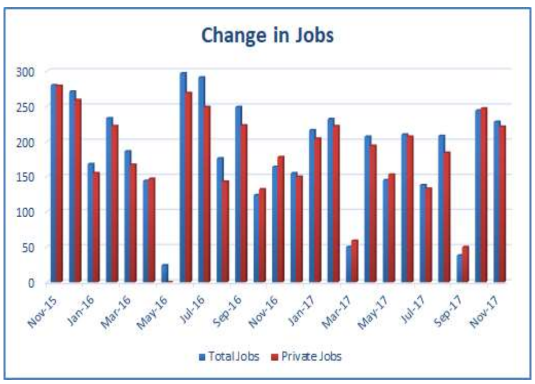
ECONOCAST™ UPDATE – December 11, 2017

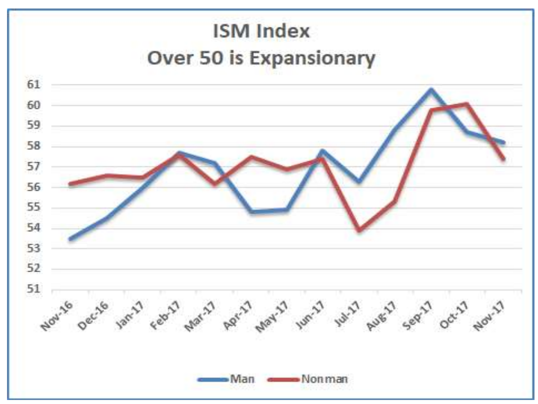
U.S. Economy – Solid Job Gains

Employers added 228,000 jobs in November and the unemployment rate remained at 4.1%. Job gains were widespread across all major industries except for information and the federal government. There was notable strength in goods-producing industries, healthcare, and retail.



The labor market is performing remarkably well in its 8th year of uninterrupted growth. But, wage growth continues to disappoint increasing just 2.5% since last year. The tight labor market did push up hours worked, and when combined with job growth, accelerated the gains in income totaling some 4.5%.

The November ISM surveys also point to continued GDP growth at about 3%. Although the survey numbers were below October levels, they are still well above 50 indicating continuing growth. Orders rose and inventories declined for manufacturers, and the outlook remains bright. Nonmanufacturing softened in November, but it is not an immediate concern. The index represents continued growth in the nonmanufacturing segment, and fundamentals remain supportive overall for nonmanufacturing, which accounts for 88% of GDP.



With the economy growing at 3%, and at virtually full employment with little idle capacity, the Fed will increase the funds rate at its meeting this week. The Fed is also likely to confirm its plan to raise rates at least 3 times in 2018 and 3-times more in 2019. Finally, financial markets remained fairly steady last week, betting on passage of a tax cut and no government shutdown.

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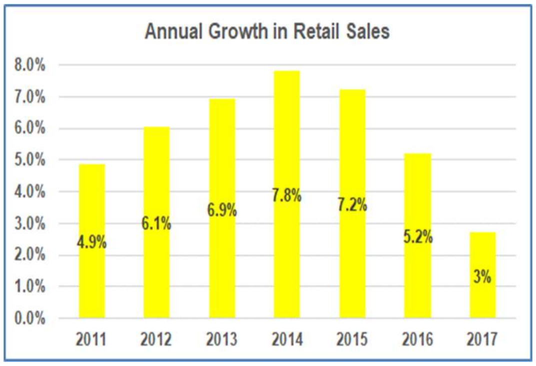
Florida Economy: Retail Sales Continue Growing Slowly

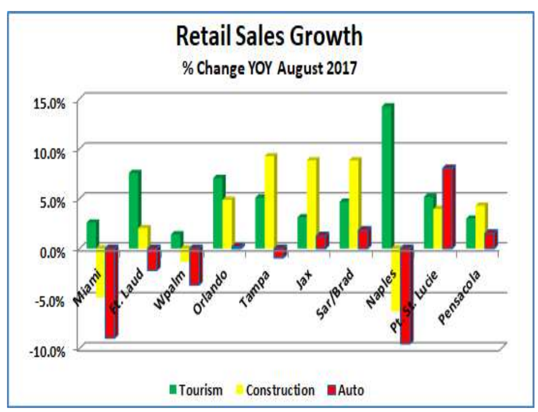
Retail sales dropped 7.2% for the 12-months ending in September, but all of the fall was caused by Hurricane Irma. Sales will snap back, but even without Irma, retail sales so far this year are only 3% ahead of 2016. Sales gains have slowed each year since their peak gain of 7.8% in 2014.



The slowing pace of sales growth can be explained in part by the rise of Ecommerce sales, which are not captured in the retail sales data. In addition, the shift in consumption spending more toward services and less for goods also reduces retail sales. However, it is surprising that sales have slowed significantly over each of the last three years since population and employment continue growing strongly in Florida. Finally, it appears that the pent-up demand for autos and durables has been satisfied.

Retail sales have grown fastest in Pensacola, Orlando, and Sarasota-Bradenton, and slowest in South Florida, especially in Miami where sales were a bit lower in August compared to last year.

Surging tourism sales and stronger construction spending pushed sales higher in Orlando. In Pensacola it was business investment that pushed total sales above average since other major sectors were at or below 3% growth. Sales in South Florida were dragged down by falling auto sales and weak construction spending. Strong gains in construction spending in Tampa and Jacksonville were insufficient to offset weak auto sales and small gains in tourism.



Holiday sales will be bright in Florida. I expect a gain of 6% compared to last year.

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