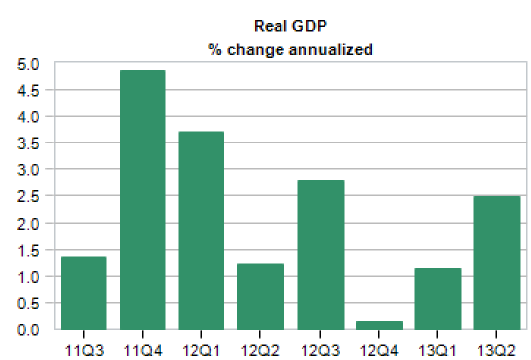
ECONOCAST™ UPDATE – October 1, 2013

U.S. Economy – Shut Down

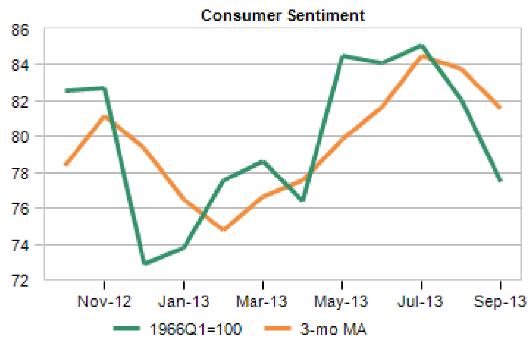
The federal government partially shut down today. Over 800,000 federal employees were furloughed and many federal programs were suspended. The economic impact will depend upon the duration of the shut down and its implications for the upcoming vote on the debt ceiling. Given the intransigence of Tea Party republicans in the House, it is likely that the shut down will continue through mid October and become enmeshed in the debt ceiling debate. The political handicapping is very difficult. However, my thinking is that by mid October the political damage to the Republicans will sufficient to unlock the hold of the Tea Party faction and Congress will vote to raise the debt ceiling before a full blow crisis results.

Nevertheless, there will be significant economic damage in the short run. Growth in real GDP will stop in the fourth quarter with a smaller recovery in the first quarter of 2014 as a result. It is also likely that the shut down this time will have political impacts similar to the one 17-years ago. Then the Gingrich lead house shut down the government and voters were so incensed that the Republicans lost the House. The parallels are apt.

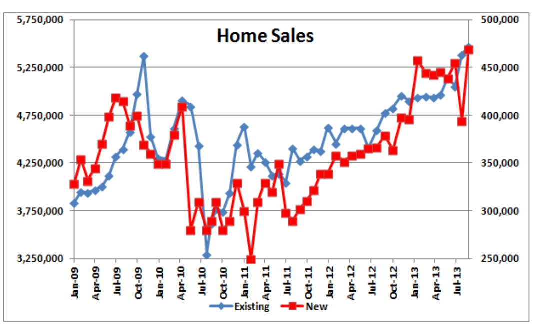
Turning to the economy real GDP grew in the second quarter at a revised and surprisingly strong 2.5% annual pace. This was up from 1.1% growth in the first. The acceleration came from faster growth in nonresidential investment, particularly structures, and exports as well as reduced imports. The government drag shrank as state and local government spending rose, but ominously consumer spending slowed. So, despite healthy second quarter growth, the U.S. economy is advancing at the same lackluster pace that has prevailed since the recovery began four years ago



Not surprisingly consumer confidence dropped because of souring views of near term prospects for households. The political turmoil will only add to the depressing effects of slow growth in real disposable incomes.



On the plus side new home sales did rebound in August regaining the ground lost in July. So far higher mortgage rates are not damping demand. Mortgage rates will rise next year as the fed tapers its bond buying and as the economy improves. The balance of forces between rising rates and stronger job growth will determine the path of sales.
median existing-home price up by 14.7% from last August. Sales of new homes will be announced this week and should also rebound from last month's weather depressed total.



Florida Economy: Impact on Florida

The partial shut down of the federal government will have a significant impact on Florida. Assuming that the shut down lasts only a few weeks and that the debt ceiling is increased by mid October, the effects will be modest but noticeable. Florida furloughs will exceed 52,000 according to Census Bureau data, most of these at military bases. The Federal Housing Administration (FHA) will stop processing loan applications. FHA guarantees over 30% of all home mortgages, especially for first time home buyers and retirees. This will directly harm Florida's homebuilding market and it will slow population growth as people in other states find it more difficult to sell their homes. Furthermore, the effects on consumer and business confidence will impact Florida tourism, conventions and business meetings.

If the shut down lasts longer than a few weeks, and if the debt ceiling is not lifted, then there will be serious economic consequences. Another recession would quickly unfold and the chaos in financial markets would have a devastating impact on Florida. While this is unlikely in my opinion, it is certainly possible. Therefore, this is a time for prudence and caution until the uncertainties surrounding fiscal policy are resolved.