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NASBO: Many Revenue Forecasts for Fiscal 2023 Revised Upward as States Monitor Economic Conditions

Overview

Revenue forecasts play a vital role in budget decisions for the current year as well as future spending plans. NASBO's [revenue forecast webpage](#) compiles recent forecasts from across the country. States vary in the frequency and timing of revenue forecasts. However, as shown in NASBO's [Budget Processes in the States](#), nearly all states release a revenue forecast in the late fall or early winter to help guide upcoming budget deliberations.

Fiscal 2023 Revenue Forecasts

Many states have revised revenue forecasts upward for the remainder of fiscal 2023 following better than projected growth in tax collections year-to-date. As highlighted in NASBO's [Fall 2022 Fiscal Survey of States](#), revenue projections in fiscal 2023 enacted budgets were 3.1 percent lower than preliminary actual collections for fiscal 2022. However, this decline is largely attributable to differences in the timing of fiscal 2022 figures and fiscal 2023 estimates. More recent collections data for fiscal 2023 suggest that general fund revenues will come in stronger than enacted revenue projections. In the Fiscal Survey of States, 33 states had already reported revenues exceeding original budget forecasts for fiscal 2023.

In addition to better-than-expected growth in tax collections so far in fiscal 2023, many states revised revenue forecasts upward for the remainder of the fiscal year after examining a series of economic indicators. A number of states' forecasts discussed the current overall strength of the labor market including the low unemployment rate, job gains, and elevated wage growth. Many states also said consumer spending has been higher than anticipated due partly to pent-up demand. Other revenue sources have also seen gains including severance taxes from the strength of the oil and natural gas sector.

Fiscal 2024 Revenue Forecasts

While many states have revised their revenue forecasts upward for the remainder of fiscal 2023, their projections for fiscal 2024 remain conservative as they monitor uncertain economic conditions which could produce a range of outcomes. In their fiscal 2024 revenue forecasts, most states are assuming nominal growth in tax collections, although at a much slower rate than the double-digit growth in both fiscal 2021 and fiscal 2022. States cited concerns about a weakening macroeconomic outlook due to several factors including rising interest rates, inflationary pressures limiting real growth, recent layoff announcements, the stock market correction, and the continued impact of geopolitical events.

Outlook

As states work to finalize their budgets for fiscal 2024, they will continue to monitor the economic outlook. In the spring many states will release an updated revenue forecast for fiscal 2024 taking into consideration any changes in the economy. Over the past several years, states have taken steps to prepare for a potential economic slowdown through actions such as building up rainy day funds to record levels, maintaining structural balance, increasing pension payments, paying down long-term

debt, and using one-time funds for one-time purposes.

National Association of State Budget Officers

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