Florida: An Economic Overview

August 26, 2019
Shifting in Key Economic Variables

Global & National Economic Conditions

Population Growth
Net Migration

Tourism

Employment Growth

Credit Market (+ or -)

FL Economy
Gross Domestic Product & Personal Income Growth

Simplified Flow Of Major Drivers

New Construction
(None of the key metrics for housing starts or residential construction reach their prior peaks during the forecast horizon)

Need for Services & Goods

Financial Assets

Residential Credit Still Difficult to Access

Very Strong
Economy Has Continued Growth...

In the 2018 calendar year, the state’s growth strengthened and remained above the national average (3.5 percent versus 2.9 percent). The 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 1.8 percent in Fiscal Year 2023-24. In the longer term, growth is expected to average 2.0 percent per year.

For the first quarter of the 2019 calendar year, Florida posted growth of 2.9 percent, falling below the national average of 3.1 percent and ranking the state 23rd in the country for real growth.
FL Personal Income Growth Is Strong, Driven in Part by Robust Population Growth...

In the latest revised data for State Personal Income for the 2016 calendar year, Florida’s personal income growth slowed to 3.7%; however, this was still above the national average of 2.6%. For 2017, Florida’s growth increased to 5.0% over the prior year, compared to national growth of 4.4%. For 2018, Florida’s growth increased again to 5.2% compared to the national average of 4.5%. In the near term, the annual growth rates for the state are expected to drift from 5.2% (FY 2019-20) down to 4.2% (FY 2022-23), and then straddle 4.2% for the remainder of the forecast horizon.

In spite of the robust year-over-year growth, Florida’s per capita personal income growth trailed the nation in performance in 2016, 2017 and 2018, growing only 3.6% in 2018 compared to the national average of 3.8%.

The first quarter results for the 2019 calendar year indicated that Florida ranked 4th in the country with 5.1 percent growth over the prior quarter. The state was well above the United States as a whole, which had 3.4 percent growth. Healthcare and social assistance was the leading contributor to the earnings increase, and the increase in transfer receipts was greater than the overall net earnings change.
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 has 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 128.5 million visitors in FY 2018-19, an increase of 5.8% over FY 2017-18. Effectively, these visitors were equivalent to 2.2 million additional people being added to Florida’s resident population.
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…

**July Nonfarm Jobs (YOT)**
- US: 1.5%
- FL: 2.6%
- YR: 227,200 jobs
- Peak: +956,400 jobs

[Prior Employment Peak passed in May 2015]

**July Unemployment Rate**
- US: 3.7%
- FL: 3.3% (343,900 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)
The still noteworthy size and composition of the long-term unemployed group (90,600 persons or 27.0% of all unemployed in July) may be confounding some of the trend results. The equivalent percentage for the United States as a whole was only 19.2%. 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 two months, the rate had been steadily declining when compared to levels from the same month a year ago.

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, the labor force participation rate is not. Florida’s rate was 59.1% in July 2019, while the US rate was 63.0%. A higher state participation rate would imply a higher unemployment rate, at least in the short run.
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.

- Almost two-thirds (42) of Florida’s counties have gained employment relative to their levels in March 2007. Last year, there were 37 counties.

<table>
<thead>
<tr>
<th>Area</th>
<th>March 2007 to March 2018</th>
<th>Greatest Percentage Increase or Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sumter County</td>
<td>42.3%</td>
<td>Greatest Percentage Increase</td>
</tr>
<tr>
<td>Florida</td>
<td>7.7%</td>
<td></td>
</tr>
<tr>
<td>Liberty County</td>
<td>-32.1%</td>
<td>Greatest Percentage Decline</td>
</tr>
</tbody>
</table>
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 1.74% between April 1, 2017 and April 1, 2018 to 20,840,568, adding 356,426 residents. This growth was bolstered by the in-migration of Puerto Ricans and US Virgin Islanders as a result of the 2017 hurricane season.

- Over the next four years, Florida’s population growth is expected to remain at or above 1.45%, averaging 1.6% between 2018 and 2022. Most of Florida’s population growth through 2030 will be from net migration (99.4%).

- Nationally, average annual growth will be about 0.67% between 2018 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 of 356,426 between April 1, 2017 and April 1, 2018 was the strongest annual increase since 2006, immediately prior to the collapse of the housing boom and the beginning of the Great Recession.

Typically, most of Florida’s population growth is from net migration. Starting in FY 2026-27, net migration is forecast to represent all of Florida’s population growth.

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 35.8 percent by 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 61.2 percent of those gains in the older population (age 60 and older).

Florida’s younger population (age 0-17) will account for 11.1 percent of the gains, while the younger working age group (25-39) will account for 16.2 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.

After declining four years in a row, FY 2009-10 was only 26.6% of the 2005-06 peak collection year. Since then, each year has seen steady improvement. FY 2018-19 came in at 65.3%, almost two-thirds of the prior peak.
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%. However, preliminary data for the second quarter of the 2019 calendar year has drifted back to 64.5%.
Distressed Sales continue to drop as a percentage of all sales as the percentages of Financed and Cash Sales steadily increase.

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 731 and a LTV of 79 percent on all closed loans in July (virtually identical to one year earlier). Almost 89 percent percent of all conventional home purchase lending in July 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 61 percent in Florida (April 2019), up from 59 percent in July 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 running only slightly positive.
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.
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; the state’s median price in July was only 94.4% of the national median price. It exceeded Florida’s prior peak (June 2006) in June 2018 for the first time and has hovered close to that level since.
Challenging housing costs and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly over the last four years (2015 through 2018); price pressure continues to build.

### Florida and U.S. Median Gross Rent (in Current Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Gross Rent</th>
<th>Average Gross Rent</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>United States</td>
<td>Florida</td>
</tr>
<tr>
<td>2005</td>
<td>728</td>
<td>809</td>
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<tr>
<td>2006</td>
<td>763</td>
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<tr>
<td>2007</td>
<td>789</td>
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<tr>
<td>2008</td>
<td>824</td>
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<tr>
<td>2009</td>
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<tr>
<td>2010</td>
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<tr>
<td>2011</td>
<td>871</td>
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<tr>
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<td>2015</td>
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<td>1,086</td>
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<tr>
<td>2017</td>
<td>1,012</td>
<td>1,128</td>
</tr>
</tbody>
</table>


### Rental Vacancy Rates

Long-run Average Percent: US---8.2; FL---10.5

FL Second Quarter 2019: 7.9

Zillow Rental Data: Median Rent List Price, 2-bedroom (through 7/2019)
Consumer Perceptions Remain Strong

Nationally, the sentiment reading for July 2019 (98.4) is well above the index average since inception (86.2), but well below the highest recorded monthly level on record—112.0 in January 2000. However, the preliminary August reading dropped to 92.1.
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 2016-17, sales tax collections provided nearly $23.0 billion dollars or 76.8% of Florida’s total General Revenue collections. Of this amount, an estimated 12.9% (nearly $2.97 billion) was directly attributable to purchases made by tourists.
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 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, a significant slowdown from the forecasts adopted last year.

- As July ended, the economy had been in expansion for more than a decade, marking the longest economic expansion in U.S. history. The current forecast does not anticipate a recession, but turning points are notoriously difficult to project. IHS Markit places the risk of a recession at 35 percent in 2020 and the New York Fed’s recession probability model identifies a similar percentage; however, the National Association for Business Economics’ June survey of economists indicate that the risk of recession rises to 60 percent by the end of 2020. Speaking more recently, Mark Zandi of Moody’s places the odds “very high”.
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.

The August forecast reduces 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 in the national S&P Retail Select Industry Index has been negative since the beginning of the 2019 calendar year. Florida's taxable sales exhibit an overall pattern similar to the national index; however, Florida began to deviate markedly from the national index in February 2014.

- 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. If anything, it has only increased since then. October 2018 was an exception as it looked back to the prior year's hurricane-affected low point and showed exceptionally robust growth, year over year.