

FLORIDA MONTHLY ECONOMIC REPORT

SEPTEMBER 1997 - VOLUME 18, NO. 3

Office of Economic & Demographic Research

GENERAL REVENUE COLLECTIONS FOR AUGUST

Preliminary General Revenue (GR) collections for August were \$37.5 M over estimate for the month. Although PRELIMINARY Sales Tax Collections appeared to be \$28.1 M over estimate for the month (\$32.3 M over for the year-to-date), new electronic payment requirements have resulted in a higher than normal rate of duplicate payments. These duplicate payments will be reconciled and removed from the total Sales Tax available when the final GR distributions are made. As a result, the preliminary estimate for Sales Tax GR shown here may be a bit inflated. For example, our preliminary Sales Tax GR for July 1997 was \$930.5 M, while the final July 1997 Sales Tax GR was only \$915.8 M. We have already anticipated at least \$12.9 M in duplicate payments in August, and reduced the preliminary Sales Tax GR accordingly. (Sales Tax Collections are net of \$1.0 M in transfers to qualified sports facilities.)

<u>General Revenue Collections</u>	<u>Lottery Transfers to DOE</u>
Month: \$37.5 M over the March 1997 estimate adjusted for law changes	Month: \$59.3 M or \$7.3 M under the Feb. 1997 estimate
Year: \$78.0 M over the March 1997 estimate adjusted for law changes	Year: \$59.3 M or \$7.3 M under the Feb. 1997 estimate

Other sources over estimate this month include: Intangibles Taxes, at \$12.0 M over the GR estimate and total collections running \$46.3 M over estimate due to timing of receipts to this source (see last month's discussion of this issue); Estate Tax, \$4.5 M over estimate for the month; and Interest Earnings, \$4.4 M over estimate due to falling interest rates. Although Service Charges (transfers from trust funds to GR) were over estimate by \$1.4 M this month, they are still lagging the year-to-date estimate by \$8.9 M; timing of these transfers is likely to blame.

The Corporate Income Tax was slightly under estimate for the month, but remains essentially on estimate (just \$0.2 M under) for the year. Documentary Stamp Tax total collections were over estimate by \$5.2 M for the year, but \$14.0 M under estimate for the month, due to timing of the transfer to GR. Distributions are made from this source to various trust fund accounts (including Preservation 2000). Medical Hospital Fees were under estimate by \$7.9 M for the month; this money comes from counties to reimburse the State primarily for nursing home expenditures for county residents. Timing of these payments has no clear pattern. Refunds fell \$5.9 M under estimate, which increases Net GR. Most other sources were close to estimates for the month.

Overall, preliminary net GR collections for August are \$37.5 M over estimate for the month and \$78.0 M over estimate for the year to date. Estimates in the table below are based on the March 14, 1997 General Revenue Estimating Conference adjusted for law changes made during the 1997 regular legislative session.

TABLE 1 - AUGUST PRELIMINARY GENERAL REVENUE COLLECTIONS								
(\$ MILLIONS - BASED ON MARCH 1997 ESTIMATES)								
	MONTH			FISCAL YEAR TO DATE				
	ACTUAL	ESTIMATE	OVER/ UNDER	CURRENT YEAR	CURRENT YEAR	OVER/ UNDER	PRIOR YEAR	PERCENT INCREASE
	MONTH	MONTH	ESTIMATE	ACTUAL	ESTIMATE	ESTIMATE	ACTUAL	DECREASE
SALES TAX COLLECTIONS	946.5	918.4	28.1	1,862.4	1,830.1	32.3	1,725.5	7.9%
BEVERAGE TAXES	43.6	39.4	4.2	83.9	80.8	3.1	88.1	-4.7%
CORPORATE INCOME TAX	24.9	26.3	-1.4	59.2	59.4	-0.2	67.5	-12.3%
DOCUMENTARY STAMP	3.1	17.1	-14.0	3.1	17.1	-14.0	11.1	-72.0%
TOBACCO TAX	11.5	11.1	0.4	23.7	23.5	0.2	21.9	8.1%
INSURANCE PREMIUM TAX	3.2	2.5	0.7	4.9	5.8	-0.9	4.5	9.6%
PARIMUTUEL TAXES	1.7	3.8	-2.1	5.3	4.0	1.3	10.8	-51.1%
INTANGIBLES TAXES	24.1	12.1	12.0	54.1	27.1	27.0	33.8	59.9%
ESTATE TAX	45.9	41.4	4.5	110.6	81.6	29.0	139.5	-20.8%
INTEREST EARNINGS	19.4	15.0	4.4	40.5	32.4	8.1	27.0	50.0%
DRIVERS LICENSE FEES	4.5	4.4	0.1	10.0	9.6	0.4	9.3	6.7%
MEDICAL HOSPITAL FEES	7.2	15.1	-7.9	15.9	24.6	-8.7	18.1	-12.0%
MOTOR VEHICLE CHARGES	3.7	2.9	0.8	5.8	6.1	-0.3	6.2	-5.8%
AUTOMOBILE TITLE FEES	2.4	2.2	0.2	3.6	3.9	-0.3	4.2	-15.3%
SEVERANCE TAXES	2.9	1.7	1.2	2.9	2.9	-0.0	1.7	66.6%
SERVICE CHARGES	55.0	53.6	1.4	62.3	71.2	-8.9	68.2	-8.7%
CORPORATION TRUST	1.6	2.0	-0.4	2.5	4.2	-1.7	5.5	-54.2%
OTHER TAXES LICENSES &	12.6	13.2	-0.6	26.3	21.2	5.1	23.6	11.5%
TOTAL REVENUE	1,213.8	1,182.2	31.6	2,376.7	2,305.5	71.2	2,266.4	4.9%
LESS REFUNDS	9.5	15.4	-5.9	17.8	24.6	-6.8	36.0	-50.53%
NET REVENUE	1,204.3	1,166.8	37.5	2,358.9	2,280.9	78.0	2,230.4	5.8%

**ADOPTED CONSENSUS NATIONAL CONFERENCE
FEBRUARY 1997 ESTIMATION CONFERENCE**

<i>(NIPA Series SAAR</i>	1997	1998	1999
GDP	3.7	2.3	2.0
--Final Sales	3.1	2.7	2.2
Consumption	3.2	3.1	2.4
--Nondurables	2.0	2.3	1.8
--Durables	5.5	6.3	3.9
-Motor Veh. &	0.1	2.4	0.8
-Computers	66.6	52.7	39.9
-Furnishings	6.5	7.2	4.3
-Other Durables	7.3	5.4	2.9
--Services	3.3	2.8	2.4
Gross Domestic	11.4	3.8	2.4
--Nonresidential	9.2	7.2	4.5
--Residential Fixed	2.7	4.1	0.9
--Change in Bus.	\$64.9	\$39.0	\$27.2
Government Spending	0.9	1.3	0.5
--Federal	-1.5	-0.7	-1.9
--State & Local	2.4	2.4	1.9
Net Exports (\$B)	-	-	-
--Imports	13.7	10.2	6.6
--Exports	12.6	6.3	7.1
U.S. Trade Weighted	1.052	1.059	1.025
Consumer Sentiment	1.031	.994	.948
Housing Starts	1.460	1.436	1.412
-Single Family	1.144	1.124	1.106
--Multi-Family	.316	.312	.306
New Car & Light	8.29	8.14	8.04
--Domestic	6.98	6.86	6.79
--Foreign	1.31	1.28	1.25
Industrial Production	4.0	2.8	2.6
Real Personal Income	3.6	2.9	1.8
Real Disposable	2.7	3.5	2.0
Unemployment Rate	4.9	4.8	5.1
Corporate Profits	\$725.9	\$736.3	\$757.6

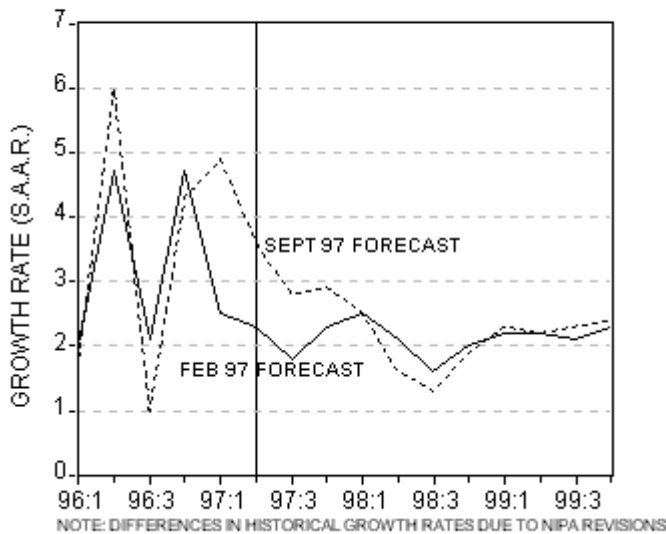
Federal Deficit (NIPA)	-\$28.1	-\$50.6	-\$46.1
MONEY, INTEREST & PRICES:			
--Fed Funds	5.49	5.56	5.00
--Prime Rate	8.47	8.56	8.00
--30 year Treasury	6.72	6.51	6.27
--Conventional	7.69	7.58	7.37
Employment Cost	3.5	3.5	3.2
Consumer Price Index	2.4	2.2	2.6
Wholesale Price Index	-0.2	0.6	1.2
Acquisition Price	\$19.48	\$18.89	\$18.70

National Economic Conditions. A National Economic Estimating Conference was held September 11th which is the first in a series of conferences that culminate with the October 24th State General Revenue Conference. The newly adopted forecast (the Data Resources/McGraw-Hill September control) is stronger than the February benchmark forecast, particularly in near-term, and no inflationary pressures are anticipated throughout the short-term forecast.

The forecast incorporates the Bureau of Economic Analysis' (BEA) advance revision to the second quarter GDP release, and two major BEA revisions to the National Income & Product Accounts (NIPA). Second quarter GDP was revised substantially upward to

3.6% (from 2.2% in their preliminary

THE NEW GDP FORECAST (92 CHAINED \$)
IS STRONGER IN THE NEAR-TERM



release). The bulk of the upward revision was due to stronger than initially reported exports and inventory accumulation. There was also a comprehensive NIPA data revision in May which made available chain weighted NIPA detail back to 1929, and revised the tangible wealth series and selected other series. The annual July NIPA revision (which this year went back four rather than the typical three years) offered a stronger economic backdrop, particularly for 1996 income, nominal GDP and profits.

The most remarkable aspect of the economy's performance has been the absence of price pressures. We are in the seventh year of the recovery (the third longest in postwar

history), the economy is growing in excess of a 3% real rate, yet inflation is not only low- but is at the low point of the current cycle. The producer price index is expected to fall this year (calendar year forecast detail is tabled on the opposite page). The July PPI posted an unprecedented 7th consecutive monthly decline, with July computer prices posting a year-to-date annualized drop of nearly 22%. Price on the consumer level are also well behaved. Through August, the CPI is advancing at only a 1.6% annualized year-to-date rate (less than half that of the comparable period last year). The near deflationary climate was recently accentuated by the domestic auto makers price announcements for next year's comparably equipped cars: Chrysler announced a slight price decrease, while Ford announced that 1998 prices were flat.

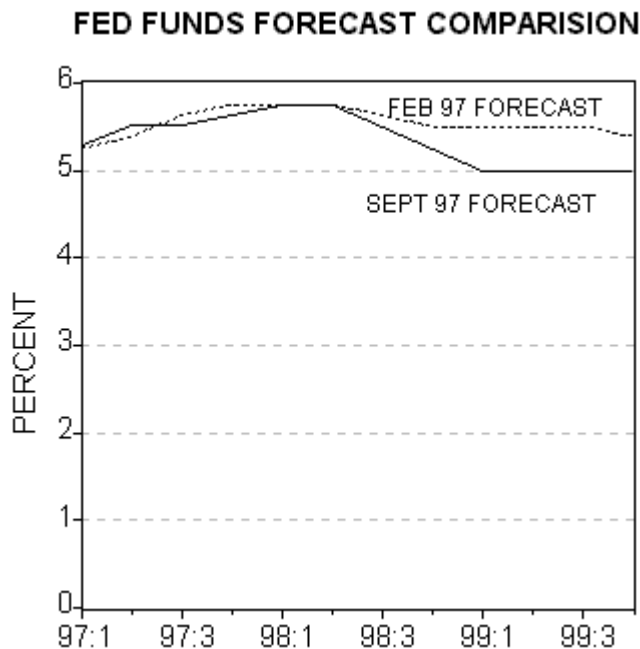
TABLE 2: KEY ELEMENTS OF THE NATIONAL							
FROM THE SEPTEMBER 1997 ESTIMATING CONFERENCE							
(SEASONALLY ADJUSTED)							
		-----1997-----					
		Q1					
		Annual Percentage Rate of Change					
Real Gross	forecast	4.9	3.6	2.8	2.9	2.5	1.6
Domestic	actual	4.9	3.6	---	---	---	---
Real Personal	forecast	5.3	1.0	4.3	4.3	3.1	2.4
Consumption	actual	5.3	1.0	---	---	---	---
Real Fixed Non-	forecast	4.1	15.	7.5	7.2	8.1	7.4
resid. Invest	actual	4.1	15.	---	---	---	---
Real Personal	forecast	5.7	3.9	3.1	3.5	3.9	2.1
Income	actual	5.7	3.9	---	---	---	---
Total	forecast	3.2	2.3	2.2	1.9	1.7	1.4
Employment	actual	3.2	2.3	---	---	---	---
Consumer Price	forecast	2.4	1.1	2.0	2.5	2.1	2.4
Index	actual	2.4	1.1	---	---	---	---
		Average Level for Quarter					
Savings Rate	forecast	3.7	4.2	3.7	3.5	4.2	4.3
	actual	3.7	4.2	---	---	---	---
Prime Interest	forecast	8.2	8.5	8.5	8.6	8.7	8.7
Rate (%)	actual	8.2	8.5	---	---	---	---

Housing Starts	forecast	1.4	1.4	1.4	1.4	1.4	1.4
(mil/yr)	actual	1.4	1.4	---	---	---	---
Unemployment	forecast	5.3	4.9	4.8	4.7	4.7	4.7
Rate (%)	actual	5.3	4.9	---	---	---	---

Business investment, which is expected to post a 9.2% increase this year, is a major driver of the economy throughout the forecast period. Although business investment in structures is expected to remain moderate, investment in equipment, fueled by computer outlays, will slow only slightly from its 1997 double-digit pace. Inventory accumulation was high in the first two quarters of 1997 (second quarter stocks posted a \$77.7 billion increase), but the rise was warranted by continued strong sales. Inventory accumulation is forecasted to return to a more sustainable level of \$30 billion in 1998, and will provide a slight drag on the economy in the latter half of 1997 until that level is achieved.

Consumer confidence remains at near-record levels. The August University of Michigan Index of Consumer Sentiment topped 100 in every region of the country--for only the second time in 30 years of monthly data releases. Strong job growth has elevated the prospects for job security, and rising real wages, coupled with a low inflationary backdrop and a buoyant equities market, have increased real purchasing power. Payroll employment, which increased at a robust 2.3% pace in the second quarter, is expected to

slow appreciably (by half) in 1999 through the end of the forecast period. The unemployment rate is forecasted to remain below 5% through 1998--a string of low unemployment rates which have not been seen since the late 1960's. This favorable economic backdrop will boost final sales growth to 3.6% during the last half of 1997, before slowing somewhat to a still healthy 2.7% annualized growth rate in 1998.



The newly adopted forecast does not include a major housing cycle. Housing starts are expected to close the year at a 1.47 million unit annualized pace and gradually

weaken to 1.41 million in 1999; This is an extremely modest retrenchment for such a long-lived expansion. Both existing and new home sales are expected to weaken only slightly over the forecast period.

The credit markets are reflecting an absence of inflationary expectations. Long-term interest rates have not been experiencing much volatility, and are expected to drift downward throughout the forecast period. The 30-year Treasury bond is forecasted to fall below 6% by 2002; mortgage rates will move in tandem and drift downward by roughly 50 basis points over the same period.

Key forecast assumptions include:

--The Federal Reserve is assumed to hike the Fed Funds rate by 25 basis points at their November Open Market Committee meeting. This is expected to be the last preemptive inflationary strike for this cycle. By the fall of 1998, in response to a slowing economy, the Fed will begin to lower the Fed Funds rate incrementally by 75 basis points (to 5.0%).

--The Fiscal Policy assumptions incorporate the Balanced Budget Act of 1997 and the Taxpayers Relief Act of 1997 with one major exception. The bulk of the discretionary spending cuts are back-loaded in the legislation. DRI assumes that they were put there because the present Congress does not want to make them, and they also assume that future Congresses will not want to make the budget cuts either. DRI, therefore, does not assume a balanced budget in federal fiscal year 2002; but due to the expected revenue windfall over that period, the forecast calls for only a modest deficit.

--The trade-weighted U.S. dollar exchange rate index (Morgan Guaranty Trust) is assumed to peak later this year before drifting lower in 1998.

The newly adopted national forecast provides a favorable economic backdrop to the Florida Economic and State General Revenue Estimating Conferences, and should contribute to raising the general revenue estimate somewhat when that conference convenes October 24th. Although the new national forecast calls for a slowdown in the economic growth rate, no recession is forecast. Should this prove true, the present expansion will be the longest of the post World War II era. There are, of course risks to this sanguine forecast: consumer confidence could prove fickle in response to a stock market collapse, or inflationary pressures might once again emerge should labor become more militant in the aftermath of the UPS strike. But, in the absence of external shocks, the national economy is expected to expand at a healthy, non-inflationary pace. Should this prove true, we are experiencing one of the most healthy periods of economic growth in modern history.

Descriptions with links:

Bureau of Economic and Business Research -University of Florida
Legislative Committee on Intergovernmental Relations
Florida Department of Labor and Employment Security
Federal Reserve Bank Databank
Bureau of Labor Statistics -US Department of Labor
National Bureau of Economic Research
US Census Bureau -US Department of Commerce
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Regional Economic Information System
National Income and Products Accounts -University of Virginia
County and City Data Books
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