

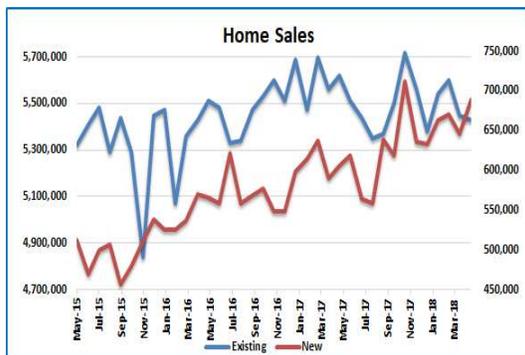
ECONOCAST™ UPDATE – June 25, 2018

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U.S. Economy – Mixed Results for Home Sales

Sales of existing homes fell for the second month in a row and are now 5% below last May. Extraordinarily tight inventories continue to inhibit sales while simultaneously pushing up prices - which are up 8% over last year. These price increases did produce a small rise in listings allowing the inventory-to-sales ratio to improve slightly.

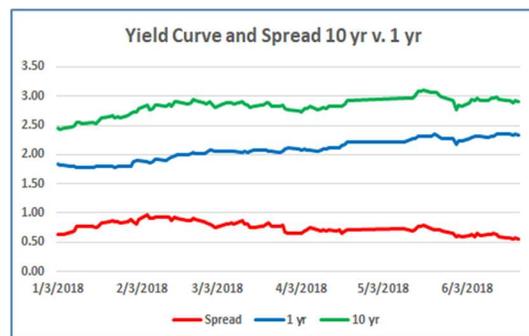
Sales of new homes rebounded in May rising nearly 7% and pushing them 8% higher than last year. Interestingly, there was a big increase in the share of new homes sold priced under \$300,000 limiting the overall gain in prices to just 3% since last year. It appears that builders recognize limits on the upscale market hence the shift to more affordable home production.



Housing starts bounced back in May rising 5.0 percent to a 1.35 million-unit pace. Both single-family (+3.9 percent) and multifamily (+7.5 percent) starts rose, but total permits fell 4.6 percent to a 1.30 million-unit pace. Even so, residential construction has been steadily increasing, and this trend is likely to continue.

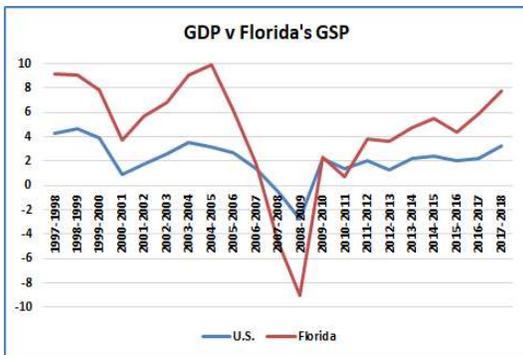


Financial markets are reacting badly to the escalating trade war. Stocks have fallen sharply, and investors moved into bonds. As a result, the yield curve continues to flatten. The yellow caution signs are flashing.

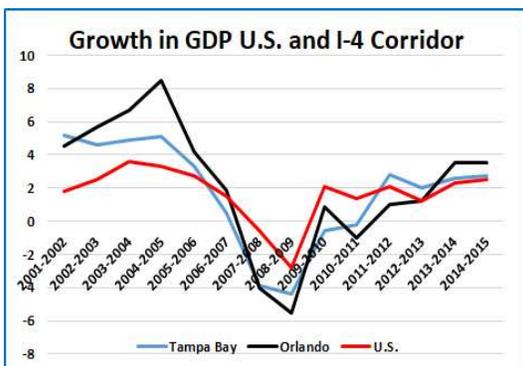


Florida Economy: GDP and the Outlook for Florida

The growth trajectory of Florida's economy is highly correlated with the growth in U.S. real GDP. Since 1997, the correlation between the growth in real Florida GSP and U.S. real GDP is 0.88. This means that roughly 88% of the annual variation in Florida's economy can be explained by the changes in U.S. GDP. Inspection of the chart below shows that the amplitude of Florida's business cycles have exceeded the variations in GDP.

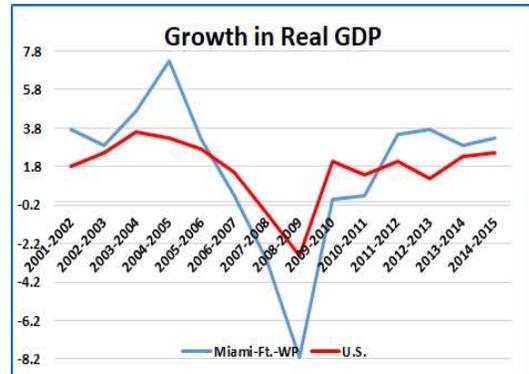


These same characteristics apply to Florida's major metropolitan areas as well. For example, the correlation between Orlando's GRP and GDP is 0.9 and for Tampa 0.86. Also, the cyclical amplitude is far greater.

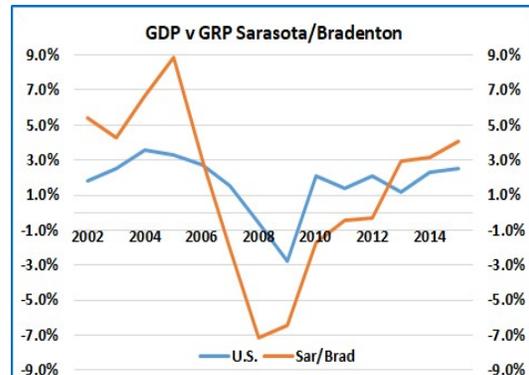


South Florida too displays this same pattern. However, the correlation is

even higher at 0.92 and the cyclical variation is much greater.



This relationship is consistently strong even for smaller metro areas like Sarasota/Bradenton. The correlation is a bit lower at 0.83, but still tight, and the local business cycle has a far larger amplitude than for GDP.



The close linkage between the growth in GDP and the trajectory for Florida's economy, and for that of its major metro areas, has particular importance now in light of our forecast for 4% growth this year, 2% in 2019 and a recession in 2020. The flattening of the yield curve is an ominous warning sign that the U.S. economy will contract sometime over the upcoming 24-months. This suggests that Florida's economy will continue expanding rapidly this year, but by 2020 a contraction is likely.