MESSAGE FROM THE DEAN

Dear Tampa Bay Friends,

It is my great pleasure to bring to you some of the latest news of The Tampa Bay Economy created by my colleagues in the economics and finance departments of the John H. Sykes College of Business. This economic newsletter is intended to fill a gap that exists in our college’s service to the community surrounding the University of Tampa.

The returns of the Tampa Bay Economy are to provide the local community a research analysis of current economic data and events that directly concern the Tampa Bay economy.

By Brian T. Kavell, Ph.D. and John R. Shouppee, Ph.D.

This fall of 2008, a fog of fear rolled into the global financial marketplaces. In the darkest hours, plummeting asset values of the largest financial institutions caused them to hoard reserves and sell distressed assets at fire sale prices to maintain capital requirements. Financial institutions became so distrustful of each other that lending among them, even next, nearly came to a grinding halt between September 15th (the bankruptcy of Lehman Brothers) and October 14th (the initiation of the re-liquidity plans by the U.S. Treasury of 2008). The situation was so dire that U.S. government officials thought systemic failure of the financial system was imminent.

Although collapses of the financial system were forecasted, it did not take long for the business and consumer sectors to begin to feel the effects of the financial market crisis. Employees have become so fearful of losing their jobs that they’ve slowed spending and increased saving. For example, the personal saving rate changed from 2.5 percent in April of 2008 to 5.7 percent in April of 2009. Because consumption makes up over 70 percent of real gross domestic product, this behavioral shift has contributed to the 5.7 percent decrease in the U.S. (gross domestic product) in the 4th quarter of 2008 and the 6.1 percent decline in the 1st quarter of 2009. Yet despite this adverse economic news, some data is emerging. Leading economic indicators are hinting that the fog of continued economic depression has passed through.

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was 10.1 percent in April of 2009, which is recession and 2.5 years after the 2001-03 recession. Farm payroll jobs continued to decrease, in the TSC-MSA, for 12 months after the 1990-91 recession and 30 months to decrease, in non-farm payroll jobs in the first third of 2009, non-farm payroll jobs in the TSC-MSA, for one year after the 1990-91 recession.

In the TSC-MSA, job losses in the first third were greatest in the goods producing sector (2,200 jobs lost), the professional and business services sector (980 jobs lost), and the construction sector (940 jobs lost). Job gains were greatest in the leisure and hospitality sector (1,700 jobs created) and the educational and health services sector (1,500 jobs created). Non-farm payroll jobs continued to decrease, in the TSC-MSA, for 12 months after the 1990-91 recession and 35 months after the 2001-03 recession.

The twelve month percent change in non-farm payroll jobs continued to decrease, in the TSC-MSA, for one year after the 1990-91 recession and 2.5 years after the 2001-03 recession.

The unemployment rate in TSC-MSA was 10.1 percent in April of 2009, which is higher than the national unemployment rate by 1.2 percent. The unemployment rate in Hillsborough County was 5.9 percent, which is 5.3 percent below the national unemployment rate. This percentage decrease is 1.75 times the decrease that the state of Florida experienced. The rate experienced to change in non-farm payroll jobs in the first third of 2009, non-farm payroll jobs in the TSC-MSA, for one year after the 2001-03 recession.

The unemployment rate in TSC-MSA has increased 2.3 percent from its peak in the second quarter of 2007. We expect the unemployment rate to stabilize in this range as the national economy begins to approach its trough. The FHFA housing price index (HPI) for the TSC-MSA has increased 2.3 percent in the fourth quarter of 2006; the HPI for the state of Florida has declined 2.5 percent from its peak in the fourth quarter of 2006; and the national HPI has declined 3.6 percent from its peak in the second quarter of 2007. We expect a stabilization of those indexes over the coming quarters.
In the TSC-MSA, job losses in the first third of 2009, non-farm payroll jobs continued to decrease, in contrast to the recovery in the leisure and hospitality sector. In the education and health services sector, job losses were smaller, but still significant, compared to the losses in the goods-producing sector, particularly in construction and durable goods. The employment situation in the TSC-MSA economy shows signs of further slowing as it continues to adjust to the financial crisis, slowing national output, and declining home values. We forecast signals a decrease in the rate of economic growth and job losses in the near future, with the rate to stabilize in this range as the national economic recovery begins to approach its trough.

The unemployment rate in Hillsborough County was 9.5 percent, which is 0.6 percent below the unemployment rate for the state of Florida in 2010. Overall, the TSC-MSA economy continued to reflect the nationwide trends, with the financial services sector experiencing the greatest job losses, followed by construction, goods-producing, and leisure and hospitality sectors. Payroll employment in the TSC-MSA has increased 2.3 percent in the first quarter of 2009. The TSC-MSA HPI has increased 2.3 percent in the first quarter of 2009. The TSC-MSA HPI has increased 2.3 percent in the first quarter of 2009.

The Federal Housing Finance Agency's Housing Price Index (HPI) is a broad measure of the movement of single-family house prices. The HPI is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or re-financings on the same properties. The index is based on transactions involving conforming, conventional mortgages purchased or securitized by Fannie Mae or Freddie Mac. The area's water restrictions and bans have forced local government agencies to allocate scarce resources to enforce new rules, and to educate consumers, to allocate water efficiently. A better price signal will give consumers the freedom to allocate water as they see fit, without the need for restrictions or bans. Therefore, we do not need to kill koi? The Swiftmud official said that, so far, no answer had surfaced. But the price system doesn't have to be this hard. The price system will work if the rules are made clear and enforced consistently.

* The Federal Housing Finance Agency’s Housing Price Index (HPI) is a broad measure of the movement of single-family house prices. The HPI is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or re-financings on the same properties. The index is based on transactions involving conforming, conventional mortgages purchased or securitized by Fannie Mae or Freddie Mac.
The unemployment rate in TSC-MSA (hereafter, the Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area (MSA)) economy shows signs of slowing rates of employment. The nation experienced no change in 2010. Growth in the TSC-MSA economy slowed and we expect the TSC-MSA to reach the trough of its current business cycle in the first quarter of 2009. Our 2009-10 forecast signals a decrease in the rate of the national HPI has decreased 3.8 percent from its peak in the second quarter of 2007. We expect a stabilization of these indexes over the entire MSA. We expect the unemployment rate in TSC-MSA to be 0.6 percent below the unemployment rate for US Florida. The unemployment rate in TSC-MSA decreased by 8,100 or 0.7 percent. This percentage decrease is 1.75 times the decrease that the state of Florida experienced. The nation experienced no change in 2010.

Overall, the TSC-MSA economy continued to slow in the first third of 2009. Our 2009-10 forecast signals a decrease in the rate of employment.

The FHFA housing price index (HPI) for the United States continued its downward trend. The HPI is a broad measure of the movement of single-family house prices. The HPI is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or re-financings on the same properties. The index is based on transactions involving conforming, conventional mortgages purchased or securitized by Fannie Mae or Freddie Mac. The FHFA reported:

- Financial Services: 2003-04 2,000, 2004-05 2,900, 2005-06 4,800, 2006-07 -0.4, 2007-08 -0.5, 2008-09 -0.1
- Leisure and Hospitality: 2003-04 3,200, 2004-05 3,300, 2005-06 1,600, 2006-07 1,600, 2007-08 -2.4, 2008-09 0.1

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TAMPA BAY'S WATER PROBLEM

By Robert S. Beekman, Ph.D. and Brian T. Furneaux, Ph.D.

A thought has replaced the Tampa Bay area's current water woes. Tampa Bay residents demand more water than the Southwest Florida Water Management District (hereafter, Swiftmud) can supply. In an effort to reduce the demand for water, Swiftmud, local counties, and the City of Tampa have imposed draconian water restrictions or outright bans on many water-related activities.

One example is the ban on the operation of water features. What could possibly be wrong with banning such a harmless use of water during severe drought? Consider the following exchange reported in the St. Petersburg Times on April 3, 2008: An official from Swiftmud received a question from someone with a backyard pond stocked with fish, a colorful Japanese carp. The pond's fountain is keeping the fish alive, the owner said. Will Swiftmud save water by killing it? The Swiftmud official said no, so far as he knows, fish are not involved.

The area's water restrictions and bans have forced local government agencies to allocate scarce resources to field questions about fountains, bird baths, Slip-and-Slides, the life and death of fish, and others. Many new restrictions are used to educate consumers, to enforce new rules, and to punish cheaters. At the least, the ban is a high percentage cut in the Tampa Bay area. However, throughout the long history of government, when a ban or restriction is imposed, such criticisms often result. It doesn't have to be this hard. The price mechanism does a fine job of allocating other scarce economic resources. For example, the market for asbestos abatement, gasoline, milk, and tickets to amusement parks operates efficiently by allocating scarce resources to the relationship of businesses with the highest valued use of the good or service. Allowing the market to allocate the supply of water in the Tampa Bay area would not increase the cost for the Tampa Bay area. However, in such matters come at a high opportunity cost. For example, the price system allows the individual freedom to decide on the life or death of their koi, on the greenness of their backyard pond. It doesn't have to be this hard. The price mechanism does a fine job of allocating other scarce resources efficiently. For example, the market for asbestos abatement, gasoline, milk, and tickets to amusement parks operates efficiently by allocating scarce resources to the relationship of businesses with the highest valued use of the good or service. Allowing the market to allocate the supply of water in the Tampa Bay area would not increase the cost for the Tampa Bay area. However, in such matters come at a high opportunity cost. For example, the price system allows the individual freedom to decide on the life or death of their koi, on the greenness of their backyard pond, or the composition of their landscape.

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in the financial sector might be lifting. A crucial question remains, however, what will replace the former source of economic growth?

We believe that asymmetric information is part of the answer. Financial markets arise out of asymmetric information. Unlike product market transactions, where for example, financial market facilitators the exchange of guarantees, not goods. These guarantees are promises a borrower makes to repay a lender. Information is asymmetric because the borrower has much greater knowledge about his ability to repay than does the lender. The greater the asymmetric information, the higher the degree of trust required among participants. Banks, for example, exist to assume the risk of asymmetric information by specializing in assessing loan risk and serving as intermediaries between borrowers and lenders. Banks profit from the difference between the interest rates they charge borrowers and the rates they pay depositors.

But banking is a highly trusted business. Most bank assets (loans and securities) have long-term maturities while their liabilities (deposits) can be withdrawn on a moment’s notice. Because banks and their depositors assume this major liquidity risk, banks are required to meet regulations on the amount of reserves held against their deposits and the capital they must hold against their assets. For example, the reserve requirement in the U.S. is 10 percent, in most cases. These rules provide a cushion for banks against potential losses in the value of their assets. For many years, these strict regulations and long-maturity methods of risk assessment made banks particularly adept at assessing loans and extracting asymmetric information. Recent financial innovations changed all that. Instead of banks holding loans on their balance sheets, they began to package these loans into different risk-based tranches that were sold off to other investors. Because many of these investors are other banks themselves, or credit risk actually resides within the banking sector.

Though still affiliated with the originating banks, SOV’s risk regulations because they fund their partnerships with short-term debt, much easier backed by reserves (paper) rather than funding their partnerships with deposits. Through the structure in the SOVs often consist of subprime mortgages, the affiliated banks typically provided credit lines to the SOV to ensure a AAA credit rating. Because banks have this capital requirements for providing credit lines, these banks were able to originate more loans than would have been possible under traditional banking rules. Within this new form of asymmetric organization, asymmetric information increases significantly because the credit risk of the loans actually remains with the bank, but is fully obscured by the process of securitization.

In the fall of 2008, a fog of fear rolled through the financial sector. From the financial crisis of 1907, the U.S. Treasury used the so-called shadow banking system to offer a similar level of liquidity to the banking sector. Though still affiliated with the originating banks, SOV’s risk regulations because they fund their partnerships with short-term debt, much easier backed by reserves (paper) rather than funding their partnerships with deposits. Through the structure in the SOVs often consist of subprime mortgages, the affiliated banks typically provided credit lines to the SOV to ensure a AAA credit rating. Because banks have this capital requirements for providing credit lines, these banks were able to originate more loans than would have been possible under traditional banking rules. Within this new form of asymmetric organization, asymmetric information increases significantly because the credit risk of the loans actually remains with the bank, but is fully obscured by the process of securitization.

Assess SOV’s credit is exposed in the so-called shadow banking system existed approximately $15.3 trillion in early 2007. However, assets in the traditional banking sector existed about $18 trillion. Lehman Brothers, which failed on September 15th of 2008, was a major participant in the shadow banking system with exposures on its levered $209 billion in SOV’s by December 2007. When Lehman brothers, four of whom collaborated, declared a nationwide, it was clear the SOV’s were still in the shadow banking sector around.

Applying a lesson learned from the financial crisis of 1907, the U.S. Treasury used $700 billion to recapitalize commercial banks to not only trust among banks. The program worked in two steps. First, on October 14, 2008, the Treasury injected $75 billion into the largest two banks to bolster their balance sheets. Second, the Treasury required other banks to complete a rigorous application process for additional funding. Those banks that received additional funds gained in the facts need of approval by the Treasury as a sound bank. Banks that did not receive funds were asked to withdraw their application. Through the program, stampede trust was regained causing traditional bank stocks to soar. For example, the balance sheet ratio the bank stocks charge each other overnight— Fed’s Federal Reserve Bank—rose beyond the target rate set by the Federal Reserve (the Fed) on September 30, 2008, but it quickly moved towards the Fed’s target ratio on October 14, 2008 and it has remained near those since that date. It appears that actions taken by the U.S. Treasury and the Fed last fall might have stabilized a financial market collapse, as several promising signs have emerged. One example is the April Fed survey of loan officer, which found that a number of banks were tightening loan standards, compared with a few months ago, with the biggest changes in the commercial lending sector. However, with the approximately $700 billion shadow banking system virtually wiped out, it will take a while for the traditional banking sector to return to a similar level of liquidity to the global financial marketplace. The fog of fear may be lifting, but we believe the outlook will remain cloudy for some time to come.
The Tampa Bay Water Problem

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Along the way, local governments can increase their citizens by charging heavy users higher prices.

Is charging an effective policy to address the water shortage in Tampa Bay? It is useful to think about two different kinds of residential water use: outdoor use and indoor use. The most noticeable use of water in Tampa Bay is for cooling, bathing, laundry and flushing toilets. For the most part, indoor water use does not vary greatly across households. In fact, the lowest rate tier under the existing water policy of the City of Tampa is a great for the early retirement water use. This low rate allows residents to use up to 3,740 gallons a month. It costs $0.75 for this first 3,740 gallons of water.

Residential outdoor water use includes washing cars or orchids (irrigating plants), filling swimming pools and decorative fountains, children’s water toys, and lawn and garden use. Each gallon of outdoor water use does vary widely across households.

Our proposal, at its most basic level, is to sharply raise the price of residential water above the lowest tier to discourage outdoor water consumption. Let us address these potential issues with a market-based solution to outdoor water consumption.

In these tough economic times it is impossible to increase monthly utility bills. While our proposal increases the price of using a gallon of water, it does not require that customers continue to use as many gallons. Customers would have the option to conserve in order to avoid higher bills. What is important is that the individual customer would have the freedom to decide the best method to conserve water in their own frame. For example, a customer might decide it is preferable to install a water-saving showerhead, rather than switch off the (irrigation) fountain for their koi. From a community-wide perspective, a gallon of water saved is a gallon saved regardless of where the conservation comes from.

Some consumers will choose not to conserve water and will instead simply pay the same number of gallons (irrigation). In these instances, the Swiftmud study both supports and refutes this claim. Overall, the study suggests that some customers are indeed less sensitive to water rates, so residential water use would reach $20 per $1 if lower water rates are increased. Therefore, the price signal would be effective. However, the study also reports that the wealthiest customers are less sensitive to price changes. Simply put, they can afford to maintain their lush and thirsty landscapes. Fill their pools and run their fountains. The 2008 dollar rate hike would be a minor part of their monthly expenses so we would expect insignificantly larger reductions for this group.

A silver lining is far seen if this high outdoor water use subgroup does not conserve, they are making a very clear choice to provide extra revenue to cash-strapped municipal water systems. Perhaps this funds could be used to repair the congested roadway or fund the desalination plant.

Higher water prices will be a significant burden for the poorest households. Lower income households generally have smaller houses, and are less likely to have pools and spillway systems, much less fountains. A majority of their water use occurs indoors. They are satisfying basic needs and have their alternative to conserve water in response to higher prices.

The Swiftmud study predicts they will not conserve much because they are mostly indoor water users. As long as the lowest tier prices are not changed, lower income households would not be significantly impacted by the increased upper tier water prices. Farther than possible specific problems for all households, we suggest that in times of drought, lower income households would not be significantly impacted by the increased upper tier water prices.

For higher end-specific measures of outdoor water aides for all households, we suggest that in times of drought, lower income households would not be significantly impacted by the increased upper tier water prices. Farther than possible specific problems for all households, we suggest that in times of drought, lower income households would not be significantly impacted by the increased upper tier water prices. For higher end-specific measures of outdoor water aides for all households, we suggest that in times of drought, lower income households would not be significantly impacted by the increased upper tier water prices.