

2013 ECONOMIC FORECAST



AEDC
Anchorage Economic
Development Corporation

ANCHORAGE

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2013 ECONOMIC FORECAST

AEDC's 2013 Economic Forecast

GROWTH **+1,700** jobs
Increase of **1.1%**

Measured in terms of employment, Anchorage continued along a path of **steady growth in 2012, adding 1,800 jobs to the economy**, a 1.2 percent increase. Last January AEDC predicted 1,500 jobs would be added to the Anchorage economy in 2012. While preliminary, the latest available data suggests growth was slightly ahead of that pace.

The Anchorage economy has added 5,000 jobs over the past three years and now includes an annual average of 156,200 wage and salary jobs. Further, the local 2012 employment picture ended on a strong note. Preliminary employment estimates for the 4th quarter of 2012 show **Anchorage employment 2,200 jobs above the 4th quarter of 2011** (1.4 percent growth). That momentum will carry into 2013.

The strength in the local economy is also reflected in unemployment data. **Anchorage unemployment rates dropped again in 2012**, dipping to 5.6 percent, the lowest level since 2008, prior to the recession. Anchorage area unemployment remains well below national rates.

Most indicators suggest that Anchorage has settled into a trend of slow, steady growth. That trend began more the two decades ago, but was interrupted by a global recession that left Anchorage largely unscathed (relative to the rest of the nation) but in 2009 did break a long string of annual employment gains.

Looking forward, reasons for optimism include continuing growth in professional and business services, additional growth in health care, and further recovery

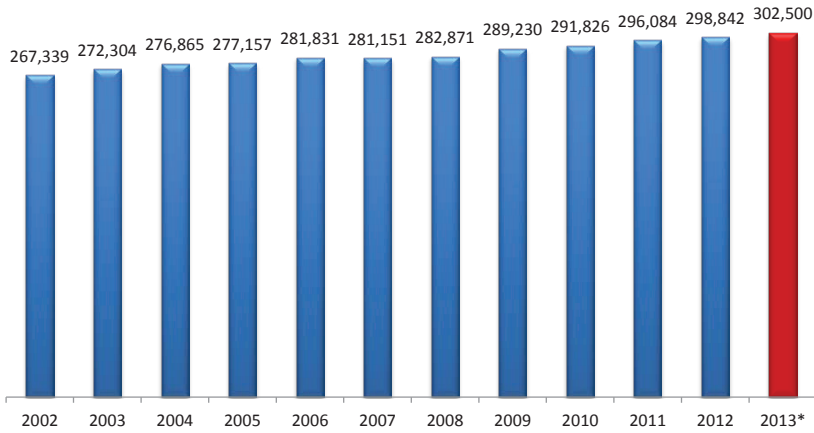
in the visitor industry (with statewide cruise traffic expected to return to the one million passenger mark in 2013). Susitna-Watana Hydro and gas line construction are the two big projects on the horizon with major economic development implications for Anchorage.

As the world's 4th largest airfreight hub, Anchorage has a direct connection to global economic conditions. With much of the Eurozone still in recession, along with Japan, and slowing growth in China, trade through Anchorage will continue to meet some resistance in 2013.

Two of the mainstays in Alaska's economy, the oil industry and federal government, both face significant uncertainty. The oil tax debate continues, as does the steady decline in North Slope production. Federal spending is expected to decline somewhat in 2013, mainly the result of lower military spending. But with talk of fiscal cliffs, debt ceilings, potential defaults, spending cuts and increasing taxes part of our nation's daily dialogue, it is easy to foresee further trouble on the federal front.

Someone once sagely observed that it is difficult to make predictions, especially about the future. That is certainly true for Alaska's economy. However, while uncertainty surrounding statewide and national issues may be presenting some headwinds to growth, the Anchorage economy continues to expand at a healthy pace.

POPULATION



Anchorage Population, 2002-2012: 2013 Forecast

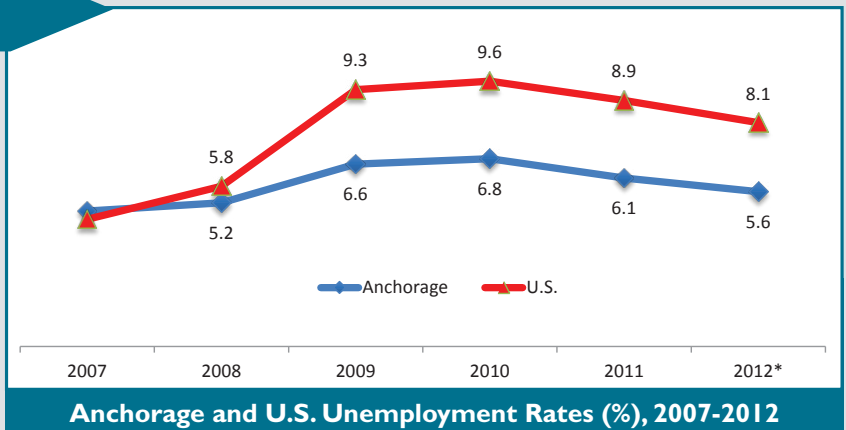
Recently released population estimates place Anchorage's 2012 population at **298,842 residents**, 0.9 percent above the city's 2011 population. If the Anchorage economy adds another 1,700 jobs over the next 12 months, and based on recent participation rates, the area's **population should finally top the 300,000 mark and perhaps reach 302,000 in 2013.**

* Estimated population.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group.

UNEMPLOYMENT

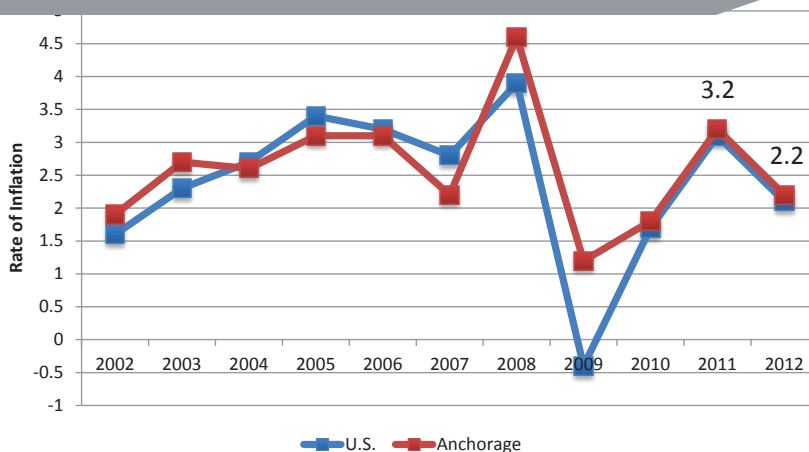
Anchorage's 2012 average monthly unemployment rate was

5.6 percent, down from 6.1 percent in 2011 and 6.8 percent in 2010. While unemployment is declining in Anchorage, and still well below the national average, local **unemployment remains above the pre-recessionary level of 4.9 percent in 2007.** The 2012 national unemployment rate of 8.1 percent marks an improvement from 2011 and is at its lowest rate in four years. It is still well above what most economists would consider a natural or "healthy" unemployment rate of around 5.6 or 5.7 percent.



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

CONSUMER PRICE INDEX



Anchorage and U.S. Inflation Rates, Annual Average, 2002-2012

The Anchorage Consumer Price Index (CPI) **rose at a rate of 2.2 percent** during 2012, very close to the national rate of 2.1 percent. This is a full percentage point lower than Anchorage's 2011 rate of inflation, indicating that general price increases slowed last year compared to 2011. Most forecasters, including the Federal Reserve, foresee a slight uptick in national inflation rates in 2013.

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

EMPLOYMENT BY SECTOR



OIL & GAS

+0

Oil and gas industry employment in Anchorage averaged approximately **2,900 jobs in 2012**, up about 100 jobs from 2011. Oil and gas industry employment in Anchorage is now at its **highest point in over a decade**. Employment in this sector is expected to remain at around 2,900 jobs in 2013.

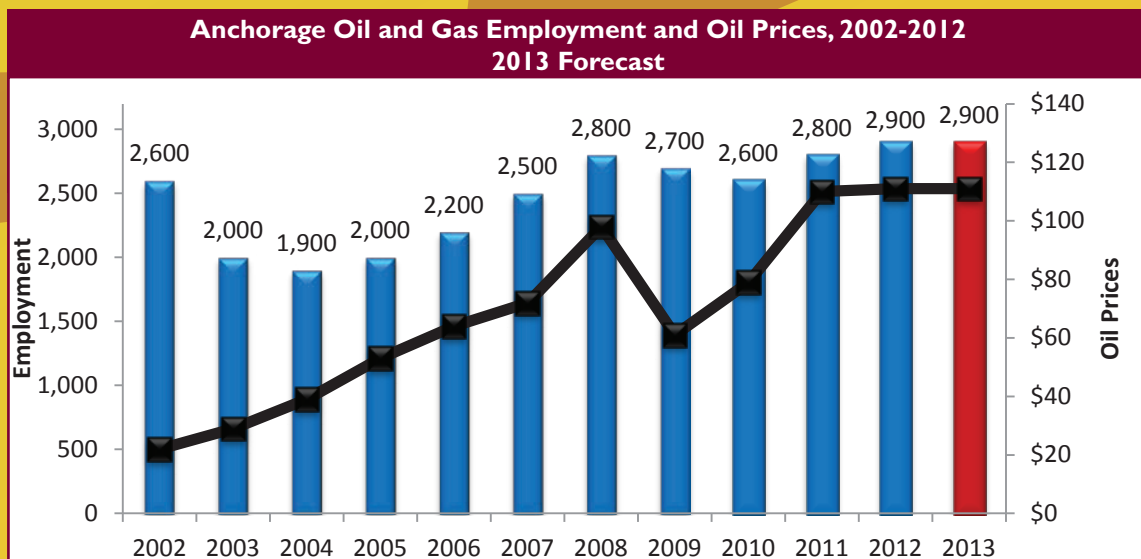
When considering the role of the oil and gas industry in Anchorage's employment base, it is important to note the industry's impact is much greater than indicated by published data. In fact, when including all of the indirect and induced employment effects, the industry accounts for approximately 25,000 Anchorage area jobs and \$1.6 billion in annual payroll.

On a monthly average basis, West Coast oil prices ranged between \$98 and \$123 per barrel in 2012, averaging \$111 for the year overall, just one dollar above the 2011 average. Most analysts do not expect much change in oil prices in 2013.

Oil production from the North Slope continues its steady decline. In 2012, North Slope production averaged 548,700

barrels per day, down 6 percent from 583,400 barrels per day in 2011 and 11 percent below 2010 production of 619,000 barrels per day. On the North Slope, legacy field renewal and maintenance remains a priority. In 2013, BP is shifting its focus to accumulations of light oil and phasing out its experimental work with heavy oil accumulations. ConocoPhillips has a \$1.1 billion Alaska capital budget for 2013.

Oil and gas activity in Cook Inlet accounts for jobs in Anchorage and the Kenai Peninsula Borough. Hilcorp Alaska continues its investment in revitalizing assets purchased from Chevron (Hilcorp Alaska's purchase of Marathon Oil's asset in Cook Inlet is proceeding). Apache, Armstrong, Buccaneer Energy, ConocoPhillips, Cook Inlet Energy, Furie, Linc Energy, NordAq and XTO are among the active Cook Inlet players. Two jack-up rigs will be actively drilling in Cook Inlet in 2013. With its export license set to expire this spring, the future of ConocoPhillips' Kenai LNG facility remains uncertain.



* Estimated based on preliminary 2012 numbers.
Sources: Alaska Department of Labor and Workforce Development, Alaska Department of Revenue, and McDowell Group.

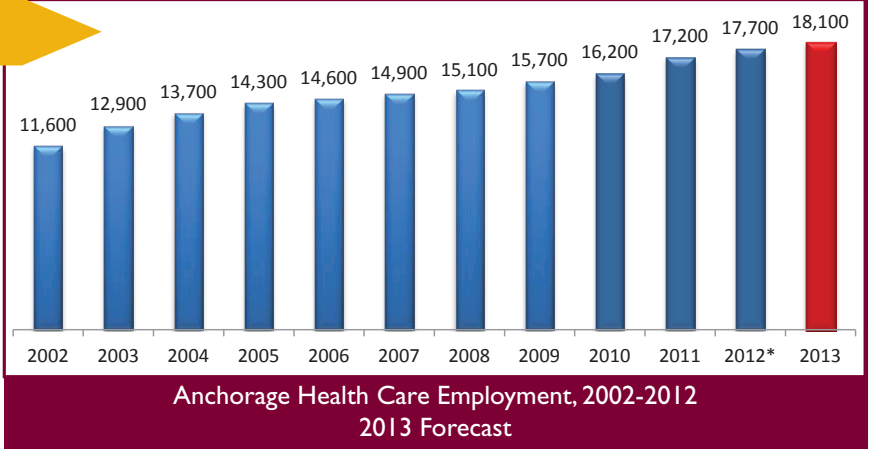


HEALTH CARE

+400

The expansion of the health care sector in Anchorage continued in 2012, adding another 500 jobs. Growth in this sector has been robust; since January of 2009, **more than 2,500 health care jobs have been added to the Anchorage economy.** Health care now accounts for about **17,700 local jobs.** Further growth is expected in 2013, though not quite at the pace as in the past few years. AEDC expects this sector to add 400 jobs in 2013.

Hospital employment, which accounts for about one-third of all health care jobs in Anchorage, has been growing slowly, while other segments of the health care industry have been booming. Over the past three years, hospital employment is up 5 percent, while out-patient health care employment is up 21 percent (now totaling about 9,000 jobs), and nursing and residential care is up 55 percent (now with 2,700 jobs).



* Estimated based on preliminary 2012 numbers.
Source: Alaska Department of Labor and Workforce Development, Alaska Department of Revenue, and McDowell Group.

While there is uncertainty within the health care sector associated with the potential effects of the Affordable Care Act, it is certain the demand for health care services will continue to grow as the population ages. According to U.S. Census Bureau data, Anchorage's population in 2010 included 21,000 residents over 65 years of age. By 2020, that number will reach 40,000, and climb to nearly 60,000 by 2030.



TRANSPORTATION

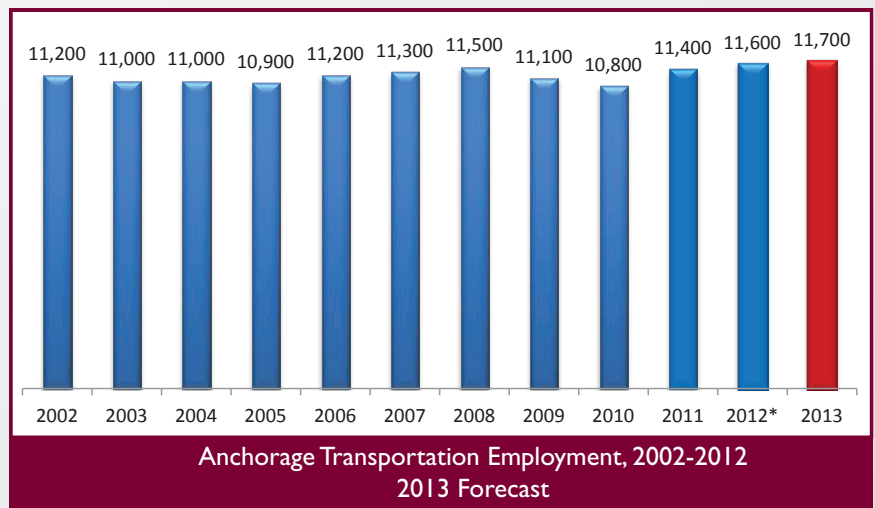
+100

The transportation sector **gained about 200 jobs last year**, but the year-to-year growth rate slowed in the latter half of 2012. AEDC expects this sector to add another 100 jobs in 2013. This sector accounts for about **11,600 jobs**, with two-thirds of those jobs connected with passenger or freight air transportation services (including the FedEx and UPS facilities).

In 2012, Ted Stevens Anchorage International Airport (ANC) ranked 2nd in North America in terms of air cargo volume and 4th in the world.

The world's top four cargo airports include Hong Kong in the top spot, followed by Memphis, Shanghai, and then Anchorage. While Anchorage climbed from the number 5 spot in 2011, the total volume of cargo transiting through ANC fell by 3 percent during the first three-quarters of 2012 compared to the same period in 2011. Air passenger volumes decreased by 2 percent over the same period.

The Port of Anchorage saw a 4 percent decline in total tonnage in 2012. However, that decline was associated with



* Estimated based on preliminary 2012 numbers.
Source: Alaska Department of Labor and Workforce Development and McDowell Group.

lower volumes of petroleum products. Perhaps a better measure of local economic trends is the 2 percent increase the Port had in container tonnage in 2012.

Overall, economic and population growth in Anchorage and all along the Railbelt promise to keep the transportation sector on a slow, but steady, growth track.



RETAIL TRADE

+200

Retail trade employment in Anchorage in 2012 averaged about **100 jobs more than in 2011**, with total employment in that sector now back up to about 17,200 jobs. Employment in retail trade is forecasted to continue along its **slow-growth track**, adding another 200 jobs in 2013.

Though specific data is not available, Anchorage's retail sector likely accounts for over \$4 billion in annual sales in a sector that includes a total of approximately 825 retail establishments. This sector of the economy includes 110 clothing stores, 94 food and beverage stores, 93 motor vehicle and parts dealers, 62 gas stations, and a broad variety of other retail outlets. Anchorage's 33 "general merchandise" stores account for 4,500 jobs (an average of 135 full and part-time jobs per store). The addition of large national retailers to Anchorage's retail sector over the past decade has not coincided with retail employment growth overall. In fact, ten years ago, in 2002, general merchandise stores accounted for approximately 4,400 jobs in Anchorage, just below the 2012 level.

Expectations among several key retailers for 2013 are for sales to be flat or perhaps showing a slight increase. Several retailers are remodeling stores and adding services (expanded pharmacies, for example). The addition of Bass Pro



* Estimated based on preliminary 2012 numbers.
Source: Alaska Department of Labor and Workforce Development and McDowell Group.

Shops and Cabela's stores will drive employment growth in the retail sector; each expects to hire 200 workers in Anchorage. The addition of new, large stores will place more pressure on the existing retail labor pool. Several Anchorage retailers indicate they have been adjusting to a tightening labor pool by offering more hours for existing workers and cross-training workers to serve in multiple positions.

It is too soon to know what impact increasing federal taxes might have on retail sales in Anchorage, though some effect is likely. The 2 percent payroll tax increase beginning January 1, 2013 will remove approximately \$150 million in disposable income from the Anchorage economy.



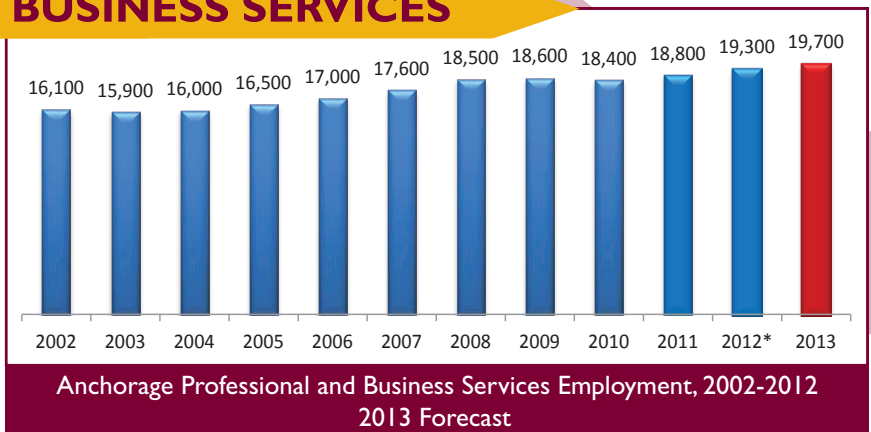
PROFESSIONAL & BUSINESS SERVICES

+400

Growth in the professional and business services sector has exceeded AEDC's expectations, adding another **500 jobs in 2012**. AEDC sees growth slowing very slightly in 2013, forecasting a **gain of 400 jobs** in the professional and business services sector.

This sector has added **900 jobs over the past two years** and now accounts for total employment of 19,300. The latest available employment estimates from ADOLWD indicates growth in this sector is likely to continue into 2013, though several key firms are expecting their overall volume of work to be down somewhat from 2012.

Most of the growth in this sector continues to be in the "professional, scientific, and technical" category, particularly in architectural and engineering firms. Looking forward, big projects such as Susitna-Watana Hydro, a \$5.2 billion project that would supply roughly 50 percent of the Railbelt's elec-



* Estimated based on preliminary 2012 numbers.
Source: Alaska Department of Labor and Workforce Development and McDowell Group.

trical demand, is already increasing demand for professional and technical services in Anchorage, with more demand to come. Progress toward construction of a gas line would also have a major impact on the demand for engineering, environmental and other professional services. The Governor's proposed FY14 budget includes \$95 million for Susitna-Watana Hydro and \$50 million for gasline development.



CONSTRUCTION

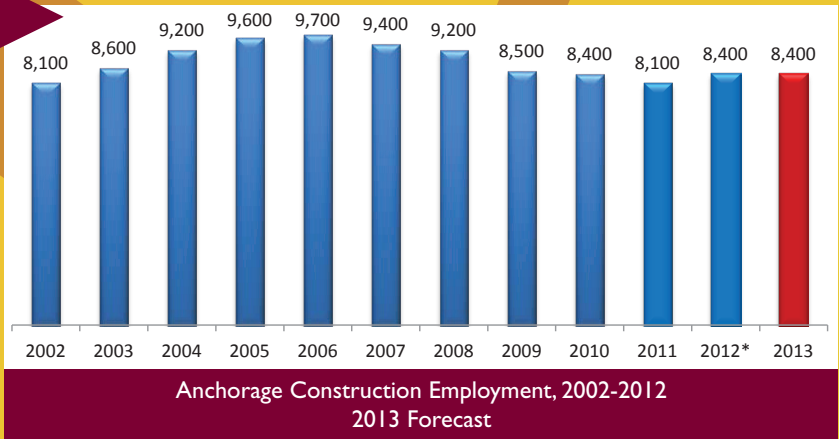
+0

Construction employment in Anchorage increased to an annual average of about 8,400 jobs in 2012; and is expected to remain at that level in 2013. The seasonal nature of the construction industry is evident in the employment numbers. Monthly employment reached 10,000 jobs in August 2012 (a peak last reached in August 2010) while the low-point of the year was in February, at 6,400 jobs.

The commercial construction sector offered mixed reviews for 2012. Commercial permit valuations were down 11 percent, yet several contractors reported having had a good year in 2012. The residential sector was strong, with a 34 percent rise in permit values.

Home sales data also reflect a strengthening residential market. The number of residential units sold in 2012 was 12 percent above the 2011 total, and the average value of residential sales was up 5 percent, from \$322,325 to \$337,383. A total of \$897 million in residential housing changed hands in 2012.

For 2013, the Army Corps of Engineers expects a significant



* Estimated based on preliminary 2012 numbers.
Source: Alaska Department of Labor and Workforce Development and McDowell Group.

decrease in federal spending, down to \$300 million from previous levels of around \$500 million. At the state level, the Governor's proposed FY14 capital budget of \$1.8 billion is a billion dollars below the FY13 capital budget. That has implications for the 2014 construction season and beyond.

While there will be less vertical commercial construction in Anchorage in 2013, two retailers, Bass Pro Shops (Glenn Square) and Cabela's (South Anchorage), will be opening 100,000 square foot stores. Bass Pro Shops will open this year and Cabela's in 2014. Construction is continuing on the UAA Sports Complex and Service High School will be upgraded.



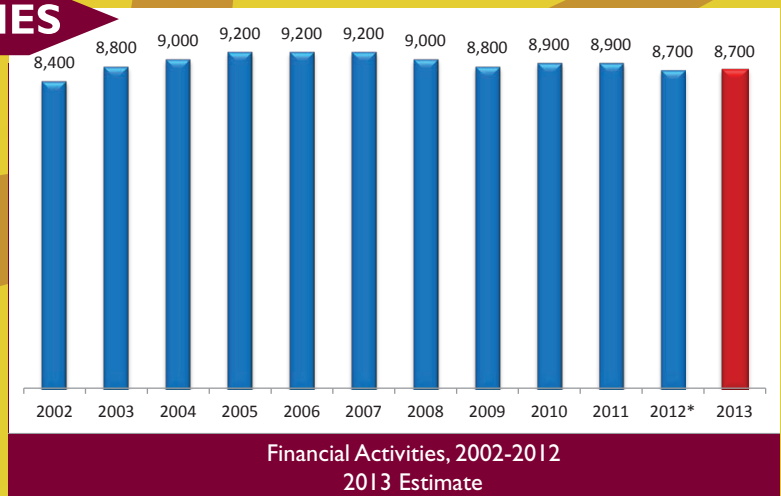
FINANCIAL ACTIVITIES

+0

The "financial activities" sector was one of few segments of Anchorage's private sector to see decline in 2012, losing 200 jobs. AEDC does not expect further decline in 2013; with employment holding at the 2012 level of 8,700 jobs.

The financial activities sector includes banks, credit unions, financial advisors and stockbrokers, insurance companies, as well as real estate brokers and managers.

Bankers from key Alaska financial institutions report that both loans and deposits were up in 2012. The mortgage and refinance markets were up considerably due to continued low interest rates. Expectations are that 2013 will be about the same or up slightly, though concerns remain about the Dodd Frank Consumer Protection Act, as well as longer-term effects on the leading environment of declining federal spending in Alaska and declining state revenues from oil production.



* Estimated based on preliminary 2012 numbers.
Source: Alaska Department of Labor and Workforce Development and McDowell Group.

This sector is closely linked with the health of the local housing market. The 2012 increases in average sales prices for single-family homes (up 5 percent) and number of sold units (up 12 percent), reflect a more robust housing market than has been the case over the past few years.



LEISURE & HOSPITALITY

+400

The leisure and hospitality sector continued its **steady climb in 2012**, adding another 400 jobs. AEDC expects this sector to match that growth again this year, adding another 400 jobs in 2013.

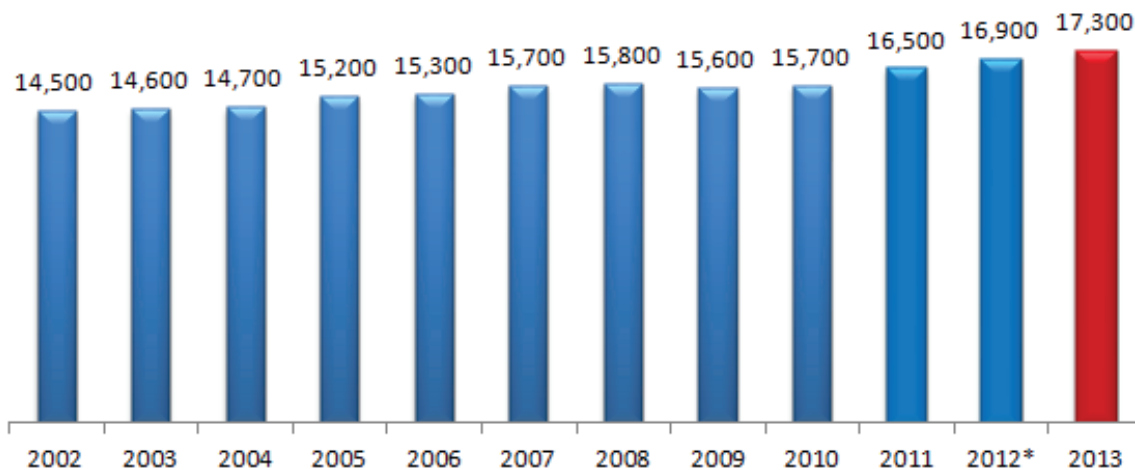
Employment in eating and drinking places actually accounted for most of growth in the leisure and hospitality sector. The most recent data show a 3 percent increase in employment in eating and drinking establishments (about 300 new jobs). There was an overall increase in cruise visitors passing through Anchorage, which likely helped account for the 6 percent increase in bed tax revenues (second and third quarters 2012).

Airport passenger statistics show some decline in 2012. Domestic air passenger traffic leaving Anchorage was down by 1 percent, while international air traffic was down by 3 percent (though international air accounts for less than 2 percent of ANC passenger enplanements). Overall (including enplanements, deplanements and transits), air passenger traffic at ANC was down 2 percent through the first three quarters of 2012, compared to the same period in 2011.

There is optimism about 2013 among key firms in this sector. Reasons for that optimism include a potential uptick in international travel. Iceland Air is entering the Anchorage market beginning May 2013 with flights between Iceland and Anchorage. Iceland Air offers flights to 20 different destinations in Europe from its hub in Reykjavik. Approximately 40,000 more cruise passengers will be coming to Southcentral Alaska with the addition of Norwegian cruise ships. Convention business is expected to be flat or perhaps up slightly in 2013. In addition, the USS Anchorage commissioning ceremony will be held in May 2013 with 1,500-2,000 sailors and family members expected to attend.

With the fiscal cliff behind us (at least for a couple months) and continuing signs of improvement in the national economy, domestic visitor travel to Alaska should rise in 2013. The international market also looks good; exchange rates are favorable and with Eurozone economic conditions no longer at a flashpoint (also at least for now) more Europeans might be choosing Alaska as a vacation destination.

**Anchorage Leisure and Hospitality Employment, 2002-2012
2013 Forecast**



* Estimated based on preliminary 2012 numbers.
Sources: Alaska Department of Labor and Workforce Development and McDowell Group.



GOVERNMENT

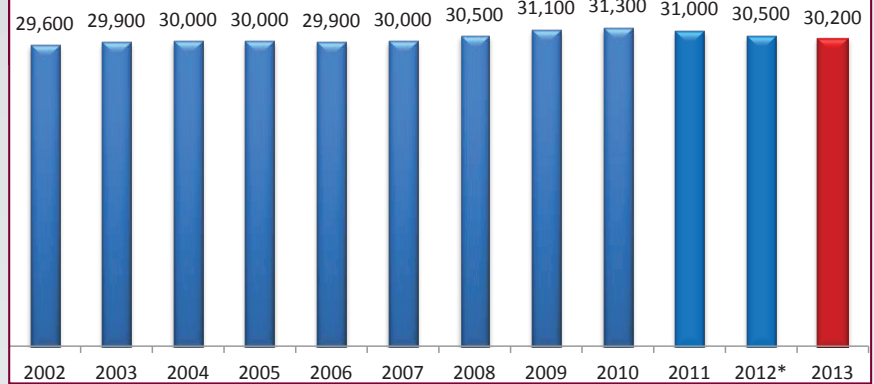
-300

In 2012, government employment in Anchorage decreased by 400 jobs, led by a loss of 200 federal jobs and more than 150 local government jobs. The downward trend in government employment in Anchorage is expected to continue in 2013, with the loss of another 300 jobs. There are just over 30,000 local, state and federal government jobs in Anchorage.

School district jobs account for most of the roughly 11,000 local government-related jobs in Anchorage. School districts across the state, including Anchorage, will continue to struggle with balancing staffing needs with available funding. The Anchorage School District's proposed 2013-2014 budget includes the elimination of 215 positions. Decline in school district employment in the latter half of 2013 is expected to account for much of the overall decline in the government sector.

The Anchorage economy includes approximately 10,600 state government jobs. It has been a steadily growing part of the employment base, adding 1,000 jobs since 2002. The need for state government services is driven in part by the needs of the local population, so steady growth in state employment would be expected given steady growth in Anchorage's population. The Anchorage-based state government employment implications of the Governor's proposed no-growth operating budget are unclear, but some downward pressure on jobs could reasonably be expected. Longer-term, steadily declining North Slope oil production and related revenues do not bode well for state employment anywhere in Alaska.

Anchorage Government Employment, 2002-2012 2013 Forecast



* Estimated based on preliminary 2012 numbers.

Source: Alaska Department of Labor and Workforce Development and McDowell Group.

Federal government employment dipped to under 9,400 jobs in 2012, down about 400 jobs from the 2010 peak (when federal employment spiked due to employment of census workers). With plenty of uncertainty on the federal budgeting scene, it is difficult to have any certainty at all around federal employment this year or next, though continuing downward pressure is a reasonable expectation.

Joint Base Elmendorf-Richardson (JBER) includes approximately 13,300 active military personnel along with 28,000 dependents. In 2012, JBER merged with Kulis National Guard adding 2,400 military service men and women to their numbers. Civilian employees account for another 3,000 employed at JBER, down 300 from 2011-2012. A family housing project was completed on the Army side in 2012 and a barracks complex is due for completion in 2013. Defense spending has been cut, but the effects will not be known until the end of March 2013. They are currently operating on a budget about 20 percent below the 2012 budget.

Other sectors

The Anchorage economy includes more than the nine sectors described above. In fact, other sectors of the local economy account for about 23,000 jobs. The largest of these other sectors is Education (which includes the University of Alaska Anchorage and private educational services, but not the Anchorage School District) with 6,400 jobs. Wholesale Trade activity generates 4,600 jobs in Anchorage. The Information sector accounts for 3,900 jobs while Manufacturing accounts for about 2,200 jobs.

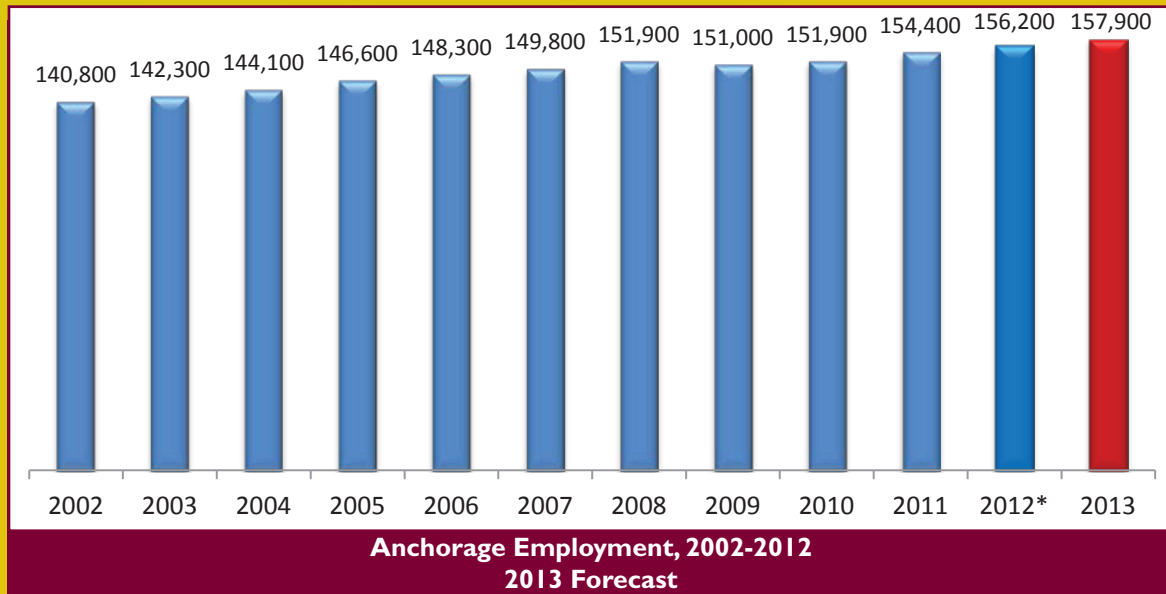
The general category of "Other Services" generates 5,800 jobs in Anchorage. These sectors combined are expected to account for about 200 new jobs in 2013.

THE

BIG

PICTURE

By most accounts the Anchorage economy is doing well, enjoying a period of slow but steady growth. AEDC expects more of the same in 2013, with continuing **growth of about 1.1 percent**, bringing another **1,700 jobs** to the Anchorage area.



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

Growth in 2012 (a preliminary estimate of 1,800 new jobs) was slightly faster but generally consistent with AEDC's expectations, as presented in the January 2012 forecast (1,500 new jobs predicted), as well as the 2012 Three Year Outlook presented in July (1,550 new jobs predicted for the year).

Regarding the long-term outlook, the same yellow flags of caution noted by AEDC in the past few years persist today. At the top of the list is the continuing decline in North Slope oil production. The state's dependence on oil revenue is clear. However, it is not clear how we can sustain that flow of revenue in the face of steady declines in production. Uncertainty and potential decline in federal spending represent another cloud on the economic horizon. On the positive side, gas pipeline construction, hydro-power development, and a variety of other development projects in Cook Inlet and elsewhere in the state have the potential to stimulate significant economic activity along the Railbelt and throughout Alaska.

NOTE ON SOURCE OF EMPLOYMENT DATA

This employment forecast is based on data produced by the Alaska Department of Labor & Workforce Development (ADOLWD). ADOLWD 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:



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AEDC is a private non-profit corporation (IRS code 501(c)(6)), operating since 1987. It exists to encourage growth and diversity in the Anchorage economy, promote a favorable business climate and improve the standard of living of Anchorage residents. Funding sources for the corporation are private contributions, municipal and state grants and contracts.