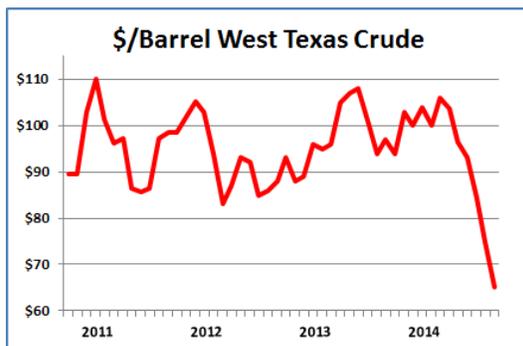


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U.S. Economy – Holiday Gifts Came Early with Lower Oil Prices

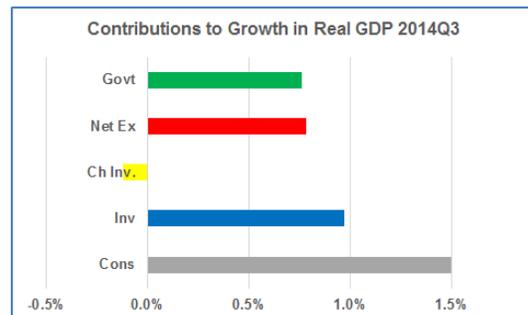
Last week was short, but eventful. On Thanksgiving OPEC decided not to cut production thereby giving a big pre-holiday present to the global economy. Crude prices has been slipping prior to OPEC's announcement, but then the plummeted to \$67/barrel by Friday. As a result, the average price for regular gas in the U.S. has dropped nearly \$1/gallon since April.



Crude prices are likely to settle to about \$55-to-\$60/barrel, because at these levels a substantial portion of oil production from fracked wells is no longer economic and would be shut in. This would mean that U.S. gasoline prices would decline another \$0.25 cents per gallon and are likely to stay low through 2015.

The typical U.S. household spent \$2,650 on gasoline last year, so they would save about \$700/year boosting consumption spending. They will save on heating costs too. Most business will save as well. All told this should add about 0.75% to U.S. GDP.

Speaking of GDP, growth was revised upward for the 3rd quarter to 3.9% (SAAR). Stronger gains in consumption and investment spending along with a bit less inventory loss were responsible.



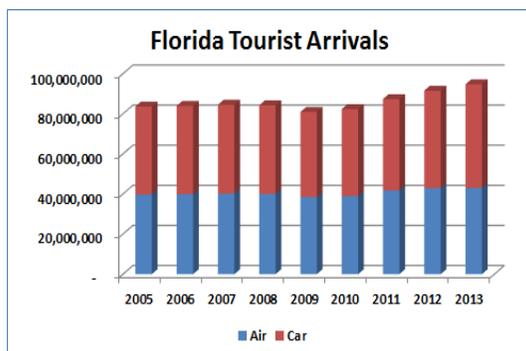
With lower energy prices and building growth momentum the economy should grow by 4% or more in 2015. Businesses are finally investing and hiring with some gusto and real disposable incomes are rising. The big fiscal drag from government is behind us. Overall government spending made its largest contribution to growth since 2009, led by federal defense spending.

Florida Economy: Lower Gas Prices Mean Faster Growth

Florida's economy will receive a strong boost from lower oil prices. Florida produces very little oil and no gasoline, but Florida consumed over 4.6 billion gallons of gasoline last year. A \$1 drop in gasoline prices results in more than \$4 billion of savings for Florida drivers. This will translate into stronger retail sales.

Furthermore, most of those who visit Florida or retire to Florida live east of the Mississippi River. The eastern half of the country produces relatively little oil and consumes a whole lot. So, lower oil prices are particularly stimulative to the east directly benefiting them and Florida.

More directly over 94.7 million tourists will visit Florida last year. The quarterly data indicate that this total may exceed 100 million this year. Of these more than 52 million will arrive by car. The average family spent about \$400 on gasoline for their trip. The fall in gas prices will save the typical party coming by car \$100. Most of this will likely be spent on the vacation boosting tourism spending by more about \$5 billion next year. extra \$2 billion in additional tourist spending is likely just from lower gas prices even if not one more tourist came, which will obviously not happen as more will come.



Interestingly, the mix of arrivals has skewed more to auto arrivals compare to air arrivals. This is in part because of the expense and difficulty for a family to fly to Florida for their vacation. So, this secular trend will reinforce the benefits from lower gasoline prices.

Finally, consider the geopolitical impacts of lower oil prices. Big losers are those nations like Russia, Venezuela, and Iran whose economies and whose government revenues are heavily dependent upon high oil prices and high production rates. Each is already in a precarious position having promised their populations low oil prices and big consumer subsidies funded by their oil sales. The fall in prices has stressed them severely and will likely prompt political fallout.

Florida will benefit from the continuing instability in Venezuela. Migration and investment from Venezuela was already very strong into South Florida. The drop in oil prices will magnify these forces.

Finally, the drop in oil prices is likely to stimulate Florida's economy sufficiently to allow the economy to accelerate further during this recovery cycle. Previously, Florida's economic recovery had reached a high plateau, but was no longer accelerating. As noted here, employment gains has peaked at about 200,000 YOY over the last 12 months. The recent drop in oil prices will likely result in another move higher for employment and for Florida's economy more generally in 2015.