

20 ECONOMIC 21 PREVIEW



DECEMBER 2020

AN UNCERTAIN YET HOPEFUL YEAR OF GROWTH

AS WE CLOSE OUT A TUMULTUOUS YEAR for Florida, defined by COVID-19 and its resulting disruptions to everyday life, we consider what may lie ahead for Florida's economy in 2021. If there's one thing assured for next year, it is that much economic uncertainty will persist against the backdrop of a constantly changing pandemic. Yet with several promising vaccines on the horizon and gradually improving labor market conditions, Florida looks poised to undergo the slow but steady process of economic rebuilding over the coming year.

On the macro level, Florida's Real Gross State Product (RGSP)—a measure of total economic output in the state after adjusting for inflation—is predicted to grow by 4.9 percent in 2021.¹ For context, from 2015 to 2019, Florida's economy averaged 3.4 percent yearly growth.² This forecast also places Florida ahead of the U.S., where national Real Gross Domestic Product (RGDP) is expected to grow by 3.6 percent in 2021, and ahead of other large states like New York and Texas, where growth is projected to be around 3.7 and 4.0 percent, respectively.³

Additionally, Florida's unemployment rate is anticipated to fall to around 5.5 percent in 2021, down from a peak of 13.8 percent in April 2020 during the state's lockdown but still higher than pre-pandemic levels. By comparison, the U.S. unemployment rate is expected to decrease to around 5.8 percent in 2021. Another workforce measure, the state's labor force growth, also exhibits a promising outlook with a growth rate around 2.9 percent, indicating the return of many Floridians who once dropped out of the job searching process due to the pandemic.⁴

1 Florida & Metro Forecast 2020-2023, University of Central Florida's Institute for Economic Competitiveness, Nov. 19, 2020. https://issuu.com/ucfbusiness/docs/ucf_flmetro_forecast-q3-2020

2 Ibid.

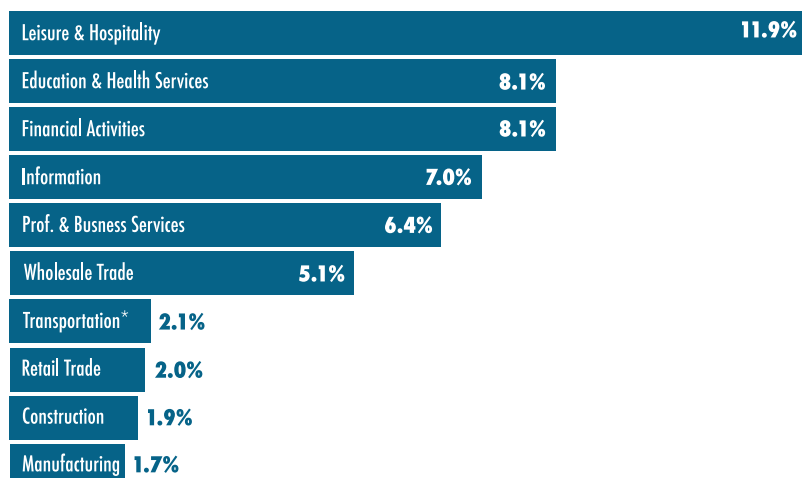
3 U.S. national data come from the Conference Board, Economic Forecast for the U.S. Economy, Nov. 13, 2020. New York data come from TD Ameritrade's State Economic Forecast found at <https://economics.td.com/state-economic-forecast>. Texas data come from The Perryman Group's economic forecast found at <https://fortworthbusiness.com/opinion/ray-perryman-economic-forecast/>

4 Florida & Metro Forecast 2020-2023, University of Central Florida's Institute for Economic Competitiveness.

PROMISING JOB GROWTH ACROSS ECONOMIC SECTORS

Accelerating job growth in 2021 seems to be the responsible factor for the simultaneous increase in state output and decrease in state unemployment. Total non-farm employment is slated to increase by 5.6 percent over the coming year with job creation across the board for all economic sectors (see Fig. 1 below for a breakdown).

FIG. 1. PROJECTED JOB GROWTH BY SECTOR



*Transportation includes Warehousing and Utilities

In 2021, the sectors with the fastest job growth will be *Leisure and Hospitality* (11.9 percent), *Education and Health Services* (8.1 percent), and *Financial Activities* (8.1 percent). It should be noted, however, that the bulk of the job growth in Leisure and Hospitality will be due to companies reclaiming many of the jobs lost during the pandemic's earliest months. Although third on the list,

Financial Activities will be the fastest-growing economic sector in Florida over the 2020-2023 period thanks in part to the sector's high telework feasibility, making it easier for employees to work from home.⁵

Complicating employment forecasts to some degree is the recent passage of Amendment 2 during the last election. The Amendment's passage will raise the state's minimum wage to \$10 in September 2021 and by one dollar in subsequent years until it reaches \$15 in 2026. As a result, higher labor costs will inevitably affect employers' decisions to hire more workers in the coming year. The exact magnitude of the impact remains unknown at this point, but the minimum wage hike will likely influence employment in lower waged industries, such as Leisure and Hospitality, and small businesses across the state.

POTENTIAL DIFFICULTIES IN THE CONSUMER MARKET

Despite solid job growth prospects, there are some indications that these benefits will not readily translate into the consumer market. Particularly in Florida, real personal income—how much income an individual makes from salaries, wages, and transfer payments—is expected to fall 3.2 percent in 2021.⁶ The predicted decrease can be explained partly due to falling stimulus and unemployment payments for many families, which originally offset some of the recession's impacts in 2020.

5 Florida & Metro Forecast 2020-2023, University of Central Florida's Institute for Economic Competitiveness.

6 Ibid.

Another worrisome spot deals with consumer confidence in the economy. According to the University of Florida's Consumer Sentiment Index, consumers are growing increasingly wary of the coming year. In the most recent survey, consumers across all socio-demographic groups indicated their pessimism about personal financial situations and expected national economic conditions in 2021 due to rising COVID-19 cases nationwide.⁷

Waning consumer confidence may signal a subsequent fall in consumer spending. By some estimates, retail spending in Florida will decline by around \$39.3 billion in 2021, a contraction of around 6.6 percent from the previous year.⁸ Coupled with a feeble tourism market, falling consumer spending will have the added effect of reducing potential tax revenue to the state of Florida. State economists estimate a \$2.84 billion anticipated loss to sales tax revenue in 2021—a feature that will constrain program spending across the state's budget.⁹

A SELLER'S HOUSING MARKET

Finally, after posting an impressive showing in the latter half of 2020, Florida's housing market is predicted to remain a robust seller's market in 2021 as declining inventory and strong demand drives home prices to new highs. New home construction is expected to number 134,300 in 2021—down from 148,800 in the previous year—while at the same time, median home prices are predicted to be just under \$290,000 statewide.¹⁰ As the new year goes on, buyers are expected to receive some relief as inventories gradually increase; however, buyers may continue to face ongoing affordability challenges as mortgage rates and home prices eventually increase throughout 2021.¹¹ Some estimates suggest mortgage rates will slowly rise to around 3.4 percent by the end of 2021, no longer offsetting some of the housing prices.¹²

CONCLUSION

Entering into the new year, Floridians have plenty of reason to be cautiously optimistic as Florida's economic picture in 2021 appears mixed and uncertain. Although strong job creation will certainly aid Florida's labor market recovery, personal income will not grow as rapidly for many families. Consumers also seem to be at a crossroads between the grim reality of rising COVID-19 cases across the country and the hopeful news of effective vaccine candidates. Overall, Florida's economy in 2021 will be uncertain, influenced largely by pandemic changes, but there is reason to believe next year will be a hopeful year of growth for a state on the road to economic recovery.

7 Florida Consumer Sentiment Index, University of Florida's Bureau of Economic and Business Research, Dec. 1, 2020. https://www.bebr.ufl.edu/sites/default/files/csi/csi_2020_1_december.pdf

8 Florida & Metro Forecast 2020-2023, University of Central Florida's Institute for Economic Competitiveness, Nov. 19, 2020. The calculation uses real retail spending, which takes inflation into account.

9 Revenue Estimating Conference for the General Revenue Fund, Florida Office of Economic and Demographic Research, Aug. 14, 2020. <http://edr.state.fl.us/content/conferences/generalrevenue/grsummary.pdf>

10 Housing start data come from UCF Institute for Economic Competitiveness; Median home price data come from Florida EDR.

11 Florida Realtors, "Tis the Season for Predictions: Realtor.com Is First" Dec. 2, 2020. <https://www.floridarealtors.org/news-media/news-articles/2020/12/tis-season-predictions-realtorcom-first>

12 Ibid.

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