

ECONOCAST™ UPDATE – June 19, 2017

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U.S. Economy – Rates Up Despite Weak May Data

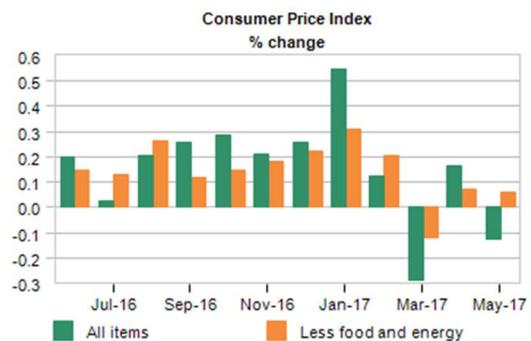
As was widely expected, the Fed increased the funds rate 25 bps to 1.0%-1.25%, despite the weak economic reports last week. The Fed reiterated that labor market conditions and inflation will determine the timing of future hikes and the normalization of the Fed's balance sheet. This suggests that future hikes may be delayed.

Retail sales unexpectedly fell 0.3% in May after rising 0.4% in April. Much of the volatility came from gasoline prices and sales. But, core sales, excluding autos and gas, were flat in May after April's upwardly revised 0.5% gain. Since consumption constitutes 2/3rds of GDP and retail sales are the dominant component of consumption, this weakness is troubling.



Consumers are still buying things, but retail prices are flat to down obscuring the real volume of retail purchases. Nevertheless, core sales growth remains stuck below 4% on a year-ago basis.

Consumer prices dipped 0.1% in May, but this alone is unlikely to deter the Fed from increasing rates again. Much of the weakness is transitory and due to volatile gas prices. However, year-over-year growth in the headline and core CPI has moderated over the past few months, as prices for cellular service have dropped and medical costs have slowed. With producer prices flat in May, there is little prospect for stronger CPI inflation anytime soon.

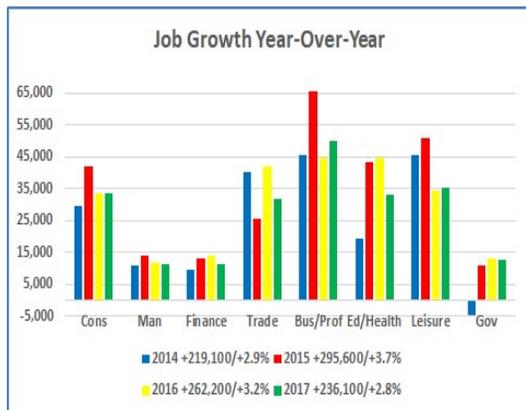


That said, with strong labor markets and near full employment, wages are likely to rise faster supporting stronger sales and faster growth in GDP as the year progresses.

Florida Economy: Job Growth in May is Strong – or so it Seems

Florida added 29,000 jobs in May which was a big rebound from the job loss in April, and it ranked Florida 1st among all states. Florida's unemployment rate dropped to 4.3% and is now equal to the U.S. average. However, all is not quite what it seems. Some of the outsized gain in May reflects seasonal quirks caused by this year's late Easter and some was caused by volatile jumps in temporary help services. On the more reliable year-over-year basis, job growth was a sturdy 236,100 rising by 2.8%, but this is considerably less than the gains posted in 2015 and 2016.

Even with this slowing in job growth, it is important to keep perspective. Job gains in excess of 200,000 per year must be viewed as strong and well above average. Furthermore, every major subsector except for information gained jobs over the year.



Orlando and Tampa continued to lead all major metro areas for job growth with gains of 48,000 and 43,000 respectively. In Orlando, tourism-driven gains in leisure and hospitality provided the most jobs, no surprise there, along with big contributions from business and professional

services and construction. Tampa's job gains came from business and professional services, construction, and healthcare.

Job gains in South Florida improved in May paced by Ft. Lauderdale's 31,100 jobs which came mostly from professional services and healthcare. Despite the slowdown in its construction and real estate sectors, Miami's job growth improved with boosts from healthcare, tourism and professional services. Jacksonville had a similar pattern of job gains as stronger growth in healthcare and tourism offset the slowdown in construction jobs.

Many smaller metros also exhibited strong gains in May including Lakeland, Gainesville, Tallahassee, Punta Gorda, Sarasota-Bradenton, and Sebastian. However, there continue to be pockets of weak job growth particularly in the panhandle and in Southwest Florida including Naples and Cape Coral.

Data as of May 2017	Unemployment Rate	last 12 Months	% Change Jobs
Florida	4.3%	236,100	2.8%
Cape Coral-Ft. Myers	3.8%	1,300	0.5%
Gainesville	3.4%	5,200	3.8%
Jacksonville	3.8%	23,400	3.5%
Lakeland-Winter Haven	4.4%	7,400	3.4%
South Florida	4.2%	72,300	2.8%
Ft. Lauderdale	3.8%	31,100	3.8%
Miami	4.7%	26,500	2.3%
West Palm Beach	3.9%	14,700	2.4%
Naples	3.7%	2,200	1.5%
North Port-Sarasota-Bradenton	3.7%	10,700	3.6%
Ocala	4.7%	2,700	2.7%
Orlando	3.6%	48,000	4.0%
Palm Bay	4.1%	6,500	3.1%
Pensacola	3.9%	3,500	2.0%
Port St. Lucie	4.3%	2,900	2.0%
Punta Gorda	4.4%	1,900	4.0%
Sebastian-Vero	4.9%	1,800	3.6%
Tallahassee	3.7%	6,800	3.9%
Tampa-St. Pete	3.8%	43,000	3.3%

This is what the top of the business cycle looks like for job growth in Florida.