Florida Economic Estimating Conference
July 17, 2020

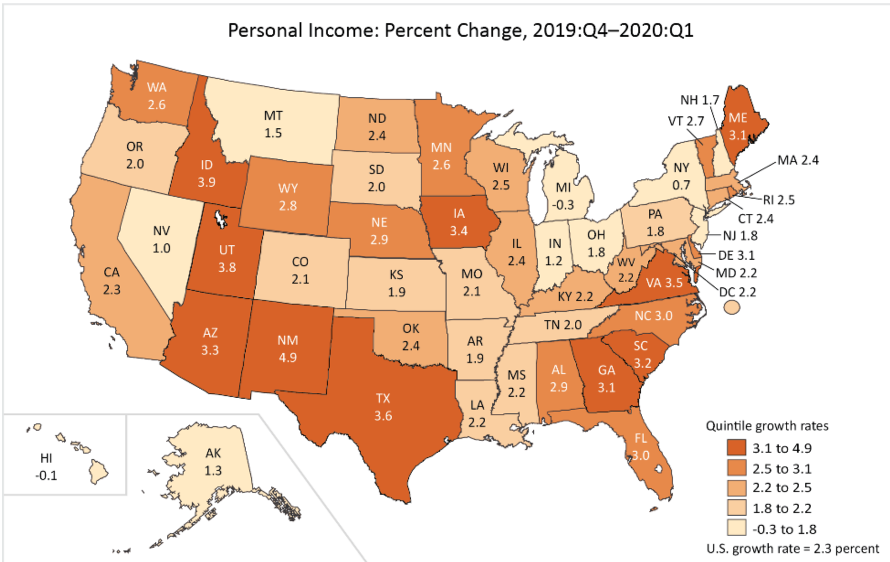
The Florida Economic Estimating Conference met on July 17, 2020, to adopt a new forecast for the state's economy. The Conference dramatically revised to the downside both the near-term and long-term outlooks relative to the last forecast adopted in December 2019. The negative adjustments directly result from the Coronavirus outbreak, the actions to contain it, and the pandemic-induced economic contraction that followed. 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 is expected to bear the brunt of the longer-term consequences.

Apart from the initial surge related to reopening in May and June 2020, any rebound of economic activity will be constrained by the availability of an effective vaccine, which likely will not be widely available until sometime in the state's 2021-22 fiscal year. Overall, Florida growth rates return to their pre-COVID-19 paths; however, the state's economy does not recover to the levels expected in December 2019 even at 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 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 July 7, 2020, the US Department of Commerce, Bureau of Economic Analysis released GDP data by State for the first quarter of 2020 (January, February and March). Florida was ranked 24th in the country for its real growth at a seasonally adjusted annual rate. Coming in at -4.9 percent, it nearly matched the US as a whole, which was reported at -5.0 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 -36.9 percent decline in the second quarter of the 2020 calendar year to produce an overall -1.3 decline for the just-completed 2019-20 fiscal year. The new forecast shows a further decline of -4.3 percent in FY 2020-21, a rebound of +4.2 percent in FY 2021-22 and then a gradual return to the +2.0 percent range expected in the prior forecast.

Another important gauge of a state's economic health is personal income growth. Using the latest revised series, Florida's personal income growth increased +3.0 percent at an annual rate in the first quarter of 2020, ranking Florida 13th in the country among all states. The current rank is similar to the previous quarter's result, with a growth rate above the nation for the current quarter. The Conference estimates the state's personal income to have declined -6.6 percent in the second quarter, reflecting a decline in wage and property income that swamped the various federal stimulus payments. After taking account of the strength in earlier quarters, growth remains positive (+3.3 percent) for the year. Going forward, the Conference expects personal income to decline by

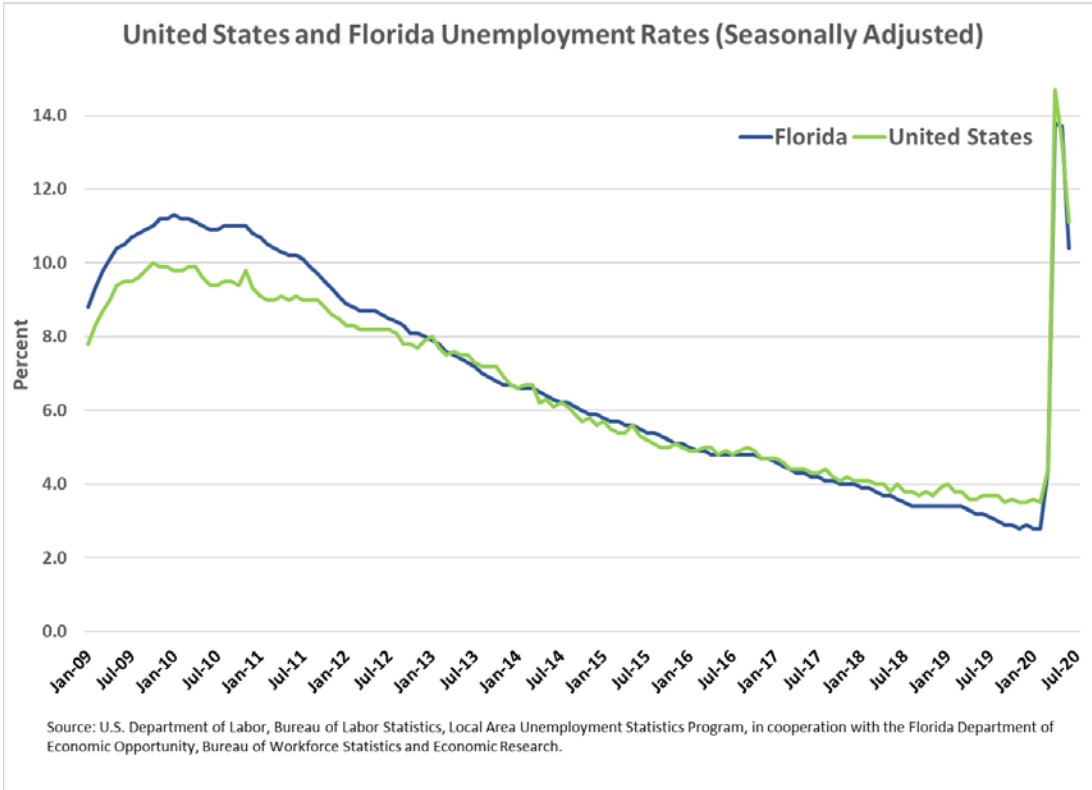
-0.5 percent in FY 2020-21 and then recover to +3.1 percent in FY 2021-22. Thereafter, the annual growth rates are expected to remain solidly above +4.0 percent.



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 shut down and 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 percent over the same period. Protected by federal stimulus programs and a recovery in 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 -3.9 percent in FY 2020-21 and rebound by +4.0 percent in FY 2021-22. Thereafter, Florida employment is not expected to reach its prior FY 2018-19 peak until FY 2022-23, with moderating rates of growth across the subsequent years. Given the unusual circumstances wrought by the pandemic, jobs in leisure and hospitality are not expected to reach pre-COVID-19 levels within the ten-year forecast horizon.

Florida's unemployment rate dropped to 2.8 percent in February, which, together with the January 2020 and November 2019 rates, became the lowest unemployment rate since 1976. With the onset of the Coronavirus outbreak, the unemployment rate spiked to 13.8 percent in April 2020. 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. The state's rate of 13.8 percent in April surpassed the prior peak rate of 11.3 percent, experienced in January 2010 during the Great Recession, reaching a new series high. By July, the state's actual unemployment rate had dropped back to 11.3 percent, matching the high for the Great Recession and markedly higher than the 10.2 percent for the nation as a whole. The Conference expects the unemployment rate to peak in early FY 2020-21 and then gradually drop to 7.8 percent by the last quarter of the state's fiscal year. Thereafter, the rate continues its slow downward drift until it gets close to 4 percent, near the full-employment level, by FY 2029-30.



Relative to other hard-hit industries, the housing market has shown some resiliency in the face of the pandemic. Throughout the worst of the crisis, this economic sector slogged forward, although slowing markedly from the stronger growth over the past few years. For the first quarter of the 2020 calendar year, single-family starts were +16.8 percent higher than the same period last year, while multi-family starts were -0.2 percent lower. In spite of the significant losses in both categories during the second quarter, total private housing starts are projected to show overall growth of +10.8 percent for FY 2019-20. For FY 2020-21, the Conference projects that residential construction activity will slow, causing an overall decline of -6.9 percent for the year. Thereafter, activity is subdued, remaining in slightly negative territory, but matching the previous forecast levels. Even so, 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 -8.8 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 +2.2 percent growth in FY 2021-22, but 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 2024-25. Reflecting the overall weakness in the construction industry, construction employment does not get back to its peak level from FY 2005-06 until FY 2026-27.

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 -9.3 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. New light vehicle sales for the second quarter of 2020 were down -31.0 percent over the same period last year. New light vehicle sales will decline another -10.4 percent in FY 2020-21 before rebounding in FY 2021-22 by +8.5 percent. The Conference projects another year of solid growth (+3.8 percent) in FY 2022-23, before slowly returning to the old growth rates 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 -68.1 percent from the prior year in the second quarter of 2020. Coupled with the losses from the first quarter, the projected annual loss for FY 2019-20 was -18.0 percent. 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 recession. Bearing this in mind, the Conference expects a continued but less severe contraction for FY 2020-21, with a projected overall decline of -14.3 percent from the already suppressed FY 2019-20 level. Even nascent recovery in this industry is strongly linked to the development of a vaccine and effective treatments to cope with COVID-19. As the Conference expects an effective vaccine to be widely deployed in FY 2021-22, the growth rate surges, albeit from an extremely low level. The new forecast levels never exceed the prior forecast levels, but come close towards the end of the ten-year forecast horizon.