

Florida Economic Estimating Conference

Executive Summary

December 19, 2023

The Florida Economic Estimating Conference met on December 19, 2023, to adopt a new forecast for the state's economy. Similar to the December 2023 National Forecast, multiyear data revisions made the interpretation of recent actuals challenging, with significantly higher levels coming into the beginning of the forecast period for several key variables. To ameliorate these discontinuities, much of the conference discussion focused on changes in growth rates between the new and old forecasts. The growth rates for most variables show improvement in the current year (Fiscal Year 2023-24), a somewhat surprising result in an environment of persistent inflation and tight financial conditions. Nevertheless, future growth rates for the key metrics generally exhibit mixed results with some coming in higher and others lower. The results are somewhat sector dependent, with mostly weaker growth rates across the housing sector in the second year (Fiscal Year 2024-25) and mostly higher growth rates across the employment sector. The new forecast follows—but generally exceeds—the long-term growth path from the pre-pandemic conference held in December 2019. Notable exceptions occur within the employment and tourism series.

While economic disruption is still evident with varied impacts on household savings, the elevated use of credit, and strong inflationary pressures on households, the forecasting environment has greatly stabilized. That said, considerable uncertainty exists regarding the impact on Florida from current geopolitical events, national fiscal policy decisions and future Federal Reserve actions. How these economic challenges ultimately unfold will be pivotal to the actual performance of Florida's economy over the next few years. In tandem with the release of the new forecast, the Conference highlighted the risk arising from continued inflationary pressures—as well as the Federal Reserve's efforts to contain them—on its outlook for consumer spending.

One measure for assessing the economic health of states is the year-to-year change in real Gross Domestic Product (that is, all goods and services produced or exchanged within a state). According to the latest revised data, Florida's quarterly GDP movements have generally performed better than the nation as a whole since the beginning of the pandemic. Buffeted by a series of economic shocks, the state's GDP dipped to near zero (0.4 percent) in Fiscal Year 2019-20, bounced back to 4.7 percent in Fiscal Year 2020-21, and surged to 7.0 percent in Fiscal Year 2021-22, more than double the pre-pandemic-year growth rate and exceeding the prior peak growth rate of 6.6 percent in Fiscal Year 2004-05. The state's economy expanded by 4.4 percent in Fiscal Year 2022-23, but the Conference expects growth to decelerate to 2.8 percent and 1.1 percent over the current and next fiscal years as businesses and consumers transition from a high inflation environment to a high interest rate environment. Beginning in Fiscal Year 2025-26, the economy will grow at a more characteristic 1.9 – 2.0 percent per year.

Normally, personal income growth is another important gauge of the state's economic health; however, its changes have been in stark contrast to GDP, driven largely by the ebb and flow of federal dollars into Florida households and businesses due to the pandemic. For example, in the first quarter of the 2021 calendar year, Florida's personal income growth shot up 73.2 percent on an annualized basis, largely due to two different federal stimulus and relief programs converging in the quarter. As the federal support measures began to fade, Florida's personal income plummeted to an annualized -17.2 percent in the second quarter of the 2021 calendar year, producing a final growth rate for the state's 2020-21 fiscal year of 10.3 percent. This was the

highest annual rate since 1989. With the end of federal relief measures nearing for most programs, Fiscal Year 2021-22 closed with moderately lower annual growth of 6.6 percent. Oscillating for a new reason, personal income growth accelerated to 7.9 percent in Fiscal Year 2022-23 as workers and employers chased historic levels of inflation and leveraged the tight labor market into better paying opportunities. Largely on the continuing strength of wage growth, the Conference expects still high growth of 6.3 percent in Fiscal Year 2023-24, followed by a nearly matching year at 6.4 percent growth. After three additional years of above 5 percent growth (Fiscal Year 2025-26, Fiscal Year 2026-27 and Fiscal Year 2027-28), annual growth rates begin to stabilize at 4.7 percent. Considering that the new Demographic forecast had only modest changes, this percentage level is distinctly stronger than the prior forecast.

The key measures of employment are job growth and the unemployment rate. Along with the nation and the world, the job market in Florida experienced an unprecedented contraction in the second quarter of 2020 when a large part of the Florida economy either shut down or sent workers home to slow the spread of the Coronavirus. Employment dropped by almost 1.3 million jobs from February 2020 to April 2020, a loss of 14.1 percent of the pre-pandemic jobs. In Fiscal Year 2021-22, Florida jobs moved above the 2018-19 level, registering growth of 6.6 percent, the highest rate since the inception of the series in 1990. Fiscal Year 2022-23 was again strong, recording the second highest job growth rate since the 1990s, +4.7 percent. The Conference expects growth to decelerate to 2.5 percent in Fiscal Year 2023-24, 1.7 percent in Fiscal Year 2024-25 and 1.4 percent in Fiscal Year 2025-26 as the nation's economy softens due to the Federal Reserve's efforts to fight persistently elevated inflation. Job growth stabilizes at this percentage level through Fiscal Year 2028-29 before declining to 1.2 percent for the remainder of the forecast. This level of longer-term growth is slightly stronger than the prior forecast.

Florida's unemployment rate had been below 4.0 percent from January 2018 through February 2020. With the onset of the pandemic, the unemployment rate spiked to 14.1 percent in May 2020, handily surpassing the prior peak rate of 10.9 percent reached during the Great Recession (the first four months of 2010). Three years later, Florida's monthly unemployment rate had dropped to 2.7 percent for the entire 2022-23 fiscal year, not far from the lowest recorded rate in modern times: the first half of 2006 when it was 2.4 percent. Given the Federal Reserve's actions to cool off the economy through higher interest rates, the Conference expects the unemployment rate to start an upward drift—hitting 3.0 percent in Fiscal Year 2023-24. The rate ultimately reaches 4.3 percent in Fiscal Year 2026-27, after which it slightly retreats and then plateaus at 4.0 percent. The Conference assumes the “full employment” unemployment rate is about 4.0 percent.

Two areas of the state's economy indirectly benefited from the Federal Reserve's actions to protect the wider economy from the worst of the pandemic effects, but with a future payback: real estate and construction. Throughout the worst of the crisis, these economic sectors thrived as the federal funds rate neared zero and pushed interest rates to historic lows. By the second quarter of the 2021 calendar year, single-family starts were 63.0 percent higher than the same period in the prior year, while multi-family starts were 83.8 percent higher. Growing by almost 24.0 percent, total private housing starts reached a 16-year high of 251,500 units in Fiscal Year 2021-22, yet they were still far from the housing boom peak of over 272,000 units in Fiscal Year 2004-05. The timing is important to the 2021-22 result—over the course of that year, the conventional mortgage rate had risen slightly from the prior year to 3.88 percent. The Federal Reserve's series of interest rate hikes to tame inflation had just begun (March 2022), but continued steadily through July 2023. As reported by the Mortgage Bankers Association, the 30-Year fixed rate mortgage reached 6.50 percent in the second quarter of the 2023 calendar year, and was 7.00 percent in the third quarter of the 2023 calendar year. Moving in step, starts contracted by 14.6 percent in Fiscal Year 2022-23, and the Conference projects the slump to continue with a loss of 2.1 percent this year and 12.4

percent in Fiscal Year 2024-25. After leveling off in Fiscal Year 2025-26, starts lose ground for several more years before anemic growth resumes. At the end of the ten-year forecast period, total private housing starts achieve only 67.9 percent of the peak in Fiscal Year 2004-05, but still surpass the projections in the pre-pandemic forecast. Reflecting the overall constraints in the construction industry, construction employment finally exceeds its Fiscal Year 2005-06 peak level in Fiscal Year 2028-29, 23 years later. Affected by many of the same factors, the existing home market entered its third year of contraction in Fiscal Year 2023-24. Even so, prices were higher than expected as many existing homeowners stayed out of the market, thereby limiting supply. Among other issues, they found it increasingly difficult to give up lower-interest mortgages on their current homes with the purpose of purchasing new homes in the high-interest environment.

New light vehicle registrations were a source of strength as the state recovered from the Great Recession, but were expected to begin a period of contraction prior to the pandemic's onset. After posting virtually no growth in Fiscal Year 2018-19, the pandemic drove the expected second year of essentially flat registrations in Fiscal Year 2019-20 to an eventual decline of -6.1 percent. New light truck registrations and, even more so, new automobile registrations faltered in the second part of the 2019-20 fiscal year as the pandemic took hold. With an unprecedented amount of stimulus payments to individuals from the government, record low interest rates, and inflated savings providing significant incentives, total sales for the second quarter of 2021 almost reached the series high of 384,000 light vehicles in the third quarter of 2005. The overall increase in Fiscal Year 2020-21 was 10.3 percent. Impacted by climbing prices and low inventory due to supply shortages, new light vehicle sales declined by 16.6 percent in Fiscal Year 2021-22 and recovered by 7.0 percent in Fiscal Year 2022-23 as supply shortages started to resolve. The Conference now expects growth (8.9 percent) in Fiscal Year 2023-24 to top Fiscal Year 2022-23. After two more years of recovery, registrations level off and then post back-to-back annual declines that begin in Fiscal Year 2027-28.

Finally, Florida's tourism-sensitive economy is particularly vulnerable to the longer-term effects of the pandemic. Previous economic studies of disease outbreaks have shown that it can take as much as twelve to fifteen months *after* the outbreak ends for tourism to return to pre-disease levels. The total number of tourists declined nearly -70.0 percent from the prior year in the second quarter of 2020. After that dramatic drop, tourism managed to recover gradually, buttressed by the increased number of domestic visitors travelling to Florida by air or car. It took two years to reach recovery from this pandemic in domestic visitors and three years in Canadian visitors, while international visitors are still at depressed levels. Total visitors, growing by 39.0 percent, surpassed the pre-pandemic peak by the end of Fiscal Year 2021-22, albeit with a different composition. After 2.5 percent in Fiscal Year 2022-23, the Conference expects another strong period of growth (6.4 percent) during Fiscal Year 2023-24, after which the annual growth rate moderates from 4.9 percent in Fiscal Year 2024-25 to 2.9 percent in the latter half of the forecast period. While the new forecast levels never exceed the pre-pandemic forecast levels for those years, they come close in the latter part of the 10-year forecast horizon.