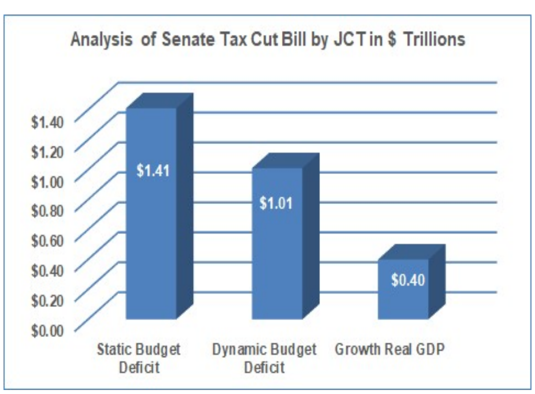
ECONOCAST™ UPDATE – December 4, 2017

U.S. Economy – Taxes and Budgets

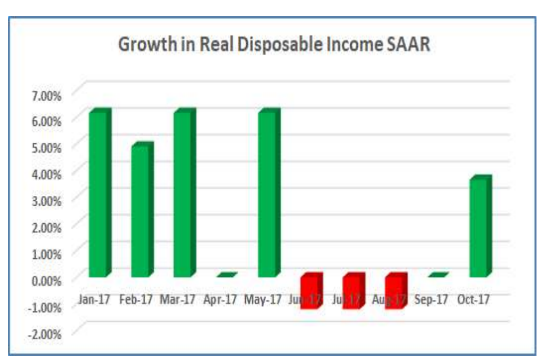
The Senate passed its tax plan sending the measure to conference committee where it will be quickly approved. It is likely that the President will sign it into law by Christmas. Congress still must pass a budget and raise the debt ceiling by Friday 12-18-17, and it is likely to do so.

While tax reform is needed, the structure of the Senate bill, and its companion from the House, will do little to boost growth. According to the Joint Committee on Taxation ("JCT"), Congress's official revenue-scorer, the plan would: (1) add $1.41 trillion to the deficit on a static basis; (2) boost growth of GDP by $0.4 trillion; and (3) increase the debt by $1.01 trillion.



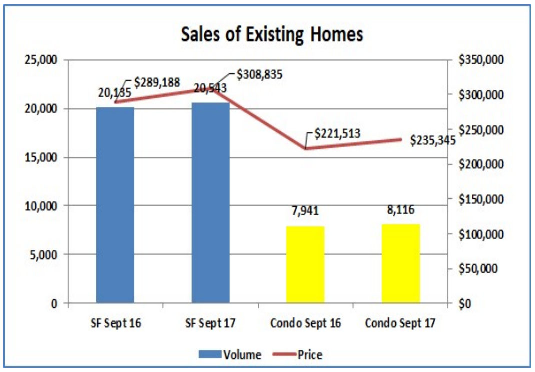
The economy has no output gap and the unemployment rate is 4%. Piling tax cuts funded by deficit spending on top will produce more price inflation than economic growth. Monetary policy will tighten faster leading to a boom in 2018 followed by a bust by 2020.

Last week's data for consumption and income point to continuing buoyant growth. October consumption rose a sturdy 0.3% after September's 0.9% hurricane-boosted gain. Momentum and confidence are high for this holiday shopping season, and accelerating income gains will support higher holiday spending. Nominal personal income rose 0.3% in October based on a 0.3% gain in wages on top of last month's 0.5% increase. Consumer prices rose by just 0.1% in October allowing real disposable income to rise at a 4% annual rate.

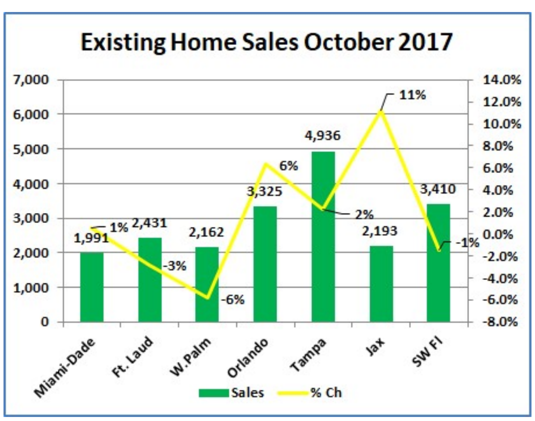


Florida Economy: Home Sales Recover after Irma

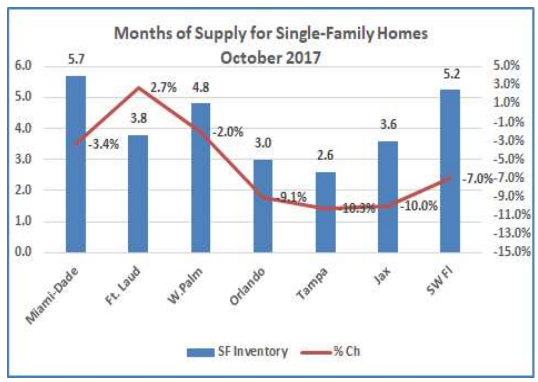
Existing home sales returned to their pre-Irma trajectory in October rising by 2% compared to last year. Prices were about 7% higher as well. However, sales failed to make up for the sales that were lost in September, which was a bit surprising.



It appears that Irma's effects carried forward in Southeast and in Southwest Florida, where Irma's impacts were greatest. Sales dipped in Miami-Dade, Ft. Lauderdale, Palm Beach, and Southwest Florida, but rebounded back to trend across the rest of Florida. Since employment levels rebounded in October and taxable sales were higher, it appears that lingering storm impacts continued to depress sales in some areas.



According to the Florida Division of Emergency Management, over 208,000 people from Puerto Rico have landed at airports in Miami, Orlando, and Tampa since October 3rd. The impact on housing markets is just beginning. Most of the new arrivals have come to central Florida. Sales of single-family homes rose a bit faster than the statewide average in Orlando in October, but sales of lower priced townhomes and condominiums shot up by 23% over last October with gains of more than 30% in Osceola County. The inflow from Puerto Rico will boost housing demand in already very tight markets. There is 3 months or less inventory of single-family homes in Orlando and Tampa today.



The surge in sales of condos and townhomes in Orlando pushed inventory to 2.8 months with Tampa at 2.5 months. Only Miami had excessive inventory in October.