

ECONOCAST™ UPDATE – October 21, 2013

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U.S. Economy – Now What?

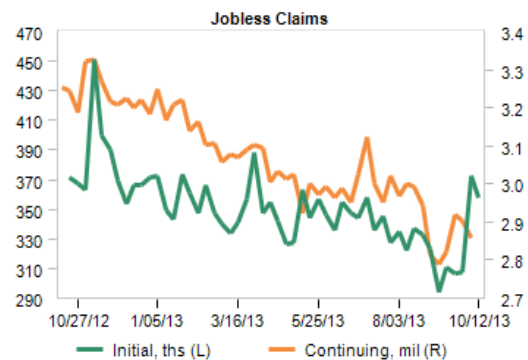
Last Wednesday Congress agreed to reopen the federal government and extend the debt ceiling. The deal sets three important deadlines: (1) December 13, 2013 the House-Senate conference committee is to agree on a new budget; (2) January 15, 2014 budgetary authority expires if a new plan is not agreed; and February 7, 2014 the government will again reach the debt ceiling. As economist Mark Zandi of Moody's Analytics put it, the best thing that the federal government can do for the economy is to stay out of the news. Sadly, this is unlikely. So, what is the outlook?

On the positive side the shutdown was only a partial one and many workers were called back in week two. Also, federal workers will receive back pay soon. Additionally, based on the scant data available, it appears that private sector activity held up much better this time compared to 2011.

On the negative side, the short time for Congress to come to an agreement over the budget and debt ceiling will continue inhibiting business investment and hiring.

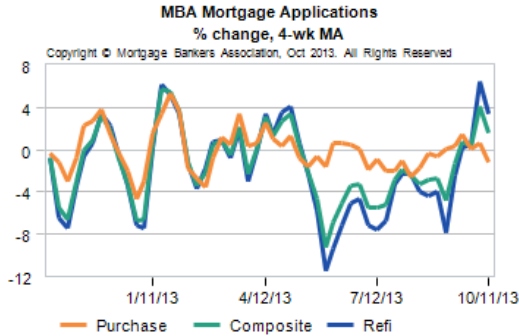
Overall I expect GDP to grow at just 1.25% this quarter. Assuming Congress can come to an accommodation, GDP growth will accelerate rapidly in 2014. Otherwise not.

The most important data on the economy are new claims for unemployment compensation. Claims jumped over the last two weeks because of the shutdown and technical reporting problems in California. The next few weeks of data on claims will be an important guide to how employers respond.



The strength of the housing market can be best gauged by the trend in mortgage applications. After being a significant drag through the summer months, refinance activity is providing the only push to mortgage applications. Purchase applications for new and existing homes dipped

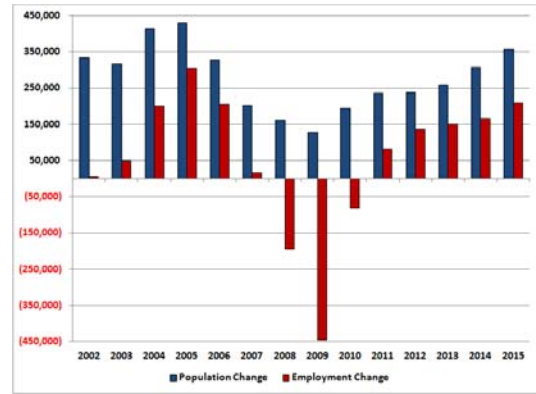
again for the third consecutive week and the fifth week in seven. Higher mortgage interest rates and house prices are squeezing demand, especially amid declining real incomes. An annual report from the Census Bureau signaled that real median household income in 2012 fell to \$51,017, its lowest level since 1995.



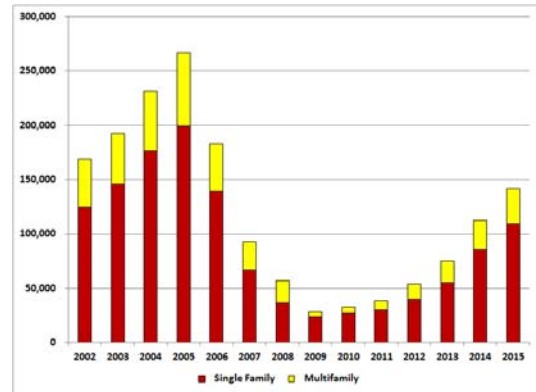
Florida Economy: Outlook After the Shutdown

The shutdown has slowed U.S. economic growth in the fourth quarter and into 2014Q1, a negative for Florida. However, the shutdown also will delay by six months at least any tightening of monetary policy keeping interest rates lower than previously expected. As a result, tourism will be a bit weaker but housing and population growth a bit stronger.

While still well below the prior peak in 2005, population growth will be strong over the next 24-months rising above the 350,000 mark in 2015. Employment growth will also accelerate. Construction, healthcare, business services, retailing, and tourism will pace the gains.



Housing starts have surged off their lows in 2013 and this momentum will accelerate in 2014 and 2015. While well below the boom period, housing starts will rise strongly and on a sustainable basis supported by rising population and employment.



Commercial construction will also rebound, especially retail and office development.

