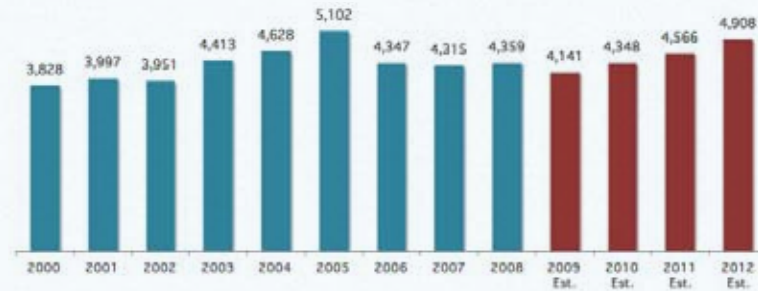


2009-2012

AEDC Three-Year Economic Outlook

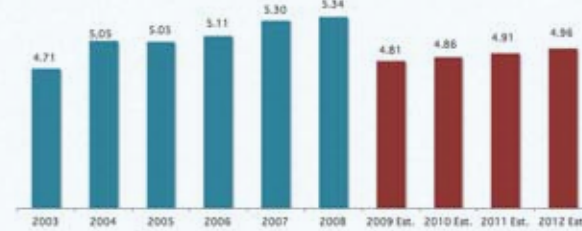
Port of Anchorage Annual Dock Tonnage, 2000-2008, 2009-2012 Projections (Thousand Short Tons)

Source: Port of Anchorage and McDowell Group estimates.



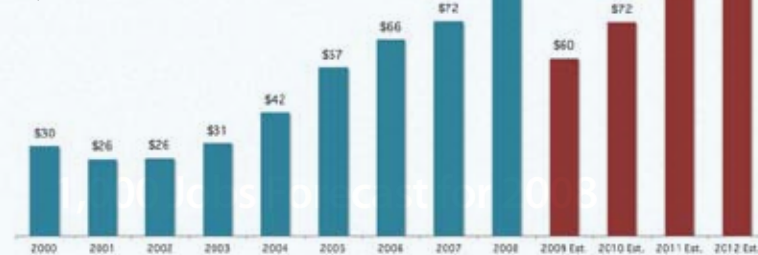
Airport Passenger Volume, 2003-2008, 2009-2012 Projections (Millions)

Source: Ted Stevens Anchorage International Airport and McDowell Group estimates.



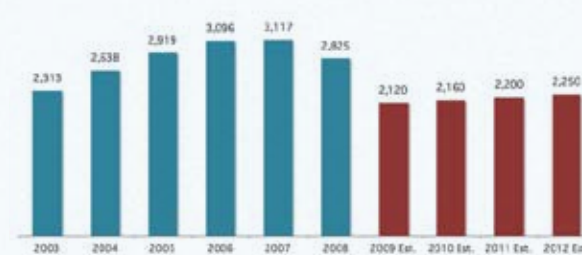
Annual Average WTI Crude Oil Prices, 2000-2008, 2009-2012 Estimates (\$/Barrel)

Source: Energy Information Administration and McDowell Group estimates.



Anchorage Airport Freight Volume, 2003-2008, 2009-2012 Projections (Thousand Tons)

Source: Ted Stevens Anchorage International Airport and McDowell Group estimates.



During the first five months of 2009, air passenger volume at Ted Stevens Anchorage International Airport dropped 10 percent, mirroring national trends. Similarly, the May room occupancy rate fell by 15 percent compared to the same period last year. While accommodation bookings for the remainder of the summer appear to be strong, aggressive discounting of peak season room rates is expected to reduce gross revenues and bed tax receipts by approximately nearly 20 percent. Bed taxes support Anchorage marketing programs and convention center operations.

According to the Anchorage Convention and Visitors Bureau, convention sales are strong throughout the rest of 2009. However, 2010 sales are down by approximately 10 percent. Advance bookings for 2011 and 2012 indicate a full recovery in this market segment.

Adding to the downward trend in 2010, several cruise lines announced significant changes in their Alaska ship deployment, reducing the number of ships sailing in Alaska waters. Further reductions in the number of Anchorage visitors will be caused by itinerary changes. As a result, Anchorage is projected to lose approximately 150,000 cruise passengers in 2010. Decreases will be felt by numerous businesses, including air carriers, ground tour operators, accommodations and rental car companies.

A new development for 2010 is Holland America's 14-day cruise itinerary, which will include Anchorage as a port of call on nine

sailings. Passengers will be able to patronize local restaurants, retail establishments, and day tours.

The decrease in room rates and occupancy rates presents the Anchorage Convention and Visitors Bureau with an opportunity for attracting new or expanded tour options for the Anchorage market. The Bureau is working with local suppliers to aggressively promote the community to package tour operators and convention planners in the coming years.

Oil Prices

After a sharp decline in the second half of 2008 and rebounding somewhat in the first half of 2009, worldwide petroleum markets are expected to flatten out later this year and hold steady through 2010 as the overall economic outlook improves. The Energy Information Administration (EIA) projects a slight increase in global consumption in 2010, outpacing production increases and generating a net growth in demand. This net growth will have a negative effect on the world's higher-than-average oil inventories and push oil prices upwards between 2009 and 2010.

Reflecting provisions of the federal government's American Recovery and Reinvestment Act, as well as recent changes in the general economic outlook for the US economy, EIA's short-term energy outlook estimates the spot price of West Texas Intermediate (WTI) to

be \$60 per barrel in 2009 and \$72 per barrel in 2010. Alaska North Slope West Coast spot price is generally about \$2.50 less than WTI spot price.

In the longer-term, as global economies recover, oil prices are likely to continue their upward trend (though prices are expected to remain below 2008 record levels for several years). Based on Alaska Department of Revenue projections, oil prices are expected to grow 15 percent in Fiscal Year 2011 and 12 percent in Fiscal Year 2012. Based on this trend, AEDC predicts a barrel of oil will cost \$83 in 2011 and \$93 in 2012.

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.

This economic forecast prepared for AEDC by:



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.

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.

This is an unusual period in our history in terms of national and international economic conditions, in energy prices, and in equity and debt markets. Predicting future events is difficult under the best of circumstances; however, there have been few periods in the recent past when the future is so uncertain. In such an unpredictable global

economic environment, and with Alaska and Anchorage so closely linked to national and global economies, forecasting local conditions is a real challenge. 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.



AEDC
Anchorage Economic
Development Corporation

Population

Population change is often associated with changes in an economy, usually providing a reliable barometer of economic health. Anchorage's population reached 284,994 in 2008, 0.9 percent above 2007. Over the past decade, the city's population has grown at an annual average rate of 1.1 percent. Given slowing economic conditions in Alaska and Anchorage, some slow-down in population growth could reasonably be expected. However, the national recession and very high unemployment rates in other states (9.4 percent unemployment nationally in May) are likely pushing job seekers to Alaska, and keeping Alaskans who have lost jobs from leaving the state. The result is population growth perhaps out of sync with economic growth. How long this trend persists will depend on when the labor market in the Lower 48 stabilizes and rebounds, and on conditions in the Alaska labor market.

Since 2000, most of Anchorage's population increase has been due to natural increase. According to the Alaska Department of Labor and Workforce Development, over the 2000 to 2008 period, there were 25,578 more births than deaths in Anchorage (including 3,098 between 2007 and 2008). During the same eight-year period, net migration was -867, that is, approximately 900 more people moved out of Anchorage than moved to Anchorage. AEDC expects natural population growth to continue and net migration to turn positive (more people moving in than out), resulting in continuing slow population growth in Anchorage in the near term, rising at about 0.5 percent annually over the next three years.

Employment

In 2008, Anchorage employment grew by 1.7 percent, the 20th consecutive year of job growth in the local economy. This level of growth will not continue in 2009, however, as the Anchorage economy adjusts to very weak national and global economic conditions. In fact, Anchorage is likely to see some net loss in employment this year. Sectors of the economy experiencing employment declines in 2009 include construction, the oil industry, air transportation, and visitor-affected industries (such as hotels and restaurants).

Though employment is trending down in 2009, AEDC expects the jobs picture to stabilize in 2010 and return to a slow growth trend of between 0.5 and 1 percent annually in 2011 and 2012. Spending of federal stimulus

money, preliminary activity related to the construction of a gas pipeline, and military and port construction activity, along with a general improvement in the business climate, will all contribute to stabilizing local employment trends. In the longer-term the statewide economy faces real challenges related to declining Prudhoe Bay oil production.

A gas pipeline will have major short-term construction-phase employment benefits, but state revenue generated by pipeline operations will not compensate for declining Prudhoe Bay revenues.

AEDC will be examining the 2010 forecast in details at its January 2010 annual jobs forecast.

Personal Income

Total personal income is a measure of 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 data, the U.S. Bureau of Economic Analysis estimates that Anchorage residents earned a total of \$12.8 billion in personal income in 2007, 5.4 percent more than in 2006. In 2007, 70 percent of personal income came from net earnings, 17 percent from other personal income, and 14 percent from transfer receipts.

Personal income growth has been solid over the past six years in Anchorage (growing at an average annual rate of 5 percent). Further, Alaska has been faring better than most other states through the recession. Alaska was in the top quintile (top ten) in terms of personal income growth in the 3rd and 4th quarters of 2008. However, it is anticipated that growth will slow in the next three years due to slower employment growth, decreasing returns from investments in the stock market, lower profits for local businesses, and smaller Permanent Fund Dividend payments. Nominal personal income (before accounting for the effects of inflation) is expected to grow between 1 and 3 percent annually between 2008 and 2012.

Building Permit Values

The value of building permits issued by the Municipality of Anchorage provides a measure of new construction activity in Anchorage. Building permit data includes residential, commercial and government facility construction. The building permit data does not

include military construction or civil transportation construction projects, such as road improvements or the very large construction project currently underway at the Port of Anchorage. With local, state, and federal (including stimulus funding) government spending, the outlook for military and civil construction projects in Anchorage is looking strong in the next few years.

The outlook for residential and commercial construction is not as strong as civil construction activity. Residential and commercial building permit values through the first five months of 2009 decreased compared to the same period in 2008. Residential construction is down 11 percent and commercial is down 10 percent. Government constructions (including schools) is up sharply (by almost 300 percent) so far in 2009, but proportionally still a small sector of the total construction picture. For all three sectors combined, building permit values through the first five months of 2009 are 19 percent above the same period in 2008. However, by the end of the year, AEDC anticipates combined permit values to settle back to 2008 year-end totals.

Residential construction continues its steady decline since the peak in homebuilding activity in Anchorage in 2003. Going forward, residential and commercial construction will mirror the economy. Government construction is expected to rise again in 2010 with projects such as the Airport Heights Fire Training Center, UAA Health Sciences Building, McLaughlin Youth Center Expansion, and Chester Valley Elementary School. Future projects under consideration include a new crime laboratory, UAA Athletic Facility and further expansion at Providence Medical Center. If the Anchorage economy returns to a growth track in 2010, a turnaround in residential and commercial building construction activity could be expected by 2011.

Overall, AEDC predicts total building permit values in 2009 and 2010 will remain at the 2008 level and will begin to recover at a slow growth rate of 1 percent to 2 percent in 2011 and 2012.

Airport Passenger and Freight Volume

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

relatives. for vacation, business, and to visit friends and relatives. and residents traveling in-state and out-of-state for vacation, business, and to visit friends and relatives.

Between January and May 2009, passenger volume at ANC decreased by 10 percent compared to the same time period in 2008. With high fuel costs, a weak and unstable economy, airline restructuring, and reduction of seat capacity, AEDC expects passenger travel to decline through 2009 but then stabilize in 2010.

Declining air traffic in Alaska is part of a national trend. The U.S. Bureau of Transportation Statistics reports that, nationally, passenger volume dropped 10 percent between the first quarters of 2008 and 2009. March 2009 data shows domestic passenger traffic has decreased by 8.6 percent compared to March 2008. The number of international passengers transported by U.S. carriers decreased even further, by 13.0 percent during the same (March) time period.

Assuming some stabilization in the U.S. economy, AEDC predicts that passenger volumes at ANC will start to recover in 2010 and then start to resume slow growth (1 percent annually) in 2011 and 2012.

Following a fairly long period of relative stability up to 2007, the air cargo business in Anchorage has recently experienced a significant downward shift. Declining trade with China, Japan and other Pacific Rim nations,

high fuel costs, and a weakening dollar have produced a sharp decline in cargo moving through ANC. Adding to this situation are the recent disruptions of air travel caused by Mt. Redoubt volcanic eruptions in April. The weight of all air cargo moved through the airport during the first five months of 2009 was 35 percent less than during the same time period last year.

Trade with China continues to be an especially important driver for the international air cargo business at ANC. Currently, there are five Chinese and five domestic air carriers operating through Anchorage delivering cargo from China.

In line with national industry forecasts, AEDC predicts a continued decline in the total amount of freight moving through the airport in 2009, though with a modest recovery (growth of 2 percent), in 2010 through 2012.

Port of Anchorage Freight Volume

The volume of freight moving over the docks at the Port of Anchorage reflects, in part, conditions in the Anchorage and Alaska economies. The drop in tonnage in 2006 was the result of Flint Hills Resources discontinuing production of its naphtha product, an event that also significantly affected railroad activity. Port of Anchorage freight volume grew by 1 percent in 2008 over 2007; however, shippers report a declining volume

in construction materials, automobiles, and high-end durable goods in 2009. Petroleum shipments through the port are reflective of shifts in Ted Stevens Anchorage International Airport jet fuel usage and gas station sales. With air cargo landings down 31 percent for the first five months of 2009, compared to the same period in 2008, jet fuel shipments are expected to also drop in 2009.

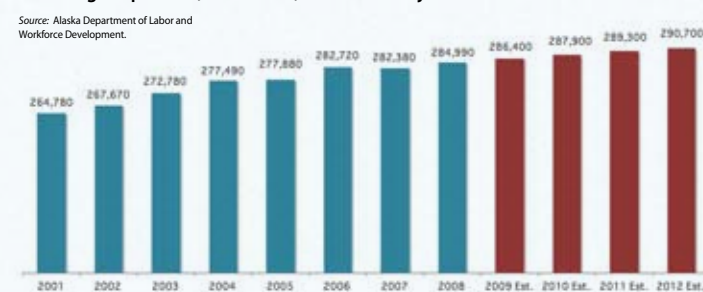
By the end of 2009, the Port of Anchorage will have more than 60 acres of industrial land with deep water, rail, and road access available for development, as well as two public barge berths, making room for expansion of barge services at the Port and the potential for increased revenue streams. Also new to the port will be nine Holland America cruise ship stops in 2010. Depending on cruise sales and other indicators, these cruise dockages may continue past the 2010 season.

AEDC expects moderate increases (between 5 to 8 percent annually) in freight handled at the Port of Anchorage in 2010 through 2012.

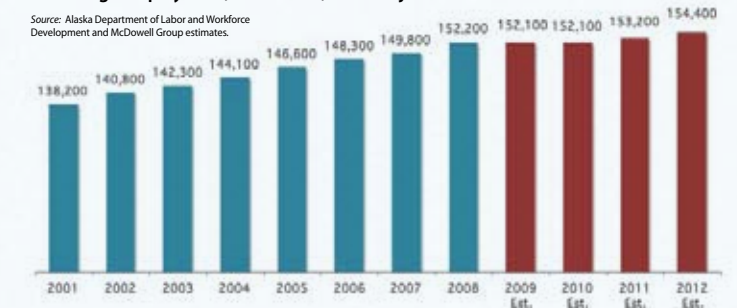
Visitor Volume

Anchorage attracted an estimated 1 million visitors from outside of Alaska last year. In contrast to recent modest growth, Anchorage is experiencing a decline in visitor volume due to weakened consumer confidence and soft national and international economies.

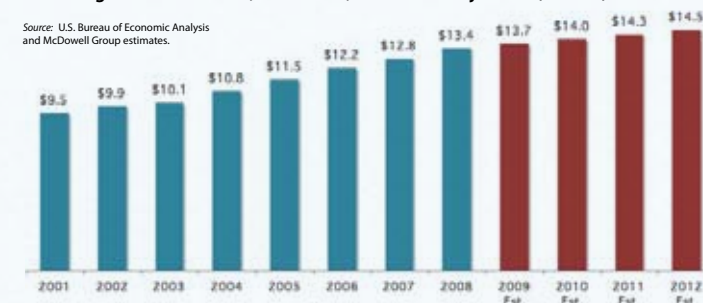
Anchorage Population, 2001-2008, 2009-2012 Projections



Anchorage Employment, 2001-2008, 2009 Projection



Anchorage Personal Income, 2001-2008, 2009-2012 Projections (\$Billion)



Anchorage Building Permit Values, 2003-2008, 2009-2012 Projections (\$Million)

