Gulf Power Economic Symposium

Economic Update

Haas Center for Business Research and Economic Development

University of West Florida

Rick Harper, Ph.D., Director

September 3rd, 2009

August 09: Economic Drivers in the National Picture

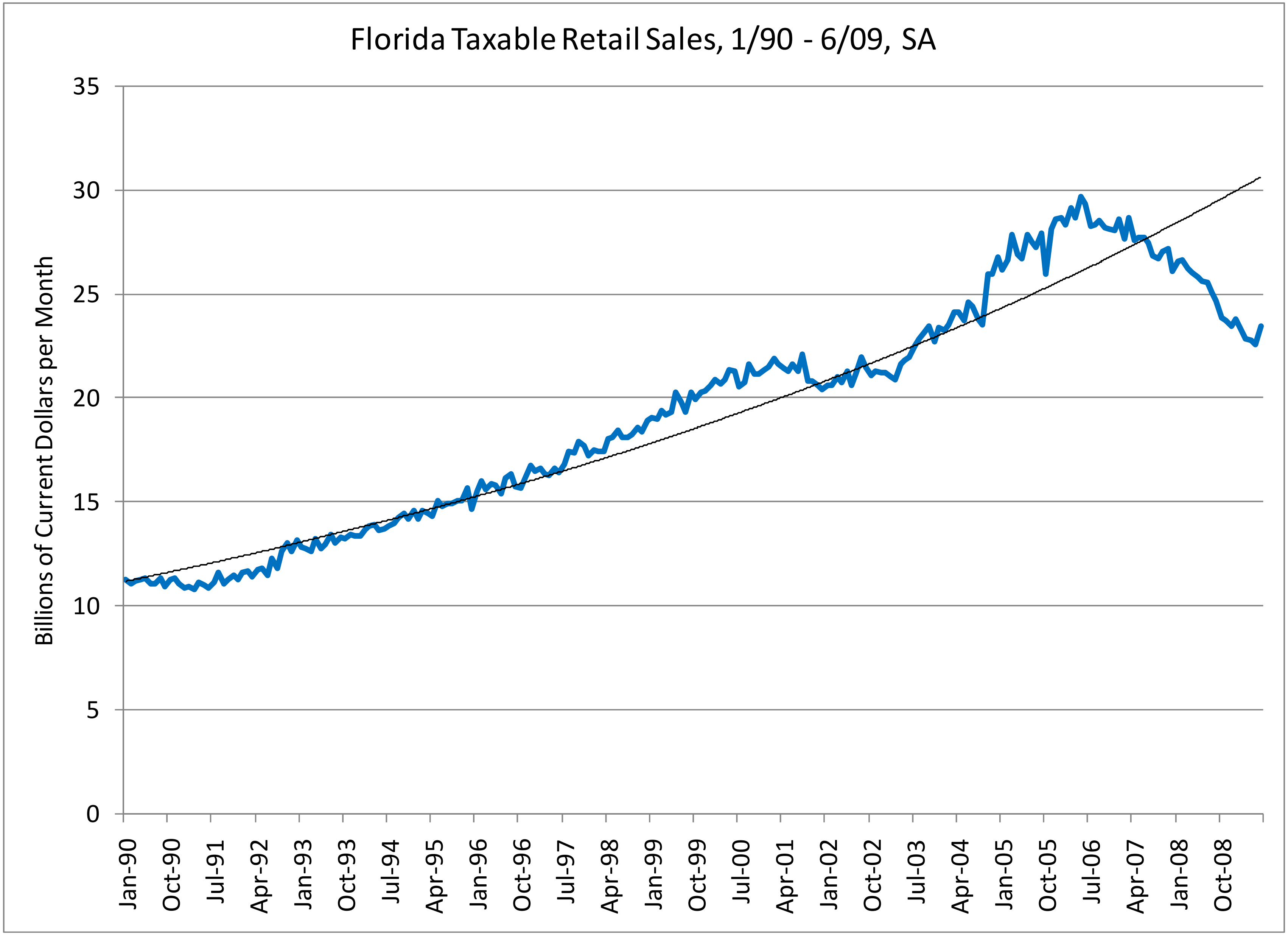
- Financial freeze continues to ease (but lending is weak)
- Economic crisis easing (but we won't feel healthy soon)
- Job losses continue (timing lags GDP, no growth til 2010)
- Negative GDP growth ends (-1.0% Q2, +3.0% in Q3?)
- Housing market bottom reached (but no strong rebound)
- Monetary policy (Fed aggressive, but ready to unwind)
- Fiscal policy (ARRA, TARP, what's the ROI?)
- Energy prices / inflation (oil stable, deflation still a risk)
- Growth abroad picks up (will help US exports)

The Debt and the Deficit:

- The long-term sustainable federal deficit is about 3% per year
- The current year deficit will be 13% of GDP
- The current deficit is a necessary evil
- Due to demographics, it will get progressively harder to balance the budget
- Growth in health care costs will swamp all other budgetary outlays
- Budget should be balanced over the business cycle, not every year

The FL outlook: Recovery lags the nation

- Massive housing inventory to be worked through
- Job shrinkage continues until mid-2010
- It will take until 2012 to return to 2007 jobs count
- Unemployment for FL peaks at 10%+ in 2009
- Continued subpar job growth in FL until 2011
- Unemployment stays above 8% into 2012
- Decreased numbers of economic migrants into Florida
- General revenues for Florida finally stop falling
- Federal fiscal stimulus dollars end in 10 ➔ FL budget woe
- Declining property values will call for increased millage rates in school districts, but political pressure will limit increases.
- Growing risks to military budgets in WDC threaten vitality
- FL needs to address windstorm insurance and property tax


Florida Taxable Retail Sales, 1/90 - 6/09, SA
Billions of Current Dollars per Month
35
30
25
20
15
10
5
0
Jan-90
Oct-90
Jul-91
Apr-92
Jan-93
Oct-93
Jul-94
Apr-95
Jan-96
Oct-96
Jul-97
Apr-98
Jan-99
Oct-99
Jul-00
Apr-01
Jan-02
Oct-02
Jul-03
Apr-04
Jan-05
Oct-05
Jul-06
Apr-07
Jan-08
Oct-08

How did we get here? The fiscal environment:

•In the good old days: “Come to Florida for warm weather and low taxes.”

•Our overall tax burden, and our level of government services, has always been low relative to other states. Better than NY and CA.

•Unlike Alabama, Georgia and the Carolinas, we never had to spend many taxpayer dollars offering incentives. In fact, when we do the state budget, we count the fiscal impact of a new business relocation receiving $1mm in incentive payments as a $1mm hit to the Florida budget. Period.

•Add in the constitutional amendment called “Save Our Homes,” which relieves long-term homeowners of the burden of financing the growing cost of government services. A massive voting block is now happy…

•We might as well have called it “Destroy Our Businesses,” as it disproportionately requires newcomers and businesses to foot the bill.

•This works as long as newcomers and businesses continue to come.

The New Normal:

"Come to Florida – Somebody Has to Pay the Taxes!"

(UCF economist Sean Snaith quoted in Florida Today, 9/1/09)

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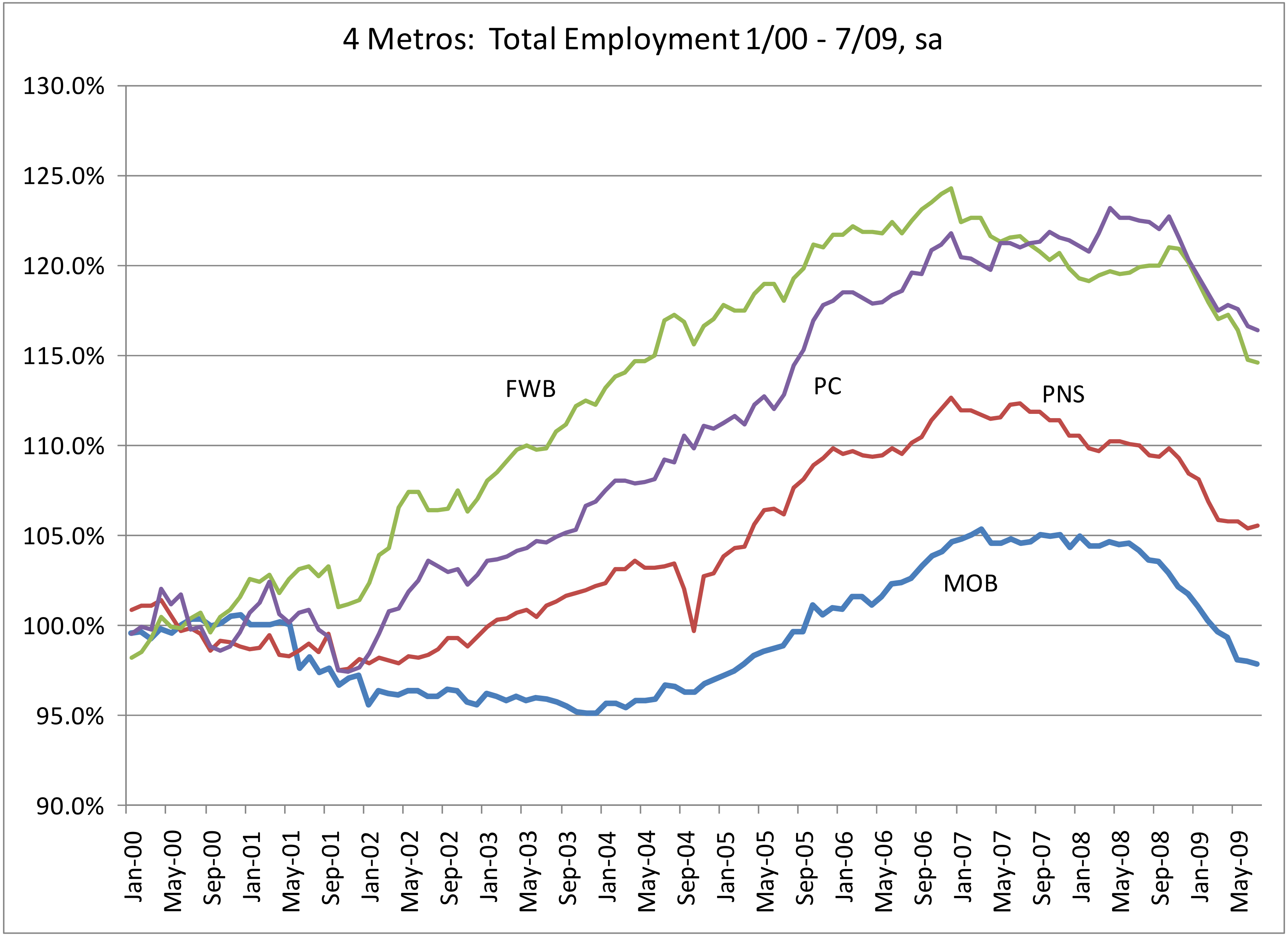

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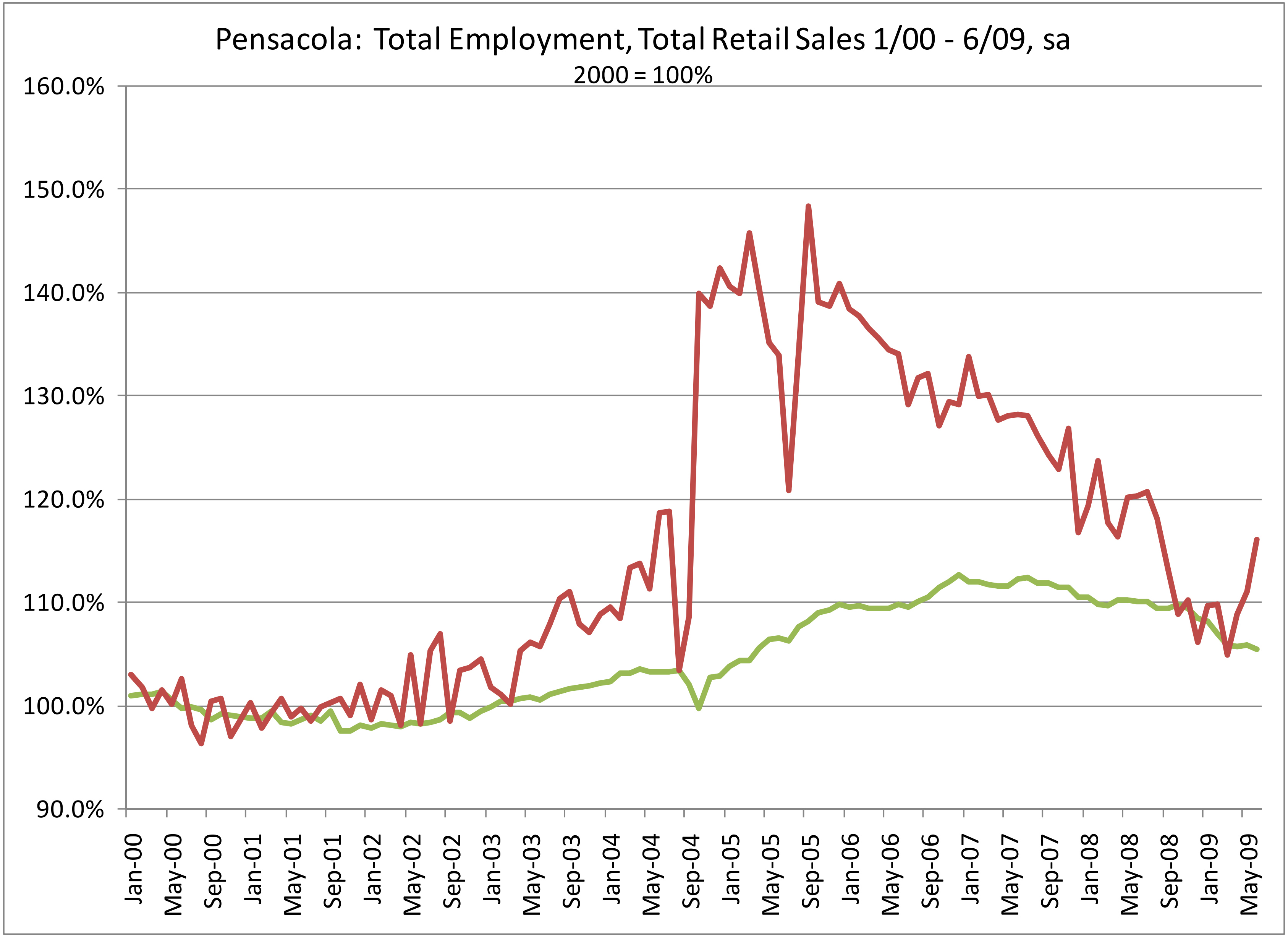

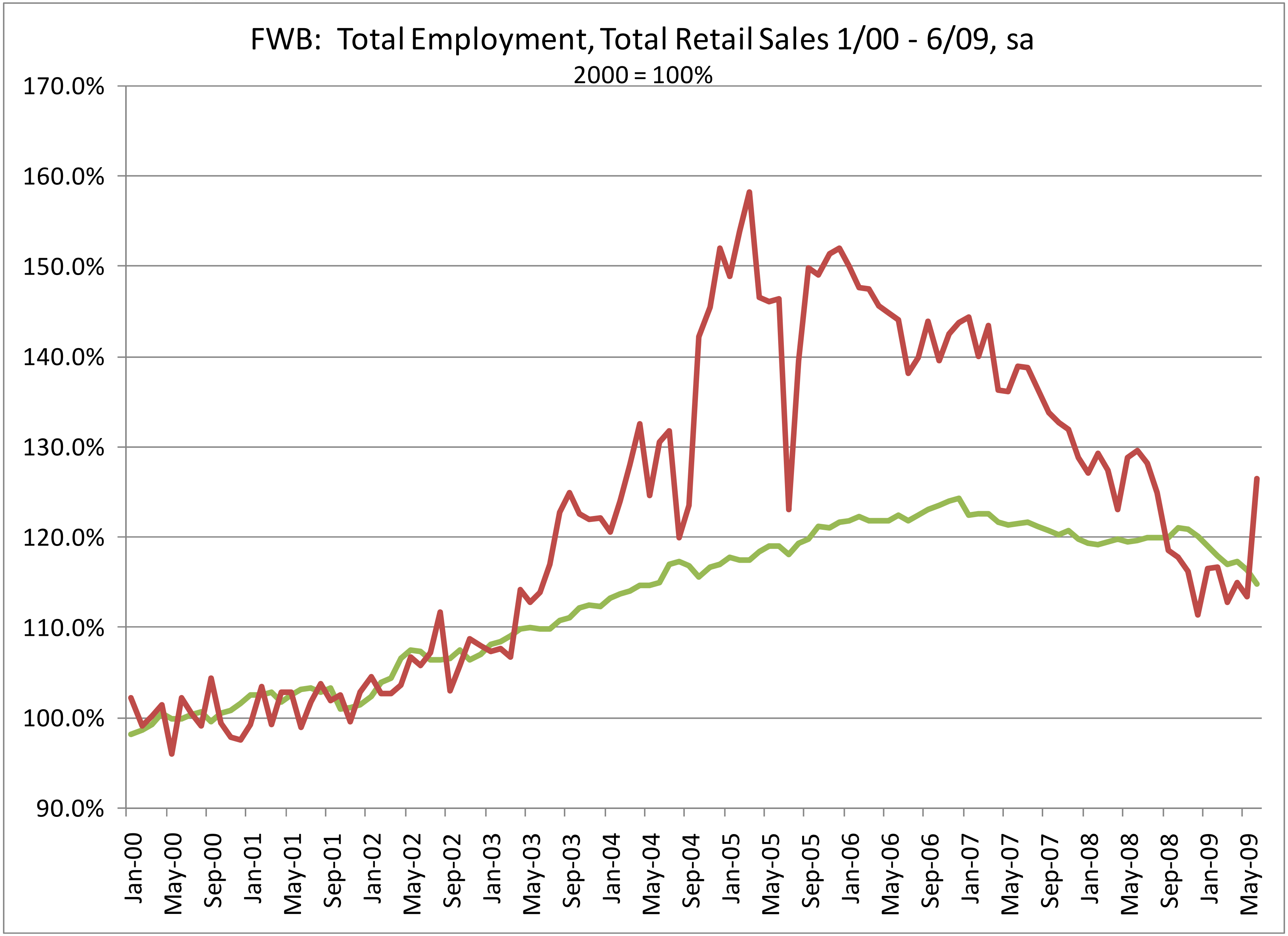
FWB: Total Employment, Total Retail Sales 1/00 - 6/09, sa
2000 = 100%
170.0%
160.0%
150.0%
140.0%
130.0%
120.0%
110.0%
100.0%
90.0%
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
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Jan-09
May-09

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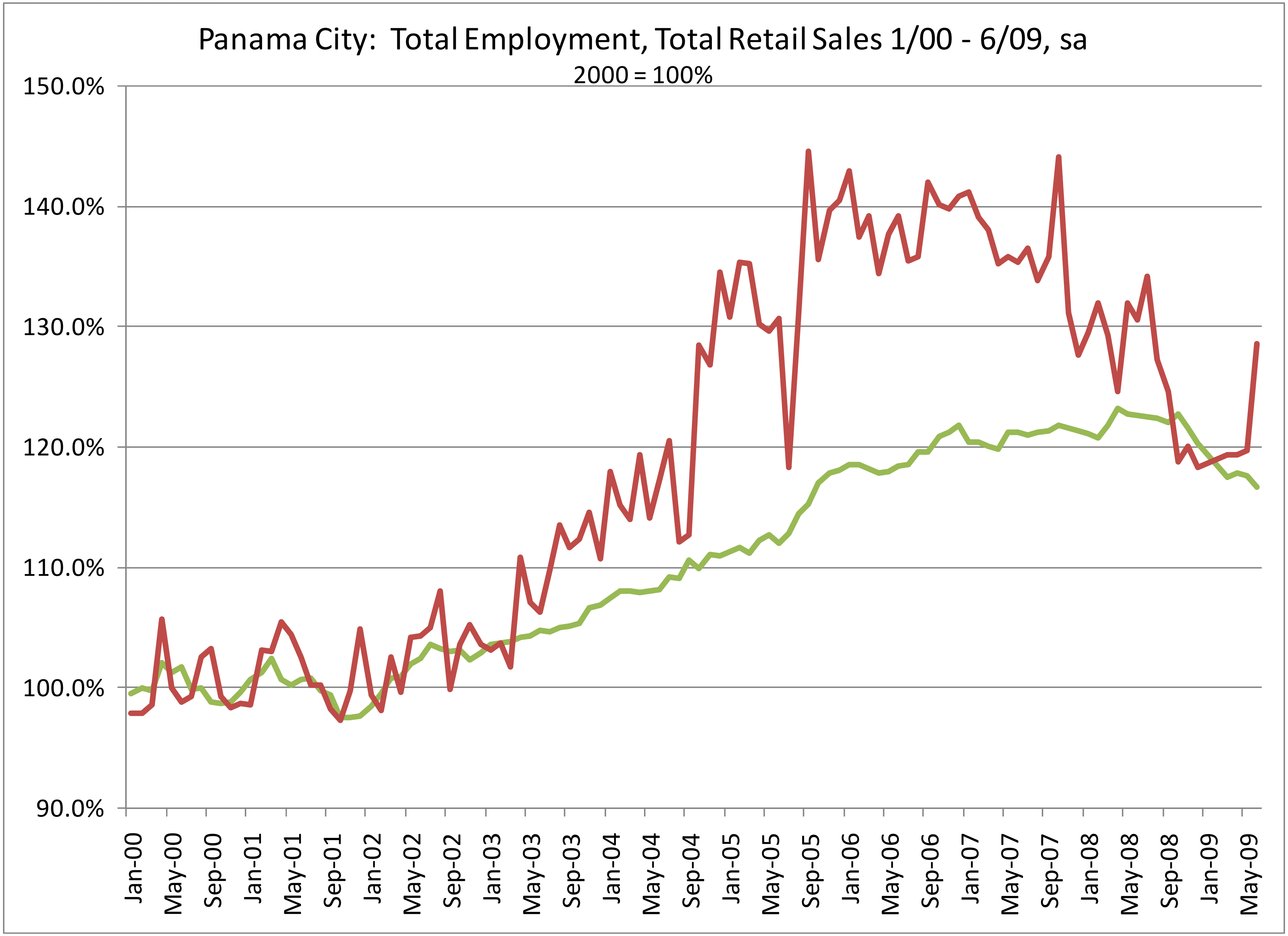

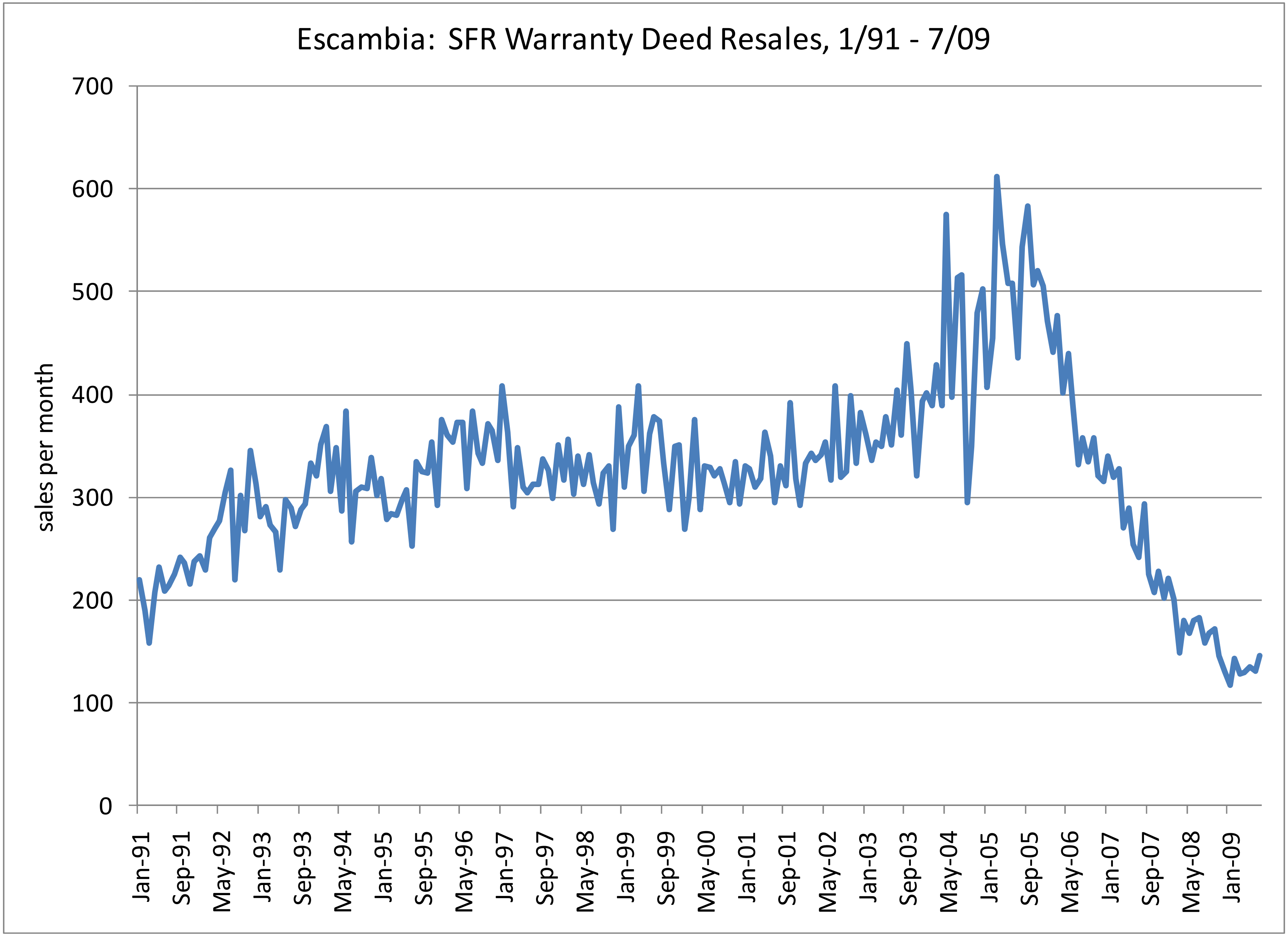
Escambia: SFR Warranty Deed Resales, 1/91 - 7/09
sales per month
0
100
200
300
400
500
600
700
Jan-91
Sep-91
May-92
Jan-93
Sep-93
May-94
Jan-95
Sep-95
May-96
Jan-97
Sep-97
May-98
Jan-99
Sep-99
May-00
Jan-01
Sep-01
May-02
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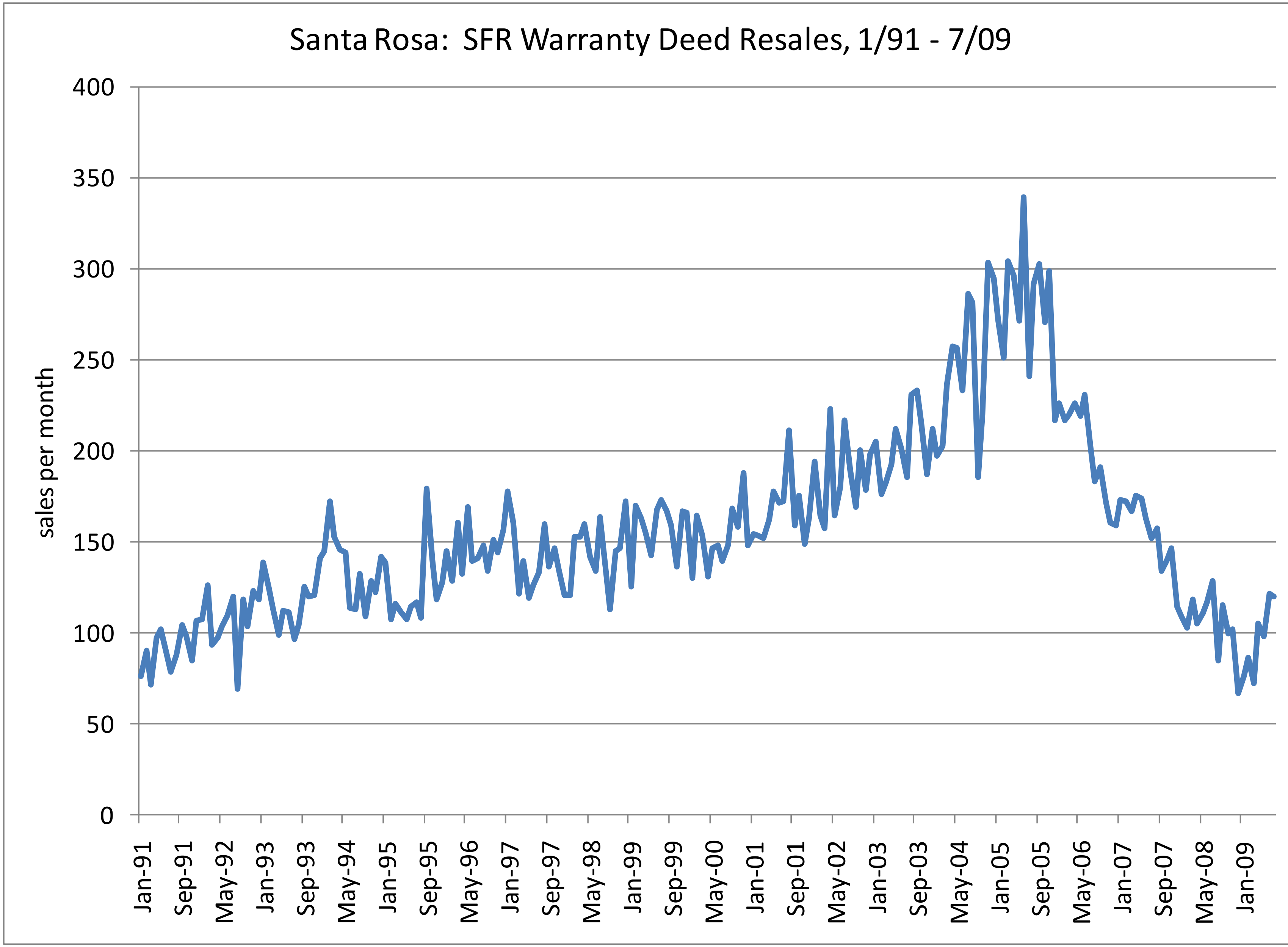
Sep-07
May-08
Jan-09


Santa Rosa: SFR Warranty Deed Resales, 1/91 - 7/09
sales per month
400
350
300
250
200
150
100
50
0
Jan-91
Sep-91
May-92
Jan-93
Sep-93
May-94
Jan-95
Sep-95
May-96
Jan-97
Sep-97
May-98
Jan-99
Sep-99
May-00
Jan-01
Sep-01
May-02
Jan-03
Sep-03
May-04
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May-08
Jan-09

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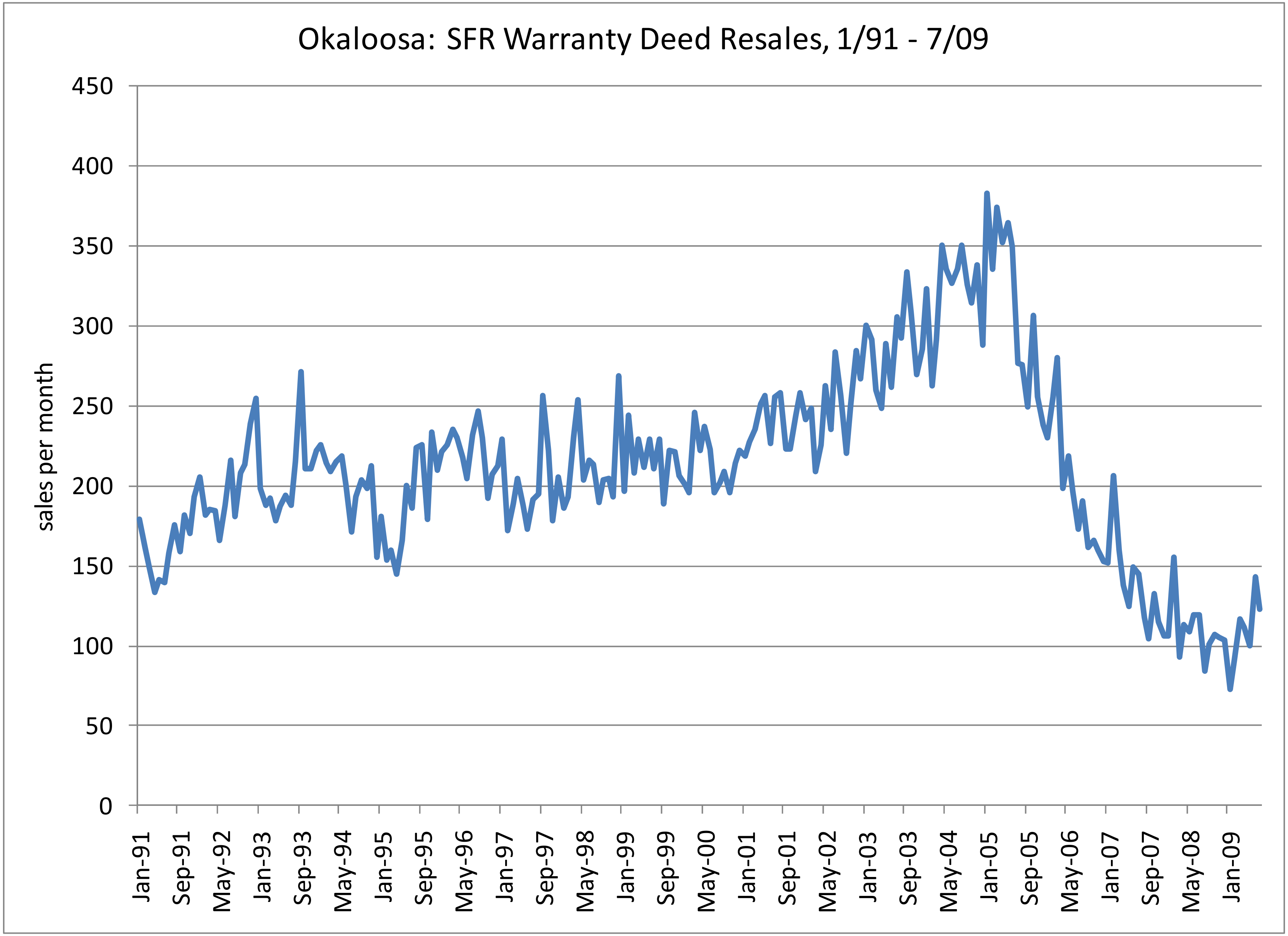

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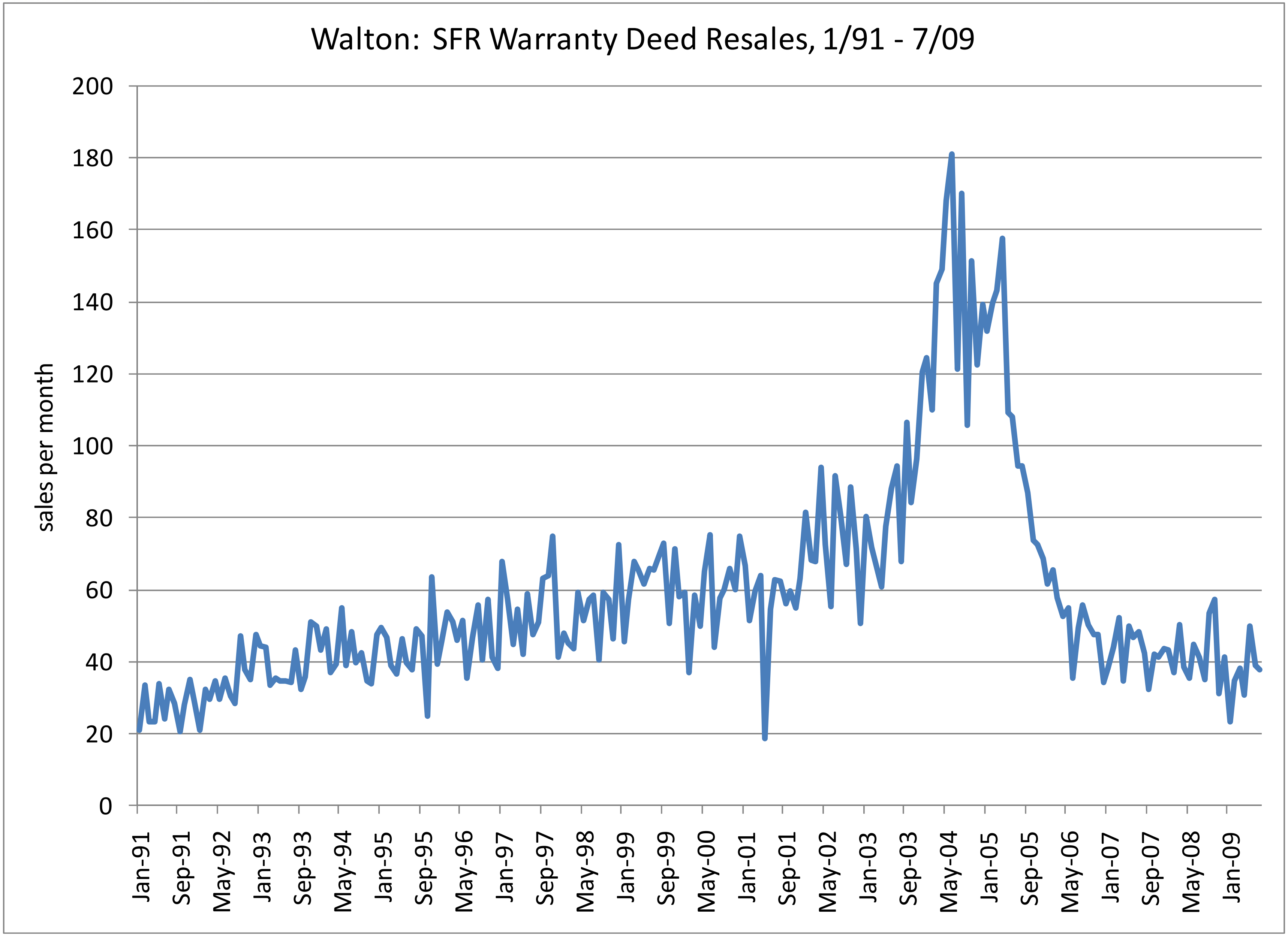

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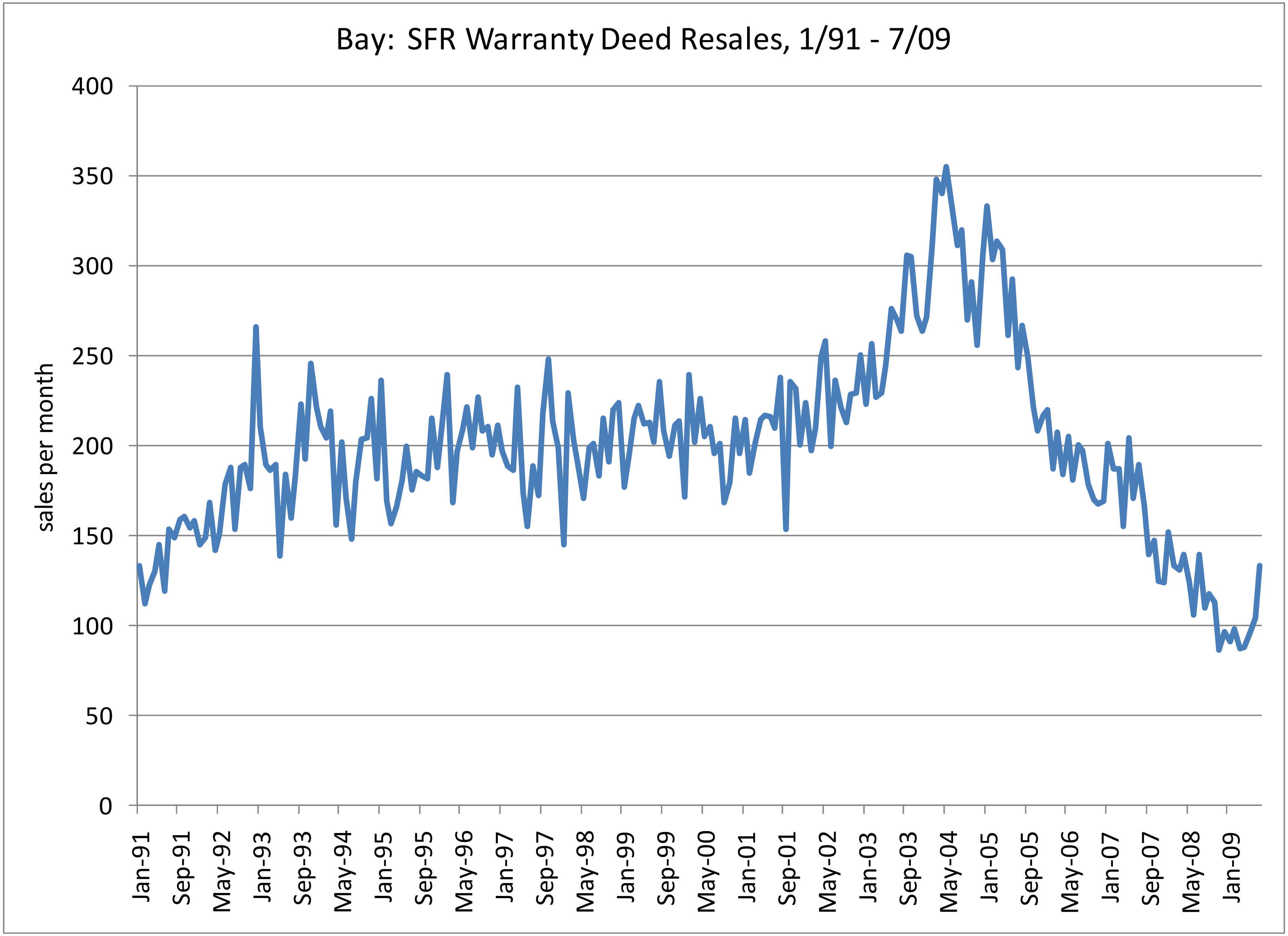

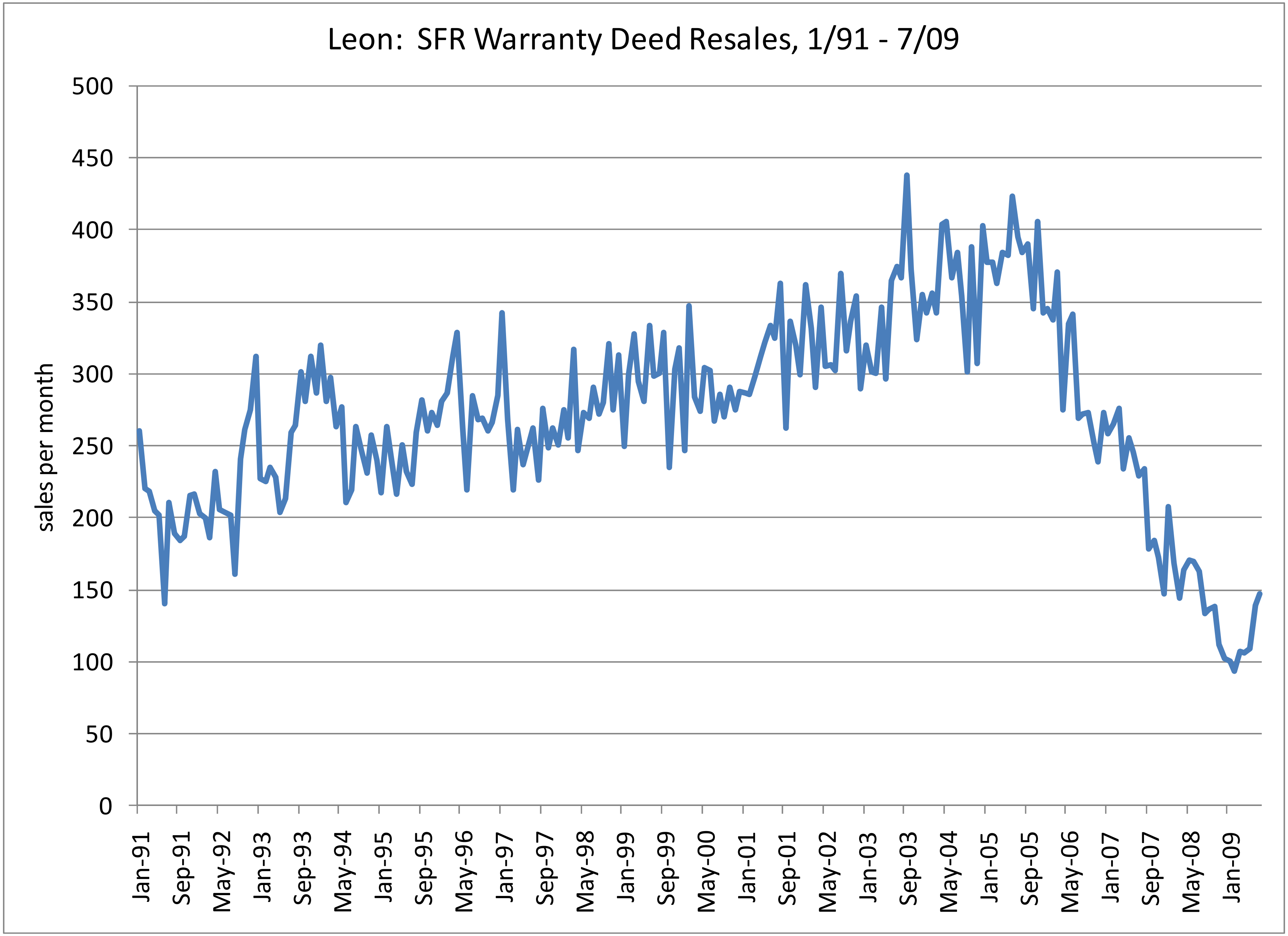
Leon: SFR Warranty Deed Resales, 1/91 - 7/09
sales per month
500
450
400
350
300
250
200
150
100
50
0
Jan-91
Sep-91
May-92
Jan-93
Sep-93
May-94
Jan-95
Sep-95
May-96
Jan-97
Sep-97
May-98
Jan-99
Sep-99
May-00
Jan-01
Sep-01
May-02
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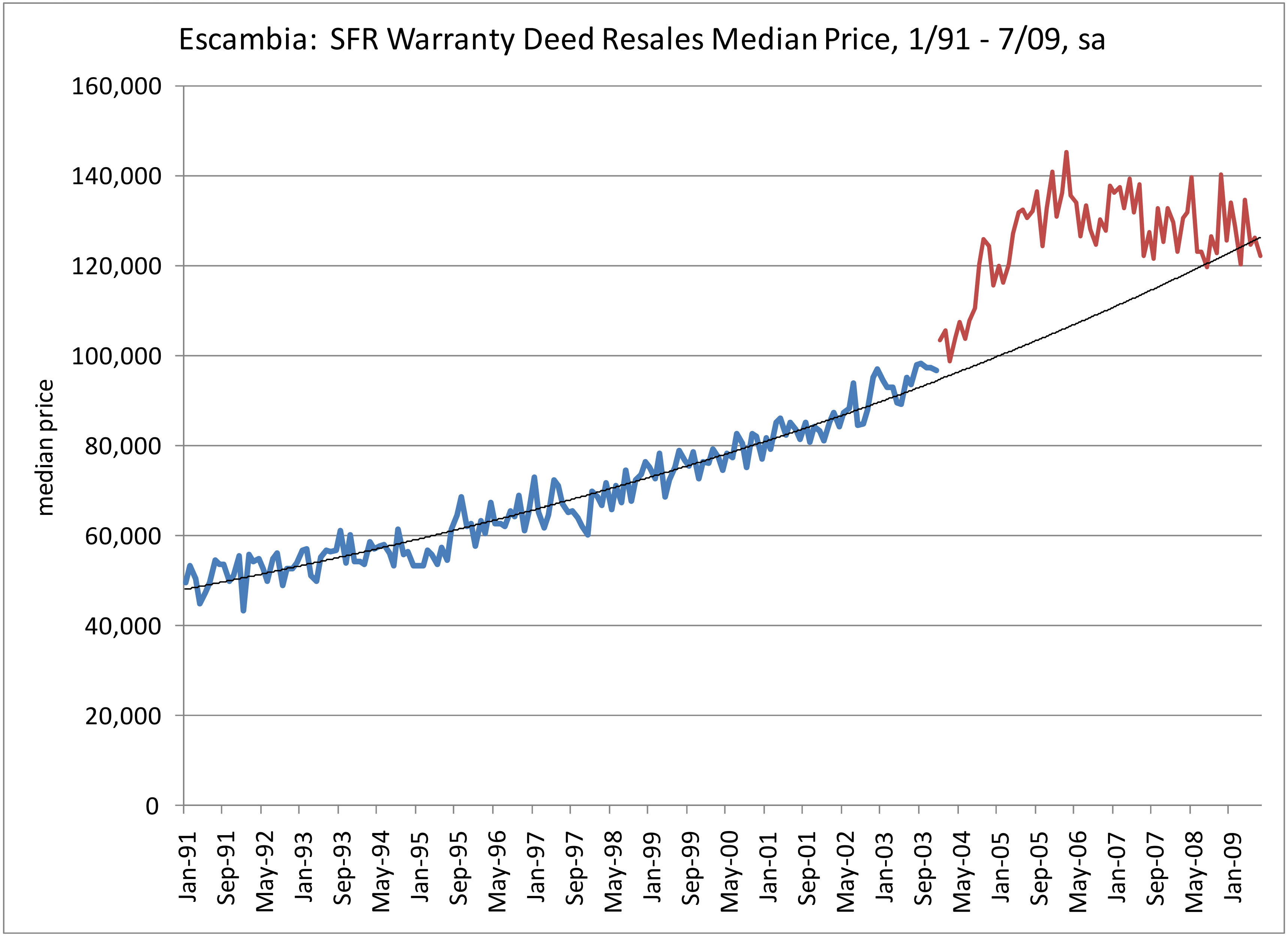

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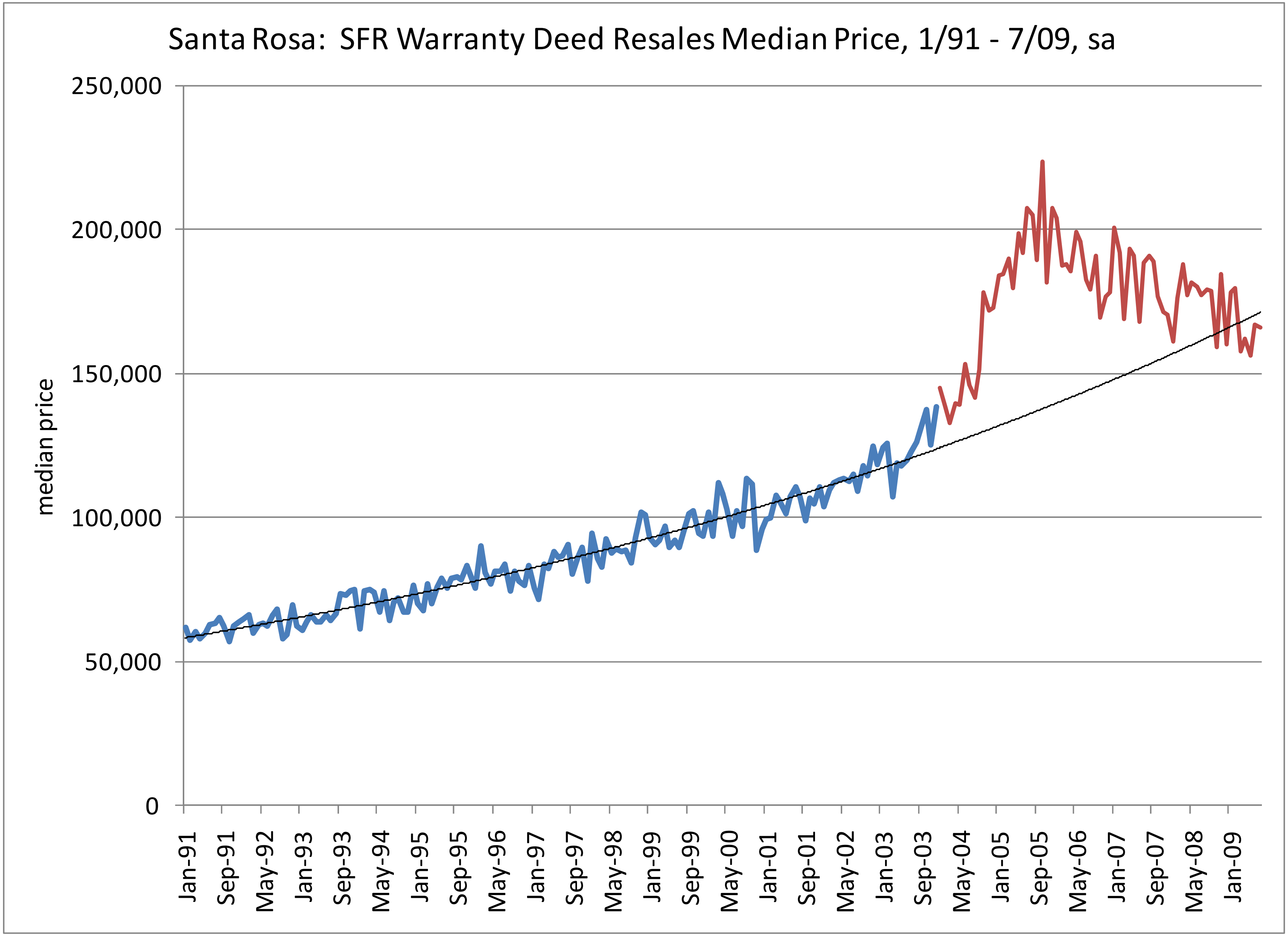

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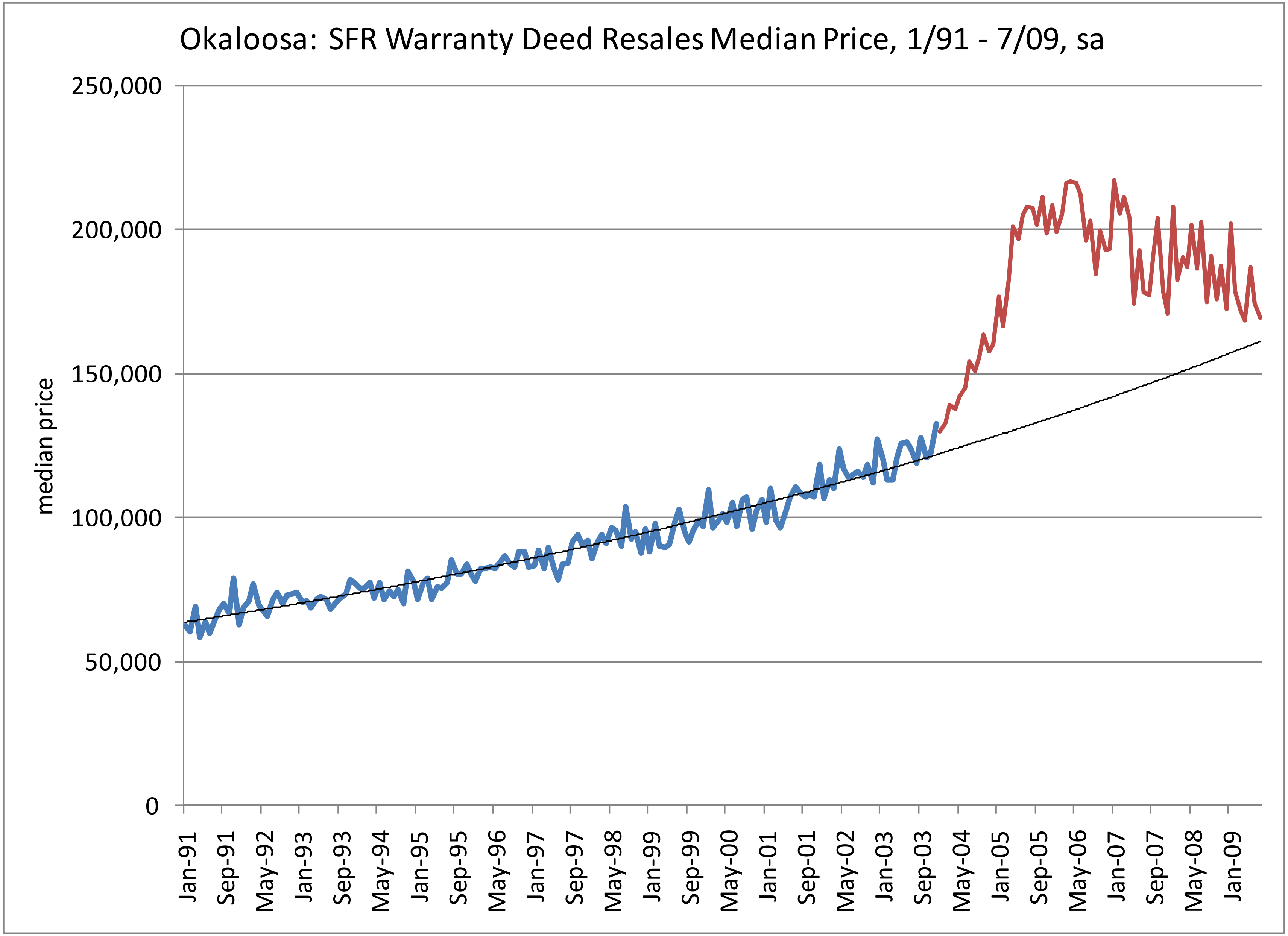

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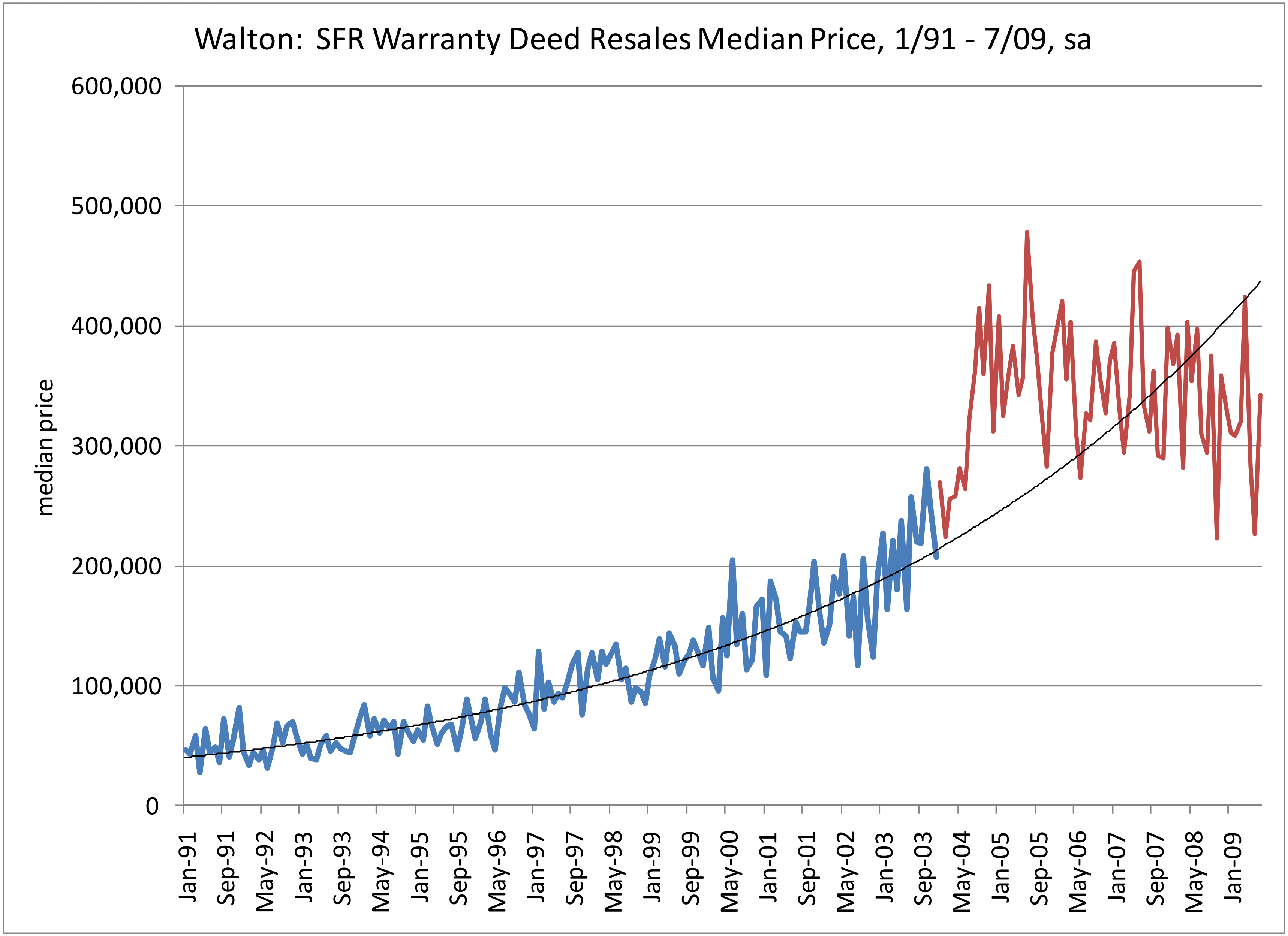

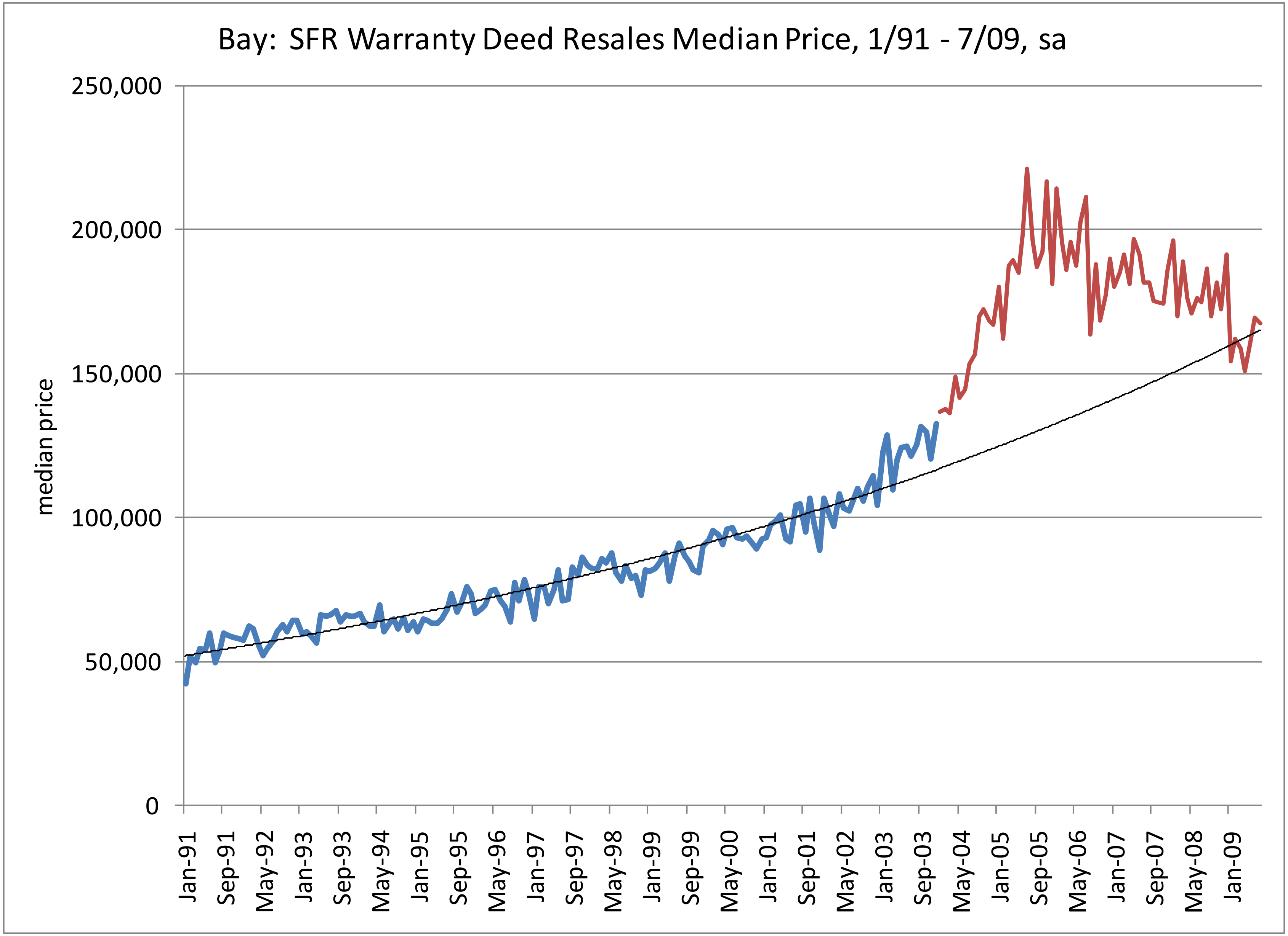
Bay: SFR Warranty Deed Resales Median Price, 1/91 - 7/09, sa
median price
250,000
200,000
150,000
100,000
50,000
0
Jan-91
Sep-91
May-92
Jan-93
Sep-93
May-94
Jan-95
Sep-95
May-96
Jan-97
Sep-97
May-98
Jan-99
Sep-99
May-00
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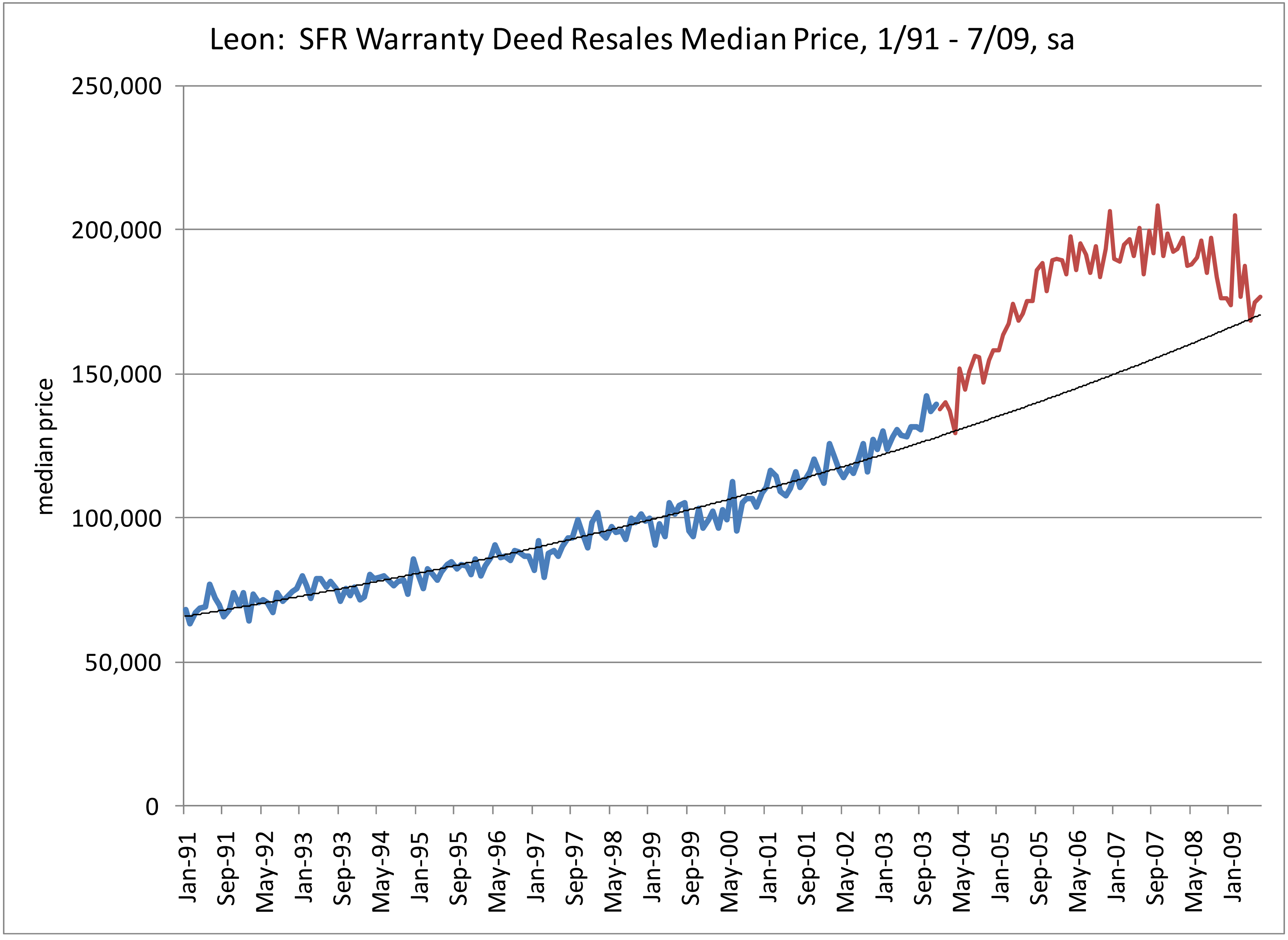

What are the bright spots?

- Home price drop helps FL competitiveness
- NW FL with less than average housing overstock
- Miles of National Seashore/AFB limited coastal speculation
- The big 3: military payrolls, drive-to tourism, healthcare
- Pilot training, Special Ops, Weapons RDTE look safe
- JSF looks better under new Pentagon budget
- NW FL entered recession early, may be poised for recovery
- Longer-term baby boom demographics are good

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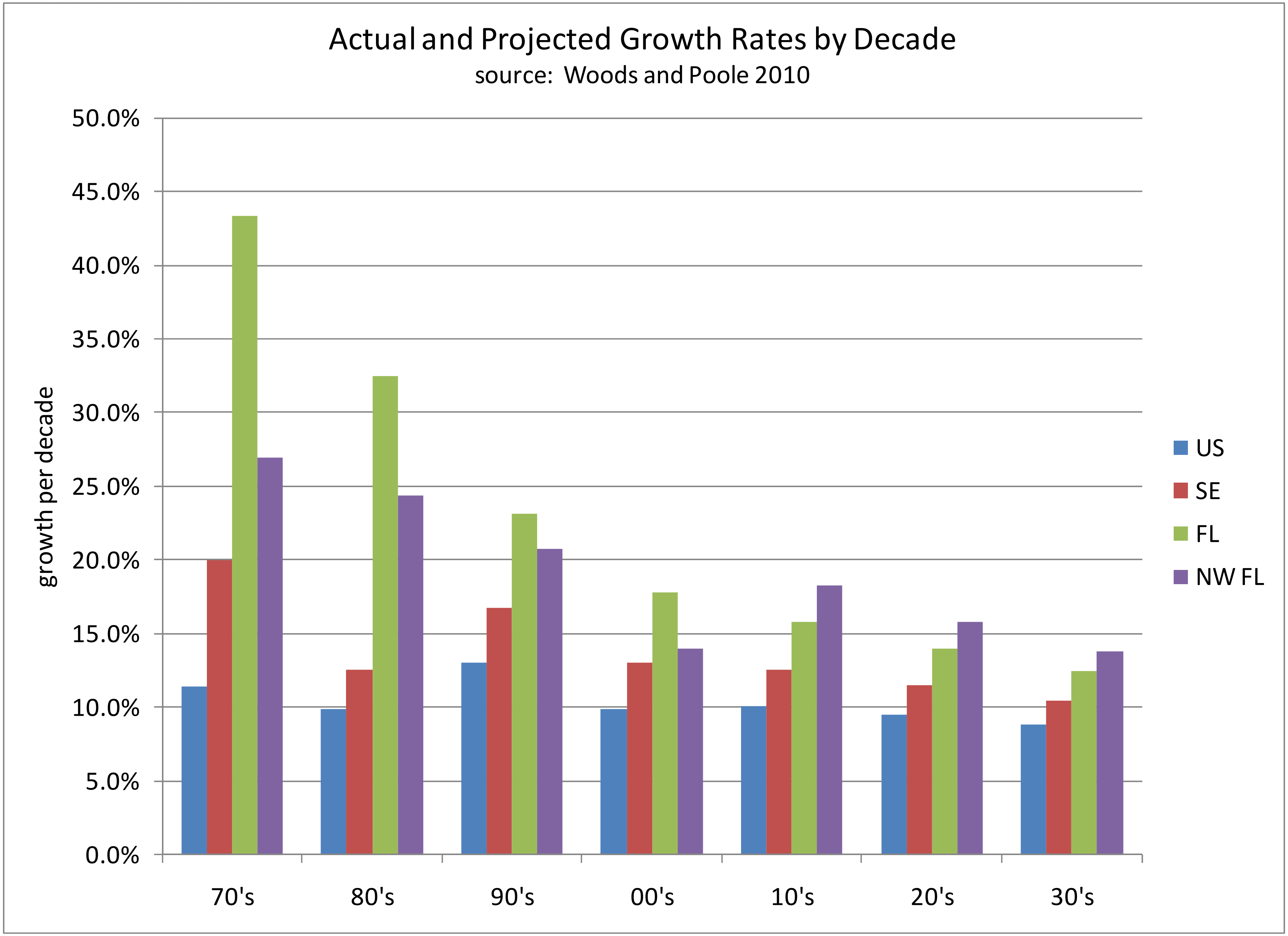

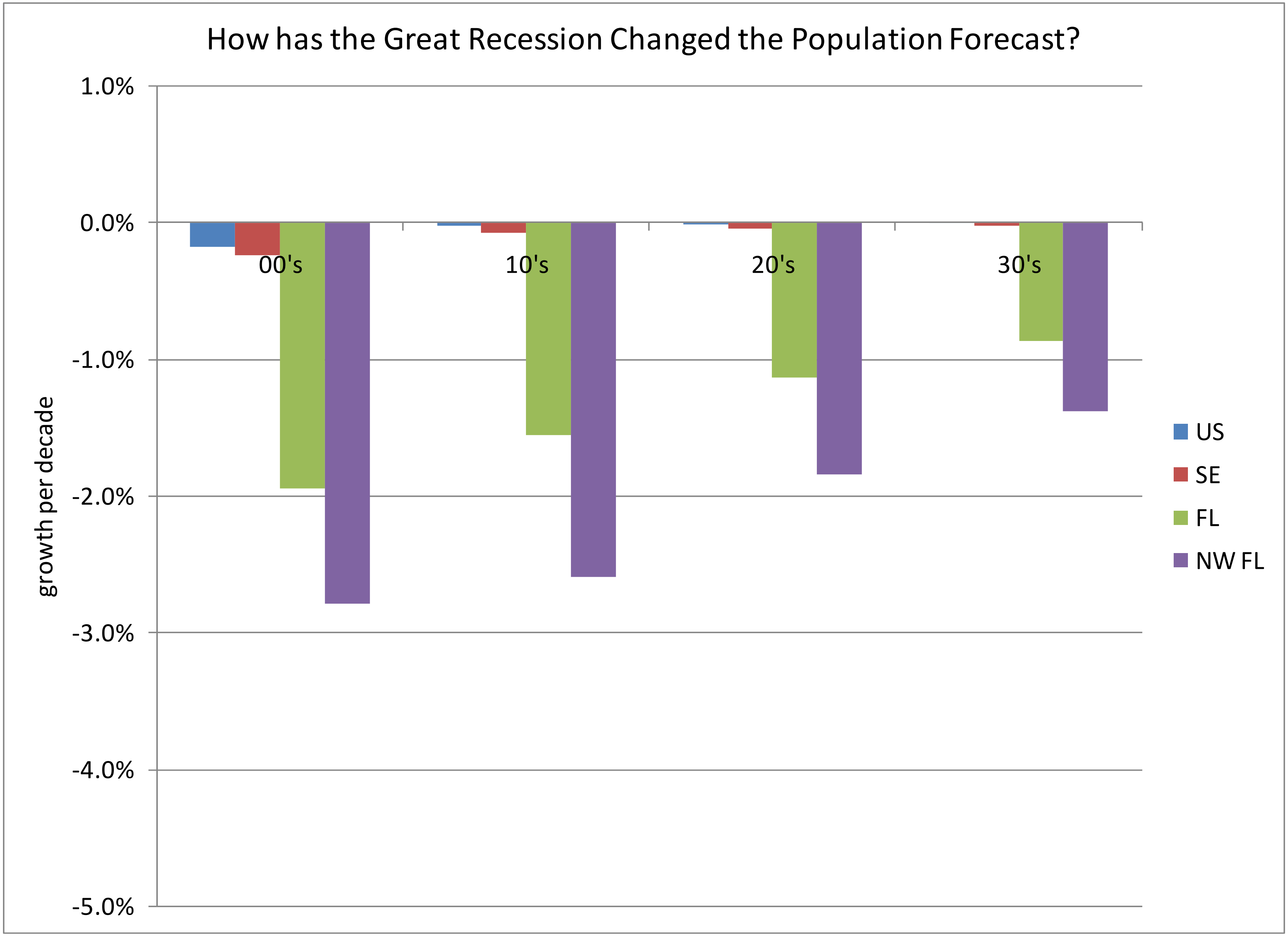
How has the Great Recession Changed the Population Forecast?
1.0%
0.0%
-1.0%
-2.0%
-3.0%
-4.0%
-5.0%
growth per decade
00's
10's
20's
30's
US
SE
FL
NW FL

Northwest Florida Outlook 2009/2010:

- Housing purchase prices more affordable
- Population growth across FL now flat to negative, NW FL not immune
- Economic activity picks up
- Unemployment flattens
- Residential real estate market recovery still a year away
- Commercial real estate market weakens
- Be thankful we’re not Ft. Myers – military payrolls, drive-to destination
- But state budget crisis continues, due to temporary nature of ARRA
- Demographics (in-migration) trump slowdown over time
- Insurance + property tax = high monthly ownership costs

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Questions?

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