

1982 was a lull in a strong upward trend; increased population growth, housing starts and EPCOT-led tourism should boost Florida into recovery in 1983.

Florida: Poised for a Surge

Early signs of revitalized economic activity in Florida are dawning. Recent trends in building permits suggest that the decline in residential construction has stopped. Whether growth can be sustained will depend on population immigration this year. The tourist industry is optimistic that the winter season will surpass last year's and that the opening of EPCOT at Walt Disney World will stimulate tourism throughout the state. Advance bookings on airlines and at hotels show a stronger season than last year. Retail sales have picked up slightly and could be boosted by a strong tourist season. Businessmen and consumers are cautiously optimistic. Let's look at some of the factors which will influence Florida's economic growth in 1983.

Florida's economy is affected by both structural and cyclical factors. The strong long-term growth trend since the early 1960s tends to push the economy forward even in weak national economic periods. As a result, the state's business cycle lags the national cycle by nearly six months and serves to dampen long-term economic growth for brief periods of one-to-two years at a time. Florida's 1982 weakness was a temporary lull in the upward trend; 1983 should be a year of stabilization and recovery beginning with increased population growth, housing starts and tourism. Florida's structural strengths and the national economic recovery should translate

into increased economic activity in Florida in 1983. But the booming growth of 1979 and 1980 may not be seen again until 1984 or 1985.

Structural Strengths

Florida is in a class by itself in the group of southeastern states which comprise the Sixth Federal Reserve District. It is the largest and fastest growing southeastern state in terms of population. The state gained an average 295,000 persons per year during the 1970s, equivalent to 34 people each hour over the decade.¹ The annual population increase, in actual numbers, is third highest in the nation behind two other large Sun Belt states—California (370,000) and Texas (303,000). Those new Florida residents require homes, jobs, financial services, entertainment, food, clothing, cars and utilities. Population increases alone are enough to push the economy ahead at rates far above the national average.

What attracts so many people to the state? The natural attraction of Florida is the "quality

¹Population data reported by the U.S. Bureau of the Census. 1970 Florida population equals 6,789,443. 1980 Florida population equals 9,746,324.

of life" it offers. Much of Florida's initial population growth was spurred by retirees seeking a warm climate. Indeed, the percentage of Florida's population over the age of 65 is now 17.3 percent compared to the U. S. average of 11.3 percent. But in actual numbers, Florida's working population has increased substantially more than its elderly population. About 700,000 more retirees lived in the state in 1980 than in 1970. During the same period the working age population (age 25-65) grew by 1.6 million. While some of Florida's major cities are becoming crowded, the state's average density is 166 people per square mile, which compares well with New Jersey—940 people per square mile, Massachusetts, 695, New York, 354, and Ohio, 262.

The "pollution-free" environment is an attractive characteristic of the state. Manufacturing represents only 12 percent of nonfarm employment compared with 21 percent nationwide. And the manufacturing that does exist is generally in "clean industries" such as electronics and food processing. Another attractive feature of Florida's living conditions is its relatively new infrastructure. Most highways, bridges, water and sewer systems, airports, hospitals, and schools have been built in the past 20 years.

Many new migrants find the cost of living lower in Florida. The state ranks seventh lowest among all states in terms of state and local taxes paid per \$1,000 of personal income. A recent survey of major cities indicated a family of four in Florida pays about 4 percent of its income to state and local governments, while nationwide, the average is over 8 percent.² Also, the average electric bill was only \$57.48 per 1,000 kwh in 1980 compared with \$61.12 nationwide, \$80.68 in New Jersey, \$87.40 in New York, and \$64.80 in Ohio.³ Housing costs are still more affordable in sections of Florida than in many other populous areas of the country. In areas other than major south Florida metropolitan cities, housing costs range from 72 percent to 98 percent of the national average.⁴

While the strong population increase provides an ample labor force for business growth, there are other factors which attract industry to the state. In 1981, Florida's business climate ranked first among all states. Florida's labor force was considered a plus since unions have a minor influence and educational expenditures on vocational skills are relatively high. Additionally, government-imposed costs of doing business are much lower than in other states.

Factors Influencing The Florida Business Cycle

Quality of life, cost of living, and business climate have contributed to Florida's rapid long-term population growth, which in turn has carried the economy through most national recessions unscathed. However, the longer a national recession persists, the greater the chances of Florida suffering a serious downturn.

The recession finally came to Florida in 1982. But recession in Florida must be regarded in the proper context. Economic activity in the state, even at its low point, is well ahead of most states in the nation. Population growth declined from around 300,000 per year in 1978-81 to 200,000 last year. While the drop is significant enough to reduce economic activity substantially, population growth was strong enough to support the construction of at least 100,000 homes in 1982 and to keep statewide employment from declining.

Migrants to Florida come in greater numbers when the economy is strong, but when the national housing market sours and unemployment rises, in-migration drops sharply. The outlook for the Florida economy in 1983 depends largely on population growth, but several other factors will influence economic activity this year—tourism, international trade, and business development.

The 40 million tourists who visit the state this year will pump approximately \$20 billion into the economy. The nearly \$1 billion in sales tax tourists pay each year has helped the state keep taxes on residents to a minimum.⁵ The

²Government of the District of Columbia, Department of Finance and Revenue, **Tax Burdens in Washington, D.C. Compared With Those in the Nation's Thirty Largest Cities, 1979.**

³U.S. Department of Energy, Energy Information Administration, **Typical Electric Bills, January 1, 1981.**

⁴Federal Home Loan Bank Board

⁵Tourism data reported by Florida Division of Tourism in **Florida Visitor Study, 1981.**

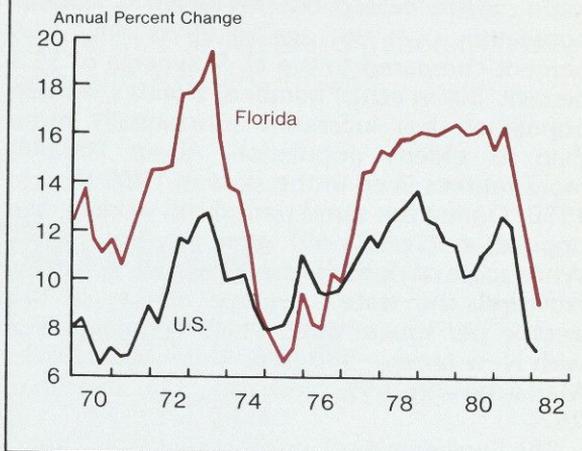
state is one of few without a personal income tax.

While population growth has a strong cyclical effect on the Florida economy, tourism is a more stabilizing factor. Tourism generally slows only briefly during a national recession. While population growth and tourism historically have shaped Florida's economic growth, new outside forces have begun to impact the state's economy.

International influences are permeating the state. Foreign visitors can make or break the tourist season. Foreign imports and exports buoy or restrict the growth of trade and the activity at the state's many ports that depend on the world economy. Accompanying the influence of international trade is international banking. Eased banking restrictions have opened the doors for Miami, quickly becoming recognized as a world banking center.

A fourth influence on Florida is business development. While new business growth helped delay the recession in Florida, new industrial plant openings dropped sharply in 1982, and new office construction is likely to reach a saturation point in 1983. The manufacturing sector should benefit this year from federal defense spending. Florida boasts a disproportionately large share of military establishments and manufacturers of military-related equipment. The increases in the federal defense budget should help Florida in 1983.

Chart 1. Florida Personal Income



These external factors—population growth, tourism, international trade and finance, and business development—will interact to shape the Florida economy in 1983. The net effect of these forces is likely to be an upturn with modest improvement over 1982. The overall picture at the beginning of 1983 is an economy resting on the bottom of a business cycle trough waiting for forces to push it upward and to supply some sustainable momentum (Table 1). As the economy recovers in 1983, Florida's underlying economic strengths will help carry the state forward. Outstanding growth is likely to resume in 1984.

One measure of overall activity is personal income growth. Florida income was up about 9 percent in mid-1982 over the previous year, compared to 16-17 percent gains in 1979 and 1980. That 9 percent growth rate compared to a 7 percent national average (Chart 1). But the state's lead is attributable more to unearned income than to stronger economic activity. Dividends, interest and rent income and transfer payments make up a larger share of total income in Florida than elsewhere because of the state's large retiree population.⁶



⁶Personal income data reported by the U.S. Department of Commerce, Bureau of Economic Analysis.

Table 1. Florida Business Cycle

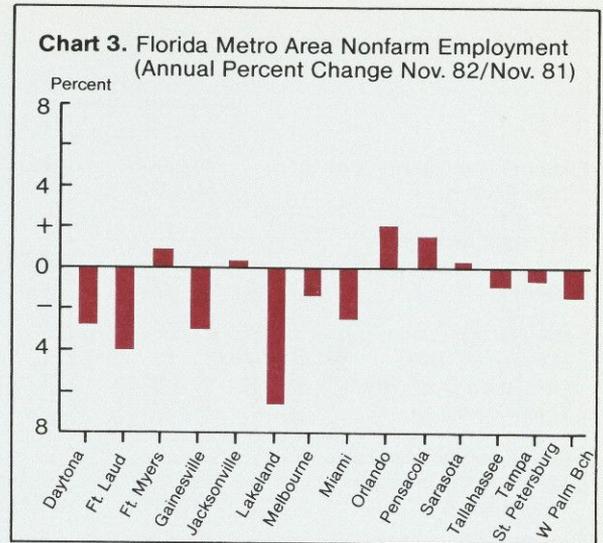
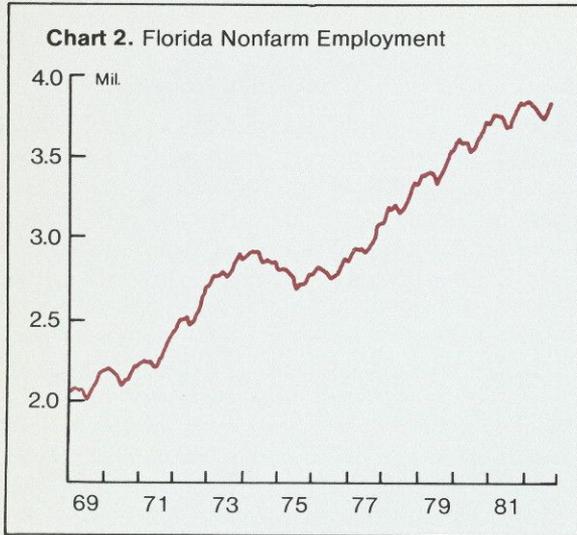
	1973-1975 Recession			1980-1982 Recession		
	Peak	Trough	% Decline	Peak	Trough	% Decline
Annual Population Growth Year Ending	476,200 4/1/73	125,800 4/1/76	-74%	*366,000 12/31/81	200,000 12/31/82	-45%
Personal Income Year-over-Year Change Date	19.4% 3Q/73	6.6% 3Q/75		15.3% 1Q/81	9% 2Q/82	
Residential Construction Number of Units 12-Month Cum. Rate Year Ending	273,600 7/31/73	52,300 12/31/75	-81%	196,000 10/31/79	101,439 8/31/82	-48%
Single-family Permits 12-Month Cum. Rate Year Ending	87,100 7/31/73	37,100 8/31/75	-57%	100,100 10/31/79	49,647 7/31/82	-50%
Multi-family Permits 12-Month Cum. Rate Year Ending	230,000 6/30/73	11,500 2/28/76	-95%	92,100 5/31/81	49,482 9/30/82	-46%
Nonresidential Construction Millions of dollars 12-Month Cum. Rate Year Ending	\$1,650 10/31/74	\$1,250 10/31/76	-24%	\$3,860 11/82	—	
Nonfarm Employment (000's) Date Year-over-Year Change	2,901 4/74 +5%	2,681 8/75 -5%	-7.6%	3,812 11/82 +0.9%	—	
Unemployment Rate Seasonally Adjusted Date	3.6% 10/73	11.8% 5/75		5.0% 12/80	9.9% 12/82	
Taxable Sales Year-over-Year Change	N.A.	-3.2% 10/75		20.9% 10/78	+1% 10/82	
Tourist Arrivals Millions annually Date	24.8 1973	24.2 1974	-2.4%	37.7 1982	—	

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

Florida ended 1982 with employment at about the same level as in 1981—3.8 million (Charts 2 and 3). Modest declines were reported in southeast Florida primarily because of the depressed construction industry there. Businesses in Miami, Ft. Lauderdale, and West Palm Beach employed 1-4 percent fewer workers in 1982 than in 1981. Lakeland suffered the worst drop in employment, 7 percent for the year, primarily because of phosphate industry layoffs. About 17 percent of all phosphate workers were unemployed in late 1982; but the industry

expects slow improvement this year. In November, 700 of the 3,200 laid-off workers were called back to their jobs.

Tallahassee has also seen a decline in jobs, down 1 percent, primarily as a result of reduced government revenues. Because revenues fell far below projections in 1982, the Governor called for a 4 1/2 percent across-the-board cut back in state government spending. At least one department, Health and Rehabilitative Services, was forced to slice its payroll by 300 workers. A 3 percent decline in employment in



Gainesville reflects reduced availability of funds for students at the University of Florida as a result of harder-to-obtain federal grants and loans to attend college. Daytona's 2.8 percent employment drop is almost entirely attributable to government layoffs. Melbourne has suffered from the slowdown in construction and manufacturing, despite its high technology base, causing employment to fall 1.4 percent.

Orlando, Pensacola and Ft. Myers each recorded employment growth of 1-2 percent for the year. Other major cities held their own. The recent closing of Woolco discount department stores put 3,000 people out of work throughout Florida. The unemployment rate moved up sharply in the last few months of 1982—from 7.5 percent in September to 9.9 percent in December. Improvement in employment should lag the rest of the economy, possibly gaining by the end of 1983.⁷

Population Growth

The Florida economy appeared immune to recession during 1980 and 1981 when the nation was experiencing economic difficulties. Florida sustained healthy growth right through those years primarily because population increases remained high. Following that strong

growth, the net increase dropped by one-third, to 200,000, in 1982 (Chart 4).⁸

The prolonged national recession made it increasingly difficult for people to move around the country. Now that mortgage rates are down to more tolerable levels, people will begin to reconsider relocating. But plans to move take at least six months to implement and, as of yet, the national unemployment situation has not improved significantly.

According to state forecasters, population growth may move up to the 225,000-250,000 range in 1983. The high end of that range may be optimistic if the national recovery does not materialize as fast as expected. Population growth is likely to pick up more substantially in 1984.

Much of Florida's recovery will depend upon how soon new residents begin to pour into the state. The residential construction industry is one of the more obvious recipients of population growth. Construction plummeted in 1982 as demand for new homes dropped off. Even prospective realtors were discouraged last year. Only 30,000 people took the real estate exam in 1982 compared to 48,000 in 1981.⁹

⁷Employment and unemployment data reported by Florida Department of Labor and Employment Security. Specific industry or company figures verified by telephone conversations with referenced organization.

⁸Annual population growth derived from estimates prepared by the University of Florida, Population Division, Bureau of Economic and Business Research (1971-1981). 1982 and 1983 estimates reported in **The Florida Outlook**, University of Florida Bureau of Economic & Business Research. The Bureau's 1983 forecast for 1983 population growth is 236,000. The authors place this estimate within a reasonable range based on previous accuracy of the forecasts.

Chart 4. Florida Annual Population Growth

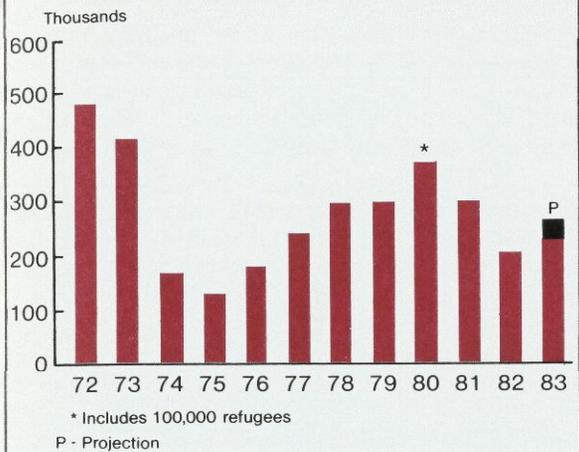
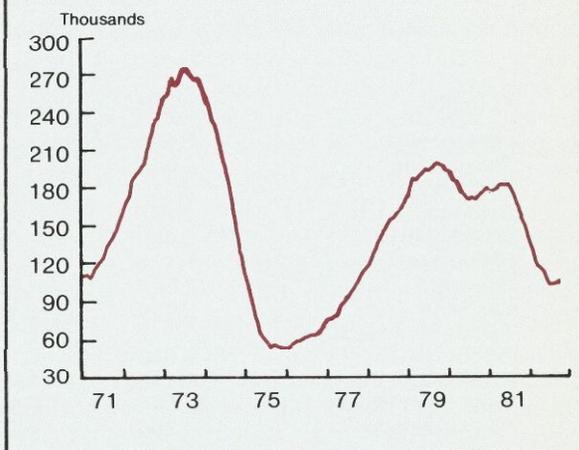


Chart 5. Florida Residential Construction



New home building in Florida reached a cyclical low in the 12 months ending in August: only 101,500 new single- and multi-family homes were constructed (Chart 5). This level is still high compared to other southeastern states, but it is 48 percent below the peak of 196,000 homes built in the 12 months ending October 1979. Both single-family and multi-family construction, currently about 50,000 units each on an annual basis, were halved from their peaks. Single-family construction has been declining since late 1979, while multi-family construction did not start to descend until mid-1981. Yet the last half of 1982 brought an upturn in residential construction. In the 12 months ending in November, new home building edged up to 104,500 units from August's low of 101,500. Sales of building supply materials were increasing by year end as lower mortgage rates unleashed some pent-up demand for single-family homes. Depressed condominium prices enticed buyers to take advantage of the market.¹⁰

New home construction has been running parallel and slightly ahead of new household formation for the past four years. Any increase in new households in 1983 should translate into a stronger construction sector.

But growth should be modest at best. Based on population projections, about 126,000 new households will be formed this year. With the current pace of construction and a large condominium inventory remaining in some areas, it is difficult to see substantial improvement in residential construction in 1983 even though construction has started to pick up in central and north Florida's single-family markets.

Table 2 shows the level of construction in major Florida cities at the recent peak and at the recent trough. Most cities had turned the corner on recovery by November. Northern and central cities have made the strongest showing so far. Jacksonville, Tallahassee, Pensacola, and Orlando have already surpassed their construction low points by at least 19 percent. The Orange County (Orlando) area is producing more homes than either Miami or Ft. Lauderdale and is building at the same rate as West Palm Beach.

Residential construction on the southeast coast of Florida has suffered the most. New home construction sagged to about one-third the rate at the 1979 peak. Foreclosures in Dade rose 52 percent through November compared to 1981. Broward County foreclosures jumped 42 percent. In the two-county area, 7,928 homes were foreclosed during the 11-month period.¹¹ Condominium prices dropped 19 percent from late 1981 to late 1982.

⁹Telephone conversation with Charles Hoeck, Division of Real Estate, Department of Professional Regulations, State of Florida, December 13, 1982.

¹⁰Construction data reported by F.W. Dodge. Single and multi-family breakdown derived from building permit data as reported by the U.S. Bureau of the Census.

¹¹Dade and Broward Counties Circuit Courts.

Table 2. Residential Construction by SMSA
Number of Units (12 month Cumulative Rate)

	1979-80 Peak	1982 Trough	Decline from Peak	November 1982	Increase from Trough
FLORIDA	195,993	101,439	-48%	104,480	+ 3%
Jacksonville	6,608	4,331	-35%	5,336	+23%
Tallahassee	2,808	1,549	-45%	2,101	+35%
Pensacola	3,469	2,234	-36%	3,301	+47%
Daytona	6,123	3,934	-36%	4,075	+ 3%
Gainesville	3,433	1,032	-70%	1,042	+ 0%
Melbourne	7,159	3,204	-55%	3,332	+ 3%
Orlando	12,504	7,896	-37%	9,475	+19%
Lakeland	3,904	2,130	-45%	2,318	+ 8%
Tampa-St. Petersburg	30,212	15,943	-48%	15,943	—
Sarasota	6,899	3,149	-55%	3,149	—
Ft. Myers	9,652	4,485	-53%	4,595	+ 2%
West Palm Beach	29,844	9,471	-68%	9,808	+ 3%
Ft. Lauderdale	24,355	6,692	-73%	7,062	+ 5%
Miami	22,475	7,695	-66%	8,438	+ 9%

Note: Cyclical peaks and troughs for each city varied within the years shown.

Source: McGraw-Hill Information Systems Company, **Dodge Construction Potentials**.

Home sales began to pick up late in 1982, indicating new construction should turn up early this year. The slight upturn in south Florida home building is primarily a local phenomenon in the single-family market as residents take advantage of lower interest rates to upgrade their homes. Condominium sales are resulting from a slight pickup in migrants from the Northeast. Foreigners have not reentered the market, and investors are lying low until the general economy improves.

As of October there were 21,000 new homes up for sale in Miami, Ft. Lauderdale and West Palm Beach. That represents about one year of building at current rates. With such an overhang of new homes for sale, construction seems unlikely to pick up substantially in 1983.

Miami's residential construction industry may never fully recover, since Dade County experienced a net outflow of residents beginning in 1981. People appear to be leaving south Florida and moving up the coast.

Tourism

While tourism is no longer the dominant industry in Florida, it still accounts for 17 percent of the state's employment. Nationwide, tourism jobs comprise less than 5 percent of employment.

Florida's tourist industry is significant not only because of its immediate economic impact but also because of its "spillover" effect on other southeastern states, particularly Georgia and Tennessee. These states increasingly have been able to capitalize on pass-through traffic by increasing interest in local attractions.

The number of visitors to Florida generally slows down during a national recession when working-class Americans cannot afford their annual Florida vacations. However, through the two worst recessions since World War II, the number of tourists never declined more than a few percentage points. Even more important, a pickup in tourism usually precedes a Florida recovery. From 1973 to 1974, tourists coming to Florida declined only 4 percent, while in 1975, at the bottom of the recession, arrivals were up 11 percent.

With the onset of national recessions in 1980 and 1981, growth in the Florida tourist industry began to suffer, but tourism never declined. The number of arrivals rose slightly from 35.8 million in 1980 to 35.9 million in 1981. Final figures for 1982 are expected to show a little growth over the previous year. Estimates of 1982 arrivals range anywhere from a 10 percent increase to a 5 percent decline. Official Florida Division of Tourism data show that tourists from the U. S. and Canada were up 7.4 percent

through September compared to January-September 1981.

This figure appears high since other indicators show a decline in tourism. Attendance at a sample of the state's major attractions was off 5 percent during most of the year,¹² while hotel and motel occupancy declined 4 percent in Orlando and 8 percent in south Florida through September.¹³

While the state does not monitor international tourism on a regular basis, Miami tourist officials estimate that foreign tourist arrivals in Dade County were down 11 percent for the year through September.¹⁴ On balance, it appears that the final figures for total tourist arrivals during 1982 will be about 5 percent above 1981.

Many industry representatives believe the World's Fair in Knoxville had a siphon effect last year, drawing middle-income and blue-collar tourists from the Midwest and Northeast to Tennessee rather than Florida. However, other factors such as the recession and the reduced value of the dollar (which discourages foreign visitors) must also be blamed for last year's comparatively poor record.

The weak showing of tourism, along with a depressed housing sector, translated into poor retail sales for Florida. By last year's third quarter, retail sales in Florida were not much better than in 1981, and, if figures were available for inflation-adjusted sales, retail trade would be reported several percentage points below the previous year. The worst performing area was Miami, where over 20 percent of Florida sales are made. Stronger sales growth in north and central Florida offset the weakness in south Florida. During the third quarter, total retail sales in Florida were 0.4 percent higher than in 1981. In Miami, sales were off 15 percent for the same period.¹⁵ The sharp drop in retail sales in Miami is linked particularly to the decline in foreign visitors in 1982. And those foreigners who are coming are staying

with friends or relatives or in private condominiums more often and spending less money than in the past.

The last quarter of the year, for which official tourist figures aren't available as of publication, should be well ahead of 1981. Attendance at EPCOT, which opened in October, was running about 30 percent ahead of what officials had expected. Airplane and hotel bookings for the holiday season were up from 1981.

Florida's tourist industry representatives are optimistic that this strong fourth quarter showing will carry over to 1983. Orlando has proved to be an attractive area for family vacations. Costs are still quite low. A recent study shows that average bed and board for one day in Orlando costs \$69.75 compared to \$91.60 in Miami, \$99.25 in New Orleans, \$124 in San Francisco, and \$163.80 in New York.¹⁶

Walt Disney World expects 20 million admissions in its fiscal year ending next September, up 60 percent from 1982's 12.56 million. The 1982 figure was down 5 percent from 1981. Since the average visit to Disney is expected to last 3 1/2 days, the admissions projection translates into about 2 million additional tourists in Florida in 1983 as a result of EPCOT. The theme park employed 3,500 new permanent employees to staff EPCOT, and seasonal demands should push that number close to 5,000 by spring.¹⁷

¹⁶Runzheimer and Co., Meal-Lodging Cost Index.

¹⁷John Dyer, Walt Disney World, telephone conversation December 9, 1982.



¹²Florida Attractions Association.

¹³Orlando weighted average based on Pannell, Kerr, Forster data reported in **Trends in the Hotel Industry**, September 1982, and south Florida data reported by Laventhol & Horwath, **South Florida Trend of Business Lodging Industry**, September 1982.

¹⁴Dade County Travel Trends Third Quarter Report January - September 1982," Department of Tourism, Metropolitan Dade County.

¹⁵Retail sales data from U.S. Department of Commerce, Bureau of the Census, "Current Business Reports Monthly Retail Trade."

Other major Florida attractions are adding features this year to capitalize on the Disney visitors. A new attraction by MCA studios, called Universal City, is being constructed this year but will not open until late 1984. By its third year, it is expected to attract 4 million visitors annually.¹⁸

While EPCOT's strength will not really be felt until summer, the family vacation season, south Florida is hoping the attraction will also boost Florida's winter tourism. A fare war between major airlines dropped the price of a one-way ticket to \$99, attracting many more vacationers from the Northeast and Midwest this winter.

Major airlines say their bookings on Florida flights are extremely good, and they are optimistic that the increased traffic will hold at least through March. Additionally, hotel and motel occupancy rates began to improve late in 1982.¹⁹

Several clouds loom on the horizon, however. Is the EPCOT-generated boom only a temporary phenomenon that will settle down after a few months? Will other areas of the state suffer as tourists flock to EPCOT and spend more money on longer stays there? Will Miami recover its reputation as a vacation and convention attraction?

Miami is counting on an improved season this year. Both domestic and international travel were down 11 percent through September. A convention of the American Society of Travel Agents, held last October, is expected to boost tourism in 1983. A new convention facility should also increase Miami's chances of attracting convention business.

Miami's image, however, may still be a hindrance. Repeated signs of unrest, such as the Liberty City riots of 1980 and the recent incidents in Overtown, continue to cloud Miami's reputation as a safe tourist destination. In a recent survey, 250 convention travel planners ranked Miami below the top 10 cities.²⁰ Also, as long as the dollar remains relatively strong, the European and Canadian travel market will remain soft. Latin American visitors have been affected not

only by a disadvantageous exchange rate, but also by political and financial troubles at home.

In 1983 the general outlook for Florida's tourist industry seems contingent upon national, and even international, economic recovery. Probably Orlando and other northern areas of the state will do better than south Florida. Pent-up demand for travel, the opening of EPCOT, and the absence of a competing attraction such as the Knoxville World's Fair augur well for Florida's tourism in 1983; indeed, major forecasters expect an 8 percent rise in visitors.²¹ Nonetheless, a return to peak 1979 levels seems to depend on an economic upturn that reaches the industrial heartland's middle and working-class travelers, as well as foreigners, who comprise so large a portion of Florida's market.

International Trade and Finance

Florida's geographic location has natural advantages for encouraging international trade. Its 580 miles of coastline offer 16 seaports. Close proximity to Latin America makes Florida a natural center of trade between the Americas. In fact, the emergence of the Latin countries as a growing export market in the 1970s encouraged Florida's development as a center of international activity. The Miami Customs District (south Florida ports) in 1980 became the 9th busiest U. S. export district compared to its 15th ranking in 1970, and the Tampa Customs District (central and north Florida ports) advanced to 14th busiest compared to 18th in 1970.²² Altogether, exports through Florida Customs Districts now account for almost 5 percent of the total U.S. exports compared to only 2.7 percent 10 years ago.

Just as geography contributes to Florida's advantage, so does the international nature of Miami's population. Foreign-born residents of Dade county who are of Hispanic origin account for over 36 percent of the population. Including their offspring born in the United States, this figure will be much higher in the future. The

¹⁸"Perspective on Regional Growth 1982-1986," East Central Florida Regional Planning Council, October, 1982, p. 15.

¹⁹Hotel & Motel Association, Rosemary Winslow, telephone conversation December 9, 1982.

²⁰William Poundstone, "Coping With The New Geography," *Association and Society Manager*, April/May 1982, pp. 18-23.

²¹University of Florida Bureau of Economic and Business Research; the Dick Pope, Sr. Institute for Tourism Studies at the University of Central Florida.

²²U.S. Department of Commerce, Bureau of the Census, *Waterborne Exports and General Imports*, 1970 & 1980.



large Hispanic population provides a natural labor force for multinational corporations that must operate across language and cultural borders.

Following a decade of surging growth in Florida's international activity, 1982 was a weak year. Exports, which comprise more than half of total foreign trade in Florida, dropped 10 percent in dollar value in January-September 1982. South Florida exports, which outnumber imports by more than two to one, dropped 6.5 percent in the January-September period from the prior year.²³ Exports to Latin America grew increasingly worse as the Latin countries suffered from financial, political and economic troubles.

These conditions do not bode well for Florida international trade in 1983. Even if a strong U.S. recovery materializes, Latin economies usually lag by at least six months. It is doubtful that exports to Latin America will show any improvement in 1983.

Trade through the Tampa Customs District was depressed in 1982 because of weak world

²³Export and import trade data reported in **Highlights of U.S. Export and Import Trade**, U.S. Department of Commerce, Bureau of the Census, September 1982.

demand for phosphate. Total exports were down 19 percent for the first nine months of the year. Some improvement was noted late in the year as laid-off phosphate workers were recalled and closed mines and processing plants were reopened. Exports of rock are expected to be no better in 1983 than in 1982, but exports of processed fertilizer should rise.

Imports were stronger than exports in 1982 and continue to look strong in 1983. In the Miami District, imports rose 6.5 percent in 1982. South Florida should benefit from increased trade this year as imports are expected to account for about 40 percent of all trade, as opposed to 30 percent in 1982. The rising significance of imports is particularly attributable to new facilities at the Miami port which speed cargo handling. Several new shipping lines will be importing through Miami in 1983. The port is in the midst of a \$250 million, 225-acre expansion that will nearly double its size.

Imports through the Tampa District fell 5 percent in 1982, although some sectors remained strong. The number of import entries and amount of customs collections at the Port of Jacksonville each increased by more than 15 percent in the fiscal year ending in September. Imports of foreign vehicles rose to 373,000, ahead of fiscal year 1981 by about 1,600 units. Coffee, steel and lumber imports also increased. Orlando prospered as a port of entry for fast-growing imports of high-duty Brazilian orange juice.

Imports should continue to be a positive factor in Florida trade this year as south Florida gears up to bring in more goods, the value of the dollar remains relatively strong, and the U.S. recovery gets underway. Exports to Latin countries are likely to remain weak, and phosphate shipments may improve only slightly from 1982. Some diversification in Florida's export trade is expected as firms try to open European and African markets.

Florida's increased international trade, as well as important bank regulatory changes, have spurred the development of international finance. A significant financial infrastructure evolved over the past several years that will promote international trade in years to come. Over 200 international banking offices operate in the state, most in Miami. These entities include a growing number of Florida commercial banks with strong international departments, out-of-state U. S. commercial banks operating

internationally oriented banking subsidiaries (Edge Act corporations), and foreign banks operating Edge Act corporations, foreign bank agencies or representative offices. While the introduction of Edge Act corporations facilitated international financial development over the past several years, several financial innovations will provide even greater opportunity for Florida to benefit from international banking in 1983.

Last year eligible banking organizations were authorized, in effect, to compete with the offshore Eurocurrency centers in the Caribbean and elsewhere. By establishing International Banking Facilities (IBFs), banking organizations can conduct deposit and loan business with foreign residents, including banks, without being subject to reserve requirements or interest rate ceilings. By September, 395 IBFs had been established in the United States, 60 of them in Florida and 180 in New York. In the first nine months, total IBF assets grew over \$150 billion. IBFs in New York accounted for more than 75 percent of this total, those in Florida 2 percent.

Two other recent innovations in financial institutions are likely to enhance Miami's status as an international financial center. The Insurance Exchange of the Americas opened in October, as a market for reinsurance and high-risk insurance similar to Lloyd's of London. In that same month, President Reagan signed the Export Trading Company Act, enabling the formation of export trading companies (ETCs). ETCs are intended to strengthen the U.S. export sector by combining the skills and resources of several U.S. companies to enhance their export capabilities.

Despite these innovations, the outlook for international banking activity is clouded by debt and liquidity problems in several Latin American countries, from Mexico to Argentina. Furthermore, the impact of the Insurance Exchange and ETCs in Miami is likely to be moderate in 1983. Eventually, though, Edge corporation subsidiaries of money center banks might benefit, in particular, from the ETC legislation because of their membership in worldwide banking organizations.

Business Development

New business development helped push the Florida economy to new heights through 1980 and 1981. But in 1982, new incorporations

Table 3. Corporate Profits—Florida Companies
Third Quarter, 1982

	Profits in Millions	% change from 1981
Banks, S&Ls	\$ 70.0	+32.0%
Utilities	\$149.0	+22.3%
Manufacturing	\$ 23.0	-1.3%
Retailers	\$ 37.0	-4.4%
Technology	\$ 19.5	-47.2%
Financial	\$ 4.8	-50.5%
Developers	\$ -2.8	N/M
Transportation	\$-40.0	N/M

N/M = not meaningful.

were 9 percent lower than 1981²⁴ and business bankruptcy filings rose 30 percent in the third quarter compared to the previous year.²⁵

In 1982, corporate profits of Florida firms were mixed (Table 3).²⁶ Third quarter results showed manufacturing profits 1.3 percent below the previous year—a result of extremely strong profits by some and very weak profits or even losses by others. High-technology manufacturers recorded a 47 percent decline for the quarter. Real estate developers lost \$2.8 million in the third quarter, and transportation companies recorded a \$40 million loss. The latter loss was attributable almost entirely to Eastern Airlines; other transportation firms increased profits in the third quarter. Retailers' profits declined 4.4 percent. Profits of financial concerns other than banks and savings and loans dropped 50 percent, while the depository institutions increased profits by 32 percent. Utilities managed to show a profit gain of 22 percent. The profits picture translated directly into employment gains and losses. While manufacturing dropped 4.2 percent in 1982, employment in other business sectors did well. Employment in wholesale trade and retail trade rose 4.0 percent. The financial industry posted a 2.6 percent gain, and the services sector went unscathed as employment rose 6.1 percent.

²⁴Dun & Bradstreet Business Economics Division, "Monthly New Incorporations."

²⁵Unpublished data from the administrative office of the U.S. Courts, Washington, D.C.

²⁶Larry Birger, "Corporate profits on a sea of trouble," *The Miami Herald Business Monday*, November 29, 1982, p. 1.

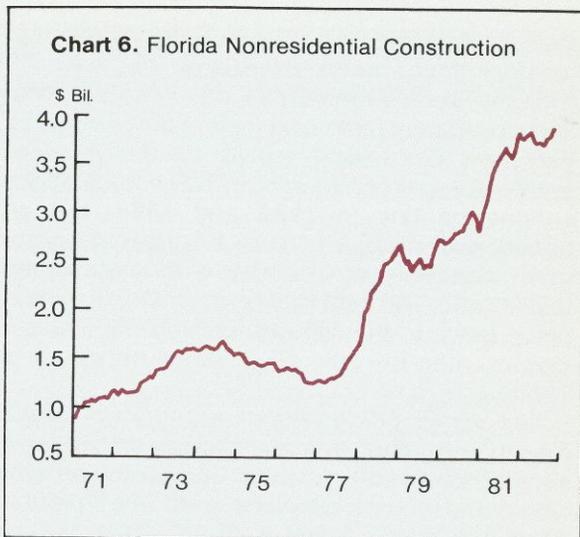
As corporate profits dropped sharply in many sectors both in Florida and the rest of the nation, expansion of existing businesses and entrance of new business to Florida took a turn for the worse. The industrial sector, buoyed in the late 1970s and early 1980s, suffered in 1982 because fewer firms relocated to the state. Additionally, the state's high-technology firms met increasing competition in 1982 which bit into profits.

In the first six months of 1982, only 35 new firms joined Florida industry compared to 89 during the same period of 1981, a 60 percent decline. Employment generated by these firms totaled 6,755 compared to 11,916 the previous year. Capital investment resulting from the new locations amounted to \$158.3 million compared to \$430.9 million in 1981.

Even the fast-growing electronics industry, the largest manufacturing sector in Florida, decreased jobs in 1982 by 6.0 percent. The sluggish economy and Japanese imports have cut into this heretofore vibrant part of the state's economy. Semiconductor makers such as Western Electric in Orlando and Harris Corporation in Melbourne have spent aggressively on capital expansion, resulting in some excess capacity. Most of the chipmakers' output goes to capital equipment markets, which have been stagnant lately because of the recession. Harris' operating earnings fell 18 percent for the fiscal year ended last June 30. The firm expects a gradual return to profitability in 1983 for the semiconductor business.

A bright spot for industrial employment in 1983 will be increased defense spending.²⁷

²⁷See William J. Kahley, "Southern Fireworks: Will Defense Spending Light Up the South?" **Economic Review**, Federal Reserve Bank of Atlanta, December 1982.



Florida is the fourth largest recipient of Department of Defense personnel expenditures and ranks among the top five states in several major procurement programs. The state receives the second highest dollar volume of weapons contracts, the third highest of aircraft engines and the fourth highest of military services. The Electronic Industries Association estimates that electronic components as a share of the cost of all defense hardware will jump from 40.6 percent in 1981 to 47 percent in 1991. Most high technology firms are still fulfilling defense contracts acquired during the Carter administration. The current administration's spending plans will begin to impact Florida contractors in 1983.

Increasing government procurement contracts should also boost the recession-buffed machinery and transportation equipment industries. These firms should benefit from an increase in missile production (in the Orlando area) and the expansion of the Space Shuttle program at Kennedy Space Center.

A positive factor for commercial investment in 1982 was a boom in office building construction. Investment in total nonresidential construction leveled off in 1982 at \$3.8 billion, about the same as in 1981²⁸ (Chart 6). New office buildings in most major cities kept total investment from actually declining. It is feared, though, that the boom may lead to a bust.

Strong development of international trade and finance and the legal and accounting



services associated with the industry contributed to the office boom in Miami. At least 19 projects were underway at one time last year and occupancy remained high at 93 percent by year end. Continued growth of the financial sector is expected to absorb new office space coming on line in 1983 and 1984, but an unanticipated slack in new business development would leave the city with unoccupied real estate. The real concern in Miami is that office space in the suburbs, outside the financial district, may be only 85 percent occupied in 1983.

Reports of office occupancy in Palm Beach County are rather dismal. Buildings that opened in 1982 found little demand. Companies needing space delayed their plans until the national economy turns around. South Palm Beach county has an abysmal occupancy rate of 70 percent; West Palm Beach is slightly better with 80 percent.

Other major Florida cities also report fairly low occupancy rates. Ft. Lauderdale's occupancy rate is 84 percent, Tampa's 85 percent, St. Petersburg's 90 percent, Orlando's 90 percent and Jacksonville's 88 percent.²⁹

Overall, business development is not expected to pick up substantially this year. Housing, tourism and population growth tend to lead a Florida recovery before business growth responds. Nationwide, corporate profits were extremely weak across most industries last year. A return to solid expansion into Florida will likely lag a general economic recovery by six months or more. For most corporations, this year should be one of rebuilding the balance sheet and establishing greater liquidity. Corporate expansion is likely to hit Florida again in 1984, but commercial construction may wane in 1983 as new space is absorbed and resources shift back to the residential market.

—Donald L. Koch
and Delores W. Steinhauser

²⁸F.W. Dodge

²⁹"Florida's Downtowns," a special section in *The Miami Herald Business Monday*, October 25, 1982.

Summary

Florida should enjoy an upturn in economic activity that will lay the foundation for strong economic growth in 1984.

Positive Factors

Negative Factors

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| 1. | Population growth in 1983 should be stronger than 1982's 200,000 new residents because of a more active national housing market and an improved national economy. | But the initial upturn should be modest. It generally takes six to nine months of improvement in the national economy to generate renewed movement across the country. |
| 2. | Housing starts have already begun to turn up. The increased sales are coming primarily from pent-up demand of local residents in the single-family market who are anxious to take advantage of lower interest rates. In-migration from the Northeast has picked up somewhat. | But there have been few signs of renewed interest from the Midwest. Anticipated population growth for 1983 translates into about 126,000 new households this year. This level of demand warrants about a 25% increase in new home construction. While the increase may be substantial, the level is still far below the peak construction level of 200,000 units per year. |
| 3. | Tourism should improve in 1983, particularly with Disney World's new EPCOT as a drawing card. Strong airline and hotel bookings indicate the season will surpass last year's and reduced air fares will contribute to the health of this winter tourist season. | Foreign tourists are not likely to provide a stimulus this year, as they have in years past, since the value of the dollar should remain strong, especially relative to South American currencies. Miami's ability to shed its tainted image and attract convention business is still questionable. |
| 4. | International trade, particularly with Latin countries, is shifting away from other U.S. ports to Florida ports. This shift and the new financial entities to support international trade bode well for Florida in 1983. Additionally, Miami's new port facilities will enable more imported goods to flow through. Several new shipping lines have signed up to import through Miami in 1983. | The volume of exports to Latin countries will continue to be weak in 1983 as those nations battle political, economic and financial instability. Phosphate shipments should improve, but only slightly. |
| 5. | Federal spending on defense should stimulate the Florida manufacturing sector, and an improved national economy should benefit Florida companies in general. | But industrial relocations are likely to be postponed until 1984 when higher corporate profits and more liquidity have been restored to corporate balance sheets. Furthermore, the office building boom of 1981-82 will not provide strength in 1983. |