



Economic Update

July 23, 2015

Economic and Market Commentary

Economic Overview

The U.S. economy is performing stronger than initially reported, but still in negative territory. The first revision to first quarter GDP showed a negative 0.2 percent at an annual rate versus the initial report of negative 0.7 percent. The preceding quarter was reported at a 0.2 percent gain. A series of one-off events, including weather, the West Coast dockworkers' strike, the plunge in crude oil prices, and the stronger dollar, detracted, but was offset by increases in consumer spending and housing. These positive indicators reinforce the Federal Reserve projections that the first quarter setback was temporary, and the economy may still be on track to return closer to 2 percent for the year. Of note in the quarter, the stronger dollar made imports less expensive and U.S. exports more costly to overseas customers. As a result, the international trade sector (real net exports) detracted a whopping 1.2 percentage points at an annual rate from first quarter real GDP. Although it is now unlikely that U.S. real output will grow 3.0 percent for all of 2015, it still should grow faster than the 2.2 percent average annual rate for the expansion thus far.

The U.S. unemployment rate was 5.5 percent in May, 2015, unchanged from the previous month. Total nonfarm payroll employment increased by 280,000 in May. The labor participation rate was 62.9 percent, which has also been in a tight range since April of 2014. Productivity has been surprisingly disappointing during this recovery, which is a major factor in why we have not seen a larger increase in GDP. The unemployment rate, which is one of the two main factors considered by the Fed in rate policy, is now at the long term goal they have established.

Personal income started out the year sluggish and there was concern the economy may be growing slower than expected, but May reports showed a much stronger picture. Personal Income for May came in at 0.5 percent which is up from the previous 0.4 percent reported in April. Just as important, Personal Spending for May grew at 0.9 percent which is up from 0.1 percent in April. The consumer continues to be a key component of our GDP growth, so this is good news.



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Further evidence of upward wage pressure is seen in the June jobs report which suggests that personal income will continue to improve in the second quarter. In fact, Real Average Weekly Earnings grew 2.3 percent year over year. Strong consumer confidence also points to stronger spending in months to come. The Conference Board's index of consumer confidence increased to 101.4 in June from 94.6 a month earlier. The survey called for 97.4. The index averaged 96.9 during the last expansion, so we hope to see the consumer fuel some growth in GDP. In addition, household balance sheets are in very good shape (asset prices higher and debt levels lower), suggesting consumers have the potential to boost spending in the months ahead.

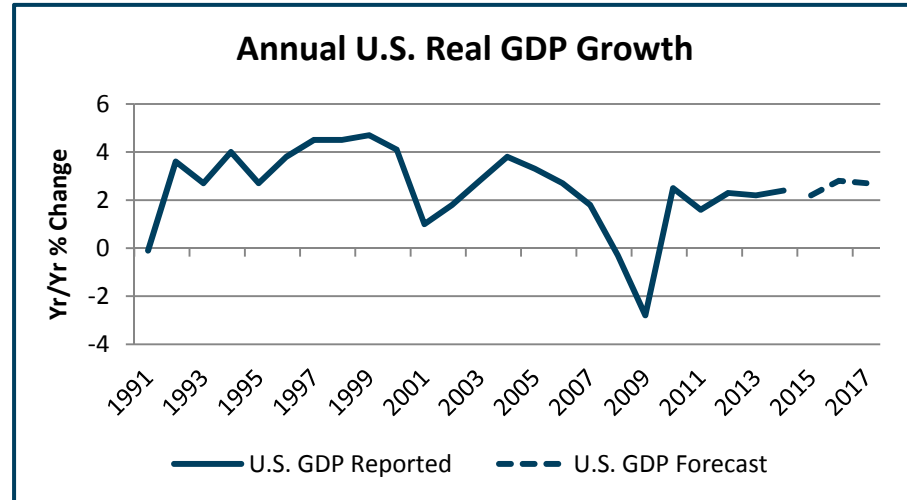
The Consumer Price Index (CPI) increased by 0.4 percent in May, 2015 on a seasonally adjusted basis and was less than expected. For the 12 months ended May, 2015 the CPI was flat on an overall basis. Core CPI, which excludes food and energy, was up 1.7 percent for the 12 months ended May, 2015. Expected increases in energy and rents were not offset by other sectors. Energy prices rose 4.3 percent in May reversing their 1.3 percent decline in April. Compared to one year ago, energy prices were still a significant 16.3 percent lower. While the CPI has remained near the Federal Reserve target of 2 percent, we may see some inflationary pressure from employment costs and recent upticks in energy commodity prices.

Overall, we believe the U.S. economy will generate solid performance for the remainder of 2015, despite a few one-off headwinds for the economy early on. We are anticipating reasonably strong real output growth, more jobs and lower unemployment. With the unemployment rate already down to 5.3 percent and manufacturing capacity utilization near 80 percent, there may be more of an opportunity for higher prices in the second half of 2015 than at any time in recent years. It is this potential for higher prices and therefore inflation that we believe will finally see the Fed begin to raise interest rates in the back half of this year.

Economic Outlook

Annual GDP Growth

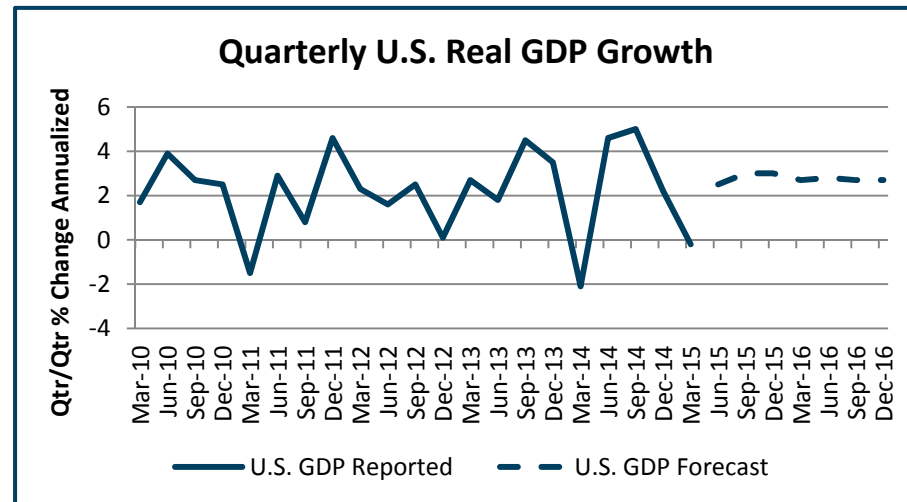
- Full year 2015 unlikely to reach 3% trend growth
- Need consumer spending to break out of sluggish growth pattern



Source: Bloomberg

Quarterly GDP Growth

- Q1 2015 -0.2%
- Weather, oil, strong dollar, West Coast dockworker's strike
- Net exports detracted 1.2%
- Anticipate stronger second half '15

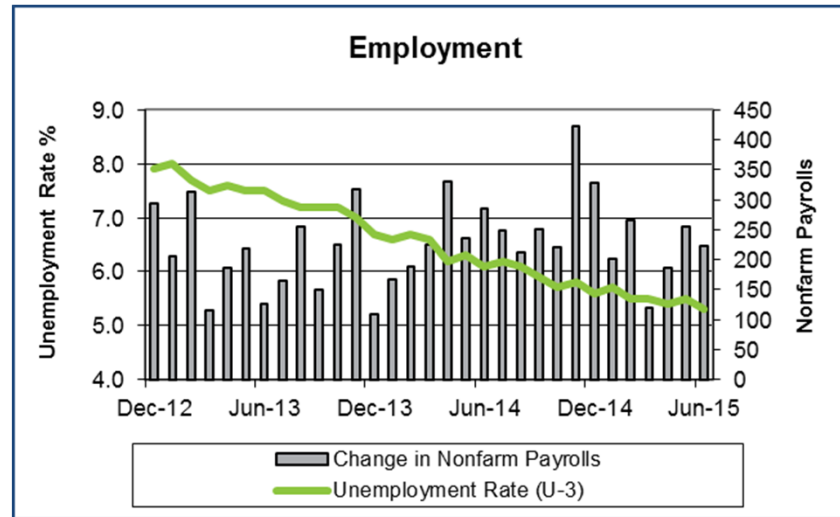


Source: Bloomberg

Employment

Employment

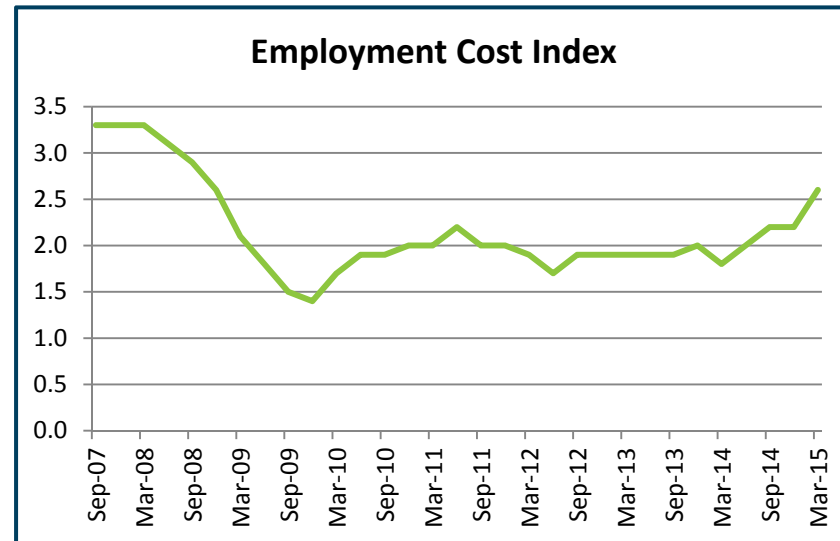
- Payrolls still growing
- Continued decline in unemployment
- Potential wage inflation



Source: Bloomberg

Wages

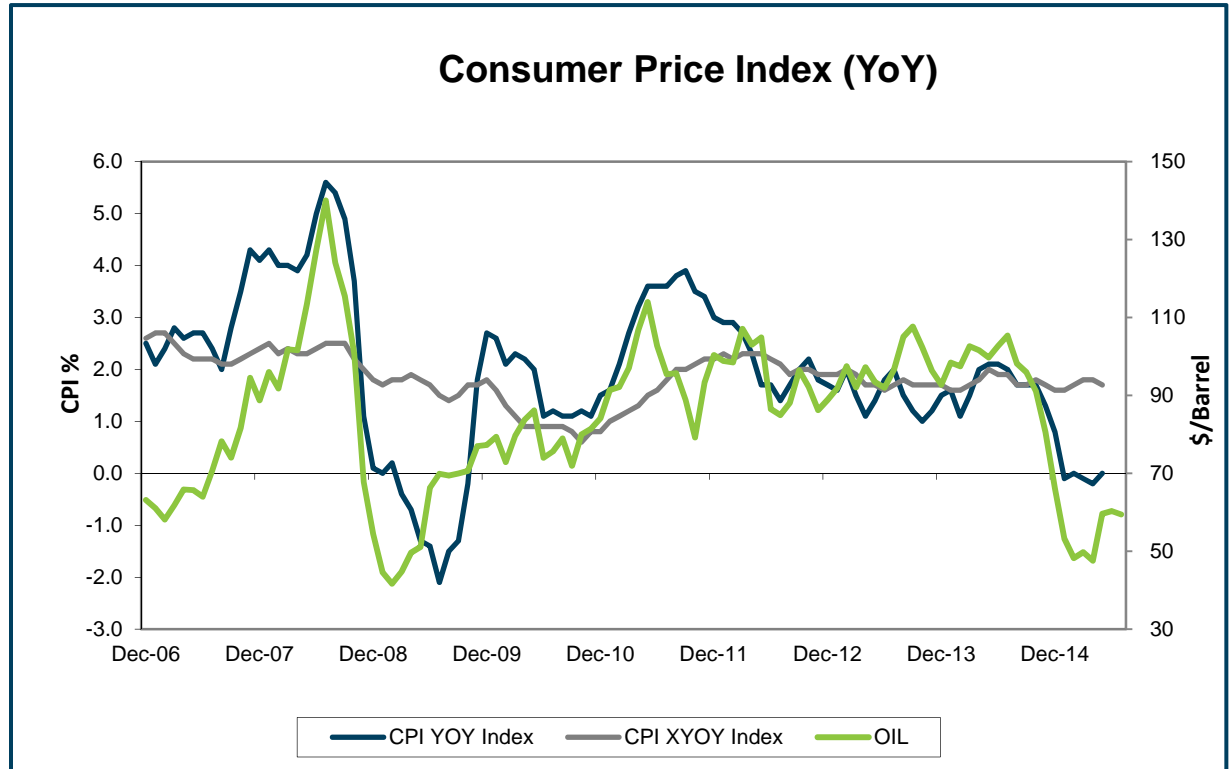
- Reaching full employment
- Capacity Utilization near 80%
- Social pressure to increase minimum wage
- Higher wages strengthens consumer ability to spend



Source: Bloomberg

Consumer Price Index (YOY)

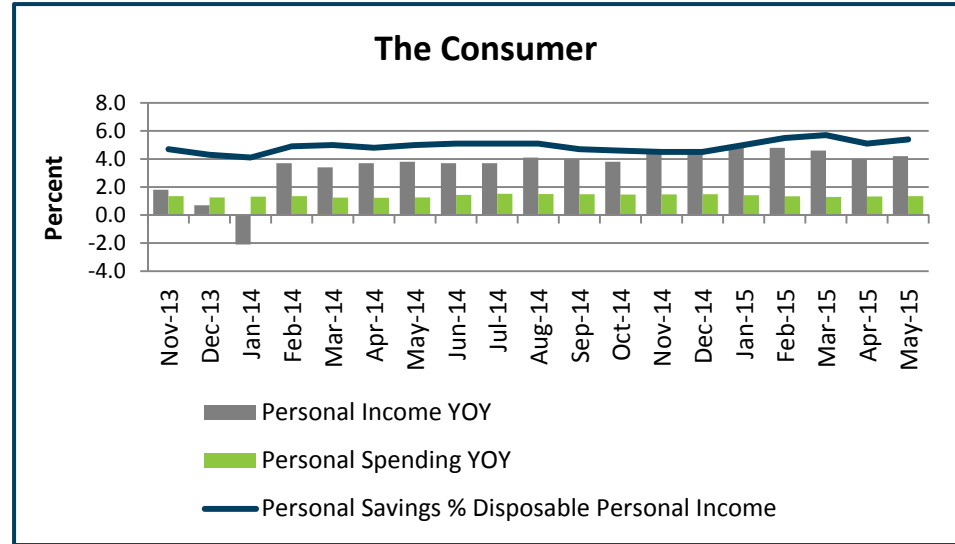
- Oil prices rebounding
- Core CPI remains close to Fed's 2% target rate
- Largest contributors :
 - Gasoline
 - Housing
 - Medical care
- Largest detractors:
 - Apparel
 - Furnishings
 - Used vehicles
- Food prices face inflationary pressures due to avian flu and California drought



Source: Bloomberg

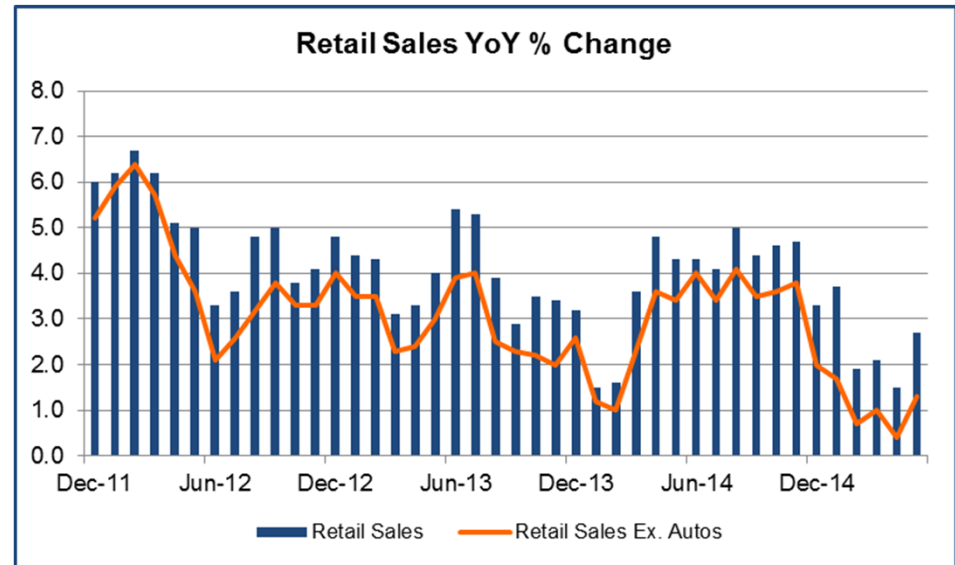
The Consumer

- Healthy increase in personal income
- Lackluster personal spending
- Stronger personal savings



Source: Bloomberg

- Sluggish Retail Sales
- Strong Vehicle Sales
- Consumer is key for future economic growth

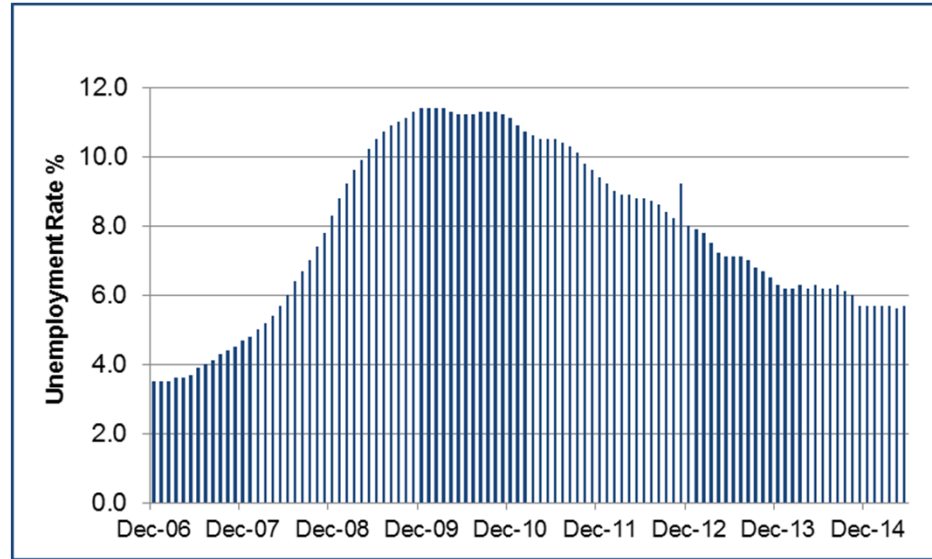


Source: Bloomberg

Florida

Employment

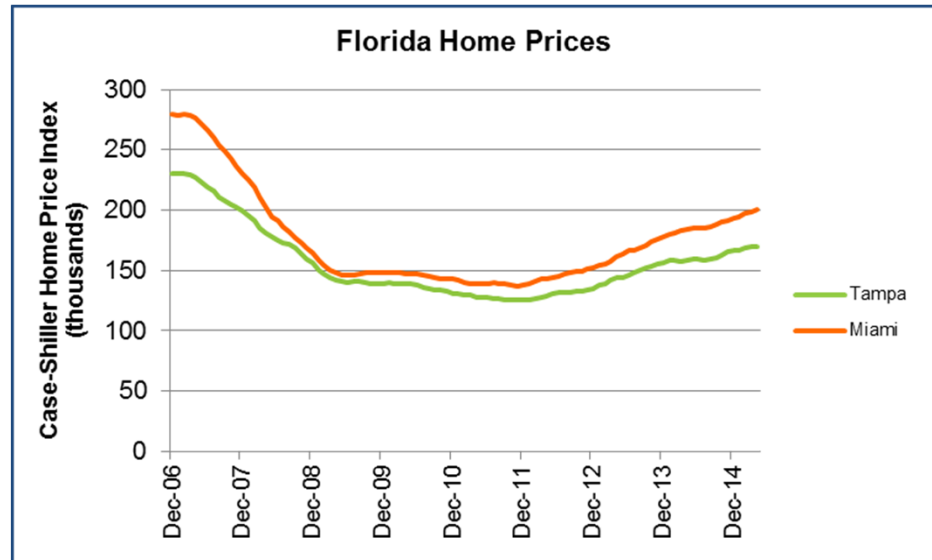
- Florida's unemployment rate of 5.7% in May was higher than the national average (5.5%)
- Improvement in Florida's unemployment rate has slowed considerably over the past year



Source: Bloomberg

Housing

- Home prices recovering in Tampa and Miami markets
- Growth in housing prices has been steady since the low in November 2011
- Home prices rose by 8.3% year-over-year in Miami as of April



Source: Bloomberg

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