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Fitch: U.S. State & Local Governments Search for Predictability in 2022

Fitch Ratings-New York-02 December 2021: How sustainably Federal stimulus aid is rolled out will be key for both U.S. state and local governments next year amid labor shortages, a new COVID variant and other unforeseen post-pandemic fallout, according to Fitch Ratings in its 2022 outlook report for the sector.

Fitch's outlook for U.S. states and local governments in 2022 is neutral relative to surprisingly strong 2021 underlying business conditions. "Economic growth above trend and a significant boost in resources from federal stimulus will keep states and local government finances on a positive path in 2022," said Senior Director Eric Kim. "Rising inflation and supply constraints will remain challenges."

COVID-19 remains influential and unpredictable as transmission rates and hospital caseloads can shift rapidly. This makes the new Omicron variant a potential area of concern as a new pandemic surge could cause another economic setback, complicating governments' budget outlooks. The largely unspent infusion of federal aid in 2021 provides some fiscal cushion.

The recent return of international travel should improve the outlook for major tourist draws and leisure and hospitality recovery overall in 2022. That said, state and local governments most dependent on business travel, including convention activity, will see the slowest recovery, particularly if Omicron variant infections become more widespread in the U.S.

Another area of note next year is labor shortages, which are beginning to trigger wage pressure for government employees and could in time erode expenditure flexibility for some state and local governments. "Governments with slower or stagnant revenue growth prospects may see an emerging or growing mismatch and increased pressure on budget-balancing tools," said Senior Director Michael Rinaldi.

The full report "Fitch Ratings 2022 Outlook: U.S. States and Local Governments" is available at www.fitchratings.com.

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