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Economic Recovery Slows Across US States, Tax Revenue Growth Stalls in CA and NY.

Fitch Ratings-San Francisco/New York-08 May 2023: Despite the economy demonstrating more near-term resilience than anticipated, most U.S. States' GDP has slowed to pre-pandemic levels due in part to rising interest rates and tighter credit conditions, according to a new report from Fitch Ratings.

"The states with the strongest growth are characterized by fast population growth and highly diversified economies. States with the weakest recoveries are characterized by narrower and less diversified economies with high exposure to the tourism and energy sectors," said Olu Sonola, Head of U.S. Regional Economics.

State tax receipts have continued to expand at a healthy pace in fiscal 2023, but signs of a broad deceleration in revenue growth relative to the prior two years are clear. The median U.S. growth in state tax revenues was still solid at 11% yoy across all states through February; however, this compares to 24% yoy growth for the same period one year prior. California and New York were the only states to record yoy declines in tax revenue, reflecting broad based weakness in the equity markets and the technology sector.

As of March 2023, 15 states still had net job losses compared to February 2020, including the tourism-associated economy of Hawaii, as well as the natural resource-dependent economies of Alaska and North Dakota. Among the fastest growing states are Idaho, Utah and Florida, which have benefitted from significant domestic in-migration over the past three years.

Nominal personal income growth was positive across all states for the year ended in 4Q22 on the back of broad-based nominal private-sector wage growth, coupled with robust job growth. The gains were partially offset by decreased income from the roll-off of pandemic-era governmental support in all states.

For more information, a special report titled "U.S. States — Revenue and Economic Monitor 1H23" is available at www.fitchratings.com.

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