

## ECONOCAST™ UPDATE – February 20, 2017

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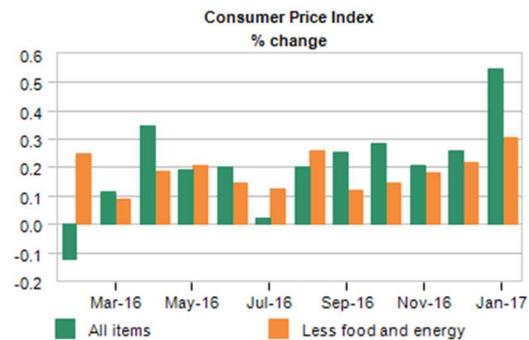
### U.S. Economy – Stronger Sales and Higher Prices

Retail sales surged 0.4% after an upwardly revised 1% gain in December. At this pace sales are rising at a 5% pace. Core sales, excluding cars and gasoline, shot up 0.7% in January. Gains were widespread except for autos. Even long suffering department stores had a good January. Since retail prices are lower in many segments, the gains in real spending are stronger than nominal sales indicate.

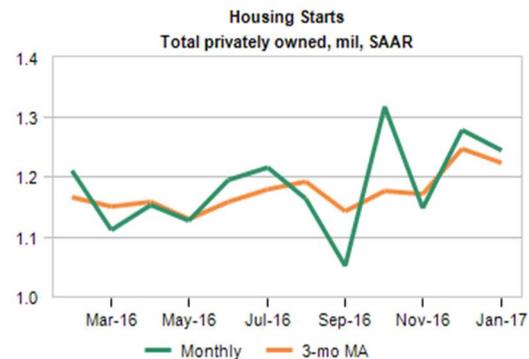


Inflationary pressure is building with the CPI up 0.6% in January, the largest monthly gain since 2003 and double the December increase. Although much of the gain was fueled by higher energy prices, core inflation rose above trend at 0.3% in January. On a year-ago basis, the CPI was up

2.5% and the core index increased 2.3%. And there is no relief in sight. The producer price index for final demand rose 0.6% in January and core PPI 0.4%. These gains will hasten the Fed's expected increase in interest rates.



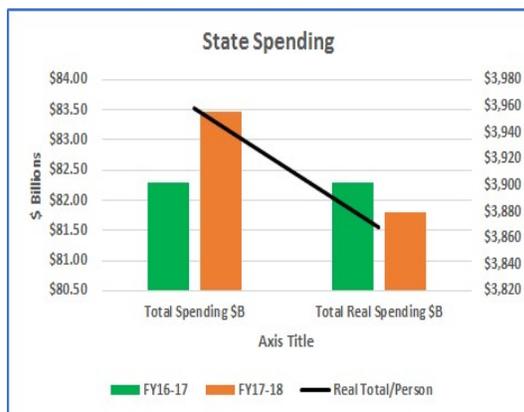
Housing starts dipped 1.5% in January due to a drop in multifamily starts, but they are 10.5% ahead of last year. Permits increased and point to further gains ahead.



## Florida Economy: Florida's State Budget for FY 2016-17

The 2017 Legislative session begins March 14<sup>th</sup>, and a major battle over the budget looms. Governor Scott has proposed a \$83.5B budget with a \$618M tax cut as its main priority. Scott's budget would increase spending by \$1.2B or 1.4%. However, House Speaker Corcoran calls for a \$500M-to-\$1B cut in spending. Following the lead of Senate President Negrón, the Senate seems poised to reject Scott's tax cuts, resist Corcoran's budget cuts, and work for increased spending on education and environmental protection. At over \$83B, how the State raises and spends money has a big economic impact.

To put all this into perspective consider that, although Governor Scott's budget would increase spending by \$1.2B, this is less than the rate of cost inflation resulting in a budget cut in real terms. But even this understates the true nature of the proposed cut. Taking into account population growth and inflation, Scott would cut spending 4.3%.



The proposed level of spending is inadequate to meet Florida's economic and social needs. Florida

is not spending enough on education, healthcare, and infrastructure; and the repeated restrictions and cuts to State employment and the courts are causing excessive delays and added costs.

The Governor and the House believe that further tax cuts and lowering State spending will stimulate economic growth. However, Florida is already well known for its business-friendly environment and low costs, except for its property taxes. So, such policies are unlikely to work.

Furthermore, to fund further tax cuts, the Governor proposes to divert funds from various State trust funds. Not only do these diversions erode public trust, but they cut economic growth. Most trust funds finance infrastructure projects that have relatively high multiplier impacts, compared to general state spending or tax cuts.

Yet, Florida does face a budget challenge with soaring Medicaid costs threatening to cause a major funding shortfall next year if reforms are not enacted this year. But reforming Medicaid, as important as that is, will not be sufficient.

Fundamentally, Florida's State revenue raising system is inadequate to meet Florida's growing needs. While there is no need and no rationale for imposing an income tax or for taking other radical measures, there is need for basic reform to the State's major source of revenue, the sales tax. Florida's sales tax imposes taxes on less than half of all sales. This is simply too low. While many current exemptions and exceptions are justified, such as those on food and healthcare, many more are not. The system cries out for reform.