

HOUSING CONTRACTION SLOWS LOCAL ECONOMY

The Polk Progress Index (PPI) dipped 2% in the third quarter, largely a reflection of the downturn in the local housing market. This follows a revised advance of 1% in the preceding second quarter, and a 1.1% decline in the first quarter of the year.

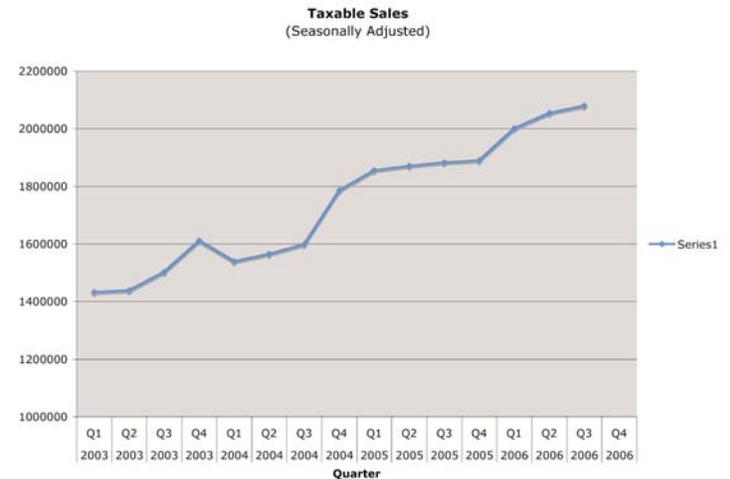
The composition of the Polk Progress Index has been modified to better reflect the overall level of local economic activity. The previous inclusion of both residential building permits and home sales had overly weighted the impact of local construction activity. Also, the run-up in permits toward the end of Quarter 4 2005 to beat the imposition of higher impact fees in December and the correlated fall-off in permits in Quarter 1 overstated the downturn in local housing. There is a definite downturn in local housing that is steeper than that being experienced nationwide, but the real impact on the economic activity in Polk County is better reflected by the revised composition of the PPI.

Elements of the PPI unrelated to housing all advanced in the third quarter, with the lone exception of projected sales at hotels and motels. Estimated retail sales were up a seasonally adjusted 1%, while employment climbed 1.5% during the quarter. Local manufacturing activity appears to be growing rapidly as reflected by a 4.4% increase in industrial electricity consumption, and population growth remains solid at about a 2% annual rate.

SALES - Data on retail sales provided by the Florida Department of Revenue reveal that in the second quarter sales turned out to be stronger than we had estimated on the basis of partial information available in the last edition of this report. Sales in the second quarter actually rose 2.7% from the preceding quarter after adjusting the data for recurring seasonal fluctuations; faster than the 0.4% increase we projected.

Data on retail and hotel/motel sales are only available through the month of July at the time the current report is being written. So again, we must estimate those figures for the third quarter. We now estimate that in Quarter 3 seasonally adjusted retail sales in Polk County climbed 1% from the preceding quarter.

Sales have risen strongly throughout 2006. Actual (unadjusted) retail sales through the first three quarters of this year are estimated to be \$6.22 billion, 9.5% above the total for the same period in 2005.

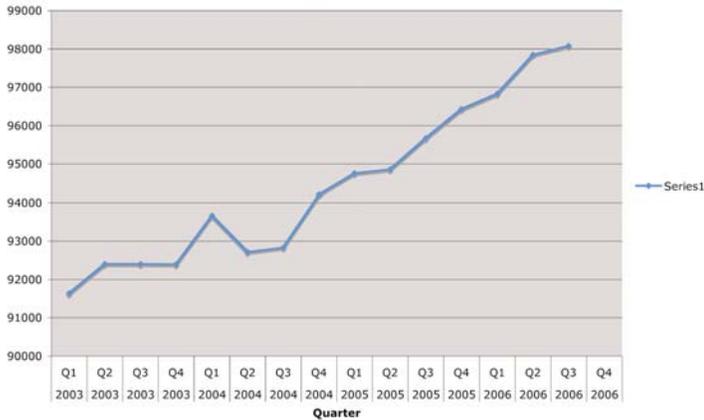


Data subsequently made available by the Florida Department of Revenue show that seasonally adjusted sales at Polk hotels and motels in the second quarter were up 4.6% from the preceding quarter, largely offsetting a 5.5% dip in Quarter 1. We had previously projected an increase of just 1.3% in Quarter 2. We are now estimating that in Quarter 3 hotel/motel sales will slip downward a seasonally adjusted 2.2%. This is based on only one month's worth of data for the quarter, and is, again, subject to change.



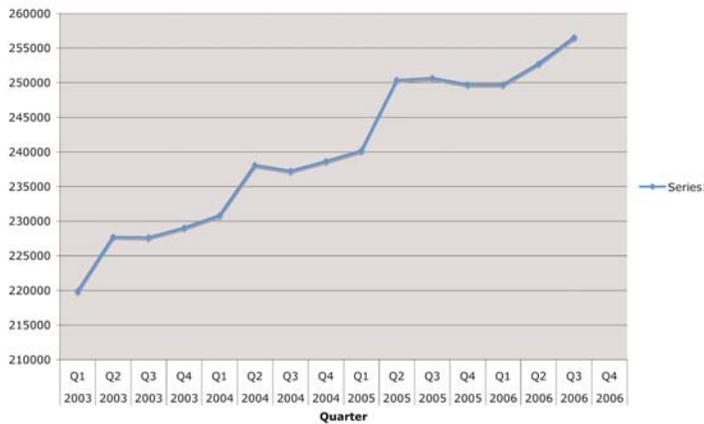
POPULATION - The population of Polk County continued to grow strongly in the third quarter as reflected by data on residential electric connections. The number of residential connections maintained by the City of Lakeland is 2.7% above a year ago. Historically, that is consistent with about a 2% annual population growth rate for the county.

Residential Electric Accounts
(3 Quarter Average)



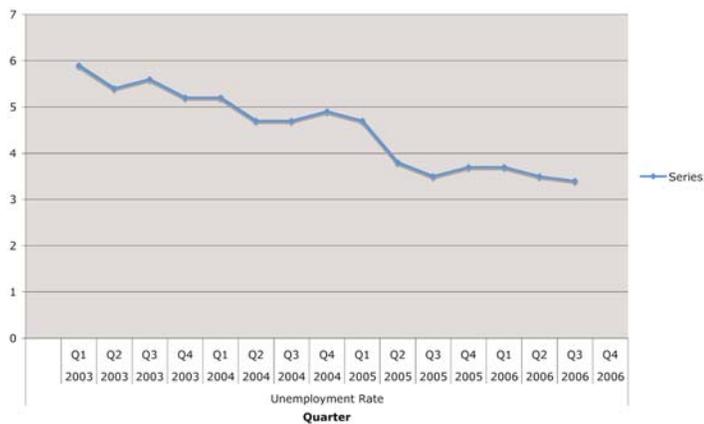
EMPLOYMENT - The local labor market remains vibrant, with employment reaching record highs and the unemployment rate matching historic lows. The average level of employment in Polk County during the third quarter of 2006 was 258,651. That is an increase of 4.2% (10,464 workers) from the same quarter in the preceding year.

Total Employment
(Seasonally)



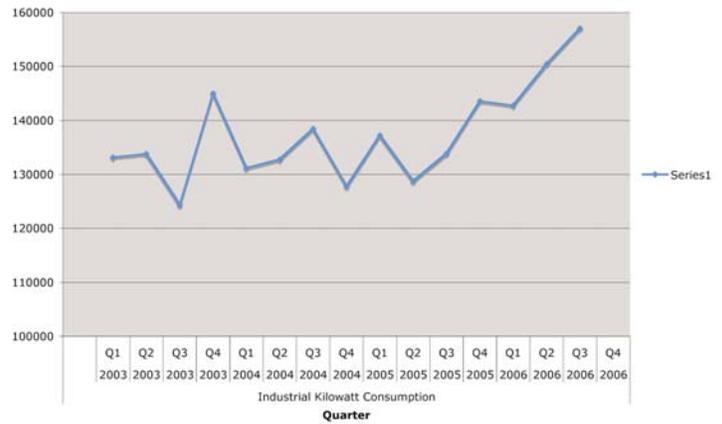
The unemployment rate in Polk County slipped to a seasonally adjusted 3.4% during the third quarter. The actual (unadjusted) unemployment rate was 3.9% in July, 4% in August, and 3.4% in September.

Unemployment Rate
(Seasonally Adjusted)



MANUFACTURING - Manufacturing activity in the county has expanded briskly over the past four quarters. Industrial electricity consumption in the third quarter is up 16.7% from the same quarter in 2005 according to figures maintained by Lakeland Electric. Total consumption during the past year is up 13.8% from the preceding 12-month period.

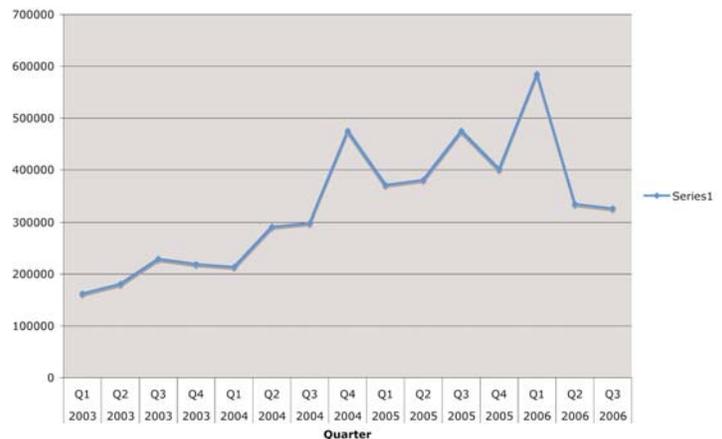
Industrial Kilowatt Hours
(Seasonally Adjusted)



CONSTRUCTION - Local Construction activity has plummeted in the last six months in parallel with a slowdown nationwide, due to rising interest rates and the bursting of what was perceived by many to be a housing bubble. Data on Polk building permits exaggerates the trend, as local developers had loaded up on permits in order to beat the December imposition of higher impact fees. Nonetheless, the Polk housing sector has undergone a significant retrenchment in 2006.

The total value of building permits issued locally during the third quarter was \$325.4 million. The value of permits issued over the last six months is 49.5% below the value of permits issued during the immediately preceding six-month period.

Dollar Value of Building Permits

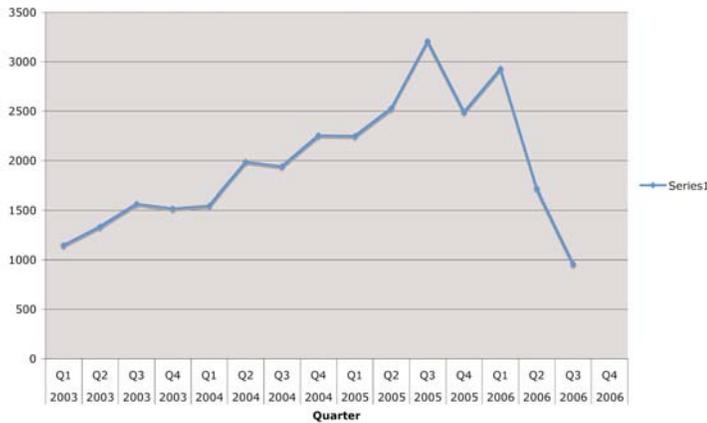


The plunge in local construction is focused in the residential housing sector. The number of permits issued for single-family home construction in Quarter 3 2006 has dropped 67% from six months ago after adjusting for recurring seasonal variations. The unadjusted number of permits issued in the last six months is down 55.7% from the same six-month period in 2005.

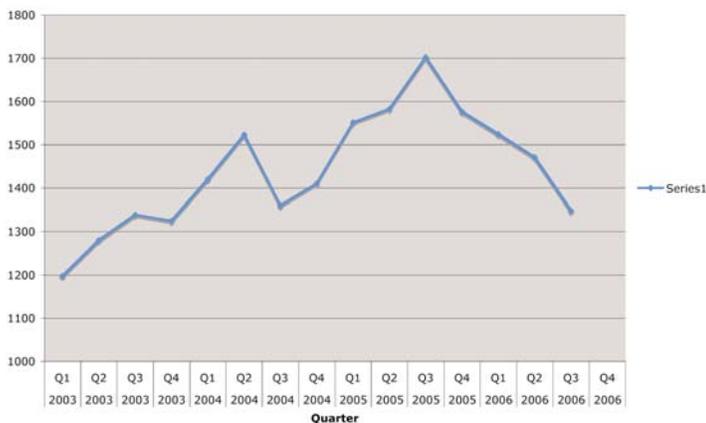
The number of homes sold in Polk County during the third quarter dropped a seasonally adjusted 9.1% from the preceding quarter.

Home sales have fallen over the past year, but not nearly as sharply as the contraction in building permits. Total (unadjusted) home sales in the past twelve months are 6.5% below those of the preceding yearlong period.

Single Family Building Permits
(Seasonally Adjusted)



Home Sales



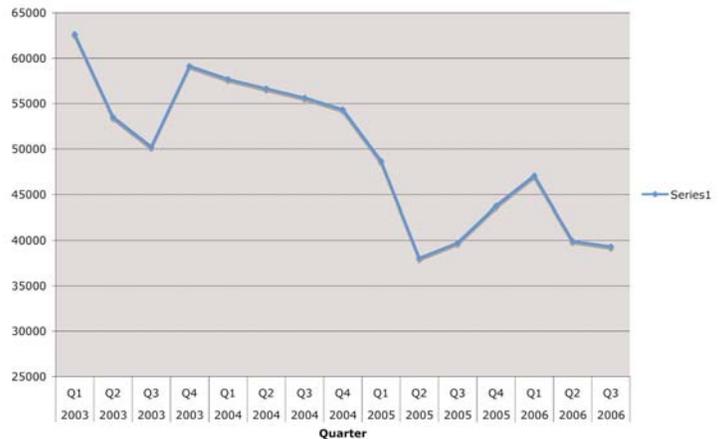
The median price of homes sold locally during September was \$169,800, an increase of 5% from a year ago.

PHOSPHATE - The Mosaic Company will suspend operations at four central Florida mines for 14 days during the Thanksgiving and Christmas holiday season. Three of the mines are located in southwest Polk County: Hookers Prairie, South Fort Meade, and Four Corners. The shutdown will temporarily idle about 1,000 workers.

CITRUS - Florida citrus production for the 2005-06 crop-year totaled 174.8 million boxes according to the final report issued by the U.S. Department of Agriculture (USDA). The reduced production led to higher prices, with a net result that the value of the citrus crop exceeded \$1 billion for the first time in six years. Polk County returned to the number one ranking in the state with production of 32.5 million boxes of oranges, grapefruit, and specialty citrus.

The initial estimate from the USDA for the 2006-07 season projects that Florida growers will produce 135 million boxes of oranges this year. That would represent a decline of 8.7% from the 147.9 million boxes produced in 2005-06, and a drop of 44% from the 242 million boxes harvested in 2003-04. Statewide production of oranges was averaging about 200 million boxes a year before the hurricanes of 2004 and 2005.

Citrus Concentrate Movement



The grapefruit crop for 2006-07 is projected to total 26 million boxes. That would represent an increase of 34.7% from the 19.3 million boxes of grapefruit grown last year. The USDA estimates that there are now 621,373 acres devoted to commercial citrus production throughout Florida, a decline of 17% from two years ago.

DEVELOPMENT - Florida Southern College has announced a \$2.5 million donation from Lakeland philanthropist Alberta Blanton in memory of her late husband Joe Blanton, to fund construction of a new building to house the FSC nursing program. Florida Southern currently offers a master's degree in nursing and the last two years of education for a bachelor's degree. The college will soon add a four-year nursing program.

Florida Southern has also received a \$1 million gift to expand the Roux Library on its Lake Hollingsworth campus. The new library construction will house famed architect Frank Lloyd Wright's drawings, and the archives of the Florida Conference of the United Methodist Church. The 90,000 square-foot addition to the library is being underwritten by a donation from FSC Board of Trustees member Sarah D. McKay.

Administrators at the Harrison School for the Visual and Performing Arts in Lakeland have unveiled a \$15 million expansion plan for the campus. Construction will begin next summer to complete a design that includes a new circular black box theater, theater classrooms, art gallery, art labs, dance studios, and an administration building. Additional programs to be housed in the new facilities will allow Harrison to compete with other arts high schools at the national level.

The Holland & Knight law firm announced that it will transfer 55 administrative employees from its Lakeland office to Tampa in 2007. The move will leave nine lawyers and a support staff of 13 at the firm's Lakeland office complex located on Harden Boulevard.

Layne Christensen Company is building a new \$2.5 million facility in Lakeland that will generate 25 new jobs. Layne is a manufacturer of water treatment equipment.

Danisco USA recently completed a 4,000 square-foot expansion of its facility on Kidron Road in Lakeland. The Copenhagen Denmark-based Danisco produces flavors and fragrances for the beverage industry from citrus and other fruits. The local Danisco operation employs 50 workers.

Golf Ventures Incorporated, a Lakeland-based firm which sells products to golf courses, is moving to a new location in the Ruthven's Business Park located on Gateway Boulevard in

Lakeland. The new site encompasses 9,000 square feet of office space and 36,000 square feet of warehouse space.

The Polk County Commission has approved plans to build a 1.2 million square-foot retail center at the intersection of US 27 and the Ronald Reagan Parkway in southeastern Polk County. Construction of the 693,000 square-foot first phase will begin in later 2007, following payment of \$6 million in impact fees and land donations for road improvements by developer David Bloom of Charleston, South Carolina.

The Cypress Gardens theme park in Winter Haven filed for protection under Chapter 11 of the U.S. Bankruptcy Code in September. Owner Kent Buescher blamed an adverse ruling in the park's attempt to collect \$17 million in hurricane-related insurance claims for the decision to file. The park will remain open as Cypress Gardens attempts to reorganize its finances. Damages to the park from the three hurricanes that hit Polk County in 2004 totaled about \$30 million in insured and uninsured losses according to Buescher.

Coca-Cola's Main Street in Auburndale has completed a \$35 million investment to create a Simply Orange not-from-concentrate orange juice production line. The expansion created 40 new full-time jobs.

PaverModule has undertaken a \$3 million expansion of its plant in Haines City. The manufacturer of paver blocks added 25 new jobs with the expansion.

Skuba Construction Materials is constructing a new concrete and asphalt products plant in Fort Meade. The \$8 million facility will provide between 25 and 35 new jobs.

Silco Manufacturing in Fort Meade is building a new 40,000 square-foot facility at a cost of \$2 million. Silco manufactures specialty plastic fencing and other products for the housing industry. The new plant will employ 30 persons.

Pratt Industries is undergoing a \$2 million expansion of its manufacturing and distribution complex in Dundee. The citrus packaging manufacturer will add 40 new employees.

Youth and Family Alternatives in Bartow is constructing a \$2 million runaway shelter along US Highway 17 South. The new center will employ 25 workers.

NEW OPENINGS AND CLOSINGS - Another new restaurant will soon be serving patrons at Lakeside Village in South Lakeland. Abuelo's Mexican Food Embassy is scheduled to open in January. The 7,700 square-foot eatery will be the 38th location nationwide for the Abuelo's restaurant chain.

The Piccadilly Cafeteria on South Florida Avenue in Lakeland closed at the end of October, resulting in a loss of 31 jobs. The Piccadilly location at the Lakeland Square Mall will remain open.

The Sea Hagg of Lakeland opened at the Lakeside Village in South Lakeland on October 20th. The store features authentic nautical items for interior decorating or gifts.

Coldwell Banker closed its Lakeland Christina office in October in a move to consolidate its Lakeland operations. Most of the 26 agents assigned to the real estate brokerage firm's Christina office will relocate to the Lakeland Central Office on South Florida Avenue.

Moe's Southwest Grill will open another restaurant next spring along US 98 North in North Lakeland. The new eatery will be located in the Shoppes of Lakeland across from Lakeland Square Mall.

Billy Bones restaurant is slated to open in mid-November in Winter Haven. The 4,000 square-foot restaurant is located along U.S. 17, and will feature a pirate theme, oyster bar, and outside deck.

Haydn James opened for business in Auburndale in mid-September. The new store is adjacent to Park Street in downtown Auburndale, and specializes in quality home and garden décor.

TAKEOVERS - The Spring Lake Square shopping center in Winter Haven has been purchased by Clearwater-based National Properties Trust for an undisclosed sum. The 188,000 square-foot complex, located at the intersection of US 17 and Havendale Boulevard, is the fifth largest shopping center in Polk County.

The Rowan Lincoln Mercury dealership located on Third Street SW in Winter Haven has been sold to Nolette Enterprises. Nolette is a family owned business based in Leesburg that operates five dealerships in Central Florida. The Winter Haven dealership has been renamed Cypress Lincoln Mercury, and will retain its current staff of 30 employees.

THE NATIONAL ECONOMY

Economic growth declined in the third quarter to its slowest pace since 2003. The price-adjusted Gross Domestic Product (GDP) expanded at an annual rate of just 1.6%. The Quarter 3 advance was led by gains in consumer spending, exports, nonresidential construction, and spending by state and local governments.

The economy has slowed from an annual expansion rate of 2.6% in the second quarter and 5.6% in the first quarter of the year. The deceleration in GDP growth in Quarter 3 was due to rising imports, a decline in inventory investment, and a slowdown in spending for services.

CONSUMER SPENDING - Spending by households slowed as Personal Consumption Expenditures (goods and services) rose 0.8% in July, 0.2% in August, and by 0.1% during September. Retail sales (goods only) climbed 1.5% during July, then were unchanged in August before dipping 0.6% in September. The September decline in retail sales was due to a 9% plunge in gas-station revenues precipitated by a large drop in oil prices.

Disposable personal income continued to climb in the third quarter, rising 0.6% in July, and by 0.5% in both August and September. Consumer spending remains in excess of income, resulting in a negative savings rate throughout the quarter. Savings was -0.8% of disposable income in July; -0.5% in August; and -0.2% of disposable income in September.

The University of Michigan reported that its most recent index of consumer sentiment rose from 85.4 in September to 93.6 in October, rebounding from a late summer plunge in response to declines in oil prices and the nation's unemployment rate. The Conference Board reported a similar rise in its index of consumer confidence in late September, following an August drop.

EMPLOYMENT - Employment growth remains less than spectacular as nonfarm employment rose by 123,000 workers in July; 230,000 in August; 148,000 in September; and by just 92,000 in October. The economy needs to add between 125,000 and 150,000 jobs each month to absorb the new workers moving into the labor force, and some economists believe that the hiring pace in coming months will fall below that realized in the third quarter. Those economists expect the labor market to cool in the face of the weakening housing market and more losses in auto manufacturing. A survey of 56 economists by the Wall Street Journal in September projected that the unemployment rate will hit 4.9% by May of 2007.

The number of jobs in the manufacturing sector continues to fall as productivity gains outdistance advances in manufacturing output. Manufacturing employment slid by 23,000 workers in July; 4,000 in August; 12,000 in September; and by another 39,000 during October.

The nation's unemployment rate fell throughout the third quarter, dropping from 4.8% in July to 4.7% in August and 4.6% in September. The unemployment rate for October declined again to 4.4%, a five-year low.

INDUSTRIAL PRODUCTION - Output at U.S. mines, factories, and utilities was up 0.3% in July, then was flat in August before falling 0.6% in September. Industrial production managed a slim 0.2% advance in October, though manufacturing output was still down. Utilization of industrial capacity fell from 82.6% in July to 81.9% in September.

Factory orders were off 1% in July and 0.3% during August, before rebounding upward 2.1% in September. New orders for durable goods fell 2.8% in July and 0.1% in August, then staged a similar recovery to advance 7.8% in September.

CONSTRUCTION - Construction spending slowed in the third quarter as the housing sector continues to cool. Expenditures for new construction dipped a slight 0.1% in July, then managed a 2.8% gain in July before dropping 3.8% in September. Spending on new construction in the firsts nine months of 2006 is up 6.6% from the same period in 2005.

Housing starts dropped 4% in July and 4.9% in August, before managing a 5.9% increase in September. Housing starts have fallen in five of the last six months in response to rising inventories and slowing sales. Building permits for single-family homes, a key barometer of future construction activity, tumbled 5.5% during July, 2% in August, and by 6.2% in September.

New home sales plunged 8.7% in July, then offset that by climbing 3.8% in August and another 5.3% in September. The September rate for new home sales is still down 14% from a year ago. Sales of existing homes slid 4.1% in July, 4.7% in August, and by 1.9% in September. The median price of existing homes sold is down almost 2% from a year ago.

FOREIGN TRADE - The U.S. trade deficit in goods and services swelled to \$68 billion in July and a record \$69.8 billion in August. The deficit narrowed to \$64.3 billion during September. The September drop was largely due to a decline in prices paid for imported oil.

There is a danger that American trade policy may become more protectionist following the November elections in which a number of candidates campaigned against policies they claim have caused job losses in the United States.

COST OF LIVING - The pace of inflation slackened in the third Quarter. The Consumer Price Index (CPI) climbed 0.4% in July, 0.2% in August; then fell by 0.5% during September and another 0.5% in October. The CPI in October is just 1.3% above a year ago, the smallest year-to-year increase since June 2002. The latest survey of economists by the Wall Street Journal projects the CPI will rise at a 2.5% annual rate in the fourth quarter.

Year	Consumer Price Index (A)			
	Q1	Q2	Q3	Q4
2002	177.9	179.9	180.6	181.2
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	

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

MONETARY POLICY - The Federal Reserve decided to hold its target for interest rates steady for the third consecutive time at its meeting in late October. The target for the benchmark federal funds rate that commercial banks charge one another on overnight loans remains at 5.25%.

LEADING INDICATORS - The Index of Leading Economic Indicators maintained by the Conference Board was down 0.3% in July and 0.2% during August. The leading indicators did manage a slight 0.1% advance in September. The index has fallen in five of the last eight months.

Orders for nondefense capital goods excluding aircraft, a widely followed barometer of business investment plans, climbed 0.6% in July, 0.8% in August, and 1.1% during September.

SUMMARY - The U.S. economy slowed in the third quarter in the face of rising imports and weak advances in consumer spending. Consumers continue to spend in excess of current incomes, and confidence remains shaky. The unemployment rate has fallen, but future job growth is uncertain and the economy remains vulnerable to any rebound in oil prices. Industrial production is stagnant, and the housing sector is in a swoon.

The consensus calls for slow GDP growth through the rest of the year. The inflation outlook has improved, and the Federal Reserve is likely to take a more accommodative monetary policy stance as signs of economic weakness persist.

THE POLK OUTLOOK

The decline in the PPI during the third quarter is likely a temporary pause related to the contraction in housing being experienced nationwide. The imposition of higher impact fees in December magnified the impact of the national slowdown on local building permit activity. Retail sales growth remains strong, and the outlook is good as we enter the important holiday shopping season.

Polk employment is growing at about a 4% annual pace, and the unemployment rate in the county is below 3.5% after adjusting for recurring seasonal variations. Population growth is solid at a 2% annual rate of increase, and the decline in gasoline prices over the past several months bodes well for the coming tourist season. We expect the PPI to rebound upward 2% in the fourth 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.

	POLK PROGRESS INDEX												
	2003	2004				2005				2006			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4* Projected
Taxable Sales (1,000's of \$)	1,673,398	1,526,920	1,573,160	1,596,057	1,921,294	1,894,422	1,902,462	1,882,583	2,043,415	2,054,087	2,095,853	2,070,841*	2,163,802
Total Employment	230,359	234,150	236,005	234,766	239,973	243,494	248,284	248,187	251,041	253,063	257,210	258,651	262,271
Residential Telephone Access	214,906	218,061	211,433	212,847	211,433	212,898	202,464	197,162	197,208	195,700	185,292	175,675	185,736
Business Telephone Access	74,639	73,638	72,490	72,040	72,940	69,985	69,585	68,783	69,147	69,565	69,488	68,903	67,781
Industrial Electric KWH (1,000's)	147,362	120,033	135,198	147,336	130,529	126,839	128,771	142,947	149,870	133,499	152,001	166,754	157,931
Number of Single Family Bldg. Permits	1,518	1,575	2,211	2,148	2,348	2,288	2,836	3,604	2,500	2,956	1,776	1,077	1,200
Hotel/Motel Sales (1,000's of \$)	27,125	38,134	36,832	35,607	37,569	46,928	40,766	39,126	44,926	47,564	45,623	43,039*	44,465
Number of Homes Sold	1,306	1,355	1,697	1,430	1,375	1,493	1,799	1,781	1,522	1,442	1,653	1,386	1,432
Citrus Concentrate Movement (1,000's of gal.)	59,124	57,687	56,638	55,630	54,337	48,668	38,034	39,708	43,751	47,065	39,923	39,307	43,305
Building Permits (1,000's of \$)	219,174	213,300	291,345	298,307	475,416	370,708	380,505	475,379	401,096	585,205	334,336	325,443	-
Number of Residential Electric Accounts	92,879	95,228	93,176	93,198	94,659	96,972	95,204	95,218	96,796	99,071	98,225	97,784	98,030
POLK PROGRESS	196.7	197.3	204.5	198.0	202.1	213.6	211.6	218.4	215.0	212.6	214.7	210.4	214.9

*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
of Polk Progress*

SUNTRUST

THE POLK PROGRESS

NOVEMBER 2006

Vol 23, Issue 3

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