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## **Fitch: U.S. States' Path to Economic Recovery (Declining Fiscal Support, Slowing Employment Revival and Resurging Coronavirus Expected to Extend Road to Recovery)**

Fitch Ratings-New York-03 December 2020: The slowing labor market recovery, significantly reduced pandemic-related state and federal government transfers, and a resurging wave of coronavirus infections and hospitalizations will slow the pace and challenge the durability of economic recovery of many U.S. states according to Fitch Ratings. Fitch anticipates the vast majority of states are well positioned to manage budget pressures at current rating levels.

The continued withdrawal of direct fiscal support to individuals may further slow state economic recovery in the coming quarters. 'The expiration of significant levels of pandemic-related government transfers has occurred while employment losses from the pandemic are still significant in many states and may take several years to return to pre-pandemic levels,' said Fitch Senior Director Olu Sonola.

Concerns around weakened economic activity and an employment recovery that continues to level off, has led most states to forecast revenues to underperform not only in fiscal year 2021, but also in fiscal year 2022. In response, states have already made budget adjustments, with more belt tightening likely. While revenue collections data indicate more positive results in recent months than initially anticipated, significant uncertainty remains.

Making matters worse are coronavirus cases and hospitalizations, which are surging again and appear to have a broader geographical scope than the spring and summer waves with all regions significantly affected. Governors across the country have announced new restrictions on activity in an effort to control the spread of the virus and protect healthcare system capacity.

'This will likely further slow the pace of labor market recovery in the fourth quarter and well into 2021, particularly if lockdowns are re-imposed by state governments,' said Sonola.

[Read the Fitch Special Report.](#)