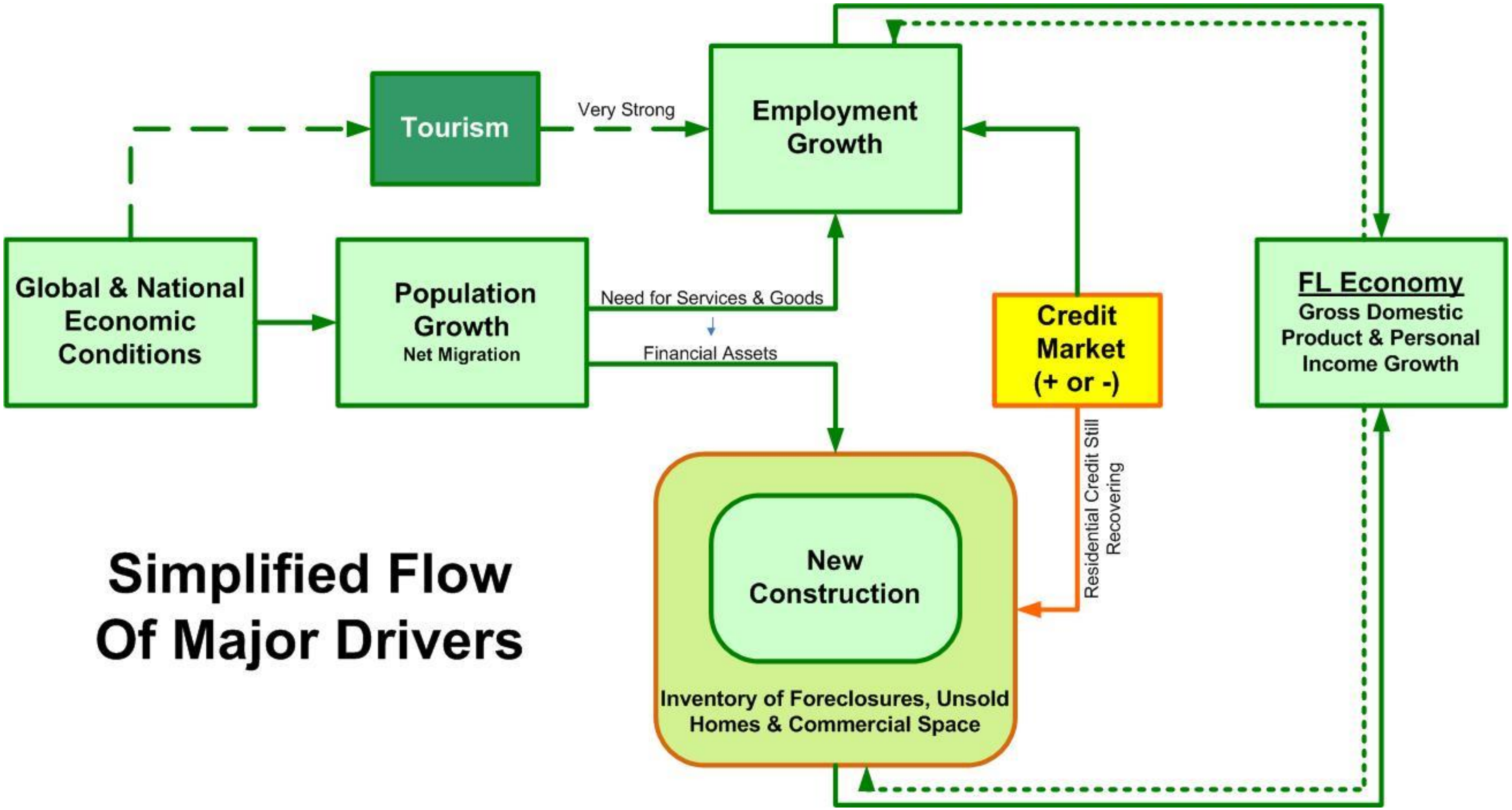
Florida:
An Economic Overview

July 28, 2017

Presented by:

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

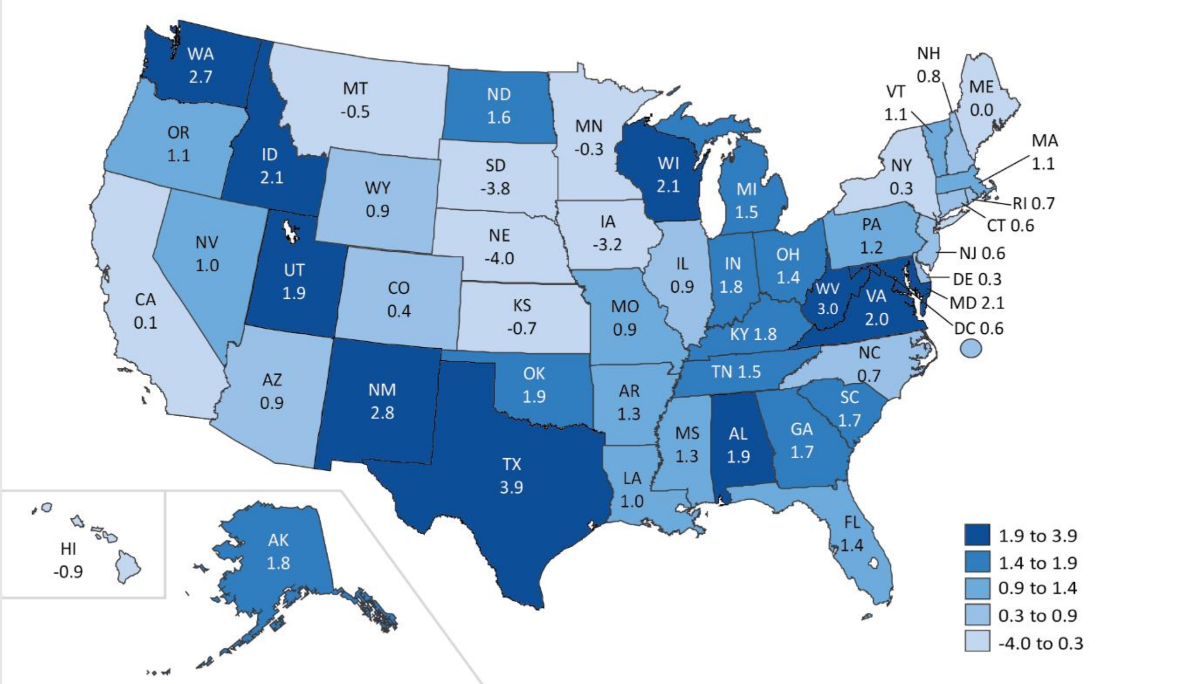
Key Economic Variables Improving



Simplified Flow Of Major Drivers

Economy Has Continued Growth...

Chart 1. Percent Change in Real GDP by State, 2016:Q4–2017:Q1, Seasonally Adjusted at Annual Rates



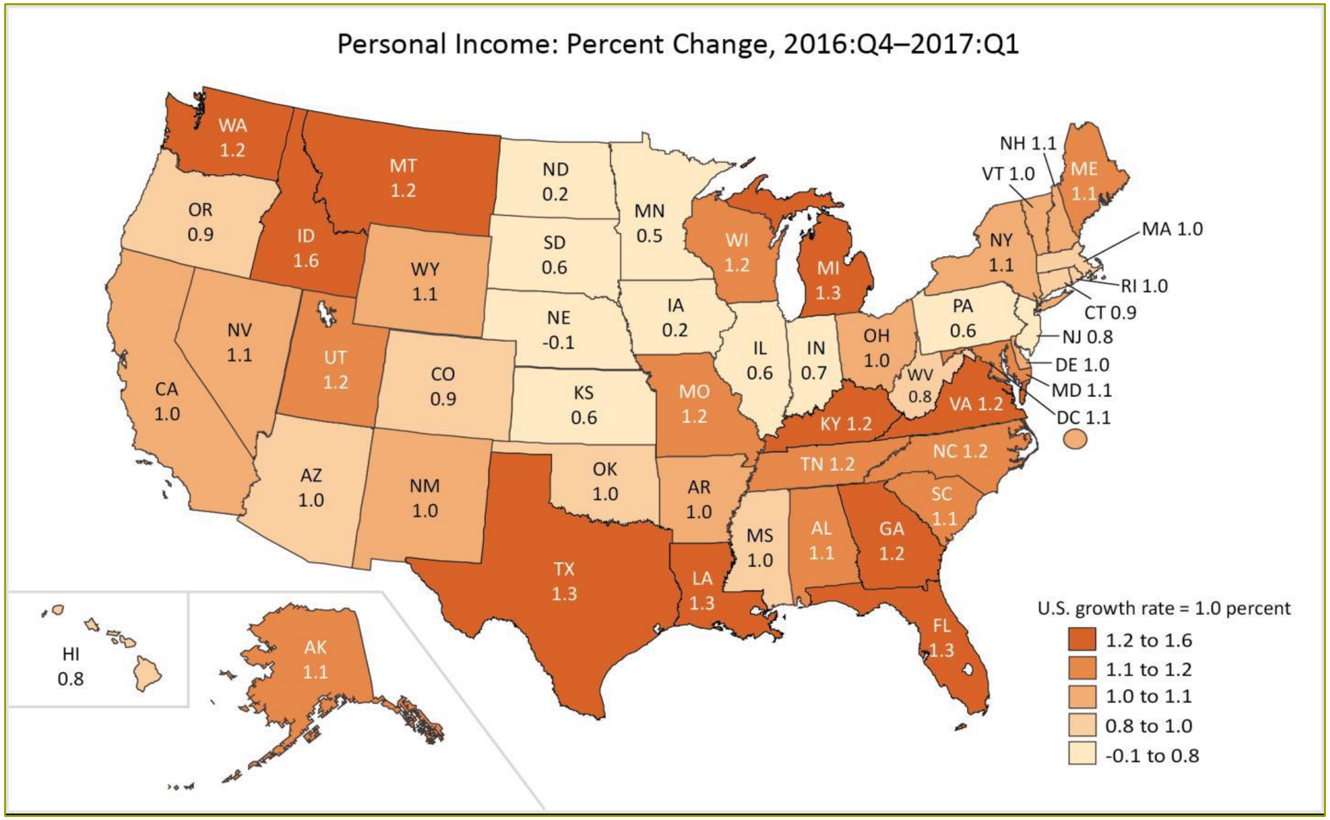
U.S. Bureau of Economic Analysis

The first quarter results for the 2017 calendar year indicated that Florida ranked 21st in the country with 1.4 percent growth over the prior quarter. The United States as a whole had 1.2 percent growth.

For the 2015 calendar year, the latest revised data for State Gross Domestic Product (GDP) showed Florida with real growth of 3.6%, placing it above the national average of 2.6%. For the 2016 calendar year, Florida's growth slowed slightly to 3.0%; however, this was still well above the national average of 1.5% and ranked Florida 5th in the country.

The Economic Estimating Conference for Florida projects that that growth will average 2.2% per year for the 2017-18, 2018-19 and 2019-20 fiscal years.

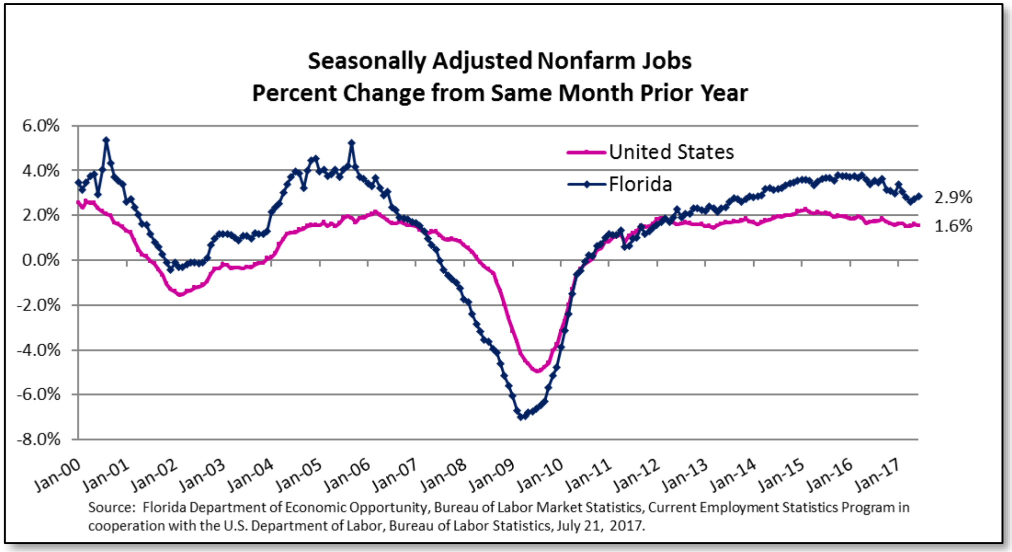
FL Personal Income Growth Continues...



The first quarter results for the 2017 calendar year indicated that Florida ranked 4th in the country with 1.3 percent growth over the prior quarter. The United States as a whole had 1.0 percent growth.

Florida data for the 2016 calendar year showed continued strength relative to 2015, ranking the state 3rd in the country for personal income growth. Florida's growth rate of 4.9 percent over 2015 handily beat the 3.6 percent posted for the entire United States. However, Florida's per capita personal income continued to trail in performance, with a ranking of 27th in the country. This polarization also exists in Nevada (#1) and Utah (#2), the two states ahead of Florida in overall growth.

Current Employment Conditions…



<u>June Nonfarm Jobs (YOY)</u>

US 1.6%
FL 2.9%
YR: 238,600 jobs
Peak: +549,400 jobs
[Prior Employment Peak passed in May 2015]

<u>June Unemployment Rate</u>

US 4.4%
FL 4.1%
(419,000 people)

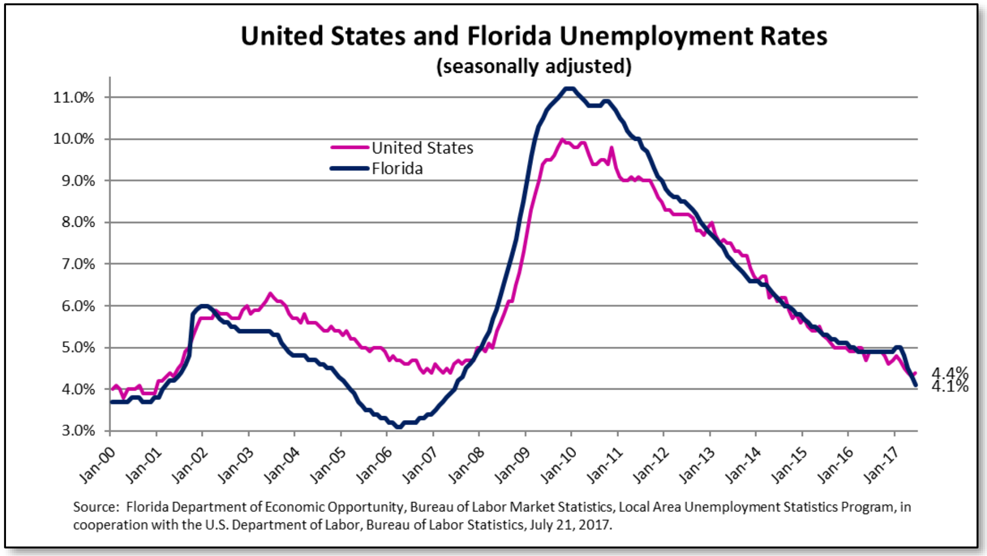
The Revenue Estimating Conference assumes Florida is close to the "full employment" unemployment rate (about 4 percent).

<u>Highest Monthly Rate</u>

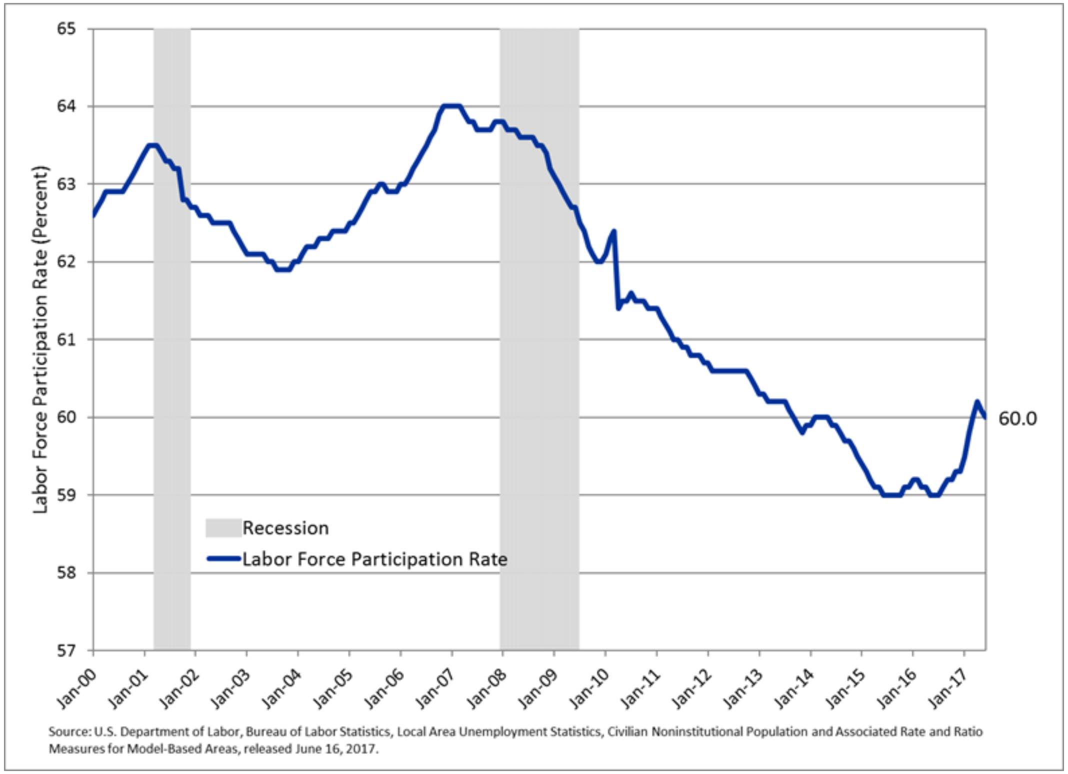
11.2% (November 2009 through January 2010)

<u>Lowest Monthly Rate</u>

3.1% (March through April 2006)



Florida's Participation Rate…



Florida's labor force participation rate was 64% from November 2006 to March 2007. The participation rate generally declined from that point to June 2015, and then remained relatively stable from July 2015 to July 2016.

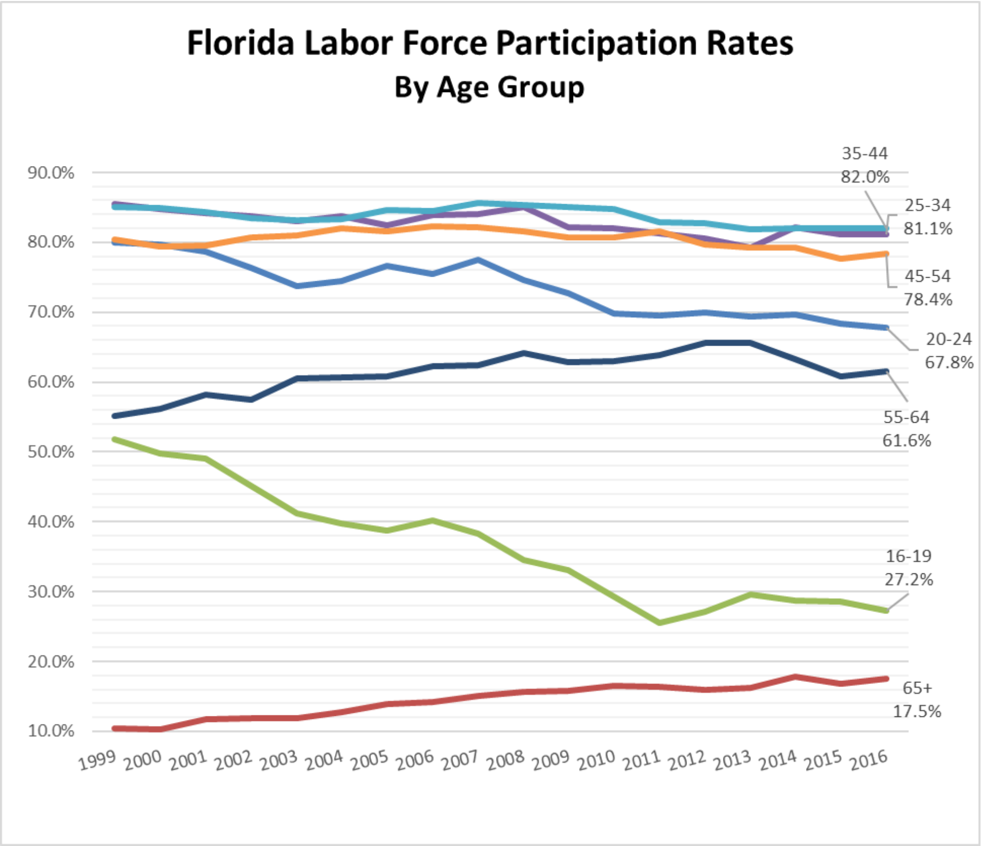
The rate has now been trending upward since August 2016. The reported participation rate was 60.0% in June 2017.

Among all unemployed, the share of those *reentering* the labor force declined from 31.4% in June 2016 to 29.1% in June 2017. The share of *new entrants* increased from 11.2% to 12.4% over the same time period.

The data series is limited, but there is some reason to believe that Florida's underlying employment picture may be returning to historic norms. However, the significant size and composition of the long-term unemployed group (145,400 persons or 31.3% of all unemployed in June may be confounding some of the trend results. The equivalent percentage from the United States as a whole was only 24.3%.

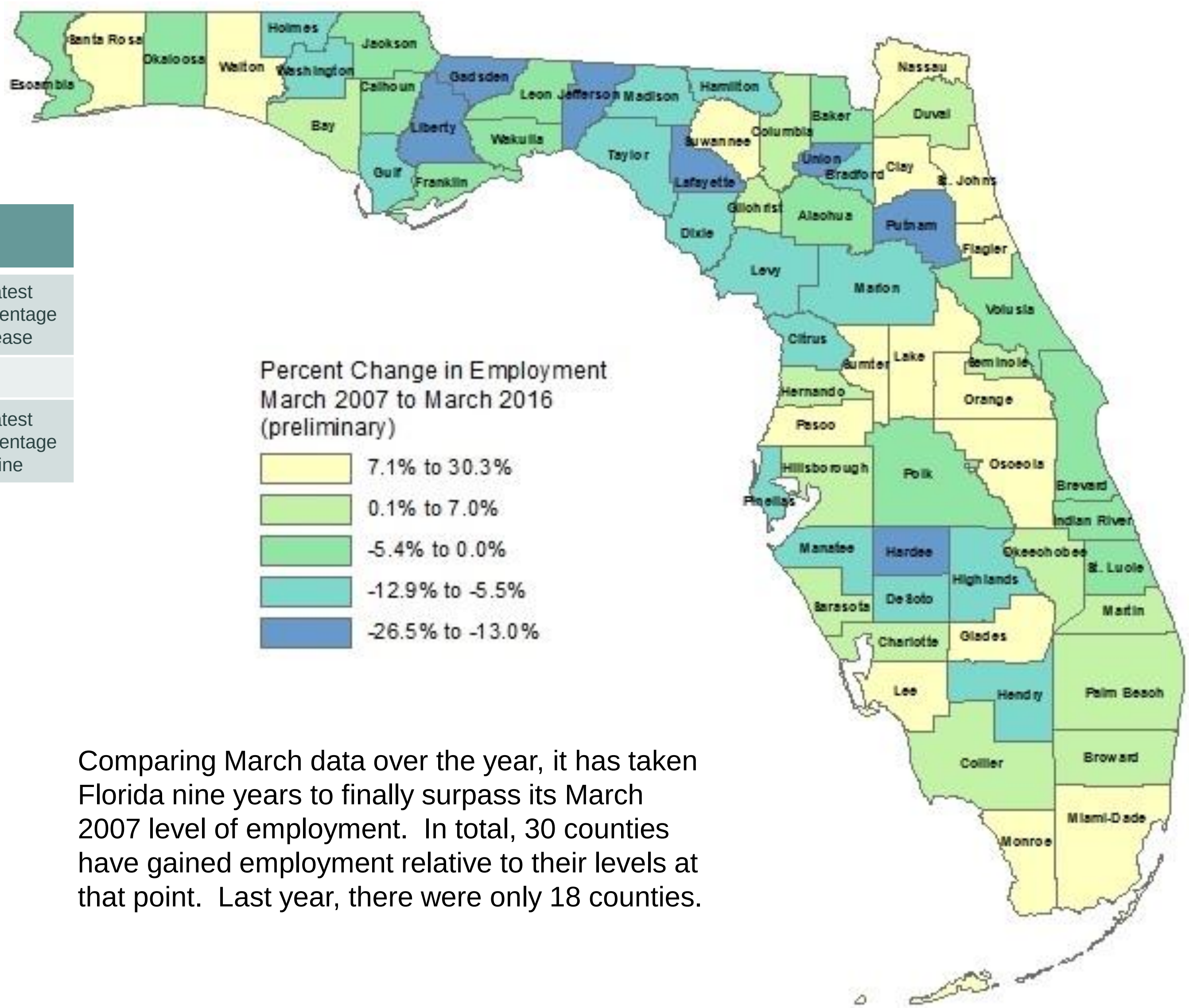
Detailed Participation Rate...

- 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. In 2016 that percentage had dropped to 27.2 percent.
- A similar trend is evident with those aged 20-24, as the percentage in the labor force has slid from around 80 percent to slightly below 70 percent.
- Together, participation rates of the 16-24 year olds has fallen over the decade from representing around two-thirds of their population to around half.
- In contrast, participation in the labor force by older workers (aged 55-64 and those aged 65 and over) has increased.



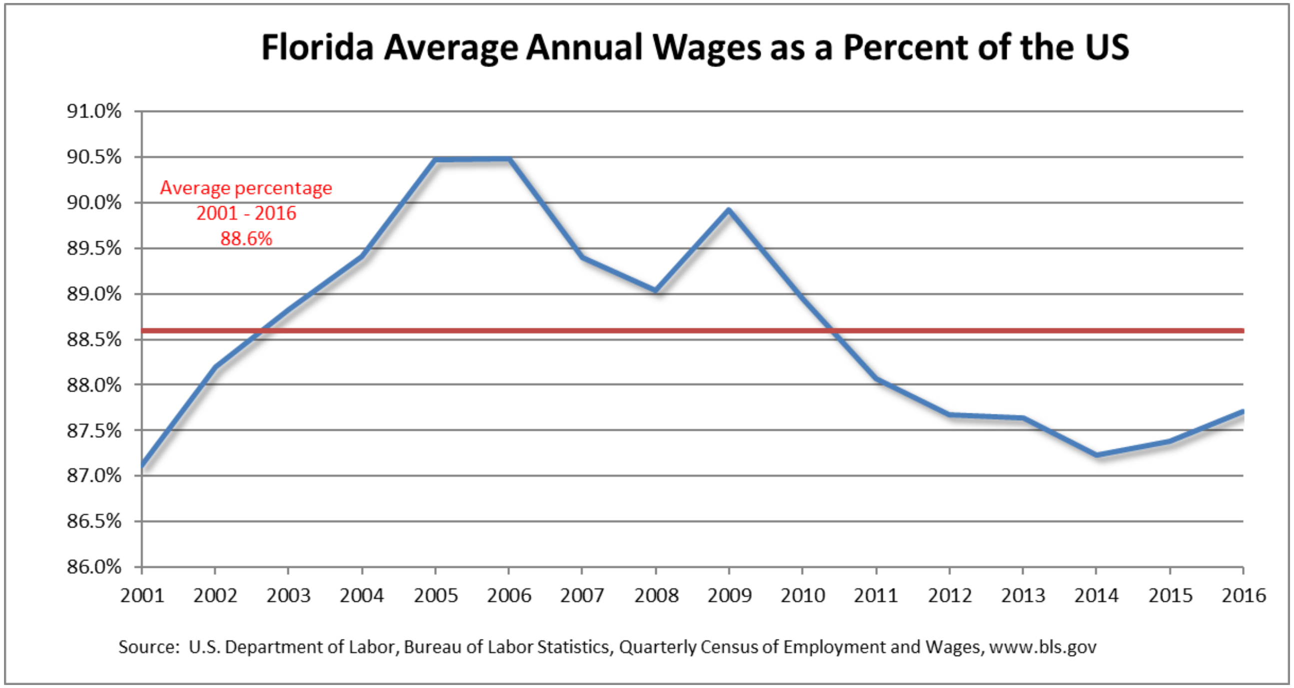
Across the State, Employment Picture Is Improving, but Still Mixed...

Area	March 2007 to March 2016	
Sumter County	30.3%	Greatest Percentage Increase
Florida	**2.6%**	
Liberty County	-26.5%	Greatest Percentage Decline



Comparing March data over the year, it has taken Florida nine years to finally surpass its March 2007 level of employment. In total, 30 counties have gained employment relative to their levels at that point. Last year, there were only 18 counties.

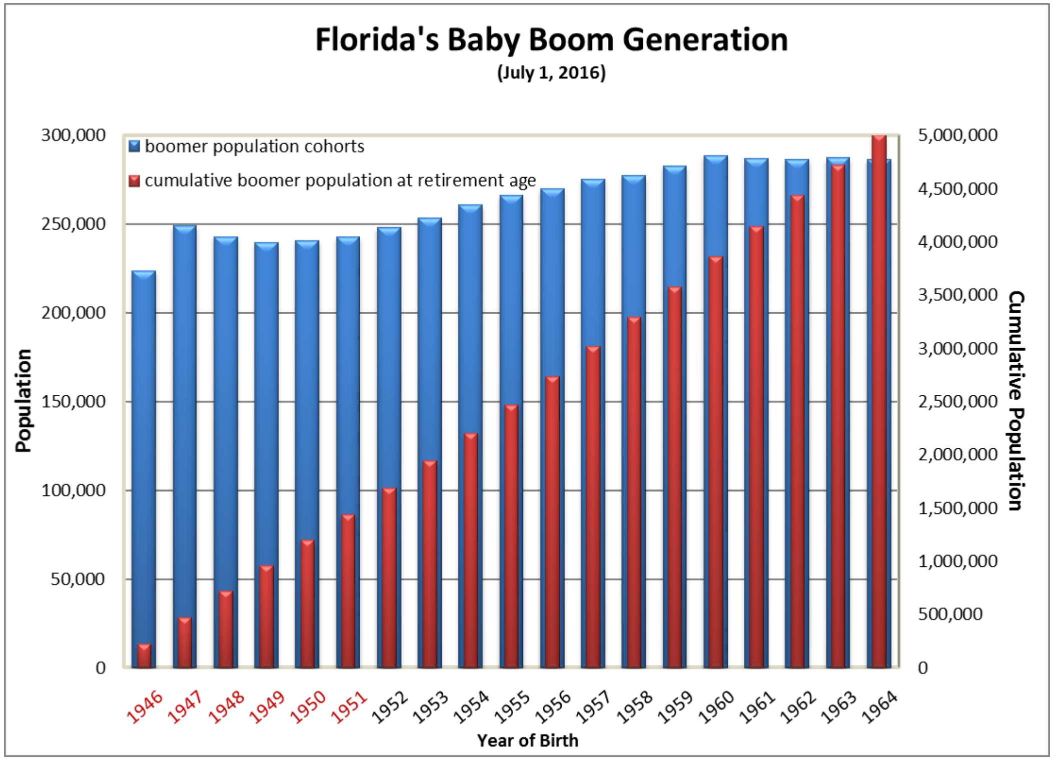
Wage Gap Improved in 2016...



- Florida's average annual wage has typically been below the US average. Since the beginning of this century, it has run about 88.6% of the US as a whole; however, the ratio performed worse than this during and immediately after the Great Recession. The preliminary data for the 2016 calendar year showed that it improved from the prior year to 87.7% of the US average. The posting in 2015 was 87.4% and in 2014 was 87.2%. The ratio in 2014 was Florida's lowest percentage since 2001.

- In part, the lower than average wage gains has to do with the mix of jobs that are growing the fastest in Florida. In this regard, the Accommodation & Food Services employment sector is large, has the lowest average annual wage, and is growing faster than overall employment in the state. This industry sector is closely related to the health of Florida's tourism industry that appears to have set a new record of 114.25 million visitors in FY 2016-17, an increase of 4.0 percent over FY 2015-16.

Baby Boomers in Florida Today...



- The first cohort of Baby Boomers became eligible for retirement (turned age 65) in 2011. Only six cohorts have entered the retirement phase: 2011, 2012, 2013, 2014, 2015, and 2016. This represents 28.7% 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 35.9 percent by 2030.

Population Growth Strengthening...

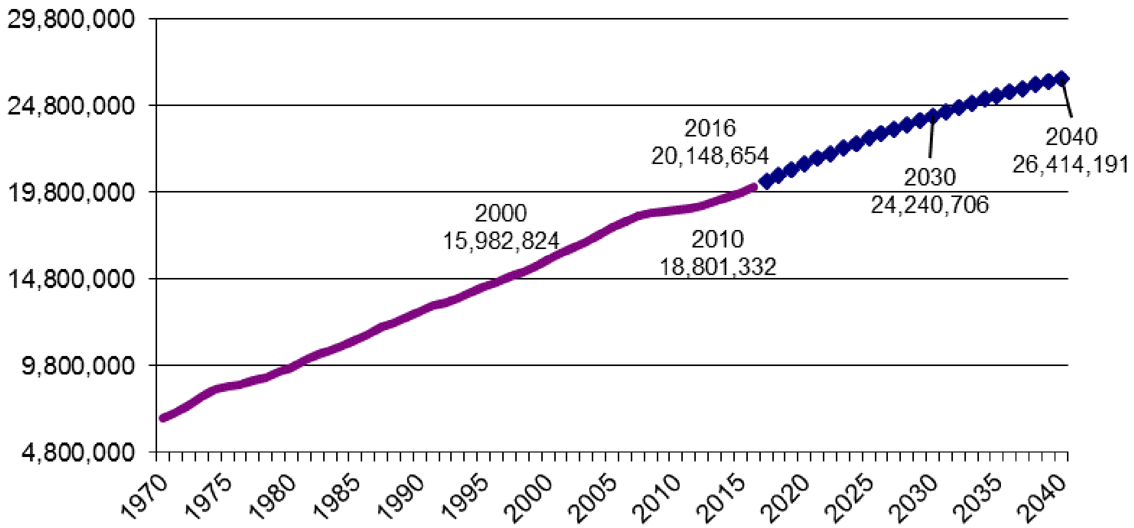
- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.

- Florida's population growth is expected to remain above 1.5 percent over the next few years. In the near-term, Florida is expected to grow by 1.61% between 2016 and 2017 – and average 1.56% annually between 2016 and 2020. Most of Florida's population growth through 2030 will be from net migration (95.1%). Nationally, average annual growth will be about 0.75% between 2016 and 2030.

- The future will be different than the past; Florida's long-term growth rate between 1970 and 1995 was over 3%.

- By the end of 2015, Florida broke the 20 million mark. It had surpassed New York earlier in the year to become the third most populous state.

Florida's April 1 Population...

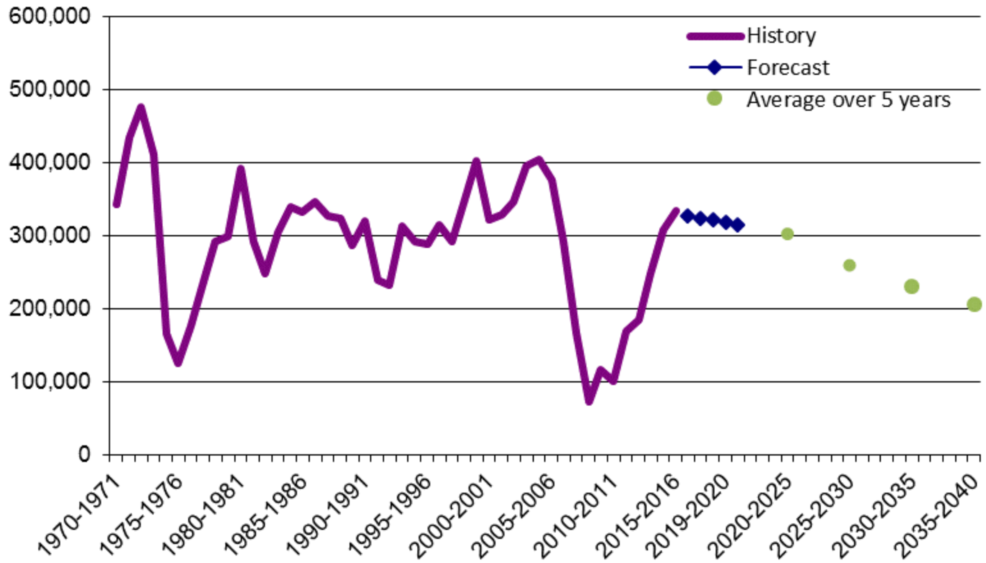


Florida's population growth of 333,471 between April 1, 2015 and April 1, 2016 was the strongest annual increase since 2006, immediately prior to the collapse of the housing boom and the beginning of the Great Recession. Future growth increments are expected to be increasingly smaller than this.

Florida's population:

- was 15,982,824 in 2000
- was 18,801,332 in 2010
- is forecast to grow to 24,240,706 by 2030 and to 26,414,191 by 2040

Florida's Population Growth...



Population:

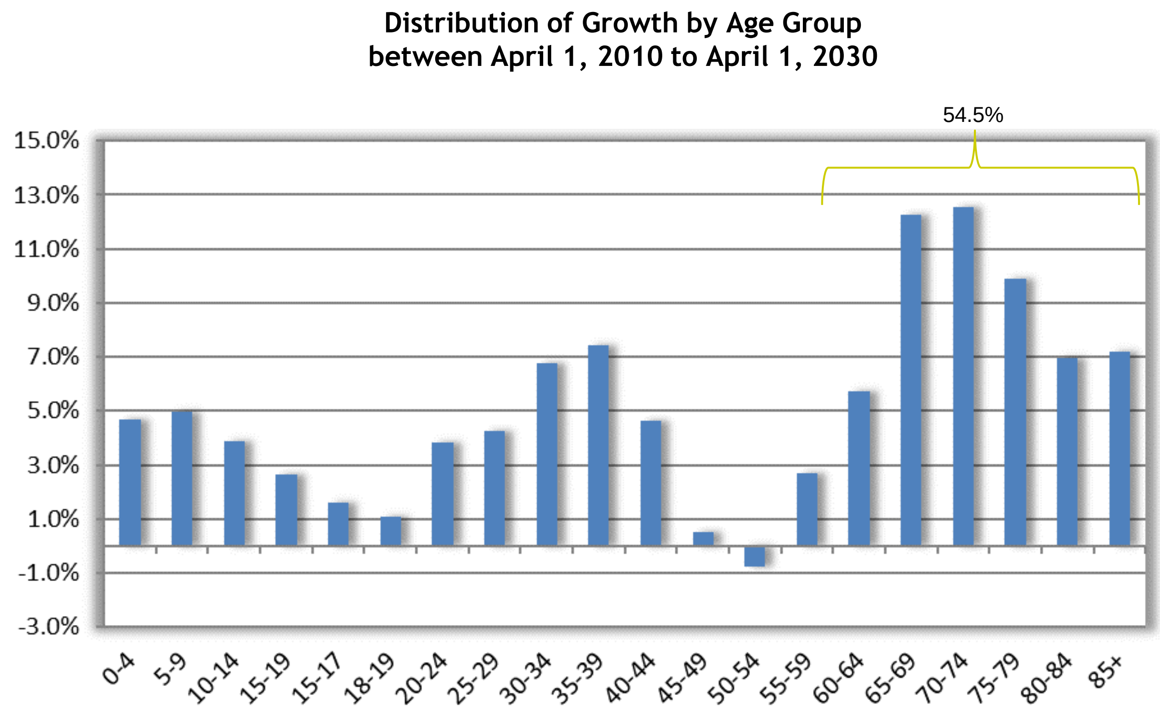
- Average annual increase between 2000 and 2006 was: 361,942
- Average annual increase between 2006 and 2014 was: 169,112
- Average annual increase between 2014 and 2016 was: 320,643

Population is forecast to increase on average annually by:

- 322,275 between 2016 and 2020 --- a gain of 883 per day
- 300,915 between 2020 and 2025 --- a gain of 824 per day
- 259,676 between 2025 and 2030 --- a gain of 711 per day

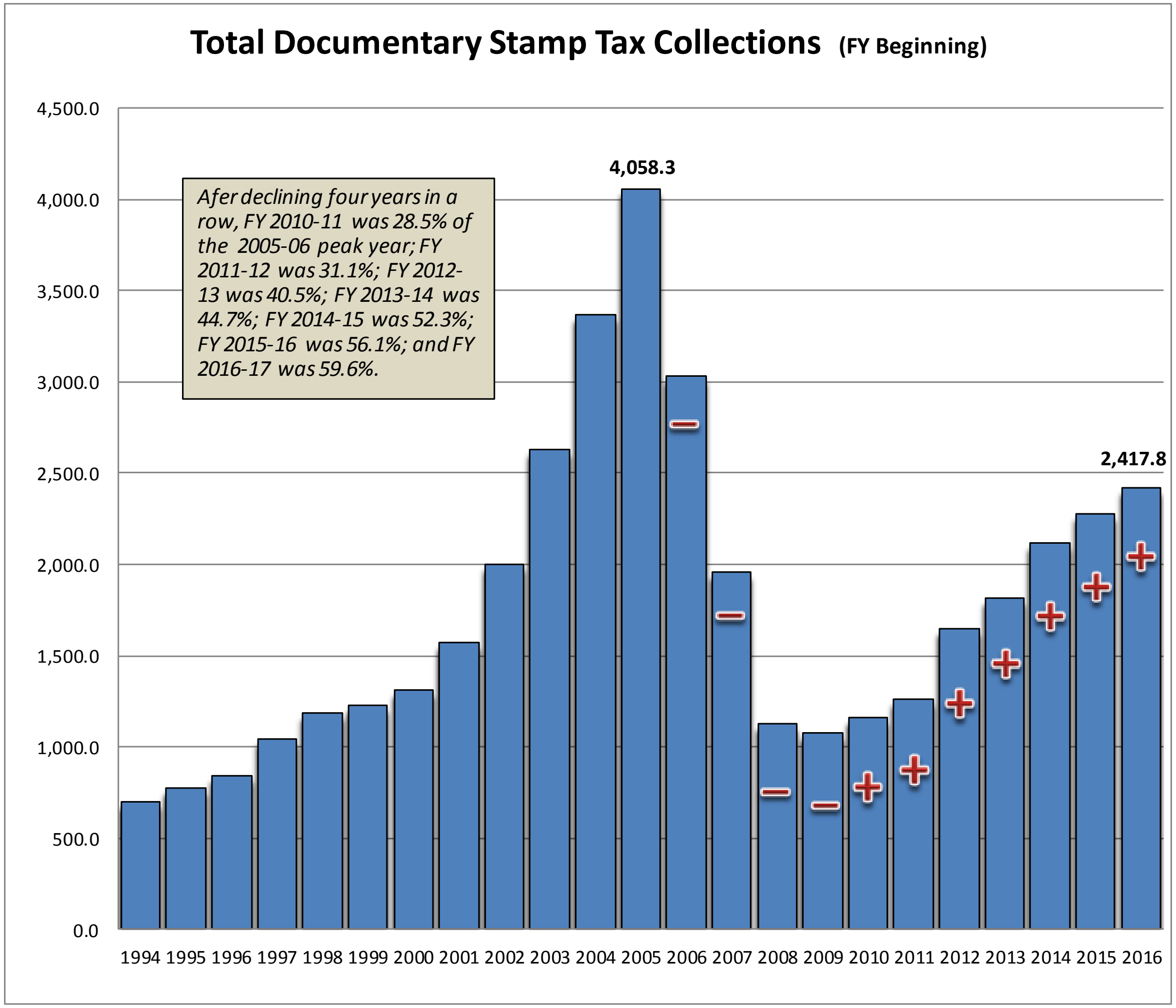
2016 Population	
Tampa	365,124
Orlando	271,752

Population Growth by Age Group...



- 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 54.5 percent of the gains.
- Florida's younger population (age 0-17) will account for 15.1 percent of the gains, while the young working age group (25-39) will account for 18.5 percent of the growth.

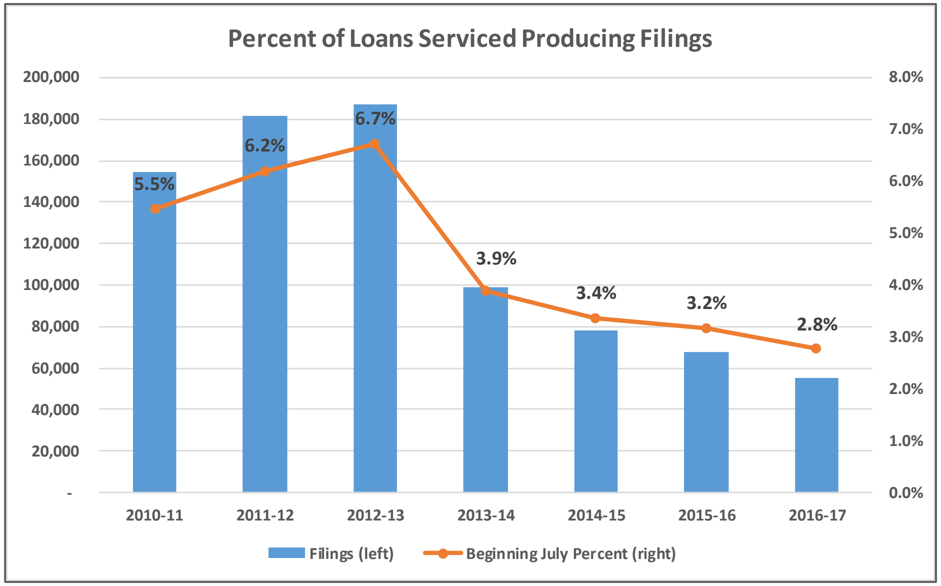
Florida Housing is Generally Improving...



Documentary Stamp Tax collections saw 6.2% growth in FY 2016-17 over FY 2015-16.

Foreclosure No Longer An Issue...

Florida's improved foreclosure rankings have been helped by decreasing numbers of delinquencies and non-current loans which limit the incoming pipeline. These have been produced by rising home values and employment, as well as reduced numbers of "underwater" homes. Florida's "underwater" homes have declined from a high of 50% of all residential mortgages to just over 5% in the most recent data—still higher than the national rate of 3.6%.



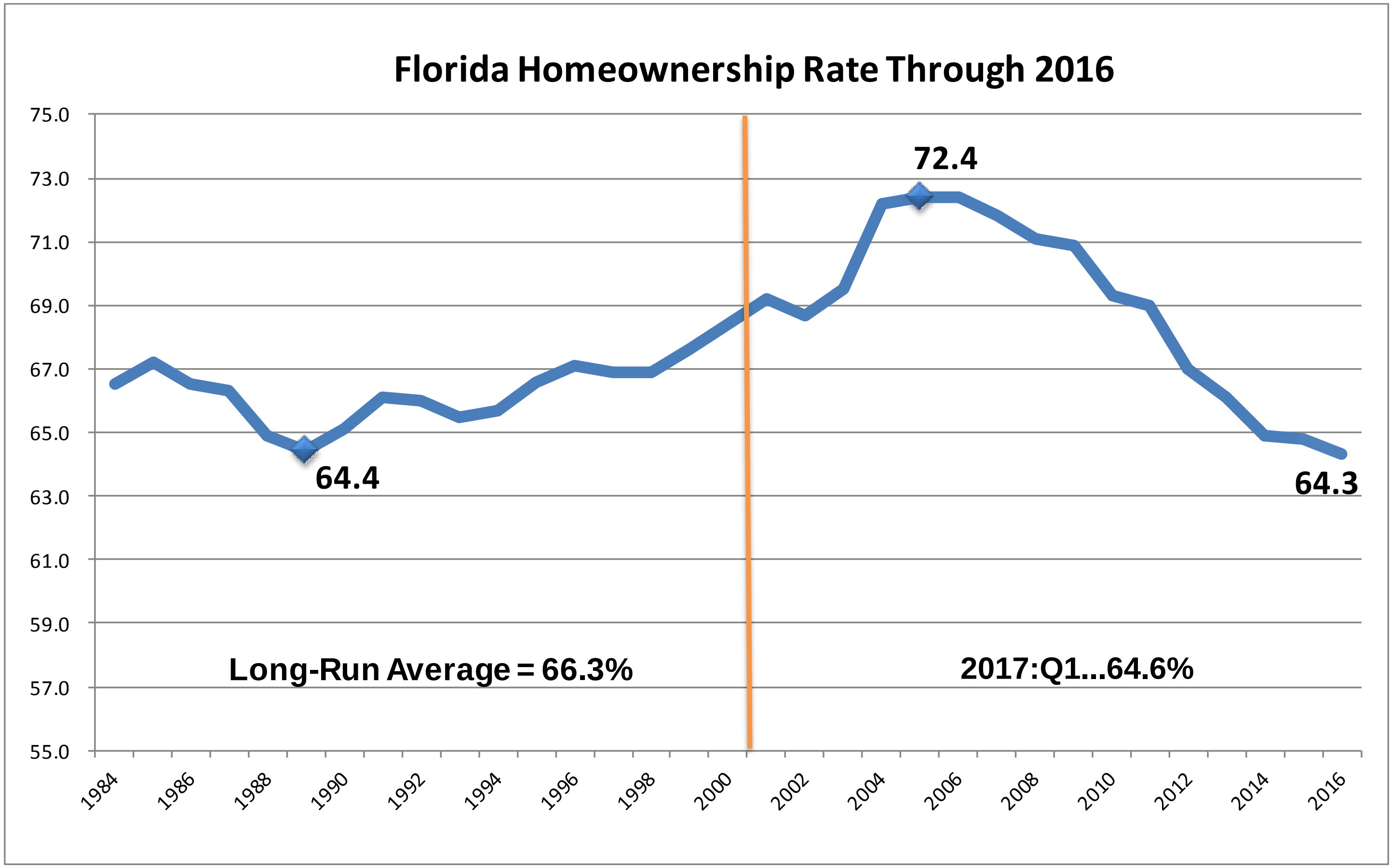
"Florida's active foreclosure inventory fell by 40 percent in 2016, marking four consecutive years of 38 percent or larger declines (the only state even close to this level of sustained improvement)."
Black Knight, Mortgage Monitor for December

However, a significant share of the remaining foreclosable homes have been delinquent for a long time—again according to Black Knight, 37% of loans more than 5 years delinquent in Florida are not yet actively involved in the foreclosure process.

Nationally—and in Florida—the foreclosure inventory is expected to normalize by the end of the 2018 calendar year. Judicial states are taking the longest time to recover. *Mortgage Monitor, March 2016*

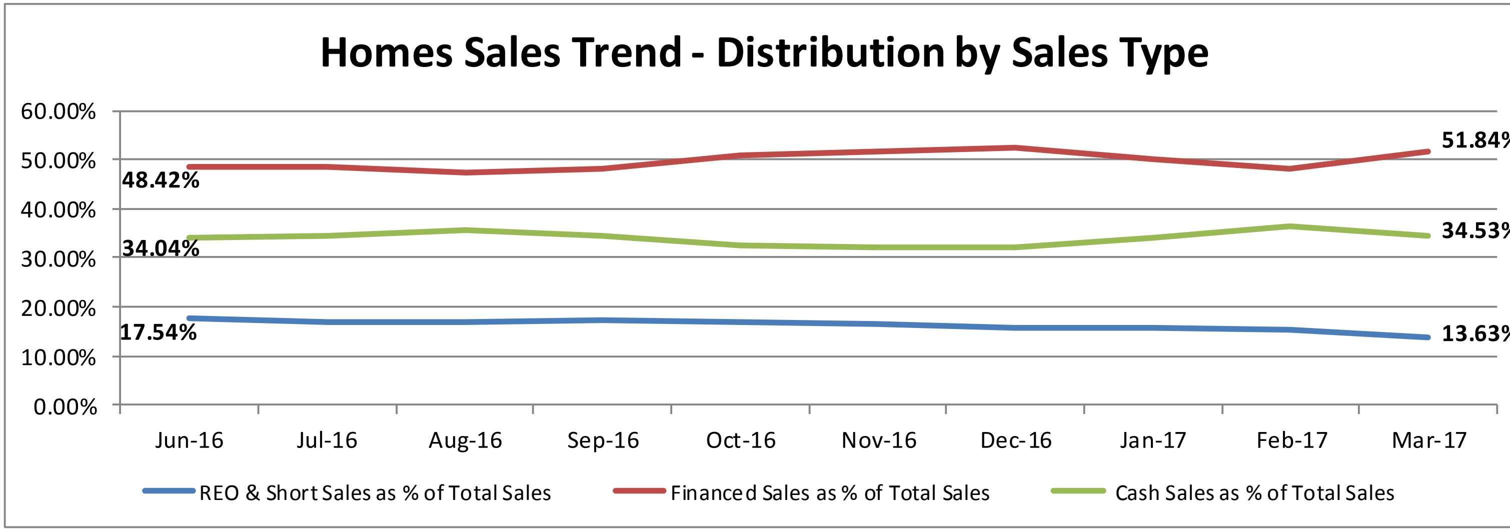
"States with the longest average foreclosure timelines for foreclosures completed in Q2:2017 were New Jersey (1,347), Indiana (1,259), New York (1,255), Florida (1,203), and Illinois (1,059)."
RealtyTrac, Report from July 18, 2017

Homeownership Rate Below Normal...



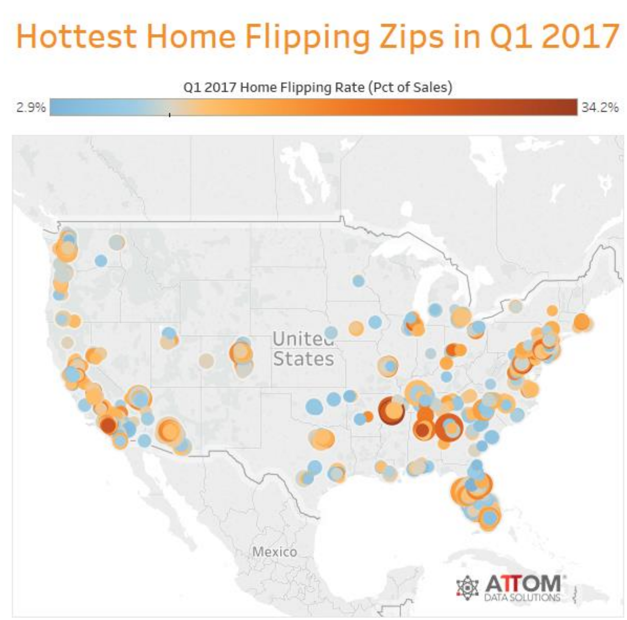
The 2015 percentage of 64.8 was well below the long-term average for Florida. Final data for 2016 shows a further decline to 64.3%. This rate is below the lowest recorded homeownership rate in Florida (64.4 in 1989) during the 32-year history of the series.

Sales Mix Still Atypical...



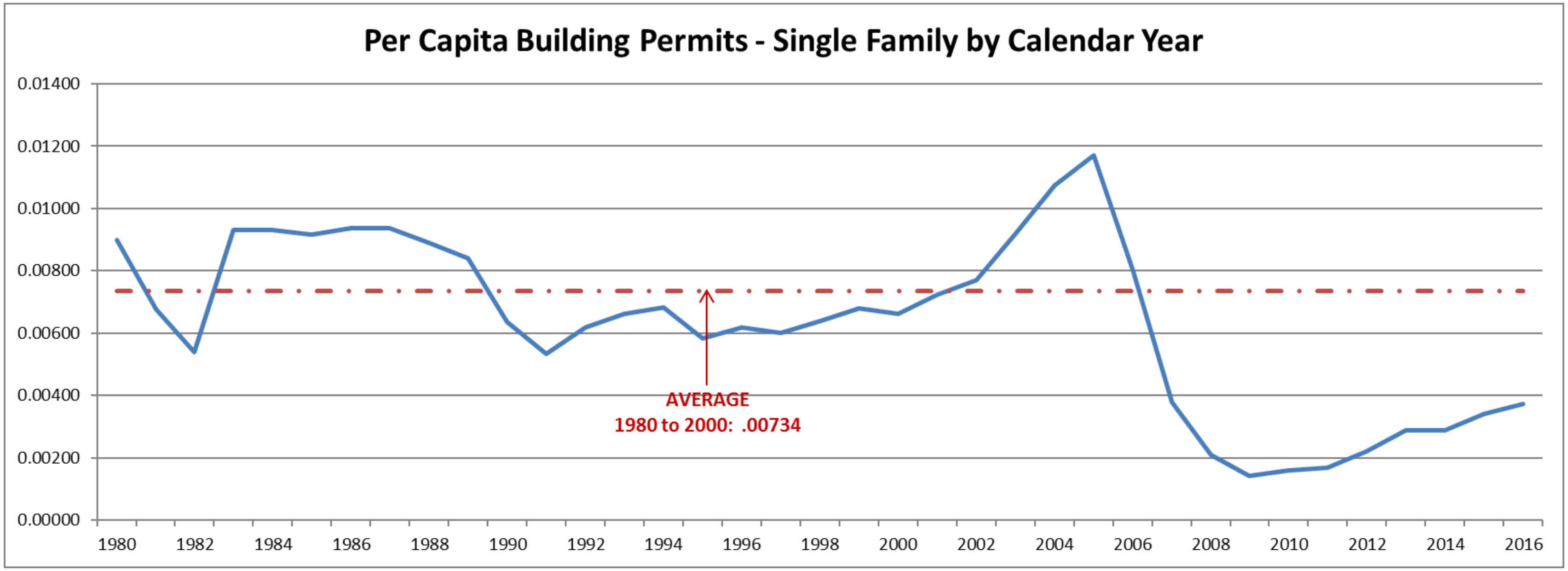
Data from LPS / Black Knight

Interest rates continue to be low; a 30-year conventional note averaged 4.27 for closed notes 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 of the homes purchased by flippers use financing.



Financed Sales continue to gain as a percentage of all sales, ending March 2017 with a higher share than this segment had in March 2016 (51.84% versus 44.71%). The share for REO & Short Sales has drifted steadily downward over this period; however, the share for Cash Sales has remained fairly consistent.

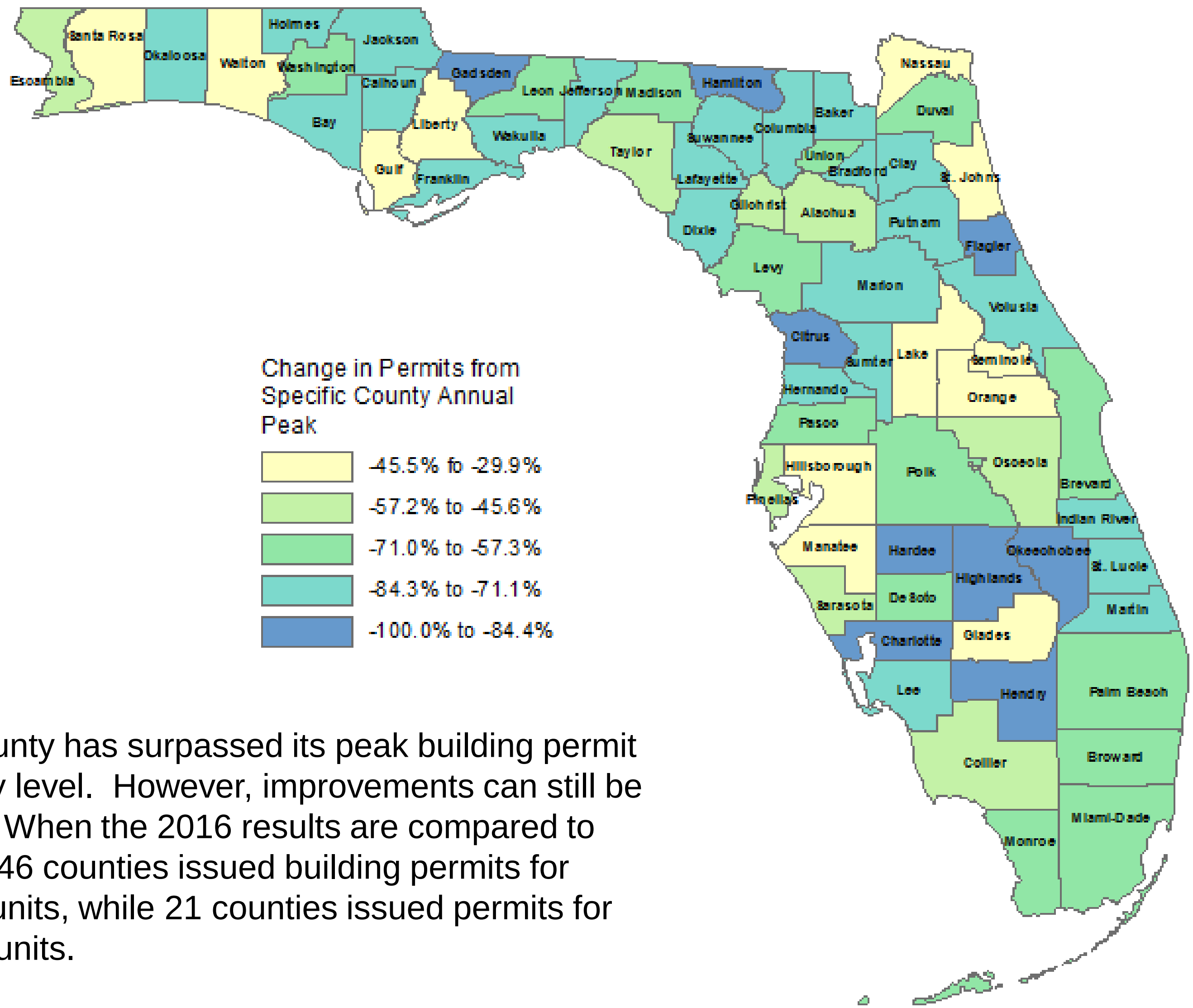
Permits Are Still Well Below Historic Norms...



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 2015 and 2016 ran well above their individual periods a year prior; single family data was higher than the prior year by 20.3% in 2015 and by 11.1% in 2016. Despite the strong percentage growth rates in four of the last five calendar years, the level is still low by historic standards—about half of the long-run per capita level.

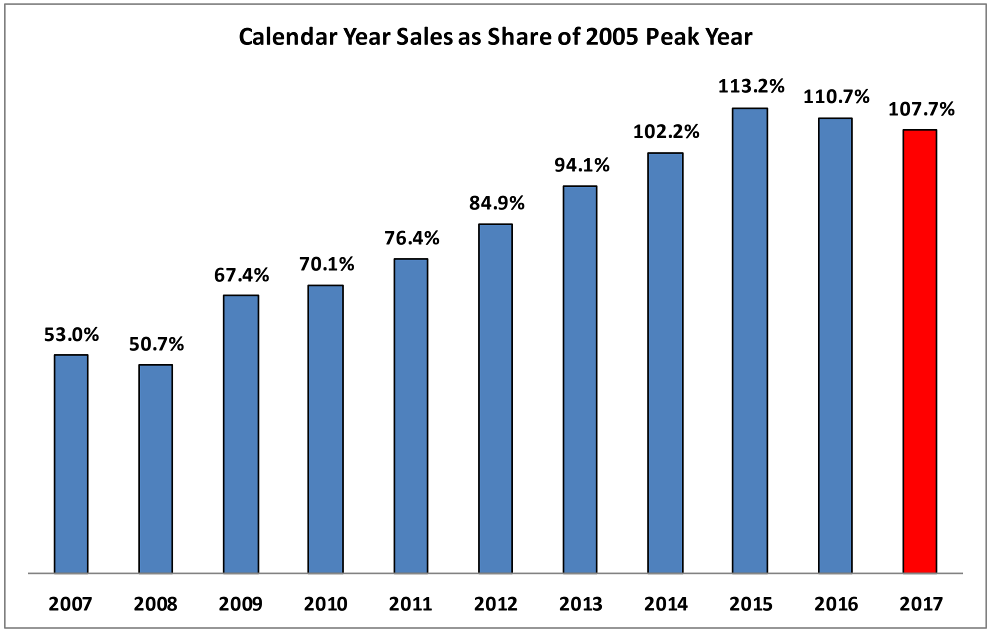
More recent data for the first six months of the 2017 calendar year indicates that single-family building permit activity increased by 14.8% over the prior year during this period.

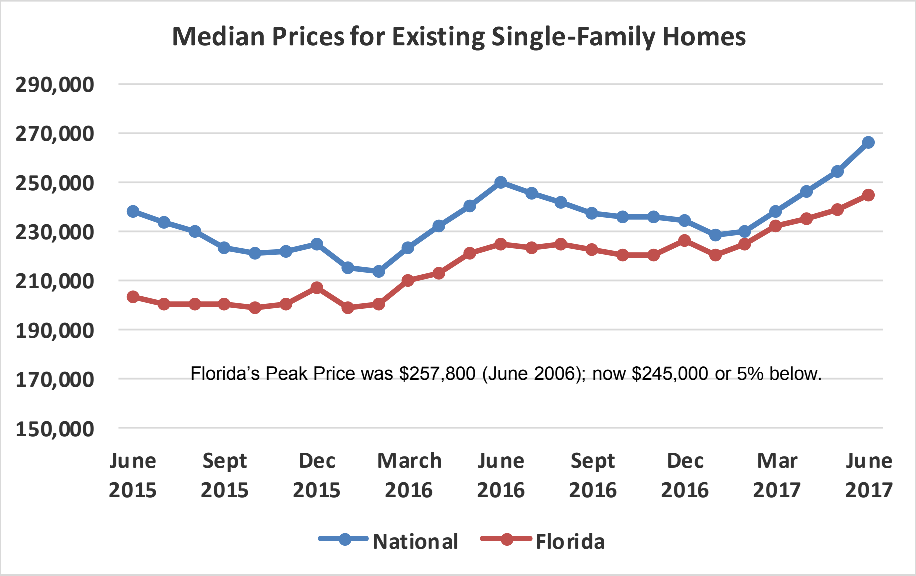
2016 Building Permit Activity Relative to the County’s Peak during the Period 2000-2007



No county has surpassed its peak building permit activity level. However, improvements can still be seen. When the 2016 results are compared to 2015, 46 counties issued building permits for more units, while 21 counties issued permits for fewer units.

Existing home sales volume in the 2014, 2015 and 2016 calendar years exceeded the 2005 peak year. The first six months of 2017 are following that pattern, and the strongest months of the year are still ahead.

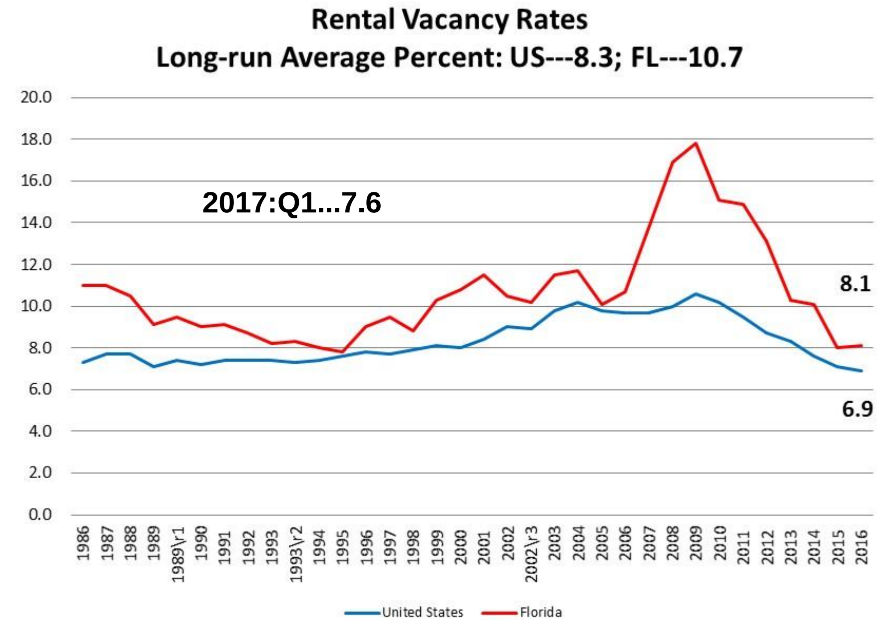




While Florida's existing home price gains have roughly tracked national gains over the last two years, the state's median home price for single family homes has generally stayed slightly flatter as the national median peaks and dips. The state's median price in June was 92.0% of the national median price, similar to the difference in the Summer of 2008.

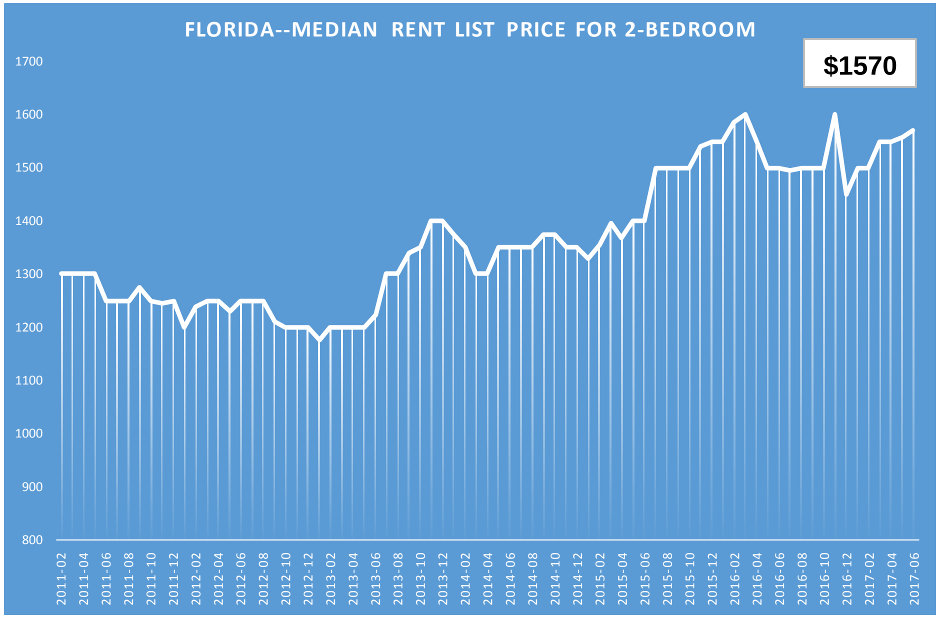
Data through June 2017

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



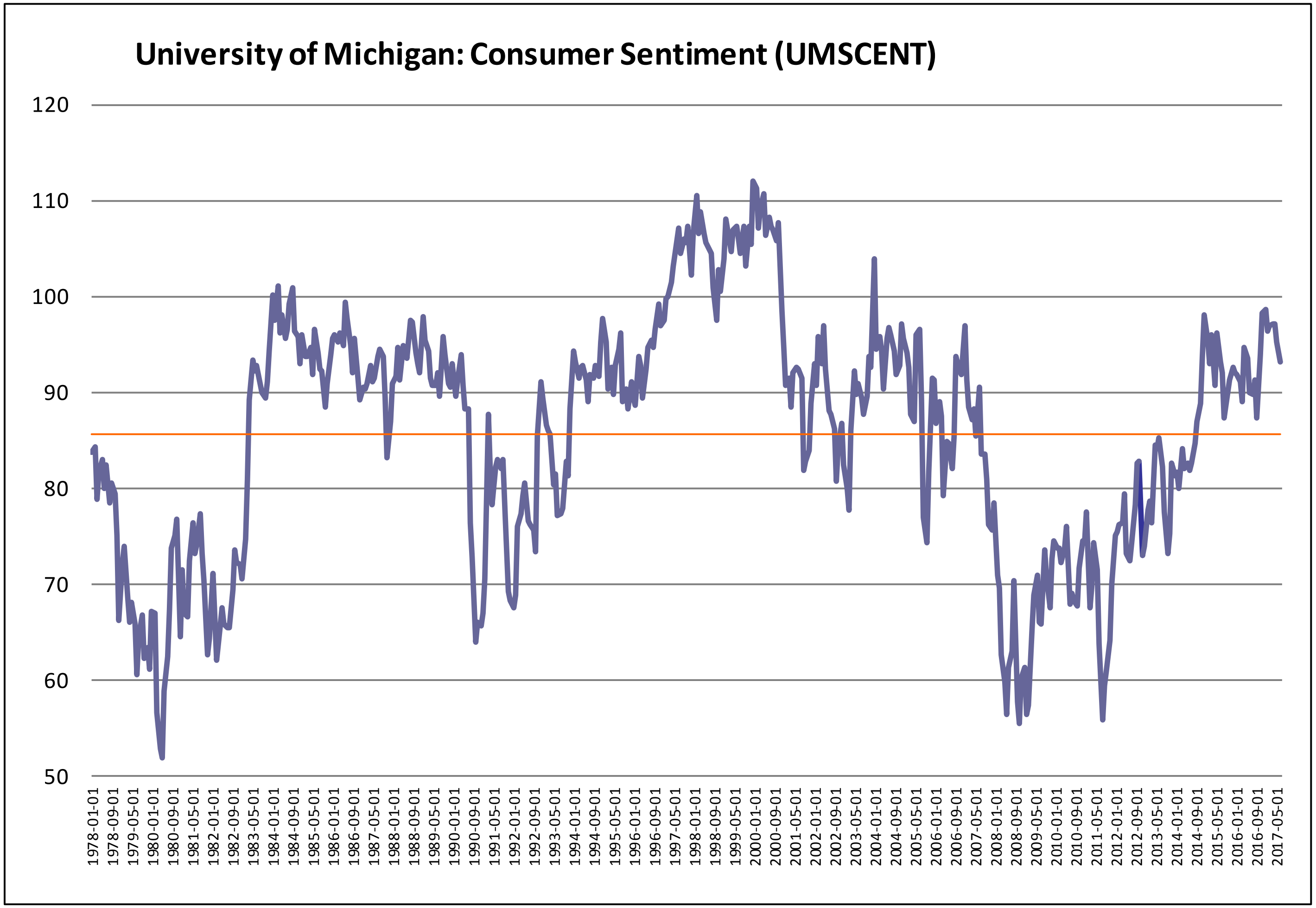
Florida and U.S. Median Gross Rent (in Current Dollars)						
	Median Gross Rent			Average Gross Rent		
Year	United States	Florida	Florida relative to United States	United States	Florida	Florida relative to United States
2005	728	809	111%	803	863	107%
2006	763	872	114%	844	932	110%
2007	789	925	117%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

Source: U.S. Census Bureau, American Community Survey, 1-Year, 2005-2015.



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

Consumer Perceptions Are High



Nationally, the sentiment reading for July 2017 (93.1) has dropped fairly steadily since January 2017 (98.5) which was the highest reading since January 2004 (103.8). However, the reading was still well above the index average since inception (85.6).

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 724 and a LTV of 81 percent on all closed loans in June. Seventy-two percent of all home purchase lending in June had credit scores that were 700 or above. Student loans and recently undertaken auto debts appear to be affecting the ability to qualify for residential credit.

- By the close of the 2016-17 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
    - All personal income metrics, about half of the employment sectors and the total tourism count 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.
    - None of the key construction metrics had shown a return to peak levels; however, private nonresidential construction expenditures are expected to pass their prior peak this year.

Upside Risks...

Construction...

- The supply of existing homes for sale has been inflated over the last eight years by the atypically large number of homes coming out of the lengthy foreclosure process and into the market. This effect will begin unwinding in FY 2017-18 and finish in FY 2018-19.
- The "shadow inventory" of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of "ghost" homes that are distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the supply has become two-tiered – viable homes and seriously distressed homes.
- To the extent that the number of viable homes is limited, new construction may come back quicker than expected.

More Buyers...

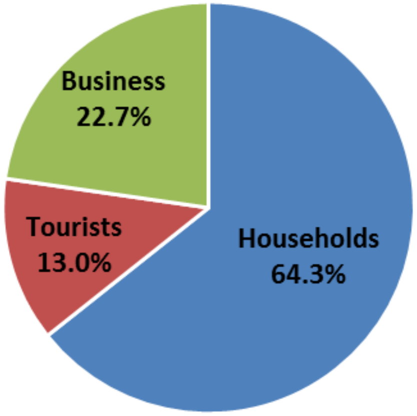
- In 2015, the first wave of homeowners affected by foreclosures and short sales went past the seven-year window generally needed to repair credit.
- While there is no evidence yet, atypical household formation will ultimately unwind—driving up the demand for housing.

Downside Risk...

- The most recent sales tax forecast relies heavily on strong tourism growth. It makes no adjustments for Zika-related impacts and assumes no other 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.

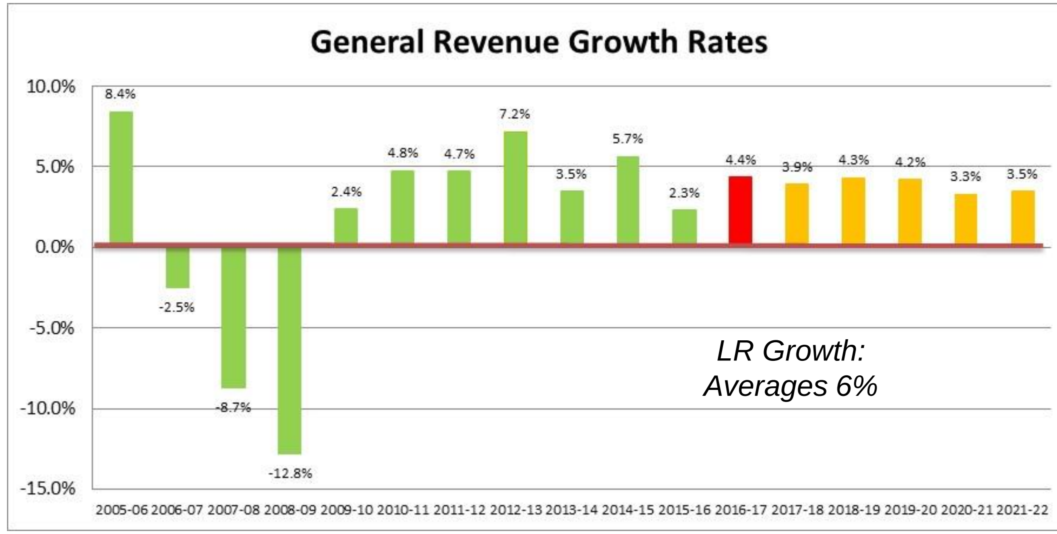
The Legislative Office of Economic and Demographic Research has updated and refined an empirical analysis of the various sources of the state's sales tax collections. In FY 2015-16, sales tax collections provided $22.0 billion dollars or 76.4% Florida's total General Revenue collections. Of this amount,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

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



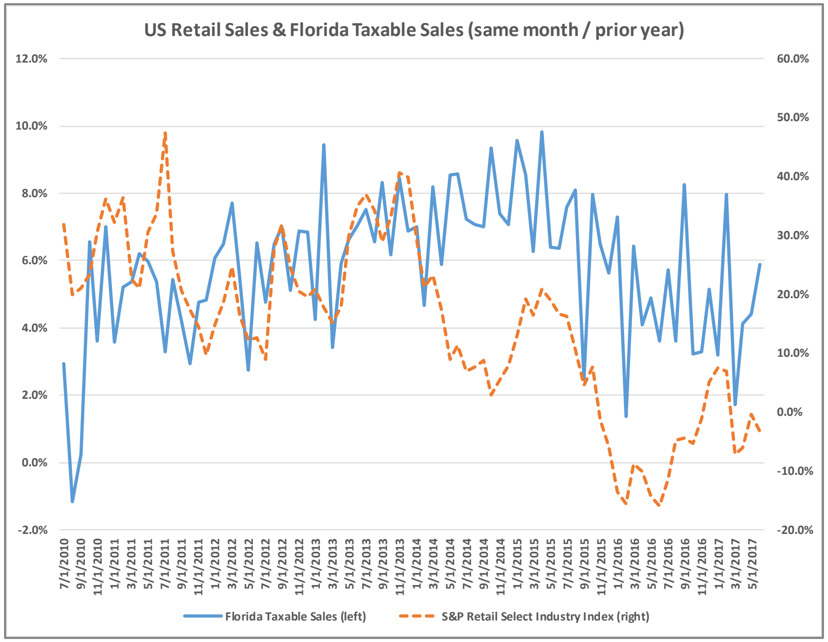
General Revenue Forecast

In FY 2014-15, General Revenue collections surpassed the prior peak in 2005-06 for the first time since then. After slowing in FY 2015-16, growth is expected to pick up during the 2016-17 through 2019-20 time period as the construction industry recovers, and then shifts down to long-run growth of 3.5%.



Fiscal Year	Dec 2016 Forecast	March 2017 Forecast	Difference	Incremental Growth	Growth
2005-06	*27074.8*	*27074.8*	*0*		*8.4%*
2006-07	*26404.1*	*26404.1*	*0*	*-670.7*	*-2.5%*
2007-08	*24112.1*	*24112.1*	*0*	*-2292.0*	*-8.7%*
2008-09	*21025.6*	*21025.6*	*0.0*	*-3086.5*	*-12.8%*
2009-10	*21523.1*	*21523.1*	*0.0*	*497.5*	*2.4%*
2010-11	*22551.6*	*22551.6*	*0.0*	*1028.5*	*4.8%*
2011-12	*23618.8*	*23618.8*	*0.0*	*1067.2*	*4.7%*
2012-13	*25314.6*	*25314.6*	*0.0*	*1695.8*	*7.2%*
2013-14	*26198.0*	*26198.0*	*0.0*	*883.4*	*3.5%*
2014-15	*27681.1*	*27485.9*	*(195.2)*	*1287.9*	*5.7%*
2015-16	*28325.4*	*28325.4*	*0.0*	*644.3*	2.3%
2016-17	**29,452.1**	**29,558.9**	106.8	1233.5	4.4%
2017-18	**30,709.5**	**30,717.9**	8.4	1159.0	3.9%
2018-19	**31,978.9**	**32,047.9**	69.0	1330.0	4.3%
2019-20	**33,253.0**	**33,401.4**	148.4	1353.5	4.2%
2020-21	**34,465.3**	**34,509.2**	43.9	1107.8	3.3%
2021-22	**35,680.8**	**35,723.1**	42.3	1213.9	3.5%

Since the Long-Range Financial Outlook was adopted in September 2016, two Revenue Estimating Conferences have met and added money to the relevant forecast years. However, the largest amounts have been added to the current year, causing most of the effect to be one-time or nonrecurring. This has limited impact on the projections used in the outer years of the Long-Range Financial Outlook.



US Retail Sales & Florida Taxable Sales

- The change over the same month in the prior year was consistently negative in the national S&P Retail Select Industry Index from November 2015 to November 2016. For the period running from December through February, it moved back into positive territory prior to turning negative again in early March and staying negative since then.

- Throughout the 2015-16 and 2016-17 fiscal years, Florida's taxable sales remained positive for the same month over the prior year, even though they exhibited an overall pattern similar to the national Index. The Florida monthly fluctuations were much greater over this period than those seen in FY 2013-14 and FY 2014-15.