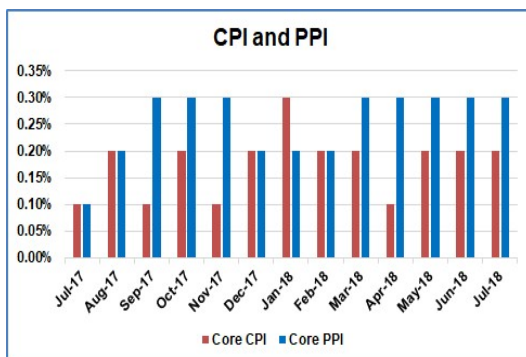


## ECONOCAST™ UPDATE – August 13, 2018

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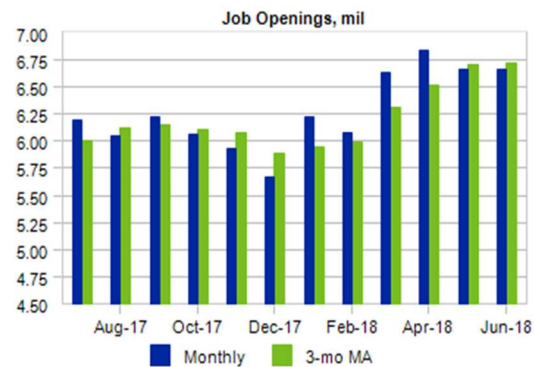
### U.S. Economy – Rising Prices Mean Rising Interest Rates

Consumer prices rose 0.2% in July, for a total of 2.9% so far this year - which is the strongest pace in six years. The core CPI index for inflation continued running at a 2.4% pace in July, and core PPI rose at a 3.6% rate. These trends have remained unchanged over the last 6-months. However, there is increasing evidence of building price pressures fueled in part by tight labor markets, stressed supply chains, and the tariffs. In addition, healthcare will shift from being a drag to a support to inflation now that the bulk of the impact of the Affordable Care Act's drag on healthcare inflation is over. Also, rising rents will continue pushing up core services prices with the rental vacancy rate is so low.



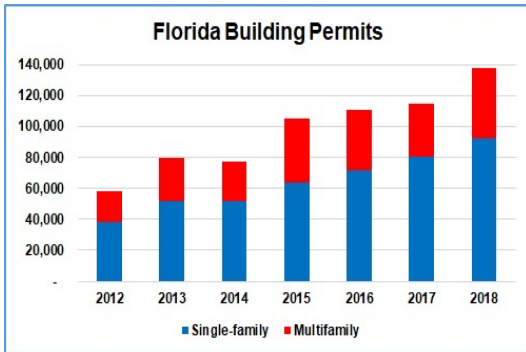
Accelerating inflation supports the Fed's plan to raise rates twice more this year, once in September and again in December.

In line with other indicators the Job Openings and Labor Turnover Survey data confirm the strength of the labor market. Job openings remained near a record high at 6.66 million in June leaving the opening rate at 4.3%. Hiring fell slightly but remained up from 5.5 million last year. The rate edged lower from 3.9% to 3.8%. The gap between openings and hires widened slightly and remains very large. Job creation remains robust despite the unemployment rate sitting below 4%. Indeed, hiring has not slowed down but has trended higher over the past year.

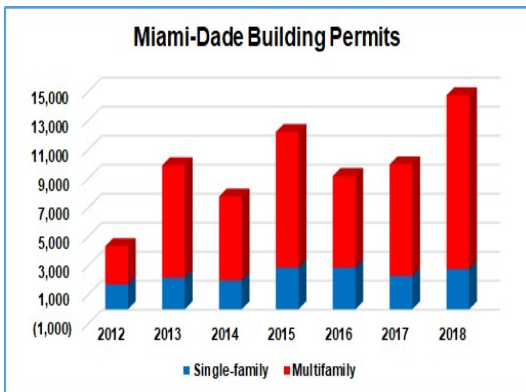


## Florida Economy: Signs of Overbuilding Begin to Emerge

Building permit activity has accelerated strongly so far in 2018. At their current pace permits are running 20% above last year propelled by a 32% gain in multifamily permits and a 15% increase in single-family permits. The monthly momentum points to further acceleration in the second half of 2018. Although total permit volume is at its highest level since 2006, the current higher level of permits is still consistent with rising population growth, so there are no aggregate signs of overbuilding statewide.

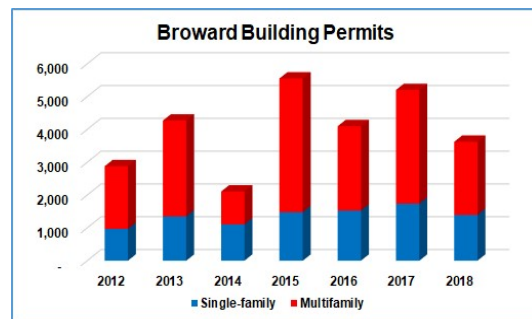


However, surging multifamily permits are putting a number of metropolitan area markets at risk for overbuilding of apartments and condominiums. For example, in Miami-Dade multifamily permits have doubled and single-family permits are up 21% compared to 2017.



The current surge of permits, if sustained, is sufficient to house over 40,000 but population growth is running well below this level. Since the resale market has had excess inventory for months, especially surplus multifamily inventory, overbuilding now appears inevitable for Miami-Dade's multifamily market both for the rental segment and in the for-sale market.

Yet, just north in Ft. Lauderdale, the market appears to be in equilibrium thanks in large part to the slowdown in multifamily permits so far this year.



Orlando has consistently led the State in growth of employment and has experienced rapid population growth too. Even so, signs of overbuilding are apparent in the Orlando's multifamily housing market. Permits for multifamily housing, mostly for apartments, are almost 3-times higher than last year. With total permit volume running at a 30,000-unit pace so far this year. Population growth, while strong, is not nearly sufficient to absorb all these units.

