

Slow Growth Projected on Uncertain Backdrop

by John Boucher

Alaska's economy will continue on a steady path during 1994 and 1995, extending the trend of slow job gains for two more years. Expansion driven by the construction and service-producing sectors best describes the outlook for the next two years. Meanwhile, Alaska's basic industries will struggle to maintain 1993 employment levels, a cause for concern when considering the long-term outlook.

The 1994-95 employment forecast reflects the recent history of Alaska's economy. (See Figure 1.) Employment growth has averaged about 2.0% annually since 1990 and it should remain at about that rate through 1995. The retail sector will continue as a leading source of job gains. Construction employment will also grow but not at last year's torrid pace. Alaska's services and transportation sectors will also key the economy to an overall job increase. A good outlook for the tourism industry is another bright spot in the job picture. On the down side, Alaska's hard rock mining industry, while showing potential for recovery, will continue to slide at least through 1994. Alaska's oil and gas industry will suffer the effects of a protracted oil price slump. The manufacturing industry will struggle, as losses in the forest products and fisheries industries will continue. The public sector, the largest employer of Alaskans, will also post job losses. (See Table 1 and Figure 2.)

General merchandisers grab the headlines again

In 1991, retailers began a stampede of expansion in Alaska. It started with two stores in Fairbanks and moved throughout the state in the last two years. Last year, Kmart and Wal-Mart, the nation's largest retailers, began campaigns to forge a significant presence in Alaska's retail sector by constructing new stores around the state. Price-Costco and Fred Meyer also expanded, adding stores and expanding services offered at others. Meanwhile, Alaskan retailers were also expanding. Alaska's largest private sector em-

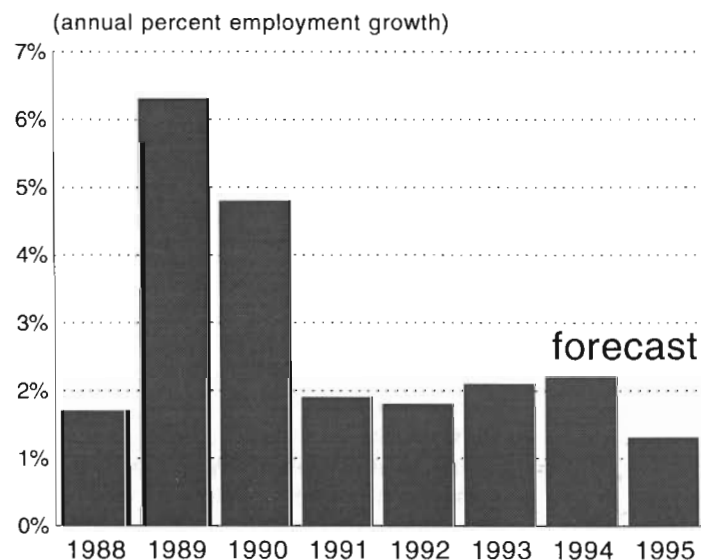
ployer, Carr-Gottstein, moved into new regions of Alaska, purchasing stores in Ketchikan, Nome and Kotzebue and announcing others for Juneau and Dutch Harbor. The next two years will see more of the same, as Wal-Marts open in Anchorage and Wasilla, Kmart opens in Juneau, and Fred Meyer expands on the Kenai Peninsula. Meanwhile, Carrs continues an aggressive expansion plan into more Alaskan locations. All of these point to the retail sector being a continuing source of job growth during the next two years.

The concern about projected retail growth is that it will come at the expense of existing retail jobs. This could happen; however, it's likely that retail retrenchment would be through attrition rather than rapid decline. In the short-term, retail trade will show some impressive job growth. A sluggish

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Figure • 1

Alaska's Slow Employment Growth Continues Through 1995



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

Alaska Nonagricultural Wage & Salary Employment Forecast 1994-1995

	1992 Annual Average	1993 Annual Average	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94	1995 Annual Average	Absolute Change 94-95	Percent Change 94-95
Total Nonag. Wage & Salary	247,200	252,500	2.1	258,100	5,600	2.2	261,500	3,400	1.3
Goods-producing	38,700	38,600	-0.3	39,250	650	1.7	39,150	-100	-0.3
Mining	10,500	10,000	-4.8	10,000	0	0.0	9,800	-200	-2.0
Construction	10,200	11,400	11.8	12,600	1,200	10.5	12,600	0	0.0
Manufacturing	18,000	17,100	-5.0	16,650	-450	-2.6	16,750	100	0.6
Seafood Processing	11,200	10,600	-5.4	10,300	-300	-2.8	10,300	0	0.0
Forest Products ^{1/}	3,200	3,100	-3.1	2,875	-225	-7.3	2,925	50	1.7
Service-producing	208,400	213,900	2.6	218,850	4,950	2.3	222,350	3,500	1.6
Transportation	22,600	22,900	1.3	23,500	600	2.6	23,950	450	1.9
Trade	47,800	48,700	1.9	50,800	2,100	4.3	52,300	1,500	3.0
Wholesale Trade	8,000	8,000	0.0	8,000	0	0.0	8,000	0	0.0
Retail Trade	39,900	40,700	2.0	42,800	2,100	5.2	44,300	1,500	3.5
Finance-Ins. & Real Estate	10,700	11,100	3.7	11,250	150	1.4	11,350	100	0.9
Services & Misc.	54,100	56,800	5.0	59,000	2,200	3.9	60,800	1,800	3.1
Government	73,300	74,400	1.5	74,300	-100	-0.1	73,950	-350	-0.5
Federal	19,600	20,000	2.0	19,800	-200	-1.0	19,700	-100	-0.5
State	21,700	21,600	-0.5	21,500	-100	-0.5	21,250	-250	-1.2
Local	32,100	32,800	2.2	33,000	200	0.6	33,000	0	0.0

^{1/} Includes Pulp Mills as well as Lumber & Wood Products.

Subtotals may not add due to rounding.

Government includes teachers in primary and secondary schools and personnel employed by the University of Alaska.

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

basic sector and slow personal income growth are good reasons for skepticism about the retail expansion. On the other hand, Alaskans have one of the highest average disposable incomes in the nation, and they tend to purchase a tremendous amount of goods through mail-order outlets. One certainty is that the latest round of retail expansion will change the face of Alaskan retailing. The heated competition will benefit Alaskan consumers in the form of lower prices.

While general merchandisers will propel retail employment growth, other segments of the industry have a less robust outlook. The largest retail sector, eating and drinking establishments, should experience slow growth. Recent growth in eating and drinking establishments has been in establishments catering to the low and medium price range. This is attributable to two factors, changing demographics and income. Alaska's population is aging and is more likely to have families. At the same time, income growth has been sluggish, leaving less disposable income for dining out. Establishments catering to families at lower prices are thriving, but at the same time high-end restaurants are struggling. This trend assures

slow growth in the eating and drinking sector.

Construction will grow, but at a slower pace

Alaska's construction industry flourished last year, led by Anchorage's best performance since 1986. The ingredients are in place for another good year in 1994, but growth is likely to be curtailed. One reason for the slowdown is that most of the construction projects related to the retail expansion, particularly in Anchorage, were completed in 1993. There are commercial projects which will add up to significant commercial construction activity, but a repeat of 1993 in commercial construction is unlikely. A partial list of commercial construction projects includes the completion of the 300-room Prince Hotel near Alyeska, the Juneau Carrs, and several smaller retail outlets in Anchorage. (See Anchorage forecast for details.)

Residential construction should also be strong for the next two years. In 1993, low interest rates and tight housing markets in Alaska's urban areas made for the best residential construction climate since the mid-

1980s. These factors, as well as increased investment in multi-family, low-income, and senior citizen housing units, should keep the residential construction sector moving along during the next two years.

The least promising sector of the industry is public sector construction, particularly state-funded projects. Low oil prices and the resulting state budget deficit have placed state-funded projects on more uncertain footing. That's not to say that the public sector won't have a significant impact on the construction industry. Medical facilities should help public construction substantially. Construction of the Alaska Native Health Center will continue and the state is planning to construct a facility to replace some functions of the Alaska Psychiatric Institute (API). The new hospital at Elmendorf will also make a substantial contribution. Also of note is the \$75 million bond package introduced for repair and rehabilitation of facilities at the University of Alaska. These projects, along with a relatively healthy highway construction budget, give construction a boost in what otherwise would be a down period for publicly-funded projects.

GHX-2, other oil industry construction will boost mining

The North Slope GHX-2 facility, a billion dollar project which employed hundreds of workers constructing the second phase of a gas handling facility at Prudhoe Bay, will exert its influence on oil-field services employment again in 1994. While this project is primarily construction work, most of the impact of GHX-2 is in oil and gas employment since oil-field services firms are the prime contractors involved. Increased activity at the pipeline terminal in Valdez and all along the pipeline corridor should also boost employment in oil-field services firms the next two years.

Unfortunately, this oil and gas industry employment boost isn't a sign of good times in the industry. The outlook for the major producers, ARCO and British Petroleum, is for more cutbacks. Lower oil prices will also take their toll in terms of industry exploration and development spending during the next two years.

In contrast to the oil and gas industry, the outlook for hard rock mining is for slight employment gains, even though hard rock mining employment is at a five-year low. The closure of Greens Creek mine in April 1993 dealt a severe blow to hard rock mining employment and no new mine in the development stages is likely to take its place soon. Except for Greens Creek reopening, the two prospects for large mine operations with the best chance of filling the void Greens Creek left are the Fort Knox project in the North Star Borough and the AJ mine in Juneau. Any major contribution to mining employment from these two projects, however, is likely to occur in 1996 or 1997. On an optimistic note, increased exploration and ore body delineation at the AJ and Greens Creek sites have put some miners back to work recently.

Services to remain a growth leader

While the mining industry will struggle, the services sector will be a catalyst for job growth through 1995. The pacesetters for growth in the services sector have been tourism-related services, professional and social services, and the health care industry. One new large hotel is coming on line and several others are either under construction or adding capacity. This virtually ensures continued job growth in this tourism-related sector.

The healthy outlook for Alaska's construction sector will keep professional services providers like architects, engineers and surveyors in demand during the next two years. Health care services, on the other hand, will slow its rapid growth pace of the past several years. The national agenda to curb health care spending is one reason for slower health care growth projections. On the other hand, demographics should play a part in the industry's growth. The elderly are Alaska's fastest growing population segment and they consume more health care services than any other demographic group.

Another portion of services which should continue to grow is business services. A big contributor to business services growth has been temporary help agencies which provide contract employees to firms. Alaska should follow the national trend to increase utiliza-

tion of temporary employees, which means this segment of services should continue growing during the next two years.

Transportation to post slow growth

In 1991 and 1992 the transportation, communications and utilities sector was a leading producer of new jobs in Alaska. Last year, this industry retrenched as some sectors grappled with changing conditions. Most notable was the struggling air transportation sector. Last year most major commercial airlines cut employment levels in an effort to return to profitability. By year's end Alaska's two largest air carriers had improved their financial situations and employment losses were being reversed. While the current picture is for small employment gains in the commercial air transportation sector, contractions could resume quickly if the carriers continue to struggle financially. One portion of the air transportation sector which has grown steadily throughout the 1990s has been air cargo. This sector has slowed during the last two years, and the outlook is for slower growth to continue.

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 general population growth all point to continued good 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 the increased numbers of tourists. The communications and utilities portion of the industry should also experience some modest growth, primarily due to population increases. Another transportation sector which will contribute some growth is pipeline transportation of oil. Alyeska Pipeline has indicated that its employment levels will increase slightly during the next two years for the pipeline rehabilitation construction projects that will be taking place.

Manufacturing's outlook remains bleak

Alaska's manufacturing industry was hit with another plant closure in 1993 when the Sitka pulp mill closed. This came on the heels of

sawmill closures and the Anchorage Times shutdown during the previous two years. A strong performance in the seafood industry staved off job losses in 1991 and 1992, but that ended in 1993.

The outlook for Alaska manufacturing continues to be weak, particularly in Alaska's forest products industry. Only the sawmills segment of the industry is performing well, and the future is fraught with uncertainty. The Louisiana-Pacific sawmills in the Ketchikan area appear to be on solid ground, but the fate of Wrangell's sawmill is more uncertain because its timber supply could be threatened. If the Wrangell mill lost its timber source, that would be another significant blow to Alaska's forest products industry. Perhaps ironically, the closure of the Sitka pulp mill may have placed the Ketchikan pulp mill on more stable footing. The Sitka mill's pulp log supply can be diverted for use by the Ketchikan mill, placing the Ketchikan pulp mill's timber supply problem on the back burner for the moment. In the longer term, a portion of the lost jobs in Sitka could be replaced if that plant is converted to a another manufacturing process. (For more forest products industry details, see the Southeast Alaska forecast.)

While Alaska's forest products industry is an important ingredient to the manufacturing industry forecast, the overall direction of the industry depends on a steady performance from Alaska's fishing industry. Groundfish and shellfish employment boosted winter-time seafood employment levels and was the impetus for industry employment growth. Recently, though, winter fisheries employment has declined, as processors and catchers have entered a shakeout period. Assuming that Alaska's salmon fishery remains relatively constant, a less than safe assumption concerning salmon prices, the outlook for seafood processing employment is for slight declines.

Financial sectors will hold steady, public sector will contract

The finance-insurance and real estate portion of the economy will experience some growth in the next two years. Alaska's banking sector is healthy, with even small institutions posting profits and projecting small

employment gains. On the other hand, growth is likely to be slow since the basic sectors will be sluggish and memories of the 1980s remain. Most segments of the real estate and insurance sectors will perform along the same lines with slow, steady growth.

Low oil prices will result in a decline in state and local government jobs next year, a possible exception to that trend being some local school districts. Some school districts, particularly in urban areas, are being pressured to add facilities and staff due to an increasing number of school-age children. Financial constraints may preclude this from happening though. Other segments of state and local government are also facing fiscal limitations, which make job cuts probable for the state fiscal year beginning July 1. In federal government, several agencies are already expected to downsize as part of the reinventing government initiative. Overall, the outlook for public sector jobs during the next two years is for declines.

Guessing the wild cards

Speculating on events that would throw a curve into this forecast is a little risky, but given history and what's known today, here's a "best guess" at what could change the industry employment outlook. First, any extraordinary event affecting world oil prices or Alaskan oil production would have substantial employment impacts. A runup in oil prices would brighten the outlook, especially in the public construction and public employment sectors.

While the worst of their financial struggles appear behind them, Alaska's two largest air carriers have been a cause for potential concern. If one of the carriers pulled back significantly, that would have major employment impacts in Alaska's air transportation sector. A crash in either the groundfish or salmon fishery would gut the manufacturing industry even further than projected. On the other hand, if conditions allowed the reopening of the Greens Creek mine or the Sitka pulp mill, the outlook for Alaska's mining and wood products industries would brighten significantly.

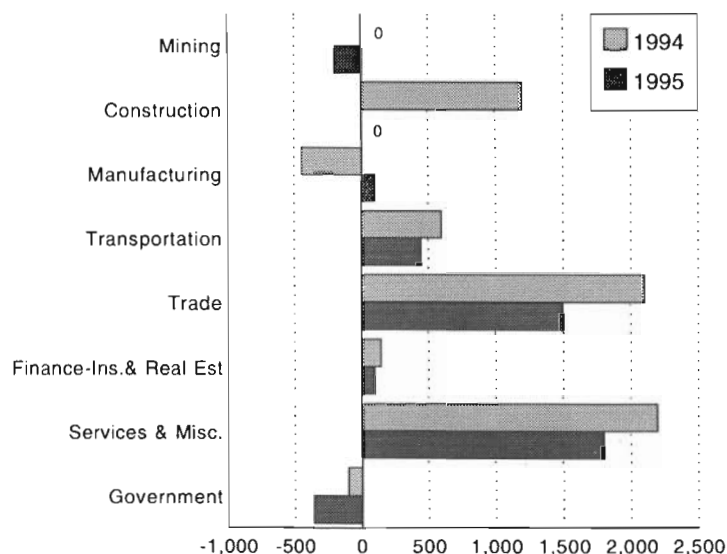
Summary: Slow steady growth, but watch for wild cards

The 1994-95 employment forecast calls for continued, although slower growth of about 2.0% per year. The retail and services sector will lead the job gains, with a healthy construction sector making a significant contribution. If projections come to pass, by 1995 Alaska will be on its eighth consecutive year of employment growth, and its fifth year of slow, steady growth.

Two factors are cause for concern in this forecast. First, Alaska's struggling basic industries make the longer term outlook, even into 1995, more uncertain than it has been in the last several years. Second, periods of extended, relatively steady employment growth are unusual in Alaska's history. So while Alaska's employment picture appears predictable now, it wouldn't be surprising if some unforeseen economic wild card changes the hand that is dealt to Alaska's economy.

Figure • 2

Services, Trade, Construction Lead Job Growth to 1995



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

Retail & Construction Jobs Keep Economy Growing

by Neal Fried

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In 1993 employment in Anchorage finally moved beyond its pre-1986 economic crash levels. During the next two years, Anchorage's economy will build on this base to reach new highs, as another 4,100 jobs are forecast to be added to its work force. A 2.6% rate of growth is forecast for 1994, mirroring 1993. (See Figure 1.) Unlike 1993, however, 1994's growth will be led by retail trade. (See Table 1 and Figure 2.) Construction and services will also be important sources of employment increases, as they were in 1993. It is anticipated that by 1995 some of this momentum will be lost as the retail boom slows and the state's tenuous fiscal picture begins to take its toll.

Under a number of circumstances this forecast could easily be derailed. Looking at history, Alaska's economy is forever delivering surprises. There is one known factor that

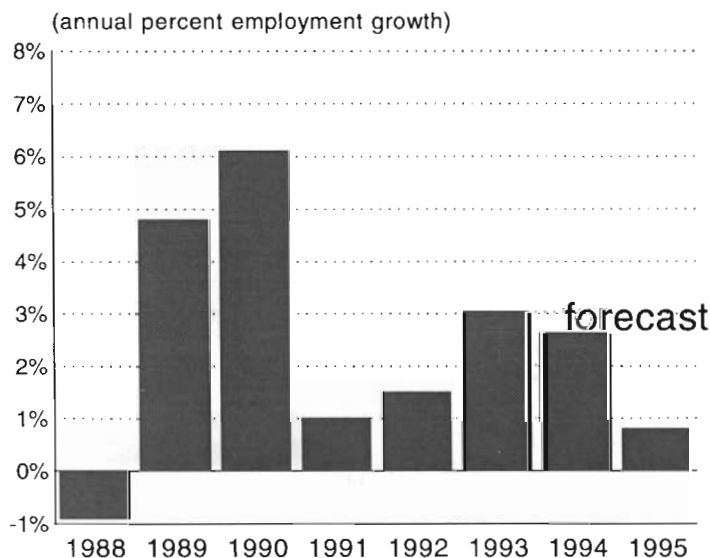
could cause a dramatically different outcome—the state's present fiscal picture. This forecast assumes legislators will trim the operating budget and sharper cuts will affect the capital budget.

The city's basic sectors will take a back seat

One peculiar element in this two-year forecast is the fact that little of the economic stimulus will come from Anchorage's basic sectors. Outside of tourism and some of the construction activity, few basic-sector employers will contribute to Anchorage's expanding work force. Anchorage's largest basic industry, the public sector, will at best remain flat and could easily lose some ground. The military's presence will shrink with the downsizing of Fort Richardson. Low prices will keep the oil industry in check. Without very much help from these primary sectors, how can Anchorage's economy grow?

Figure • 1

Anchorage's Employment Will Continue to Grow



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

Retail trade will lead the way

In 1994, retail trade's employment numbers are going to dominate the picture. Although several new retailers opened their doors in 1993, most of them only did so near the end of the year. They include Kmart, Fred Meyer, Pace (now Sam's Club), and Toys "R" Us, along with the expansion of a number of other retailers. The 1994 employment numbers will get an important boost from these new retailers because it will be the first full year their employment will be counted.

There will also be new additions in 1994. Two new Wal-Marts and a Kmart will open their doors in early 1994, boosting retail employment by another 650 jobs. In late 1994, Kmart plans to open three specialty stores—Office Max, Sports Authority and Border Books—which will add another 200 jobs to retail. Other retailers and eating and drinking places will be opening or expanding in 1994, further augmenting the industry's numbers.

Anchorage Nonagricultural Wage & Salary Employment Forecast 1994-1995

	1992 Annual Average	1993 Annual Average	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94	1995 Annual Average	Absolute Change 94-95	Percent Change 94-95
Total Nonag. Wage & Salary	113,800	117,200	3.0	120,300	3,100	2.6	121,300	1,000	0.8
Goods-producing	10,800	11,300	4.6	11,800	500	4.4	11,600	-200	-1.7
Mining	3,400	3,300	-2.9	3,100	-200	-6.1	3,000	-100	-3.2
Construction	5,400	6,100	13.0	6,800	700	11.5	6,700	-100	-1.5
Manufacturing	2,000	1,900	-5.0	1,900	0	0.0	1,900	0	0.0
Service-producing	103,100	105,900	2.7	108,500	2,600	2.5	109,700	1,200	1.1
Transportation	12,000	12,400	3.3	12,700	300	2.4	12,900	200	1.6
Trade	26,200	26,200	0.0	27,500	1,300	5.0	28,100	600	2.2
Wholesale Trade	5,800	5,800	0.0	5,900	100	1.7	5,900	0	0.0
Retail Trade	20,400	20,400	0.0	21,600	1,200	5.9	22,200	600	2.8
Finance-Ins. & Real Estate	6,500	6,800	4.6	6,900	100	1.5	6,900	0	0.0
Services & Misc.	29,900	31,200	4.3	32,000	800	2.6	32,700	700	2.2
Government	28,400	29,400	3.5	29,400	0	0.0	29,100	-300	-1.0
Federal	11,200	11,800	5.4	11,600	-200	-1.7	11,500	-100	-0.9
State	8,100	8,200	1.2	8,100	-100	-1.2	7,900	-200	-2.5
Local	9,100	9,500	4.4	9,700	200	2.1	9,700	0	0.0

Can the local economy absorb all of this new retail growth? The short answer is probably not. Given the present economic climate there certainly will be attrition. Some retailers will end up closing their doors and others will curtail their operations. There are already signs of this happening. If Anchorage's basic industries were healthier, absorption would be easier and retail growth would be more vigorous than forecast. In the longer run, the health of this industry will be determined by the health of the state's basic industries.

Construction will remain strong

The momentum for construction growth that began in 1993 will carry forward into 1994, although the mix may be slightly different. The commercial side of construction will taper off since most of the new large retail outlets are built and the Prince Hotel is nearing completion. On the other hand, public construction should gain momentum. The new \$160 million Alaska Native Medical Center, Anchorage's single largest building project, will move into full swing this year. It has a 1996 completion date. The new \$40 million court house also will move into its major construction phase in 1994, with a 1995 com-

pletion date. Two federal agencies—the FBI and Health and Human Services—are also erecting new office buildings in 1994. And the Air Force is slated to begin work on a \$160 million hospital at Elmendorf.

School construction could provide a big boost beginning in 1995 if voters approve a \$170 million bond package. The school district is already scheduled to build a new elementary school this year in Eagle River along with a number of additions. Highway construction in the Anchorage area is likely to be similar to year-ago levels. The biggest projects will be along the Seward Highway.

Residential construction is expected to perform at levels close to 1993, when 1,194 housing units were permitted in Anchorage. This was the largest number since 1985. Some negatives for the housing market are rising prices, more economic uncertainty, and rising interest rates. The strengths are low vacancy rates, relatively low interest rates and strong demand. The expectation of higher interest rates in the future could spur on present demand. On the other hand, the market could easily be spooked by bad news coming out of Juneau or the oil industry.

Subtotals may not add due to rounding.

Government includes teachers in primary and secondary schools and personnel employed by the University of Alaska.

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

It should be a good year for visitors

The present airline and cruise ship fare wars are a plus for the state's visitor industry. Cheap gasoline is also a positive for the segment of Alaska's visitor industry that depends on road traffic. A rebounding national economy can't hurt. Healthy sports fisheries and new hotels around the state also bode well for growth. The number of older Americans keeps growing—one of the most important segments of the state's visitor population. There is little that could stop this industry from continuing to expand during the next two years.

The opening of the new 300-room Prince Hotel in Girdwood in August will be a major event for the industry. It represents the biggest statewide effort yet to put winter tourism on the map.

Anchorage's largest private sector employer, services, is forecast to continue expanding during the next two years. Healthy visitor seasons will be one ingredient to its success. For example, the Alyeska Resort reports that the opening of the Prince Hotel will mean its staff levels could grow to 300 by the summer of 1995. Business services should augment this industry's growth as the trend continues for contract labor and temporary help services. Health services' strong growth of past years is likely to taper off some as the hospitals continue to trim their staffs.

Moderate growth will keep air transportation aloft

No dramatic changes for Anchorage's air transportation industry are predicted to take place during the forecast horizon. Steady increases in passenger and cargo traffic will help air transportation grow moderately. Both domestic and international passenger traffic should grow. Low air fares and strong visitor seasons will help keep the planes full. The number of international charters from Europe to Anchorage will increase in the summers.

The oil patch outlook is bearish

Low oil prices during the past seven months are putting a crimp on the industry. Both of the state's major oil producers, Atlantic Rich-

field and British Petroleum, headquartered in Anchorage, are revising their capital spending downwards. Exploration schedules are smaller than 1993's. Given the present environment, producers' employment will decline during the forecast horizon.

A decline in oil field services employment might not follow, however, because a major oil pipeline rehab project may help prop up their numbers. No dollar amount has yet been released, but hundreds of jobs will be generated by this work. Employment with Alyeska Pipeline—which is counted in transportation—will grow as a result, along with construction contractors, oil field service firms, engineering firms and others. Most of this work will be performed outside of Anchorage. Since Anchorage is home to most of the firms performing the work on this project, however, it will be a major beneficiary of this activity.

Anchorage can no longer depend on the public sector

Although public sector employment is often considered synonymous with security and never-ending growth, these adages may prove to be different in the future.

At the federal level the single largest blow will be the downsizing of Fort Richardson. By October 1994, 2,059 of the Fort's 4,149 troops will be gone. The military announced that civilian employment on the base will not be affected. A reduction in force of this magnitude, however, will eventually affect the civilian employment.

Possibly more important is the streamlining taking place in the federal government. Part of this process includes reducing the size of the federal government's work force. The number of jobs to be lost in Alaska is still unknown, but few departments will get by unscathed. It appears the federal regional service centers will be most affected by these reductions. This could mean Anchorage will feel the brunt of these declines. Most of these reductions will not be felt until 1995. The Department of Interior's Mineral Management Service in Anchorage, however, will cut its staff of 150 by more than 50 percent by October 1994.

At the state government level the story is not altogether different. With the state struggling with a \$2 billion deficit, there are pressures to reduce the size of state government. It is therefore likely that during the next two years state government employment will drift downwards. University of Alaska will be under similar pressures. Its employment, however, is likely to be affected less.

Since some of the same revenues which fuel the state sector do the same for Anchorage's municipal government and school district, their fiscal picture is also clouded. The city's 1994 budget was kept even with 1993 levels, assuming it would receive the same level of revenue sharing from the state as in 1993. There are strong indications, however, this may well be an erroneous assumption. The only reason local government is not forecast to lose ground in 1994 is because the school district's enrollments are predicted to continue growing. In turn, this may force the school district to hire additional staff, which could offset any declines the municipal government experiences.

It will get harder to find a "good" job

The fact that the economy will be generating thousands of new jobs over the next two years is good news for job seekers. The bad news is that better-than-average paying jobs are going to be harder to find. Retail and services are two of the three industries forecast to contribute the most jobs, and both pay below-par wages. In 1993 the average monthly wage for retail was \$1,553 and for services it was \$2,084. This compares to \$2,792 for the overall monthly industry wage. Construction's above-average wage of \$3,746 will partially offset this dismal wage picture. These lower wages will also likely keep income growth to a minimum.

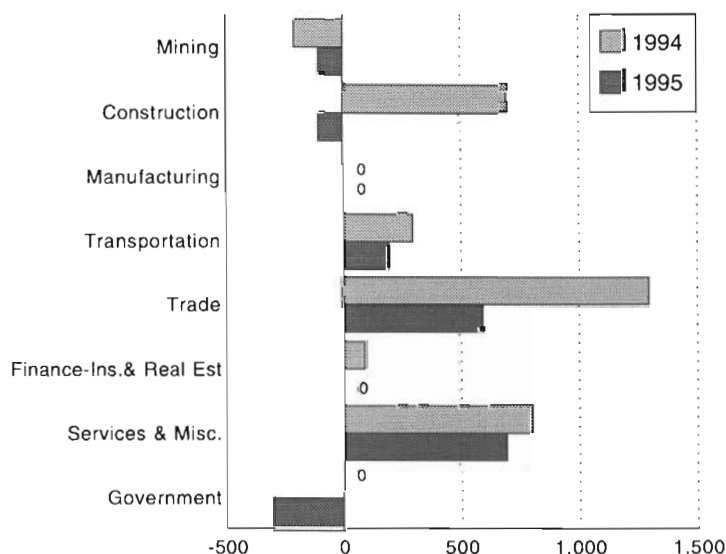
Summary: Retail, construction and services lead the way

Over the next two years Anchorage's wage and salary work force should grow by approximately 4,100 jobs. The mix of new jobs will be somewhat different from last year. Retail trade, services and construction will be responsible for most of the employment growth. Tourism looks like it is poised to contribute additional stimulus to the economy. The major oil pipeline rehab project Alyeska is undertaking will help boost business activity in Anchorage.

Few of Anchorage's basic sector employers such as oil, government and the military will be anteing up jobs. In some cases they will actually become a drag on the local economy. Low oil prices will keep the oil industry in the doldrums. Cuts in troops at Fort Richardson will shrink the military's role in Anchorage's economy. A poor fiscal picture at the state level will likely cause both state and local government employment numbers to drift downwards.

Figure • 2

Job Growth in Anchorage Will be Uneven in 1994-1995



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

Mixed Job Growth in Fairbanks' Future

by Holly Stinson

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Fairbanks grew at a 1.7% pace in 1993, adding 500 jobs to the economy. The employment forecast for 1994-95 calls for growth rates of 2.0% and 1.0% respectively. (See Table 1 and Figure 1.) The economy should add 550 new jobs in 1994 and then just 300 in 1995. Employment growth will be moderate, with most industries adding very few jobs and some adding none at all. (See Figure 2.) As in 1993, most of the job increases will be on the services-producing side of the economy. Unlike 1993, the public sector is not expected to contribute much to Fairbanks' employment growth this year or next.

Putting the squeeze on government budgets

Why won't the public sector continue to grow as it has in the past? One reason is that population growth should slow. As Fort Wain-

wright downsizes the 6th Light Infantry from a division to a brigade, 600 soldiers, plus dependents, will leave. Partially offsetting this loss at Fort Wainwright will be a net gain of fewer than 100 personnel at Eielson Air Force Base. Also, if the U.S. economy continues improving there would likely be fewer people migrating into the area than Fairbanks has seen in recent years. And slower population growth would mean less pressure on the public sector to provide additional services.

The other reason for little or no public sector growth is the budget squeezes occurring at the federal, state and local levels of government. Whether or not there is a larger populace demanding more public services, government at all levels simply cannot afford to provide much in the way of additional services. The federal government's streamlining program should keep federal jobs in Fairbanks from increasing in 1994, and sliding some by 1995.

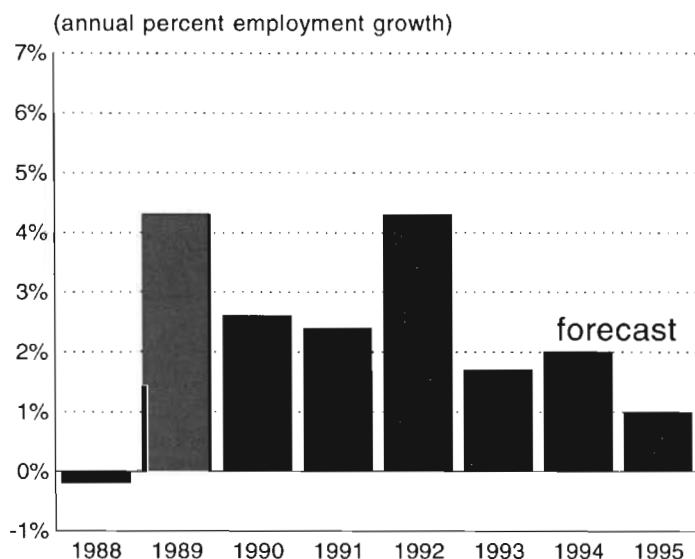
Assuming the state's budgets will be lower, a small increase of 25 jobs in 1994 and none in 1995 are forecast for Fairbanks. This takes into account some existing job growth at the University of Alaska through the current fiscal year ending June 30. At the local level, school district enrollment has been increasing about 1.5% annually. While the forecast includes some additional staff to handle more students, this is a best case scenario.

Tourists will boost services and transportation

With a slower population gain, demand for personal services such as health care and entertainment should increase at a slower rate. Growth in personal income, which also has a bearing on demand for services, has been sluggish. These are two reasons services jobs will increase but at a slower rate. This forecast calls for 200 new jobs in each of the next two years.

Figure 1

Fairbanks Will Add Jobs at Moderate Rate



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

Fairbanks North Star Borough Nonagricultural Wage & Salary Employment Forecast 1994-1995

	1992 Annual Average	1993 Annual Average	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94	1995 Annual Average	Absolute Change 94-95	Percent Change 94-95
Total Nonag. Wage & Salary	29,150	29,650	1.7	30,250	550	2.0	30,550	300	1.0
Goods-producing	2,650	2,600	-1.9	2,700	100	3.8	2,725	25	0.9
Mining	550	550	0.0	650	100	18.2	550	-100	-15.4
Construction	1,500	1,450	-3.3	1,450	0	0.0	1,550	100	6.9
Manufacturing	600	600	0.0	600	0	0.0	625	25	4.2
Services-producing	26,500	27,100	2.3	27,550	450	1.7	27,825	275	1.0
Transportation	2,100	2,150	2.4	2,200	50	2.3	2,250	50	2.3
Trade	6,650	6,750	1.5	6,850	100	1.5	6,875	25	0.4
Wholesale Trade	800	800	0.0	800	0	0.0	800	0	0.0
Retail Trade	5,850	5,950	1.7	6,050	100	1.7	6,075	25	0.4
Finance-Ins. & Real Estate	1,050	1,050	0.0	1,075	25	2.4	1,075	0	0.0
Services & Misc.	6,450	6,700	3.9	6,900	200	3.0	7,100	200	2.9
Government	10,250	10,450	2.0	10,525	75	0.7	10,525	0	0.0
Federal	3,250	3,300	1.5	3,300	0	0.0	3,250	-50	-1.5
State	4,200	4,250	1.2	4,275	25	0.6	4,275	0	0.0
Local	2,800	2,900	3.6	2,950	50	1.7	3,000	50	1.7

A good portion of the services industry is impacted by tourism. Hotel employment got a boost in 1993 when the new Princess hotel opened; a full year of this facility's employment will add to the job count in 1994. A private developer may build a smaller, 75-room hotel, along with an RV park and restaurant, later in 1994 on land leased from the Alaska Railroad. A full year of employment at this new hotel won't be counted until 1995.

A strong tourist industry will keep Fairbanks' services sector healthy in 1994-95. It should also contribute to small gains in transportation jobs as it has in prior years. Air transportation, which accounted for many new jobs in recent years, has leveled off for now. Efforts to attract new cargo and/or passenger traffic, though, could once again mean new jobs in this sector.

Construction jobs remain steady

This forecast calls for no further job loss in the construction industry in 1994; construction lost 3.3% or 50 jobs last year. Several ongoing projects should allow this industry to maintain 1993 levels of employment. The

\$30 million natural science building at the university, and some new facilities at Poker Flat, are among the biggest projects on the 1994 horizon for Fairbanks.

Housing projects begun last year also will keep construction workers busy in 1994. At Eielson Air Force Base, work will finish this summer on converting 8-plexes to 4-plex units; a new housing project also will continue. Alaska Housing Finance Corporation has low-income and senior housing projects underway in Fairbanks.

If the clean coal project at Healy begins this year, it could provide job opportunities for Fairbanks residents. Closer to Fairbanks, the proposed Fort Knox gold mine is waiting for a wetlands permit from the Army Corps of Engineers. If it issues one soon, some preliminary construction work could get under way this summer. Next year, however, looks firmer for a construction work force of 200 at the Fort Knox project (during the six-month construction season). The construction phase will take two years, so mining jobs wouldn't materialize until 1997 at the earliest.

Subtotals may not add due to rounding.

Government includes teachers in primary and secondary schools and personnel employed by the University of Alaska.

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

The jump in mining jobs forecast for 1994 is in the oil and gas portion of the mining industry. Fairbanks will see a boost in jobs associated with the oil pipeline rehab and code compliance project in 1994. Since it is currently slated to be a one-year project, these jobs should then disappear in 1995.

Fairbanks' retail boom heads south

Fairbanks led the way in Alaska's recent retail boom, beginning with the opening of a new Sears and a Fred Meyer in late 1991. On their heels came Pace and Valu Village in 1992, and Kmart in 1993. Wal-Mart and Carrs Foods would have followed in 1994 were it not for a denial to lease land from the University of Alaska. For now the retailers have turned their attention south to Anchorage, the Kenai Peninsula, Juneau and rural areas.

In 1993 Fairbanks' retail employment did not grow as much as the new stores' job count would dictate. This points to a decline in employment with smaller, established retail

stores. Increasing competition may mean stagnant or declining job counts in the next two years. Since Kmart opened late in 1993, though, this forecast still calls for a net increase in retail employment in 1994. It does not allow, however, for an increase as large as the total new jobs at Kmart would call for. If either Wal-Mart or Carrs went ahead with a new Fairbanks store in 1994 or 1995, the forecast would change. Another aspect of retail trade, eating and drinking establishments, did well in 1993 and should contribute some job growth over the next two years also.

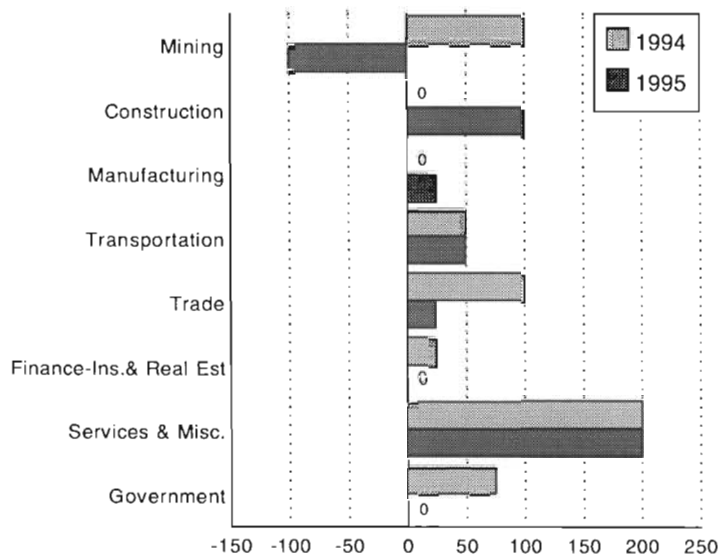
Summary

The forecast calls for an overall growth rate in Fairbanks of 2.0% in 1994, slowing to 1.0% in 1995. This means an additional 550 and 300 jobs in the next two years in Fairbanks' economy. Services, the industry with the strongest growth in 1993, will continue to add jobs but at a slower pace. Other industries that should gain employment in Fairbanks are transportation and retail trade. The oil industry should have more jobs in 1994 but they will disappear by 1995 as the pipeline rehab project is completed.

Unlike previous years, the public sector is not forecast to be a job generator in the future, as all levels of government struggle to stretch budgets over declining revenue. By 1995 Fairbanks will likely have fewer federal and possibly state public servants. While the public sector may shrink, the private sector is forecast to keep creating new jobs or, at worst, hold even with its current employment.

Figure • 2

Where Fairbanks' Job Growth Will Be in 1994-1995



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

Southeast Inches Ahead

by Tom Lane

Employment grew slowly (and fitfully) in Southeast in 1993 (1.0%), and the slow pace will continue with increases of 0.8% in 1994 and 1.1% in 1995. (See Table 1 and Figure 1.) These forecasts anticipate continued strength in tourism, construction, services and retail trade, as well as firm seafood processing employment, and only minor cutbacks in government jobs. (See Figure 2.) They assume that the Wrangell sawmill will not close and that the Ketchikan pulp mill has gained some stability. They also assume that exploration activity at Juneau's Greens Creek and AJ mines will remain strong but development will not take place during the forecast period. Moreover, major employment impacts from any conversion of the closed pulp mill in Sitka to fiberboard production are not likely to occur until after 1995.

Mining—recovering from Greens Creek closure

Mining employment has come back considerably since the shutdown of the Greens Creek mine last year, but the new employment is for exploration not production. The Greens Creek mine is attempting to define its ore body and will conclude a feasibility study early in 1994. If the investing companies agree that development looks promising, the mine could then gradually shift into production. Zinc is the most important metal for the mine, although silver is also important and gold and lead are significant. Major improvement in zinc prices probably awaits a recovery in the Japanese and European economies and, possibly, a cutback in noneconomic production in Europe. The investing companies will not just be looking at current prices but at future trends when evaluating production feasibility and a longer term perspective should help the mine's chances.

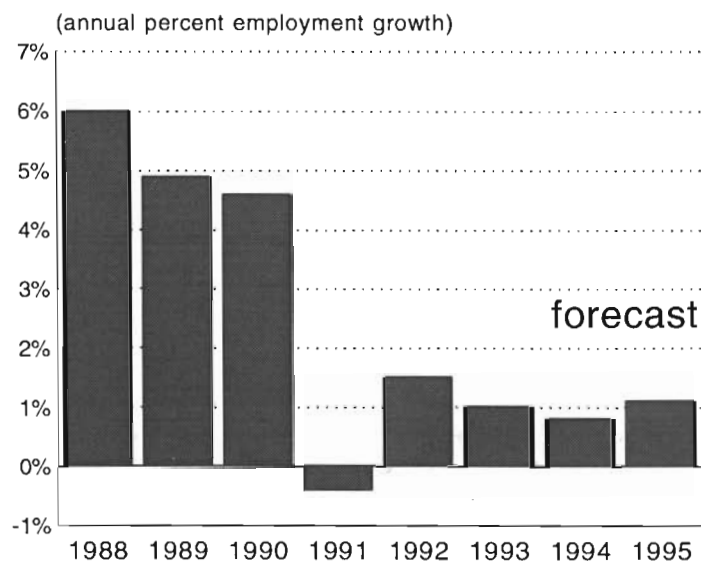
The timing of AJ gold mine development and production is more complex and depends both on prices for gold and on the ability of Echo Bay Mines (the developer) to obtain permits. Trying to predict the direction of

gold prices is fruitless. Nevertheless, probably the safest assumption is that prices will stay at roughly current levels through 1995. Demand for gold is strong but inflation (good for gold) remains low. Moreover, the Federal Reserve Bank may be specifically targeting gold prices as an indicator of future inflation. If so, major increases in gold prices will lead to increased interest rates which in turn could dampen gold prices. The company has said it can operate the AJ mine at today's prices but its sister development, the Kensington mine, needs a price of over \$400 per ounce. In any case, the forecast assumes that the AJ permit process and associated court actions will delay the full construction phase until at least the end of 1995.

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Figure • 1

Continued Slow Growth for Southeast Employment



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

Southeast Alaska Nonagricultural Wage & Salary Employment Forecast 1994-1995

	1992 Annual Average	1993 Annual Average	Percent Change 92-93	1994 Annual Average	Absolute Change 93-94	Percent Change 93-94	1995 Annual Average	Absolute Change 94-95	Percent Change 94-95
Total Nonag. Wage & Salary	34,200	34,550	1.0	34,825	275	0.8	35,225	400	1.1
Goods-producing	6,000	6,050	0.8	5,950	-100	-1.7	5,975	25	0.4
Mining	350	200	-42.9	200	0	0.0	225	25	12.5
Construction	1,200	1,500	25.0	1,550	50	3.3	1,500	-50	-3.2
Manufacturing	4,500	4,350	-3.3	4,200	-150	-3.4	4,250	50	1.2
Seafood Processing	1,400	1,500	7.1	1,550	50	3.3	1,525	-25	-1.6
Forest Products ^{1/}	2,800	2,550	-8.9	2,325	-225	-8.8	2,375	50	2.2
Service-producing	28,150	28,500	1.2	28,875	375	1.3	29,250	375	1.3
Transportation	2,850	2,900	1.8	2,950	50	1.7	3,000	50	1.7
Trade	5,800	6,000	3.4	6,225	225	3.8	6,425	200	3.2
Wholesale Trade	550	550	0.0	550	0	0.0	525	-25	-4.5
Retail Trade	5,200	5,450	4.8	5,675	225	4.1	5,900	225	4.0
Finance-Ins. & Real Estate	1,200	1,250	4.2	1,275	50	2.0	1,300	25	2.0
Services & Misc.	5,650	5,900	4.4	6,100	200	3.4	6,300	200	3.3
Government	12,700	12,450	-2.0	12,325	-125	-1.0	12,225	-100	-0.8
Federal	2,200	2,050	-6.8	2,025	-25	-1.2	2,000	-25	-1.2
State	5,600	5,450	-2.7	5,400	-50	-0.9	5,350	-50	-0.9
Local	4,900	4,950	1.0	4,900	-50	-1.0	4,875	-25	-0.5

^{1/} Includes Pulp Mills as well as Lumber and Wood Products.

Subtotals may not add due to rounding.

Government includes teachers in primary and secondary schools and personnel employed by the University of Alaska.

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

Another good year for construction

Last year, construction employment in Southeast reached its highest level since 1985. This year should see a small expansion of construction employment that could taper off in 1995. The new Kmart in Juneau will be finished in April and construction of the new Carrs will begin this year, with completion expected by November. Major road projects in Juneau, Sitka, Petersburg, Wrangell and Ketchikan will also be underway this year. The state hired a Ketchikan construction company (Ty-Matt) to repair and operate the Ketchikan shipyard. The yard has now received the contract to overhaul the Alaska ferry *Malaspina*. If successful, the state will transfer more ferry maintenance to Ketchikan. (Most maintenance is now done outside of Alaska, except for some in Seward.)

Low vacancy rates and still-low interest rates should make for a strong residential construction season in Juneau, assuming no massive layoffs of state employees. Construction will also begin on a 67-unit senior citizens' apartment complex. The Ketchikan residential market is also tight but supply and cost of land may moderate development. If residents feel more assured about the im-

mediate future of the pulp mill this year, more residential construction may occur. Individual residential construction in Sitka will probably be limited because the community is still dealing with the pulp mill closure. Sheldon Jackson College, however, has turned over land for a low income housing project with 45 units (mostly single family, with a few duplexes). The project will provide about 25 jobs for up to two years.

While 1994 will be another good year for construction, it is difficult to say what lies on the horizon in 1995 and the forecast numbers could be optimistic. If the AJ mine started up earlier than forecast, construction employment could increase substantially.

Forest products—is this the bottom?

The last year has been bumpy for the forest products industry in Southeast. Restricted timber supplies and weak pulp prices led to an extended maintenance shutdown of the Ketchikan pulp mill and to the complete closure of the Sitka pulp mill. Pulp prices show some signs of improving, but are likely to remain weak during the forecast period. Moreover, supply remains a problem and the Sitka mill is not likely to reopen as a pulp

mill (but a surprise is always possible). With Forest Service approval, it may be reborn as a fiberboard plant but without significant employment impact during the forecast period.

Lumber has been a different story and prices should remain strong over the forecast period. Sawmill employment will be solid if timber supply problems do not worsen. For the first time, the sawmills are selling significant amounts of lumber into the Pacific Northwest market. One problem overhangs the sawmill in Wrangell: the Forest Service has threatened to cancel its long-term contract with the Alaska Pulp Corporation (APC) unless the company develops plans to reopen the Sitka mill. The company has asked the Forest Service to maintain the contract while it studies the feasibility of conversion to fiberboard production. APC says that without its contract, it might have to shut the Wrangell mill.

In Ketchikan, pulp mill employment now seems more stable, although the owner, Louisiana-Pacific Corporation, announced its intent to sell a majority stake in the mill. The company received approval for a cut on Prince of Wales and the Forest Service has been working to assure a three-year supply of timber for the company.

This year we have not treated pulp mill jobs separately but have forecast employment in a broad forest products category that includes pulp mills, sawmills and logging. A separate forecast is no longer appropriate because it requires predictions of employment at a single plant of a single company (the Ketchikan pulp mill). If the Sitka pulp mill reopened as a manufacturer of fiberboard, its employment would not be included in the pulp mill category.

Seafood processing—weak prices; strong employment

Once again, the expectation is for favorable salmon runs in Southeast, but poor prices. While harvesters and processing companies will continue to be pressed financially, seafood processing employment may increase slightly. Nonetheless, poor prices and world oversupply will continue to plague the in-

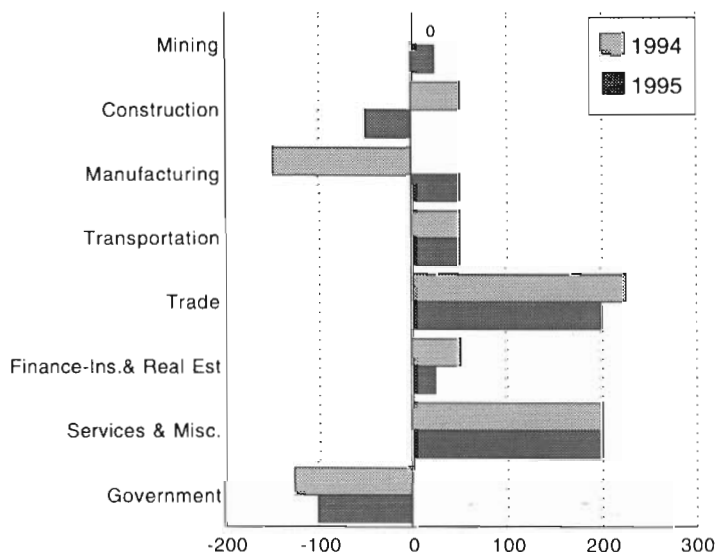
dustry. The Japanese economy, now in recession, should improve—a positive factor for fisheries—but available supply has increased so much that prices are not likely to rebound to past levels. Capitalizing on niche markets offers some promise, at least at a small scale. Taku Smokeries in Juneau is expanding its fish processing business into a restaurant and visitor center to capture the ever increasing stream of cruise ship tourists.

Tourism—no limit? Services and retail trade—job generators

Tourism, especially cruise ship tourism, will continue to grow as more and more large ships replace smaller ones and more cruise companies enter the Alaska market. In 1993, the region had slightly over 300,000 cruise ship visitors, but expects at least 350,000 this year and 400,000 in 1995. Ferry visitors will increase also. Only one ferry will make the run to Bellingham, Washington. Three, rather than two, will run to Prince Rupert, decreasing turnaround time and increasing effective capacity.

Figure • 1

Where the New Jobs Will Be in Southeast, 1994-1995



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

Growth in tourism will impact several industry groups. Incremental growth in the transportation sector will accommodate more tourists. Water transportation employment will show some decline in the near term because of the Sitka mill shutdown.

Tourism will also have an impact on segments of the retail trade and services industries. A full year of employment at the new Price-Costco outlet in Juneau and the opening of a Kmart and Carrs there will also help to boost average annual retail employment in 1994 and 1995. Significant growth in services employment should continue in the future.

In the health care portion of services, hospitals may show some employment declines. Increased outpatient and home care, along with competition from out-of-state hospitals, is pressuring the region's hospitals. Although most Southeast hospitals are municipally operated and included in government employment, those in Ketchikan and Mount Edgecumbe (Sitka) are privately operated.

Government cutbacks, but no massive layoffs

The federal government, despite the emphasis on "reinventing government" and increasing efficiency, should suffer only minor job cutbacks. The U.S. Forest Service, a major employer in Southeast, faces considerable staff cutbacks in other western states. Alaska will hardly be affected, although Juneau headquarters staff may decline slightly.

It is impossible to predict what will emerge from this year's session but the legislature does not seem to want massive layoffs. The legislature could act more aggressively, however, especially if oil prices remain low during the 1995 session.

Local government will feel the pinch of budget cutbacks with an expected 10-15 percent cut in state aid to municipalities. The three

largest communities in the region are all contemplating teacher layoffs. While some tax increases may offset part of the cuts in state aid, service cutbacks are likely.

Summary: slow growth likely, but hazards ahead

Slow growth for Southeast is a tenuous forecast because it depends on guesses about political decisions or specific decisions by individual firms. The growth expected in retail, services, and construction (at least for 1994) is most certain because many of the relevant decisions have already been made: the cruise lines have new, larger vessels, Kmart's Juneau store is almost complete, Carrs has committed to building a store, and so forth. Mining employment seems secure for this year for exploratory activity, but is more uncertain in 1995. If the AJ mine receives its permits earlier than expected and construction begins, 300 more jobs could be added to Juneau's economy in short order. The Greens Creek mine, despite its plans, could also begin production sooner than forecast if deposits look promising.

Forecast stability for the forest products industry depends on U.S. Forest Service decisions, and for pulp, on market stability (the market for lumber is very solid). Particularly at risk is the Wrangell sawmill, but the Ketchikan pulp mill is not entirely secure. The forecast for the government sector includes only minor cutbacks, but the legislature could always force dramatic cuts in both state and local government employment. The prediction of only minor federal government employment reductions, however, seems safe. Greater cuts might occur, but the timing for them would likely extend beyond the forecast period.

The forecast of increased seafood processing employment despite lower prices could easily be off base if predicted strong salmon runs don't occur or if prices go so low that processing fish no longer makes any sense.