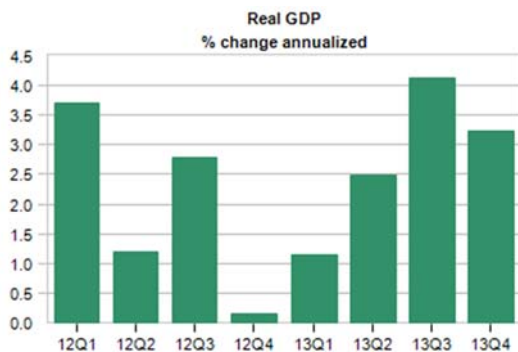


## ECONOCAST™ UPDATE – February 3, 2014

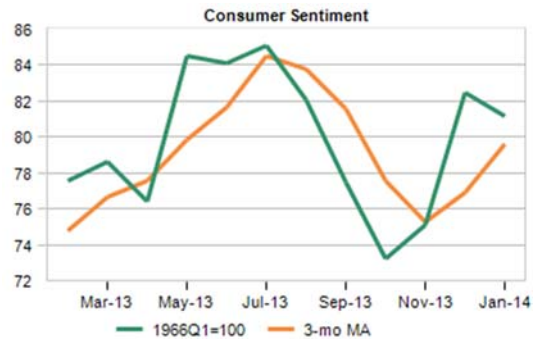
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### U.S. Economy – Maybe not 4% but Still strong

The latest data suggest that growth will not reach 4% SAAR this quarter, but growth will still be strong. Real GDP grew 3.2% (SAAR) in 2013Q4, down from 4.1% in the third quarter. The slowing came mostly from lower inventory accumulation. Growth in final sales improved, and growth in consumer spending and exports accelerated. Fixed residential development slowed due to weather related retreat in homebuilding. Despite the slowdown, the economy actually improved in the fourth quarter because inventory accumulation slowed while consumption increased setting the stage for stronger growth this quarter. While the risks have been in the forefront of late, the fundamentals remain strong.



Consumer sentiment eased in December, because of concerns over their current financial situations – but the concern is modest. Some weakening was inevitable given the pull back in stock prices, the terrible winter weather, and the expiration of federal emergency unemployment benefits for about 1.5 million people. That said, the retreat is also likely to be temporary given the fundamental economic strength.



Finally last week the Federal Open Market Committee continued scaling back its monthly asset purchases as the economy has picked up and the job market improves. The Fed cut its monthly asset purchases from \$75 billion to \$65 billion. The Fed has reduced its purchases at each of the past two meetings, and this slow reduction asset purchases will likely continue apace until it is extinguished.

## Florida Economy: Governor Scott's Proposed Budget

Governor Scott proposes to reduce State government spending in 2014-15 by \$44 million despite the fact that State revenue is projected to increase \$1.5 billion. The biggest cut of \$881 million comes in healthcare. Most of this slashes Medicaid spending with the expiration of federal grants and the Governor's unwillingness to embrace additional federal funding for Medicaid available under the Affordable Care Act. The following table summarizes the Governor's proposed budget with all dollar amounts in billions.

Agency	2014-14	2013-14	Change
Healthcare	\$26.0	\$26.9	(\$0.88)
Education	\$22.2	\$22.1	\$0.14
FDOT	\$9.6	\$9.4	\$0.15
Children/Family	\$2.8	\$2.8	\$0.01
Corrections	\$2.3	\$2.2	\$0.14
Agriculture	\$1.5	\$1.5	(\$0.02)
Economic Dev.	\$1.1	\$0.9	\$0.18
All Other	\$8.8	\$8.5	\$0.23
	=====	=====	=====
<b>Total</b>	<b>\$74.2</b>	<b>\$74.2</b>	<b>(\$0.04)</b>

The proposed budget would increase spending for education. K-12 spending would increase by \$169 per student, but this is still \$177 less than the spending level in 2007-8. Importantly, most of the money to fund this increase in education spending is not State money shown in this budget. Instead, just 1/3<sup>rd</sup> of the money to support this increase in education spending is State money. The balance, or some \$375 million comes from local property taxes. Each year the Legislature sets the millage rate that local school boards must impose to support education. The Governor's budget proposes to utilize the increase in Florida's

property values, and thereby the increase in property taxes to fund most of his proposed increase in K-12 education funding. Most other agencies would receive very modest increases in spending.

The Governor's proposed budget would use most of the State's \$1.5 billion in increased revenues would be devoted to a combination of tax cuts and increases in budget reserves. As shown below, most of the revenue gain is to be used to increase reserves, pay down debt and provide \$500 million in tax cuts to households (auto and sales tax holidays). By utilizing the increase in State revenues in this manner, the Governor essentially consumes funds that could otherwise increase spending in a growing State.

Category	Amount
Tax Cuts	
Auto tags	\$250
Sales Tax Holiday	\$250
Building Leases	\$100
Corporate Income Tax	\$50
Other Business Taxes	\$100
Reserves	\$500
Debt Paydown	\$250
	=====
<b>Total</b>	<b>\$1,500</b>

The Governor claims at least partial credit for Florida's economic recovery based on his support for lower taxes and less regulation. While these initiatives may arguable contribute to the recovery, they are certainly not the main reason for Florida's recovery. Instead, low interest rates and a stronger U.S. economy are the primary reasons Florida's economy has recovered. Finally, the reality is that the Governor's proposed budget fails to meet the needs of a growing State. It is an opportunity lost.