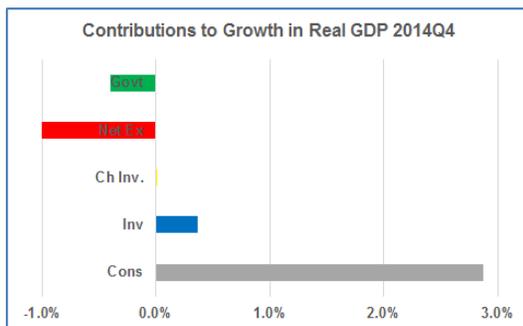


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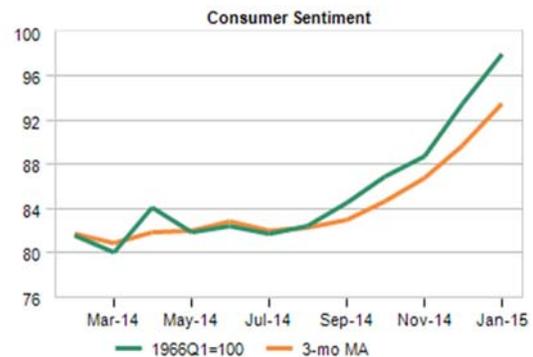
U.S. Economy – Real GDP Grows Only 2.64% in 2014Q4?

Real GDP grew by just 2.64% SAAR in 2014Q4 according to BEA's preliminary estimate. Consumption surged almost 3%, but other sectors were very weak – especially net exports.



The preliminary estimate likely understates growth, which I peg at 3.5%. Lately the revisions between the preliminary and final estimates for GDP have been so significant that the preliminaries are not reliable. That said, the composition of growth is changing, because of the drop in oil prices and rising value of the dollar. Consumer spending is rising, but net exports and apparently investment, at least in select industries, is contracting. These forces will remain in place all year.

Consumer confidence rose to an 11-year high in January. Both the current conditions and expectations components rose strongly based on a stronger job market and lower gas prices. These forces will also stay in place all year.



Other economic news was generally positive last week. New home sales rose even faster than expected soaring 11% in December pushing them nearly 9% ahead of last year.

The FOMC met and reaffirmed its commitment to “patience” and continued to indicate that it would move to normalizing monetary policy and to raising rates sometime around mid-year. The Fed did make a reference to “international” conditions and the strong dollar, but this appears not to have changed their policy stance.

Florida Economy: Budget Season Begins

Governor Scott released his proposed budget for FY2015-16 envisioning spending \$77 billion, which is \$275 million below last year. Although the reduction is only 0.4%, State revenues are up \$1 billion and State population increased by 300,000. So, the real dollar reduction is substantial. Except for a modest 2% increase in education funding and a \$51 million more for corrections, almost every other agency budget was cut. The Governor also proposes to eliminate over 1,000 State jobs which are at this point vacant.

| Category | Millions\$ |
|----------------|---------------|
| Healthcare | -\$105 |
| Corrections | \$51 |
| Law/Judicial | -\$5 |
| Environment | -\$55 |
| Transportation | -\$235 |
| Education | \$429 |
| All Other | -\$355 |
| | ===== |
| Total | -\$275 |

The Governor proposes to cut taxes by \$673 million. Most of this, some \$471 million, would be for cuts in telecommunications taxes saving the average family \$43/year with the balance mostly for small businesses. The Governor also wants \$103 million to promote tourism and for business incentives to attract new firms. State reserves would also increase. However, in order to fully fund his program the Governor relies on \$430 million in additional property taxes. In setting education spending and providing State support to local school boards, the State also requires local school boards to impose

property taxes, called required local effort ("RLE"). Essentially, the Governor's budget pays for the tax cuts to households by raising property taxes. Since Florida's property tax system is skewed in favor of households, most of this burden will fall on businesses.

| Category | Millions\$ |
|------------------|------------|
| General Revenues | \$1,000 |
| Tax Cuts | -\$673 |
| Education | -\$429 |
| Exec Office Gov | -\$103 |
| Reserves | -\$225 |
| Property Taxes | \$430 |

This budget plan does not meet Florida's needs. First, it fails to embrace the Affordable Care Act which would provide \$50 billion in federal funding over ten years to expand the State's Medicaid program. This would stimulate the State's economy creating high-paid healthcare jobs while at the same time improving citizen's healthcare. A coalition of business groups is now supporting such a move. Second, cutting spending on healthcare, the judicial system, and on transportation flies in the face of obvious needs. The highly touted increase in K-12 education spending will barely keep pace with rising enrollments and modest inflation. Third, eliminating vacant State positions without adjusting agency responsibilities or programs will further compromise an already weakened State services delivery system.

With rising demands from a growing population and business community coupled with \$1 billion in additional revenues, this budget is misguided. It is up to the Legislature now.