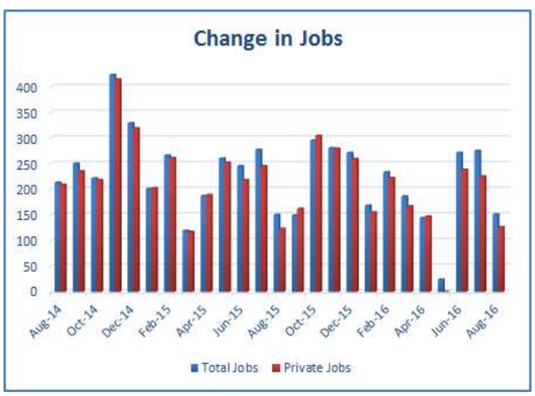
ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – September 12, 2016

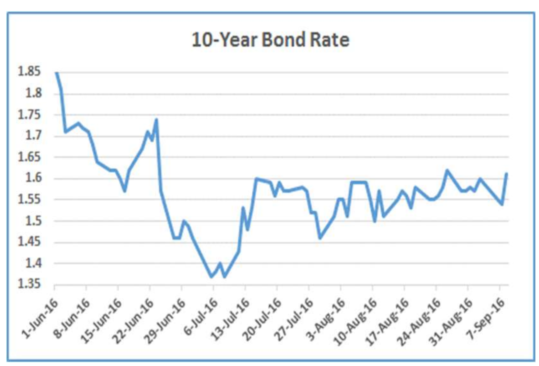
U.S. Economy – Real v. Rates

The tension between the real economy and financial markets reached a fevered pitch last week. On the one hand, the U.S. economy is growing at a 3.5% pace. Although job growth slowed to 151,000 in August, the three-month average was 232,000 which is consistent with a healthy labor market expansion. Continued strong job growth is likely, and labor markets continue to tighten July's Job Openings and Labor Turnover Survey supports this view reporting that employers were seeking to fill 5.9 million positions, up 3.9% from last year.



Retail sales are up and vehicle sales have never been stronger, home sales and house prices have largely recovered from the bust, and the stock market hit new highs earlier last week. Currency and commodity markets are stable, and the global economy has firmed. The Brexit vote has done no discernible damage so far.

Yet, financial markets are fixated on whether the Fed will raise rates at its September meeting. The Fed has taken an extraordinarily cautious approach to normalizing interest rates which, until Friday, seems to have convinced financial markets that historically low rates will be the new normal. But, financial markets sold off sharply at week's end, caused by fears over a pending interest rate. As Friday showed, anything that changes these expectations triggers a rapid re-pricing of stocks, bonds, real estate and other assets. This volatility can quickly hurt the economy, even as rates remain low by historical standards.



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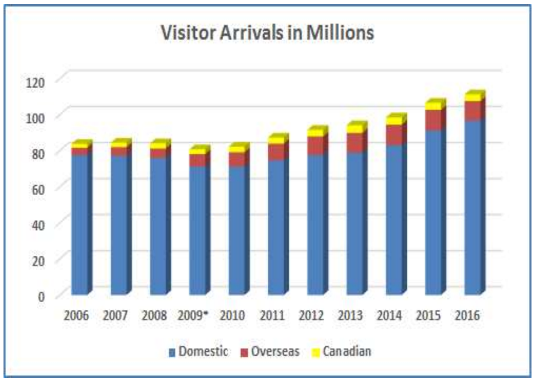
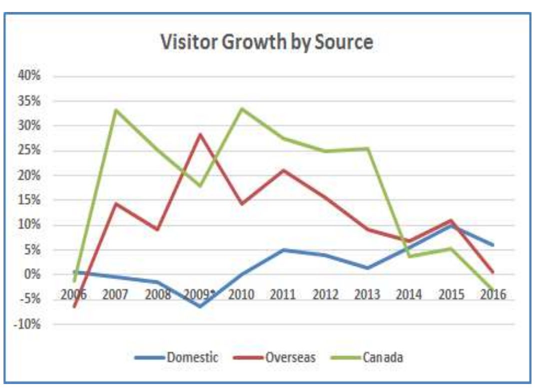
Florida Economy: Growth Slows for Tourist Visits

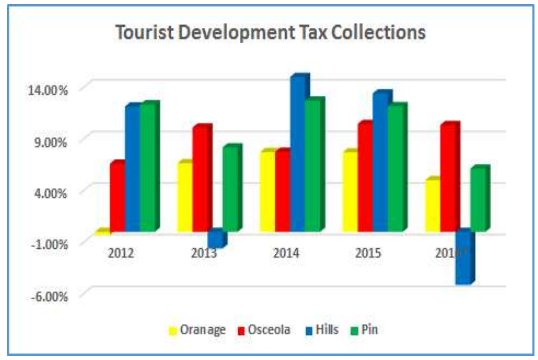
In 2015, 106.6 million visitors flocked to Florida, up over 8% compared to 2015. Domestic visitation leaped to 91.3 million, rising by almost 10%. However, visitor growth has slowed significantly so far this year. At the current pace, visitor volume will rise by only 4% this year to 111 million.



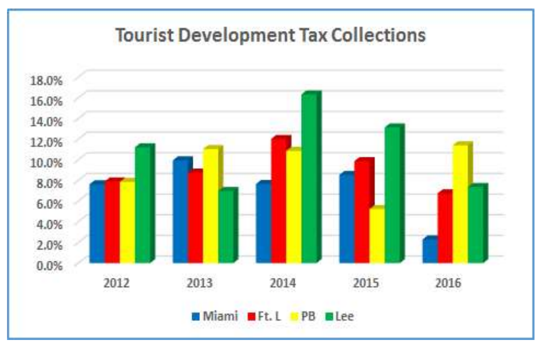
Although Florida continues to enjoy high levels of tourist activity, the growth in visitors has slowed for all segments of the market. The sharp turnaround for visitors from Canada and from overseas is dramatic. After years of double digit gains, visitor volumes are contracting. The falling volume of visitors from Canada and from overseas is being more than offset by the continuing gains in domestic visitors. However, even growth in domestic visitors has slowed by half so far in 2016.



This lower trajectory for visitation in 2016 has occurred across most major markets in Florida. For example, across the major central Florida markets visitation are running below the growth rates of 2015 and often by substantial amounts.



The lower trajectory for growth in visitation is even more apparent in South Florida. Based on tourist development tax collections, growth rates so far this year are slower by half in each major market except for Palm Beach.



The Fed is poised to raise rates which will boost the value of the dollar and further depress visitation from Canada and from overseas in 2017. With the growth in domestic visitation already slowing, 2017 is setting up to be a weak year for tourism. Total visitor volume is likely to rise by 2% or less. And even this may prove optimistic if there are additional Zika outbreaks in Florida.