

The Year 2005 in Review

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Growth streak reaches 18 years

By Dan Robinson, Economist

Make it 18 in 2005. That's 18 consecutive years of job growth, a record that only a handful of states can match and the longest stretch of growth since Alaska gained statehood. The last time the state lost jobs Ronald Reagan was president, Steve Cowper was governor, *The Last Emperor* won the Academy Award for best

picture, and *Walk Like an Egyptian* topped pop music charts. The year was 1987 and the state was in the second year of a deep recession caused by a collapse in the real estate market and a plunge in oil prices from over \$30 a barrel to less than \$10.

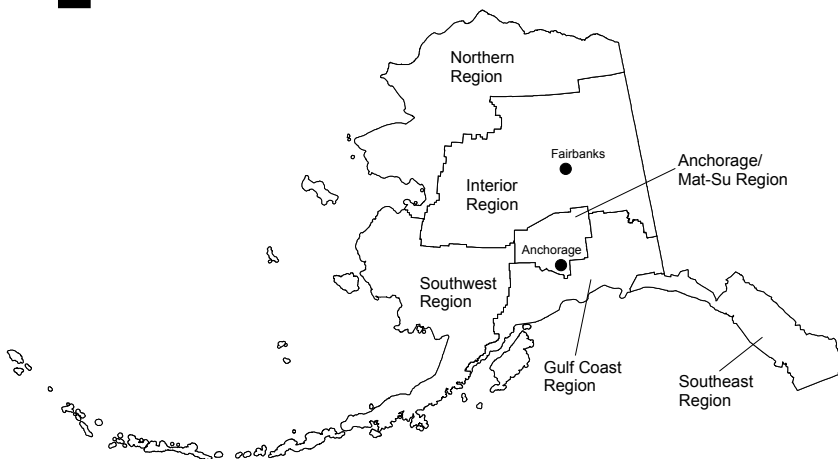
Hard rock mining, fishing and the timber industry helped fuel a recovery that began in 1988 and picked up speed in 1989 when the *Exxon Valdez* clean-up efforts reached their peak. Since 1991, the state has settled into a pattern of generally moderate job growth, averaging 1.8 percent a year. In 2005, growth of 1.9 percent improved slightly on the previous two years, but stayed consistent with the long-running pattern. (See Exhibits 2 and 3.)

Despite what has been relatively tame economic news over most of the last two decades, each year's growth has come from a different combination of sources and there has often been dynamic change at the industry level. In 2005, two out of the three goods-producing sectors – natural resources and mining, and construction – led the way in growth rates and nearly every industry contributed at least something to the total increase of 5,700 jobs.

A good year for oil and gas and metal mining

Alaska's mining sector, which includes the oil and gas industry, had an impressive year in 2005, adding 700 jobs for an annualized growth rate of 7.3 percent. (See Exhibit 3.) Oil and gas employment averaged 8,700 jobs in 2005, an increase of 500 over the year. Several consecutive years of high prices have stimulated

1 Alaska's Economic Regions



both exploration and development, and employment levels have nearly bounced back to 2002 levels after a steep drop in 2003.

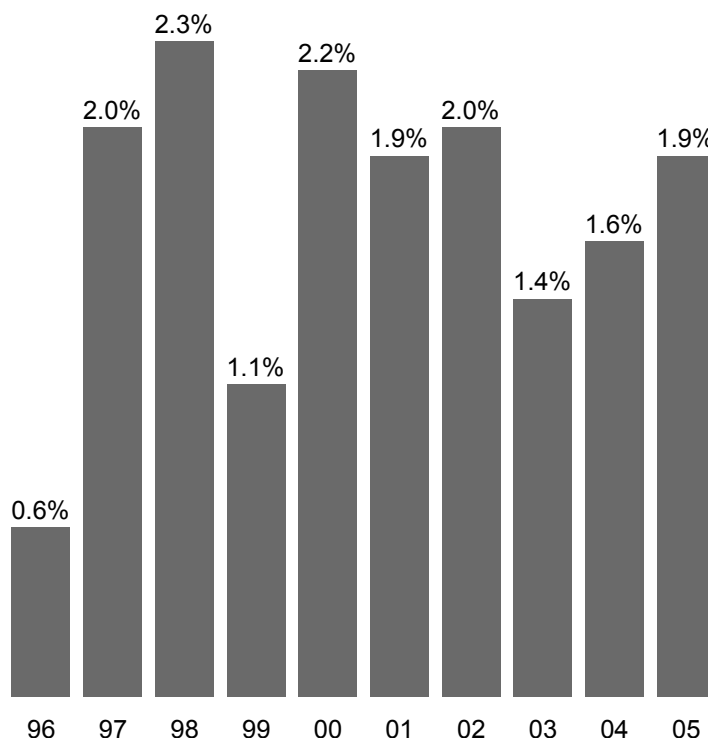
Mineral mining employment also had a good year in 2005, adding 200 jobs. High prices for gold, silver and zinc have made operations at existing mines more profitable and hastened the development of future projects. Alaska's three biggest operating mines – Red Dog, Fort Knox and Greens Creek – account for nearly 75 percent of all wage and salary mining employment in Alaska. Between them, they added almost 100 jobs in 2005. The state's next biggest mining operation, the Usibelli coal mine, also grew slightly. Substantially more mining growth is expected soon as both the Pogo mine near Fairbanks and the Kensington mine near Juneau are scheduled to begin operations in the next year or two.

Construction growth strong and steady

The second most robust performance in 2005 came from the construction industry, which added 900 jobs for an annualized growth rate of 5.1 percent. In terms of dollars spent on construction, the oil and gas industry is the dominant contributor, although it is difficult to precisely translate dollar expenditures into job creation. Federal construction spending on bases and military installations has also been a major factor and high oil prices have allowed the state to spend a significant amount on capital projects.

Construction's steady growth over the last two decades stands in distinct contrast to the boom and bust cycles of the pipeline construction days of the 1970s and what proved to be the overheated market of the 1980s. From 1973 to 1976, for example, the state added more than 20,000 construction jobs only to see all but about 2,000 of them disappear when the pipeline was completed. Similarly, from 1980 to 1983, construction employment nearly doubled only to fall back to 1980 levels during the 1986-87 recession.

Percent Employment Growth Alaska, 1996-2005 **2**



Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section, in cooperation with the U.S. Bureau of Labor Statistics

During the current period, however, growth has been more moderate and the total construction job count – 18,600 in 2005 – is still well below the pipeline peak in 1976 and the pre-crash peak of 1983. More importantly, the growth has come a little at a time, at least compared to the earlier periods mentioned, and there doesn't appear to be the same risk of a dramatic drop-off.

Seafood processing up 100

Due largely to the third-largest salmon catch ever recorded for Alaska, the seafood processing industry added 100 jobs and grew for the third consecutive year in 2005. The 8,600 jobs in 2005 were the most since 1999. Despite the relatively modest growth in jobs, wages over the first three-quarters of the year were up an impressive 8.1 percent, suggesting that the processors may have paid more in overtime for their existing workers to handle the catch. Other than salmon,

3 Wage and Salary Employment Alaska, 2004-2005

	2005	2004	Change	Percent Change
Total Nonfarm Wage and Salary ¹	309,900	304,200	5,700	1.9%
Goods Producing	41,700	40,100	1,600	4.0%
Service Providing	268,200	264,100	4,100	1.6%
Natural Resources and Mining	10,700	10,100	600	5.9%
Logging	500	500	0	0.0%
Mining	10,300	9,600	700	7.3%
Oil and Gas	8,700	8,200	500	6.1%
Construction	18,600	17,700	900	5.1%
Manufacturing	12,400	12,300	100	0.8%
Wood Product Manufacturing	400	300	100	33.3%
Seafood Processing	8,600	8,500	100	1.2%
Trade, Transportation and Utilities	63,200	62,000	1,200	1.9%
Wholesale Trade	6,300	6,200	100	1.6%
Retail Trade	35,900	35,000	900	2.6%
Food and Beverage Stores	6,300	6,100	200	3.3%
General Merchandise Stores	9,100	9,200	-100	-1.1%
Transportation, Warehousing and Utilities	21,000	20,800	200	1.0%
Air Transportation	6,200	6,400	-200	-3.1%
Truck Transportation	3,100	3,000	100	3.3%
Information	6,900	6,900	0	0.0%
Telecommunications	4,200	4,100	100	2.4%
Financial Activities	14,700	14,600	100	0.7%
Professional and Business Services	23,800	23,300	500	2.1%
Educational ² and Health Services	35,700	34,700	1,000	2.9%
Health Care	25,800	24,900	900	3.6%
Leisure and Hospitality	31,100	30,100	1,000	3.3%
Accommodation	8,000	8,000	0	0.0%
Food Services and Drinking Places	18,800	18,300	500	2.7%
Other Services	11,400	11,200	200	1.8%
Government ³	81,400	81,300	100	0.1%
Federal Government ⁴	17,000	17,200	-200	-1.2%
State Government	24,200	24,100	100	0.4%
State Education	7,200	7,100	100	1.4%
Local Government	40,200	40,000	200	0.5%
Local Government Education	22,400	22,000	400	1.8%
Tribal Government	4,100	4,100	0	0.0%

¹ Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers

² Private education only

³ Includes employees of public school systems and the University of Alaska

⁴ Excludes uniformed military

Benchmark: March 2005

Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics

groundfish harvests were similar to 2004 levels. The effects of lower crab prices and the newer individual quota program were uncertain.

Home improvement pushes retail higher

Retail trade added 900 jobs for an annualized growth rate of 2.6 percent in 2005, a year in

which home improvement came to Alaska in a big way. Three new Home Depot stores and two new Lowe's stores opened in late 2004 or 2005, adding a combined total of about 300 jobs to the state's economy. Home Depot opened a store in Mat-Su and two in Anchorage, and Lowe's opened a store in Mat-Su and another in Fairbanks. Spenard Builders Supply, still the state's largest employer in the category, also added a total of about 50 jobs in 2005 across its 14 stores.

Health care jobs grow a little slower

In very few industries could 900 new jobs and an annualized growth rate of 3.6 percent be considered a slowdown. Those numbers for health care in 2005, however, do suggest that after years of dramatic expansion, the industry may be approaching equilibrium and that less heady growth lies ahead.

Leisure and hospitality up again

Historically, most of the growth in the leisure and hospitality sector has come from food services and drinking places (restaurants and bars) and accommodations (hotels, inns and lodges). In 2005, though, those two categories accounted for just 500 of the 1,000 new jobs; the other 500 were generated by employers in the category called arts, entertainment and recreation, which is not separately published.

Much of this category's employment is related to the still-expanding visitor industry. The Point Sophia Development Company's new cruise ship stop near Hoonah is an example, as are the miscellaneous guiding and touring companies frequented by cruise ship passengers, among others. By most accounts, 2005 was a solid year for the visitor industry, and the growth in the arts, entertainment and recreation category was a direct result.

Government jobs held steady

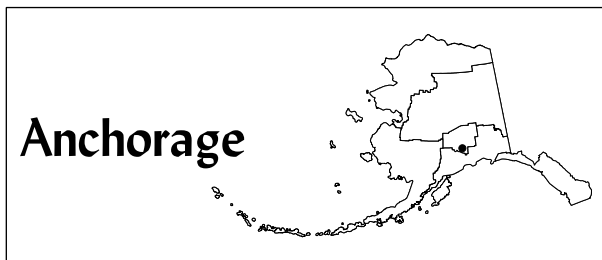
After trimming 200 government jobs in 2004, the state saw a small increase of 100 in 2005. Federal government employment fell by 200 jobs despite a high level of spending in the state and significant activity at military installations.

Uniformed military are not included in the employment numbers published in *Alaska Economic Trends*, however, and a limited degree of privatization may be occurring in other areas of the federal government.

State and local government both saw modest growth in 2005, and in both cases, the education component accounted for all the new jobs – at the university level for state government and at the local school district level for local governments. Other than the education-related jobs, state government employment didn't change and local government municipalities recorded a net loss of 200 jobs.

Lowest unemployment since 2001

Revised unemployment data for 2005 show an average monthly rate of 6.8 percent, a drop of six-tenths of a percentage point from 2004 and the lowest rate since 2001. The actual number of unemployed people declined by more than 1,700 in 2005, indicating a slightly tighter labor market and a favorable environment for job seekers.



Anchorage in 2005 – another plus year

By Neal Fried, Economist

Employment in the Anchorage economic region in 2005 climbed 1.9 percent or by 2,700 jobs. (See Exhibits 4 and 5.) This makes 2005's annual average growth rate nearly identical to the 10-year average, 2.0 percent, but perkier than 2004's 1.3 percent. Also unlike 2004, every major industry category in Anchorage either held its own or grew last year. And no one industry dominated the gains.

Overall, the growth in the number of jobs was led by a mixture of health care, construction, professional and business services and leisure and hospitality, in addition to smaller gains in other industries, such as oil and gas, and retail trade. High oil prices, the continued flow of federal dollars, an increasing number of military troops, the emerging mining industry, gas pipeline expectations and a healthy visitor season all contributed to Anchorage's positive economic experience in 2005.

In a sense, 2005 was another uneventful economic year for Anchorage – no single or major event or list of events dominated the economic landscape. Instead, it was another year of "steady as she goes."

Lower unemployment rate keeps labor market tight

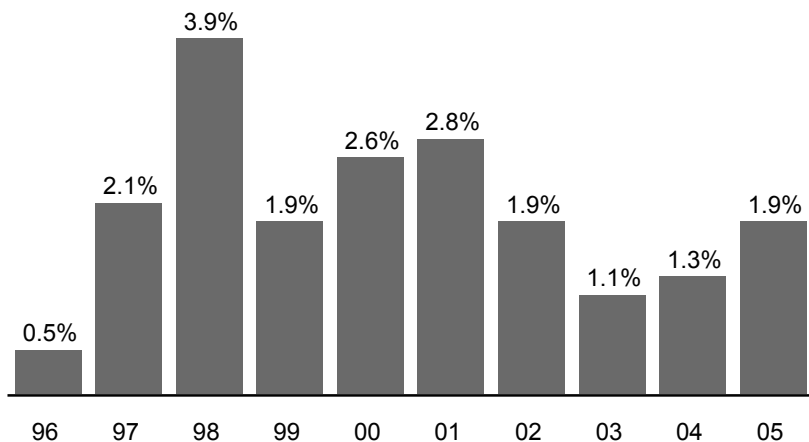
The 2005 unemployment rate for Anchorage came in at 5.4 percent, which was lower than 2004's 5.9 percent and well below the statewide average of 6.8 percent. These numbers are an indication that the local job market remained healthy and that the job market improved some in 2005.

Some of the improvement could be explained by lower unemployment around the nation. As the job picture improved around most of the U.S, fewer job seekers from other states headed north, and possibly a larger number of local residents looked south for opportunities in labor markets outside Alaska. That alone exerts a downward pressure on Anchorage's unemployment rate. Recently released population figures for Anchorage support this analysis. Anchorage's annual population gain of 223 in 2005 represented the smallest gain in over a decade. The 2005 net migration figure for the city was negative: -2,883. However, stronger employment growth in 2005 was a primary factor for the improvement in Anchorage's labor market.

New life stirs in the oil patch

Finally, after years of strong oil prices, a modest rebound in oil industry employment started in

4 Anchorage Growth a Bit Stronger Employment change from previous year



Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section

2005, as Anchorage had 100 more oil industry jobs than it did in 2004. Statewide, the recovery was considerably stronger. British Petroleum officials recently announced they would be hiring 250 additional workers, a significant shift from the recent past when they trimmed their work force and closed their Alaska exploration office. The level of exploration and maintenance activity accelerated on the North Slope in 2005 as well. ConocoPhillips was involved in several of the larger projects, and it continued to develop fields around Alpine as well as its West Sak heavy oil project.

Construction – another stellar year

Construction has been expanding since 1989 and that growth trend carried through 2005 with more than the usual gusto – 500 jobs more than 2004. Only health care employment grew more. By the end of 2005, permit valuation in Anchorage reached \$661 million, the second-highest level since the 1986 economic bust.

Massive military spending, healthy levels of commercial activity, increases in oil- and mining-related work and continued strength in other public spending kept local contractors busy. No one project, nor one segment of the industry, dominated the industry. The elixir of low interest rates continues to provide a

tonic for the construction industry. Moreover, Anchorage is the headquarters for much of the state's construction industry; local contractors continued to benefit from strong activity in the Interior, the Matanuska-Susitna Borough and other parts of the state.

Only residential-related construction activity fell in 2005. The number of residential building permits decreased from 1,812 in 2004 to 1,725 in 2005, and nearly 61 percent of the 2005 residential units were multi-family. As land costs in Anchorage continue to rise, an increasing share and possibly most of the region's residential activity is now shifting to the Mat-Su area.

A moderate year for retail

For an industry that employs more private sector workers than any other industry, the addition of 100 jobs in 2005 is hardly worth mentioning. In 2004, the gains were also miniscule. Although a number of new retail stores opened in Anchorage in 2005, they did not open until late in the year. New Home Depot stores in the Northway Mall and on Abbott Road in South Anchorage opened for business. Other smaller establishments followed suit. Most of the retail growth in the state in 2005 took place in Fairbanks and the Mat-Su Borough. In fact, one explanation for Anchorage's lackluster performance can be attributed to the dramatic growth in the Mat-Su area's retail sector. This means that fewer Mat-Su residents find it necessary to shop in Anchorage.

Transportation budgets little

Although transportation's employment numbers only grew modestly this past year, the overall environment for the industry remained positive. An upswing in international air cargo traffic, a decent visitor season and a strong level of overall economic activity were all pluses for Anchorage's transportation sector. Cargo landings grew by 8 percent. A growing share of this activity includes the transfer of cargo rather than just being transit. America West¹ and Condor Air both added to their number of

¹ US Airways recently purchased America West and the companies are in the process of merging.

Wage and Salary Employment Anchorage, 2004-2005

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flights and Northwest Airlines added Anchorage/Hawaii service. Employment at Alaska Airlines, Alaska's largest air carrier, changed little in 2005, as much-higher fuel prices made it tougher on a number of air carriers.

Health care tops job growth again

Educational and health services created 700 new jobs in Anchorage and 600 of these were in health care – the perennial job machine in Anchorage. Health care has generated the largest number of jobs in Anchorage for at least the past five years. All levels of health care grew in Anchorage, including hospitals, doctors' offices, clinics and just about anything else tied to the industry. The growth in federal monies also continues to bolster health care employment.

Professional and business services adds 400 jobs

Healthy levels of construction, increased oil and mining activity and other broad-based industry growth continued to give professional and business services a big shot in the arm. Architectural, engineering, environmental and other consulting firms have thrived with construction. Legal, accounting, computer and other professional-type services have continued to expand more gradually with the rest of the economy.

Interest rates keep the financial industry in the expansion mode

With all the new bank, credit union, insurance, real estate and mortgage buildings popping up around the city, it should not come as a surprise that the financial industry remained in the expansion mode in 2005. Continued low interest rates and a healthy real estate market are keeping the banks, insurance companies, credit unions and other financial companies in good shape. As a result, employment in the financial industry grew by 100 jobs.

New eateries and a healthy visitor season are good for leisure and hospitality

A strong national economy, more hotel and cruise ship capacity and a weak dollar

	2005	2004	Change	Percent Change
Total Nonfarm Wage and Salary ¹	146,800	144,100	2,700	1.9%
Goods Producing	13,700	13,000	700	5.4%
Service Providing	133,100	131,100	2,000	1.5%
Natural Resources and Mining	2,100	2,000	100	5.0%
Mining	2,100	2,000	100	5.0%
Oil and Gas	2,000	1,900	100	5.3%
Construction	9,700	9,200	500	5.4%
Manufacturing	1,900	1,800	100	5.6%
Trade, Transportation and Utilities	33,200	33,000	200	0.6%
Wholesale Trade	4,700	4,700	0	0.0%
Retail Trade	17,400	17,300	100	0.6%
Food and Beverage Stores	2,400	2,500	-100	-4.0%
General Merchandise Stores	4,300	4,200	100	2.4%
Transportation, Warehousing and Utilities	11,100	11,000	100	0.9%
Air Transportation	3,600	3,700	-100	-2.7%
Information	4,400	4,400	0	0.0%
Telecommunications	2,700	2,600	100	3.8%
Financial Activities	9,100	9,000	100	1.1%
Professional and Business Services	16,400	16,000	400	2.5%
Educational ² and Health Services	19,100	18,400	700	3.8%
Health Care	14,300	13,700	600	4.4%
Leisure and Hospitality	15,100	14,700	400	2.7%
Accommodation	3,200	3,100	100	3.2%
Food Services and Drinking Places	10,100	9,900	200	2.0%
Other Services	5,700	5,600	100	1.8%
Government ³	30,100	30,000	100	0.3%
Federal Government ⁴	9,500	9,700	-200	-2.1%
State Government	9,700	9,600	100	1.0%
State Government Education	2,300	2,300	0	0.0%
Local Government	10,900	10,700	200	1.9%
Tribal Government	300	300	0	0.0%
Local Government Education	7,500	7,400	100	1.4%

¹ Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers

² Private education only

³ Includes employees of public school systems and the University of Alaska

⁴ Excludes uniformed military

Benchmark: March 2005

Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section

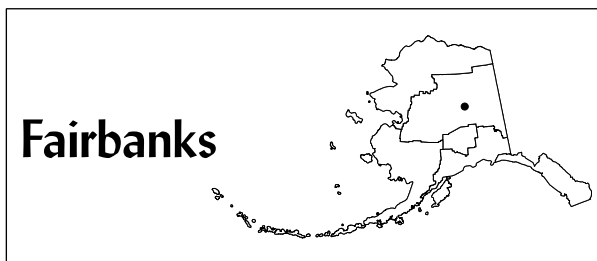
translated into a good visitor season for Anchorage. The city collected nearly \$12 million in bed taxes in 2005, a 3 percent increase over the previous year. Although no new hotels opened their doors in 2005, accommodation employment grew by 100. Stronger growth came from food services and drinking places – an industry that benefits from visitors as well as local residents. This modest growth came from the several new restaurants that opened in Anchorage.

Uniformed military flexes their muscles

Troop levels at Fort Richardson began to grow in 2003 after many years of decline and stagnation. By 2005, the uniformed military count reached 4,100, more than 1,500 stronger than just two years earlier. Once the current expansion is completed, the number should rise to 4,500, the largest number of troops stationed at the base since 1988. For Anchorage's economy, it means more soldiers will also be living off-post and more soldiers will be spending dollars in the local economy.

Government inches up

Despite the healthy flows of federal dollars to Alaska and big uniformed military personnel increases, federal civilian employment actually fell slightly in 2005. The privatization of military support activities and many Alaska Native Medical Center positions might explain some of the 200-job loss, along with some retrenchment in the Transportation Security Administration work force. Employment gained ground in state and local government, growing by 100 and 200 jobs, respectively. Most of local government's modest growth came from the Anchorage School District.



Fairbanks keeps adding jobs

By Brigitta Windisch-Cole, Economist

With 2005, Fairbanks has recorded another year of employment growth, adding to its 16-year trend of expansion and diversification. The local employment gain amounted to 600 new jobs, which translated into a growth rate of 1.6 percent. (See Exhibits 6 and 7.) This performance is somewhat amazing, considering that 2005 not only kept the momentum of

2004's high growth, it did so even though 3,400 Fairbanks soldiers were deployed overseas in August 2005.

Perhaps the biggest story in 2005 was the initial recommendation by the Department of Defense's Base Realignment and Closure Commission to withdraw more than 2,800 uniformed personnel and 300 civilian employees over a five-year period from Eielson Air Force Base. After an intense lobbying effort, Eielson was largely spared in the final recommendation, which called for the reassignment of some aircraft to other bases and a reduction of only 600 uniformed personnel. The impact of the military in Fairbanks is hard to overstate; had the initial recommendation been followed, total direct and indirect civilian job losses could have been as much as 1,900, an 8.6 percent drop.

The deployment of Fairbanks' 3,400 troops in 2005 did not slow the city's retail expansion, which contributed half the new jobs. Other contributions to job growth came from construction, financial activities, health care services and local government. Most other industries adhered to their previous year employment levels; only transportation and the catch-all industry category of "other services" shed jobs.

Fairbanks' job market remained tight and a low annual average unemployment rate of 5.8 percent verified positive elements in the local economy. Moreover, the local payroll increased by 7.5 percent during the first nine months of 2005 over the comparable months of 2004. The fourth quarter 2005 payroll reports have not yet been recorded.

Employment growth was particularly strong during the first half of 2005, posting an average growth rate of 2.7 percent over the first half of 2004 and hinting of a strong carry-over of 2004 business activity. Growth did slow some during the second half of the year with the winding-down of two large-scale construction projects, Fort Wainwright's Bassett Army Community Hospital and the University of Alaska's Museum of the North in Fairbanks.

Construction employment nears the “boom” level

After 21 years, Fairbanks’ construction reached the employment levels it showed during the build-up of the mid-1980s’ construction boom. Employment in 2005 equaled the 1984 level that led to the 1985 construction bubble, which burst in the 1986-1988 crash.

Although of similar strength, Fairbanks’ fast-paced construction activity in the new millennium does not resemble the memorable boom and bust cycle of the 1980s. Back then, impetus for growth came primarily from public sector construction followed by frenzied residential building. In contrast, the recent building in Fairbanks has been a diversified mix of public sector, commercial, industrial and moderate residential building. The near lack of speculative residential construction has also contributed to industry stability.

During 2005, construction employment increased by 100 jobs, or roughly 4 percent, and public sector construction, particularly military projects, dominated. Several large projects, including Bassett Hospital and the university museum, were near completion at the end of 2005. Commercial and industrial building also remained vibrant and the multi-store retail expansion at the Bentley Trust property became retail’s newest showcase.

Retail contributes the most jobs

The strongest contributor to job growth in 2005 was the retail industry, which added 300 jobs. While construction has built new foundations since 2002 for the industry’s expansion, retail employment started to record substantial gains in 2004 and 2005. The most recent additions to Fairbanks’ retail market were specialty stores such as PETCO, Sportsman’s Warehouse and Old Navy.

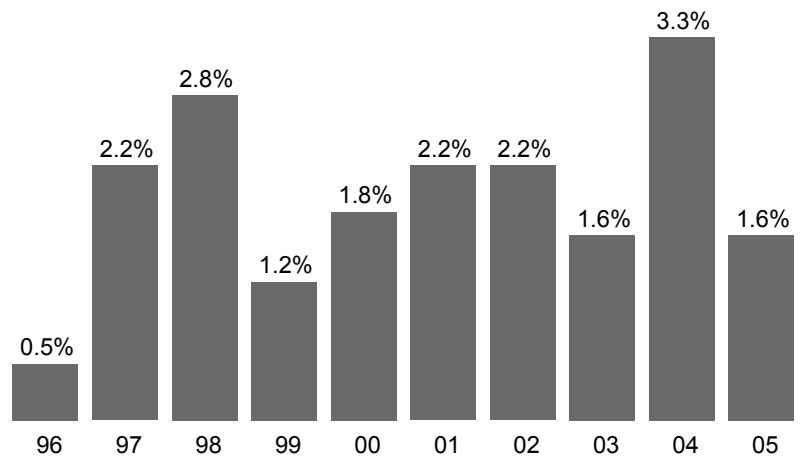
Financial industries expand

Financial institutions have expanded their presence in Fairbanks in recent years. A bank, a credit union and an equipment leasing business

Growth Continues in Fairbanks

Employment change from previous year

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Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section, in cooperation with the U.S. Bureau of Labor Statistics

were built in 2004. A bank, a credit union and a financial center were built, and a retail credit union branch was moved into an existing store, all in 2005.

The employment numbers, therefore, have gradually increased, producing a gain of 100 jobs in 2005. Locally, the financial sector is a small employer, so this relatively small gain translates into a robust growth rate of more than 7 percent, a deviation from the sector’s traditional slow-growth pattern.

Health care – a perennial creator of jobs

Just like in most other Alaska locations, Fairbanks’ health care industry continued its path of growth. The industry gained 100 health care jobs in 2005, representing a growth rate of 3.3 percent that was more than twice that of overall employment. The expansion of specialized medical services has significantly helped industry growth in the area.

Natural resource employment grows

Fairbanks’ natural resource industry consists primarily of gold mining and oil field services companies. Employment increases in 2005 came primarily from the oil field services industry that

7 Wage and Salary Employment Fairbanks, 2004-2005

	2005	2004	Change	Percent Change
Total Nonfarm Wage and Salary ¹	37,800	37,200	600	1.6%
Goods Producing	4,500	4,300	200	4.7%
Services Providing	33,300	32,900	400	1.2%
Natural Resources and Mining	1,000	900	100	11.1%
Construction	2,900	2,800	100	3.6%
Manufacturing	600	600	0	0.0%
Trade, Transportation and Utilities	7,600	7,400	200	2.7%
Wholesale Trade	600	600	0	0.0%
Retail Trade	4,700	4,400	300	6.8%
Transportation, Warehousing and Utilities	2,300	2,400	-100	-4.2%
Information	600	600	0	0.0%
Financial Activities	1,500	1,400	100	7.1%
Professional and Business Services	2,200	2,200	0	0.0%
Educational ² and Health Services	4,200	4,100	100	2.4%
Health Care	3,100	3,000	100	3.3%
Leisure and Hospitality	4,200	4,200	0	0.0%
Accommodation	1,300	1,200	100	8.3%
Food Services and Drinking Places	2,600	2,500	100	4.0%
Other Services	1,300	1,400	-100	-7.1%
Government ³	11,700	11,600	100	0.9%
Federal Government ⁴	3,400	3,400	0	0.0%
State Government	5,200	5,200	0	0.0%
Local Government	3,100	3,000	100	3.3%

¹ Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers

² Private education only

³ Includes employees of public school systems and the University of Alaska

⁴ Excludes uniformed military

Benchmark: March 2005

Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section, in cooperation with the U.S. Bureau of Labor Statistics

helped install and build technical upgrades for the trans-Alaska oil pipeline. This large scale project created most of the industry's 100-job gain.

Hard rock mining employment in Fairbanks did not substantially change in 2005, although Teck-Pogo Inc. moved its administrative headquarters to the permanent Pogo mine site northeast of Delta Junction. The mine's new employees are counted outside Fairbanks, in the Southeast Fairbanks Census Area. Delta Junction is the largest community in that census area.

Public sector employment shows little change

Both state and federal government employment showed no change in 2005. Only local

government added 100 jobs, mostly in the Fairbanks North Star Borough School District. Although enrollment declined slightly, the district hired additional staff with federal grants to tutor students in writing, reading and math.

Transportation and other services lose jobs

Transportation, which includes warehousing and utilities, shed roughly 100 jobs in 2005. The local airline industry during the first half of the year still showed signs of suffering due to the consolidation of bypass mail² and regular U.S. mail contracts; however, the low point in employment may have been reached as the number of jobs in this sector during the second half of the year began to show gains. Even with this turnaround, Fairbanks' air transportation employment toward the end of 2005 remained more than 200 jobs below the 2001 level.

In the past few years, several small freight airlines in Fairbanks closed their doors when the U.S. Postal Service, operating under new rules, began assigning an increasing share of bypass mail to companies that fly larger passenger-carrying aircraft. The Postal Service also paid lower bypass mail rates to the air carriers. Small operators with small planes found it difficult to compete for this type of mail delivery.

In other transportation sectors, employment in trucking for the first part of 2005 was slightly lower than what it was in 2004, although by July employment had exceeded the year-ago level of about 750 jobs. Scenic and sightseeing transportation jobs were up slightly in 2005 compared to a year earlier. Both trucking and scenic and sightseeing employment displayed consistent seasonal employment patterns with summer peaks and winter lows.

Increasing operating costs are likely dampening growth throughout the sector. Fuel costs are a major expense for employers and the fast rises in prices for gasoline, diesel and aviation fuel have been difficult to plan for. Insurance coverage,

² Bypass mail is generally a pallet shipment of groceries which are sent via the mail system to rural villages. Shrink-wrapped pallets generally weigh up to 1,000 pounds and go directly to the air carrier for delivery, bypassing the post office.

a necessity for businesses in transportation, has also become increasingly expensive and sometimes difficult to get.

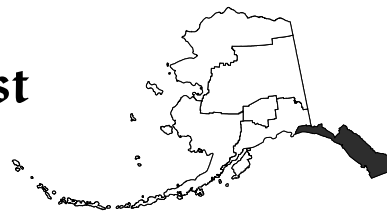
“Other services” are an eclectic group of industries that include all types of repair and maintenance services, personal and laundry services, and religious and social advocacy groups, among others. A drop in employment in this category is hard to identify and may be from technical shifts. Often new businesses are temporarily listed as “other services” until more precise classifications can be assigned. The employment decline of 100 jobs in 2005 mostly translated into gains for other industries.

The leisure and hospitality sector shifts within, but growth was flat

Although the leisure and hospitality sector did not show increased employment, the usual churning among restaurant businesses changed the local culinary scene. Late in the summer of 2005, for example, a few Wendy’s establishments shut down but soon after a new Chili’s opened for business.

Tourism is also an important influence in the leisure and hospitality sector. Most Fairbanks industry experts agreed that the 2005 visitor season produced satisfactory results even if they did not produce actual employment growth.

Southeast Region



Southeast Sputters

By Neal Gilbertsen, Economist

Over the last decade, the Southeast economy has behaved like a sputtering engine: a year of job growth has often been followed by a year of job losses and no momentum has developed in either direction. (See Exhibits 8 and 9.) A solid increase of 600 jobs in 2005 brought the region’s total to 36,550, but five years of gains and five years of losses have resulted in a net gain of just 900 jobs over the 10-year period.

The growth in 2005 came entirely from the private sector and was scattered across a number of industries. Juneau and Sitka enjoyed the largest share, but a good summer visitor season and a relatively good year for fishing also spread small gains throughout the remainder of the region.

Construction and logging up modestly

The troubled forest products industry added a few jobs in 2005 due to slightly increased activity

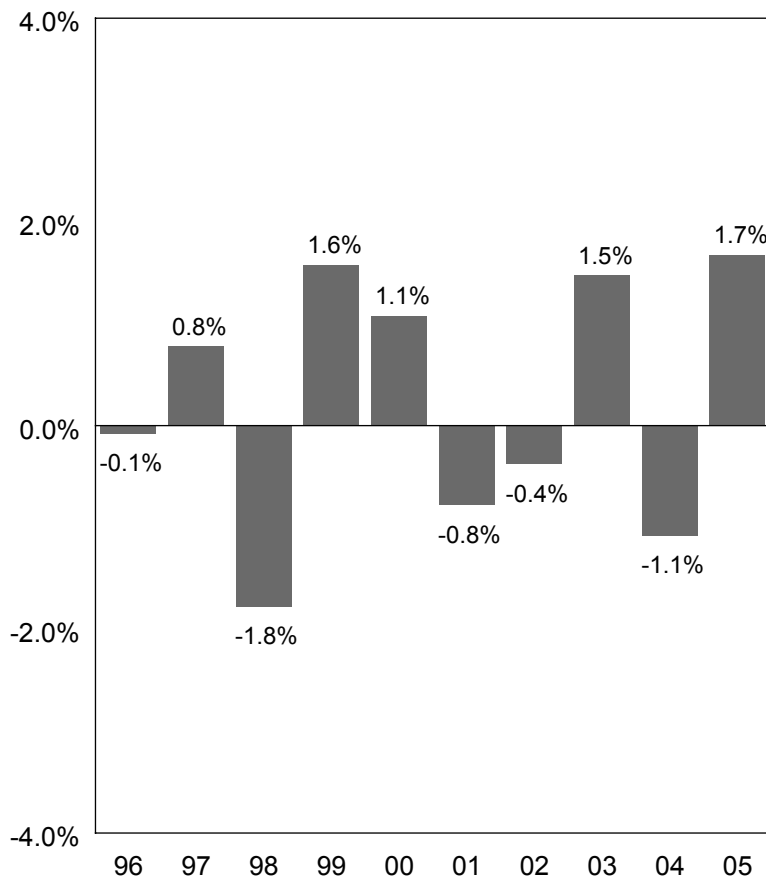
Rounding

Statewide, Anchorage/Mat-Su and Fairbanks employment data published in *Alaska Economic Trends* are produced in cooperation with the U.S. Bureau of Labor Statistics. BLS requires that the employment numbers be rounded to the nearest 100 to avoid giving a false impression about the level of precision represented.

Employment data for other regions of the state are produced with the same methods, but independently of BLS, and are rounded to the nearest 50 because the numbers are generally smaller.

What this means to the user is that small changes in the numbers should be viewed with caution. For example, the increase of 50 health care jobs in Southeast, from 2,150 to 2,200, may be marginally higher or lower depending on the effects of rounding. Over the longer term, the numbers produced are very effective at tracking employment growth or declines, but from one point in time to another – especially with smaller employment levels – actual economic change can be exaggerated or understated due to rounding.

8 Southeast Employment in 2005 Employment change from previous year



Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section

in the Ketchikan and Prince of Wales areas. Over the longer-term, logging employment has consistently fallen over the decade.

Construction was a mixed bag across the region in 2005. Juneau, Sitka, Haines and the Skagway-Hoonah-Angoon Census Area all reported gains, while Ketchikan, Yakutat, as well as the Wrangell-Petersburg and Prince of Wales-Outer Ketchikan census areas had less construction activity in 2005. The net result for the region was a gain of 100 jobs. Construction employment has been relatively stable since 2001 and has fallen about 150 jobs over the decade.

Mining and seafood processing hold steady

Employment at the Kensington mine near Juneau began to grow in the last few months of 2005 but

the added jobs were not enough to impact the industry's rounded annual average. The average number of seafood processing jobs in 2005 was unchanged, but the 1,450 processing jobs are up noticeably from the decade-low of 1,300 in 2001.

Fishing

Aside from its direct impact on seafood processing employment, fishing is a major economic driver in Southeast. Economically, salmon and halibut are the two most important species. The 2005 Southeast salmon season produced an estimated harvest of 298 million pounds with a provisional value of \$70.1 million. This compares with a nearly identical 2004 harvest of 298 million pounds worth \$83.8 million. The 16 percent drop in value is explained by the fact that trollers caught fewer high-value king and coho salmon than they did in 2004, while driftnetters and seiners harvested fewer sockeye and chum salmon.

There was, however, a dramatic upswing in the lower-priced pink harvest, which increased nearly 27 percent in volume to 208 million pounds. Participation in both the seine and driftnet fisheries remained low with 235 seine and 375 driftnet vessels fishing in 2005. This represents a considerable reduction in both fishing effort and employment opportunities from 2000 when 356 seine and 422 driftnet permit holders harvested salmon.

Halibut landings for Southeast's Area 2C were strong, approaching 10.5 million pounds. This was up slightly from the 10.1 million pounds taken in 2004, and considerably higher than the 8.2 million pounds in 2003. While the total estimated value was not available at the time of publication, by the end of the season, ex-vessel prices had reached an all-time high in Juneau, in some cases exceeding \$4 per pound. Because Juneau has the busiest airport in Southeast, fishermen and processors have better access to fresh markets, which in a large part explains these higher prices.

A good year for the tourism industry

A significant portion of Southeast's job growth in 2005 was directly attributable to the tourism

Wage and Salary Employment Southeast, 2004-2005 **9**

industry. According to the McDowell Group, an Alaska research and consulting firm, nearly 948,000 cruise ship passengers passed through Southeast in 2005. This represented a 48 percent increase from the 640,000 passengers who visited the region in 2000. This dramatic expansion seems to account for much of the increased hiring in the leisure and hospitality industry and has also contributed to gains in other industries.

Examples of this tourist-driven growth include a new tour bus company headquartered in Juneau and a new cruise ship stop near Hoonah, the Point Sophia Development Company's Icy Strait Point project. Juneau also added several new restaurants that contributed to the 5.8 percent job growth in leisure and hospitality.

Ongoing gains for retail and health care

Since 2001, retail trade and health care have generated more than 600 new jobs in Southeast. Both industries grew again in 2005, though at a measured pace. Most of 2005's new retail jobs were in Juneau, although Sitka, Haines and Wrangell-Petersburg also reported small gains. Ketchikan's retail industry continued to struggle, losing more than 50 jobs in 2005.

Health care and most other industries categorized as services-providing recorded slight gains in 2005. The one exception was professional and business services, which includes everything from lawyers and accountants to travel agents and security guards. Annual gains and losses of 50 to 100 are too small to be considered significant, however, and a longer-term view is more helpful. In the case of professional and business services, the sector shows a net decline of 50 jobs from 2001 to 2005.

Government declines

Federal and local government registered lower employment levels in 2005. These losses were only partially offset by a slight increase in state government. As a result, overall government

	2005	2004	Change	Percent Change
Total Nonfarm Wage and Salary ¹	36,550	35,950	600	1.7%
Goods Producing	4,100	3,950	150	3.8%
Services Providing	32,450	32,000	450	1.4%
Natural Resources and Mining	650	600	50	8.3%
Logging	350	300	50	16.7%
Mining	300	300	0	0.0%
Construction	1,600	1,500	100	6.7%
Manufacturing	1,850	1,850	0	0.0%
Seafood Processing	1,450	1,450	0	0.0%
Trade, Transportation and Utilities	7,400	7,200	200	2.8%
Retail Trade	4,650	4,550	100	2.2%
Information	600	550	50	9.1%
Financial Activities	1,300	1,250	50	4.0%
Professional and Business Services	1,300	1,350	-50	-3.7%
Educational ² and Health Services	3,550	3,450	100	2.9%
Health Care	2,200	2,150	50	2.3%
Leisure and Hospitality	3,650	3,450	200	5.8%
Other Services	1,200	1,200	0	0.0%
Government ³	13,450	13,550	-100	-0.7%
Federal Government ⁴	2,000	2,050	-50	-2.4%
State Government	5,500	5,450	50	0.9%
Local Government	5,950	6,050	-100	-1.7%
Tribal Government	800	850	-50	-5.9%

¹ Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers

² Private education only

³ Includes employees of public school systems and the University of Alaska

⁴ Excludes uniformed military

Benchmark: March 2005

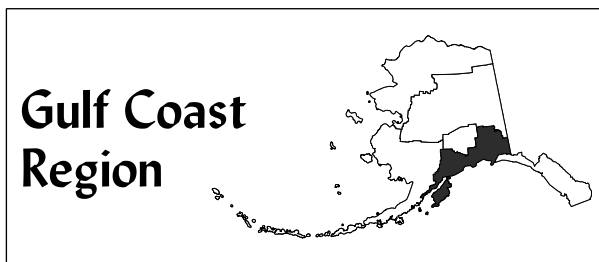
Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section

employment fell by 100 jobs. From 2001 to 2003, total government employment grew by 550 and then fell by 300 over the next two years.

Unemployment down

All eight of Southeast's boroughs and census areas registered lower unemployment rates in 2005. The Wrangell-Petersburg Census Area had the largest decline, dropping from 12.6 percent in 2004 to 10.1 percent in 2005.

Juneau's and Sitka's rates remained substantially lower than the rest of the region at 5.3 and 5.5 percent, respectively. The Skagway-Hoonah-Angoon and Prince of Wales-Outer Ketchikan census areas shared the region's highest rate in 2005 at 13.2 percent.



Gulf Coast region economies hold steady

By Brigitta Windisch-Cole, Economist

Among the areas of the Gulf Coast region, the Kenai Peninsula Borough is the largest in terms of population and employment. The Kenai Peninsula contributes nearly 64 percent of the regional employment, followed by the Kodiak Island Borough with 19 percent, and the Valdez-Cordova Census Area with the remaining 17 percent.

While employment increased slightly in the Kenai Peninsula Borough in 2005, both the Kodiak Island Borough and the Valdez-Cordova Census Area suffered small declines. Combined, the region posted a small net loss of 50 jobs, confirming that not much has changed in the Gulf Coast region's employment scene. (See Exhibit 10.) The lack of growth in job markets, however, did not translate into negative economic trends. The visitor season produced positive results and the salmon season was surprisingly strong.

The small changes in construction, manufacturing, professional services and government indicated job losses but gains in trade, education and health care and information nearly offset those losses. During the first half of 2005, both the Kodiak Island Borough and the Valdez-Cordova Census Area fell short of their 2004 employment levels, but Kodiak Island picked up the pace in the third quarter of 2005. The Kenai Peninsula Borough posted gains in the first nine months of employment records. The fourth quarter 2005 payroll reports have not yet been recorded.

A slower year for construction

Although the three areas of the Gulf Coast region had busy construction seasons, activities did not quite match 2004's performances. The Kenai Peninsula Borough's largest projects were the expansion of the Central Peninsula General Hospital in Soldotna and a new Kenai River highway bridge to replace Soldotna's old one. Seward began to expand its harbor and Homer residential building remained brisk. One of Kodiak Island's largest projects was the paving of a 16-mile stretch of the Chiniak Highway.

Public sector projects also dominated the construction scene in the Valdez-Cordova Census Area, which includes the Copper River area. The rebuilding of the Million Dollar Bridge in Cordova and the Dayville Road upgrade in Valdez were among the area's largest infrastructure projects. The new projects that are lining up for the upcoming construction season will likely mean another good construction year.

Enrollment and school employment move in synch

Falling enrollment in the Gulf Coast region has become a common trend. Between the 1999-2000 school year and 2004-2005 school year, the districts in the Valdez-Cordova Census Area had an 8 percent loss in enrollment, and both Kodiak Island and the Kenai Peninsula recorded 5 percent declines. It is therefore not surprising that school employment has also suffered losses. Last year, there were 50 fewer jobs in the Gulf Coast region's school districts. School district projections hold that additional enrollment declines are likely.

The values of Gulf fish harvests rebound

Gulf fishermen contributed a large share to the state's third-biggest salmon catch ever. The Kodiak Island and Prince William Sound salmon fleets delivered over 75.5 million pink salmon – more than half the state's largest pink salmon harvest.

Wage and Salary Employment **10** Gulf Coast Region, 2004-2005

Cook Inlet fishermen did their part with a harvest of over 5.4 million sockeye salmon, their main target species and the species that helped most in earnings. Prices for Cook Inlet sockeye salmon were 34 percent higher in 2005 than in 2004, leading to an overall earnings increase of 33 percent in 2005 compared to 2004.

Earnings also improved for Prince William Sound and Kodiak fishermen, although the harvest prices paid for pinks remained low. The high volume, however, made up some for depressed prices. Fishermen in these two areas harvest a mixed stock of salmon that consists of five distinct species, so the rebounding sockeye prices benefited the fishermen's earnings as well. The value of the 2005 Prince William Sound salmon harvest was up 14 percent over the 2004 catch; Kodiak's was up 10 percent.

Seafood processing employment shows a small decline

Although the salmon harvest was bountiful, average seafood industry employment in 2005 showed a small decline. Slow winter and spring fishing activity held back regional growth early in the year. Employment started to rise rapidly during the salmon season, and between June and September, Kodiak Island and the Kenai Peninsula recorded job gains over the 2004 season. Seafood processing employment in the Valdez-Cordova Census Area showed little change in 2005.

Big harvests do not necessarily result in parallel employment growth in the seafood processing industry. Often busy harvesting seasons lead to better utilization of the seafood processing work force, which results in more hours and pay for the existing workers. During the third quarter of 2005, in the height of salmon processing, the payrolls in all three areas of the region showed respectable improvement over 2004 earnings. Wages in the Kenai Peninsula Borough, for example, increased by 29 percent, followed by a 24 percent gain on Kodiak Island, and a 13 percent gain in the coastal communities of the Valdez-Cordova Census Area.

	2005	2004	Change	Percent Change
Total Nonfarm Wage and Salary ¹	28,400	28,450	-50	-0.2%
Goods Producing	5,700	5,800	-100	-1.7%
Services Providing	22,700	22,650	50	0.2%
Natural Resources and Mining	1,150	1,150	0	0.0%
Oil and Gas	1,000	1,000	0	0.0%
Construction	1,550	1,600	-50	-3.1%
Manufacturing	3,000	3,050	-50	-1.6%
Seafood Processing	2,350	2,400	-50	-2.1%
Trade, Transportation and Utilities	5,700	5,600	100	1.8%
Retail Trade	3,450	3,350	100	3.0%
Information	450	400	50	12.5%
Financial Activities	850	850	0	0.0%
Professional and Business Services	1,200	1,250	-50	-4.0%
Educational ² and Health Services	2,400	2,350	50	2.1%
Health Care	1,600	1,600	0	0.0%
Leisure and Hospitality	3,350	3,350	0	0.0%
Other Services	1,250	1,250	0	0.0%
Government ³	7,500	7,600	-100	-1.3%
Federal Government ⁴	800	850	-50	-5.9%
State Government	1,700	1,700	0	0.0%
Local Government	5,000	5,050	-50	-1.0%
Tribal Government	400	400	0	0.0%

¹ Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers

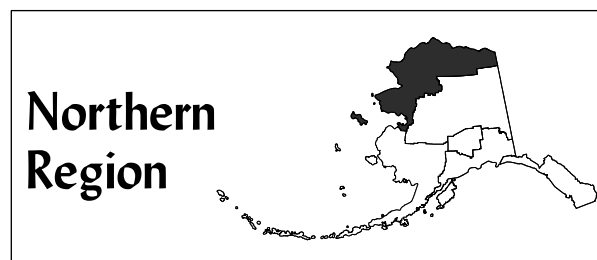
² Private education only

³ Includes employees of public school systems and the University of Alaska

⁴ Excludes uniformed military

Benchmark: March 2005

Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section



Employment is up but local governments struggle

By Brigitta Windisch-Cole, Economist

After two years of declining employment, growth returned to the Northern region. The gain of 250 jobs in 2005 translated to a 1.6 percent growth rate. (See Exhibit 11.) Most of the new jobs came

11 Wage and Salary Employment Northern Region, 2004-2005

	2005	2004	Change	Percent Change
Total Nonfarm Wage and Salary ¹	16,000	15,750	250	1.6%
Goods Producing	5,850	5,500	350	6.4%
Services Providing	10,150	10,250	-100	-1.0%
Oil and Gas	5,150	4,800	350	7.3%
Government ²	4,650	4,750	-100	-2.1%
Federal Government ³	150	150	0	0.0%
State Government	350	350	0	0.0%
Local Government	4,150	4,250	-100	-2.4%
Tribal Government	450	500	-50	-10.0%

¹ Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers

² Includes employees of public school systems and the University of Alaska

³ Excludes uniformed military

Benchmark: March 2005

Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section

from the oil industry, which added 350 jobs and posted a growth rate of 7.3 percent in 2005.

Public sector employment, though, declined for the fourth year in a row. Job losses were felt most severely in the non-oil producing residential areas of the North Slope Borough. Diminishing public revenues from oil field properties strapped the funding for public services. In the Nome Census Area, employment stayed the same and in the Northwest Arctic Borough, job counts increased a bit. Employment at the Red Dog Mine, the borough's strongest economic contributor, rebounded and high zinc prices helped make 2005 a profitable year.

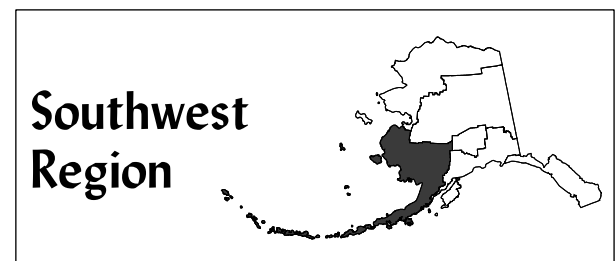
Tribal entities and school districts trim jobs

Most of the declines in public sector employment came from tribal organizations and from school districts. Between the 1999-2000 school year and the 2004-2005 school year, school enrollment in the Northern region fell by 550, or 8 percent. The drop was most dramatic in the North Slope Borough, where average attendance counts fell by nearly 320 students, or 16 percent, during the same period. The Northwest Arctic Borough School District lost 150 students, or 7 percent, and the Nome Census Area lost 80, or 3 percent, during the five-year period.

In response, some school districts have reduced staff and a few tribal organizations have also trimmed employment. The losses have been concentrated in Barrow.

Oil industry employment regains ground

The Northern region employment in the oil fields themselves grew by 350 jobs. Renewed interest in exploration, large maintenance programs, facility upgrades and infrastructure renewals have helped boost oil services employment. High oil prices gave oil companies an incentive to develop additional satellite fields adjacent to the larger producing deposits whose revenues are declining. New players such as Eni Petroleum Company Inc. and Shell Exploration & Production Company have joined the cadre of the traditional producers showing interest in exploration.



High energy costs dampen growth; fishing strong

By Brigitta Windisch-Cole, Economist

The vast Southwest economic region's combined loss of 100 jobs in 2005 lowered job levels by 0.5 percent. (See Exhibit 12.) Unlike other years, seafood – the region's principal industry – failed to tilt the employment level. Seafood processing employment in 2005 held par with its 2004 average. Local government's dwindling money caused most of the job losses.

Rising costs cause big dents in local government

A lack of public sector funding and high transportation and utility costs in 2005 turned problematic for many remote Southwest Alaska communities. Many small communities fought

to survive amidst skyrocketing energy prices and persistent high oil prices had a substantial impact on local costs of generating public utilities.

For instance, using the September prices each year, the 2005 price of 55 gallons of heating oil in Bethel, a regional hub, has doubled in five years.³ The price in 2005 was \$211, which is 53 percent higher than what it would have cost to buy in Anchorage. The 2005 price of 1,000 kilowatt hours of electricity in Bethel has increased by a third in five years. The 2005 price was \$290, which is 138 percent higher than what it would have cost to buy in Anchorage.

The cash squeeze in some cases even led some people to consider disbanding local government entities because they could not meet payrolls for local public services. Local government employment fell by 150 jobs in 2005, mostly in remote communities where people rely on subsistence and where alternative employment barely exists.

Southwest's commercial fishing areas fare better

Commercial fishing along the Alaska Peninsula, the Aleutians, in the Bering Sea and in Bristol Bay produced good results in 2005. The salmon fishery, in particular, was a success. Recovering sockeye salmon prices contributed the most in topping 2004's harvest values.

In the sockeye capital, Bristol Bay, ex-vessel values were up 20 percent in 2005, although the catch was down by 5 percent over the previous year. Alaska Peninsula and Aleutian fishermen landed more fish in 2005 than in 2004 and their value increased by 24 percent. Chignik's catch nearly doubled; its value was worth more than twice as much in 2005 than it was the year before.

³ Energy costs are from the University of Fairbanks' Cooperative Extension Service publication, *Costs of Food at Home for a Week in Alaska*.

Wage and Salary Employment Southwest Region, 2004-2005 **12**

	2005	2004	Change	Percent Change
Total Nonfarm Wage and Salary ¹	19,350	19,450	-100	-0.5%
Goods Producing	5,000	5,000	0	0.0%
Services Providing	14,350	14,450	-100	-0.7%
Seafood Processing	4,700	4,700	0	0.0%
Government ²	7,350	7,500	-150	-2.0%
Federal Government ³	350	350	0	0.0%
State Government	550	550	0	0.0%
Local Government	6,450	6,600	-150	-2.3%
Tribal Government	1,650	1,650	0	0.0%

¹ Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers

² Includes employees of public school systems and the University of Alaska

³ Excludes uniformed military

Benchmark: March 2005

Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section

Groundfish harvests in 2005 were similar to 2004's catch. Pollock catches in 2005 were up from the year before, but the Pacific cod volume was down. Roughly half of the Southwest region's harvests are processed at sea on large catcher-processor boats or on anchored mother ships. The other half of the voluminous harvests reach shore in Western Alaska to be processed in large seafood processing plants in Unalaska, Dutch Harbor and Akutan.

The Southwest region's crab fisheries did not quite match the 2004 season values because prices for king, tanner and snow crab were down. Harvest volume in the red king crab species increased in 2005 over 2004 numbers, but the golden king crab catch was down substantially. The January through March snow crab harvest came in a bit higher in 2005 than the year before.