

ECONOCAST™ UPDATE – January 22, 2018

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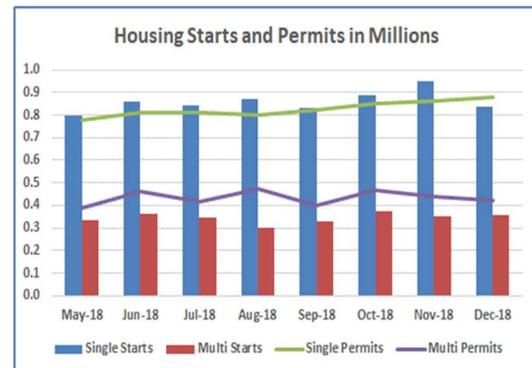
U.S. Economy – The Shutdown and the Economy

Most observers, including me, expect that the shutdown will last less than two weeks. This is based on past experience, and the political stakes for both sides. Should it drag on, it will reduce GDP growth by about 0.1%/month, based on the impact of the 2013 shutdown. But regardless of duration, the shutdown and our government's inability to enact a budget forcing reliance on short-term funding patches, vividly demonstrates a dangerous failure in governance with significant economic and political consequences for our country. At the very least, uncertainty and risk have increased. By early March the debt ceiling will be reached again. While a government shutdown is dangerous and costly, failing to raise the debt ceiling would be catastrophic. Markets will incorporate these events into credit spreads boosting rates and slowing growth.

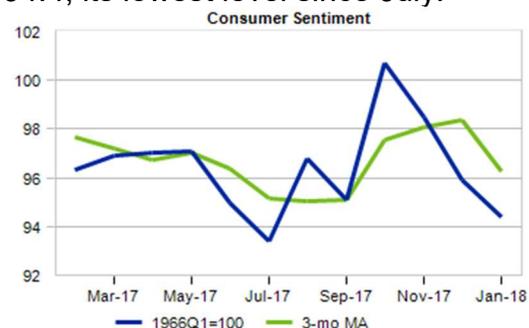
Rising yields in the bond market reflect these events. The bell-weather 10-Year Treasury rose 9 BPs this week and is up 18BPs so far this year. The tax cuts and deregulation have boosted the prices for earnings-sensitive securities increasing the

market value of U.S. common stock by 4.9% this year. But, price/earnings multiples are very high and vulnerable to rising interest rates.

Housing starts declined substantially in December, falling 8.2% from November and by 6% from a year earlier. But most of this was weather related. Permits rose pointing to a rebound in starts.

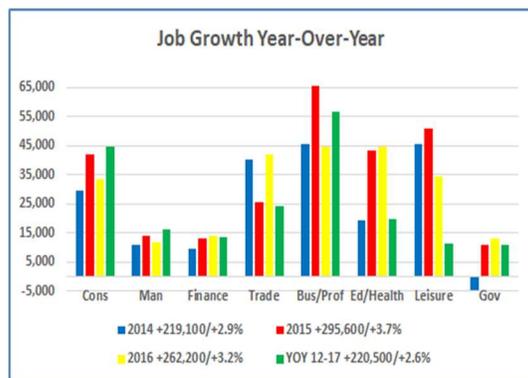


Consumer sentiment took another step back in the preliminary January report, losing 1.5 points and falling to 94.4, its lowest level since July.



Florida Economy: Job Growth Accelerates in December

Job growth accelerated again in December, rising 27,400 on a seasonally adjusted basis up from a revised 15,200 in November. Over the last year job gains topped 220,500. All sectors enjoyed positive growth, lead by professional and business services up 55,600 - which was powered by gains in real estate related activities such as services to buildings, architecture, engineering, and technical consulting. Construction jobs jumped 44,500 fueled by rising construction and hurricane repairs. Manufacturing jobs increased 16,000 with good gains in aerospace and construction related activities. The leisure and hospitality sector continued to lag, which is surprising since most hotels have reopened. Healthcare jobs increased by 19,800 over the year, but education-sector jobs contracted by 300 holding the sector back. Jobs in wholesale trade rose 13,800, but retail jobs increased by just 10,300 as ecommerce continues eroding retailing.



Orlando dominated all metro areas, as job growth soared by 46,700 jobs or by 3.8% over the year. Employment in the tourism and business and professional sectors each increased by over 10,000 while

jobs in trade, finance, construction and manufacturing all rose by about 5,000 each. Job growth in Miami has accelerated rapidly with gains totaling 35,000 over the year rising an impressive 3%. The gains were broadly based with gains in every sector lead by trade and business and professional services. Job growth slowed in Tampa Bay, but it remained solid at just under 30,000 for the year. The slowing came because of a topping out of construction jobs and very modest gains in trade and in leisure and hospitality. Job growth was also noticeably slower in West Palm, Tallahassee, Cape-Coral-Ft. Myers, Palm Bay, and Port St. Lucie. Weakness in trade, leisure, and hospitality explains their slower job growth.

North Port-Sarasota-Bradenton, Naples, Punta Gorda, and Sebastian-Vero all posted strong job gains well above the statewide average of 2.6%. Strong gains in construction and leisure/hospitality propelled their performance.

Data as of December 2017	Unemployment Rate	Last 12 Months	% Change Jobs
Florida	3.7%	220,500	2.6%
Cape Coral-Ft. Myers	3.4%	1,300	0.5%
Gainesville	3.2%	3,200	2.2%
Jacksonville	3.4%	17,500	2.6%
Lakeland-Winter Haven	4.1%	6,400	2.9%
South Florida	3.9%	65,500	2.4%
Ft. Lauderdale	3.4%	20,200	2.4%
Miami	4.5%	35,000	3.0%
West Palm Beach	3.6%	10,300	1.6%
Naples	3.6%	4,700	3.2%
North Port-Sarasota-Bradenton	3.2%	11,700	3.9%
Ocala	4.3%	900	0.9%
Orlando	3.3%	46,700	3.8%
Palm Bay	3.7%	2,000	0.9%
Pensacola	3.5%	2,900	1.7%
Port St. Lucie	4.1%	1,300	0.9%
Punta Gorda	3.8%	1,600	3.3%
Sebastian-Vero	4.3%	1,900	3.9%
Tallahassee	3.4%	2,600	1.4%
Tampa-St. Pete	3.4%	29,100	2.2%