

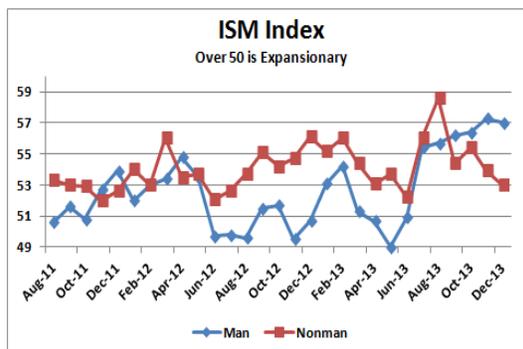
ECONOCAST™ UPDATE – January 6, 2014

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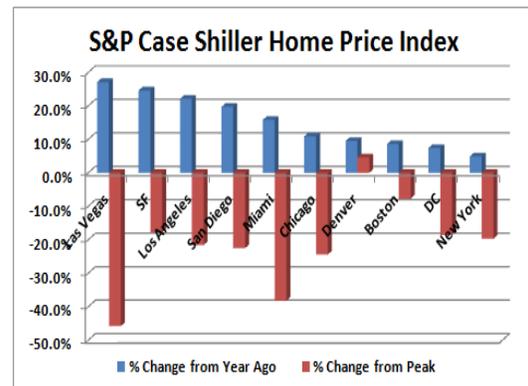
U.S. Economy – Solid Foundation for Faster Growth

The latest data support the view that 2014 will be a breakout year for growth. The ISM indices were strong, home prices are up, and unemployment claims are down.

The ISM manufacturing index slipped from 57.3 to 57 for December. But it remains far above the threshold of 50 and the components were strong. Most importantly new orders rose for the 4th month in a row and inventory levels dropped. The widening gap between new orders and inventories positions factory output for good gains this quarter. The ISM nonmanufacturing index ended 2013 dipped to 53 for December, but this appears to be a fluke related to the weather and is not supported by fundamentals.



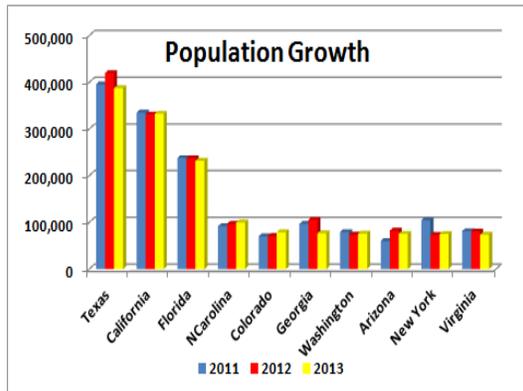
The prices of existing homes rose over 13% compared to last year for the most rapid gain since the end of the recession. Tight housing inventories and the declining share of distress sales have brought housing market back into equilibrium. Over the year Las Vegas' home prices soared 27% in 2013, but they remained 46% below their prior peak. Furthermore, despite strong gains this year every major MSA but Denver remain far below their previous peak.



The momentum going forward will depend upon: (a) how the Fed executes the tapering of bond purchases, (b) Congressional action to raise the debt ceiling, and (c) continuing acceleration of hiring. The odds are for favorable outcomes for all of these factors.

Florida Economy: Population Growth Flattens

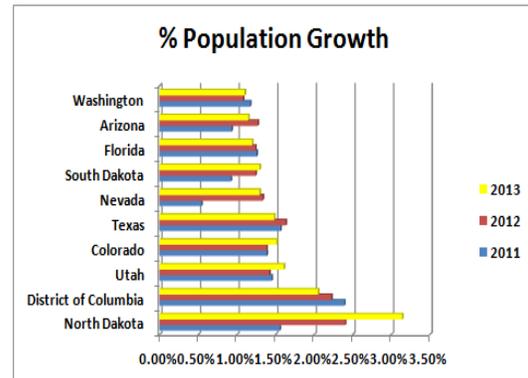
The Census Bureau reported that population growth for 2013 was about the same as in 2012 for the nation and for most states. As the graph below shows, for the 10 fastest growing states the volume of growth changed very little over the last three years. Over the last three years Florida's population growth has averaged 235,602 per year varying by only +/- 3,500. Interestingly, all of the other fast growing states also exhibited very little change in growth over the last three years.



Florida ranked 3rd in the nation for total population growth over the last three year and also ranked among the top 10 states in terms of the rate of population growth. The oil boom in Dakotas pushed them to the top of the rankings. Among the large states the rates of population growth were also surprisingly stable over the last three years.

For Florida this combination of: (a) stable population growth at (b) below average levels is unprecedented in a recovery period. Part of the explanation is the persistent weakness in housing markets in states east of the Mississippi so far

in this recovery cycle. This is the fallout from the extraordinary housing collapse. Another factor is the sharp drop in the propensity of people over 65 to move. While the housing bust is a factor, the delay in retirement for many boomer is also a significant and probably permanent change in behavior.



That said, there is an inconsistency in the Census data on population. As noted above, on the one hand Census reports that Florida's population growth remained flat at +/- 235,000 in 2011 and 2012. However, Census also reported that net migration to Florida increased from 230,323 in 2011 to 273,390 in 2012 for a gain of almost 50,000. So, either the migration data are wrong or the population growth data are wrong. I think Census' estimate for total population growth is faulty.

