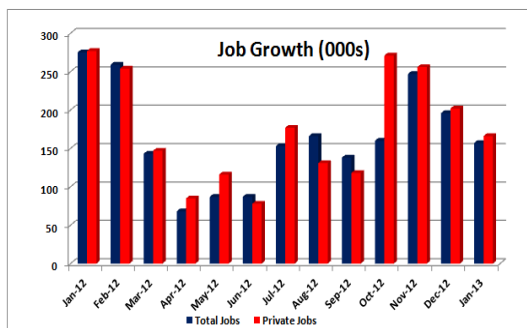


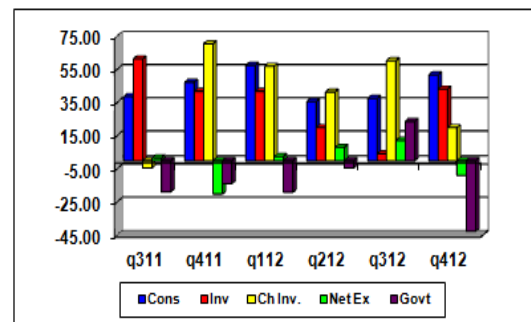
ECONOCAST™ UPDATE – February 4, 2013

U.S. Economy – A Good Beginning

January was a good month for the U.S. economy. The Dow closed above 14,000 for the first time since 2007 reflecting investor optimism for 2013 and beyond. Payroll employment grew by 157,000 in January. The incorporation of benchmark revisions to the data resulted in substantial additions to the previous months' figures totaling 775,000 more jobs than originally reported. Employers added 196,000 to December payrolls and 246,000 to November's making the fourth quarter far stronger. Thus, it appears that worries about uncertain fiscal policies did not dampen labor market activity during the fourth quarter as much as feared. Household data reflect new population controls, but the rates should not be affected. Thus, the unemployment rate increased from 7.8% to 7.9%.



Real GDP contracted at a 0.1% pace in 2012Q4 down from 3.1% growth in 2012Q3. The drop was dominated by a plunge in federal defense spending on things other than personnel which is payback from the 3rd quarter surge. Exports and state and local spending also fell. However, the top line decline obscures gains in consumption, residential construction and business investment.



The uncertainties of fiscal policy resulted in modest GDP growth of 2.2% for 2012. Businesses remain reluctant to hire and invest, haunted by memories of the recession and worried about Washington's fiscal challenges. Without more jobs, consumers won't spend more given the 2% increase in payroll taxes. Improvement will require some

reasonably good policy choices here and abroad in coming months.

Florida Economy: Governor Scott's Budget

The Governor proposed a \$74 billion budget which is \$4.2 billion or 6% higher than last year. This is a sharp turnaround for Governor Scott who campaigned to reduce the size of state government and whose first budget proposed cuts totaling \$4.5 billion. The dramatic change is fueled in part by improving sales tax collections and in part by the Governor's reelection strategy. The proposed budget gives something to almost every constituency, except those Tea Party partisans desiring smaller government.

Major initiatives include: (a) \$1.7 billion more for education including an across the board increase in teacher pay; (2) \$1.6 billion increase for healthcare; (3) \$279 million for economic development funding including incentives for recruiting new firms; and (4) \$900 million more for transportation improvements. The largest proposed cut is for home and community services for the elderly.

Agency	2013-14	2012-13	Change
Healthcare	\$26.65	\$25.07	\$1.59
Education	\$22.02	\$20.28	\$1.74
Transportation	\$9.09	\$8.17	\$0.92
Courts	\$1.19	\$1.16	\$0.03
Corrections	\$2.17	\$2.08	\$0.08
Agriculture	\$1.42	\$1.44	(\$0.02)
Environment	\$1.50	\$1.70	(\$0.20)
Economics	\$1.19	\$0.93	\$0.26
Elder Affairs	\$0.26	\$0.77	(\$0.51)
All Other	\$8.71	\$8.37	\$0.33
	=====	=====	=====
Total	\$74.19	\$69.98	\$4.21

There is one major budget consideration not addressed, whether the state will agree to expand Medicaid to the 900,000 uninsured Floridians under the Affordable Care Act. The federal

government will pay 100% of the increased cost for the first three years and 90% of the cost thereafter. Over the next 10 years Medicaid spending would increase by about \$47 billion with the federal government paying \$41 billion and state paying \$6 billion. The Governor is concerned that the federal government will not fully honor its commitment. It will now be up to the legislature to decide.

The proposed budget would have positive economic impacts. However, it is unlikely that the legislature will pass the budget. The legislature has rejected Governor Scott's initial budgets and it is likely to continue to pursue its own objectives. The legislative leadership has indicated that it too is interested in increasing state spending since revenues are considerably higher. Their priorities are likely to be education, transportation, and healthcare. The legislature is unlikely to support the Governor's economic development program in light of the recent failure of Digital Domain soon after the state granted the company \$20 million, and the ongoing state investigations of previous economic development deals that have not produced the expected results.

The legislature is also likely to increase spending on environmental and elder programs instead of the cuts proposed by the Governor.

Finally, the legislative leadership is committed to substantial ethics reform. Initiative will likely ban Committees of Continuing Existence and other egregious forms of campaign funding abuse directly benefitting elected officials.