



Forecast For 2004-06

December 31, 2003

This is the time for me to share my forecasts for the U.S. and Florida economies with you.

2004 will be a very strong year for the United States and for Florida. GDP will grow by about 6 percent and the unemployment rate will dip to about 5 percent by year end. Corporate profits will continue to grow strongly at an aggregate rate of 15 percent or more, driving the Dow above 11,500 by mid-year. But this will be the high water mark; growth will slow down in 2005, and by 2006 GDP will be growing at about 2 percent or less.

The problem will be rising interest rates. The strongly accelerating pace of U.S. economic growth will generate rising demand for funds from corporations and from households, and this rising demand for funds will collide with huge federal budget deficits. This coming clash is exacerbated by the falling value of the dollar. As the dollar falls it lowers foreign demand for U.S. securities, because a falling dollar means that the value of U.S. investments in, say, Euros will decline even if the U.S. price of those securities rises. So there will be less foreign investment in the U.S. as 2004 progresses.

Furthermore, the Fed has already begun tightening monetary policy. Despite the fact that the Fed did not raise rates at the December meeting, and in spite of statements that the Fed will not raise rates soon, the fact is that the Fed has already begun to slow the growth of the money supply. The money supply-measured as M2-grew by 11.4 percent in 2001, 8 percent in 2002, and just 6.4 percent this year. Since May, the Fed has slowed growth in the money stock to just 2.8 percent. Thus, the Fed is already leaning against the wind and taking steps to prevent inflation.

However, this will cause rates to rise this spring. As 2004 draws to a close the prime will be over 6.5 percent and mortgages will be over 7 percent. This process will continue into 2005, with mortgages topping out at near 7 percent. The economy will slow sharply as a result.

For Florida this means that 2004 will be a great year. This winter season will be the best for tourism since 2000. Although interest rates will rise, they remain low enough to continue stimulating demand for second homes, permanent residences, and strong levels of population growth. The Orlando area will be one of the strongest areas in Florida next year. By 2005 growth will still be good, but not as buoyant as 2004. Housing and population growth will slow, but the winter 2004/2005 tourism season will remain very strong.

The corrosive impact of rising rates will take their toll on Florida during 2005 and into 2006. As U.S. growth grinds to a near standstill, Florida's growth also will slow significantly. So prepare for a great 2004, make hay while the sun shines, invest in the market during the first half of 2004, and then take profits. Finally, have a safe, healthy, and prosperous New Year.

This is Hank Fishkind for 90.7 FM, WMFE News.

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