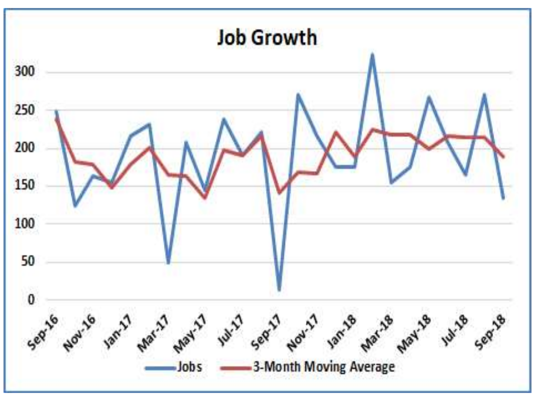
ECONOCAST™ UPDATE – October 8, 2018

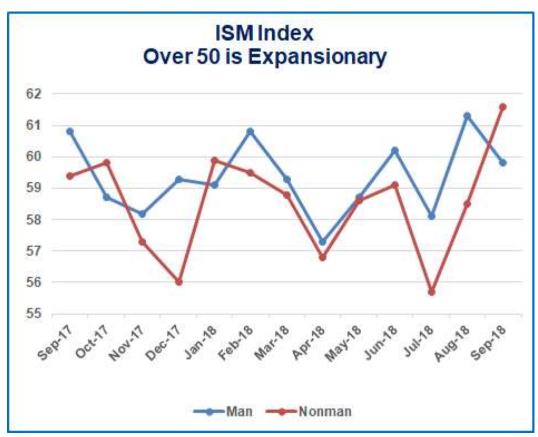
U.S. Economy – Hurricane Holds Down Job Growth in September

Hurricane Florence held job growth in September to just 134,000. Hurricanes Harvey, Irma and Maria produced similar impacts. In each case the effects were short-lived and less than initially reported. Revisions to the two prior months added 87,000 jobs, bringing the 3-month average to 190,000 which is about the same as over the last three years.



The unemployment rate fell to 3.7%, a new cyclical low, as household data were much stronger than payroll data. Demographic changes, including an aging and more educated workforce, mean that the full-employment rate of unemployment has been falling, because older and more educated workers typically have lower incidence of unemployment. This indicates that the labor market still has some room to grow. Even so, tighter conditions pushed wages up at a 2.8% pace in September.

The ISM manufacturing index retreated from its high as new orders dipped, but at 59.8 it remains elevated and in the expansion range. Higher tariffs and rising trade tensions are not yet showing up in the data. The ISM nonmanufacturing index jumped to 66.6 in September supported by rising orders and higher employment. However, there are increasing signs that trade tensions and supply constraints, especially in transportation, are increasingly problematic. The trade details support the view that net exports will be a sizable drag on GDP. That said, the rise in the nonmanufacturing index points to strong momentum.

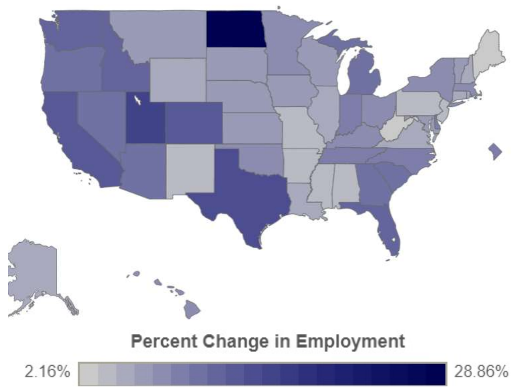


Florida Economy: Relationship Between Taxes and Job Growth

The relationship between taxes and jobs has become the major issue in the gubernatorial contest. Mr. Gillum has proposed a $1 billion increase in the corporate income tax to fund increased education spending. Mr. DeSantis advocates for a cut in the corporate tax rate along with cuts in communication taxes, rent tax, and all other taxes and fees that inhibit job growth. Mr. DeSantis claims that cutting taxes and limiting regulations will stimulate job growth in Florida.

The relationship between state tax levels and economic performance has been studied extensively by economists, and there are well-done studies supporting both views in peer-reviewed journals. However, recent studies have shown that prior results favoring tax cuts were not robust and over time contradicted by the data. The weight of academic research now concludes that state and local tax levels have, at most, a small impact on relative rates of state economic performance.

Since the Great Recession, employment has increased 8% on average among all 50 states since each one's individual nadir. Job growth varies widely across the states with 21 states posting gains below 7% and 14 with gains above 10%. Job growth ranges from a high of 28% in North Dakota to 15% in Texas and Utah, to about 11% or more in California, New York, Michigan, and Florida. On the low end are Maine, West Virginia, Connecticut, Missouri, Mississippi, and New Mexico all with gains of 4% or less. The map shown next displays the range of job growth at the state level since each reached its nadir.



Source: PewTrust.org

Obviously, there is no correlation between job growth since the Great Recession and the levels of state taxation. The most recent experiment in cutting state taxes to stimulate growth did not turn out well. Kansas cut its taxes substantially in 2013 only to underperform the U.S. and neighboring states in job growth.

Would Gillum's proposed corporate income tax increase to 7.75% cause harm to Florida's economy? Probably not. While the corporate tax increase will raise a lot of money, the increase in the corporate tax rate would push Florida's corporate tax from 6th lowest in the U.S. to about average for the U.S. In Florida, around 90% of corporations already pay no state corporate income tax. The companies that would pay the bulk of the increase, including Walt Disney World, Nextra Energy (FPL), Publix, and Florida East Coast Railway, are unlikely to leave Florida because of an increase in Florida's corporate income tax.

Impacts on future growth will depend in part on if the $1 billion is invested in education. If so, the long run effects would be positive.