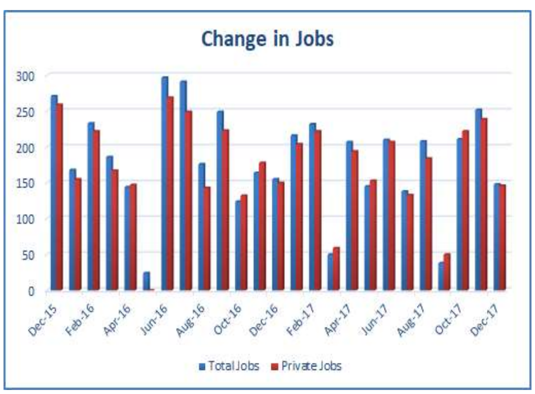
EW ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – January 8, 2018

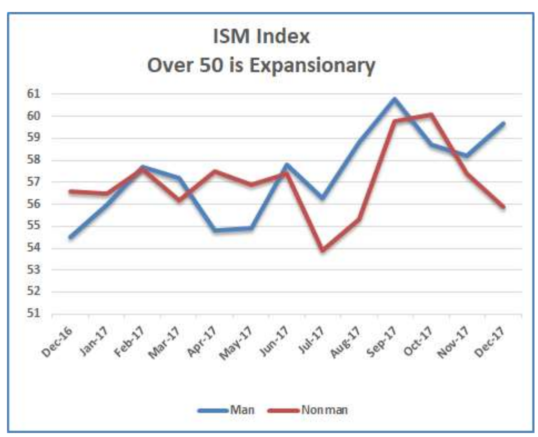
U.S. Economy – New Record for Job Growth

Although the current labor market expansion is far from the strongest, hiring has grown for 87 straight months making it the longest sustained expansion ever. Job gains have topped 2 million per year for the seventh consecutive year. At 4.1%, the unemployment rate is the lowest since December 2000. The hiring pace slowed to 148,000 in December, but the 3-month average was 203,700 – the highest since September 2016 - suggesting some momentum to start 2018.



Wage gains have lagged throughout this expansion, exceeding 2% only once in 2014 and rose just 1.7% in 2017. However, a tighter labor market is boosting wages, which rose by 0.3% in December and by nearly 2.6% year over year. Job growth is poised to continue in 2018, and wages will rise faster as the unemployment rate drifts lower. However, even after eight years of recovery, the labor force participation rate will improve only slightly keeping pressure on wages. The drag from retiring baby boomers will intensify in 2018, because the peak of the baby boom generation will become eligible for Social Security.

Manufacturing accelerated in December with the ISM manufacturing index rising at its 2nd fastest pace in six years. The gain was fueled by soaring new orders. Nonmanufacturing is also expanding, but at a slower pace. Nevertheless, the index, representing nearly 80% of GDP, averaged 57.8 in 2017Q4 up from the 2017Q3 average of 56.3.



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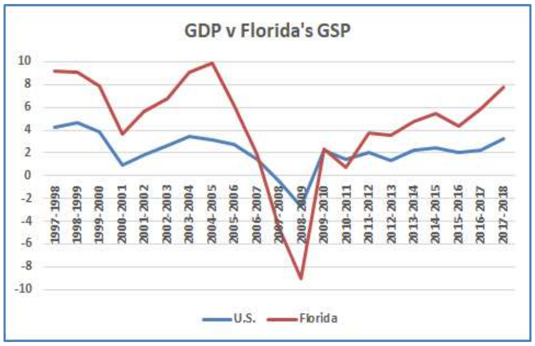
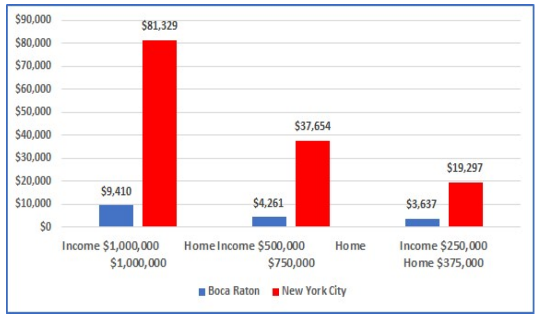
Florida Economy: Benefits from the Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act will benefit Florida's economy in a variety of direct and indirect ways. It is important to note that the trajectory of Florida's GSP is highly correlated with the path of U.S. GDP (correlation coeficient of 0.88). The Act will boost growth in 2018 by 0.5% pushing Florida's GSP up by at least 0.75%.

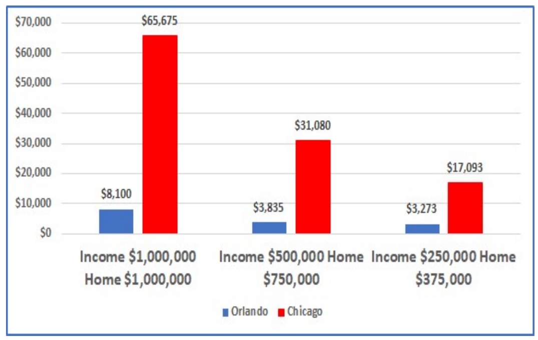


According to estimates from the Institute of Tax and Economic Policy, the Act will cut income taxes in Florida by nearly $27 billion in 2019 or by about 2.5%. This alone would boost consumption and growth in Florida.

The Act limits deductions for state and local income and property taxes ("SALT") to $10,000. This will provide further incentives for relocation from higher tax areas in the Northeast and the Midwest. While the magnitude of these effects will vary significantly depending upon location, income, and family size, it is possible to make some rough, but compelling, comparisons. Compare the effects on married couples with similar incomes and home values in Manhattan and Boca Raton. For a household earning $1 million and living in a $1 million home, SALT liability is more than $70,000 per year higher in Manhattan. The differences remain significant even for households earning $250,000 and living in a $375,000 home.



The differences are also stark comparing Orlando to Chicago for similar income/home value combinations.



While there has always been a large SALT differential between low tax states, like Florida, and higher tax states, like New York or Illinois, the Act magnifies the differences dramatically. By limiting the deductibility of SALT, households will pay substantially higher taxes after the Act than before. These are recurring annual costs that will affect location decisions for some families.