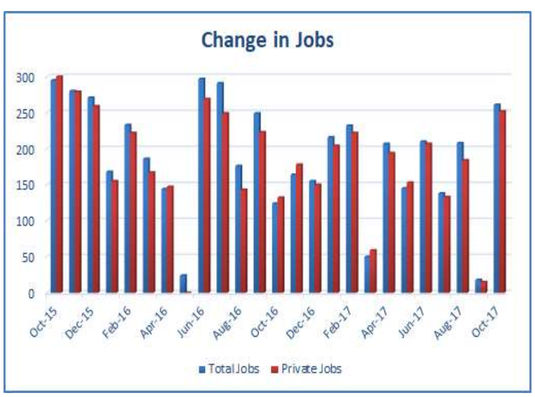
EW | ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – November 6, 2017

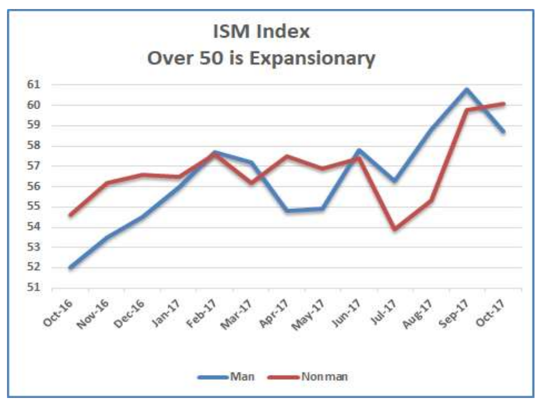
U.S. Economy – Strong Data and Finally a Tax Plan

Economic reports last week were generally strong. Growth is broad-based and sustainable, highlighted by cycle-high consumer confidence, strong ISM surveys, and high levels of consumption. The employment report was solid, though a bit disappointing. Payrolls rose by 261,000 in October reversing the September slide, which was revised from a loss to a modest gain of 18,000 with prior data also revised higher. The household survey data disappointed, even though the unemployment rate fell to 4.1%. That was because of a large drop in the labor force.



Average job gains so far this year are only 170,000 compared to about 200,000 in the first 10 months of 2016. So far, there is no evidence that labor market performance has improved under the new administration, despite surging consumer and business confidence.

The ISM reports for October underscore this trend. Although manufacturing dipped, it remains well above 50 and non-manufacturing advanced in October. However, most of this is primarily from higher expectations of future gain than from stronger orders in October.



The GOP finally released the long awaited "Tax Cut and Jobs Bill." If a tax bill is passed, and the odds are only slightly better than even, it will be changed significantly from this proposal. Jerome Powell was named as the next chair of the central bank, so no change to Fed policy is expected as a result.

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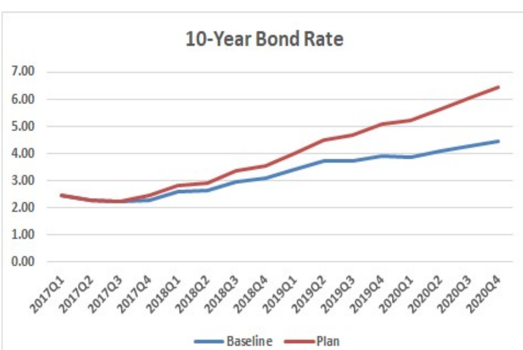
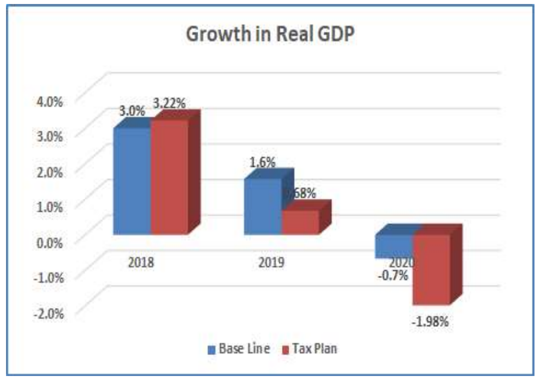
Florida Economy: Impact of Proposed Tax Plan

Although the Tax Cut and Jobs Bill will not be passed as proposed, there is at least a 50/50 chance that something like it will pass. The impact of a tax plan that would increase the deficit by $1.5 trillion and provide net cuts of $500 billion in personal taxes and $1 trillion in corporate taxes over ten years would have important effects on Florida. It is useful to note that the trajectory of Florida's real gross state product is highly correlated with the pathway for U.S. real GDP (correlation of 0.88). So, best to start with the likely macroeconomic impacts of the plan.

Cutting personal income taxes by $500 billion over ten years fosters substantial stimulus to consumption spending increasing demand for all types of goods and services, including tourism. Investment spending will also increase modestly. But, this increase in demand comes at a time when the U.S. economy is already operating at or near full employment. Therefore, the stimulus is likely to boost prices and wages somewhat. Also, the Fed has begun raising interest rates and will continue doing so through 2020. The plan increases federal borrowing by $150 billion per year which will put added pressure on interest rates.



In 2018 the plan will provide a modest boost to GDP growth, but by 2019 interest rates will have risen faster than otherwise choking off growth. By 2020 the process worsens, deepening an impending recession caused by higher interest rates.



Florida will fare better than most states under the plan. The plan eliminates the deduction for state and local income taxes and limits the write off for local property taxes to $10,000. Since Florida has no personal income tax and our property taxes are about average, Florida does a bit better than other states on these aspects of the plan.

However, the $500,000 limit on mortgage interest for new purchases of homes coupled with the elimination of the interest deduction for 2nd homes will hurt Florida's economy more than other states.

The combined effects of the doubling of the standard deduction, elimination of other write offs, and the changes to the tax brackets are more difficult to handicap. More than 70% of Florida tax payers use the standard deduction and do not itemize. So, most of them will be better off. The changes in tax brackets are probably a plus as well. Finally, the proposed 25% rate on passive income will be a significant boost for Floridians.