The Kenai Peninsula Borough: An Economic Assessment

By Neal Fried

Economically speaking, 1987 was another rough year for the Kenai Peninsula. Employment declines continued in most industries, unemployment remained high while wages fell faster than employment, the number of building permits issued fell to levels not seen since the early 1970s, school enrollments declined, and sales figures brought little good news.

The Kenai Peninsula is one of the areas hardest hit by the present recession. In 1986 the peninsula's wage and salary work force declined 6.4% and in the first six months of 1987 it fell 6.1% from the first six months of 1986. All told, there are 1,000 fewer jobs on the peninsula today than there were in 1985. Its work force has regressed in size to the 1983-1984 level. Of the State's 23 boroughs and census areas, the peninsula's employment losses since the beginning of the recession in 1986 rank fifth percentage-wise. This is despite the fact that the peninsula has one of the most diverse private sector economies in the state: large fishing, tourism, and oil industries and a hydrocarbon based manufacturing industry which includes two petroleum refineries, a liquid natural gas plant and an ammonia-urea manufacturing complex.

The Kenai Peninsula is one of the areas hardest hit by the present recession.

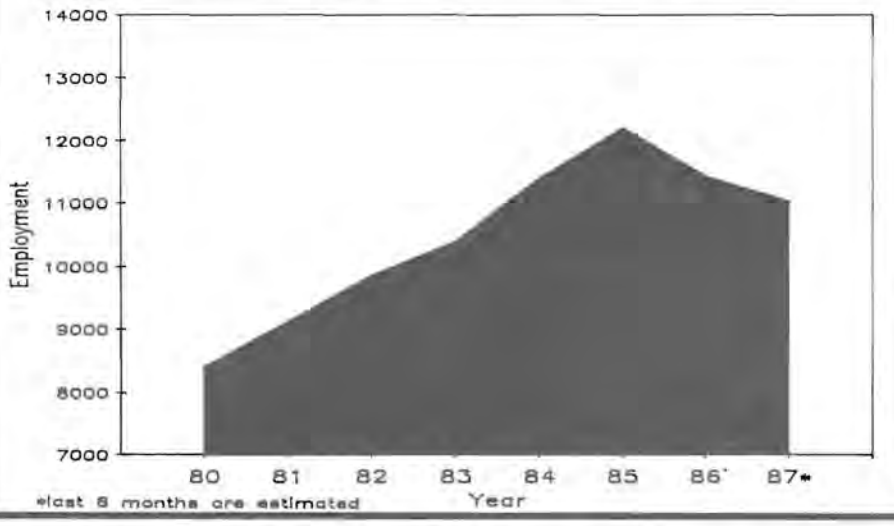
Part of the explanation lies in the fact that the Kenai Peninsula Borough was among the fastest growing economies during the oil revenue boom era in the early 1980s and is therefore falling the hardest during the oil revenue bust (Figure 1). The Kenai Peninsula, measured by employment, was the third fastest growing area in the state during this period (45.4%) and most of the growth was the result of expenditure of state oil revenues. Tourism also contributed to this growth but the area's other basic sectors contributed little. Despite having a diversified economy, most of the growth which took place in the 1980s was extremely vulnerable to a decline in oil revenues.

Few Industries Escape Losses

Most major industry categories have lost ground (Table 1). The biggest loser has been the construction industry. Construction employment began falling in 1986 and by 1987 employment in construction had fallen almost to 1980 levels. Much of the secondary sector (services and finance-insurance and real estate) didn't experience losses until 1987, as the initial declines in the economy caught up with these industries.

Retail and wholesale trade employment fell both in 1986 and 1987. The opening of a Fred Meyer store in Kenai in late 1987 provided new job opportunities in retail trade. Taxable sales (excludes wholesale, construction sales, and retail purchases over $500) on the peninsula, however fell 5% from 1985 to 1986 and again by

Figure 1
Kenai Peninsula Employment, 1980–1987



4% for the first three quarters of 1987 from the like period in 1986 (Table 2). Possibly more telling has been the 7.5% decline in gross sales in 1987, which would include big ticket items such as large household furnishings, snow machines, construction materials, automobiles and other large items. Falling incomes and economic uncertainty are apparently causing people to put off these purchases until some future date.

The Kenai Peninsula's oil industry work force, the second largest in the state in terms of its percent share of total employment, was trounced by the oil price declines. By early 1987 oil industry employment had fallen by 29% from its peak. A number of oil industry service companies are based out of Kenai, and this segment of the state's oil industry was particularly hard hit when the oil industry contracted.

State and local government has also lost employment, but the losses have generally been small. Not all the impacts are in the employment statistics. For example Kenai Peninsula Borough employees' pay was temporarily cut 10% by shortening their work week.

The tourism picture was mixed. An increase in out-of-state visitors helped to offset the loss of Alaskan clientele. Tourism catering to Anchorage and Southcentral Alaska suffered because there were fewer residents with less income to spend.

The losses in employment quickly translated into a higher unemployment rate which went from 14.1% in 1985 to 17.6% in 1986, the highest in the state (Figure 2). The number of unemployed stood at 3,000 in 1986. In 1987 the rates began to fall; not as a result of an improved economic picture, but because many of the unemployed decided to leave Alaska or drop out of the labor market, and therefore went uncounted.

Figure 2
Unemployment Rates 1985–1987, Alaska and Kenai Peninsula

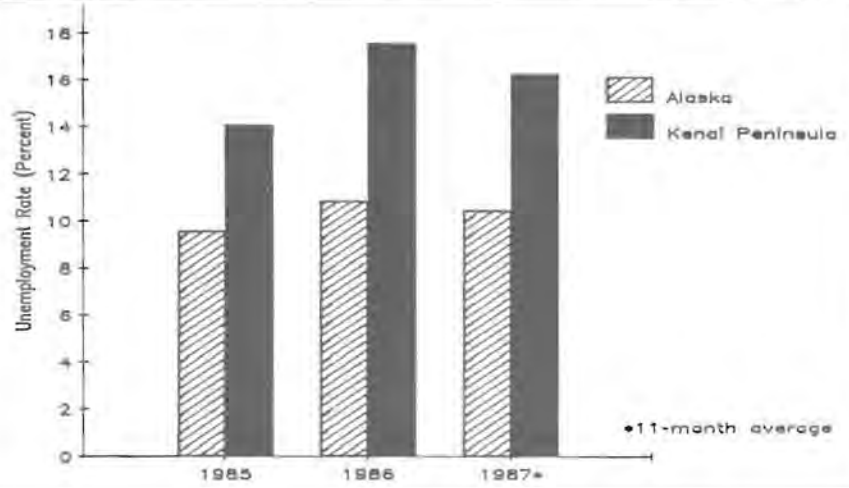
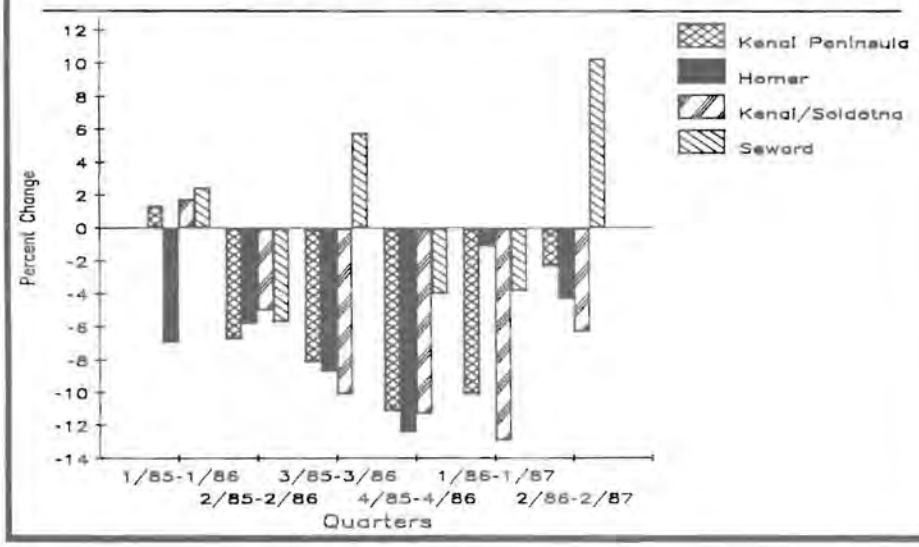


Figure 3
Percent Change in Employment by Quarter, 1985–1987



Communities in the Borough

There are four large communities on the peninsula—Kenai, Soldotna, Homer and Seward (figure 3). With the exception of Kenai and Soldotna, their economies operate independently of each other and have had different experiences during the past two years.

Kenai-Soldotna

The economy of the Kenai-Soldotna or central peninsula area dominates the Borough by virtue of its size. Seventy percent of the borough's employment is concentrated on the central peninsula. Its downturn has been somewhat more severe than the remainder of the borough (Table 3).

Overcapacity built into the economy during the prosperous years of 1980-1985 compounded the problem.

The price of single family homes has fallen 35-40% and some commercial space as much as 50%. Local sources expect additional softening in the real estate market before prices stabilize. This puts an additional drag on real estate, construction and retail trade.

Homer

Homer's economy was squeezed in 1986 much like the rest of the state, losing 8% of its employment, but in 1987 employment and sales figures fell only slightly (Table 4). A good tourism and fishing season prevented additional deep declines in 1987.

If construction of the Bradley Lake hydroelectric project and the home porting of Oceantrawl's bottomfishing operation takes place as planned, Homer's economy should improve significantly. Bradley Lake's work force could peak at approximately 200 in 1988 and Oceantrawl has estimated that as many as 100 people may be hired in their operation in 1988 and the number could double by 1989. Because of these two projects, Homer's prospects for 1988 appear considerably better than they do for much of the remainder of the borough.

Seward

Seward's economy has been impacted differently than the rest of the borough because the state's oil revenue boom largely skipped Seward. Employment grew little from

Table 1
Kenai Peninsula Employment by Industry
1985-1987

	1985 Annual Average	1986 Annual Average	Percent Change 1985-1986	6 Month Average 1986	6 Month Average 1987	Percent Change 1986-1987
Total	12,214	11,436	-6.4%	11,212	10,529	-6.1%
Mining	828	935	12.9	1,001	711	-29.0
Construction	1,387	864	-37.8	762	639	-16.1
Manufacturing	1,419	1,295	-8.7	1,095	1,100	0.5
Trans. Comm. & Util.	934	678	-27.4	761	546	-28.3
Trade	2,436	2,318	-4.8	2,221	2,206	-0.7
Wholesale	382	381	-0.3	375	362	-3.3
Retail	2,054	1,937	-5.7	1,846	1,844	-0.1
Finance-Ins. & R.E.	366	375	2.5	394	319	-18.9
Services & Misc.	1,930	2,040	5.7	1,990	1,936	-2.7
Government	2,915	2,932	0.6	2,990	3,072	2.7
Federal	210	225	7.3	217	206	-4.8
State	836	823	-1.6	829	777	-6.2
Local	1,870	1,885	0.8	1,945	2,088*	7.4

Source: Alaska Department of Labor,Statistical Quarterly.

* The method used to record school district employment does not account for small declines that occurred in 1987, resulting in an overstatement of local government employment.

Table 2
Kenai Peninsula Borough Taxable Sales Figures
1985-1987

	1985 Annual Sales	1986 Annual Sales	Percent Change 1985-1986	9 Month Average 1986	9 Month Average 1987	Percent Change 1986-1987
Borough	$348,329,463	$330,622,941	-5.1%	$255,435,612	$244,930,745	-4.1%
Kenai	76,279,352	70,883,866	-7.1	53,860,146	49,668,834	-7.8
Soldotna	86,990,850	84,113,053	-3.3	63,506,265	58,886,543	-7.3
Homer	54,990,691	53,581,239	-2.6	42,675,715	41,601,899	-2.5
Seward	25,231,782	26,172,424	3.7	21,126,545	21,283,686	0.7
Balance	104,836,788	95,872,359	-8.6	74,266,941	73,489,783	-1.0

Source: Kenai Peninsula Borough.

Table 3
Kenai-Soldotna Employment by Industry
1985-1987

	1985 Annual Average	1986 Annual Average	Percent Change 1985-1986	6 Month Average 1986	6 Month Average 1987	Percent Change 1986-1987
Total	8,581	8,024	-6.5%	7,972	7,213	-9.5%
Mining	735	850	15.6	911	644	-29.4
Construction	1,029	618	-39.9	566	420	-25.8
Manufacturing	1,068	1,009	-5.5	839	844	0.6
Trans. Comm. & Util.	602	401	-33.4	474	333	-29.7
Trade	1,823	1,663	-8.8	1,611	1,582	-1.8
Wholesale	325	307	-5.6	313	281	-10.4
Retail	1,499	1,356	-9.5	1,298	1,301	0.2
Finance-Ins. & R.E.	263	278	6.0	295	196	-33.6
Services & Misc.	1,258	1,369	8.8	1,366	1,257	-8.0
Government	1,803	1,836	1.8	1,910	1,938	1.4
Federal	107	105	-1.9	106	106	0.5
State	561	573	2.1	581	532	-8.4
Local	1,134	1,157	2.0	1,224	1,300	6.2

Source: Alaska Department of Labor, ES202.

Table 4
Homer Employment by Industry
1985-1987

	1985 Annual Average	1986 Annual Average	Percent Change 1985-1986	6 Month Average 1986	6 Month Average 1987	Percent Change 1986-1987
Total	1,676	1,533	-8.5%	1,462	1,421	-2.8%
Mining	7	3	-50.0	1	0	-100.0
Construction	252	125	-50.5	115	85	-26.2
Manufacturing	175	138	-21.0	121	122	1.2
Trans. Comm. & Util.	188	177	-5.9	176	149	-15.3
Trade	314	334	6.3	328	332	1.4
Finance-Ins. & R.E.	74	68	-8.1	70	56	-20.0
Services & Misc.	270	281	4.3	249	237	-4.8
Government	398	408	2.6	404	440	9.0
Federal	39	39	-0.6	40	39	-2.5
State	21	18	-13.3	18	29	58.3
Local	338	351	3.9	346	373	7.8

Source: Alaska Department of Labor, ES202.

1980-1985, but it managed to be one of the few areas of the state which staved off declines in 1986-1987 (Table 5). In 1987 employment managed to grow slightly, no small feat in light of the state's economy. Sales figures also improved during the 3rd and 4th quarters of 1987. Construction of the Springs Creek correction facility, tourism, and the coal loading activity has helped bolster the area's economy. Staffing the Spring Creek facility could keep Seward's economy moving ahead in 1988. Plans call for 180-200 employees to be hired for the facility which would cause Seward's wage

Table 5
Seward Employment by Industry
1985-1987

	1985 Annual Average	1986 Annual Average	Percent Change 1985-1986	6 Month Average 1986	6 Month Average 1987	Percent Change 1986-1987
Total	1,232	1,229	-0.2%	1,167	1,207	3.5%
Construction	32	68	115.9	44	105	141.4
Manufacturing	171	139	-18.3	128	132	3.5
Trans. Comm. & Util.	138	98	-29.0	110	61	-44.3
Trade	175	202	15.1	170	203	19.8
Finance-Ins. & R.E.	23	22	-2.2	22	20	-9.1
Services & Misc.	262	260	-1.0	258	203	-21.2
Government	433	441	1.7	437	420	-3.9
Federal	39	52	34.2	50	35	-30.0
State	241	220	-8.6	220	205	-7.0
Local	154	169	9.6	167	180	8.1

Source: Alaska Department of Labor, ES202.

and salary work force to grow quite dramatically.

Conclusion

The economic prospects for Homer and Seward will help offset the depressed central peninsula. The dramatically devalued dollar should encourage additional U.S. tourists and increase the number of foreign tourists. Westours, Alaska's largest tour operator, recently announced it would offer additional packaged tours to the Kenai Peninsula and cruise ship traffic to peninsula communities is projected to increase again this year. Tourism's brighter prospects in 1988 should help the entire peninsula. Given the potential activity for Seward and Homer and improved tourism the Kenai Peninsula Borough's economy is beginning to look better than the remainder of Southcentral Alaska.