

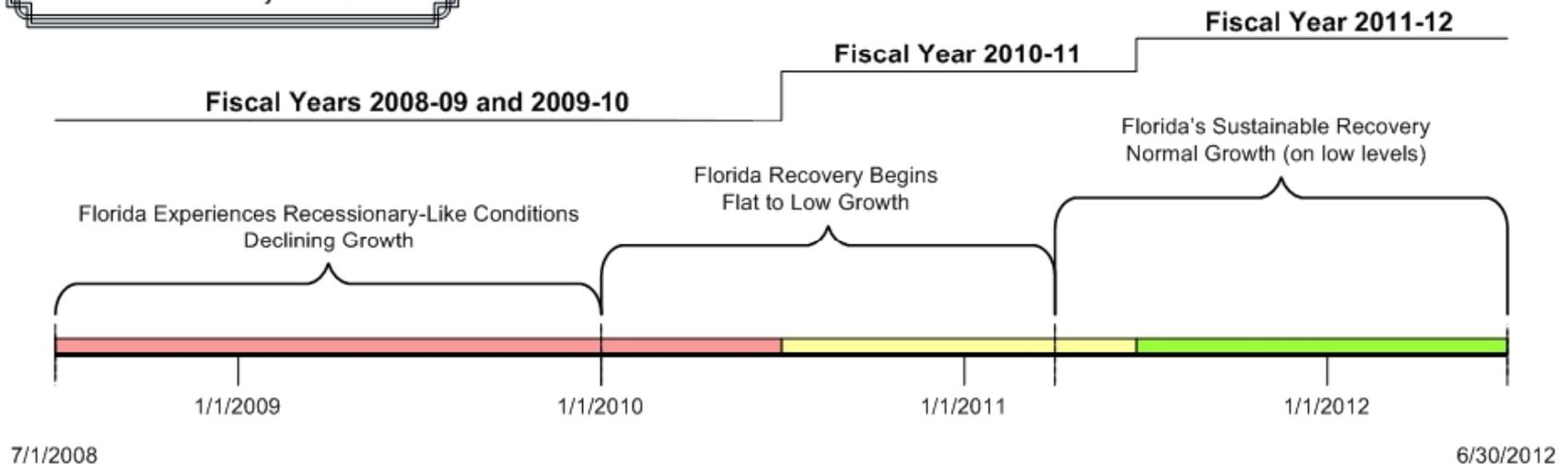
# Near-Term Florida Outlook Risk Analysis

**Office of Economic & Demographic Research**

January 20, 2010

# Florida Recovery Timeline

Fall 2009 Projections



## Fiscal Year 2009-10

- National GDP has growth of 0.4%.
- National consumer price index is weakly positive.
- National consumer spending is weakly positive.
- Standard & Poor's Index is positive.
- Florida has negative population growth.
- Florida personal income declines.
- Florida employment declines.
- Florida unemployment rate peaks at 11.4%.
- Florida housing starts decline.
- Florida registration of new light vehicles declines.
- Florida visitors decline.

## Fiscal Year 2010-11

- National GDP has weak growth.
- Florida population has virtually no growth.
- Florida personal income has weak growth.
- Florida employment has weak growth.
- Florida unemployment rate is only slightly off the peak.
- Florida private housing starts enter positive territory.

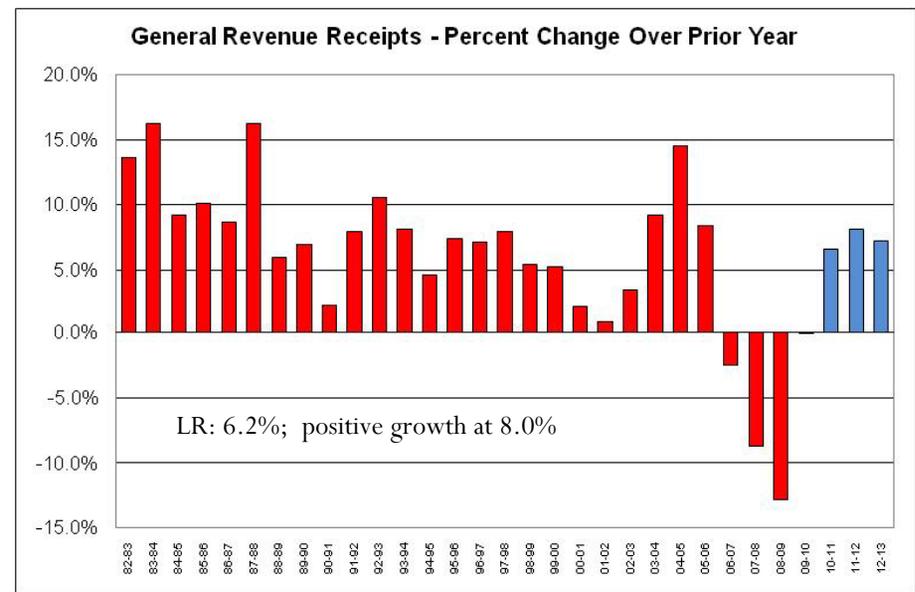
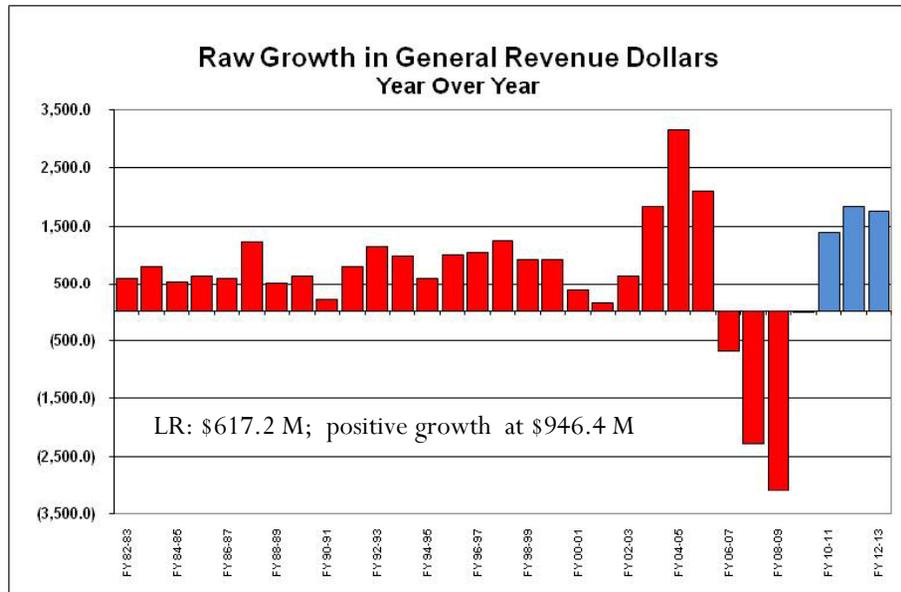
## Fiscal Year 2011-12

- Most Florida measures return to normal or accelerated growth rates.
- Florida population growth is still weak.
- Florida unemployment rate improves slowly.

# Economic Outlook

- Drags are more persistent relative to past events, and it will take years to climb out of the hole left by the Great Recession.
  - Credit Market, while much improved, remains sluggish and still difficult to access.
  - U.S. Consumers are responding to massive wealth destruction and tighter credit conditions.
  - The job market will take a long time to recover --- nearly 750,000 jobs have been lost since the most recent peak. Rehiring, while necessary, will not be enough.
  - Multiple Challenges --- the lingering effects from the Great Recession will merge into the beginning of the economic shifts caused by the retirement of the Baby Boom Generation.

# Strong Growth Expected for GR



<u>Fiscal Year</u>	<u>Fall Forecast</u>	<u>Incremental Growth</u>	<u>Growth Rate</u>
2009-10	21031.6	6.0	0.0%
2010-11	22409.6	1378.0	6.6%
2011-12	24234.2	1824.6	8.1%
2012-13	25978.6	1744.4	7.2%

# December GR Numbers On Track

Items in blue may show adjustments in Col. A. The ADJUSTED NET REVENUE line below incorporates these adjustments.	(1)	(2)	(3)
Items with <b>no color</b> are based on DFS EOM Tape and supplementals and FINAL DOR Coll. Rpt. 01/06/10	ACTUAL CURRENT MONTH	MONTH ESTIMATE CURRENT MONTH	OVER/ UNDER ESTIMATE
SALES TAX COLLECTIONS	1,322.9	1,313.9	9.0
CORPORATE INCOME TAX	282.6	244.3	38.3
HIGHWAY SAFETY FEES	90.5	111.2	(20.7)
INSURANCE PREMIUM TAX	1.4	3.2	(1.8)
BEVERAGE TAXES	48.9	49.7	(0.8)
SERVICE CHARGES	23.1	25.0	(1.9)
ARTICLE V FEES AND TRANSFERS	13.7	14.2	(0.5)
TOBACCO TAX	20.6	17.4	3.2
CORPORATE FILING FEES	4.8	5.2	(0.4)
MEDICAL HOSPITAL FEES	34.0	28.0	6.0
INTANGIBLES TAXES	15.2	15.2	0.0
EARNINGS ON INVESTMENTS	6.8	7.3	(0.5)
DOCUMENTARY STAMP TAX	16.1	13.3	2.8
PARIMUTUEL TAXES	0.4	0.4	(0.0)
SEVERANCE TAXES	0.2	0.2	(0.0)
OTHER TAXES LICENSES AND FEES	2.9	4.2	(1.3)
OTHER NONOPERATING REVENUES	10.5	13.6	(3.1)
TOTAL REVENUE	1,894.6	1,866.3	28.3
LESS REFUNDS	125.6	103.9	21.7
NET REVENUE	1,769.0	1,762.4	6.6

# Factors Shaping 2010 Conferences

In terms of the potential budget gap, a change in **revenues** or a change in **resource demand** (caseloads and their associated costs) will re-shape the picture.

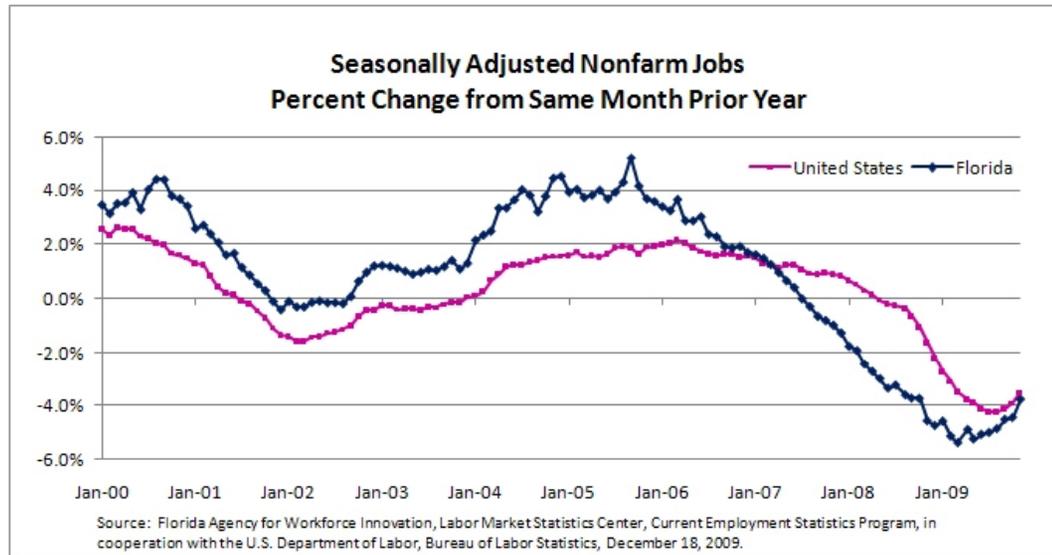
- Revised or Updated Information that change key assumptions used in the Fall.
  - National Outlook is weaker in several key respects.
  - Florida employment picture has worsened.
- Intervening events, like the agricultural freeze, the Earthquake in Haiti, and any federal law changes.
- Different weighting of risks.
- Short timeframe between Fall and Spring conferences.

# National Outlook

- Many elements are roughly the same or slightly better, but a few areas key to recovery have worsened:
  - Higher Unemployment Rate  
(10.2% Global Insight; 10.5% Moody's Economy)
  - Lower Housing Starts
  - Higher Federal Budget Deficit and Debt  
(\$1.4 Trillion Deficit; \$12 Trillion Debt)
  - Higher Savings Rate / Muted Consumer Spending
- The national recession has ended, but Florida's economy is on a different path.

# Employment Worsens

Last Comparable  
1975



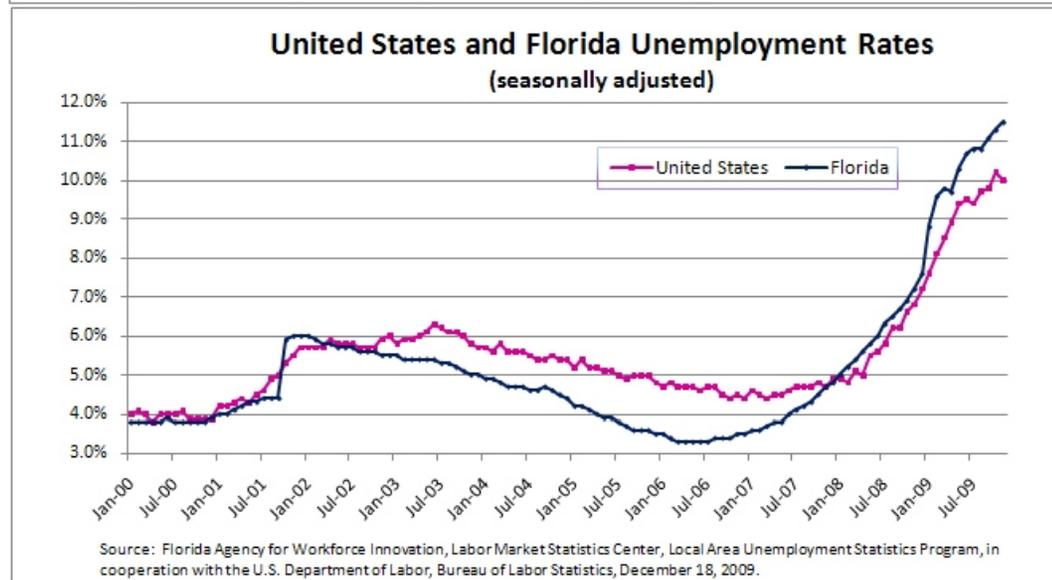
November (YOY)

US -3.5%

FL -3.7%

YR: -284,800 jobs

Peak: -743,100 jobs



November

US 10.0%

FL 11.5%

(1.1 million people)

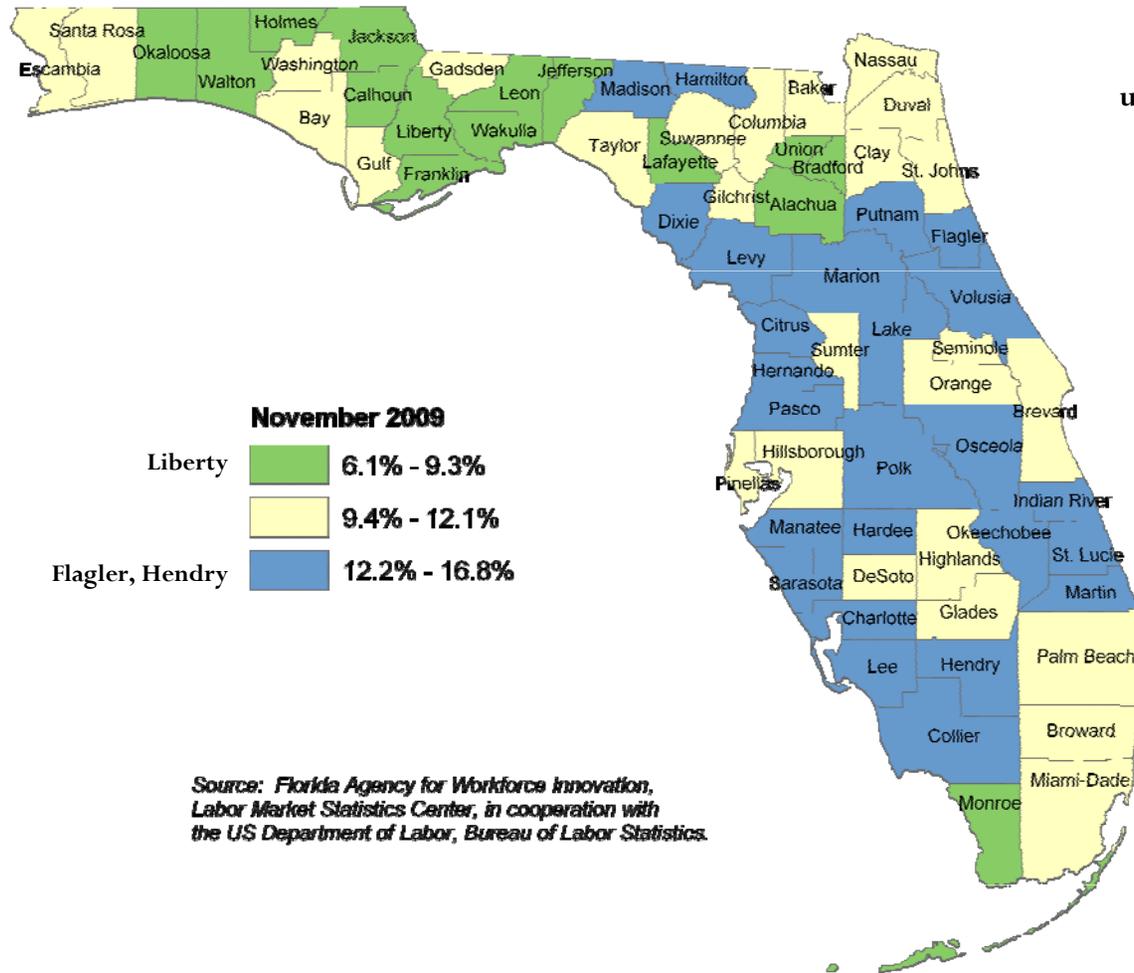
6<sup>th</sup> State in the Country

Projected

FL 11.4%

Spring, 2010

# Unemployment Rates



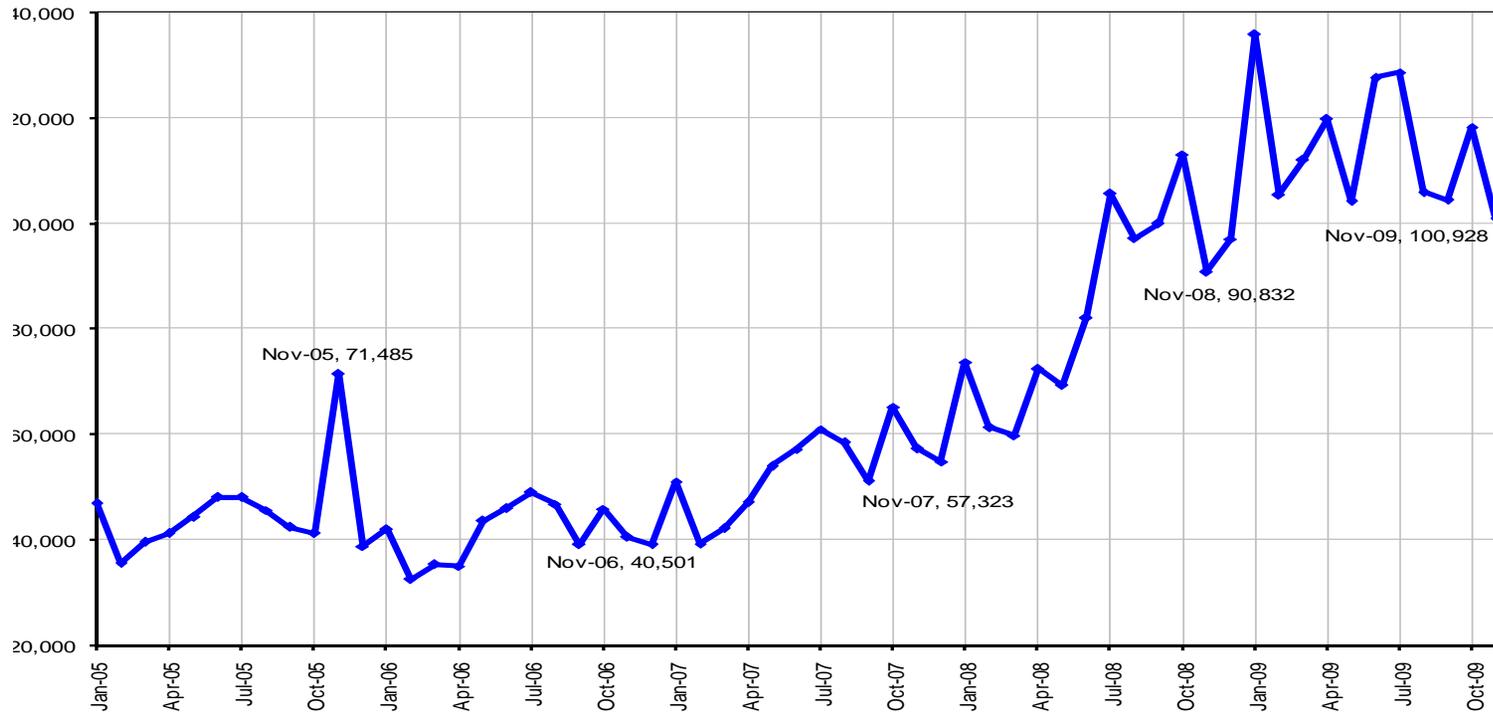
48 of 67 counties  
with double-digit  
unemployment rates

**November 2009**

Liberty	<span style="display:inline-block; width:15px; height:15px; background-color: #4CAF50; border: 1px solid black;"></span>	6.1% - 9.3%
	<span style="display:inline-block; width:15px; height:15px; background-color: #FFEB3B; border: 1px solid black;"></span>	9.4% - 12.1%
Flagler, Hendry	<span style="display:inline-block; width:15px; height:15px; background-color: #2196F3; border: 1px solid black;"></span>	12.2% - 16.8%

Source: Florida Agency for Workforce Innovation, Labor Market Statistics Center, in cooperation with the US Department of Labor, Bureau of Labor Statistics.

# Initial Claims – Unemployment Comp



December 2009 : 98,339  
Low Point was February 2006 at 32,489

# Intervening Events

- Agricultural Freeze
  - Downward Pressure on the State's GDP
  - Downward Pressure on Personal Income
  - Downward Pressure on Employment
  - Downward Pressure on Students
- Earthquake in Haiti
  - Upward Pressure on Students
  - Positive and Negative Changes in Spending
- Federal Law Changes
  - Likely FMAP Extension (more federal dollars; extension of Medically Needy & MEDS/AD)
  - Extended and Expanded Homebuyer Tax Credit (pending payback)
- Judicial Rulings
  - Mandatory Mediation - Foreclosures

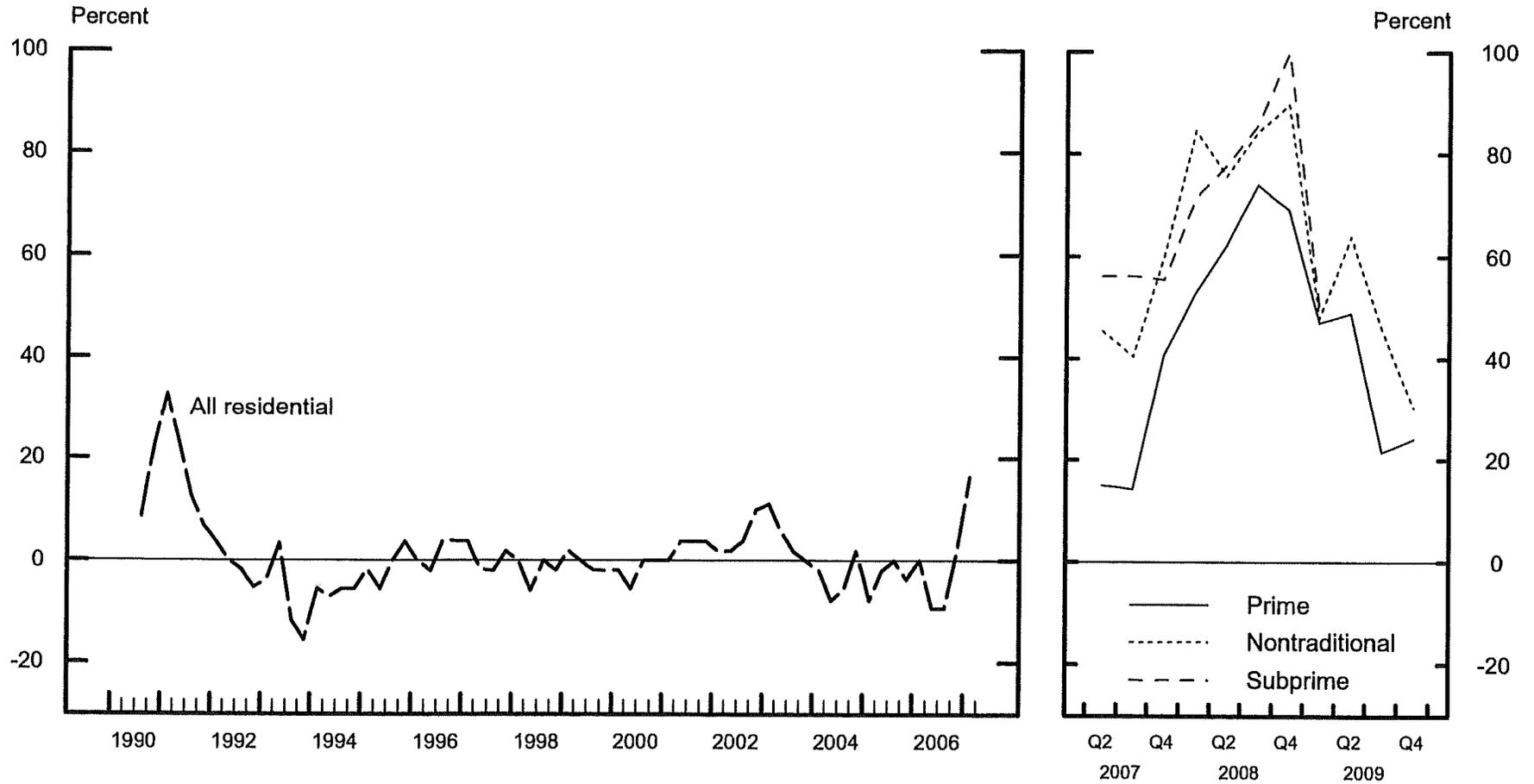
# National Risks to the Forecast

- More downside risks than upside, even to the recovery itself.
- Nobel Prize-winning economist Paul Krugman said he sees about a **one-third chance the U.S. economy will slide into a recession during the second half of the year as fiscal and monetary stimulus fade.**

*“It is not a low probability event, 30 to 40 percent chance,” Krugman said today in an interview in Atlanta, where he was attending an economics conference. “The chance that we will have growth slowing enough that unemployment ticks up again I would say is better than even.”*

# Credit Conditions Still Tight

Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans



Note: For data starting in 2007:Q2, changes in standards for prime, nontraditional, and subprime mortgage loans are reported separately.

# Florida Risks to the Forecast

- Florida is on a different recovery path than the nation as a whole.
- Recovery will be uneven, and there will be many ups and downs over the next six months.
- Most of these events have already been built into the prior forecasts.
- Some of the improvement we're talking about is actually a lessening of the decline. The economy will be better, but still fragile in the short-term.
- Florida is a diverse state, and areas will differ in their recovery timelines.

# Florida Housing is Improving, But...



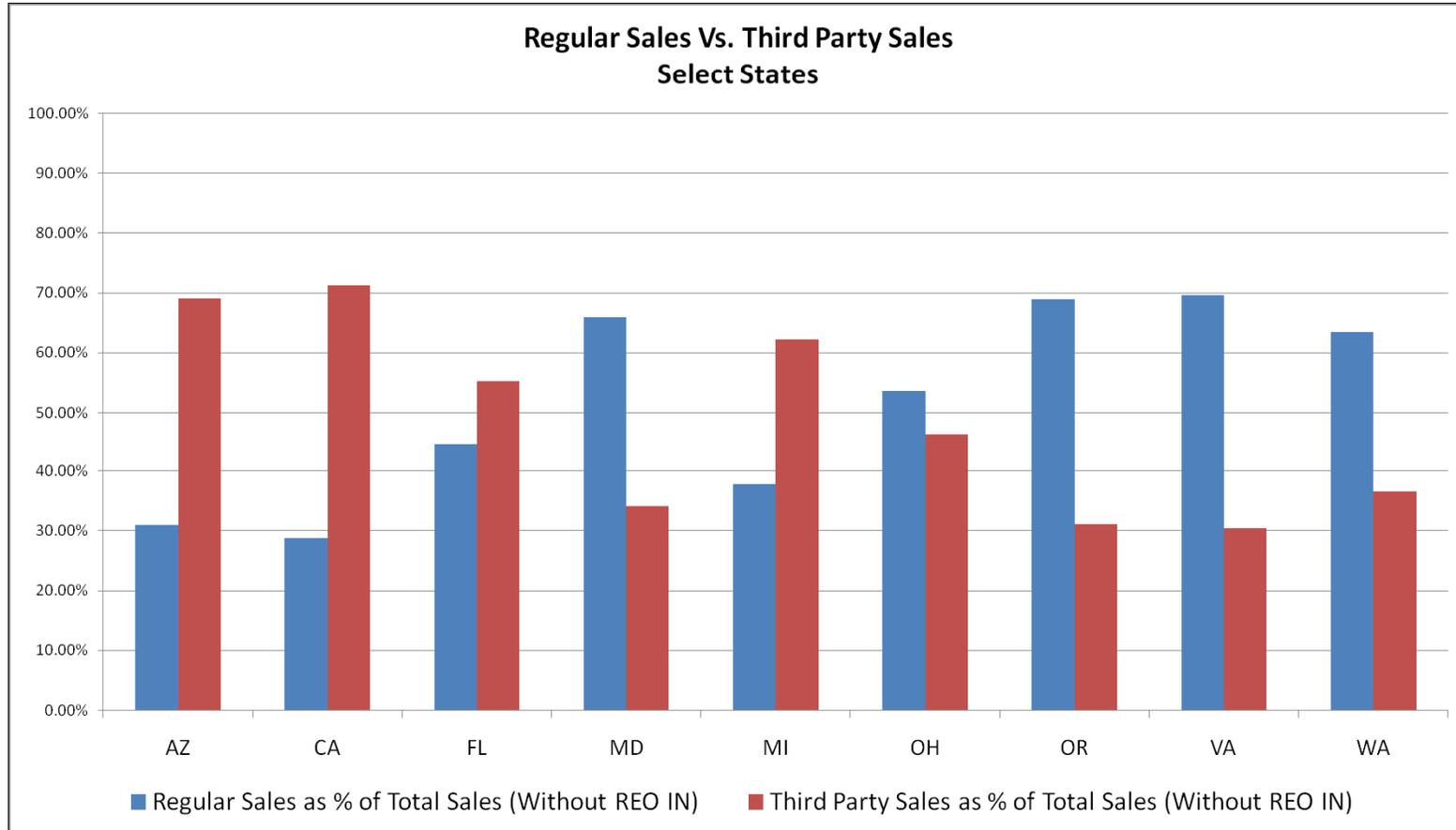
# Foreclosures & Shadow Inventory

State	Delinquency %	Foreclosure Inventory %	Non-Current %
<b>National</b>	<b>10.0%</b>	<b>3.2%</b>	<b>13.2%</b>
FL	12.8%	10.7%	23.5%
NV	15.7%	6.7%	22.4%
MS	15.4%	2.3%	17.7%
AZ	12.3%	4.0%	16.3%
GA	13.4%	2.3%	15.7%
CA	11.2%	3.9%	15.0%
MI	11.8%	2.6%	14.4%
IN	11.2%	3.0%	14.2%
OH	10.6%	3.4%	14.1%
IL	10.1%	3.9%	14.0%
LA	11.4%	2.4%	13.9%
RI	10.9%	2.8%	13.7%
NJ	9.1%	4.3%	13.3%
MD	10.6%	2.5%	13.2%
WV	11.2%	1.8%	12.9%
TN	11.5%	1.5%	12.9%
AL	11.4%	1.4%	12.8%
SC	10.0%	2.5%	12.5%
NY	8.9%	3.0%	12.0%
HI	8.0%	3.8%	11.8%
CT	8.9%	2.7%	11.6%
NC	10.0%	1.5%	11.4%
DE	8.7%	2.5%	11.3%
ME	8.1%	2.9%	11.0%
KY	8.7%	2.2%	10.9%

State	Delinquency %	Foreclosure Inventory %	Non-Current %
MA	8.7%	2.3%	10.9%
TX	9.6%	1.2%	10.9%
AR	9.3%	1.4%	10.8%
PA	8.7%	2.0%	10.7%
WI	7.9%	2.7%	10.6%
MO	9.2%	1.3%	10.5%
ID	7.8%	2.6%	10.4%
UT	8.0%	2.0%	10.0%
OK	8.0%	2.0%	10.0%
NM	7.6%	2.2%	9.8%
NH	8.3%	1.4%	9.7%
VA	8.1%	1.5%	9.6%
DC	7.7%	1.8%	9.6%
KS	7.6%	1.5%	9.1%
MN	7.1%	1.8%	8.8%
WA	7.4%	1.3%	8.7%
IA	6.5%	2.0%	8.6%
OR	6.7%	1.8%	8.4%
CO	6.4%	1.8%	8.2%
VT	5.8%	1.8%	7.6%
NE	6.2%	1.2%	7.5%
MT	5.5%	1.3%	6.8%
WY	5.6%	0.9%	6.5%
AK	5.0%	1.1%	6.0%
SD	4.3%	1.1%	5.3%
ND	3.7%	0.8%	4.5%

Foreclosures adding more to inventory than Sales are subtracting.

# Sales Mix Points to Lower Prices



REO (Bank) and Short Sales are more than regular sales in Florida.

LPS: Lender Processing Services

# Fiscal Imbalance Must be Addressed

## **National Level...**

“Addressing the country's fiscal problems will require a willingness to make difficult choices. In the end, the fundamental decision that the Congress, the Administration, and the American people must confront is how large a share of the nation's economic resources to devote to federal government programs, including entitlement programs. Crucially, whatever size of government is chosen, tax rates must ultimately be set at a level sufficient to achieve an appropriate balance of spending and revenues in the long run. In particular, over the longer term, achieving fiscal sustainability--defined, for example, as a situation in which the ratios of government debt and interest payments to GDP are stable or declining, and tax rates are not so high as to impede economic growth--requires that spending and budget deficits be well controlled. Clearly, the Congress and the Administration face formidable near-term challenges that must be addressed. But those near-term challenges must not be allowed to hinder timely consideration of the steps needed to address fiscal imbalances. Unless we demonstrate a strong commitment to fiscal sustainability in the longer term, we will have neither financial stability nor healthy economic growth.”

**BEN BERNANKE**

## **Florida...**

The persistent budget gap must be addressed, if not fully this year, then next year. [Fall: \$923 M to \$2.6 B; Winter: over \$1.1 B to \$3.2 B]

# Black Swans

Low probability, high impact events:

- Significant commercial real estate defaults that lead to a round of small and mid-size bank failures.
  - Nineteen Florida banks have failed since January 2002 – fourteen of which occurred in the 2009 calendar year.
- Severe Natural Disasters
  - 2004 and 2005 Hurricane Seasons
  - Budget Stabilization Fund balance is \$274 million.
- Over-valuation in the stock market corrects itself abruptly.  
(Nouriel Roubini)

# Session Issues

## **Cautions...**

- Persistent Budget Gap (begin to address)
- Growing Housing Inventory (do no harm)
- Panaceas and Quick Fixes (do not exist)

## **Considerations...**

- Preserve Jobs (e.g., Space Center...14,600 jobs)
- Support Small Businesses (74%  $\leq$  4 employees)
- Focus on Existing Businesses
- Unemployment Compensation Dialogue
- Educate Congressional Delegation on Key Issues