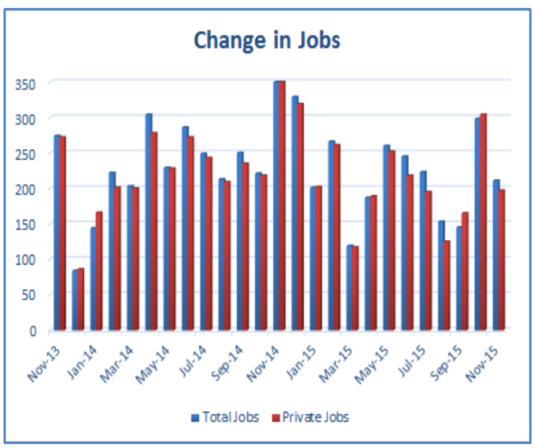
EW | ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – December 7, 2015

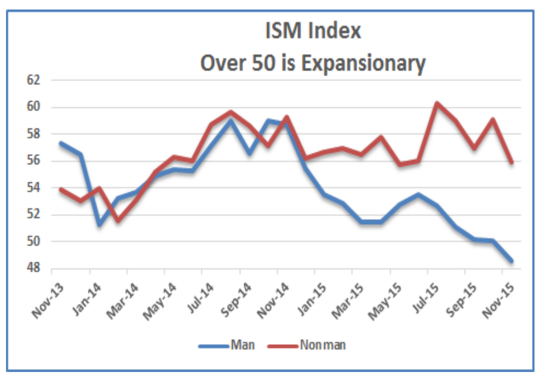
U.S. Economy – Strong Job Growth

Payroll employment rose 211,000 in November, and the strong gains for October and September were revised even higher by 35,000. Expansion in consumer industries more than offset weakness in energy and manufacturing. The unemployment rate was unchanged at 5% even as the labor force expanded. Overall the U.S. labor market is quite resilient in the face of weaker global demand, the high dollar, and persistently weak commodity prices.



The ever-tightening labor market is finally pushing up hourly earnings that have increased on a year-over-year basis at a 2.3% pace for the last three months in a row. Accelerating growth in wages was the one missing element in the labor market recovery.

The ISM indexes were weaker in November. Manufacturing dropped below the neutral threshold of 50 for the first time since November 2012. The high value of the dollar, weak energy prices, and soft global demand were offset somewhat by booming auto sales. These forces are unlikely to change much in the near future. The November ISM nonmanufacturing index dropped from 59.1 to 55.9. The index remained solidly above 50 indicating that this is merely a cooling from the prior period of very strong gains.



The strong November jobs report all but assures that the Fed will finally increase the funds rate by 0.25% at its meeting next week. Markets have already full incorporated the move.

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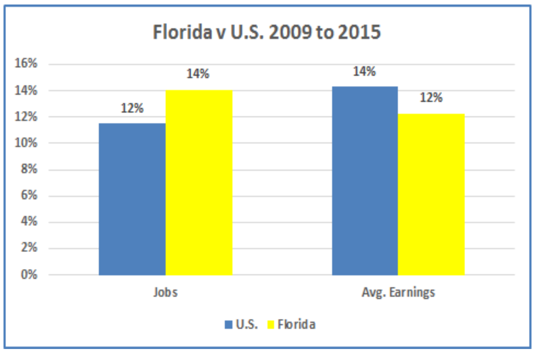
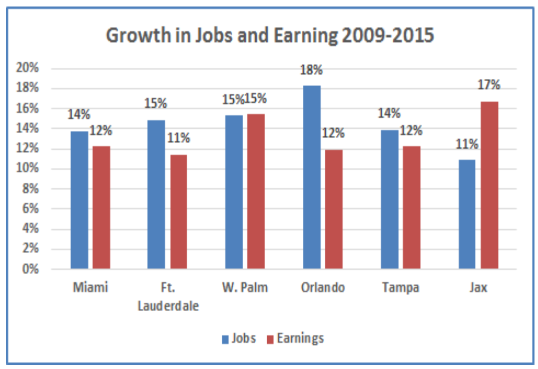
Florida Economy: Strong Job Growth but Weak Earnings

One of the hallmarks of this economic recovery is the weak growth in earnings. After six years of growth all of the jobs lost have been replaced and another 4 million added. Employment is up 12% since the trough, but earnings have increased by just 14%. Earnings growth in Florida is even slower at just 12% despite the fact that job gains in Florida were better than the U.S. at a 14% gain since the trough.



A variety of factors have inhibited earnings growth in the U.S. including: (a) recoveries after major financial busts are always weak; (b) the cyclical stimulus was too small after Congress reversed fiscal course to address the budget deficit; (c) the fall in energy prices coupled with the rise in the value of the dollar; and (d) continuing globalization. In particular globalization has magnified competition in traded goods that among other things has exerted downward pressure on wages. Consider for example the continuing migration of low-end textile manufacturing from the southern U.S., to China, and lately to Vietnam and Bangladesh as companies seek out the lowest cost providers restraining wages in the textile industry across the globe.

For Florida the earnings environment is even more difficult. Not only is Florida subject to the same forces restraining wages in the U.S., but the composition of Florida's economy exerts further constraint. Although Florida enjoyed faster job growth than the nation, the composition of Florida's job gains were concentrated in lower wage tourism and service sector jobs. This is sharply illustrated in the data for growth in jobs and earnings across Florida's major metro areas. Fueled by its booming tourism industry Orlando led all metros with an 18% gain in jobs, but earnings only increased by 12%. By contrast, Jacksonville's employment rose 11% but earnings jumped 17% due to Jacksonville's medical, insurance, and defense industries.



Finally, consider the recoveries in Florida's smaller metros that were worst hit by the housing bust. While job growth was very strong replacing most of the lost jobs since the recession, earnings growth was very weak.