

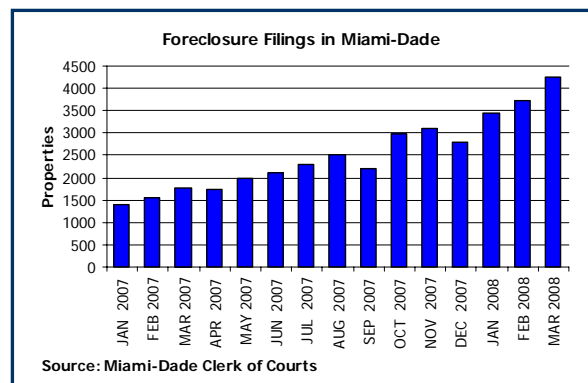
Economic News Briefing

Week Ending May 2, 2008

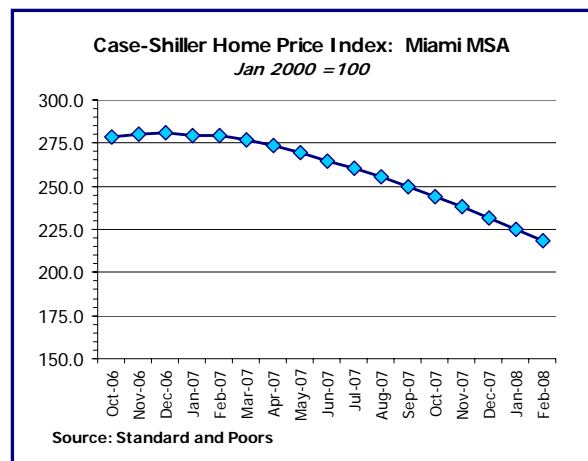
In this issue: Foreclosures and bankruptcies in Miami-Dade continue to rise.
 Advance estimate of U.S. GDP growth in the first 3 months of 2008
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 Consumer confidence continues to decline.

Foreclosures and bankruptcies in Miami-Dade

Foreclosure actions in Miami-Dade continued their rising trend in March reaching 4,238 – up 14% from February and 141% from March 2007. Nearly 11,400 foreclosure actions were filed with the Court over the first 3 months of this year. If that pace continues through the rest of this year, the County would see almost 46,000 foreclosure filings in 2008 compared to just over 26,400 last year.



Foreclosure assistance legislation continues to move slowly through Congress over differences between Democrats and Republicans, with Republicans seeking more limited approaches along the lines the president has proposed. The House is further along in the process than the Senate. The proposal in the House would require lenders to reduce the principal owed on homeowner mortgages at risk of default and compel restructuring of loans to fixed interest rates and 30-year repayment terms in exchange for Federal Housing Administration (FHA) loan guarantees. FHA guarantees and loan restructuring would make it possible for banks to sell those loans, providing banks with financial sources to make new mortgage loans. The availability of mortgage credit is necessary to finance new construction and essential for ending the decline in residential construction. The approach preferred by the president and Senate Republicans would modernize the regulatory structure of FHA and the government sponsored mortgage credit corporations Fannie Mae and Freddie Mac, but it also allows state and local government to use tax-exempt bonds to refinance troubled mortgage loans.

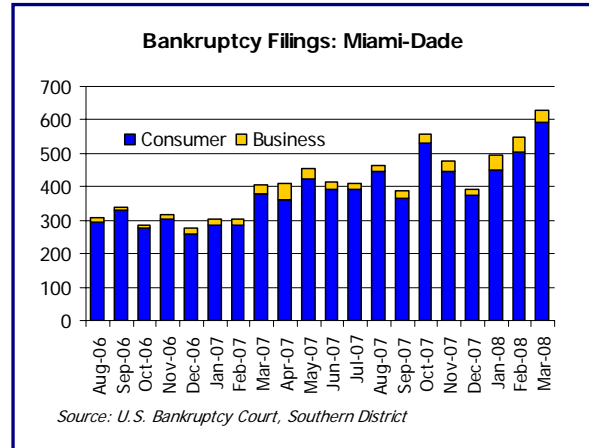


The continuing decline in home prices contributes to the rising incidence of foreclosure. The latest Case-Shiller Home Price Index for the Miami-Ft. Lauderdale metropolitan area shows prices of existing single family homes falling by 22% from February 2007 to February 2008. The decline in prices was second highest in the nation behind the Las Vegas metro area. Prices in Miami-Ft. Lauderdale, according to this

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price index, peaked in December 2006, while at the national level prices have been declining since June of 2006.

Consumers and businesses filing for bankruptcies in Miami-Dade County rose again in March, when 627 bankruptcies were filed compare with 550 filings in February. The entire increase in filings is attributable to consumers (individuals), as the number of business filings was down to 32 versus 45 in February. (Monthly business filings, however, fluctuate greatly and business filings for the first 3 months of 2008 are nearly twice the filings in the first 3 months of 2007) Bankruptcy petitions filed during the first 3 months of 2008 were 65% higher than in the first three months of last year.



Advance Estimate: U.S. Economy Grew 0.6% in 1st Quarter – Matching Growth Rate in 4th Quarter of 2007

The Department of Commerce announced its first estimate of Gross Domestic Product (GDP) for the first quarter of 2008.¹ The Department estimates that the value of the nation’s production expanded at an annual rate of just 0.6% (after accounting for price inflation). The final estimate of economic growth in the November to December quarter of 2007 was also 0.6%, but the behavior of the individual components of GDP reflect significant changes in the economy from the 4th quarter of 2007 to the 1st quarter of 2008. Specifically, the accumulation of private sector inventories of unsold goods and goods in production contributed 0.81 percentage points to GDP growth. That is, excluding inventory accumulation from GDP indicates that final sales of goods and services actually fell by 0.2%, and reveals the extent of weakness in the U.S. economy.

Residential construction continued to act as a drag on the macro economy, as it has for over two years now, falling at an annualized rate of nearly 27 percent in the 1st quarter compared to the 4th quarter of last year. A worrisome sign, however, is that private nonresidential investment in both structures and equipment declined as well in the 1st quarter. Personal consumer spending is no longer providing the support to economic growth that it had throughout 2006 and 2007. Consumer spending grew at a rate of 1% in the 1st quarter compared to 2.3% in the last quarter of 2007. Export activity continued to support economic growth in the 1st quarter but to lesser extent than in the last half of 2007. Federal defense spending also buoyed economic growth this quarter.

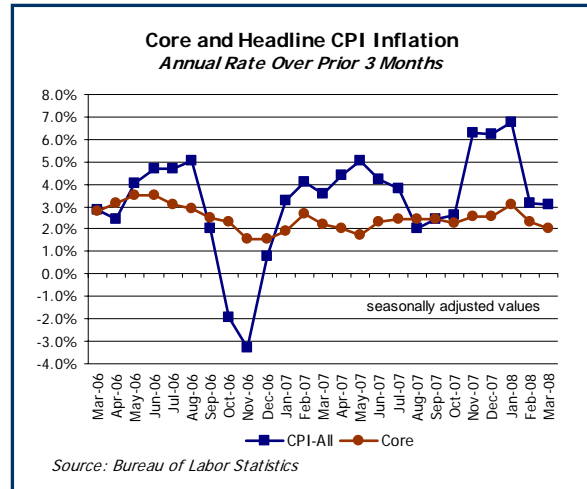
Looking ahead to the 2nd quarter, the likelihood of further weakness in consumer spending, a deceleration in export growth and a paring of inventories suggests a significant likelihood of negative GDP growth from April through June.

¹ There are three estimates of quarterly GDP: the advance estimate, the preliminary estimate (as more data becomes available) and the final estimate – each estimate is about one month apart. It is not unusual to the advance estimates to be revised significantly when the preliminary estimates are released.

Interest Rate Policy – Federal Reserve Lowered Short Term Rates to 2.00%

The Federal Reserve (“Fed”) lowered short term interest rates by 0.25% to 2.0% on Wednesday. As of 3 weeks ago most economists and financial analysts were expecting a 0.5% reduction in the target *federal funds rate*,² but recent trends in price inflation has placed monetary authorities in the difficult position of providing needed economic stimulus to a weak economy without accelerating price inflation.

The residential construction and real estate sector has been in recession since the 2nd quarter of 2006, manufacturing industries with strong links to construction are suffering, retail sales have been sluggish and the national labor market has experienced 4 consecutive months of significant job losses (-260,000 since December 2007). The problems in the real estate sector have, in addition, led to significant problems in the financial sector both in the U.S. and internationally. Most economic forecasters have recently lowered their predictions of growth not just in the U.S., but in the world economy as well. These trends suggest, of course, the need for monetary stimulus to the economy.



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Consumer price inflation excluding food and energy prices (so called, “core” inflation) has been running modestly above the 2% annual rate that the Fed considers potentially threatening to the economy. Core inflation has diminished somewhat over the last two months, but consumer price inflation for all goods and services (“headline” inflation) has been consistently higher than core inflation for the last two years. Price inflation at the wholesale or producers’ level, which tends to foretell future rates of consumer price inflation, has accelerated in the past 3 months. Price inflation in the rest-of-the-world, moreover, is also accelerating, and providing an additional threat to price stability. Rising price inflation encourages the Fed to exercise monetary restraint to keep inflationary pressures contained. History suggests that periods of high inflation end only after a deep recession and this, of course, what the Fed wants to avoid.

A debate within the Fed’s policy setting committee has emerged with a minority contingent taking the position that accelerating inflation is now a greater threat to the economy than recession. The preliminary estimate of U.S. economic growth in the 1st quarter (very weak but still positive) and a preliminary estimate of “just” 20,000 job losses in April, compared to an average monthly loss of 80,000 jobs from January to March, increase the likelihood of a Fed pause in interest rate cuts until clearer signs on the future pace of price inflation and the impact of the current tax stimulus package become available.

² This is the interest rate that banks charge one another for overnight loans, and the market interest rate most sensitive to manipulation by the Federal Reserve’s monetary policies. The Fed attempts to reduce longer term interest rates (interest rates on mortgages and loans to businesses) that are more important for economic growth by reducing short term interest rates.

Consumer Confidence: Households anxious over economic outlook

Two separate indices of consumer confidence reveal the depth of consumers' concerns over the strength of the economy as well as their own financial condition going forward. The Reuters/University of Michigan Survey of Consumers registered the lowest reading in its Consumer Sentiment Index in 25 years. The Index of Consumer Expectations, which is designed to predict consumer spending over the next few months, was down sharply in April compared to March. Ninety (90) percent of survey respondents believe the economy was already in recession and 75 percent held the view that bad economic times would persist for at least one more year. Only 20 percent of the survey respondents anticipate that their own financial conditions will improve over the next 12 months. Consumer expectations for the economy, as measured by this survey, have not been this low since the early 1980s.

The widespread pessimism among consumers suggests that the tax rebates households will be receiving in the next few weeks will not generate a significant boost in consumer spending. Seven of ten respondents to the University of Michigan survey indicated that federal tax relief would be used to pay down debt and add to savings. Plans for purchases of big-ticket items such as home appliances, electronics, furniture and similar goods were reported to be at their lowest level since the mid- 1980s. The survey also suggests that auto sales will be weak in the coming months.

The Conference Board also conducts a survey of consumer sentiment, and the April reading for this survey again fell after a sharp decline in March. The Conference Board's index had not registered as low a reading in the past five years. The results of this survey confirm those of the University of Michigan, with consumer sentiment being adversely affected by low expectations for the labor market, higher prices for basic goods (food and fuel), and an expectation of higher price inflation to come. Almost 30 percent of survey respondents indicated that they expected business conditions to worsen over the next six months, and only 10 percent believed that conditions would improve. A significant proportion of consumers were pessimistic about labor market conditions (harder to find jobs and rising unemployment rates) and their incomes rising. Of particular significance to Miami-Dade and South Florida, the Conference Board reported that the proportion of respondents intending to take a vacation within the next six months had declined to a 30-year low.

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