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ECONOMY Washington's debt crisis: the elephant in the room for South Florida's economy Like

Higher mortgage rates, costlier loans for governments and general chaos could come to South Florida from Washington's debt woes. But watch for Brazilian condo buyers, too.

BY DOUGLAS HANKS DHANKS@MIAMIHERALD.COM As Barry Johnson mingled with business leaders before a session on local finances Tuesday, the president of the Greater Miami Chamber of Commerce kept colliding with what he called "the elephant in the room": fears that Washington might stop paying its bills.

"There was a certain amount of anxiety as people see the talks continue and both sides digging in," said Johnson, who joined about 40 business leaders at County Hall for a meeting with Miami-Dade Mayor Carlos Gimenez. "It's the fear of the unknown — what does it mean if in fact we can't get a deal this week."

That's the question gripping Washington, but also looming over South Florida's economy as business owners, analysts and elected leaders ponder two possibilities that once seemed unthinkable.

Would Washington be forced to stop writing checks if Republicans and Democrats can't agree on how to increase the Treasury's borrowing authority? Even if a deal is reached, will the impasse and lack of a long-term solution prompt rating agencies to downgrade U.S. debt for the first time in history?

Either scenario would bring a shock to South Florida's brittle economy, though the exact consequences aren't clear. But the possibilities centered around four major themes:

HIGHER BORROWING COSTS: Rates for home mortgages tend to rise and fall with the interest Washington pays on notes called Treasury bills or securities. If Washington sees its debt downgraded, it could be forced to pay more interest in order to sell its Treasury notes, which in turn would ratchet up the cost of consumer borrowing.

And it's not just mortgages. If Washington is forced to pay a higher interest rate on its debt, analysts expect banks and credit card companies to charge more to lend, too.

"Most businesses have enjoyed an unprecedented period of low interest rates. They're counting on low interest rates to weather the harsh environment," said Manuel Lasaga, a banking consultant in Miami and president of Strat Info. "With a downgrade, investors would begin to sell off U.S. securities and that would push interest rates fairly high. This would be a rude awakening."

DOWNGRADES FOR LOCAL GOVERNMENTS: Moody's this week will decide whether Broward County's top-notch debt rating, known as "Aaa," is at risk over the Washington debt crisis.

Since it's unusual for local governments to enjoy better debt ratings than the national government, Moody's is reviewing all AAA-rated debt in the United States to see who is most at risk of a downgrade if the United States loses its coveted Aaa rating, said Moody's spokesman David Jacobson.

There are nearly 500 local governments with AAA ratings, and Moody's would probably downgrade those with heavy reliance on federal spending, particularly in Medicaid, Jacobson said. A downgrade could make it more expensive for Broward to borrow money on Wall Street, since investors would probably demand a higher return from bonds deemed riskier by the lower rating.

"The immediate impact would be negligible [since] we're not currently in the market, trying to sell any bonds," said county CFO Dinah Lewis. "But certainly a downgrade is something we would pay attention to."

Miami and Miami-Dade do not have AAA ratings on their debt, and so are not part of Moody's first wave of rating reviews, Jacobson said. But if the U.S. loses its AAA ratings, all debt would eventually get a second look.

"Credits across the spectrum are going to be affected to some degree if the United States gets knocked off triple-A," he said.

BOOST TO FOREIGN CURRENCIES: Miami usually enjoys a certain hedge against bad news in the U.S. economy, since it has so much exposure to foreign dollars. And should the United States find its debt knocked down to second-tier status, investors will stock up on strong foreign currencies, including the Brazilian real, said William Nobrega, managing partner of the Conrad Group in Miami. That will be prompted in part by a stock sell-off on Wall Street, he said.

The real is "perceived as a currency of safety," said Nobrega, who advises investment funds, mainly in Asia. "You will definitely see it rise if we're downgraded."

That would give Brazilians more purchasing power, which would probably prompt more of them to invest in South Florida.

Ron Shuffield, head of the Esslinger-Wooten-Maxwell real estate brokerage in Miami, predicted chaos on Wall Street would send more foreign dollars into Miami real estate, similar to what happened after technology stocks crashed a decade ago.

"For foreign investors, they're going to continue to see the U.S. as the most stable market in the world," he said. "While it won't be comforting to see that the government is defaulting, they would still see this as a far safer place to put their money than somewhere else."

AN UNSETTLED ECONOMY: As the announced Aug. 2 deadline nears for implementing a debt deal, anxiety over the lack of one could take on its own momentum.

Edwin Rivera, co-founder of the digital branding firm Credelis, expected to see national brands sign-on this month for a new line of clothing that interacts with electronic advertising. But the deals were delayed in recent weeks, and Rivera suspects the debt impasse is at work.

"You're seeing people getting very conservative, even brands that have a lot of money, brands that were solid," he said.

At BrandsMart, sales are up this summer and CEO Michael Perlman said expansion plans are underway. He sees the housing market as a much bigger hurdle than the debt talks in Washington. But at ME Productions, an event planning firm in Pembroke Park, the sales team is bracing for a drop in corporate bookings should Congress and the White House not reach a deal soon.

"We haven't felt it, but we will," CEO Hal Etkin said. Corporate clients "do not like uncertainty."

Miami Herald staff writers Bridget Carey, Toluse Olorunnipa, Hannah Sampson and Elaine Walker contributed to this report.

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mkw408 I don't see these wars being stopped. Half of our international bases need to be closed and the wars need to be ended now. 07/27/2011 07:54 PM in reply to Nissey43 Report Abuse Like Reply

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