



## **Issues Converged to Batter U.S. Economy in 2008**

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Several major factors compounded to batter the U.S. economy during 2008 - a historical election year.

Lawrence White, economics professor at New York University's Stern School of Business, said substantial decreases in home prices "then had substantial consequences for mortgage markets and mortgage-related securities."

That triggered the crisis in the financial sector, helping to deepen the national economic downturn.

Here's a look back at the economic year that was.

### Housing market

Nationwide, home prices continued to plunge for the second year in a row.

The housing market on Long Island hasn't been as hard-hit as other parts of the country that saw huge building booms.

Gary Huth, principal economist for Long Island for the state Department of Labor, said, "We didn't have as much of an overbuilt condition." The median home sale price on Long Island fell 9.9 percent to \$423,600 in the third quarter.

Lake Success mortgage broker Don Romano said, "What we've seen locally is a relatively small drop in values and a substantial drop in activity."

Foreclosures, meanwhile, have spread across Long Island. This year, the number of communities with more than 20 lis pendens, the first step in the foreclosure process, climbed to 20 from 1 in 2006. From January through October, more than 12,000 lis pendens were filed against Long Island homeowners.

### Fiscal meltdown, credit freeze

Bear Stearns. AIG. Lehman Brothers. Merrill Lynch.

Headlines of government bailouts and the failures or mergers of banks - as well as insurance giant American International Group Inc. - reached a frenzied peak in September as the financial industry melted down and credits markets seized up.

The national credit crisis froze lending at many major banks and lending standards tightened. Repeated rate cuts mean mortgages and auto rates are low, but a \$700-billion bailout effort by the federal government has not yet led to banks making significant numbers of loans again.

Self-employed workers and others who require more documentation to prove their incomes found it more difficult to get a loan.

And some Long Island businesses and would-be home and car buyers started feeling the pinch.

But the crisis crippling bank giants presented opportunities for local smaller community banks who had managed to avoid exposure to troubled mortgage-related investments and could continue to lend. "They're busier," said Neil Seiden, a financial consultant in Port Washington whose firm, Asset Enhancement Solutions Llc, assists companies in getting financing.

Seiden said a company that would have faced a challenge obtaining a loan before the credit crisis would pay even more to borrow in the current environment.

Recession revealed

At the beginning of this month, what many believed became official: the nation was in a recession, and has been since December 2007.

The National Bureau of Economic Research, the arbiter of business cycles, based its determination on a widespread decline in economic activity lasting more than a few months.

And while Long Island's employment picture had fared better than the nation over all, the downturn caught up with the downstate region and the state as a whole by October, according to Moody's Economy.com.

The West Chester, Pa., firm, which as of September had classified the Island's economy as being "at risk" of a recession, said employment and industrial production then deteriorated.

The local economy lost 7,000 private-sector jobs in the 12 months ended in November, according to data from the state labor department.

The regional unemployment rate reached 5.2 percent in November, the highest rate for that month since 1993. Nationally, the jobless rate hit 6.7 percent in November, a 15-year high.

Retail closings

Some major retailers did not make it through the year.

A host of national retailers, including Port Washington-based Steve & Barry's, filed for bankruptcy protection in 2008.

The retail economy continued to head south as consumers held on tightly to their pocketbooks. Companies hired fewer seasonal workers during this past holiday season, which was expected to be one of the bleakest in decades.

Discount clothing chain Steve & Barry's emerged from bankruptcy in August only to announce it was going out of business less than three months later. The company, with 170 stores nationwide - including five on Long Island, and more than 5,000 employees, plans to liquidate by early next year.

Other retailers with locations on Long Island have filed for Chapter 11:

West Hempstead-based National Wholesale Liquidators began going-out-of-business sales at all six of its Long Island stores this month.

Clifton, N.J.-based Linens 'n Things, with six Long Island locations, is liquidating all of its stores.

Richmond, Va.-based Circuit City, which is reorganizing, is shuttering four of its Long Island stores.

Huth said the impact of store closings goes beyond on laid-off employees and lower sales tax receipts - vacant buildings may be difficult to fill. "Who's going to be able to get financing to take over that space?" he asked.

Stock market woes

The volatile stock market in 2008 was enough to give observers whiplash and investors heartburn, to say the least.

Take the first week of November, for example. The Dow Jones industrial average enjoyed its biggest Election Day ever, gaining 3.28 percent. Then, over the following two days, it tumbled 9.9 percent, its worst two-day percentage decline since the October 1987 crash.

So far, the low point of the year was Nov. 20, when the Dow fell to 7,552.29, the lowest close since March 2003. As of October, the Congressional Budget Office estimated that Americans lost \$2 trillion over the previous 15 months.

Alan Loewenstein, portfolio manager at American Fund Advisors in Great Neck, said many investors felt stung when they opened their statements. "If you don't need the money right now," he said, "psychologically you are hurt by looking at it."

For retirees or students relying on college savings accounts, he said, "it's a big negative because you were planning on that money for retirement or education."

Loewenstein added that Bernard Madoff's alleged \$50-billion Ponzi scheme has had a local impact.

He said, "The whole debacle with Madoff has definitely hurt the Long Island economy and the various charities and universities that were invested in his funds."