

AEDC economic forecast

The Economic Forecast
of Anchorage Economic
Development
Corporation



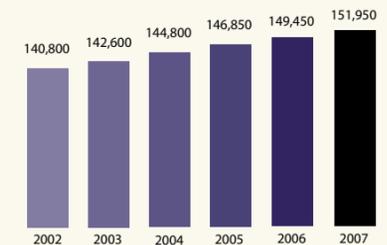
2007

2,500 Jobs Forecast for 2007

AEDC predicts that 2,500 new jobs will be added to the Anchorage economy in 2007, an increase of 1.7 percent over 2006. This growth is led by the oil, health care, and professional and business services sectors, each seeing 400 new jobs. The leisure and hospitality sector and the retail sector are each expected to add 300 jobs, while the government and air transportation sectors are each expected to add 150 jobs. It is important to note that uniform military personnel are not included in the jobs forecast; however, troop levels at Fort Richardson are expected to remain about the same in 2007. Self employed workers are also not included in the forecast.

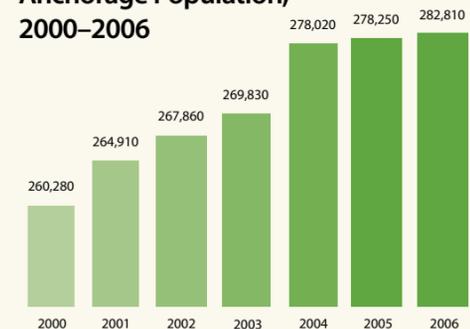
Anchorage Employment, 2002–2006, 2007 Estimate

AEDC predicted 1,900 new jobs in 2006. Actual growth was 2,600 new jobs.



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

Anchorage Population, 2000–2006



Source: Alaska Department of Labor and Workforce Development.

Population

Between the years of 2000 and 2006, the population of Anchorage grew by 22,530 people, an overall increase of 9 percent. Population increase in Anchorage is a contributing factor in economic growth, particularly in the service sectors.

Last Year's Forecast

In 2006, Anchorage saw stronger growth in employment than AEDC had predicted. Approximately 2,600 new jobs were created in 2006, an increase of 1.8 percent over 2005, making it Anchorage's 18th consecutive year of job growth.



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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.

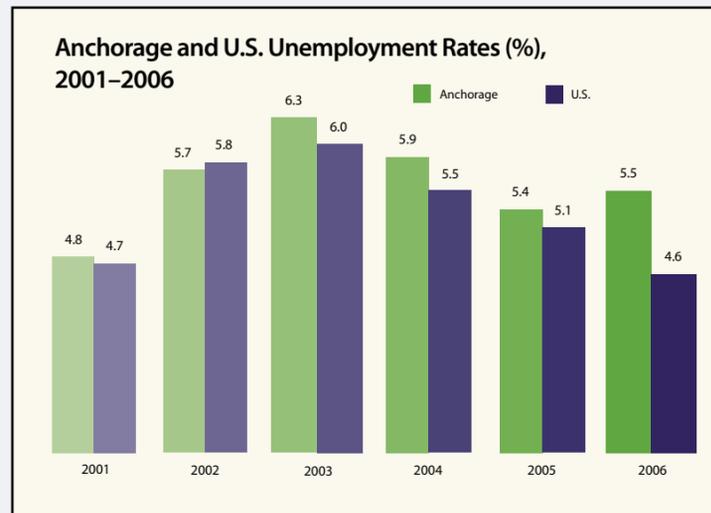
This economic forecast prepared for AEDC by:



www.mcdowellgroup.net

Unemployment

Anchorage's unemployment rate for the first 10 months of 2006 was 5.5 percent, a slight increase from 2005's annual rate of 5.4 percent. The highest month for unemployment in 2006 was February at 6.2 percent. Anchorage's unemployment rate remains well below the 2006 statewide rate of 6.8 percent, but is above the nationwide rate of 4.6 percent.



Personal Income

Personal income estimates from the U.S. Bureau of Economic Analysis show total statewide personal income at \$22.4 billion for 2004 (the most recent data available). Anchorage residents earn almost half of that, with personal income of \$10.7 billion. Per capita personal income in Anchorage was \$39,080 in 2004, about 4 percent above 2003. Anchorage per capita income was 15 percent higher than the statewide average and 18 percent higher than the U.S. average in 2004. From 2000 to 2004, per capita personal income for Anchorage residents grew at a faster rate than the US (16 percent versus 11 percent).

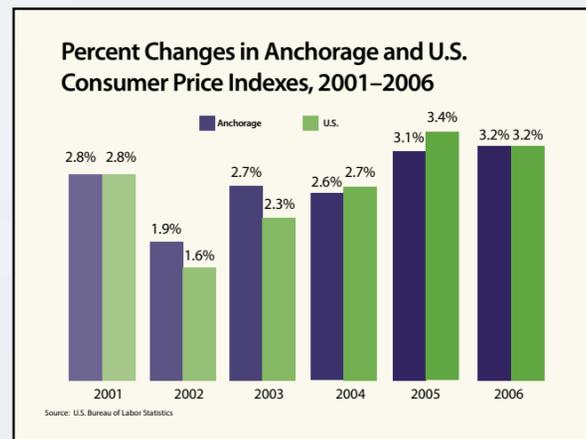


Self-Employed

According to the U.S. Bureau of Economic Analysis, there were approximately 35,826 self-employed proprietors in the Anchorage economy in 2004 (the most recent data available). Self-employed persons are not typically included in Alaska Department of Labor and Workforce Development published employment data.

Consumer Price Index

Based on the Consumer Price Index, the rate of inflation in Anchorage and the U.S. averaged 3.2 percent in 2006. Increases in the Consumer Price Index are in large part attributable to higher fuel prices.



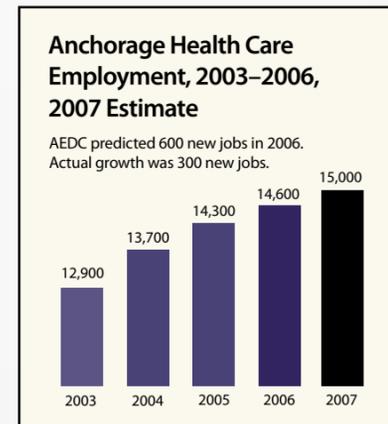
Employment by Sector

Health Care

Anchorage's health care sector experienced a 2 percent increase in average employment in 2006. Similar growth is expected for 2007, with another 400 health care jobs added to the Anchorage economy. Continued growth is the result of increased federal spending, increasing health care needs of the aging population, and an overall increase in population in Alaska. In addition, advances in health care technology are requiring more specialized personnel to help provide new services.

Alaska Regional Hospital, Alaska Native Tribal Health Consortium, Southcentral Foundation and Providence Hospital make up the majority of health care employment in Anchorage. A new long-term acute care hospital/cancer center with 60 beds has recently opened in Anchorage with 39 staff members currently employed. This number is expected to increase to 150 staff by the end of 2007. Providence announced a small layoff recently as a result of reorganizing; however, Providence still had 200 more employees at the end of 2006 than at the year's beginning.

Health care is a strong contributor to Anchorage job growth because many health care jobs are high paying. Additionally, Anchorage remains the primary center for health care services for most Alaskans. Further, development of Anchorage's health care industry has resulted in less leakage of health care dollars from the Alaska economy. Health care goods and services that in the past could only be provided in Seattle or elsewhere in the Lower 48 can now be purchased locally.



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

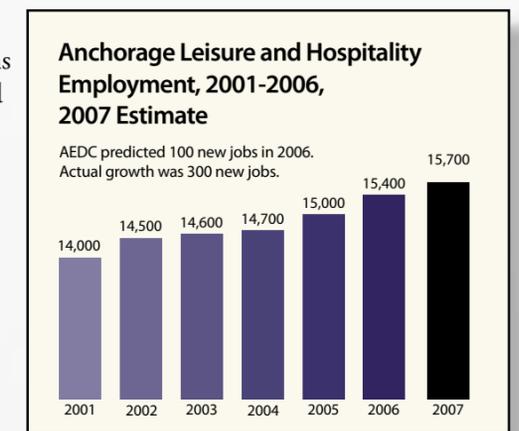
Leisure and Hospitality

The leisure and hospitality sector, which includes accommodations, food services and drinking places, and arts and entertainment, will add another 300 jobs in 2007, bringing Anchorage's total to approximately 15,700 workers. Restaurant and bar owners will add jobs as they continue to serve the increasing Anchorage tourist trade.

Some of the new restaurants that are expected to open in 2007 include IHOP, Qdoba Mexican Grill, Dairy Queen, and City Diner. The construction of a new Embassy Suites in midtown Anchorage began in late 2006 with opening expected in 2007. Construction of at least one and possibly two other hotels is expected to begin in the next two years.

Alaska cruise visitation in 2007 is expected to total 990,000 passengers following an increase in capacity of around 30,000 passengers from 2006. Alaska is seeing a leveling-off in the cruise industry growth rate, which had reflected double-digit growth a decade ago. One-third of Alaska's cruise ship passengers' move through Anchorage. There is a continuing trend of cruise ship passengers coming into the Southcentral region and choosing to spend pre- or post-cruise time in the area. These factors result in more spending in Anchorage and surrounding communities. Overall, hotel reservations and other bookings for summer months were strong in 2006 and advance reservations are higher for 2007.

Convention activity is expected to increase in 2007, given the number and size of the conventions already booked for the year.

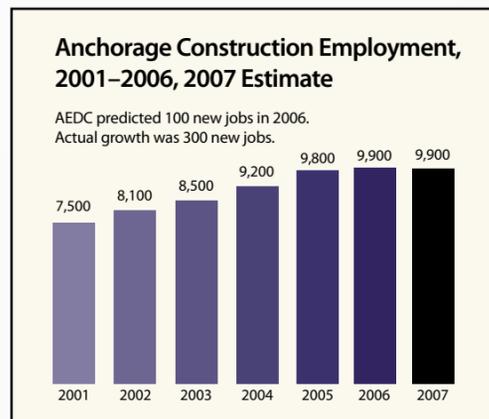
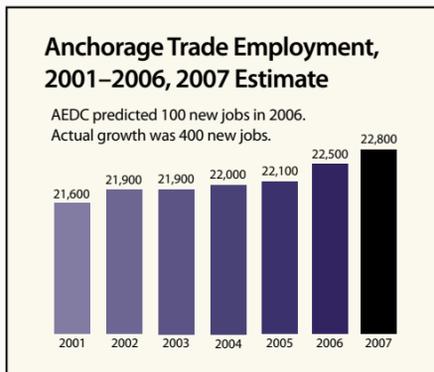


Source: Alaska Department of Labor and Workforce Development, McDowell Group estimates.

Trade

The retail trade sector in Anchorage has enjoyed steady growth in recent years. AEDC predicts employment in the trade sector to continue to grow in 2007, adding about 300 new jobs. A new Mountain View mall is under construction and expected to be completed by the end of 2007. It will house a number of local and national retailers, including Famous Footwear, PETCO, Bed Bath & Beyond, Natural Pantry, Old Navy and Best Buy. Bed, Bath & Beyond is opening a second store in the space opposite CompUSA in the soon-to-be remodeled shopping center on Dimond Boulevard. Construction of a second \$100 million-plus shopping center, including an anchor tenant, Target, is to begin on the east side of town in 2007. Plans are also underway to begin building a new Super Wal-Mart in the spring of 2007.

Most of the job growth in the retail sector resulting from completion of the above construction projects will show up in 2008 and could add up to 2,000 new retail jobs in Anchorage by 2009.



Construction

While construction employment increased by about 200 jobs in 2006, no significant growth is expected in 2007. Any increase in commercial construction activity will be offset by a decline in residential construction. In the first nine months of 2006, building permit valuation was running at \$195 million, or 39 percent ahead of levels in previous years. Much of this permit value, primarily in the commercial and public sectors, will translate into construction jobs in 2007 and beyond. In addition to construction of a \$100 million mall in east Anchorage, another \$100 million Mountain View mall is expected to be completed by the end of 2007. Construction of a new Wal-Mart Supercenter near the corner of Dowling Road and the New Seward Highway and work on at least two multi-story office buildings in Anchorage will also begin this spring. Other large construction projects underway include expansion of the Port of Anchorage (approximately \$40 million), building of the new convention center (approximately \$71 million) and the expansion of the Anchorage Museum of History and Art (\$2.5 million).

The FY07 State of Alaska Capital Budget for Anchorage projects is \$305 million, \$106 million of which is going toward construction projects on the Ted Stevens Anchorage International Airport for remodel of Concourse A and B (\$70 million) and roads, utilities and grounds construction upgrades (\$4 million). Additionally, \$20 million was slated for the \$100 million project to extend Dowling Road to Minnesota Drive and \$25 million for the Boniface Parkway/48th Street extension.

Cook Inlet Housing Authority will start construction of 90 low-income units this spring, completing construction by the spring of 2008.

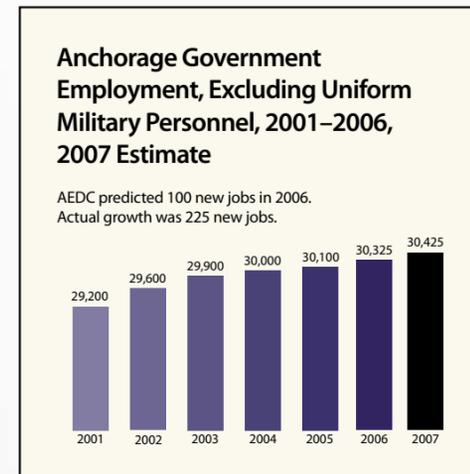
Elmendorf Air Force Base is currently adding a 120-room dormitory. Additionally, Fort Richardson is adding a troop medical clinic and a barracks facility, with expected award dates for these projects in the second quarter of FY07.

In general, residential construction is expected to decline in 2007. Increasing building material costs and the lack of available land for development will continue to constrain growth. AEDC expects to see a continuing trend toward more multi-family structure projects, which will help to fuel the industry in 2007.

Government

Government employment was up about 225 jobs in 2006, primarily the result of increasing state government employment. In 2007, AEDC projects another 150 new government jobs, primarily in State government.

Federal employment is expected to fall again in 2007, after three years of decreasing employment due to budget constraints. State government employment is expected to grow in 2007, due to oil revenue surpluses; however, with recent declines in oil prices the growth trend may not continue into 2008. The Anchorage School District's enrollment fell slightly for the 2006/07 school year and enrollments are expected to fall slightly again in 2008. School District employment is expected to remain about the same. Municipality of Anchorage employment is also expected to remain about the same.



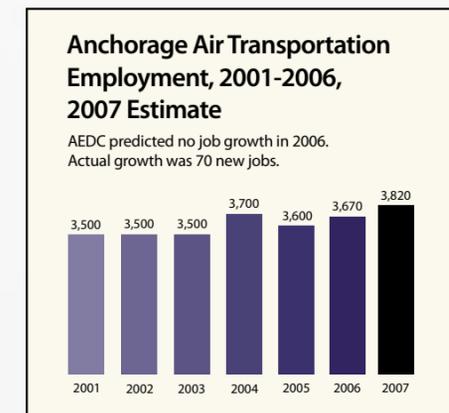
Transportation

The transportation sector is expected to add 200 jobs in 2007. Three-quarters of these new jobs (150 jobs) will be related to air transportation (as seen in the figure below). Ted Stevens Anchorage International Airport (TSAIA) officials estimate that air transportation accounts for about one in nine jobs in Anchorage.

Both FedEx and UPS are in the process of expanding their Anchorage airport presence, however, FedEx has no current plans for more job recruitment. UPS plans to base 80 or more of its pilots in Anchorage. Additionally, multi-user facilities, such as Lynx Cargo Ports, are planning expansions. Currently, approximately 650 wide-body aircraft land at TSAIA each week, including 38 international carriers.

As measured by landed cargo weight, TSAIA is the third busiest cargo airport in the world, behind Memphis and Hong Kong. Increases in air cargo are expected to continue in 2007 and 2008, rising at least 3 percent each year. The increase in trade with China is driving much of the growth in air cargo. Currently, there are five Chinese and three domestic air carriers operating out of TSAIA dedicated to cargo coming from China.

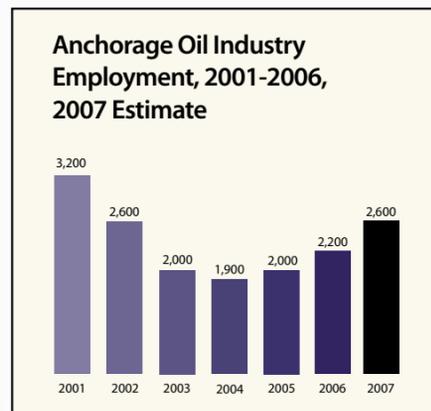
The Port of Anchorage, gateway for 90 percent of the products shipped to Alaska's Railbelt communities, continues to experience growth and is undergoing a multi-year expansion.



Oil Industry and Support Sectors

Employment in the oil industry made a strong recovery in 2006, increasing by 200 workers. Oil industry employment in Anchorage is expected to increase by another 400 jobs in 2007 and then flatten out in 2008. BP expects to hire 300 new workers in 2007 in development activities and to support the continued rebuilding of the North Slope pipelines affected by corrosion. ConocoPhillips is continuing development of a number of satellite fields in 2007. Pioneer Natural Resources' Ooguruk development project will add more than 500 workers to the North Slope construction workforce in 2007, many of whom will reside in Anchorage.

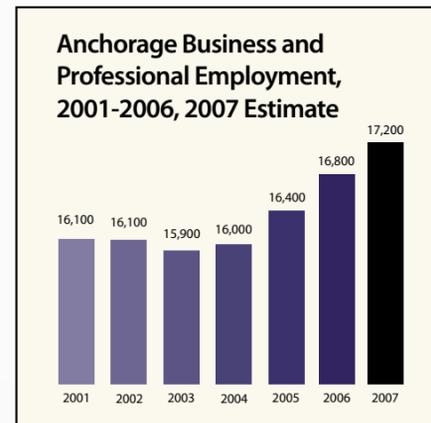
It is expected additional jobs will be added in 2007 in businesses that support the oil industry. It should be noted that oil and gas industry employment numbers mask the true effect of the oil and gas industry in Anchorage. The industry accounts for thousands of additional contract jobs in construction, industry support, and business and professional services.



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

Business and Professional Services

Employment in business and professional services is expected to increase by 400 workers in 2007. With the expectation of several future mining developments (Chuitna Coal, Donlin Creek, and Pebble projects), construction, and oil development around the state, AEDC expects more business and professional services employment (including engineering, architectural and related services) to meet growing demand. Legal, accounting, computer and other professional services should continue to expand gradually.



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

Other Sectors

Another 400 new jobs are expected elsewhere in the Anchorage economy, including in the natural resource, utilities, information, financial activities, and manufacturing sectors.

Military

Overall, troop levels in Anchorage have increased in the last five years after a long period of decline. In 2006, the number of troops at Fort Richardson reached the highest level since 1988. It is expected that troop levels will remain about the same in 2007 and 2008. Any gains will be temporarily negated by deployments. In 2006, 2,500 troops were deployed from Fort Richardson's 4th Brigade Combat Team (Airborne), 25th Infantry Division, the largest deployment since the Vietnam War.

Although the deployments are temporary, some businesses in Anchorage will continue to experience a slow down in their business until troops return.

Summary of 2007 Forecast

Health care employment continues to grow and new facilities and expansion of existing facilities will continue in 2007. Leisure and hospitality and retail will continue to expand with new national retail and restaurant chains entering the Anchorage market. The oil industry is also planning job expansion in 2007, which will in turn affect growth in oil support services, transportation, and business and professional services. TSAIA will likely continue to see growth that has it ranked first in domestic and third internationally for air cargo shipments. Construction employment is not expected to change significantly in 2007.

In 2007, Anchorage is expected to enjoy its 19th consecutive year of growth, adding 2,500 jobs to the local economy. Changes in employment in 2006 and expected changes in 2007 within Anchorage's economy are shown in the following figure.

