

## ECONOCAST™ UPDATE – September 17, 2018

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### U.S. Economy – Growing Still at 3% and Inflation Remains in Check

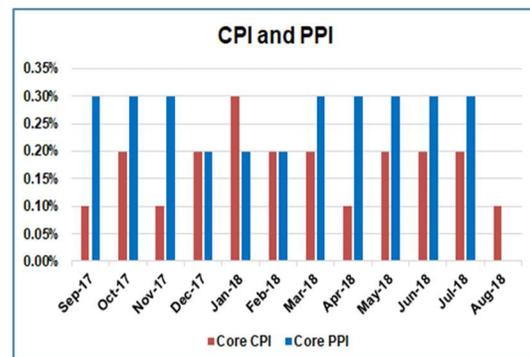
Even though retail sales gains disappointed in August, GDP is still growing at around 3% and inflation remains in check.

Retail sales rose just 0.1% in August, but the July gain was revised up to 0.7%. Overall, sales were up an impressive 6.6% over last year. Core sales, excluding vehicles and gasoline, were up nearly 6% over the year.



Rising sales are being supported by strong gains in incomes, lifted by rising wages and tax cuts. The outlook, while favorable, is clouded by rising trade tensions and higher tariffs which will push prices up.

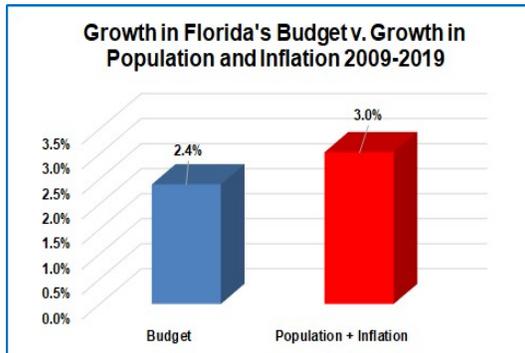
That said, so far there is little measurable effect on prices. The CPI rose 0.2% in August, matching the gain in July and below expectations. Excluding food and energy, the CPI was up a below-trend 0.1% in August. Reinforcing down tick in inflation, the PPI for final goods dipped 0.1% and core PPI prices were flat in August.



While cooling inflation is welcome news, one month does not make a trend. The August print for prices does not alter my view that prices are rising at about a 3% pace looking at the year-over-year price gains. Nor does the dip in inflation in August change the odds that the Fed will increase the funds rate at their upcoming meeting. Tight labor markets and higher tariffs already in place, with more likely soon, will push prices higher. So, August was probably a one off for price inflation.

## Florida Economy: State Spending, State Needs, and Economic Growth

Over the last decade Florida's State budget has failed to keep pace with the growth in population and inflation. State spending has increased at a 2.4% pace falling short of the 3.0% gain in population and inflation.



As a result, real State spending per capita has fallen resulting in substantial underfunding of State needs. The impacts are becoming increasingly obvious reflected in the algal blooms in Lake Okeechobee and the Everglades; Red Tide; congested roadways, underfunded schools and healthcare, and clogged court dockets, to point out only the most obvious.

The belief that holding State spending as low as possible to stimulate economic growth is not supported by the data. Over the last decade there is no reliable correlation between: (a) low state taxes and low state spending and (b) economic growth. Some high tax/high spend states, such as California and New York, have enjoyed robust growth while some low tax/low spend states, including Texas and Florida, have also had strong economic growth.

The candidates for Governor, Gillum and DeSantis, have very different visions for Florida's economic future. DeSantis promises to continue with policies to resist all tax and fee increases, reduce bureaucracy, and not expand Medicare. Gillum favors raising the corporate income tax rate to 7.75% to fund a major increase in education spending, and he favors expanding Medicare and universal national healthcare.

State tax and spending policies can have significant impacts on the State's economy. In 2006, Florida voters adopted a constitutional amendment requiring a Long-Range Financial Outlook, setting out recommended fiscal strategies for the state and its departments in order to assist the Legislature in making budget decisions. Over the next three years, \$9.5 billion in new General Fund revenues will be needed simply to meet priority State needs according to the State's projections released last week. This represents a 9% per year growth rate, far in excess of recent growth. Without tax reforms or tax increases, the Legislature will continue to rely on sweeping trust funds that were pledged to other specific needs such as affordable housing, increases in the Required Local Effort, and the State imposed requirement for local school boards to raise property taxes to make up the budgetary shortfall.

This leaves no meaningful funding increases for Everglades Restoration, enhanced education funding, transportation infrastructure, new judges, and policies to combat rising sea level.