

economic forecast

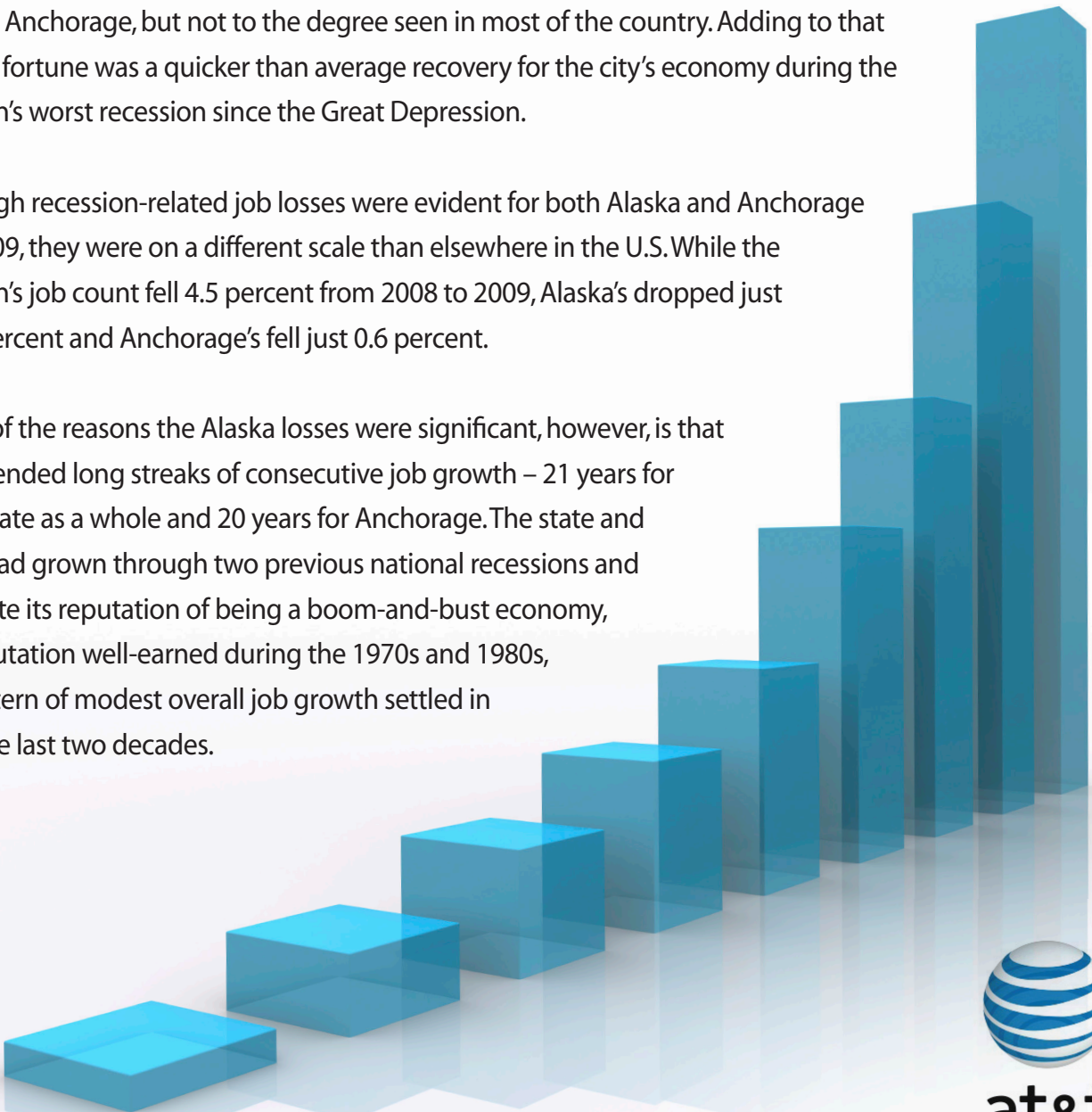


AEDC's 2011 forecast is for growth of 1,100 jobs, an increase of 0.7 percent.

Preliminary job numbers for 2010 suggest the Anchorage economy bounced back surprisingly quickly from 2009's losses – the first for the city in 20 years. "The Great Recession" that rocked the national and world economies over the last few years was felt in Anchorage, but not to the degree seen in most of the country. Adding to that good fortune was a quicker than average recovery for the city's economy during the nation's worst recession since the Great Depression.

Though recession-related job losses were evident for both Alaska and Anchorage in 2009, they were on a different scale than elsewhere in the U.S. While the nation's job count fell 4.5 percent from 2008 to 2009, Alaska's dropped just 0.3 percent and Anchorage's fell just 0.6 percent.

One of the reasons the Alaska losses were significant, however, is that they ended long streaks of consecutive job growth – 21 years for the state as a whole and 20 years for Anchorage. The state and city had grown through two previous national recessions and despite its reputation of being a boom-and-bust economy, a reputation well-earned during the 1970s and 1980s, a pattern of modest overall job growth settled in for the last two decades.



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A year ago, on the heels of the 2009 losses and with the nation still mired in the trough of the steep downturn, the outlook for 2010 was mixed at best. For a variety of reasons, Anchorage's economy outperformed most analysts' expectations last year, including AEDC's, whose forecast was for modest job losses in 2010. With the caveat that the numbers are still preliminary and the revisions could be large, as they tend to be during economic turning points, Anchorage added 500 jobs in 2010.

Based on the 2010 gains and the growing number of economic indicators showing the national recovery finally gaining traction, AEDC forecasts job growth of 1,100 jobs in 2011, an increase of 0.7 percent.

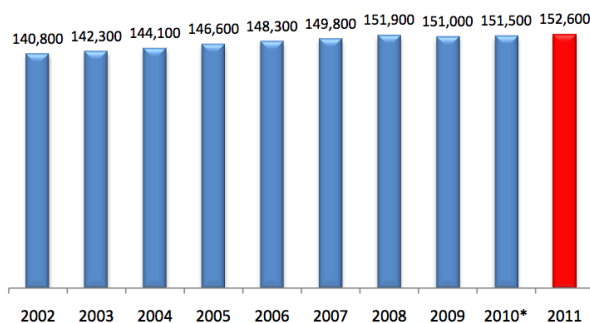
The most obvious risk to the forecast on the downside is that the still tepid national economic recovery will stall and businesses, banks, and consumers, both in and out of Alaska, will return to their 2009 mentality. That mentality hurt the Anchorage visitor industry, retail, and a wide variety of others that are directly or indirectly connected to these sectors.

The main upside risk to the forecast is that the recovery will accelerate and pent-up demand in everything from Alaska travel to local housing will produce stronger than forecasted growth. But for the same reasons that Anchorage escaped much of the recessionary harm, the strength and stability of the oil industry and federal spending, dramatically stronger growth rates are unlikely for Anchorage.

Population

The most recent population estimates for Anchorage show the city's population surpassing 290,000 in 2009. As a result of an uptick in migration-related growth, 2009 gains were stronger than in recent years – 2.4 percent compared to an average of 1.3 percent from 2000-2009. The likely explanation for those gains is that Anchorage was a relative bright spot economically in 2009. Consequently, people were more hesitant to leave Anchorage, given the difficult job markets elsewhere, and people elsewhere who found themselves out of work were more likely to move to Anchorage.

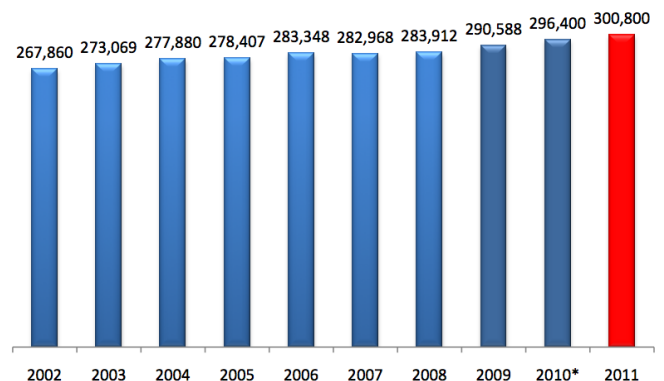
Anchorage Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

Anchorage Population, 2002-2010
2011 Forecast



* Estimated based on preliminary numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

AEDC estimates that those same dynamics have created another year of stronger than average population growth in 2010 and has forecasted that the city's population will surpass the 300,000 level in 2011. Official population numbers from the 2010 U.S. Census were recently released for Alaska (total population: 710,231) and numbers for Anchorage will be released in the next few months.

Unemployment

Anchorage's 2010 unemployment rate (the average monthly rate for the first 11 months of the year) was 6.9 percent, up just slightly from 2009's average rate of 6.6 percent and almost two percentage points above 2007's 5.0 percent rate. The U.S. unemployment rate has risen considerably more over that period, climbing from below 5 percent in 2007 to 9.6 percent in 2010. Both the U.S. and Anchorage rates have been trending down in recent months, however.

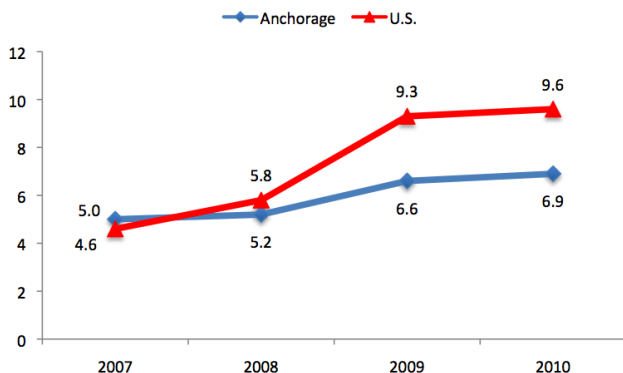
Additionally, it is important to understand that Anchorage's rate increase in 2010 was not due to job loss, but to an increase in the size of the labor force. The number of Anchorage residents who were employed in 2010 actually increased, but the number of residents who were unemployed increased by a larger percentage – most likely due to the population increase discussed above. As a result, the unemployment rate was pushed higher.¹

Consumer Price Index

Inflation in both Anchorage and the U.S. fell sharply in 2009 as a result of the economic downturn, generally, and large drops in fuel and transportation costs, in particular. Prices bounced back up in 2010, although still not to pre-recession levels for the U.S. Prices rose 2.5 percent from the first half of 2009 to the first half of 2010 in Anchorage and 2.1 percent over the same period for the U.S.

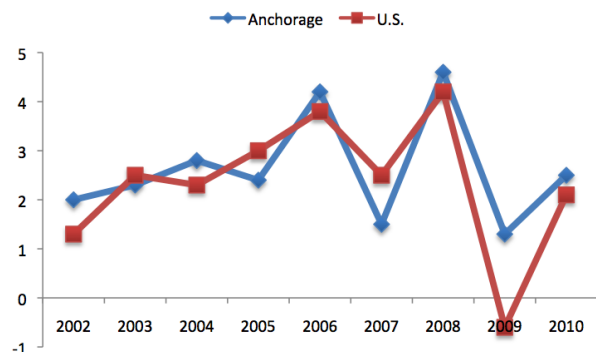
¹ The unemployment rate is a calculation of the percentage of the labor force that is unemployed. The labor force consists of two parts: 1) people who are working, and 2) people who are not working, but actively seeking work. The unemployment rate is often misunderstood to be the percentage of the total population that is not working.

Anchorage and U.S. Unemployment Rates (%),
2007-2010



Note: Rates are annual averages of unadjusted monthly rates except for the Anchorage 2010 rate, which is an average of the first 11 months of 2010.

Anchorage and U.S. Inflation Rates, First Half of Year,
2002-2010



Sources: U.S. Bureau of Labor Statistics, Consumer Price Index

employment by sectors

Oil and Gas

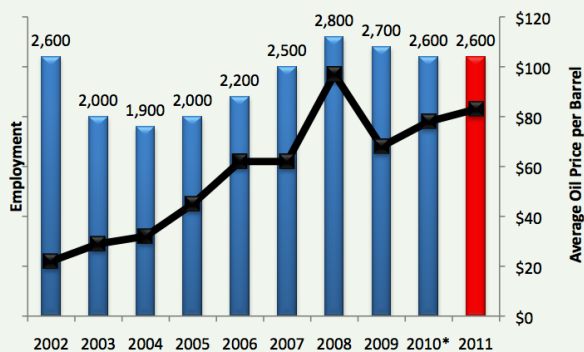
Oil and gas employment fell by 100 in 2010 and is forecasted to remain flat in 2011.

Oil and gas jobs are down 200 from 2008's high point of 2,800, but the job count remains high by historical standards. The 2,600 oil and gas jobs in 2010 were still 700 more than just six years earlier. After extremely volatile oil prices leading up to and during the global recession, 2010 was significantly calmer for the industry with prices hovering around the \$70-\$80 range for most of the year before approaching \$90 toward the end of the year.

Looking forward, the fact that prices have stabilized at a much higher level than what they were in the earlier part of the decade bodes well for the industry, the state, and Anchorage in the short term. Few industry watchers expect prices to fall in the short-term or long-term future.

Stability in prices will most likely lead to stability in employment levels. Oil taxes look to be a hot topic for the upcoming legislative session, but it is unlikely that changes to the tax structure would create significant movement in Anchorage oil and gas employment in 2011. On the upside, the job numbers could get a boost if permitting issues are ironed out and Shell is able to proceed with plans to begin exploration drilling in the Beaufort Sea in 2011.

Anchorage Oil and Gas Employment and Oil Prices, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers Sources: Alaska Department of Labor and Workforce Development, Alaska Department of Revenue and McDowell Group

Leisure and Hospitality

Leisure and hospitality employment fell by 100 in 2010 and is forecasted to grow by 200 in 2011.

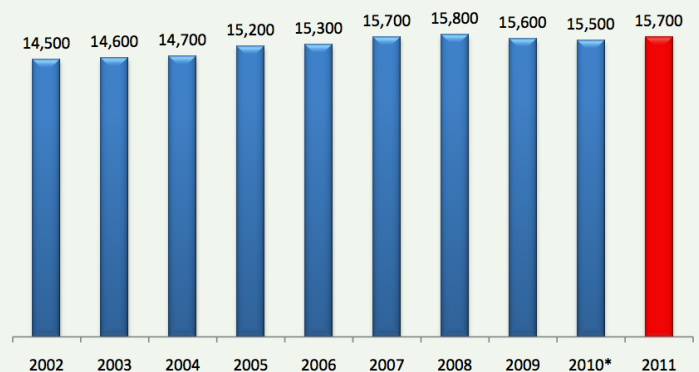
Businesses connected to tourism in Anchorage were expected to have a down year in 2010, largely due to the fact that 150,000 fewer cruise ship passengers were scheduled to come to Alaska in 2010. The preliminary numbers are much stronger than expected, however, with a decline of just 100 jobs.

The driving forces behind the better than expected performance were improved consumer confidence as reflected in higher per-visitor spending levels for cruise-ship passengers, the filming in Anchorage of the Hollywood movie "Everybody Loves Whales," and the return from deployment of approximately 3,000 military personnel.

The return of the troops and their likely effect on leisure and hospitality employment is a reminder that the sector is driven by resident spending as well as visitor spending. Restaurants and bars in particular, which make up more than 10,000 of the sector's total jobs, depend heavily on local consumption.

The filming of "Everybody Loves Whales" was a solid contributor in 2010, resulting in over 12,000 hotel room nights in Anchorage and a flurry of activity during the fall months when the city was coming off its summer season high point.

Anchorage Leisure and Hospitality Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers Sources: Alaska Department of Labor and Workforce Development and McDowell Group

The city also got a small boost from a Holland America cruise ship making nine port calls in Anchorage, bringing almost 1,400 people each stop to the city for a 16-hour stay. In 2011, the cruise line Oceania will make two Anchorage port calls and Silversea will make one, in addition to Holland America continuing to make its nine stops.

Statewide, cruise passenger visitation remains well below the peak level in 2008, which will temper growth, although the total number of cruise visitors is expected to rise slightly in 2011 from 2010's level. Both visitors' and the local population's willingness to engage in the type of discretionary spending that drives leisure and hospitality should continue to improve, which bodes well for leisure and hospitality sector job growth.

Health Care

Health care jobs increased by 500 in 2010, and are forecasted to grow by 300 more in 2011.

The industry's continued job gains extend a remarkable stretch of growth that has lasted for decades now. Since 2002 alone, Anchorage has added 4,600 jobs, a number that equates to 45 percent of Anchorage's net job growth over that period. Another illustration of the economic power of the industry is that the municipality's two largest private sector employers, Providence Alaska Medical Center and Alaska Native Tribal Health Consortium, are both health care providers.

Industry watchers have speculated for years about how much longer health care can grow at rates far in excess of overall job growth, and it is still too early to tell what the effects will be of new federal health care legislation.

One contributor to future growth will be population demographics: Alaska's 65 and older population is projected to nearly double between 2009 and 2020 and seniors' health care needs are typically greater than average.

On the other side of the equation, high health care costs and the recession have reduced demand for some types of care, especially those that are not covered by insurance and there is still much uncertainty about what the 2010 health care legislation will mean to the industry. Especially, since ongoing debate about that legislation, including efforts to repeal it or limit funding for it, is shaping up to be one of the major legislative battle grounds on the national front during 2011.

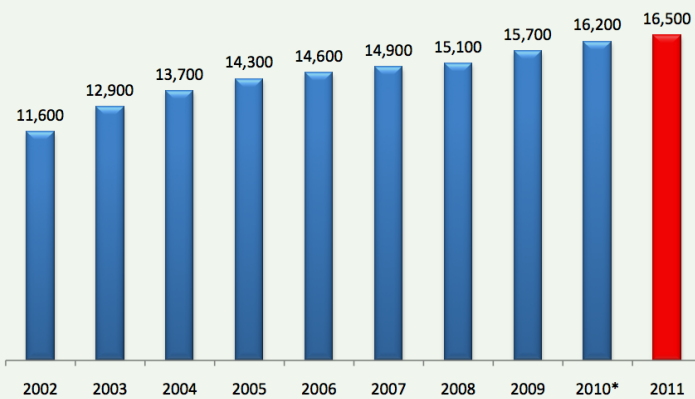
Adding several hundred jobs a year has become very normal for Anchorage's health care industry, though, and that momentum is almost certain to continue through 2011.

Retail Trade

Employment in retail trade was unchanged in 2010 but is forecasted to grow by 100 in 2011. In previous AEDC forecasts, wholesale trade was forecasted along with retail trade. Because retail trade is the largest part of the combined "trade" category and a better barometer of economic conditions, this year's forecast focuses only on the retail component.

Despite the arrival of many high-profile, national retail outlets in Anchorage over the last decade, there has been very little overall industry growth. In fact, 2010's retail job count was 200 below what it was in 2002. Even at its peak in 2007, retail jobs had only climbed 200 above 2002's level.

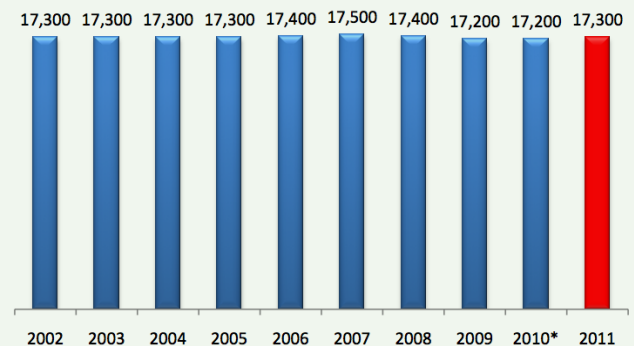
Anchorage Health Care Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

Anchorage Retail Trade Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

New stores naturally get a lot of attention, but unless discretionary income is growing or the retail market is under-served, new stores do not necessarily create job growth. Competition for retail dollars is fierce during the best of times and gets more so when consumers become more reluctant to spend on nonessentials as they did during the recession.

Despite retail's overall weak performance for the decade, the 300 jobs lost over the last three years will most likely return as the general economic outlook improves. Stores that depend on visitor spending in particular are likely to see improved sales and higher job counts.

Transportation

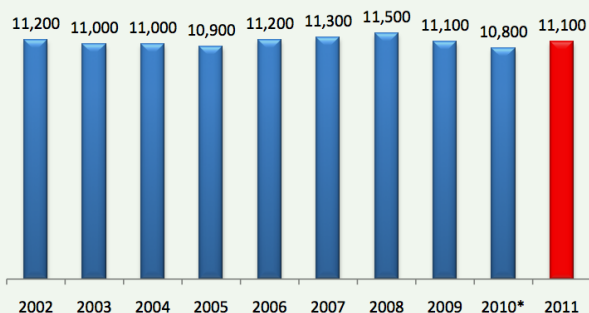
Transportation employment fell by 300 in 2010, despite cargo and passenger traffic bouncing back impressively from their low points in 2009. AEDC forecasts an increase of 300 transportation jobs in 2011.

After peaking at 11,500 jobs in 2008, transportation jobs fell by 400 in 2009 and another 300 in 2010. That trend is expected to reverse in 2011, based on the already much improved activity levels within the industry.

Anchorage International Airport, for example, saw a 30 percent increase in cargo tonnage through November of 2010 (though cargo tonnage is yet to return to pre-recession highs). Passenger traffic was up slightly (1.5 percent) – despite the loss of 120,000 cruise ship visitors to the state (many of whom fly in or out of Anchorage). Part of the explanation for the recovery in passenger traffic is that carriers added more flights to and from Anchorage, which kept prices down during a time when consumers were still prone to be frugal.

About two-thirds of the transportation sector's employment is connected to air transportation. This

Anchorage Transportation Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

includes roughly 3,000 air carrier jobs, 1,800 transportation support service jobs (mostly composed of businesses servicing the air transportation industry), and 2,300 jobs in the "couriers and messengers" category, which includes UPS and Federal Express, two of Anchorage's larger employers.

Shipping companies and the Port of Anchorage tell a similar story of improved business, but little employment growth to date. Conceivably, the recession may have created efficiencies that will make it possible for transportation companies and facilities to do more with less – a typical response in lean economic times. If that proves to be the case, employment may take significantly longer to return to pre-recession levels. But with such a robust bounce into cargo traffic in and through Anchorage, and air passenger traffic, some job growth is almost certain for 2011.

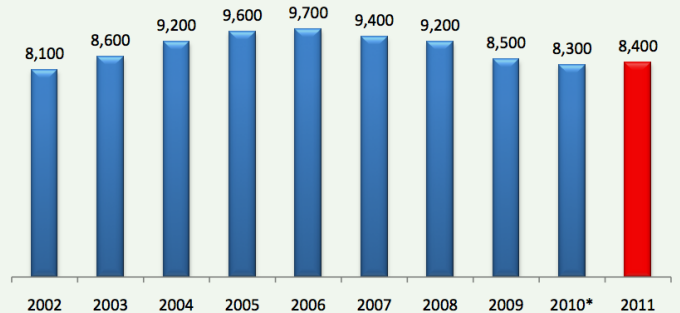
Construction

While construction employment fell by 200 jobs in 2010, this sector is forecasted to grow by 100 jobs in 2011.

Anchorage's construction industry is a bit of an outlier in that it began losing jobs well before the recession struck. After strong growth during the 1990s and early 2000s, construction jobs reached a high point of 9,700 in 2006 and then fell for four consecutive years. The net loss over those years was 1,400 jobs, which equates to 14 percent.

Looking ahead to 2011, construction's longer-term downward trend on the one hand, combined with generally improving economic conditions on the other, makes for a complicated forecast. Among the relevant considerations is a large \$2.8 billion state capital budget – the statewide number being relevant because Anchorage construction companies are active throughout the state as well as in Anchorage.

Anchorage Construction Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

Federal stimulus money is still making its way through the system and another boost could come in the next few years from the construction of a new community and athletic facility at the University of Alaska Anchorage.

Private sector construction, both residential and commercial, will be affected for years by the recession in the form of tighter credit and more stringent lending requirements. One bright spot for Anchorage, residential building permit values were up 12 percent through the first three quarters of 2010 compared to the same period in 2009.

Despite Anchorage having been spared much of the trauma of mass foreclosures and plummeting home values, the banking system is national and protections put in place by the industry itself and by federal legislation to prevent recurrence will still apply to banks operating in Alaska.

Professional and Business Services

The professional and business services sector lost 100 jobs in 2010. AEDC forecasts a gain of 100 jobs in this sector in 2011.

Much of the professional and business services sector's stability over the last three years is attributable to its connection to the oil and gas industry, which has also been relatively calm in terms of employment since 2008. Roughly 10,000 of the jobs are categorized as "professional, scientific, and technical," and include engineers, geologists, and architects, many of whom provide services and expertise to oil and gas companies operating in the state.

Another large part of the sector – more than 6,000 jobs categorized as "administrative and support services" – is a

reflection of the broader Anchorage economy's ups and downs, which have been modest and are expected to remain so in 2011.

Financial Activities

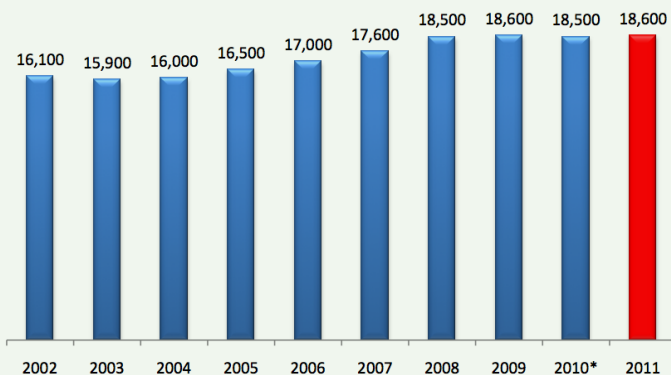
Employment in financial activities was flat in 2010 and is forecasted to grow by 100 in 2011. The financial activities sector has not been included in previous AEDC forecasts, but is being included in this year's version because of its especially relevant role in the recession and recovery.

Similar to construction, financial activities employment in Anchorage began falling before the recession began. The declines were much smaller than those in construction, though, and once the recession began, Anchorage's financial sector was able to successfully tread water while banks elsewhere in the country struggled and, in some cases, failed. National banks operating in Anchorage confirmed what foreclosure data and home price indicators showed: compared to their branches in the rest of the U.S., Anchorage branches performed remarkably well.

Solid business performance in 2010 did not equate to job gains, however – a common thread in 2010 – as banks and credit unions looked for efficiencies, filled vacant positions cautiously, and took an overall conservative approach as the dust from the recession continued to settle.

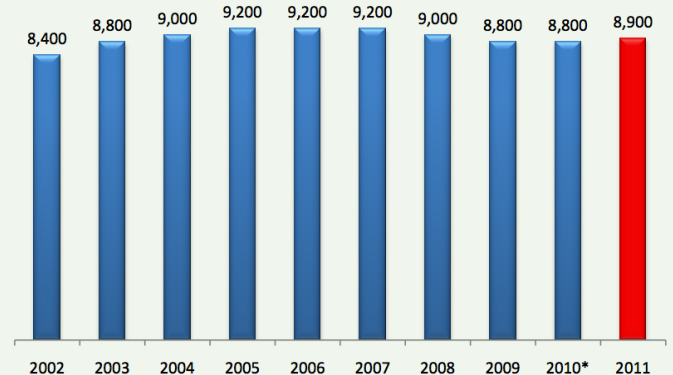
With increasing reasons to believe that a recovery is well underway, growth of 100 jobs is forecasted for 2011. One major influence on the industry in 2011 will be the Dodd-Frank financial reform act signed into law in 2010. Anchorage banks and credit unions are still assessing what the new law will mean to their businesses and employment levels.

Anchorage Business and Professional Services Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

Financial Activities, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers
Sources: Alaska Department of Labor and Workforce Development and McDowell Group

Government

The number of government jobs in Anchorage grew by 500 in 2010. However, employment in this sector is forecasted to fall by 200 in 2011.

The Municipality's budget woes were a hot topic in 2010, and by the end of the year local government employment was down by about 200 jobs. Tight budgets will continue to affect the city in 2011, leading to an ongoing search for efficiencies and a leaner local government work force.

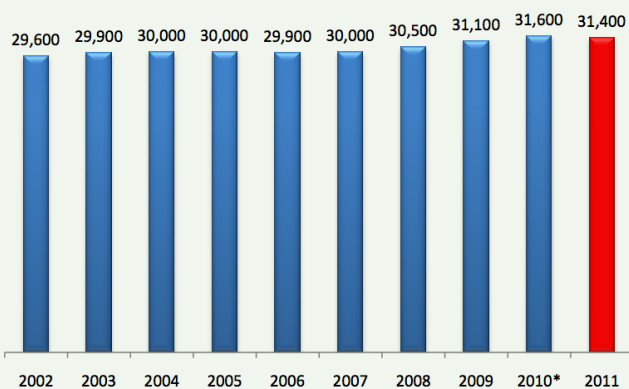
On the state government front, Alaska is one of just four states not facing a budget deficit in fiscal year 2011. Among states, Alaska's budget surpluses and rainy day funds are in a league of their own. That allows Alaska continue to avoid the types of layoffs other states are facing, and with 40 percent of state government's labor force working in Anchorage, the city's economy will benefit.

Also included under the state government numbers is the University of Alaska Anchorage, which has consistently provided about 2,400 jobs in Anchorage in recent years (\$129 million in 2010 payroll) and played an important role in the city's economy.

Federal government jobs have been another large, mostly stable influence on Anchorage's economy during and prior to the recession. The job count spiked by several hundred jobs in 2010 as a result of the temporary hiring of 2010 Census workers. Federal employment is almost certain to be lower in 2011 without the Census-related employment.

Although the military is not specifically included in the jobs numbers, the 12,500 military personnel stationed at the newly consolidated Joint Base Elmendorf-Richardson and their dependents are a powerful economic force.

Anchorage Government Employment, 2002-2010
2011 Forecast



* Estimated based on preliminary 2010 numbers

Sources: Alaska Department of Labor and Workforce Development and McDowell Group

The Big Picture

Anchorage did not dodge the recessionary bullet, but it came close. The loss of 900 jobs in 2009 was significant, but relatively mild at 0.6 percent. Then 2010 beat expectations and judging from the preliminary numbers actually recovered much of the ground lost in 2009.

Anchorage's economic drivers – the largest of which include oil and gas, government, the military, tourism, and air cargo – are all poised to produce either stability or modest growth in 2011. Those drivers will in turn provide a generally positive economic climate for the various support-sector industries, including most notably retail, health care, and the sectors of the transportation industry that bring goods to the state for local consumption.

The cause of the Great Recession will be debated for years to come. One thing is clear, though: Anchorage's dependence on the oil and gas industry, including its role as the major provider of state government revenue, was a substantial asset during a very difficult period for the country. The other key asset was the stability provided by government employment, including Anchorage's large military component.

NOTE ON SOURCE OF EMPLOYMENT DATA

This employment forecast is based on data produced by the Alaska Department of Labor & Workforce Development. The Department of Labor data includes full-time and part-time jobs by place of work, but excludes uniformed military personnel, business owners, the self-employed, unpaid family help, private household workers, and fishermen.

This economic forecast prepared for AEDC by:



www.mcdowellgroup.net



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