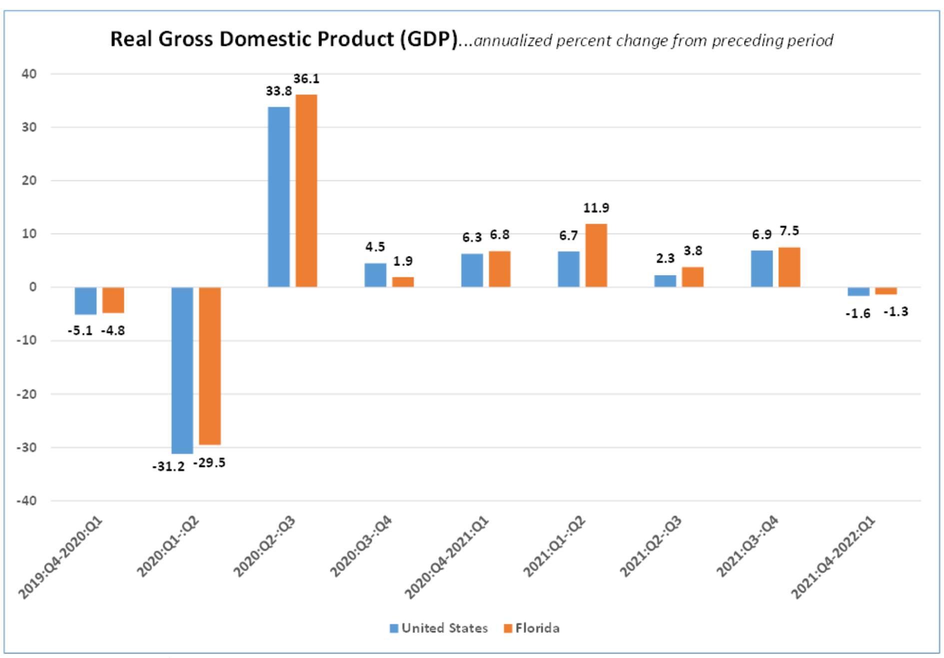
Florida Economic Estimating Conference
July 22, 2022

The Florida Economic Estimating Conference met on July 22, 2022, to adopt a new forecast for the state's economy. Most economic variables performed slightly better than or as well as expected in Fiscal Year 2021-22; however, many of the growth rates for the short term have been lowered, especially in Fiscal Year 2022-23. A weaker national economic outlook with strong headwinds from inflation, near-record energy prices, and labor shortages colors the new forecast; however, the long-term growth path from the pre-pandemic conference held in December 2019 is generally maintained, and in some cases exceeded.

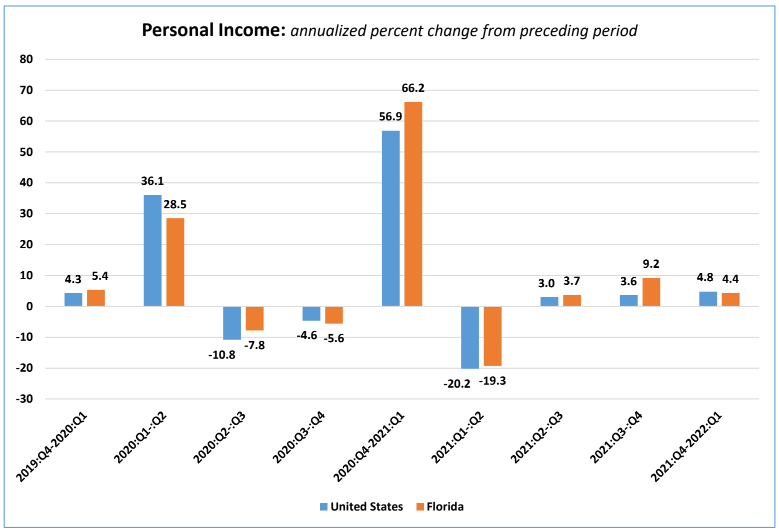
Economic disruption is still evident, with many ongoing challenges. These include the end of significant federal monetary and fiscal stimulus provided during the early years of the pandemic; the rapid drawdown of savings over the past year; the elevated use of credit over the past few months; the continued normalization of spending on services and away from taxable goods; and, strong inflationary pressures on households. How these economic challenges ultimately transition to a normal state will be pivotal to the actual performance of Florida's economy over the next few years. In tandem with the release of the new forecast, the Conference highlighted the substantial risk arising from the continued inflationary pressures on its outlook for consumer spending.

One measure for assessing the economic health of states is the year-to-year change in real Gross Domestic Product (that is, all goods and services produced or exchanged within a state). According to the latest revised data, Florida's quarterly GDP movements have generally mirrored the nation as a whole since the beginning of the pandemic. Buffeted by a series of economic shocks, the state's GDP slumped -0.5 percent in Fiscal Year 2019-20, grew 2.5 percent in Fiscal Year 2020-21, and expanded at more than double that rate (5.2 percent) in Fiscal Year 2021-22. The Conference anticipates that the state's economy will expand only 1.0 percent this fiscal year as economic imbalances weigh down the economy, but beginning next year (Fiscal Year 2023-24), it will grow at a more characteristic 2.0 percent per year.

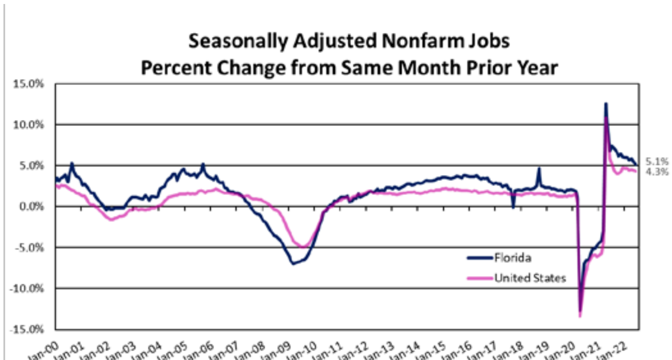


Source: US Bureau of Economic Analysis.

Normally, personal income growth is another important gauge of the state's economic health; however, its changes have been in stark contrast to GDP, driven largely by the ebb and flow of federal dollars into Florida households and businesses. For example, in the first quarter of the 2021 calendar year, Florida's personal income growth shot up 66.2 percent on an annualized basis, largely due to two different federal stimulus and relief programs converging in the quarter. As the federal support measures began to fade, the state's personal income plummeted to an annualized -19.3 percent in the second quarter of the 2021 calendar year to produce a final growth rate for the 2020-21 fiscal year of 7.9 percent, the highest rate since 2015. Fiscal Year 2021-22 saw moderately lower growth of 5.5 percent as the benefit from workers returning to their jobs or leveraging the tight labor market into better paying opportunities competed with the end of federal relief measures. The Conference expects growth of 6.4 percent in Fiscal Year 2022-23, largely on the continuing strength of salary growth. Thereafter, annual growth rates are expected to remain solidly at or above 4.0 percent.



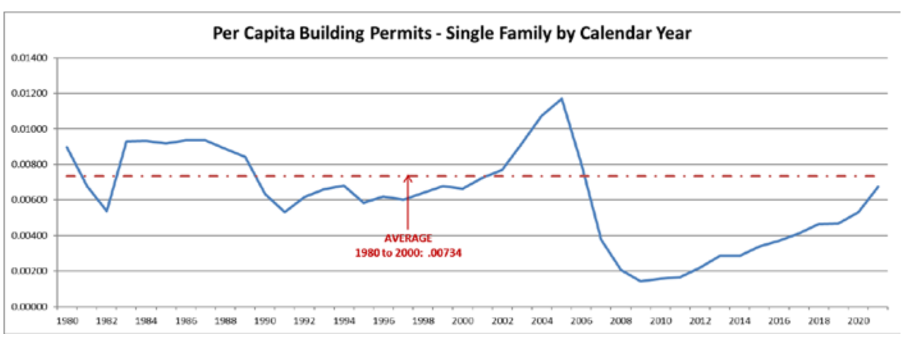
The key measures of employment are job growth and the unemployment rate. Along with the nation and the world, the job market in Florida experienced an unprecedented contraction in the second quarter of 2020 when a large part of the Florida economy either shut down or sent workers home to slow the spread of the Coronavirus. Employment dropped by over 1.2 million jobs from February 2020 to April 2020, a loss of 14.1 percent of the pre-pandemic jobs. In Fiscal Year 2021-22, Florida jobs moved above the 2018-19 level and are expected to ease down to 3.3 percent growth in Fiscal Year 2022-23, before growing by an annual average of 1.0 percent throughout the remainder of the forecast.



Source: Florida Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research, Current Employment Statistics Program in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, July 22, 2022.

Florida's unemployment rate had been below 4.0 percent from February 2018 through February 2020. With the onset of the pandemic, the unemployment rate spiked to 13.9 percent in May 2020, handily surpassing the prior peak rate of 10.9 percent experienced in the first four months of 2010 during the Great Recession. Just over two years later, Florida's monthly unemployment rate is now approaching its lowest recorded rate in modern times: the first half of 2006 when it was 2.4 percent. The Conference expects the unemployment rate to average 3.8 percent in Fiscal Year 2022-23 and, due to the Federal Reserve's actions to cool off the economy through higher interest rates, start an upward drift until it reaches 4.2 percent in Fiscal Year 2024-25, after which it plateaus at or slightly above 4.0 percent. The Conference assumes the "full employment" unemployment rate is about this level.

Two areas of the state's economy indirectly benefited from the Federal Reserve's actions to protect the wider economy from the worst of the pandemic effects, but with a future payback: real estate and construction. Throughout the worst of the crisis, these economic sectors thrived as the federal funds rate neared zero and pushed interest rates to historic lows. By the second quarter of the 2021 calendar year, single-family starts were +62.5 percent higher than the same period in the prior year, while multi-family starts were +82.7 percent higher. Growing by 17.1 percent, total private housing starts reached a 16-year high of almost 239,000 units in Fiscal Year 2021-22, yet they are still far from the housing boom peak of over 272,000 units in Fiscal Year 2004-05. In December 2021, the 30-year mortgage fixed rate was 3.10 percent, and the Mortgage Bankers Association expects the 30-year fixed rate to reach 5.2 percent by the fourth quarter of the 2022 calendar year due to the Federal Reserve's most probable series of interest rate hikes. Moving in step, starts are projected to slump by a cumulative 22.6 percent by the end of the fiscal year. Back-to-back annual declines are expected over most of the remaining nine years of the forecast as interest rates and residential construction activity return to the levels expected pre-pandemic. At the end of the ten-year forecast period, total private housing starts achieve only 55.7 percent of the peak in Fiscal Year 2004-05, aligning with similar projections in the pre-pandemic forecast. Reflecting the overall constraints in the construction industry, construction employment does not get back to its peak level from Fiscal Year 2005-06 in the ten-year forecast window.



New light vehicle registrations were a source of strength as the state recovered from the Great Recession, but were expected to begin a period of contraction prior to the pandemic's onset. After posting no growth in Fiscal Year 2018-19, the pandemic drove the projected second year of essentially flat registrations in Fiscal Year 2019-20 to an eventual decline of -6.1 percent. New light truck registrations and, even more so, new automobile registrations faltered in the second part of the 2019-20 fiscal year as the pandemic took hold. With unprecedented government stimulus payments to individuals, record low interest rates, and inflated savings providing significant incentives, total sales for the second quarter of 2021 almost reached the series high of 384,000 light vehicles from the third quarter of 2005, mainly due to light truck sales. The overall increase in Fiscal Year 2020-21 was 10.6 percent. Reflecting a likely pull forward from what would have been sales in later periods and impacted by low inventory due to supply shortages, new light vehicle sales declined by 17.3 percent in Fiscal Year 2021-22. After three consecutive years of recovery, the 2018-19 level is finally regained in Fiscal Year 2024-25, but sales mostly decline thereafter.

Finally, Florida's tourism-sensitive economy is particularly vulnerable to the longer-term effects of the pandemic. Previous economic studies of disease outbreaks have shown that it can take as much as twelve to fifteen months *after* the outbreak ends for tourism to return to pre-disease levels. The magnitude of this event is greater, and the timing is less clear due to the continuously emerging new variants of COVID-19. The total number of tourists declined nearly -70.0 percent from the prior year in the second quarter of 2020. After that dramatic drop, tourism managed to recover gradually, buttressed by the increased number of domestic visitors travelling to Florida by air or car. It took two years to reach recovery from this pandemic in domestic visitors, while Canadian and international visitors are still at depressed levels. The Conference estimates that total visitors, growing by 39.4 percent, surpassed the pre-pandemic peak by the end of Fiscal Year 2021-22, albeit with a different composition. The Conference expects 2.4 percent growth during Fiscal Year 2022-23, after which the annual growth rate moderates from the 4 percent range to 3.1 percent by the end of the forecast period. While the new forecast levels never exceed the pre-pandemic forecast levels for those years, they come close in the latter part of the 10-year forecast horizon.