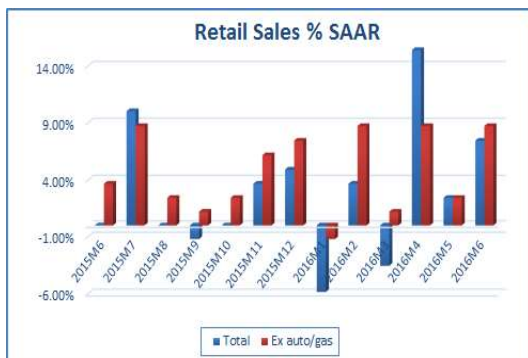


ECONOCAST™ UPDATE – July 18, 2016

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U.S. Economy – Retail Sales Rebound as Growth Accelerates

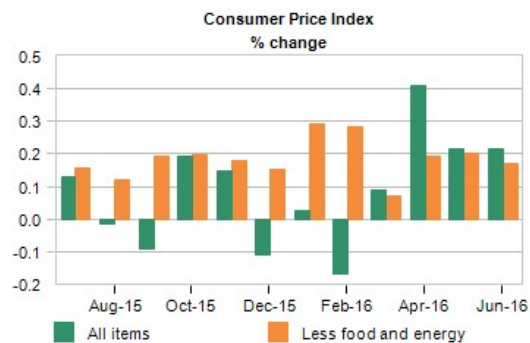
Retail sales rebounded strongly in June jumping 0.6%, and they are up 2.7% compared to last year. Core sales, excluding autos and gasoline, soared 0.7% higher in June, up 4.7% over last year. The gains were widespread paced by a whopping 3.9% leap in building supply store sales. Sales have risen strongly in two of the last three months. Since sales are measured in nominal dollar terms and retail prices have declined on average, the strength in sales understates the true volume of the increases. So, real retail sales are growing by more than 5% compared to last year.



The prospects are good for continuing gains. Although job growth has decelerated of late, it still remains strong enough to promote rising

wages and higher disposable incomes, the key drivers for consumer spending.

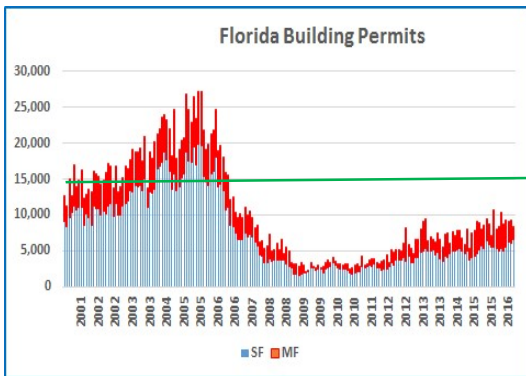
Inflation is slowly rising. Consumer prices edged higher in June and core prices rose by about 0.2% for the third month in a row. Higher energy prices pushed producer prices up 0.5% in June, but core pricing was flat. The higher value of the dollar and continuing modest commodity prices is keeping inflation below the Fed's target levels, even as prices for U.S. services have accelerated.



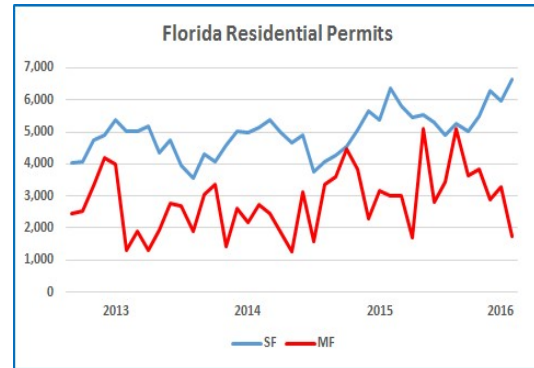
The U.S. economy has bounced back in the second quarter, but the implications for Fed policy are not significant. The incoming data have been solid, but this is pre-U.K. Brexit. The Fed will want evidence that the spillover from Brexit onto the U.S. economy is in fact small. The jury is still out.

Florida Economy: Housing Remains in Balance, Except in Miami-Dade

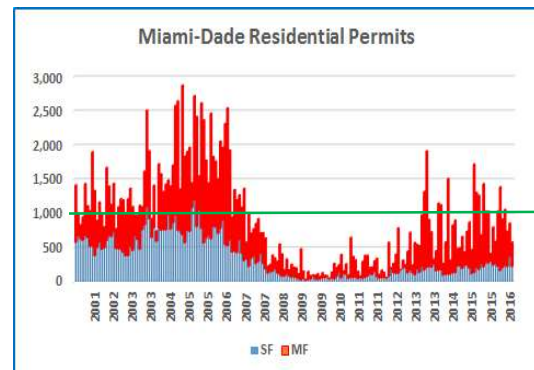
The latest data for residential building permits indicates that, overall, Florida's housing markets remain in balance with rising demand. Except as noted below, there are few signs that markets will overshoot sustainable demand levels. Since 2000 the equilibrium level of monthly building permits is about 15,000. At this level residential construction will keep pace with demand from household formations and second home demand. Markets overshoot during the boom and have underperformed since then as the excess units were absorbed.



The excess inventory is now absorbed, and markets are regaining equilibrium. While permit volume is still depressed, volume is rising. Furthermore, it is single-family permits that have accelerated of late, even as multifamily permit volume has slowed precipitously. These cross currents are ultimately beneficial for the market. Prior to their pullback, multifamily permitting was running ahead of market demand threatening another over supply. However, multifamily permitting has slowed so far this year bringing their volume back into balance.



However, although the statewide permit data have returned to a sustainable path before excess inventory was allowed to build, this is not the case in every Florida market. In particular, multifamily permitting and construction has overshoot demand in Miami-Dade. Equilibrium is about 1,000 permits per month for Miami-Dade. However, a surge in multifamily permits since 2013 will result in a significant buildup of inventory. Many planned condominium projects have already converted to rental apartments, but this does not resolve the excess supply problem. Furthermore, demand will continue to decline in Miami-Dade, because of the rising value of the dollar and the continuing deterioration in the economies of Venezuela, Brazil and Argentina.



Otherwise, demand for Florida housing will accelerate through 2018 pushing permits and starts higher.