

## Visitor Volume

Between May 2006 and April 2007, Anchorage attracted an estimated 995,000 visitors from outside of Alaska. Since Anchorage attracts a large percentage of the statewide market—especially those visitors traveling by air—Anchorage visitation during 2007-2008 likely mirrored the statewide growth of 4 percent.

Early indicators for the 2008 season are mixed: Anchorage air traffic was up slightly compared to last year, projected cruise visitation is flat, and Alaska Highway border crossings are down slightly. The high value of foreign currency compared to the US dollar is reportedly increasing international visitation. Increases in this portion of the market will help offset changes in other sectors. Anchorage non-resident visitation for the current year will likely end up very similar to the 1.04 million visitors estimated for the 2007-2008 period.

AEDC predicts that Anchorage will experience continued, modest growth in non-resident visitation (likely between 1 to 2 percent) for each of the next three years (2009-2011). In general, Alaska attracts a higher percentage of affluent and/or retired visitors, which helps to mitigate the effect of the slowing economy on the travel industry.

The new Dena'ina Convention Center, and associated marketing efforts by the Anchorage Convention & Visitors Bureau and local businesses, will stimulate in-state and out-of-state convention and meeting traffic—especially during winter months.

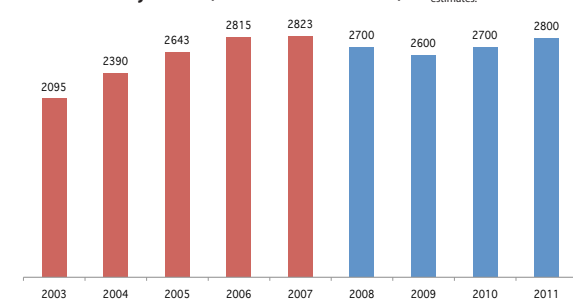
## Oil Prices

Worldwide petroleum markets are expected to remain tight for another year as increases in global supply will be limited and may not keep up with growing demand. The Energy Information Administration (EIA) reports that at the end of June, low surplus production capacity and higher than anticipated consumption caused the Organization for Economic Development and Corporation's (OEDC) inventories to remain below the five-year average. Supply uncertainties originating from political tension in the Middle East, combined with significant demand growth in China, the Middle East, and Latin America are expected to continue pressuring oil markets until 2009. EIA's short-term energy outlook predicts the spot price of West Texas Intermediate (WTI) to be \$127 per barrel in 2008 and \$133 per barrel in 2009.

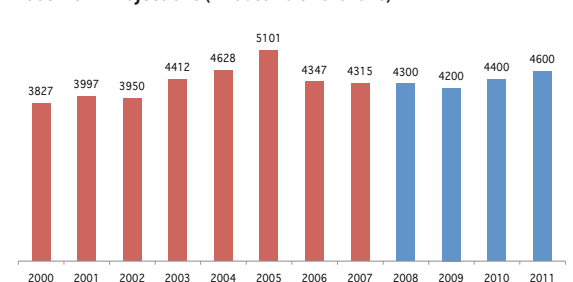
In the long-term, oil prices are less likely to continue their upward trend for several reasons. On the supply side, increases in output could be expected by Iraq's comeback to being a full producer of crude oil. Additionally, Saudi Arabia, after boosting its production in June 2008, has still not reached its full production capacity. On the demand side, increasing prices will lead to greater conservation measures. Also, economic slowdown will lead to slower demand growth and help push prices down in the long-term. Additionally, governments in Asia are expected to further cut their oil subsidies in the long-term which moreover will lead to decreases in demand. Other reasons for an expected decline in oil prices relate to pressure on the Federal Reserve to raise interest rates to avoid further devaluation of the US dollar. Rising interest rates would be expected to result in a correction of the upward trend of commodity prices, including crude oil.

Current oil prices are fluctuating based on a number of factors, many of which cannot be explained by supply and demand, making forecasting difficult, if not impossible. In light of this uncertainty this forecast should be interpreted with caution.

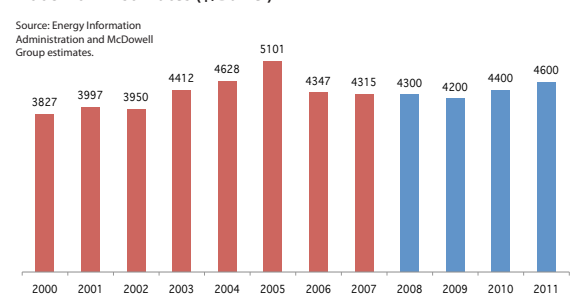
Anchorage Airport Freight Volume, 2003-2007, 2008-2011 Projections (Thousand Metric Tons)



Port of Anchorage Freight Volume, 2000-2007, 2008-2011 Projections (Thousand Short Tons)



Annual Average WTI Crude Oil Prices, 2000-2007, 2008-2011 Estimates (\$/Barrel)



This economic forecast prepared for AEDC by:



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**AEDC**  
Anchorage Economic  
Development Corporation

The Anchorage Economic Development Corporation is a private, nonprofit corporation (IRS code 501(c)(6)), operating since 1987. It exists to encourage growth and diversity in the Anchorage economy. Funding sources for the corporation are municipal grants, state grants and contracts, and private contributions.

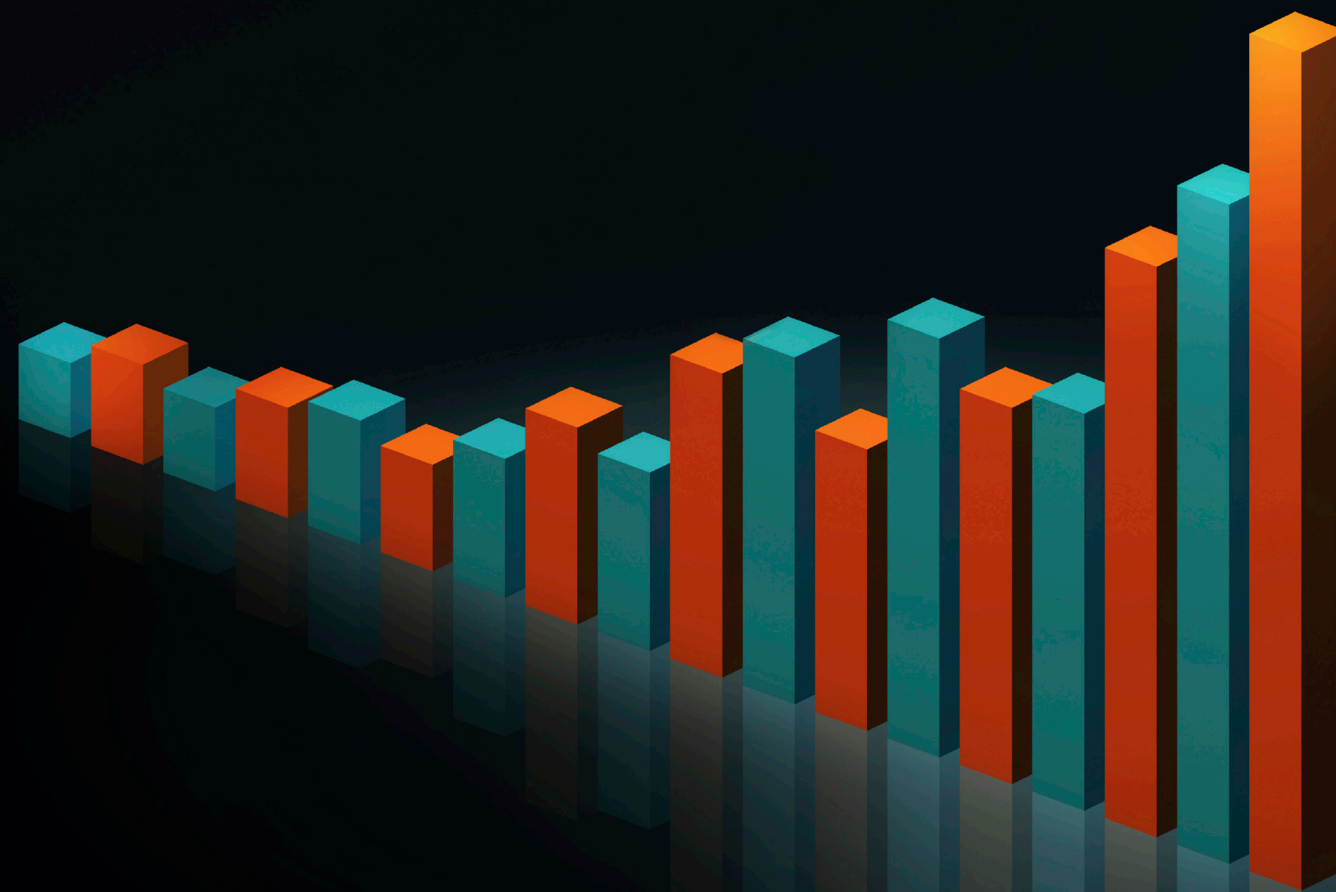
2008-2011

# AEDC Three-Year Economic Outlook



**AEDC**  
Anchorage Economic  
Development Corporation

With this report, AEDC introduces a new source of information related to economic conditions in Anchorage. The AEDC Three-Year Economic Outlook tracks recent-past and potential future economic trends as reflected by six key economic indicators: population, personal income, air passenger and freight volumes, visitor traffic and oil prices.



The forecasts presented here are based largely on secondary research and qualitative analysis. They are intended to provide the “big picture” and identify potentially significant shifts from past trends, rather than subtle or relatively minor changes in the economy. Nevertheless, it is prudent to consider the forces shaping our economy, and take measure of where those forces are taking us.

### Population

Population change is often associated with changes in an economy, providing a reliable barometer of economic health. Anchorage’s population reached 283,823 in 2007, just 0.2 percent above 2006. Over the past decade, the city’s population has grown at an annual average rate of 1.1 percent. The 2007-2030 population forecast by the Alaska Department of Labor and Workforce Development (ADOLWD) predicts the Anchorage population to grow at 0.9 percent annually in its mid-case scenario and at 0.25 percent annually in its low case scenario. Flattening population growth in Anchorage in 2006/07 shows that population growth might slow to levels below the observed 10 year average rate of 1.1 percent. AEDC estimates the Anchorage population will grow 0.5 percent annually in the next three years.

### Employment

Over the past ten years, Anchorage’s annual average employment growth rate was approximately 2 percent. In 2007, job growth slipped below 1 percent for the first time since 1996, and AEDC predicts it will stay below 1 percent in 2008. Though Anchorage will enjoy its 20th consecutive year of growth in 2008, this level of growth is unlikely to continue as the Anchorage economy loses some of its momentum. At the national level, economic slow-down will keep annual U.S. job growth around the 1 percent mark for 2008, somewhat lower than the 1.5 percent statewide annual average predicted by ADOLWD for the years 2002 to 2012. Factoring in

national trends and slowing growth patterns in Anchorage, AEDC predicts static employment levels in 2009 with growth expected to return in 2010 and 2011 of 0.8 and 1.2 percent, respectively. AEDC anticipates growth in 2010 and 2011 to be driven by resource development, including preliminary activity related to the construction of a gas pipeline.

### Personal Income

Total personal income is often used as an indicator of economic growth or decline. This indicator is a measure of total income received by all persons, including net earnings by place of work (wage and salary income, bonuses, and employer paid benefits), other personal income (dividends, rental income, and interest income), and transfer receipts (social security, etc.). According to its most recent estimate, the U.S. Bureau of Economic Analysis estimates that Anchorage residents earned a total of \$12.2 billion in personal income in 2006, 5 percent more than in 2005. On average, 72 percent of personal income comes from net earnings, 15 percent from other personal income, and 13 percent from transfer receipts.

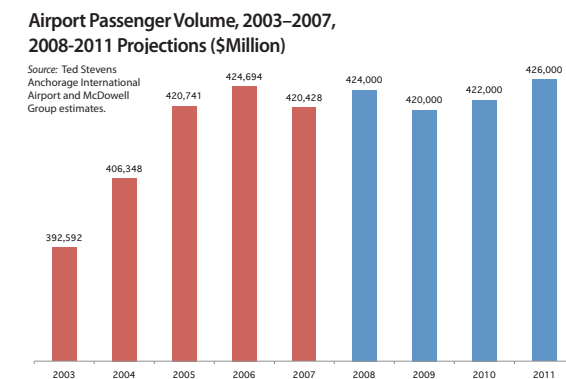
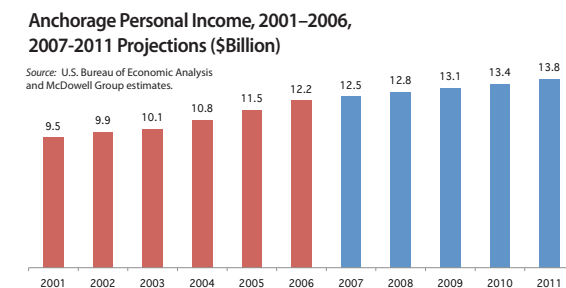
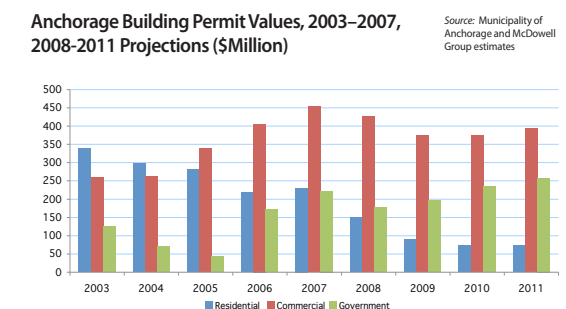
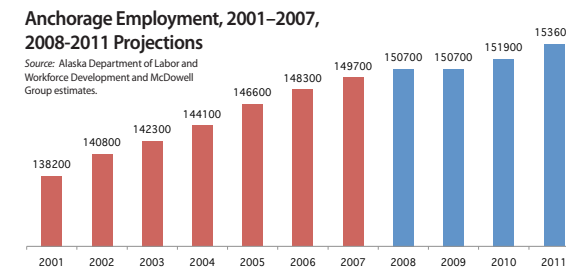
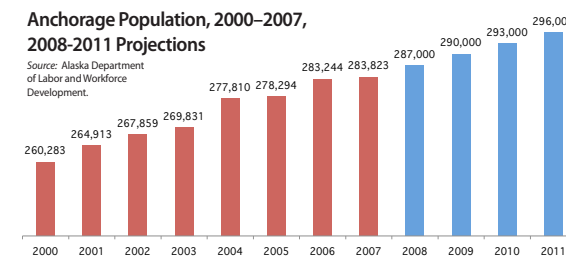
While personal income growth has been solid over the past six years, it is anticipated that growth will slow in the next three years due to lower employment growth, decreasing returns from investments in the stock market, and lower profits for local businesses. AEDC predicts personal income to grow between 1 and 3 percent annually between 2007 and 2011, lower than personal income growth over the past six years.

### Building Permit Values

The value of building permits issued by the Municipality of Anchorage indicates how much new construction activity is occurring in Anchorage. Most construction, be it commercial, residential, or government-related, requires a permit in Anchorage. Permit values are based on national construction cost estimates and a 30 percent regional multiplier to account for higher than average building costs in Alaska. Since building permit values include remodeling and demolishing, some of the permit values indicate replacement rather than new growth. This indicator provides an indirect measure of job creation in the construction sector. The figures shown in the following chart are in nominal dollars and do not account for inflation.

Cumulative permit values from the first five months of 2008 decreased in all construction sectors—residential, commercial, and government—compared to the same period in 2007. Commercial construction declined the least and is currently responsible for almost three quarters of all construction activity in Anchorage. Residential construction continues to decline since the peak in homebuilding activity in 2003. Government-related construction is currently small but is expected to rise again when FY 2009 state capital spending increases.

Over the next three years, commercial building permit values are expected to remain around current levels and residential building permit values are likely to further decline due to the tighter lending standards already implemented. Assuming continued



state government budget surpluses in the upcoming three years, AEDC expects government-related construction to increase. For 2009 and 2010, the Municipality is expected to exceed 2008 road construction spending. Overall, AEDC predicts total building permit values will bottom out in 2009 and begin to recover at a moderate growth rate of 3 percent in 2010 and 6 percent in 2011.

### Airport Passenger and Freight Volume

Airport passenger volume shows the number of passengers moving through the Ted Stevens Anchorage International Airport (TSAIA). It includes non-resident visitors and residents traveling in-state and out-of-state for vacation, business, and to visit friends and relatives.

Between January and May 2008, average monthly passenger volume at TSAIA increased 4 percent compared to the same time period in 2007. It appears that passenger travel is still strong, based on current reservation information. However, with rising fuel costs and a weakening national economy, airlines are restructuring and reducing capacity. As a result, AEDC expects passenger travel to decline in 2009 but then stabilize in 2010 and 2011.

The U.S. Bureau of Transportation Statistics reports that nationally, first quarter passenger volume grew by 1.5 percent between 2007 and 2008. However, most recent data for March 2008 shows domestic passenger traffic has decreased by 1.4 percent compared to March 2007. On the upside, the number of international passengers transported by U.S. carriers increased by 7 percent during the same time period. Favorable exchange rates, particularly for visitors from Europe, allow U.S. airlines to compensate for some of their domestic loss in business.

Assuming continued downturn in the U.S. economy (further weakening of the dollar and rising inflation), domestic air travel will weaken in 2009 even with some slightly stronger international air travel compensating for the losses.

AEDC predicts that passenger volumes at TSAIA will start to recover in 2010 and 2011, by an annual rate of 1 percent.

Following flat growth in 2006 and 2007, the air cargo business in Anchorage is also experiencing a downward trend, as would be expected with higher fuel prices and the national—and increasingly global—economic slowdown. The average monthly weight of all air cargo moved through the airport during the first five months of 2008 was 6.5 percent less than the average monthly weight transported during the same time period last year.

Trade with China continues to be an important driver for the international air cargo business at the airport. Currently, there are five Chinese and three domestic air carriers operating out of TSAIA that are dedicated to cargo from China. For TSAIA, slowing growth in emerging economies, such as China, will affect its overall throughput of freight.

In line with national industry forecasts, AEDC predicts a decline in the total amount of freight moving through the airport in 2008 and 2009, with some recovery growth of 1 percent, in 2010 and 2011.

### Port of Anchorage Freight Volume

Freight volume at the Port of Anchorage is down from its high in 2005 of 5.1 million short tons. A decrease in construction activity has contributed to the decline in port activity. First quarter freight volume in 2008 decreased by more than 5 percent compared to 2007. Volume in 2009 is expected to further decline. With slight expected increases in construction activity in 2010, AEDC expects moderate increases in freight handled at the Port of Anchorage in 2010 and 2011. By the end of 2009, the Port of Anchorage will have more than 60 acres of industrial land with deep water, rail, and road access available for development.