

**ECONOCAST™ UPDATE – October 2, 2017**

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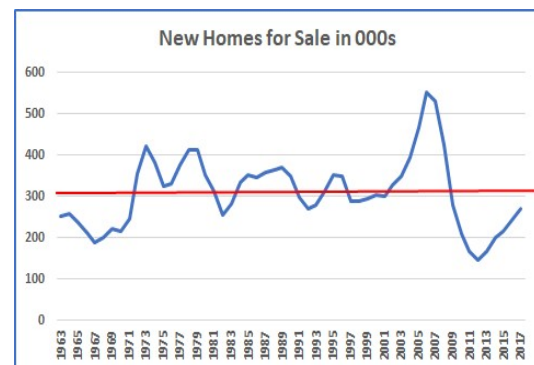
**U.S. Economy – The Tax Plan**

Last week the U.S. White House and Republican leaders released their tax plan. The 9-page plan is still an outline with many ambiguities surrounding key issues, including how much personal tax rates would fall for different income classes and how certain corporate tax deductions would be treated. Congress faces a daunting task to fill in the details. The plan would cut the corporate tax rate to 20% and the top rate on pass-through businesses to 25%; allow immediate expensing for at least five years; repeal many exemptions; and implement a territorial tax system. Personal tax brackets would shrink from the current seven to three with tax rates of 12%, 25% and 35%. The alternative minimum tax would be repealed, the standard deduction doubled, and all itemized deductions eliminated except charitable and mortgage interest deductions, and personal exemptions. Preliminary estimates indicate that the plan would increase the deficit by \$1.5 trillion over ten years and have a small impact on stimulating growth in GDP.

Equally important, Senate Republicans released their long-awaited budget blueprint Friday for

the upcoming fiscal year, thereby setting up the special power of budget reconciliation GOP leaders can use to advance tax reform with just a 50-vote threshold in the Senate. However, the path to approval will not be easy because the Senate plan differs drastically from the House budget which would require a tax plan that does not add to the deficit.

No matter that, stocks rallied on the news. There were few other economic reports last week. Surprisingly, Sales of new homes slipped again in August, falling 3.4% below the revised July total and also down by 1.2% from August 2016. Although the supply of new homes for sale is below its monthly average of 309,000, the supply has been rising steadily. So, unlike the existing home market, inventory is not the issue. Instead, demand is slowing.

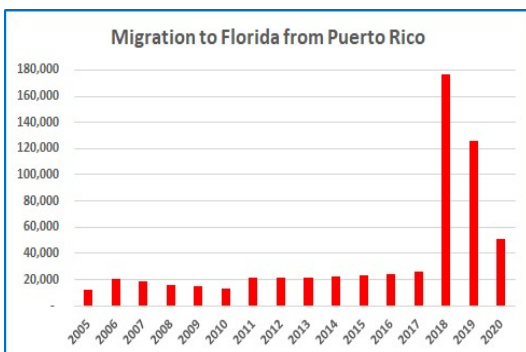


## Florida Economy: The Impact of Hurricane Maria on Florida

Although Maria did not hit Florida, it will have a significant impact on Florida's economy. There will be a huge influx of Puerto Ricans, especially in 2018. Florida is very attractive to Puerto Ricans. Between 2005 and 2015, 446,000 people left Puerto Rico, and 20% of them came to Florida joined by 72,000 coming from other states. Florida's Puerto Rican population topped 1.6 million in 2016.

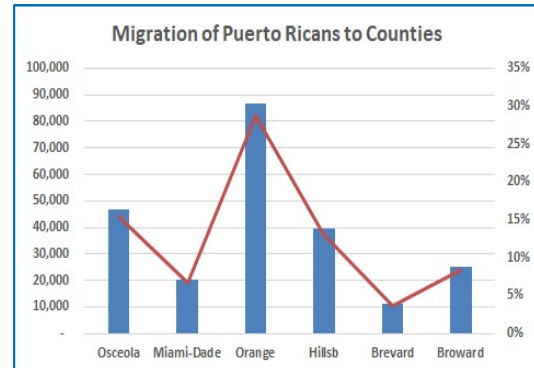
Maria has left Puerto Rico in ruins. Its power grid will not be restored for months. Damage estimates exceed \$50 billion, and much of this is not covered by insurance. A massive exodus is beginning and will likely be on par with the impact of Katrina which displaced over 400,000 people. The first rescue ship docked in Ft. Lauderdale carrying 2,200 Puerto Ricans and more than 1,000 from the U.S. Virgin Islands. As ports open and more air flights resume, the flow into Florida will accelerate rapidly.

Governor Scott declared a state of emergency in every Florida county today to help the state provide services to Puerto Ricans fleeing the island. To handle the influx, disaster relief centers will be set up at the international airports in Orlando and Miami and at the Port of Miami.



We estimate that the inflow will top 180,000 in 2018 with another 125,000 coming in 2019 for a total of 305,000.

The influx will be highly concentrated in six Florida counties that have already become home to large numbers of Puerto Ricans. Ties to family and friends already in Florida will have a major impact on location decisions. Orange County has received roughly 30% of the inflow of Puerto Ricans since 2000 with nearly 20% going to Osceola County. It is likely that these historical shares will be repeated for the new Puerto Rican migrants arriving in Florida.



While the influx will be disruptive in the short run, the overall economic impact will be quite positive based on past history. First, those who migrate are not a random sample of the sending region. Instead, migrants tend to be the healthiest, wealthiest, best education, and most strongly motivated; along with vulnerable populations with strong family ties to Florida. This pattern will be repeated with the inflow from Puerto Rico. Second, the impact of the Mariel Boatlift in 1980 is instructive. The surge increased Miami's labor force by 7% with many being low-skilled. Yet, less than a year later Miami's unemployment rate equaled Florida's.