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Fitch: Covid-Hardened U.S. State Governments Ready for Tougher Macro Pressures

Fitch Ratings-New York-21 July 2022: Most U.S. state governments will exhibit financial resilience strong enough to navigate the next several months of slowing broader economic growth, according to Fitch Ratings in its inaugural 2022 U.S. States Median Metrics report.

Fitch's medians show U.S. state government ratings on an overall upward trajectory for the past five years with a faster rate of improvement coming, surprisingly, during the first year of the coronavirus pandemic. "States were able to repurpose at least some of the remarkably strong revenue growth towards improved resilience, with some states seeing historically high reserves," said Eric Kim, Senior Director and Head of Fitch's U.S. state government ratings group.

That said, a stiffer test of state governments' fiscal resolve awaits for the remainder of 2022 and into next year. "Revenue projections for fiscal 2023 suggest continued slower growth and possibly even declines as states anticipate various headwinds including a weaker macro environment with higher inflation and tightening monetary policy," said Kim. That is likely to manifest in the form of shifts in consumer spending towards less-taxed services and away from more-taxed goods and weaker markets driving down income tax revenues and consumer confidence.

As a result, Fitch anticipates some fall back in state government rating metrics by the end of fiscal 2022 or 2023, reflecting a material deceleration of economic growth. However, the very high ratings reflect Fitch's view that states will continue to act prudently in managing current budget surpluses to prepare for the next inevitable downturn.

Fitch's inaugural "2022 U.S. States Median Metrics" report is available at www.fitchratings.com.

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