



More Mixed Economic News

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Economic news continues to be rather mixed; this is typical for the top of a business cycle.

Consider first the employment report. Only 78,000 new jobs were created in May, which was down substantially from what I and other analysts expected and far below the more than 200,000 jobs created in both March and April. The weakness was widespread – except for construction, of course. And that is where the economy is the strongest: construction and more generally real estate. Real estate remains buoyant in part because mortgage rates remain very low and money is ubiquitously available. In fact, mortgage rates have actually fallen a bit over the last sixty days, and fixed rate home mortgages are well below 6 percent. Oil prices have stabilized now at about \$52 per barrel, and gasoline averages about \$2.15. The dollar has stabilized at current trading levels.

With this backdrop Chairman Greenspan opined that the economy is on firm footing. By this he means growth will continue and the Fed will continue to increase interest rates. I'm sure that the Fed will keep raising interest rates, but I'm not so sure economic growth is sound. It is hard to identify sources of economic growth that can propel the economy forward at a 3 percent pace. Yes, the lower value of the dollar does make our exports more competitive. And the lower trajectory for productivity probably means that employment growth will be somewhat better than it was last month. Lower productivity gains mean that lower levels of demand translate into the need for employees.

However, a real estate boom alone is not a sustainable base for economic growth. Furthermore, although economic growth is good, running at 3.5 percent last quarter, the momentum is clearly slowing. Not only are employment gains weak, but retail sales, especially car sales, are softening. So I continue to project slower growth this year and much slower growth next year as well.

Here in Central Florida we are enjoying a great tourism season and very strong growth in employment and in population. If the national economy slows down as

I expect during the second half of this year and into next year, we will not feel much of any impact until the summer of 2006. Next year's tourism season will be only a bit better than this year's; no big gains are likely. So this is the top for our growth rates. And we, too, have experienced some of the excesses in the real estate markets. These will have to be digested next year, meaning that home sales will cool off under pressure from higher mortgage rates next year.

This is Hank Fishkind for 90.7 FM, WMFE News.