

Alaska Economic Performance Report 2004



Seafood Industry



Tourism Industry



Oil and Gas Industry



Wood Products Industry



Mining Industry



Frank H. Murkowski
Governor
State of Alaska



Edgar Blatchford
Commissioner
Department of Commerce,
Community, and Economic
Development

Alaska Economic Performance Report 2004

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Department of Commerce, Community,
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The 2004 report covers a range of economic indicators, industries and government actions. 2004 data is incorporated when available, however, most recent data for particular items may be from earlier years (2001, 2002, or 2003). For example, Gross State Product data is available as a 2003 total but the specific product breakout for 2003 is not yet available. Where possible, information is supplemented by anecdotal information or forecasts to reflect more recent events. In all cases, the current available information is contrasted against information from prior years to give a sense of trend or a change in direction. Simply stated, there are normal and unplanned delays in the availability of the information and each information source follows its own schedule. The goal here is to provide a comprehensive set of performance indicators.



The Office of
Governor Frank Murkowski

Dear Alaskan,

These are exciting times to live and work in Alaska. The economy is expanding and more jobs are being added each year. We are making impressive progress in developing our state's abundant natural resource.

We are seeing renewed interest in oil and gas development in Bristol Bay to diversify the economy, lower energy costs, and provide sustainable high-paying jobs to local residents. Barriers to development of our rich mineral deposits are falling and investments are rising. Mineral deposits like Pogo, Pebble, Donlin Creek, and Kensington will eventually become mines as well known as Red Dog, bringing economic development and job opportunities to Alaskans. In addition, commercial fishing is rebounding as one of Alaska's most important industries, as Alaskans take advantage of initiatives to restore a sustainable economy in Alaska's coastal communities.

In 2004, Alaska international exports totaled nearly \$3.2 billion, up 15 percent from \$2.7 billion in 2003. These commodities include Alaska seafood products, minerals, oil and gas, wood products, and fertilizer. Trade is especially important to Alaskans because it creates jobs and hope for thousands of local people throughout the state. My administration is focused on ensuring that Alaska is indeed "open for business" with a predictable regulatory framework and the necessary infrastructure to encourage trade. That's because at every step of the way, working Alaskans benefit.

I am working tirelessly to develop Alaska's resources to provide for a healthy future. My top priority is development of a natural gas pipeline that would come online early next decade. Success will bring the financial stability and jobs needed to lead Alaska toward the bright and prosperous future we all desire—for ourselves, our children and our grandchildren.

Sincerely yours,

A handwritten signature in dark ink, reading "Frank H. Murkowski".

Frank H. Murkowski
Governor

Alaska Economic Performance Report 2004

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Alaska Economic Performance Report 2004

Overview of the Alaska State Economy

Summary

Alaska's economic future presents a wealth of opportunities and challenges in major industries including oil and gas, seafood, tourism, mining and wood products. Additionally, export markets, private support sectors and government spending help fuel the economy and sustain the development of the industries mentioned in this report.

The global economy is expanding and Alaska is prospering from that growth. Alaska's natural resources are primary inputs for many booming industries. Demand and prices are increasing for Alaska's main international exports such as seafood, minerals, fertilizers, energy, and precious metals.

In 2003, international trade from Alaska expanded 9% over the previous year for a total of over \$2.7 billion in exports. This phenomenal growth continued into 2004 when trade increased 15% to nearly \$3.2 billion. This trend highlights the rapid growth in global trade and Alaska's ability to successfully compete in international markets.

Growth in the private sector continues to fuel expansion in the medical service, retail trade, communications, utilities and construction sectors. This growth is primarily the result of increases in capital improvement project spending, foreign investment, Native Corporation business activity, and increased military activity.

Government spending at the local, state and federal levels assists the private support sector. Approximately half of the total government spending in Alaska is evenly divided between businesses and households. Nearly 25% of State spending is for wages, salaries and benefits, while 66% of all Federal spending in Alaska goes directly into Alaska businesses and households in the form of grant awards, salaries and wages, procurement contracts, and other direct payments.

Alaska's Gross State Product (GSP) reflects the overall growth in the State's economy. In 2003, GSP was \$31.4 billion, an increase of \$1.7 billion over 2002 and \$4.5 billion over 2001. Employment also increased in 2004, marking seventeen consecutive years of job growth. The estimated annual average wage and salary employment totaled 304,000, up 1.6%, or an increase of 4,700 jobs over 2003.

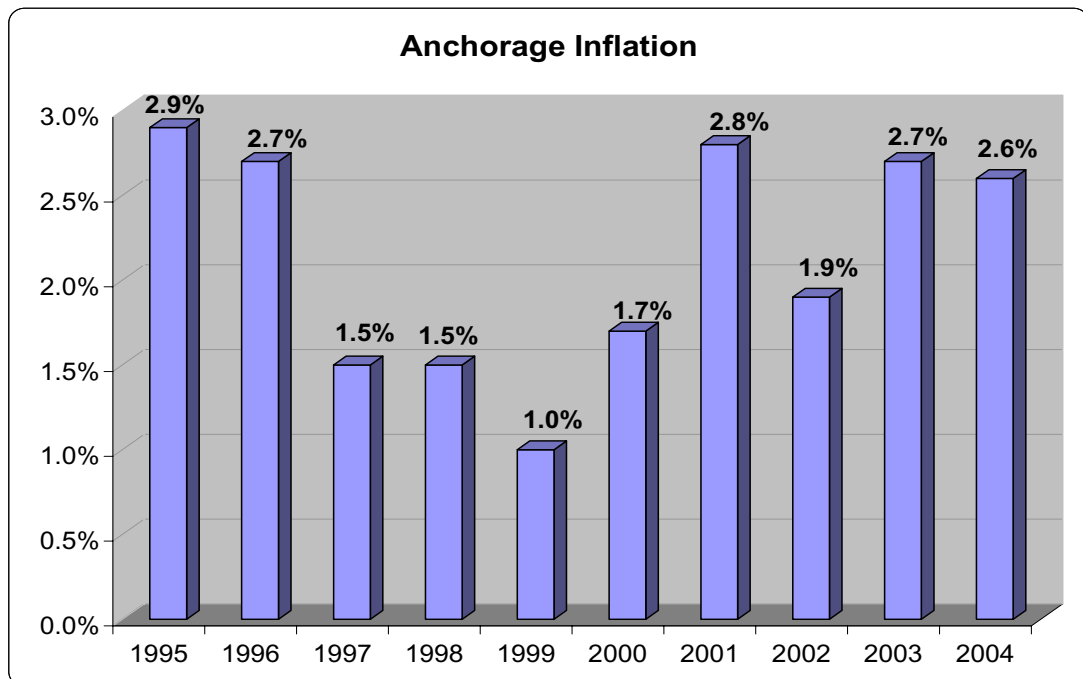
Alaska's population in 2004 was estimated at 655,435, an increase of approximately 28,500 residents since the 2000 census. Alaska's population is not only growing, but it is also shifting geographically. Anchorage remains one of the major hubs of migration movement, both for in-state and out-of-state migration. The Matanuska – Susitna Borough remains the fastest growing area of the state, followed by the Kenai Peninsula.

Anchorage is Alaska's major metropolitan area; it continues to grow and boasts a wide range of opportunities for its residents. According to the Department of Labor and Workforce Development (DOLWD), the Anchorage economy just completed its 16th year of successive employment growth. In 2004, employment climbed by 1.5% or 2,100 jobs. Oil

prices reached near record highs, it was a good year for the visitor season, health care continued its strong growth, the construction industry enjoyed another vigorous year, and most other economic fundamentals were either positive or largely unchanged.

In 2004, the Anchorage metropolitan area was characterized by low interest rates, strong refinancing activity, a decent securities market and a healthy real estate market. In addition, inflation remained under 3% in 2004. Figure 1 below shows Anchorage inflation for the last decade. The trend of sub 3% inflation indicates the purchasing power of consumers has been stable over the long run. The construction industry also benefited from the economic conditions in the metropolitan area: low interest rates, massive federal spending, a big year for commercial office construction, a decent level of residential work, and strong school related activity. In Anchorage, construction employment grew by 600 jobs or 7%. The city's building permit valuations totaled \$649 million, which actually represented a decrease of \$79 million from 2003, but still was the second largest dollar amount since 1984.

Figure 1.
Anchorage
Inflation
Source: US
Department
of Labor,
Bureau of
Labor
Statistics



Gross State Product (GSP)

Gross State Product (GSP) is one of the best overall measures of economic performance. GSP is the value added to all the goods and services produced in Alaska. Value is added as products move from one processing stage to the next. For example, trees are harvested, logs are made into lumber, and the lumber is used to build houses. At each stage value is added.

In 2003, Alaska's Gross State Product (GSP) was an impressive \$31.4 billion, showing marked improvement from the previous two years. Figure 2 shows the GSP levels since 1995; Figure 3 shows GSP and Real GSP levels since 1998, which factors in inflation.

Figure 2: Alaska GSP
Source: US Department of Commerce, Bureau of Economic Analysis (BEA)

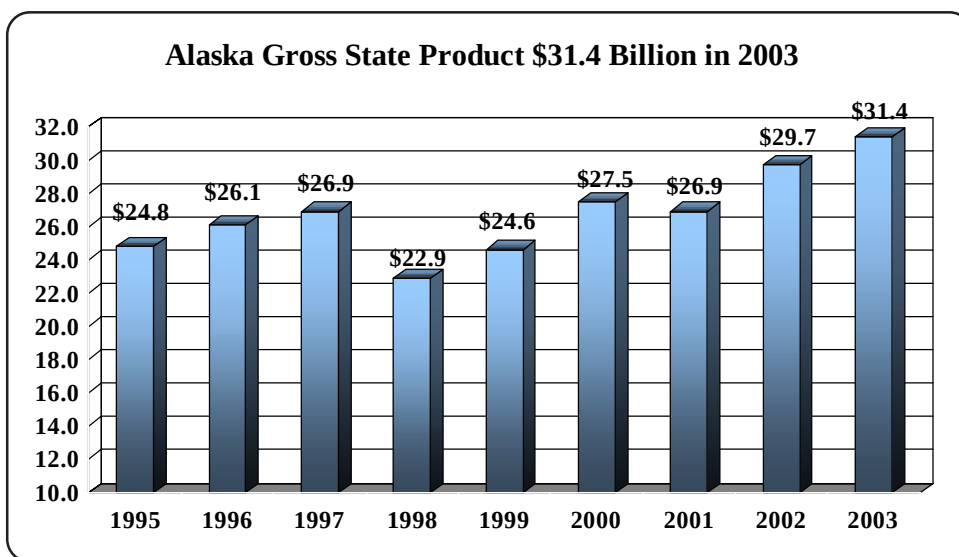
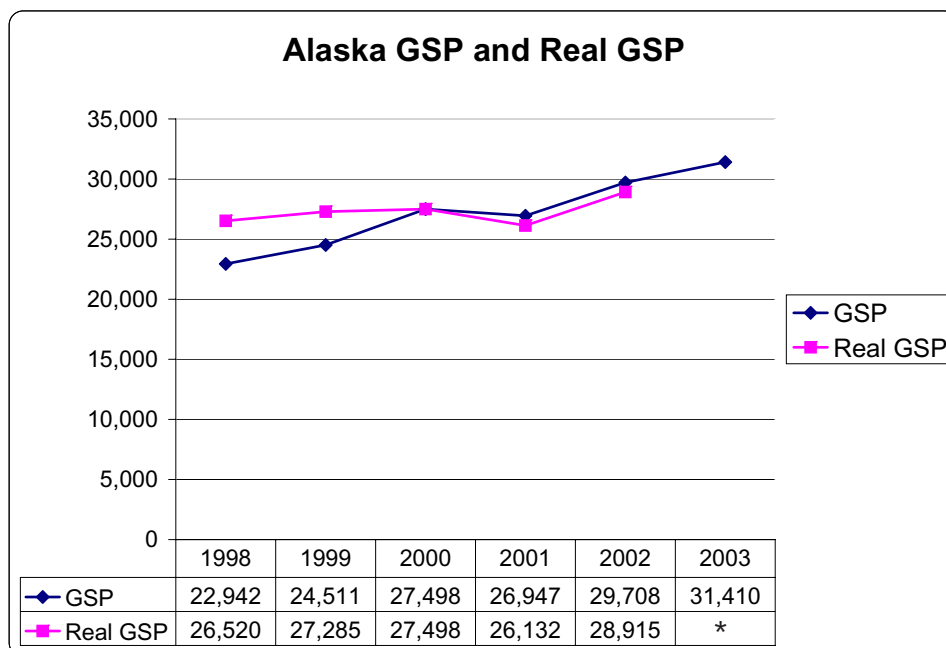


Figure 3: Alaska GSP and Real GSP
Source: BEA



* Real GSP for 2003 was not available at time of publication.

Economic Diversity

Alaska's GSP statistics not only reflect the overall growth in the economy, but also reflect the diversity that characterizes that economy. The following figure describes the distribution of GSP by sector.

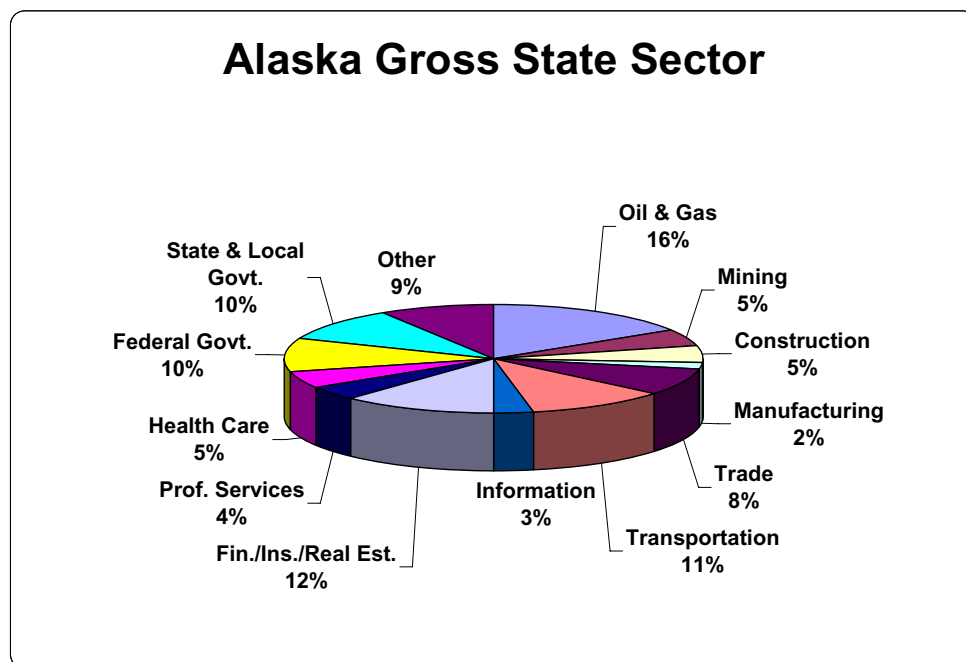


Figure 4: GSP by Sector

Source: US Department of Commerce, Bureau of Economic Analysis

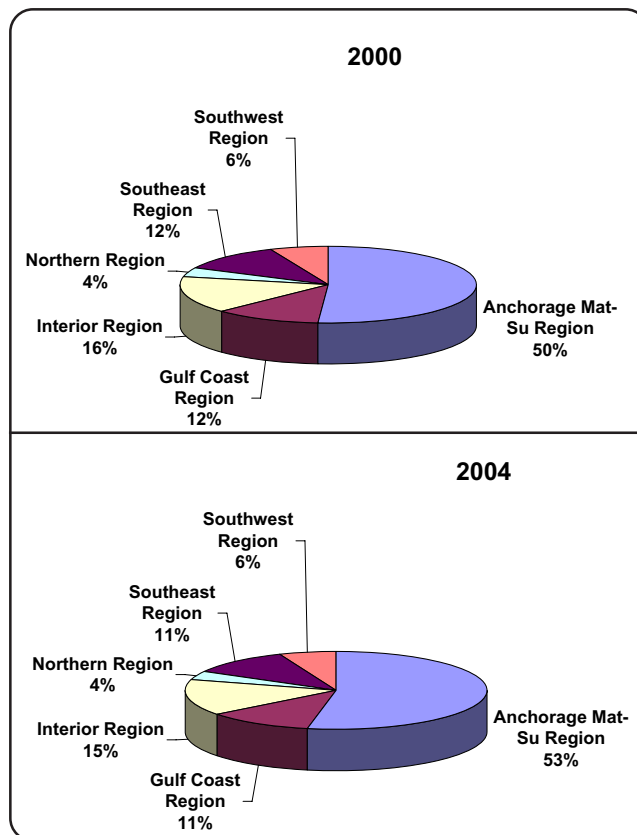
**percentages based on 2002 year end numbers*

Oil and gas production, as a single sector, still dominates Alaska's economic base and presents significant potential. However, other industries are also growing and becoming integral parts of the economic base. Retail trade and services in the private support sector continues to grow. Finance, insurance and real estate sectors (FIRE) comprise a steady 12% of Alaska's GSP and includes the significant contributions by the Alaska Native Corporations. Manufacturing's decline reflects losses in the timber industry; while the seafood industry has been in a steady recovery since 1998. In addition, the combined contributions of all the private support sectors including construction, transportation, communications, retail trade, services and FIRE to GSP is growing.

Population

Alaska's population has been growing at 1.3% annually over the past decade. In 2004, the population was estimated at 655,435 people statewide, an increase of about 28,500 residents since the 2000 census, with a full 1/3 of the population under the age of 20. Alaska's Department of Labor and Workforce Development (DOLWD) estimates that the population will continue to increase and reach approximately 700,000 people by 2010. However, population growth is not evenly distributed throughout the State. For example, beginning in 2000, population dropped by about 5% in the Yakutat Borough, 4% in the Bristol Bay Borough, and 3.5% in the Lake and Peninsula Borough. Figure 5 shows the population shift between 2000 and 2004 by region.

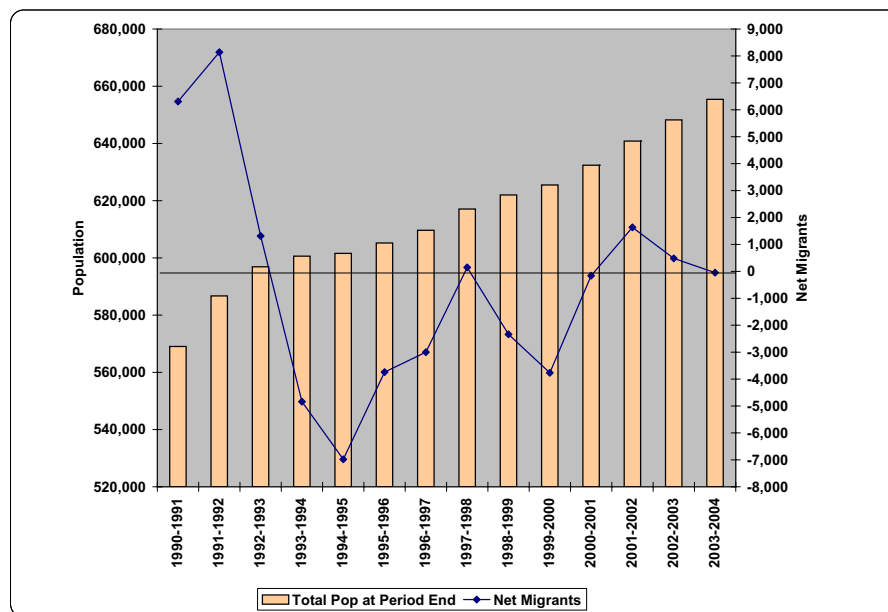
Figure 5: Population Shift
Source: DOLWD Research & Analysis



The Matanuska – Susitna Borough remains the fastest growing area of the state at 5.4% annual growth followed by the Kenai Peninsula at just over 2%.

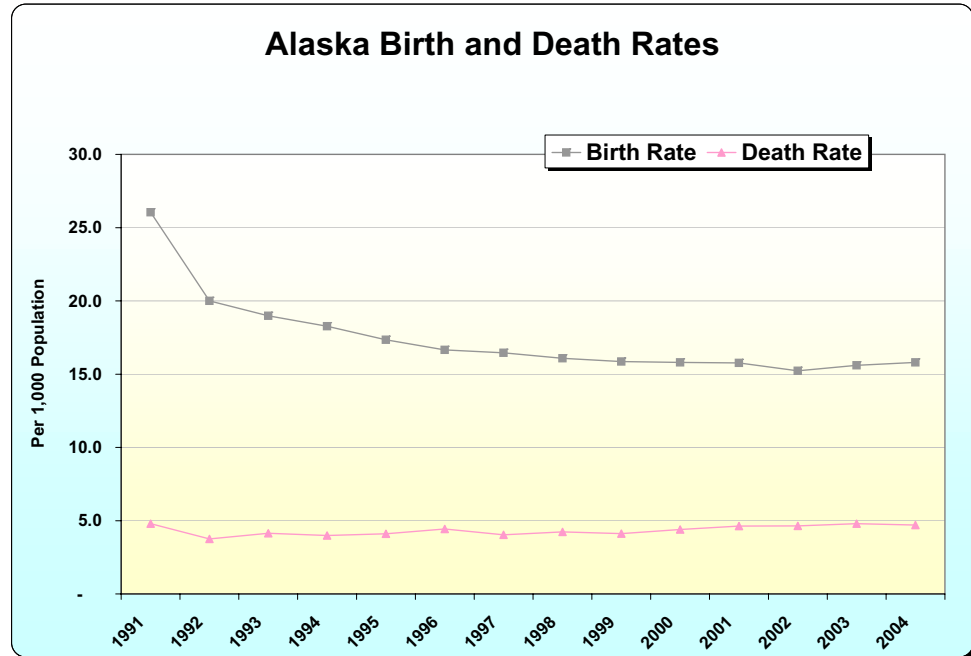
In 2003-2004 net migration of residents in and out of Alaska was a loss of 49 compared with a gain of 483 the previous year. Since 1994, net migration has generally been running negative, the notable exception being 2002-03. Alaska's birth rate continues to fall and in 2004 recorded 15.8 births per 1,000.

Figure 6: Alaska Net Migrants
Source: DOLWD Research & Analysis



Between 1994 - 2003, the average death rate increased from 4.2 to 4.9 but began dropping in 2003 - 2004 to 4.7 deaths per 1,000. Natural increases in population are more than offsetting population losses due to out-migration and death.

Figure 7: Alaska Birth and Death Rates
Source: DOLWD
Research and Analysis



Employment and Earnings

Building on last year's statewide job growth of 1.5% and continuing a trend begun 17 years ago, between 2003 and 2004 an estimated 4,700 new wage and salary jobs were added to Alaska's expanding economy bringing the total number of jobs to 304,000. [Figure 8]

Figure 8: Alaska Total Payroll Jobs
Source: U.S. Bureau of Labor Statistics, Alaska Department of Labor and Workforce Development (annual average of monthly job count)



According to recent Alaska Department of Labor and Workforce Development (DOLWD) reports, in 2004, healthcare, retail trade, and construction provided the most new jobs. The 1,300 new health care jobs in 2004 constituted 28% of the state's net job gain while the 1,000 added retail trade jobs accounted for a twelve-month growth rate of nearly 3%. Construction added 700 new jobs and seafood processing jobs grew by 500 in 2004. While still down from 1995 levels when 10,400 people processes seafood, today's job figures of 8,500 are considerably improved over 2002 when just 7,600 workers were employed and describe the second year of growth after seven consecutive years of decline.

Employment earnings reported by DOLWD for 2003 is estimated at \$11.1 billion, up slightly from inflation-adjusted \$10.7 billion in 2002, and up around \$1.4 billion from 2000. Figure 9 shows average monthly employed (number of jobs) and employment earnings total by year and by the respective government and private ownership contribution. The data show the increase in employment earnings and also show that its composition remains steady, with government contributing about 28%, and private ownership the rest. As new resource development opportunities solidify, support industries may continue to grow, thus creating a more competitive and diverse economy. The data also show the breakout of total government earnings by federal, state and local government. Local government earnings continue to comprise more than 40% of total government earnings in Alaska. [Figure 10-see next page] Overall, Alaska still outperforms the national average for Per Capita Personal Income. [Figure 11-see next page]

Figure 9: Trends in Average Earnings Per Job
Source: DOLWD, Research and Development

	2000		2001	
	Average Monthly Employed	Total Earnings (in Millions)	Average Monthly Employed	Total Earnings (in Millions)
Total Government	72,202	\$2,798.5	76,881	\$2,937.6
<i>Federal</i>	17,139	\$830	16,815	\$844
<i>State</i>	22,136	\$838	22,961	\$866
<i>Local</i>	32,927	\$1,131	37,105	\$1,228
Private Ownership	208,462	\$6,945	211,059	\$7,351
Total Industries	280,664	\$9,744	287,940	\$10,289

	2002		2003	
	Average Monthly Employed	Total Earnings (in Millions)	Average Monthly Employed	Total Earnings (in Millions)
Total Government	78,798	\$3,095.2	79,697	\$3,205.5
<i>Federal</i>	16,761	\$880	17,105	\$933
<i>State</i>	23,847	\$933	24,156	\$955
<i>Local</i>	38,190	\$1,282	38,436	\$1,317
Private Ownership	213,488	\$7,632	217,179	\$7,886
Total Industries	292,286	\$10,727	296,876	\$11,091

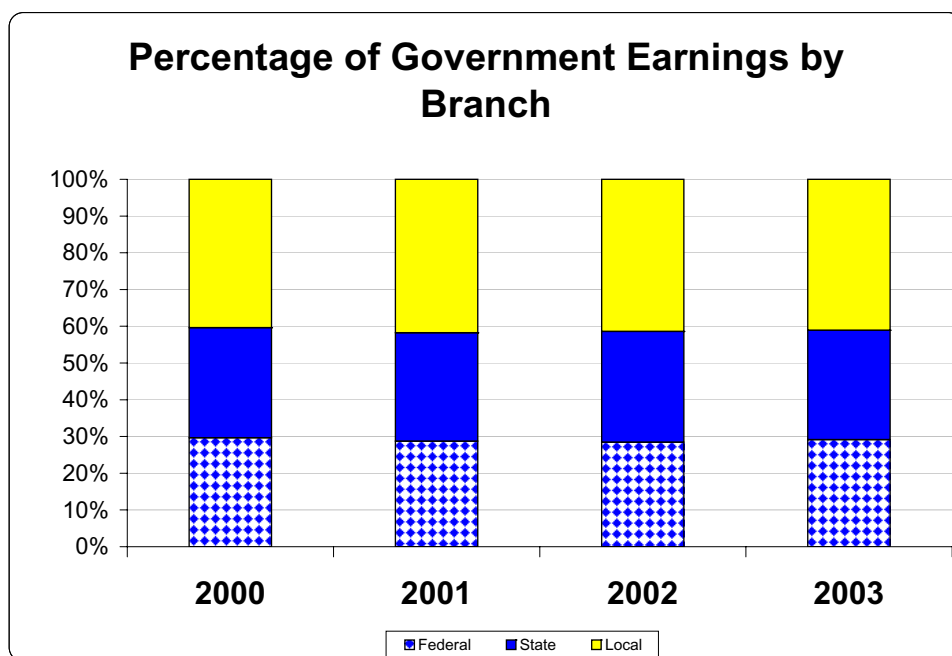


Figure 10: Percentage of Government Earnings by Branch
Source: DOLWD Research and Development

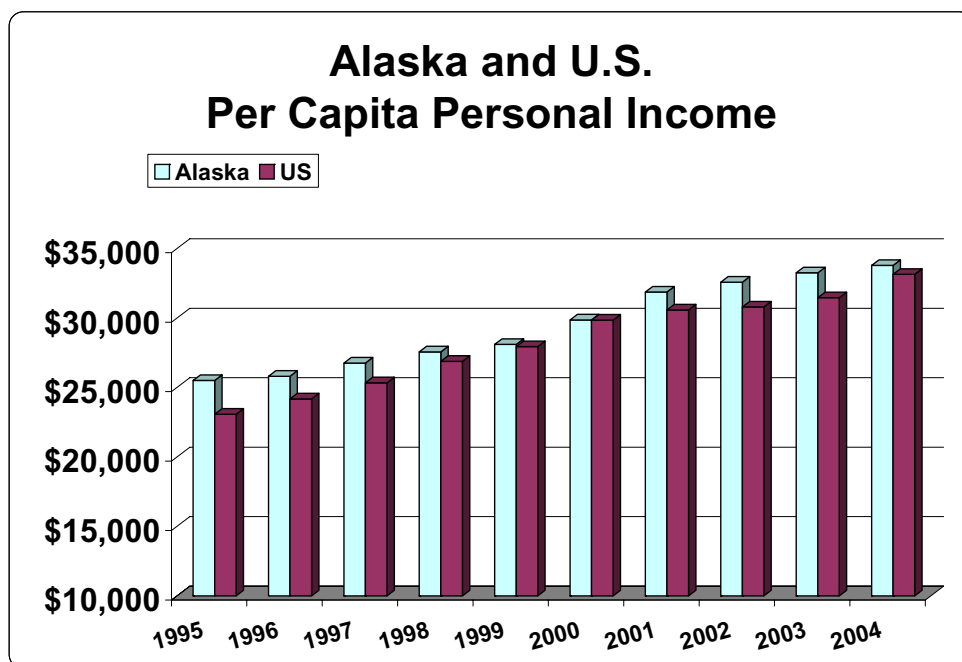


Figure 11: Alaska and U.S. Per Capita Personal Income
Source: US Department of Commerce, Bureau of Economic Analysis
* 2004 estimate based on data through third quarter 2004

Oil and Gas

In fiscal year 2004, Alaska produced an average of 980,000 barrels a day of crude oil. This energy is shipped to the Pacific Northwest of the United States. A majority is processed in Washington's five oil refineries near Ferndale, Anacortes and Tacoma. From there, the energy is distributed throughout the western states, supplying consumers with needed energy.

Declining crude oil production remains a key issue in Alaska's economic outlook. Less oil production has a huge impact on the dollars circulating in the economy and not only impacts Alaska's employment, but also state and local tax revenues. Alaska oil production is now less than half the peak volume of nearly two million barrels per day in 1988. State oil revenue experts report oil output is expected to go from current levels of 920,000 barrels per day to 833,000 per day in 2015. In FY 2004 oil made up \$2.1 billion of the State's \$8.6 billion in total revenue, less than 25%. [Figure 12]

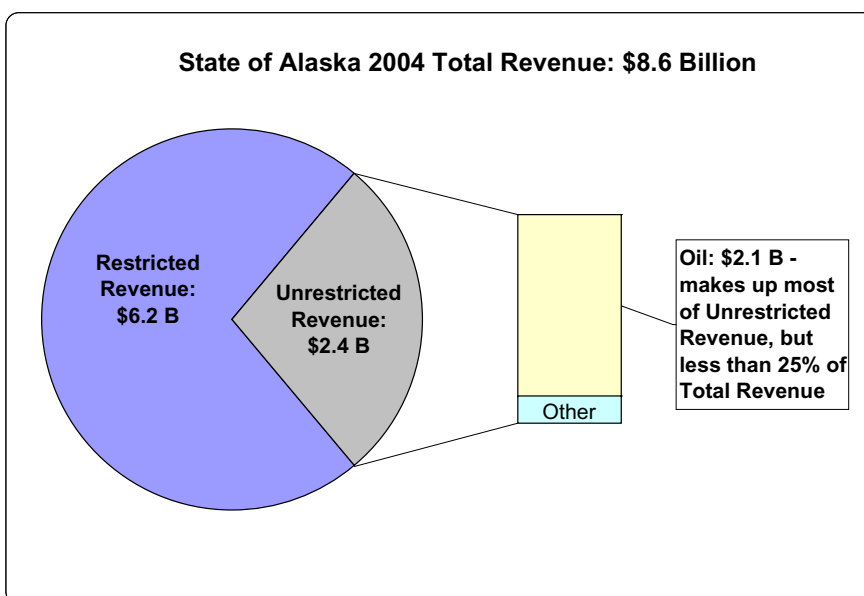


Figure 12: State of Alaska 2004
Total Revenue: \$8.6 Billion
Source: Spring 2005 Revenue
Source Book, AK Dept of
Revenue, Tax Division

Potential Prospects

ANWR

The development of oil and gas in the Arctic National Wildlife Refuge (ANWR) seems to be increasing in probability as a new composition of the U.S. Senate, Alaska's federal delegation and support from the Bush Administration renew discussion on the subject and propel it through the legislative process. The USGS estimates between 12 and 32 billion barrels of oil exist in the "1002 area" of ANWR, of which, between six and 16 billion barrels are technically recoverable using current technology. In addition, there is an estimated 35 trillion cubic feet of natural gas. The USGS studies suggest 85% of the recoverable oil in ANWR is in the northwest corner of the "1002 area," only a few miles from the existing operations and pipeline. The current oil pipeline is operating half full and has the capacity to transport this new production. This oil would make a significant contribution to the nation's energy supply for decades.

Natural Gas Pipeline

The Murkowski Administration and the Alaskan federal congressional delegation are propelling the development of a natural gas pipeline. The State is currently evaluating three separate pipeline development proposals. With natural gas prices increasing rapidly and diverse investment interest in constructing the pipeline, the potential for commercializing Alaska's gas resources looks promising. Congress has approved an incentive package to facilitate the pipeline construction, which includes loan guarantees, accelerated depreciation and other provisions to streamline the process. Alaska has 35 trillion cubic feet of proven gas reserves in the North Slope. Recent tests on methane hydrate resources strongly suggest that an additional 20 trillion cubic feet of gas can be produced out of the existing Prudhoe Bay infrastructure using conventional technology. Recently published U.S. Geological Survey (USGS) estimates for conventional North Slope gas resources push Alaska's potential over 200 trillion cubic feet.

Other Energy Prospects

Other promising areas for future oil and gas production include the Alaska Peninsula, the Cook Inlet, the Yukon Flats, and the National Petroleum Reserve Alaska (NPR-A).

- A lease and licensing program on five million acres of the Alaska Peninsula is scheduled for 2005. Geologists believe this area in southwest Alaska, at tidewater, has significant potential for oil and gas finds, similar to the current production in the Cook Inlet.
- Exploration, leasing, and new discoveries continue to expand existing Cook Inlet fields, which supplies energy to the populous south central region of Alaska and provides the gas that is currently exported internationally.
- In December 2004, the USGS announced its findings that another Cook Inlet-sized oil and gas domain exists in the Yukon Flats, in the eastern part of central Alaska. The report estimates approximately 5.5 trillion cubic feet of natural gas, 173 million barrels of oil, and 127 million barrels of natural-gas liquids are technically recoverable in the area.
- Renewed activity in 23 million-acre NPR-A area in northwest Alaska could also lead to major finds and help fill the pipeline with energy. In June of 2004, five oil companies submitted \$54 million in bids to develop 123 oil and gas lease tracts. According to the Bureau of Land Management it was the largest on-shore federal lease sale ever in Alaska.
- The U.S. Department of Interior has approved the federal Minerals Management Service's 2002 – 2007 Outer Continental Shelf leasing program. Resource estimates indicate the potential for significant amounts of oil and gas, however, further exploration is needed to determine actual reserves, and offshore development is expected to be both costly and lengthy. The Minerals Management Service is attempting to see whether the gas-prone Hope Basin can be developed for local use, for both nearby communities and the Red Dog mine.

Oil Prices

Price volatility is a way of life in the oil business and Alaska crude oil prices are no different. Since 1992, North Slope monthly oil prices have ranged from just under \$10 per barrel to

over \$50 per barrel. Annual North Slope West Coast oil prices averaged \$12.73 per barrel in 1999, and in 2004 averages have been at historic levels, approaching \$40 per barrel. Alaska's oil analysts expect oil prices to continue to exhibit extreme volatility and in any given year could be much higher or lower than the State's long term estimate of \$25.50 per barrel. [Figure 13]

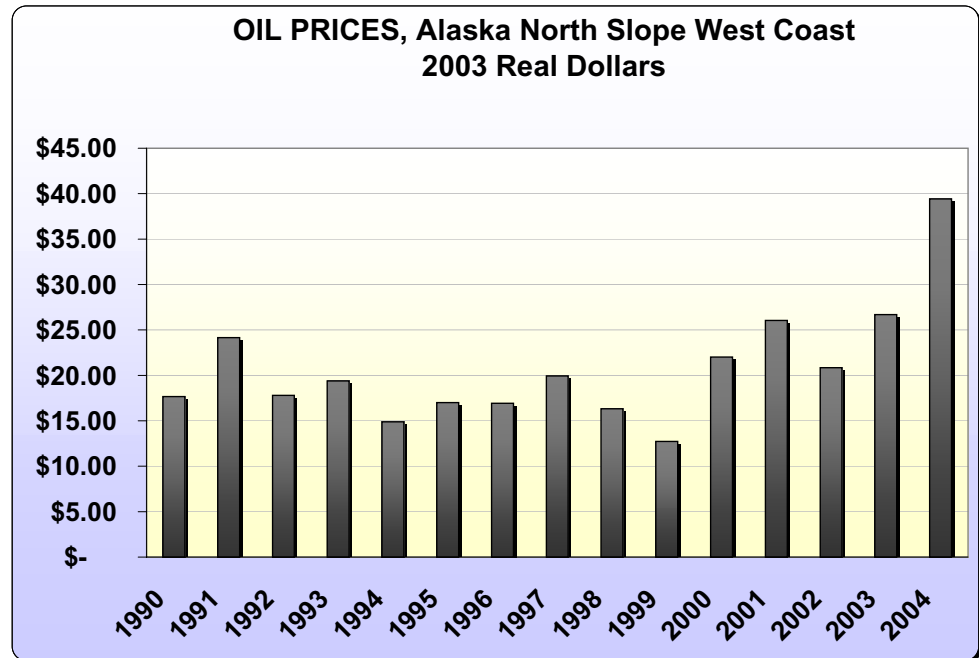


Figure 13: OIL PRICES
Source: DNR Division of
Oil & Gas

As some major producers reduce overall exploration and development expenditures – a trend begun in 2001, ongoing efforts by the State of Alaska to encourage oil exploration in new areas of Alaska are paying off. New exploration licenses have been awarded in the Susitna Valley, Nenana Basin, Copper River Basin, and on the Alaska Peninsula. Signed charter agreements between major oil companies and the state occurring after several major companies recently merged, guarantees access to pipelines and other infrastructure to independent companies. These agreements are proving crucial for any new oil the independents may develop. Additionally, these efforts have enabled smaller independent companies to gain a foothold in the State.

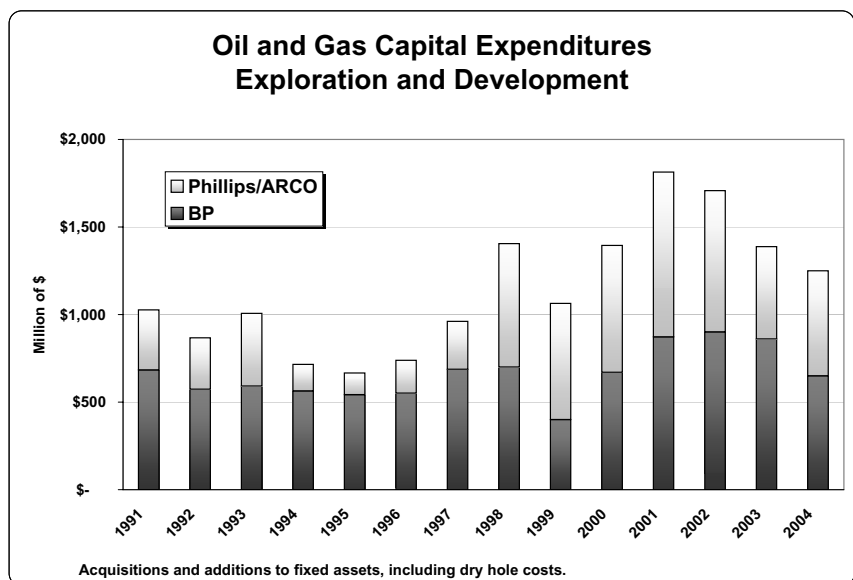
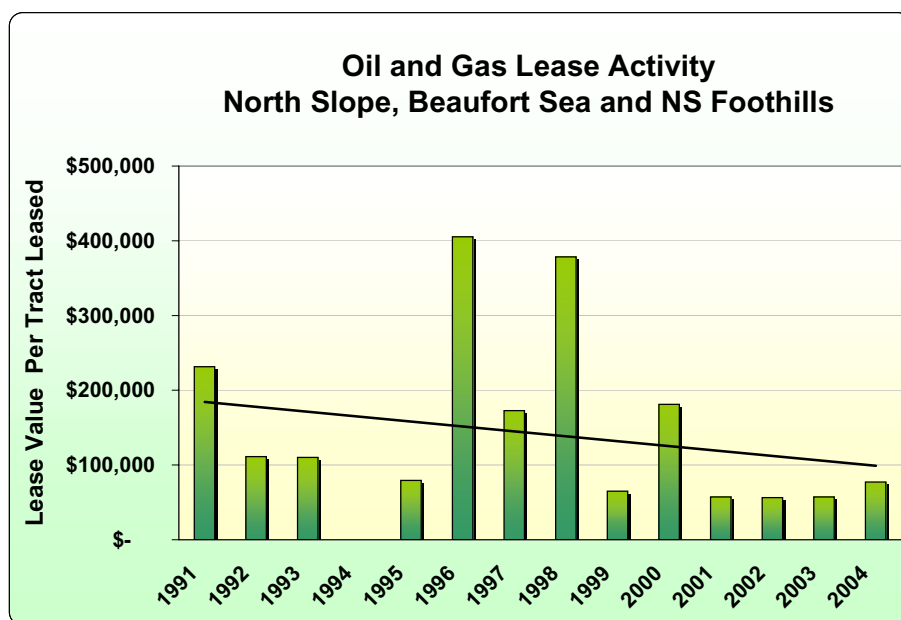


Figure 14: Oil and Gas Capital
Expenditures, Exploration and
Development
Source: DNR Division of Oil & Gas

Figure 15: Oil and Gas Lease Activity for North Slope, Beaufort Sea and NS Foothills
Source: DNR Annual Reports



Challenges Facing the Oil and Gas Industry

The Oil and Gas Industry faces social and technical challenges in Alaska. The industry explores and capitalizes on the state's environmental richness; this activity yields serious and real social debate in the daily life of Alaskans. While many Alaskans are aware of the economic benefits that the industry provides, there are ongoing concerns about how, when, where and by whom exploration and subsequent development is done in Alaska. The industry faces the challenges brought by public sentiment, historical precedence and environmental limitations; consequently, the industry must remain mindful of the social debate that can potentially determine the rate at which it can operate and indirectly, the costs associated with production.

Protection of the environment is a priority and Alaska mandates the highest standards in the world. As a result, numerous technological advances in environmental-conscious drilling first developed in Alaska and have been transferred around the globe.

The Trans-Alaska Pipeline System (TAPS) and oil field infrastructure at Prudhoe Bay is aging and will require continued attention. The maintenance, upgrade and replacement of production, camp and transportation equipment and infrastructure represents an ongoing cost for North Slope producers and the TAPS operator even as field production declines. The Arctic climate poses severe challenges to the safety and operation of buildings, equipment, pipelines and machinery, making inspection and improvement fundamental costs.

Though the challenges are daunting, the staggering size of the energy resources in Alaska is compelling enough to drive exploration and set the standard for responsible drilling. If some or all of the known oil and gas reserves are allowed to be developed, the production and export of energy from Alaska is likely to increase dramatically in the future.

Seafood

During 2004, the Alaska Department of Labor and Workforce Development (DOLWD) undertook the first comprehensive analysis of Alaska's seafood industry employment in fifteen years. The best available data spans 2000 – 2002. In 2002, the fish harvesting industry provided a monthly average of 6,510 jobs statewide – about 3% of all private sector jobs. Although this number is down from the 2000 statewide monthly average of 7,980, it reflects the ongoing restructuring occurring in Alaska's seafood industry. Fish processing jobs underwent an eight year decline from 1995 through 2002, hitting a low of 7,600 jobs. In 2003, that trend finally reversed, increasing to 8,000 and up again in 8,125 in 2004.

Alaska's seafood industry continues to undergo rapid and unprecedented change resulting from the globalization of the marketplace and improving aquaculture technology. Alaska commercial fisheries are some of the best-managed fisheries in the world. Regulations put strict limits on the total allowable catch to ensure fish stocks remain strong year after year. Environmental protections guarantee a high quality and healthy product.

Sales continue to rise as more health conscious consumers around the world choose the superior quality and taste of natural Alaska seafood over the lower priced foreign farmed fish. This product differentiation is beginning to allow Alaska fishermen some pricing power, not only with the high-end restaurant buyers, but also in the broader seafood markets.

Worth over \$1.1 billion to Alaska's commercial fishermen, the total (ex-vessel) value of Alaska's 2004 seafood harvest is the best reported since 1999. Salmon had its best year since 2000, continuing a positive four-year climb with a total harvest value of \$235 million. Approximately 42% of the state's total 2004 salmon harvest value paid to fishermen occurred in southwest Alaska. Halibut had its best year ever with a total harvest value of \$168 million, a 3% improvement over 2003 prices and an incredible 168% value increase since 1998. [Figures 16 (below) and 17 (on the next page)] The 2004 value paid to fishermen of the North Pacific groundfish industry is estimated to be \$446 million, up 36% since 2002.

Figure 16: Alaska Seafood Industry Value of Commercial Fisheries to All Harvesters

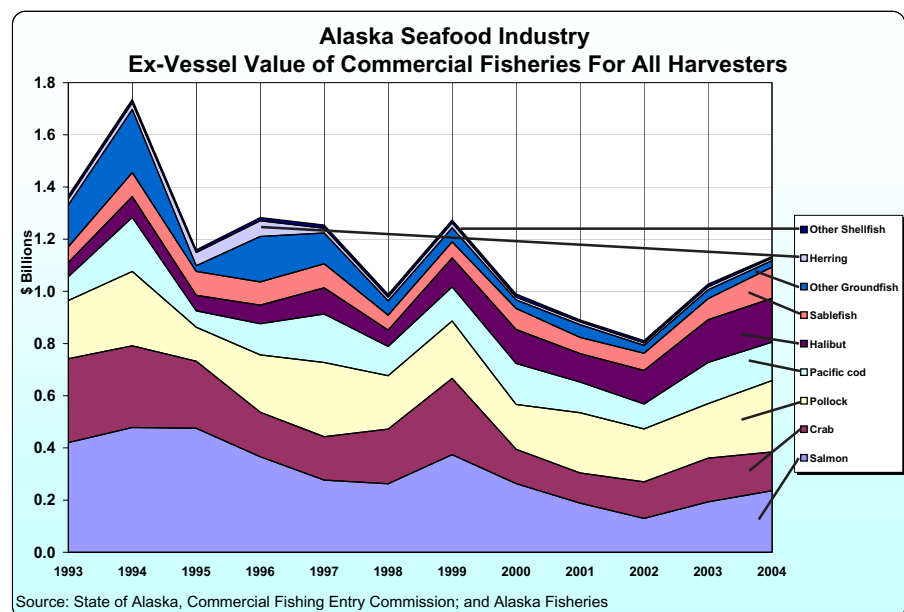
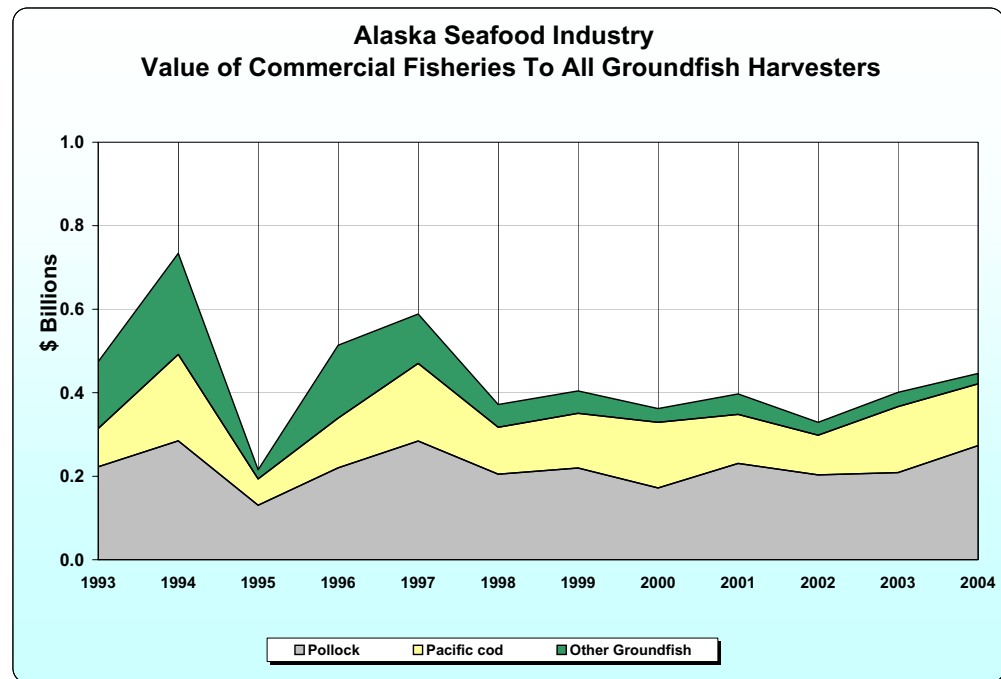


Figure 17: Alaska
Seafood Industry
Value of Commercial
Fisheries to All
Groundfish
Harvesters
Source: Alaska
Commercial Fishing
Entry Commission
and Alaska Fisheries
Information Network



The seafood industry has also been buoyed by the Murkowski Administration's \$50 million fish revitalization strategy, which includes direct aid to fishing communities and individual fishermen, funding for seafood development projects throughout coastal Alaska and an aggressive salmon marketing campaign. Programs work to improve the business environment for small businesses through technical assistance, matching grants, loan programs, and product quality improvements. To date, all the funding is presently working through ongoing activities improving the long-term success of the industry.

Challenges Facing the Seafood Industry

The ability of the Alaska seafood industry to alter its operations and adapt to changing marine and market environments will dictate its long-term success and to a large extent, the health of Alaska's coastal communities. Seafood customers continue applying buying pressure on suppliers responding to market demands and needing to lower costs. These forces exert downward pressures on prices for wild fishery products. Moderating the effects of the market will not be easy. To remain competitive, Alaska's seafood industry must continue to lower costs and increase efficiencies while increasing product value and diversifying product options.

Alaska must continue to improve its production capacity to advance the quality and desirability of its seafood products. Technical innovation and improved worker productivity are key elements in stemming the loss of valuable production capacity to developing countries with lower production costs.

Faced with challenges ranging from aquaculture, concerns over resource sustainability, expanding individual fishing quotas into other fisheries, or conflicts associated with endangered species, Alaska's seafood industry continues to seek out the best and highest use of this remarkable renewable resource.

Wood Products

Alaska is a high-cost competitor in an industry where worldwide production of timber has exceeded demand for the past decade; consequently, Alaska's international wood exports were at \$105 million in 2004, or about a quarter of the value reached in 1996. [Figure 18] According to the Department of Labor and Workforce Development's December 2003

Alaska Economic Trends report, mergers and consolidations done with an eye on worldwide business conditions have hurt employment in this sector.

Figure 18: Alaska International Wood Exports
Source: U.S. Census Bureau, Origin of Movement Series



Major mill closures in Southeast Alaska eliminated local processors. Timber is being exported as raw logs with no value added. Competition in the raw-material market is hurting Alaska as well. Russia and China are huge suppliers of logs. Alaska also competes with British Columbia and Lower 48 states for the U.S. domestic market. Despite all of Alaska's natural bounty, timber has not been a major source of Alaskan employment in the past decade.

Pulp mills in Sitka and Ketchikan closed in 1993 and 1997 respectively. The Tongass Land Use Management Plan (TLMP) reduced annual allowable harvest levels to 150 metric million board feet (mmbf) while actual harvest rates have been well below this limit.

In late 2003, the Bush administration opened 300,000 more acres of Alaska's Tongass National Forest to possible logging or other development. The decision allows 3% of the forest's 9.3 million acres, previously designated as off-limits to road building by the Clinton administration, to have roads built on them and perhaps to be opened to use by the timber industry. Recently added incentives by the Forest Service for the timber industry are allowing timber companies to cancel old timber sales in order to purchase new sales with longer contract terms of ten years. The Forest Service proposes wilderness protection for 1.4 million acres of the Chugach National Forest's 5.4 million acres.

Approximately 2% of Alaska's state-owned land resides in two designated State forests: the 270,410-acre Haines State Forest, and the 1.8 million-acre Tanana Valley State Forest. Additionally, much of the State's public domain land is available for timber harvesting. In 2003, the Murkowski Administration advanced strategies to increase timber sales on state lands to help Southeast loggers. According to DNR's coastal regional forester, state timber harvests in Southeast may double in volume since fiscal year 2004 (July 2003 – June 2004) from 7.3 million metric board feet (mmbf) to 14.4 mmbf in fiscal year 2005 (July 2004 – June 2005).

The communities in the timber region of Alaska are directly affected by the economic events in the timber industry. One of the ways that the dire economic conditions are addressed is the National Forest Receipts Program. National Forest Receipts are federal revenues that are shared with cities, boroughs, and Regional Educational Attendance Areas (REAAs) located in a national forest. Alaska's national forests are the Tongass National Forest in Southeast, and the Chugach National Forest, located in Southcentral. Federal fees collected from commercial timber harvesting ("stumpage fees"), mineral lease permits, recreation and campground fees are shared with local governments and school districts located in these national forests. Under the provisions of the "Secure Rural Schools and Community Self-Determination Act of 2000", the State of Alaska's annual payment for fiscal years 2002 – 2007 will be approximately \$9.2 million dollars (16 U.S.C. 500 at FedLaw.) These funds are distributed to qualifying communities in order to help sustain schools, roads, and certain categories of special projects (16 U.S.C. 500; AS 41.15.180; 3 AAC 132.100; 3 AAC 132.110).

Challenges Facing the Wood Products Industry

Traditionally, Japan has purchased nearly 80% of Alaska's total wood products exports. Despite Japan's recently improving economic situation, the country's long-term economic stagnation has depressed prices and shrunk the market niche for Alaska's high-quality and high-priced coastal old growth timber. As a result, exporters must continue to look to other markets.

Small mills that produce custom log cabins and other wooden structures and construct them on site have found some recent success. Approximately 150 commercial sawmills and secondary manufacturers operate across the state. These range from five sawmills that produce from one mmbf to 30 mmbf annually, to mobile dimensional mills that saw personal-use wood from national and state forests for individual clients. Alaska mill products include large export cants and sawlog slabs, shop lumber destined for remanufacture, dimensional lumber, railway ties, shakes and shingles, tone woods for musical instruments and a host of specialty millwork and craft products.

However, the only area with growing employment in the wood product industry, is Interior Alaska. Strategies extending these same successes to other regions of the State must be implemented. The Alaska Wood Technology Center in Ketchikan is currently testing the strength characteristics of Alaska tree species in order to establish Alaska-specific lumber grades. It is hoped these grades will recognize the higher design values of Alaska species

currently lumped into less advantageous grades and increase value of Alaska lumber and standing timber.

Recent onslaughts of lawsuits and the preparation of uneconomic timber sales is overwhelming Alaska's timber industry. Congress is responding with legislation creating deadlines for the filing of lawsuits and allowing the Forest Service to cancel uneconomic timber sales. The judicial review provision in the legislation is intended to ensure stability in Alaska's timber supply by quickly resolving timber disputes. For example, the Forest Service, working with Alaska timber producers, recently cancelled twenty uneconomic timber sales. These sales will be reconfigured and rebid as economically workable sales.

The National Forest Receipts Program expires in 2007. It is unclear how qualified communities will address the funding gap for schools, roads and other projects that will result from the expiration of the program.

Mining

The mining industry in Alaska enjoyed an exciting and eventful year in 2004. Metal prices have improved dramatically, making operations more profitable. Substantial funding was available for exploration and development projects. Construction of the state's newest lode gold deposit was initiated, and some significant new discoveries were advanced. During 2004, alluvial gold mining operations benefited from increased gold prices.

The total value of Alaska's mining industry, which had been level at roughly \$1 billion for the past few years, significantly increased in 2004 to approximately \$1.4 billion; the value increased \$343 million over 2003 or about 32%. Mining total value is comprised of the production value, exploration investments and development expenditures. [Figure 19-on following page] Production value in 2004 grew by almost 18% over 2003, and represents approximately 83% of the total value. In 2004, exploration, investment and development expenditures constituted approximately 5% and 12% of total value, respectively.

Alaska's largest producing mines include the Red Dog lead and zinc mine near Kotzebue, the Fort Knox gold mine near Fairbanks, the Usibelli coal mine near Healy, and the Greens Creek silver, lead and zinc mine near Juneau. These mines contribute significantly to the employment base and economic vitality of their respective host communities and rural regions.

Alaska zinc ore concentrates again lead the way as the most valuable metal produced, grossing \$639.2 million or 60% of total metals value. Following in order of value is gold (\$185.6 million) lead (\$120.6 million) and silver (\$113 million).

Figure 19: Total Value of the Mineral Industry in Alaska

Source: Alaska's mineral industry reports published annually by DGGS.

Total Value of the Mineral Industry in Alaska, by Year (millions of dollars)				
	Exploration (expenditure)	Development (expenditure)	Production (value)	Total
1981	76.3	24.7	188.6	\$289.6
1982	45.6	41.6	196.4	\$283.7
1983	34.1	27.9	212.4	\$274.4
1984	22.3	53.4	199.4	\$275.1
1985	9.2	34.1	226.6	\$269.9
1986	8.9	24.3	198.5	\$231.7
1987	15.7	100.3	202.4	\$318.4
1988	45.5	275.0	232.2	\$552.6
1989	47.8	134.3	277.0	\$459.0
1990	63.3	14.3	533.0	\$610.6
1991	39.9	25.6	546.5	\$612.0
1992	30.2	29.6	560.8	\$620.6
1993	30.3	27.7	448.7	\$506.7
1994	31.1	45.0	507.5	\$583.6
1995	34.3	148.6	537.2	\$720.1
1996	44.7	394.0	590.4	\$1,029.2
1997	57.8	168.4	936.2	\$1,162.4
1998	57.3	55.4	921.2	\$1,033.9
1999	52.3	33.8	1,032.9	\$1,119.1
2000	34.9	141.7	1,106.4	\$1,283.0
2001	23.4	81.2	917.3	\$1,021.9
2002	26.5	34.1	1,012.8	\$1,073.4
2003	27.6	39.2	1,000.7	\$1,067.4
2004	64.4	165.6	1,180.3	\$1,410.3
TOTAL	\$923.4	\$2,119.8	\$13,765.4	\$16,808.6

Several large mineral projects are in development, including construction of the Pogo Gold mine near Delta Junction. Figure 20 summarizes current mining development activity.

Of Alaska's 365 million acres of land, 104 million acres are owned by the state government and most is open to mining. This is an area larger than the entire state of California that remains essentially unexplored. Alaska's 12 Native Corporations own an additional 44 million acres. Many of these Corporations actively market resource development on their lands. Several of Alaska's greatest success stories, including the massive North Slope oil fields and the Red Dog mine, have come from partnerships between Native Corporations and international investors.

A current example is the Calista Native Corporation's relationship with Placer Dome, which has led to the leasing and exploration of land in the southwest region of the State. To date, over 23 million ounces of gold have been identified in this Donlin Creek project, making it the second largest gold mine in North America. The largest gold mine prospect on the continent is also located in Alaska. Pebble Copper mine, owned by Northern Dynasty, has announced resource finds of 26.5 million ounces of gold, 16.5 billion pounds of copper, and other collocated metals.

Figure 20: 2004
Alaska Mine
Development
Project
Milestones
Source: Alaska's
Mineral
Industry 2004:
A Summary

Alaska Mine Development Project Milestones in 2004.	
MINE	STATUS
POGO	Teck-Cominco and Sumitomo proceeded with construction of the Pogo Mine near Delta Junction. This will be Alaska's next producing gold mine. Construction of mine facilities and infrastructure commenced in June 2004, and the first production is expected in
KENSINGTON	The U.S. Army Corps of Engineers and the State are finalizing permits. Mine construction is set to commence in 2005, pending receipt of all outstanding permits.
ROCK CREEK	Feasibility studies on this potential gold producer are in the final stages and major permitting efforts are poised to accelerate.
DONLIN CREEK	Placer Dome and partner NovaGold continue their evaluation of the Donlin Creek gold deposit, located on Calista Corporation land in Southwest Alaska.
GREENS CREEK	During 2004, Greens Creek received its Record of Decision to expand their dry tailings facility and all associated state, federal, and local permits.
PEBBLE GOLD-COPPER PROJECT	Project operator Northern Dynasty completed a massive drilling campaign to delineate this exceptionally large gold-copper-molybdenum-silver resource, located near Iliamna. Feasibility studies and project engineering are underway and a major baseline enviro
NIXON FORK	This project, located near McGrath and currently operated by St. Andrew Goldfields, continues advanced exploration efforts, and may achieve development status in 2005.

Challenges Facing the Mining Industry

New development projects, if brought to fruition, will provide outstanding benefits in remote regions, and formulate the critical mass the industry requires to sustain itself over the long term. Given the proper support, the industry has the ability to make a tremendous difference in Alaska.

Alaska has made great strides to provide a predictable regulatory environment that attracts international companies to trade and invest here. The swift and successful efforts last year to resolve environmental concerns at the Pogo Mine demonstrate the Murkowski administration's commitment to promote responsible development in Alaska.

In its most recent report the Alaska Minerals Commission proposed the following recommendations to the Governor and Legislature:

- ◆ Eliminate frivolous litigation by limiting "public interest litigant" status;
 - ◆ Increase the efficiency of mine project permitting;
 - ◆ Update water quality standards;
 - ◆ Assist in infrastructure development that benefits mining and other industries;
 - ◆ Resolve land tenure, navigability and right of way access issues;
 - ◆ Acquire baseline geological and environmental knowledge statewide;
 - ◆ Promote industry education through support of relevant university programs and the Alaska Minerals & Energy Resource Education Fund.
-

Tourism

Recent studies conducted by the Department of Commerce, Community, and Economic Development (COMMERCE) reveal nearly 66% of each travel and tourism dollar spent in Alaska stays in the state. Additionally, nearly 40,000 jobs – direct and indirect – are created by travel and tourism economic activity in Alaska, making this industry the state's fourth largest employer.

An estimated 1.7 million visitors came to Alaska between October 2003 and September of 2004 – a 9% increase over 2003. Cruise ship traffic grew by an estimated 8% between 2003 and 2004 compared with 6.8% the previous year. The following chart reports on travel arrivals for residents and non-residents by all modes of travel for years 1985 – 2004.

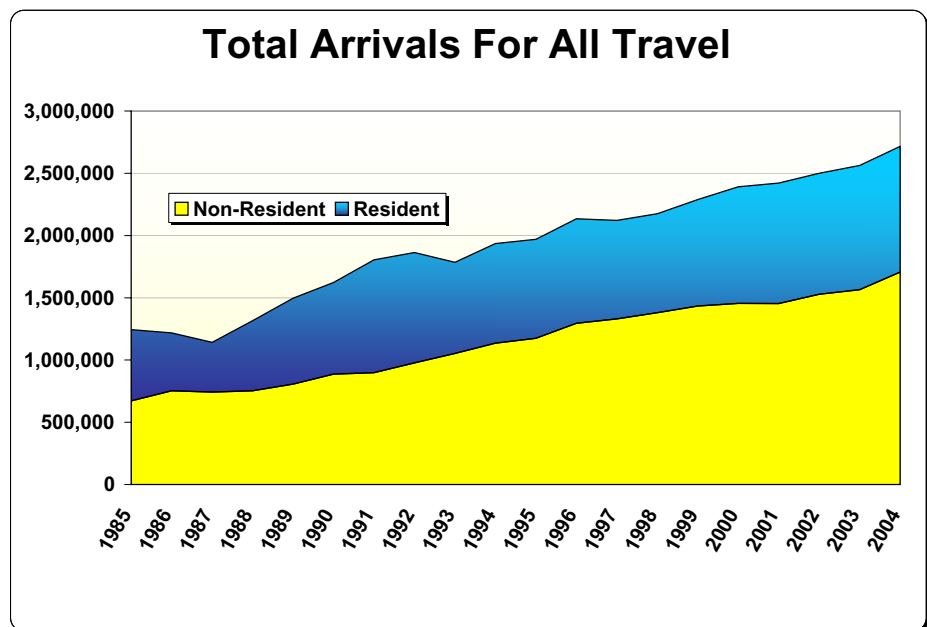


Figure 21: Alaska Total Arrivals
Source: COMMERCE, AVSP

The steady increase in visitor arrivals since 1994 reflects an average annual growth rate of nearly 4% over the past decade. Besides the strong passenger growth aboard cruise ships, domestic and international air arrivals have experienced average annual growth rates of 2.5% and 6.5% respectively. However, despite a doubling of motor coach arrivals the past decade, the total number of visitors entering Alaska by personal vehicles is down one third compared with ten years ago.

Figure 22: Alaska Visitor Numbers
Source: COMMERCE, AVSP 2004

Fall / Winter 2003 - 2004 Visitors	Summer 2004 Visitors
Alaska had 257,100 visitors during the fall/winter of 2003-2004 (up 1.8% over the previous year).	Resident and non-resident travel accounted for 1,951,600 total summer arrivals in Alaska. This is an increase of nine percent over the previous summer.
Visitors made up 34% of total arrivals with Alaska resident travellers accounting for the rest (this represents no change in the ratio of arrivals from last year).	Seventy-four percent of summer visitors (1,447,400) were non-resident visitor.
As in the previous year, "Business Only" at 44% represents the most common purpose for winter visits in Alaska followed by "Visiting Friends & Relatives(24%).	Seventy-four percent of non-resident visitors came to Alaska for "Vacation/Pleasure."

In a 2004 Travel Business Status survey of its members, the national Travel Industry Association found most respondent's businesses had recovered from the effects of the September 11, 2001 terrorist attacks, the recession and subsequent weak recovery, and other global events. Over two-thirds of respondents' report their businesses are rebounding to pre-September 11 levels.

Untapped tourism potential exists in Alaska's rural communities, especially for cultural tourism, outdoors and adventure travel, and wildlife viewing opportunities. Cultural and nature based tourism are among the fastest growing travel sectors. Of the visitors surveyed in the rural component of the 2001 Alaska Visitor Statistics Program (AVSP), 85% indicated that they would consider visiting a small Alaska community to meet local residents and learn about local history and culture as part of their next trip to Alaska.

Challenges Facing the Tourism Industry

A strong Alaska tourism industry requires a trained workforce capable of meeting the growth and changing needs of its visitors. Visitors need access, attitude, attractions, activities, accommodations and security. Access means a community or business is able to provide visitors access to information, the community, and businesses within the community. Attitude is the level of hospitality and sense of welcome that visitors encounter when they visit. Visitors also require accommodations and things to do throughout their stay, including daytime and nighttime activities. Finally, visitors need security. Basic services include access to emergency services, medical care, search and rescue, and police protection. In order to meet visitor expectations, to ensure quality of products and services, and to keep within the goals and character of a community, destinations must be increasingly fresh, innovative and exciting, provide value at competitive costs and remain focused on the core offerings of a community.

The tourism industry faces the challenges associated with expanding into Rural Alaska. Many of Alaska's rural communities have identified tourism development as an important piece of their regional economic development strategy but have limited experience with the visitor industry. One of the first steps towards full participation in the visitor market is overcoming the challenges of creating basic transportation and service sector infrastructure. Current State policies are attempting to bring this about by increasing the condition and locations of roads, ports and runways.

Alaska Export Market

International trade is a cornerstone of the Alaska economy. Efforts to export local products and resources bring billions of dollars of new money into the state and provide high paying careers for residents.

New jobs are created from international trade every step of the way, from preliminary scientific studies, to resource extraction, construction, distribution, marketing, sales, finance, and shipping products to their final destination.

International investment in capital projects in Alaska expands the economy and improves infrastructure. New business connections also lead to new sales markets. In 2004, Alaska exported products directly to 92 different countries, the most in history. Diversification in trading partners increases prices for our products and reduces volatility.

In 2003, international trade from Alaska expanded 9% over the previous year for a total of \$2.7 billion in exports. This phenomenal growth continued into 2004 when trade increased another \$418 million, up 15%, to total nearly \$3.2 billion. This trend highlights both the rapid growth in global trade and clearly demonstrates Alaska's ability to succeed in international markets.

Seafood continues to be the driving force behind international export growth in Alaska, accounting for 53% of all sales. In 2004, fish exports increased 21%, an impressive \$289 million more than the previous year for a total of nearly \$1.7 billion. [Figure 23-see next page] This eclipses the year end totals for the last decade and is one billion dollars, or two and a half times, more than the \$697 million in seafood exported from Alaska in 1998. Figure 24 shows the breakout of the export market by product.

Marketing efforts and trade missions are helping Alaska to diversify its sales markets. In 2004, Alaska exported seafood directly to 44 different countries. In 2002, seafood sales went to 34 countries and in 1997 the figure was only 24 countries.

The export of minerals topped \$500 million last year for the first time Alaska's history. This amount is double the \$249 million exported only eight years ago in 1996. International mineral sales increased 9% in 2003 and an impressive 22% in 2004.

Lead and zinc production dominates this category. Additionally, \$90 million in gold and \$14 million in coal were sold internationally in 2004, however these products are counted in the precious metals and energy categories respectively.

One quarter of Alaska's mineral exports head to Canada, one third are sold to Europe and 40% are bound for Asia, primarily Korea, Japan and China.

In 2004, energy exports from Alaska expanded 23% to \$376 million, or \$71 million more than in 2003. The category consists primarily of liquefied natural gas, light petrochemicals and coal.

Japan purchased 80% or \$300 million of Alaska's energy exports in 2004. China, Hong Kong, Korea, Canada and Chile imported the remainder.

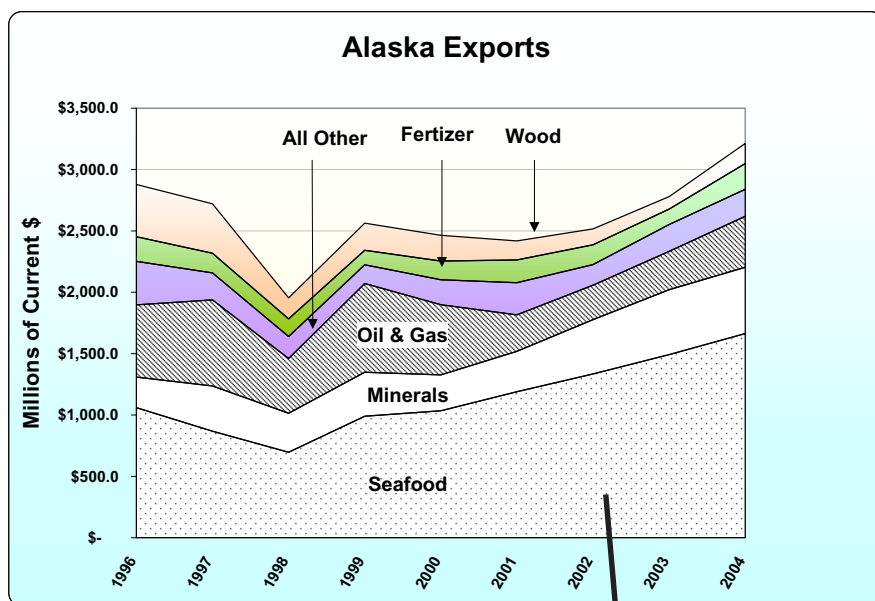


Figure 23: Alaska's Exports and Alaska International Seafood Exports

Source: US Census Bureau, Origin of Movement Series



Figure 24: Alaska's International Exports Products 2004

Source: U.S. Census Bureau, Origin of Movement Series



Japan remains Alaska's largest trading partner, importing \$1.2 billion of Alaska goods in 2004. This represents a growth of 15% over 2003 and a 38% share of Alaska's total export market. Korea is Alaska's second leading trade customer, importing \$580 million of products in 2004, up 2% over 2003 when Alaska – Korean trade jumped by 36%. Rounding out Alaska's top trading partners are Canada, China, and Germany. In 2004, trade with China grew a remarkable 57% climbing from \$154 million in 2003 to \$242 million today and accounting for 6% of state exports.

Figure 25: Alaska's International
Export Destinations 2004
Source: U.S. Census Bureau,
Origin of Movement Series



Challenges Facing the Alaska Export Market

Alaska's export market occupies a unique position in the Alaskan economy. The export market faces international and in-state challenges. From the international perspective, the export market represents Alaska, its products, people and culture. In order to maintain its position as a world player, Alaska must continue to develop and nurture international relationships with complimentary markets such as China. Concurrently, Alaska must grow new markets within emerging economies in order to lay the foundation for long-term business associations like those presently enjoyed with Japan and Korea.

From an in-state perspective, the export market is subject to the performance of revenue-producing industries within the state. The challenges faced by the major industries (oil and gas, mining, seafood, etc.) and their ability to supersede these challenges translates into strength or weaknesses reflected in the export market. For example, since 1998 the seafood industry has undergone significant changes to compete against improved aquaculture technology in other contries and to better manage our fisheries. If Alaska seafood is unable to compete with farmed fish or its technology lags it may lose its prominent place in the Alaska export market.

Alaska Native Corporations

The following chart describes Regional Native Corporation revenues between 2000 – 2003. The growth in Native Corporations explains why Alaska's private sector continues to expand during a period of contraction among several of the traditional sector base industries.

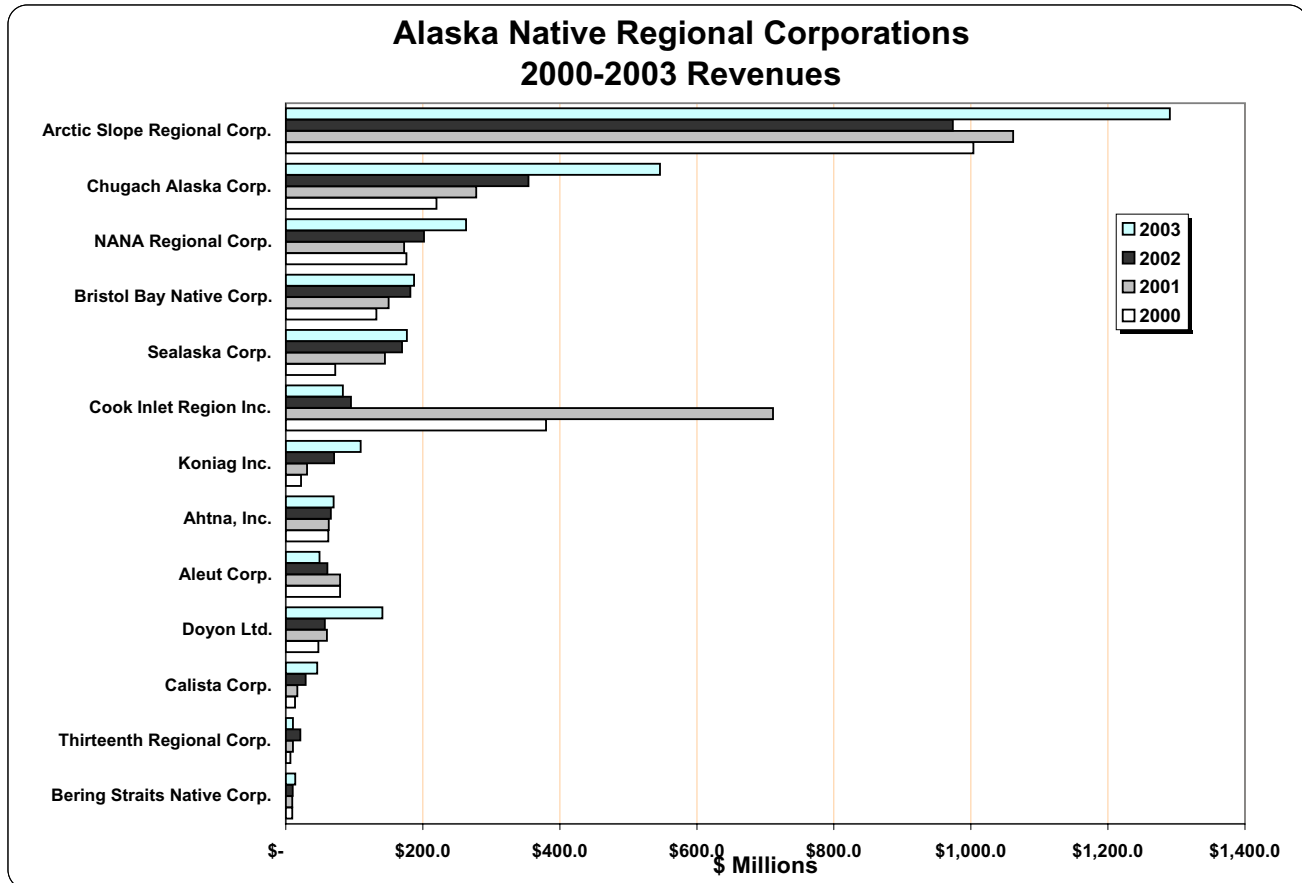


Figure 26: Revenue for Alaska Native Regional Corporations
Source: Corporation Annual Reports

These private corporations generate billions of dollars in revenue and employ thousands of Alaskans with combined revenues of more than \$2.5 billion in 2003. During 2004, of the top 49 Alaska-owned businesses, 43% were Native companies with combined employment of 7,300 workers.

Native Corporations have the economic muscle to expand well into the twenty-first century. Strategic moves early in their development have resulted in today's vital services in drilling operations, construction, and oil field support and services.

Additionally, many Corporations have subsidiaries in real estate management, fiber-optic telecommunications, and revenues from oil and gas, minerals, gravel, and timber. For example, in a recent report to its shareholders, the Arctic Slope Regional Corporation shows significant growth in wireless communications investments and investments in their

corporation pipeline interests. In addition, work started in 2004 through investments made in drilling increases the corporation's role in upstream oil and gas activities in partnership with other operators on the North Slope.

At the end of December 2003, Cook Inlet Region Incorporated (CIRI) entered into an agreement with Woodbine Development Corporation, developer of the Hyatt Regency at Lake Las Vegas Resort and The Westin Kierland Resort & Spa in Arizona. The partnership intends to build a 500-room destination resort hotel, 18-hole golf course, and full-service spa to be operated by Hyatt Hotels & Resorts in the vicinity of Austin, Texas. Additionally, CIRI Alaska Tourism in 2003 shifted its emphasis away from packaged tour sales, focusing its attention instead on its core Alaska hotel and day cruise assets.

Challenges Facing the Alaska Native Corporations

Internal issues are foremost among the challenges facing Native Corporations as shareholders express their unrest with their boards, seeking a greater focus on profitability over revenue growth, greater diversification in a company's corporate portfolio, and a more active role in business partnerships. New opportunities in sizable mining resource development in some of the regions where traditionally commercial seafood harvesting has been the economic/cultural base pose tough trade-offs for the rural communities affected. Meeting demands of changing industries will be a challenge for some regions, for example, in the Bristol Bay region, Pebble Mine can potentially reap a construction and operating workforce of about 2,800 people. Currently the region is not able to provide this number of qualified and trained construction workers.

Alaska Permanent Fund

The Alaska Permanent Fund and the Permanent Fund Dividend paid to Alaskans are unique to the state and are an indication of economic robustness and vitality. The Alaska Permanent Fund is managed by the Alaska Permanent Fund Corporation (APFC), while the Permanent Fund Dividend program is managed by the Permanent Fund Dividend Division. Since 1982, Alaskans have received more than \$13 billion in Permanent Fund Dividends. The number of Alaskans who were eligible for and received dividends increased from 595,567 in 2003 to 598,378 applicants in 2004; each qualified Alaskan received a dividend of about \$919.

Permanent Fund net earnings experienced strong gains in 2004, making significant strides from the 2001 - 2003 levels. The total Permanent Fund principal increased from \$24.2 billion in 2003, to record levels of \$29.1 billion in 2004. [Figures 27 & 28] The Alaska Permanent Fund is among the 100 largest investment funds in the world. In the U.S., the Fund is larger than any endowment fund, private foundation, or union pension trust.

Figure 27: Permanent Fund Principal
1992-2004 \$ Billions
Source: Alaska Permanent Fund
Corporation

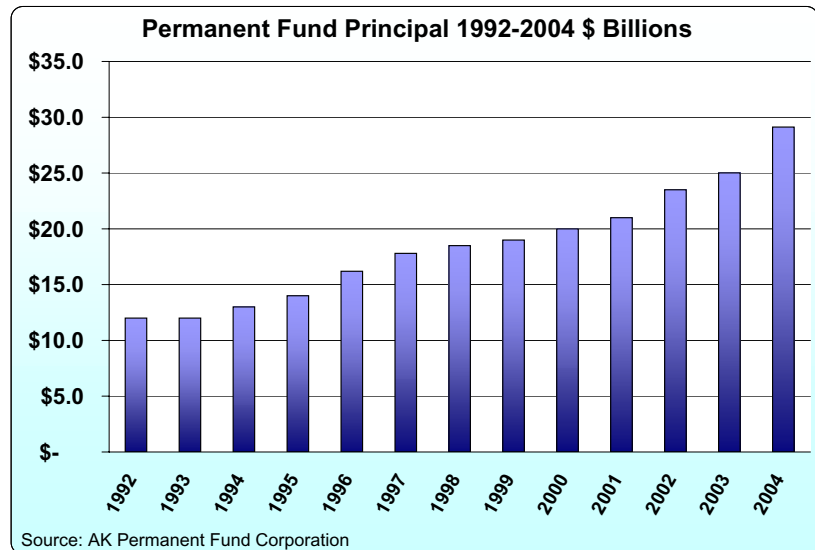
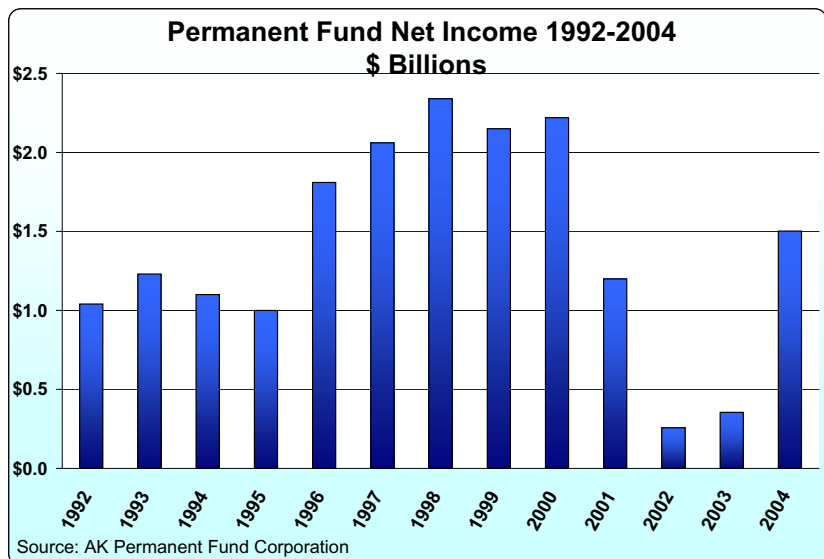


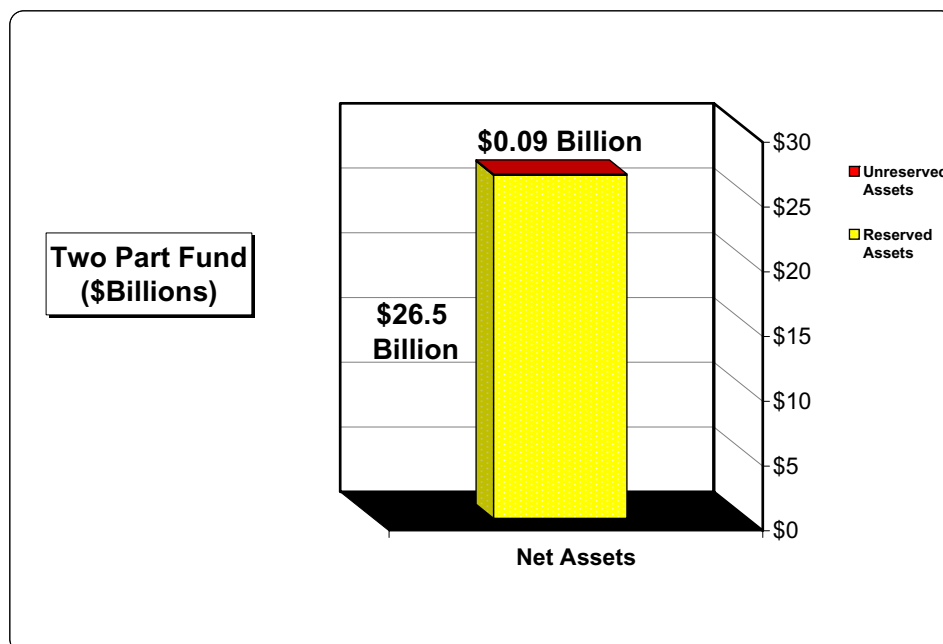
Figure 28: Permanent Fund Net
Income 1992-2004 \$ Billions
Source: Alaska Permanent Fund
Corporation



The relative economic importance of the Permanent Fund dividend depends largely on location. For example, of total cash from all sources, dividends comprise between 6% and 8% of cash in urban Alaska and between 8% and 21% in rural Alaska, with most rural dividend spending taking place in urban Alaska.

The Alaska Permanent Fund is a two-part fund made up of Reserved Assets (principal) and Unreserved Assets (realized earnings). The reserved portion of the Fund is invested permanently and cannot be spent without amending the State constitution. As of June 30, 2004, the Fund included \$26.5 billion in reserved assets and \$0.9 billion in unreserved assets for a total of \$27.4 billion in net assets. [Figure 29] According to Fund analysts, changes in dollar and percent values of assets between 2003 and 2004 are the result of an increase in total asset value reflecting improved financial markets, the addition of mineral revenues to the Fund in 2004, and reduced dividend distribution in 2004 due to income averaging over the past five years.

Figure 29: Net Assets:
Two Part Fund (as of
June 2004)
Source: Alaska
Permanent Fund
Corporation



Diversification

A diversification strategy has been key in the Fund's performance. According to Michael J. Burns, the Fund's new Executive Director, "Diversifying the Fund into multiple asset types helps protect its value while providing for a steady growth and distributions." The Fund is made up of publicly traded stocks, private equities, bonds, and real estate. Figure 30 on the following page shows the effect of five years of diversification.

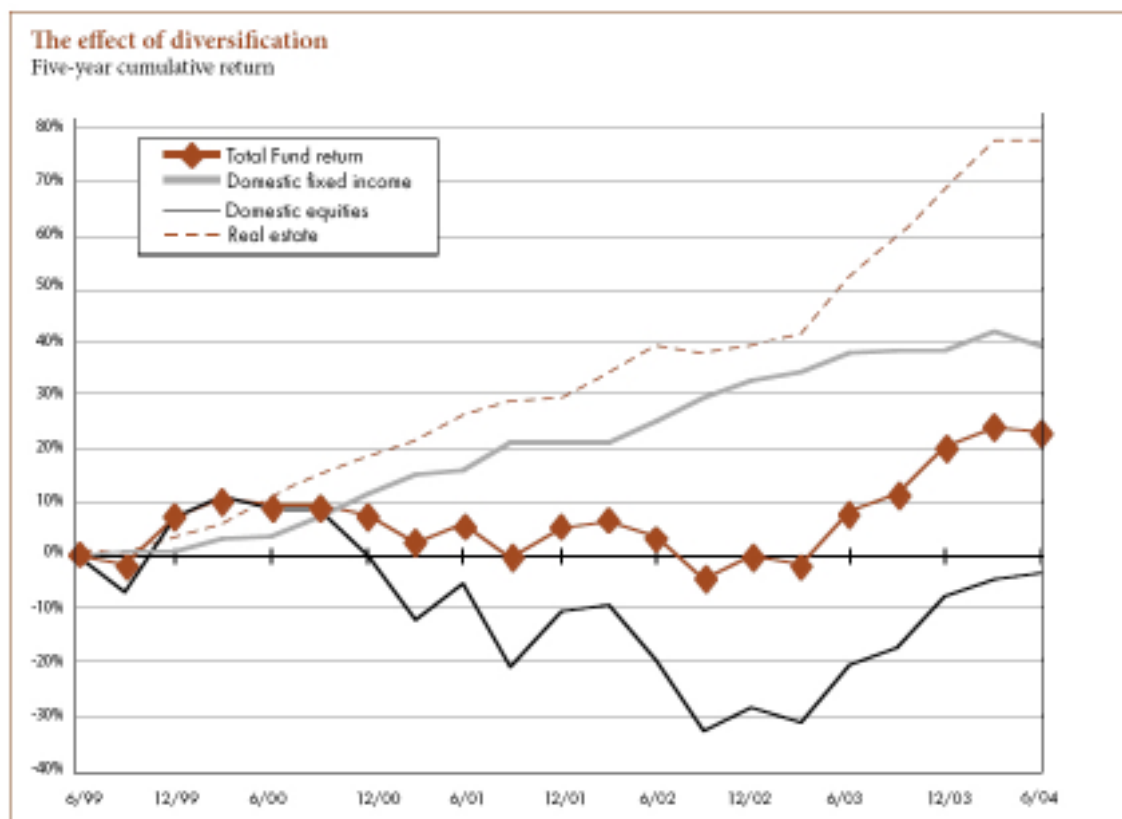


Figure 30: Fund Diversification June 1999 - June 2004

Source: Alaska Permanent Fund Corporation

Challenges Facing the Alaska Permanent Fund

Activity and fluctuations of financial markets directly impact the market value of Fund assets and although diversification of investments helps mitigate some of the risk, optimal performance of the Fund cannot be guaranteed. One of the main challenges for the Alaska Permanent Fund Corporation is to stay a step ahead of the markets in order to make timely and effective investment decisions.

Alaska Economic Information System - AEIS

Department of Commerce, Community, and Economic Development (COMMERCE)



Until recently, information about Alaska's economy, labor force, and industrial sectors was scattered among a large number of agencies and organizations. The Alaska Economic Information System (AEIS) was created to provide user-friendly access to all this information at a one-stop portal on the web.

The AEIS represents a tremendous development resource for businesses, communities, and individuals — saving them significant time and effort in collecting the information on which to base development decisions and plans. Starting from a map of Alaska, users can “click” on a census area, and quickly get the picture of that area's basic economic industries such as tourism, oil and gas, mining, and seafood. Detailed information is also provided for the critical infrastructure elements of transportation, energy, and utility sectors that support long-term, viable economic development. A statewide perspective is also provided for each sector of the economy, and the Alaska economy as a whole.

Users can “drill down” through the information on the AEIS web site to get to greater levels of detail about their specific areas of interest, including maps, charts, and working spreadsheets that users can download to their own computers for further analysis. As a web portal, the AEIS contains a host of links to other web site relevant to an understanding of the Alaska economy, its workforce and its economic sectors.



On the web at:

http://www.commerce.state.ak.us/dca/AEIS/AEIS_Home.htm

This publication was produced by the Department of Commerce, Community and Economic Development (COMMERCE), Division of Community Advocacy (DCA). Its purpose is to provide a concise, annual overview of the Alaska economy.
