# Florida:
# An Economic Overview

November 6, 2012

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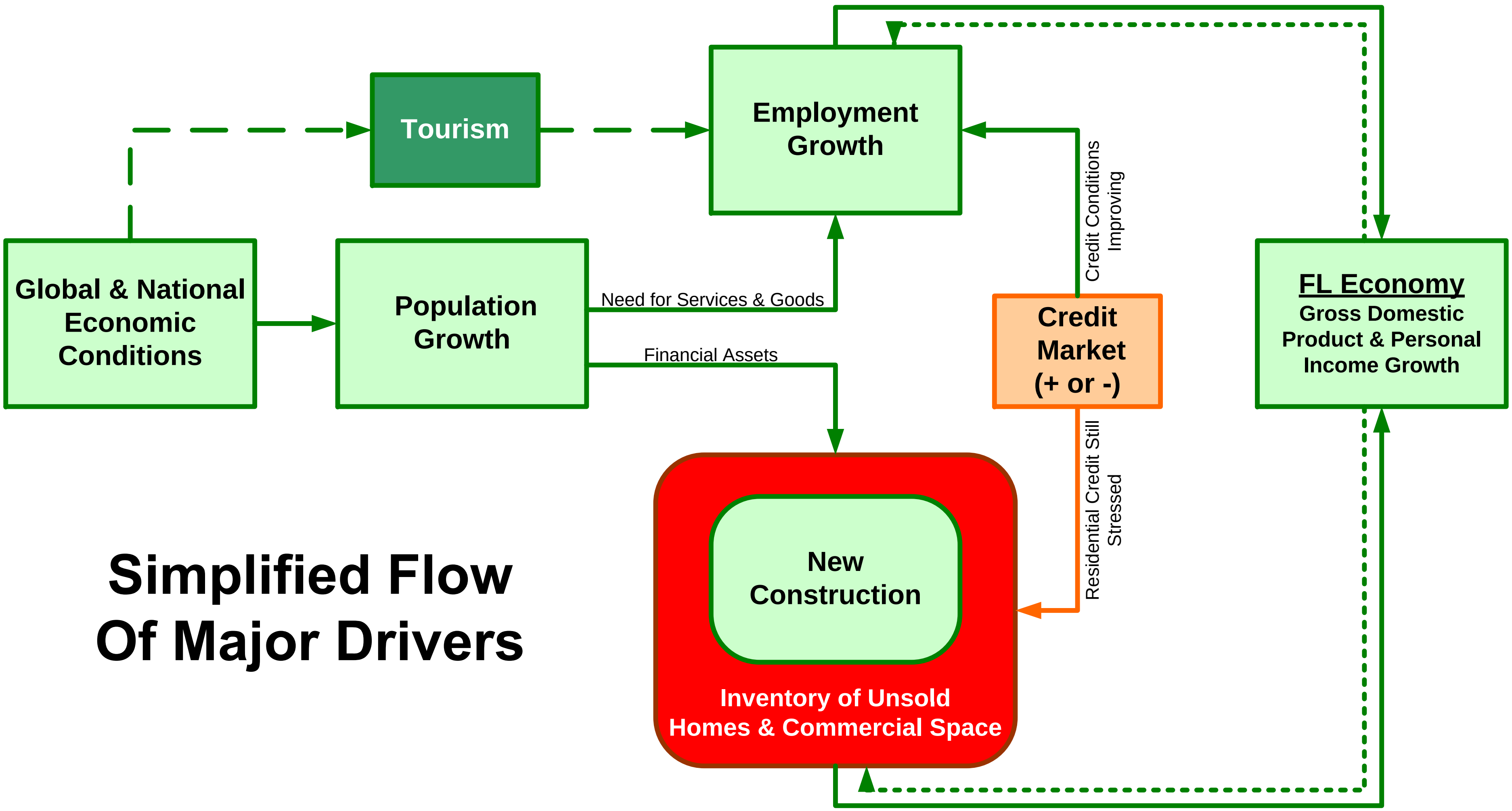
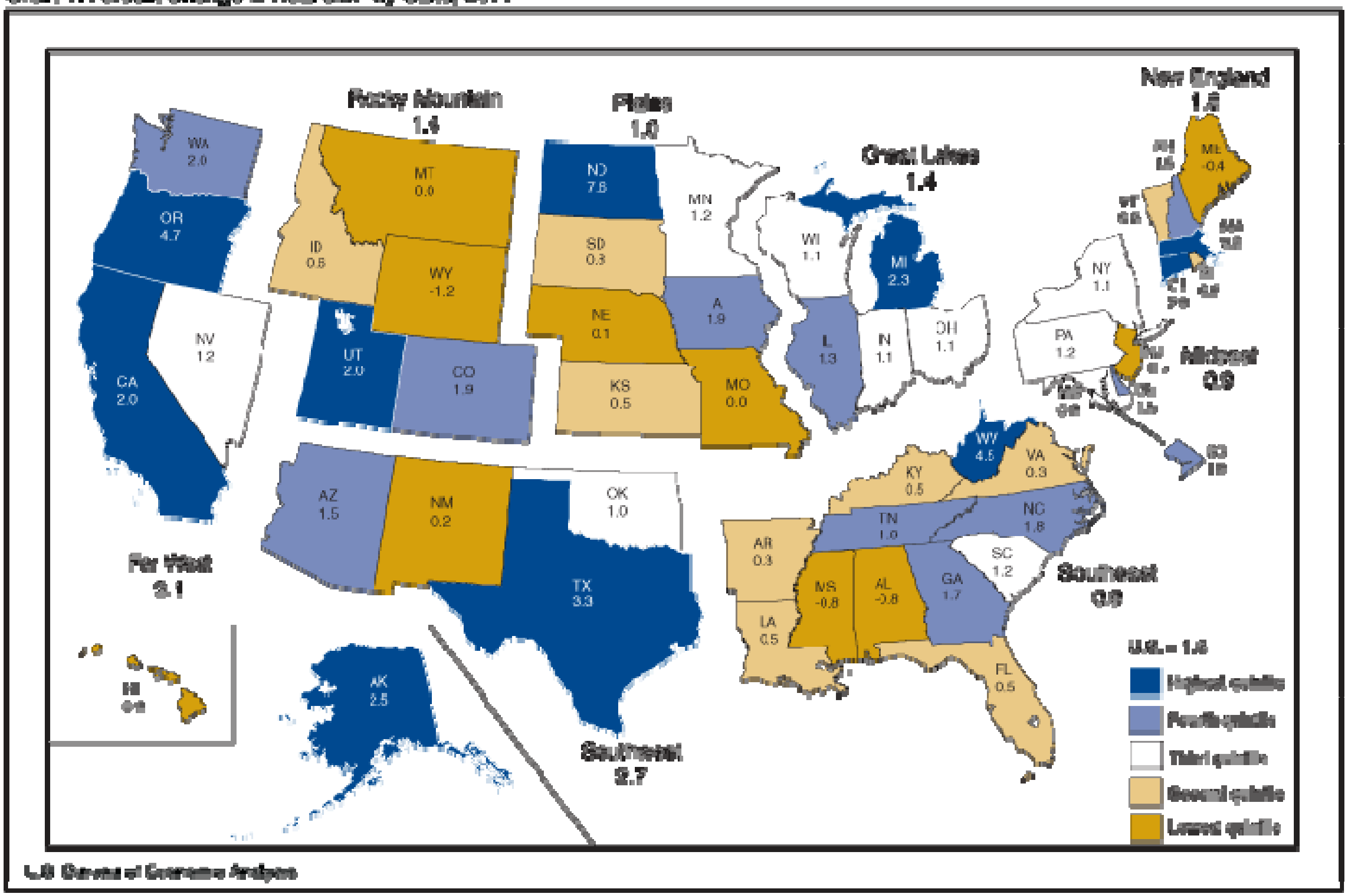
# Key Economic Variables Improving




## Simplified Flow Of Major Drivers

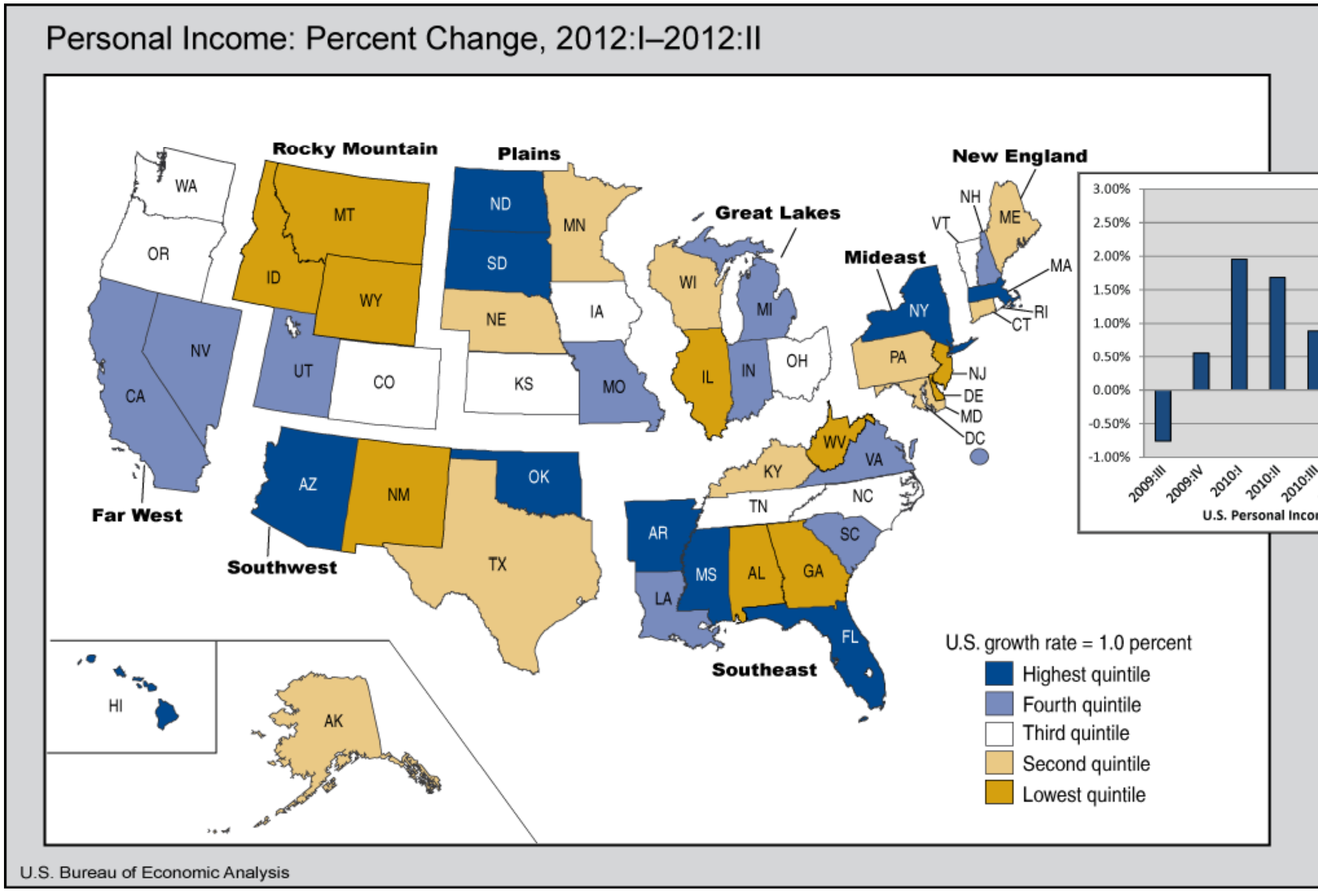
# Economy Remained Positive in 2011

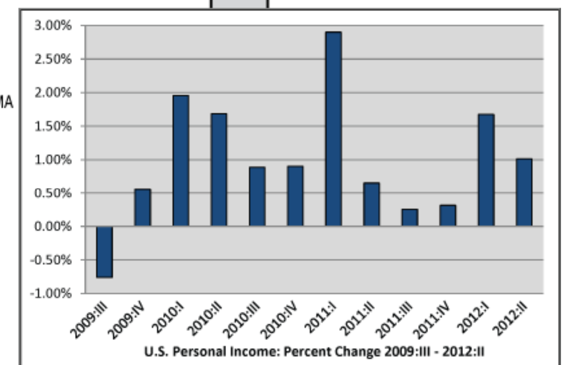
Chart 1. Percent Change in Real GDP by State, 2011




In 2011, Florida's economic growth remained in positive territory for the second year after declining two years in a row. State Gross Domestic Product (GDP) ranked us 37th in the nation in real growth with a gain of 0.5%. While the state's ranking improved, the growth slowed from a downwardly revised 0.9% for 2010.

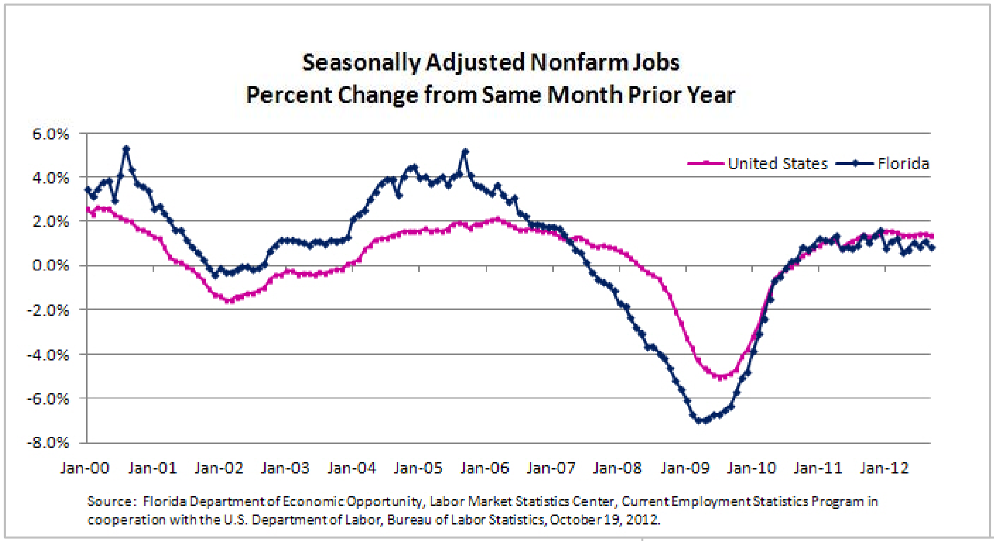
# FL Personal Income Grows in Q2:2012




Florida's personal income grew 1.2 percent in the second quarter of 2012, ranking the state 5th in the country with respect to state growth. The national average was 1.0 percent. *Health Care and Social Assistance* and *Professional, Scientific and Technical Services* were the strongest industry contributors to the state's growth. Compared to the US as a whole, *Construction* continues to be a drag—as does *Manufacturing*.

# Current Employment Conditions




**<u>September Nonfarm Jobs (YOY)</u>**

US 1.4%
FL 0.9%
YR: 63,500 jobs
Peak: -725,000 jobs

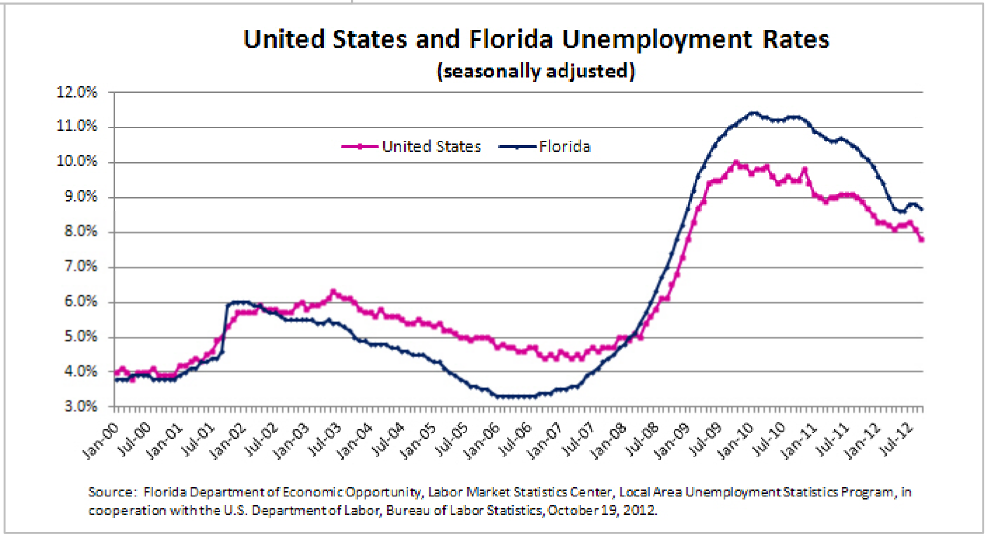
**<u>September Unemployment Rate</u>**

US 7.8%
FL 8.7%
(808,000 people)

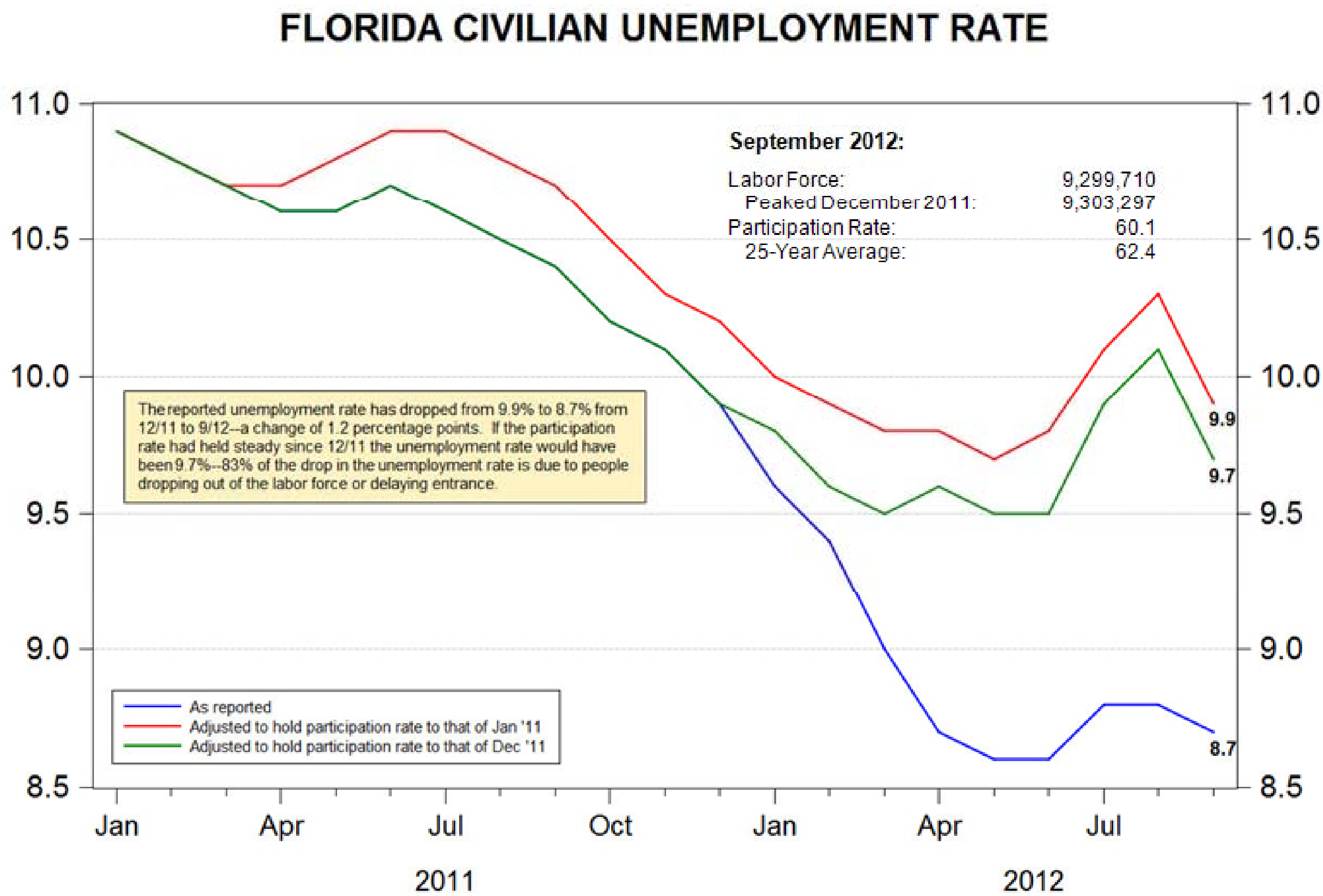
Twelve states had a higher unemployment rate than Florida. Florida's unemployment rate was the same as Oregon's.

**<u>Highest Monthly Rate</u>**

January & February 2010
11.4%

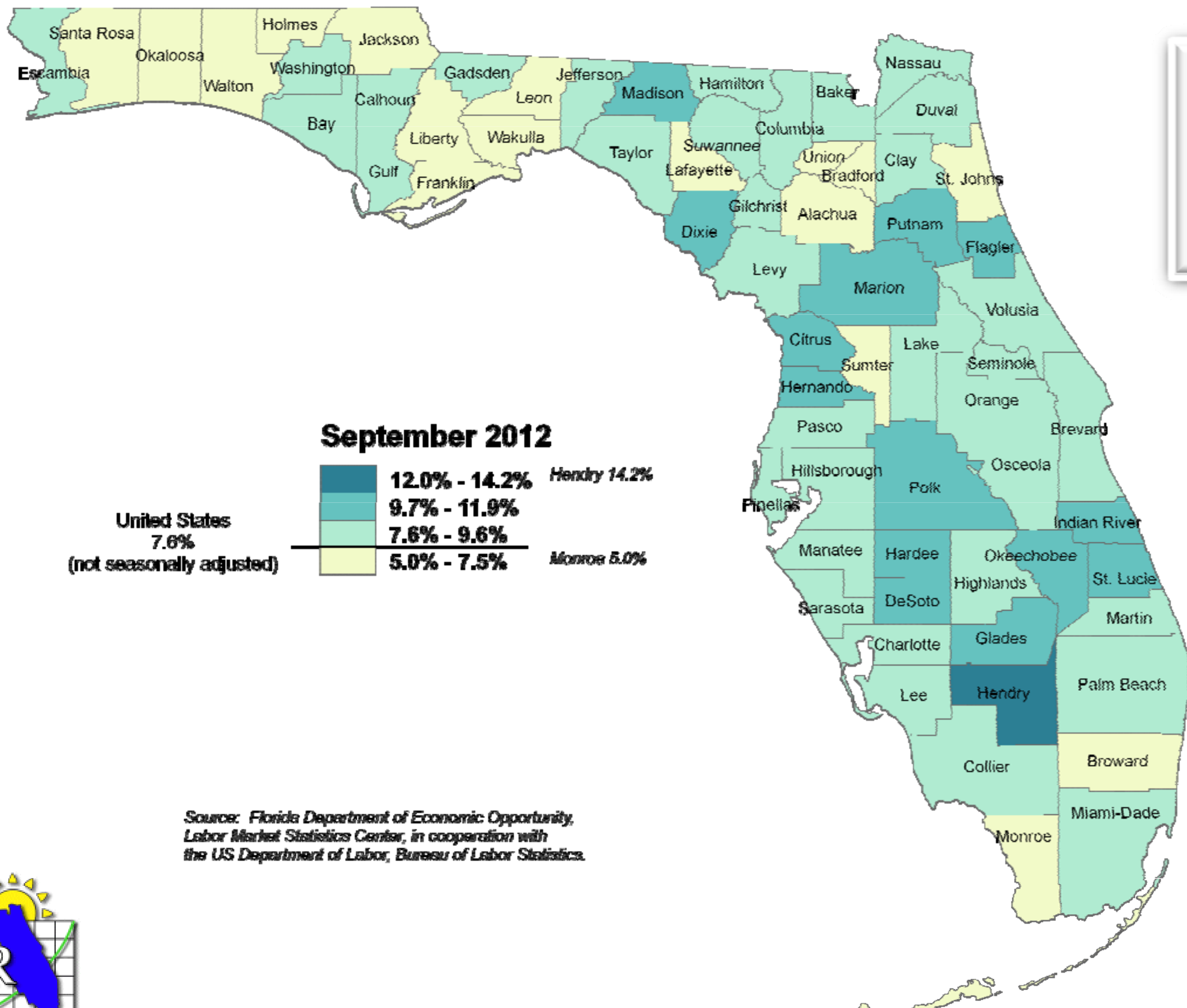


# Labor Force Changes Account for Most of Rate Drop




National Situation as reflected in the Federal Open Market Committee Minutes for September 2012: "...the labor force participation rate and employment-to-population ratios were at or near post-recession lows... concerns about the risk that the exceptionally high level of long-term unemployment and the depressed level of labor participation could ultimately lead to permanent negative effects on the skills and prospects of those without jobs, thereby reducing the longer-run normal level of employment and potential output."

# Unemployment Rates




12 of Florida's 67 counties had double-digit unemployment rates; at the highest, this number was 52.

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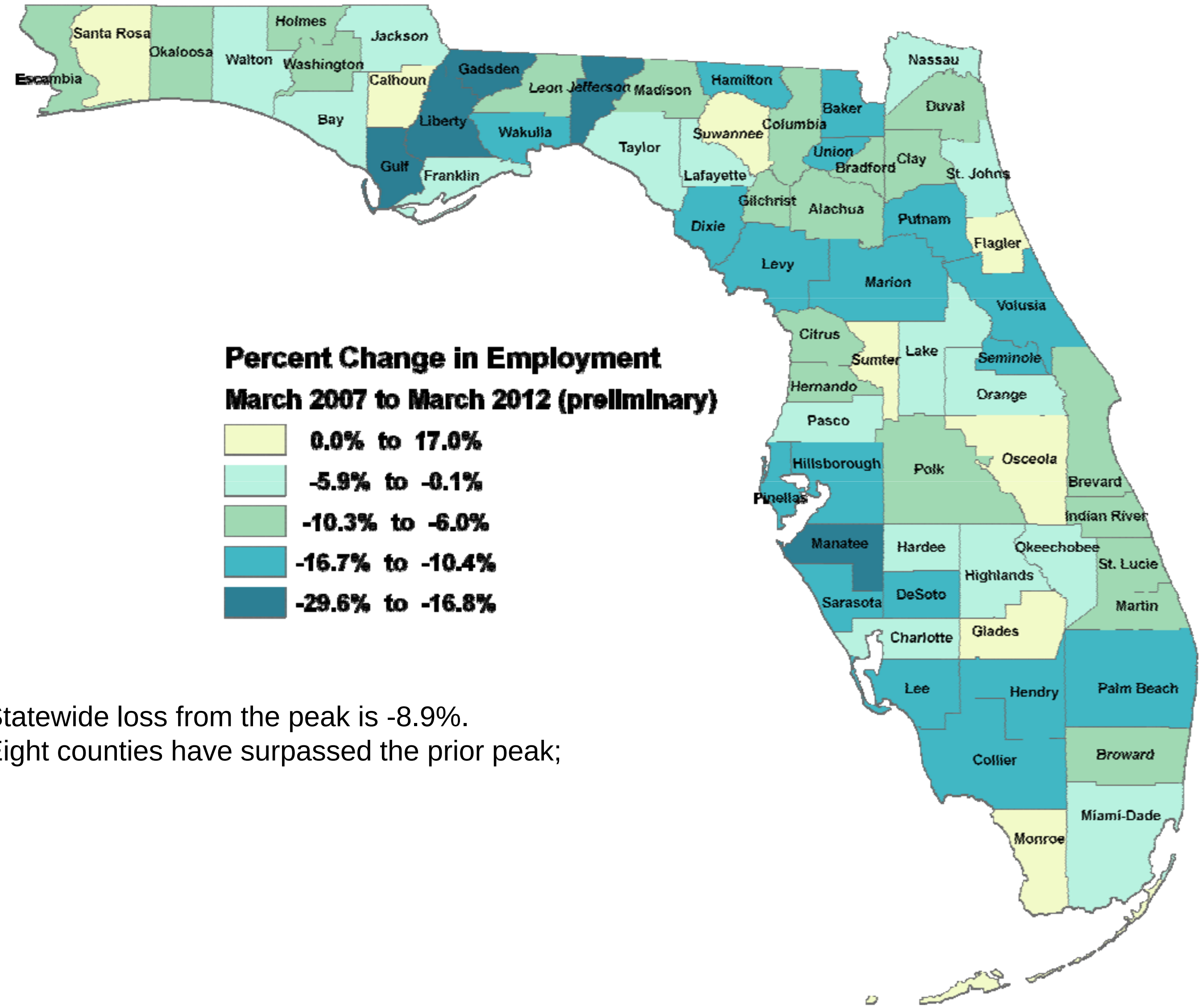
# Florida’s Job Market

- The job market will take a long time to recover – about 725,000 jobs have been lost since the most recent peak. Rehiring, while necessary, will not be enough.
- Florida’s prime working-age population (aged 25-54) is forecast to add about 2,500 people per month, so the hole is deeper than it looks.
- It would take the creation of about 1 million jobs for the same percentage of the total population to be working as was the case at the peak.

# Employment Still Down from Peak Levels, but Improving...




Statewide loss from the peak is -8.9%.
Eight counties have surpassed the prior peak;

# Population Growth Recovering

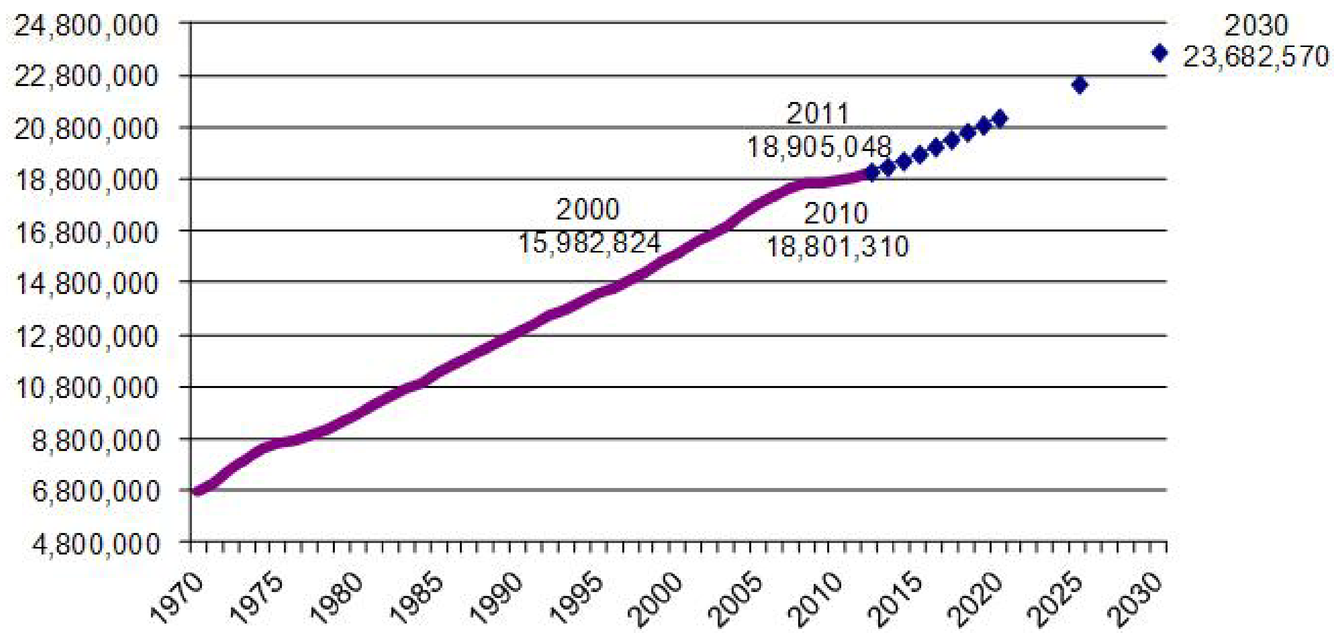
- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.

- Population growth is forecast to continue strengthening, showing increasing rates of growth over the next few years. In the near-term, growth is expected to average 1.2% between 2012 and 2015 – and then continue its recovery in the future, averaging 1.4% between 2020 and 2025. Most of Florida's population growth through 2030 will be from net migration (85%). Nationally, average annual growth will be about 0.9% between 2012 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 on track to break the 20 million mark during 2016, becoming the third most populous state sometime before then – surpassing New York.

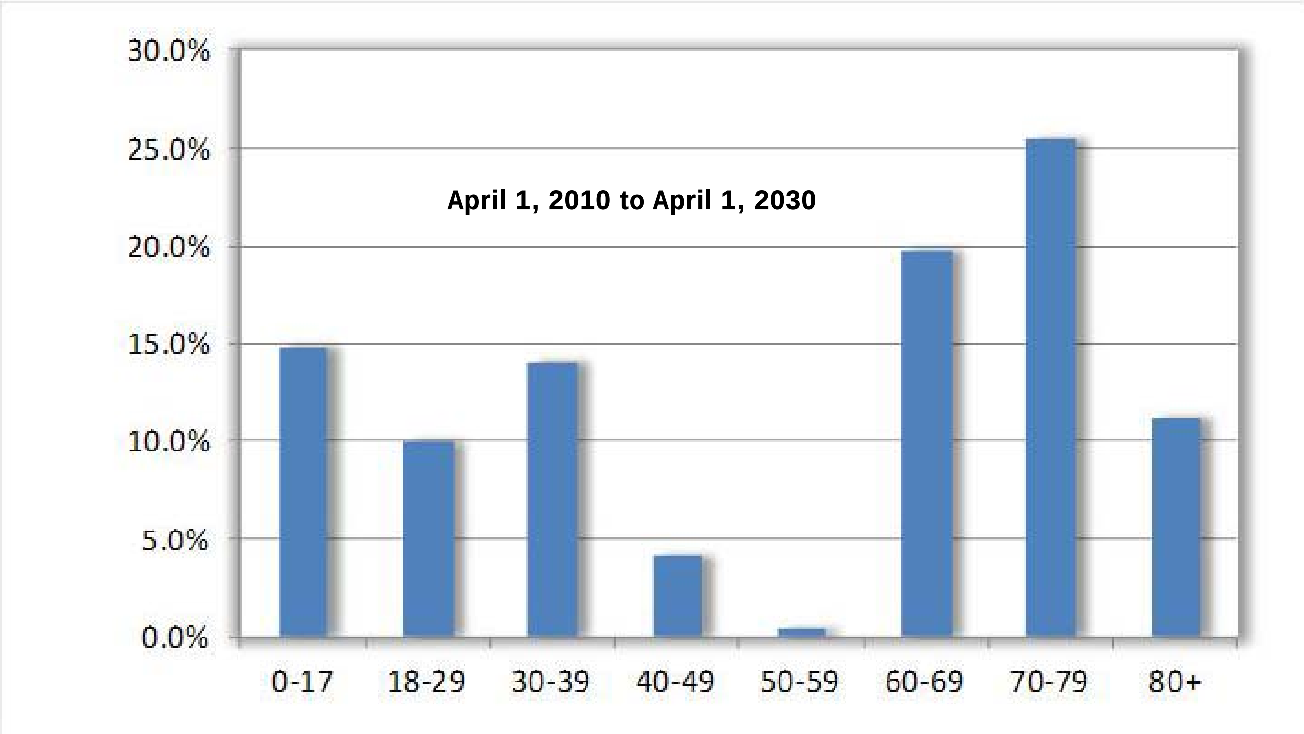
# Florida’s April 1 Population Snapshot




Florida’s population:

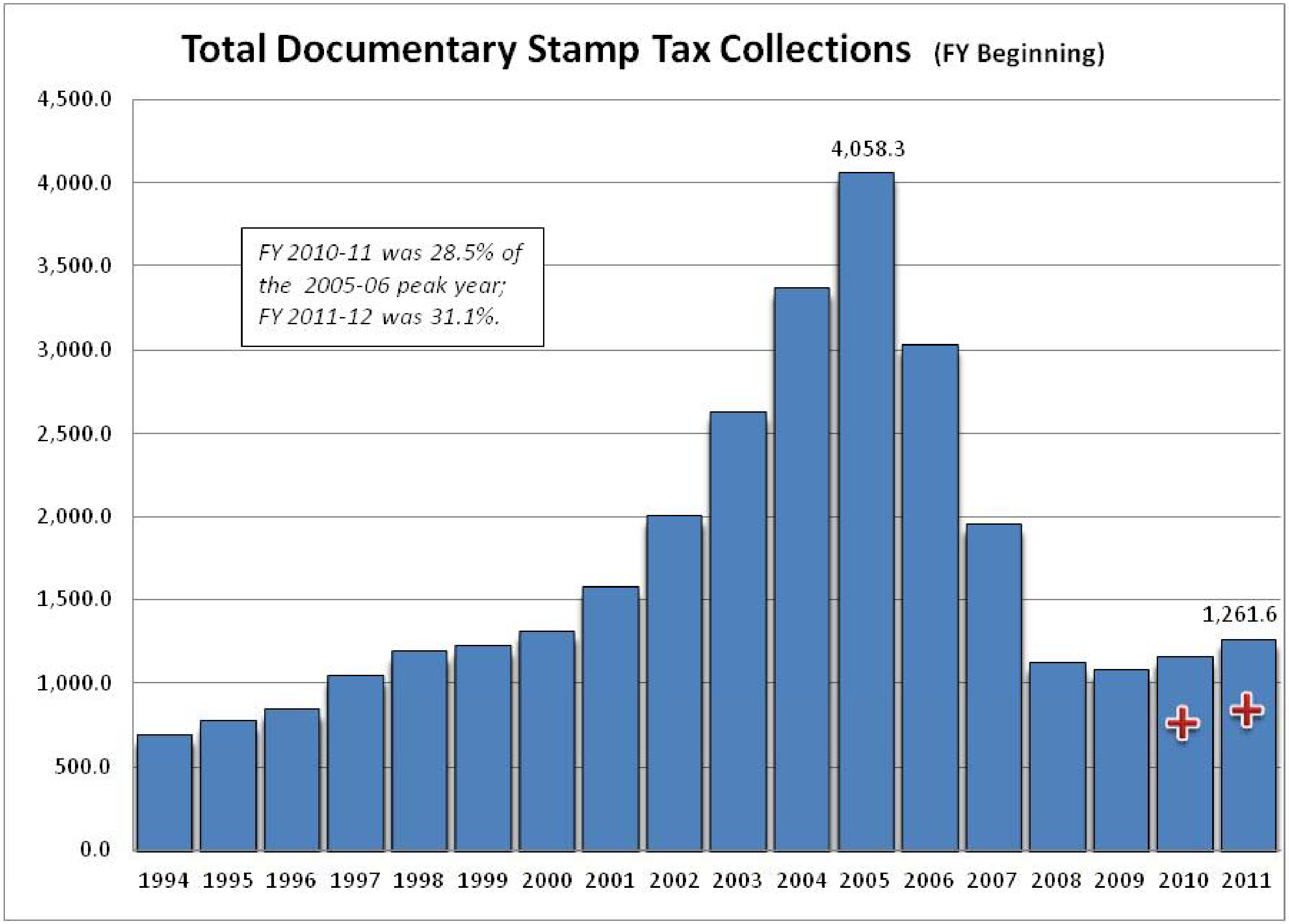
- was 15,982,824 in 2000
- was 18,801,310 in 2010
- is forecast to grow to 23,682,570 by 2030

# Population Growth by Age Group



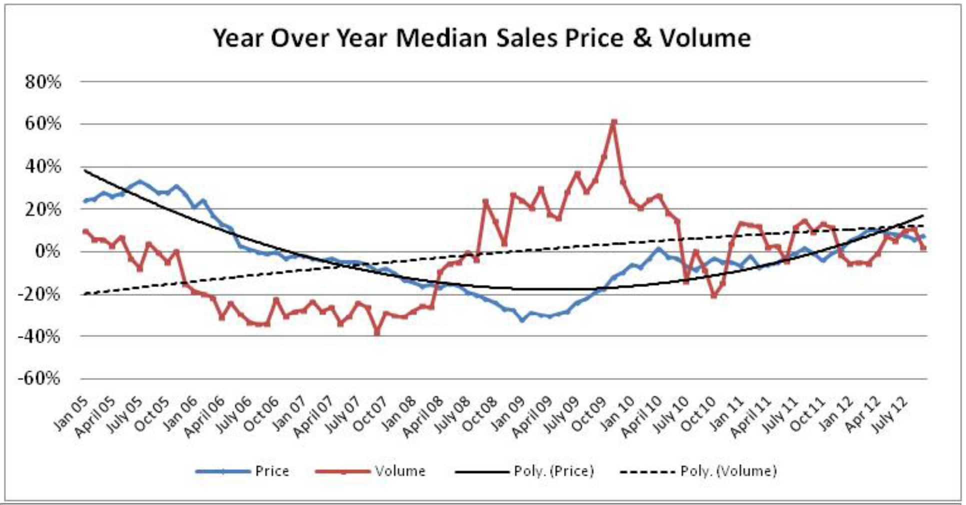

- Between 2010 and 2030, Florida's population is forecast to grow by almost 4.8 million.
- Florida's older population (age 60 and older) will account for most of Florida's population growth, representing 56.6 percent of the gains.
- Florida's younger population (age 0-17) will account for 14.8 percent of the gains.

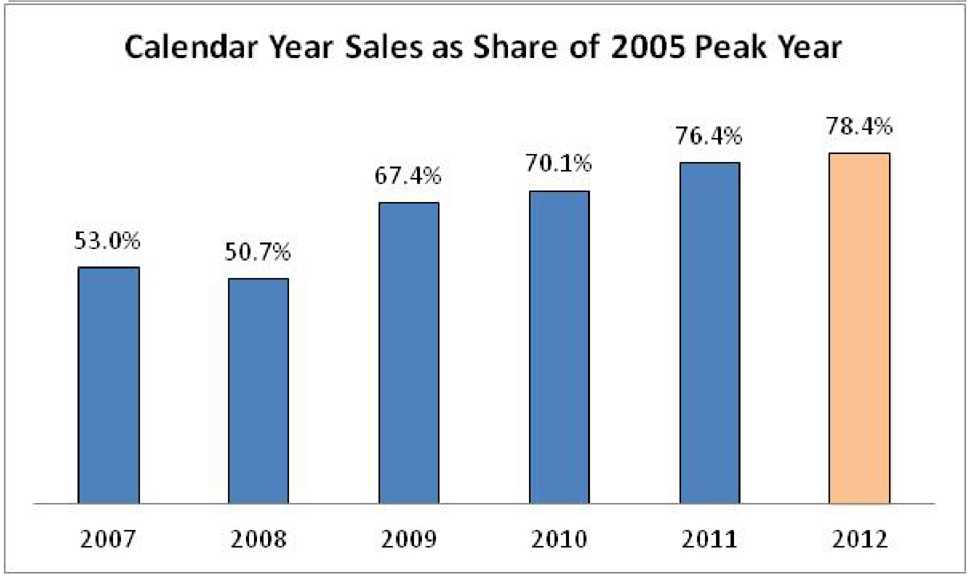
# Florida Housing is Generally Improving




Building permit activity, an indicator of new construction, is back in positive territory, showing strong (26.2%) year-over-year growth for the first nine months of the calendar year.

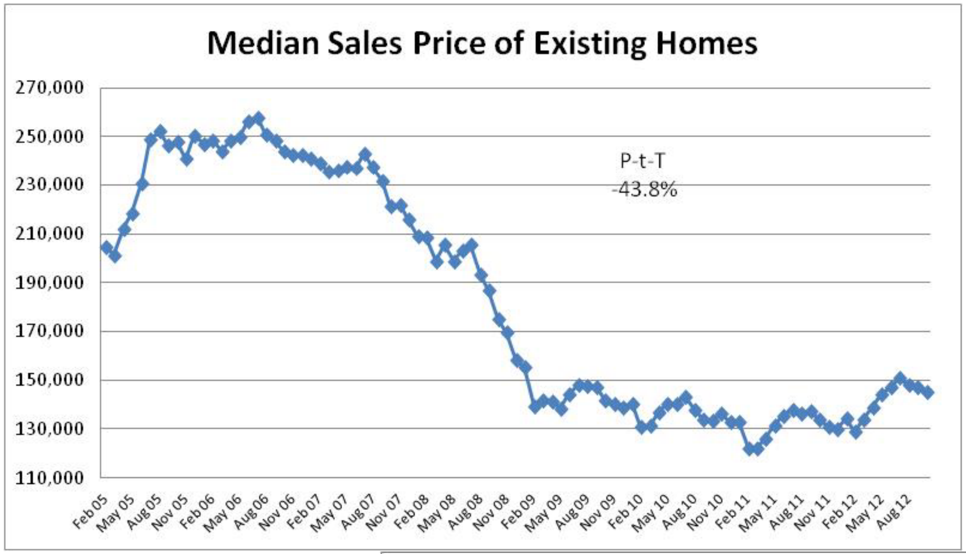
# But, Existing Homes Sales Are Sputtering



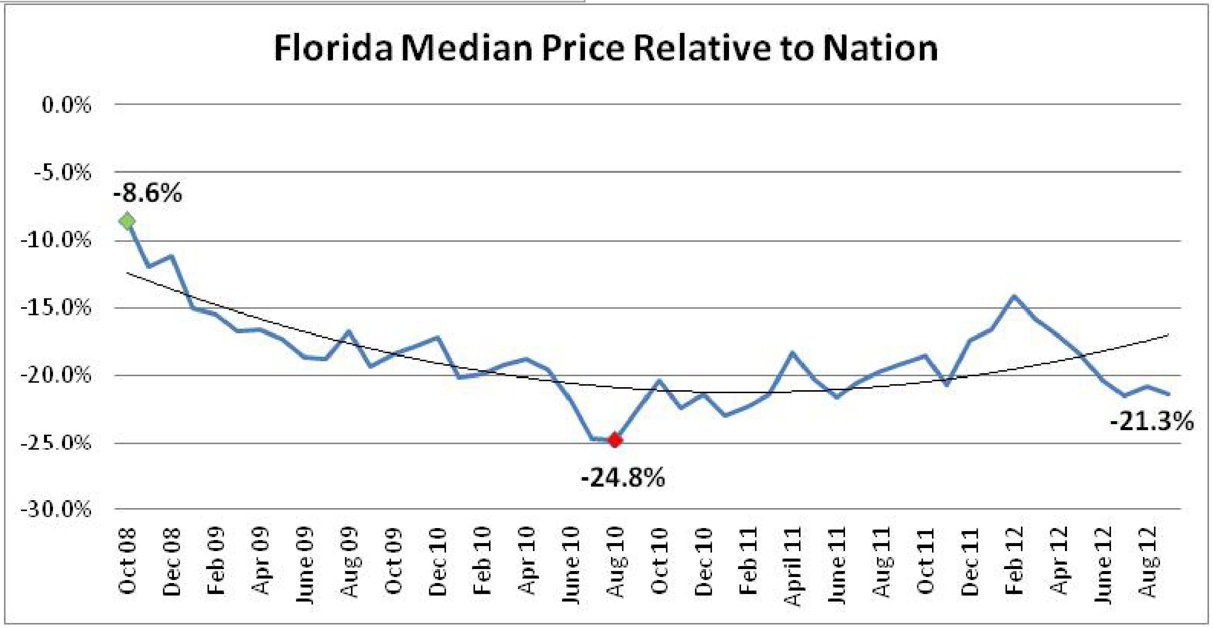

Data through
September 2012

# While Existing Home Prices Are Rising




Data through September 2012

Median Sales Prices for Existing Homes have shown recent improvement, posting the highest number in June in 42 months (December 2008), but median sales prices are still substantially below the nation as a whole.



# Foreclosure Filings Remain Daunting

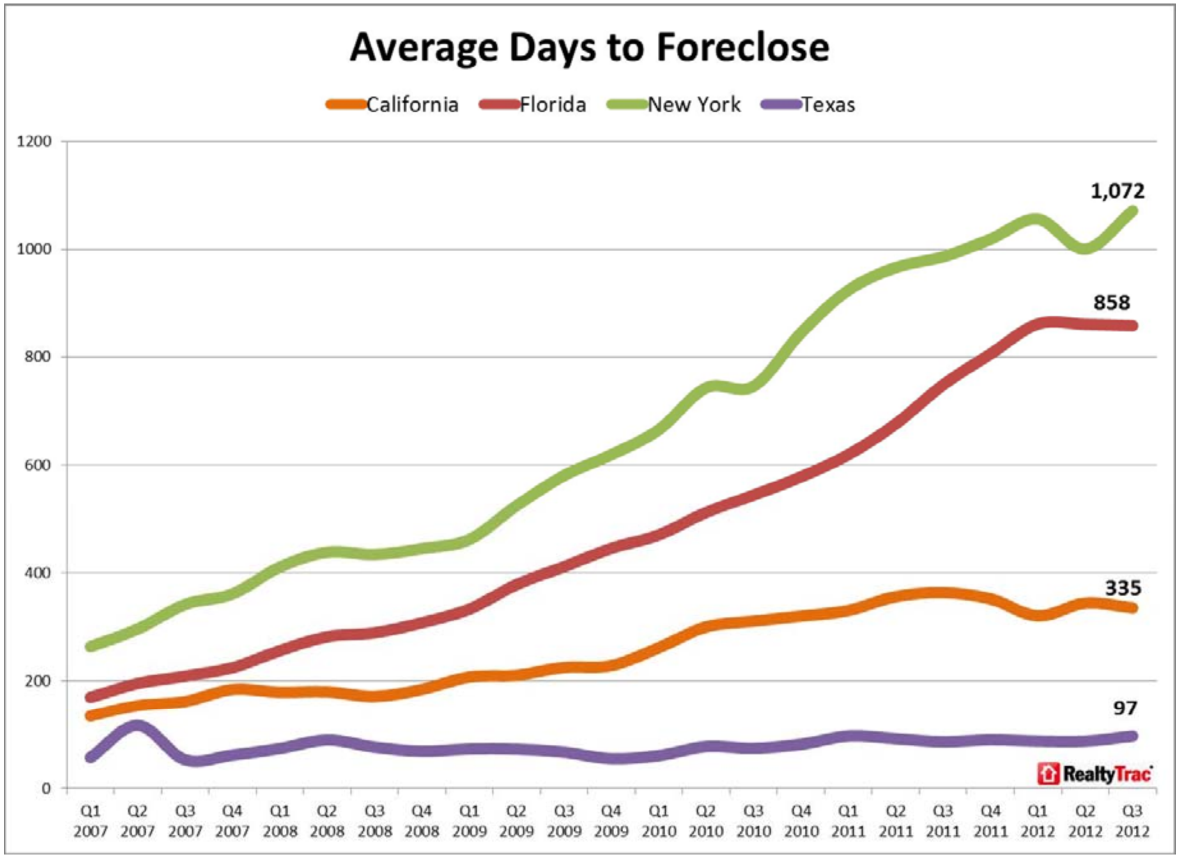
"Optimists point to declining home inventories in relation to sales, but they are looking at an illusion. Those supposed inventories do not include about 5m housing units with delinquent mortgages or those in foreclosure, which will soon be added to the pile. Nor do they include approximately 3m housing units that stand vacant – foreclosed upon but not yet listed for sale, or vacant homes that owners have pulled off the market because they can't get a decent price for them." *Financial Times*

***Foreclosure Process** **(once begun)***

- *858 Days – 2.4 yrs – in Florida (3rd Longest Period in Nation)*
- *National Average – 382 days*
- *At the beginning of 2007, FL was at 169 days or less than 6 months.*

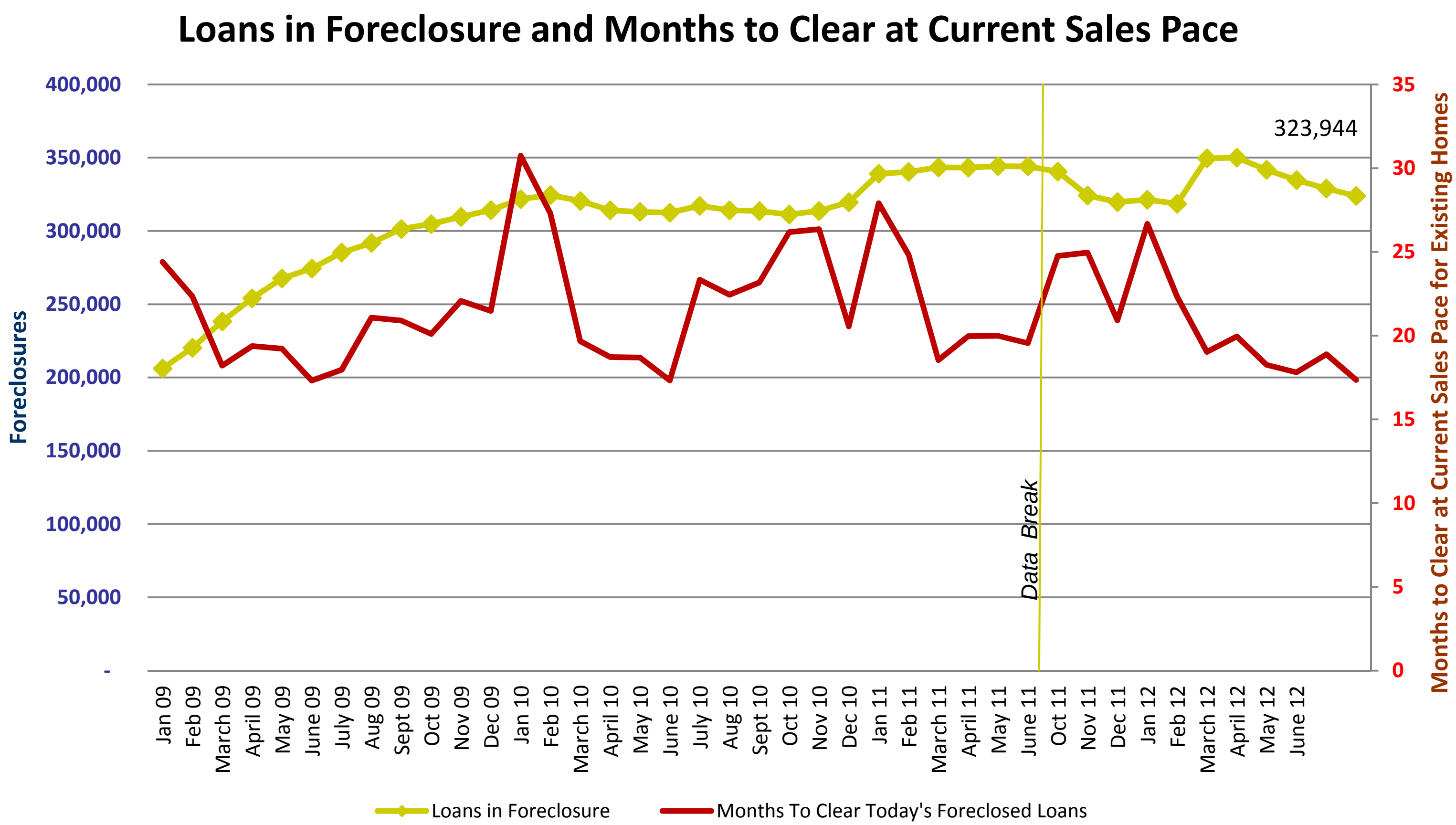
***September 2012, compared to US:***

- *Florida foreclosure starts increased 24% from one year ago.*
- *2nd Highest State for # of Filings*
- *Highest State for Foreclosure Rate*
- *Among US Metro Area rates:*
  *Miami-Fort Lauderdale-Pomp Bch #10*
  *Six other areas were in the top 20*




Data from RealtyTrac

# Residential Loans in Foreclosure




Loan Data from LPS: August

# Foreclosures & Shadow Inventory

| State | Del % | FC % | Non-Curr % | Yr/Yr Change in NC% |
|---|---|---|---|---|
| National | 6.9% | 4.0% | 10.9% | -7.6% |
| FL * | 7.5% | 13.3% | 20.7% | -6.3% |
| MS | 13.2% | 3.6% | 16.9% | -2.8% |
| NJ * | 7.8% | 8.1% | 16.0% | 7.7% |
| NV | 10.2% | 5.6% | 15.8% | -10.4% |
| NY * | 6.9% | 6.4% | 13.3% | 3.1% |
| IL * | 6.7% | 6.5% | 13.3% | -6.0% |
| LA * | 9.8% | 3.2% | [illegible] | -0.9% |
| MD * | 7.5% | 5.2% | 12.7% | -0.3% |
| RI | 8.3% | 4.2% | 12.6% | [illegible] |
| ME * | 6.7% | 5.8% | 12.5% | 2.8% |
| CT * | 6.7% | 5.6% | 12.3% | 3.2% |
| GA | 9.5% | 2.5% | 12.0% | -11.1% |
| IN * | 7.8% | 4.1% | 11.9% | -7.2% |
| OH * | 7.5% | 4.3% | 11.8% | -6.7% |
| HI * | 5.0% | 6.6% | 11.6% | 5.4% |
| AR | 9.4% | 2.1% | 11.5% | 7.6% |
| SC * | 7.0% | 4.4% | 11.3% | -7.3% |

* - Indicates Judicial State

| State | Del % | FC % | Non-Curr % | Yr/Yr Change in NC% |
|---|---|---|---|---|
| National | 6.9% | 4.0% | 10.9% | -7.6% |
| DE * | 7.9% | 3.2% | 11.1% | 0.4% |
| AL | 9.3% | 1.8% | 11.1% | -3.2% |
| PA * | 7.1% | 4.0% | 11.1% | 0.3% |
| TN | 8.8% | 1.9% | 10.7% | -9.2% |
| WV | 8.2% | 2.1% | 10.3% | -9.9% |
| NC | 7.2% | 2.9% | 10.1% | -8.5% |
| MA | 7.2% | 2.6% | 9.9% | 0.0% |
| OK * | 6.4% | 3.4% | 9.8% | -1.5% |
| WI * | 6.2% | 3.3% | 9.5% | -7.8% |
| NM * | 5.4% | 4.1% | 9.5% | -0.4% |
| KY * | 6.3% | 3.2% | 9.5% | -8.0% |
| WA | 6.8% | 2.7% | 9.5% | 3.7% |
| MI | 7.1% | 2.0% | 9.1% | -16.4% |
| DC | 6.4% | 2.7% | [illegible] | [illegible] |
| VT * | 5.0% | 3.9% | [illegible] | [illegible] |
| TX | 7.1% | 1.5% | [illegible] | [illegible] |
| CA | 6.1% | 2.6% | [illegible] | [illegible] |

| State | Del % | FC % | Non-Curr % | Yr/Yr Change in NC% |
|---|---|---|---|---|
| National | 6.9% | 4.0% | 10.9% | -7.6% |
| MO | 6.9% | 1.6% | 8.5% | -10.6% |
| NH | 6.3% | 1.9% | 8.2% | -6.8% |
| KS * | 6.2% | 2.0% | 8.2% | -5.8% |
| AZ | 5.7% | 2.4% | 8.2% | -25.6% |
| UT | 6.1% | 1.8% | 7.9% | -10.0% |
| OR | 4.3% | 3.6% | 7.9% | -7.6% |
| IA * | 4.9% | 2.8% | 7.6% | -5.2% |
| ID | 4.7% | 2.9% | 7.5% | -8.6% |
| VA | 5.4% | 1.6% | 7.0% | -10.2% |
| NE * | 5.0% | 1.2% | 6.2% | -7.7% |
| MN | 4.3% | 1.7% | 6.0% | -15.3% |
| CO | 4.2% | 1.4% | 5.7% | -13.1% |
| MT | 3.6% | 1.7% | 5.3% | -11.8% |

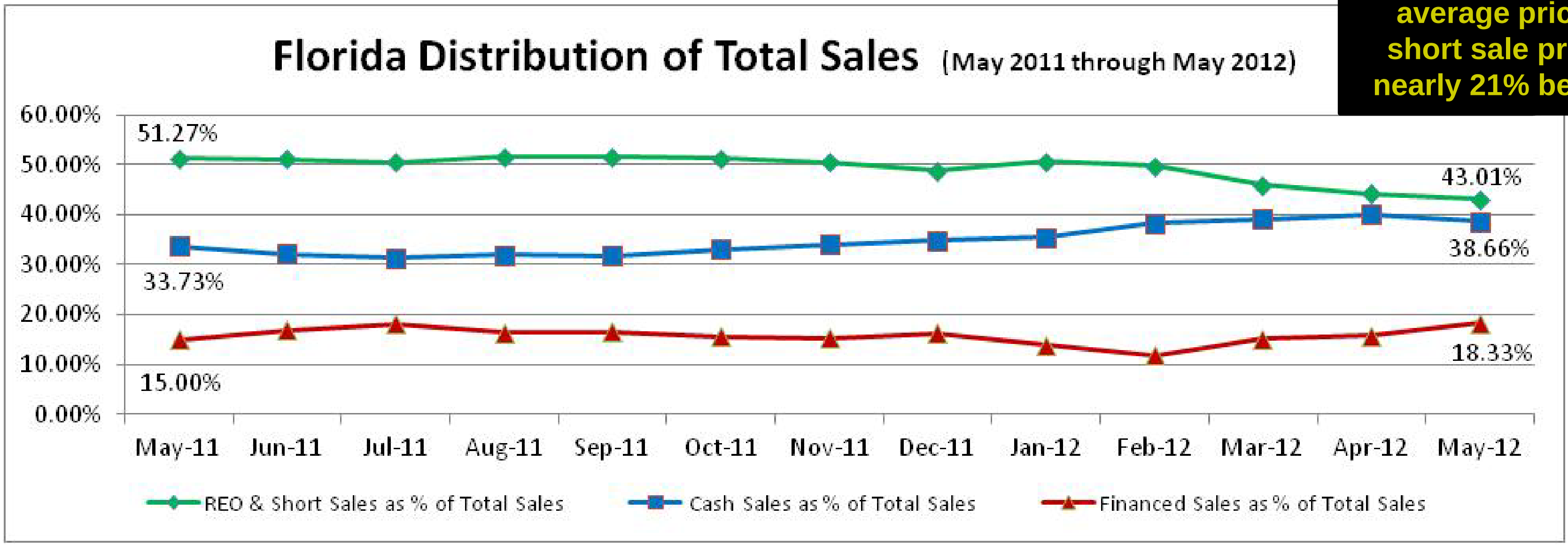
| | DEL % | FC % | Non Curr |
|---|---|---|---|
| National | 6.9% | 4.0% | 10.9% |
| FL | 7.5% | 13.3% | 20.7% |

Underwater homes are down to 38.0% of all residential mortgages in Florida.

(LPS Data for June)

# Sales Mix Points to Lower Prices

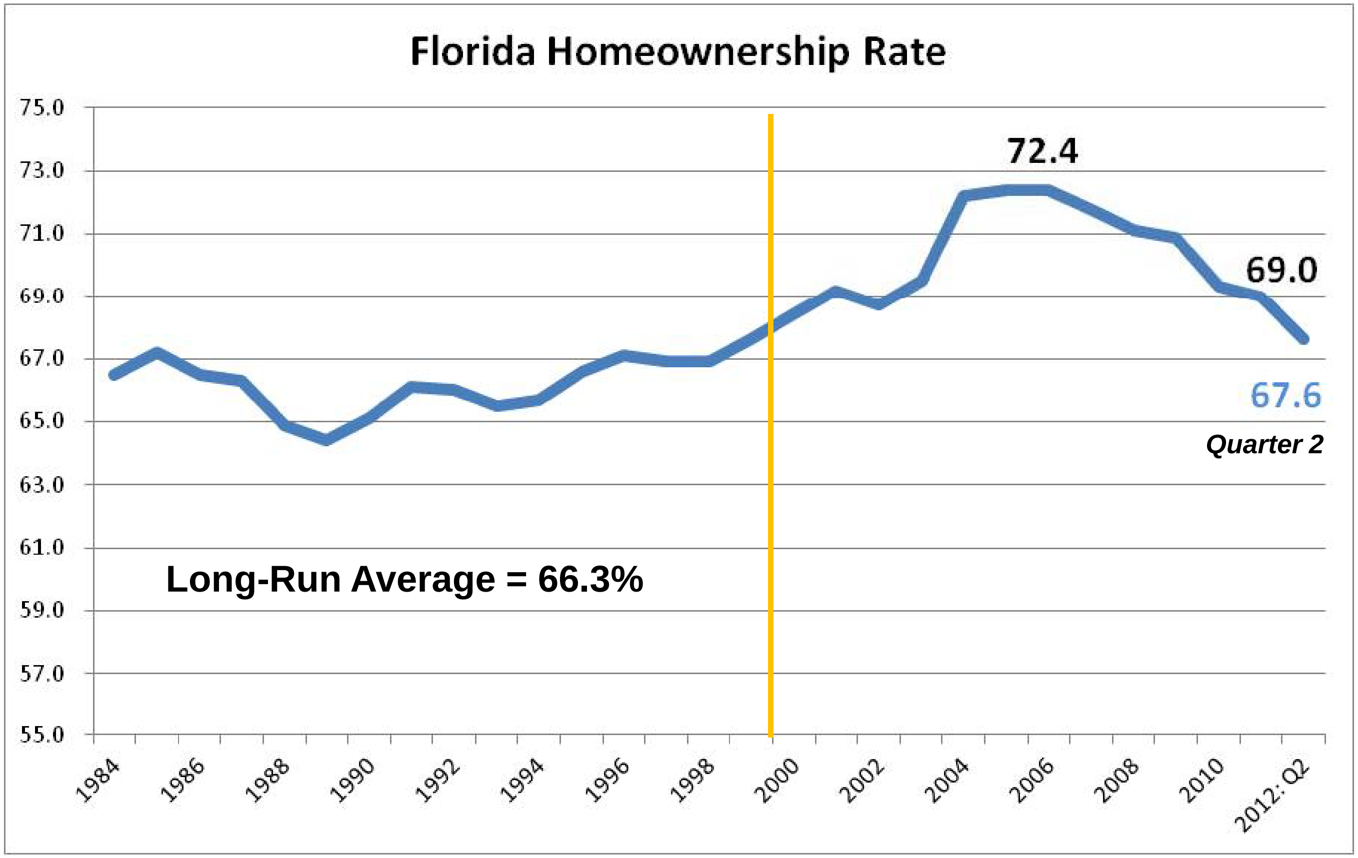
REO price nearly 40% lower than average price; short sale price nearly 21% below




LPS: Lender Processing Services

Cash Sales have been growing as a percentage of all sales, and financed sales have shown a modest upward tick. While short sales have been increasing in some states, that is not yet the case in Florida, where they have essentially been flat with a slight downward drift.

# Vulnerability




The 2011 percentage is the lowest since 2002. If the 2011 rate dropped immediately back to the long-run average, about 201,500 homeowners would be affected and $26.1 billion of value.

# Credit Conditions Remain Tight

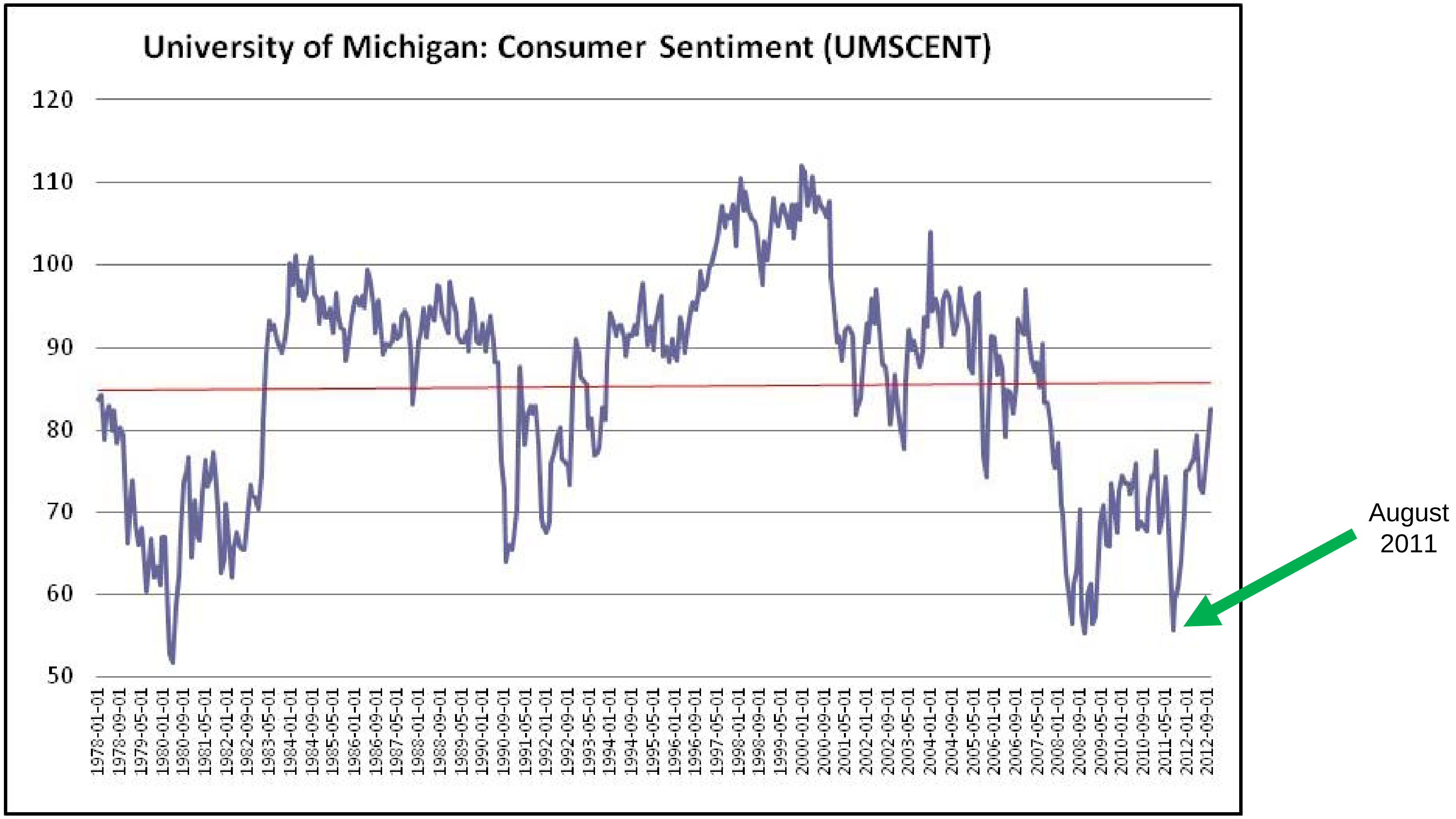
*Question to Senior Loan Officers:*
Over the past three months, how have your bank's credit standards for approving applications from individuals for **prime residential mortgage loans** to purchase homes changed?

| | All Respondents | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Oct '12 % | July '12 % | Apr '12 % | Jan '12 % | Oct '11 % | July '11 % | Apr '11 % | Jan '11 % | Oct '10 % |
| Tightened considerably | 0.0% | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tightened somewhat | 3.1% | 1.6 | 5.6 | 0.0 | 4.2 | 5.7 | 3.8 | 3.7 | 13.0 |
| Remained basically unchanged | 92.2 | 93.4 | 90.7 | 94.3 | 91.7 | 86.8 | 92.5 | 94.4 | 83.3 |
| Eased somewhat | 4.7% | 3.3 | 3.7 | 5.7 | 4.2 | 7.5 | 2.0 | 1.9 | 3.7 |
| Eased considerably | 0.0% | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

July 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices (Federal Reserve Board)

Banks reported that they were less likely than in 2006, to varying degrees, to originate mortgages to any borrowers apart from those with the strongest credit profiles. Downpayments of 20% also a strong requirement.

# Perceptions Recover After 8/2011 Dive




- Consumer sentiment can be a leading indicator of recession, but not always: nationally, it had been improving, but fell in August 2011 to near the lowest level of the Great Recession and not far from the lowest level ever posted. The index reading is now back to the levels expected before the August dive (82.6 in October 2012).
- Florida’s consumer confidence (October: 78) is roughly mirroring the national trend.

# Economy Slowly Recovering

Florida growth rates are gradually returning to more typical levels. But, drags are more persistent than past events, and it will take a few more years to climb completely out of the hole left by the recession. Overall...

- The national economy is still in recovery.  While most areas of commercial and consumer credit are strengthening – residential credit still remains sluggish and difficult for consumers to access.  So far, the recovery has been roughly half as strong as the average gain of 9.8% over the same period during the past seven recoveries.

- The subsequent turnaround in Florida housing will be led by:
  - Low home prices that begin to attract buyers and clear the inventory.
  - Long-run sustainable demand caused by continued population growth and household formation that has been pent-up.
  - Florida’s unique demographics and the aging of the baby-boom generation (2011 marked the first wave of boomers hitting retirement).

# Upside Risk for Construction

- The “shadow inventory” of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of “ghost” homes that are distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the supply has become two-tiered – viable homes and seriously distressed homes.

- To the extent that the number of viable homes is limited, new construction may come back quicker than expected.

# Eurozone Problems Still Persist

- The sovereign debt crisis in the Eurozone has led to banking instability with spillover effects on the global credit market: liquidity threats have diminished, but solvency issues still exist.
  - Spain, Portugal and Italy all still face major challenges and contracting economies.
  - Italy may soon be looking for a bailout. Moody's has cut Italy's bond rating by two notches to Baa2, leaving it just two grades above junk status, citing increased risks of higher borrowing costs in part due to contagion from Spain and a possible Greek exit from the euro. Moody's compares economic conditions in Greece to the Great Depression in the US during the 1930s.
  - Greece is likely to receive a two-year extension of its latest austerity program in order to ease the severity of the required cuts, but is facing strong opposition to additional bailouts—and Global Insight is still predicting a Greece exit from the Eurozone (65% probability) by the middle of next year.
  - Efforts to bailout Spain and to begin recapitalizing Spain's banks are underway with other Eurozone leaders, the International Monetary Fund, and the European Central Bank. These steps are being taken to head off a potential liquidity squeeze arising from recent credit downgrades.

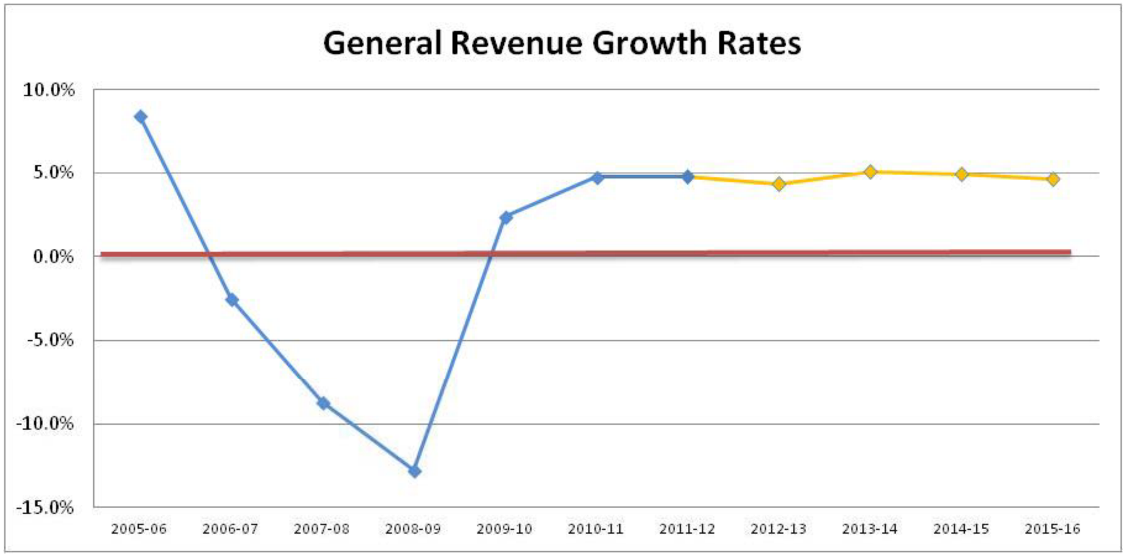
- The latest data shows that the Eurozone as a whole contracted by 0.2% during the second quarter of this calendar year, with the economies of Greece, Italy, Spain and Finland displaying the sharpest contractions. The latest data indicate that the Eurozone is at strong risk for another prolonged recession.

- These conditions are negatively affecting the United States:
  - Tighter credit conditions already exist, especially for businesses with foreign interests.
  - Reduced exports and corporate earnings already exist. The Greater Miami area is experiencing a significant reduction in exports to Spain (Florida exports to Spain fell nearly 30% last year).

# "Fiscal Cliff" in January 2013

- Given the strong public—and economic—reaction to the turmoil in August 2011, it is unlikely that the looming US "fiscal cliff" in January will pass unnoticed. Caused by the intersection of three major deadlines and a potential debt showdown, the brunt of the "fiscal cliff" will remain largely unknown until after the November elections. The Congressional Budget Office, the Federal Reserve Board and the International Monetary Fund all project that, if left intact, the collective impact of these events would be to throw the United States back into a recession.
  - **Automatic Sequester provisions will kick in January 1, 2013**—George Mason University estimated that Florida would lose 41,905 jobs and sustain $3.6 billion in economic losses from the defense cuts.
  - **Key stimulus provisions will expire**—This cluster (including the 2% cut in the employee's portion of payroll taxes, emergency unemployment insurance benefits, and the 50% bonus depreciation) expires at the end of the 2012 calendar year.
  - **Bush-era tax cuts started in 2001 and 2003 will expire at the end of the 2012 calendar year**—This cluster includes the estate and gift tax provisions (a return to the 2001 parameters of a $1 million exemption and a 55 percent top rate), changes to the child tax credit (cut in half and no longer refundable), and the end of the current schedule for marginal tax rates (elimination of the 10% tax bracket, plus the top rate will rise from 35 percent to 39.6 percent and other rates will rise in a similar manner).
  - **Statutory debt ceiling reached**—The debt ceiling, currently set at $16.4 trillion with the ability to create an additional $200 billion in capacity under the limit, will be hit and need to be raised sometime in January or February.

# General Revenue Forecast




*LR Growth: Averages 6%*

| Fiscal Year | Post-Session Forecast | August Forecast | Difference (Aug - PS) | Incremental Growth | Growth |
|---|---|---|---|---|---|
| 2005-06 | 27074.8 | [redacted] | [redacted] | [redacted] | 8.4% |
| 2006-07 | 26404.1 | [redacted] | [redacted] | [redacted] | -2.5% |
| 2007-08 | 24112.1 | [redacted] | [redacted] | [redacted] | -8.7% |
| 2008-09 | 21025.6 | [redacted] | [redacted] | [redacted] | -12.8% |
| 2009-10 | 21523.1 | [redacted] | [redacted] | [redacted] | 2.4% |
| 2010-11 | 22551.6 | [redacted] | [redacted] | [redacted] | 4.8% |
| 2011-12 | 23211.7 | 23618.8 | 407.1 | 1067.2 | 4.7% |
| 2012-13 | 24600.1 | 24631.6 | 31.5 | 1012.8 | 4.3% |
| 2013-14 | 25878.0 | 25872.7 | (5.3) | 1241.1 | 5.0% |
| 2014-15 | 27328.2 | 27141.4 | (186.8) | 1268.7 | 4.9% |
| 2015-16 | 28601.0 | 28394.0 | (207.0) | 1252.6 | 4.6% |

*YTD Overage: $162.6 million through September*

*The Post-Session forecast simply updated the January 2012 forecast for Measures Affecting Revenue.