

Anchorage Economic Forecast, 2003

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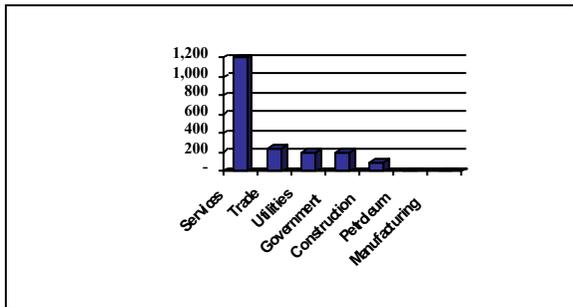
Prepared for Anchorage Economic Development Corporation

January 2003

Note: This forecast was updated in July 2003. That update summarizes changes by mid-year.

AEDC predicts 1,750 jobs will be added to the Anchorage economy in 2003, an increase of 1.3 percent. As in years past, most of these new jobs will be in the fast growing service sector. Trade, utilities, government, and construction will also contribute to the growth. Petroleum and manufacturing employment should remain constant. Anchorage will continue to outperform the US economy.

2003 JOB GROWTH



The continuation of the national recession will result in more job seekers looking for opportunities in Anchorage. This will lead to labor force and population growth, as well as an upward drift in the unemployment rate. Personal income will continue to increase, both in the aggregate and in per capita terms. Growth in the average wage will continue to keep pace with inflation, which will continue at a historically low rate between 2 and 3 percent.

Growth in 2003 should be only slightly slower than 2002 which saw a job increase of 2,100, or 1.56 percent. Services, government, trade, and construction accounted for most of the jobs added in 2002, more than offsetting a decline in petroleum employment of 400.

Anchorage's economic performance for 2002 was in sharp contrast to the national economy which saw a decline in

jobs and a marked increase in the unemployment rate. The Anchorage unemployment rate inched up during the year to an annual average of 4.6 percent but remained well below the national average of 5.8.

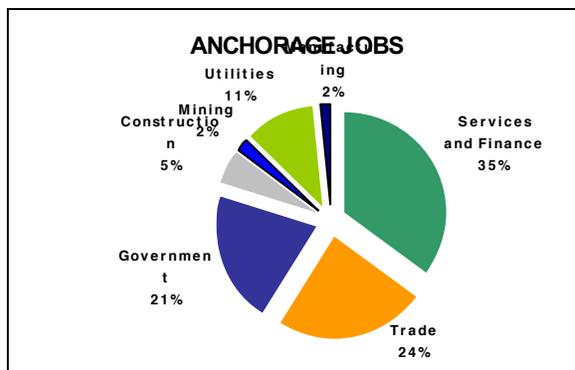
Personal income growth in Alaska has been strong through the first half of 2002, in spite of a fall in petroleum employment. For Anchorage this growth is a reflection of the relatively high wage jobs added in health and engineering services, government, and construction. Per capita income in Anchorage remains above the state average, and at 119 percent of the national average, ranks 109 among the 3110 counties in the US.

Reflecting the relative strength of the Anchorage economy, inflation, at 2 percent, was .5 percent above the US average. Housing and medical costs grew at twice the overall rate of price increase.

The coming year, as always, presents opportunities, challenges, and many uncertainties. The political alignment at both the federal and state level solidly committed to Alaska economic development presents the most obvious opportunity. The continuing national recession, the unresolved Fiscal Gap, and struggling natural resource sectors present the most obvious challenges. The possibility of a war with Iraq and its possible consequences is the most obvious uncertainty.

However 2003 should be relatively predictable. Economic changes resulting from present opportunities and challenges will not manifest themselves until late in the year or beyond.

A snapshot of the structure of the Anchorage economy, the starting point for predicting future job growth, is shown in the Anchorage Jobs pie. This pie shows the 7 important sectors of the economy and their relative size as indicated by one measure—jobs. Although this pie does not tell the whole story of the importance or contribution of each sector to the overall economy, we use it as a starting point for prediction.



Keep in mind that both the military and the self employed are missing from this picture. Both are important contributors to the overall strength and health of the economy. In particular, the number of self-employed continues to grow influence trends in personal income and aggregate demand.

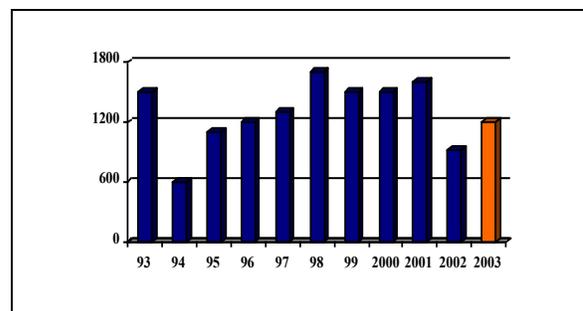
The **service and finance sector** accounts for 35 percent of all wage and salary jobs in Anchorage, and, as in past years, is predicted to account for much of the growth in jobs in the coming year.

Medical services will lead the way with construction related services (engineering, etc.) and social services, largely funded by the federal government, also contributing. Tourist related services, primarily lodging, and other services with a statewide market,

both commercial and households, will see less growth.

Uncertainty in the tourist industry as well as softening of growth in personal income statewide will be important factors in the softening of this part of the service sector. Finance will continue to benefit from historically low interest rates, but no job growth is anticipated.

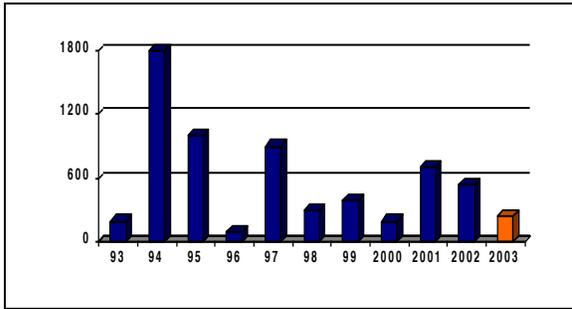
JOB GROWTH: SERVICES AND FINANCE 1,200 (2.4%)



The **trade sector** will continue to be a solid performer, but with no new big box stores or restaurants currently on the drawing board, 2003 will be a year for absorbing the growth from earlier years. With retail sales per capita a third higher than the national average, Anchorage remains an attractive market for retailers.

Slower growth this year will also be due to uncertainty in the tourism market and the size of future Permanent Fund dividend checks that are an important part of discretionary income in many parts of the state. Because of poor market performance, the size of the dividend is projected to continue to decline for several years. A large share of the consumer spending from the dividend funnels through Anchorage retailers.

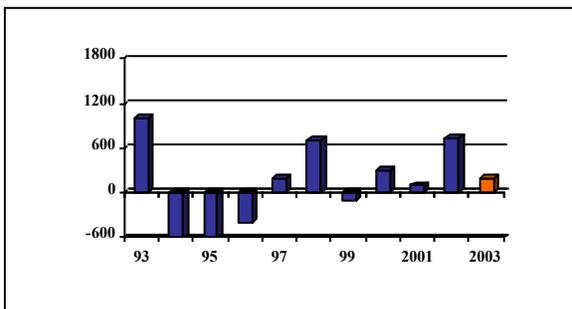
JOB GROWTH: TRADE 250 (.75%)



Combined federal civilian, state, and local **government employment** will increase by a small amount, mostly at the federal level. Although there is a continuing trend to privatize federal jobs, in the short run we expect federal employment to continue to increase in response to security concerns.

At the state and local levels little change in employment is expected this year. The Fiscal Gap, the chronic shortfall of state revenues compared to state spending, continues to be a problem that must be addressed, but higher oil prices and a new governor have reduced the sense of urgency surrounding this issue and we expect no action that will impact state employment this year. Continued population growth will put some upward pressure on local government jobs, particularly in the school district.

JOB GROWTH: GOVERNMENT 200 (.7%)



Although **construction** is one of the most cyclical of industries, with jobs increasing in good times and falling in bad, Anchorage has enjoyed at least a decade of growing or steady employment in this sector. 2003 should continue this pattern with a small increase in numbers employed.

The continued strength in construction is due largely to federal grants to Alaska, which are now more than 3 times the national average per capita. These grants fund highway construction, railroad upgrades, and infrastructure projects throughout the state.

Much of the work in outlying regions impacts Anchorage in a variety of ways. Anchorage firms contract for the construction, Anchorage residents commute to the construction site, Anchorage businesses provide the engineering and other technical support, and Anchorage firms supply construction materials and supplies. The number of construction jobs underestimates the importance of the industry to the economy.

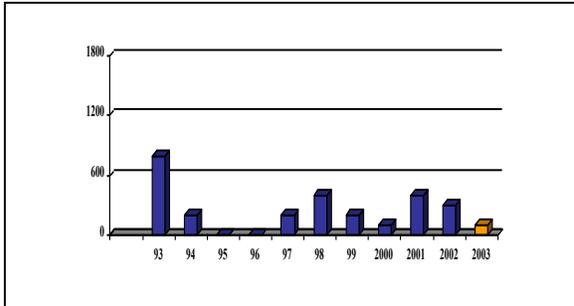
Federal agency spending, particularly the Defense Department, will be another important source of construction dollars this year.

Low interest rates will continue to be a stimulus to residential construction, but commercial construction will slow this year due to the completion of several new office complexes and the absence of large new retail space on the drawing board.

Petroleum industry investment will continue to be an important component of construction demand, but in the

absence of large new developments this year, it will not contribute to growth. Positive news regarding ANWR or construction of a gas pipeline will not lead to construction related activity until a future year.

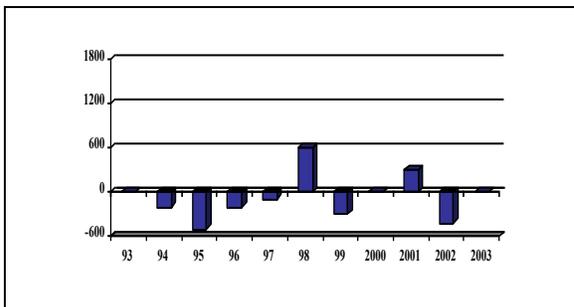
JOB GROWTH: CONSTRUCTION 100 (1.25%)



Volatility in the **petroleum** (including a very small mining industry) sector is reflected in the loss of 400 jobs in 2002 following a gain of 300 the previous year. For 2003 we expect stable employment. The absence of large scale development projects, like Northstar and Alpine in recent years, and the uncertainty about future world market conditions, reflected in the high price of oil, are the basis for a conservative prediction.

As with construction, the economic importance of the petroleum sector extends beyond an estimate of local jobs. Construction, support, transportation, technical, and other services depend on this sector, as does state and to a lesser extent, local government finances.

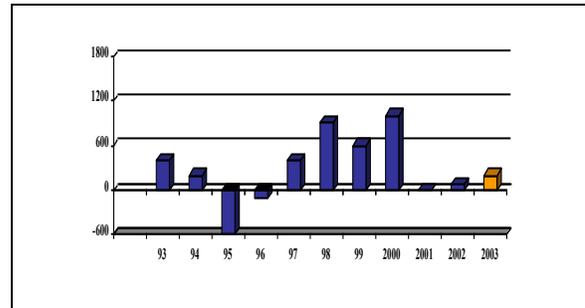
JOB GROWTH: PETROLEUM FLAT



(0.0%)

Transportation and utilities will experience modest employment growth in 2003, driven by growth in the population and continued strength of the construction industry. Uncertainty in the tourism industry as well as the continued sluggishness of the world economy, which impacts the air cargo industry, will be constraints on growth.

JOB GROWTH: TRANSPORTATION AND UTILITIES 200 (1.3%)



Manufacturing in Anchorage is a very small sector, primarily aimed at the local market. There has been very little change in the size of this sector in the past decade. We expect employment to remain flat in 2003.

JOB GROWTH: MANUFACTURING FLAT (0.0%)

