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Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers.

Fitch Ratings-New York-01 October 2020: Fitch Ratings has updated the assumptions that underpin its scenario analysis to reflect the company's refreshed view of the nation's path to recovery from the coronavirus pandemic. Informed by Fitch's "Global Economic Outlook – September 2020" and "Fitch Ratings Coronavirus Scenarios: Baselines and Downside Cases – Update," the revised scenarios reflect recent slightly stronger economic activity to date than anticipated, and expectations for a slower recovery from 4Q20 onward.

Revised baseline GDP assumptions for the FAST States & Locals – Fitch Analytical Stress Test Model (FAST) model are for a 4.6% decline in year one, followed by growth of 4.0% and 3.0% in years two and three, respectively. In the new baseline scenario, real GDP does not recover to 4Q19 levels until at least 4Q21. Inflation assumptions remain zero in year one, and 2% in years two and three. Scenario analysis informs Fitch's assessment of state and local governments' financial resilience.

In addition to the baseline scenario, Fitch has updated its more severe downside scenario, as described in the updated company-wide common scenarios report noted above. This scenario anticipates renewed lockdown measures, coupled with extended periods of voluntary social distancing that cause a second, smaller decline in GDP. The interpretation of the downside scenario for state and local governments was developed in consultation with Fitch's chief economist and incorporates GDP declines of 4.8% in year one and 0.6% in year two, followed by growth of 3.1% in year three. These assumptions indicate a less severe first-year stress than the prior downside scenario, but a delayed and longer recovery.

U.S. Public Finance Tax-Supported Rating Criteria are forward-looking and designed to communicate state and local governments' ability to maintain financial resilience through an economic cycle at a level consistent with their typically very high rating levels. The economic crisis caused by the coronavirus pandemic and related containment efforts by government officials has led to a far more profound downturn than the standard moderate recessionary cycle envisioned in the criteria. The criteria allow for a temporary modification of the scenario, including key input assumptions, in a period of economic decline. To reflect the current unprecedented stress, Fitch began adjusting its scenario analysis model–the FAST–in April. Prior to the current downturn, the standard GDP assumptions for the scenario were down 1% in year one, followed by growth of 0.5% and 2% for years two and three respectively, with CPI assumed to be 2% per year.

FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Hence, actual revenue declines will vary from FAST results. FAST does provide a relative sense of the risk exposure of a particular entity compared to others.

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