

# Mythbusting Alaska's Boom-Bust Reputation

We've had just one true statewide boom-bust since 1959

By NEAL FRIED

Alaska's past has been marked by a number of booms and busts.

Nome's population boomed from just a handful of people to more than 20,000 during the gold rush that began in 1898. By 1920, the city's population had fallen to less than 1,000.

Kodiak had its own famous boom and bust in the 1970s when its king crab fishery's value soared from \$25 million to \$232 million in just nine years. (In today's dollars, that would have been an increase from \$137 million to \$637 million.) In some years, the value of Kodiak's king crab fishery rivaled the state's entire salmon fishery. By the early 1980s, the fishery had evaporated because the crabs didn't return, for reasons that remain unclear.

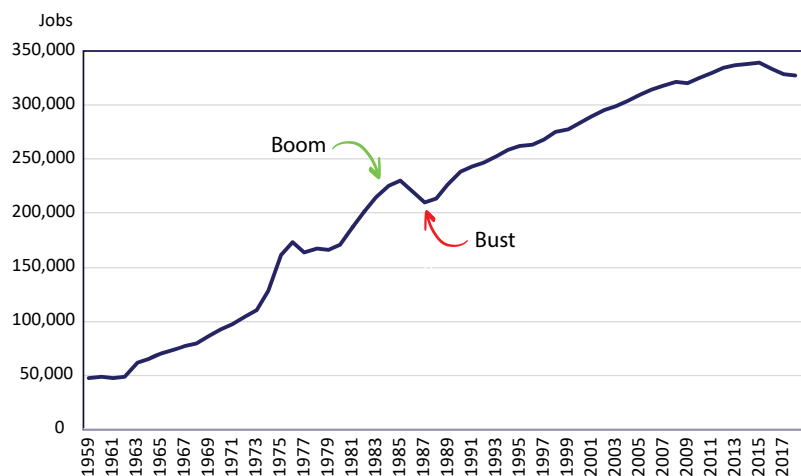
Southeast Alaska's timber industry also had a boom and bust cycle, although on a more drawn-out timeline, that culminated with the closure of large, high-paying pulp mill operations in Sitka in 1994 and Ketchikan in 1997.

Over Alaska's history, fur, fish, minerals, and timber have all taken turns being economically hot and then cold. So even before oil made a splashy appearance in Alaska with its high-dollar returns and dramatic price volatility, the state had acquired a reputation as having a boom and bust economy. But to the extent booms and busts are defined by big swings in job numbers, it's a myth that Alaska's economy has earned that reputation during its post-statehood era.

Over the past 60 years, Alaska's economy has only had

## 1 The '80s Recession Was a Classic Cycle

ALASKA'S TOTAL EMPLOYMENT, 1959 TO 2018



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

a true boom-bust cycle once: between 1980 and 1987. Otherwise, we've sustained long stretches of mostly modest and uninterrupted job growth, including a remarkable 27 years from 1988 to 2015 with just a slight dip in job numbers in 2009.

## Alaska has had fewer downturns than the nation

Since statehood in 1959, Alaska has weathered four recessions, defined as at least three straight quarters of employment losses. Over that same period, the nation recorded six recessions. (For more details, see the February 2016 issue of *Alaska Economic Trends*.)

Alaska's first recession hit in 1976 with the completion of the Trans-Alaska Oil Pipeline, and it followed a major boom. Employment skyrocketed 58 percent between

1973 and 1976, the population grew by 70,000, and total income jumped from \$2.5 billion to \$4.9 billion.

In late 1976 and 1977, more than 10,000 construction jobs ended and record numbers of people left the state. (See Exhibit 2.) While it looked like a classic boom-bust, two big things set it apart. First, we knew it was coming. Most of these jobs were temporary, set to disappear when Alaska's largest-ever project was complete. Second, these losses were narrow. Most of the economy continued to grow and total income didn't drop. Employment and the population decreased for just over a year and then resumed growing.

Two of the other three recessions didn't fit the pattern, either. In these cases, neither followed a boom.

The first, in 2009, lasted only three quarters, during which the state lost just half a percent of its jobs and didn't lose population.

The most recent state recession, which began in late 2015 and lasted through 2018, was preceded by several years of anemic job growth. From 2013 through 2015, employment grew by 0.4 percent or less a year, and by the time the recession hit in late 2015, we had already been losing residents to net migration for a few years.

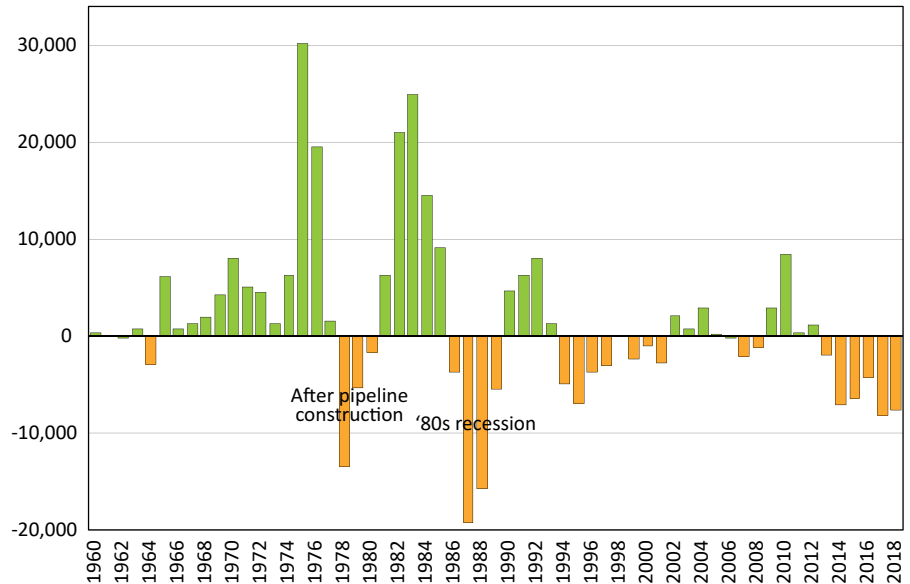
### Our one boom-bust since '59 was major

Only one recession in Alaska history was a classic boom-bust, and it's deeply etched into Alaska's economic history, although the memories are fading.

Most Alaskans either weren't here in the 1980s or are too young to remember them. You would need to be at least 50 years old to remember that recession well, although people somewhat younger might recall the childhood trauma of being uprooted after their families lost their homes. Nearly every person who lived through it has a story, as it represented a period of skyrocket-

## 2 Alaska's Net Migration Gains and Losses

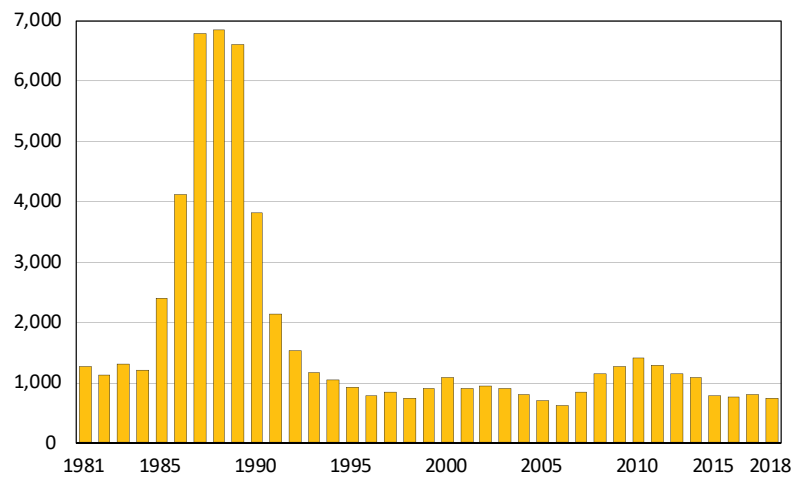
### IN-MOVERS MINUS OUT-MOVERS, 1960 TO 2018



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

## 3 Foreclosures Skyrocketed in the '80s

### BY YEAR, 1981 TO 2018



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

ing economic growth followed by a crash so hard it caused "economic PTSD" for years.

Between 1980 and 1985, high oil prices, juiced by the growing volume of oil flowing from the new 48-

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## BOOM-BUST

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inch oil pipeline, introduced a new era of wealth for Alaska. For many, confidence in Alaska's future was set because it felt like a permanent change. The world needed more oil, Alaska had a lot of it, and many thought prices would surely continue to soar.

Alaska saw its oil income grow from \$907 million in 1979 to \$4.8 billion in 1982. (In today's dollars, that would be \$2.6 billion to \$11.1 billion.) The state's gross domestic product more than doubled over those years. And in the first half of the 1980s, the population grew by 125,000. (See Exhibit 2 on page 13.)

It was the largest five-year population increase in Alaska's history, and 60 percent of those gains came from migration. A deep national recession drove even more new residents to the state to catch the rising tide of Alaska's economic expansion. Between 1980 and 1985, employment grew by 60,000 and in nearly every industry.

In 1983, Anchorage's residential building permits reached 9,083. In contrast, last year just 1,659 building permits were issued in the entire state and 410 in Anchorage, yet the state's population is nearly 50 percent bigger than it was in 1983.

Hindsight shows those numbers were setting the economy up for a classic real estate bubble — but a bust was in nobody's forecast.

The boom started to disappear as quickly as it came. The economy showed traces of weakness even before the price of oil tanked, as residential and commercial real estate inventory had outpaced demand.

When oil prices fell, the spigot that flooded the state's coffers slowed to a trickle, and spending was slashed. In 1986 and 1987, Alaska lost more than 20,000 jobs. Few industries or regions escaped the hit.

The unemployment rate hit a historical high of 11.2 percent. Between 1985 and 1989, more than 44,000 people left Alaska than arrived. In terms of net migration loss, 1987 and 1988 were record years. The state was feeling pretty vacant.

The collapsing real estate market opened a floodgate of foreclosures, which rose from 1,200 in 1984 to north of 6,500 each year from 1987 through 1989. In contrast, this now-much-larger state recorded just 734 foreclosures in 2018. (See Exhibit 3 on page 13.)

The real estate numbers in the late 1980s were stark:

- From 1985 to 1990, 15 banks, credit unions, and savings and loans in Alaska closed or were forced to consolidate.

### What 'boom-bust' means

"Boom-bust" is not a technical term, though it has some obvious similarities with recessions and other terms used for economic downturns.

Most would agree a boom-bust period is characterized by dramatic swings in economic activity, with overconfidence and overinvestment followed by an unsettling and exaggerated loss of confidence in the future after some precipitating event sends things spiraling downward. The upswing is marked by financial windfalls and the downswing comes as a surprise, inflicting major damage on the economy where large amounts of wealth evaporate.

The recent U.S. Great Recession (late 2007-2009) is a good example of a large-scale boom-bust. States that were hit especially hard — Arizona, Florida, and Nevada, for example — suffered employment, wealth, and real estate busts that looked a lot like Alaska's in the 1980s.

- Much of the excess new inventory didn't fill up for another decade.
- The price to rent class A office space in Anchorage fell from \$1.75 per square foot in 1984 to 45 cents in 1988.
- The number of real estate agents in Anchorage plummeted from 2,222 in 1984 to 732 in 1988.
- The average price of an Anchorage condo dropped from \$100,000 in 1985 to \$34,000 in 1989.

### While boom-busts don't define us, we're still subject to volatility

The fact that Alaska's job counts show fewer boom-bust periods since statehood than the nation as a whole should not be misinterpreted to mean the state no longer depends heavily on oil or that we won't ever boom-bust again. Oil dependence continues to carry enormous potential for volatility. By other economic measures, such as gross domestic product, Alaska has had more dramatic swings than the nation or most other states.

But it's useful to anyone trying to understand Alaska's economy to recognize that true boom-busts have actually been rare events in Alaska since statehood rather than what defines the state's economy.

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