

20 ECONOMIC 22 PREVIEW



DECEMBER 2021

SETTLING INTO THE NEW NORMAL

IT WAS NOT LONG AGO THAT FLORIDA WAS TURNING THE PAGE FROM A TUMULTUOUS 2020

and preparing for a much-awaited economic rebound throughout 2021. The advent of three safe and effective vaccines aided the recovery as COVID-19 cases declined and jobs steadily returned, but by mid-year, the highly-infectious Delta variant thwarted expectations for a seamless path forward, reminding everyone that the future was still very unpredictable. The recent emergence of the Omicron variant has only reinforced this sense of uncertainty for many people.

As COVID-19 enters its third year, Florida's economic outlook is settling into a new normal—one defined by advancing job growth, punctuated by lingering challenges with labor shortages, supply chains, and inflation. For Floridians making sense of the future uncertainty, the issue is no longer just about returning to pre-pandemic trends and traditions, but rather adapting and settling into a new normal way of life.

FLORIDA'S BROADER ECONOMY

For the overall Florida economy, real Gross State Product (GSP)—a measurement of state output and a general barometer for assessing economic health—is steadily rising due to higher levels of economic activity. Official state estimates forecast that GSP will reach a 4.5 percent annual growth rate in 2022 before tempering down to a more characteristic 2.5 percent over the subsequent years.¹ The higher than average GSP growth for next year speaks to the tremendous decline in economic activity that occurred early on, pent-up demand among consumers, and Florida's "open for business" strategy.

In a typical year, personal income growth is another metric that is commonly used to evaluate the overall economy.² Due to a large influx of stimulus payments and other federal dollars, Florida's personal income grew by an atypical amount in 2021, at one point shooting up nearly 62 percent in the first quarter of 2021. For the year ahead, personal income is expected to tone down and rise by 1.5 percent as the effects of federal direct payments subside.³

1 Florida Economic Estimating Conference, Florida Economy: Long-Run Tables, Jul. 20, 2021.

2 Personal income includes the income people receive from wages and salaries, Social Security and other government benefits, dividends, and interest.

3 Florida Economic Estimating Conference, Florida Economy: Long-Run Tables, Jul. 20, 2021. Note: A normal rate of personal income growth is around 4 percent, based on past economic data.

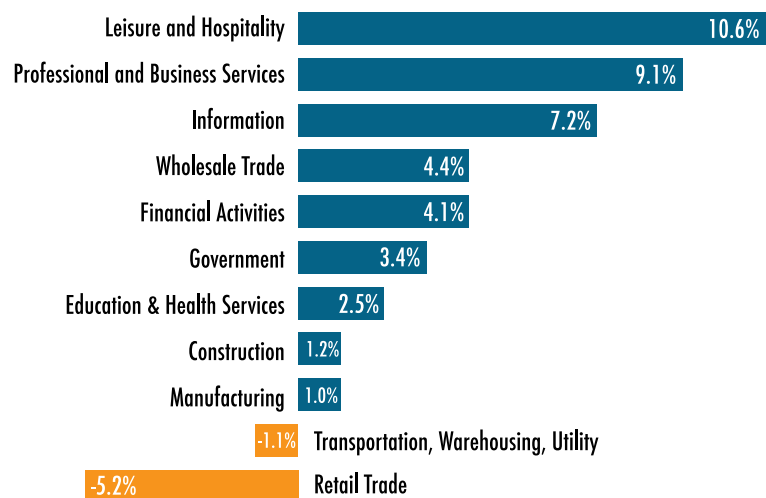
Reflecting general labor market conditions, Florida’s unemployment rate is anticipated to fall to 3.5 percent in 2022, somewhat approaching the pre-pandemic record of 3.1 percent set in 2019.⁴ Since some individuals may inevitably leave the labor force and therefore are not reflected in official unemployment rates, it is also worth looking at figures describing labor force participation. Based on estimates, Florida’s labor force is expected to climb by 2.9 percent in 2022 as more individuals gradually return to the labor force.⁵

Anecdotally, many Floridians are witnessing the general improvements in the broader economy as leisure travel picks back up, spurring attendance at concerts, sporting events, and other gatherings across the state. Rebounding tourism has also brought many people back to the Sunshine State’s natural amenities and theme parks. Many regional real estate markets are attracting new residents to the state due to increased remote work. In response, many local businesses are capitalizing on the twin benefit of returning tourists and new residents.

A MIXED LABOR MARKET RECOVERY

At first glance, Florida’s various headline figures seem to foreshadow a path of robust growth ahead as GSP, personal income, unemployment, and labor force participation all appear to be moving in the right direction. Florida’s job growth figures for 2022 are no exception as total nonfarm employment is forecast to rise by 4.3 percent, equating to about 379,500 additional jobs statewide. A deeper sector-by-sector analysis, however, quickly reveals some key variations and nuances to the overall labor market recovery.

FIGURE 1. LEISURE & HOSPITALITY EMPLOYMENT GAINS WILL LEAD OVERALL JOB GROWTH, WHILE TRADE SECTOR EMPLOYMENT LAGS BEHIND IN 2022



By sector breakdown, the Leisure and Hospitality sector will lead job creation numbers, growing by 10.6 percent in 2022 (See Figure 1). Professional and Business Services (9.1 percent) and Information (7.2 percent) are the next two fastest-growing sectors according to forecasts. For Leisure and Hospitality, most of the rapid job growth is due to the reclamation of jobs lost during the pandemic. Quite notably, job forecasts for the Transportation, Warehousing, Utilities and Retail Trade areas of the Florida economy are projected to fall by 1.1 and 5.2 percent, respectively, in 2022.

Much like the rest of the nation, labor shortages in lower-waged, customer-facing industries, such as retail trade, will persist for the foreseeable future as some prospective workers seek jobs in other industries or drop out of the labor force altogether. Acknowledged in a previous Florida TaxWatch “Beyond the

4 University of Central Florida (UCF) Institute for Economic Forecasting, 2021-2024 Florida & Metro Forecast, Jul. 2021.
 5 University of Central Florida (UCF) Institute for Economic Forecasting, 2021-2024 Florida & Metro Forecast, Jul. 2021.

Pandemic” commentary,⁶ the subsequent rise in e-commerce throughout the pandemic will also likely limit future employment in traditional brick-and-mortar retailers, worsening trade and transportation issues tied to supply chains.

Worth noting and monitoring into 2022, job quit rates also characterize a more complicated labor market recovery than what topline employment numbers may initially suggest. Some 279,000 Floridians quit their jobs in September 2021—the third consecutive month of increases and the highest level on record since December 2000 when data first started being reported.⁷

If trends continue, resignation rates in Florida will likely remain the highest among mid-career employees between the ages of 30 to 45 years old.⁸ Contrary to the commonly held belief that younger employees are driving the turnover, these older individuals are leaving their jobs for a variety of reasons, ranging from pent-up resignations and burnout to remote work opportunities and newer preferences. Without absolute data, the exact reasons will be difficult to pinpoint; nevertheless, attrition of experienced, mid-career workers will precipitate challenges for productivity, training, knowledge sharing, and mentorship in Florida’s economy.

More than just age group differences, job quit data also suggest future trends may vary by economic sector in Florida. For sectors like Leisure & Hospitality, Retail Trade, and Health Care—which saw some of the highest quit rates in 2021—factors such as low pay, lack of work-life balance, infection risks, burnout, and overall uncertainty in the economy may be more consequential determinants. For other sectors like Professional & Business Services, the ability to remote work and relocate may play a bigger role.

Reasons for the “Great Resignation” are diverse and difficult to disentangle; however, whether the decisions are driven by uncertainty or opportunity (or both), expect job quit rates to be a subtle yet enduring part of Florida’s labor market recovery in 2022. Next year will likely be an “employee market,” where existing hiring challenges provide job seekers with more leverage to demand higher wages, more favorable working arrangements, and other benefits that more closely align with their individual preferences and values.

CONSUMER SPENDING AND THE RISE OF INFLATION

Consumer spending in Florida has steadily risen since the beginning of 2021, aided in large part by federal stimulus payments. As of the latest data in mid-November, Florida’s consumer spending increased by 26.5 percent compared to pre-pandemic levels in January 2020, marginally exceeding the national average of 24.7 percent.⁹

The issue of inflation—the general rise in prices for goods and services—is one complication that may undermine Florida’s consumer spending in 2022. Since 2010, inflation (as measured by the Consumer Price Index, or CPI) has oscillated between 1.0 and 3.0 percent, with a central tendency of around 2.0 percent. In 2021, inflation hit the highest level since 1990 at around 6.2 percent.¹⁰ Federal Reserve

6 Florida TaxWatch, “Beyond the Pandemic: Long-Term Changes and Challenges for Supply Chains and the Customer Experience in Florida,” Nov. 18, 2021.

7 U.S. Bureau of Labor Statistics, State Job Openings and Labor Turnover Survey (JOLTS), Nov. 19, 2021.

8 Harvard Business Review, “Who is Driving the Great Resignation?” Sept. 15, 2021.

9 Opportunity Insights Economic Tracker, “Percent Change in All Consumer Spending,” Dec. 3, 2021.

10 Federal Reserve Bank of St. Louis (FRED), Consumer Price Index for All Urban Consumers: All Items in U.S., Nov. 10, 2021.

projections are that inflation will subside to a more normalized rate of 2.2 percent in 2022;¹¹ however, this projection may be a serious underestimate if supply chain issues and labor challenges prove to be more permanent features of the economic recovery rather than transitory experiences.

Although assumptions and estimates may differ, rising prices will inevitably affect Floridians into next year. Inflation will cut into the purchasing power for many Florida families as items become more expensive and constrain budgets. The impacts will be disproportionate for rural, low-income areas in Florida where income growth typically lags behind more urban areas and a greater proportion of household budgets are spent on essentials like food and energy, which have seen some of the largest price increases relative to other items.¹²

Even the mere expectation for higher prices on the horizon can have a profound impact on consumer behavior. The Federal Reserve Bank of New York's survey of consumer expectations found that consumers expect year-ahead inflation to be around 5.7 percent, well above the long-term average of 2.0 percent that the Federal Reserve strives for to achieve price stability.¹³ Inflation expectations in the south region (including Florida) are higher than the national average, with most consumers expecting 5.9 percent inflation.

With consumer prices rising by the highest levels since 1990, consumer confidence is starting to erode in Florida. According to the University of Florida's Consumer Sentiment Index, consumer sentiment fell for a third consecutive month in October 2021 as expectations about where personal finances and the overall U.S. economy will be in a year are dropping.¹⁴ These worrisome expectations were rather consistent across demographic and income categories, expressing a generally shared perspective.

In addition to rising prices across empty store shelves, growing pessimism over future market conditions appears to be driven by ongoing supply chain issues—another feature of 2022 that may remain in place for some time. Overall, Florida's retail sales for 2022, after adjusting for inflation, may decline by \$9.8 billion, but some of these declines can be buttressed and potentially offset by a stronger than expected showing from tourism spending and online shopping.¹⁵

CONCLUSION

For Florida's economic outlook in 2022, projections are that employment will rise by 4.3 percent, or about 379,500 additional jobs, and the state unemployment rate will decline to 3.5 percent. Job growth will lead in areas like Leisure & Hospitality but lag behind in Retail Trade. Personal income growth is also projected to rise by 1.5 percent next year; however, how this translates into increased consumer spending will be affected by how much inflation undermines consumer confidence. Next year, inflation is expected to rise by around 2.2 percent if supply chain and labor issues turn out to be truly transitory.

11 Board of Governors of the Federal Reserve System, Federal Open Market Committee Projections Materials, Sept. 22, 2021.

12 Federal Reserve Bank of St. Louis (FRED), Per Capita Personal Income by County, Annual: Florida, Dec. 3, 2021.


13 Federal Reserve Bank of New York, "Survey of Consumer Expectations: Inflation Expectations," Accessed Dec. 2, 2021.


14 University of Florida (UF) Bureau of Economic and Business Research, "October consumer sentiment tumbles signaling a continued slow economic recovery," Nov. 2, 2021.


15 University of Central Florida (UCF) Institute for Economic Forecasting, 2021-2024 Florida & Metro Forecast, Jul. 2021.



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

o: 850.222.5052
f: 850.222.7476

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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

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