

2012

Economic

FORECAST



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2012 Economic FORECAST

AEDC's 2012 FORECAST: GROWTH



Preliminary job numbers for 2011 suggest the Anchorage economy continued its recovery from 2009, when the economy experienced its first job losses in 20 years. **On average, in 2011 there were 1,700 more jobs than in 2010** (a growth rate of 1.1 percent) with the Anchorage economy ending the year on a particularly strong note. The preliminary December 2011 employment count was 2,900 jobs above the December 2010 count (1.9 percent growth). **2011 marked the second year of job growth for Anchorage after the 2009 dip in employment.**

Other economic indicators point toward economic growth. Anchorage unemployment rates are falling from their peak in 2010, population growth continues at a steady pace, oil prices are high and have been relatively stable, and there is some renewed strength in Alaska's resource sectors – with increased mineral exploration and large mines planned, as well as substantially renewed interest in Cook Inlet's oil and gas resources. Consumer confidence continues to improve nationally and in Anchorage (according to reports from local retailers), leading to more visitor and resident spending in Anchorage's stores and restaurants. Another barometer of national and global recovery is the movement of cargo through the Ted Stevens Anchorage International Airport. Cargo landings and volume data indicate growth - not yet to pre-recessionary levels – but definitely moving in the right direction.

Based on several indicators, especially the strength of year-end employment gains as well as other indicators of growth in the local economy in 2011, **AEDC forecasts employment growth in Anchorage will total 1,500 jobs in 2012; an increase of 1.0 percent.**

As with any forecast, there is the possibility of either more or less growth than expected. There is risk on the downside related to the European debt crisis that, if it were to deteriorate, could stifle investment and trade globally. Anchorage's economy, with important international trade linkages, could be affected. Longer-term, declining North Slope oil production continues to cast a shadow on the Alaska economy.

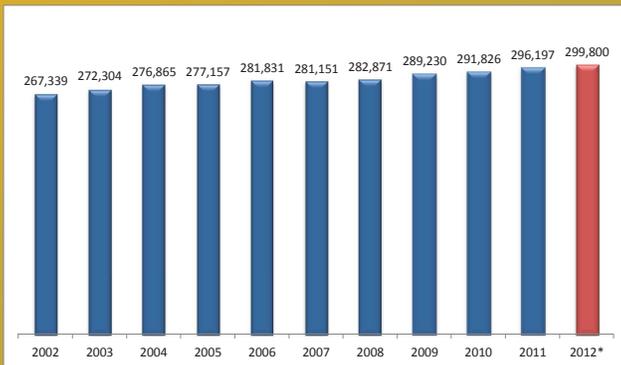
Considering the upside, the national economic recovery could gain steam, and businesses, banks, and consumers, both in and out of Alaska, could invest more, lend more, and spend more than has been the case during the country's very slow recovery from recession. Alaska, though faring the recession much better than most of the Lower 48, would still benefit from improvement in the national business and investment climate. Also on the upside, should there be significant progress toward construction of a gas pipeline, confidence in Alaska's long-term economic outlook would grow, potentially spurring investment across all sectors.

POPULATION

The 2011 population estimate for Anchorage is

296,197, up 1.5 percent (or 4,371 people) from the 2010 U.S. Census official population number. Over the past decade, the population of Anchorage grew at an average annual rate of about 1.2 percent. Anchorage's relatively strong employment growth rates, coupled with continuing high employment in the Lower 48, are continuing to drive population growth in Anchorage. In 2012, growth is expected to be at an annual rate of 1.2 percent. However, if growth is higher than projected, **2012 might be the year Anchorage's population could top the 300,000 mark.**

Anchorage Population, 2002-2010
2011 and 2012 Forecast



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

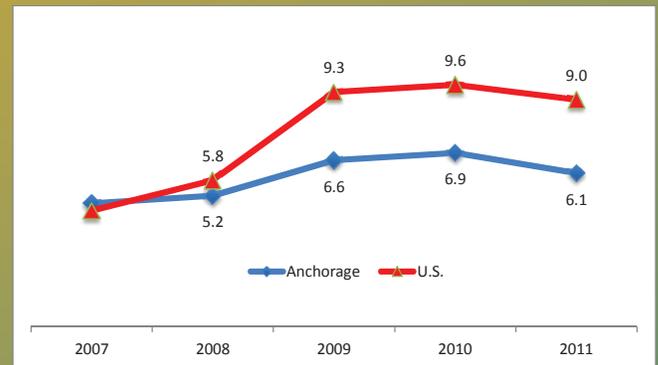
UNEMPLOYMENT

Anchorage's 2011 average monthly unemployment rate* was

6.1 percent, an improvement from the peak average rate of 6.9 percent in 2010. Unemployment has yet to drop back to pre-recessionary levels of 5.2 percent in 2008. By 2010, the U.S. unemployment rate had risen to 9.6 percent, climbing dramatically from 4.6 percent in 2007. While the U.S. employment rates have recently decreased to below 9 percent, the national rate is still well above pre-recessionary levels.

*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 (%), 2007-2011

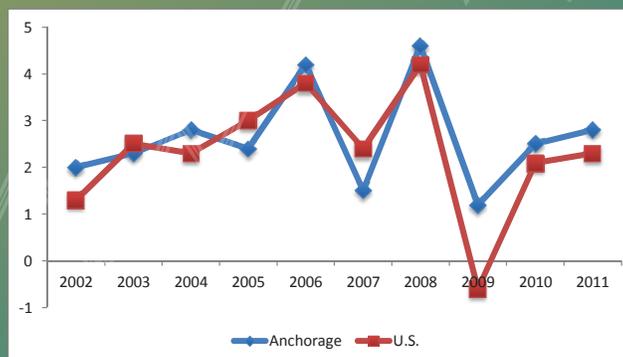


Note: Annual averages of unadjusted monthly rates.
Sources: U.S. Bureau of Labor Statistics and Alaska Department of Labor and Workforce Development

CONSUMER PRICE INDEX

Prices rose **2.8 percent** from the first half of 2010 to the first half of 2011 in Anchorage and 2.3 percent over the same period for the U.S. Inflation in both Anchorage and the U.S. fell sharply in 2009. In general terms this is a result of the economic downturn, in particular it's due to large drops in fuel and transportation costs. Prices bounced back up in 2010 and 2011, also in large measure due to rising fuel prices.

Anchorage and U.S. Inflation Rates,
First Half of Year, 2002-2011



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

Employment **by** SECTORS



OIL & GAS

+200

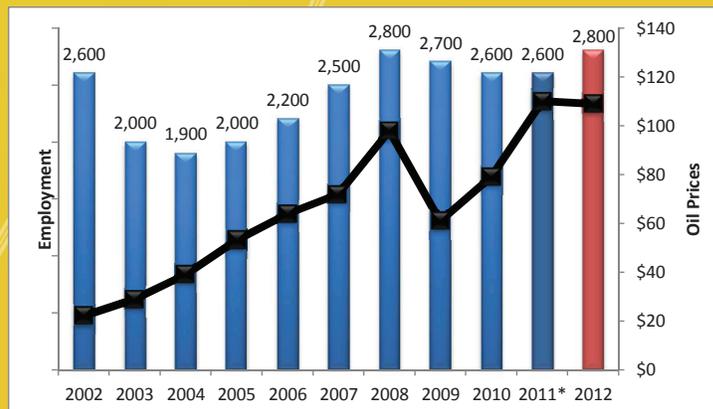
Oil and gas employment in Anchorage remained steady at **2,600 in 2011**. The 2012 forecast is for growth of approximately **200 jobs, pushing total direct oil and gas industry employment in Anchorage to 2,800 jobs**, driven mainly by new investment in Cook Inlet.

After recovering from a sharp drop during the global recession, oil prices in 2011 were consistently high, averaging \$110 a barrel, based on West Coast prices. Looking forward, the fact that prices have stabilized at a much higher level than earlier in the decade bodes well for the oil industry, state government coffers, and the Anchorage economy in the short term. Few industry watchers expect prices to fall any time soon.

While oil price trends are uncertain, production from the North Slope is expected to continue declining. In 2011, North Slope production averaged 603,000 barrels per day, down from 644,000 barrels per day in 2010. BP Exploration and ConocoPhillips Alaska expect their 2012 capital budgets to be flat or declining. 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 2012.

Excitement is building as new players to Alaska's Cook Inlet oil scene, including Apache Alaska Corporation, Buccaneer Alaska, Cook Inlet Energy, Furie Operating Alaska, Hilcorp Alaska, and Linc Energy, bring new exploration dollars to Southcentral Alaska in 2012.

Anchorage Oil & Gas Employment and Oil Prices, 2002-2011
2012 Forecast



* Estimated based on preliminary 2011 numbers
Sources: Alaska Department of Labor and Workforce Development, Alaska Department of Revenue, and McDowell Group



HEALTH CARE

+700

The health care sector continues to be an area of strong growth for the Anchorage economy with **800 new jobs in 2011 and another 700 jobs predicted for 2012**. In 2011, health care employment in Anchorage reached 17,000 jobs.

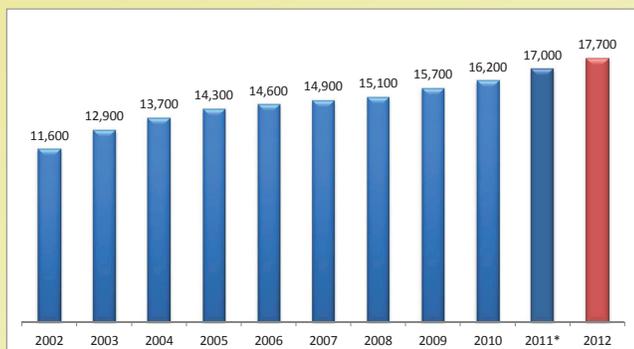
The industry's recent job gains extend a remarkable stretch of growth. Just since 2002, Anchorage has added 5,400 health care jobs, a number that equates to 45 percent of Anchorage's net job growth over that period. Another illustration of the growing economic power of the industry is that the municipality's 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 population and job growth. However, Alaska's 65 and older population is projected to nearly double by 2020, a trend that will certainly place growing demands on the state's health care sector. A wild card in the health care sector is the potential effects of new federal health care legislation on job growth.

Much of the new employment is not directly with Anchorage's hospitals, but rather with contractors providing health services within the hospitals and clinics, as well as significant employment growth within private home health and personal care service provider companies.

Adding several hundred jobs a year has become very normal for Anchorage's health care industry and that momentum is almost certain to continue through 2012.

Anchorage Health Care Employment, 2002-2011, 2012 Forecast



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group



TRANSPORTATION

+100

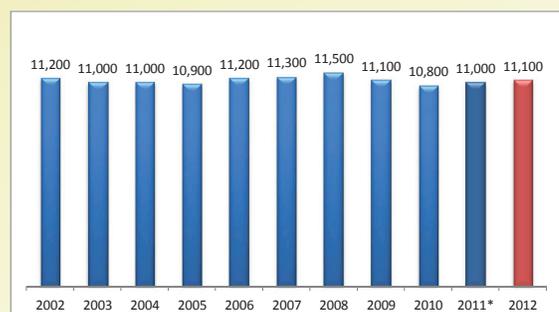
AEDC forecasts an increase of **100 transportation-related jobs in 2012**. After peaking at 11,500 jobs in 2008, transportation sector jobs in Anchorage fell to a low of 10,800 in 2010. In 2011, the trend reversed with 200 new jobs as airport traffic bounced back from its low point in 2009.

Ted Stevens Anchorage International Airport (ANC) continues to rank among the top five airports worldwide in volume of air cargo (5th in 2010) and second within North America, behind Memphis. However, all cargo transiting through ANC fell by 2 percent during the first three-quarters of 2011 compared to the same period in 2010. Air passenger volumes increased by 4 percent over the same period.

Just under two-thirds of the transportation sector's employment is connected to air transportation. This includes roughly 2,400 passenger air carrier jobs, 1,800 airport support service jobs, and 2,200 jobs in the "couriers and messengers" category, which includes FedEx and UPS, two of the larger employers in Anchorage.

Marine shipping companies and the Port of Anchorage tell a similar story of improved business, yet little employment growth so far. Container tonnage is down 2 percent, petroleum tonnage up 13 percent, and cement tonnage up 6 percent. 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 continued recovery in all modes of cargo traffic in and through Anchorage, and increasing air passenger traffic, some job growth is almost certain for 2012.

Anchorage Transportation Employment, 2002-2011, 2012 Forecast



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group



PROFESSIONAL & BUSINESS SERVICES

+150



RETAIL TRADE

+100

The professional and business services sector **gained 300 jobs in 2011**. AEDC forecasts a gain of 150 more jobs in this sector in 2012.

Much of the professional and business services sector's stability over the last four years is attributable to its connection to the oil and gas industry, and mining sector, which has also seen some recent growth in terms of statewide employment since 2008. Most of the growth in this sector is found in the "professional, scientific, and technical" category (up about 500 jobs from 2010). This category represents more than half of the sector's total employment (about 10,400) and includes engineers, architects, biologists, geologists, and similarly specialized professions, many of which provide services and expertise to Alaska's resource extraction industries.

Growth in another large part of the Professional and Business Services sector – "administrative and support services" (with more than 6,500 jobs) - has been more moderate and generally parallels conditions in the broader Anchorage economy.

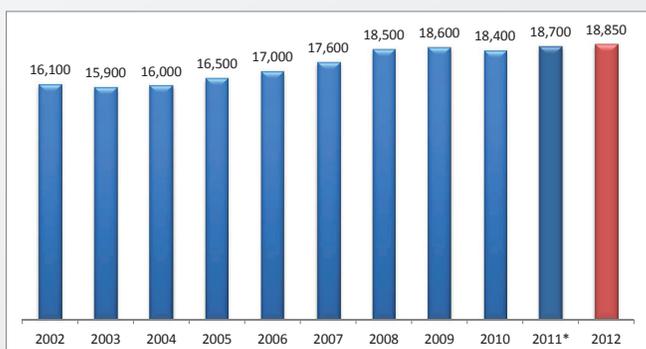
Employment in retail trade is **forecasted to increase by 100 jobs in 2012**, following a decline of 100 jobs in 2011.

After peaking at 17,500 jobs in 2007, Anchorage retail sector employment has been slowly trending down. 2011 saw retail employment in Anchorage is at its lowest point (17,000 jobs) in a decade.

Some major retail businesses are reporting less employee turnover than seen in previous years, and are continuing to invest in store improvements, such as major remodels, expansions, and enhancements of retail stores, as well as new stores, such as Walgreen's new store on Minnesota Drive scheduled to open in 2012.

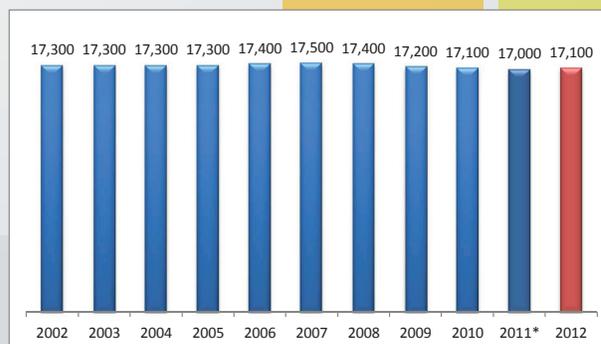
While retail activity in Anchorage appears to be on the upswing, some store managers report more fully utilizing existing staff rather than hiring additional workers. Nevertheless, despite retail's tepid employment performance in recent years, over the long term a growth trend will emerge as the overall economy continues to strengthen. Near-term, AEDC's expectation for 100 new jobs in this sector in 2012 is a positive departure from the steady decline experienced over the past several years.

Anchorage Business & Professional Services Employment, 2002-2011
2012 Forecast



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group

Anchorage Retail Trade Employment, 2002-2011
2012 Forecast



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group



CONSTRUCTION

-150

Construction employment **fell by 200 jobs in 2011; and is expected to continue its decline by 150 jobs in 2012.** 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 have fallen for six consecutive years. The net loss over those years was 1,500 jobs, or 15 percent.

Looking ahead to 2012, 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 \$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.

Tikahtnu Commons is expecting to complete construction of another 350,000 square feet of retail space in 2012, including an Olive Garden. Other projects, such as CIRI's Fire Island wind power project is expected to employ about 100 workers during the construction season. Providence Alaska Medical Center is continuing renovation and expansion of its Newborn Intensive Care Unit, labor and delivery, cardiac surgery program, and other services.

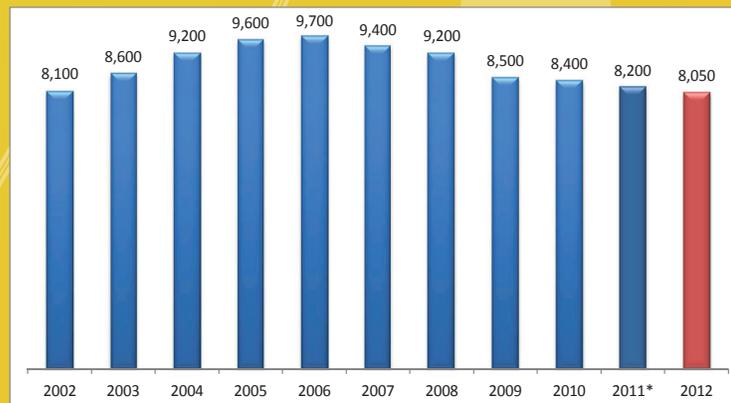
Their Mother-Baby, and labor and delivery units will open in 2012 and the remaining construction will be completed in 2014. Providence is in the midst of replacing its extended care center with a new campus on Boniface Parkway, expected to be completed by the end of 2012.

Private developers, both residential and commercial, continue to be constricted by recessionary pressures with tighter credit and more stringent lending requirements. On a mixed note, residential building permit values were down 10 percent and commercial building permit values were up 24 percent in 2011 compared to 2010. Residential construction is expected to remain flat in 2012.

While some remaining federal stimulus money is still working its way through the system, there are overall concerns of less federal money for capital projects being available in future years. For instance, the U.S. Army Corps of Engineers saw a 16 percent decrease in its program funding between FY2011 and FY2012. In FY2013, the Corps expects Department of Defense to cut military construction spending further and its civil works program to be flat.

On the horizon could be a big boost with the construction of a new sports education and training complex at the University of Alaska Anchorage and new retail and restaurant outlets.

Anchorage Construction Employment, 2002-2011
2012 Forecast



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group



LEISURE & HOSPITALITY

+500

Leisure and hospitality employment **grew by 500 in 2011 and is expected to grow another 500 in 2012.**

The driving forces behind the better than expected performance in 2011 were improved consumer confidence as reflected in higher per-visitor spending levels for cruise-ship passengers, more convention visitors, new entries to the local restaurant scene, and more spending in general by Anchorage residents in 2011.

While statewide cruise passenger visitation remains well below the peak level in 2008, Anchorage got a boost from Holland America, Oceania, and Silversea cruise ships making 12 port calls in the city. About 15,000 passengers visited Anchorage in 2011, up 16 percent from 2010. Only seven stops in Anchorage by Holland America, plus one stop by The World (an exclusive vessel that continuously circumnavigates the globe) has been confirmed for the 2012 cruise season.

There are a number of reasons to expect more growth in the Leisure and Hospitality sector. Anchorage hotels and *Visit Anchorage* are expecting bookings to be up, JAL and Condor will be increasing their number of flights, Princess Cruises is bringing another 48,000 passengers to Southcentral Alaska, and seven large conventions are already scheduled for 2012.

Recent 2011 expansions to Anchorage's restaurant scene, such as a second FireTap Alehouse, and a new McDonalds and Qboda Mexican at Tikahtnu Commons, contribute to this growth. New entries will include Olive Garden with its Tikahtnu Commons opening in January 2012 and 165 new employees. A municipal building permit application is pending to build a second Olive Garden at the Dimond Center in 2012.

Both visitors' and the local residents' willingness to engage in the type of discretionary spending that drives leisure and hospitality should continue to improve, supporting additional job growth.



FINANCIAL ACTIVITIES

FLAT

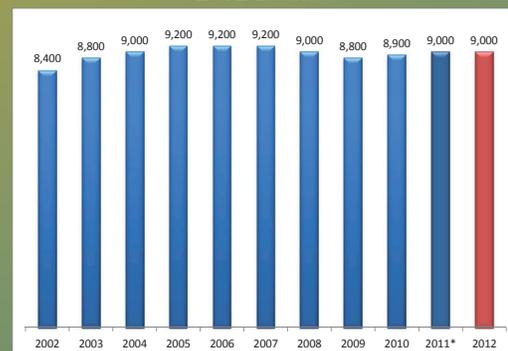
Employment in financial activities **grew by 100 jobs in 2011. AEDC expects employment to remain flat in 2012.**

The financial activities sector includes banks, credit unions, financial advisors and stockbrokers, insurance companies, as well as real estate brokers and managers. This sector employed an average of about 9,000 workers in 2011.

Several of Alaska's financial institutions report that deposits are up; consumers are saving money and are more conservative with their investments given the volatility of the stock market.

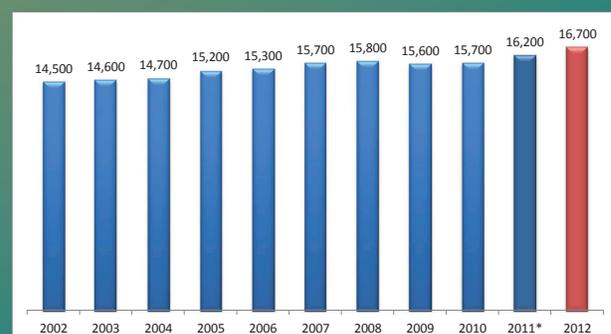
This sector is closely linked with the health of the local housing market. Sales prices for single-family homes dipped 2 percent while number of sold units grew by 2 percent in 2011. As long as the local housing market remains flat relative to historical Anchorage standards, lending agencies and real estate brokers will face headwinds.

Financial Activities, 2002-2011
2012 Estimate



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group

Anchorage Leisure & Hospitality Employment, 2002-2011
2012 Forecast



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group



GOVERNMENT

-100

The number of government jobs in Anchorage **decreased by 300 in 2011. Employment in this sector is forecasted to fall by another 100 jobs in 2012.**

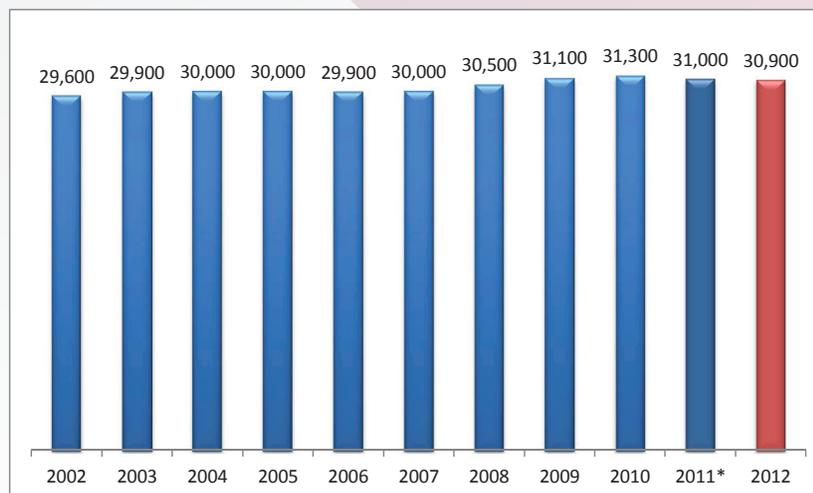
As a result of the Municipality's austerity budget program, there were about 100 fewer local government jobs in 2011 than in 2010. Similar declines (-100 jobs) were also noted in the Anchorage School District. Tight budgets will continue to affect the city in 2012; however, employment is expected to level off and remain steady.

While state government has seen substantial budget surpluses, state government employment in Anchorage has held steady in recent years, gaining about 100 jobs between 2010 and 2011. The University of Alaska Anchorage, which is included in state government employment figures, accounts for about 2,500 jobs in Anchorage and is among the largest entities in the local economy.

There were about 300 fewer federal jobs in Anchorage in 2011 than there were in 2010. Some of this job loss can be attributed to the reduction in 2010 Census workers. Continued job loss within the federal government is anticipated in 2012 as the nation struggles to keep federal government costs under control.

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 (JBER) and their dependents are a powerful economic force. While overall cuts in U.S. defense spending are expected, the outfall in Alaska is uncertain. Alaska's strategically critical position on the Pacific Rim and in the Arctic region suggests that the state might do better than U.S. bases located elsewhere in the country and the world. The Air Force announced the cut of about 300 civilian positions by the end of 2011; however, the number of workers actually affected was smaller as many were cross-trained into other positions.

Anchorage Government Employment, 2002-2011
2012 Forecast



* Estimated based on preliminary 2011 numbers
Source: Alaska Department of Labor and Workforce Development and McDowell Group

The **big** PICTURE

The Anchorage economy enjoyed a year of **solid job growth in 2011**, adding **1,700 jobs**, based on preliminary estimates. AEDC expects 2012 to bring **additional employment growth**, with about **1,500 new jobs** added over the course of the year.

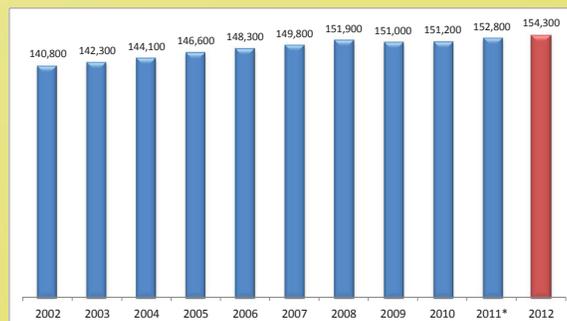
Several of Anchorage's key economic drivers, including the oil and gas industry, the visitor industry, transportation services, and health care, are all entering 2012 with a generally positive near-term outlook. Those drivers will in turn provide a generally positive economic climate for the various support-sector industries that account for a very large portion of Anchorage area employment.

Longer-term, the continuing decline in North Slope oil production, a likely reduction in federal government spending, along with the possibility of gas pipeline construction, promise interesting and challenging times ahead for Alaska and its largest city.

NOTE ON SOURCE OF EMPLOYMENT DATA

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

Anchorage Total Employment, 2002-2011
2012 Forecast



* Estimated based on preliminary 2011 numbers

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

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