

Florida: An Economic Overview

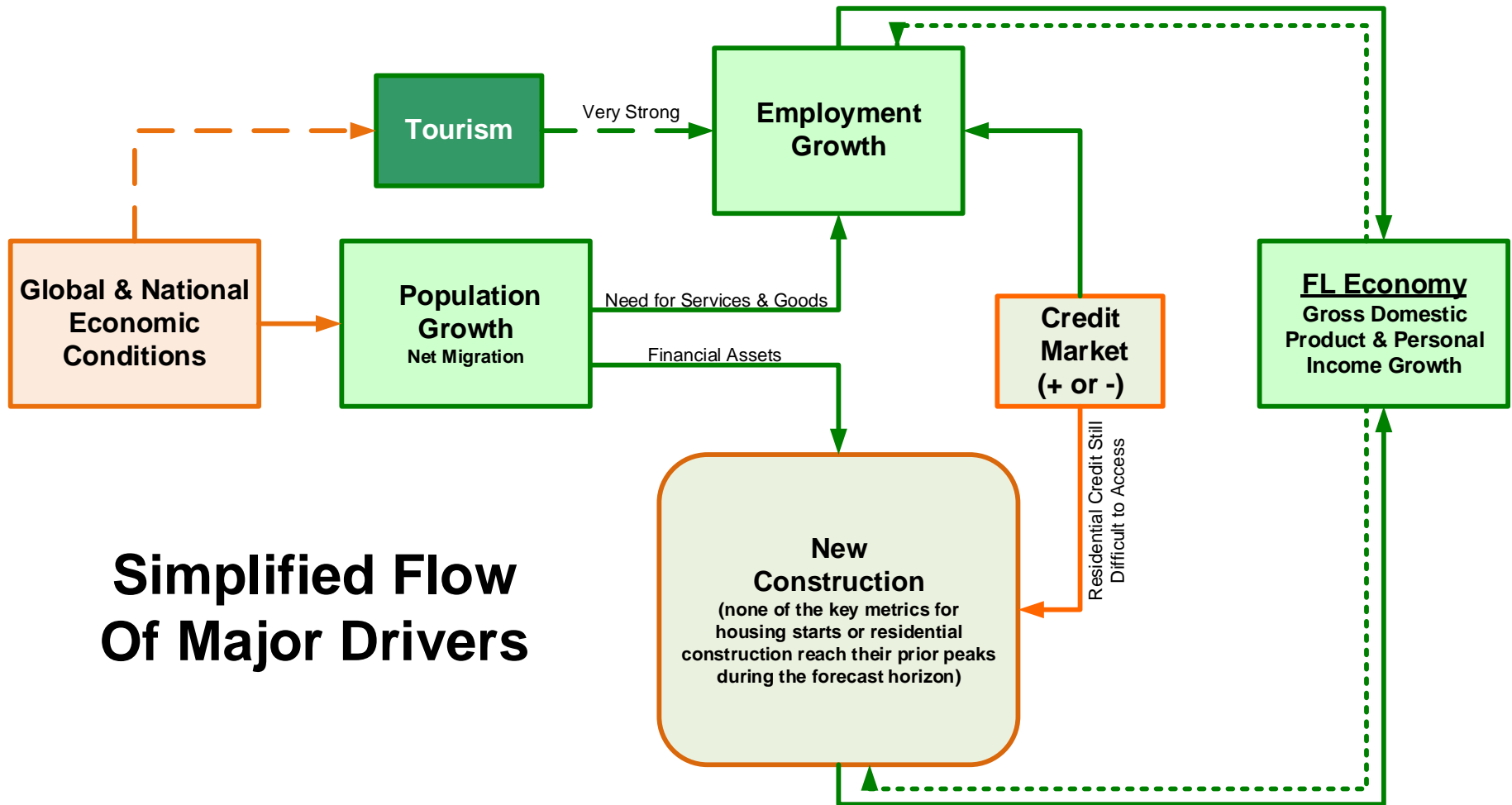
January 8, 2020

Presented by:

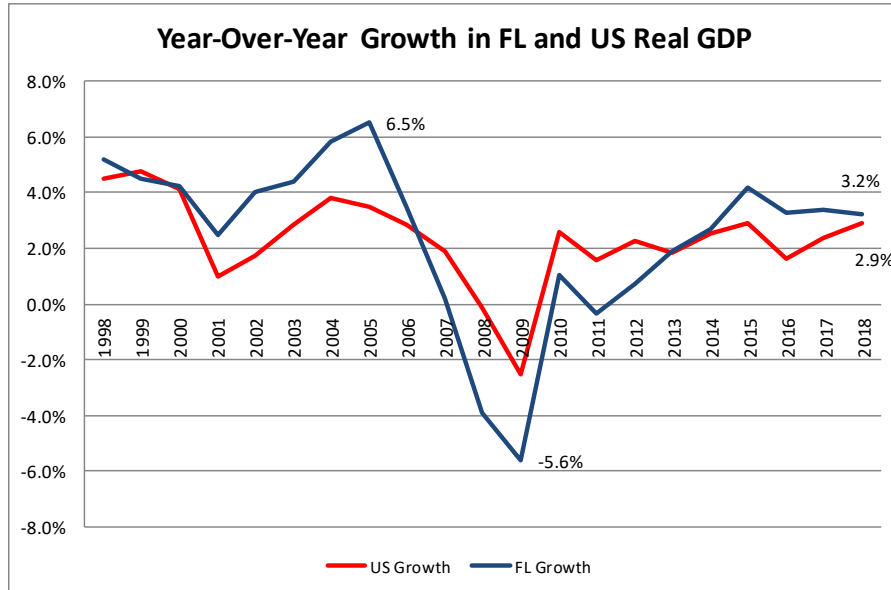


The Florida Legislature
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Shifting in Key Economic Variables

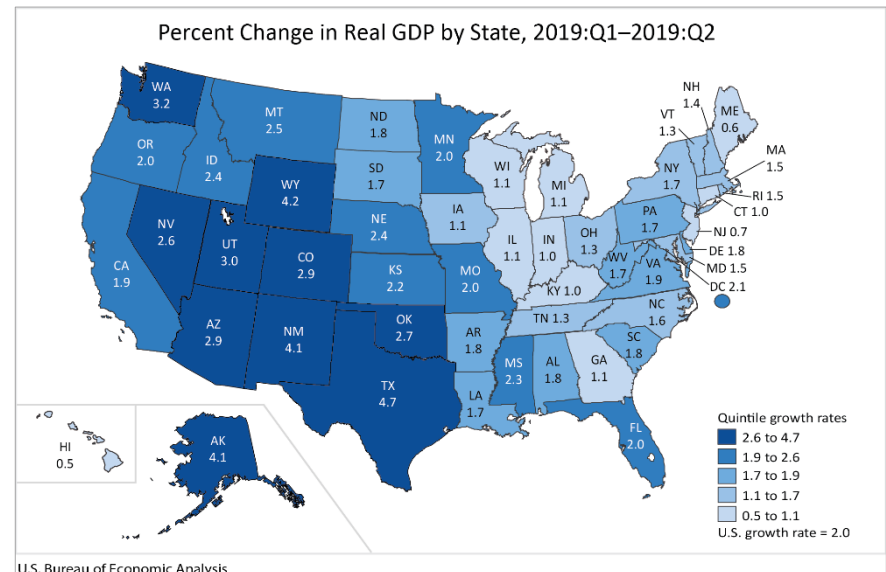


Economy Has Continued Growth...

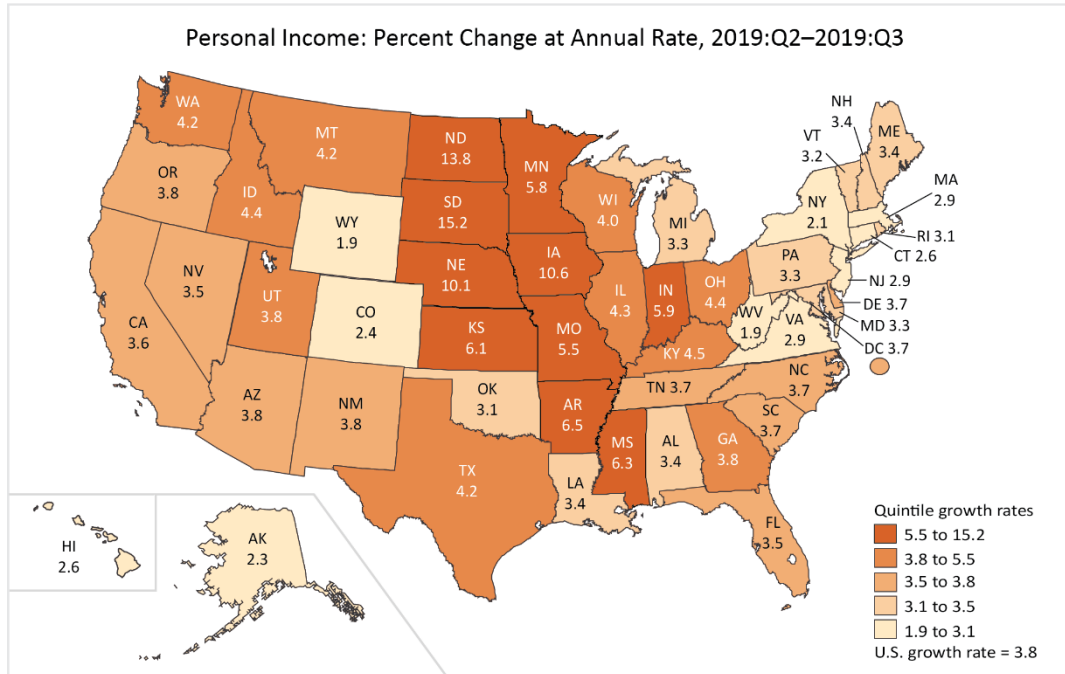


In the latest revised data for the 2018 calendar year, the state's growth slowed slightly, but remained above the national average (3.2 percent versus 2.9 percent). The Economic Estimating Conference projects that Florida's Real Gross Domestic Product (GDP) will slow to growth of 2.5 percent in Fiscal Year 2019-20 and continue slowing in the near term to 1.6 percent in Fiscal Years 2022-23 and 2023-24. In the longer term, growth is expected to average 2.0 percent per year.

For the second quarter of the 2019 calendar year, Florida posted growth of 2.0 percent, matching the national average, and ranking the state 17th in the country for real growth. Unlike the US as a whole, Florida's largest contributor to its growth was real estate and rental & leasing.



FL Personal Income Growth Is Strong, Driven in Part by Robust Population Growth...



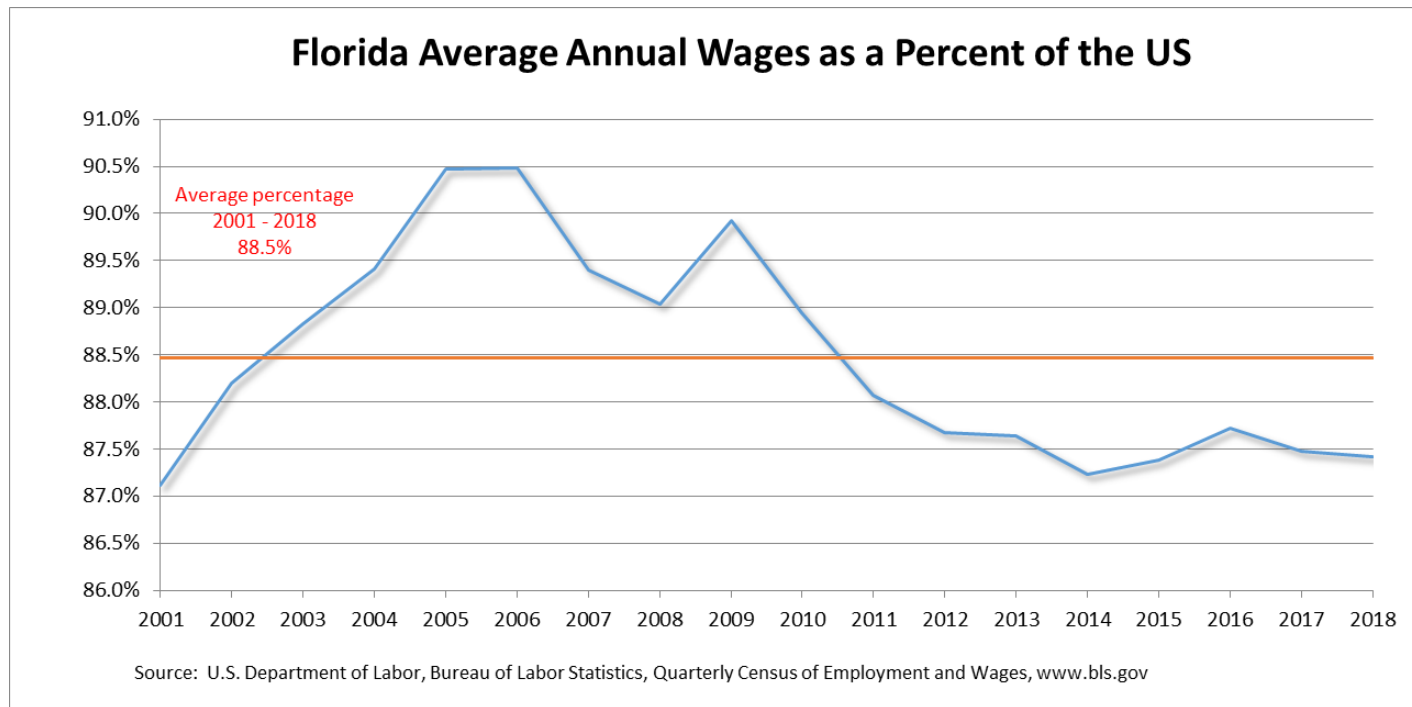
U.S. Bureau of Economic Analysis

The third quarter results for the 2019 calendar year indicated that Florida ranked 29th in the country with 3.5 percent growth over the prior quarter. The state was below the United States as a whole, which had 3.8 percent growth. Healthcare and social assistance was the leading contributor to the earnings increase.

In the latest revised data for State Personal Income for the 2016 calendar year, Florida's personal income growth slowed to 2.9%; however, this was still above the national average of 2.6%. For 2017, Florida's growth increased to 6.5% over the prior year, compared to national growth of 4.7%. For 2018, Florida's growth slowed slightly to 6.2% compared to the national average of 5.6%. In the near term, the annual growth rates for the state are expected to drift from 5.1% (FY 2019-20) down to 4.1% (FY 2020-21 and FY 2022-23). In the longer term, growth is expected to average 4.3 percent per year.

In spite of the robust year-over-year growth, Florida's per capita personal income growth trailed the nation in performance in 2018, growing only 4.6% in 2018 compared to the national average of 4.9%.

Wage Gap Increased in 2018...

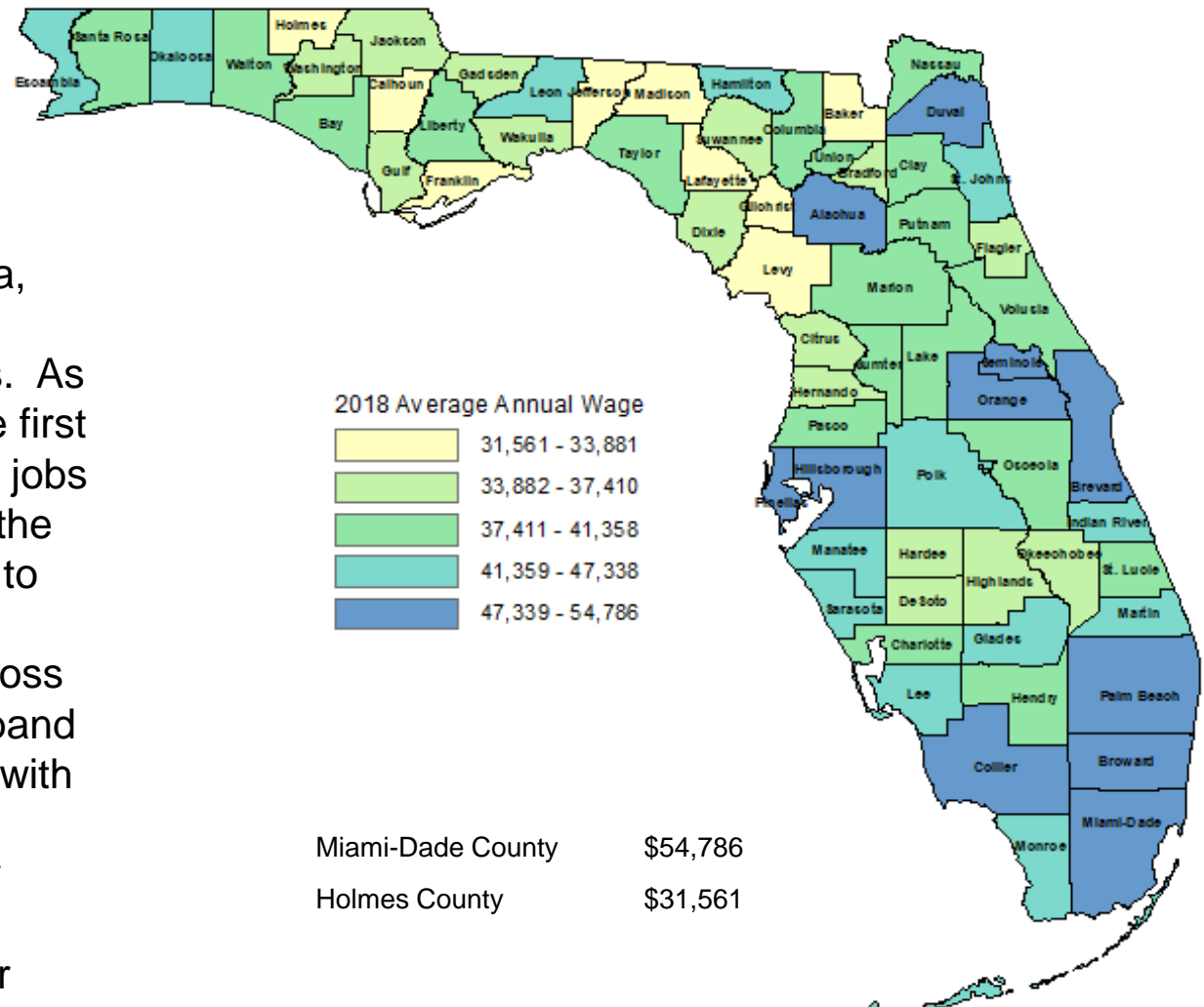


Florida's average annual wage has typically been below the US average. The most recent data for the 2018 calendar year showed that Florida's average wage, relative to the US average, continued to fall from 2016 when it was 87.7% to 87.4% in 2018. The ratio in 2014 (87.2%) was Florida's lowest percentage since 2001.

In part, the lower than average wage gains have to do with the mix of jobs that have been growing the fastest in Florida and their average wages. For example, the Accommodation & Food Services employment sector is large, has the lowest average annual wage and had until recently been growing faster than overall employment in the state. This industry sector is closely related to the health of Florida's tourism industry that had a record 130.0 million visitors in FY 2018-19, an increase of 7.0% over FY 2017-18. Effectively, these visitors were equivalent to 1.8 million additional people being added to Florida's resident population.

Average Annual Wage by County...

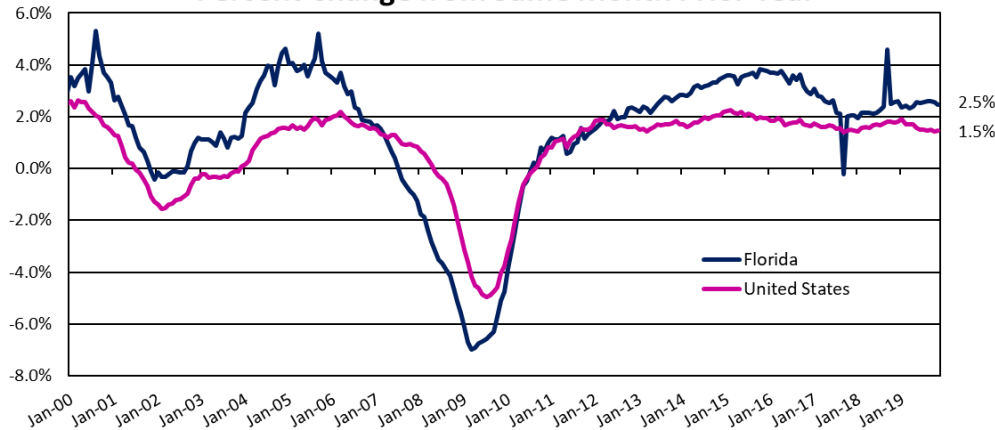
There are two possible reasons for lower than average wages in Florida, and they have different economic interpretations. As described previously, the first has to do with the mix of jobs that have been growing the fastest. The second has to do with the range and distribution of wages across a community: a narrow band typically has more to do with opportunity and poverty. Urban workers generally have a higher return to education through higher wages.



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Current Employment Conditions Strong...

**Seasonally Adjusted Nonfarm Jobs
Percent Change from Same Month Prior Year**



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, December 20, 2019.

November Nonfarm Jobs (YOY)

US	1.5%
FL	2.5%
YR:	217,400 jobs
Peak:	+1,034,300 jobs
[Prior Employment Peak passed in May 2015]	

November Unemployment Rate

US 3.5%

FL 3.1% (322,500 jobless persons)

The Revenue Estimating Conference assumes Florida has fallen below the “full employment” unemployment rate (about 4 percent).

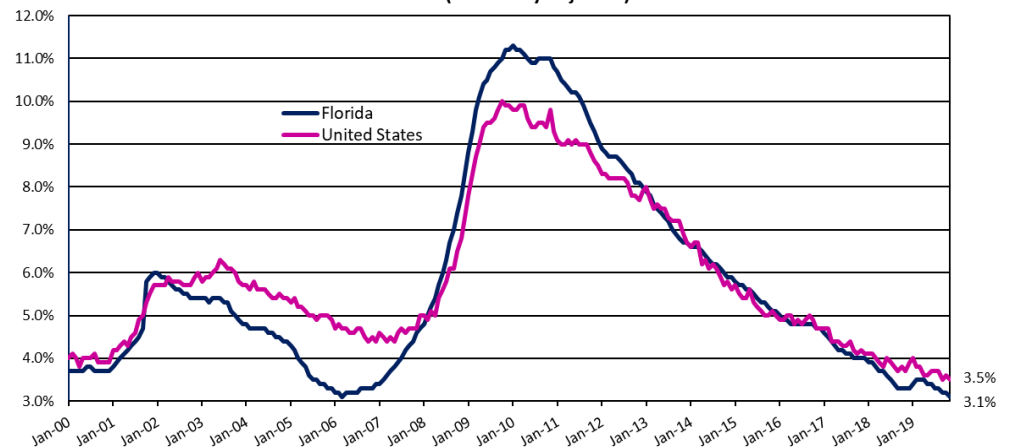
Highest Monthly Rate

11.3% (January 2010)

Lowest Monthly Rate

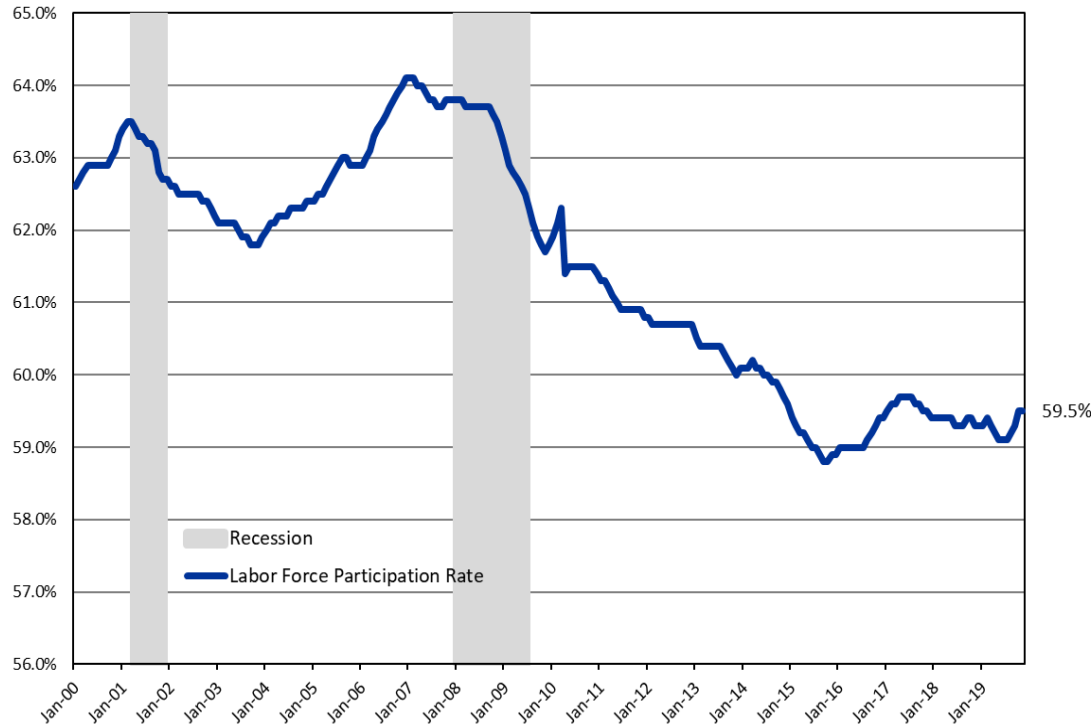
3.1% (March 2006)

**United States and Florida Unemployment Rates
(seasonally adjusted)**



Source: Florida Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research, Local Area Unemployment Statistics Program, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, December 20, 2019.

But, Florida's Participation Rate Low...

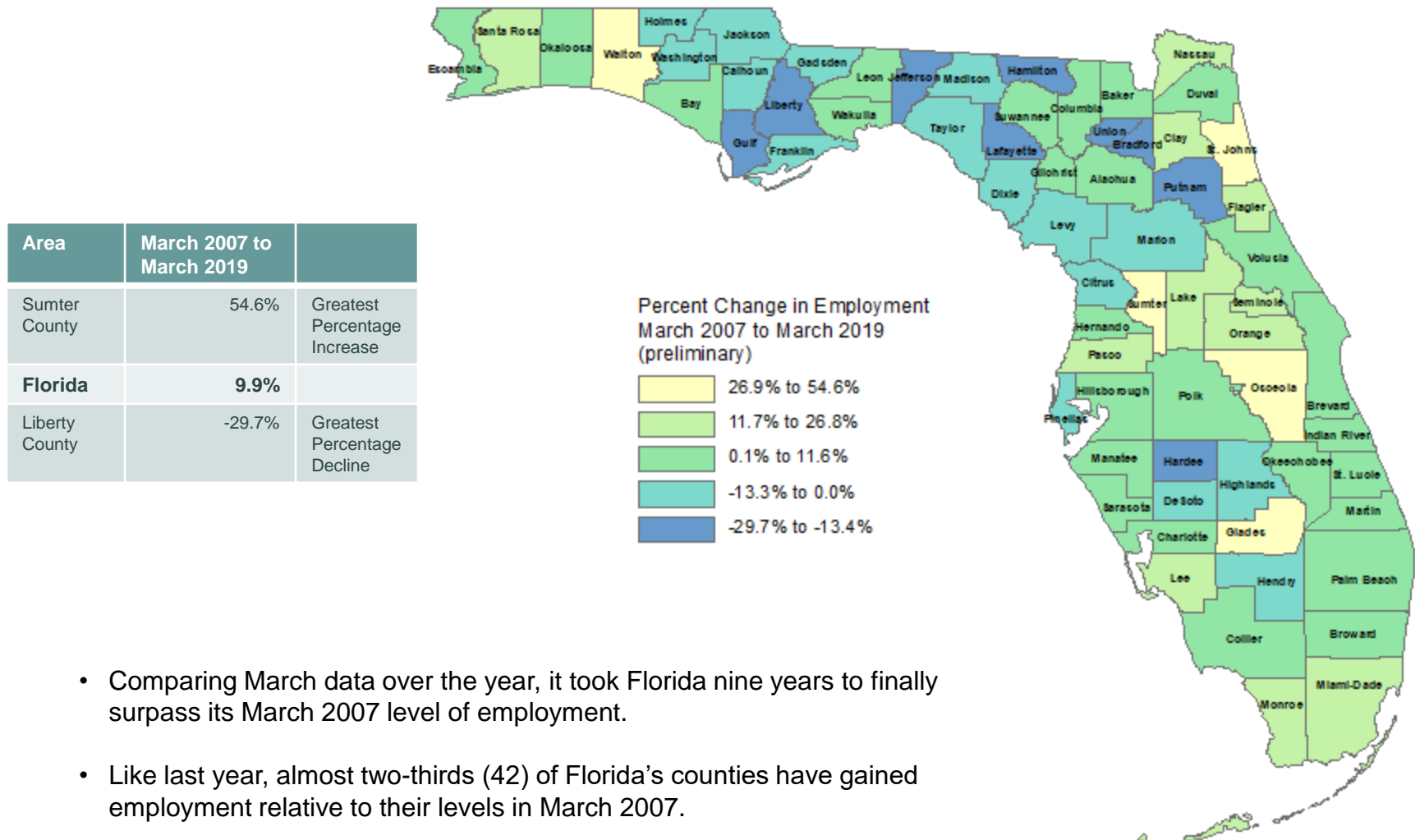


Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Civilian Noninstitutional Population and Associated Rate and Ratio Measures for Model-Based Areas, released December 20, 2019.

Florida's labor force participation rate peaked during the Housing Boom at 64.1% from December 2006 to February 2007. While the unemployment rate is now similar to that time at 3.1%, the labor force participation rate is not. Florida's rate was 59.5% in November 2019, while the US rate was 63.2%. A higher state participation rate would imply a higher unemployment rate, at least in the short run.

The still noteworthy size and composition of the long-term unemployed group (87,200 persons or 25.9% of all unemployed in November) may be confounding some of the trend results. The equivalent percentage for the United States as a whole was only 20.8%. Even though the share of the long term unemployed is still relatively elevated compared to historical levels for this stage in the business cycle, prior to the past six months, the rate had been steadily declining when compared to levels from the same month a year ago.

Across the State, Employment Picture Is Improving, but Polarized...



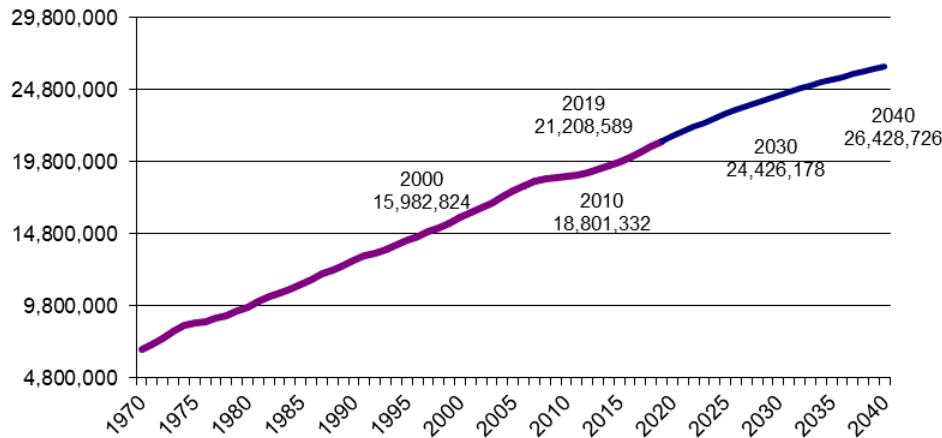
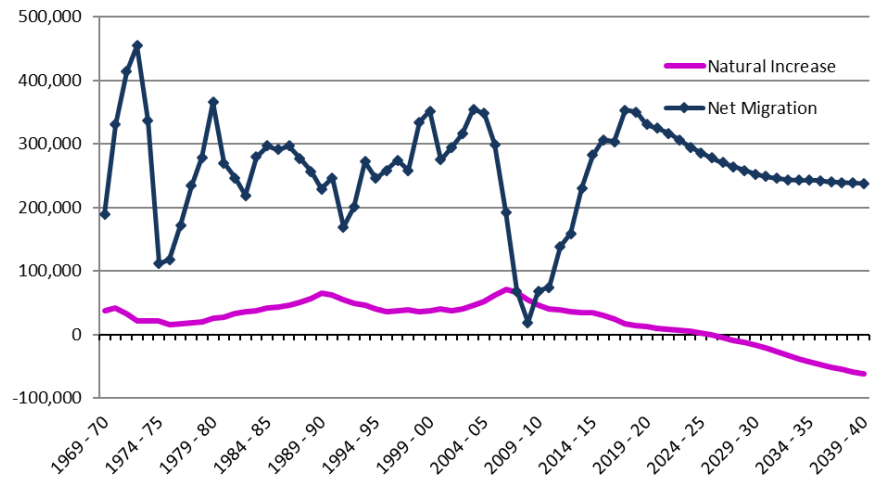
- Comparing March data over the year, it took Florida nine years to finally surpass its March 2007 level of employment.
- Like last year, almost two-thirds (42) of Florida's counties have gained employment relative to their levels in March 2007.

Population Growth Slowing Slightly...

- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Florida's population grew by 1.77% between April 1, 2018 and April 1, 2019 to 21,208,589, adding 368,021 residents. Over the next five years, Florida's population growth is expected to continually slow to 1.34%, but still average 1.5% for the entire period (2019 through 2024).
- Almost all of Florida's population growth through 2030 will be from net migration.
- Nationally, average annual growth will be about 0.66% between 2019 and 2030.
- The future will be different than the past; Florida's long-term growth rate between 1970 and 1995 was over 3%.
- Florida is currently the third most populous state, behind California and Texas.

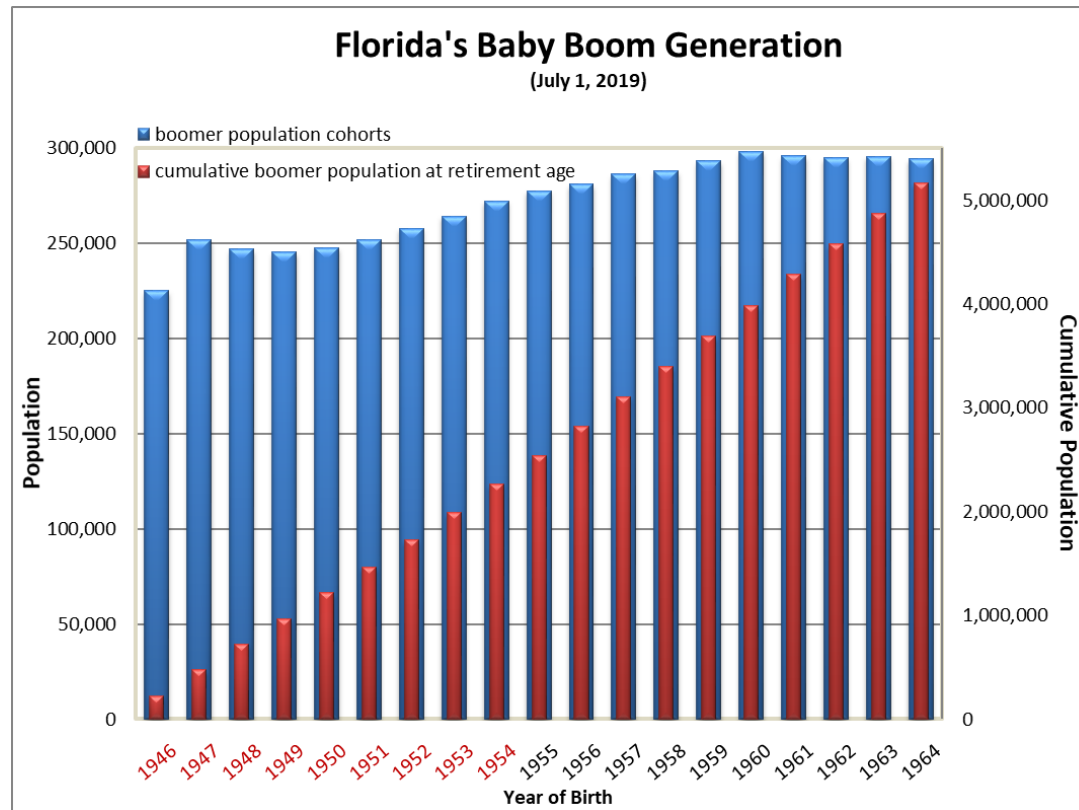
Florida's Population Growth...

Typically, most of Florida's population growth is from net migration. Starting in FY 2025-26, net migration is forecast to represent all of Florida's population growth.



Florida's population growth of 368,021 between April 1, 2018 and April 1, 2019 was the strongest annual increase since 2006, immediately prior to the collapse of the housing boom and the beginning of the Great Recession.

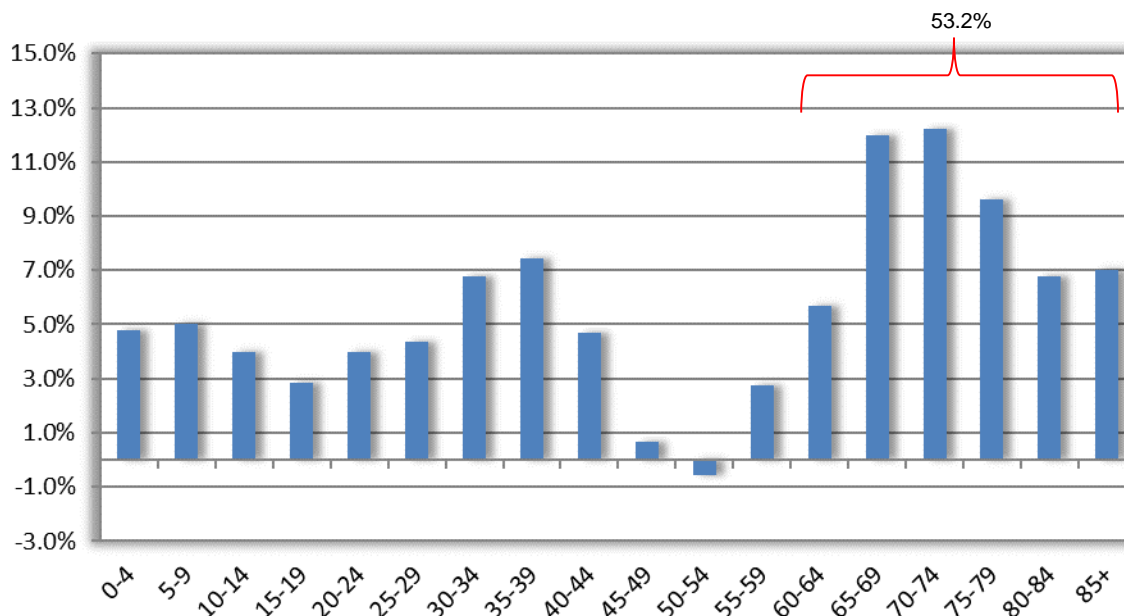
Baby Boomers in Florida Today...



- The first cohort of Baby Boomers became eligible for retirement (turned age 65) in 2011. Nine cohorts have entered the retirement phase: 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019. This represents almost 44 percent of Florida's Baby Boomers.
- In 2000, Florida's prime working age population (ages 25-54) represented 41.5 percent of the total population. With the aging Baby Boom generation, this population now represents 37.2 percent of Florida's total population and is expected to represent only 35.9 percent by 2030.

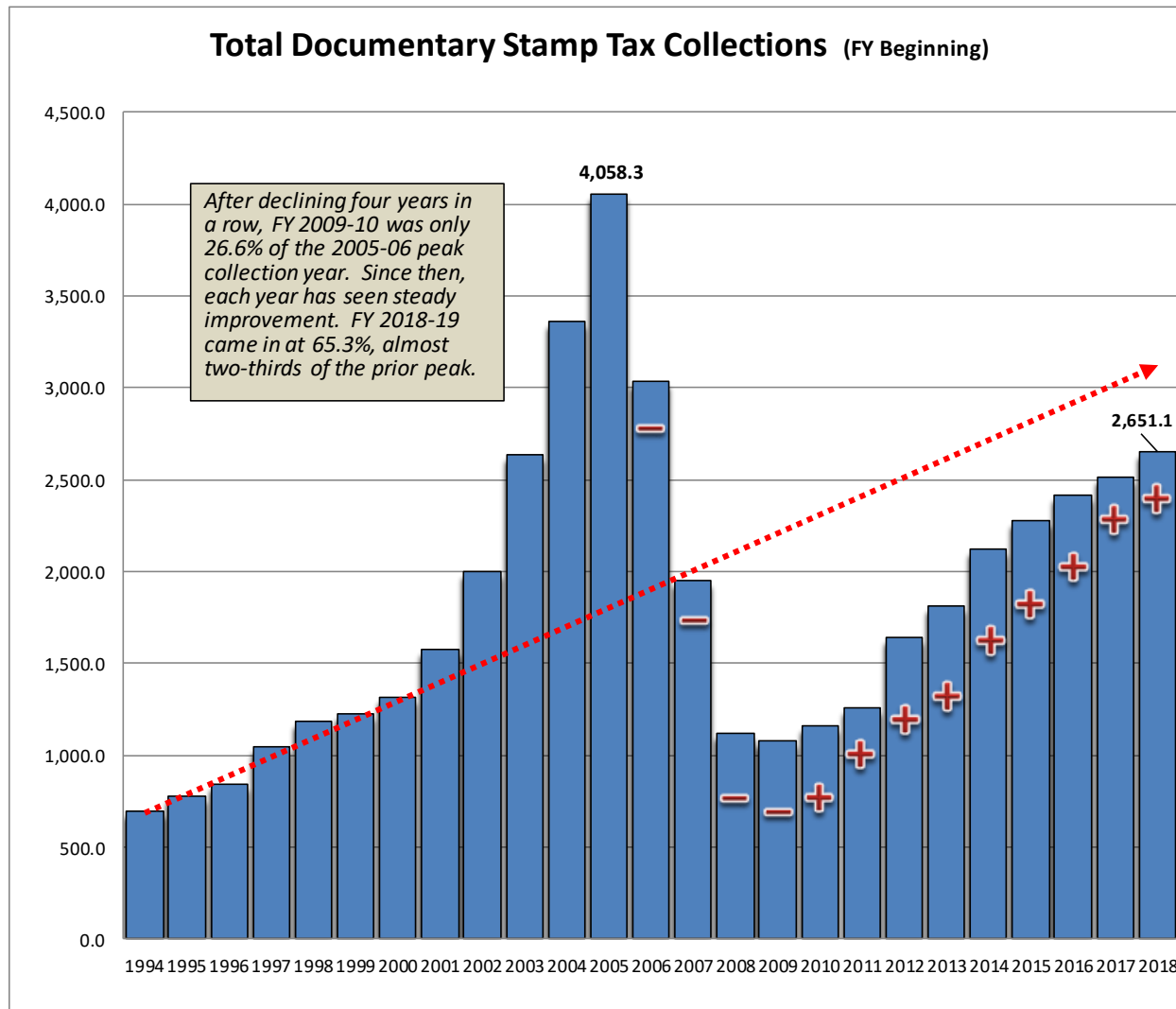
Population Growth by Age Group...

Distribution of Growth by Age Group
between April 1, 2010 to April 1, 2030



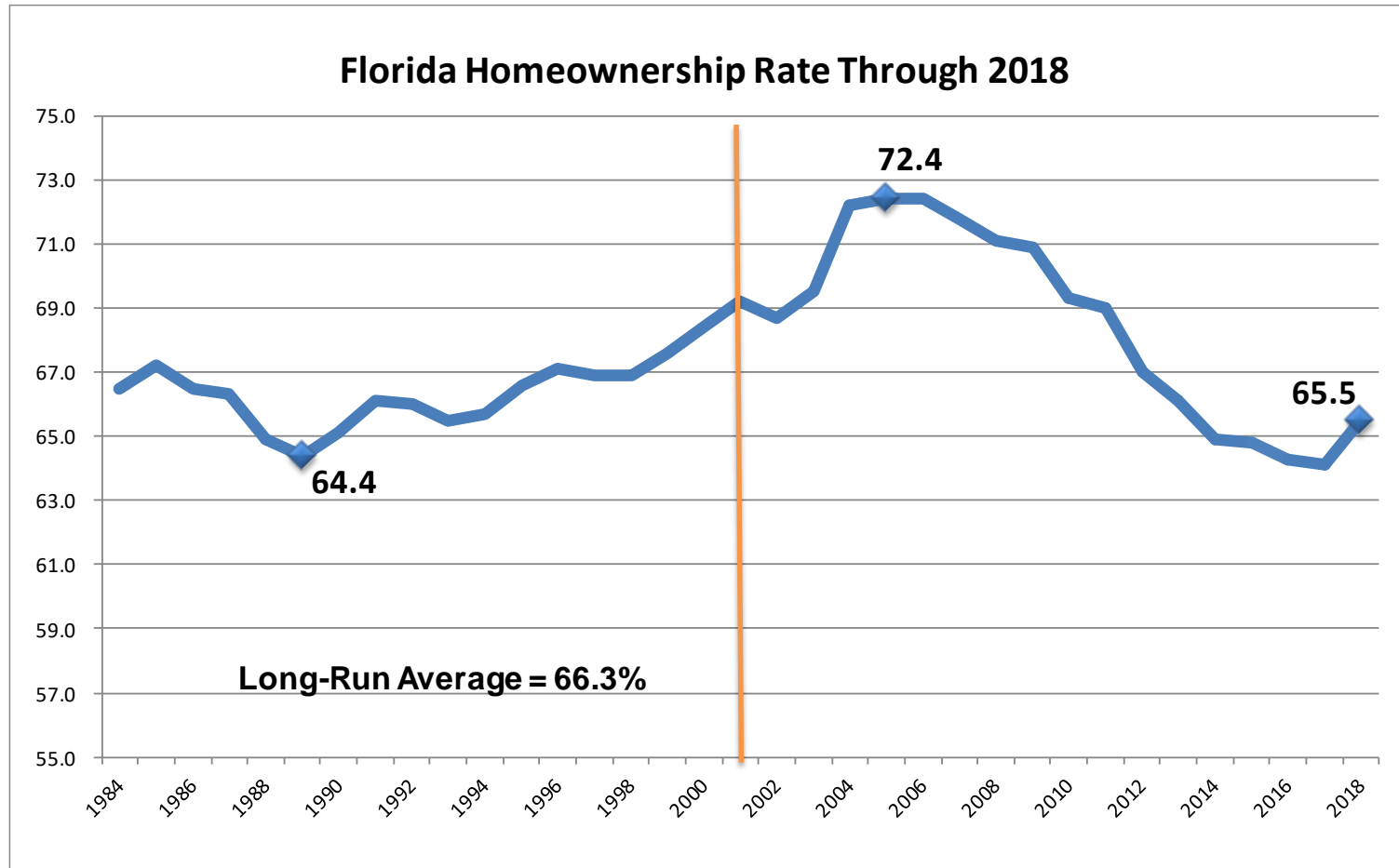
- Between 2010 and 2030, as a result of net migration and natural increase, Florida is forecast to grow by 5.6 million persons.
- Growth by age group depends upon this overall growth and the aging of resident population, resulting in 53.2 percent of those gains in the older population (age 60 and older).
- Florida's younger population (age 0-17) will account for 15.5 percent of the gains, while the younger working age group (25-39) will account for 18.6 percent of the growth.

Florida Housing Continues to Improve...



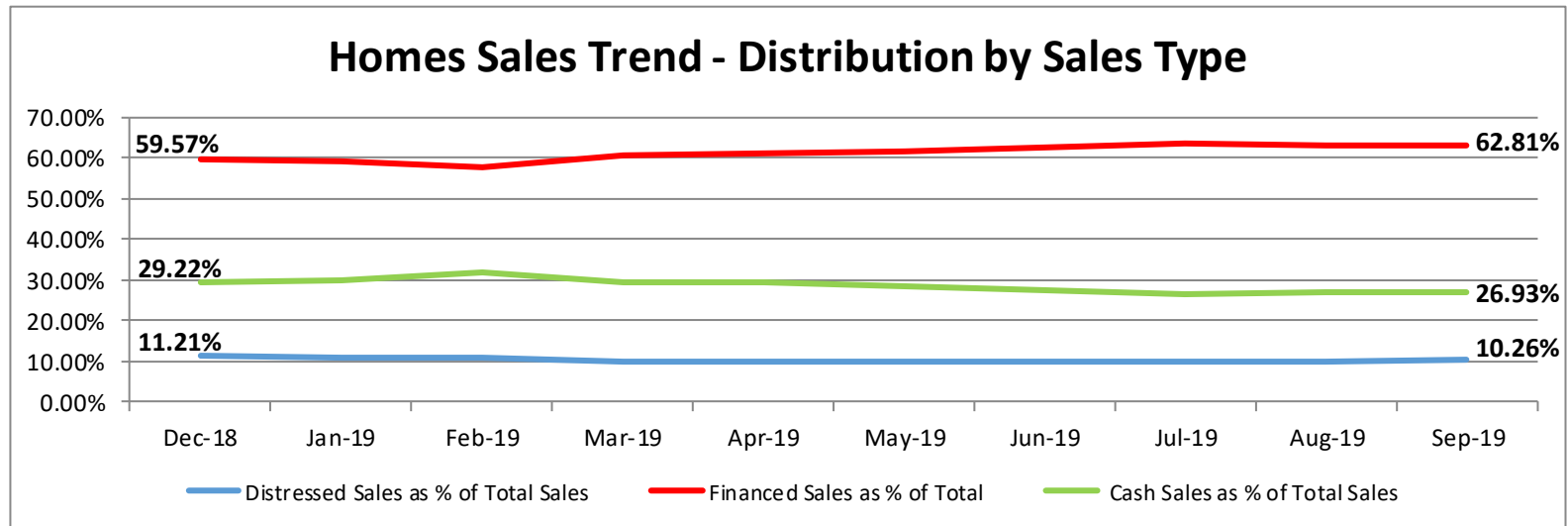
Documentary Stamp Tax collections saw 5.6% growth in FY 2018-19 over FY 2017-18.

Homeownership Rate Still Below Normal...



Since 2013, Florida has been below its long-run average homeownership rate. Final data for 2018 shows a small improvement from 2017's 64.1% lowest recorded point to 65.5%. Data through the third quarter of the 2019 calendar year indicates that 2019 will show no detectable improvement.

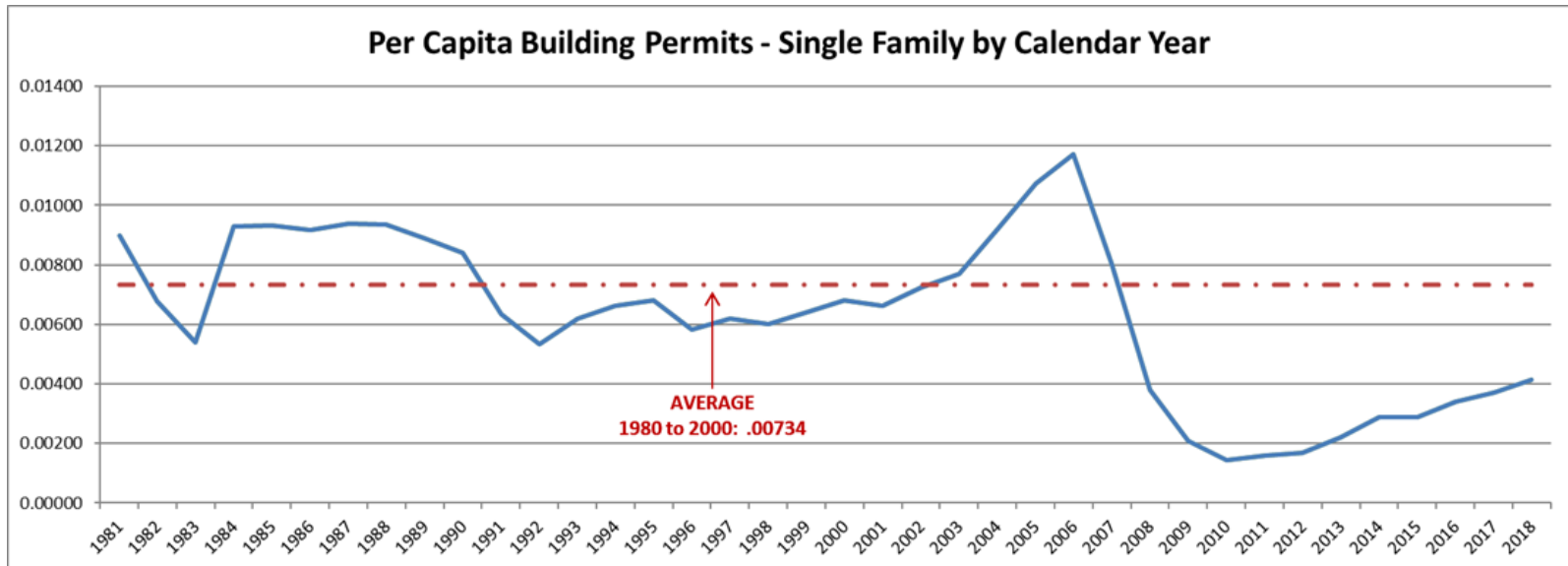
Home Financing Still Challenging...



Within the total of all sales, the shares of “Distressed Sales” and “Cash Sales” continue to drop as the percentage of “Financed Sales” steadily climbs.

While most areas of commercial and consumer credit have significantly strengthened – residential credit for home purchases still remains somewhat difficult for consumers to access with a weighted average credit score of 736 and a LTV (loan to value) of 77 percent on all closed loans in November (the combination is stronger than one year earlier). Almost 89 percent of all conventional home purchase lending in November had credit scores that were 700 or above. Student loans and auto debts appear to be affecting the ability to qualify for residential credit. Even so, the percent of all home sales that are financed is almost 63 percent in Florida (September 2019), up from 58 percent in September 2018.

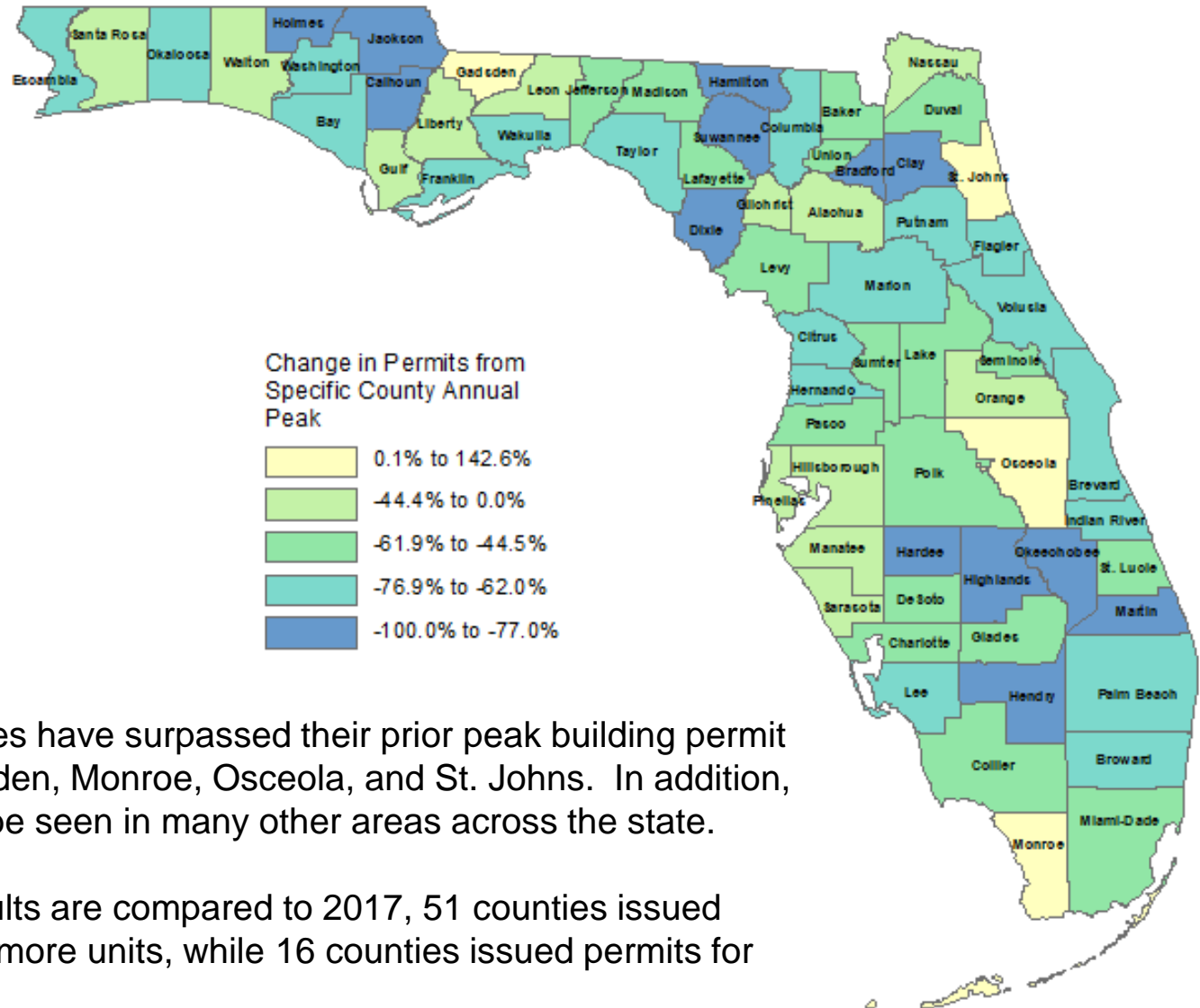
Permits Are Still Well Below Historic Norms...



Single-Family building permit activity, an indicator of new construction, remains in positive territory, beginning with strong back-to-back growth in both the 2012 and 2013 calendar years (over 30% in each year). The final data for the 2014 calendar year revealed significantly slowing (but still positive) activity—posting only 1.6% growth over the prior year. However, annual activity for the past four calendar years ran well above their individual periods a year prior; single family data was higher than the prior year by 20.3% in 2015, 11.1% in 2016, 13.5% in 2017, and 13.8% in 2018.

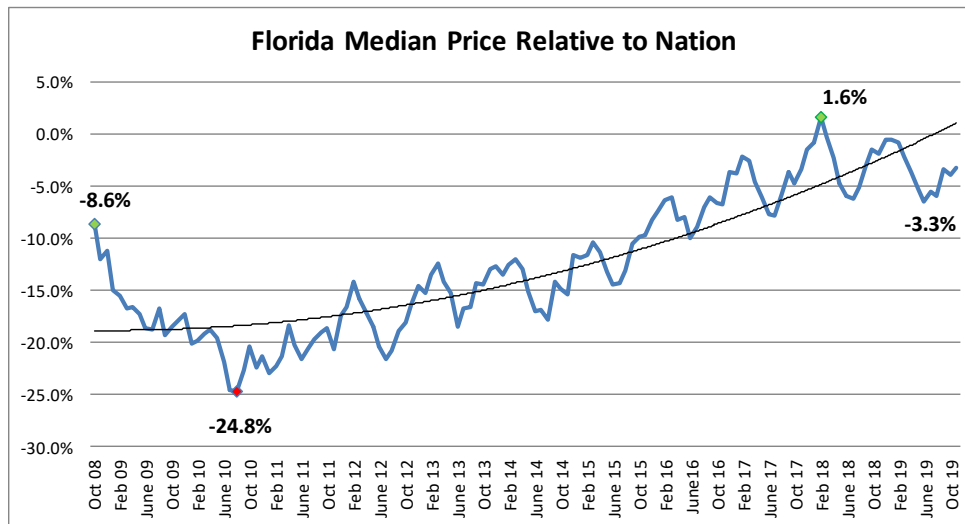
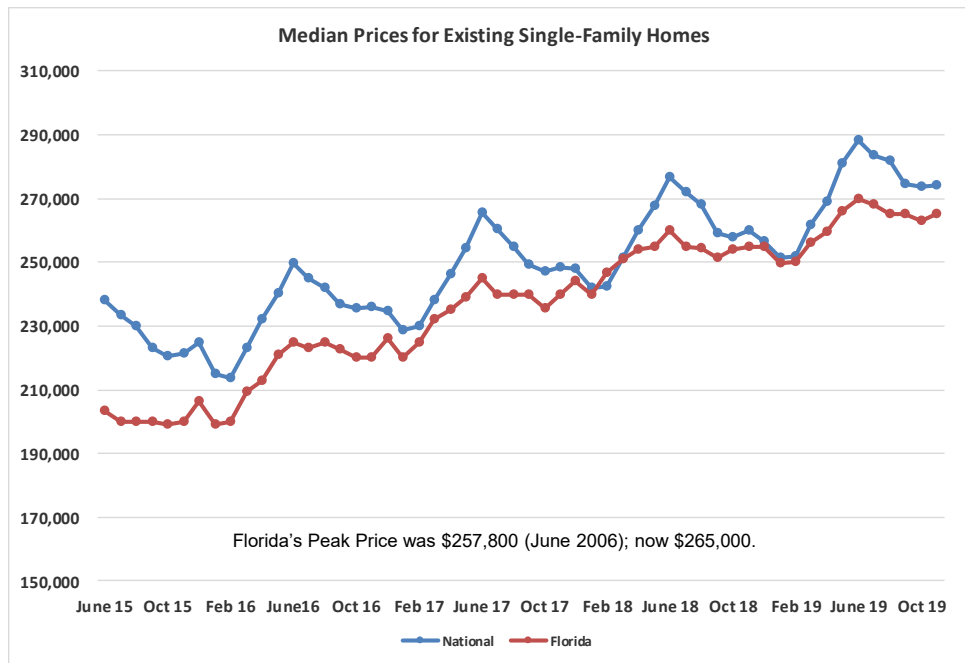
Despite the strong percentage growth rates in six of the last seven calendar years, the level is still low by historic standards – just over 63% of the long-run per capita level. The year-to-date data for the 2019 calendar year is showing marginal growth (4.1%) compared to the recent past.

2018 Building Permit Activity Relative to the County's Peak during the Period 2000-2007



In 2018, four counties have surpassed their prior peak building permit activity level: Gadsden, Monroe, Osceola, and St. Johns. In addition, improvements can be seen in many other areas across the state.

When the 2018 results are compared to 2017, 51 counties issued building permits for more units, while 16 counties issued permits for fewer units.



Data through November 2019

Existing home sales volume in each of the last five calendar years (2014, 2015, 2016, 2017 and 2018) exceeded the 2005 peak year. This year (2019) is on course to do the same.

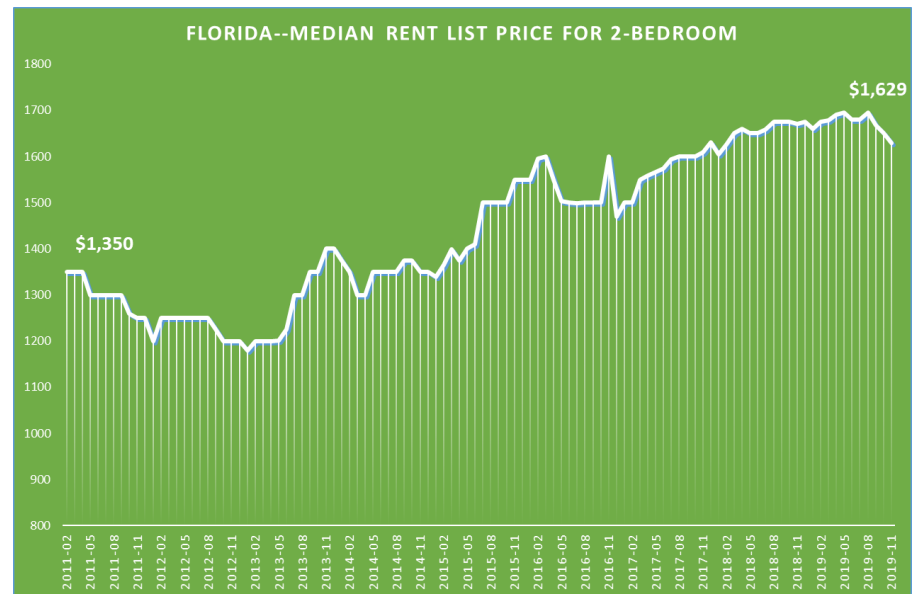
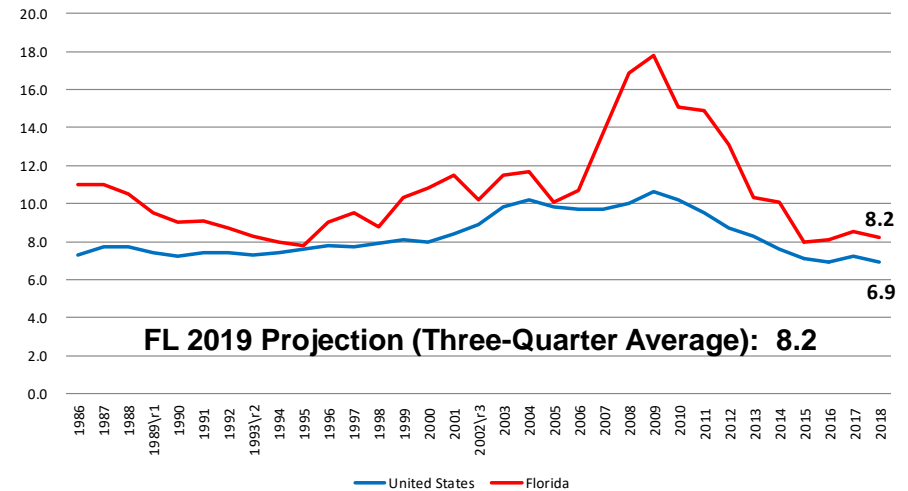
While Florida's existing home price gains have roughly tracked national gains over the last four years, the state's median home price for single family homes has generally stayed upwardly steady as the national median peaks and dips. As Florida's median price has been increasing, the national median has increased even more; Florida has only exceeded the national median one time since October 2008 (over 11 years ago). The state's median price in November was 96.7% of the national median price, which is high for Florida.

Challenging housing costs and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly over the last five years (2015 through 2019); price pressure continues to build.

Florida and U.S. Median Gross Rent (in Current Dollars)						
Year	Median Gross Rent			Average Gross Rent		
	United States	Florida	Florida relative to United States	United States	Florida	Florida relative to United States
2005	728	809	111%	803	863	107%
2006	763	872	114%	844	932	110%
2007	789	925	117%	878	991	113%
2008	824	947	115%	919	1,015	110%
2009	842	952	113%	938	1,024	109%
2010	855	947	111%	954	1,017	107%
2011	871	949	109%	973	1,027	106%
2012	884	954	108%	990	1,037	105%
2013	905	972	107%	1,016	1,050	103%
2014	934	1,003	107%	1,047	1,087	104%
2015	959	1,046	109%	1,077	1,129	105%
2016	981	1,086	111%	1,105	1,161	105%
2017	1,012	1,128	111%	1,138	1,203	106%
2018	1,058	1,182	112%	1,182	1,251	106%

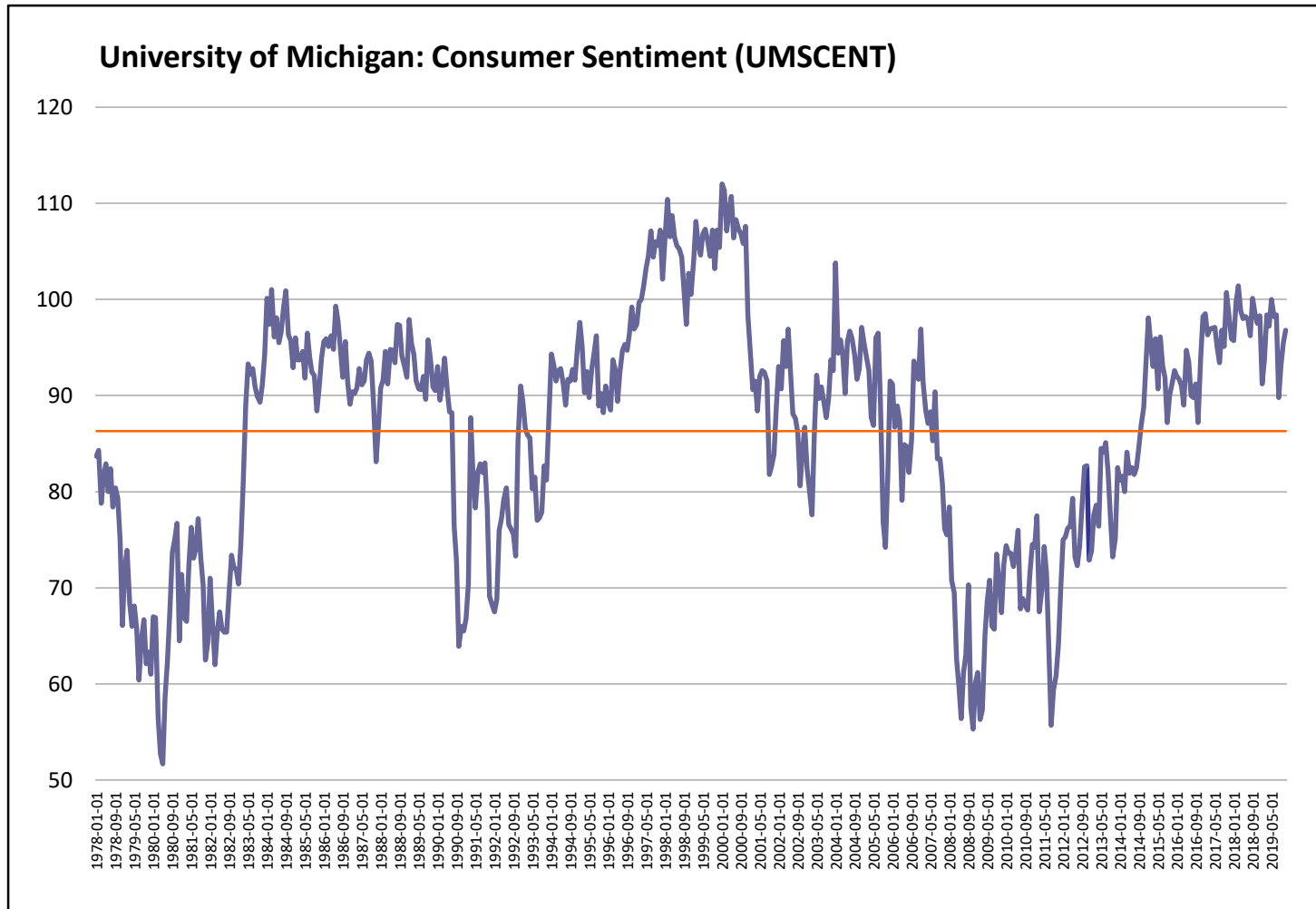
Source: U.S. Census Bureau, American Community Survey, 1-Year, 2005-2018.

Rental Vacancy Rates
Long-run Average Percent: US---8.2; FL---10.5



Zillow Rental Data: Median Rent List Price, 2-bedroom (through 11/2019)

Consumer Perceptions Remain Strong



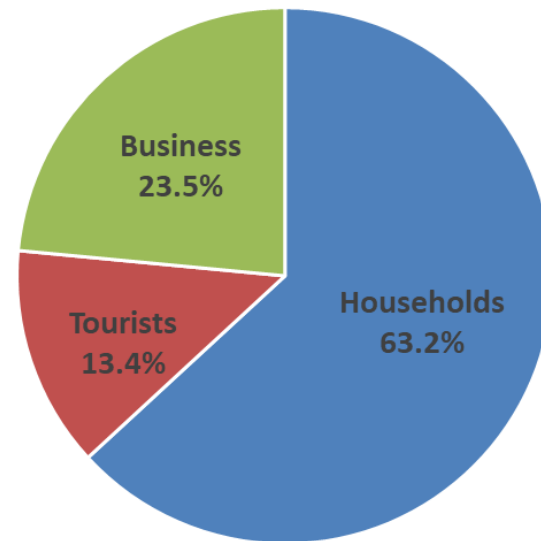
Nationally, the sentiment reading for November 2019 (96.8) is above the index average since inception (86.3), but well below the highest recorded monthly level on record—112.0 in January 2000. The preliminary December reading has improved to 99.2.

Florida-Based Downside Risk

- The most recent sales tax forecast relies heavily on strong tourism growth. It assumes no events that have significant repercussions affecting tourism occur during the forecast window.
 - Currently, tourism-related revenue losses pose the greatest potential risk to the economic outlook.
 - Previous economic studies of disease outbreaks and natural or manmade disasters have shown that tourism demand is very sensitive to such events.
 - A strong and strengthening dollar tends to have a chilling effect on international travel. The broad dollar is expected to remain elevated throughout the near-term forecast and is susceptible to trade tensions.

The Legislative Office of Economic and Demographic Research has updated and refined an empirical analysis of the various sources of the state's sales tax collections. In FY 2017-18, sales tax collections provided over \$24.1 billion dollars or 76.4% of Florida's total General Revenue collections. Of this amount, an estimated 13.4% (over \$3.2 billion) was directly attributable to purchases made by tourists.

Contributions to General Revenue from Sales Tax (with CST)
Collections in FY 2017-18, By Source



Economy Largely Recovered...

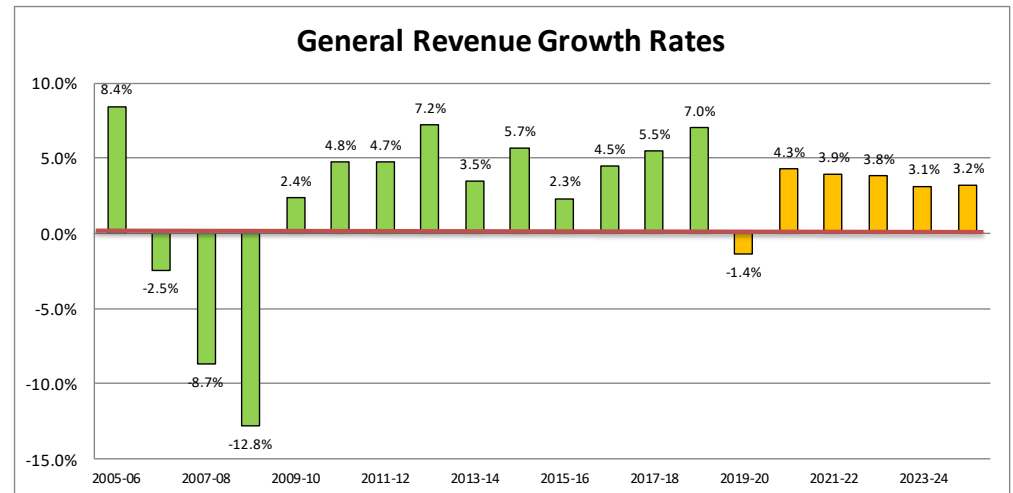
Florida growth rates are generally returning to more typical levels and continue to show progress. The drags—particularly construction—are more persistent than past events, but the strength in tourism is compensating for this. In the various forecasts, normalcy was largely achieved by the end of FY 2016-17. Overall...

- The national economy has been back to normal on nearly all measures; however, financial conditions are increasingly volatile as uncertainty over tariffs and rising concerns regarding growth abroad buffet expectations.
- By the close of the 2018-19 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
 - All personal income metrics, nearly 60 percent of the employment measures, and the total tourism and domestic visitor counts had exceeded their prior peaks.
 - Other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels.
 - Private nonresidential construction expenditures first passed their prior peak in FY 2016-17, but none of the key residential construction measures pass their prior peaks in the forecast horizon, an anticipated slowdown that has been built into all of the recent forecasts.
- As July 2019 ended, the economy had been in expansion for more than a decade, marking the longest economic expansion in U.S. history. The current REC forecasts do not anticipate an outright recession, but turning points are notoriously difficult to project. IHS Markit currently places the risk of a recession at 35 percent in 2020, and the New York Fed's recession probability model just dropped to a 25 percent probability for the same time period (lower than projected through the Fall). Moody's Analytics matches IHS' risk analysis; however, writing in late-December, Mark Zandi of Moody's placed the odds "uncomfortably high".
- The National Association for Business Economics' current forecast places the recession risk at 21% during the first half of 2020 and as much as 43% by the end of 2020. Their current odds rise to 66% for a recession to begin by mid-2021.

General Revenue Forecast

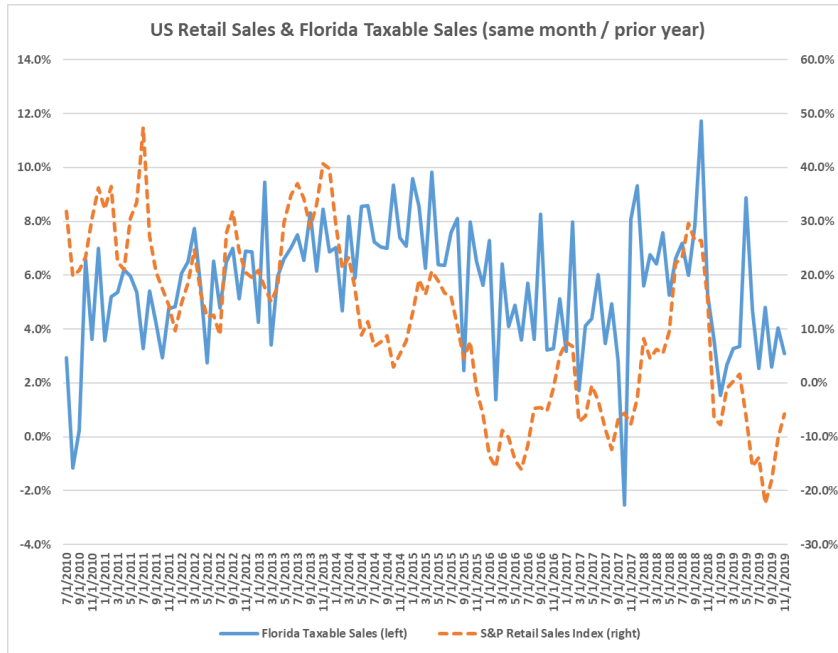
LR Growth: Averages 6%
Forecast Growth: Drops from 4.3% to 3.2%, after the decline in FY 2019-20

The past had tax increases associated with key revenue sources and stronger population growth.



Fiscal Year	Post-Session 2019	August 2019 Forecast	Difference	Incremental Growth	Growth
2005-06	27074.8				8.4%
2006-07	26404.1				-2.5%
2007-08	24112.1				-8.7%
2008-09	21025.6				-12.8%
2009-10	21523.1				2.4%
2010-11	22551.6				4.8%
2011-12	23618.8				4.7%
2012-13	25314.6				7.2%
2013-14	26198.0				3.5%
2014-15	27681.1				5.7%
2015-16	28325.4				2.3%
2016-17	29594.5				4.5%
2017-18	31218.2				5.5%
2018-19	33413.8				7.0%
2019-20	33,394.9	32,943.3	(451.6)	(470.5)	-1.4%
2020-21	34,779.4	34,363.3	(416.1)	1,420.0	4.3%
2021-22	35,989.7	35,712.3	(277.4)	1,349.0	3.9%
2022-23	37,120.8	37,074.5	(46.3)	1,362.2	3.8%
2023-24	38,257.0	38,237.1	(19.9)	1,162.6	3.1%
2024-25		39,467.0		1,229.9	3.2%

The August forecast reduced the March 2019 estimate by \$451.6 million for FY 2019-20 and by \$416.1 million in FY 2020-21, for a two-year reduction of \$867.7 million. However, the prior General Revenue Financial Outlook Statement already took into account some of the adjustments, leaving a net positive change on the Outlook of \$201.2 million. These numbers affect the revenues available for the budget being crafted for FY 2020-21. The Conference recognized that there is an elevated level of risk to the forecast due to the mature stage of the current economic expansion.



- The change over the same month in the prior year as shown on the national S&P Retail Select Industry Index has been mostly negative since the beginning of the 2019 calendar year. Florida's taxable sales exhibit an overall pattern similar to the national index; however, the relationship became more tenuous beginning in February 2014, with Florida proving to be more resilient.
- Florida's in-state volatility over the prior year has been significant since Hurricane Irma in 2017, but really started a year earlier in FY 2016-17. Only in the past year has it become more stable. October 2018 was a notable exception as it looked back to the prior year's hurricane-affected low point and showed exceptionally robust growth, year over year.

US Retail Sales & Florida Taxable Sales

