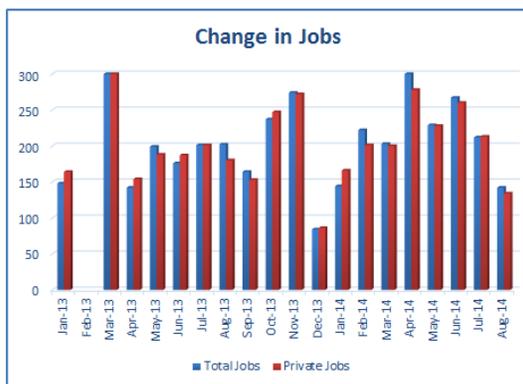


ECONOCAST™ UPDATE – September 8, 2014

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U.S. Economy – Stronger Housing

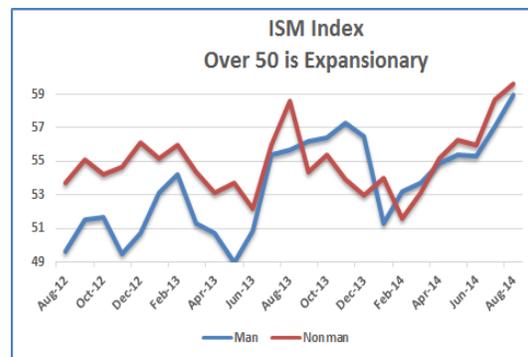
Despite the disappointing August employment report, all the other data released last week point to an accelerating economy. Payroll employment only increased 142,000 because of weakness in manufacturing, trade, transportation and utilities. Weak manufacturing was because automakers did not close factories in July for retooling. This results in the August decline when seasonal factors are applied. But auto sales were very strong. Weakness in trade and transportation reflects difficulties in seasonally adjusting these data every August.



Other parts of the employment report indicate strengthening. The unemployment rate ticked down and fewer workers were employed part time for economic reasons and fewer

were unemployed for more than six months.

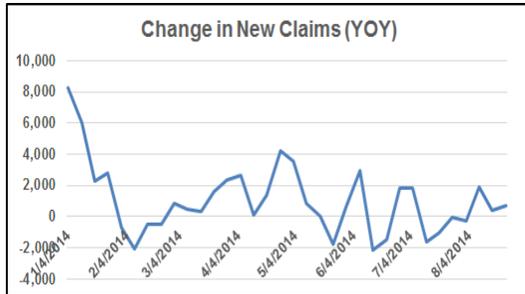
The ISM indices for August provide strong evidence of acceleration. The manufacturing index rose to its highest level since 2011 based on rising orders, stronger production and increasing backlogs. The nonmanufacturing index soared to its highest level since 2005, because orders and output rose.



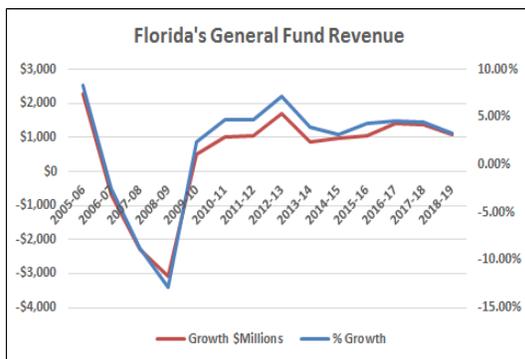
The economy continues growing at 3.5% or faster. Business investment is strengthening, which is visible in the data for manufacturing and nonresidential construction. The trade balance is shrinking as domestic energy production increases. Inflation and interest rates are very low. I am concerned about lagging consumer spending and stalled homebuilding. But, with job growth we will have GDP growth too.

Florida Economy: New Claims

The latest data on new claims for unemployment point to continuing high levels of job growth in Florida. On a year-over-year basis claims were essentially unchanged over the last few weeks. The general trend is lower, but the slope is fairly flat indicating a labor market running at a sustainable pace of job growth.

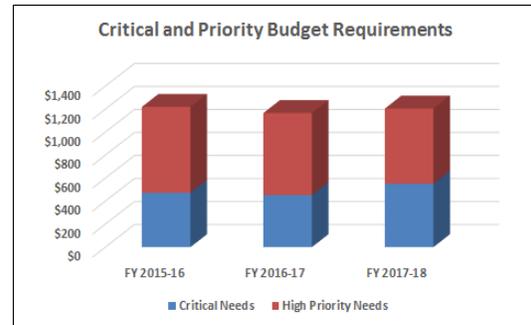


A draft of the State’s financial outlook for FY 2015-16 through 2017-18 was released this week. General Fund revenues (those which fund most of the operations of State government) project wing continuing revenue gains of about \$1 billion per year through FY 2018-19.



The State budget also must fund what are termed “critical needs.” These are mandatory increases based on existing State programs. The estimated critical needs represent the minimum cost to fund the budget without significant programmatic changes. The priority needs reflect

conservative forecasts by the Legislative staff of costs for other current programs.



Comparing the increase in revenues to just the critical needs results in a projected surplus of \$584 million in the upcoming FY 2015-16 budget year rising to about \$900 million per year through 2019. If the critical needs are also included, then Florida’s growing population, increasing student census, and rising healthcare costs will consume the entire projected growth in General Fund revenue.

Meanwhile, Governor Scott is promising that if he is re-elected he will enact another \$1 billion in additional tax cuts over the next two years absorbing all the growth in revenue projected for this year and 50% of the growth next year. This comes in addition to Scott’s pledge to spend an additional \$1 billion on K-12 education next year. Combined this promise represents 200% of the projected budgetary increase.

As the election campaign swings into high gear, there will be additional pledges to spend the projected increase in State revenues. Yet, neither candidate has explained how they would deal with the most critical issues facing Florida including: healthcare, transportation, and the underfunded judicial system.