

ALASKA ECONOMIC **TRENDS**

APRIL 2008

Alaska's Economy Since 2000

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Annual Revisions to Employment Estimates

When, why and how?

Employment Scene

Unemployment rate at 6.6 percent in February



ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT

Sarah Palin, Governor
Commissioner Click Bishop

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Brynn Keith, Chief
Research and Analysis

Susan Erben, Editor
Sam Dapcevich, Graphic Artist

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Cover: The 150-mile Kuparuk River flows from the Brooks Range north to the Arctic Ocean. The river's Eskimo name is shown on a manuscript map drawn in 1901 by a prospector, S.J. Marsh, as Koopowra (probably Kugauraq). He translated it as "big river," according to the U.S. Geological Survey's Geographic Names Information System. Photo courtesy of the National Science Foundation

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Trends Authors



Neal Fried, an Alaska Department of Labor and Workforce Development economist in Anchorage, specializes in the Anchorage/Mat-Su employment and earnings and the cost of living. To reach him, call (907) 269-4861 or email him at Neal.Fried@alaska.gov.



Dan Robinson, a Department of Labor economist in Juneau, specializes in state-wide employment and earnings. To reach him, call (907) 465-6036 or email him at Dan.Robinson@alaska.gov.



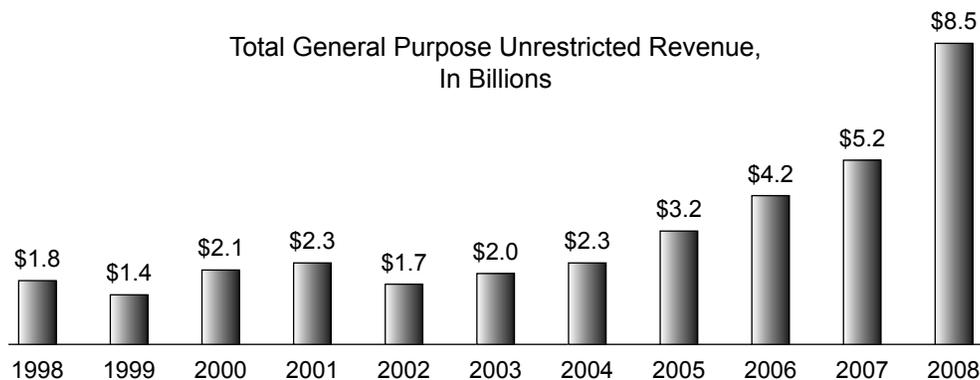
Asserting Alaska's Ownership

By Governor Sarah Palin

This month's *Alaska Economic Trends* highlights significant developments affecting Alaska's economy and workforce since 2000. As this issue will be published at the end of the second regular session of the 25th Alaska Legislature – my first Alaska Legislature as Governor – this offers a good opportunity to take stock of one of the most significant developments under my administration: asserting ownership of our resources.

Governor Walter Hickel coined the term “owner state” when referring to the State of Alaska's ownership of vast tracts of Alaska's land and accompanying resources. As owners, it is our responsibility to be good stewards of our land and resources and maximize the return on these resources for the benefit of all Alaskans. Through passage of the Alaska Gasline Inducement Act we are setting a new course for a sustainable future by implementing a plan to bring our natural gas to market. The new oil production tax measure – known as ACES (Alaska's Clear and Equitable Share) – passed by the Legislature in 2007 assures Alaska's fair share of oil revenues. Thanks to ACES and record oil prices, Alaska's treasury is benefitting from record general purpose unrestricted revenues.

The Spring 2008 Revenue Forecast just released by the Alaska Department of Revenue projects general purpose unrestricted revenue for fiscal year 2008 to be \$8.5 billion. The following chart puts the dramatic increase in perspective:



ACES is projected to bring in about \$4.85 billion, or 57 percent of the 2008 total. Mineral prices are also at record highs, and state revenues from the corporate income tax, mining license tax and coal royalties collected from the mining industry reached \$151.6 million in fiscal year 2007.

At the same time, Alaska's savings accounts, the Permanent Fund, the School Fund and the Constitutional Budget Reserve Fund will automatically grow by almost \$1.2 billion according to the spring forecast. These savings are the legacy of prior legislative actions and public initiatives that recognized the importance of saving for our future in times of revenue surplus. Further, the Legislature has set aside \$3.6 billion of the fiscal year 2008 general purpose unrestricted revenue surplus in savings accounts and will save a significant portion of the projected fiscal year 2009 surplus.

With a growing surplus comes additional responsibility for prudent spending. Future generations will measure today's leaders through the wisdom with which our revenue surplus is invested. As owners, it is in all our interest to continue responsible resource development and a fair taxation regime for the benefit of all Alaskans.

The top 10 developments

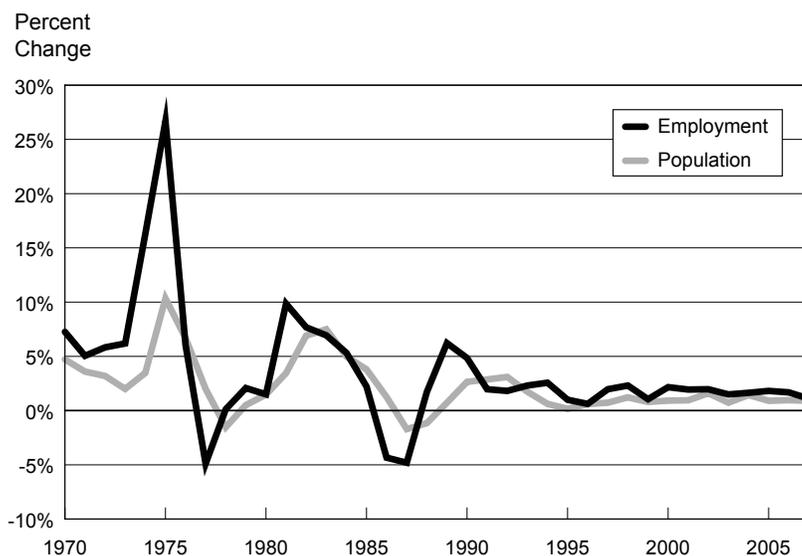
Economic change in Alaska often comes with a bang. The short list of transformative events includes the gold rush, the sudden and explosive growth of the military in the state during World War II, the discovery of oil and the construction of the trans-Alaska oil pipeline.

The 1970s and 1980s were particularly eventful. First, pipeline construction brought unprecedented job and population growth. Then, after a few years of expected post-construction declines, high oil prices and dramatic increases in state revenue and spending fueled a heady boom in the early 1980s. The excesses from that boom likely set the stage for some very rough

years for the economy in 1986 and 1987. The next big newsmaker was the 1989 Exxon Valdez oil spill, which injected billions of dollars into the state's economy just as it had started to grow again and boosted job growth considerably in 1989 and 1990. Since that spike, Alaska has settled into a long period of relative calm that has belied its reputation as a boom and bust state. (See Exhibit 1.)

But a lot has happened during the state's record-breaking 20 consecutive years of job growth that began in 1988. The years since 2000 have been particularly eventful; things haven't been so calm beneath the surface, it turns out. Here's our list of the 10 most significant developments in the state's economy since 2000.

1 Population and Employment Growth Over-the-year percent change, 1970 to 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

1. A wild ride for oil prices

The story is in the numbers: Oil prices rose from an average of \$23 a barrel in 2001 to over \$70 a barrel in 2007, and oil revenue that had dipped as low as \$1.7 billion in 2002 swelled to \$5.1 billion in 2007. (See Exhibit 2.)

By March of this year, oil prices had surged to \$110 a barrel and 2008's oil revenue was forecasted to be \$8.9 billion based on a forecast price of \$84 a barrel. Those numbers have created a paradigm shift for Alaska's state government and oil industry, and have had a heavy impact on the broader economy.

In the early 2000s Alaska regularly faced budget deficits and had to borrow from rainy-day accounts that were being rapidly depleted just to fund basic state government functions.

There was talk of new tax schemes – both income and sales – and of using Permanent Fund earnings to help fund state government.

Then oil prices started climbing, bedeviling forecasters and expert prognosticators and imposing a new problem on state policy makers: what to do with billions of dollars of revenue surpluses.¹ (See Exhibit 2.) It's not a bad problem to have, especially considering that more than half of all states are expecting budget deficits by fiscal year 2009.

On the industry side, high oil prices – and the belief that they will stay high – have stimulated exploration and development in Alaska. And although total production continues to decline, employment in the industry has soared.² (See Exhibit 3.) It has gone from being a significant drag on overall employment growth in 2002 and 2003 to being the growth leader in the last few years.

2. Mineral prices soar

For some of the same reasons that oil prices have soared, the value of minerals mined in Alaska have also shot up. Prices for lead, zinc, gold and silver all rose significantly from 2000 to 2007. (See Exhibit 4.) And as with oil, prices show no signs of falling so far in 2008. Gold rose above \$1,000 an ounce for the first time in history in March after being below \$400 an ounce as recently as 2003.³

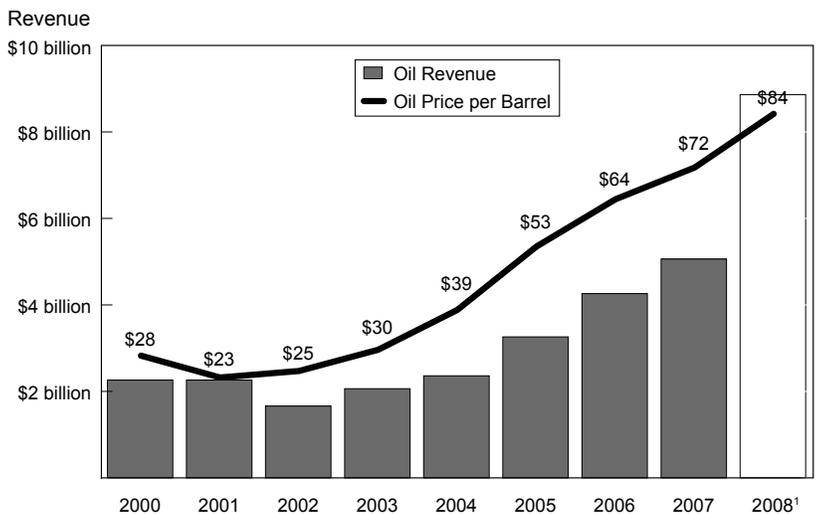
Complete data for 2007 has not yet been released, but in 2006 Alaska mineral production reached \$2.9 billion, more than double 2005's \$1.4 billion. The increase was due almost entirely to higher prices rather than changes to production amounts and another big increase in value is likely in 2007.

¹ A new oil tax structure also increased the amount of revenue the state receives from oil when prices are high.

² Pipeline repair and maintenance work also boosted employment after an oil spill temporarily shut down the pipeline and revealed large-scale corrosion problems.

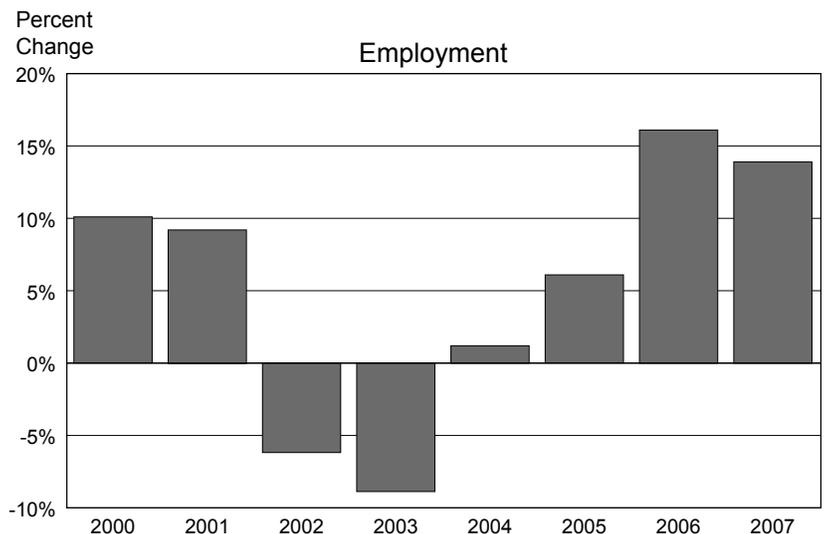
³ Among states, Alaska is the second largest producer of gold, although it's a very distant second to Nevada. In 2006 Nevada produced 206.0 metric tons compared to Alaska's 15.5. Utah was third with 14.4 metric tons.

Oil Prices Boost State Revenue **2**



¹ Alaska Department of Revenue spring 2008 forecast
Source: Alaska Department of Revenue

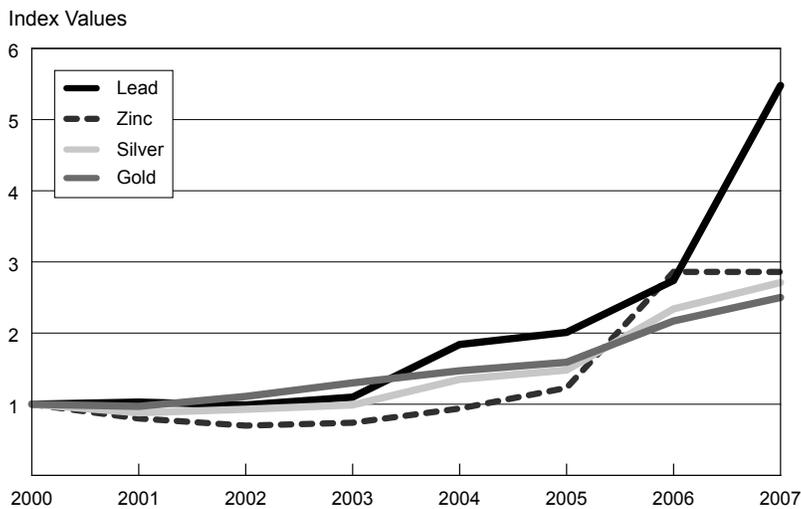
Oil and Gas Bounces Back **3**



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

4 Mineral Prices Shoot Up

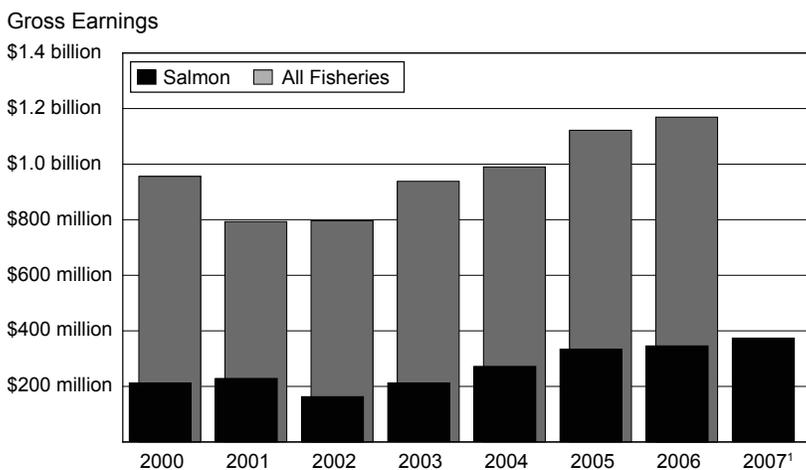
Mineral price index, 2000 to 2007



Source: Bloomberg.com

5 Gross Earnings Bounce Back

Gross earnings, 2000 to 2007



¹ Total gross earnings are not yet available for 2007.

Sources: Alaska Department of Fish and Game, Alaska Commercial Fisheries Entry Commission

As one might expect with such high prices, exploration and development have increased dramatically. The \$176.5 million spent on exploration in 2006 was up from \$103.9 million in 2005 and less than \$50 million a year from 2000 to 2003. That kind of investment suggests a growing economic presence for mining in the coming years.

In fact, revenue to the state from mining grew faster than any other revenue type from 2001 to 2006. From a relatively paltry \$1.7 million in 2001, mining revenue ballooned to \$18.6 million in 2006. The Alaska Department of Revenue expects average annual growth of 24 percent from 2006 to 2011. Over that same period, oil revenue is expected to decline slightly due to falling production although it will still far exceed other revenue sources for years to come.

For a long time mining was more a part of Alaska's past than its present or expected future. With the dramatic run-up of mineral prices and an abundance of untapped mineral resources, that's no longer the case.

3. Signs of improvement in commercial fishing

The value of Alaska's commercial salmon harvest peaked in the late 1980s at more than \$700 million. By 2002 the value had plummeted to \$163 million in nominal dollars; when adjusted for inflation, the decline was even more dramatic.

The main reason for the collapse was the exponential growth of the global farmed salmon industry, which flooded both foreign and domestic markets. Alaska continued to produce a large amount of salmon, but prices fell precipitously and one of Alaska's highest profile industries suffered for more than a decade.

It was an important development for the state's economy then, not to mention the tens of thousands of Alaskans who participate in commercial salmon fishing, when the numbers hit bottom in 2002 and bounced noticeably higher over the next five years. (See Exhibit 5.) From the \$163 million low in 2002, gross

earnings more than doubled by 2007 to \$374 million.

Competition from farmed salmon hasn't gone away – much of the reason for the higher per-pound prices has been increased world consumption rather than a decline in supply – and the value of Alaska's salmon harvest is still far below historical peaks. But the upward trend is promising.

Due largely to improvement in the salmon fisheries and higher total catch values for groundfish, total gross earnings in Alaska's fisheries climbed from under \$800 million in 2002 to nearly \$1.2 billion in 2006.

4. Federal spending shoots up, but may be heading down

Over the short period from 2000 to 2007 Alaska likely witnessed the waxing and waning influence of another dominant economic force – the federal government. For decades, the federal government's sway over Alaska's economy had slowly faded. In 1965, the federal government represented a third of Alaska's gross state product. By 1998 the federal contribution had dwindled to 13 percent.

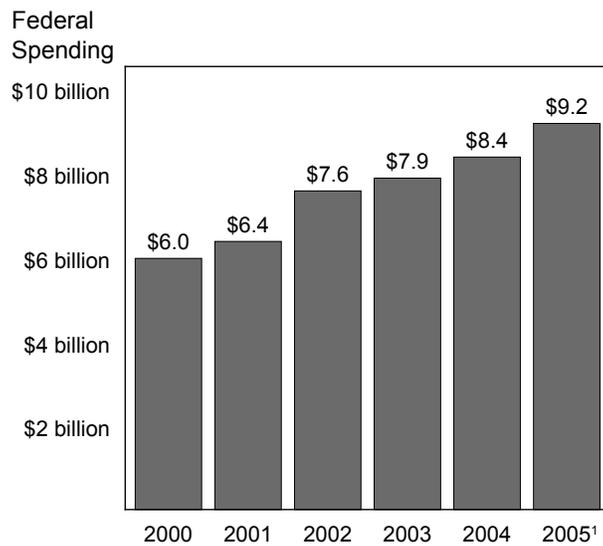
Much of the decline in relative importance was a simple matter of the state's non-federal economy growing faster than the federal component. But then in the 1990s the federal government began to shrink in absolute terms when military bases were closed and federal work forces were downsized.

The long-term trend seemed unlikely to change and it looked as if the federal contribution to Alaska's economy would continue to fade. Then in 1997 the state's senior senator, Ted Stevens, took over the chair of the Senate Appropriations Committee and, by coincidence, the federal treasury was flush with revenue surpluses for the first time in almost 40 years.

By 2000, Alaska once again led the nation in per-capita federal spending and the growing injections of federal dollars into the state (see Exhibit 6) were contributing heavily to ongoing

Federal Funds Have Been Pouring In **6**

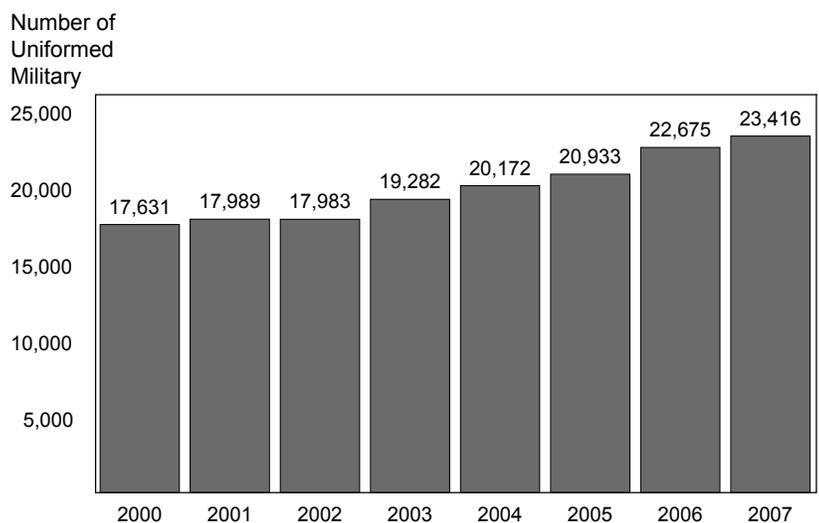
Federal spending in Alaska, 2000 to 2005



¹ Most recent data available
Source: U.S. Census, Consolidated Federal Funds Reports

The Military Has Been Growing **7**

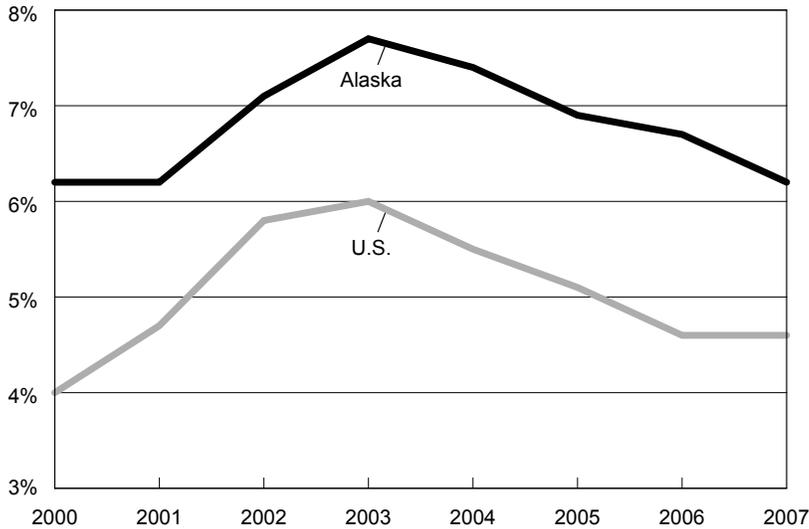
Uniformed military in Alaska, 2000 to 2007



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

8 Alaska Follows National Trends Unemployment rates, 2000 to 2007

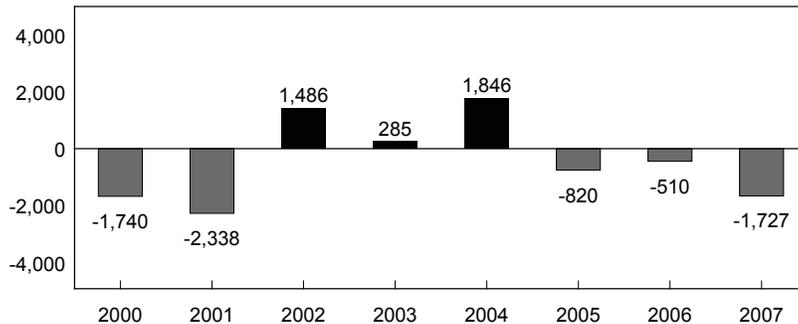
Average Monthly
Unemployment Rate



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

9 Migration Linked to U.S. Economy Net migration to Alaska, 2000 to 2007

Number
of People



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

job creation and economic growth. Without the federal government's growing contribution, Alaska's economy may not have been able to sustain that growth.

From 1998 to 2005 federal spending nearly doubled compared to just a 54 percent increase in the combined total for all other states. Even in inflation-adjusted dollars, federal expenditures grew 56 percent over the period.

In the early years of the increased federal expenditures, much of the growth was in grant money, which is the most discretionary piece of the federal budget. But that growth began to flatten out in 2002 and the growth started coming in large part from increases in military-related spending. The distinction between military-related federal spending in Alaska and non-military spending is a critical one because one appears to be growing and the other is likely to shrink.

After a close call in 2005 – Eielson Air Force Base in Fairbanks was initially selected to be closed under the Base Realignment and Closure program and then spared after a successful campaign to change the recommendation – the military's presence in Alaska looks to be an expanding one. Since 2000, the count of uniformed military in Alaska has grown 33 percent. (See Exhibit 7.) And more growth is expected: The army has announced a five-year plan to add additional soldiers at Fort Richardson in Anchorage and Fort Wainwright in Fairbanks.

The future of non-military federal spending in Alaska is much less secure and may already be on the decline. It's impossible to know for sure because the most recent data available is for 2005, but there are hints that the peak may have come in 2006. What is known is that the value of all federal earmarks, a rich stream of dollars to Alaska, fell by more than 50 percent in 2007.

The Denali Commission – a program to provide utilities, infrastructure and economic support to rural Alaska communities – and other programs that depend heavily on federal dollars have seen cuts in funding. The state's congressional delegation has also warned that diminishing federal

spending in Alaska should be expected. One of the major economic questions of the day is whether the rising tide of oil revenues and the growth in other sectors will be enough to compensate for the expected declines in federal dollars.

5. Unemployment rates remind us that we're part of the U.S.

During most of the 2000 to 2007 period, Alaska was largely a job seekers' market. In other words, it was generally a good time for job seekers and a challenging one for employers looking for workers. Employers from a cross-section of industries complained about having more jobs than applicants.

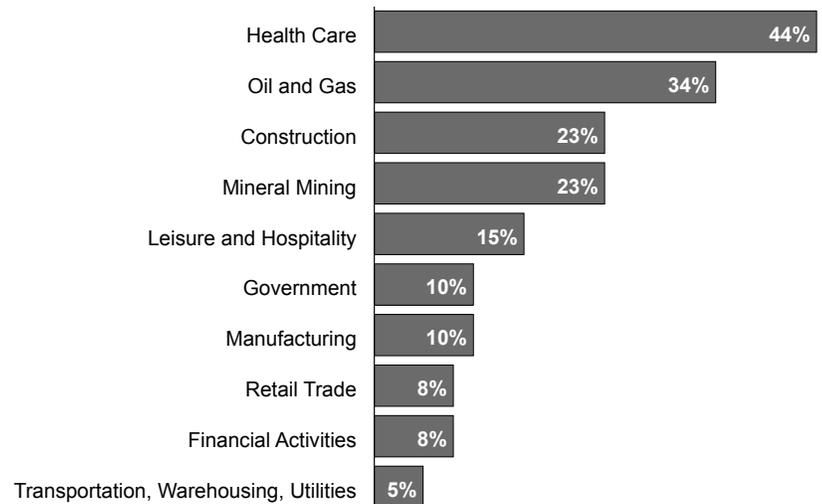
Low unemployment rates confirmed that workers were in relatively short supply. Steady, uninterrupted employment growth, more losses than gains from inter-state migration, and a competing healthy national job market exerted downward pressure on Alaska's unemployment rate for much of the period.

There were certainly exceptions to this broad trend – the paucity of jobs in village Alaska didn't change to any large degree and some larger communities such as Ketchikan and Kenai also experienced some tough years.

For the state as a whole, the lowest jobless rates occurred at the beginning and end of this era. (See Exhibit 8.) The highest annual rate of 7.7 percent coincided with the nation's last recession. That was no coincidence. It shows how the national economy wields its influence on Alaska's economy in both good times and bad. In fact, Alaska's three highest years of unemployment – 2002 through 2004 – coincided with the nation's three highest jobless rates even though Alaska continued to generate job growth as national job counts fell.

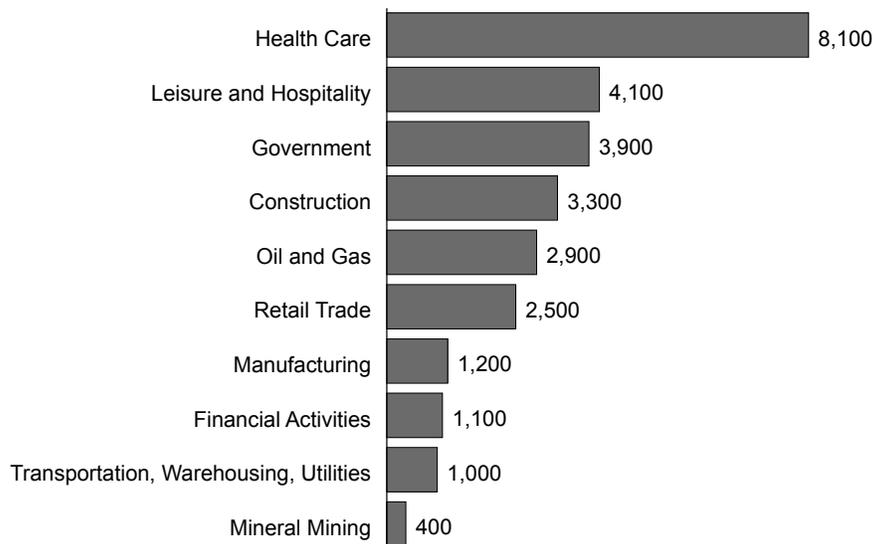
Alaska's migration trends also confirm a connection between the state and national economies. (See Exhibit 9.) The three years of high national unemployment were also the only three years

Health Care Leads the Way **10** Percent employment growth, 2000 to 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

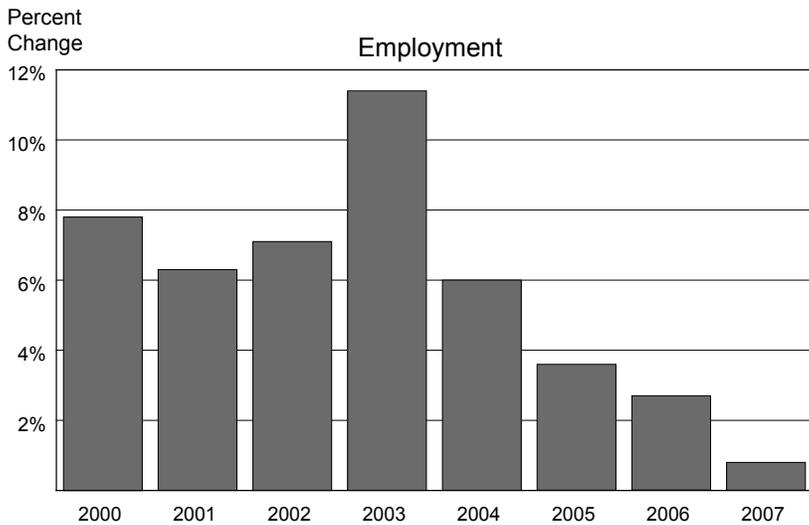
Health Care Adds 8,100 Jobs **11** Employment growth, 2000 to 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

12 Health Care Growth Slows

Over-the-year percent change, 2000 to 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

when more people migrated to Alaska than migrated out to other states.

Since Alaska's job growth over the 2000 to 2007 period was moderate but consistent, what most likely happened was that fewer Alaskans were enticed south by greener job-seeking pastures during the national recession. And although Alaska's economy didn't entice many people to head north during the economic boom of the late 1990s and early 2000s, when things soured on the national scene, Alaska was one of the few states still growing and looked good in comparison.

The reverse was also true. During the five years when the national unemployment rate fell to 5.1 percent or below, Alaska also experienced its lowest rates of unemployment and five years of out-migration. In effect, this meant that as the number of jobs continued to grow in Alaska the number of potential job seekers fell, which effectively pushed Alaska's unemployment rate lower.

Given the current trends in the national economy, with recent data showing job losses and the possibility of a recession, it will be interesting to watch how these forces play out on Alaska's labor market in 2008 and beyond.

6. Health care dominates job growth

Nearly a quarter of all job growth in Alaska's economy from 2000 to 2007 came from health care. The industry grew 44 percent over the period and saw its job count climb from 18,600 to 26,700. (See Exhibits 10 and 11.) None of the state's major employment categories grew as much on a percentage basis or added as many total jobs.

But growth has slowed. (See Exhibit 12.) After increases of more than 6 percent a year from 2000 to 2004, growth slowed to 3.6 percent in 2005. In 2007, growth of 0.8 percent actually lagged behind overall job growth. As a young state with a relatively small population, Alaska had for years been underserved by service industries such as health care. That may no longer be the case.

Alaska's share of health care jobs is nearly as high as the nation's and the industry may have already shifted down into a lower gear that will see its growth more closely mirror national trends in the future.

There's also a possibility, however, that Alaska's unique demographics will give another boost to health care in the coming years. Nationally, 12 percent of the population is over 65 compared to just 7 percent in Alaska. From that fairly small base, the state's 65 and over population is projected to double by 2020 and nearly triple by 2030. The U.S. senior population will also grow significantly over that period as the nation's huge baby-boom population cohort ages, but the national increases are expected to come at a slower overall rate.

The magnitude of Alaska's increases will likely create additional demands for health care workers to serve its aging population and push the industry to resume adding jobs at a faster rate than the broader economy.

7. Retail growth slows significantly

During the 1990s retail trade expanded consistently and vigorously. As some of the state's important resource-based industries struggled

through difficult years, some feared for the future of an economy that was growing largely by replacing high-wage jobs with lower-wage retail and service-sector jobs.

From 1990 to 2000, retail added 7,500 jobs, but only added 2,500 from 2000 to 2007. The industry lagged behind total job growth over that period and just managed to match the state's population growth. The numbers point to an industry that, after years of stronger than average growth, caught up to the broader economy.

Already by 2000, Alaska's ratio of retail jobs to total payroll jobs was equal to the nation's, and the same was true in 2007 when retail made up 11 percent of both Alaska's and the United States' total payroll employment. (See Exhibit 13.)

Because big new players on the retail scene often enter the market to fanfare and a lot of news coverage, the lack of strong growth for the industry may seem surprising. Alaska has seen the arrival of several national franchises – Target and Petco, for example – and the expansion of many others since 2000.

But there have also been some important subtractions from the list. For example, Alaska Market Place, which briefly filled some of the empty grocery stores created when Safeway merged with Carrs, closed all six of its stores in 2000. More dramatic was the closure of Alaska's five Kmart stores in 2003, just a year after adding a full line of groceries to the stores.

Retail is a hyper-competitive, rough-and-tumble industry with a constantly changing face. But for now at least, its catch-up phase in Alaska seems

Alaska Generally Resembles the U.S. Alaska and U.S. employment by category, 2007

13

	Alaska Employment (in thousands)	Percentage of Total Alaska Employment	U.S. Employment (in thousands)	Percentage of Total U.S. Employment
Total Nonfarm Wage and Salary ¹	317.6	100%	137,626	100%
Goods-Producing ²	44.5	14%	22,221	16%
Service-Providing ³	273.1	86%	115,405	84%
Natural Resources and Mining	13.9	4%	723	1%
Logging	0.3	0%	61	0%
Mining	13.6	4%	662	0%
Oil and Gas Extraction	11.5	4%	146	0%
Construction	17.5	6%	7,615	6%
Manufacturing	13.0	4%	13,883	10%
Trade, Transportation, Utilities	64.0	20%	26,608	19%
Wholesale Trade	6.5	2%	6,029	4%
Retail Trade	36.0	11%	15,491	11%
Transportation, Warehousing, Utilities	21.5	7%	4,535	3%
Information	6.9	2%	3,029	2%
Financial Activities	15.0	5%	8,309	6%
Professional and Business Services	25.0	8%	17,963	13%
Educational ⁴ and Health Services	36.9	12%	18,327	13%
Health Care	26.7	8%	12,947	9%
Leisure and Hospitality	32.0	10%	13,475	10%
Other Services	11.6	4%	5,491	4%
Government	81.7	26%	22,204	16%
Federal Government ⁵	16.8	5%	2,727	2%
State Government ⁶	24.7	8%	5,125	4%
Local Government ⁷	40.2	13%	14,352	10%

¹ Excludes the self-employed, fishermen and other agricultural workers, and private household workers; for estimates of fish harvesting employment, and other fisheries data, go to labor.alaska.gov/research/seafood.htm

² Goods-producing sectors include natural resources and mining, construction and manufacturing.

³ Service-providing sectors include all others not listed as goods-producing sectors.

⁴ Private education only

⁵ Excludes uniformed military

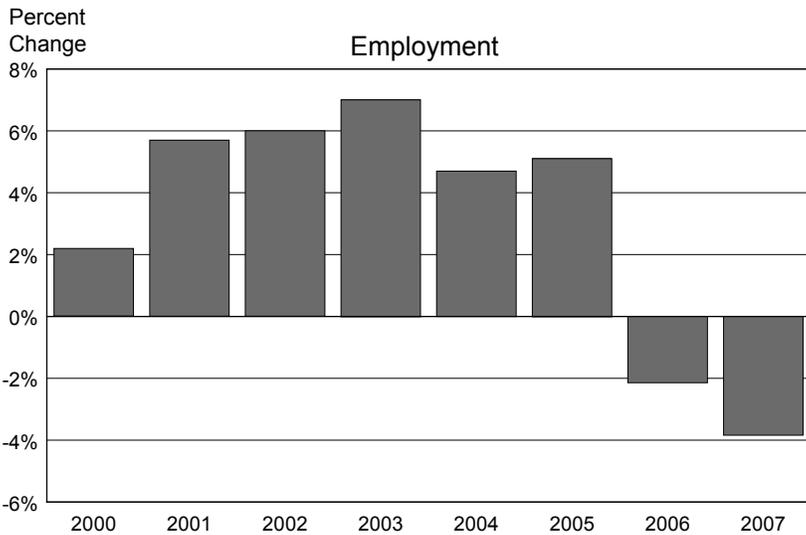
⁶ Includes the University of Alaska

⁷ Includes public school systems

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

14 Construction Up . . . Then Down

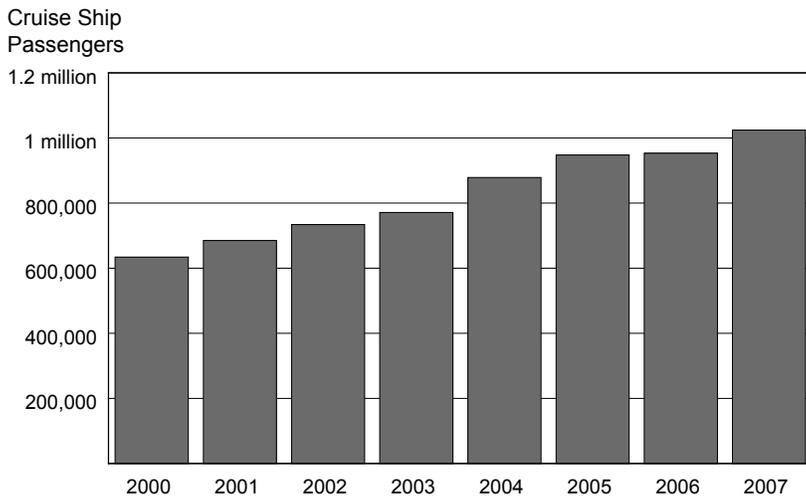
Over-the-year percent change, 2000 to 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

15 Cruise Ship Numbers Grow

Alaska passenger volume, 2000 to 2007



Source: McDowell Group

to be over. Looking forward, it's more likely to grow apace with the economy than be out in front like it was in the 1990s.

8. Construction goes from strong gains to big losses

As Alaska's economy demonstrated during the 1970s and 1980s, extraordinary growth is hard to sustain and can be followed by steep corrections. That was the pattern for construction over the 2000 to 2007 period. (See Exhibit 14.)

From 2000 to 2005, the state added 4,000 construction jobs before losing 1,000 over the next two years. National construction numbers have followed a similar pattern, though driven by different forces.

Alaska's construction boom was fueled primarily by a combination of growing federal grants for capital projects, and expanded state capital budgets, in addition to low interest rates that encouraged capital investment for the commercial sector. Liberal lending may have stimulated growth, but it was much less responsible for Alaska's robust construction numbers than it was for other parts of the United States.

Consequently, the downturn in Alaska's construction numbers is only peripherally related to the national downturn driven by a combination of reckless sub-prime mortgage lending and a slowing economy.

The main thing Alaska's construction industry has in common with the nation's is that in both cases housing prices rose long enough and fast enough to get way out of historical balance with household incomes. Rapid housing cost appreciation led to increased building and, in some locations, oversupply. An overall downward trend in housing values has also dampened construction activity.

Alaska's construction industry will likely bounce back a little faster than the nation's because residential construction is a smaller piece of the equation and also because Alaska's housing price increases were less extreme. That's assuming, of course, that the growth in oil and gas

construction, and state and local capital spending is sufficient to compensate for the expected downturn in federal money.

9. Tourism keeps growing

The story line for tourism since 2000 has been consistent growth. The number of cruise ship passengers climbed from 640,000 in 2000 to over 1 million in 2007. (See Exhibit 15.) When all modes of travel to the state are included, the total number of visitors to Alaska in 2007 reached 1.7 million, a number more than two and a half times the state's population.

One of the big questions for tourism is whether there's a saturation point and if so, how close is Alaska to reaching it. As with health care, retail trade and construction, the most recent few years show signs of slower growth. From 2000 to 2004 the increase in cruise ship passengers averaged 8.5 percent. In 2006 the growth was just 0.6 percent before the numbers bounced back in 2007 to a 7.3 percent increase.

Many Southeast Alaska ports are at or near capacity and could only accommodate more boats by building more dock facilities, an expensive and often controversial proposition. Growth of other types of visitors has been significantly slower in recent years with both highway and ferry visitors declining in 2007.

10. Growth streak looks tenuous

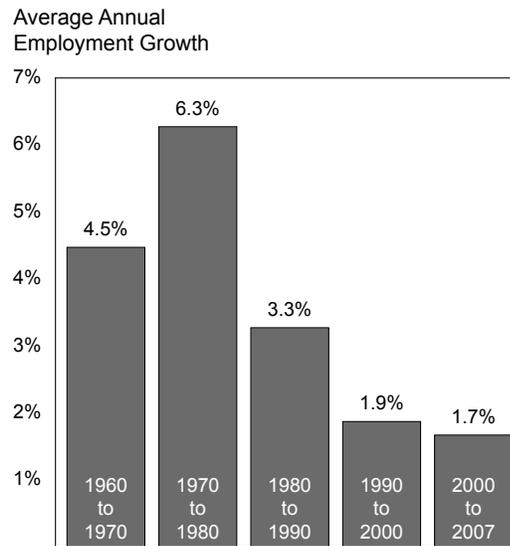
Although Alaska's 20-year streak of job growth is expected to last at least a little longer, it looks increasingly tenuous. Despite high oil prices, massive state government surpluses, better news from the fisheries, a resurgent mining industry and healthy tourism growth, total job growth slowed to just 1.0 percent in 2007.

On the negative side of the ledger is an expected decline in federal funds and a growing risk of a national recession. Average annual growth over the 2000 to 2007 period has been slower than in any of the last four full decades, including the 1990s when oil prices were low and many of Alaska's resource-based industries were in decline. (See Exhibit 16.)

Slowest Growth Since Statehood

Average annual growth, 1960 to 2007

16



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

But when it finally happens, too much shouldn't be made of the growth streak ending. Both the 1970s and the 1980s with their dramatic ups and downs still produced significantly more net growth than either the 1990s or the current portion of the 2000s. Business cycles are a normal pattern of mature economies and long-term growth can be facilitated by short-term corrections of imbalances.

So although the 20-year streak is an economic conversation piece, the world will hardly end when the streak does.

When, why and how?

Every month the Alaska Department of Labor and Workforce Development produces and publishes employment estimates. The estimates are produced in cooperation with the U.S. Bureau of Labor Statistics from a monthly survey of about 2,000 Alaska employers.

The program, called Current Employment Statistics, is one of the nation's oldest and largest. It is designed to take the pulse of the economy by measuring growth and decline in the number of jobs nationally and at the state level.¹ The estimates are one of the first major economic statistics released each month and the national numbers are closely watched by financial markets and businesses.

At the end of every calendar year, each state revises the estimates for the year that has just ended

¹ The CES program also publishes estimates for major metropolitan areas such as Anchorage/Mat-Su. The Alaska Department of Labor also independently produces and publishes monthly employment estimates for the Gulf Coast, Interior, Northern, Southeast and Southwest regions of the state and for Anchorage and the Fairbanks North Star Borough.

and the year prior to that. For example, in early 2008, the Department revised its employment estimates for 2006 and 2007.

The main reason the estimates are revised is the same reason almost anything is revised – because more information becomes available. In this case, the additional information comes from reports that nearly all Alaska employers are required to file as part of the unemployment insurance program.

The Department requires employers to file the reports quarterly so that it can determine who's eligible for unemployment insurance benefits and so it can manage the fund from which benefits are paid. Among other things, the employers tell the Department how many jobs they provided for each of the three months in the quarter. That information has the secondary benefit of helping the Department revise the previous estimates made from the sample-based survey.

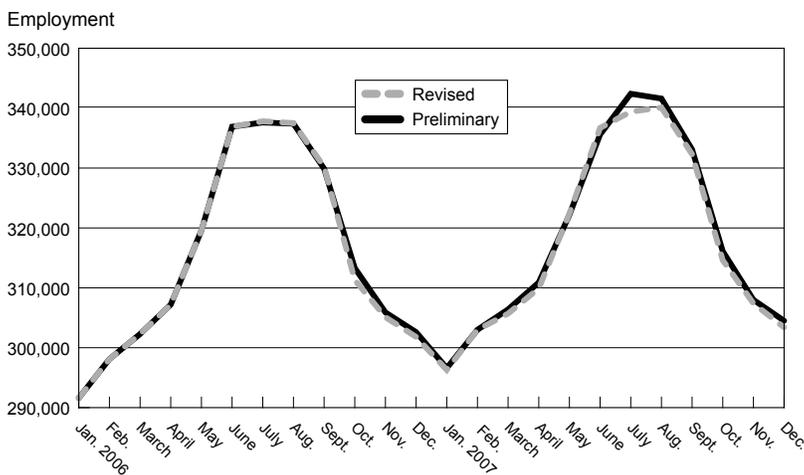
Employers are given a month after the end of each quarter to file their reports and it takes several more months to process the data from the more than 20,000 Alaska employers to ensure the data are as accurate as possible. As a result, there's a lag of about six months before the employment numbers are published by the Department under a program called the Quarterly Census of Employment and Wages.²

How the two programs work together

The QCEW data provide a critical reality check on the Department's initial monthly employment estimates. For a variety of reasons, sample-based estimates can be imprecise and it's helpful to be able to confirm or correct what the estimates are saying about trends in Alaska's economy.

² As the program's name suggests, wages are also published under the QCEW program, but it is only the employment numbers that are relevant here.

1 Revised Numbers Are a Little Lower Employment estimates, 2006 and 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

Most Revisions Were Small Preliminary and revised estimates, 2007 **2**

The six-month lag before the QCEW data become available means that during each year's revision process, data for the two previous years must be revised. For example, in early 2008, the Department had QCEW data available for the first three quarters of the year. That data was reviewed for accuracy and then used to replace the original estimates.

Because the fourth quarter data were not yet available, those numbers are re-estimated from the new levels created by the QCEW data that replaced the estimates for the first three quarters of the year. It's for that reason that the revision process includes the two previous years rather than just one, although the revisions to the earlier year are generally quite small since only part of that year's data are being replaced.

So how good are the estimates?

The revisions to the 2006 and 2007 employment estimates were generally small. (See Exhibit 1.) Average monthly employment for 2006 was revised down by 400 jobs, a revision of a little more than one-tenth of 1 percent. The revision to the 2007 estimates was 800 jobs, a downward revision of about three-tenths of 1 percent.

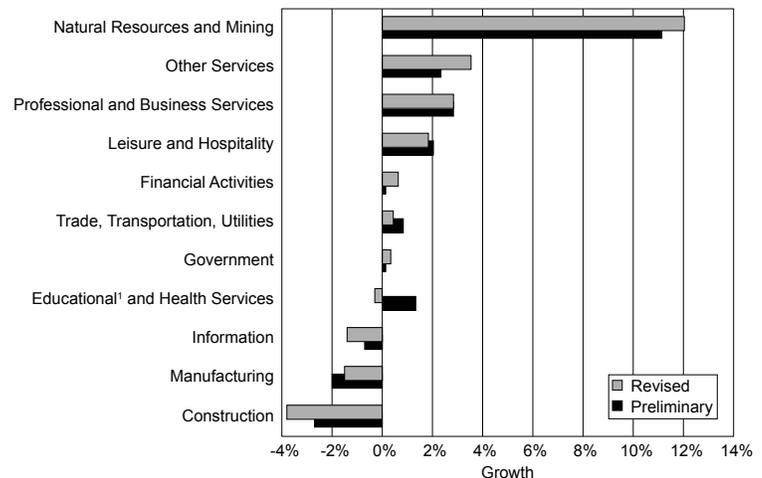
Making accurate employment estimates is most difficult when economic trends are changing. In this case, any change to Alaska's long-running trend of moderate job growth looks small, but a slight slowdown is evident in the revised numbers that was not quite as clear in the original estimates.

Estimates by industry sectors

The Department also estimates employment by a variety of industry sectors and sub-sectors. Making accurate estimates at this level is a bigger challenge because the numbers are smaller and more volatile. Smaller groups also require a larger percentage of their members to be sampled for the sample to reliably represent the movements of the entire group.

For the most part, the employment estimates for the various sectors weren't significantly different than the revised numbers. (See Exhibit 2.)

Natural resources and mining employment estimates showed very strong growth of 11 percent. The revised numbers confirmed that the sector had grown significantly, led by a surge in new oil



¹ Private education only

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

and gas jobs, but the revised growth of 12 percent was even stronger.

Construction estimates, on the other hand, correctly identified job losses, but the original estimates showed a decline of 3 percent, a little less severe than the revised decline of 4 percent.

Education and health services, a sector dominated by health care jobs, also had a notable revision. In this case, the original estimates showed modest growth of 1 percent. Revised numbers, however, revealed that the sector actually lost a very small number of jobs in 2007, a somewhat surprising development for a sector that had been growing strongly for years.

The bottom line

The main thing data users should remember about the estimates is that they are revised every year and that the revisions are to the two previous years. The complete set of revised estimates for the state, its six regions, and for Anchorage and Fairbanks are available on Research and Analysis' Web site.³

The secondary message is that the revisions have historically been small and that the monthly employment estimates are a current and generally accurate measure of the state's economy and job market.

³ Go to Research and Analysis' Web site at almis.labor.state.ak.us. Click on "Employment" in the blue box on the left, then pull down to "Current Employment Statistics."

Unemployment rate at 6.6 percent in February

Alaska's seasonally adjusted unemployment rate rose one-tenth of a percentage point in February to 6.6 percent. (See Exhibit 1.) Although monthly changes of that magnitude are too small to be statistically significant, the rate has been gradually rising for the last 10 months. Since April 2007, the rate has climbed a total of six-tenths of a percentage point.

The higher rates are the result of a moderate increase to the estimated number of unemployed Alaskans and little change to the estimated number of employed Alaskans. The unemployment rates are produced using monthly claims for unemployment insurance and a monthly survey of about 1,000 Alaska households, among other inputs.

Highs and lows around the state

The Aleutians West Census Area had February's lowest unemployment rate at 3.4 percent (rates for boroughs and census areas are not seasonally adjusted). The Wade Hampton Census Area in Southwest Alaska had the highest at 22.4 percent. (See Exhibit 3.)

Anchorage, Juneau and Fairbanks all continued to register unemployment rates well below February's unadjusted statewide rate of 7.8 percent. Anchorage's rate was 5.8 percent, Juneau's 5.5 percent and Fairbanks' 6.6 percent.

The North Slope Borough's rate in February was just 4.8 percent as things stayed busy in the oil fields. The Kodiak Island Borough also recorded a relatively low rate of 6.6 percent.

Mat-Su's rate of 9.3 percent was a full one and a half percentage

points higher than the state's overall rate and a noticeable increase from February 2007's rate of 8.5 percent. The Kenai Peninsula Borough also had a relatively high rate of 10.8 percent.

Payroll jobs show seasonal increase

Alaska added about 6,100 payroll jobs in February as activity in many of the state's seasonal industries started picking up. (See Exhibit 2.) In the private sector, construction and seafood processing both added 800 jobs to lead the way.

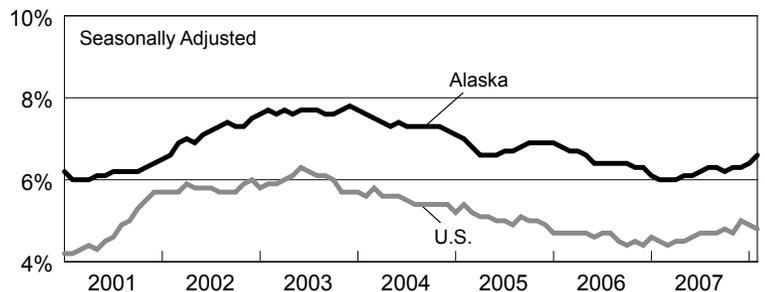
Government's job count increased by 3,400 in February, due mostly to seasonal patterns in academic calendars for the University of Alaska and local schools.

Slower over-the-year growth

The state's February job count was 1,600 higher than in February 2007. That equates to growth of just 0.5 percent, about half of what the state averaged from 2006 to 2007.

The biggest drag on growth was construction, which was down 1,200 jobs over the year. The 13,600 construction jobs were the lowest February total since 2003.

Unemployment Rates, Alaska and U.S. January 2001 to February 2008



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

2 Nonfarm Wage and Salary Employment

	Preliminary	Revised	Revised	Changes from:	
	2/08	1/08	2/07	1/08	2/07
Alaska					
Total Nonfarm Wage and Salary¹	304,600	298,500	303,000	6,100	1,600
Goods-Producing ²	39,400	38,300	39,700	1,100	-300
Service-Providing ³	265,200	260,200	263,300	5,000	1,900
Natural Resources and Mining	14,200	14,100	13,200	100	1,000
Logging	300	200	200	100	100
Mining	13,900	13,800	13,000	100	900
Oil and Gas	11,900	11,700	11,100	200	800
Construction	13,600	13,400	14,800	200	-1,200
Manufacturing	11,600	10,800	11,700	800	-100
Wood Product Manufacturing	400	400	400	0	0
Seafood Processing	7,900	7,100	8,000	800	-100
Trade, Transportation, Utilities	60,700	60,700	59,800	0	900
Wholesale Trade	6,300	6,300	6,300	0	0
Retail Trade	34,200	34,800	33,800	-600	400
Food and Beverage Stores	6,100	6,200	6,200	-100	-100
General Merchandise Stores	8,900	9,200	8,600	-300	300
Transportation, Warehousing, Utilities	20,200	19,600	19,700	600	500
Air Transportation	6,100	6,100	5,900	0	200
Truck Transportation	3,200	3,100	3,100	100	100
Information	6,800	6,800	6,900	0	-100
Telecommunications	4,200	4,200	4,200	0	0
Financial Activities	14,600	14,500	14,600	100	0
Professional and Business Services	24,000	23,500	23,700	500	300
Educational⁴ and Health Services	37,100	36,700	37,100	400	0
Health Care	26,700	26,600	26,800	100	-100
Leisure and Hospitality	27,600	27,200	27,300	400	300
Accommodations	6,100	6,100	6,000	0	100
Food Services and Drinking Places	17,600	17,500	17,600	100	0
Other Services	11,400	11,200	11,400	200	0
Government	83,000	79,600	82,500	3,400	500
Federal Government ⁵	16,100	16,000	16,400	100	-300
State Government	25,300	22,900	25,000	2,400	300
State Government Education ⁶	8,000	6,000	7,900	2,000	100
Local Government	41,600	40,700	41,100	900	500
Local Government Education ⁷	24,000	23,300	23,800	700	200
Tribal Government	3,300	3,300	3,300	0	0

Notes for all exhibits on this page:

¹ Excludes the self-employed, fishermen and other agricultural workers, and private household workers; for estimates of fish harvesting employment, and other fisheries data, go to labor.alaska.gov/research/seafood/seafood.htm

² Goods-producing sectors include natural resources and mining, construction and manufacturing.

³ Service-providing sectors include all others not listed as goods-producing sectors.

⁴ Private education only

⁵ Excludes uniformed military

⁶ Includes the University of Alaska

⁷ Includes public school systems

⁸ Fairbanks North Star Borough

Sources for Exhibits 2 and 3: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics
Sources for Exhibit 4: Alaska Department of Labor and Workforce Development, Research and Analysis Section; also the U.S. Department of Labor, Bureau of Labor Statistics, for Anchorage/Mat-Su and Fairbanks

4 Nonfarm Wage and Salary Employment By region

	Preliminary	Revised	Revised	Changes from:		Percent Change:	
	2/08	1/08	2/07	1/08	2/07	1/08	2/07
Anch/Mat-Su	164,600	161,900	163,100	2,700	1,500	1.7%	0.9%
Anchorage	146,900	144,400	145,900	2,500	1,000	1.7%	0.7%
Gulf Coast	26,100	25,400	26,200	700	-100	2.8%	-0.4%
Interior	42,200	41,300	42,500	900	-300	2.2%	-0.7%
Fairbanks ⁸	36,500	35,800	36,400	700	100	2.0%	0.3%
Northern	18,850	18,550	18,200	300	650	1.6%	3.6%
Southeast	33,100	32,100	33,100	1,000	0	3.1%	0.0%
Southwest	19,650	19,150	19,650	500	0	2.6%	0.0%

3 Unemployment Rates By borough and census area

SEASONALLY ADJUSTED	Prelim.	Revised	Revised
	2/08	1/08	2/07
United States	4.8	4.9	5.0
Alaska Statewide	6.6	6.5	6.0
NOT SEASONALLY ADJUSTED			
United States	5.2	5.4	4.9
Alaska Statewide	7.8	7.4	7.2
Anchorage/Mat-Su Region	6.6	6.2	6.1
Municipality of Anchorage	5.8	5.6	5.4
Mat-Su Borough	9.3	8.5	8.5
Gulf Coast Region	10.3	10.0	9.7
Kenai Peninsula Borough	10.8	10.2	10.1
Kodiak Island Borough	6.6	7.4	6.1
Valdez-Cordova Census Area	12.7	12.1	12.6
Interior Region	7.7	7.4	7.1
Denali Borough	18.3	18.4	16.4
Fairbanks North Star Borough	6.6	6.4	6.1
Southeast Fairbanks Census Area	11.7	11.1	11.1
Yukon-Koyukuk Census Area	17.2	16.9	15.8
Northern Region	9.2	8.5	8.9
Nome Census Area	11.7	11.3	10.9
North Slope Borough	4.8	4.3	5.5
Northwest Arctic Borough	13.2	11.7	11.5
Southeast Region	9.0	8.7	8.1
Haines Borough	15.5	15.7	12.9
Juneau Borough	5.5	5.3	5.2
Ketchikan Gateway Borough	8.4	7.7	7.9
Prince of Wales-Outer Ketchikan CA	21.2	20.0	18.4
Sitka Borough	7.5	7.3	5.8
Skagway-Hoonah-Angoon CA	22.1	23.5	21.6
Wrangell-Petersburg Census Area	15.9	16.1	13.3
Yakutat Borough	14.3	10.9	13.2
Southwest Region	12.2	12.2	10.8
Aleutians East Borough	7.8	8.3	6.2
Aleutians West Census Area	3.4	5.8	3.4
Bethel Census Area	14.8	14.1	13.0
Bristol Bay Borough	12.9	11.5	13.5
Dillingham Census Area	11.7	10.4	10.3
Lake and Peninsula Borough	9.6	9.3	7.9
Wade Hampton Census Area	22.4	21.3	20.4

For more current state and regional employment and unemployment data, visit our Web site.

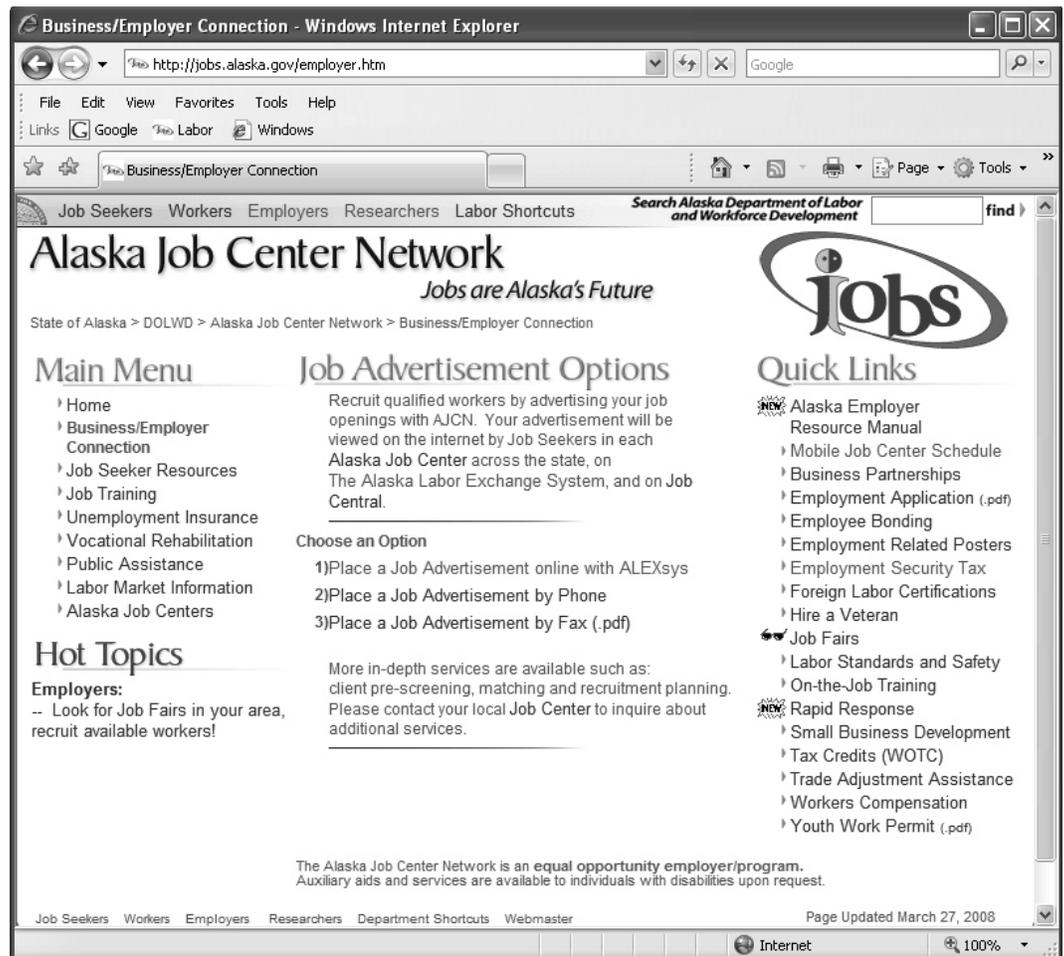
almis.labor.state.ak.us

The Dangers of Methylene Chloride

Methylene chloride is used to strip furniture, degrease metal, remove aircraft paint and manufacture other chemicals, among other things. Overexposure to methylene chloride can cause respiratory or central nervous system failure and increase the risk of cancer. A few basic precautions can help avoid the possible health hazards:

- Perform a job hazard analysis to determine if any product contains methylene chloride.
- Substitute the product for another one that doesn't contain any methylene chloride.
- If the product can't be replaced, use engineering controls such as a closed system and local ventilation to minimize exposure.
- Perform exposure monitoring to determine adequate personal protective equipment such as respirators, gloves and protective clothing.
- Train employees and enforce safety rules.

If these steps seem overwhelming, the Alaska Department of Labor and Workforce Development can help. Contact the department's Labor Standards and Safety Division at (800) 656-4972.



The Business Connection Web site is shown at right. (See article, far right.)

Employer Resources

Popular Employer Services

Staff at the Alaska Job Centers provide employers with a multitude of useful free services through the Business Connection. The services include ALEXsys, the Alaska labor exchange system where employers can place job orders, find suitable candidates, review appropriate training, determine competitive starting salaries and analyze the labor market. (Access ALEXsys on the Web by going to jobs.alaska.gov.)

Business Connection staff also help employers tailor recruitment plans to meet employers' needs, refer qualified applicants to employers and arrange for employers to use job center conference and interview rooms for recruiting. Employer workshops at the Anchorage Midtown Job Center cover wage and hour laws, small business payroll, the Employment Security Tax and other topics. Workshops can also be provided upon request throughout the state at businesses, other job centers and conferences.

The Business Connection Web site at jobs.alaska.gov/employer.htm (see screen at left) has links to required employment-related posters, ALEXsys, the Alaska Employer Handbook, employee bonding, tax credits, on-the-job training, small business development, Alaska Job Centers, Employment Security Tax, the Trade Adjustment Assistance program and more.

Another employer service is a program called Rapid Response, where a team of specialists from various Alaska Department of Labor and Workforce Development divisions goes to a business site or community facing layoffs to conduct free workshops and counseling for employees on topics such as training for another job, current job openings, how to use ALEXsys, resume preparation, interviewing skills, stress management, financial planning and filing for unemployment insurance benefits.

The Rapid Response team also helps employers explore strategies to avoid layoffs, such as employee stock ownership plans, upgrading employees' job skills or helping with labor-management issues.

For more information, go to the Web sites listed above, call or stop by any Alaska Job Center, or call (877) 724-ALEX (2539). For a list of other employer resources, go to jobs.alaska.gov or the Department of Labor's Web site at labor.alaska.gov and click on "Employers" in the gold ribbon at the top.