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Economic Slowdown Means Slower Growth in Florida, Too

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Rising oil prices and slowing job growth are a real and growing threat to the U.S. economy, and they mean Florida's economy will also slow down soon.

Oil prices have shot up to over $50 per barrel, pushing the average price per gallon of gasoline back up over $2 per gallon. This sharp jump in prices acts like a major tax increase on the U.S. economy, since it directly drains purchasing power out of the economy. But it is even worse than a tax increase, because rising oil prices also translate into higher prices directly affecting consumers, and these higher prices become increasingly incorporated into all types of goods and services.

Some analysts argue that current oil prices are in part based on speculative trading in oil and that the prices will soon fall back to $35 per barrel or so, where the economic fundamentals suggest equilibrium lies. Even though I agree that there are speculative excesses in the market, I don't think that these will dissipate anytime soon, since political instability remains a major factor and demand is relatively high compared to current supply. In other words, it will take the markets some time to return to equilibrium – meaning lower prices.

These high-energy prices come at a bad time for the U.S. economy and for central Florida's economy. The pace of U.S. economic growth has clearly downshifted. The labor markets are particularly disappointing. In September only 96,000 new jobs were created – far fewer than expected. This marks the fourth month in a row when job growth was below the 150,000 level needed to simply maintain economic momentum. Surely the hurricanes played some part in this weakness, but not much.

This is a bad portent for the economy. It seems that demand is no longer growing fast enough in the U.S. to warrant additional hiring. As a result, incomes are growing slowly, even more slowly than prices, so real disposable incomes are falling. And this comes at a time when Florida is finally recovering from the hurricanes.

Looking forward, the economy will continue to slow down, since there are no new tax cuts or any prospects for lower interest rates to boost growth. Without employment gains, there is nothing to propel demand higher. The result will be some weakness in tourism this winter, changing what would have been a great season into a good one. Thereafter, as the economy continues slowing down, growth in tourism in Florida generally and particularly here in central Florida will weaken as well. Finally, sometime next year oil prices will fall and the economy will level out, but for the next six months or so expect growth to slow down, prices to rise, and interest rates to move higher. It won't be wonderful, but we will continue to enjoy growth rates above the national average.

This is Hank Fishkind for 90.7 FM, WMFE News.