ECONOCAST™ UPDATE – October 12, 2015

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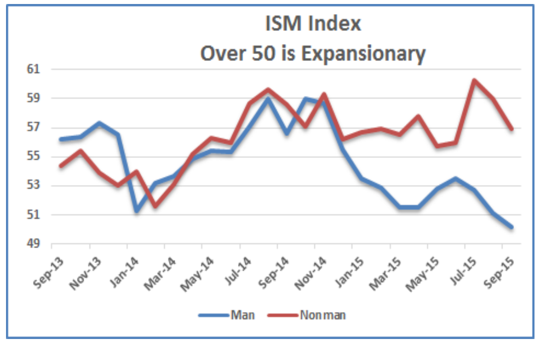
U.S. Economy – Good Data but Bad Politics

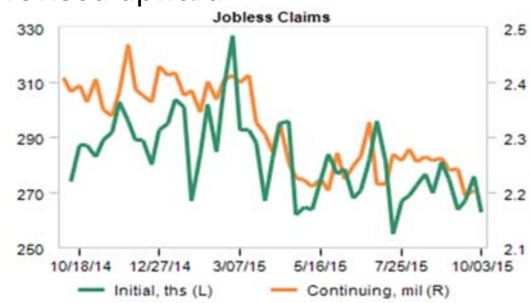
This week's economic reports were quite good on balance. The biggest near term risk to the economy is the political turmoil playing out in the House. Congress will need to raise the debt ceiling, pass a budget, and approve a highway bill soon – otherwise the economy will be hurt. At the very least financial markets will remain volatile raising risk premiums.

The weakest data last week was for manufacturing. The ISM index dropped to 50.2 in September to just above the 50 mark still indicating expansion, but at a very slow pace. The weakness in the global economy, the strong dollar, and the liquidation of excess inventories were all factors slowing manufacturing. Rising retail sales, especially for cars, will support manufacturing and keep it from restraining GDP growth.

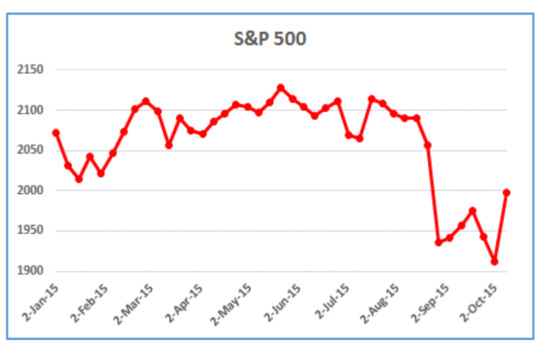
The ISM nonmanufacturing index dipped to 56.0 in September indicating a cooling, but the index is still at a healthy level. The increase in the employment subcomponent is further reason to discount the weakness in the September employment report.



Initial claims for unemployment continued to drop suggesting that the weak September jobs report will be revised upward.

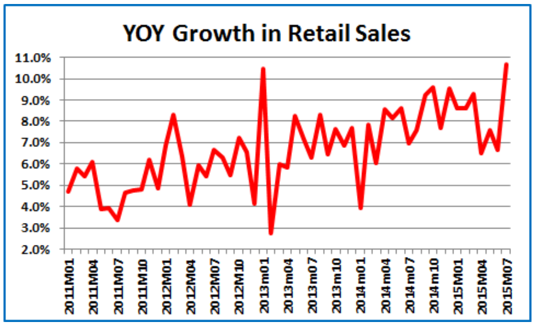


Stocks rallied on the weak jobs report, but are still down 3.5% for the year.

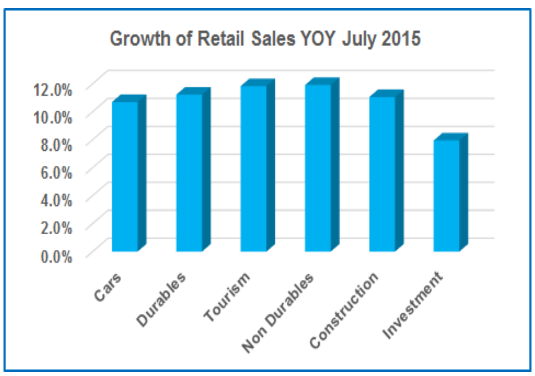


Florida Economy: Retail Sales Jump in July

Florida's retail sales soared almost 11% for the 12-months ending in July 2015. The rebound in July sales reversed the lower trajectory in the 2nd quarter when sales grew by 7%.

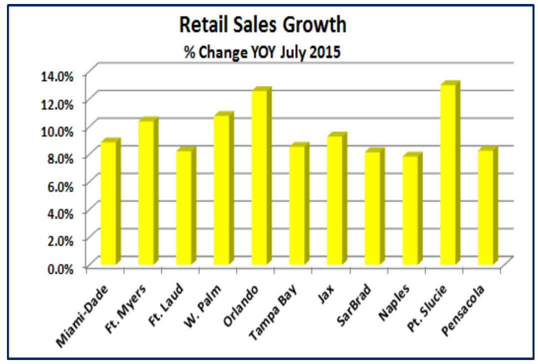


Every major retail sector enjoyed double digit gains except for investment spending which still rose a strong 8% over the year.

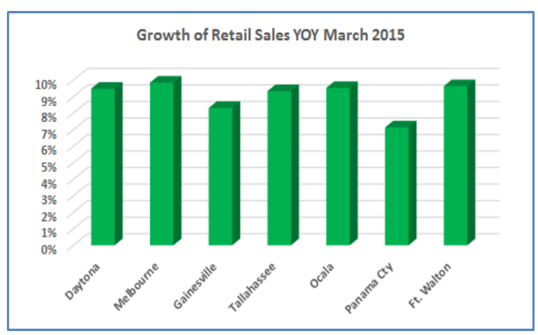


The continuing tourism boom is propelling tourism spending which increased nearly 12%. The higher level of construction activity is apparent in the rise in construction related sales. High levels of population and employment growth support the other main components.

Sales gains varied widely among Florida's major metro areas ranging from a highs of 12% in Orlando and almost 13% in Port St. Lucie to a low of 7.8% in Naples. It is easy to understand the strength in retail sales in Orlando with tourism booming Orlando's tourist related sales shot up 17% over the year. The relatively weak performance in Naples was ironically because of no gain at all in its tourism sector. Port St. Lucie's strong gains came from 15% or higher jumps in construction, tourism and auto sales.



Across Florida's smaller metro areas retail sales gains were good, but were consistently below the statewide average gain of 11%. Sales gains ranged from a low of 7% in Panama City to a high of nearly 10% in Melbourne. Although tourism sales were up over 9% in July in Panama City, investment spending actually dipped and auto sales rose by just 3%. In Palm Bay-Melbourne it was a 17% leap in construction spending which pushed overall retail sales up.



Retail sales growth will remain very strong for the balance of this year and at least for the 1st half of 2016 given the fundamentals of strong tourism and good growth in population.

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