



Florida Stays Out Front

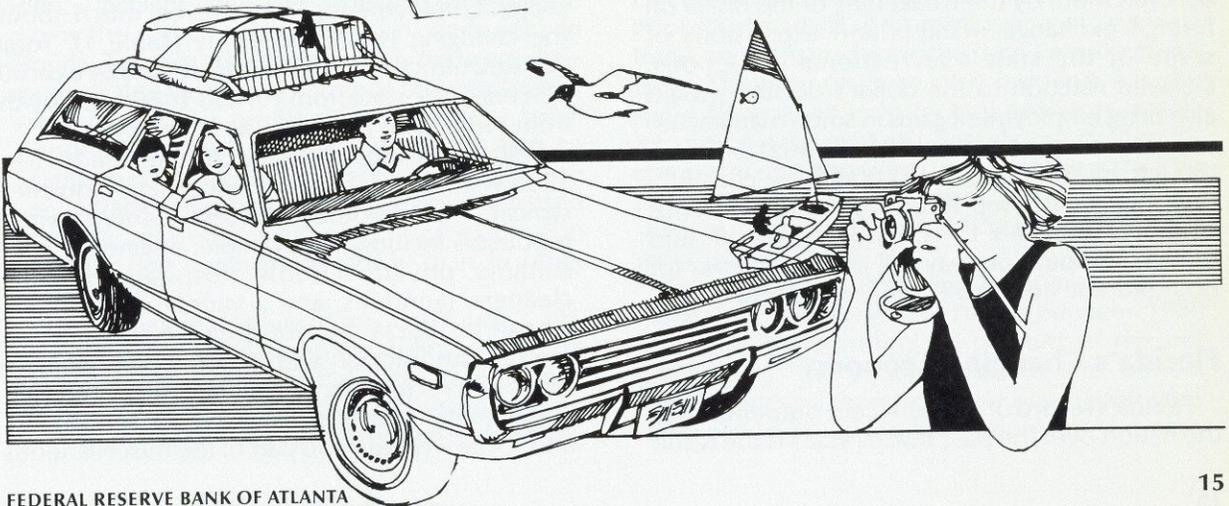
David Avery and B. Frank King

A steady stream of tourists and new residents should keep Florida's economy rolling along, but its lead over the nation's rate of growth may narrow.

Florida's economy continued its better-than-national growth into 1986, though it lost some ground as the pace of the national economy slackened. Migration into the state made for healthy population expansion, and a sharp rise in tourism boosted Florida's increasingly important trade and service sectors, providing a firm base for overall advance. Statewide, however, overbuilding put a damper on construction activity, and foreign competition limited manufacturing growth.

In 1987 many of the same forces will be at work. Continuing health in the national economy should

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FEDERAL RESERVE BANK OF ATLANTA

Table 1.
Patterns of Nonfarm Employment in Florida
(Thousands of employees)

| | 1976 | Share | 1986 | Share | Absolute Change | Percent Change |
|--|-------|-------|-------|-------|-----------------|----------------|
| Total Nonagricultural | 2,812 | 100 | 4,668 | 100 | 1,856 | 66 |
| Mining | 10 | 0 | 10 | 0 | 0 | 0 |
| Construction | 167 | 6 | 342 | 7 | 175 | 105 |
| Trade | 743 | 26 | 1,280 | 27 | 537 | 72 |
| Services | 606 | 22 | 1,203 | 26 | 597 | 99 |
| Transportation and Public Utilities | 182 | 6 | 246 | 5 | 64 | 35 |
| Financial, Insurance, and Real Estate | 192 | 7 | 337 | 7 | 145 | 76 |
| Government | 552 | 20 | 720 | 15 | 168 | 30 |
| Manufacturing | 362 | 13 | 529 | 11 | 167 | 46 |
| Lumber | 28 | 1 | 28 | 1 | 0 | 0 |
| Stone, Clay, and Glass | 16 | 1 | 25 | 1 | 9 | 56 |
| Fabricated Metal | 26 | 1 | 37 | 1 | 11 | 42 |
| Machinery | 63 | 2 | 127 | 3 | 64 | 102 |
| Transportation Equipment | 33 | 1 | 61 | 1 | 28 | 85 |
| Food | 49 | 2 | 49 | 1 | 0 | 0 |
| Apparel | 29 | 1 | 32 | 1 | 3 | 10 |
| Paper | 17 | 1 | 15 | 0 | -2 | -12 |
| Printing and Publishing | 31 | 1 | 62 | 1 | 31 | 100 |
| Chemicals | 24 | 1 | 24 | 1 | 0 | 0 |

Source: Florida Department of Labor and Employment Security, Bureau of Labor Market Information, *Florida Employment Trends, November 1986 data*.

assure sustained migration to Florida, adding to the population and augmenting demand for goods and services. Tourism is likely to be stepped up even more by the weakening of the dollar on foreign exchange markets and expansions of some of the state's recreational attractions. Delayed reaction to the dollar's decline should also bring employment gains in some manufacturing industries. The outlook is somewhat dimmed, though, by several adverse conditions: construction may well slump throughout 1987, defense contracts are likely to continue tailing off, and foreign competition may still limit recoveries for both old-line and new Florida manufacturers.

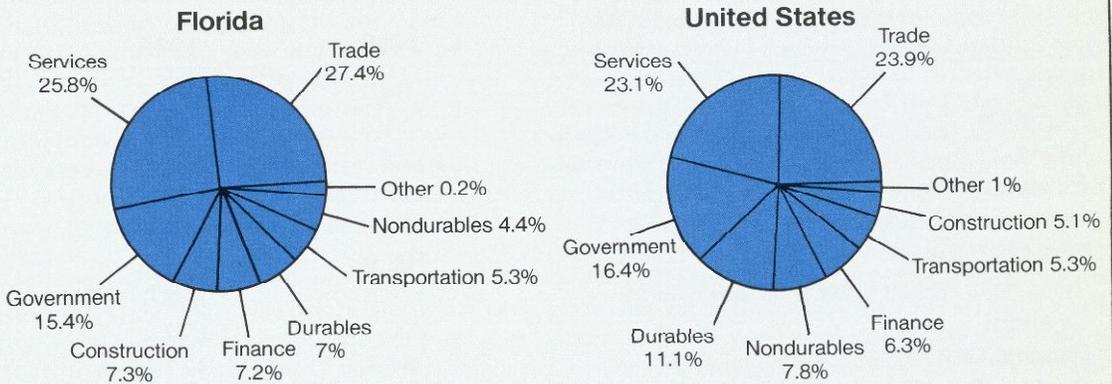
Florida's Changing Economy

Florida's record of economically outperforming the nation over the past several years is the result

of the state's unusual economic structure, dominated by trade, service, and construction, as well as continuing diversification of its manufacturing sector. Employment patterns reveal much about the changing Florida economy (Table 1). Total nonagricultural employment increased by over 60 percent in the state from 1976 to 1986, but growth from industry to industry was quite diverse.

Perhaps the most dramatic change from 1976 to 1986 was recorded in the flourishing industries typically called "other services." Other services producers include, for example, engineers, consultants, private schools, hospitals, building cleaners, laundries, and a variety of providers whose products are not tangible. Hotels and motels, automotive and other repair, amusement and recreation, health care, legal counseling, architectural and surveying firms, accounting, and social work are also part of the miscellaneous

Chart 1.
Distribution of Nonfarm Employment, November 1986
(Florida versus United States)



Source: Computed by Federal Reserve Bank of Atlanta from data released by the U.S. Department of Labor, Bureau of Labor Statistics, in conjunction with the Florida Department of Labor and Security, Bureau of Labor Market Information, *BLS 790 Monthly Report on Employment, Hours, and Earnings for Florida*.

services. The number of employees added to these service firms in Florida between 1976 and 1986 registered as absolute change greater than total 1986 manufacturing employment in the state. Jobs in other services do not all fit the low-pay stereotype sometimes associated with service employment. Highly paid service professionals such as lawyers, doctors, and engineers boost the annual wages for service workers.

Trade employment accounts for a somewhat larger proportion of the workforce in Florida than nationwide (Chart 1). Although the state's trade sector distributes goods primarily to Florida residents, activity generated outside the state explains the higher concentration of trade jobs in Florida. Tourism adds to the state's trade employment, as does foreign commerce through several seaports and air terminals. A relatively small amount of wholesale and retail distribution to neighboring states also boosts trade. The growth rate in trade employment has generally reflected the rate of Florida's employment expansion overall, rising much more slowly than in other services.

The remaining components of Florida's service sector are measured separately and account for about 26 percent of total state employment. For the most part, job increases in these industries, as in trade, have mirrored or lagged behind the

state's economy rather than moved ahead of it. Transportation, communications, public utilities, and government jobs have grown at about half the state's overall rate. Financial institutions, on the other hand, have added jobs at a somewhat faster pace than nonagricultural employment as a whole. As an aggregate, service producers of one sort or another employ more than 81 percent of Florida's nonfarm workers; this is a significantly greater proportion than the 75 percent share of the labor force for the same industries nationwide.

A good deal of Florida's economic robustness can be traced to migrating retirees, who play an important part in the prominence of services, trade, and construction in the state's employment base. The flow of these new residents has the same effect as an industry that produces mainly for out-of-state markets, namely transferring income and demand from outside of the state. The influx stimulates employment, particularly in the services, trade, and construction industries which meet that demand.

The U. S. Census Bureau estimates that 1.4 million people migrated to Florida between 1980 and 1985, constituting 80 percent of the net migration to the Southeast during that period. Thanks to this influx the state's population grew three times as fast as the nation's in the early

Table 2.
 Florida's Population Growth by Metropolitan Area
 (Thousands)

| | 1980 | 1985 | Percent Change |
|--|---------|---------|----------------|
| Naples | 86.0 | 116.7 | 35.7 |
| Ft. Pierce | 151.2 | 199.2 | 31.7 |
| Ocala | 122.5 | 160.0 | 30.6 |
| Ft. Myers | 205.3 | 267.5 | 30.3 |
| Melbourne—Titusville—Palm Bay | 273.0 | 343.9 | 26.0 |
| Ft. Walton Beach | 109.9 | 138.1 | 25.7 |
| West Palm Beach—Boca Raton—Delray | 576.8 | 723.0 | 25.3 |
| Orlando | 700.1 | 872.2 | 24.6 |
| Panama City | 97.7 | 121.1 | 24.0 |
| Daytona Beach | 258.8 | 309.9 | 19.7 |
| Sarasota | 202.3 | 239.7 | 18.5 |
| Bradenton | 148.5 | 171.9 | 15.8 |
| Tampa—St. Petersburg—Clearwater | 1,613.6 | 1,865.0 | 15.6 |
| Gainesville | 171.4 | 197.2 | 15.1 |
| Lakeland—Winter Haven | 321.7 | 369.4 | 14.8 |
| Jacksonville | 722.3 | 825.1 | 14.2 |
| Pensacola | 289.8 | 330.5 | 14.0 |
| Tallahassee | 190.3 | 214.5 | 12.7 |
| Ft. Lauderdale—Hollywood—Pompano Beach | 1,018.3 | 1,130.3 | 11.0 |
| Miami—Hialeah | 1,625.7 | 1,762.4 | 8.4 |

Source: University of Florida, College of Business Administration, Bureau of Economic and Business Research, "The Florida Outlook," third quarter data.

1980s; newcomers to the state explained almost 90 percent of this rapid increase.

Rates of migration to Florida depend on economic conditions in the nation as well as the state. Past experience indicates that during periods of high interest rates or recession, migration to Florida slows. When the national housing market is weak, potential migrants, particularly retirees, are likely to have more difficulty selling their homes in other parts of the country. Florida's ability to produce jobs may also influence migration.

In recent years the state's population surge has spread both geographically and across age categories. Six smaller metropolitan areas in Florida (Naples, Fort Pierce, Ocala, Fort Myers, Melbourne-Titusville-Palm Bay, and Fort Walton Beach), are among the ten fastest growing in the country (Table 2). Each posted an average growth rate above 25 percent for the 1980-1985 period.

The age mix of residents has become more diverse in recent years, too. Retirees have been joined by large numbers of working-age people, who have filled the jobs created by the state's burgeoning economy. In fact, the share of working-age individuals has risen relative to those aged 65 and over. Since 1980 the percent increase in the number of residents between 25 and 44 years of age has been greater than in any other age category.

Tourism also heightens the importance of the service, trade, and construction sectors. About 10 percent of Florida's payroll workers provide food, lodging, and recreation for travelers, a larger share than employed in either financial services or construction. Though most travelers to Florida come from the United States, a significant number of foreigners also visit the state. Indeed, Florida attracts more foreign visitors than any other state.

Tourists stimulate business activity at general merchandise stores, restaurants, lodging facilities, car rental agencies, airlines, and the state's myriad recreational attractions. Out-of-state visitors also pump up the public sector by contributing sales tax revenue. Like most manufacturing, but unlike most services, tourism is exported to consumers who live outside the state and thus creates additional tax revenues that enable state and local governments to provide Floridians a level of service higher than they could otherwise enjoy without paying appreciably higher taxes. Florida's reliance on exporting tourism also links its economy closely to national and international developments.

Florida's harbors and its proximity to Latin America and the Caribbean fuel the demand for yet another kind of service, in this instance related to transportation. Florida ports now handle about \$21 billion in international shipments, representing approximately 5 percent of the value of the nation's merchandise trade. The Miami Customs District and that city's international airport are two of the busiest commercial and transportation facilities in the nation. In terms of the dollar value of trade, Miami's diversified seaport and airport activity accounts for more than half of the state's total shipments. Tampa and Jacksonville are the state's other major ports. Port activity, like manufacturing, depends heavily on circumstances outside of the state. Exchange rates and the economic conditions of international trading partners play a crucial role in the performance of this part of the economy.

Advances in manufacturing employment have trailed behind those in services, trade, and construction over the past decade. Florida manufacturing has responded by diversifying. Although manufacturing employment as a portion of the state's total employment fell nearly 2 percentage points from 1976 to 1986, it would have dropped even more without some 100,000 new jobs in machinery and transportation equipment manufacturing. Each of these industries produces significant amounts of technologically advanced military or space equipment. "Machinery" includes sophisticated electrical and electronic equipment, and "transportation equipment" includes space vehicles and their components. Firms supplying high technology products have been responsible for a substantial part of the recent climb in Florida's manufacturing employment.

Large defense contractors generate a considerable portion of the state's technologically oriented

production. At present, Florida ranks fifth among all states as a recipient of defense expenditures. These disbursements are largely for military payrolls and retirement pay, but the civilian payroll of the Department of Defense and defense contract spending are also significant.

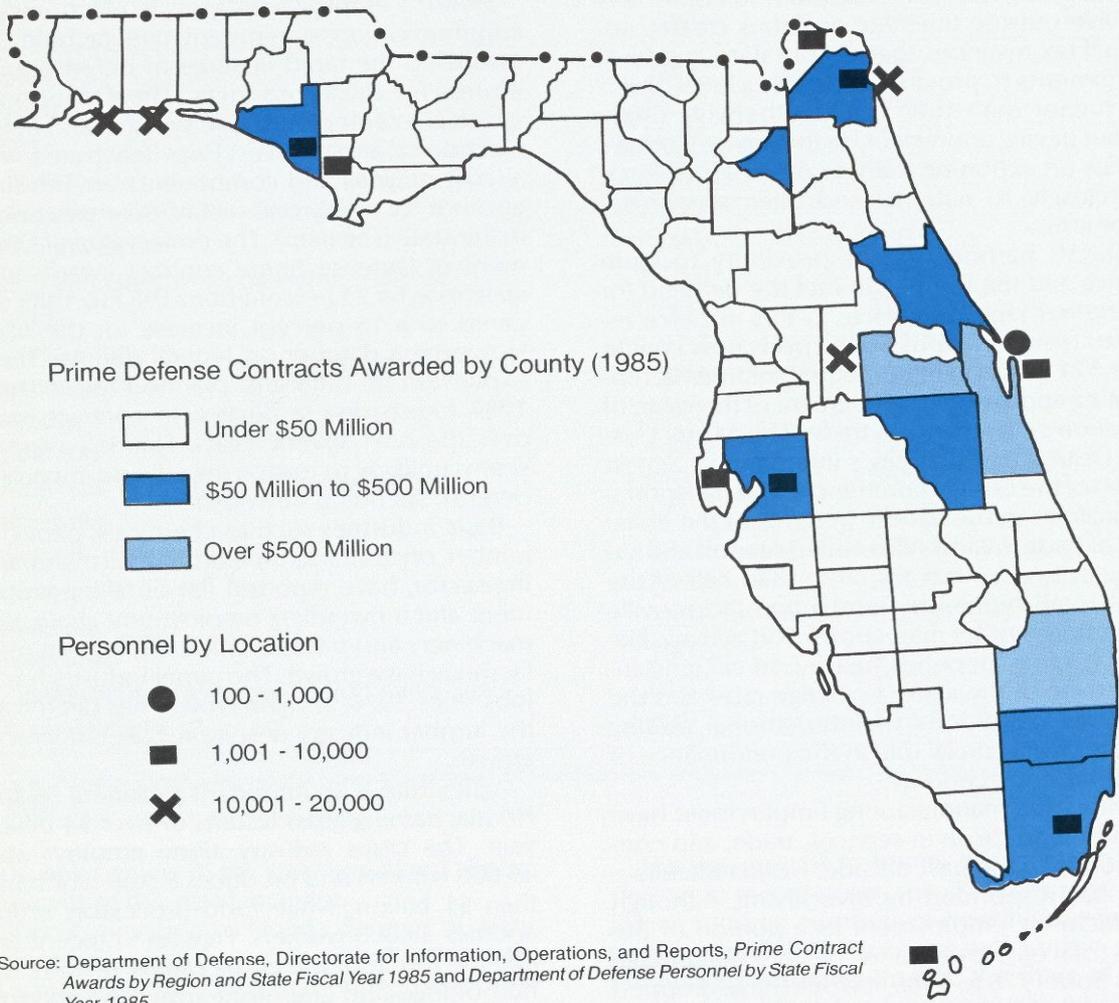
Florida's employment gains in electronics and communications equipment manufacturing have paralleled the rapid upsurge of defense expenditures for these products. The Orlando area, which is a center for missile systems and defense electronics, and the West Palm Beach area, where aircraft engines and components are produced, account for nearly one-half of defense contracts in the state (see map). The dollar value of Department of Defense prime contract awards in the state rose by 23 percent from 1984 to 1985 compared to a 15 percent increase for the nation. However, a damper on federal defense budget expansion in 1986 and planned reductions in 1987 foreshadow a decline in contract awards over the next several years. Florida's economy seems unlikely to escape the adverse impacts of a defense spending slowdown.

Basic industries such as chemicals, paper, and lumber, once vital to the state's small manufacturing sector, have reported flat or falling employment and a dwindling employment share, while machinery and transportation equipment manufacturing have grown. The paper industry has lost jobs since 1976, and job growth has been flat for the lumber industry despite robust construction growth.

Agriculture is an important exporting sector in Florida, earning gross returns of over \$4 billion a year. The citrus industry alone employs about 45,000 workers and produces a crop worth more than \$1 billion, while food processors employ another 49,000 workers. Freezes in recent years and the threat of the citrus canker disease have hurt orange and grapefruit growers, and groves are shifting to the southern, less frost-prone, part of the state. Despite shrinking citrus acreage and increasing import competition, however, the total value of Florida's citrus crop has risen over the last few years.

Other Florida farm products have not done so well. Vegetable prices have been held down by the rising tide of imports from Mexico and by freezing weather. Cattle prices have also fallen as demand for beef sagged. While sugar cane growers generally remain prosperous, their well-being depends heavily on government assistance through import quotas and price supports.

Department of Defense Contract Awards and Personnel



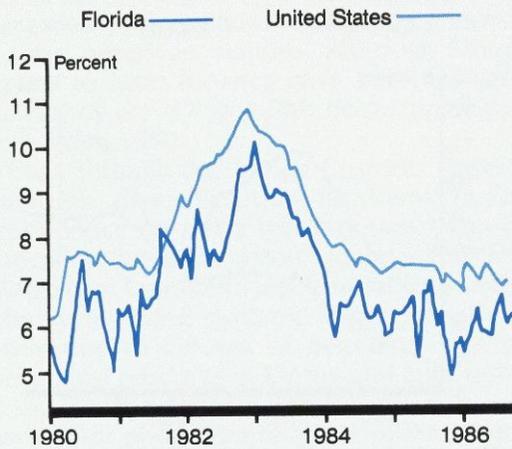
Thus the structure of Florida's economy, which is both highly dependent on services and trade and especially sensitive to national and international economic conditions, is quite open. Developments outside the Florida economy influence migration rates, tourism, and demand for many of the state's manufactured goods. Exchange rates and the conditions of foreign economies play an important role in port activity, affect tourism, and determine to some extent the need for manufactured goods and services. This

structure has generally stood the Florida economy in good stead, providing job and income gains at rates well above the nation's for the last eight years and a jobless rate consistently lower than that of the United States since 1982 (Chart 2).

The Economy in 1986

Even though long-range projections typically foresee strong expansion for the state, Florida's economic performance decelerated along with

Chart 2.
Unemployment Rates
(Seasonally adjusted)



Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.

the nation's in 1986. Both newly important sectors and old standbys were troubled. Growth in nonfarm employment dropped from 5.2 percent in the first eleven months of 1985 to 3.4 percent in the same period of 1986, as compared to national figures of 3.5 percent in 1985 and 2.7 percent in 1986. The state's unemployment rate stayed well below the national average. As employment growth in the state slackened, personal income gains also slowed from the 7.9 percent gain in 1985. Florida's income growth rate nevertheless ran ahead of that of the nation and the rest of the Southeast.

Personal income gains in Florida generally followed the employment developments in various sectors of the economy. Income earned in other services and in finance, insurance, and real estate took the lead, with advances well above the state average, while income earned in retail trade kept pace with the state's average. Weak components included manufacturing, transportation, communication, and public utilities as well as wholesale trade. Mining income fell dramatically from levels a year earlier as dropping oil prices and subdued demand for phosphate eroded earnings. Earnings from mining reached nearly \$1.1 billion in its peak year, 1984, but slid to an annual rate of \$620 million in the first half of 1986.

Table 3.
Changes in Florida's
Nonfarm Employment by Industry
(Percent, year-over-year)

| Industry | November 1984-1985 | November 1985-1986 |
|-------------------------------------|--------------------|--------------------|
| Nonmanufacturing | 4.5 | 3.9 |
| Mining | 0.0 | -4.0 |
| Construction | 2.4 | 1.6 |
| Trade | 4.5 | 5.0 |
| Services | 6.7 | 4.5 |
| Finance, Insurance, and Real Estate | 5.9 | 3.8 |
| Transportation and Public Utilities | 0.8 | 0.5 |
| Government | 3.0 | 3.5 |
| Manufacturing | 1.6 | 2.2 |
| Durables | 2.0 | 3.8 |
| Machinery | 0.8 | 3.0 |
| Transportation | | |
| Equipment | 5.6 | 6.5 |
| Lumber and Wood | 1.0 | 3.7 |
| Fabricated Metals | 0.0 | 1.4 |
| Stone, Clay, and Glass | 0.0 | 1.6 |
| Nondurables | 1.0 | -0.5 |
| Printing and Publishing | 5.4 | 5.1 |
| Food | 0.0 | -0.6 |
| Apparel | 0.0 | -3.0 |
| Chemicals | -3.7 | -7.7 |
| Paper | 0.0 | -0.3 |

Source: Computed by Federal Reserve Bank of Atlanta from data released by the Florida Department of Labor and Employment Security, Bureau of Labor Market Information, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, BLS 790, Monthly Report on Employment, Hours, and Earnings.

Florida's two most important individual sources of income—transfer payments and government payrolls—accounted for nearly three-tenths of the state's total income in early 1986. This proportion far exceeds the income share attributable to any other income source. Income from both sources grew at a rate somewhat above the state average during the first half of 1986.

Services. Nonmanufacturing employment growth mirrored both the strength of Florida's economy in relation to the nation's and its decline from 1985 rates (Table 3). Except for government

and trade, which showed employment increases, most service industries added jobs at about the same rate as in 1985 or more slowly. Still, the majority of service industries fared better than manufacturers. Hotels and other lodging places, health care facilities, business services, and recreational attractions registered strong year-over-year employment gains. Both state and local government employment also increased in the first eleven months of 1986. Job growth in finance, insurance, and real estate slowed from its rapid 1985 pace but still maintained momentum.

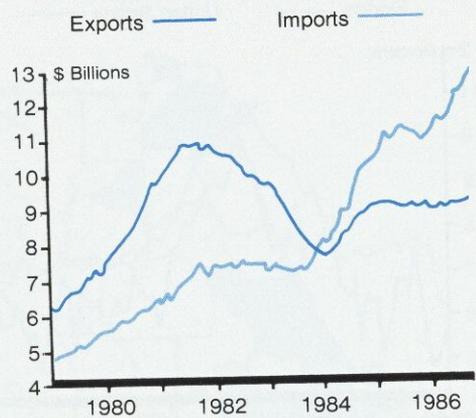
Fueling the nonmanufacturing sector, migration maintained its high rate through 1986. Labor force expansion which continued at almost twice the nation's pace confirms this. At least one respected forecast (Hank Fishkind and Pam Schenker, *M. G. Lewis Econometric Forecast*, 3rd quarter 1986) stated that net migration into the state for the year would be the highest ever. This projected growth is consistent with National Planning Association estimates that Florida's population will increase from 11.2 million in 1985 to 16.9 million in the year 2000.

Florida tourism, which also boosted the service sector, was off to a good start in 1986, but growth in the number of visitors slowed as summer approached. Air travel to the state jumped sharply in the first quarter. The uptrend tapered during the latter part of the year, even though a rising penchant for air rather than auto travel to Florida persisted. Discount airfares and package tours to competing vacation spots in the Caribbean may have also played a role in the slowdown.

In contrast to air travel, auto travel, as measured by welcome center registrations, decreased from 1985. After rapid growth from January to March, the next four months were all down compared to a year ago. This pattern continues a trend which began in 1984 toward increasing air travel and declining or moderating auto travel, a reflection of the impact of discounted airfares on transportation patterns.

Deregulation has lowered airfares for heavily traveled routes, thus encouraging more travelers to fly rather than drive. The change has not been entirely favorable for Florida. Discounted fares to such popular destinations as California along with new entries on popular routes have, in some instances, dropped the cost of travel to more distant locations below the cost of travel to Florida.

Chart 3.
Value of Florida's International Trade
(12-month moving totals¹)



¹Data for the Customs District Ports of Miami and Tampa.
Source: Computed by Federal Reserve Bank of Atlanta from data released in U.S. Department of Commerce, *Highlights of U.S. Export Trade*, various issues.

The dollar's decline has not only stimulated domestic travel by Americans but also encouraged foreigners to travel in the United States. More Latin Americans, particularly Brazilians, traveled to southern Florida.

Boosted by in-migration and tourism, Florida's retail sales through the first half of 1986 continued to surpass the nation's, expanding at an accelerating pace while national growth was falling off. Led by strong car sales, retail purchases were up 9 percent in Florida during the first six months of 1986 compared with the same period the previous year. Auto companies' generous financing deals gave car sales a good boost through September, but retail increases in Florida were still down sharply from increases in the mid-teens registered in 1984.

Both the Miami and Tampa Customs Districts have recovered some lost ground following a period of severely depressed export activity that began in 1981 and ended in late 1983, but most of the export rebound was achieved in 1984. Export shipments continue to be very sluggish in the Tampa District. Imports, on the other hand, have been rising dramatically at most Florida ports throughout the current national economic expansion. These diverging trends have turned Florida's overall foreign trade position from that of a net exporter of goods to a net importer (Chart 3).

Total tonnage shipped through the port of Miami was up 3.1 percent during the fiscal year ending in September 1986. The Miami Customs District's export dollar volume in September 1986 was 12 percent higher than in the same month a year earlier, primarily due to a pickup in shipments to Latin American markets. Although Miami's exports to Latin America have been increasing lately, they are still one-fifth below peak levels recorded in 1980.

Trade through the Tampa Customs District is much less diversified than in Miami. Tampa's dependence on just a few products often dramatically influences the port's trade performance. The ports of Tampa and Jacksonville, for example, recently recorded dynamic import growth, primarily due to influxes of petroleum and petrochemical products in Tampa and automobiles in Jacksonville. On the other hand, soft world markets for phosphate rock and allied products have hurt Tampa's export trade.

In contrast to other Florida ports, Jacksonville's trade activity has been vigorous. The Port of Jacksonville continues to rank among the nation's top centers for automobile imports. In response to the strong demand for imported autos in the United States, the port handled 460,700 vehicle units in fiscal year 1985, a jump of 11 percent from imports one year earlier. Through August of 1986 Jacksonville auto imports were almost 20 percent above the comparable period in 1985.

Government expansion also added to state employment rolls. State and local governments took on 23,400 workers from November 1985 to November 1986 for an increase of 4 percent, while the federal government increased by 2.2 percent. Florida ended fiscal 1986 with a \$60 million state budget surplus. Revenues were up by 12.3 percent over 1985, and expenditures rose by 9.7 percent. The state is moderately expanding its sales tax base in 1987 by cancelling all sales tax exemptions for services, effective July 1987. The National Governors' Association expects this change to raise about \$1 billion during 1987. The Gramm-Rudman-Hollings budget balancing plan has made it more difficult to predict receipts from federal programs. Because of uncertainty about federal aid, several fiscally strong states, including Florida, are finding alternative ways to budget for these receipts. Florida has appropriated \$30 million from its working capital fund for transfer to the general fund should offsets to significant federal funds reductions be needed.

Manufacturing. Rates of employment growth in manufacturing were up from 1985. Still, manufacturing jobs increased at only about half the pace of nonmanufacturing gains. Production in some parts of the machinery industry slowed. Heavy construction, agricultural, and nuclear equipment producers faced unchanged domestic demand. Electrical and electronic machinery production moved ahead in 1986 as companies with defense contracts and ties to the aircraft industry prospered. Their healthy advance was partially obstructed by a slump in semi-conductor sales. The Challenger accident made matters worse for both electronic and transportation equipment makers. In its wake, contractors laid off about 2,000 workers. Strong aircraft and boat demand bolstered transportation equipment production and employment, though.

Lumber and wood manufacturing rallied somewhat in 1986 from its sluggish performance in 1985, but job gains are still far from the double-digit levels of 1984 and 1983. Despite substantial new construction in the Sunshine State and surrounding states, the lumber industry experienced weak prices and mounting inventories. Large amounts of Canadian lumber were reportedly sold in the Florida market.

Import competition had an adverse impact on nondurable manufacturing industries. Food processing registered marginal employment losses. Chemical industry employment slid down sharply from levels a year ago as agricultural chemicals faced both feeble demand and foreign competition. Job levels in apparel and paper industries shrank.

Construction. Between 1982 and 1984, construction in Florida raced ahead of overall economic growth as the state bounced back from the effects of a national recession. Construction slowed some in 1985, but the state began 1986 with overbuilding in almost all categories of construction and in nearly all geographic areas. Total building permits were down 11 percent for the first half of 1986 and continued to tumble during the rest of the year. Construction employment increases were meager. A surfeit of multi-family residential and commercial building exists nationally, but vacancy rates are even higher in Florida. More than three years' supply of office space is reported in Tampa and Miami at present rates of new occupancy. Like the state's other real estate markets, Florida's retail space is also overly abundant.

Single-family residential permit growth in Florida dropped to a low 0.8 percent rate during 1986, compared to a 15 percent rate nationally. Although Florida's employment and personal income gains have also declined since 1984, these rates are still substantially above national rates. In light of Florida's continuing population boom, low single-family permit increases suggest excessive housing inventories rather than weakening demand. After strong strides in 1983 and 1984, multi-family building permits fell by 3.2 percent in 1985 and by about twice that in 1986.

Following a national trend, office construction also slumped. During 1986, permit values dropped 12 percent from their 1985 levels. Vacancy rates in all major Florida office markets (Fort Lauderdale, Orlando, Tampa, and Miami) exceeded the national rates.

Industrial construction fell more dramatically than any other building activity in Florida. High rates of unused capacity and dropping growth rates in manufacturing employment and personal income have all contributed to the curtailment of industrial construction activity. Industrial vacancy rates in Miami were nearly twice the national rate.

Agriculture. Like construction, Florida's agriculture, buffeted by bad weather in recent years, lost ground. There was some good news for farming in 1986, but not enough. Total farm income appears to be heading for its second straight downturn, even though the citrus season saw continued recovery in orange groves from past freeze damage. Total orange production rose 19 percent from the 1984-1985 season, while the less damaged grapefruit industry increased production 7 percent; nevertheless, falling orange prices resulted in returns \$200 million less than in the 1984-85 season. Drought and acreage reductions have also cut soybean and peanut revenues in the northern part of the state. Livestock revenue was virtually unchanged through the first half of the year.

Largely as a result of the problems in citrus and row crop production, farmland values have fallen about 10 percent since 1984. Consequently, farmers have seen the paper value of land drop by about \$2 billion. Substantial nonfarm demand for land suggests that favorable prices are nevertheless being paid for land destined to be used as

subdivisions or for some other nonagricultural purpose.

The Outlook for 1987

Overall, Florida's economy next year should continue to develop at a respectable pace, but its lead over the U.S. economy may narrow. Most of the strengths and weaknesses of 1986 are likely to persist. On the positive side, a moderately healthy national and international economy, the residual effects of past dollar declines, relatively stable energy and credit costs, recovering agriculture, and resumption of serious work on the space shuttle should inject some vigor into the state's economy. The impact of these circumstances will be most evident in service and trade income and employment but should also extend to agriculture, construction, and some manufacturing industries. Continuing foreign competition for Florida lumber, paper, chemicals, and electronic products, along with a defense spending slowdown and past overbuilding, will offset some of this strength, however.

Population and Tourism. Migration into the state will probably continue to fuel the rise in service and trade employment in 1987. The continuing stimulus from national developments—the weaker dollar, low oil prices, and falling interest rates—may well set the stage for migration that approaches the high numbers of 1985 and 1986. The moderate U.S. economic growth expected in 1987 should step up incomes nationally, thus prompting travel to the state and stimulating consumer spending.

Advances in tourism in 1987 promise to approach 1986's pace. Rising incomes, stable employment, and central Florida promotions should bring more travelers to the state. The state's appeal to tourists will probably be enhanced by new local attractions, such as a \$300 million movie studio and entertainment complex being built by the Disney Corporation outside of Orlando. A fifteenth anniversary celebration for Walt Disney World begun in October 1986 should increase the number of visitors to the state. A similar event at California's Disneyland boosted attendance there by 19 percent.

The economic stabilization efforts of Brazil and Argentina have produced rising tourist and business travel from these countries after a hiatus from

1982 to 1985, but recent economic troubles in those two countries threaten this trend. Any adverse impact will be felt mainly in Miami, which is again starting to grow as the business and banking center for U.S.-South American trade. A steady dollar exchange rate indicates that Canada will not make a strong contribution to Florida's tourist growth in 1987, but travel from Germany and the United Kingdom is likely to increase.

Construction. Despite in-migration and a significant dip in mortgage rates through much of 1986, the outlook for overall residential construction is not good. Single-family home sales will probably be strong, but many of those sales will merely reduce currently high inventories. Little if any growth is expected. Florida's multi-family construction is likely to drop again in 1987. The new tax reform act will have a negative impact on investment in multi-family housing. High apartment vacancy rates in many Florida cities will also discourage construction. Nor is the Florida condominium market likely to recover from its malaise. The majority of the thousands of vacant units, especially in the Miami area, will probably remain on the market unless the dollar's depreciation or rapid recovery from debt problems strongly stimulates Latin American demand. Neither of these developments is expected to bring sufficient recovery in 1987, though. Tax reform and limited prospects for price appreciation are putting a damper on local buying and investing as well, so that it may take several more years to absorb available condominium markets.

High office vacancy rates in all major markets will carry over into 1987 and depress office construction. Although strong gains in service, financial, insurance, and real estate employment indicate lively demand for office space, 1987 will probably be the year in which developers wait to see vacant space absorbed before beginning new ventures. The tax reform act will reinforce developers' hesitancy because it removes many of the tax advantages for office construction.

Expansion in store construction has slipped to match slowed retail sales growth since 1983 and will probably continue to slide in 1987. No retail sales surge is expected in 1987, and some overbuilding plagues the retail space market also. Shrinking growth in manufacturing employment, manufacturing personal income, and retail construction have all contributed to the curtailment

of industrial construction. These factors, along with Miami's high industrial vacancy rate (twice the nation's), point to a slowdown in industrial construction that will make this sector Florida's most vulnerable construction category in 1987 and possibly beyond.

Manufacturing. Manufacturers, especially those in high-technology industries, face uncertain prospects in the near term. Cuts in defense spending are likely to slow growth in this important Florida industry during 1987. The Department of Defense estimates that direct defense purchases in the state will rise by 1.9 percent from 1986 to 1987, about the same as for the nation. From 1985 to 1986, defense purchases in Florida outpaced those of the nation by a considerable margin. Employment in high-technology industries will benefit from the revival of the space shuttle program, which is scheduled to begin full-fledged rehiring in April. Current National Aeronautics and Space Administration plans call for the first launch in early 1988.

Some renewed demand for the products of Florida's manufacturers seems probable as the domestic economy expands moderately and the dollar's decline continues to affect the U. S. trade balance. These developments will stimulate most of the state's manufacturers, though some will feel the stimulus more than others. Electronics competition may ease some, but not enough to overcome crimps in defense spending and stagnant demand. A holding pattern in electrical equipment manufacturing employment is about the best that can be expected.

Some basic industries may be helped by the weaker dollar and slowing of the nation's agricultural slide. As a consequence of the weak Canadian dollar, Canadian wood and paper exports have remained highly competitive. At year's end the Canadian government agreed to impose a 15 percent export levy on Canadian lumber shipments to the United States. This should make Florida lumber more competitive; however, the United States also made changes in treatment of capital gains for tax purposes which tend to reduce profits from timbering. Although the combined effects of the duty and tax changes are difficult to project, marked recovery in the lumber industry is not likely.

Excess supplies and low prices in the agriculture sector nationally are diminishing the demand for

fertilizer so that Florida's phosphate industry is currently operating at about 80 percent of capacity. In 1987 domestic demand should stabilize as acreage reductions slow, but foreign demand may decline further. Because the phosphate industry has been in a lengthy period of adjustment, supply capabilities should be increasingly in balance with demand, but any growth in the industry is unlikely.

Farming. Prospects for the state's agriculture in 1987 are somewhat improved over recent years. The citrus industry continues to recover from past freeze damage, but canker remains a threat. The crop for 1986-87 is expected to be the largest in three years. Sugar cane growers still have a farm program which will assist them in earning acceptable returns. Even though vegetable growers face accelerating imports from Mexico and the Caribbean, their outlook is mostly optimistic, since domestic demand for vegetables is rising and pro-

duction costs are declining. Vegetable prices have not suffered the sharp price declines experienced by other crops.

Conclusion

In the year ahead, Florida's employment and income should continue to rise at a rate somewhat above the nation's. The pace of growth will be influenced strongly by the way the U.S. economy and economies abroad react to past declines in the dollar. The speed at which the state can absorb its excess inventory of buildings is another important factor that will bear on Florida's economic prognosis. Unless migration and tourist flows slow substantially, however, the Sunshine State's economic outlook for 1987 will remain fairly bright.