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S&P: How Inflation Has Mixed Effects On U.S. State And Local Government Credit Quality

Key Takeaways

- Inflation will affect U.S. state and local government issuers in a variety of ways, and the extent to which credit quality is pressured will be determined largely by the duration of elevated inflation growth.
- We don’t expect all the changes brought by higher inflation to be detrimental to credit quality. The extent to which it could be a net positive will be driven largely by state law and revenue mix.
- Despite any short-term revenue increases that some issuers may see, the pressures inflation puts on the macroeconomy, including rising interest rates, could slow growth and exacerbate income inequality, leading to higher social service spending.
- Given strong revenue collections and significant support from federal stimulus over the past two years, we see states and local governments as being well positioned to face the challenges brought by high inflation without pressuring credit quality, at least in the short term.

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