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## **REGIONAL FINANCE REPORT**

**Fall 2012**



### **THE ECONOMIC IMPACT OF HURRICANE SANDY**



Hurricane Sandy has already prompted huge swaths of the East Coast to shut down - an area with a daily GDP of about \$10 billion, according to Ryan Sweet, a senior economist at Moody's Analytics. But ultimately, economists expect the impact of the storm to be temporary, noting that there are ways that natural disasters tend to boost spending and spur economic growth as well as hinder it.

The negative impact on economic growth "is due to the fact that no one is working and no one is buying anything, when they otherwise might be," says Justin Wolfers, an economist at the University of Michigan. "Work not done today is work that will be done next week, then this temporary blip will have no effect when we look across the quarter as a whole."

What's more, there are ways that the hurricane may boost economic growth. First, "there are all those batteries and loaves of bread purchased over the past two days might otherwise have not been purchased, and this increase in spending translates into higher GDP," Wolfers notes. The damage wrought by the hurricane "will yield even more spending re-paving roads, fixing downed electricity wires and rebuilding lost houses," he adds - reconstruction efforts that will be funded by insurance payments and outside federal aid.

Other economists concur that Sandy's negative and positive impacts on the economy are likely to cancel each other out. "Hurricane Sandy will have a noticeable but temporary impact on the U.S. economy," said Sweet. "While natural disasters take a large initial toll on the economy, they usually generate some extra activity afterward. We expect any lost output this week from Hurricane Sandy will be made up in subsequent weeks, minimizing the effect on fourth quarter GDP."

Source: Washington Post

### **NEW JERSEY HAS SECOND HIGHEST TAX BURDEN**

New Jersey residents paid a combined 12.4% of their income in state and local taxes in the fiscal year that ended June 30, 2010 - the second-highest tax burden in the country, trailing only New York, according to an annual report by the nonprofit Tax Foundation. New Jersey has been locked in the second position, behind New York and ahead of Connecticut, since 2005. The 12.4% rate was the highest in the state



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since 1977, when New Jersey ranked third in the country, according to the annual report.

While in-state government spending is the primary factor driving the tax burden, the report allocates taxes paid by each state's residents to other states' governments as part of the residents' state tax burdens. The report singles out New Jersey and Connecticut as states where residents pay a relatively high share of their income to other state governments, likely as a result of capital gains taxes. In addition, the state's tax burden is increased by New Jersey residents who pay income taxes to New York.

Foundation economist Scott Drenkard said while that's a factor in New Jersey, it is in-state taxes - like property and income taxes - that are driving its ranking. "The tax rates are just high in New Jersey, and that's why tax burdens are high," Drenkard said. He noted that the 2010 fiscal year included the last six months of the 10.75% upper-income tax rate under former Gov. Jon S. Corzine.

While New York's rate was 12.8% and Connecticut was 12.3%, other neighbors were lower, with Pennsylvania ranking 10th, at 10.2%, and Delaware ranking 31st at 9.2%. The lowest rates were paid by Alaska, 7%; South Dakota, 7.6%; and Tennessee, 7.7%. The national average state and local tax burden was 9.9%, tying with 2008 for the highest level since 1996. Drenkard noted that the national rate was affected by the recession.

New Jersey residents averaged \$4,853 in in-state taxes and \$1,836 in taxes paid to other states. The state's \$53,869 per-capita income was second in the country, behind Connecticut. It was the second time this month that New Jersey had the second-worst ranking in a Tax Foundation report. The state also scored poorly in a report of state business tax climates, based on the rates on July 1, 2012.

Source: NJ Biz

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## LOCAL HOUSING RECOVERY WILL DRAG THROUGH 2020



Though the pace of sales activity in New Jersey's residential real estate market has picked up dramatically over the past year, home prices across the state have barely nudged toward their pre-recession levels, leading one local industry watcher to forecast their recovery will drag through 2020. With the exception of Mercer and Cape May counties, average home prices throughout New Jersey dropped significantly between July 2008 and July 2012, according to a national report by Irvine, Calif.-based RealtyTrac.

But Jeffrey Otteau, president of Otteau Valuation Group, said the RealtyTrac data doesn't account for "the mix of house sales that has changed over time." According to Otteau, "When the bottom falls out of the market, it distorts those average prices." Otteau said he measures New Jersey counties' median home prices in order to get the real picture of the residential market. Analyzing that data, Otteau said median home prices in every county fell year-over-year through the second quarter of 2012, which caused the statewide median home price to drop from \$339,000 in 2005 to \$251,000 in 2011 - indicating homes throughout New Jersey were sold last year at prices nearly 75% of their 2005 levels.

But Otteau said the state's median home price ticked up by one-third of 1% in the third quarter of 2012, which he said finally signals the start of a long road of recovery. "Looking at the projections of continued job recovery in the private sector and rising personal income in New Jersey, coupled with buyers' confidence that home prices won't go any lower, I think we're going to see much of the pent-up demand come out and purchase homes," Otteau said. "If home prices continue to rise in small measures, I think by 2020, we can expect to get back to 2005 price levels."

Source: The Record

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## MID-ATLANTIC HOUSING SUFFERS AS DEFAULTS SOAR

The state of New Jersey now has the second-highest serious delinquency rate in the U.S. While shrinking nationwide, the pipeline of distressed real estate, or shadow inventory, is also growing in New York, Connecticut, Maine and Pennsylvania because of state laws that slow the foreclosure process.

New Jersey's judicial review of all foreclosures, which delays seizures to help borrowers, threatens to hold down prices for years as properties remain subject to repossession and then may be sold at a discount. That's buffeting a housing market already hurt by unemployment that's risen to a 35-year high.

The state passed Nevada in the second quarter in the rate of homeowners with seriously delinquent loans - those 90 days late or in foreclosure - according to the Mortgage Bankers Association. Only Florida had a higher rate of serious delinquencies, and that fell 1.2 percentage points from a year earlier to 17.5% of mortgages. In comparison, New Jersey's rose 1.3 percentage points to 12.7%. While home values increased in July from a year earlier in 42 states, New Jersey prices fell 0.8%, according to CoreLogic, a real estate services company based in California.



"Housing is an albatross around New Jersey's economy, which is one of the weakest in the country," Mark

Zandi, chief economist at Moody's Analytics Inc. Standard & Poor's revised its outlook on New Jersey today to negative from stable, citing the state's optimistic revenue assumptions and longer-term spending pressures, including pension obligations and Medicaid funding.

Serious delinquencies as of June 30 were up 6% from a year earlier in New York, Connecticut and Maryland, and up 5% in Pennsylvania and the District of Columbia, the Mortgage Bankers said on Aug. 9. The rate fell by 27% in Arizona, 24% in California and 14% in Nevada, among states worst hit by the housing crisis.

Source: Bloomberg.com

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