

Retail, Construction Lead Growth Through '94

by John Boucher

Barring an unforeseen event, Alaska's economy should continue on a path of slow, steady employment growth during 1993 and 1994. The best description of the next two years is unusual stability. Nothing is on the horizon to send the economy headed wildly in one direction or the other; however that in itself may be cause for concern. History shows that when Alaska's economy is getting predictable, some incident occurs and changes the complexion of the economy overnight.

The 1993-94 employment forecast reflects the recent history of Alaska's economy. (See Figure 1.) Employment grew 2.0% in 1991, followed by 1.8% in 1992. Growth for the next two years is in that range, although its composition will change somewhat. The retail expansion which began in late 1991 will continue to be a source of job gains. Transportation, a surging industry in the early 90s, will fall back. In its place, construction will be more active. Alaska's mining industry will experience contractions, but services and manufacturing should offset those losses and help fuel an overall job increase. (See Table 1.)

Retailers will grab the headlines

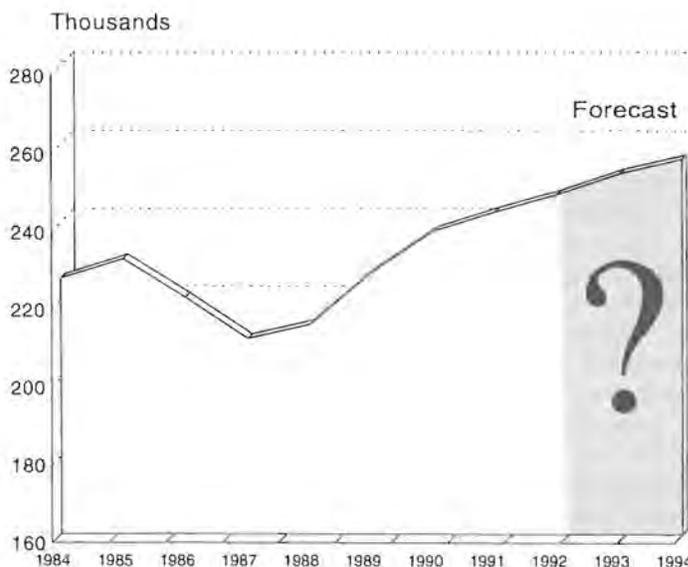
The phrase *Grand Opening* will be heard in every urban center of Alaska during the next two years. In 1991, retailers began what has turned into a stampede of expansion

in the 49th state. It began with new Sears and Fred Meyer stores in Fairbanks, and continued with the opening of Costco and Eagle Hardware stores in Anchorage and Pace Warehouse in Fairbanks last year. In the next two years Kmart and Wal-Mart, the nation's two largest retailers, will become significant players in Alaska's retail sector when they open new stores around the state. Costco, Fred Meyer and Pace are planning on adding more new stores. Meanwhile, long-time Alaskan retailers are grabbing for their share of the action. Alaska's largest private sector employer, Carr-Gottstein, has steadily expanded the last several years. The purchase of Alaska Commercial Company (A.C.), the dominant retailer in rural Alaska, by Canada's North West Company will bring a round of retail

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Figure • 1

Alaska Annual Nonagricultural Wage & Salary Employment 1984-1994



Source: Alaska Department of Labor, Research & Analysis Section.

Table 1

Alaska Nonagricultural Wage & Salary Employment Forecast 1993-1994

	1991 Annual Average	1992 Annual Average	Percent Change 91-92	1993 Annual Average	Absolute Change 92-93	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94
Nonag. Wage and Salary	242,800	247,200	1.8	252,500	5,300	2.1	256,300	3,800	1.5
Goods-producing	40,300	38,900	-3.5	40,100	1,200	3.1	40,175	75	0.2
Mining	11,900	10,600	-10.9	10,300	-300	-2.8	10,000	-300	-2.9
Construction	10,400	10,300	-1.0	11,350	1,050	10.2	11,300	-50	-0.4
Manufacturing	18,000	18,000	0.0	18,450	450	2.5	18,875	425	2.3
Seafood Processing	10,600	11,200	5.7	11,600	400	3.6	11,900	300	2.6
Lumber & Wood Products	2,600	2,400	-7.7	2,525	125	5.2	2,650	125	5.0
Service-producing	202,500	208,300	2.9	212,400	4,100	2.0	216,125	3,725	1.8
Transportation	21,800	22,600	3.7	23,000	400	1.8	23,100	100	0.4
Trade	46,800	47,900	2.4	49,000	1,100	2.3	50,500	1,500	3.1
Wholesale Trade	7,800	7,900	1.3	7,900	0	0.0	7,900	0	0.0
Retail Trade	39,000	40,000	2.6	41,100	1,100	2.8	42,600	1,500	3.6
Finance-Ins. & Real Estate	10,600	10,700	0.9	10,825	125	1.2	10,925	100	0.9
Services & Misc.	51,700	53,700	3.9	55,900	2,200	4.1	57,800	1,900	3.4
Government	71,600	73,300	2.4	73,675	375	0.5	73,800	125	0.2
Federal	18,900	19,600	3.7	19,650	50	0.3	19,500	-150	-0.8
State	21,400	21,600	0.9	21,400	-200	-0.9	21,200	-200	-0.9
Local	31,300	32,200	2.9	32,625	425	1.3	33,100	475	1.5

Source: Alaska Department of Labor, Research and Analysis Section.

development in Alaska's outlying areas. During the next five years they plan to open or acquire 32 stores in rural Alaska. All of these events cast the retail sector as a source of tremendous job growth during the next two years.

The rush to build up Alaska's retail sector is reminiscent of the period immediately prior to the recession of the mid-80s. For those with long memories, there is concern that all of the planned retail expansion won't materialize or that if it does a shakeout in the retail sector is inevitable. Given the somewhat sluggish performance of the economy and the fact that personal income growth has been even slower, there are valid reasons for concern. On the other hand, Alaskans have some of the highest average disposable incomes in the nation and they tend to purchase a larger than average share of goods through mail order outlets. An indication of the evolving face of Alaska retailing was the announcement that Sears was closing all of its catalog outlets in Southeast

Alaska in the same year that Kmart and Costco are entering the Juneau market.

Commercial, public sector push construction ahead

After two years of no growth, Alaska's construction sector should rebound with a vengeance in the next two years. One reason for the renewal is the projected retail growth. Nearly all of the planned retail expansions require construction of a new facility, which adds up to the most commercial construction activity since the construction boom in the early 80s. Other commercial construction projects will add to the fray. The largest of these is the 300-room hotel near Alyeska. Also contributing will be the new Alaska Native Medical Center in Anchorage and a host of other construction projects in Alaska's largest city.

While the private sector will make a healthy contribution to construction, public sector

spending will also spur growth. The amount to be spent is uncertain, but there is a move to put together a public construction package with the \$680 million in settlement monies the state will receive from British and Phillips Petroleum. Also of note is the \$177 million in school construction bonds up for approval in Anchorage. If the Anchorage bonds pass, and they are combined with a healthy highway construction budget, a public facilities spending package and the planned commercial activity, the construction industry will see its best year since 1986.

GHX-2 will slow mining tailspin

The largest construction project in the state during the next two years will be the North Slope megaproject GHX-2. This \$1.5 billion dollar project will employ hundreds of workers to construct the second phase of a gas handling facility at Prudhoe Bay. One nuance of this project is that most of the employment impacts of GHX-2 will show up as oil and gas industry employment since oil field services firms will be the prime contractors involved. GHX-2, combined with increased exploration and development activity on the North Slope and Cook Inlet, should help stem the tide of employment losses in the mining industry. A turnaround in the oil and gas industry is significant because oil and gas job losses were the single biggest negative in Alaska's economy during 1992.

While oil and gas mining should turn around, the outlook is less optimistic for hard rock mining than at any point in the last five years. The closure of the Green's Creek Mine in April dealt a severe blow to hard rock mining employment and no mine in the development stages looks like it will take its place. There are currently three prospects for large mine operations—AJ and Kensington near Juneau and Fort Knox outside of Fairbanks. Any significant contributions to mining employment growth is likely to occur late in 1994 or in 1995.

Transportation growth will slow

During the last two years, the transportation, communication and utilities sector has been a leading producer of new jobs in Alaska. During the next two years, this industry will fall back as certain sectors struggle with changing conditions. Most notable is the turbulence in the

air transportation sector. Last year commercial airline employment expanded as Alaska's two largest carriers locked in a fare war. By year's end the two carriers announced significant cutbacks as financial losses mounted. Contraction in this sector is likely to continue if the carriers continue to struggle financially. One portion of the air transportation sector which has grown steadily throughout the 90s has been air cargo. This sector began slowing down at the end of 1992, and the outlook is for slower growth during the next two years.

Water transportation will be the most robust sector of the industry during the next two years. The introduction of new retailers, an upturn in the construction industry, and the largest sealift ever to the North Slope all point to bustling times in the water transportation industry. The tourism-related sectors of transportation will also continue to grow. Firms providing bus and ground transportation and flightseeing operations should grow in response to an increasing number of tourists. The communications and utilities portion of the industry should also experience some modest growth, primarily due to population increases. One transportation sector that will contract is pipeline transportation of oil. Alyeska Pipeline has indicated they will substantially reduce their work force during the next several years.

Fish gains help manufacturing overcome plant closures

Despite the closure of three sawmills and the Anchorage Times during 1991 and 1992, Alaska's manufacturing industry posted small employment gains because of a strong performance in the seafood industry. The outlook for Alaska manufacturing continues to be mixed. Some segments of the timber industry are showing signs of rebounding and seafood processing should continue to roll along.

One reason for optimism in the manufacturing industry is that the sawmill portion of the timber industry is showing signs of life after a three year slide. The reopening of the Seward sawmill indicated better times in this sector. Finished timber product prices have rebounded significantly in the last year. One reason for the price increase has been demand placed on construction grade timber by the rebuilding of Florida following Hurricane Andrew. This dramatic runup in prices is probably a temporary

phenomenon but supply problems due to less available timber will help keep finished product prices high.

On the other hand, lack of timber supply was credited as the main reason for the recent announcement by Ketchikan Pulp that they would shut down their pulp mill temporarily and idle more than 300 workers. While the announcement was for a temporary shutdown, Ketchikan Pulp has indicated that they would not bring the plant back up to full staff when it reopened. A permanent shutdown would negate any gains the manufacturing industry is forecast to see.

While Alaska's timber industry is an important ingredient to any growth, the forecast depends on a steady performance from Alaska's fishing industry. Bottomfish and shellfish employment have boosted wintertime seafood employment levels to all-time highs and been the impetus for most of the industry's growth. Recent signs of strain on the fishery, like the smaller average size of pollock this winter, are a cause for concern, but the allocation of a significant portion of the catch to shore-based processors should help boost seafood processing employment counts. This assumes that Alaska's salmon fishery remains relatively constant during the next two years.

Services sector will be among growth leaders

The pacesetters for growth in the services sector the last several years have been tourism-related businesses and the health care sector. With one new hotel coming on line during the forecast period and another under construction, there likely will be continued growth in this tourism-related sector. Health care services, on the other hand, will slow its torrid growth pace of the past several years. While the national agenda to attack health care costs is one reason for curbing health care growth projections, demographics will continue to play a part in the industry's growth. The elderly are Alaska's fastest growing population segment and they use more health care services than younger population groups. Aside from tourism and health care, another factor in services growth will be the revival of Alas-

ka's construction sector. Professional services such as architects, engineers and surveyors will be in demand during the next two years as the construction sector rebounds.

Finance, government sectors will hold steady

The finance-insurance and real estate portion of the economy will experience little change in the next two years. Alaska's banking sector is very healthy, with even the smallest institution posting profits. On the other hand, any growth is likely to be slow since memories of the disastrous free-spending 1980s are still fresh. Most segments of the real estate and insurance sectors are expected to perform along the same lines with slow, steady growth.

Government employment will hold steady during the next two years with the exception of education-related local government employment. School districts across the state, particularly in urban areas, are being hit by an increasing number of school age children. The pressure to add facilities and staff has been tremendous and this trend should continue in the near term. Most other segments of government, whether it be federal, state or local, are facing fiscal constraints which will keep them from growing.

Jokers in the deck?

Speculating on events that could throw a monkey wrench into this forecast is somewhat risky, but given history and what's known today here's a "best guess" at what could change the overall outlook. First, an extraordinary event which affects world oil prices or Alaskan oil production would have substantial employment impacts. A runup in oil prices or a series of significant oil discoveries would notably brighten the outlook.

Another possibility is that the national administration's plans for military cutbacks could affect Alaska to a greater extent than currently anticipated. Closure of one of Alaska's major military bases could send a severe shiver through the Alaskan economy. On the other hand, an expanded military presence is possible if Alaska's strategic importance increases as a result of military downsizing.

Continued financial struggle of Alaska's two largest air carriers is also a potential concern; if one of the carriers is forced to pull back significantly that would have major employment impacts. A permanent pulp mill closure, or crash in either the bottomfish or salmon fishery, would gut any projected manufacturing employment gains.

Summary: Steady growth, but watch for wild cards

The 1993-94 employment forecast calls for continued slow, steady growth. Growth for

both years is expected to be around 2.0%. The retail and services sector will lead the economy, with a healthy rebound in construction making a significant contribution. If projections come to pass, by 1994 Alaska will be on its seventh consecutive year of employment growth, and its fourth year of slow, steady growth. If anything is suspect about this forecast, it's that periods of extended economic calm are unusual in Alaska's recent history. So while Alaska's economy is relatively predictable at the moment, it wouldn't be too surprising if some unforeseen economic wild card changes Alaska's economic landscape.

ALASKA FORECAST 1993-94:

Anchorage Economy: Slow Growth Ahead

by Neal Fried

The Anchorage economy is projected to grow during the next two years. This is no small feat given all the negative news that dominated the economic landscape over the past year. The picture will, however, be uneven. Some industries, such as retail trade and construction, should enjoy solid gains. At the same time it is anticipated that big employers in air transportation and state government will experience losses. For most of the city's industries growth will be modest.

The job growth rate for the next two years is not unlike the past two, when the growth rate was under 2%. For 1993 and 1994 the rates are forecast at 1.9% and 1.0% respectively. (See Table 1.) After two years of 4+% growth in 1989-1990, Anchorage has settled into a period of temperate increases.

3,300 new jobs to be created

If the forecast unfolds as predicted, 2,200 new jobs will be created in 1993 and 1,100 jobs in

1994. Retail trade will lead the way as several national retailers open their doors in Anchorage. The forecast is also banking on construction to contribute to this expanding job base. Another important contributor to Anchorage's employment growth will come from services, with health and engineering services most likely leading the way.

Just as important to the accuracy of the forecast are the industries that are placing restraints on the economy. They include the state and federal governments and air transportation. Unlike past years when these industries were important in carrying the economy forward, all of these players are predicted to either decline or remain flat. Manufacturing is another weak economic link because of the Anchorage Times closure. Since the paper closed in mid-1992, its impact on the employment numbers will remain a negative during the first half of 1993.

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Table 1

**Municipality of Anchorage Nonagricultural Wage & Salary
Employment Forecast 1993-1994**

	1991 Annual Average	1992 Annual Average	Percent Change 91-92	1993 Annual Average	Absolute Change 92-93	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94
Nonag. Wage and Salary	112,500	114,200	1.5	116,400	2,200	1.9	117,500	1,100	0.9
Goods-producing	12,100	11,000	-9.1	11,300	300	2.7	11,700	400	3.5
Mining	4,000	3,500	-12.5	3,400	-100	-2.9	3,300	-100	-2.9
Construction	5,600	5,400	-3.6	6,000	600	11.1	6,400	400	6.7
Manufacturing	2,600	2,100	-19.2	1,900	-200	-9.5	2,000	100	5.3
Service-producing	100,400	103,200	2.8	105,100	1,900	1.8	105,900	800	0.8
Transportation	11,900	12,200	2.5	12,200	0	0.0	12,000	-200	-1.6
Trade	26,000	26,300	1.2	27,000	700	2.7	27,700	700	2.6
Wholesale Trade	5,700	5,700	0.0	5,700	0	0.0	5,600	-100	-1.8
Retail Trade	20,300	20,600	1.5	21,300	700	3.4	22,100	800	3.8
Finance-Ins. & Real Estate	6,600	6,600	0.0	6,700	100	1.5	6,700	0	0.0
Services & Misc.	28,700	29,900	4.2	30,600	700	2.3	31,000	400	1.3
Government	27,300	28,300	3.7	28,600	300	1.1	28,500	-100	-0.3
Federal	10,700	11,200	4.7	11,300	100	0.9	11,200	-100	-0.9
State	7,900	8,000	1.3	7,900	-100	-1.2	7,800	-100	-1.3
Local	8,700	9,100	4.6	9,400	300	3.3	9,500	100	1.1

Source: Alaska Department of Labor, Research and Analysis Section.

Income, wage growth will lag

Although employment is predicted to increase, income and wage growth will be more difficult to sustain. This is because the expansion of employment is dependent on the industry with the lowest average monthly wage—retail trade. Construction's employment increases, with its above-average wages, might help offset retail's low wages. But an absence of growth in most of the other above average basic sector wage industries—such as state and federal government and the oil industry—gains in wages and income will be tough to accomplish.

Busy construction season to boost economy

After many years of sub-par performance this year's construction season will provide a significant kick to Anchorage's economy. In 1993 private sector construction activity will enjoy its best year since 1985. The premier single performer will be the Seibu resort project in

Girdwood. Construction of the new 300-room hotel, tramway and mountaintop restaurant is in full swing. The construction work force should peak later this season at nearly 200. Construction is anticipated to be completed in mid-1994.

The largest source of new commercial activity will be building the facilities to house the avalanche of new retailers entering the Anchorage market. The stores that will be built in 1993 are: a new Fred Meyer, expansion of an existing Fred Meyer, a Kmart, a Pace Warehouse, and expansion of Sears. Construction of new Wal-Marts and others is expected to begin in 1993.

After many dormant years, new commercial office space will give construction a boost in 1993. Providence Hospital is building a new \$11 million office tower. In addition to the office complex, the hospital plans to remain busy in 1994 as they spend \$12 million to renovate one wing. On the industrial side, the

biggest project is construction of the new \$29 million Federal Express maintenance hangar. It is slated to be completed by mid-1994.

On the public side, the crown jewel and the biggest building project in Anchorage will be the new \$92 million Alaska Native Medical Center and Hospital. This project will break ground in April of this year and will last through most of 1995. Another sizeable public project will be the construction of a \$35 million State Court House tower. The biggest unknown and potentially the largest boost to the industry may come from the \$177 million worth of new school construction and major renovations. Its fate will depend on whether Anchorage voters approve the school bond issues in April and what happens to various bills pending in the legislature dealing with public construction funding. Most of this construction activity would not begin to hit the street until 1994.

Highway construction activity in the region is expected to be similar to last year's levels. If the President's infrastructure package is passed by Congress, highway construction could get an extra boost. The big projects include the near completion of the four-lane highway to Palmer, a \$12 million International Airport Rd.-Minnesota Rd. project and the start of some major work on the Seward Highway.

Residential building activity will remain the weak link in the industry. This element of the construction industry has been stuck in low gear and not much change is expected for 1993-94. Builders are predicting they will construct 650-700 new homes in Anchorage in 1993. At least 82 of these new units will be multi-

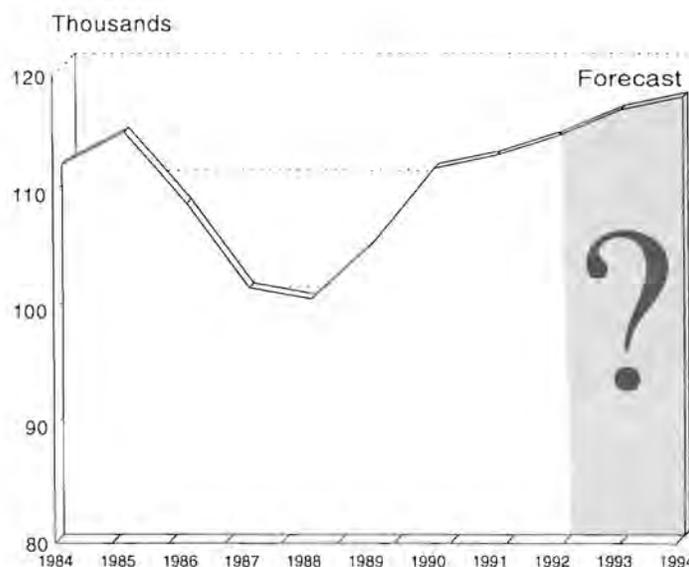
family. A new \$10 million multi-family subsidized low-income project will be built in 1993, the biggest multi-family project in many years. It does not, however, signal a new trend in the mix of residential construction. According to most builders and bankers, rents have not yet risen high enough for conventionally financed multi-family projects to pencil out. In spite of near-record low mortgage costs, factors such as economic uncertainty, sluggish economic and population growth, and high lumber prices will keep a lid on new home construction.

More shopping choices in Anchorage

During the next two years Anchorage will become home to a half dozen or more new national retailers. At last count the new additions include two Kmart's, two Wal-Mart's, a Fred Meyer, and a Pace Warehouse. Expansion of existing retail space is also underway. Most of the employment impact of these retailers will be felt in 1994. This is because most of these stores will not open their doors until late 1993 or in 1994. Nevertheless, some impact is already being felt. The new Costco and Eagle Hardware stores, which opened their doors in

Figure • 1

Municipality of Anchorage Annual Nonagricultural Wage & Salary Employment 1984-1994



Source: Alaska Department of Labor, Research & Analysis Section.

late 1992, will boost 1993 retail employment levels by approximately 350.

It is important to keep in mind that one can't simply tally up the employment of these new retailers, add them to existing retail employment and come up with a new level of employment for the industry. If this were the case, retail trade would climb more than 1,500 jobs. Given the present sluggish retail market, the net impact is forecast to be somewhat smaller. As these new players open their doors, existing retailers will be retrenching; some might even close up shop. It is also significant that the retail expansion is occurring around the state. Anchorage's historical role as the retail center in the state could be somewhat diminished. Consumers on the Kenai Peninsula, the Interior, Juneau and elsewhere will not have to rely on Anchorage retailers as much as they did in the past.

Oil industry outlook firms up

After a turbulent year of consolidation and downsizing it appears the oil industry will land on a bit firmer ground for the next year or two. In mid-1992 the outlook was quite different. Led by British Petroleum, every major employer in the industry was in some kind of downsizing mode.

By the end of the year better news was coming out of the oil patch. Both Atlantic Richfield (ARCO) and British Petroleum announced more aggressive exploration programs for the next year. Unocal is boosting its production by reworking many of its wells in Cook Inlet. ARCO announced a new commercial find in Cook Inlet and possible new commercial finds on the North Slope. In addition to this activity, Point McIntyre will be brought on line later this year. The \$1.5 billion gas-handling project (GHX-2) on the North Slope will help keep it a busy place during the next two years. Because all of these companies are headquartered in Anchorage, this increased activity will help stave off the steep declines experienced in 1992.

One negative in the oil patch in 1993-1994 is Alyeska Pipeline Service Company's plan to substantially reduce its work force and contractors. The reason is the declining flow of North Slope oil. None of this decline will be

counted in the oil industry since Alyeska is designated as a transportation company.

Respectable tourism season presumed

By most accounts the 1993 visitor season will at least meet last year's levels and possibly exceed them. The national economy is recovering. Cruise ships with larger capacities will be crossing the Gulf of Alaska. Most of these visitors will make their way to Anchorage. The number of international air charters will increase. Additionally, the number of independent visitors is climbing, and Anchorage is most often used as the launching pad for their visits. Most other indicators such as early bookings are pointing to a respectable tourist season for the state's largest city in 1993.

Military remains a wild card

A sigh of relief could be heard around Anchorage when neither of its military bases appeared on the latest base closure list. However, troop reductions will not leave Anchorage unscathed. The 2,800 troops cut from the 6th Infantry Division (Light) will affect troop levels in Anchorage. The naval drawdown of 75% of its sailors at Adak Naval Air station will also be felt in Anchorage. Although this naval base is 1,200 miles away, many of its supplies and services come out of Anchorage. Other smaller bases may also be closed around the state during the next two years. The Air Force is expected to offer another "voluntary separation incentive" program sometime this spring. Nearly all defense cutbacks around the state will be felt to some degree in Anchorage. The future size of the military presence in the state remains unknown. Therefore, it will persist as a major source of economic uncertainty in Anchorage in the coming years.

Public sector will do little

During the last two years the public sector added 1,400 jobs to the Anchorage economy. All three levels of government contributed. This will not be true in the future.

The federal government has lost its impetus for growth because of the impending downsizing of the military and other deficit reduction efforts. Given the size of the troop reduction efforts, one is hard pressed not to forecast

some reduction for the civilian work force in the military. One possible source of growth in the federal sector could come if the Environmental Protection Agency creates a new region for Alaska. If this does occur, though, it is not likely to happen during this forecast period.

At the state level the picture is no more rosy. State government employment levels are already declining. This trend is not expected to change, given the present directives from the legislature and the governor's office.

For local government the picture could be slightly different. Small reductions at the Municipality will likely continue. These small declines should be offset by increases at the school district because enrollments are projected to climb. Their increases, more moderate than during the past two years, will still be large enough to keep local government employment positive.

Air transportation remains grounded

After three years of strong growth, air transportation will be lucky to maintain its present employment levels. Led by an expansion in international cargo traffic and a surge in domestic airline growth, air transportation was for years one of Anchorage's star performers. Now both of these sources of growth have evaporated. International air cargo could possibly surge again when the Japanese economy begins to recover. But the domestic airline scene is only expected to get worse. Nearly all of Alaska's domestic carriers are losing money and are therefore in the downsizing mode. If any of the state's major carriers close their doors, the employment numbers in this industry will quickly turn negative.

"Good jobs" to remain scarce

The tight job market of the past two years is not expected to change much in the upcoming

two years. Stronger employment growth than predicted is needed to cause a significant improvement in the job market. In industries such as retail trade there will be plenty of jobs, but many of them will be part-time and low-wage. For those job seekers with skills in the various construction trades and crafts opportunities will be better. In most other industries new opportunities will be more scarce. The national employment picture remains tenuous, which may mean Alaska will continue to be a beacon for job seekers in the Lower 48.

Summary: Moderate growth

For the next two years Anchorage's employment base is forecast to expand moderately—much like it has during the past two years. By the end of 1994 Anchorage's economy should be 3,300 jobs richer.

Retail trade is predicted to lead the growth as a legion of national retailers open their doors for business in late 1993 and 1994. The forecast is also banking on a strong showing from the construction industry. This year should be the strongest construction season in seven years. Other industries, such as services and tourism, will keep Anchorage's employment picture on the plus side.

There is a downside to this forecast. Many of Anchorage's past contributors to employment growth will act as a drag on the economy. Federal and state government and air transportation will either lose ground or remain stagnant. The oil industry will also fail to contribute to Anchorage's economic growth. Although Anchorage's military bases escaped the closure lists, there will be troop reductions.

The job market will remain relatively competitive. Although the job base is expanding, it is not robust enough to effectively cause the unemployment rate to fall much. Translated, this means there will still be more job seekers than there are jobs in the foreseeable future.

Continued Job Expansion on Horizon for Fairbanks

by Holly Stinson

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The employment forecast for Fairbanks calls for job growth over the next two years at a moderate rate of just under 2% a year. Last year's employment surge was spread across every sector of Fairbanks' economy. The outlook for the next two years has two differences—the growth is forecast to occur at a slower pace and be more limited in scope. Also, most of the new jobs will not be in those industries with the strongest growth last year—mining, construction, and the general merchandise portion of retail trade.

New choices in retail and services

The growth in retail trade is not over yet, though. In late 1992 Pace Warehouse opened, and this additional employment is one reason the retail sector should continue expanding in 1993. The opening of Kmart late in 1993 should further boost retail employment in 1994. The jobs generated when these stores open, however, does not translate into a total gain in the trade sector. Slight gains in other retail arenas—such as eating and drinking establishments—and the absence of further job losses in others add up to the overall forecast of 150 additional jobs in 1993 and another 100 in 1994.

Retail stores will not be the only establishments in Fairbanks to open new doors in 1993. A new hotel is one reason services employment is forecast to grow by 200 in 1993. The Fairbanks Princess Hotel will open in May, creating 125 jobs during the summer months and about half that amount during the winter. In addition to increasing the number of local hotel rooms by 200, the hotel will have restaurants and convention facilities available year round for use by local residents. A second new hotel is a possibility for construction in 1994. The Alaska Railroad is entertaining proposals for a facility in Fairbanks similar to their new Comfort Inn in Anchorage.

An employer in the health services category also will open a new facility in 1993. The Denali Center will open a new long-term nursing care home by December of 1993. While construction of the center created construction jobs, operation of it will not entail any additional employment.

Fewer construction projects in Fairbanks' future

Completion of the Denali Center, along with an end to the construction phase of the many new retail stores in Fairbanks, was considered when forecasting construction employment. The largest negative for this industry in Fairbanks is the lack of major military construction projects.

At Fort Wainwright the army is spending only \$4.5 million on construction in 1993, and no money in 1994. This compares to construction projects in the tens of millions in past years to accommodate the 6th Infantry Division (Light). With the Pentagon's recent announcement that it is downsizing this Division to a brigade, 2,800 troops will be lost. How many of the troop cuts will be at Fort Wainwright and how many at Fort Richardson in Anchorage is still unknown.

The other unknown is to what extent their absence will be felt in the local economy. Many 6th Infantry troops are single and live on base. Their departure will have less of an impact on the local economy than if the same number of troops took families with them and left behind empty houses or apartments in the Fairbanks real estate market. Still, Fort Wainwright's impact on the Fairbanks economy will diminish to some extent as troops leave.

At Eielson Air Force Base most of the facilities for the Cope Thunder pilot training program have already been completed. Housing for the

3,000 staff who will be training at Eielson each summer will be completed this year. Although the Cope Thunder program brought in a few hundred new positions, it was not enough to offset those lost when the 6th Reconnaissance Wing was relocated out of state. The number of military personnel stationed at Eielson dropped below 3,000 for the first time since 1981. Besides losing close to 500 uniformed personnel, there was a net decrease of 1,000 family members. Even with the decline in military personnel, there is still a waiting list for on-base housing and one large (366 unit) housing project is slated to begin by June 1993.

At the University of Alaska, the major construction project is a new \$24 million science building. The local school district is finishing an elementary school on Fort Wainwright that will open in September 1993. No school construction is planned for 1994; this will be the first time in five years that no new school will be under construction. This could change quickly, however, if money is allocated for local school construction or rehabilitation from recent tax settlements with two oil companies.

One large project, although outside the Borough, may employ Fairbanks construction workers. The Healy Clean Coal Project recently received required permits to allow some construction to begin in 1993. The biggest years for construction will be 1994 and 1995 when 200 year-round jobs will be created. Although the price tag for the total project is \$190 million, much of that is for equipment; the amount pegged for construction is approximately \$60 million.

New gold mines in more distant future

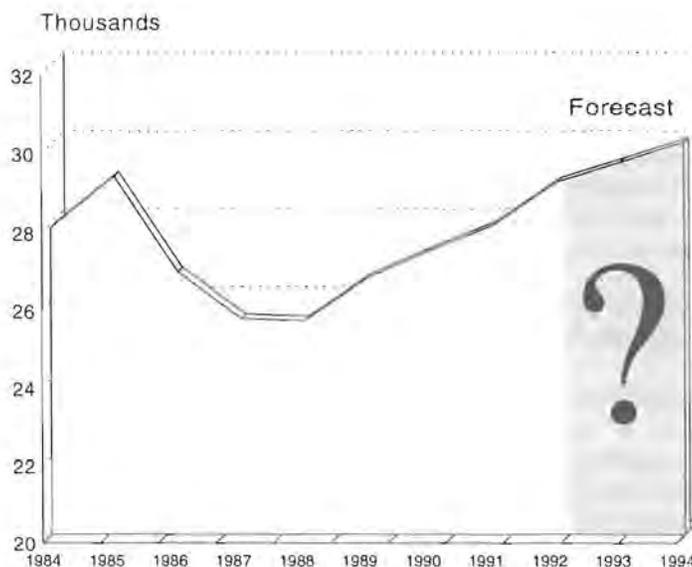
Another project is still waiting for the necessary permits before going ahead. For now, Amax Gold has put development of their Fort Knox mine on hold; even the construction phase is not figured into this forecast. Another potential mine project, Citigold's operation at Ester Dome, is not slated for construction until 1995 at the earliest. Maintenance jobs for the trans-Alaska pipeline are also counted in the mining category. With no extraordinary projects scheduled, total mining employment is forecast to remain steady in 1993 and increase slightly in 1994 as operators of the potential hard rock mines add staff.

Slight change in transportation jobs

In the transportation, communication, and utilities (TCU) sector very small increases are forecast. The Fairbanks International Airport, which in the past has been successful in convincing new air cargo carriers to refuel there, does not anticipate any additional carriers in the next two years. Assuming that all the

Figure • 1

Fairbanks North Star Borough Annual Nonagricultural Wage & Salary Employment 1984-1994



Source: Alaska Department of Labor, Research & Analysis Section.

Table • 1

Fairbanks North Star Borough Nonagricultural Wage & Salary Employment Forecast 1993-1994

	1991 Annual Average	1992 Annual Average	Percent Change 91-92	1993 Annual Average	Absolute Change 92-93	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94
Total Nonag. Wage & Salary	27,950	29,050	3.9	29,550	450	1.7	30,075	525	1.8
Goods Producing	2,350	2,650	12.8	2,600	-50	-1.9	2,625	25	1.0
Mining	350	500	42.9	500	0	0.0	550	50	10.0
Construction	1,350	1,500	11.1	1,450	-50	-3.3	1,400	-50	-3.4
Manufacturing	600	650	8.3	650	0	0.0	675	25	3.8
Services Producing	25,650	26,400	2.9	26,950	500	2.1	27,450	500	1.9
Transportation	2,000	2,050	2.5	2,100	50	2.4	2,125	25	1.2
Trade	6,400	6,550	2.3	6,700	150	2.3	6,825	125	1.9
Wholesale Trade	800	800	0.0	800	0	0.0	825	25	3.1
Retail Trade	5,600	5,750	2.7	5,900	150	2.6	6,000	100	1.7
Finance-Ins. & Real Estate	1,000	1,050	5.0	1,050	0	0.0	1,100	50	4.8
Services & Misc.	6,150	6,400	4.1	6,600	200	3.1	6,800	200	3.0
Government	10,100	10,400	3.0	10,500	100	1.0	10,600	100	1.0
Federal	3,200	3,250	1.6	3,275	25	0.8	3,300	25	0.8
State	4,100	4,300	4.9	4,350	50	1.2	4,400	50	1.1
Local	2,800	2,850	1.8	2,875	25	0.9	2,900	25	0.9

Source: Alaska Department of Labor, Research and Analysis Section.

current cargo and passenger services remain, air transportation jobs should remain steady during the forecast period.

Employment with Alyeska Pipeline is counted in this industry, and they do not envision changes in the number of Fairbanks jobs over the next two years. The addition of a communications operator at the Cope Thunder Air Force training facility will mean a slight increase in employment for the TCU industry, and the possibility of a further boost from increased tour bus employment also exists.

Employment in public sector should inch upward

The forecast calls for tiny increases in public sector jobs at all levels—federal, state and local. On the federal side, civilian employment at the bases near Fairbanks will do well to hold steady, given the downsizing of the 6th Infantry Division (Light) and the smaller force at

the air base. Other federal agencies could add a few jobs, at best.

This forecast anticipates a steady state work force with at most a 1% increase in employment. The annual question mark for state agency employment is what the legislature and governor will approve for an operating budget. Absent a considerable cut in the operating budget, state jobs should remain near current levels. The last two fire seasons were unusually quiet; a return to a more typical one could boost state employment. The boost would be quite small, however, taken on an annual average basis.

The University of Alaska's budget is also uncertain at this time. Even though enrollment continues to climb, the school is utilizing more part-time, contract staff and has instituted a hiring review before any position is filled. The federal government is funding the \$25 million "supercomputer" project at the University, but

to date staff have transferred internally to fill new positions for this project. Altogether, 50 new jobs—with the University and all other state agencies—are forecast for each of the next two years.

Local government entities are struggling with budget shortfalls, increased demand for services, and higher school enrollment. Very small increases are forecast for both educational and other local government agencies. The current average student:teacher ratio of 23.5:1 allows for some increase in enrollment without necessitating a corresponding increase in teaching staff. Again depending on funding, the Fairbanks North Star Borough school district may hire up to 20 additional staff for the new elementary school opening in September 1993. Other local governments may find funding for a few additional staff to serve the needs of the Borough's rising population. Given current budget deficits, though, the forecast of 25 new local jobs a year is optimistic.

Summary: Upward trend continues in 1993 and 1994

The upward trend of employment in Fairbanks is forecast to continue at close to 2% a year for 1993 and 1994. The growth will not come from sectors that enjoyed the strongest growth last year, however, except for retail trade. A full year of new jobs at the recently-opened Pace Warehouse, plus the opening of a Kmart, will keep retail employment growing. The absence of job losses in other categories of retail trade will help this industry.

Also opening in 1993 is the new Princess Hotel, which will be a big contributor to the services industry's forecast gain. Slight gains are forecast for the transportation industry and the public sector. This assumes little or no change in air cargo and passenger operations and a state operating budget similar to the current one.

The impact of potential gold mines at Fort Knox and Ester Dome are not included in this forecast. Both developments, if they come about, are out of this forecast's time frame. Construction at Healy on the Clean Coal Project may mean jobs for some Fairbanks workers in 1993 and 1994.

The largest negative in the local construction scene is the absence of the major military projects of past years. The Cope Thunder pilot training facility will mean some construction at Eielson. And a 366-unit housing project should get underway there by June 1993. Still, the base now has 1,500 fewer military (including families) than in the past. The number of troops at Fort Wainwright will shrink in 1993 as the 6th Infantry division (Light) is downsized to a brigade. And virtually no construction will be going on there in the next two years. The impact of the military—both army and air force—on Fairbanks' economy will diminish somewhat in the future.

In spite of new stores, tourist facilities and potential gold mines, Fairbanks' future remains intimately linked with the federal and state operations within the Borough. If drastic changes occur in either, the forecast of 450 new jobs in 1993 and 525 in 1994 also will change.

Slow, Uneven Growth Ahead for Southeast

by Tom Lane

Tom Lane is a labor economist with the Research & Analysis Section, Administrative Services Division, Alaska Department of Labor. He is located in Juneau.

The recent pattern of slow growth in Southeast employment will probably continue in the near future. Two major setbacks, both occurring in April, will dampen expansion, particularly in 1993: the closure of the Greens Creek silver mine near Juneau and cutbacks at the pulp mill in Ketchikan. Other industries should take up the slack and provide a small overall gain. (Further cutbacks in pulp mill employment are possible, however.) The job growth forecast for Southeast is small (only 0.5% for 1993 and 1.6% for 1994) but consistent with recent history: annual average employment declined slightly between 1990 and 1991 and grew only 1.6% between 1991 and 1992.

Low metal prices hurt mining

The mining industry, until now dominated by the Greens Creek mine outside Juneau, has been a stable and well-paying employer in the last few years. Nevertheless, weak metal prices led the mine's operators to announce that it would essentially shut down in April and lay off more than 200 employees. The owners say operations will resume when metal prices improve, perhaps as early as 1994. The forecast assumes a closure through 1994, however.

A big question is whether Echo Bay's proposed AJ and Kensington gold mines in Juneau will fill the void. The company will accelerate an exploratory project at the AJ and employ 25 new people in April. Several permits are still needed for both mines: the forecast assumes that while major construction will not begin in earnest, employment will expand somewhat by 1994. Prices for gold, as for other metals, are low, but Echo Bay says the mines can operate profitably. One factor keeping prices down is low inflation--gold tends to do well when inflation is high. South Africa recently devalued its currency, reducing its production costs in dollar terms and placing more downward pressure on gold prices. The political climates in the two major producers, South

Africa and Russia, however, are volatile and future developments affecting supply in either could quickly increase or decrease prices.

Construction employment looks solid

The construction industry, with employment near the seven-year high in 1992, should do well during the forecast period. Major capital projects on line include: water and sewer projects in Haines, Petersburg, Juneau, Sitka and Craig; the Mount Roberts marina, and a middle school in Juneau; completion of the Southeast Visitor Information Center and high school remodeling projects in Ketchikan, the ferry terminal and Tongass Highway reconstructions and a new shopping center in Ketchikan; and post office renovations and multi-purpose classroom expansion in Sitka. In addition, Costco and Kmart will construct their retail outlets in Juneau. Housing is chronically short in Southeast communities and new residential developments are expected in the larger communities. Forty-five low-income units will be built in Juneau this year. Sheldon Jackson College in Sitka will construct another 45 residential units. As many as 150 more units in Sitka (and a similar amount in Ketchikan), could be built over the forecast period. The mine closure and pulp mill cutbacks could dampen residential development in Juneau and Ketchikan, however.

Lumber prices high, pulp low

Reflecting supply and pricing problems in the industry, the Ketchikan pulp mill announced it will operate at reduced capacity after shutting down for a month. (The Sitka mill will shut down for several weeks but will reopen at full strength.) Current economics for pulp and lumber differ considerably. Lumber prices are high, but the world market for dissolving pulp (the nonpaper type produced in Ketchikan and Sitka) is weak and competitive. Prices are low because of recession, turmoil within the

former Soviet Union (affecting pulp consumption more than production), and competition from plants in South Africa, South America and elsewhere.

The demand for lumber is intense. The spotted owl, poor weather, tariffs on Canadian products, reconstruction in hurricane-damaged Florida, and the general upturn in housing starts have all been credited for the price increases. The pulp mills, because of their associated sawmills in Ketchikan, Metlakatla and Wrangell, have some limited ability to shift production from pulp to sawn products, although timber supply is a bottleneck for both sides of the industry. Long-term contracts with the U.S. Forest Service (USFS) provide most but not all of the mills' needs and the mills depend on other, increasingly difficult, sources of supply. The companies are suing the USFS over changes in the operation of the contracts and the national administration wants to eliminate below-cost USFS timber sales. More stringent environmental standards in the future could adversely affect mill operations. The forecast may be overly optimistic in assuming the pulp mills will obtain a supply of material adequate to maintain a workforce at 85-90% of the level of 1992.

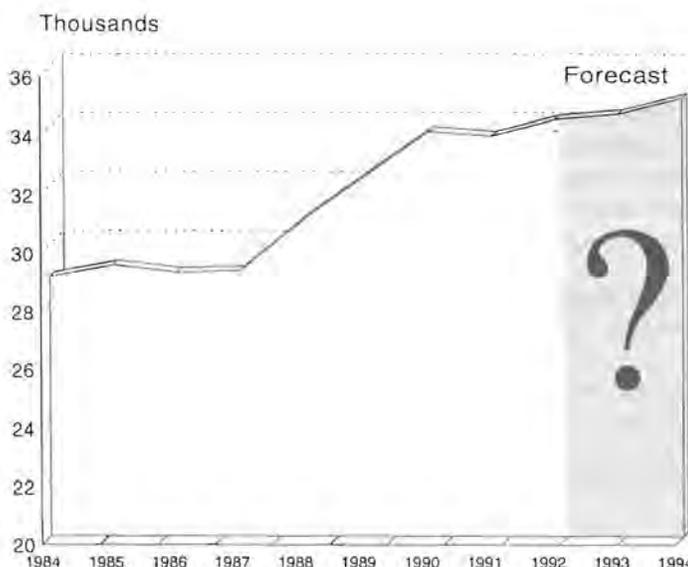
The forecast also assumes that employment in logging and sawmill operations, because of high lumber prices, will strengthen. Native corporations have cut much of their timber, but high prices will encourage the acceleration of remaining cuts. Operating sawmills have been working at higher levels than in the recent past. The supply, however, is limited and the forecast does not include the reopening of the Klawock or Haines sawmills.

Seafood: A risky business; more beer

The direction of the seafood industry is uncertain. Weak pink salmon prices are strengthening somewhat. U.S./Canada treaty quotas and restrictions on Columbia and Snake River salmon limit the troll fishery. Disease has hurt the crab fisheries and herring roe is too abundant for good prices. Seafood demand is currently weak in Japan. U.S. demand is increasing and offers some hope for the future; but a plentiful supply keeps prices down. In the long-term, increased competition (from Russia and Chile in particular) looms. Offshore processors are developing an interest in inshore fisheries and the character of the industry could change. The owners of Wards Cove Packing (with three plants in Southeast) are looking for a buyer, partially because of concerns about the future. Nevertheless, seafood processing employment in Southeast has remained fairly stable and the more value-added portions of the industry are doing fairly well. Taku Smokeries in Juneau, for instance, is expanding this year. Oyster mariculture is becoming a significant activity in rural communities. The forecast

Figure 1

Southeast Annual Nonagricultural Wage & Salary Employment 1984-1994



Source: Alaska Department of Labor, Research & Analysis Section.

assumes employment will remain in the range of 1991 and 1992 levels.

The future looks bright for another (but smaller) food processing industry: Alaska Brewing Company in Juneau is expanding production.

**Tourism: full steam ahead;
transportation: solid**

This season, Princess Cruises will replace two approximately 650-passenger vessels with 1,500-passenger ships. Other lines are adding capacity. The Juneau Visitors Bureau predicts that expanded capacity will bring 300,000 cruise ship passengers to Southeast this year (up 15% from 1992); some industry representatives indicate that bookings are strong. The increase would primarily affect trade and service industries with the greatest impact on Ketchikan, Sitka, Juneau, and Skagway. Other communities are aggressively seeking tourists, especially those looking for different experiences. A small cruise ship visited Kake last year for the first time and the community is now building a guest lodge. More small cruise ships also visited Haines; the community is developing a "Dalton City" tourist attraction at the fairgrounds. Highway traffic will not match that of 1992, the well-publicized fiftieth anniversary of the Alaska Highway.

The forecast expects transportation group employment to drop a little below the unusually high 1992 level before increasing again. Growth in the retail, tourism, lumber, and construction industries should translate into strong transportation employment. Several airlines cut employment last year, but Juneau-based Wings of Alaska just added five new ten-passenger planes to its fleet. CRI Helicopters began operating in 1992 from Ketchikan; most of its activity is logging-related.

**Trade: big changes coming; services
and finance: continued growth**

Two national chains, Costco and Kmart, announced they would open retail stores in Juneau. Plans are for construction of both outlets during the summer, with Costco to open in the

fall and Kmart early next year. On the other hand, Sears Roebuck will end over fifty years of operations in Southeast, closing catalog stores in Sitka, Ketchikan, and Juneau.

Retail employment in Southeast has shown a pattern of steady, strong growth over many years. The new retail outlets in Juneau and the expected increase in cruise ship visitors should help that trend continue. The new stores, however, could harm some existing retailers. Moreover, since the chains will utilize their own distribution systems, existing wholesalers could face difficulties.

Services employment has also grown strongly and consistently in the past and should expand in the forecast period. Some segments will benefit from an increase in cruise ship visitors.

Finance, insurance and real estate is a diverse group of industries, including banks, real estate brokers and many Native corporations. The forecast is for a continuation of the steady employment expansion experienced in recent years.

Government: stable?

Federal government employment increased in 1992, mostly due to Forest Service activities. Some minor cutbacks in Forest Service and Postal Service employment are expected in the forecast period. The direction of state government (including University) employment depends on decisions by the legislature and the governor. The forecast assumes that programs funded with recent tax settlements will counterbalance cutbacks in other programs. Similarly, despite proposed cuts in municipal assistance, the forecast assumes that local government employment will neither decline, nor grow as it has in the past.

Summary: hesitant growth

The Southeast economy is forecast to continue the slow growth of the recent past: adding 175 new jobs in 1993 and another 550 in 1994. Low metal prices forced the closure of the Greens Creek mine and will continue to dampen min-

Southeast Alaska Nonagricultural Wage & Salary Employment Forecast 1993-1994

	1991 Annual Average	1992 Annual Average	Percent Change 91-92	1993 Annual Average	Absolute Change 92-93	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94
Total Nonag. Wage & Salary	33,700	34,250	1.6	34,425	175	0.5	34,975	550	1.6
Goods Producing	6,350	6,100	-3.9	6,050	-50	-0.8	6,125	75	1.2
Mining	350	350	0.0	175	-175	-50.0	175	0	0.0
Construction	1,250	1,250	0.0	1,300	50	4.0	1,275	-25	-1.9
Manufacturing	4,750	4,500	-5.3	4,575	75	1.7	4,675	100	2.2
Seafood Processing	1,500	1,400	-6.7	1,425	25	1.8	1,450	25	1.8
Pulp Mills	900	900	0.0	800	-100	-11.1	800	0	0.0
Lumber & Wood Products	2,100	1,900	-9.5	2,025	125	6.6	2,100	75	3.7
Services Producing	27,400	28,150	2.7	28,375	225	0.8	28,850	475	1.7
Transportation	2,650	2,850	7.5	2,775	-75	-2.6	2,850	75	2.7
Trade	5,550	5,800	4.5	5,900	100	1.7	6,100	200	3.4
Wholesale Trade	600	550	-8.3	550	0	0.0	525	-25	-4.5
Retail Trade	5,000	5,200	4.0	5,350	150	2.9	5,575	225	4.2
Finance-Ins. & Real Estate	1,150	1,200	4.3	1,225	25	2.1	1,275	50	4.1
Services & Misc.	5,600	5,650	0.9	5,800	150	2.7	5,925	125	2.2
Government	12,400	12,700	2.4	12,675	-25	-0.2	12,700	25	0.2
Federal	2,050	2,150	4.9	2,125	-25	-1.2	2,100	-25	-1.2
State	5,550	5,550	0.0	5,600	50	0.9	5,600	0	0.0
Local	4,800	4,950	3.1	4,950	0	0.0	5,000	50	1.0

*Source: Alaska Department of
Labor, Research and Analysis
Section.*

ing activity. Seafood processing employment is forecast to remain fairly stable despite low prices. Timber supply problems and low prices will continue to plague the pulp mills. Government employment should stay fairly flat. All of these industries have weaknesses and employment could drop below forecast levels if circumstances change slightly. Lumber products are unique in facing strong demand but weak supply; activities will depend heavily on available timber.

Some industries show real strengths that should continue in the near-term, especially construction, cruise ship tourism, retail and services. The newly announced Costco and Kmart outlets in Juneau represent a major statement of faith in the long-term vigor of the Southeast economy.