

Economic News Briefing

September 24, 2008

In this issue: Local residential construction remains weak and foreclosure problems persist.

The Housing and Economic Recovery Act of 2008 was signed into law with the goal of stimulating economic recovery and providing foreclosure relief.

Revised U.S. GDP estimates suggest U.S. recession began during the last quarter of 2007 and new estimates continue to reveal a weak economy.

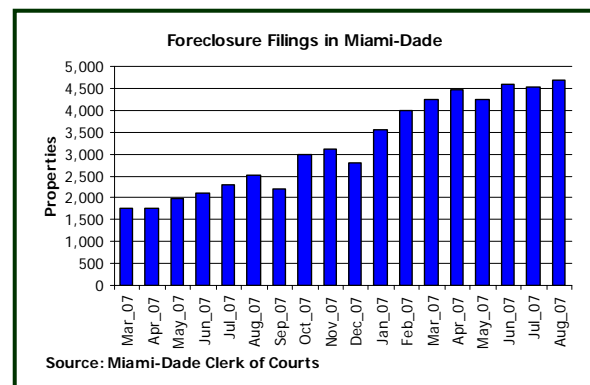
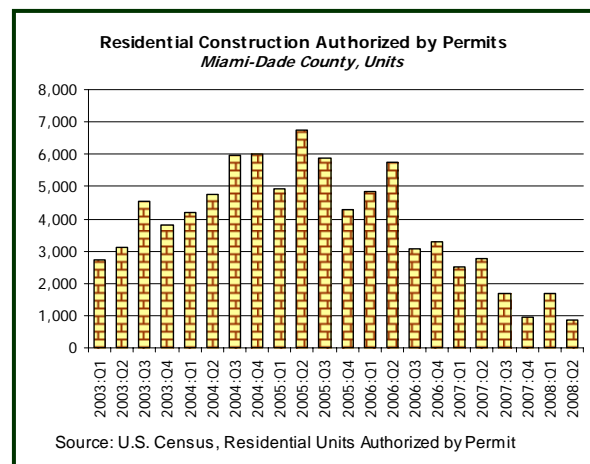
Local Residential Construction Continues to Sag and Foreclosure Problems Persist as Federal Government Moves to Stimulate Housing Sector

Residential construction activity was down sharply in the April-to-June quarter. Residential units authorized by permits in the 2nd Quarter reached only 876 in Miami-Dade County and down nearly 70 percent from their 2nd Quarter 2007 levels. Residential permits during the first six months of 2008 were approximately half the levels witnessed during the same period last year.

A price index involving sales pairs of existing single family homes (S&P Case-Shiller Home Price Indices) shows that prices for single family homes in the Miami-Dade and Broward metro area have fallen 28 percent over the past year.¹

Realtor brokered sales also provide price trend information. The median price of recently sold single family homes in Miami-Dade County showed signs of beginning to stabilize from May through July, but in August median prices were nearly 30 percent below their August 2007 level, and down 14 percent from July. The drop in price coincided with a 22 percent rise in sales. The volume of realtor sales, however, remains quite weak by historical comparisons.

The Florida Realtors Association reports that the median price of single family homes sold through



¹ The Case-Shiller index computes the rate of price appreciation or depreciation by comparing the price of a recently sold home to the price paid for the same home in its previous sale. This index is viewed as a more accurate indicator of price trends for single family residences because it tracks price changes for the same property.

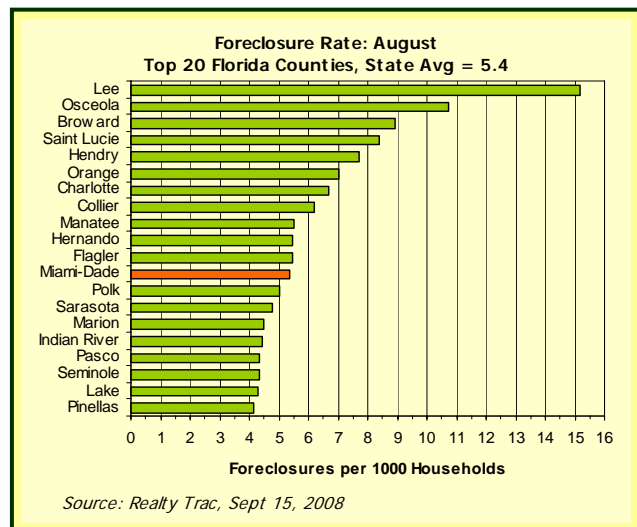
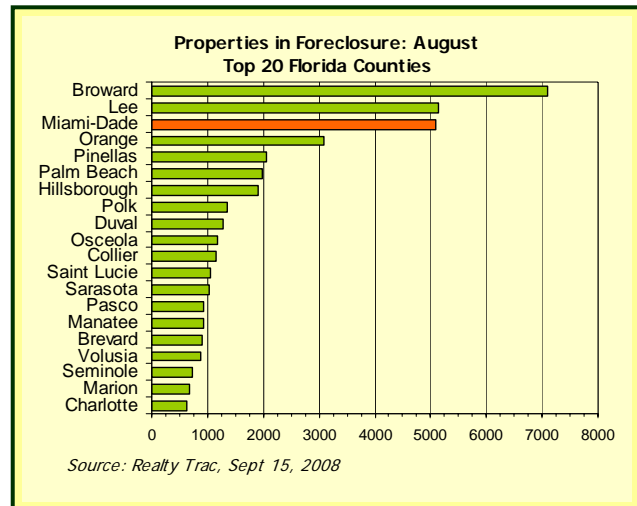
realtors in August was \$276,000 – down from \$322,700 in July and \$392,900 in August of last year.

Median condominium prices in Miami-Dade have held up well until recently, but the median price in July was down 19 percent compared to July 2007. Median condo prices were down 20 percent on a year-over-year basis in August.²

The high number of local foreclosures still represents a troublesome spot for the local economy, although the last five months indicate a leveling off in new foreclosure filings in Miami-Dade. There have been 34,317 foreclosure filings in the first eight months of this year compared to 26,441 in all of 2007. There were 4,690 foreclosure filings in August or approximately 86 percent more than in August 2007.³

Florida is among the top states in the nation in terms of foreclosures according to Realty Trac, and in August ranked 2nd in the nation behind California in the number of properties in some stage of foreclosure and ranked 4th in terms of foreclosures per households. Florida properties in foreclosure topped 44,000 in August, while the third ranked state (Arizona) had 14,333. Florida has held the number two ranking behind California for about 18 months, and Florida accounted for 14.5 percent of the nation’s properties in foreclosure in August. Realty Trac reported 5,087 Miami-Dade properties in some stage of the foreclosure process in August.

Miami-Dade had the highest number of properties in foreclosure in Florida in July, but, while foreclosures in the County rose by 4 percent in August, foreclosures rose at faster rates in other Florida counties. The number of properties in foreclosure in Broward County increased by nearly 60 percent from July to August, reaching 7,104, and the number of active foreclosures Lee County rose



² Condo prices fluctuate greatly from month to month, but the median price over the last three months is down approximately 13 percent from the same period last year.

³ This foreclosure data was provided by the Clerk of the Courts and represents the number new foreclosure cases that have been opened during the month.

by 19 percent, according to Realty Trac. Miami-Dade County now has the 3rd highest number of foreclosures in Florida, following Broward and Lee counties.

Miami-Dade County had the 12th highest foreclosure rate in Florida in August, with 5.3 properties in foreclosure for every 1000 households. The foreclosure rate in Miami-Dade was 2.2 times the national rate in August, but less than the rate for Florida as a whole (5.4 properties in foreclosure per 1000 households). Broward County was ranked 3rd in the State in terms of its foreclosure rate. Broward's foreclosure rate rose to 8.9 per 1000 households in August from 5.6 in July.⁴ Lee County, who for some time now has led the State in terms of foreclosure rates, saw an increase in its foreclosure rate to 15.2 per 1000 households from 12.7 in July.

The Housing and Economic Recovery Act of 2008: Federal Response to the Foreclosure Crisis

President Bush signed the Housing and Economic Recovery Act of 2008 (the "Act") into law on July 31st after rescinding a veto threat. The White House steadfastly opposed a provision in the legislation providing local governments with \$3.92 billion to buy, repair and sell foreclosed properties. The compromise version allows states and local governments to use these authorized funds on establishing a range of financing mechanisms to reoccupy or redevelop foreclosed upon homes or residential property without actually having local governments purchase them. This Act has several other components aimed at providing economic stimulus to the housing sector and, thereby, stimulating the broader economy.

The impasse between the president and Congress over how best to deal with the problems in the mortgage credit markets and in residential construction was overcome when the Treasury Department was able to obtain modifications in the bill authorizing Treasury to provide financial liquidity to the nation's key mortgage credit institutions – Fannie Mae and Freddie Mac – should that have become necessary in the coming year. The provision gave Treasury the authority through 2009 to purchase stock in either company or extend either of them additional credit, and also increased the federal debt ceiling to accommodate use of that authority.

Fannie Mae and Freddie Mac own or guarantee approximately half the nation's mortgage loans and their capacity to buy mortgages from lenders and repackage them for sale to investors as debt-backed securities is essential to maintaining the flow of credit in the mortgage market. In recent months the share of new mortgages either owned or guaranteed by these institutions increased to 70 percent. If these government-sponsored enterprises are unable to fulfill their core function, mortgage credit comes to a standstill and the collapse of the housing and construction sector would likely follow. Such a collapse would not only have severe consequences for the U.S., but also for the global economy. The risks associated with either or both institutions facing serious financial difficulty led the Treasury and the U.S. Federal Reserve Bank to take measures to restore investor confidence in both institutions.⁵

⁴ The sharp rise in foreclosures moved Broward's ranking from the 5th highest foreclosure rate in the State to the 3rd highest.

⁵ On September 8th the federal government became the conservator of both institutions, essentially taking control over Fannie Mae and Freddie Mac. The conservatorship is similar to a corporate bankruptcy reorganization and the management of both companies have been replaced. Both institutions continue to provide liquidity to the U.S. mortgage market until the next president and Congress restructure their operations.

The major components of the Act directly affecting the residential mortgage foreclosure crisis are Title IV, Division A – Hope for Homeowners – and Title III, Division B – Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes. Hope for Homeowners establishes an FHA program to help distressed borrowers avoid foreclosure through federally insured refinanced loans on principal residences and also includes measures that support long-term and sustainable homeownership. Participation in the program is voluntary for borrowers and lenders, and requires: 1) waivers of prepayment penalties or fees on existing loans; 2) elimination of second liens; and 3) that the new loan carry a fixed interest rate for a term not less than 30 years and not exceed 90 percent of current appraised value. Increases in the property's value must be shared with the federal government as a condition of participation in this program. The number of homeowners who will likely participate in this program, however, is uncertain in light of all the conditions that must be satisfied and the difficulty of negotiating voluntary agreements with all concerned parties.

The final legislation included a provision that authorizes funding through the U.S. Department of Housing and Urban Development (USHUD) to assist states and units of local government with the redevelopment of abandoned and foreclosed upon homes and residential properties. Title III requires the Secretary of Housing and Urban Development to allocate \$3.92 billion in funding to states and local units of government according to a formula that considers number and percentage of: 1) home foreclosures in a state or local unit of government; 2) homes financed by a subprime mortgage related loan; and 3) homes in default or delinquency. Miami-Dade County is likely to receive a considerable share of the total funding available given the extent of the foreclosure problem in the County, although a greater emphasis in the final allocation formula on actual numbers of foreclosures and residential mortgages in delinquency or default rather than on the percentages of homes or mortgages in these categories will result in higher funding levels for Miami-Dade. USHUD has indicated that their allocation decisions will be announced on September 29th and local governments will then learn if they will receive their funding allocation directly from USHUD or if instead it will come through their respective state governments. Since Title III requires that funding allocations be used within 18 months of the award, large cities and counties have requested that USHUD make allocations directly to eligible cities and counties.

The broad legislative language in Title III describes the eligible uses of these funds as: 1) establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans; 2) purchase and rehabilitate homes and residential property that have been abandoned or foreclosed in order to sell, rent or redevelop such properties; 3) establish land banks for homes that have been foreclosed; 4) demolition of blighted structures; and 5) redevelop demolished or vacant properties. A coalition of large cities and counties that include Miami-Dade, have asked USHUD to interpret these eligible uses broadly so that local governments may formulate strategies and policies that best address the foreclosure problem according to the specific characteristics of their communities. Local governments are expecting greater specificity regarding eligible uses when USHUD issues its official program notice at the end of September.

Assistance provided through Title III is limited to households whose incomes do not exceed 120 percent of Area Median Family Income (AMI) as calculated by USHUD. Area median family income in Miami-Dade County for FY 2008 is \$49,200 according to USHUD. The 120 percent income threshold for a family of four is \$72,360, and a family with that level of income should be able to afford a home in the \$185,000 to \$205,000 range without public sector financial assistance.⁶ Public sector financing assistance (such as a low-interest second mortgage or downpayment assistance) would be required to allow the purchase of a more expensive residence. The USHUD AMI threshold limits for Miami-Dade in FY 2008 by family size are shown in Table 1.⁷ Title III also requires that 25 percent of the allocated funds be targeted to benefit low income households whose incomes are at or below 50 percent AMI. Reliance on providing rental housing opportunities will almost certainly be necessary to serve low income households with Title III funds.

Family Size	< = 50% AMI	< = 120% AMI
1	\$21,110	\$50,640
2	\$24,100	\$57,840
3	\$27,150	\$65,160
4	\$30,150	\$72,360
5	\$32,550	\$78,120
6	\$34,950	\$83,880
7	\$37,400	\$89,760
8	\$39,800	\$95,520

* Income limits as of February 25, 2008 and subject to change by USHUD

Title III also authorizes \$180 million to the Neighborhood Reinvestment Corporation to fund counseling organizations that provide foreclosure loss mitigation services (Section 2305). This authorization includes \$80 million that was made available in prior legislation. The additional \$100 million in funding will be available through December 31, 2008. Under Title IV of Act, these funds are intended, in part, to: 1) support referral and information services to at-risk borrowers; 2) connect distressed borrowers with approved counseling agencies that will assist them in working out a positive resolution to their mortgage delinquency or foreclosure; and 3) facilitate or offer free assistance to homeowners to understand their options, negotiate solutions, and find the best resolution to their particular situation. Thirty million dollars of the increase in grant funding is directed to USHUD approved counseling intermediaries for the hiring of attorneys to assist homeowners with legal issues directly related to the homeowner's foreclosure, delinquency or short sale.⁸

There are two other important provisions of the Act. The first may help alleviate the foreclosure crisis in the near term, while the second supports expansion of low income housing over the longer term. The first of these provisions is Section 3021 of the Act – *Temporary Liberalization of Tax Exempt Housing Bond Rules*. Section 3021 grants state and local housing finance agencies authority to issue an additional \$11 billion in tax-exempt mortgage revenue bonds before the end of 2010. Capital raised from those bonds may be used to refinance *qualified* subprime mortgages, and, thereby, allow borrowers who are under the financial strain of adjustable rate mortgages to refinance with fixed rate loans at more affordable terms. These refinancing mortgages are limited to

⁶ This estimate is based on the household not spending more than 30% of gross income on debt service, property taxes, insurance and other directly related housing expenses, a mortgage interest rate between 6% and 7%, and a 3% down payment.

⁷ The FY 2009 income thresholds will likely be higher than those in 2008.

⁸ A "short sale" refers to the sale of a property for a price less than the outstanding balance(s) of the mortgage(s) held on that property. A short sale requires the approval of the lenders that hold the mortgage(s).

single family homes.⁹ The increase in the tax exempt mortgage revenue bond caps had been sought by local housing finance authorities to provide them with a tool to address the foreclosure crisis in their communities, but the legislation also allows these housing finance agencies to use this additional capital for their traditional mortgage programs (e.g., first time homebuyers). The additional \$11 billion bonding authority will be distributed to each state in proportion to its 2008 allocation prior to this supplemental authority.

Section 1338 of the Act supports the expansion of low income housing by establishing the Affordable Housing Trust Fund that will be financed through a 0.042 percent fee levied against the outstanding principal balance of new loans in the portfolios of Fannie Mae and Freddie Mac.¹⁰ The Trust will be funded beginning in 2010 with projected contributions of initially \$322 million annually rising to \$650 million annually by the third year. Sixty-five (65) percent of the funds will be allocated by USHUD directly to state governments, who in turn must award part of those funds to local governments through a competitive application process. Addressing the housing shortage for low income households is the primary purpose of these funds.¹¹ The remaining 35 percent will be directed to a Capital Magnet Fund (Section 1339) and allocated to Community Development Financial Institutions. The Capital Magnet Fund establishes a competitive grant program under the U.S. Treasury Department to attract private capital for affordable housing, economic development activities, and community service facilities (e.g., childcare centers, workforce development and healthcare clinics). This program encourages private sector investments through loan loss reserves, revolving loan funds, and risk-sharing loans.

We should also note that Title IX of The Housing and Economic Recovery Act increases the appropriation under the McKinney-Vento Homeless Assistance Act from \$70 million annually to \$100 million annually and requires emergency assistance to children and their families who become homeless as a result of foreclosure. This assistance is also available to renters who become homeless due to a landlord's foreclosure. The additional \$30 million in FY2009 will go to state educational agencies based on need, and the state agencies are required to make subgrants available to local educational agencies.

Revised U.S. GDP Estimates Suggest U.S. Recession Began in 4th Quarter 2007 – Preliminary 2nd Quarter 2008 Estimates Reveal Underlying Weakness.

The Bureau of Economic Analysis's (BEA) preliminary estimates of macroeconomic growth for the 2nd quarter of 2008, and in a previous data release they revised estimates of GDP growth in the final quarter of 2007. The latest estimates of national GDP reveal an economy that contracted in last three months of 2007, experienced very weak growth in the first three months of 2008 and strong GDP growth in the April to June period.¹² Second quarter economic growth was estimated at 3.3

⁹ A qualified mortgage is defined as an adjustable rate single-family residential mortgage loan made after December 31, 2001, and before January 1, 2008, that the housing finance agency determines would be reasonably likely to cause financial hardship to the borrower if not refinanced.

¹⁰ The future of the Affordable Housing Trust Fund is unclear, since the federal government has taken control of both institutions and it is not yet known how these institutions will be restructured or whether they will be replaced with a new institution.

¹¹ More information on the Affordable Housing Trust Fund is available from the National Low Income Housing Coalition at <http://www.nlihc.org/template/page.cfm?id=40> (accessed Sept. 01, 2008)

¹² The preliminary estimate is the second of three estimates released by the BEA – the advanced estimate, the preliminary estimate and then the final estimate. The advance estimate of growth in the 2nd quarter was 1.9 percent, but revised higher due to stronger exports, weaker imports and greater inventory accumulation than initially estimated.

percent, compared to 0.9 percent growth (revised) in the 1st quarter and -0.6 percent in the final quarter of 2007. The estimate of strong GDP growth in the 2nd quarter, however, obscures significant underlying weakness in the U.S. economy.

Table 2. Expenditure Contributions to U.S. GDP Growth
 Percent Change, Seasonally Adjusted Annual Rates

GDP Expenditure Component	2006	2007	Quarter		
			IV-2007	I-2008 ^p	II-2008 ^p
Total GDP	2.80	2.00	-0.20	0.90	3.30
Personal Consumption	2.13	1.95	0.67	0.61	1.24
Fixed Investment Spending	0.32	-0.50	-0.97	-0.86	-0.38
Nonresidential	0.77	0.52	0.36	0.26	0.25
Residential	-0.45	-1.02	-1.33	-1.12	-0.62
Investment in Inventories	0.03	-0.40	-0.96	-0.02	-1.44
Exports Goods and Services	0.96	0.95	0.53	0.63	1.65
Imports Goods and Services	-0.98	-0.37	0.40	0.14	1.45
Government Spending	0.32	0.40	0.16	0.38	0.76

Source: Bureau of Economic Analysis

Note: Increase in GDP may not equal the sum of the components do to rounding.

Although consumer spending is estimated to have contributed 1.24 percentage points to the economy's overall growth rate in the 2nd quarter, consumer spending on durable goods¹³ has fallen over the last six months. Household spending on these big ticket items declined at an annual rate of 2.5 percent in the 2nd quarter and followed a 4.3 percent decline in the 1st quarter. Eight consecutive months of job losses, 605,000 jobs lost since January, and the significant erosion in the purchasing power of workers' income in the past 12 months all suggest that consumer spending is more than likely to diminish over the remainder of the year.

Fixed investment expenditures (spending on business equipment and buildings) have declined in eight of the last nine quarters, led by the sharp and steady drop in residential construction experienced since the beginning of 2006. In the last two quarters business investments in equipment and software have also experienced back-to-back declines. A recovery in fixed investment spending, moreover, does not appear to be on the near term horizon as credit is likely to remain tight and businesses remain cautious.

The greatest factors contributing the overall economic growth experienced from April through June were the very sharp rise in exports (13.2 percent) and significant drop in imports (-7.6 percent). When imports decline domestic economic growth rises – all else being the same – as domestic demand shifts from foreign goods and services toward domestic production. Economic growth would have been virtually zero if not for the growth in exports and the decline in imports.

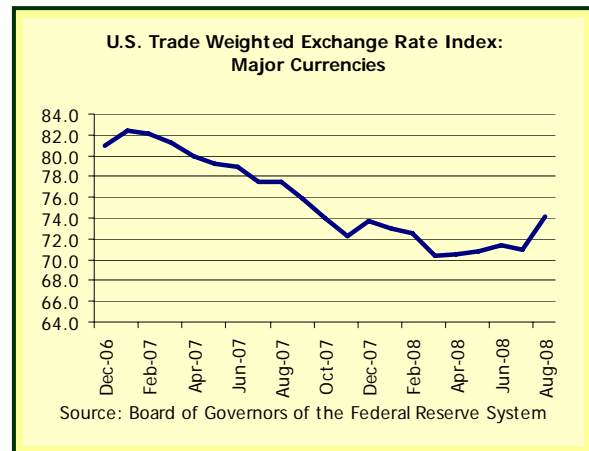
The decline in imports primarily reflects a reduction in foreign energy consumption and the weakness in domestic demand, rather than an increase in the competitive advantage of U.S. producers over their foreign rivals. The economic stimulus provided by exports has largely been driven by growth in aggregate demand in many of the nation's important export markets and assisted by the declining value of the U.S. dollar that bestows a price advantage to U.S. exporters.

The economic stimulus from growing exports, however, is unlikely to be carrying over into the 3rd quarter or into the 4th quarter as U.S. export markets are experiencing weaker growth or recession. The major economies of Europe are bracing for a significant slowdown, if not an outright recession, in their economies. The European Commission has reduced its economic growth forecast for the euro zone¹⁴ to 1.3 percent in 2008, which is a downward revision from their prior spring forecast of 2.0 percent. The euro zone economies contracted by 0.2 percent in the April-June quarter and are

¹³ Durable goods are expected to provide consumer benefits for more than one year and typically represent "big ticket" items like vehicles, consumer electronics, appliances and furniture.

¹⁴ The euro zone is comprised of the largest economies in continental Europe, including Germany, France, Italy, Spain and 11 other smaller European countries.

expected to be flat in the third quarter with a mild 0.1 percent expansion in the last quarter of this year. These economies are facing contractionary pressures on three fronts: 1) the effects of a growing scarcity of credit led by turmoil in the global financial markets; 2) the impacts of accelerating inflation on domestic spending; and 3) deteriorating conditions in the housing sector following an unsustainable rise in property values in several major European economies. Economic growth in the United Kingdom was negligible in the 1st quarter of 2008 and registered zero growth in the 2nd quarter. The UK economy is mired in its own housing slump and credit crunch, and economic recession is anticipated for the remainder of this year. The Japanese economy contracted in the 2nd quarter (-0.6 percent), and the Bank of Japan has issued a pessimistic economic forecast for the coming year. India's economy, burdened by accelerating inflation, is slowing down with its central bank predicting 7.9 percent growth this year compared to 9.3 percent growth last year and 9.8 percent growth the year before. Even China is showing signs that accelerating price inflation along with decelerating growth in the U.S. and Europe are negatively affecting its economic performance. China's export growth has fallen off sharply, factory orders are down and its booming real estate market shows clear signs of weakening.



The value of the U.S. dollar has also strengthened recently as the European and Japanese economies weakened and oil prices fell (reducing speculative pressures on the dollar). The average value of the dollar, weighted according to the share of U.S. exports to its major trading partners, declined by 14.6 percent from January 2007 to May 2008, but from May to August the dollar recovered 5.4 percent of its value. A weaker dollar not only stimulates U.S. economic activity, but also makes a South Florida vacation or cruise cheaper to foreigners and encourages foreign tourism. Even without an appreciation in the value of the dollar, the growth in U.S. exports is likely to slow down in the months ahead.

Despite the 3.3 percent estimated 2nd quarter growth in the U.S. economy, the underlying economic fundamentals as of August point to a weak national economy. The turmoil in the U.S. (and foreign) financial markets in September give even greater weight to a forecast of slow economic growth, with a significant likelihood of economic contraction, over the next 12 months.

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ADDENDUM

Final Estimates of 2nd Quarter, 2008 GDP

The BEA released its final estimates of 2nd quarter GDP on September 26th. The revised estimate of GDP growth is 0.5 percentage points lower than the estimate in the preliminary release. The largest source in the downward revision in GDP growth was a reduction in the estimate of growth in consumer spending.

The revised version of Table 2 in the September 24, 2008 Economic News Briefing is presented below.

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Percent Change, Seasonally Adjusted Annual Rates

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			IV-2007	I-2008 ^P	II-2008 ^P
Total GDP	2.80	2.00	-0.20	0.90	2.80
Personal Consumption	2.13	1.95	0.67	0.61	0.87
Fixed Investment Spending	0.32	-0.50	-0.97	-0.86	-0.25
Nonresidential	0.77	0.52	0.36	0.26	0.27
Residential	-0.45	-1.02	-1.33	-1.12	-0.52
Investment in Inventories	0.03	-0.40	-0.96	-0.02	-1.50
Exports Goods and Services	0.96	0.95	0.53	0.63	1.54
Imports Goods and Services	-0.98	-0.37	0.40	0.14	1.39
Government Spending	0.32	0.40	0.16	0.38	0.78

Source: Bureau of Economic Analysis, Final Estimate, Sept. 26, 2008

Note: Increase in GDP may not equal the sum of the components do to rounding.