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S&P: U.S. State and Local Government Credit Conditions Forecast: For 2015, the Future is Now.

A review of several macroeconomic indicators might suggest that state and local government credit conditions are stronger than at any point in the past decade. Real GDP growth in the second and third quarters, at 4.6% and 3.9%, respectively, marked the fastest back-to-back quarters of growth since the second half of 2003. Similarly, on the jobs front, monthly payroll reports, especially following November's particularly strong report, are on pace to culminate in the largest annual percentage increase since the late 1990s.

Focusing solely on these topline aggregates, however, risks overlooking important regional variations. In addition, in Standard & Poor's Ratings Services' view, a deeper dive into the economic data reveals several reasons to maintain some caution regarding the outlook. This is particularly true for state and local government finance, where the pace of tax-revenue growth remains measured in the face of mounting long-term liabilities and glaring infrastructure needs.

Overview

- State and local governments are stable, but relatively slow growth has many operating on thin margins.
- State ratings are more disparate than five years ago, with the lowest achievers struggling to deal with pension obligations, in particular.
- We expect several states to announce projected budget gaps in 2015 from factors ranging from tax-reduction measures to legally mandated education funding.

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