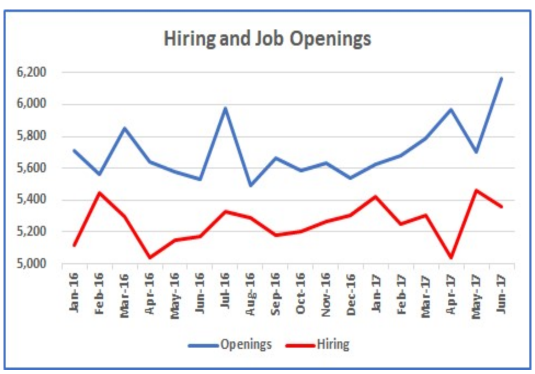
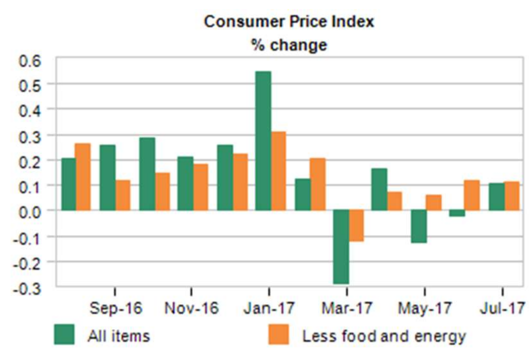
ECONOCAST™ UPDATE – August 14, 2017

U.S. Economy – A Strong Labor Market, Weak Inflation, Policy Drift

June's job openings and labor turnover survey shows a buoyant labor market. Job openings are at an all-time high at 6.2 million, but hiring has not kept pace. Openings exceed hires by 15%. This gap appeared in 2015, and it has widened this year. Companies are not able to hire all the labor they want, and with the unemployment rate at 4.3% and little improvement in the labor force participation rate, companies will continue to struggle to fill positions. As a result, firms will increase wages and also accelerate automation.



Inflation remained surprisingly low in July. The CPI rose just 0.1% and core prices also ticked 0.1% higher. This is consistent with low inflation over the last few months, and it is odd given that the U.S. economy is approaching full employment. It appears that price pressure that typically would come from the labor market at this point in the cycle is being offset by global price pressures and the U.S. dollar.

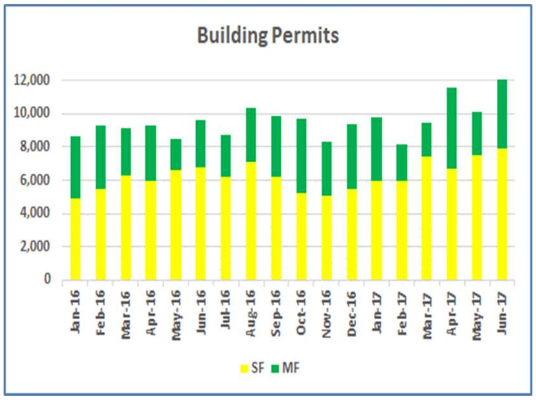


Overall, the U.S. economy continues to perform well, and the prospects for 2018 for the U.S. and the global economy are good. The main risk is political, and events could go badly wrong rather quickly. Much depends on what the Trump administration and Congress do—or don't do—in the next few weeks. Without a budget agreement, a government shut-down looms. Without an increase in the debt ceiling by October, a default would occur. The lack of progress on healthcare, tax cuts, and infrastructure spending does not engender confidence.

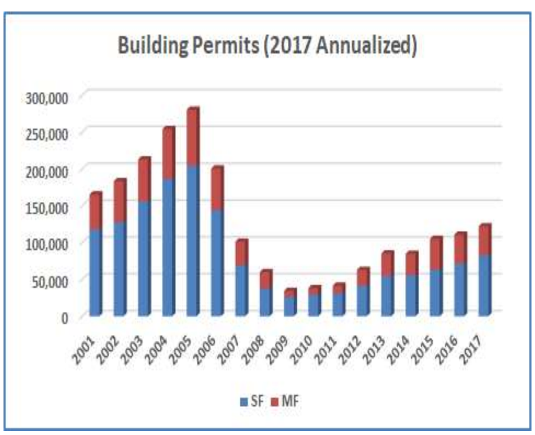
FISHKIND & ASSOCIATES ECONOMIC CONSULTANTS 12051 Corporate Blvd, Orlando, Florida 32817, Office 407-382-3256, Fax 407-382-3254, www.fishkind.com

Florida Economy: Building Permits Remain Strong

Building permit activity continued to improve in June with over 12,000 permits pulled for their highest total since June 2006. Single-family permits were particularly robust.

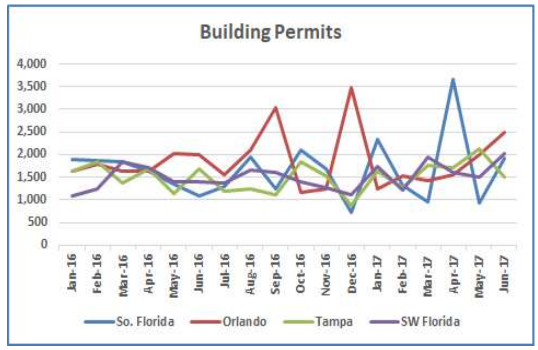


However, progress has been painfully slow. Despite the relatively strong pace of permits so far this year, permits are running an annual rate of 122,244. This is still well below the level consistent with population growth which is running at nearly 400,000. Strong population growth coupled with even modest demand for second homes suggests total demand for over 200,000 units – far in excess of current permit volume. As a result, total permit volume remains depressed by historical standards.



The good news in this is that there should be significant upside for Florida housing markets. The bad news is that structural changes mean that permits will not rebound to their prior pace anytime soon.

Regionally, permit volume has increased across the State. The monthly data show some big peaks when large multifamily projects are permitted, but the trend is unmistakably higher in 2017. The consistent gains in Orlando stand out.



The historical perspective shows that Southwest Florida (Naples, Ft. Myers and Sarasota/Bradenton) had the biggest peak and the most drastic decline in permits. While it has taken nearly a decade, the market in Southwest Florida has recovered, and permit activity exceeded 2,000 in June. The South Florida market (Miami, Ft. Lauderdale, and West Palm) follows a similar trajectory.