

Ten Year Industry Forecast

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1998 to 2008

Employment growth in Alaska is expected to increase at an annual average rate of 1.6% from 1998 through 2008. About 19,000 new jobs are expected by 2003 and about 46,000 new jobs by 2008. This rate of growth is well below the average annual Alaska employment growth rate of 2.5% experienced from 1988 to 1998, but greater than the 0.9% annual growth rate estimated for 1999.

Employment growth will be focused primarily in the services, trade and transportation industry sectors, with growth in Anchorage slightly outpacing growth in the rest of the state. The new jobs will be likely to pay less than many of the jobs that have been lost in declining resource extraction industries. A growing population, Alaska's new industries, increased tourism, and an economy that provides locally many services that once had to be purchased outside the state will drive employment growth. This growth in the number of new jobs, coupled with turnover associated with migration and retirement, will result in a wide variety of employment opportunities for the unemployed, under-employed and recent graduates of Alaska schools.

The resilience of the Alaska economy has been surprising. Despite oil prices reaching historically low levels, oil industry layoffs, state and local budget cutbacks, closure of pulp mills and sawmills in Southeast Alaska, declines in fishing harvests, and reduced median household income, total employment has increased each and every year in the 1990s.

How has employment growth been possible in the face of all the bad news in Alaska's resource extraction and processing industries? Many factors have contributed. The fast paced growth of several emerging Alaska industry sectors, coupled with the continuing diversification of the economy and stable government spending, provided a

1 Alaska Employment Growth 1998—2008

| | |
|-----------------|--------|
| Mining | -1,190 |
| Construction | 2,250 |
| Manufacturing | 420 |
| Trans/Comm/Util | |
| Wholesale Trade | 1,450 |
| Retail Trade | |
| Fin/Insur/R.E. | 750 |
| Services | |
| Federal Govt. | 0 |
| State Govt. | -250 |
| Local Govt. | -300 |

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

Note: Portions of this article first appeared in the January 2000 issue of Alaska Business Monthly.

strength that has allowed Alaska to weather the recent economic storm. Industries leading the expansion include Alaska's air cargo and visitor industry sectors, telecommunications, health services, and the retail sector. Also, the number of nonresident workers in Alaska has declined, reducing the "leakage" of income out of Alaska, since workers spend most of their money where they live. The ever-increasing Permanent Fund Dividend check has provided a huge boost in consumer spending, equivalent to a "thirteenth" monthly paycheck for most families.

Alaska's population has reached the critical mass where retail and service needs can be met locally, rather than from outside Alaska. Retail trade employment growth of nearly two percent and services employment growth of more than three percent during the coming decade are indicative of retailers' and service providers' success capturing an ever greater share of Alaskans' income. The less money that "leaks" out of Alaska, the more jobs are created in the state. This import substitution, as economists call it, can have a significant impact on overall employment and has been a major factor in employment growth over the last several years.

INDUSTRY FORECAST

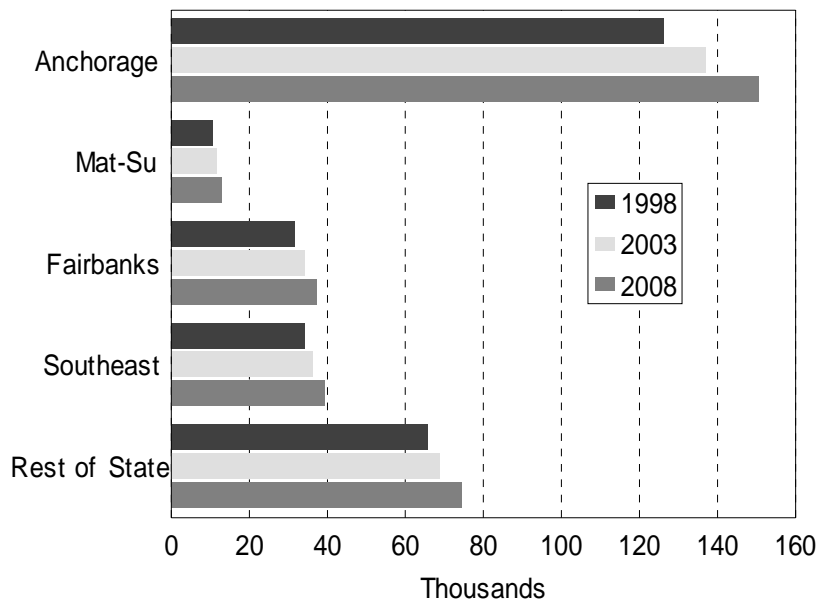
Mining

The price of oil has followed a roller coaster path the last two years. Long-term low oil prices similar to those experienced in 1998 and early 1999, when Alaska spot prices were hovering around \$10 per barrel, would likely lead to a decline in employment. But current Alaska Department of Revenue oil price and production forecasts call for an Alaska North Slope oil price in excess of \$23 for fiscal year 2000, with a gradual decline to a long term average around \$18 per barrel over the next several years. North Slope oil production is expected to remain flat during the forecast period. Alaska's North Slope production has declined by almost half since 1988, with current production a little over one

million barrels per day. At those price and production levels, total Alaska employment is forecast to grow moderately, with total wage and salary employment expected to reach about 318,000 in 2008, up about 17% from 1998 levels. If higher than forecast oil prices and increased production develop, the result would be even stronger employment growth. Direct employment in the oil industry is forecast to be 7,200 in 2008, representing a significant decline from the 8,900 workers employed in 1998.

Consolidation coupled with production declines will drive employment declines in Alaska's oil sector. But those job losses will have a disproportionately negative impact on the economy. Alaska's highest paying jobs are in the oil industry, and any employment loss there has a big impact on the rest of the state.

Employment by Region 1998, 2003 and 2008



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

Three metal mines, Alaska Gold Mining Co., Illinois Creek, and Nixon Fork, shut down or suspended operations in the last year, resulting in a loss of 200 jobs. Despite the near term problems, metal mining activity is expected to grow by several hundred workers during the next ten years. The Pogo project near Delta Junction and the Kensington Mine near Juneau could come into production. Expansion at Red Dog may also add employment.

Although planning and design of a natural gas pipeline could occur during the forecast period, price and international market uncertainties suggest that actual construction is unlikely in the next ten years.

Government

Local, state and civilian federal government make up about one quarter of the wage and salary workers in Alaska and 31 percent of total wages paid. If the military and employment impacts associated with the spending and re-spending of worker earnings are included, government supports about half of Alaska's economy. The importance to Alaska of a continuing stream of federal dollars and stable state revenues in the long term cannot be overstated.

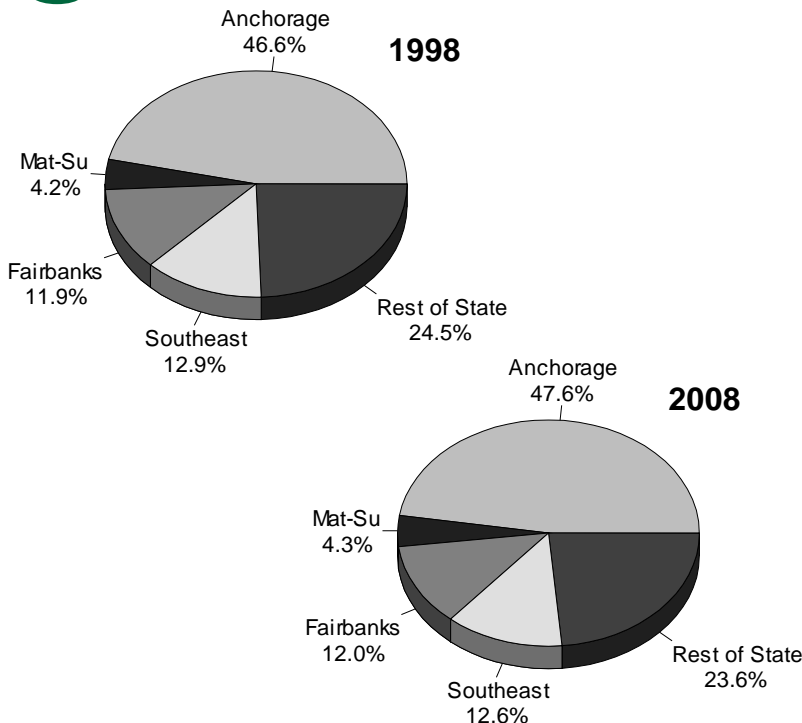
All government sectors are expected to remain flat or decline slightly over the ten year forecast period, with most of the losses occurring during the first half of the decade. Privatization, declines in Forest Service employment as a result of reduced timber harvest in the Tongass National Forest, and declining local government revenues will negatively impact employment in the near term. However, government employment is forecast to grow at one half percent per year from 2003 to 2008 in response to increased population and additional defense-related activity.

The military is the largest employer in Alaska, despite recent downsizing. In 1999, there were 44,457 active duty military and dependents stationed in Alaska. Almost 40 percent live off-base, creating additional jobs within their local economies.

The Army Corps of Engineers is spending more than \$800 million over the next three years on projects to modernize support and training facilities. Not only will this create opportunities for local contractors and businesses, but the improved infrastructure will also help shield Alaska from the next round of base closures scheduled for 2003 and 2008.

Due to the high level of uncertainty surrounding the anti-ballistic missile defense system proposed at Fort Greeley, it is not included in this forecast. However, the \$10.5 billion project could create

3 Employment by Region Percent distribution 1998 and 2008



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

hundreds of additional jobs during construction and 360 to 465 direct jobs would result if operational in 2005.

Seafood Processing

Seafood processing employment is expected to grow only 2% from 1998 to 2008. The greatest threat of the past decade, competition from

farmed fish, will continue to strain the industry. Processors are expected to adapt to the dynamics of the market by cutting costs, improving the supply of higher quality fish, and offering a greater variety of products. More value-added processing of seafood products will offer full time, year-round jobs, which should attract more residents to an industry traditionally dominated by nonresidents.

Alaska Forecast 4

Nonagricultural wage and salary employment 1998 to 2008

| Industry Sectors | Actual | | Forecast | | | | |
|----------------------------------|----------------|----------------|--------------------|----------------------|-----------------|--------------------|----------------------|
| | 1998 | 2003 | 2003 | | 2008 | | |
| | Employment | Employment | Annual Growth Rate | 1998-2003 Employment | 2008 Employment | Annual Growth Rate | 1998-2008 Employment |
| | 1998 | 2003 | 1998-2003 | Growth | 2008 | 1998-2008 | Growth |
| Agriculture, Forestry, Fisheries | 1,400 | 1,510 | 1.2% | 110 | 1,640 | 1.4% | 240 |
| Mining | 10,450 | 9,240 | -2.4% | -1,210 | 9,260 | -1.2% | -1,190 |
| Metal mining | 1,250 | 1,400 | 2.2% | 150 | 1,700 | 3.0% | 450 |
| Oil & Gas Extraction | 8,850 | 7,500 | -3.3% | -1,350 | 7,200 | -2.1% | -1,650 |
| Construction | 13,450 | 14,500 | 1.5% | 1,050 | 15,700 | 1.6% | 2,250 |
| Manufacturing | 14,400 | 14,520 | 0.2% | 120 | 14,820 | 0.3% | 420 |
| Seafood Processing | 9,000 | 9,200 | 0.5% | 200 | 9,200 | 0.2% | 200 |
| Lumber/Wood | 1,600 | 1,200 | -5.5% | -400 | 1,200 | -2.8% | -400 |
| Transportation/Comm/Utilities | 25,500 | 29,200 | 2.7% | 3,700 | 33,800 | 2.7% | 8,300 |
| Air Transportation | 9,150 | 11,100 | 3.9% | 1,950 | 14,000 | 4.3% | 4,850 |
| Wholesale Trade | 9,150 | 10,000 | 1.7% | 850 | 10,600 | 1.5% | 1,450 |
| Retail Trade | 47,400 | 51,800 | 1.8% | 4,400 | 56,000 | 1.7% | 8,600 |
| Finance, Insurance, Real Estate | 11,350 | 11,800 | 0.8% | 450 | 12,100 | 0.7% | 750 |
| Services | 67,050 | 79,000 | 3.3% | 11,950 | 92,800 | 3.3% | 25,750 |
| Total Private Sector | 200,500 | 221,950 | 2.0% | 21,450 | 247,100 | 2.1% | 46,600 |
| Government | 71,450 | 68,900 | -0.7% | -2,550 | 70,900 | -0.1% | -550 |
| Federal | 17,200 | 16,800 | -0.5% | -400 | 17,200 | 0.0% | 0 |
| State | 21,550 | 21,000 | -0.5% | -550 | 21,300 | -0.1% | -250 |
| Local | 32,700 | 31,100 | -1.0% | -1,600 | 32,400 | -0.1% | -300 |
| TOTAL ALL SECTORS | 271,900 | 290,850 | 1.4% | 18,950 | 318,000 | 1.6% | 46,100 |

Actual and forecast employment based upon historical Employment and Earnings Summary Reports industry and employment definitions. Use of the 1998 base year is consistent with national forecasts prepared by the Bureau of Labor Statistics.

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

Lumber and Wood Products

The closure of the two pulp mills in Southeast Alaska and new Forest Service policies have made the future of the timber industry in Alaska uncertain. The mills provided residents with high paying, year-round jobs that are difficult to replace. Efforts to expand into other types of processing, including the planned Gateway Forest Products veneer plant in Ketchikan, offer some prospect for slowing the decline in employment from its current low level. The industry is hindered by declining supply, rising costs and unstable foreign markets, but should reach a stable level of employment by 2003.

Visitor Industry

Visitors to Alaska spend money at firms in many different industry sectors, from transportation to retail trade to services. The number of visitors to Alaska is expected to increase at about three percent per year, resulting in increased employment in hotels, airlines and transportation services. Growth will result from increased investment in cruise ships, marketing and facilities. Alaska's two major cruise/tour operators, Holland America and Princess Cruises, continue investing in plans for capital improvements, expanded tour operations, and new cruise ships. The cruise industry's key demographic target, baby boomers earning \$55,000 a year or more, will double by 2010. Alaska cruise prices will continue to decrease, making cruise vacations increasingly affordable.

Although industries that serve visitors employ a large number of workers, nearly a quarter of these largely seasonal, low paying, jobs are filled by nonresidents. Total visitor industry wage and salary earnings in 1998 are estimated at \$309 million or just 3.4% of the \$9.1 billion total of Alaska's wage and salary earnings.

Transportation

Air transportation, particularly air cargo, has been a very bright spot in Alaska's economy. Although the employment growth rate will likely slow, during the next ten years air transportation should grow at more than four percent per year. An increase in visitors as well as increased air cargo activity will fuel growth. Anchorage is one of the nation's most important air cargo airports, with an average of 93 cargo planes landing daily—up from 60 daily landings as recently as 1994. An increase in warehousing and package handling facilities could add a significant number of new jobs to Alaska's economy during the coming decade.

Regional Growth

All regions of Alaska are expected to see significant employment growth during the ten year forecast period. Anchorage is expected to be the fastest growing area of the state. About 53% of new jobs will be located in Anchorage, raising Anchorage's share of total Alaska wage and salary employment to about 48% of the Alaska total. The movement from resource extraction to service, trade and transportation jobs will tend to favor large, urban communities during the coming decade.

Summary

Despite short term setbacks in natural resource prices, Alaska's strategic location, oil wealth and expanding service economy will provide thousands of new jobs for Alaskans over the next ten years. In addition, normal turnover of workers due to retirement and out-migration will provide tens of thousands of additional employment opportunities for Alaskans.