

2010 economic forecast

AEDC forecasts employment in Anchorage will decline through the first half of 2010, continuing a downward trend that began mid-year 2009. Employment in the oil and gas, government, and business and professional services sectors are expected to remain at about 2009 levels. AEDC anticipates job declines in the leisure and hospitality (500 fewer jobs), construction (400 fewer jobs), trade (300 fewer jobs), and transportation (200 fewer jobs) in 2010. Continuing increase in employment is expected in the health care sector (200 jobs). Troop levels at Fort Richardson are expected to increase slightly while levels at Elmendorf Air Force Base are expected to remain stable in 2010. Overall, employment in Anchorage is expected to decline by about 1,200 jobs in 2010, a net change of -0.8 percent.

This employment forecast is based in part on the Alaska Department of Labor & Workforce Development's Current Employment Statistics (CES). CES counts full-time and part-time jobs by place of work but excludes uniform military personnel, business owners, self-employed, unpaid family help, private household workers, and fishermen. This forecast is also based on the results of interviews conducted with representatives of key industries in Anchorage.

Local businesses and industries are subject to many uncertainties. This forecast offers no guarantee of future performance, therefore the reader should not place undue reliance on the forward-looking statements presented.



AEDC
Anchorage Economic
Development Corporation

economic forecast

Local businesses and industries are subject to many uncertainties. This forecast offers no guarantee of future performance, therefore the reader should not place undue reliance on the forward-looking statements presented below.

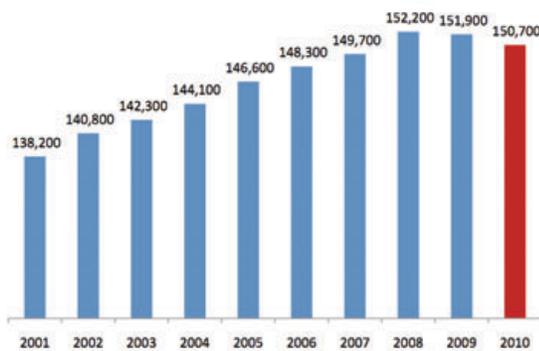
Last Year's Forecast

According to preliminary Alaska Department of Labor and Workforce Development (DOLWD) estimates, average 2009 employment in Anchorage was about 300 jobs below the 2008 average, a slightly greater decline than the 100 job loss forecast by AEDC last January. Year-end 2009 employment numbers are subject to revision and will not be finalized by DOLWD until later this spring.

The year (2009) started with substantial year-over-year employment gains, with January 2009 employment about 3,600 jobs above January 2008. By about mid-year, employment data showed no year-over-year employment gain, and by December 2009, the economy had about 2,500 fewer jobs than December 2008.

The 2009 employment decline marked Anchorage's first year of job loss in 20 years.

Anchorage Employment 2001-2009, 2010 Estimate



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

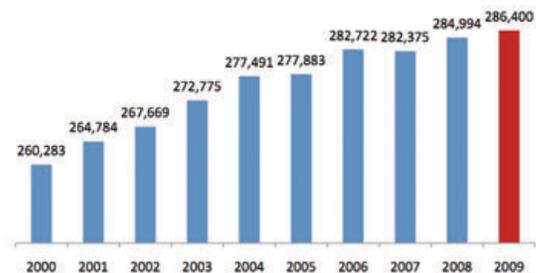
Population

The most recent estimate indicates that Anchorage's population climbed to almost 285,000 residents in 2008, a 0.9 percent increase over 2007 (a 2009 estimate is not yet available). Between the years of 2000 and 2008, the population of Anchorage grew by a total of 24,711 people, an overall increase of 9.5 percent.

Over the past decade, the city's population has grown at an annual average rate of 1.1 percent. Given recent

employment declines in Alaska and Anchorage, some decline in population could reasonably be expected. However, very high unemployment rates (over 10 percent) in other states may be pushing job seekers to Alaska, and keeping Alaskans who have lost jobs from leaving the state. The result could be population growth that is out of sync with economic growth. AEDC, in its three-year forecast, estimated 2009 population to be 286,400, an increase of 0.5 percent from 2008. Official 2009 population estimates for Anchorage and Alaska will not be available until later in 2010.

Anchorage Population 2000-2008, 2009 Estimate

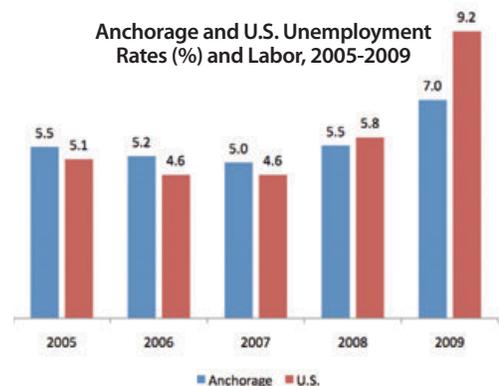


Source: Alaska Department of Labor and Workforce Development and McDowell Group estimates.

Unemployment

Anchorage's average unemployment rate for the first 11 months of 2009 was 7.0 percent, up 1.5 percentage points over the same time period in 2008. Unemployment rates peaked in June at 7.2 percent. Anchorage's unemployment rate remains well below the 2009 statewide rate of 8.2 percent and the nationwide rate of 9.2 percent over the first 11 months of 2008.

Anchorage and U.S. Unemployment Rates (%) and Labor, 2005-2009



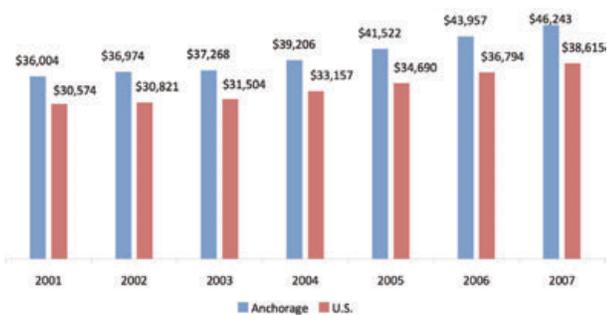
Note: Unemployment rates shown are not seasonally adjusted. Unemployment data represents annual averages except for 2009. The 2009 data is based on a January to November 2009 average. Source: Alaska Department of Labor and Workforce Development.

Personal Income

Anchorage residents earned a total of \$12.8 billion in personal income in 2007, according to the most recent data available from the U.S. Bureau of Economic Analysis. AEDC has previously estimated that Anchorage residents earned \$13.4 billion in 2008 and \$13.7 billion in 2009.

Anchorage residents accounted for almost half of the total statewide personal income of \$27.3 billion in 2007. Per capita personal income in Anchorage was \$46,243 in 2007, 5.2 percent above 2006. Nationally, per capita income grew at a rate of 4.9 percent between 2006 and 2007. Anchorage per capita income in 2007 was 15.5 percent higher than the statewide average (\$40,042) and 19.8 percent higher than the U.S. average (\$38,615).

Anchorage and U.S. per Capita Personal Income, 2001-2007



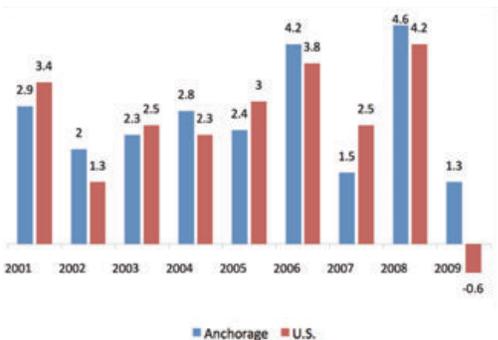
Source: U.S. Bureau of Economic Analysis.

Consumer Price Index

The U.S. Bureau of Labor Statistics reports that the Anchorage Consumer Price Index (CPI-U), an indicator of inflation in Anchorage, increased by 1.3 percent between the first half of 2008 and the first half of 2009. The CPI-U for the U.S. overall decreased by 0.6 percent over the same period.

The slower rate of inflation in Anchorage and deflation in the US overall are the result of declining household transportation costs.

Percent Changes in Consumer Price Indexes for Anchorage and the U.S., 1st Half 2001-2009



Source: U.S. Bureau of Economic Analysis.

employment by sectors

Health Care

Anchorage's health care sector added 500 new jobs in 2009, an increase of 3.3 percent over 2008. For 2010, AEDC expects the health care sector to grow by 200 additional jobs, an increase of 1.3 percent over 2009.

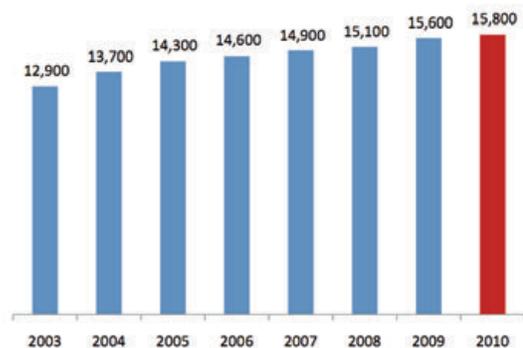
Anchorage's health care sector has seen steady increase in employment for most of the past decade and now accounts for about 15,600 jobs. This growth is expected to continue, though at slower rates than in the recent past.

The Alaska Native Tribal Health Consortium saw growth in employment in 2009. This growth is expected to continue in 2010 to accommodate the increase in patient visits. In 2009, Southcentral Foundation (SCF) completed construction of its Rural Psychiatric Treatment Center and the third building phase of its Anchorage Native Primary Care Center. Despite the recent expansion of services, SCF expects no change in employment for 2010.

Providence Health and Services Alaska will open its new ambulatory surgery center in 2010 and expect more patients will use its new next generation of robotic technology. While employment at Providence softened in 2009, employment is expected to remain steady in 2010.

Alaska Regional Hospital is expecting their patient volume to increase in 2010. However, until this growth materializes, Alaska Regional Hospital does not anticipate adding more staff.

Anchorage Health Care Employment, 2003-2009, 2010 Estimate



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

North Star Behavioral Health System has grown steadily over the years. Demand for treatment closer to home has been growing and allowed for improved treatment success and growth of this sector in Anchorage.

Veterans Affairs expects to move into their new outpatient clinic in Muldoon in May 2010; however, no increase in

employment is expected. Alaska Regional Hospital administrative offices will move into the space vacated by the Veterans Affairs in 2010 and remaining space will be renovated for patient care services in 2011.

The 2010 wild card will be national health care reform legislation now before Congress.

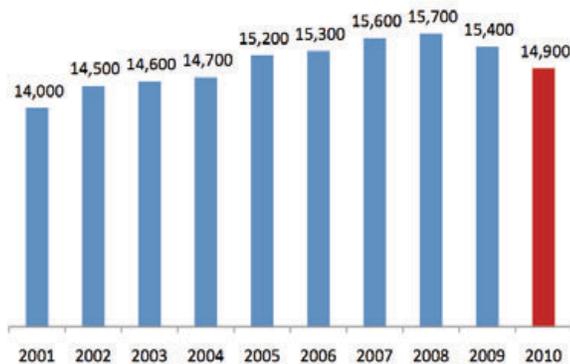
Leisure and Hospitality

In 2009, the leisure and hospitality sector employment was about 300 jobs below the 2008 average. For 2010, AEDC expects the hospitality and leisure sector to contract by 500 jobs, a decrease of 3.3 percent. Two-thirds of employment in the leisure and hospitality sector is attributable to food services, with the remainder in accommodations (21 percent), and arts and entertainment (13 percent). of employment in the leisure and hospitality sector is attributable to food services, with the remainder in accommodations (21 percent), and arts and entertainment (13 percent).

The food services sector in Anchorage should stabilize in 2010; however, the lodging sector will take a hit from a decline in the number of cruise ships bringing passengers across the Gulf of Alaska. Additionally, large statewide conventions, such as Alaska Federation of Natives and Alaska Municipal League, are not holding their 2010 conventions in Anchorage. In the accommodations sector, the number of hours employees work and seasonal hiring rates are expected to experience a further reduction in 2010.

While leisure and hospitality employment is expected to be down, it is likely that a significant share of the decline will be in seasonal jobs held by non-Alaskans. Relatively less decline is expected in year-round jobs in this sector which are held by Alaska residents.

Anchorage Leisure and Hospitality Employment, 2001-2009, 2010 Estimate



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

On a positive note, in 2010, Holland America's nine ports of call in Anchorage will provide a new cruise passenger traffic pattern, with more passenger time in the Anchorage area for day tours and shopping.

In the arts and entertainment sector, the Tikahtnu Commons will see completion of the new 16 theatre Regal Cinemas, Alaska's first IMAX, this summer.

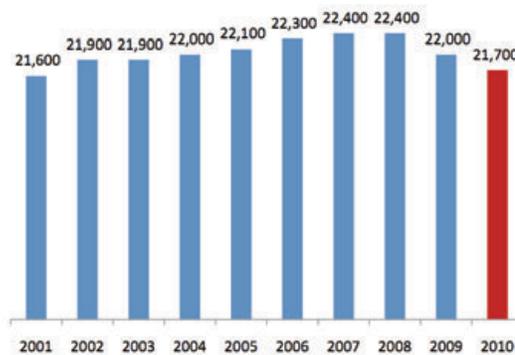
Trade

Employment in Anchorage's wholesale and retail trade sectors averaged 400 fewer jobs in 2009 than in 2008, a decrease of 1.8 percent. For 2010, AEDC expects further decline in this sector with employment averaging about 300 fewer jobs in 2010 than in 2009, a 1.4 percent decrease.

Somewhat contrary to DOLWD's preliminary numbers which indicate decline in the local trade employment, this sector added several new retail outlets in 2009, including Kohl's Department Store, Lowe's Home Improvement Center, BestBuy, Target, and The Sports Authority. Walgreens opened two new stores in Anchorage.

No significant retail construction is slated for 2010; however, Walmart recently announced plans to expand its mid-town Anchorage store to a Super Walmart. Several other national retail outlets are expressing interest in adding Anchorage outlets.

Anchorage Trade Employment, 2001-2009, 2010 Estimate



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

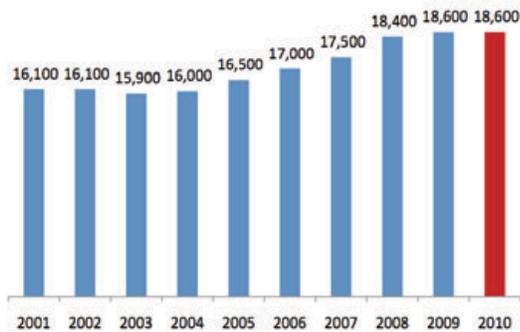
While overall sales and employment were down for Anchorage's auto dealers, the federal Cash for Clunkers program helped soften this decline. The near-term outlook for these dealerships is tempered with tight credit for consumer auto financing and commercial lending for dealerships to bring in new vehicles.

Business and Professional Services

In 2009, the business and professional services sector added 200 new jobs, an increase of 1.1 percent from 2008. AEDC forecasts employment in this sector will hold steady in 2010.

In 2009, economic uncertainty and downward pressure on global demand affected oil and mining companies' spending plans for exploration, development and upgrading of existing facilities; activities which in turn affected demand for business and professional services, such as engineering, architectural, and related services. However, demand for base metals is returning and metal prices, particularly precious metals, are improving. Prospects for several advanced exploration projects, such as Chuitna, are positive in 2010. Gas line planning and pre-development work, as well as pre-construction activity for federal stimulus spending, are also expected to be key drivers of employment in this sector in 2010. The sector will continue to experience increased competition from Lower 48 businesses looking to expand their markets to Alaska.

Anchorage Business and Professional Services Employment, 2001-2009, 2010 Estimate



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

Transportation

In 2009, average annual employment in the transportation sector was 200 jobs below the 2008 average, or down 1.7 percent. For 2010, AEDC forecasts employment in the transportation sector will continue to decline, slipping by another 200 jobs, a decrease of 1.8 percent.

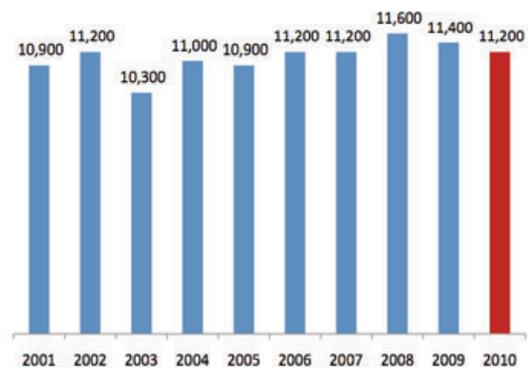
In 2009, freight volumes at the Port of Anchorage declined by about 10 percent. However, AEDC has projected a 5 percent increase in volume in 2010 and a continuing increase in 2011. In 2009, the Alaska Railroad announced layoffs of 127 employees, of which approximately 93 live in the Anchorage area. With reduced international air cargo demand, the railroad moved less jet fuel from the Flint Hills refinery in North Pole. Other sources of railroad business also slumped. Barged and overland freight dropped.

Construction material movement was down and passenger counts reflected the contraction of summer visitor volume.

About two-thirds of the transportation employment is related to air transportation, including 3,400 air carrier jobs and roughly 1,800 jobs in "transportation related support services," which is composed mostly of businesses providing goods and services to the air transportation industry. Air transportation-related employment in Anchorage also includes most of the 2,300 jobs in the category of "couriers and messengers," which includes UPS and Federal Express, two of Anchorage's larger employers. Other significant employment in the transportation sector includes trucking, with about 1,800 jobs. The transportation sector also includes ground passenger transport, railroad, and pipeline employment.

Airport closures resulting from Mount Redoubt volcano eruptions, the effects of high fuel prices, and the national and international economic slow-down have resulted in less cargo moving through Ted Stevens Anchorage International Airport. However, after experiencing some of the lowest cargo numbers in recent years, the volume of cargo started to recover in the fourth quarter of 2009. While some further decline is possible, AEDC has forecast a 2 percent growth in air cargo volume in 2010. AEDC will continue to watch with interest the impact of FedEx's new 777 planes and their ability to fly non-stop to Hong Kong and Tudong, China from Memphis. Delta Airlines consolidated its operations with Northwest Airlines in 2009, potentially affecting 110 pilot and ramp employees. However, the final employment impact of this consolidation is unclear at this time.

Anchorage Transportation Employment, 2001-2009, 2010 Estimate



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

The decline in cruise traffic to the Southcentral region this summer will result in less cruise passenger traffic through the Anchorage International Airport. However, it is possible that increases in resident and independent visitor travel could offset some of that cruise related decline. Prior to

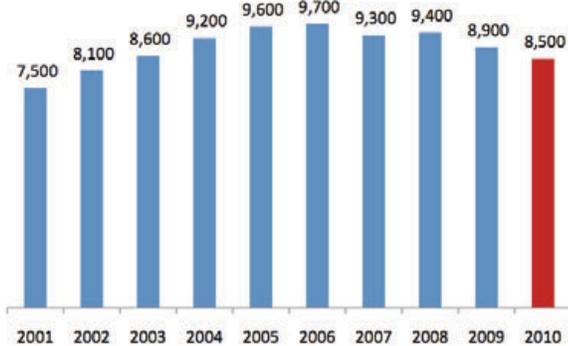
announcements by the cruise lines regarding their deployment changes in 2010, AEDC forecast a 1 percent growth in air passenger volume. On a positive note, US Air announced new summer flights between Anchorage and Philadelphia. Other carriers continue to express interest in Anchorage. The announcement of Frontier initiating service to Fairbanks is a good sign for the overall condition of Alaska air travel.

Construction

In 2009, employment in Anchorage’s construction industry averaged 500 fewer jobs in 2009 than 2008, a decline of 5.3 percent. In 2010, AEDC expects construction employment to decline by another 400 jobs, a decrease of about 4.5 percent from 2009.

Several large construction projects were completed in 2009, including the airport’s South Terminal remodel (\$220 million) and runway upgrades (\$107 million), University of Alaska Anchorage’s Integrated Sciences Building, JL Properties Centerpoint West development, and approximately \$75 million spent on the Port of Anchorage’s expansion. Other completed projects included and at Fort Richardson, two housing projects, a troop medical clinic, and a child development center.

Anchorage Construction Employment, 2001-2009, 2010 Estimate



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

In 2009, the construction sector continued to suffer from slow residential housing construction activity. Remodels were stable in 2009, though the expected surge in remodeling due to AHFC’s energy rebate program did not materialize.

Nevertheless, civil construction activity with road extensions and upgrade construction, stimulus projects and military projects, will support activity in this sector in 2010. The Municipality of Anchorage 2010 civil projects budget will remain at the 2009 level (about \$80 million). Other projects scheduled to get underway or be complete in 2010 include

the renovation of Service High School, the Veterans Affairs outpatient clinic and regional office in Muldoon, a new health facility (at the corner of C Street and International), Providence’s S Tower (\$56 million), continued Port expansion, Fire Island Wind Project, expansion of Walmart’s mid-town store, and potentially, a new crime lab. The Anchorage International Airport also expects a significant employment impact with its construction project on Runway 7 Right in 2010 and 2011.

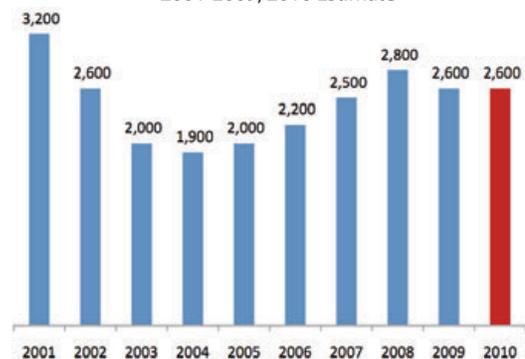
In its three-year forecast, AEDC predicted that total building permit values in 2010 will remain at 2008 and 2009 levels, and will begin to recover at a slow growth rate of 1 to 2 percent in 2011 and 2012.

Oil and Gas

The oil and gas industry employed 200 fewer workers in Anchorage in 2009, a decline of 7.1 percent. AEDC expects the oil and gas sector in Anchorage to hold steady in 2010, with no significant change in employment.

Limited oil exploration and reduced capital spending is expected in 2010. However, pipe repair and replacement projects for aging infrastructure will continue to require intensive maintenance activity. ConocoPhillips anticipates increased activity on their Chukchi Sea project, prepping for its drilling program. However, 2010 may be the first year in many that ConocoPhillips will not be drilling any new exploration wells. BP will continue work at the Endicott field for developing Liberty, an offshore field, and continue testing heavy oil production methods. ExxonMobil will move forward with drilling activities at Point Thomson (more than \$1.3 billion). Shell Oil is awaiting approval from the US Minerals Management Service and the US EPA to drill exploration wells in the Beaufort and Chukchi seas. Smaller independent oil companies expect continued development in 2010, including Pioneer Natural Resources’ Oooguruk Project and ENI’s Nikaitchuq Project.

Anchorage Oil and Gas Employment, 2001-2009, 2010 Estimate



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

North Slope natural gas producers will decide about making commitments to a gas pipeline during the open seasons to be held by the competing gas pipeline consortiums, Denali – a partnership of ConocoPhillips and BP, and the TransCanada and ExxonMobil partnership. Open season is a period of seeking and contracting with gas producers to commit to shipping natural gas via a pipeline. In regard to a spur pipeline bringing gas to Southcentral Alaska, the Alaska Natural Gas Development Authority will continue to invest in engineering, project management, etc. in 2010.

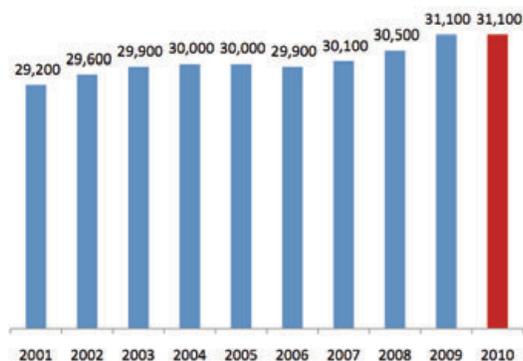
It is important to note that published oil and gas industry employment numbers understate the real impact of the industry in Anchorage where thousands of additional business and professional services jobs are also linked to oil and gas exploration and production. Further, employment on the North Slope is important to the local economy where as many as a third of the oil and gas jobs are held by Anchorage residents. Statewide employment in the oil and gas industry peaked at record levels (13,400 jobs) in July 2009. However, oil and gas industry employment has declined from that peak to 12,800 at the end of November 2009 and some additional decline may occur statewide in 2010.

Government

Government employment increased by 600 jobs in 2009 (a 2 percent increase). Government employment in Anchorage reached 31,100 jobs in 2009 and is expected to stay at that level in 2010.

While federal employment fell from 2004 through 2007, it began to grow in 2008 and rising to 9,500 jobs in 2009. Some of these new jobs are with the US Army Corp of Engineers, and others related to the ramp-up of US Census workers. Hundreds of temporary, short-term (about six weeks) census jobs will boost federal employment throughout Alaska in 2010. At this point, it is not known how many census workers will be hired in Anchorage.

Anchorage Government Employment, 2001-2009, 2010 Estimate



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

The Municipality of Anchorage announced layoffs of about 70 employees in 2010 and further layoffs may occur in 2011. Employment at the Anchorage School District is not expected to change significantly in 2010. A small increase in state employment is expected in 2010, given the Governor's proposed operating and capital budget increase of 2 percent (totaling \$4.7 billion in state general funds) in FY2011.

Other Sectors

AEDC expects that employment in other sectors of the economy, such as "information" (telecommunications and publishing), financial activities (banking, insurance, etc.), manufacturing, and "other services" sectors will remain relatively stable in 2010.

Military

Overall, troop levels in Anchorage have increased in the last seven years after a long period of decline. In 2009, the number of troops at Fort Richardson reached the highest level (6,500 troops) since 1988. Troop levels at Fort Richardson are expected to increase slightly in 2010. Elmendorf troop levels declined by 6.8 percent (from 6,650 in 2008 to 6,200 in 2009). These numbers do not reflect dependents, civilians assigned to the US Army Corps of Engineers, National Guard, or Reserve personnel. 2010 troop levels at Elmendorf, National Guard and Reserve in Anchorage are expected to remain at current levels or decline slightly. Local base realignment might produce the need for 150 new civilian jobs, though that estimate is preliminary at this time.

Summary of 2009 Forecast

Even though Alaska has been somewhat insulated from the national and international recession, Alaska and Anchorage in particular have not been immune. The declining value of Alaska's oil and mineral resources in 2009 reflected the weakness of the global economy. Tighter credit standards and very slow recovery in the U.S. economy will continue to drag on the Anchorage economy. Fewer cruise passengers will affect the local lodging sector. The transportation sector will experience declining cruise passenger travel but air cargo volumes should improve from 2009 levels. While there are a number of large construction projects in the queue, AEDC does not expect commercial and residential building construction activity to return to a growth trend.

On the brighter side, employment in the health sector is expected to continue growing in 2010, and several key sectors, including oil and gas, government, and business and professional services are expected to hold reasonable steady. Uncertainty will continue to mark the local economy, but a bottoming of the employment decline is expected in 2010.

2010



AEDC

**Anchorage Economic
Development Corporation**

(907) 258-3700 www.aedcweb.com

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.