



2012 3 YEAR OUTLOOK

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3 Year OUTLOOK

By most key indicators, Anchorage's economy continues to expand at a modest pace, though final employment counts for 2011 showed a much more robust year than originally measured. According to Alaska Department of Labor and Workforce Development (ADOLWD) data, Anchorage gained 3,300 jobs in 2011, up 2.2 percent from 2010. In January, AEDC predicted employment growth based on the lower preliminary employment numbers, forecasting that about 1,500 jobs would be added to Anchorage's employment base of 154,400 jobs, or an increase of about 1 percent. Through the first five months of 2012, employment is 1,440 jobs above the same period in 2011, according to ADOLWD.

Anchorage continues to outperform the national economy. The unemployment rate in Anchorage in May was two full percentage points below the national average, 5.7 percent versus 7.9 percent, also according to ADOLWD. Lingering high unemployment in the U.S., weak job growth, and extreme volatility in the Eurozone economy are all presenting strong headwinds for domestic economic recovery.

Meanwhile, according to the 2012 AEDC Business Confidence Index (BCI) survey, business confidence in Anchorage is at its highest level since the BCI survey was launched four years ago. Based on the results of this three-year economic forecast, that optimism is justified for the coming 3 years. For the remainder of 2012 and the 2013-2015 forecast periods, all of the indicators in this forecast are expected to be stable or trend upward.

IN 2011:

+3,300 jobs
increase of **2.2%**

SO FAR IN 2012:



+1,440 jobs
over the same period as 2011



POPULATION

+ 1.2% 2012 - 2015

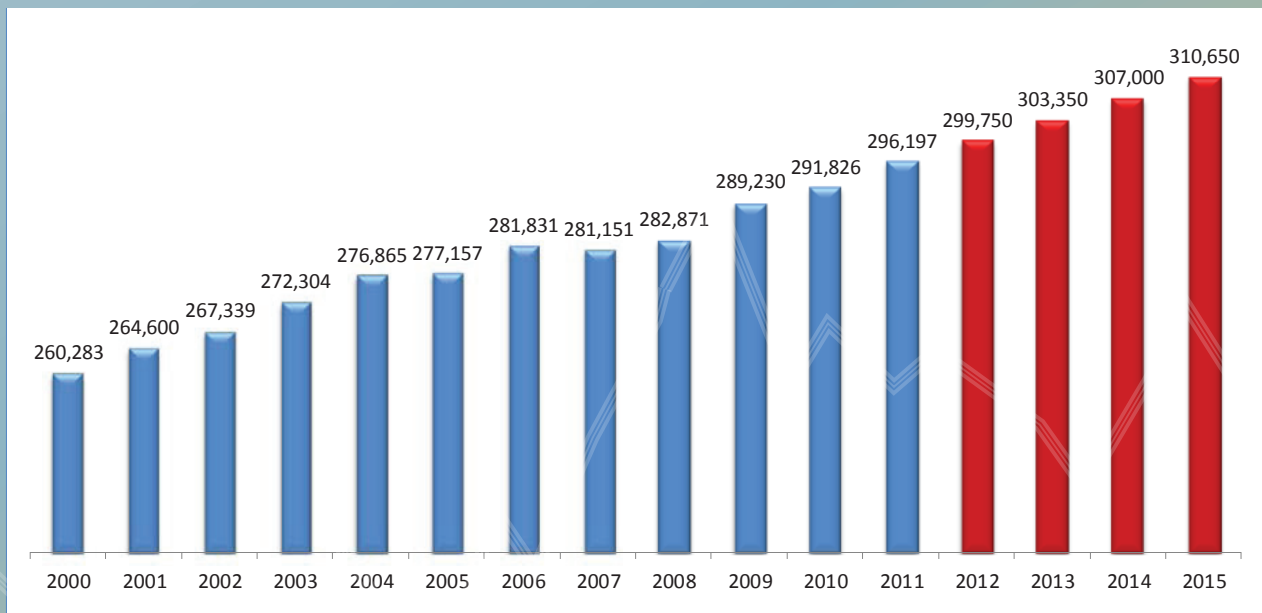
Anchorage's population in 2011 climbed to 296,197 residents, according to ADOLWD estimates, an all-time high, and 1.5 percent above the 2010 Census count.

Natural increase (births minus deaths) accounts for more than 95 percent of the city's recent population growth. Net migration (the difference between the number of people moving to Anchorage and the number leaving Anchorage) accounted for a small share (about 5 percent) of population growth over the 2010 to 2011 period; unlike in the Mat-Su Borough where net migration accounted for 60 percent of its population

growth between 2010 and 2011. The Mat-Su Borough's population of 91,697 in 2011 continued to grow at a faster rate than Anchorage, up 2.4 percent above the 2010 Census count.

Anchorage's population may top the 300,000 mark this year (2012). AEDC forecasts population growth of 1.2 percent in 2012, which would put Anchorage about 250 residents shy of 300,000. Supported by additional natural increase and continuing job growth, the 1.2 percent annual growth rate is expected to hold steady over the next three years.

Anchorage Population, 2000 - 2015



Source: U.S. Census, Alaska Department of Labor and Workforce Development, 2000-2011; McDowell Group forecast, 2012-2015.



EMPLOYMENT

+ 1% 2012

+ 1.2% 2013 - 2015

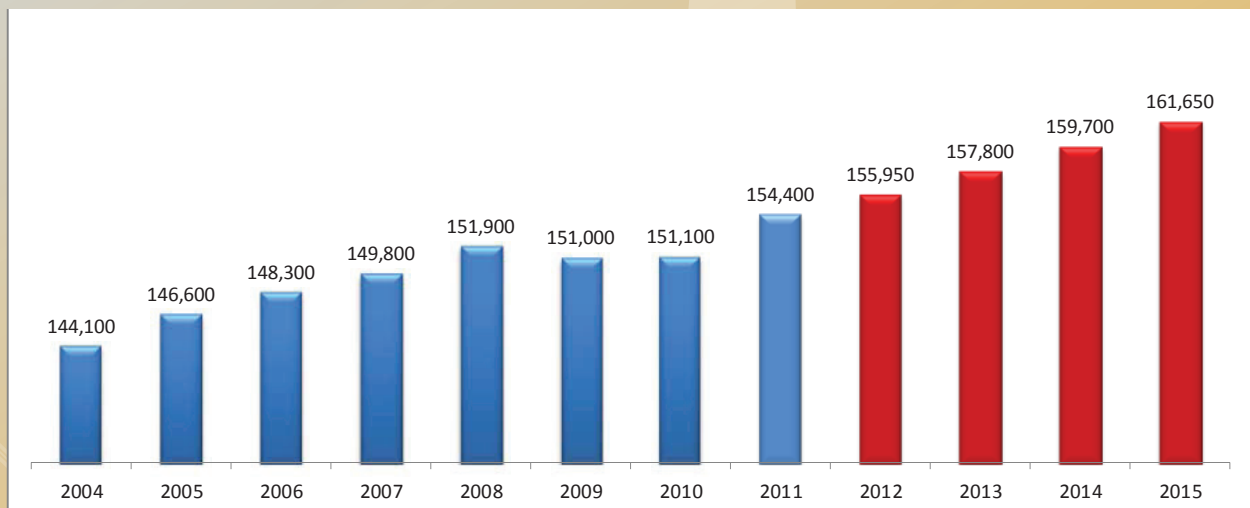
Final employment counts for 2011 showed a more robust year than originally measured, in terms of jobs growth, with total employment averaging 3,300 more jobs than in 2010. Anchorage employment averaged 154,400 jobs in 2011, up from 151,100 jobs in 2010. The health care sector was again leading the charge, with 900 new jobs in 2011. Other growth occurred in the leisure and hospitality sector (+800 jobs), education (+700 jobs), transportation/warehouse/utilities (+500 jobs), and professional and business services (+400 jobs) sectors, as well as in the oil and gas sector (+200 jobs).

Preliminary January-through-May 2012 numbers show continued growth, thanks once again to health care (+540 jobs), but

also transportation/warehouse/utilities (+600), leisure and hospitality (+360), and professional and business services (+300). Construction continues to lag, with 300 fewer jobs through the first five months of 2012 than in the same period in 2011.

Momentum from last year's strong job performance is carrying into 2012, though the pace of growth has slowed. While AEDC remains optimistic about the near-term employment outlook, this year's three-year forecast is for slightly slower growth than predicted in previous forecasts. AEDC forecasts employment growth of around 1 percent for 2012, with the rate of increase rising slightly to 1.2 percent annually in 2013, 2014, and 2015.

Anchorage Employment, 2004-2015



Source: Alaska Department of Labor and Workforce Development, 2004-2011; McDowell Group forecast, 2012-2015.



PERSONAL INCOME

+4.5% 2012 - 2013 **+5.2%** 2014 - 2015

Personal income is a measure of total gross income (before taxes) from all sources earned or received by Anchorage residents. It includes employment income, income from other sources such as investments (dividends, rental income, and interest income, among others), and government transfer payments (which include Social Security, Medicaid and Medicare, unemployment benefits, and the Permanent Fund Dividend).

Anchorage resident personal income totaled \$14.4 billion in 2010 (the most recent local-level data available from the Bureau of Economic Analysis - BEA), 4 percent above the 2009 total. Over the past four years, total personal income in Anchorage has increased at an annual average rate of 3.6 percent (in nominal, non-inflation-adjusted dollars).

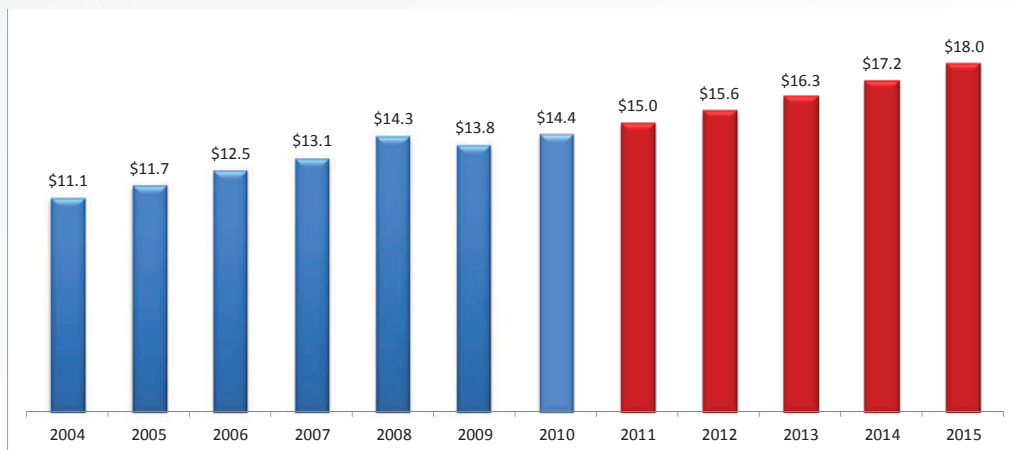
In 2010, 72 percent of Anchorage personal income came from employment (including self-employment income), significantly more than the national average of 65 percent.

Proportionally, Anchorage residents earned less than the national average from investments and other non-employment sources (14 percent versus 17 percent nationwide) and from government transfer payments, including Permanent Fund Dividends (14 percent vs. 18 percent nationwide).

Total Alaska (statewide) personal income increased by 2.9 percent between 2010 and 2011, according to the BEA. For the same period, U.S. personal income increased by 4.3 percent. Though data is not yet available, Anchorage personal income likely grew at a rate similar to the U.S. average between 2010 and 2011. These figures have not been adjusted to account for the effects of inflation.

AEDC forecasts personal income growth of 4.5 percent in 2012 and 2013, accelerating to 5.2 percent annually in 2014 and 2015 as general economic conditions improve outside Alaska's borders, and local and statewide economic conditions remain positive.

Anchorage Personal Income, 2004 - 2015
(\$ billions)



Source: U.S. Bureau of Economic Analysis, 2004-2010; McDowell Group forecast, 2011-2015.



ANCHORAGE INT'L AIRPORT PASSENGER & FREIGHT VOLUME

Approximately 5.1 million people passed through the Ted Stevens Anchorage International Airport (ANC) in 2011, a 3 percent increase over 2010; yet still 5 percent below pre-recession levels in 2008.

The first five months of 2012 were down slightly from the first five months of 2011 with passenger traffic down 2 percent, although the peak summer months will play the largest role in determining overall traffic trends for the year. Summer flights on Frontier Air, American, Jet Blue, Air Canada, and Sun Country returned. Domestic carriers serving Anchorage year-round also increased flights during the summer season. While the number of JAL and Korean Airlines flights is the same as last year, Condor has increased from 64 to 78 flights this summer. Yakutia Air started weekly flights between Anchorage and Russia also this summer. Overall, AEDC expects summer traffic to push the annual 2012 totals to about 1 percent above last year. Beyond 2012, passenger traffic is expected to increase at a rate of 2 percent annually.

Air cargo volume at the airport dipped in 2011, slipping from 2.9 million tons in 2010 to 2.8 million tons last year. Data for the first five months of 2012 show the downturn persisting, with a 5 percent decline compared to the same period in 2011. The recent decline is mostly in

+2.0% 2013 - 2015 (passenger)

+1.5% 2013 (cargo)

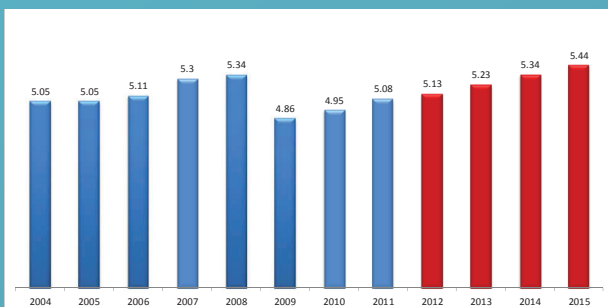
+2.0% 2014 (cargo)

+2.5% 2015 (cargo)

cargo transiting through ANC, which was down 12 percent. Transit cargo accounts for about 70 percent of the air cargo moving through ANC. Deplaned cargo declined 13 percent while the volume of enplaned cargo increased 12 percent. Transit cargo volume through ANC serves as a barometer of conditions in the global economy. The decline in in-transit volume in 2011 and 2012 year-to-date likely reflects reduced exports from China to Europe. European nations are a critical market for goods manufactured in China. Most of the Eurozone's 17 member nations are in recession.

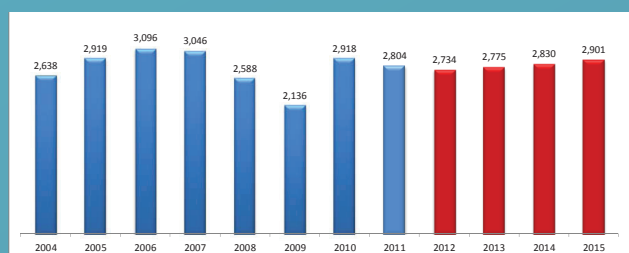
AEDC expects ANC air cargo volume to remain below 2011 levels for the remainder of 2012. Economic conditions in the Eurozone are the wildcard looking toward 2013 and beyond, with as much likelihood of further deterioration as improvement. Nevertheless, World Bank projections of European Gross Domestic Product (GDP) show growth of 0.7 percent in 2013 and 1.4 percent in 2014. That reasonably positive outlook, coupled with expected U.S. GDP growth of 2.4 and 2.8 percent over the same two-year period, leads AEDC to predict a turn-around in air cargo volumes, with growth of 1.5 percent in 2013, 2.0 percent in 2014 and 2.5 percent in 2015.

Air Passenger Volume, 2004 - 2015 (millions)



Source: Ted Stevens Anchorage International Airport, 2004-2011; McDowell Group forecast, 2012-2015

Air Freight Volume, 2004 - 2015 (thousand tons)



Source: Ted Stevens Anchorage International Airport, 2004-2011; McDowell Group forecast, 2012-2015.



BUILDING PERMIT VALUES

+5% 2013 - 2015

Building permit applications submitted to the Municipality of Anchorage provide a partial measure of new construction activity. Building permit data is categorized into residential, commercial, and government facility construction. It does not include military construction and road construction projects.

Residential, commercial and government building permits together totaled \$433 million in 2011, up about 10 percent from 2010 (the first annual increase since 2006). Approximately \$147 million was permitted during the first quarter of 2012, up 43 percent from the same period in 2011. While a positive indicator, quarterly spikes in permit values such as this are common and should not be interpreted to reflect annual growth rates.

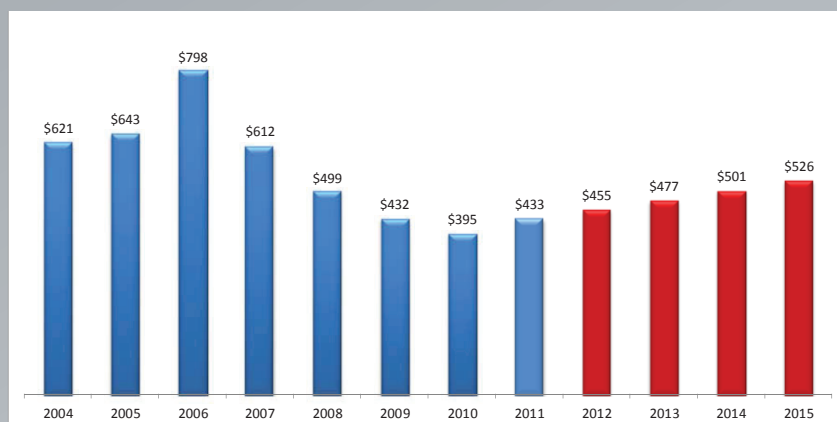
Residential building permit values (not including townhouses, condominiums, and apartment buildings, which are counted as commercial) declined 10 percent in 2011 compared to 2010. In 2011, multi-unit housing building permit application values were \$29.6 million, double the 2010 values of \$14.8 million. Multi-unit housing accounted for 11 percent of the total commercial

building permit values in 2011. Within the first five months of 2012, multi-unit housing permit application values are down 50 percent when compared to the same period in 2011 (\$7.6 million vs. \$15.2 million). Commercial building permit values were up 24 percent between 2010 and 2011. Government construction permitting values show a slight decline from 2010's \$43 million to \$40 million in 2011.

First quarter 2012 numbers were mixed, with residential building permit values down by 6 percent and commercial building permit values up 39 percent from first quarter 2011. The value of government permits was up significantly from the first quarter 2011 (up from \$2 million to about \$18 million in first quarter 2012). Again, these figures provide only a partial picture of government construction spending, however, as transportation and military projects are not included.

AEDC forecasts that the combined building permit valuations will continue to increase in 2012 and rise at about 5 percent a year over the 2013-2015 period as the investment climate continues to improve.

Building Permit Values, 2004 - 2015
(\$ millions)



Source: Municipality of Anchorage, 2004-2011; McDowell Group forecast, 2012-2015.



VISITOR INDUSTRY

+6% 2012 (Alaska cruise ship passengers)

+1.5% 2012 (domestic travel)* **+1.8%** 2013 (domestic travel)*

+3.8% 2012 (overseas arrivals)* **+4.3%** 2013 (overseas arrivals)*

* Forecasting for US trends

After three consecutive years of declining traffic, the summer of 2011 saw a slight (2 percent) increase in out-of-state visitor volume to Alaska, and traffic is projected to increase again in summer 2012, according to the recently released Alaska Visitor Statistics Program VI (AVSP). Most of the recent increase is attributable to the air market, which increased an estimated 5 percent between 2010 and 2011. The cruise market increased by 1 percent, while the highway/ferry market showed a decline between 2010 and 2011.

The AVSP report reveals a wealth of information on visitors to Anchorage in summer 2011. Anchorage received an estimated 784,000 visitors over the five-month period of May to September. They spent an average of \$407 per person in Anchorage. Most Anchorage visitors traveled to/from Alaska by air (55 percent), while 41 percent were cruise ship passengers, and 4 percent entered or exited Alaska by highway or ferry.

Anchorage bed tax revenues increased by 8 percent in the second and third quarters of 2011, compared to 2010. Over the same time period, Anchorage vehicle tax revenues increased by 6 percent, and RV rental tax revenues increased by 9 percent.

Statewide, visitor traffic is expected to continue to rebound from the recession-era slump of 2008-2010. Cruise passenger volume is projected to increase by 6 percent in summer 2012, which will likely translate to some increase in Anchorage visitation. The Port of Anchorage is expected to receive nine cruise ship calls in summer 2012, down from eleven calls in 2011. In terms of the international air market, Japan Air and Korean Air will make the same number of stops in Anchorage as in 2011; Condor Air (as noted above) will increase their number of flights from 64 to 78; and Edelweiss (which began serving Anchorage in 2011) will not return in 2012.

Nationwide projections are cautiously optimistic. Domestic travel is projected to grow by 1.5 percent in 2012, then by 1.8 percent in 2013. Overseas arrivals into the US are projected to grow faster; at 3.8 and 4.3 percent, respectively (Source: US Travel Association).



PORT OF ANCHORAGE FREIGHT VOLUME

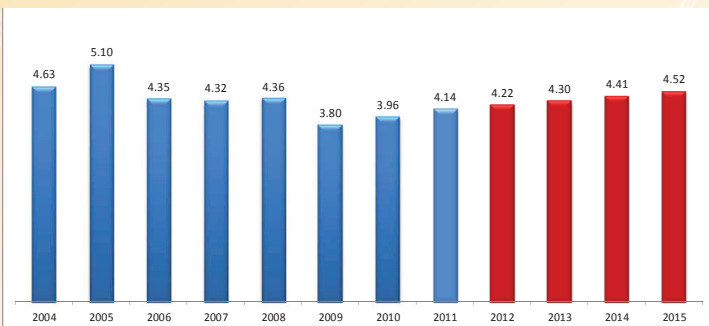
+2% 2012 - 2013

+2.5% 2014 - 2015

The Port of Anchorage is a critical component of Alaska's transportation infrastructure, accounting for 90 percent of all Alaska consumer goods trade and serving about 85 percent of the state's population. The total volume of freight that moved through the Port of Anchorage in 2011 was up almost 5 percent from 2010 to 4.1 million short tons. Though Port volume increased in each of the last two years, it remains well off the 2005 high point of 5.1 million short tons. Recently, the Port of Anchorage initiated efforts to prepare a Port Master Plan to guide port decision-making and development over a 20-year period through 2032.

While first quarter volume is down slightly over the same period last year, modest growth of about 2 percent is expected for 2012 and 2013. Beyond that, for 2014 and 2015, freight volume growth is pegged at 2.5 percent annually.

Port of Anchorage Volume, 2004 - 2015
(million short tons)



Source: Port of Anchorage, 2004-2011; McDowell Group forecast, 2012-2015.



OIL PRICES

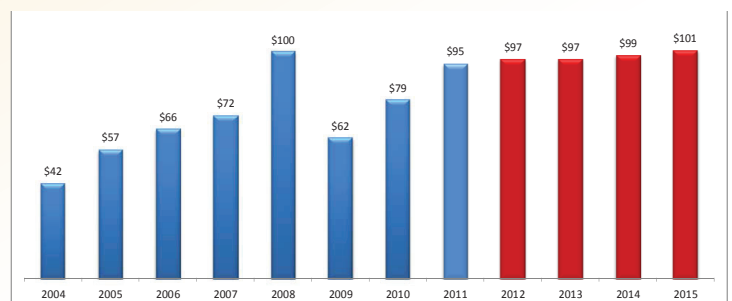
\$97 2012 - 2013

Last year, AEDC predicted West Texas Intermediate (WTI) crude oil spot prices would average \$102 in 2011. WTI prices actually averaged \$95 per barrel while the Alaska North Slope (ANS) West Coast average spot price in 2011 averaged \$110. Other past AEDC predictions for average WTI oil prices were: in 2008, \$127 per barrel (actual \$100); in 2009, \$60 (actual \$62); and in 2010 \$79 (actual \$79).

While oil prices have been volatile over the past few years, ANS West Coast Spot prices have been quite steady over the past 16 months, with monthly averages moving within a range of \$110 to \$123 a barrel. However, June prices dropped to \$98, according to Alaska Department of Revenue data.

WTI crude oil spot prices do not always move exactly in parallel with ANS prices, but WTI price forecasts serve as a reasonable proxy for expected future ANS prices. The U.S. Energy Information Administration (EIA) forecasts that WTI crude oil spot prices will average \$97 in 2012, holding steady around that price in 2013. Oil price forecasting beyond 2013 is rife with uncertainty. Nevertheless, EIA's long-term energy price forecast, released in April 2011, suggests oil price growth of about 2 percent annually in 2014 and 2015.

Average WTI Crude Oil Prices, 2004 - 2015, \$ Per Barrel



Source: U.S. Energy Information Administration, 2004-2013; and McDowell Group, 2014-2015.

challenges AHEAD

Anchorage has clearly resumed its steady march along the path of economic expansion, after experiencing a relatively minor downturn in 2009. (Prior to 2009, Anchorage had experienced 20 consecutive years of job growth.) Several sectors show promise for further growth. The visitor industry is back on the upswing. The mining industry, buoyed by relatively high metal prices, is creating economic activity in Anchorage, mainly in the professional services sector. The health care sector continues to expand in Anchorage.

But the future remains clouded by the largely unabated decline in North Slope oil production. Oil revenues account for 85 to 90 percent of State General Fund revenues. High oil prices have sheltered the state from the fiscal consequences of this production decline. But that shelter could quickly disappear with a further decline in oil prices, or more gradually as declining production outpaces oil prices. By some estimates, the oil and gas industry accounts for 100,000 jobs in Alaska, with about half of those jobs connected to royalty and tax payments to state and local governments.

As we consider the future, there is plenty of uncertainty. Federal jobs and dollars are another pillar of the Alaska economy. In FY2010, \$12.6 billion in federal funds flowed into the Alaska economy. However, the Alaska Railroad's struggle to preserve its federal funding attests to the fact that essential federal dollars can no longer be taken for granted. Even a relatively small decline in federal spending in Alaska has potentially significant implications for the economy. Further, events in the troubled Eurozone economy are relevant to Alaska and Anchorage. Slowing economic growth in China also has local economic implications. Nevertheless, Alaska's very rich natural resource base – oil and gas, minerals, seafood, scenic beauty and wildlife – provides a strong foundation for optimism about our state's future.



AEDC
Anchorage Economic
Development Corporation

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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.

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