

## ECONOCAST™ UPDATE – November 30, 2015

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### U.S. Economy – Growth at 1.5%

The economy continues growing slowly but steadily, probably at about a 1.5% SAAR. Over the last six months, housing markets have plateaued. Existing home sales dipped 3.4% in October, but they were still up significantly from October 2014. The decline was uniform across all four Census regions, and it also affected condo sales. With sales volume topping out prices have flattened too.

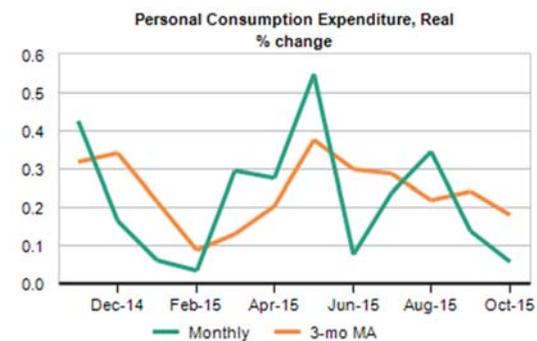
Sales of new homes rebounded almost 11% in October regaining the ground lost in September. Sales are now 5% above October 2014. But the median price of a new home is lower than last year, so affordability is not the obstacle to higher sales. The new home market appears to have peaked as well at about 500,000 units SAAR which is well below the average level of 600,000 units SAAR.

Home sales should accelerate next year as tighter labor markets boost wages. Since the U.S. economy has already had more than five years of steady growth and household deleveraging, increased wage growth should be the last element needed to push many households past the

tipping point at which they can afford a home. The rapid rise in rents this year will be the closer boosting home sales in 2016.



Real spending rose by just 0.1% in October. With incomes up the saving rate rose to 5.6%. I keep thinking that the moderation in spending will be temporary given strong job growth, and I keep being wrong. It seems that after the Great Recession households have become more conservative and so growth is slower.



## **Florida Economy: Governor Scott's Budget for FY 2016**

Governor Scott released his budget proposal for Fiscal Year 2016 that begins July 1, 2016. The 2016 Legislative session begins early this year on January 12, 2016. The Governor proposed a \$79.3 billion budget for next year that is an increase of just 1% or \$885 million while also calling for over \$1 billion in new tax cuts, and eliminating over 800 full time state jobs.

There are many troubling issues with the Governor's budget proposal. Topping the list is that its proposed total change in spending and taxation would be almost \$2 billion compared to last year. The Governor claims that there will be a budgetary surplus of \$1.3 billion, yet even this is insufficient to fund his \$ 2 billion plan. Furthermore, the projected increase in State revenues is less than \$700 million according to the latest estimates from the Revenue Estimating Conference that guides the Legislature. Unlike the Conference the Governor failed to provide any of the details supporting his spending and tax projection.

The Governor calls for \$1 billion in tax cuts mostly for businesses by eliminating the State corporate income tax on manufacturers and retailers along with a 1% reduction in taxes on business rents and leases. This is supposed to diversify the State's economy. However, since Florida already has very low business taxes, lowering low taxes further is unlikely to have much impact.

The Governor also wants almost \$200 million more for the Department of Economic Opportunity to expand

its capacity to provide incentives to recruit new firms to Florida.

The Governor does call for \$500 million in additional spending on K-12 education that increases the spending per student to a record \$7,221. While this is commendable, the Governor proposes a \$400 million increase in property taxes to pay for most of the increase. Essentially 50% of the Governor's tax cuts are paid for by raising property taxes.

According to the respected Tax Foundation Florida has the 4<sup>th</sup> best state business tax climate in the U.S. However, Florida's ranking is 20<sup>th</sup> for property taxes. So, the Governor would lower already low taxes, and raise property taxes on businesses which are about average in the U.S. to higher than average.

But the real problem with the budget is that it fails to meet Florida's real economic needs. The Governor would eliminate funding for indigent healthcare at Florida's hospitals expecting them to absorb \$400 million costs that were previously paid by the federal government's low-income pool. The budget continues to resist expanding Medicaid and rejects over \$1 billion in federal funding for healthcare. The budget cuts spending for healthcare, transportation and other infrastructure construction. Florida's courts would again be starved for resources and court dockets will continue to expand.

The Governor's budget is only the starting point in the negotiations with the Legislature. It is unlikely that the Governor will get the full amount of tax cuts or the increases in funding for his recruitment effort.