Alaska's Economy and Housing Market

Alaska's housing market has been one of the most visible casualties of the current recession: plummeting sales, sliding prices, and rising foreclosures have dogged the market for nearly two years. We're all eager for the economy to turn around and the housing market to recover.

A new report by the University of Alaska Anchorage's Institute of Social and Economic Research projects economic changes over the next decade and analyzes how housing policies of major mortgage lenders could influence the stability of the housing market in the next few years. ISER prepared the report for the Alaska Housing Finance Corporation. The report assesses the probable range of economic change in Alaska in the coming years through three economic scenarios—low, medium, and high—that incorporate different assumptions about the future price of oil and other factors that will influence economic change. We consider the medium case the most likely, if oil prices stabilize in their current range. Major report findings are summarized below.

- We expect the recession to end and the economy to begin growing again in the second half of 1988. Alaska's economy will grow moderately but steadily through 1995, led by strength in fishing, timber, tourism, mining, and federal government employment and by gradual recovery of the petroleum industry.

- Alaska's economic outlook is much less sensitive to oil price fluctuations now than it was when the current recession started—because we have now lost so many of the jobs that were created by massive state government spending of petroleum revenues in the early 1980s. Within a band $2.00 above or below the current official OPEC price of $18 a barrel (in 1986 dollars), the projected timing and rate of economic recovery should vary little.

- Under our medium case projections, the number of jobs in the state would grow by an average of about 1.4 percent annually from 1988 through 1995. If the economy grows faster—and such faster growth would be fueled mainly by a large and unexpected increase in the price of oil—numbers of jobs could increase by as much as 2.3 percent annually during that period. But an equally unexpected crash in the price of oil—a crash that kept oil prices below $15 a barrel throughout the decade—could mean essentially no job growth in Alaska between 1988 and 1995.

- Measuring from the economic peak of 1985 through the economic low point in 1988, our medium case projects that the current recession will cost Alaska 10 percent of its wage and salary jobs, 8 percent of its real (inflation-adjusted) personal income, and 3 percent of its population. Figures 1, 2, and 3 show historical and projected change in Alaska jobs, population, and income from 1980 through 1995.

- Our medium case projects that population, jobs, and personal income will begin rebounding after 1988 and will modestly exceed 1985 levels by 1995. Numbers of wage and salary jobs will be about 1 percent higher than in 1985, the population 3 percent higher, and real (inflation-adjusted) personal income about 2 percent higher.

![Figure 1. ALASKA WAGE AND SALARY EMPLOYMENT](image_url)
Mortgage lenders' decisions about selling off the thousands of foreclosed properties they hold will be the key to the economic recovery or the continued instability of the Alaska housing market over the next few years. The relationship is straight-forward: at the extreme, if lenders try to sell their inventories quickly, housing prices will be further depressed, more homeowners will be forced into default, and lenders will find themselves with even more foreclosures on their hands.

- Although the costs of holding foreclosed units are very high—in the neighborhood of $18 to $30 per day for each unit—lenders will benefit if they can manage to hold prices steady, even if it means holding the foreclosed units longer. They will benefit because by helping stabilize prices they will reduce future defaults.

- Although many individuals and institutions have been hurt by falling prices, some Alaskans will benefit because they will be able to move into better-quality housing than they could afford before. But a major barrier for those who already own homes is that many now owe more on their houses than the houses will sell for. Lenders may want to consider a policy that somehow allows those who want to buy better houses in Alaska to transfer a portion of their current mortgage liability to new homes.

- The market for single-family houses will recover much faster than the markets for condominiums and other multi-family units. Our preliminary analysis indicates that once the economic recovery begins, the inventory of foreclosed houses could be re-sold within a relatively short time without depressing prices. But the much higher proportion of condominiums in foreclosure and the reduced prices of single-family houses suggest that to sell the inventory of foreclosed condominiums without further depressing prices would require several years beyond 1988.

Editor's Note: The 130-page report summarized here, Alaska's Economy and Housing Market, is available for 10 cents a page from ISER, 3211 Providence Drive, Anchorage, AK 99508; phone 786-7710.