

ECONOCAST™ UPDATE – September 16, 2013

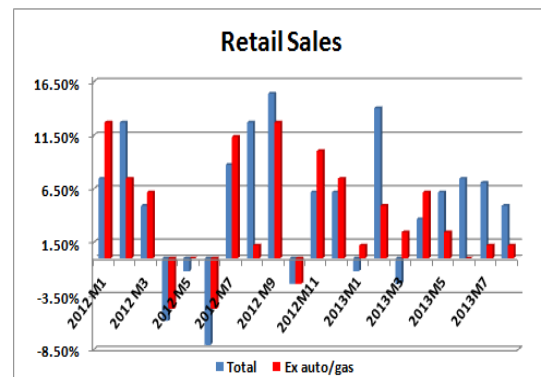
U.S. Economy – The Fed and Fiscal Policy

Now that diplomacy mitigated the Syria issue, markets have refocused on the three forces which will determine the near term outlook: (1) Federal Reserve policy, (2) federal budget for FY2013-14, and (3) debt ceiling.

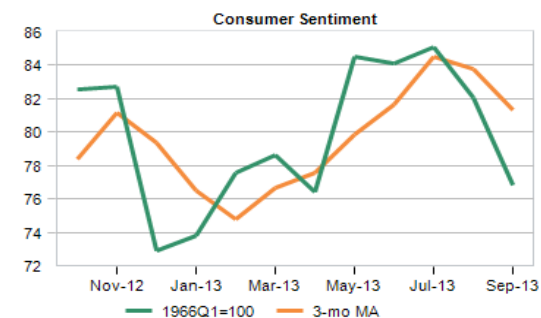
The Federal Reserve meets this week and it is all but assured that modest tapering of bond purchases will be announced. Markets have already factored this in to current rates, so no big moves are expected. The budget and debt ceiling calculus is far less certain. So far financial markets are assuming more muddling through with an increase in the debt ceiling and a continuing resolution to keep the government open. Regrettably, the uncertainty is restraining investment and hiring.

Last week's economic data show continued subdued growth. Retail sales rose just 0.2% in August down from an upwardly revised 0.4% growth in July. Auto sales were strong, but auto sales and gasoline core sales only grew 0.1%. The modest growth in retail sales reflects the weakness in gains in disposable incomes. While the near-term

prospects remain uncertain, a improved growth will emerge in the fourth quarter. The negative impacts of federal cuts are mostly behind us and as long as events in the Middle East or Washington do not disrupt economic activity, confidence is likely to rise and more pent-up demand be released.

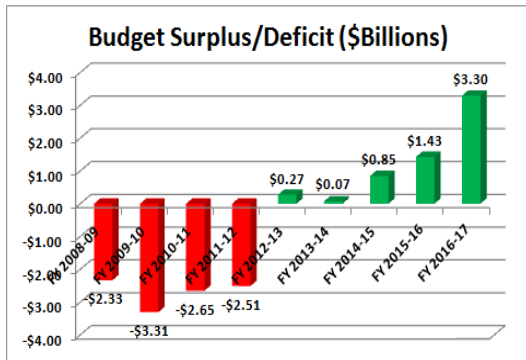


Not surprisingly consumer confidence fell. With weak demand prices barely budged in August. Until Congress acts expect no change.



Florida Economy: Brighter State Budget Means More Spending

The State of Florida must run a balanced budget every year. To do so, the State must cut expenses when faced with a budget deficit. The Great Recession caused State revenue to fall sharply resulting in potential budget deficits four years in a row from FY 2008-9 through FY 2011-12 totaling nearly \$11 billion. After two stagnant budgetary years reflecting a very modest recovery in the State's economy the State budget outlook for Fiscal Year 2014-15 has improved considerably with an estimated surplus over ongoing budgetary requirements of \$846 million. Going forward the forecasted growth in the Florida's economy is projected to drive revenues up faster than the growth in the base budget and priority State needs.



The table below summarizes the budgetary environment for FY 2014-15 beginning July 1, 2013 (in \$billions). General Fund revenues are estimated at \$29.3 billion. The base budget (including growth in all State programs including education, healthcare, judiciary, etc.) is projected to increase to \$26.4 billion. Of the \$864 million in critical and priority State budget needs roughly

half is driven by expected increases in Medicaid spending. Since the State declined to participate in Obama Care, these increases are programmatic in nature. It is also important to note that the \$846 million in surplus revenues includes \$449 million in nonrecurring revenues from various legal settlements.

Category	Recurring	Nonrecurring	Total
General Revenue	\$27.3	\$2.0	\$29.3
Base Budget	\$26.4	\$0.0	\$26.4
Reserves	\$0.0	\$1.2	\$1.2
Critical Needs	\$0.4	\$0.0	\$0.4
Priority Needs	\$0.2	\$0.3	\$0.5
	=====	=====	=====
Total	\$26.9	\$1.5	\$28.4
	=====	=====	=====
Surplus/Deficit	\$0.4	\$0.4	\$0.8

The Legislature will begin planning how to spend the surplus and other adjustments to the budget at committee hearings beginning this week. It is likely that the Legislature will approve spending about \$250 million of the nonrecurring revenues on capital projects. The Governor has proposed cutting taxes and funding the revenue loss with the surplus recurring revenues. While tax cuts of this magnitude are unlikely, the Legislature is likely to enact significant tax cuts since 2014 is an election year. The most likely reductions will be in various fees on autos and other items that households pay primarily.

The balance of the surplus is likely to be divided between additional reserves and spending on education and Everglades restoration. The best news is that layoffs are unlikely.