to deteriorate any time soon and Alaska is one of the richest repositories of mineral wealth in the world. Over the next two years, mining's contribution to Alaska's economy will almost certainly grow.

### **Other contributors**

While Alaska's major economic drivers are the ones discussed above, there are a number of other industries that bring money into Alaska's economy. The air cargo business is a growing

industry in Anchorage, for example, and timber harvesting is still an important part of the economy in some Southeast communities.

Another impetus to job growth that has not yet exhausted itself is the maturation of the state's economy. As a young economy, Alaska had relatively few providers of goods and services and residents were forced to go outside the state to have surgery, for example, or to buy specialty goods. As the population has grown, though, an increasing percentage of those needs and wants are being met locally. In fact, during the 1990s, when little growth was being generated by the oil, fishing or timber industries, employment gains came primarily from Alaska's increased ability to capture local demand.

### **Sorting the job growth**

Determining which industries and employment categories will grow is the next step after determining that the economy and total employment will continue to expand. Those decisions are based on current trends and the likelihood of anything happening that could affect those trends. (See Exhibit 2.)

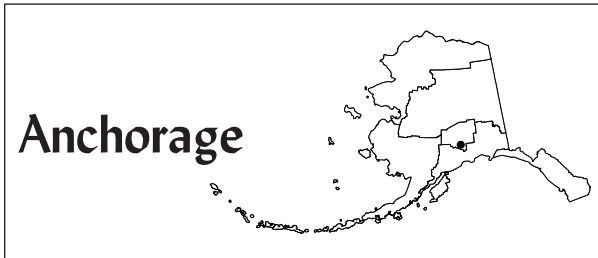
The construction industry, for example, has recorded strong growth for most of the last decade. As large publicly funded projects are completed, the job count will naturally taper off unless new large projects replace them. With federal money possibly becoming more scarce and little growth expected in residential construction, a slight reduction in construction jobs is expected, despite generally favorable economic conditions. In the end, though, the specifics concerning which industries are expected to add jobs are secondary to the conclusion that the economy as a whole will continue to grow.

### **But watch out for surprises**

Although the economic pillars of the state's economy look strong enough to support continued employment growth in 2007 and 2008, as a resource-based economy, Alaska is unusually dependent on factors outside its control. The markets for oil, natural gas, fish, precious and base metals, air cargo business and timber are

all international, to a significant degree, and subject to volatile change.

Heading into the next two years, market conditions are predominantly favorable for the goods and services that Alaska has to offer the world, but as history has demonstrated, conditions can change both suddenly and unexpectedly.



## Economic gains to continue

By Neal Fried, Economist

Anchorage's economy should be growing a little bigger in 2007 and with a bit more luck, it will carry into 2008 as well. The forecast calls for 1.7 percent growth in 2007 and 1.6 percent in 2008. Sound familiar? It should, since the state's largest city has strung together 18 straight years<sup>4</sup> of employment growth that could stretch into 20 if these predictions prove to be correct.

Preliminary 2006 employment numbers for Anchorage show a growth rate of 1.9 percent. That's a near repeat of 2005's rate (see Exhibits 3 and 4), and it's identical with the city's 10-year annual average.

As this economic expansion lengthens, is it more likely that the trend will end? No, not really. But neither should the long period of uninterrupted growth be taken for granted. The economic fundamentals for Anchorage will remain solid for the next year, yet there's less clarity for 2008.

A possible loss of federal dollars could begin to be felt sometime in late 2008, but a number of factors should continue to provide loft for Anchorage's economy: relatively high oil prices,

<sup>4</sup> The growth run for Anchorage and Fairbanks began a year after the state's because the cities weren't affected by the 1988 gains in seafood processing and timber that helped create net growth for the state that year.

low interest rates, a positive outlook for the visitor industry, the shaping up of a retail boomlet, a healthy level of federal dollars still in the pipeline, continued expansion in the international air cargo business, state revenue surpluses and the state's emerging mining industry.

But some economic vulnerabilities lurk in the background. A collapse in prices for oil and natural gas, a natural disaster or something beyond our imagination could derail all of this. It's just not likely.

### The oil industry – a bright spot

Finally, after a number of years of decline and stagnation, employment in the oil industry began to make a strong recovery in 2006. Fueled by four years of above-average oil prices along with the turbo-charged prices of the past year, it's not surprising that the oil industry came to life in a big way. The higher levels of activity should continue through 2007 and 2008. Oil industry employment for Anchorage, the state's oil and gas headquarters, is expected to grow again in 2007 and then flatten out in 2008.

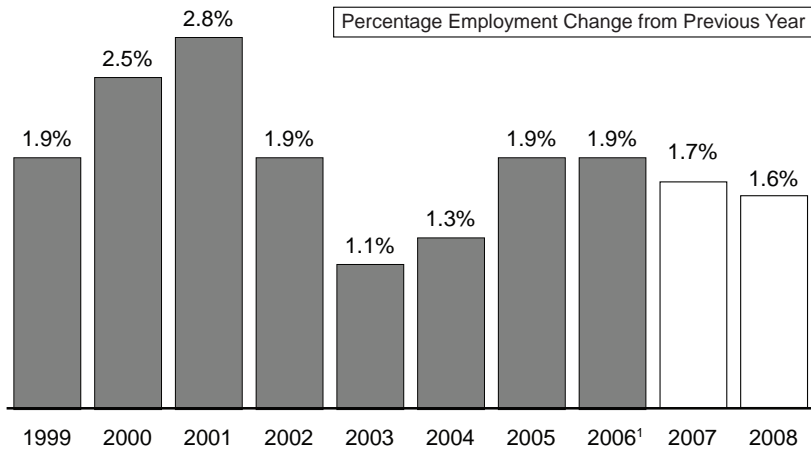
Most of the players on the North Slope are either continuing their development work or getting new projects underway during the forecast period. ConocoPhillips is continuing to develop a number of satellite fields around Alpine along with a program to expand the company's West Sak heavy oil project. BP's rebuild of the pipelines affected by corrosion will also help keep its activity level high. BP is spending \$500 million over the next several years to replace 16 miles of pipe in Prudhoe Bay and upgrade its facilities.

The growing list of independents and other new players, however, may become an even larger factor in this upswing in activity. For example, Shell Oil is ramping up its North Slope activity. The company plans to bring up two drilling ships to drill four wells in the Beaufort Sea in 2007. Many other companies have ambitious exploration plans for the next two years as well.

### Construction to stay busy

Anchorage's construction industry has been in the expansion mode since the mid-1990s. During this long stretch of growth, there has been a

### 3 Moderate Growth to Continue Anchorage forecast for 2007 and 2008



<sup>1</sup> Preliminary estimate

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

considerable number of years of robust increases, a few years with small losses or no change, and others characterized by modest gains. All told, the size of Anchorage's construction workforce reached roughly 10,000 in 2006, which is 3,000 larger than it was in the early 1990s.

In 2006, building valuation for the first nine months of the year was running at \$195 million or 39 percent ahead of year-ago levels. Anchorage's construction activity should remain strong through 2007 and likely 2008.

Strong activity will come from all sectors of the industry – commercial, public, military and highway construction. Residential construction hasn't been a factor in the expansion of Anchorage's construction industry since homebuilding activity peaked in 2003. That won't change through the forecast period.

But because Anchorage is home to so many of the state's contractors that perform work around the state and the level of statewide activity appears to be slowing (see Exhibit 2), no additional employment growth is expected for the 2007-2008 period.

#### Transportation will stay in the black

Predicted modest growth in Anchorage's overall economy, another good visitor season and

continued robust growth in the international air cargo arena should continue to spur growth in the transportation industry.

The huge increase in trade with China continues to push much of the cargo growth. There are now five Chinese and three domestic air carriers dedicated to cargo coming from China that operate out of Ted Stevens International Airport. Anchorage's cargo activity should continue to rise at least 3 percent per year in 2007 and 2008.

Federal Express, UPS, Northwest Airlines and other air cargo carriers continue to add a significant number of parking spaces for planes to accommodate their growing fleets. UPS also plans to base 80 more of its pilots in Anchorage, which could mean more of the company's high-wage pilots will relocate to the city.

There are also a few negative trends in the industry. Alyeska Pipeline Service Company, the state's third largest private-sector transportation company, plans to cut its work force in 2007. Specific numbers aren't available, but the proposed cuts appear to be modest.

Small regional scheduled and charter carriers have been hit hard as they try to cope with higher fuel costs and other problems.

#### Leisure and hospitality should get boost

The ingredients for another good visitor season are in place: relatively healthy national and international economies, a weak dollar, a projected small increase in cruise ship passengers and an ever-expanding inventory of available hotel beds. Although it's very early, there are some indications that cruise ship bookings are up. Convention activity also looks positive, given the number and size of the conventions booked now.

The leisure and hospitality sector, which includes accommodations, food services, arts, entertainment and recreation, usually gets a huge boost from visitor activity. Last year alone employment in leisure and hospitality grew by 2 percent or 300 jobs and the trend should continue over the forecast horizon.

# Anchorage Wage and Salary Employment Forecast for 2007 and 2008

# 4

## Forecast

	2005	2006	Change 2005 to 2006	Percent Change 2005 to 2006	Forecast					
	Monthly Average	Monthly Average <sup>1</sup>			2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007	2008 Monthly Average	Change 2007 to 2008	Percent Change 2007 to 2008
Total Nonfarm Wage and Salary <sup>2</sup>	146,800	149,600	2,800	1.9%	152,200	2,600	1.7%	154,600	2,400	1.6%
Goods-Producing <sup>3</sup>	13,700	14,200	500	3.6%	14,400	200	1.4%	14,500	100	0.7%
Service-Providing <sup>4</sup>	133,100	135,400	2,300	1.7%	137,800	2,400	1.7%	140,100	2,300	1.6%
Natural Resources and Mining	2,100	2,300	200	9.5%	2,500	200	8.0%	2,600	100	3.8%
Oil and Gas Extraction	2,000	2,200	200	10.0%	2,400	200	8.3%	2,500	100	4.0%
Construction	9,700	9,900	200	2.1%	9,900	0	0.0%	9,900	0	0.0%
Manufacturing	1,900	2,000	100	5.3%	2,000	0	0.0%	2,000	0	0.0%
Trade, Transportation and Utilities	33,200	33,900	700	2.1%	34,500	600	1.7%	35,200	700	2.0%
Wholesale Trade	4,700	4,900	200	4.3%	5,000	100	2.0%	5,000	0	0.0%
Retail Trade	17,400	17,700	300	1.7%	18,000	300	1.7%	18,500	500	2.7%
Transportation, Warehousing and Utilities	11,100	11,300	200	1.8%	11,500	200	1.7%	11,700	200	1.7%
Information	4,400	4,400	0	0.0%	4,400	0	0.0%	4,400	0	15.9%
Financial Activities	9,100	9,200	100	1.1%	9,200	0	0.0%	9,300	100	1.1%
Professional and Business Services	16,400	16,600	200	1.2%	17,000	400	2.4%	17,200	200	1.2%
Educational <sup>5</sup> and Health Services	19,100	19,900	800	4.2%	20,500	600	2.9%	21,200	700	3.3%
Leisure and Hospitality	15,100	15,300	200	1.3%	15,600	300	1.9%	15,900	300	1.9%
Other Services	5,700	5,800	0	0.0%	6,000	200	3.3%	6,100	100	1.6%
Government	30,100	30,300	200	0.7%	30,600	300	1.0%	30,800	200	0.6%
Federal Government <sup>6</sup>	9,500	9,400	-100	-1.1%	9,300	-100	-1.1%	9,300	0	0.0%
State Government <sup>7</sup>	9,700	9,900	200	2.1%	10,200	300	2.9%	10,300	100	1.0%
Local Government <sup>8</sup>	10,900	11,000	100	0.9%	11,200	200	1.8%	11,300	100	0.9%

<sup>1</sup> Preliminary estimates

<sup>2</sup> Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers.

<sup>3</sup> Goods-producing sectors include natural resources and mining, construction and manufacturing.

<sup>4</sup> Service-providing sectors include all others not listed as goods-producing sectors.

<sup>5</sup> Private education only

<sup>6</sup> Excludes uniformed military

<sup>7</sup> Includes the University of Alaska

<sup>8</sup> Includes public school systems

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

No new hotels have come on line in the last two years, but that trend is about to end. The construction of a new Embassy Suites in midtown began in late 2006; it's slated to open in 2007. At least one and possibly two other hotels are planned to begin construction in the next two years. But because none of the new hotels will open before late 2008, their employment impacts may not kick in until 2009.

Food services, which represents two-thirds of all employment in the leisure and hospitality industry, will expand due to the growth of the visitor industry but probably more from Anchorage's insatiable demand for new eateries. That's not surprising, considering Anchorage residents spend about 42 percent of their food dollars away from home. Since 2000, employment in the food

services industry has grown by more than 1,000. The industry generated roughly 10,300 Anchorage jobs in 2006. Some of the new restaurants that opened in late 2006 or are expected to open in 2007 include the Golden Corral, IHOP, Qdoba Mexican Grill, Dairy Queen, McGinley's Pub, City Diner and Kinley's Restaurant. Smaller players are also certain to open.

## Health care grows

Health care was hands-down the most dynamic industry in Anchorage over the last decade. Year after year it generated the largest number of new jobs and grew the fastest on a percentage basis. In 2006 this trend was still in play at a more modest level. Most of the growth was in the outpatient slice of health care and hospitals.

The aging of Alaska's population and other factors should continue to push health care employment numbers upward, but likely at a more moderate pace. The Alaska Native Tribal Health Consortium, Southcentral Foundation and Providence Hospital make up Anchorage's big-employer triad in health care. The first two plan to continue to grow but at a slower pace than in many of the past years; a constraint on federal dollars is a factor. Providence recently announced a small layoff as a result of some reorganizing. But when all was said and done, Providence still had nearly 200 more employees at the end of 2006 than at the beginning. Health care will be an industry to watch.

### **Retail is still working up steam**

During the past four years, the Anchorage employment numbers for Alaska's largest private-sector employer, retail, grew little. That may have been because the industry was still digesting the heady expansion of previous years and it lost many Mat-Su customers to their own booming retail sector.

But it looks as if the slow-growth trend is about to change. Wal-Mart plans to build at least two supercenters in Anchorage. One of the stores will also have a Sam's Club attached to it, yet the existing Sam's Club in East Anchorage will likely close when the new one opens.

The new 275,000-square-foot Glenn Square retail development in Mountain View is in the midst of being built; its completion date is slated for 2007. It will house a number of medium and smaller local and national retailers. Some of the known names include Famous Footwear, PETCO, Bed Bath & Beyond, Natural Pantry, Old Navy and Best Buy. Bed Bath & Beyond is also opening another store in South Anchorage.

Although it's not yet official, it appears Target has plans to enter the Anchorage market with two or three stores. And Cook Inlet Region Inc. announced recently it would break ground this spring on a \$100 million shopping and entertainment venue. It's assumed Target will be one of the tenants.

All said, by late 2008 or early 2009, if all the retailers' plans pan out, the retail expansion could add a couple thousand retail jobs in Anchorage.

### **Professional and business services could moderate**

Strong gains in engineering, architectural and related services – powered by the continued strong levels of construction, oil and mining activity – is the single biggest reason for the professional and business services sector's recent employment gains. Yet growth in other parts of the sector, such as in consulting, accounting, computer and legal services, was far less impressive.

With some slowdown in statewide construction employment, the outlook for the sector is modest. Legal, accounting, computer and other professional services should continue to expand gradually with the rest of the economy.

### **Military grows but many are deployed**

Overall troop levels in Anchorage have increased in the last five years after a long period of decline. In fact, in 2006 the number of troops at Fort Richardson reached the highest level since 1988 and the expectation is that the number of troops will remain at those levels during the 2007-2008 forecast period.

That said, many of the gains will be temporarily negated by the largest deployment in Anchorage since the Vietnam War – 3,500 troops were deployed in October from Fort Richardson's 4th Brigade Combat Team (Airborne), 25th Infantry Division. The troops will be in Iraq at least a year.

Although temporary, the deployment certainly has ramifications for parts of Anchorage's economy in 2007, as many businesses around Anchorage will see a loss in business. Some soldiers' families stayed in Anchorage but their numbers are relatively small because many in the new brigade are young and single. Other soldiers' families left the state for the duration of the deployment.

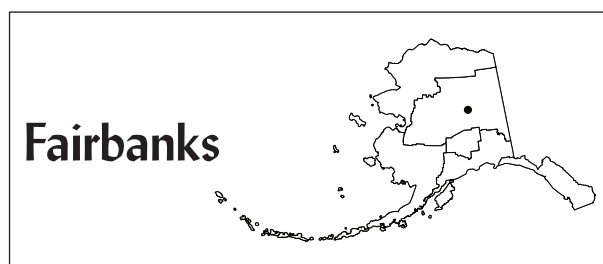
### **Small gains in the public sector**

Overall public sector employment will change little in the next two years. Federal employ-



ment has fallen for three years due to budget constraints and it could actually fall a bit again in 2007. In light of oil revenue surpluses, state government's employment will likely grow modestly in 2007. The University of Alaska's budget should follow a similar pattern.

The story for local government is a bit more mixed. The Anchorage School District's enrollment fell slightly for the 2006-2007 school year; enrollments could also fall in 2008. Even so, the district's employment probably won't change much. The Municipality of Anchorage's work force isn't expected to change much either.



## More growth ahead

By Brigitta Windisch-Cole, Economist

The end of 2006 marks the 18th year of growth for the Fairbanks North Star Borough economy. But will it last? Does the economy have sufficient stamina to extend growth until 2009?

The short answer is yes. It's likely that the borough's economy will continue to add jobs in 2007 and 2008, but the pace of growth will remain slow due to a tempering of construction activity and other minor work force adjustments. The forecast for the borough calls for 300 new jobs in 2007 and 450 new jobs in 2008 – growth rates of 0.8 percent and 1.2 percent, respectively. (See Exhibits 5 and 6.) Despite some moderate changes, the positive and upbeat climate should prevail in Fairbanks' labor market. Only a few soft spots exist.

### Construction could be moderate

Since 2000, Fairbanks' construction industry has added more than 1,000 jobs – a 60 percent expansion rate. Construction's performance made

it the most dynamic contributor to job creation in most years over that period.

Employment reached its peak in 2005 but started to taper off in 2006. A moderate decline in employment is expected in 2007, yet it should stabilize in 2008. Commercial construction is slowing, and that could affect the industry's continued expansion.

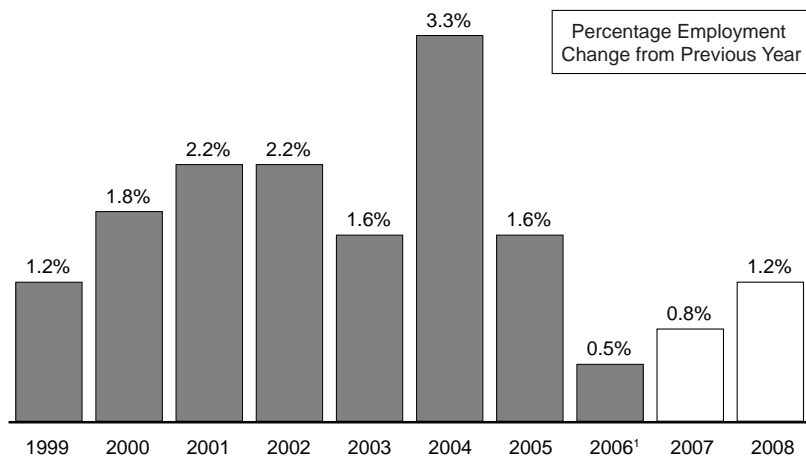
Commercial construction within the borough started to slow down in the first three quarters of 2006. The total value of commercial construction permits in the borough cities of Fairbanks and North Pole was 33 percent less than it was in 2005. Aside from the Fairbanks Memorial Hospital expansion, no new large commercial projects are planned. Therefore, the downtrend in commercial construction can be expected to continue.

Public-sector construction will offset some of the drop with several large projects, and construction on Fairbanks' two military bases should remain strong in the next two years. Construction on Fort Wainwright will include additions to housing, facilities and infrastructure renewal, while construction work at Eielson Air Force Base will include a new chapel and a recreational facility. In all, military-sponsored work in 2007 and 2008 should match last year's construction season and range between \$200 million and \$300 million.

State-sponsored projects will also add activity. Construction began in July on the \$96 million project to remodel and expand the Fairbanks International Airport terminal and to replace an aircraft cargo apron, among other work. The project, which is expected to be completed during the 2009 construction season, is currently the state's largest construction project.

In addition to a fair amount of carry-over work from the 2006 season, the 2007 schedule includes beginning construction on the \$16.5 million Alaska Department of Health and Social Services' virology lab on the University of Alaska Fairbanks' campus. Other 2007 projects, which total \$45 million to \$85 million, include a \$20 million to \$30 million North Pole interchange, and \$10 million to \$20 million worth of work at

## 5 Two More Years of Growth Fairbanks forecast for 2006 and 2007



<sup>1</sup> Preliminary estimate

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

each of four community airports in the Interior and Northern economic regions.

Projects slated for 2008, which total \$85 million to \$160 million, include replacing a Tanana River bridge for \$20 million to \$30 million, work on 47 miles of the adjoining Alaska Highway, as well as other road and community airport projects.

Local government will also manage larger projects in 2007 and 2008, including the Morris Thompson Cultural and Visitors Center, now estimated at \$26 million, and a fish hatchery.

Residential building in the borough since 2001 has helped boost the borough's construction industry as a whole. By September 2006, for example, the building departments for the cities of Fairbanks and North Pole had issued the second-highest number of new housing permits in 16 years. (The highest number of permits was issued in 2004.)

Residential construction is expected to remain strong during the 2007 and 2008 seasons, as military personnel and their families – especially those stationed at Fort Wainwright, with its growing number of soldiers and their families – will increase demand for more new houses and apartments. The military will continue to play an important role in Fairbanks' housing market in the next two years.

## Mining could stall and drop off some

Mining employment in Fairbanks consists of gold mining and oil field services employment. Gold mining employment should hold its position.

There may be a slight drop in oil field services employment due to a systemwide upgrade, or reconfiguration, of the trans-Alaska oil pipeline pump stations. The project entails upgrading pipeline control systems and increasing automation, so fewer workers will be needed to monitor operations when it's completed in 2008.

## Transportation changes in the works

A few adjustments can be expected in transportation employment. A change in bypass mail routing for the North Slope and northern villages from direct air delivery to indirect service could impact air transportation employment in 2007 and 2008. Before June, when the change took effect, North Slope bypass mail was flown from Fairbanks to Barrow. Now it's trucked from Fairbanks to Deadhorse, then flown the 200 miles to Barrow.

## Financial sector on firm ground

After many years of flat employment levels, new banks and credit unions in 2006 added jobs to the industry's employment base. Future gains may be small but they'll reinforce the financial sector's current strength.

The real estate industry, which is also counted under the financial sector, has seen a remarkable uptick in the market since 2004. In the past two years, residential housing sales, recorded from January through September, have increased by 32 percent. In the first nine months of 2006, 112 more homes were sold in the three-bedroom-plus category than in the same period in 2005. The average home sale price also continued to increase. In 2006 it was up 7 percent from 2005, and that followed a steep 12 percent increase from 2004.

But despite the heavy increases in home sales and sale prices, real estate employment has shown only moderate job growth. As mentioned earlier, the increasing numbers of soldiers and

# Fairbanks Wage and Salary Employment Forecast for 2007 and 2008

# 6

## Forecast

	2005	2006	Change 2005 to 2006	Percent Change 2005 to 2006	Forecast					
	Monthly Average	Monthly Average <sup>1</sup>			2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007	2008 Monthly Average	Change 2007 to 2008	Percent Change 2007 to 2008
Total Nonfarm Wage and Salary <sup>2</sup>	37,800	38,000	200	0.5%	38,300	300	0.8%	38,750	450	1.2%
Goods-Producing <sup>3</sup>	4,500	4,300	-200	-4.4%	4,250	-50	-1.2%	4,300	50	1.2%
Service-Providing <sup>4</sup>	33,300	33,700	400	1.2%	34,050	350	1.0%	34,450	400	1.2%
Natural Resources and Mining	1,000	900	-100	-10.0%	900	0	0.0%	850	-50	-5.6%
Construction	2,900	2,800	-100	-3.4%	2,750	-50	-1.8%	2,800	50	1.8%
Manufacturing	600	600	0	0.0%	600	0	0.0%	650	50	8.3%
Trade, Transportation and Utilities	7,600	7,800	200	2.6%	7,900	100	1.3%	8,000	100	1.3%
Wholesale Trade	600	700	100	16.7%	700	0	0.0%	750	50	7.1%
Retail Trade	4,700	4,700	0	0.0%	4,800	100	2.1%	4,900	100	2.1%
Transportation, Warehousing and Utilities	2,300	2,400	100	4.3%	2,400	0	0.0%	2,350	-50	-2.1%
Information	600	600	0	0.0%	600	0	0.0%	600	0	0.0%
Financial Activities	1,500	1,600	100	6.7%	1,650	50	3.1%	1,650	0	0.0%
Professional and Business Services	2,200	2,100	-100	-4.5%	2,150	50	2.4%	2,200	50	2.3%
Educational <sup>5</sup> and Health Services	4,200	4,300	100	2.4%	4,350	50	1.2%	4,400	50	1.1%
Leisure and Hospitality	4,200	4,100	-100	-2.4%	4,250	150	3.7%	4,350	100	2.4%
Other Services	1,300	1,300	0	0.0%	1,300	0	0.0%	1,350	50	3.8%
Government	11,700	11,900	200	1.7%	11,850	-50	-0.4%	11,900	50	0.4%
Federal Government <sup>6</sup>	3,400	3,400	0	0.0%	3,400	0	0.0%	3,350	-50	-1.5%
State Government <sup>7</sup>	5,200	5,300	100	1.9%	5,300	0	0.0%	5,350	50	0.9%
Local Government <sup>8</sup>	3,100	3,200	100	3.2%	3,150	-50	-1.6%	3,200	50	1.6%

<sup>1</sup> Preliminary estimates

<sup>2</sup> Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers.

<sup>3</sup> Goods-producing sectors include natural resources and mining, construction and manufacturing.

<sup>4</sup> Service-providing sectors include all others not listed as goods-producing sectors.

<sup>5</sup> Private education only

<sup>6</sup> Excludes uniformed military

<sup>7</sup> Includes the University of Alaska

<sup>8</sup> Includes public school systems

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

their families stationed at Fort Wainwright will bode well for the real estate industry in the next two years, particularly as the Army encourages off-base living for its personnel.

## The retail industry will revitalize

After two years of strong growth, Fairbanks' retail employment stalled in 2006, as the 16-month deployment of Fort Wainwright's 172nd Stryker Brigade Combat Team<sup>5</sup> put a damper on retail activity. The brigade's 3,800 soldiers who returned to Fairbanks in November and December – along with 300 troops with the General Aviation Support Battalion that arrived from Korea and 400 troops with the 617th Attack Recon Squadron that

arrived from Hawaii<sup>6</sup> – should revitalize the retail scene and spur job growth. Although retail industry players haven't announced any major expansion, business should pick up in 2007 and 2008.

## More growth in leisure and hospitality

Fairbanks' visitor industry has been expanding for many years and 2006 was no exception. Hotel room revenue statistics show a growth industry, as only the 2002 season, marred by 9/11, dented its continuous growth trend. In 2006, for example, room revenues increased by nearly 9 percent between April and September over the same period in 2005, despite a rainy and cool summer.

<sup>5</sup> The brigade went through a change in command and name change in mid-December. It's now the 1st Stryker Brigade Combat Team of the 25th Infantry Division.

<sup>6</sup> About 150 of the battalion's troops and 150 of the squadron's troops arrived in 2005 and 2006, respectively, according to the Fall 2006 issue of the Fairbanks North Star Borough Community Research Quarterly. The rest are in the process of moving to Fort Wainwright, the report said.

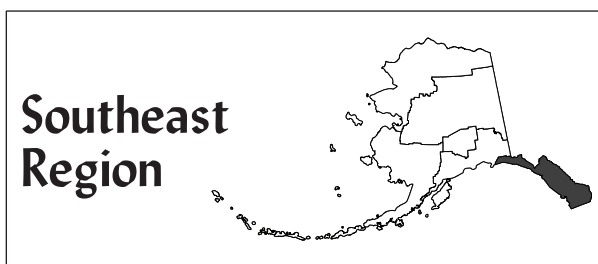
The number of future travelers will undoubtedly grow, as more Americans reach retirement age and have more time to travel. Fairbanks' increasing population, as well as a rising number of foreign visitors, should also help support growth in the leisure and hospitality sector.

### **No major changes in government**

No major changes are expected in government employment. A few shifts may occur on the federal level as Fort Wainwright needs additional support services. Privatization of those support services could temper gains, and downsizing at Eielson Air Force Base, which will start in 2007, could offset federal government's employment growth.

State budget constraints will keep most state services employment at current levels in 2007 and 2008, yet the University of Alaska Fairbanks could benefit from an increasing public education commitment in 2008.

Local government employment may drop off a bit in 2007, as school enrollments have been declining for nine years. The 2006-2007 enrollment count for the Fairbanks North Star Borough School District is up just 1.5 percent from its 1989-1990 level. Yet, with the Stryker Brigade, General Aviation Support Battalion and 617th Attack Recon Squadron and their families fully settling in the borough, the trend could reverse as soon as 2008.



## **Southeast to sustain gains**

**By Neal Gilbertsen, Economist**

Economic forecasts are similar to New Year's resolutions. They're made in good faith, based upon past behavior, and frequently fail to predict the future. In spite of this, we make them

every year. The 2007-2008 Southeast forecast, if somewhat easier than most resolutions, is no less fallible. Still, there have been no major structural changes in the region's economy, and the coming years would therefore seem to promise more of the same.

The Southeast economy was somewhat erratic from 1999 through 2005. Northern Southeast and especially Juneau showed small employment gains every year, with the exception of a 2003-2004 downturn.

Southern Southeast consistently lost jobs from 1999 through 2002. Since then, southern Southeast has slowly added jobs, but has yet to regain earlier levels. As a result, the regionwide job count hasn't established a clear pattern. One year of job growth was often followed by another of retreat.

But there are indications that the region may have regained some momentum. For the first time since 1999 and 2000, Southeast has seen two consecutive years of employment growth. (See Exhibit 7.)

During the 1999-2006 period, employment in some core goods-producing industries such as seafood processing and logging has either stabilized or declined, and service-providing industries such as retail trade and health care have accounted for most of the regional gains. While the Kensington mine is expected to contribute some jobs in the goods-producing sector, there's little reason to believe that the long-term trend of services-based growth will change dramatically in two years. As a result, Southeast will experience slow to moderate job growth in both 2007 and 2008. (See Exhibit 8.)

### **Mining**

It's almost certain that Kensington employment will lead to increased mining totals in coming years. It seems likely that the dispute over tailings disposal will be resolved in 2007. Depending on how that dispute pans out, the mine will likely become fully operational by late 2007. When it does, it's expected to employ 225 full-time workers. If precious metals continue

## Slow Growth to Continue Southeast forecast for 2007 and 2008

to command high prices, Southeast could see additional developments. Explorations are ongoing at several other Southeast sites, but those explorations won't affect employment in the 2007-2008 period.

### Construction

Construction employment has been robust in recent years, driven by homebuilding, several port facility projects, roads and work associated with the Kensington mine. This level of activity will slow slightly in coming years. In the private sector, it's likely that higher interest rates will impact construction activities in 2007, but that will be partially offset by ongoing government projects.

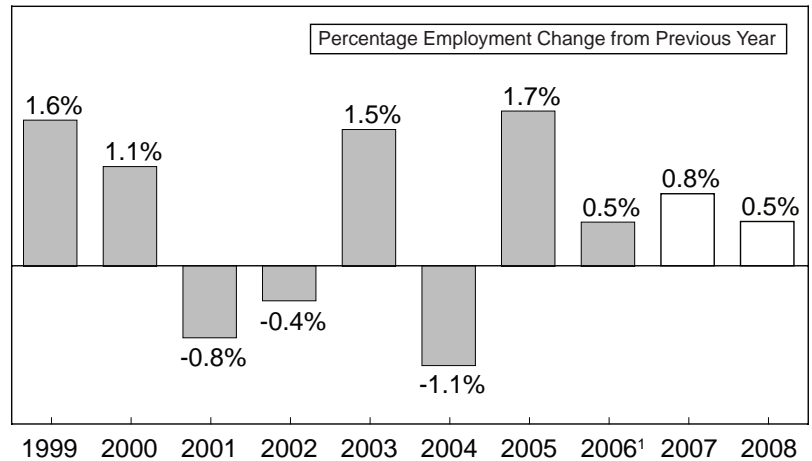
It's more difficult to forecast the fate of two major projects that remain entangled in politics. If the projects for the road out of Juneau and Ketchikan's Gravina Bridge<sup>7</sup> were to gain full legislative support, they could add a significant number of construction jobs by 2008. But as always with such projects, political decisions or legal challenges could affect when the projects begin, if at all.

### Fishing

Nearly 80 percent of the manufacturing employment in Southeast is attributable to seafood processing. While 2006 saw a very strong chum run and high prices for king salmon, the pink salmon return was very disappointing. Because most pinks are canned and much peak-season seafood processing employment is based on cannery work, the projections for 2007 and 2008 diverge.

That is, 2007 should see an increase in cannery employment based on expectations of a large pink salmon harvest, but 2008 will see fewer cannery jobs when the offspring of the small 2006 pink salmon run return. Cold storage processing employment should be stable in 2007 and 2008, while halibut and sablefish landings, based as they are on individual quotas, will also resemble those of 2006.

<sup>7</sup> The bridge, which has received a lot of media attention, would link Ketchikan with its airport on Gravina Island.



<sup>1</sup> Preliminary estimate

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

### Retail

Retail trade will expand in 2007. In Juneau, Home Depot is set to open in the spring. Fred Meyer's expansion, which will increase the store's square-footage by 54 percent, should be complete by early spring. And Wal-Mart may open by summer. While employment gains at the three stores should give retail a boost, they could be partially offset by job losses at local competitors. Still, retail trade has manifested consistent growth over the years and there's no reason to believe 2007 and 2008 will be exceptions.

### Health care

Health services will also add jobs. Southeast's population, like Alaska's in general, is aging. That would normally lead to an increased demand for services, but because the region's population is also declining, health care's growth rate will probably begin to slow. The industry will add roughly 50 jobs a year in the 2007-2008 period.

### Government

Government, by far Southeast's largest employer, accounts for more than 36 percent of the region's jobs. Government workers and direct government spending create much of the

# 8 Southeast Wage and Salary Employment Forecast for 2007 and 2008

					Forecast					
	2005 Monthly Average	2006 Monthly Average <sup>1</sup>	Change 2005 to 2006	Percent Change 2005 to 2006	2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007	2008 Monthly Average	Change 2007 to 2008	Percent Change 2007 to 2008
Total Nonfarm Wage and Salary <sup>2</sup>	36,550	36,750	200	0.5%	37,050	300	0.8%	37,250	200	0.5%
Goods-Producing <sup>3</sup>	4,100	4,050	-50	-1.2%	4,150	100	2.5%	4,100	-50	-1.2%
Service-Providing <sup>4</sup>	32,450	32,700	250	0.8%	32,900	100	0.3%	33,150	250	0.8%
Natural Resources and Mining	650	700	50	7.7%	750	50	7.1%	750	0	0.0%
Construction	1,600	1,550	-50	-3.1%	1,500	-50	-3.2%	1,500	0	0.0%
Manufacturing	1,850	1,800	-50	-2.7%	1,900	100	5.6%	1,850	-50	-2.6%
Seafood Processing	1,450	1,400	-50	-3.4%	1,500	100	7.1%	1,450	-50	-3.3%
Trade, Transportation and Utilities	7,400	7,450	50	0.7%	7,550	100	1.3%	7,650	100	1.3%
Retail Trade	4,650	4,650	0	0.0%	4,750	100	2.2%	4,850	100	2.1%
Transportation, Warehousing and Utilities	2,400	2,450	50	2.1%	2,450	0	0.0%	2,450	0	0.0%
Information	600	600	0	0.0%	600	0	0.0%	600	0	0.0%
Financial Activities	1,300	1,300	0	0.0%	1,300	0	0.0%	1,300	0	0.0%
Professional and Business Services	1,300	1,350	50	3.8%	1,350	0	0.0%	1,350	0	0.0%
Educational <sup>5</sup> and Health Services	3,550	3,650	100	2.8%	3,700	50	1.4%	3,800	100	2.7%
Leisure and Hospitality	3,650	3,700	50	1.4%	3,750	50	1.4%	3,800	50	1.3%
Other Services	1,200	1,200	0	0.0%	1,200	0	0.0%	1,200	0	0.0%
Government	13,450	13,450	0	0.0%	13,450	0	0.0%	13,450	0	0.0%
Federal Government <sup>6</sup>	2,000	1,950	-50	-2.5%	1,900	-50	-2.6%	1,900	0	0.0%
State Government <sup>7</sup>	5,500	5,600	100	1.8%	5,650	50	0.9%	5,700	50	0.9%
Local Government <sup>8</sup>	5,950	5,900	-50	-0.8%	5,900	0	0.0%	5,850	-50	-0.8%

<sup>1</sup> Preliminary estimates

<sup>2</sup> Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers.

<sup>3</sup> Goods-producing sectors include natural resources and mining, construction and manufacturing.

<sup>4</sup> Service-providing sectors include all others not listed as goods-producing sectors.

<sup>5</sup> Private education only

<sup>6</sup> Excludes uniformed military

<sup>7</sup> Includes the University of Alaska

<sup>8</sup> Includes public school systems

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

demand for goods and services in the private sector. Employment trends in the government sector therefore have a great impact on overall regional employment.

Ongoing federal deficits will constrain the budgets of many federal agencies. This will affect federal employment and funding for projects in all states, including Alaska. In addition, federal funding for state agencies may decline.

State revenues, on the other hand, have benefited greatly from high oil prices. As a result, state employment will likely show small increases in both 2007 and 2008. Local government employment will continue to decrease, in part because of an ongoing decline in Southeast's school-age population that will likely mean some reductions in teachers and other school employees.

## Overall

Southeast's economy in the last half century has been based on timber, fisheries, tourism and government. It's likely that mining will soon regain a place on the list. Still, lacking major expansions or additions to the region's core economy, an underlying trend of slow to moderate growth will persist.

The gains and losses, though, won't be shared evenly among the Southeast's communities. Overall, it seems likely that northern Southeast and especially Juneau will reap a disproportionate share of the economic rewards, while southern Southeast and more rural areas will continue to struggle. In other words, 2007 and 2008 will likely closely resemble the recent past, with its underlying trend of slow and uneven growth.