

ALASKA ECONOMIC **TRENDS**

JANUARY 2013

Employment Forecast for 2013

WHAT'S INSIDE

Economists had a tougher time forecasting
in recent years



ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT

Sean Parnell, Governor
Dianne Blumer, Commissioner

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Brynn Keith
Director, Administrative Services

Dan Robinson
Chief, Research and Analysis

Sara Whitney
Editor

Sam Dapcevich
Cover Artist

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On the cover: The sun rises in downtown Juneau in December. Photo by Sam Dapcevich

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Economic Forecast for 2013	4
Statewide	4
Anchorage	8
Fairbanks	11
Southeast	14
Employment Scene	17
Economists had a tougher job forecasting in recent years	

January Authors



Caroline Schultz, an Alaska Department of Labor and Workforce Development economist in Juneau, specializes in housing market research. To reach her, call (907) 465-6027 or e-mail her at Caroline.Schultz@alaska.gov.



Neal Fried, a Department of Labor economist in Anchorage, specializes in the Anchorage/Mat-Su region's employment, wages, and the cost of living. To reach him, call (907) 269-4861 or e-mail him at Neal.Fried@alaska.gov.



Alyssa Shanks, an economist for the Department of Labor in Anchorage, specializes in the employment and wages of the Interior, Gulf Coast, and Northern economic regions. To reach her, call (907) 269-4863 or e-mail Alyssa.Shanks@alaska.gov.



Mali Abrahamson, a Department of Labor economist in Juneau, specializes in the employment and wages of the Southeast and Southwest economic regions. To reach her, call (907) 465-6037 or e-mail her at Abrahamson@alaska.gov.

Alaska weathers storm, will continue to add jobs in 2013



**By Dianne Blumer,
Commissioner**

This month's *Trends* focuses on the state's annual employment forecast — our preview and predictions of what the year ahead will look like in Alaska and in three of our population centers.

The good news is Alaska and its workers have fared better through the past five years than most of our fellow Americans. We've not been untouched by the powerful forces that rocked the national economy. However, the unique structure of our economy positioned us to weather the storm.

Employment has continued to grow throughout the state, particularly in Anchorage and statewide in key categories such as health care. We added 5,300 jobs in 2012 as total employment grew 1.6 percent and we anticipate 4,200 new jobs in 2013, a modest growth of 1.2 percent.

However, there are still storm clouds on our horizon. Alaska remains dependent on oil and gas production for the majority of state revenue. The double-edged sword of high oil prices has softened the hit from continuing decline, but in 2011 the amount of oil flowing through the Trans-Alaska Oil Pipeline was the lowest since the first full year of production — 212 million barrels, which is less than a third of 1988's production high.

The Parnell administration continues to focus on filling our pipeline and creating a stable, competitive environment that will attract new investment and reinvestment.

Alaska will not be immune to the hard choices being made at the federal level in Washington. Alaska is strongly affected by federal spending, both for our jobs and the numerous federal projects built in the state. We can expect to see our share of hardship and cuts in both federal funding and payroll.

This may include federal jobs that remain unfilled as Alaskans retire. It may

also affect the Alaska-based armed forces, whose role and sacrifices are not diminished but whose funding may be hit equally hard.

The Parnell administration is taking steps to keep Alaska "solid." Though Alaska has a Triple AAA bond rating, more than \$16 billion in budget reserves, and about \$43 billion in the Permanent Fund, Gov. Sean Parnell has proposed a 2014 budget of \$12.8 billion that is \$1.1 billion less than the current state fiscal year, holding operating budget growth at 0.8 percent.

The administration will work with the Alaska Legislature to set a self-imposed, reasonable spending limit that will be the key to successful and sustainable spending.

The Alaska Department of Labor and Workforce Development's programs are making a difference for Alaska families. In the coming year, we'll continue to provide quality services to Alaskans looking for a new or first job. Each year, tens of thousands of Alaskans find new jobs or training for new careers through our 21 Alaska Job Centers.

We'll continue to focus on safety in the workplace through programs like the Voluntary Protection Program that recognizes the safest Alaska workplaces and the annual Governor's Safety and Health Conference.

We'll also look for efficient ways to expand programs that train new workers, including young Alaskans starting their careers, Alaskans with disabilities, and returning veterans eager to move into the civilian workforce.

The coming months and years will be a challenge to ensuring a secure future. It's facing and overcoming exactly these kinds of challenges that bring out the best in Alaskans.

Employment Forecast for 2013

Alaska's modest employment growth to continue this year

By CAROLINE SCHULTZ
Economist

Alaska added jobs at a pace of 1.6 percent in 2012, continuing a three-year trend of employment growth that followed the end of the national recession. The state is expected to continue gaining jobs in 2013 but at a slightly more modest pace — 1.2 percent, or 4,200 new jobs statewide. (See Exhibit 1.)

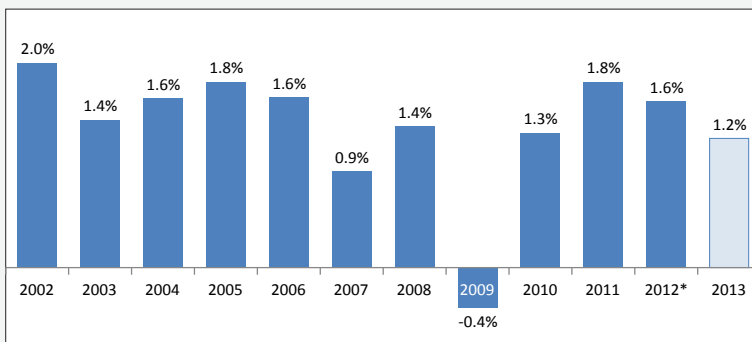
Alaska's forecasted job growth and recovery from the 2009 slump hinges on the broader recovery of the national and global economies. Alaska relies on domestic and international exports, which depend on the health of the local economies that purchase our minerals, oil, and seafood. Alaska is also in the business of exporting its scenic splendor, at least in the form of countless digital images taken by tourists who are only able to visit this remote state if they have the means.



Oil extraction has an outsized impact on the state's economy — as oil industry jobs and particularly as distribution of the generated wealth — and oil prices can be volatile and driven by events far removed from the North Slope. Federal spending in Alaska plays a close second in importance, and the current fiscal gridlock in Washington, D.C., makes Alaska's economic future less clear.

Despite the uncertainty, Alaska's economy has a relatively healthy foundation for now. In contrast to much of the country, Alaska's position through the recent recession and aftermath has been enviable. The dominance of the state's resource extraction industries combined with a financially solvent state government and a resilient real estate market helped Alaska weather the storm with just one year of fairly minor job losses in 2009. By 2010, the decline had reversed and Alaska added 4,200 jobs, putting the state at record high employment — even above the pre-recession years.

1 Statewide Employment Growth Alaska, 2002 to 2013



*Preliminary

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

Construction's surprise rebound

Most notable in 2012 was the reversal of a persistent downward trend in construction. (See Exhibit 2.) Alaska's construction employment started falling in 2006, one year before the industry declined nationwide and three years before Alaska lost jobs across all industries.

The industry likely started to soften before the national recession due to the end of a housing boom in the Matanuska-Susitna Borough. When the national economy went downhill and the credit market dried up, there was less interest in and available financing for large commercial and residential construction projects.

Public construction had been the bright spot in an otherwise dimming industry, and is likely largely responsible for the industry's turnaround. Alaska's fiscal year 2012 capital budget was \$2.8 billion, which buoyed the construction industry across the state. The FY 2013 capital budget reached \$3.4 billion. Alaska voters also passed a \$453.5 million transportation bond package in November 2012 that will fund road and marine projects across the state.

Residential building is also expected to begin generating new jobs in the construction industry. New housing construction bottomed out in 2009 at less than half of its 2005 peak, but has been inching upward since. Though the housing market is expected to remain cool, new construction will help the industry recover some ground. Other small-scale residential construction activity, such as homeowners taking advantage of low interest rates to finance remodeling, could bridge the gap for some construction workers.

Declines in federal spending on construction were a drag on 2012 and the amounts are expected to fall further in 2013. Military construction projects both on and off base have declined substantially due to budget cuts that could deepen in 2013. The Army Corps of Engineers, whose construction projects typically benefit civilians significantly and especially in rural Alaska, also faces possible cuts in 2013.

Despite a large hole that federal construction

About forecasts and their limitations

As important as it is to look ahead and assess economic risks and opportunities, the economic chaos of the last several years has embarrassed many professional forecasters, raising legitimate questions about the relevance and practical use of forecasting.

Job forecasting is generally more reliable than other types — oil or gold prices, for example, or financial markets — because the range of possibilities is narrower.

Historically, the Alaska Department of Labor and Workforce Development's employment forecasts have proven reasonably accurate, but the national recession from 2008 to 2009 and subsequent recovery complicated the process. For more on the challenges of forecasting during recent years, see Employment Scene on page 17.

About these numbers

The 2011 and 2012 employment numbers used as the base year for the forecasts in this month's *Trends* are not necessarily the same as the employment numbers available on our Web site (<http://laborstats.alaska.gov>) as of January 2013.

Employment numbers go through several revisions before they are considered final. The first and largest revision occurs early in the year, and those revised numbers are released in March.

Although the economists did not yet have that important revision when they made their forecasts, they had a portion of the updated data that will be used to make the revision.

All job numbers in these forecasts are annual averages. In other words, they are the average job counts for the 12 calendar months and not an actual job count for any single month.

would historically fill, Alaska's construction industry seems to be recovering. Construction jobs increased by an estimated 4.4 percent in 2012 and are forecasted to stay relatively flat in 2013, with 0.6 percent growth. Public spending projects — including transportation, public sanitation, and education — and a slowly recovering residential real estate market have given the construction industry enough momentum to add a modest number of jobs in 2013.

Oil carries the state

Alaska's dependence on the oil industry is tough to overstate. Close to 90 percent of the state's unrestricted government funds are from oil-related revenue,

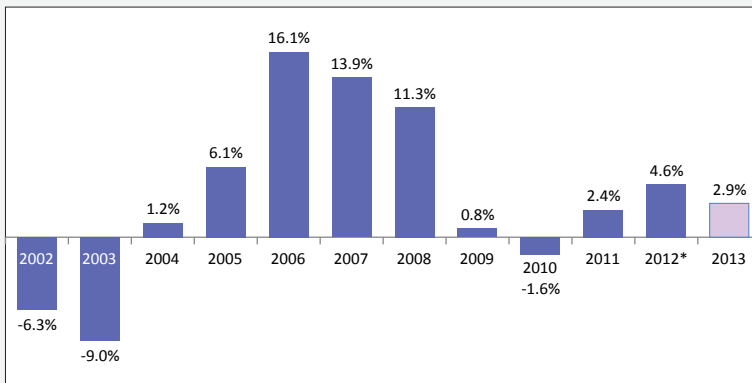
2 Construction Bounces Back Alaska, 2002 to 2013



*Preliminary

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

3 Oil and Gas Employment Stays Strong Alaska, 2002 to 2013



*Preliminary

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

STATEWIDE, continued

which has been an asset for state government budgets while prices remain high.

Although oil production has trended downward for the past two decades, oil employment has been on the rise — a result of increased labor needs for harder-to-reach oil as well as the drive to extract more oil under the recent high price regime. As Alaska's facilities age, additional labor is required for repair and maintenance as well as extraction.

With oil prices exceeding \$100 a barrel for the second year in a row, above-average employment levels are expected to continue into 2013. Overall, the oil and gas industry added 600 jobs in 2012 and is forecasted to add 400 in 2013. New exploration, led by newcomers and independents on the North Slope and in Cook Inlet, will help sustain the current level of employment.

More activity will also come from the majors. After many false starts, Shell Oil was able to make a dent in their ambitious offshore exploration efforts in late 2012. The firm also expects to have the full 2013

season to drill.

Possibly bigger news for future employment is the Corps of Engineers' issuance of a permit to ExxonMobil to begin production on the Point Thompson field. ExxonMobil reported it will build roads, drill pads, and other oilfield development infrastructure along with a 22-mile pipeline that will connect to the Trans-Alaska Oil Pipeline. This will take years to complete, but activity is likely to accelerate as early as 2013.

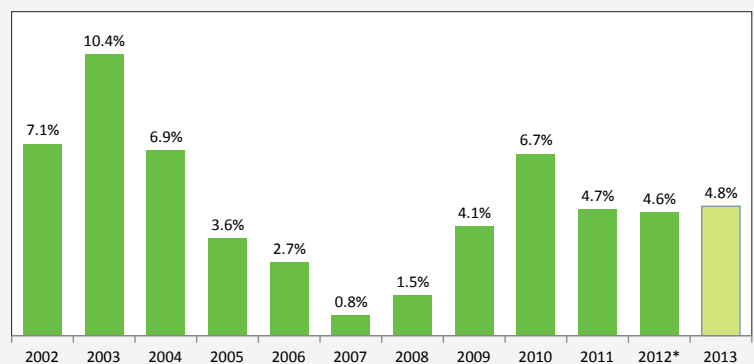
These large North Slope projects, along with exploration at smaller prospects on the slope and in Cook Inlet, indicate that industry employment will grow in 2013. (See Exhibit 3.)

Health care on steady rise

Alaska's health care industry has been a standout in terms of job growth, even through the state's short period of overall loss. The industry — which includes hospitals, doctors' offices and clinics, and nursing and residential facilities — added an estimated 1,500 jobs in 2012 and is predicted to gain another 1,500 jobs in 2013. (See Exhibit 4.) These 4.8 and 4.5 percent increases, respectively, considerably outpace Alaska's job growth across all industries.

The aging of Alaska's population is an important driver. As the baby boomers enter retirement age across the nation, this demographic shift has become particularly apparent in Alaska.

4 Health Care Continues to Climb Alaska, 2002 to 2013



*Preliminary

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

5 Statewide Wage and Salary Employment Forecast Alaska, 2011 to 2013

	2011 Monthly Average	2012 Monthly Average ¹	Change 2011 to 2012	Percent Change 2011 to 2012	2013 Monthly Average	Change 2012 to 2013	Percent Change 2012 to 2013
Total Nonfarm Wage and Salary ²	330,900	336,200	5,300	1.6%	340,400	4,200	1.2%
Natural Resources and Mining	15,900	16,700	800	5.0%	17,400	700	4.2%
Oil and Gas Extraction	13,000	13,600	600	4.6%	14,000	400	2.9%
Construction	15,800	16,500	700	4.4%	16,600	100	0.6%
Manufacturing	13,700	14,200	500	3.6%	14,400	200	1.4%
Wholesale Trade	6,300	6,300	0	0%	6,400	100	1.6%
Retail Trade	35,700	36,000	300	0.8%	36,100	100	0.3%
Transportation, Warehousing, and Utilities	19,300	19,500	200	1.0%	19,600	100	0.5%
Information	6,300	6,200	-100	-1.6%	6,200	0	0%
Financial Activities	15,000	14,700	-300	-2.0%	14,500	-200	-1.4%
Professional and Business Services	27,200	28,500	1,300	4.8%	29,300	800	2.8%
Educational ³ and Health Services	44,400	46,200	1,800	4.1%	48,000	1,800	3.9%
Health Care	31,500	33,000	1,500	4.8%	34,500	1,500	4.5%
Leisure and Hospitality	32,500	33,200	700	2.2%	33,600	400	1.2%
Other Services	11,000	11,000	0	0%	11,100	100	0.9%
Government	85,700	85,300	-400	-0.5%	85,600	300	0.4%
Federal ⁴	17,100	16,400	-700	-4.1%	16,100	-300	-1.8%
State ⁵	26,000	26,000	0	0%	26,300	300	1.2%
Local ⁶	42,700	42,800	100	0.2%	43,100	300	0.7%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes public school systems

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

The youngsters of the 1970s who moved to Alaska for adventure and employment now have a higher demand for health care services. Although some Alaskan seniors retire to warmer climates, many remain in the state and will continue to require care. This trend, along with normal population growth across all age ranges, will continue to boost health care employment.

Government to stay fairly flat

Local, state, and federal government are important employers, particularly outside Alaska's urban centers. One in four jobs in Alaska is the in public sector, making government the largest wage and salary employer in the state.

Local government is the largest of the three and has the highest penetration into smaller communities. Local governments provide some of the most direct public services, often including K-12 education, health care, tribal governance, public safety,

utilities, and recreation. Local governments' ability to meet community needs depends on demand — often a function of population and revenue that can be derived from locally generated income and transfers from the state and federal government.

Local government barely added jobs in 2012, at just 0.2 percent. Some of the larger municipal governments have attempted to slow hiring or cut jobs in the face of uncertain fiscal prospects. Local governments are expected to add 300 jobs in 2013, a 0.7 percent increase, under similar circumstances of meeting public needs on tight budgets.

State government employment has been essentially flat in recent years, with its small amount of job growth coming from the University of Alaska. That pattern is expected to hold in 2013.

The big mover in the public sector has been federal government. Federal jobs have been on a down-

Continued on page 19

Anchorage poised for fourth straight year of growth

By NEAL FRIED
Economist

Anchorage's economy grew at a measured pace over the past three years, with most industries contributing to the expansion. The forecast for 2013 is about the same, at 1,800 new jobs. (See Exhibits 1 and 3.)

The outlook for individual industries is mixed, though. Government employment is expected to decline while health care is forecasted to remain among the big performers. Leisure and hospitality is also poised for a strong showing.

Much of Anchorage's economic health depends on the state's major drivers, many of which remain positive. There is nothing like the elixir of high prices for oil, gold, fish, and other commodities, which continue to provide loft to Alaska's economy. Oil has remained at \$100-plus a barrel for the second year in a row (see Exhibit 2), and low interest rates and a recovering national economy provide an extra boost.

However, with the approach of the next federal fiscal year, which begins in October 2013, significant cuts to the federal budget could put a squeeze on Anchorage's economy during the latter part of the year.

Construction's future is mixed

Anchorage construction employment fell each year between 2007 and 2011, but in 2012 it changed course and grew moderately. Building values in Anchorage also increased somewhat for the first time in four years, based on data through October.

Residential building is expected to pick up in 2013 after a number of lackluster years, spurred by low interest rates, greater consumer confidence, and the smallest housing inventory since 2005. Commercial activity, on the other hand, is expected to stay about the same.

Government will remain an important source of construction projects, with a bright outlook at the state and local levels. Large state capital budgets have been a significant asset



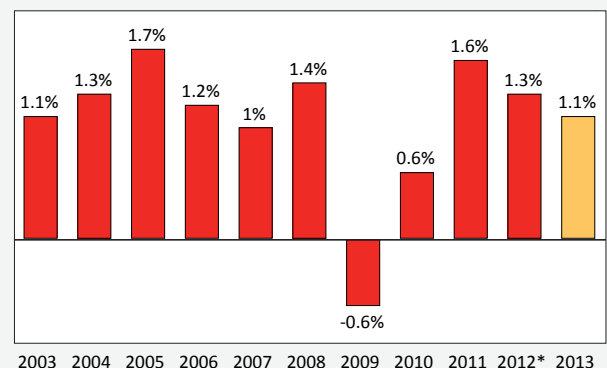
for a number of years, and November brought an additional plus with the voter approval of a \$453.5 million statewide bond package.

The biggest downside in the near term is the rapidly shrinking Army Corps of Engineers construction budget. The Corps was a major source of work for a decade, underwriting annual construction budgets that topped \$550 million statewide. That amount fell to \$269 million in 2012, and 2013 is forecasted at just 20 percent of that amount. This void will be difficult to fill, and is the main reason Anchorage construction employment isn't expected to grow overall in 2013.

Health care keeps its momentum

Health care typically generates the largest number of new jobs in Anchorage, as it did in 2012 at approximately 900. The aging of the state's population will likely continue to generate higher health care employment, though possibly at a more moderate pace. Though there are limits to this industry's expansion, the population over age 65 in Anchorage is expected to grow from 21,000 to 40,000 by 2020, driving demand for more services.

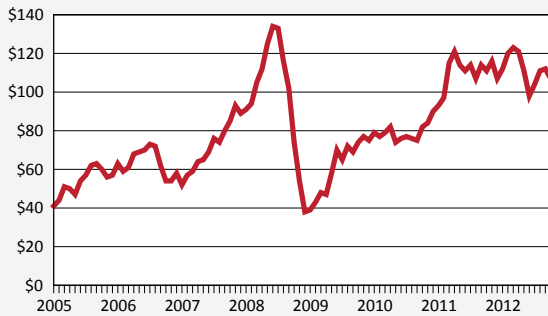
1 Modest Job Growth Anchorage, 2003 to 2013



*Preliminary

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

2 Oil Prices Remain High Price per barrel, 2002 to 2013



*Preliminary

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

Leisure gets a boost from tourism

The leisure and hospitality industry in Anchorage — which includes accommodation, food services, arts, entertainment, and recreation — gets a big boost each year from tourism. Employment grew by 2.4 percent last year, or 400 jobs, and this trend is expected to continue in 2013.

The ingredients for another good visitor season in Anchorage are in place, with an increase in independent visitors to the state and cruise ship passengers anticipated in 2013. The national economy and consumer confidence also continue to recover, and Americans traveling in greater numbers means more are likely to head to Anchorage this year.

The state has also become more visible in recent years. American homes across the country are watching a variety of reality television shows about Alaska, and that kind of promotion likely pays dividends to Alaska's visitor industry.

Food service, which represents two-thirds of industry employment, will also continue to grow. Restaurants benefit from the visitor industry as well as what appears to be an insatiable local demand for new eateries. During the past decade, employment in this industry has grown by more than 1,000.

The list of new restaurants that opened in Anchorage continues to grow, with national heavyweight Olive Garden opening its first Alaska restaurant at the beginning of 2012 and a second at the end of the year. Given the current trends, numerous

other new eateries are likely to pop up in Anchorage in 2013.

Catch-all industry a big employer

Professional and business services is one of Anchorage's larger sectors, with a higher job count than any other in 2012. It includes law offices, engineers and architecture services, advertising agencies, telemarketing businesses, bank holding companies, property management, armored car services, and refuse companies.

Because it is made up of so many unrelated businesses, professional and business services is a tough sector to forecast. However, the connection to the oil and gas and construction industries will help drive moderate growth for the sector in 2013.

Future for retail a bit brighter

Retail is a big employer in Anchorage, but its employment has barely budged over the past decade despite a long list of new retailers and population growth of more than 30,000. It's possible that more Anchorage residents buy online, nonresidents shop less in Anchorage, or business is spread thinner among a larger number of retailers.

At least one additional Walgreens, a new super Walmart, and a Bass Pro outdoors shop will open in 2013, and a new Cabela's will open in 2014. These new stores and positive consumer sentiment could modestly boost Anchorage's retail employment in the near future.

Minor uptick in real estate

One of the big drivers in the Anchorage financial industry is real estate and all the businesses connected to it, including mortgage activity, title work, and insurance.

The number of single-family homes sold through the third quarter of 2012 was up 11 percent over 2011. Average sales prices for single-family homes were also up over the year by the third quarter of 2012. However, the inventory of homes for sale is lowest it has been since 2005.

Interest rates are expected to remain low, and bankers anticipate refinancing to remain close to last year's levels. The balance of this industry —

3 Anchorage Wage and Salary Employment Forecast 2011 to 2013

	2011 Monthly Average	2012 Monthly Average ¹	Change 2011 to 2012	Percent Change 2011 to 2012	2013 Monthly Average	Change 2012 to 2013	Percent Change 2012 to 2013
Total Nonfarm Wage and Salary ²	153,300	155,300	2,000	1.3%	157,100	1,800	1.2%
Natural Resources and Mining	2,900	3,100	200	6.9%	3,200	100	3.2%
Oil and Gas Extraction	2,800	3,000	200	7.1%	3,100	100	3.3%
Construction	7,900	8,300	400	5.1%	8,300	0	0%
Manufacturing	2,000	2,100	100	5.0%	2,100	0	0%
Wholesale Trade	4,500	4,500	0	0%	4,500	0	0%
Retail Trade	17,100	17,100	0	0%	17,200	100	0.6%
Transportation, Warehousing, and Utilities	11,200	11,400	200	1.8%	11,500	100	0.9%
Information	4,000	3,900	-100	-2.5%	3,900	0	0%
Financial Activities	8,900	8,500	-400	-4.5%	8,500	0	0%
Professional and Business Services	18,400	19,300	900	4.9%	19,800	500	2.6%
Educational ³ and Health Services	22,700	23,900	1,200	5.3%	24,700	800	3.3%
Health Care	17,100	18,000	900	5.3%	18,700	700	3.9%
Leisure and Hospitality	16,500	16,900	400	2.4%	17,400	500	3.0%
Other Services	6,200	5,700	-500	-8.1%	5,600	-100	-1.8%
Government	31,100	30,600	-500	-1.6%	30,400	-200	-0.7%
Federal ⁴	9,500	9,100	-400	-4.2%	8,900	-200	-2.2%
State ⁵	10,600	10,700	100	0.9%	10,800	100	0.9%
Local ⁶	11,000	10,800	-200	-1.8%	10,700	-100	-0.9%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes public school systems

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

ANCHORAGE, continued

which includes banking, investments, financial brokers, and other types of insurance — is not likely to change much during the forecast period.

A weak federal link

Anchorage's public sector is forecasted to lose some ground in 2013, with the largest declines at the federal level. Federal government employment fell by 400 in 2012, and many agencies are considering additional ways to trim their budgets. A much-larger-than-normal contingent of federal

employees was also expected to retire in December 2012, and it's uncertain how many will be replaced.

At the state government level, including the University of Alaska, employment in Anchorage will likely remain steady, as the state's revenue picture remains relatively healthy.

Employment in local government is forecasted to drift downward in 2013. The Municipality of Anchorage's workforce is already downsizing, and the 2013 budget will support slightly fewer positions. Local government's largest employer, the Anchorage School District, is likely to move in a similar direction.

Job gain of 1.3 percent forecasted for Fairbanks

By **ALYSSA SHANKS**
Economist

The Fairbanks economy has grown slowly for several years, following a dip in 2009 related to local military deployments and a faltering national economy. With a strong state economy in the years since and no deployments scheduled for Fairbanks soldiers in 2013, employment is on track to grow for another year, this time by 1.3 percent. (See Exhibit 1.)

Though military ties have been an asset in the past, they make the Fairbanks economy potentially vulnerable in the future. Federal discussions about moving the 18th Aggressor Squadron from Eielson Air Force Base to Joint Base Elmendorf-Richardson near Anchorage will likely resume in the fall of 2013. This move would reduce Eielson's current employment of 3,100 by nearly half.

Mining appears golden for now

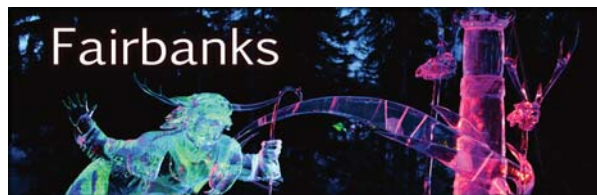
Fairbanks' mining industry is split almost evenly between gold mining and support services for oil and gas. The industry has grown by small increments every year since 2008, with the largest increase of nearly 200 jobs between 2010 and 2011.

Mining employment was stable in 2012 at around 1,300 jobs, but employment in the sub-industries was more volatile. Jobs in gold mining increased in 2012 while oil and gas support employment held steady. Overall, mining is forecasted to add 100 jobs in 2013, which would push Fairbanks' mining industry employment to an all-time high. (See Exhibit 2.)

Construction grows slowly

Fairbanks' construction industry has been in tumult since its peak of just over 2,900 jobs in 2005. Since then, employment has gone up and down every year or two. In 2011, construction fell by 1.8 percent after growing 6.4 percent the year before, then resumed growth at 4.0 percent in 2012. (See Exhibit 2.)

In the coming year, Army Corps of Engineers projects in the Fairbanks area will likely boost construction employment. New and ongoing



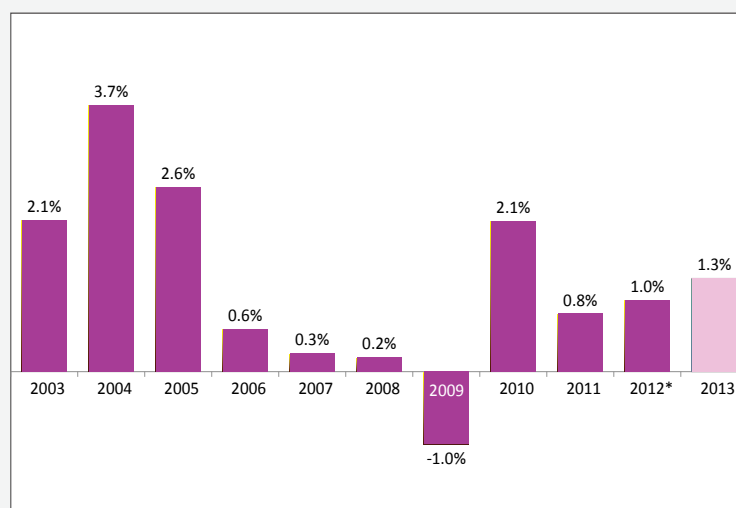
projects include construction on Fort Wainwright hangars and a modified firing range, an upgraded rail line, new enlisted barracks, and repairs to utility systems. The 2014 federal fiscal year, which begins in October of 2013, may boost construction even further as spending in the Fairbanks area is projected to increase by 47 percent, from \$70.6 million in FY 2013 to \$104 million in FY 2014. However, that spending is not yet certain and funding levels can quickly change.

Retail expected to grow modestly

Fairbanks retail employment peaked in 2006 and has been relatively stable since, growing by 100 jobs in 2012 and expected to remain at the same level in 2013.

The only major job declines came in 2009 with the deployment of troops from Fort Wainwright. Employment picked up in 2011 after soldiers and

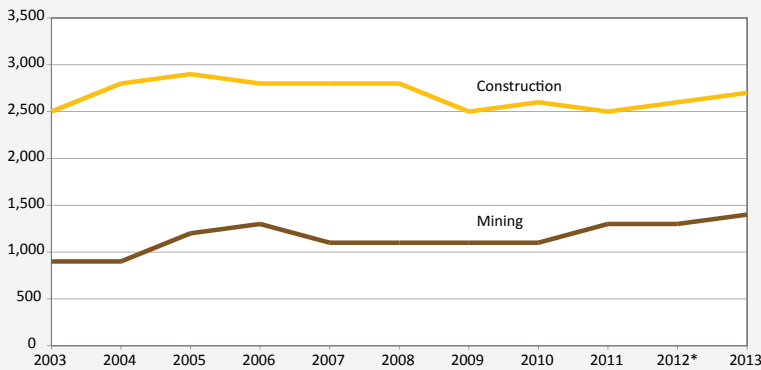
1 Moderate Employment Growth Fairbanks, 2003 to 2013



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

2 Construction, Mining on Steady Rise

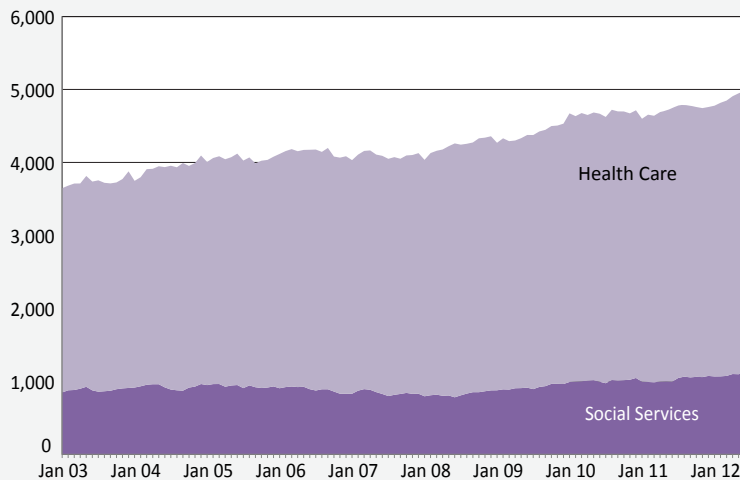
Fairbanks, 2003 to 2013



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

3 Health Care Continues to Climb

Fairbanks, 2003 to 2013



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

their families returned and settled back into pre-deployment purchasing patterns.

Several new stores opened in 2012, including Northern Vines Fine Wines and Spirits, Magnum Motors, Spirit of Halloween, and Pier 1 Imports.

Health care keeps expanding

The health care industry in Fairbanks has grown steadily in recent years (see Exhibit 3), with ex-

FAIRBANKS, continued

pansion ranging from small clinics to large hospitals.

Fairbanks, like Alaska as a whole, has a growing population of older residents who will require additional health care. The 65-plus population is expected to grow by 43 percent between 2010 and 2015, from approximately 6,400 to 9,300 people.

More visitors expected in 2013

The leisure and hospitality industry makes up about 11 percent of Fairbanks employment, serving residents and visitors alike. The industry took a hit in 2008 and continued to drop in 2009 as the national and worldwide economies suffered through the Great Recession. The deployment of troops from Fort Wainwright during much of 2009 further exacerbated these employment losses.

Since 2009, the industry has hummed along, playing a tune of slow recovery. In 2012, the industry averaged 4,200 jobs — slightly higher than in 2008, but still below its all-time high in 2007.

The return of the deployed troops has reinvigorated restaurants and other eating and drinking places. Meanwhile, an increase in visitors has slightly boosted hotels and other accommodation businesses. (See Exhibit 4.) With visitor levels expected to rise statewide and no scheduled deployments in 2013, employment is likely to grow again and could even hit a new high.

Government stable overall

Local, state, and federal government make up 30 percent of Fairbanks area employment, a level forecasted to hold steady overall in 2013 despite changes at different levels of government.

Local government, which includes the Fairbanks North Star Borough School District, is expected to grow by approximately 100 jobs, or 3 percent. This increase would replace the jobs lost in 2012 and bring the borough back to its 2011 employment level.

State government includes the University of Alaska Fairbanks and represents 8 percent of all jobs in the borough. State government employment has been stable over the last few years, and is likely to remain stable in 2013.

Budget changes due to anticipated federal deficits will likely result in a decline of 100 federal jobs in Fairbanks in 2013, as many retiring employees won't be replaced.

These expected losses could be larger depending on changes at Fort Wainwright and Eielson Air Force Base. The military began offering early retirement and voluntary separation pay last year as part of the 2012 Defense Authorization Act, and it's not yet clear how these programs will affect the levels of soldiers and civilian military personnel on the bases.

4 Bed Tax Receipts Back Up Last Year Fairbanks, 2003 to 2012



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

5 Fairbanks Wage and Salary Employment Forecast 2011 to 2013

	2011 Monthly Average	2012 Monthly Average ¹	Change 2011 to 2012	Percent Change 2011 to 2012	2013 Monthly Average	Change 2012 to 2013	Percent Change 2012 to 2013
Total Nonfarm Wage and Salary ²	39,100	39,400	300	0.8%	39,900	500	1.3%
Goods-Producing ³	4,300	4,400	100	2.3%	4,600	200	4.5%
Service-Providing ⁴	34,800	35,000	200	0.6%	35,300	300	0.9%
Mining	1,300	1,300	0	0%	1,400	100	7.7%
Construction	2,500	2,600	100	4.0%	2,700	100	3.8%
Manufacturing	500	500	0	0%	500	0	0%
Trade, Transportation, and Utilities	7,700	7,800	100	1.3%	7,800	0	0%
Retail Trade	4,600	4,700	100	2.2%	4,700	0	0%
Transportation, Warehousing, and Utilities	2,400	2,400	0	0%	2,400	0	0%
Information	500	500	0	0%	500	0	0%
Financial Activities	1,500	1,500	0	0%	1,500	0	0%
Professional and Business Services	2,500	2,500	0	0%	2,600	100	4.0%
Educational ⁵ and Health Services	5,000	5,200	200	4.0%	5,300	100	1.9%
Health Care	3,700	3,900	200	5.4%	4,000	100	2.6%
Leisure and Hospitality	4,100	4,200	100	2.4%	4,300	100	2.4%
Other Services	1,300	1,300	0	0%	1,300	0	0%
Government	12,200	12,000	-200	-1.6%	12,000	0	0%
Federal ⁶	3,400	3,300	-100	-2.9%	3,200	-100	-3.0%
State ⁷	5,400	5,400	0	0%	5,400	0	0%
Local ⁸	3,400	3,300	-100	-2.9%	3,400	100	3.0%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Goods-producing sectors include natural resources and mining, construction, and manufacturing.

⁴Service-providing sectors include all others not listed as goods-producing sectors.

⁵Private education only

⁶Excludes uniformed military

⁷Includes the University of Alaska

⁸Includes public school systems

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

Private sector gives a continuing boost to Southeast

By MALI ABRAHAMSON
Economist

The private sector produced 500 new jobs in Southeast in 2012, with a diverse set of industries contributing — much more diverse than in 2011, when gains were exclusively in mining, seafood processing, health care, and professional services.

In 2012, transportation, leisure and hospitality, and construction also grew, which hints at continued economic improvement in 2013 as businesses prepare for higher visitor numbers. About 400 new jobs are forecasted for Southeast in 2013, or about 1.1 percent growth.

Population changes and new jobs

Population growth in Southeast lagged behind the state and the nation for most of the 2000s, but that changed near the end of the decade — the most recent estimates from 2010 and 2011 show significant increases.

More than half of the population growth in recent years was in Juneau, which also gained the most jobs. However, employment grew in eight of 10 Southeast boroughs and census areas in 2012. (See Exhibit 2.)



Job seekers from the Lower 48 headed north during the recession, which ended in 2009, boosting the population in Southeast as well as statewide. The region's projected population growth through 2015 is less than 1 percent, though, because of its low rate of natural increase (births minus deaths).

Low natural increase and an older population are typical of Southeast, which has more residents over age 65 than any other region of Alaska and a median age of 39.4 — significantly older than the statewide median of 33.8.

Southeast's workforce is also older, with 34 percent of resident workers over age 50, in contrast to 29 percent statewide. The disparity is even larger among the industries the area relies on for year-round jobs. For example, in local and state government, over 36 percent of workers are older than 50, compared to 23 percent statewide.

Given the aging of the labor force and high expected turnover in positions filled by older, highly paid workers, the outlook in the near future and long term both strongly depend on migration and the ability to attract replacement workers.

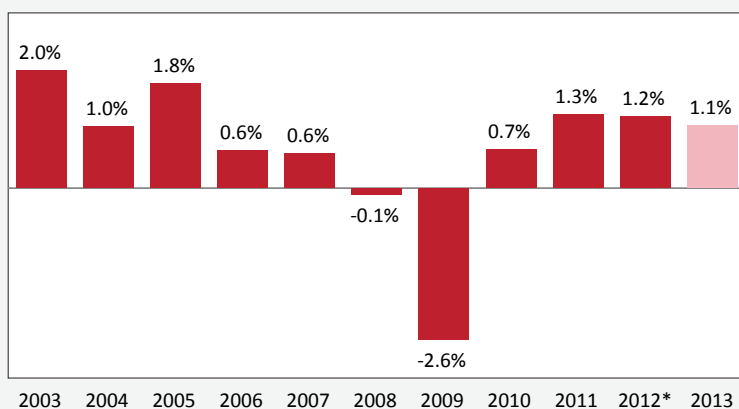
Government to lose minor ground

Government, which represents about 37 percent of jobs in Southeast (see Exhibit 3) is expected to lose 50 jobs in 2013, as it did in 2012. The losses in 2012 were in local government, but in 2013 they'll likely be federal. Federal employment in Southeast has declined by roughly 50 jobs each year since 2005.

Local government has had a more complicated few years, with 2011 stable in most areas except the typically volatile tribal governments, which shrank abruptly while other school districts and municipalities maintained a predictable pace.

In 2012, schools cut back while tribal government employment rebounded, for a net loss of only 50

1 Employment Continues 3-Year Rise Southeast, 2002 to 2013



*Preliminary

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

jobs in local government. Education cutbacks were absorbed during the 2011-2012 school year, so the drag on school employment will be negligible in 2013.

The four local government-run health care firms in Southeast provide about 800 jobs each year and provide some stability as well as raising average wages. These hospitals and medical centers are expected to remain stable in 2013, barring a privatization or closure. The same is true of city governments and utilities, with employment forecasted to remain flat in 2013 in the absence of a major political or economic event.

Natural resources remain strong

Seafood manufacturing and mining employment in Southeast reached 10-year highs in 2012. The large mining firms that were expected to reach worker capacity and level their staffing added jobs nearly every month in 2012, contributing to the 100 total jobs gained last year. That expectation holds for 2013, but hedges on further mine expansion — possible new mining and logging stakes and tracts are forecasted to contribute 50 new jobs in 2013.

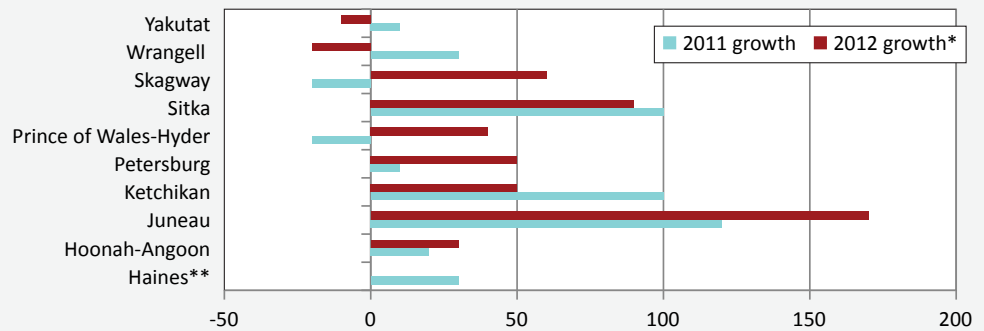
Seafood processing gained 150 jobs in 2011, slowed to an additional 50 in 2012, and is forecasted to remain flat in 2013. Salmon harvest expectations are mixed, seafood firms are automating, and berth capacity is limited during peak activity. Processors also face a shortage of student guest workers from abroad due to new hiring restrictions.

These two industries, both dependent on natural resources, have far different effects on the regional economy. Mining tends to provide much higher-wage, year-round jobs with workers who theoretically have more time and money to contribute to the local economy. Seafood workers are more transient, have lower wages, and are generally only part of local economies for a few months in the summer.

Construction hits a turning point

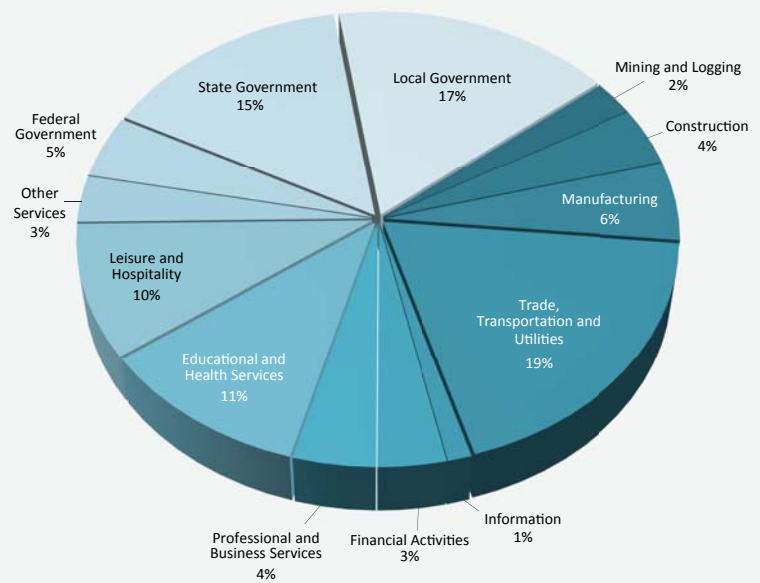
Construction growth in Southeast exceeded ex-

2 New Jobs Concentrated in Juneau, Sitka Southeast, 2011 versus 2012



*Preliminary **Haines employment growth in 2012 was zero. Note: Figures rounded to nearest 10. Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

3 Government Dominates in Southeast Percentage of total jobs by industry, 2012



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

pectations in 2012 at a level not seen since 2005, with a few medium and smaller public works projects, road and building construction and refurbishments, and a small increase in residential construction.

Construction added 150 jobs in 2012 and is forecasted to gain 100 more in 2013 with a similar mix of public and private activity, especially as growing communities face less available housing. Juneau, for example, has the state's second-lowest vacancy rate.

4 Southeast Wage and Salary Employment Forecast 2011 to 2013

	2011 Monthly Average	2012 Monthly Average ¹	Change 2011 to 2012	Percent Change 2011 to 2012	2013 Monthly Average	Change 2012 to 2013	Percent Change 2012 to 2013
Total Nonfarm Wage and Salary ²	36,900	37,350	450	1.2%	37,750	400	1.1%
Total Private	23,400	23,900	500	2.1%	24,350	450	1.9%
Goods-Producing ³	4,350	4,650	300	6.9%	4,800	150	3.2%
Service-Providing ⁴	32,550	32,700	150	0.5%	32,950	250	0.8%
Mining and Logging	850	1,000	150	17.6%	1,050	50	5.0%
Construction	1,450	1,550	100	6.9%	1,650	100	6.5%
Manufacturing	2,050	2,100	50	2.4%	2,100	0	0%
Trade, Transportation and Utilities	7,050	7,050	0	0%	7,100	50	0.7%
Retail Trade	4,300	4,250	-50	-1.2%	4,250	0	0%
Transportation, Warehousing, and Utilities	2,400	2,450	50	2.1%	2,500	50	2.0%
Information	450	450	0	0%	450	0	0%
Financial Activities	1,300	1,300	0	0%	1,300	0	0%
Professional and Business Services	1,550	1,550	0	0%	1,600	50	3.2%
Educational ⁵ and Health Services	3,950	4,050	100	2.5%	4,150	100	2.5%
Leisure and Hospitality	3,500	3,600	100	2.9%	3,700	100	2.8%
Other Services	1,250	1,250	0	0%	1,250	0	0%
Government	13,500	13,450	-50	-0.4%	13,400	-50	-0.4%
Federal ⁶	1,700	1,700	0	0%	1,650	-50	-2.9%
State ⁷	5,550	5,550	0	0%	5,550	0	0%
Local ⁸	6,250	6,200	-50	-0.8%	6,200	0	0%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Goods-producing sectors include natural resources and mining, construction, and manufacturing.

⁴Service-providing sectors include all others not listed as goods-producing sectors.

⁵Private education only

⁶Excludes uniformed military

⁷Includes the University of Alaska

⁸Includes public school systems

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

SOUTHEAST, continued

Leisure is up, retail still down

Arts and recreation, the smaller component of the leisure and hospitality sector, grew by 50 jobs in 2012. New jobs in accommodations slightly outpaced bars and restaurants for a gain of 50 as well. Growth is expected to be similar in 2013, with a growing population and more visitors to serve.

Although no large employers closed in 2012, retail shrank by 50 in Southeast for a cumulative loss of 400 jobs since 2008, when retail employment began to decline. The reasons aren't certain, but possibilities include a shift toward full-time rather than part-time employees, resulting in fewer jobs;

and more consumers buying online.

Retail is forecasted to remain static in 2013, and it's not yet clear whether this is a trend or the industry is simply lagging behind the larger economic recovery.

The transportation jobs added in 2012 were mostly in sightseeing, with the exception of a small bump in marine cargo.

Health care demand will increase

Health care has been the only Southeast industry with consistent and above-average job growth in the past decade, growing by 1.7 percent annually since 2002. Demand for services is expected to continue to grow with an older population, and an additional 100 jobs are forecasted for 2013.

Employment Scene

Economists had a tougher job forecasting in recent years

Forecasters probably spend as much time examining history as they do speculating about the future, as reviewing prior years' performance is a crucial step in producing new forecasts. Historically, Alaska Department of Labor and Workforce Development economists have had a good track record for producing job forecasts close to the actual value, but the tumultuous economic climate of the last few years has made the task more difficult.

Since 2002, statewide forecasts have been within 1 percent of the actual employment level in eight of 10 years, and between 2002 and 2007, forecasts averaged just over two-tenths of a percentage point from the actual value. Two things increased the variance in 2008: the national recession, which officially began in December of 2007; and moving the forecast release date up from May to January of the forecast period.

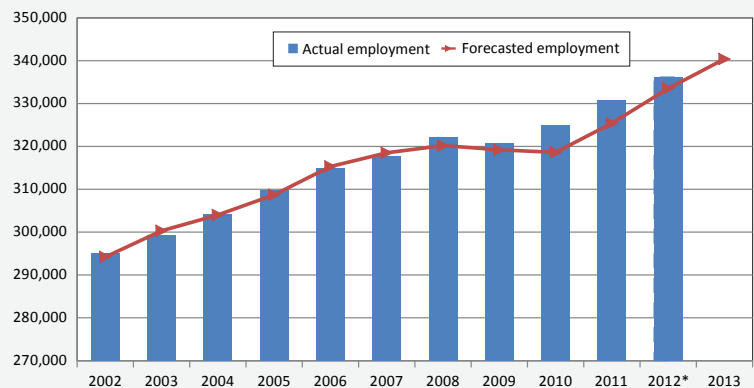
Before 2008, economists had more available data and tended to produce better estimates when the forecasts were released in May. The obvious drawback, though, was that forecasts were released almost halfway into the forecast period. Now, with a January publish date, economists work with an incomplete base year when forecasting. For example, the 2013 forecasts were created in November and December of 2012, but because employment data were only available through the second half of 2012, economists also forecasted the last six months of that year.

Expected vs. unforeseen twists

In recent years, Department of Labor economists have been too conservative, meaning their forecasts have been lower than the actual value, particularly during and after the recession.

By late 2007, it was apparent that collapse of the housing market and financial industry would dent the national economy, but the effect it would have on Alaska was unclear. Economists predicted

1 How Did We Do? Actual vs. forecasted Alaska jobs, 2002 to 2013



*Preliminary

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

slow growth in 2008, which seemed reasonable given the national economic climate. The oil price spike in 2008 was more difficult to predict, which boosted Alaska's economy despite widespread job losses nationally. The 2008 employment growth forecast of 2,400 more jobs ended up at less than half of the year's actual job growth.

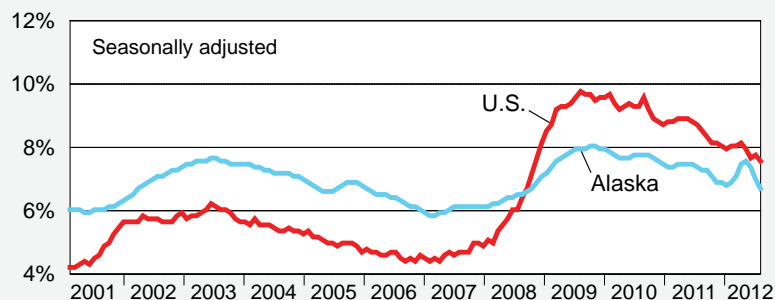
The recession finally caught up to Alaska, though, and the 2009 forecast predicted statewide job loss — the first to do so in 21 years. But there were more unusual circumstances that year. Economists forecasted a drop of 700 jobs in 2009, but Alaska actually lost closer to 1,200. However, even though economists under-predicted job loss, the 2008 estimate used for the forecast was too low so the 2009 forecast ended up below the actual employment level.

Turning points are hard to predict, but economists were able to anticipate the 2009 decline even though they were in the habit of forecasting job growth for two decades. The recovery, it turned

Continued on page 19

2 Unemployment Rates

January 2001 to November 2012



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

4 Unemployment Rates

Boroughs and census areas

SEASONALLY ADJUSTED	Prelim.	Revised	
	11/12	10/12	11/11
United States	7.7	7.9	8.7
Alaska Statewide	6.8	7.1	7.4
NOT SEASONALLY ADJUSTED			
United States	7.4	7.5	8.2
Alaska Statewide	6.6	5.9	7.2
Anchorage/Mat-Su Region	5.5	5.0	6.1
Municipality of Anchorage	4.9	4.7	5.4
Matanuska-Susitna Borough	7.4	6.4	8.6
Gulf Coast Region	8.0	7.0	9.1
Kenai Peninsula Borough	7.9	7.1	8.9
Kodiak Island Borough	6.9	5.1	8.9
Valdez-Cordova Census Area	10.1	9.2	10.1
Interior Region	6.7	5.8	7.3
Denali Borough	19.2	15.2	19.2
Fairbanks North Star Borough	5.7	4.9	6.4
Southeast Fairbanks Census Area	10.8	9.2	10.3
Yukon-Koyukuk Census Area	13.7	12.1	14.4
Northern Region	8.5	8.2	9.0
Nome Census Area	10.2	9.7	10.6
North Slope Borough	4.8	4.7	5.4
Northwest Arctic Borough	13.0	12.4	13.0
Southeast Region	6.7	5.8	7.3
Haines Borough	9.3	6.6	9.6
Hoonah-Angoon Census Area	18.9	11.6	18.1
Juneau, City and Borough of	4.7	4.3	5.0
Ketchikan Gateway Borough	6.6	5.8	7.4
Petersburg Census Area ¹	10.9	8.5	10.4
Prince of Wales-Hyder Census Area	12.1	10.3	13.8
Sitka, City and Borough of	5.4	4.6	6.2
Skagway, Municipality of	22.0	17.4	26.9
Wrangell, City and Borough of	8.1	7.7	10.0
Yakutat, City and Borough of	9.2	7.1	11.6
Southwest Region	13.9	12.4	12.9
Aleutians East Borough	19.0	11.2	18.4
Aleutians West Census Area	14.0	10.3	12.7
Bethel Census Area	13.7	13.4	12.4
Bristol Bay Borough	6.5	6.0	7.7
Dillingham Census Area	10.2	9.7	10.1
Lake and Peninsula Borough	6.8	5.2	7.0
Wade Hampton Census Area	19.4	19.0	17.7

3 Statewide Employment

Nonfarm wage and salary

Alaska	Preliminary	Revised		Year-Over-Year Change	
	11/12	10/12	11/11	11/11	90% Confidence Interval
Total Nonfarm Wage and Salary¹	318,000	325,500	318,300	-300	-6,377 5,777
Goods-Producing ²	36,300	41,400	38,300	-2,000	-4,966 966
Service-Providing ³	281,700	284,100	280,000	1,700	- -
Mining and Logging	16,700	17,000	15,900	800	-435 2,035
Mining	16,400	16,700	15,800	600	- -
Oil and Gas	13,200	13,300	13,100	100	- -
Construction	12,700	15,400	13,700	-1,000	-2,513 513
Manufacturing	6,900	9,000	8,700	-1,800	-4,159 559
Wholesale Trade	6,500	6,500	6,000	500	161 839
Retail Trade	34,900	35,000	35,300	-400	-1,184 384
Food and Beverage Stores	6,200	6,300	6,200	0	- -
General Merchandise Stores	9,900	9,900	10,300	-400	-400 -400
Transportation, Warehousing, Utilities	20,600	21,100	20,300	300	-534 1,134
Air Transportation	5,600	5,800	5,400	200	- -
Information	6,300	6,300	6,400	-100	-375 175
Telecommunications	3,900	4,000	4,200	-300	- -
Financial Activities	14,600	14,700	15,100	-500	-1,367 367
Professional and Business Services	27,200	27,700	26,800	400	-956 1,756
Educational⁴ and Health Services	47,100	46,600	45,200	1,900	765 3,035
Health Care	32,800	32,700	31,700	1,100	- -
Leisure and Hospitality	27,900	28,900	28,600	-700	-3,369 1,969
Other Services	11,000	11,200	10,400	600	-221 1,421
Government	85,600	86,100	85,900	-300	- -
Federal Government ⁵	15,500	15,800	16,100	-600	- -
State Government ⁶	26,500	26,600	26,300	200	- -
State Government Education ⁷	8,600	8,600	8,600	0	- -
Local Government	43,600	43,700	43,500	100	- -
Local Government Education ⁸	26,000	26,000	25,800	200	- -
Tribal Government	3,800	4,100	3,900	-100	- -

A dash means confidence intervals aren't available at this level.

¹Excludes 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.

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

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

⁴Private education only

⁵Excludes uniformed military

⁶This number is not a count of state government positions, but the number of people who worked during any part of the pay period that included the 12th of the month (the same measure used for all employment numbers in this table). The numbers can vary significantly from month to month; when attempting to identify trends, annual averages are more useful.

⁷Includes the University of Alaska. Variations in academic calendars from year to year occasionally create temporarily large over-the-year changes.

⁸Includes public school systems. Variations in academic calendars from year to year occasionally create temporarily large over-the-year changes.

Sources for Exhibits 2, 3, and 4: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and U.S. Department of Labor, Bureau of Labor Statistics

Safety Minute

Minor worker injuries can put a small employer out of business

Injuries on the job cause not only physical and emotional pain, but also financial pain in the form of direct and indirect costs. During recent survey years, direct U.S. worker compensation costs for workplace injuries and illnesses totaled approximately \$50 billion per year, while the total costs came to an estimated \$142 billion. When the U.S. economy is struggling, these avoidable costs can hurt businesses' bottom lines, which may already be stressed.

Consider this scenario. A home building contractor's two employees receive stitches for lacerations in one year. According to the National Council on Compensation Insurance, Inc., direct and indirect costs associated with those injuries will total about \$72,944.

Injuries that could have been prevented with \$20 gloves or a \$50 power saw guard would now require the employer to make an additional \$364,720 in sales to recoup those costs at a 20 percent profit margin —

and these are relatively minor injuries. An amputation would require an employer to conduct more than \$1 million in extra sales to recover costs.

Costs like that can put a small employer out of business. So when employers ask how they can afford to implement a safety and health program in an industry with rising business costs, industry statistics would suggest they can't afford not to.

For more information on how to develop a safety and health program that will help your business avoid excessive costs from employee injuries and illnesses, please contact the Alaska Occupational Safety and Health Consultation and Training program at (800) 656-4972, or visit the federal OSHA Web site at www.osha.gov.

Sources: Federal OSHA "Safety Pays" program; Liberty Mutual: www.libertymutualgroup.com; and NIOSH publication No. 2011-130

EMPLOYMENT SCENE

Continued from page 17

out, was harder to foresee. Economists forecasted 1,400 lost jobs in 2010, but when the numbers rolled in it became clear that Alaska's employment dip was shorter-lived than expected. Alaska added more than 4,000 jobs in 2010, which more than made up for 2009's decline.

Employment data for 2011 and 2012 are still subject to revision, but based on current estimates, the forecasts for these years were solid. Economists were a little hesitant in 2011, at least in hindsight, when they forecasted an additional 1,800 jobs — growth that turned out to be closer to 5,800. The healthy performance in 2011 contributed to a forecast of 3,900 added jobs in 2012, despite worries about federal spending cuts and a still-sluggish construction industry.

Data are only available through the first half of 2012, but these months show

even stronger growth than anticipated, particularly in construction and natural resources. Though it appears the 2012 forecast was low, that won't be certain until summer of 2013.

With so much uncertainty, it is easy to wonder why we even bother with these short-term forecasts. Looking ahead gives us an opportunity to assess where we're headed, but also understand where we've been. Forecasting helps identify patterns and trends in the economy that might not be noticed if we were simply plugging along, month to month.

And of course, surprises can happen — a shock to a major industry can push the economy off course. That's why it is best to think of short-term forecasts as the status-quo scenario, or the midline in a range of possibilities.

STATEWIDE FORECAST

Cont. from page 7

-ward trajectory since 2010, although 2010 levels were elevated by the hiring of temporary census workers.

Budget reductions have dented federal job counts, particularly in 2012 with a loss of an estimated 700. Federal employment is expected to decline again in 2013, but by a smaller margin.