

## ***The State of the Broward Economy Fall 2008***

### ***Please read the following statement before proceeding:***

*Certain of the information in the following report may constitute "forward-looking statements" as defined under federal securities laws. Words or phrases such as "should result," "are expected to," "is likely," "we anticipate," "we estimate," "we project," "we believe," "we forecast" or similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. You should not place undue reliance on forward-looking statements, since such statements speak only as of the date of the making of such statements.*

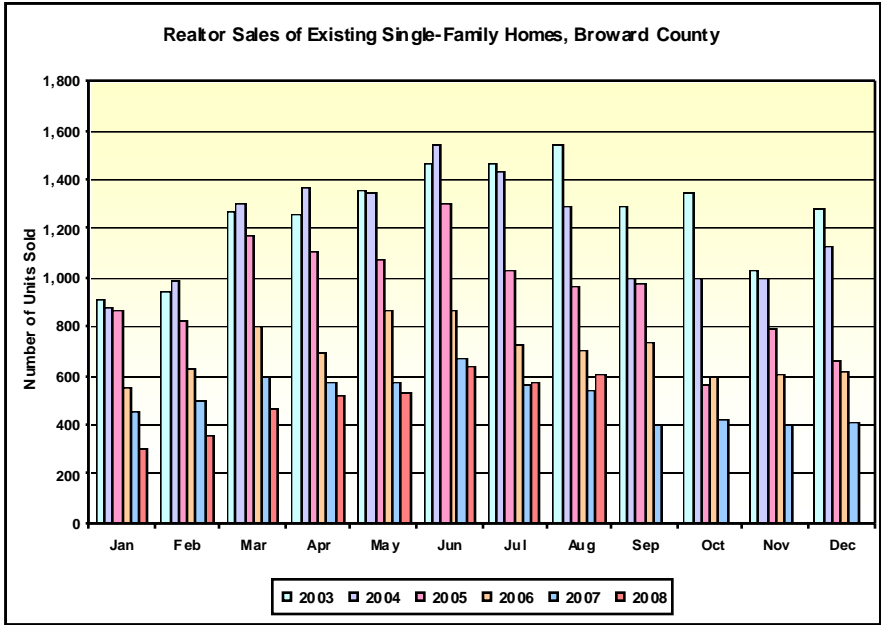
The economy generally is viewed as complex markets dominated by conglomerates and Wall Street firms. However, individuals participate in the global markets as well. Individuals buy cars, food, clothing and other goods – some are manufactured in the U.S. and some are manufactured abroad. Individuals buy homes and take mortgages. They buy stocks, bonds and mutual funds, often investing in diversified portfolios that include domestic and foreign securities. This view of the financial markets and the interconnectedness and depth of these markets provide the backdrop for the restructuring plans initiated by the Federal Reserve and Treasury Department, supported by central banks across the globe, and recently passed by Congress.

Rather than speculate on the success or wisdom of recent legislative attempts to shore up the U.S. financial markets, this report on the *State of the Broward Economy* provides data and information regarding the major sectors of both the U.S. and local economies.

### ***Housing***

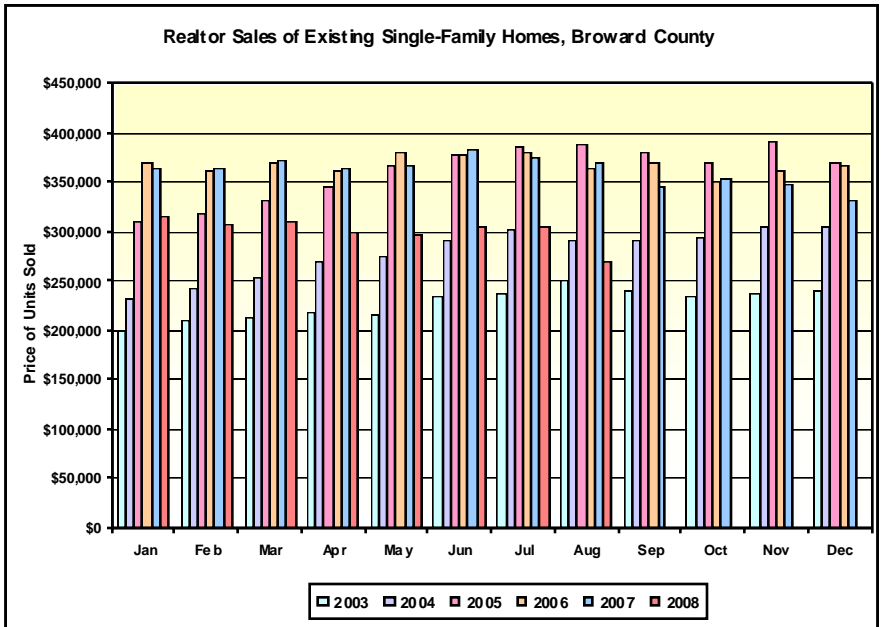
#### ***Sales of Existing Single-Family Homes***

According to data from the Florida Association of Realtors® and University of Florida Real Estate Research Center, in August 2008, the number of existing single-family homes sold rose



Sources: Florida Association of Realtors® and University of Florida Real Estate Research Center

more than 12% from August 2007 (August 2008, 604; August 2007, 538). However, for the first eight months of 2008, the number of existing single-family homes sold was 4,002 which is down from 4,482 for the first eight months of 2007, which follows declines in 2006 and 2005 – all are significantly down from 10,150 for the first eight months of 2004.



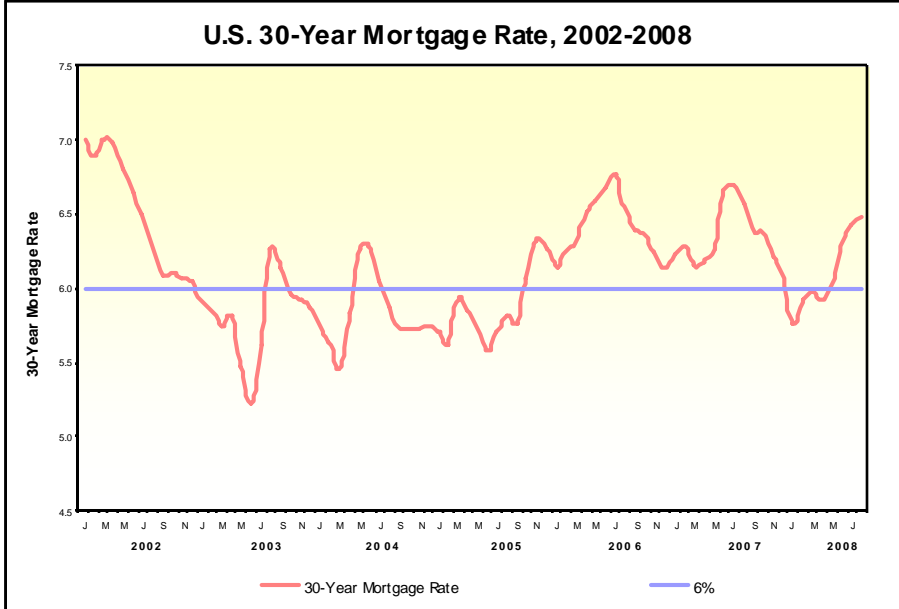
Sources: Florida Association of Realtors® and University of Florida Real Estate Research Center

On the price side, the August 2008 median price of \$269,800 is down nearly 27% from the August 2007 median price of \$368,800. The August 2008 median price is also down 11% from the July 2008 median price of \$303,600. The August 2008 figure is near the levels recorded in early 2004 and is down 31% from the peak price of \$391,100 in November 2005.

**Foreclosures**

The high level of foreclosures is not unique to the Broward County housing market. However, foreclosures in Broward County outpace the national and state figures. According to RealtyTrac®, in August 2008, 1 in 416 U.S. households received foreclosure filings as compared to 1 in 194 households in Florida, and 1 in 112 households in Broward County.

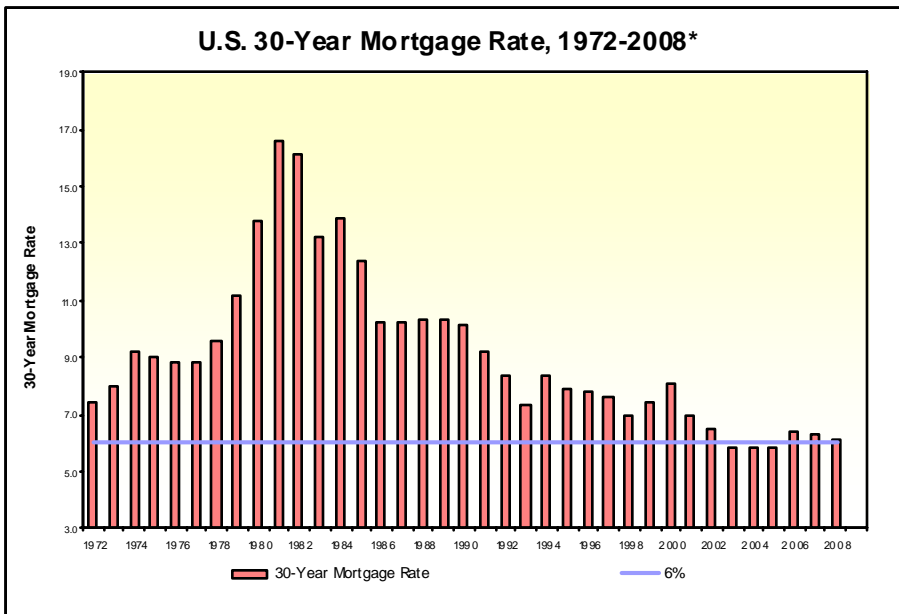
## Mortgage Rates



Source: Federal Home Loan Mortgage Corporation, accessed from [www.federalreserve.gov](http://www.federalreserve.gov)

The 30-Year Fixed Rate on Conventional Mortgages nationwide fell to a record low of 5.23% in June 2003. The rate rose more than 150 basis points to 6.76% in July 2006 and averaged 6.43% in July 2008 and 6.48% in August 2008.

Following the federal government bailout of Fannie Mae and Freddie Mac, there was a sharp drop in mortgage rates. For the week of Sept. 18, 2008, the 30-year mortgage rate was 5.78% which compares to 5.93% for the prior week and 6.10% reported for the week of Oct. 2, 2008. The current 30-year mortgage rate is relatively low by historic comparison at just over 6%.



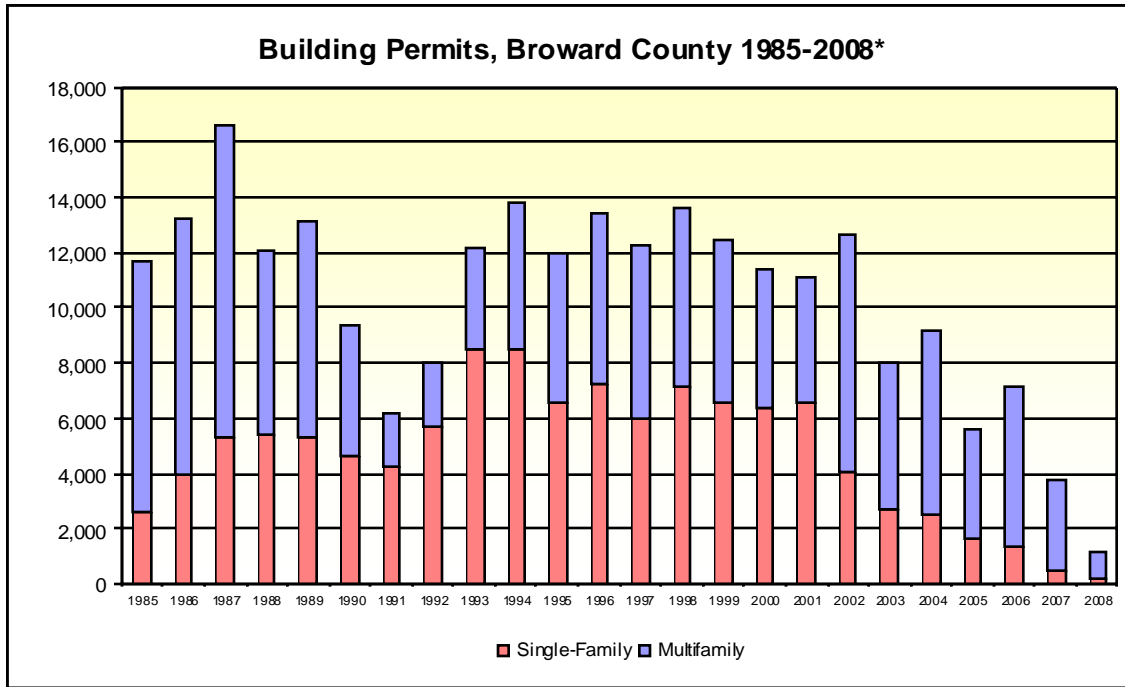
Source: Federal Home Loan Mortgage Corporation, accessed from [www.federalreserve.gov](http://www.federalreserve.gov)

\* Data for 2008 through August

## Building Permits

Residential building permits have slowed in recent years throughout the country. However, only a portion of the recent decline in permit activity in Broward County is attributable to the weak economy. Another key factor impacting the level of permits is the shrinking availability of land

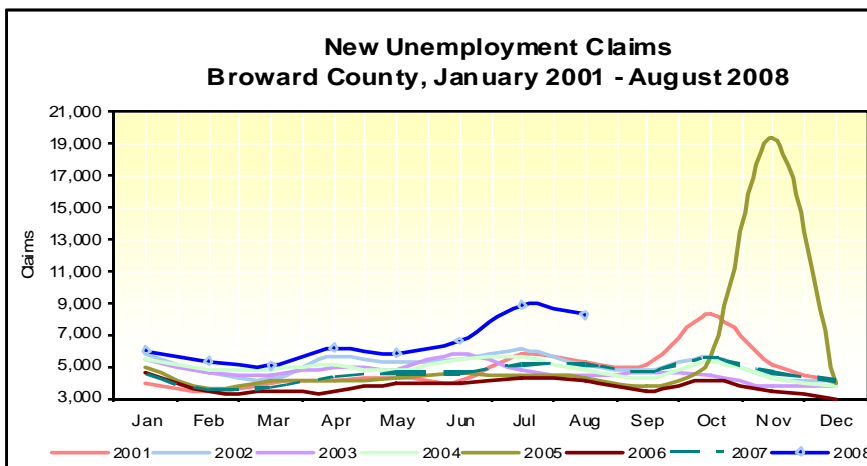
for new residential development in Broward County. It is estimated that residential “build out” will occur by roughly 2015.



Source: Broward County Permit Monitoring System  
 \* Data for 2008 through June

## Employment and Unemployment

### Initial Claims for Unemployment Compensation

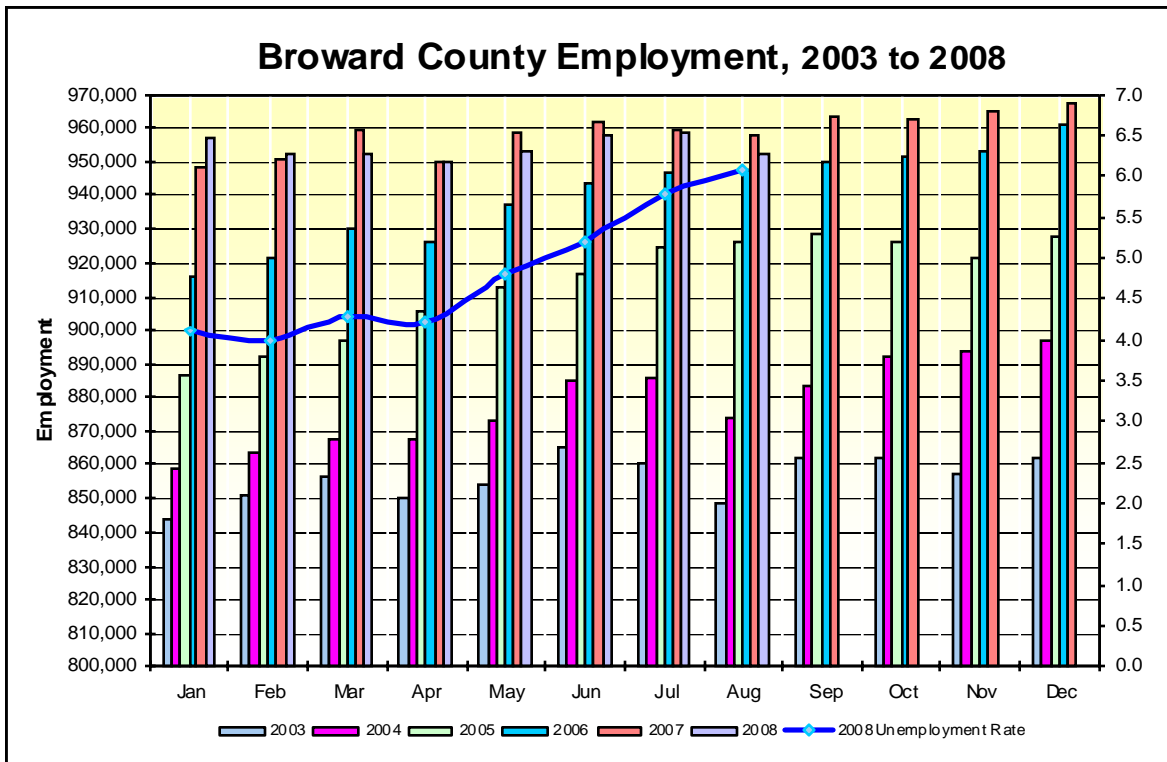


Source: State of Florida Agency for Workforce Innovation, Initial Claims for Unemployment Compensation, accessed from [www.labormarketinfo.com/library/uiclaims.htm](http://www.labormarketinfo.com/library/uiclaims.htm)

New claims for unemployment for the first eight months of 2008 totaled 52,161 and the monthly figures outpace the respective monthly data for the past sixteen years. The 2008 pace suggests that claims for the full year 2008 may exceed the 67,484 recorded in 1991, a recession year, and the 66,847 recorded in 2005 when November claims surged temporarily to 19,363 in the aftermath of Hurricane Wilma.

## Employment

While employment in January and February 2008 was higher than for the same months of the prior year, employment for the remaining months through August was down from the respective months in 2007. Employment for August 2008 was 952,487. For the first eight months of 2008, employment in Broward County was down by just under 1,500 (1,430). In addition to this loss, the weak economy has not generated new jobs. In more robust economic times, employment has grown by 20,000 to 30,000 jobs in the first eight months of the year.



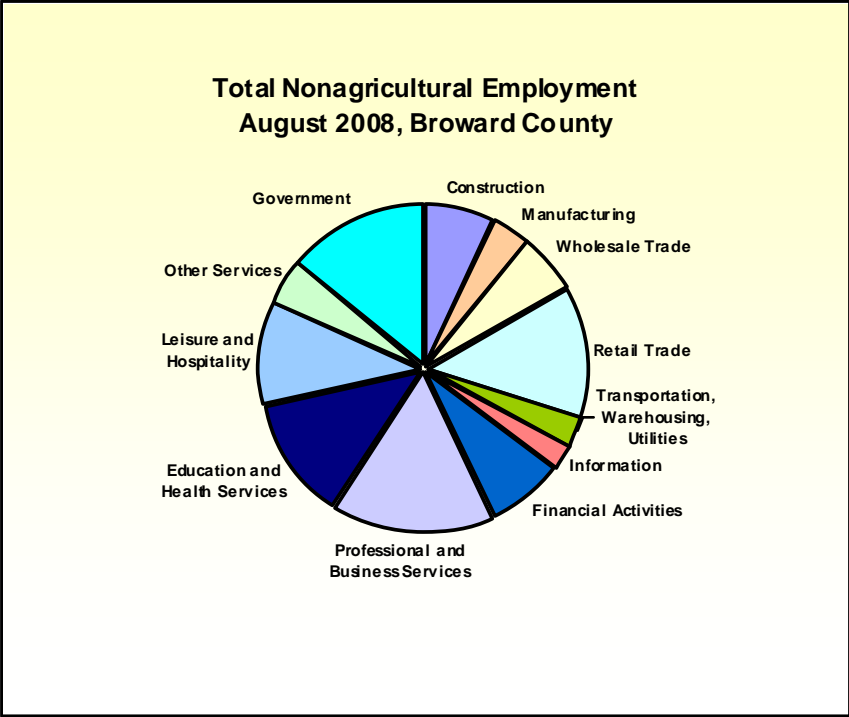
Source: State of Florida Agency for Workforce Innovation, Local Area Unemployment Statistics, accessed from: [www.labormarketinfo.com/library/laus.htm](http://www.labormarketinfo.com/library/laus.htm)

## Unemployment Rate

The unemployment rate in Broward County has drifted up from 3.9% in August 2007 to 6.1% in August 2008. The August 2008 figure is the highest in more than six years and compares to the 6.3% recorded in January 2002.

## Employment by Industry

As of August 2008, Nonagricultural Employment totaled 774,900. Industries with the highest number of employees were Professional and Business Services (125,800), Government (107,900), Retail Trade (99,600), Education and Health Services (94,900), and Leisure and Hospitality (78,900).

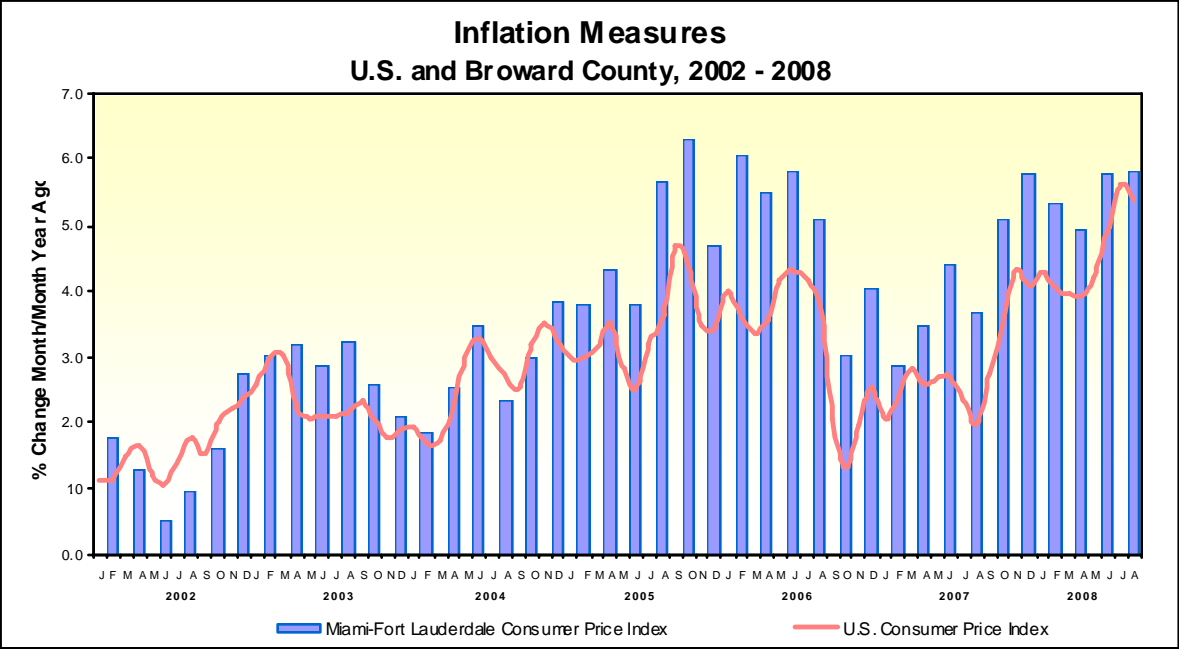


As of August 2008, employment in non-agricultural industries was down by 1.3% from August 2007. However, employment in Construction, Manufacturing, Retail Trade, and Financial Activities, which include lending, real estate and insurance, was down 6.5% or more. Meanwhile, employment in four industries – Education and Health Services (3.9%), Government (2%), Leisure and Hospitality (1.7%), and Wholesale Trade (0.4%) – was up from August 2007.

Source: State of Florida Agency for Workforce Innovation, Current Employment Statistics, accessed from: [www.labormarketinfo.com/library/CES.htm](http://www.labormarketinfo.com/library/CES.htm)

### Inflation

The U.S. inflation rate, measured by the CPI for All Urban Consumers, from June 2007 to June 2008 was 5%; 5.6% from July 2007 to July 2008; and 5.4% from August 2007 to August 2008. July inflation was the highest rate (measured from same month prior year) since January 1991.



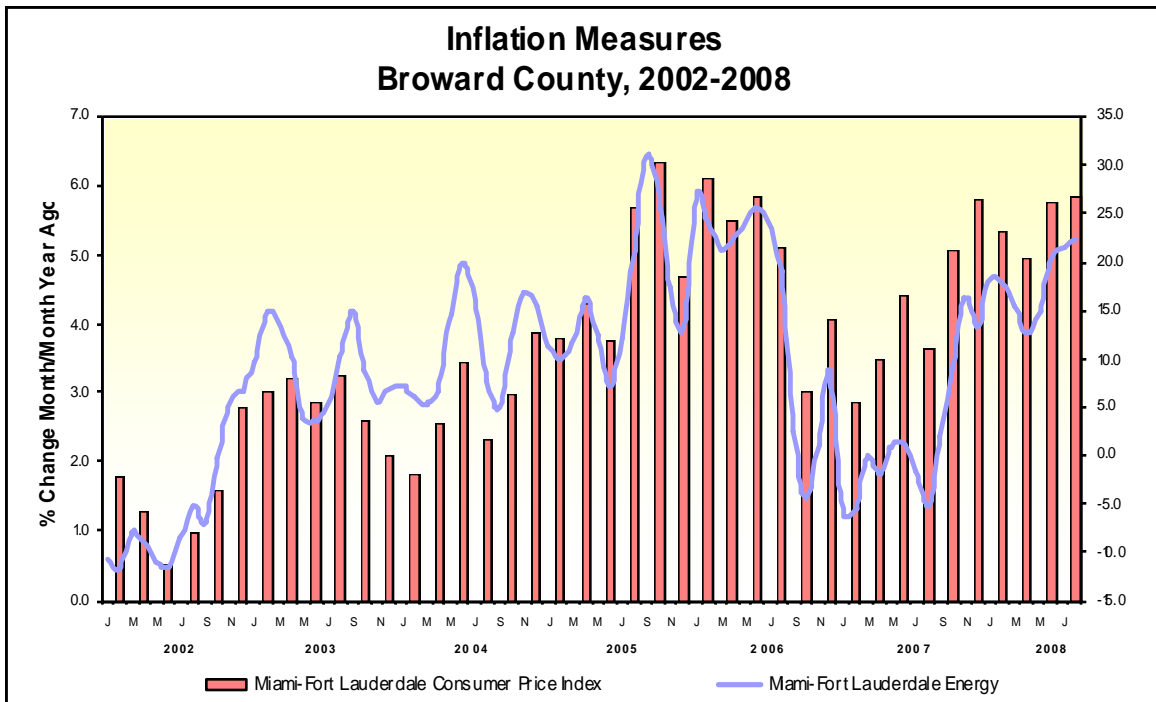
Source: U.S. Department of Labor, Bureau of Labor Statistics

For the Miami-Fort Lauderdale area, inflation was 5.8% from June 2007 to June 2008 and also from August 2007 to August 2008. The local inflation rate generally exceeds the national inflation rate.

Major contributors to higher inflation are food and energy. Without these two components, U.S. inflation was just 2.5% from August 2007 to August 2008. While the Food component rose 6.1% from August 2007 to August 2008, the Energy component rose 27.2% over the same period.

### *Inflation/Energy*

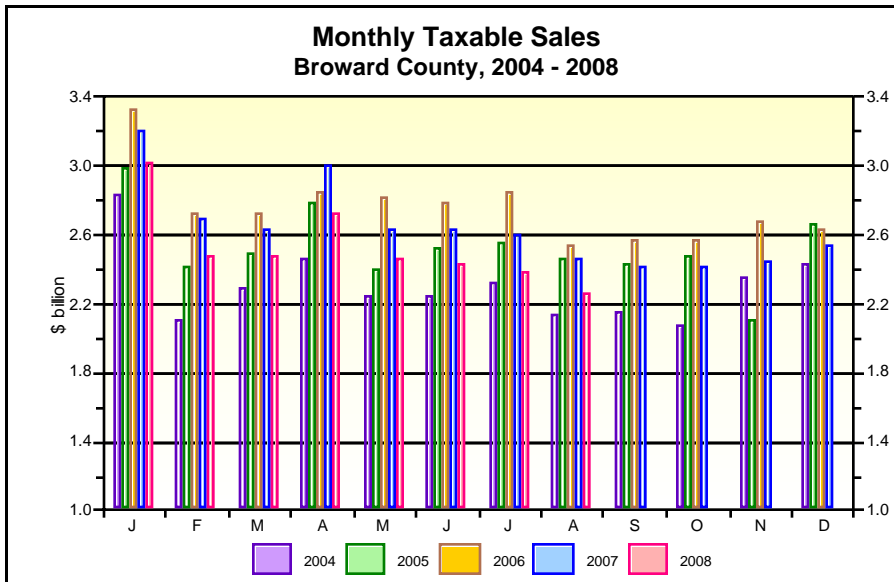
While inflation for the Miami-Fort Lauderdale area was 5.8% from August 2007 to August 2008, the Energy component for the area which includes Broward County, rose more than 22%. Recently, the price of crude oil has been falling from its historic high of just over \$147 in July. With the price of oil down below \$110 a barrel in the aftermath of Hurricane Gustav, OPEC cut production by 520,000 barrels a day at its meeting on September 9. This reduction was relatively small given that OPEC's production is about 30 million barrels a day. On Monday, September 15, in the aftermath of Hurricane Ike, the price of crude oil fell to under \$95 a barrel – the lowest level since February. The slowing U.S. economy has weakened the demand for oil and prices are edging lower. Following the U.S. slowdown, the economies of Asian and European countries, especially trading partners to the U.S., are also curbing demand, which is expected to moderate oil prices.



Source: U.S. Department of Labor, Bureau of Labor Statistics

### *Taxable Sales*

Taxable sales in Broward County totaled \$31.6 billion in 2007 – a decrease of 4.3% from the 2006 level of nearly \$33.1 billion.



Source: Florida Department of Revenue

For the first eight months of 2008, taxable sales totaled \$20.2 billion – a decline of 7.4% from the same period in 2007. The 2007 figure of \$21.8 billion was a decline of 3.4% from the \$22.6 billion in taxable sales for the first eight months of 2006.

### Tourism and Trade

Tourist tax collections are expected to rise by 4% in 2008 making this the 6<sup>th</sup> consecutive year of increases. International tourism has increased due in part to a weak dollar and new air service into the Fort Lauderdale-Hollywood International Airport from Latin America.

Although the weak economy and high fuel costs are affecting tourism, the vital signs of the tourism industry remain relatively healthy: hotel occupancy up 1.5%; average daily rate up 3%; and tourist tax collections up 4%. Challenges moving forward will continue to be the economic slow down in the U.S. and abroad, high fuel costs, and rising unemployment which dampens the demand for travel and results in shorter stays.

### Port Everglades

Port Everglades is poised to become the Number 1 cruise port in the world in the next few years with the introduction of Royal Caribbean International's first Oasis-class vessel capable of carrying 5,400 passengers. Currently, Port Everglades is the world's third busiest cruise port and is expected to serve 3 million cruise passengers in the upcoming year. The cruise business generates more than \$31 million in revenue annually.

In time for the 2008-2009 winter Caribbean cruise season, Port Everglades will become home to five of the cruise industry's newest ships, including: Holland America Line's *ms Eurodam*; Princess Cruises' *Ruby Princess*; Celebrity Cruises' *Celebrity Solstice*; Carnival Cruise Line's *Carnival Splendor*; and Royal Caribbean International's *Independence of the Seas*, which will be the largest cruise ship to ever visit Port Everglades (3,634 passengers).

Port Everglades handles more than 120 million barrels of fuel annually serving a 12-county region. Revenue from petroleum operations totals more than \$23.7 million annually.

Port Everglades is the 11<sup>th</sup> busiest U.S. container port and is Number 1 in Florida. The

Port handles more than 6 million tons of container cargo annually which generates revenue of nearly \$29 million.

The value of economic activity generated by Port Everglades is \$18 billion annually, which includes not only direct Port operations but also businesses at the Port. Port Everglades provides nearly 200,000 jobs statewide through its cruise travel and trade activity.

With operating revenues of \$112 million, Port Everglades is a financially self-supporting Enterprise Fund of Broward County Government and does not expend any tax dollars.

### ***Fort Lauderdale-Hollywood International Airport (FLL)***

Total passenger traffic at Fort Lauderdale-Hollywood International Airport (FLL) increased 5.3% for the first seven months of 2008 over the same period in 2007, as more than 14.5 million passengers travelled through the facility. Domestic traffic rose 4.1% and international traffic rose 13.4% for the first seven months of 2008 over the same period in 2007. The phenomenal growth in international traffic is the result of new or additional service to the Caribbean, Central America, and South America by American Airlines and Spirit. Caribbean Airways began new service to Port of Spain in May 2008.

Although traffic in the first half of 2008 was strong, it is expected to weaken in August as the impact of airline schedule cutbacks begin to take effect. Skyrocketing fuel costs have resulted in several airlines increasing fares and/or reducing or discontinuing domestic service. Recent DOT data suggest that available seat capacity for the remaining months of 2008 will decrease on a year-over-year basis. Overall, the total number of passengers will be 22.5 to 23 million, which is flat compared to 2007.

Air Freight for the first seven months of 2008 totaled more than 77,658 tons, which was down 9.7% from the same period in 2007. Meanwhile, Air Carrier operations increased 5.3%; Air Taxi/Commuter operations decreased 1.8%; and General Aviation/Military operations decreased 12.6% from the prior year figures.

Over the past several years, FLL has spent nearly \$700 million to serve a growing number of passengers. Projects include: the Rental Car Center, a new terminal, renovation of the three existing terminals, major roadway improvements and thousands of additional parking spaces.

Strategically located, halfway between Miami-Dade and Palm Beach Counties, FLL plays a major role in the economic welfare of the region, contributing more than \$2.7 billion to the local economy and employing 36,900 people either directly or indirectly. As an Enterprise Fund of Broward County, FLL is a financially self-supporting operation and requires no property tax support or subsidy from Broward County taxpayers.

### ***Broward County Budget***

The proposed FY 2009 County Budget totals \$3.595 billion, which is an increase of 1% from \$3.558 billion in FY 2008. The increase in the overall budget is primarily due to budgeting additional capital project funding compared to the prior fiscal year.

The FY 2009 proposed budget is supported with \$819 million in non-voted Countywide property taxes, which is \$43 million less than the \$862 million budgeted for FY 2008. Developing the FY 2009 budget met with the challenges of a declining real estate market and voter approval of Amendment One.

FY 2009 is the third consecutive year of cutbacks for property-tax supported agencies. The reduction target for balancing the budget was \$87 million. This results from \$50 million in tax reductions from Amendment One. The balance of the reductions was from losses in economically sensitive revenues such as the sales tax and unavoidable expenditure growth such as fuel. Given the declines in housing prices, it is likely that County and municipal property tax revenues will be lower in FY 2010 as well.

For FY 2009, the Countywide non-voted (operating and capital, not including debt) millage rate of 4.8889 is unchanged from the prior year. The average homestead property owner should experience a \$96 decrease in Countywide non-voted taxes levied by the County Commission. Owners of non-homesteaded properties would pay higher taxes only if the taxable value of their property increased.

Amendment One approved overwhelmingly by Florida voters in January 2008: doubles the homestead exemption from \$25,000 to \$50,000; grants portability to owners of homesteaded properties; provides businesses with a \$25,000 break on tangible personal property; preserves the 3% Save Our Homes cap on annual increases in property values; and introduces a 10% assessment cap on non-homesteaded properties.

## Looking Ahead

Given the current uncertainties in the U.S. financial markets and weakness in the economy, demonstrated by the data and information presented in this *State of the Broward Economy*, there is little consensus as to when the turning point to recovery will occur. The following is a shortlist of conditions that will impact the future outlook.

Instability in the financial markets has been largely the result of the highs and lows in the housing market. While most forecasters agree that the large inventory of homes for sale, especially foreclosures, must work through the market before prices moderate and the housing market resumes pre-boom levels of sales, the timing is questionable.

Improvement in employment typically lags other sectors in that employers generally wait until demand for products and services continues for several months before adding employees.

The outcome of the election will play a role in the economic forecast not because of any specific action on the part of the candidates that will occur by the end of the year but because of expectations regarding the impacts of their respective economic policy proposals.

Currently, oil prices seem to be retreating as global demand weakens.

The automobile industry is making concerted efforts to produce hybrids and vehicles that can be powered on fuels other than gasoline. The push for "green" and concerns regarding climate control are well-timed for reducing the consumption of oil-based fuels.

An important factor in any forecast that is nearly impossible to project is expectations. Individuals and households, employees and employers, borrowers and lenders, homeowners and renters, and consumers and investors have expectations. Expectations determine what cars should be made, drive the prices of food and oil, impact the level of interest rates, and promote the rise and fall of stocks and bonds. With economic and financial information readily available, expectations are constantly changing. While expectations are ever-changing and nearly impossible to project, they will continue to contribute to volatility in the markets.



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