
ECONOCAST™ UPDATE – November 12, 2012

U.S. Economy – The Fiscal Cliff and the Debt Ceiling

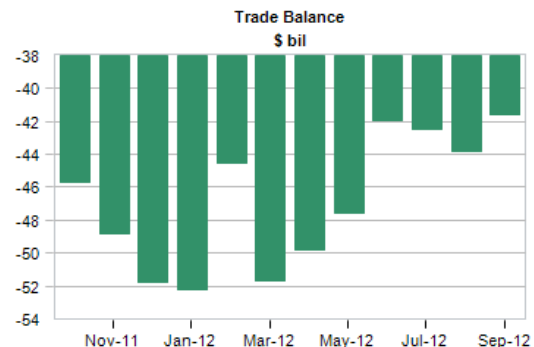
The election is over, President Obama was re-elected, the Democrats held the Senate, and the Republicans still control the House. The balance of political power has not changed, and the country faces the fiscal cliff and debt ceiling at the end of the year. Fearing the worse equity prices fell and bond prices rose. However, at least it is certain that Fed Chairman Bernanke remains in office and monetary policy will remain expansive.

Without an agreement on fiscal policy the economy will be in recession by spring and the unemployment rate will soar to 9.3% according to the Congressional Budget Office (“CBO”). This dire prediction is consistent with most other analysts including me. Complicating things is the looming debt ceiling which was the trigger for the current problematic situation.

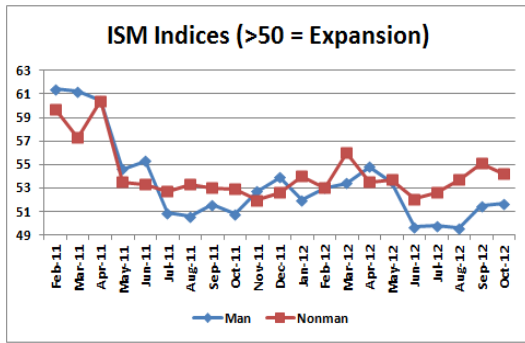
The economic and political costs of falling over the cliff are so high that lawmakers will agree to a deal. Since solving the nation’s fiscal problems are complicated, it is likely that lawmakers will agree to a framework, similar to the Simpson

Bowles proposal, and extend the Bush tax cuts and rescind the sequestration provisions pending a full resolution in 2013. That said, markets are preparing for another round of brinksmanship, despite the fact that delays cause real economic harm from the ensuing uncertainty.

Fortunately, the real economy seems to be improving. The trade balance unexpectedly shrank as U.S. exports surged. This will likely add to growth in real GDP for the 3rd Quarter.



Manufacturing recovered in October pushing the ISM manufacturing index up paced by a 1.9-point increase in the new orders and a 0.5-point decline in inventories. The combination points to a gradual pickup in manufacturing output. The non manufacturing index dipped a bit, but remained well above 50 indicative of continuing expansion.



Florida Economy: Now that the Election is Over, Where are We?

In Florida the 2012 election produced a few notable changes affecting the economy. First, the retention of Fed Chairman Bernanke is good for Florida, because it means that expansionary monetary policy with low interest rates will remain in place through 2014 or until the U.S. economy is noticeably stronger.

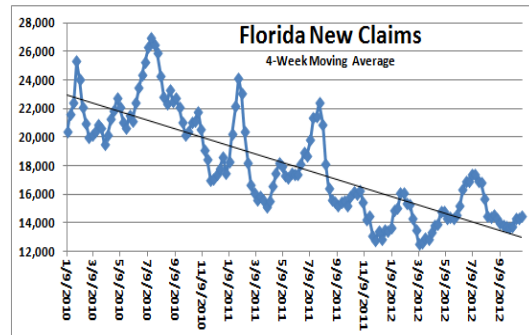
Second, most of the proposed constitutional amendments failed. Failure of overtly conservative initiatives, such as attempting to overturn the Affordable Healthcare Act mandates or allowing public funding for religious schools or limiting the power of the Florida Supreme Court, reflects well on the State's business atmosphere.

Third, retention of Florida's Supreme Court justices in spite of formidable spending also demonstrates that Florida voters do not want overtly political pressure on the courts.

Finally, Florida again embarrassed itself in the misconduct of the election. Only Florida out of the 50 states was unable to determine who won until almost a week later. This type of conduct communicates incompetence at the State and local levels.

Florida, along with the nation, will wait on tenterhooks until the fiscal cliff and debt ceiling are resolved. As discussed before in these newsletters, Florida is particularly exposed to the impacts of the looming fiscal cliff given the size of defense spending in Florida's economy.

The other big upcoming event will be Friday's release of Florida's employment report for October. Based on the trajectory for new claims for unemployment compensation, I expect job growth to have accelerated a bit to 75,000 measured on a year-over-year basis.



Construction employment should finally turn positive over the year, since residential building permits are up strongly across the State. Housing gains generally translate into manufacturing gains, because a substantial portion of Florida manufacturing is associated with construction (concrete block, millwork, and fabricated metals). The hotel occupancy data and tourist bed tax reports suggest continuing and accelerating gains in tourism and lodging. Population growth has slowly picked up providing support to all types of services, particularly healthcare. So, I am optimistic in the short term, and barring a fiscal calamity for the longer term too.