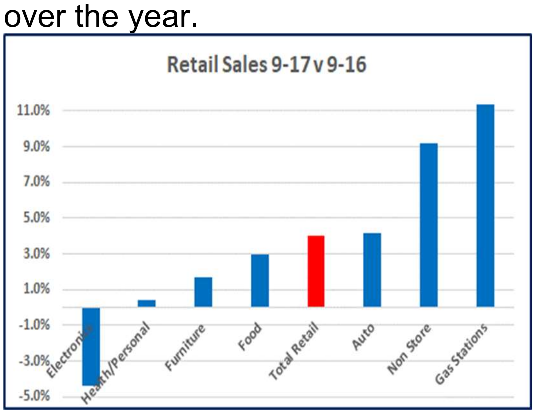
ECONOCAST WEEKLY

ECONOCAST™ UPDATE – October 16, 2017

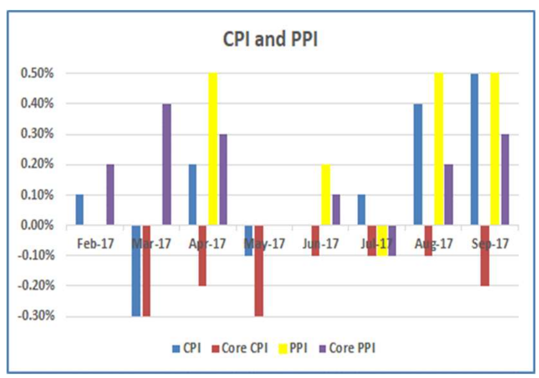
U.S. Economy – More Hurricane Impacts

Hurricanes Harvey and Irma had large, but transitory, effects on the data for retail sales and inflation. Retail sales jumped 1.6% in September; because of higher gasoline prices, replacement of storm-damaged property, and postponed sales. But, the underlying trends remain unchanged. On a year-over-year basis, retail sales were up 4%, but the results were very mixed. Gasoline sales were up 11%, mostly due to rising prices, and ecommerce sales rose 9%, but sales of electronics were down over 4% and sales of health and personal products and furniture were weak over the year.



The data on job openings confirms the view that last month's fall in jobs will be quickly reversed. Job openings remain high at 6.1 million and hiring stayed strong at 5.4 million, so the gap remained historically high despite the hurricanes. With strong labor markets and slowly rising wages retail sales will continue to increase.

Inflation remains surprisingly low, even with the hurricane-caused spikes this month. The CPI rose 0.5% in September, but all of this was due to food and especially energy prices. Core prices continued to fall in September for the 7th month in a row (red bars). The trajectory for core producer prices over the last two months suggests that prices may be firming. Core PPI prices rose 0.2% and 0.3% recently.



The weakness in prices may cause the Fed to raise rates more slowly than previously expected, but a December increase is still likely.

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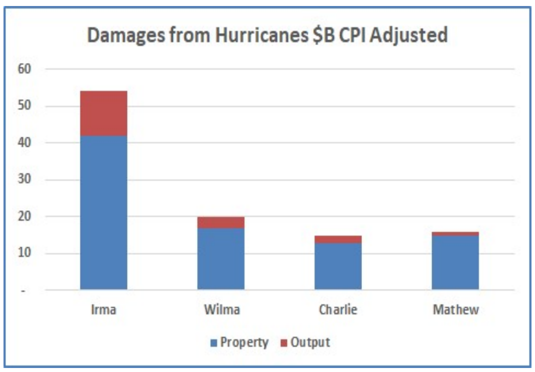
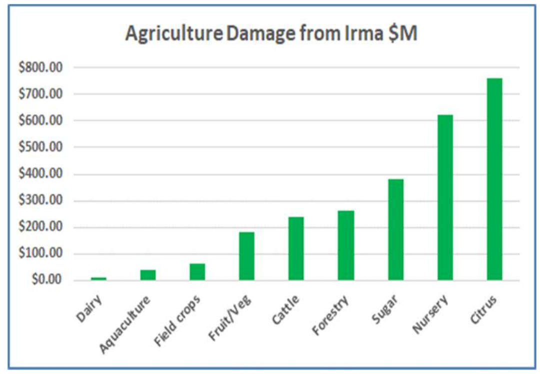
Florida Economy: Irma Impact Transitory Except for Citrus

The impact of Irma has become clearer, and for the most part less than expected with the big exception of Florida's citrus industry. So far, insured claims only total $4.6 billion according to Florida's Office of Insurance as of October 6, but this total will rise substantially. With 25% of homes in the Keys destroyed and tremendous damage in Collier County (Naples), I estimate property damage will total more than $40 billion – much larger than recent hurricanes since Irma hit all of peninsular Florida.



The property damage will be temporary and most of it is insured. The rebuilding will add to economic activity in 2018. However, the loss of economic output, at $12 billion or 1% of GSP, is much higher with Irma than prior storms. The State's economy is much larger and the impacts on tourism and agriculture cannot be replaced going forward. Agricultural losses at $3 billion account for 1/4 of the lost GSP. Florida's citrus industry was particularly hard hit. Production in 2016-17, prior to Irma, had already dropped by nearly half from its prior peak, because of greening. Not only will this year's crop fall another +/- 40%, but many trees will die and shrinking production will cause the closure of many processors.



While Irma impacted all of peninsular Florida, power was quickly restored in most areas allowing the State's businesses to come back on line rapidly. Also, Florida's economy was growing strongly before Irma hit, and most property losses are insured. The lost GSP will be replaced in 2018 with the rebuilding. Finally, fall is the low season for Florida's tourism industry limiting the losses, and except for the Keys most hotels and attractions came back on line quickly.

In other news, President Trump took executive action last week to: (a) stop payments to insurance companies that lower deductibles for low-income customers and (b) loosen rules allowing companies to purchase policies with fewer features. Taken together, these actions will negatively impact insurance availability for 1.6 million Floridians.