

Florida: An Economic Overview

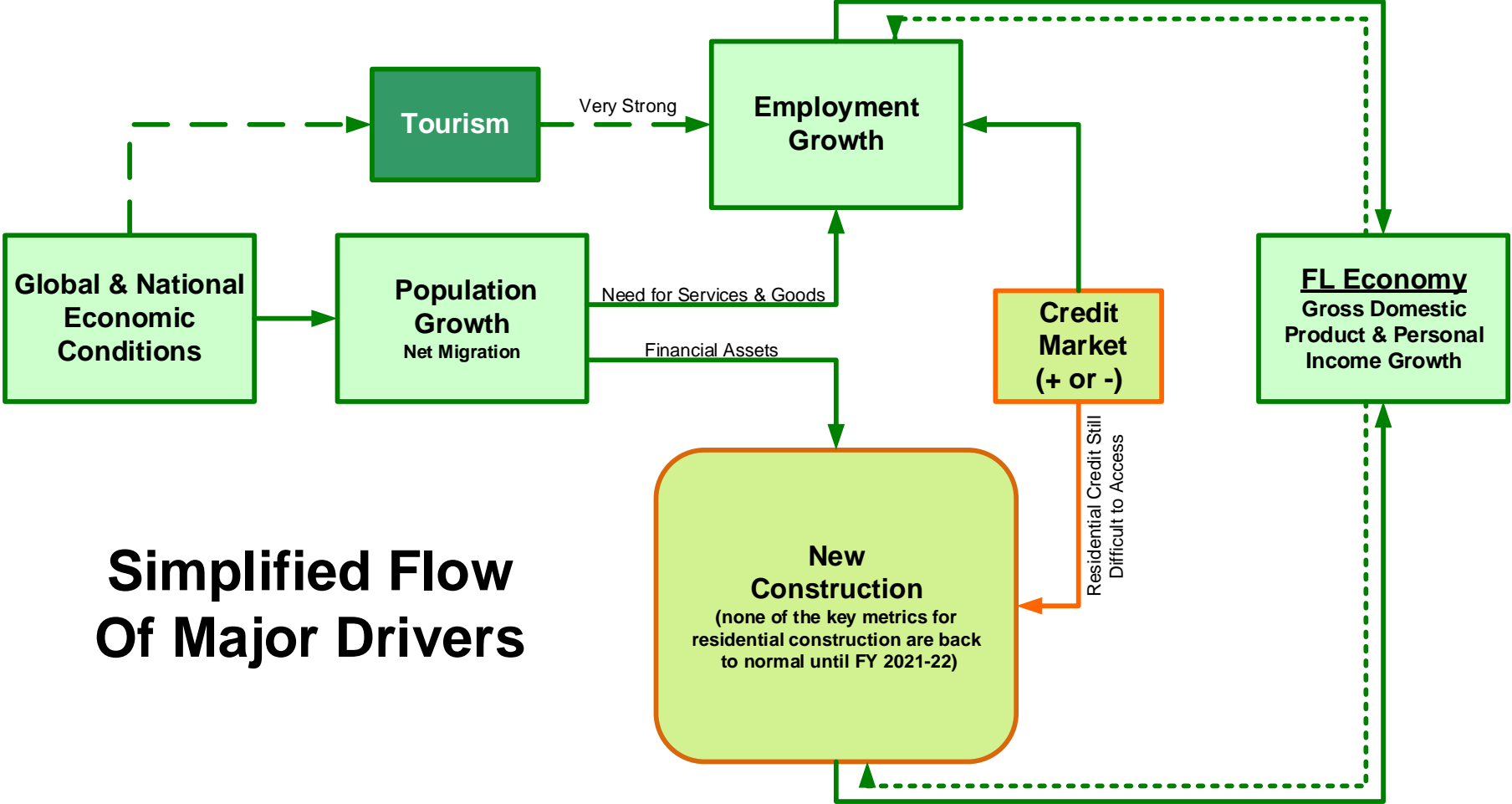
August 17, 2018

Presented by:



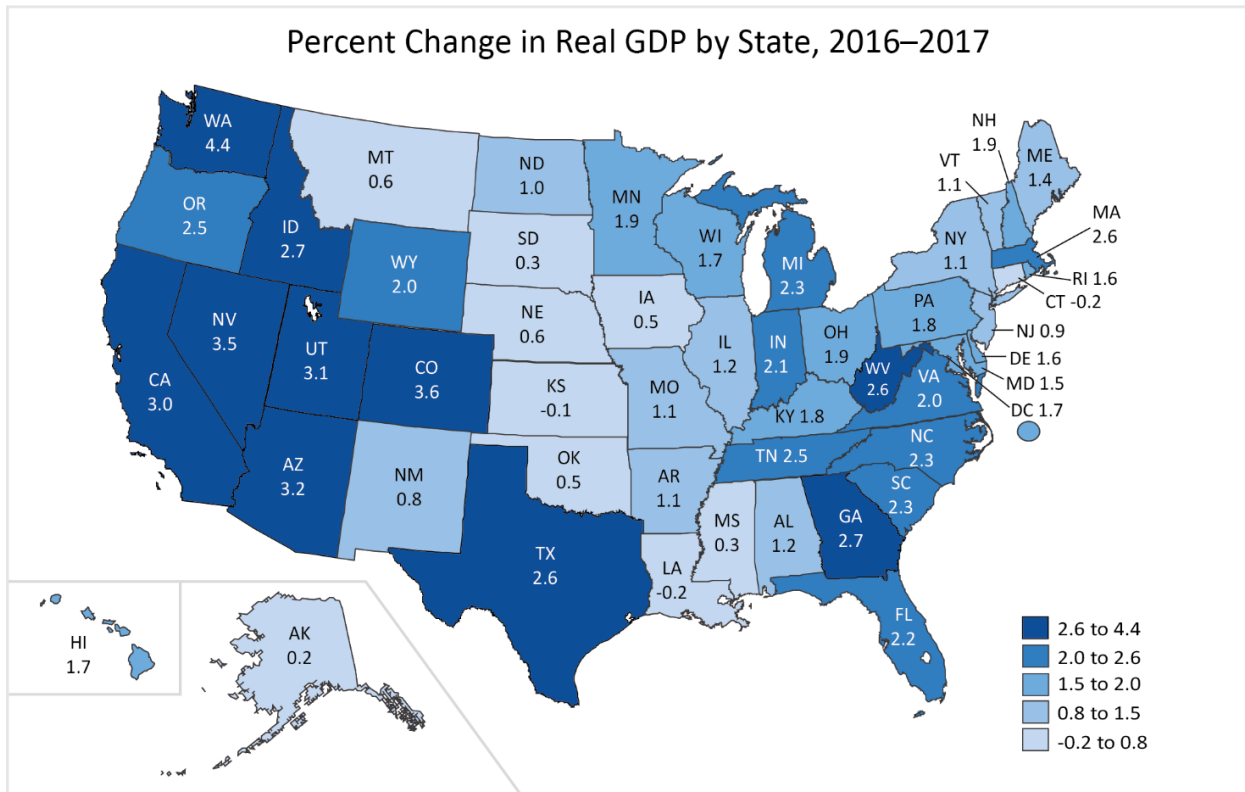
The Florida Legislature
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Key Economic Variables Are Strong



**Simplified Flow
Of Major Drivers**

Economy Has Continued Growth...



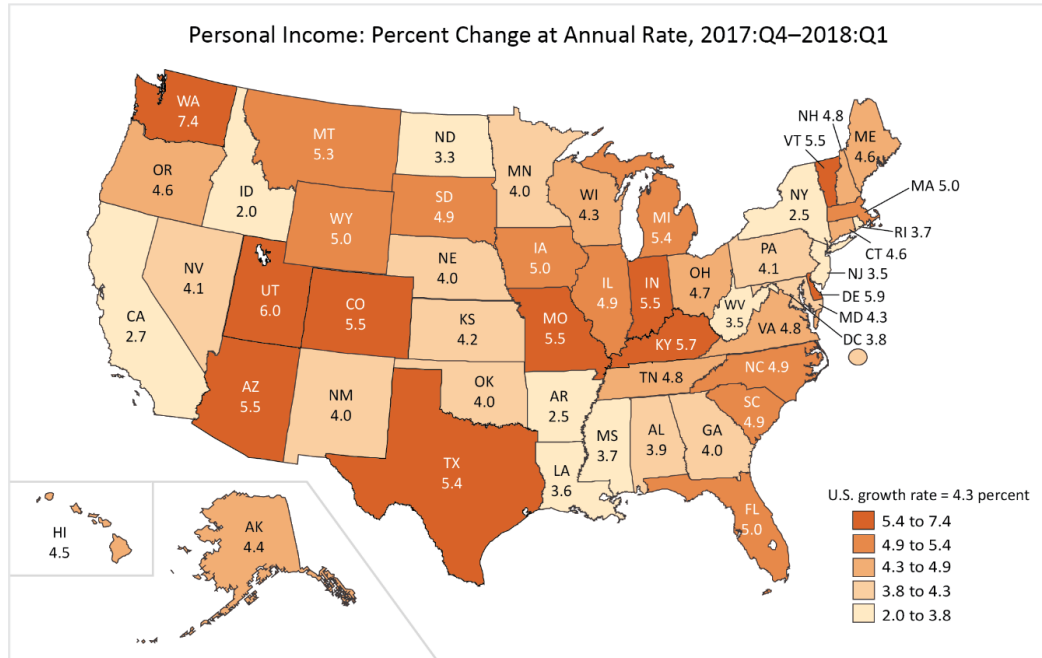
U.S. Bureau of Economic Analysis

For the first quarter of the 2018 calendar year, Florida posted growth of 2.5%, surpassing the national average of 1.8% and ranking the state 11th in the country for real growth.

In the latest revised data for State Gross Domestic Product (GDP), Florida had real growth of 4.2% in 2015, placing it above the national average of 2.7%. For the 2016 calendar year, Florida's growth slowed to 2.6%; however, this was still well above the national average of 1.5%.

For 2017, Florida's real growth further slowed to 2.2% over the prior year—coming in only slightly above the national average of 2.1% and ranking Florida 17th among states for growth.

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



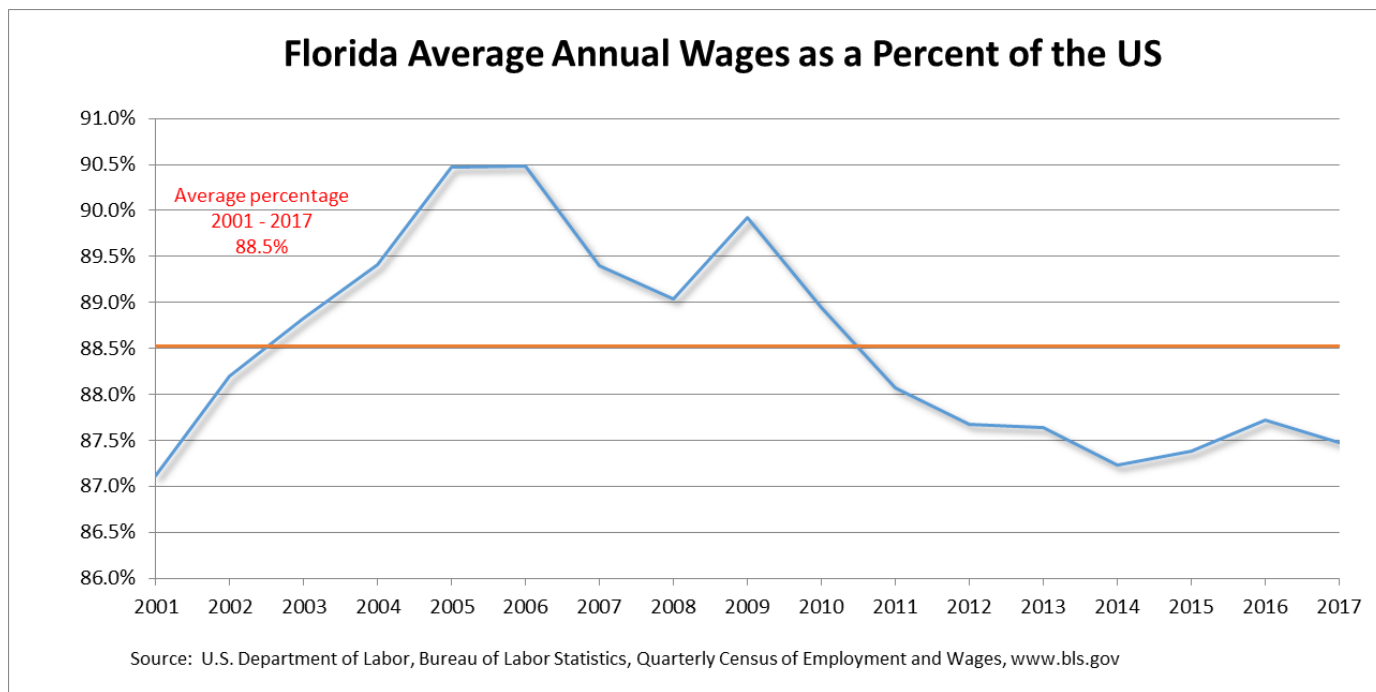
U.S. Bureau of Economic Analysis

The first quarter results for the 2018 calendar year indicated that Florida ranked 13th in the country with 5.0 percent growth over the prior quarter. The United States as a whole had 4.3 percent growth. However, the Florida result was boosted in part by continued strength in transfer receipts.

In the latest revised data for State Personal Income, Florida had growth of 7.4% in 2015, placing it well above the national average of 5.0%. For the 2016 calendar year, Florida's growth slowed to 3.0%; however, this was still above the national average of 2.3%. For 2017, the preliminary numbers show that Florida's growth increased to 3.8% over the prior year—roughly maintaining the same relationship to the national average of 3.1%.

Florida's per capita personal income growth continued to trail in performance in 2017, growing only 2.2 percent compared to the national average of 2.4 percent. This is the second consecutive year where the state lagged the nation in per capita growth.

Wage Gap Increased Slightly in 2017...

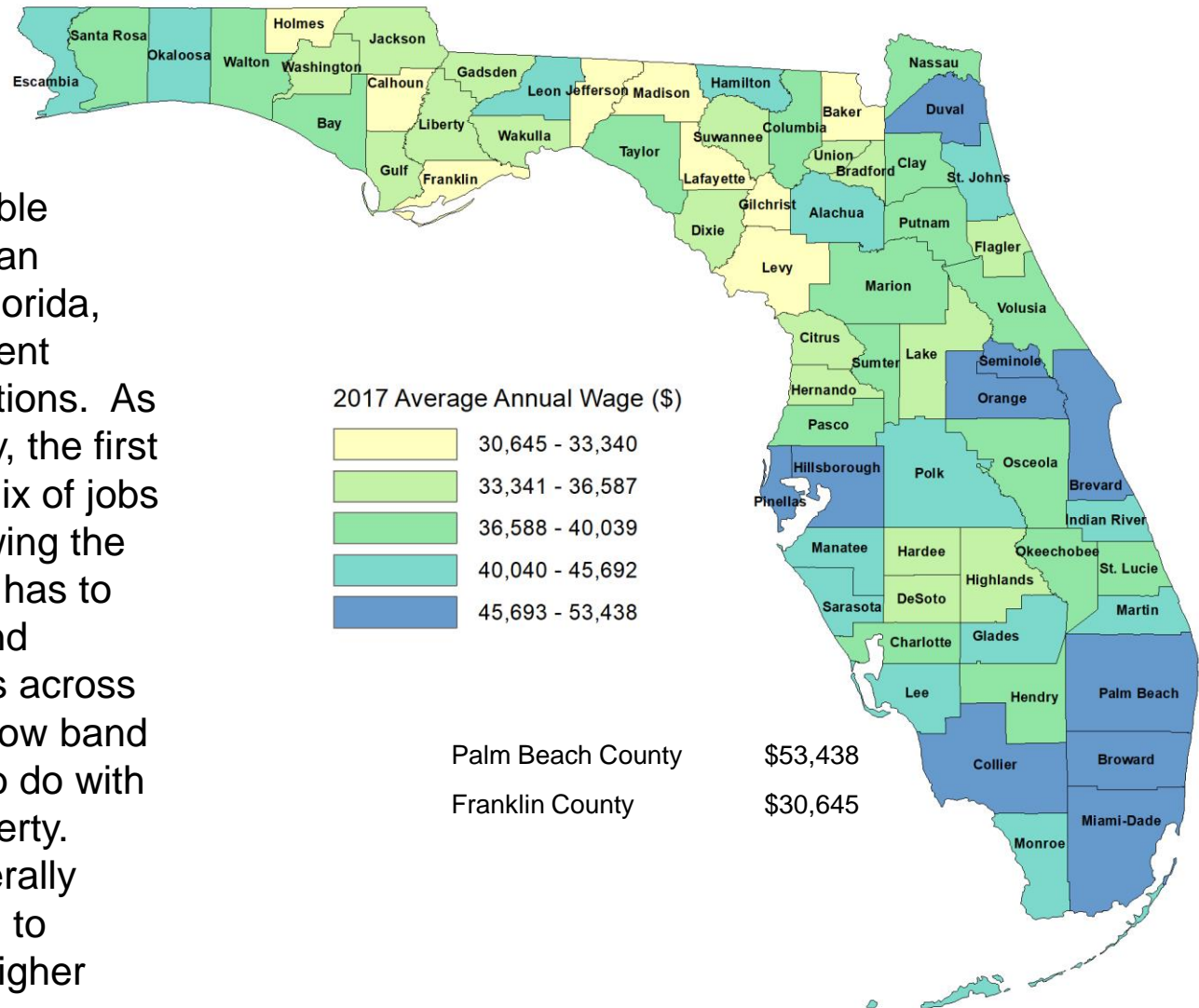


Florida's average annual wage has typically been below the US average. Preliminary data for the 2017 calendar year showed that Florida's average wage, relative to the US average, fell slightly from 87.7% in 2016 to 87.5%. The ratio in 2014 (87.2%) was Florida's lowest percentage since 2001.

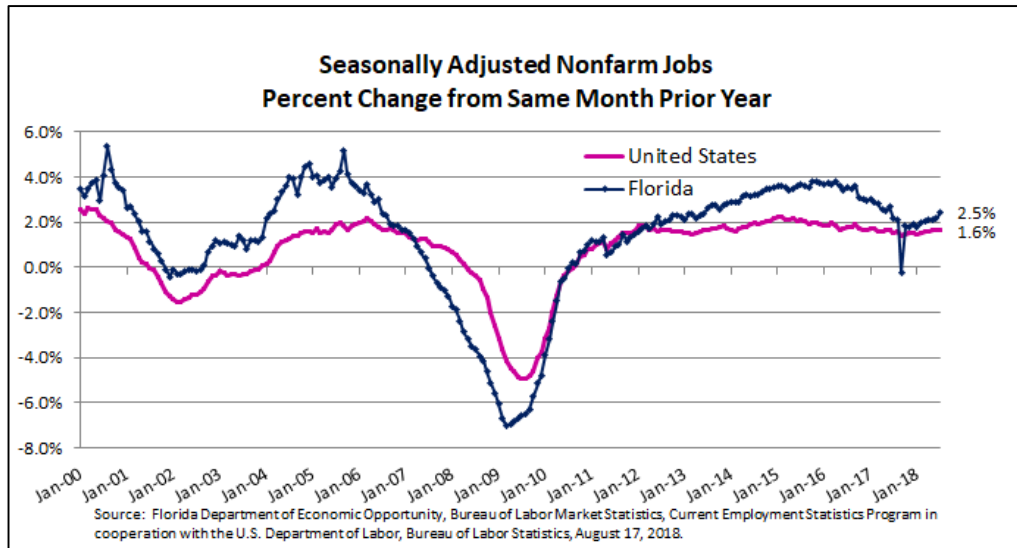
In part, the lower than average wage gains has to do with the mix of jobs that have been growing the fastest in Florida and their average wages. For example, the Accommodation & Food Services employment sector is large, has the lowest average annual wage, and had up until this past year been growing 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 120.5 million visitors in FY 2017-18, an increase of 5.5 percent over FY 2016-17.

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.



Current Employment Conditions...



July Nonfarm Jobs (YOY)

US 1.6%
FL 2.5%
YR: 210,600 jobs
Peak: +749,400 jobs
[Prior Employment Peak passed in May 2015]

July Unemployment Rate

US 3.9%
FL 3.7%
(382,500 people)

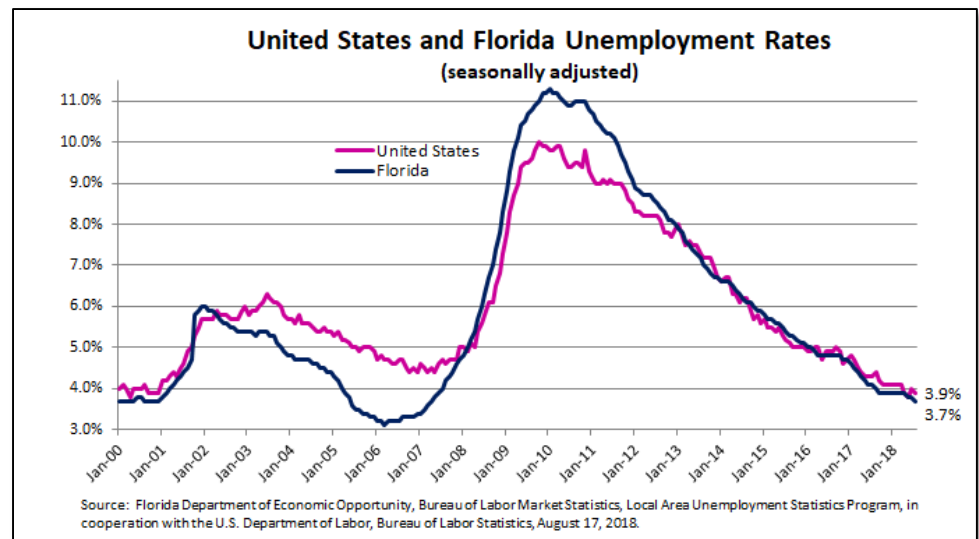
The Revenue Estimating Conference now assumes Florida is below the “full employment” unemployment rate (about 4 percent).

Highest Monthly Rate

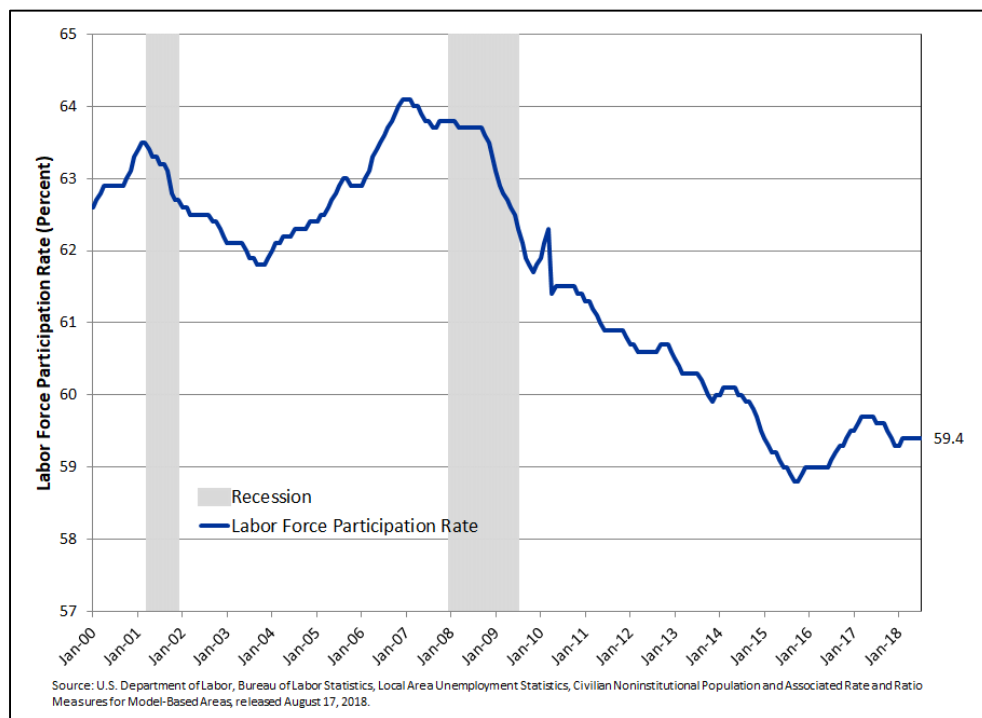
11.3% (January 2010)

Lowest Monthly Rate

3.1% (March 2006)



Florida's Participation Rate...



Florida's labor force participation rate peaked at 64.1% from December 2006 to February 2007. The participation rate generally declined from that point to September 2015, and then remained relatively stable from December 2015 to June 2016.

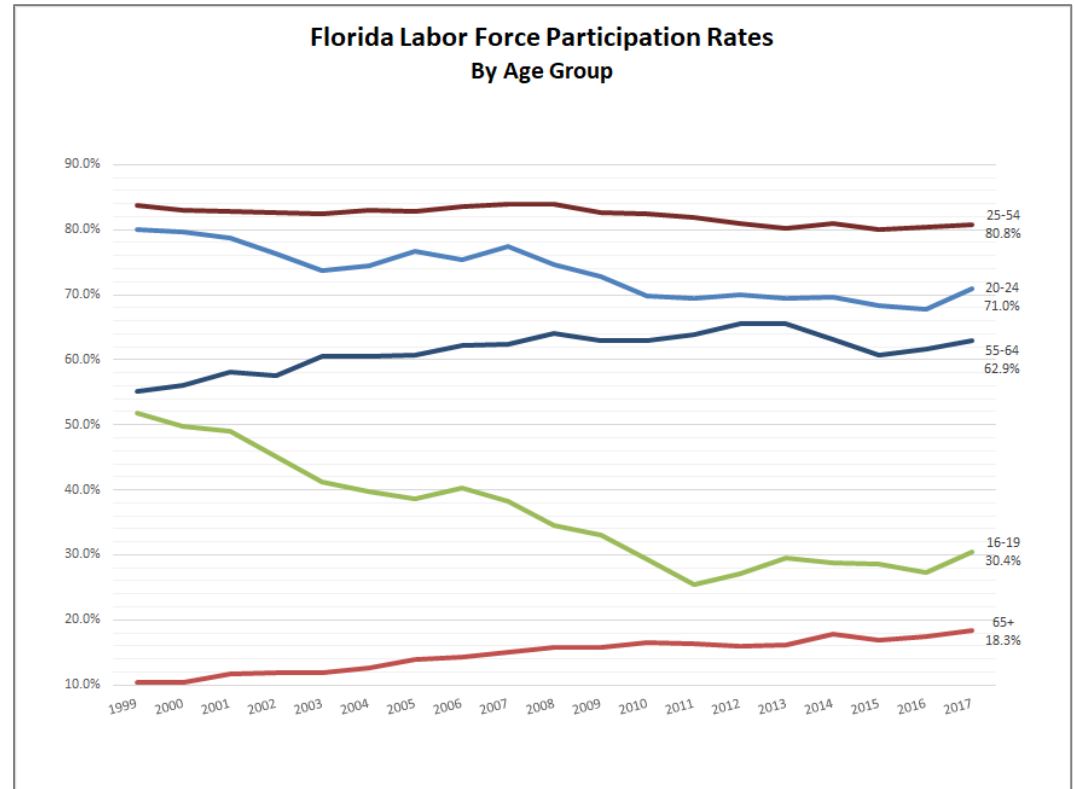
Since then, the rate trended upward, peaking at 59.7% from March through June 2017 before drifting slightly lower to 59.3% in December 2017 and January 2018. The rate in July 2018 remained at 59.4%, unchanged since February. In July 2018, the US participation rate was 62.9%.

Among all unemployed, the share of those reentering the labor force was 28.6% in July 2018, the same as it was a year earlier in July 2017. The share of new entrants declined from 11.9% to 11.6% over this same time period.

The still noteworthy size and composition of the long-term unemployed group (97,000 persons or 24.8% of all unemployed in July) may be confounding some of the trend results. The equivalent percentage from the United States as a whole was 22.7%. Even though the share of the long-term unemployed is still relatively elevated compared to historical levels for this stage in the business cycle, the rate has precipitously declined over the past few months.

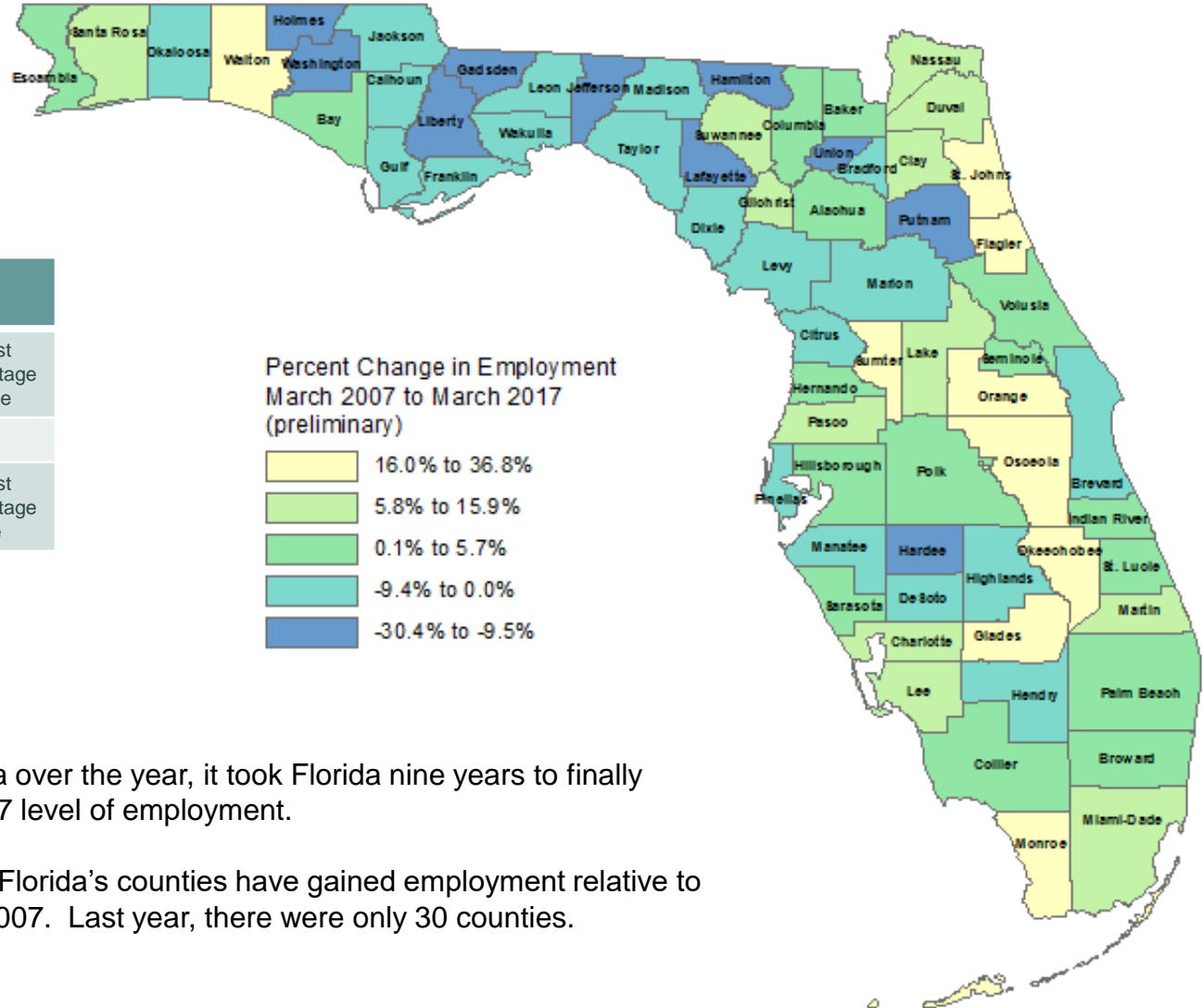
Detailed Participation Rate...

- A higher participation rate would imply a higher unemployment rate, at least in the short run.
- In the early 2000's, around 50 percent of young people ages 16-19 were either employed or looking for work. This rate declined to 27.2 percent in 2016, before rising slightly to 30.4 percent in 2017.
- A similar trend is evident with those aged 20-24, as the percentage in the labor force slid from around 80 percent to 67.8 percent in 2016, before rising slightly to 71.0 percent in 2017.



- The labor force participation rate for the prime working-age group (ages 25-54) slipped from 84.0 percent in 2007 to 80.1 percent in 2015, before edging slightly upward to 80.8 percent in 2017.
- The participation rates for the older age group, 55-64 and 65+, have both shown increases since the early 2000s, with the 65+ age group rising from a low of 10.3 percent in 2000 to 18.3 percent in 2017.

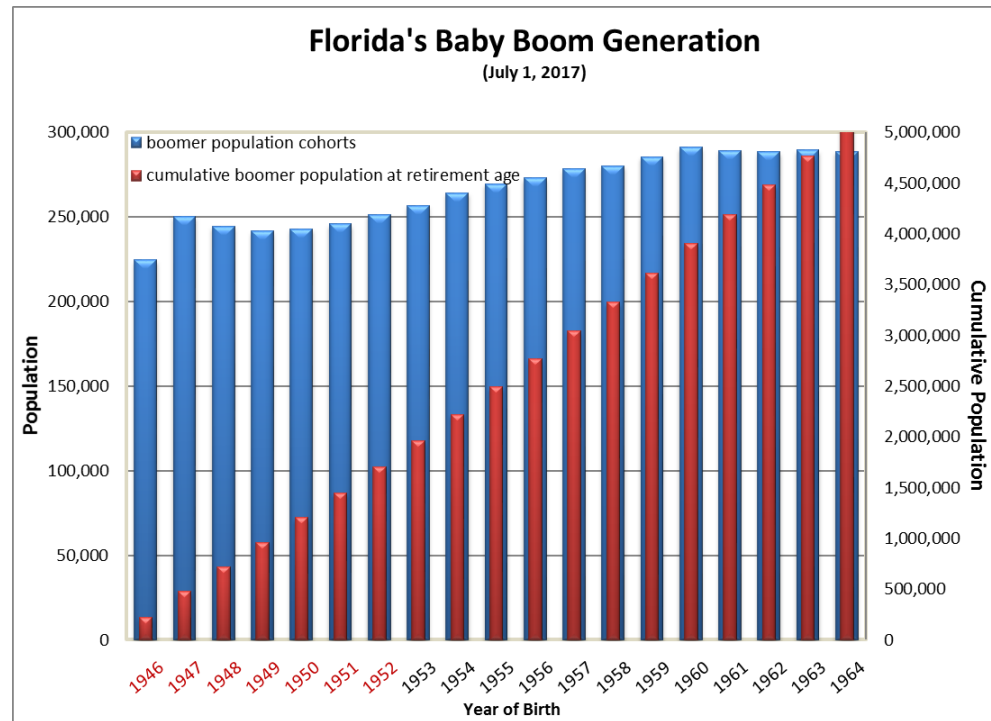
Across the State, Employment Picture Is Improving, but Still Mixed...



Area	March 2007 to March 2017	
Sumter County	36.8%	Greatest Percentage Increase
Florida	5.4%	
Liberty County	-30.4%	Greatest Percentage Decline

- Comparing March data over the year, it took Florida nine years to finally surpass its March 2007 level of employment.
- More than half (37) of Florida's counties have gained employment relative to their levels in March 2007. Last year, there were only 30 counties.

Baby Boomers in Florida Today...

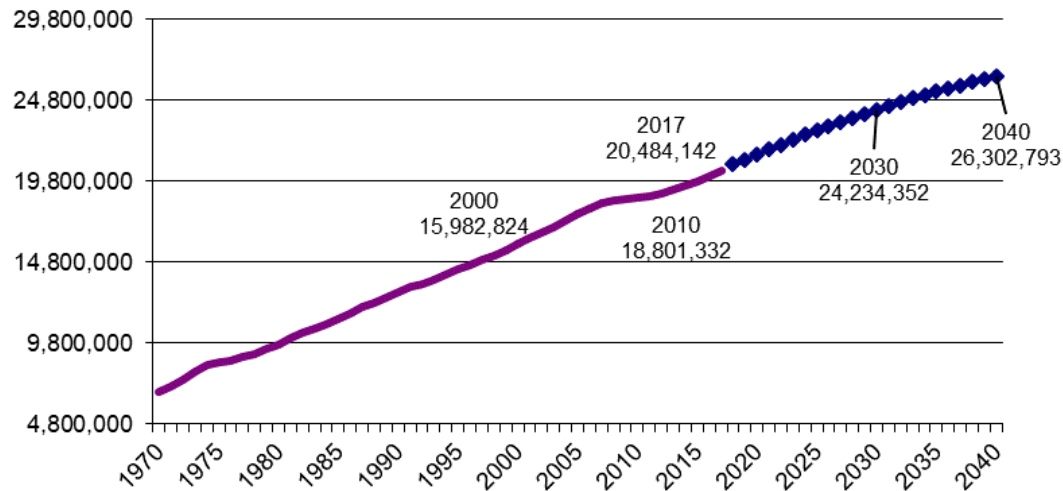


- The first cohort of Baby Boomers became eligible for retirement (turned age 65) in 2011. Seven cohorts have entered the retirement phase: 2011, 2012, 2013, 2014, 2015, 2016 and 2017. This represents about one-third of all Baby Boomers.
- In 2000, Florida's working age population (ages 25-54) represented 41.5 percent of the total population. With the aging Baby Boom generation, this population now represents 37.7 percent of Florida's total population and is expected to represent only 35.7 percent by 2030.

Population Growth Slowing Slightly...

- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Over the next four years, Florida's population growth is expected to remain at or above 1.4%, averaging 1.45% between 2018 and 2022. Most of Florida's population growth through 2030 will be from net migration (98.0%).
- Nationally, average annual growth will be about 0.67% between 2017 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 April 1 Population...



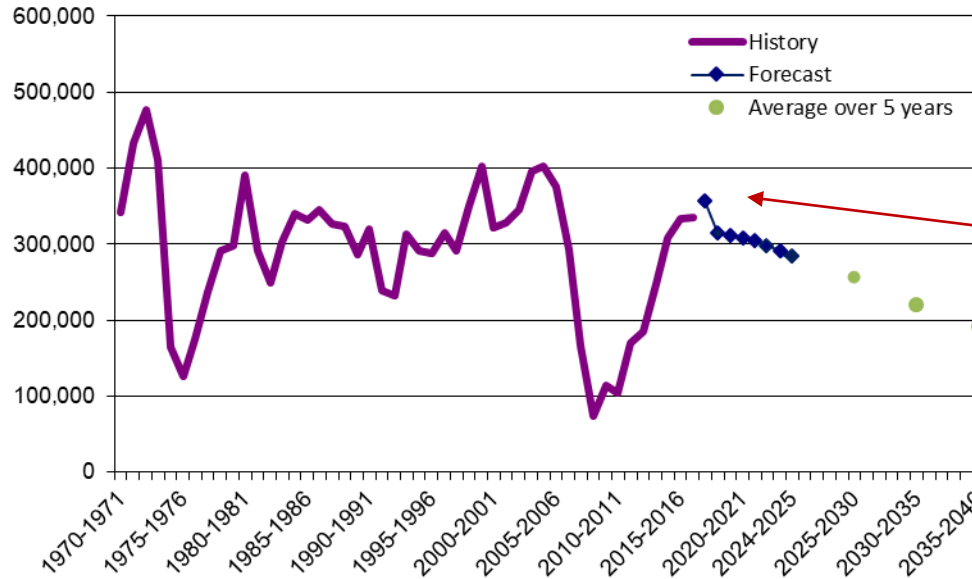
Florida's population:

- was 15,982,824 in 2000
- was 18,801,332 in 2010
- is forecast to grow to 24,234,352 by 2030 and to 26,302,793 by 2040

Florida's population growth of 335,488 between April 1, 2016 and April 1, 2017 was the strongest annual increase since 2006, immediately prior to the collapse of the housing boom and the beginning of the Great Recession.

Population is expected to have grown by 357,216 between 2017 and 2018, reflecting the in-migration to the state of Puerto Ricans and US Virgin Islanders as a result of the 2017 hurricane season, but this number is still not final.

Florida's Population Growth...



This change reflects the expected in-migration from Puerto Rico and the US Virgin Islands caused by the damage from Hurricane Maria; by itself, the storm produced a net permanent increase in Florida's population of 53,137 persons.

Population:

- Average annual increase between 2000 and 2006 was: 361,942
- Average annual increase between 2006 and 2014 was: 169,112
- Average annual increase between 2014 and 2017 was: 325,591

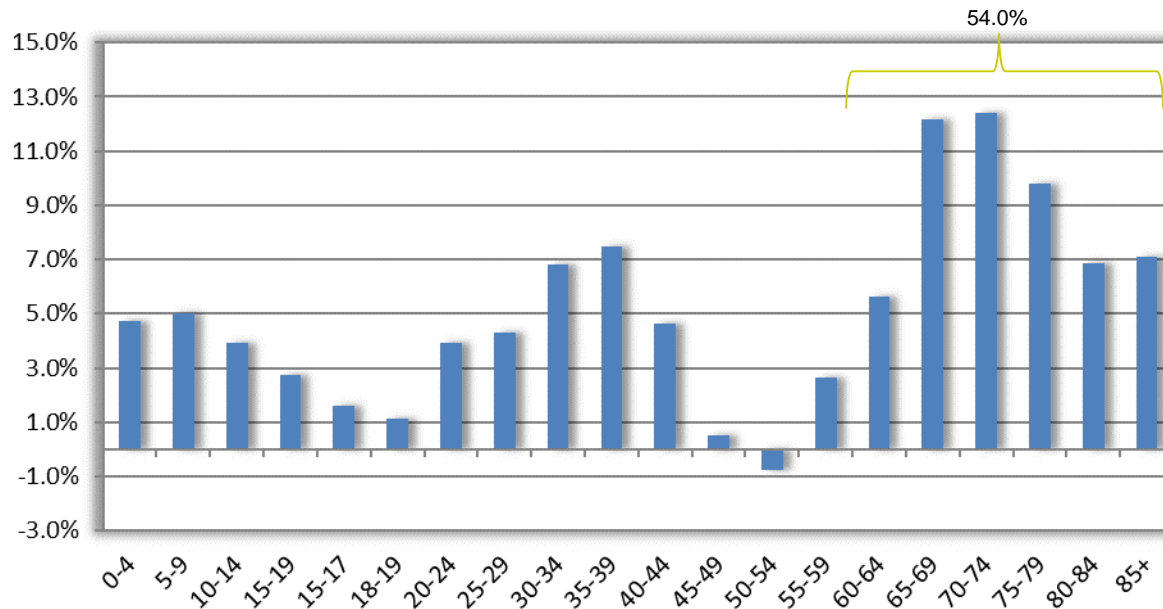
Population is forecast to increase on average annually by:

- 327,741 between 2017 and 2020 --- a gain of 898 per day
- 296,762 between 2020 and 2025 --- a gain of 813 per day
- 256,635 between 2025 and 2030 --- a gain of 703 per day

2017 Population	
Tampa	373,058
Orlando	279,789

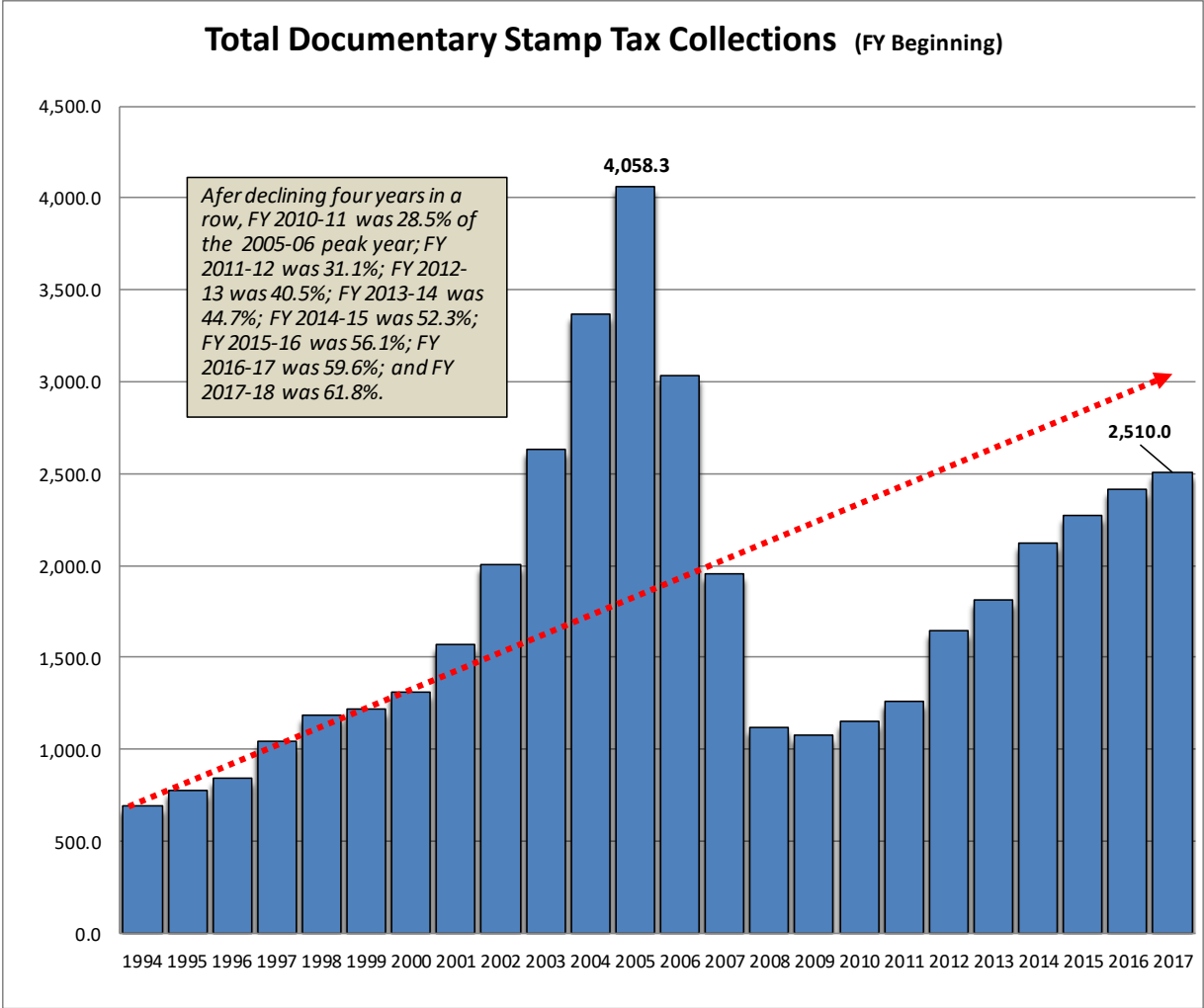
Population Growth by Age Group...

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



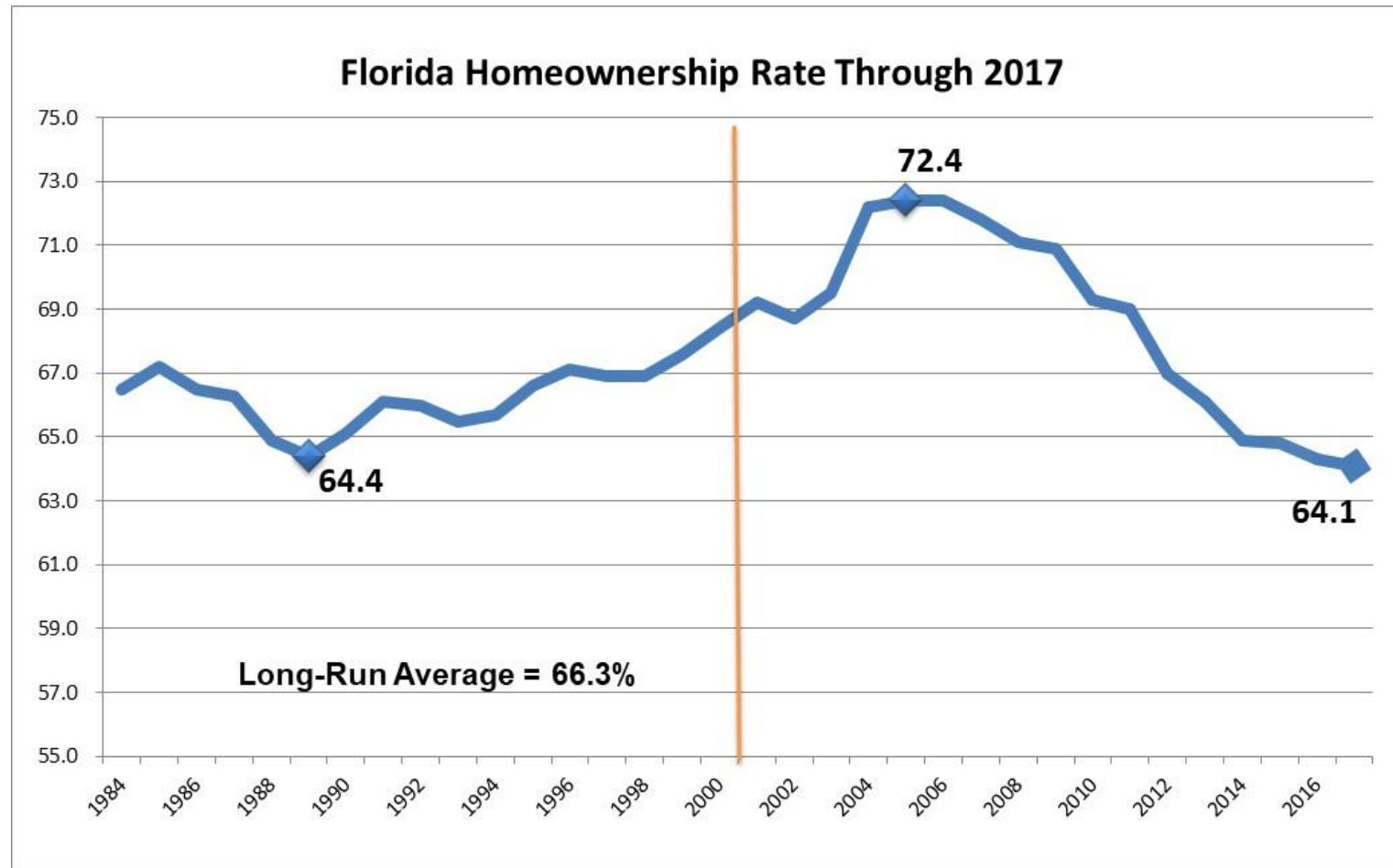
- Between 2010 and 2030, Florida's population is forecast to grow by over 5.4 million persons.
- Florida's older population (age 60 and older) will account for most of Florida's population growth, representing 54.0 percent of the gains.
- Florida's younger population (age 0-17) will account for 15.3 percent of the gains, while the young working age group (25-39) will account for 18.6 percent of the growth.

Florida Housing is Generally Improving...



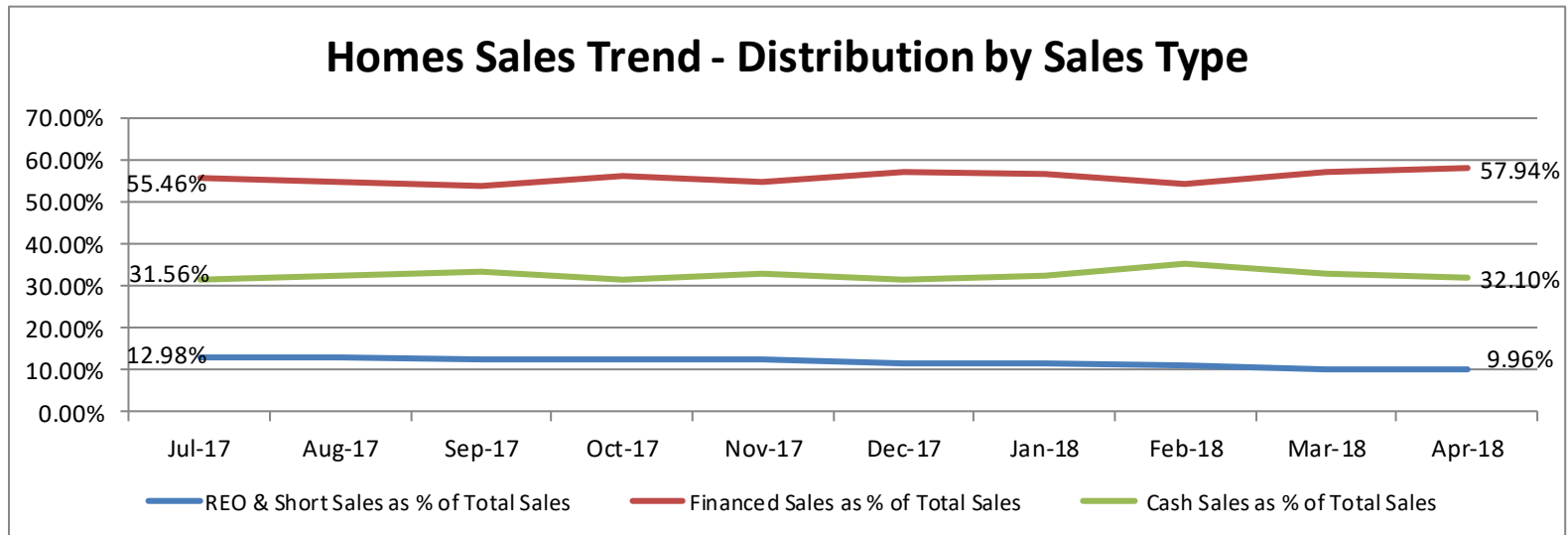
Documentary Stamp Tax collections saw 3.8% growth in FY 2017-18 over FY 2016-17.

Homeownership Rate Below Normal...



The 2016 percentage of 64.3 was well below the long-term average for Florida. Final data for 2017 shows a further decline to 64.1%. This rate is below the lowest homeownership rate previously recorded in Florida (64.4 in 1989) during the 34-year history of the series. However, preliminary data for the first half of the 2018 calendar year is showing improvement.

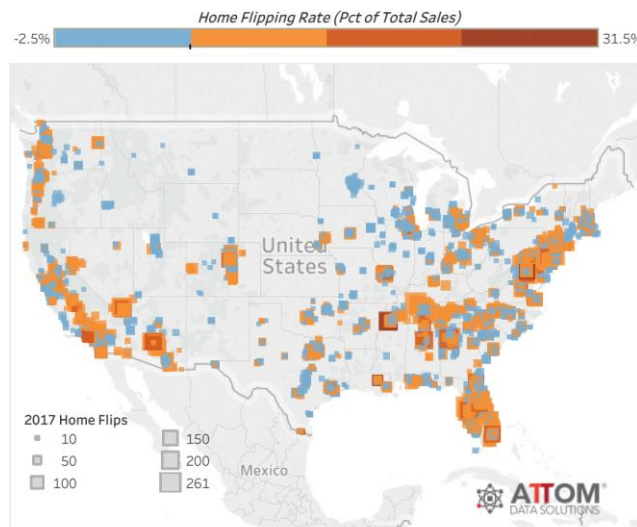
Sales Mix Still Atypical...



Data from LPS / Black Knight

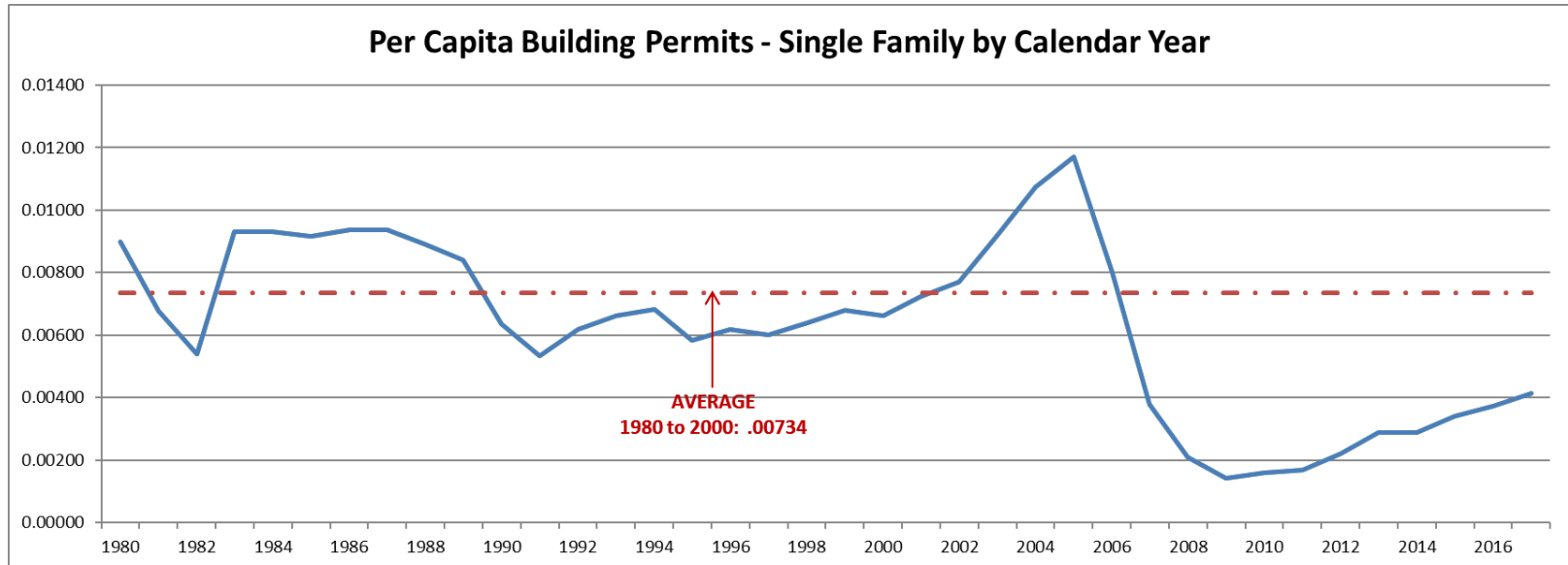
Interest rates continue to be relatively low; a 30-year conventional note averaged 4.92 for closed loans in June. When coupled with expected future growth in prices, a subdued interest rate environment leads to a new concern or, more accurately, the return of an old one, home flipping. A growing percentage (35%) of the homes purchased by flippers use financing.

2017 Home Flips by Zip Heat Map



Financed Sales continue to gain as a percentage of all sales, ending April 2018 with a higher share than this segment had in April 2017 (57.94% versus 51.13%). The share for REO & Short Sales has drifted steadily downward over this period; however, the share for Cash Sales has bounced around and remains elevated.

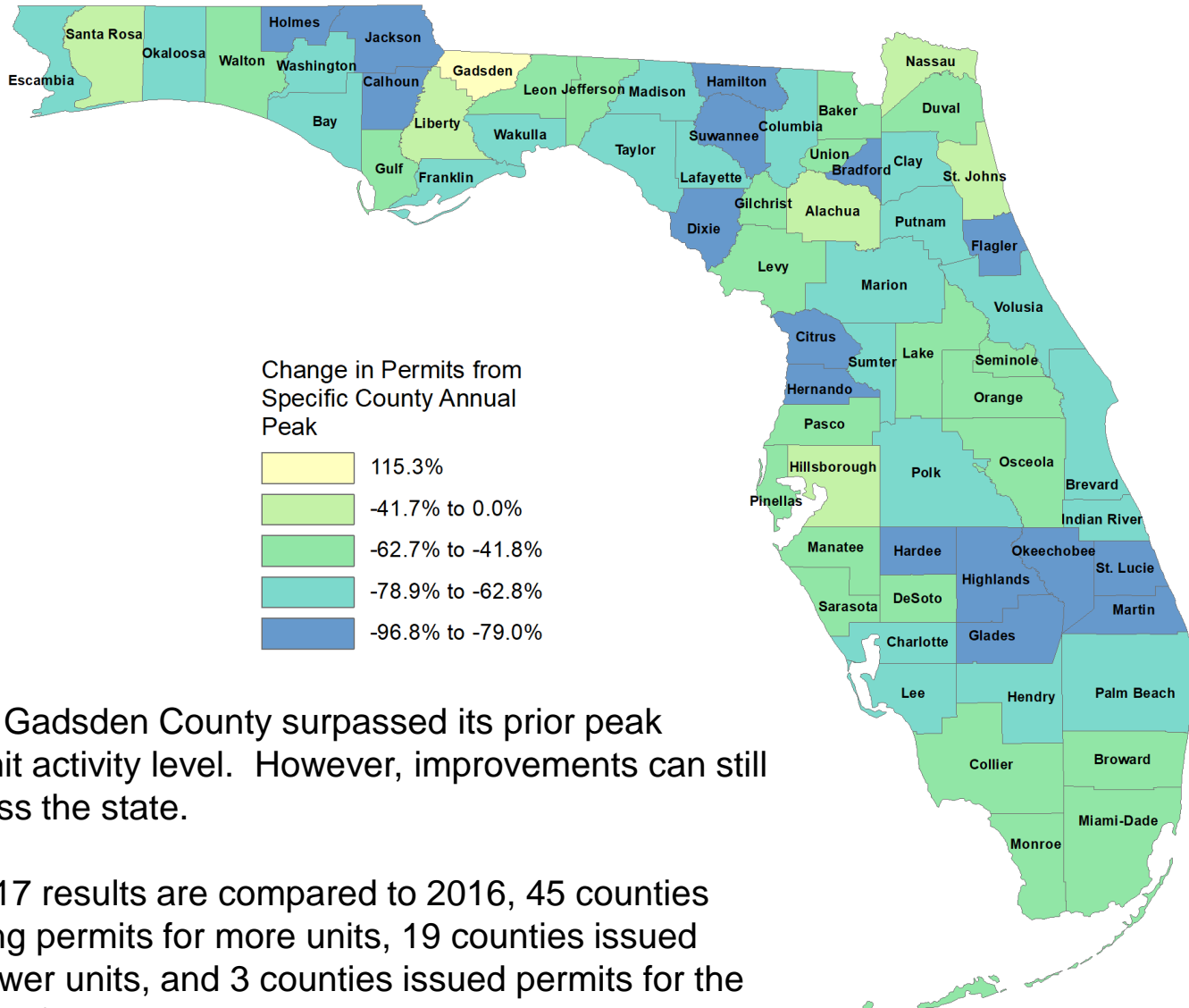
Permits Are Still Well Below Historic Norms...



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, calendar year activity for the past three calendar years ran 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, and 13.5% in 2017.

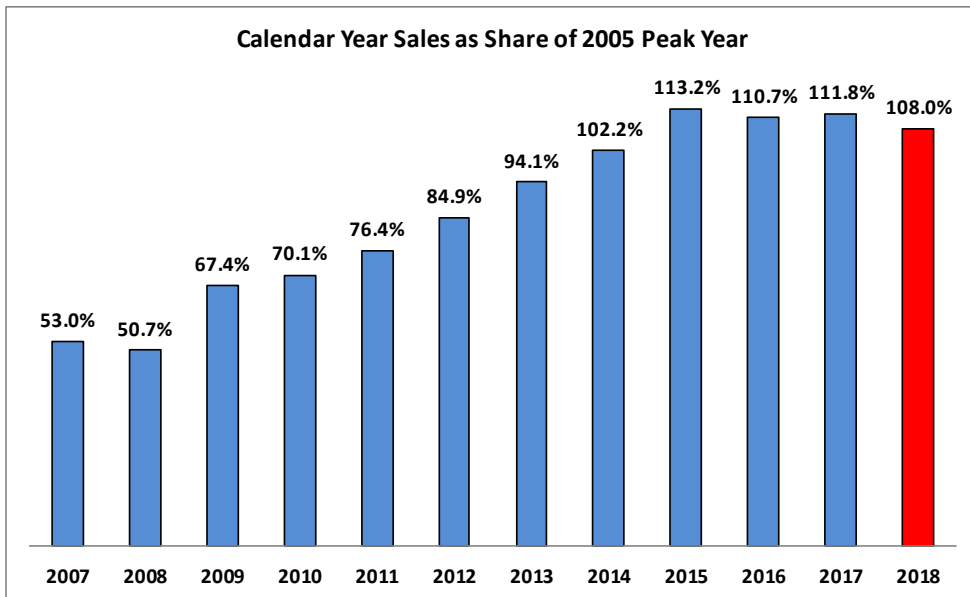
Despite the strong percentage growth rates in five of the last six calendar years, the level is still low by historic standards – about half of the long-run per capita level.

2017 Building Permit Activity Relative to the County's Peak during the Period 2000-2007

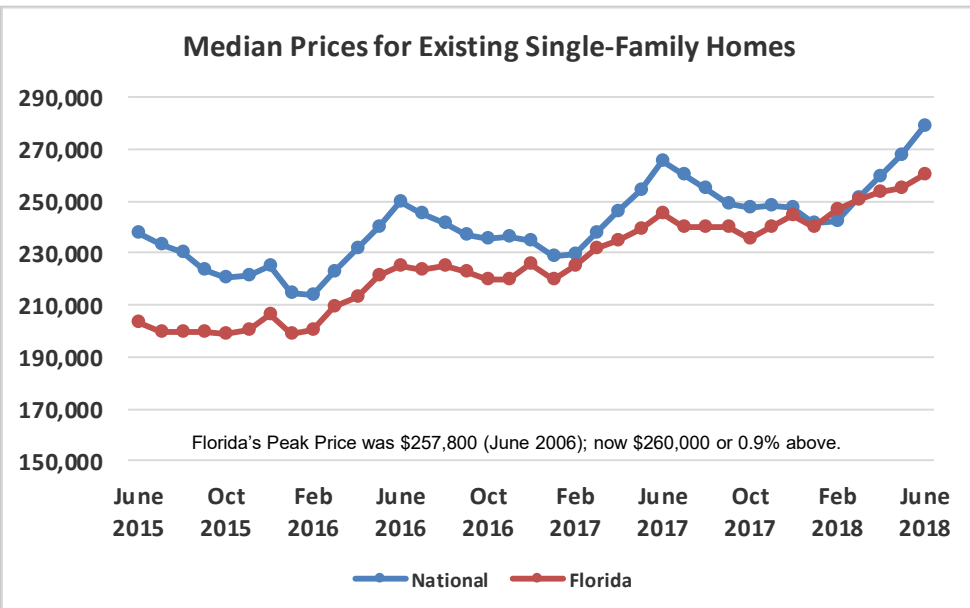


In 2017, only Gadsden County surpassed its prior peak building permit activity level. However, improvements can still be seen across the state.

When the 2017 results are compared to 2016, 45 counties issued building permits for more units, 19 counties issued permits for fewer units, and 3 counties issued permits for the same number of units.



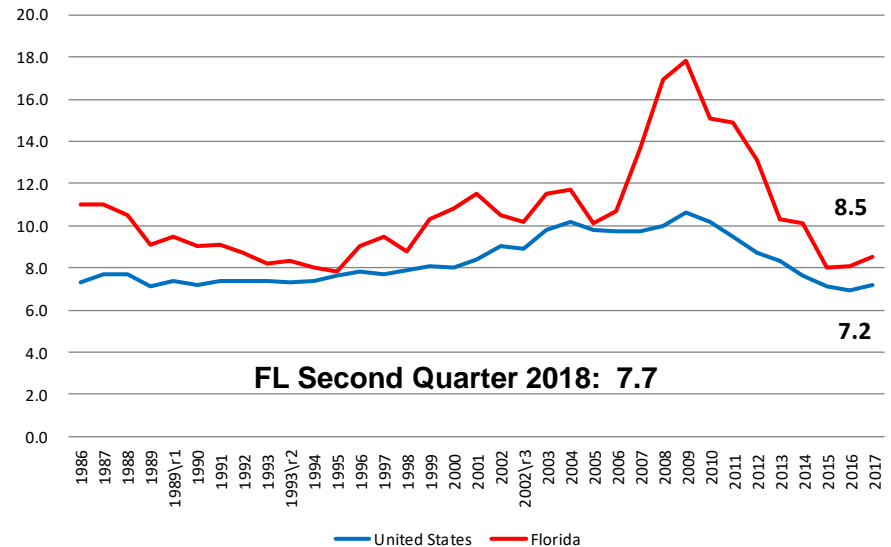
Existing home sales volume in the 2014, 2015, 2016 and 2017 calendar years exceeded the 2005 peak year. This year (2018) looks on course to do the same.



While Florida's existing home price gains have roughly tracked national gains over the last three years, the state's median home price for single family homes has generally stayed upwardly steady as the national median peaks and dips. The state's median price in June was 93.1% of the national median price, but exceeded the state's prior peak (June 2006) for the first time since then.

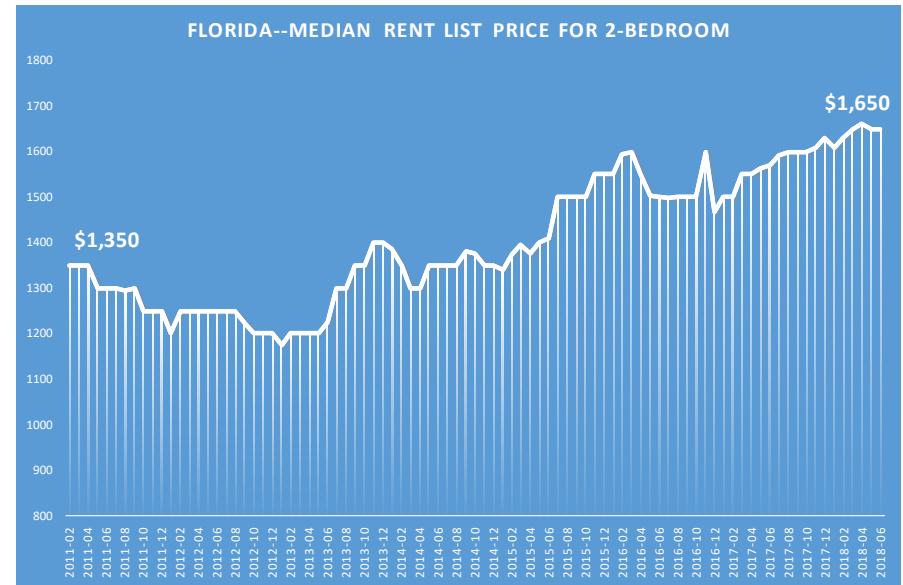
Diverted homeowners and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly in 2015 and 2016; price pressure continues to build.

Rental Vacancy Rates
 Long-run Average Percent: US---8.3; FL---10.6



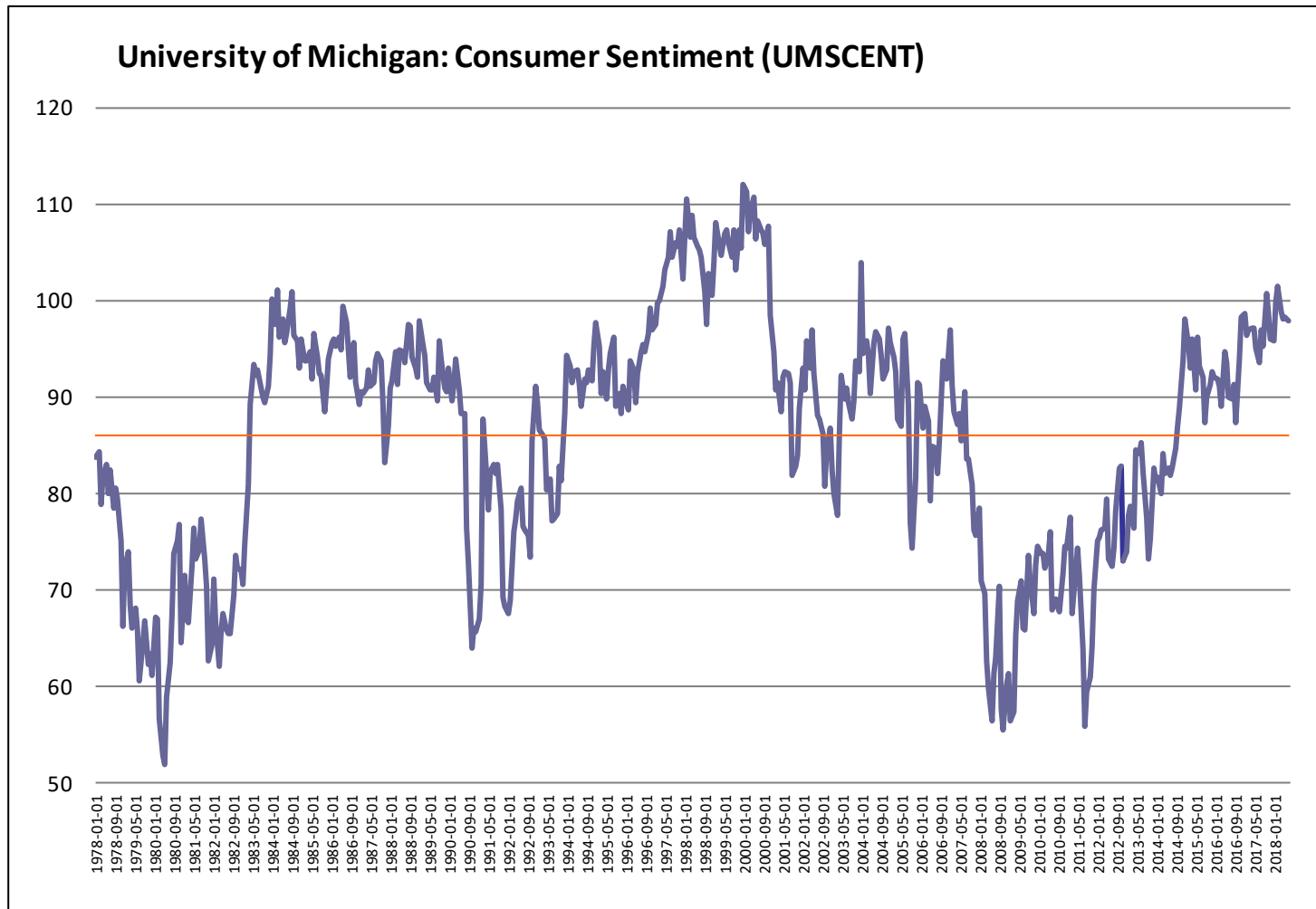
Florida and U.S. Median Gross Rent (in Current Dollars)						
Year	Median Gross Rent			Average Gross Rent		
	United States	Florida	Florida relative to United States	United States	Florida	Florida relative to United States
2005	728	809	111%	803	863	107%
2006	763	872	114%	844	932	110%
2007	789	925	117%	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%

Source: U.S. Census Bureau, American Community Survey, 1-Year, 2005-2016.



Zillow Rental Data: Median Rent List Price, 2-bedroom

Consumer Perceptions Are High



Nationally, the sentiment reading for June 2018 (97.9) is well above the index average since inception (86.0), but well below the highest recorded monthly level on record—112.0 in January 2000.

Economy Recovering

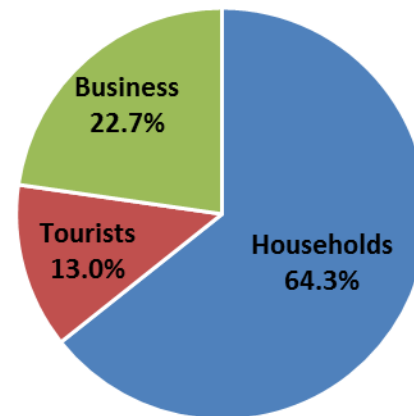
Florida growth rates are generally returning to more typical levels and continue to show progress. The drags—particularly construction—are more persistent than past events, but the strength in tourism is largely compensating for this. In the various forecasts, normalcy was largely achieved by the end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

- The recovery in the national economy is near completion on all fronts. 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 726 and a LTV of 80 percent on all closed loans in June. Seventy percent of all home purchase lending in June had credit scores that were 700 or above. Student loans and auto debts appear to be affecting the ability to qualify for residential credit.
- By the close of the 2017-18 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
 - All personal income metrics, over one-half of the employment measures, and the total tourism and domestic visitor counts had exceeded their prior peaks.
 - Still 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 until FY 2023-24.

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.

**Contributions to General Revenue from Sales Tax (with CST)
Collections in FY 2015-16, By Source**

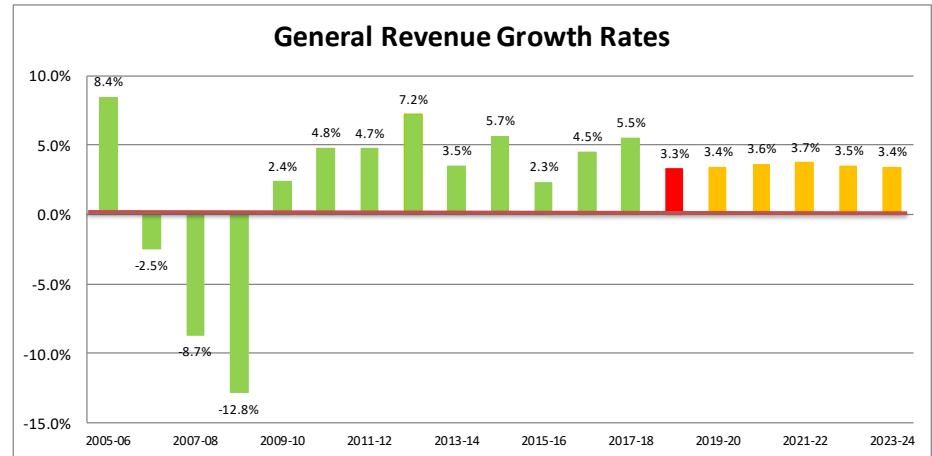


The Legislative Office of Economic and Demographic Research has updated and refined an empirical analysis of the various sources of the state's sales tax collections. In FY 2015-16, sales tax collections provided \$22.0 billion dollars or 76.4% of Florida's total General Revenue collections. Of this amount, an estimated 13.0% (nearly \$2.86 billion) was attributable to purchases made by tourists.

General Revenue Forecast

LR Growth: Averages 6%
Forecast Growth: Averages 3.5%

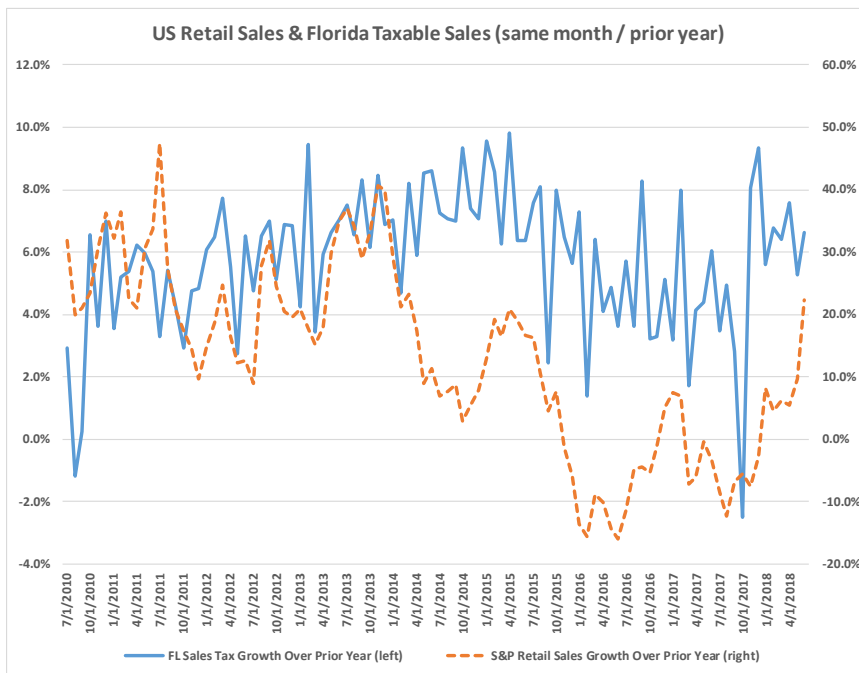
The past had tax increases associated with key revenue sources and stronger population growth.



Fiscal Year	2018 Post-Session	August 2018 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	32,256.9	32,243.8	(13.1)	1,025.6	3.3%
2019-20	33,354.2	33,334.7	(19.5)	1,090.9	3.4%
2020-21	34,568.1	34,544.2	(23.9)	1,209.5	3.6%
2021-22	35,806.5	35,827.4	20.9	1,283.2	3.7%
2022-23	37,031.6	37,086.9	55.3	1,259.5	3.5%
2023-24	n/a	38,349.1	n/a	1,262.2	3.4%

Final collections for FY 2017-18 came in \$205.2 million above the estimate for the year, a gain of 0.7 percent and well within the plus or minus one percent range the Conference usually attributes to statistical noise. Of this amount, approximately \$120.7 million, or nearly 59 percent, is associated with one-time events. The relatively large nonrecurring portion of the FY 2017-18 surplus, combined with the slightly weaker near-term National and Florida economic forecasts, results in a new forecast for General Revenue that is virtually unchanged overall.

US Retail Sales & Florida Taxable Sales



- The change over the same month in the prior year in the national S&P Retail Select Industry Index has been positive since the beginning of the 2018 calendar year. It has also shown recent signs of strengthening. 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.
- In addition, Florida's instate volatility over the prior year was much greater from September 2015 through October 2017 than seen in FY 2013-14 and FY 2014-15. Both September and October of 2017 were affected by Hurricane Irma. Since then, the data has shown less volatility.

