State of the Sitka Economy, 2007

Summary Report

Prepared For:

Sitka Economic Development Association

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Introduction

The Sitka Economic Development Association (SEDA) sponsors an annual community business planning event entitled ***"State of the Sitka Economy."*** SEDA retains the McDowell Group, an Alaska research-based consulting firm with expertise in economics and Alaska's industries, to prepare a presentation summarizing the economic status of the community. The purpose of this summary report is to clarify and expand on the information presented in the ***"State of the Sitka Economy"*** PowerPoint presented in Sitka on March 21, 2007.

In addition to the normal overview of the Sitka economy, SEDA requested the McDowell Group address the regional and local seafood industry, as well as update tourism traffic data.

Selected Sitka Indicators

Population

The State Demographer in the Alaska Department of Labor and Workforce Development is the state's official estimator of population. Sitka's 2006 population is estimated at 8,833, a decline of 101 people, or 1.1 percent since 2005.

School Enrollment

Sitka public school enrollment declined in 2007 to 1,454, down 25 students (-1.6 percent) from 2006. School Enrollment is down from 2002 when 1609 students were enrolled. Shifting demographics are contributing to changes in school enrollment. Fewer young families appear to be making Sitka home.

School Enrollment by year, 2002-2007

Year	School Enrollment
2002	1,609
2003	1,550
2004	1,471
2005	1,477
2006	1,479
2007	1,454

Source: Sitka School District, Oasis counts.

Employment and Earnings

Sitka's economy is well balanced with several sectors contributing to the local economy. Health care, national interest industries (USCG, USFS, NPS), seafood, tourism, and education are the top five basic industry employers in Sitka. With this well-balanced economy Sitka has compensated to some degree for economic hardship brought on by declining basic industries.

Employment in the first two quarters of 2006 is up ever so slightly, at 0.3 percent over the first two quarters of 2005. After a decline in employment in 2004, the first half of 2006 may suggest a second year of employment increases.

Sitka's payroll from nonagricultural wage and salary employment in the first half of 2006 equals 49 percent of the total 2005 payroll of $145 million. This potentially means that the 2006 payroll may surpass 2005 as the summer earning season has not been accounted for. Sitka's payroll is still down from the peak in 1993, which reflects the long-term shift in the composition of the Sitka job base, trading family wage jobs for lower paying service sector jobs. In recent years Sitka's payroll has been on the rise and, other than a slight decline from 2003 to 2004, payroll has been increasing. This trend is expected to continue in 2006. The 2005 final payroll is the highest payroll total since 1993.

Readers should note that this official Alaska Department of Labor and Workforce Development payroll data excludes seafood crew earnings, which are substantial in Sitka. Seafood crew earnings are not reported in standard employer quarterly reports.

Average Monthly Earnings

Average monthly earnings averaged $2,729 in 2005. This is the average of all workers whether full-time, part-time or seasonal. Federal government employees are the top earners with earnings of $4,802 per month. The second highest earners are construction workers with average wages of $4,112 per month. Construction workers tend to get significant overtime pay when they do work, and some also work for Davis Bacon wages on certain jobs. Government employees are primarily full-time positions that often require some level of higher education.

Sitka's average monthly earnings were 5 percent below Ketchikan's, 13 percent below Juneau's, and 18 percent below the statewide Alaska average in 2005. While average monthly earnings increased in 2005, the disparity with Ketchikan and Juneau average monthly wages increased. Conversely, the difference between Sitka and Alaska's total average monthly earning declined in 2005.

Housing Construction

In 2006, 54 dwelling units were constructed. In 2005, a number of multiple unit buildings were built. A new building trend is being observed; more multiple dwelling units like townhouses and condos are being built in Sitka. However, while 2006 data indicates a decrease in the number of dwelling units built, the multiple unit trend is continuing. Housing occupancy reportedly remains high with demand for affordable housing still a major issue in the community, as it is in other major Southeast communities.

A new set of data obtained by the McDowell Group indicates that 21 building lots were absorbed in 2005. An absorbed lot is one that is being built on for the first time. This is a way to measure the amount of land being used up each year. Building lots absorbed in 2005 was the second lowest since 2000, with the 2001 tally of 54 absorbed lots being the highest number.

Business Sales

Sitka gross business sales as reported to the City and Borough of Sitka continued its nine-year upward trend, by increasing 5 percent to $352 million in 2006. Since 1997 Gross business sales have been increasing in Sitka.

Selected Regional Economic Indicators

Population

The regional population for Southeast Alaska totaled just over 70,000 in 2006. After increases in population from 2001 to 2003 a slight decline has been seen the past three years. Smaller communities have experienced the largest decline in population. Haines, Wrangell and Prince of Wales Island communities are examples. In 2006, Ketchikan was the only community in Southeast that recognized a population increase (0.4 percent). All other communities had population decreases.

Southeast Population, 2002-2006

	2002	2003	2004	2005	2006
Southeast Region	71,920	71,788	70,856	70,804	70,053
Haines	2,358	2,318	2,251	2,206	2,241
Juneau	30,991	31,286	31,094	31,182	30,650
Ketchikan	13,675	13,525	13,073	13,115	13,174
Prince of Wales	5,681	5,591	5,565	5,504	5,477
Sitka	8,793	8,890	8,818	8,934	8,833
Skagway-Hoonah-Angoon	3,242	3,165	3,115	3,060	3,020
Wrangell-Petersburg	6,461	6,323	6,265	6,160	6,024
Yakutat	719	690	675	643	634

Employment and Earnings

According to the Alaska Department of Labor and Workforce Developments Current Employment Statistics Program (CES), preliminary Southeast employment estimates were up slightly, at about 0.4 percent in 2006. Preliminary 2006 estimates show an increase of 150 jobs. Sectors seeing additional employment include education and health services, service providing, local government, and state government.

2005 annual monthly wages in southeast are below the Alaska average. The Alaska average monthly wage was $3,309, compared to monthly earnings in Juneau ($3,128), Ketchikan ($2,867), and Sitka ($2,729).

Mining

Mining in the region is based in the Juneau area with Green's Creek Mine being that community's largest private sector employer. The Kensington Mine, located north of Juneau, is being developed for production with 225 permanent jobs projected. At least 10 plus years of production are expected from the mine, and production is expected to begin in early 2007. Mining wages are exceptional, exceeding $80,000 annually.

The Regional Visitor Industry and Sitka's Role

The results of a major statewide visitor survey, the *Alaska Visitor Statistics Program*, sponsored by Alaska Department of Community and Economic Development, will be released in April of 2007. The survey of nearly 6,000 exiting summer visitors – conducted by the McDowell Group – will report on the statewide visitor market, as well as regional and local markets, including Sitka.

Statewide, the visitor industry showed no growth in 2006 remaining at about 1.6 million visitors, 82 percent of them vacation/pleasure visitors. The highway/ferry market continued its long-term decline, and the long-running growth in the cruise market slowed to less than one percent. Air travel remained relatively stable. Southeast Alaska, because it captures all of the cruise market, hosted 1.2 million, or about seven in ten Alaska visitors.

Sitka's 2006 visitor total was 286,000, about a quarter of the regional total. Total Sitka air passenger traffic in 2006 fell about -2 percent while ferry traffic increased by 7 percent. Cruise traffic to Sitka, which tends to yoyo from year to year (depending on ship itinerary changes and competitive port factors), jumped by 16 percent, and is expected to decline again in 2007 by about -9 percent.

While data are not available specifically on the Sitka sport fishing charter market, the decline in air traffic (most charter fishing clients arrive by air) and the increase in cruise traffic may have resulted in a stable year, while statewide, sales of non-resident sport fishing licenses declined, reflecting a national trend in sport fishing participation.

Finally, Sitka bed tax receipts in 2006 remained relatively flat, indicating air visitations (including sport fishing guests) showed little, if any, growth.

The Regional Seafood Industry and Sitka's Role

Sitka's seafood industry is a major part of the local economy, ranking only below health care as the community's leading employer. In 2005, Sitka residents fished 749 permits earning $33.4 million in ex-vessel value. In 2006, Sitka residents fished 720 permits harvesting 27.8 million pound of seafood (permit earnings data is unavailable at this time). Recently the Department of Labor and Workforce Development compiled data on the seafood industry in an effort to quantify seafood harvesting and processing employment. According to the data 446 Sitka residents fished permits, with 531 local residents purchasing crewmember licenses. It must be noted that permit holders do not have to purchase crew licenses.

Seafood processing activity in Sitka is very important, supporting multiple seafood processing businesses, ranging from small custom processors to large scale processing plants. In 2005, the first wholesale value of the 28 million pounds of processed seafood produced by Sitka land-based processors totaled $69 million, accounting for over 20 percent of the total first wholesale value of seafood produced in the region.

The Sitka total does not account for floating processors, nor seafood harvested in the immediate area that is tendered to other communities for processing. For example, most of the Sitka herring harvest is tendered to other communities because of the current competitive harvest management method. With a new salmon processor opening for the 2007 season, more salmon may be processed by Sitka processors in the coming years. Seafood processing in Sitka during 2005 accounted for an annual average employment of about 207, with peak employment of 426 employees in July with average monthly wages of $2,389.

The 35 million pounds of fish landed in Sitka with an ex-vessel value of $45 million accounted for 26 percent of the total regional ex-vessel value in 2005. Sitka processes significant IFQ poundage and is Alaska's #2 port in sablefish landings and #5 port in halibut landings. Overall, Sitka ranks as the 13th largest port in the U.S based on value and 23rd based on volume. In 2005, total IFQ poundage landed in Sitka was 3.8 million pounds of halibut and 4.6 million pounds of sablefish. With a lower total allowable catch for halibut in areas 2C and 3A in 2007, prices are expected to top time highs.

In 2005, the regional seafood industry produced $311 million in first wholesale value from fish with an ex-vessel value of $172 million. Pounds harvested in the region totaled 290,688,074 and which were converted into 184,270,116 pounds of processed product.

Strong market prices for king and coho salmon continued in 2006, the third straight year of increasing market prices. Harvest volumes of both king and coho were down again in 2006, but with strong prices the ex-vessel value of king salmon increased 10 percent. Coho salmon also had strong prices in 2006, even with a 24 percent decrease in harvest volume, the total ex-vessel value increased 13 percent.

Consumer preference for wild salmon has continued to increase the demand and price for wild salmon. Over the past year the domestic market has strengthened along with European markets, which are now buying competitively and creating strong market demand. Alaska processors – including at least two of them in Sitka – are continuing to adapt to the U.S. market preference for salmon fillets. For the low-value pink salmon, a product form shift is underway with less salmon ending up in cans and more being processed into value added products, most overseas in China. This has allowed canned salmon inventories to clear. Experts are expecting pink salmon markets to improve.

Ex-vessel prices for salmon increased in 2006 are expected to remain strong in 2007. From 2005-2006 ex-vessel prices increased 33 percent for Kings, 4 percent for Coho, and 17 percent for Chum. There were no changes in pink salmon prices.

A strong Chum harvest along with higher prices helped the ex-vessel value of Chum salmon in southeast Alaska increase to $43.5 million in 2006. This helped make up for a dismal pink harvest of 46 million pounds (about ¼ of the forecast) valued at $5.6 million, a 77 percent decrease in harvest and value.