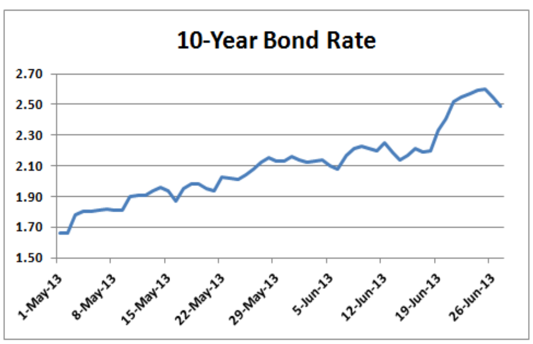
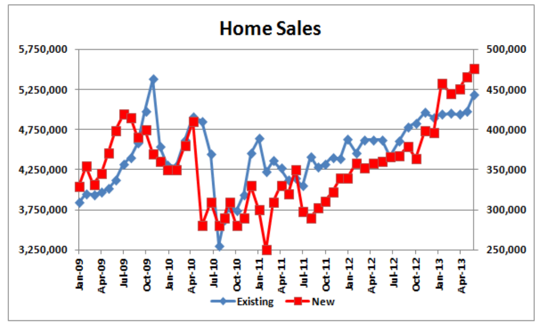
ECONOCAST™ UPDATE – July 1, 2013

U.S. Economy – Financial Markets Settle and Outlook Clears Some

Financial markets are settling down following last week's big sell off. Fed officials went on the offensive explaining that any changes to current policies would be gradual and tapering would occur only as economic conditions improved. This seemed to reassure the markets, and stock rallied as bond yields receded.

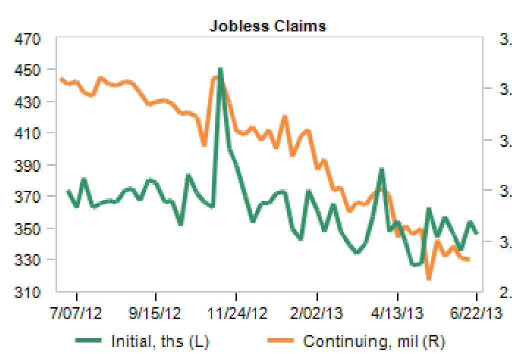


New-home sales for May were better than expected coming in at an annual rate of 476,000. This is 2.1% above the revised April rate of 466,000 and 29% higher than the estimated May 2012. Although the number of new homes for sale increased in may, the jump in sales caused the market to tighten leaving months' supply of homes for sale is now just above a cyclical low.



The Case-Schiller Existing-home price appreciation accelerated again on a year-ago basis in the three months ended in April relative to the same period in March. The 10-city composite is up 11.6% from last year

Initial claims for unemployment insurance show that labor markets have steadied over the past couple of months. Last week's jobless claims report suggests that the U.S. economy likely added about the same number of jobs in June as in the prior month.



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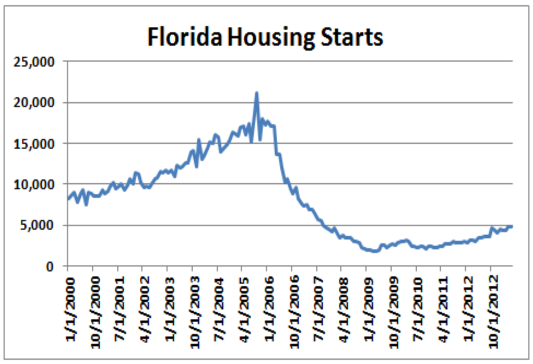
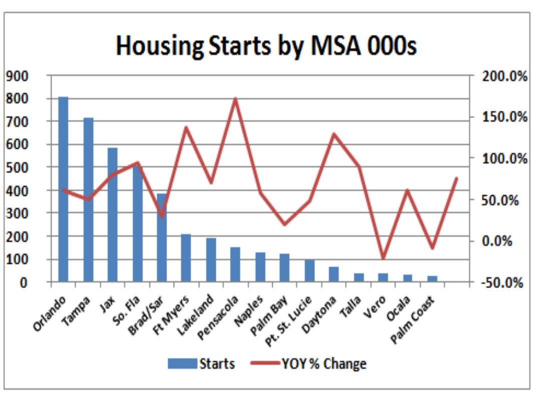
Florida Economy: Housing Starts Up Strongly over the Year

Florida's housing markets continued to show strength in May. Starts were up 43% compared to last year, and they increased for the second month in a row. May starts were at their highest level since October 2007. That said, starts remain depressed by historical standards. To put this in perspective starts averaged over 8,000 units per month between 1988 and 2002. So, housing markets have a long way to go to full recovery.



The Orlando MSA registered the highest total of starts in May at over 800 followed by Tampa Bay, South Florida (Miami-Dade, Broward and Palm Beach) and Jacksonville. Measured on a percentage basis starts soared 170% in Lakeland, by 131% in Sarasota-Bradenton and by 128% in Pt. St. Lucie.



The prospects for Florida's housing markets remain excellent over the next 24 months despite the fact that interest rates are rising. In fact our forecast envisions the 10-year Bond reaching 4% by the end of 2014 with mortgages at 6.5%. Even so, Florida's housing markets are expected to strengthen.

While higher interest rates by themselves would depress housing markets, higher rates over the upcoming 24 months will be accompanied by stronger private sector growth, higher employment and rising real disposable incomes. These forces will more than offset the depressing impact of higher rates. While a 200 bps rise in rates is significant, rates will still remain moderate by historical standards.

Furthermore, housing market conditions should remain healthy not just in Florida, but across the U.S. Since Florida receives the bulk of its domestic migrants from states East of the Mississippi, and their housing markets should remain strong, population migration into Florida will accelerate over the upcoming 24 months further boosting housing demand in Florida.

The transition from extraordinary monetary expansion to a normal monetary policy will not be smooth as the last few weeks have demonstrated. However, there is every reason to believe that the transition will remain orderly. As long as the transition remains orderly, markets should make the transition without disruption. These conditions support further gains in Florida's housing marketplace.

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