Economic Commentary
A monthly look at Florida's Economy
June 2011

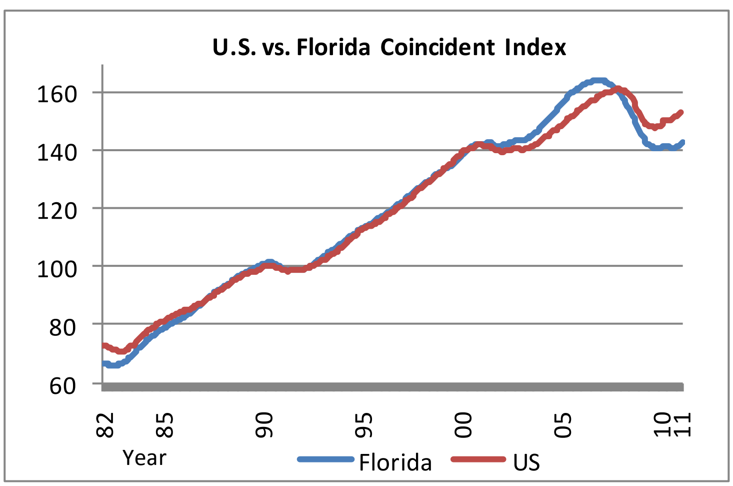
The Florida TaxWatch Center for Competitive Florida .... Resolving issues vital to Florida's global economic competitiveness.

Florida's Business Cycle

A topic frequently discussed by many news outlets is whether our economy is in an expansion or in a recession. However, one should note that the national news follows a national estimation of whether we are in a recession, an expansion, or possibly a double-dip. There is a commonly accepted procedure for determining whether the U.S. economy is in a recession; however, there is not a procedure to determine whether a state is in a recession. The question is—should we assume that Florida is in a recession at the same time as the nationally estimated recession dates, or should we instead look to state-specific factors to differentiate when Florida enters recessionary and expansionary phases?

According to the U.S. Department of Commerce's Bureau of Economic Analysis, Florida has the 4th largest state economy in the U.S., following California, Texas, and New York, respectively. They also indicate that if Florida were a separate country, it would have the 20th largest economy in the world.

Florida's economy has, in the past, closely tracked the national economy; however, as one can see in the chart below, sometime around the 2001 national recession, Florida's economy took a different course, and has not closely followed the U.S. economy since. It should be noted that not only did Florida's economy expand much faster than the U.S. economy after the 2001 recession, but it also started to contract earlier and fell much more drastically in percentage terms than the U.S. during the most recent recession. Therefore, perhaps there should be two recessions identified—one for the U.S. and one for Florida.



The data used for the Florida series in the chart is from a Florida Coincident Index developed and published by the Federal Reserve of Philadelphia. The U.S. Coincident Index is from the Federal Reserve Bank of St. Louis' Federal Reserve Economic Data (FRED). A coincident index combines several economic indicators to summarize current economic conditions into a single statistic. In both indices, nonfarm payroll employment, the unemployment rate, average hours worked in manufacturing, and wage and salary data are used. Statistically, it is important to note that the U.S. coincident index is not simply a sum of the state indices, but instead uses national data.

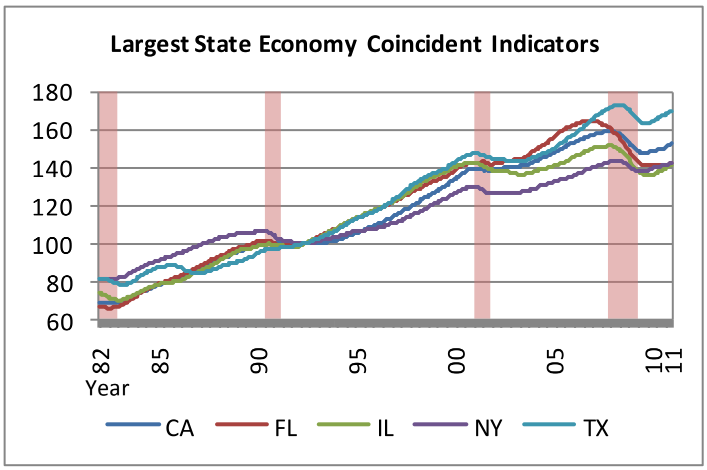
Defining a recession

For national recessions, the National Bureau of Economic Research (NBER) Dating Committee determines the dates for economic recessions and expansions by looking at a number of items. There is no fixed definition—instead the Committee examines and compares various measures of broad economic activity including real GDP measured both by product and income, economy-wide employment, and real income.

They also consider other indicators that do not cover the entire economy. The NBER publishes their findings for the U.S. economy in the form of starting and ending dates for recessions and expansions. However, state-level recession information is not available from the NBER.

Business cycles vary between states as well. This variation can be due to some state-specific shocks in the economy that have a large impact there, but do not have a large impact nationally. In general, the more similar any states' economy is to the U.S. economy, the more closely that state will follow the U.S. trend.

The chart below shows the Coincident Indices for the five largest state economies, along with shaded areas indicating the NBER recession dates.



In order to compare Florida's business cycle with the U.S. business cycle and the times at which each went into and came out of recessions, the indices measuring them must be standardized in some way. It would not be correct to define what a recession is for Florida and compare it to the NBER's recession indication for the U.S., given that there is no reproducible formula that can be used to indicate when a state is in recession.

One of the helpful qualities of the Coincident Indices for the U.S. and for Florida is that they are both indexed to July 1992. This feature allows comparisons between the series in their current format.

In order to make a comparison, rules for the definition of a recession were developed by looking at the U.S. coincident index and comparing the results of several rule options to the actual NBER Dating Committee dates. Multiple rules were applied and tested, including simple monthly changes as well as calculating moving averages of the monthly differences in the indices. After trying multiple variations of different specifications, the definition of a recession for this paper was decided to be as follows: five consecutive monthly negative moves in the index signals an economic contraction significant enough to be considered a recession. The table below shows how the monthly changes in the coincident index for the U.S. compared to the NBER dates.

NBER vs. U.S. Recession Dates			
NBER		**U.S.**	
Start	End	Start	End
——	Nov. 82	——	Nov. 82
Jul. 90	Mar. 91	Jul. 90	May 91
Mar. 01	Nov. 01	Apr. 01	Feb. 02
Dec. 07	Jun. 09	Feb. 08	Oct. 09

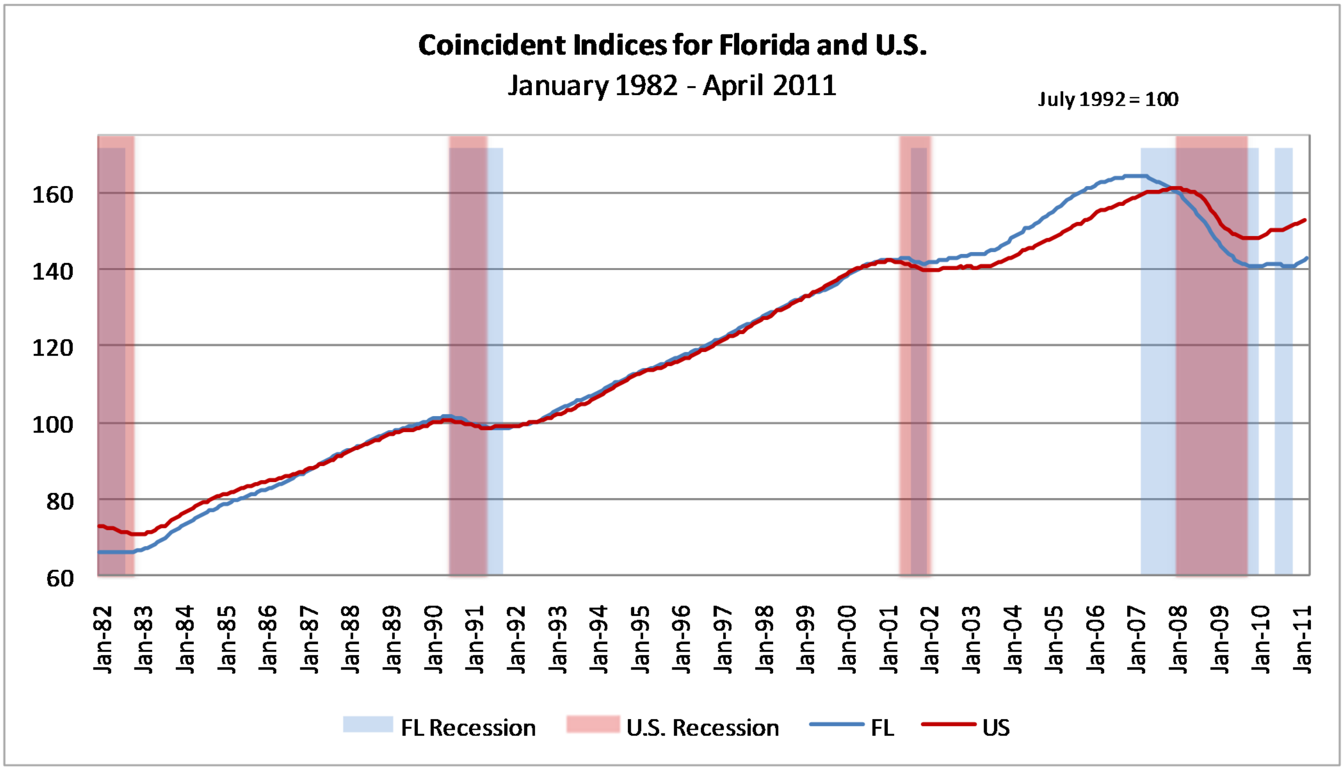
Only the end of the 1981-82 U.S. recession is shown, because the Coincident Index series start in January 1982. The start of that recession was July 1981.

Although the dates for recessions using this definition do not line up exactly with the NBER dates, these periods of time indicate prolonged decreases in economic activity, and therefore can be compared directly to the same decrease in Florida's economy. Using this new definition of a recession for the U.S., the table below shows the differences in starting and ending points as well as the duration of recessions in Florida compared to the U.S.

U.S. vs. Florida Recession Dates			
U.S.		**Florida**	
Start	End	Start	End
Jul. 90	May 91	Jul-90	Oct-91
Apr. 01	Feb. 02	Sep. 01	Jan. 02
Feb. 08	Oct. 09	Apr. 07	Jan. 10
——	——	Jul. 10	Nov. 10

One of the most interesting results of using this definition is that there was a recessionary period in Florida in 2010, without having a recession identified in the U.S. at that time.

Inserting the newly-defined recession bars into the graph, one can more clearly see the differences in not only the indices, but also the starting and ending dates of the newly-defined U.S. and Florida recessions below. Note the separate colors for the U.S. and Florida recessions, and the blended color where they overlap.

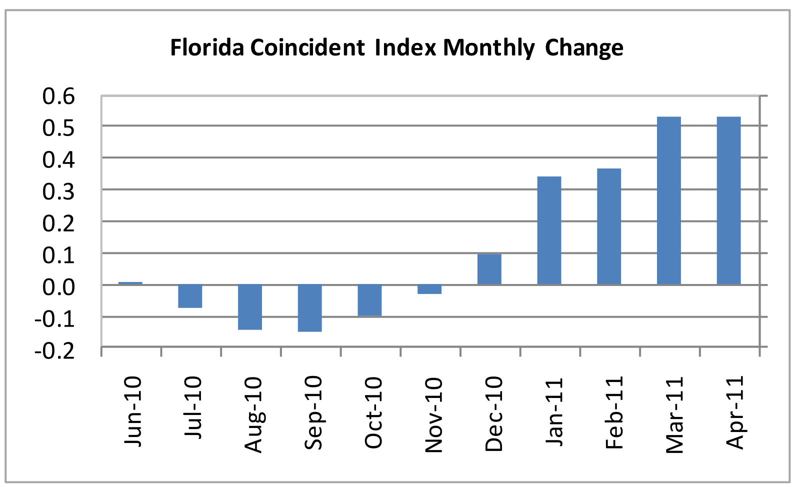


On the Path to Recovery in Florida?

It is clear that Florida has suffered from a disproportionately longer and more severe recession than the U.S. most recently. Taking a closer look at current activity, the chart below shows Florida's most recent 10 months of the Florida Coincident Index data available .

Although Florida had a five-month decrease in economic activity that did not coincide with a national economic decrease, Florida appears to be recovering from its latest downturn. Increases in the Florida Coincident Index have continued since December, 2010.

Another positive indication for Florida's economy is recent larger increases in the index beginning in March 2011. Looking at the indices over the last several years, the recent increases are the strongest monthly increases in the Florida Coincident Index since 2005, indicating that Florida's economy is in the process of recovery.



Florida TaxWatch Center for Competitive Florida

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