

# Construction's Winding Road

Industry growing again but has a long road to full recovery

By NEAL FRIED

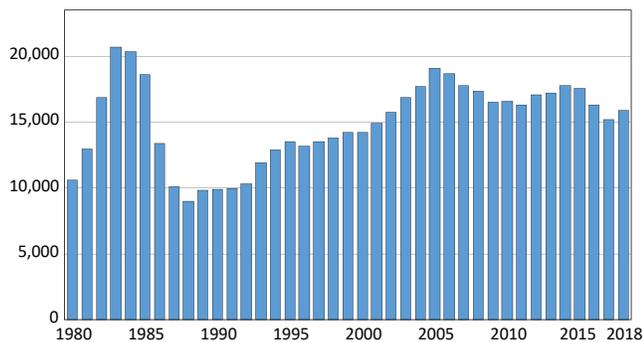
**A**fter two years of big job losses, Alaska's construction industry started growing again in 2018 and continued adding jobs in 2019. (See exhibits 1 and 2.) No single project is responsible for the reversal, although projects tied to Eielson Air Force Base and other military installations in the Interior plus an improving outlook for the oil industry are major factors.

It will likely take several years for the industry to recover its lost ground. Construction lost more than 2,400 jobs in 2016 and 2017, making it one of the biggest job-losers during the state recession. The industry added 600 jobs in 2018, and growth slowed only slightly in 2019.

If we use 2005 as a benchmark, construction has a longer road to recovery than

## 2 Jobs Last Peaked in 2005

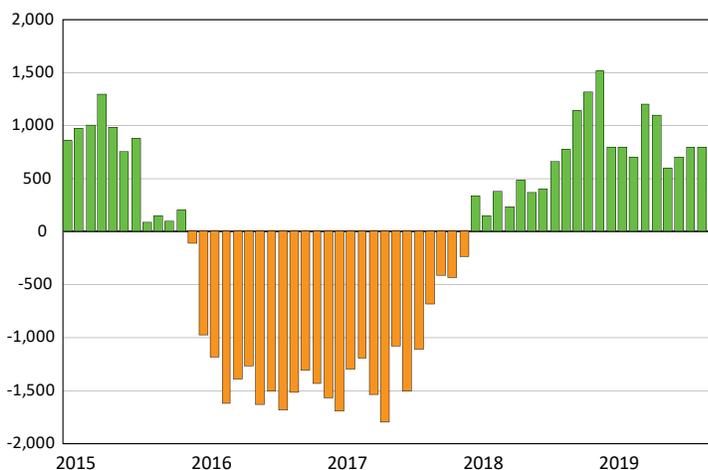
ALASKA CONSTRUCTION, 1980 TO 2018



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

## 1 Construction Began to Recover in '18

CHANGE FROM SAME MONTH PRIOR YEAR, 2015-19



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

most industries. (See Exhibit 2.) Most had been growing in the years before the recession, but construction employment hit its most recent peak in 2005, at 19,100 jobs, and then declined for the next six years.

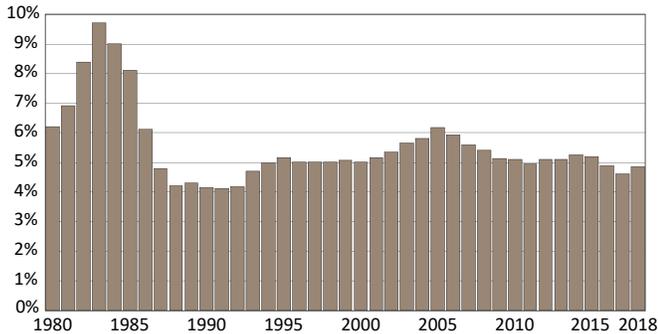
## Role in the economy has changed

Construction can be a bellwether of economic strength, because it's visual evidence of growth and increased capacity for other industries to expand.

Historically, the construction industry often dictated the direction of Alaska's economy as well as its strength. In the 1940s, the construction boom tied to World War II and the military buildup was the reason the state's economy flourished. The same was true during the 1950s with the Cold War, and in the 1970s the economy was reshaped by construction of the Trans-Alaska Pipeline, the largest project in Alaska's history.

# 3 Construction Represents About 5% of Alaska Jobs

SHARE OF TOTAL, 1980 TO 2018



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

During peak construction in 1975 and 1976, the industry paid more than a third of the state’s wages. (In 2018, it was just 7 percent.) Then, in the early 1980s, record oil revenues prompted the state’s largest population surge to date, which launched another construction boom. The bust that followed wiped out more than half of the industry’s jobs (see Exhibit 2), and construction employment levels are still well below those heights.

Construction remained a large and volatile component of Alaska’s economy until the 1990s. Since then, its size and role in Alaska’s economy have transitioned into accommodating growth rather than leading it. Since peaking at nearly 10 percent of all wage and salary jobs in the early 1980s, the industry has remained within a narrow band of 5 to 6 percent of jobs during most of the last three decades. (See Exhibit 3.)

## Total value has tracked with jobs

Although construction’s role in Alaska’s economy has changed, it remains essential. Besides building roads, houses, offices, stores, and restaurants, the construction industry is often where new money to the state is initially spent by the oil industry, federal government, tourism companies, and other outside investors.

The value of all construction spending in the state generally tracks with job numbers. (See Exhibits 4 and 5.) For example, the 2016 and 2017 job losses mirrored the \$1 billion-plus decline in construction value between 2015 and 2016, which led to a low in 2017 during the recession.

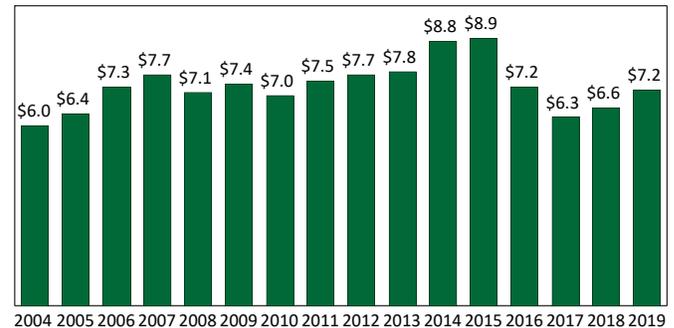
## Military spending remains vital

Defense spending has long supported construction in

# 4 Total Construction Value Ticks Up After Big Drops

ALASKA VALUE IN BILLIONS, 2004 TO 2019

Value of all construction in Alaska, in billions



Sources: University of Alaska Anchorage ISER Annual Construction Forecast and Alaska Associated General Contractors

Alaska, dominating the industry starting in World War II and through the Cold War into the 1960s, which re-shaped the state. Numerous military installations are that period’s legacy, and their continued operation is an ongoing source of construction projects.

Ten percent of all construction spending in 2019 was tied to national defense, up 13 percent and \$80 million from the previous year. (See Exhibit 5.) A large share is the big military investment in reconstruction at Eielson Air Force Base, near Fairbanks, to accommodate the two full squadrons of F-35s that will arrive in 2020. Additional defense construction is under way elsewhere in the Interior, at Clear Air Force Base and Fort Greely, and is always in progress around the state at Joint Base Elmendorf-Richardson in Anchorage, Fort Wainwright in Fairbanks, and various Coast Guard bases.

# 5 Military Spending Grows

CONSTRUCTION RELATED, 2011 TO 2019

Value of all defense-related construction in Alaska, in millions



Sources: University of Alaska Anchorage ISER Annual Construction Forecast and Alaska Associated General Contractors

## Number of new homes way down

Residential construction has dwindled in recent years. (See Exhibit 6.) In 2018, the number of new housing units was the smallest since 1993, when the state had 139,000 fewer people.

While the 2015-2018 recession took a clear toll on the housing market, Alaska had already been adding new housing stock at a slow pace for the entire decade, in line with its modest population growth.

Because of the big drop in oil revenues that began in fiscal year 2015, the past five years' state capital budgets can only be described as bare bones. (See Exhibit 7.) Most of the state revenues have simply been matches for federal dollars, a pattern that shows no sign of changing. The FY 2013 capital budget was 75 percent state-funded, but for FY 2019 it was just 25 percent and for FY 2020 it was 21 percent.

Residential construction's share of the industry's value was about 4 percent in 2018, though it represented nearly 11 percent of construction employment.

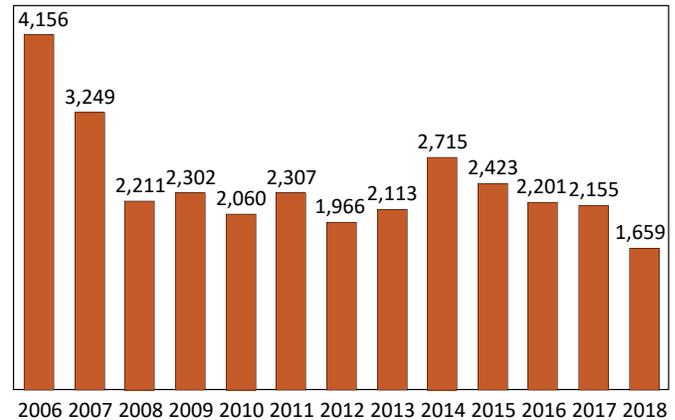
## Most jobs based in Anchorage and Mat-Su, even if activity is elsewhere

The Anchorage/Matanuska-Susitna Region is home to more than half the state's construction jobs. (See Exhibit 8 on page 14.) It's important to note that Anchorage/Mat-Su and, to a lesser extent, the Interior are overrepresented in the employment data. Although the jobs are counted in these areas, the actual construction activity is more dispersed across the state.

Employment data are categorized by a firm's location.

# 6 Residential Building Is Down

### NEW HOMES IN ALASKA, 2006 TO 2018



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

Projects are often nomadic and short-term, and trying to account for the location of the work and the residence of the workers is impractical. Instead, businesses report employment by where their headquarters are located. For example, a number of Eielson contracts were won by Anchorage construction firms, which means the jobs were reported in Anchorage even though the construction was in Fairbanks.

## A look at the types of construction

Construction employment is divided into three major categories according to the type of work: construction of buildings, heavy construction, and specialty trade contractors.

The buildings category is primarily for residential and commercial structures such as homes, hotels, institutions such as hospitals, and stores. Heavy construction firms handle large projects ranging from infrastructure such as roads and bridges to pipeline construction, other oil and gas work, power plants, and other heavy and civil and defense projects. The largest category, specialty contractors, focuses on jobs such as painting, plumbing, electrical work, concrete, framing, glass, and erecting structural steel. In many cases, a project involves all three categories.

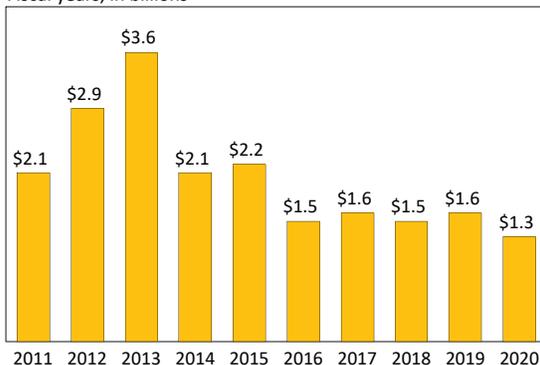
Heavy construction is a larger part of the industry in Alaska than nationwide, at 26 percent versus 14 percent, because Alaska has more infrastructure projects. That percentage has also increased in recent years — not because Alaska is building more large infrastructure, but because we're constructing fewer residential

Continued on page 14

# 7 Bare Bones Capital Budgets

### ALASKA, FISCAL YEARS 2011 TO 2020

Fiscal years, in billions



Source: Alaska Division of Legislative Finance

## CONSTRUCTION

Continued from page 6

and commercial buildings.

### Industry known for high wages and large seasonal swings

Few industries in Alaska pay more than construction. Its average annual wage was 43 percent higher than the overall statewide wage in 2018. (See Exhibit 9.)

Construction is one of the industries that pays premium wages in Alaska for jobs that don't require college degrees, although they often require extensive training and experience. The prevalence of overtime, paid at one-and-a-half times the base wage, is another important factor. Because of these high wages, the industry's impact on the state is larger than its job count suggests.

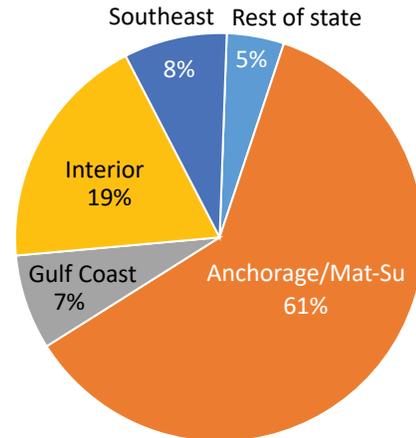
Construction is also one of the most seasonal industries, second only to tourism and fishing. Since 2000, in every year but two, its lowest employment month has been January and the peak has been August. In the two outlying years, the peak was July and the minimums were February or December. Between those months, construction's seasonal employment swing has been about 54 percent.

It's a far less seasonal industry nationwide. The U.S. construction seasonal swing in jobs was 13 percent last year.

# 8

## Most Jobs Are in Anchorage

ALASKA CONSTRUCTION, 2018



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

### Nonresident percentage drops

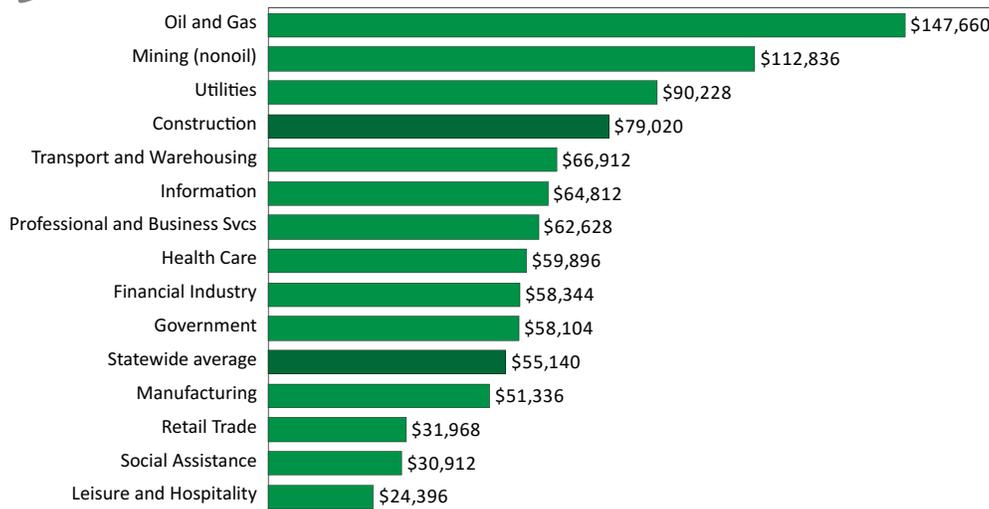
Construction's extreme seasonality in Alaska partly explains its large percentage of nonresidents. In 2017, the state's construction workforce was 18 percent nonresidents, who took in 14 percent of construction wages.

The percentage of construction workers who are nonresidents is usually higher than the overall percentage, but in 2016 and 2017, it fell below. (See Exhibit

# 9

## Average Wage High in Construction

ALASKA INDUSTRIES, ANNUAL, 2018



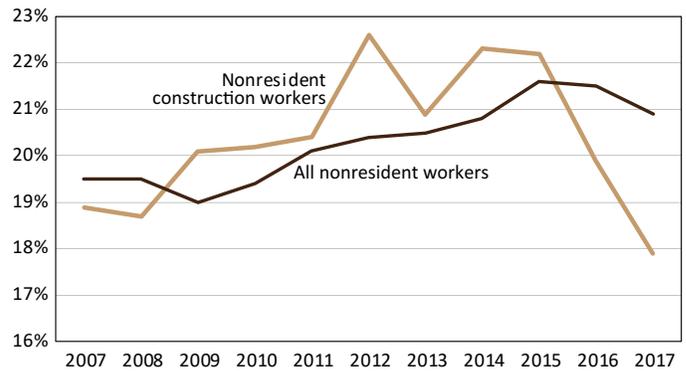
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

10.) That's only happened seven times since 1995. One likely explanation is construction jobs in Alaska became less appealing to nonresidents as the industry faltered here while growing robustly in other states.

# 10

## Nonresident Percentage Has Fallen

ALASKA CONSTRUCTION INDUSTRY, 2007 TO 2017



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

### Cost an ongoing issue

The high cost of construction in Alaska presents a major and continuous economic challenge. According to the Army Corps of Engineers, construction costs more than twice as much in Alaska (and Hawaii) for military and civil works projects. The state's remoteness, climate, large geographic size, and small economy are probably the biggest reasons.

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## EMPLOYER RESOURCES

### Rapid Response services help mitigate the effects of layoffs

Businesses large and small are facing the need to downsize or simply close their doors as Alaska copes with the after-effects of a three-year recession. The Department of Labor and Workforce Development wants Alaska employers and workers to know we can help you every step of the way. Our Rapid Response teams, located at our job centers throughout the state, find every available resource to keep businesses solvent, avert layoffs, and mitigate the uncertainty and impacts on your valued employees.

Rapid Response falls under the federal Workforce Innovation and Opportunity Act and provides a broad range of services to ensure successful transitions for employers and their employees. Rapid Response staff identify specific employer and employee needs, then work with businesses to develop strategies and identify resources. Rapid Response assists laid-off workers by quickly connecting them

to benefits and services including unemployment insurance, career counseling, and job search.

Layoffs don't affect just the employee and the employer; they create a domino effect by reducing the money spent on necessities such as food and clothing. The resulting decline in economic activity puts a damper on other local businesses and impacts entire communities.

The Rapid Response team encourages employers and employees facing these tough decisions to visit [http://jobs.alaska.gov/RR/business\\_info.htm](http://jobs.alaska.gov/RR/business_info.htm) or contact us at [dol.rrteam@alaska.gov](mailto:dol.rrteam@alaska.gov) to find out which benefits and services will work best for you and your workers.

Employer Resources is written by the Employment and Training Services Division of the Alaska Department of Labor and Workforce Development.