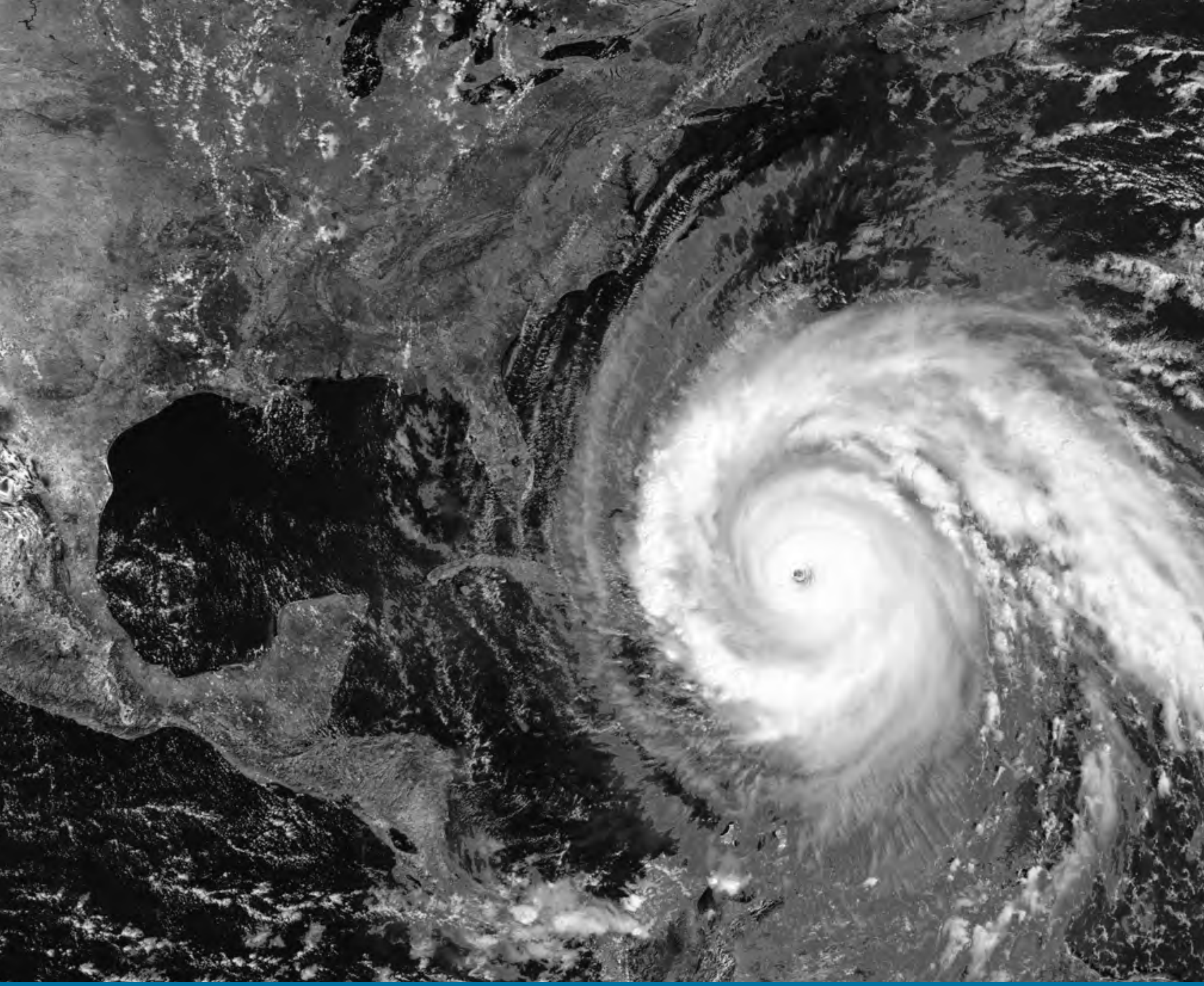

Hurricane Season May Be Here, But Florida Is the Best Place to Be for It

Victor V. Claar

Hurricane Season has arrived. But it's not just weather events people should be concerned about this year. Just like it's difficult to know exactly when or where a hurricane may strike, our economic fortunes for the coming year appear equally uncertain.

But, just like in weather-driven hurricane season, it's important to be located in the safest place possible in case economic storms strike. And the good news is that Florida is probably the best place you can possibly be no matter how bad any coming economic challenges may be for the broader economy.

To understand why, it's helpful to take a look at a few numbers. For starters, let's return to 2020—the onset of the pandemic.

While few saw the pandemic coming, and despite the devastating health and life consequences it brought, at the end of its worst we learned that Florida had fared better than most states in terms of economic consequences. For starters, while GDP nationally fell by 3.4 percent for 2020, here in Florida it fell by a mere 2.8 percent.

But a broader and deeper look helps identify an even clearer picture of just how well Florida is recovering from the pandemic-driven recession. To begin, let's look at some jobs numbers for the US economy and then compare them to Florida in the same period.

Many readers will be familiar with the labor force participation rate that is reported each month as part of the Bureau of Labor Statistics' release called the Employment Situation—the release that includes the widely announced monthly unemployment rate. In February 2020, just before the onset of the pandemic, the nation's labor force participation rate—the percentage of employable Americans either working or actively looking for work—stood at 63.4 percent. This means that, among eligible adults, nearly two-thirds were either working or looking for jobs. Of course, the pandemic created a catastrophic drop: by April 2020 that rate had fallen to 60.2, yet by the end of the first quarter of 2022 that number had recovered to a mere 62.2.

Now let's compare those numbers to the same numbers for Florida at the same three times. In February 2020, the participation rate in the Sunshine State was 59.1 percent. Of course, this number is much lower overall in Florida than in other states due to the large share of our population who are older than typical working-age adults. Many Floridians simply choose not to work at times—because they are either retirees or prefer to work only during seasonal travel months. But as the pandemic disrupted the Florida economy, the participation rate had fallen to 53.8—just two months later—by April. Yet, by March 2022, the rate had risen to 58.8. So even though Florida started with a lower overall participation rate than the broader US economy, we're much closer to our pre-pandemic levels than the rest of the nation.

While encouraging, these numbers alone don't begin to convey the robustness of the Florida labor market despite lingering fallout from the pandemic. So, while these comparisons are encouraging on their own, they assume that the size of the working-aged population remained constant throughout the period. But as media outlets at all levels have reported, Florida's population has swelled during the last three years because of the arrival of new Floridians from other US states. And in most parts of Florida, the labor market has been able to accommodate many of those new arrivals.

How well have available workers been connected to available jobs? Here in Southwest Florida, where I live and work, the trend so far is remarkable.

In the Cape Coral-Fort Myers metropolitan statistical area (MSA)—where I live and Florida Gulf Coast University (FGCU) is located—the labor force in February 2020 was about 355,000. But by March 2022 it was up to roughly 367,000. Yet the unemployment rate in the same period from the beginning to the end changed little overall—2.6 percent in February 2020 and 2.5

percent in March 2022—though it had risen to a breathtaking 14.1 percent in April of 2020. This means that the local job market absorbed lots of those new labor market entrants from other places. That's good news about the availability of jobs as well as hiring rates. And the nearby Naples-Immokalee-Marco Island MSA experienced a similar pattern over the same time frame: bigger labor force, yet similar unemployment rates both pre- and post-pandemic.

Of course, it's not all good news. As most of us have heard by now, housing costs for families have risen significantly—driven in part by the influx of new Floridians during the pandemic. New data from FGCU's Regional Economic Research Institute (RERI) indicate that single-family home prices in their three-county region (Charlotte, Collier, and Lee) increased by 22-31 percent from May 2021-22. And over on the other South Florida coast, housing costs in general rose by 10.5 percent from April 2021-22 in Miami/Fort Lauderdale, according to the Consumer Price Index.

To see the affordability issue more clearly, it's useful to refer to a number that compares the median home price in an area to the median household income there. Frequently referred to as the PTI (price-to-income ratio), it's calculated as the ratio of the median home prices to median incomes and is thought to give insight into whether home prices are reasonable in light of the incomes earned in that market. According to Freddie Mac, many use 3.5 as a "healthy" PTI: that would mean that the median home prices are about three- and one-half times greater than the median annual income. For example, if a typical family in an area earns $75,000, then a reasonable mortgage for that family to undertake would be around $262,000—3.5 times $75,000.

But some parts of Florida have PTI ratios that are increasingly frightening.

PTI values for Lee and Collier counties in Southwest Florida, using U.S. Census estimates of median incomes and January home prices, paint a dark portrait of housing "affordability": Lee County's PTI is 6.8, and Collier's is 10.3. That means that in Collier county—home to Naples and Marco Island—the median home price is more than ten times the median income.

Even worse, you would be hard pressed to find many homes with "median" prices in Collier county. Remember, median is simply the number in the middle; it doesn't tell you whether there are many near that price or few. And in Collier County you will likely find many homes well above the median and many below it, but very few other homes in the price range of that median home. As economists like to sometimes say, the distribution of home prices is "bimodal": lots on both ends but very few in between. Which means that those median-income households will be "lucky" to find a home that is 10.5 times their incomes.

Yet even in a pricey market for homes and apartments, there are signs of hope that we can build even more housing, and that we can contain costs as a consequence. Here in Southwest Florida, new single-family building permits rose 28 percent in May 2022 compared to May 2021 in our three-county region. And the number of active listings in the same market rose 84 percent in June 2022 compared to June 2021. Though many housing markets in

Florida have recently experienced skyrocketing housing costs, new home prices, and bidding wars, we finally appear to be getting a bit of breathing room.

It's also great news that vacationers and snowbirds have returned to Florida in numbers that exceed pre-pandemic levels. And while I am not a fan of taxes, per se, sales tax revenues from tourism are indicative of how well we have recovered where tourism is concerned overall. To take just one recent month, state sales taxes from tourism alone came in nearly 20 percent above estimates during April 2022—one of several factors feeding into our state's significant budget surpluses.

And it's not just the tax revenue that matters: The tax revenue from tourism is strong because tourism seems to be stronger than ever. Florida remains a place that people choose—for vacations, for economic opportunities, and for better lives in whatever sense that means to them.

But not everything is smooth sailing: There do seem to be some possible storm clouds ahead. And the one that should be most concerning to all of us is the ongoing threat of inflation. While the Federal Reserve System ("the Fed") —the central bank and exclusive monetary authority of the United States —has recently taken actions indicating that it views inflation as a real and immediate danger, the Fed appears to have waited too long to act, and once it did it wasn't as aggressive as it likely should have been. And while ongoing inflation is always bad because it acts like a very real tax on any money you are presently holding, this particular inflation has been especially brutal for working families since some of the fastest price increases—gas, shelter, and groceries of all kinds—are on goods and services it's almost impossible to substitute away from: Everyone needs gas, groceries, and a place to live. In addition, those three categories—food, fuel, and shelter—represent the vast majority of a working family's budget every single month.

If we want to see Florida weather this particular inflation well, then we need to continue to work hard to do what we can here to contain costs for working families. Inflation is a national phenomenon, but cities in South Florida—on both sides of the peninsula—continue to experience some of the highest inflation rates in the country, due mostly to rapid increases in housing costs. Anything at all that can be done to reduce local restrictions on land use and zoning ordinances can usher in a wave of new, varied, and affordable housing for families of all kinds.

So be prepared for actual hurricane season. And rest assured that Florida is well prepared for any economic storms ahead. But whether the outlook is uncertain for either the weather or the economy, every reasonable person makes appropriate preparations in advance. And when it comes to economic preparedness, nothing beats a dynamic economy with the flexibility needed to endure both current and future economic storms.

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