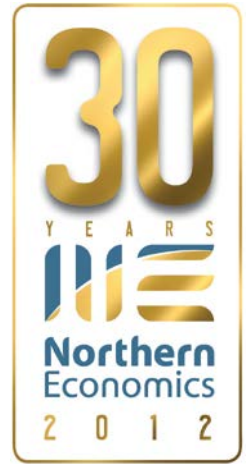


Memorandum

Date: October 30, 2013
To: James Starzec, AEDC
From: Michael Fisher, Northern Economics
Jonathan King, Northern Economics
Re: 2013 Q3 Anchorage Confidence Index



Introduction

This memo documents Northern Economics' Anchorage Confidence Index (ANCI) for the third quarter of 2013.

Description

ANCI is a measure of Anchorage households' confidence in the health of the local economy, their personal financial situation, and their expectations for the future. Northern Economics, Inc. generates ANCI using data collected by a random quarterly sample of at least 350 households located in the Municipality of Anchorage. The survey sample includes households with landlines, those with landlines and cell phones, and those households which only use cell phones. The analysis weights all responses for demographic factors such as gender, age, and income to insure the sample's responses are representative of Anchorage's population.

ANCI is expressed using a value of 0 to 100. Values above 50 represent relative confidence in the economy, while values below 50 indicate lack of confidence. The farther the index is from the midpoint, the stronger the aggregate feeling of confidence or lack thereof.

Results

In 2013 Q3, ANCI dropped sharply to 57.1 from 61.4. The more stable six-month moving average of the index fell 0.8 points to 59.3, down from the all-time high of 60.1 last quarter. While the index dropped, the new reading is a solid second place finish over the life of the index. During the administration of this survey, U.S. consumer confidence also fell. The Conference Board's Consumer Confidence Index[®] showed a drop overall and in expectations, though the present sentiment grew. The University of Michigan's Consumer Sentiment Index was down sharply in September as well, citing policy uncertainty as the cause of the decline.

Figure 1. Anchorage Sentiment Index by Quarter

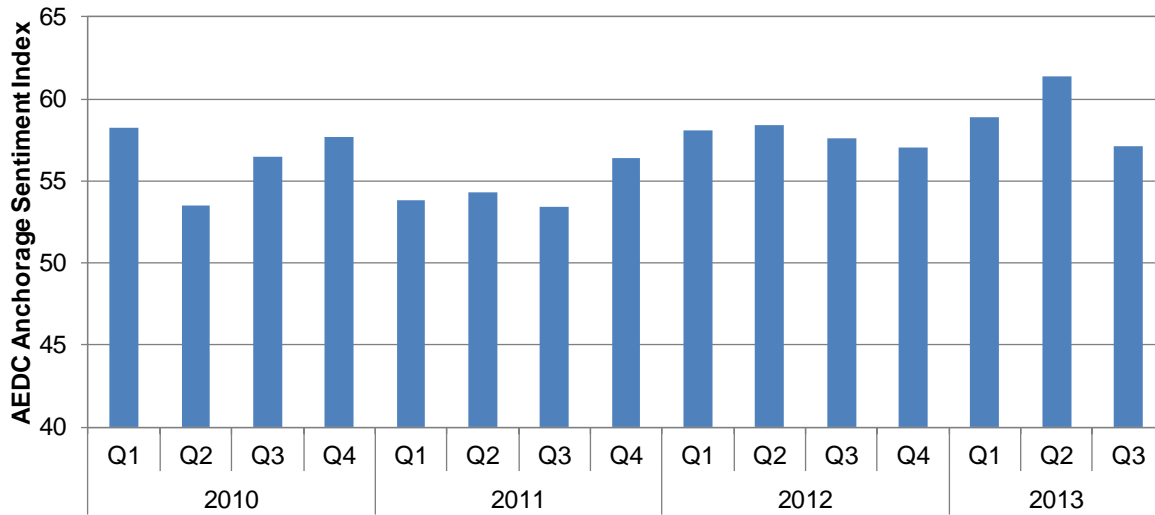
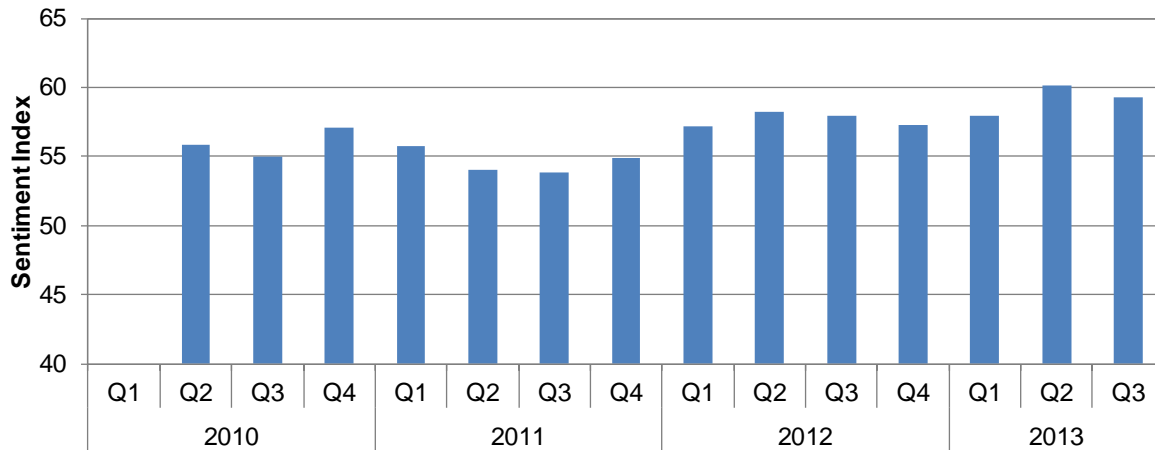


Figure 2. Anchorage Sentiment Index, Six Month Moving Average



ANCI is comprised of three individual components: *Local Economy Confidence*, *Personal Financial Confidence*, and *Expectations for the Future*. *Local Economy Confidence*, the most direct measure of respondents' feelings about the current state Anchorage economy, dropped sharply by 5 points to settle at 60.3, a level not seen since the end of 2011. In short, Anchorage residents lost confidence in their local community's economy, likely due to the anticipated federal government shutdown and its local impacts.

The *Personal Financial Confidence* component is the strongest and least volatile component of ANCI. It fell 5.5 points from the second quarter of 2013 and hit 61.1 this quarter, falling to a level not seen since mid-2010. Likewise, Northern Economics' statewide index saw a drop in 2013 Q3, bringing it down to a level of personal financial confidence not seen since the end of 2011. Unlike the *Local Economy Confidence* component, which is in some ways residents' outside view of the local economy, *Personal Financial Confidence* measures residents' ability to participate in the local economy directly through their personal finances. The anticipation of the federal government shutdown, and potential financial repercussions both to the local economy and residents' stock

market holdings, seems to have tempered many Anchorage residents' feelings about their personal financial well-being.

ANCI's *Expectations of the Future* component currently measures 53.6, down from an all-time high of 56.8 from last quarter, but higher than it had been in 2011 and for most of 2012. Residents' outlook continues to be strong despite adversity.

Table 1. AEDC Anchorage Sentiment Index

	2011				2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Local Economic Confidence	57.2	58.8	58.7	60.1	60.6	61.3	59.4	60.9	61.7	65.3	60.3
Personal Financial Confidence	62.9	61.4	61.8	63.7	65.9	64.2	65.1	61.9	64.8	66.6	61.1
Future Expectations	47.5	48.6	46.6	50.8	52.9	54	52.9	52.7	54.5	56.8	53.6
AEDC Anchorage Sentiment Index	53.8	54.3	53.4	56.4	58.1	58.4	57.6	57	58.9	61.4	57.1
Six Month Moving Average	55.7	54.1	53.9	54.9	57.2	58.2	58	57.3	57.9	60.1	59.3

All values are expressed on a 0 to 100 scale.