Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: Outlook 'Deteriorating' for U.S. States & Local Governments in 2023; Ratings Stable

Fitch Ratings-New York-02 December 2022: U.S. states and local governments are generally well-positioned to withstand a mild recession, though close ties to a weakening macro environment mean a 'deteriorating' sector outlook next year for both sectors, according to Fitch Ratings in its 2023 outlook report.

Economic growth is slowing, with Fitch economists calling for a mild U.S. recession by 2Q23. Since state and local governments rely on tax revenues that respond quickly to changes in the economy, a rapidly cooling housing market and a commercial real estate market adjusting to less people working in the office could pressure property taxes more quickly than in the past. Against these headwinds, ample fiscal buffers are in place and should allow most state and local governments to absorb a moderate downturn. As such, Fitch anticipates state and local governments ratings will be largely unaffected despite a deteriorating sector outlook.

What will be critical is how long and severe the recession turns out to be. "A significantly deeper and prolonged recession could lead governments towards credit negative budget choices such as sustained pension funding deferrals or payment delays," said Eric Kim, Senior Director and Fitch's head of U.S. state ratings. Conversely, state and local budgets will directly benefit should the recession be relatively quick and subsequent economic growth materially exceed expectations.

Return to office trends, which are flattening, are particularly integral for local governments over the medium and long-term. "The ability of cities with large downtown office cores to continue making progress towards pre-pandemic levels of economic activity could become a more salient credit issue over the next several years," said Senior Director Michael Rinaldi, who oversees Fitch's U.S local government ratings.

Fitch's "U.S. States and Local Governments Outlook 2023" report is available at www.fitchratings.com.

Contact:

Eric Kim
Senior Director
+1-212-908-0241
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Michael Rinaldi
Senior Director
+1-212-908-0833

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com