No big Alaska earthquake in 2019 means less construction spending in 2020

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The amount of money flowing into Alaska's construction industry is expected to dip to roughly $6.7 billion in 2020, but large resource projects on the horizon continue to fuel hope for industry leaders in the state.

Associated General Contractors of Alaska Executive Director Alicia Siira said a forecasted decline of $500 million, or about 6.9 percent, in construction spending this year is largely due to the dwindling number of repair projects stemming from the 7.1 magnitude earthquake that struck Southcentral Alaska in November 2018.

While the Anchorage and Matanuska-Susitna school districts are still working on long-term rehabilitations to several schools severely damaged by the earthquake, the vast majority of repairs to roads and private buildings have wrapped up.

AGC of Alaska released its annual construction spending forecast Jan. 30 in Anchorage. The report was compiled by the Alaska research firm McDowell Group.

Last year's forecast for $7.2 billion of construction spending attributed approximately $200 million in government spending to earthquake-induced projects, with additional spending related to private-sector repairs.

"We saw a spike last year due to unexpected earthquake repairs," Siira said, adding that other sectors of the industry are expected to see mostly flat spending year-over-year.
“Although the outlook is relatively flat, there are certainly some bright spots for construction. Overall, petroleum, oil and gas spending is still a bright spot; we’re seeing lots of activity up there. Mining is still going to be a big one, as well,” she said.

Oil industry spending will lead the way with $2.9 billion in capital investments, which is a nearly $200 million year-over-year increase.

The growth in oil activity — driven by large prospects being developed by ConocoPhillips and Oil Search, a new entrant to Alaska — will offset spending declines in the mining and utility sectors.

Mining companies are expected to spend about $170 million on capital projects this year, which would be about $100 million less than 2019 as several expansion projects at producing mines are completed. New work this year includes a new tunnel at the underground, multi-metal Greens Creek mine near Juneau and an expansion of the processing facilities at the Pogo gold mine in the Interior, according to the report.

The Department of Defense is also starting to wrap up years of work on projects at Interior Alaska installations and that is also contributing to the smaller, $6.7 billion spending forecast, according to Siira.

Statewide national defense spending is pegged at about $500 million this year in the report, which is about $200 million less than 2019.

Specifically, the lion’s share of $325 million allocated to a new radar system at Clear Air Force Station through 2021 was spent from 2017-19. Also, preparations for two new squadrons of F-35 fighters to Eielson Air Force Base, which included new hangars, flight simulators, and other facilities, are mostly complete as the first fighters are set to arrive later this year.

Overall, public construction spending is expected to be nearly $2.3 billion this year, which is roughly a $300 million decrease from 2019. Activity in most of the subsets of public spending is generally anticipated to be flat, with the exception of Defense and earthquake projects declines.

State and federal spending on transportation projects should be flat in the $1 billion range, according to the report.

However, substantial work is set to begin again at Anchorage’s Port of Alaska after city officials approved a $42 million contract last summer for Seattle-based Pacific Pile and Marine to construct the first phase of a new petroleum and cement terminal at the port, which is the primary hub for inbound goods statewide.

The new fuel and cement dock is the first of a series of large dock construction projects at the port in the coming years. While a final cost for the entirety of the port modernization work is not yet available, it will clearly be many hundreds of millions of dollars.

Private sector construction spending will be mostly flat this year at about $4.4 billion, according to the report.

Utility spending will also be down roughly $300 million to $150 million following the completion of GCI’s $140 million 5G upgrade, the report states.

Construction industry impact

While the winter release of the construction forecast is an annual tradition of sorts for industry leaders, this year’s report also highlights the significant influence the construction trades have on Alaska’s economy as a whole.

According to McDowell Group, the industry provided $3.3 billion of direct and induced income across Alaska in 2018, representing more than 10 percent of the state’s total labor income for the year.

On the employment side, state Labor Department figures have long pegged the construction industry as accounting for less than 5 percent of the state’s total workforce with an average of 15,000 to 17,000
jobs. Alaska’s three-year recession has put the reported construction workforce towards the bottom of that range of late.

However, the Labor Department estimates do not include self-employed contractors, as they are much more difficult to quantify for state researchers because they are not required to file the same financial and insurance records with the state as larger companies are.

Based on federal statistics, the McDowell Group report concluded that there were more than 7,300 self-employed construction workers in Alaska, bringing the total industry workforce to 23,600. That direct employment also supports another 17,700 jobs in the state, according to the report, meaning the industry helps provide more than 41,000 jobs in Alaska; about 9 percent of all employment in Alaska in 2018.

Siira said the report gives her and other industry leaders more new, solid data that they can use to help advocate for their industry.

"We are really excited to release this economic impact report. A study on the construction industry in Alaska has never been done to this level of detail, and the results exceeded our expectations. The construction industry is a major contributor to Alaska’s economy, and now we have the numbers to back it," she said.

Combined, the closely tied oil and gas and construction industries support approximately 82,000 jobs in the state providing more than $6.4 billion of income, according to McDowell Group reports.

**Oil and gas impacts**

The Alaska Oil and Gas Association released a similar economic impact report for its industry Jan. 29 that was also compiled by the firm. It’s worth noting that some of the labor data for the construction and oil and gas industries undoubtedly overlaps given oil companies provide a significant portion of the work done by construction companies in the state.

The construction report also concluded that the state’s construction workforce has become a bit more Alaskan in recent years. Alaska residents comprised 82 percent of the state’s construction workforce in 2017; that’s up from 79 percent in 2013, which is also the statewide resident hire average across industries.

“That’s a number we can really be proud of as an industry,” Siira said in reference to the increasing resident-hire rate.

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