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S&P: U.S. State And Local Government Credit Conditions Forecast: Ramping Up After A Slower-Than-Expected Start.

With 2014 now halfway over, credit conditions for U.S. state and local governments continue to stabilize and are strengthening modestly. This is despite a sharp downward revision to the estimate of first-quarter GDP growth by the U.S. Bureau of Economic Analysis (BEA) and some emerging softness in state tax revenue collections in April. In Standard & Poor's Ratings Services view, it's useful to recall that measures of GDP, while important, are coincident indicators with data releases that lag the time period they measure. And our economists don't see the BEA's revision as signaling the start of a contractionary cycle. On the contrary, our forecast looks for a rebound in real GDP growth to 3.9% in the second quarter (annualized) followed by respectable rates of 3.3% in the third and fourth quarters.

After peaking in the third quarter of 2008, household debt declined for 17 of the subsequent 19 quarters. In our view, this deleveraging process was integral to the economy's slow recovery from the Great Recession. Now, however, households have increased their debt loads for three consecutive quarters, suggesting the economy has turned an important corner. Nevertheless, weak first-quarter growth will likely take a bite out of our forecast for overall real GDP growth in 2014, which was already at 2.3%, down from the 2.75% we anticipated just three months ago.

Read the full report.

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