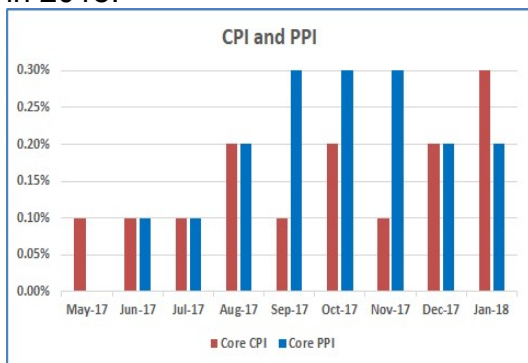


ECONOCAST™ UPDATE – February 19, 2018

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U.S. Economy – Inflation Rises

It is not surprising that inflation is accelerating with the U.S. economy expanding above potential, energy prices trending higher, wages rising, and the dollar falling. Price pressures will intensify in 2019 when the fiscal stimulus reaches its full force. The CPI rose 0.5% in January with core prices up 0.3%. Over the year, prices are up 2.1% and 1.8%, respectively. Core PPI again rose 0.2% in January. Though down from its peak, PPI is running above 2% compared to last year with no real sign of slowing. The implications for monetary policy are clear, and the Fed will raise rates in March by 25 bps – the first of four hikes of 25 bps in 2018.



Retail sales were surprisingly weak in January falling at a 3.5% annual rate with core sales down at a

2% pace. This follows no growth in December. Seasonal factors depressed the data with worse than usual weather and the flu outbreak. Higher gas prices also took a toll. However, the outlook remains bright with rising wages, strong job growth, and the effects of the tax cuts.

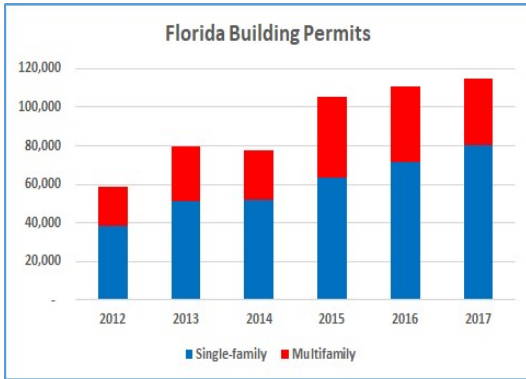


Industrial production dipped 0.1% in January, but this came from an unexpected 1% drop in mining. The prospects for U.S. manufacturing remain bright as highlighted by the latest ISM survey for manufacturing.

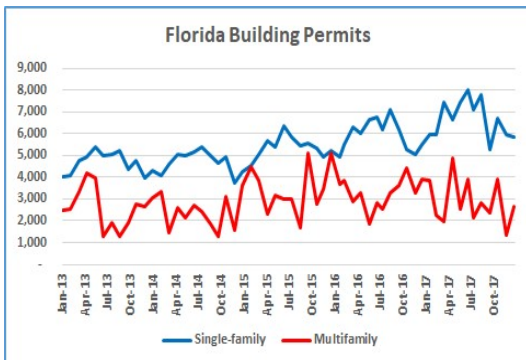
Housing starts jumped 10% over December with a burst of multifamily starts. Starts are up 7% compared to last year. Building permits were up 7% in January and the construction backlog increased, so the momentum will continue. Builder optimism is at a near record high.

Florida Economy: Building Permits Increase Modestly

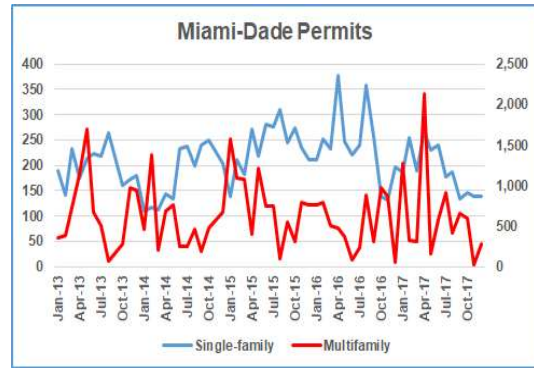
Residential permit volume rose modestly in 2017 to 115,000 compared to 111,000 in 2016. Over the year, single-family permits increased and multis dipped.



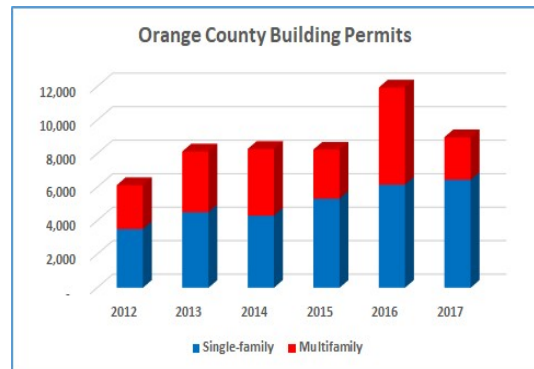
The monthly trajectory shows significant weakness since the summer and an incomplete recovery after Irma. Since demand remains strong, the weakness arises from: (a) builder's inability to hire workers and (b) a temporary data aberration.



Slowing permit activity in South Florida coupled with a decline in apartment construction in many markets sheds additional light on the 2nd half weakness in permit volume. For example, although total permit volume was flat in 2017 for Miami-Dade, permit volume fell nearly 40% in the 2nd half of 2017 compared to the 1st half of 2017.



Similarly, permit volume dropped 27% in the 2nd half of 2017 in Broward, 20% in Hillsborough, 12% in Orange, and 10% in Duval. Multifamily permit volume dropped precipitously in a number of large markets illustrated below for Orange County.



While the decline in permit volume in the 2nd half of 2017 was both surprising and a bit worrying, it is still the case that fundamental factors point to much stronger permit volume and construction activity across Florida in 2018. Population growth will accelerate, driven up by a rebound in domestic migration fueled by retirees and with significant migration from Puerto Rico. Job growth will remain high, and wages are rising. Even though interest rates will increase in 2018, they will still remain low enough so that they are not an obstacle to rising construction activity.