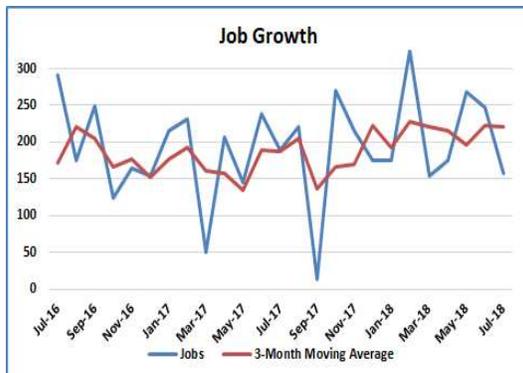


ECONOCAST™ UPDATE – August 6, 2018

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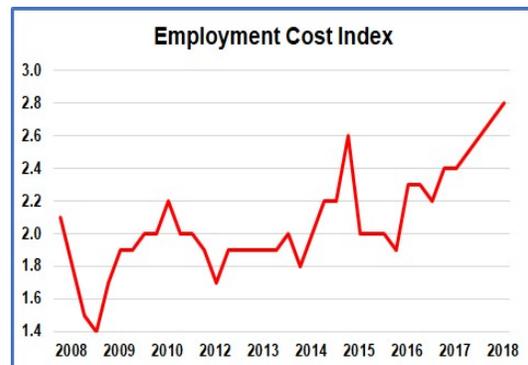
U.S. Economy – Strong Growth Continues in July

Although July’s job growth of 157,000 was a bit disappointing, the gains for May and June were revised higher. The slowing in July is temporary, coming from specialty store closings and seasonal factors that depressed government payrolls. The 3-month moving average remained above the 200,000 mark.



The household survey data was much stronger with the unemployment rate dipping to 3.9% and pushing the employment-to-population ratio to a post-recession high. The broadest U-6 measure of labor underutilization is now at a 17-year low. Hourly earnings still failed to reflect the tighter labor market. However, the Employment Cost Index, which adjusts for job mix and is a more

reliable measure of wage trends, rose 2.9% in 2018Q2 for its fastest pace this cycle.



While still remaining well above the 50-mark indicating expansion, the ISM indices dropped in July. The manufacturing index dropped to 58, its lowest level in 8-months. Nonmanufacturing dropped to its lowest point since August 2017. New orders were down and costs are escalating.



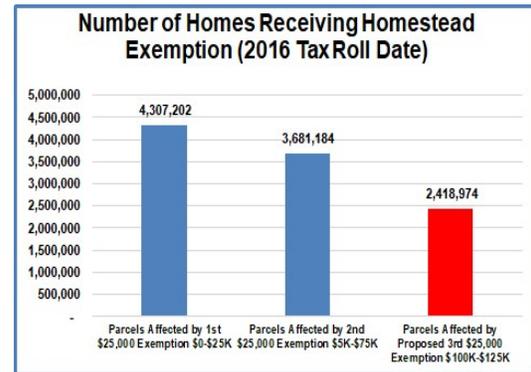
Florida Economy: Proposed Constitutional Amendment #1

The November ballot includes proposed constitutional Amendment #1 which would increase the homestead exemption \$25,000 by exempting the assessed valuation of homestead properties valued from \$100,000-to-\$125,000 for all property taxes, except for school boards. If approved by 60% of the voters, it would take effect January 1, 2019. The tax cut would reduce property taxes for cities, counties and special taxing districts by a total of \$625 M in its first year and by over \$800 M by year five according to the Florida Association of Counties, an estimate that I agree with.

If local governments do not offset the revenue losses by raising property tax rates, increasing fees, or some combination of the two, those owners of homesteaded property valued over \$100,000 for tax purposes would enjoy an average tax cut of about \$220/year.

However, that is most unlikely. Local governments cannot absorb a revenue loss of this magnitude without a serious reduction in services. Instead, it is most likely that local government will increase their millage rates to offset the revenue loss. In this most likely response, the Amendment #1 tax cut would be converted into a shift of property taxes from the benefitting homesteaded properties to all other properties. Homesteaded properties valued below \$100,000 would not get a tax cut, but they would be subject to the ensuing higher millage rates. Renters and all other non-residential properties would also face higher property taxes.

Interestingly, based on tax roll data from 2016 from the Florida Department of Revenue, approximately 2.4M homesteaded properties would benefit from tax cuts under Amendment #1. This amounts to less than 30% of all residential properties.



So, less than 30% of all residential property owners would get a \$625M tax cut, and the balance of all other property tax payers would absorb a \$625M property tax increase. The economics of this are not good.

Overall, according to the Tax Foundation, property taxes in Florida are about average among U.S. states, averaging about 1.06% of value. However, this is a bit misleading, because of previous homestead exemptions that have shifted the burden of property taxation onto non-homestead properties, primarily onto non-residential properties. Thus, business property taxes in Florida are higher than the national average.

Shifting further property tax burdens to non-residential property will exacerbate the current inequitable property tax system in Florida. The benefit to a small proportion of homeowners is not worth the \$625M cost to the balance of the economy.