

ECONOCAST™ UPDATE – January 30, 2017

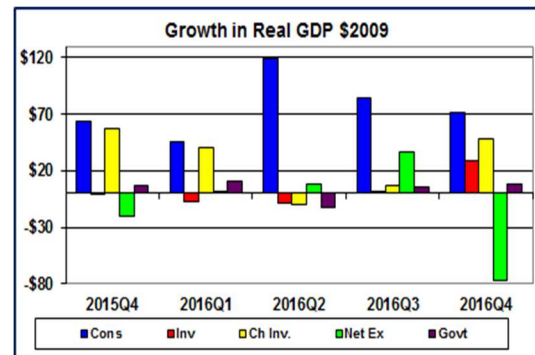
© 2017 Fishkind & Associates, Inc. All Rights Reserved.

U.S. Economy – Trump, Congress and GDP Growth

The risks and benefits from policies of President Trump and actions by Congress were vividly displayed this week. Through his executive orders the President: (a) threatened a trade war with Mexico, our third largest trading partner; (b) created chaos in our visa and immigration programs; (c) cancelled the TPP; (d) froze federal hiring excluding the military; (e) revived the Keystone XL pipeline and Dakota Access pipelines; (f) froze all pending regulations; and (g) directed federal agencies to ease the “regulatory burdens” of ObamaCare. Meanwhile, Congress continues to struggle with developing a replacement for ObamaCare, and creating a coherent fiscal policy. This causes considerable uncertainty, which will push interest rates up sooner and higher than otherwise, among other things.

GDP grew a solid 1.9% in the 4th quarter, down from the third quarter’s 3.5% pace. Consumer spending remained strong and investment spending rebounded with residential construction and business investment in equipment rising. Trade was a major drag on growth as exports fell

and imports rose rapidly. The rising dollar reduces U.S. competitiveness, although some of the weakness was caused by an unsustainable surge in soybean exports in the third quarter. But for the sharp drop in net exports, real GDP would have grown at a 3.8% pace in 4th quarter.



Home sales dipped in December with new home sales down to 2015 levels. Existing sales were not much better. Despite 7 years of expansion, demand for homes remains below historical averages.



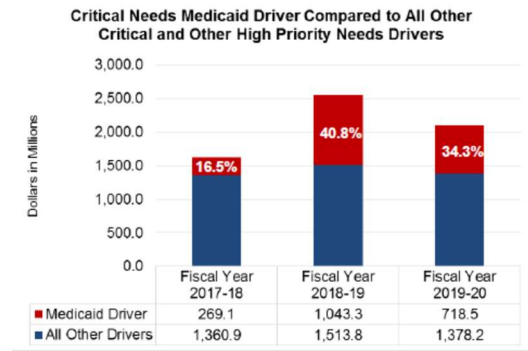
Florida Economy: Budgetary Woes Limit State Spending

Despite the fact that Florida's General Revenues are 4% ahead of last year, driven by a 4.5% gain in sales taxes, this is barely enough to cover the growth in Florida's High Priority funding needs. These are accelerating largely because of sharp increases in Medicaid and other human services costs.

OUTLOOK PROJECTION – FISCAL YEAR 2017-18 (in millions)			
	RECURRING	NON RECURRING	TOTAL
AVAILABLE GENERAL REVENUE	\$30,808.0	\$1,387.7	\$32,195.7
Base Budget	\$29,507.2	\$0.0	\$29,507.2
Transfer to Budget Stabilization Fund	\$0.0	\$31.9	\$31.9
Critical Needs	\$439.9	\$45.0	\$484.9
Other High Priority Needs	\$631.3	\$513.8	\$1,145.1
Reserve	\$0.0	\$1,000.0	\$1,000.0
TOTAL EXPENDITURES	\$30,578.4	\$1,590.7	\$32,169.1
Revenue Adjustments	(\$254.0)	\$234.9	(\$19.1)
ENDING BALANCE	(\$24.4)	\$31.9	\$7.5

The Long-Range Financial Outlook, adopted by the Legislative Budget Commission, estimated if the Legislature continued with business as usual, budget shortfalls of more than \$1 billion would result in the next two years. The Outlook further estimated it will take some combination of revenue increases or spending decreases worth \$483 million in each year, starting with the upcoming budget, to erase the shortfall in FY2019-20.

Medicaid spending is driving the growth in Florida's High Priority spending requirements. Medicaid spending is projected to increase by \$270 million this year and by \$1 billion next year without a change in current programs and existing law. Such growth will crowd out other High Priority spending requirements including spending for education and environmental protection.



Beyond controlling the explosive potential growth in Medicaid spending, Florida's revenues system is simply inadequate to fund the State's needs resulting in underfunding education, infrastructure, environmental protection, public safety, and the judicial system to name the most obvious.

Florida's dependence on sales and property taxes can be made sustainable if the Legislature is willing to tackle the fundamental problem with the State's sales tax. The sales tax is riddled with exemptions and exclusions and as a result, Florida exempts and excludes more sales than it taxes. Many exemptions or exclusions are reasonable, such as those for food and medicine. Many others are outmoded, such as exempting sales of bottled water, super bowl tickets, or Ostrich feed.

The answer is to sunset all exemptions and exclusions and require the Legislature to examine each and approve only those that are appropriate and necessary. Without some fundamental reform, Florida's inadequate revenue system will increasingly prevent the State from funding Florida's needs.