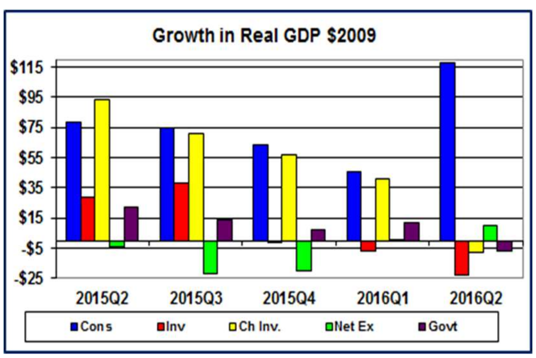
EW ECONOCAST™ WEEKLY

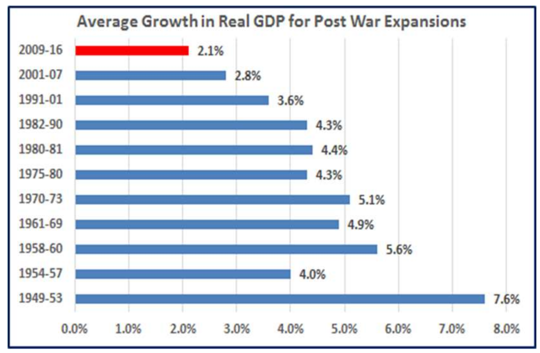
ECONOCAST™ UPDATE – August 1, 2016

U.S. Economy – GDP up Just 1.2%

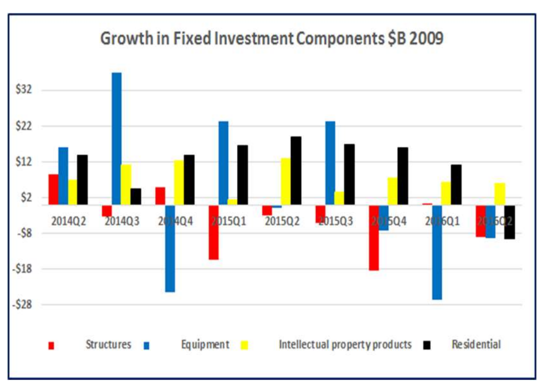
Real GDP rose just 1.2% in the second quarter, up from downwardly revised rates of 0.8% and 0.9% in the prior two quarters. Consumer spending surged 4.2% accounting for all of the growth. Net exports also made a small positive contribution, but investment fell sharply and government spending dipped. The bulk of the decline came from inventories, which is a positive for the outlook, but fixed investment fell too.



This is the slowest recovery since 1949. In the seven years since the recovery began, real GDP growth has averaged just over 2% per year. However, private sector GDP growth—excluding government spending— has been closer to 3%. While GDP rose only 1.2% over the last year, the increase in final sales (excluding inventories) was 1.9%, suggesting that expansion remains slow, but on track at a 2% pace.



The weakness in fixed investment has held the recovery back. Much of this relates to the rise and fall in energy prices. However, housing has lagged badly as well. In addition, ecommerce and advances in telecommunications have triggered major structural changes in retailing and office work resulting in a massive amount of excess commercial space depressing investment in structures.



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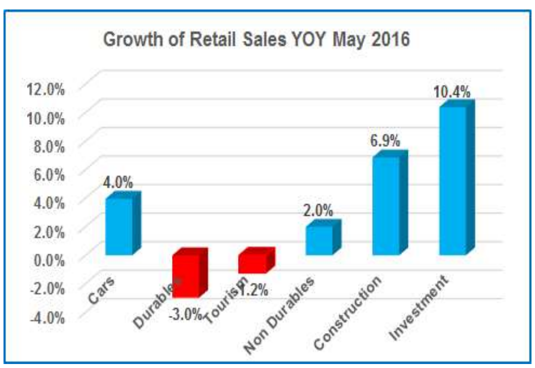
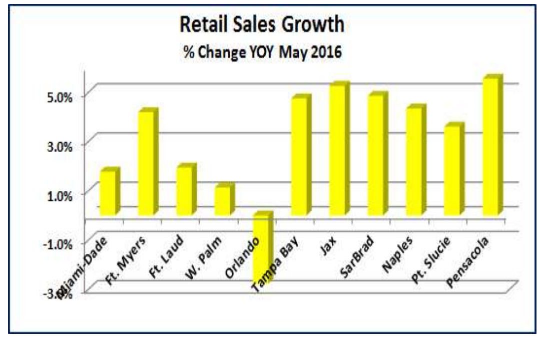
Florida Economy: Retail Sales Slow in May Rising Only 3% YOY

Florida's retail sales slowed sharply in May, rising just 3% compared to last May. Given that strong upswing in population and employment, along with the boom in tourism, the slowdown in the reported data is odd.

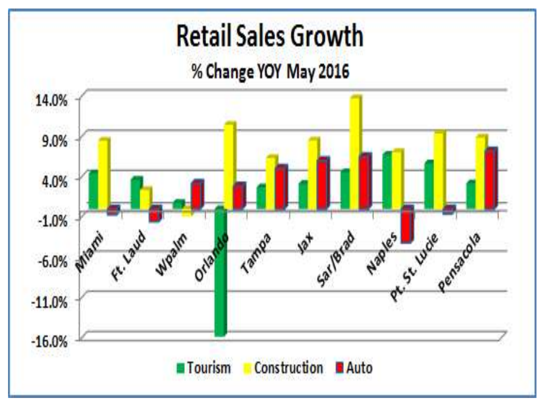
The weakness was concentrated in sales of non-auto durable goods, nondurable goods, and tourism. Auto sales were up 4% and there were strong gains in construction and in investment spending.



The weakness in retail spending in May can be traced to Orlando where retail sales dropped 3.8% in May compared to May 2015. There was also noticeable weakness in South Florida where sales rose less than 2% over the year in all three South Florida metros. Otherwise, sales made 4%-to-5% gains across the balance of the State's metro areas.



Digging deeper into the Orlando data, tourism sales plummeted 16% in May compared to 2015 despite the boom in tourist volume. Why? Harry Potter. The magic of an additional new Harry Potter attraction at Universal in May 2015 pushed up the May numbers so much, that the surge could not be replicated this year. Abstracting from this distortion, retail sales would have increased by about 6% in Orlando and 4% or more statewide.



The outlook for retail sales is very bright going forward. The May data were depressed by a statistical quirk. Furthermore, the accelerating growth in population and the continuing strong advances in employment will support faster growth in retail sales. Finally, it seems very odd that sales of nondurables, a category that includes food stores, would not be increasing in line with population gains.

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