

The AEDC Three-Year Economic Outlook examines economic trends through eight key indicators: population, employment, personal income, air passenger and freight volumes, building permits, Port of Anchorage dock tonnage, and oil prices.

After a period of great economic trauma and unrest, national and international economies have stabilized considerably in the last year. Significant concerns persist and the road to recovery looks to be a bumpy one, but the economic climate is much less turbulent in mid-2010 than it was twelve months ago.

The indicators reveal that Anchorage has fared relatively well through the crisis, although by no means was the city's economy left unscathed, as the indicators also show. Given the volatility of recent years, forecasting the short-term future involves more than the usual amount of uncertainty and the numbers presented here should be viewed in that context.

What this outlook attempts to provide is the "big picture" of the forces shaping Anchorage's economy and where they will most likely take us over the next several years.

Population

Anchorage's population reached 290,588 in 2009, an increase of 2.4 percent from 2008. The 2009 increase was about twice the average annual rate of growth for the decade. The especially strong growth was due to a surge in net migration as Anchorage's economy remained relatively healthy during the deep national and global recession, and consequently an attractive place for job seekers.

Overall, fewer Anchorage residents left the city to seek greener pastures in 2009 – green pastures were hard to come by – and more people from outside the city and state moved to Anchorage. After losing about 2,000 people to migration from 2000 to 2008 (the total number of people who left was about 2,000 more than the total number of people who arrived), Anchorage gained an estimated 3,200 residents from migration in 2009 alone.

Population numbers provide important information about whether an economy is

growing, stagnant, or in decline. Both Alaska and Anchorage earned a reputation for having boom-and-bust economies during the 1970s and 1980s, with wide swings in population. In the early half of the 1970s, oil pipeline construction brought tens of thousands of people to the city and state, some of whom left when construction was complete. The early 1980s brought another large influx of migrants when new oil wealth in Alaska and Anchorage made it the land of opportunity, especially since the country was in the midst of a deep recession. High wage jobs were plentiful and a flood of people came north.

The economic climate in Anchorage soured in the second half of the 1980s and thousands of people left the city as banks failed, businesses closed, property values plummeted, and the city suffered through its most difficult economic period since statehood.

The last two decades have been calm by comparison. Anchorage's population grew steadily in the 1990s despite a small net loss to migration over the decade. Natural increase (births minus deaths) added nearly 37,000 people to the city's population compared to a net loss from migration of less than 3,000.

The same basic pattern persisted through much of the 2000s – steady growth from natural increase and small losses from migration – until 2009's modest jolt. It is no coincidence that the last time Anchorage saw net migration gains was in 2003 and 2004 (net migration of 2,200 in 2003 and 1,600 in 2004) when the nation was emerging from a recession and Anchorage's economy was again relatively stable.

Looking forward, with history as a guide, Anchorage will likely see at least another year or two of stronger than normal population growth before slowly returning to average growth rates for the decade. The key assumptions are: 1) that the nation will emerge from the recession slowly with job growth lagging

recovery in other indicators, and 2) that the state's resource-based economy will remain generally stable, which will support continued modest growth in Anchorage.

Employment

For the first time since 1988, Anchorage's average monthly wage and salary job count fell in 2009. The decline was small – just 0.6 percent compared to a national job loss of 4.3 percent – and in the context of the severe national and global recession, not unexpected.

Preliminary 2010 numbers for the first few months of the year show small additional losses and the summer job counts will probably be lower than 2009 levels as a result of a decline in cruise ship traffic to Alaska. On the positive side, the national economy appears to be in recovery although so far the job gains have been unsteady and relatively weak.

Anchorage will also benefit from an unusually large capital budget made possible by oil revenue surpluses and the ongoing activity connected to federal stimulus money. That may be enough to offset the expected weak 2010 summer tourism numbers. Even if it is not, the job numbers will most likely be solidly above year-ago levels by the time the summer visitor season winds down in September.

Growth is forecasted to resume in 2011 and continue through 2013, though at a mild rate of around 1 percent a year. Ongoing declines in Prudhoe Bay oil production are a serious concern and although Anchorage's oil industry job numbers have held steady at around 2,700, oil employment statewide has fallen off by about 1,000 jobs since reaching a peak of 13,700 in late 2008.

Personal Income

Total personal income is a measure of net earnings from employment (including bonuses,

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employer paid benefits, and self-employment income), other income (dividends, rental income, and interest income), and transfer receipts (Social Security, Medicaid and Medicare, unemployment benefits, the Alaska Permanent Fund Dividend, etc.).

The U.S. Bureau of Economic Analysis (BEA) estimates that Anchorage residents had \$14 billion in personal income in 2008, an increase of 6.9 percent over 2007. Although 2009 data is not yet available for Anchorage, BEA has released 2009 statewide data. For all of Alaska, total personal income fell by 1.6 percent in 2009, and Anchorage's personal income probably saw a similar or slightly smaller decline last year. The last time Anchorage's personal income fell was 1987.

Of 2008's \$14 billion in personal income, 69 percent came from employment, 16 percent from other income, and 15 percent from transfer receipts. Although total personal income has grown by 56 percent since 2000, the percentages from each of these three sources have varied only slightly. In other words, income from employment, other income, and transfer receipts have all grown during the decade.

Looking forward, personal income is expected to grow only slightly in 2010 as a result of the expected weak labor market. Stronger growth of around 3 percent per year is expected over the 2011-2013 period.

Anchorage Passenger and Freight Volume

Airport passenger volume is a measure of the total number of passengers moving through the Ted Stevens Anchorage International Airport (ANC). The numbers include non-resident visitors and residents traveling in-state and out-of-state for business or leisure.

After a rough 2009, which saw a total decline of nearly 500,000 passengers (a 9 percent drop), 2010 looks to be a slightly better year despite the significant loss of cruise ship passengers. Passenger travel was up 2 percent in April compared to April 2009 and May's numbers were about the same as in May of last year. Anchorage air traffic has reflected national and global trends over the last few years. According to the U.S. Bureau of Transportation, domestic U.S. air travel fell 5 percent in 2009 and international air travel fell 7 percent.

But local developments will play a larger role in the 2010 numbers. About 30 percent fewer cruise ship passengers are expected to visit Southcentral Alaska in 2010 as a result of ships being redeployed elsewhere (cruise ship

passengers who either begin or end their trips in Seward or Whittier generally fly in or out of Anchorage). In light of the redeployments, the May numbers showing no decline from 2009's May numbers are encouraging.

Questions also remain as to how robust the broader economic recovery will be. So far, most economic indicators show at least modest improvement, but concerns persist internationally, especially with European Union countries. For their part, the various U.S. indicators suggest a pattern of two steps forward, one step back, and there is mounting pressure to address budget deficits. As a result, air passenger growth over the 2011-2013 period is forecasted to be restrained, averaging about 2 percent a year.

Airport freight volume saw a steep drop in 2009 yet appears to be on the rebound in 2010. In fact, both the decline in 2009 and apparent strong bounce back in 2010 make the drop in passenger volume look tame by comparison. From a record 3,117 thousand tons of cargo in 2007, air cargo fell 9 percent in 2008 and then 22 percent in 2009 to just 2,199 thousand tons (part of 2009's drop was due to the eruption of Mt. Redoubt, which disrupted air travel in March and April and caused flights to be either diverted to Fairbanks or rerouted to airports outside Alaska.)

Through May of 2010, freight volume was up more than 60 percent over the same five months in 2009, though much of that growth is attributable to the artificially low 2009 numbers caused by the Redoubt eruption. Still, a comparison of the first two months of 2010 with the same two months in 2009 – months unaffected by the volcanic eruption – showed over-the-year gains of more than 30 percent.

Overall, the 2010 numbers suggest a surprisingly quick return to levels much closer to highs of a few years ago than the lows of 2009. Over the 2011-2013 period, growth is forecasted to average about 4 percent per year.

Building Permit Values

The value of building permits issued by the Municipality of Anchorage provides a measure of new construction activity in Anchorage. Building permit data includes residential, commercial and government facility construction. The building permit data does not include military construction or civil transportation construction projects, such as road improvements or the very large construction project currently underway at the Port of Anchorage. With local, state, and federal (including stimulus funding) government spending,

the outlook for military and civil construction projects in Anchorage is looking strong in the next few years.

Commercial construction projects typically make up the largest share of total building permit values. Anchorage is coming off a period of intense commercial expansion that saw the construction or remodel of large retail outlets, such as Best Buy, Sports Authority, Fred Meyer and Super Wal-Mart, as well as the Tikahtnu Commons mall. Recently, commercial construction activity has fallen substantially. In 2009, commercial building permit values were down almost 30 percent and through May 2010 they are well below the same five-month period in 2009. A contributing factor is the mark left by the financial crisis in the form of stricter lending standards and a more conservative approach to commercial projects.

The largest commercial effort on the horizon is the \$150 million "Generations" project at Providence Alaska Medical Center, which will expand Providence's newborn intensive care unit, expand and renovate the maternity center, and expand the cardiac surgery facilities. Building permits are likely to be issued in 2010 and 2011, with construction scheduled to begin in 2011 and last through 2014.

Residential permit values, not including permits for condos and townhouses which are counted by the Municipality under the commercial category, fell consistently from 2003 to 2009, but have rebounded slightly in 2010 and are expected to hold steady over the next several years. That pattern is in stark contrast to other parts of the country that saw dramatic increases in residential building – much of it speculative – leading up to the recession and then record declines as the housing market crumbled. That trauma has affected Alaska, however, in the form of new rules and procedures in lending. The cautious mood that pervades private sector construction is expected to restrain construction growth in the city over the next several years.

Government spending on construction varies significantly from year to year and was at relatively low levels in 2008 and 2009. A large 2010 capital budget, which includes \$76 million for a new crime lab facility and \$60 million for a new athletic facility at the University of Alaska Anchorage, may boost government construction numbers over the next few years if spending is approved by Alaska voters.

Alaska is in a unique position among states in having revenue surpluses available to help stimulate the industry and build and maintain infrastructure even as the federal government makes additional stimulus money available.

Altogether, government construction spending will help take up much of the slack over the next few years during a low period for private construction.

In all, building permit values are expected to bump up 5 percent in 2010 as a result of the Providence project and government spending. Over the 2011-2013 period, growth is expected to be a modest 1 to 2 percent as caution persists in the slowly recovering financial sector.

Port of Anchorage Freight Volume

The volume of freight moving through the Port of Anchorage is a good indicator of overall economic activity in the Anchorage and Alaska economies. Tonnage was down significantly in 2009, but has bounced back in 2010.

Through May, container tonnage was up slightly over the same period in 2009, the number of vehicles shipped was up more substantially, and total petroleum tonnage was about even. Shipping companies report an increase in military-related activity and also note that shippers are becoming more efficient in their operations, with more goods per cargo van and increased average weight for containers.

The port is in the midst of a major expansion project that will increase its capacity, modernize the facilities, and make them more resistant to earthquakes. The port will spend an additional \$290 million on the project between 2010 and 2014. When complete, the port will have two new barge docks and two new deep-water marine terminals.

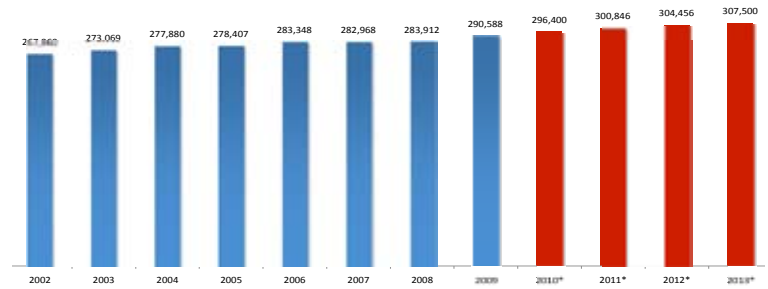
Although the 2009 drop in activity at the port was worse than expected at 13 percent, the recovery in 2010 has been remarkably strong. Much of the lost ground will be recovered in 2010 with an expected increase of 11 percent. Over the 2011-2013 period, growth is expected to average about 4 percent.

Visitor Volume

Following state and nationwide trends, the number of visitors to Anchorage fell significantly in 2009. Domestic air passengers exiting Alaska via the Anchorage airport were down 10 percent; passengers on outbound international flights from Anchorage were down 9 percent; and cruise land tour volume (passengers who travel in Southcentral and the Interior before or after their cruise) was down an estimated 13 percent. Further, in the 2nd and 3rd quarters combined, Anchorage bed tax revenues were down 22 percent and Anchorage vehicle rental taxes revenues were down 23 percent (reflecting lower tax rates as well as lower volumes).

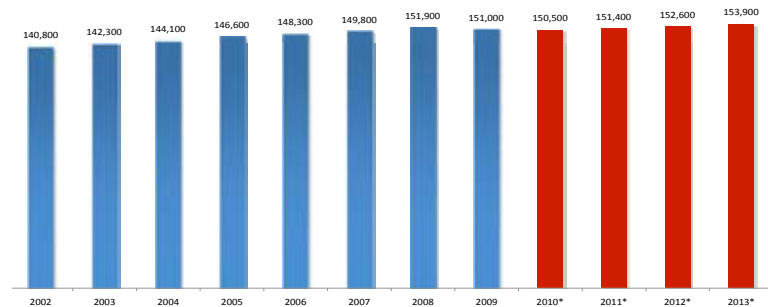
The 2009 declines were mostly recession-related and although the national and international

Anchorage Population 2002-2013



* Estimated
Source: Alaska Department of Labor and Workforce Development, 2002-2009; McDowell Group estimates, 2010-2013.

Anchorage Wage and Salary Employment 2002-2013



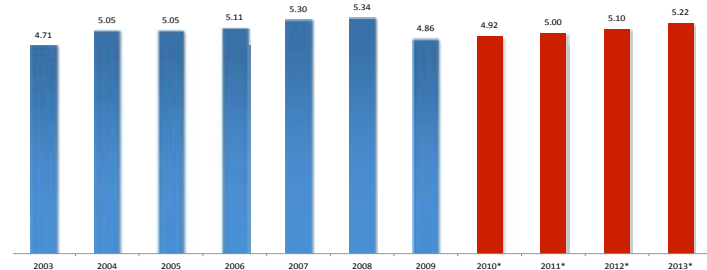
* Estimated
Source: Alaska Department of Labor and Workforce Development, 2002-2009; McDowell Group estimates, 2010-2013.

Anchorage Personal Income 2002-2013 (\$ Billions)



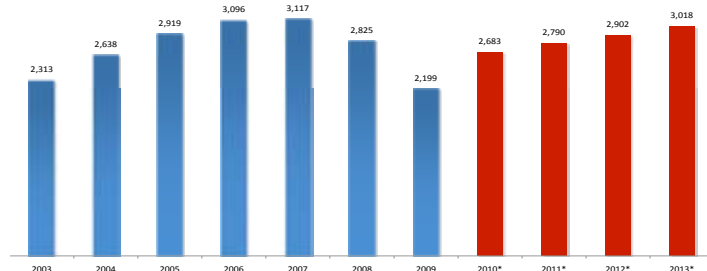
* Estimated
Source: U.S. Bureau of Economic Analysis, 2002-2008; McDowell Group estimates, 2009-2013.

Anchorage Airport Passenger Volume 2003-2013 (Millions)



* Estimated
Source: Ted Stevens Anchorage International Airport (ANC), 2003-2009; McDowell Group estimates, 2010-2013.

Anchorage Airport Freight Volume 2003-2013 (Thousand Tons)



* Estimated
Source: Ted Stevens Anchorage International Airport (ANC), 2003-2009; McDowell Group estimates, 2010-2013.

economies are significantly better in 2010, a redeployment of cruise ships will cost Anchorage about 100,000 visitors this year.

However, for the first time, Anchorage is seeing a substantial number of direct cruise ship calls in 2010: nearly 13,000 passengers, up from 600 in 2009. These visitors, passengers off Holland America's Amsterdam, will have 16 hours in port. Whereas some passengers who pass through Anchorage to and from Seward/Whittier do not actually spend any time (or money) in the community, the passengers on port calls are more likely to experience Anchorage, participating in activities like shopping, dining, and shore excursions. So far in the 2010 season, approximately one-third of passengers are reportedly purchasing shore excursions.

Air traffic statistics through May showed similar passenger volume as 2009. Because of the cruise ship redeployments, that pattern is not expected to hold through the peak summer months of June, July, and August, but the broader economic recovery will mitigate those losses by stimulating independent travel and higher spending by the hundreds of thousands of cruise ship passengers that do visit Anchorage in 2010.

Looking ahead to 2011, Cruise Line Agencies of Alaska predicts that overall Alaska passenger volume will be about the same as in 2010, with additional losses being balanced out by new arrivals. It appears that Holland America will continue their Anchorage port of call in 2011. The industry is expected to make announcements regarding 2012 deployments in the spring of 2011.

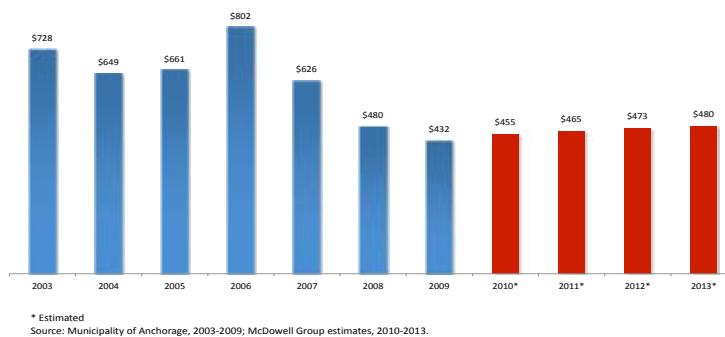
In terms of the convention/meeting market, the Anchorage Convention & Visitors Bureau indicates that 2010 sales are down 9 to 10 percent. Advance bookings for conventions to be held in 2011 and 2012 suggest a full recovery in the market.

Oil Prices

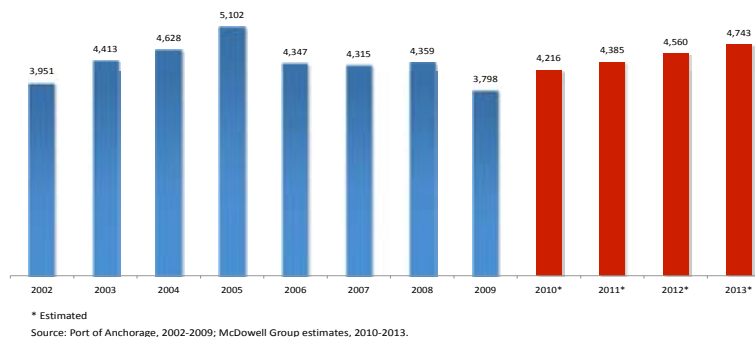
In May 2010, the Energy Information Administration (EIA) noted that a vast majority of new oil production in the short term will come from deepwater offshore fields. That same month, the Deepwater Horizon oil rig exploded in the Gulf of Mexico and sank in 5,000 feet of water.

In response to what appears to be the largest oil spill in U.S. history, the President enacted a six month moratorium on deepwater offshore drilling. The moratorium is being litigated, but the future of deepwater drilling is substantially

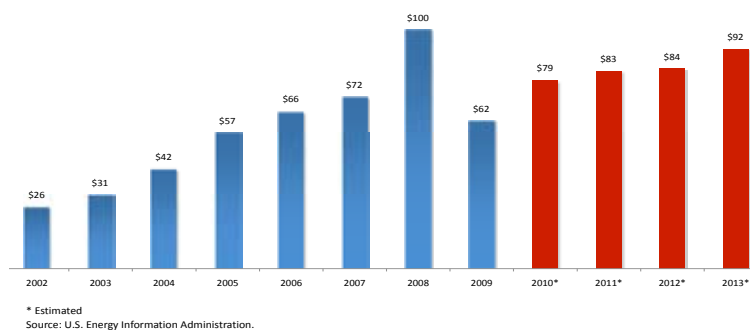
Anchorage Building Permits 2003-2013
(\$ Millions)



Port of Anchorage Dock Tonnage 2002-2013
(Thousand Short Tons)



Average WTI Crude Oil Prices 2002-2013
(\$ Per Barrel)



less certain than it was before the Deepwater disaster. A separate but related issue is the exploratory drilling that had been scheduled for this summer in the Arctic and possible development of the Outer Continental Shelf. The U.S. Department of Interior has suspended Arctic exploration until it gathers more information and looks more closely at oil-spill response capabilities. At the very least, deepwater drilling, and perhaps oil production of all types, will now face higher levels of scrutiny by regulators and legislators.

Through May 2010, West Texas Intermediate (WTI) crude oil spot prices averaged \$79 per barrel. The EIA's is forecasting \$79 per barrel for 2010 and \$83 per barrel for 2011. The Alaska North Slope West Coast spot price is generally \$2.50 or so less than the WTI spot price. The EIA forecasts WTI crude will trade for \$84 in 2012 and \$92 in 2013.

In the longer-term, the fast-growing economies of China, India, and Brazil will demand larger and larger amounts of the world's oil production which will bid up the price of oil.

EIA expects to see steady price increases for years to come, approaching levels last seen in 2008 by late 2014.



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:

