



Florida TaxWatch

ECONOMIC COMMENTARY

Beyond the Pandemic: Long-Term Changes and Challenges for Supply Chains and the Customer Experience in Florida

COVID-19 LEGACY SERIES PT.7
NOVEMBER 2021

Note: This economic commentary is one of a multi-part “COVID-19 Legacy Series” discussing the long-term changes brought on by the COVID-19 pandemic and the challenges facing the state of Florida in the years to come. Each installation examines a particular focus area and describe how the changes will impact the Florida economy.

FOR MORE THAN A YEAR, FLORIDIANS HAVE EXPERIENCED FIRST-HAND THE CHANGES, CHALLENGES AND, IN MANY CASES, THE FRUSTRATIONS THAT ARISE WHEN A PANDEMIC AFFECTS GLOBAL TRADE. News headlines about container ships waiting off the west coast or constrained supply chains become very real experiences for the everyday consumer when a visit to the local grocery store results in disappointment as poultry, canned goods, and juice drinks become harder to find or prices rise. From the distant seaport to the local grocery store, the past year has been a testament to the numerous ways in which challenges with international or domestic supply chains can quickly trickle down to the local level.

The lived experience over the past year for many Floridians also attests to the increasingly new ways that consumers are transacting to improve safety and convenience. Due to local lockdowns and infection risks, many consumers resorted to online shopping, contactless pickup, and other methods to receive products. As popular as these new methods of transacting may be, they are not immune to the effects of supply chain disruptions. In a post-pandemic world, the rise in e-commerce will be consequential for Florida’s physical retailers, local economic activity, and tax revenue. Supply chain resiliency will become a growing area of concern amid a backdrop of heightened economic disruption.

THE GROWING IMPORTANCE OF SUPPLY CHAIN RESILIENCY

As the 2021 holiday season fast approaches, many Floridians will be confronted with lingering product shortages across store shelves and online as the pandemic continues to stretch and disrupt global supply chains at a time when demand is soaring. These disruptions and resulting delays can be expected for the foreseeable future, but they also underscore the importance of future supply chain resiliency for Florida.

From critically needed medical supplies to semiconductor chip electronics, businesses and consumers have experienced the ripple effects of major international supply chain bottlenecks over the past year. Florida’s total international merchandise trade fell by more than 12 percent in 2020, equating to \$135.1 billion in economic value—the lowest since 2010.¹

Merchandise exports declined by more than 17.6 percent compared to the previous year, and merchandise imports fell by 6.9 percent relative to the previous year as nations around the world suffered a major economic downturn.²

Well into 2021, trade bottlenecks and shortages still typify global value chains as economies struggle to ramp up

¹ Enterprise Florida, 2020 Florida International Business Highlights, Aug. 2021.

² Ibid.

production. The pandemic has highlighted the inherent trade-off of globally interconnected supply chains. At their best, international supply chains can lower business costs; however, vulnerability to largescale disruptions can quickly destabilize product movement, increasing company costs and harming the customer experience.³

Beyond COVID-19, Florida must prioritize both bolstering domestic supply chains and expanding export opportunities. Working with Florida businesses to identify single supplier risks, improve alternative value chains, and localize sourcing can all be priorities that ultimately boost Florida's export capacity.

When container ships carrying imported cargo enter Florida's ports, those same cargo ships should be able to leave port with just as many Florida-produced goods rather than just empty space or move through Florida for value-added services. Simply using a Florida port rather than an alternative one along the eastern seaboard represents an economic benefit to the state. To accomplish these goals requires a concerted effort to increase the availability of natural resources and supply chain linkages that enable Florida-based production and manufacturing. The pandemic may have painfully exposed the fragility in global supply chains, but it has also sparked a renewed sense of urgency for strengthening domestic supplies, manufacturing, and transportation to reduce backlogs and shortages. Innovative solutions such as Connex Florida—a statewide supply chain connection platform—can help streamline connections while reducing risk.⁴

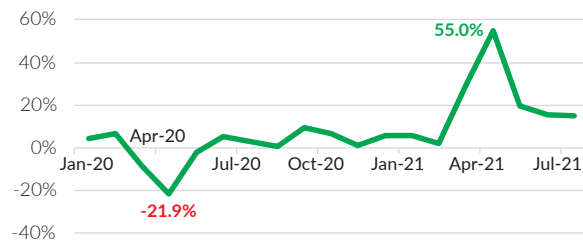
The COVID-19 pandemic may represent the latest, most pervasive supply chain disruption to affect Florida's economy, but it certainly will not be the last. As pointed out in a recently released Florida TaxWatch report, climate change will pose a direct risk to Florida commerce in forthcoming decades as supply chains contend with sea-level rise and more frequent and severe hurricanes.⁵

These climate-induced interruptions further reinforce the need for resiliency. The lessons borne from the pandemic will go far to support Florida's preparedness for future economic uncertainty and growing use of e-commerce.

RETAIL SALES AND THE RISE OF E-COMMERCE

A combination of social distancing requirements, lockdowns, fewer tourists, and consumer preferences made the pandemic-induced recession particularly difficult for Florida's retailers. In April 2020, monthly retail sales fell 21.9 percent over the year compared to 2019 (See Figure 1).⁶ Even though retail sales returned to positive year-over-year percentages by the summer of 2020, sales remained depressed throughout the remainder of the year and never eclipsed 10 percent until early 2021.⁷

Figure 1. Retail Sales Sank 21.9 Percent During the Early Pandemic but Surged in April 2021 Due to Federal Stimulus Funds
Year-Over-Year Percentage



Evidencing the American Rescue Plan's (ARP) stimulus payments, retail sales in Florida hit a peak of 55 percent over the year growth in April 2021 after relief payments reached family bank accounts and were subsequently spent on goods and services.⁸

With a resounding shift toward health and safety, it comes as no surprise that consumers altered how they shopped. Most notably, the COVID-19 pandemic led to a dramatic shift in the number of online shoppers who sought to minimize physical contact. Online retail sales jumped to \$211.5 billion nationally by the second quarter of 2020—a 44.5 percent increase over the same quarter in 2019, according to the U.S. Department of Commerce.⁹

E-commerce sales, as a percentage of total retail sales, reached 15.7 percent during the second quarter of 2020 and have since leveled out at around 14 percent throughout 2021 (See Figure 2).¹⁰ For comparison, in 2017, e-commerce only comprised 8 percent of total retail sales after adjusting for seasonality.¹¹ Certain product categories will be some of the biggest beneficiaries of the expansion in online shopping. Apparel and

³ CNBC, "Supply Chain Chaos Is Already Hitting Global Growth And It's About To Get Worse," Oct. 18, 2021.

⁴ Florida TaxWatch, Supply Chain Resiliency in the Face of Economic Disruption: Connex Florida as a Platform for Resilience, Jul. 2021.

⁵ Florida TaxWatch, A Rising Tide Sinks All Homes - The Effects of Climate Change on Florida's Economy," Oct. 20, 2021.

⁶ U.S. Census Bureau, Monthly State Retail Sales, Accessed Nov. 4, 2021.

⁷ Ibid.

⁸ CNBC, "Retail Sales Explode in March As Consumers Use Stimulus Checks to Spend Heavily," Apr. 15, 2021.

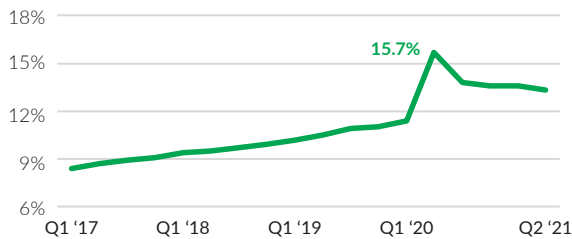
⁹ U.S. Department of Commerce, U.S. Census Bureau, Quarterly Retail E-Commerce Sales for 2nd Quarter 2020, Aug. 18, 2020.

¹⁰ U.S. Department of Commerce, U.S. Census Bureau, Quarterly Retail E-Commerce Sales for 2nd Quarter 2021, Aug. 19, 2021.

¹¹ Ibid.

accessories, food and beverage, and health and personal care products have witnessed, and are forecast to experience, some of the fastest growth in e-commerce as the ongoing recovery continues to release pent-up demand.¹²

Figure 2. E-Commerce Jumped 4.3 Percentage Points During the Pandemic Due to Growth in Online Shopping
Percent of Total Retail Sales



From a business perspective, the accelerated growth in e-commerce will cultivate continued innovation for customer engagement and business operations going forward. Some of these changes are already being witnessed, such as contactless delivery and online grocery shopping. A McKinsey & Co. survey found that roughly 59 percent of U.S. consumers who used “buy online, pick up in-store” (BOPIS) in 2020 expect to use the same format in the long term.¹³ Similarly, around 3 in 4 respondents signaled their desire to continue using safe and contactless checkout methods beyond the pandemic.¹⁴ Increasingly, retailer-consumer interactions will be defined by health and safety expectations from consumers.¹⁵

The ability to adopt digital technologies and platforms to tailor to customer preferences may be easier for larger firms; however, one long-term concern may be the market expectation for smaller, local businesses to integrate online technologies. Without extensive capital resources to seamlessly adopt digital technologies, the shift to e-commerce may unintentionally disadvantage some local small businesses in Florida. At the same time, however, proactively investing in emerging technologies (e.g., BOPIS or curbside delivery) as a small to medium-sized business may yield sizeable economic benefits down the road. Furthermore, to what extent online shopping comes at the detriment of in-person shopping at regional malls, small businesses, and other standalone stores remains a longstanding concern as brick-and-mortar closures and bankruptcies have hit record levels during the pandemic.¹⁶

12 Business Insider Intelligence, “US Ecommerce by Category 2021: How the Pandemic Reshaped the Ecommerce Landscape—and What that Means for 2021,” Apr. 27, 2021.

13 McKinsey & Company, “Adapting to the next normal in retail: The customer experience imperative,” May 14, 2020. Cited by Forbes, “Four Trends Reshaping the Future of Retail,” Jun. 23, 2021.

14 Ibid.

15 Deloitte, “The retail evolution’s great acceleration: How to maneuver in the pandemic-driven recession,” Accessed Nov. 4, 2021.

16 CNBC, “10,000 stores are expected to close in 2021, as pandemic continues to pummel retailers,” Jan. 28, 2021.

Some forecasts suggest that by 2026 some 80,000 retail stores nationwide will shut their doors permanently due to increasing online commerce and the longstanding financial difficulties that the pandemic exacerbated.¹⁷

FUTURE IMPLICATIONS FOR FISCAL TAX REVENUE

Shifting consumer behaviors and changes to retail trade will have a discernible impact on tax revenue for state and local governments. During the 2020-2021 legislative session, the Florida Legislature passed, and the Governor subsequently signed, a new law that would require most marketplace vendors located outside of the state to collect and remit sales tax when selling products and services to residents in Florida.¹⁸ As discussed in a previous Florida TaxWatch research, the remote sales tax will promote fairness by leveling out the playing field for Florida businesses that compete with out-of-state sellers.¹⁹

Table 1. Expected Sales Tax Revenue from Remote Sales Tax

Fiscal Year	Revenue
2021-22	\$887.8 million
2022-23	\$1,052.7 million
2023-24	\$1,118.0 million
2024-25	\$1,173.9 million
2025-26	\$1,232.6 million

Source: Florida Revenue Estimating Conference

For tax revenue purposes, the new law will also lead to an increase in revenue in future years as online sellers provide goods to Florida residents and more consumers resort to online shopping. To be explicitly clear, the increase in revenue is not the result of a tax increase on Florida’s taxpayers but rather from addressing compliance issues and requiring out-of-state vendors to collect and remit the legally owed sales tax.²⁰ The additional revenue from online sales will also go to replenish the Unemployment Compensation Trust Fund, which was devastated by the pandemic last year, and will eventually go to reduce the Business Rent Tax.²¹

17 CNBC, “More retail pain ahead: UBS predicts 80,000 stores will close in the U.S. by 2026,” Apr. 5, 2021.

18 The Florida Senate, CS/CS/SB 50: Taxation for 2021 Legislative Session, Accessed Nov. 7, 2021.

19 Florida TaxWatch, Wayfair: Formulating a Florida Response, Apr. 2019.

20 Before the remote sales tax was in place, it was up to the consumer to remit the sales tax on online purchases. This had the unintentional effect of making many Floridians unknowing lawbreakers when they did not do so. The new law stipulates that remote vendors must now collect and remit sales tax, which will close compliance issues and raise revenue as a result.

21 The Business Rent Tax (BRT) subjects commercial lease and license payments to state and local sales tax. Florida is the only state to do so, which creates a competitive disadvantage. Florida TaxWatch has long advocated for eliminating the BRT due to its economic consequences.

Recommended by Florida TaxWatch, both these actions can prevent a sudden rise in taxes for Florida's employers and can pass on the savings to Florida consumers.²²

Based on official estimates from the Florida Revenue Estimating Conference, sales tax collections for the state government are expected to reach \$887.8 million in the fiscal year (FY) 2021-2022 and more than \$1.2 billion by FY 2025-2026.²³ The estimates assume e-commerce activity will largely revert to pre-pandemic levels; however, if the opposite occurs and larger than average growth ensues, sales tax revenue from online sales may be even higher than initially forecasted.²⁴

At the local level, the future fiscal impact of growing online sales and potentially declining in-person sales is a mixed bag. Based on the aforementioned remote sales tax estimates, local governments can expect to benefit from more than \$193.1 million in expected sales tax revenue by FY 2025-2026. Offsetting this benefit, however, is the potential for declining in-person retail and brick-and-mortar store closures to minimize commercial property tax revenue. At present, the fiscal impact for local governments is indeterminate and difficult to quantify yet still important to acknowledge given the local experience throughout COVID-19.

²² Florida TaxWatch, E-Fairness Letter to Gov. DeSantis, Apr. 15, 2021.

²³ Revenue Estimating Conference, Sales Tax: Bill Number: SB 50/HB 15, Jan. 28, 2021. Accessed Nov. 7, 2021.


²⁴ Ibid.


CONCLUSION


From the supply chain to the point of sale, the customer experience in Florida will be constantly changing. When domestic supply chains wrestle with labor shortages, a lack of supplies, or transportation issues, some food items may be hard to find on some store shelves. Or when international supply chains deal with closed ports or production that has not ramped up yet, certain products may be backlogged. These enduring challenges for value chains intersect with shifting consumer expectations for safety and convenience, which increases the use of online shopping. Although some of these changes and challenges are beyond Florida's control, it is imperative to prepare for future disruption by strengthening in-state production and manufacturing capacity to satisfy customer demands in a timely, efficient manner.



Stay Informed

 floridataxwatch.org

 [@floridataxwatch](https://www.facebook.com/floridataxwatch)

 [@floridataxwatch](https://twitter.com/floridataxwatch)

 [@flitaxwatch](https://www.youtube.com/flitaxwatch)

Florida TaxWatch
106 N. Bronough St.
Tallahassee, FL 32301

o: 850.222.5052
f: 850.222.7476

Copyright © November 2021
Florida TaxWatch
Research Institute, Inc.
All Rights Reserved

Primary Author – **Jonathan Guarine, MS**, Research Economist

Tony Carvajal, Executive Vice President

Chris Barry, Vice President of Communications & External Affairs

Senator George S. LeMieux, Chairman of the Board of Trustees

Dominic M. Calabro, President and CEO, Publisher & Editor

Florida TaxWatch Research Institute, Inc.

www.floridataxwatch.org

Copyright © Florida TaxWatch