

Statewide Two-Year Forecast

by Dan Robinson
Labor Economist

Employment will grow 1.4 percent in 2002 and 1.3 percent in 2003

Alaska will add a modest number of new jobs over the next two years, extending the state's streak of thirteen consecutive years of employment growth. The 2002-03 forecast is for 7,900 new jobs over the two-year period, which translates to an annual growth rate of slightly less than 1.4%. (See Exhibits 1 and 2.) The majority of the new jobs are expected to be in services and retail trade.

Regionally, Fairbanks leads the way

Several federal construction projects in Fairbanks will contribute to higher employment growth there than in other parts of the state. Anchorage will grow at a slower rate than in recent years due to some job loss in the oil industry and a slowdown in construction. Southeast Alaska should manage to just barely compensate for expected job losses in seafood processing and the timber industry by adding a small number of jobs in services, transportation, and several other categories.

More new jobs in services sector

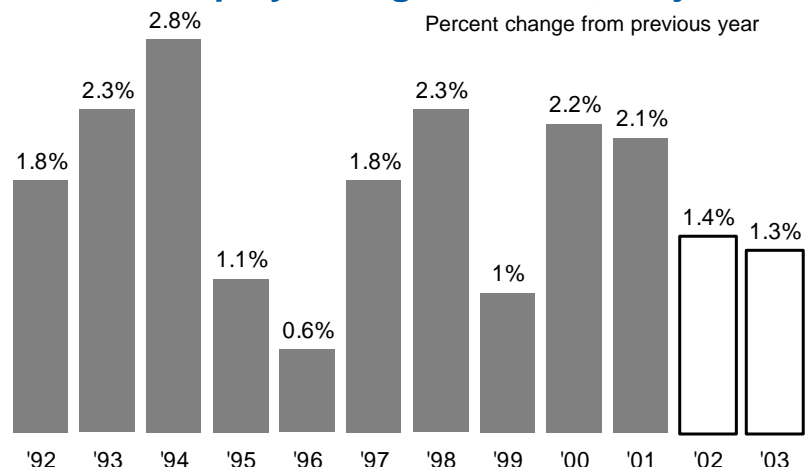
The services sector of the economy—a broad category that includes employment in health care, social services, hotels and motels, and business and engineering, among others—is once again expected to add the bulk of new jobs over the two-year forecast period. Approximately half of all jobs added in the next two years will be from this sector.

Many of the new services jobs will come from the health care industry, which is expected to continue the robust growth that has characterized it over the last decade. The growth should continue into the foreseeable future as the state's baby boomers

age and require more care. Social services, which includes senior citizen centers, counseling and adoption organizations, substance abuse recovery facilities, and child care providers, is also expected to grow at a healthy rate.

Another significant sub-category of services is hotel and motel employment. It is one barometer of the tourism industry, and therefore bears watching. In the fall of 2001, following the September 11 terrorist attacks and the U.S.-led response, the dominant opinion was that the 2002 season would be a bleak one. Since that time those views have moderated somewhat as the U.S. economy has emerged from recession and security issues have been at least partially resolved. The assumption for this forecast is that tourism-related jobs will neither increase nor decrease very much in the next two years.

Statewide Forecast for 2002-03 Employment growth of 7,900 jobs



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

In 2001 certain federally recognized tribal entities were reclassified from services to local government. (See the April 2002 issue of *Trends*, page 4 for more detail.) Consequently, growth in the services sector from 2000 to 2001 (see Exhibit 2) is hidden and growth in local government is artificially inflated. Once this change is accounted for, growth in services in 2001 amounted to about 3,200 jobs or 4.4%. The forecast calls for slower growth of 2.7% in 2002, followed by 2.5% in 2003.

Manufacturing still looking for solutions

The state lost 400 manufacturing jobs in 2001 and is expected to lose 200 more over the next two years. The timber industry has steadily dropped each year since 1990. Low lumber prices and competition from more accessible markets are two of the factors creating a dismal long-term outlook for the industry.

Seafood processing's woes may be more structural and potentially of shorter term. On the one hand, world demand for salmon is increasing and Alaska's runs are strong. On the other, ex-vessel prices remain very low and competition from farmed salmon is increasing. Following the loss of 200 jobs in 2001, the current forecast is for 100 fewer jobs in 2002, then no change for 2003.

Oil industry to reduce jobs

A year ago, the picture was rosy for the oil industry. Oil prices were high and there was serious talk about building a natural gas pipeline. At this writing, prices are lower and a natural gas pipeline in the near future appears unlikely. The current forecast for the mining category, which includes all mineral production, but is made up mostly of oil extraction and oil field services, calls for a 2002 decrease of 500 jobs, followed by a slight rebound in 2003. It is important to remember that both 2000 and 2001 were very good years. In 2001 alone, the industry added 1,000 jobs for an increase of 9.8%. Unlike previous downturns in oil industry employment that were marked by layoffs by the major oil companies, the current job losses will be due more to the completion of projects that provided temporary jumps in oil field services employment. Although production continues to

decline gradually, no major cuts are on the short-term horizon.

Construction holds the line

After adding 700 jobs in 2001, construction should continue to grow in 2002 and 2003, though at a slower pace. Federal construction projects will create most of the new jobs as several new projects get under way in and around Fairbanks and work continues on the state-bonded Ted Stevens International Airport in Anchorage. Highway construction should also provide some growth, while the commercial and residential sectors hold steady.

Transportation, communications and utilities to grow slightly

A significant part of the employment counted in the transportation, communications and utilities category is remarkably stable and predictable. Telephone companies and television and radio broadcasting firms are counted under the communications heading and, being highly regulated, employment changes are generally small and unsurprising. Similarly, employment in utilities generally changes only slightly from year to year and along the same general patterns as the overall economy.

The transportation portion of the category, however, is more likely to experience business cycles and to see unexpected job growth or job loss. Air transportation, for example, depends on the health of the visitor industry, the overall health of the U.S. and international economies, and the ability of the cargo carriers in the state to attract and keep routes. Over the next two years the state can expect to see approximately 700 new jobs in transportation, communications and utilities, mostly as a result of improving conditions in the U.S. and international economies.

Retail trade a bright spot

Retail trade is expected to add 2,200 jobs in the next two years, once again a fairly large share of the state's total expected employment growth. Eating and drinking places constitute the biggest

sub-category of retail trade and more growth is expected there. New restaurants continue to open around the state as Alaskans follow a national trend of spending more of their income on food that someone else prepares and cooks.

Another bright spot in retail trade has been building supply stores, which should see continued growth due to new stores and added employment demand in existing stores. Other elements of retail trade, including food stores, general merchandise and apparel stores, and car dealers and gas stations, will likely follow the pattern of the state's overall economy. For the next few years at least, that means moderate growth.

Minimal growth in government

Once the classification change for tribal entities is accounted for, government employment growth was nearly flat in 2001. The same basic pattern should continue. Local government is expected to grow slightly as a small population bulge moves through elementary and secondary schools. The state's budget deficit should restrain state government's growth, though the University of

Alaska system has seen enrollment increases that may create a modest number of new jobs in the next two years. Yet even here, funding vicissitudes could dampen growth. Recent years have seen small cuts in total federal employment within the state. The current forecast for a loss of 200 jobs over the next two years assumes that trend will continue.

Summary

The current forecast for 1.4% job growth in 2002 and 1.3% in 2003 suggests that Alaska is still searching for its economic path in the face of shrinking employment in the commodity-producing industries that have shaped the state's economic history. The existing manufacturing sector of Alaska's economy faces an uncertain future, at best. The question remains whether the state can continue to add jobs in areas such as services and retail trade—industries often considered derivative—without also adding jobs in the goods-producing sectors.

Statewide Forecast 2 Wage and salary employment 2002-2003

	2000 Annual Average ³	2001 Annual Average ³	Absolute Change 00-01	Percent Change 00-01	2002 Annual Average	Absolute Change 01-02	Percent Change 01-02	2003 Annual Average	Absolute Change 02-03	Percent Change 02-03
Nonag. Wage and Salary	280,800	290,000	6,100	2.1%	294,200	4,200	1.4%	297,900	3,700	1.3%
GOODS PRODUCING ¹	38,300	39,600	1,300	3.4%	39,500	-100	-0.3%	39,800	300	0.8%
SERVICE PRODUCING ²	245,500	250,400	4,900	2.0%	254,700	4,300	1.7%	258,100	3,400	1.3%
Mining	10,100	11,200	1,000	9.8%	10,700	-500	-4.5%	10,900	200	1.9%
Construction	14,100	14,800	700	5.0%	15,200	400	2.7%	15,400	200	1.3%
Manufacturing	14,000	13,700	-400	-2.8%	13,600	-100	-0.7%	13,500	-100	-0.7%
Seafood Processing	8,800	8,300	-200	-2.4%	8,200	-100	-1.2%	8,200	0	0.0%
Lumber & Wood Prod.	1,500	1,200	-300	-20.0%	1,100	-100	-8.3%	1,000	-100	-9.1%
Transportation/Comm/Util	27,500	28,000	400	1.4%	28,100	100	0.4%	28,700	600	2.1%
Trade	57,400	58,200	800	1.4%	59,300	1,100	1.9%	60,300	1,000	1.7%
Wholesale Trade	8,700	8,300	-300	-3.5%	8,200	-100	-1.2%	8,200	0	0.0%
Retail Trade	48,800	49,900	1,000	2.0%	51,100	1,200	2.4%	52,100	1,000	2.0%
Finance/Ins/Real Estate	11,500	12,700	-100	-0.8%	12,800	100	0.8%	12,800	0	0.0%
Services & Misc.	73,800	73,000	-300	-0.4%	75,000	2,000	2.7%	76,900	1,900	2.5%
Government	72,200	78,500	4,000	5.4%	79,500	1,000	1.3%	79,400	-100	-0.1%
Federal	17,100	16,800	-300	-1.8%	16,700	-100	-0.6%	16,600	-100	-0.6%
State	22,200	22,900	800	3.6%	23,400	500	2.2%	23,300	-100	-0.4%
Local	32,900	38,800	3,500	9.9%	39,400	600	1.5%	39,500	100	0.3%

¹ Goods producing industries include mining, construction, and manufacturing.

² Service producing industries include: transportation, communications and utilities; trade; finance, insurance and real estate; services; and government.

³ CES 2001 Benchmark

Subtotals may not add due to rounding.

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

Anchorage Two-Year Forecast

by Neal Fried
Labor Economist

Growth will be slower

After two years of above average gains, the next two years in Anchorage's economy are likely to be more subdued. Some industries will simply grow more slowly, others will contract, and some will remain largely unchanged.

The tenor of the overall economic environment is different from what it was just eight months ago. Last year at this time optimism was at a decade high. The oil industry was busier than it had been in years, oil prices were high, federal dollars were pouring in, the construction industry was healthy, and the prospects of building a gas line appeared to be a near-term possibility. Since that time, the mood has changed some. Oil prices have fallen, the state is struggling with a billion-dollar fiscal gap, the oil industry is contracting, the construction of a gas line has been pushed further into the future, and the possibility of a weak visitor season is dampening hopes.

Despite this revision of expectations, Anchorage's economy should still manage to grow again during the next two years—just at a slower rate. The services industry should provide the lion's share of the employment growth in Anchorage, and a robust construction industry should help keep the economy above water. Retail will also experience some growth as a result of new store openings, and air transportation related to air cargo could also be a positive.

Services still the steady new jobs deliverer

Services, Anchorage's single largest private sector industry and one of its most vibrant, will continue to lead in job growth. The players that ought to keep this industry in the black are health care, social services, engineering services, business

services and others. One sector that might take some of the edge off is the visitor industry.

Health care should again be the leader in services growth, because it is both the largest piece of services (a quarter) and its most dynamic. The aging of Alaska's huge baby boom population and a host of other important factors should keep this expansion going. Providence Hospital, the Alaska Native Medical Center, and Alaska Regional Hospital continue to grow. The state's second largest private sector employer, Providence Hospital, hopes to build a \$25 million, 60-bed psychiatric facility. Although the pace of privatization of the Alaska Native Medical Center has slowed, both of its two managing organizations, Southcentral Foundation and the Alaska Tribal Health Consortium, plan to add staff during the next two years. The expansion of specialized clinics, doctors' offices and other health care providers should help keep employment growing.

The healthy outlook for the state's construction industry should keep Anchorage's engineering service firms busy. The nonprofit social services sector will continue to benefit from the flow of federal grants. Less work on the North Slope could put a crimp on contract service agency employment.

One big question mark for services growth this year will be the role the visitor-related segments of this industry play. For years the tourism industry has been an important contributor to this industry's growth. If some of the industry's pessimistic predictions come true, 2002 could become the first year that services gets no boost from the visitor industry. One factor that could offset some of this potential negative is the opening of two new hotels in time for this summer's season, the Hilton Gardens and the Dimond Center Hotel.

Construction remains a very bright light

For the next two years, construction will play the enormously important role of sustaining Anchorage's economy. Unlike last year, when the industry got help from all its parts, this year public construction will be the dominant player.

The \$220 million plus expansion and reconstruction of the Ted Stevens International Airport will continue to be Anchorage's largest construction site. In 2002 and part of 2003 the replacement of Concourse C will be the single largest project at a cost of \$85 million, but additional work such as \$43 million worth of north-south taxiway work will keep construction dust flying through at least 2003. School district construction will also remain important in Anchorage's construction mix. The construction of the new \$68 million Dimond High School will continue through mid-2003 season; in 2002, construction should begin on the new \$48 million South Anchorage High School. School replacement projects and renovations will also keep the school district busy. The University of Alaska will begin building a new \$23 million library expansion in 2002. And just across the street from the university, the state will begin replacing the Alaska Psychiatric Institute with a new \$35 million facility this summer.

The military will undertake some big projects. The Corps of Engineers is projected to increase spending during FY2002 and 2003. Some of the larger new projects include two on Fort Richardson valued over \$10 million—a barracks and a training facility. Another is the construction and renovation of 628 housing units on Elmendorf that began last year and is only half done. The Alaska Railroad will continue its ambitious programs. In fact, capital spending this fiscal year will reach \$78 million and will peak in 2004 at approximately \$100 million. Straightening out track between Eagle River and Wasilla, a double track project behind the airport, and completion of the \$28 million rail link and terminal at the airport are some of these projects.

Highway construction was big last year, but is slated to become bigger in 2002 and 2003. Last year was a record year at \$138 million for contract payments in the central region. This year the figure could possibly double. All kinds of projects

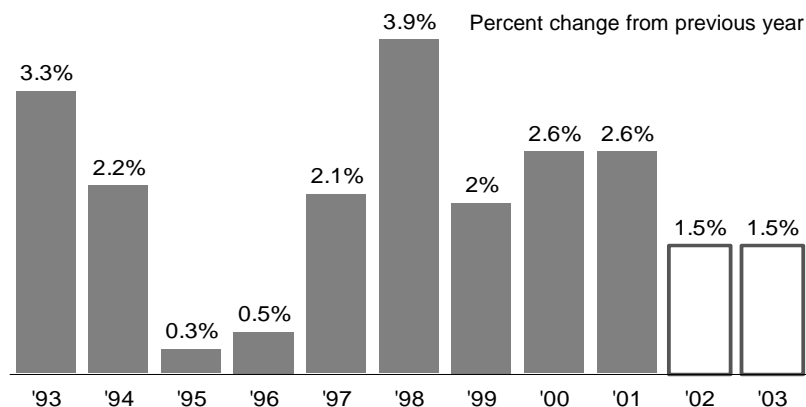
are carrying over from last year, and some large new projects are starting. One of the largest will be a new \$40-50 million Parks-Glenn Highway interchange, which will be let this summer and will continue for at least two years. Major reconstruction of Dowling will be in the \$10-20 million range and Potter to Dimond will be of like size. A host of other larger and smaller projects will also get under way in the central region. It is possible that less highway money may be available in 2003 than previously planned. Congress is now wrestling with this issue so the outcome is uncertain.

Commercial construction will slow a bit. A new Safeway, Fred Meyer's and Best Buy will be among the larger commercial undertakings. Construction of the Arctic Slope Regional Corporation 10-story office tower will continue through 2002 with an early 2003 completion. For the first time in several years, no new hotel construction is scheduled. Also missing as a major force will be hospital related construction. During the past two years all of the civilian hospitals in Anchorage were involved in major expansions. During the next two years their plans are less ambitious. Other smaller commercial projects such as new restaurants, smaller office buildings, and clinics will be built.

The level of residential activity is not expected to stray far from last year's—and it was a pretty good year with 1,429 new units. Low interest rates and tight inventory should bode well for residential construction.

Anchorage Forecast for 2002-03

Employment will grow 1.5% each year



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

Also important is the forecasted health of the industry statewide. As home to the largest number of contractors, Anchorage will be a major beneficiary of construction projects around the state, be they rural schools, highway projects, missile defense related construction or any other construction-related activity.

Oil patch activity slows down

After two years of outstanding growth in the oil patch, employment will shrink for at least the next year. Employment began to contract in late 2001 with the completion of the huge Alpine and North Star projects. Lower oil prices and the near completion of studies relating to a new gas line are additional negatives for oil industry numbers. Most employment losses are coming from the oil field services sector. VECO, Alaska Petroleum Contractors, and other oil industry players are feeling most of this pinch. No development of new large fields is expected during the next two years, and the two biggest producers are curtailing their overall capital expenditures in Alaska. Drilling activity will remain at relatively healthy levels as Phillips continues to drill new wells in NPRA, Alpine, Meltwater and elsewhere, and BP drills in Prudhoe, Kuparuk and Milne Point. BP did announce a relatively small reduction in its workforce in late 2001 and both companies have cut their Alaska cost-of-living adjustments by 25 percent. But unlike oil industry contractions of the past ten years, neither BP nor Phillips has announced any major reductions of staff.

Some more growth in retail

To the surprise of many, retail is likely to grow over the next two years. Where the saturation point for this industry lies is not clear, but there is apparently more room for growth. Already, a new Fred Meyer opened in February—boosting retail employment by 250-300. A new Lowe's, with a workforce of 150-200, will open its doors in the late spring or early summer of 2002. Plans are afoot to build a new Safeway in south Anchorage and a Fred Meyer's in Eagle River this year. This will boost retail employment significantly in late 2003. Work has also begun on a Best Buy store slated to open in late 2002.

Eating and drinking establishments, a sub-category of retail, is one of retail's strongest performers, and is likely to remain so. A rash of national chain restaurants is slated to open in 2002, with the list including a new Applebee's, a Boston Pizza, an International House of Pancakes and a Chili's. The number of locally germinated restaurants is also likely to grow. Nearly half of all food dollars are now spent for food away from home, as this sector continues to grow faster than the population.

The Kmart factor is a caveat for retail growth in Anchorage. Although Kmart recently went into Chapter 11, the company has no plans to close any of its Alaska stores. Because each of the Anchorage stores has a workforce of 200-250, the closing of one or both of them would be significant.

Loft and turbulence in transportation

Because nearly every industry uses transportation services, it can be a barometer for the overall economy. It also means that the predicted slow down in the economy should keep transportation gains moderate during the forecast period. For example, the decline in oil patch activity will slow down the trucking industry. The health of the visitor industry will also be a major factor, since it is such a large user of all kinds of transportation services—including air, water and ground.

One transportation industry that is not tied to local economic conditions is Anchorage's international cargo business. The news in this arena is cautiously optimistic. Last year a number of Anchorage based carriers won new routes into Asia, which significantly increased their air freight capacity. But it had little immediate effect because the national recession hit and September 11 put a crimp in international air cargo traffic. With signs that the national and international economies are beginning to recover, growth in cargo traffic should pick up again. None of the international air carriers has plans for significant expansion during the two-year forecast, but most expect traffic to slowly increase with the economic recovery. Last year's air transportation numbers were hit hard when United Airlines' air cargo unit pulled out and Reeve Aleutian Airways shut down. No

further such negatives are foreseen during the forecast period.

The finance sector could edge upward

During the past three years, employment in this relatively small sector has remained largely unchanged, and it is likely to stay close to present levels. No major consolidations like last year's Wells Fargo buyout of National Bank of Alaska are expected. A small amount of growth could even be possible. Relatively low interest rates, some rebound in the stock market and other factors should keep the real estate, securities and banking share of this industry relatively healthy.

Government—probably pretty stable

Although the long-term trend for federal employment has been downward, employment is not likely to change very much over the next two years. The privatization of the federal workforce at the Alaska Native Medical Center has slowed. And the federalization of passenger security at the airport and other related security efforts might stem any additional losses on the federal level over the next two years. State government is a much

bigger question mark. Employment at the University of Alaska is likely to remain relatively stable but employment at state government operations could drift downwards. With the state facing a near billion-dollar deficit, the state workforce could experience some losses—particularly in calendar year 2003. Local government's workforce is likely to remain stable. Enrollment at the Anchorage School District is expected to grow one to two percent, so staffing could climb a bit. A tight state budget could affect local government operations if programs such as revenue sharing are cut appreciably.

The job market is likely to stay tight

Although employment growth will slow some, unemployment is likely to remain low at least through 2002. Recent unemployment rates for the state and Anchorage have been record or near-record lows. A rush of job seekers heading north is unlikely. This augurs well for continued good prospects for Anchorage residents seeking employment opportunities.

Anchorage Forecast 2 Wage and salary employment 2002-2003

	2000 Annual Average ³	2001 Annual Average ³	Absolute Change 00-01	Percent Change 00-01	2002 Annual Average	Absolute Change 01-02	Percent Change 01-02	2003 Annual Average	Absolute Change 02-03	Percent Change 02-03
Nonag. Wage and Salary	134,400	137,900	3,500	2.6%	140,000	2,100	1.5%	141,900	1,900	1.4%
GOODS PRODUCING ¹	11,800	12,900	1,100	9.3%	12,700	-200	-1.6%	12,700	0	0.0%
SERVICE PRODUCING ²	122,600	125,100	2,500	2.0%	127,300	2,200	1.8%	129,200	1,900	1.5%
Mining	2,600	3,000	400	15.4%	2,700	-300	-10.0%	2,800	100	3.7%
Oil and Gas Extraction	2,500	2,900	400	16.0%	2,600	-300	-10.3%	2,700	100	3.8%
Construction	7,000	7,600	600	8.6%	7,600	0	0.0%	7,500	-100	-1.3%
Manufacturing	2,200	2,300	100	4.5%	2,400	100	4.3%	2,400	0	0.0%
Transportation/Comm/Util	15,000	15,300	300	2.0%	15,400	100	0.7%	15,700	300	1.9%
Trade	31,900	32,300	400	1.3%	32,900	600	1.9%	33,400	500	1.5%
Wholesale Trade	6,300	6,200	-100	-1.6%	6,200	0	0.0%	6,200	0	0.0%
Retail Trade	25,600	26,100	500	2.0%	26,700	600	2.3%	27,200	500	1.9%
Finance/Ins/Real Estate	7,700	7,700	0	0.0%	7,700	0	0.0%	7,700	0	0.0%
Services & Misc.	39,200	40,500	1,300	3.3%	41,500	1,000	2.5%	42,800	1,300	3.1%
Government	28,800	29,300	500	1.7%	29,800	500	1.7%	29,600	-200	-0.7%
Federal	9,900	9,700	-200	-2.0%	9,600	-100	-1.0%	9,400	-200	-2.1%
State	8,800	9,100	300	3.4%	9,400	300	3.3%	9,400	0	0.0%
Local	10,100	10,600	500	5.0%	10,800	200	1.9%	10,800	0	0.0%

¹ Goods producing industries include mining, construction, and manufacturing.

Subtotals may not add due to rounding.

² Service producing industries include: transportation, communications and utilities; trade; finance, insurance and real estate; services; and government.

³ CES 2001 Benchmark

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

Fairbanks Two-Year Forecast

by Brigitta Windisch-Cole
Labor Economist

About 1375 more jobs expected during the forecast period

Despite a few setbacks during the 1990s, such as the retrenchment in the military, retail closures, and mergers, Fairbanks' economy proved resilient and posted job growth in every year since 1989. For the next two years Fairbanks' economy should continue to grow and extend its growth stretch from thirteen to fifteen years. (See Exhibit 1.) Fairbanks appears poised to add 775 jobs in 2002 and another 600 in 2003. In percentage terms, these gains will represent job growth of 2.3% for 2002 and 1.7% for 2003. (See Exhibit 2.)

Services, retail and construction will be the principal stimulants to growth and should create the bulk of new jobs in both years. Among the many industries included in the services sector, both health care and social services should continue to gain momentum. Retail trade is expected to rebound and once again become a strong contributor. Among the growth industries, construction will best display the upbeat climate of Fairbanks' economy. Busy years lie ahead for local construction crews. Military sponsored projects will take the lead.

Construction will kick it up several more notches

The dominance of federal construction projects will be felt from Fort Wainwright to Delta Junction. In Fairbanks, the centerpiece will be the construction of Basset Hospital on Fort Wainwright at a cost of over \$178 million. Carry-over construction on both military bases includes dormitories, a power plant, a joint mobility complex and an urban warfare simulation site. These projects will provide a significant number of

construction jobs. New family housing units, a power plant cooling complex on Fort Wainwright and a power plant on Eielson Air Force Base are also sizeable projects. Fort Greely, near Delta Junction, will undergo a major metamorphosis. The original bid package for construction of the missile test facility ranged between \$100-250 million. Construction has begun and will last until 2004.

The University of Alaska Fairbanks is letting about \$20 million for construction work this season and most likely will increase spending during 2003. In 2002, its largest projects are the museum expansion and the Rasmussen Library renovation. Both projects will continue in 2003, when the \$18 million remodel of Hutchinson Center, a joint University and Fairbanks North Star Borough project, will start. The borough will renovate only a few schools in 2002 and 2003. Remodels of Hunter Elementary and North Pole Middle and High School are estimated to cost \$8.5 million. Spending may increase in 2003. In the fall, the Fairbanks North Star Borough will bring a \$42 million school bond package before voters. In 2002, the City of Fairbanks will finish its downtown parking garage, and it plans to reconstruct a downtown intersection in 2003. Each project will cost about \$4 million.

Road construction will pick up during the next two years. Unfinished work from 2001 amounts to about \$12 million. Another \$60 to 90 million will be awarded this year in Fairbanks and its nearby service area. Airport-related projects could run between \$3.7 and \$6 million in 2002, and planned renovation of public buildings ranges between \$3 and \$6 million. Public sector projects will dominate

the Fairbanks construction scene over the next two years, but commercial and housing construction will also contribute.

Foundations for several new office buildings and warehouses have already been laid. Most of the new commercial buildings are relocations or expansions of established businesses. The hospital has plans to add several floors to its east wing, possibly in 2003. The residential sector is also following a path of steady growth, a trend likely to continue. Fairbanks builders have noticed increased interest before this year's building season. Contractors are confident of good seasons in 2002 and 2003. The Interior Housing Authority will help the residential sector by building 13 new homes in the Fairbanks area. Their total construction budget is about \$5 million, which includes 63 renovation projects and four new homes in Interior villages.

Mining ups and downs will balance

In Fairbanks, the mining industry is principally made up of oil support businesses and the metal mining sector. The recent downturn of oil industry activity on the North Slope will cause employment to fall off in oil field services. Trimmed contracts for services or oil-specific manufacturing services are the reason.

While oil and gas industries are in a slowdown phase, gold mining is expanding. Fort Knox has completed permitting and begun operations on its True North deposit. The exploration team of Teck-Cominco that is headquartered in Fairbanks will continue its work to obtain operating permits for the Pogo deposit. If permitting succeeds, construction of the mine could start as early as 2003. The recent recovery of gold prices enhances prospects of continued industrial development.

For smaller placer miners the rebound in prices may have come too late. Their capital reserves have most likely dwindled over the past several years, and they cannot operate as efficiently as the

large mine complexes. Less placer mining activity can be expected. Quarries, often overlooked as mining employers, will most likely have strong seasons because of heightened construction activity. Overall, the mining employment balance should not change in 2002, as gains and losses offset one another; depending on the Pogo project, gains are possible in 2003.

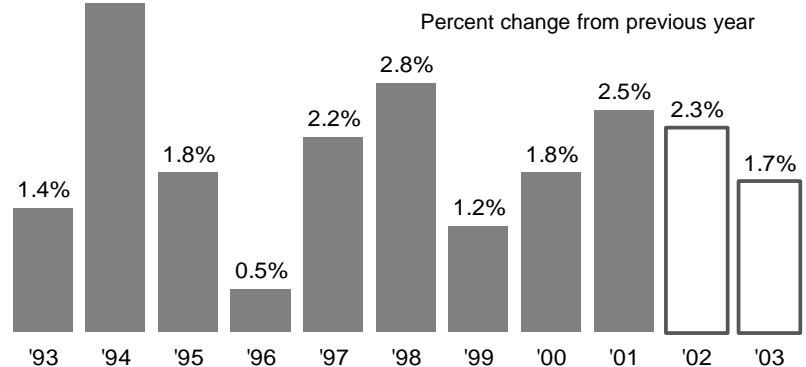
Transportation employment has wild cards

The utility and communications sectors are stable elements of transportation employment. No major changes in Fairbanks' power grid or dramatic population growth are foreseen for the next two years and most likely these industries will stay their typical employment course.

The forecast, however, includes a negative. Delta Airlines departed Fairbanks in November 2001, and this loss will be felt throughout most of the year. Other airlines may fill the schedule gap but the dip in employment may persist. In past years passenger transportation in Fairbanks has not grown substantially. Seasonal airlines, however, have announced their perennial comeback. Fairbanks' air cargo business will face challenges in future years because new and more efficient

Fairbanks Forecast for 2002-03 1

Growth will remain positive



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

freight carriers may not require refueling in Fairbanks. Another negative regarding transportation recently emerged, when Alyeska Pipeline Service Company announced it will lay off 60 employees in Fairbanks.

Ground transportation, that includes school and tour buses and trucking, should remain at last year's employment level. A good construction season will stimulate trucking traffic. Tour operators could experience a slight decline in bookings in 2002. For tourism, a lot rides on the speedy recovery of the national economy and a boost in consumer confidence. Bargain hunters and last minute bookings could lift some of the clouds hanging over the tourism season. In all, transportation employment could suffer slight losses in 2002 but it should regain ground in 2003.

Retail is on the rebound

In past years, consolidations and business exits have brought Fairbanks retail employment to a near standstill. This year's opening of the Home Depot store is a big change; it gave retail employment a strong boost. The store also has become a landmark of new retail acreage in Fairbanks. A new restaurant will soon be built there. Retail appears to be making a comeback in other areas as well. Large restaurants are also investigating Fairbanks as a market place. The makeover of the downtown area has already prompted new restaurants and retail businesses to locate to the inner city.

The services sector undergirds growth

Services employment in Fairbanks has been a strong performer in past years and there is little doubt that it will power employment growth this year and next. The degree of growth, however, may be down a few notches from a year ago.

2 Fairbanks Forecast Wage and salary employment 2002-2003

	2000 Annual Average ³	2001 Annual Average ³	Absolute Change 00-01	Percent Change 00-01	2002 Annual Average	Absolute Change 01-02	Percent Change 01-02	2003 Annual Average	Absolute Change 02-03	Percent Change 02-03
Nonag. Wage and Salary	33,950	34,800	850	2.5%	35,475	775	2.3%	36,075	600	1.7%
GOODS PRODUCING ¹	3,300	3,500	200	6.1%	3,650	200	6.1%	3,900	250	6.8%
SERVICE PRODUCING ²	30,650	31,300	650	2.1%	31,825	575	1.9%	32,175	350	1.1%
Mining	950	950	0	0.0%	950	0	0.0%	1,000	50	5.3%
Construction	1,750	1,950	200	11.4%	2,100	200	11.4%	2,300	200	9.5%
Manufacturing	600	600	0	0.0%	600	0	0.0%	600	0	0.0%
Transportation/Comm/Util	3,150	3,250	100	3.2%	3,200	-50	-1.6%	3,250	50	1.6%
Trade	6,800	6,800	0	0.0%	7,050	250	3.7%	7,200	150	2.1%
Wholesale Trade	750	700	-50	-6.7%	650	-50	-6.7%	650	0	0.0%
Retail Trade	6,050	6,150	100	1.7%	6,400	250	4.1%	6,550	150	2.3%
Finance/Ins/Real Estate	1,250	1,200	-50	-4.0%	1,250	50	4.0%	1,250	0	0.0%
Services & Misc.	8,500	8,900	400	4.7%	9,150	250	2.9%	9,350	200	2.2%
Government	10,900	11,150	250	2.3%	11,175	75	0.7%	11,125	-50	-0.4%
Federal	3,350	3,350	0	0.0%	3,350	0	0.0%	3,350	0	0.0%
State	4,550	4,700	150	3.3%	4,750	50	1.1%	4,700	-50	-1.1%
Local	3,000	3,050	50	1.7%	3,075	25	0.8%	3,075	0	0.0%

¹ Goods producing industries include mining, construction, and manufacturing.

Subtotals may not add due to rounding.

² Service producing industries include: transportation, communications and utilities; trade; finance, insurance and real estate; services; and government.

³ CES 2001 Benchmark

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

At present, a dark cloud hangs over the Fairbanks visitor services picture. Fears of a dismal 2002 visitor season lurk. Several hotel managers believe that the September 11 events have spoiled the nation's travelers' "wanderlust." Pre-bookings fell 50 percent below last year's reservations in some places. And other concerns arose. Competition in Fairbanks has grown substantially. Despite the bleak outlook, hotel employment may not suffer and it could grow slightly because of all the new hotels.

Health care will continue to grow. The change in Fairbanks demographics and an increasing variety of health specialty providers will demand a larger pool of health care workers. Hospital and doctors' offices expect to add staff this and next year. Growth may strengthen after the expansion of the hospital. Employment in social organizations is also on the rise and the demand for services such as assistance to persons with disabilities has steadily grown.

Employment in professional and business categories, ranging from engineering to temporary employment agencies, should increase to keep pace with the strong economy of the next two years.

The public sector should remain fairly stable

Alaska's persistent fiscal gap could restrain employment growth in the public sector over the next two years. If bridging the looming deficit results in severe budget cuts, state jobs will be lost. Any adjustments in employment will be felt more strongly in 2003 than in 2002. The university may preserve its staff if it escapes funding problems, especially if enrollment continues to grow. Overall, state employment should not change much from its 2001 level.

State budget cuts will be felt at the local level. State revenue sharing could be affected. If local taxation cannot fill the gap, downsizing local government employment becomes probable. In 2002, school district employment will be up because more than half of the school year has been funded. In 2003, it should hold its level.

Federal government employment may not change significantly. Some agencies will reduce staff levels while others will increase them. The Department of Defense will continue to outsource military base support functions to private enterprise whenever possible. But the newly created federal airport security workforce could offset most of these losses.

Southeast Two-Year Forecast

by Neal Gilbertsen
Labor Economist

A small amount of growth will accrue mainly to Juneau; most smaller communities will experience job losses

The Southeast economy will experience little growth through 2003. The broad-based services sector will add some jobs, as will retail trade, construction and government. The already depressed forest products sector shows no signs of recovery, and will likely suffer further losses in employment. Low ex-vessel prices, the stubborn Japanese recession, and competition from farmed salmon will continue to plague the fisheries, seafood processing, and support industries. While the region will experience a very modest increase in overall employment, not all communities will share in these gains.

Manufacturing

Low prices for milled timber, the uncertainty surrounding Gateway Forest Products' future, contested court decisions, and Canadian competition all point to continuing erosion in the lumber and wood products sector. Tariffs on Canadian softwoods have been proposed to be implemented on March 21, 2002; Canada has appealed these taxes to a NAFTA panel. Canada may also seek World Trade Organization intervention to reverse what it views as barriers to free trade. Even if the tax remains in effect it is questionable whether Alaska timber can be brought to the depressed world market at a competitive price.

Alaska Department of Fish and Game predictions indicate strong salmon returns in 2002. In spite of this, fisheries will continue to suffer from low ex-vessel prices, and fewer vessels will participate due to cannery-imposed fleet reductions. At this point more than 70 additional purse seine vessels

are expected to remain at the dock in 2002 because they have no market. Other fishers will exit the industry for economic reasons. Lower fisheries earnings will negatively impact other areas of the economy, as fishers spend less. While seafood processing employment will remain relatively stable, maritime support industries will likely experience a reduced demand for services.

The bright spot in manufacturing would seem to lie in the durable goods sector. Allen Marine Inc., of Sitka, is building four high-speed passenger ferries to be used on the East River in New York. Alaska Ship and Drydock has resolved its contract disputes with the state, and will undertake additional work on the M/V Columbia, which will probably involve increased hiring.

Services

The apparent decline in services employment from 2000 to 2001 is the result of a change in classification. Starting in January 2001, tribal employment was transferred from "services" to "local government." This is reflected in Exhibit 2 where services employment falls sharply while local government dramatically increases. When this transfer is accounted for, services employment actually grew by 150 jobs in this period.

In 2002 and 2003, the services sector will remain a major source of regional employment growth. It can be expected to contribute approximately 225 additional jobs over the next two years. Southeast's aging population will require a continuing growth in social and health care services. Employment gains are also likely in individual and family counseling, mental health and job training facilities.

Although the rate of growth in tourism related industries has slowed somewhat since the mid-1990s, visitor services will continue to add jobs as the number of tour ship passengers increases. The national concern with security may contribute to a short-term upsurge, as travelers seek safer vacation destinations. While bookings were late in coming following the tragic events of September 11, most tourist related services are now looking forward to at least a normal year.

Transportation

Implementation of the Southeast Transportation Plan is scheduled to continue beyond 2002. However, the proposed legislative cutbacks of \$5 million in Alaska Marine Highway funding may result in curtailed services to Southeast communities. How this dispute is ultimately resolved will have region-wide economic consequences. In the meantime, the new Inter-Island Ferry Authority (IFA) route between Ketchikan and Hollis began operations in January 2002. The twice-daily summertime sailings and daily winter service should lead to increased travel between Ketchikan and Prince of Wales Island. This should have positive effects on both areas as more tourists travel to the island, and as island residents travel to Ketchikan to shop. In addition, this improved transport will likely lead to lower transportation costs and more convenient schedules for seafood processors and others shipping goods. Plans to add a second vessel serving routes between Coffman Cove, Petersburg and Wrangell are well advanced. If financing can be arranged, construction would begin in 2003 and the vessel would go into operation in 2004.

Construction

Following the completion of a number of publicly funded and private projects, construction employment saw a downturn in 2001. Jobs in this sector are expected to recover moderately over the next two years. Major undertakings, such as

the proposed bridge between Ketchikan and Gravina Island, will not directly affect employment during this time frame. Housing starts are likely to reflect the regional and local economic picture and remain at relatively low levels in most communities.

Public sector employment

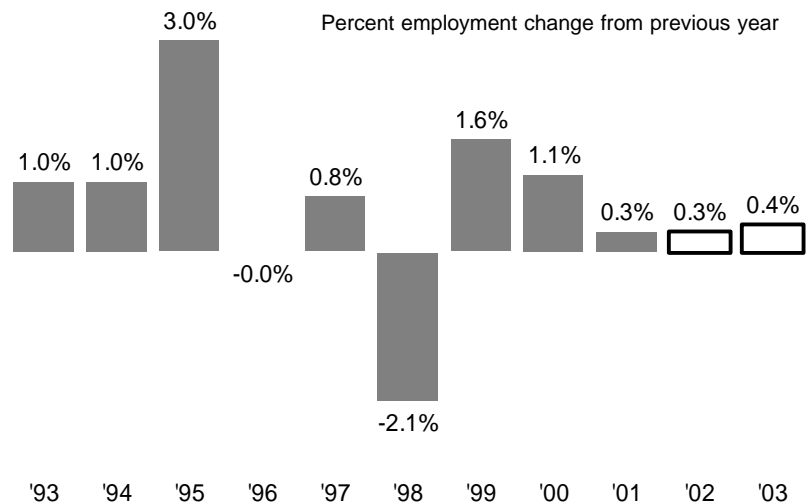
Government employment should stay fairly constant during the forecast period. Federal employment will continue to shed jobs at a very slow rate, while state employment will show a very slight increase as vacant positions are filled. Legislative actions to address the budget shortfall will limit the growth of state government. Local government will show some growth, especially in the newly added tribal sector.

Regional and local impacts

Two of the three pillars of the traditional Southeast private sector economy have deteriorated. While tourism will continue to play a vital role throughout the region, communities that once relied heavily

Southeast Holds Steady 1

A few more jobs on the 2002-03 horizon



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

on timber harvests and fisheries will struggle. Juneau, with an employment pattern based upon government and services will be relatively insulated, while localities heavily dependent upon extractive industries, such as Prince of Wales, will experience difficulties. Ketchikan, Petersburg and Wrangell will probably not share in the moderate growth of the forecast period, while most of the employment gains will be realized in Juneau and, to a far lesser extent, Sitka.

Summary

Southeast will experience employment growth of less than half a percent for the next two years. Job losses in the manufacturing sector, especially

timber, will continue to trouble the region. The clouded future of Gateway Forest Products, trade disputes with Canada and continued low market prices would all seem to indicate a continuing decline in this sector. Similar problems of low ex-vessel prices, global competition, and fleet reductions will continue to impact fisheries, seafood processing and support industries. While tourist related sectors, services and government are all expected to show modest employment gains, these gains will not be evenly distributed throughout the region. Southern Southeast will continue to face more problems than northern Southeast, and urban areas will fare better than rural communities.

2 Southeast Forecast Wage and salary employment 2002-2003

	2000 Annual Average ³	2001 Annual Average ³	Absolute Change 00-01	Percent Change 00-01	2002 Annual Average	Absolute Change 01-02	Percent Change 01-02	2003 Annual Average	Absolute Change 02-03	Percent Change 02-03
Nonag. Wage and Salary	36,250	36,350	100	0.3%	36,475	125	0.3%	36,625	150	0.4%
GOODS PRODUCING ¹	5,200	4,700	-500	-9.6%	4,475	-225	-4.8%	4,425	-50	-1.1%
SERVICE PRODUCING ²	31,050	31,650	600	1.9%	32,000	350	1.1%	32,200	200	0.6%
Mining	300	300	0	0.0%	300	0	0.0%	300	0	0.0%
Construction	1,750	1,600	-150	-8.6%	1,625	25	1.6%	1,675	50	3.1%
Manufacturing	3,150	2,800	-350	-11.1%	2,550	-250	-8.9%	2,450	-100	-3.9%
Seafood Processing	1,450	1,400	-50	-3.4%	1,350	-50	-3.6%	1,325	-25	-1.9%
Lumber & Wood Prod.	1,100	800	-300	-27.3%	650	-150	-18.8%	600	-50	-7.7%
Transportation/Comm/Util	2,850	2,800	-50	-1.8%	2,825	25	0.9%	2,875	50	1.8%
Trade	6,250	6,400	150	2.4%	6,450	50	0.8%	6,500	50	0.8%
Wholesale Trade	600	600	0	0.0%	600	0	0.0%	625	25	4.2%
Retail Trade	5,650	5,800	150	2.7%	5,850	50	0.9%	5,875	25	0.4%
Finance/Ins/Real Estate	1,250	1,300	50	4.0%	1,325	25	1.9%	1,325	0	0.0%
Services & Misc.	8,300	7,900	-400	-4.8%	8,050	150	1.9%	8,125	75	0.9%
Government	12,350	13,200	850	6.9%	13,350	150	1.1%	13,375	25	0.2%
Federal	1,800	1,750	-50	-2.8%	1,725	-25	-1.4%	1,700	-25	-1.4%
State	5,300	5,500	200	3.8%	5,550	50	0.9%	5,575	25	0.5%
Local	5,250	6,000	750	14.3%	6,075	75	1.3%	6,100	25	0.4%

¹ Goods producing industries include mining, construction, and manufacturing.

Subtotals may not add due to rounding.

² Service producing industries include: transportation, communications and utilities; trade; finance, insurance and real estate; services; and government.

³ CES 2001 Benchmark

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