

# 2009 economic forecast

AEDC forecasts employment in Anchorage in 2009 will decrease slightly from the 2008 level. We expect some sectors of the Anchorage economy to add jobs, while others are likely to generate fewer jobs than last year. Increases in employment are expected in retail trade (200 jobs) and health care (100 jobs). Employment in the oil and gas sector and the government sector are expected to remain at about 2008 levels. AEDC anticipates job declines in the leisure and hospitality sector and the construction sector, both accounting for 200 fewer jobs in 2009. Due to anticipated cuts in air transportation, the transportation sector will also likely experience a loss of about 100 jobs. Employment in other sectors, including information, financial activities, manufacturing, and "other services" is not expected to change overall in 2009. Troop levels at Fort Richardson are expected to increase slightly while levels at Elmendorf Air Force Base are expected to remain stable in 2009. Overall, employment in Anchorage is expected to decline by about 100 jobs in 2009, a net change of less than one-tenth of one percent. This forecast assumes no further significant decline in the national and global economies.



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Anchorage Economic  
Development Corporation

# economic forecast

This employment forecast is based in part on the Alaska Department of Labor & Workforce Development's Current Employment Statistics (CES). CES counts full-time and part-time jobs by place of work but excludes uniform military personnel, business owners, self-employed, unpaid family help, private household workers, and fishermen. This forecast is also based on the results of interviews conducted with representatives of key industries in Anchorage.

Local businesses and industries are subject to many uncertainties. This forecast offers no guarantee of future performance, therefore the reader should not place undue reliance on the forward-looking statements presented below.

## Last Year's Forecast

The Anchorage economy added approximately 900 new jobs in 2008, just slightly less than the 1,000 new jobs forecast by AEDC last year. The 2008 employment increase of 0.6 percent marked Anchorage's 20th consecutive year of job growth.

## Population

The most recent estimate indicates that the Anchorage population climbed to more than 283,800 residents in 2007, a 0.2 percent increase over 2006 (a 2008 estimate is not yet available). Between the years of 2000 and 2007, the population of Anchorage grew by a total of 23,540 people, an overall increase of 9 percent.

## Unemployment

Anchorage's unemployment rate for the first 11 months of 2008 was 5.5 percent, up 0.6 percentage points over the same time period in 2007.

Unemployment rates peaked in February and June at 5.8 percent. Anchorage's unemployment rate remains well below the 2008 statewide rate of 6.8 percent and just below the nationwide rate of 5.6 percent over the first 11 months of 2008.

Anchorage's labor force increased from an average of 152,630 in 2007 to 155,107 in 2008, a 2 percent increase. It is noteworthy that the size of the local labor force, total employment, and the unemployment rate all increased in Anchorage in 2008.

## Personal Income

Anchorage residents earned a total of \$12.2 billion in personal income in 2006, according to the most recent data available from the U.S. Bureau of Economic Analysis. Anchorage residents accounted for almost half of the total statewide personal income of \$25.8 billion. Per capita personal income in Anchorage was \$43,483 in 2006, about 4.4 percent above 2005. Nationally, per capita income grew at a rate of 5.3 percent between 2005 and 2006. Anchorage per capita income in 2006 was 14.0 percent higher than the statewide average (\$38,138) and 18.4 percent higher than the U.S. average (\$36,714).

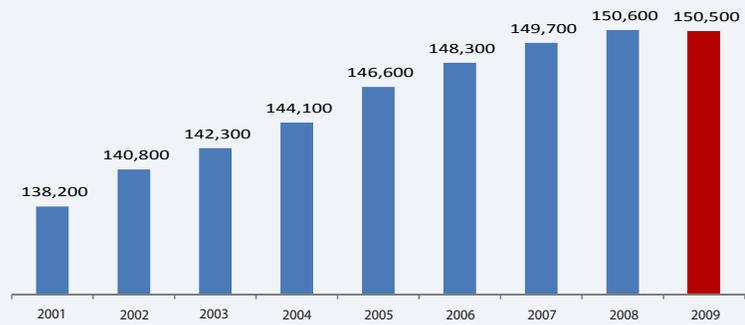
## Consumer Price Index

The U.S. Bureau of Economic Analysis reports that the Anchorage Consumer Price Index (CPI-U), an indicator of inflation in Anchorage, increased by 4.6 percent between the first half of 2007 and the first half of 2008. The largest increases occurred in energy (17.7 percent) and medical (4.5 percent). The CPI-U for the U.S. overall increased by 4.2 percent over the same period.

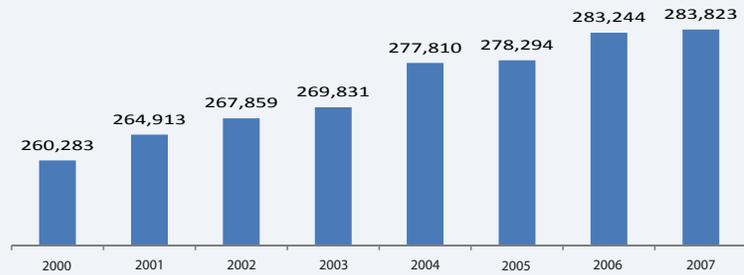


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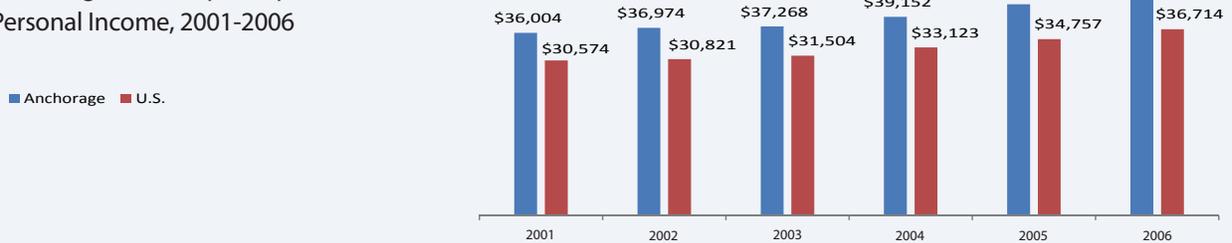
Anchorage Employment, 2001-2008, 2009 estimate



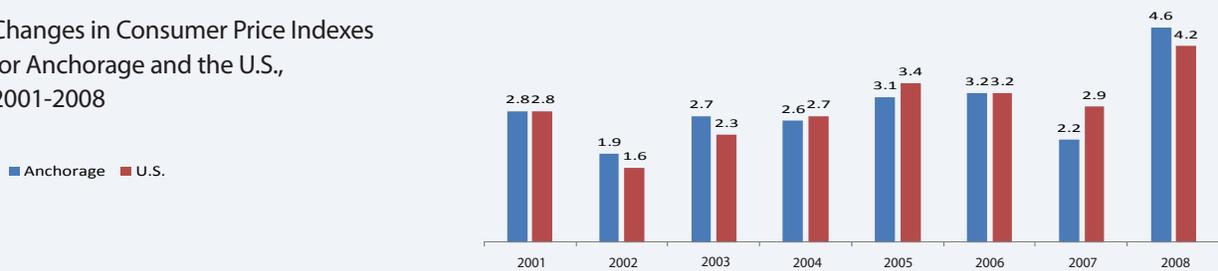
Anchorage Population 2000-2007



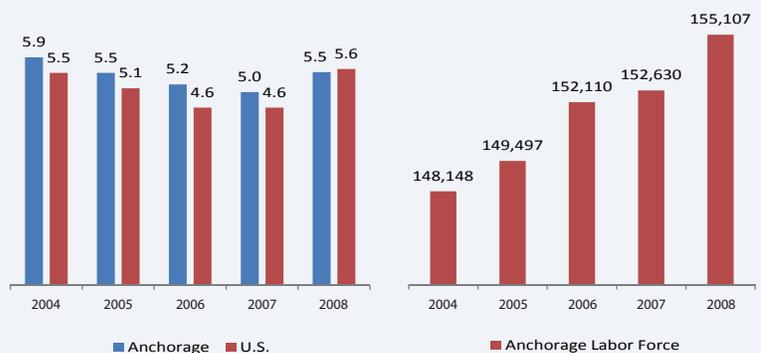
Anchorage and U.S. per Capita Personal Income, 2001-2006



Changes in Consumer Price Indexes for Anchorage and the U.S., 2001-2008



Anchorage and U.S. Unemployment Rates (%) and Labor Force, 2004-2008



# employment by sectors

## Health Care

Anchorage's health care sector added 200 new jobs in 2008 (as forecast by AEDC), an increase of 1.2 percent over 2007. For 2009, AEDC expects the health care sector to grow by 100 additional jobs, an increase of 0.7 percent over 2008.

Anchorage's health care sector has seen strong growth in recent years due to population increase in Southcentral Alaska, growth in health care services formerly only available out-of-state, and the federal government's shift to channeling federal grants through nonprofit health providers. In 2009, Southcentral Foundation (SCF) will start construction of its new Rural Psychiatric Treatment Center and complete the third building phase of its Anchorage Native Primary Care Center, scheduled to open in October 2009. Despite the recent expansion, SCF expects no change in employment for 2009 but does anticipate some employment growth in 2010. Providence Health and Services Alaska Anchorage facilities added more than 150 positions in 2008 continuing its growth trend from 2007. North Star Behavioral Health System has grown steadily over the years and recently went through an expansion adding a residential psychiatric treatment center. Demand for treatment closer to home has been growing and allowed for improved treatment success and growth of this sector in Anchorage.

## Leisure and Hospitality

In 2008, the leisure and hospitality sector remained at 2007 employment levels (AEDC forecast 100 new jobs for the year). For 2009, AEDC expects the hospitality and leisure sector to contract by about 200 jobs, a decrease of 1.3 percent. About two-thirds of employment in the leisure and hospitality sector is attributable to food services, with the remainder in accommodations (21 percent) and arts and entertainment (13 percent).

This sector of the local economy is susceptible to the national recession, which is having an effect in Anchorage. To the extent that households perceive their economic well-being has diminished, some decline in spending in restaurants (especially high-end restaurants) could be expected. Restaurant owners who may have been considering new or additional investment in Anchorage may postpone such investment given unstable capital

markets and uncertainty about the economy. In terms of accommodations, slow early cruise bookings may foretell some decline in cruise/tour volume through Southcentral and Interior Alaska. If such a decline were to materialize, Anchorage hotels could see some decline in cruise-related business. Should the national recession deepen, Anchorage's leisure and hospitality sector could be further exposed.

On the other hand there is room for optimism. In 2009, two hotels are scheduled to open, one in East Anchorage and one in Midtown. Further, the diversity of Anchorage's visitor markets, including business travelers, conventioners, and resident and non-resident independent travelers remain a solid foundation for the visitor-affected sectors of the Anchorage economy.

## Trade

Anchorage's wholesale and retail trade sectors combined added 100 jobs in 2008, an increase of 0.5 percent (AEDC forecast 250 additional jobs for the year). For 2009, we expect employment in this sector to grow by 200 jobs, a 0.9 percent increase.

Despite the recession and low levels of consumer confidence nationally, the local trade sector will continue to expand in 2009 by adding several new retail outlets. CIRI, in cooperation with California-based Browman Development Co., will continue construction at Tikahtnu Commons, soon to be Alaska's largest shopping and entertainment center. Scheduled openings in 2009 include Kohl's Department Store, Lowe's Home Improvement Center, BestBuy, and The Sports Authority. Also, Walgreens, a pharmacy and drugstore retailer, will open two new stores in Anchorage. Target is scheduled to open its second Anchorage store in South Anchorage in the fall of 2009.

Nevertheless, Anchorage's retail sector is not immune to national economic conditions. Large and mid-size national retailers, including those with a presence in Anchorage, are suffering from declining sales. It is difficult to forecast how turmoil in the national retail sector may affect Anchorage.

## Business and Professional Services

In 2008, the business and professional services sector added 300 new jobs, an increase of 1.8 percent from 2007 (50 jobs more than AEDC forecast). AEDC forecasts growth in this sector will moderate with about 100 new jobs in 2009, an increase of 0.6 percent from 2008.

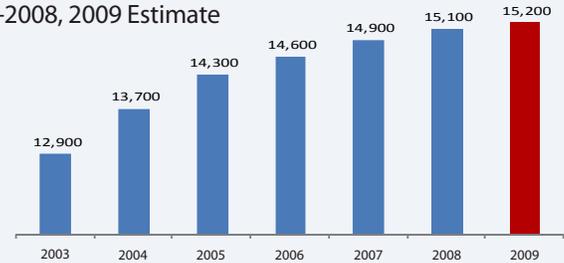
In 2008, this sector benefited from increased activity in the oil and mining industries, much of which was driven by high commodity prices. However, recent sharp declines in oil and base-metal prices are affecting companies' future spending plans for exploration, development and upgrading of existing facilities; activities which in turn affect business and professional services jobs, such as engineering, architectural, and related services. Gas line planning and pre-development work is expected to be a key driver of employment in this sector in 2009.

## Transportation

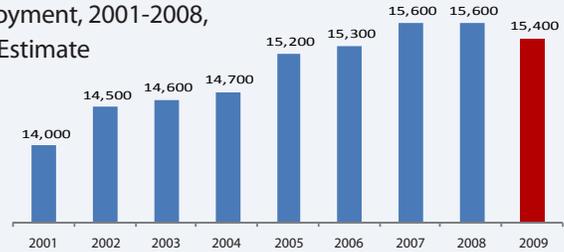
In 2008, employment in the transportation sector remained stable at 11,200 jobs. About two-thirds of this employment is related to air transportation, including 3,600 air carrier jobs and roughly 1,800 jobs in "transportation related support services," which is composed mostly of businesses providing goods and services to the air transportation industry. Air transportation-related employment in Anchorage also includes most of the 1,800 jobs in the category of "couriers and messengers," which includes UPS and Federal Express, two of Anchorage's larger employers. Other significant employment in the transportation sector includes trucking, with about 1,900 jobs. The transportation sector also includes ground passenger transport and pipeline employment. For 2009, AEDC forecasts that employment in the transportation sector will decline by 100 jobs, a decrease of 0.9 percent.

Anchorage's transportation sector is being affected by global and domestic economic conditions. The amount of cargo moving through Ted Stevens Anchorage International Airport (TSAIA) declined for the fifth consecutive quarter and is expected to continue its decline in 2009. There may also be a drop in overall tourism and visitor activity for 2009. In September 2008, United Airlines discontinued service to Anchorage and cut 35 jobs. Alaska Airlines expects no growth in traffic volumes for 2009.

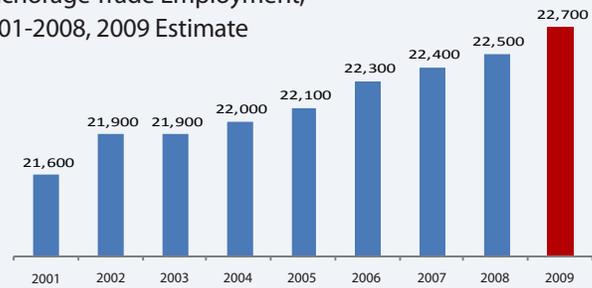
Anchorage Health Care Employment,  
2003-2008, 2009 Estimate



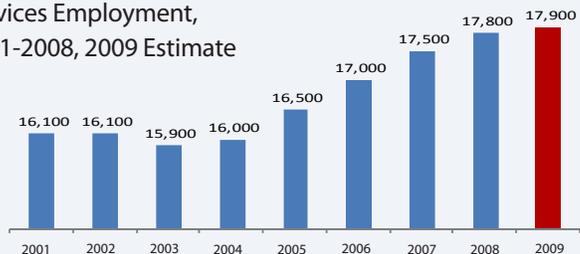
Anchorage Leisure and Hospitality  
Employment, 2001-2008,  
2009 Estimate



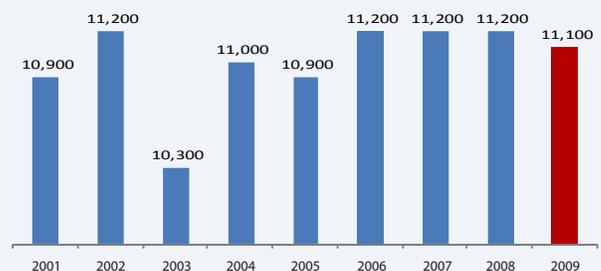
Anchorage Trade Employment,  
2001-2008, 2009 Estimate



Anchorage Business and Professional  
Services Employment,  
2001-2008, 2009 Estimate



Anchorage Transportation Employment,  
2001-2008, 2009 Estimate



## Construction

Even though commercial construction activity increased throughout 2008, employment in the construction industry overall declined by 300 jobs (a decrease of 3.1 percent), slightly less than the 350 job loss AEDC forecast. The period also marked the second consecutive year of job decline in this sector. In 2009, AEDC expects construction employment to decline by 200 additional jobs, a decrease of about 2.0 percent from 2008.

In 2008, the construction sector was mainly affected by the continued slowdown in residential housing construction. Many private sector commercial and government-sponsored projects have been put on hold for 2009. Nevertheless, extensive road construction, continuing retail expansion, and military projects will support activity in this sector in 2009. The Municipality of Anchorage will spend \$120 million on road construction, a third more than last year. Construction at TSAIA includes the ongoing South Terminal remodel (\$220 million) and runway upgrades (\$107 million). University of Alaska Anchorage (UAA) expects to complete its new Integrated Sciences Building and start building its \$26 million Health Sciences Building. Construction at the Port of Anchorage will amount to approximately \$75 million. Construction of the \$220 million Goose Creek Correctional Center at Point McKenzie is scheduled to start in 2009 with completion in 2011.

Construction by the commercial sector includes the continuation of JL Properties Centerpoint West development, with 200,000 square feet of office space and parking facilities, to be completed by the end of 2009. Irwin Development Corporation is expected to begin construction of its \$15 million Town Square Center in downtown Anchorage in the spring of 2009. Once completed, it will offer 36,000 square feet of new and 22,000 square feet of remodeled office and retail space. Construction of the second phase at CIRI's Tikahtnu Commons, including a theater entertainment complex, restaurants, and shops, is scheduled to begin in 2009.

Several construction projects are also planned by the U.S. Army Corps of Engineers. At Elmendorf Air Force Base, the military will construct shelter for its F-22 aircraft. In addition, a new veterans' affairs outpatient clinic and regional office is under construction near the base's Muldoon entrance. At Fort Richardson, two housing projects, a troop medical clinic, and a child development center are scheduled for construction in 2009.

## Oil and Gas

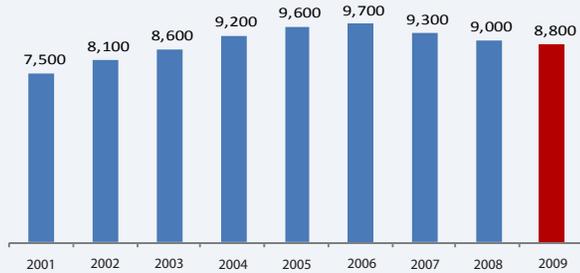
The oil and gas industry directly added 300 new jobs to the Anchorage economy in 2008. The industry directly employed 2,800 workers in Anchorage in 2008, a 12.0 percent increase from 2007. AEDC expects the oil and gas sector in Anchorage will hold steady in 2009, with no significant change in employment.

In 2008, high oil prices fueled renewed interest in Alaska oil and gas exploration and development, creating job growth on the North Slope and in Anchorage. For 2009, BP will begin work at the Endicott field for developing Liberty, an offshore field, and continue testing heavy oil production methods. ConocoPhillips with its partner Anadarko Petroleum plan to drill two exploration wells in the National Petroleum Reserve—Alaska. Also, pipe repair and replacement projects for aging infrastructure will continue to require intensive maintenance activity. ConocoPhillips and BP, as partners in Denali—the Alaska gas pipeline—will spend \$120 million on conducting additional fieldwork and project cost analysis. Denali's first major milestone is a successful open season commencing before year-end 2010. Open season is a period of seeking and contracting with gas producers to commit to shipping natural gas via a pipeline. In regard to a spur pipeline bringing gas to Southcentral Alaska, the Alaska Natural Gas Development Authority will continue to invest in engineering, project management, etc. in 2009, and expects to conclude its open season by the end of the year.

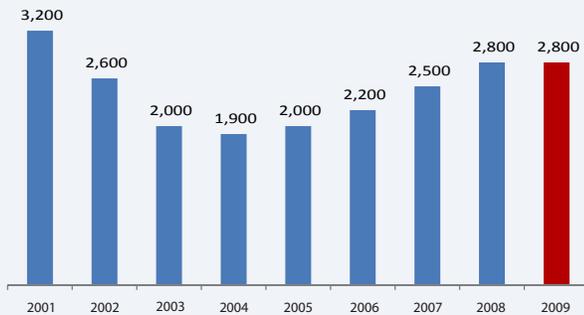
While oil companies remain focused on long-term development objectives, the recent sharp decline in oil prices coupled with a difficult investment climate will curtail investment in new oil and gas projects. For example, BP recently suspended its initial plans to build a \$120 million natural gas "partial processing" plant, and ConocoPhillips and BP recently announced they will drill fewer development wells in 2009 than previously anticipated.

It is important to note that published oil and gas industry employment numbers understate the real impact of the industry in Anchorage where thousands of additional business and professional services jobs are also linked to oil and gas exploration and production. Further, employment on the North Slope is important to the local economy because many Anchorage residents work on the North Slope.

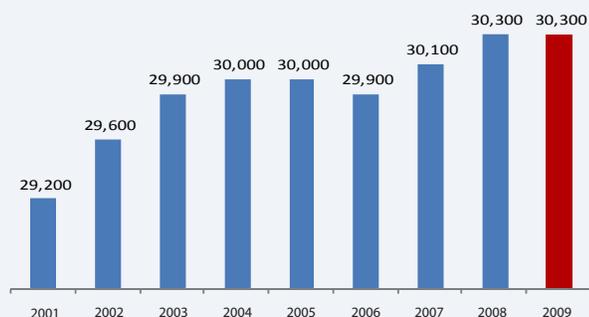
Anchorage Construction Employment,  
2001-2008, 2009 Estimate



Anchorage Oil and Gas Employment,  
2001-2008, 2009 Estimate



Anchorage Government Employment,  
2001-2008, 2009 Estimate



## Government

As forecast by AEDC, government employment increased by 200 new jobs in 2008 (a 0.8 percent increase). Government employment in Anchorage reached 30,300 jobs in 2008 and is expected to stay at that level in 2009.

Federal employment has fallen since 2004, though it stabilized in 2008, and is expected to remain at similar levels in 2009. However, the Federal Aviation Administration's consolidation plan anticipates approximately 50 engineering positions to be relocated to the lower 48. Employment at the Municipality of Anchorage and Anchorage School District, which combined accounts for one third of total government employment, is not expected to change significantly in 2009. No significant change in state employment is expected in 2009, though the oil-dependent state budget remains a question mark given the recent sharp decline in oil prices.

## Other Sectors

AEDC expects that employment in other sectors of the economy, such as "information" (telecommunications and publishing), financial activities (banking, insurance, etc.), manufacturing, and "other services" sectors will remain relatively stable in 2009.

## Military

Overall, troop levels in Anchorage have increased in the last six years after a long period of decline. In 2007, the number of troops at Fort Richardson reached the highest level since 1988. Troop levels at Fort Richardson are expected to increase by an additional 1,800 over the next few years. Troop levels at other bases in Anchorage are expected to remain at current levels.



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## Summary of 2009 Forecast

Total Anchorage employment in 2009 is expected to be slightly below 2008 levels. Even though Alaska has been somewhat insulated from the national and international recession, the Alaska economy will not be unaffected. The declining value of Alaska's oil and mineral resources reflects the weakness of the global economy. Falling commodity prices, tighter credit standards, and the global recession will likely lead to slower growth in those sectors of the Anchorage economy that are natural resource-development dependent. The recession may most significantly affect the leisure and hospitality sector as potential visitors decide to stay home rather than take a vacation to Alaska. The transportation sector may take a double hit from declining air passenger travel and declining air cargo volume. Increasing local foreclosure rates and regulatory changes to the mortgage and banking system suggest that the decline in residential construction will likely continue.

On the brighter side, employment in the trade sector is expected to increase in 2009, as is employment in the health care sector, though at a more moderate pace than in the recent past.

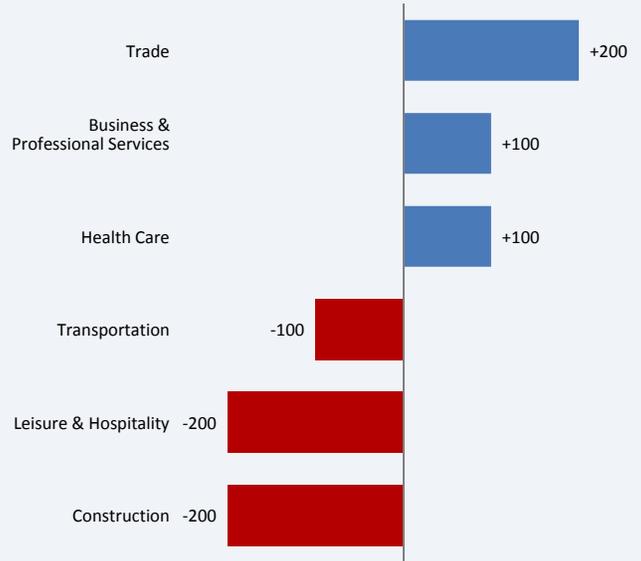
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## Expected Change in Employment in 2009, by Selected Sector



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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.