

Economic Prospects for Unalaska

by Don Karabelnikoff and Gail Lamson

This guest article discusses the recent history, current situation, and prospects for economic growth in the Aleutian Islands city of Unalaska.

The seafood industry drives the local economy. The unique characteristics of the North Pacific/Bering Sea support the largest food fish resource on earth. The current level of biological and regulatory knowledge indicate that the bottomfish fisheries can maintain about the same high level of productivity indefinitely. Thus the onshore/offshore debate may have little effect on Unalaska because the economy is driven by supporting the entire bottomfish industry, not just the shore-based component of what has become America's biggest seafood industry. This includes many other sectors of the economy such as transportation, services, trade, construction, etc. Unalaska is strategically located; it has excellent port facilities and is closest to the fishers, processors, transport ships, and the markets. Unalaska has practically no unemployment; it lacks workers, partly due to a shortage of suitable housing.

A brief history

Unalaska, a city of about 4,300^{1/} is located on the Aleutian Chain nearly 800 miles southwest of Anchorage. Its 3,000+ jobs are largely associated with the adjacent seaport and airport called Dutch Harbor. The original village of Unalaska is on Unalaska Island, while Dutch Harbor is on Amaknak Island. A bridge links the two islands which are separated by only a few hundred feet of water. Today both islands fall within the city limits of Unalaska, a first-class municipality.

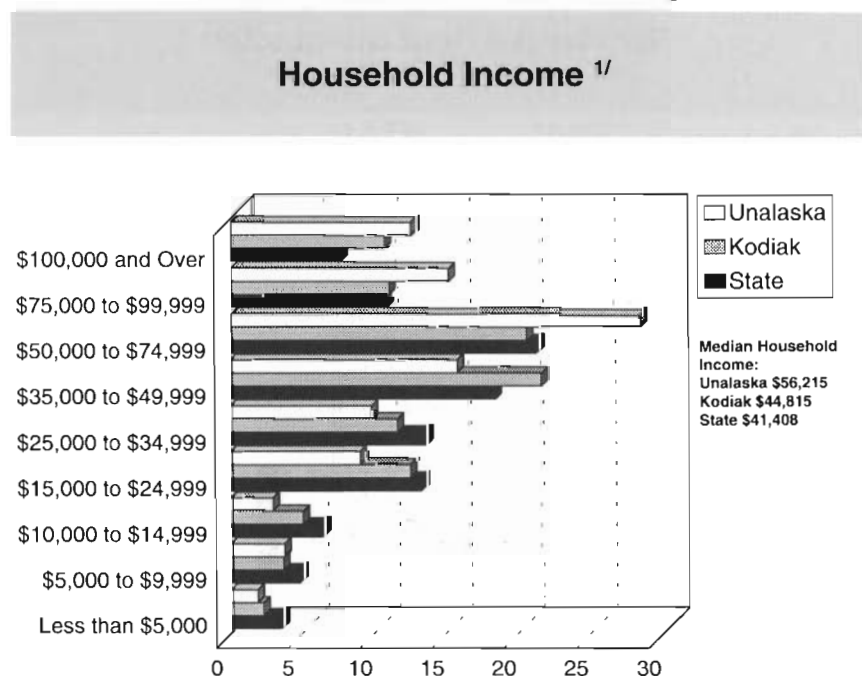
The port town of Unalaska changed from a traditional Aleut village (Ounalashka) to a

Russian trading port around the year 1768. In 1759, more than 1,000 Aleuts lived in 24 settlements on Unalaska and Amaknak Islands. As in other Aleutian communities, Russian contact brought dramatic declines to the Aleut population. Between 1830 and 1940, only 200 to 400 people lived at Unalaska, primarily native Aleuts.

For two hundred years, Unalaska has served as a seaport sustained by the harvest of the region's natural resources, originally sea otter pelts and now seafood. When the crab boom and then bottomfish explosion hit the North Pacific in the 1980s, Unalaska was ideally located. Dutch Harbor is the only substantial seaport near the North Pacific and eastern Bering Sea fisheries. The fleet harvests more than 5 billion pounds of fish and crab each year. When the Magnuson Act created the 200-mile fishery zone in 1976, Americans began to take over the harvest started by Japanese, Russians, and other foreigners; the transition is nearly complete.

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Figure • 1



^{1/} Data is derived from the 1989 figures used in the 1990 census. Source: Alaska Department of Labor, Research and Analysis Section.

Now, in addition to about 4,300 residents of Unalaska, 18,000 people live aboard fishing or cargo vessels working out of Dutch Harbor.

A crab boom in the early 1980s was followed by the rapid development of a massive American bottomfish industry which increased the population between 1980 and 1993. Limited housing probably restricts residency by normal family households with spouses and children. Consultants for the North Pacific Fishery Management Council expect average annual population growth of 7% in Unalaska over the next ten years.

In the late 1980s Unalaska had a hard time keeping up with its growth. An old water system, inadequate community services, and lack of housing strained the city. But with the help of state grants, industry investment, and hard work on the part of the community, Unalaska began to catch up to its own growth. Even so, a severe housing shortage restricts the in-migration of potential resident workers and the creation of permanent jobs.

Unemployment is very low; Unalaskans who want to work can get a job, regardless of age or sex. Goods-producing firms employ the vast majority of workers. Proportionally, Unalaska's goods-producing sector is huge and relatively little employment is in services or government.

Unalaska has proportionally fewer Caucasians, Alaska Natives, and Blacks than the rest of the state, but it has many more Hispanics, Asians, and Pacific Islanders (even more than Kodiak, where processors traditionally hire Asians and Filipinos). Because of the recent influx of newcomers, only about 8% of the current residents are Aleuts, the original inhabitants of the islands. (See Table 1.)

Household residents are paid well in Unalaska; median household income is 35% higher than the median Alaskan household. (See Figure 1.) On the other hand, rental housing costs much more than in most other communities. Of the houses for rent, 30% cost \$1,000 per month or more, compared with 21% in Kodiak and 11% statewide. (See Figure 2.)

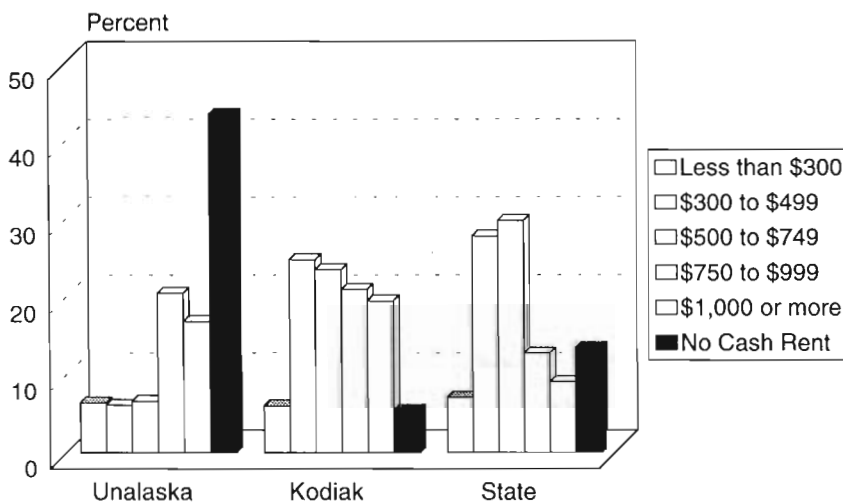
Seafood processing provides economic base

For the past 20 years, Unalaska's dramatic growth was largely due to increased employment in the seafood industry. About half the workers are employed directly in fish processing operations, and 90% of the workforce considers itself economically dependent on the fishing industry. Jobs revolve around catching, processing the catch, transporting the catch to market, or supporting the fishers and processors. Over 250 local businesses cater to the seafood industry's many needs. The catch is processed on ships at sea and in plants on shore. Currently, four huge shore-based plants, plus several small ones, operate at Unalaska or nearby Akutan, while more than a hundred ships process the catch at sea.²³

The North Pacific and Bering Sea has what some call the largest fish resource on Earth. With 27 miles of ports and harbors, Unalaska/Dutch Harbor has been called the most prosperous stretch of coastline in Alaska. The regulatory environment and biological

Figure • 2

Residential Rent Distribution



Source: U.S. Bureau of the Census, 1990 Census.

Unalaska's Demographic Profile Compared to Kodiak and the State of Alaska—1990 Census Data

knowledge of the fish stocks indicate that harvests near the current levels can be sustained for the long term, subject to periodic cycles.

To avoid overfishing, long-standing federal regulations set quotas that limit the total amount of the catch. As fishers set out during the season, they know that when the total catch meets the quota, the regulators will close the fishing season. Each boat competes with all the others to quickly catch as many fish as possible before the closure. In recent years, the lure of excessive profits led to ruinous competition. Excess capacity exists in boats, gear, and processing facilities. The industry is "overbuilt." The threat of insolvency diminishes the importance of a high-quality catch and the safety of the crew.

Excess fleet capacity means that each catcher boat fishes relatively fewer days each year, despite high fixed costs. Skippers are under heavy pressure to maximize performance during the season, minimizing "down time" in port or at sea. If there were fewer fishing boats, each vessel would have more days to fish each year,

	Unalaska	Kodiak Is. Borough	State
Population Growth			
Percent Change 1980-1990 ^{1/}	133.7%	33.9%	36.9%
Age Distribution			
Median Age	30.3	28.7	29.4
Over 18 years	88.4%	69.0%	68.7%
Over 65 years	0.8%	3.2%	4.1%
Race Distribution^{2/}			
White	62.1%	63.3%	75.5%
American Indian, Eskimo, Aleut	8.4%	12.7%	15.6%
Asian/Pacific Islander	19.2%	20.1%	3.6%
Hispanic	8.3%	3.1%	3.2%
Black	2.0%	0.7%	4.1%
Labor Force Participation			
16+ Years in Labor Force	93.2%	79.8%	78.4%
Males 16+ Years in Labor Force	97.5%	86.9%	82.1%
Males Unemployed	1.0%	5.1%	10.0%
Females 16+ Years in Labor Force	81.5%	70.1%	66.4%
Females Unemployed	1.2%	5.6%	7.3%
Household Income in 1989			
Median Household Income	\$56,215	\$44,815	\$41,408
Less than \$5,000	1.9%	2.3%	3.5%
\$5,000 to \$9,999	3.8%	3.7%	4.8%
\$10,000 to \$14,999	3.0%	5.1%	6.4%
\$15,000 to \$24,999	9.1%	12.6%	13.3%
\$25,000 to \$34,999	9.9%	11.7%	13.6%
\$35,000 to \$49,999	15.9%	21.7%	18.5%
\$50,000 to \$74,999	28.4%	20.7%	21.3%
\$75,000 to \$99,999	15.3%	11.2%	10.9%
\$100,000 and Over	12.7%	10.9%	7.7%
Monthly Rental Rates			
Median Gross Rent	\$862	\$676	\$559
Less than \$300	6.4%	6.0%	7.1%
\$300 to \$499	6.1%	24.8%	27.8%
\$500 to \$749	6.6%	23.5%	29.8%
\$750 to \$999	20.5%	21.0%	12.8%
\$1,000 or more	16.9%	19.5%	9.1%
No Cash Rent	43.5%	5.4%	13.5%
Monthly Rental Rates - Omitting "No Cash Rent" Units			
Less than \$300	11.3%	6.3%	8.2%
\$300 to \$499	10.8%	26.2%	32.1%
\$500 to \$749	11.7%	24.8%	34.4%
\$750 to \$999	36.3%	22.1%	14.7%
\$1,000 or more	30.0%	20.6%	10.5%

^{1/} Starting in 1990 the U.S. Bureau of the Census counted about 1,000 persons aboard ships in the Port of Unalaska. This substantially raised the population figures. Alaska Department of Labor, Research & Analysis Section.

^{2/} Race distribution only for the City of Kodiak.

Source: U.S. Bureau of the Census, 1990 Census.

reducing financial stresses on each ship's skipper, owner, and financier.

Industry economists expect a major adjustment in both fishing and processing components of the Alaskan bottomfish industry. This does not mean a reduction in the amount of fish caught or processed. It means that some of the competitors in the market will become insolvent and withdraw, but the fish will remain to be caught. Each year, fishers will catch fish and processors will package the catch for sale in the international marketplace. Fallout in the fishing industry should have little effect on employment in the fishing port that handles the catch.

Overall, bottomfish prices are likely to remain stable or rise over the long term, so Unalaska's seafood industry can look forward to sustained activity. Resource economists familiar with the North Pacific bottomfish market say that pollock prices have fallen in recent years, largely because the Japanese recession temporarily reduced ex-vessel prices at Unalaska. The Japanese buy 70% of U.S. seafood, while other Asian nations buy only small volumes. Japanese demand will rise when their economy recov-

ers. Demand will rise further as the world population grows and the purchasing power of other Asian consumers expands.

A look at other employment sectors

Information about Unalaska's economy, population, and labor market is neither complete nor consistent, partly because data is reported only in combination with other Western Aleutian communities, and because different organizations used various techniques to produce periodic statistics. The small scale of the Western Aleutian (and Unalaska) economy leads agencies to report information in the aggregate. They often omit important details to avoid revealing confidential facts that business competitors might use against each other. As a result, the only facts available are generalized information about the goods producing, service, and government sectors in Unalaska.

Bottomfish and crab, harvested in vast quantities, are practically the only goods produced in the Aleutians West Census Area. Though lower in weight, the crab fishery adds substantial dollar value to the total catch. Many moderately-paid employees process the seafood. Activity in the crab fishery caused Unalaska's employment to surge in 1980-81, then employment subsided until around 1989 when the U.S. fishing fleet replaced the foreign fishing fleets according to the Magnuson Fishery Conservation and Management Act of 1976. The U.S. fishing/processing fleet is now very substantial.²¹

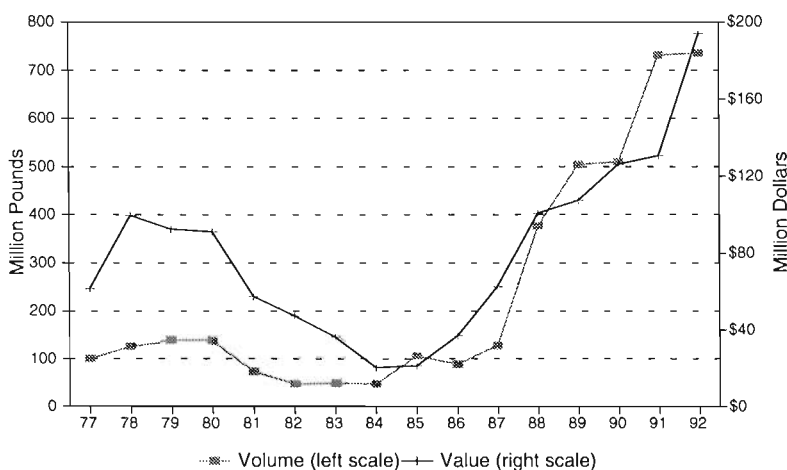
Since 1988, the port of Dutch Harbor landed more seafood than any other U.S. port. (See Figures 3 & 4.) In 1992, it handled nearly as much fish as the all-time record high at Los Angeles in 1960. In the most recent five-year period, it averaged second place among U.S. ports for handling the most valuable seafood products; it rose to first place in 1992. According to a recent National Oceanic and Atmospheric Administration report the value of the 1993 landings was down by more than \$30 million from 1992 while the port still maintained the number one spot in volume.

Compared to the seafood industry, other goods-producing industries seem unimpor-

²¹ Approximately 540 vessels operate out of Unalaska every year: 75 catcher/processor trawlers, 260 crab boats, 175 longliners (including halibut vessels), 30 catcherboat trawlers. This number doesn't include the processing only vessels that operate here or that receive product from harvesting vessels. This is from a Community Profile on the Aleutian Islands/Alaska Peninsula for the North Pacific Fishery Management Council issued in April, 1994.)

Figure • 3

Commercial Fishery Landings at Unalaska Finfish and Shellfish, All Species



Source: National Marine Fisheries Services, "Fisheries of the United States, 1992", published May 1993.

tant to the local economy. Currently, there is no reason to believe the mining or petroleum industries will show any interest in the region. Site conditions prevent meaningful agricultural or forestry production. Industrial manufacturing is not a significant part of the Unalaskan economic base, except to provide needed parts and equipment.

Construction of onshore fish processing plants and work on the transportation and utility infrastructure in Unalaska employed many workers temporarily, but the construction sector is relatively small today. It will become important to Unalaska when there is money to upgrade facilities or increase the supply of housing and other forms of real estate.

Proportionately, Unalaska employs more transportation workers than most Alaskan communities. Much of the local fish catch is brought ashore at Unalaska, stored in warehouses and freezer vans, then loaded aboard ships bound for Asia. Ships sailing to Asia from the West Coast often stop at Dutch Harbor to pick up salmon products from Bristol Bay and other Alaskan processing plants. Unalaska sits near the Great Circle Route between the Pacific Northwest, Japan, and Korea, so it is convenient for major shippers to stop at Unalaska for freight. Modern ships and crews can easily handle the trans-Pacific trip nonstop, but the added freight makes a port call worthwhile.

Alaskan hub communities typically have numerous government employees, but not Unalaska. The lack of dwellings for rent makes it difficult for agencies to station people there. With the prospect of a shrinking state bureaucracy, Unalaska will probably feel little pain, unlike other rural towns. On the other hand, if adequate housing becomes available, Unalaska could experience an influx of government employees who currently serve the Aleutians from Anchorage or elsewhere.

Comparing Unalaska with other fishing communities

The following analyses compare employment and demographic data with generally similar regions and towns, as well as the entire

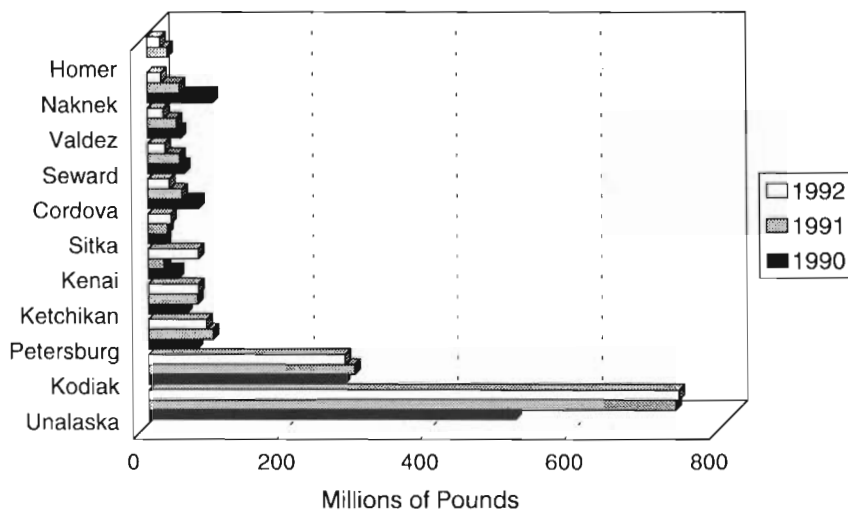
state of Alaska. Dynamic growth in recent years has created holes in Unalaska's markets. The goal is to identify sectors where potential business opportunities exist.

The Aleutians West Census Area includes Unalaska and points west. Kodiak is a larger, more established fishing-oriented community. Its fisheries cater more to a small-vessel fleet that attracts family-owned enterprises. Only a few Unalaska residents are likely to own a part of the Bering Sea fishing fleet, so it will be different from Kodiak in that sense. Still, Kodiak offers insight into what Unalaska might become when its economy matures and approaches equilibrium. Data on Cordova reflects a smaller coastal town that relies on a salmon fishery, but its relatively stable long-term experience gives insight into Unalaska's situation and prospects. (See Table 2.)

Compared to the state average, there are surprisingly few workers in wholesale and retail trade at Unalaska (10% versus 19% statewide). By comparison, trade accounts for 16% of the workers in Kodiak and 14% of the Cordova economy. The new stores by Alaska Commercial Company and Carr-Gottstein Foods will fill some of the apparent

Figure • 4

Commercial Fishery Landings and Values Major Alaskan Ports



Note: To avoid disclosure of private enterprise, certain leading ports have not been included. Dillingham is conspicuous by its absence.
Source: National Marine Fisheries Service, "Fisheries of the United States, 1992," May 1993.

Unalaska Shows Different Employment Profile

	Unalaska	Aleutians West	Kodiak	Cordova	State
Total Employment	3,022	4,982	5,318	1,131	245,845
Mining	0		*		10,481
Construction	74	139	164	24	10,253
Manufacturing	1,958	2,114	1,810	287	18,009
Transportation, Comm., & Util.	389	442	339	82	22,615
Trade	300	353	851	157	47,872
Finance, Ins., Real Estate	*	76	136	16	9,488
Services	59	444	828	168	52,707
Nonclassifiable Establishments			*		682
Miscellaneous	*				
Unknown	37				
Government	205	1,322	1,120	397	72,279
Employment by Sector					
Goods Producing	2,032	2,253	1,974	311	38,743
Service Producing	748	1,315	2,154	423	132,682
Government	205	1,322	1,120	397	72,279
Misc/Unknown/Nonclassifiable	37	92	70		2,141
Total	3,022	4,982	5,318	1,131	245,845
Percent of Total					
Goods Producing	67.2%	45.2%	37.1%	27.5%	15.8%
Service Producing	24.8%	26.4%	40.5%	37.4%	54.0%
Government	6.8%	26.5%	21.1%	35.1%	29.4%
Misc/Unknown/Nonclassifiable	1.2%	1.8%	1.3%		0.9%

Note: Asterisks or omissions occur where the agencies that report employment data do not disclose facts to preserve the confidentiality of private enterprise in small communities.

Source: 1992 employment data from the Alaska Department of Labor.

void, but probably not all of it. Trade-type firms include building materials, hardware, garden supply, general merchandise, food, apparel and accessory stores. Other enterprises are automotive goods, home furnishings and equipment, eating and drinking places and miscellaneous retail stores.

Unalaska seems to have abnormally low employment in the service sector (hotels and lodging places, tourism, health services, appliance and automobile repairs, personal services, etc.). While 21% of the state works in the service sector, only 2% of the locals reportedly work in services (compared to 15% in Cordova and 16% in Kodiak). The 1992 labor statistics may understate service employment in Unalaska. Further, the new Grand Aleutian Hotel hired many new service workers in 1993. Still, this analysis suggests an opportunity for service enterprises to employ more workers at Unalaska

for the new project starting at Margaret Bay). As a result, there is a relative shortage of building sites in Unalaska. When subdividers develop homesites on private land and/or as Ounalashka's land becomes available for use, the town will overcome the undersupply of developable land.

The housing demand has grown faster than the supply of new housing; it is so scarce that local businesses must provide housing for the employees who migrate to fill the job opportunities. Since practically every willing worker is employed, most firms have to import employees to expand their enterprise. The housing shortage pushed rents higher than in other Alaskan towns.

Single-family residences are only occasionally available for purchase. Rental units, either houses, duplexes, or apartment dwellings, are difficult to obtain and expensive. If

because the market is presently underserved.

Prospects for the future

Unalaska has an adequate amount of usable land, though some of the site conditions are challenging and costly to overcome. Unlike many Alaskan communities, Unalaska has a reasonable supply of privately-owned land, but no subdividers have turned enough raw acreage into homesites that have adequate access and utilities. Where the town has residential lots available, they seldom have utilities available. The Ounalashka Village corporation owns a lot of the urban land, but it has not been available for development (except

homesites are available at a reasonable cost, homebuilders can probably build affordable housing in Unalaska, since construction costs are reported to be moderate. The problem seems to be the lack of bank financing and building sites. As a result, good rental housing is scarce. At the same time, the current ambiance of Unalaska is that of a pioneer town where newcomers are reluctant to put down roots. Most workers leave their families in other towns or they have no family ties. Some families probably look at Unalaska as a temporary place to live for a few years before moving elsewhere.

Unalaska will gain stability when it provides adequate housing and other real estate to meet the needs of the current and prospective population. Still, there is doubt that it will evolve into a community like Southeast Alaska's Petersburg. The combination of location, weather, and other community characteristics will probably not create a town that has a large share of traditional nuclear families. In part, this is because the scale of the Bering Sea vessels requires so much capital that large corporate enterprises will own the fishing vessels, not mom and pop family operations. This reduces the chance that fishing-related families will choose Unalaska as their home.

Conclusion

The seafood business is likely to maintain or increase its current level of productivity over the long term. The industry is likely to experience a shakeout over the next few years because it has many more catchers and much more processing capacity than necessary. The evolution of the industry may be painful to individual investors, but the economic impact on Unalaska should remain quite high, perhaps even stronger in the future.

Even if the economic effect of the fishing industry weakens in Unalaska, service and support components of the economy need to expand to catch up to the demands created by the seafood industry. The data in this article reveal where private enterprise should consider expansion and the extent to which government agencies may increase local staffing. The construction industry needs to build

facilities to house the businesses that should serve the needs of the existing community. The business community needs adequate housing for workers and their families before they can attract employees to fulfill important roles. Right now, every willing worker is employed—at high wages—because there is a scarcity of labor in the community. Workers will migrate to Unalaska only when living conditions are acceptable. If adequate affordable housing is available, workers will become available at wages that make it possible for private enterprise to fill the gaps in the marketplace.

As an urban economy grows, the goods and services sector supporting the local economy also grows in depth and variety. The growth is not proportionate; it expands at a faster rate than the basic export sector. The lack of local entrepreneurs with adequate capital and information interferes with economic expansion associated with import substitution (that is, growth in the local goods and services sector providing items that were previously imported or not consumed because they were not available at an affordable price). Unalaska presents a clear case of this temporary situation.

With capital and knowledge, substantial expansion in the inventory of real estate will find users who need the full range of housing, especially rental apartments and commercial real estate. These users need the space to provide goods and services that will satisfy the pent-up demand that is currently ignored or satisfied by purchases from distant and costly sources. When individual enterprises assess the situation, Unalaska should experience increases in public infrastructure and privately-owned real estate to provide the needed housing and workplaces. At the same time, essential workers will migrate, expanding the local economy until it reaches equilibrium.

Unalaska will continue as a viable economy for many years to come. This is largely due to the enduring presence of the seafood industry in one form or another, plus the expansion of support enterprises that are yet to be fully developed.