

ECONOCAST™ UPDATE – July 23, 2018

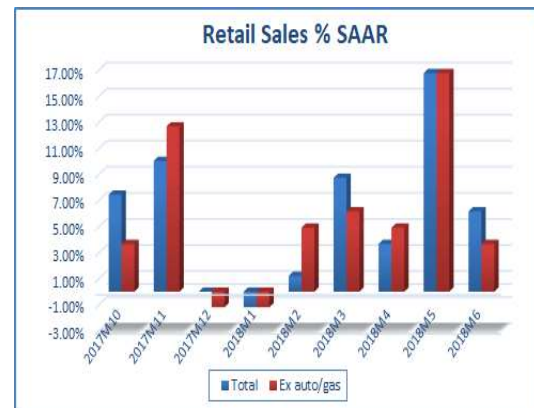
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U.S. Economy – Rising Political Risks

The political risks to the economy rose significantly last week as the President: (a) sided with Putin over election meddling; (b) called the EU a foe of the U.S.; (c) threatened \$500 billion in tariffs against China; and (d) criticized the Fed for raising interest rates. The continued drumbeat of his tweets will eventually cause a loss of confidence at best, and raise the odds of a real economic calamity. It is only a matter of time before financial markets react to this self-inflicted increase in risk.

Fortunately for now, the U.S. economy continues growing strongly at about a 4% annual pace. The tax cuts along with strong gains in employment and wages pushed up retail sales at an annual rate of 6% in June. Core sales, excluding autos and gasoline, rose at a 4% pace. So far this year, retail sales are rising at a 5.9% rate which is a full percentage point over 2017. Sales gains would be higher, but for weak pricing power from intense competition and a strong dollar. This continued to be the case in June as core goods prices were unchanged, after falling 0.1% for three straight months. Prices will turn

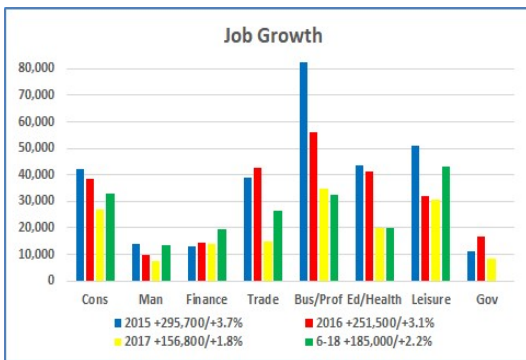
up, but if this is the result of a trade war, it would undermine purchasing power without generating jobs or other benefits for consumers thereby likely hurting confidence and sales as well. Absent a trade war, I expect continuing strong gains in retail sales over the upcoming 90-days.



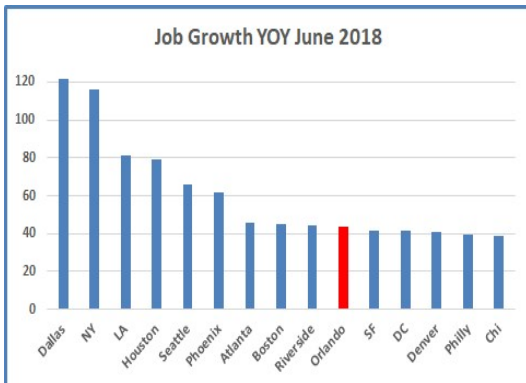
Industrial production increased a strong 0.6% in June, and capacity utilization jumped to 78% indicating little remaining slack. Housing starts dropped 12.3% from May and are down by 4.2% from June 2017. Rising input prices and scarce labor are constraining the housing market. No near-term relief is in sight since housing permits decreased 2.2% from May and are 3% lower than in June 2017. Residential construction was the slowest it has been in 2018.

Florida Economy: Job Growth Accelerates

Job growth has accelerated noticeably over the last six months. On the reliable year-over-year basis, Florida added 185,000 jobs in June up from 156,800 in 2017. The gains were led by tourism, construction, business and professional services, trade, and education and healthcare all posting gains of more than 20,000 over the year. All major sectors posted gains except for government.



Orlando's robust job gain of 44,100 over the year ranked first in Florida and tenth in the U.S. among all metro areas.



Orlando's gains were widespread with business and professional services contributing almost as much as tourism. Tampa was a distant second with job growth of 28,900 over the year powered by large gains in

tourism and in education and healthcare. With 21,300 more jobs in June, Jacksonville ranked 3rd. Job gains were very well balanced led by a gain in business and professional services. Job growth was well above the statewide average in Lakeland-Winter Haven and in North Port-Sarasota-Bradenton. In both cases, construction and trade were responsible for much of their gains fueled by strong inflows of retirees. Job growth was muted across South Florida, and was particularly weak in West Palm Beach which suffered surprising job losses in healthcare and trade. Job growth was also very weak in Palm Bay despite the resurgence of the space launch business. Naples was the only major metro area to have lost jobs over the year. It continues to suffer from the impact of Irma and a slow recovery.

Importantly, even with accelerating job growth over the last six months, growth in Florida's labor supply has also accelerated. While not quite strong enough to keep up with buoyant job gains, labor force growth was sufficient to sustain labor market needs.

Data as of June 2018	Unemployment Rate	Last 12 Months	% Change Jobs
Florida	3.8%	185,000	2.2%
Cape Coral-Ft. Myers	3.8%	2,600	1.0%
Gainesville	3.7%	1,900	1.4%
Jacksonville	3.7%	21,300	3.1%
Lakeland-Winter Haven	4.4%	6,000	2.7%
South Florida	3.9%	34,100	1.3%
Ft. Lauderdale	3.7%	14,100	1.7%
Miami	4.1%	16,900	1.4%
West Palm Beach	3.9%	3,100	0.5%
Naples	3.9%	-1,700	-1.2%
North Port-Sarasota-Bradenton	3.7%	7,200	2.4%
Ocala	4.7%	2,000	2.0%
Orlando	3.5%	44,100	3.6%
Palm Bay	3.9%	1,800	0.8%
Pensacola	3.9%	1,700	1.0%
Port St. Lucie	4.6%	2,300	1.6%
Punta Gorda	4.3%	800	1.7%
Sebastian-Vero	4.8%	800	1.6%
Tallahassee	3.9%	2,100	1.2%
Tampa-St. Pete	3.8%	28,900	2.2%