



## **Economic Outlook Improves**

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Despite some ominous clouds on the horizon, the economic outlook for the balance of this year and for the first half of next year has improved significantly.

At the national level growth is reaccelerating to a pace of at least 4 percent, up from 3.5 percent during the first half of the year. The strength is broad based, including resurging consumer demand, gains in exports, higher business investment spending, and continuing gains in the housing market. The drag from excessive inventories is gone now. The underlying economic strength is most apparent in the labor market, where monthly job growth has averaged 185,000 so far this year. Job gains translate into income gains and fuel consumer spending.

By this time I had expected long-term interest rates and mortgage rates to be considerably higher and oil prices to be considerably lower. Clearly, low long-term interest rates are stimulating the economy more than high oil prices are hurting growth so far. Looking forward, relative high oil prices are likely to be with us for some time – probably not the record prices we endure today, but still most analysts project oil to settle at about \$45 per barrel, which is still up 25 percent from levels earlier this decade.

Strong economic growth ensures that the Fed will continue to increase the federal funds rate to about 5 percent in steady quarter percent steps each meeting. A 5 percent fund rate is consistent with a 6.5 percent ten-year bond rate and 7 percent fixed mortgage rates. Financial markets are incredibly complacent about all this. The very narrow interest differential between junk bonds and U.S. treasuries evidences a lack of concern about rising rates, which makes the long term interest rate market highly vulnerable to changes in investor psychology, which can trigger very sharp increases in long rates. The real test of the economy's resilience will come next year when the full impact of higher oil prices and higher short-term interest rates come to bear.

For Florida the latest news is terrific. Florida's economy created an incredible 242,700 jobs during the twelve months ending in July. Orlando leads the state, generating 39,800 jobs. Interestingly, most of Orlando's job gains were in business and professional services, education, and health care. The stalwart areas of leisure, hospitality, and construction were strong too, but were outperformed over the last year by the professional services categories. Tampa Bay ranked second to Orlando in job creation with 34,700 jobs. Daytona chipped in 4,700, and Melbourne contributed 5,300 new jobs over the last twelve months. Altogether the central Florida I-4 corridor is by far the strongest region of Florida at this stage in the business cycle.

This is Hank Fishkind for 90.7 FM, WMFE News.