

**ACTIVITY INDEX SLIPS AS HOUSING CONTRACTS**

The Polk Progress Index (PPI) declined 1.7% during the second quarter. The dip was totally attributable to a softening in the local housing market. Seasonally adjusted home sales dropped by more than 3% for the second quarter in a row, while single-family building permits plunged in the second quarter, wiping out the gains achieved in Quarter 1 when builders had rushed to pull permits in order to beat the increase in impact fees.

The Polk economy remains strong with continuing increases in employment, sales, and population. All components of the PPI were up in the second quarter with the exceptions of single-family building permits and home sales.

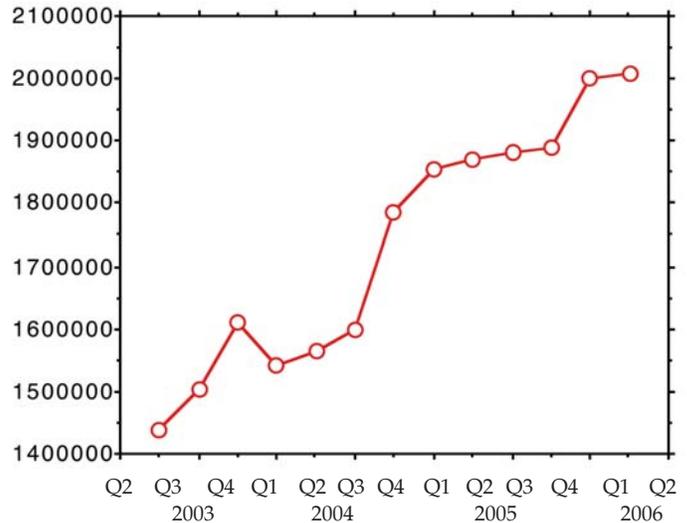
**SALES** – Data on retail sales and hotel/motel sales were only available through the month of April from the Florida Department of Revenue at the time of this writing. As a result, sales data for the second quarter are estimated on the basis of statistical projections.

Data for the first quarter of 2006, which were unavailable at the time of the last report, reveal that retail sales rose 5.8% on a seasonally adjusted basis from the preceding quarter, rather than the 4.4% increase that we had projected.

We now estimate that sales in Quarter 2 rose 0.4% from the preceding quarter after correcting for recurring seasonal variations. If realized, sales for the first six months of 2006 would be 8.5% higher than sales over the same period in 2006.

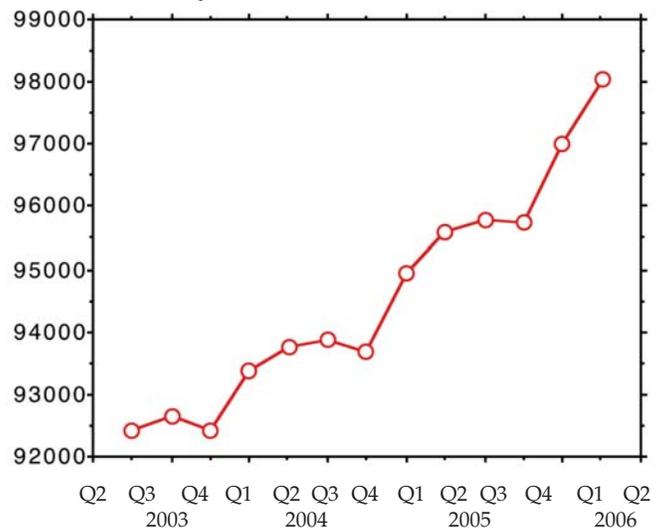
Data subsequently made available by the Florida Department of Revenue show that sales at Polk hotels and motels fell 5.6% during the first quarter of 2006 after adjusting for seasonality. We are projecting that seasonally adjusted hotel/motel sales have risen 1.3% in the second quarter.

**TAXABLE RETAIL SALES (SEASONALLY ADJUSTED DOLLARS)**



**POPULATION** – The Polk County population continued to grow rapidly in the second quarter as reflected by data on residential electric connections. The number of residential connections maintained by the City of Lakeland is 3.2% higher than a year ago. That suggests some slight acceleration in the population growth rate from the 2% annual rate experienced over the past several years.

**RESIDENTIAL ELECTRIC ACCOUNTS (3 QUARTER AVERAGE)**



SunTrust moved past Wachovia to rank as the largest Polk County bank in the fourth quarter of 2005. SunTrust held \$1.23 billion in deposits, representing a 23% market share. Wachovia was second with a 21.9% market share, and Bank of America was third with 19% of the Polk market.

Polk County industrial and power plants emitted 5.8 million pounds of hazardous chemicals into the environment during 2004 according to figures recently released by the U.S. Environmental Protection Agency. That places Polk seventh among Florida counties in pollution emissions. The bulk of Polk emissions are phosphate-related, even though phosphoric acid emissions at fertilizer plants are no longer reported.

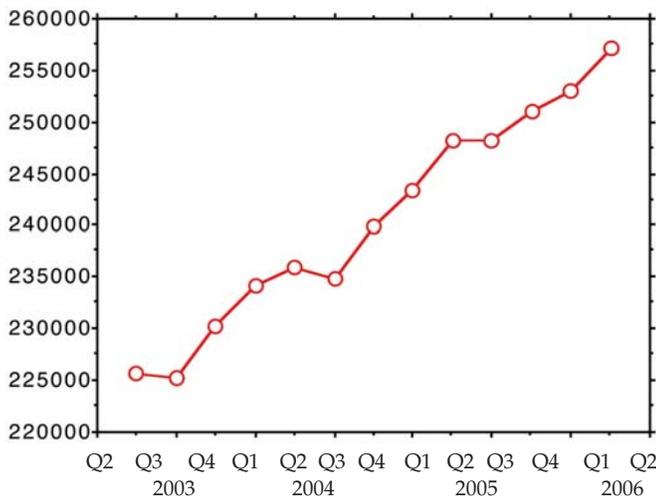
Before the methodology was changed, Polk's reported emissions peaked at 44.5 million pounds in 1994, ranking the county first in Florida and sixth in the nation in terms of chemical emissions.

**EMPLOYMENT** - The local labor market remains tight as employment continues a growth surge that began in the second half of 2003. The average level of employment in Polk County during the second quarter of 2006 was 257,210 workers.

That is an increase of 3.6% from the same quarter a year ago.

The number of single-family building permits issued in Polk County during the second quarter dropped 40% from the preceding quarter (a decline of 1,180 permits). The number of permits is down 37.4% from the same quarter a year ago.

TOTAL EMPLOYMENT

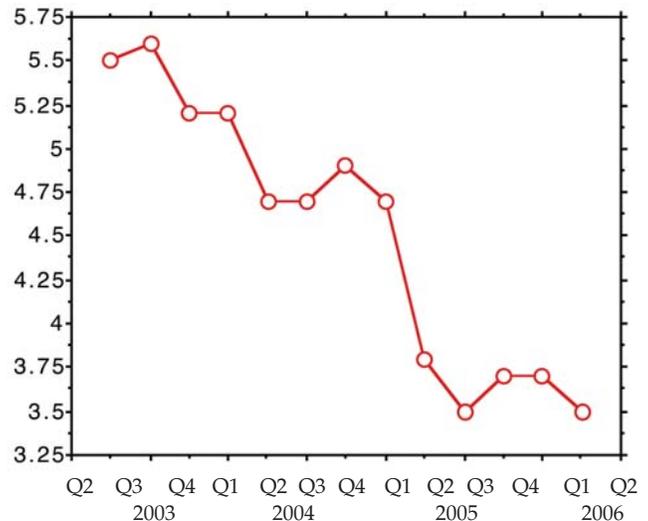


The unemployment rate in Polk County fell to a seasonally adjusted 3.5% during the second quarter. The raw (unadjusted) unemployment rate was 2.7% in April, 3% in May, and 3.5% in June.

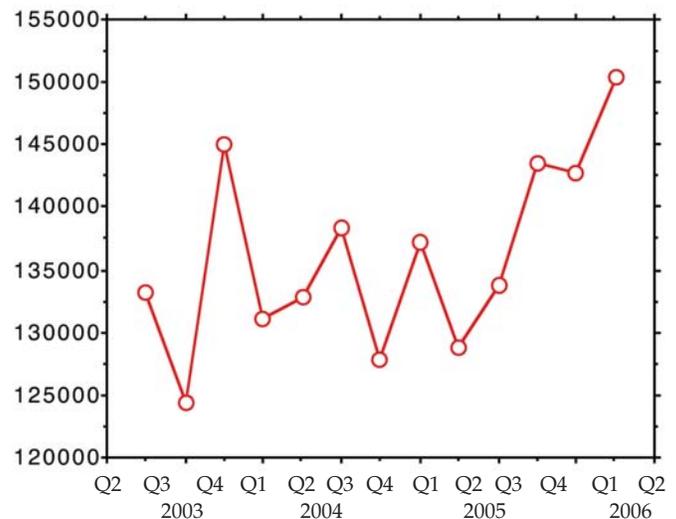
**MANUFACTURING** - Manufacturing activity in the county continues to expand strongly as reflected by industrial electricity consumption. Industrial kilowatt-hours sold by Lakeland Electric rose a seasonably adjusted 5.4% in the second quarter. The actual (unadjusted) kilowatt consumption during the first six months of 2006 is 11.7% above the same period in 2005.

**CONSTRUCTION** - Building permits and home sales in the county have fallen well below the levels of the preceding year. Last year witnessed an unprecedented spike in local housing activity as builders and buyers rushed to beat the imposition of higher impact fees. The combination of rising interest rates and higher impact fees has served to slow the local market in 2006.

UNEMPLOYMENT RATE (SEASONALLY ADJUSTED)



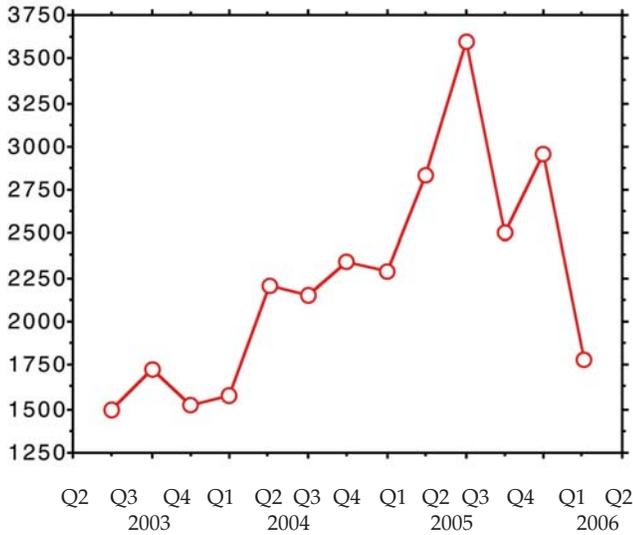
INDUSTRIAL KILOWATT HOURS (SEASONALLY ADJUSTED)



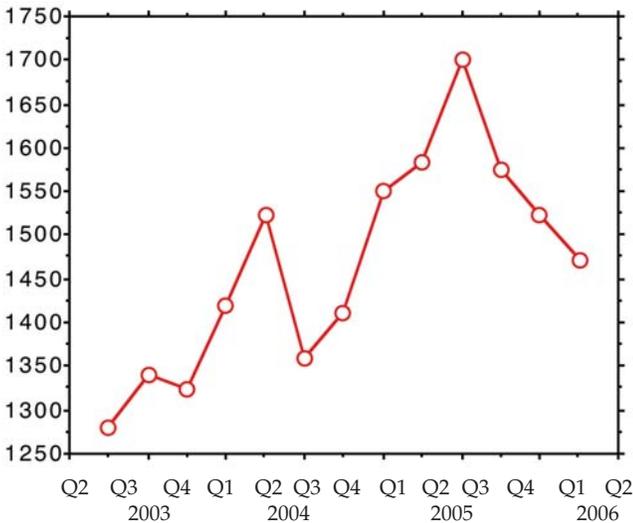
The number of homes sold locally in Quarter 2 fell 3.6% from the preceding quarter after adjusting the data for recurring seasonal variations. Actual (unadjusted) home sales in the second quarter are down 8.1% from the second quarter of 2005.

It is important to bear in mind the unprecedented strength of the Polk housing market during 2005. The decline from those lofty levels is not nearly as alarming as the numbers themselves suggest. The local housing market remains vibrant, and is likely to remain vibrant in the foreseeable future.

NUMBER OF SINGLE FAMILY BUILDING PERMITS



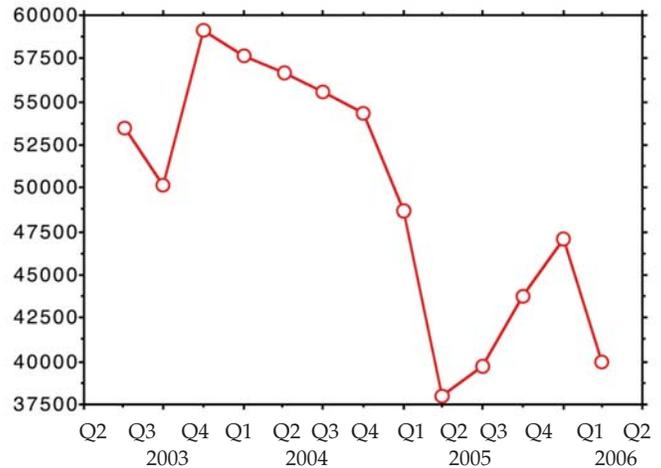
NUMBER OF HOMES SOLD



**CITRUS** – The U.S. Department of Agriculture has again lowered what will be its final forecast for the 2005-06 Florida citrus crop, primarily the result of late-maturing oranges in hurricane-hit areas of the state. The latest projection calls for production of 151 million 90-pound boxes of oranges. That is slightly better than the preceding year’s crop of 149 million boxes, but is still about a third less than harvests of earlier years.

The citrus industry has suffered through two consecutive hurricane-plagued years. Polk County ranked second among Florida counties in citrus production last year, with 24.8 million boxes harvested.

CITRUS CONCENTRATE MOVEMENT  
(000'S GALLONS)



The U.S. Department of Agriculture has proposed to impose a statewide canker quarantine that will ban the shipment of fresh Florida citrus to all other citrus-producing states, including California. The proposed regulations are to take effect by the beginning of the new Florida citrus harvest in October.

**DEVELOPMENT** – A Wisconsin developer has revealed plans to build a 105-room Hilton Garden Inn Hotel along Drane Field Road adjacent to the Lakeland Linder Regional Airport. The \$12 million project will include a restaurant, lounge, banquet hall, and meeting rooms. The developer hopes to begin construction in September.

Dayjet Corporation has announced that it will offer charter flights among five Florida cities, including Lakeland. Dayjet serves frequent business flyers, and hopes to begin the new service in the fourth quarter of this year.

Construction has finally begun on a new Sam’s Club store in South Lakeland. The 128,000 square-foot outlet is being built along Lakeland Highlands Road, just north of the Polk Parkway. The \$4.7 million project had been delayed by the presence of phosphatic clay (slime produced in the mining of phosphate) in the soil.

Taste Advantage LLC is building a facility to manufacture custom ingredients for the beverage and confectionary industries in the Ruthven Business Park II on Drane Field Road in West Lakeland. Taste Advantage has leased 12,800 square feet of space in the park, and will spend about \$3.5 million to prepare it for operation. The plant will eventually employ about 30 workers.

Hanson Pipe & Precast Inc. has begun construction of a \$45 million concrete pipe plant in Winter Haven. The 171,000 square-foot facility is located along Lucerne Road, and will employ about 50 workers when operational. Opening is projected to be in August 2007.

Maxcy Development Group has announced plans to build a multi-story condominium complex between lakes Howard and May in Winter Haven. The initial eight-story structure will contain 80 high-end condominiums. A second building will later bring the total number of residences to between 160 and 190. The total value of entire project is estimated at \$50 million.

The Ruby Tuesday’s chain plans to open another restaurant in Winter Haven. The new eatery will soon be under construction

along Cypress Gardens Boulevard at the intersection of Kehoe Way, across from the Cypress Gardens theme park. An opening is planned in early 2007.

The Bartow City Commission has approved two developments that will bring a total of 1,800 new housing units to Northwest Bartow. The first development is an adult community by Silver Companies consisting of 1,358 houses and 381 apartments. The second is a Strawbridge project comprised of 74 homes. Both developments are adjacent to E.F. Griffin Road.

The Lake Wales City Commission similarly approved the construction of two projects in June totaling about 450 townhouses. Forest Lake Townhomes will be built on the south side of Chalet Suzanne Road, and will include 406 units and a 55,000 square-foot self-storage facility. The second project contains 45 townhouses to be located north of Burns Avenue.

The Lake Wales City Commission has also approved plans for a new shopping center to be built along U.S. 27 across from the Eagle Ridge Mall. Developers plan a 240,000 square-foot shopping complex to be known as Peace Creek Plaza. It will house five major tenants and 24 smaller retail tenants.

The Florida Youth Soccer Association is relocating its operations to Lake Myrtle Park in Auburndale. The new 12,000 square-foot headquarters will employ 10 workers, and will include concession facilities and public restrooms. The association serves up to 100,000 children playing soccer statewide, and will host between 15 and 20 tournaments yearly.

**NEW OPENINGS AND CLOSINGS** – Home Depot is set to open a 240,000 square-foot distribution center in North Lakeland. The new facility is located at the intersection of Interstate 4 and SR 33 in the First Park at Bridgewater. The Bridgewater development also hosts Haverty's and JC Penney's distribution centers.

Beall's opened its newest store in South Lakeland in July. The 77,000 square-foot store is located at 3565 Lakeland Highlands Road, adjacent to Lowe's and just north of the Polk Parkway. The new outlet replaces the Beall's store located in the Palm Plaza on South Florida Avenue, which will be converted to a clearance store.

The Longhorn Steakhouse began serving patrons in South Lakeland during May. The restaurant is the newest tenant in the Lakeside Village, located along Harden Boulevard just north of the Polk Parkway.

The long-awaited Louie Mack's Steakhouse opened in June in South Lakeland. The fine-dining eatery is located at 5700 South Florida Avenue, directly in front of the CenterPoint Plaza. Louie Mack's seats 340 customers, and features an outside bar and patio area. The opening was delayed for two years as the owners focused on developing the adjacent CenterPoint Plaza.

Ker's Winghouse Bar & Grill began serving customers in South Lakeland in early August. The newest outlet of the Largo-based eatery is located on South Florida Avenue at the former location of Chili's Restaurant. The 6,000 square-foot restaurant employs about 60 workers.

Holland & Knight closed its Lakeland office located by Lake Wire in June, relocating 9 lawyers and 10 staff members to its Lakeland complex on Harden Boulevard. The Harden Boulevard facility currently houses 62 administrative employees.

AmSouth Bank opened a new office in South Lakeland in June. The latest branch of AmSouth is located at 2222 County Road 540A.

Bellacino's Pizza & Grinders restaurant opened in Winter Haven in June. The Michigan-based chain's new location is on Sixth Street at the former site of Captain D's Seafood restaurant. Bellacino's features Italian sandwiches and salads, in addition to pizza and grinders.

A La Carte Real Estate Services has opened an office in Polk City. The new office for the Orlando-based realtor is situated on Commonwealth Avenue in the former office of Woodman Realty.

**TAKEOVERS** – FedEx completed its purchase of Lakeland-based Watkins Motor Lines in May for \$780 million. FedEx officials do not anticipate any immediate changes in the 850-employee Watkins work force located in Polk County. Watkins has 10,000 employees nationwide based at 139 terminals located in 42 states.

Southpoint Distributing Inc. of Winter Haven has been purchased by Greatwide Logistics Services, a Texas-based transportation firm, for an undisclosed sum. Southpoint is a dedicated carrier for Lakeland-based Publix Supermarkets earning \$50 million in revenue last year. Southpoint has 300 employees and a fleet of 265 trucks.

Cart Land of Lakeland was bought in May by the owner of Winter Haven-based Miracle Toyota for \$1.5 million. Cart Land is one of three dealerships in Florida authorized to manage and service rental Club Car fleets.

The Lakeland Allstate Insurance Agency has been sold by Lakeland resident Jack English to Brautigam Insurance and Financial Services, an Allstate insurance provider based in St. Petersburg. The new owner will lease the present location of the agency on Lakeland Hills Boulevard and retain the current staff.

## THE NATIONAL ECONOMY

The economic expansion slowed significantly in the second quarter as price-adjusted Gross Domestic Product (real GDP) grew at a seasonally adjusted 2.5% annual rate.

That follows GDP growth at a 5.6% annual clip in the preceding Quarter 1. The surge in growth during the first quarter is regarded as a one-quarter payback for an unusually slow fourth quarter of 2005, which bore the hit for Hurricane Katrina.

The deceleration in real GDP growth in Quarter 2 reflected downturns in Personal Consumption Expenditures for both durable and nondurable goods, and a slowdown in residential construction and exports. Positive contributors to GDP growth included more consumer spending for services, plus increases in nonresidential construction and inventory investment by businesses.

**CONSUMER SPENDING** – Consumer expenditures continued to grow, albeit at a slower pace as rising gasoline prices and waning confidence reduced discretionary spending. Personal Consumption Expenditures (spending for goods and services) climbed 0.6% in both April and May, and by another 0.4% in June. Retail sales (goods only) were little changed from the preceding quarter, though were still 6.8% higher than the same quarter a year ago. Retail sales did climb an unexpectedly strong 1.4% in July following a 0.4% drop in June, but many economists regard the July performance as a temporary bounce.

Disposable personal incomes climbed 0.6% in April, 0.4% in May, and by 0.6% during June. Consumers continued to fund a portion of their expenditures by drawing on past savings and borrowing.

Savings as a percentage of disposable personal income was a negative 1.4% in April, a negative 1.6% in May, and a negative 1.5% in June.

The New York-based Conference Board reports that its index of consumer confidence rose slightly in July, while the July consumer confidence survey conducted by the University of Michigan reveals little change over the last six months. It is, however, noteworthy that the level of the Michigan index is down about 12% from a year ago.

**EMPLOYMENT** – Total nonfarm employment expanded by 112,000 in April; 100,000 in May; 124,000 in June; and by just 113,000 workers in July. The economy needs to add between 125,000 and 150,000 jobs each month just to absorb the new people moving into the labor force and keep the unemployment rate from rising.

The nation's unemployment rate slipped from 4.7% in April to 4.6% in both May and June. The unemployment rate then rose to 4.8% during July. Employment in manufacturing continues to languish, with the number of manufacturing jobs falling by 49,000 in the May-July span following an increase of 19,000 in April.

**INDUSTRIAL PRODUCTION** – An expected slowing of the industrial sector failed to materialize in the second quarter. Output at the nation's mines, factories, and utilities climbed 0.8% in April, 0.1% in May, and by 0.8% again in June to a level 4.5% above June 2005. Industrial capacity utilization rose from 81.3% in March to 81.9% in April, 81.8% in May, and 82.4% in June. The latest utilization rate is the highest since June 2000.

Factory orders slipped 2% during April, then proceeded to offset that with advances of 1% in May and 1.2% in June. Factory orders have increased in four of the last five months.

Orders for durable goods were down 4.7% in April, before countering with increases of 0.3% in May and 3.1% in June. Durable goods orders tend to be quite volatile, though they have also risen in four of the last five months as business spending works to offset a slowdown in spending by households. Inventory building by business was strong in Quarter 2 as inventories rose 0.7% in April, and 0.8% in May.

**CONSTRUCTION** – Total expenditures for new construction increased 0.2% in April, then receded a slight 0.1% in May before rising by 0.3% in June. Construction spending for the first six months of 2006 was up 8.5% from the same period in 2005.

The housing sector showed definite signs of cooling during the second quarter. Housing starts fell 7% in April, then rebounded upward 6.6% in May before falling another 5.3% in June. Building permits, an indicator of future trends in construction, were down each month of the quarter; dipping 5.4% in April, 1.4% in May, and 4.3% in June.

New home sales climbed 3.5% in April and 0.5% in May, then gave most of that back with a 3% decline in June. Sales of existing homes dropped 2.2% in April, 0.6% in May, and by 1.3% during June, bringing the inventory of unsold homes to at its highest level since 1997. Existing home sales have fallen in eight of the last ten months, but analysts disagree on whether the data point to a soft or hard landing for the housing sector.

**FOREIGN TRADE** – The nation's international trade account balance exhibited some signs of stabilization in the second quarter. The U.S. trade deficit in goods and services was \$63.3 billion in April and \$65 billion in May. The trade deficit narrowed slightly in June to \$64.8 billion. The Quarter 2 trade deficits are down a bit

from the \$65.8 billion monthly average experienced over the preceding six-month period.

**COST OF LIVING** – The Consumer Price Index (CPI) climbed an attention-getting 0.6% in April, then receded to more moderate advances of 0.4% in May and 0.2% in June. The June reading is up 4.3% from a year earlier.

Consumer Price Index (A)

Year	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		

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

**MONETARY POLICY** – The Federal Reserve has raised its target for the federal funds rate that commercial banks charge one another on overnight loans in quarter-point increments from 1% in 2004 to a current level of 5.25%. The Fed voted to leave the target unchanged at its latest meeting in August. The big question mark in forecasters' minds is where does the Fed go from here?

Lukewarm hiring through July suggests that the economic slowdown is continuing into the third quarter. That bolsters the case for the Federal Reserve to hold back on further increases in interest rate targets.

Complicating the Fed's calculus is the rising rate of inflation. The Fed's preferred measure of consumer prices – the core personal-consumption index – rose at an annual rate of 2.9% in the second quarter. That was the highest rate since 1994, and well above the Fed's comfort zone of one to two percent.

**LEADING INDICATORS** – The Index of Leading Economic Indicators maintained by the Conference Board paints an uncertain outlook. The index fell 0.1% in April and 0.6% in May. The Leading Index did manage a modest 0.1% advance in June. The index has fallen 0.3% over the last six months.

A mid-June survey of 56 economists by the Wall Street Journal yielded a consensus forecast that GDP growth will slow in the second half of 2006 to about a 2.9% annual rate.

Orders for nondefense capital goods, a widely followed barometer of business investment plans, were down 2.1% in April. Orders rebounded upward 1.3% in May and 0.4% during June.

**SUMMARY** – The pace of economic expansion slowed sharply in the second quarter as consumers grew more cautious in the face of rising energy prices and increasing uncertainty. Real GDP advanced at a 2.5% annual rate, and economists look for comparable growth in the second half of 2006.

Some forecasters note a rising threat of recession in the months ahead. The danger we face is that with high energy prices, consumers heavily in debt, a cooling housing market, and rising interest rates, the economy may be susceptible to an unexpected shock.

### THE POLK OUTLOOK

The slight contraction in the PPI in the second quarter is likely a one-time adjustment to fluctuations in the local housing market. Retail sales are running more than 8% ahead of last year. Tourism has recovered much of the ground lost after 9/11, though the effects of the latest terrorist threat plus rising gasoline prices make for an uncertain outlook for that sector.

Local population growth appears to be accelerating from the 2% annual increases experienced in recent years. We continue to experience rapid employment growth at about a 5% annual rate. The Polk unemployment rate is down to about 3.5% on a seasonally adjusted basis.

The only areas of potential concern at the moment are citrus, and how much the housing sector will cool. We look for the PPI to rebound upward about 2% in the third quarter.

### METHODOLOGY

The Polk Progress Index is developed on the basis of quarterly observations of seven 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 (.16); Total Employment (.16); Home Sales (.15); Residential Electric Accounts (.15); Industrial Kilowatt Hours (.08); Hotel/Motel Sales (.14); and Residential Building Permits (.16). The index explains 80.2% 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		Q3*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Projected
Taxable Sales (1,000's of \$)	1,454,526	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	2,064,000*	2,059,213
Total Employment	225,155	230,359	234,150	236,005	234,766	239,973	243,494	248,284	248,187	251,041	253,063	257,210	256,285
Residential Telephone Access	213,059	214,906	218,061	211,433	212,847	211,433	212,898	202,464	197,162	197,208	195,700	185,292	187,764
Business Telephone Access	76,665	74,639	73,638	72,490	72,040	72,940	69,985	69,585	68,783	69,147	69,565	69,488	68,133
Industrial Electric KWH (1,000's)	127,882	147,362	120,033	135,198	147,336	130,529	126,839	128,771	142,947	149,870	133,499	152,001	152,348
Number of Single Family Bldg. Permits	1,723	1,518	1,575	2,211	2,148	2,348	2,288	2,836	3,604	2,500	2,956	1,776	2,079
Hotel/Motel Sales (1,000's of \$)	29,679	27,125	38,134	36,832	35,607	37,569	46,928	40,766	39,126	44,926	47,564	44,000*	46,052
Number of Homes Sold	1,417	1,306	1,355	1,697	1,430	1,375	1,493	1,799	1,781	1,522	1,442	1,653	1,505
Citrus Concentrate Movement (1,000's of gal.)	50,218	59,124	57,687	56,638	55,630	54,337	48,668	38,034	39,708	43,751	47,065	39,923	40,708
Building Permits (1,000's of \$)	229,087	219,174	213,300	291,345	298,307	475,416	370,708	380,505	475,379	401,096	585,205	-	-
Number of Residential Electric Accounts	92,030	92,879	95,228	93,176	93,198	94,659	96,972	95,204	95,218	96,796	99,071	98,225	98,046
<b>POLK PROGRESS</b>	<b>191.2</b>	<b>196.7</b>	<b>197.3</b>	<b>204.5</b>	<b>198.0</b>	<b>202.1</b>	<b>213.6</b>	<b>211.6</b>	<b>218.4</b>	<b>215.0</b>	<b>222.7</b>	<b>219.0</b>	<b>224.0</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.

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**THE POLK PROGRESS**

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