

## ECONOCAST™ UPDATE – January 18, 2016

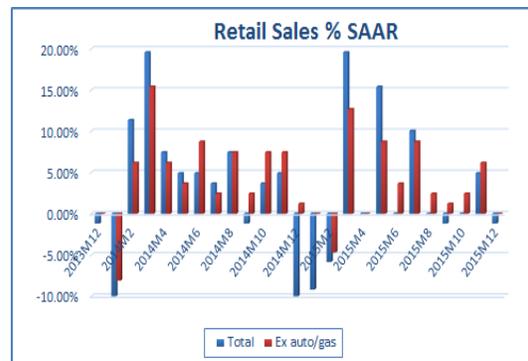
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### U.S. Economy – Financial Market Retreat Signals Slower Growth

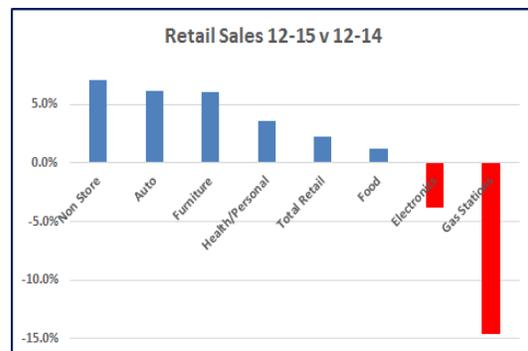
Since the start of 2016 a brutal selloff in financial markets has ricocheted around the globe. The Dow is down 8.2% so far and is now 10% below its November 3, 2015 peak. While this has triggered fears of a replay of the 2008 crisis, I think such fears are overblown. In 2008 both investors and even market makers failed to understand what was really happening, the financial products that were blowing up, and their inter-connections. The causes of today's selloff are well known: falling commodity prices, drops in Chinese stocks and fears over China's economy, and weaker U.S. data. The big question now is the extent that the U.S. economy is insulated from declines in energy prices, weak global demand, and the effects of the Fed moving to normalize interest rates.

It is clear now that U.S. economic growth slowed in 2015Q4 to less than 1%. Retail sales were surprisingly weak falling 0.1% in December and up by just 2.2% compared to 2014. But, the topline numbers overstate the weakness. Core sales, less gas and autos, were up 3.2% over the year. Much of the weakness is

because of falling prices, especially gasoline prices.



Ecommerce sales rose by 7.1% and sales of cars and housing related goods also rose strongly.

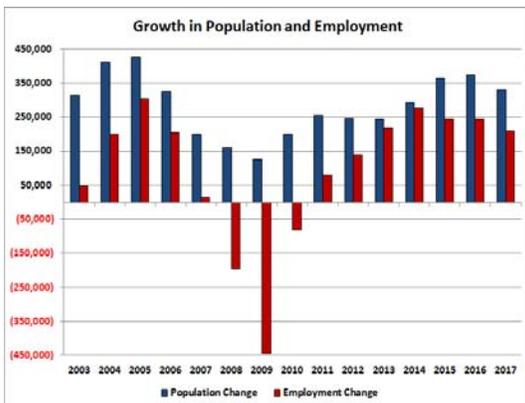


While employment grew strongly in 2014 nominal wages increased by just 2.5%. But with virtually no inflation real disposable income rose nearly 3%. This points to a rebound in GDP growth this quarter barring any more dramatic financial swings.

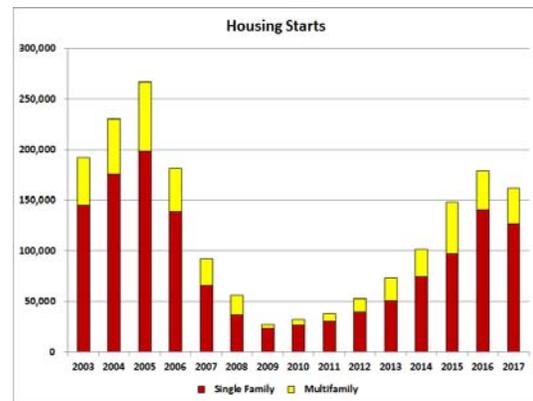
## Florida Economy: Poised for Stronger Growth

In spite of a slowing U.S. economy at the end of 2014, Florida's economy picked up momentum. Job growth accelerated over the last 90 days of 2014, and population growth shot up 365,000 in 2014. Rapid gains in domestic migration from states east of the Mississippi was responsible for the liftoff in population growth. The fundamentals support even stronger gains in domestic migration this year. Sales of existing homes are strong. Rising employment will offset the impact of slowly increasing interest rates this year keeping home sales high. In addition, overseas migration will also stay strong in 2016 contributing more than 125,000 on net to Florida. Economic turmoil in Puerto Rico, Venezuela, Brazil, and Argentina all support strong migration to Florida.

I expect population growth to top out at 373,000 this year and dip to a still strong 330,000 in 2017 as higher interest rates limit domestic migration. Job growth will also be very strong running at 245,000 this year and 208,000 in 2017. Gains in tourism, healthcare and trade will particularly strong.



Housing starts will finally rise above 150,000 in 2016 and 2017. Surging population growth, strong job gains, and low interest rates are all in place to push starts up. For most markets the higher levels of starts will still keep markets in equilibrium. The only exceptions are for multifamily products (condos and especially apartments) in Miami-Dade and Broward. CraneSpotters reports that there are 127 towers now under construction in Dade, Broward and Palm Beach counties to deliver 12,659 condo units to the market, mostly in Miami-Dade and mostly downtown. Another 12,800 condos are in preconstruction sales. While these totals are far below the 2003-05 levels, they are not sustainable.



Booming population growth is fueling a surge in nonresidential construction. While office development is slow, gains in retail and warehousing are strong.

