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S&P: The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions

Key Takeaways

- Most U.S. states entered 2020 on a comparatively stable footing, benefiting from a decade-long national economic expansion.
- Ratings on issuers with narrower payment streams are more susceptible to immediate pressures than a state or local government's general credit quality.
- State and local governments with concentrated economic activities are more likely to see revenue declines.

The COVID-19 pandemic and the consequential global economic recession will affect U.S. state and local governments to varying degrees. During this period of pronounced economic volatility, S&P Global Ratings recognizes the public health crisis across the country and the strain on state governments coordinating a response across all levels of government. As economic forecasts change, implementation of federal relief efforts emerge, and other information becomes available, we will continually evaluate our U.S. state portfolio for potential credit implications. On April 1, S&P Global Ratings revised its sector outlook to negative for all U.S. public finance sectors, reflecting in part the precipitous decline in economic conditions to end the quarter, which is anticipated to continue at least through the second quarter. (See "All U.S. Public Finance Sector Outlooks Are Now Negative," published on April 1, 2020 on Ratings Direct).

As the pace of the COVID-19 outbreak accelerates across the country, governments continue to work to help contain its effects on the public's health and mitigate the social and economic toll that continues to rise, in some instances, at alarming rates. A distinguishing characteristic of the COVID-19-induced recession is that efforts to contain its spread have resulted in a sharp decline in economic activity. S&P Global Economics economists now forecast that the resulting economic toll will be extensive, but will occur in a shorter time relative to the Great Recession. Their most recent year-on-year U.S. second-quarter GDP estimates suggest a contraction of at least 12.7% (See "Economic Research: It's Game Over For The Record U.S. Run; The Timing of A Restart Remains Uncertain," published on March 27, 2020 on RatingsDirect). The current policy responses have an immediate effect on U.S. state and local governments' operating environment.

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