

1989: Economic Revival Plus An Oil Spill Boom

By John Boucher, Neal Fried, Brian Rae, Holly Stinson

When Alaskans reflect on 1989, many will deem it "The Year of the Spill." The March 24 grounding of the supertanker *Exxon Valdez* on Bligh Reef in Prince William Sound and the resulting oil spill cleanup effort dominated the headlines and mind-set of Alaskans for most of the year.

With an event of such enormous proportions, it's easy to attribute the 1989 turnaround in the Alaska Department of Labor's economic indicators to the oil spill. Employment in the state grew 6.4% from 1988. (See Table 1.) And the 6.7% statewide unemployment rate shattered the previous comparable low of 8.0% set in 1976. But a close look shows that Alaska's economic indicators were rebounding prior to the oil spill.

During the nine months prior to the oil spill, July 1988 to March 1989, employment growth averaged 2.7%. Further, growth was accelerating prior to the spill. Comparing the 1st quarter of 1989 to the 1st quarter of 1988 showed a 3.9% rate of employment growth. The unemployment rate followed the same pattern as employment. Throughout the second half of 1988, the statewide rate was setting records for all-time lows. And by March 1989, the trend to set the all-time low was firmly established.

Despite what trends were established prior to the spill, the spill's effect on employment and unemployment cannot be denied. While it's clear that employment was growing prior to the oil spill, it is equally clear that employment would not have grown 6.4% without the spill. The same analogy can be made for unemployment.

How Much of '89 Growth Was Spill-Related?

How much of the recovery was spill-related and how much was going to happen regardless of the spill? An exact number is impossible to obtain, but a reasonable estimate can be made. The starting point is to identify employment

Table 1

Alaska Wage and Salary Employment Change 1988-1989

	1988	1989	Change	Percent Change
Total Nonag. Wage & Salary	213,700	227,300	13,600	6.4%
Goods-producing	33,500	35,900	2,400	7.2
Mining	9,600	10,100	500	5.2
Construction	9,000	9,800	800	8.9
Manufacturing	15,000	16,000	1,000	6.7
Durable Goods	3,500	3,700	200	5.7
Lumber & Wood Products	2,700	2,900	200	7.4
Nondurable Goods	11,500	12,300	800	7.0
Seafood Processing	7,900	8,600	700	8.9
Pulp Mills	900	900	0	0.0
Service-producing	180,200	191,400	11,200	6.2
Transportation	17,400	20,700	3,300	19.0
Trucking & Warehousing	2,200	2,300	100	4.5
Water Transportation	1,000	1,400	400	40.0
Air Transportation	5,500	6,100	600	10.9
Communications	3,300	3,200	-100	-3.0
Trade	42,000	44,200	2,200	5.2
Wholesale Trade	7,500	7,900	400	5.3
Retail Trade	34,500	36,300	1,800	5.2
Gen. Merch. & Apparel	5,000	5,400	400	8.0
Food Stores	6,200	6,500	300	4.8
Eating & Drinking Places	12,600	13,000	400	3.2
Finance-Ins. & Real Estate	10,700	10,500	-200	-1.9
Services & Misc.	43,600	47,100	3,500	8.0
Hotels & Lodging Places	4,800	5,000	200	4.2
Government	66,500	68,900	2,400	3.6
Federal	17,900	18,400	500	2.8
State	19,400	20,700	1,300	6.7
Local	29,200	29,800	600	2.1

Prepared in cooperation with U.S. Department of Labor, Bureau of Labor Statistics. Benchmark March 1989

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

Table 2

Wage and Salary Employment Change by Area 1988-1989

Anchorage Borough

	1988	1989	Change	Percent Change
Total Nonag. Wage & Salary	100,200	104,760	4,560	4.5%
Goods-producing	9800	10450	650	6.6
Mining	3,300	3,550	250	7.6
Construction	4,350	4,800	450	10.3
Manufacturing	2,150	2,150	0	0.0
Service-producing	90,400	94,300	3,900	4.3
Transportation	9,250	10,000	750	8.1
Trucking & Warehousing	1,350	1,400	50	3.7
Water Transportation	300	300	0	0.0
Air Transportation	3,400	3,750	350	10.3
Communications	1,800	1,800	0	0.0
Trade	24,150	25,300	1,150	4.8
Wholesale Trade	5,600	5,900	300	5.4
Retail Trade	18,550	19,400	850	4.6
Gen. Merch. & Apparel	2,600	2,700	100	3.8
Food Stores	2,900	3,050	150	5.2
Eating & Drinking Places	7,450	7,650	200	2.7
Finance-Ins. & Real Estate	7,100	6,800	-300	-4.2
Services & Misc.	24,450	26,450	2,000	8.2
Hotels & Lodging Places	2,250	2,300	50	2.2
Government	25,500	25,800	300	1.2
Federal	10,250	10,150	-100	-1.0
State	6,850	7,250	400	5.8
Local	8,400	8,400	0	0.0

Fairbanks North Star Borough

	1988	1989	Change	Percent Change
Total Nonag. Wage & Salary	25,500	26,500	1,000	3.9%
Goods-producing	2,250	2,300	50	2.2
Mining	200	150	-50	-25.0
Construction	1,450	1,600	150	10.3
Manufacturing	600	550	-50	-8.3
Service-producing	23,300	24,250	950	4.1
Transportation	1,800	1,900	100	5.6
Trucking & Warehousing	350	450	100	28.6
Air Transportation	300	350	50	16.7
Communications	300	250	-50	-16.7
Trade	5,700	5,900	200	3.5
Wholesale Trade	700	700	0	0.0
Retail Trade	5,000	5,150	150	3.0
Gen. Merch. & Apparel	600	650	50	8.3
Food Stores	750	750	0	0.0
Eating & Drinking Places	2,000	2,000	0	0.0
Finance-Ins. & Real Estate	850	850	0	0.0
Services & Misc.	5,800	5,950	150	2.6
Government	9,150	9,700	550	6.0
Federal	2,800	3,100	300	10.7
State	3,850	4,050	200	5.2
Local	2,550	2,550	0	0.0

Northern Region

	1988	1989	Change	Percent Change
Total Nonag. Wage & Salary	13,100	13,750	650	5.0%
Goods-producing	5,300	5,650	350	6.6
Mining	4,750	5,000	250	5.3
Service-producing	7,800	8,100	300	3.8
Government	4,350	4,300	-50	-1.1
Federal	350	250	-100	-28.6
State	350	350	0	0.0
Local	3,650	3,700	50	1.4

Southwest Region

	1988	1989	Change	Percent Change
Total Nonag. Wage & Salary	13,650	14,950	1,300	9.5%
Goods-producing	3,650	4,500	850	23.3
Seafood Processing	3,150	4,100	950	30.2
Service-producing	10,000	10,450	450	4.5
Government	5,900	6,100	200	3.4
Federal	1,300	1,350	50	3.8
State	500	550	50	10.0
Local	4,100	4,200	100	2.4

Gulf Coast Region

	1988	1989	Change	Percent Change
Total Nonag. Wage & Salary	20,000	24,100	4,100	20.5%
Goods-producing	5,500	5,900	400	7.3
Mining	850	850	0	0.0
Construction	900	1,100	200	22.2
Manufacturing	3,750	3,950	200	5.3
Seafood Processing	3,050	3,000	-50	-1.6
Service-producing	14,500	18,200	3,700	25.5
Transportation	1,400	3,650	2,250	160.7
Trade	3,500	3,750	250	7.1
Wholesale Trade	550	500	-50	-9.1
Retail Trade	3,000	3,200	200	6.7
Finance-Ins. & Real Estate	550	550	0	0.0
Services & Misc.	3,500	4,250	750	21.4
Government	5,550	6,000	450	8.1
Federal	550	550	0	0.0
State	1,650	1,900	250	15.2
Local	3,350	3,550	200	6.0

Southeast Region

	1988	1989	Change	Percent Change
Total Nonag. Wage & Salary	30,850	32,200	1,350	4.4%
Goods-producing	6,400	6,500	100	1.6
Mining	200	300	100	50.0
Construction	1,050	1,100	50	4.8
Manufacturing	5,150	5,150	0	0.0
Durable Goods	2,650	2,700	50	1.9
Lumber & Wood Products	2,550	2,550	0	0.0
Nondurable Goods	2,450	2,400	-50	-2.0
Seafood Processing	1,400	1,300	-100	-7.1
Pulp Mills	900	950	50	5.6
Service-producing	24,500	25,700	1,200	4.9
Transportation	2,250	2,350	100	4.4
Trade	4,850	5,200	350	7.2
Wholesale Trade	450	550	100	22.2
Retail Trade	4,400	4,600	200	4.5
Finance-Ins. & Real Estate	1,000	1,050	50	5.0
Services & Misc.	4,950	5,150	200	4.0
Government	11,450	12,000	550	4.8
Federal	1,950	2,050	100	5.1
State	5,150	5,450	300	5.8
Local	4,350	4,450	100	2.3

Benchmark March 1989

Source: Alaska Department of Labor, Research and Analysis Section

Nonag. Wage and Salary Employment Index 1975-1989

attributable to the cleanup's prime contractor and their subcontractors. A reasonable estimate for this component is 2,500 jobs on an annual average basis. This component reached a peak of more than 7,000 jobs at the height of activity, but the cleanup was at, or close to, this level only in June, July and August. September, May and April could be considered "shoulder" months where employment was less than in peak months, and by year-end direct oil-spill employment was reported to be less than 350 people.

The cleanup created more employment than the additional 2,500 jobs with the prime spill contractors and their subcontractors. How much additional employment was created indirectly such as more hotel workers, hardware store employees, air freight handlers and government employees? A generous multiplier for spill activity would be one indirect job created for each direct spill related job. That would place the total effect of the oil spill at around 5,000 jobs on an annual average basis. (That would also mean more than 14,000 during the peak months.)

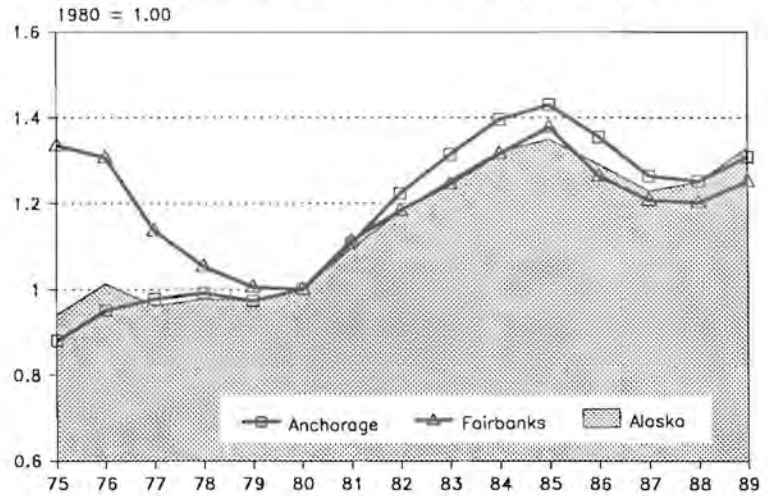
Using this methodology, the oil spill would have caused an annual growth rate of about 2.5%. The annual growth rate for that portion of the economy not directly attributable to the cleanup would be about 3.9%. This points out that the oil spill was a significant positive economic influence in 1989, but it wasn't the only positive influence.

Gulf Coast Employment Was Skewed by Oil Spill in 1989

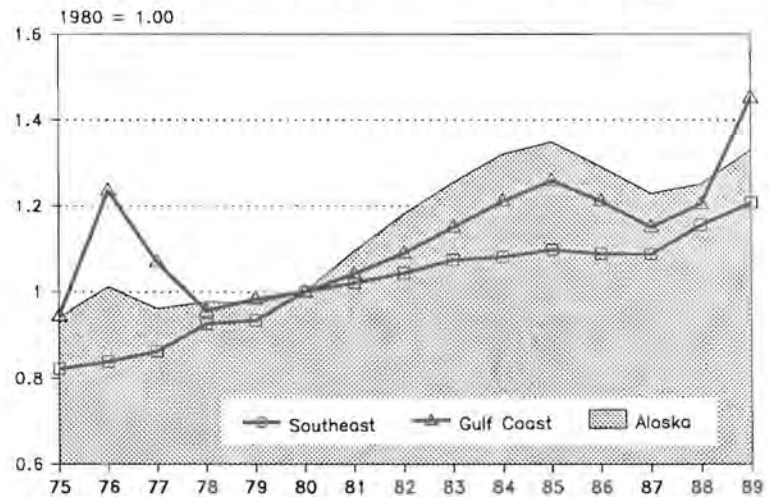
While oil spill workers had an influence over total statewide employment growth, Gulf Coast's employment numbers were skewed completely out of proportion. Gulf Coast's transportation employment grew 161% in 1989. (See Table 2.) The logistics of cleaning up the spill provided an economic shot in the arm for the entire region- from the Valdez-Cordova area southwest to the Kenai Peninsula and on to Kodiak Island. Jobs in retail trade and services shot up as cleanup staff needed lodging, meals, and merchandise.

Gulf Coast's economy was already growing at a 9% rate during the first

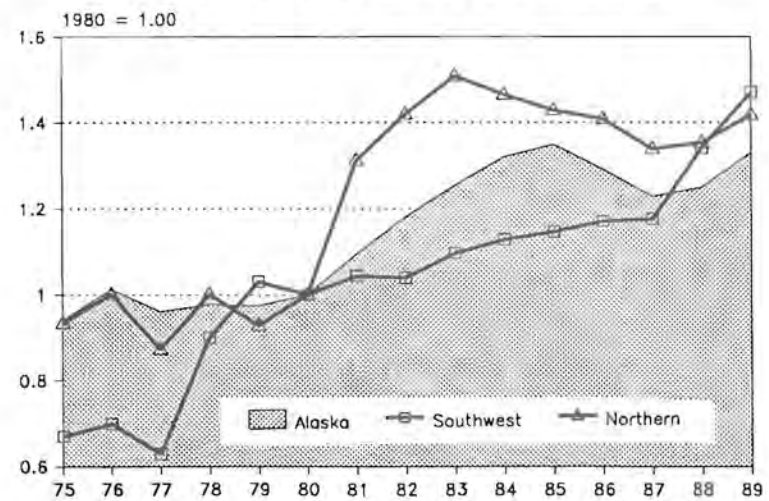
Anchorage - Fairbanks - Alaska



Southeast - Gulf Coast - Alaska



Northern - Southwest - Alaska



Source: Alaska Department of Labor, Research and Analysis Section

quarter of 1989, before the spill happened. But spill cleanup was the overwhelming reason Gulf Coast's employment grew 20.5% in 1989. Not surprisingly, the growth in Gulf Coast's employment is unmatched by any other year of the 1980s. (See Figure 1.)

Although it overshadowed other activity, the oil spill cleanup was not Gulf Coast's sole source of employment growth in 1989. Work continued on the Bradley Lake hydroelectric dam near Homer; a peak work force of 400 helped Gulf Coast construction grow by 200 jobs in 1989.

Gulf Coast's manufacturing sector matched construction's growth of 200 jobs. Seafood processing jobs make up three-fourths of manufacturing in Gulf Coast. But seafood processing was disrupted by the oil spill. The growth in manufacturing employment in 1989 can be attributed to increased timber activity on the Kenai Peninsula. Logging for export and for processing at the new sawmill in Seward pushed jobs up in 1989 and will continue to boost employment for years to come.

Anchorage Adds 4,550 Jobs to Economy

While the oil spill was the major story in the Gulf Coast region, it can't take all the credit for Anchorage's recovery. Renewed confidence was established in Anchorage's economy in 1989. Not only was 1989 the first time in four years that the economy grew, but it grew a respectable 4.5%. (See Figure 1.) This meant 4,550 more jobs in Anchorage in 1989 than in 1988. The last time Anchorage enjoyed this kind of economic expansion was during the 1983-85 boom, which most remember fondly as good years.

Why can't the oil spill take all of the credit for the turnaround? Because Anchorage's recovery was evident in late 1988, and just prior to the spill employment growth had accelerated to 2.4%. The recovery was a broad one, not concentrated in just a few industries. (See Table 2.) All but one major industry category either posted gains or remained steady at 1988 levels.

Service Industry was Anchorage's Star Performer

Anchorage's largest industry, services, enjoyed the biggest employment gain in 1989 with 2,000 new jobs. (See Table 2.) Included in services are hotels, legal, medical, engineering, personal, auto repair, business services, and private social services. Since Anchorage has a service-based economy, employment in the services industry is a good gauge of Anchorage's economic health.

One boost for services came from population growth. According to the Municipality of Anchorage, the city's population grew nearly 2,900 in 1989. This follows three years of declines in Anchorage's population. A strong 1989 tourism year also helped, particularly in the hotel/lodgings sector. Most hotels reported solid bookings during the entire visitor season and a record number of conventions and meetings bolstered the rest of the year. Although income figures for 1989 are not available for Anchorage, Alaska income figures for the year are registering strong growth. Indications are that Anchorage shared in the income growth. The overall health of the remainder of Anchorage industries is also an ingredient in the success of the service industry.

Federal Express Boosts Anchorage Air Transportation Industry

The big transportation story in Anchorage was the opening of Federal Express' \$11 million package-sorting facility, making Anchorage one of the company's principal hubs. Federal Express' expansion meant more than 200 additional jobs in Anchorage in 1989. More importantly, it could mean many more in future years. Air cargo traffic was up a phenomenal 60% in the year ending June 1989, much of which was oil spill related. Water transportation also enjoyed a strong year as a result of oil spill activity.

Oil Industry Employment Shines for Second Year In A Row

Although mining employment's 250 gain represents a modest addition to Anchorage's employment, it is an

important indicator of the local economy. Much of this increase is attributed to the industry's growing effort to recover more of the oil in already existing fields. Oil prices, up 36% in 1989 (North Slope Wellhead), have contributed to the growing oil recovery effort.

Anchorage Went On A Shopping Spree

Anchorage's recovery was evident in the retail sector as 1,000 additional jobs were created in the trade industry. Yes, there were more residents to buy things, but they are also spending more money--in many cases on big ticket items such as automobiles. Almost every auto dealer reported very strong sales in 1989, in contrast to the softening lower 48 market. This is just another indicator of confidence in the local economy. Most merchants reported an excellent Christmas season. And Anchorage's retailers probably would have hired additional workers if more had been available.

Construction Figures Are A Bit Misleading

The Anchorage construction picture in 1989 was a repeat of 1988, which was nothing to brag about. Valuation and permit data showed few signs of new life. The market remained awash in commercial and residential space. When more of this excess space is absorbed, the construction industry should begin to come back to life.

Remodel work, road construction and larger jobs on the military bases kept some contractors working. Most of the employment growth attributed to Anchorage was actually work that took place elsewhere in the state by companies headquartered in Anchorage.

Public Sector Was A Mixed Picture

At the local level, government employment did not grow. School district employment climbed slightly, but Municipality employment fell by an almost equal amount. This, however, represented an improvement over 1988

when overall employment at the local level fell 5%. State government employment posted the only growth in the public sector. The growth came both from the University and government operations. Federal government employment declined slightly.

The Financial Industry Continued Dropping — But Improved Over 1988

Banking employment in Anchorage took its last big tumble when Alliance Bank was shut down in April. By the end of the year a number of Anchorage-based banks, including National Bank of Alaska, First National of Anchorage, and Security Pacific Bank were recording healthy profits.

Even the real estate side of this industry began to climb out of the rubble left from the previous four years. The inventory of single-family homes was being absorbed and the condominium market was demonstrating some strong signs of life. Most of this industry's woes are now only a reflection of past economic problems and not what is happening at the present.

It Was A Good Year For Job Seekers

Many employers in Anchorage were actually having a difficult time finding enough help after years of being swamped with applicants. Anchorage newspapers "Help Wanted" ad columns were up 21%. And the city's unemployment rate fell to 5.1%, one of the lowest annual rates ever.

Fairbanks Gained 1,000 Jobs in 1989

In 1989, Fairbanks employment grew at a slower rate than Anchorage, (3.9% growth versus 4.5%) but that still meant an addition of more than 1,000 jobs. (See Table 2.) After three years of decline, job growth in 1989 approached that of the 1984-85 period. (See Figure 1.) Most of the increase was in the services-producing sector; there was a much smaller increase in the goods-producing sector.

In fact, there would have been no increase on the goods-producing side of the economy if not for additional construction jobs in 1989. As expected, construction activity at the military bases did not match that of 1988, but a large new project — repair of the Trans-Alaska Pipeline — accounted for new construction jobs during the summer. Largely on the strength of this project, Fairbanks enjoyed a 10% increase in construction employment for the year.

In absolute numbers, government jobs accounted for the greatest employment gain in Fairbanks. Local government employment posted no change, while increasing state and federal employment pushed this sector's annual average above 1988's level by 6%. Two-thirds of the state employment increase was at the University of Alaska. Support for an enlarging military presence boosted federal employment by 300 in 1989.

In addition to government, nearly all of the service-producing industries in Fairbanks' economy grew in 1989. Employment in the finance-insurance and real estate industry remained the same as 1988, but transportation, trade and services all achieved some job growth.

Southeast — Second Straight Year of Healthy Growth

The service-producing industries were also responsible for Southeast Alaska posting impressive employment gains. The region's employment increase of 4.5% was not as large as the prior year, but most economy watchers did not expect it to be. (See Figure 1.)

In addition to being smaller than 1988's employment gain, the region's 4.5% growth in 1989 was different from the 6% gain of the previous year. (See Table 2.) The earlier gain was predominantly in the manufacturing sector. For 1989, manufacturing employment held even, with slight gains in the timber industry nearly offsetting a downward movement in seafood processing employment. Mining and construction helped push Southeast employment higher, but the largest increases were seen in the service-producing industries.

Service-producing employment makes up nearly 80% of all Southeast employment. These industries seemed to be playing catch-up to prior gains in the goods-producing industries. The gains of 1988, and the influx of new money in the economy, provided room for expansion of the service-producing industries.

In the private sector, Southeast's trade industry showed the largest employment increases. A growth rate of over 7% meant 350 new jobs in the region — 250 in retail trade and an amazing 100 new jobs in wholesale. Services added 200 jobs to the economy, a gain of over 4%. Finance-insurance and real estate and transportation shared in the employment gains, with gains of 50 and 100, respectively.

In 1988, Southeast's public sector lagged behind the private sector in employment gains. In 1989, public sector employment increased 5.1%. State and federal government grew by an equal amount, 6.2% for the year. With increases in local government employment added in, the region saw 600 new jobs in the public sector last year.

Mining Jobs Created Growth in Northern Region

Government and mining jobs account for two-thirds of the Northern region's wage and salary employment. (See Table 2.) Unlike the urban areas of the state, there are few federal and state government jobs in this region. Most public sector jobs are with local governments and school districts.

Workers on the North Slope make up more than 90% of total mining employment in the northern region. The 5.5% increase in northern's mining employment in 1989 was due to increased activity by the oil operators on the North Slope. New gas handling facilities are being built to deal with the increasing amount of gas pumped up with the decreasing amount of oil.

Hard rock mining accounts for a tiny portion of the mining jobs in the Northern region. But the huge Red Dog lead and zinc mine opened late in 1989; with up to 300 new mining jobs at Red

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Dog, hard rock mining employment should double next year. The Red Dog project accounted for additional construction employment during 1989, and indirectly boosted employment in the service-producing sector.

Seafood Processing Jobs Increased 30% in Southwest Region

Southwest's boom can be summed up in three words: bottomfish, bottomfish, bottomfish. The seafood processing industry in Southwest continued to expand in 1989; annual average employment grew almost 1,000 from a 1988 base of 3,150. (See Table 2.) Gulf Coast, Southeast and Anchorage all lost employment in this industry in 1989, but the growth in Southwest's seafood processing industry made up for the decline elsewhere. Two new plants are under construction at Dutch Harbor, along with a new port at St. Paul, to help the region's booming seafood industry.

Southwest Alaska had a good salmon season as well; unlike Gulf Coast, Southwest's harvest wasn't affected by the oil spill. Several military construction projects also contributed to a good year for Southwest Alaska.

Summary: '89 Not Just The Year of The Spill

In 1989 Alaska's economy posted 6.4% employment growth and an unemployment rate that shattered all previous lows. But to the surprise of some, not all of the economic good news was due to the oil spill cleanup effort. An expanding mining industry, a reviving construction industry, a bottomfish boom, a successful timber industry, a new air freight operation, and a retail and service sector boom were all part of the economic landscape during 1989. The oil spill cleanup made a significant contribution to Alaska's economy in 1989, but to brand it as the only tonic that cured an ailing Alaskan economy would be an overstatement.