How Industries Fared During the '80s Crash

Patterns may shed some light on today's economic challenges

By **CAROLINE SCHULTZ**

With Alaska's economy facing its first serious recession in nearly 30 years, there are many unknowns about how industries and individuals will fare and how long the discomfort will last. Economic pain is expected in the short-term, but the extent of job losses across different parts of the economy will vary in severity and duration.

It is too early to tell the degree to which our current downturn could mimic previous recessions, but an in-depth look at Alaska's economy as it endured the worst of the mid-1980s can provide some perspective on what could come in the next few years.

This is part 2 of a three-part series on the 1980s recession. Part 1, which compares the economy in the years leading up to the 1980s crash to the first half of this decade, is available in the September 2015 issue.

The 1980s recession, the harshest in Alaska's modern history, was the result of a collapse in real estate markets and oil prices, and the subsequent government austerity measures brought on by drastically diminished oil revenues.

The similarities and differences between today's economy and the early 1980s were covered extensively in the September 2015 issue of *Alaska Economic Trends.* That article described how the fallout from the current economic malady will differ from the '80s crash because of demographic changes and relative stability in the real estate market, even though Alaska remains similarly dependent on oil revenue to fund state and local government.

In this article, we look at the timing and duration of job losses various industries sustained in the 1980s.

Overall loss was fast and deep

After five years of ebullient job growth, the crash came hard. In September of 1985, total employment was up 7,700 jobs from the previous year, equating to 3.2 percent growth — mild compared to the nearly-double-digit growth of the first few years of the 1980s.

Four months later, the trend turned negative, and within a year, jobs were disappearing at their quickest pace. September of 1986 was the most dramatic month of loss during the entire recession, with 18,500 fewer jobs than the previous year, which was

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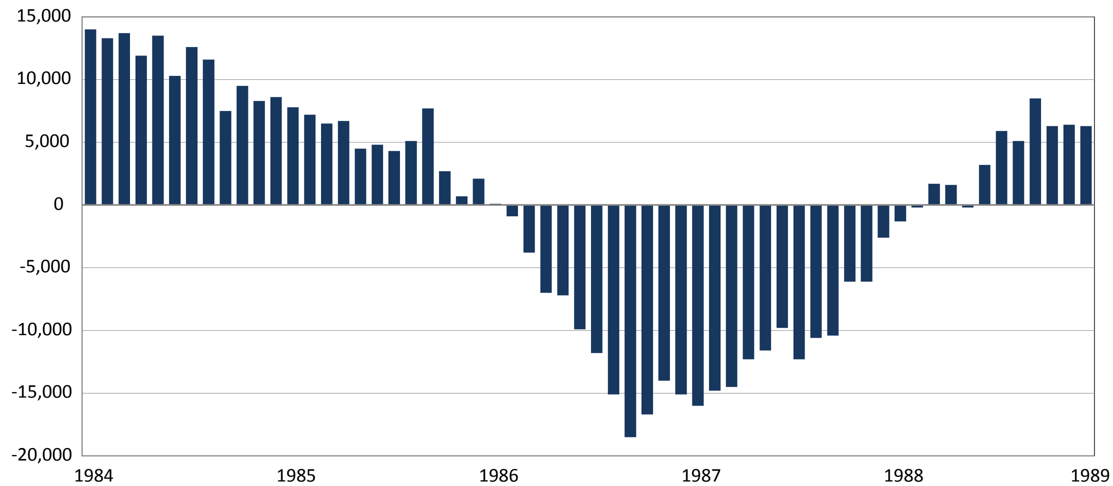
The Pattern of Overall Loss and Recovery

Employment change From same month of prior year, 1984 to 1989



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

a 7.5 percent decline.

Total employment fell by an average of 10,000 jobs in 1986 and another 10,600 in 1987, which was a loss of almost one in 10 jobs between 1985 and 1987. But by 1988, employers were tepidly adding jobs, and by 1990, employment levels had more than regained their lost ground.

These top-line numbers only tell part of the story. Some sectors of the economy suffered far worse and much longer, and others survived the recession relatively unscathed.

Construction was a harbinger, and it was hit hardest

The construction industry was the first major sector to show signs of weakness, and job losses began as early as summer of 1984. Alaska's real estate market was too hot to handle in the early 1980s, which led to risky speculation and overbuilding.

The early 1980s residential and commercial construction sectors in Alaska bear a stronger resemblance to the Sunbelt in the mid 2000s (at least before the national housing market collapsed, and of course, with fewer palm trees) than they do to Alaska's current construction climate.

Construction employers shed 400 jobs between 1983 and 1984, followed by 1,800 more between 1984 and 1985. The industry was expected to slow as building caught up and eventually surpassed demand, but the losses in the subsequent years were shocking.

In 1986, construction employment fell 28 percent, then dropped another 25 percent in 1987. Between 1983 and 1989, 11,800 construction jobs disappeared, translating to a loss of two out of three construction jobs.

The magnitude and duration of losses in the construction industry in the 1980s were unrivaled. Thirty years later, construction still hasn't regained its early-1980s employment levels.

Mining was surprisingly resilient

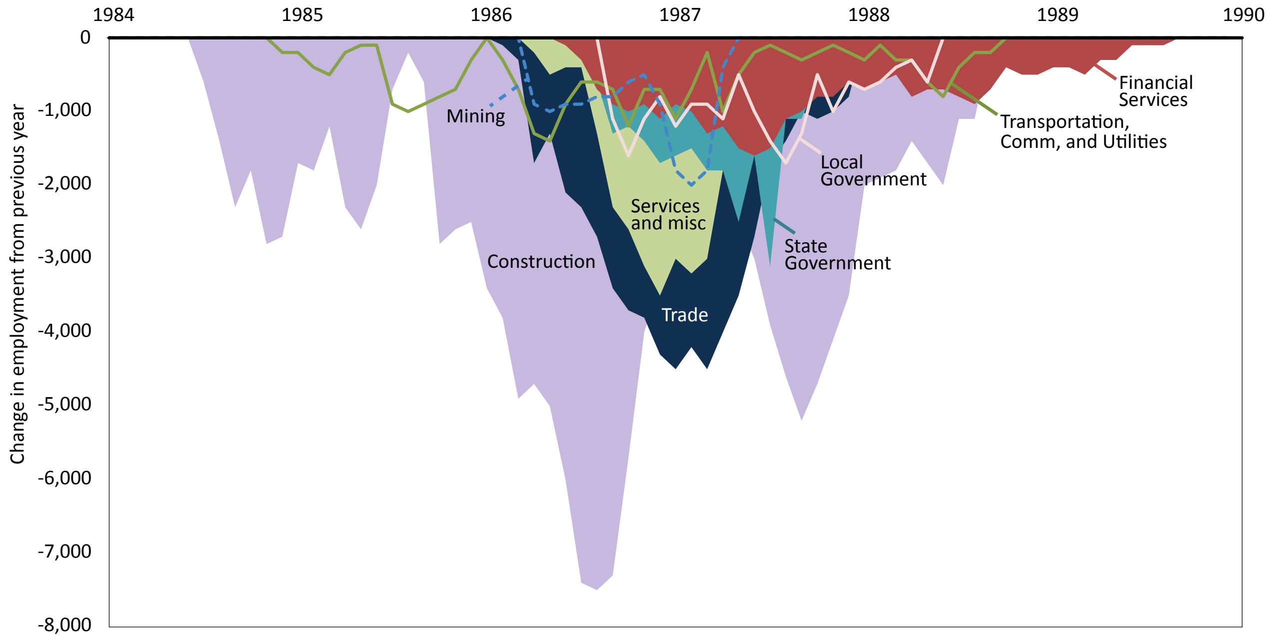
The way we count jobs and categorize industries has changed since the 1980s recession, which makes certain comparisons more complicated. Some major industry groups have been rearranged, and we didn't have some of the detail that we do now.

For example, we didn't have an employment series specifically for the oil and gas industry, but like today, oil jobs were included under the umbrella of mining. Hard rock mining was a much smaller part of the economy in the 1980s, and most of our now-mature mines were still in early development stages, so oil and gas jobs made up an even larger share of the mining sector than they do now.

Oil prices declined throughout the early 1980s after peaking in the late 1970s as international turmoil came to a head, but prices were still at historically high levels until early 1986, when the price per barrel

2 How Job Loss Looked At the Industry Level

EMPLOYMENT CHANGE FROM SAME MONTH OF PRIOR YEAR, 1984 TO 1990



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

plummeted to close to $20 in today's dollars.

Unlike construction, the mining industry responded quickly and began to shed jobs by April 1986. Employment fell for 13 consecutive months, but because losses were spread between two calendar years, average annual employment was only slightly down in both 1986 and 1987. Because of this, monthly data do a better job demonstrating how quickly employers cut jobs.

Mining jobs were up more than 10 percent from the previous year in January 1986, but by May the trend reversed, and employment was down over 10 percent. Mining losses peaked in February of 1987, with 2,000 fewer jobs than the previous year — a loss of 20 percent.

The mining industry didn't languish. Employment growth resumed in the summer of 1987, partially fueled by developments in the Greens Creek and Red Dog mines. By 1988, mining job growth was back in the double digits, and the sector was larger than ever.

Manufacturing was a bright spot in the gloom

Jobs in manufacturing survived the 1980s recession better than any other private industry, and for good reason. Alaska's manufacturing sector was dominated then by the processing of two natural resources, seafood and timber, neither of which were tied to the state's weakest sectors of oil and real estate.

Commercial fishing management policies and practices differed significantly from today's, especially for groundfish and shellfish. Seafood prices and production swung wildly through the 1970s and '80s, and employment trends in fish harvesting and processing were volatile.

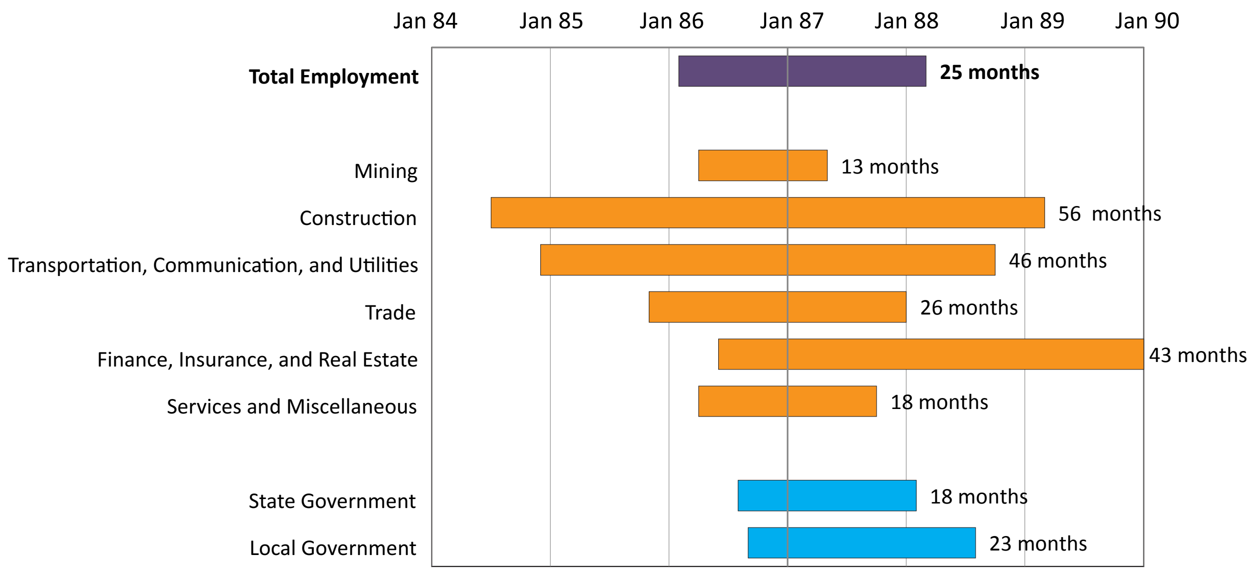
Seafood processing employment was bumpy through the 1980s, but job growth remained generally positive through the worst of the recession, with a few intermittent months of declines. About half of all manufacturing jobs were related to seafood processing, and the relative calm of the fishing industry in the mid-to-late 1980s was a source of employment stability in otherwise stormy seas.

Lumber and paper products manufacturing made up about one-fifth of the sector's jobs during the timber industry's heydays, and after suffering job losses through the early 1980s as a result of low commodity prices and reduced demand in Lower 48 and international markets, industry job growth rebounded during Alaska's recession.

The state added an average of 300 and 400 manufacturing jobs in 1986 and 1987, respectively, and while the numbers are small, that growth equated to 13

3 Duration and Timing of 1980s Job Losses, by Industry

January 1984 to January 1990



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

and 16 percent. These gains were especially significant in the small Southeast communities where most wood product manufacturing took place, such as the pulp mills in Ketchikan and Sitka and the lumber mills in Wrangell and on Prince of Wales Island.

Service-sector employers suffered

One of the biggest changes to industry classification between the 1980s and today is how we look at employers that provide services rather than produce goods, so the way these employers are grouped may be unfamiliar when making comparisons.

The finance, insurance, and real estate industry was the hardest hit in the service sector. The breakdown of Alaska's real estate market and the national savings and loan crisis resulted in unprecedented tumult in the financial services industry.

There hadn't been a single bank failure in Alaska since the Great Depression, but during the '80s recession and aftermath, eight banks failed — nearly half of all banks in the state. Alaska had the highest rate of bank failure in the 1980s and early 1990s, followed by other energy-rich states such as Wyoming, Oklahoma, Louisiana, and Texas, though their failure rates were closer to 20 percent.

Job losses in the financial services industry started in mid-1986 and continued for 43 months, into 1990. Nineteen percent of jobs in the industry disappeared between 1985 and 1990, with over half of job losses occurring between 1986 and 1987.

Trade losses were relatively small

The trade sector encompassed wholesale and retail trade as well as restaurants and bars. It weathered fairly substantial losses for two years, but started adding jobs again in 1988 and surpassed pre-recession levels by 1990. Employment fell by 2,100 jobs in 1986 and 2,500 jobs in 1987, amounting to 5 percent and 6 percent, respectively.

Retail is the largest component of the trade sector, and it fell 4 percent and 5 percent in 1986 and 1987. Eating and drinking places were a little slower to respond, declining 2 percent in 1986 and then 6 percent the next year. Wholesale employers made up the smallest share of trade, but were the hardest hit, shedding 7 percent of jobs in 1986 and 9 percent in 1987.

Transportation, communications and utilities losses spread out

The transportation, communication, and utilities sector also shrank during the recession, but losses were less severe and spread out over a longer period.

Tied to the construction decline, this sector's losses began in December of 1984 and continued for 46 additional months. Between 1984 and 1988, the sector lost an average of 1,800 jobs, or 9 percent.

Other private industries weren't hit so hard

The largest and least coherent service-providing sector at the time was called services and miscellaneous, and it comprised accommodations, professional and business services, education and health services, and "local services" — an eclectic group made up of providers like mechanics, hairdressers, and dog groomers.

This hodgepodge of employers wasn't hit as hard, largely because it was propped up by a relatively stable health care industry. Losses began in April of 1986 and continued for just 18 months.

Like the mining industry, losses were spread across two calendar years, which understates the impacts when looking at average annual employment losses; they amounted to 3 percent in 1986 and 1987.

Losses peaked in December 1986 with an 8 percent decline from the prior December. These losses were driven mostly by oil-related employers such as engineering and geophysical service companies.

Government was buoyed by federal agency growth

The sudden loss of oil revenues in the 1980s, which like today funded the bulk of Alaska's discretionary state government spending, sent state and local government budgets reeling. Unlike today, though, the state hadn't amassed savings accounts to weather the storm, and state capital and operating budgets were slashed.

State government employment started to fall in August of 1986 and fell through January of 1988. Average losses from 1985 to 1986 were small at just over 1 percent, but by 1987 average annual employment was down 7 percent.

Local government job losses were less severe, at less than 1 percent in 1986 and 3 percent in 1987, but lasted for 23 months.

Federal civilian employment had been on a slow downward path through the first half of the 1980s, but this trend reversed in 1986, providing some respite during the recession. The prior decline was mostly from federal agencies transferring services to state and private control in the early 1980s, and by the time Alaska's recession hit, the transfers were complete and federal agencies resumed growth at a normal pace.

Active duty military personnel levels also grew through the recession, providing another small buffer against otherwise poor economic conditions.

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NORTH SLOPE

Continued from page 9

Personal income doesn't account for subsistence, which is significant culturally and economically. The Alaska Department of Fish and Game surveys villages throughout Alaska to estimate subsistence, although a village can go decades without updated data. Point Lay is the most recent subject on the North Slope, surveyed in 2012. Its 211 residents harvested almost 150,000 pounds of plants and animals (see Exhibit 4), which came out to almost two pounds per person per day.

All of the communities rely heavily on whales, seals, and walruses, with the exception of Anaktuvuk Pass. Anaktuvuk Pass is the only inland community, located 150 miles from the ocean. While harvesting caribou is common in other villages, it provides nearly 80 percent of the subsistence poundage in Anaktuvuk Pass.

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