

Alaska Forecast

by
John Boucher
Labor Economist

Recovery to bring modest job growth in 2000 and 2001

Alaska's economy will continue to grow through 2001, rebounding from the slow growth rate posted in 1999. (See Exhibit 1.) In all, more than 8,000 new jobs will be added during the next two years.

In 1999, a contracting oil and gas industry and the associated impacts on other sectors of the economy put the brakes on the state's job growth. Alaska's manufacturing sector also lost jobs. However, the rest of Alaska's economy performed well enough to retain an overall growth rate of 0.9%. With most of the oil-related contraction behind it, Alaska's economy will move forward at a more rapid pace. Services, construction, air cargo handling, trade, and the visitor sector are the key industries expected to provide job growth. (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 2000 revenue forecast. Other assumptions key to an industry's outlook are mentioned in pertinent sections later in this article.

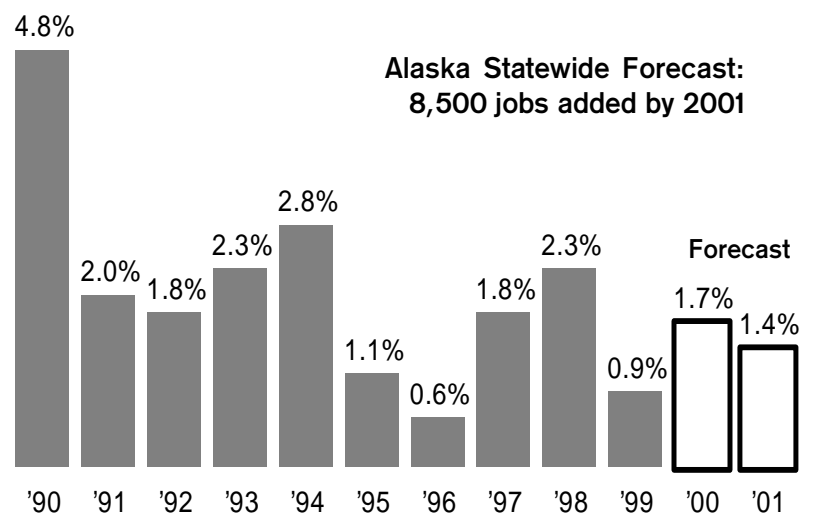
Oil industry uncertainty clouds picture

Alaska's oil and gas industry was the overriding factor in the state's slower job growth in 1999. The only thing certain about the future of Alaska's

oil industry is that change is coming. The major players in Alaska's oil industry are on the verge of change. ARCO's exit from the Alaska oil patch is now certain, with Phillips Petroleum stepping into their place. Immediate job losses at Alaska's oil production companies could be staved off with a Phillips takeover of ARCO. However, the long-term trend at Alaska's oil producers has been one of decline. The next two years are likely to see more of the same from the production side of the industry, regardless of the ultimate resolution of the BPAmoco/ARCO merger issues.

Steady Job Growth through 2001

Annual percent employment growth



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

The Alaska Department of Revenue's Spring 2000 forecast projects oil prices to average in the \$23-24 per barrel range for the next two state fiscal years. This is dramatic improvement in prices compared to the outlook one year ago. If actual prices match the forecast, North Slope crude oil field service providers should perform much better than the production sector of the industry during the next two years. If higher oil prices hold and uncertainty surrounding the major operators is resolved, higher prices should mean renewed vigor in Alaska's oil patch. Even in the current uncertain climate, the 2000 exploration and development season will be an improvement over 1999.

Services continues growth leadership

As it did for most of the 1990s, when it averaged 3.5% annual growth, the services industry will drive job growth. (See Exhibit 3.) Pacesetters for services growth include hotels and lodging places, health care, amusement and recreation services, business services and social services.

The number of visitors to Alaska has climbed, resulting in increased visitor-related service employment. Barring a major recession in the U.S. economy, the next two years will see more tourists than ever visit Alaska. This will boost the number of jobs in the services industry. Employment at hotels and lodging places will grow on the strength of the visitor industry. During the last several years there has been a hotel construction boom in Alaska. Several new 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 to open—the biggest single boost will come from the full service downtown Marriott Hotel, 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 tour operations, such as float trips, walking tours, and numerous other recreational services, are counted in this sector.

Health care services, the single fastest growing industry during the 1990s, should also grow at a vigorous pace during the next two years. Part of this surge will be related to a steady privatization of Indian Health Service employment. Privatization aside, this dynamic sector of Alaska's economy is expanding due to a number of factors. The rapid aging of Alaska's population is one, and the migration to Alaska of health care providers to escape managed health care is another. This forecast assumes that between 400 and 500 of the employees at the Alaska Native Medical Hospital in Anchorage will move to the private sector through the end of the year 2001. If that facility privatizes more rapidly, an even more substantial gain in private health care services would occur, but federal government employment would show a concurrent drop.

A healthy outlook for the construction industry will help keep professional service providers busy, and if oil field service providers rebound this segment would also benefit from the increased activity. The outlook for business services is bullish due to the current labor shortages in many industry sectors. Temporary help agencies are thriving in the current labor market, and will continue to play an increasing role in helping Alaskan employers plug the gap for needed labor.

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 where the state has transferred employment to the private

sector. With the state looking to continue trimming expenditures, further expansion of privatization of this type is certain.

Transportation gains take a pause

Alaska's communications and utilities sector was among the fastest growing in Alaska's economy in 1999. The biggest boost came midway through 1999 when the Anchorage Telephone Utility (ATU) was privatized. More than 700 local government jobs moved to the private sector. In 2000, the effect of the ATU privatization will manifest itself until mid-year, but after that the industry will run out of impetus. With the emergence of two dominant players in Alaska's telecommunications sector, further expansion appears unlikely. In fact, it would not be surprising if the communications industry begins a period of consolidation.

The air transportation sector, particularly air cargo, has been a source of steady growth during most of the last several years. Growth will be slow during the next two years, but this industry will remain an important source of new jobs. A major capital improvement effort at the Anchorage International Airport is underway, which will position the industry for future growth.

Outside of air cargo, the airline industry could be in for a rough time. Incremental growth could be expected, primarily driven by tourism. However, extremely high fuel prices could spell trouble for marginal carriers, especially if they are unable to pass on the increased costs of fuel to customers without hurting demand.

Other segments of transportation have mixed outlooks. Bus and ground transportation will

Alaska Statewide Forecast 2000-2001 2

Wage and salary employment

	1998 Annual Average	1999 Annual Average	Percent Change 98-99	2000 Annual Average	Absolute Change 99-00	Percent Change 99-00	2001 Annual Average	Absolute Change 00-01	Percent Change 00-01
Nonag. Wage and Salary	275,000	277,600	0.9%	282,200	4,600	1.7%	286,100	3,900	1.4%
Goods-producing	38,600	37,200	-3.6%	37,200	0	0.0%	37,400	200	0.5%
Mining	10,800	9,500	-12.0%	9,350	-150	-1.6%	9,300	-50	-0.5%
Construction	13,400	13,800	3.0%	14,250	450	3.3%	14,600	350	2.5%
Manufacturing	14,400	13,900	-3.5%	13,600	-300	-2.2%	13,500	-100	-0.7%
Seafood Processing	9,000	8,500	-5.6%	8,300	-200	-2.4%	8,200	-100	-1.2%
Forest Products ¹	1,700	1,700	0.0%	1,600	-100	-5.9%	1,500	-100	-6.3%
Service-producing	236,400	240,400	1.7%	245,000	4,600	1.9%	248,700	3,700	1.5%
Transportation	25,500	26,100	2.4%	26,700	600	2.3%	27,200	500	1.9%
Trade	56,500	57,300	1.4%	58,100	800	1.4%	58,950	850	1.5%
Wholesale Trade	9,000	9,000	0.0%	9,000	0	0.0%	9,050	50	0.6%
Retail Trade	47,600	48,300	1.5%	49,100	800	1.7%	49,900	800	1.6%
Finance/Insur/Real Estate	12,500	12,800	2.4%	12,900	100	0.8%	12,800	-100	-0.8%
Services & Misc.	68,200	70,500	3.4%	73,200	2,700	3.8%	76,000	2,800	3.8%
Government	73,700	73,600	-0.1%	74,100	500	0.7%	73,750	-350	-0.5%
Federal	17,200	16,800	-2.3%	16,800	0	0.0%	16,200	-600	-3.6%
State	21,500	21,800	1.4%	22,000	200	0.9%	22,100	100	0.5%
Local	34,900	35,100	0.6%	35,300	200	0.6%	35,450	150	0.4%

¹ Includes pulp mills and Lumber and Wood products

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

Subtotals may not add due to rounding.

grow in response to increased numbers of tourists. Alyeska Pipeline, which is counted in the transportation sector, had been undergoing a slow and steady contraction, but its employment levels are not expected to change significantly in 2000 and 2001. Alyeska may be the source of some significant contractual activity if they are required to deal with sludge that is clogging fuel storage tanks at the pipeline terminal in Valdez.

Alaska's water transportation sector will do well to maintain its 1999 levels. The consolidation of Alaska's major grocers has decreased the volume of goods barged to and within Alaska. A relatively solid construction year and an oil service activity rebound would keep the industry from falling back too far, and tourism-related sectors of water transportation will help offset the losses. For example, boat charters and water-based sightseeing excursions should benefit from an increased number of visitors.

Mining plugs along through low gold prices

Expansion of Alaska's existing mines will provide some increases in employment, despite low gold prices. For example, the consolidation of several gold properties near the Fort Knox mine in Fairbanks could create 100 additional jobs in 2001. And there could be some slight employment gains at the Red Dog mine near Kotzebue.

In 1999, low prices hit some gold mining operations particularly hard, and several small to mid-size mines suspended or ceased operations. The two most promising projects for a major boost in employment, the Pogo project near Delta Junction and the Kensington Project north of Juneau, will not make any significant employment impacts during the forecast period.

Construction stays on course

Given the overall economic climate, Alaska's construction sector put in a surprisingly solid performance last year. The industry should continue to perform well through 2001, although some sectors are likely to have less activity.

Residential building construction is likely to fall off in most areas of the state. Higher interest rates and the uncertainty surrounding the oil industry are certain to have a dampening effect on that segment of the industry. Last year, the total number of building permits for residential construction declined twelve percent from 1998, and was the lowest level of activity since 1995. Anchorage, the Mat-Su Borough, and Fairbanks were the hotspots for residential construction in 1999. Early indications for 2000 portend a slower year for residential construction. Anchorage, Fairbanks and the Mat-Su Borough are expected to have the most activity again. In rural Alaska, residential activity should run close to last year's levels. In 1999, 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. Commercial construction's performance is also likely to slow, as the hotel and retail building booms of the past several years will have largely passed.

While residential and commercial construction activity will be slower, public construction projects will fuel a tremendous amount of activity. The massive Anchorage International Airport project will continue throughout the forecast period. Highway and street construction activity will again be a source of over \$300 million in construction related to federal highway funds.

Federally funded building construction will also provide a significant stimulus through 2001. Military construction projects will be a major source of activity. A replacement hospital at Fort Wainwright, base infrastructure, housing upgrades and civilian projects will all contribute during the next two seasons. The Alaska District of the Army Corps of Engineers estimates its FY 2000 construction spending to be \$278.9 million, increasing to an estimated \$320 million in FY 2001 and \$338.3 million in FY 2002.

State-funded building construction will occur at the University of Alaska, the Alaska Railroad and state agencies. Maintenance projects and potentially a museum are the big-ticket construction projects on the University's docket for the next two years. The Alaska Railroad will construct a terminal at the Anchorage airport and do track straightening and maintenance. For state agencies, construction will continue through the end of 2000 on the Public Health Lab in Anchorage, and the Alaska Marine Highway System will build an administrative headquarters in Juneau. Youth detention facilities, such as 10-bed facilities in Ketchikan and Kenai or Soldotna are also planned. While it's not being constructed by the state, a new \$46 million jail will be built, and the Alaska Department of Corrections will eventually operate it.

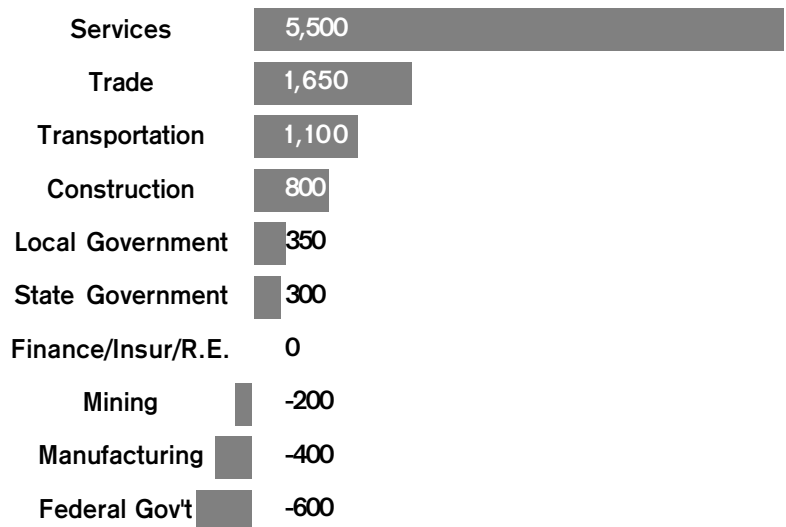
At the local level, Anchorage, Fairbanks and the Mat-Su Borough will see significant school-related construction, but there will be construction and maintenance projects throughout the state. There is an initiative afoot in the Legislature to address a backlog of school construction and maintenance projects. While it's unclear what form the projects will take or even if the work will occur, school-related construction potentially could get a significant boost. If given the go ahead, activities would probably begin in the 2001 construction season.

Slow but steady retail growth

Growth in Alaska's retail sector slowed in 1999. A big factor in that slower growth was the sale of Alaska's largest grocer, Carrs, to its second largest, Safeway. With the Safeway consolidation nearly complete, the retail sector should grow at a slow but steady pace during the next two years. General merchandise stores, led by a Wal-Mart opening in Anchorage, should contribute to job growth, particularly in 2000.

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. New establishments will continue to ratchet up employment during the next two years, however, a relatively slow economy portends the opening of fewer new restaurants. Elsewhere, Alaska's burgeoning tourism industry should boost retail trade employment as new gift shops vie for the growing tourist trade.

Services, Trade, Transportation Lead Statewide job growth in 2000 and 2001 3



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

Financial sector stable

The finance, insurance and real estate portion of the economy will hold steady during the next two years. The financial sector with the most potential for growth during the next two years is Alaska's Native corporations; the varied business activities that they are currently investing in will show up in a broad range of industries, including finance. One sector that has been particularly active the last several years has been rural housing authorities, 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. The other major event on the horizon is the impending takeover of National Bank of Alaska by Wells Fargo. It is likely that the takeover will result in consolidation of banking employment, particularly those administrative functions that overlap between the two organizations.

Fish plant may stem manufacturing decline

After a slight gain last year, Alaska's wood products industry has dim prospects for the next two years. In the seafood processing sector the outlook is also grim; however, the new Alaska Seafood International plant could help offset a portion of the losses in the manufacturing industry.

Alaska's forest products industry is expected to continue to lose jobs in 2000 and 2001. This year employment will reflect lower staff levels associated with the shutdown of the Annette Island sawmill. The market for round log exports is not expected to recover sufficiently to significantly boost logging employment from its relatively low 1999 level. Asian markets for logs, particularly in Japan, are extremely competitive at this time. While there is hope in the longer

term that a value-added facility such as a veneer plant will be built in Southeast Alaska, that possibility is outside of the forecast horizon.

Alaska's seafood processors began the 2000 season on a rough note. Unusual ice conditions in the Bering Sea forced postponement of the opilio crab harvest in January and dealt a severe blow to processing employment. Salmon, Alaska's primary species, faces an uncertain outlook. The overall salmon forecast by the Alaska Department of Fish and Game calls for harvest of fewer fish in 2000 than 1999. Perhaps an even more important barrier to employment growth in this industry is the widespread labor shortages reported among Alaska's seafood processors. Even when salmon runs recovered unexpectedly last year, processors had difficulty finding enough workers to man the plants. With the current national and state labor markets projected to remain relatively tight, this could be a serious barrier to job growth even if salmon runs are exceptional.

Perhaps the most positive employment development for Alaska's seafood industry in years could be the opening of the Alaska Seafood International plant in Anchorage. The plant will face extreme challenges, but if all goes as planned there could be 400-450 new manufacturing jobs in the seafood processing industry by the end of 2001. On the potential negative side, Tesoro recently indicated that it is considering closing its Kenai refinery. This forecast assumes that closure will not happen during the next two years, but a shutdown would drop manufacturing employment nearly 200 more than is currently forecast.

Privatization, fiscal pressures will shrink public sector

The outlook for Alaska's federal government sector is for further declines. However, even if the federal government grew slightly, privatization at

the Alaska Native Medical Center would lower employment levels. It is assumed that between 400 and 500 federal employees will move to the private sector through the end of the year 2001. A temporary boost in employment associated with the 2000 Census will help offset losses that year, but they should resume in 2001. The takeover of subsistence management by the federal government will also result in incremental growth at the U.S. Department of Interior.

State government employment is forecast to move slightly upward during the two-year period. Spending is being ratcheted down, but there are certain areas, particularly in the health and social services arena, that could see some employment growth. Beyond the forecast horizon, there will be an increase in employment at the Department of Corrections associated with the new prison being built in Anchorage. 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. The university has the potential for slight job growth if it fares well in the budget process.

Local governments will also experience some incremental growth during the next two years, but fiscal constraints and slower school enrollment growth will keep a lid on these gains. For the last several years the portion of local government that has grown the most has been school districts responding to increased enrollment and the call for lower teacher/pupil ratios. Enrollment counts statewide have leveled off and even declined in some areas, and so are not expected to provide the growth stimulus they have in the recent past.

Slow growth to continue through 2001

This two-year employment forecast predicts continued employment growth, with gains of about 1.5% in 2000 and 2001. Services, tourism,

the air cargo industry, construction and retail trade will spur job gains. Job losses are projected in the manufacturing, mining and public sectors. If projections come to pass, by 2002 Alaska will have added 8,500 new jobs and be riding a 14-year trend of slow steady employment growth.

Given the uncertainties in Alaska's oil industry, both about ownership and oil prices, caution is advised. If events play out differently than assumed, job growth could be less than forecast.

What if?

Several key assumptions underpin this forecast. Given what's known today, here's a best guess at how different assumptions could change the outlook. First, world oil prices or Alaska oil production always have the potential to impact employment substantially. At this writing, the price of Alaska North Slope crude oil was near \$28/bbl. If prices return to the levels seen in early 1999, the outlook for oil and gas mining, state and local government, and support sectors of the oil industry could significantly worsen.

While gold is not as important to the Alaska economy as oil, 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 advance.

Another potential blow would be a national recession. This could severely impact the outlook for the tourism industry, as well as other areas of Alaska's economy that require investment from lower 48 sources to finance growth. This could affect Alaska's telecommunications, retail and services sectors in particular.

Anchorage Forecast

by Neal Fried
Labor Economist

Two more good, steady years

Unlike last year, when rock bottom oil prices were weighing the economy down, the highest oil prices since 1990 are now providing it with a nice lift. Powered by the services, transportation, construction and retail sectors, employment is forecast to grow at 2.3% in 2000 and a bit more slowly in 2001. (See Exhibits 1 and 2.)

The steam for this growth will come from more federal money entering the economy, larger permanent fund payouts, the wealth effect created by the stock market, consumer confidence, perpetual growth in the visitor

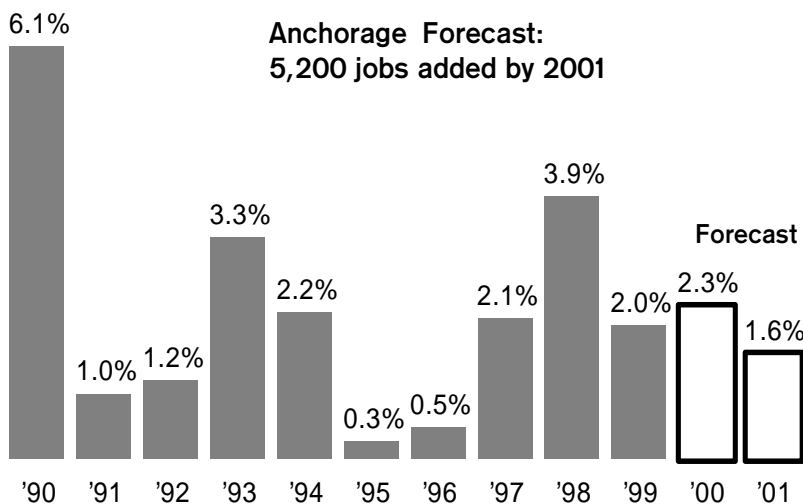
industry and the continued broadening of the support sector. The expansion of economies elsewhere in the state will also be a plus for Anchorage.

Turnaround in the oil patch

After a great year in 1998, last year got about as bad as it gets for Alaska's oil patch. But just as quickly as it went bad, it is now on the rebound with the help of the spectacular run-up in oil prices and the entry of Phillips Petroleum. Drilling, exploration and development will be on the upswing in 2000 and 2001. The simultaneous development of the Alpine field and BP's Northstar project will provide a big shot in the arm for the oil field services industry. Alpine will actually begin to produce oil later this year. VECO and Alaska Petroleum Contractors are building modules for the Northstar project in their Anchorage facilities. There will also be some initial exploratory drilling activity in the National Petroleum Reserve—a first in decades. And depending on the results of this exploratory drilling, additional exploration could take place in 2001 and beyond.

The immediate outlook for oil producer employment is considerably better than it was just one month ago. Now that Phillips Petroleum is buying out ARCO in place of the BP/ARCO merger, the specter of large layoffs is less imminent. However, the long-term trend of oil producer employment has been one of decline and this is not likely to change.

1 Anchorage Leads State to Growth Annual percent employment growth



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

Construction should continue its amazing run

Throughout the past decade, the construction industry has provided Anchorage with a steady source of new jobs and economic activity. The next two years should not be much different. The mix will change, however. Residential and commercial construction will play a less prominent role but the gap will be filled by an increase in publicly funded projects.

During the forecast period, the \$200 million plus expansion and reconstruction of the Anchorage International Airport will be the crown jewel of construction projects. The new Concourse C will be finished by mid-year 2002 along with a long list of other work. The completion date for most of this giant project is 2004. Besides the airport, several other public projects are on the horizon. One of these is the new \$46 million jail, which the City is building and will lease back to the state. This project will move into full swing this construction season, with a completion date for early 2002. The City will also be building two new fire stations for approximately \$10 million. Two new high schools are also on the docket. Some work on the replacement of Dimond High will begin this year and progress to full-blown construction in 2001. Construction of the new South Anchorage High School is also slated to begin in 2001. The Alaska Railroad has big plans for the next five years as well. It will begin building a \$28 million railroad station at the airport this year. Many miles of track between Anchorage and the Mat-Su Borough will be upgraded to accommodate faster commuter travel between the two areas. The military will be undertaking a variety of projects. One of the largest is the construction of 300 new homes on Elmendorf Air Force Base, beginning this summer.

Last year was a big year for highway construction because of Congress' new and much larger highway authorization legislation. This year will

repeat last year's performance. Some of the larger projects include the \$18 million project to widen 15th Avenue, \$16 million for work on Jewell Lake to the airport, \$10 million for Dimond to Dowling and a host of smaller projects. It is also going to be a big highway construction season for the Mat-Su Valley, which will benefit Anchorage contractors.

The boomlet in hotel construction officially ended with the completion of Columbia Sussex's new Marriott hotel in March, causing commercial activity to fall off. Although there will be less commercial construction this year, some significant projects are planned. The biggest to date is a \$45 million expansion at Providence Hospital. Alaska Regional Hospital also has plans for a \$25 million addition to their office space. There is a good chance a new Fred Meyer will be built in south Anchorage during the forecast period. The new outlet mall is still on the books for Eagle River and rumors of other possible large retail projects are in play. There is also a variety of smaller projects, such as construction of a new mini-mall in midtown and an addition to the South Alaska Club.

Last year the number of residential permits fell by nearly 500, which meant 1999's level of activity came in close to 1997 levels. Most observers believe this year will be a repeat of last year's levels or possibly a bit softer. Higher interest rates are putting a damper on the market. The most recent positive development is that the buyout of ARCO is no longer a negative factor in the market.

Yes—Manufacturing employment will grow in Anchorage

For the first time in memory, manufacturing is forecast to be a force in Anchorage's economy. It has been decades since a new major manufacturing plant has opened in Anchorage. All of this growth lies at the doorstep of Alaska

Seafood International (ASI), the new value-added, ready-to-eat seafood product plant. It had only a small staff for most of 1999, but this year ASI will begin to produce product for the market. By the end of this year, its workforce should climb to 250 and by the end of next year, when fully operational, employment will reach 450. Even more significant than the employment this plant generates is the fact that it represents an entirely new industry in the state.

Moderation will rule Anchorage's retail market

Now that the Carrs buyout by Safeway is largely history, retail will probably settle into a moderate growth trend over the next two years. The only major new player slated to enter the market during the forecast period is a Wal-Mart in Eagle River that will open its doors in April and have a workforce of 200-250. Although a Fred Meyer may be built in the near future, a new workforce would not likely be hired until the end of 2001 or later. The number of smaller retailers or restaurants that will open cannot be predicted. But given the dynamics of this market and past growth of smaller retailers, the number should be considerable, providing the industry with the balance of its growth.

Interesting changes in the finance sector

While there will be some very interesting developments in the financial industry, employment in this sector should remain relatively stable. Finance's anchor story is the Wells Fargo buyout of National Bank of Alaska, the state's largest bank and one of its largest employers. Because NBA is headquartered in Anchorage, local residents are closely watching this process. Acquisitions by outside firms often result in some job losses because there is often some overlap in administrative functions.

More than half of the new jobs will come from services

Because it is Anchorage's largest industry and includes a diverse group of employers, it is not surprising that services remains the industry with the strongest growth. (See Exhibit 3.) Industries as different as hotels, social services, health care, computer services, temporary and contract help agencies, law firms and many others are included under the services tag. The forces of privatization, growth in health care, more widespread use of technology and the burgeoning visitor industry almost insure this industry's growth into the foreseeable future.

Health care is not only the largest player in services but it also remains one of the fastest growing. Over the next two years 400-500 of the new jobs in health care will come from continued privatization of the Alaska Native Medical Center. As federal positions turn over, they are replaced with private sector direct hire employees of the Southcentral Foundation and the Alaska Native Health Consortium. Other growth will also continue in health care services. Both Providence and Alaska Regional hospitals have plans for expansions as do some small- and medium-size health care providers. The aging of the population, technology, the provision of more services locally and other reasons are given for persistent growth in this sector. There are doubtless upper limits to this growth, but they are not readily known.

The last act in the hotel boom, a dynamic player in services over the past two years, came in March with the opening of the new 390-room Marriot. They are hiring a workforce of at least 200 because it is a full service hotel with restaurants and meeting facilities. Since 1994, Anchorage has added 2,100 rooms, nearly more rooms than exist in any other community in the state. This enables Anchorage to host a larger number of visitors during peak season and book larger conventions.

It should be another good visitor season

A healthy national economy, more hotel rooms, more cruise ship capacity and new visitor attractions should insure another healthy visitor season in Anchorage. Most of the big tour operators are indicating increased bookings. The one question mark in this analysis is the current high price of fuel that makes travel more expensive. Most observers believe it is not likely to have a big impact on air or cruise ship travel, the modes most commonly used by visitors to Anchorage. However, if higher gasoline prices persist, they are likely to affect highway traffic, a small segment of Anchorage's visitor industry.

International cargo should keep air transportation aloft

Last year air transportation grew moderately after a stellar performance in 1998. A rebound in Asia, a continued strong Chinese market and an improving European economy bode well for international cargo business at the Anchorage International Airport. Polar Air Cargo is adding five new cargo jets to their fleet, and all of its planes will be routed through Anchorage. It recently made Anchorage one of its pilot bases, which could mean some of these pilots will live in Anchorage. Northwest Airlines also recently ramped up its number of flights through Anchorage. And most of the international air

Anchorage Forecast 2000-2001 Wage and salary employment **2**

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State	8,400	8,600	2.4%	8,700	100	1.1%	8,800	100	1.1%
Local	10,200	10,100	-1.0%	10,200	100	1.0%	10,100	-100	-1.0%

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

Subtotals may not add due to rounding.

carriers operating in Anchorage are applying for more routes to China, which bodes well for future years. Federal Express' workforce continues to grow and there is no expectation this trend will change. One negative is that international passenger traffic continues to fall, a trend likely to continue. The number of international charters from Europe destined for Anchorage will grow this year, however, offsetting some of this decline. Domestic air traffic should remain relatively stable given the moderate growth predicted for the state's economy and a decent visitor season.

Employment in state government will change little during the forecast period and local government's workforce could also hold stable. But that latter forecast is a big *if*. This is because if Proposition 10, a measure to limit property taxes, is approved by voters in November, it would force sizeable cuts to the local government workforce in 2001. Because the outcome of this election is not known, this forecast assumes no change.

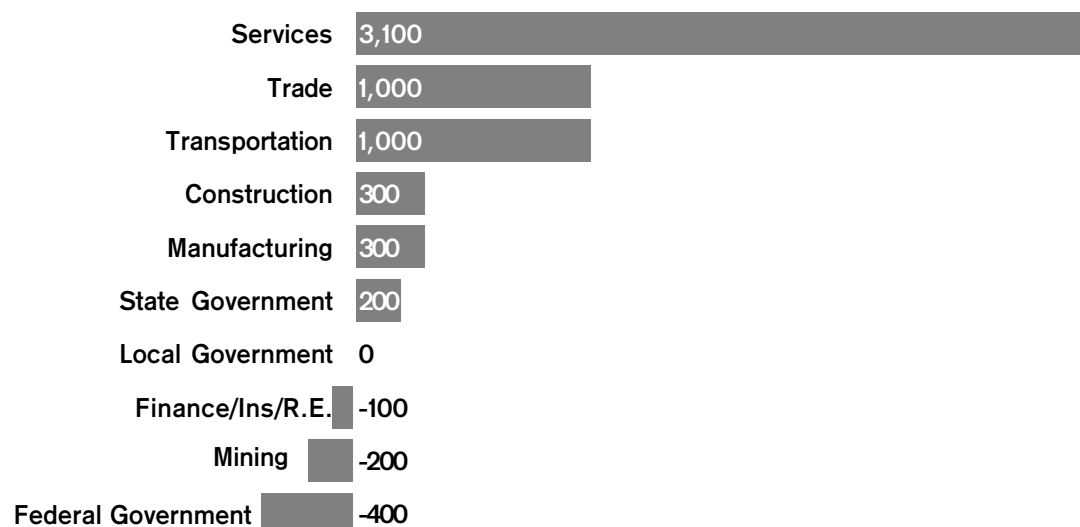
Uncertainties in local government

Federal government's employment is forecast to change little in 2000, but it will get smaller in 2001. The jobs lost in the federal sector will come as a result of the privatization of the Alaska Native Medical Center. Most of these losses will be masked in 2000 by federal hiring for the 2000 Census. Declines will show up in 2001 after the census work is finished and the cumulative losses of 2000 and 2001 at the Alaska Native Medical Center hospital manifest themselves.

Summary—14 years of growth is a pretty long streak

During the past decade, Anchorage's economy has grown at an annual average growth rate of two percent—not far off the mark from what is predicted for the next two years. Although it represents the slowest decade of growth in the state's history, it is not a bad record in light of the fact that oil production is half what it was ten years ago. Over the next two years the growth is going to come from a variety of industries—services, transportation, construction and retail. And as long as the nation's economy and job market remain in top shape and modest expansion continues in Anchorage, the local job market should remain good for job seekers.

3 Anchorage Job Growth to Ride on Services, trade, transportation in 2000 and 2001



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

Fairbanks Forecast

by
Brigitta Windisch-Cole
Labor Economist

Interior city poised for growth in 2000 and 2001

Over the next two years, the Fairbanks economy will continue to grow. This forecast calls for 2.2% employment growth in 2000 and 1.8% in 2001. (See Exhibits 1 and 2.)

Construction will provide the core energy, which will also bolster employment among its supporting industries. Services, trucking, and retail industries will get a special lift from the upswing of construction activities. Downtown Fairbanks will receive a substantial makeover that will polish its reputation as a tourist destination. Pre-season bookings with the visitor industry indicate that year 2000 will turn into a good season for the Fairbanks' business community.

A strengthened military presence will further support commercial activity. For the next two years Fairbanks' military population is projected to grow. Other staple industries such as mining and transportation will remain on a steady course. Among public sector employment only small changes will occur. In both years, the Fairbanks economy will build and strengthen its foundation.

Construction will be the core industry

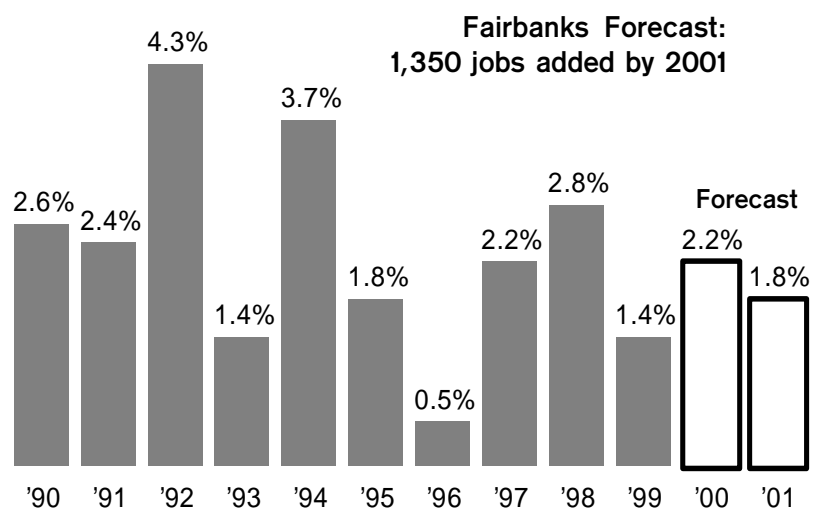
Construction activity will increase during the year 2000 building season and continue into 2001. Employment is expected to grow in both years. (See Exhibit 2.) Public sector construction will dominate. A new \$132 million hospital and training area on Fort Wainwright and a runway with a new fuel hydrant system on Eielson Air Force Base will be at the center of military

construction for the next two building seasons.

The state's largest project is the Alaska State Court House, a \$21 million building which will be completed in 2001. The University of Alaska Fairbanks (UAF) will spend over \$10 million on construction this year. Most of it will go to the deferred maintenance program to upgrade university buildings. If funding becomes available, UAF hopes to start its museum expansion, estimated to cost over \$25 million, by 2001. Another future state project is the relocation of the Alaska Railroad depot.

Fairbanks Among Growth Leaders

Annual percent employment growth



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

The Fairbanks North Star Borough will finish several school renovations and expansions this year. A new \$57 million school bond measure will go before voters in May. If it passes, two new elementary schools and a technical high school at the Hutchison Career Center could be built. The City of Fairbanks has a \$5 million parking facility and a police station on its 2001 construction docket. Several year 2000 road projects costing over \$10 million, and construction at the airport, estimated to cost between \$2.5-5 million, will help heat up public sector construction.

Private investment will add a sizeable share to Fairbanks' construction scene. Although several large projects, such as the Doyon office complex and a hotel, will be completed in 2000, many others carry over from the 1999 season or will start up this year. The Fairbanks Princess Hotel will progress with its 100-room expansion. In downtown Fairbanks, ground will be broken on a new \$16 million Spring Hill Suites hotel (Marriott). Two major apartment remodel jobs, the Northward building and Golden Towers, will

continue. The largest industrial construction contract will be a grinding/inject modular unit for the Northstar project on the North Slope. Rising interest rates may slow activity in the residential sector causing a soft spot in privately sponsored construction. But the multitude of public sector and commercial construction projects will turn the years 2000 and 2001 into big building seasons.

Mining will stay on course

Fairbanks' mining industry could experience some growth in 2001. This year, however, employment will not change significantly. The ownership transfer of ARCO holdings will hardly affect Fairbanks' oil support industries. But if investment picks up on the North Slope, business will improve. Fairbanks' proximity to the North Slope fields is turning into an advantage and it has been chosen as the work site for modular construction. These new jobs will probably count in Fairbanks' closely related construction industry instead of oil field services. This technical distinction could mask the fact that Fairbanks is expanding and equipping its staging area to support the North Slope oil fields.

2 Fairbanks Forecast 2000-2001 Wage and salary employment

	1998 Annual Average	1999 Annual Average	Percent Change 98-99	2000 Annual Average	Absolute Change 99-00	Percent Change 99-00	2001 Annual Average	Absolute Change 00-01	Percent Change 00-01
Total Nonag. Wage & Salary	32,950	33,400	1.4%	34,150	750	2.2%	34,750	600	1.8%
Goods-producing	3,300	3,200	-3.0%	3,300	100	3.1%	3,450	150	4.5%
Mining	900	800	-11.1%	800	0	0.0%	900	100	12.5%
Construction	1,800	1,800	0.0%	1,900	100	5.6%	2,000	100	5.3%
Manufacturing	600	600	0.0%	600	0	0.0%	550	-50	-8.3%
Service-producing	29,650	30,200	1.9%	30,850	650	2.2%	31,300	450	1.5%
Transportation	3,000	3,100	3.3%	3,150	50	1.6%	3,150	0	0.0%
Trade	6,900	6,900	0.0%	7,050	150	2.2%	7,200	150	2.1%
Wholesale Trade	850	800	-5.9%	800	0	0.0%	800	0	0.0%
Retail Trade	6,000	6,150	2.5%	6,250	100	1.6%	6,400	150	2.4%
Finance/Insur/Real Estate	1,100	1,200	9.1%	1,200	0	0.0%	1,200	0	0.0%
Services & Misc	8,150	8,400	3.1%	8,650	250	3.0%	8,950	300	3.5%
Government	10,500	10,600	1.0%	10,800	200	1.9%	10,800	0	0.0%
Federal	3,350	3,300	-1.5%	3,350	50	1.5%	3,350	0	0.0%
State	4,400	4,400	0.0%	4,450	50	1.1%	4,450	0	0.0%
Local	2,800	2,950	5.4%	3,000	50	1.7%	3,000	0	0.0%

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

Subtotals may not add due to rounding.

Over the past four years gold mining has revived to resume its status as a significant basic sector industry. Fort Knox, Fairbanks' crown jewel production center, has persevered at full production through the gold price slump by containing production costs. Its new owner, Kinross Gold Corporation, has acquired two additional explored gold deposits in the vicinity of Fairbanks. If the permitting process is successful and gold prices hold or improve, the True North deposit will be milled at Fort Knox. The mine could create 100 new jobs as early as 2001.

Another gold mining company has become established in Fairbanks. Teck Resources, which is exploring the Pogo deposit near Delta Junction, located its main office in Fairbanks. The Teck exploration team has identified a large deposit, estimated to contain 5.6 million ounces of gold. If gold prices warrant development, Fairbanks most likely will become the mine's support center. Placer mine operators, however, will face a tough 2000 mining season. Gold prices have not recovered and fuel costs are on the rise. Placer mine employment could suffer job losses.

The hospitality industry will give services employment a boost

Services employment will top the list of new job creators over the next two years. (See Exhibit 3.) Hotel employment will rise with the completion or expansion of three projects. Other visitor-related services could benefit from an increase in tourism. Some experts peg the industry's annual growth in the five-percent range, despite an anticipated downturn in "rubber tire" tourism during the 2000 season. While high gasoline prices could slow the flow of independent travelers, the packaged tour business is expected to show robust growth.

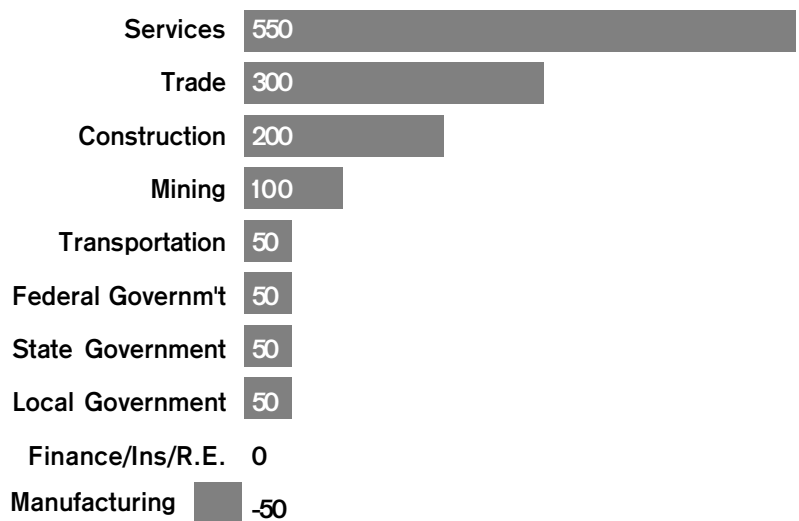
Service offerings for Fairbanks' residents and industries are also expanding. Health care was a major component of service sector employment growth in 1999 and it is expected to create still

more jobs. Professional services directly linked to the construction industries, such as engineering, could see a hike in business. In addition, new military personnel will spur demand for personal, recreation, and amusement services in Fairbanks.

Retail's pause could be over

Despite the current lull in retail expansion, industry employment in 2000 and 2001 will most likely grow. A good portion of the new jobs will come from the opening of three new fast food restaurants. Overall retail growth, however, is a wild card. No large general merchandise chain has announced a move into Fairbanks. One national newcomer, Eddie Bauer, does plan to open for business soon. So far, Fairbanks' retail market has not recaptured the variety it once enjoyed. Retail merchants, however, are known to be quick movers, and a growing population might entice businesses to open. Considering the upbeat business climate in Fairbanks and increasing military population, this forecast projects employment growth in retail.

Services Lead Fairbanks 3 Job growth in 2000 and 2001



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

Transportation, communications and utilities employment will grow a bit

Transportation, communications and utilities employment will grow moderately during the next two years. Trucking employment will recover some of its recent losses with the comeback of North Slope activity and the trickle down effect from the upbeat construction scene. Communications employment growth will get a stimulus from competition. GCI has announced that it will enter the Fairbanks local telephone market. Ground transportation and ground service employment at the airport may experience lift as a result of increased tourism and international air cargo traffic. Employment in some sectors may suffer a bit, however. Commuter airlines and charter flight services may be impacted by higher fuel costs, and a downturn in business could develop. The outcome should be moderate employment growth for the transportation and utility industries.

Finance, insurance and real estate will remain stable

In 1999, real estate employment experienced a boomlet with the increase in federal public housing funds. More than \$10 million from a federal grant initiated maintenance programs and construction of public housing in Fairbanks and Interior villages. This year's appropriation, nearly the same as last year's, will allow the Interior Region Housing Authority to launch additional programs in its service area. Real estate employment is likely to maintain its current level. Fairbanks' banking and insurance industries should be stable; no significant employment changes are foreseen prior to the forecast horizon. National Bank of Alaska's change of ownership to Wells Fargo will not be felt significantly in Fairbanks, where four branches will simply change their business name.

Public sector employment will gain little ground

For the next two years, staff counts at the three levels of government will change only marginally. Federal government is gearing up to add personnel. U.S. Census takers will represent most of the increase in employment in 2000. Employment at state and local government will not change much. If the university's request for more funding is granted, small staff increases are possible. School-related employment could rise if enrollment rebounds with the reentry of military families. The state's budget, however, is projected to remain tight, which will also impact local budgets. For 2001, no increase in public sector employment is anticipated. A statewide mill rate cap on property tax, set to go on November's ballots, would reduce Fairbanks' local budget (including special services area revenues) by about \$25 million. If the measure passes, the public sector will suffer significant job losses in the more distant future.

Summary

Over the next two years, Fairbanks' economy will add 1,350 jobs. In both years construction will provide the impetus for growth. Publicly sponsored projects will dominate. The business climate is upbeat and most industry sectors will follow a path of growth. New military population and good visitor seasons will help the revitalization of commerce. There is also a good chance that Fairbanks' mining community will become larger in 2001, but this of course will largely depend on world gold markets. The forecast 2.2% employment growth in 2000 followed by 1.8% in 2001 should usher in good economic performances during the first two years of the millennium.

Southeast Forecast

by
Rachel Baker
Labor Economist

Slow growth to continue in region in 2000 and 2001

The Southeast economy will continue to grow through 2001, adding jobs at a pace similar to the one-percent growth rate recorded in 1999. The services sector will again be the star performer, but construction and retail trade will also help carry the region to employment growth during each of the next two years. (See Exhibit 1.)

The forest products sector will be the only substantial negative in the Southeast economy, as the full effects of a sawmill closure and native corporation logging layoffs are seen in 2000. (See Exhibit 2.) Timber supply and demand difficulties will also continue for the region's wood products industry, and timber harvests are expected to remain close to the 1999 level.

Services will still lead the pack

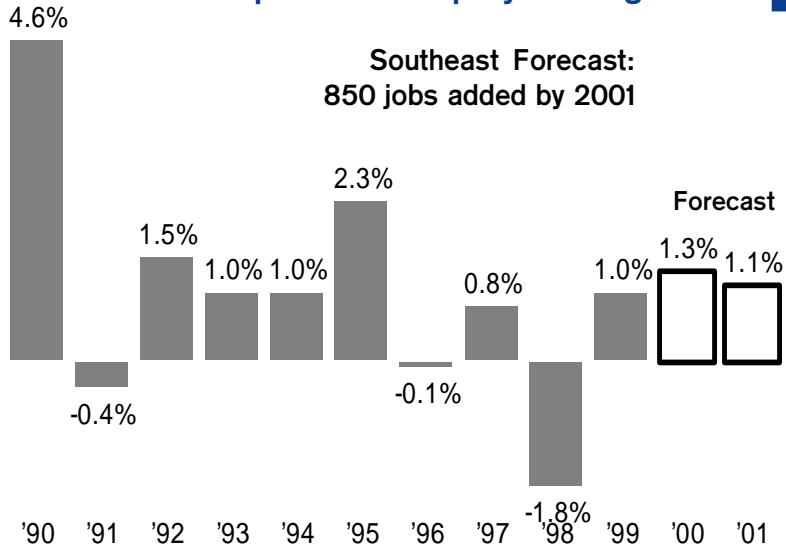
The services sector will continue to be the main source of growth in the region, adding 650 jobs in the forecast horizon. (See Exhibit 3.) Almost all service sectors should experience some job growth, but social services, hotels and lodging places and amusement and recreation services will take the lead. Although the pace of tourism growth has slowed somewhat since the mid-1990s, tourism will continue to be an expanding industry in Southeast. In 2000, significant changes are not expected in the total number of cruise ships visiting Southeast, but some cruise lines will alter their scheduled stops within the region. Two cruise lines will reduce docking time in Juneau and stay longer in Ketchikan. Holland America has scheduled additional trips to Glacier Bay, and a weekly stop in Haines by Princess Cruises has been removed from the schedule.

The cruise industry will provide growth to the Southeast economy as demand for sightseeing tours and other services continues to grow, in pace with the number of visitors.

Hotel employment will increase in conjunction with new room capacity and a good visitor season in Juneau. In 2000, a 40-room expansion and two new hotels will open for business. The new hotels will certainly benefit from tourist activity, but the Guest House International Inn and Suites will also court business travelers and conference activity. In other Southeast communities, hotels and bed and breakfast inns will maintain or slightly increase employment in response to increased independent tourist activity.

Southeast Growth to be Steady

Annual percent employment growth



**Southeast Forecast:
850 jobs added by 2001**

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

Social services employment will also grow when a new home for disabled adults opens in Juneau. More growth could come from the privatization of health and social service programs by the City and Borough of Juneau. The city will drop most of its chemical dependency programs this year and forward the caseload to private nonprofit agencies. Growth will also likely continue in counseling, mental health and training centers around the region. Although health services employment was essentially flat in 1999, a new wing for Ketchikan General Hospital will open in 2000 and a new elder care facility is expected to open in Juneau in spring of 2001.

Public construction will surge

The outlook is good for nearly all construction sectors for the 2000 and 2001 seasons. Although new residential and commercial construction could be limited, home remodels and additions could provide some growth for the residential construction sector. General construction employment will get a boost from ongoing hotel expansion and construction activity in Juneau. Work also began recently on a Burger King in Ketchikan, and construction activity is expected this summer at the former pulp mill site in Sitka in preparation for the opening of a water bottling plant. Construction on the Wal-Mart in Ketchikan is expected to begin toward the end of the forecast period.

Publicly funded projects will be the driving force in construction employment growth for the Southeast region. Infrastructure improvements are planned in nearly all Southeast communities with various combinations of federal, state and local funds. Projects will include harbor construction and improvements, road building and maintenance, water and sewer upgrades, and airport work. School construction and renovations are underway or planned in Craig, Sitka, Juneau and Wrangell. The Alaska Marine Highway System also plans to build a new administrative building in Juneau. Construction of a youth detention facility in Ketchikan and the

new National Marine Fisheries (NOAA) facility in Juneau will boost construction employment in 2001.

Implementation of the Southeast Transportation Plan will also get underway in 2000. The first stage of the plan involves an alternative ferry route from Ketchikan to Hollis, on central Prince of Wales. The Inter-Island Ferry Authority (IFA), whose board members are made up of representatives from Wrangell, Petersburg and four Prince of Wales communities, will operate the year-round ferry service. The Alaska Marine Highway System will cease its Ketchikan to Hollis route once the IFA begins service, currently scheduled for spring 2001.

While the IFA's first ferry is being built in Washington, construction of a transfer facility in Ketchikan and terminal improvements in Hollis will boost Southeast construction employment in 2000. The IFA has plans for a second ferry that will run from Coffman Cove on northern Prince of Wales to southern Mitkof Island, which will allow access to Petersburg. The ferry might also stop in Wrangell. Work could begin on the Coffman Cove ferry and terminal in 2001. Future Southeast Transportation Plan work will involve more terminal construction and improvements and road work on Prince of Wales, Mitkof Island and in Wrangell, but this work is scheduled beyond the forecast horizon.

Retail trade will grow steadily

Retail trade should continue to grow through 2001. The new Burger King could provide up to 40 additional jobs in Ketchikan. Other retail growth will come from additional workers at eating and drinking establishments and incremental growth at gift shops and other retail stores that serve the tourism industry. In 2001, job growth is expected to continue in these sectors. Ketchikan's Wal-Mart is not expected to add a significant number of employees until after 2001.

Air transportation will dampen growth

Changes in transportation employment will be driven by air transportation. Some employment losses are expected in 2000 due to a cutback at Taquan Air early in the year. Although the company is expected to find a buyer by mid-year, staff reductions during the first half of the year will affect overall employment numbers. Other carriers will try to fill the gap in flight services, but these small carriers probably will not replace all 80 jobs cut by Taquan. In 2001, it is anticipated that Taquan will have a new owner and gear up to 1999 employment levels. Some growth in tourism-related transportation, such as helicopter trips and other types of excursions, will also add jobs to the transportation sector.

Government employment to remain flat

Government employment is expected to increase in 2000 due to U.S. Bureau of Census employment and increased employment at local school districts. The increase in local government employment will be offset by the loss of about 40

jobs in Juneau when the city privatizes some health and social service programs. In 2001, the census will be complete and the effects of reduced municipal assistance plus flat or declining school enrollments will likely lead to cuts in school district employment.

State government employment is projected to be flat in the Southeast region through 2001. Although spending for some state-sponsored programs is steadily decreasing, implementation of the Southeast Transportation Plan, continued growth in health and social services, and a youth detention facility in Ketchikan will offset potential declines from reduced spending in other areas.

Manufacturing will be largest job loser

The manufacturing sector will continue to lose jobs in 2000 and 2001, primarily due to the forest products industry. The late 1999 closure of the sawmill in Metlakatla and layoffs at the Craig native corporation's timber office will pull down employment in that sector during 2000. In addition, stiff competition in the export market

Southeast Forecast 2000-2001

Wage and salary employment 2

	1998 Annual Average	1999 Annual Average	Percent Change 98-99	2000 Annual Average	Absolute Change 99-00	Percent Change 99-00	2001 Annual Average	Absolute Change 00-01	Percent Change 00-01
Total Nonag. Wage & Salary	35,300	35,650	1.0%	36,100	450	1.3%	36,500	400	1.1%
Goods-producing	4,900	5,000	2.0%	5,025	25	0.5%	5,075	50	1.0%
Mining	350	300	-14.3%	300	0	0.0%	300	0	0.0%
Construction	1,600	1,600	0.0%	1,675	75	4.7%	1,775	100	6.0%
Manufacturing	3,000	3,100	3.3%	3,050	-50	-1.6%	3,000	-50	-1.6%
Seafood Processing	1,300	1,350	3.8%	1,350	0	0.0%	1,350	0	0.0%
Forest Products ¹	1,150	1,200	4.3%	1,125	-75	-6.3%	1,050	-75	-6.7%
Service-producing	30,400	30,650	0.8%	31,075	425	1.4%	31,425	350	1.1%
Transportation	2,900	2,850	-1.7%	2,825	-25	-0.9%	2,875	50	1.8%
Trade	6,400	6,450	0.8%	6,500	50	0.8%	6,575	75	1.2%
Wholesale Trade	600	600	0.0%	600	0	0.0%	625	25	4.2%
Retail Trade	5,800	5,850	0.9%	5,900	50	0.9%	5,950	50	0.8%
Finance/Insur/Real Estate	1,350	1,200	-11.1%	1,200	0	0.0%	1,200	0	0.0%
Services & Misc.	7,550	7,900	4.6%	8,250	350	4.4%	8,550	300	3.6%
Government	12,150	12,250	0.8%	12,300	50	0.4%	12,225	-75	-0.6%
Federal	1,800	1,750	-2.8%	1,775	25	1.4%	1,750	-25	-1.4%
State	5,250	5,300	1.0%	5,300	0	0.0%	5,300	0	0.0%
Local	5,100	5,200	2.0%	5,225	25	0.5%	5,175	-50	-1.0%

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

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

for Southeast Alaska timber has steadily decreased the amount of timber harvested on private lands. Competition plus supply restrictions have scaled back logging in the Tongass National Forest as well. For the next two years, logging activity should be consistent with 1999 harvest levels, but reduced supply could force more job losses at sawmills in Southeast. Although plans for veneer plants in Ketchikan and Klawock are still on the drawing board, these are unlikely to yield real employment gains in the lumber and wood products industry within the forecast period.

Seafood processing employment should remain fairly stable for the next two years. The 2000 Southeast salmon forecast predicts a harvest smaller than the near-record breaking 1999 catch. The reduced harvest could pull down processing employment this year, but last year's employment numbers were already held down by labor shortages. These labor shortages will likely continue to be a factor as long as the national economy is healthy. Some employment gains could come later in 2001 from a planned chum salmon processing facility in Sitka. Wards Cove Packing plans to operate the processing plant at the former pulp mill site.

Mining will be stable

Mining employment will be stable in the Southeast region for the next two years. Although exploration activity at the Greens Creek mine near Juneau uncovered substantial deposits that could increase the life of the mine, employment levels are expected to be fairly flat during the forecast period. In 1999, the mining sector lost jobs in Southeast, primarily from small gold mines that scaled back or shut down in response to low gold prices. Gold prices are expected to remain low, but if the price rises significantly, these mines could staff up to pre-1999 levels.

This employment projection assumes no activity at the Kensington mine through 2001. Coeur Alaska is committed to developing Kensington, but the company continues to work on a profitable plan for the mine that will gain approval by the U.S. Environmental Protection Agency.

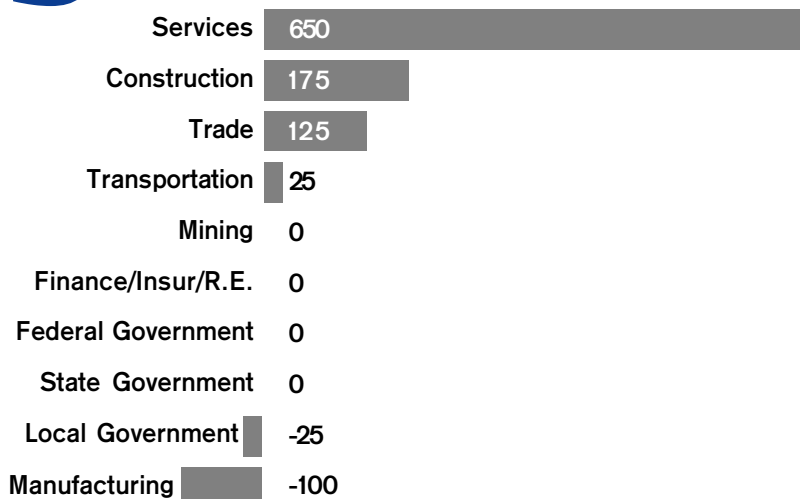
Finance sector will hold steady

Employment in the finance, insurance and real estate sector is expected to remain fairly stable during 2000 and 2001. The National Bank of Alaska takeover by Wells Fargo is not likely to affect its approximately 120 employees in Southeast region, as most administrative positions are located in Anchorage. No other significant changes are expected in this sector, which includes native corporations. Some Southeast native corporations have growth potential, and the corporations' diverse business ventures could bring job growth to finance and other sectors.

Summary

Slow but stable employment growth of about one percent will characterize the Southeast economy over the next two years. Strong performances should come from services and publicly funded construction, while the wood products industry will drag down job growth in the region.

3 Services Lead Southeast Job growth in 2000 and 2001



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