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Foreclosures Will Have 'Profound' Impact on National Economy

Homeowners faced with imminently resetting adjustable rate mortgages and declining home values are well aware of the heavy personal toll of a foreclosure.

Now, new data predicts a "profound" impact of a rising number of foreclosures on the national as a whole in 2008, including a sharp reduction in job growth and a slowing economy.

The report prepared by financial analysis firm Global Insight for the U.S. Conference of Mayors predicts that at least 1.4 million homes will enter foreclosure next year. If realized, the forecast would worsen an already dire real estate market situation and have severe "multiplier effects" on the U.S. economy and other market sectors.

Global Insight estimates these homes represent a current market value of \$316 billion.

The foreclosure crisis will result in 524,000 fewer jobs being created in 2008 and a potential loss of \$6.6 billion in tax revenues in 10 states, according to the report.

With the severe drop in home sales, state revenues from realty transfer fees also would diminish.

"Not that long ago, economists said housing was the backbone of our economy. Today the foreclosure crisis has the potential to break the back of our economy, as well as the backs of millions of American families, if we don't do something soon," said Douglas Palmer, mayor of Trenton, N.J. at a recent meeting of mayors, mortgage industry representatives and community advocacy groups.

"We must not let the economic numbers mask the face of this tragedy — the families who are struggling to pay their mortgages and stay in their homes," he said.

Detroit Mayor Kwame Kilpatrick added that, "The foreclosure crisis is no longer just about mortgages, entire neighborhoods are being negatively affected on several levels. This issue is now the number one economic challenge of many major American cities."

Indeed, the most recent S&P/Case-Shiller National Home Price Index showed prices of existing single-family homes in the third quarter fell by 4.5 percent from

2006.

In addition, the S&P/Case-Shiller National Home Price Index fell 1.7 percent from June, the largest quarterly drop on record.

Global Insight predicts home price declines throughout the U.S. will average 7 percent in 2008, including a high of a 16 percent decline in California.

As a result of declining property values, property taxes in California could ultimately decline by nearly \$3 billion.

Sales of existing homes will continue to fall by another 10 percent in 2008, according to the Global Insight forecast.

The report stops short of forecasting that the slowdown will push the U.S. into a recession.

It does, however, find that 128 metro areas will be pushed into a “sluggish” gross metropolitan product (GMP) growth of less than 2 percent in 2008.

In addition, growth will be decreased by more than a third in 65 metro areas and by more than a quarter in 143 areas.

Despite data showing strong retail sales on Black Friday — the day after Thanksgiving and the official start of the holiday shopping season — compared with a year ago, Global Insight said the spurt of retail activity will be short-lived.

In fact, the report's findings show consumer spending on taxable goods will decline to 2 percent growth, well below a 3.1 percent gain in incomes.

Still, Global Insight is not totally grim on the prospects for the national economy down the road. It expects job growth in 2008 to be 0.85 percent and GDP growth to be 1.9 percent.

In 2009, those figures will be 1.2 percent and 2.9 percent, respectively.

