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Alaska

REAL ESTATE

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ECONOMIC HEADWINDS FOR U.S. AND ALASKA

Men have interesting discussions in the steam room at the Athletic Club to which I belong.

Last week a gentleman asked me "What is the Inverted Yield Curve anyway?"

The importance of this is in regard to where the National Economy is going.

The "Yield Curve" has been flattening out and sloping down for over a year and, in fact, just repeated a negative result for 3 months running. This fact almost certainly predicts a Recession coming to the U.S. economy in 2020.

As succinctly explained by Professor Campbell Harvey of Duke University "Think of it this way: A yield curve is the difference between a short-term cash instrument, like a 3-year government bill, compared to a long-term one, such as a 30-year government bond. When the short-term ones are paying more than the longer-term ones, something is wrong. And economists call it an inverted yield curve."

Think about it - If you were lending money for 30 years wouldn't you want a higher yield than if you were just lending for 3 years?

When the yield curve inverts it's because investors, including foreign governments, have little confidence in the near-term economy. They prefer to buy long-term 30 year Treasury Bills, even at lower yields, partly because those long-term rates are about to go even lower once the short-term economy declines.

Even so, it is quite possible that long-term U.S. Notes may also become unattractive in the next 5 years due to mounting economic conflicts with other nations (e.g. China), and because of the National Debt.

The national debt of the United States is currently \$22 Trillion or, to put it another way, each citizen is liable for \$68,000 if the country's debts had to be paid off. This debt goes up by a million dollars every 15 seconds.

The occurrence of the inverted yield curve has, without fail, on all 7 former occasions indicated

an impending Recession.

The Yield Curve does not cause a recession, it just predicts it when inverted. The FED can help, and so recessions do not need to last more than a year or so, but a mounting loss of faith in the U.S. increases the risk of a serious collapse.

So why did the Dow Jones post an all time high on 15th July 2019, closing at 27,359? In my view this is froth & bubble and mathematically unsustainable. People with Stocks should consider selling now or soon, unless you are a very long term investor.

In the month of June, Housing Permits for new construction dropped 6.1% nationally. There is clearly a loss of momentum and, within a week of your reading this, the FED will cut interest rates a quarter or a half of a percent to try to maintain the economy.

You may not be sharing an Inverted Yield Curve on Facebook, but it is happening as

plain as the melting of Arctic Ice.

Not to worry: The U.S. economy will go into Recession but an independent FED (Federal Reserve Board) can limit its effects and, with appropriate Congressional support, turn it around within 2 to 3 years.

Curiously enough the Chief Economist of the National Association of Realtors, Lawrence Yun, says that a Recession in the United States is "not even on the horizon".

Mr. Yun is speaking on behalf of an industry that needs you to believe in economic progress in order to benefit Realtors.

My publications are never driven by the desire to make history, just to report facts and provide sound information. Please be aware in all your travels through life that the first thing you should ask about any proclamation, on Facebook, Twitter, TV or in a Publication is - What motive does the author have and what facts are used (if any) to make the argument?

ALASKA: is another story. This State's economy can, and often does, run counter to the Nation.

I will shortly repeat reasons for my confidence in your local real estate investments but, first, a huge caveat.

The State government is failing the people of the State in its unwillingness to reach serious compromises that address the deficit while proportionately leveraging debt to ensure a prosperous eco-

omic future for all. At the time of writing they even refuse to agree on a place to meet!

Between the Governor's spending vetoes and the capital budget we have two economic cliffhangers.

Perhaps a more sane resolution between Governor and State Legislature will be reached by the time you read this. In the meantime, the State economy is on life support. Leadership and Character are desperately needed if we are to avoid a return to a State Recession.

Other than this irritating problem, you should feel very good about Alaska's future for the following reasons:-

1. More older Alaskans are remaining in the State because, together with increasing senior living facilities, they believe Alaska does have its benefits. Population, in other words, is stable.
2. Rising planet temperatures brought on by atmospheric pollution will alter the plans and destinations favored by Americans and they will start considering the cooler temperatures, cleaner air and abundant water available in Alaska.
3. Anchorage, in particular, and the Eagle River Corridor will expand with increasing population and the Valley will also develop for those not minding the 40 minute commute to the City.

Anchorage real estate values will skyrocket in the next 10 years for the simple reason that no developable land remains. The boundaries

are locked by the Chugach State Park, Turnagain Arm, Cook Inlet and the Military Bases.

4. Despite the current budget impasse, the State retains the following vital characteristics.

a/ An indispensable Military Base.

b/ Oil and Gas Reserves.

c/ A crucial Asia-link for Air Freight.

d/ A thriving Tourism Industry.

If you have the staying power for Alaska, the future of real estate values is spectacular. Keep believing. I do!

CONCLUSION: In the second quarter this year the number of homes sold in Anchorage was 3.5% lower than the same period last year. This reflects the general lack of conviction in the Alaska market due to the State budget impasse. Republicans and Democrats need to meet in the middle here really fast to avoid hurting us all.

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