

The Canary in the Coal Mine: Population Growth and the Local Economic Recovery

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Current Economic Situation

The envy of other states during the housing boom years, Florida is now going through a painful correction period caused by the ripple effects of the sub-prime meltdown. The state lost close to 100,000 jobs in the past year (Enterprise Florida, 2008). Initially, most of the job losses were concentrated in the construction, real estate, and finance sectors. However, job losses have spread to all sectors of the economy. In December, the state's unemployment rate rose to 7.3 percent, a 15-year high (Sasso, 2008). At this point, Florida's economy is underperforming the nation.

Mostly insulated from this downturn because of the strength of its tourism, health care, and higher education sectors, Orange County started to feel the effects of the economic downturn after the rest of the state. Local economic experts, like Dr. Hank Fishkind and Dr. Sean Snaith, have pointed out that the national recession could certainly dampen local economic prospects, due to the County's heavy reliance on the tourism industry. Moreover, they do not see a full recovery until the housing market is stabilized. Both economists do not foresee this happening until the end of 2009 or even 2010.

The most recent population numbers hint that the latter would be the most probable scenario. According to the U.S Census Bureau estimates, the State of Florida's population increased by 0.7 percent from 2007-2008 (Moore, 2008). This percentage is lower than the state's growth rate from the past several years. Moreover, recent Orange County population estimates by the Bureau of Economic and Business Research (BEBR) also show a decrease in the area's population growth rate.

canary will be the steep decline in our population's growth rate. For a state that has grown accustomed to equating population growth with economic development, this sharp decline is a signal that the next couple of years could be a bumpy ride.

Demographic Trend

As stated before, Florida's growth has relied for years on construction and development activities. Such an economy would not be sustainable without the influx of new residents. Attracted by its sunshine, beautiful coastlines, and job opportunities, Florida has been always been a magnet for national and international migrants. During the housing boom, thousands of retirees and vacation home owners flooded Florida in search of new homes. Indeed, for years, the state has boasted that 1,000 new people moved to Florida every day.

The Bureau of Economic and Business Research (BEBR) at the University of Florida produces annual population estimates for the state and its jurisdictions. BEBR uses the housing unit method, which encompasses a wide variety of data sources including occupied housing units, number of active electric utility meters, and building permits, and the average population per household.

According to BEBR estimates, Orange County added more than 200,000 new residents within the last 8 years. This represents a 24 percent increase from the 2000 figures (Table 1). Although the incorporated areas had higher percentage growth rates, most of these new residents are within unincorporated Orange County.

During this time, Orange County was adding between 25,000 to 30,000 new residents each year, for a three percent increase annually. The unincorporated area grew at a smaller pace, but

The "canary in the coal mine" metaphor is often used to describe the first symptoms that are an alert of a problem. In this case, the

still added more than 10,000 new residents per year (See Figure 1, next page).

Table 1: Pop. Change by Jurisdiction 2000-2008

Jurisdiction	2000	2008	Change	% Change
Apopka	26,642	40,280	13,638	51.2
Bay Lake	23	20	-3	-13.0
Belle Isle	5,531	5,886	355	6.4
Eatonville	2,432	2,493	61	2.5
Edgewood	1,901	2,278	377	19.8
Lake Buena Vista	16	23	7	43.8
Maitland	12,019	16,209	4,190	34.9
Oakland	936	1,938	1,002	107.1
Ocoee	24,391	33,658	9,267	38.0
Orlando	185,951	234,130	48,179	25.9
Windermere	1,897	2,678	781	41.2
Winter Garden	14,351	30,838	16,487	114.9
Winter Park	24,090	28,921	4,831	20.1
Unincorporated	596,164	715,627	119,463	20.0
Orange County	896,344	1,114,979	218,635	24.4

Source: U.S. Census Bureau, 2000; BEBR, 2008

Besides Florida's hot real estate market, another plausible explanation for the high population growth was the region's good job market. Central Florida is not only the tourism capital of the state, but it is also home to several higher education institutions and high tech companies. Orange County alone had more than 793,000 positions in 2005 (Economic Element, 2005). This was a higher number of jobs than the total labor force in the area, making it necessary for people to commute daily from neighboring counties to fill the new positions. Some industries even started recruiting outside the state to fill their vacant positions. For example, Orange County Public Schools even went to Puerto Rico to recruit new teachers for several vacant positions in 2006 (Orlando Business Journal, 2006).

Orange County's high population growth rate suddenly came to a halt in 2008, as can be seen in Figure 1 on the next page. According to BEBR projections, Orange County added less than

10,000 residents, and the unincorporated area grew by less than 2,000 new residents. This is less than 1 percent growth rate for the unincorporated area. Such a decline in population growth rate could definitely hinder the economic recovery efforts in our area.

Where did everybody go?

Since this is a very recent phenomenon, there is no concrete research to state a specific answer for this decline in population growth rate. Some economists believe that during the boom, builders adopted a "build it and they will come" attitude, which overestimated the number of units that could be absorbed by our market. Hence, the number of vacant units has risen, because there are not enough buyers in the market. Currently, the core Orlando market has a 17.26 month supply of homes for sale (Orlando Regional Realtor Association, 2009) and the number of housing starts have gone down, as well. The downturn of the local real estate market may have also prompted workers in the construction and finance sectors to move to other areas of the country.

Another plausible explanation to the decline is that people have left the county and state, because of a decline in affordability. The cost of living in Florida has gone up during the past years, including home prices, home insurance, and property taxes. Several business publications, including *Florida Trend*, have written articles about Floridians that have moved to nearby states such as North Carolina, Tennessee, and Georgia in search of affordability. Some stories that may substantiate this claim are the sudden decrease in student enrollment numbers reported this year by several school districts across the state and the moving company manifests that show more outbound than inbound movers.

The best source of migration data is the IRS Statistics of Income data set, which is published annually. The IRS tracks the movement of people by using tax returns and the number of exemptions claimed. This data set is helpful to determine how many people are moving into or have moved out of Orange County. Based on this information, Orange County lost 5,962 residents in 2007. The data also shows outflows of more than 1,500 people to states with a lower cost of living, such as Georgia (3,116), Texas (2,085), and North Carolina (1,921) (IRS, 2007).

These numbers are interesting, but this information by itself is not enough to support the affordability

claim. Regions are dynamic entities and have people moving in and out all the time. More preoccupying though, is whether Orange County's declining growth rate is just a "one time" blip, or if this year's numbers are actually part of a trend that will continue for the next several years. This is impossible to know with only one year worth of data. However, if the downward trend continues next year, the Central Florida area needs to prepare for slower economic recovery.

Possible Effects to the Local Economy

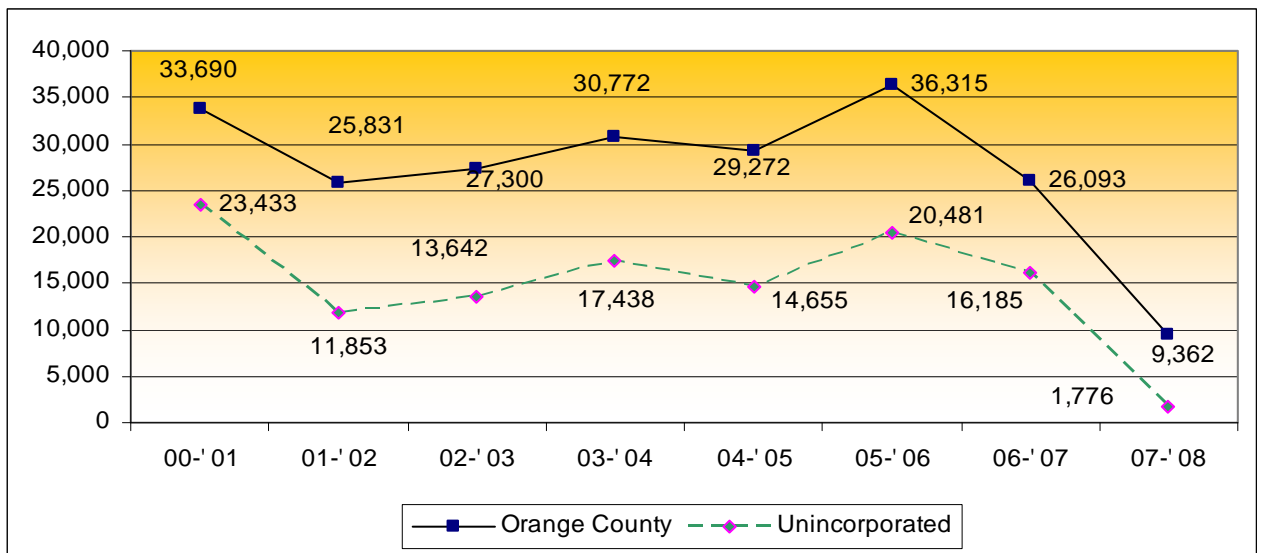
It is important again to note that one year does not make a trend. If the economy starts to improve next year, because of federal intervention in the housing market or other policy or economic factors, Orange County could approach its historic population growth rate. However, it is also important to have a solid understanding of which sectors may be affected because of a deceleration of population growth.

A slowdown of the County's population growth rate could have both positive and negative effects. On one side, economic sectors that are heavily dependent on growth such as construction, real estate, and retail could remain stagnant or, in a worse case scenario, lose more jobs and revenue. On the other hand, a slower growth rate may be a welcome benefit for local governments in the short term. Government services and infrastructure could catch up to the population boom. How these scenarios play out

would depend on the length of the national economic recession. Below are some of the possible outcomes that a stagnant population growth rate could have in our area.

- **Higher Vacancy Rates:** Most economists do not see a path to economic recovery until the housing market is stabilized, which would probably take more time in our area because of the high inventory of homes for sale and the high number of foreclosures in the local market. Fewer people coming to our area would mean fewer people buying homes and stronger competition for renters. Vacancy rates could also increase in non residential developments, which include retail, office, and industrial establishments, due to less residents shopping and needing services. These sectors have already been severely battered by the credit freeze, the rise of retail chain bankruptcies, and the downsize of firms. Stagnant population growth will further affect the demand for new commercial developments. Retail establishments that cater to specific populations, such as tourists and college students might be spared from this problem.
- **Building Permits:** The number of building permits could continue to slide, as developers wait to sell/rent the vacant inventory of apartments. A decrease in commercial building permits could also be expected, as well.
- **Job Market:** The financing, real estate, and construction sectors would continue to shed jobs

Figure 1 Additional residents per year in Orange County and the unincorporated area 2001-2008



Source : BEBR, 2001-2008

and may take longer to recuperate from the current market downtrend. Certain retailers may also cut positions as seen already on a net level.

- **Concurrency:** A slower population growth rate could allow local agencies to bring the local infrastructure (including roads, parks, etc...) to the optimum level of services (LOS). Any progress in this area will depend on whether agencies can find the necessary funds to complete capital improvement projects. A slower influx of new students could also help Orange County Public Schools to with school concurrency compliance.

Conclusion

Local demographics need to be understood as a cornerstone of economic development. However, this analysis should not be read as a definite answer of what would happen in the next couple of years. The amount of demographic data we have is still limited. One year can not be considered a trend. The examples provided are only meant to show areas that might be affected if the population growth rate continues to slide downward. However, it is important to keep track of demographic changes in the County to prepare for any upcoming challenges.

Orange County's economy has proven to be more resilient than the rest of the state, because of its strong tourism and education sectors. New investments in the biomedical sciences sector should also be fruitful. These strengths should help our area to get through any economic and population downturns sooner than the rest of the state.

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