

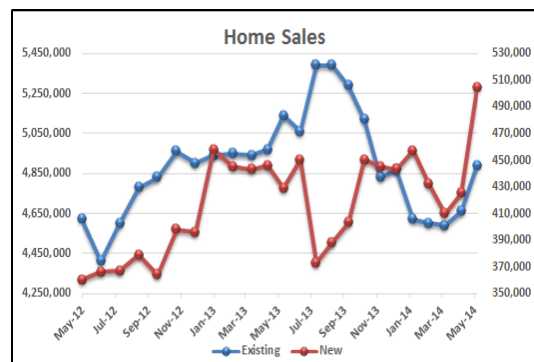
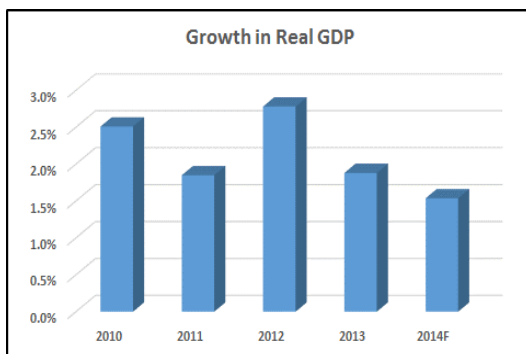
ECONOCAST™ UPDATE – June 30, 2014

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U.S. Economy – The New Normal

Revisions to real GDP for 2014Q1 and the dips in consumption spending reported this week cast a pall over the outlook for 2014. Since this recovery began, economists including me, expected growth to breakout of its torpor caused by the Great Recession and reach 4%. But each time the economy seemed poised to do so over the last three years, growth has fallen back. This year it seemed that it was just the weather and that growth would rebound this quarter. But, instead real consumption spending contracted in April and again in May. As a result, even if my expectation for growth at 4% in the 2nd half of 2014 is correct, the very slow start will result in an annual growth rate of just 1.5% for 2014. This looks like what is the new normal for this business cycle.

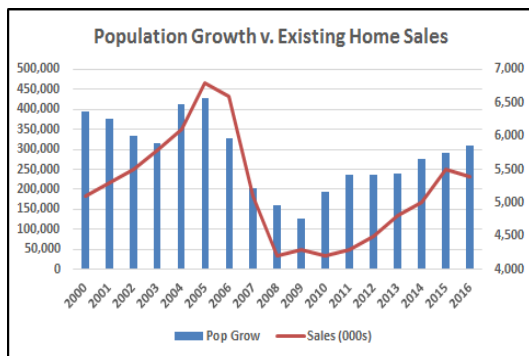
There was some good news this week from the housing market. Existing home sales soared up 4.9% in May to 4.89 million annualized units - the highest monthly gain since August 2011 (5.5%). Yet, even with this gain sales remained 5% lower than May 2013. Increasing inventories are restraining house price appreciation, which is up just 5.1% from May 2013, compared with year-to-year appreciation of 12% to 13% in mid-2013. And new home sales surged in May to 510,000 annualized units. Demand for new homes should continue rising over the remainder of the year, spurred by job growth and rising incomes. Consumer confidence also rose strongly in May, housing is still affordable, and mortgage lenders are slowly expanding credit.



Florida Economy: Florida's New Normal for this Cycle

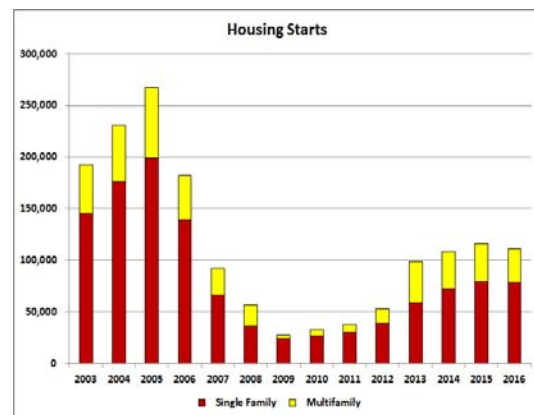
With the U.S. economy growing steadily, but slowly, Florida's growth rate has likely peaked for this cycle. Growth will continue, but by historical standards gains in population and employment will remain well below their averages achieved between 1970 and 2005. Over this period population growth average about 350,000 per year. Since 2011 population growth has been about 235,000 per year.

The modest rebound in existing home sales in the U.S. is part of the reason. Since many who move to Florida must first sell their existing homes, sales of existing homes is highly correlated with Florida's population growth. While existing home sales have rebounded, they remain far below their prior peak restraining population growth in Florida. I expect that existing home sales will continue rising this cycle, but even at their peak in 2015, existing home sales are far below prior levels. As a result, Florida's population growth will rise from 2014-2016 but it is destined to remain moderate by historical standards remaining below even the prior average pace of growth.

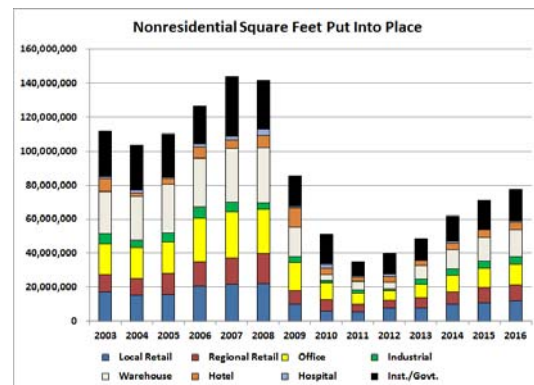


With slower population growth most other economic metrics will also show only moderate gains during this cycle.

For example, housing starts cannot rise sustainably without supporting gains in household formations which are largely driven by population growth. Second home sales add to the demand for housing, and such sales have increased. But, this segment is too small to drive the overall numbers. Rising employment levels will increase the number of households relative to the population base, and this too supports home demand. But, the market is still absorbing inventory from the housing boom and bust which restrains starts. Altogether, starts will rise but they will peak far below the prior boom levels.



Similarly, the gains in nonresidential construction will also be modest for this cycle. Without more population growth gains in retail, warehousing, and office space are limited.



Thus, this looks like the new normal for Florida too.