

The Changing Role of Alaska's Construction Industry

By Neal Fried

Compared to the last several years, the 1991 season appears to be a busy one for Alaska's construction workers. Detours and traffic congestion plague many communities this summer because of road construction. More new homes are dotting the landscape. Construction of a few office buildings and retail shopping centers is taking place — a rare sight in Alaska during the past five years. Is Alaska's construction industry on the verge of recapturing the prominent place it held many times over the past thirty years?

Construction as the principal economic barometer

Historically, the construction industry was often used as the state's chief economic barometer because it played such an influential role. In the 1960s the construction industry employed 8-9% of Alaska's wage and salary work force. Today it employs 4.4% (See Figure 1.) In 1970, a year considered average for construction, the industry employed 7.5% of the state's wage and salary work force. The same year Anchorage issued 3,000 residential housing permits (and Anchorage's population was less than half its present size). That is more than double and possibly triple the number that will be issued for the entire state in 1991.

After construction began on the trans-Alaska pipeline in 1975, the industry became the state's second-largest employer. In 1976 it had the largest payroll — \$1.5 billion — and employed more than 30,000 workers. Even when employment fell to 10,000 in 1979, construction still employed 6% of Alaska's wage and salary work force.

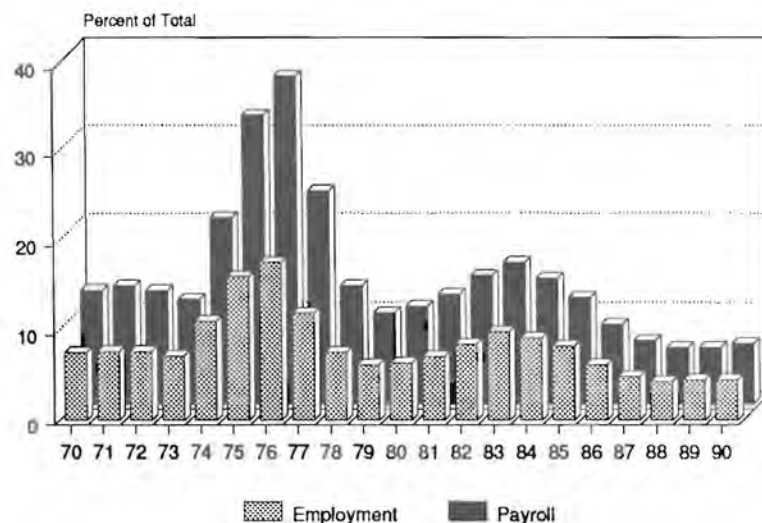
The construction cycle began again in 1980 with the increase in oil prices and, in turn, oil revenues. The oil industry also made significant investments in infrastructure. For four years the state spent more than a billion dollars a year on capital construction projects. (See Figure 2.) Residential and commercial construction projects followed. Residential building permits reached 12,000 in 1983. During the 1980-1983 period construction employment grew by more than 20% per year. Employment peaked at 20,700, or 9.7% of the state's work force, in 1983. Unlike the pipeline boom, this construction boom was spread across the state.

The construction industry's payroll carried even more economic punch than the jobs it created. Up until 1978 the industry's average monthly wages were the highest in the state. In 1979 construction's average monthly wage fell to second place behind the oil and gas sector, but had a clear lead over most industries. Construction earnings were above average because of higher-than-average hourly wages. The prevalence of overtime work, paid at one and a half times the base wage, further inflated earnings.

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Figure 1

Construction's Share of Employment and Payroll Levels Off



Source: Alaska Department of Labor, Research & Analysis

Oil crash altered construction's role

The industry's decline actually began before the crash of 1986. Construction employment peaked in 1983 and then began dropping. The severe decline did not begin until 1986; the slide did not end until 1989. (See Figure

3.) By then the construction industry dipped to less than half its 1983 size. It lost more jobs than any other industry—more than half of the 21,000 jobs lost during the recession were in construction. It is the only industry that is beyond the reach of its most recent peak.

Not only has employment in this industry become a shadow of its past, but its payroll has also lost some punch. (See Figure 1.) The reasons are not completely clear. Less overtime pay could be one. The industry became more competitive as contractors chased after less work. Downward pressure on hourly wages deflated earnings. Construction's 1990 average monthly wage in nominal dollars (not adjusted for inflation) was below the 1981-1984 period, while the average monthly wage for all industries has grown.

The construction industry is probably not on the threshold of another boom. Generally, an upswing occurs when one or more of Alaska's basic sectors grows and demands an increase in infrastructure. In Alaska it has meant the demand for a new oil pipeline, a military base, a fish processing plant, a new mine or a jump in oil revenues, which in turn prompts an increase in publicly-financed infrastructure. An increase in population then occurs, which results in additional construction activity in the residential and commercial sectors.

Construction began to recover with the rest of the economy in 1989. Unlike strong recoveries in Alaska's economy in the 1950s, 1970s and 1980s, the most recent recovery was not led by construction. In 1989 the construction industry

Figure • 2

Alaska's Capital Budget Shrinks

Source: ISER, University of Alaska-Anchorage

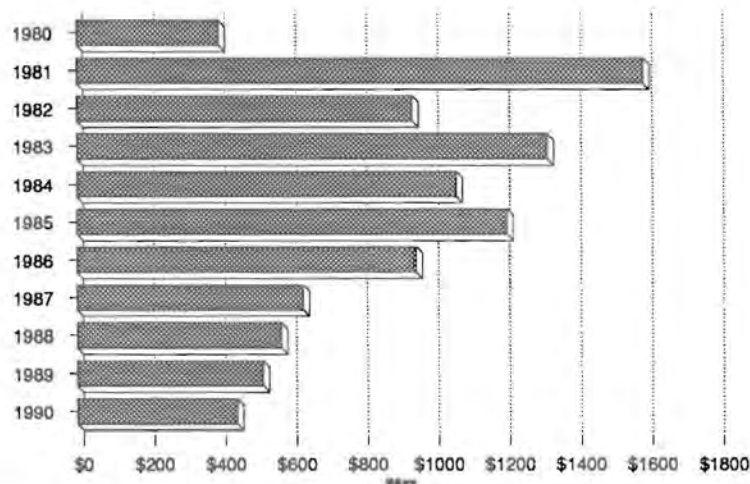
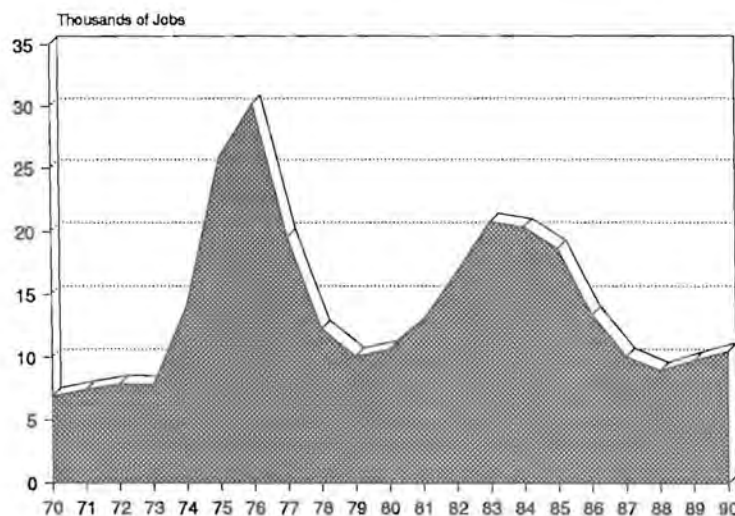


Figure • 3

Up's & Downs in the Construction Industry

Source: Alaska Department of Labor, Research & Analysis



grew only slightly faster than the rest of the economy. (See Figure 4.) This weak recovery in construction was no surprise, given the large inventory of commercial and residential property on the market. It may also be a sign that construction's role in the state's economy is changing.

In spite of the conspicuous increase in construction activity, overall employment in the industry in 1991 hasn't changed much from 1990 levels. Employment in the industry for the first half of 1991 grew 2.6%. As the year progressed the growth rate dwindled. By May, employment was falling compared to year-ago levels.

Does this mean the apparent increase in construction activity is an illusion? Yes and no. Yes, there is more residential activity. Yes, there is more commercial activity. And yes, there is also more road construction. Housing permits and highway budgets support the contention there is an upswing in these areas.

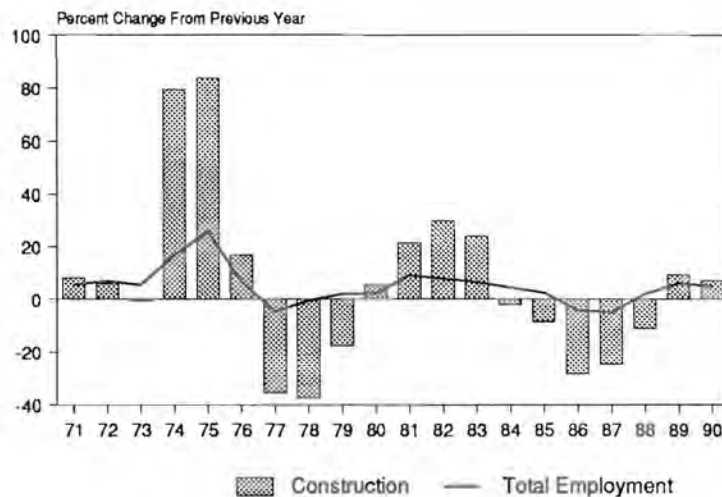
The number of residential building permits issued could nearly double this year. Road construction is on the upswing. The new five-cent-a-gallon gasoline tax boosted federal highway funds. The Alaska Department of Transportation estimates the state received about \$25 million more in federal highway funds in FY 1992. Next year could see a similar increase. The 1992 state capital budget grew by \$87 million, the largest increase since 1985. There is little doubt commercial construction is more lively than in the past several fallow years.

For example, three major national retailers are building new stores in Fairbanks and Juneau. Office buildings and additional retail space are being built in Anchorage. Princess Tours is building a new hotel in Fairbanks. So why doesn't employment data reflect an upsurge in activity?

Fewer large construction projects today

The number of large construction projects (in the \$20-100 million range) has declined. Because most of these projects were at remote sites or were military-related,

Construction Often Led Economic Swings



Source: Alaska Department of Labor, Research & Analysis

they were not very conspicuous. When these projects were completed or began to wind down, it was not noticeable to the casual observer.

As an example, construction projects for the new 6th light infantry division at Fort Wainwright in Fairbanks represented one of the state's largest source of construction employment since 1985. To date the army has spent more than \$550 million. In 1988, the military appropriated \$140 million for this project and the construction work force exceeded 1,000. Combining these figures with construction activity at Eielson Air Force Base in Fairbanks, the figures climb even higher. (See Figure 5.) This construction peaked in 1988 and is now falling.

Other military construction includes the Navy's recently completed \$60 million backscatter radar in Amchitka. The \$57 million the Navy spent in federal fiscal year 1990 at Adak has fallen to the \$25-30 million range. Statewide, most defense-related work is on the wane because of defense spending cuts. Defense work in the Aleutian Islands has also fallen off.

More recently, several fish processing companies built new plants in Dutch Harbor. Universal Seafoods recently completed a \$60 million dollar plant; Westward is nearly done building a \$70 million plant.

The \$328 million Bradley Lake project near Homer also falls into the remote class. This hydroelectric project began in 1988. It employed hundreds of work-

ers, peaking at 378. This July there was a construction crew of 47 at the site putting the finishing touches on the project. Going back a little further, the development phase of the Red Dog lead and zinc mine northwest of Kotzebue was another large project. Construction crews peaked at 700 in 1989; the construction phase of Red Dog ended in 1990.

Even oil sector-related work, an important source of construction activity during the past three years, is subsiding. The oil companies finished installing the \$450 million GHX-1 gas-handling project during the 1990 construction season. Pipeline repair work is also not reaching the levels it did last year.

Variety of construction projects changes

Alaska's present construction mix is changing. Big industrial-type construction activity is giving way to more residential, commercial and road construction activity. The increase in residential and commercial activity is in response to a growth in population, not infrastructure. Most of this population growth is a result of an expanding economy in its third year of recovery.

getting underway or have not yet begun. For example some of these are:

- \$50-60 million hotel at the Alyeska Resort in Girdwood
- \$20 million U.S. Fish & Wildlife Visitors Center in Homer
- \$17.7 million Alaska Job Corps Center in Palmer
- \$16 million for Coast Guard housing in Kodiak
- \$9.7 million Carrs Quality Center store in Kenai
- \$7.7 million dock in Unalaska
- \$5 million new Alaska Railroad headquarters in Anchorage

The increase in residential, commercial, and road construction activity may not be large enough to replace the completed larger projects. There are already signs builders are approaching the residential market a bit more cautiously than they initially were in late 1990. More likely, construction may remain uncharacteristically stable during the next few years.

Conclusion: construction's economic role may remain small

Maybe it was inevitable that construction's role in Alaska's economy would diminish over time because of the remarkable expansion of the retail trade and services industries. Today 41% of Alaska's employment is with these two industries compared to 29% in 1970 and 35% in 1980. Given Alaska's youth as a state and the fact that economies are often reborn, this change might best be referred to as an increase in complexity or evolution in Alaska's economy.

In the immediate future some economic factors will act as a brake to prevent any construction boom. The tax incentives for commercial construction disappeared with the 1988

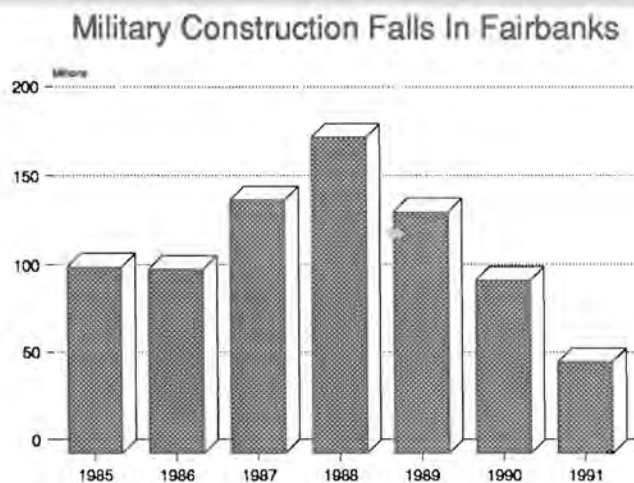
Tax Reform Act. Bankers are not about to open their vaults to real estate loans as readily as they did in the early 1980s. There is no expectation of a run up in oil revenues any time soon—a decline is much more likely. The economy is beginning to slow down.

This does not preclude construction from recapturing its preeminent role in the Alaskan economy. It would, however, take something on the magnitude of a gas pipeline or development of ANWR for the construction industry to once again reach its former prominence.

Figure • 5

Military Construction Falls In Fairbanks

Source: Fairbanks North Star Borough, Community Research Center



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As a result, absorption of residential and commercial space has taken place. It is also not unusual to see new commercial entry into a market after a period of economic recovery. Investors need some convincing that a recovery is indeed in motion before they are willing to commit. The economy's performance in 1989 and 1990 was pretty convincing.

It is possible that the present decline in construction employment could simply represent a lull in activity. Several sizeable construction projects are either just