

ECONOCAST™ UPDATE – July 27, 2015

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U.S. Economy – Housing Points to Stronger Growth

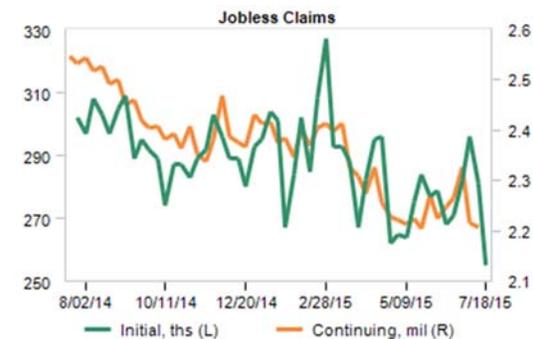
Housing markets are signaling accelerating growth, in contrast to last week's weak retail sales. On balance it appears that the economy is pushing past the obstacles that caused GDP to contract in 2015Q1. Existing home sales jumped 3.2% in June and are 9.6% above sales for June 2014. Overall, existing-home sales volume has finally reached the level of normalcy prevalent before mortgage lending started to get out of hand. In fact, market tightness is spurring new construction. The higher average age of the housing stock also points to a coming resurgence in single-family housing starts.

Surprisingly new home sales dropped 6.8% from May, although they are still 18.1% above June 2014 levels. The sharp decrease in new-home sales for June, plus the downward revision of May sales, means that sales of new homes have trended lower after peaking in February, a disturbing sign for predictions of an acceleration in residential construction this year. However, the longer-term trend of new-home sales is still positive and likely to resume rising, so the overall outlook for new home sales and for

residential construction is still good, even if a predicted resurgence has been pushed back a bit.

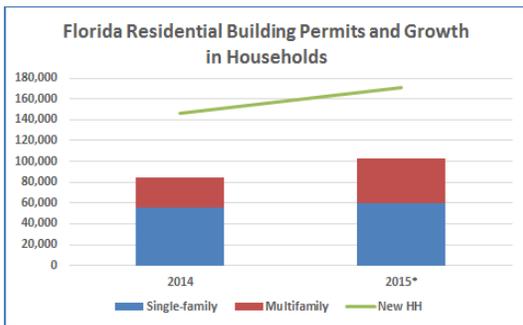


Another good sign this week was that initial claims for unemployment insurance benefits fell, bringing the cumulative decline over the past two weeks to 41,000 and putting new filings at their lowest since 1973. While the drop maybe distorted some by seasonal factors, it is still a good sign, so I expect over 250,000 new jobs in July's upcoming report.



Florida Economy: Building Permits Surge

Consistent with the resurgence in national housing markets, Florida's residential construction is soaring. Residential building permit data are available through May 2015. After annualizing these data permit volume was up 21% compared to 2014. Most of the gain came from a whopping 49% jump in multifamily permits with only a 7% contribution from single-family home permits.

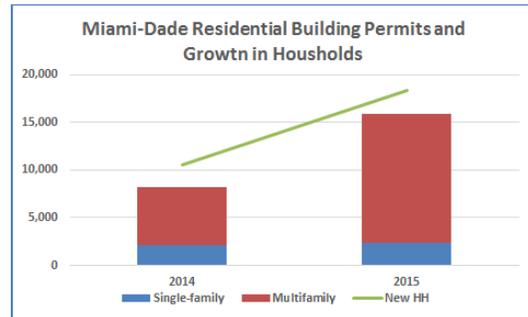


Even though total residential permit volumes are up 21% compared to a gain in new households of only 16% so far this year, total new household formations are running at about 170,000 on an annual basis. They are way above total residential permit volumes which means that, at this point in the cycle there is no fear of overbuilding on a statewide basis.

That said, there are some markets that are rapidly approaching equilibrium. Even though current levels of permits remain consistent with household formations, permit volumes are rising far faster than household formations. Should this continue, there is the certainty of overbuilding.

Consider the situation in Miami-Dade County. Permit volume shot up 98% so far in 2015 propelled by the 120%

gain in multifamily permits. New household formations increased strongly too, but by 74%. Clearly, this situation cannot continue. However, at least for now this market remains in equilibrium. Total permit volume is running at an annual pace of about 16,000 total units with household formations projected at 18,000.



By contrast, Lee County was Florida's most overbuilt residential market in the boom/bust. Over the last two years its population growth and household formations have soared reaching an annual pace of 10,000 this year. Permit volumes have increased strongly in 2015, but total volume is still well below the levels of household formation. This means that there is still a large inventory of homes that remain available from the last cycle. While it is difficult to precisely estimate how large this inventory of available homes is, since many are not listed for sale, the supply is not infinite. My best estimate is that it will be exhausted this year.

