



Northrim Bank

SPRING | 2012

# ALASKA ECONOMIC UPDATE

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## 2012 ECONOMIC UPDATE:

### Alaska Adds 3,700 Jobs in 2011 – a 1.1% Improvement

The State Department of Labor revised employment statistics reported a 1.1% increase in the monthly average number of payroll jobs in Alaska in 2011. This was an increase of 3,700 jobs, on average, over the 2010 figures.

There were 328,800 jobs in Alaska on average throughout the year. Alaska's employment situation is highly seasonal. There was a peak of 354,400 jobs reported in July and a low of 308,800 jobs in January of 2011. These figures do not include uniformed military or the self-employed.

Health Care contributed the largest growth in jobs in 2011. This sector added 1,300, or 4.1%, more than the prior year. Health Care has been a major driver of job growth in the state for more than a decade. Professional Services added 1,000 jobs, a 3.7% gain for this sector.

Leisure & Hospitality climbed by 900 jobs mainly due to gains in Food Services & Drinking Places. This was a 2.8% increase. Seafood Processing grew by 600 jobs during an active fishing season, a 6.1% improvement.

Mining, which includes Oil & Gas, is another important contributor adding 500 jobs. Most of the gains were from exploration activity and maintenance work. Air Transportation increased by 200 jobs, which was a 3.4% gain.

The Construction sector reported the largest decrease of 900 jobs, or -5.9%. Government shrunk by 600 jobs, with 500 of the decrease coming from a reduction in federal government employment. This loss accounted for only 0.7% of the government workforce.

Several sectors reported losses of 100 jobs. They include Wholesale Trade, General Merchandise Stores, Telecommunications, and Financial Activities.

## UNEMPLOYMENT:

Alaska's seasonally adjusted unemployment rate was 7.2% in January of 2012. This was a 0.2% improvement from December of 2011 and a 0.6% improvement from January of 2011. The national unemployment rate was 8.3% in January of 2012. For more than three years, Alaska has been doing better than the U.S. in the midst of a national recession.

Borough and census area labor numbers are not seasonally adjusted. The lowest unemployment rate in the state was the North Slope Borough at 5.1%, which was the same rate as last year.

Government work benefits Juneau during the legislative session. Juneau's unemployment rate was 5.4% in January, an improvement from 6.1% in January of 2011. Anchorage's rate was 6% in January of 2012 compared to 6.7% in January of 2011. High levels of unemployment still persist in several rural areas of Alaska. Four areas had unemployment rates higher than 20%.

## POPULATION:

### Alaska Grows by 8,000 in 2011

The most recent State Department of Labor estimate for Alaska's population is 722,190. That is a 1.1% increase in 2011 resulting from an additional 8,044 people.

Nearly all of the growth is due to natural increase. There were 11,658 births reported and 3,728 deaths. The net migration of people moving in and out of the state was a change of only 114 people.

The Municipality of Anchorage population is estimated to be 296,197. This is an addition of 2,987 people over last year, or a 1% change. This is all due to natural growth, as there was a net out-migration of 355 people reported. Anchorage has added approximately 36,000 people since the year 2000.

*(continued)*



Over the last 11 years, the Mat-Su Borough population increased by nearly the same amount as Anchorage's, adding more than 32,000 people. The Mat-Su population has been growing at roughly 4% a year for the last decade to an estimated 91,697 people. The Mat-Su will likely pass Fairbanks as the second-most-populous region of the state if these growth rates continue over the next decade.

The Interior region is home to an estimated 112,170 people with about 98,000 residing in the Fairbanks North Star Borough. Fairbanks is estimated to have lost 381 people in 2011. The natural increase of births minus deaths added 1,351 people, but was offset by an out-migration of 1,732 people.

### INTERNATIONAL TRADE:

#### Alaska Sets a Record \$5.2 Billion in Exports

According to the U.S. Census Bureau, Alaska set an all-time record of \$5.2 billion in direct international exports in 2011. This is up from a previous record year of \$4.2 billion in 2010. It does not necessarily mean production levels have increased. The prices of Alaska's natural resources have been strong. Global demand has been rising due to increased populations and standards of living around the world.

Sales of a variety of seafood products totaled \$2.4 billion last year. This accounted for 47% of all direct international exports from Alaska last year. This does not account for a large amount of seafood that gets shipped to other U.S. states for further processing and ultimately gets shipped overseas.

Mineral exports of lead, zinc, and copper were valued at \$1.6 billion, or 31% of all exports. Additionally, there were sales of precious metals and gold worth \$407 million that accounted for 8% of Alaska exports.

Energy in the form of liquified natural gas, coal and other petroleum-based by-products added \$355 million, or 7%, of exports. Forest products were 2% of sales and represented \$118 million of international exports.

Asia is still Alaska's principal trade market accounting for nearly two-thirds of all sales. For the first time since the statistics have been tracked, Japan is no longer our number one trade partner. After a decade of growth, China now accounts for 28% of all direct international exports from Alaska. Much of this \$1.5 billion in trade is raw inputs for the emerging market in China. Some of the seafood products are further processed in China and resold into other parts of Asia.

Japan was in second position with 21% of sales; followed by South Korea at 12%; and Canada at 11%. A variety of European countries purchase 1% to 5% each of Alaska's exports, primarily fresh seafood, and metals for smelting.

### INFLATION:

#### Anchorage Experiences a Rise of 3.6% in 2011

According to the Federal Bureau of Labor Statistics, the Consumer Price Index (CPI) in Anchorage rose 3.6% in 2011. By comparison, the change for the entire U.S. was 3% for the year. Anchorage is the only "urban" community in Alaska that is tracked for these national statistics due to its population.

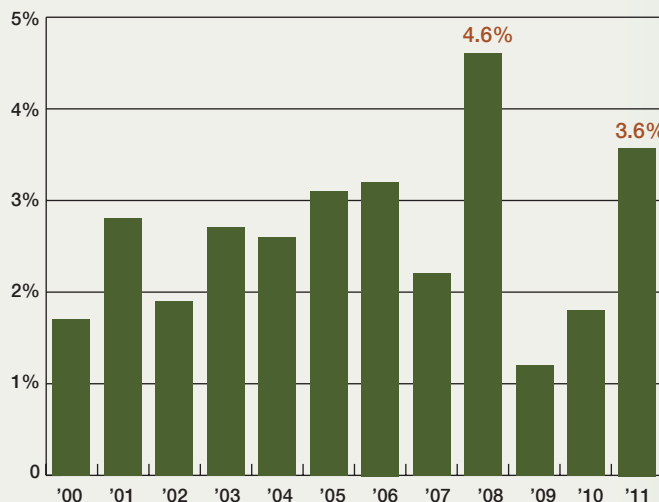
Anchorage's 10-year average inflation rate has been 2.7% per year. Average prices have not shown much volatility during the decade reaching a high of 4.6% and a low of 1.2%. The slightly higher-than-average inflation in 2011 can be attributed primarily to higher energy prices.

Energy prices were 10.1% higher than the previous year. Gasoline prices were 14.8% higher and electricity climbed 9.6%. Food also increased 4.8% in 2011. After removing these two highly volatile categories, the remainder of the index rose 2.6% over the last 12 months.

The other categories with the largest price increases were seen in Apparel (6.7%), Medical Care (5.8%), Transportation (5.3%), and Housing (2.9%). The price of Recreation showed no change and a decline was measured in Education and Communications (-0.7%) lower.

Nationwide, inflation has also been most impacted by rising energy costs, up 6.6% in 2011. U.S. food prices rose

#### ANCHORAGE INFLATION - JUNE 2011



#### (+) Increasing 2011

Energy .....	+10.1%
Apparel .....	+6.7%
Medical .....	+5.8%
Transportation .....	+5.3%
Food & Beverage .....	+4.8%
Housing .....	+2.9%

#### (-) Decreasing 2011

Communications & Education .....	-0.7%
Recreation .....	0%

4.7% on average in the U.S., and Medical costs rose 3%. However, Housing costs climbed only 1.3% across the country compared to 2.9% in Anchorage. Housing accounts for the largest share of personal monthly expenses.

**HOUSING:**

**Alaska Ends 2011 with the Lowest Subprime Foreclosure and Delinquency Rates in the U.S.**

The fourth-quarter 2011 survey by the Mortgage Banker’s Association shows that Alaska continues to have the lowest level of problematic subprime residential loans in the country. The report also indicates Alaska has comparatively low levels of delinquencies and foreclosures for all types of mortgage loans in the United States. Alaska ranks third best out of all 50 states in both categories.

For the last two years in Alaska, the percentage of foreclosures started in a given quarter were about 0.5%, compared to the national average of 1%. The total inventory of foreclosures in process is only 1.1% in Alaska, while the country has a much larger lingering foreclosure inventory at 4.4% due to higher rates during the recession and longer resolution times.

Delinquent loans are more than 30 days past due, but not yet in foreclosure. Alaska is third best out of 50 states, behind North Dakota and South Dakota, in the overall level of delinquent loans. Alaska’s delinquency rate is 4.3%, while the U.S. average is 8.2% for all loan types.

Subprime lending to traditionally non-qualified borrowers was a large contributing factor to the national mortgage problems. The rate of delinquencies and foreclosures on subprime loans is significantly higher. However, Alaska is in a far better position and again leads the nation in this important category. Subprime foreclosures in Alaska are at 3.6% while the national average is 14.5%. The survey covers just under 95,000 mortgages in Alaska. Approximately 7,200 or 8% were considered subprime, compared to 10% nationally. Alaska’s subprime delinquency rate is 10% compared to the national average of 22.2%.

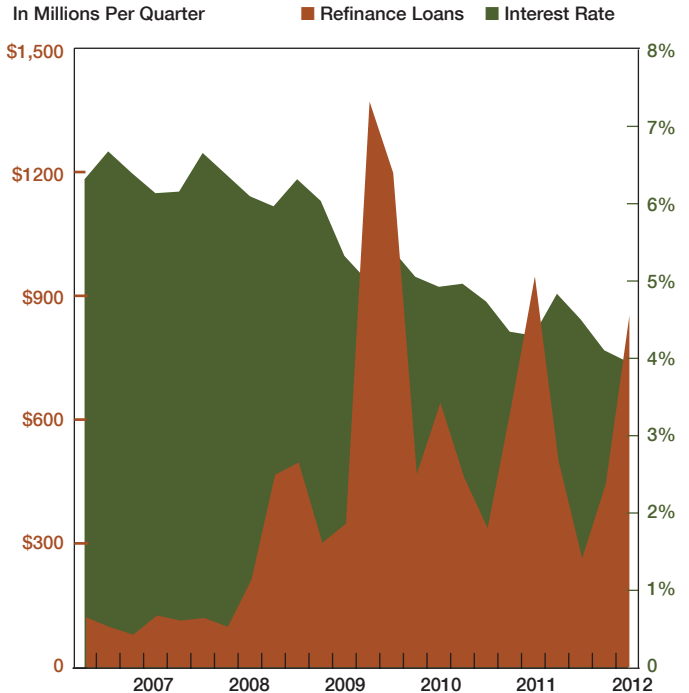
**FORECLOSURE AND DELINQUENCY RATES**

**1-4 Unit Residential Properties**

Delinquencies, total 4Q 2011	Third Best	4.3%	8.2%
Foreclosures, total in progress	Third Best	1.1%	4.4%
Subprime delinquencies	Best in Nation	10%	22.2%
Subprime foreclosures	Best in Nation	3.6%	14.5%

Source: Mortgage Bankers Association of America  
Seasonally adjusted rates based on 4th quarter 2011 data.

**REFINANCE LOANS VS 30-YEAR INTEREST RATES**



Sources : U.S. Federal Reserve for conventional interest rates, AHFC for refinance activity

**Home Lending Activity Slows, but Refinance Activity Remains High Due to Historically Low Interest Rates**

The Alaska Housing Finance Corporation (AHFC) released their fourth-quarter report on Alaska housing indicators. It tracks new loan activity for single-family homes and condominiums in Alaska. The data is based on a survey representing approximately 95% of mortgage lenders in Alaska, including AHFC loans. It reported 7,350 loans were originated statewide for single-family homes and condominiums for a total amount of \$1.8 billion in activity. This is compared to 8,827 loans for \$2.1 billion in 2010. 2011 loans were done with an average downpayment of 7% compared to 10% the prior year. This is likely a result of more people taking advantage of government programs that require a smaller down payment.

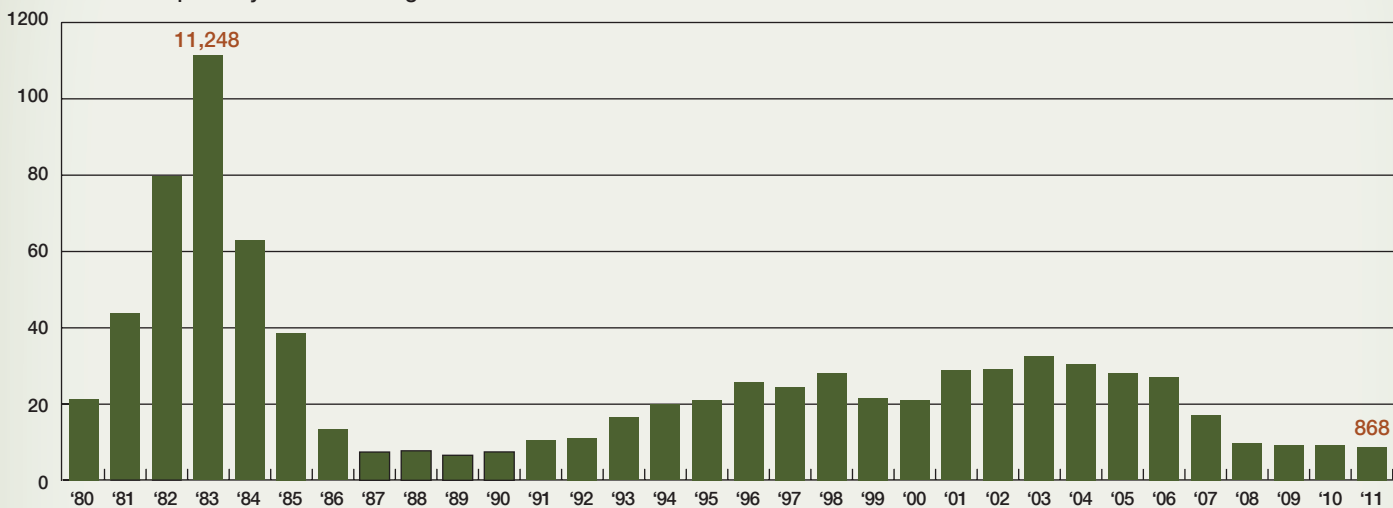
Single-family homes accounted for 86% statewide mortgage lending activity in the fourth-quarter of 2011. 54% of those loans occurred in Anchorage, the Mat-Su contributed 16% of the volume, 10% in Fairbanks, 7% in Kenai, 5% Juneau, 2% Kodiak, and 1% in Ketchikan.

Condominiums accounted for 8% of the loans, with 89% of condos being financed in Anchorage. Juneau accounted for 7% of condo loans, with the Mat-Su and Fairbanks at 1% each. Additionally, there were 541 units of multi-family housing financed by 61 loans in the fourth-quarter of 2011.



## ALASKA BUILDING PERMITS

Number of new privately owned housing. 1-5 unites authorized



Source: U.S. Census Bureau

There have been 610 new construction single-family homes financed in 2011, compared to 5,727 existing homes. There were 120 new construction condos financed versus 893 existing condo loans. Therefore, one in ten loans has been for new construction versus sales of existing homes or condos. 35% of the new construction was in Anchorage and 41% in the Mat-Su. Fairbanks accounted for 10%, and Kenai was 7%.

30-year conventional fixed interest rate mortgage loans have been getting less expensive for three decades. In 1981 they peaked at 16.6% and have undergone a slow and steady decline ever since, to under 4% in 2011, sparking a surge of refinance activity the last few years.

According to AHFC statistics there was less than \$200 million in refinance loans completed per quarter in Alaska in 2006 and 2007. In 2008, the average rose to \$400 million. Then in the first quarter of 2009, the activity spiked to \$1.4 billion, followed by \$1.2 billion in the second quarter. During this time the average 30-year interest rate declined nearly 1.5% in six months.

The refinance pace slowed somewhat in the last half of 2009, but still finished the year with \$3.7 billion in refinanced mortgage loans according to AHFC statistics. In 2010, the refinance volume declined to \$2.4 billion followed by \$2.1 billion in 2011. This is still far above historical levels. Interest rates actually increased in the first part of the year, but have since declined again. According to the Federal Reserve, conventional 30-year mortgage rates nationwide averaged 4.76% in January of 2011 and fell to 3.96% in December.

### New Housing Permits Remain Low in Alaska for the Fourth Year in a Row

The U.S. Census Bureau's report on authorized building permits in Alaska shows the number of new housing projects remained under 1,000 units for the fourth year in a row. In 2011, there were 868 housing units authorized, down from 904 in 2010 and 912 in 2009.

Single-family units accounted for 710 of the permits in 2011. There were 32 duplexes and 12 triplexes or fourplexes. Finally, there were 13 permits for structures with five or more units. These multi-family permits accounted for 114 total housing units.

As can be seen in the graph, new housing activity reached a recent peak in 2003. The chart goes back to 1980 and highlights the extreme housing boom that occurred in the early eighties following the start of the Trans-Alaska Pipeline. This was also at a time when Alaska's population was significantly smaller, so the relative impact of the slowdown in construction after 1983 was more severe.

Less new construction has helped the price of existing homes because there is less competition. A stable job market and income in Alaska has also kept home prices stable here, despite the national recession and housing market bubble felt elsewhere in the country.

It is important to note that many smaller communities in Alaska do not require permits and are not tracked in this information. However, it is a consistent data set of Alaska's largest cities. Not all of the units permitted are actually built.

**About the Author:** Mark Edwards is a commercial loan officer and bank economist with Northrim Bank. He is also an adjunct professor of economics at Alaska Pacific University. Mark served the State of Alaska as its state economist in the Department of Commerce, Community and Economic Development; as the director of the Office of Economic Development; and in the Department of Revenue. Read Mark's postings at [Alaskanomics.com](http://Alaskanomics.com).

