

KETCHIKAN'S ECONOMIC OUTLOOK

The following article was written by Rod Brown, research supervisor, and is the result of a personal visit to the Ketchikan area in May of this year. With the exception of background data which is collected and maintained by the Research and Analysis Section, the information contained in this article was obtained through various publications and numerous interviews.

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As a contrast to the rapid growth and flurry of activity occurring in the northern part of the State, Ketchikan is presently experiencing an economic slowdown.

A spring visitor in the city of Ketchikan would have noticed a deep underlying sense of apprehension flowing throughout the entire area of that southeastern Alaska city. The reason for this apprehensive mood is certainly understandable since that community's basic industries are experiencing substantial difficulties. Historically, Ketchikan has relied heavily on timber and fishing related industries as its economic base. In years past this reliance has proved healthy as Ketchikan has continued to grow at a slow but steady pace. More recently, however, a soft housing market in both Japan and the United States and generally poor economic conditions coupled with a declining salmon fishery have given rise to concern over Ketchikan's narrow economic base. In fact, one of the higher priority items to be undertaken by the Ketchikan Gateway Borough's Overall Economic Development Program (OEDP) is the development of an economic diversification policy. Present local economic conditions and talk of a possible pulp mill closure resulting from stringent Environmental Protection Agency regulations have underscored the need for diversification. Some areas of diversification that are presently being considered through the OEDP are marine transportation services (including an Alaska state ferry supplementary maintenance base, marine repair and maintenance facilities, and the development of a regional trans-shipment center, distribution port, and container cargo facilities), tourism development, and expansion of resource base industries (i.e. fishing, timber and mining). The following sections will discuss various segments of Ketchikan's economy as viewed in the spring of this year.

Logging, Lumber and Pulp: During the growth years

of Ketchikan's timber industry, fishing was that community's economic foundation. In recent years the declining fisheries have been offset by maturing timber related industries, resulting in a stable and thriving community with timber becoming the economic mainstay. The influence of the timber industry in Ketchikan is exemplified by the fact that almost one-fourth of the labor force is directly employed in that industry. Further, the area's largest employer, Ketchikan Pulp Company, can almost be taken synonymously with Ketchikan's timber industry. According to KPC brochures, that firm directly and indirectly employs nearly 2,000 people in their logging, pulp mill, and sawmill operations, and they spend over three million dollars per month locally for wages, supplies, and logs. Basically, as that firm fares, so fares the community of Ketchikan. Fortunately, KPC is a diversified firm in itself, and is therefore, in a better position to cope with changing market and economic conditions. Recently, an added concern has been the possibility of a closure of pulp mill operations due to strict EPA regulations. Should such a closure occur, the effects would be long lasting and quite profound. In a preliminary analysis of the economic impact of changes in operating levels of the Ketchikan Pulp Mill, Dr. George Rogers, economist, estimates that the area's total employment would fall "from the 1974 level of 7,948 to somewhere between 4,320 and 5,940, and total population...from 15,740 to between 8,640 and 11,880."

Assuming that a pulp mill closure will not come about, the future is not all that bad. While tight times can be expected in the interim, the long range outlook is good. As world market conditions improve, KPC's pulp operations will eventually get back into full swing. It is important to note that Ketchikan Pulp's recent 6 week shutdown was due to inventory problems resulting from the soft world pulp market and not from EPA restrictions. Should

poor market conditions continue, more shutdowns can be expected. Present plans call for the Ketchikan Pulp Mill to be shut down during most of July and again for a shorter period this fall.

A recent picture of Ketchikan, which further attests to poor timber market conditions, will show rows of logs stockpiled everywhere, awaiting shipping. In that respect logging and sawmill operations are in much the same state as pulp production. However, logging will continue through most of October, and weather and market conditions permitting, may continue into December. In contrast to pulp operations, logging and sawmill production will see a slowdown in activity to adjust to market conditions rather than complete shutdowns.

While the present situation is the result of poor market conditions, future operations will undoubtedly be affected by rising operating costs, such as stumpage prices, wages, and insurance rates. The present formula used by the U.S. Forest Service for setting stumpage fees has increased stumpage costs drastically, unfortunately at a time when economic conditions are poor. It is noteworthy, however, that a considerable lag exists between the time of a timber sale and the active or completed harvest. Thus, the next year or two will see harvesting of timber purchased at lower prices. One encouraging fact in this picture of uncertainties is that present rates of timber harvest can be maintained indefinitely. Hopefully, existing problems or inequities can be worked out and Ketchikan's primary industry will see some improvements.

Fishing: The depressed state of Alaska's fisheries is certainly not a new story. Coming at a time when Ketchikan's primary industry is suffering from soft market conditions and rising operating costs, an anticipated extremely poor salmon return will certainly aggravate the area's unemployment picture.

According to the Alaska Department of Fish and Game forecasts, a pink salmon return to Southeastern Alaska of 6.6 million fish "represents one of the poorer outlooks for major fisheries in the State." For Southern Southeastern (which is that area from Petersburg south) a pink return of approximately 2.0 million is forecast with a range of 0 to 4.3 million. Since the escapement requirements are approximately 6 million fish, no significant harvest is expected.

Since pink salmon make up the bulk of the total salmon pack many processors may not be operating this season. While the long term outlook for Ketchikan fisheries is uncertain, the early forecast for 1976 is also poor. Hopefully, however, limited entry may relieve some pressures on the salmon fisheries and in time there may be some new developments or help from the area of aquaculture.

Mining: If there is to be a salvation from Ketchikan's reliance on timber and fishing related industries, it will not likely be the result of a shift to mining. Petroleum has the front row seat in southcentral and northern Alaska, but in Southeastern its potential is bleak. Mining activities in the area of the State's southernmost city have primarily been of an exploratory nature. Companies such as El Paso Natural Gas, U.S. Borax, Consolidated Mining (along with many other firms engaged in exploration services) have conducted extensive surveys in this area, yet findings have not generated a great deal of optimism. However, some mineral potential exists in the Bokan Mountain area and uranium deposits of a limited nature have shown up on the Prince of Wales Island. Hardrock minerals of many varieties exist in Southeastern but not in sufficient quantity or quality to overcome Alaska's inherent obstacles of short work seasons, limited access, and expensive transportation. While this picture will undoubtedly change in the future, the present and short term outlook is limited. It is difficult to predict long range implications of mining exploration activities, especially in view of overall economic conditions, individual business policy, and feasibility of mineral extraction.

Construction: The construction outlook in Ketchikan is fairly good. Construction activity (as reflected by building and zoning permits) for the first four months of 1975 is following closely to 1974 experience. While down from 1973 levels, many projects are on tap in the near future; perhaps the largest of which is that of port facilities development. Under the past year's approval of a statewide bond issue, Ketchikan will receive \$1.5 million, which will be matched with \$300,000 of local funds if approval is obtained through a local bond election. A bid has recently been let for the construction of a \$5 million Totem Heritage Cultural Center designed to house totems and native arts and which will provide a center for related community activities.

Additional construction activity will see 100 units of low-rent housing started this summer. Presently, work is beginning on a crash and maintenance facility at the new Ketchikan airport on Gravina Island, and a \$.5 million bridge project is well underway at Ward Creek near the Ketchikan Pulp Mill. Likely significant projects in the future will include the design and installation of municipal water and sewer facilities.

Finance & Real Estate: A check with banking institutions in Ketchikan shows that in relation to past comparable periods the dollar volume of time deposits is increasing while demand deposits are declining. This may be an indication that large purchases such as homes, autos and boats are being deferred in view of present economic uncertainties, while demand deposits are being drawn upon to meet the needs of short term unemployed workers. In viewing loan volumes, the trend is up on short term business loans and down for auto and boat loans. It appears that the money market is not tight, however lending may be a little more selective. For instance one institution indicates that loans will be harder to obtain for multiple-family dwellings than for single-family residences.

Resistance to loans on multiple-family units seems contrary to the general Alaska tendency towards this type of dwelling, (see "Private Housing Activity in Alaska"; Alaska Economic Trends—May 1975). This is more understandable, however, in view of Ketchikan's current economic situation and the planned construction of one-hundred units of HUD/ASHA funded low-rent family and elderly housing scheduled to be started this summer.

Following a fairly active spring the condition of Ketchikan's real estate market is slow but generally healthy. As in most of Alaska, a sellers' market exists due to the shortage of adequate housing. Real estate listings are up and sales are down, but with maintenance of high prices it appears that dollar volumes have not been drastically affected. While there is a great deal of concern about Ketchikan's present state, it seems that most people view it as a relatively short term situation.

Tourism & Travel: Alaska in general is experiencing a renewed interest in tourism which is to some degree a result of publicity and interest developed from the construction of the pipeline. While the growth rate

is not expected to be as great as in past years the trend is still up and this should prove to be the biggest year ever. Likewise, travel is up statewide as a result of many Alaskans seeking pipeline employment and pipeline workers traveling home for R & R and returning to their pipeline jobs. While Ketchikan will not be leading the list on percentage increase in this type of travel neither is that area immune to nor insulated from such events. The most likely contributing factor to pipeline related travel from Ketchikan is the dim outlook for marginal workers normally employed in the slumping timber and fishing industries. Looking deeper into Ketchikan's experience with tourists reveals that even though there has been no concerted effort to develop this industry, there has been a slow but steady growth in recent years. Ketchikan's largely untapped tourism resource may be facing a change, however, under a policy of Economic Development and Diversification.

The problems Ketchikan is presently facing are not insurmountable, yet the cure for its economic woes will require time. National economic recovery along with renewed building activity and increased demand for timber products and rehabilitation of Southeastern Alaska's fisheries will not be an overnight occurrence. However, with timber being the leading economic influence in the Ketchikan area, the potential for a quick recovery is good. Obviously, market conditions for timber products will improve much faster than will a rehabilitation of Southeast Alaska's fisheries.

While the present scene is dim, Ketchikan is a sound community with an economy based on renewable resources. With proper resource management and an actively pursued plan for diversification, Ketchikan's future can be one of Alaska's brightest.

ALASKA'S ECONOMY IN APRIL

Employment — Unemployment: Preliminary estimates of Statewide employment in April, revealed an increase of 5,900 workers from the 149,600 reported in March. Statewide employment in April was up 25.8 percent from a year ago. Total unemployment in April declined to 16,100, down 900 from the month earlier. Over the month, the labor force expanded to 171,600, up 3 percent from March, and up 21.5 percent from last April.