Housing slump takes toll on Florida's economy

Florida's declining housing market is sending shudders through the rest of the economy, state economists said, and will leave the state with $1.5 billion less to spend.

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TALLAHASSEE -- Floridians are spending less on big-ticket items -- cars, furniture, appliances -- and economists say it's due to one main ailment: the slumping real estate market.

The principal problem, state economists said Wednesday, is that home construction and sales of existing homes have dropped even below the slowdown they had anticipated earlier this year. The level of sales of existing homes has dropped to 1997 levels. And the sluggish housing market has eroded consumer confidence and dragged down the sales of other expensive items such as automobiles.

Auto sales in Florida have plummeted in the past 18 months: During one three-month period in 2005, the state took in $1 billion from taxes on auto sales. The past three months: $906 million.

Sales of appliances and furniture have tumbled as well, according to forecasts, with state revenue from sales of those items dropping from a high of $428 million during fall 2006 to $402 million in the past three months.

At the same time, Floridians continue to spend as much money as they ever have in restaurants, bars, movie theaters and clothing stores. That has led economists to conclude that Floridians are avoiding more expensive purchases because the real-estate downturn has them worried.

"We think people are hunkered down," said Amy Baker, coordinator of the state Office of Economic and Demographic Research. "They don't feel as wealthy. They stop buying things."

The economists, citing overall national trends, think that might not change until early 2009.

The grim result of the bad economic news is a projected $1.5 billion shortfall in the state budget.

Lawmakers will have to cut the state's $71 billion-plus budget by at least $1 billion during a three-week special session that starts on Sept. 18. Some of those cuts could hit public schools and healthcare programs for the poor.

There is enough money in reserves now to cover the shortfall, but legislators say that if they don't act now, they could face an even more serious budget problem in the spring.

State economists say they are surprised by the startling contrast between Florida's economy today and what it was over the past several years, when a red-hot real estate market and a boom in building following eight hurricanes in two years flooded the state treasury with extra billions.

Their new estimates show that overall tax collections were about $380 million below estimates for the fiscal year that ended June 30, and projections are down another $1.1 billion for the fiscal year that started July 1.

Baker said state economists always expected the housing market to slow down, believing that what happened in Florida earlier this decade was "unsustainable." But now economists say the drop in the housing market is bleeding over into other economic
activity. They said the housing-market woes, for example, resulted in lower corporate income taxes as companies in construction and real estate report lower earnings.

State economists stopped short, however, of calling it a recession, although state tax collections for the fiscal year that ended June 30 were $600 million less than the previous year. That marked the first time in more than 30 years that the amount of general revenue taxes the state collected had gone down from the previous year.

The booming real estate market that left Florida tax coffers flush earlier this decade has meant lawmakers have some unspent cash that can cushion the shortfall. But instead of dipping into the one-time surplus, the GOP-controlled Legislature plans to go ahead with budget cuts this fall to avoid the need to cut next year's budget when lawmakers meet in regular session this spring.

"While over one billion dollars of cuts will be difficult, I am confident that the job will be handled in a fiscally responsible manner," Sen. Lisa Carlton, an Osprey Republican and chief budget writer for the state Senate, said in a statement. "Tough times are ahead, but if we don't act now, we will face far greater consequences in the future."

But Senate Democratic Leader Steve Geller said lawmakers should "examine all options," including revisiting tax cuts handed out in recent years by the Legislature.

Rep. Dan Gelber, a Miami Beach Democrat, said the bad economic news points out that the tax structure is "dysfunctional" and he said he worries that those already suffering because of economic problems will be the ones hurt by budget cuts.

"My fear is that the most powerless among us will feel the pain," Gelber said.