

# Florida: An Economic Overview

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November 17, 2008

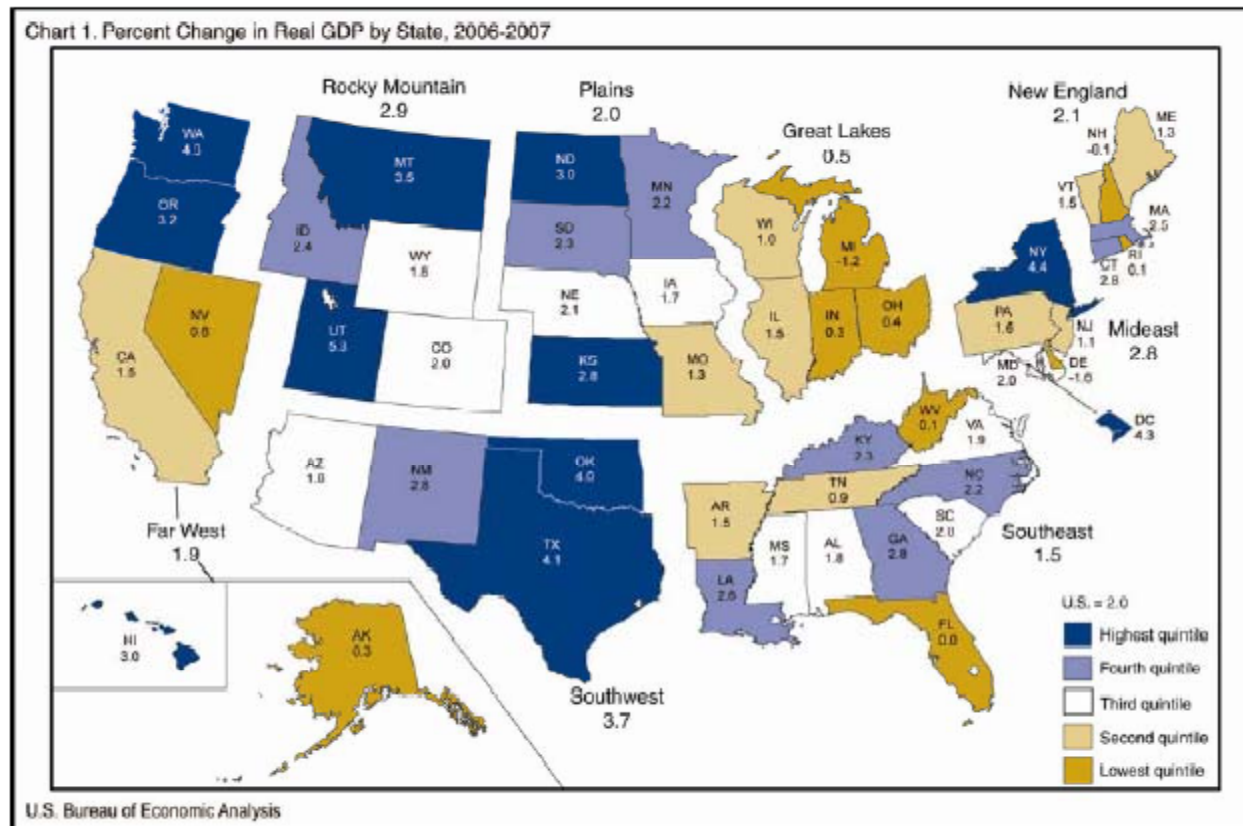
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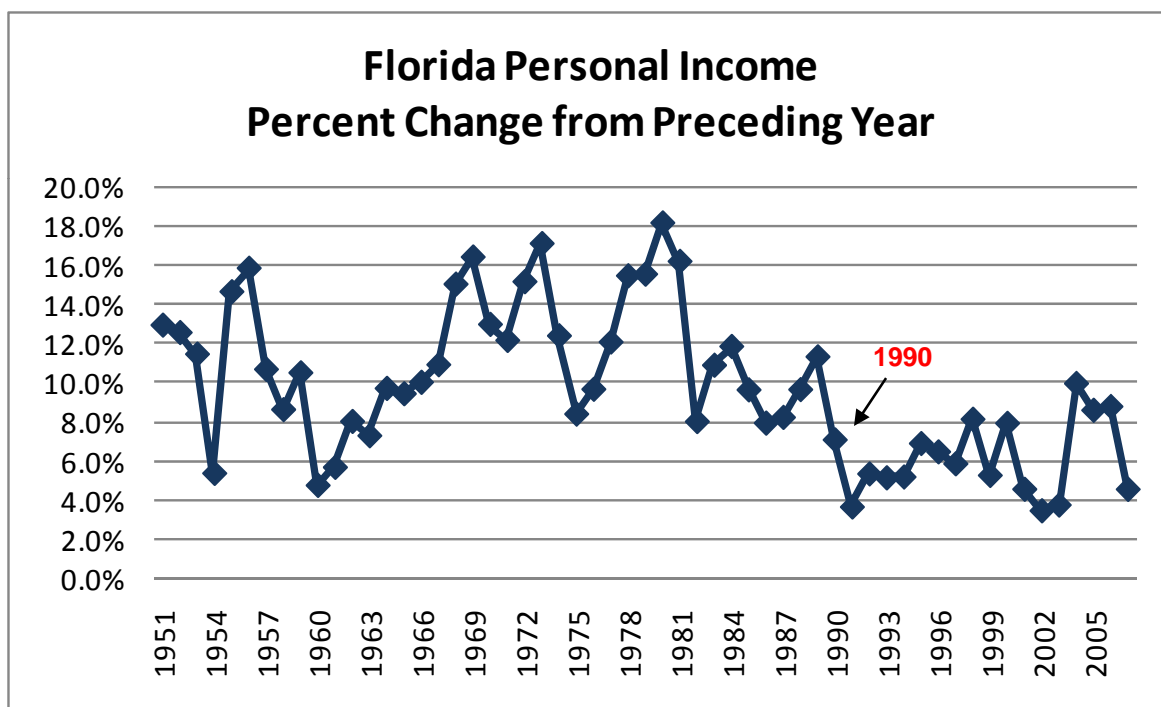
The Florida Legislature  
Office of Economic and  
Demographic Research  
850.487.1402  
<http://edr.state.fl.us>

# More Measured Economy

- Florida's growth is now decelerating. State Gross Domestic Product (GDP) ranks us 47<sup>th</sup> in the nation in real growth (12<sup>th</sup> in 2006 and 2<sup>nd</sup> in 2005) and 35<sup>th</sup> in per capita level.



# Personal Income Moderating



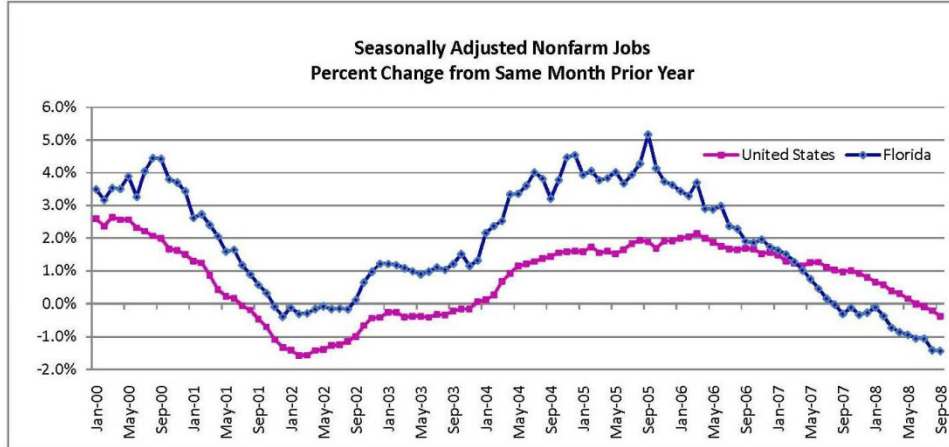
Personal Income		
	(1000's)	Growth
2000	457,539,355	
2001	478,637,023	4.6%
2002	495,489,345	3.5%
2003	514,377,645	3.8%
2004	565,680,690	10.0%
2005	614,408,000	8.6%
2006	668,513,000	8.8%
2007	699,314,000	4.6%

Per Capita Income		
	Actual	Growth
2000	\$ 28,508	
2001	\$ 29,277	2.7%
2002	\$ 29,727	1.5%
2003	\$ 30,330	2.0%
2004	\$ 32,618	7.5%
2005	\$ 34,798	6.7%
2006	\$ 36,720	5.5%
2007	\$ 38,444	4.7%

Average Annual Growth Rate  
(Pers Inc 1951 to 2007) **9.72%**



# Employment Softens

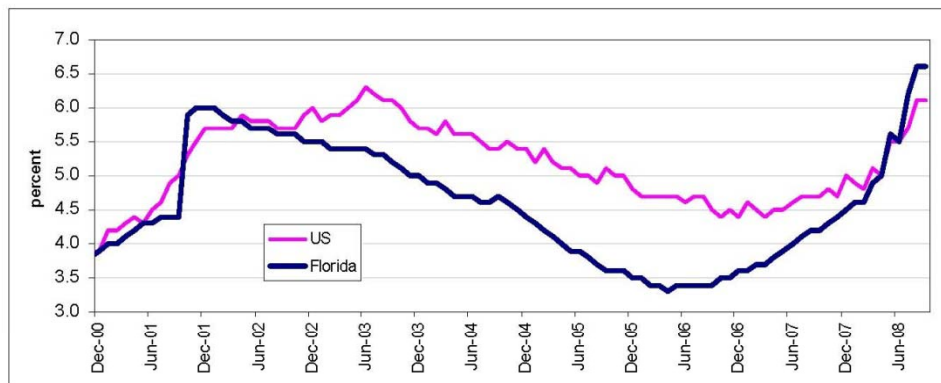


Source: Florida Agency for Workforce Innovation, Labor Market Statistics Center, Current Employment Statistics Program in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

**Sept (YOY)**

US -0.4%  
 FL -1.4%  
 (-115,500 jobs)

**United States and Florida Unemployment Rates (seasonally adjusted)**



Source: Florida Agency for Workforce Innovation, Labor Market Statistics Center, Local Area Unemployment Statistics Program in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

**September**

US 6.1  
 FL 6.6

**Projected**

FL 8.1  
 Summer 09



# Employment Ranking

## NONAGRICULTURAL EMPLOYMENT BY STATE

September 2007 - September 2008  
Seasonally Adjusted (in thousands)

Boom-Affected States (highlight)	Sept 2007	Sept 2008	Size of WF* Rank	Over-the-Year Change			
				Job Losses Level	Losses Rank	WF Affected* Percent	% of WF* Rank
Florida	8,014.5	7,899.0	4	-115.5	1	-1.46%	5
Michigan	4,249.5	4,171.6	8	-77.9	2	-1.87%	3
California	15,169.6	15,092.4	1	-77.2	3	-0.51%	13
Georgia	4,153.9	4,092.8	10	-61.1	4	-1.49%	4
Arizona	2,670.7	2,611.5	21	-59.2	5	-2.27%	2
Tennessee	2,804.4	2,780.5	18	-23.9	6	-0.86%	7
Ohio	5,419.8	5,402.3	7	-17.5	7	-0.32%	18
Wisconsin	2,878.0	2,862.0	16	-16.0	8	-0.56%	11
Illinois	5,985.6	5,970.7	5	-14.9	9	-0.25%	20
Missouri	2,802.0	2,787.6	17	-14.4	10	-0.52%	12
South Carolina	1,958.7	1,946.0	24	-12.7	11	-0.65%	10
Rhode Island	490.8	478.2	44	-12.6	12	-2.63%	1
	~	~		~		~	
Nevada	1,286.5	1,280.2	32	-6.3	19	-0.49%	14

\*NOTE: Workforce = WF

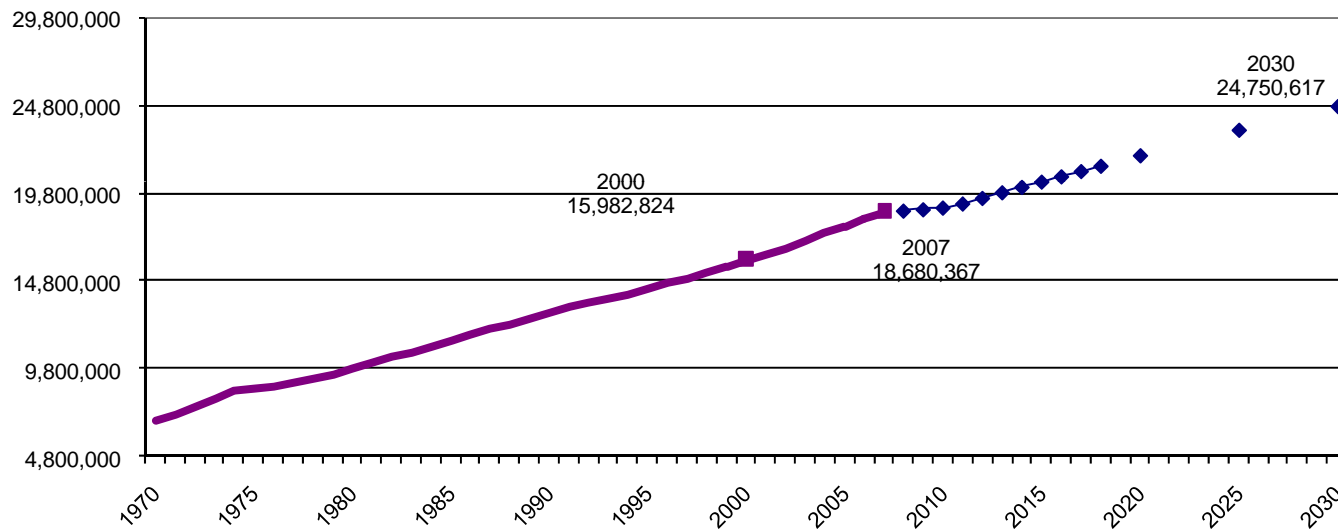


# Population Growth Slowing

- Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth.
- Population growth hovered between 2.0% and 2.6% from the mid 1990's to 2006, then began to slow – only reaching 0.7% in 2008. Over the forecast horizon, population growth will rebound slightly – averaging 1.1% between 2025 and 2030.
- Florida is on track to break the 20 million mark in 2014, becoming the third most populous state sometime before then – surpassing New York.



# Florida's April 1 Population

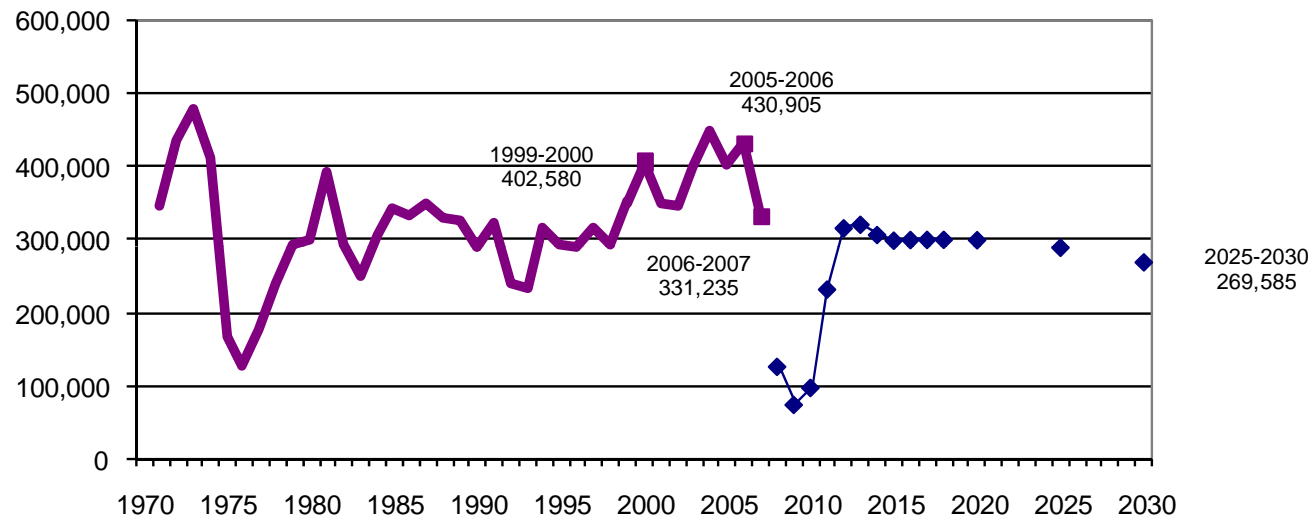


Florida's population:

- was 15,982,824 in 2000
- was 18,680,367 in 2007
- is forecast to grow to 24,750,617 by 2030



# Florida's Population Growth



## Population increased by:

- 402,580 between 1999 and 2000
- 445,224 between 2003 and 2004
- 331,235 between 2006 and 2007
- 126,735 between 2007 and 2008 (estimated)

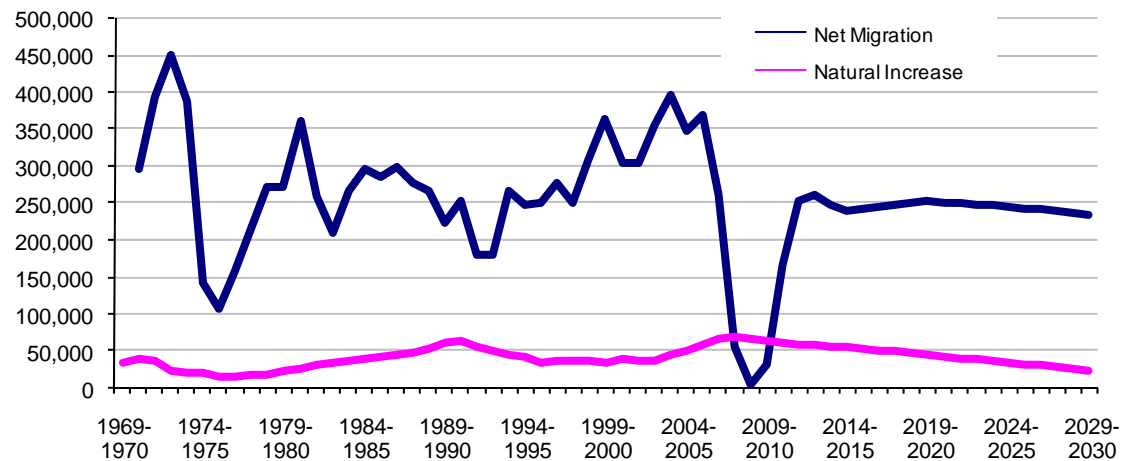
## Population is forecast to increase on average by:

- 299,846 between 2015 and 2020
- 289,630 between 2020 and 2025
- 269,585 between 2025 and 2030





# Population Components



- Most of Florida's population growth is from net migration, representing about 79 percent of Florida's population growth between 2006 and 2007.
- In 2030, net migration is forecast to represent 90.9 percent of Florida's population growth.



# The Reasons?

- US economy is being simultaneously buffeted by three major shocks:
  - Home prices have fallen at the national level for the first time since the Great Depression (down 17% so far).
  - Financial markets are experiencing their worst credit crunch since the late 1980s at best – maybe since the Great Depression, and
  - The U.S. recession is spreading globally, causing additional feedback loops.
- Florida has been particularly hit hard by the two housing-related shocks: home prices and credit tightening.



# Framing the Problem: Demand

- Fed lowered interest rates to unprecedented levels (Federal Funds Rate = 1%), which coupled with the flight from the stock market, spurred the housing bubble.
- Easy credit and new financial innovations fed the bubble.
- The bubble popped as interest rates began to move up and high home prices began to chase off buyers.
- Exotic forms of financing began to experience the end of teaser rates and the start of resetting, revealing the faults in system. A surge began in mortgage loan defaults.

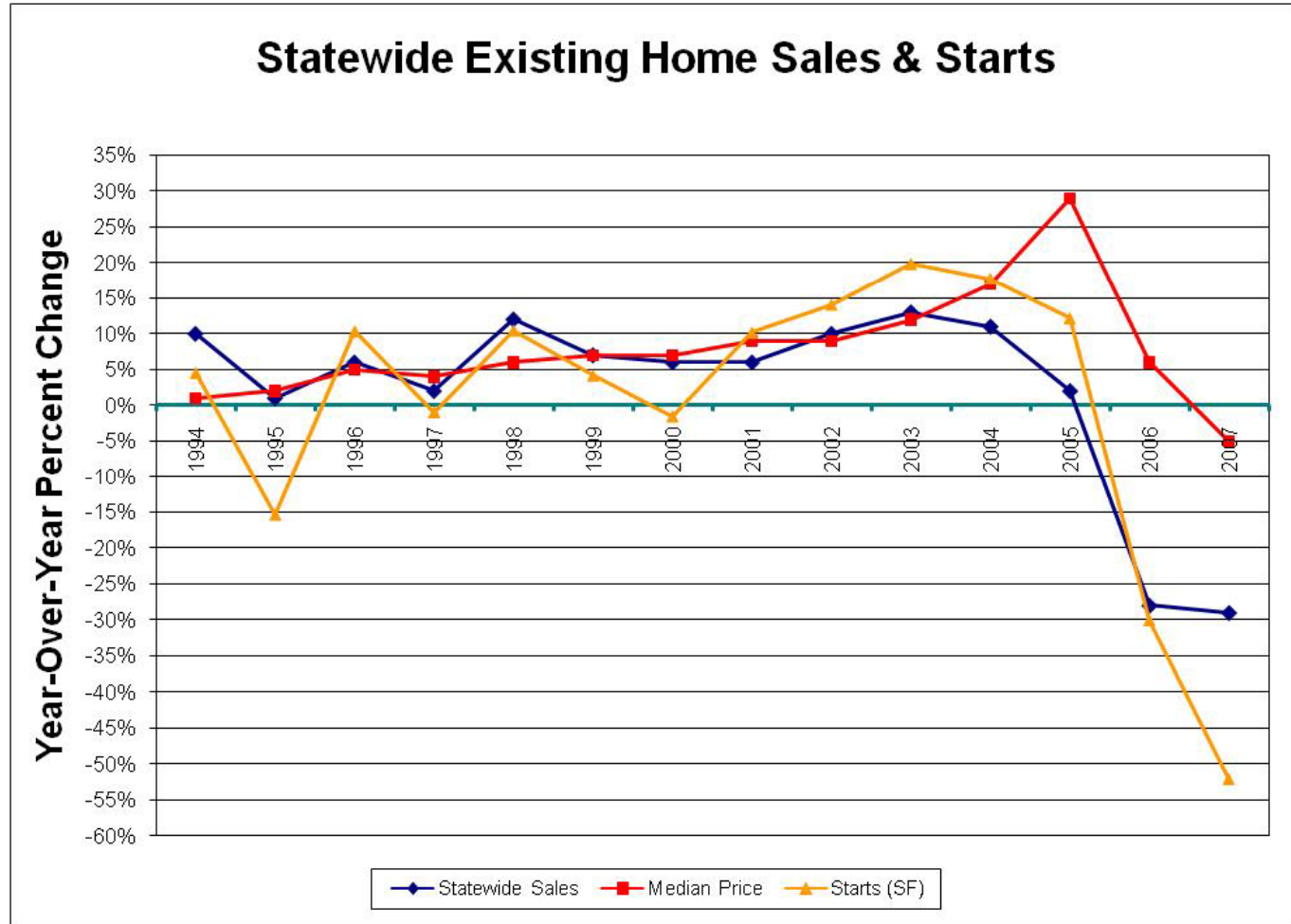


# The Result

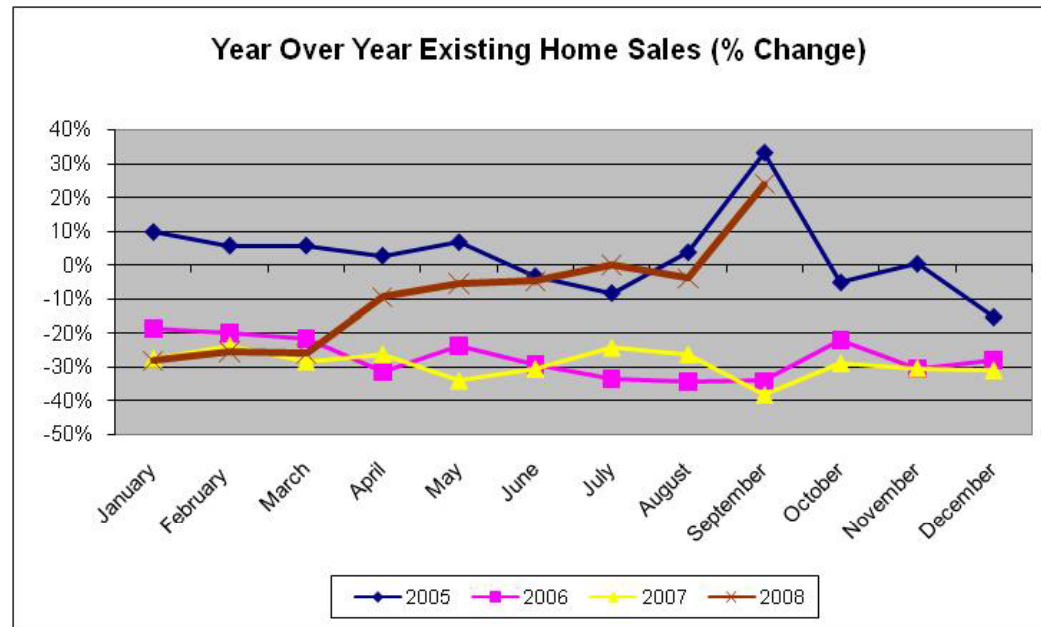
- Starts and Sales plummeted, while prices lagged behind.
- Credit market is in turmoil, and financing is harder to find and harder to get as lending standards tighten.
- Foreclosures and delinquencies are on the rise.
- According to the Fed, delinquency rates on credit card loans, auto loans, and other forms of consumer credit, while still moderate, have increased, particularly in areas hard hit by house price declines and mortgage defaults.
- Inventory of unsold homes has surged.



# Florida Housing



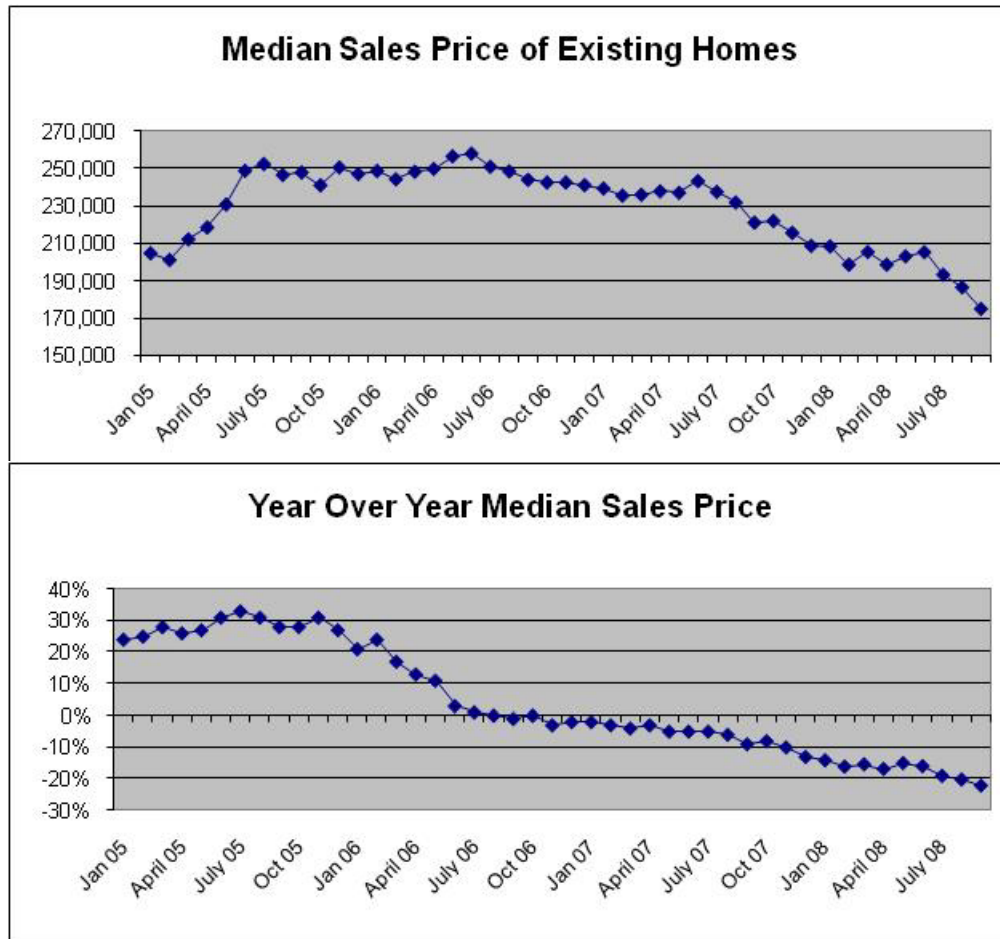
# Existing Home Sales



	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
January	10%	-19%	-27%	-28%
February	6%	-20%	-23%	-25%
March	6%	-22%	-28%	-26%
April	3%	-31%	-26%	-9%
May	7%	-24%	-34%	-5%
June	-3%	-29%	-30%	-5%
July	-8%	-33%	-24%	0%
August	4%	-34%	-26%	-4%
September	33%	-34%	-38%	24%
October	-5%	-22%	-29%	
November	1%	-30%	-30%	
December	-15%	-28%	-31%	



# Volume Changed Before Price



# Overhang

- The national inventory of homes is above 11 months.
- In Florida, the excess supply of homes is likely greater than 300,000.
- Subtracting the “normal” inventory and using the most recent sales experience, Florida would need significant time to work off the current excess:
  - 3<sup>rd</sup> Quarter, FY 2009-10...Optimistic
  - 1st Quarter, FY 2010-11...Pessimistic



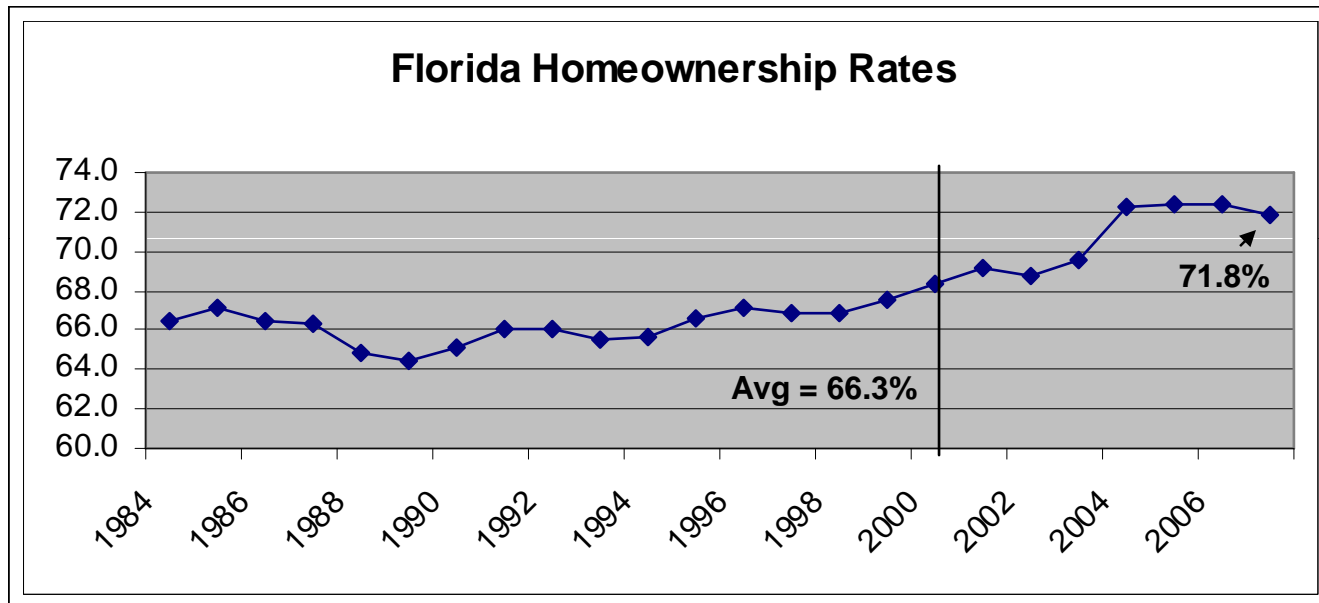


# Overhang Drives Prices

- Nation as a whole has experienced an actual drop in home prices, defying pundits.
- Historic relationships are out of balance - to rents and to starts and sales.
- Foreclosures and delinquencies are increasing, further swelling the supply and depressing prices.
- Inventories of unsold homes suggest that prices will continue to fall through much of 2009, bringing the total reduction in house prices nationally to around 25 percent - more in Florida (June '06 to September '08 – 32.1% down in median price for existing homes).



# Vulnerability



If the 2007 rate dropped immediately back to the long-run average, 409,418 homeowners would be affected and over \$80 billion of value.



# Housing Finance

- Hundreds of billions of dollars in losses in loan defaults have undermined the financial institutions that originated and invested in them.
- In response, significant parts of the financial system have been nationalized, and the full faith and credit of the U.S. government effectively backstop the rest.
- With the takeover of Fannie Mae and Freddie Mac, the government makes nearly all of the nation's residential mortgage loans.
- As the \$700 billion troubled asset relief fund is deployed, the government will gain sizable ownership stakes in the nation's largest financial institutions.

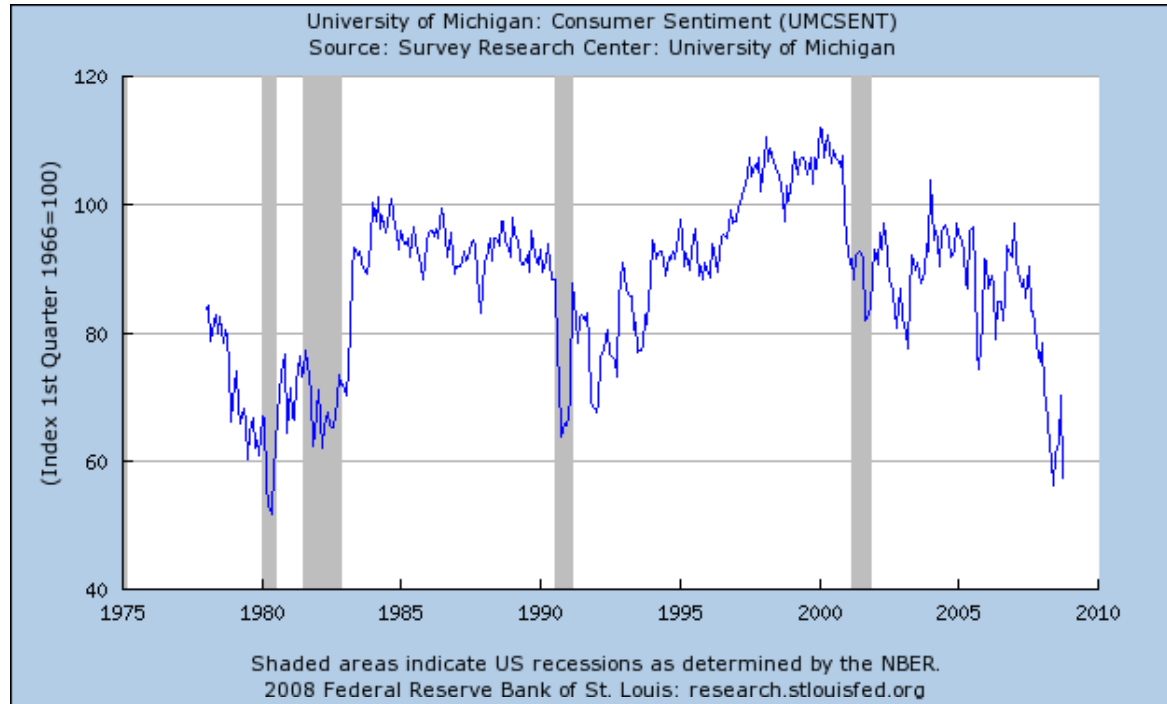


# Recession – Now A Reality

- A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, **normally** visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.
- Uncertainties about values of mortgage-related assets and related losses, and consequently strains in financial markets, could persist for quite some time, even with the rescue plan.
- Credit problems (liquidity and solvency) have spread far beyond the subprime arena to include even commercial paper and business investment.
- The downside risks to the economy, resulting particularly from the weakening of the housing sector and the deterioration in credit market conditions, continue to rise.



# Sentiment is Eroding

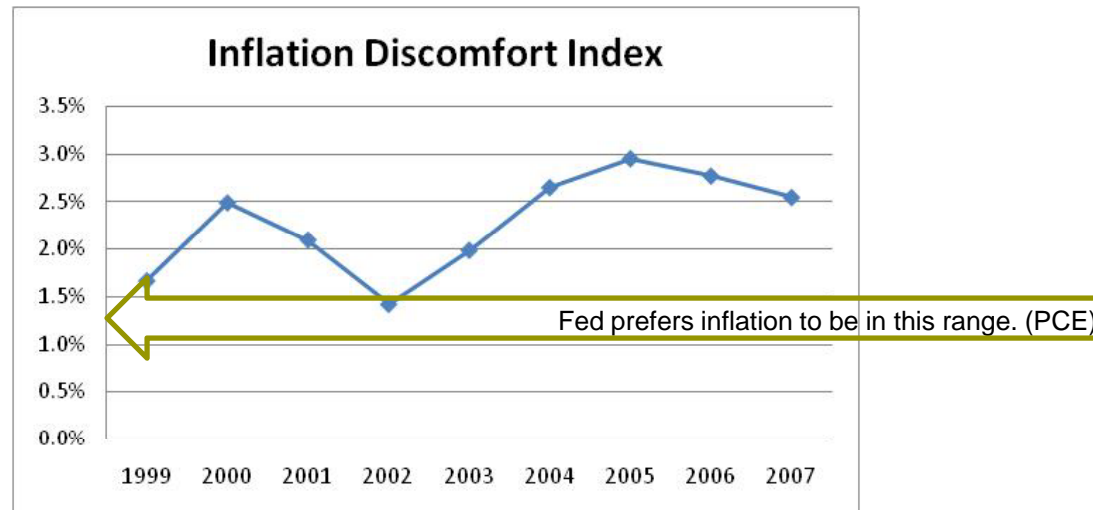


- Consumer sentiment can be a leading indicator of recession: nationally, it is near the lowest levels ever obtained (57.6 in October versus 51.7 in May 1980).
- Florida's consumer confidence (October: 60) hovers near the record low (59) set in June.



# Fed Dilemma

- Fed has to be cautious in its actions; rate cuts can lead to inflation in the longer-run – but more importantly – are less likely to be effective in spurring economic activity when the credit market is dysfunctional.
- Widespread deflation is becoming a real possibility in the short-term.



# The Economy Will Rebound

By April 2010, growth rates will begin a slow return to more typical levels. In the meanwhile...

- The national economic contraction will run its course and, more importantly, the financial markets will recover stability.
- The subsequent turnaround in Florida housing will be led by:
  - Falling home prices that begin to attract buyers and clear the inventory (FL below the national average in August: \$201,900 nationally vs. \$186,900 in Florida...7.4% below)
  - Long-run sustainable demand caused by continued population growth and household formation.
  - Florida's unique demographics and the aging of the baby-boom generation.



# Revenue: Bringing It Together

- Drags are more persistent relative to some past events, and strength will be slow to return.
- Global recessionary conditions affect international migration, tourism and spending decisions, as well as exports.
- U.S. Consumers will be responding to massive wealth destruction and tighter credit conditions.
- Recovery in the Florida housing market is not anticipated until April 2010, at least.





# Six Drags on Estimates

1. **Slower Population Growth** (**partial** 11/07, **partial** 8/08)
2. **Loss of Wealth Effect from Declining Home Prices** (8/07) and now portfolio / investment losses.
3. **Growing Home Inventory** (**partial** 11/07, **partial** 8/08)
4. **Spreading Credit Crunch** (**partial** 3/08, **partial** 8/08)
5. **Elevated Energy and Food Prices** (**partial** 3/08, **partial** 8/08)
6. **Reality of National and Global Recession** (national: 3/08)



# Revenue Estimates Are Lower

Fiscal Year	March 2008 Forecast	August 2008 Forecast	Forecast Difference	Percentage Reduction	Incremental Growth	Growth
2005-06	27082.2	27082.2				8.5%
2006-07	26404.1	26404.1				-2.5%
2007-08	24468.5	24112.1	-356.4	-1.5%	-2292.0	-8.7%
2008-09	25137.6	23371.8	-1765.8	-7.0%	-740.3	-3.1%
2009-10	26817.2	24662.7	-2154.5	-8.0%	1290.9	5.5%
2010-11	28829.9	26688.0	-2141.9	-7.4%	2025.3	8.2%
2011-12	30949.9	28800.2	-2149.7	-6.9%	2112.2	7.9%

In August and September, \$61.8 million below new forecast. October and November will be much worse. Outlook for the coming holiday season is poor.



# Key Budget Drivers...

## Critical Needs

	FY 2009-10		FY 2010-2011		FY 2011-2012	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
<b>Critical Needs</b> (Includes Annualizations, Mandatory Increases Based on Estimating Conferences, and Other Essential Needs)						
<i>Criminal Justice</i>	492.6	0.0	486.3	0.0	471.3	0.0
<i>Medicaid</i>	221.6	132.9	167.2	168.1	404.1	480.9
<i>State Government Operations</i>	163.7	30.0	137.8	66.7	155.2	70.4
<i>K-12 Education</i>	45.8	130.1	89.3	(75.1)	97.3	8.3
<i>Post-Secondary Education</i>	61.2	0.0	0.0	87.9	1.4	35.5
<i>General Education</i>	45.9	(45.9)	0.0	30.2	0.0	0.0
<i>Judiciary</i>	39.9	0.0	39.9	0.0	39.9	0.0
<i>Local Assistance</i>	32.8	0.0	32.9	0.0	33.1	0.0
<i>Voluntary Pre-Kindergarten</i>	26.1	0.0	7.0	0.0	6.2	0.0
<i>State Disasters</i>	22.9	0.0	17.3	0.0	10.1	0.0
<i>KidCare</i>	19.9	42.4	30.8	72.5	36.7	87.1
<i>Environment</i>	0.0	(5.2)	0.0	(3.9)	0.0	(1.5)
<i>Health and Human Services</i>	(4.2)	6.5	0.0	(4.6)	0.0	2.6
<b>Subtotal Critical Needs</b>	<b>1,168.2</b>	<b>290.7</b>	<b>1,008.4</b>	<b>341.8</b>	<b>1,255.3</b>	<b>683.4</b>



# Outlook for Critical Needs

LONG RANGE FINANCIAL OUTLOOK - DRAFT - AUGUST 27 LEGISLATIVE BUDGET COMMISSION

TIER 1 ISSUES - CRITICAL NEEDS

GENERAL REVENUE FUNDS AVAILABLE PROJECTION

(\$ MILLIONS)

	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
<b>Funds Available:</b>												
August 15 REC Balance Forward	0.0	326.2	326.2	0**	0.0	0.0	0.0	200.0	200.0	0.0	1,382.6	1,382.6
August 15 REC Revenue Estimate	23,291.6	80.2	23,371.8	24,658.8	3.9	24,662.7	26,687.5	0.5	26,688.0	28,799.7	0.5	28,800.2
August 15 REC Non-operating Funds	-4.3	613.5	609.2	-4.3	105.5	101.2	-4.3	105.5	101.2	-4.3	105.5	101.2
New Issues - Florida Forever/Everglades Bonds			0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funds Available</b>	<b>23,287.3</b>	<b>1,019.9</b>	<b>24,307.2</b>	<b>24,620.2</b>	<b>121.4</b>	<b>24,741.7</b>	<b>26,614.6</b>	<b>318.0</b>	<b>26,932.7</b>	<b>28,692.6</b>	<b>1,500.6</b>	<b>30,193.2</b>
<b>Estimated Expenditures:</b>												
Base Budget				24,973.8	0.0	24,973.8	24,541.7	0.0	24,541.7	25,120.6	0.0	25,120.6
<b>New Issues by GAA Section:</b>												
Section 2 - Education	12,902.5	141.7	13,044.2	98.3	80.7	179.1	96.4	0.0	96.4	104.9	0.0	104.9
Section 3 - Human Services	7,109.5	48.0	7,157.5	237.3	0.0	237.3	198.0	0.0	198.0	440.8	0.0	440.8
Section 4 - Criminal Justice and Corrections*	3,536.4	335.4	3,871.9	146.0	353.1	499.2	149.4	343.5	493.0	154.0	324.2	478.2
Section 5 - Natural Resources /Environment/Growth Management/Transportation	191.5	89.1	280.6	0.0	22.9	22.9	0.0	17.3	17.3	0.0	10.1	10.1
Section 6 - General Government*	817.5	166.8	984.3	1.3	33.8	35.1	1.6	28.8	30.4	1.7	26.2	27.9
Section 7 - Judicial Branch	404.0	0.2	404.2	0.0	39.9	39.9	0.0	39.9	39.9	0.0	39.9	39.9
Administered Funds - Statewide Issues	12.4	20.0	32.4	154.8	0.0	154.8	133.6	0.0	133.6	153.5	0.0	153.5
<b>Total New Issues</b>				637.8	530.4	1,168.2	579.0	429.5	1,008.4	854.9	400.4	1,255.3
<b>Transfer to Budget Stabilization Fund</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Adjustment to Balance with \$200 Million Reserve</b>			0.0	-1,069.9	-530.4	-1,600.3			0.0			0.0
<b>Total Estimated Expenditures</b>	<b>24,973.8</b>	<b>801.1</b>	<b>25,774.9</b>	<b>24,541.7</b>	<b>0.0</b>	<b>24,541.7</b>	<b>25,120.6</b>	<b>429.5</b>	<b>25,550.1</b>	<b>25,975.5</b>	<b>400.4</b>	<b>26,375.9</b>
<b>Ending Balance</b>	<b>-1,686.5</b>	<b>218.8</b>	<b>-1,467.7</b>	<b>78.6</b>	<b>121.4</b>	<b>200.0</b>	<b>1,494.0</b>	<b>-111.5</b>	<b>1,382.6</b>	<b>2,717.1</b>	<b>1,100.2</b>	<b>3,817.2</b>



# Key Budget Drivers...

## Other High Priorities

	FY 2009-10		FY 2010-2011		FY 2011-2012	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
<b>Other High Priority Needs (Includes Other Historically Funded Issues)</b>						
<i>Criminal Justice</i>	3.5	0.0	3.5	0.0	3.5	0.0
<i>Medicaid</i>	317.8	422.6	25.0	30.7	25.0	30.7
<i>State Government Operations</i>	221.6	125.0	225.6	53.1	227.0	95.9
<i>K-12 Education</i>	491.5	0.0	372.3	0.0	275.0	0.0
<i>Post-Secondary Education</i>	302.4	0.0	258.0	0.0	239.2	0.0
<i>Judiciary</i>	18.0	0.0	18.3	0.0	18.6	0.0
<i>Local Assistance</i>	214.6	8.0	204.2	8.0	204.2	8.0
<i>Environment</i>	194.4	363.9	190.9	379.7	187.3	403.6
<i>Health and Human Services</i>	126.9	51.2	76.1	37.2	65.6	23.4
<i>Transportation and Growth Management</i>	5.1	6,434.3	5.1	6,365.4	5.1	7,101.7
<i>Juvenile Justice</i>	10.1	0.0	10.1	0.0	10.1	0.0
<b>Subtotal Other High Priority Needs</b>	<b>1,905.9</b>	<b>7,405.1</b>	<b>1,389.0</b>	<b>6,874.2</b>	<b>1,260.5</b>	<b>7,663.3</b>



# Outlook for Critical & High Priority Needs

LONG RANGE FINANCIAL OUTLOOK - DRAFT - AUGUST 27 LEGISLATIVE BUDGET COMMISSION

TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUNDS AVAILABLE PROJECTION

(\$ MILLIONS)

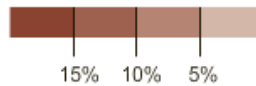
	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
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<b>Funds Available:</b>												
August 15 REC Balance Forward	0.0	326.2	326.2	0**	0.0	0.0	0.0	200.0	200.0	0.0	200.0	200.0
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New Issues - Florida Forever/Everglades Bonds	0.0	0.0	0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funds Available</b>	<b>23,287.3</b>	<b>1,019.9</b>	<b>24,307.2</b>	<b>24,620.2</b>	<b>121.4</b>	<b>24,741.7</b>	<b>26,614.6</b>	<b>318.1</b>	<b>26,932.7</b>	<b>28,692.6</b>	<b>318.0</b>	<b>29,010.6</b>
<b>Estimated Expenditures:</b>												
Base Budget				24,973.8	0.0	24,973.8	24,541.7	0.0	24,541.7	25,835.5	0.0	25,835.5
<b>New Issues by GAA Section:</b>												
Section 2 - Education	12,902.5	141.7	13,044.2	750.3	222.7	973.0	583.9	142.7	726.6	477.1	142.0	619.1
Section 3 - Human Services	7,109.5	48.0	7,157.5	604.6	108.0	712.6	234.1	95.5	329.6	476.4	85.5	561.9
Section 4 - Criminal Justice and Corrections*	3,536.4	335.4	3,871.9	159.7	367.2	526.9	163.1	357.6	520.7	167.6	338.3	505.9
Section 5 - Natural Resources /Environment/Growth Management/Transportation	191.5	89.1	280.6	0.0	168.2	168.2	0.0	159.0	159.0	0.0	148.3	148.3
Section 6 - General Government*	817.5	166.8	984.3	1.3	316.4	317.6	1.6	301.0	302.6	1.7	294.7	296.4
Section 7 - Judicial Branch	404.0	0.2	404.2	13.0	47.8	60.8	13.3	47.8	61.1	14.5	47.8	62.3
Administered Funds - Statewide Issues	12.4	20.0	32.4	315.1	0.0	315.1	297.9	0.0	297.9	321.9	0.0	321.9
<b>Total New Issues</b>				1,843.9	1,230.3	3,074.1	1,293.8	1,103.6	2,397.5	1,459.3	1,056.6	2,515.8
<b>Transfer to Budget Stabilization Fund</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Adjustment to Balance with \$200 Million Reserve</b>			0.0	-2,276.0	-1,230.3	-3,506.3		-206.4	-206.4			0.0
<b>Total Estimated Expenditures</b>	<b>24,973.8</b>	<b>801.1</b>	<b>25,774.9</b>	<b>24,541.7</b>	<b>0.0</b>	<b>24,541.6</b>	<b>25,835.5</b>	<b>897.2</b>	<b>26,732.7</b>	<b>27,294.8</b>	<b>1,056.6</b>	<b>28,351.3</b>
<b>Ending Balance</b>	<b>-1,686.5</b>	<b>218.8</b>	<b>-1,467.7</b>	<b>78.5</b>	<b>121.5</b>	<b>200.0</b>	<b>779.1</b>	<b>-579.2</b>	<b>200.0</b>	<b>1,397.8</b>	<b>-738.5</b>	<b>659.3</b>



# National Perspective

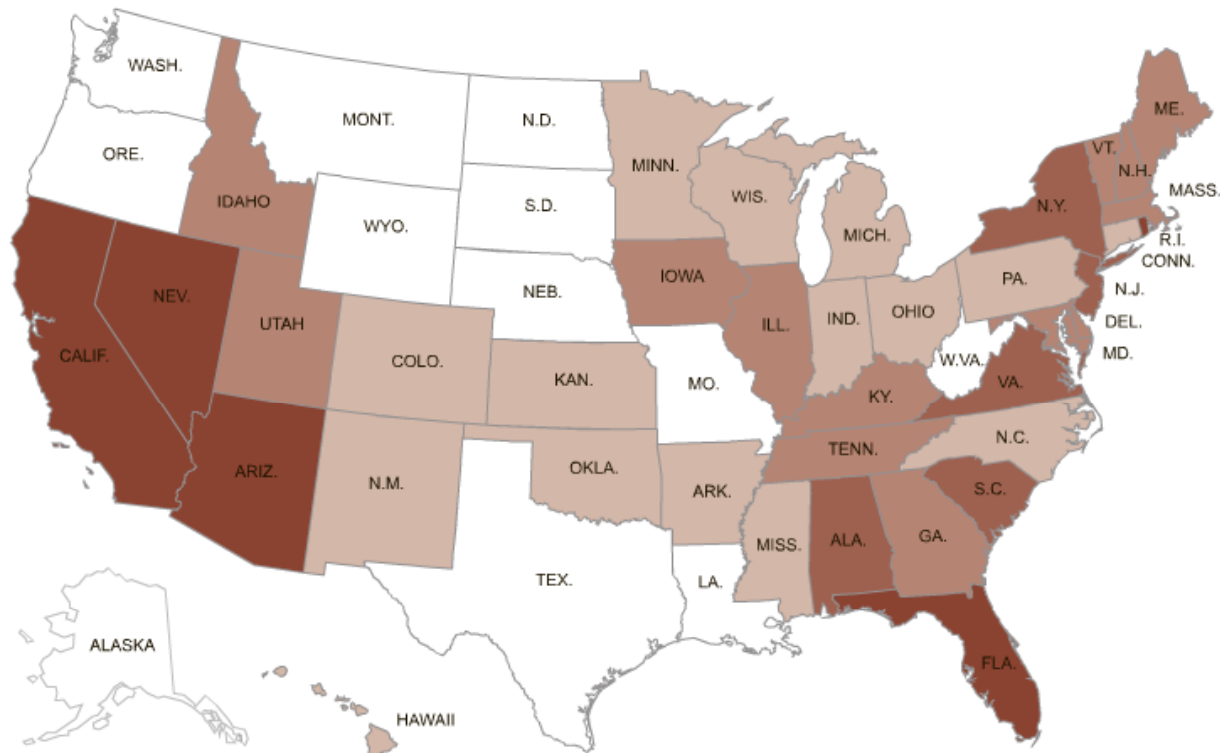
Budget Shortfalls
Share of General Fund
Revenues

**Budget gap as a percentage of each state's general fund**



□ No known budget gap

*Note: The map data includes gaps that states had before the 2009 fiscal year budgets were adopted and additional midyear gaps. Exact amounts of midyear budget gaps in Illinois and Wisconsin are unavailable.*



New York Times Graphic – FY 2009-10 Budget Gap