

Florida: An Economic Overview

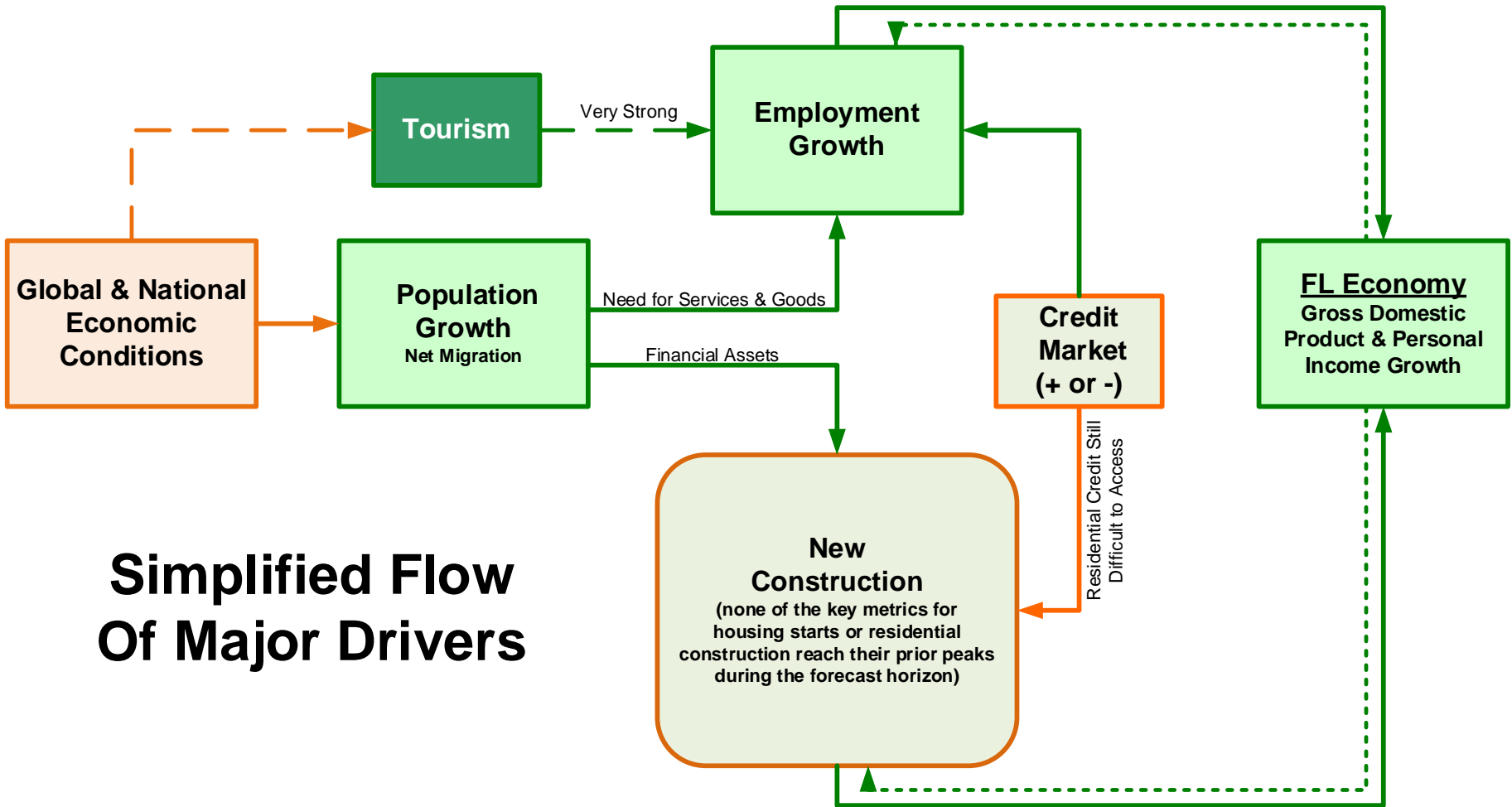
August 26, 2019

Presented by:



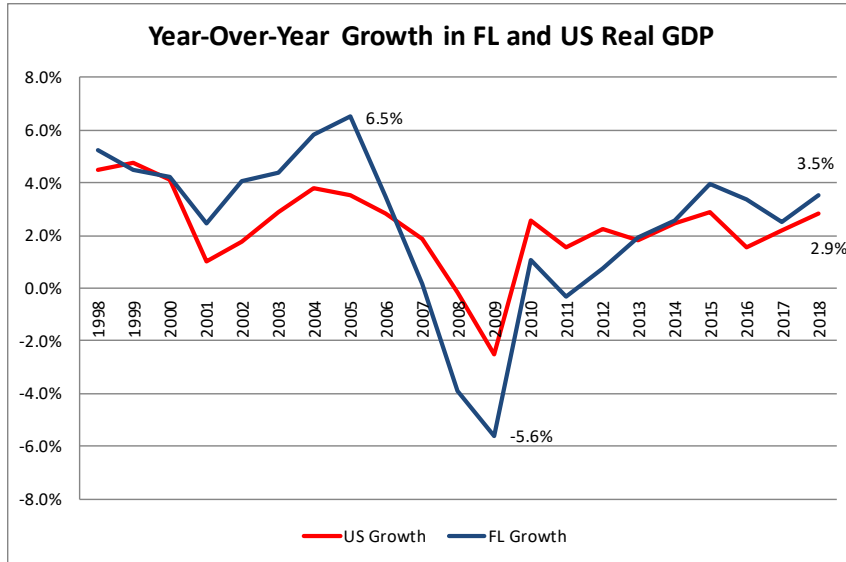
The Florida Legislature
Office of Economic and
Demographic Research
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<http://edr.state.fl.us>

Shifting in Key Economic Variables



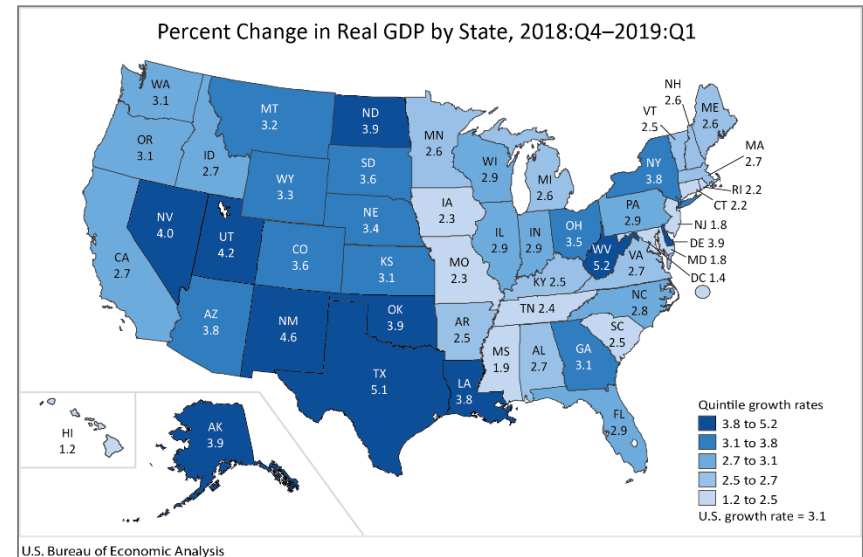
**Simplified Flow
Of Major Drivers**

Economy Has Continued Growth...

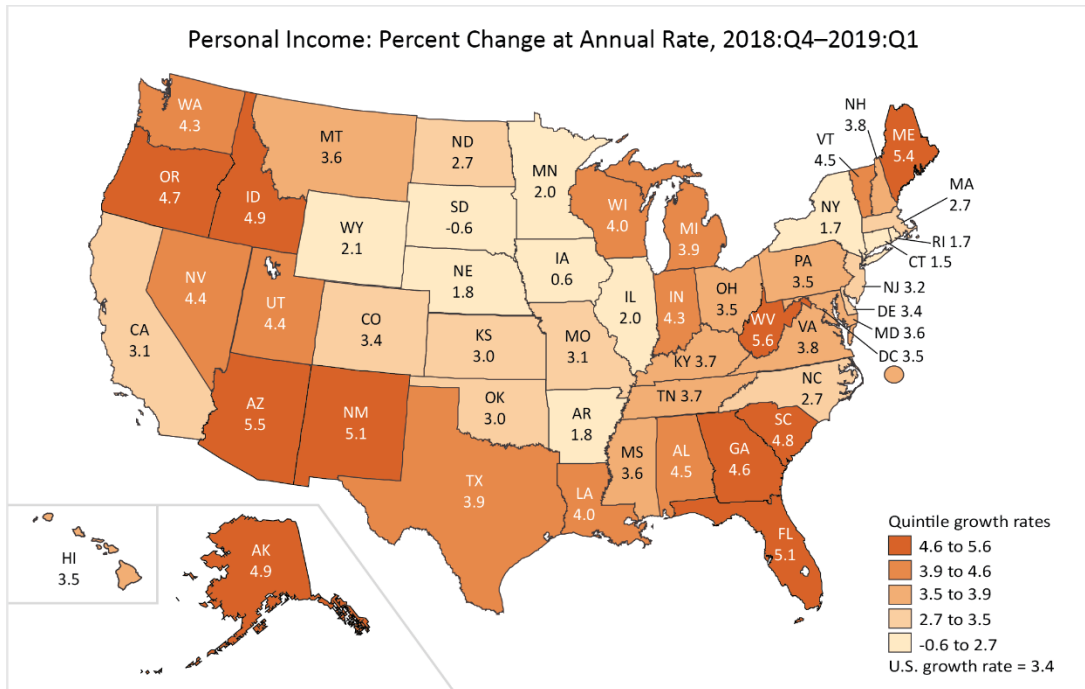


For the first quarter of the 2019 calendar year, Florida posted growth of 2.9 percent, falling below the national average of 3.1 percent and ranking the state 23rd in the country for real growth.

In the 2018 calendar year, the state's growth strengthened and remained above the national average (3.5 percent versus 2.9 percent). The Estimating Conference projects that Florida's Real Gross Domestic Product (GDP) will slow to growth of 2.5 percent in Fiscal Year 2019-20 and continue slowing in the near term to 1.8 percent in Fiscal Year 2023-24. In the longer term, growth is expected to average 2.0 percent per year.



FL Personal Income Growth Is Strong, Driven in Part by Robust Population Growth...



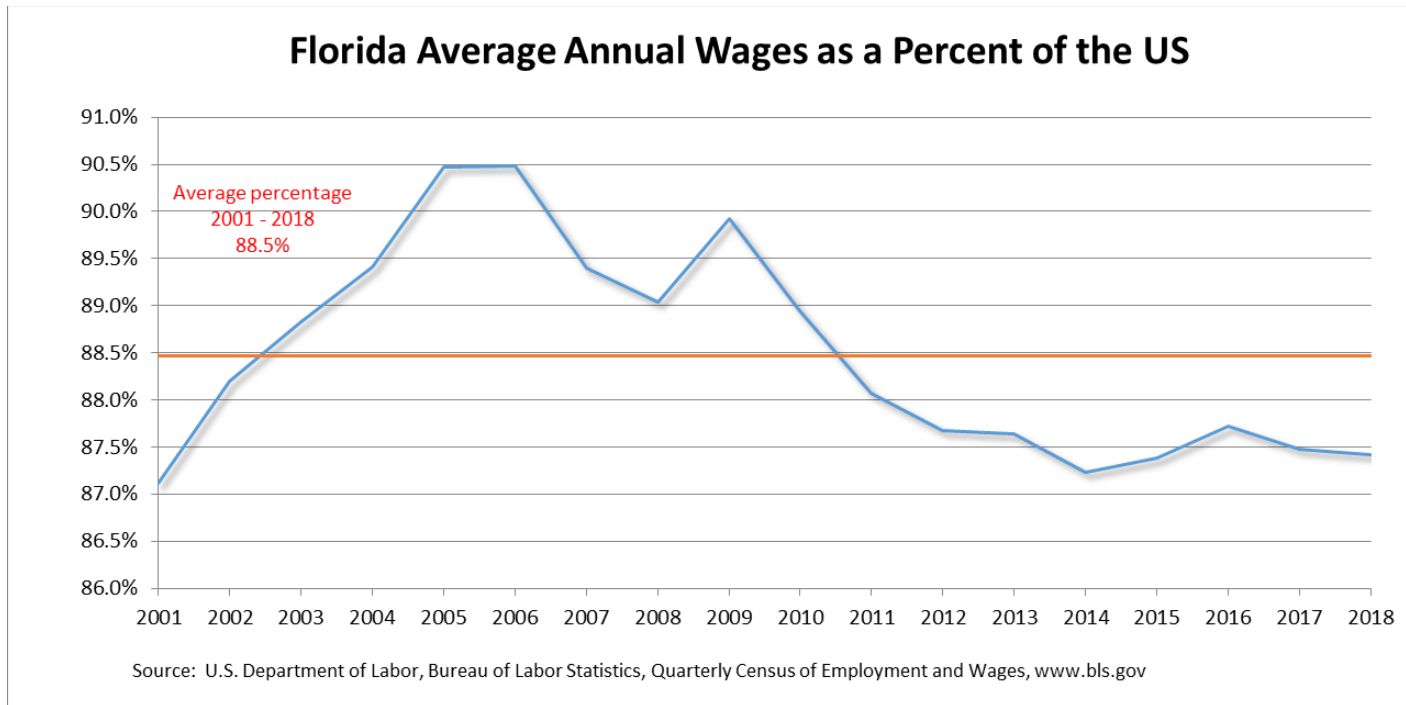
U.S. Bureau of Economic Analysis

The first quarter results for the 2019 calendar year indicated that Florida ranked 4th in the country with 5.1 percent growth over the prior quarter. The state was well above the United States as a whole, which had 3.4 percent growth. Healthcare and social assistance was the leading contributor to the earnings increase, and the increase in transfer receipts was greater than the overall net earnings change.

In the latest revised data for State Personal Income for the 2016 calendar year, Florida's personal income growth slowed to 3.7%; however, this was still above the national average of 2.6%. For 2017, Florida's growth increased to 5.0% over the prior year, compared to national growth of 4.4%. For 2018, Florida's growth increased again to 5.2% compared to the national average of 4.5%. In the near term, the annual growth rates for the state are expected to drift from 5.2% (FY 2019-20) down to 4.2% (FY 2022-23), and then straddle 4.2% for the remainder of the forecast horizon.

In spite of the robust year-over-year growth, Florida's per capita personal income growth trailed the nation in performance in 2016, 2017 and 2018, growing only 3.6% in 2018 compared to the national average of 3.8%.

Wage Gap Increased in 2018...

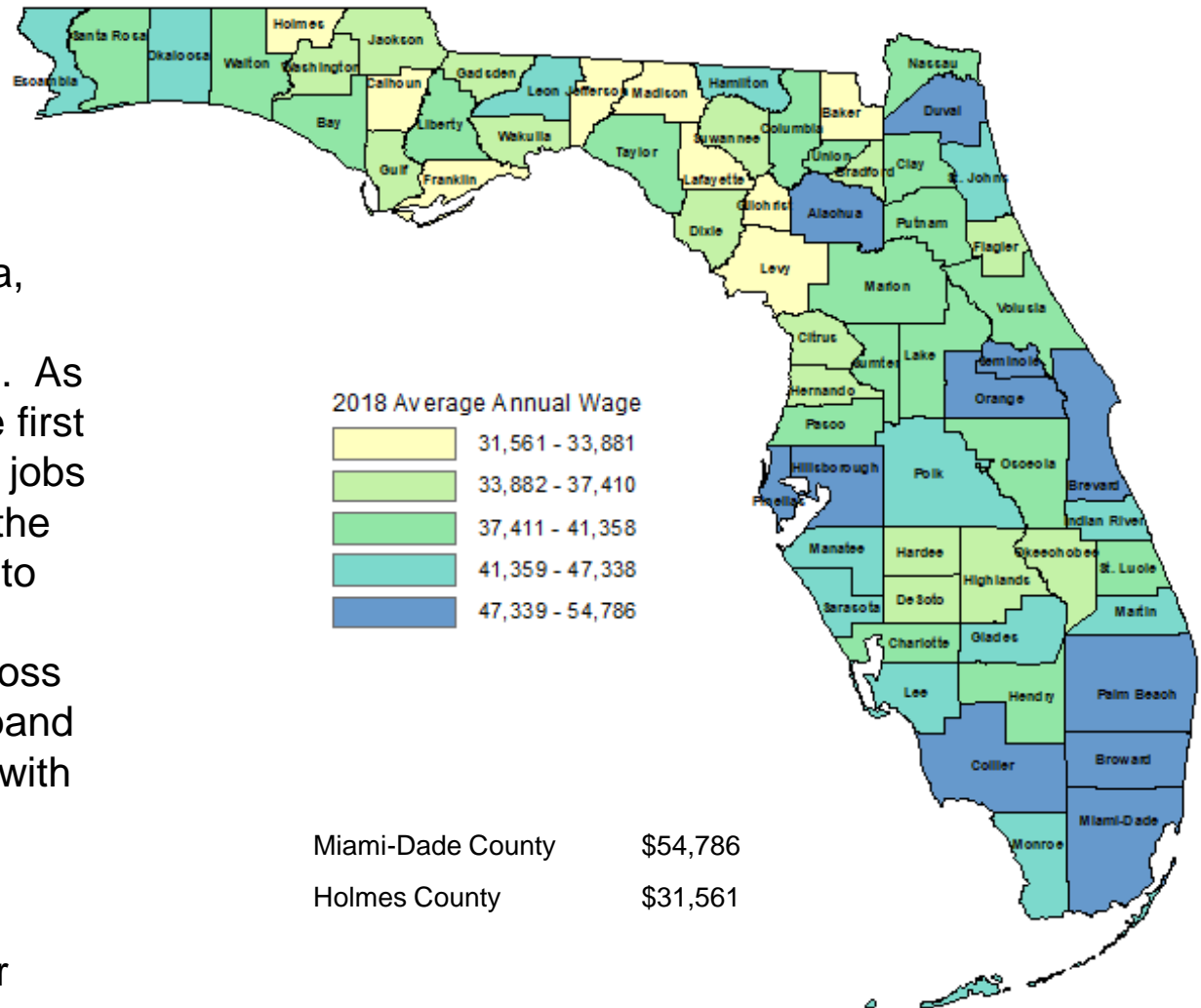


Florida's average annual wage has typically been below the US average. The most recent data for the 2018 calendar year showed that Florida's average wage, relative to the US average, continued to fall from 2016 when it was 87.7% to 87.4% in 2018. The ratio in 2014 (87.2%) was Florida's lowest percentage since 2001.

In part, the lower than average wage gains has to do with the mix of jobs that have been growing the fastest in Florida and their average wages. For example, the Accommodation & Food Services employment sector is large, has the lowest average annual wage and had until recently been growing faster than overall employment in the state. This industry sector is closely related to the health of Florida's tourism industry that had a record 128.5 million visitors in FY 2018-19, an increase of 5.8% over FY 2017-18. Effectively, these visitors were equivalent to 2.2 million additional people being added to Florida's resident population.

Average Annual Wage by County...

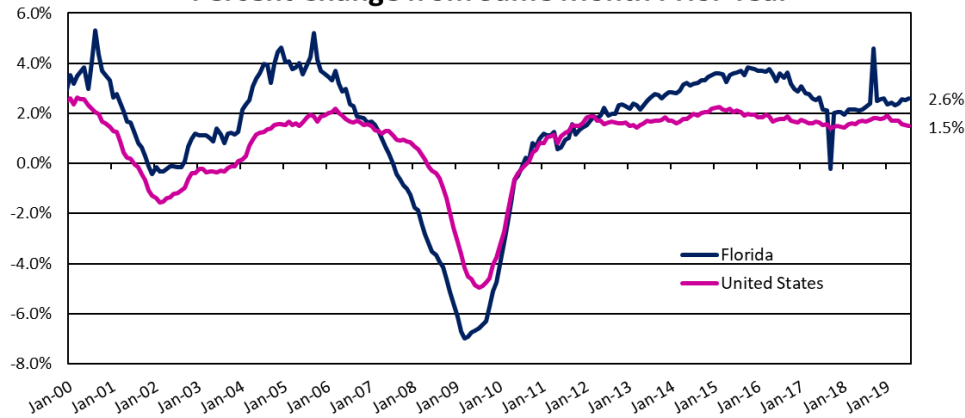
There are two possible reasons for lower than average wages in Florida, and they have different economic interpretations. As described previously, the first has to do with the mix of jobs that have been growing the fastest. The second has to do with the range and distribution of wages across a community: a narrow band typically has more to do with opportunity and poverty. Urban workers generally have a higher return to education through higher wages.



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Current Employment Conditions Strong...

**Seasonally Adjusted Nonfarm Jobs
Percent Change from Same Month Prior Year**



July Nonfarm Jobs (YOY)

US 1.5%
 FL 2.6%
 YR: 227,200 jobs
 Peak: +956,400 jobs
 [Prior Employment Peak passed in May 2015]

Source: Florida Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research, Current Employment Statistics Program in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, August 16, 2019.

July Unemployment Rate

US 3.7%
 FL 3.3% (343,900 jobless persons)
 The Revenue Estimating Conference assumes Florida has fallen below the “full employment” unemployment rate (about 4 percent).

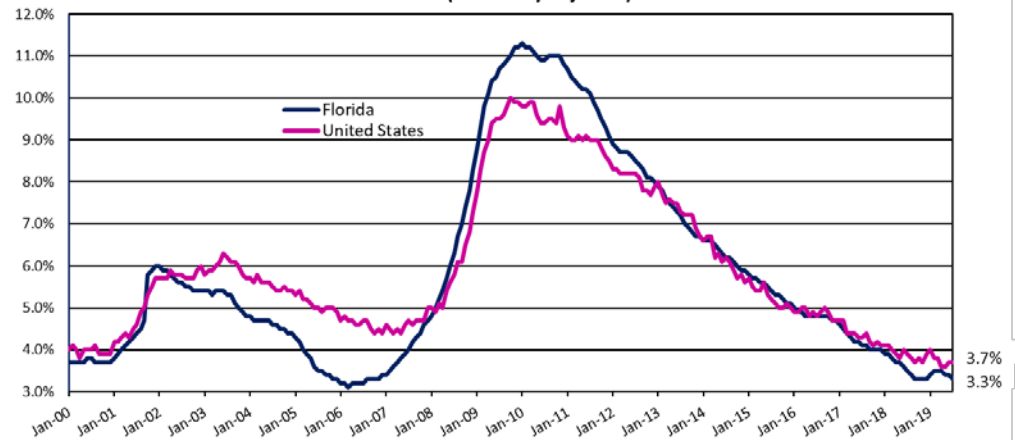
Highest Monthly Rate

11.3% (January 2010)

Lowest Monthly Rate

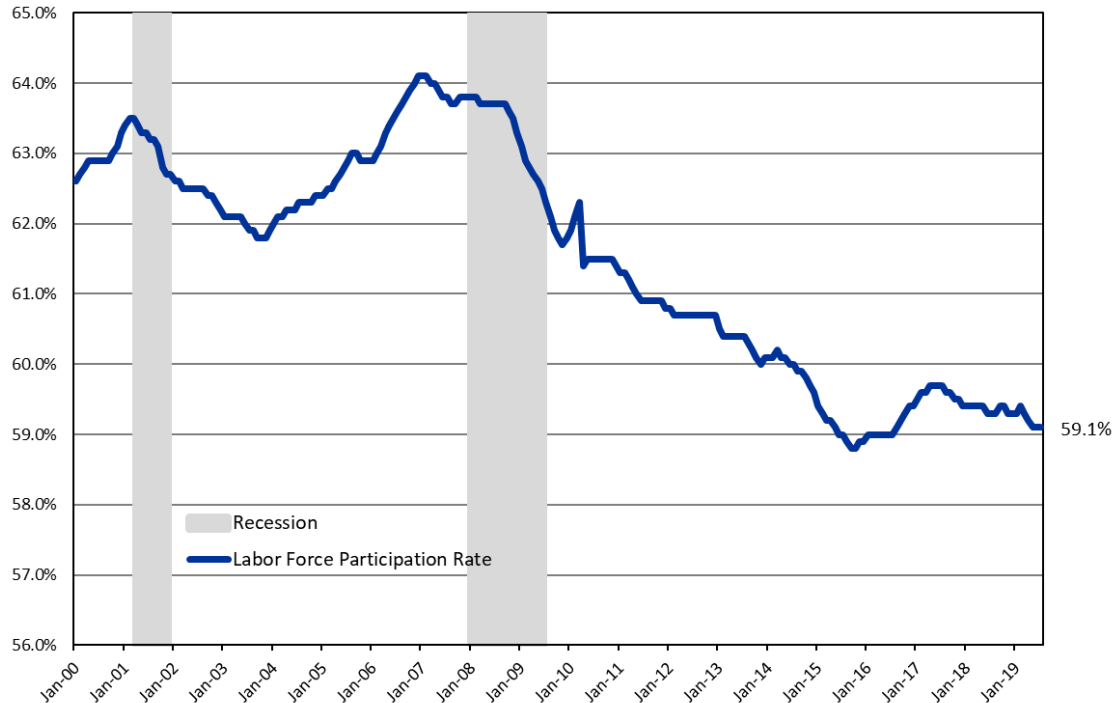
3.1% (March 2006)

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



Source: Florida Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research, Local Area Unemployment Statistics Program, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, August 16, 2019.

But, Florida's Participation Rate Low...

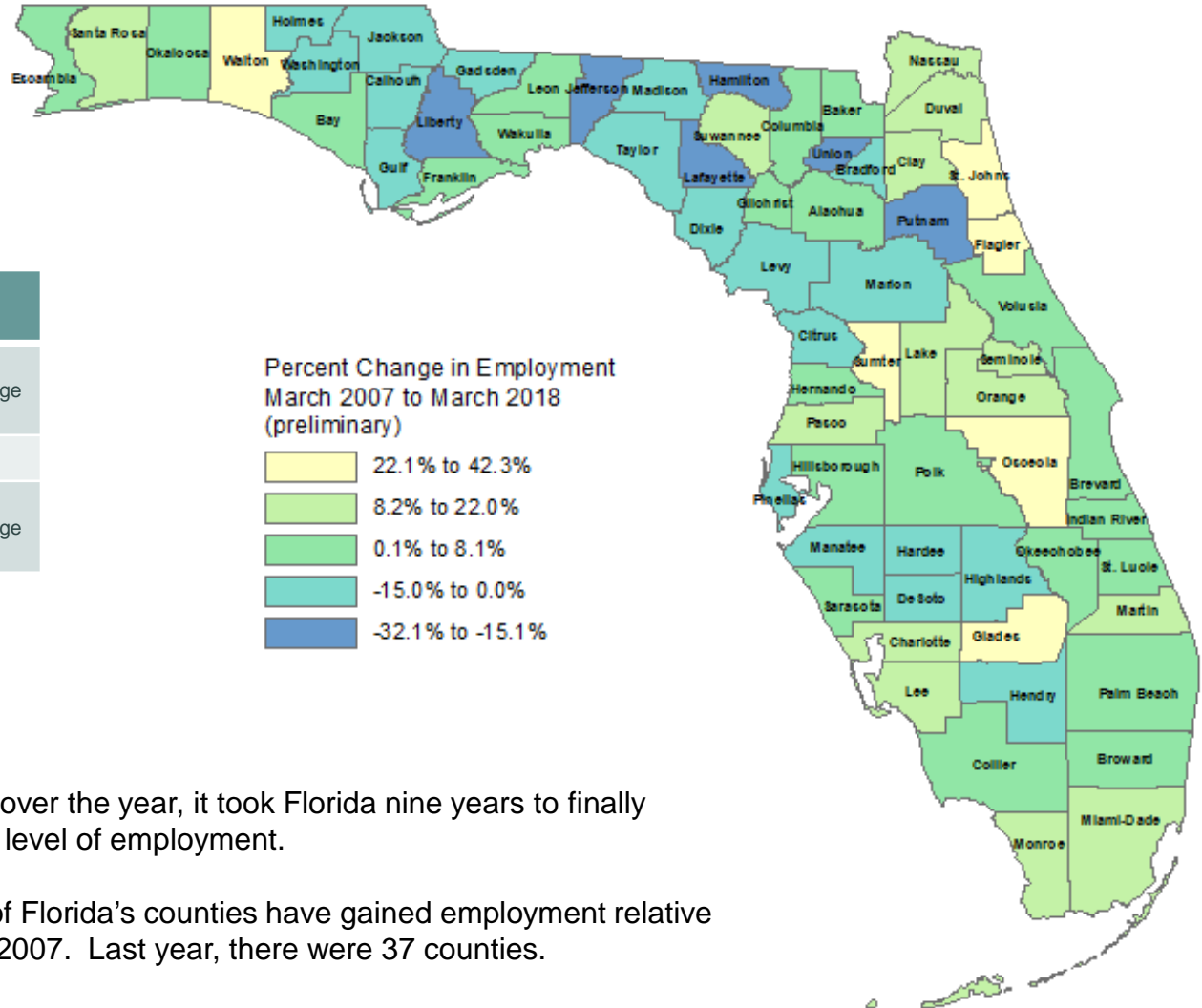


Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Civilian Noninstitutional Population and Associated Rate and Ratio Measures for Model-Based Areas, released August 16, 2019.

Florida's labor force participation rate peaked during the Housing Boom at 64.1% from December 2006 to February 2007. While the unemployment rate is now similar to that time, the labor force participation rate is not. Florida's rate was 59.1% in July 2019, while the US rate was 63.0%. A higher state participation rate would imply a higher unemployment rate, at least in the short run.

The still noteworthy size and composition of the long-term unemployed group (90,600 persons or 27.0% of all unemployed in July) may be confounding some of the trend results. The equivalent percentage for the United States as a whole was only 19.2%. Even though the share of the long term unemployed is still relatively elevated compared to historical levels for this stage in the business cycle, prior to the past two months, the rate had been steadily declining when compared to levels from the same month a year ago.

Across the State, Employment Picture Is Improving, but Polarized...



Area	March 2007 to March 2018	
Sumter County	42.3%	Greatest Percentage Increase
Florida	7.7%	
Liberty County	-32.1%	Greatest Percentage Decline

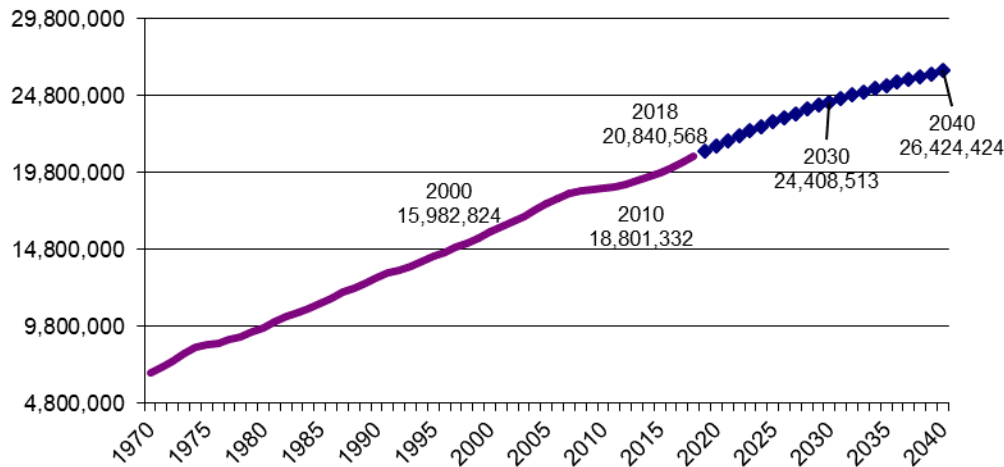
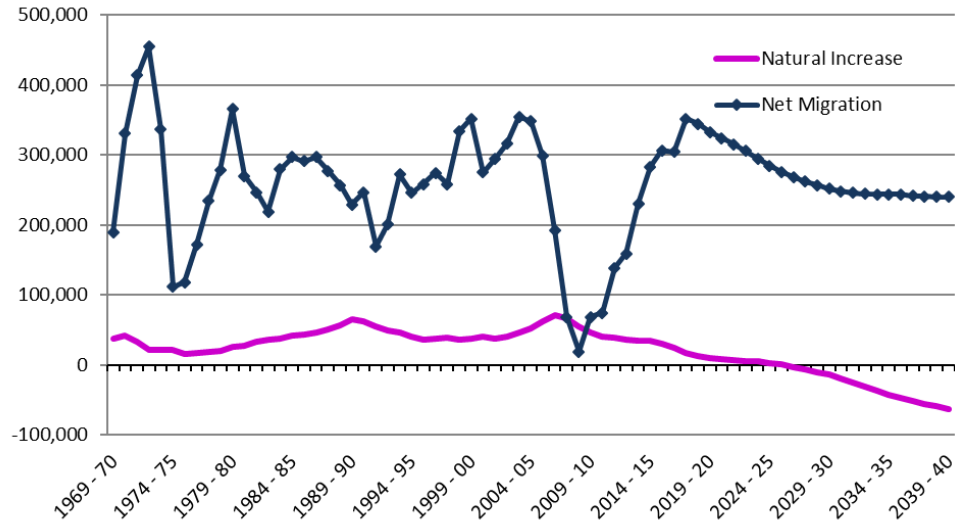
- Comparing March data over the year, it took Florida nine years to finally surpass its March 2007 level of employment.
- Almost two-thirds (42) of Florida's counties have gained employment relative to their levels in March 2007. Last year, there were 37 counties.

Population Growth Slowing Slightly...

- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Florida's population grew by 1.74% between April 1, 2017 and April 1, 2018 to 20,840,568, adding 356,426 residents. This growth was bolstered by the in-migration of Puerto Ricans and US Virgin Islanders as a result of the 2017 hurricane season.
- Over the next four years, Florida's population growth is expected to remain at or above 1.45%, averaging 1.6% between 2018 and 2022. Most of Florida's population growth through 2030 will be from net migration (99.4%).
- Nationally, average annual growth will be about 0.67% between 2018 and 2030.
- The future will be different than the past; Florida's long-term growth rate between 1970 and 1995 was over 3%.
- Florida is currently the third most populous state, behind California and Texas.

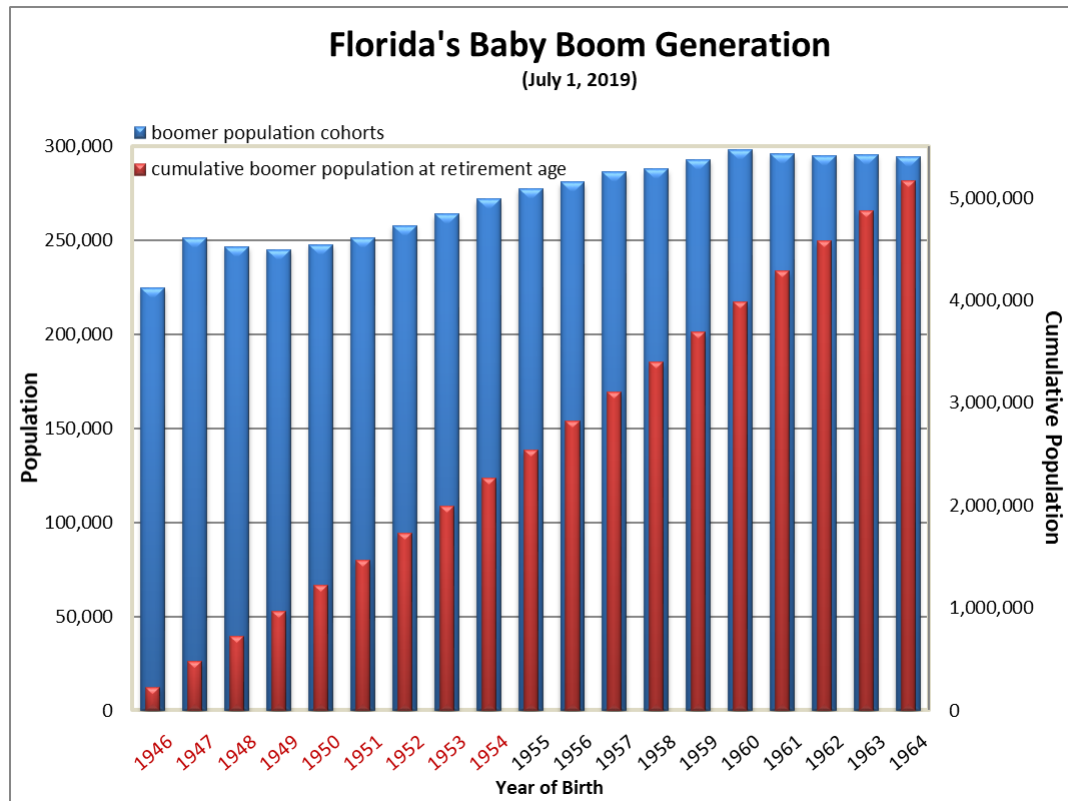
Florida's Population Growth...

Typically, most of Florida's population growth is from net migration. Starting in FY 2026-27, net migration is forecast to represent all of Florida's population growth.



Florida's population growth of 356,426 between April 1, 2017 and April 1, 2018 was the strongest annual increase since 2006, immediately prior to the collapse of the housing boom and the beginning of the Great Recession.

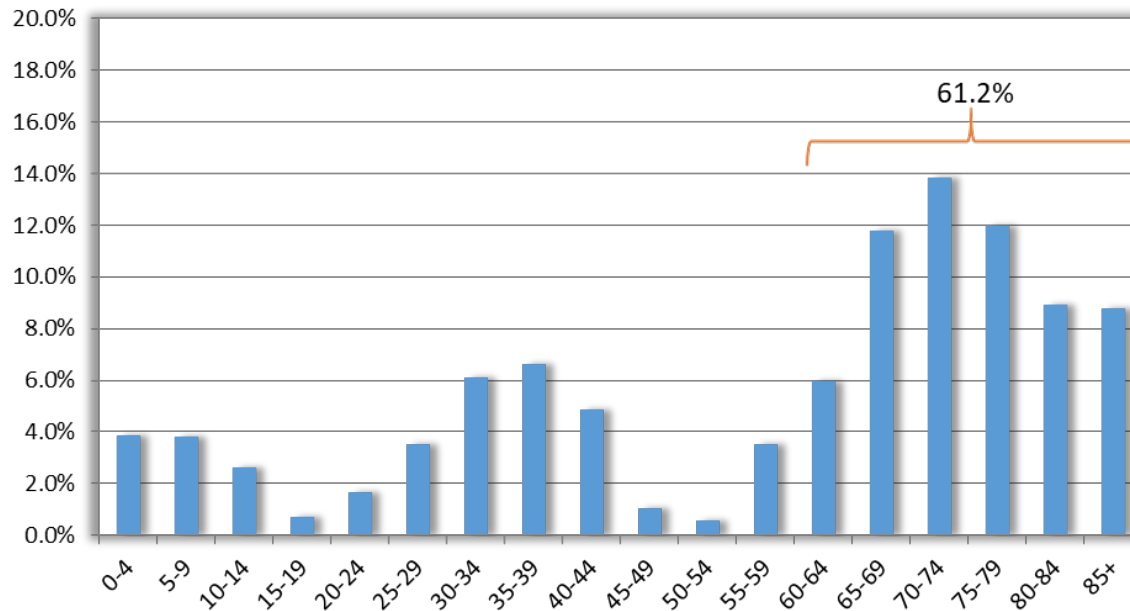
Baby Boomers in Florida Today...



- The first cohort of Baby Boomers became eligible for retirement (turned age 65) in 2011. Nine cohorts have entered the retirement phase: 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019. This represents almost 44 percent of Florida's Baby Boomers.
- In 2000, Florida's prime working age population (ages 25-54) represented 41.5 percent of the total population. With the aging Baby Boom generation, this population now represents 37.2 percent of Florida's total population and is expected to represent only 35.8 percent by 2030.

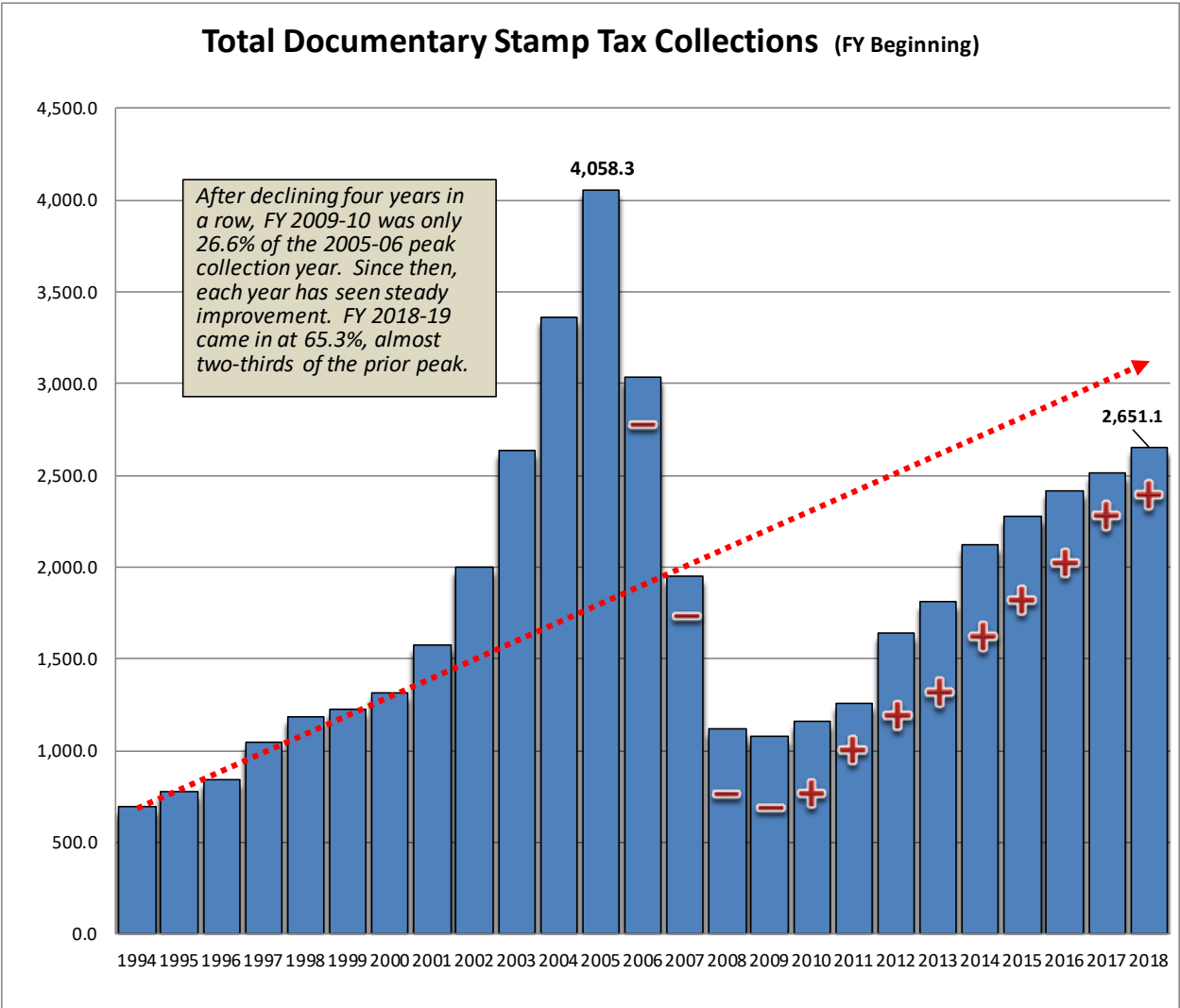
Population Growth by Age Group...

Distribution of Growth by Age Group
between April 1, 2010 and April 1, 2030



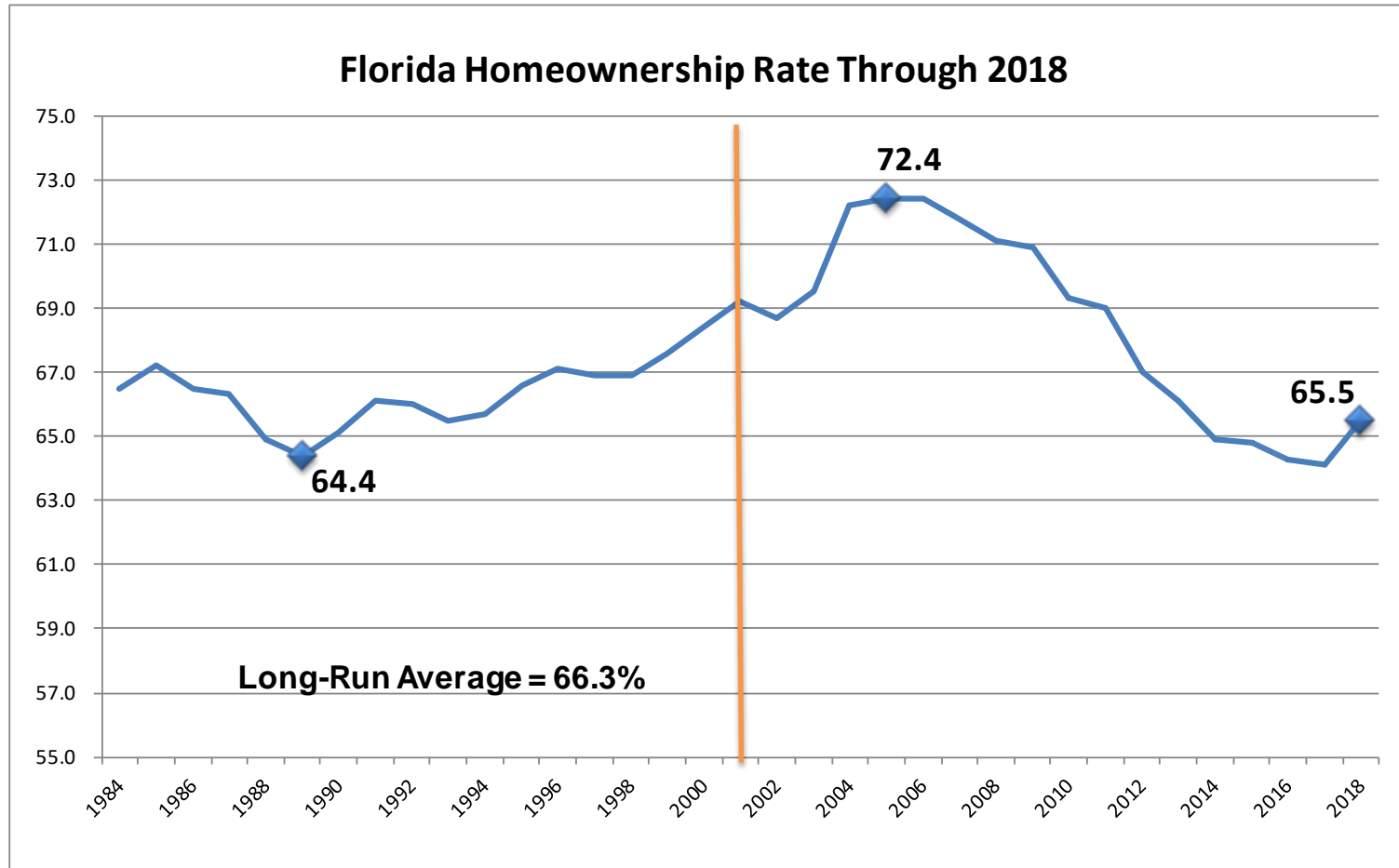
- Between 2010 and 2030, as a result of net migration and natural increase, Florida is forecast to grow by 5.6 million persons.
- Growth by age group depends upon this overall growth and the aging of resident population, resulting in 61.2 percent of those gains in the older population (age 60 and older).
- Florida's younger population (age 0-17) will account for 11.1 percent of the gains, while the younger working age group (25-39) will account for 16.2 percent of the growth.

Florida Housing Continues to Improve...



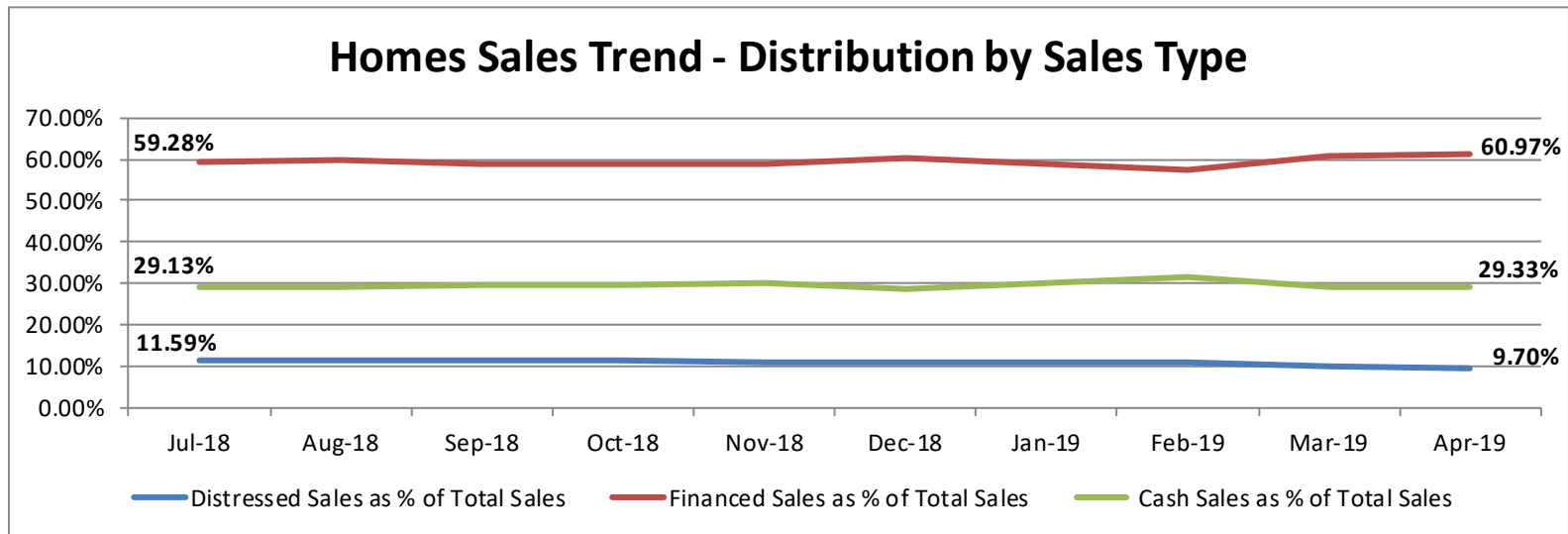
Documentary Stamp Tax collections saw 5.6% growth in FY 2018-19 over FY 2017-18.

Homeownership Rate Still Below Normal...



Since 2013, Florida has been below its long-run average homeownership rate. Final data for 2018 shows a small improvement from 2017's 64.1% lowest recorded point to 65.5%. However, preliminary data for the second quarter of the 2019 calendar year has drifted back to 64.5%.

Home Financing Still Challenging...

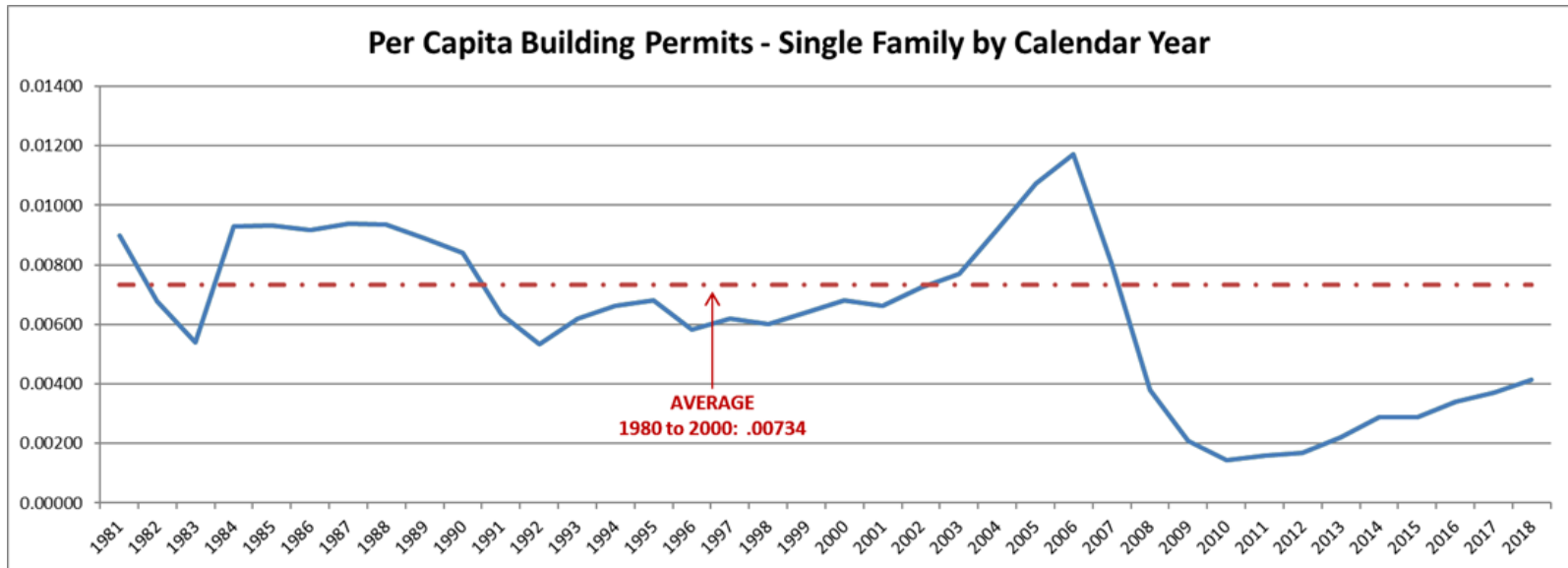


Data from LPS / Black Knight

Distressed Sales continue to drop as a percentage of all sales as the percentages of Financed and Cash Sales steadily increase.

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 731 and a LTV of 79 percent on all closed loans in July (virtually identical to one year earlier). Almost 89 percent of all conventional home purchase lending in July had credit scores that were 700 or above. Student loans and auto debts appear to be affecting the ability to qualify for residential credit. Even so, the percent of all home sales that are financed is almost 61 percent in Florida (April 2019), up from 59 percent in July 2018.

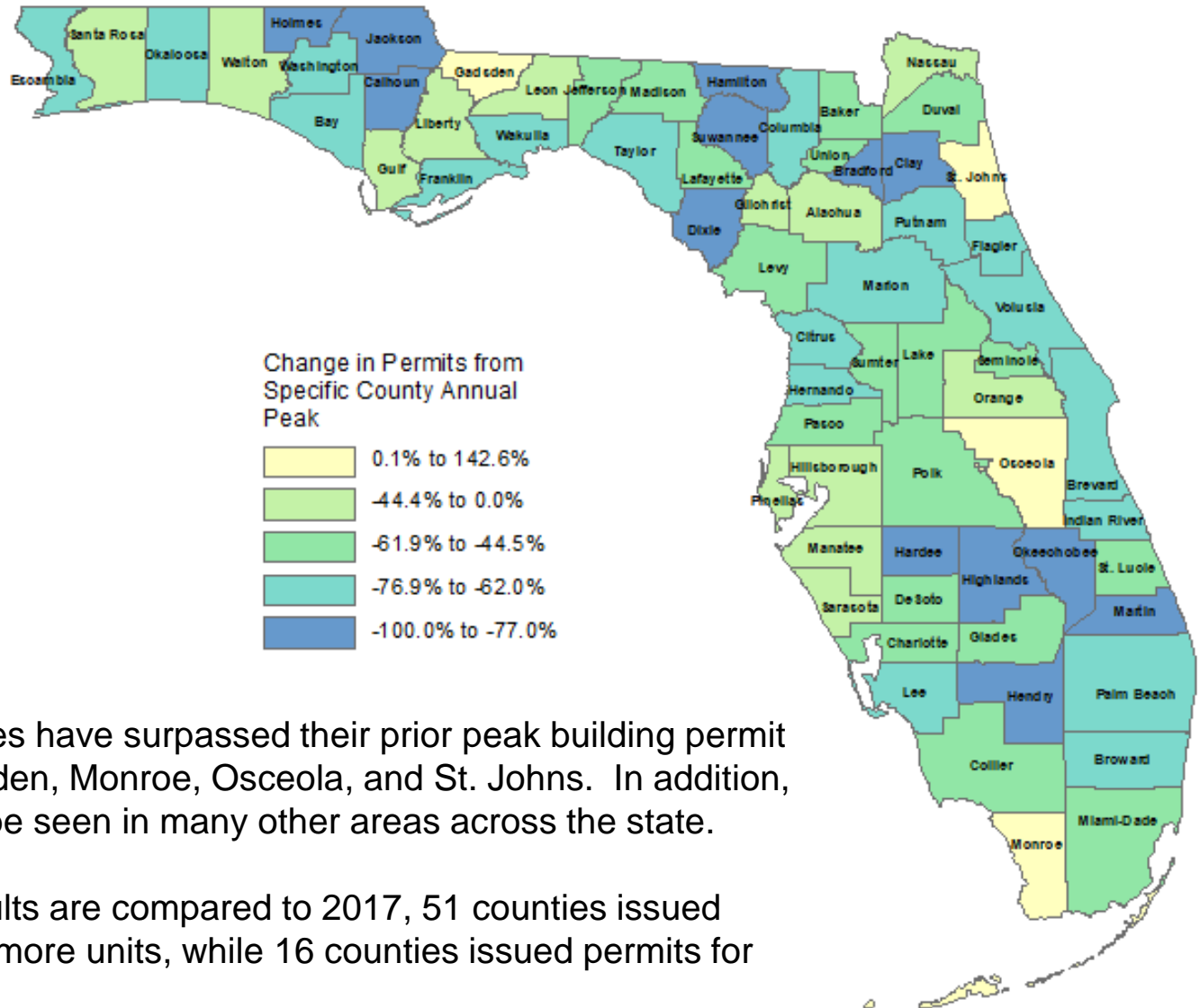
Permits Are Still Well Below Historic Norms...



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, annual activity for the past four calendar years ran well above their individual periods a year prior; single family data was higher than the prior year by 20.3% in 2015, 11.1% in 2016, 13.5% in 2017, and 13.8% in 2018.

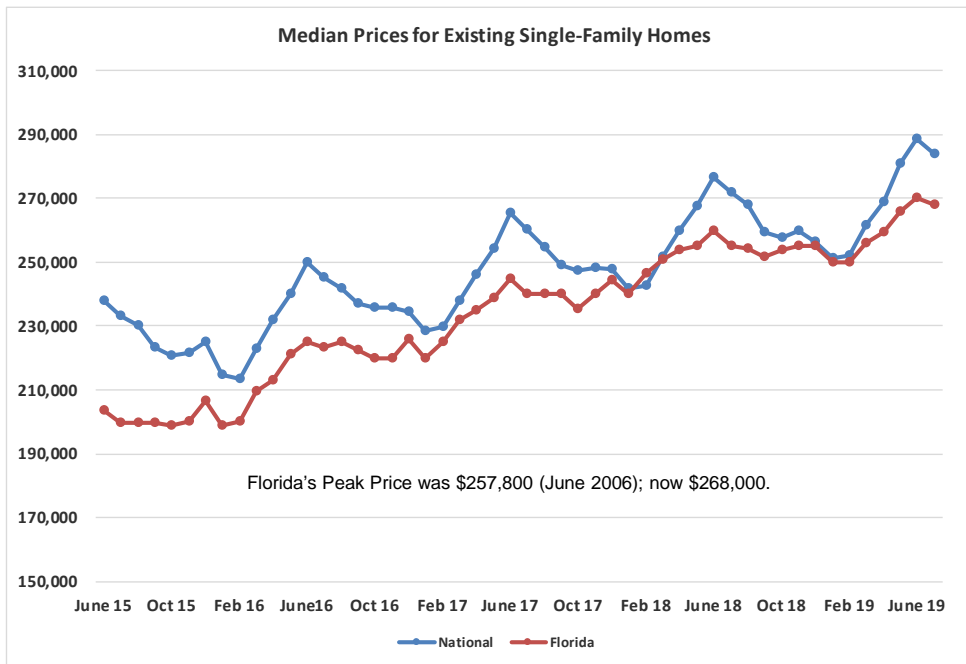
Despite the strong percentage growth rates in six of the last seven calendar years, the level is still low by historic standards – just over 63% of the long-run per capita level. The year-to-date data for the 2019 calendar year is running only slightly positive.

2018 Building Permit Activity Relative to the County's Peak during the Period 2000-2007

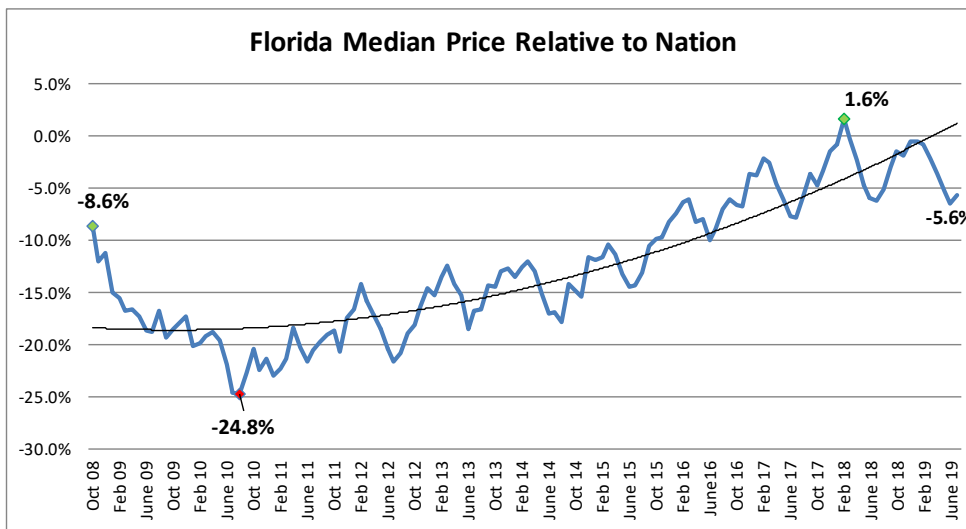


In 2018, four counties have surpassed their prior peak building permit activity level: Gadsden, Monroe, Osceola, and St. Johns. In addition, improvements can be seen in many other areas across the state.

When the 2018 results are compared to 2017, 51 counties issued building permits for more units, while 16 counties issued permits for fewer units.



Existing home sales volume in each of the last five calendar years (2014, 2015, 2016, 2017 and 2018) exceeded the 2005 peak year. This year (2019) is on course to do the same.



While Florida's existing home price gains have roughly tracked national gains over the last four years, the state's median home price for single family homes has generally stayed upwardly steady as the national median peaks and dips. As Florida's median price has been increasing, the national median has increased even more; the state's median price in July was only 94.4% of the national median price. It exceeded Florida's prior peak (June 2006) in June 2018 for the first time and has hovered close to that level since.

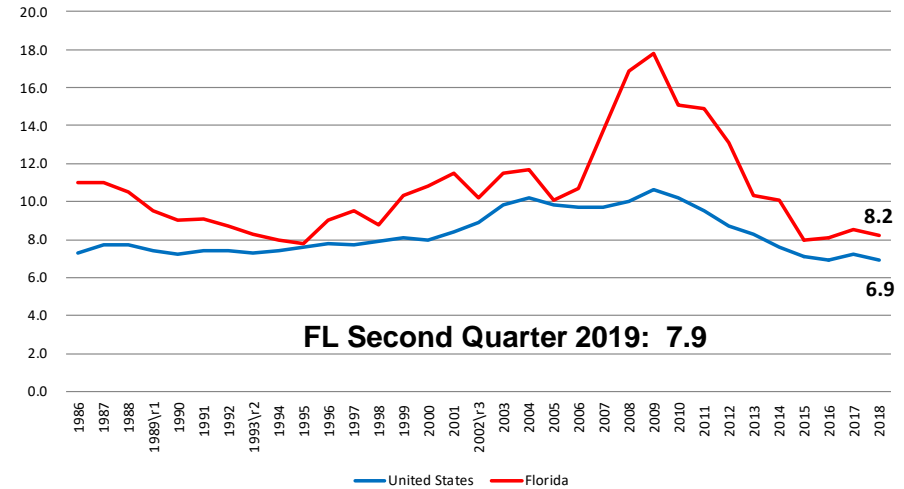
Data through July 2019

Challenging housing costs and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly over the last four years (2015 through 2018); price pressure continues to build.

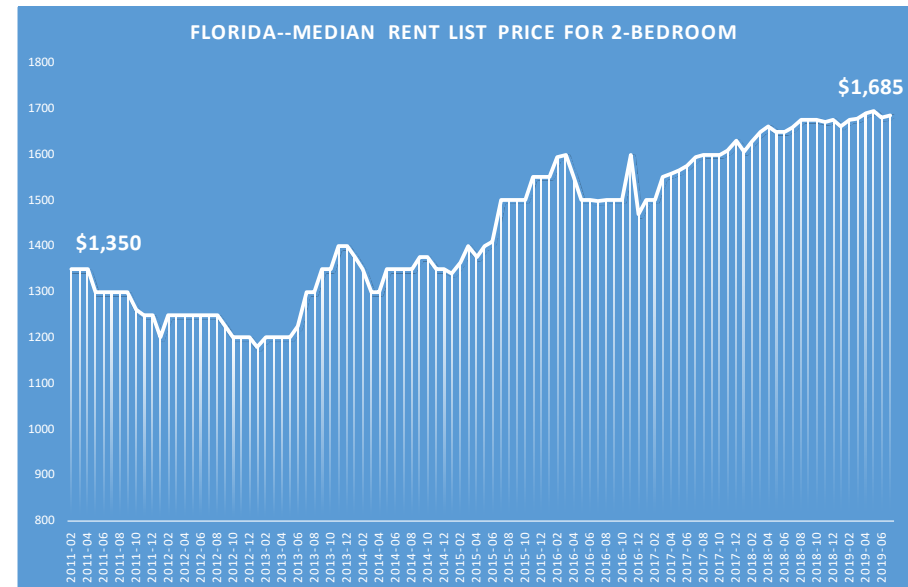
Florida and U.S. Median Gross Rent (in Current Dollars)						
Year	Median Gross Rent			Average Gross Rent		
	United States	Florida	Florida relative to United States	United States	Florida	Florida relative to United States
2005	728	809	111%	803	863	107%
2006	763	872	114%	844	932	110%
2007	789	925	117%	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%
2016	981	1,086	111%	1,105	1,161	105%
2017	1,012	1,128	111%	1,138	1,203	106%

U.S. Census Bureau, American Community Survey, 1-Year, 2005-2017.

Rental Vacancy Rates
Long-run Average Percent: US---8.2; FL---10.5

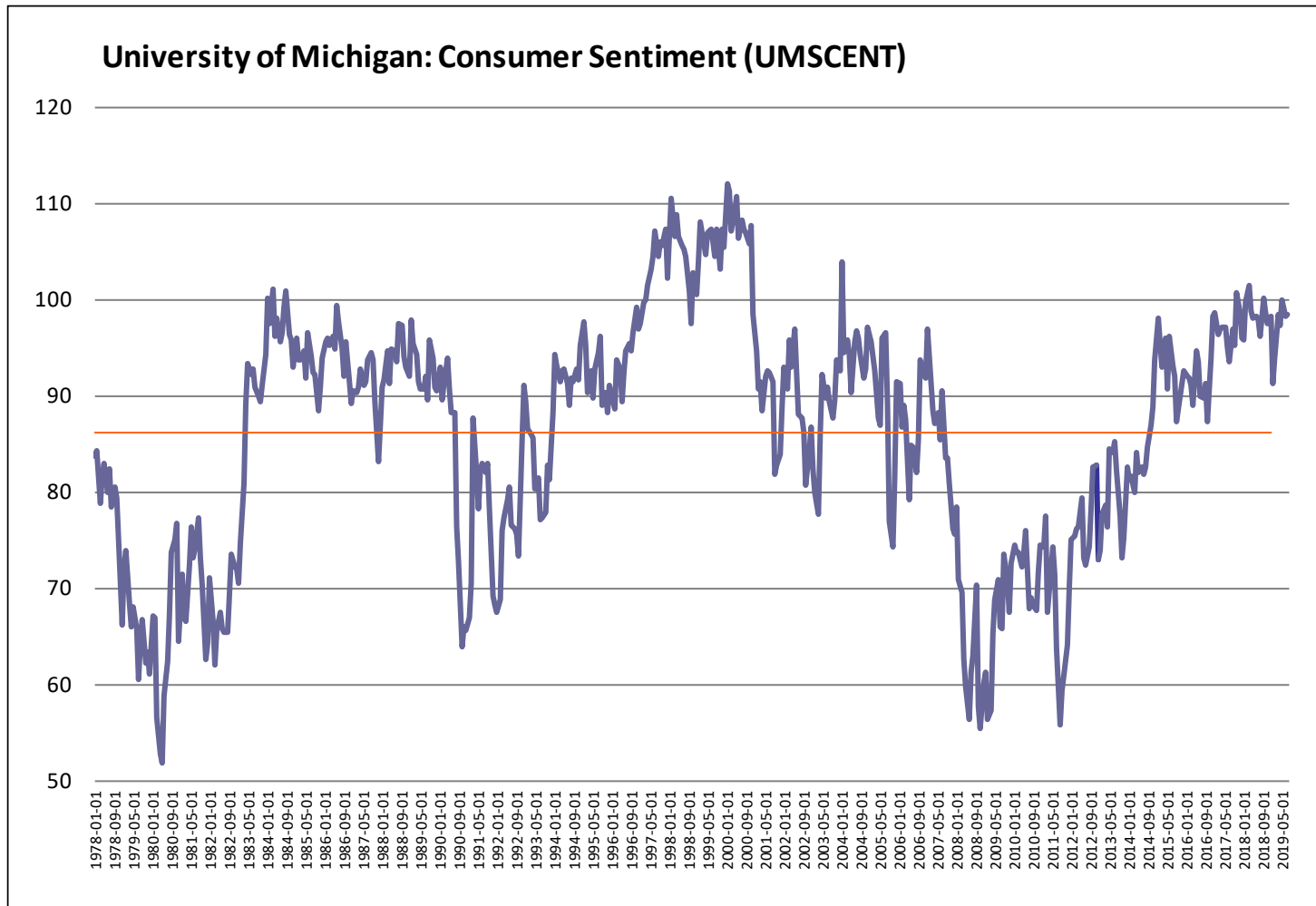


FL Second Quarter 2019: 7.9



Zillow Rental Data: Median Rent List Price, 2-bedroom (through 7/2019)

Consumer Perceptions Remain Strong

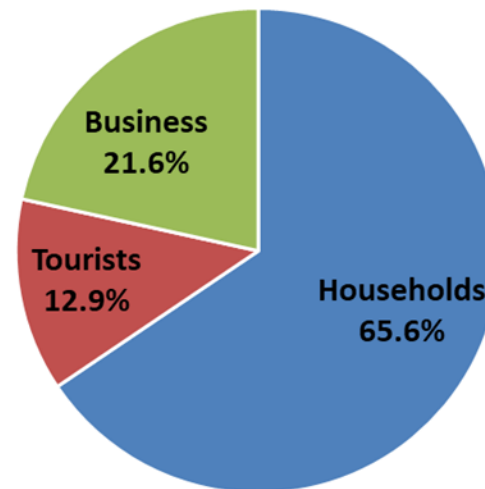


Nationally, the sentiment reading for July 2019 (98.4) is well above the index average since inception (86.2), but well below the highest recorded monthly level on record—112.0 in January 2000. However, the preliminary August reading dropped to 92.1.

Florida-Based Downside Risk

- The most recent sales tax forecast relies heavily on strong tourism growth. It assumes no 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.
 - A strong and strengthening dollar tends to have a chilling effect on international travel. The broad dollar is expected to remain elevated throughout the near-term forecast and is susceptible to trade tensions.

**Contributions to General Revenue from Sales Tax (with CST)
Collections in FY 2016-17, By Source**



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 2016-17, sales tax collections provided nearly \$23.0 billion dollars or 76.8% of Florida's total General Revenue collections. Of this amount, an estimated 12.9% (nearly \$2.97 billion) was directly attributable to purchases made by tourists.

Economy Largely Recovered...

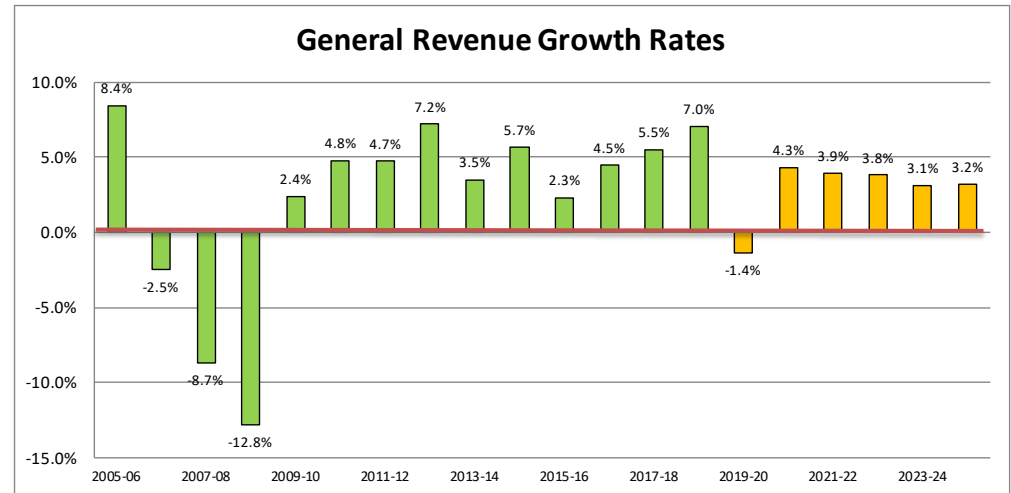
Florida growth rates are generally returning to more typical levels and continue to show progress. The drags—particularly construction—are more persistent than past events, but the strength in tourism is compensating for this. In the various forecasts, normalcy was largely achieved by the end of FY 2016-17. Overall...

- The national economy has been back to normal on nearly all measures; however, financial conditions are increasingly volatile as uncertainty over tariffs and concerns regarding growth abroad buffet expectations.
- By the close of the 2018-19 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
 - All personal income metrics, nearly 60 percent of the employment measures, and the total tourism and domestic visitor counts had exceeded their prior peaks.
 - Other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels.
 - Private nonresidential construction expenditures first passed their prior peak in FY 2016-17, but none of the key residential construction measures pass their prior peaks in the forecast horizon, a significant slowdown from the forecasts adopted last year.
- As July ended, the economy had been in expansion for more than a decade, marking the longest economic expansion in U.S. history. The current forecast does not anticipate a recession, but turning points are notoriously difficult to project. IHS Markit places the risk of a recession at 35 percent in 2020 and the New York Fed's recession probability model identifies a similar percentage; however, the National Association for Business Economics' June survey of economists indicate that the risk of recession rises to 60 percent by the end of 2020. Speaking more recently, Mark Zandi of Moody's places the odds "very high".

General Revenue Forecast

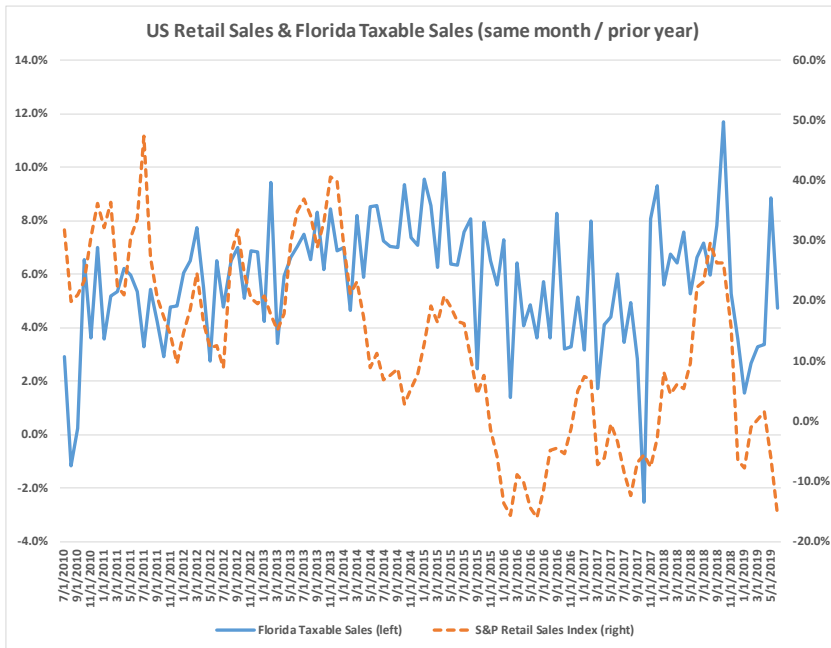
LR Growth: Averages 6%
 Forecast Growth: Drops from 4.3% to 3.2%, after
 the decline in FY 2019-20

The past had tax increases associated with key
 revenue sources and stronger population growth.



Fiscal Year	Post-Session 2019	August 2019 Forecast	Difference	Incremental Growth	Growth
2005-06	27074.8				8.4%
2006-07	26404.1				-2.5%
2007-08	24112.1				-8.7%
2008-09	21025.6				-12.8%
2009-10	21523.1				2.4%
2010-11	22551.6				4.8%
2011-12	23618.8				4.7%
2012-13	25314.6				7.2%
2013-14	26198.0				3.5%
2014-15	27681.1				5.7%
2015-16	28325.4				2.3%
2016-17	29594.5				4.5%
2017-18	31218.2				5.5%
2018-19	33413.8				7.0%
2019-20	33,394.9	32,943.3	(451.6)	(470.5)	-1.4%
2020-21	34,779.4	34,363.3	(416.1)	1,420.0	4.3%
2021-22	35,989.7	35,712.3	(277.4)	1,349.0	3.9%
2022-23	37,120.8	37,074.5	(46.3)	1,362.2	3.8%
2023-24	38,257.0	38,237.1	(19.9)	1,162.6	3.1%
2024-25		39,467.0		1,229.9	3.2%

The August forecast reduces the March 2019 estimate by \$451.6 million for FY 2019-20 and by \$416.1 million in FY 2020-21, for a two-year reduction of \$867.7 million. However, the prior General Revenue Financial Outlook Statement already took into account some of the adjustments, leaving a net positive change on the Outlook of \$201.2 million. These numbers affect the revenues available for the budget being crafted for FY 2020-21. The Conference recognized that there is an elevated level of risk to the forecast due to the mature stage of the current economic expansion.



US Retail Sales & Florida Taxable Sales

- The change over the same month in the prior year in the national S&P Retail Select Industry Index has been negative since the beginning of the 2019 calendar year. Florida's taxable sales exhibit an overall pattern similar to the national index; however, Florida began to deviate markedly from the national index in February 2014.
- Florida's in-state volatility over the prior year has been significant since Hurricane Irma in 2017, but really started a year earlier in FY 2016-17. If anything, it has only increased since then. October 2018 was an exception as it looked back to the prior year's hurricane-affected low point and showed exceptionally robust growth, year over year.

