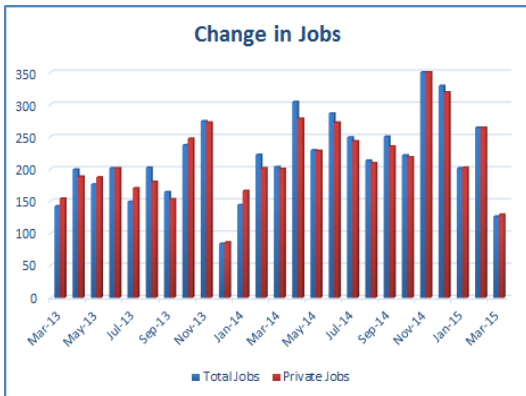


## ECONOCAST™ UPDATE – April 6, 2015

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### U.S. Economy – Job Growth Slows

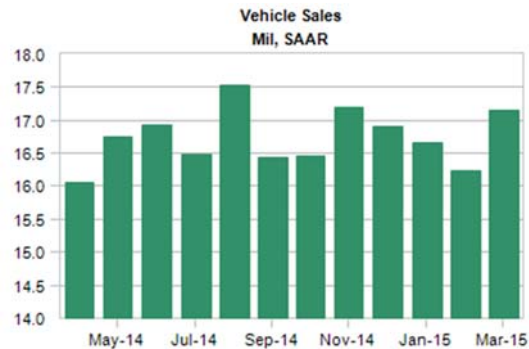
Job growth was only 126,000 in March, way below expectations, and the data for January and February were revised down a total of 69,000. Weaker job growth reflects in part the impact of lower oil prices on producers and the effects of the high value of the dollar on manufacturing.



The weak March report is not cause for alarm. Oil prices seem to have stabilized. If so, then the worst effects are behind us with the beneficial impacts flowing from lower oil prices still ahead. And wages rose 0.3% in March, and they are 2.1% higher than last year. In addition, a number of one-time factors appear to have depressed the March data. For instance, much of the weakness came in the leisure and hospitality

sector which I suspect will be revised substantially. Finally, March employment will be viewed as a disappointment only because trend job growth is stronger now than at any time during the last expansion and is on par with the boom years in the late 1990s. The job market is still on pace to add more than 3 million jobs this year. The last time this occurred was in 1999.

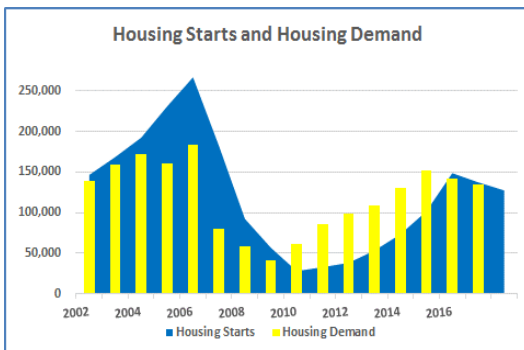
Fundamentals remain very strong. Job growth is way up and wage gains are accelerating. As expected, retail sales are bouncing back strongly with better weather. Car sales are very weather sensitive. With better weather March auto sales sped up strongly to 17.2 million units SAAR, 4% higher than in 2014, which is notable since there was one less weekend in March this year. This points to higher retail sales ahead.



## Florida Economy: Why Florida's Housing Starts are Low

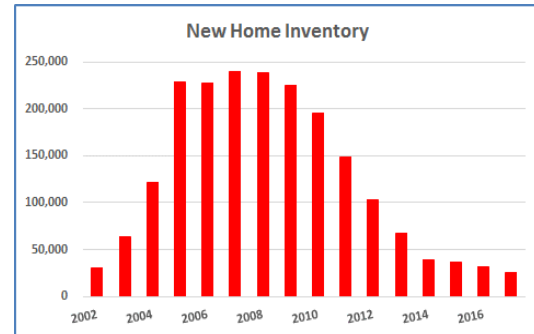
Housing has failed to recover fully from the Great Recession for a variety of reasons including: (a) excess inventory from the boom which must still be absorbed; (b) weakened household balance sheets; (c) an aversion to homeownership after the crash; and (d) tighter lending standards. As a result, rental units have sharply increased their share of housing demand.

In Florida there was massive overbuilding during the boom. Starts exceeded 260,000 in 2005, enough to house 250,000 new households and satisfy second home demands too. As the bust unfolded, job growth slowed sharply and then Florida lost over 720,000 jobs from 2008-2010. Not only did this slow population growth, but household formation dropped even faster as people took on roommates and some moved back with family. This shrinkage in household formations exacerbated the decline in housing demand. Even as builders drastically cut back on housing starts, housing demand fell even faster.



As a result, the inventory of housing units built up very quickly and to unprecedented levels. The inventory of excess units soared above the 200,000 unit level in 2005 and

remained there through 2009. Only recently has the inventory level fallen to what can be considered to be a normal volume of inventory.



The good news is that the excessive levels of inventory appear to have been largely absorbed at this juncture. As a result, the constraint on starts posed by excess inventory has been lifted. So, housing starts will be significantly stronger over the next few years.

Furthermore, the rebound in employment growth over the last few years will stimulate household formations and reduce the average household size. This will stimulate housing demand.

Finally, Florida's population growth is also accelerating. In migration of retirees is up strongly supported by the rebound in housing markets east of the Mississippi from where Florida receives most of its retirees. With both prices and sales volumes higher retirees can more easily sell their homes at prices above their mortgages which makes a move possible. Stronger job growth in Florida also attracts in more labor force aged migrants. With more population there is more demand and more employment creating a virtuous economic cycle supporting stronger growth and higher demand for housing.