



FGFOA Economic Update Webinar

May 16, 2019

Presented By:

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Kyle Jones

Managing Director

Kyle Jones is the co-head of the Portfolio Strategies Group (PSG). He leads PSG's efforts in the investment strategy development process for many large and strategically important PFM client relationships.



Hank Fishkind, Ph.D.

Director

Hank Fishkind has over 30 years experience in economic analysis and forecasting. He is widely regarded as one of Florida's premier economists and financial advisors.

Today's Training

Part 1: National Economic Overview

Part 2: The Florida Economy



FGFOA Economic Update Webinar

Part 1: National Economic Overview

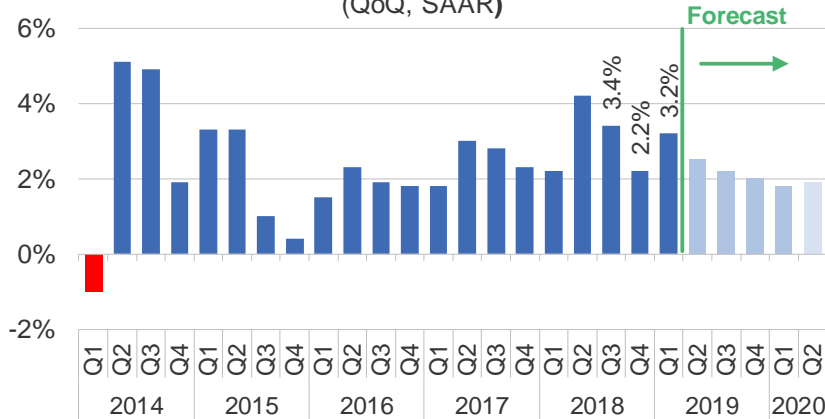
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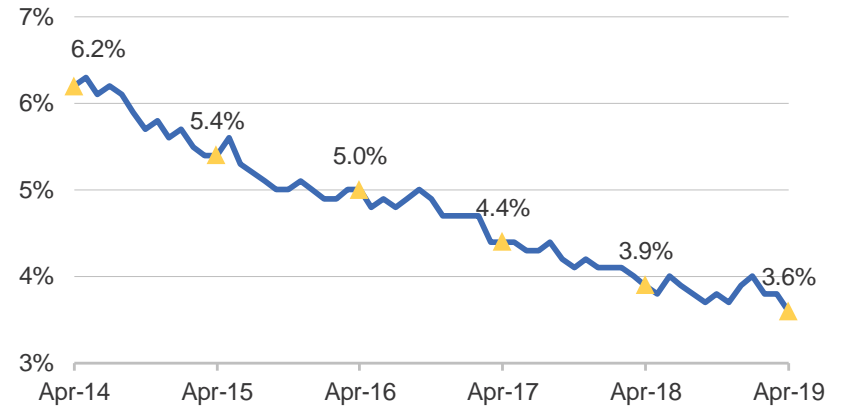


Current Economic Conditions

U.S. Real GDP Forecast To Slow (QoQ, SAAR)



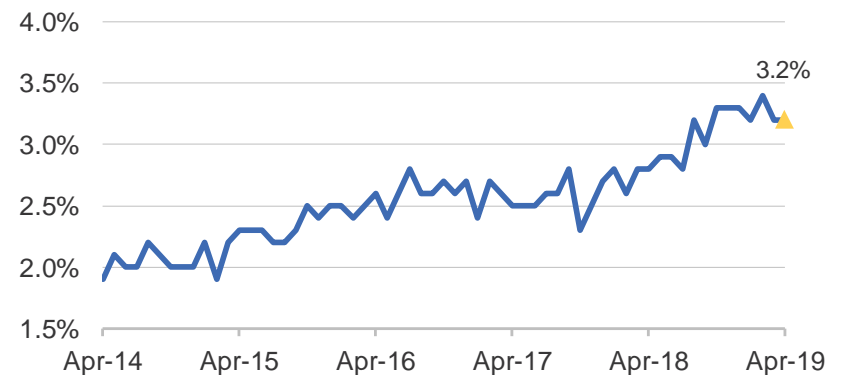
Unemployment Rate Near 50-Year Lows



Consumer Confidence Remains High



Wage Growth Has Improved

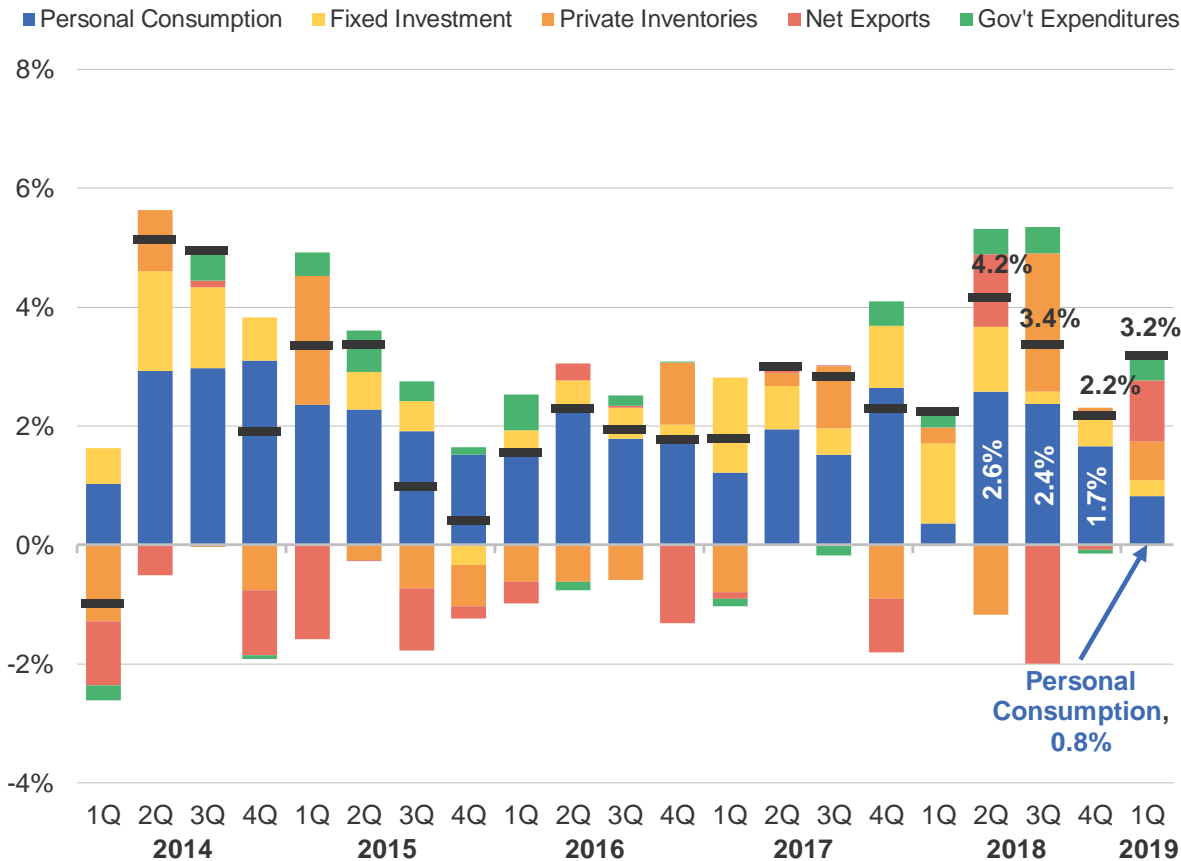


Source: Bloomberg, latest data available as of May 2019. SAAR is seasonally adjusted annualized rate. Wage growth is measured by average hourly earnings (YOY % change).



First Quarter GDP Beats Expectations

U.S. GDP Contributors and Detractors



- ◆ 1st quarter GDP growth was higher than expected at 3.2%
- ◆ **Personal consumption**, which typically accounts for the majority of GDP growth, posted its lowest contribution in 4 years; **business investment** was also slower than in previous quarters
- ◆ Typically a detractor, **net exports** contributed positively to GDP as export growth increased and import growth slowed, likely to get ahead of potential new rounds of tariffs
- ◆ **Inventory** growth also contributed to GDP growth

Source: Bureau of Economic Analysis, as of May 2019. 1st quarter contributions are based on the 1st GDP growth estimate.



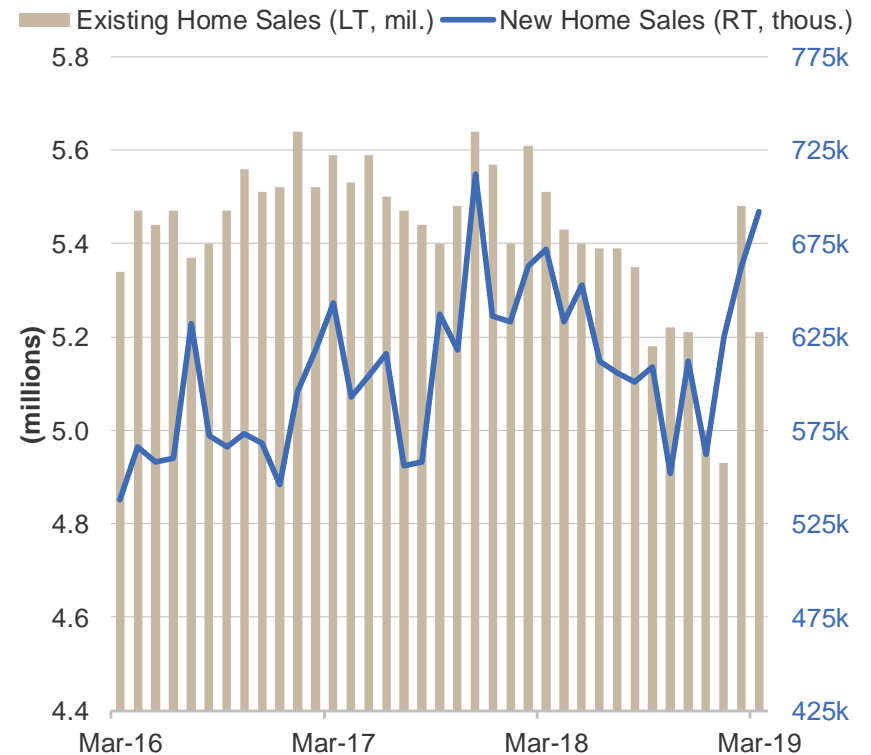
Housing Market Momentum Appears Mixed

- Decreasing mortgage rates may be a boon to the housing market
- According to the Federal Home Loan Mortgage Corporation, mortgage demand rose to the highest level since the fall of 2016 amid increasing refinancing activity

30 Year Fixed Rate Mortgage Average



Housing Sales

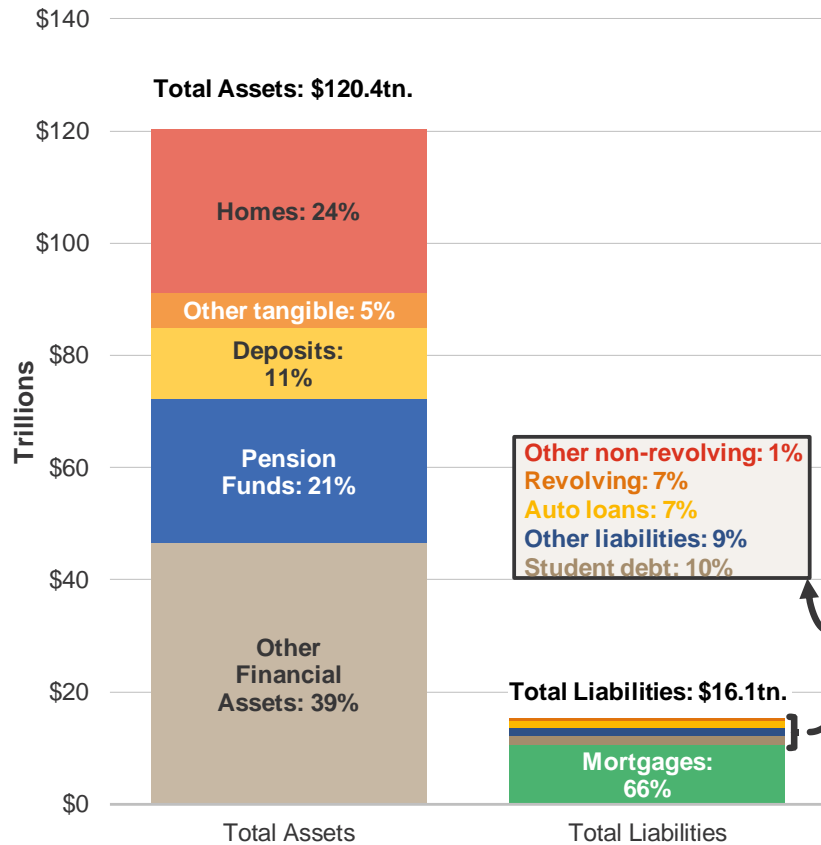


Source: Bankrate.com U.S. Home Mortgage 30 Year Fixed National Average; Bloomberg, as of 4/30/19.

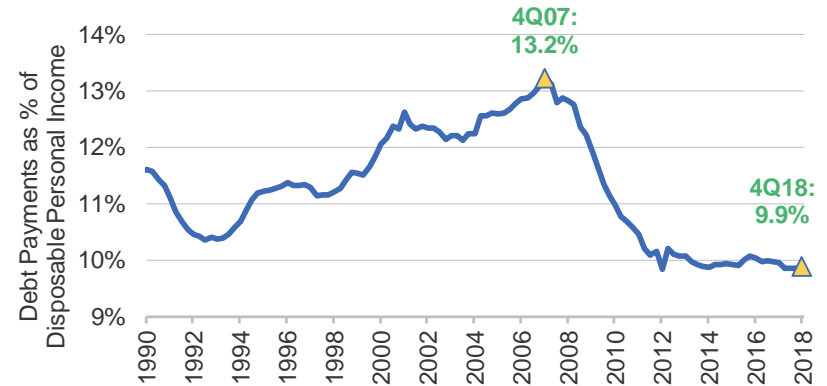


American Consumer Finances Are Strong

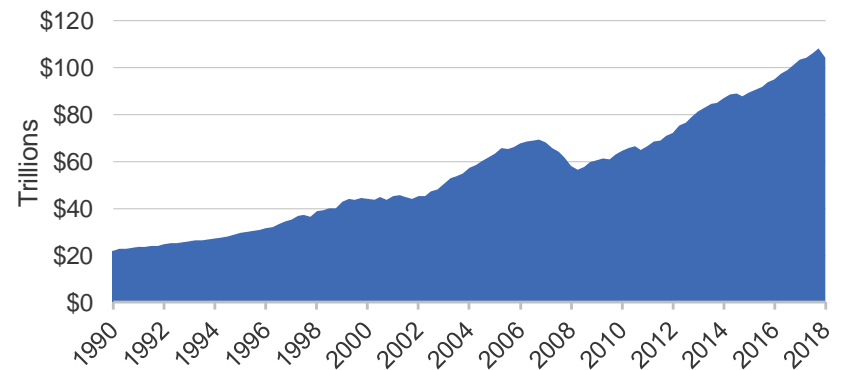
Consumer Balance Sheet - 4Q18



Household Debt Service Ratio



Household Net Worth



Source: Bloomberg, and Federal Reserve's Financial Accounts of the United States - Z.1 (2018:Q4). Consumer balance sheet includes households and nonprofit organizations. Revolving credit includes overdraft plans on checking accounts and other loans without a fixed repayment schedule. All data, except the household debt service ratio is not seasonally adjusted.



Retail Sales Up 1.6% in March, Largest Gain Since September 2017



retail
+1.6%



auto and other motor vehicles

+3.3%



furniture and home furnishings

+1.7%



clothing and clothing accessories

+2.0%



food and beverage stores

+1.0%



restaurants and bars

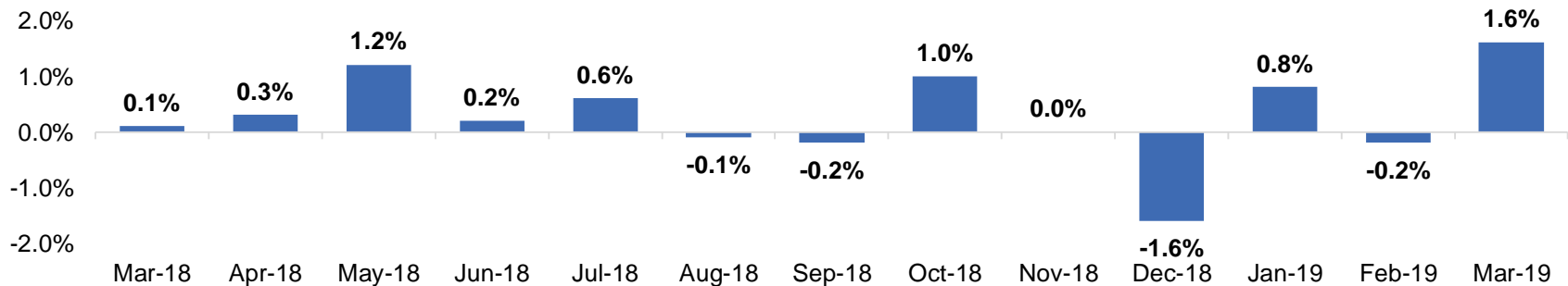
+0.8%



electronics and appliances

+0.5%

Retail Sales



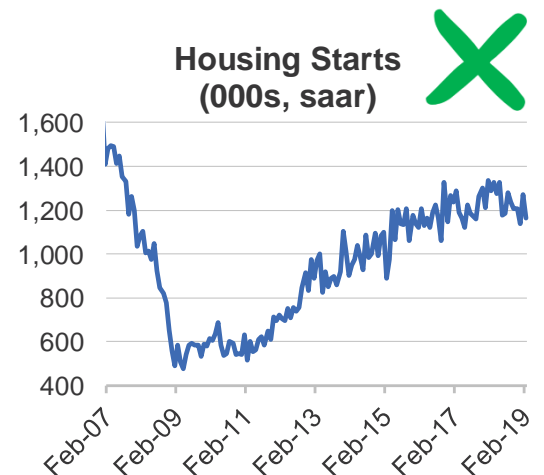
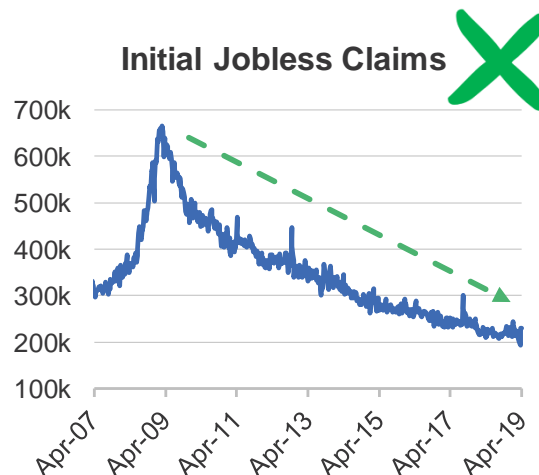
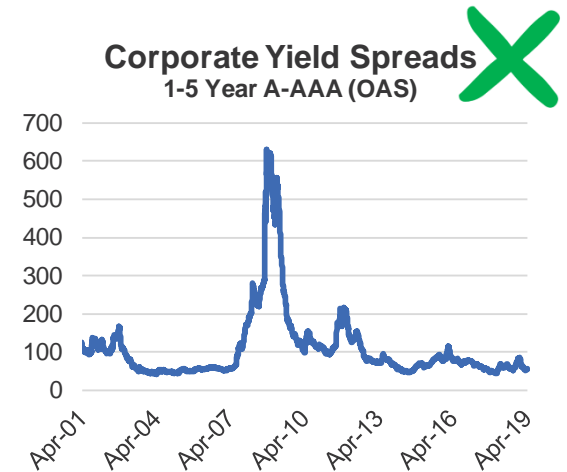
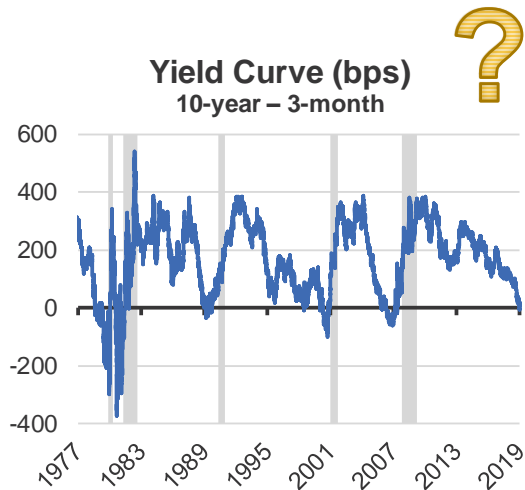
Source: U.S. Census Bureau, as of 4/18/19.



Poll Question



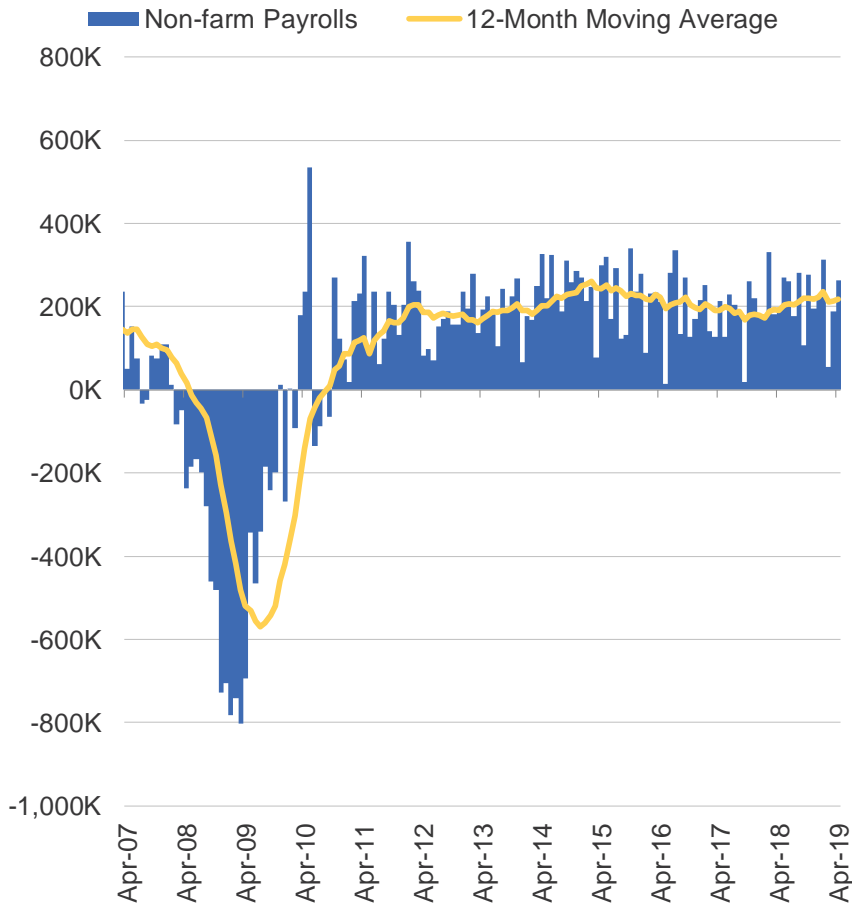
Market Indicators Not Pointing to an Imminent Recession



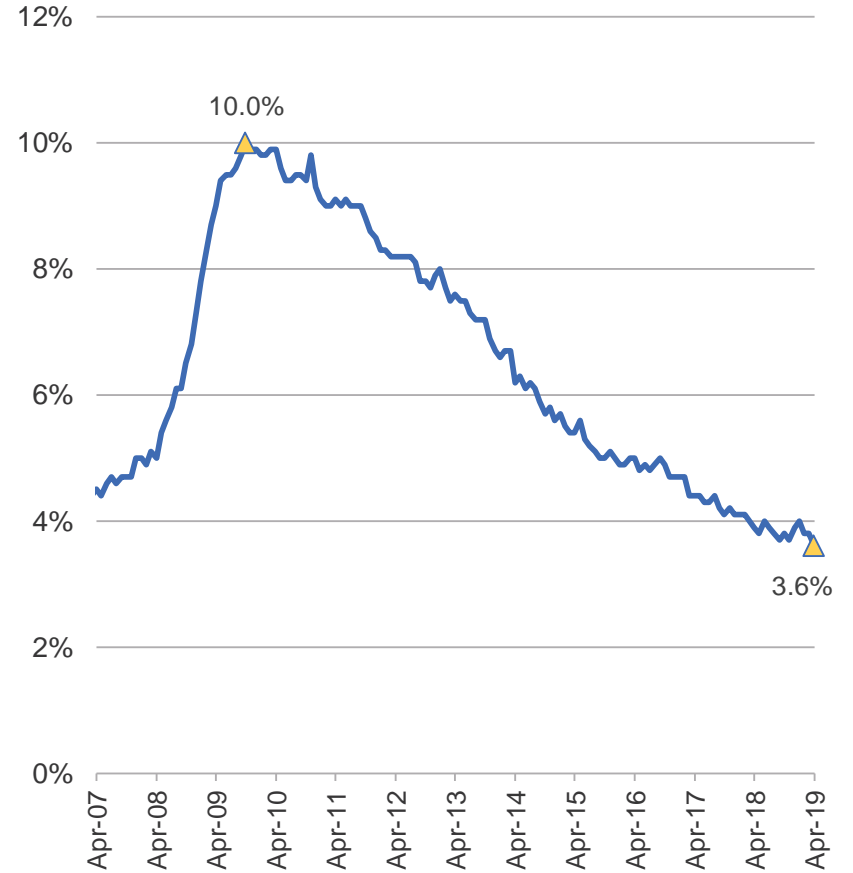


Labor Market Remains Strong

Monthly Change in Nonfarm Payrolls



Unemployment Rate

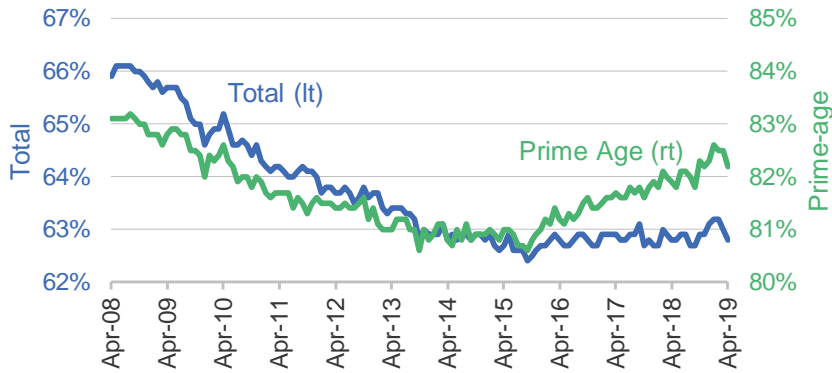


Source: Bloomberg, as of 04/30/2019.

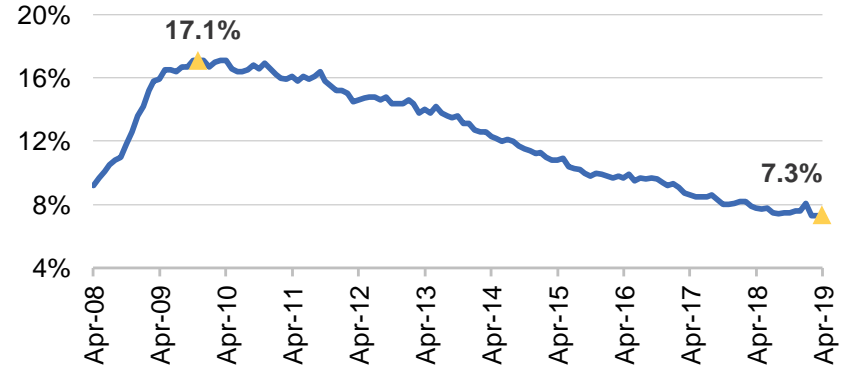


Employment Indicators

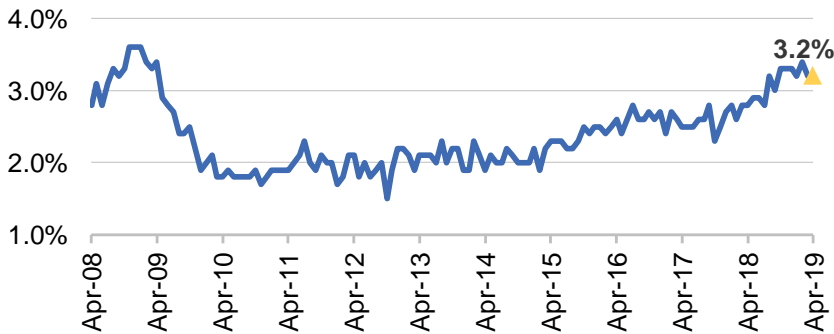
Labor Force Participation Rate



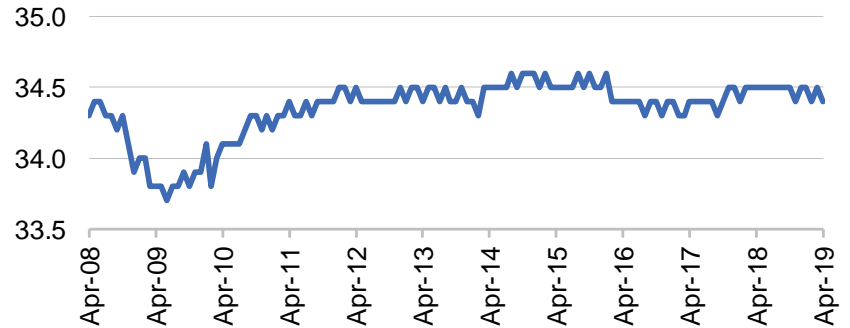
U-6 Underemployment Rate



Average Hourly Earnings (YoY %)



Total Private Sector Average Weekly Hours

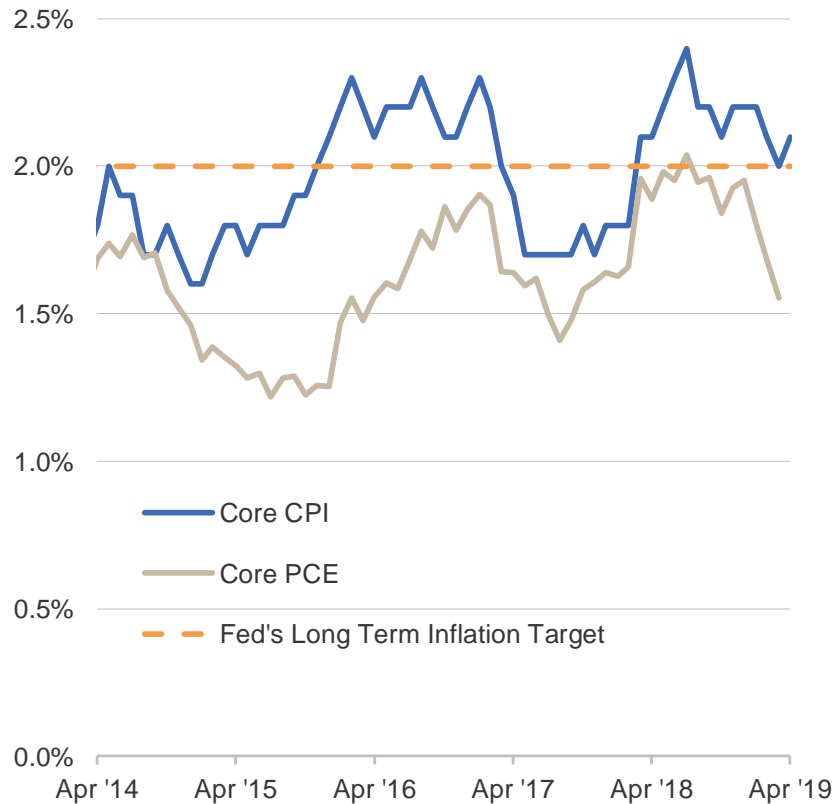


Source: Bloomberg, most recent data as of May 2019. BLS defines "prime-age" as individuals ranging from 25 – 54 years of age.



Core Inflation Hits the Fed's 2% Target

Inflation Measures (YoY)



Expectations for Average Inflation Rate over Next 5 Years



Source: Bloomberg, latest data available as of May 2019. Inflation expectations based on yield difference between 5-year Treasury note and 5-year Treasury Inflation Protected Securities (TIPS).

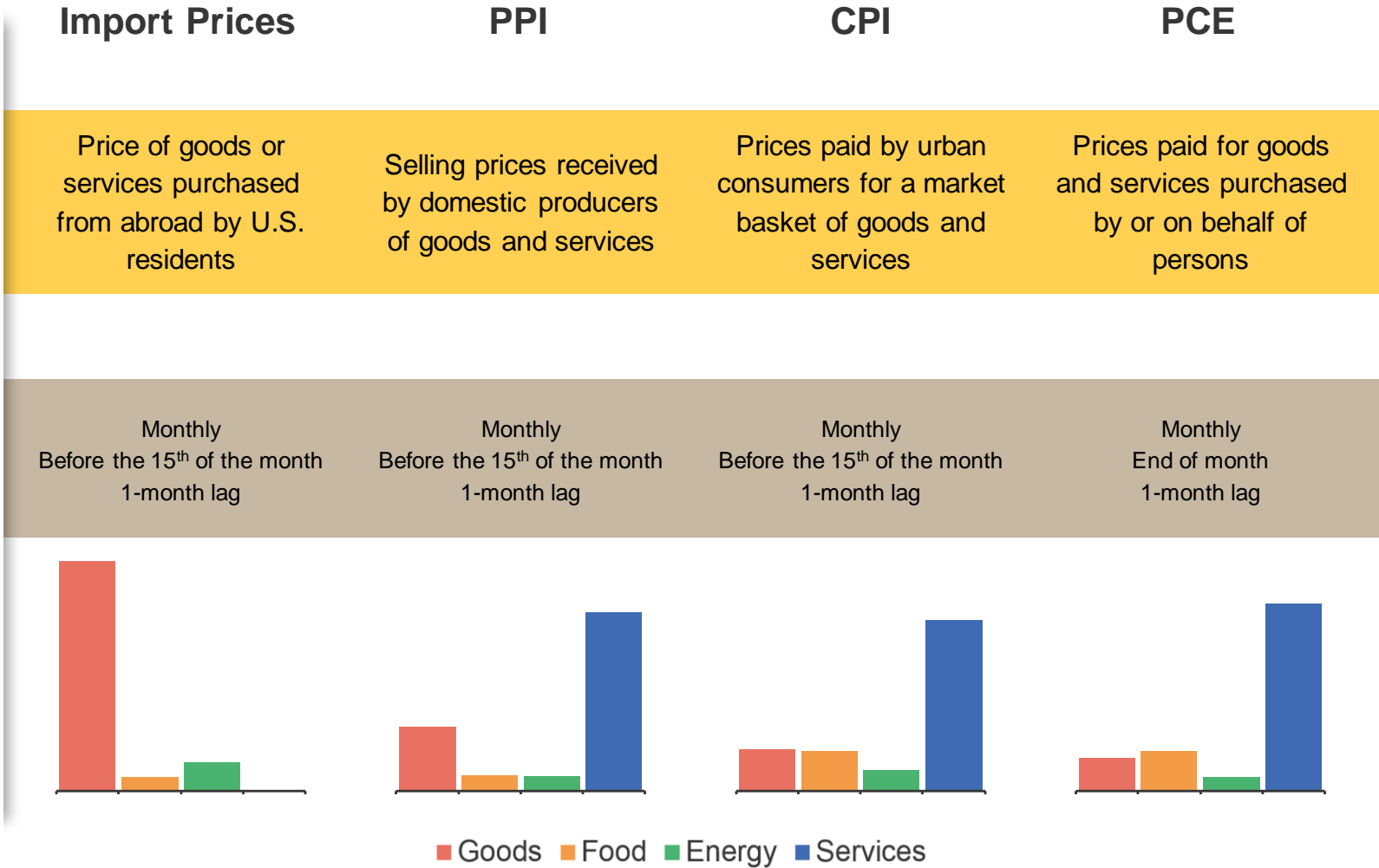


Differences Between Inflation Indicators


measures


release


composition





Poll Question



Fed Keeps Rates Steady at May Meeting



- Information received since the FOMC met in March indicates that the labor market remains strong and that **economic activity rose at a solid rate**.
- Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Growth of household spending and business fixed investment **slowed** in the first quarter.
- On a 12-month basis, **overall inflation** and inflation for items other than food and energy have **declined** and are running below 2 percent. On balance, market-based measures of inflation compensation have **remained low** in recent months, and survey-based measures of longer-term inflation expectations are little changed.
- In support of the Committee's goals, the Committee decided to **maintain the target range for the federal funds rate at 2¼ to 2½ percent**.

*“Core inflation unexpectedly fell... and as of March stood at 1.6%... We suspect that **some transitory factors** may be at work. Thus, our baseline view remains that, with a strong job market and continued growth, inflation will return to 2% over time and then be roughly symmetric around our longer-term objective.”*

*-Jerome Powell, Fed Chair
May 1, 2019*

Source: Federal Reserve.



The Fed's Latest (March) Economic Projections Less Optimistic

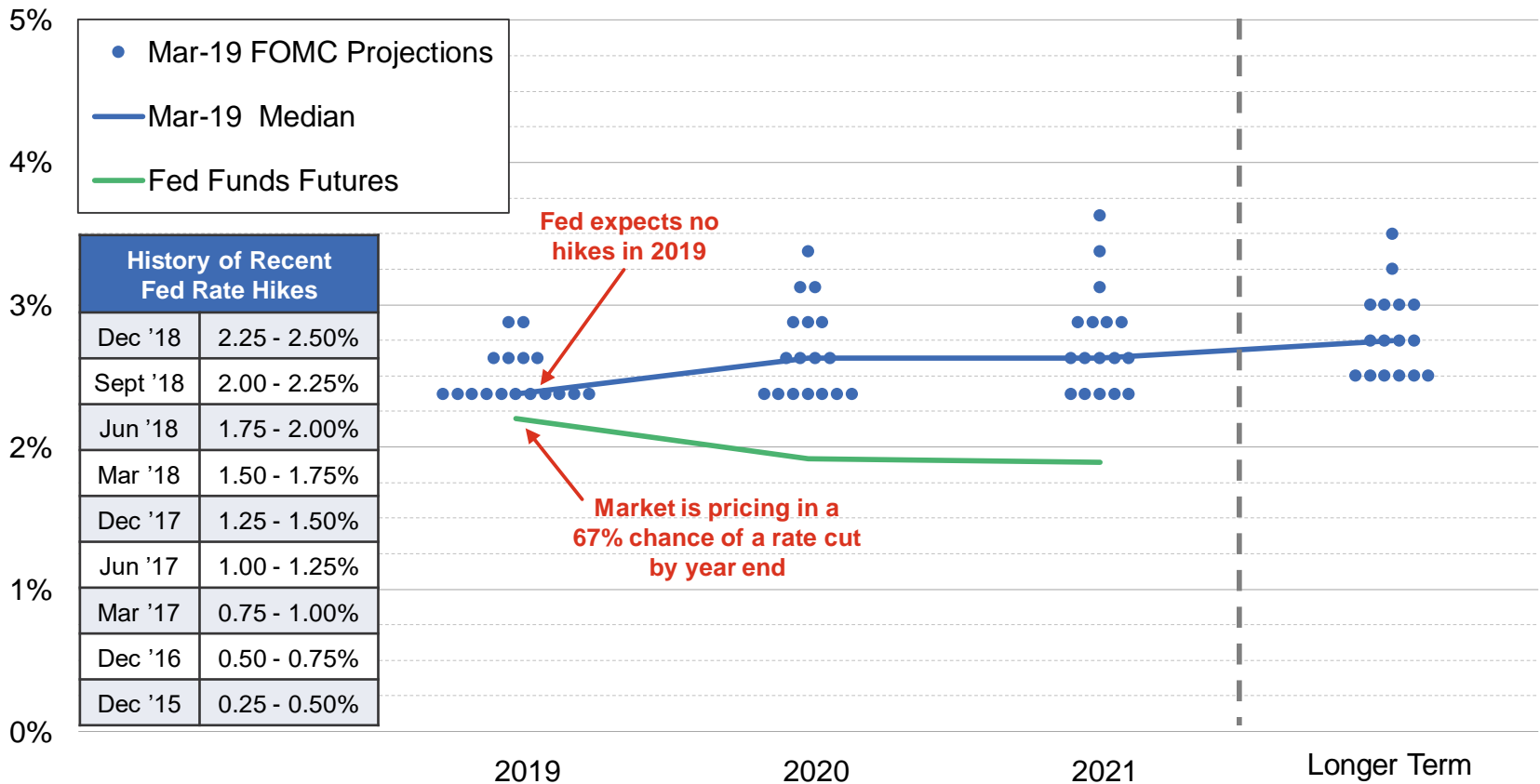
Indicator	2019		2020		2021		Longer run	
	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.
Real GDP (YoY)	2.3%	2.1%	2.0%	1.9%	1.8%	1.8%	1.9%	1.9%
Unemployment Rate	3.5%	3.7%	3.6%	3.8%	3.8%	3.9%	4.4%	4.3%
PCE Inflation (YoY)	1.9%	1.8%	2.1%	2.0%	2.1%	2.0%	2.0%	2.0%
Core PCE (YoY)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	-	-
Federal Funds Rate (Median)	2.9%	2.4%	3.1%	2.6%	3.1%	2.6%	2.8%	2.8%

Source: Federal Reserve, as of March 2019. Green denotes an improved projection in March compared to December, red for lower projection.



Fed Indicates No Rate Hikes in 2019

Fed Participants' Assessments of 'Appropriate' Monetary Policy

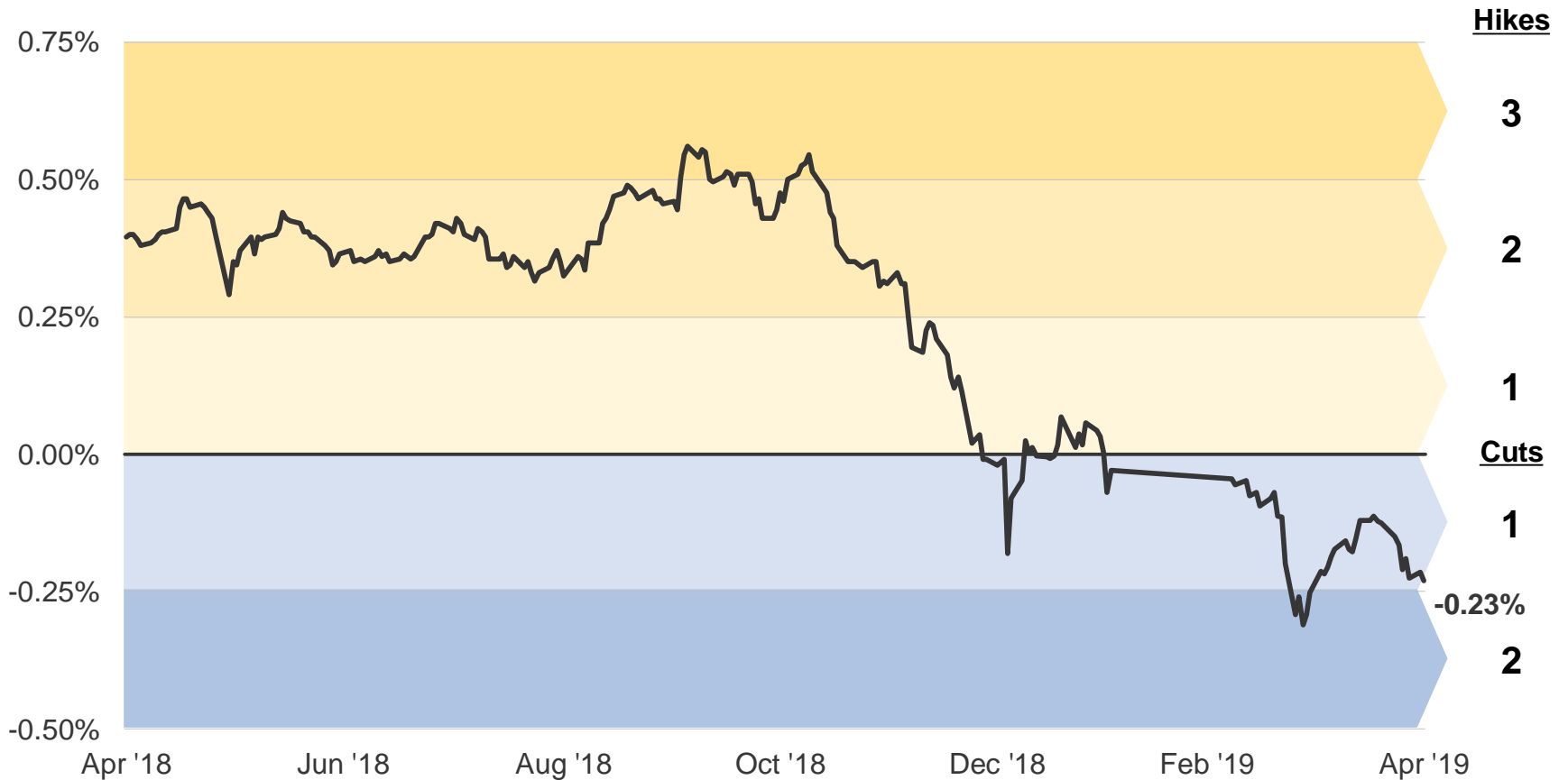


Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 4/30/19.



But, the Market Expects a Rate Cut by Year End

2019 Rate Moves
Priced into the Futures Market



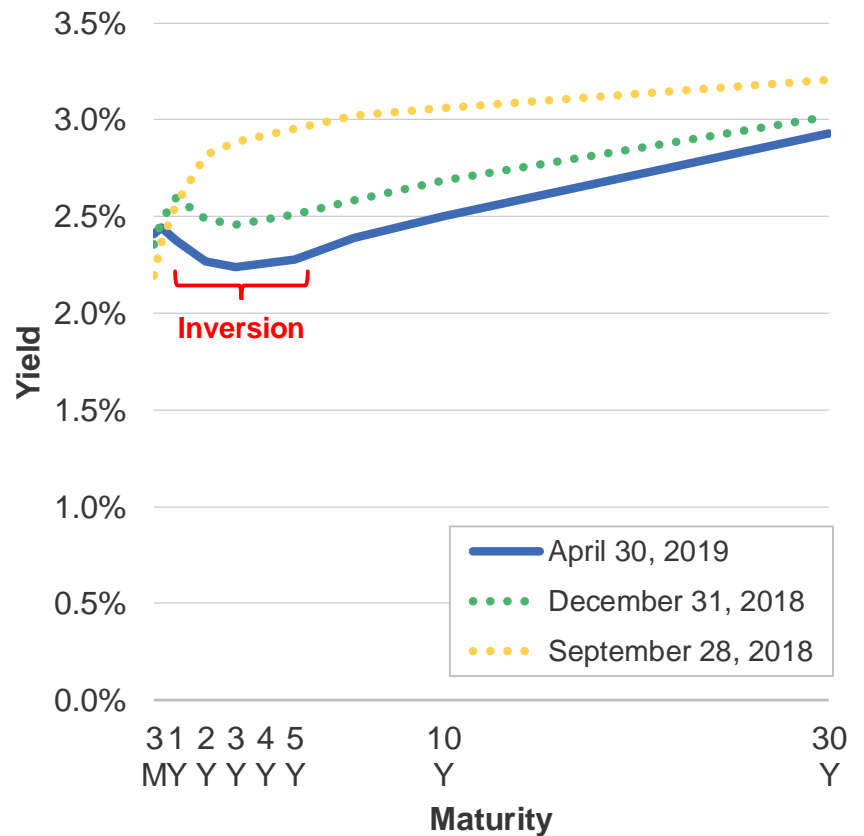
Source: Bloomberg, as of 4/30/2019.



Yield Curve Remains Partially Inverted

Tenor	04/30/19	Year-End 12/31/18	Year-End 09/28/2018
3 month	2.41%	2.35%	2.20%
1 year	2.37%	2.60%	2.56%
2 year	2.27%	2.49%	2.82%
3 year	2.24%	2.46%	2.88%
5 year	2.28%	2.51%	2.95%
10 year	2.50%	2.68%	3.06%
30 year	2.93%	3.01%	3.21%

U.S. Treasury Yield Curve



Source: Bloomberg, as of 04/30/19.



Implied Forward Treasury Rates Show Little Expected Change

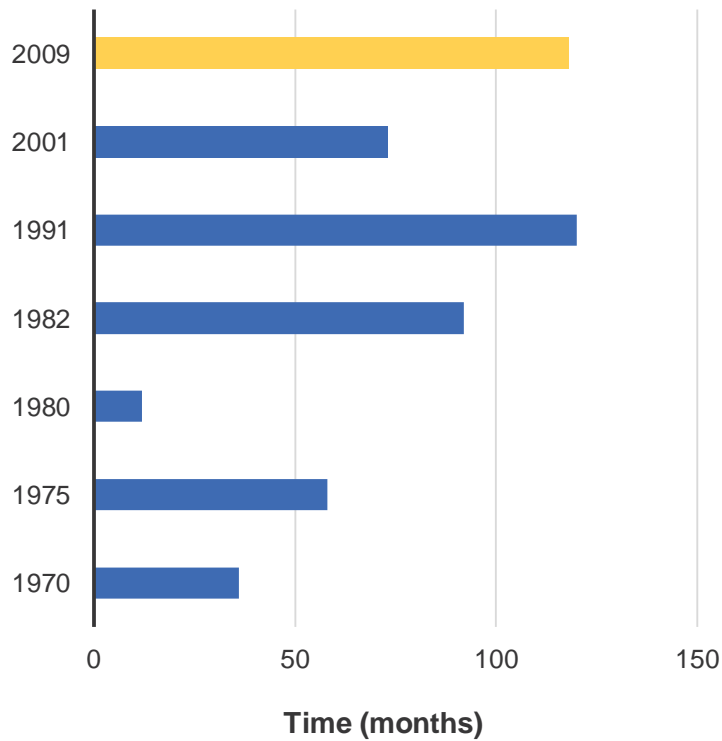
Maturity	Current Yield	1-year Forward	2-year Forward	3-year Forward	5-year Forward
1 year	2.39%	2.15%	2.17%	2.32%	2.69%
2 year	2.27%	2.16%	2.24%	2.39%	2.69%
3 year	2.24%	2.21%	2.31%	2.48%	2.72%
5 year	2.29%	2.35%	2.46%	2.58%	2.76%
7 year	2.40%	2.45%	2.55%	2.65%	2.80%
10 year	2.51%	2.56%	2.64%	2.72%	2.84%
30 year	2.93%	2.97%	3.01%	3.06%	3.13%

Source: Bloomberg, as of 4/30/19.

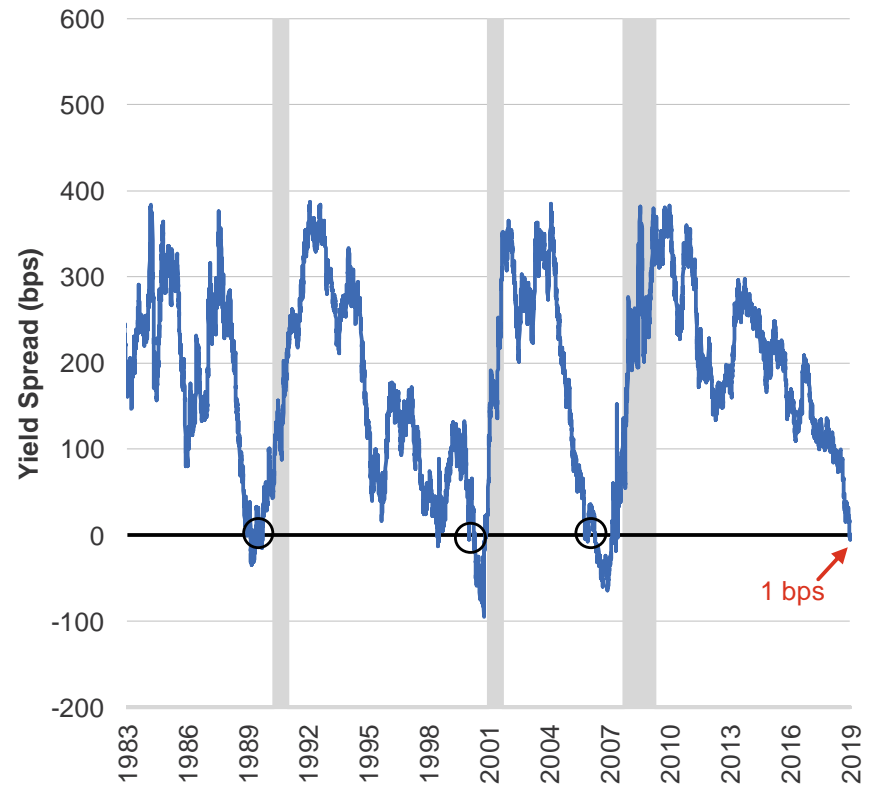


Business Cycle Risk

Duration of U.S. Expansion Periods



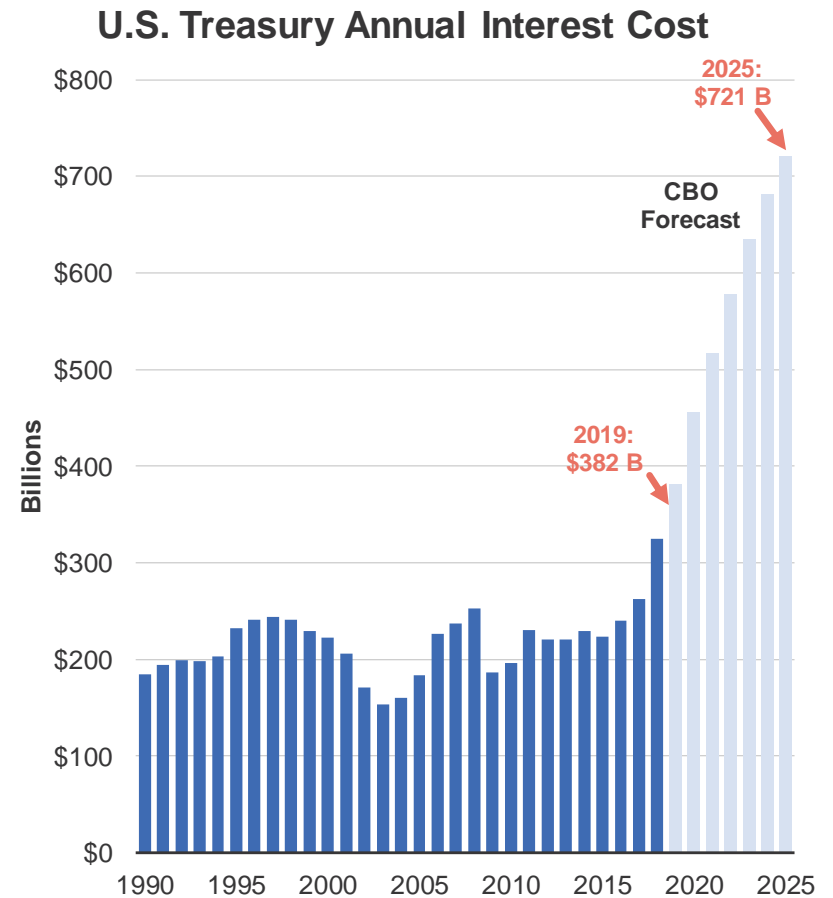
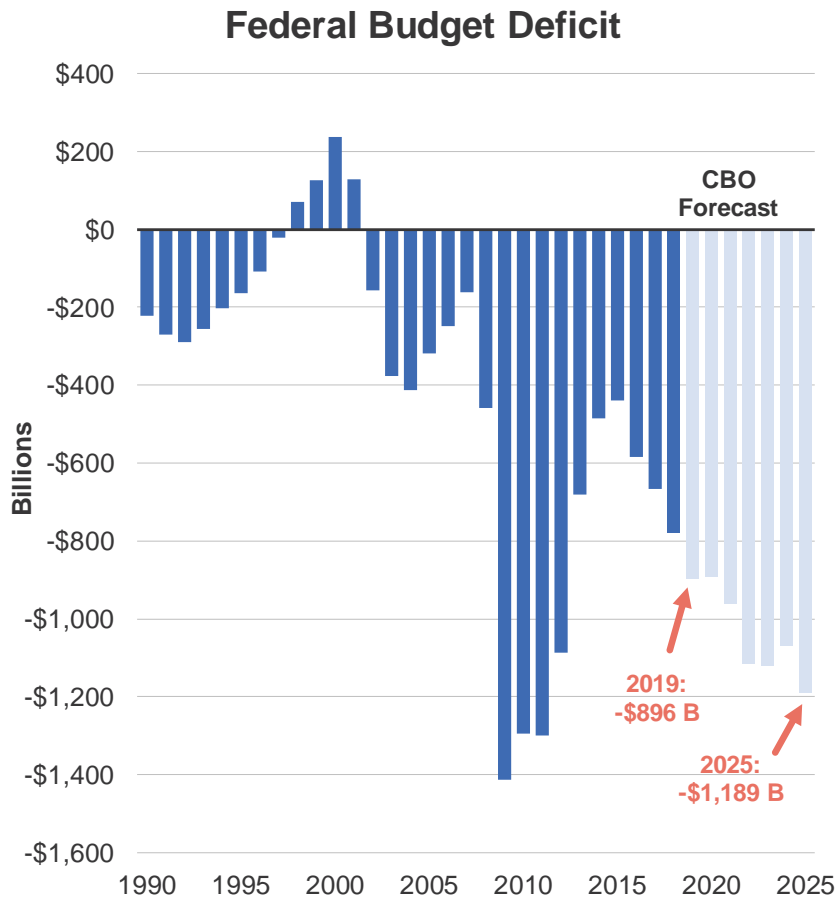
Spread Between 10-Year and 3-Month Treasury Yields (bps)



Left source: The National Bureau of Economic Research, as of April 2019.



U.S. Federal Budget Deficit And Interest Cost Projected To Soar



Sources: Bureau of Fiscal Service, Congressional Budget Office. Data as of May 2019.



Poll Question

Thank You!



pfm



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Part 2: The Florida Economy

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Agenda

WHY U.S. GDP TRAJECTORY MATTERS

- ◆ Trajectory of U.S. GDP
- ◆ Interest Rates

STRUCTURAL CHANGE

- ◆ Impact of Structural Change
- ◆ Policies on Trade and Immigration
- ◆ U.S. Political/Policy Risks

FLORIDA FORECAST

- ◆ Population Growth



Factors Shaping Florida's Outlook

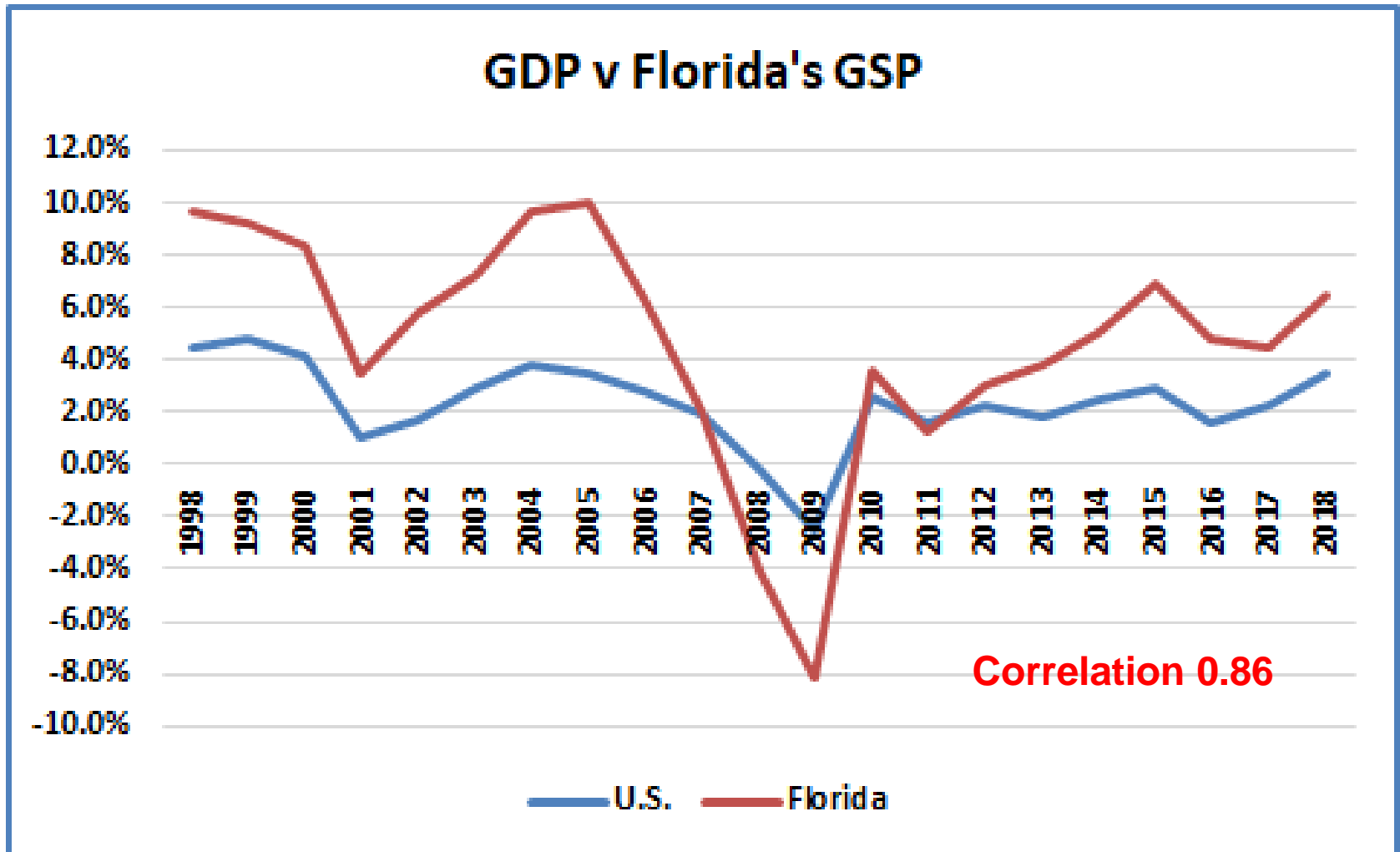
- ◆ Trajectory of U.S. GDP
- ◆ Interest Rates
- ◆ Impact of structural change
- ◆ Policies on trade and immigration
- ◆ U.S. political/policy risks



Why U.S. GDP Trajectory Matters



Why Care About GDP?





Structural Change

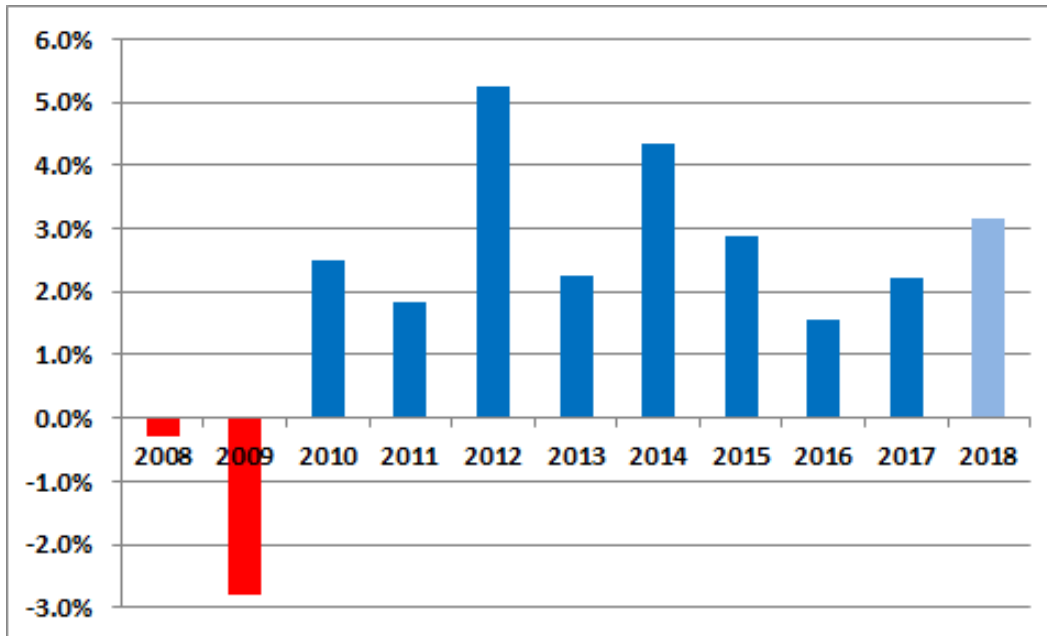


Structural Change

- ◆ AI and Automation
- ◆ Globalization
- ◆ Immigration
- ◆ Income inequality
- ◆ Impact on real estate development
 - Less demand for space
 - Retail and office in particular
- ◆ Climate Change and Current Impacts



Low Growth Trajectory for Real GDP



Long Term Growth Potential
+/- 2% Growth GDP

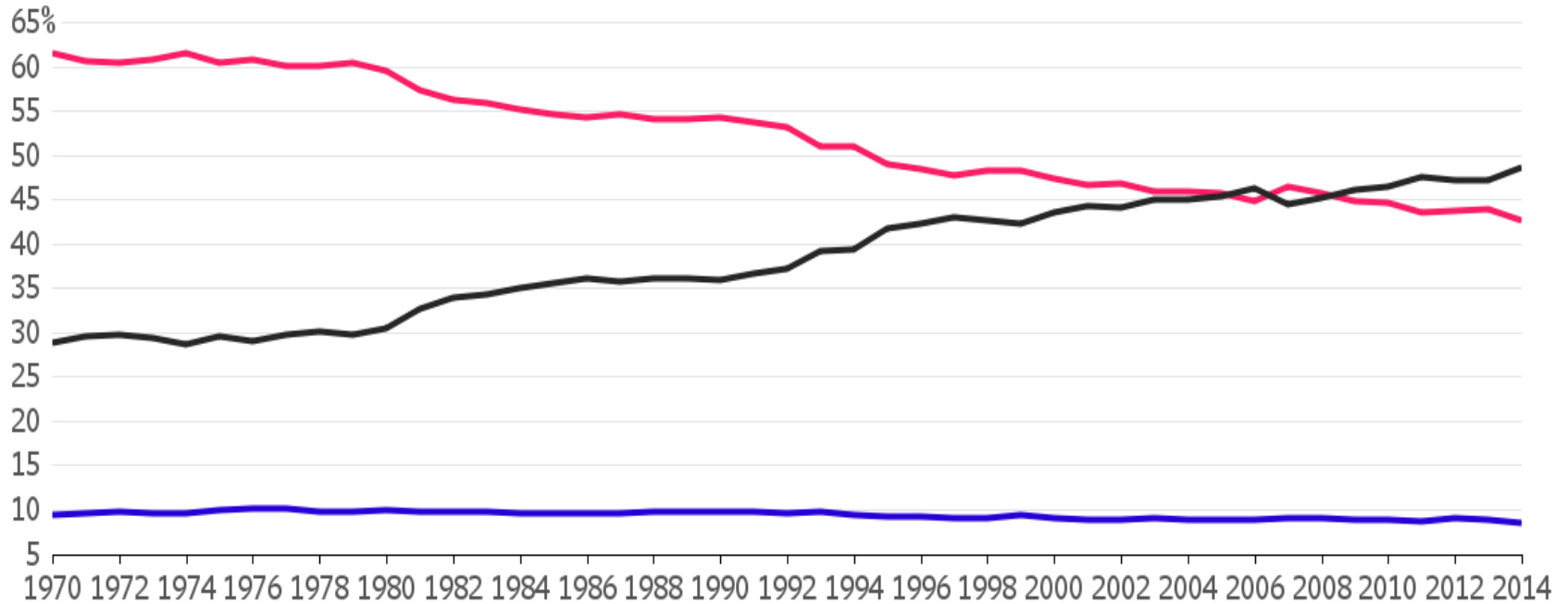
- ◆ Fallout from Great Recession
 - Increased regulation
 - Lower risk tolerance
- ◆ Globalization
 - Holds down prices
 - Holds down wages
- ◆ Income Inequality
- ◆ Underestimate GDP
 - Investment in Tech
 - Consumption Social Media
- ◆ Tax Cuts a boost in short run



Smaller Share

Share of aggregate income held by middle-income households is lowest in data back to 1970

■ Lower Income ■ Middle Income ■ Upper Income



Source: Pew Research Center

Bloomberg



Poll Question



Structural Change, Retail Sales and Store Space

- ◆ Major structural changes in retail sales
 - Historic shift to ecommerce
 - Change in composition of sales: less goods and more services
- ◆ Impact on store space requirements

Category	2000-08	2009-16	Change
Neighborhood	35	35	0
Community	45	30	-15
Regional	35	15	-20
	=====	=====	=====
Total	115	80	-35



Current Impacts of Climate Change on Florida

- ◆ Increased frequency and intensity of tropical cyclones
- ◆ Increased “nuisance” flooding monthly in Miami Beach and the Keys
- ◆ Rising sea level and beach erosion
- ◆ Algal blooms and invasive plants/bugs
- ◆ Migration from Puerto Rico +/- 200,000



\$Billion Events Impacting the U.S. from 2005-2017

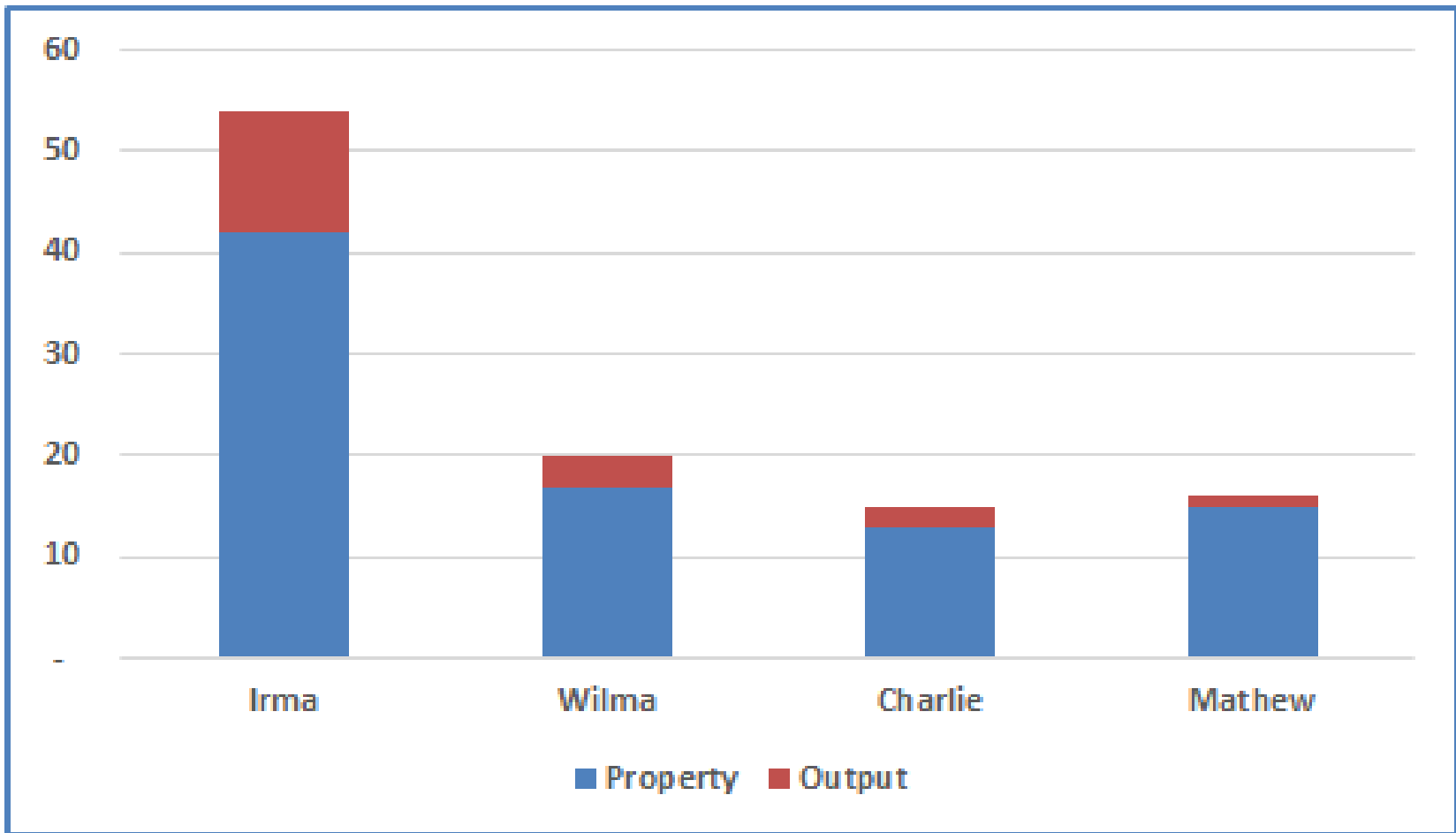
Disaster Type	# Events	Frequency	CPI Adjusted Loss \$B	% Loss	Average Cost\$B	Deaths
Drought	11	9%	\$95	11%	\$9	266
Flooding	17	14%	\$52	6%	\$3	244
Freeze	3	2%	\$5	1%	\$2	1
Severe Storm	63	52%	\$144	17%	\$2	988
Tropical Cyclone	14	12%	\$509	61%	\$36	2,553
Wildfire	10	8%	\$17	2%	\$2	112
Winter Storm	3	2%	\$7	1%	\$2	82
	=====	=====	=====	=====	=====	=====
All Disasters	121	100%	\$829	100%	\$7	4,246

Source: [NOAA National Centers for Environmental Information \(NCEI\) U.S. Billion-Dollar Weather and Climate Disasters \(2017\)](https://www.ncdc.noaa.gov/billions/). <https://www.ncdc.noaa.gov/billions/>

Florida subject to hurricanes which are the most damaging of events



Damage from Recent Florida Hurricanes

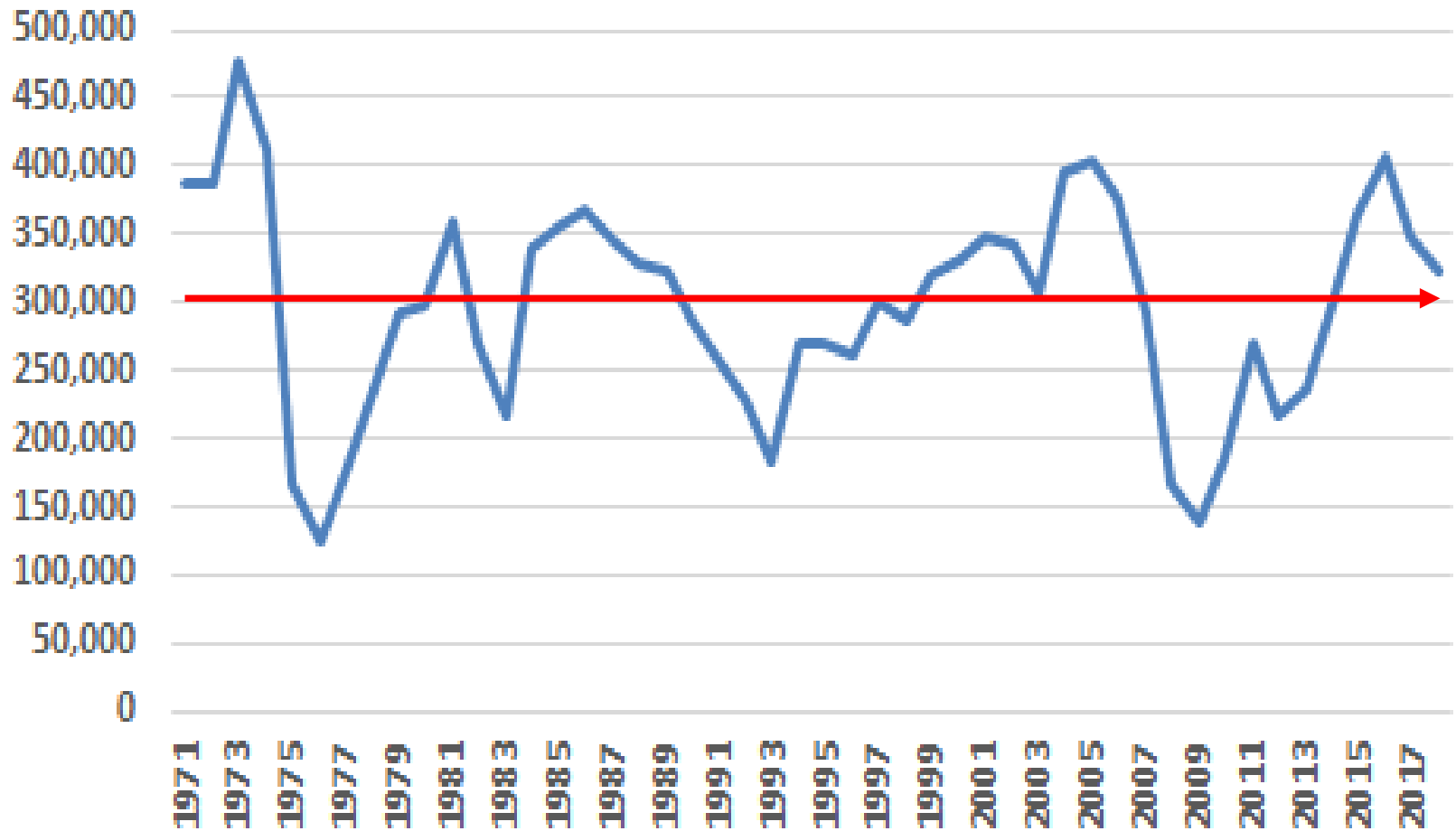




Florida Forecast

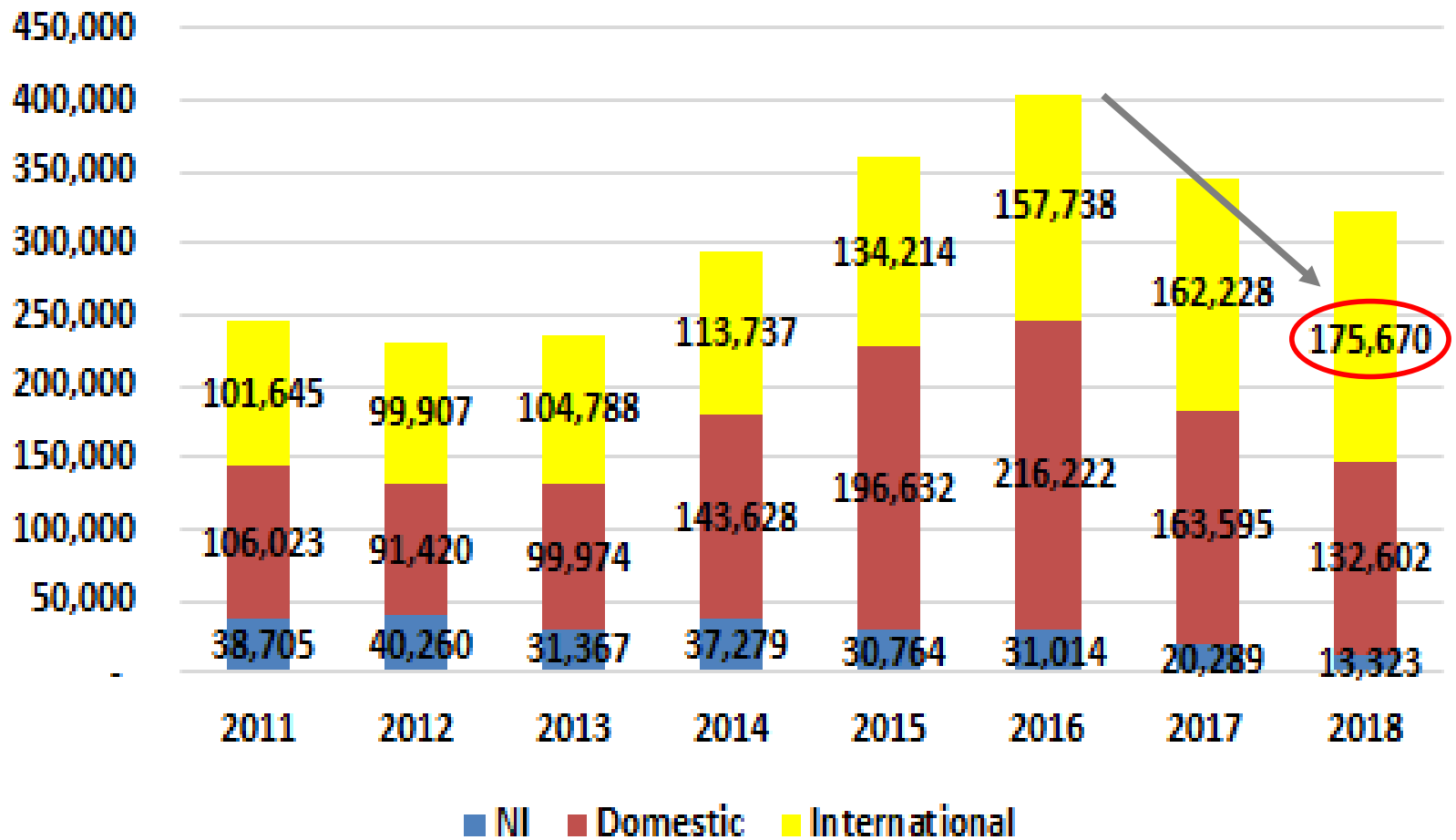


Florida Population Growth





Florida Population Growth





Top 10 Metropolitan Areas in Numeric Growth: 2017 to 2018

Rank	Name	April 1, 2010 (Estimates base)	July 1, 2017	July 1, 2018	Numeric Growth
1	Dallas-Fort Worth-Arlington, TX	6,426,222	7,407,944	7,539,711	131,767
2	Phoenix-Mesa-Scottsdale, AZ	4,193,127	4,761,694	4,857,962	96,268
3	Houston-The Woodlands-Sugar Land, TX	5,920,487	6,905,695	6,997,384	91,689
4	Atlanta-Sandy Springs-Roswell, GA	5,286,750	5,874,249	5,949,951	75,702
5	Orlando-Kissimmee-Sanford, FL	2,134,402	2,512,917	2,572,962	60,045
6	Seattle-Tacoma-Bellevue, WA	3,439,805	3,884,469	3,939,363	54,894
7	Austin-Round Rock, TX	1,716,321	2,115,230	2,168,316	53,086
8	Riverside-San Bernardino-Ontario, CA	4,224,966	4,570,427	4,622,361	51,934
9	Tampa-St. Petersburg-Clearwater, FL	2,783,462	3,091,225	3,142,663	51,438
10	Washington-Arlington-Alexandria, DC-VA-MD-WV	5,636,363	6,200,001	6,249,950	49,949



Top 10 Metropolitan Areas in Percentage Growth: 2017 to 2018

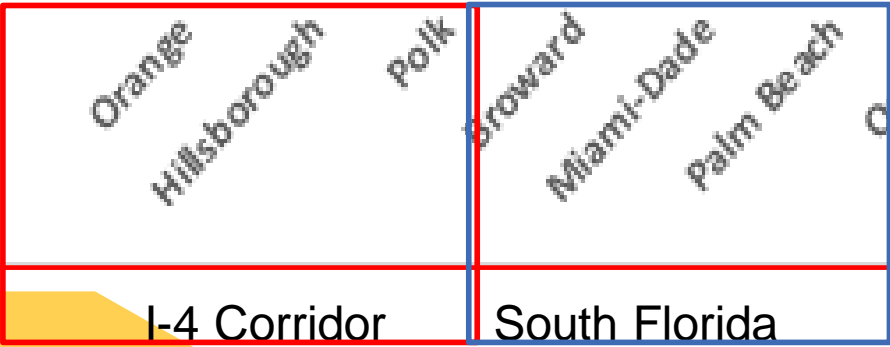
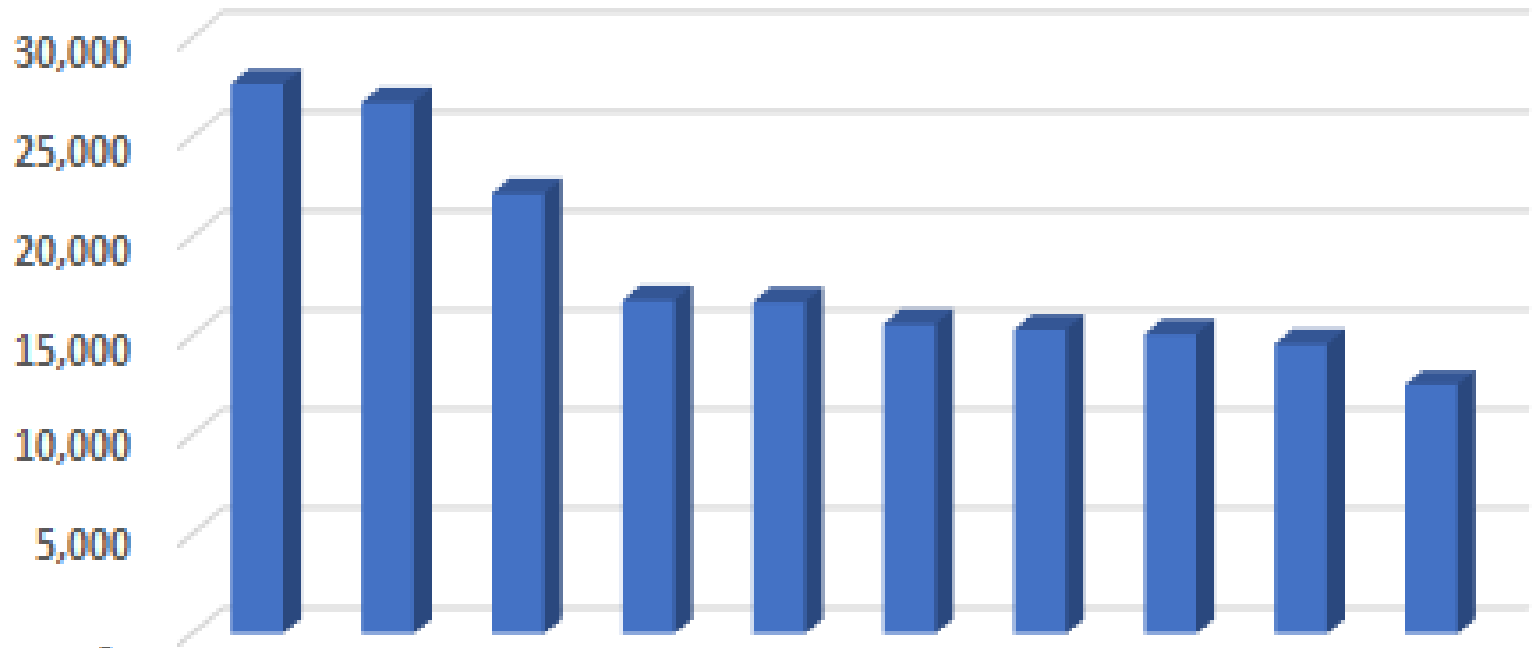
Rank	Name	April 1, 2010 (Estimates base)	July 1, 2017	July 1, 2018	Percent Growth
1	Midland, TX	141,671	170,948	178,331	4.3
2	Myrtle Beach-Conway-North Myrtle Beach, SC-NC	376,555	463,386	480,891	3.8
3	St. George, UT	138,115	165,859	171,700	3.5
4	Lakeland-Winter Haven, FL	602,098	685,830	708,009	3.2
5	Odessa, TX	137,136	157,173	162,124	3.2
6	The Villages, FL	93,420	124,933	128,754	3.1
7	Greeley, CO	252,847	305,274	314,305	3.0
8	Boise City, ID	616,566	710,080	730,426	2.9
9	Bend-Redmond, OR	157,730	186,807	191,996	2.8
10	Provo-Orem, UT	526,885	617,751	633,768	2.6



Poll Question



2017-18 Population Growth





Top 10 Counties in Numeric Growth: 2017 to 2018

Rank	State	County	April 1, 2010 (Estimates base)	July 1, 2017	July 1, 2018	Numeric Growth
1	Arizona	Maricopa County	3,817,359	4,329,580	4,410,824	81,244
2	Nevada	Clark County	1,951,271	2,183,310	2,231,647	48,337
3	Texas	Harris County	4,093,188	4,664,159	4,698,619	34,460
4	Texas	Collin County	782,220	971,393	1,005,146	33,753
5	California	Riverside County	2,189,765	2,417,224	2,450,758	33,534
6	Washington	King County	1,931,292	2,204,229	2,233,163	28,934
7	Florida	Orange County	1,145,954	1,352,933	1,380,645	27,712
8	Texas	Tarrant County	1,810,655	2,057,468	2,084,931	27,463
9	Texas	Bexar County	1,714,772	1,958,841	1,986,049	27,208
10	Florida	Hillsborough County	1,229,178	1,410,115	1,436,888	26,773



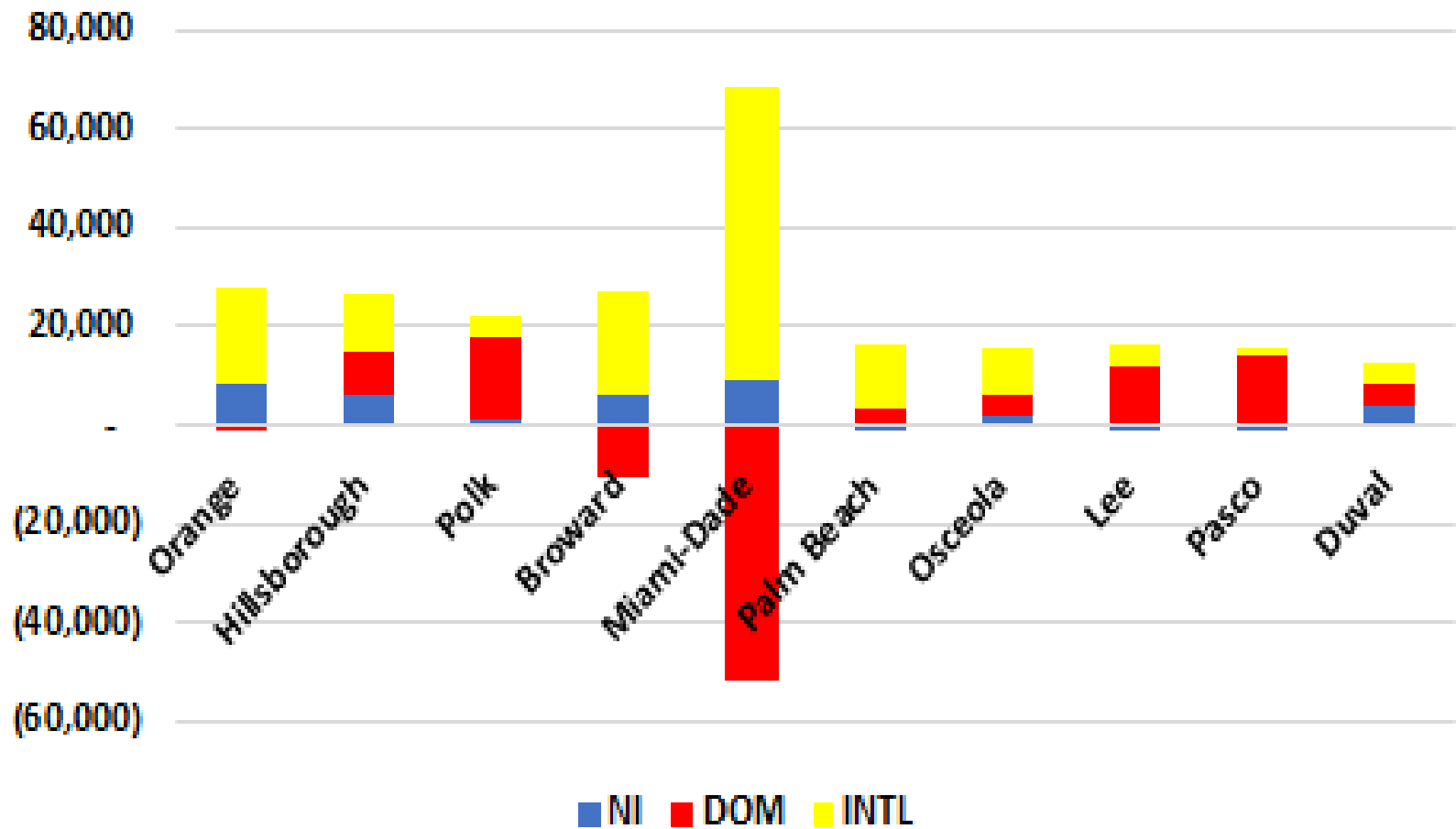
Top 10 Counties in Percentage Growth: 2017 to 2018

(For counties that were greater than or equal to 20,000 people in 2017 and 2018)

Rank	State	County	April 1, 2010 (Estimates base)	July 1, 2017	July 1, 2018	Percent Growth
1	North Dakota	Williams County	22,399	33,395	35,350	5.9
2	Texas	Comal County	108,485	140,790	148,373	5.4
3	Texas	Kaufman County	103,363	122,845	128,622	4.7
4	North Carolina	Brunswick County	107,429	130,735	136,744	4.6
5	Florida	Walton County	55,043	68,275	71,375	4.5
6	Texas	Midland County	136,872	165,386	172,578	4.3
7	Florida	Osceola County	268,683	352,661	367,990	4.3
8	Florida	St. Johns County	190,034	243,928	254,261	4.2
9	Texas	Hood County	51,163	58,154	60,537	4.1
10	Georgia	Jackson County	60,457	67,716	70,422	4.0

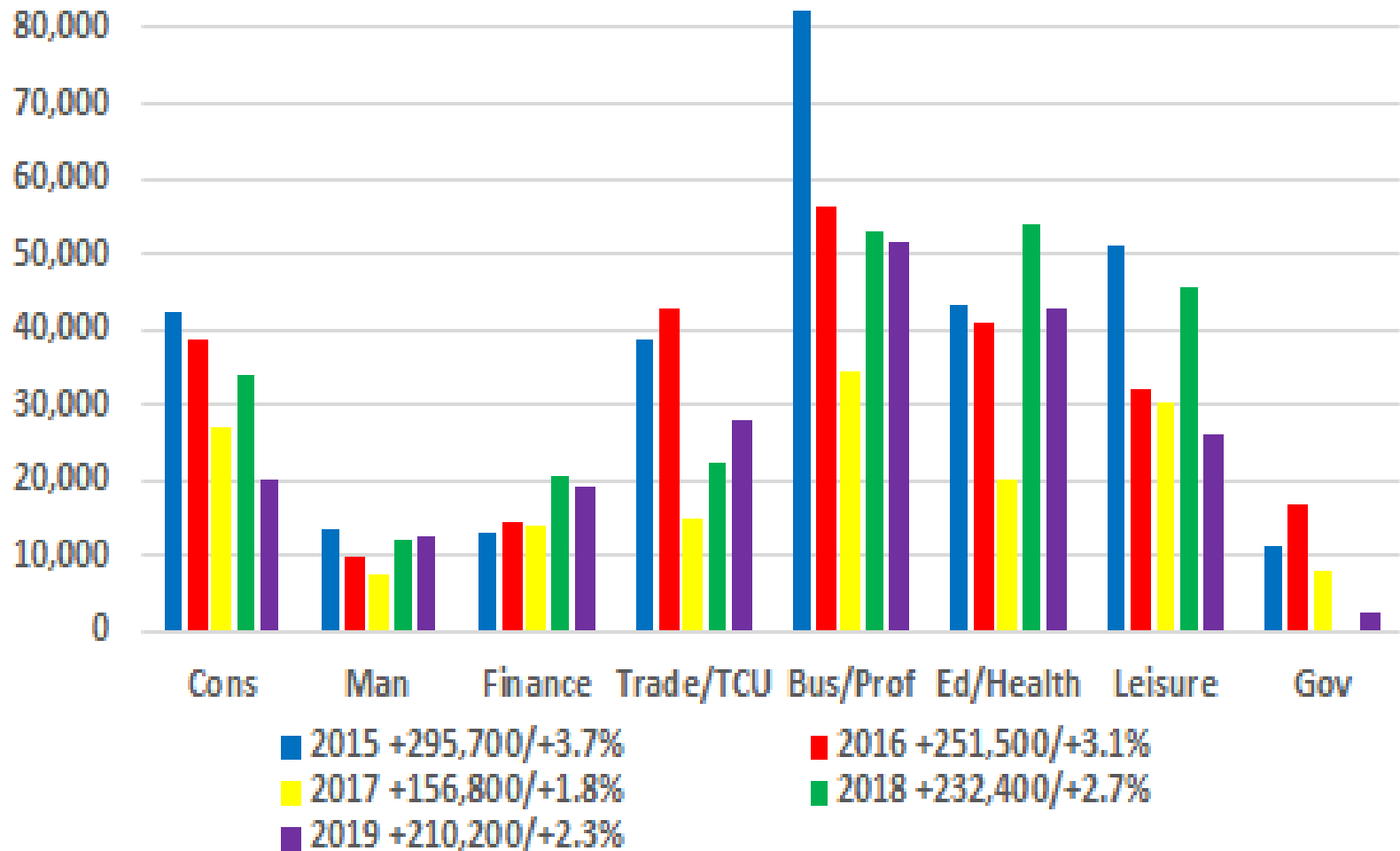


Components of 2018 Population Growth



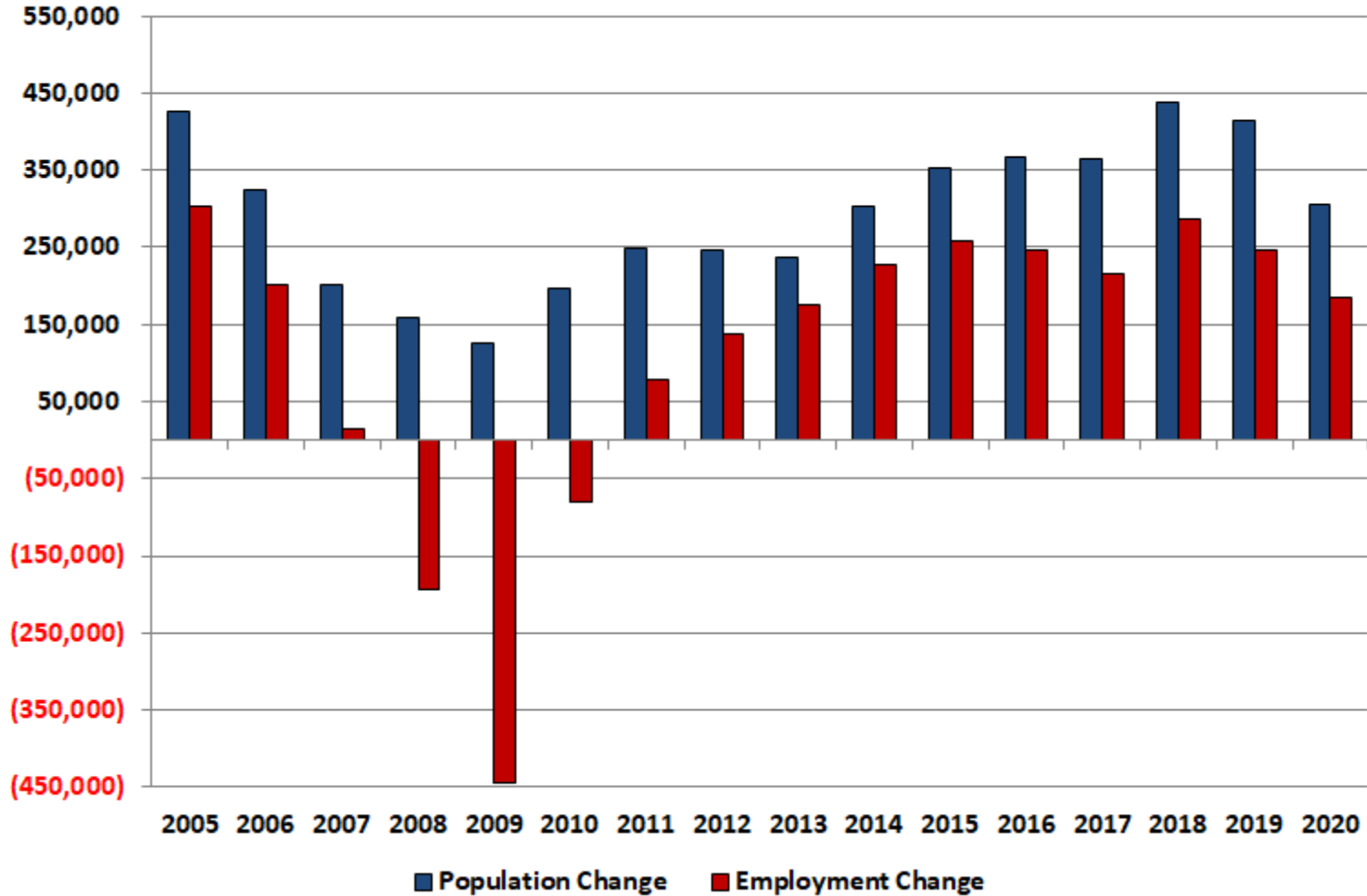


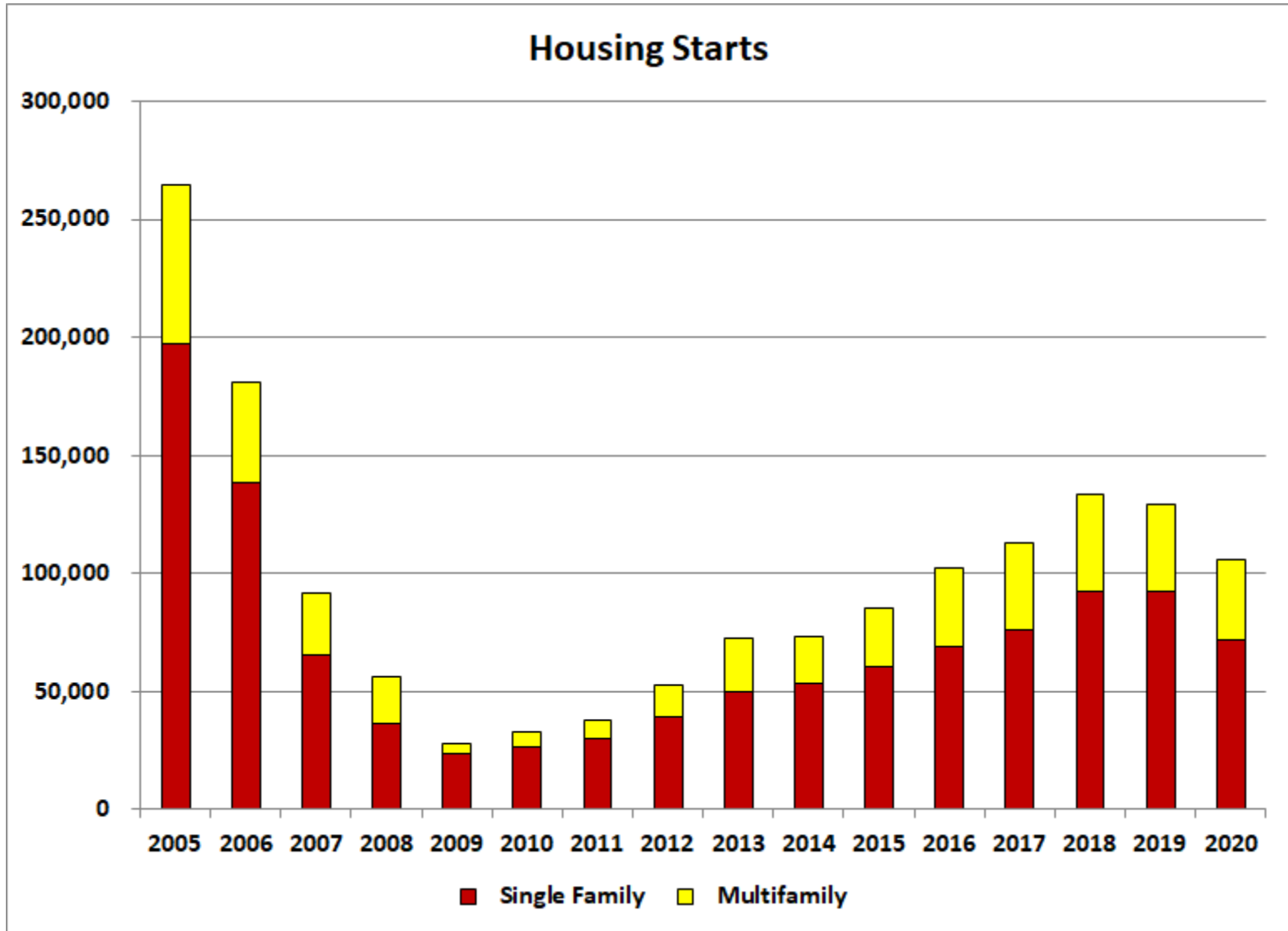
Job Growth





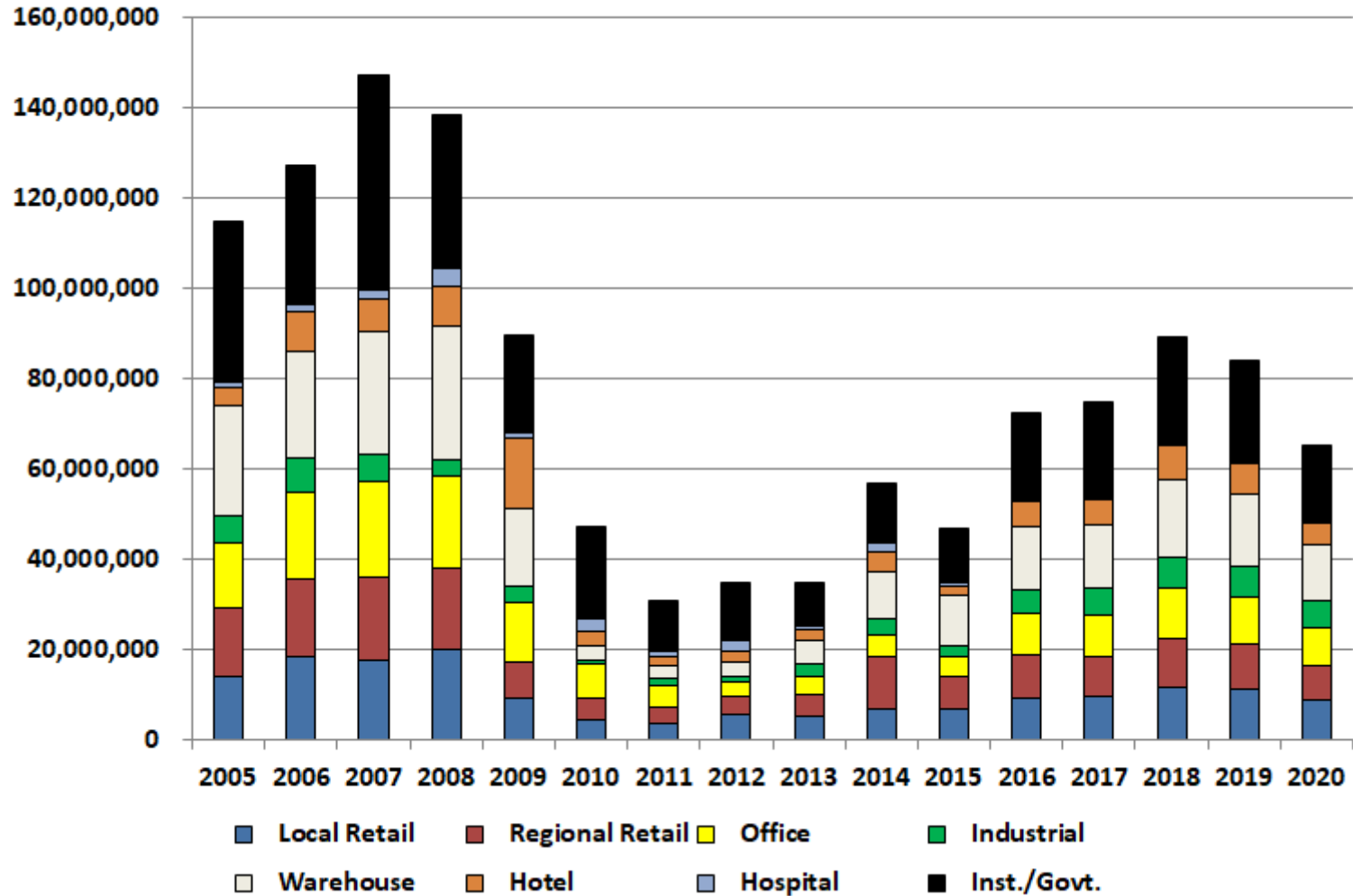
Growth in Population and Employment







Nonresidential Square Feet Put Into Place





Poll Question

Thank You!



pfm