

FLORIDA: Dealing from Strength in Slow Year

Florida's rocketing economy began to sputter late in 1981 and should continue to slow during 1982. The forces powering the state's growth— in-migration, construction, and tourism— although still stronger than most District states, have been weakened by a sluggish national economy.

Florida sailed through 1980 and early 1981 with little evidence of economic weakness. People continued to pour into the state in search of sun, surf and opportunity while new businesses hurried to set up shop in impressive numbers. Underlying forces continue pushing Florida upward in the new year, but much slower growth seems likely.

Weak spots began to crop up in the state's economy late in 1981 as a prolonged housing slump nationwide reduced Americans' mobility and dampened the flow of in-migrants crossing the Florida line. People faced with today's stagnant real estate market realize they have a slim chance of selling their home and may postpone moving for another year.

What's more, overzealous real estate investment in south Florida could undermine the economy in 1982 as developers draw back to compensate for overbuilding in 1980 and 1981. Such overbuilding, coupled with the reduced level of in-migration, should slow the Florida economy this year.

The state's dependence on 35 million visitors annually also makes it vulnerable in 1982 as no improvement is expected in 1981's disappointing

tourist trade. Rising air fares, higher hotel rates and adverse national publicity surrounding Miami have diminished Florida's image as a great tourist bargain.

The longer-term outlook appears bright, however. As mortgage rates drop, the housing market may begin to recover late this year. Population inflows should move back up to the 250,000-275,000 per year level in 1983.

Business migration remains healthy. The space shuttle, a strengthened defense sector, and a growing international trade sector may promote industrial growth. These forces should help buffer Florida against the stagnant tourist industry and real estate downturn.

Between 1970 and 1980 Florida gained almost 3 million residents, pushing the total population up to 9.74 million. The number of new households increased by 1.85 million during the decade. The residential construction industry boomed as population growth required an average 185,000 new homes to be built each year.

Considered early-on as a retirement haven, Florida attracts a disproportionately large share of older migrants. Seventeen percent of the

Florida population is over age 65 compared to 11 percent nationwide. These retirees derive their income from social security, dividends and interest payments. They spend their money at local retail shops and on health care. Therefore, the services and retail trade industries have flourished, providing ample job opportunities for the younger population.

Another factor spurring retail and service opportunities in Florida is the large number of tourists visiting the state each year. In 1970, about 19 million people visited the state. That figure almost doubled over the decade to 35.6 million tourist arrivals in 1980. Tourist-related wages in Florida represent almost 10 percent of the state's total personal income.

The 1973-75 recession left the vulnerable Florida economy virtually lifeless. As annual population growth dropped substantially between 1972-73 and 1975-76 and tourist arrivals slumped, the demand for new homes and local services

fell sharply.

Since then, the Florida economy has taken off again, driven primarily by population growth. Recession-resistant high-technology manufacturing industries have replaced construction-related manufacturers in importance. International activity has demanded Florida's attention while the rest of the United States suffered from high interest rates and inflation. Prime working age residents are attracted to Florida as more diverse job opportunities open up even though salaries are generally lower than in other states. The age 25-44 group is expected to increase from 24 percent to 29 percent of the Florida population in the next 10 years.¹

Florida's economic momentum helped the state miss the 1980 recession. Even the 1981

¹ Stanley K. Smith, *Population Studies*, Bulletin No. 56, University of Florida, July 1981.

Table 1. Florida Business Cycle

	1973-75 Recession			1980-81 Recession		
	Peak	Trough	% Decline	Peak	Current	% Decline
Annual Population Growth Year Ending	476,200 4/1/73	125,800 4/1/76	-74%	*291,000 4/1/80	238,000 12/31/81	-18%
Personal Income Year-over-Year Change Date	18.9% 3Q/73	7.0% 3Q/75		16.2% 1Q/81	16.0% 2Q/81	
Residential Construction Number of Units 12-Mo. Cum. Rate Year Ending	273,600 7/31/73	52,300 12/31/75	-81	196,000 10/31/79	154,956 11/30/81	-21
Single-family Permits 12-Mo. Cum. Rate Year Ending	87,100 7/31/73	37,100 8/31/75	-57	100,100 10/31/79	74,609 11/30/81	-25
Multi-family Permits 12-Mo. Cum. Rate Year Ending	230,000 6/30/73	11,500 2/28/76	-95	92,100 5/31/81	77,882 11/30/81	-15
Nonresidential Construction Millions of dollars 12-Mo. Cum. Rate Year Ending	1,650 10/31/74	1,250 10/31/76	-24	3,750 9/30/81	3,676 11/30/81	-2.0
Nonfarm Employment (000's) Date Year-over-Year Change	2,901 4/74 +5%	2,681 8/75 -5%	-7.6	—	3,810 11/81 +4.4%	
Unemployment Rate Seasonally Adjusted Date	3.6% 10/73	11.8% 5/75		5.0% 1/80	7.6% 11/81	
Taxable Sales Year-over-Year Change	N.A.	-3.2% 10/75		+20.9% 10/78	+15.7% 10/81	
Tourist Arrivals Millions annually Date	24.8 1973	24.2 1974		35.9 1980	(est.) 35-36 1981	

N.A. - not available. *Does not include 100,000 Cuban and Haitian refugee immigrants.

figures show an economy somewhat immune to a downturn (Table 1).

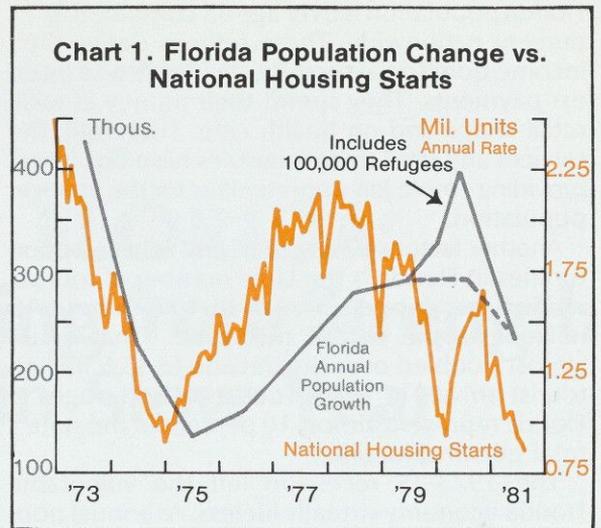
Personal income surged ahead 16 percent in 1981 compared to a national growth rate of 12 percent. Businesses added 160,000 new workers to payrolls in 1981. Commercial construction pushed ahead 22 percent and residential construction held its own. Taxable sales at retail establishments held a steady 16 percent rate of growth. Sales of clothing, industrial machinery, farm tools, and office rentals were particularly good in 1981, with year-to-year growth much higher than the state average. But weakness persisted for sales of roofing and sheet metal, appliances, furniture, hardware, automobiles, boats, hotel rooms, and amusement admissions, where sales growth was below average.

Florida's structural strengths may be tempered in early 1982 by a sluggish national economy and declining in-migration. An economy that relies on the spending of 35 million tourists and 300,000 new residents a year for income gains is vulnerable when national forces restrict those inflows. The exceptional growth attributable to consumer spending isn't immune to a decline, especially as tourism and population growth stagnate. The net effect of the economy's booming and weakening sectors should be only moderate or sluggish growth in 1982.

Potential Weaknesses in 1982

A heavy flow of people into Florida during the 1970s increased the state's population by almost 3 million people. The 1980 count hit 9.74 million, but the road toward the 10 million mark proved uneven. The annual population figure advanced 476,200 in the boom period of 1972-73, but climbed only 125,800 during the 12 months ended April 1, 1976, the year following the national recession. The recession produced a stagnant housing market which deterred people from selling their homes in the Northeast and Midwest to move to Florida. The 1980 and 1981 recessions had the same effect on housing nationwide (Chart 1).

Florida's annual population increase hit 300,000 in 1979 and would have been the same in 1980, but an influx of 100,000 Cuban and Haitian refugee immigrants pushed the total up to 400,000. In 1981, population increased by only 238,000, but this figure is still high considering the dismal housing picture nationwide. One major difference



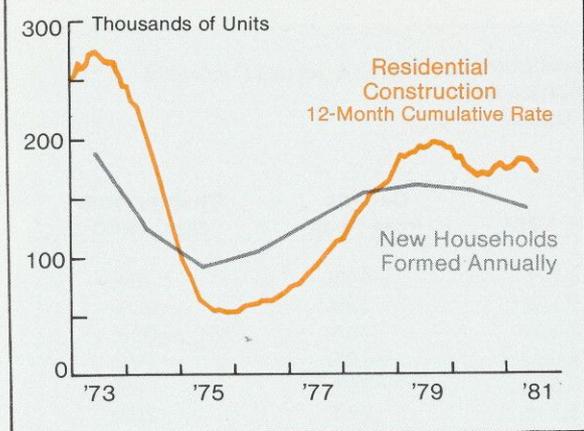
The number of households for 1970 and 1980 are published by the U.S. Bureau of the Census. The average number of persons per household in 1970 and 1980 was obtained by dividing the total population by number of households. That figure declined from 2.97 in 1970 to 2.60 in 1980. The number of households for 1971-1979 was determined by estimating the average persons per household in each year assuming the figure declined linearly during the decade. New households were determined by dividing the University of Florida's annual population estimates by the estimated average persons per household. For 1981, the number of persons per household was assumed to be the same as in 1980.

in the past two housing cycles is the availability of mortgage funds. In 1974 and 1975 savings and loans lacked the funds to lend at prevailing rates, so they virtually cut off mortgage lending. In the most recent downturn, mortgages are available, but interest rates prohibit most buyers from entering the market.

Business development has remained extremely good in the last few years. New firms opening offices in Florida are forced to offer increasingly attractive packages to lure professionals into the state. Businesses are shouldering the burden of selling a transferee's existing home and easing the increased mortgage expense of a new home by paying mortgage differentials. New corporate moving policies lighten the cost of moving for homeowners and have helped keep in-migration relatively high during this period of soaring mortgage rates. However, many national corporations have restricted this policy in the past few months.

Another reason population growth still remains above 200,000 per year is that too little time has elapsed to allow the migration lag to take effect. A move generally takes about six months of planning and preparation. Last year's in-migrants began planning their moves during the slack interest rate period of 1980. However, 1982's

Chart 2. Household Growth vs. Florida Residential Construction



potential movers would have been deciding whether or not to take the risks of moving during a gloomy economic period with mortgage rates as high as 18 percent in many places and home sales at an all-time low. Those movers may postpone their plans as late as 1983.

Nationwide home sales probably reached rock bottom in the last quarter of 1981. Lower interest rates may spur a modest national housing recovery in late 1982. However, in-migration to Florida may not respond immediately, keeping population growth at least as low as the 1981 increase of 238,000.

Construction Slowdown

Population growth translates into demand for new homes even in an era of high mortgage rates. In the past, as household formation increased, the home building industry raced to keep up with demand. Years with slower population growth unexpectedly left speculative builders with unsold inventory. In some parts of Florida, this overbuilding phenomenon may have cropped up again as starts have outpaced household formation for several years. With slower population growth and an existing inventory of unsold homes, residential construction is likely to slack up in 1982 (Chart 2).

Residential construction peaked at 195,000 units on a 12-month cumulative basis in late 1979. Contracts for construction fell 14 percent in the 12 months ended August 1980 to 167,000

units. After a brief recovery in early 1981, housing construction declined below the year-end 1980 level. The Florida Association of Realtors reports that sales of single-family homes dropped 30 percent in the third quarter of 1981 from third quarter 1980. Single-family construction may decline even more in response to the weak sales picture.

A multi-family building surge in 1979 and 1980 offset the declining single-family construction. However, condominium and apartment construction peaked in 1981 as developers realized that the surge in multi-family construction may have overshot demand. During 1979 and 1980, speculative buyers viewed Miami condominiums as a high-yielding investment. The area was a "speculator's paradise" as real estate appreciation rates soared, low downpayments were required and developers regularly raised condominium prices. Often, buyers were wealthy Latins or Europeans attempting to protect their assets or American professionals looking for attractive tax shelters in the "sun." Buyers snatched up new condominiums at pre-construction prices and then resold them as prices began to rise, often undercutting the developer's price.

The scheme worked fine until sky-high mortgage rates and plateauing prices cut into speculators' profits. Speculative buyers in south Florida who had created a deceptively strong market for condominiums began to pull out, leaving developers with unsold inventory going into 1982. A University of Florida survey indicated that unsold multi-family units increased from 20 percent of all new units in the first half of 1980 to 36 percent in the first half of 1981. Unsold single-family units increased from 16 percent of new homes to 27 percent. Multi-family construction is likely to continue to decline in 1982, but single-family construction may pick up slightly when mortgage rates fall to a more tolerable level.²

Building permits issued in the major southeast Florida markets are dropping sharply. In the third quarter of 1981 multi-family permits plunged 45 percent below 1980 in Miami. In Fort Lauderdale, multi-family permits dropped 36 percent, and in West Palm Beach they slid 27 percent. Construction employment for the state excluding the

² Julie Shih, "A Survey of Financial and Construction Activity in Florida" *The Florida Outlook*, University of Florida, Third Quarter, 1981.

**Table 2 Residential Construction by SMSA
12 - Month Cumulative Rate
Number of Units**

	Peak	Nov. 1981	Decline from Peak	Change from Nov. 1980
Jacksonville	6,632	4,775	-28%	-28%
Tallahassee	2,812	2,153	-23%	-20%
Pensacola	3,469	2,207	-36%	-35%
Daytona	6,066	4,932	-19%	-10%
Gainesville	3,433	2,316	-33%	- 9%
Melbourne	6,888	5,115	-26%	-20%
Orlando	12,313	10,615	-14%	+ 6%
Lakeland	3,865	3,011	-22%	-15%
Tampa-St. Petersburg	30,212	25,198	-17%	+ 8%
Sarasota	6,899	5,621	-19%	- 3%
Ft. Myers	9,296	7,495	-19%	+ 3%
W. Palm Beach	29,197	19,809	-32%	-22%
Ft. Lauderdale	23,782	12,285	-48%	-22%
Miami	22,475	16,280	-28%	-18%

three southeast Florida counties increased by 10,200 workers during 1981. But the three southeast Florida counties dropped 9,000 construction workers for the year.

Many workers are still employed on jobs begun during the peak condominium market of late 1980 and early 1981. Fewer contracts are coming up to provide jobs for those construction workers. Irv Alder, president of the South Florida Builders Association, was quoted in the Miami Herald as saying that 30 to 40 percent of Florida's construction workers are out of a job. The official data may not reflect the sharp increase in unemployment of construction workers until later in 1982 and may never indicate the true picture of economic stress.

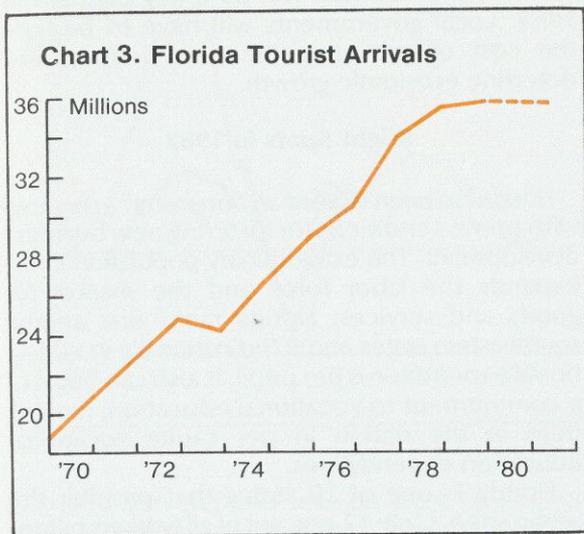
Residential building is stronger in central Florida, where new companies are moving in, bringing employees with housing needs. Orlando new home construction was up 6 percent for the year, and Tampa-St. Petersburg building moved up 8 percent. Growth in these cities should continue to reflect new industries moving into the area in 1982, while south Florida could take the brunt of the construction weakness (Table 2).

Where Are The Tourists?

Tourism remains one of the most important industries contributing to Florida's growth and economic welfare. The state ranks second in the country both in payrolls from tourist-generated jobs and in the number of dollars spent by tourists. Supplying tourists' needs and desires directly contributes to new business development. The 1980 and 1981 national recessions adversely affected Florida's tourism industry.

A repeat performance is expected in 1982. Rising air fares and hotel rates near the national average have reduced Florida's appeal as a bargain vacation spot. The reduced number of air traffic controllers is beginning to hamper the flow of winter tourists to Florida. Extra flights, usually scheduled during this peak season, are not available. Although a record 35.9 million visitors traveled to Florida during 1980, the figure is only 1 percent greater than in 1979. Tourist arrivals climbed 5 percent in 1979, and in 1978 they jumped 11 percent (Chart 3).

The state received over \$17 billion from tourists during 1980, a 7 percent increase over 1979.



The 1981 numbers show no improvement. Compared to the 25.3 million tourists who traveled to Florida during the first three quarters of 1980, the number of visitors during the first three quarters of 1981 dropped to 24.5 million—a decrease of 3 percent. Auto travelers accounted for 15.9 million tourists, while 8.7 million flew into the state. Domestic tourist doldrums are primarily a result of the higher prices and nationwide economic stress.

Florida, more than any other southeastern state, traditionally has hosted many tourists from all over the nation. But non-traditional tourist states are benefitting since tourists are traveling closer to home. Thus, while other southeastern states have experienced increases in tourists traveling from nearby states, the number of tourists visiting Florida has been curtailed.

Neither the 1981 nor comparable 1980 figures include tourists from overseas who have kept tourist growth positive over the past two years. This is the fastest growing segment of the state's tourism industry. Approximately 7 percent of Florida's tourists travel from overseas. Because exchange rates are not as attractive as they were in the past, many potential foreign visitors were turned away in 1981. International plane passenger arrivals at the Miami airport were down 4.4 percent for the year.

Yet for those international tourists who do come to the United States, Florida is one of the most popular states to visit. An aggressive campaign has been launched by central Florida in an attempt to attract a larger share of the international tourists who historically have entered the state through Miami International Airport. They have spent most of their time and money in south Florida before taking any brief visit to central Florida.

Now central Florida hopes to reverse this schedule by encouraging international tourists to fly directly into Orlando or Tampa and spend their vacation visiting the many theme parks in the area. Passenger arrivals at both Orlando International and Tampa are up. Thus far, south Florida hasn't been hurt by this campaign, but over the next few years a large increase is expected in the number of tourists traveling to central Florida rather than south Florida.

The most popular attraction wooing both domestic and foreign visitors to central Florida is, of course, Disney World. Like the rest of the state, Disney World's attendance declined during 1981. The 1981 total for the first three quarters fell to 9,449,000, a 4 percent decrease, and the picture is no better for 1982. The \$800 million EPCOT Center (Experimental Prototype Community of Tomorrow) should stimulate Florida's tourism industry. Scheduled to open in October, EPCOT, a showcase of American industry, is expected to attract an additional eight to ten million visitors to the Walt Disney complex, boosting attendance to about 23 million in the first year after it opens.

One possible problem facing the tourism industry is that visitors may postpone their trip to Florida and Disney World until EPCOT opens. The anticipation of EPCOT and the recent poor health of the national economy may result in continuing slow growth in Florida's tourism during 1982 relative to historic growth rates.

South Florida particularly is facing some challenging problems. The widely publicized deterioration of the quality of life in Miami poses a very serious threat to tourism. Miami's negative publicity could prove damaging to all of south Florida unless each county can establish its own image. Miami tourist industry leaders have proposed tourist taxes on hotel rooms, food, beverages, sporting events, cultural activities and retail sales to fund an advertising campaign to enhance the city's image.

Federal Cutbacks

The new federal budget philosophy should eventually result in a more efficient use of tax revenues as authority and funding responsibility are passed back to the states. But the transition will not be smooth.

Federal programs are being cut back before states find alternative means of operating. Eighteen percent of Florida's total revenues is supplied by the federal government.

Two major functions for which Florida has turned to the federal government for funds are transportation and waste water treatment. The state spent \$2.2 billion on transportation in fiscal 1980. Federal funds contributed almost \$1.0 billion to transportation spending in Florida. Transportation spending was spared drastic cuts in the 1982 budget, with federal budget authority for transportation expenditures decreasing 15 percent from 1981. But the mood seems to favor further reductions in the federal contribution.

For large businesses to move into Florida, transportation routes must be more than adequate. State funding for highway construction comes from an eight cent a gallon tax on gasoline that hasn't increased since the 1940s. A move in the 1981 legislative session to increase that tax was quashed, but declining federal contributions could renew the push to provide state funds for transportation development.

Sewer construction in growing Florida cities is also causing concern. Since fresh water already is scarce in many coastal regions and several years of drought have drained the aquifer, adequate water treatment is vital to support growth.

Local governments spent \$401 million on construction and maintenance of sewer systems in the state in fiscal 1980. Over \$120 million was provided by the federal government for new facilities. However, the federal grant program was cut off halfway through 1981 amid charges of mismanagement until problems could be corrected. Florida lost \$73 million which had been promised for projects already on the drawing board. The new formula under which sewer grants will be made no longer will favor areas with rapid population growth. Florida's share of federal sewer grants will be reduced by 30 percent in 1982.

Those projected cutbacks in 1982 threaten to leave local areas with four choices. They can try

to limit economic growth, increase taxes, sell bonds, or pass the costs on to the sewer users.

The sharp and quick reduction in federal funds for sewage treatment will be a key concern in 1982. Local governments will have to balance the cost of providing these services against deterring economic growth.

Bright Spots in 1982

Florida has been labeled an "incubator" economy,³ with prime conditions for fostering new business development. The extraordinary population influx expands the labor force and the market for goods and services. Florida ranks first among southeastern states and 22nd nationally in educational expenditures per pupil. It also can boast of a commitment to vocational education, ranking third in the nation in per capita vocational education expenditures.

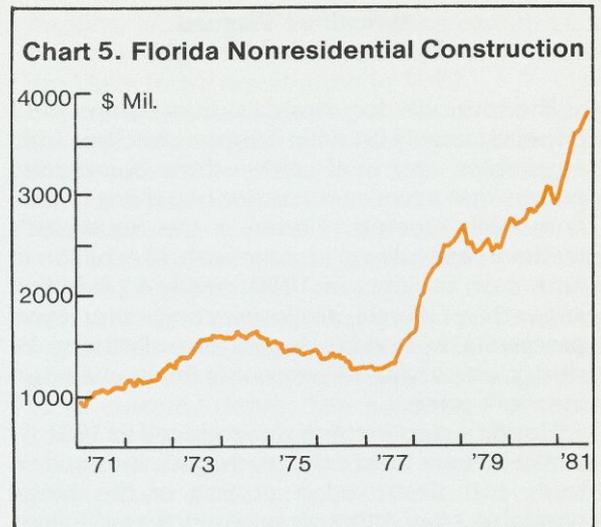
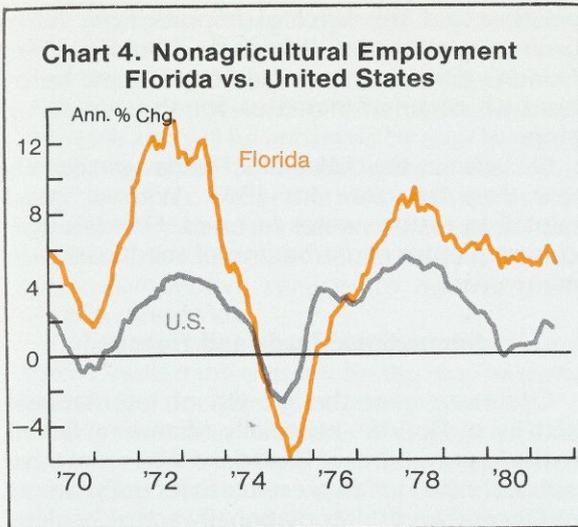
Florida is one of 20 states that prohibit the union shop. Only 12 percent of all workers belong to unions compared to 24 percent nationwide. Airports are continuously being developed as distribution channels, and the state's 23 seaports contribute to the increasing importance of international trade. Strong tourist trade allows the state government to operate without levying an individual income tax. Per capita state and local taxes are the nation's seventh lowest.

Despite back-to-back national recessions in 1980 and 1981, businesses continued to expand in Florida. The state's industrial development department was actively involved in attracting 95 new firms to Florida and in the expansion of 105 existing industries in the first half of 1981. Those announcements represented 39,300 new job commitments with a combined capital investment of over \$1.1 billion.

Total incorporations of new business jumped 15 percent in the first half of 1981 compared to only 10 percent growth nationally. Employment is rising at a 4.5 percent year-over-year rate, while nationally employment is at a standstill (Chart 4).

Business development requires construction of new facilities. Nonresidential construction expenditures rose 22 percent in 1981 to \$3.7 billion (Chart 5). Florida corporations are cash-

³ Timothy S. Mescon & Sheila A. Adams, "Incubating New Business Development: The Sun Belt Experience," Working Paper, 1980, College of Business Administration, Arizona State University.



rich and can depend less on debt to finance growth than the more mature manufacturers of the Northeast and Midwest. Therefore, a 20 percent prime rate is not as prohibitive in industry expansion. The list of new firms and expansion projects seems endless. Projects related to computer technology, the space shuttle and national defense are recession-resistant and offer encouraging growth prospects for 1982.

High-technology manufacturers are flocking to central and southeast Florida. Harris Corporation's move in the late 1970s led the way. The firm first moved its headquarters to Melbourne, then gradually transferred manufacturing facilities to the area. One of the state's largest industrial employers, Harris now has a work force of over 10,000.

Harris' pioneering in satellite communications should be encouraged by the two successful space shuttle flights in 1981. Harris expanded its control division in 1981, giving its complex of office and manufacturing buildings over two million square feet. Another building slated for late 1982 will cost approximately \$30 million and add another 300,000 square feet to Harris' total facilities.

Other new projects near the Kennedy Space Center directly related to the space shuttle include Hughes Aircraft Corp's plan to build a satellite assembly plant which will employ about 200, United Technologies' facility to refurbish used space shuttle booster rockets, and the U. S. Army Corps of Engineers' shuttle payload integration

facility. Even more growth is expected in 1982 as shuttle flights prepare to transport satellites to space.

The Defense Build-up

In fiscal 1980, Florida received \$5.1 billion from federal government defense-related funds. Only five states received more. The 1982 federal budget authorizes an increase of \$26 billion over the amount previously budgeted for defense by the Carter administration. Translating that budget figure into a dollar impact on Florida is impossible; however, the change in emphasis toward greater defense spending should be significant for the state. The state's top defense contractors—Martin Marietta, United Technologies, Honeywell, Harris, Pan American, Sperry, E-Systems—and others are gearing up for the 1982 expansion.

Martin Marietta is expanding facilities in Orlando and Ocala as a result of \$54 million in defense contracts awarded to the company in 1981. The expansion will include hiring 1,500-2,000 employees a year through 1985. AAI Corporation of Baltimore opened a plant in Orlando that will employ 200 to manufacture electronic training and simulation systems for the Army.

Bendix Corp. is building a manufacturing plant in Jacksonville to produce engine equipment for military and commercial aircraft. Employment will begin at 200-300, but should approach 1,000 as production reaches capacity.

Agriculture Plagued by Freezes and Drought

The outlook for Florida's farmers in 1982 depends largely on what happens to citrus fruit, vegetables, and beef cattle—three commodity groups that account for about two-thirds of total farm cash receipts. Florida is the Southeast's leader in agricultural income with \$3.5 billion in farm cash receipts in 1980, nearly \$1.0 billion larger than Georgia, its closest competitor. Food processing is Florida's largest manufacturing industry, employing 14 percent of the manufacturing work force.

Florida's crop income was reduced in 1981 by a mid-January freeze that damaged citrus fruit on trees and destroyed a portion of the winter vegetable crop. Although prices increased following the freeze, farmers with damaged fruit benefited little. In some cases, vegetable producers had to await new crops before products were available to market. By that time, increased supplies were available elsewhere in the country and market prices had fallen.

Another serious problem for farmers and non-farmers alike was the continuing drought that plagued the state throughout the spring and summer of 1981. Several areas received less than 50 percent of normal rainfall. A tropical storm gave some relief in mid-summer, but the drought lingered into 1982.

Cattlemen were affected by the dry weather, which limited forage production, and by a 21 percent drop in calf prices from 1980's level. Even though the calf crop was up 10 percent from the year earlier, receipts from calves—the primary product from Florida's cattle industry—fell sharply. Cattlemen are likely to slow their expansion of the cattle herd in 1982, and herd numbers might even decline unless cattle prices rise significantly during the year. High costs of feeding cattle and the abundant supplies of poultry and pork are likely to limit price advances for beef in 1982.

Unfortunately, another serious freeze in early January 1982 damaged vegetable crops as much or more than in 1981. The recent freeze inflicted heavy damage to the citrus crop and again destroyed a portion of the new crop for the coming season. Citrus income seems certain to be further depressed from 1981's levels but the final result will rest heavily on subsequent winter

weather and the level of imports from other producing countries. If imports should decline, Florida's citrus income could regain some losses because of price increases for the remaining crop.

On balance, the outlook for Florida agriculture is less than favorable for 1982. Without good rainfall to restore water reserves, Florida's agriculture picture could be one of the bleakest in many years.

International Trade and Finance

Optimism over the growth of international activity in Florida—especially Miami—is linked to the large number of financial entities that have established a Florida presence in recent years. As of December, 80 internationally active banking offices operate in Florida, making the state an industry leader. Within Florida, 14 of the 23 commercial banks which report international lending and all 31 Edge Act corporations or branches and 26 agencies or representative offices of foreign banks are located in Miami. In 1970, there was only one Edge Act Corporation in Miami along with several commercial banks that have had active international departments for years.

Federal and state regulatory changes have encouraged the formation of Edge Act corporations and permitted the foreign bank presence, but Miami's proximity to Latin America has been a major factor in its emergence as a center of international activity. Miami is the natural haven for Latin Americans who seek to deposit funds close to home; it is also the nearest U. S. city in which Latins can arrange trade financing while in the United States for business or a vacation.

International banking facilities (IBFs)—which, in effect, permit U. S. commercial banks, Edge Act Corporations, and U. S. agencies of foreign banks to conduct "offshore" banking in the U.S.—should stimulate international banking in Florida. Some participants in the "Eurodollar market" (composed largely of interbank placements and loans to foreign governments and multi-national corporations) believe Miami will eventually emerge as a complete finance center with the help of IBFs. Much business currently conducted in such out-of-the-way places as the Bahamas and the Cayman Islands because of tax advantages of booking bank transactions there, appears certain to return to the mainland. The

IBFs, approved to begin operation in December 1981, hold foreign deposits which are exempt from interest rate limits and reserve requirements.

The competitiveness of international banking in Florida also will be enhanced by state legislation which exempts IBF-earned income from state and local taxes. Altogether, these measures combined with Miami's location advantages could create a financial center equipped to offer complete, competitive services to borrowers and lenders worldwide.

A slump in Miami's international trade late in 1981 clouded the outlook for the new year after almost two decades of booming growth.

Both exports and imports through the Florida customs districts—Miami and Tampa—have been expanding rapidly for years. In 1981 the total value of goods traded through Florida ports represented 3.7 percent of the U. S. total, compared with only 2.4 percent in 1969. The value of exports from the Miami and Tampa customs districts rose 14 percent in the first three quarters of 1981 and imports jumped 21 percent. Florida port officials report mixed results for 1981. For example, Tampa officials note that phosphate shipments were off in 1981 because of recession in Europe and the strong foreign exchange value of the dollar. Jacksonville auto imports were off over 6 percent for the first nine months of 1981 from the same period in 1980 because of the 1981 U. S.-Japan accord which restricts these

imports. Jacksonville is the leading eastern U. S. port of entry for imported cars, and such imports are likely to be down again in 1982.

Exports account for two-thirds of the trade through Miami and, as usual, 90 percent of shipments will be directed to Latin America and the Caribbean. Imports may grow more than in recent years as a result of the strong dollar.

The emergence of free trade zones in Florida also should encourage international trade in the new year. The zones are essentially local enclaves free of U. S. customs regulations, in which imported goods may be processed without being liable to U. S. customs duties. The advantage of these zones for Florida producers is that importers/producers of a variety of products may benefit by paying lower duties on goods ultimately imported into the U. S. (or re-exported) than if raw materials were imported and then processed domestically. U. S. customs duties are lower on components than on finished products.

Five years ago, no free trade zones operated in Florida; today, five have been established (in Miami, Port Everglades, Orlando, Panama City and Jacksonville), four are in operation and three are planning expansions. The Miami Zone is the most successful zone to date; it is more elaborate than most and is planning to double its space in the near future. The value of merchandise shipped through the zone in 1981 doubled that in 1980, its first year of operation.

—Donald L. Koch
and Delores W. Steinhauer

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