

# FLORIDA MONTHLY ECONOMIC REPORT

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*Office of Economic and Demographic Research*

## **GENERAL REVENUE COLLECTIONS FOR DECEMBER**

General Revenue (GR) collections for December were \$44.4 M under the November 1996 Revenue Estimating Conference estimate. Sales Tax Collections were \$22.6 M under estimate for the month, but \$1.3 M over estimate for the year to date. (Sales Tax Collections are net of \$0.8 M in transfers to qualified sports facilities.) We believe that the shortfall in Sales Tax resulted from a combination of: (1) only two Christmas shopping days in November because of the late Thanksgiving; and (2) an artificially high estimate for December due to the constraints of the November quarterly estimates. If so, we could expect that Sales Tax collections will rebound in January. Corporate Income Tax also fell short again this month. Part of the shortfall is attributable to the audit processing slow-down, and the remainder is almost certainly a result of timing. Early estimates for January indicate that this source may well get back on track next month.

Beverage Taxes (the Beverage Excise Tax and the By-the-Drink Surcharge) fell \$3.2 M under estimate for the month, but remains over estimate for the year to date. Fluctuations of this magnitude are not unusual for this source. Total collections for both Documentary Stamp Tax and Intangibles Taxes are under estimate for the year. Transfers to GR from both sources, however, are significantly more under estimate, which indicates that part of the shortfall is a result of timing of receipts. Total monthly collections for Documentary Stamp Tax and Intangibles Taxes are under estimate by \$3.3 M and \$4.0 M, respectively. Transfers to GR are made once a month for both these sources. Refunds added to the month's shortfall by running \$8.9 M over estimate.

| <b>Preliminary General Revenue Collections</b>      | <b>Lottery Transfers to DOE</b>                               |
|---|---|
| <b>Month: \$44.4 m under the Nov. 1996 estimate</b> | <b>Month: \$70.3 m or \$5.6 m over the Oct. 1996 estimate</b> |
| <b>\$16.1 m under the March 1996 estimate</b>       | <b>Year: \$321.8 m or \$6.1 m over the Oct. 1996 estimate</b> |
| <b>Year: \$60.8 m under the Nov. 1996 estimate</b>  | <b>\$9.2 m under the Feb. 1996 estimate</b>                   |
| <b>\$167.1 m over the March 1996 estimate</b>       |   |

One bright spot is Interest Earnings, which came in \$4.5 M over estimate for the month. Medical Hospital Fees (county reimbursements to the state for nursing home expenditures) came in \$2.9 M over estimate. Service Charges had a positive month, but still lags the estimate for the year to date. Estate Taxes continued to out-perform estimates, over by \$2.1 M for the month.

Overall, net GR collections for December are \$44.4 M under estimate for the month and \$60.8 M (or about 9/10s of one percent) under estimate for the fiscal year to date. Estimates in the table below are based on the November Revenue Estimating Conference.

| TABLE 1 - DECEMBER GENERAL REVENUE COLLECTIONS<br>(\$ MILLIONS - BASED ON NOVEMBER 1996 ESTIMATES) |        |          |                |                     |                 |                |               |                     |
|--|--------|----------|----------------|---------------------|-----------------|----------------|---------------|---------------------|
|  | MONTH  |          |                | FISCAL YEAR TO DATE |                 |                |               |                     |
|  | ACTUAL | ESTIMATE | OVER/<br>UNDER | CURRENT<br>YEAR     | CURRENT<br>YEAR | OVER/<br>UNDER | PRIOR<br>YEAR | PERCENT<br>INCREASE |
|  | MONTH  | MONTH    | ESTIMATE       | ACTUAL              | ESTIMATE        | ESTIMATE       | ACTUAL        | DECREASE            |
| SALES TAX COLLECTIONS  | 977.1  | 999.7    | -22.6          | 5,318.4             | 5,317.1         | 1.3            | 4,985.5       | 6.7%                |
| BEVERAGE TAXES   | 45.7   | 48.9     | -3.2           | 256.4               | 253.9           | 2.5            | 247.6         | 3.5%                |
| CORPORATE INCOME TAX   | 115.4  | 128.4    | -13.0          | 439.1               | 460.6           | -21.6          | 414.4         | 5.9%                |
|  |        |          |                |                     |                 |                |               |                     |
| DOCUMENTARY STAMP  | 29.9   | 32.9     | -3.0           | 127.7               | 145.1           | -17.4          | 126.3         | NA                  |
| TOBACCO TAX  | 10.1   | 12.0     | -1.9           | 63.9                | 68.0            | -4.1           | 68.2          | -6.4%               |
| INSURANCE PREMIUM TAX  | 0.1    | 0.2      | -0.1           | 94.5                | 93.4            | 1.1            | 75.5          | 25.2%               |
| PARIMUTUEL TAXES   | 0.9    | 1.4      | -0.5           | 21.7                | 21.8            | -0.1           | 23.6          | -8.2%               |
|  |        |          |                |                     |                 |                |               |                     |
| INTANGIBLES TAXES  | 7.4    | 6.9      | 0.5            | 75.4                | 82.6            | -7.2           | 52.1          | 44.8%               |
| ESTATE TAX   | 34.9   | 32.8     | 2.1            | 278.3               | 275.4           | 2.9            | 189.4         | 46.9%               |
| INTEREST EARNINGS  | 14.0   | 9.5      | 4.5            | 76.5                | 71.3            | 5.2            | 78.0          | -1.9%               |
| DRIVERS LICENSE FEES   | 3.7    | 3.7      | -0.0           | 24.8                | 25.0            | -0.1           | 22.2          | 12.0%               |
|  |        |          |                |                     |                 |                |               |                     |
| MEDICAL HOSPITAL FEES  | 13.3   | 10.3     | 2.9            | 57.9                | 60.3            | -2.4           | 56.1          | 3.2%                |
| MOTOR VEHICLE CHARGES  | 2.8    | 3.2      | -0.4           | 18.2                | 18.8            | -0.6           | 17.5          | 4.2%                |
| AUTOMOBILE TITLE FEES  | 2.3    | 2.1      | 0.2            | 12.1                | 12.4            | -0.3           | 11.2          | 8.7%                |
|  |        |          |                |                     |                 |                |               |                     |
| SEVERANCE TAXES  | 0.0    | 0.4      | -0.4           | 10.2                | 10.4            | -0.2           | 10.8          | NA                  |
| SERVICE CHARGES  | 23.1   | 22.1     | 1.0            | 163.6               | 168.2           | -4.6           | 169.8         | -3.7%               |
| CORPORATION TRUST  | 0.5    | 0.3      | 0.2            | 17.6                | 17.4            | 0.2            | 22.6          | -22.1%              |
| OTHER TAXES  | 10.3   | 12.0     | -1.7           | 74.1                | 73.0            | 1.1            | 54.7          | 35.6%               |

|               |         |         |        |         |         |        |         |        |
|---------------|---------|---------|--------|---------|---------|--------|---------|--------|
| LICENSES &    |         |         |        |         |         |        |         |        |
|               |         |         |        |         |         |        |         |        |
| TOTAL REVENUE | 1,291.5 | 1,326.9 | (35.5) | 7,130.3 | 7,174.8 | (44.5) | 6,625.5 | 7.6%   |
| LESS REFUNDS  | 33.7    | 24.8    | 8.9    | 123.1   | 106.8   | 16.3   | 80.8    | 52.33% |
| NET REVENUE   | 1,257.8 | 1,302.1 | -44.4  | 7,007.2 | 7,068.0 | -60.8  | 6,544.7 | 7.1%   |

National Economic Conditions. The pending fourth quarter GDP release (January 31<sup>st</sup>) is expected to show an increase in economic activity from its sluggish 2.1% third quarter pace. The release, however, is expected to merely reflect a one-quarter uptick in economic activity. The backdrop of recent national data releases continues to offer few surprises--the national economy should continue to grow at a slow but steady pace with little evidence of building price pressures.

Business investment in plant and equipment continued to drive the economy in the third quarter as consumption, driven down by a retrenchment in motor vehicle spending, grew at but one half of a one percent annualized rate. Business investment has outpaced the growth rate in consumer expenditures since 1992, which raises a flag concerning the sustainability of future business investment. Inventories, however, have been well-managed throughout this cycle. Inventories were up but 0.1% in November (the latest data release available), with retail inventories falling 0.4% for the month due to the expectation of a lackluster Christmas season. The inventory/sales ratio is currently at a record low (since the Department of Commerce began reporting the series in 1982). Manufacturing remains strong for this stage of the business cycle--industrial production grew by 3.2% in 1996, matching its 1995 growth rate. Housing has performed well during this cycle, considering the demographic backdrop, with starts posting an eight year high, although they have been backing off their peak levels for the past three months. The sustained growth in the economy over the past six years (this March) has enabled the unemployment rate to post its best performance of the decade in 1996. Although fourth quarter economic growth (the advanced fourth report to be released January 31<sup>st</sup>) will likely be substantially higher than the 2.1% third quarter pace, the growth rate in the GDP is expected to moderate throughout the current calendar year.

Despite the relatively strong economic backdrop, price pressures remain moderate. The core Producer Price Index posted only a 0.6% increase for all of 1996 (compared to a 2.6% advance in 1996). After backing out food and energy prices from the Consumer Price Index, its core rate increased 2.6% in 1996 (its best performance in three years) with only a 0.1% increase recorded in December. An apparent movement toward a balanced budget should also bring some relief to credit market anxieties.

The credit markets will be closely following movements in two series --medical costs and the employment cost index--which have been well-behaved of late, but have started to churn some anxiety among analysts. The employer cost index (total compensation) has been held in check by moderating health insurance costs--largely attributable to the upsurge in Health Maintenance Organization (HMO) enrolment--and to the retrenchment of other corporate benefits. Over the past year (calendar year 1996) modest benefit increases held down the increase in the employment cost index (total compensation) to 2.9%. Wages and salaries rose 3.3%, while benefits posted only a 2% increase (the

smallest increase since the Labor Department began tracking the series in 1982) Health care insurance costs rose only 2.5% in 1996 (Foster Higgins survey), and costs are expected to accelerate in 1997. It is unlikely, therefore, that compensation costs will continue to buffer the rise in wage and salary costs this year.

**State Fiscal Conditions.** The Revenue Estimating Conference met November 15<sup>th</sup> to reassess the projected revenue collections for the current and upcoming fiscal years. Through October, revenue collections were ahead of the estimate. By \$158.1 million. Because of the higher collections, as well as a more robust economic outlook, the conference is estimating current year revenues of \$15,566.9 million, or \$329.8 million higher than the estimate used to fund the current year spending plan. Next year the forecast was raised by \$206.3 million, to \$16,310.5 million. These estimates place revenue growth at 6.3% and 4.7%, respectively. The current year revenue increase was substantially boosted by an unusually large payment of estate taxes in July (see our August newsletter). The new estimate results in a projected ending balance for this fiscal year of \$610.1 million, or 3.9% of appropriations. In addition to this surplus, the Budget Stabilization Fund now contains \$409.4 million. Also contributing to the year-end surplus is a large reversion of unneeded appropriations from last year's Medicaid program budget. For the 1996-97 fiscal year, recurring revenues are forecasted at 7.2% higher than the recurring appropriations made this year (before annualization of partial year expenditures).

Readers with Internet access who are interested in how the revenue estimating process works are encouraged to visit our website at the address shown on the front page.

**Florida Economic Conditions.** The U.S. Department of Commerce, Bureau of Economic Analysis (BEA) released a preliminary estimate of second quarter (1996) state personal income, along with revisions to all quarterly estimates back to 1990:1 in early November. These revised estimates incorporate the comprehensive revision to the annual estimates that were released in September. The completion of the revisions to the quarterly estimates of State personal income is scheduled for the fall of this year.

| TABLE 2: KEY ELEMENTS OF THE NATIONAL ECONOMIC FORECAST |          |                                  |      |      |      |          |      |
|---|----------|----------------------------------|------|------|------|----------|------|
| FROM THE OCTOBER 1996 ESTIMATING CONFERENCE             |          |                                  |      |      |      |          |      |
| (SEASONALLY ADJUSTED)                                   |          |                                  |      |      |      |          |      |
|   |          | ---1996---                       |      |      |      | --1997-- |      |
|   |          | Q1                               | Q2   | Q3   | Q4   | Q1       | Q2   |
|   |          | Annual Percentage Rate of Change |      |      |      |          |      |
| Real Gross  | forecast | 2.0                              | 4.7  | 2.3  | 2.5  | 2.0      | 1.7  |
| Domestic Product  | actual   | 2.0                              | 4.7  | 2.1  | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Real Personal   | forecast | 3.5                              | 3.4  | 1.7  | 3.5  | 3.3      | 1.9  |
| Consumption   | actual   | 3.5                              | 3.4  | 0.5  | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Real Fixed Non-   | forecast | 11.6                             | 3.8  | 5.5  | 2.9  | 2.0      | 5.5  |
| resid. Invest   | actual   | 11.6                             | 3.8  | 17.5 | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Real Personal   | forecast | 2.5                              | 4.1  | 3.4  | 1.6  | 3.1      | 2.2  |
| Income  | actual   | 2.5                              | 4.1  | 3.8  | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Total   | forecast | 1.9                              | 2.3  | 2.3  | 1.3  | 1.0      | 1.0  |
| Employment  | actual   | 1.9                              | 2.3  | 2.3  | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Consumer Price  | forecast | 3.2                              | 3.8  | 2.4  | 3.3  | 2.9      | 2.6  |
| Index   | actual   | 3.2                              | 3.8  | 2.3  | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
|   |          | Average Level for Quarter        |      |      |      |          |      |
| Savings Rate  | forecast | 4.8                              | 4.3  | 4.9  | 4.6  | 4.7      | 4.6  |
|   | actual   | 4.8                              | 4.3  | 5.3  | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Prime Interest  | forecast | 8.33                             | 8.25 | 8.25 | 8.38 | 8.67     | 8.87 |
| Rate (%)  | actual   | 8.33                             | 8.25 | 8.25 | 8.25 | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Housing Starts  | forecast | 1.47                             | 1.49 | 1.49 | 1.49 | 1.42     | 1.37 |
| (mil/yr)  | actual   | 1.47                             | 1.49 | 1.49 | ---  | ---      | ---  |
|   |          |                                  |      |      |      |          |      |
| Unemployment  | forecast | 5.6                              | 5.6  | 5.8  | 5.8  | 5.8      | 5.9  |
| Rate (%)  | actual   | 5.6                              | 5.4  | 5.2  | ---  | ---      | ---  |



|                  |          |      |      |      |      |      |      |
|------------------|----------|------|------|------|------|------|------|
| Tourist Arrivals | forecast | 10.2 | 11.7 | 10.7 | 10.5 | 10.6 | 10.7 |
| (millions)       | actual   | 10.2 | 11.6 | 10.4 | ---  | ---  | ---  |
|                  |          |      |      |      |      |      |      |
| Unemployment     | forecast | 5.6  | 5.2  | 5.2  | 5.2  | 5.3  | 5.4  |
| Rate (%)         | actual   | 5.6  | 5.2  | 5.3  | ---  | ---  | ---  |

Florida's unemployment rate stood at 4.9% in November, compared to 5.2% the previous month. There were a total of 347,000 Floridians who were unemployed in November. The last time Florida's unemployment rate was 4.9% was in August 1988. Florida's unemployment rate has been at or below the national rate for ten of the most recent twelve months, and it has only been above the national rate twice since March 1995.

Florida's nonagricultural employment in November was 6,283,000, up 169,200, or 2.8%, from a year earlier. Almost all the gains came in the services-producing industries (services; F.I.R.E.; T.C.P.U.; trade; government), where payrolls were up 164.7 thousand, or 3.1%. The service industry had the largest gains. Payrolls increased by 74,700 jobs, or 3.6%, from a year earlier. Growth in service industry payrolls has now slowed for nine of the last thirteen months. Business services accounted for almost half of the service industry's job gains. Payrolls in this industry increased by 34,500 jobs, or 6.4%. While still robust growth, it is much slower than the double-digit rates the industry exhibited from the latter half of 1992 through the first few months of 1996. In fact it is the slowest growth rate (over the year) since March 1992. Much of the growth in business services has been due to a conversion of employees in other industries to leased employment, rather than from the creation of new jobs.

Manufacturing jobs have declined by 2,200 (or 0.5%) since November 1995, with all of the decline coming in the manufacture of nondurable goods. However, over this same time period average weekly hours have increased. Weekly hours are up 1.0% to 42.3 hours. All of the increase has come from increased hours in nondurable goods manufacturing where the average workweek stood at 42.4 hours, up 3.2% from a year earlier. Within durable goods industries, construction-related lumber and wood products; furniture and fixtures; and stone, clay, glass, and concrete products continued to add jobs, while fabricated metal, industrial machinery, and electronic equipment lost jobs over the year.

| FINANCIAL OUTLOOK STATEMENT             |          |           |           |
|---|----------|-----------|-----------|
| GENERAL REVENUE & WORKING CAPITAL FUNDS |          |           |           |
| FY 1996-97 and 1997-98                  |          |           |           |
| (\$ MILLIONS)                           |          |           |           |
|   |          |           | NON-      |
|   | TOTAL    | RECURRING | RECURRING |
| FUNDS AVAILABLE 1996-97                 |          |           |           |
| Balance forward                         | 437.0    | 0.0       | 437.0     |
| Estimated revenues                      | 15,566.9 | 15,523.4  | 43.5      |
| Transfer to Budget Stabilization Fund   | (148.6)  | 0.0       | (148.6)   |
| Transfers from trust funds              | 96.8     | 0.0       | 96.8      |
| Other non-operating receipts            | 240.2    | (4.0)     | 244.2     |
|   |          |           |           |
| Total 96-97 funds available             | 16,192.3 | 15,519.4  | 672.9     |
| APPROPRIATIONS                          |          |           |           |
| Total 96-97 effective appropriations    | 15,582.2 | 15,178.1  | 404.1     |
|   |          |           |           |
| ENDING BALANCE                          | 610.1    | 341.3     | 268.8     |
| Budget Stabilization Fund               | 409.4    |           |           |
|   |          |           |           |
| TOTAL AVAILABLE RESERVES                | 1,019.5  |           |           |
|   |          |           |           |
| FUNDS AVAILABLE 1997-98                 |          |           |           |
| Balance forward                         | 610.1    | 0.0       | 610.1     |
| Estimated revenues                      | 16,301.5 | 16,280.4  | 21.1      |
| Transfer to Budget Stabilization Fund   | (176.6)  | 0.0       | (176.6)   |
| Other non-operating receipts            | 68.1     | (4.0)     | 72.1      |
|   |          |           |           |
| Total 97-98 funds available             | 16,803.1 | 16,276.4  | 526.7     |

**Joint Legislative Management Committee**  
**Economic & Demographic Research Division**  
**111 W Madison St, Suite 576**  
**Tallahassee, FL 32399-1400**  
**Voice: 850/487-1402 FAX: 850/922-6436**  
**E-Mail: hertz.laura@leg.state.fl.us**