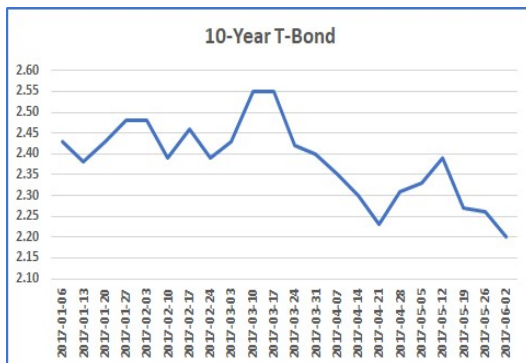


## ECONOCAST™ UPDATE – June 12, 2017

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### U.S. Economy – Politics and GDP

Once again political drama overshadowed the economic news last week. While the ultimate results of Mr. Comey’s testimony, coupled with the ongoing investigations by special counsel Mueller and by Congressional remain to be seen, their near-term consequences for the economy are becoming increasingly clear. The political turmoil has certainly delayed action on Mr. Trump’s agenda, and it jeopardizes passage of healthcare reform, infrastructure spending, and tax cuts. The political risks associated with passing a budget for FY2018 and raising the debt ceiling are heightened as well. Interest rates continued retreating in the face of these uncertainties as investors sought the safe haven of U.S. treasury bonds.



Except for falling interest rates, the balance of the economic news last week was pretty good. The May ISM surveys point to continuing stable growth. The manufacturing index edged higher and remains well above 50. However, forward momentum has cooled with the index below its 2017Q1 average of 57. The nonmanufacturing weakened a bit in May, but it too remains strong.



The labor market continues to perform very well. New filings for unemployment fell 10,000 last week and remain far below 300,000. Job openings increased 4.5% in April to 6.04 million, a new high for the series. However, a good number of these openings will not be filled. It is becoming increasingly difficult for businesses to find qualified workers.

## **Florida Economy: Finally a Budget**

Second time's a charm. Florida lawmakers finally stopped fighting last Friday, and they struck last-minute deals on schools, tourism, and water to pass a budget. Their biggest achievement was to authorize construction of stormwater lakes and money to rebuild the Hoover Dike around Lake Okeechobee that will mitigate the environmental damage done by the Lake's discharges. Funds were restored for Visit Florida which is needed to keep promoting our tourism industry at a time of slowing growth. But, this budget fails to meet the economic needs our citizens or of our State, and the policy debates during the legislative process were very troubling.

Consider that inflation is running at about 1.5% and our population is growing at 2.5%. Therefore, total State spending would need to increase by 4% simply to stay even on a real per capita basis. Instead, the total budget increases by less than 2%. This lack of funding has real consequences. For example, the legislators seem proud that the increased spending on K-12 by \$214 million raising spending by \$100 per student to \$7,296. But, this leaves per-student spending far below the national average of \$10,600. Or consider that the budget for Medicaid spending, while increasing, the demand is so much larger that hospitals across Florida will be forced to provide an additional \$521 million for increased charity care. These costs will be shifted to all Floridians with health insurance. So, when needs are not met by the budget, the costs do not go away, they result in

deterioration in services, in our infrastructure, or in higher private costs.

Much of the policy debate focused on ideological issues and often either ignored the pressing economic issues facing Florida, or was simply ill informed and economically incorrect. In particular, the notion that any increase in State revenues represents a tax increase is simply wrong and it is pernicious. Revenues increase in a State like Florida largely because of increasing population growth, rising employment, and a growing State economy. Sales taxes are the single largest source of State revenues. These increased by about 4% this year, yet no Legislator called this a tax increase or demanded that the sales tax rate be lowered. Because it is not a tax increase, there was no increase in the sales tax rates. Yet, many legislators claimed that rising property tax revenues, that are the major source of money for education, were the dreaded tax increases that had to be reversed. This is obvious nonsense.

It is a pernicious view, because it clouds real issues and it inhibits the use of rising revenues to meet legitimate State needs, in this case the need to increase funding for K-12 education to push us forward at least to the national average of spending. Keeping with this theme, to underfund education is to under invest in the human capital of our children and our future labor force with all the negative consequences that result. More generally, the legislature and the Governor are not focusing on many of the long range challenges our State faces including rising sea levels, degraded surface waters, and overburdened roads,