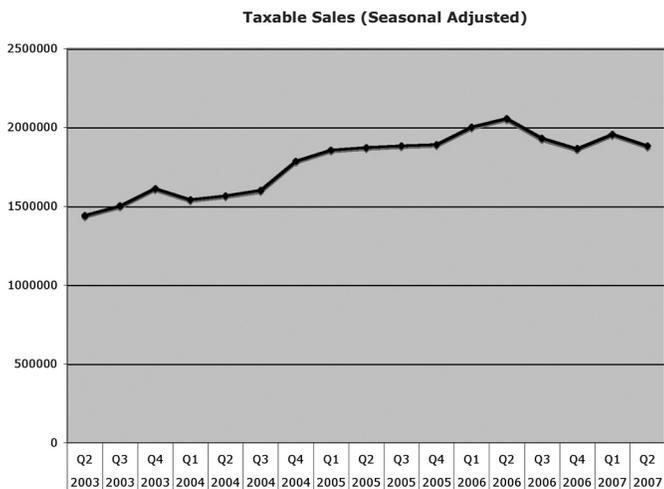


**POLK ECONOMY SLOWS FURTHER IN SECOND QUARTER**

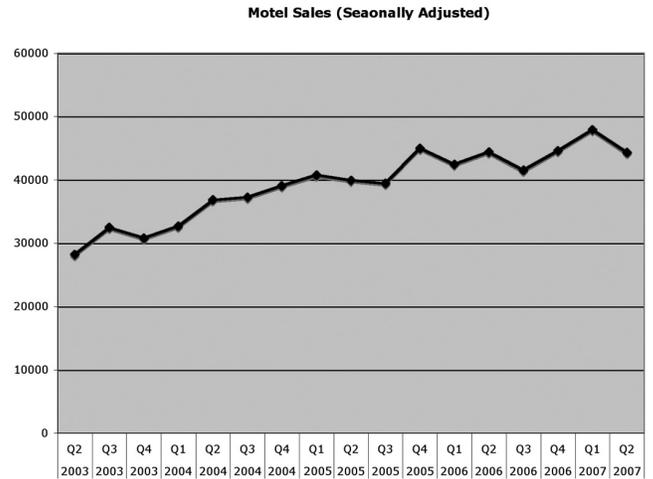
The Polk Progress Index fell nearly 3% in the second quarter as all of the index components except employment and a proxy for population size declined. Home sales fell sharply, and there were more moderate drops in retail sales, motel sales, and industrial electricity consumption. The PPI has now declined for four consecutive quarters, and presently stands 9% below a year ago.

The extent of the decline in the PPI is certainly magnified by the sharp drop in home sales, but there is little doubt that the local economy has experienced a downturn overall. The generalized slowdown is showing up elsewhere as declines in sales, and a slowing of local employment growth.

**SALES** - Taxable sales in Polk County fell an estimated 3.7% in the second quarter from the preceding quarter following adjustment for seasonal variations. Actual (unadjusted) sales in Quarter 2 were down 8.8% (\$184 million) from the second quarter of last year and modification in light of changing relationships.



Sales at area hotels and motels dropped a seasonally adjusted 7.6% in Quarter 2, offsetting a near- matching increase in the preceding first quarter of this year. Hotel/motel sales through the first six months of 2007 are up 7.8% (\$7.2 million) from the same period in 2006.



**POPULATION** - The latest available data from the U.S. Census Bureau estimates the Polk County population at 561,606 in 2006. Hispanics now comprise 14.5% of the Polk population (81,646 persons), and are the county's largest racial minority. Blacks currently compose 14.2% of the local population. Seventy percent of Polk County's population growth in recent years is the result of net in- migration.

The University of Central Florida's Institute for Economic Competitiveness predicts that Polk County will continue to experience rapid population growth at about a 3% annual rate over the next 30 years. Total nonfarm employment in the county is projected to rise from 227,000 in 2008 to 318,000 in 2036.

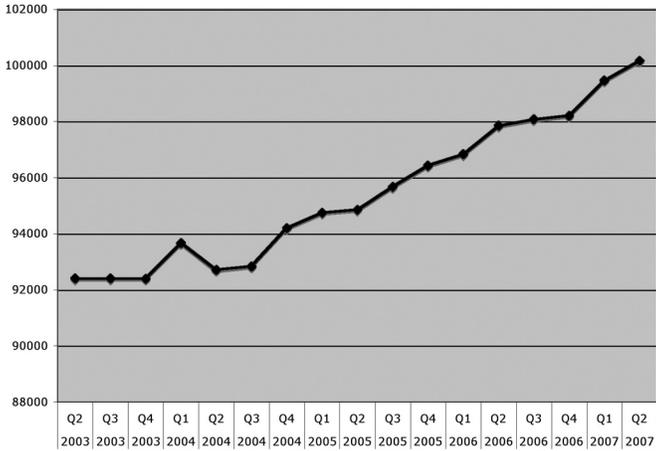
The National Civic League has designated Polk County as an All American City, following a three- day competition in Anaheim, California. Polk County was one of ten communities nationwide to receive the award in the 58th annual competition.

Local population growth is reflected in the steady increase in the number of residential electric connections maintained by Lakeland Electric. The moving average number of connections in the second quarter is 2.4% above that recorded a year ago.

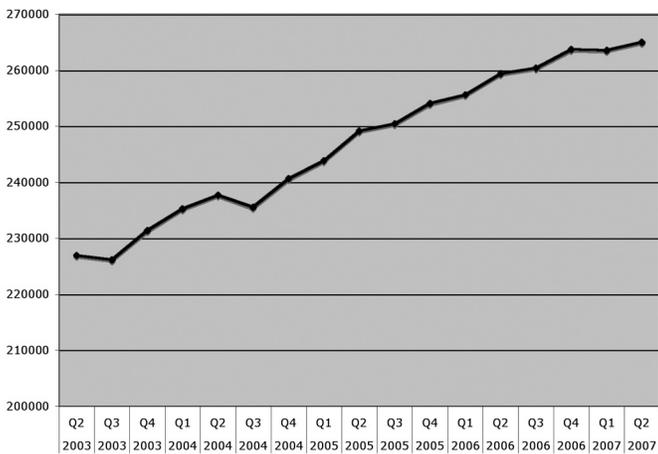
Preliminary estimates by the Polk County Property Appraiser in June place the current value of taxable property in the county at \$33.9 billion. That is an increase of 12% from the preceding year.

**EMPLOYMENT** - Local employment growth has plateaued over the past six months. The actual (unadjusted) number employed in Polk County during Quarter 2 2007 is 2.2% above the same quarter in 2006, an increase of 5,647 jobs. However, the usual jump we see in employment from the first to the second quarter of a year was not forthcoming this year, so it is likely that year- to- year gains will diminish in the third and fourth quarters of 2007.

Residential Electric Accounts (3 Quarter Average)

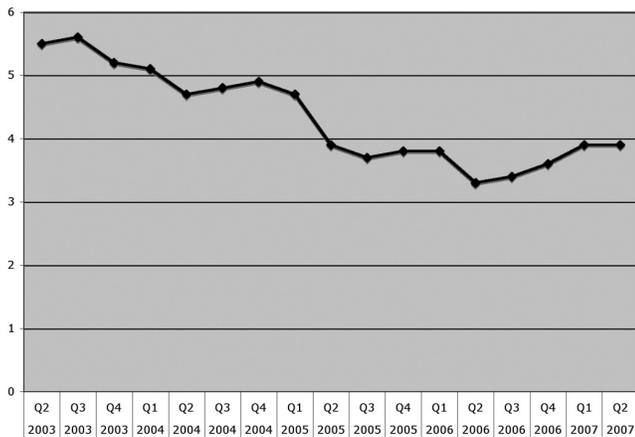


Total Employment



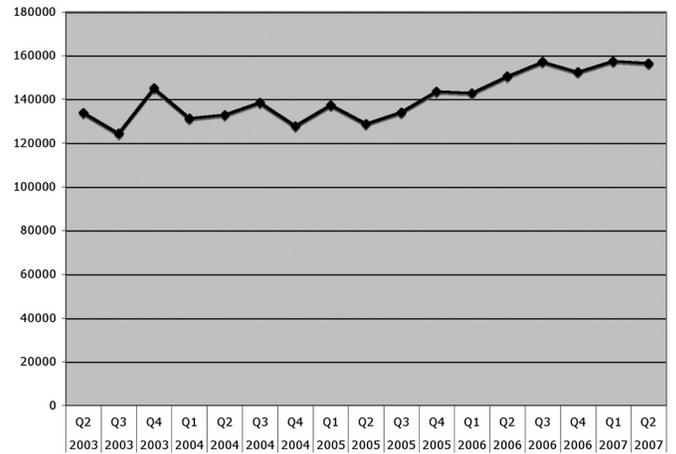
The unemployment rate in Polk County was 3.3% in April, 3.2% in May, and 4.1% in June. The unemployment rate remains stable at just under 4% when data are adjusted for recurring seasonal variations.

Unemployment Rate (Seasonally Adjusted)



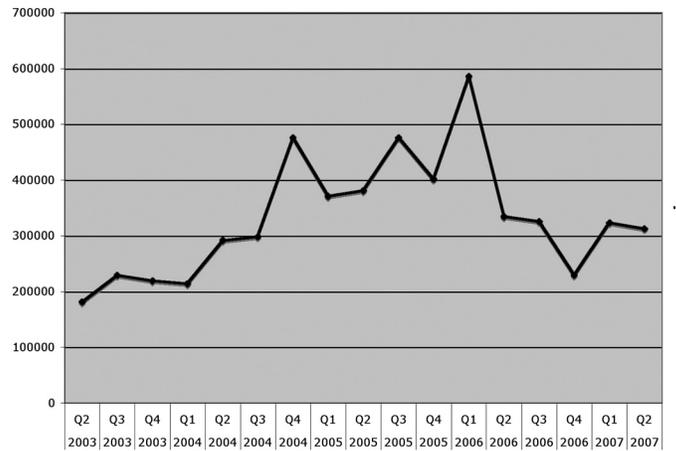
MANUFACTURING - Local manufacturing output was virtually unchanged in the second quarter as measured by industrial electricity sales adjusted for recurring seasonal variations. Actual sales in Quarter 2 by Lakeland Electric were up 3.4% from the same quarter a year ago.

Industrial Kilowatt Hours (Seasonally Adjusted)

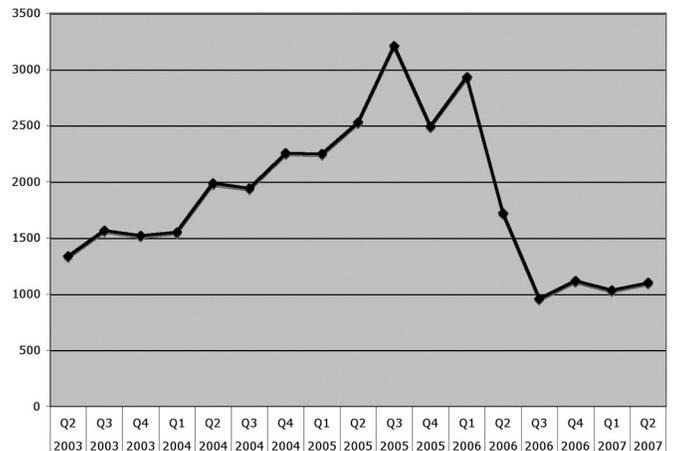


CONSTRUCTION - The total value of building permits issued countywide and the number of permits issued for construction of single family homes appear to have both stabilized at levels significantly below peak values realized a little more than a year ago.

Dollar Value Building Permits

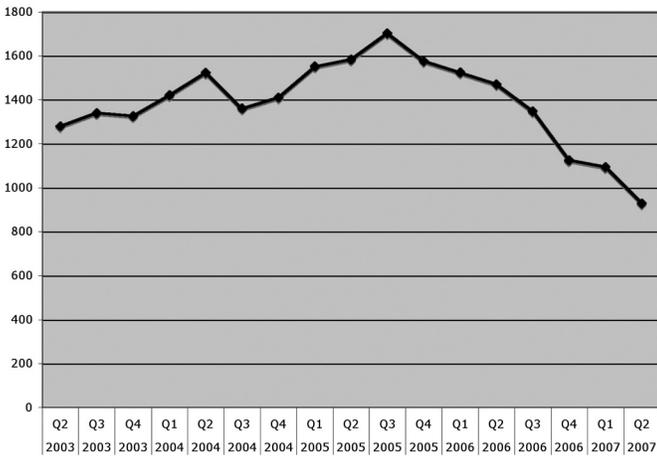


Number of Single Family Building Permits (Seasonally Adjusted)



Single-family home sales in Polk County continue to swoon, with no relief yet in sight. Home sales in the first six months of 2007 are down 35% from the same period in 2006.

Home Sales (Seasonally Adjusted)

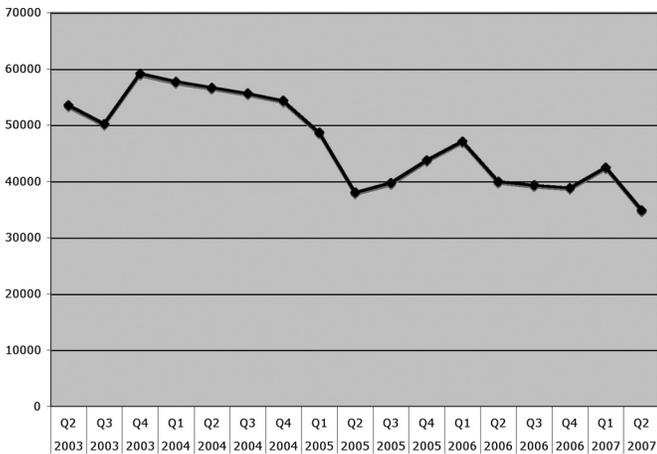


The median price of homes sold in Polk County is down about 4% from a year ago.

**CITRUS** - The U.S. Department of Agriculture has again lowered its estimate of the 2006-07 Florida citrus crop. As final harvesting draws to a close, the latest projection is for a total production of 128.9 million boxes of oranges. That is 13% smaller than the preceding season, and the lowest total since the 1989- 90 season.

The volume of citrus concentrate movement in the state of Florida fell in the second quarter to a level 12.7% below a year earlier. Movement through the first six months of 2007 is down 11.1% from the same period in 2006.

Citrus Concentrate Movement (Thousands of Gallons)



**DEVELOPMENT** - The Polk County School District has announced that it will spend over \$1 billion over the next five years to build new schools and classrooms. The county's rapidly expanding student population is expected to hit 100,000 within two years. New schools will continue to open at capacity, and 20% of students will continue to be housed in portable classrooms.

Governor Charlie Crist vetoed an expenditure of \$10 million approved by the Florida Legislature to begin construction of a 16,000- student branch of the University of South Florida in Lakeland. The governor's veto forces local officials to move back the time frame for building the new campus by a year, which will now have an anticipated opening in late 2010. The governor also vetoed a \$500,000 grant to Florida Southern College to start a new nursing program. FSC officials announced that they would proceed with the program despite the funding veto.

The Lakeland Downtown Community Redevelopment Agency has secured the final properties necessary to implement its plan to build 449 town houses and condominiums for residential development in the downtown area near the police station.

Talbot House has broken ground to build a \$2 million apartment building in Lakeland to house disabled people who are considered to be chronically homeless. The Fellowship House will be located adjacent to the agency's shelter on Kentucky Avenue, just north of downtown.

A new apartment complex is planned for construction in North Lakeland. The Town N County development will be located along Griffin Road and contain 150 rental units.

JES Properties has plans to build a 71,367 square- foot hotel along Interstate 4 in North Lakeland. The 122- room Crestwood Suites will have four floors and is slated to open next summer.

Watson Clinic has submitted plans to construct a new three- story medical building in Lakeland. The 50,000 square- foot facility will be located along North Florida Avenue.

A new Outback Restaurant will open this fall in North Lakeland. The new 7,000 square- foot eatery will be located in the Village Plaza shopping center along U.S. 98 North.

Oakbridge Square shopping center in Southwest Lakeland is undergoing a \$1 million facelift, including a new façade and sidewalks. The center is located at the intersection of Harden Boulevard and the Polk Parkway.

A developer has submitted plans for a new retail center in West Lakeland that will include a small grocery store. Gresham Farms Village will be constructed at the intersection of County Line Road and West Pipkin Road.

Plans for a large mixed- use development in northeast Polk County were presented to the Four Corners Area Council in early August. The Tierra del Sol would include a 100,000 square- foot convention center, 720,000 square feet of commercial space, and a 13- acre water park with town houses. The proposed complex would be positioned along U.S. 27.

Another 2,608- acre development is being planned for eastern Polk County near Lake Hatchineha. The proposed development would include 5,200 homes and apartments, a small commercial complex, and an 18-hole golf course. Backers unveiled their plans before the Polk County Commission in early August.

Feltrim Development Corporation has revealed plans to build a \$33 million industrial park in Haines City. Construction will begin in September on the project that will encompass 400,000 square feet of industrial, business, and distribution space. Haines City Commerce Park will be located adjacent to CR 544.

A fire destroyed the Flanders Corporation's Precision- Aire manufacturing plant in Bartow in July. The 175,000 square- foot complex at the intersection of Crown Avenue and SR 60 produced air- conditioning filters and employed 378 workers. The estimated loss of property and equipment is \$10 million.

A new Bartow branch office of Riverside National Bank of Florida is under construction on Van Fleet Drive. The 6,400 square- foot office is slated to open in December, and will be the eighth location in the county for the bank.

Construction is underway to build a new Hampton Inn & Suites in Lake Wales. The four - story hotel will contain 78 rooms, and will be located along U.S. 27 across from the Eagle Ridge Mall. The Inn will be adjacent to the Peace Creek Promenade, a mix of shops and restaurants being developed by a North Carolina firm.

There are additional plans to build a Holiday Inn Express hotel in Lake Wales further to the north on U.S. 27, and a Microtel Inn & Suites further to the south on U.S. 27. The Microtel hotel is a project of Feltrim Development, which will also break ground this year to build a Microtel Inn in Davenport.

Winter Haven Area Transit is building its first bus terminal north of Avenue E Northwest in Winter Haven. The \$4.5 million project is scheduled for completion in November.

Bruster's Real Ice Cream plans to build a new store in Winter Haven. The Winter Haven Bruster's will be situated along U.S. 17 overlooking Lake Spring.

Fifth Third Bank has announced its intent to build a new branch office in Highland City. The office will be located at the intersection of Clubhouse Road and U.S. 98 South, and will be the Cincinnati - based bank's first location in Polk County.

**NEW OPENINGS AND CLOSINGS** - Semperian Incorporated closed its Lakeland office in a consolidation move at the end of July. The Lakeland facility on East Memorial Boulevard employed 79 workers handling customer service and administrative functions for General Motors Acceptance Corporation's automotive finance clients. The Lakeland office was one of 15 Semperian offices nationwide.

Penske Truck Leasing has built a new 18,000 square-foot rental and truck maintenance facility in North Lakeland. The \$6 million facility opened in August.

The General Store opened in July to serve customers in the downtown Lakeland area. The new store is located on South Kentucky Avenue, and is open Monday through Saturday offering convenience-store items.

Wachovia is closing its bank branch office on Orange Street in downtown Lakeland. The location was acquired in the 2004 takeover of SouthTrust bank, and will continue to serve as a regional headquarters for Wachovia. Customers are being redirected to the Wachovia branch located on Tennessee Avenue.

The AMC Merchants Walk 10 theatre in Lakeland closed in June. The 20-year-old theatre on South Florida Avenue was having difficulty competing with newer theatres in the area.

Ling's Buffet will open a second location in Lakeland on South Florida Avenue at the former site of the Picadilly Cafeteria. The new restaurant features a 22-foot sushi table, and will seat 250 patrons.

Grillsmith will open its first Polk County restaurant in August. The 225-seat eatery will be in the Lakeside Village complex on Town Center Drive in Lakeland. Grillsmith features fresh steaks and seafood, and has locations in Tampa and Clearwater.

**TAKEOVERS** - C&C Bank of Lakeland has been sold to Colonial Bank of Montgomery, Alabama in a cash- and- stock deal valued at \$219 million. If approved by regulators, the 10 Polk branches of C&C would give Colonial 16% of total Polk bank deposits. Colonial currently has 182 branches located in Florida, including four in Polk County. C&C was founded as Citrus and Chemical Bank in 1954 in Bartow, and is Polk's largest community bank.

The Town Center shopping center in Lakeland has been sold to National Properties Trust Incorporated of Clearwater for \$32 million. The 304,000 square-foot center is located north of the downtown area on Memorial Boulevard.

Fountain Square Apartments in Lakeland has been sold to a Naples real estate investment company for \$9.65 million. The 148-unit complex on Edgewood Drive has apartments ranging in size from 700 square feet to 1,300 square feet.

Outsource Management Solutions (OMS) intends to purchase the building that will soon house its corporate headquarters on Lake Wire in Lakeland. OMS has about 30 employees providing insurance, payroll and human resource services to companies around the state of Florida. The 20,000 square-foot building formerly housed Viasys Corporation.

The Winter Haven Corners shopping center has been sold to a Miami-Dade investment company. The purchase price for the 23,424 square foot center was \$5.7 million.

Master Containers Incorporated in Mulberry has been sold to Spirit Foodservice Products Incorporated of Andover, Massachusetts. Master produces about 15 million plastic foam containers per week, and has 50 employees.

A local aviation ministry that operates a halfway house for women and an outreach center for needy families has purchased a warehouse and office complex near Polk City. Wings of Eagles International will pay \$2.5 million for the 18,000 square-foot facility located on Tomkow Road.

### THE NATIONAL ECONOMY

The price adjusted Gross Domestic Product (real GDP) climbed at a 3.4% annual rate during the second quarter, countering a weak 0.6% rate of expansion in the preceding Quarter 1. The Quarter 2 GDP advance was led by increases in consumer spending for services, rising exports, and more government spending at the federal, state, and local levels. It is likely the GDP figure will be revised upward given the strong June export performance that was not yet reflected in the current GDP estimate.

The Department of Commerce has revised its estimates of past GDP growth to 3.6% in calendar 2004, 3.1% in 2005, and 2.9% during 2006. Previous estimates of nonfarm productivity growth were revised downward to just 1% in 2006, the slowest rate of increase in more than a decade. Productivity growth has declined each year since peaking at more than 4% in 2002. Nonfarm productivity grew at a 1.8% annualized rate in the second quarter of 2007.

**CONSUMER SPENDING** - Consumer spending has held up well, given the uncertainties prevailing in the housing and financial markets. Personal Consumption Expenditures (goods and services) climbed by 0.6% in both April and May, and by another 0.1% in June. Retail sales (goods only) were more neutral, rising 1.7% in May but offsetting that with declines of 0.4% in April and 0.9% in June. Retail sales edged upward 0.3% in July.

Personal incomes grew modestly in the second quarter, rising 0.4% in both May and June following a slight 0.2% drop in April. Disposable personal incomes rose a bit faster, increasing a total of 3.5% in the second quarter.

The most recent readings on consumer confidence are moderately encouraging. The University of Michigan/Reuters survey of consumer sentiment rose to 92.4% in July from an 85.3% reading in June.

**EMPLOYMENT** - Total nonfarm employment expanded by 122,000 workers in April; 188,000 in May; and 126,000 in June. Employment growth slowed to 92,000 additional workers in July as weaker economic growth over the past year may be finally impacting the job market. Job growth averaged 145,000 per month during the first half of 2007.

The nation's unemployment rate remained relatively stable at historically low levels. The seasonally adjusted U.S. unemployment rate did creep upward from a low of 4.4% in March to a 4.6% rate in July.

**INDUSTRIAL PRODUCTION** - Output at U.S. mines, factories, and utilities continues to exhibit modest growth. Industrial production expanded 0.4% in April, dipped a modest 0.1% in May, and finished the quarter with a 0.5% advance in June. American industry operated at 81.5% of designed capacity in April, 81.4% in May, and at 81.7% during June. Capacity utilization rates remain slightly below levels the Federal Reserve regards as inflationary.

Factory orders managed to climb 0.5% during April, then reversed that with a 0.5% decline in May before rounding out the quarter with a 0.6% increase in June. On a bright note, factory orders have risen in four of the last five months.

New orders for durable goods rose by 1% in April, then dropped 2.3% in May before climbing again by 1.4% in June.

Manufacturers inventories climbed a seasonally adjusted 0.4% in both April and May, and by 0.3% in June.

**CONSTRUCTION** - Total expenditures for new construction rose 0.2% in April and 1% in May. Spending declined 0.3% in June. Construction spending in the first six months of 2007 is down 3.5% from the same period in 2006.

The plunge in housing starts slowed in the second quarter, but the latest data on building permits indicate that the drought in housing is not over. Housing starts slipped 0.4% in April and another 3.4% in May, before managing a 2.3% gain in June. Building permits sandwiched a 4.3% increase in May with plunges of 7.1% in April and 7.5% in June.

The most recent figures on home sales offer little encouragement that a recovery in housing is imminent. New home sales did manage a 10% increase in April from March's depressed level. That improvement was then largely offset by declines of 2.2% in May and 6.6% in June. The June figure for new home sales is down 22% from a year earlier, and is the lowest figure since November of 2002.

Sales of existing homes also continue to drop, falling 2.4% in April, 0.5% in May, and 3.8% during June. June 2007 existing home sales are down 11.4% from June of 2006.

**FOREIGN TRADE** - The U.S. international trade deficit in goods and service dropped in the second quarter as export growth outpaced import growth. The trade deficit was \$58.7 billion in April, \$59.2 billion in May, and \$58.1 billion in June. The deficit may shrink further in the second half of 2007 as European economic expansion fuels demand for U.S. exports and as oil prices recede a bit from their latest upward surge.

The value of foreign- owned assets in the U.S. rose by \$2.5 trillion in 2006 to a total of \$16.3 trillion, while the value of U.S. owned assets in foreign countries rose by \$2.2 trillion to a total of \$13.8 trillion. That leaves the U.S. net indebtedness at \$2.5 trillion, an increase of \$300 billion from the preceding year.

**COST OF LIVING** - Inflation remained in check in the second quarter as the Consumer Price Index (CPI) climbed 0.4% in April, then accelerated to a 0.7% increase in May before receding to just a 0.2% advance in June.

**MONETARY POLICY** - The Federal Reserve's Open Market Committee left its target for the benchmark federal funds rate at 5.25% throughout the second quarter as widely expected. It is likely that the weaker employment and housing reports will temper the Federal Reserve's concerns about inflation in the months ahead. Add in the continuing turmoil in the financial markets, and there will be mounting pressure on the Fed to lower interest rates as 2007 draws to a close.

**LEADING INDICATORS** - The Conference Board reports that the Index of Leading Economic Indicators declined 0.2% in April, rose 0.2% in May, and fell again by 0.3% in June. The Leading Index has fallen in four of the last six months, and is down 0.7% in June from its January level.

Orders for nondefense capital goods excluding aircraft, a key indicator of business investment plans, were up 2% in April, then subsequently fell 1.5% in May and 0.7% in June. The declines in May and June temper the scenario that business investment spending will pick up the slack as consumer spending weakens.

A June Wall Street Journal survey of 60 economists yielded an average projection of a 2.5% GDP annual growth rate in the third quarter, and a 2.8% annualized growth rate in the fourth quarter of 2007. The consensus holds little chance of the Fed moving to lower its target for short - term interest rates before the end of the year.

**SUMMARY** - Much of the Quarter 2 GDP advance was due to rising exports and increased government spending. Behind the picture of strong second quarter GDP growth remain fears that the housing slump and the turbulence in the financial markets may undercut consumer spending in the second half of 2007. The leading economics indicators are flat, and the consensus outlook calls for real GDP growth at about a 2.6% annual rate through the rest of this year. If, in fact, weakness persists, we can look for the Fed to enact policies to lower interest rates.

**THE POLK OUTLOOK**

The Polk economy looks weaker than the national economy at this point. A number of local economic measures stalled or declined in the second quarter. Polk took a larger hit in construction than the nation as a whole, but there are signs that the sector may have stabilized locally, though at a significantly lower level.

The Polk population will continue to grow at a vigorous pace, but employment growth will slow over the remainder of this year. Retail sales and motel/hotel sales are expected to remain near current levels for the rest of 2007. We do not look for any appreciable change in the overall Polk Progress Index during the third quarter.

**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 (.17); Total Employment (.19); Home Sales (.17); Residential Electric Accounts (.17); Industrial Kilowatt Hours (.12); and Hotel/Motel Sales (.17). The index explains 83% of the variation in the combined variables. The weights and variables are subject to future verification and modification in light of changing relationships .

Year	Consumer Price Index (A)			
	Q1	Q2	Q3	Q4
2003	183.0	183.7	184.5	184.8
2004	186.3	188.6	189.5	190.8
2005	192.2	194.1	196.6	197.5
2006	199.3	201.7	203.2	202.1
2007	204.1	207.1		

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



	POLK PROGRESS INDEX												
	2004		2005				2006				2007		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*
Taxable Sales (1,000's of \$)	1,596,057	1,921,294	1,894,422	1,902,462	1,882,583	2,043,415	2,054,087	2,095,853	1,886,081	2,002,136	2,027,485	1,903,232	2,033,116
Total Employment	235,510	240,613	243,803	249,149	250,444	254,033	255,626	259,337	260,374	263,682	263,515	264,984	265,237
Telephone Access	212,847	211,433	212,898	202,464	197,162	197,208	195,700	185,292	180,587	179,333	176,436	169,517	168,079
Business Telephone Access	72,040	72,940	69,985	69,585	68,783	69,147	69,565	69,488	69,246	69,232	69,402	69,104	68,089
Industrial Electric KWH (1,000's)	147,336	130,529	126,839	128,771	142,947	149,870	133,499	152,001	166,754	159,507	148,252	157,108	167,109
Number of Single Family Bldg. Permits	2,148	2,348	2,288	2,836	3,604	2,500	2,956	1,776	1,077	931	989	1,109	1,124
Hotel/Motel Sales (1,000's of \$)	35,607	37,569	46,928	40,766	39,126	44,926	47,564	45,623	40,720	45,054	54,980	44,495	44,128
Number of Homes Sold	1,430	1,375	1,493	1,799	1,781	1,522	1,442	1,653	1,386	1,124	961	1,048	1,008
Citrus Concentrate Movement (1,000's of gal.)	55,630	54,337	48,668	38,034	39,708	43,751	47,065	39,923	39,307	38,822	42,462	34,872	35,040
Building Permits (1,000's of \$)	298,307	475,416	370,708	380,505	475,379	401,096	585,205	334,336	325,443	229,284	323,101	312,761	-
Number of Residential Electric Accounts	93,198	94,659	96,972	95,204	95,218	96,796	99,071	98,225	97,784	99,641	101,841	100,556	101,709
<b>POLK PROGRESS</b>	<b>198.1</b>	<b>202.1</b>	<b>213.7</b>	<b>211.8</b>	<b>218.8</b>	<b>215.0</b>	<b>212.9</b>	<b>215.7</b>	<b>206.8</b>	<b>203.2</b>	<b>199.8</b>	<b>196.0</b>	<b>197.0</b>

\*Estimated values for taxable sales and motel sales for Q2 2006, and forecast values for Q3.

Individual variables in the table represent raw data, unadjusted for seasonally. Industrial electric consumption reflects sales by the City of Lakeland. Phosphate sold or used is for Florida and North Carolina (Polk County averages 40% of this combined total). Citrus concentrate movement is for the state of Florida. All other data are county specific.

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

Thank you to the sponsor  


**THE POLK PROGRESS**

AUGUST 2007

Vol 24, Issue 2

Polk Progress is published quarterly in May, August, November, and February by: Florida Southern College • 111 Lake Hollingsworth Drive • Lakeland, FL 33801-5698.