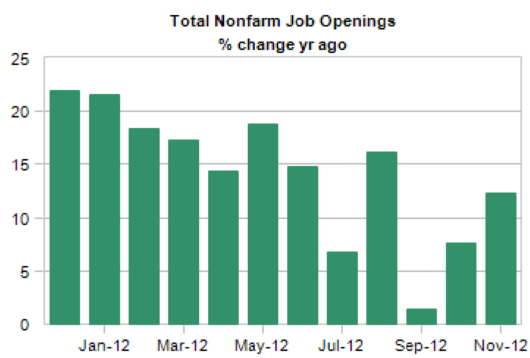
EW | ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – January 14, 2013

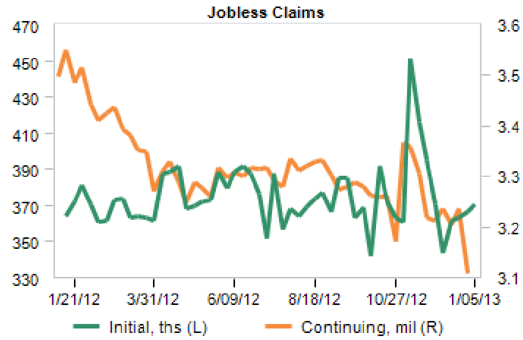
U.S. Economy – Tale of Two Halves

Growth will slow in the 1st half of 2013 to 1% or less because of: (1) the continuing uncertainties of our fiscal policies and (2) the realities of higher taxes and less federal spending. By contrast, the 2nd half should usher in growth of 3% or more based on: (1) progress on the fiscal front, (2) rebounding housing markets, and (3) accelerating hiring and business investment spending as the veil of uncertainty is lifted.

Labor markets continued to be constrained by uncertainty which caused job openings to rise at double the rate of hirings.



New claims for unemployment compensation ticked up again for the fifth week in a row, but most of this simply reflects volatility around holiday hiring and not deterioration in labor markets.

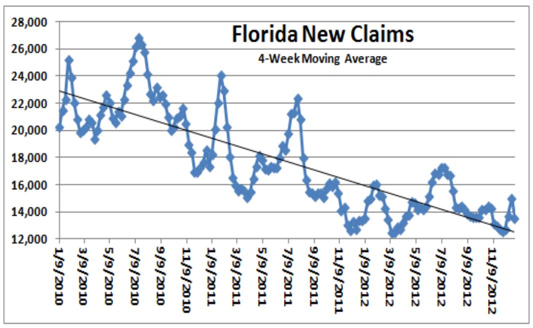


In fact job growth has been remarkably steady over the past couple of years at around the average monthly rate of about 150,000 jobs. This is likely to remain constant in over the next six months. Some uncertainty was removed when Congress passed the tax portion of the fiscal cliff, but looming automatic spending cuts and the unresolved debt-ceiling limit rate still weigh on firms as they make hiring and investment plans for 2013. What eventually is decided for the remaining pieces of the cliff combined with the tax legislation already passed will lower GDP by about 1% in the 1st half of 2013. As a result, the unemployment rate will stay at about 7.7% through this year.

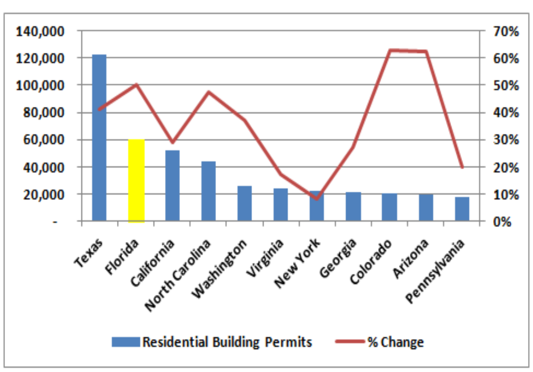
Equity markets continued moving higher based on expectations of a reasonable resolution of the cliff and debt resulting in more deficit spending this year. This should boost profits in the 2nd half. Interest rates will remain low as growth and inflation are below fed target levels.

Florida Economy: More Jobs

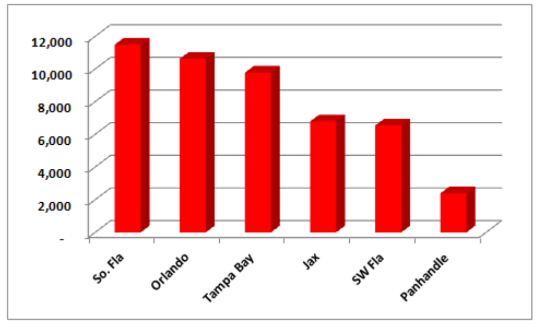
Florida's job market continues its slow steady improvement. New claims worked their way lower over the last month consistent with the progress over the last three years.



By contrast, Florida's housing markets are recovering strongly. Florida's residential building permits soared in 2012 to over 60,000 as of November, second only to Texas. Permit volume jumped by 50% eclipsing the 33% nationwide improvement. The surge in residential markets has now largely absorbed the standing stock of subdivision lots which has in turn triggered land development activity and interest in new projects.



The strongest markets are in South Florida, Orlando and Tampa-St. Petersburg. However, all areas of the State experienced strong gains in permit volume in 2012. The surge in Southwest Florida is particularly noteworthy given how over built the area became after the crash.



Miami-Dade County's market rebound is particularly strong. The huge inventory of condominiums created in the boom is now largely absorbed. Foreign investment was strong, but domestic purchases for investment and for personal use were also important factors in the rapid absorption. With little standing stock of new product in Miami, or in much of the rest Florida building permit activity accelerated sharply.

Florida's housing markets will continue to expand briskly in 2013 for a variety of fundamental reasons. First, macroeconomic growth is fast enough to promote positive gains in employment and in household incomes. Second, interest rates are very low and expected to remain low throughout 2013. Third, housing markets in the Northeast and Midwest have recovered sufficiently to support faster migration to Florida as people in those areas are better able to sell their homes and move. Finally, home prices have begun to move higher creating wealth and limiting downside pricing risk.