

Florida Economic Outlook 2006

December, 2005 Forecasts and Mid-Year Update

	<u>Original 2006 Forecast</u>	<u>Update and Comments</u>
Population (millions)	18.43	No new data available.
change (000s)	420	Slightly lower.
% change	2.31	2.28%
Employment (000s)		
Total	8,780	On track; job growth remains robust.
change	290	
% change	3.4	
Non-Agricultural	8,204	Slightly lower.
change	261	
% change	3.3	
Unemployment Rate (%)	3.3	Currently at record low of 3.00%.
Housing Starts	280,000	Revised down to 265,000; starts will be 2nd highest level in last 5 years.
change	-10,000	
% change	-3.45	
Personal Income (\$billions)	646,324	On track.
change	42,283	
% change	7.00	

The Florida Economy at Mid-Year 2006

The "dog days of summer" are here, when the weather is especially hot and sultry, the air is still, and the family dog seeks relief in the cool, shady, damp dirt under the front porch. It's also the time of year when many people and businesses pause, take some leave, and recharge in preparation for the anticipated fall pick-up.

It's also a good time to pause, take stock of economic activity in Florida in the first half of the year, and see if our 2006 Economic Outlook, published this past January, needs to be modified. If you recall, our Outlook specified another year of robust economic growth in the state, but at a more moderate pace compared to the record-setting expansion of 2005.

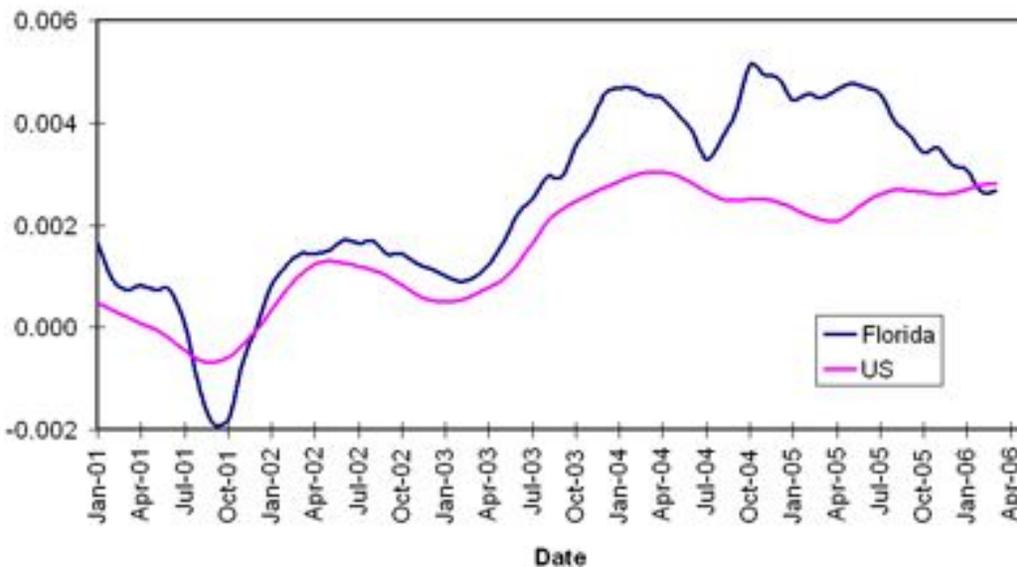
A variety of data indicate that our 2006 Outlook is, by and large, on track. Nationally, higher short-term and longer-term interest rates, continued high energy prices, and an uptick in inflation have dampened consumer spending and the housing markets. Overall, economic activity has slowed slightly. And while short-term interest rates are probably either at or near their peaks, longer-term interest rates are expected to rise further. More subdued business conditions and national economic growth are therefore likely for the balance of 2006, and the risk remains that the Federal Reserve's two-plus years of monetary tightening might prove to be too severe.

The accompanying table shows the 2006 forecasts we made for the Florida economy back in December, 2005 and our updates as of July, 2006. A few comments are in order:

- Job growth is even more robust than forecasted. For the twelve months ending in June, 2006, about 335,000 total new jobs were created and non-agricultural employment

Gross State Product (\$billions)		
Current \$	679,400	Will exceed \$700B in 2006. Data revised up for 2005.
change	41,400	
% change	6.50	
Real (\$2000)	631,760	Record increase in 2005.
change	35,760	
% change	6.00	

Florida and US Coincident Economic Indicators
3 Month Moving Average



- expanded by roughly 271,000 positions.
- Approximately 213,000 total new jobs and 102,000 new non-agricultural jobs have been created in the first six months of 2006.
- Florida's unemployment rate in June, 2006 was a record low of 3.0 percent, almost a full percentage point lower than in June, 2005 and about 1.6 percentage points lower than the national unemployment rate. Florida is at, or even below, full employment.
- Housing starts for the first five months of 2006 (January through May) were 108,616 units, a decline of 6,598 units or 5.73 percent compared to the same period in 2005. This decline is larger than we had forecasted.
- Housing prices, based on sales of the same dwelling unit for the first three months of 2006, are advancing at an annual rate of roughly 18 percent. This pace of advance is approximately double the national increase, but noticeably slower than the 26 percent gain recorded in Florida for 2005. Data for Florida's counties and Metropolitan Statistical Areas suggest housing prices are not only continuing to rise annually at double-digit rates, but also that the appreciation has slowed considerably compared to 2005.
- Personal Income, one of the broader measures of economic activity, stood at almost \$612 billion during the first quarter of 2006. Personal income expanded at a healthy 6.23 percent compared to the same period in 2005, and is growing at close to a 7.00 percent rate for 2006. This increase is in-line with our 2006 forecast.
- Gross State Product adjusted for inflation, the broadest measure of Florida's economy, surged 7.8 percent in 2005. This is a record for growth in Florida's economy and will not likely be repeated in 2006. In current dollar terms, Gross State Product for 2005 was \$674 billion. I have revised the 2006 current dollar forecast for Gross State Product to \$708 billion, a 5.00 percent gain relative to 2006.

In addition to the above data, economists at the Federal Reserve Bank of Philadelphia have developed an Index of Coincident Economic Indicators for each state. The index is designed to provide a current reading on economic conditions in each state. The chart shows the percentage change in the index for Florida and the U.S. on a three month moving average basis (so as to smooth some of the monthly volatility) through May of this year.

Both the Florida and U.S. indices continue to advance. Combined with the information discussed above, the current picture they paint is one of expansion. Moreover, recent gains in the indices have been above their longer-term average increases, suggesting overall that the Florida and U.S. economies are currently healthy and growing faster than their longer-term average growth rates. However, as the chart also shows, the rate of acceleration in the Florida index has slowed in recent months, which is consistent with our view of more moderate economic expansion in 2006.

So far in 2006, economic activity in Florida seems to be pretty much on track with the Economic Outlook that we presented in December. The Florida economy continues to briskly expand, and at a strong pace compared to the overall U.S. economy and the state's own long-term growth rate. At the same time, the pace of growth has clearly slowed from the records set in 2005. For the balance of the year, interest rates, energy prices, and inflation will importantly influence conditions in Florida.

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