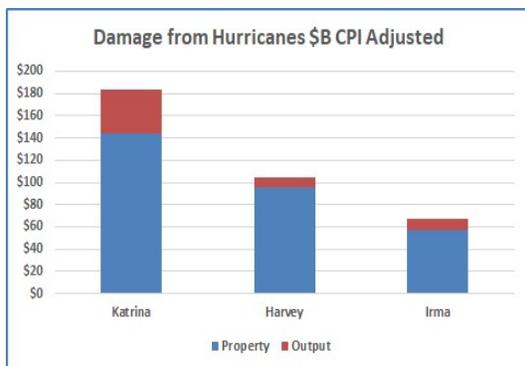


ECONOCAST™ UPDATE – September 18, 2017

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U.S. Economy – Hurricanes and 3rd Quarter GDP

Hurricanes Harvey and Irma caused significant property damage in Texas and Florida. Combined property losses are comparable to Katrina. However, the economic disruption and loss of output was far greater in Katrina. The governmental response was slow; the infrastructure was destroyed; and electric power took months to fully restore. In stark contrast, the governmental responses to Harvey and Irma were prompt, and the electric service was for the most part restored within a week. As a result, oil production and refining came back on line quickly in Texas and Florida’s tourism industry is opening back up fast.



Ultimately, the economic damages are largely covered by the

combination of private insurance and government grants.

Disaster	Amount \$B	Aid/Loss %
Katrina	\$157	110%
Andrew	\$55	65%
Mathew	\$16	40%
Harvey	\$75	75%
Irma	\$57	95%

Prior to these storms, real GDP was tracking close to 3% this quarter. The storms will reduce growth by 0.5% this quarter and boost it by 0.5% in the 4th quarter with recovery work.

Going forward, much depends upon policy makers. The Fed is committed to: (a) shrinking its balance sheet, which will push long term rates higher; (b) and to another hike in the funds rate in December with three more in 2018. The recent bi-partisan agreement to raise the debt ceiling and extend the budgetary process through December was encouraging. Whether this holds up remains to be seen. Congress will have to address these issues again soon along with tax reform, infrastructure funding, and healthcare. It is a big agenda, and there are big risks for the economy if policy makers fail in their work.

Florida Economy: Irma and the Outlook for Florida

Irma will have only a small and transitory impact on Florida's overall economy. For the most part, there was little flooding and limited damage to infrastructure. Most importantly, electric power was restored quickly preventing major economic losses. The tourism industry is mostly back on line, and most airports and businesses are operating again.

Most of the damage was to residential property, and most will be covered by insurance and government grants. Permanent damage will be modest, except in the Keys, Marco Island, and Naples. The permanent damage comes from a lack of flood insurance, and the prospect that some areas of the Keys will not be rebuilt.

Category	Temporary \$B	Permanent \$B
Property		
Residential	-\$40	-\$10
CRE	-\$7	-\$1
Infrastructure	-\$10	\$0
	=====	=====
Total	-\$57	-\$11
Income		
Construction	40	0
Non Services	-10	-5
Services	-4	-2
	=====	=====
Total	\$26	-\$7

Temporary impacts are actually positive as insurance and government grants stimulate construction and restoration activities. The non-services include tourism and related activities that incurred significant short-term losses. However, the industry has come back on line quickly and many visitors will

rebook their trips. Nevertheless, there will be some net loss. Also, many service workers will not be able to fully recapture their losses.

The biggest negative impact is on agriculture, particularly to the citrus industry. Citrus production has dropped from a near-term high of 13 million tons in 2003-4 to just 7 million tons last year, mostly because of citrus greening disease. Groves in southwest and central Florida bore the brunt of the storm including Polk, Hendry, Highlands, Hardee and DeSoto counties that account for most of Florida's orange production. This additional fruit loss will jeopardize the processors, and many are likely to close. Fruit losses are estimated at 50%-75% in southwest Florida, and with their fields flooded there will be extensive tree loss too. Many growers will not replant. All of this on top of the prior 50% drop in production since 2003-4 will result in the closure of a significant portion of the processors.

Fortunately, Florida's economy was performing strongly, and we expect strong growth to continue. The latest employment data show an annual gain over 225,000. Population growth should top 350,000 in 2018 with 250,000 new jobs.

