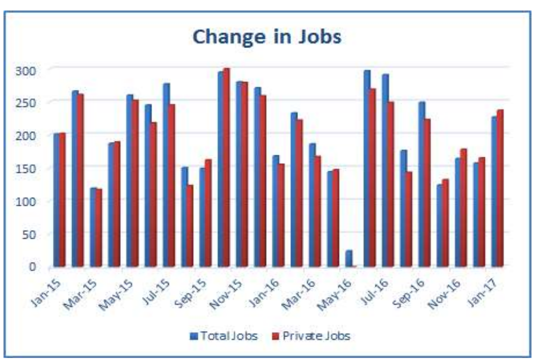
EW | ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – February 6, 2017

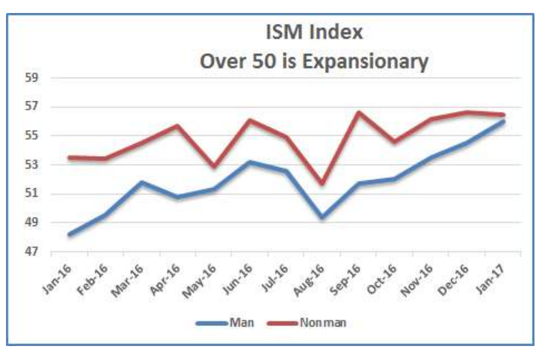
U.S. Economy – Positive Numbers

It was a very good week for the U.S. economy. January's employment report was surprisingly strong with payrolls up 227,000. Seasonal factors boosted the gains, as mild winter weather accelerated construction activity. Nevertheless, job growth is accelerating. The unemployment rate rose to 4.8%, because of a jump in the participation rate. This shows that the labor market still has slack, so that continued employment gains will not soon unleash a stronger acceleration in wages. Indeed, wage growth was surprisingly weak in January, up just 0.1% and only 2.5% above last year.



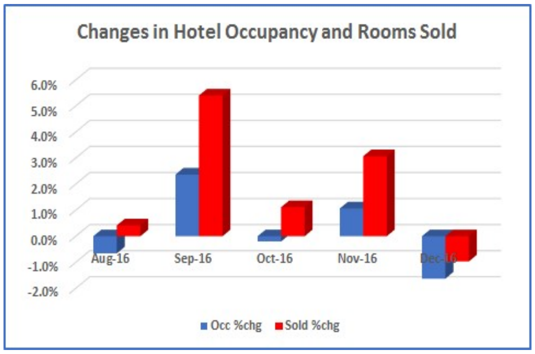
The Fed held rates steady, but reiterated that accelerating growth will require tightening. I still expect the Fed to proceed with at least three increases in anticipation of inflationary pressures which are already building from nonwage sources.

Manufacturing is off to a good start this year as the ISM index rose from a revised 54.5 to 56 in January. The index is above its fourth quarter average, and the details in January were encouraging. Output will rise supported by inventory replenishing and decent domestic demand. However, the appreciation in the U.S. dollar and uncertainty surrounding trade policies are future hurdles. The nonmanufacturing segment of the U.S. economy remains in very good shape with the ISM nonmanufacturing index at 56.5 in January. The fundamentals for nonmanufacturing are strong with rising incomes. Higher oil prices are boosting active rotary rig counts, reversing its prior depressing impact on nonmanufacturing.

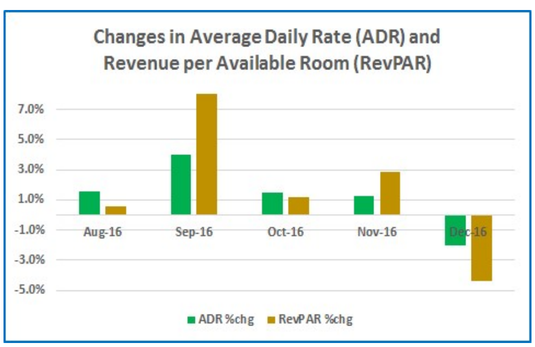


Florida Economy: Tourism Weakens in December

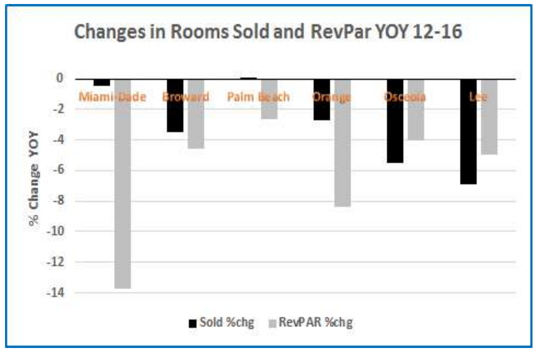
The growth in visitors has slowed significantly during the 2nd half of 2016 capped off by the weak hotel data for December. The number of rooms sold declined 1% in December compared to last year while occupancy slid 1.6%. This is a bit surprising given that the first half of 2016 was so strong, but the rise in visitor levels earlier in the year did not translate to the end of the year.



Hoteliers responded to the softer market by lowering average daily rates by 2% compared to December 2015, but this gave rise to a 4.4% decline in RevPAR since rooms sold and occupancy rates declined.



The weakness was not confined to any one region, although some areas were even weaker than others. The Zika outbreak has depressed hotel metrics for Miami-Dade County in particular. But, the sharp rise in the value of the dollar coupled with recessions in Brazil, Argentina and Venezuela cut into visitor volumes throughout Florida. Rooms sold were only off by 0.5% in Miami-Dade in December compared to 2015 levels, but RevPAR plummeted 14%. The declines in room sold in other major markets is more worrisome. Even as hoteliers reduced average rates, they were unable to maintain occupancy levels. This caused sharp erosions in RevPAR in most markets in Florida.



The outlook for tourism and the hospitality industry is mixed for 2017. On the one hand the domestic market is strengthening. GDP, incomes, and confidence are all high. Since more than 80% of Florida visitors are from the U.S., and mostly from East of the Mississippi, I expect 5% or more growth in domestic visits. This should be more than sufficient to offset the declines in foreign arrivals and still allow for modest overall gains in 2017.

However, there are two significant policy risks clouding the outlook. First, a bill was filed in the Legislature, supported by House Speaker Corcoran, to abolish Visit Florida, the State's tourism promotion agency. Second, U.S. policy on immigration and tourism is in chaos. The Trump administration's botched roll out of the program has damaged our brand and made travel to the U.S. riskier.