Florida TaxWatch Center for Competitive Florida

ECONOMIC COMMENTARY:
A monthly look at Florida's Economy

#9 February 2006

The Cost of Living in Florida: What the Consumer Price Index Is and Isn't Telling Us

Has the cost of living in Florida been rising, falling, or staying about the same? In other words, is Florida becoming a more or less expensive state in which to live?

The Consumer Price Index (CPI) published by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor is provided for the nation, for census regions of the country, and for a number of metropolitan areas including Miami-Ft. Lauderdale and Tampa-St. Petersburg-Clearwater. CPI data are widely recognized as a measure of the country's inflation rate, and are used extensively in making cost of living adjustments to social security and pension payments, labor and rental contracts, and interest rates on bonds and loans.

Percent Change in the Consumer Price Index: 1995 - 2005: U.S., South, Florida, and Atlanta Metro Areas

Year	U.S.	South	Miami/Ft.L	Tampa/St. Pete	Atlanta
1995	2.8	3.0	3.7	2.5	2.9
1996	3.0	3.1	3.2	1.5	3.4
1997	2.3	2.1	3.1	1.8	1.9
1998	1.6	1.3	1.3	2.6	1.4
1999	2.2	2.0	1.2	2.3	2.2
2000	3.4	3.2	3.3	3.6	3.5
2001	2.8	2.3	3.1	2.1	3.3
2002	1.6	1.3	1.4	3.4	1.1
2003	2.3	2.3	2.9	2.7	1.5
2004	2.7	2.5	2.8	2.5	1.3
2005	3.4	3.6	4.7	3.4	3.1
Cumulative Increase:					
1995 - 2005:	28.1	26.7	29.4	28.4	25.6
2000 - 2005:	16.2	15.2	18.2	17.7	13.8

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Data in the table and chart at left should be interpreted with the following in mind:

- The CPI for All Urban Consumers is comprised of a 'basket' of about 5,000 goods and services purchased by the 'typical' urban consumer.
- The BLS conducts a monthly survey of the prices for these 5,000 goods and services for the nation as a whole, a bimonthly survey for the Miami-Ft. Lauderdale area, and a semi-annual survey for the Tampa-St. Petersburg- Clearwater area. For this reason, local CPI data are subject to potentially greater measurement errors.

Price indexes are not completely accurate. Research on the CPI suggests it tends to overstate the true inflation rate by about one full percentage point.

Several noteworthy points emerge from data in the table and chart:

1. Cost of living trends are the same for Florida's metropolitan areas as they are for the nation, the South, and the Atlanta area.

2. From 1995 through 2005, the cumulative increase in the CPI for the nation as a whole was 28.1% versus 29.4% for Miami-Ft. Lauderdale and 28.4% for Tampa- St. Pete-Clearwater. In other words, the cost of living in these Florida metro areas rose at pretty much the same pace as the rest of the nation.

3. However, from 2000 through 2005, the nationwide increase in the CPI was only 16.2 % compared to 18.2% for Miami-Ft. Lauderdale, 17.7 % for Tampa-St. Pete-Clearwater and 15.2% for the South census region. In recent years, then, the cost of living in these Florida metropolitan areas has risen at a faster pace than the rest of the country and the region.

What could account for the more rapid rate of cost of living increases in the Florida metro areas? Rising cost of living measures are often a sign of the comparative economic vitality of a state or locality. Economically robust states and localities like Florida, Miami-Ft. Lauderdale and Tampa-St. Pete-Clearwater attract more new residents, create more jobs and generate larger income gains than in economically sluggish ones. Growth in demand for a broad variety of goods and services is stronger, contributing to more rapid price rises. This is especially the case for products and services that have a sizable local content.

Percent Change in CPI by Expenditure Category: December 2004 - December 2005

	U.S.	Mia - Ftl.	Tampa - St. Pete	Atlanta
All Items	3.4	4.7	3.4	3.0
Food & Beverages	2.3	1.5	3.1	1.0
Housing	4.0	6.5	4.7	4.8
Apparel	-1.1	9.8	-2.4	-2.8
Transportation	4.8	4.8	3.4	3.3
Medical Care	4.3	7.2	3.3	-1.2
Recreation	1.1	-0.8	1.5	4.4
Education & Communication	2.4	1.8	-0.1	0.5
Other Goods and Services	3.1	-0.2	2.6	2.7

Source: U.S. Department of Labor, Bureau of Labor Statistics

The second table illustrates the percent changes in the CPI for the twelve months from December 2004 to December 2005 by major expenditure category for the U.S., Miami- Ft. Lauderdale, Tampa-St. Pete-Clearwater, and the Atlanta metropolitan area. This table shows specific goods and services experiencing the most significant price changes.

In Miami-Ft. Lauderdale, the prices for housing, apparel and medical care rose faster than for the rest of the country. In Tampa-St. Pete-Clearwater, this was the case for food, housing, and recreation. By contrast, price rises were lower for food, recreation, education, and other items in Miami – Ft. Lauderdale, and for apparel, transportation, medical care, education, and other items in Tampa – St. Petersburg – Clearwater. Relative to the Atlanta metropolitan area, price rises were greater for all expenditure categories in the two Florida areas except for recreation and other items.

Florida has historically been viewed as a moderate cost of living state compared to the nation as a whole and a lower cost of living state compared to other large, populous states such as New York and California. Because CPI data since 1995 show roughly the same percent increase for the two Florida metro areas as for the rest of the U.S., we can conclude with reasonable confidence that Florida remains a moderate cost of living state.

Even the higher cost of living advances in the two Florida metro areas since 2000 do not necessarily imply that Florida is losing its cost of living advantage. The ability and willingness of businesses and entrepreneurs to increase their production of goods and services in response to higher prices associated with a robust economy is the key issue here. This ability and willingness is closely tied to state and local mechanisms that either encourage or impede the flexibility with which resources can be used.

By Stephen O. Morrell, Ph.D., Florida TaxWatch Senior Research Fellow and Professor of Economics and Finance, Andreas School of Business, Barry University, Miami Shores.

The TaxWatch Center for a Competitive Florida...Resolving issues vital to Florida's global economic competitiveness.

Florida TaxWatch Center for a Competitive Florida Advisory Board

Mr. David McIntosh
Chairman
Trustee–Bluefield Ranch Mitigation Bank Trust

Mr. Hoyt "Barney" Barnett
Vice Chairman
Publix Super Markets, Inc.

Mr. Marshall Criser, III
President-Florida
BellSouth

Mr. Moray P. Dewhurst
Vice President, Finance & CFO
Florida Power & Light

Ms. Glenda Hood
Former Secretary
Department of State

Mr. Robert Hudson
President & CEO
AvMed Health Plan

Mr. Dwayne Ingram
Vice President
Travel & Transportation IBM

Governor Bob Martinez
Carlton Fields

Mr. Patrick K. Neal
President
Neal Communities of SW Florida, Inc.

Ms. Alex Sink
President (ret)
Bank of America

Mr. David Smith
President & CEO
PSS World Medical

Mr. John Zumwalt, III
President & CEO
Post Buckley Schuh & Jernigan, Inc.