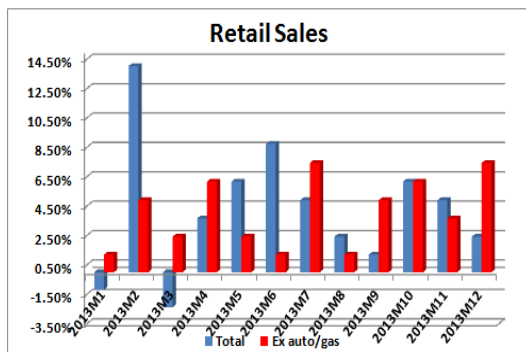


## ECONOCAST™ UPDATE – January 20, 2014

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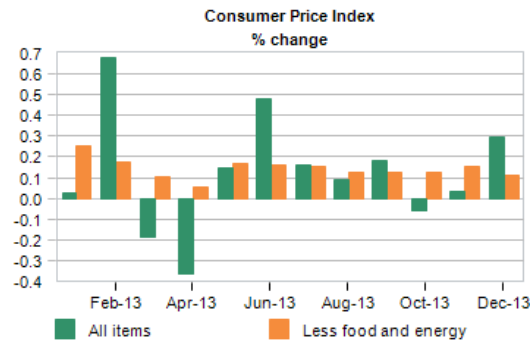
### U.S. Economy – Fourth Quarter Growth Near 4%

Growth appears to have accelerated in 2013Q4 up to nearly 4% on an annual basis boosted by stronger consumption and higher business investment. December retail sales growth slowed to 2.4% from 4.9% in November. However, this was all due to lower car sales, which will be temporary. Core retail sales were up at a 7.4% pace in December.

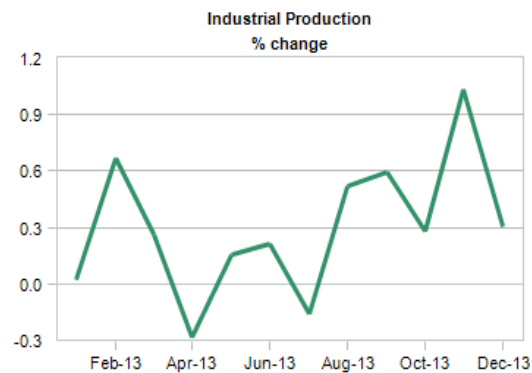


Inflation remains restrained. The CPI rose for the first time in three-months all due to rising energy prices. The core CPI rose 0.1%, decelerating from the 0.2% reading in November. The annual trend in both headline and core inflation remained well below Federal Reserve policy thresholds, so these data support the continued very slow

unwinding of bond purchases while holding short term rates near zero.

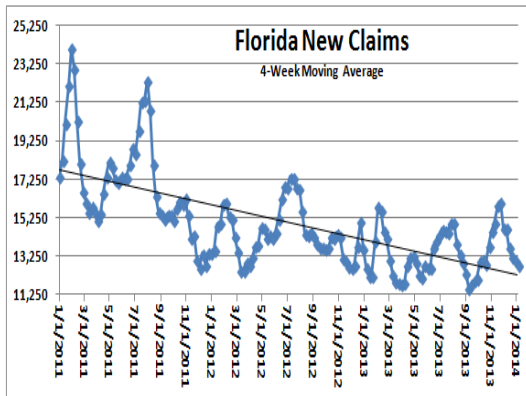


In line with the purchasing managers index report, industrial production rose 0.3% in December supported by strong gains in manufacturing. Manufacturing production soared up 6.5% on an annual basis, the strongest since very early in the year, and momentum will carry into early 2014.

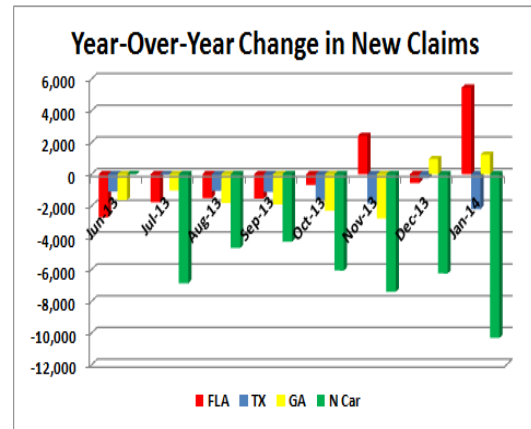


## Florida Economy: Job Growth Appears to be Slowing

The latest data on new claims for unemployment compensation for Florida suggest that job growth has slowed once again. After trending sharply lower in 2012 and into the first half of 2013, the momentum has stalled and new claims actually increased on a year over year basis in October and in December.



While the very cold weather in December and January explain some of the weakness in national employment as reported for December, this explanation does not apply to Florida. Furthermore, comparing new claims on a year over year basis for Florida, Texas and Georgia reveals that the weakness in Florida is consistent with the trend in Georgia. However, it is not consistent with continued progress in reducing new claims in Texas and North Carolina. Furthermore, even in Georgia the reversal in the trajectory for new claims was quite modest. Florida's data on new claims looks much worse by comparison.



These data on new claims point to something more specific to Florida as the cause of weakness in the labor market. Two factors are likely the culprits. First, rising interest rates have taken the steam out of housing markets nationwide and particularly in Florida. It is not the case that sales volumes are dropping. Instead, rising rates have arrested the acceleration in sales volumes for new and existing homes. Since housing is relatively more important to Florida's economy than to Texas, North Carolina or Georgia, it is reasonable to expect a stronger impact on Florida's job market.

Second, hiring in the healthcare sector, and in particular at hospitals, has slowed significantly over the last few months. This appears to be a reaction to provisions in the Affordable Care Act that limit hospital reimbursement rates from Medicare patients. As hospitals adjust to this new environment, they have limited hiring. Florida's healthcare sector is relatively large, so a slowing in healthcare hiring is likely to have an outsized impact on Florida's labor market.