

The Kenai Peninsula's Economy Bounces Back

By Neal Fried

The last time we analyzed the Kenai Peninsula Borough's economy (*Alaska Economic Trends*, February 1988) there was little positive to report. This has changed. The Peninsula's economy began to recover in 1988, about the same time most of the state began to turn around. Kenai's turnaround continued, with added energy, in 1989. A substantial amount of this vitality came from oil spill-related activity. However, the Peninsula's economy would have made respectable gains in 1989 even without the help of the oil spill.

A Diverse Economy Is the Peninsula's Strength

The Peninsula's underlying economic strength consists of three elements: diversification, "value added" production and exports. No other area in the state enjoys such an assortment of basic industries which drive the economy. The industries include: fishing, tourism, oil & gas, hydrocarbon-based manufacturing, transportation, government, and a growing timber industry. Nearly all of these industries aided in the recent economic recovery.

The Fishing Industry Helped The Peninsula's Recovery

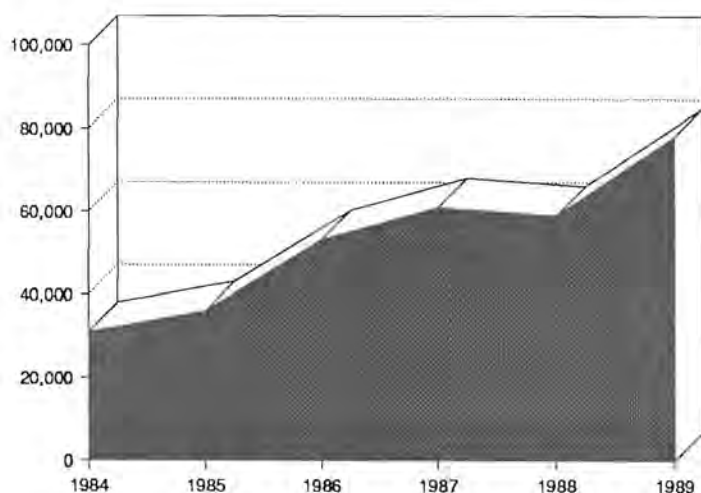
Two exceptional salmon seasons made the fishing industry an important factor in the recovery of the Peninsula's economy. The 1988 Cook Inlet salmon season enjoyed record salmon prices, combined with a near record harvest. And in spite of the oil spill, 1989 was an above average year for salmon prices and harvest.

However, while many beach setnetters enjoyed a record year, 1989 was a frustrating year for the driftnet fishing fleet. The oil spill prevented many of them from putting nets into the water. In addition to good salmon runs, bottomfishing activity has grown steadily during the past four years, helping to offset the declines which continue in the shellfish fishery.

In response to 1988's high prices and large harvests, at least five Peninsula shore-based processors made expansions to their facilities. In addition to the plant expansions Ocean Trawl, a bottomfishing catcher/processor operation, established a home base in Homer for one of its vessels in 1988. Presently one of its ships operates out of Homer and it expects two new ships to join the fleet by late 1990. According to Ocean Trawl, when all ships are operating it will employ a work force of approximately 450, and it expects a large share of this work force to be made up of local residents. Seward-based Fishing Company of Alaska

Figure 1

Visitors To Kenai Fjords National Park



Source: National Park Service

Kenai Peninsula Borough Employment by Industry 1987-1989

	1987 Annual Average	1988 Annual Average	Percent Change 1987-1988	6 Month Average 1988	6 Month Average 1989	Percent Change 1988-1989
Nonag. Wage & Salary	10,806	11,090	2.6%	10,160	12,420	22.2%
Mining	758	839	10.7	808	788	-2.5
Construction	642	619	-3.6	478	753	57.5
Manufacturing	1,320	1,486	12.6	1,064	1,430	34.4
Food & Kindred Products	783	948	21.1	536	777	45.0
Trans., Comm. & Utilities	569	622	9.3	579	1,154	99.3
Trade	2,264	2,179	-3.8	2,137	2,205	3.2
Wholesale	372	397	6.7	385	378	-1.8
Retail	1,892	1,783	-5.8	1,752	1,827	4.3
Finance, Ins. & Real Estate	299	257	-14.0	251	262	4.4
Services & Misc.	2,003	2,069	3.3	1,870	2,406	28.7
Government	2,951	3,019	2.3	2,973	3,422	15.1
Federal	216	248	14.8	224	249	11.2
State	787	912	15.9	831	1,013	21.9
Local	1,948	1,859	-4.6	1,918	2,160	12.6

Source: Alaska Department of Labor, Research & Analysis

Kenai Peninsula Borough Taxable Sales Figures 1987-1989

	1987 Annual Sales (millions)	1988 Annual Sales (millions)	Percent Change 1987-88	9 Mo. Avg. '88 (millions)	9 Mo. Avg. '89 (millions)	Percent Change 1988-89
Borough	\$328.3	\$342.6	4.4%	\$265.3	\$300.1	13.1%
Kenai	68.8	74.7	8.7	56.2	58.2	3.5
Soldotna	80.0	81.4	1.7	62.2	66.0	6.0
Homer	53.8	54.7	1.6	43.7	53.7	22.8
Seward	27.3	30.0	9.6	24.1	31.9	32.4
Balance	98.3	101.7	3.6	78.9	90.3	14.4

Source: Kenai Peninsula Borough; total may not add due to rounding.

added another catcher/processor to its fleet of two boats in 1989. As a result of these expansions and healthy harvests fish processing employment on the Peninsula grew 21% in 1988 and 45% during the first half of 1989. (See Table 1 and Figure 4.)

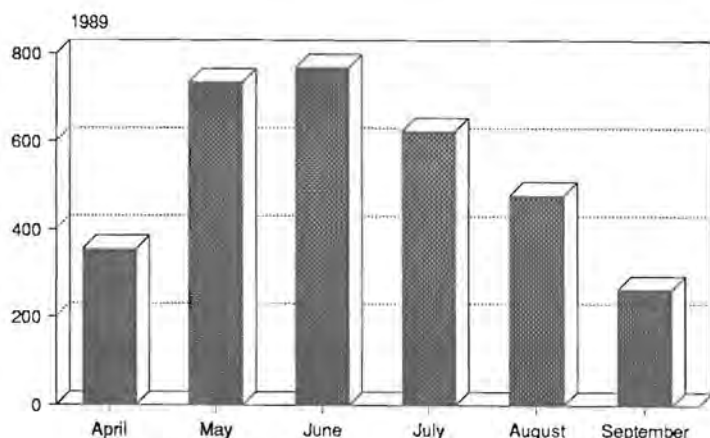
The Peninsula's Oil Industry Makes a Comeback

By 1988 the Peninsula's oil industry rebounded from its low of 758 jobs in 1987. Additional activity on the North Slope and an increase in exploration activity on the Peninsula is responsible for this recovery.

Presently there is concern regarding the fate of the Drift River oil storage facility on the west side of Cook Inlet. Oil production of ten offshore oil platforms was temporarily interrupted because of the volcanic eruption of Mt. Redoubt. The oil from these ten platforms is stored at the facility before it is shipped out by oil tankers. If the facility were shut down for an extended length of time it could affect the

Figure 2

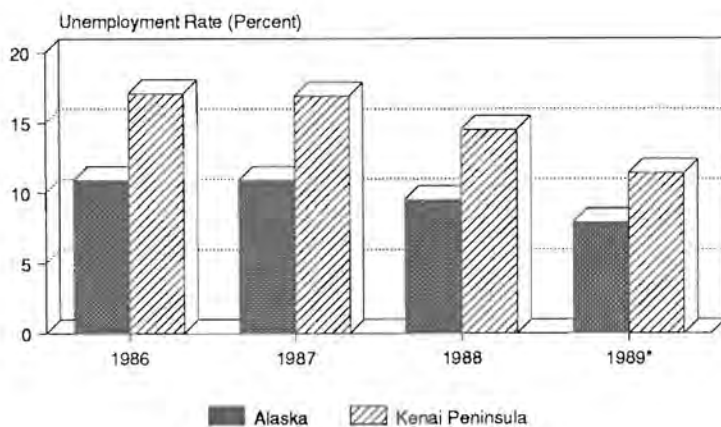
Oil Spill Workers On the Kenai Peninsula*



*VECO & Narcon workers
Source: VECO Inc.

Figure 3

Unemployment Rates 1986-1989 Alaska & Kenai Peninsula



Source: Alaska Department of Labor, Research & Analysis

employment of more than 500 workers in the Peninsula's oil industry. Oil production has resumed and its future will be determined by volcanic activity.

Employment in the refining/manufacturing side of the oil and gas industry has remained stable the past

two years. This sector was one of the Peninsula's early international exporters and is the state's only oil and gas exporter to date. Exports include urea and ammonia (used for fertilizer), liquified natural gas (LNG), and refined petroleum products. In the short-term, employment in this industry is expected

to remain stable. Recently Tesoro announced they were going to build a new multi-million dollar dock at their refinery site. There is a possibility that additional exports may occur in the future. Korean interests are presently considering importing LNG from the Kenai Peninsula.

Tourism Remains Healthy

The oil spill initially sent a wave of apprehension through the Peninsula's tourist industry. However, as the season got underway most concerns evaporated as operators began enjoying another strong visitor season.

Although Alaska Department of Labor figures do not include a tourism category, it appears the Peninsula's tourist industry has remained healthy. Employment in the service industry is one of the major beneficiaries of tourism, and jobs in this industry grew substantially during 1989. Other statistics such as visits to the Kenai Fjords National Park and dollars collected in sales taxes appear to corroborate these findings. (See Figure 1 and Table 2.) Because a majority of the Peninsula's visitors come from Anchorage, the rebound in Anchorage's economy and population has been good news for the area's tourist industry.

Indications are that many operators believe tourism on the Peninsula will remain healthy. Princess Tours is opening a new lodge at Cooper Landing on the Kenai River for the 1990 season, and the Alaska Railroad will be increasing the number of trains travelling from Anchorage to Seward. Kenai Fjord Tours of Seward recently purchased a new 150 passenger tour ship to augment its tour business. Some speculate that the number of visitors to the Kenai Fjords National Park could exceed 100,000 in a few years. And the King Oscar Motel of Kenai is planning to build a convention center with a 600 person capacity. There is also a growing initiative to develop foreign markets, especially in the Pacific Rim.

Handful of Projects Support Construction Industry

Construction activity on the Peninsula is lackluster at best. With the exception of Seward, residential and commercial

construction remains almost non-existent because of the over-built market. If not for the Bradley Lake hydroelectric project outside of Homer, (one of the largest construction projects in the state) the industry would show few signs of life. A few other public projects are breathing some life into this industry. The Kenai Peninsula Borough is building an \$8 million elementary school in Seward; projects in Homer include a \$4.1 million deep-water dock port and \$14 million sewer project; reconstruction of the Steelhead offshore oil platform near Kenai is almost complete. However, no one is predicting a strong turnaround in this industry for the near future.

A New Timber Industry Gives The Economy An Extra Boost

Timber harvesting and processing are the latest diversification efforts on the Peninsula. Until 1988 almost all timber activity was limited to Southeast Alaska. Now the Kenai Peninsula is making some inroads into this industry.

Chugach Alaska Corp. has almost completed a \$20 million state-of-the-art mill in Seward to produce dimensional lumber for the Pacific Rim and the local Alaska market. The project encompasses the three key economic elements mentioned earlier in this article -- diversification (because timber-related activity was largely limited to small operations), exports (because most of the products will be sent to the Pacific Rim), and value-added production (because much of the timber will be processed before export). In addition, a fourth economic development term applies to the project -- import substitution (because the mill will be supplying some of Alaska's lumber which is now imported). Chugach plans to employ a work force of 60, with the possibility of adding a second shift (and thereby almost doubling its workforce).

There are additional projects on the Peninsula timber scene: Klukwan Forest Products shipped Korean-bound round logs off the Homer dock for the first time this summer. Klukwan plans to ship more timber to the Pacific Rim in the future. Another timber firm, South Central Timber Development Inc., is planning to harvest trees from English Bay for export in 1990. And

Cook Inlet Region Inc. just recently sold logging rights to 30,000 acres to Chugach Alaska Corporation.

Public Sector Gets A Boost From A New Prison

State government employment got a big boost when the prison in Seward opened in mid-1988. The prison employs approximately 200 state employees.

Local government employment levels were slower to rebound because declining property values continued to put a crimp on this sector's ability to expand. However, local government employment stabilized in 1988 and it appears most local governments are currently in relatively good financial shape. Some upward pressure on local government employment exists because school enrollment on the Peninsula began to climb again in 1989.

Federal government, a small employer on the Peninsula, grew partially as a result of an increase of 25 Federal Aviation Administration (FAA) personnel at the Kenai Flight Center. The FAA is consolidating and by 1991 their presence at the center may double from its present size of 51.

Oil Spill Creates Economic Boomlet

Although the oil spill began in Prince William Sound, it spread to the Kenai Peninsula and beyond. As in Valdez, cleanup activity on the Peninsula created a temporary economic boomlet. Most of the cleanup activity was based out of Homer, Seward and the communities of Seldovia, English Bay and Port Graham on the south side of Kachemak Bay.

At its peak Exxon's contractors had more than a thousand workers on the cleanup effort on the Peninsula. Given the size of the Peninsula's work force, this increase created a large bulge in the area's employment picture. Employment during the second quarter of 1989 would not have grown the 28% without the cleanup effort.

In April, VECO, the prime cleanup contractor, began to hire workers for the cleanup effort on the Peninsula. Employment with VECO and its union

subsidiary, Norcon, peaked at 623 in July. (See Figure 2.) VECO subcontracted with many small vessels, employing as many as 221 additional people during the peak month. VECO also hired contractors to clean vessels, work construction, provide security, operate the bird rescue center and other activities. In addition to the oil spill contractors' activity, an untold number of local businesses such as hotels, transportation companies, restaurants, stores, etc. hired extra help in response to cleanup activity. For many businesses, the cleanup meant a financial windfall.

A major labor shortage ensued because of the sheer number of workers hired, which was compounded by the high wages offered by the cleanup contractors. The services sector and fish processing employers felt the brunt of these shortages. A few businesses actually had to close their doors because of a lack of help. The unemployment rate on the Peninsula fell as low as 5.9% in August, the lowest recorded unemployment rate in 15 years (See Figure 3.)

In some respects, the economic impact of the cleanup effort was not altogether different from a large short-term construction project. One major difference, however, is the potential long term economic impact. At this point no one really knows what economic bearing the spill might have, particularly on the area's fishery and tourism industries. The effect on tourism will be difficult if not impossible to measure. As for the impact on fisheries, only time will tell.

Seward Becomes The Economic Star of The Peninsula

The oil revenue boom of the early 1980s basically skipped Seward. For many years Seward's employment picture remained largely unchanged. During the past 3 years Seward's economy has blossomed. Employment in Seward grew 37% from 1986 through the second quarter 1989, compared to 3.3% for the state (See Table 3 and Figure 4).

The biggest single boost to Seward's economy came when the Spring Creek prison opened in mid-1988. That act alone pushed Seward's employment up by 16%. And all this was happening

Table 3

Seward Employment by Industry 1987-1989

	1987 Annual Average	1988 Annual Average	Percent Change 1987-1988	6 Month Average 1988	6 Month Average 1989	Percent Change 1988-1989
Nonag. Wage & Salary	1,236	1,324	7.1%	1,252	1,793	43.2%
Construction	101	73	-27.7	68	54	-20.6
Manufacturing	157	164	4.5	156	298	91.0
Trans., Comm. & Utilities	60	72	20.0	66	187	183.3
Trade	212	213	0.5	208	264	26.9
Finance, Ins. & Real Estate	21	21	0.0	21	19	-9.5
Services & Misc.	265	251	-5.3	258	327	26.7
Government	420	530	26.2	475	644	35.6
Federal	37	45	21.6	42	42	0.0
State	208	311	49.5	258	404	56.6
Local	175	174	-0.6	176	199	13.1

Source: Alaska Department of Labor, Research & Analysis

Table 4

Homer Employment by Industry 1987-1989

	1987 Annual Average	1988 Annual Average	Percent Change 1987-1988	6 Month Average 1988	6 Month Average 1989	Percent Change 1988-1989
Nonag. Wage & Salary	1,397	1,496	7.1%	1,370	1,824	33.1%
Construction	88	130	47.2	72	252	250.0
Manufacturing	115	163	41.6	127	181	42.5
Trans., Comm. & Utilities	159	196	23.3	184	281	52.7
Trade	337	312	-7.6	313	312	-0.3
Finance, Ins. & Real Estate	57	56	-1.7	55	64	16.4
Services & Misc.	230	234	1.6	210	277	31.9
Government	411	406	-1.2	409	457	11.7
Federal	40	45	13.8	42	47	11.9
State	25	25	0.0	26	29	11.5
Local	347	336	-3.0	342	382	11.7

Source: Alaska Department of Labor, Research & Analysis

while tourism in Seward continued to expand. In response to the relatively newly established Kenai Fjords National Park (1980), Seward has found numerous new tourism opportunities to exploit.

Commercial fishing also grew as the salmon harvest improved and bottomfishing efforts expanded. As already mentioned, the Fishing Company of Alaska added a new boat

to its fleet. Both of Seward's land-based fish processing plants, Seward Fisheries and Seward Marine Services, also expanded their operations in 1989. The oil spill also provided a big shot in the arm during the summer of 1989. And employment will get an additional boost in 1990 when the Chugach lumber mill opens. Other harbor expansion activities and a possible expansion of the prison provide additional sources of growth for Seward's economy.

Homer's Recovery Follows Closely Behind Seward's

Unlike Seward, Homer suffered from major employment losses during the statewide recession of 1986-1988. But by 1988 Homer's economy was beginning to make a comeback. (See Table 4 and Figure 4.) The improved health of the area's tourism, fishing, and construction industries have made this possible.

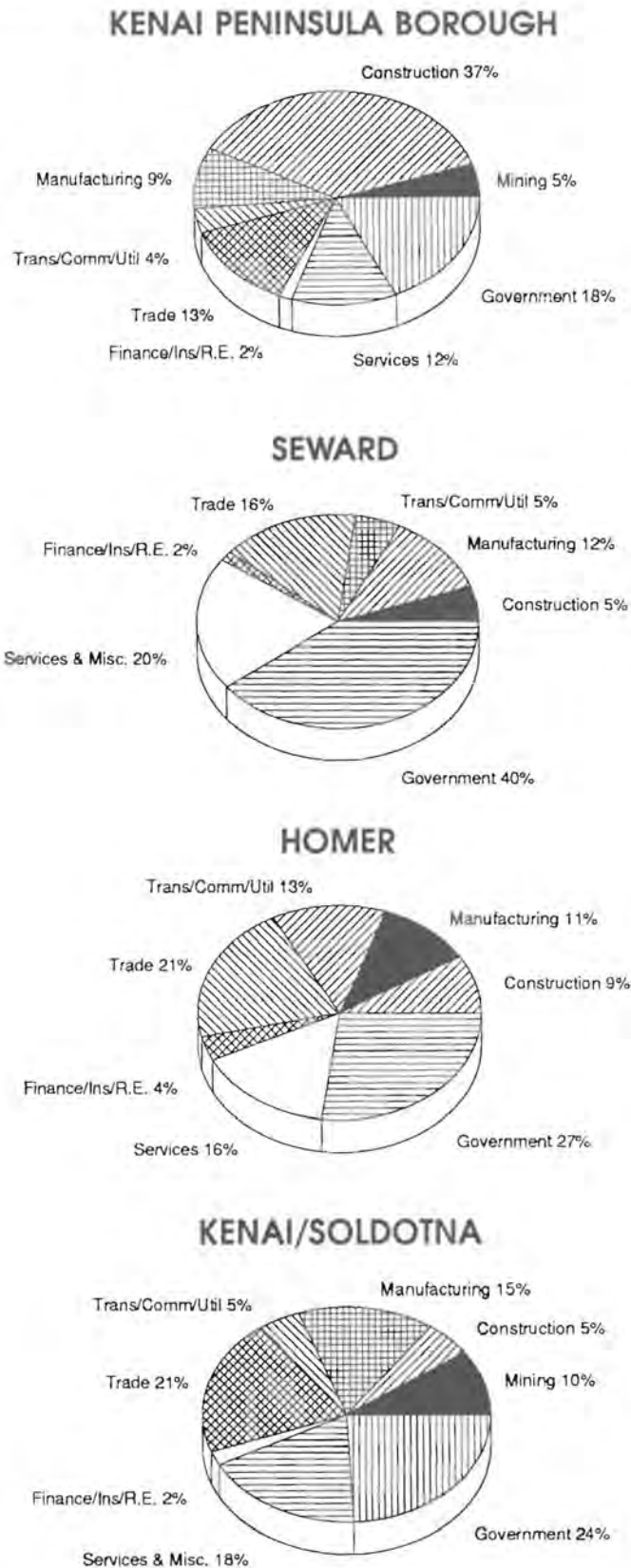
Construction's big boost came from Bradley Lake, whose peak work force was 327 in 1989; it may see a higher employment level in 1990. A few other construction projects infused some life into this industry. Work on the area's dock and sewer system provided additional employment opportunities. The dock and sewer may provide more long-term infrastructure development which will attract shippers and fishing industry interests. An example of this is the decision by Ocean Trawl to home port its bottom fishing fleet in Homer.

The strong salmon harvests and prices have been good to Homer. Its large tourism industry has remained healthy and by many indicators has continued to expand. Homer's biggest problem in 1989 was that it could not accommodate all of the tourists because so many hotel rooms were filled with spill workers. In addition to a lack of hotel rooms, there was a shortage of space on fish and sightseeing charters because skippers and boats were working on the more lucrative oil spill. There is some concern that this lack of service might have some longer term implications.

The Central Peninsula's Economy Heals More Slowly

The Kenai-Soldotna area's economy was the hardest hit on the Peninsula during the recession — almost 1,100 jobs were lost — and it has also been the slowest to recover. An excess of residential and commercial real estate remains on the market although there are signs that this sector is beginning to show life. A rebound in the fishing industry, a stabilized oil industry, good tourism seasons, and a healthy public sector is lifting the area's economy out of its 1987 nadir. Employment began to grow again in 1988 and continued on this path in 1989—albeit slower than the remainder of the Peninsula. (See Table 5 and Figure 4). The Central Peninsula got a boost from the oil spill, but it was not nearly as large as in the Peninsula's other communities.

Figure 4
Kenai Peninsula Employment by Area — 1988



Source: Alaska Department of Labor, Research and Analysis

Table 5

Kenai/Soldotna Employment by Industry 1987-1989

	1987 Annual Average	1988 Annual Average	Percent Change 1987-1988	6 Month Average 1988	6 Month Average 1989	Percent Change 1988-1989
Nonag. Wage & Salary	7,483	7,521	0.5%	6,859	7,809	13.8%
Mining	687	740	7.7	713	677	-5.1
Construction	421	389	-7.6	319	413	29.5
Manufacturing	1,042	1,151	10.5	780	949	21.7
Food & Kindred Products	534	662	24.0	288	314	9.0
Trans., Comm. & Utilities	347	352	1.4	327	442	35.2
Trade	1,622	1,543	-4.9	1,512	1,537	1.7
Wholesale	291	312	7.2	301	284	-5.6
Retail	1,331	1,232	-7.4	1,211	1,254	3.6
Finance, Ins. & Real Estate	191	164	-14.1	158	168	6.3
Services & Misc.	1,319	1,358	3.0	1,216	1,604	31.9
Government	1,854	1,824	-1.6	1,834	2,019	10.1
Federal	107	124	15.9	115	133	15.7
State	543	566	4.2	537	569	6.0
Local	1,205	1,134	-5.9	1,182	1,317	11.4

Source: Alaska Department of Labor, Research & Analysis

Summary: A Diverse And Sound Economy on the Kenai Peninsula

The Kenai Peninsula's economy pulled itself out of the doldrums in late 1988 and grew quite vigorously in 1989. Oil spill cleanup activity contributed to 1989's strength, but the Peninsula's economy would have made headway nevertheless.

The Peninsula's economic strength comes from its diversity. Almost all of its industries contributed to the Peninsula's improved economic outlook. Fishing provided a big boost with two good back-to-back salmon seasons. Probably the most pleasant economic surprise was that tourism remained robust in spite of the oil spill.

Even the Peninsula's construction industry exhibited some new life. There was little or no residential or commercial activity but public construction, led by construction of the Bradley Lake hydroelectric project, provided opportunities for the construction work force.

And timber, a newly-emerging industry on the Peninsula, is helping to further diversify the economy and provide new economic opportunities.

All the main communities are sharing in the area's improved economic outlook. Seward leads the pack in growth and vitality. Homer is not far behind. The Kenai-Soldotna area economy is not as robust, although it too is managing to make progress.

Next year's cleanup effort will not match 1989's, so the Peninsula's economy won't match this year's levels. But, because the economic activity generated by the cleanup was an aberration, 1989 provides a poor benchmark. If it is possible to visualize the area's economy minus the effects of the oil spill, it appears that the Kenai Peninsula's traditional industries and some new emerging ones will remain healthy and prosper in 1990.

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