ECONOCAST™ WEEKLY

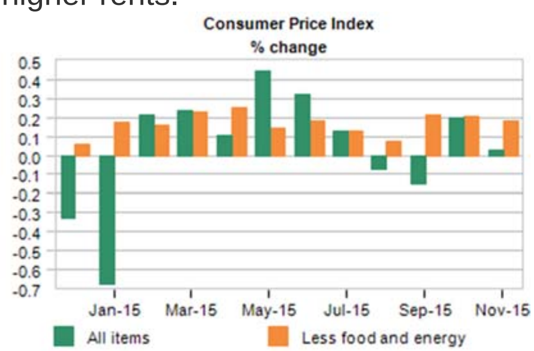
ECONOCAST™ UPDATE – December 21, 2915

U.S. Economy – Fed Liftoff and a Federal Budget for FY2015-16

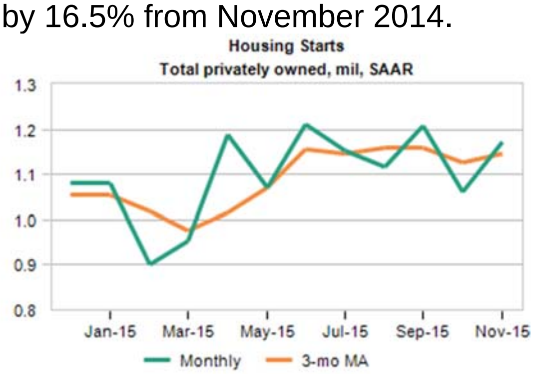
Wednesday was the end of an era as the Fed increased the funds rate for the first time since 2006. The Fed stressed that future rate increases would be gradual with the timing based on data for inflation and employment. I expect the Fed to raise interest rates by 25 basis points at every other meeting in 2016 and every meeting in 2017 to achieve the Fed's target of 3.5%. In addition, the Fed announced it will shrink its balance sheet very slowly by allowing securities to mature. Even with a rising funds rate in 2016, rates will remain very low. Nevertheless, rising rates will have a significant impact on financial markets as the stock sell off last week amply demonstrated. Credit spreads will widen with further weakness on tap for lower quality securities and junk bonds. Rising U.S. rates will also lift the dollar limiting exports and stimulating imports. Fortunately, strong job growth and rising wages will offset the drag in 2016.

In addition, the new federal budget for FY2015-16 reverses the fiscal constraints imposed since 2012. The new $1.15 trillion spending plan boosts both defense and nondefense spending sufficiently to add about 0.3% to GDP growth in 2016. Approval of the budget removes further uncertainty over the course of fiscal policy – another plus for 2016.

Consumer prices were unchanged in November. Falling oil prices capped overall increases. Core prices rose 0.2% (2.5% SAAR) pushed up by higher rents.

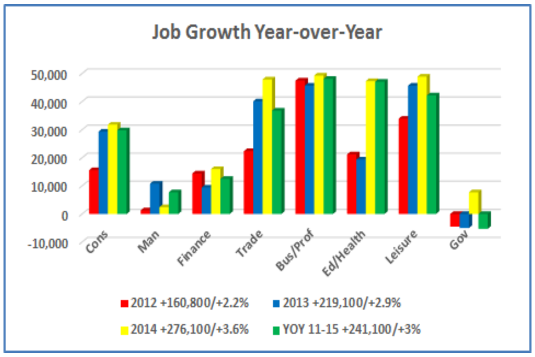


Housing starts jumped 10.5% above the revised October total and are up by 16.5% from November 2014.

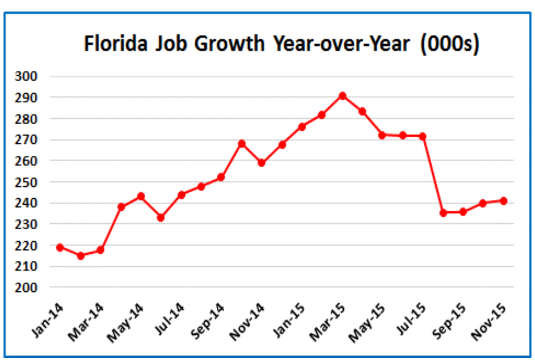


Florida Economy: Job Gains Accelerate

Job growth accelerated modestly in November up by 241,100 over the year. Job gains exceeded 40,000 in three sectors: business/professional services, education/healthcare, and leisure/hospitality. Only the government sector lost jobs over the year.



Florida lead all states in job growth in November with a monthly seasonally adjusted gain of over 35,000. This suggests that job growth is accelerating again. However, the monthly jobs data are notoriously difficult to seasonally adjust, and they are subject to substantial revision. Analyzing the data on a year-over-year basis is more reliable. On an annual basis job growth did tick up in November, but job gains are still clearly slower than last year.



Every major metro area in Florida reported job gains over the last 12 months except for Tallahassee. The I-4 corridor, from Tampa to Orlando, continued to have very strong job gains. Tampa Bay nosed out Orlando with 40,000 new jobs over the year compared to 39,600 for Orlando. Lakeland's 4.1% growth in jobs compared favorably to the statewide average of 3% over the year. Ft. Lauderdale posted job growth of 28,800 for a 3.4% rate of gain leading all of South Florida that collectively added 57,700 total jobs since November 2014.

Data as of November 2015	Unemployment Rate	% Change Jobs	Jobs last 12 Months
Florida	**5.0%**	**241,100**	**3.0%**
Cape Coral-Ft. Myers	4.5%	7,200	3.1%
Gainesville	4.2%	2,200	1.6%
Jacksonville	4.7%	16,200	2.6%
Lakeland-Winter Haven	5.4%	8,400	4.1%
South Florida	5.0%	57,200	2.3%
Ft. Lauderdale	4.5%	26,800	3.4%
Miami	5.5%	17,800	1.6%
West Palm Beach	4.6%	12,700	2.2%
Naples	4.7%	4,000	3.0%
North Port-Sarasota-Bradenton	4.5%	5,600	2.0%
Ocala	5.7%	1,700	1.7%
Orlando	4.5%	39,600	3.5%
Palm Bay	5.2%	6,400	3.2%
Pensacola	4.7%	3,300	2.0%
Port St. Lucie	5.2%	3,800	2.9%
Punta Gorda	5.3%	1,100	2.5%
Sebastian-Vero	6.1%	400	0.8%
Tallahassee	4.7%	-100	-0.1%
Tampa-St. Pete	4.6%	40,400	3.3%

Constraints on State level employment restrained job growth in Gainesville. More generally, job growth was slower across the panhandle from Jacksonville to Pensacola and in interior metro areas including Ocala.

On a positive note, Palm Bay/Melbourne has finally turned the corner following the end of the shuttle program. Gains in defense spending, private space launch, tourism and particularly retirement have finally boosted the area's employment growth. Rising rates of retiree in migration also supported Port St. Lucie and Punta Gorda over the year.

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