SPECIAL REPORT

TD Economics

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SOUTHERN STATES TO BENEFIT FROM A REBOUND IN RETIREE MIGRATION

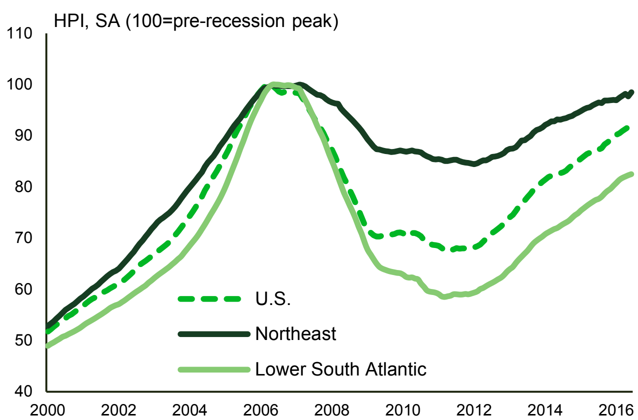
Highlights

- The migration of retirees to southern states, which slowed in the aftermath of the Great Recession, has begun to rebound in recent years alongside recovering home prices and financial asset values.
- This trend should strengthen as baby-boomers continue to enter prime retirement age, and boost the economies of these states in the coming years. Sectors that are highly dependent on older consumers, such as healthcare stand to benefit the most, but economic gains will be felt more broadly.
- Rising retiree migration will help southern states outpace the nation in the coming years. Growth in South Carolina will exceed 2% while the pace of economic gains in Florida will average closer to 3% over the medium-term.

The Great Recession caused a sharp decline in home prices and financial asset valuations, decimating retirement savings and putting many nearly-retired Americans out of work. As a result, it effectively placed a roadblock in front of many who planned to retire, and sometimes move, during their golden years. Declines in financial asset values often necessitated retirees to work longer than anticipated with the average age at retirement rising to 65 recently – up from the 62 a decade ago. The wealth impact was compounded by declines in home prices, with homes often making up a crucial component of a retirement nest egg – particularly for the baby-boomer generation who emphasized homeownership. As such, the migration of retirees from the Northeast to South, including states like Florida and South Carolina, dissipated in the aftermath of the recession despite a large cohort of baby-boomers beginning to enter retirement age at that time.

Nonetheless, there is evidence that the previously delayed migration is finally regaining traction alongside the rebound in home and financial asset prices. As it strengthens, this dynamic will provide an economic lift to retirement hotspots, including South Carolina and Florida. In fact, more than a quarter of small businesses in Central and South Florida view the growing retiree population as a key business opportunity over the next year, according TD Bank's Small Business Outlook Pulse Check.

CHART 1: PRICES IN THE NORTHEAST NEAR FULL-RECOVERY



Source: Corelogic, TD Economics

Sectors that are more reliant on aging demographics, such as healthcare services, stand to benefit the most from the new arrivals. But, other areas of the regional economy should also receive a boost, with the gains felt across the broader economy. These benefits are likely to manifest on whole state economies, but retiree magnets including The Villages, Naples, and Jacksonville in Florida as well as Myrtle Beach and Hilton Head in South Carolina will benefit in particular.

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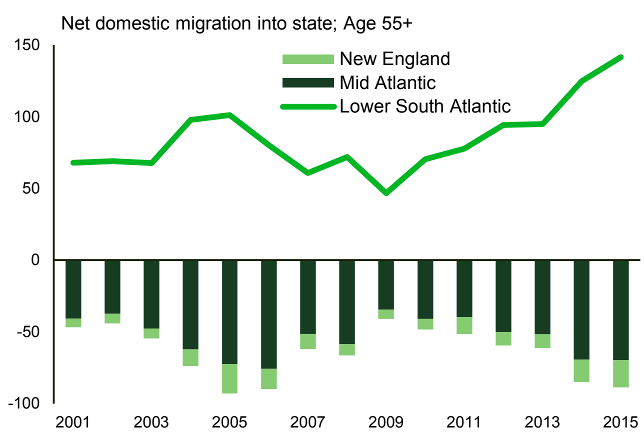
Roadblocks are crumbling

The rebound in household financial wealth in recent years has been a key element supporting rising retirement and associated migration. Prior to the recession, wealth was accumulated with the intention of using these funds to support living expenses in retirement. However, when financial asset values tumbled, a significant portion of this wealth was wiped away, forcing would-be retirees to delay their retirement. Nonetheless, these assets have posted strong gains in recent years, providing retirees with an extra cushion of wealth for their years in retirement. Indeed, the major equity gauges have at this point fully recovered.

In addition to the rebound in financial portfolios, home prices too have been rebounding in recent years. After falling by nearly one-third, home prices nationally are within 8% of previous peaks with price growth remaining robust, supported by low inventory levels and low interest rates. Still, the home price dynamics were not uniform across the country.

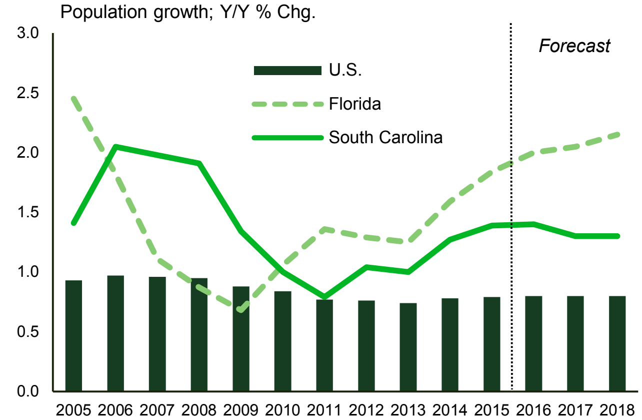
Home prices in the Northeast held up better than nationally, falling by about 20% (see Chart 1) during the recession. Still, many states in the region experienced more significant declines with homes in Rhode Island, New Jersey, and Connecticut losing between one-quarter and one-third of their value. Given the significant loss of home equity, would-be retirees previously planning to sell their homes often held off their retirement and/or the associated move. The recovery has been rather drawn out, but home prices in both New England and the Mid-Atlantic are finally nearing pre-recessionary levels on a broad regional basis, down a mere 1.5% in New England and 1.3% across the Mid-Atlantic.

CHART 2: SOUTHBOUND MIGRATION ON THE RISE



Note: Domestic migration by age group is estimated by TD Economics.

CHART 3: RETIREE INMIGRATION BOOSTING POPULATION GROWTH IN THE SOUTH



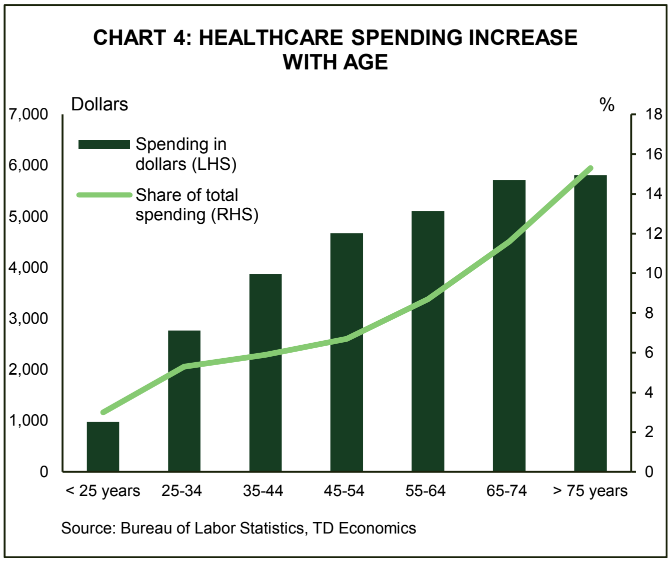
Source: Census Bureau, TD Economics

This is in contrast to the housing market in the South, where prices are still well-below pre-recessionary peaks. Price levels in the Lower South Atlantic are still more than 15% lower than where they were prior to the recession (see Chart 1), with Florida particularly underpriced relative to the previous peak. The divergence offers an attractive opportunity for residents of New England and the Mid-Atlantic who want to move and remain homeowners, with many that held off moving to the South for retirement increasingly making the move.

The rebound in financial assets and home prices in the Northeast is increasingly enabling those nearing retirement to do so, with many choosing to head south for their golden years. The Northeast is now losing nearly 90 thousand people aged 55 and over per year, more than double the pace during the recession. Most of these have ended up in the Lower South Atlantic (Florida, Georgia, South Carolina) region, which has seen domestic migration of those aged 55 plus nearly triple from its 2009 low. This trend has helped population in South Atlantic states to increase faster than nationally in recent years, a dynamic that should remain in place in the coming years (Chart 3). The trend is quite apparent in the over-65 segment, which last year grew by a more robust 4.6% and 4.1%, in Florida and S.C., respectively, compared to just 3.5%, nationally. But, the gains are visible in aggregate too, with gains of 1.8% and 1.4% respectively – about double the national rate during 2015, with the outperformance in the South likely to last.

Healthcare sector will derive the largest benefit

The substantial number of new arrivals will benefit the economies of these states, but it is the healthcare sector



that is likely to experience the strongest growth in demand related to this new wave of retirees. Healthcare spending is the only major consumption category that increases with age, in both dollar amounts and as a share of the household budget (see Chart 4), with significantly more spending taking place in post-retirement years. According to the Consumer Expenditure (CE) Survey from the Bureau of Labor Statistics, out-of-pocket healthcare spending equaled $978 for the under-25 age group last year, while the 65-74 age group spent $5,814 on medical services, drugs, and other medical supplies.

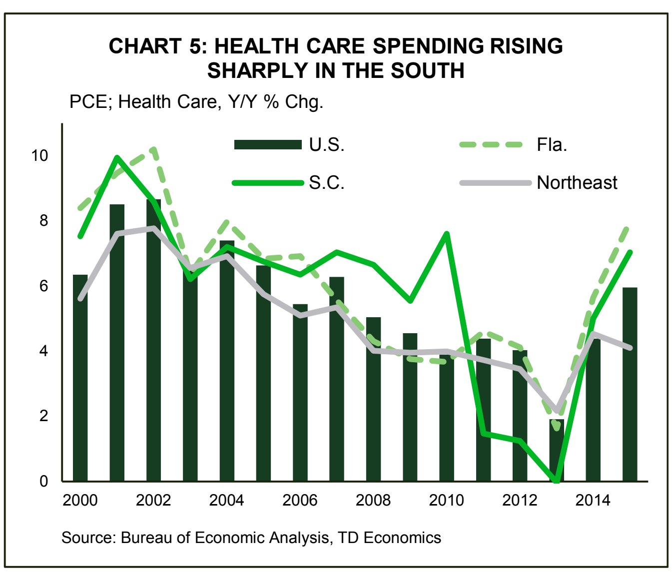
Spending levels are even higher when accounting for institutionalized population, with the total healthcare spending estimated at just over $8000 per person in 2014. With that said, both of these measures point to high levels of healthcare spending amongst older demographics, which are increasingly flocking to S.C. and Florida during retirement.

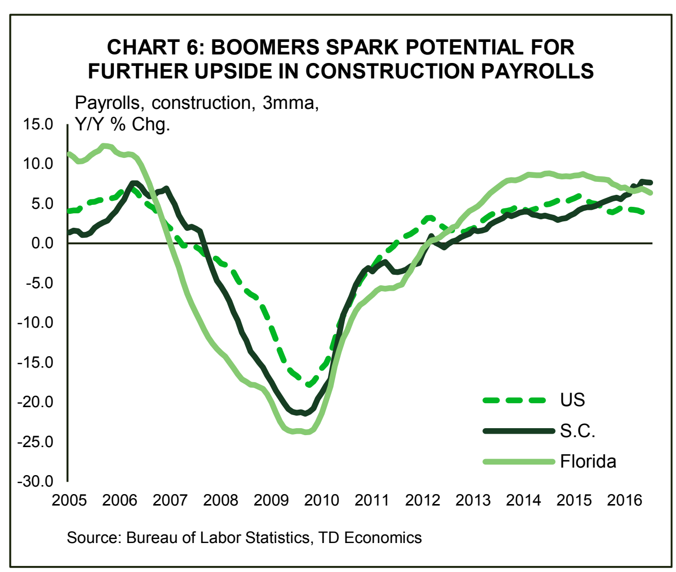
Indeed, the healthcare sector in both of these economies has already begun reaping the benefits from these new residents. Healthcare spending rose 7% in S.C. and 8% in Florida last year, both higher than the 6% national average and almost double the 4% pace seen in the Northeast (Chart 5). The increased demand is spurring on hiring efforts. The sector's payrolls are rising by 3.9% and 3.7% in S.C. and Florida, respectively. Moreover, while hiring in the sector has slowed over the past year nationally, it continues to accelerate in both states. Ultimately, the higher healthcare spending will surely benefit overall economic activity, helping shore up growth in S.C. and Florida.

Construction sector to benefit from housing demand

The rising demand for healthcare is also helping the states' construction sector, helped by a boom in medical facility building. Over the past five years, Florida's Agency for Health Care Administration has approved 22 new hospitals across the state. Similarly, construction of Roper St. Francis hospital broke ground in S.C. earlier this year and the project is expected to cost upwards of $100 million. The pipeline of healthcare related projects will remain far from dry over the coming years as the incoming boomer population ages.

Moreover, the recently arrived residents are also shoring up housing related building as well. With an increasing number of retirees indicating a preference to live in multifamily live-work-play developments or single family homes with a bedroom located on the main floor, demand for existing homes is receiving less of a lift. Instead, builders are constructing new homes to meet these requirements with age restricted and active adult retirement communities sprouting up across the region.





The Villages is a prime example of such development. Located roughly an hour north of Orlando, the small city is home to over 150,000 residents, most of which are boomers. Similar homes in smaller sized developments, where more than 80% of the residents are required to be above 55, are being snatched up across Charleston, Myrtle Beach, Cape Coral, Naples, and many other retirement hotspots across the region. Red-hot demand for these homes has sent homebuilders on a building spree, with developers laying out plans for future projects. This is boosting the already strong demand from construction workers. Payrolls in the construction sector are growing by a very robust 7.6% and 6.3% in S.C. and Florida, respectively (see Chart 6). Such hiring is expected to continue and potential for further upside is likely as infrastructure to support these new boomer residents is put in place.

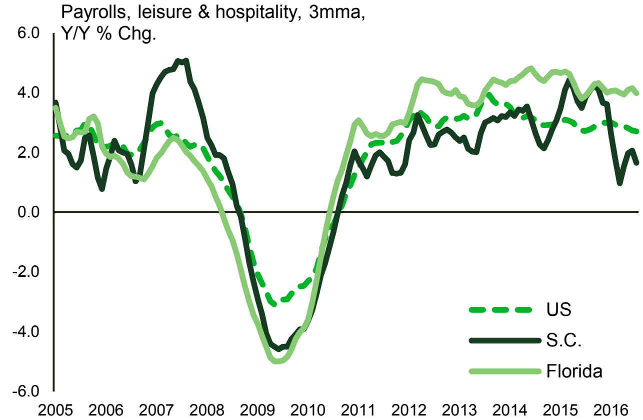
Retiree migration helps spur a virtuous cycle

The benefit from this new wave of boomers will not be limited to the healthcare and construction sectors. Indeed, job and income gains in these sectors will act to boost discretionary spending levels across the regional economy. This is in addition to the lift that discretionary spending will receive as a result of the sheer rise in the number of wealthy retirees that are now spending their time seeing shows, dining out and at the mall. The combination of these factors is supporting spending on recreational activities (Chart 7) and should continue to shore up hiring amongst retailers and restaurants, helping generate a virtuous cycle of job and income growth.

Meanwhile, the health of the leisure and hospitality sector varies across the region. In the case of Florida, the ever-expanding tourism industry remains the backbone of the economy. As such, the leisure and hospitality sector continues to outperform, with sectoral payrolls rising by around 4% a month on a year-over-year basis over the past five years. This is in contrast to S.C., where hiring has slowed considerably over the past year (see Chart 8). Nonetheless, we expect this trend to reverse course as strength in the broader domestic economy continues to spur tourism activity. This will be further reinforced by the associated job and income gains that are expected to materialize as a result of the boomer migration. Both of these factors should act to shore up demand for leisure and hospitality workers across S.C.

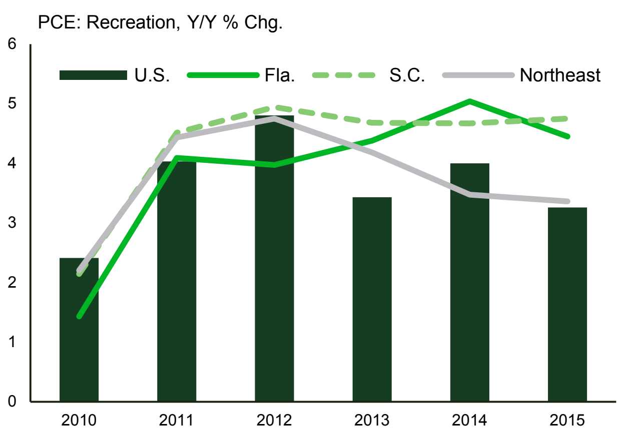
Last but not least, finance & insurance is set to be a major beneficiary as the boomer population rises. Inflows of retirees and their retirement savings, which could include pro-

CHART 8: BOOMERS TO BRING MUCH NEEDED SUPPORT TO S.C. HOTELS AND RESTAURANTS



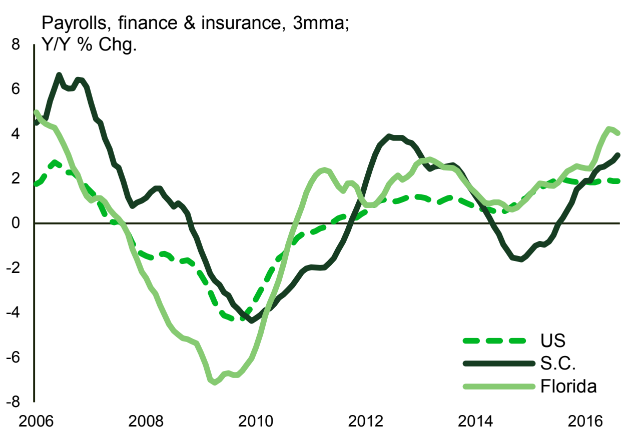
Source: Bureau of Labor Statistics, TD Economics

CHART 7: RECREATION SPENDING REMAINS RESILIENT IN THE SOUTH



Source: Bureau of Economic Analysis, TD Economics

CHART 9: FINANCE & INSURANCE HIRING CONTINUES TO OUTPACE THE NATIONAL



Source: Bureau of Labor Statistics, TD Economics ceeds from the sale of a home, are likely to spur additional demand for managing wealth. Wealth management firms have already started expanding in anticipation of these new accounts. The same is true in the insurance industry as aging boomers increase their need for insurance, with medical and life insurance products receiving the largest boost. Financial services spending was up nearly 5% last year across Florida and S.C., about a percentage point higher than nationally and about 2 percentage points more than in the Northeast. This has started to translate into strong payrolls growth for the finance and insurance sector; payrolls are rising by a robust 4.0% in the Sunshine State, while expanding at a more moderate pace of 3.0% in S.C (see Chart 9). Further growth is likely as the retiree migration continues.

Retirement magnets will garner the most benefit

While boomers are flocking to the South Atlantic, certain metros are proving particularly attractive. This is certainly the case for S.C., where the over-60 population grew by close to 7% on a year-over-year basis in Myrtle Beach last year, handsomely outpacing the 4% pace recorded by the state. Coastal cities Hilton Head and Charleston also saw a greater number of new boomer residents than other cities across the state (see Chart 10).

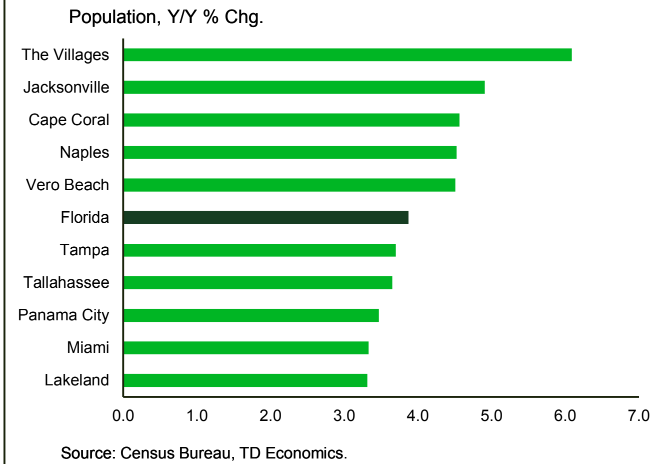
The same is true for Florida, with boomers choosing to live in metros that better cater to retirees, such as The Villages. It also appears that cities with quick beach access such as Cape Coral, Naples and Vero Beach are proving more attractive than those that are inland such as Lakeland and Tallahassee (see Chart 11).

The boomer migration will continue to prove beneficial for the region as a whole, but metros that are better able to attract these new residents stand to derive the greatest benefit. Increased demand for goods and services will be felt to a higher degree in these cities than it will elsewhere. This is particularly true for the services sector as boomers refrain from driving long distances to get to appointments with their doctors, mechanics, and financial advisors to name a few. Robust demand for these services has already started to manifest in stronger hiring in these metros compared to that of the state, particularly true in sectors that are more reliant on an aging demographic, such as healthcare (see Chart 12).

Bottom Line

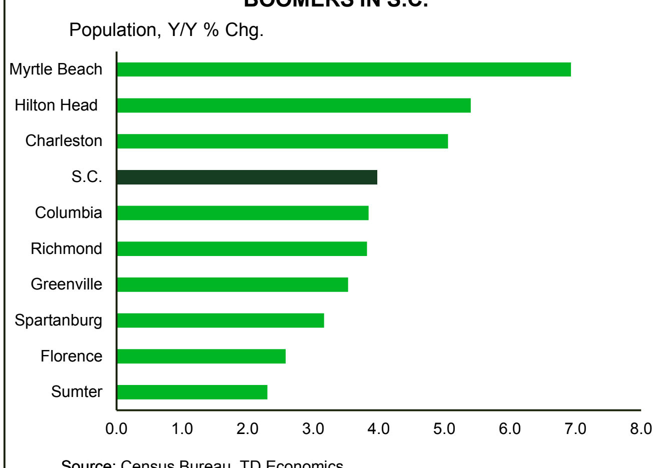
At this point, the retiree migration, previously put on hold by the legacies of the Great Recession, is once again underway. The migration is clearly evident when looking at population dynamics, but is also starting to surface in the labor market spurred on by stronger demand. As home

CHART 11: BOOMERS LOOK FOR TRANQUILITY IN CITIES WITH QUICK BEACH ACCESS



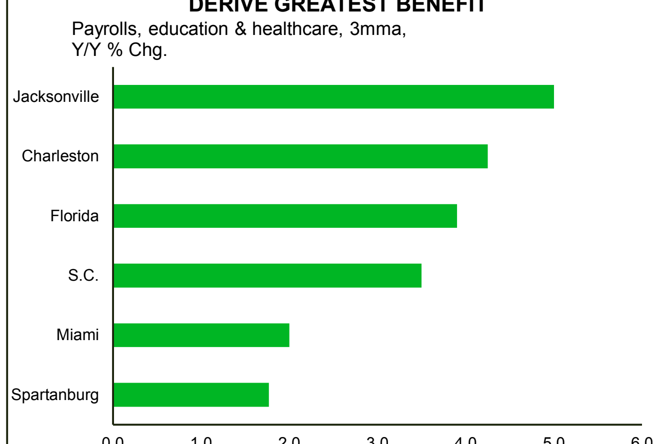
Source: Census Bureau, TD Economics.

CHART 10: COASTAL CITIES ATTRACT BOOMERS IN S.C.



Source: Census Bureau, TD Economics.

CHART 12: BOOMER DESTINATIONS STAND TO DERIVE GREATEST BENEFIT



Source: Bureau of Labor Statistics, TD Economics prices in the Northeast surpass their previous peaks, the South Atlantic will look increasingly attractive, and the migration will continue to strengthen. As such, the regional economy stands to receive a sizable boost as this new wave of baby boomers continues to make their way down to S.C. and Florida. Indeed, over a quarter of small businesses in central Florida point to a growing retiree population with more disposable income as a key opportunity over the next year, according TD Bank's Small Business Outlook Pulse Check.

Metros that attract the largest number of boomers will derive the most benefit as will sectors that cater to these new residents. Nonetheless, economic gains will be felt across the region and the regional labor market will receive a lift. Strong hiring will translate to further income gains, which will in turn boost discretionary spending on retail and leisure goods and services. The combination of these factors will keep the sun shining in the South, contributing to the robust growth that continues to remain a reality for the region. As such, growth in S.C. and Florida is expected to come in well above that of the national. S.C. is expected to grow by more than 2.0% on average over the next two years, while Florida will continue to grow by near 3% over the forecast horizon.

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