



The Economy

## Where Recession Will Hit Hardest

Joshua Zumbrun, 10.15.08, 1:45 PM ET

WASHINGTON, D.C. - The economy faces a tough recession, but it won't hit equally everywhere. While some places will get pummeled, others will be far less scathed.

California, Florida and Nevada, already spiraling into economic crisis, will get hit hardest in the coming months, according to our analysis. The reason: housing, which created their recent economic booms, and the accompanying bust. With the highest foreclosure rates in the nation, cities in these areas are dragging on all other parts of the economy. Nine of our 10 riskiest cities are in these three states.

### In Pictures: The Worst And Best Cities To Ride Out The Recession

More than half the people in San Diego, Bakersfield and Riverside, three California cities which made our list, owe more on their homes than their homes are worth. In Riverside, the situation was especially dire--the median home buyer in the last five years is \$33,000 in the hole, estimates Zillow, a real estate service that tracks ownership data. Zillow estimates that 40% of home sales in cities like Las Vegas, Fresno and Bakersfield are foreclosure sales. These distressed sales flood real estate markets, making it even more difficult for normal home sales.

That stresses the economy of the entire state. Data from the Bureau of Labor Statistics (BLS) shows soaring unemployment in these bubble cities. Unemployment and underwater homes are a toxic combination. Someone who can hold on to their job and make payments on an underwater home will eventually rebuild that equity. But without that job? Rising unemployment is not only risky for housing markets, it also cuts spending at businesses, decreases tax revenue and increases public spending, forming a dangerous downward economic spiral.

In the most recent BLS data, for example, unemployment in Cape Coral-Fort Myers, Fla., jumped to 9% in August from only 5.3% a year ago. In Miami, Fla., unemployment jumped to 6.4% from 4.2%. That's only slightly above the national average for unemployment--6.1%--but for a city the size of Miami it translates to more than 64,000 newly unemployed. That's a total of 184,000 people on the unemployment rolls in Miami alone.

There are cities better poised to weather the crisis. Unemployment is on the rise almost everywhere, but in northwest cities like Portland and Seattle, northeast cities like Boston and Baltimore or energy and agriculture cities like Oklahoma City, Tulsa and Austin, it remains low.

Homeowners in these areas are, not surprisingly, also not drowning in debt. In Boston, the median homeowner has \$60,000 extra in his home. In Seattle, it's about \$80,000. In Honolulu, it's \$120,000. Foreclosures aren't flooding markets, meaning homeowners can sell at current prices if they get in trouble. In Seattle, Oklahoma City and Baltimore, fewer than 6% of home sales are foreclosures, some of the lowest rates in the nation.

Still, there are risks for even the best-cushioned regions. Falling commodity prices could undo the prosperity that's been enjoyed by natural-gas-rich Oklahoma in recent years. A recession will curtail vacations to Hawaii. And even in the worst-hit cities, there's hope. Home prices have fallen 30% to 40% in some of the most troubled areas. They could be closest to finding the bottom.

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