

**POLK ECONOMY LAGS BEHIND U.S. RECOVERY**

The indications of rising economic activity at the national level were painfully absent in data reflecting activity in the local economy during the first quarter of 2010. The overall Polk Progress Index fell an estimated 3.3% from the preceding quarter, based in part on preliminary sales data. There were declines across the board in the underlying components of the index, led by a particularly large drop in sales at area hotels and motels.

The Polk Progress Index (PPI), which is a weighted composite index of several individual indicators of economic activity, began a sustained plunge all the way back in the second quarter of 2006. However, the downtrend in the PPI in 2006 was exaggerated by the importance of home sales in its composition.

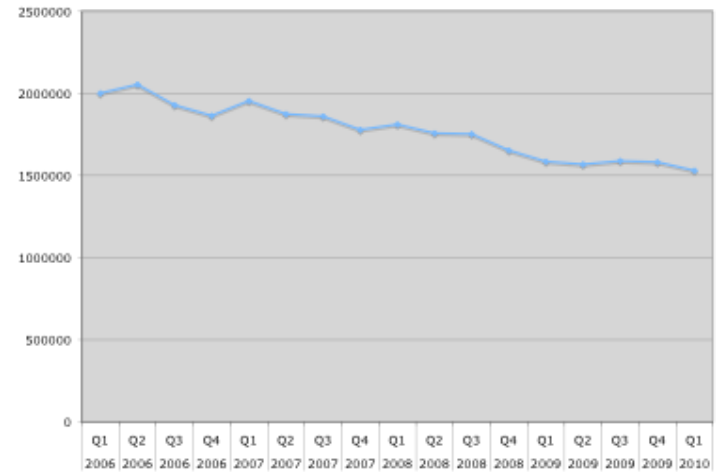
I believe that the local recession actually began in the second quarter of 2007, which would precede the national recession that officially began in December of 2007. It was in that second quarter that employment peaked in Polk County and taxable sales first began to contract. The Polk unemployment rate has been rising since the second quarter of 2007, and population growth has been minimal, as reflected in the number of residential electric connections maintained by the City of Lakeland.

The average value for the PPI during 2009 was down 2.1% from the average value in 2008, and down about 5% from the average value in 2007. By comparison, the real GDP for the US economy dropped about 3.9% from pre-recession peak until it bottomed out in mid-2009.

The Florida Agency for Workforce Innovation has conducted its annual benchmarking of employment data for the years 2006-2009. The benchmarked data are reported in this issue of the Polk Progress report, and have been incorporated into revised estimates of the PPI values for those same years.

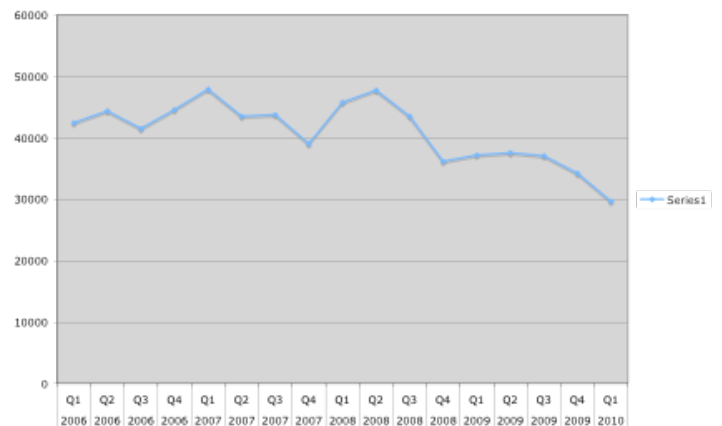
**SALES** - Taxable sales dipped below a plateau achieved over the preceding six months during the first quarter. Sales fell a seasonally adjusted 2.5%, based on estimated data for the month of March. The Quarter 1 drop in sales was unexpected, and runs counter to the trend nationwide. Estimated sales for the quarter are 4.5% below those of the same quarter a year ago.

**Taxable Sales (Dollars Seasonally Adjusted)**



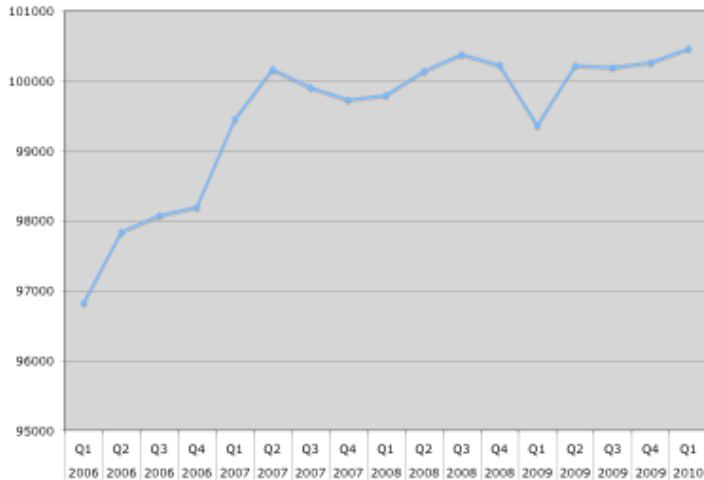
Local tourism took a major hit in the first quarter. Sales at area hotels and motels plunged an estimated 11% from the preceding quarter after adjusting the data for recurring seasonal variations. Sales are likely to fall further in the face of the major oil spill in the Gulf of Mexico. Hotel/motel sales in Quarter 1 are 19% below the first quarter of 2009.

**Hotel/Motel Sales (Dollars Seasonally Adjusted)**



**POPULATION** - We are still waiting to see some indication that sustained population growth will return to Polk County following an 18-month absence. The number of residential electric connections maintained by the City of Lakeland in the first quarter of 2010 was up 0.8% from a year ago in the first quarter.

Residential Electric Accounts (Seasonally Adjusted)

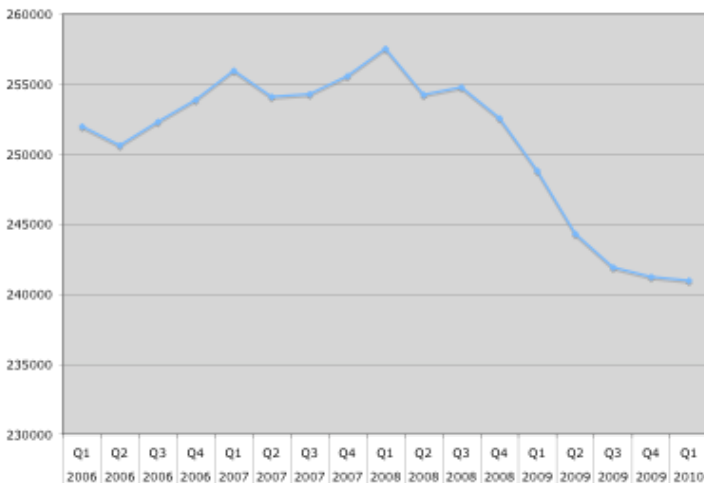


A report issued by the Brookings Institute reveals that Polk County has the fifth highest rate of suburban poverty in the country. The report is based on data gathered between 2000 and 2008 from the nation's 100 largest metropolitan areas. During that period, 13.3% of the population within the Lakeland city limits and 15.8% of the 71,325 residents in the Lakeland area "suburbs" were living below the official poverty line of \$21,834 for a family of four.

The average annual wage in Polk County is \$34,964 according to a separate report issued by Enterprise Florida. That translates to an average wage rate of \$16.68 per hour worked.

**EMPLOYMENT** - Revised employment figures from the Florida Agency for Workforce Innovation show that local employment growth stagnated after the second quarter of 2007, and the level of employment actually began to fall in the second half of 2008.

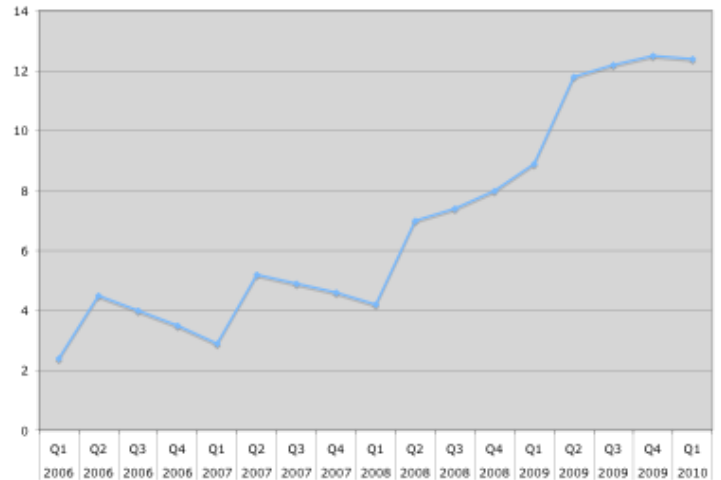
Total Employment (Seasonally Adjusted)



The average level of employment in Polk County during the first quarter of 2010 is 239,501, a decline of 16,549 jobs (6.5%) since the first quarter of 2008. Employment in the first quarter of 2010 was virtually unchanged from the immediately preceding quarter, dipping a slight 0.1% after adjusting the data for recurring seasonal variations.

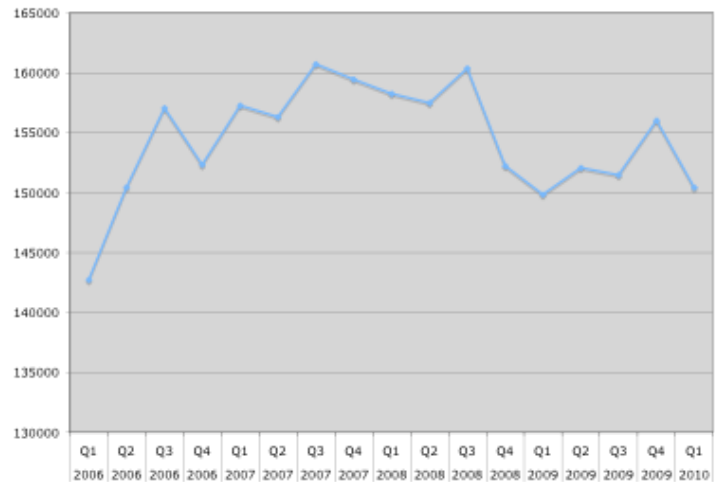
The Unemployment rate in Polk County rose to 13.4% in January and February, before receding slightly to 13% in March. The county's unemployment rate adjusted for recurring seasonal variations has achieved a plateau of just above 12% over the last six months.

Unemployment Rate (Seasonally Adjusted)



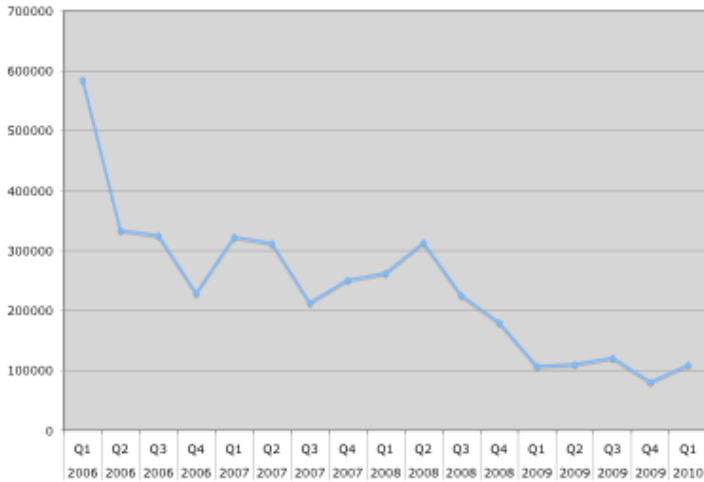
**MANUFACTURING** - Industrial electricity consumption fell a seasonally adjusted 3.6% during the first quarter as reflected by figures reported by Lakeland Electric. The number of industrial kilowatt-hours used in Quarter 1 is 1.6% below the first quarter of 2009.

Industrial Kilowatt Hours (Seasonally Adjusted)



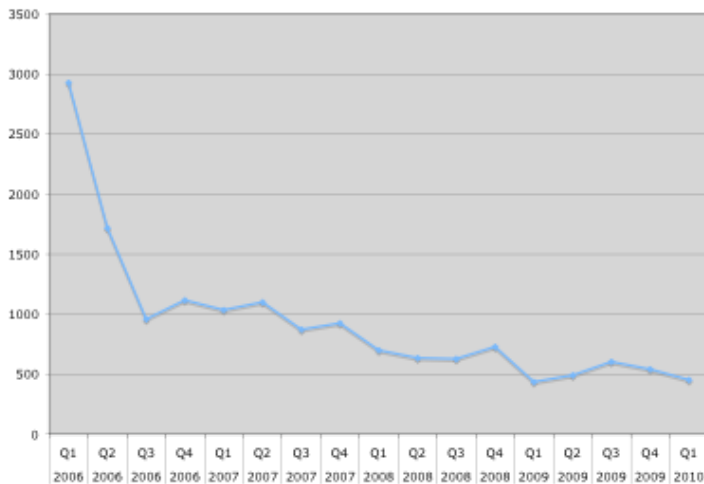
**CONSTRUCTION** - The local economy will likely continue to falter until the housing market stabilizes. The total value of building permits issued during the first quarter is on a par with the same quarter in 2009, but remains severely depressed at levels 60% below those reached as recently as 2007.

Dollar Value of Building Permits



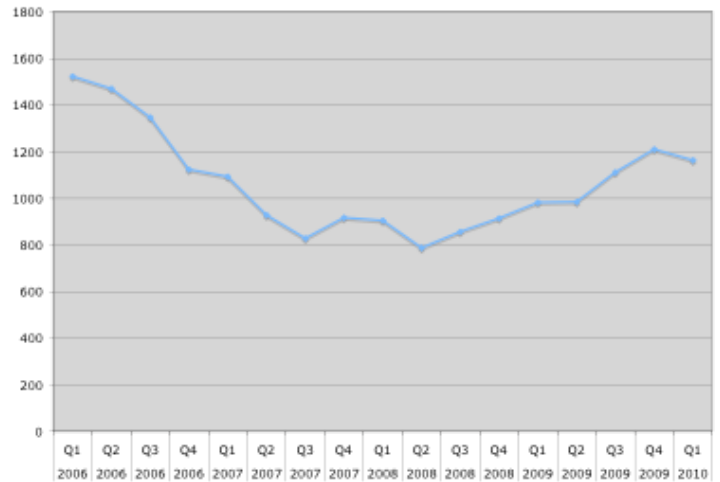
There were just 90 permits issued for construction of new single-family homes in the county in January, 77 in February, and 137 in March. Industry observers don't expect to see any appreciable increase in local homebuilding until 2011.

Number of Single Family Building Permits (Seasonally Adjusted)



There were 287 homes sold in Polk County during the month of January, 323 in February, and 444 in March. March home sales are the highest monthly total recorded since August 2006. The median price for homes sold in March was \$105,100, down 3% from a year ago.

Number of Homes Sold (Seasonally Adjusted)

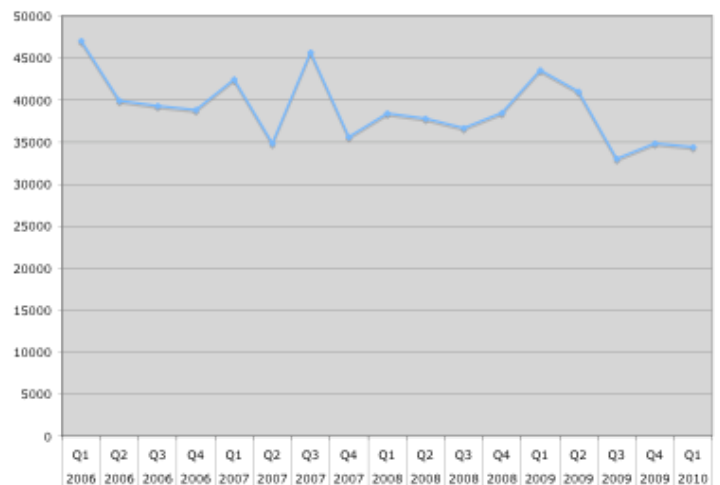


Distressed properties accounted for 64% of the homes sold during March. There were 827 foreclosures in Polk County during the month of January, 885 in February, and 685 in March.

**CITRUS** - The U.S. Department of Agriculture has raised its estimate of the 2009-2010 orange crop to 131.6 million boxes. This actually represents a two-million-box reduction of the previous estimate loss from this year's citrus freezes. The latest grapefruit estimate stands at 19.8 million boxes.

The volume of citrus concentrate movement reported by Florida processors during the first quarter is down 21% (9.2 million gallons) from the first quarter of 2009.

Citrus Concentrate Movement (Thousands of Gallons)



**DEVELOPMENT** - Florida Southern College has broken ground for construction of a \$2 million visitor center at the intersection of McDonald Street and Johnson Avenue on the Lakeland campus. The building is of a design by Frank Lloyd Wright that was originally intended to serve as a model for faculty housing. Wright designed eighteen structures for the campus, twelve of which have been built. The 1,500 square-foot visitor center will include a bookstore and gift shop, with space for exhibitions and conferences.

Trustees of the University of South Florida have approved fast-track construction of the first two buildings at the new USF Polytechnic

campus adjacent to Interstate 4 in North Lakeland. Groundbreaking is expected this summer for a science-technology building and a USF School of Pharmacy facility.

The CSX Corporation is now expected to break ground for construction of a 318-acre rail freight terminal next to Pollard Road in Winter Haven in early 2011. The terminal project was approved by the Winter Haven City Commission in 2006, and is the first phase of a projected industrial transportation complex that could yield thousands of new jobs over the next decade.

The City of Lakeland has unveiled plans for building a park geared for 3-to-5-year-old children within the Barnett Park adjacent to Lake Mirror. The Sunflower Pre-school Playground is being funded by \$600,000 in private donations, with plans to raise another \$1.5 million for perpetual maintenance and care. The newest addition to the Barnett Park complex is slated to open in December.

The Lakeland City Commission is expected to approve a 10-year lease for Sky King to offer charter jet service at the Lakeland Linder Regional Airport beginning June 1, 2010. The company plans to bring 150 jobs to Lakeland, including at least 50 new hires.

A \$3.1 million renovation of the former Holland and Knight offices on Martin Luther King Boulevard is underway. The renovated structure will serve as the new home of the Florida United Methodist Conference, which purchased the site for \$3.4 million in February 2009. The building is scheduled to be ready for occupancy in May.

Gordon Food Services has plans to open a GFS Marketplace in North Lakeland. GFS is a Michigan-based chain of hybrid super-market-restaurant supply store. The new outlet will be located along U.S. 98 North at the former location of the Lone Star Steakhouse that closed in 2008. GFS Marketplaces offer food and cleaning supplies in bulk and family sizes.

Cannon Automotive Group in Lakeland has acquired a franchise to sell Subaru automobiles. The Japanese cars will be offered for sale at Cannon's Buick-Cadillac-Mitsubishi dealership located along South Florida Avenue.

Stingray Chevrolet in Plant City is contesting the legal right of Lakeland's Regal Auto Group to reopen the former Michael Holley Chevrolet dealership on U.S. 98 South in Lakeland. Florida law allows an existing auto dealer to challenge the licensing of a competing dealership that seeks to sell the same brand in the immediate market.

The building that formerly housed a Burger King restaurant on South Florida Avenue in Lakeland is being demolished and will be replaced by a new 5,056 square-foot structure that will be occupied by a dental office and Mexican restaurant.

The Central Florida Development Council has moved from Bartow to a new location in Auburndale. The CFDC is now housed in the recently completed \$20 million Lake Myrtle Sports Complex on Lake Myrtle Park Road.

**NEW OPENINGS AND CLOSINGS** - The Lakeside Village shopping center will soon house a new Mattress Firm store and a Family Dental office. The South Lakeland center is located along Harden Boulevard at the intersection of the Polk Parkway.

The Autozone auto parts store in the 3000 block of South Florida Avenue in Lakeland has closed. The building structure is being incorporated into the adjacent office of the MidFlorida Credit Union.

The Vintner's Cellar Winery in Lakeland is closing in April. The shop first opened four years ago in the Merchants Walk adjacent to South Florida Avenue.

Paint-Along Studios is slated to open this summer in downtown Lakeland. Patrons can obtain supplies and instruction at the Kentucky Avenue location.

The Trek Bicycle Store on U.S. 98 North in Lakeland has closed. The store was the first retailer-owned outlet for the Wisconsin-based Trek Bicycles.

Earhart's Runway Grill is scheduled to open in April in the Lakeland Linder Regional Airport. The local airport has been without a restaurant since Tony's Airside closed in early 2008.

The Sundown Southern Eatery will open in Winter Haven during the month of May with 70 employees. The new restaurant is located at the former site of the Christy's Sundown on U.S. 17 South, which closed last year. Owner Fed Johnson also owns the Lakeland-based Fred's Southern Kitchen buffet restaurant chain.

Katie's Café opened for business on March 1 in Winter Haven. The new eatery is located along Cypress Gardens Boulevard in the High Pointe Centre.

The Winter Haven Greyhound Bus Station located on 6th Street N.W. will cease operations this spring. The station is scheduled to close on April 30th when the current building lease expires.

A new nightclub called Stiletto Ultra is slated to open soon at the northern border of Polk County. The new club is located in a shopping strip center along U.S. 192.

**TAKEOVERS** - The Stedham Ford dealership in Fort Meade has been purchased by Freddy Jenkins, owner of the Jenkins Lincoln Mercury dealership in Lakeland for an undisclosed sum. Stedham had 13 employees at the time of the transfer, and had suffered a significant drop in business in recent years.

## THE NATIONAL ECONOMY

The rate of economic growth slowed in the first quarter to what many economists consider a pace more likely to be sustained in the months ahead. The price adjusted Gross Domestic Product (real GDP) advanced at a 3.2% annual rate following a revised 5.6% increase in the preceding fourth quarter of 2009.

The Quarter 1 rise in real GDP was led by increases in consumer spending, private inventory investment, exports, and nonresidential fixed investment. Negative factors were declines in spending by state and local governments, and residential fixed investment.

The National Bureau of Economic Research concluded at an April meeting that it is still too soon to pinpoint the end of the economic recession. That declaration is complicated by the fact that available government data is likely to undergo significant revisions.

Many economists believe the recession actually ended in June of July of 2009. That would mean the recession lasted 18 months, during which real GDP dropped 3.9%, industrial production slid 16%, and employment fell 6%.

**CONSUMER SPENDING** – Personal Consumption Expenditures (goods and services) rose at a 3.1% annual rate in the first quarter, climbing 0.3% in January, 0.5% in February, and 0.3% in March. Retail sales (goods only) posted similar advances, rising by 0.5% in January, 0.2% in February, and 1.8% during March. Total retail sales in the first quarter are up 5.5% from the first quarter of 2009.

Disposable personal incomes declined 0.2% in January and were flat in February, before managing a 0.3% advance in March. Personal savings remains at elevated levels as Americans saved 3.5% of their disposable incomes in January, 3% in February, and 2.7% in March.

Consumers are more confident about current economic conditions than they are about the immediate economic outlook. The latest Reuters/University of Michigan Consumer Sentiment Survey declined slightly in April, but is significantly higher than a year ago. The index has varied little over the last four months.

The Conference Board reported that its Consumer Confidence Index rose in April to its highest level since September 2008. However, the April reading of 57.9 remains well below the 100 level which indicates strong economic growth.

**EMPLOYMENT** - The level of employment has finally begun to expand in a significant way. The U.S. economy added 14,000 jobs in January and 39,000 jobs in February. Nonfarm employment then rose by 230,000 in March and another 290,000 in April. A year ago the economy was losing 750,000 jobs in a single month.

The nation’s unemployment rate held steady at 9.7% throughout the first quarter but rose to 9.9% in April, despite the accelerated pace of job creation, as more Americans re-entered the labor force in search of jobs.

Nonfarm business sector labor productivity rose at a 3.6% annual rate in the first quarter. Productivity is up 6.3% from a year ago, but that pace is the fastest in nearly half a century and considered to be unsustainably high in the long run.

Job creation in the short run has actually been hampered by the rapid increases in labor productivity, which has allowed businesses to produce more output with fewer workers.

**INDUSTRIAL PRODUCTION** - Manufacturing continues to lead the current economic recovery. There were 44,000 new jobs created in the manufacturing sector during the month of April.

Output at the nation’s mines, factories, and utilities climbed 1% in January, 0.3% in February, and 0.1% in March. Production is up 4% from March of 2009, and has risen for nine straight months. Industry operated at 72.7% of designed capacity in January, 73% in February, and 73.2% in March. Despite the recent gains, capacity utilization remains 1.2% below that of March 2009, and considerably below historical averages.

Factory orders advanced 2.5% in January, and by 1.3% in both February and March. Orders for durable goods were up 3.8% in January and 1.1% in February, before dipping downward 1.3% in March. Factory orders have risen in 11 of the past 12 months, but remain 44% below levels achieved in the summer of 2008.

Manufacturers and trade inventories climbed 0.2% in January, 0.5% in February, and 0.4% in March.

**CONSTRUCTION** - The construction sector, particularly residential housing, remains a major drag on economic recovery. Total expenditures for new construction fell 0.7% during January and another 2.1% in February, before eking out a slight 0.2% gain in March. Construction spending during the first quarter remains 14% below the same quarter in 2009.

There is some stirring of activity in housing as the number of private housing starts rose 6.2% in January, 1.1% in February, and 1.6% in March. The number of building permits issued for private housing fell 4.7% in January, but increased 3.4% in February and 7.5% during March. Housing starts in March are up 20% from a year ago, while building permits are up by 34%.

A significant part of the flurry in housing construction is attributable to the government tax incentives for homebuyers that expired at the end of March. New home sales rose 26.9% during March, following declines of 11.2% in January and 2.2% in February. Sales of existing homes were down 7.2% in January and 0.8% in February, before rebounding upward 6.8% in March. March sales of new homes were up 24% from the same month last year, while sales of existing homes were up by 16%.

The nationwide housing market has clearly bottomed out. However, the recovery in housing will remain moderate for the foreseeable future.

**FOREIGN TRADE** - The U.S. international trade deficit in goods and services declined to \$37 billion in January, then edged upward to \$39.7 billion in February and \$40.4 billion in March as imports surged with the rise in spending by American consumers. The trade deficit in March was the highest monthly level since December 2008.

**COST OF LIVING** – The U.S. inflation rate remains comfortably low. The Consumer Price Index (CPI) climbed a modest 0.2% in January and was unchanged in February. The CPI rose just 0.1% in March, and now stands 2.3% above March of 2009.

Year	Consumer Price Index (A)			
	Q1	Q2	Q3	Q4
2006	198.9	202.3	203.4	201.7
2007	203.8	207.7	208.2	209.7
2008	212.1	216.8	219.3	213.1
2009	212.0	214.3	215.7	216.2
2010	217.0			

(A) Figures are revised by the Department of Commerce as of April, 2010. The data reflect the average CPI reading during each quarter. The base period of the CPI is 1982.

**MONETARY POLICY** - Members of the Federal Reserve Open Market Committee agreed at their April meeting to renew their pledge to keep interest rates at historic lows for an “extended period”. The Fed held its target for the federal funds rate that commercial banks charge one another on overnight loans between zero and 0.25%. The federal funds target rate has remained at that level since December 2008.

The latest Fed meeting concluded that the economy will continue to strengthen in the months ahead, and that inflation is likely to remain subdued. However, the Fed is clearly concerned about the impact of the waning fiscal stimulus.

Federal Reserve officials have agreed to sell some of the central bank’s \$1.1 trillion of mortgage-backed securities that were purchased in early 2009. The securities were bought in an effort to lower long-term interest rates and speed an economic recovery. Officials have not reached a consensus on how soon or how aggressively to proceed with sales.

**LEADING INDICATORS** - The Index of Leading Economic Indicators maintained by the Conference Board climbed 0.6% in January, 0.4% in February, and 1.4% in March. The index has risen steadily for a year, pointing toward a slow recovery that should continue through the year.

Orders for nondefense capital goods excluding aircraft, a widely followed indicator of future investment plans by business, fell 4.4% in January, then more than offset that with advances of 2.1% in February and 4% in March.

**SUMMARY** - Real GDP growth slowed to a more sustainable 3.2% annual rate in the first quarter of 2010. Increases in exports and business investment are leading the recovery, and are expected to sustain growth in the months ahead. However, those factors will not be sufficient to generate a sharp “V-shaped” recovery from the steep recession.

Consumer spending is what drives the American economy. Recent reports on spending are mildly encouraging. Today we have a national economy growing modestly with mild inflation, but not creating enough jobs to bring the unemployment rate down appreciably.

It’s certainly going to take time to work our way out of this crisis. We would do well to remember that the crisis began in the financial markets. Financial institutions had overextended their liquidity positions by making loans to less-than-credit-worthy borrowers. These so-called “subprime” loans were then bundled together in packages that were resold to other entities a number of times. When the packages were sold to a new buyer, the selling institution might also sell the buyer what amounted to “insurance” (termed credit swaps in order to avoid regulation) that was intended to protect the buyer in the event of a default.

While the financial instruments employed were new and really little understood, the phenomenon of (primarily financial) institutions overextending themselves during periods of economic expansion was not. The tendency for these institutions to engage in what was referred to by Hyman Minsky as “speculative finance” has been recognized for some time.

Today, confidence among investors and consumers will only be rebuilt slowly through experience. Employment and housing will continue to lag behind other economic measures over the next two years. The unemployment rate is expected to remain above 9% for the remainder of this year, and home prices will stay flat for the next two years after falling an average of 30% from their peak levels in 2006.

Interest rates are expected to begin rising in the fall, and the big question going forward is the strength of demand. Consumer spending constitutes 70% of aggregate demand, and it is not likely to accelerate sharply as long as income growth remains stagnant. The consensus outlook calls for real GDP growth at a 3%-to-4% annual rate over the remainder of this year.

**POLK OUTLOOK** – A report issued last summer by the coordinator of the Florida Legislature’s Office of Economic and Demographic Research projected that an economic recovery in the state wasn’t likely to begin until the end of 2009. The outlook for Polk County today is a bit behind that timeline.

Hope that the local economy bottomed out in the second half of 2009 has been challenged by the broad-based drop in activity during the just completed first quarter. The decline in taxable sales is particularly troubling. Tourism remains depressed, with no sign of an upturn on the immediate horizon in light of the oil spill in the Gulf of Mexico.

Construction remains the weakest sector in the Polk economy, with the number of building permits for new homes plunging 52% during 2009. Home sales are up in recent months, but most of those are distressed properties facing foreclosure. Industry observers don’t expect to see any appreciable increase in local homebuilding until 2011.

Long-term improvement in our local economy ultimately depends on employment growth, and that is currently stagnant. I look for the PPI to remain near current levels over the next several quarters. A genuine sustained economic recovery leading to rising employment is unlikely to happen here until the end of 2010.

## METHODOLOGY

The Polk Progress Index is developed on the basis of quarterly observations of six variables. The base period for the index is the first quarter of 1992. Data are adjusted for seasonal fluctuations where appropriate. The statistical technique of factor analysis was employed to assign weights to the observed variables and derive estimates of the underlying factor. The weights used are Taxable Sales (.18); Total Employment (.19); Home Sales (.15); Residential Electric Accounts (.17); Industrial Kilowatt Hours (.17); and Hotel/Motel Sales (.14). The index explains 89% of the variation in the combined variables. The weights and variables are subject to future verification and modification in light of changing relationships.

\* Items appearing in the local development section are primarily based on articles appearing in the Lakeland Ledger and other local news reporting agencies.

POLK PROGRESS INDEX													
	2007			2008				2009				2010	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2*
Taxable Sales (1,000 of \$)	1,903,232	1,779,393	1,865,177	1,884,270	1,771,663	1,641,568	1,651,233	1,603,497	1,546,925	1,474,307	1,541,420	1,531,762*	1,510,434*
Total Employment	256,238	254,015	255,189	256,050	256,377	254,504	252,193	244,339	246,469	241,646	240,847	239,501	240,625*
Residential Telephone Access	169,517	161,221	154,704	149,461	141,988	134,760	128,356	121,523	114,945	108,959	103,027	98,897	95,678*
Business Telephone Access	69,104	68,878	68,371	67,772	67,090	65,930	64,751	63,071	61,376	60,075	58,623	57,364	56,739*
Industrial Electric KWH (1,000's)	157,108	172,932	164,148	149,630	157,040	173,592	157,469	139,193	151,828	164,912	159,477	167,023	151,645*
Number of Single Family Building Permits	1,109	877	669	601	737	537	351	271	260	308	233	304	318*
Hotel/Motel Sales (1,000's of \$)	44,495	41,285	38,096	52,770	48,696	39,524	34,453	43,075	38,286	32,434	28,076	34,862*	31,169*
Number of Homes Sold	1,048	855	759	752	858	848	770	832	1,031	1,101	1,121	1,054	1,200*
Citrus Concentrate Movement (1,000's of gallons)	34,872	45,678	35,608	38,432	37,813	36,666	38,499	43,576	41,017	33,013	34,846	34,413	32,902*
Building Permits (1,000's of \$)	312,761	213,343	251,441	262,959	313,424	225,632	180,479	107,385	110,634	121,500	81,028	110,024	
Number of Residential Electric Accounts	100,556	99,455	100,242	102,023	100,570	99,822	100,539	101,128	100,618	99,470	100,384	101,933	102,780*
<b>POLK PROGRESS</b>	<b>198.3</b>	<b>197.6</b>	<b>192.6</b>	<b>198.3</b>	<b>194.0</b>	<b>193.9</b>	<b>186.1</b>	<b>188.2</b>	<b>188.1</b>	<b>190.6</b>	<b>190.0</b>	<b>183.7</b>	<b>185.0*</b>

\*Estimated values for taxable sales and motel/hotel sales in Q1 2010, and forecast values for Q2 2010

Individual variables in the table represent raw data, unadjusted for seasonal factors. Industrial electric consumption reflects sales by the City of Lakeland.

Citrus concentrate movement is for the state of Florida. All other data are county specific.

The composition of the Polk Progress is explained in the methodology section at the end of this report. Data are seasonally adjusted when appropriate to the computation of the overall index.

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**THE POLK PROGRESS**

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