EW ECONOCAST™ WEEKLY

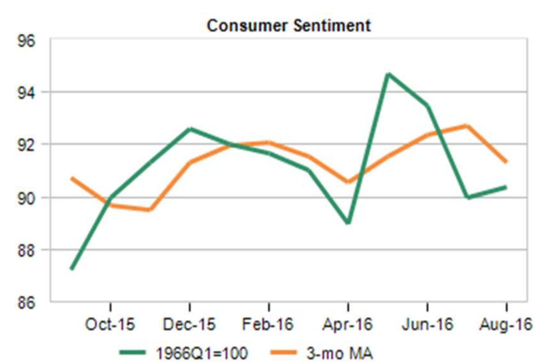
ECONOCAST™ UPDATE – August 15, 2016

U.S. Economy – Weak Retail Sales

Retail sales remain volatile from month-to-month, and after an upwardly revised gain of 0.8% in June, sales were flat in July. Auto sales jumped 1.1%, but core sales, excluding autos and gas, dipped 0.1%. It is very unusual for sales at both grocery stores and restaurants to fall in the same month. This indicates that falling food prices, as shown in the recent producer price report, was the cause of the weakness and not falling demand for food. Along these lines retail deflation, excluding gasoline stations, is historically high, depressing the dollar value of sales. Actually, the volume of retail sales is considerably stronger than the dollar amounts suggest. Additionally, even nominal sales are up 4% over the last three months.

While disappointing, the weakness is temporary and inconsistent with the good gains in income courtesy of the tightening labor market. Low energy prices and the recent drop in gas prices are positives for household budgets and for all retailers except those that sell gasoline.

Consumer confidence ticked up in August. Lower gas prices and rising employment and income were the big drivers. Most consumers reported that their finances that have improved over the past year. However, they remain cautious with only one-third expecting their finances to improve in the year to come.



Fortunately, the labor market continues to be strong. New claims are low and hiring is accelerating. This is the key to the near term outlook.

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Florida Economy: Elections have Consequences

Currently, Florida's economy is expanding strongly. Modest, but longstanding, growth in real GDP, low interest rates, and beneficial demographic trends combine to make the outlook very positive for the next few years. Yet, there are major risks. In addition to the normal business cycle risks, risks from foreign events, and Zika or terrorism in the U.S.; there are particular risks associated with this Presidential election.

Last week the candidates presented their economic plans. Mr. Trump proposes to: (1) dramatically cut personal and corporate income taxes, (2) spend $500 billion on infrastructure, (3) deport millions of illegal immigrants, and (4) renegotiate NAFTA and impose punitive tariffs on trading partner who manipulate their currencies. Secretary Clinton would: (1) raise taxes on wealthy Americans, impose tax rules on businesses that makes it less advantageous to relocate overseas, and use the money those changes produce to fund the rest of her policy agenda, from child care to roads, bridges and other infrastructure, (2) spend $275 billion on infrastructure, (3) provide a path to citizenship for illegal immigrants, and (4) oppose the transpacific partnership.

Moody's Economy.com and the Tax Policy Center provide the most complete and current analysis of the plans. The conclusions from these analyses are consistent with the views of most economists and with my view.

Secretary Clinton's plan would provide mild stimulus to growth in GDP adding about 0.5% per year and increasing employment by 10% per year. This comes mostly from infrastructure spending, other spending, and immigration reform. The deficit would increase on the order of $400 billion.

Mr. Trump's program would trigger a severe recession by 2018. It should be no surprise that a plan to deport 10 million people, illegals or not, would cause a huge shock to the economy. The tax cuts would stimulate demand in 2017, but because the cuts are tilted to the wealthy, who have lower propensities to spend, the stimulus is muted. The resulting gargantuan budgetary deficits would push interest rates up substantially along with the value of the dollar. Renegotiating trade deals will add further uncertainty to an economy in recession. To generate an alternative outcome, the Trump program would have to generate growth in real GDP of 5%-7% on a consistent basis. Such levels of growth are fanciful.

The consequences for Florida's economy are profound. Florida's economy is quite sensitive to the growth trajectory of real GDP, interest rates, the value of the dollar, and immigration. Mr. Trump's plan strikes at each of these key drivers for Florida. Fortunately, there are few imbalances in Florida's real estate markets. Nevertheless, deporting hundreds of thousands of Floridians, legal or not, would cripple the demand for products and severely impact the agriculture and construction sectors along with big impacts on restaurants and hotel services. Slower growth in real GDP and higher interest rates would choke off domestic migration.

Elections have consequences.

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