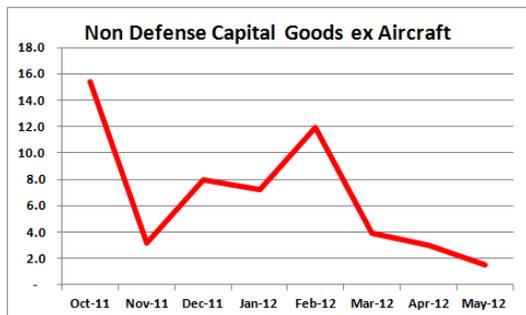




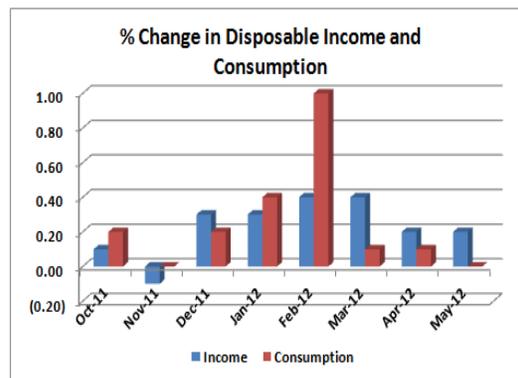
## ECONOCAST UPDATE – July 2, 2012

### U.S. Economy – Business and Consumer Spending Slow

For the third year in a row the U.S. economy has hit a midyear soft patch this time concentrated in business investment and exports. For example, new orders for non defense capital goods, excluding aircraft, have slowed sharply as businesses became increasingly cautious over the outlook.



So, it remains up to consumers to carry the economy. However, the data this past week were not encouraging. Growth in real consumption slowed to a pedestrian pace despite the boost from lower gasoline prices. The income data have been weak as well. This puts the focus on Friday's jobs report for June. I expect nonfarm payrolls rose 100,000 and that the unemployment rate held steady at 8.2%.

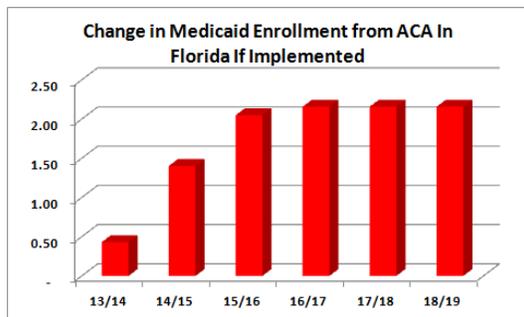


The ISM manufacturing survey should show that manufacturing continues to expand but at a decelerating pace. Vehicle sales in June are expected to hold near their May level. This means sales would average 14 million for the quarter, down 500,000 from the first quarter.

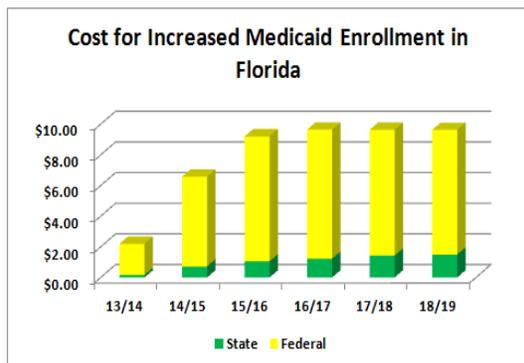
U.S. stocks rallied after EU leaders agreed on broad measures to stabilize the region's banking system. Investors overlooked a lackluster reading on consumer spending, instead cheering the essential first step toward resolving Europe's debt crisis. The S&P 500 added 2.5%, and the Dow gained 2.2%. The NASDAQ increased 3%, its largest one-day percentage gain this year. Indexes had their best June in a decade but still finished in negative territory for the second quarter.

## Florida Economy: Impact of the Affordable Care Act

The Patient Protection and Affordable Health Care Act (“ACA”) will have important short and long term impacts on Florida. The Supreme Court largely upheld ACA, but prohibited the federal government from coercing states to expand their Medicaid programs. Governor Scott announced that he would not implement ACA because: (1) it conflicts with his ideology and (2) it will to be too expensive. If Florida expanded its Medicaid program to accommodate ACA, enrollment would increase by over 2 million by 2015/16 according to the Florida Agency for Health Care Administration (“AHCA”).



AHCA estimates that the cost to accommodate these new enrollees would top \$10 billion per year of which 85% is paid by the federal government and 15% is State paid equaling \$1 billion per year by 2015.



Medicaid is the 2<sup>nd</sup> largest program funded from general revenues and it is one of the fastest growing. So, the Governor is right to be concerned about it, and a \$1 billion per year expansion is significant. But, that \$1 billion represents less than 5% of current total spending.

More importantly, the Governor is wrong to focus only on the increased cost without examining the economic benefits from ACA on Florida in making such a momentous decision. ACA is largely funded by: (1) increased Medicare taxes on high income tax-payers and (2) reductions in Medicare reimbursements to doctors and hospitals fee for services. Everyone pays these including Floridians. If Florida fails to expand its Medicaid program, the State will not receive \$9 billion per year in federal funding, but its residents and providers will stay pay the taxes to support the expansion – but other states not Florida will receive these funds. Furthermore, accepting \$9 billion in federal funds to expand Medicaid spending by \$10 billion per year will generate very substantial economic benefits including: (1) over 40,000 direct jobs and (2) reducing non reimbursed medical costs that hospitals and clinics will incur. The revenue and cost savings flowing from these two factors alone will largely offset Florida’s increased cost of \$1 billion per year.

Once again the Governor is making an ill informed, ideologically driven, decision which is harmful to Florida’s economy. Hopefully, the Legislature will over ride this decision.