

UPDATE

◆ Anchorage Economic Development Corporation

January 2001 ◆

Economic Forecast sees 2,750 new jobs in 2001

By Jeff Pokorny
AEDC Research Director



Certainly, last January no one had predicted that oil and natural gas would have the amazing price runs that we have seen over the past year. While these increases have been causing some problems in the Lower 48, Anchorage has enjoyed greater than predicted growth. AEDC's fore-

cast called for the creation of 2,200 jobs in 2000. This number was reduced in July to 1,920 jobs, an increase of just 1.5 percent for the year. Although the final numbers for December aren't in yet, Anchorage appears on track to end the year with 134,000 people employed, a gain of 2,700 jobs, or 2.1 percent over 1999. Although in recent months the national economy has begun slowing fairly dramatically, Anchorage has been relatively unaffected. Employment levels that have slumped in the fall months in past years have remained fairly robust this year. The Alaska Department of Labor is finalizing numbers from the second half of 1999 and the first half of 2000, and those final numbers should be out soon.

Before moving into the individual sectors that make up the forecast, let's cover several some traditional areas:

Per-Capita Wages: Much has been made in recent years of the fact that Alaska does not enjoy the lead in per capita wages that it had as recently as 1994. On a state-wide level, this is true. Per-capita wages are now only 102 percent of the national average, down from 112 percent in 1994. Anchorage has fared slightly better, down from 129 percent to 120 percent over the same time frame, maintaining a commanding lead over the national numbers. Still, the trend is there and its something to keep an eye on. I feel that Anchorage has lagged the nation somewhat in the conversion to a service and retail oriented economy. Considering all the major

Continued on Page 4

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We appreciate the interest and support of all who attended and participated in this year's luncheon, and look forward to working with you next year.

A message from the President

By Larry Crawford
AEDC President & CEO



Several things transpired in 2000 to give Anchorage a stronger competitive position. After just two months, it appears as if 2001 could be just as successful. As the year progresses, AEDC will continue to work on some very important projects, all

aimed at meeting our mission of expanding and diversifying the local economy. I want to comment some of the events early in 2001 that make Anchorage more competitive in the global economy — not the least of which is the progress made at the airport to expand operations. I want to also discuss our strengths in high-tech and to briefly describe the role AEDC hopes to play throughout the remainder of 2001.

Ted Stevens Anchorage International Airport

The Anchorage advantage is a package deal — our strategic location to the world's markets, our oil and gas industry, general business climate, our telecommunications, our quality of life. No single facet of this package is more important than the airport. A discussion of our competitive advantages starts with the Ted Stevens Anchorage International Airport. In my opinion, some of the best business news of 2000 was the award of the new China flights that will carry cargo through Anchorage. A new route with six frequencies was awarded to UPS, and additional frequencies were awarded to FedEx and Northwest Airlines, all of which hub in Anchorage. These flights put Anchorage on China's front porch. We'll have increased abilities to reach the China markets. By having access to that market, we can attract companies that want to sell their goods in China. These China flights became possible because Anchorage has a world-class airport. Thanks to an exhaustive effort by

the airport staff and the business community in Anchorage, it looks as if the land-exchange involving Klatt Bog will proceed. AEDC played a role in that endeavor, because we realize how important it is for the airport to expand. The land exchange means the airport will be able to build new facilities, making valuable space available for cargo handlers who use Anchorage to get to Asia, Europe and North America.

The airport's contribution to Anchorage was 12,000 jobs and \$400 million annually, according to a 1998 study at UAA. One of the brightest achievements in 2000 at the airport was the opening of the Alaska CargoPort. Cargo landings at Ted Stevens AIA were up 15 percent in 2000 (compared to a 2 percent growth in passenger landings).

Telecommunications

It doesn't take long for a prospective company to ask about our telecommunications capacity. I'm glad we can tell them that we have two new fiber-optic lines connecting Alaska with the Lower 48, that we have 16 internet service providers in Anchorage, and that we have more than half a dozen cell- and digital-phone service providers. Because of the state's dimensions, Alaska and Anchorage have been on the cutting edge of electronic communications. That strengthens our competitive position in the eyes of companies that are thinking about locating in Anchorage. Companies in Anchorage are continually improving their high-tech capabilities. For instance, in February GCI announced that technological improvements had increased its Internet connection capacity by 33 percent. This is the fourth such advance of GCI's Internet capacity in the past 24 months. This is a message we share with prospective companies.

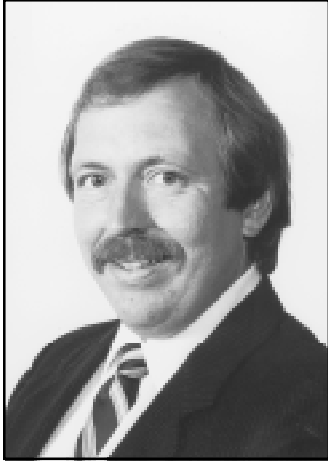
2001 Projects and Programs Military

We will continue to make progress in pursuing military opportunities. We have made progress in getting people to think of Anchorage. Growing out of this effort is the very real possibility that Anchorage companies can someday provide a higher proportion of the military's aviation fuel. Perhaps we will someday have

Continued on Page 7

A message from the Board's 2001 Chair

By James M. Gorski
AEDC Board Chair



As the new chair for the Anchorage Economic Development Corporation Board of Directors, I have some observations I would like to share. There is a lot to be learned from this past year's economic and public performance. The price of oil, for the majority of the year 2000, was at record lev-

els and lessened, at least for a short period of time, state budgetary concerns. The voters of the State of Alaska likewise rejected a statewide property tax limitation, yet the undercurrent which gave rise to the initiative in the first place remains as a viable reminder that government and the citizenry must work together in an effort to insure a fair and stable tax structure which also allows us to enjoy the public amenities which we, as Alaskans, wish to see.

The Anchorage Economic Development Corporation plays an important role in helping our community grow and address some of the important issues raised last year. AEDC welcomes the oil industry expansion into the gas market, and increasing oil production, but we all know that oil and gas alone will not grow our state and community. AEDC's mission is to encourage growth and diversity in the Anchorage economy, promote a favorable business climate and improve the standard of living of Anchorage residents. Toward that end, AEDC works closely with the mayor's office, the State of Alaska, and, more recently, the Matanuska-Susitna Borough. In addition, AEDC counts among its investors nearly 180 private compa-

nies. Collectively, this unified public/private corporation works as a front line facilitator, which seeks and encourages new business investment and opportunity within our community.

One of the major initiatives that we will be pursuing this year is to work more closely with our private investors and governmental contacts to solicit recommendations and referrals on potential businesses that our community should pursue. AEDC has a top-notch staff that routinely follows up on the many inquiries it receives from around the country as well as locally. However, in today's competitive, worldwide economic environment, we need to be even more proactive. As a result, if you come upon opportunities that you feel would be worthwhile for AEDC to contact, please give us the chance to do so.

Economic development doesn't just happen. It requires diligent effort, competent and reliable support data, and appropriate personal contact and follow up. The critical catalyst is often an introduction. One of our greatest strengths is the existing businesses and people of the state. The referral possibilities from this network are astonishing when one looks at the gross business volume for the State of Alaska. Thus, we ask for your support and input in helping AEDC find and create business opportunities within the Municipality of Anchorage and its adjacent areas. We welcome the oil and

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gas development that the producers in the State of Alaska are pursuing and while this provides the State a bit of breathing room, the work of the AEDC does not slow down; as there is always more than can be done to diversify and grow our economy. So, as we go into the new year, one of the easy

and concrete ways for you to help economic development is to keep the AEDC in mind and alert AEDC staff of potential businesses which may benefit from not only our outstanding global logistics location, but as well from our outstanding work force of fellow Alaskans.

Economic Forecast sees growth in almost every sector; Continued from Page 1

chains that have located in Anchorage in the last decade — chains that are well established in the Lower 48 — and that these sectors are where the majority of our new jobs have been created over the last several years, a lower per capita wage was to be expected. There are several things that may reverse this trend in the coming years, such as an increased presence from the cargo airlines, with high paying pilot positions in Anchorage along with higher paying manufacturing jobs taking advantage of the transportation infrastructure.

Stock Market/National Economy: In the 24 days following the November 7 presidential election, \$1.82 trillion evaporated from the stock market, with additional losses since then. Even serious politicians would agree that's a lot of money. Some feel that this has led to a small crisis of confidence: people just aren't going to spend money when they feel they don't have as much wealth as they once had, or if they have lost confidence in the stock market to replace what they are spending.

With that as background, here's a look at the forecast for the rest of 2001:

Mining Sector

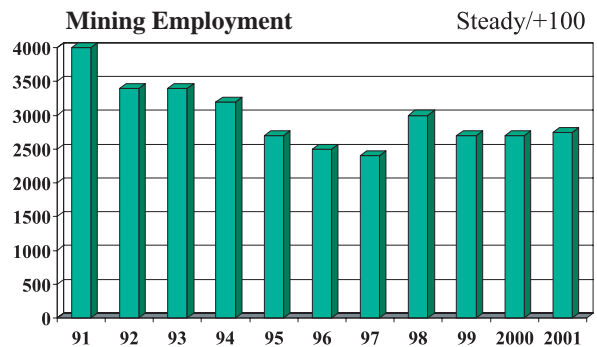
Realignment of oil and gas ownership on the North Slope is now largely complete — and was accomplished without major job losses, contrary to the initial indications. Oil and gas prices were up sharply in 2000, and although oil has come down sharply (more so than I expected it would) gas remains at all time highs. These higher prices have stemmed the historical employment decline in the mining sector, and optimism has returned for the first time in several years. The official state forecast for oil prices is \$27.23 for calendar 2001, with prices declining steadily over the next several years before settling at just over \$17. Its interesting to note that even with the higher prices, Anchorage has not seen a spike - as the rest of the state has in oil patch employment. It is important to note that there is evidence of a pickup in the oil patch . . . planes are full of workers flying to the slope for the first time in a long time, and that creates a lot of confidence and economic activity right here at home. That confidence is reflected in virtually every other sector of our economy. Exxon/Phillips/BP have pooled their resources and are spending \$75 million to study the proposed gas pipeline and

work out the most economical route. As has been said many times over, the stars seem to be aligned for a pipeline.

There remain two cautionary notes to the stories in oil and gas:

1. The Congressional Budget Office estimates that there is a 35 percent chance that oil prices will average less than \$15 a barrel for a full 12-month period between now and 2003.

2. Although it would seem certain that a gas pipeline will be built in the not to distant future, the impact that it will have on our economy will be much smaller than the effect that the oil pipeline had. Alaska is simply a more mature, robust economy 20 years after Prudhoe. A lot of the infrastructure that had to be created to build an oil pipeline already exists this time around.

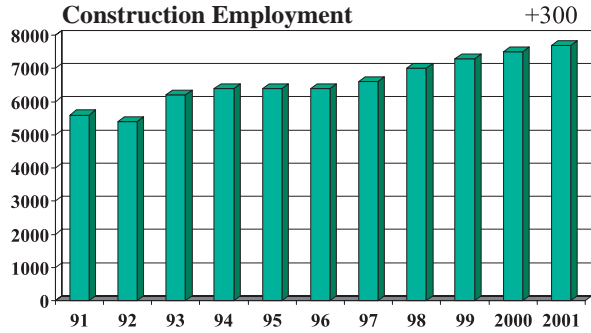


The long-term trend in the mining sector has been a decline in employment, which has leveled off somewhat in recent years. I forecast this sector to be steady to slightly higher in 2001.

Construction Sector

2000 was another great year in this sector. Anchorage should have exceeded the \$500 million mark in permitted construction when the final numbers are tallied. Expansions continue at the airport, and the local hospitals. Work continues on the Anchorage jail, and construction activity at the Northstar Stevedore Terminal is going full tilt. The State Transportation plan calls for \$104 million in road improvements in Anchorage in 2001, and a new high school is being built, along with several schools scheduled for remodeling. Also in the planning process is a 23 story tower in downtown, a 10 story tower in midtown and new Home Depot Stores in Anchorage and Wasilla. Statewide, one contractor I spoke with said he expects up to \$100 million worth of new schools to be permitted in the coming year, with a

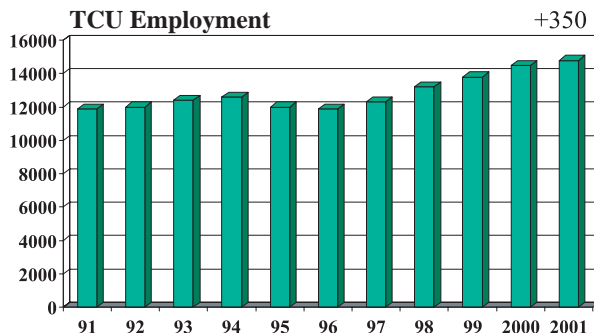
lot of that work falling to Anchorage contractors. In addition to a \$100 million hospital on Fort Wainwright in Fairbanks, there will be extensive construction of family housing at Elmendorf. One cautionary note for the sector is the shortage of skilled workers — plumbers and electricians being the two most frequently mentioned.



Construction has been in a long uptrend, and I don't expect 2001 to be any different, adding some 300 new jobs in 2001.

Transportation/Communication/Utilities

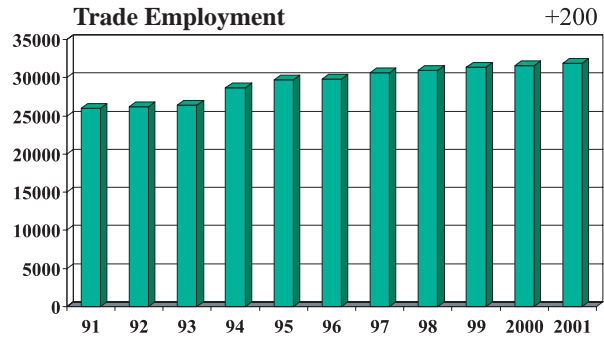
Overall, this sector will remain positive in 2001, despite some recent bad news. Reeve Airways shut down commercial operations in December, with the loss of over 170 jobs in Anchorage. Anecdotal evidence suggests that many of those affected have already been absorbed by other airlines — good news for the employees and evidence of the strength of the job market here in Anchorage. December news from the Department of Transportation absolutely could not have been any better for Anchorage. FedEx and Northwest were all granted additional routes into China, and UPS was granted six flights — as the lone new carrier being allowed to serve China. All of these flights will come through Anchorage, which should lead to significant numbers of new jobs for Anchorage in 2001. Chugach Electric is making significant investments in upgrading their natural gas fired electric generation capabilities in 2001. Consumers can expect to see electricity price increases on the order of 9-13% due to the increased natural gas costs.



This sector has been in a long uptrend, reflecting Anchorage's move to prominence as a major cargo hub. The recent announcements will only strengthen our position in this market, and even accounting for the job losses at Reeve, I expect the sector to add 350 new jobs this year.

Trade Sector

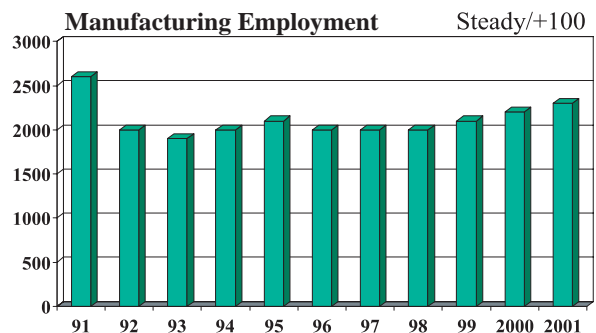
The recent loss of Alaska Marketplace and its 100+ jobs in the Anchorage area start this sector off in 2001 on a down note. The big box store expansion into Anchorage has slowed, and except for the Home Depot expansions, not much new major retail is expected to come online in 2001. The staffs for these two stores probably won't be hired until late 2001 at the earliest, too late to have much effect on employment levels in 2001. The buying power of the Anchorage consumer has increased only 8% over the last two years, and consumer debt remains at all time highs.



This sector has also been in a steady uptrend the last decade, a reflection of the big box expansion and the other new chains that have arrived in Anchorage. This year will also be up... but not as much. I forecast between 100 and 200 new jobs for 2001.

Manufacturing Sector

Manufacturing has seen slight increases in employment the last several years. 2001 will be no different, as ASI is expected to begin production again this month. ASI has said that it expects to hire approximately 100 work-



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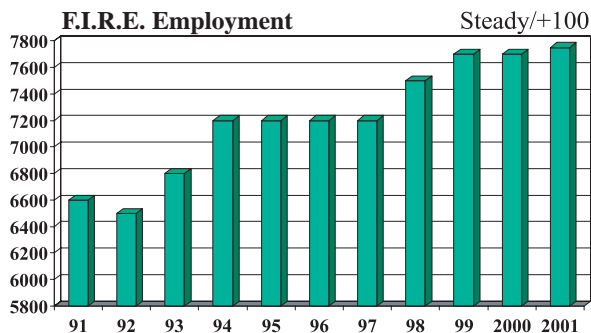
Economic Forecast sees growth in almost every sector, Continued from Page 1

ers this year. The continued prominence of our airport in cargo operations should enhance our ability to attract manufacturing and repair operations - leading to the hope that the future will be better in this sector.

All the gains in this sector for 2001 are again based on ASI. We have been disappointed in the past, so I am calling this sector flat to up 100 jobs for 2001.

Finance Sector

2000 was an interesting year in this sector. The Wells Fargo/NBA merger will be completed this coming year, and a number of back office jobs are expected to be eliminated in 2001. Existing home sales were down more than 10 percent in 2000 as higher interest rates may have put a damper on sales. New home construction was down slightly from 1999 and substantially from 1998, and the average permitted value of a new home built in Anchorage last year was \$197,000. Some brokers have indicated that buyers are being pickier than usual - opting to stay in their current properties as a lack of inventory in Anchorage makes finding what they want harder than usual. Evidence suggests that the housing market is quite robust out in the Mat Su valley, where consumers are getting more house for their dollar. Rates were above 8 percent for a good portion of the year, falling below that late in the year, and ending the year in the 7.25 percent range for a 30-year fixed mortgage. Hopes for further rate cuts in 2001 appear well founded, as the Federal Reserve cut rates a full point in January.

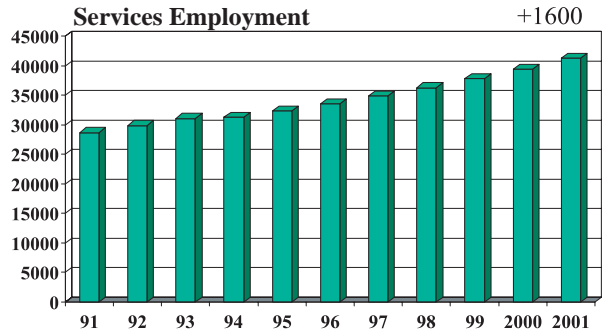


I expect 2001 to be inline with 1999 and 2000, similar to the pattern that existed in the mid 1990s, I am forecasting steady to +100 jobs for this sector in 2001.

Services Sector

Reflecting the nationwide trend to a service based

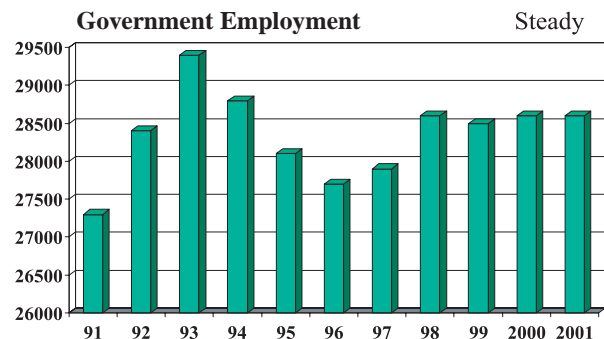
economy; this sector will lead again in 2001. Anchorage has seemed to lag the national trend slightly, allowing me to forecast large gains in this sector even as the national economy is slowing somewhat. Healthcare continues to expand in Anchorage, and along with the increase in the visitor industry, computer service and temporary employment services are combining to make this another good year.



In a steady uptrend for the last decade, this sector is expected to add 1600 jobs in 2001.

Government Sector

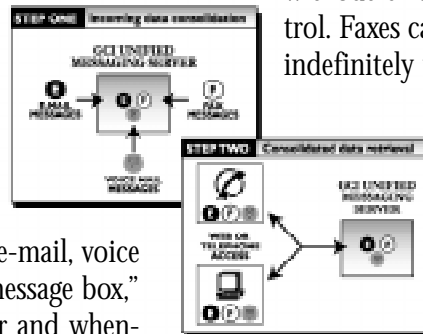
Government employment has held relatively steady over the past several years. The failure of the tax cap in November removed an air of uncertainty in the future employment levels of local government. Anchorage is well positioned to benefit from an increased Department of Defense presence as we scale back our presence overseas. The Bush Presidency makes a strategic missile defense system in Alaska more likely, and although that will benefit the rest of the state more than it will Anchorage, some of the benefit will undoubtedly accrue to Anchorage.



Continued privatization in the health care fields and increased efficiencies in local government will result in stable to slightly decreased employment levels in 2001.

GCI Introduces Unified Communications

Today, being in business means being in touch. And being in touch means never missing a message — if you don't want to. Today, that is becoming increasingly difficult as the means and methods of messaging are increasing almost as fast as they pile up. Pitney Bowes reports that the average number of e-mail, voice mail and fax messages received daily by business users has increased to more than 200.* While the sheer number is staggering, each one needs attention because each message is a potential customer, lead or investor. To address this growing challenge, GCI is introducing a unified communications service designed to consolidate e-mail, voice mail and fax messages in a “virtual message box,” which users can access from wherever and whenever they choose. Interested in retrieving your email while riding in a taxi to the airport? All you have to do is dial the virtual message box with your wireless phone and any emails that you've received will be read back to you using the latest text-to-voice recognition technology. What if you're in an off-site meeting and you are expecting an important phone call at the office? With unified communications, you can actively screen all of



your calls and pick-up only when necessary. GCI's unified communication service enables users to easily control their accessibility by allowing all calls to follow users to another number, a series of numbers, or directly to voice mail. As for message retrieval, one number is used to review, listen and respond to voice and email. In addition, calls can be returned directly from voice mail without exiting. Faxes, too, can come under control. Faxes can be received electronically and stored indefinitely to be viewed later or forwarded to any e-mail address. “GCI's unified communications service is an integral component of managing the volume of messages that business people receive each day,” said Andy Coon, GCI vice-president of sales. “Being instantly connected with the people you need to be connected with allows Alaskans to stay competitive on a global basis.”

Available in first quarter, 2001, GCI's unified messaging service will range between \$10-25 a month, based upon the specific features ordered.

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President's message, Continued from Page 2

maintenance centers for military aircraft. Those are possible developments that came from our study of military logistics. Because of our meetings with the military decision-makers regarding the logistics hub, they are better informed about Anchorage — so our position has been strengthened in terms of future opportunities.

Industrial Park

We need an industrial park that has unobstructed access to the airport and to the Port of Anchorage. Companies that we talk to ask about facilities that can handle warehousing and light manufacturing. An industrial park should be at the top of our project list.

Natural Gas

Prospective businesses also ask about our energy situation. To that end, we have supported a study group looking at Cook Inlet natural gas supplies. Every business

person in this city ought to be concerned about natural gas. And, if we are facing shortfalls and if the gas pipeline is built out of the North Slope, it makes sense to get Anchorage represented in the planning, so that our vital natural gas service is not jeopardized.

New Business Development

AEDC is in the process of focusing on the details of a Strategic Marketing Plan. We will identify the industries that could benefit most from our advantages. We will target specific companies inside those industries. We've made progress in taking our message to the Outside — that Alaska is a great place to live and do business. AEDC's message along this line is that we have assets and capabilities here that companies don't always know about. We'll continue sharing that message in 2001.




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