



A Slowdown in the U.S. Economy Darkens the Florida Horizon

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U.S. economic growth has slowed dramatically, with ominous implications for Florida. Growth in gross domestic product slowed to a 2.8 percent pace in the second quarter, down from more than 4 percent over the prior six months. Consumer spending grew by just 1.6 percent in the second quarter, and the monthly data suggest that this weak trend will continue.

This is no big surprise given that workers' pay has failed to keep pace with rising inflation. On the one hand, the weak pace of job creation has limited growth in earnings. Furthermore, many higher paid jobs were lost compared to the pay rates for the jobs now being created. On the other hand, rising energy prices in particular have driven up the rate of inflation.

Even without energy prices, general inflation is rising faster than earnings. Unlike the past several years consumers' cash flow is not being boosted by either mortgage refinancing or by tax cuts, so there is nothing driving up incomes or spending. This worsening situation is reflected in deteriorating consumer attitudes about the economy. Consumer confidence fell eight-tenths of a percent in July; it has gained only 2.2 points since November and 4-points over the last 15 months. This is ominous at this stage in the business cycle.

Confidence can begin to rise slowly if job creation moves above 200,000 per month and oil prices moderate, but debt levels are high, the stock market will weaken, and inflation is rising. Anything that heightens security fears has the potential to derail confidence. Corporate profits were flat in the second quarter, a sharp change in direction with bad implications for the stock market. These trends will keep economic growth modest, at best, for the balance of this year.

The impacts of this new economic environment will be significant in Florida in general and in central Florida in particular. We have enjoyed record-setting levels of visitors and conventioners. This strong trend will continue this winter, but that will be the top. As the U.S. economy slows, so will the growth in tourism. Sagging corporate profits will once again limit growth of attendees at business meetings and at conventions. By the spring of 2005 the weakness in the U.S. economy will be very apparent here in Orlando and throughout central Florida. So this is the time to prepare for the top of the regional business cycle; by this time next year the world will look much different from the rising tide of business activity we enjoy today.

They don't call economics the dismal science for nothing!

This is Hank Fishkind for 90.7 FM, WMFE News.

<http://www.fishkind.com>