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S&P: U.S. State And Local Governments Wait For The Economic Boost To Kick In

A coalescing of economic momentum underpins credit conditions for state and local governments as of early in the second quarter. Any upside implications of the outlook, however, are tempered by elevated risk stemming from political and policy-based uncertainty emanating from Washington D.C., in S&P Global Ratings' view. Our baseline economic forecast anticipates real GDP will expand at a moderately paced 2.3% during 2017 and 2.4% in 2018. Additionally, we place the odds of a recession occurring over the next year at a less than likely 20% to 25%. As in recent years, we estimate that growth in the first quarter was slow at 1.6%, coming off a somewhat disappointing 2.1% growth rate in the fourth quarter of 2016. While economic growth was slower than expected in late 2016 and early 2017 and has weighed on state tax revenue trends, we believe the sluggishness could give way to somewhat faster collections in fiscal 2018.

Overview

- Economic growth will accelerate but remain around 2.0%;
- Tighter labor markets should lead to rising wages;
- State tax revenue collections should gather momentum, but an equity market correction is a key risk;
- The West South Central region will have the fastest growth, and New England the slowest.

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