EW | ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – June 27, 2016

U.S. Economy – Brexit Will Slow, But Not, End Growth

Brexit is a tragedy for the UK economy, and it will slow growth in the U.S. and in Florida. Brexit affects the U.S. economy through three major channels: (1) financial markets, (2) confidence, and (3) trade. Financial markets generate the most immediate and direct affects – none of them good. Stock prices will continue to fall another 5% on top of the 3% lost on Friday. Treasury bond yields will fall to cyclical lows, and the dollar will rise to a cyclical high. The impacts are not disastrous, but they will slow growth. The uncertainties generated by Brexit will inhibit investment and hiring. Beyond the impact of the dollar appreciation, trade impacts are modest since the UK will remain in the EU for at least 18 more months as the divorce is negotiated.

All told Brexit will cost us about 1% in GDP reducing the trajectory to about 1.5% over the next year. The U.S. recovery is in its seventh year, and it is aging well with few imbalances. The economy has weathered the sharp drop in oil prices well showing resilience. In this environment the Fed will hold off raising the funds rate.

Market forces also will keep U.S. rates low, and this stimulates the economy, particularly housing markets. As if on cue, existing-home jumped 1.8% in May and are up 4.5% from May 2015. Listings growth jumped too, keeping pace with sales, so that the market did not tighten significantly. Sales of new homes remain volatile, but the overall trend is up rising 8.7% from May 2015. While existing home sales have rebounded to their pre-crash highs, new home sales remain depressed. However, they are now poised to accelerate.

For now, uncertainty is reality. Brexit has rattled global financial markets, and how they perform will ultimately determine the economic costs for the U.S. and global economy. Although there will be substantial volatility, I think that the worst is behind us in the U.S. Not so for the UK.

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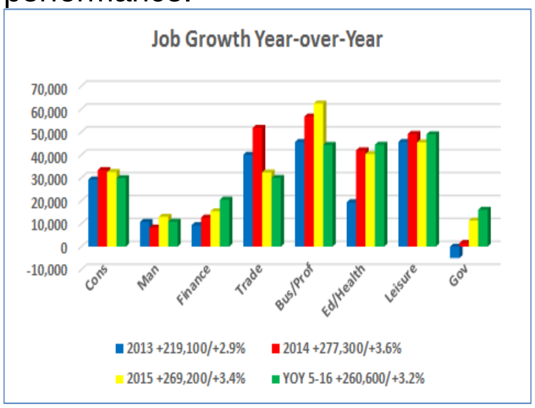
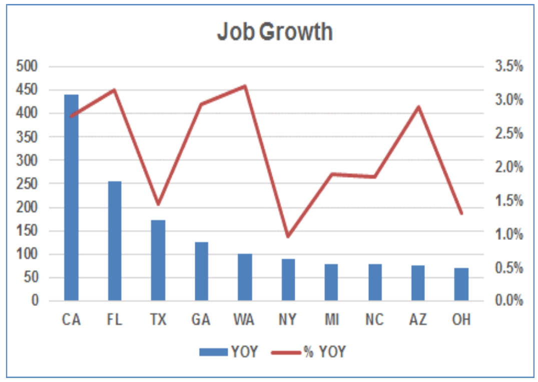
Florida Economy: Solid Job Growth is Great Protection

Strong job growth continued in May insulating Florida from the immediate impacts of Brexit. On a seasonally adjusted basis, 24,500 jobs were added in May on top of April's 34,900. This came at a time when job growth in the U.S. was slowing. On the more reliable year-over-year basis job gains totaled 260,600 for the 12 months ending in May. While this was just a shade weaker than 2015, it is still a very impressive performance.



All major sectors advanced, with particular strength in leisure, healthcare, and business and professional services. However, most sectors have peaked at high levels of growth including construction, trade, and business and professional services. Only government, finance, and leisure continue accelerating.

Compared to other states, Florida's job growth, both in absolute numbers and on a percentage base, is impressive. Florida ranked second, among the ten states with highest absolute job gains, for both job growth and the rate of job growth. This suggests that Florida's buoyant job growth is sustainable.



Orlando and Tampa continue to lead in job growth fueled by their strong tourism and healthcare sectors. Jacksonville's job growth was notable as well along with Cape Coral/Ft. Myers and Ft. Lauderdale.

Data as of April 2016	Unemployment Rate	Job Gain last 12 Months	% Change Jobs
Florida	**5.1%**	**260,600**	3.2%
Cape Coral-Ft. Myers	4.0%	8,300	3.4%
Gainesville	3.8%	2,500	1.9%
Jacksonville	4.1%	24,700	3.8%
Lakeland-Winter Haven	4.8%	4,600	2.2%
South Florida	4.6%	57,700	2.3%
Ft. Lauderdale	4.1%	27,800	3.5%
Miami	5.3%	18,300	1.6%
West Palm Beach	4.2%	12,200	2.1%
Naples	4.0%	3,100	2.3%
North Port-Sarasota-Bradenton	4.0%	6,700	2.4%
Ocala	5.2%	2,200	2.3%
Orlando	4.0%	50,600	4.4%
Palm Bay	4.7%	1,400	0.7%
Pensacola	4.3%	1,800	1.1%
Port St. Lucie	4.7%	3,800	2.8%
Punta Gorda	4.7%	1,000	2.2%
Sebastian-Vero	5.5%	1,300	2.7%
Tallahassee	4.2%	4,400	2.6%
Tampa-St. Pete	4.1%	43,900	3.5%

Yet there are areas with weaker job markets. While Miami added 18,300 jobs over the last year, job growth was just 1.6%; it continues to decelerate; and it is concentrated in unsustainable gains in construction. Naples, Palm Bay, Gainesville, and Pensacola are also noticeably weak.

That said, Florida's relatively robust job growth will insulate us from the uncertainty, volatility, and slowing global growth caused by Brexit.

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