

ECONOCAST™ UPDATE – June 26, 2017

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U.S. Economy – Home Sales and Health Insurance

While the economic calendar was light last week, political events were once again dominant. Senate Republicans unveiled their version of healthcare reform, “Better Care Reconciliation Act of 2017 (BCRA)”. BCRA would: (1) cut the taxes imposed to defray costs of Obamacare; (2) allow states to waive rules governing coverage, especially for pre-existing illness; (3) restructure premium tax credits to mostly flat based on age; and (4) rollback Medicaid expansion and reduce federal Medicaid funding by moving to a per capita cap or, at state option, a block grant. While the CBO has yet to score BCRA, they calculated that the House-passed similar plan would push the deficit down, but that is because 24-million would lose their insurance and healthcare spending would decline. While the vote on BCRA is uncertain, it is likely that some form of BCRA will pass Congress.

Housing news dominated the economic reports last week. Existing-home sales rebounded in May, up 1.1% from the revised April total and 2.7% above May 2016. Single-family

and condo/co-op sales rose for the month and the year. Listings increased too, allowing the inventory-to-sales ratio to tick up after more than three years of tightening.

New single-family home sales also rebounded in May, but they only regained part of their loss in April. New single-family sales increased 2.9% from April and are up by 8.9% from May 2016. Relatively strong demand and insufficient construction are pushing up new-home prices which are almost 17% higher than last year.



All in all, housing markets have improved, but the pace of expansion has slowed in recent months. Buyers remain tentative and price increases are inhibiting sales. Modest growth in income is further limiting sales.

Florida Economy: Healthcare Reform and Florida's Economy

Healthcare is big business in the U.S. and particularly here in Florida. The potential economic impact from the reform proposals in Congress will be very significant. The biggest impact will come from restrictions on federal spending for Medicaid. As of April 2017, Florida has enrolled 4,352,537 individuals in Medicaid and CHIP — a net increase of 17.79% since the first Marketplace Open Enrollment Period compared to a 29% on average in the U.S. The big difference is that Florida did not expand its Medicaid program under the ACA. Almost 20% of all Floridians are enrolled in Medicaid. About 70% of all nursing home patients are funded through Medicaid. Florida spent \$13 billion on Medicaid last year. So, Florida is particularly vulnerable to the proposed cutbacks in federal support.

Under Obamacare healthcare insurance coverage increased to cover 1.5 million Floridians. They received more than \$500 million in subsidies last year.

Under the repeal and replace plans now being considered in Congress, federal support for Medicaid would be cut by more than 30% over the next 10 years. While the exact nature of the cuts is uncertain, it is likely that the magnitude of the cuts would be in this range. Therefore, Florida faces a 30% reduction in federal support for Medicaid. The federal government pays for over 60% of Medicaid in Florida. So, a 30% cut to federal funding would be a cut of about \$2.5 billion to Florida's Medicaid program.

According to the CBO, the repeal/replace plans would slash the

increased coverage under Obamacare by about 50%. This would mean a loss of \$250 million in subsidies to Floridians.

Thus, altogether the reform plans would reduce federal healthcare spending in Florida by \$3 billion per year at full implementation. The result would be reduced healthcare spending in Florida by a similar magnitude since it is unlikely that Florida would raise taxes to offset the losses. Healthcare spending has a relatively high multiplier effect of about 2 times the initial impact. Thus, the total reduction in spending would be about \$6 billion per year.

Florida's gross state product is about \$1 trillion, so a reduction of \$6 billion in spending is a loss of about 0.75%. While this may appear to be modest, it represents the equivalent impact of a small recession.

Additional impacts would come from cost shifting as hospitals attempt to cover losses on care provided to uninsured patients. This shifting would impose magnified impacts on group health policies many businesses provide. Those who are covered would face higher deductibles as a result.

Some of these negative impacts would be offset by the lower taxes under the reforms. However, most of the cuts would go to higher income households with relatively lower marginal propensities to consume. So, these offsets would be modest in Florida.

Finally, hospital and healthcare providers that are dependent upon Medicaid will be particularly at risk.