

ECONOCAST™ UPDATE – March 26, 2018

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U.S. Economy – Fed Hikes Rates

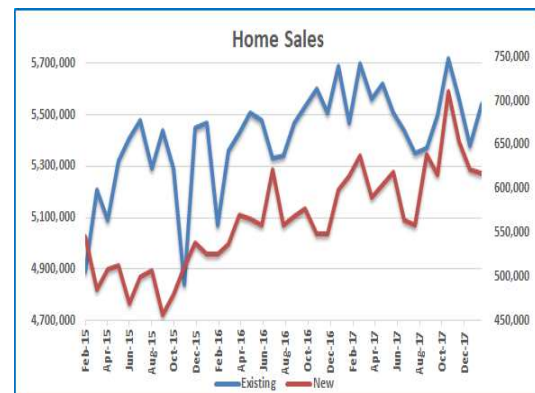
As expected, the Fed boosted the funds rate 25 bps to 1.5%-to-1.75% despite lackluster economic data so far this quarter. Unexpectedly, the Fed has turned more hawkish because of the fiscal stimulus in the pipeline. The Fed: (a) revised up its forecast for GDP growth this year from 2.5% to 2.7%; (b) anticipates growth to be 2.4% in 2019 (previously 2.1%); and (c) confirmed at least two more rate hikes this year. Seven Fed members now favor three more hikes this year.

Also, as expected, the Trump administration temporarily exempted a number of trading partners, including Canada, Mexico, European Union, Argentina, Brazil, South Korea, and Australia from recently announced tariffs on steel and aluminum accounting for nearly 70% of U.S. imports. Others including Japan will soon be added. This pattern will probably be repeated to some degree for the newly threatened tariffs on \$30 B in Chinese imports.

Global financial markets reacted badly, and the Dow dropped 5.7% for its worst week since January 2016. This reflects the reality that U.S. trade

policies, and the potential for retaliation by our trading partners, have increased risk of and accelerate the timing for the next recession.

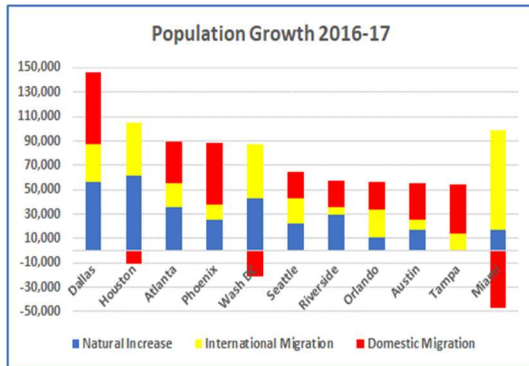
The economic news was mixed last week. Sales of existing homes rose 3% in February and are 1.1% above February 2017. Sales were held back by the winter storms along the East coast. New home sales fell from a revised 622,000 annualized units in January to 618,000 in February, but are still 0.5% higher than in February 2017. Low inventory levels and supply constraints are factors restricting home sales. New-home sales are volatile, but their trend has clearly weakened.



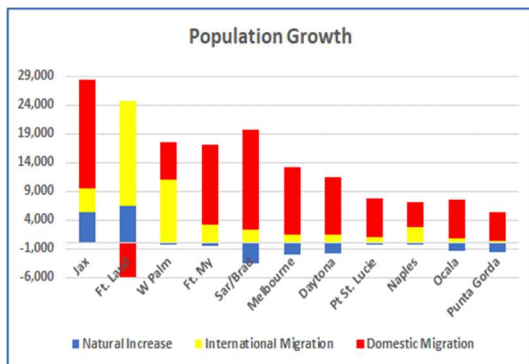
Orders for durable goods soared in February and new claims for unemployment remained very low.

Florida Economy: Strong Population Growth in MSAs

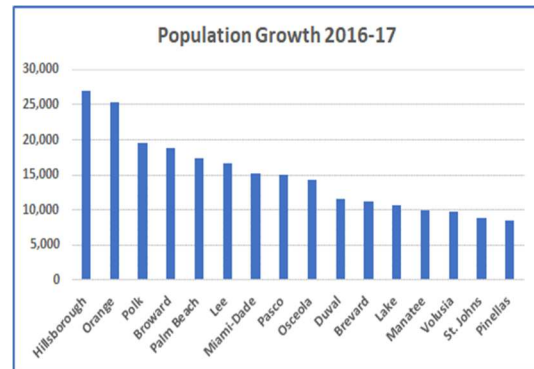
Orlando, Tampa, and Miami ranked among the 15 fastest growing metro areas in the U.S. in 2017. Orlando added 56,500 residents in 2017 driven by 45,500 net domestic migrants. Almost all Tampa's growth also was from net domestic migration, but in Miami all of the growth was from international migration.



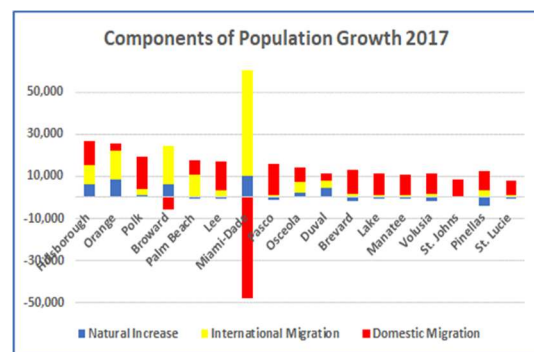
Jacksonville gained nearly 29,000 in 2017 powered by strong gains in domestic migration. International migration accounted for all of Ft. Lauderdale's gain and most of the population growth in West Palm as well. For West Palm this is a marked change from the previous dominance of domestic retiree migration. Strong inflows of domestic migrants, primarily retirees, accounted for most of the population growth in the other Florida metro areas that grew by 5,000 or more in 2017.



Hillsborough County grew fastest in 2017 with a gain of 27,000 followed closely by Orange County's 25,000. Polk, Broward, Palm Beach and Lee all enjoyed gains of 20,000 or more.



The sources of population growth varied significantly across the counties. At one extreme Miami-Dade's population growth was exclusively from international migration which offset the loss of 48,000 in domestic migration. Miami-Dade also had Florida's largest natural increase totaling over 10,000. At the other extreme are a number of counties popular with retirees where population growth is determined by net domestic migration including Polk, Pasco, Brevard, Volusia, Pinellas, and St. Lucie.



Finally, it is important to note two things about migration from Puerto Rico. First, census counts them as international, and second the influx after the hurricanes is not yet included in the population data.