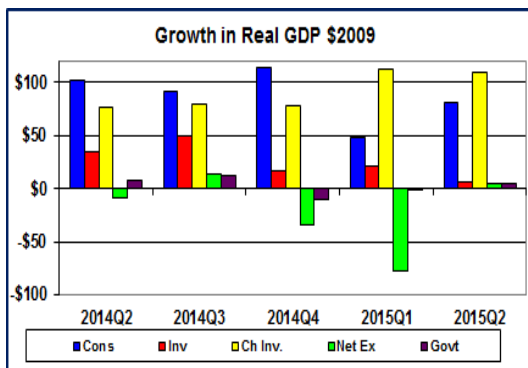


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U.S. Economy – GDP Growth Stronger than it Appears

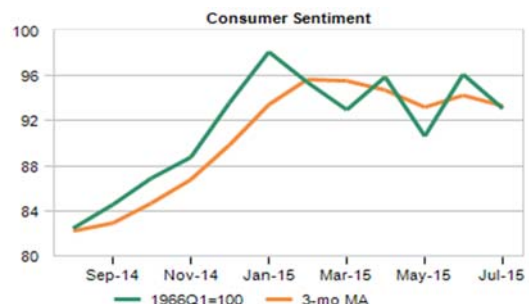
Real GDP grew by 2.3% (SAAR) in 2015Q2 up from the revised gain of 0.6% in first quarter. The annual revisions to GDP reveal somewhat slower growth over the last three years. I had expected a stronger snap back from the weak 1st quarter. While the growth rate disappointed, the composition of growth was on the whole encouraging for the rest of this year. Most importantly, consumption spending and residential investment rose, and net exports stabilized. However, inventory built up for the second quarter in a row which will inhibit future production.



The recovery is more than six years old and shows no signs of old age. Critically, job growth is strong and broad-based, and wage increases will

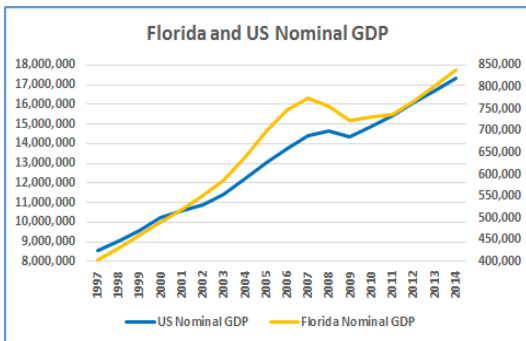
accelerate as the economy approaches full employment. Debt burdens are about as low they have ever been, and many households have locked in the exceptionally low interest rates by refinancing their mortgages. Stock prices are still near record highs, and house prices are up strongly more than restoring the wealth lost in the crash. These fundamentals will support GDP growth of 3.5% or more in the 2nd half of 2015.

Consumer confidence dipped, but it remains high. Nevertheless, expectations for the future dropped pointing to fears of external shocks from Greece, or China or our domestic politics. Coming up in the fall are battles over the budget, the debt ceiling, highway spending and Planned Parenthood. There are renewed threats of a government shutdown and a credit downgrade. No wonder consumers are edgy.

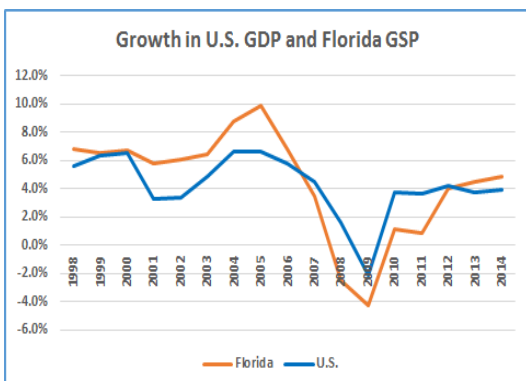


Florida Economy: U.S. Real GDP and Florida Gross State Product

There is a very strong connection between changes in U.S. GDP and in Florida's gross state product ("GSP"). That is why it is so important to track the quarterly movements in GDP. As the chart below shows, GDP and GSP move together rather closely. The correlation coefficient is 0.97 indicating a very strong positive correlation between them.



The chart also shows that Florida's GSP is highly sensitive to variations in GDP. During the housing boom Florida's GSP soared above GDP only to fall back sharply during the Great Recession. This suggests that Florida's economy is very sensitive to changes in U.S. GDP on both the up and the down parts of the business cycle. The chart below confirms this hypothesis. The rates of growth and contraction are larger in magnitude for Florida than for the U.S. over the course of business cycles.



This heightened level of sensitivity to variations in U.S. GDP makes it even more important to track GDP in order to forecast changes in Florida's GSP. The prospect for stronger growth in GDP for the balance of 2015 is of course good news for the outlook for Florida's economy.

Other signs are very positive as well. Most importantly, housing markets in the eastern half of the country are strong with rising levels of sales and higher prices. This environment supports home sales and migration to Florida. Furthermore, the ongoing economic turmoil in Puerto Rico, Venezuela, and Brazil will promote additional migration to Florida.

These forces will make 2015 and especially 2016 very strong ones for Florida's economy. The challenge will be how best to take advantage of these near term opportunities without overshooting in the inevitable slowdown sometime in 2017.