Economic Perspective

From the Florida Council of Economic Advisors at Florida TaxWatch

Estimated Job Growth in Florida

Previous recoveries offer clues for next 12 months - 150,000 jobs estimated

Executive Summary

Florida's employment situation has looked brighter over the last twelve months (from June 2010 to June 2011) than any previous period since the Great Recession officially ended in June 2009. Total employment advanced by roughly 56,500 jobs while non-agricultural employment improved by 32,500 positions. These gains, however, are less than a 1 percent increase. Furthermore, job growth in the first two years of economic recovery (June 2009 - June 2011) has been unusually weak compared to previous recoveries.

Nonetheless, the third year of prior economic recoveries has been when Florida's economy and job creation rapidly accelerate. As Florida enters the third year of the current recovery, the salient issue is whether or not history will repeat itself. During the coming year (more precisely, to June 2012 from the latest data of June 2011) will the pace of job creation pick up sharply?

Valuable perspective can be achieved by looking at Florida's employment changes by sector following the ends of the two recessions which preceded the Great Recession. This "Economic Perspective" analyzes the emergence from the two recessions before the Great Recession (July 1990 - March 1991 and March 2001 - November 2001) to estimate that the job growth during the coming year will average about 12,500 a month, summing to 150,000 jobs. That represents an increase of approximately 2 percent, which is better than what Florida experienced during the first two years of recovery (2009-2011), but much slower than the rate of growth in the third year of the previous two recovery periods (4 percent).

Introduction

It's been a little more than two years since the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) – the official arbiter of the beginnings and ends of U.S. economic contractions – declared the Great Recession of 2007-2009 to be over. Florida job growth in the first two years of economic recovery, however, has been unusually weak compared to previous recoveries. In the two years ending in June 2011 total employment in Florida inched up by about 11,600 positions. An alternative employment measure, non-agricultural employment, shows that Florida has actually lost about 9,400 jobs.[1]

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The third year of prior economic recoveries has been when Florida's economy and job creation rapidly accelerate. As Florida enters the third year of the current recovery, the salient issue is whether or not history will repeat itself. Valuable perspective can be achieved by looking at Florida's employment changes by sector following the ends of the two recessions which preceded the Great Recession (July 1990 - March 1991 and March 2001 - November

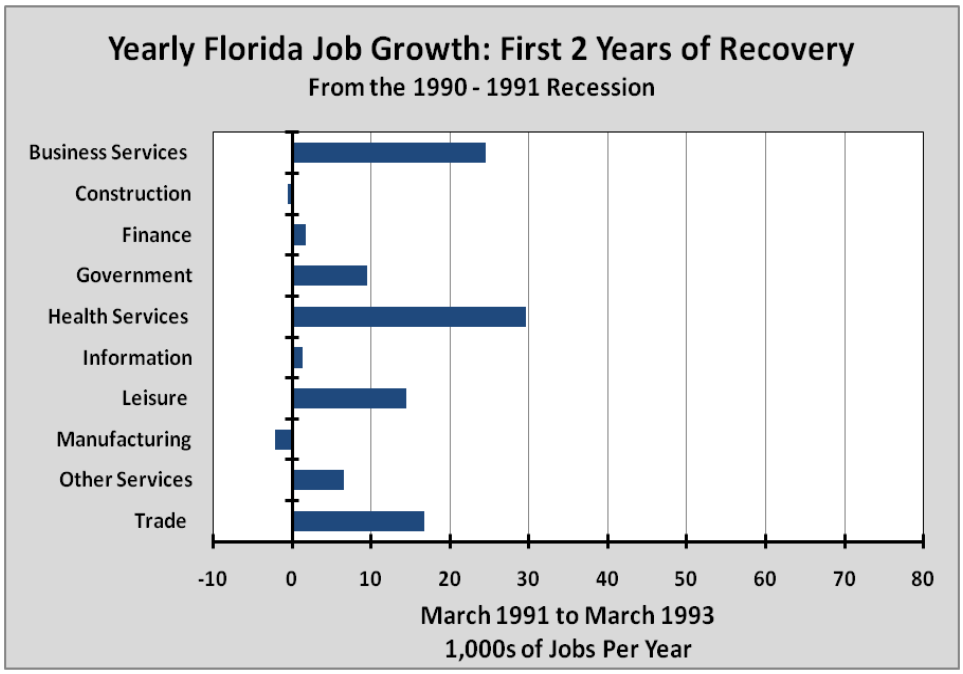
2001). Each recession differs in the dynamics with which the hardest-hit sectors recover. To gain insight into what will happen over the next twelve months (i.e., the third year of the recovery), we look at the sectoral dynamics of the first three years of the recoveries from the two most recent recessions, July 1990 - March 1991 and March 2001 - November 2001. In both cases, job growth was sluggish during the first two years of recovery, recording average annual gains of less than 2 percent after the first trough and less than 1 percent after the second. The good news is that, again in both cases, job growth surged after the second year, rising by more than 4 percent each time.

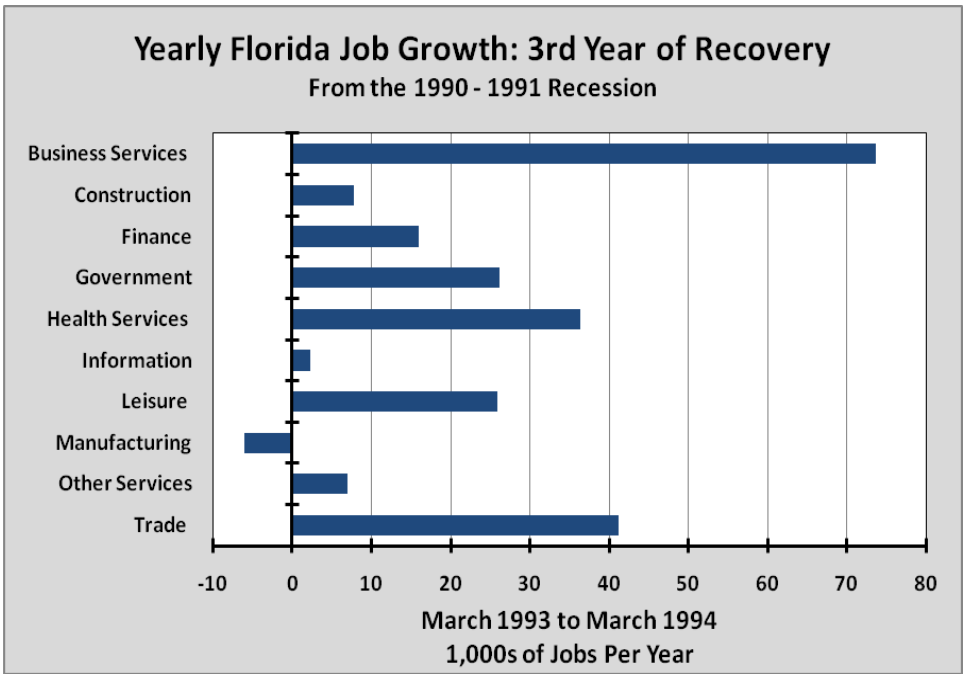
Florida Recovery from the 1991 Recession (July 1990 – March 1991)

Job gains in the first two years of recovery after March 1991 were slow, but widely spread. That recession was especially severe in Florida because it hammered commercial construction and retail trade, both major employers in Florida.

When recovery came, all the major sectors except construction and manufacturing showed improvement in the first two years, just not much. The declines in construction and manufacturing were relatively small. Health services, business services, and government continued their upward trends, although slowly. Retail trade began a gradual recovery from the effects of over-capacity built during the S&L-funded boom of the 1980s, when the number of shopping malls in Florida doubled.

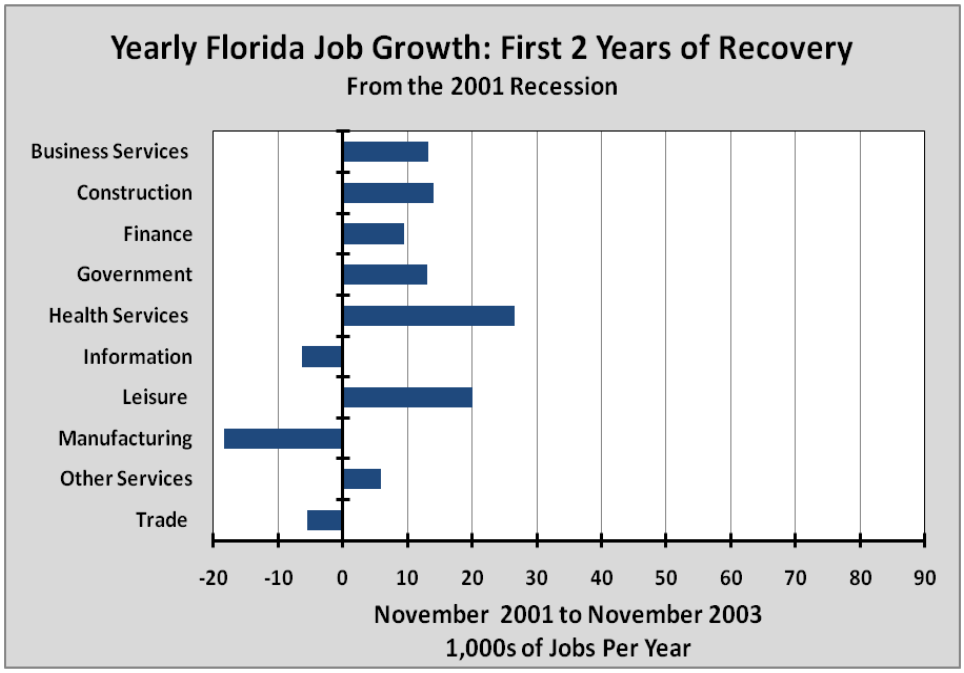
The 1991 recovery in Florida was also held back partly by demographics. Americans turning 60 in the 1990s, and thus prospects for retiring to the sunshine state, were the 'birth dearth' generation of the 1930s, the period of the Great Depression. There were 16 percent fewer births in that decade than in the 1920s.

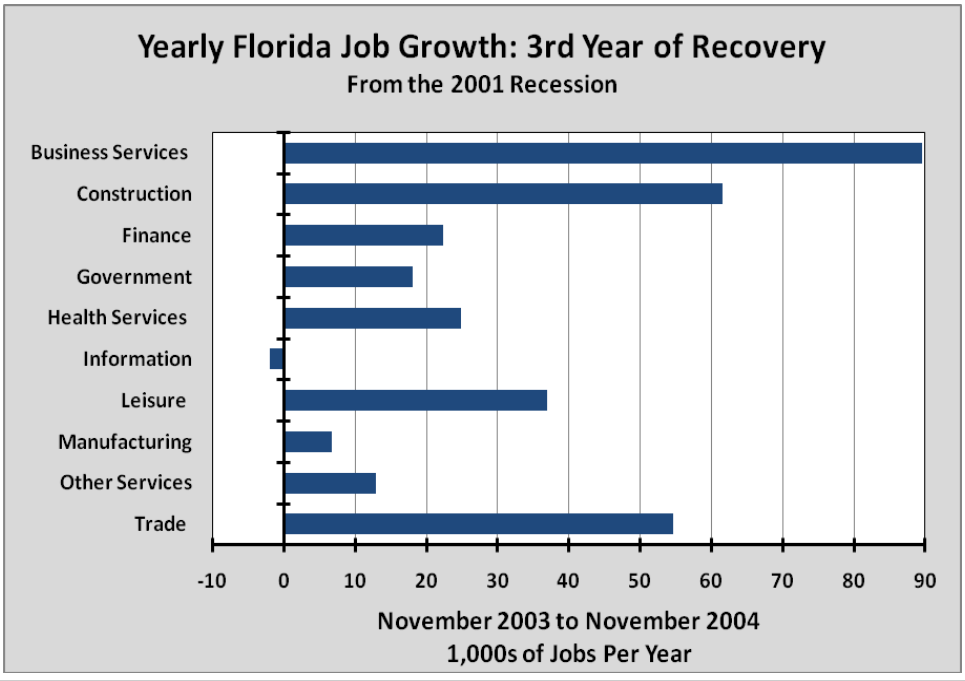




However, in the third year after the recession ended, the economy accelerated. During the third year of recovery (March 1993 to March 1994), employment rose by over 70,000 in business services and by 40,000 in wholesale and retail trade, a strong cyclical recovery. Health services, finance, and leisure and hospitality continued their upward trends. Even construction showed gains, as the backlog of commercial buildings from the 1980s was gradually worked off and residential construction moved back to normal. Only manufacturing declined, the continuation of a long downward trend in Florida.

Recovery from the 2001 Recession (March – November 2001)





Turning to the next recovery, in the 24 months after the November 2001 trough, the collapse of the high tech bubble weakened business investment. As a result, employment continued to decline in manufacturing and information services. The loss of wealth with the stock market correction and rising internet sales kept bricks-and-mortar retail outlets from hiring.

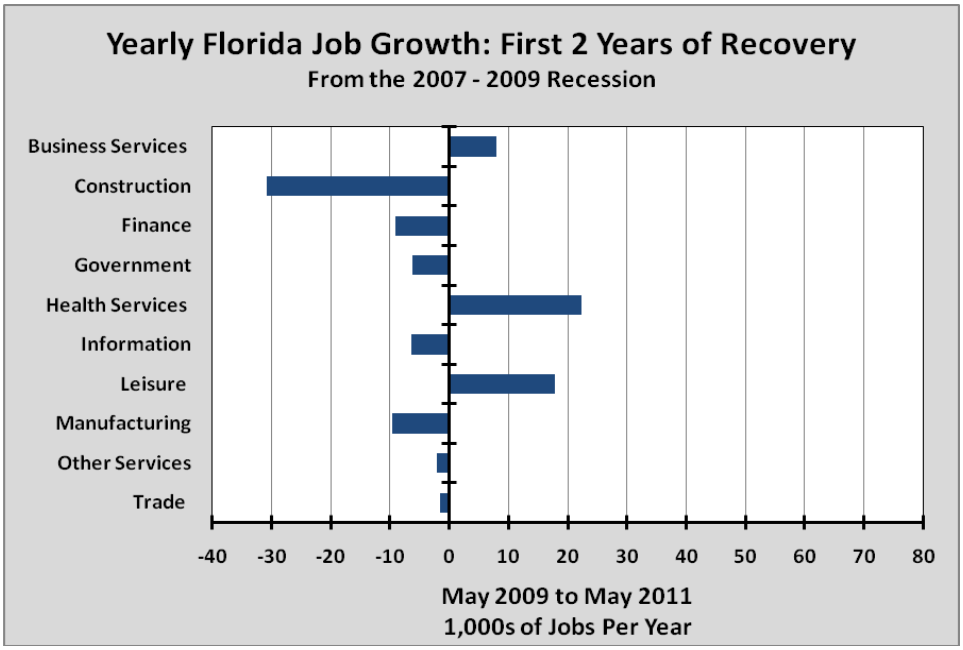
As with the 1991 Recession, during the third year after the trough, Florida's economy once again experienced a strong cyclical recovery. As in the earlier recovery, the leader was business services, adding 90,000 jobs. Wholesale and retail trade also showed strong cyclical gains, as did tourism. Other sectors continued their upward trends. The only loss was a small decline in employment in information services.

The chart above shows the yearly job growth in the first two years of recovery from the 2001 Recession (November 2001 – November 2003). The chart to the left shows job growth in the third year of recovery, from November 2003 – November 2004).

Recovery from the "Great Recession" (December 2007 – June 2009)

After the Great Recession, the pattern of sluggish expansion in Florida during the first two years of recovery has been repeated. Still, job growth in Florida[2] is off to an unusually slow start in the 24 months since June 2009, when the national recession officially ended. In that regard, things have been the same as in the two earlier slow recoveries, just worse. The composition of job change, however, was unusual - this time, strikingly so.

There are two striking differences this time around. First, seven of the ten primary employment sectors have lost jobs in the two years since the Great Recession ended, compared to only two sectors in the prior recoveries. The second striking - although not surprising - difference is that this time around the construction sector continues to shed jobs while it added them in the first 24 months of the two prior recoveries.



Forecast for 2011-12

Does history suggest that we are just now starting a good year for Florida's economy? Is the third year the charm for job creation in the state? There is good and bad news. The good news is that job growth is likely to pick up. The bad news is that it is unlikely to advance as strongly as in the third years of previous recoveries. Florida faces strong head winds from (1) a slow recovery of the national economy, and (2) even more severe structural changes than those which have accompanied previous recessions.

The national recovery is generally expected to be modest in the coming twelve months as the federal government reduces spending growth to address the fiscal deficits and the national debt, and because the Federal Reserve, seeing a stronger threat of inflation, will have to restrain monetary policy. But every Florida recession presents structural changes. In the early 1990s, for example, the state had to deal with the effects of the Savings and Loan crisis, rapid consolidation in the commercial banking sector, the hangover from excessive commercial building in the 1980s (the number of shopping malls had doubled), and the slowing growth of the number of retirees caused with a 60-year lag from the 'birth dearth' of the 1930s. Structural adjustments in the early 2000s were less severe, but even then local retailers were facing stronger competition from internet sales and manufacturing workers faced stiffer competition from imports and outsourcing.

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This time the structural changes present even tougher challenges. The collapse of the housing sector has left such a large surplus of homes either on the market or waiting for foreclosure that it will be years before prices start to rise and construction returns to normal. Moreover, retiree related population growth, which has long been a staple of Florida's overall population and economic growth, also faces headwinds from several sources. At the same time, there will be a transition towards a smaller share of jobs in government as jobs move toward the private sector.

An important question for the state is how smoothly this transition will take place. Just what is the "normal" ratio of government jobs to total non-agricultural payroll jobs is hard to say. In any case - excluding the summer months when many teachers are off payroll - that ratio rose from around 14 percent in 2006 and 2007 to about 15.5 percent in 2010, excluding the temporary census workers. Moreover, by 2010, the median pay of many public sector jobs substantially exceeded the median pay of all Floridians.[3] For example, the median pay of firefighters was 153 percent of the overall state median pay. For police the figure was 175 percent and for security guards 118 percent. While private sector working voters undoubtedly respect the effort, dedication, and skill of public workers, their accelerating wages, job security, and benefits compared to those in the private sector likely were becoming sources of contention. The disparities will reinforce voters' desire to reduce the role of public employees.

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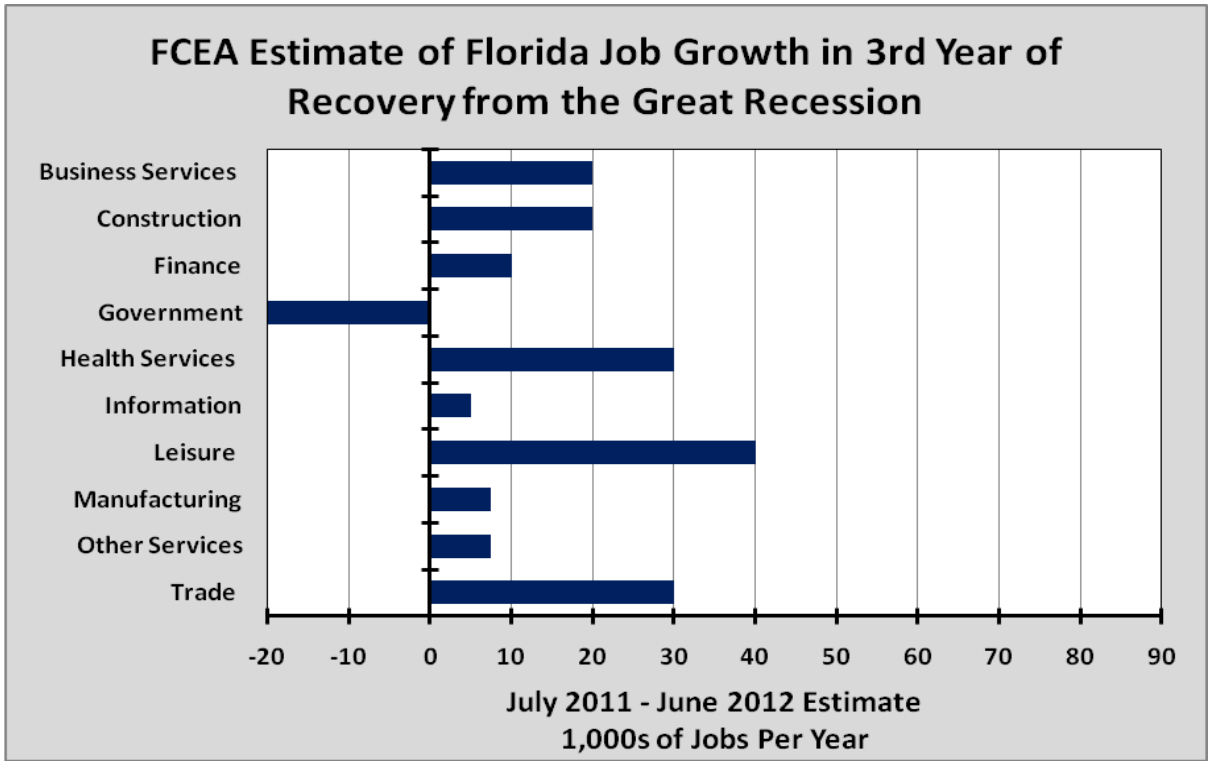
With these structural changes and the expected slow national growth in mind, our estimate is that job growth in Florida during the coming year will average about 12,500 a month, summing to 150,000 jobs. That is an increase of approximately 2 percent, better than what we've experienced, but much slower than we would like and the more typical 4 percent noted previously.

The chart below shows our expectations by sector:



For the coming twelve months government employment will be the drag on overall job growth. Squeezed by falling property tax revenues, the end of federal stimulus funding, high debt burdens, and escalating pension liabilities and medical costs for retirees, local government budgets will continue to be severely constrained. As a result they will do little hiring. Many will not replace workers who leave or retire. Our estimate is that government employment in Florida will drop by 20,000.

> "Tourism will be the strongest sector, fueled by rising national growth, rising incomes overseas, and possibly by a weaker dollar."

In contrast, tourism will be the strongest sector, fueled by rising – albeit tepid – national growth, rising incomes overseas, and possibly by a weaker dollar. The chief threats to that sector would be sharp increases in oil prices or a collapse of the euro. And, of course, if the United States falls into recession again, then Florida will unlikely to generate this number of jobs.

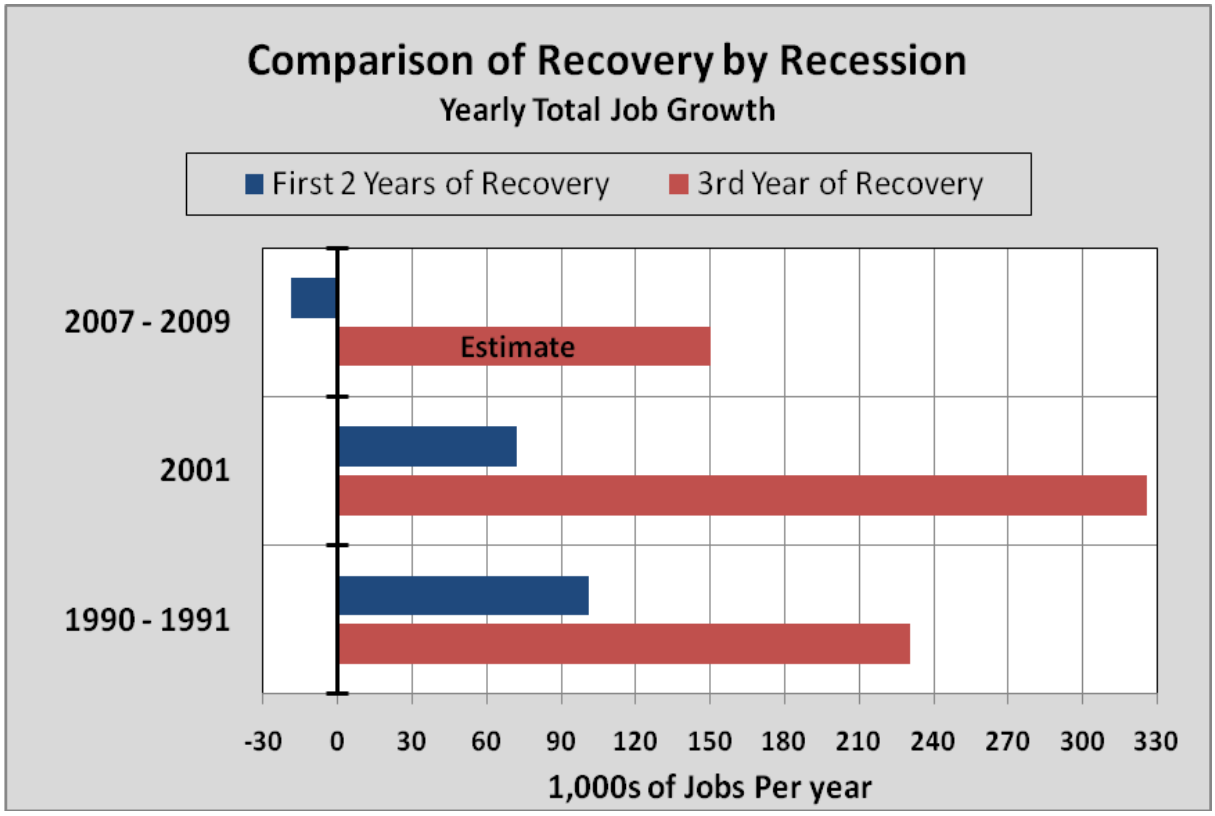
Our estimate anticipates positive, but modest, job growth in construction. Retiree baby boomers are beginning to be drawn to Florida. Some of them, in spite of the backlog of empty houses, will build new ones to suit their tastes. More and more developers are initiating multi-unit projects, and there will be a growing need for workers to prepare long-vacant houses for sale, as well as the usual demand for remodeling and maintenance. As Florida's population grows, so too will the demand for finance, health services, and wholesale and retail trade. As households continue to rebuild their finances, these sectors will not rebound strongly. They will also be held back by continued high rates of unemployment and, for some households, the end of eligibility for unemployment compensation. Boosted by a weak dollar and strong growth in developing and emerging nations creates demand for exports, manufacturing will rise, though only slightly.

We have already mentioned the major downside risk - the possibility of another U.S. or a global recession. The upside possibilities include a strong resurgence of retiree migration to Florida, a better-than-expected global recovery, and a swelling flow of firms moving to Florida, as firms that produce for national and global markets are drawn here by a good business climate and an abundance of workers.

Conclusion

The expected 2 percent job growth, though far better than none at all, will fall noticeably short of previous recoveries. The unemployment rate will decline only gradually and the recovery will continue to be sluggish, even into its third year. From the perspective of economic sectors, the reasons are clear: (1) the lingering surplus of houses and (2) the sluggish adjustment of the balance between private and government jobs. Eventually construction will return to normal and lost government jobs will be replaced by private jobs, but the transition is likely to be slow.

The chart below summarizes the differences in Florida's yearly total job growth following the three most recent recessions.



Endnotes:

Data used in jobs graphs is from U.S. Department of Labor, Bureau of Labor Statistics

[1]Because of the difficulty of seasonal adjustment following the unusual boom and bust in housing, the census, and the oil spill, we are using only non-adjusted data, doing so in a way that allows meaningful comparisons over time.

[2] There is a break in the data for one of the series— Business Services—starting June 2007, with the data series from the Bureau of Labor Statistics before that date, and the Florida Agency for Workforce Innovation reporting the series starting June 2007. The later series data were matched to the early series by applying a factor adjustment. Any potential differences in results in the Business Services sector due to this adjustment are likely to be minimal.

[3]Calculations use data from Occupational and Employment Statistics, Bureau of Labor Statistics.

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