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Projected State Shortfalls Grow as Economic Forecasts Worsen.

As economic projections worsen, so do the likely state budget shortfalls from COVID-19's economic fallout. We now project shortfalls of $765 billion over three years, based on the new projections from the Congressional Budget Office (CBO) of yesterday and Goldman Sachs of last week. The new shortfall figure, significantly higher than our estimate based on economic projections of three weeks ago, makes it even more urgent that the President and Congress enact more fiscal relief and maintain it as long as economic conditions warrant.

CBO now projects that unemployment will peak at 15.8 percent in the third quarter of this year (July-September), fall to a still-high 11.5 percent by the last quarter, and remain at an elevated 8.6 percent at the end of 2021. Goldman's new projection estimates that unemployment will peak at an astonishing 25 percent this quarter and still remain at 8.2 percent at the end of 2021. These CBO and Goldman estimates, considerably more pessimistic than their estimates of early April, account for the aid that Washington has already enacted for businesses, individuals, and state and local governments. Goldman's projections also assume that policymakers will provide additional fiscal relief.

Our projection of $765 billion in shortfalls over state fiscal years 2020-22 — much deeper than in the Great Recession of about a decade ago (see chart) — is based on both the historical relationship between unemployment and state revenues and on the average between the latest CBO and Goldman projections. It covers state budget shortfalls only, not the additional shortfalls that local governments, territories, and tribes face.

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Center on Budget and Policy Priorities

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