

Growth to continue

STATEWIDE by Dan Robinson

Alaska has recorded a net job increase every year since 1988, an impressive streak that reached seventeen years in 2004. Given the inertia of such long-running, consistent growth, a shift in direction is unlikely, absent a significant shock to one of the fundamental drivers of the state's economy. Growth of 1.5 percent is forecast for 2005, followed by 1.4 percent in 2006.

Causes of previous job losses

Before looking at the detailed numbers in the 2005-2006 forecast, it is worth revisiting the two periods since statehood when Alaska lost jobs, if only to assess the likelihood of a similar downturn in the near future. The first was in 1977, the year construction ended on the Trans-Alaska Pipeline. The downturn that year was not indicative of a floundering economy, however, but merely a short-term loss following the completion of the largest privately funded construction project ever undertaken to that time.

In just two years, from 1973 to 1976, the state added more than 50,000 jobs to a relatively small economy. The growth equaled 56 percent, or more than 18 percent a year over the three-year period. For comparison, job growth over the last seventeen years has equaled 45 percent, or about 2.6 percent a year. More than 20,000 construction jobs—most of them very high-paying—were added over the three year period and an enormous

amount of money was injected into the state's economy (total construction payroll grew from \$153 million in 1973 to \$1.5 billion in 1976).

It was not surprising then, or even particularly disappointing, that the number of jobs fell in 1977, the year the pipeline was finished. What may have been surprising was how quickly the benefits from the pipeline compensated for the decline in construction work. Following just one year of job losses, employment growth resumed in 1978. Three years later, the job count was significantly higher than during 1976, the peak construction year for the pipeline.

Job losses in 1986-87 were a different story altogether. A series of developments created great wealth and growth for the state in the early to mid-1980s. World events caused oil prices to triple just as Prudhoe Bay production soared. The state's \$850 million in oil income for fiscal year 1979 nearly quadrupled to \$3.3 billion by fiscal year 1982. State spending on capital projects, services, aid to local governments, and the University of Alaska system, among other things, fueled unprecedented population growth. The residential and commercial construction industries thrived and the demand for goods and services surged.

The party ended abruptly when oil prices fell back down to \$10 a barrel and the state budget was cut by more than a billion dollars. Population fell, the

construction, financial, and real estate industries contracted sharply, and more than 20,000 jobs disappeared from the economy in 1986 and 1987.

Could history repeat itself?

In the short-term, it is very unlikely that a downturn from similar causes will end Alaska's long streak of job growth. One parallel, however, is oil prices. World events have again pushed oil prices unexpectedly high, creating surpluses out of deficits in the state budget. That money is available to spend on capital projects and government services, among other things. State spending creates employment opportunities in both the public and private sector.

As Alaskans well know, there is no guarantee that oil prices will remain high. While acknowledging that fact, it appears unlikely that any decline could happen quickly enough, or be dramatic enough, to cause direct job losses in 2005 or 2006. The assumption in this forecast is that oil prices will not stay at the current high levels, but that the declines will be moderate and have only a slight dampening effect on 2006 employment numbers.

Other fundamentals are stable in the short term

Although oil revenue and its effects on the state budget are of central importance in any employment forecast, other drivers are also fundamental to the state's economy. Among the most critical are federal spending, natural resources other than oil (fishing, precious metals, etc.), and tourism. If these components of the economy are stable or growing, as most of them are in the short term, they create both direct and indirect jobs, as discussed in further detail below.

Oil & Gas stable, metal mining up

Recent years have made it clear that the price of oil has very little short-term effect on exploration and development activity. Alaska's major oil producers are being cautious about increasing investment in exploration and development based on high oil prices. An Exxon spokeswoman told

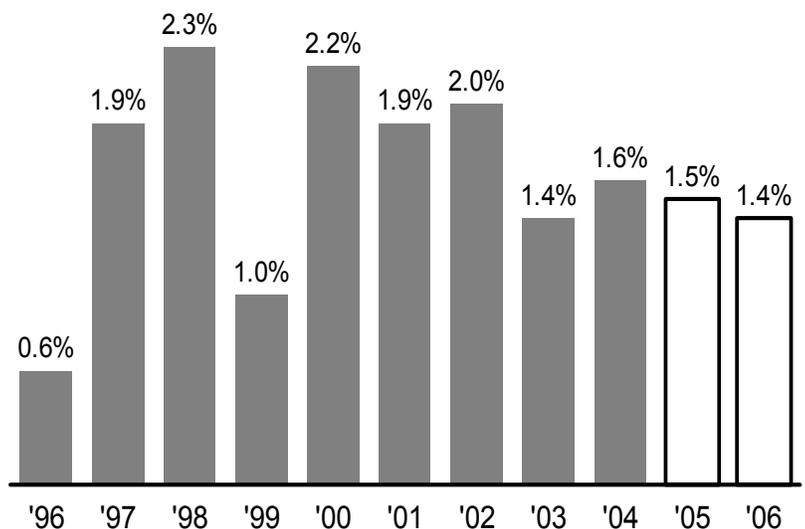
the Washington Post last year that oil prices were not the major determinant in exploration and development decisions. Far more important, she said, were government approval, access, and advancements in technology.

After a combined loss of 1,400 jobs from 2001 to 2003, the oil and gas industry grew slightly in 2004, adding 100 jobs. While Alaska's big three oil producers—Conoco Phillips, British Petroleum, and Exxon Mobil—seem unlikely to make big employment moves over the forecast period, there is increasing consensus that growing demand combined with cautious investment in exploration and development will cause oil prices to stabilize at prices significantly higher than historical averages. As that becomes more likely, the incentive for smaller, independent companies to step up their activity increases. Consequently, the forecast is for small increases in oil and gas employment in both 2005 and 2006.

Higher prices for gold, zinc, silver, and other precious and semi-precious metals have invigorated the Alaska mining industry, but most of the job creation through 2004 was in the construction and related service industries. That will change over the next two years as the Pogo gold mine and other smaller projects begin operating. Exploration and development should

Statewide Forecast 2005–2006

Percent employment change from previous year



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

also accelerate due to high longer-term price forecasts. Strong growth is expected in both 2005 and 2006.

More growth in construction

Over the last five years construction jobs have grown at the remarkable average rate of 5.5 percent a year. A combination of factors created fertile ground for the industry over that period, including low interest rates, substantial federal spending on military facilities and special projects, increases in highway spending, and the expansion of national retail outlets into Alaska markets.

Interest rates are still low by historical standards, but they are rising. Higher interest rates will dampen private residential and commercial construction, but that effect is likely to be small in 2005 and moderate in 2006. Federal military spending shows little sign of slowing. The U.S. Army Corps of Engineers expected to award more than \$400 million to private contractors in federal fiscal year 2005. That amount is up from about \$300 million in 2004 and up significantly from the ten-year average of \$200 million.

Another positive for the industry is increased capital spending by the state as a result of high oil prices. At the local level, construction on the Anchorage area's two new schools is almost complete, but school renovation and improvement are constant.

Strong construction growth in recent years makes it a feat simply to maintain the high number of jobs. The state will manage to do that in 2005 and 2006 and grow even further though at a reduced rate. This forecast calls for 400 new jobs in 2005 and 100 more in 2006.

Manufacturing

Seafood processing employment grew for the second year in a row in 2004 after seven straight years of job losses. Salmon harvests have been strong recently and the Alaska Department of Fish and Game is forecasting even higher levels in 2005. Groundfish and crab harvests are also expected to remain healthy. This forecast calls for 200 additional processing jobs in 2005 and then a leveling off in 2006.

Seafood processing is the dominant industry in Alaska's manufacturing sector, but not the only one. In 2004 there were about 3,700 other manufacturing jobs in a variety of industries, including sawmills, refineries, cement makers, and breweries. That number has been stable in recent years, but it may decline in 2005 and even more in 2006 if Agrium, a producer of urea and ammonia with a plant near Kenai, is unable to stay open. The plant, which employs more than 200 people, is scheduled to close October 31, 2005 unless it can find a stable supply of natural gas.

Trade, Transportation, & Utilities

This sector employs about one out of every five Alaskans earning a wage or salary, and consists of three general sub-categories: wholesale trade; retail trade; and transportation, warehousing, and utilities. Of the three, wholesale trade is the smallest and has shown the least movement in recent years. No significant change is expected in 2005 or 2006.

Retail trade is more difficult to forecast. After several lackluster years in a row, retail jobs grew by 2.9 percent in 2004. It was surprising that none of that growth came in the Anchorage market, but was concentrated in Fairbanks and the Mat-Su Valley.

For several years in the 1990s, retail trade grew at a faster rate than the general job market as Alaska retailers began meeting more of the local demand that had been satisfied by markets in the Lower 48. That source of growth may have exhausted itself. In 2003, retail jobs made up 11 percent of wage and salary jobs in both Alaska and the nation, indicating that Alaska's population is no longer underserved by local retailers. Future gains in retail jobs will come as a consequence of broader economic growth in the state's basic industries.

Jobs in transportation, warehousing, and utilities have shown little net growth since 2001. Commercial passenger airlines ended 2004 with higher year-over-year numbers, however, and air cargo employment also finished the year strongly. Air cargo will get a boost from a new law that allows foreign air carriers to transport cargo of

other carriers between another U.S. city and Anchorage, a practice that had been prohibited. As a result, air cargo business in Anchorage, already the second busiest air cargo location in North America as measured by landed weight, will expand. The new law is expected to create at least 90 additional jobs.

Information

Since growing rapidly in the late 1990s, then losing 300 jobs in 2001, the telecommunications industry has maintained a steady workforce of about 4,100 for the last three years. This stability is unusual for an industry affected by frequent and significant technological change, but without clear signals from the industry, the current forecast is for minimal change.

Other information sector jobs are mostly related to newspapers, television and radio stations, and Internet publishing and service. These jobs have seen a net decline of 200 jobs since 2001. This forecast calls for no change in 2005 and a small increase in 2006.

Financial Activities/Professional and Business Services

The financial activities sector added 800 jobs in the last two years after stagnating from 1999 to 2002. Banks and credit unions that profited from the refinancing boom are seeing that business slow down and rising interest rates will moderate growth in private borrowing. On the other hand, high levels of federal spending and a bigger capital budget for the state will fuel a measured rate of growth over the next two years.

Statewide Wage and Salary Employment 2

With forecast for 2005-2006

	2003 Annual Average	2004 Annual Average	Change 03-04	Percent Change 03-04	Forecast					
					2005 Annual Average	Change 04-05	Percent Change 04-05	2006 Annual Average	Change 05-06	Percent Change 05-06
Total Nonfarm Wage and Salary	299,300	304,000	4,700	1.6%	308,700	4,700	1.5%	312,900	4,200	1.4%
Goods-Producing ¹	38,800	39,900	1,100	2.8%	40,900	1,000	2.5%	41,400	500	1.2%
Service-Providing ²	260,500	264,100	3,600	1.4%	267,800	3,700	1.4%	271,500	3,700	1.4%
Natural Resources & Mining	10,200	10,200	0	0.0%	10,500	300	2.9%	10,800	300	2.9%
Oil & Gas Extraction	8,100	8,200	100	1.2%	8,300	100	1.2%	8,400	100	1.2%
Construction	16,900	17,600	700	4.1%	18,000	400	2.3%	18,100	100	0.6%
Manufacturing	11,700	12,200	500	4.3%	12,400	200	1.6%	12,500	100	0.8%
Seafood Processing	8,000	8,500	500	6.3%	8,700	200	2.4%	8,700	0	0.0%
Trade/Transportation/Utilities	60,800	62,000	1,200	2.0%	62,700	700	1.1%	63,500	800	1.3%
Wholesale Trade	6,100	6,200	100	1.6%	6,200	0	0.0%	6,300	100	1.6%
Retail Trade	34,000	35,000	1,000	2.9%	35,600	600	1.7%	36,100	500	1.4%
Trans/Warehouse/Utilities	20,700	20,800	100	0.5%	20,900	100	0.5%	21,100	200	1.0%
Information	6,900	6,800	-100	-1.4%	6,800	0	0.0%	6,900	100	1.5%
Financial Activities	14,400	14,600	200	1.4%	14,700	100	0.7%	14,900	200	1.4%
Professional & Business Svcs	23,100	23,300	200	0.9%	23,500	200	0.9%	23,700	200	0.9%
Educational & Health Services	33,000	34,600	1,600	4.8%	35,800	1,200	3.5%	36,800	1,000	2.8%
Health Care	23,500	24,800	1,300	5.5%	25,700	900	3.6%	26,500	800	3.1%
Leisure & Hospitality	29,600	30,100	500	1.7%	30,800	700	2.3%	31,400	600	1.9%
Other Services	11,200	11,500	300	2.7%	11,500	0	0.0%	11,600	100	0.9%
Government	81,500	81,200	-300	-0.4%	82,000	800	1.0%	82,700	700	0.9%
Federal Government	17,100	17,100	0	0.0%	17,100	0	0.0%	17,100	0	0.0%
State Government	24,100	24,100	0	0.0%	24,400	300	1.2%	24,700	300	1.2%
Local Government	40,300	40,000	-300	-0.7%	40,500	500	1.3%	40,900	400	1.0%

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

² Service providing includes trade, manufacturing and utilities, information, financial activities, professional and business services, educational and health services, leisure and hospitality, other services and government.

Benchmark: March 2004. Subtotals may not add due to rounding.

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

The professional and business services sector includes everything from accountants and engineers to advertising agencies and waste treatment companies. It is expected to follow the broader trends in the labor market and grow moderately in 2005 and 2006.

Education and Health Services

As expected, growth in the educational and health services sector slowed in 2004, but not by much. The 1,600 new jobs amounted to a strong growth rate of 4.8 percent. The consistent engine for all that growth has been health care, with social services also making a significant contribution. An aging population, medical and technological progress, and ongoing specialization will create more health care growth, but at a reduced rate. About 1,200 new jobs are expected in 2005 and another 1,000 in 2006.

A strong two years for tourism

The leisure and hospitality sector has grown at an average of three percent a year over the last decade and signs point to continuing growth in 2005 and 2006. Cruise ship bookings indicate strong demand despite across-the-board price increases and fewer of the deep discounts cruise companies offered the last few years to fill the newer, bigger ships.

The dollar's decline against most countries' currencies will also help. It will make U.S. destinations more attractive to U.S. travelers choosing between Alaska and a foreign destination. Even more significant, it will make Alaska (and other U.S. destinations) particularly attractive to foreign travelers. Barring a domestic or international economic shock, the next two years should be good for this sector.

Limited growth for government

The number of non-military federal jobs has been gradually falling in recent years. The state's 17,100 federal jobs in 2004 were 400 jobs fewer than ten years ago and 1,600 fewer than in 1990. Little growth is expected in the next two years even though more troops are being stationed on

Alaska bases. The uniformed military is not included in a state's wage and salary employment numbers and an increasing percentage of military support services are being contracted to private sector employers.

High oil prices have changed the atmosphere of state government, although there is wariness among policy makers and a ready acknowledgement that the reprieve from last year's budget concerns is only temporary. Still, state government hiring has increased, and will continue to do so over the next two years, partly to plan and strategize for the long-desired natural gas pipeline and other big projects, and partly to fill openings left vacant when money was more scarce.

So far, little of the state's budget windfall has made it to the local government level. If oil prices stabilize at a higher level, some of that money will be passed on, and the job losses of 2004 may reverse themselves. Higher education spending will also create jobs in local school districts. Over the next two years, expect about 900 new local government jobs.

Summary

Alaska has abundant natural resources and natural beauty. Its location, which presents significant challenges in many contexts, is a benefit for the international air cargo trade and the country's military. For years, Alaska has also benefited from generous federal spending on special projects and infrastructure. In various combinations from year to year, these assets have translated into job growth. Absent an unforeseen shock to the state or nation, they can be expected to do so for at least another two years.

ANCHORAGE by Neal Fried

A string of positives keep the outlook upbeat

Anchorage has now enjoyed 16 years of uninterrupted employment growth, and it would be a significant event if the next two years were to see a break in this continuum. While total employment numbers are not likely to change dramatically, a forecast of “more of the same” would not capture the subtle shifts in economic tenor and employment patterns that the area will probably experience. (See Exhibits 3 and 4.)

One difference between 2005 and 2004 is that nearly all the city’s economic fundamentals are looking positive. It is difficult to see any real negatives. High oil prices, slightly more activity in the state’s oil sector, a healthy visitor industry, the continued influx of federal dollars, another good construction season, strong revenues at the local and state levels, heightened talk of a natural gas pipeline, and the possibility of oil development in the Arctic National Wildlife Refuge (ANWR) should all help to keep the economy in the black.

A bit of fog mists the outlook for certain industries in 2006. The volume of federal spending could begin to fall by then and the construction industry could also begin to slow. Other uncertainties also exist—but this is just the nature of any forecast—particularly as we look further out into the future.

Biggest deployment since Vietnam

In recent years, the biggest economic news coming out of Anchorage’s military bases has been the hundreds of millions of construction dollars being spent, and that story continues. The new development now is the massive deployment of troops and the troop reconfiguration of Fort Richardson and Fort Wainwright. The recently formed Stryker Brigade that is stationed at both Fort Wainwright in Fairbanks and Fort Richardson in Anchorage is being deployed overseas in late summer of 2005 for a year. When the Stryker Brigade returns, the entire unit (3,900 troops) will

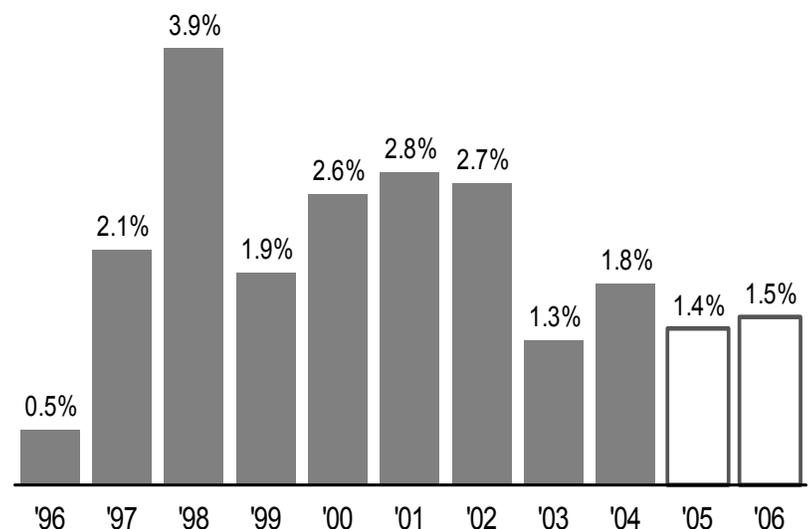
be stationed at Fort Wainwright. At Fort Richardson, the Task Force 1-501 Airborne (900 soldiers,) is becoming part of an expanded unit, the 3,500 troop 4-25th Airborne Brigade Combat Team which is already under development.

These changes could magnify the military’s economic impact in the area. Currently there are approximately 3,300 troops at Fort Richardson, and when the 4-25th is fully activated by 2006 this number will rise to 4,500. This would be the largest number of troops stationed at the base since 1988. An entirely new temporary modular housing complex is planned for Fort Richardson but the personnel increase is large enough that more soldiers will also be living off post. More soldiers will be spending dollars in the local economy and the number of civilian support positions could also increase.

Finally some rebound in oil activity

After five years of above average oil prices and 2004’s record \$38.84 per barrel year, employment growth in the oil industry remained elusive. Still, after two years of job losses, employment last year began to level out and actually posted some small over-the-year gains. The Department of Revenue is expecting robust oil prices for the next two years, and for the first time since 2000, this

Growth Expected for Anchorage **3** Percent employment change from previous year



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

forecast envisions some small gains in oil industry employment. The numbers are not significant but their direction is. The level of exploration and maintenance activity planned on the North Slope is not likely to swerve far from recent years but there should be some upswing in development work. Conoco-Phillips will be involved in a couple of the larger projects. The company continues to develop a number of satellite fields around Alpine, and approximately 500 oil field service workers will be assigned to this project. The development of West Sak heavy oil also should help bump up the employment activity on the North Slope.

One and possibly two more good years for construction

Construction has been expanding since 1989. The trend should carry through 2005 and there is a chance it will continue through 2006. Massive military spending, healthy levels of commercial and residential work, increases in oil and mining related work, and continued strength in other public spending should keep local contractors busy. Moreover, Anchorage is the headquarters for much of the state's construction industry and local contractors will continue to benefit from strong activity in the Interior, the Mat-Su Borough and other parts of the state.

Anchorage's single largest public construction project of the past three years has been the expansion of the Ted Stevens International Airport. This is now complete, but additional runway work, new aprons and the reconstruction of concourse A and B will keep it a relatively busy construction site. The Port of Anchorage's \$350 million plus expansion project could replace the airport as the single largest project in Anchorage over the next four to six years. By 2006, expenditures are scheduled to increase to more than \$60 million and to remain at that level for a number of years. In addition, construction of the new \$93 million, 193,000 square foot convention center will begin during this forecast horizon.

Both Fort Richardson and Elmendorf Air Force Base will be home to a number of construction projects. A significant share of the activity is tied to the new Airborne Brigade that will be based at

Fort Richardson. Bids valued between \$25 million and \$100 million are being let in early 2005 for modular temporary housing to accommodate part of the new brigade. 89 new officer and senior enlisted family housing units were also put out for bid in February 2005 for \$25-50 million. Other sizeable projects include training ranges, maintenance shops, new hangers, other housing projects, and a new sniper range.

School construction will slow now that the new high schools are largely completed, but the new Muldoon Junior High and a long list of major renovations at Bartlett, Chugiak, Service, Polaris, Chugach Optional and Ptarmigan elementary schools should continue to keep construction activity at a relatively high level in 2005. The outlook for 2006 appears softer, with many of these upgrades and renovation projects winding down. The school district will not place any bond issues on this year's ballot.

Highway construction in 2005 could come in a bit higher than last year, and while 2006 is less certain, there is an assumption that it will not differ much from 2005's levels. Some of the larger projects include the Abbot Loop Extension, the Dowling Road Extension, major work on C Street, continued extensive work in the Mat-Su Valley along with a long list of smaller projects.

In 2003 commercial private construction was led by a boomlet in hotels and in 2004 it was led by an upsurge in office construction. Some of this work is done and there is the expectation that this segment of the industry will slow. Extensive work remains on the new Bailey Furniture's 120,000 square foot building, the Alaska USA Financial Center, the new Bristol Bay building and Cook Inlet Native Association's new headquarters. During the next two years it appears that one and possibly two new hotels may get underway along with at least one new Home Depot store. The largest private project currently scheduled is the new \$56 million Medical Office Building at Providence Hospital.

In 2004, the City issued 1,812 residential permits, making it the fourth highest year since the mid-1980s. Both low interest rates and low inventory should keep activity at close to last year's levels. The industry could get a considerable boost from

Kincaid Estates' plans to build 600-700 new homes at Sand Lake. This would be one of the biggest residential real estate projects Anchorage has seen in decades.

A better year for transportation?

The outlook for the transportation industry should remain positive. Another upswing in international air cargo traffic, a visitor season that is predicted to come in strong, and generally positive levels of overall economic activity should bode well for Anchorage's transportation sector. International cargo's impressive record of the past few years should ramp up even more in 2005 and 2006. For example, air cargo service between China and the U.S. could nearly triple this year and nearly 80 percent of this traffic will go through Ted Stevens International Airport. Strong growth

is predicted to continue at least through 2008.

This growth should mean an additional 62 weekly cargo landings at Anchorage's international airport. It is also significant that many of these will involve the transfer of cargo rather than just transit flights. This should translate into significant job creation. On the negative side, the recent sale of ERA Aviation to SEACOR will result in some job losses. SEACOR is ridding itself of ERA's fixed wing division; nearly 150 individuals have already lost their jobs and these numbers could climb.

The strength of the visitor industry should be a plus for both air passenger service and ground transportation. America West and Condor Air are both planning increases in their number of flights. Northwest Airlines is adding an Anchorage/Hawaii service to their lineup. The state's largest oil

Anchorage Wage and Salary Employment 4 With forecast for 2005-2006

	Forecast									
	2003	2004	Change	Percent	2005		2006		Change	Percent
	Annual	Annual			Change	Percent	Annual	Change		
Average	Average	03-04	03-04	Average	04-05	04-05	Average	05-06	05-06	
Total Nonfarm Wage and Salary	142,300	144,400	2,100	1.5%	146,500	2,100	1.4%	148,700	2,200	1.5%
Goods Producing ¹	12,500	13,000	500	4.0%	13,200	200	1.5%	13,400	200	1.5%
Service Providing ²	129,800	131,400	1,600	1.2%	133,300	1,900	1.4%	135,300	2,000	1.5%
Natural Resources and Mining	2,100	2,100	0	0.0%	2,200	100	4.5%	2,300	100	4.3%
Oil & Gas Extraction	2,100	1,900	-200	-9.5%	2,000	100	5.0%	2,200	200	9.1%
Construction	8,600	9,200	600	7.0%	9,300	100	1.1%	9,100	-200	-2.2%
Manufacturing	1,800	1,700	0	0.0%	1,700	-	0.0%	9,300	-	0.0%
Trade, Transportation and Utilities	32,900	33,000	100	0.3%	33,300	300	0.9%	33,600	300	0.9%
Wholesale Trade	4,600	4,700	0	0.0%	4,700	-	0.0%	4,700	0	0.0%
Retail Trade	17,300	17,300	0	0.0%	17,500	200	1.1%	17,700	200	1.1%
Trans/Warehousing/Utilities	11,000	11,000	0	0.0%	11,100	100	0.9%	11,200	100	0.9%
Information	4,500	4,400	-100	-2.2%	4,400	-	0.0%	4,400	0	11.4%
Financial Activities	8,800	9,000	200	2.3%	9,100	100	1.1%	9,200	100	1.1%
Prof. and Business Services	15,900	16,100	200	1.3%	16,400	300	1.8%	16,800	400	2.4%
Educational and Health Svcs	17,600	18,400	800	4.5%	19,000	600	3.2%	19,500	500	2.6%
Leisure and Hospitality	14,600	14,700	100	0.7%	14,900	200	1.3%	15,200	300	2.0%
Other Services	5,600	5,800	0	0.0%	5,900	100	1.7%	6,000	100	1.7%
Government	29,900	30,000	100	0.3%	30,300	300	1.0%	30,600	300	1.0%
Federal	9,700	9,700	0	0.0%	9,700	-	0.0%	9,700	0	0.0%
State	9,600	9,600	0	0.0%	9,800	200	2.0%	9,900	100	1.0%
Local	10,600	10,700	100	0.9%	10,800	100	0.9%	11,000	200	1.8%

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

² Service providing includes trade, manufacturing and utilities, information, financial activities, professional and business services, educational and health services, leisure and hospitality, other services and government.

Benchmark: March 2004. Subtotals may not add due to rounding.

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

transporter, Alyeska Pipeline Service Company, is planning some significant cuts to their staff and contractors in early 2006, but exactly how it is going to affect Anchorage is not yet known.

Some restrained growth in retail

After the rip-roaring years of the 1990s, Anchorage's retail employment has lost some luster during the past five years. Last year was one of the few years of the past decade when no new big box store opened its doors. The loss of the two Kmart's in 2003 erased most of that year's gains and all of 2004's gains. It appears there will be no other big openings until late 2005 to push retail's numbers in any particular direction.

Home Depot has announced plans to build at least one new store in East Anchorage in 2005 and possibly two. Rumors have Wal-Mart opening one or two of their Super Centers in Anchorage. If they do come to fruition they will not affect the 2005 picture but could possibly do so in 2006. Most of the retail growth in the state is now taking place in Fairbanks and the Mat-Su Valley. In fact some of the growth in the Valley is probably cannibalizing Anchorage's retail market as more Valley residents have the option of spending their retail dollars closer to home.

Telecommunications, competition drive the information industry

Telecommunications and the media are the biggest players in this industry. Media is not likely to move much during the forecast period, but given the competitive nature of the telecommunications industry, changes could be significant. In recent years the industry has been surprisingly stable but this may not be the case in the future.

All the makings for a strong visitor season

The strong rebound that began in Anchorage's visitor season last year should continue. A relatively strong national economy, more hotel and cruise ship capacity, and a weak dollar ought to attract more foreign and domestic travelers to

Alaska, and this should translate into a strong visitor season. By all indications bookings are up. Convention activity could come in a bit softer this year but summer visitor activity is expected to more than make up for this deficit.

The industry most affected by visitors is leisure and hospitality, which includes accommodations, food services, arts, entertainment and recreation. This industry has been experiencing steady growth over the past five years and this trend, though somewhat muted, should continue over the forecast horizon. While fewer hotels are expected to open than has been the case in recent years, it appears that at least one 140-room hotel will come on line in late 2005 or early 2006 and possibly one or two others may be built over the next two years.

One longer-term concern for Anchorage's hotel trade and other beneficiaries of the visitor industry, particularly in light of the city's growing hotel capacity, is the trend for more cruise ship passengers to bypass Anchorage and move either directly to the airport or to other Alaska destinations.

Could health care growth slow?

Last year health care generated half the new jobs in Anchorage's economy and in almost all previous years it has been pivotal to the growth of the local workforce. There is little doubt health care will continue to grow, but possibly not to the degree it has over the past few years. Anchorage's second and third largest health care providers, the Alaska Native Health Consortium and Southcentral Foundation are not planning to mimic their rates of growth of the past four or five years. Just last year these two employers grew by more than 250. Also, the privatization of the Alaska Native Health Center workforce continues to slow down since most of the remaining federal civilian workforce are long-term federal employees who are less likely to leave. Restraints on federal dollars could also become a factor. Neither Providence Hospital nor Alaska Regional has plans to change the size of their workforce. Gains will be more dispersed—they will come from medical clinics of all kinds, doctor and other health practitioner offices, medical laboratories, and other outpatient care providers.

Professional and business services should continue to expand

Healthy levels of construction, oil industry, and other mining activity should contribute to gains in the professional and business services industry. Architectural, engineering, environmental and other consulting services make up an important slice of this industry, and all should be kept busy designing projects. Legal accounting, computer, and other professional type services should also continue to expand gradually with the rest of the economy.

Financial industry stays positive

Continued low interest rates and a healthy real estate market should keep banks, insurance companies, credit unions, and other financial companies in relatively good shape. As a result, employment in the financial industry should continue to inch up.

Small changes in the public sector

Slight growth is likely the next two years in total public sector civilian employment. At the federal level, employment is not likely to change much. Much of the civilian support for the new Airborne Brigade at Fort Richardson may be supplied by private contractors, although uniformed military numbers could rise significantly.

State government employment is expected to remain at or near the current level of approximately 10,700. This represents a more upbeat outlook than a year ago, and higher than anticipated oil revenues could lead to some small increases in University related employment.

The story for local government is not much different. Employment counts will remain close to existing levels although school enrollment could fall slightly and employment levels at the city level could increase slightly.

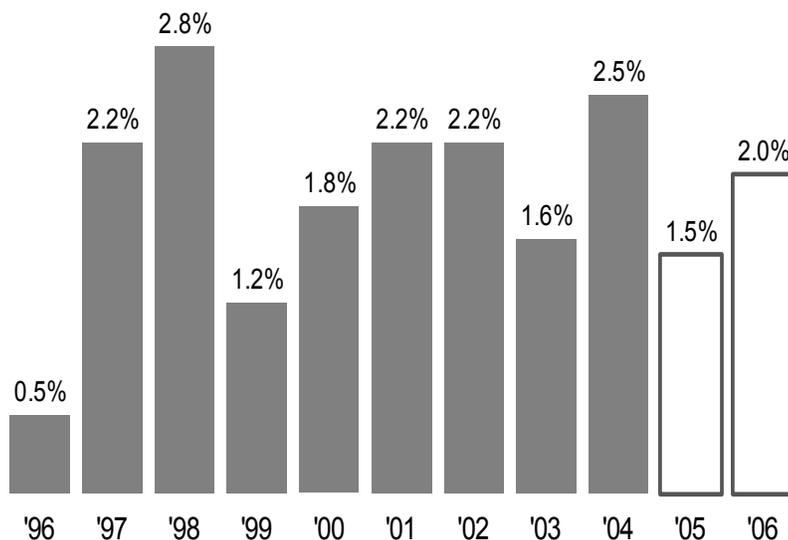
FAIRBANKS by Brigitta Windisch-Cole

Forecast remains bright

Employment in Fairbanks should continue to grow in 2005 and 2006, despite the proposed massive deployment of military personnel to the Middle East. Barring the unforeseen, this forecast calls for the addition of 550 jobs in 2005 and an additional increase of 750 jobs in 2006. The economic growth rate will decelerate as net gains build on already high employment levels. (See Exhibits 5 and 6.) Expanding retail trade, strong construction seasons, and tourism will be the main drivers and will cushion possible downturns in other industries that may result from the temporarily downsized military base.

The overall impact of the troop departure is difficult to quantify. Support services and the federal civilian support group will be likely to bear the brunt of the deployment decision and employment in both categories is expected to retrench. Other service industries will be indirectly affected and will reflect the diminished demand that follows the temporary population loss of more than 4,000 troops from Fairbanks' consumer

Fairbanks Employment Grows **5** Percent employment change from previous year



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

markets. Most military dependents are expected to remain in Fairbanks during the yearlong deployment and therefore school enrollment should be only marginally affected. Other industries such as construction, retail trade, health care, leisure and hospitality, and financial services will be little affected and should remain strong.

Construction polishes its high profile

A cursory view of Fairbanks' construction schedules indicates that both 2005 and 2006 will be good seasons. The pace of activity could slow in the later part of 2005 when several large carry-over projects will wind down. Commercial construction will remain strong. A new shopping center still is on Fairbanks' construction docket. A new power plant and a \$175 million refinery expansion project, both located in North Pole, should become the largest commercial work sites in 2005 and stretch into the 2006 season. Extensive remodel projects at the hospital and the finishing phase of its imaging center will also keep Fairbanks crews busy. Moreover, the Pogo Mine complex, although it is approximately 60 miles distant, remains the largest project in the vicinity and should approach its peak construction phase in 2005.

Public sector construction activity will be mixed. If all pans out as planned, military construction will be substantial in both 2005 and 2006. The military construction plans include projects costing nearly \$200 million this year and additional projects could come on line for the 2006 season. At Fort Wainwright housing is the principal building theme and at Eielson Air Force Base a hydrant refuel station is the main project. Building will also continue at Fort Greely (Delta Junction), where facility and security enhancements are planned. In 2006, a dormitory complex could become the main project at Clear Air Station, located close to Anderson.

The Northern Region's road budget for 2005 highway projects is larger than it has been in past years. Rehabilitation work on the Parks Highway between Nenana and Fairbanks is the largest single project and will go out to bid this spring. Approximately \$55 million worth of roadwork will carry over from the 2004 season and new projects ranging between \$73 million and \$137 million

are on the 2005 bid schedule. Substantial amounts will also be spent on airport improvement projects. Other state-managed construction will slow.

The museum expansion at the University is nearly complete and the only other large project is a \$19 million biological research and diagnostics facility. Local government also expects to build less in the upcoming seasons than in past years because most of the school replacement and renovation projects are close to being finished. The school district expects to spend approximately \$8 million. A transit park facility is among the borough's other large civil projects.

Residential construction is expected to resume its fast pace in the Fairbanks area and in North Pole. Subdivisions are ready for building and several residential contractors were already fully booked in March for the entire 2005 season. The real estate market is expected to remain hot with low interest rates and the surging Fairbanks economy both contributing.

The natural resource sector will gain some ground

Mining and oil support services comprise Fairbanks' natural resource sector. Some changes could occur in 2005 and 2006. The pipeline modernization project and North Slope activity could push up near term employment in oil support services, but the planned automated monitoring of the pipeline could translate into long-term job losses. Although there are oil industry support jobs in Fairbanks, they tend to be closely tied to North Slope activity. Mining, on the other hand, is a local industry and has become an important and reliable economic anchor in Fairbanks. Its employment should hold steady in both years.

Manufacturing employment is trending upwards

Through past years Fairbanks's small manufacturing sector remained materially unchanged. Last year employment rose some with help from the construction industry. More growth will follow this and next year with the expansion of Alaska's largest refinery.

Transportation industries move in opposite directions

The downsizing trend in airline industry employment will come to a halt this year, when the shakeout among air carriers has been fully absorbed. Last year, the small aircraft fleet became even smaller due to regulatory changes regarding mail delivery. In awarding mail contracts the United States Postal Services began favoring companies that could also provide adequate passenger service to remote communities. Other concerns such as high fuel prices will force air carriers to strive for even higher efficiencies.

Employment gains in ground transportation will nearly offset the slight declines in air transportation. Trucking and tour bus companies should both

experience good seasons. Local construction and North Slope activity should give trucking a boost and the expected increase in visitors to the Interior should benefit the tour bus companies.

Retail's growth is nearly guaranteed

The expansion of retail employment is expected to continue. New stores and upgraded space have dramatically changed Fairbanks' retail scene. The recent influx of retailers has already left a strong impression. More variety will be introduced to the local market with the opening of a shopping mall featuring a sporting goods store, a pet supply store, and a bookstore. A combined employment gain of 450 is within reach during this forecast period.

Fairbanks Wage and Salary Employment 6

With forecast for 2005-2006

	2003 Annual Average	2004 Annual Average	Change 03-04	Percent Change 03-04	Forecast					
					2005 Annual Average	Change 04-05	Percent Change 04-05	2006 Annual Average	Change 05-06	Percent Change 05-06
Total Nonfarm Wage & Salary	36,000	36,900	900	2.5%	37,450	550	1.5%	38,200	750	2.0%
Goods-Producing 1/	3,900	4,300	400	10.3%	4,500	200	4.7%	4,600	100	2.2%
Service-Providing 2/	32,100	32,600	500	1.6%	32,950	350	1.1%	33,600	650	2.0%
Natural Resources & Mining	900	900	0	0.0%	1,000	100	11.1%	1,100	100	10.0%
Construction	2,500	2,800	300	12.0%	2,850	50	1.8%	2,850	0	0.0%
Manufacturing	500	600	100	20.0%	650	50	8.3%	650	0	0.0%
Trade, Transportation, Utilities	7,100	7,300	200	2.8%	7,500	200	2.7%	7,650	150	2.0%
Wholesale Trade	600	600	0	0.0%	600	0	0.0%	600	0	0.0%
Retail Trade	4,000	4,400	400	10.0%	4,650	250	5.7%	4,850	200	4.3%
Trans/Warehousing/Utilities	2,500	2,300	-200	-8.0%	2,250	-50	-2.2%	2,200	-50	-2.2%
Information	600	600	0	0.0%	600	0	0.0%	500	-100	-16.7%
Financial Activities	1,400	1,400	0	0.0%	1,450	50	3.6%	1,500	50	3.4%
Professional & Business Svcs	2,100	2,200	100	4.8%	2,100	-100	-4.5%	2,200	100	4.8%
Educational & Health Services	4,000	4,100	100	2.5%	4,200	100	2.4%	4,300	100	2.4%
Leisure & Hospitality	4,000	4,100	100	2.5%	4,250	150	3.7%	4,400	150	3.5%
Other Services	1,400	1,400	0	0.0%	1,300	-100	-7.1%	1,300	0	0.0%
Government	11,500	11,500	0	0.0%	11,550	50	0.4%	11,750	200	1.7%
Federal Government	3,400	3,300	-100	-2.9%	3,200	-100	-3.0%	3,200	0	0.0%
State Government	5,100	5,200	100	2.0%	5,350	150	2.9%	5,450	100	1.9%
Local Government	3,000	3,000	0	0.0%	3,000	0	0.0%	3,100	50	1.7%

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

² Service providing includes trade, manufacturing and utilities, information, financial activities, professional and business services, educational and health services, leisure and hospitality, other services and government.

Benchmark: March 2004. Subtotals may not add due to rounding.

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

The leisure and hospitality sector will rely on its potential

Industries that specialize in entertainment, food and other hospitality services cater to a broad segment of society that includes the local population and visitors from elsewhere. Current predictions hold that tourism will increase in Alaska and, therefore, in Fairbanks as well. The predictions are based on a number of assumptions including a growing number of affluent retirees and favorable exchange rates for most foreign currencies, which should encourage domestic travel and attract visitors from abroad. While a low dollar makes travel to foreign countries expensive, the advantageous exchange rate turns the U.S. into a bargain destination for foreigners. Beyond such narrow economic considerations, Alaska cruises and trips to the Interior have become increasingly popular due to the state's stunning natural beauty. Cruise ship passenger numbers have significantly increased over the years. Travelers venturing over Alaska's roads could also reach new numbers this and next year simply because many motorists have accepted high gasoline prices as a given. Moreover, Fairbanks' military families may also welcome more visits from relatives in upcoming seasons to lend them support during the absences of deployed spouses.

At the end of an energetic hotel building phase that began in the late 1990s and lasted until last year, a small wave of restaurant construction began. Last year three new eating establishments opened for business and there are plans for more. Business should increase especially after the troops return to their Fairbanks home base. This year Fairbanks will host the Alaska Federation of Natives convention, which will give a hefty boost to Fairbanks' late visitor season.

Health care has yet more to offer

Since 1990 health care employment has more than doubled and growth will continue. Fairbanks' medical community has not only become larger but it has also widened its scope. Modern testing equipment that allows for improved medical diagnoses and a widened repertoire of services will soon become available. This will require a

growing number of health care professionals with specialized expertise.

The expansion of professional and other services could temporarily stall

Professional and other services include a number of industries that specialize in specific business support functions or deliver personal services to individuals or groups. Support industries often contract with other businesses or government. During the past ten years the military, for example, has followed privatization strategies and invited contractors to support troops on the bases. This is an operational decision, which replaced a portion of the federal civilian workforce that is present on military bases. Because the upcoming deployment from Fort Wainwright is large, a downsizing of support services should follow the troops' departure. The scale of the deployment from Fort Wainwright is extremely large by Alaska standards, and could be pictured as equivalent to the temporary loss of a mid-size town such as Valdez.

Government employment inches slightly upward

Although this forecast calls for small changes in overall public sector employment, most likely federal and state employment levels will not stay the same. Federal employment may fall due to the downsizing of the civilian military support group and other budget constraints that may affect other federal agencies. State government could expand on both university and public administration levels. Higher oil revenues should result in a budget that no longer necessitates job reductions and some vacant positions could again be filled. Education related funding could also increase in upcoming academic years. Local government is expected to remain close to its current employment levels. The school district could experience a very slight dip in enrollment. According to military sources, dependent families typically are not moved to other bases during deployment.

SOUTHEAST by Neal Gilbertsen

Holding its own amid structural changes

Over the course of the last decade the Southeast economy has experienced major structural changes. The closure of two pulp mills and the associated decline in logging activity displaced many workers from the goods producing sector. Extremely low salmon prices led to greatly reduced participation in the fisheries. An ongoing expansion of the tour ship industry contributed to seasonal job growth in the services providing sector, while an aging population increased the demand for health care services.

The changing nature of the economy has also affected demographics. For seven consecutive years the population of Southeast has declined, and by 2004 the region had 4,166 fewer residents than it did in 1997.

In spite of these major economic and demographic changes, total regional employment has remained remarkably stable. In fact the 2004 average monthly employment of 35,950 exactly equaled that of 1997. Over this time period, the annual variations in employment levels have been relatively minor as well as offsetting, manifesting themselves as short-term oscillations above and below a mean annual employment level of 35,975.

While a number of projects on the short-term horizon will influence the region, few of them are of sufficient scale to impact the core economy or to significantly alter the prevailing dynamic of stable employment. Absent a transformational event such as moving the capital or the development of suspected Dixon Entrance petroleum reserves, the Southeast economy will continue this pattern of vacillating stability.

Mining

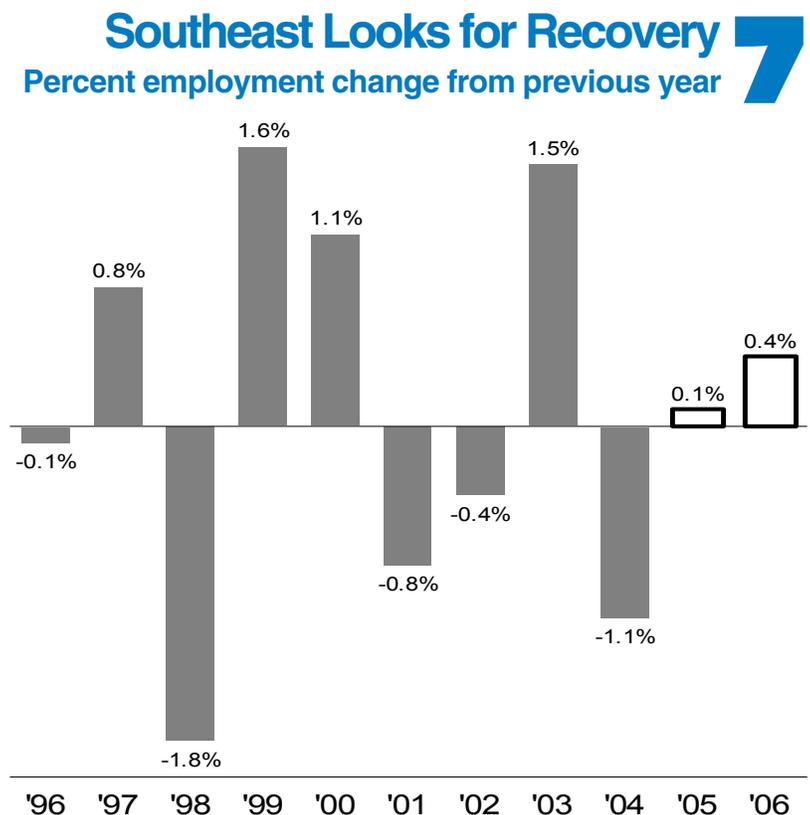
If the Kensington mine project remains on schedule, it could have some impact on annualized construction employment by 2005 and considerably more in 2006. The project will not, however, affect mining employment until

production actually begins. According to Coeur d'Alene Mines, the construction phase will require two full years, which would place the opening of the mine beyond the scope of this forecast.

Forest products

While increased logging and sawmill activity remain distinct possibilities, employment in this sector is unlikely to grow significantly within the forecast period. The reopening of the Ketchikan veneer plant could create a few more jobs, as could timber harvests from Alaska Mental Health Trust lands. Log exporters could also benefit from a Chinese decision to accept unfumigated Alaska logs. In addition, federal policy makers appear more sympathetic to renewed harvests in the Tongass National Forest than were their predecessors.

Still, some underlying problems of the industry remain unsolved. These include high production and transportation costs as well as low-cost foreign competition on both the raw log and finished lumber markets. Multi-national timber companies



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

with tree farms in New Zealand, South America, Asia and elsewhere account for an ever-expanding share of international timber sales. In many markets, oriented strand board and engineered wood products have displaced plywood and dimensional lumber. A stagnant Japanese economy and increased production from Russian forests have negatively impacted traditional export markets. In addition, recent decisions issued by both World Trade Organization (WTO) and North American Free Trade Area panels would force the U.S. to dramatically lower tariffs on Canadian softwoods, allowing such imports to capture an even greater share of the domestic market. Finally, interest rates are expected to increase over the next several years, which will almost certainly lead to increased mortgage rates and a downturn in domestic timber demand.

Fisheries

The Alaska Department of Fish and Game estimates that the 2004 Southeast salmon harvest produced 62 million fish valued at \$58.5 million. This compares with a 2003 harvest of 68 million fish worth \$63.7 million. The 2005 regional salmon harvest is expected to remain at a similar level and should produce a comparable number of jobs in the seafood processing industry. Increases in prices paid for troll caught king and coho salmon will likely lead to higher participation rates in that fishery. Prices paid for drift net and seine caught chum and pink salmon are expected to remain quite low, and the number of fishermen in both fisheries will remain well below traditional levels.

Construction

As noted earlier, construction on the Kensington mine project could begin as early as 2005. The Institute of Social and Economic Research estimates \$70 million will be spent over the first full year of construction activity. While this project would have a significant impact on the Juneau economy, it is less clear that it would register as a major gain in construction employment.

If construction were to begin in the summer or fall of 2005, the shortened time frame would reduce the apparent number of jobs as this employment

was annualized. Moreover, the employment rolls of large construction companies are often attributed to company headquarters. If an Anchorage based firm were to obtain a major contract for the Kensington project the resulting employment would likely be counted in that area.

A number of other potential projects could fall within the forecast period, including harbor work in Douglas and Sitka and the possible construction of a Home Depot store in Juneau. But most of the large projects envisioned for the region such as the Bradfield Canal road, the Juneau-Skagway highway, the new tour ship dock in Ketchikan, the Ketchikan-Gravina bridge as well as the proposed new state capitol building fall beyond the scope of this forecast.

Services Providing

Employment in most private sector service providing industries will remain quite flat over the forecast period. Businesses catering to the visitor industry should continue to prosper as tour ship companies add new and larger vessels to the summer season. The weaker dollar will likely attract more European and Asian tourists while Americans will find domestic vacations less expensive than foreign travel. As a result, retail trade outlets especially those serving the tourist industry, will continue to add jobs at a slow rate.

The accumulated population decline will slow the growth in health care services and these small gains will be partially offset by declines in private sector educational services. By 2006, financial services will probably register a small decline as rising interest rates reduce mortgage and home refinancing activity.

Government

The resiliency demonstrated by the Southeast economy over the last decade must be largely attributed to its heavy reliance on government employment. In 2002, government directly accounted for 38 percent of all regional jobs and approximately 45 percent of all wage and salary income. (See *Alaska Economic Trends* March 2004.)

Because government represents such a large part of the Southeast core economy, significant changes in government spending and employment have region-wide implications. 2004 saw government employment shrink by 200 jobs, and while the rate of decline is expected to slow, the overall trend of fewer government workers will continue through 2005.

Federal employment in Southeast is expected to decline somewhat as Congress wrestles with budget deficits and attempts to reduce overall spending. Reduced federal spending could also impact important private sector employers that rely on federal grants, such as Southeast Regional Health Corporation.

On a more positive note, the recent declines in state government employment may stabilize as

continuing high oil prices lead to budget surpluses. In spite of these improvements in state revenues it is unlikely that the legislature or administration will dramatically expand state services. If the state continues to run surpluses through 2005, some cautious hiring may take place in 2006.

Most local governments in the region will continue to struggle economically. Reduced state revenue sharing as well as the economic problems associated with an aging and declining population have eroded the revenue base of many communities. This will likely lead to lower employment levels as well as to reductions in local services. In addition, a shrinking school age population may result in some cutbacks involving teachers and educational staff.

Southeast Wage & Salary Employment

With forecast for 2005–2006

					Forecast					
	2003 Annual Average	2004 Annual Average	Change 03-04	Percent Change 03-04	2005 Annual Average	Change 04-05	Percent Change 04-05	2006 Annual Average	Change 05-06	Percent Change 05-06
Total Nonfarm Wage & Salary ¹	36,350	35,950	-400	-1.1%	36,000	50	0.1%	36,150	150	0.4%
Goods Producing ²	4,300	3,950	-350	-8.1%	4,000	50	1.3%	4,150	150	3.8%
Services Providing ³	32,050	32,000	-50	-0.2%	32,000	0	0.0%	32,000	0	0.0%
Natural Resources & Mining	650	600	-50	-7.7%	600	0	0.0%	700	100	16.7%
Construction	1,700	1,500	-200	-11.8%	1,500	0	0.0%	1,500	0	0.0%
Manufacturing	1,950	1,850	-100	-5.1%	1,900	50	2.7%	1,900	0	0.0%
Seafood Processing	1,550	1,450	-100	-6.5%	1,450	0	0.0%	1,450	0	0.0%
Trade, Transportation, Utilities	6,950	7,150	200	2.9%	7,200	50	0.7%	7,250	50	0.7%
Retail Trade	4,400	4,550	150	3.4%	4,600	50	1.1%	4,650	50	1.1%
Information	550	600	50	9.1%	600	0	0.0%	600	0	0.0%
Financial Activities	1,300	1,250	-50	-3.8%	1,250	0	0.0%	1,200	-50	-4.0%
Professional & Business Svcs	1,350	1,350	0	0.0%	1,350	0	0.0%	1,350	0	0.0%
Educational & Health Services	3,450	3,450	0	0.0%	3,500	50	1.4%	3,500	0	0.0%
Health Care	2,100	2,100	0	0.0%	2,150	50	2.4%	2,150	0	0.0%
Leisure & Hospitality	3,550	3,450	-100	-2.8%	3,450	0	0.0%	3,450	0	0.0%
Other Services	1,150	1,200	50	4.3%	1,200	0	0.0%	1,200	0	0.0%
Government	13,750	13,550	-200	-1.5%	13,450	-100	-0.7%	13,450	0	0.0%
Federal Government	1,950	2,050	100	5.1%	2,000	-50	-2.4%	1,950	-50	-2.5%
State Government	5,650	5,450	-200	-3.5%	5,450	0	0.0%	5,500	50	0.9%
Local Government	6,150	6,050	-100	-1.6%	6,000	-50	-0.8%	6,000	0	0.0%

¹ Subtotals may not add due to rounding

² Goods Producing sector includes Natural Resources and Mining, Construction and Manufacturing

³ Service Providing sector includes Trade, Transportation and Utilities; Information; Financial Activities; Professional and Business Services; Educational and Health Services; Leisure and Hospitality; Other Services, and Government

March 2004 Benchmark

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