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State Revenue Trends and Long-Term Fiscal Considerations

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Overview

- Policy decisions in response to COVID-19
- Economic indicators before, during, and after the pandemic
- Overall trends in state tax revenue collections
- State consumption spending & sales tax revenues
- Job losses & state personal income tax revenues
- The winners and losers of rising oil prices
- Housing prices vs local property tax revenues
- Current revenue forecasts
- Fiscal challenges and uncertainties ahead

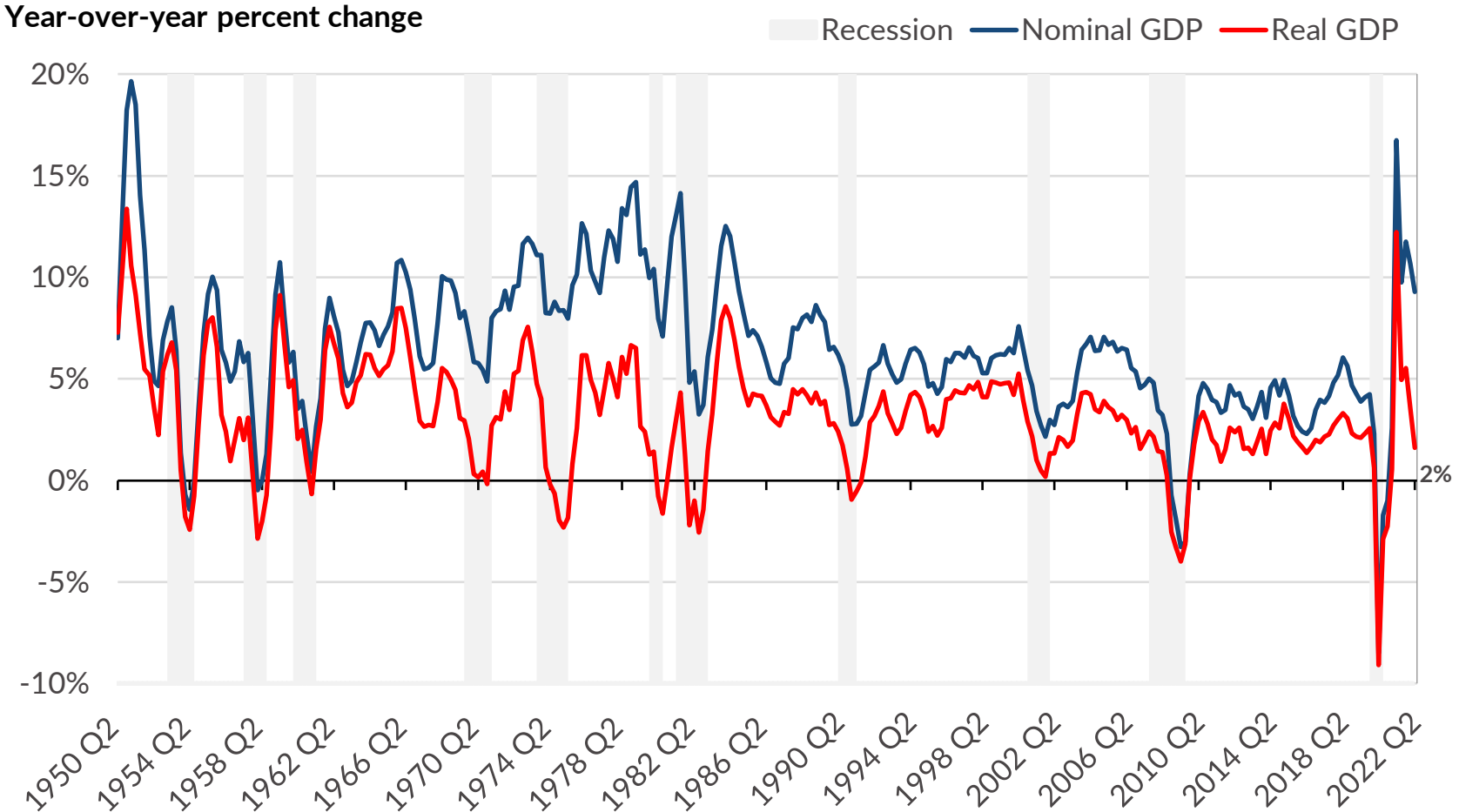
Policy Decisions in Response to COVID-19

Both federal and state governments responded

- The federal government injected over \$5 trillion into the economy
 - The CARES Act provided around \$137 billion to state and local governments
 - The ARPA provides around \$350 billion to state, local and tribal governments
 - *\$195 billion to state governments*
 - *\$155 billion to local & tribal governments*
- The Fed and all states with income tax extended income tax filing deadlines
 - Tax year 2019: from April 15, 2020 to July 15, 2020
 - Tax year 2020: from April 15, 2021 to May 17, 2021
- Many states also extended filing and payment deadlines for sales taxes, others waived interests and penalties
- 43 states mandated stay-at-home orders

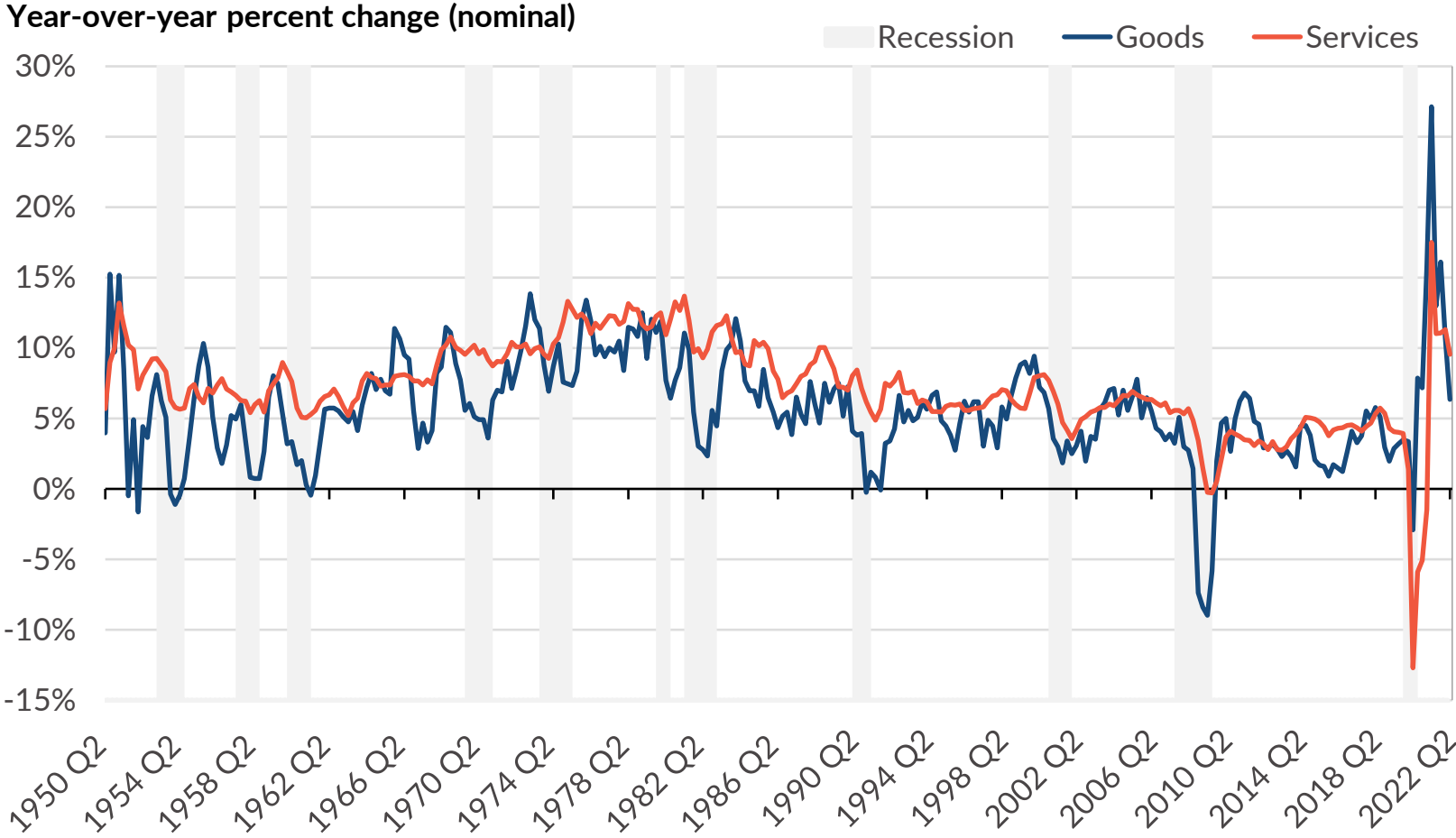
Economic Indicators Before, During, and After the Pandemic

Steepest decline in GDP during the pandemic



Source: US Bureau of Economic Analysis, Table 1.1.5. Gross Domestic Product.

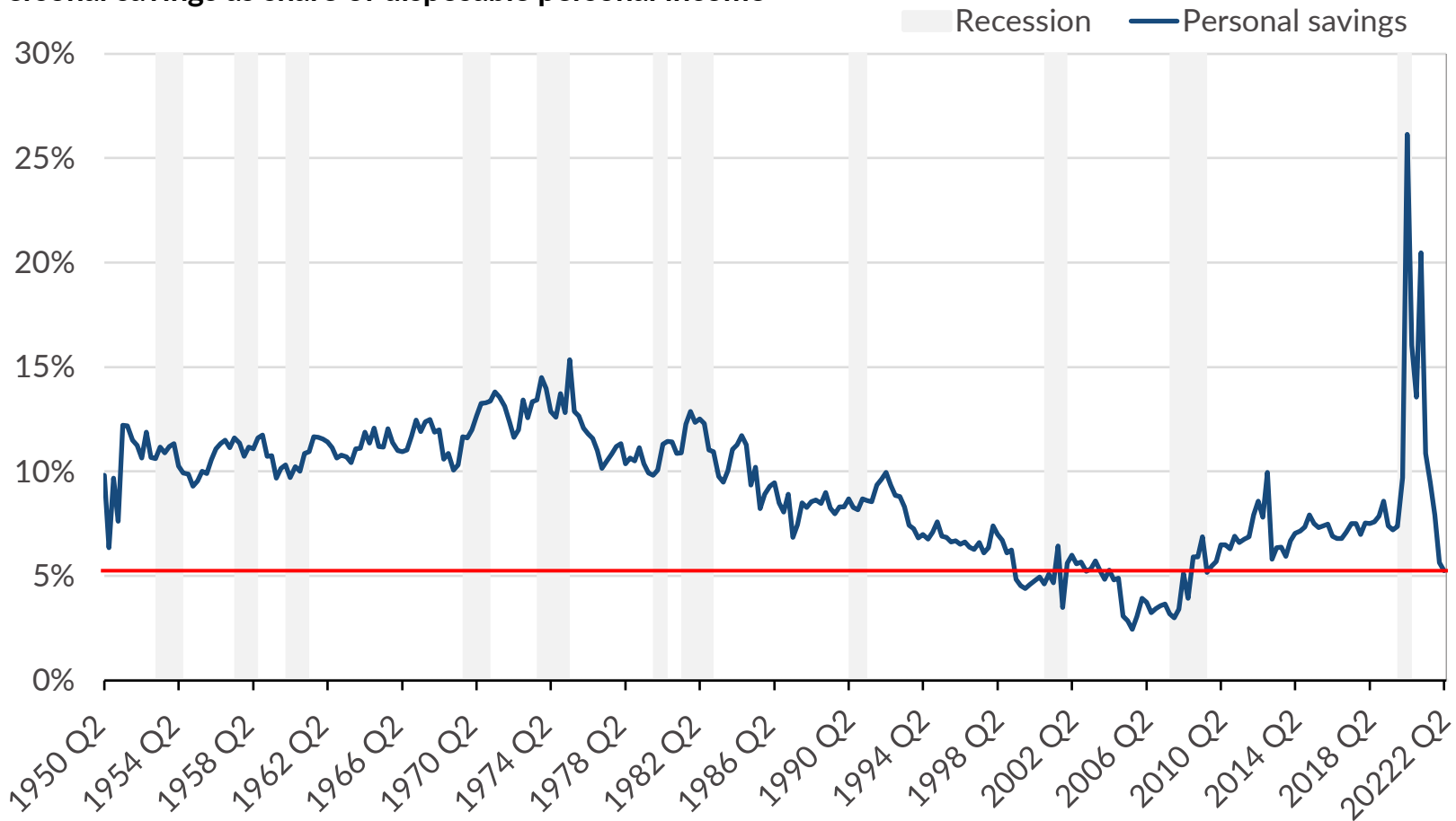
Steepest decline in spending on services



Source: US Bureau of Economic Analysis, Table 1.1.5. Gross Domestic Product. Analysis by Lucy Dadayan.

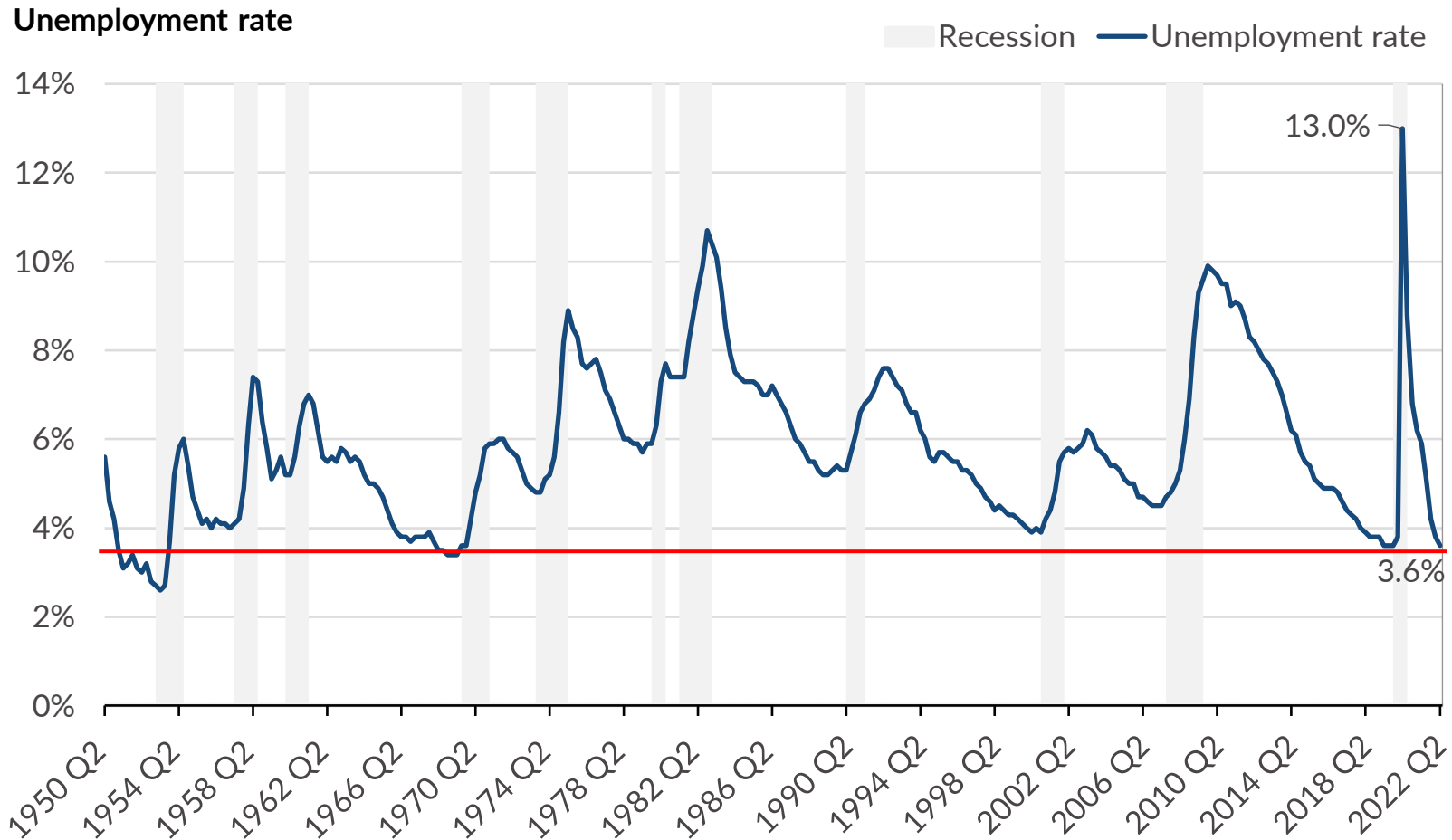
Personal savings peaked during the pandemic, but are falling fast

Personal savings as share of disposable personal income



Source: US Bureau of Labor Statistics. Analysis by Lucy Dadayan.

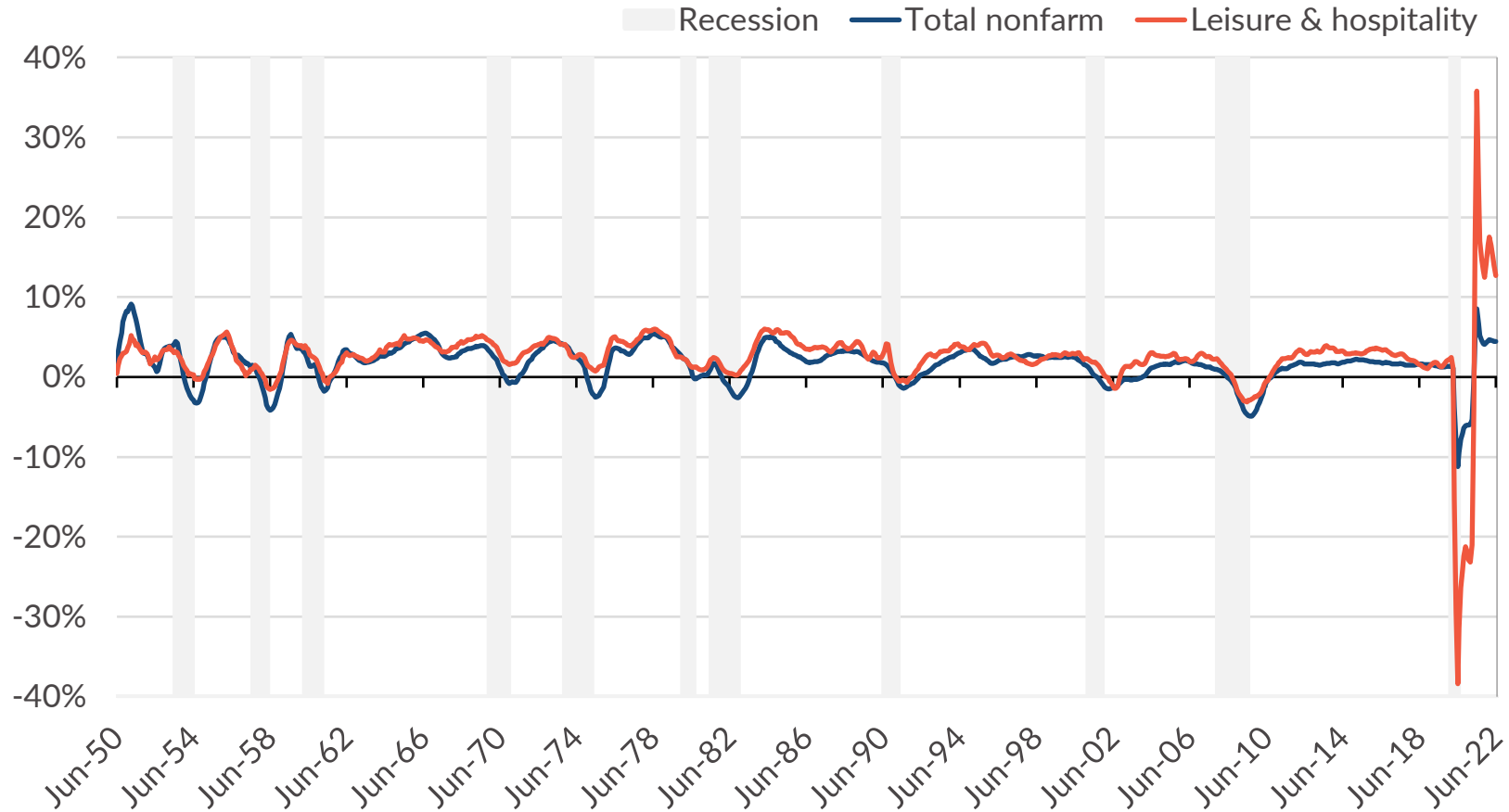
Highest unemployment rate on record, but now back to pre-pandemic levels



Source: US Bureau of Labor Statistics.

Steepest declines in employment on record

Year-over-year percent change, 3-month moving averages



Source: US Bureau of Labor Statistics. Analysis by Lucy Dadayan.

Are we in recession?

A **recession** is defined as the period between an economy's peak of economic activity and its subsequent **lowest point (trough)**, where a significant decline in economic activity spans across the **entire economy** for more than a few months.

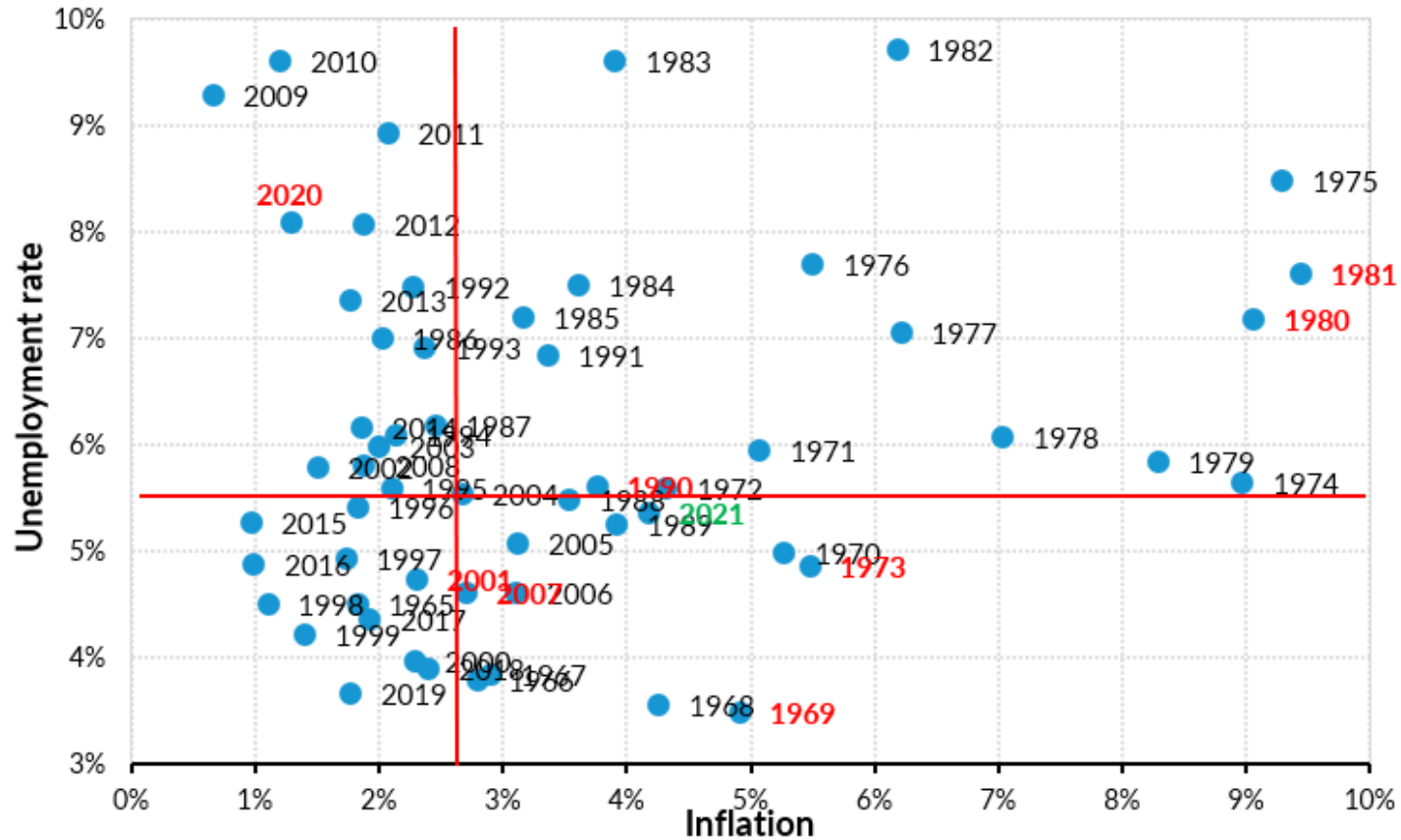


Unemployment rate vs inflation

Inflation vs Unemployment Rate by year (1965-2021)

Last 8 recessions (1969, 1973, 1980, 1981, 1990, 2001, 2007, 2020) highlighted in red

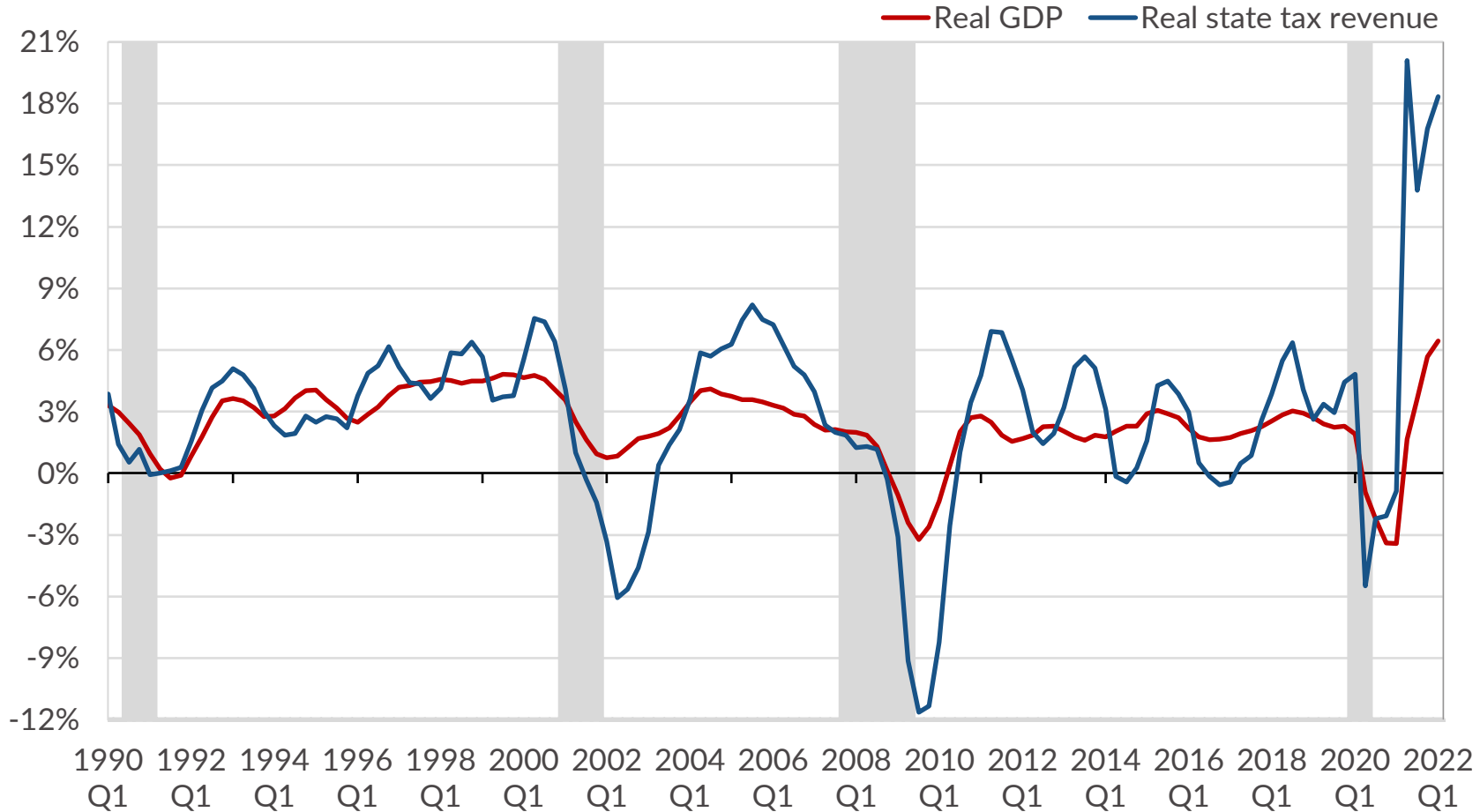
Red lines indicate median values for 1965-2022 period



The COVID-19 Effect: Trends in Overall State Tax Revenue Collections

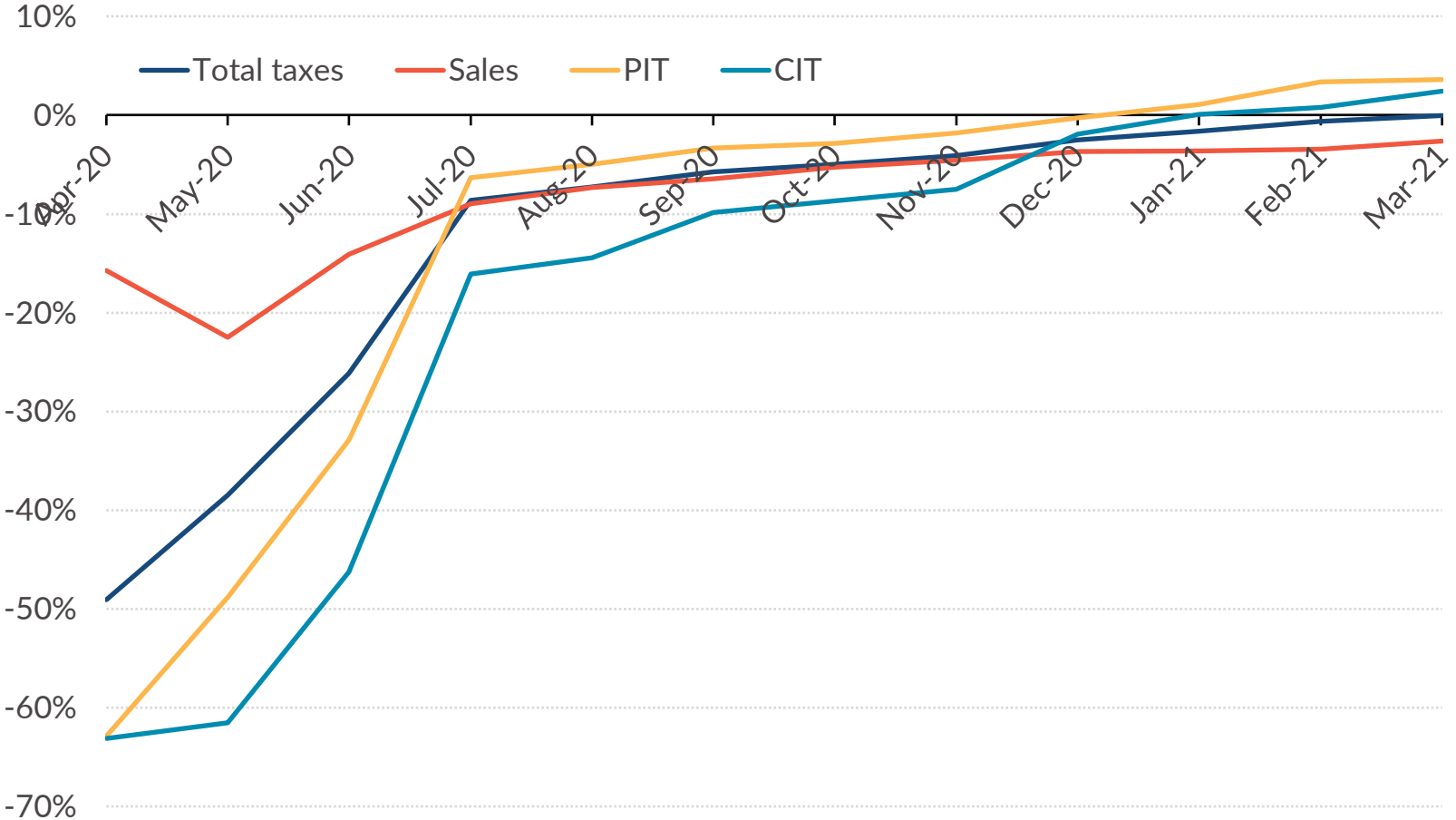
State tax revenues are more volatile than the economy

Year-over-year change in real state taxes and real GDP, 4-quarter moving averages



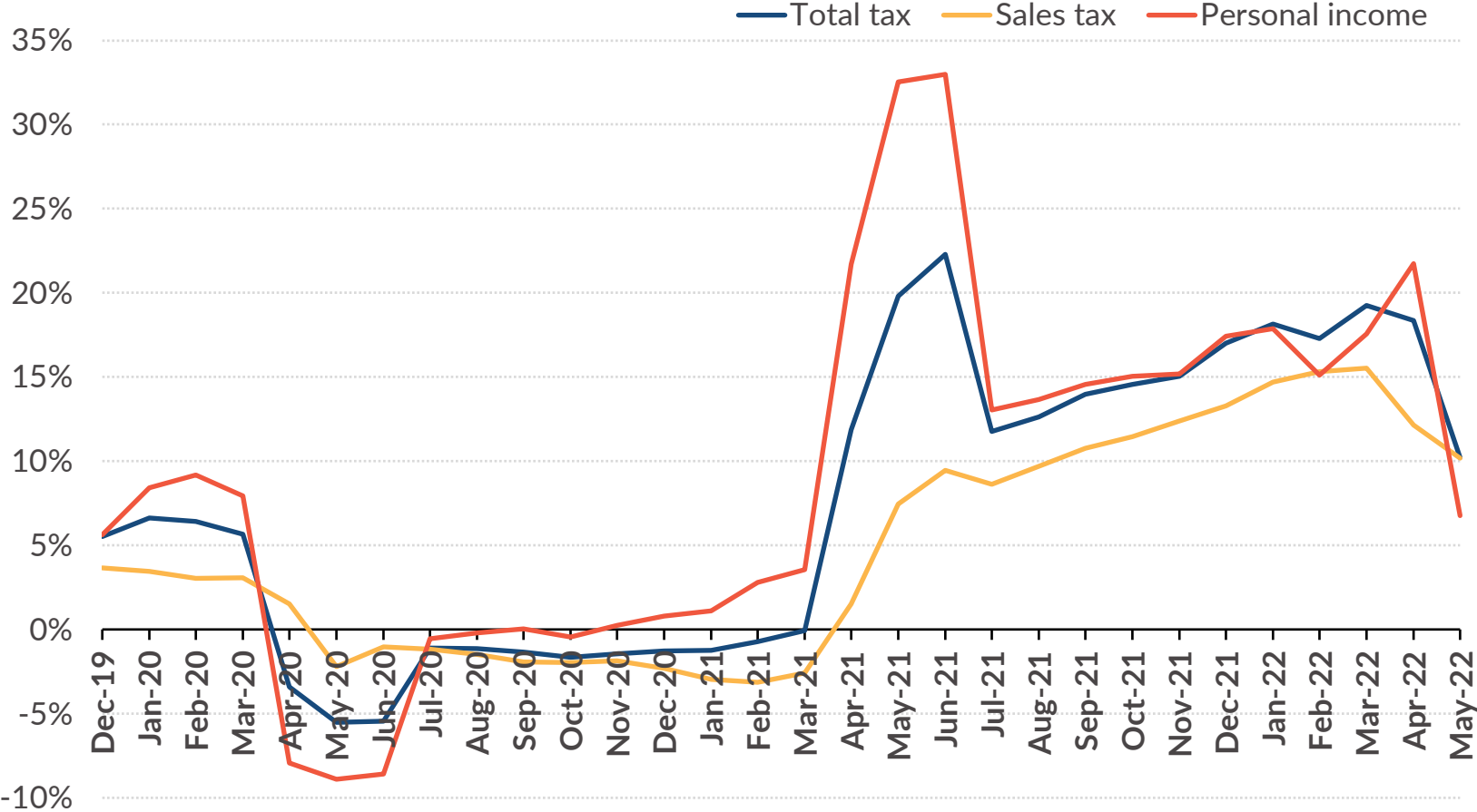
State revenues saw steep declines early in the pandemic

Year-over-year real percent change in cumulative state tax revenues



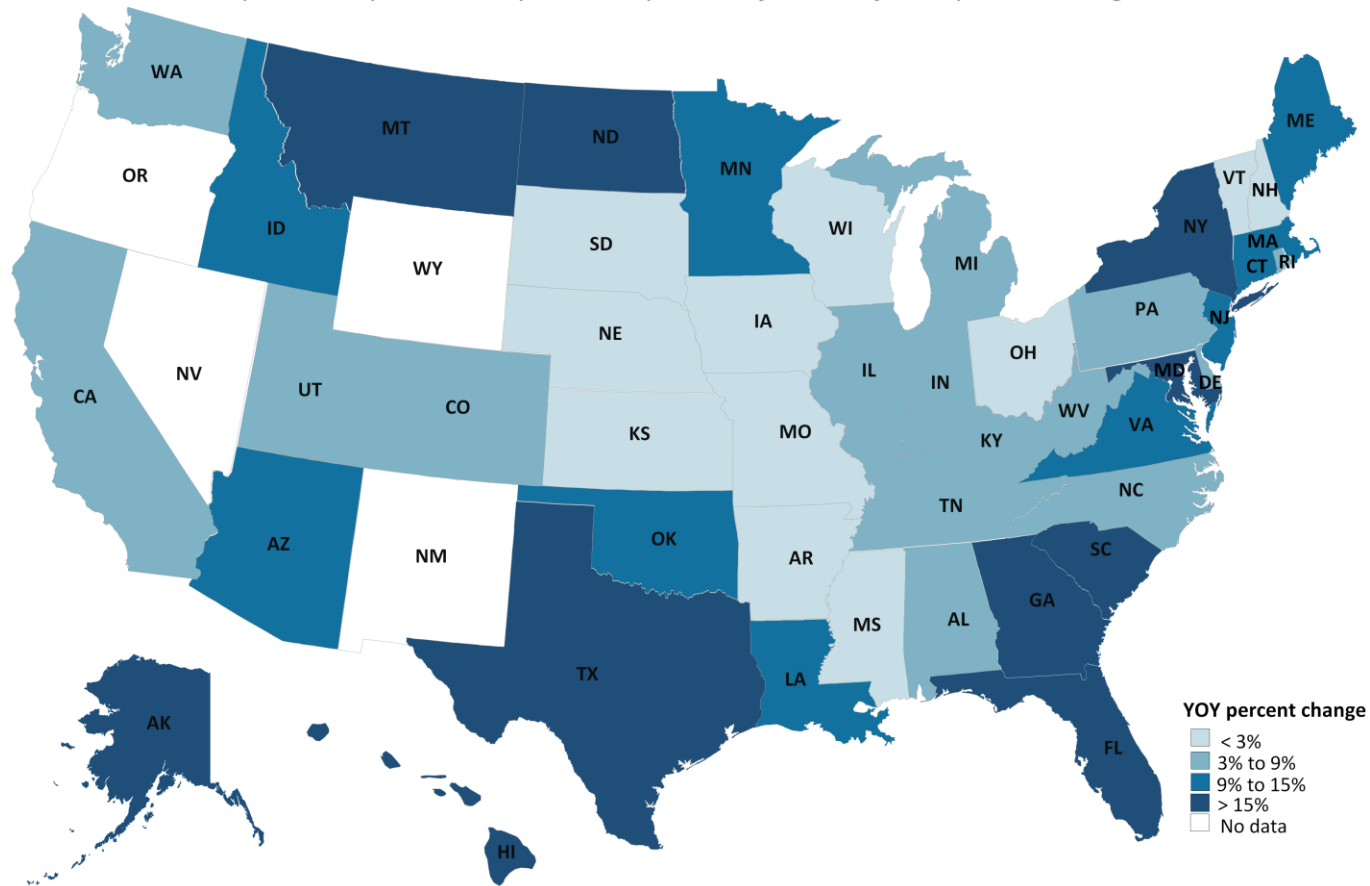
Trends in state tax revenues since the pandemic

Year-over-year percent change in inflation-adjusted state tax revenues (12-month moving averages)



Current trends in total tax revenues: Large variation across states

July 2021-May 2022 vs July 2020-May 2021, inflation-adjusted percent change



Notes: Complete data is still not available for Nevada, New Mexico, Oregon, and Wyoming.

<https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-tax-and-economic-review>

Growth disparity: State tax revenues vs. state GDP

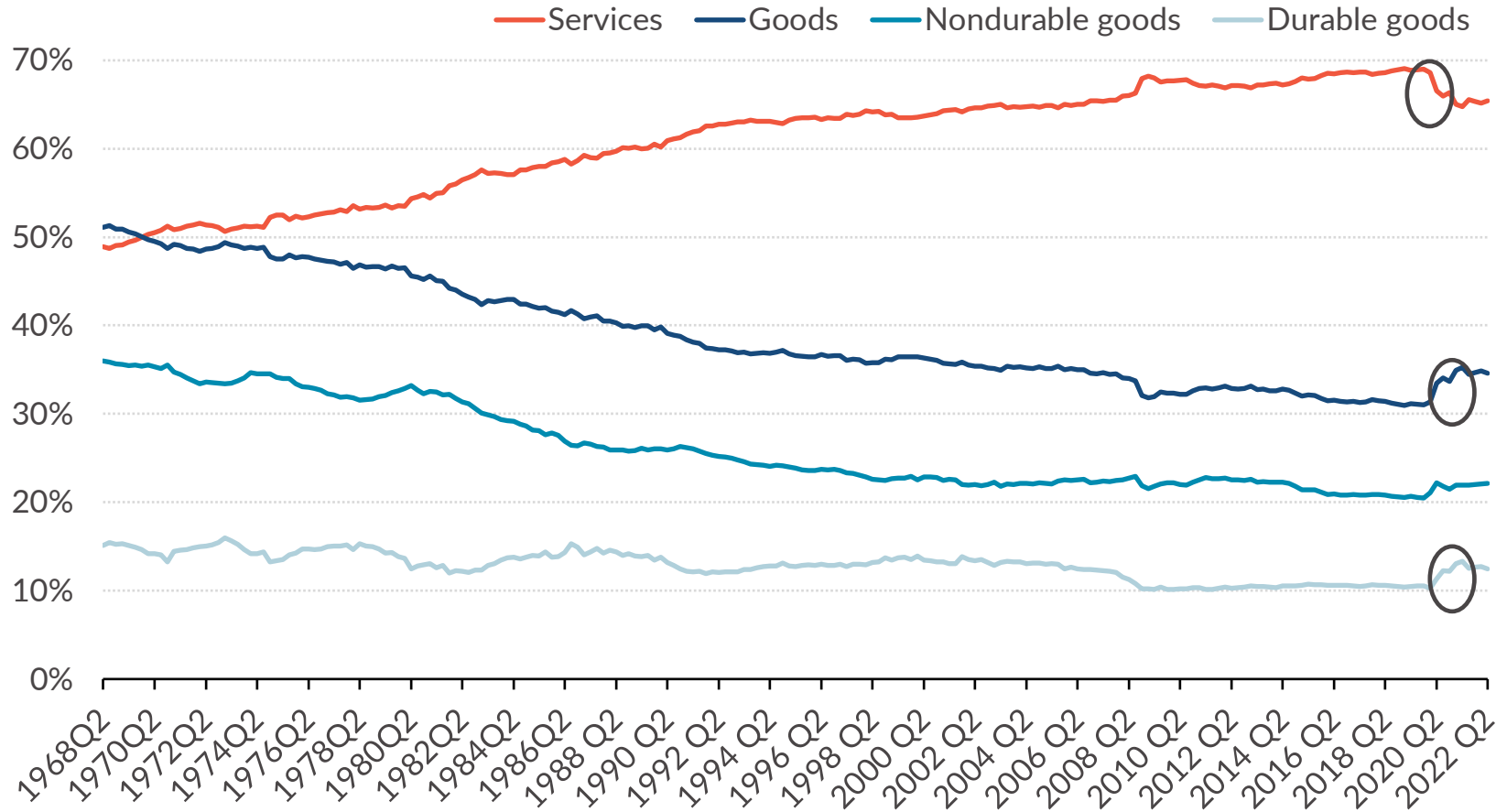
Year-over-year change in real state taxes & real GDP, 2022Q1 vs 2021Q1 (4-quarter moving averages)



The COVID-19 Effect: State Consumption Spending & Sales Tax Revenues

Spending patterns shifted during the pandemic

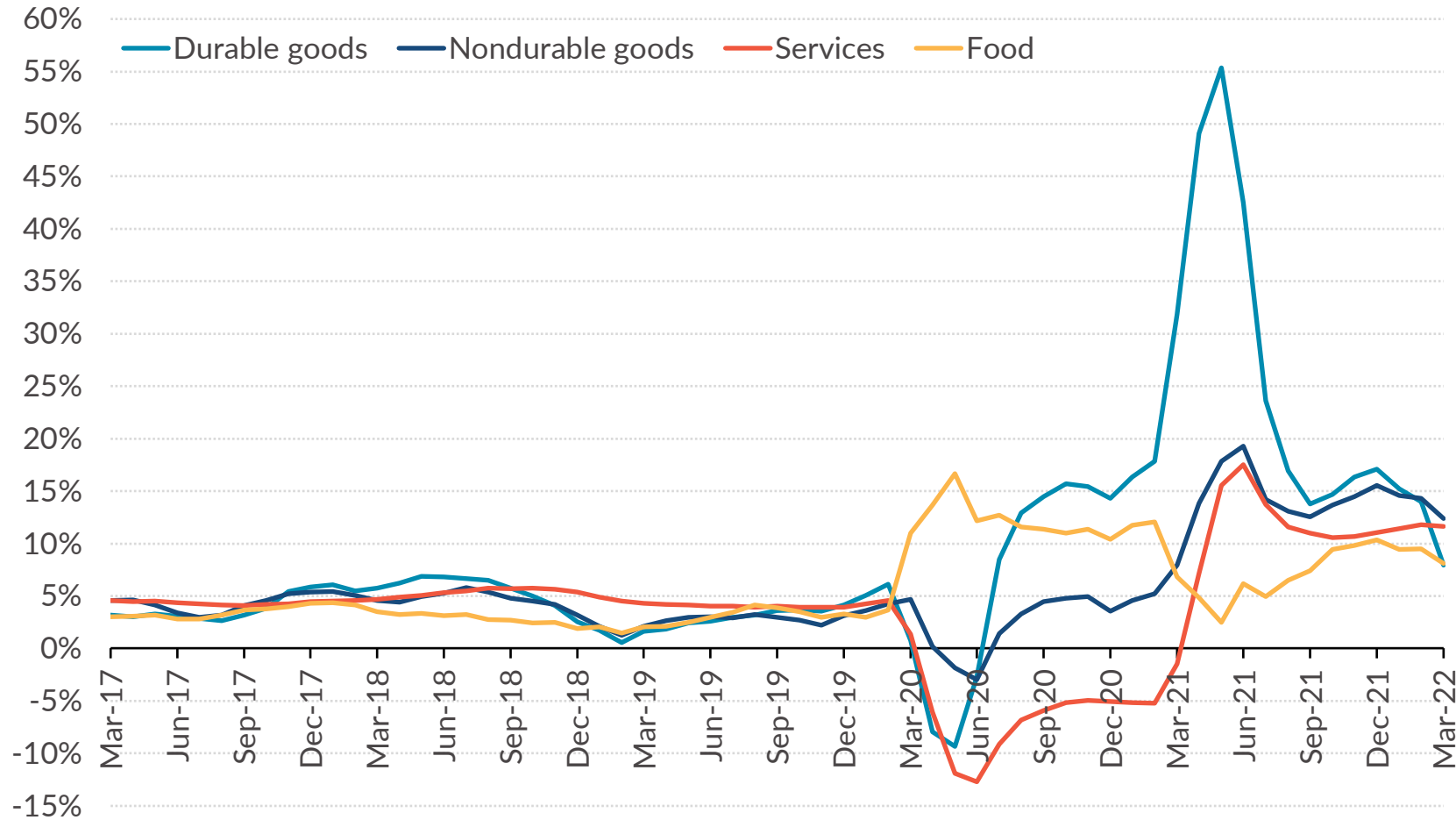
Goods and services as share of personal consumption expenditures



Source: U.S. Bureau of Economic Analysis, NIPA Table 2.3.5.

Spending on durable goods skyrocketed during the pandemic, while spending on services declined

Year-over-year change in personal consumption spending (nominal, 3-month moving averages)



Trends in state sales tax revenues

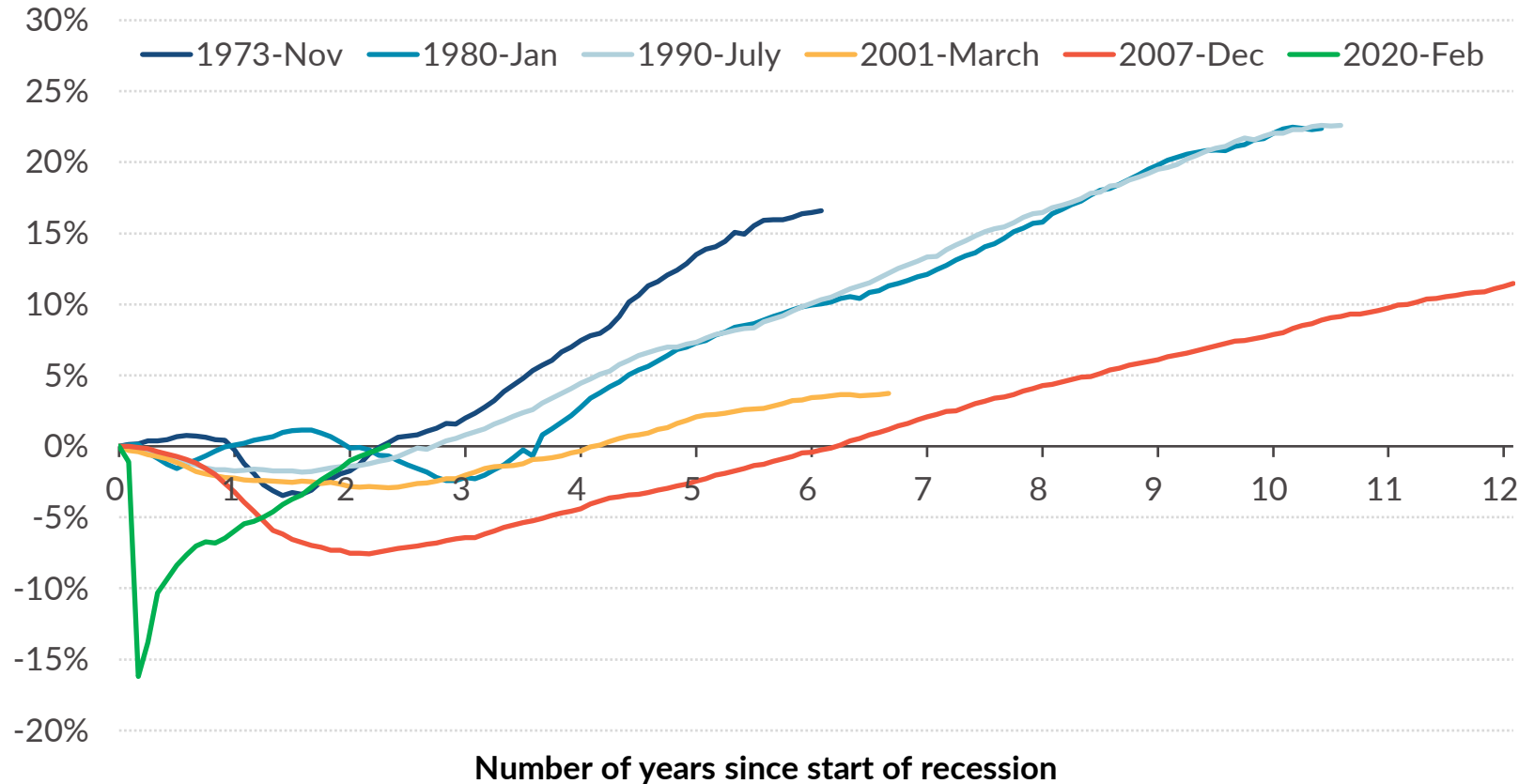
Real year-over-year percent change in state sales tax revenues, 3-month moving averages



The COVID-19 Effect: Job Losses & State Personal Income Tax Revenues

COVID-19 led to free fall in private sector employment

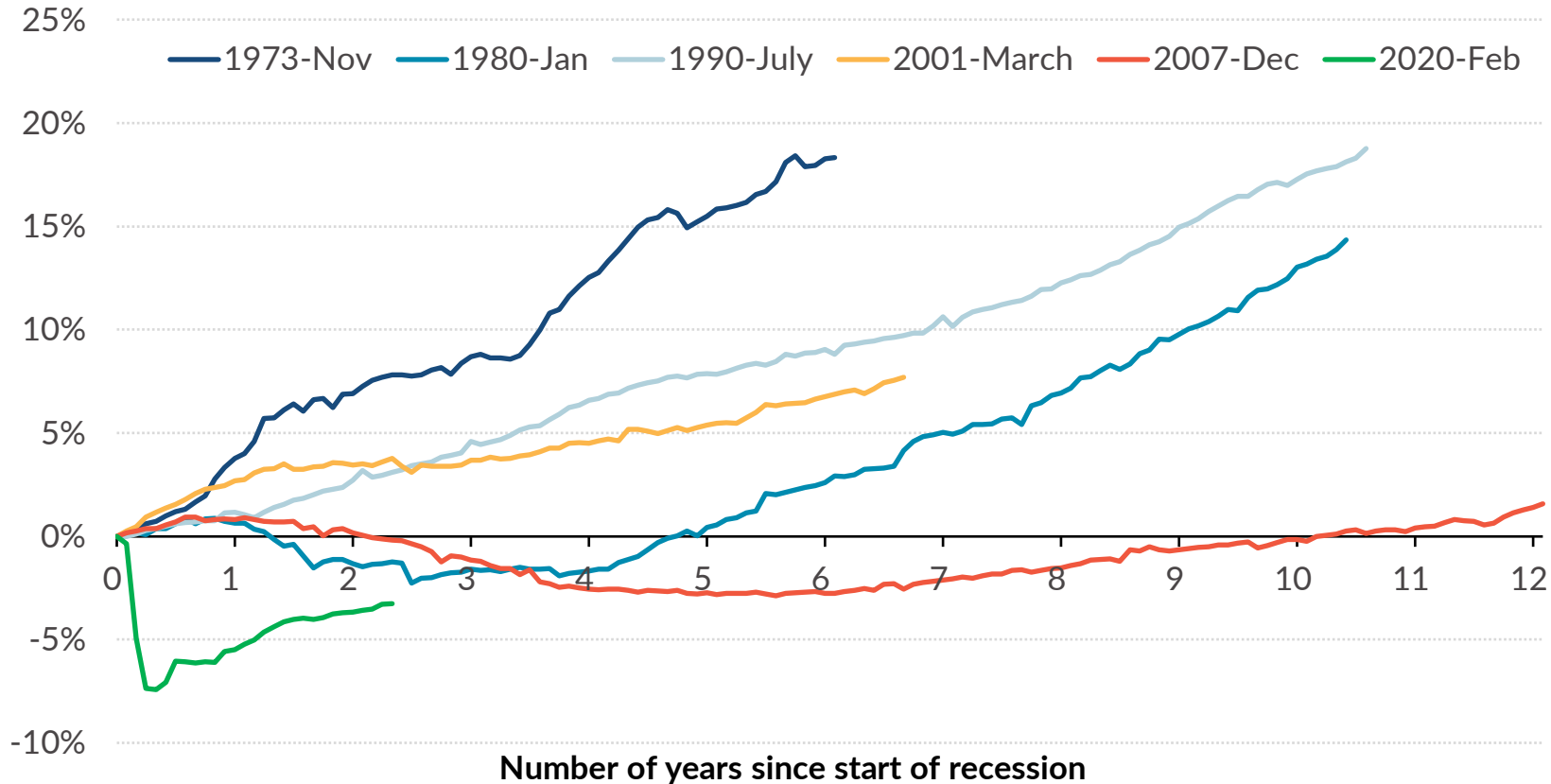
Private sector employment in selected recessions (seasonally adjusted)
 Cumulative percent change since start of recession



Note: Data are shown until the start of the next recession; 1980 & 1981 recessions treated as single recession.

Steepest cuts in state-local government employment

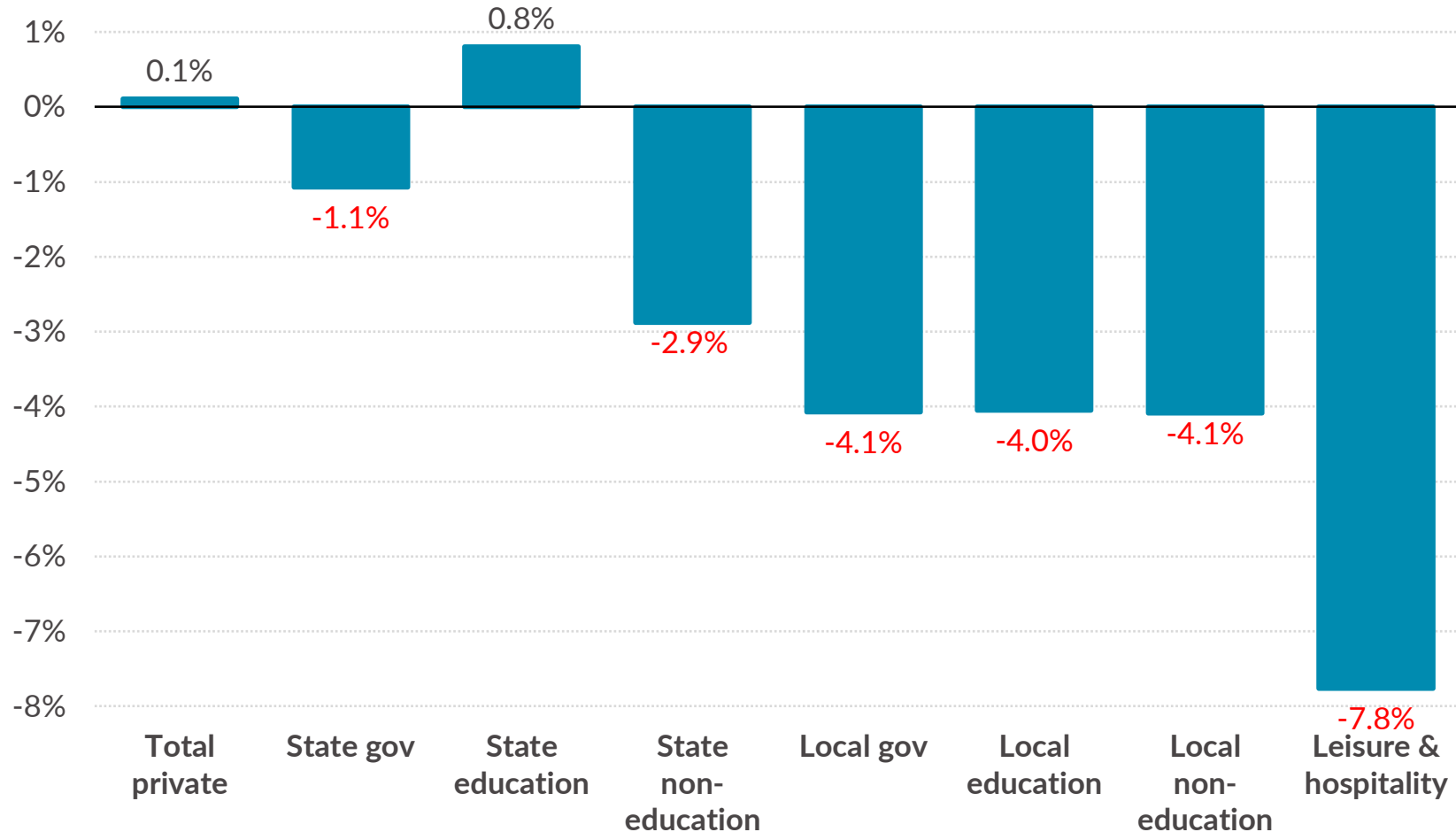
State and local government employment in selected recessions (seasonally adjusted)
 Cumulative percent change since start of recession



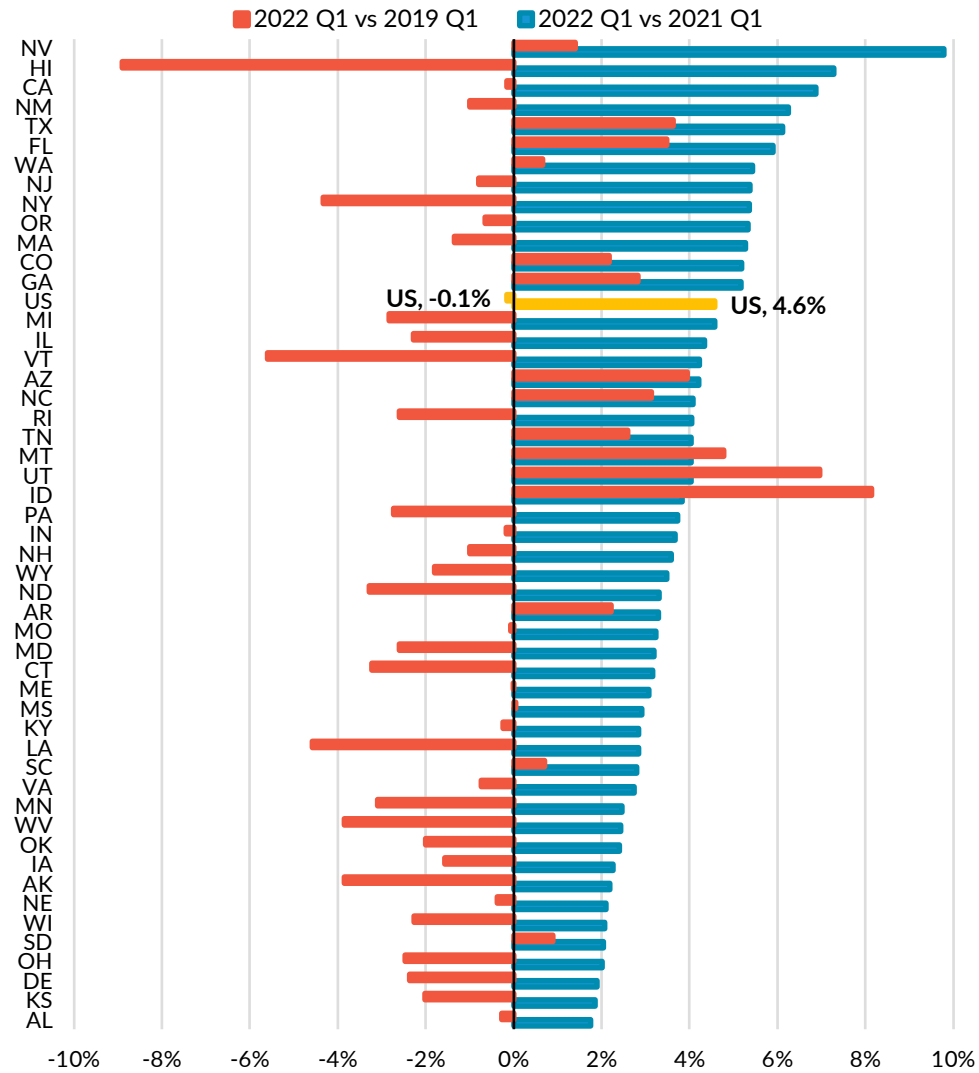
Note: Data are shown until the start of the next recession; 1980 & 1981 recessions treated as single recession.

Steep declines in public sector and leisure & hospitality employment since February 2020

Percent change in employment, June 2022 vs February 2020

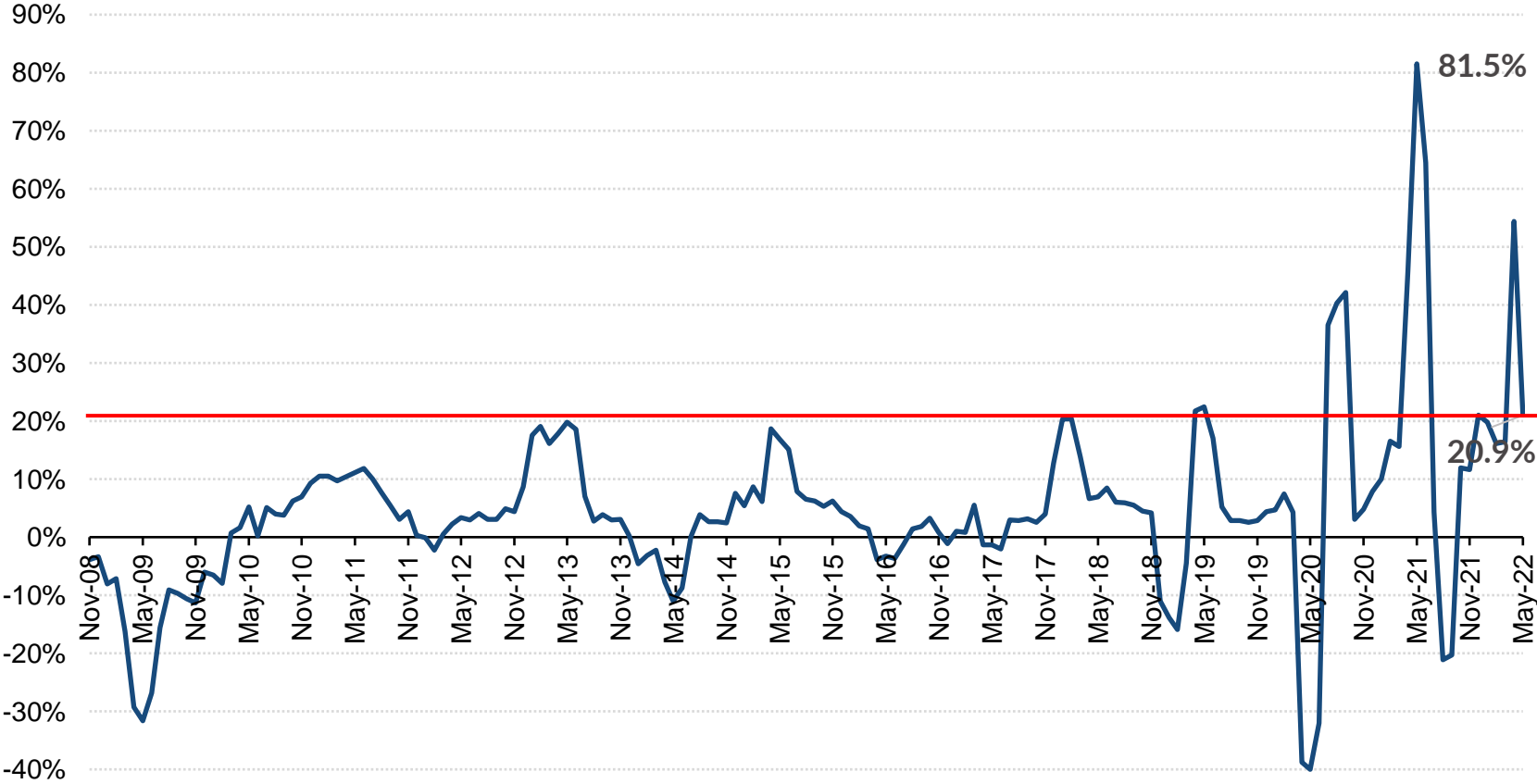


Employment rebounded, but is still down compared to pre-pandemic levels in 35 states



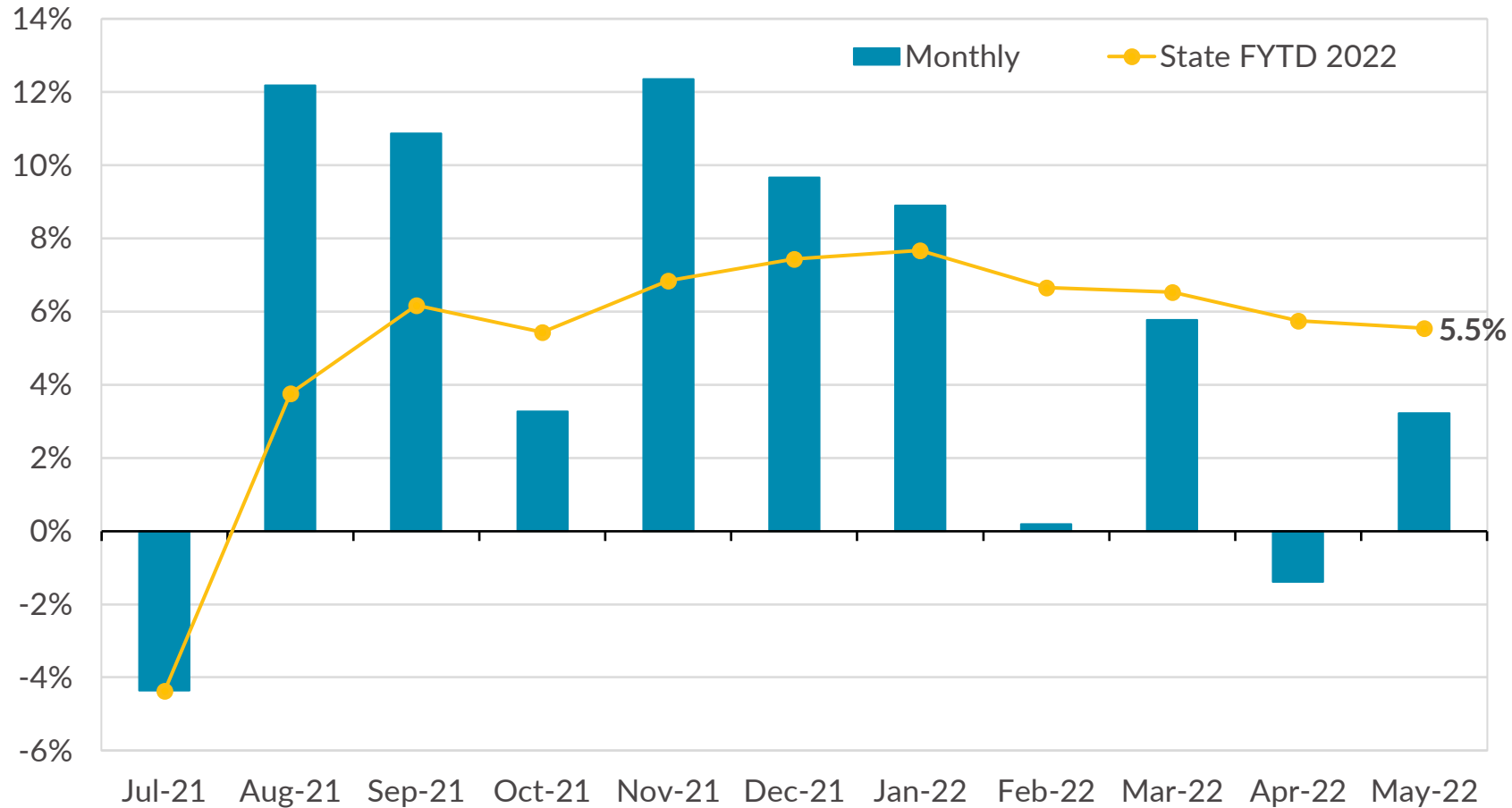
Trends in state **personal income** tax revenues

Real year-over-year percent change in state personal income tax revenues, 3-month moving averages



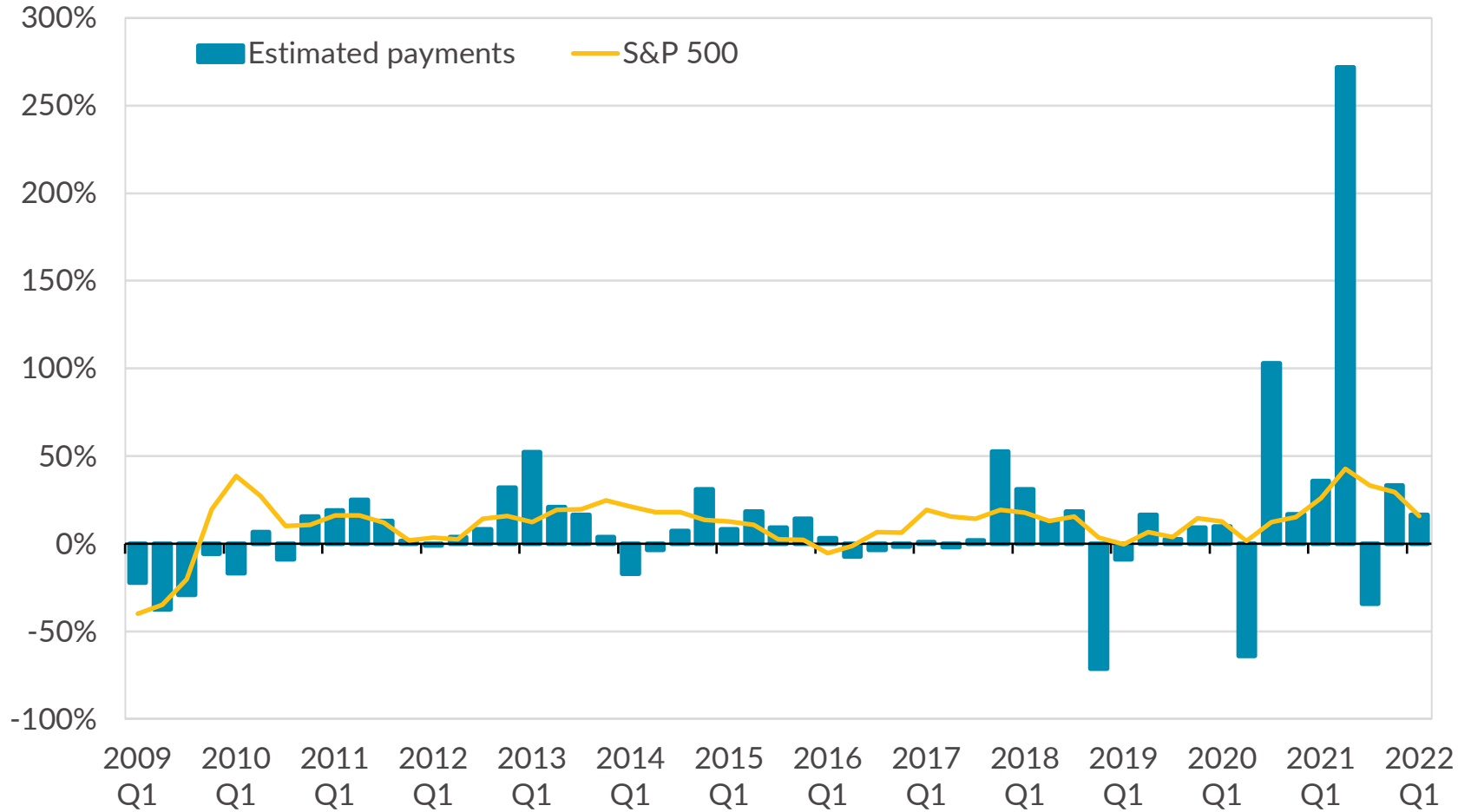
Despite elevated inflation, **withholding** weakened substantially

Real year-over-year percent change in withholding tax collections, monthly & FYTD 2022



Large volatility in estimated payments

Year-over-year nominal percent change in estimated payments & S&P 500 index



The Winners and Losers of Rising Oil Prices

US crude oil price history, 1974-2022

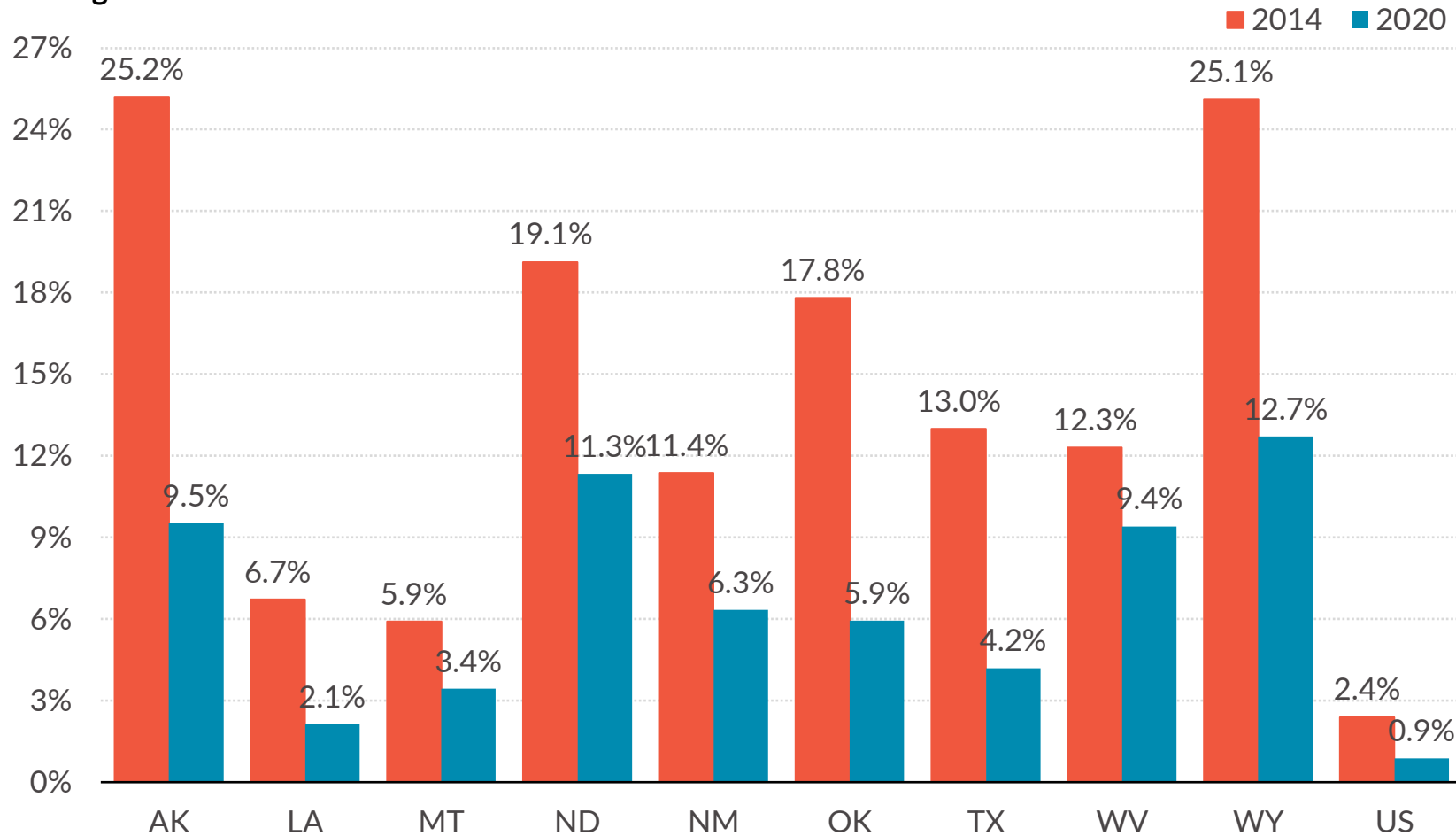
Cents per barrel (nominal)



Source: U.S. Energy Information Administration.

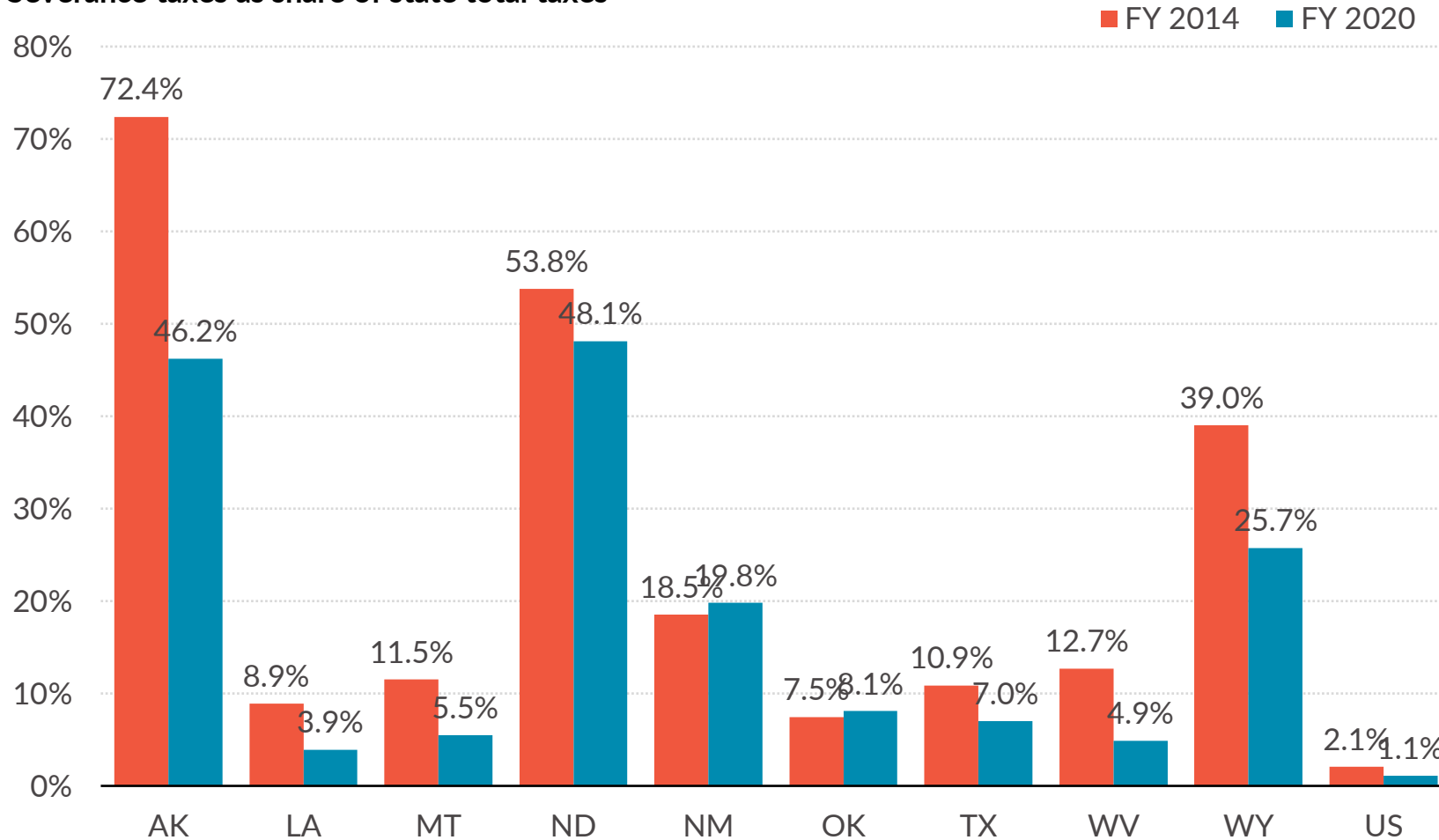
Mining industries shrank in oil dependent states

Mining industries as share of state GDP



Severance taxes declined in most oil-dependent states

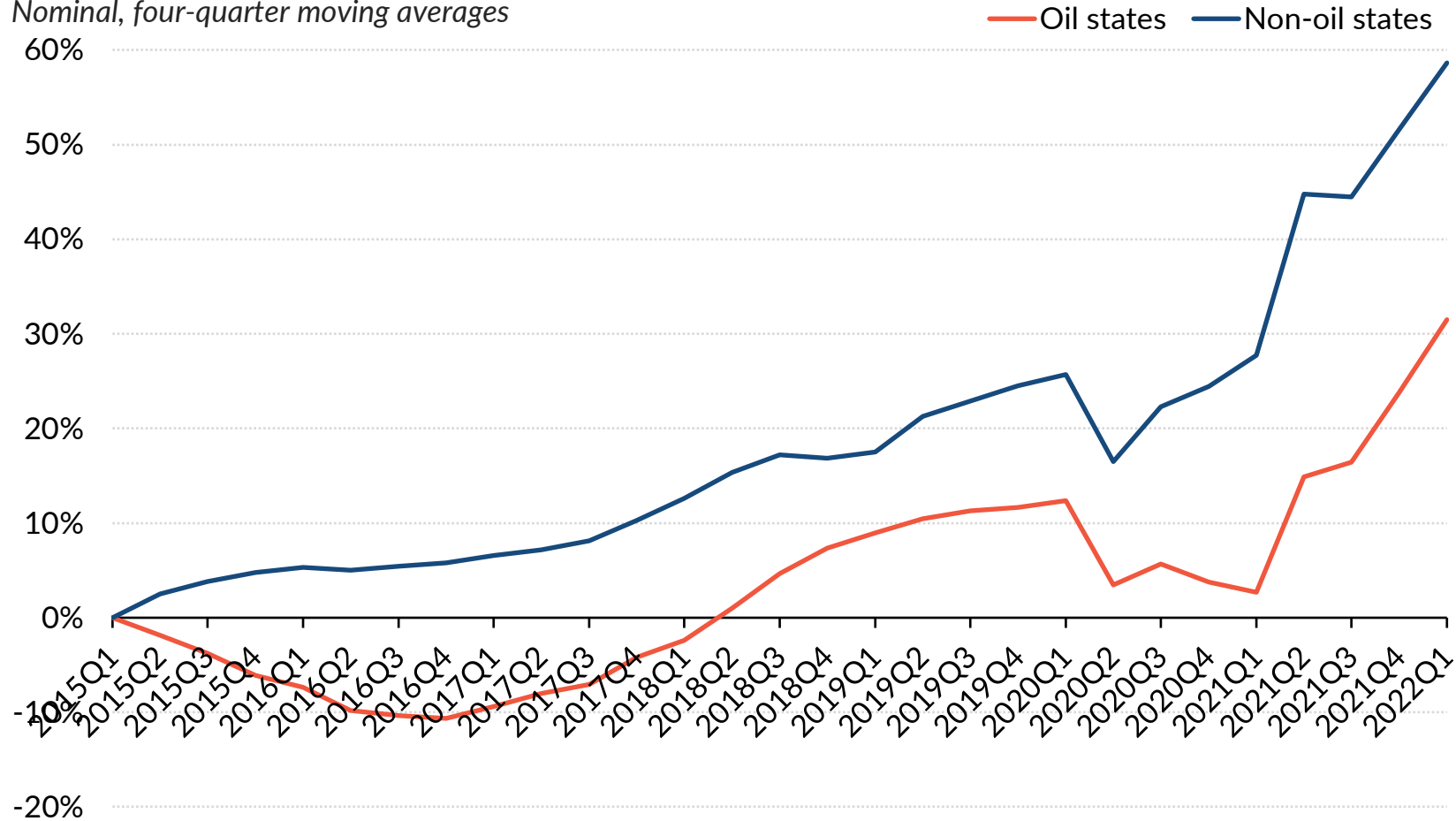
Severance taxes as share of state total taxes



Tax revenues declined in oil-dependent states in 2015-17

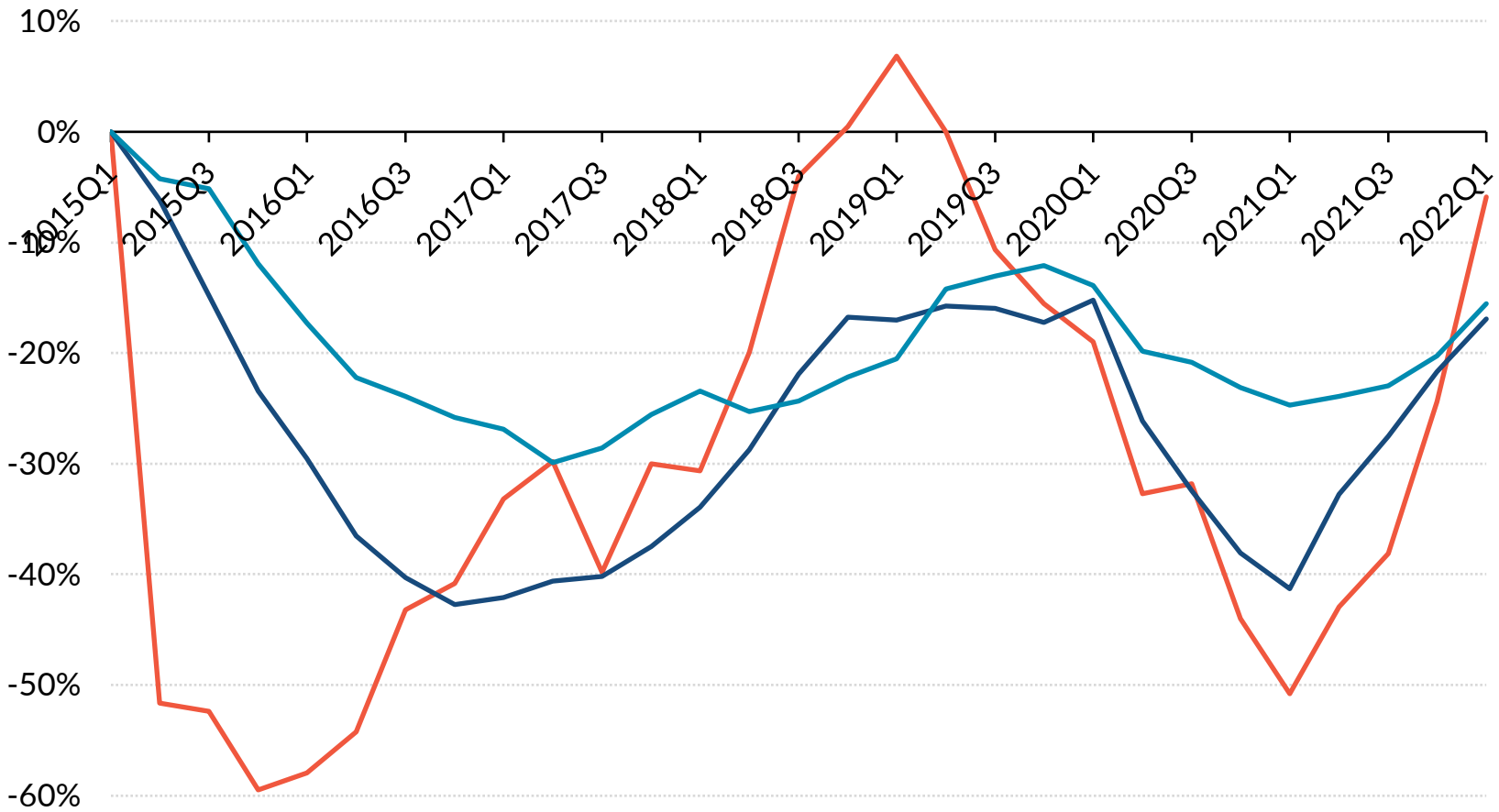
Cumulative nominal percent change in state total tax revenues

Nominal, four-quarter moving averages



Alaska, North Dakota & Wyoming took the biggest hits

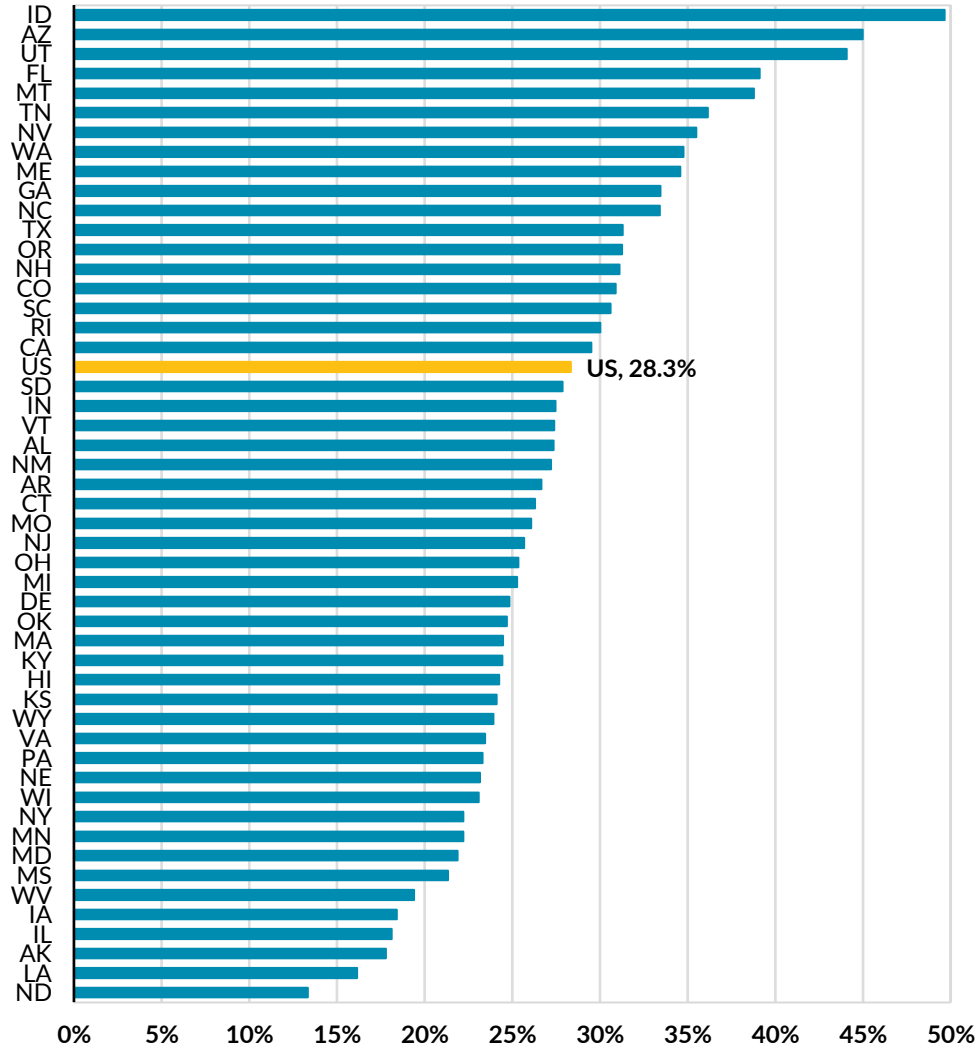
Cumulative percent change in state total tax revenues
Nominal, four-quarter moving averages



Housing Prices vs Local Property Tax Revenues

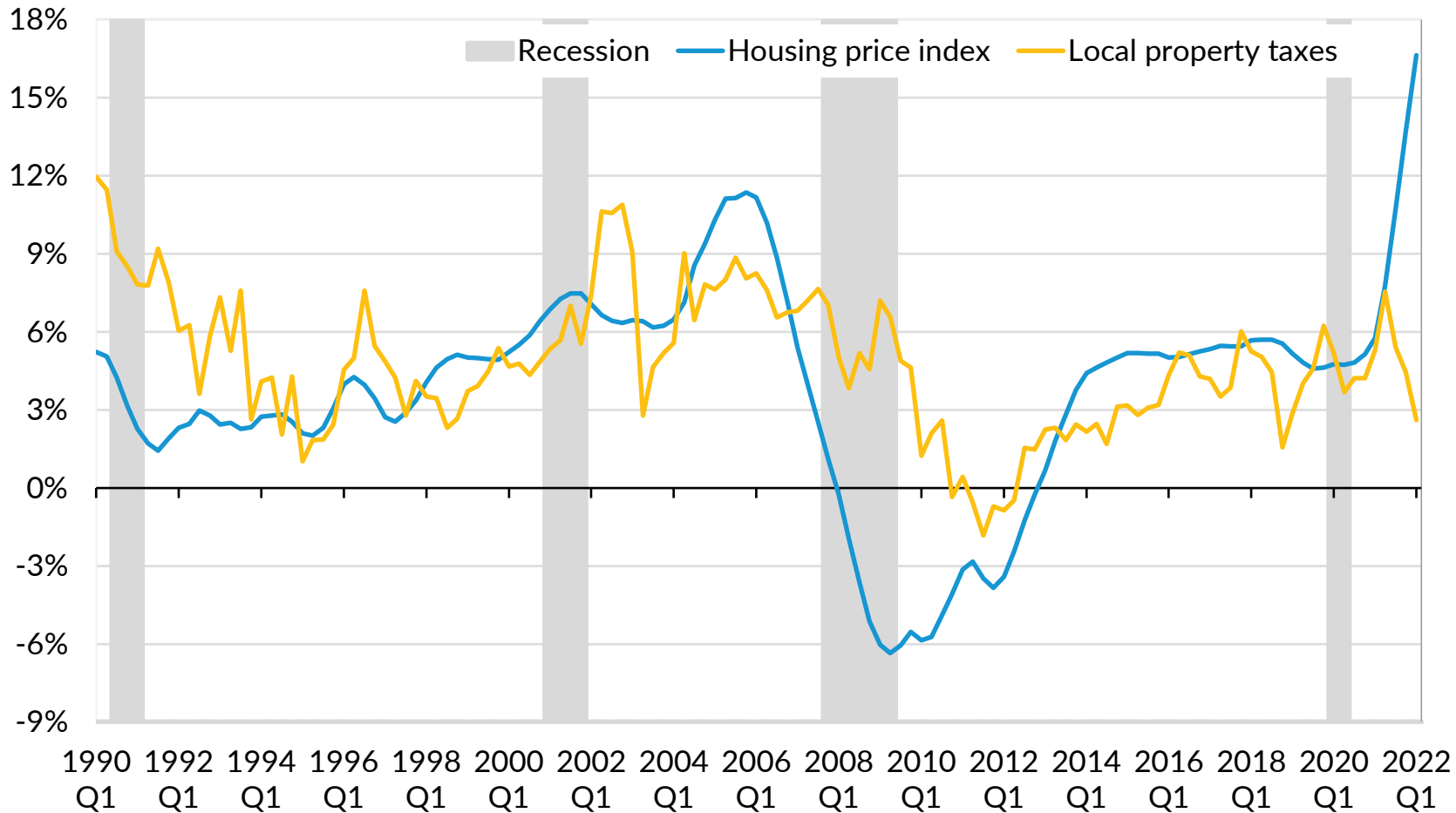
Housing prices soared in all states during the pandemic

Percent change in house prices, 2022 Q1 versus 2020 Q1



Strong growth in housing prices; Growth in local property taxes ticked downward

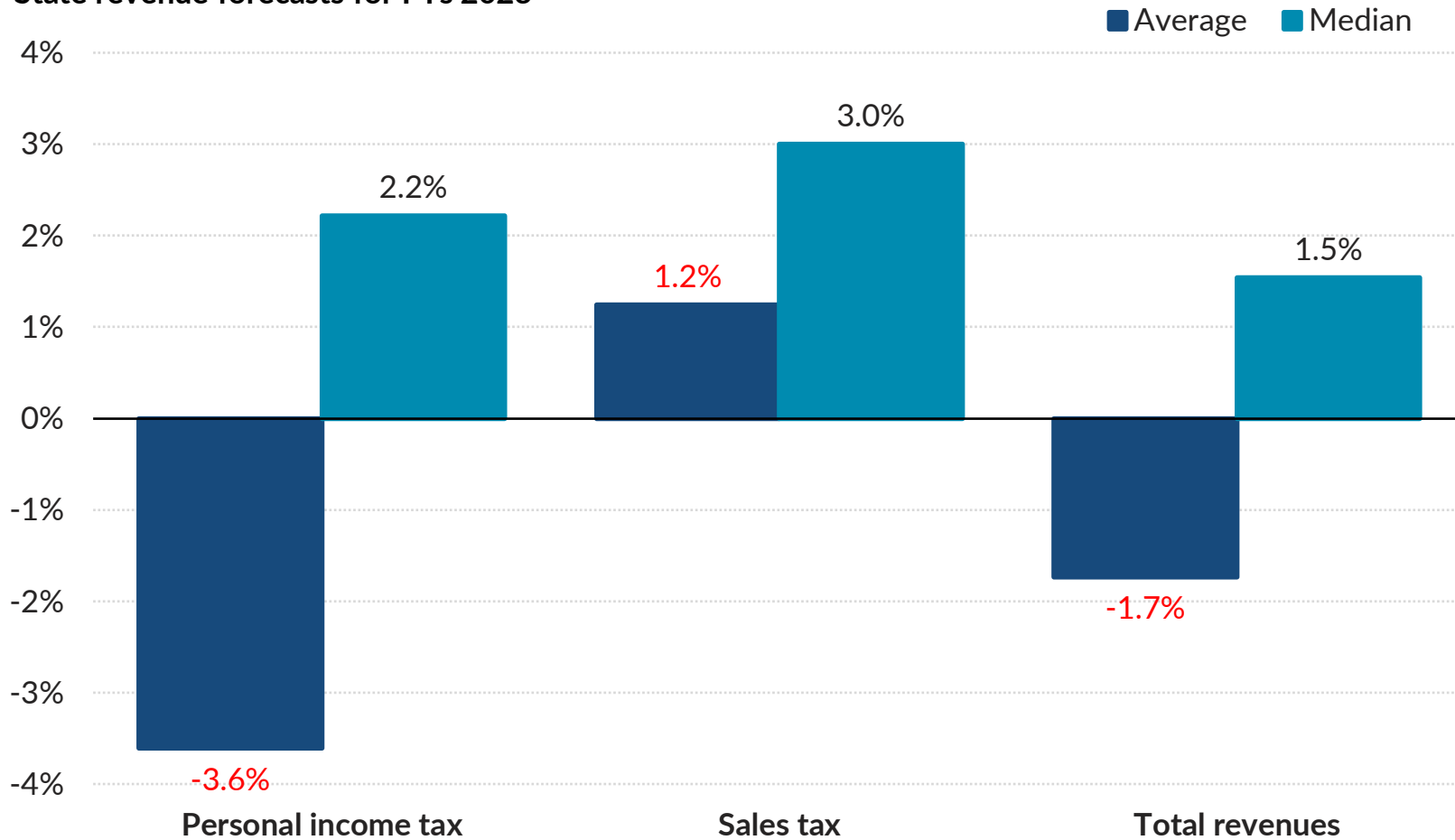
Year-over-year percentage change in house prices versus local property taxes



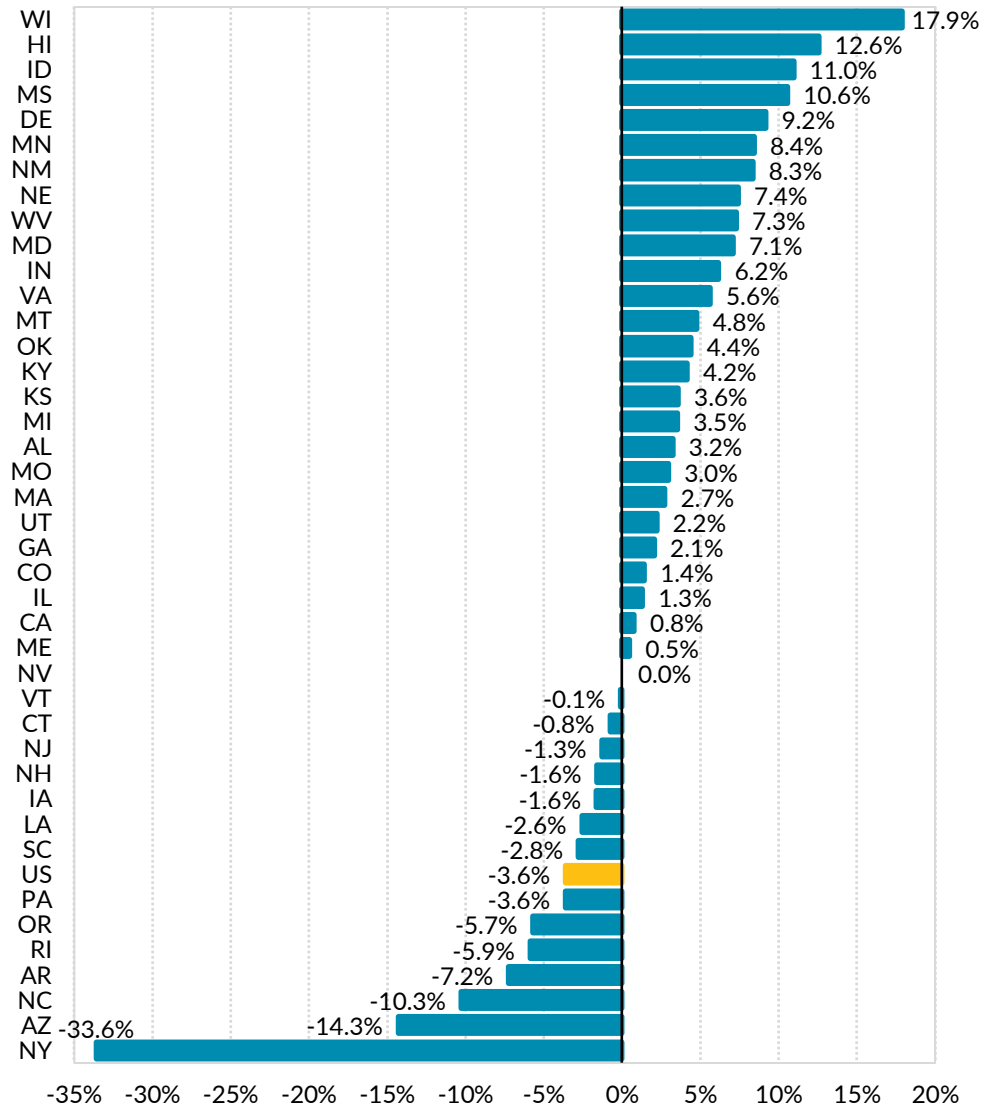
Current Revenue Forecasts

States' most recent revenue forecasts for FY 2023

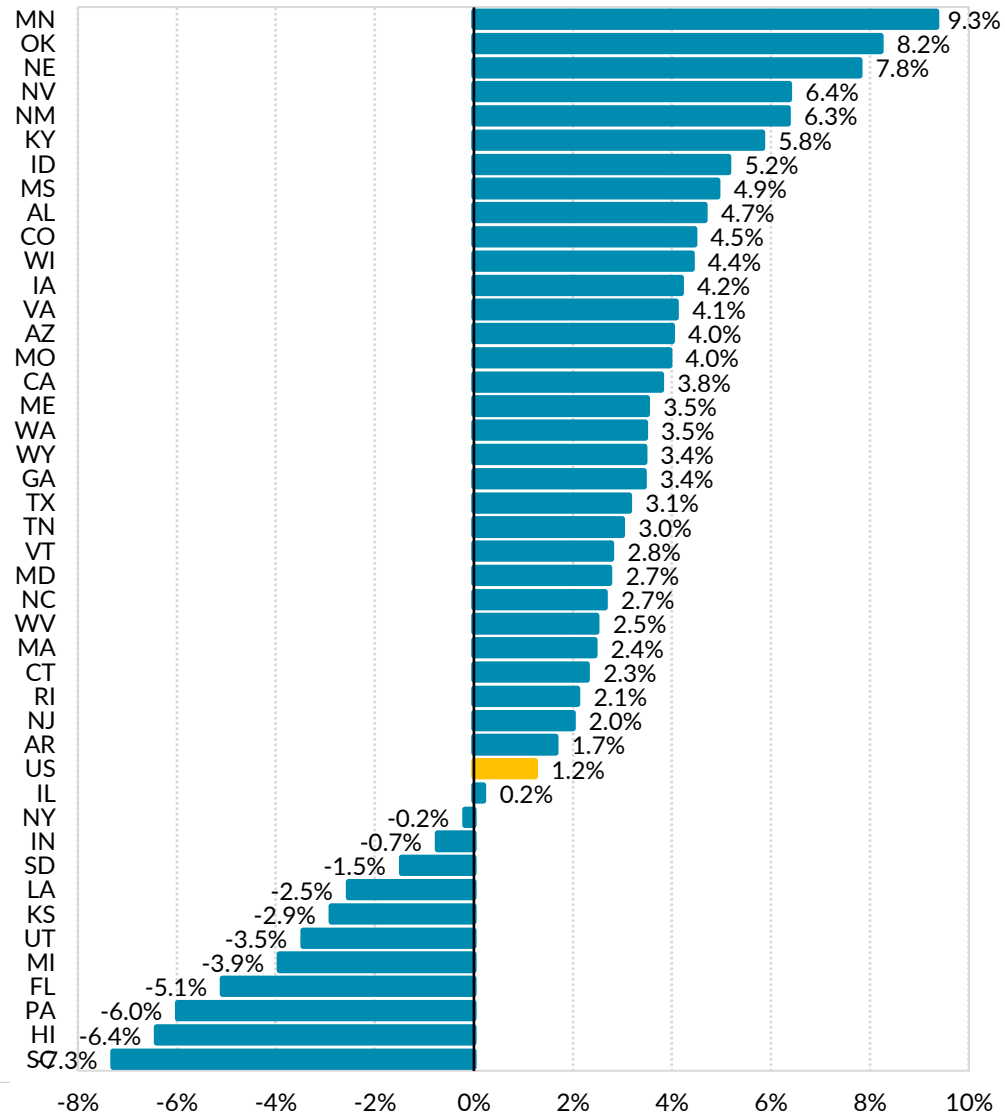
State revenue forecasts for FYs 2023



State personal income tax revenue forecasts for FY 2023



State sales tax revenue forecasts for FY 2023



Fiscal Challenges and Uncertainties Ahead

Are states in fiscal bubble? Five reasons for caution

1. Inflation, inflation, inflation
 - Supply chain bottlenecks and unprecedented labor shortages drove annual inflation to 4.7% in 2021, a 30-year high. Current inflation rates are above 8%.
2. The pandemic (temporarily) increased spending on taxable goods
3. Robust stock market
 - In 2021, the S&P 500 stock index rose by 33%, the fastest annual rate in more than 6 decades.
4. IPO bonanza
 - The IPOs boomed in 2021, with companies raising billions through listings.
5. Anticipation of federal tax rate hikes
 - The Biden administration stated plans to hike the tax rate on corporations (from 21% to 28%) & on capital gains (from 20% to 39.6% for taxpayers making more than \$1 million a year).

Fiscal uncertainties ahead

- What happens when federal relief runs out?
- Will changes in consumer behavior caused by the pandemic persist?
- When (if ever) will tourism and service industries return to pre-pandemic levels?
- The future of the remote work
- The global geopolitical crises
- Longstanding issues
 - Structural deficits (i.e., the gap between revenue growth and spending growth)
 - Volatility of commodity-based revenue sources
 - Aging population and growing obligations to pensions and the postemployment benefits
 - A lack of alignment among policymakers regarding long-term fiscal solutions

Need more information and detailed 50-state tax data?

- Visit Urban Institute's State and Local Finance Initiative [webpage](#)
- Read our ***State Tax and Economic Review*** Quarterly Reports, which cover the current status of state tax revenue performance
- Contact me to receive our ***Monthly State Revenue Highlights*** by email
- Get access to our timely state tax [databases](#), including
 - [Annual State and Local Government Gambling Revenue Data](#)
 - [Monthly State Government Tax Revenue Data](#)
 - [Monthly State Government Personal Income Tax Data](#)
 - [Quarterly State Government Tax Revenue Data](#)
 - [Annual State Government Tax Revenue Collections versus Official Forecasts](#)
 - [Monthly State Government Marijuana Tax Revenue Data](#)

Thank you!

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