

FLORIDA MONTHLY ECONOMIC REPORT

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Office of Economic and Demographic Research

PRELIMINARY GENERAL REVENUE COLLECTIONS FOR JANUARY

Preliminary General Revenue (GR) collections for January were \$92.7 M over the November 1996 Revenue Estimating Conference estimate. The preliminary estimate for Sales Tax Collections was \$18.6 M over estimate for the month, and \$19.9 M over estimate for the year to date, rebounding from last month's shortfall. (Sales Tax Collections are net of \$0.8 M in transfers to qualified sports facilities.) FINAL Sales Tax Collections will be available by the end of the month. As expected, Corporate Income Tax also recovered, coming in at \$29.8 M over estimate for the month and standing at \$8.3 M over estimate for the year to date. The Estate Tax also had a big month, registering a \$23.8 M surplus for the month. Interest Earnings continued over estimate, \$1.6 M over for the month. Even Refunds was under estimate by \$8.2 M, which added to the month's large overage. In fact, nearly all GR sources performed above estimates for January.

Preliminary General Revenue Collections	Lottery Transfers to DOE
Month: \$92.7 m over the Nov. 1996 estimate	Month: \$70.0 m or \$0.5 m over the Oct. 1996 estimate
\$91.7 m over the March 1996 estimate	Year: \$391.8 m or \$6.6 m over the Oct. 1996 estimate
Year: \$31.9 m over the Nov. 1996 estimate	\$9.6 m under the Feb. 1996 estimate
\$258.8 m over the March 1996 estimate	

The largest shortfall came in Service Charges, transfers from Trust Funds to GR; timing of these transfers does not always match the timing built into the REC monthly estimates. Corporations Trust Fund Fees fell \$1.2 M under estimate, because an expected transfer from the trust fund to GR was not credited in January. (The transfer was made in early February.) Parimutuel Taxes fell \$1.1 M under estimate because more revenue than anticipated was transferred to the Parimutuels Trust Fund to cover cash flow. Although the transfer to GR from the Documentary Stamp Tax was over estimate by \$4.2 M for the month, underlying total collections for this source are about \$16.1 M short for the year to date.

Overall, PRELIMINARY net GR collections for January are about \$92.7 M over estimate for the month and about \$31.9 M (or less than of one percent) over estimate for the fiscal year to date. FINAL GR will be available at the end of January. Estimates in the table below are based on the November Revenue Estimating Conference.

**TABLE 1 - JANUARY PRELIMINARY GENERAL REVENUE COLLECTIONS
(\$ MILLIONS - BASED ON NOVEMBER 1996 ESTIMATES)**

	<u>MONTH</u>			<u>FISCAL YEAR TO DATE</u>				
	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	1,007.4	988.8	18.6	6,325.8	6,305.9	19.9	5,939.1	6.5%
BEVERAGE TAXES	57.5	56.9	0.6	313.9	310.8	3.1	303.0	3.6%
CORPORATE INCOME TAX	120.8	91.0	29.8	559.9	551.6	8.3	496.2	12.8%
DOCUMENTARY STAMP	43.2	39.0	4.2	170.9	184.1	-13.2	164.5	NA
TOBACCO TAX	12.4	11.6	0.8	76.3	79.6	-3.3	79.1	-3.5%
INSURANCE PREMIUM TAX	1.8	1.1	0.7	96.3	94.5	1.8	76.5	25.9%
PARIMUTUEL TAXES	-2.3	-1.2	-1.1	19.3	20.6	-1.3	29.0	-33.2%
INTANGIBLES TAXES	11.5	9.1	2.4	86.9	91.7	-4.8	59.5	46.1%
ESTATE TAX	56.6	32.8	23.8	334.9	308.2	26.7	216.5	54.7%
INTEREST EARNINGS	14.6	13.0	1.6	91.1	84.4	6.8	93.8	-2.8%
DRIVERS LICENSE FEES	4.7	4.5	0.2	29.5	29.5	0.1	26.9	9.9%
MEDICAL HOSPITAL FEES	9.6	9.4	0.2	67.5	69.7	-2.2	64.7	4.3%
MOTOR VEHICLE CHARGES	3.6	3.2	0.4	21.9	22.0	-0.2	20.6	6.1%
AUTOMOBILE TITLE FEES	2.0	2.3	-0.3	14.1	14.7	-0.6	13.3	6.5%
SEVERANCE TAXES	9.9	0.5	9.5	20.2	10.9	9.3	10.8	NA
SERVICE CHARGES	21.8	35.1	-13.4	185.3	203.3	-18.0	196.4	-5.6%
CORPORATION TRUST	4.7	5.9	-1.2	22.2	23.2	-1.0	27.1	-18.1%
OTHER TAXES LICENSES &	20.1	12.7	7.4	94.2	85.7	8.6	68.5	37.5%
TOTAL REVENUE	1,400.2	1,315.7	84.5	8,530.5	8,490.5	40.0	7,885.4	8.2%

LESS REFUNDS	36.2	44.5	-8.2	159.4	151.3	8.1	147.8	7.83%
NET REVENUE	1,364.0	1,271.2	92.7	8,371.1	8,339.2	31.9	7,737.6	8.2%

ADOPTED CONSENSUS NATIONAL FORECAST			
FEBRUARY 1997 ESTIMATION CONFERENCE			
(NIPA Series Chained 1992\$)	1996	1997	1998
GDP	2.5	2.9	2.1
-Final Sales	2.7	2.7	2.3
Consumption	2.5	3.0	2.6
-Nondurables	1.4	2.3	2.3
-Durables	5.5	5.4	3.4
-Computers	65.9	49.5	35.2
Furnishings	4.9	6.2	4.3
-Other Durables	6.7	5.2	1.6
-Services	2.4	2.9	2.5
Gross Dom. Private Investment	5.0	6.3	2.7
-Nonresidential Fixed Inv.	7.3	6.8	4.7
-Residential Fixed Inv.	5.4	1.0	0.6
-Change in Bus. Invent. (\$B)	\$17.6	\$30.6	\$20.6
Government Spending	0.9	0.8	0.4
-Federal	-0.9	-2.0	-3.0
-State & Local	2.0	2.4	2.3
Net Exports (\$B)	-\$114.2	-\$137.5	-\$145.8
-Imports	6.5	7.8	6.9
-Exports	6.5	6.1	7.0
U.S Trade Weighted Exchange	.975	1.001	.989
Consumer Sentiment (Mich.)	.936	.941	.882
Housing Starts (Millions)	1.46	1.4	1.34

-Single Family	1.15	1.10	1.08
-Multi Family	0.31	0.29	0.26
New Car & Light Truck Sales	8.50	8.21	8.02
-Domestic	7.23	7.00	6.92
-Foreign	1.27	1.22	1.09
Industrial Production Index	1.237	1.281	1.30
FRb Capacity Util. Index	1.528	1.586	1.639
Real Personal Income	3.3	3.2	2.2
Real Disposable Income	2.9	3.5	2.5
Unemployment Rate	5.4	5.3	5.3
Corporate Profits Before Taxes	640.6	652.9	668.9
Federal Deficit (NIPA \$B)	-125.7	-137.8	-131.5
MONEY, INTEREST & PRICES			
-Fed Funds	5.30	5.50	5.65
- Prime Rate	8.27	8.49	8.65
-90 day T-bill	5.01	5.24	5.35
-30 year Treasury bond	6.70	6.77	7.05
-Conventional Mortgage	7.81	7.96	8.27
Employment Cost Index	1.266	1.299	1.341
Consumer Price Index	2.9	2.7	2.7
Wholesale Price Index	2.3	0.5	0.6
Acquisition Price Domestic Crude Oil	\$20.69	\$20.61	\$18.58

Economic Conditions. A National Economic Estimating Conference was held February 12th which is the first in a series of conferences that will supply March 4th Legislative session with a consensus state revenue forecast. The newly adopted forecast--the Data Resource/McGraw-Hill February 1997 Control--is little changed from the October benchmark forecast. There is a more muted change forecasted in inventory accumulation, and Federal Reserve tightening is assumed to be less severe and is pushed back (with the initial 25 basis point increase assumed to be in May). A stable, slow growth national economic backdrop, with little inflationary pressures is anticipated. Key elements of the forecast are tabled for calendar years above, and comparisons to the October 1996 benchmark forecast are graphed on the adjoining page.

The forecast incorporates the BEA's advance fourth quarter NIPA release which showed surprising strength in fourth quarter economic activity. Much of the 4.7% GDP growth rate posted last quarter was driven by a 26% increase in exports, a magnitude which is clearly unsustainable and likely overstated due to the seasonal factors which the Census Department applies to the export data (especially to aircraft exports). The economic growth of our trading partners, coupled with the trade-weighted strength of the dollar do not justify an export figure of this magnitude. The forecast smoothes out the seasonal adjustment problem by assuming that real export growth will be revised downward and turn slightly negative in the first quarter. Real export growth will remain strong throughout the forecast period (in the 6% to 8% range) and will be a major driver of the national economy.

Nonresidential structures posted a 23% increase in the fourth quarter, driven by an equally unsustainable 36% increase in building construction. Although moderating, business investment continues to add to the momentum of national economic growth throughout the forecast period. Nonresidential fixed investment is forecasted to remain strong. Office equipment, bolstered by continued strength in computers, posts greater than mid-double-digit growth rates throughout the forecast period. Inventories remain well managed (retailers were extremely cautious during the Christmas quarter). There are no major inventory imbalances; only a slight easing of inventory accumulation is forecasted starting in the 4th quarter of this year as the economy slows.

Housing starts drift lower over the forecast, driven by demographics and by slightly higher mortgage rates which move in tandem in the forecast with the Federal Reserve intervention. Consumer expenditures also remain buoyant. Consumer confidence is bolstered by sustained real income gains and strengthening prospects for job security (the unemployment rate is forecasted to remain below 5.5% throughout the remainder of the decade). Durable consumption holds up well throughout the forecast, with growth rates far exceeding those of the GDP. As can be seen from the table on the facing page, computer consumption remains at stellar levels throughout the forecast, which more than offsets weakness in auto-related consumption. The strength of the dollar drives down the price of imports and aggravates our trade position somewhat, but export growth holds up remarkably well and will continue to be a major contributor to national economic growth throughout the forecast period.

Key forecast assumptions include:

--The strength of the dollar, coupled with favorable price data have allowed the Federal Reserve to postpone a short-term interest rate hike. But the realities of the low unemployment rate and its inevitable impact on wage pressures will force the Fed to raise the Fed Funds rate by 50 basis points (starting with a 25 basis point hike in May). It is further assumed that the Fed will ease short-term rates in mid-to-late 1998 as the economy softens.

TABLE 2: KEY ELEMENTS OF THE NATIONAL ECONOMIC FORECAST							
FROM THE FEBRUARY 1997 ESTIMATING CONFERENCE							
(SEASONALLY ADJUSTED)							
		----1996----		--1997--			
		Q3	Q4	Q1	Q2	Q3	Q4
Annual Percentage Rate of Change							
Real Gross	forecast	2.1	4.7	2.5	2.3	1.8	2.3
Domestic Product	actual	2.1	4.7	---	---	---	---
Real Personal	forecast	0.5	3.4	4.0	3.2	2.9	2.8
Consumption	actual	0.5	3.4	---	---	---	---
Real Fixed Non-	forecast	17.5	4.2	6.9	4.9	6.1	4.6
resid. Invest	actual	17.5	4.2	---	---	---	---
Real Personal	forecast	3.8	2.8	4.1	2.5	2.4	2.2
Income	actual	3.8	2.8	---	---	---	---
Total	forecast	2.1	2.1	2.8	1.4	0.8	1.1
Employment	actual	2.1	2.1	---	---	---	---
Consumer Price	forecast	2.3	3.2	2.2	2.8	2.5	2.6
Index	actual	2.3	3.2	---	---	---	---
Average Level for Quarter							
Savings Rate	forecast	5.3	5.1	5.4	5.2	5.4	5.4
	actual	5.3	5.1	---	---	---	---
Prime Interest	forecast	8.25	8.25	8.25	8.36	8.6	8.75
Rate (%)	actual	8.25	8.25	---	---	---	---
Housing Starts	forecast	1.49	1.41	1.41	1.41	1.39	1.37

(mil/yr)	actual	1.49	1.41	---	---	---	---
Unemployment	forecast	5.3	5.3	5.3	5.2	5.2	5.3
Rate (%)	actual	5.3	5.3	---	---	---	---

--A \$500 per child tax credit and tuition tax exemptions (and credits) are factored into the newly adopted forecast. A balanced budget forecast is not assumed, due to the back-loading of the proposed budget cuts. But due to fiscal restraint, the deficit falls below \$100 billion by 2001.

--The Group of 7 meeting deemed any further increase in the appreciation of the dollar (which has risen sharply in recent months) as undesirable. The dollar's trade-weighted exchange rate is assumed to fluctuate in a relatively narrow range over the forecast period.

The national economy is undergoing a period of unparalleled stability, and there are no appreciable changes in the newly adopted national forecast (when compared to the October benchmark forecast). The implications of this forecast on March's General Revenue forecast should be negligible.

TABLE 3: KEY ELEMENTS OF THE FLORIDA ECONOMIC FORECAST							
FROM THE OCTOBER 1996 ESTIMATING CONFERENCE							
(SEASONALLY ADJUSTED)							
		---1996---		--1997--			
		Q3	Q4	Q1	Q2	Q3	Q4
Annual Percentage Rate of Change							
Real Personal	forecast	4.7	3.7	5.4	4.8	4.3	4.0
Income	actual	4.6	---	---	---	---	---
Civilian Labor	forecast	1.3	2.0	2.2	2.3	1.7	2.3
Force	actual	1.4	2.8	---	---	---	---
Non-farm	forecast	3.9	3.2	2.9	2.9	2.9	2.8
Employment	actual	3.6	3.6	---	---	---	---
Service	forecast	7.8	5.9	5.6	5.4	5.3	5.2
Employment	actual	6.4	6.4	---	---	---	---
Construction	forecast	-1.2	2.9	1.4	2.1	2.6	3.3.1

Employment	actual	-0.9	3.0	---	---	---	---
Construction	forecast	6.5	-2.3	-1.8	2.0	3.6	4.3
Expenditures	actual	8.7	3.1	---	---	---	---
		Average Level for Quarter					
Housing Starts	forecast	28.0	28.4	28.4	28.3	28.4	28.8
(thousands)	actual	28.7	29.4	---	---	---	---
Household Formation	forecast	27.2	27.3	27.5	27.4	27.5	27.4
(thousands)	actual	30.0	39.3	---	---	---	---
Tourist Arrivals	forecast	10.7	10.5	10.6	10.7	10.8	10.9
(millions)	actual	10.4	---	---	---	---	---
Unemployment	forecast	5.2	5.2	5.3	5.4	5.3	5.3
Rate (%)	actual	5.3	5.0	---	---	---	---

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