

The economic outlook for the full year of 2023 is murkier than usual. On the positive side, labor market indicators remain strong as evidenced by a very low unemployment rate and continued moderate payroll jobs expansion. However, tight monetary policy, expected through most of the year, suggests a slowing of economic activity as the economy enters the second half of '23. It is worth noting that monetary policy works with a significant lag relative to changes in the real economy. Table 1 below highlights the expected evolution of economic activity through '23.

Indicators	2021	2022 <sup>F</sup>	2023 <sup>F</sup>
<b>Real GDP Growth (Δ %)</b>	5.9	1.2	1.0
<b>Personal Income (Δ %)</b>	7.5	3.1	4.0
<b>GDP Price Deflator (Δ %)</b>	4.5	7.3	4.0
<b>10-Year Treasury Bond (%)</b>	1.4	2.9	2.0
<b>Exports of Goods &amp; Services (\$ Billions)</b>	\$2,478	\$2,956	\$3,452
<b>Imports of Goods &amp; Services (\$ Billions)</b>	\$3,397	\$4,029	\$4,178

Sources: Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, US Census, International Trade and Forecasts (F) by University of Central Florida (UCF), Institute for Economic Forecasting, and The Washington Economics Group (WEG).

Real GDP growth for the current year is expected to remain below potential for the second year in a row. The GDP Price Deflator, the broadest measure of inflation, will likely rise at a 4 percent annual rate. While inflation is expected to be lower than in 2022, it will be still above the 2 percent level targeted by the Federal Reserve (FED). Therefore, expect FED policy to maintain a tight stance for at least the next six months.

The Florida economy, due to its top business climate, will perform significantly better than the national average. The evolution of key economic indicators of the State are presented in Table 2 below. Taxable Sales, a coincident indicator of economic activity, will expand at double digit rates again this year. This will mark the third year in a row of double-digit rates of growth in this important indicator. Furthermore, Personal Income and trade activity are foreseen to continue rising from the strong increases of last year.

Indicators	2021	2022 <sup>F</sup>	2023 <sup>F</sup>
<b>Population Growth (Δ %)</b>	1.0	1.2	1.3
<b>Total Taxable Sales (Δ %)</b>	26.2	12.3	15.0
<b>Personal Income (Δ %)</b>	9.6	4.2	4.0
<b>Total Exports (\$ Billions)</b>	\$62	\$73	\$80
<b>Total Imports (\$ Billions)</b>	\$72	\$86	\$90

Sources: US Census Bureau, Florida EDR, % Change October over October 2021 and 2022, Bureau of Economic Analysis, Enterprise Florida, Oct 2020 and 2021 YTD and Forecasts (F) by University of Central Florida (UCF), Institute for Economic Forecasting, and The Washington Economics Group (WEG).

In conclusion, economic activity is forecasted to continue expanding this year. However, there are **downside risks** to this positive outcome. FED policy could remain tight for a longer period than expected. This policy stance could create recessionary conditions in the second half of the year, leading to a greater than expected reduction of aggregate demand.

The downside risks to the outlook suggests a conservative policy to business expense management. This includes tight management of inventory levels and personnel, while intensifying monitoring of the economic environment and FED policy.



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