# Florida Economic Estimating Conference
# November 20, 2020

The Florida Economic Estimating Conference met on November 20, 2020, to adopt a new forecast for the state's economy. The Conference made slight upward revisions to all key metrics except visitors, marginally ameliorating the dramatically downward revisions to both the near-term and long-term outlooks made in July 2020. The negative adjustments in July directly resulted from the Coronavirus outbreak, the actions to contain it, and the pandemic-induced economic contraction that followed. Since July, economic activity has increased as consumers redirected spending from the hard-hit service sector to purchases of goods, with some consumers also spending down the atypically large savings that built up during the pandemic. Overshadowing the positive aspects of the new forecast, the Conference was aware that the outbreak had recently intensified and, in so doing, introduced new risks to the forecast.

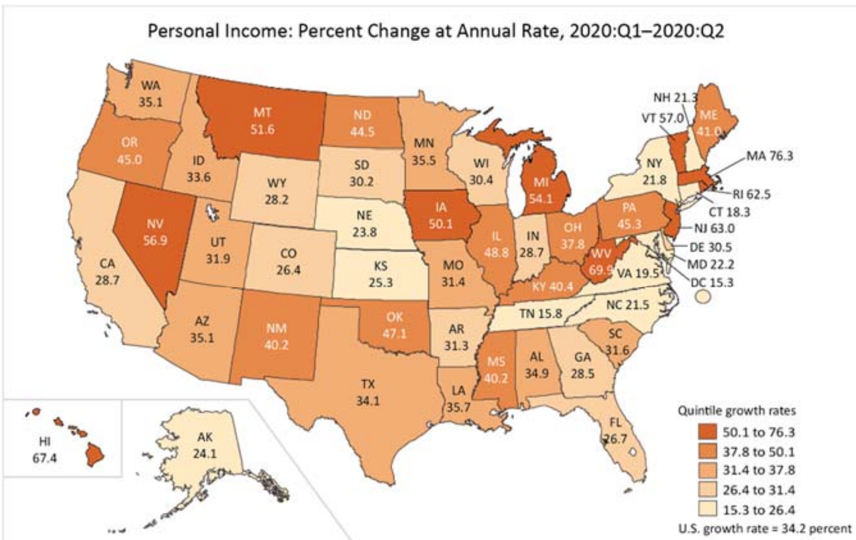
In June 2020, the National Bureau of Economic Research (NBER) announced February 2020 as the peak in the current business cycle, marking the end of the longest US economic expansion on record and putting the US economy in recession territory. According to NBER, "…the unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy, warrants the designation of this episode as a recession, even if it turns out to be briefer than earlier contractions." While all Florida industries have been impacted in the near term by the pandemic-induced economic contraction, Florida's leisure and hospitality industry has borne the brunt of the longer-term consequences.

Apart from the initial surge related to the phased reopening that began in May and June 2020, any rebound of economic activity will continue to be constrained by the widespread distribution of an effective vaccine, which is not expected to occur until the end of the State's 2020-21 fiscal year. Overall, Florida growth rates return to their pre-COVID-19 paths; however, the state's economy does not recover the pre-pandemic levels expected in December 2019 until the end of the 10-year forecast horizon, reflecting the permanent economic damage inflicted by the virus. Across the various elements of the ten-year forecast, some measures of the Florida economy take one to two fiscal years to recover their pre-COVID peaks and normal growth patterns, while some never reach them at all.

One measure for assessing the economic health of states is the year-to-year change in real State Gross Domestic Product (that is, all goods and services produced or exchanged within a state). On October 2, 2020, the US Department of Commerce, Bureau of Economic Analysis released GDP data by State for the second quarter of 2020 (April, May, and June). Following its first quarter decline of -4.3 percent, Florida came in at -30.1 percent, nearly matching the US rate as a whole, which was reported at -31.4 percent. The Accommodation and Food Services industry was the state's most significant drag relative to the US as a whole. The Conference expects that Florida's Real Gross Domestic Product (GDP) will show a +32.9 percent rebound in the third quarter of the 2020 calendar year, leading to an overall +0.5 percent increase for the 2020-21 fiscal year. The new forecast then shows a +2.0 percent increase for FY 2021-22 and a subsequent return to the 2.2 to 2.8 percent range more typically found in Florida.

Another important gauge of a state's economic health is personal income growth. Using the latest revised series, Florida's personal income growth swelled by +26.7 percent at an annual rate in the second quarter of 2020 due largely to the various federal stimulus and relief programs.

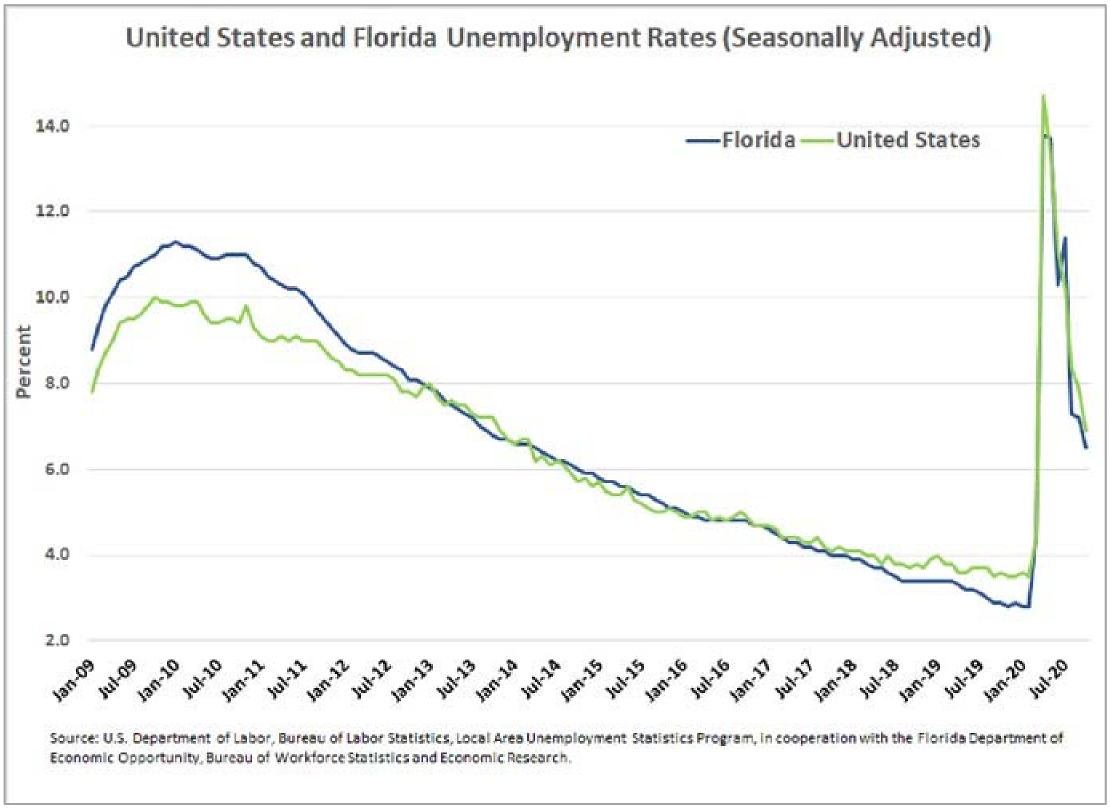
Ranked 39th in the country among all states, Florida’s rank was much lower than the previous quarter’s result, with a growth rate below the nation for the quarter. The Conference projects that the state’s personal income increased another +5.7 percent in the third quarter, reflecting the hope that wage growth offset the loss of some government transfer receipts as furloughed and laid off workers returned to their jobs or found new opportunities. After taking account of the strength in earlier quarters, growth remains positive (+2.3 percent) for the 2020-21 fiscal year. Going forward, the Conference expects personal income to decline by -1.1 percent in FY 2021-22 and then recover by +4.5 percent in FY 2022-23. Thereafter, the annual growth rates are expected to remain solidly above +4.0 percent until FY 2029-30.



U.S. Bureau of Economic Analysis

The key measures of employment are job growth and the unemployment rate. 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 1.2 million jobs from February 2020 to April 2020, a decline of -13.0 percent over the same period in the prior year. Protected by federal stimulus programs and improved consumer demand, some of these jobs have returned. Others may not be restored until the leisure and hospitality industry returns to some semblance of normalcy, and still others may not return at all due to the sped-up restructuring towards a more digitized economy. After a -1.0 decline in FY 2019-20, the Conference expects total non-farm employment to decline by -0.8 percent in FY 2020-21 and rebound by +4.3 percent in FY 2021-22 to finally regain its FY 2018-19 peak. Thereafter, annual growth moderates to slightly above 1 percent. Given the unique circumstances wrought by the pandemic, jobs in leisure and hospitality are not expected to reach pre-COVID-19 levels until FY 2023-24.

Florida’s unemployment rate dropped to 2.8 percent in January and February 2020, which, together with November 2019, became the lowest recorded unemployment rates since the series began in 1976. With the onset of the Coronavirus outbreak, the unemployment rate spiked to 13.8 percent in April 2020, handily surpassing the prior peak rate of 11.3 percent experienced in January 2010 during the Great Recession. The change was breathtaking. Over the space of two months, the unemployment rate shifted from a near 50-year low to a near 50-year high. By October, the state’s unemployment rate had dropped back to 6.4 percent, notably better than the 6.9 percent for the nation as a whole. The Conference believes that the unemployment rate peaked in the last quarter of the state's 2019-20 fiscal year and expects it to drop gradually to 5.8 percent by the last quarter of this fiscal year. Thereafter, the rate continues its slow downward drift until it plateaus at 3.7 percent from FY 2025-26 though FY 2027-28, moving in unison with the national rate and near the full-employment level.




Relative to the hard-hit industries, the housing market has shown resiliency in the face of the pandemic. Throughout the worst of the crisis, this economic sector slogged forward, although it slowed markedly from the stronger growth in the first half of FY 2019-20. At the beginning of FY 2020-21, single-family starts were +17.8 percent higher than the same period last year, while multi-family starts were -16.2 percent lower. Total private housing starts are projected to decline by 2.4 percent in FY 2020-21 and continue declining at a similar pace for the following two fiscal years as residential construction activity slows. Thereafter, growth continues to be subdued, remaining mostly in negative territory, despite starts exceeding previous forecast levels. At the end of the ten-year forecast period, total private housing starts are still well below the peak FY 2004-05 level of 272,222 units. Weighed down by the protracted recovery in the housing market after the collapse of the housing boom in the 2006-07 and 2007-08 fiscal years, total construction expenditures finally surpassed its prior peak from FY 2005-06 in FY 2019-20. Now buffeted anew, the category is expected to decline -2.8 percent in FY 2020-21, but this time it is held back by losses in private non-residential construction expenditures caused by the pandemic-induced economic contraction. Total expenditures eke out +0.8 percent growth in FY 2021-22, but generally stay above +3.0 percent for the remainder of the forecast. The peak level from FY 2019-20 for total construction expenditures is not reached again until FY 2022-23. Reflecting the overall weakness in the construction industry, construction employment does not get back to its peak level from FY 2005-06 until FY 2029-30.

New light vehicle registrations were a source of strength in the Florida economic forecast as the state recovered from the Great Recession, but contracted by -6.9 percent in FY 2019-20. New light truck registrations and, even more so, new automobile registrations faltered in the second part of FY 2019-20 as Florida consumers worried about their futures and stay at home orders were put in place. Total sales for the third quarter of 2020 were still down -8.2 percent over the same period last year for an overall decline of 0.9 percent in FY 2020-21. New light vehicle sales will rebound by 1.5 percent in FY 2021-22 as strong light truck sales compensate for weak car sales. The Conference projects four more years of subdued gains, before growth turns negative for the rest of the period.

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. The total number of tourists declined -60.3 percent from the prior year in the second quarter of 2020. After that breathtaking decline, tourism in the third quarter managed to recover to 35.4 percent of the prior year's level, buttressed by the stronger than anticipated number of domestic visitors travelling by car. Several industry groups have already predicted that it will take at least two years to reach recovery from this pandemic. Current expectations are that leisure driving vacations will recover first, and then—in order—business travel, domestic air travel, and international travel. The timing will be further influenced by the actual course of the disease and the recovery from the global recession. Bearing this in mind, the Conference expects a continued contraction during FY 2020-21, with a projected overall decline of -16.4 percent from the already suppressed FY 2019-20 level. Even nascent recovery in this industry is strongly linked to the widespread distribution of a vaccine. As the Conference expects an effective vaccine to be widely deployed by the end of FY 2020-21, the growth rate surges thereafter, albeit from an extremely low level. The new forecast levels never exceed pre-pandemic forecast levels, but come close towards the end of the ten-year forecast horizon.