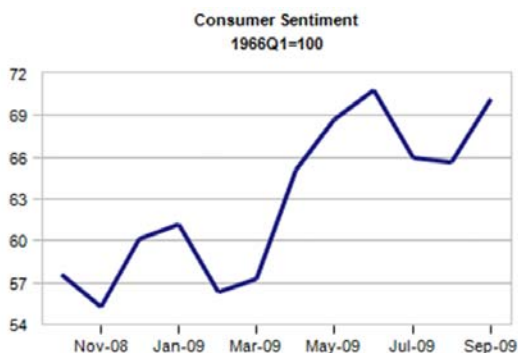




ECONOCAST UPDATE – September 14, 2009

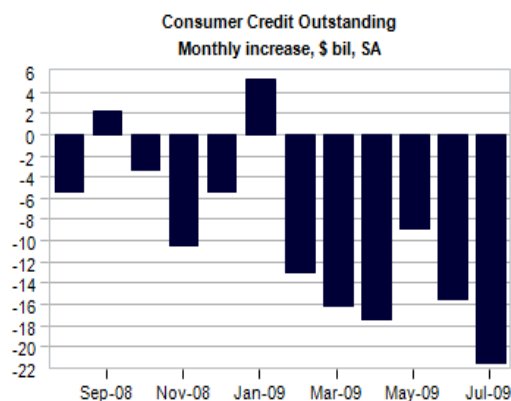
U.S. Economy – A Statistical Recovery?

There are increasing signs of recovery, but the question remains is it “real” or mostly a statistical bounce? On the one hand, consumer confidence increased solidly in September. But will this translate into improved retail sales? We will find out later this week when the retail sales report is released on Tuesday. Outside of the auto market, where cash-for-clunkers was a big success, sales have been lackluster so far.

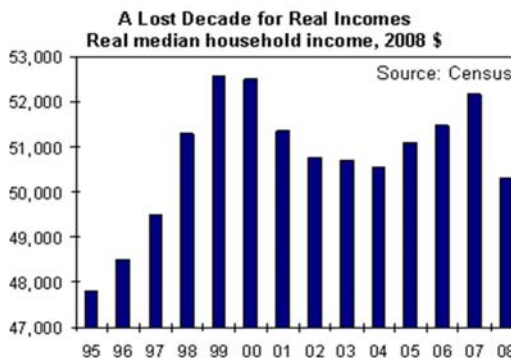


We are at the stage in the business cycle when important, but painful, adjustments are taking place. For example, consumer credit outstanding is falling sharply. In July credit contracted at a rate of \$22 billion. Consumers are clearly cutting back and card issuers have

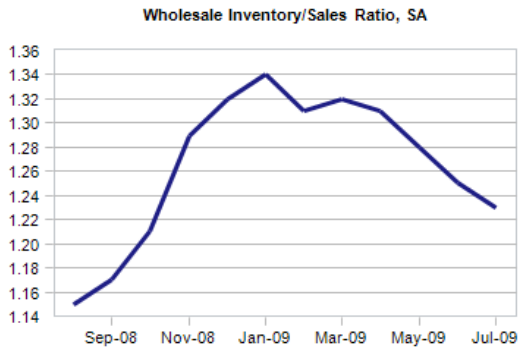
tightened their standards. This will limit and rebound in consumption.



Worse yet, the latest Census report on real incomes was awful. Some of the fall in 2008 was due to higher energy prices which have since receded. However, growth in real income was not robust during this cycle which further limits the prospects for consumption as the recovery unfolds.



In the near term, the arithmetic of GDP will be heavily influenced by inventories. Wholesale inventories declined by 1.4% in July, exceeding expectations. This followed a downwardly revised 2.1% decline in June. Sales rose by 0.5% in July, as durable goods sales rose strongly. The inventory-to-sales ratio declined by 2 basis points to 1.23, from a downwardly revised 1.25 in June. This sets the stage for more future production since there is little inventory remaining.

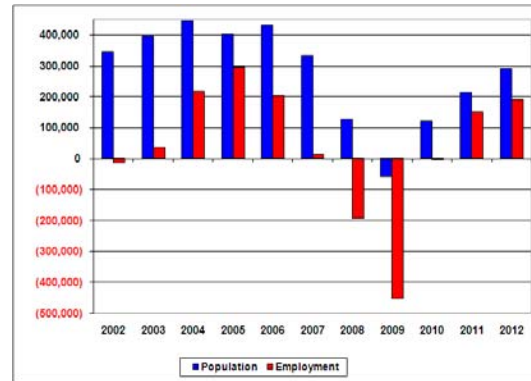


Assuming that production ramps up this quarter, the big question is when will the economy start generating jobs? The answer needs to be in the 4th quarter if this recovery is more than a statistical bounce. The odds are in favor of rising employment in the 4th quarter, but this is certainly not a sure bet.

Florida Economy – Updated Forecast for Florida

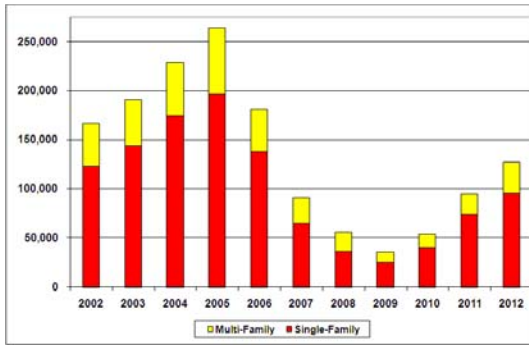
Below is our latest forecast for Florida. The outlook is somewhat weaker given the estimated loss of population. Job losses this year are projected to exceed 450,000. All in all the worst performance since the Great Depression. While Florida will recover, the recovery will be delayed until 2011. It will take time for population growth to resume. Furthermore, this recession revealed

structural changes in Florida and the U.S. which limit Florida’s future growth. The Great Recession destroyed over \$13 billion in household wealth. This will have a dramatic impact on households nearing retirement age who will find that they cannot afford to retire at age 65 like their parents generation. Furthermore, Florida has lost much of its competitive advantage in attracting retirees due to its foolish land use policies, unlimited impact fees, preposterous property tax system, and out of control property insurance. Finally, some of the most attractive areas of the State are built out.



The new normal will be population growth ranging from 100,000-to-300,000 with an average of about 150,000-to-200,000 which as the figure above shows is far below previous levels.

Housing starts bottomed out this year, but they remain depressed in 2010. There is inventory to work off. There is slow population growth and employment gains are very limited. Thus, a real housing recovery is delayed until 2011.



Finally, commercial construction is a disaster this year with fewer than 20 million square feet put in place. The State is overbuilt and credit is near impossible to obtain. Next year will be little better with recovery in 2011.

