



Anchorage Business Confidence Index Survey

Prepared for:

*Anchorage Economic
Development Corporation*



Research-Based Consulting

Juneau
Anchorage



January 2009

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Prepared by:



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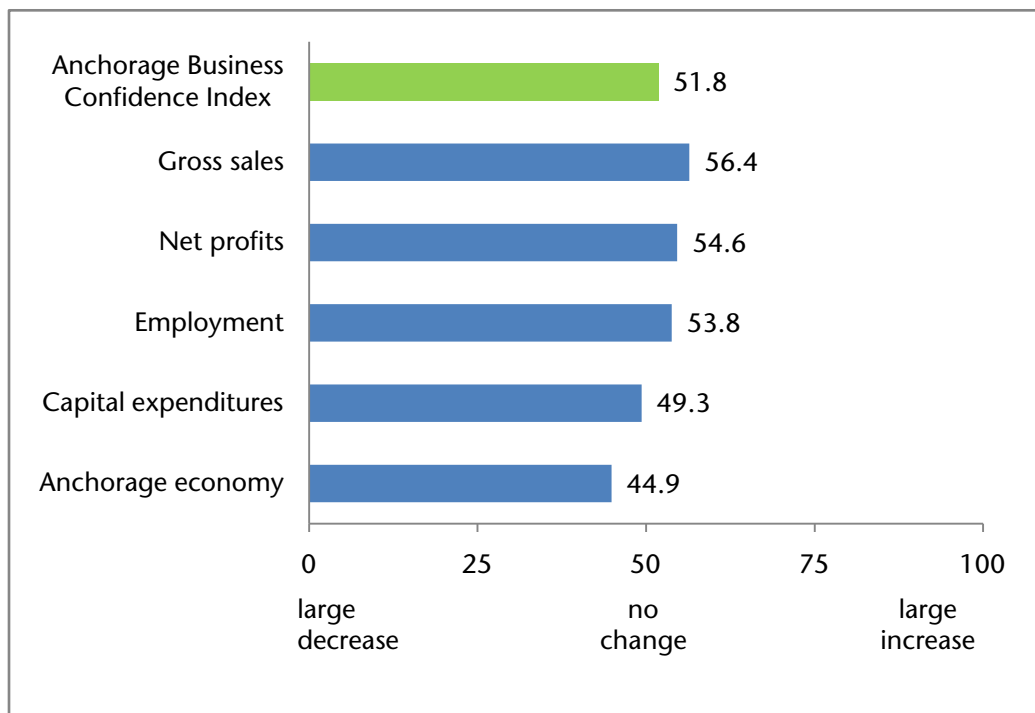
Summary of Key Findings

This report presents the findings from an Anchorage Economic Development Corporation business survey conducted by the McDowell Group at the end of 2008. The purpose of the survey is to assess factors that affect Anchorage businesses and the overall economy, and derive a statistical measure of business confidence.

The Anchorage Business Confidence Index for 2009 is 51.8, indicating that the business community anticipates nominal growth when compared to last year. (An index between 51 and 100 indicates a positive outlook, while an index below 50 shows a negative outlook.)

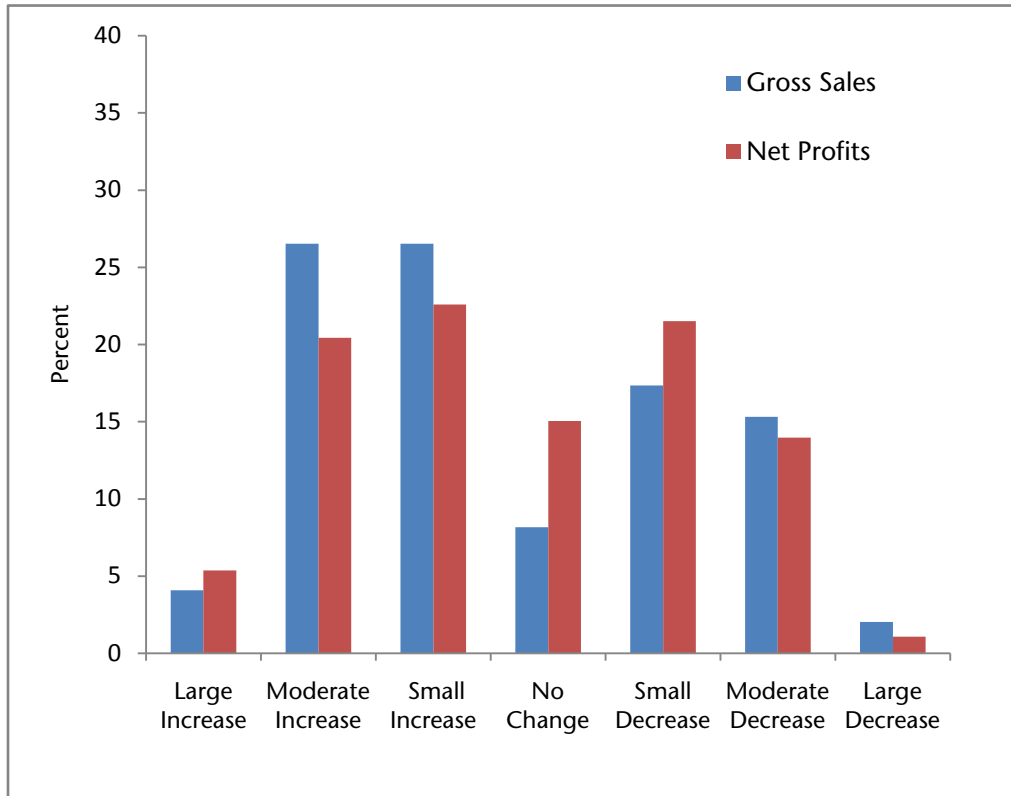
Respondents forecast small increases in several aspects of their own business or organizational activity. Opinions about gross sales reveal a confidence index of 56.4. The confidence index for net profits and employment is 54.6 and 53.8 respectively. Survey participants expect a very minor decrease in capital expenditures in 2009 (confidence index is 49.3).

Anchorage Business Confidence Indices

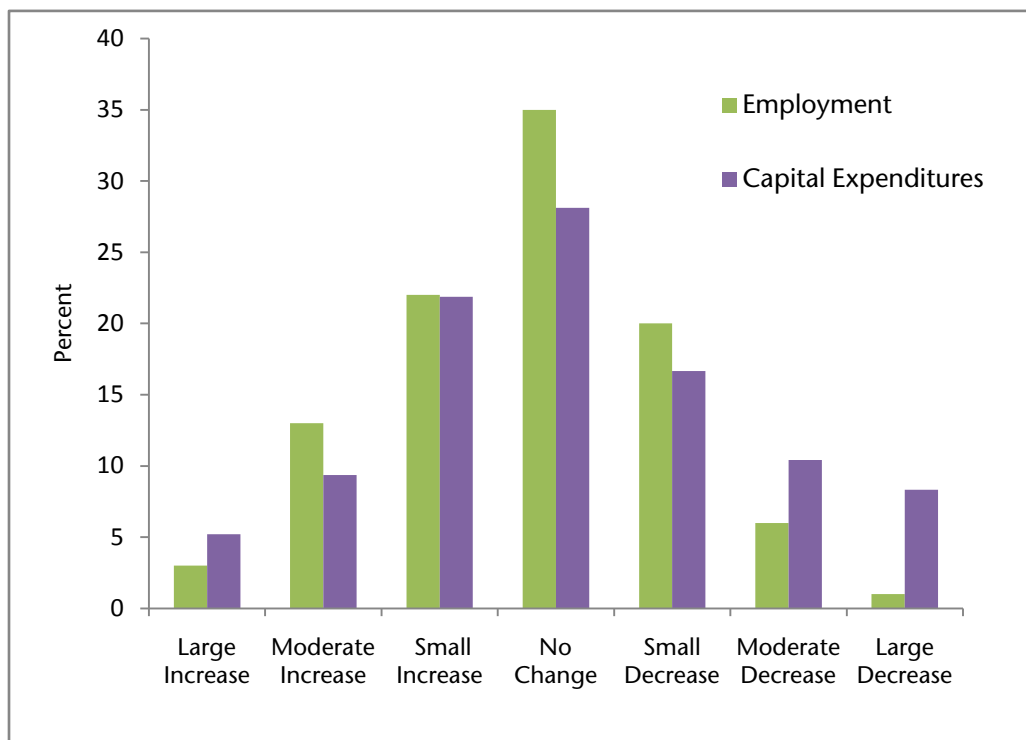


As shown in the charts on the following page, respondents are somewhat more confident about increases in gross sales in the coming year when compared to expectations about net profits. Expectations for capital expenditures and employment in 2009 mirror each other, where the most frequently mentioned responses are "no change," "small increase," followed by "small decrease."

Expectations for Gross Sales and Net Profits in 2009



Expectations for Employment and Capital Expenditures in 2009



Other key survey findings include:

Energy prices are perceived as the most significant barrier to future business growth. Nearly half of all respondents also report that high energy prices led to increased prices for services and products they offered.

While nearly 60 percent of respondents expect the Anchorage economy to fare worse in 2009 compared to 2008; most of these responses were categorized as “slightly” worse (47 percent). Expectations are brighter for Anchorage than they are for the state as a whole (64 percent expect economic declines).

Respondents believe that the most important project to the Anchorage economy is the Alaska gas pipeline, followed by a natural gas pipeline from the North Slope to Cook Inlet and workforce development.

Introduction and Methodology

The Anchorage Economic Development Corporation (AEDC) contracted with McDowell Group, an Alaska research and consulting firm, to conduct a survey of Anchorage businesses and organizations. The purpose of the survey was to assess factors that affect Anchorage businesses and the overall economy, and derive a statistical measure of business confidence.

The survey asked about barriers to growth, the effect of high energy costs, plans for capital improvements, and the importance of business development and infrastructure projects. A business confidence index was calculated from performance expectations for gross sales, net profits, employment, capital expenditures, and opinions on how well the overall Anchorage economy will fare in 2009. An index above 50 indicates a positive outlook versus an index below 50 shows a negative outlook. The maximum possible index is 100.

McDowell Group designed the survey instrument in consultation with AEDC staff. The web-based survey was launched on December 4, 2008 and survey responses were accepted over a five-week period. AEDC sent a series of emails to its investors, providing information and a link to the survey website. The Anchorage Chamber of Commerce also encouraged participation in the survey by including information and a link to the survey in electronic newsletters.

A total of 103 organizations responded to the survey, representing a broad cross-section of the Anchorage business community in terms of size and business sector. Responses were particularly strong in the transportation, professional services, engineering/architecture and oil/mining sectors. (Note: some columns do not equal 100 percent due to rounding when percentages were calculated.)

Business and Community Leader Opinions

2008 Business Performance

- Sixty percent of respondents reported that their net profits increased in 2008 when compared to 2007.
- Eleven percent of respondents experienced no change in net profits in 2008, compared to 2007.
- Twenty-one percent of respondents had decreasing net profits in 2008 when compared to the prior year.

In terms of net profits, how did your business perform in 2008 compared to 2007?

	Percent
Large increase	11%
Moderate increase	28
Small increase	21
No change	11
Small decrease	12
Moderate decrease	2
Large decrease	7
Not applicable	8

Expectations for 2009

- In terms of gross sales (or operating budgets) more than half of businesses (55 percent) expect an increase in 2009, with 4 percent expecting a large increase. One-third of respondents expect gross sales to decrease and 8 percent anticipate no change.
- With respect to net profits, 45 percent of respondents expect an increase in 2009, with 5 percent expecting a large increase, 18 percent a moderate increase and 22 percent a small increase. One-third of respondents expect net profits to decrease in 2009, while 14 percent of respondents anticipate no change.
- Nearly 40 percent of businesses anticipate hiring more workers in 2009, with 3 percent expecting a large increase, 13 percent a moderate increase, and 22 percent a small increase. Of the 26 percent that expect job cuts, most anticipated small decreases. A third of respondents (34 percent) anticipate no change in employment in 2009.
- Responses are fairly evenly distributed regarding capital expenditures in 2009: 35 percent anticipate an increase while 34 percent forecast a decrease. Twenty-six percent expect no change.

For each of the following business measures, how do you expect your organization to perform in 2009 compared to 2008?

	Gross sales/ annual operating budget	Net profits	Employment	Capital expenditures
Large increase	4%	5%	3%	5%
Moderate increase	25	18	13	10
Small increase	26	22	22	20
No change	8	14	34	26
Small decrease	17	19	19	16
Moderate decrease	15	13	6	10
Large decrease	2	1	1	8
Not applicable	4	9	2	6

Barriers to Growth

Respondents were given a list of potential factors that may inhibit growth of their business or organization and were asked to rate the extent of each barrier.

- Energy prices and the availability of professional and technical workers are considered the two most significant barriers to growth, with 63 percent rating energy prices and 62 percent rating the availability of skilled employees as significant or moderate barriers.
- Just over half of all respondents stated that federal regulations are a barrier to growth of their organization, while 46 percent of respondents believed this to be the case with state regulations.
- While the availability of semi-skilled workers was a significant barrier for only 3 percent of respondents, the issue represented a moderate or significant barrier for 47 percent.
- Respondents were also asked if there were any other barriers that prevented their organization from achieving growth. Most of those responses included general comments regarding economic and financial uncertainty.

To what extent are the following factors a barrier to your organization's growth?

	Significant barrier	Moderate barrier	Not a barrier	Not applicable
Energy prices	23%	40%	29%	8%
Availability of professional/technical workers	19	43	30	9
Federal regulations	19	32	37	12
State regulations	18	28	44	11
Federal taxes	13	14	50	23
Access to capital	12	23	53	12
State taxes	10	11	53	27
Municipality of Anchorage regulations	10	23	52	15
Cost of commercial/lease rental property	9	25	52	15
Municipality of Anchorage taxes	8	20	53	19
Transportation linkages with suppliers and markets	6	12	64	18
Availability of entry-level workers	5	26	59	11
Availability of semi-skilled workers	3	44	41	12

Effect of High Energy Costs

- Half of the respondents reported high energy costs resulted in increased prices.
- Some businesses were forced to reduce their services or employment (15 percent and 14 percent respectively).
- Respondents were also asked if they made any other changes due to high energy costs; one-third said yes. Most of those other changes involved postponement of capital investment, operating cost reductions, and other steps to improve efficiencies.

Did high energy costs lead to any of the following changes in your organization?

	Percent Responding Yes
Increased prices for services/products offered	49%
Reduced services/products offered	15
Reduced employment	14
Made Other Changes	
No	66%
Yes	34

Capital Improvements Plans

- One-third of respondents anticipated capital improvement projects in the next two years; the majority of these organizations expect their plans to lead to new job creation. Growth was anticipated by organizations in virtually all sectors and size.
- Among those respondents that did not have capital improvement plans in the near future, one-quarter said the recent economic climate had affected their growth plans.

Are you planning significant capital improvements in the next two years?

	Percent
Planning Capital Improvement	34%
Will create jobs	74
Will not create jobs	26
Not Planning Capital Improvement	66%
Recent economic climate did not affect plans	74
Recent economic climate affected plans	26

Expectations for the Economy in 2009

- Nearly two-thirds of respondents expect the Alaska economy to be worse in 2009, with 44 percent believing it will be slightly worse, 17 percent moderately worse, and 3 percent much worse.
- Twenty-one percent believe the Alaska economy will do better in 2009, compared to 2008.

How do you think the overall Alaska economy will fare in 2009, compared to 2008?

	Percent
Much better	3%
Moderately better	5
Slightly better	13
No change	14
Slightly worse	44
Moderately worse	17
Much worse	3

- Nearly sixty percent of respondents expect the Anchorage economy to fare worse in 2009, with the largest percentage believing it will be just slightly worse (47 percent).
- Twenty-seven percent of respondents believe the Anchorage economy will do better in 2009, compared to 2008.

How do you think the Anchorage economy will fare in 2009, compared to 2008?

	Percent
Much better	3%
Moderately better	8
Slightly better	16
No change	14
Slightly worse	47
Moderately worse	11
Much worse	1

Importance of Infrastructure and Economic Development Projects

- Respondents believe the Alaska gas pipeline to be the most important project for the Anchorage economy, followed by the natural gas pipeline from the North Slope to Southcentral Alaska, and workforce development and training.
- Business leaders were given the opportunity to rate each project individually and then identify the most important project among the full list. The relative importance of the top three projects remained consistent. (See table on the following page.)
- When asked if there were other projects that were important for the Anchorage economy, 23 percent said yes. Many of those other projects focused on enhancement of Alaska’s oil and gas industry in Cook Inlet and on the North Slope.

How important do you think the following projects are for the Anchorage economy?

	Very important	Somewhat important	Not important
Alaska gas pipeline	89%	11%	0%
Natural gas pipeline from North Slope to Cook Inlet	78	19	3
Workforce training	57	39	4
Anchorage port expansion	49	41	9
Anchorage airport expansion	40	47	13
Seward Highway to Glenn Highway Connection (H2H)	29	46	25
Commuter rail between Anchorage and Mat-Su	27	37	36
Industrial park development	26	53	21
Knik Arm Bridge	20	31	49
Anchorage neighborhood revitalization	20	57	23
Update of Title 21 municipal land use plan	20	52	28

Which of these projects do you think is most important for the Anchorage economy?

	Percent
Alaska gas pipeline	56%
Natural gas pipeline from North Slope to Cook Inlet	25
Workforce training	7
Knik Arm Bridge	4
Seward Highway to Glenn Highway Connection (H2H)	2
Anchorage port expansion	2
Anchorage airport expansion	1
Commuter rail between Anchorage and Mat-Su	1
Industrial park development	1
Anchorage neighborhood revitalization	-
Update of Title 21 municipal land use plan	-

Respondent Characteristics

Business Sector

- The transportation and professional service sectors had the largest number of survey respondents.
- Transportation respondents included a wide array of publicly and privately owned business operations, multiple modes of transportation, and business sizes ranging from fewer than 50 employees to more than 500 employees.
- Professional services respondents included legal, accounting, consulting and other similar business services. These businesses were most likely to have between 10 and 49 employees, although nearly 20 percent were larger.
- The mining/oil category included production and support services.
- Health care, while representing only 2 percent of the survey respondents, included large Anchorage employers.

Which sector best describes your organization?

	Percent
Transportation	16%
Professional services	14
Engineering/architecture	11
Mining/oil	9
Real estate	7
Tourism/hospitality	7
Non-profit	6
Media/communication	5
Wholesale/retail trade	5
Construction/maintenance	4
Finance/insurance	3
Government/military	3
Utilities	3
Health care	2
Information technology	2
Arts/education	1
Fishing/seafood	1
Manufacturing	1
Other	3

Organization Size

- Businesses reporting more than \$10 million in annual gross sales (or annual operating budgets for non-profit organizations) represented 47 percent of all respondents.
- The second largest group of businesses (18 percent) reported between \$1 million and \$5 million in annual gross sales (or annual operating budgets).

Which of the following categories best describes your organization's annual gross sales or annual operating budget?

	Percent
Under \$250,000	10%
\$250,000 to \$500,000	4
\$500,000 to \$1 million	7
\$1 million to \$5 million	18
\$5 million to \$10 million	13
More than \$10 million	47
Don't know	3

Current and Peak Employment

- Nearly two-thirds of respondents (64 percent) currently employ up to 49 people on a part-time or full-time basis. Similarly, 61 percent of respondents employ up to 49 people during their peak periods.
- Ten percent of respondents currently employ 500 or more people on a part-time or full-time basis. During peak periods, 12 percent of respondents employ 500 or more.

How many people (full-time and part-time) do you employ in Anchorage currently vs. in a peak month?

	Percent Current	Percent Peak Month
Under 10	26%	23%
10 to 49	38	38
50 to 99	8	10
100 to 249	9	10
250 to 500	9	8
500 or more	10	12
Don't know	1	0