OBSERVATION

TD Economics

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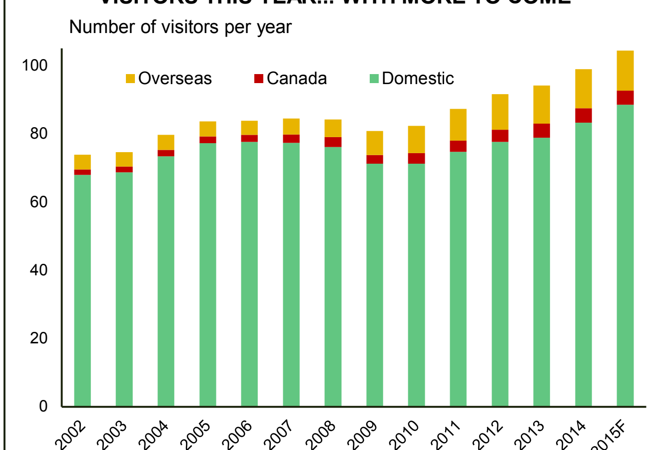
DOMESTIC TOURISM WILL SUPPORT FLORIDA ECONOMY DESPITE INTERNATIONAL WEAKNESS

Highlights

- This year more than 100 million people will visit the Sunshine State, spending nearly $90 billion in the state, thereby providing important support for Florida's economy.
- The Sunshine State will continue to benefit from additional tourism activity as the U.S. economy continues to strengthen, with leisure & hospitality, transport, and retail industries benefiting most from increasing tourism activity.
- Gains will also be felt in other industries, with spending by nonresidents shoring up tax revenues, driving investment in commercial real estate and transportation infrastructure, and manifesting in more vacation home sales.
- The only cloud on the otherwise sunny outlook is international activity which could be hindered by weaker currencies of countries key to Florida's international demand and lukewarm global growth.
- Still, domestic factors will far outweigh any potential international weakness, with the state economy on pace to expand by 3.5% this year and 4% in 2016. Tampa will underperform state growth slightly while Miami and Orlando will outperform these figures slightly.

This year Florida will achieve a highly symbolic and economically significant milestone. For the first time ever more than 100 million[1] people will visit the Sunshine State; sunbathing on its sandy beaches, riding its thrilling rollercoasters, and resting at local hotels. The 104 million visitors – made up of 88 million out-of-state, 4 million Canadian, and 12 million overseas visitors (see chart) – is 30% higher than during the downturn, and equates to about five visitors for every Florida resident.

FLORIDA TO WELCOME OVER 100 MILLION VISITORS THIS YEAR... WITH MORE TO COME



Source: VisitFlorida Research, TD Economics

The dollars spent by these visitors – nearly $90 billion this year – have helped Florida recover from its deepest recession on record. Importantly, the Sunshine State will continue to benefit from the seasonal economic activity generated by nonresidents. For one, a strengthening U.S. economy, rising wealth of American households, and lower gasoline prices should boost both the number of domestic tourists and the amount they spend while visiting the state, helping support Florida's leisure & hospitality, transport, and retail industries – sectors most dependent on tourism. Secondly, many other industries in the state will benefit from increased nonresident activity, which will shore up tax revenues (state and local government), drive commercial real estate and transportation investment (construction and manufacturing), and manifest in more vacation home sales (real estate and finance). The only cloud on the otherwise very sunny outlook is international activity in the state. This

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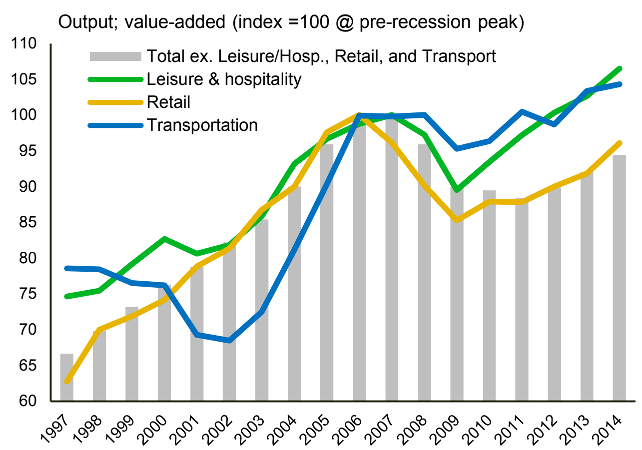
segment has been an important contributor to the economy in recent years, but may come under increasing pressure from weaker currencies of countries key to Florida's international demand and lukewarm global growth. Still, any international weakness should be more than offset by domestic strength, with Florida's highly consumer-dependent economy expected to grow by 3.5% and 4% this year and next, respectively, handsomely outpacing the nation. These upbeat projections are corroborated by the results of the TD Florida Pulse Check,[2] which found that "nearly half of respondents... are feeling optimistic and think it is going to be a good year for their business, with 16 percent saying it will be their best year yet."

Tourism helped kickstart the recovery

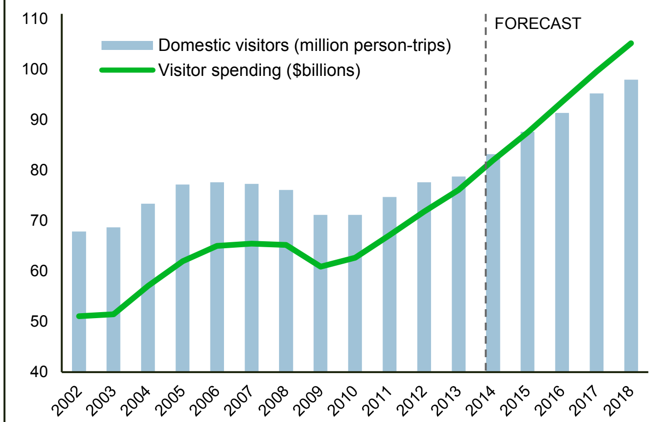
It is hard to overstate the importance of tourism on the Florida economy during the recent recovery, which would have been even weaker without the positive contributions from this key sector. Its impact is most apparent in the three industries most exposed to tourism: leisure & hospitality (includes hotels, restaurants, museums, and amusement parks), transportation (includes airports, cruise ships, taxis), and retail trade (includes gas stations and retail stores). These industries helped cushion the state economy after Florida's housing market crashed and accounted for all the economic growth in the first three years of the recovery – effectively kickstarting the upturn in the economy. Over the past five years the pace of growth in leisure & hospitality was four times that of the rest of the economy, while retail and transport industries expanded twice as fast as sectors less dependent on nonresidents (see chart below). Moreover, support from these tourism-dependent sectors has been consistent, adding about 0.5 percentage points to growth every year since the downturn – a third of all economic gains.

GROWTH IN TOURISM-DEPENDENT INDUSTRIES STRONGEST IN FLORIDA



Source: Bureau of Economic Analysis, TD Economics

STRONG DOMESTIC ECONOMY WILL BOOST FLORIDA TOURISM INDUSTRIES



Source: VisitFlorida Research, TD Economics

Domestic tourism support will only strengthen

These three sectors will continue to benefit from rising domestic visitor activity. In light of the substantial labor market improvement, rising household wealth, and falling gasoline prices American consumers should strongly ramp up consumption in the future. Importantly, much of this rise should come in the form of discretionary services, as pent-up demand for durables is increasingly satiated. Tourism will grow nationally, but gains will be stronger in Florida, as the state's consumption-dependent economy benefits from additional domestic visitors, as well as higher per trip spending.

Florida should see domestic visits rising by almost 5 million this year and next, with nearly 100 million out-of-state travelers visiting by 2018 (see chart above) – a rise of 20% from last year. Spending in Florida per person-trip should also rise by over 10% during that time, with the state particularly successful at attracting tourist dollars given its numerous natural and man-made attractions.

Including multiplier effects and resident spending, services spending in Florida tends to rise by $1.62 for every additional dollar spent on services nationally. This dynamic should prove very beneficial at this point in the economic cycle, with spending on food, accommodation, recreation, and transportation services benefiting Florida most.

Spillovers of tourism will also continue to support

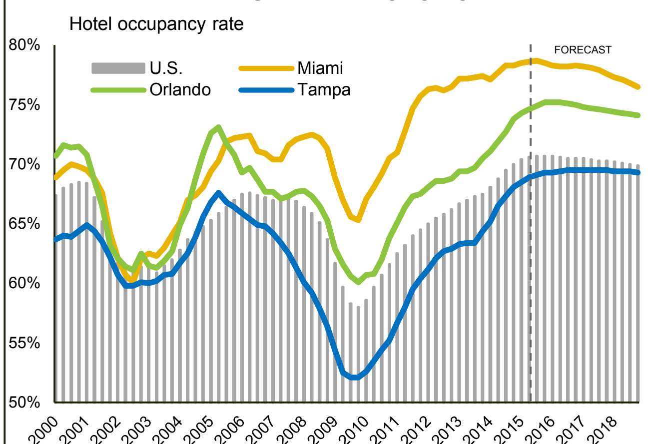
Additionally, visitor spending will manifest in important spillovers on the Florida economy, with one of the most direct impacts being on tax revenues. State and local governments collect a Tourism Development Tax (also referred to as tourist tax, bed tax, or resort tax) of 5% on all visitor stays of six months or less. State and local governments also collect a 6% retail sales tax from nonresidents on purchases of goods and services, property taxes on vacation properties, as well as a slew of other selective taxes and licensing fees often paid by nonresidents. Last year these have added a combined $4.9 billion[3] to the Florida coffers, equating to roughly 13% of state tax collections in 2014.

Taxes paid by tourists are particularly important for Florida's finances given its lack of state-level income tax. These revenues enable Florida to capitalize on, and invest in, its natural capital and infrastructure, while providing public services to residents and nonresidents alike. The good news is that rising tourism activity is likely to manifest in an average $300 million more in tourism-related taxes per year in the coming years, with nonresidents more than pulling their weight as far as state finances are concerned.

The rising tax revenues should enable the state government to continue to invest in important transportation infrastructure. Already, initiatives such as the high-speed rail link between Miami and Orlando, expansion of the Orlando (~$1.1bn) and Tampa International (~940M) airports, as well as a $25 billion in road improvements over five years have helped boost construction, professional services, and manufacturing activity in the state.

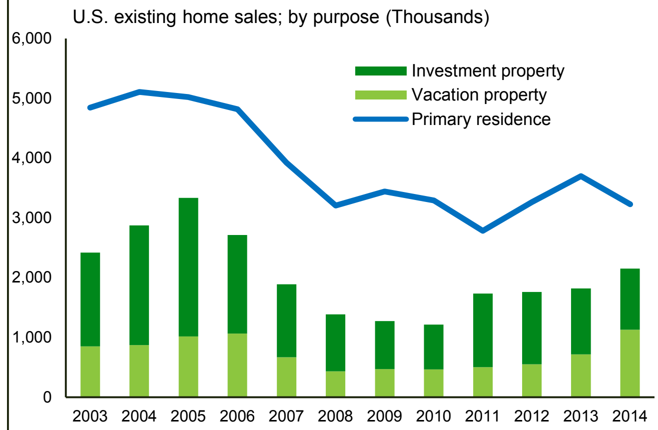
Gains in activity have also laid the foundation for substantial investment in commercial real estate. Hotel occupancy is near record highs across much of South and Central Florida markets (see chart below), while retail vacancies are low, with numerous projects breaking ground on hotels, amusement parks, and malls as a result. The Miami and Orlando markets have seen a large share of additional

RISING OCCUPANCY HAS LED TO HIGHER INVESTMENT IN LODGING



Source: PPR/CoStar, TD Economics

VACATION HOME PURCHASES HIGHEST ON RECORD BOOSTING FLORIDA REAL ESTATE



Source: National Association of Realtors, TD Economics

activity, with mega mixed-use projects (Brickell City Centre ($1.05bn) and Miami World Center in Miami, and over $1bn in redevelopment on International Drive in Orlando), encouraging additional investment projects in these metros. Tourism conditions are slightly weaker in Tampa, but the city has seen the largest improvement since the recession, during which occupancy dropped a whopping 15 percentage points.

The key markets of Miami and Orlando have also seen a surge in demand for condominiums, which has led to additional construction activity in the state. While out-of-state purchase data is not available for Florida, nationally demand for vacation properties surged in recent years. Sales doubled between 2012 and 2014, with vacation property sales outnumbering investment transactions (see chart above).[4] The share of vacation homes is almost certainly higher in Florida. Half of all sales in the state are to those aged 55+, as compared to 34% nationally.[5] Meanwhile, first-time homebuyers, who typically buy homes for primary residences, account for a far smaller share in Florida. In light of these state-specific facts, the Florida real estate market appears to have benefitted substantially from the increased activity in vacation home sales. Additional transactions have helped buoy home prices in the broader market and supported activity in the state's finance, insurance & real estate industry.

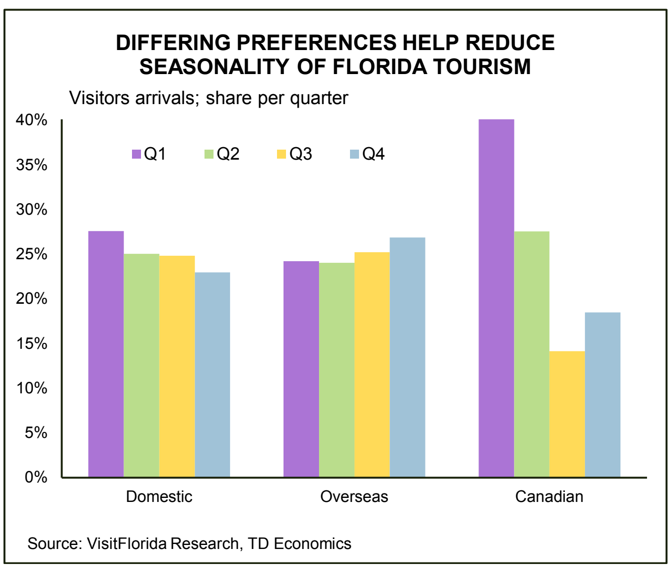
International tourism provided important support...

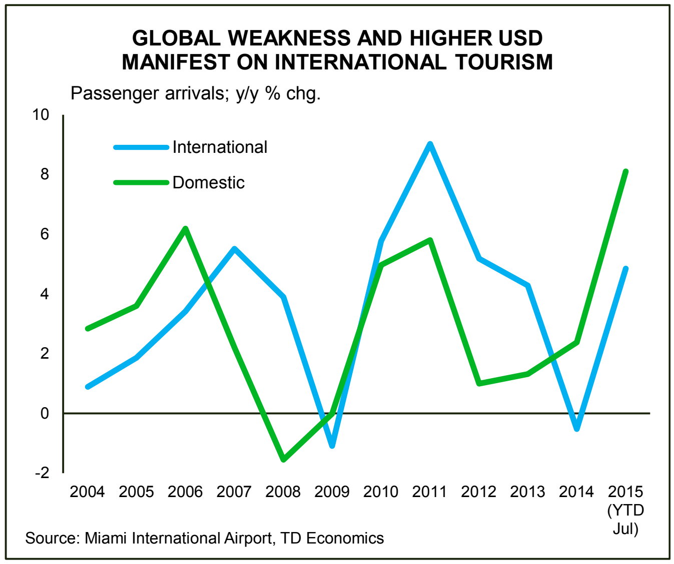
Nonresidents are also active in the Florida housing market, purchasing nearly $8 billion worth of real estate in 2014 – accounting for about one-tenth of all residential real estate purchases.[6] Canadian demand makes up one third of international home sales in the state, helping support activity and prices across numerous South and Central Florida markets. Meanwhile, buyers from the U.K., Germany, Brazil,Venezuela, and increasingly, China comprised much of the remainder of international home purchases, with Latin American interest particularly strong in the Miami area, while Europeans tend to favor Central Florida markets.

International tourism is less important for the Florida economy than the domestic kind, but it remains a key contributor of economic activity nonetheless. One of every six visitors to the state is from outside of the U.S., and international tourists tend to spend more per trip than the domestic visitors. In fact, non-domestic visitor dollars account for 20% to 25% of tourism spending in any given year, which represents about 4% of Florida's GDP (see chart).

Canadian tourists make up the largest group of international visitors, accounting for more than one in four. They tend to spend far more time in Florida during their visits – about 20 days on average. This number is skewed higher due to a substantial contingent of "snowbirds", who often stay for several months at a time, while a more typical vacationer from Canada spends roughly 9 days in Florida. Most Canadians visit in the first half of the year, with arrivals peaking in winter and lowest during summer months.

The remainder of international visitors hail from Europe (26%), South America (26%) and Central America (11%). These visitors also tend to spend more in Florida than domestic arrivals as they are more likely to stay at a hotel with an above-average trip length of about 12 days. Interestingly, most arrive in the second half of the year (see chart below), helping support occupancies and tourist-related demand in the typically slower part of the year for Florida. As a result, they help reduce seasonality of demand for the state's tourism-dependent businesses, which was found to be low for small businesses according to the TD Pulse Survey[7]





which found that "77 percent say their businesses do not rely on tourism or seasonal residents, and 55 percent report that their earnings/revenue remains steady throughout the year."

...but, higher dollar could become a headwind

The substantial international exposure of Florida's tourism sector is a concern given the lackluster growth in countries that are home to many of Florida's international visitors. Chief among them is the Canadian economy, which has slowed sharply this year on slumping investment in the energy sector. Fortunately, most of the weakness appears concentrated in the Western portions of the country – a dynamic apparent in U.S. regional growth also, where current softness is concentrated in oil-producing Texas and North Dakota – whose residents tend to favor Arizona and California when planning U.S. vacations. Still, spillovers could manifest more broadly. Perhaps even more importantly, the slump in oil prices alongside the economic slowdown has taken a bite out of the value of the Canadian dollar, which has lost 17% against the greenback over the last year, on the back of a stronger U.S. economy and the prospect for near-term Federal Reserve rate hikes.

The plunge has been just as dire for the euro, which is down 18% vis-à-vis the U.S. dollar, as weakness in the Eurozone economy motivated the European Central Bank to initiate a quantitative easing campaign earlier this year. The decline was even more pronounced for many Latin American currencies, with the Brazilian real losing one-third of its value relative to the U.S. dollar over the past twelve months, while the black market value of the Argentinian and Venezuelan currencies has decreased by 47% and 95%[8] in U.S. dollar terms since mid-2013.

Slower economic growth and weaker currencies abroad are likely to put downward pressure on international tourism and related activity in the Sunshine State. Already, European demand for real estate has been declining steadily since the region suffered a second recession in 2012. All combined, buyers from the U.K., Germany, and France used to purchase as many homes in Florida as Canadians several years ago, but now account for only half of that share. The impact of economic and currency weakness in Latin American economies is more difficult to pinpoint, with spending and real estate sales remaining strong, and demand even increasing. Anecdotally, this could be a function of increasing economic uncertainty leading to increased asset outflows into safe-havens such as Miami real estate.

On the whole, international visitor numbers have continued to grow but their pace has slowed in 2014. The trend has been especially pronounced in South Florida, which is highly exposed to Latin American travelers, with the number of international passengers at Miami International Airport declining for the first time since the recession last year (see chart on previous page). The slowdown has been even more evident in international tourism spending which declined by $1 billion during 2014, with both overseas visitors (-$600 million) and Canadians (-$400 million) becoming more frugal with their U.S. dollars – which are now pricier.

Domestic strength will be enough

At this point, increased uncertainty regarding growth prospects of emerging market economies has helped spur capital inflows into Florida assets such as real estate. However, over the medium-term, weakening currencies and slower economic growth in countries key to Florida's international demand present a negative risk for the state economy.

At the same time, the domestic economy remains on a clear upward path. In light of the substantial improvement in the labor market, gains in household wealth, and low gasoline prices, domestic consumption of discretionary services appears poised for a strong performance. Given its importance for the Florida economy, strength in this segment of the U.S. economy should enable the state's tourist-dependent industries to grow substantially in the quarters ahead. Coupled with the spillovers to other sectors, Florida's economy appears remains well positioned for strong growth, with the Sunshine State economy projected to expand by 3.5% this year and 4% in 2016, strongly outperforming the national economy. The Tampa metro will underperform state growth slightly, while Miami and Orlando are likely to outperform state economic growth.

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END NOTES

1. These figures, as well as other visitor number and spending estimates are based on VisitFlorida Research calculations based on source data from various Florida airports, TNS TravelsAmerica, D.K. Shifflet, U.S. Department of Commerce, ITA, Statistics Canada, Visa Vue Travel, and Diio LLC.
2. TD Bank Florida Pulse Check. Press release, Aug. 26, 2015.
3. Ibid 1.
4. According to the National Association of Realtors 2015 Investment and Vacation Home Buyers Survey, April 2015.
5. According to the National Association of Realtors 2015 Home Buyer and Seller Generational Trends Report.
6. According to the National Association of Realtors 2014 Profile of International Home Buyers in Florida.
7. Ibid 2.
8. According to the the dólar libre exchange rate as tracked by dolartoday.com and blue dollar (unofficial) rate as tracked by www.dolarblue.net.