

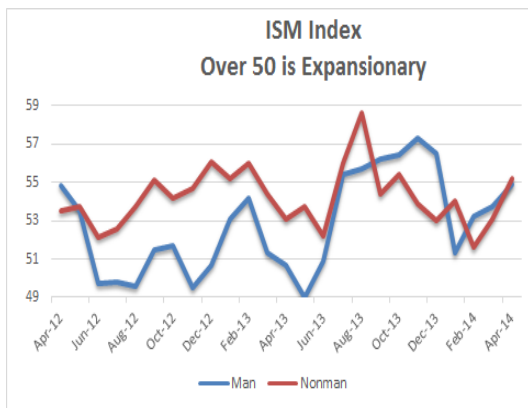
ECONOCAST™ UPDATE – May 12, 2014

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U.S. Economy – Better Outlook

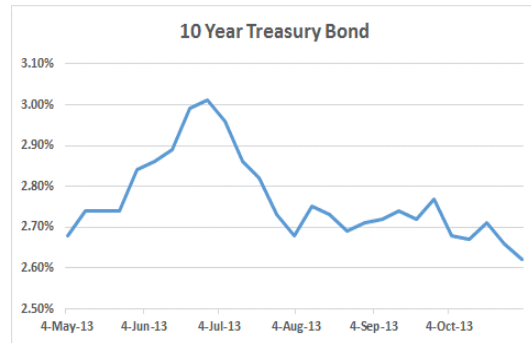
Although this was a light week for economic data, the news was good. The ISM indexes both rose powered by surges in new orders. The manufacturing index advanced 1.2 points to 54.9. Manufacturing is rebounding from the abnormally harsh winter weather in the first quarter, and the majority of the lost manufacturing activity is being made up now that the weather has warmed.

The ISM nonmanufacturing index also improved more than expected from 53.1 to 55.2 in April. The index has now fully recovered from February's drop, and it is at its highest level since August.



Fed Chairman Yellen affirmed the Fed's intention to keep interest rates

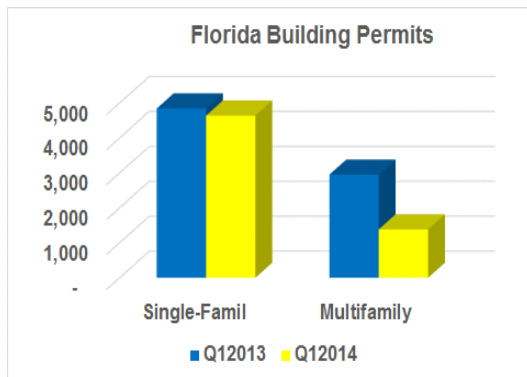
very low in her Congressional testimony last week. However, Fed policy alone cannot explain the drop in the 10-Year Bond. The 10-Year was over 3% in December 2013, and most analysts, including me, expected the 10-Year to rise this year as the economy gained momentum with the Fed winding down its bond purchases. Instead, the 10-Year dropped down to 2.6% last week.



In part the weakness reflected the weather retarded pace of GDP growth in the first quarter. However, the weakness may also be caused by something more. Over the last five years of modest recovery the economy often seemed poised to accelerate above 3% only to fall back again. The unexpected drop in rates May reflect a lack of faith that growth will actually accelerate this year. We will know the answer very soon.

Florida Economy: Residential Construction Slows in Q1 2014

The pace of residential construction slowed in Q1 2014 compared to Q1 2013. Although single-family permits declined by only 204 or by 4%, multifamily permits for apartments and condominiums plummeted 1,556 units off 56% in Q1 2014 compared to Q1 2013. The overall decline in permit activity was surprising given the improvement in jobs and in population growth in Florida.

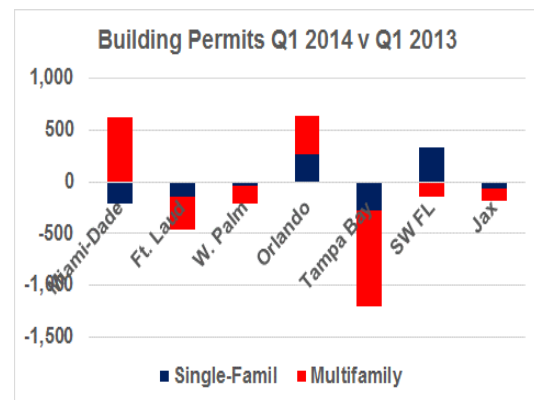


The aggregate data obscure some significant regional variations across Florida's major market areas. For example, Orlando was the only major market that enjoyed a stronger first quarter in 2014 than 2013. The volume of both single and multifamily permits were up in Orlando during the first quarter of 2014.

The strong upswing in multifamily construction in Miami-Dade was noteworthy. Multifamily permits jumped by 628 in Q1 2014 compared to Q1 2013 and the market appears to be accelerating.

In most other major markets the volume of both single-family and multifamily permits dropped in Q1 2014 compared to Q1 2013. Tampa Bay's permits dropped by 1,196 units in the first quarter compared to 2013

mostly because of a sharp decline in multifamily permits in Pinellas County and a fall in single-family permits in Hillsborough County. Permit volumes for both singles and multifamily units fell in Ft. Lauderdale, West Palm Beach, and Jacksonville in this year's first quarter, but by lesser amounts than in Tampa Bay. Results were mixed across southwest Florida. Ft. Myers enjoyed good gains in both single-family and multifamily permits during the first quarter compared to 2013. However, increases in single-family permits were overwhelmed by declines in multifamily permits in Naples, Sarasota and Bradenton.



The decline in residential construction activity was surprising coming at a time of generally improving economic activity and tight supplies of new residential units. It is possible the some of the slowdown is statistical artifice being dominated by the timing of larger multifamily projects. Regardless, I do expect construction activity to accelerate strongly over the balance of 2014 and into 2015. The fundamentals are strong including relatively low interest rates, attractive affordability despite the recent run up in pricing, accelerating population growth and rising job levels. Just a little boost in household formations will tip the demand balance strongly in favor of more residential permits.