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Fitch: 2017 Outlook for U.S. States Stable Despite Significant Federal Uncertainty.

Fitch Ratings-New York-13 December 2016: Although the upcoming change in federal administration introduces significant uncertainty for U.S. states, the U.S. State outlook for 2017 remains stable on credit stability and the states' strong powers, according to a Fitch Ratings report. Both the rating and sector outlooks are stable for 2017.

"At this early stage it is not possible to predict what policy choices will be made by the Trump administration, or what they will mean for states," said Laura Porter, Managing Director.

"The transition of federal administrations creates many uncertainties for U.S. states, which are exposed to policies affecting the U.S. and global economies, as well as decisions related to jointly funded programs."

Federal changes with a significant impact on states are generally implemented in a way that allows states to adjust, taking advantage of their strong powers to manage budgets and download fiscal challenges.

President-elect Trump's proposal to convert Medicaid to a block grant program, if enacted, would likely lead to materially lower federal funding to states. Reduced Medicaid aid could cause states to tighten overall spending and reduce transfers to local governments.

"The biggest concern would be decisions that shift costs from the federal government to states while continuing service level mandates," said Porter.

The Trump administration's trade policy proposals could be significant for both state economies and revenues, particularly for state economies with pronounced links outside the U.S. Immigration policy changes could also have specific sector or regional implications.

The likelihood of federal tax cuts in 2017 could lead to volatility in personal and corporate income tax revenues for the current fiscal year as taxpayers consider shifting income to 2017 to take advantage of lower rates. The effects could reverberate for several years, similarly to the 2013 federal tax law changes.

If the federal government enacts fiscal stimulus simultaneously with tax cuts, it may mean higher federal debt, higher inflation and higher rates. This could put wage pressure on states and locals, raise borrowing costs, create headwinds for export-oriented sectors, and, positively, potentially help pension returns, though for the latter this could be offset by higher cost of living adjustments.

Fitch will hold a teleconference on Jan. 12th at 2:00 pm eastern to discuss its 2017 U.S. state and local government outlooks. To register for the call, please visit http://dpregister.com/10097550.

For more information, a special report titled "2017 Outlook: US States" is available at www.fitchratings.com.

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