

## ECONOCAST™ UPDATE – January 15, 2018

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### U.S. Economy – Sales and Inflation Rise

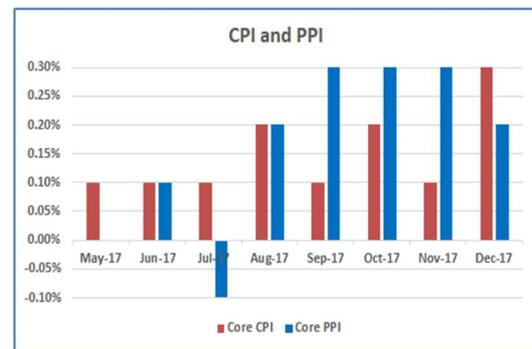
Retail sales rose 0.4% in December on top of November's 0.9% gain, which was revised higher. Core sales also rose 0.4% after a 1.2% jump in November. So, sales are 5.4% above their year-ago level with core sales up 6%.



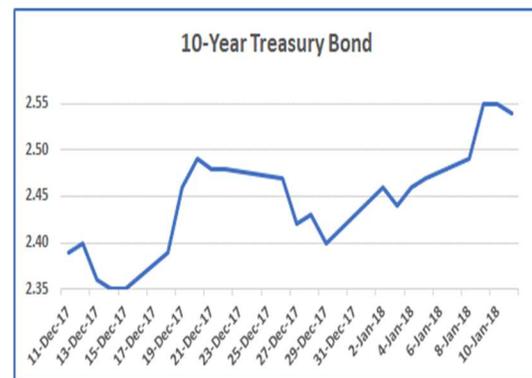
Sales are up for a number of reasons including: (a) strong and sustained job growth and (b) rising wealth from high prices for homes and for stocks. Consumers are spending much of their new wealth, as evidenced by the falling saving rate. Credit is widely available, and debt burdens remain low. These conditions will persist through this year.

Inflation has accelerated over the last 90-days. Core CPI rose 0.3% in December and is trending higher.

With core PPI running at 0.2%-to-0.3% per month, core CPI will continue moving higher.

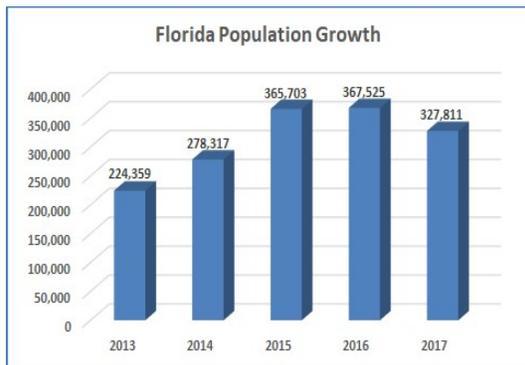


Rising inflation strengthens the case for the Federal Reserve to raise interest rates in March. The March hike is significant, because monetary policy will transition then from neutral to contractionary. The bond market is reflecting these pressures. The 10-Year has moved up 50 BP from its low last summer and has increased by 15 BP since passage of the Tax Cuts.

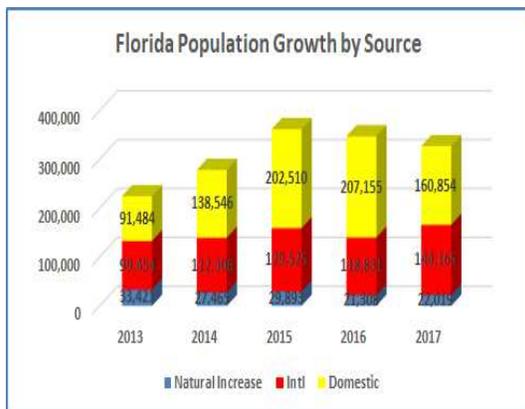


## Florida Economy: Population Growth Slows in 2017

Florida's population growth unexpectedly slowed in 2017 to 327,811 from 367,525 in 2016. This was very surprising given the improvement in sales of existing homes, strong job growth, and accelerating growth in GDP. Historically, these factors have always been associated with higher population growth fueled by domestic migration.

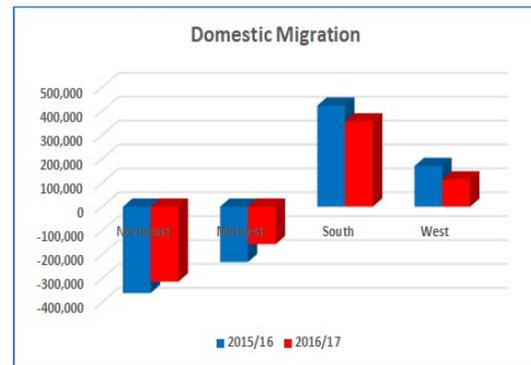


But not in 2017. Instead, domestic migration dipped from 207,156 in 2016 to 160,854 in 2017. International migration actually ticked up in 2017 as the dollar declined in value and economic and political problems continued in South America.



The drop in domestic migration was not limited to Florida. Most of the

states that typically benefit from strong inflows of domestic migrants, including Texas, Utah, and Colorado, also experienced a significant drop in domestic migration. For other traditional receiving states domestic migration was flat in 2017 compared to 2016. This pattern is reflected in the data for domestic migration by major regions of the country with lower levels of migrants leaving the traditional sending areas of the northeast and midwest and therefore fewer resettling to the south and west.



Florida typically receives the bulk of its domestic migrants from New York, New Jersey, Michigan, Ohio, Illinois, Indiana, and Pennsylvania as well as other states in the northeast and midwest. The 2017 data show that the biggest reduction in migrants to Florida was from Pennsylvania, Michigan and Ohio. It appears that job markets have improved so significantly in these traditional sending states that those who might have moved to Florida for work, now are finding satisfactory employment in their home states.

This pattern is likely to persist in 2018 as the job market remains strong and growth accelerates. However, some offset will occur courtesy of the limitation on the deductibility of state and local taxes, which benefits Florida.