

The global economy experienced a rebound in economic activity in 2021 after the effects of the COVID-19 Pandemic subsided in late 2020. Among leaders in the present global recovery are the U.S. economy and high growth U.S. states like Florida.

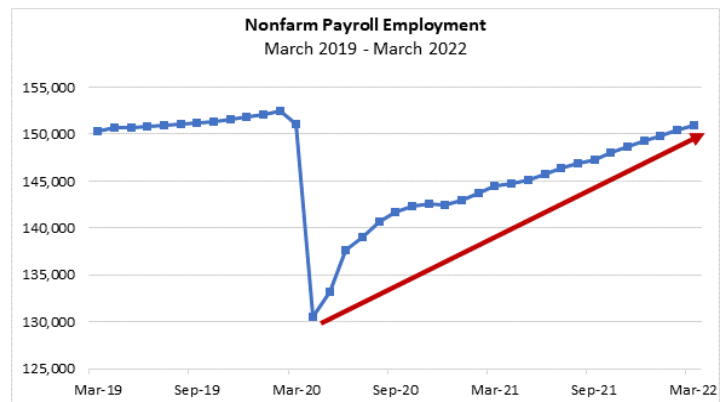
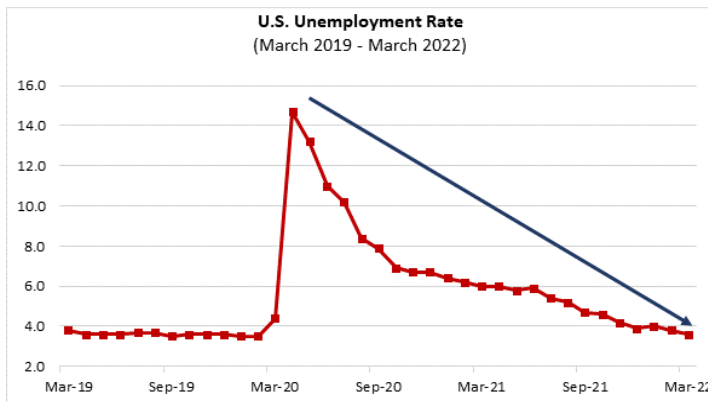
However, the invasion of Ukraine by Russia early this year, followed by Western countries sanctions, has created significant downside risks to a previously positive global economic outlook.

Table 1 below presents the evolution of the U.S. economy from 2020, with a forecast for 2022. This is followed by graphics demonstrating the positive trend in the Unemployment Rate and the sharp recovery in Payroll Employment through the first quarter of 2022.

Table 1. U.S. Key Economic Indicators

Indicators	2020	2021	2022 ^F	Commentary
Real GDP (Δ %)	-3.4%	5.7%	4.5%	Downside risks increasing second half 2022.
GDP Price Deflator (Δ %)	1.2%	4.2%	7.0%	Inflation pressures growing through 2022.
Exports (\$ Billion)	\$1,435	\$1,762	\$2,000	Slower growth expected in 2022.
Imports (\$ Billion)	\$2,351	\$2,853	\$2,600	Imports decrease modestly in 2022.
Trade Deficit (% of GDP)	3.2%	3.7%	3.0%	Lower trade deficit as % GDP, but still high.
Payroll Employment (Δ %)	-5.8%	2.8%	1.5%	Slower payroll employment growth this year.

Sources: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), U.S. Census, International Trade and F/The Washington Economics Group® (WEG®).



Source: Bureau of Labor Statistics (BLS).

The Florida economy, especially the large South Florida Region, is experiencing a strong economic upturn. The State and Region are benefiting from the growth of the national and international economies, a growing population and a positive business climate. Another positive development is the structural changes toward a high-wage, high-skill economy in both goods and services production.

Tables 2 and 3 below highlight the evolution of key economic indicators for both the State and South Florida economies. The outlook for 2022 is also presented briefly in the Commentary Section of the tables.

Table 2. Florida Key Economic Indicators

Indicators	2020	2021	2022 ^F	Commentary
Real GDP (Δ %)	-2.8%	6.9%	5.0%	Modest slowdown, but still strong expansion through 2022.
Population Growth (Δ %)	0.4%	1.0%	1.5%	A positive development for economic activity.
Exports (\$ Million)	\$59,412	\$74,675	\$80,000	Export growth at slower pace.
Imports (\$ Million)	\$75,667	\$89,413	\$90,000	Modest slowing in import growth.
Top 3 Export Markets				
1. Brazil	\$13,473	\$16,696	\$17,000	Trade activity likely to remain strong in 2022.
2. Colombia	\$3,751	\$4,838	\$5,000	
3. Chile	\$3,598	\$4,652	\$4,800	
Taxable Sales (Δ %)	-2%	30%	15%	Back to trend growth next year after recovering in 2022.

Sources: Bureau of Economic Analysis (BEA), U.S. Census Bureau, ACS, Enterprise Florida, Inc. (EFI), Florida EDR and F/The Washington Economics Group®.

Table 3. South Florida* Key Economic Indicators

Indicators	2020	2021	2022 ^F	Commentary
Real GDP (Δ %)	-4.6%	6.0% ^F	4.0%	Strong growth, but at slower pace through 2022
Population Growth (Δ %)	-0.6%	1.0%	1.2%	A key driver of economic activity.
Exports** (\$ Million)	\$50,976	\$64,815	\$65,000	Continued expansion through 2022, at slower rate.
Imports** (\$ Million)	\$45,762	\$55,460	\$56,000	Steady increase, but at slower pace in 2022.
Top 3 Export Markets				
1. Brazil (\$ Million)	\$10,668	\$14,069	\$15,000	Moderate growth supports economic activity.
2. Colombia (\$ Million)	\$3,627	\$4,655	\$5,000	Expected modest growth as economic activity slows.
3. Chile (\$ Million)	\$3,534	\$4,554	\$4,900	Modest expansion through 2022.

Sources: Bureau of Economic Analysis (BEA), U.S. Census Bureau, ACS, Enterprise Florida, Inc. (EFI), Florida EDR and F/The Washington Economics Group®.

While most economic indicators remain positive for this year, there are significant downside risks starting in late 2022 and into next year. Among the principal downside risks are the following:

- Inflationary pressures are increasing, caused by a growing fiscal deficit, previously accommodative monetary policy and supply-chain disruptions.** There is an increasing possibility that inflationary pressures will become part of wage and business decisions. In essence, inflation **could become** a structural problem that monetary policy cannot solve alone without a recession.
- The growing war in Ukraine is already creating a surge in commodity prices as that region is not producing and exporting wheat and other commodities, while sanctions against Russia are leading, in part, to increasing oil prices. In essence, the purchasing power of the important consumer sector is declining. If the war intensifies without a solution this year, the outlook for economic activity in 2023 will be negative.

3. The Federal Reserve (FED), taking into account the just presented problems, has started to tap the monetary breaks. Higher interest rates through a less accommodative monetary policy will impact consumer demand for “big ticket” items purchased on credit as well as the booming residential housing sector.

In essence, there are increasing downside risks to the current economic recovery and expansion. This suggests a conservative approach in 2023 for business planning. Among factors to consider in the planning process are the following:

1. Tighter controls over human resources expenditures.
2. A more conservative inventory management, especially firms involved in the interest-sensitive consumer sector like retail establishments.
3. Refinancing interest-sensitive liabilities now since the “price of money” (interest rates) are likely to be higher through 2023.

In conclusion, economic activity has so-far remained strong in 2022. However, downside risks are increasing due to growing inflationary pressures and exogenous factors such as the Ukraine war with Russia. This is causing a drop in consumer sentiment and the start of FED tightening policies. These developments suggest a slower pace of economic activity late this year, and into 2023.



About the Washington Economics Group® (WEG®)

Founded in 1993 in the City of Coral Gables, WEG® is a boutique economic consulting firm specializing in comprehensive economic solutions for businesses. WEG® engages a limited number of clients each year in order to ensure the best client experience within premier areas of specialization, and possesses expertise in the economies of Florida, the U.S., Latin America as well as the global economy and emerging markets.

