

Key Findings

National Impact

- Homeowners will see property values decline by \$1.2 trillion in 2008. The initial adjustment of overheated home prices to the combination of weaker market demand and large inventories of homes for sale would have reduced values by \$676 billion in 2008. Now, due to the foreclosure and mortgage crisis, home values will decline further, by an additional \$519 billion.
- Foreclosures in 2008 will increase by at least 1.4 million. These homes represent a market value of \$316 billion.
- U.S. GDP growth in 2008 will be \$166 billion lower as a result of the mortgage crisis—a growth rate of 1.9%, a full percentage point lower than would have been the case without the mortgage crisis. As a result, there will be 524,000 fewer jobs created across the country in 2008.
- New home building has already contracted sharply from its peak levels in 2005 and 2006, but there is no end yet in sight. In September this building activity sunk to its lowest level since 1993. Global Insight projects that declines will continue until the second quarter of 2008, when the annual rate housing starts will be just 800,000, a drop of almost 20% from current levels. Sales of existing homes will also continue to fall, by another 10% in 2008.
- Net spending from home equity credit decreased to 5.5% of disposable income in the second quarter of 2007, from 7.9% a year earlier, and is certain to fall further.
- In 2008, consumer spending will slip to 2.0% growth, well below a 3.1% gain in incomes. Auto sales, at 15.7 million units, almost a million fewer than in 2006, will have their worst year since 1998.
- Average payroll employment will slip to an average of 75,000 per month over the next six months. That is more than 100,000 fewer per month than the average gain in 2006.

Implications for States and Metro Areas

- We forecast that home price declines across the U.S. will average 7% in 2008, ranging as high as 16% in California.
- California will see a \$630.6 billion dollar decrease in property value in 2008, while Florida will see a \$7.9 billion dollar decrease.
- California will suffer the greatest potential losses in terms of tax revenues. Due to declining property values, property taxes in the state could decline by as much as \$2.96 billion.
- Local property tax growth generated from rising real estate values will cease, and indeed contract in many places.
- With the sharp contraction in home sales, state revenues from realty transfer fees will be diminished.
- 128 metros are pushed into anemic real GMP growth of less than 2% in 2008. Growth is cut by more than a third in 65 metros, and by more than a quarter in 143 metros.
- The largest metro, New York, loses \$10.4 billion in 2008 GMP, followed by Los Angeles (\$8.3 billion), Dallas (\$4.0 billion), Washington (\$4.0 billion), and Chicago (\$3.9 billion). The combined economic loss of the top ten exceeds \$45 billion.