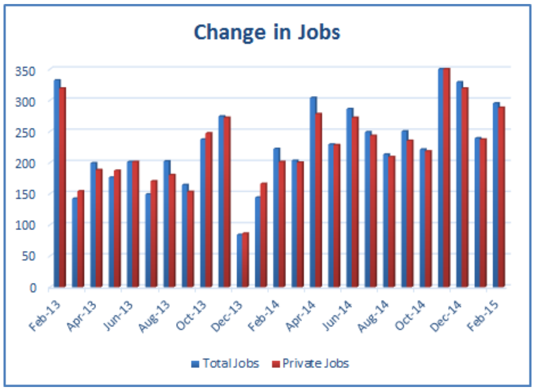
EW | ECONOCAST™ WEEKLY

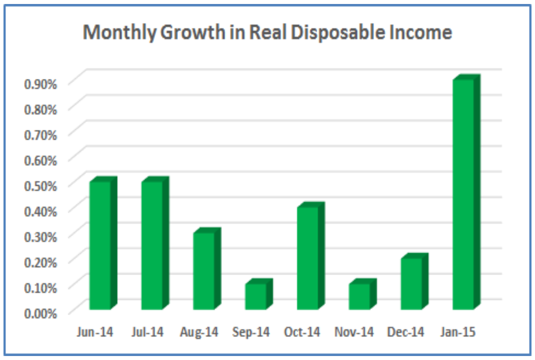
ECONOCAST™ UPDATE – March 9, 2015

U.S. Economy – Job Growth Soars in February

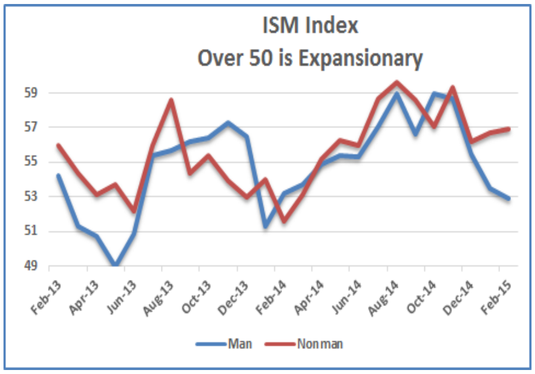
Job gains surprised on the upside rising by 295,000 in February. Gains were widespread and in every major sector except for mining which declined due to lower levels of oil drilling. The unemployment rate fell to 5.5%, a post-recession low. But, some of this came because the participation rate eased down to 62.8%. Wage gains remained surprisingly modest at 2% year-over-year. However, I expect wages to accelerate this year as the job markets approach full employment.



Even though wage gains have been modest, strong job growth, low gas prices, and virtually no inflation has resulted in big gains in real disposable income. This is the fuel supporting consumption spending which will keep GDP growing strongly this year.

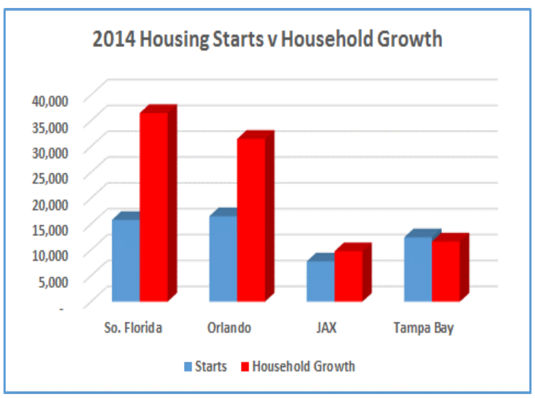


The ISM manufacturing index slipped from 53.5 to 52.9 marking the fourth monthly decline, but it remains in expansionary territory. Some of the weakness relates to the congestion at West Coast ports, but some also reflects the impact of the rising dollar. The ISM nonmanufacturing composite index rose from 56.7 to 56.9 in February, its third increase in the past six months.



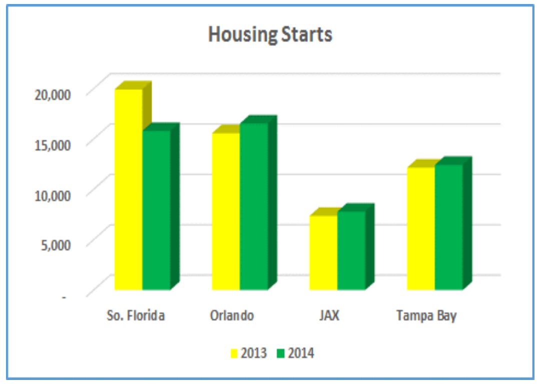
Florida Economy: Signs of Overbuilding?

The aggregate data on population growth and household formations support much higher levels of housing starts in Florida. In 2014 Florida's population growth surged to 292,000 which translates into at least 150,000 new households. Yet there were less than 90,000 housing starts. This combination of rising population growth and low starts has whittled down the excess inventory from the last boom. So, with little inventory, rising population growth and stronger household formations should translate into higher levels of starts. Looking across the state most MSAs have also had surging gains in households far higher than the levels of housing starts. However, in some areas, noticeably Tampa Bay and Jacksonville markets have moved into equilibrium already.

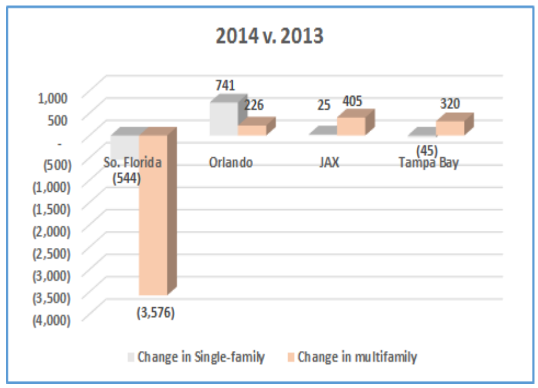


Even so, housing starts in 2014 were only a little higher than in 2013. Furthermore, starts actually declined significantly in South Florida.

So, there is nothing obvious to suggest that any overbuilding is occurring.



The drop in starts in South Florida was mostly due to a sharp contraction in multifamily starts of both apartments and particularly in condominiums. However, multifamily starts increased in Orlando, Jacksonville, and Tampa Bay.



While the aggregate balance between starts and household formations is in balance now, the high and growing volumes of multifamily construction, particularly of luxury, multistory apartment projects are likely to emerge as the next problem area in real estate over this cycle. Many of these multistory rental projects will take 12-to-18 months to complete. The delivered projects will be renting at a time of rising interest rates and slowing growth in the U.S. and here in Florida. This combination of rising supply and contracting demand will likely result in overbuilding of these rental communities by 2017.