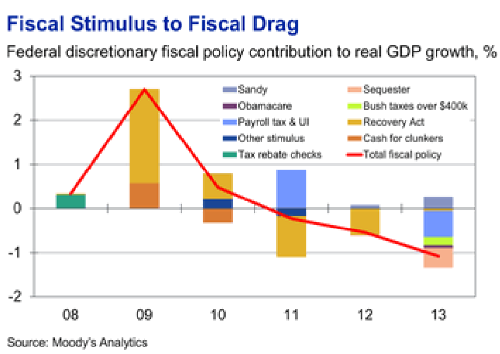
# ECONOCAST™ WEEKLY

## ECONOCAST™ UPDATE – February 11, 2013

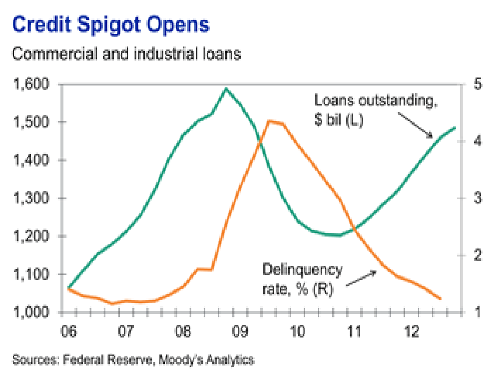
**U.S. Economy – Fiscal Drag + Monetary Stimulus = 3% Growth**

Real GDP grew at a 2% pace in 2012. Growth would have been 3% but for the fiscal drags from all levels of government. Although state and local government budgets will stabilize in 2013, the fiscal drag at the federal level will slice over 1% from GDP with most of this coming in the first half of the year from rising payroll taxes and taxes on high income households.




Fortunately, monetary policy is more than offsetting the drag. The fed's quantitative easing program, including purchasing $85 billion per month in Treasury and mortgage securities, is providing massive monetary stimulus. Quantitative easing has stimulated economic growth by driving down long term interest rates pushing yields on the 10-Year Treasury to 2% and mortgages to historically low levels. Financial markets have rallied strongly creating a huge swing in wealth. Residential construction and home prices have risen substantially. While the Fed's balance sheet has is now three times larger than normal, there is little risk of inflation in the near term given the economy's excess capacity.

Lower interest rates, higher asset prices, and steady if unspectacular growth in GDP have improved credit quality and the desire of banks to lend. Credit standards are easing again and credit is flowing.

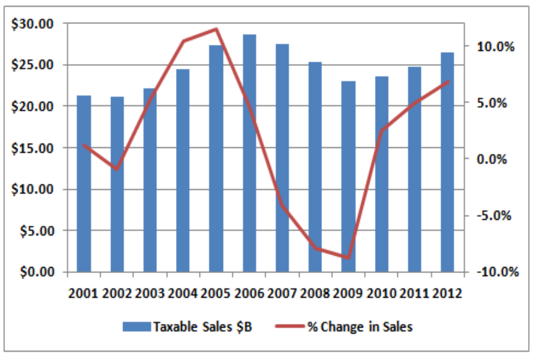



Although fiscal austerity, and the drama surrounding fiscal policy making, will weigh on the economy during the 1st half of 2013 growth still be about 2% reflecting improving fundamentals and monetary stimulus. Growth will accelerate to

3% or more in the 2nd half as policy parameters become more settled.

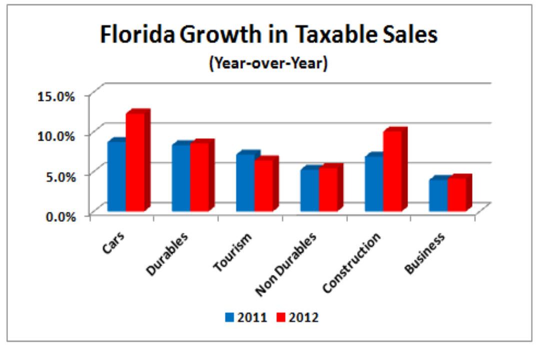
## Florida Economy: Stronger Sales

Florida's economy will benefit from this national environment of slowly accelerating growth in real GDP and very low interest rates. Population growth is recovering faster than projected producing strong gains in sales. Sales rose 5% in 2011 and at a near 7% pace through November 2012 (latest data available). Only during the housing boom years of 2004 and 2005 did sales grow faster.

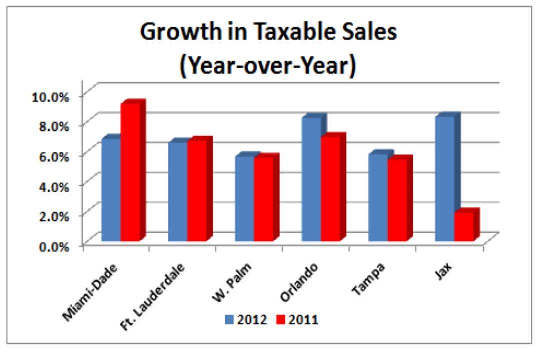



These data on taxable sales also show the terrible impact the Great Recession had on Florida's economy. Despite three years of recovery along with substantial gains in population and in employment, taxable sales in 2012 are still below the peaks set back in 2004 and 2005

Strong gains in auto sales and in construction paced the gains in 2013. The rebound in construction sales is most welcome marking the recovery in this important but beleaguered part of Florida's economy. Tourist related sales also accelerated in 2012 up 7.1% compared to a healthy 6.4% increase in 2011.




Among Florida's major metro areas sales gains were particularly strong in Jacksonville and Orlando, each area posting gains of over 8%. Sales gains slowed noticeably in Miami-Dade. While still respectable at nearly 7%, Miami-Dade could not quite maintain the momentum of 2011.




It is notable that all of the State's major metro areas enjoyed relatively strong gains in taxable sales in 2012. Although all of Florida's metro areas experienced health sales gains, Florida's panhandle was relatively weaker from Pensacola to Tallahassee. Palm Coast and Daytona were also weaker.