

## Economic News Briefing

*December 15, 2008*

**In this issue:** Economic recession spreads across major and emerging market economies threatening a deep and protracted contraction.

Local economic indicators continue to reveal a significant contraction in economic activity

Local housing values continue to decline reflecting excess supply of vacant units, and distress and foreclosure sales.

### **U.S. and Global Economic Recession Takes Hold**

Economic indicators for September and October confirm that the U.S. economy is in the midst of a recession that most likely began at the end of 2007 or very early into 2008. The (preliminary) estimate of U.S. GDP growth in the 3<sup>rd</sup> quarter indicates a contraction of 0.5% (seasonally adjusted annual rate) that would have been more pronounced had it not been for a sharp rise in Federal defense spending (+18% SAAR). Personal consumer spending fell at an annual rate of 3.7% in the 3<sup>rd</sup> quarter. Consumer spending has not experienced an actual quarterly decline since 1991. Residential construction spending in the 3<sup>rd</sup> quarter continued to be a drag on the economy, falling at annual rate of nearly 18%. Capital investment on equipment and software fell by 5.7% (SAAR) following a decline of 5.0% in the 2<sup>nd</sup> quarter. The growth of investment in nonresidential structures continued to be positive (+6.6%), albeit at a much slower pace than in the previous 18 months.

**U.S. Economic Growth Rates (annual percent change)**

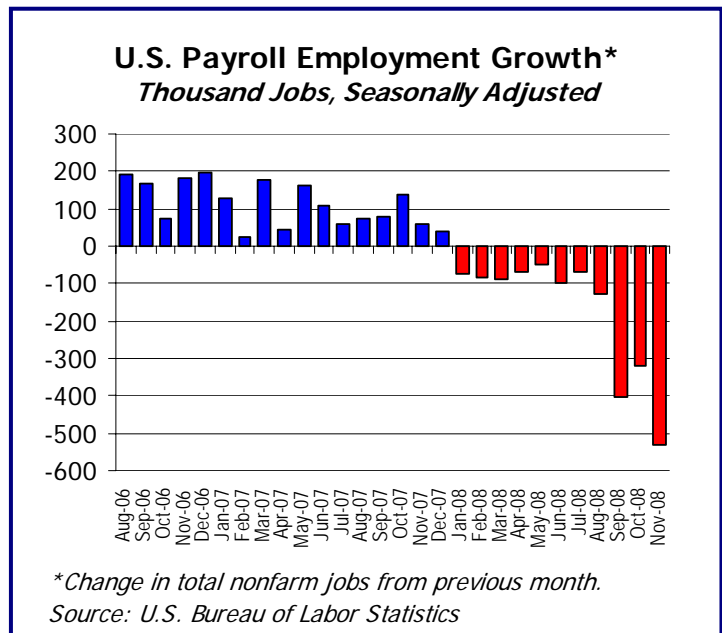
	2005	2006	2007	3Q-07	4Q-07	1Q-08	2Q-08	3Q-08
Real GDP	2.9	2.8	2.0	4.8	-0.2	0.9	2.8	-0.5
Pers Consumer Spending	3.0	3.0	2.8	2.0	1.0	0.9	1.2	-3.7
Nonresidential Fixed Investment	7.2	7.5	4.9	8.7	3.4	2.4	2.5	-1.5
Residential Fixed Investment	6.3	-7.1	-17.9	-20.6	-27.0	-25.1	-13.3	-17.6
Exports of Goods and Services	7.0	9.1	8.4	23.0	4.4	5.1	12.3	3.4
Imports of Goods and Services	5.9	6.0	2.2	3.0	-2.3	-0.8	-7.3	-3.2
Federal Government Spending	1.2	2.3	1.6	7.2	-0.5	5.8	6.6	13.6
State and Local Govt Spending	-0.1	1.3	2.3	1.9	1.6	-0.3	2.5	0.8

Source: U.S. Dept of Commerce, Bureau of Economic Analysis

Exports of goods and services continued to provide support for macroeconomic growth, but showed signs weakening in the 3<sup>rd</sup> quarter reflecting the effects of deceleration in world economic growth and the strengthening U.S. dollar that makes U.S. exports more expensive abroad. U.S. imports of goods and services declined in the third quarter as aggregate demand in the U.S. declined.<sup>1</sup> Final sales to domestic purchasers declined 2.3% (SAAR), while after tax personal income fell by 9.2% (SAAR and adjusted for price inflation).

<sup>1</sup> Total U.S. international merchandise trade fell 1.2 percent (SAAR) in the 3<sup>rd</sup> quarter. Prior recessions have been marked by a decline in merchandise trade.

U.S. monthly economic indicators further suggest that the recession is deepening in the 4<sup>th</sup> quarter. The Bureau of Labor Statistics reported that employment positions declined by 1.2 million during the months of September through November, with 533,000 jobs lost in November alone. Nearly two million jobs have been lost since January. Job losses are occurring in all major private industry sectors except for healthcare. The national unemployment rate rose to 6.7% in November from 6.1% in September and from 4.7% one year ago. The unemployment rate among youth between the ages of 16 and 19 now stands at 20.4%, up from 16.4% in November 2007, and the unemployment rate among workers lacking a high school degree reached 10.5% compared to 7.5% in November of last year. The duration of unemployment has also risen over the past year, and the average length of unemployment now stands at 18.8 weeks, with almost 40% of those workers having been unemployed for at least 15 weeks and about 20% having been unemployed for at least 27 weeks.



In addition to the acceleration of job losses, an indicator of U.S. manufacturing activity in October fell to its lowest level in 26 years, according to a prominent organization of business professionals.<sup>2</sup> This index suggests a sharp contraction in manufacturing activity that accelerated in September. A similar index of non-manufacturing activity also showed significant contractions occurring in both October and November. Construction activity continued to decline in September (latest available data) as residential building and government construction expenditures fell sharply. The Commerce Department reported that personal consumer spending, after adjusting for price changes and seasonal fluctuations, registered its fifth consecutive monthly decline in October. The decline in consumer spending was severe enough to be reflected in a decline in consumer prices, excluding prices for food and energy.

The financial crisis that began in the U.S. has spread across the globe affecting the major economies, developing economies and even emerging market economies not long ago were believed to be immune from U.S. economic problems. The contagious nature of the financial crisis has clearly revealed how globally integrated credit markets have become over the last decade.

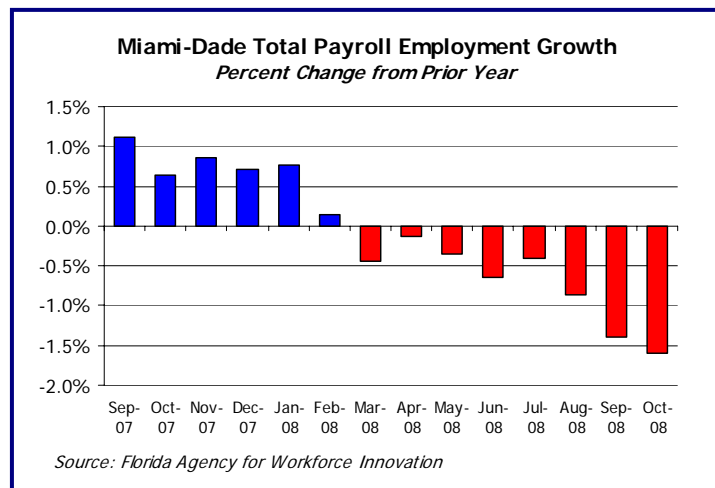
<sup>2</sup> The Institute for Supply Management, PMI index, [www.ism.ws](http://www.ism.ws).

The Organization for Economic Cooperation and Development<sup>3</sup> (a multilateral agency represent the largest industrialized economies) predicts that the economies of the Eurozone will significantly contract over the next nine months: -1.0% in 4<sup>th</sup> quarter of 2008 and -0.8% in the 1<sup>st</sup> quarter of 2009 and -0.4% in the 2<sup>nd</sup> quarter. Japan is in recession with its economy contracting -3.7% (SAAR) in the 2<sup>nd</sup> quarter of this year and -0.4% in the 3<sup>rd</sup> quarter. Germany is in recession with GDP falling -1.6% (SAAR) in the 2<sup>nd</sup> quarter of 2008 and -2.0% in the 3<sup>rd</sup> quarter. GDP in the United Kingdom fell at an annual rate of 2.0% in the 3<sup>rd</sup> quarter after registering zero growth in the 2<sup>nd</sup> quarter. India's economy is showing signs of a slowdown, and China's economic growth rate is now expected to decelerate to the 6.0 to 7.5% range from annual rates of 10-11% not long ago.

### Local Economic Activity Continues to Contract

The forces affecting Miami-Dade's economy mirror those facing the national economy: a depressed housing market that has yet to reach bottom, accelerating declines in employment spread across virtually all major sectors of the economy; a deepening contraction in consumer spending; a scarcity of credit; shrinking international trade and declining demand from other regions of the nation (including international and domestic tourism).

Miami-Dade County registered its eighth consecutive monthly decline in non-agricultural (payroll) employment in October, representing a loss of 16,900 jobs from a year earlier.<sup>4</sup> The year-over-year employment decline of 1.6% is higher than the job losses experienced at the national level (-1.4%). Private sector employment in Miami-Dade has declined by 17,400 or 1.9% from a year earlier, Employment losses have been spread across virtually all major sectors, with the goods producing sectors registering a 9,600 job losses during the past 12 months, and private services registering a loss of 7,800 jobs. Only the health care services sector continues to add jobs in Miami-Dade (+3,200). November employment estimates have yet to be released, but based on the national trends

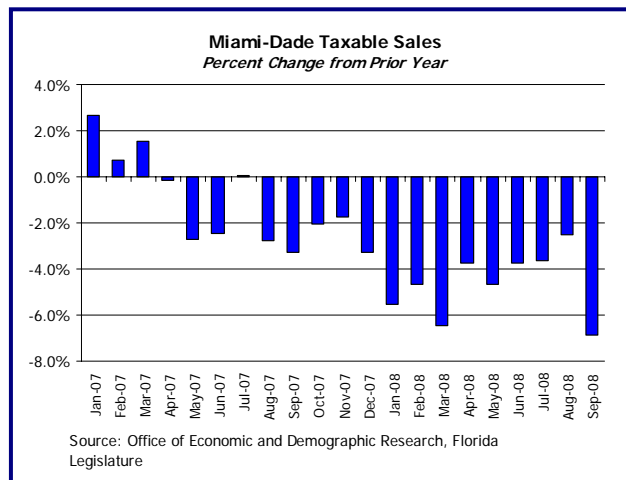


<sup>3</sup> The OECD is a multi-national, 30 member organization comprised mainly of the world's largest developed economies. ([www.oecd.org](http://www.oecd.org))

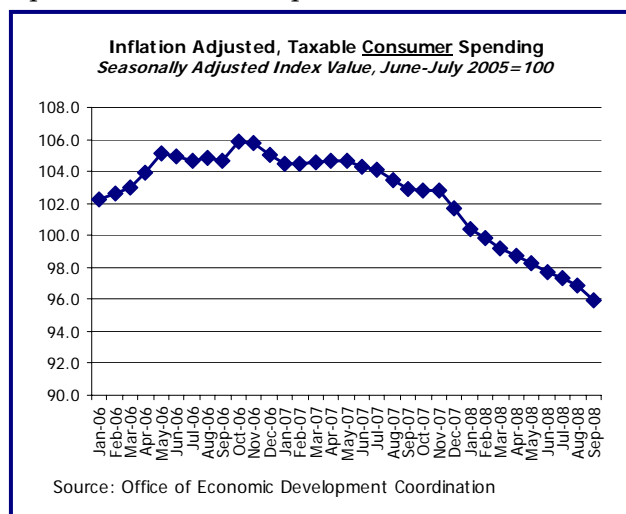
<sup>4</sup> These job measures do not include self-employed workers. Local employment estimates become available around the 20<sup>th</sup> day of the following month.

we should expect to see an accelerated pace of job losses in the private services sector and an acceleration in total employment.

Miami-Dade's estimated unemployment rate of 6.1% in October has remained nearly steady since August. The unemployment rate, however, has risen considerably when compared to the 4% rates experienced in the fall of 2007. Unemployment rates in November were probably significantly higher than in October as the traditional increase in part-time job opportunities typically occurring during the holiday season should be less than usual, and layoffs in both the private and public sector are expected to have risen.



Taxable sales in Miami-Dade County have been trending lower since the 2<sup>nd</sup> quarter of 2007 and registered a pronounced decline in all of 2008. While taxable sales appeared to be improving in the summer, September data indicated a sharp drop in sales activity with sales off by 6.9 percent compared to September 2007 (without taking price inflation into account). Taxable sales in Miami-Dade on a year-to-date basis are running 4.7 percent below the same period in 2007.



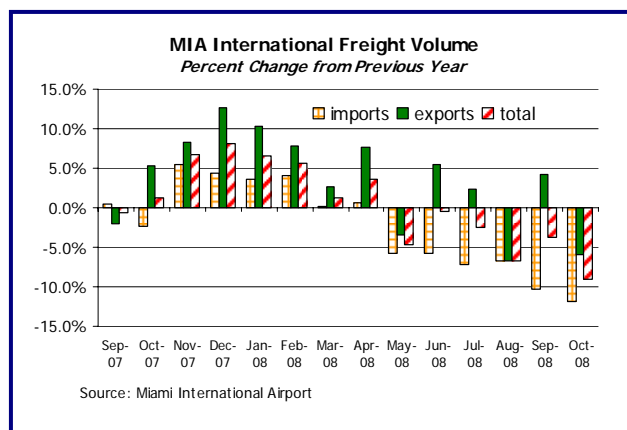
Taxable sales of consumer goods through September of this year are down 5.7% compared to the same period in 2007, after accounting for local price inflation.<sup>5</sup> Tourism expenditures have also been clearly trending downward since this past summer. Sales surtaxes on lodging, food and beverage have fallen below prior year levels since June, after taking price inflation into account, and the pace of decline in tourism spending accelerated from August through October. Tourism tax collections in October were 1.2% below October 2007, following declines of 0.9% in September and 1.1% in August.<sup>6</sup>

A recent contraction in local tourism is also suggested by the decline in total airline passenger arrivals witnessed during the three months from August to October. Domestic air passenger arrivals have been declining since March of this year, but the growth in

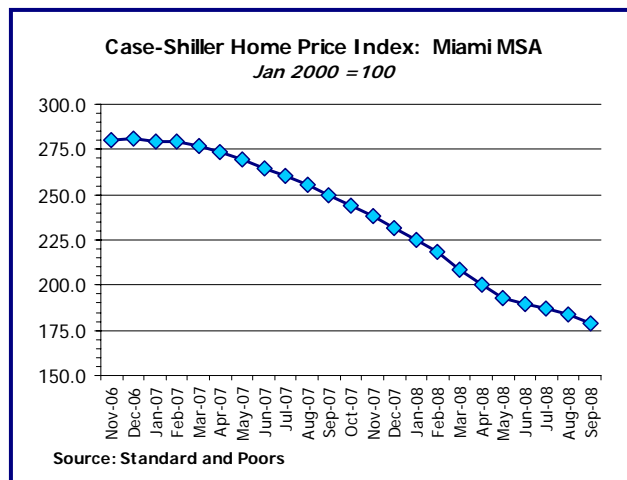
<sup>5</sup> Taxable consumer sales exclude taxable construction materials and business equipment subject to sales taxes.  
<sup>6</sup> "Tourism tax collections" refers to Tourism Development Taxes on hotel lodging, food and beverages and the Convention Development Tax.

international air passenger arrivals had been sufficient to keep total passenger arrivals experiencing positive growth through July. International passenger arrivals in August, however, were practically unchanged from prior year's levels and declined by 3% in September and by 1.3% in October. Domestic passenger arrivals continued to decline from August to October.

Cruise passengers from the Port of Miami continue to be a bright spot in the local tourism sector. Cruise passenger traffic in the 10 months from January through October was 13.2% higher than over the same period in 2007. Passenger traffic in October was 28% higher than in October of last year, although the year-over-year changes in traffic volumes do tend to fluctuate greatly. Passenger traffic this year is on a path to greatly exceed the volumes seen in 2007.



International trade activity through Miami International Airport began to contract in May of 2008, as the decline in inbound cargo (imports) began to fully offset the growth of outbound cargo (exports). Imports began to reflect the decline in U.S. demand for foreign goods in March, but in May the decline in imports accelerated and exports also began to decline. In the three months from August to October imports declined by nearly 10% compared to the same period in 2007 and exports declined by 3% over this same period. Total international trade through MIA fell by 6.6% in the August to October period compared to the previous year.

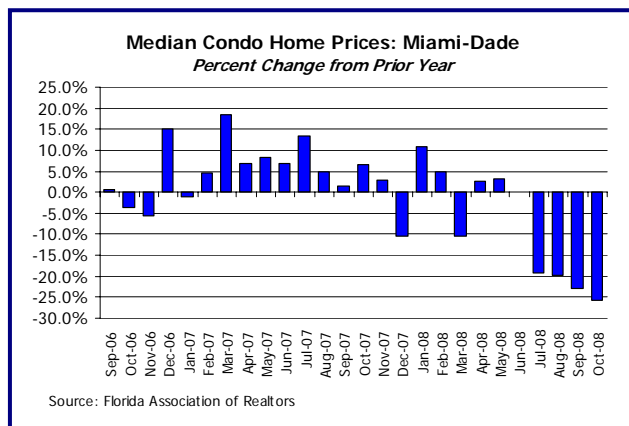


International trade volumes at the Port of Miami are approximately on par with the prior year's cargo volume, and seem to be stanching the negative trend that began in 2005.

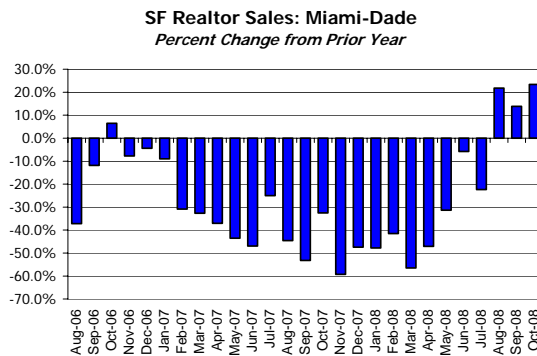
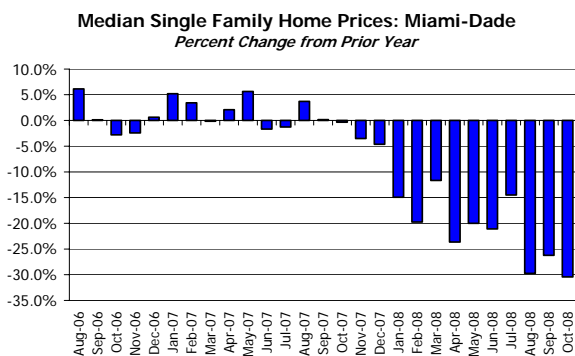
### Local Housing Values Continue to Search for the Bottom

Housing prices in Miami-Dade County continue to fall, reflecting the large overstock of housing and the increasing willingness of institutions holding foreclosed properties to sell them at deeply discounted prices. Both highly watched indicators of housing prices – the S&P Case-Shiller Home Price Index and the median real estate transaction price from the Florida Realtors Association – both are showing year-over-year declines of approximately

30% in single family homes. The median price of a single family home sold in October stood at nearly \$247,000 compared to \$355,000 in October of 2007 and \$396,000 at its most recent peak in January 2007. The median sales price of condo units in Miami-Dade over the last four months has averaged approximately 25% below the same period in 2007.



The continued decline in housing prices reflects to the large oversupply of vacant units. According to the 2007 American Community Survey (U.S. Census), 5.1% of the county's 971,608 or 49,074 were vacant and for rent or sale. Foreclosure activity resulting in lender repossessions in 2008 suggests that the current number of vacant units may well be even higher than in 2007. In the six months between November of 2007 and April of 2008 nearly 3,200 residential properties were foreclosed and repossessed by lender, according to court records compiled by Realty Trac, Inc. The pace of foreclosure activity has been accelerating. In the four months from May to August of this year 3,400 properties were foreclosed and repossessed by the lender. From May to August 6,000 properties experienced the initiation of a foreclosure proceeding (lis pendens). In November 5,981 properties in Miami-Dade County were in some stage of the foreclosure process, and 11,790 lender owned foreclosures were listed as available for sale on December 15<sup>th</sup>.



**Single Family Home Sales and Median Prices**

	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Median Price, \$	2007	395,900	381,400	382,600	382,300	401,100	371,600	377,400	392,900	372,300	354,800	359,300	362,500
	2008	336,800	306,100	337,900	291,900	320,900	293,200	322,700	276,000	274,600	246,800		
Sales, Units	2007	528	417	634	531	494	469	505	385	360	367	263	336
	2008	276	244	276	281	339	442	392	469	410	453		

Source: Florida Association of Realtors

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