

ECONOCAST™ UPDATE – August 20, 2018

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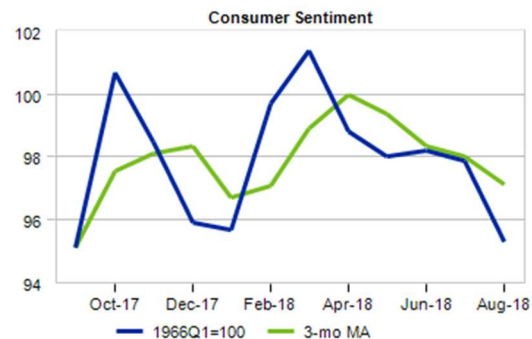
U.S. Economy – Strong Retail Sales and Abating Trade Threats

The surge in 2018Q2 was based in large part on consumer spending, which rose 4%. The third quarter is off to a good start with spending up 0.5% (more than 6% at an annual rate) boosting sales 6.4% over last year's level. Although auto sales were weak, core sales rose by more than 7% at an annual rate. The composition of sales is of note, with gains in restaurants and clothing but declines in autos and furniture stores.



Although sales for May and June were revised lower, the fundamentals remain strong. Income is up thanks to tax cuts, saving is high, job additions are strong pushing wage growth higher, and credit is widely available. However, risks are building as reflected in the decline in consumer confidence. The University

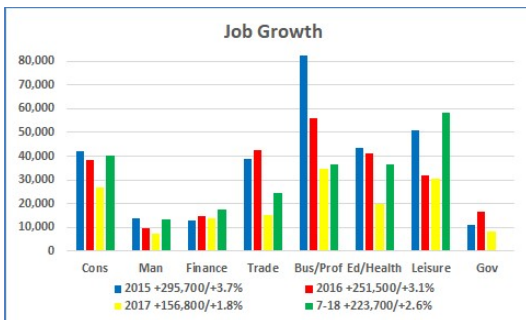
of Michigan's index has fallen almost every month since February. Consumers are increasingly sensitive to higher interest rates, hurting spending on housing, vehicles, and other large durable goods.



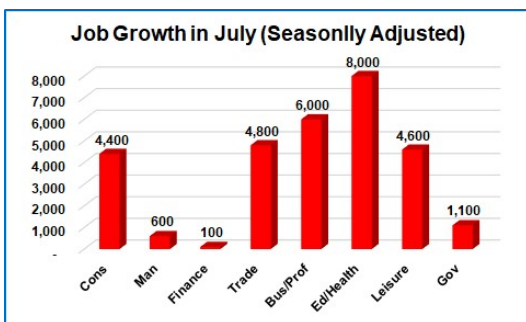
Risk of a trade war abated somewhat based on positive talks with China offsetting growing tension with Turkey. Financial markets rallied as a result. However, financial markets are underestimating future risks. The economy is operating above capacity which is pushing prices and wages higher. It is likely that the Fed will have to raise rates more aggressively than is now expected. This will not only cause consumption and investment spending to decline, but it will put about \$3 trillion in floating rate junk bonds and collateralized loan obligations at risk. Ominously, subprime mortgage debt outstanding was close to \$3 trillion at its peak prior to the financial crisis.

Florida Economy: Strong Job Growth Continued in July

Job growth remained strong in July. The July job count was 223,700 higher this year led by a surge in tourism related jobs. Every major sector posted positive results except for government. The unemployment rate dipped to 3.7% from 3.8% in June. Over the year, Florida's labor force grew by 1.3%, but this was overwhelmed by the 1.6% pace of employment growth.



The monthly job gain was far more impressive. On a seasonally adjusted basis, job growth totaled 27,400. Annual job growth at this pace would top 328,800. Since the monthly gain, when annualized, exceeds the year-over-year totals, Florida's job market is making up for the ground lost earlier this year and after the hurricane last year. Monthly gains in education, healthcare, and business and professional services were noteworthy. The data point to accelerating job gains this year.



Job growth in Orlando continued to dominate the State totals accounting for 24% of the State's total. Interestingly, business and professional services accounted for the most job growth in Orlando followed by tourism and construction. South Florida came in next supported by the 24,300 job gain in Miami. However, construction was the biggest contributor, and this is probably not sustainable given the overbuilding already evident in the multifamily market in Miami. Only Naples had fewer jobs in July compared to last year. The hurricane continues to weigh on Naples.

Data as of July 2018	Unemployment Rate	Last 12 Months Jobs	% Change
Florida	3.7%	223,700	2.6%
Cape Coral-Ft. Myers	3.8%	4,200	1.6%
Gainesville	3.6%	2,500	1.8%
Jacksonville	3.8%	22,100	3.2%
Lakeland-Winter Haven	4.6%	5,700	2.6%
South Florida	4.0%	45,800	1.7%
Ft. Lauderdale	3.7%	13,800	1.7%
Miami	4.3%	24,300	2.1%
West Palm Beach	4.0%	7,700	1.3%
Naples	4.1%	-1,000	-0.7%
North Port-Sarasota-Bradenton	3.7%	8,400	2.8%
Ocala	4.7%	2,800	2.8%
Orlando	3.6%	53,500	4.3%
Palm Bay	3.9%	3,800	1.8%
Pensacola	3.9%	3,500	2.0%
Port St. Lucie	4.7%	2,000	1.4%
Punta Gorda	4.4%	900	1.9%
Sebastian-Vero	5.1%	700	1.4%
Tallahassee	4.0%	2,100	1.2%
Tampa-St. Pete	3.8%	29,900	2.3%

Not only did Orlando's job growth rank high in Florida, but Orlando also ranked 7th in the U.S. among metropolitan areas for job growth in July ahead of Boston, Washington, D.C., and Atlanta.

