

Florida: An Economic Overview

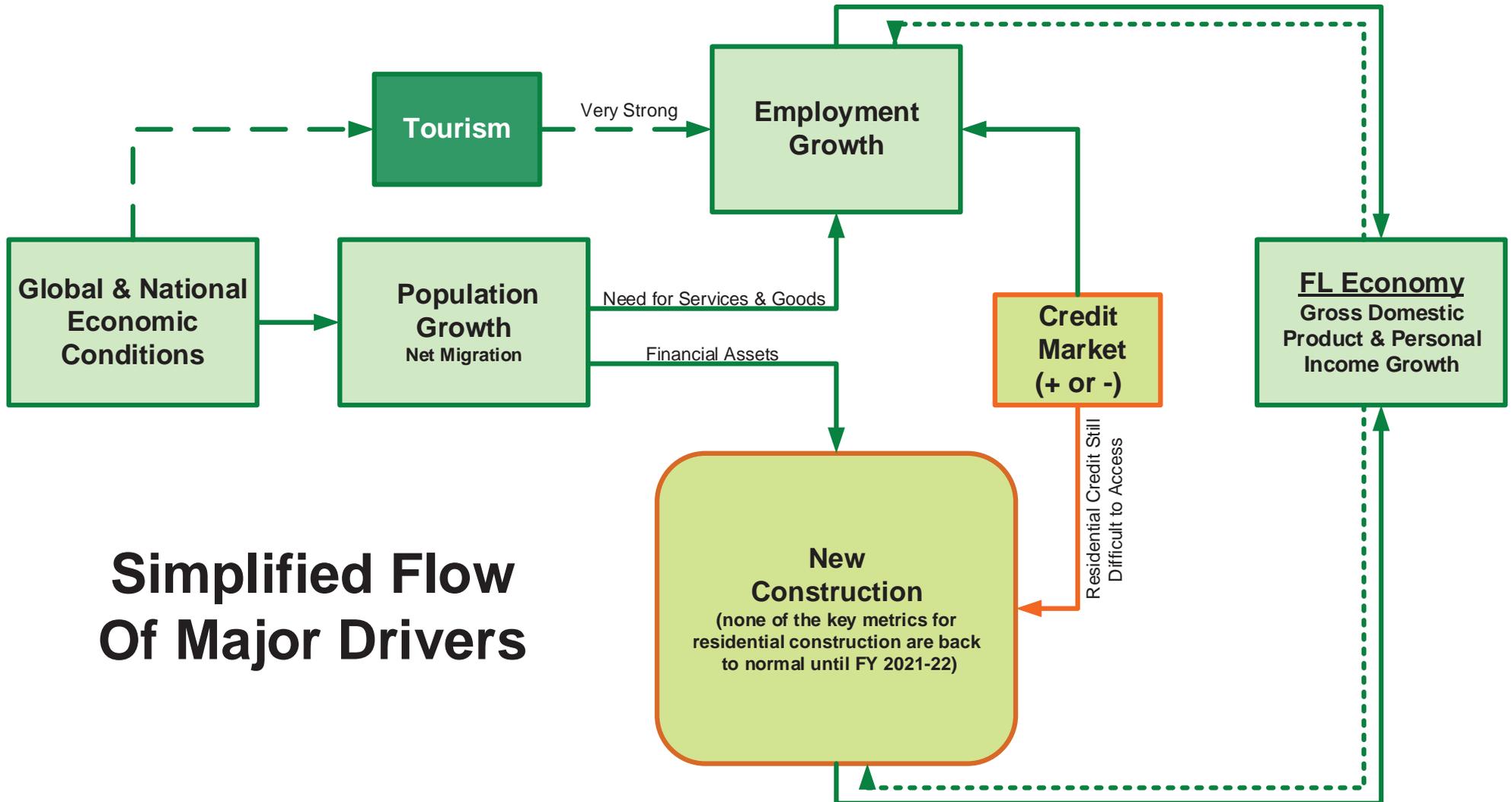
February 7, 2018

Presented by:

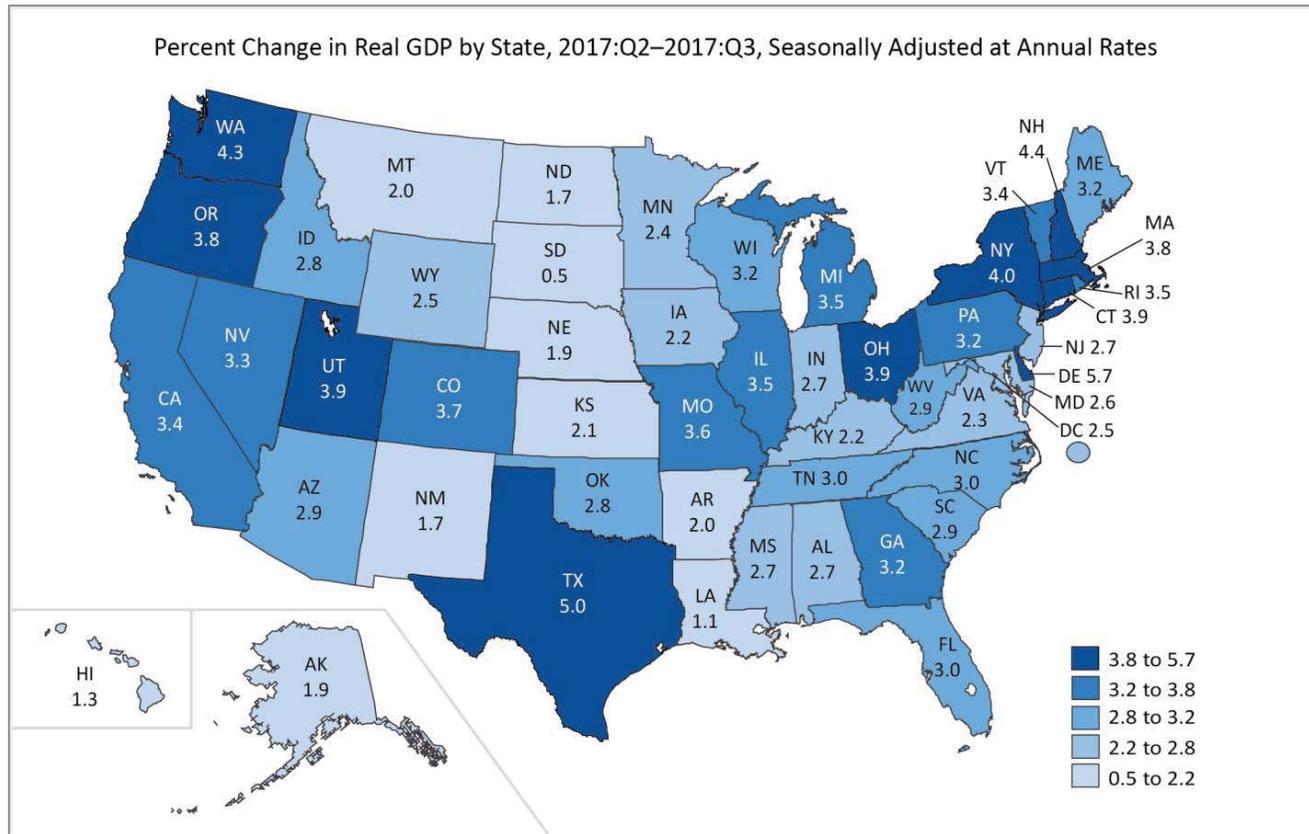


The Florida Legislature
Office of Economic and
Demographic Research
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Key Economic Variables Are Strong



Economy Has Continued Growth...

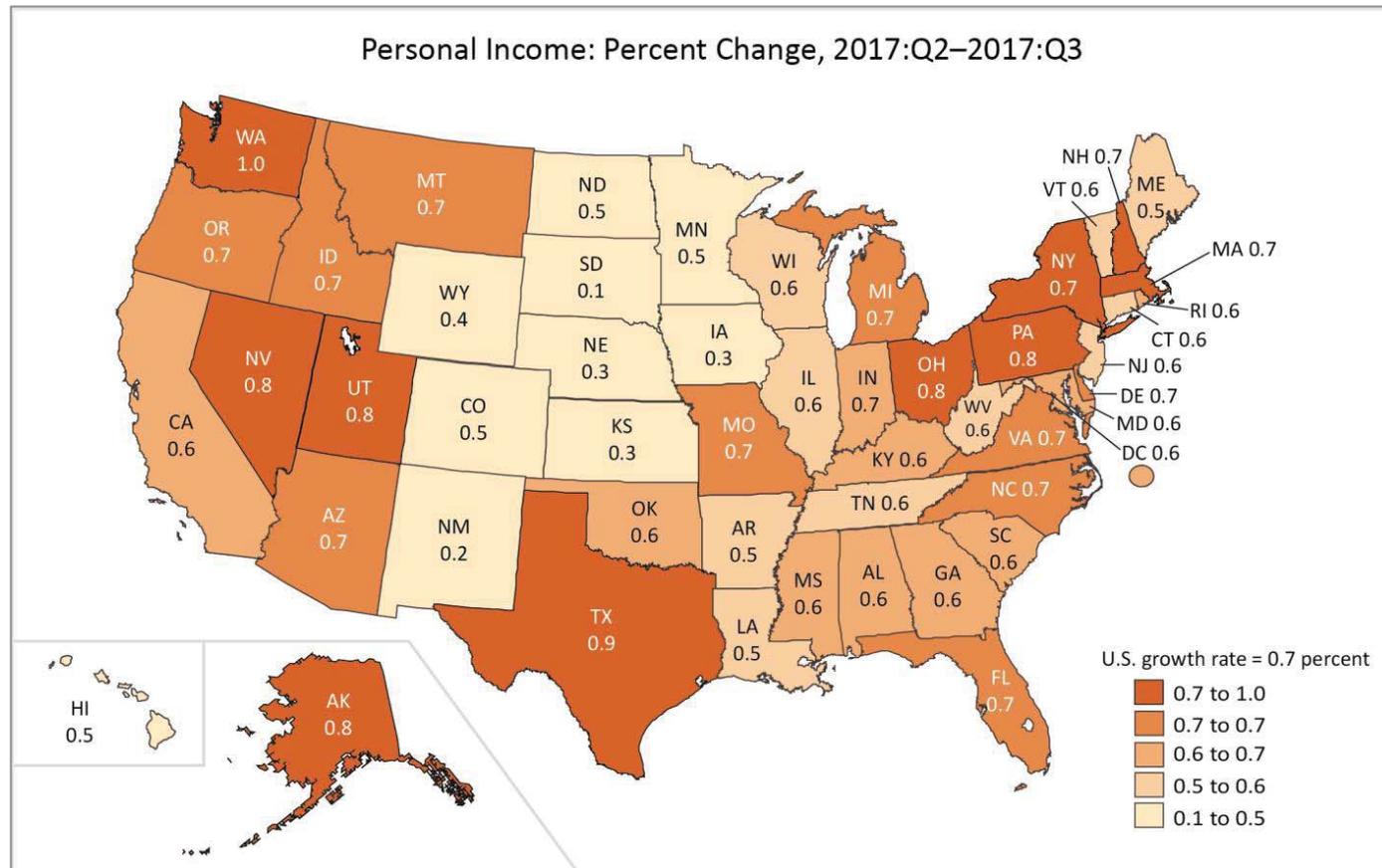


The third quarter results for the 2017 calendar year indicated that Florida ranked 23rd in the country with 3.0 percent real growth over the prior quarter. The United States as a whole had 3.4 percent growth.

In the latest revised data for State Gross Domestic Product (GDP), Florida had real growth of 3.9% in 2015, placing it above the national average of 2.7%. For the 2016 calendar year, Florida's growth slowed to 2.4%; however, this was still well above the national average of 1.5%.

The Office of Economic and Demographic Research now projects that that Florida's growth will average 2.3% per year for the 2017-18, 2018-19 and 2019-20 fiscal years.

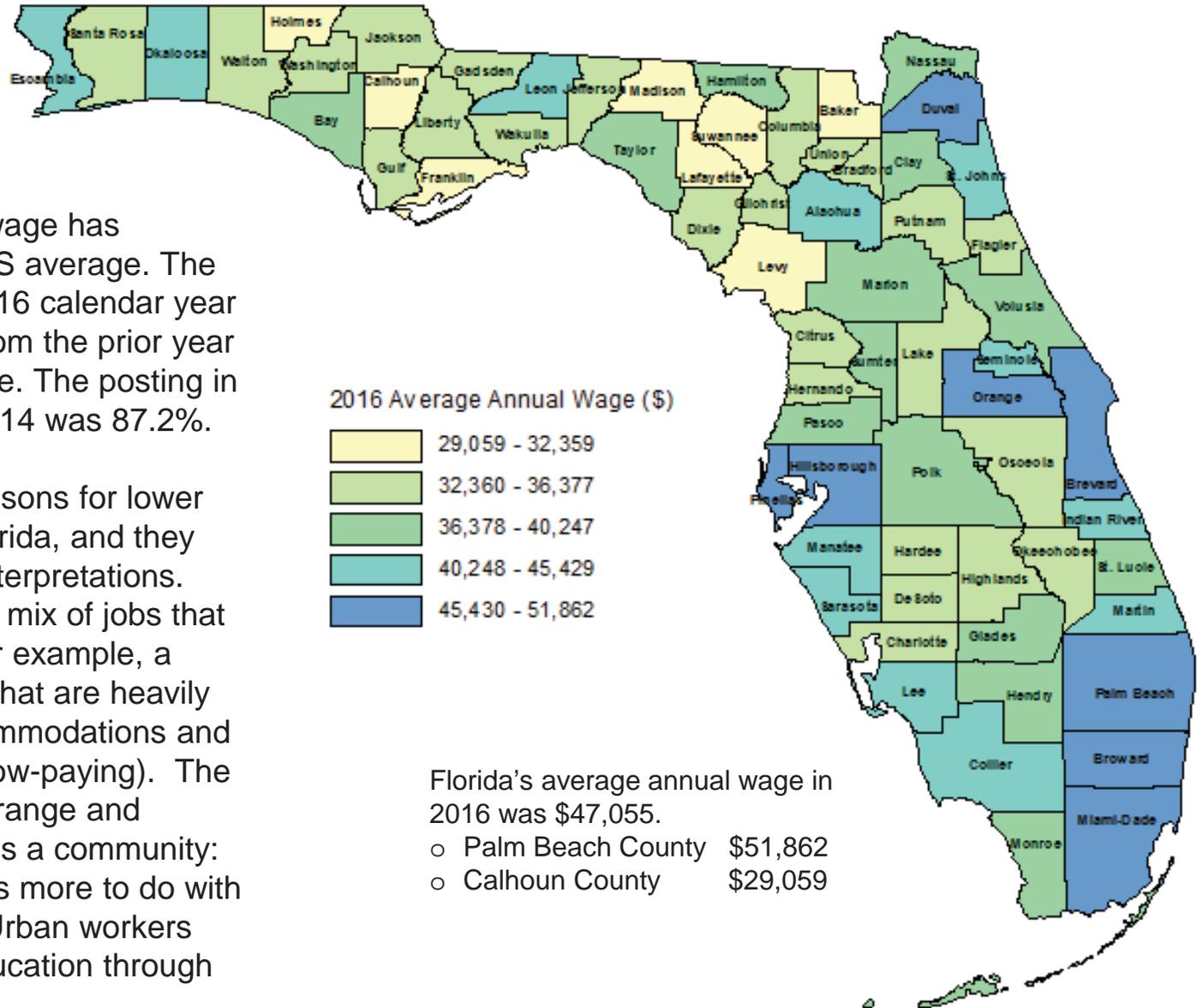
FL Personal Income Growth Is Strong, Driven in Part by Population Growth...



The third quarter results for the 2017 calendar year indicated that Florida ranked 18th in the country with 0.7 percent growth over the prior quarter. The United States as a whole also had 0.7 percent growth. However, the Florida result was boosted in part by an increase in transfer receipts reflecting disaster related assistance.

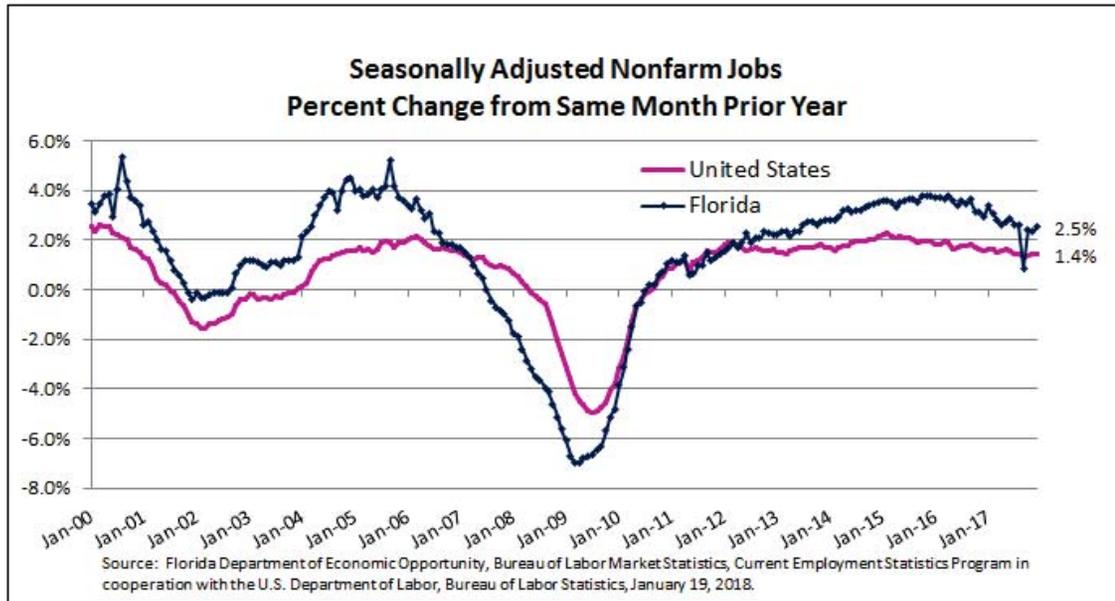
Florida data for the 2016 calendar year showed continued strength relative to 2015, ranking the state 3rd in the country for personal income growth. Florida's growth rate of 4.9 percent over 2015 handily beat the 3.6 percent posted for the entire United States. However, Florida's per capita personal 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.

Average Annual Wage by County...



- Florida's average annual wage has typically been below the US average. 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%.
- There are two possible reasons for lower than average wages in Florida, and they have different economic interpretations. The first has to do with the mix of jobs that are growing the fastest (for example, a wide array of wage levels that are heavily influenced by jobs in Accommodations and Food Services which are low-paying). 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 have a higher return to education through higher wages.

Current Employment Conditions...



December Nonfarm Jobs (YOY)

US	1.4%
FL	2.5%
YR:	213,500 jobs
Peak:	+652,600 jobs
[Prior Employment Peak passed in May 2015]	

December Unemployment Rate

US 4.1%
FL 3.7%
(374,400 people)

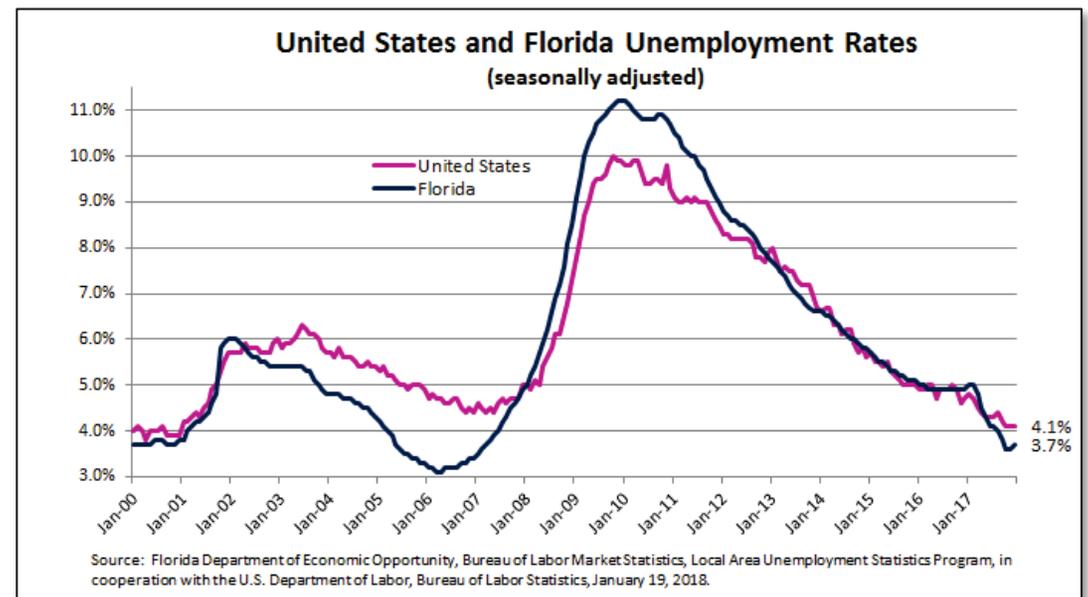
The Revenue Estimating Conference now assumes Florida is below the “full employment” unemployment rate (about 4 percent).

Highest Monthly Rate

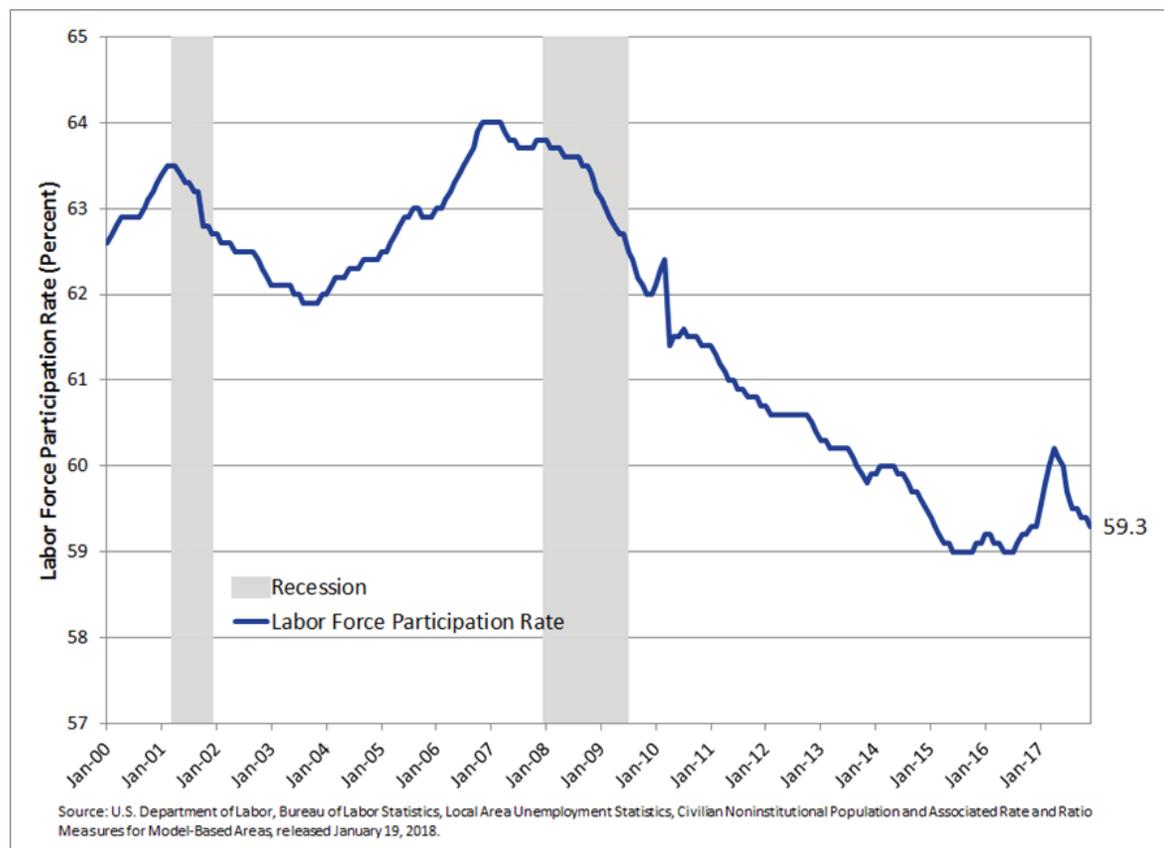
11.2% (November 2009 through January 2010)

Lowest Monthly Rate

3.1% (March through April 2006)



Florida's Participation Rate...



Florida's labor force participation rate peaked at 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.

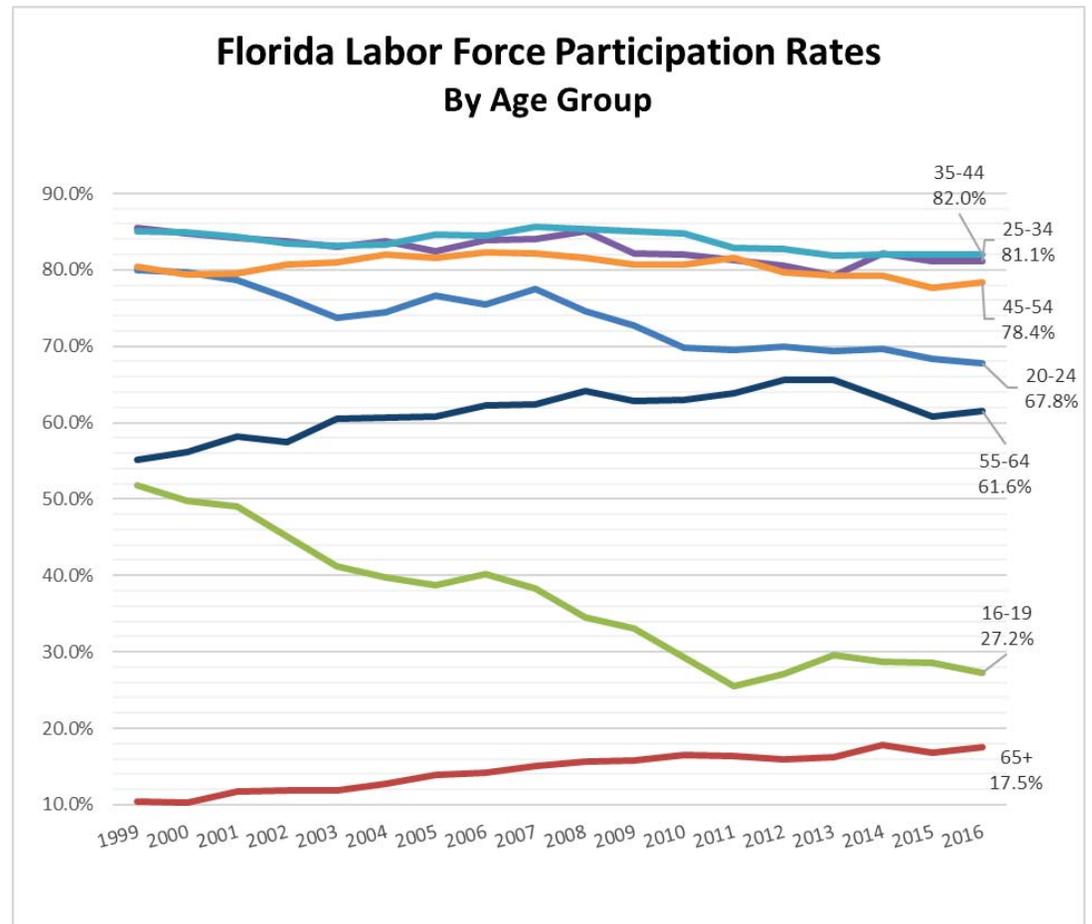
Since then, the rate trended upward, peaking at 60.2% in April before drifting generally down to 59.3% in December. The US as a whole had 62.7%.

Among all unemployed, the share of those reentering the labor force was 30.2% in December 2017, slightly higher than it was a year earlier in December 2016 (29.9%). The share of new entrants declined from 12.7% to 10.7% over this same time period.

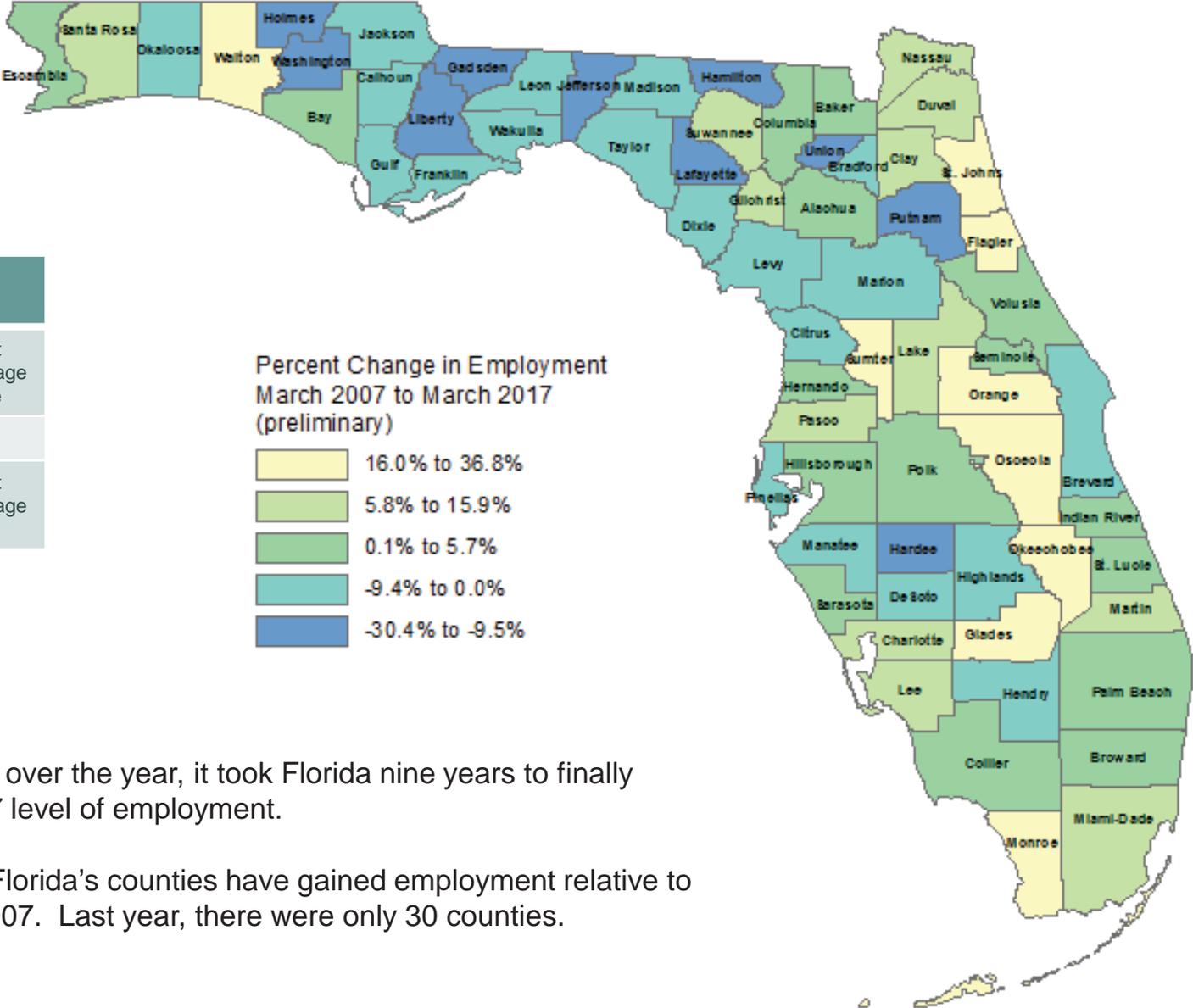
The still significant size and composition of the long-term unemployed group (127,000 persons or 30.7% of all unemployed in December) may be confounding some of the trend results. The equivalent percentage from the United States as a whole was only 22.9%.

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...



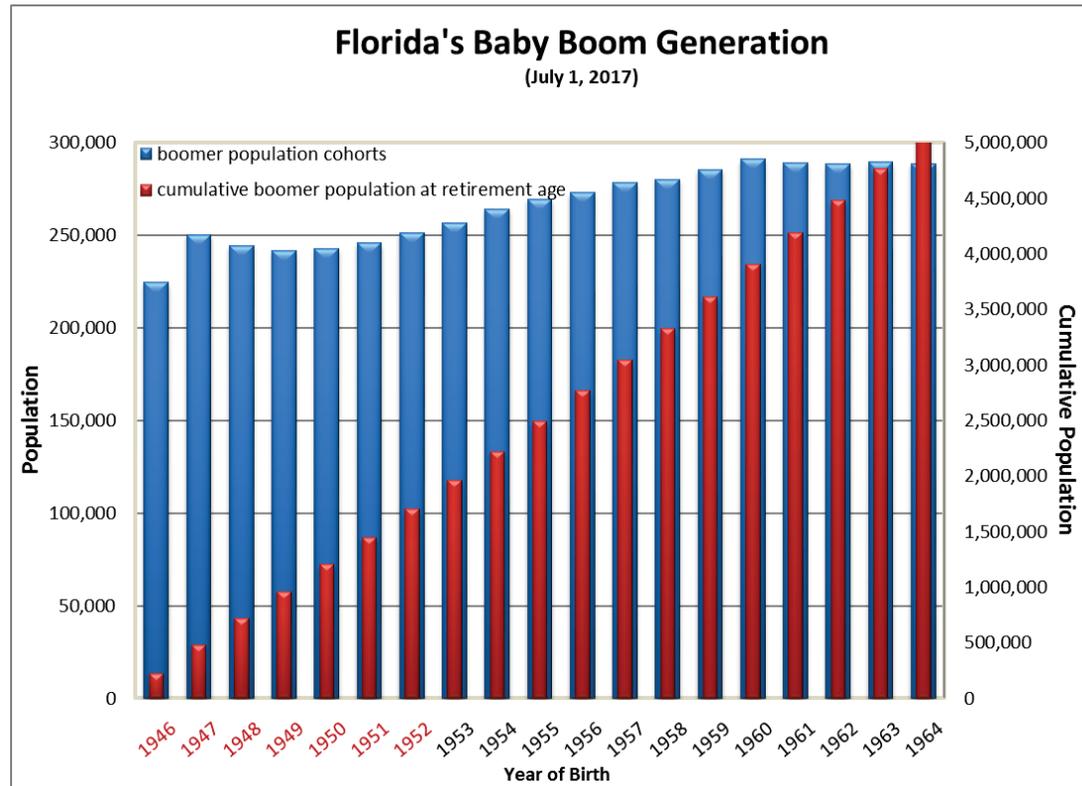
Area	March 2007 to March 2017	
Sumter County	36.8%	Greatest Percentage Increase
Florida	5.4%	
Liberty County	-30.4%	Greatest Percentage Decline

Percent Change in Employment March 2007 to March 2017 (preliminary)

- 16.0% to 36.8%
- 5.8% to 15.9%
- 0.1% to 5.7%
- 9.4% to 0.0%
- 30.4% to -9.5%

- Comparing March data over the year, it took Florida nine years to finally surpass its March 2007 level of employment.
- More than half (37) of Florida’s counties have gained employment relative to their levels in March 2007. Last year, there were only 30 counties.

Baby Boomers in Florida Today...

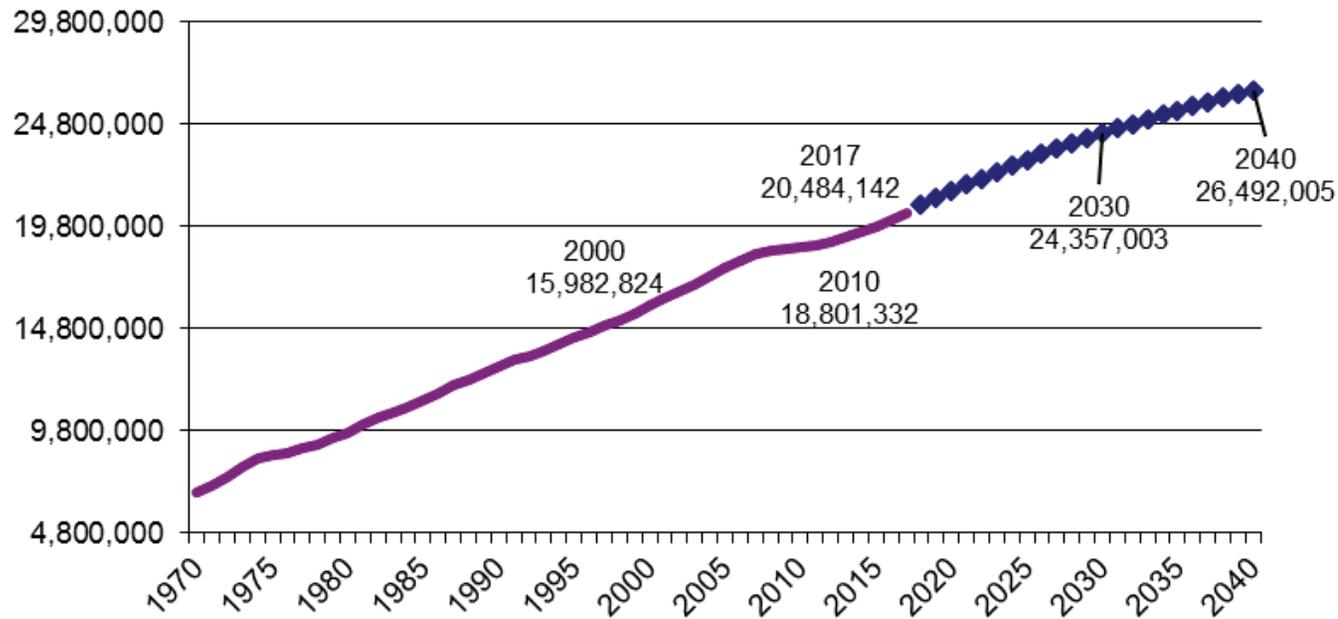


- The first cohort of Baby Boomers became eligible for retirement (turned age 65) in 2011. Seven cohorts have entered the retirement phase: 2011, 2012, 2013, 2014, 2015, 2016 and 2017. This represents about one-third of all Baby Boomers.
- In 2000, Florida's working age population (ages 25-54) represented 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 35.7 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 will remain above 1.5 percent between now and the end of the decade. In the near-term, Florida is expected to grow by 1.88% between 2017 and 2018 – and average 1.7% annually between 2017 and 2021. Most of Florida's population growth through 2030 will be from net migration (95.5%). Nationally, average annual growth will be about 0.76% between 2017 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 April 1 Population...

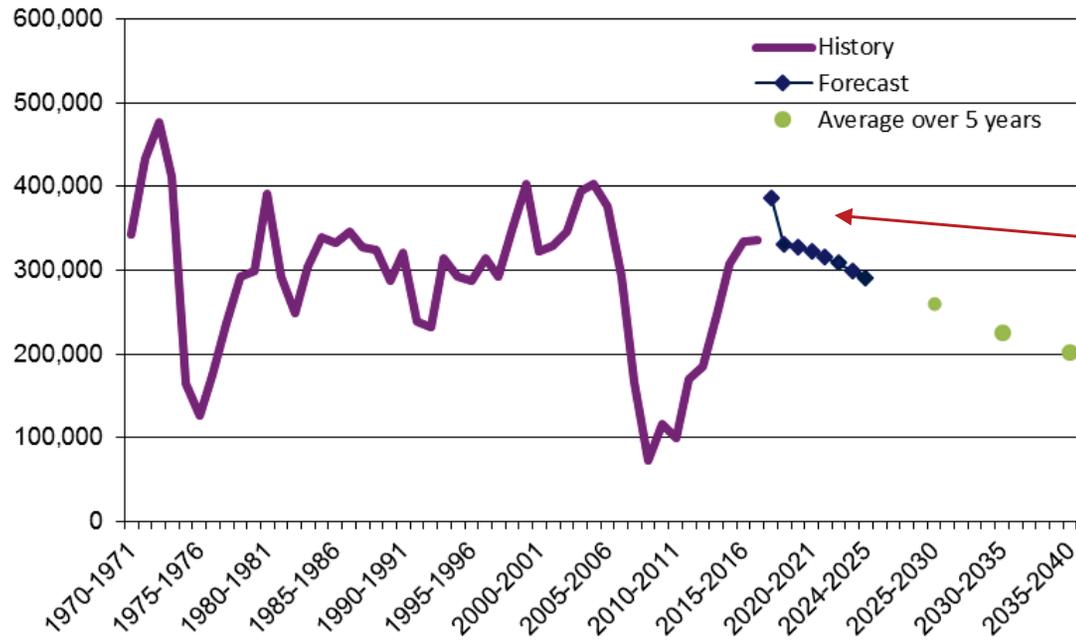


Florida's population growth of 335,488 between April 1, 2016 and April 1, 2017 was the strongest annual increase since 2006, immediately prior to the collapse of the housing boom and the beginning of the Great Recession.

Florida's population:

- was 15,982,824 in 2000
- was 18,801,332 in 2010
- is forecast to grow to 24,357,003 by 2030 and to 26,492,005 by 2040

Florida's Population Growth...



This change reflects the expected in-migration from Puerto Rico and the US Virgin Islands caused by the damage from Hurricane Maria; by itself, the storm produced a net permanent increase in Florida's population of 53,137 persons.

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 2017 was: 325,591

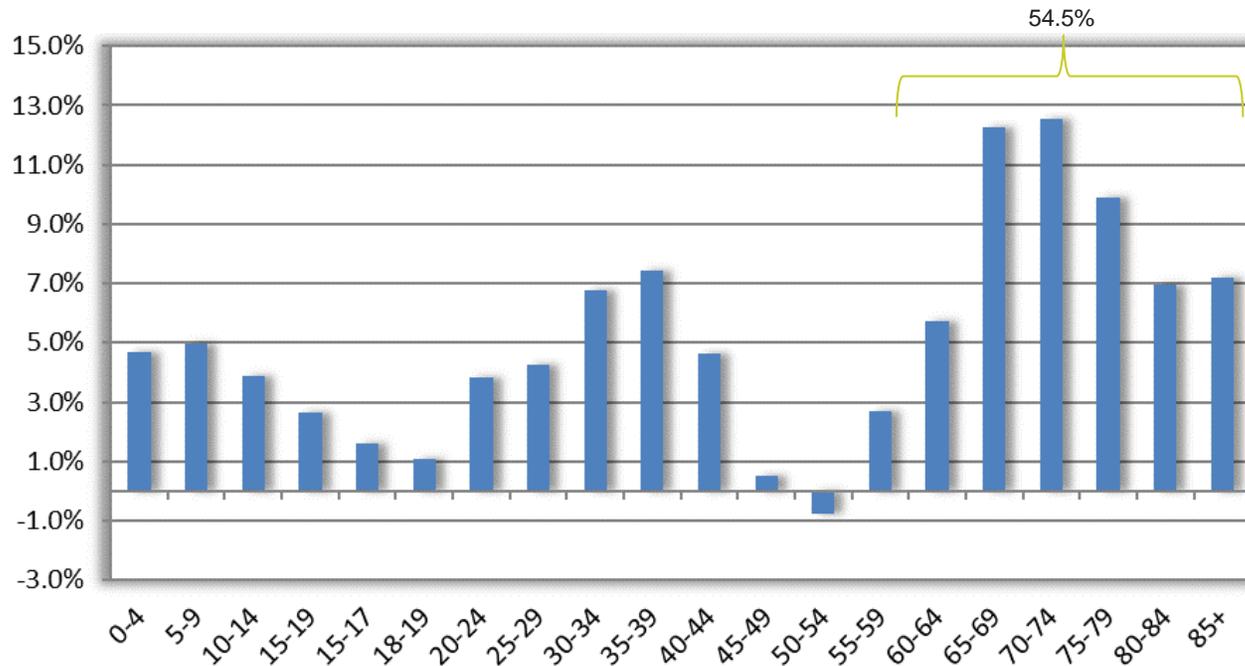
Population is forecast to increase on average annually by:

- 347,468 between 2017 and 2020 --- a gain of 952 per day
- 307,069 between 2020 and 2025 --- a gain of 841 per day
- 259,022 between 2025 and 2030 --- a gain of 710 per day

2017 Population	
Tampa	373,058
Orlando	279,789

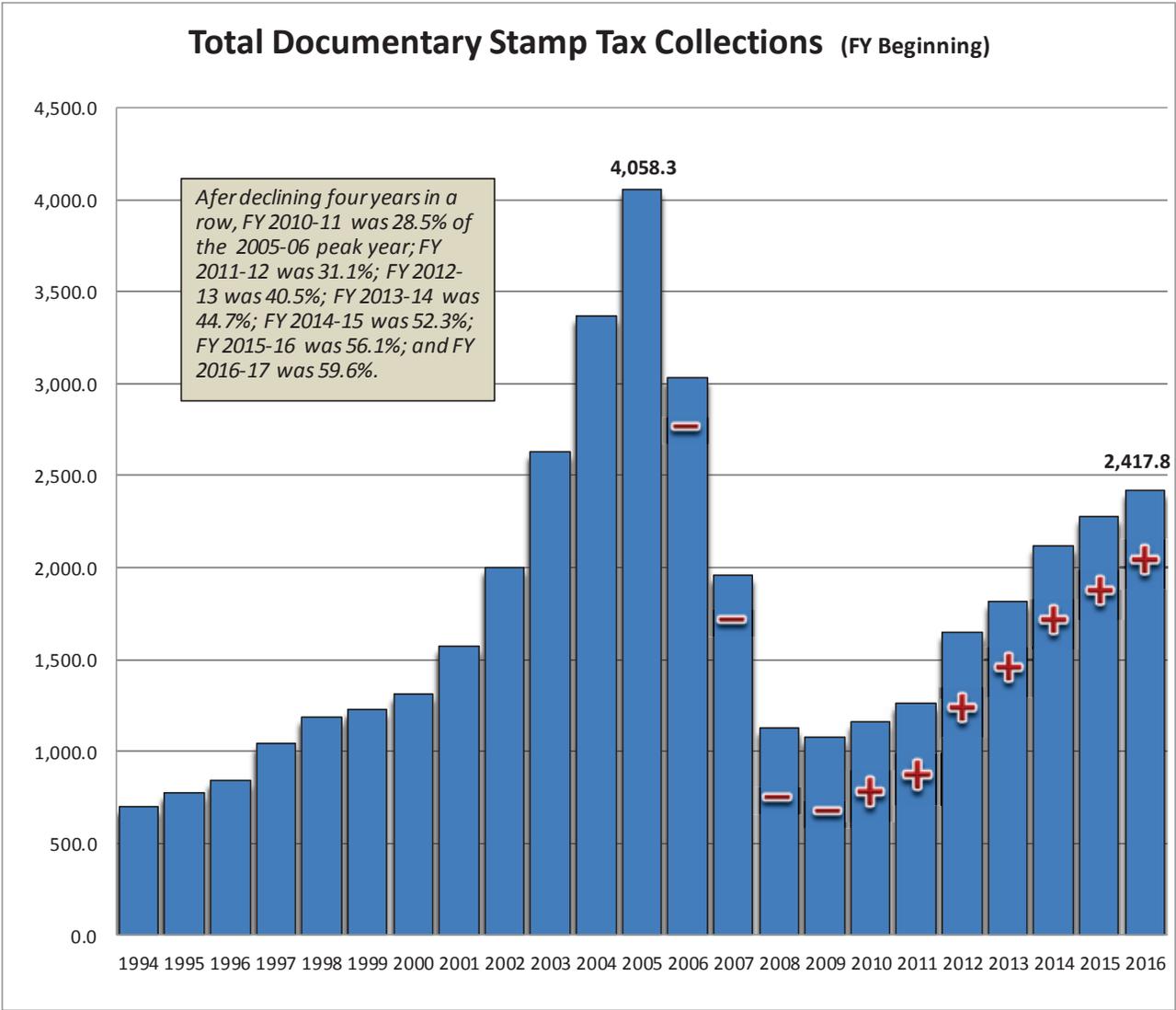
Population Growth by Age Group...

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



- 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.

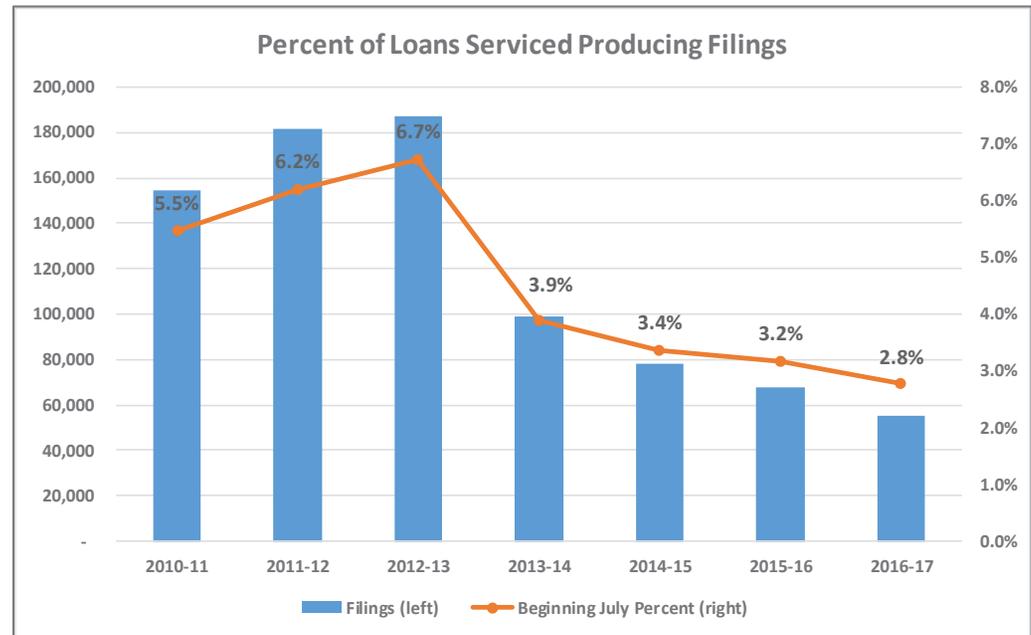
Florida Housing is Generally Improving...



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

Foreclosure No Longer An Issue...

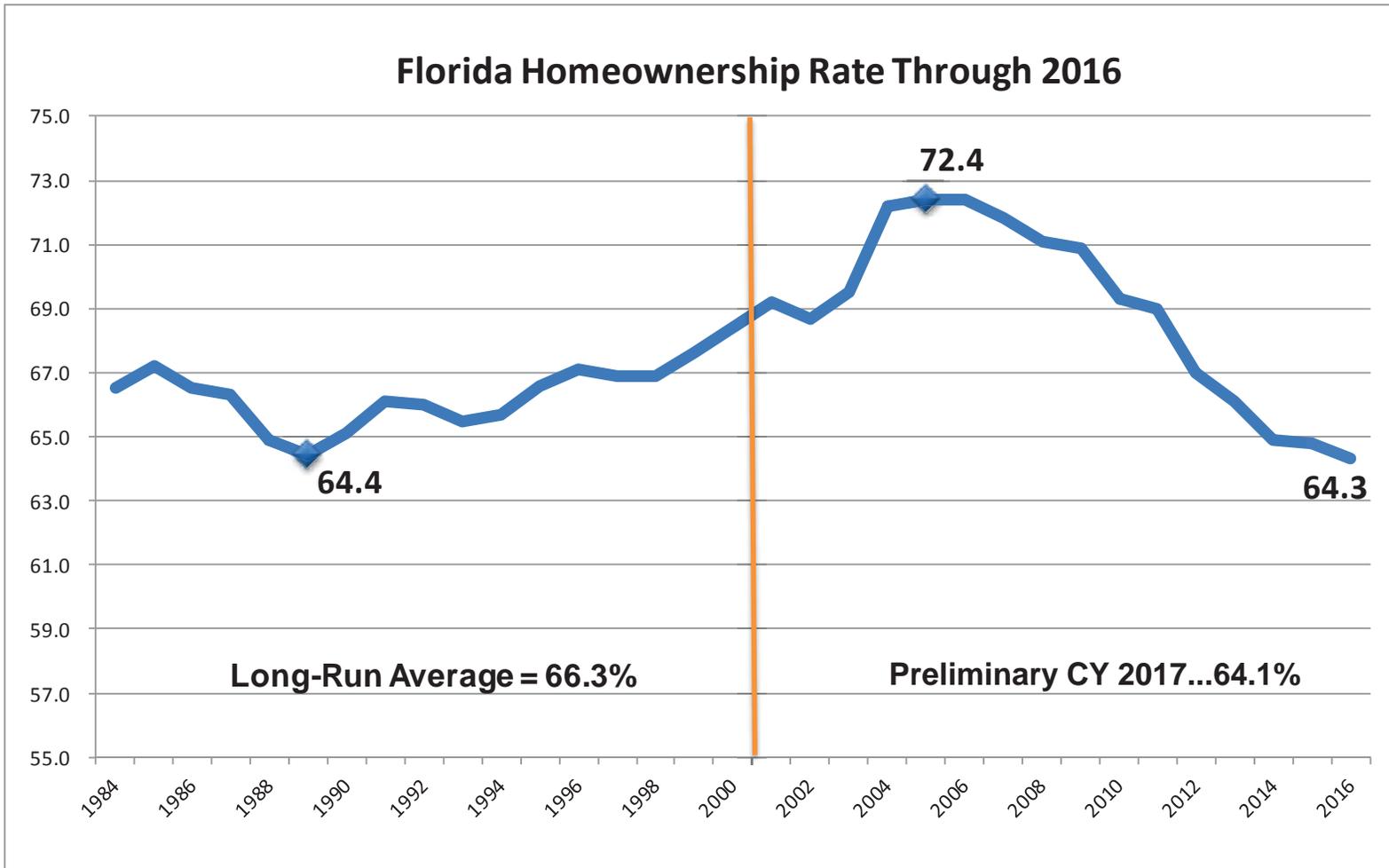
Overall, Florida's improved foreclosure rankings have been helped by decreasing numbers of delinquencies and non-current loans which limit the incoming pipeline. These have been produced by rising home values and employment, as well as reduced numbers of "underwater" homes. Florida's "underwater" homes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



Of note, the final level of foreclosures filings in FY 2016-17 (55,367) fell decidedly below Florida's annual average (68,605) between FY 1999-00 and FY 2005-06. As it has done at all recent conferences, the Revenue Estimating Conference adopted a new foreclosure forecast that takes into account both the decline in the actual number of homes in foreclosure status and the crowding out of future foreclosures caused by the heightened activity coming out of the collapse of the Housing Boom and the Great Recession.

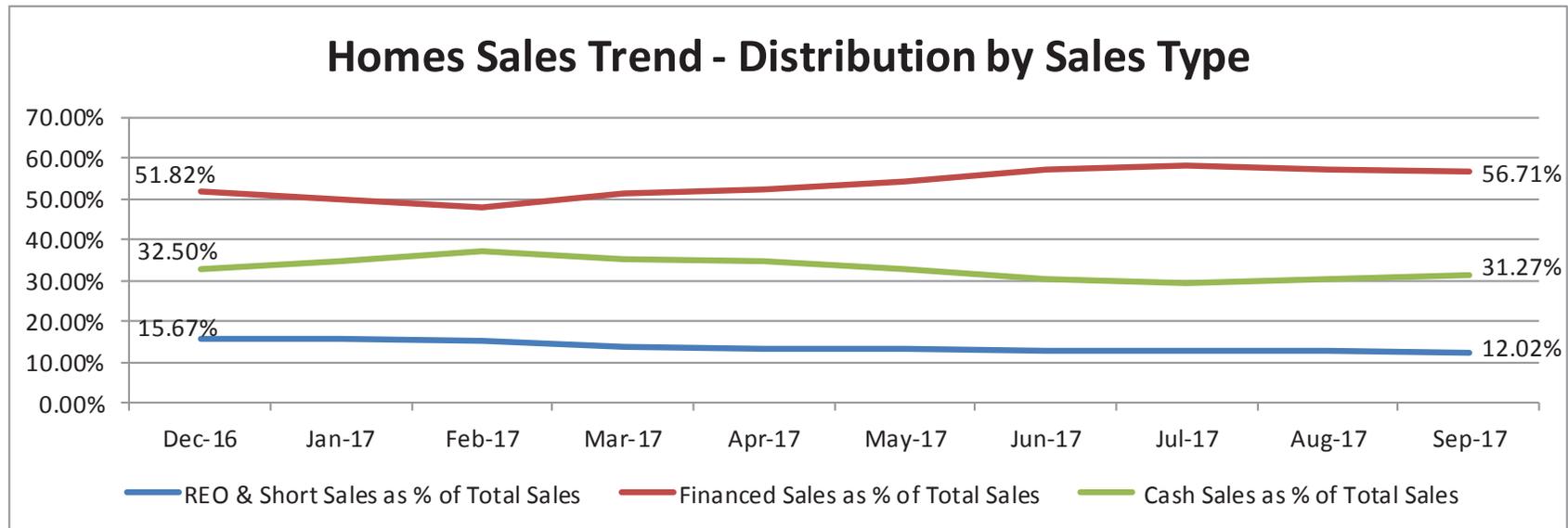
However, FY 2017-18 actual foreclosures through December were impacted by both court office closings and various private and public mortgage assistance programs available to homeowners who were in the path of Hurricane Irma. The Conference reduced the estimate for foreclosure filings in FY 2017-18 (to 47,244) and did not change the estimate for the FY 2018-19 (50,288), producing an apparent uptick. While much of the activity that was delayed as a result of Hurricane Irma will be restored over time, the underlying forecast itself was reduced. These two effects were offsetting in FY 2018-19, but after this adjusting period, filings once again decline throughout the forecast horizon.

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.

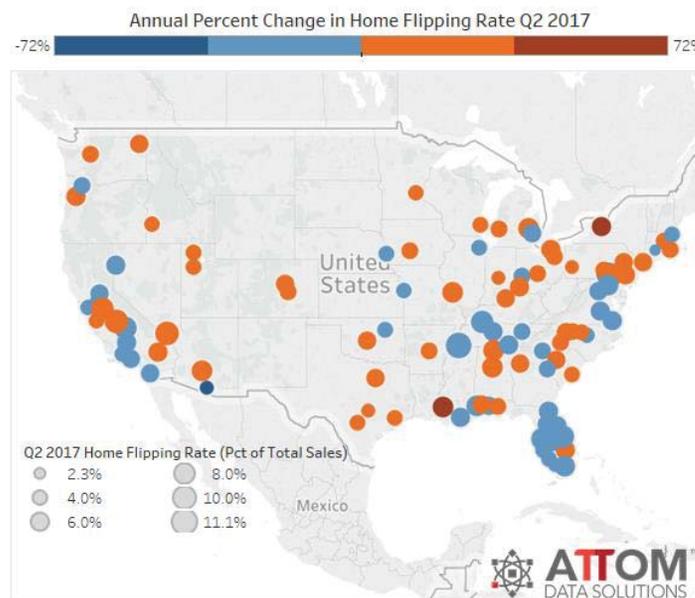
Sales Mix Still Atypical...



Data from LPS / Black Knight

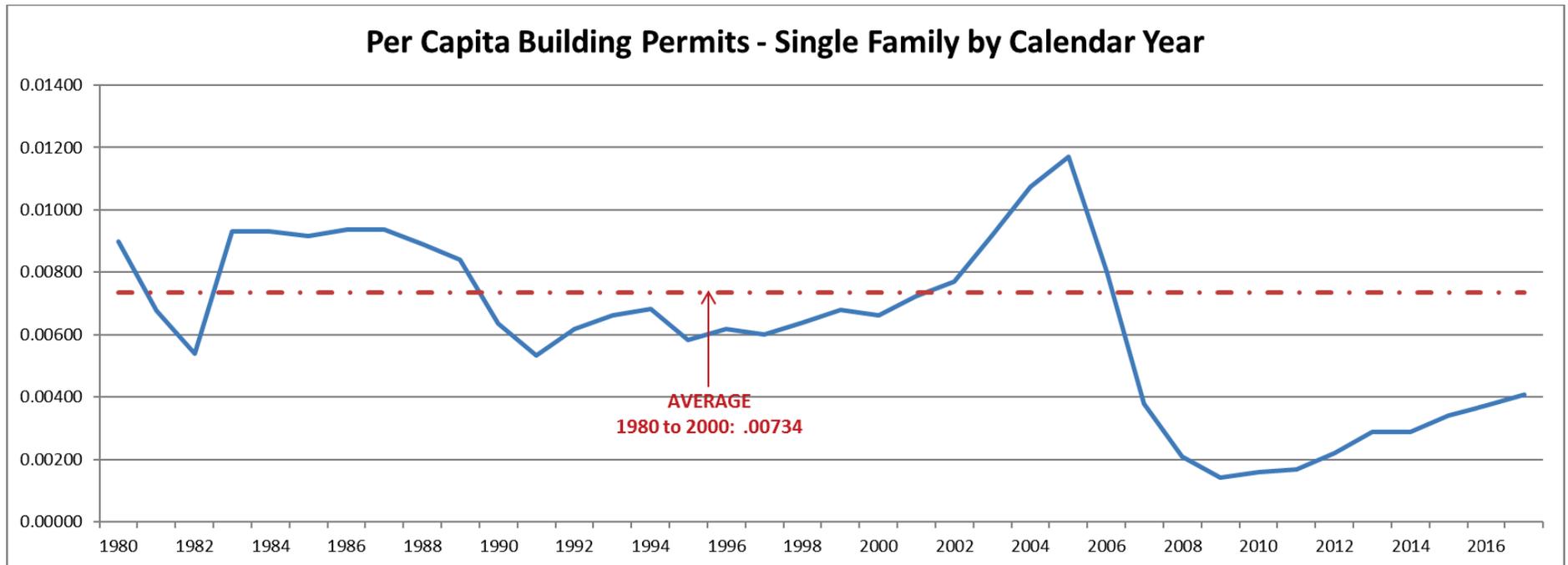
Interest rates continue to be low; a 30-year conventional note averaged 4.32 for closed loans in December. When coupled with expected future growth in prices, a subdued interest rate environment leads to a new concern or, more accurately, the return of an old one, home flipping. A growing percentage of the homes purchased by flippers use financing.

Q2 2017 Home Flipping Heat Map by Metro



Financed Sales continue to gain as a percentage of all sales, ending September 2017 with a higher share than this segment had in September 2016 (56.71% versus 47.91%). The share for REO & Short Sales has drifted steadily downward over this period; however, the share for Cash Sales has bounced around.

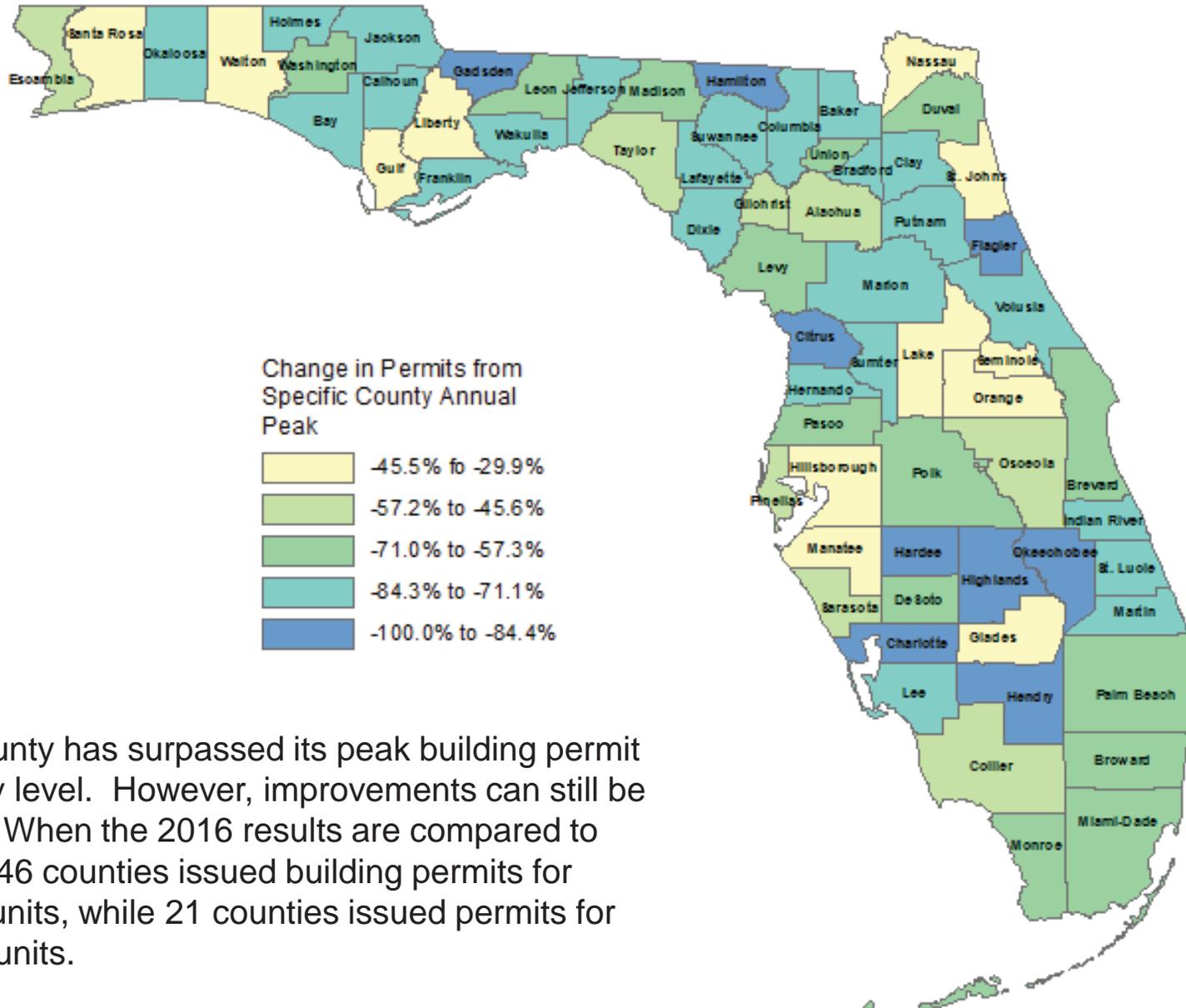
Permits Are Still Well Below Historic Norms...



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 11.1% in 2016. Preliminary data for 2017 indicate that single family activity was 11.7% over 2016.

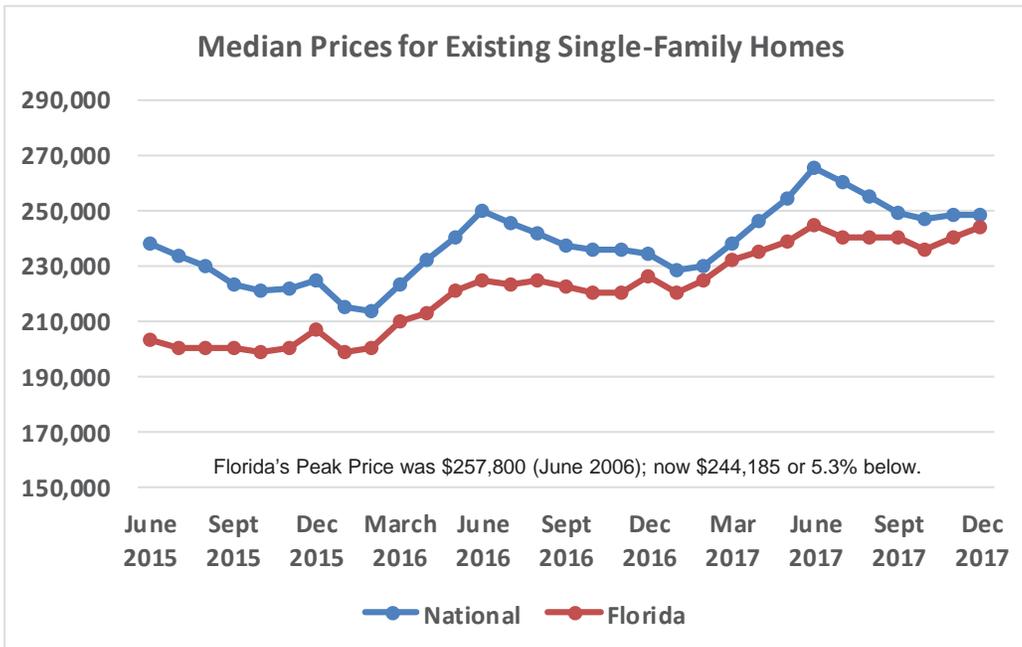
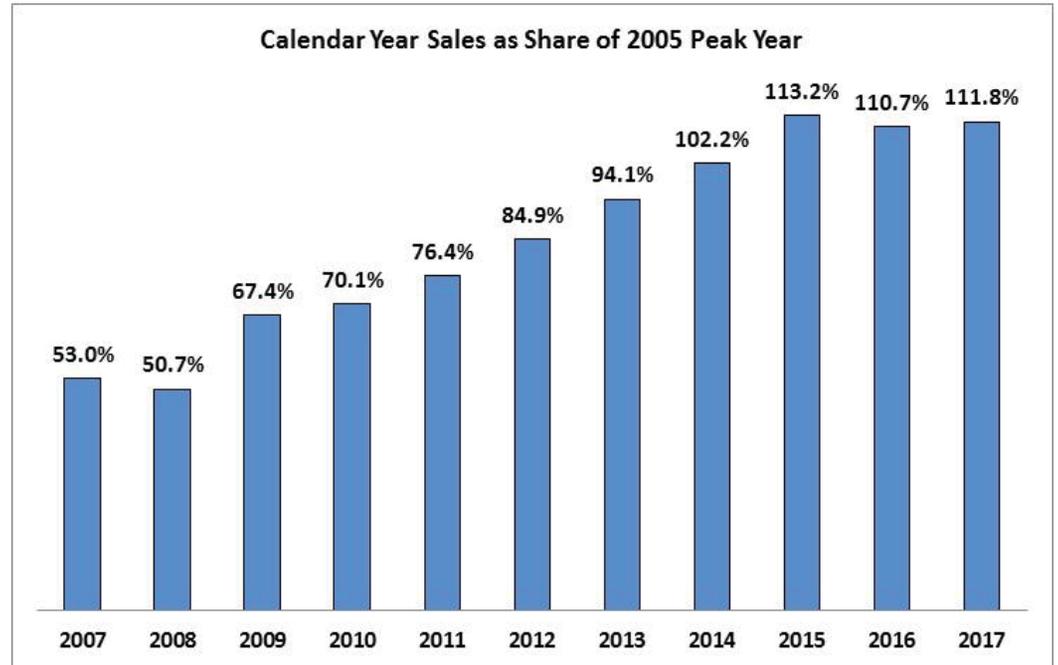
Despite the strong percentage growth rates in five of the last six calendar years, the level is still low by historic standards—about half of the long-run per capita level.

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.

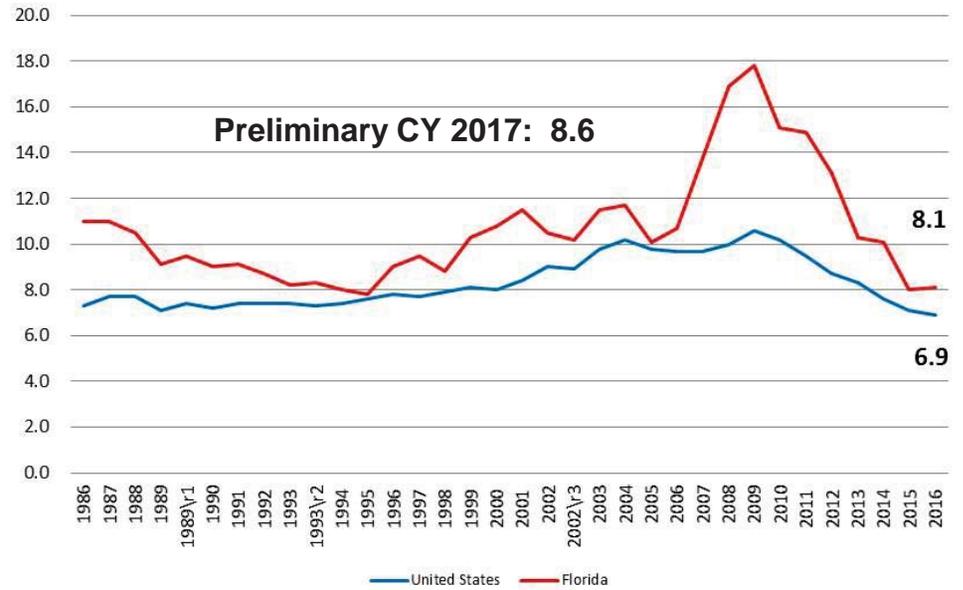
Existing home sales volume in the 2014, 2015, 2016 and 2017 calendar years exceeded the 2005 peak year.



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 December was 98.4% of the national median price.

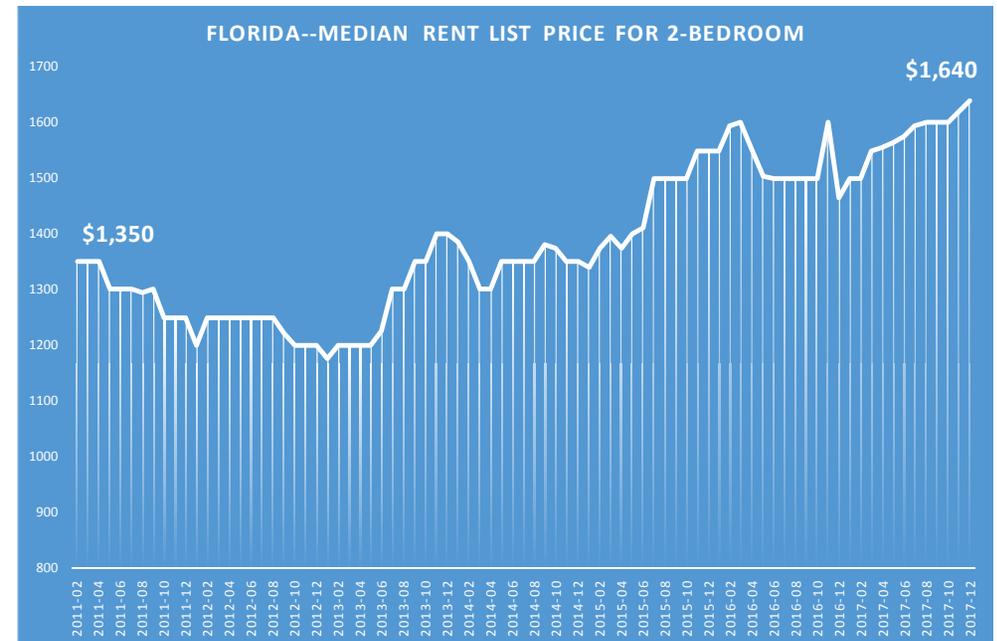
Diverted homeowners and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly in 2015 and 2016; price pressure continues to build.

Rental Vacancy Rates
Long-run Average Percent: US---8.3; FL---10.7



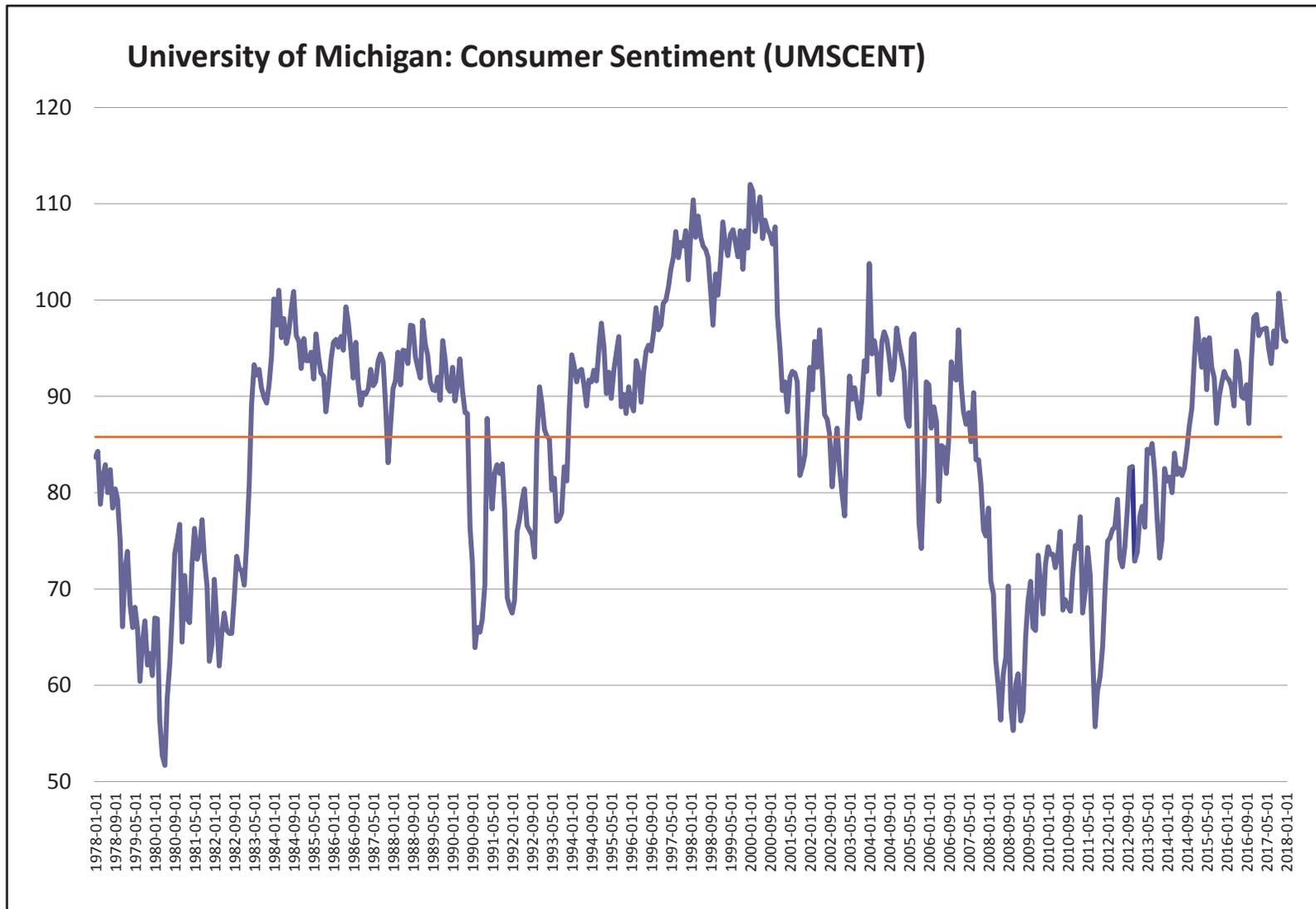
Florida and U.S. Median Gross Rent (in Current Dollars)						
Year	Median Gross Rent			Average Gross Rent		
	United States	Florida	Florida relative to United States	United States	Florida	Florida relative to United States
2005	728	809	111%	803	863	107%
2006	763	872	114%	844	932	110%
2007	789	925	117%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

Source: U.S. Census Bureau, American Community Survey, 1-Year, 2005-2016.



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

Consumer Perceptions Are High



Nationally, the sentiment reading for January 2018 (95.7) is well above the index average since inception (85.8), but well below the highest recorded monthly level on record—112.0 in January 2000.

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 722 and a LTV of 79 percent on all closed loans in December. Seventy percent of all home purchase lending in December 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.
 - Private nonresidential construction expenditures passed their prior peak in FY 2016-17, but none of the key residential construction measures pass their prior peaks until FY 2021-22.

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...

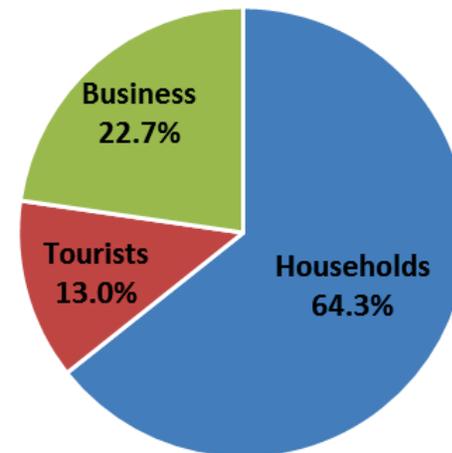
- In 2015, the first wave of homeowners affected by foreclosures and short sales went past the seven-year window generally needed to repair credit.
- While there is no evidence yet, atypical household formation will ultimately unwind—driving up the demand for housing.

Downside Risk...

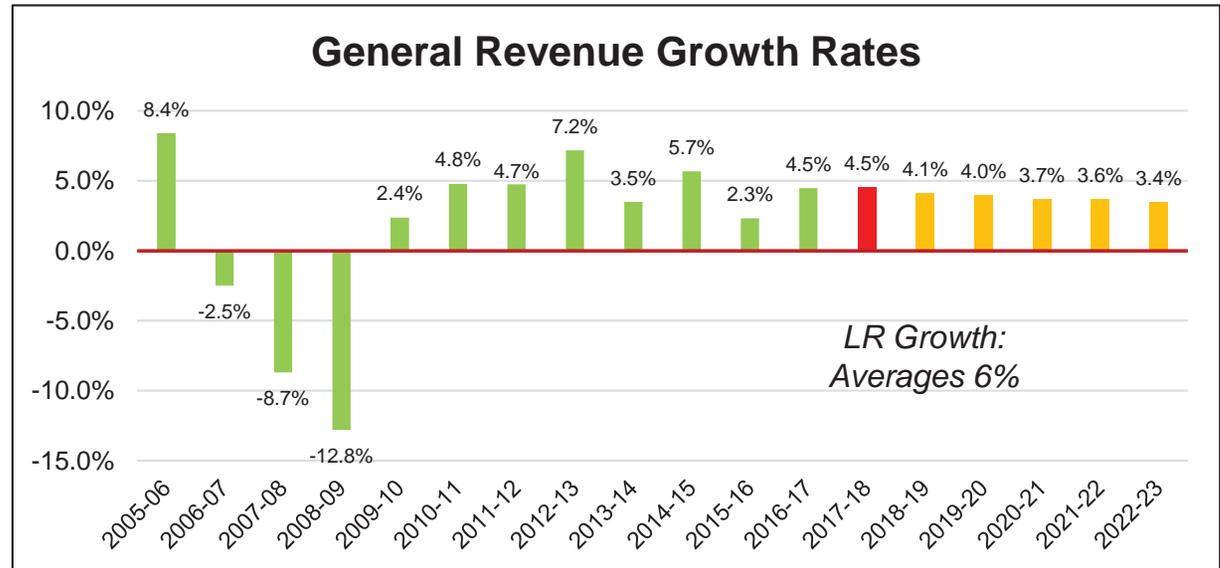
- The most recent sales tax forecast relies heavily on strong tourism growth. It makes no adjustments for Zika-related impacts and assumes no other events that have significant repercussions affecting tourism occur during the forecast window.
- Currently, tourism-related revenue losses pose the greatest 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.

**Contributions to General Revenue from Sales Tax (with CST)
Collections in FY 2015-16, 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 2015-16, sales tax collections provided \$22.0 billion dollars or 76.4% of Florida's total General Revenue collections. Of this amount, an estimated 13.0% (nearly \$2.86 billion) was attributable to purchases made by tourists.

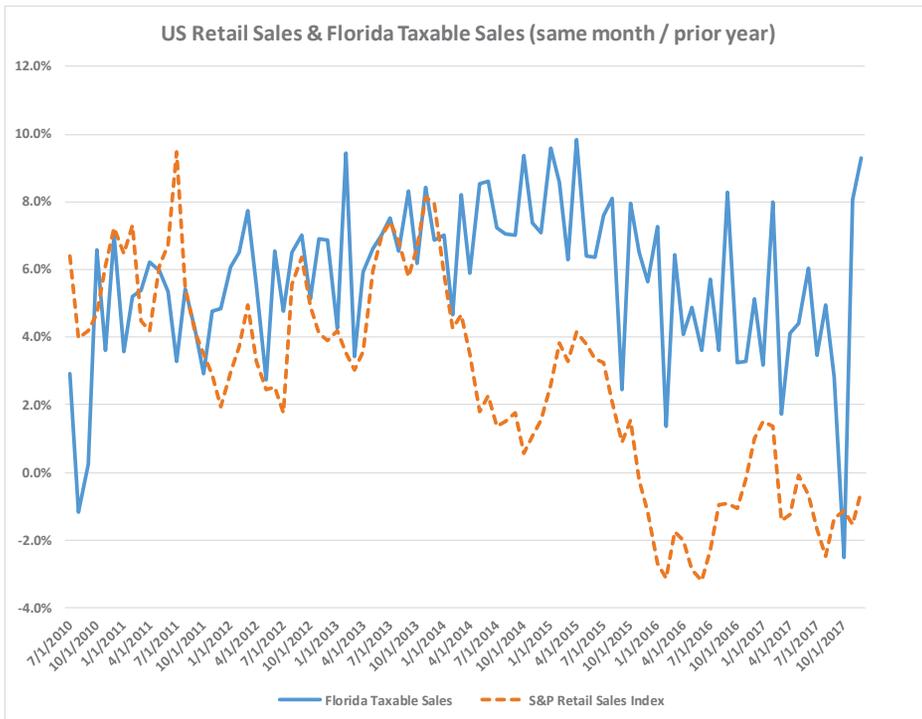


General Revenue Forecast



Fiscal Year	Post-Session Forecast	August Forecast	Difference (Aug - PS)	Incremental Growth	Growth
2005-06	27,074.8				8.4%
2006-07	26,404.1				-2.5%
2007-08	24,112.1				-8.7%
2008-09	21,025.6				-12.8%
2009-10	21,523.1				2.4%
2010-11	22,551.6				4.8%
2011-12	23,618.8				4.7%
2012-13	25,314.6				7.2%
2013-14	26,198.0				3.5%
2014-15	27,681.1				5.7%
2015-16	28,325.4				2.3%
2016-17	29,558.9	29,594.5	35.6	1,269.1	4.5%
2017-18	30,793.8	30,926.0	132.2	1,331.5	4.5%
2018-19	32,013.3	32,201.4	188.1	1,275.4	4.1%
2019-20	33,278.9	33,474.9	196.0	1,273.5	4.0%
2020-21	34,461.7	34,714.5	252.8	1,239.6	3.7%
2021-22	35,667.1	35,977.9	310.8	1,263.4	3.6%
2022-23	n/a	37,214.0	n/a	1,236.1	3.4%

The August forecast would have essentially matched the old forecast in the short-term; however, recognition of Indian Gaming revenue share payments associated with banked card games resulted in a net increase in the estimate.



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 2017 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. September and October of 2017 were both affected by Hurricane Irma.

