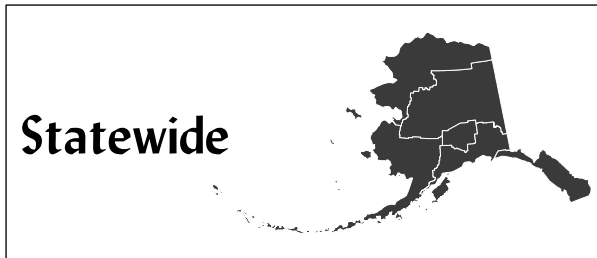


Employment Forecast for 2006 and 2007

by Dan Robinson, Neal Fried,
Neal Gilbertsen and Brigitta
Windisch-Cole, Economists



Growth streak expected to reach 20 years

By Dan Robinson, Economist

For 18 consecutive years Alaska has added jobs to its economy and two more years of growth are forecast in 2006 and 2007. (See Exhibits 2 and 3.) In the short term, high oil prices, a generally favorable national and international economy, and significant federal spending in Alaska

practically assure continued job growth over the forecast period.

Natural resources and mining

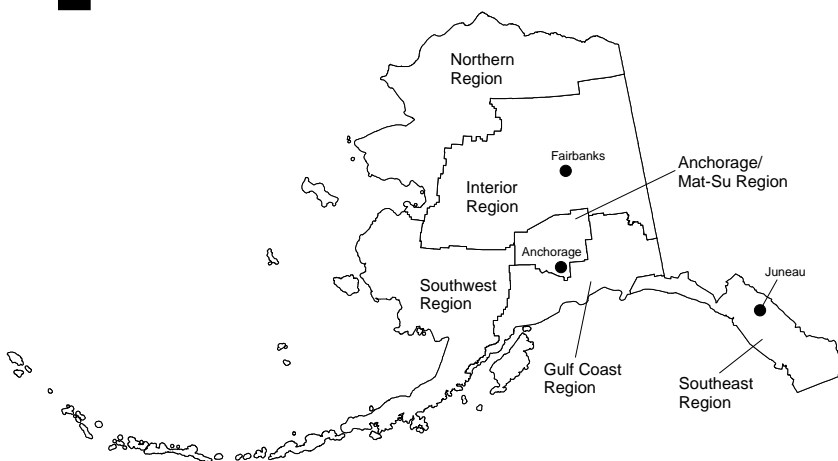
Despite high prices over the last few years, oil companies in Alaska have been somewhat cautious about investing in exploration and development of new projects because of past price volatility and the state's relatively high costs. Some of that caution appears to be dissipating, however, as oil and gas employment rose by 500 jobs in 2005. For perspective, the 8,700 oil and gas jobs statewide in 2005 were still 200 fewer than in 2002 and 800 fewer than in 2001.

Most signs point to more growth in 2006 and 2007. Construction spending by the oil and gas industry is expected to grow 19 percent in 2006.¹ Total wells are forecast to increase from 243 to 257 and total well footage from 1.58 million square feet to 1.67 million square feet. British Petroleum has announced that it will hire up to 200 workers in 2006, and Shell Oil has returned to Alaska, purchasing Beaufort Sea offshore leases with a stated intention to begin drilling in 2007. Finally, interest from a number of smaller producers is high and growing.

Tempering the bullish news is the fact that production from the major fields is declining and new exploration and development will only partially offset those declines. The Alaska Department of Revenue forecast calls for production of 865,000 barrels a day in fiscal year

¹ According to the University of Alaska's Institute of Social and Economic Research (ISER) forecast

1 Alaska's Economic Regions



2006,² a 5.6 percent decrease from 2005. Barring major new finds, which is unlikely, production is expected to continue to decline over the decade to an estimated 800,000 barrels a day in 2016. All told, employment in the oil and gas industry is expected to grow by 300 in 2006 and an additional 200 in 2007.

A smaller source of employment in this sector is mining for precious and base metals. High prices have invigorated the Alaska mining industry and there is no sign of a slowdown over the next two years. The Pogo gold mine, near Delta Junction, began operations in early 2006, adding several hundred mining jobs to the state's total. Another major project expected to begin production during the forecast period is the Kensington gold mine between Juneau and Haines. About 200 new mining industry jobs are expected in 2006 and 200 more in 2007.

Overall, employment in the sector is forecast to grow by 500 jobs in 2006 and 400 more in 2007. High-paying oil and gas jobs will also create growth in the broader economy; the average job in oil and gas extraction paid \$139,320 in 2004 and the average job in oil and gas support services paid nearly \$80,000.

Construction

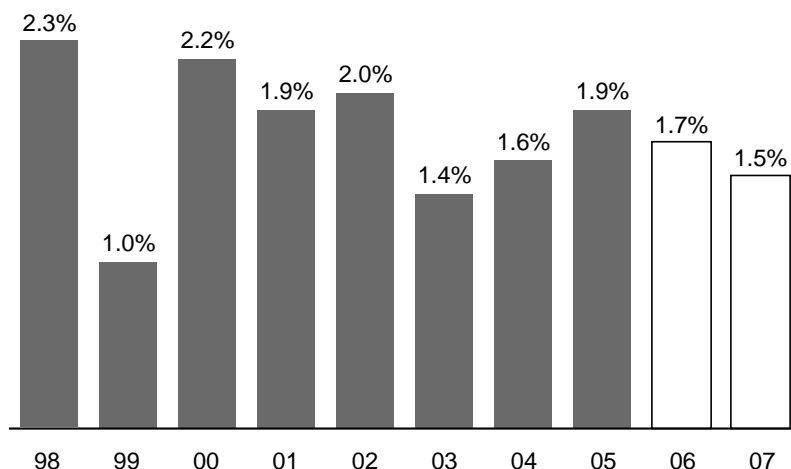
An estimated 13 percent increase in total construction spending in 2006³ will create even more jobs for an industry that has been growing at an average annual rate of 5.7 percent over the last five years. Interest rates are expected to rise slightly over the forecast period, which will dampen residential construction, but publicly funded projects, commercial building, and oil and gas construction will more than make up for it.

The U.S. Army Corps of Engineers reports that spending in Alaska grew from \$492 million in 2004 to more than \$792 million in 2005 and that it will exceed \$800 million in 2006 and

² The state fiscal year runs from July 1 to June 30.

³ According to the ISER forecast

Moderate Job Growth Expected Statewide forecast for 2006 and 2007 **2**



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

2007. Corps officials said Alaska is the only district where major programs are underway in all three of its areas of responsibility – military, civil works and environmental regulation.

Construction expenditures related to the oil and gas industry, which are expected to account for 31 percent of all construction spending in 2006, are forecast to rise by 19 percent in 2006. Some of the jobs created by the higher spending levels will be counted in the oil and gas industry, but a significant number will also go to construction. Total construction jobs are forecast to increase by 700 in 2006 and an additional 600 in 2007.

Manufacturing

Alaska's manufacturing sector is dominated by the seafood processing industry, which provides about two-thirds of all manufacturing jobs in the state. Overall, seafood processing has enjoyed a significant rebound in the last three years, adding 1,000 jobs from 2002 to 2005. The state recorded the third-largest salmon catch ever in 2005, but forecasts for 2006 are for a significantly smaller harvest, which will affect processing employment.

3 Statewide Wage and Salary Employment Forecast for 2006 and 2007

					Forecast					
	2004 Monthly Average	2005 Monthly Average	Change 2004 to 2005	Percent Change 2004 to 2005	2006 Monthly Average	Change 2005 to 2006	Percent Change 2005 to 2006	2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007
Total Nonfarm Wage and Salary	304,200	309,900	5,700	1.9%	315,300	5,400	1.7%	319,900	4,600	1.5%
Goods-Producing ¹	40,100	41,700	1,600	4.0%	43,000	1,300	3.1%	44,200	1,200	2.8%
Service-Providing ²	264,100	268,200	4,100	1.6%	272,300	4,100	1.5%	275,700	3,400	1.2%
Natural Resources and Mining	10,100	10,700	600	5.9%	11,200	500	4.7%	11,600	400	3.6%
Oil and Gas	8,200	8,700	500	6.1%	9,000	300	3.4%	9,200	200	2.2%
Construction	17,700	18,600	900	5.1%	19,300	700	3.8%	19,900	600	3.1%
Manufacturing	12,300	12,400	100	0.8%	12,500	100	0.8%	12,700	200	1.6%
Seafood Processing	8,500	8,600	100	1.2%	8,600	0	0.0%	8,700	100	1.2%
Trade, Transportation and Utilities	62,000	63,200	1,200	1.9%	64,300	1,100	1.7%	65,200	900	1.4%
Wholesale Trade	6,200	6,300	100	1.6%	6,400	100	1.6%	6,500	100	1.6%
Retail Trade	35,000	35,900	900	2.6%	36,600	700	1.9%	37,200	600	1.6%
Transportation, Warehousing and Utilities	20,800	21,000	200	1.0%	21,300	300	1.4%	21,500	200	0.9%
Information	6,900	6,900	0	0.0%	6,900	0	0.0%	7,000	100	1.4%
Financial Activities	14,600	14,700	100	0.7%	14,800	100	0.7%	15,000	200	1.4%
Professional and Business Services	23,300	23,800	500	2.1%	24,200	400	1.7%	24,500	300	1.2%
Educational ³ and Health Services	34,700	35,700	1,000	2.9%	36,600	900	2.5%	37,300	700	1.9%
Health Care	24,900	25,800	900	3.6%	26,600	800	3.1%	27,200	600	2.3%
Leisure and Hospitality	30,100	31,100	1,000	3.3%	31,700	600	1.9%	32,300	600	1.9%
Other Services	11,200	11,400	200	1.8%	11,600	200	1.8%	11,700	100	0.9%
Government ⁴	81,300	81,400	100	0.1%	82,200	800	1.0%	82,700	500	0.6%
Federal Government ⁵	17,200	17,000	-200	-1.2%	17,000	0	0.0%	17,000	0	0.0%
State Government	24,100	24,200	100	0.4%	24,600	400	1.7%	24,800	200	0.8%
Local Government	40,000	40,200	200	0.5%	40,600	400	1.0%	40,900	300	0.7%

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

² Service-providing sectors include all those not listed as goods-producing sectors.

³ Private education only

⁴ Includes employees of public school systems and the University of Alaska

⁵ Excludes uniformed military

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

The largest single challenge to the long-term health of Alaska's fishing industry continues to be competition from salmon farming, but the outlook is more positive than it was a few years ago thanks to a growing demand for wild salmon. In other fisheries, the effects of ongoing management changes, such as the institution of individual fishing quotas in the crab fishery, will take some time to sort out.⁴

No growth in seafood processing jobs is expected in 2006, followed by an increase of 100 jobs in 2007. The remainder of the manufacturing sector, a mix of industries that

includes everything from petroleum refineries to bakeries and breweries, is expected to roughly match the growth of the broader economy, adding 100 jobs each year.

Trade, transportation and utilities

This sector's three main components – wholesale trade, retail trade, and transportation, warehousing and utilities – are expected to follow the trend of the broader economy and grow moderately. That's typically the case since the industries in this sector primarily serve the local population.

Anchorage, Fairbanks and the Mat-Su area are all attracting a growing number of national retailers, which will help lift retail jobs by 700

⁴ Individual quotas have significantly reduced the number of permit holders and crew members participating in the crab fishery, but it is not yet clear what effect they will have on processors since the total amount harvested should be unaffected.

in 2006 and 600 in 2007. Retail spending was boosted by steeply declining interest rates from 2000 to 2004, which gave refinancing homeowners an additional source of spending money, but with interest rates on the way up, that well has mostly gone dry.

Transportation employment has been mostly flat since 2001 as a result of offsetting losses in air transportation and gains in trucking, water transportation, and scenic and sightseeing transportation. High fuel prices will slow growth, but with significant resource development throughout the state and consistent visitor interest, a limited number of new jobs are expected in 2006 and 2007.

Information

The telecommunications industry, which provides about 60 percent of the jobs in Alaska's information sector, lost 300 jobs in 2002 and has only managed to gain 100 of them back in three years. The newspaper, television and radio industries make up the largest slice of the remaining information jobs and those industries have also seen little growth in recent years. The Internet has hurt the business of traditional news and entertainment providers and the telecommunications industry faces almost constant technological change. Little net change to the job count is expected in 2006 or 2007.

Financial activities

The banking and real estate industries got a nice boost in 2003 and 2004 from the refinancing push and a very hot housing market, but no additional growth occurred in 2005, due most likely to rising interest rates. Still, the high level of construction activity, fueled by resource growth and public-sector spending, should help create 100 jobs in 2006 and 200 more in 2007.

Professional and business services

Much of this sector is made up of industries that tend to mirror the health of their local economies. For example, interior designers, advertising agencies and landscaping companies all grow when there are jobs available and

money is circulating. Since 2001, the sector has grown at a slightly slower rate than the overall job count.

The industries most likely to do well in 2006 and 2007 are those connected to construction and government spending on capital projects. Architects, engineers, drafters and surveyors, for example, are expected to be in growing demand.

The sector's strong growth of 500 jobs in 2005 will not quite be matched in 2006 or 2007, but high spending on natural resource development, military installations, infrastructure, schools, and other publicly funded projects will create about 700 jobs over the forecast period – 400 in 2006 and 300 more in 2007.

Educational and health services

From 2001 to 2005, Alaska added 20,600 jobs to its economy; 7,800 of them, or 38 percent, came from the educational and health services sector. It's not entirely clear what all the causes are for such heady growth, but it's been especially strong in Alaska. Over the same period, the sector has grown by 28 percent in Alaska compared to 15 percent for the nation as a whole.

The health care industry makes up about three-fourths of the sector, and it has provided the lion's share of the new jobs both nationally and in Alaska.⁵ Growth has slowed considerably – from over 9 percent in both 2002 and 2003 to around 3 percent the last two years – suggesting that Alaska's health care market may be reaching a saturation point. On the other hand, health care jobs in Alaska make up 8.3 percent of all wage and salary employment, compared to 9.2 percent for the United States, indicating the potential for more growth.

Presumably, part of the growth has come as a

⁵ Employers categorized under "social assistance" – such as those who provide child and youth services and services for the elderly and disabled – make up the largest remaining share of the educational and health services sector. The educational component is made up of private educational and instructional schools, which generate about 2,000 jobs in Alaska. Public school employment is published under state and local government.

result of Alaska health care providers capturing a larger percentage of the market. In other words, as the population and provider network has grown, there has been less need to fly to Seattle or some other Lower 48 destination to see a specialist or seek specialized treatment.

Another factor for both the state and the nation is the aging baby boomers. Alaska's population is still younger, on average, than the nation's, but because the baby boomers are such a large population cohort, the average age – and demand for health care services – is rising.

The forecast for 2006 calls for 800 new health care jobs and 900 new jobs for the entire educational and health services sector. In both cases, growth is expected to slow slightly from recent years. In 2007, the forecast is for 600 additional health care jobs and 700 for the broader sector.

Leisure and hospitality

The leisure and hospitality sector added 2,800 jobs from 2001 to 2005, reflecting healthy growth for the state's tourist industry. Food services and drinking places accounted for 1,600 of that amount; hotels, inns and lodges added 800; and the remaining 400 came from a loose grouping of museums, historical sites, and amusement and recreational businesses, among others.

There are indications that some of Southeast Alaska's cities and towns are nearing a saturation point for cruise ship visitors. The Juneau Convention & Visitors Bureau forecasts growth of 1 percent in cruise passenger capacity in 2006, the lowest projected growth since 1995, and Ketchikan is expecting a decline of about 100,000 visitors in 2006.

Numbers for independent travelers have been flat over the last few years and high gas prices will have a dampening effect in 2006 and probably in 2007. On the other hand, an increasing number of cruise ships are crossing the Gulf of Alaska to ports such as Seward and Whittier. Passengers who begin or end their cruises in Alaska often add train or bus trips to Anchorage and the Interior, generating

additional tourist-related revenue and jobs. Overall, growth is forecast to slow from 1,000 jobs in 2005 to 600 jobs in 2006. Modest growth will continue in 2007, barring a shock to either the national or international economies.

Other services

This sector is a loose combination of employers ranging from automotive repair shops to barber shops, dry cleaners and parking garages. It's forecast to grow at about the same rate as the broader economy.

Government

Federal government spending has played a critical role in the state's economic growth. In federal fiscal year 2004,⁶ total federal spending in Alaska was nearly \$13,000 per person, the highest of all states and nearly twice the national average. Total federal spending of \$8.4 billion in 2004 was 6.3 percent higher than in federal fiscal year 2003.

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

Such an infusion of funds into the state's economy has gone a long way toward helping the state add jobs year after year, although the actual number of federal government employees has declined slightly over the last decade, falling from 17,300 in 1996 to 17,000 in 2005. No growth in federal government employment is expected in 2006 or 2007, although federal spending will fuel growth in nearly every other sector of the state's economy.⁷

⁶ The federal fiscal year runs from Oct. 1 through Sept. 30.

⁷ There is concern that federal spending in Alaska will decline due to federal budget deficits and increasing pressure to reform the process that allows for "earmark" funding. It is unlikely, however, that any reductions would significantly affect spending levels in 2006 or 2007.

Similarly, high oil prices do a lot more for the state than merely increase the job count in the oil and gas industry. The primary beneficiary of high oil prices is state government, which is still funded largely by oil revenue.⁸ Budget surpluses are likely to extend through 2007, reducing pressure to cut costs and increasing the likelihood of limited growth in state government employment.

Local government employment has grown very little in recent years, adding just 300 jobs from 2001 to 2005. Local school districts will benefit, however, from increased education spending by the state, some of which will translate into job growth. On the other hand, current population estimates show slightly fewer children being born, which may reduce the demand for teachers and school employees.

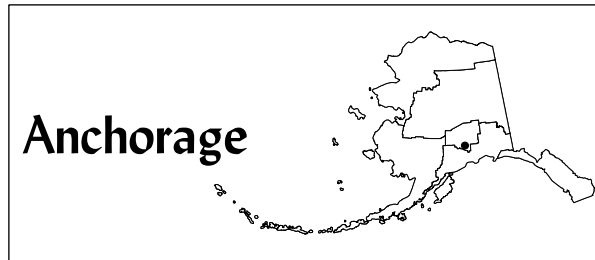
For their part, municipal governments, which have struggled to replace state revenue sharing funds, are expected to receive a portion of the state's budget surplus. Total local government employment is expected to grow by about 400 jobs in 2006 and 300 in 2007.

⁸ The Department of Revenue expects oil revenues to provide 85 percent of unrestricted revenues through fiscal year 2008.

The Timing of Forecasts

Publishing a forecast for 2006 in May 2006 might seem a little like betting on the winner of a football game when it's almost half-time. The primary reason for the delay is that the process by which the prior year's numbers are revised is not completed until February.

After the revised data are available, the first articles prepared for publication in *Alaska Economic Trends* are the detailed reviews of the previous year's activity; then the following issue contains the two-year forecasts. The Alaska Department of Labor & Workforce Development believes having a solid base from which to forecast is worth the delay.



Anchorage's economy should stay on the upswing

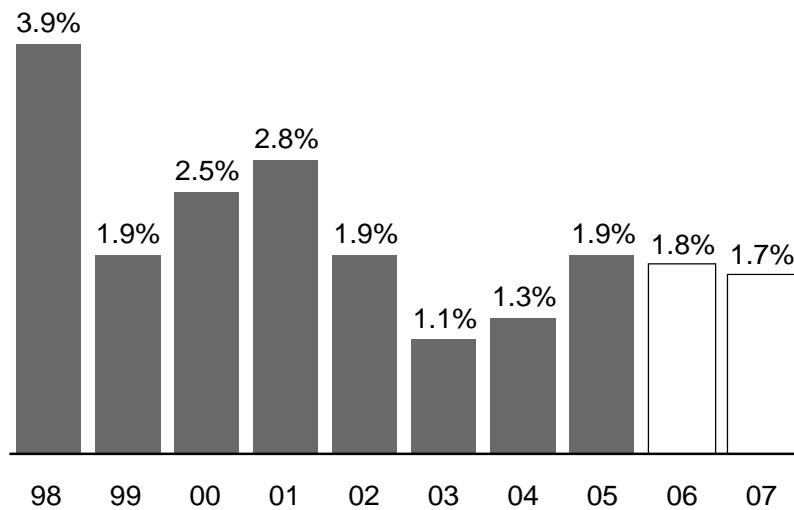
By Neal Fried, Economist

Because Anchorage's economic growth cycle has now stretched out to 17 straight years, a deviation from this trend is hard to imagine. Another year of growth almost appears as certain as the theory of thermodynamics. Is Anchorage's economy destined to grow forever? Not likely. Yet, given what we know now, it appears Anchorage's economy will be getting a little bigger each year, at least this year and in 2007. The forecast calls for 1.8 percent growth in 2006 and 1.7 in 2007, which is close to the 10-year annual average employment growth of 2 percent. (See Exhibits 4 and 5.)

After such a long period of expansion, the prolongation of this trend may be simply taken for granted – yet it's a dangerous assumption, even though the economic fundamentals for the state's largest city remain solid. A number of factors should continue to provide loft for Anchorage's economy: high oil prices, a healthy national economy, low interest rates, a positive outlook for the visitor industry, a healthy flow of federal dollars, expansion in the international air cargo business, state revenue surpluses, an emerging mining industry, the possibility of a gas pipeline on the horizon, an overall sense of optimism, as well as other factors.

Economic vulnerabilities, though, are always lurking in the background. A collapse in oil prices, a dramatic drop in federal dollars or something beyond our current imagination could derail all of this. They just aren't likely.

4 Growth for Another Two Years Anchorage forecast for 2006 and 2007



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

Recovery in oil patch numbers

With a year of \$50-plus per barrel oil behind us, three years of above-average oil prices and the Alaska Department of Revenue's expectation for continued high oil prices for the next two years, the forecast for employment in the oil and gas industry is for modest growth in Anchorage and more rapid growth on the North Slope.

The oil industry employment numbers are not significant but their direction is. Most of the players are planning some upswing in development work during the forecast period. ConocoPhillips will continue to develop a number of satellite fields around its Alpine field, as well as its West Sak heavy oil project. Spending is slated to increase 8 percent in 2006.

After many years of reducing the size of their work force, British Petroleum is planning to hire up to 200 workers in 2006, and some of them will be based at the company's Anchorage headquarters. BP says it's hiring the workers for its Kuparuk field, other field development work and to replace retirees. As the headquarters to the state's oil industry, Anchorage is also benefiting from the growing list of independents and other new or returning players like Shell Oil, which returned to Alaska after a seven-year hiatus.

Anchorage's contractors should remain busy

Anchorage's construction industry has grown for more than 15 years, year in and year out. Each year, one segment of the industry gives the overall Anchorage industry an extra boost. One year it might be a spate of new retailers, hotels, financial institutions, schools or new Native corporation headquarters. Other years it might be an above-average level of road construction or new homes. Or it might be tens of millions of dollars worth of work at Anchorage's two major military installations.

But overall, the construction activity has come from different sectors without any one project playing a dominant role. And it looks like this year and next year aren't going to be much different. University of Alaska economists forecast that Alaska's construction activity will increase by 13 percent in 2006.⁹ Since Anchorage is essentially the hub for Alaska's construction industry, the increase in construction activity around the state bodes well for Anchorage contractors.

It should be another strong year for commercial-related activity in Anchorage. Developers are set to break ground this year or in 2007 for two large Midtown office towers, one of which will be 15 stories, have 300,000 square feet and cost \$70 million. A third high rise in downtown could possibly get underway by the end of 2007. As many as three large retail projects could get started in 2006 – two Wal-Mart "supercenters" and Glenn Square, a 275,000-square-foot mixed-use retail center in Mountain View.

Another two to three large retail establishments may be built in 2007 – one more Wal-Mart supercenter and possibly two or more national chain stores. After a lull in hotel construction in 2005, there are plans for three new mid-size hotels in Anchorage. Two of them are slated for Midtown; another is planned for Dimond Boulevard in South Anchorage.

⁹ According to the University of Alaska's Institute of Social and Economic Research forecast

Anchorage Wage and Salary Employment Forecast for 2006 and 2007 **5**

	Forecast									
	2004 Monthly Average	2005 Monthly Average	Change 2004 to 2005	Percent Change 2004 to 2005	2006 Monthly Average	Change 2005 to 2006	Percent Change 2005 to 2006	2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007
Total Nonfarm Wage and Salary	144,100	146,800	2,700	1.9%	149,500	2,700	1.8%	152,100	2,600	1.7%
Goods-Producing ¹	13,000	13,700	700	5.4%	14,300	600	4.2%	14,600	300	2.1%
Service-Providing ²	131,100	133,100	2,000	1.5%	135,200	2,100	1.6%	137,500	2,300	1.7%
Natural Resources and Mining	2,000	2,100	100	5.0%	2,300	200	8.7%	2,400	100	4.2%
Oil and Gas	1,900	2,000	100	5.3%	2,100	100	4.8%	2,200	100	4.5%
Construction	9,200	9,700	500	5.4%	10,000	300	3.0%	10,200	200	2.0%
Manufacturing	1,800	1,900	100	5.6%	2,000	100	5.0%	2,000	-	0.0%
Trade, Transportation and Utilities	33,000	33,200	200	0.6%	33,500	300	0.9%	34,000	500	1.5%
Wholesale Trade	4,700	4,700	0	0.0%	4,700	-	0.0%	4,700	-	0.0%
Retail Trade	17,300	17,400	100	0.6%	17,700	300	1.7%	18,100	400	2.2%
Transportation, Warehousing and Utilities	11,000	11,100	100	0.9%	11,100	-	0.0%	11,200	100	0.9%
Information	4,400	4,400	-	0.0%	4,400	-	0.0%	4,400	-	13.6%
Financial Activities	9,000	9,100	100	1.1%	9,300	200	2.2%	9,400	100	1.1%
Professional and Business Services	16,000	16,400	400	2.5%	16,700	300	1.8%	17,000	300	1.8%
Educational ³ and Health Services	18,400	19,100	700	3.8%	19,700	600	3.0%	20,300	600	3.0%
Leisure and Hospitality	14,700	15,100	400	2.7%	15,500	400	2.6%	15,800	300	1.9%
Other Services	5,600	5,700	100	1.8%	5,700	-	0.0%	5,800	100	1.7%
Government ⁴	30,000	30,100	100	0.3%	30,400	300	1.0%	30,800	400	1.3%
Federal Government ⁵	9,700	9,500	-200	-2.1%	9,400	-100	-1.1%	9,400	-	0.0%
State Government	9,600	9,700	100	1.0%	9,900	200	2.0%	10,100	200	2.0%
Local Government	10,700	10,900	200	1.9%	11,100	200	1.8%	11,300	200	1.8%

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

² Service-providing sectors include all those not listed as goods-producing sectors.

³ Private education only

⁴ Includes employees of public school systems and the University of Alaska

⁵ Excludes uniformed military

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

Residential activity will probably remain close to last year's levels, or even fall a bit. Last year, developers built 1,725 new units. What will continue to change is that more of these homes will be multifamily as a growing share of the single-family market moves out to the Mat-Su area.

The anchors for public construction over the next two years will be the \$111 million new Anchorage Convention Center that will begin in 2006 and the \$75 million expansion of the Anchorage Museum that should get underway in 2007.

A \$177 million renovation of Ted Stevens International Airport's A and B concourses, scheduled

to begin this year, will last at least four years. Contractors are already working on the airport's new \$65 million rental car parking garage and a host of other projects.

Work on Anchorage's military bases will also remain a major source of work in Anchorage. Some of these projects include more than a total of \$100 million in family housing on Elmendorf Air Force Base and Fort Richardson Army Post. Elmendorf is also slated for a \$17 million fitness center, a \$25 million to \$50 million corrosion control facility, plus hangar facilities for the new C-17 and F-22 Raptor aircraft. Fort Richardson will get a \$10-plus million child development center, among other projects.

Public school construction will slow down in 2006 but University of Alaska Anchorage planners hope to begin construction on its \$85 million integrated science building in 2007.

Highway construction in the central region of the state could come in a bit slower in 2006 than last year but ramp up again in 2007. The Port of Anchorage's planned expansion will continue in 2006 with roughly \$40 million worth of work; the Port has bigger plans for 2007 and future years.

Manufacturing could get a boost

Immediate Care, a local health care provider, has announced plans to manufacture pharmaceuticals in Anchorage as early as late 2007. If everything goes as planned, manufacturing employment could get a bump in 2007 and a much larger one in later years.

Turbulence and growth keep transportation at an even keel

Anchorage's broad-based economic growth should keep the transportation industry from veering into the red. Predictions of strong visitor and construction seasons, along with continued growth in the international cargo business, stack up well for business.

International cargo activity should continue to rise 2 to 3 percent per year as trade with China continues to expand. Air China will be increasing its flights from 10 a week to 22. Both FedEx and UPS plan to add a significant number of parking spaces for their growing fleet of planes and most other international carriers are adding flights. By the end of 2006, FedEx will expand its package-sorting capabilities from 12,000 an hour to 15,000, which will also mean building additional facilities.

There are, however, some negative trends in transportation. Virtually all segments of the industry will likely be affected by high fuel costs. And Alyeska Pipeline Service Company, the state's third-largest private sector transportation company, plans to cut its work force in 2007. (The numbers for Anchorage are not yet available.)

Should be clear skies for the visitor industry

All the makings for another strong visitor season are in place: a strong national economy, a relatively healthy international economy, more cruise ship capacity coming across the Gulf of Alaska to the Railbelt, and an expanding inventory of available hotel beds. By all indications bookings are up. In fact, some are reporting that the increase in early bookings for hotels and land tours are returning to pre-9/11 levels. Convention activity also looks positive. Bookings are up for the number and size of national conventions.

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, a trend that should continue through 2007. Last year was the first year in a while where no new hotels were built. This will not be the case in 2006 and possibly in 2007. There are plans for the construction of at least three new hotels in 2006 – an indication that faith remains strong for a continually expanding visitor industry. The new hotel construction, though, won't affect employment levels until the latter part of 2007, when the hotels will open their doors.

The food services category, which represents two-thirds of all employment in the leisure and hospitality industry, will expand – benefiting both the visitor industry and what appears to be an insatiable local demand for new eateries. At least two good-size local eating and drinking places and two sizeable national chain operators plan to open this year and there certainly will be others that have yet to announce their intentions. Smaller players are also certain to open.

Anchorage's giant health care industry should grow a little more

Health care generated half the new jobs in Anchorage in 2004 and last year it produced slightly less than a quarter of the new jobs.

Although it was still the single-largest contributor to employment growth in 2005, it wasn't quite the player of the last two or three years. Even so, there is little doubt health care will continue to grow, likely at a more moderate pace.

Anchorage's second- and third-largest non-profit Native health care providers, the Alaska Native Health Consortium and the Southcentral Foundation, plan to continue to grow at a slower pace than many of the past years. Constraints on federal dollars could also become a factor.

But Providence Hospital, Anchorage's largest private-sector employer, is going through another significant expansion phase, so that will mean job growth. The hospital's employment grew by roughly 100 in 2005. Gains will also come from medical clinics, doctors' and other health practitioners' offices, medical laboratories and other outpatient care providers.

Retail growth will remain modest but a boomlet is coming

Employment growth in retail has been modest and this trend should continue through the end of 2007. The construction of a number of smaller and larger stores will probably get underway during the next two years, but many of those won't open until late 2007 or 2008.

Aside from the two and possibly three new Wal-Mart supercenters in the works for this year and 2007, another large chain – one of the nation's largest retailers – is firming up possible plans to enter the Alaska market. The retailer is considering a number of stores throughout the state, including at least two in Anchorage.

Construction on Glenn Square in Mountain View, the 275,000-square-foot retail development mentioned earlier, should begin this season. It will house a number of medium and smaller local and national retailers. Some known names include Michaels, PETCO, Old Navy and Best Buy.

Professional and business services should continue to expand

Broad economic growth along with hearty 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 are 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 should stay 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. But as interest rates creep up, activity in this industry could slow some.

Uniformed military will grow a bit more

After more than a decade of decline in the overall troop levels in Anchorage, the trend began to reverse itself in 2003 and has grown since. The Army, and more specifically, Fort Richardson, has been responsible for nearly all the growth, which will continue through 2006. Fort Richardson troop levels began to grow in 2003; by 2005 their count had reached 4,100, more than 1,500 stronger than just two years earlier.

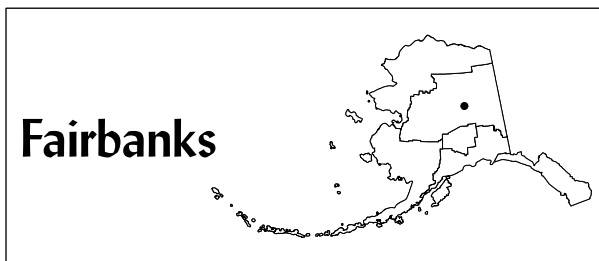
After the ongoing expansion of Fort Richardson's new Airborne Brigade Combat Team is completed later this year, station strength should reach 4,500 – the largest number of troops stationed at the post since 1988. Although the new troops tend to be young and have fewer dependents than their Air Force counterparts, additional soldiers will be living off-post and more soldiers will be spending dollars in the local economy.

Small gains in the public sector

Overall public-sector employment should inch up the rest of the year and in 2007. At the federal level, employment is not likely to change

much – it could actually fall a bit again next year. In light of oil revenue surpluses, state government employment will likely grow some in 2006 and possibly again in 2007.

The University of Alaska Anchorage's budget should follow a similar pattern. And the story for local government is not much different. School enrollment will probably change little but employment counts could increase moderately as oil revenue surpluses help the budgets of Alaska's school districts. Employment levels at the Municipality of Anchorage could also increase slightly.



Fairbanks' growth momentum will continue

By Brigitta Windisch-Cole, Economist

Fairbanks has geared up for another two years of continued employment growth with up to 500 new jobs being created each year. The annual growth rate will be 1.3 percent in both 2006 and 2007, and the growth will be broad-based. (See Exhibit 6.)

The construction industry in 2006 should remain on par with the industry's stellar 2005 performance, and it could expand its work force in 2007 to deal with military projects. (See Exhibit 7.) The leisure and hospitality sector, which benefits from tourism, should add the most jobs in 2006 and remain a strong contributor in 2007.

The local retail industry will also add jobs as it continues to expand. All other service-providing industries will gain employment from expected brisk economic activity and population growth. Incoming military personnel from overseas and

the return of currently deployed troops will also help stimulate the Fairbanks economy.

Construction readies for strong seasons

Although several large Fairbanks construction projects will be completed in 2006, the city's construction pace should remain strong through 2007. A repeat of last year's performance is likely in 2006, and that should result in 100 additional construction jobs in 2007.

Military-related construction in Fairbanks and on other nearby installations will take the lead. The Alaska District Corps of Engineers lists 11 major construction projects on Fort Wainwright and Fort Greely army posts, Eielson Air Force Base and the Air Force's Clear Air Station costing more than \$300 million that have started or will start this year. Major projects include family housing, runway repairs, barracks, module preparation and assembly, utility upgrades, an information technology center and a helicopter pad.

The 2007 season includes the replacement and new construction of 238 family housing units on Fort Wainwright, plus building a library and education center on the post. So far, the estimated building costs for all the military's 2007 planned projects in the Fairbanks area run between \$85 million and \$175 million.

The Fairbanks North Star Borough has 136 construction projects worth more than \$40 million lined up for this year and 2007. Currently, the borough's largest single project is the roughly \$3 million upgrade of the Big Dipper Ice Arena. The City of Fairbanks is also garnering funding to move forward on the \$26 million Morris Thompson Cultural and Visitor Center.

State projects will also help heat up the local construction scene. Among the largest projects are upgrades at the Fairbanks International Airport and North Pole's Richardson Highway and Dawson Road interchange. A new airport cargo apron should provide additional work. Next year the state will focus on remodeling the airport terminal and building a virology lab at the University of Alaska Fairbanks campus. A fish hatchery is also planned.

More Growth for Fairbanks Fairbanks forecast for 2006 and 2007 **6**

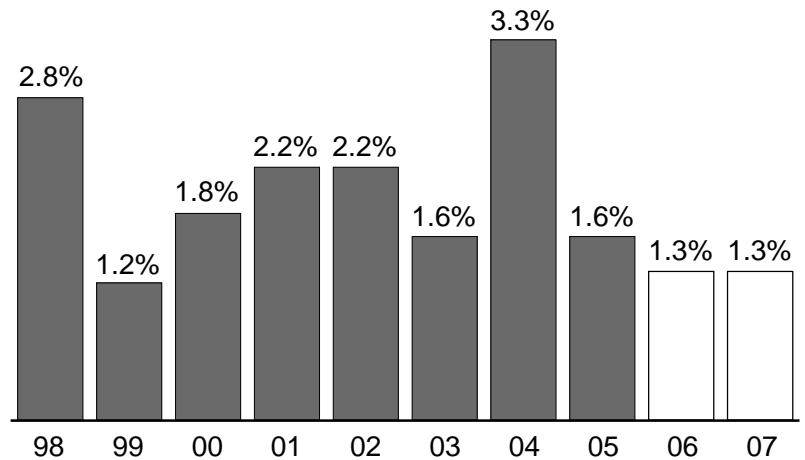
After the big push of 2005, commercial construction may abate some during the 2006 season. But activity could pick up again in 2007 if retailers rumored to be considering entering the Fairbanks market decide to invest. Among the 2006 season's largest new projects is the Fairbanks Memorial Hospital emergency room expansion and remodel. Other construction includes the North Pole power plant, a financial center, an Iridium communication satellite ground station, plus various warehouses and restaurants. The nearby trans-Alaska oil pipeline reconfiguration project, which will automate operating functions at several pump stations along the pipeline, should also help to speed up the pace.

Among construction work load projections, residential building remains the wild card. Developers have created several large subdivisions in the Fairbanks area. One builder estimates that 60 new residences will be constructed this year on a subdivision near the Bentley Trust property.

But whether a residential construction "boomlet" is about to start remains a question, because the military's future housing needs have not yet been quantified. It is clear, though, that the incoming military population will push up demand for residential housing. As privatization of military support services continues, off-post housing will become more popular and both rental and homeowner real estate should benefit.

Retail employment will advance

Last year's retail store expansion will continue to help employment growth. Although several stores opened in 2005, their employment gains will register in 2006 because their businesses started late in the year. Additional stores will augment these gains. A new bookstore recently opened its doors, and that pushes up retail's employment by 70. Other stores may join the expansion and Fairbanks' marketplace will continue to diversify in 2007. When Wal-Mart completes an expansion of its existing store and builds an additional store, retail employment growth will be even more impressive.



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

The leisure and hospitality industry will expand

Population growth will support continued investment in the leisure and hospitality industry this year and in 2007. A variety of new restaurants will increase the choices for Fairbanks' residents as well as visitors. Steady growth in the tourism sector has become the norm and this trend should continue. Demographic changes in the U.S. population suggest that the group of retirees who like to travel is becoming larger. And Fairbanks is becoming an increasingly popular tourist destination, particularly among Japanese and German tourists. Japan Airlines flies direct from Tokyo for winter, late summer and fall charters; Condor Thomas Cook Airlines has scheduled summer flights from Frankfurt.

Health care will add jobs; social services will remain flat

Health care has become a steady contributor to employment growth in Fairbanks and it will continue to add jobs through 2007. Expanding medical services in any community, adding breath and depth, increases local jobs. The Fairbanks medical community has become larger and is offering more specialized services,

7 Fairbanks Wage and Salary Employment Forecast for 2006 and 2007

					Forecast					
	2004 Monthly Average	2005 Monthly Average	Change 2004 to 2005	Percent Change 2004 to 2005	2006 Monthly Average	Change 2005 to 2006	Percent Change 2005 to 2006	2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007
Total Nonfarm Wage and Salary	37,200	37,800	600	1.6%	38,300	500	1.3%	38,800	500	1.3%
Goods-Producing ¹	4,300	4,500	200	4.7%	4,450	-50	-1.1%	4,500	50	1.1%
Service-Providing ²	32,900	33,300	400	1.2%	33,850	550	1.7%	34,300	450	1.3%
Natural Resources and Mining	900	1,000	100	11.1%	950	-50	-5.0%	850	-100	-10.5%
Construction	2,800	2,900	100	3.6%	2,900	0	0.0%	3,000	100	3.4%
Manufacturing	600	600	0	0.0%	600	0	0.0%	650	50	8.3%
Trade, Transportation and Utilities	7,400	7,600	200	2.7%	7,750	150	2.0%	7,850	100	1.3%
Wholesale Trade	600	600	0	0.0%	600	0	0.0%	650	50	8.3%
Retail Trade	4,400	4,700	300	6.8%	4,850	150	3.2%	4,950	100	2.1%
Transportation, Warehousing and Utilities	2,400	2,300	-100	-4.2%	2,300	0	0.0%	2,250	-50	-2.2%
Information	600	600	0	0.0%	600	0	0.0%	600	0	0.0%
Financial Activities	1,400	1,500	100	7.1%	1,550	50	3.3%	1,600	50	3.2%
Professional and Business Services	2,200	2,200	0	0.0%	2,250	50	2.3%	2,300	50	2.2%
Educational ³ and Health Services	4,100	4,200	100	2.4%	4,250	50	1.2%	4,300	50	1.2%
Leisure and Hospitality	4,200	4,200	0	0.0%	4,400	200	4.8%	4,500	100	2.3%
Other Services	1,400	1,300	-100	-7.1%	1,300	0	0.0%	1,300	0	0.0%
Government ⁴	11,600	11,700	100	0.9%	11,750	50	0.4%	11,850	100	0.9%
Federal Government ⁵	3,400	3,400	0	0.0%	3,350	-50	-1.5%	3,300	-50	-1.5%
State Government	5,200	5,200	0	0.0%	5,250	50	1.0%	5,300	50	1.0%
Local Government	3,000	3,100	100	3.3%	3,150	50	1.6%	3,250	100	3.2%

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

² Service-providing sectors include all those not listed as goods-producing sectors.

³ Private education only

⁴ Includes employees of public school systems and the University of Alaska

⁵ Excludes uniformed military

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

so many patients no longer have to go elsewhere for treatment. On the other hand, there should be little change in social services; employment is expected to remain at current levels.

Professional and business services employment will gain ground

It is difficult to gauge trends in the professional and business services sector because they involve a wide variety of unrelated industries. The professional services side includes services in various fields: legal, accounting, engineering, computer and design, among others. Employment growth in these disciplines should continue because they often support construction – which is growing – as well as serve individuals and a large variety of businesses.

Another part of the professional and business services sector consists of administrative and other support services that include employment services, call centers and facility or other types of business support services. Employment gains should materialize in companies that contract with other companies or with public agencies or organizations.

Outsourcing has become a persistent trend, as private companies and governmental agencies concentrate more on their core functions. For instance, a few years ago, a company or agency might have had an in-house computer or public relations person. Now, as more companies and agencies outsource, that same company may decide to contract with a specialized computer company or public relations company for that work.

The outsourcing trend promotes alliances between companies, as well as between government agencies and companies. In Fairbanks, the military has become increasingly reliant on support services performed by contractors. Increased station strength at Fort Wainwright will contribute to employment gains in support businesses.

Financial services could muster gains

New credit unions and bank buildings and expanding rental businesses have accounted for some of last year's employment gains. The opening of another credit union, a new bank, and solid business in real estate offices could push up employment even more. Brisk construction activity supported by a healthy housing market should bode well for the financial services industry.

Transportation employment should stabilize

After three years of job losses in the transportation industries, employment should remain at last year's level for the rest of the year. Airline-related jobs should become more stable than in previous years, when changes in federal regulations for transporting mail eliminated some carriers. With the upsurge of tourism, future employment growth in airline-related and ground transportation industries is possible, but the downsizing of the trans-Alaska oil pipeline work force could result in job losses to the transportation industry in 2007.

Natural resource employment could decline some

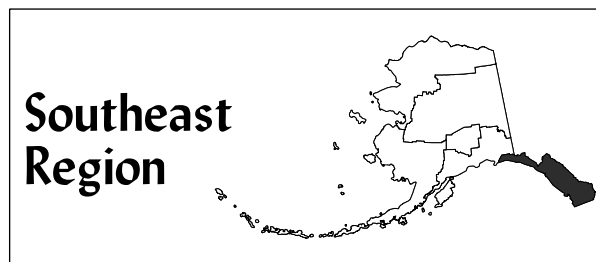
Since the trans-Alaska oil pipeline reconfiguration project will automate operating functions on some pump stations, fewer workers will be needed than in the past. Job losses among Fairbanks' contract workers who specialize in oil field services are expected to occur in 2007 after the reconfiguration project is completed.

Government employment growth will be small

Government employment will change little this year or in 2007. Federal employment

could lose ground due to the continued privatization of military support services, as well as federal agency downsizing due to tight budgets. State and local government will offset the federal job losses, but their gains will be modest. The University of Alaska has been state government's most dynamic job engine in past years, but lately the university's growth has diminished, likely at least partly due to falling enrollment.

The Fairbanks North Star Borough School District has also experienced drops in enrollment, a trend that will likely reverse when incoming military personnel and their families arrive in Fairbanks. Therefore, a small gain in local government employment should materialize in 2006 and a bigger increase could follow in 2007.



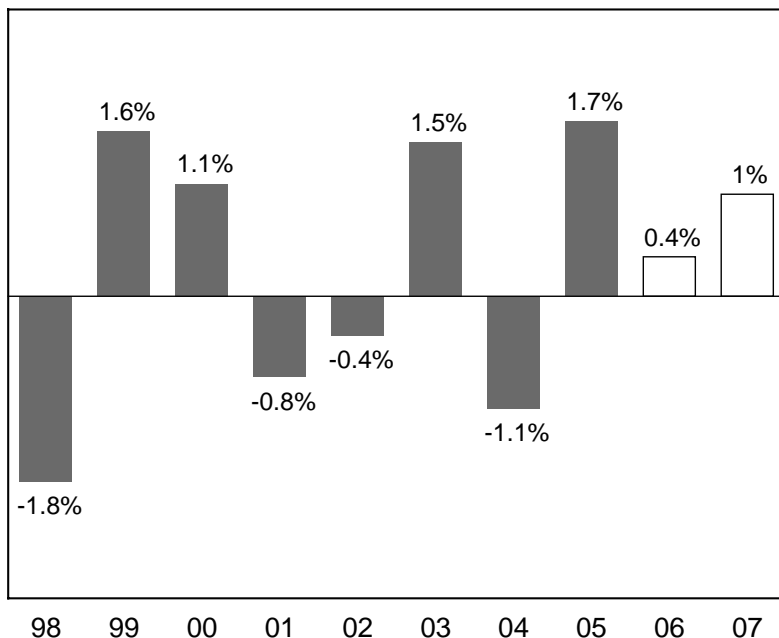
Slow growth to continue

By Neal Gilbertsen, Economist

Economic forecasts are educated guesses based on anticipated events and historical performance. The question is always, "Will the predicted economic changes be great enough to alter the underlying dynamic?" In the case of the 2006-2007 Southeast forecast, the answer would seem to be "No."

The annual fluctuations in Southeast employment have tended to offset one another over recent years, with one year of job growth followed by another of economic retreat. From 2000 to 2005, total employment increased by only 300 jobs. This very slow eight-tenths of 1 percent growth in a five-year period seems to represent the long-term employment trend. (See Exhibit 8.)

8 Slow Growth to Continue Southeast forecast for 2006 and 2007



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

Over this extended time frame, employment in goods-producing industries such as seafood processing and logging has either stabilized or declined, while service-providing industries such as retail trade and health care have accounted for most of the regional gains. Although there are some encouraging signs, there is little reason to believe that this long-term trend will change dramatically by the end of 2007. Southeast will instead experience slow to moderate job growth in both 2006 and 2007. (See Exhibit 9.) This growth will not, however, be shared evenly across industries or communities.

Timber still shaky but mining seems golden

In light of Sealaska's announcement of its need to reduce timber harvests by at least 25 percent in 2006 and perhaps by 50 percent in future years, it is doubtful that the small 2005 gains in logging employment can be sustained. These reductions will impact the Southeast Native regional corporation's logging employment and its contractors, and will register most heavily in the Prince of Wales-Outer Ketchikan Census Area.

It is possible that such things as the proposed 600-acre Emerald Bay Timber Sale, which could provide up to 90 jobs, might result in temporary increases. However, the U.S. Forest Service recently published a report entitled, "Timber Products Output and Timber Harvest in Alaska, Projects for 2005-2025," that finds it most likely that the area's timber harvests will remain at recent historical low levels over the 20-year period.

The industry faces formidable challenges. Inexpensive softwood lumber from Canada and the American South continues to dominate domestic markets, while raw logs from Siberia, New Zealand and elsewhere provide stiff competition in Asian export markets.

It is almost certain that employment at the Kensington gold mine north of Juneau will lead to increased mining totals both this year and in 2007. When the mine is fully operational, it is expected to employ 225 full-time workers. Permits for the Slate Lake water discharge plan have been reinstated, allowing construction to move forward, and the lawsuit concerning the tailings disposal issue will probably be resolved in the coming months. Because the mine will take some time to reach full operation, jobs will be added gradually over 2006, but should register more strongly in 2007.

If precious metals continue to command high prices, Southeast could see additional developments. Explorations for platinum are ongoing at Union Bay northwest of Ketchikan and for gold, silver and zinc on Woewodski Island west of Wrangell, but those explorations will not result in expanded employment in 2006 or 2007. The possible reopening of the Admiral Calder calcium carbonate mine on Prince of Wales Island, however, might add some jobs to the mining total.

Construction employment may build

Construction employment has been stable in recent years, driven by home-building, several port facility projects, roads and work associated with the Kensington mine. It is likely that the level of activity will continue or slightly increase

Wage and Salary Employment Southeast forecast for 2006 and 2007



Forecast

	2004	2005	Change	Percent	Forecast					
	Monthly Average	Monthly Average	2004 to 2005	Change 2004 to 2005	2006 Monthly Average	Change 2005 to 2006	Percent Change 2005 to 2006	2007 Monthly Average	Change 2006 to 2007	Percent Change 2006 to 2007
Total Nonfarm Wage and Salary	35,950	36,550	600	1.7%	36,700	150	0.4%	37,050	350	1.0%
Goods-Producing ¹	3,950	4,100	150	3.8%	4,200	100	2.4%	4,350	150	3.6%
Service-Providing ²	32,000	32,450	450	1.4%	32,500	50	0.2%	32,700	200	0.6%
Natural Resources and Mining	600	650	50	8.3%	750	100	15.4%	850	100	13.3%
Construction	1,500	1,600	100	6.7%	1,600	0	0.0%	1,650	50	3.1%
Manufacturing	1,850	1,850	0	0.0%	1,850	0	0.0%	1,850	0	0.0%
Trade, Transportation and Utilities	1,450	1,450	0	0.0%	1,450	0	0.0%	1,450	0	0.0%
Wholesale Trade	7,200	7,400	200	2.8%	7,450	50	0.7%	7,600	150	2.0%
Retail Trade	4,550	4,650	100	2.2%	4,700	50	1.1%	4,800	100	2.1%
Transportation, Warehousing and Utilities	2,300	2,400	100	4.3%	2,400	0	0.0%	2,400	0	0.0%
Information	550	600	50	9.1%	600	0	0.0%	600	0	0.0%
Financial Activities	1,250	1,300	50	4.0%	1,300	0	0.0%	1,300	0	0.0%
Professional and Business Services	1,350	1,300	-50	-3.7%	1,300	0	0.0%	1,300	0	0.0%
Educational ³ and Health Services	3,450	3,550	100	2.9%	3,600	50	1.4%	3,650	50	1.4%
Leisure and Hospitality	3,450	3,650	200	5.8%	3,700	50	1.4%	3,750	50	1.4%
Other Services	1,200	1,200	0	0.0%	1,200	0	0.0%	1,200	0	0.0%
Government ⁴	13,550	13,450	-100	-0.7%	13,350	-100	-0.7%	13,300	-50	-0.4%
Federal Government ⁵	2,050	2,000	-50	-2.4%	1,950	-50	-2.5%	1,900	-50	-2.6%
State Government	5,450	5,500	50	0.9%	5,500	0	0.0%	5,550	50	0.9%
Local Government	6,050	5,950	-100	-1.7%	5,900	-50	-0.8%	5,850	-50	-0.8%

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

² Service-providing sectors include all those not listed as goods-producing sectors.

³ Private education only

⁴ Includes employees of public school systems and the University of Alaska

⁵ Excludes uniformed military

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

in the foreseeable future. Juneau projects include highway improvements, the construction of a new high school as well as the Home Depot store in 2006, and two fisheries and ocean sciences research labs both located at Lena Point. The \$51 million National Marine Fisheries Service's Ted Stevens Marine Institute should be completed by the end of this year; construction on the \$20 million University of Alaska lab is set to begin this year.

The governor's 2007 budget proposes spending for several smaller projects. Those include \$1 million for Wrangell street improvements; \$10 million for deferred harbor maintenance in Haines, Kake, Hydaburg and Angoon; \$1

million for Sitka's Sawmill Cove Industrial Park water line; and \$500,000 to build a health clinic in Skagway. Ketchikan will see highway improvements in 2006, and will use an \$18.5 million federal grant to begin expanding the airport runway. The total cost of the project is now estimated at \$40 million.

It is more difficult to forecast the fate of two major projects that remain entangled in politics. If the Juneau Access road project¹⁰ and Ketchikan's Gravina Island bridge project were to gain full legislative support, the former could contribute

¹⁰ The Juneau Access road project has evolved into a proposed road from Juneau to the Katzein River south of Haines, then ferry service to Haines and Skagway.

some jobs as early as 2006, but the jobs would not fully register on the annualized job count until 2007. The latter could contribute 50 to 100 jobs by 2007. As always with such projects, there remains a possibility that political decisions or legal challenges could affect when and if they will be undertaken.

In the private sector, it is likely that rising interest rates will slow construction activities by 2007. This will partially offset the employment gains created by government-funded projects.

Fishing and manufacturing stable

Nearly 80 percent of the manufacturing employment in Southeast is attributable to seafood processing. The Alaska Department of Fish and Game expects another good salmon year with the 2006 Southeast production approaching 68 million fish, down only slightly from 2005's 70 million harvest. Catches of more valuable king, sockeye and coho are expected to increase slightly, as are those of chums. Only the pink salmon harvest is expected to be somewhat lower. Halibut and sablefish landings, based as they are on individual quotas, will also resemble those of 2005.

Although Fish and Game does not forecast harvests two years in advance, the record of the last decade would indicate that relatively high levels of production should continue through 2007. Moreover, the 2007 pink salmon return will be the offspring of an extremely large 2005 parental run. As a result, both seafood processing and fish harvesting employment should remain at last year's levels through 2007.

Retail growth will continue and health care will thrive

Retail trade is expected to expand only modestly in 2006, but more rapidly in 2007, when Home Depot will open its Juneau store. While employment at the large outlet should give the industry a boost, gains could be partially offset by job losses at local competitors. Still, retail trade has manifested consistent growth over the years as it has added 50 to 100 jobs every year since 2001. There is no reason to believe 2006 and 2007 will be exceptions.

Educational and health services will also add jobs, although the rate of increase is expected to slow somewhat this year and in 2007. This industry, largely due to the expansion of medical and related social services, has added 350 jobs since 2001, which amounts to a 2.5 percent average annual increase. The regional population is aging, and that should logically lead to an increased demand for services, but since the population is also declining, the rate of growth in the industry will slow. The industry will add about 50 jobs a year over the forecast period.

Tourism impacts will be uneven

Juneau hosted 948,226 cruise ship passengers in 2005. The number of cruise ship visitors to Southeast is expected to remain about the same in 2006 and increase slightly in 2007. Holland America has announced it will nearly double its 2006 round-trip sailings from Seattle to Alaska by adding a third ship, but Norwegian Cruise Lines has eliminated one ship from its fleet of four and Crystal Cruise Lines is leaving the Alaska market.

For a variety of reasons, several cruise lines have altered the arrangement of their 2006 port calls. As a result, some communities will see more summer visitors while others will experience reductions. For example, according to Cruise Line Agencies of Alaska, 100,000 fewer tourists are expected to visit Ketchikan this year. In light of these scheduling changes, it seems likely that any local employment gains in tourist-related industries in Juneau or elsewhere will be partially offset by reductions in other communities.

Government

The U.S. Treasury Department announced in March that the federal government had reached its statutory debt limit. In order to avoid default, Congress once again raised the ceiling. Since it is unlikely that the tax cuts of recent years will be reversed, budget shortfalls, in part attributable to Katrina and Iraq, will likely lead to reductions in the federal work force. This will affect federal employment in all states, including Alaska.

State revenues, on the other hand, have benefited greatly from high oil prices. But these

budget surpluses are more likely to fund capital projects than expanded state services. As a result, state employment will likely remain at current levels through 2006 but may increase slightly in 2007.

Local government will continue to shrink. In large part this is explained by an ongoing decline in the region's school-age population. From 2000 to 2004, the number of Southeast residents younger than 16 fell by nearly 2,100. While 2005 data are not yet available, there is no reason to believe that this trend has reversed itself. These continuing declines in student populations will likely lead to cutbacks in regional teaching staffs.

An overview

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

The gains and losses will not be shared evenly among the region's communities. Overall, it seems likely that northern Southeast and especially Juneau will reap a disproportionate share of the economic rewards, while southern Southeast and more rural areas will continue to struggle. In other words, it seems likely that 2006 and 2007 will closely resemble the recent past, with its underlying trend of sporadic and uneven growth.

Oracles and Such

Before placing too much reliance on economic gurus presumptuous enough to issue forecasts, it is wise to examine the predictive records of these so-called "experts."

Over the last decade and a half, the statewide one-year forecasting record has been generally quite accurate, although there have been some misses. Last year, for example, the statewide forecast called for a growth rate of only 1.5 percent, which was significantly lower than the actual rate of 1.9 percent. However, this was only the second time since 2000 that the actual employment had deviated from the forecast by more than one-tenth of one percent.

Since 1993, statewide forecasts have usually fallen within three-tenths of a percentage point of actual growth rates. Regional forecasts are somewhat less accurate than statewide forecasts because they deal with smaller populations that naturally tend to amplify percentage variations.

As might be expected, the second-year forecasts of both statewide and regional economies are considerably less accurate than one-year projections. At best they should be viewed with caution. The future is notoriously difficult to predict, and the longer the term the less reliable the prediction. While the oracles at *Trends* are not blind, they are relatively nearsighted. — Neal Gilbertsen