

# **AARP Bulletin today**

## **South Florida's economy under water**

Jan. 12, 2009 (McClatchy-Tribune Regional News delivered by Newstex) -- When Will This Horror Show Come to an End? -- the title of a recent report by Wachovia Corp. economists -- aptly summarizes what's on many South Floridians' minds these days.

The deep downturn in the housing market, rampant home foreclosures, rising unemployment, collapsing banks -- and especially the credit crunch -- have most people feeling a bit off-balance.

"The situation is unprecedented," said David Denslow, an economist at the University of Florida. "Our ordinary models don't explain what's going on. All those ordinary models aren't working, and now everybody is groping. No one knows what's really salient."

But this much seems clear: 2009 will be a difficult year.

Here's a sector-by-sector look at how major drivers of the South Florida economy are expected to fare this year:

### HOUSING

Falling home prices expected

In many ways, the region's economic woes started a few years ago with the housing boom.

From 2002 to 2006, fueled by low interest rates and easy credit, the median home price in Miami-Dade doubled, from \$185,000 to \$375,000. Thousands of people found work building huge condo towers and subdivisions, and their prosperity spread throughout the economy.

Then, last year, the dream became a nightmare. Home prices had risen far beyond most people's ability to buy, forcing down demand. Speculators were buying up condos at prices so high that no landlord could make money renting them.

Last year homes prices were back down to 2003 levels, foreclosures began to skyrocket and credit markets slowed and then seized up almost entirely.

Now, most experts think South Florida home and condominium prices will continue to fall in 2009, but probably not as fast as in 2008.

"2008 is probably the worst we will see," said Jack Winston, principal at Goodkin Consulting in Miami, "but we still have a hangover going into 2009 and I don't think we'll start to get rid of that headache until the end of the year."

For the housing market to recover, three areas need a remedy, said Winston:

The oversupply of single-family homes and condos -- fueled by overbuilding but mostly by foreclosures -- must be reduced so home prices stabilize.

Credit markets must begin easing so banks start lending again.

The employment situation must brighten.

It's a tall order and it means 2010 -- not 2009 -- will be the start of a turnaround, Winston said.

"We are in a vicious cycle," said Brad Hunter of Metrostudy, a real estate consultancy. "The economy went into the tank because of the housing market; now the economy is feeding that weakness into the housing market."

Hunter, however, had one bit of bright news for this year: "There are going to be opportunities to buy homes at very, very good prices this year... excellent deals."

## FINANCE

Banks await bailout money

After real estate, banking was among the first areas of the economy to be hit by the recession. And it has become one of the most shell-shocked.

Two top national players that are big in Florida -- Wachovia and Washington Mutual (OTC:WAMUQ) - were acquired by Wells Fargo and (NYSE:WFC) JPMorgan Chase (NYSE:JPM) , respectively, amid the 2008 financial meltdown.

Meanwhile, the largest Florida-based financial institution, BankUnited Financial (NASDAQ:BKUNA) of Coral Gables, is scrambling for fresh capital to help work through a mountain of troubled mortgages.

"We've got some major changes -- big-picture things -- going on here in Florida," said Kenneth Thomas, a Miami-based banking consultant and economist, who estimates Florida has a disproportionate share of problem banks.

Sept. 30 data from the Federal Deposit Insurance Corp. show Florida ranked next to the bottom in return on assets -- a measure of profitability -- among the 50 states, Puerto Rico and the District of Columbia.

Florida's 311 banks produced a return on assets of -- 0.6 percent. (An ROA of 1 percent is considered a benchmark of good profitability.) Only California fared worse, with an ROA of -- 0.91 percent. "We are second to the bottom primarily due to the bursting housing bubble here," Thomas said.

The state's banks are getting hit particularly hard by their strong focus on real estate and are shouldering huge losses from soured home mortgages and from construction and development loans.

Many Florida institutions have applied for federal bailout money under TARP, the Treasury's Troubled Asset Relief Program, and are waiting to hear if they have been approved.

Customers say their banks are loathe to lend money as they focus on shoring up capital. Moreover, as the economy has plunged, virtually all institutions have tightened lending standards, making it even more challenging for individuals and companies to get the credit they need.

IMPORT/EXPORT

Latin trade may be

a bright spot

South Florida's import-export sector has plenty to worry about this year.

Cargo tonnage is down at the Port of Miami and Port Everglades, trade credit is tight and imports have been hobbled by the construction slump.

Moreover, no one knows for sure when the global economic crisis will bottom out or how the dollar will perform.

But there is one source of comfort: Exports to Latin America, a critical regional market for South Florida, should be a bright spot for the coming year.

Many Latin nations are better prepared for an economic downturn than in the past, and the region also depends on South Florida for shipping supplies of essential goods such as industrial machinery, vehicles and high-tech products and parts.

Some South Florida companies are optimistic. "Shipments for the first couple of months of 2009 are better than last year," said Al Merritt, chief executive of MD International, a major supplier of medical equipment to Latin America and the Caribbean. "I'm pretty positive about 2009. I don't think things are nearly as bad as people think."

Ralph Gazitua, president of the logistics company WTDC, also was upbeat. "There will be some drop in trade, but Miami is positioned perfectly for supplying Latin America," said Gazitua, whose firm provides inventory management, bonded warehousing and other trade-related services.

The head of a company that ships cargo to 125 international destinations predicts that trade with Latin America will be up slightly in both directions this year, but says that U.S. exports to the Caribbean will be down. John Abisch, president of Econocaribe Consolidators, expects trade to and from Europe to be flat, while U.S. imports from Asia will shrink and U.S. shipments to Asia will increase.

"My expectation is that business will be less than in 2008," said Abisch "I don't think it will be drastic, but we've been spoiled by steady growth."

## TOURISM

Weak economy means

canceled vacations

For South Florida's tourism industry, the slowing economy couldn't have come at a worse time. Finishing up a historic spurt of renovations and new hotel openings, the market will be saddled with thousands of extra rooms just as demand for South Florida lodging declines at a disturbing pace.

Broward County saw a 10 percent drop in hotel-tax revenue for October but improvement in November, when hotel taxes dipped only two percent. Miami-Dade and Monroe counties both saw single-digit declines in the fall. After years of boosting room rates, hotels began discounting last year. But that wasn't enough to keep occupancy from dipping throughout the region.

"Flat is the new up," Broward tourism director Nicki Grossman said of the industry's switch from boom times to a retreat. "There is so much doubt and so much economic fear, that we're hesitant to make a forecast."

Even so, Grossman and other tourism officials expect things to get worse in 2009, as financial pressures force even more vacationers to stay home.

"One of the things I'm very concerned about is the consumer is developing a state of mind of only spending on life's necessities and purchasing things on sale," said Harold Wheeler, tourism director for The Keys. "People have six or seven credit cards, and they're maxed out. That's what you travel on."

Foreign travelers saved South Florida's tourism season last summer, but U.S. economic problems spread rapidly across the ocean in the fall. That has left hotels worried that the usual influx of Europeans won't be as strong in 2009.

On the upside, a plunge in gas prices and a faltering U.S. dollar will keep travel costs lower both in the United States and abroad. International flights increased at Miami International Airport last year, making up for declines in domestic passengers. And the region hasn't suffered the huge declines felt by vacation destinations such as Orlando and Las Vegas.

"You're frankly seeing fire sales" elsewhere, said Rolando Aedo, head of marketing for the Greater Miami tourism bureau. "We're not seeing that."

## HEALTHCARE

Hospitals worry

about getting paid

Healthcare may not be facing as dismal a future as other parts of the South Florida economy, but leaders in the industry say tough times are ahead.

Hospitals -- by far the largest revenue-producer and employer in the sector -- are running scared. Many are pushing expensive new devices -- such as robotic arms for minimally invasive surgery -- while fearing they'll likely be squeezed by insurers.

"Getting paid" is a hospital's biggest worry for 2009, says Linda Quick, president of the South Florida Hospital and Healthcare Association. With the federal government facing huge budget problems, many hospital executives worry that Medicare, the main payer for many hospitals, might trim its reimbursement rates.

Marvin O'Quinn, who recently left Jackson Health System, warned last month that Miami-Dade's public health system is likely to struggle in 2009 because of reduced revenue from sales taxes and may need to seek additional funds from county government.

Frank Nask, chief executive of tax-supported Broward Health, said, "We're pretty much holding our own." He's hoping that trend continues for the next year with new cancer-treatment equipment "helping drive in more business."

Still, virtually all healthcare experts expect there will be more uninsured patients in 2009 as companies continue to shed full-time employees and smaller firms find they can't afford coverage. That likely means more people will delay treatment and end up in emergency rooms, where by law they must be treated, even if they can't pay.

Those who have insurance also are likely to be paying more. A study in the January/February issue of the trade journal Health Affairs reports that chronic disease, particularly among aging boomers and older adults, has caused patients' out-of-pocket costs to increase 40 percent in the past decade.

The Noblis Center for Health Innovation, based in Virginia, predicts that many healthcare institutions will be squeezed by the credit crunch and marginal entities will need to freeze hiring and cut capital investments. Most at risk: small hospitals, which may be ripe for consolidation.

South Florida's largest publicly traded healthcare company, Pediatrix Medical Group, changed its name at the start of the year to Mednax, but its main concern is that it's seeing fewer babies in its neonatal units. (Demographers have yet to determine if the tough economy means some people are postponing having children.)

On the pharmaceutical side, many drug makers are concerned that the new Obama administration may seek to impose strict price controls on drugs sold to Medicare recipients as the government already does for Veterans Administration patients.

Having said all that, many healthcare companies are still hiring, with a broad range of jobs to fill, from respiratory therapists to nurses.

## AGRICULTURE

Ag industry faces

multiple threats

Looking at agriculture locally and throughout Florida this year, those in the industry have a single refrain: Hopefully, it won't be as bad as last year.

"If you look at the agriculture economy, it sort of trails the rest of the economy," said Florida Farm Bureau's Pat Cockrell. "We're a little slower to react but then a little slower to pull out."

Farmers throughout the state faced continuing high costs last year for inputs -- fuel, fertilizer and feed. Miami-Dade County Agricultural Manager Charles LaPradd estimates that fertilizer costs were 300 to 400 percent higher at one point.

Now that fuel prices have gone down, other costs are slowly declining -- but not fast enough, LaPradd said. "They haven't receded as quickly as fuel prices have," he said. "We're hoping they will continue [downward]."

Citrus profits have been low, in part, because of increased production costs and the threat of disease. This season doesn't look like it will be that good, either, Cockrell said, adding that he expects some farmers will transition to other crops.

The bulk of Miami-Dade County's agriculture industry is the nursery business, which continues to suffer from the real estate market crash. Nurseries that specialize in interior plants -- including those who supply Home Depot (NYSE:HD) -- are seeing business slowly start to stabilize.

A major threat to watch out for in South Florida's tropical fruit industry is the fast-moving, invasive Redbay ambrosia beetle, which spreads the laurel wilt fungal disease. It is now 100 miles north of Miami-Dade's \$30 million avocado industry. LaPradd said the beetle has already destroyed backyard avocado trees as close as Melbourne.

Avocados are the largest tropical fruit industry in the state, and scientists are looking for a natural way to resist laurel wilt.

Article available at:

[http://bulletin.aarp.org/states/fl/articles/south\\_floridas\\_economy\\_under\\_water.html](http://bulletin.aarp.org/states/fl/articles/south_floridas_economy_under_water.html)

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