

NOVEMBER 2009



eFLORIDA MARKET INTELLIGENCE: GLOBAL ECONOMIC UPDATE

The Changing Global Economic Landscape

The “Great Recession” – the first synchronized global economic downturn since World War II – now appears to be ending. Several of the world’s major economies have turned a corner, and are now growing again. But the rebound is being led by emerging markets, even as some high-income economies remain stagnant or in recession. This is resulting in a fundamental realignment of the world economy. Along with slower overall economic growth prospects, these trends are bound to have a profound impact on Florida’s international commerce in the coming years.

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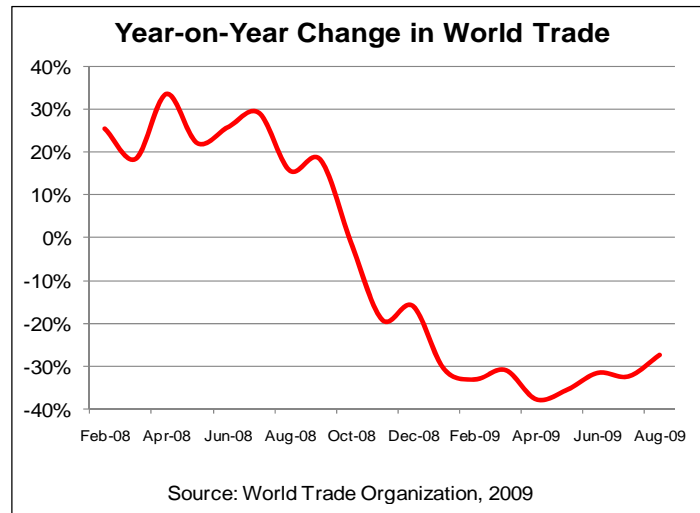
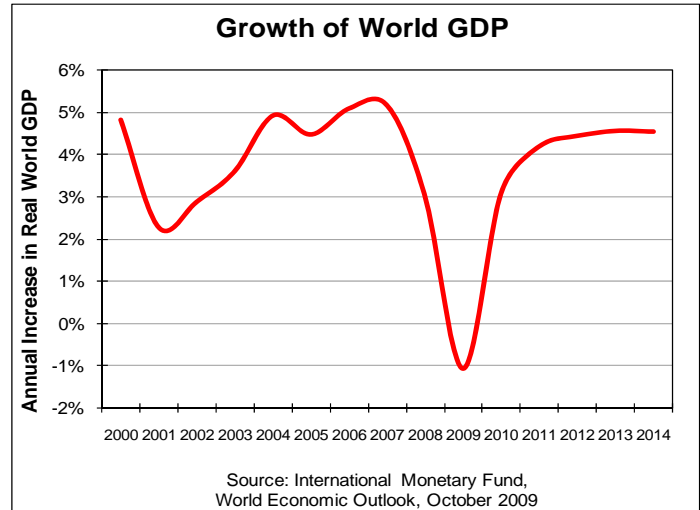
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Global Economic Update: Recovery Underway

The onset of the financial panic in 2008 triggered a precipitous drop in aggregate global demand, as evidenced by falling factory orders, production, shipments, and employment around the world. For the first time in more than half a century, most of the world went into a synchronized and protracted economic downturn. Particularly hard hit were economies heavily dependent on the exports of capital goods, seeing double-digit declines for their products, as well as exporters of raw materials. Producers of tradable services, too, saw demand for their exports plunge, especially in sectors such as transportation, tourism, banking, and advertising. Images of shuttered factories, idled container ships, parked aircraft, empty hotels and long unemployment queues seemed to define the first half of 2009. According to the Economist Intelligence Unit (EIU), the world economy is now about 8% smaller than it would have been had the crisis not occurred.

The policy response to the steepest global downturn since the Great Depression of the 1930s has been unprecedented both in its scope and the degree of international coordination. Central banks around the world slashed interest rates and flooded the markets with liquidity, while dozens of countries announced fiscal stimulus packages designed to prop up economic activity in the absence of private demand. This unprecedented policy intervention appears to be yielding results: there are unmistakable signs that the world economy as a whole bottomed out earlier this year, and that it is now once again in growth mode. Global output and trade are not yet back up to pre-recessionary levels, but economic activity in many countries is now once again expanding.

Most economic forecasts have been revised upward. The EIU now expects real global output to contract by 1.3% this year, followed by positive growth of 3.2% in 2010, 3.4% in 2011, and 3.8% in 2012. The forecast for world trade is similar, but amplified: after a -9.4% fall in 2009, the world's total merchandise trade volume is set to grow by 3.7% next year, 4.6% in 2011, and 5.2% in 2012. While positive, these figures are significantly lower than in years past, and are indicative of the lower speed limit for the world economy in the aftermath of the Great Recession.



A Reordering of the World Economy

As the world economy struggles to get moving again, it will be held back by a damaged financial system, scarcity of credit, higher unemployment, mounting government fiscal deficits, and rising protectionist sentiment. According to the EIU, the world economy has been so weakened by the events of the past year that its "natural" rate of growth has probably declined, and aggregate global output is not expected to return to pre-recessionary levels until about mid-2013. And with economic growth likely to be slower for years to come, many of today's unemployed workers may never reenter the labor force.

But countries whose banking systems fared better during the recent financial panic, as well as those with ample currency reserves instead of mountains of debt, will have a natural advantage in leading the recovery. This means that, unlike previous recoveries, the rebound from the Great Recession of 2008-09 is mostly being led by emerging economies, whose share of global output is growing. Even as many of the mature economies of Western Europe and Japan continue to struggle, countries such as China, India, and Brazil are expected to account for much of the world's growth over the next few years, increasing their weight in the world economy. Moreover, the relative rankings of the world's major national economies will change substantially over the next half decade, according to recent forecasts by the International Monetary Fund.

This realignment of the world economy will have a profound impact on Florida's international commerce, altering existing patterns of trade and investment but also presenting fresh opportunities for Florida companies and workers. With markets outside the United States expected to outpace growth in the domestic U.S. market for years to come, it is clear that the path to robust, sustainable growth for many Florida firms will lead overseas.

Below is a look at the economic outlook for some key markets for Florida's international trade, tourism, FDI, joint ventures, and strategic partnerships

Rank	Exports in US\$	2008	Aug 2008 YTD	Aug 2009 YTD
1	China	1,431	939	731
2	Germany	1,465	885	700
3	USA	1,287	1,032	671
4	Japan	782	536	350
5	France	603	423	297
6	Italy	540	292	254
7	South Korea	422	239	226
8	UK	461	330	219
9	Hong Kong	363	325	199
10	Russia	472	239	179
11	Singapore	338	379	168
12	Spain	269	183	136
13	Taiwan	256	133	125
14	India	185	189	99
15	Brazil	198	131	98

Source: WTO

Rank	Imports in US\$ billion	2008	Aug 2008 YTD	Aug 2009 YTD
1	USA	2,169	1,497	1,012
2	China	1,133	786	608
3	Germany	1,206	839	590
4	France	705	511	346
5	Japan	763	493	344
6	United Kingdom	635	451	302
7	Netherlands	582	406	278
8	Italy	556	259	256
9	Belgium	470	281	221
10	Hong Kong	389	304	215
11	Canada	408	330	204
12	South Korea	435	390	200
13	Spain	403	210	177
14	Singapore	320	215	153
15	Mexico	318	224	149

Source: WTO

	1999	2004	2009	2014
Australia	402	641	920	1,126
Brazil	587	664	1,482	2,156
Canada	661	992	1,319	1,713
China	1,083	1,932	4,758	8,283
France	1,458	2,061	2,635	3,089
Germany	2,146	2,749	3,235	3,486
India	439	669	1,243	1,908
Italy	1,202	1,730	2,090	2,355
Japan	4,369	4,606	5,049	5,792
Korea	464	722	800	1,168
Mexico	520	759	866	1,274
Russia	196	592	1,255	2,128
Spain	619	1,046	1,438	1,568
United Kingdom	1,503	2,204	2,198	2,919
United States	9,354	11,868	14,266	17,419

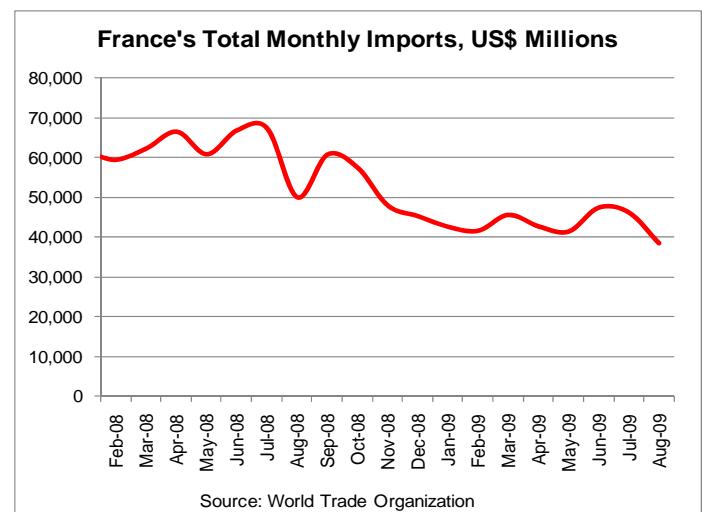
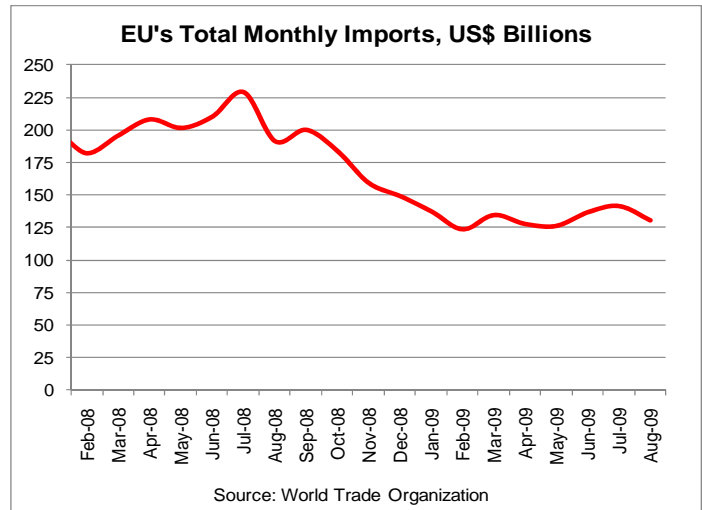
Source: International Monetary Fund

Outlook for Europe

This region is of immense importance to Florida's trade and tourism, in addition to being the preeminent source of foreign direct investment. The pace of economic recovery across Europe has been uneven, with those countries most exposed to the real estate bubble (Spain, Ireland, UK) and/or financial meltdown (UK, Germany) facing the steepest downturns and slowest rebound. Central and Eastern European economies in particular will face some challenging times ahead, including austerity packages that may curtail their demand for imports. Although European countries can be expected play a reduced role in the world economy in the coming years, they are likely to remain among Florida's most significant commercial partners, particularly for FDI.

The 16-nation **Eurozone** as a whole has emerged from recession after five consecutive quarters of negative growth. Propelled by rising export sales, euro-area GDP rose at an annual rate of 1.6% in Q3 2009. For all of 2009, GDP is forecast to fall by 4.1%, followed by feeble but positive 0.5% growth next year, then annual GDP growth in the 1-2% range thereafter. The depreciating dollar relative to the euro is making American goods and services extremely price competitive in European markets, and Florida an inexpensive travel destination for Europeans, while also making the United States a more attractive destination for European FDI.

Germany: Europe's largest economy is rebounding from the slump in global demand for capital goods, on which the mighty German export machine is so dependent. Now leading the Eurozone's nascent recovery, Germany's GDP expanded at an annual rate of 2.8% in Q3 2009, though for all of 2009 it is forecast to fall 4.8%, then to grow by 1% in 2010. Imports are down 10% in 2009, but set to grow 3.1% in 2010 and 4.4% in 2011. The recession notwithstanding, German companies continue to be among the world's leading foreign investors, and are likely to remain among Florida's top sources of FDI and advanced technology for years to come.

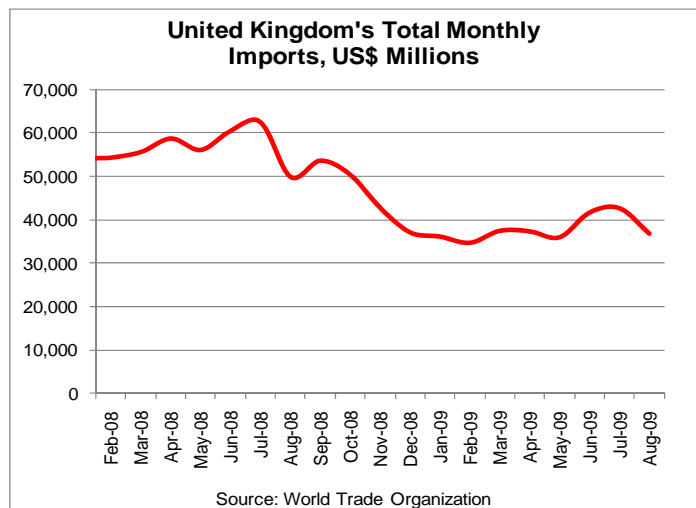
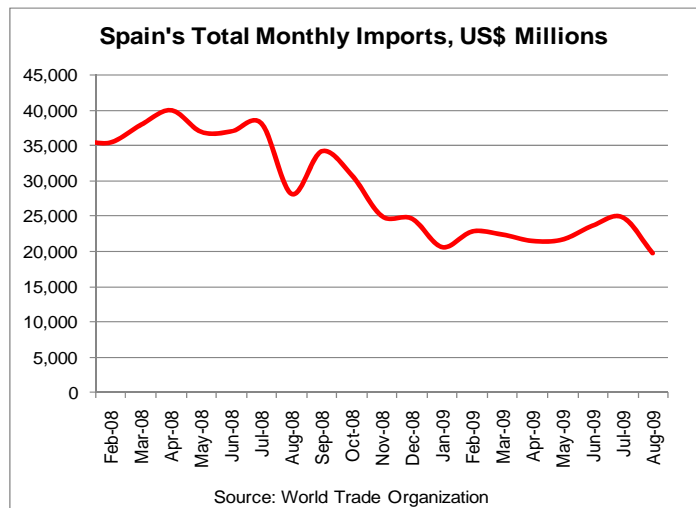
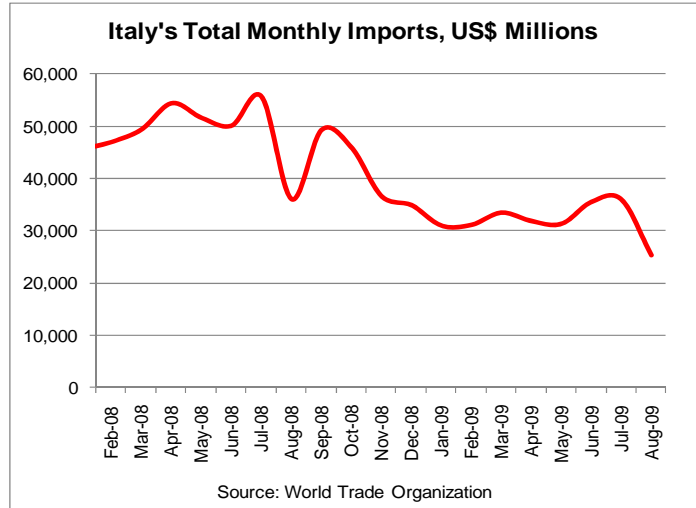


France: France has been less affected by collapse in world trade than many others, with domestic consumption supported by strong automatic stabilizers. GDP has fallen by 2.3% this year, but is expected to grow by 0.9% in 2010. Imports are down 10% in 2009, but are set to expand 3.1% in 2010. French companies are among the most globally-oriented for further growth, and the prospects for their continued expansion in Florida remain good.

Italy: The Italian economy is slowly emerging from recession, with low confidence and business investment. GDP grew 2.4% in Q3 2009, but will fall 5% for all of this year, then grow by 0.6% in 2010 and 0.8% in 2011. Imports are down 15.5% in 2009, and are expected to rebound by 1.5% next year. Given the weak domestic market, Italian companies continue to seek out growth opportunities by expanding internationally, including in Latin American countries.

Spain: Spain's sharp housing market correction is resulting in a longer and deeper downturn than in many other countries, with output falling for six consecutive quarters. GDP is set to fall by 3.8% in 2009 and by another 0.8% next year. Imports are down 19% this year, but will grow 1.7% in 2010. Spain's banking sector remains in good shape, with well-capitalized institutions continuing to expand abroad. Spanish firms overall have done well in international markets, buoyed by their strong presence in Latin America. Due to the language advantage as well as the prevalence of smaller companies in Spain, Florida will likely remain a major gateway for Spanish trade and investment in the Americas.

United Kingdom: One of Florida's most important markets for trade and tourism, as well as a top source of FDI, but also among the countries most affected by the global downturn. The financial crisis and falling house prices continue to restrain business and household spending, while deteriorating government finances will necessitate deep cuts which will hurt future growth. The UK remains in recession, from which it will emerge very slowly: GDP will fall by 4.6% in 2009, rebounding by 0.6% in 2010.

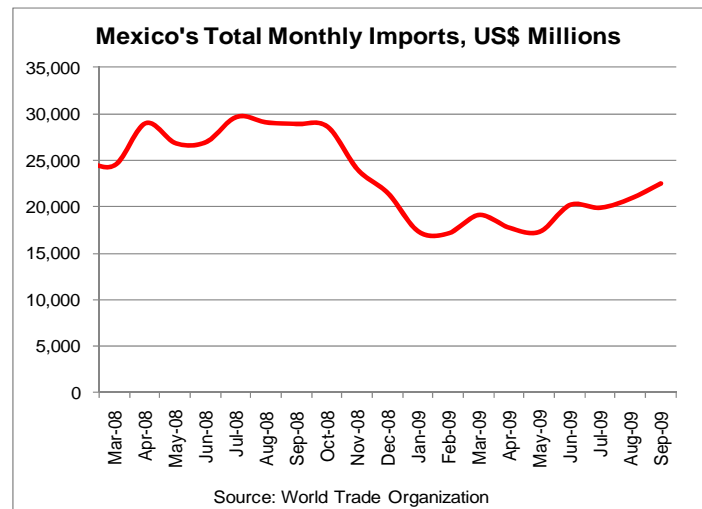
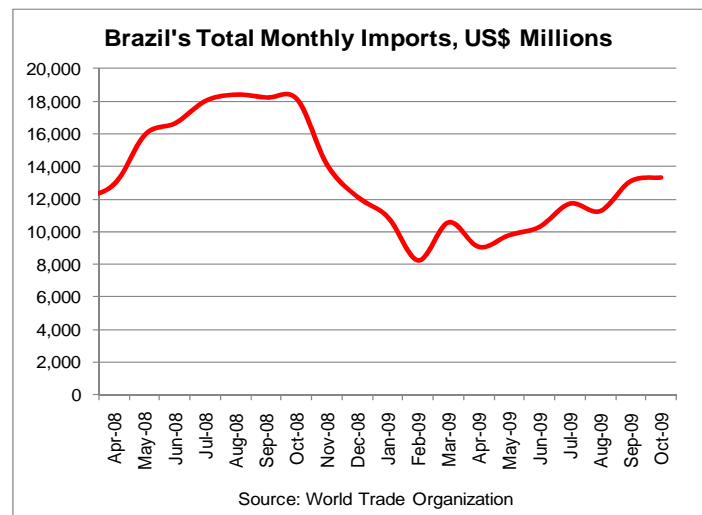


Outlook for the Western Hemisphere

The majority of Florida's main trading partners are in the Americas. However, the region is also gaining in importance as a source of outward foreign direct investment, with emerging multinational companies from countries such as Brazil, Mexico, and Chile. It is also an area where Florida has inherent geographic, transportation, cultural, and linguistic advantages.

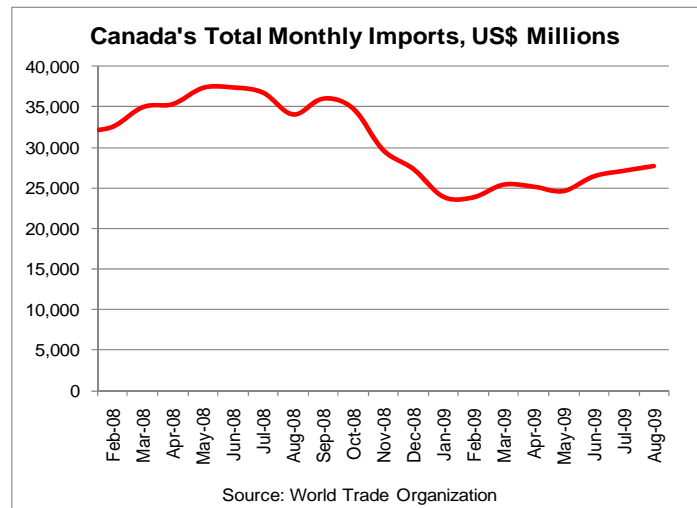
Latin America & Caribbean: Latin American countries were impacted by the global financial and economic crisis, but the region as a whole is now rebounding, aided by reviving demand for raw materials from Asian markets, massive fiscal stimulus, and high levels of bank lending. After contracting by 2.9% in 2009, the region's GDP is forecast to grow by 2.7% in 2010, then at an annual average rate of about 3.5% in 2011-14, a bit slower than the 5.2% rate seen in the boom years of 2004-08. Growth will be led by Brazil, Chile, Peru, and Colombia, while the prospects are relatively less favorable for Mexico, Argentina, Venezuela, or small Caribbean nations. Depreciating currencies will make U.S.-produced goods and services more expensive.

Brazil: Florida's top trading partner and one of the world's most resilient economies during the recent downturn, due to its limited exposure to the slump in global demand and a large internal market. The Brazilian economy emerged from recession in Q2 2009, expanding at a rate of 1.9% quarter-on-quarter. For all of 2009, GDP will be unchanged, followed by growth of 4.8% next year and at least 4.5% per year thereafter. Brazil's imports are down 9.5% this year as a whole, but have been increasing since May and are set to grow 10.3% each in 2010 and 2011. In addition to being a magnet for companies from all over the world eager to capitalize on its tremendous growth opportunities, Brazil is set to emerge as an increasingly important source of outward foreign direct investment. The country is also an important source of international visitors to Florida, though visa restrictions continue to hamper both business and leisure travel.



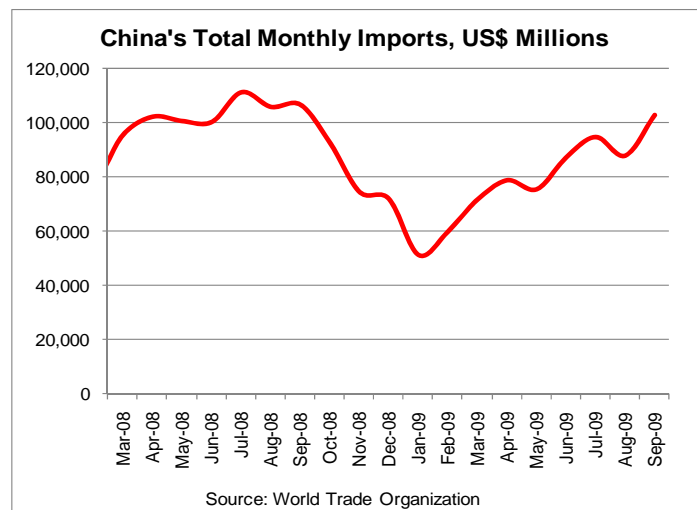
Mexico: Due to its close links to the struggling U.S. economy, Mexico has been hit hard by falling exports and the auto industry's troubles, combined with a drop in domestic demand, the flu outbreak and the slump in tourism. GDP will fall by 7.1% this year, then grow by 3% in 2010. Output should reach pre-recession levels by late 2011, and the longer-term growth prospects for the Mexican economy are better. In addition, Mexican companies continue to aggressively expand abroad, including in Florida.

Canada: One of Florida's largest export markets as well as a key source of visitors and FDI. GDP will fall by 2.6% this year, rebounding by 1.9% in 2010, 1.4% in 2011 and 2.6% in 2012. Unlike many other countries' banking sectors, Canada's has remained in fairly good shape during the recent global financial crisis, fueling investment and growth. Canada's imports are expected to see an 18% fall for all of this year, but they have been rising since last spring and are set to grow by 5.9% in 2010 and 2.4% in 2011. Appreciation of the Canadian dollar and continued weakness in the all-important U.S. market are acting as constraints on faster growth, but Canada's long-term economic fundamentals remain sound and the country should in every sense continue to be a key international market for Florida.



Outlook for Asia-Pacific

Asia-Pacific: The importance of the Asia-Pacific region to the world economy as a whole has increased dramatically in recent years, and it is now leading the global economic recovery. Excluding Japan, the region as a whole will expand by 3.7% this year – a sharp slowdown from the GDP growth rates seen in previous years, but still one of the best regional performances. Due to its dependence on exports, Asia was hit hard by the global financial panic and drop in demand in late 2008 and early 2009. However, recovery is now underway across most of the region, driven by strong fiscal stimulus packages that have boosted domestic demand. GDP growth is expected to accelerate to 5.7% next year, followed by annual growth of about 6.4% in 2011-14. Economies in the region remain very trade-dependent, yet there is some evidence of a rebalancing of demand towards domestic consumption. Most countries' banking sectors remain well capitalized, which should help the region's growth prospects. There is still much scope for expanding Florida's commerce with this region, particularly by tapping into non-traditional markets for growth opportunities in trade, investment, tourism, and scientific/technical cooperation.

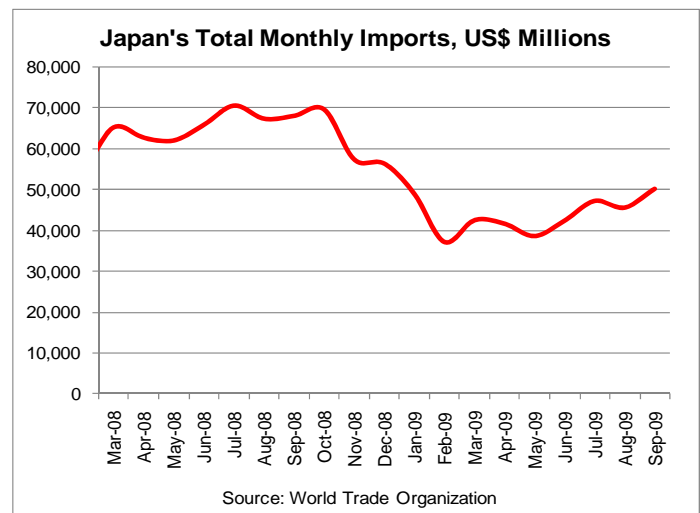
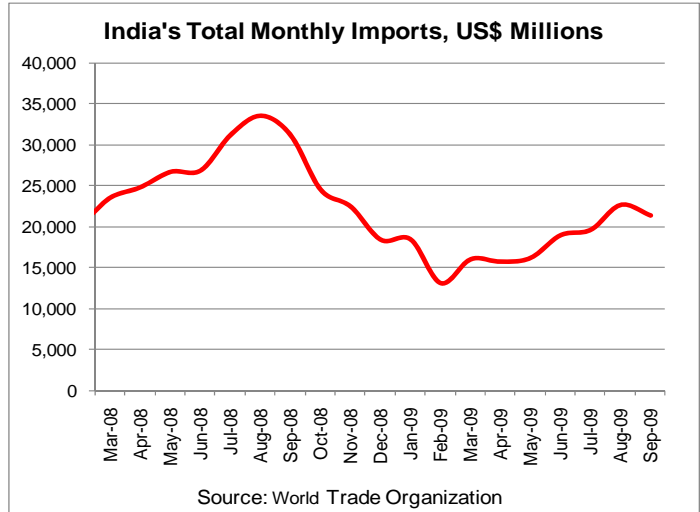


China: Arguably now the world's best-performing economy, China has overtaken Germany as the world's largest exporter and is poised to soon surpass Japan as the second-largest economy on the planet. GDP will grow by 8.2% in 2009, 8.7% in 2010, and 8.5% in 2011. China has the world's largest holdings of foreign currency and is now the chief overseas creditor to the United States. Cash-rich Chinese firms have been snapping up assets all over the world,

though so far this acquisition activity has largely been focused on natural resources and selected manufacturing firms offering tech-transfer potential. Florida is well positioned as a springboard for Chinese companies eager to tap Latin American markets. The Chinese government's massive stimulus package is boosting domestic demand as well as China's appetite for imports, which have been growing since last February. Now outpacing the growth in China's exports, imports are set to increase by 7% in 2010, 9.5% in 2011, and 12.8% in 2012.

India: India is an emerging giant expected to greatly increase its weight in the global economy in the coming years, yet for Florida it is largely an untapped market except for fertilizer exports. Comparatively less exposed to the recent downturn in global trade, India is outperforming most other Asian economies. After three years of GDP growth exceeding 9%, India's economy is expected to expand by a robust 5.5% in fiscal year 2009/10 (April-March), then by 6.5%, in 2010/11. Since agriculture accounts for just 18% of India's GDP but 60% of jobs, this year's poor monsoon season will weigh heavily on consumer demand and therefore GDP growth. Although imports have fallen by about a third this year, annual import growth will average 12.3% in 2010-11. This is a very promising market for Florida's exporters, while India's excellence in sectors such as IT, biopharma, aerospace/defense, and emerging areas such as tourism/hospitality hold much promise for collaboration with Florida institutions, including investment in Florida by India's rising multinational firms eager to tap into growth opportunities throughout the Americas.


Japan: Japan is a key trading partner for Florida as well as a top source of FDI. For the time being still the world's second-largest economy, Japan has been among the hardest hit by the global slump in trade in late 2008 and early 2009. Though Japan's GDP grew at annualized rates of 2.3% in Q2 2009 and 4.8% in Q3 2009, for all of this year it is still expected to have fallen by 6.2%. Positive GDP growth of 1.2% is forecast for 2010, but domestic demand is likely to remain sluggish, with continued deflationary pressures.



Japanese firms have a strong cash position and have been investing heavily overseas throughout the recent recession, in part aided by a dizzyingly strong yen which has harmed exports but made foreign acquisitions cheap. Florida's goods and services face mixed prospects in the Japanese market: their enhanced cost competitiveness will be offset by weak Japanese consumer and business demand, while Florida and the U.S. will continue to be exceptionally cheap travel destinations for Japanese visitors. The prospects for Japanese FDI in Florida have improved, as Japanese firms compensate for weak domestic demand by aggressively expanding overseas, including in Latin America.


-  **Australia:** The "Wonder Down Under" is the world's only high-income economy to avoid recession, and growth is now accelerating. Helped in particular by China's voracious appetite for Australia's mineral wealth, the country's GDP will grow by 1% in 2009, and by 1.7% next year. Imports are down 7.9% this year, but are expected to rebound by 7.5% in 2010. Outside the mining sector, too, the county's economy is showing signs of renewed vigor. Australia has one of the world's most sophisticated economies, including excellence in high value-added industries like IT, biotechnology, and financial services. Unsurprisingly, Australian companies have been expanding aggressively overseas in recent years, also emerging as a key source of foreign investment in Florida. The prospects for further expanding Florida's bilateral trade, investment, and other commercial ties with Australia are excellent.

Outlook for Other World Regions

-  The outlook is mixed for the remaining regions of the world. On the whole, economies highly dependent on the export of raw materials, including energy, were hit hard by the global downturn, but as commodity prices have rebounded in recent months, their prospects have improved. The world's poorest countries will continue to struggle, hit hard by the recession.

-  **Middle East & North Africa:** The economies of this region, many of them highly reliant on energy exports, have as a group fared comparatively better than many other parts of the world during the recent downturn. Led by the Gulf states and Israel, the region is expected to see positive GDP growth of 0.8% this year, followed by increases of 4.4% each in 2010 and 2011. While imports are down by about a fifth this year, they are forecast to rebound by 5.5% in 2010.
-  **Sub-Saharan Africa:** African countries have seen a dramatic slowing in their rate of growth earlier this year, hit by the combined effects of reduced global demand for commodities and falling financial remittances from other regions. But many economies in the region are now growing once again. For all of 2009, real GDP will have fallen by 1.7%, growing by 3.1% next year and 4.7% in 2010.
-  **Russia and CIS:** Most countries in this region have recently suffered massive contractions in economic activity, currency devaluations, and in some cases major upticks in inflation. Regional GDP is forecast to fall by 5.7% this year, then to grow by 1.5% in 2010 and 3.5% in 2011.

Conclusion: International commerce is likely to be a key driver of Florida's economic recovery!

-  This brief analysis of the outlook for international markets reveals that global commerce is likely to be among the leading sectors pulling Florida's economy out of recession. Given the robust growth anticipated for many markets in the Western Hemisphere and beyond, Florida has a unique opportunity to accelerate its economic growth by enhancing its participation in the global marketplace. And since jobs related to international commerce tend to be of the higher-skill, higher-wage type, a rapid expansion in Florida's international commerce will also make a significant contribution to the quality of economic growth in the state in the years to come. ●