

Forging ahead, with caution Tallahassee moves ahead in 2008 with dose of caution
Several factors might mitigate a downturn here

By Dave Hodges
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While other parts of Florida and the nation as a whole wait for signs of improving economic growth, the Tallahassee area manages to move forward with optimism tempered with a dose of caution.

The outlook for 2008, forecasters predict, is a slow but steady period as the local economy adds jobs in certain sectors and everyone looks for signs of an upturn in real estate, retail and residential construction.

The most encouraging sign in Tallahassee's economy has been employment growth. About 4,100 new jobs were added during 2007. "That turns out to be reasonably healthy by historical standards," said Greg Miller, chief economist for SunTrust Banks Inc. That level was better than the three previous years.

"It looks like 2007 was a rising year because the first part of the year was weaker," Miller said. The leisure and hospitality services sector's employment, for example, typically grows by 2.25 percent. Here it was 8.8 percent, making it the lead category.

"For Tallahassee, that's impressive. That's good," Miller said. Business and professional services employment rose 8.7 percent from 2006 to 2007, likewise a good performance.

Julie Harrington, director of the Center for Economic Forecasting & Analysis at Florida State University, said job growth is essential because it generates income that supports consumer spending, which accounts for about 70 percent of gross domestic product.

While consumer spending has decreased due to the combined effects of rising fuel prices and the housing slowdown, Leon County's unemployment rate remained at 2.7 percent and 2.9 percent for 2006 and 2007, respectively.

Harrington performed a linear trend analysis based on historical unemployment levels back to 1990. She carried it out to 2015 "and the average would be 3.3 percent that we could look to expect here, based on previous data (and) not any new policy changes." That's well below the national average of 5.6 percent.

The trend over the last few years is employment continuing to rise, "so we can't really say for this area that we're going to experience a decline," she added.

In its economic forecast for the Southeast, the Federal Reserve Bank of Atlanta stressed the role of housing. "The state's declining housing market has affected consumer incomes, spending and employment. As a result, Florida's government finances are likely to be under pressure in 2008. However, robust demand for the state's aerospace products and booming tourism could prove to be silver linings in the coming year," the bank concluded in its report.

"Housing in Tallahassee is gearing down," said Miller. In a state that is among the weakest half-dozen markets in the country, "Finding a healthy housing marketing in Florida is tough," he added.

Tallahassee, however, has a distinct edge in its younger population and the influx of new residents, contributing to an annual population increase of about 1 percent. That suggests the area could see positive activity ahead of the country and the rest of the state should growth continue, Miller explained.

Another stabilizing factor is the presence of state government employment and universities, which buffer Tallahassee against economic cycles, he added. Still, he predicts it will be 2009 before the area's housing market can be described as expanding.

In her analysis, "I don't see a problem here at this point in time with construction," Harrington said. "And the reason for that is just simply based on the sales tax collected for construction." From 2006 to 2007, tax receipts on construction spending climbed 20 percent in the area.

"Around the state, it's not the same case. There are some places like Fort Myers where a third of their economy is real estate based and so they are really experiencing significant loss there," Harrington said.

In the Tallahassee area, the real estate sector will have to wait on a rise in demand as prices stabilize and buyers return to the market.

Another important indicator is retail trade. While not setting the pace it has in prior years, retail had a year-over-year gain of 3.3 percent and accounted for 700 jobs out of the 4,100 total added, Miller observed.

"Retail in Tallahassee has been slowing down. That typically is an indicator that the underlying economy has already slowed down," he added. "Retailers don't know consumers are going to slow down on their spending until they (stores) see it."

At the 2008 Business Editors' Summit in January, University of Florida economics professor and forecaster Dave Denslow Jr. drew a sharp parallel between the nation's outlook and that for Florida. There are enough similarities between the two that if the country's economy worsens, Florida will follow suit.

"We are different in that we're a growing state and when growth slows down, that hurts us worse. We have a worse recession," he said. "But I really do think the fundamental determinant of whether Florida has a recession is going to be whether the nation has one. That's really what you need to look at."

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