



TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

State Economic and Fiscal Picture During COVID-19 Era

Washington State Technical Advisory Group
Meeting

July 14, 2020

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Overview

- Current FY 2021 budget status
- Revenue forecasts pre- and post-COVID-19
- Policy decisions in response to COVID-19
- State consumption spending and sales tax revenues
- Unemployment insurance claims and job losses
- Current status of state personal income and total tax receipts
- The outlook

46 states began FY 2021 on July 1st

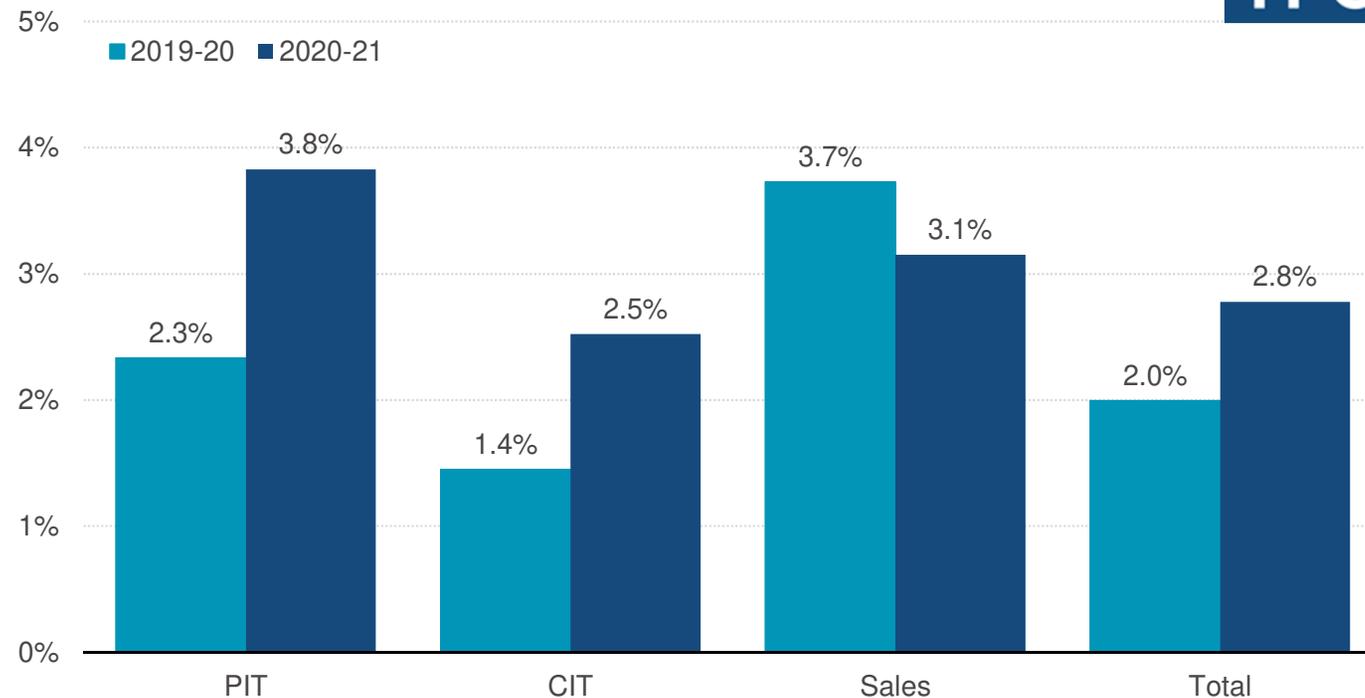
- As of July 1, 42 states had enacted FY 2021 budgets, of which 16 had enacted a biennial budget during their 2019 legislative session
- Here is where the remaining 8 states are:
 - **Massachusetts:** one-month budget for July
 - **Michigan:** FY 2021 starts on October 1
 - **Mississippi:** the legislature is finalizing some portions of FY 2021 budget
 - **New Jersey:** governor signed a 3-month budget. The start of FY 2021 shifted to October 1
 - **Pennsylvania:** funds most agencies through November (schools through end of FY 2021)
 - **Rhode Island:** authorizes monthly spending at fiscal 2020 levels
 - **South Carolina:** continuing resolution until September
 - **Vermont:** budget signed for the 1st quarter of FY 2021 only.

Revenue Forecasts Pre- and Post-COVID-19

States were forecasting solid revenue growth

Revenue forecasts prior to COVID-19 in 48 states

Percent change



State Revenue Forecasts Before COVID-19 and Directions Forward

Revenue forecast data indicated solid growth in income & sales taxes

Yet, revenue forecasters worried about

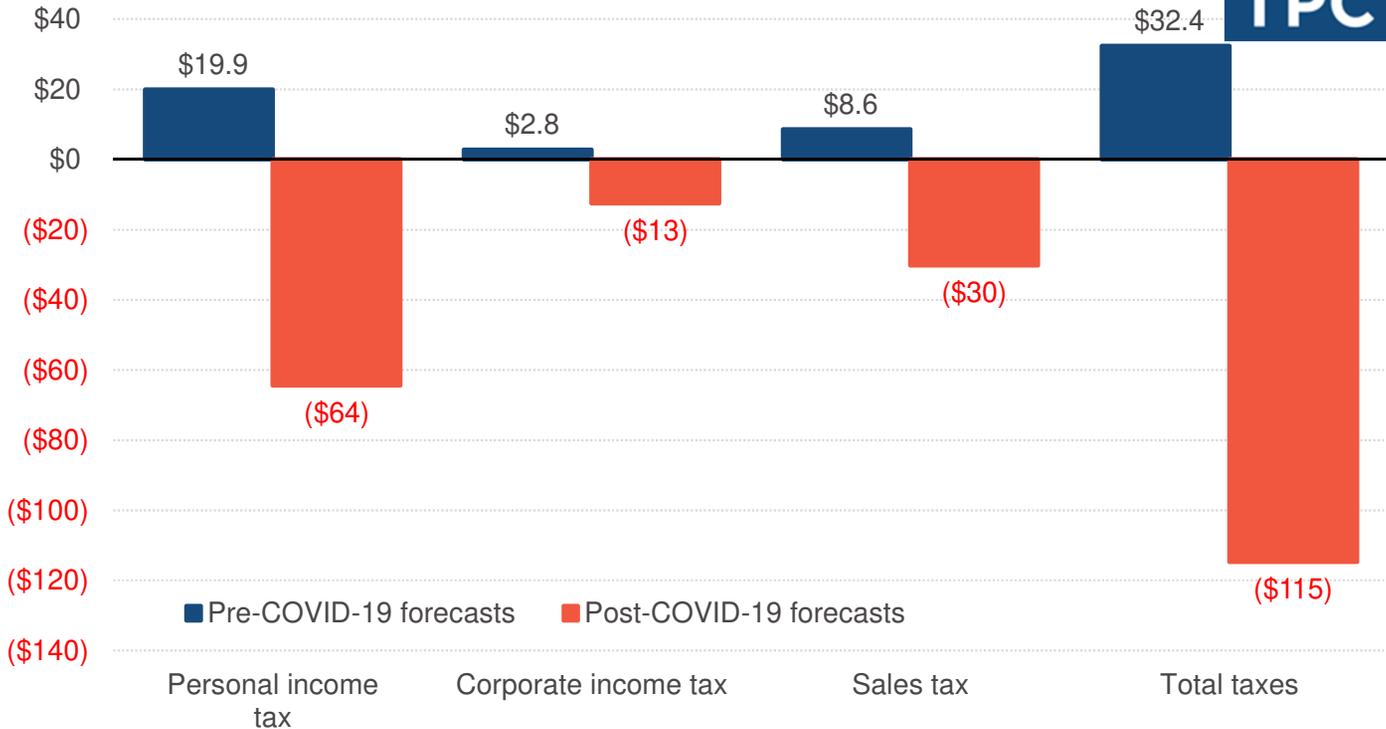
- Instability in global markets
- Nation's political climate
- Volatility in oil prices
- Political and economic risks associated with tariffs
- Federal Reserve Board's interest rate cuts in 2019
- Changing consumption and spending habits of Americans
- An aging workforce and long-term demographic changes
- Anticipation of further tax policy changes at the federal level

Pre- and post-COVID-19 state revenue forecasts for FYs 2020 and 2021 combined in 27 states



Pre- & post-COVID-19 state revenue forecasts for FYs 2020-2021 in 27 states

Dollars in billions



COVID-19 Pandemic Could Slash 2020-21 State Revenues By \$200 Billion

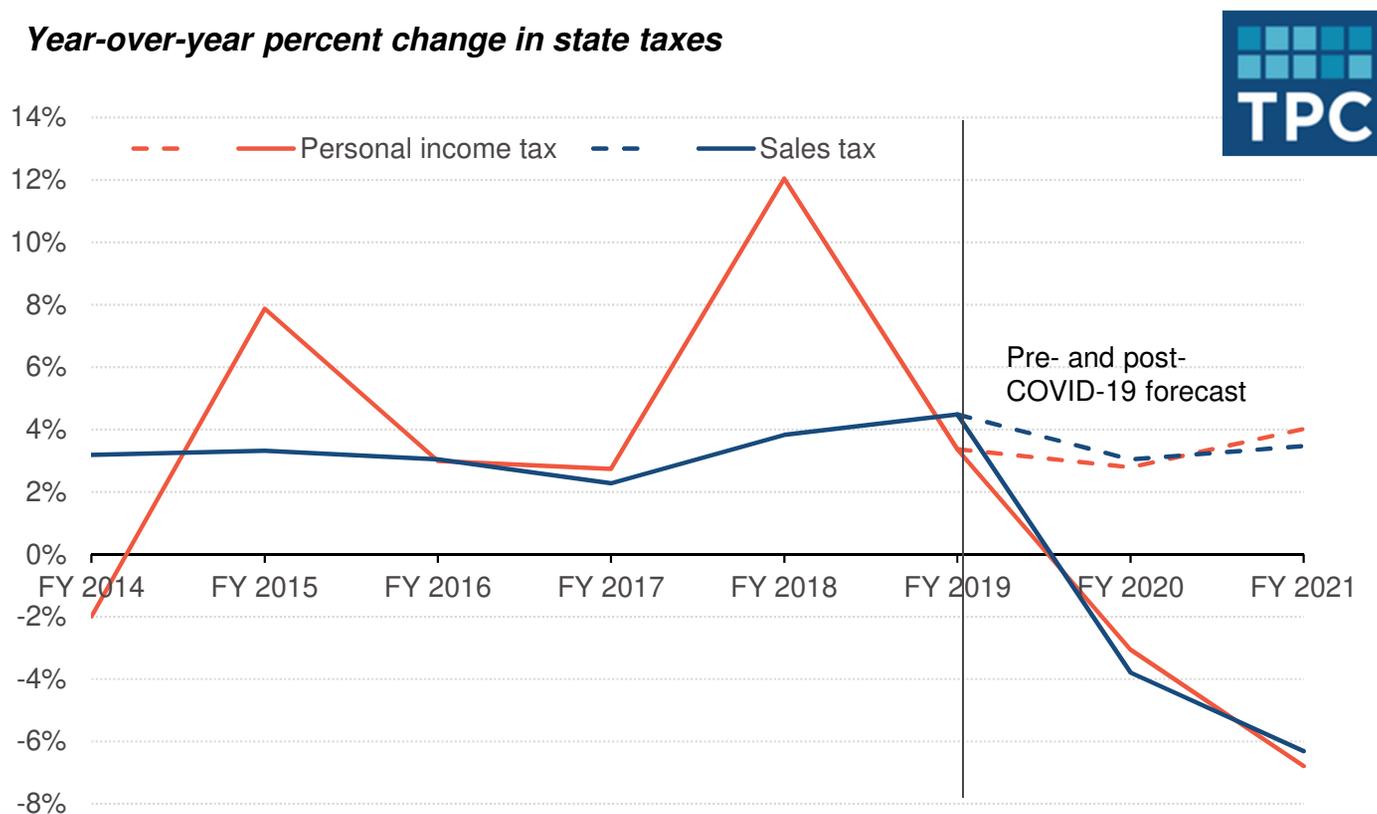
Extrapolating to all 50 states suggest:

Around **\$200 billion** shortfall in FYs 2020 and 2021 combined

Pre- and post-COVID-19 income and sales tax forecasts



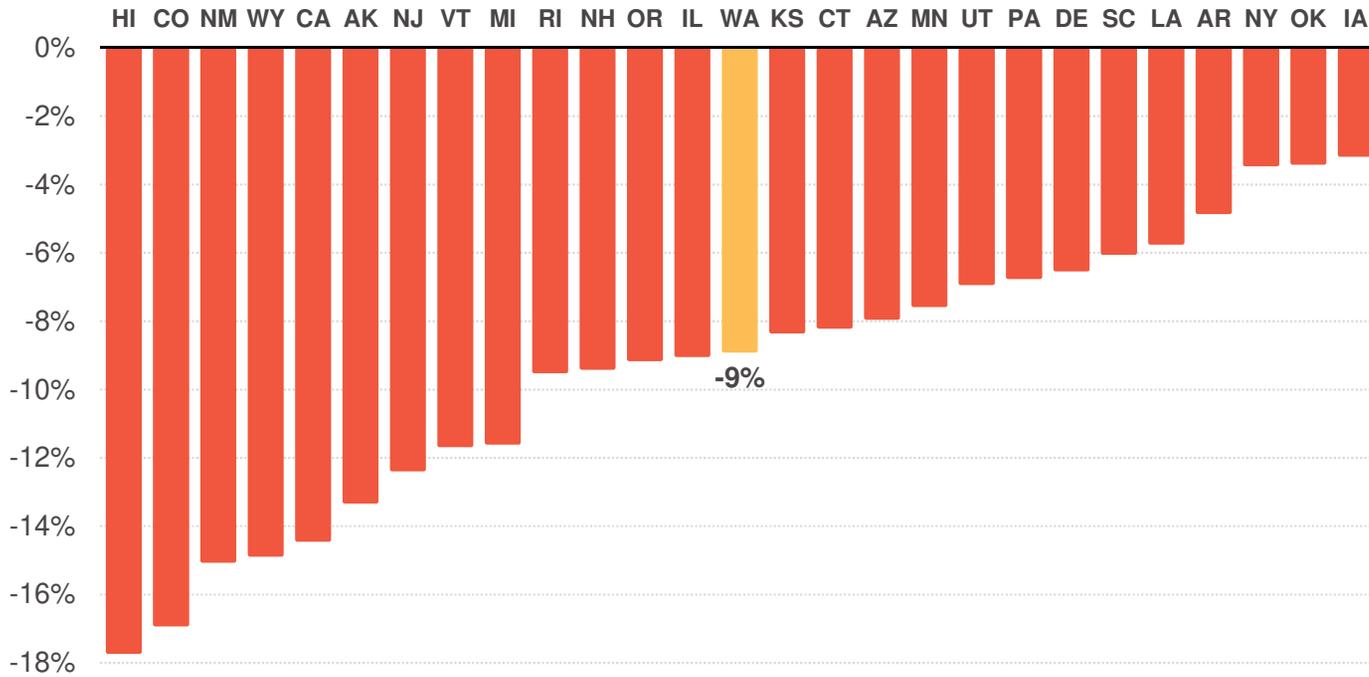
Year-over-year percent change in state taxes



Anticipated revenue shortfalls in FYs 2020 and 2021 combined



Percent change in revenue estimates compared to pre-COVID-19 estimates



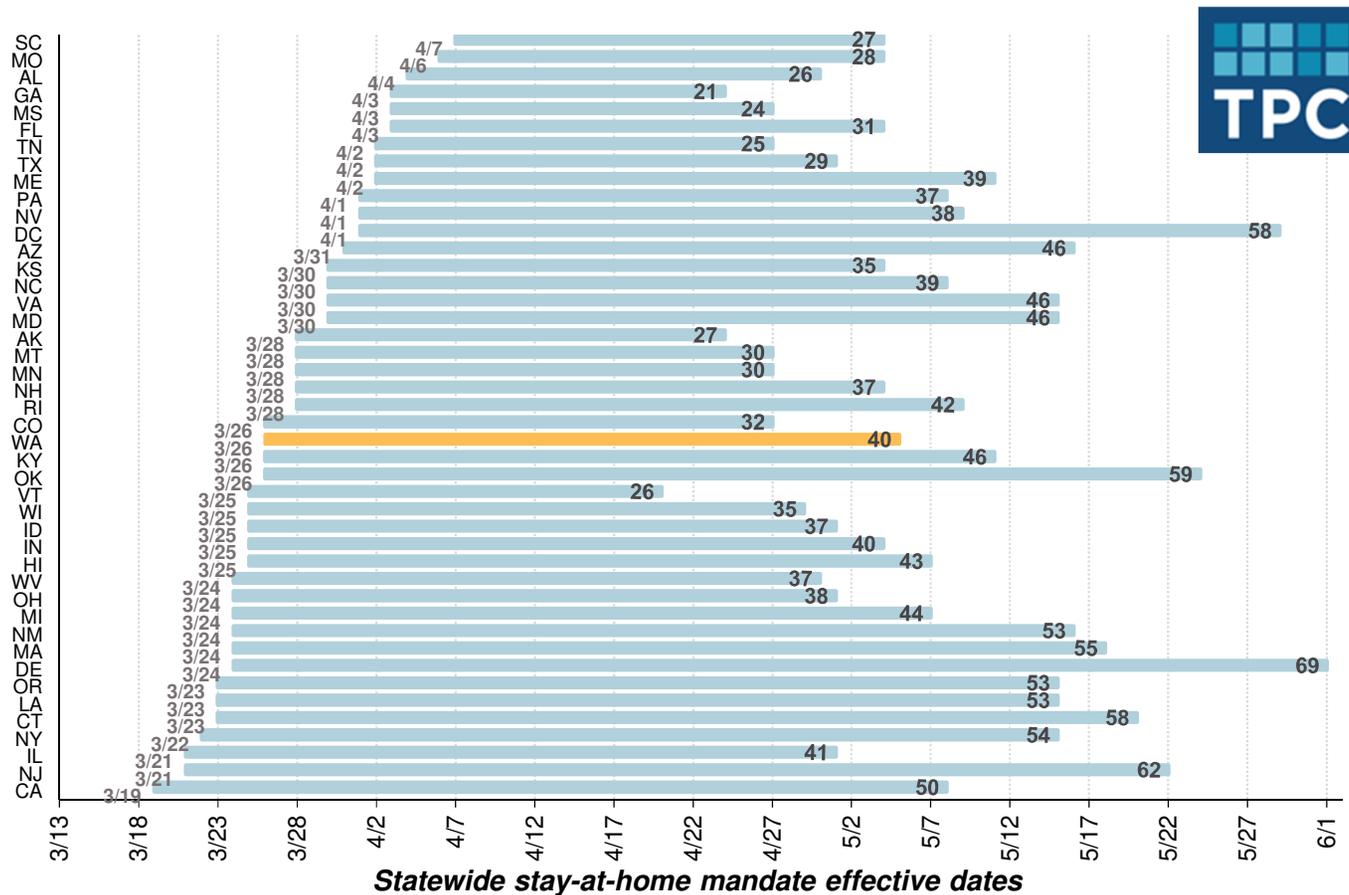
Policy Decisions in Response to COVID-19

Both Federal and State Governments Responded



- The CARES Act provided an additional \$600 per week UI benefits (expiring in July)
- The PUA expanded UI eligibility criteria to include self-employed, part-timers, independent contractors, etc.
- The PUA extended UI benefits for up to 39 weeks of benefits, available retroactively starting with weeks of unemployment beginning on or after January 27, 2020, and ending on or before December 31, 2020
- The Fed extended income tax filing deadline to July 15
- All states with income tax also extended income tax filing deadlines
- Many states also extended filing and payment deadlines for sales taxes, others waived interests and penalties [**Washington state**: businesses could request a one-time extension]
- 43 states mandated stay-at-home orders

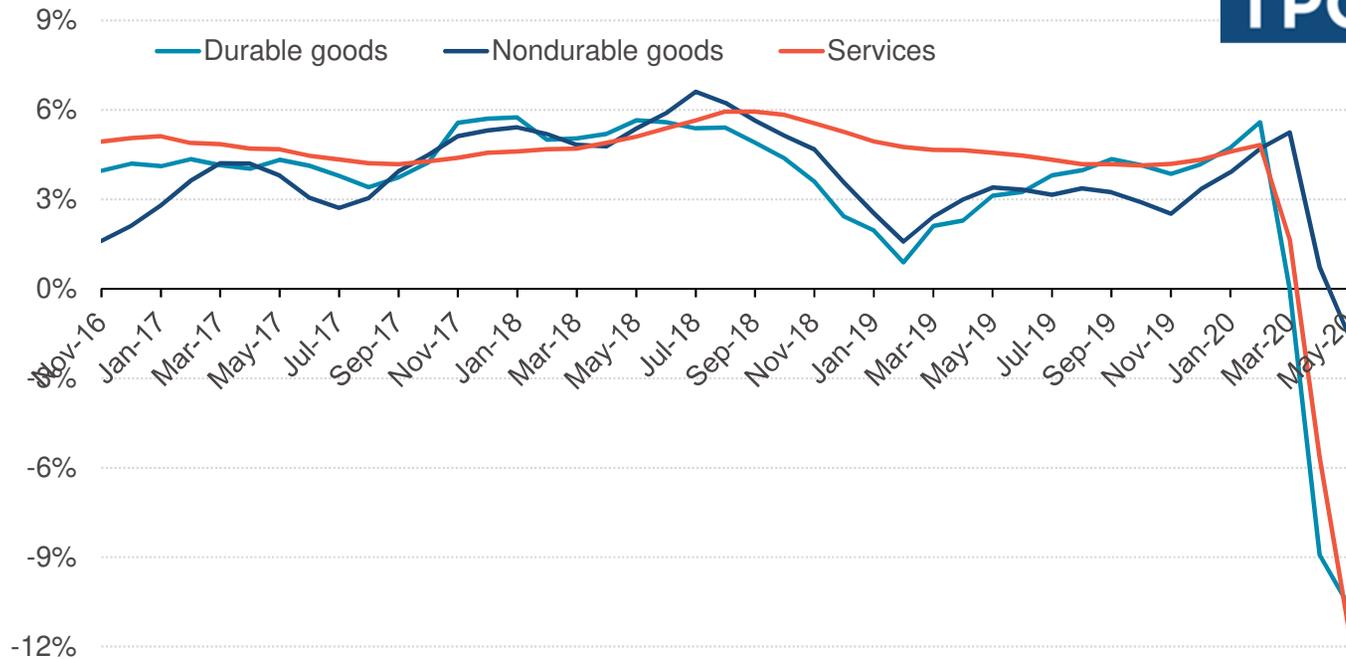
State stay-at-home order effective dates & duration



The COVID-19 Effect: State Consumption Spending and Sales Tax Revenues Slashed

Consumption dropped for services, big-ticket items

Year-over-year percent change in personal consumption spending

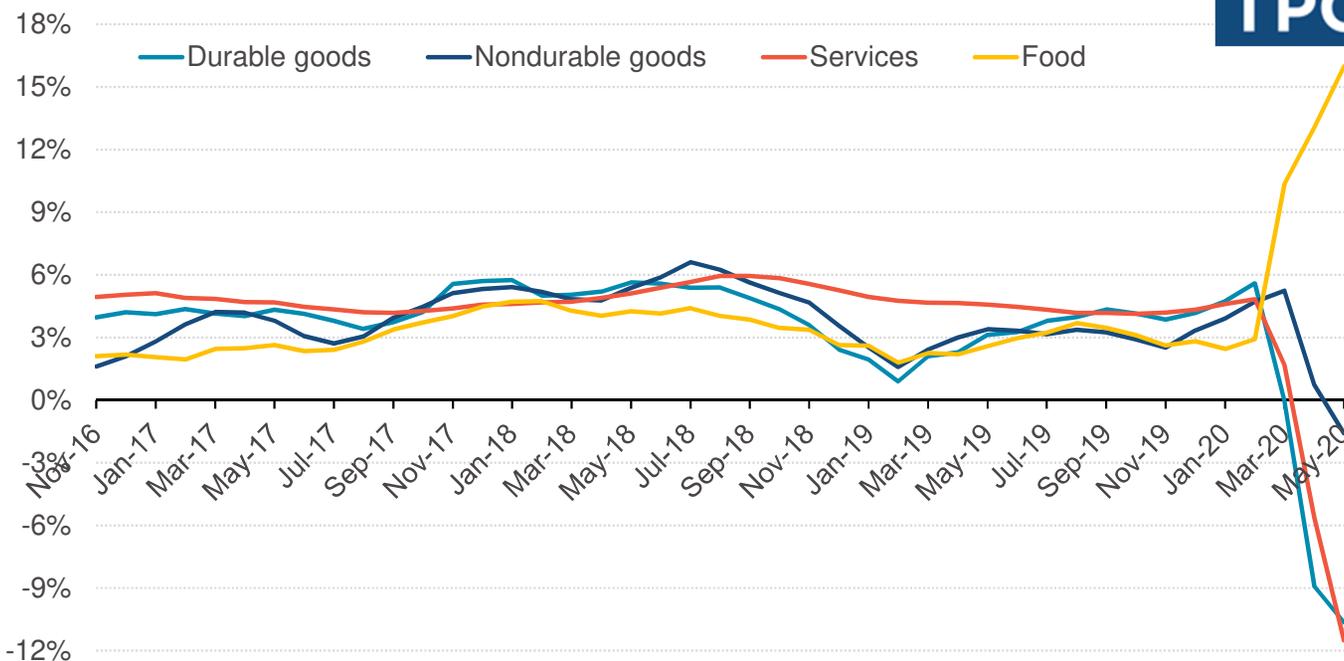


Source: Urban Institute and Bureau of Economic Analysis.
Note: Nominal percentage change is for 3-month moving averages.

But food consumption spiked in March through May



Year-over-year percent change in personal consumption spending

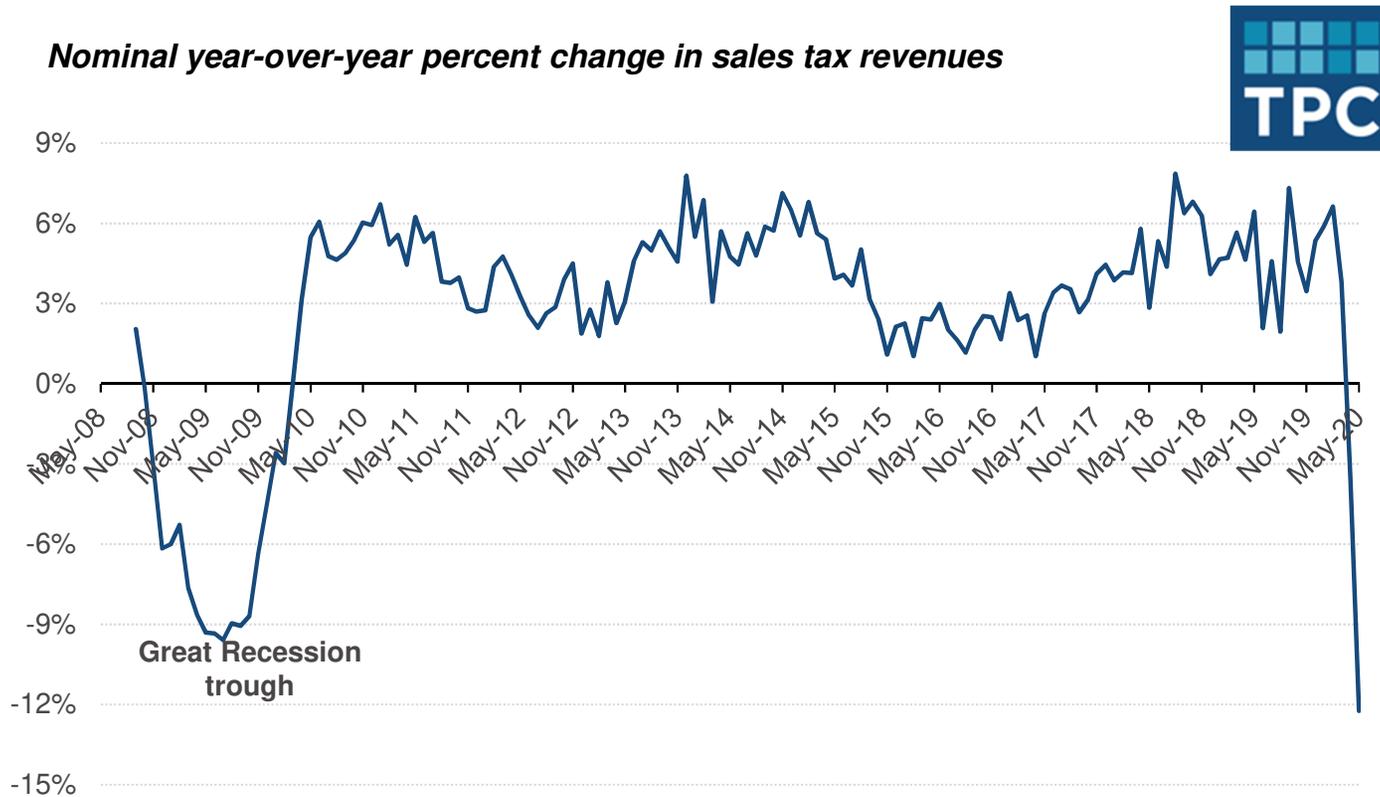


Source: Urban Institute and Bureau of Economic Analysis.

Note: Nominal percentage change is for 3-month moving averages.

Steep declines in state sales tax revenues

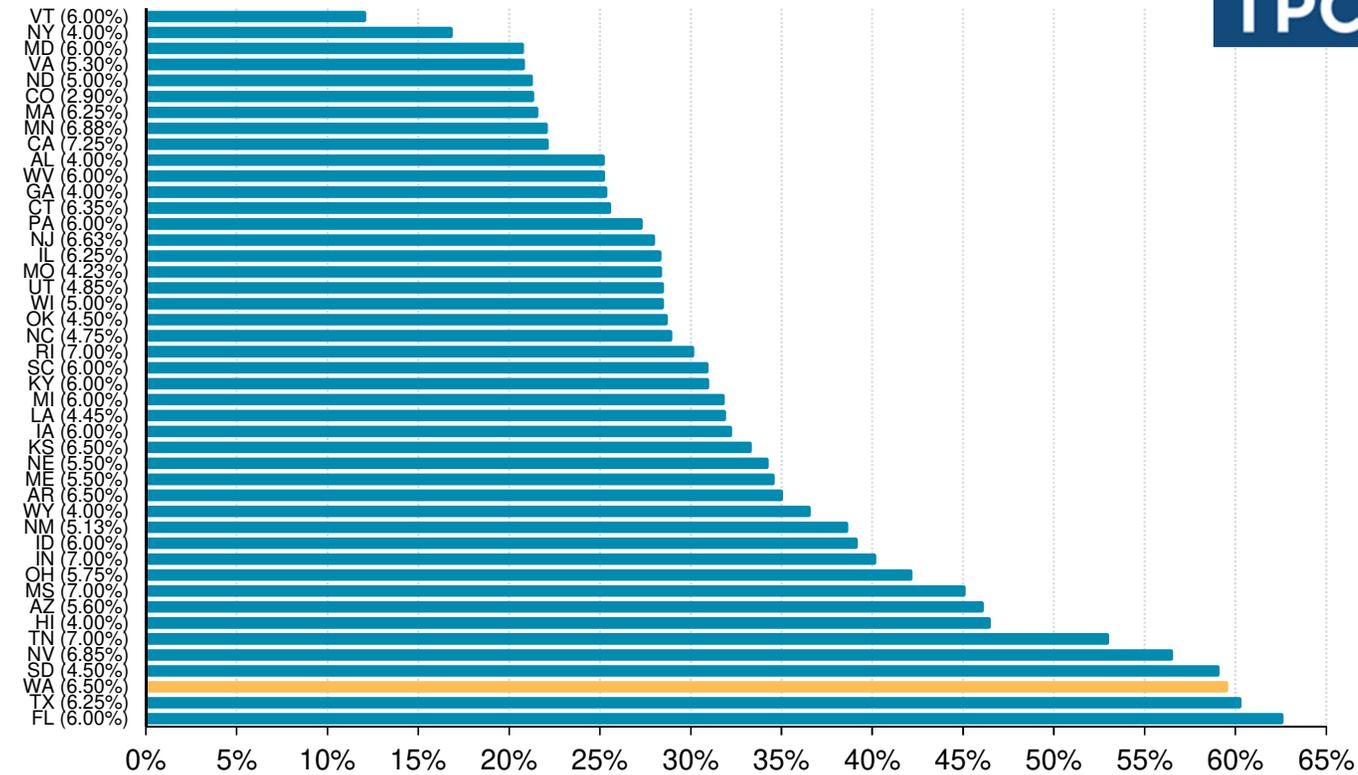
Nominal year-over-year percent change in sales tax revenues



Note: Percent change is for 3-month moving averages.

A problem especially in sales tax reliant states

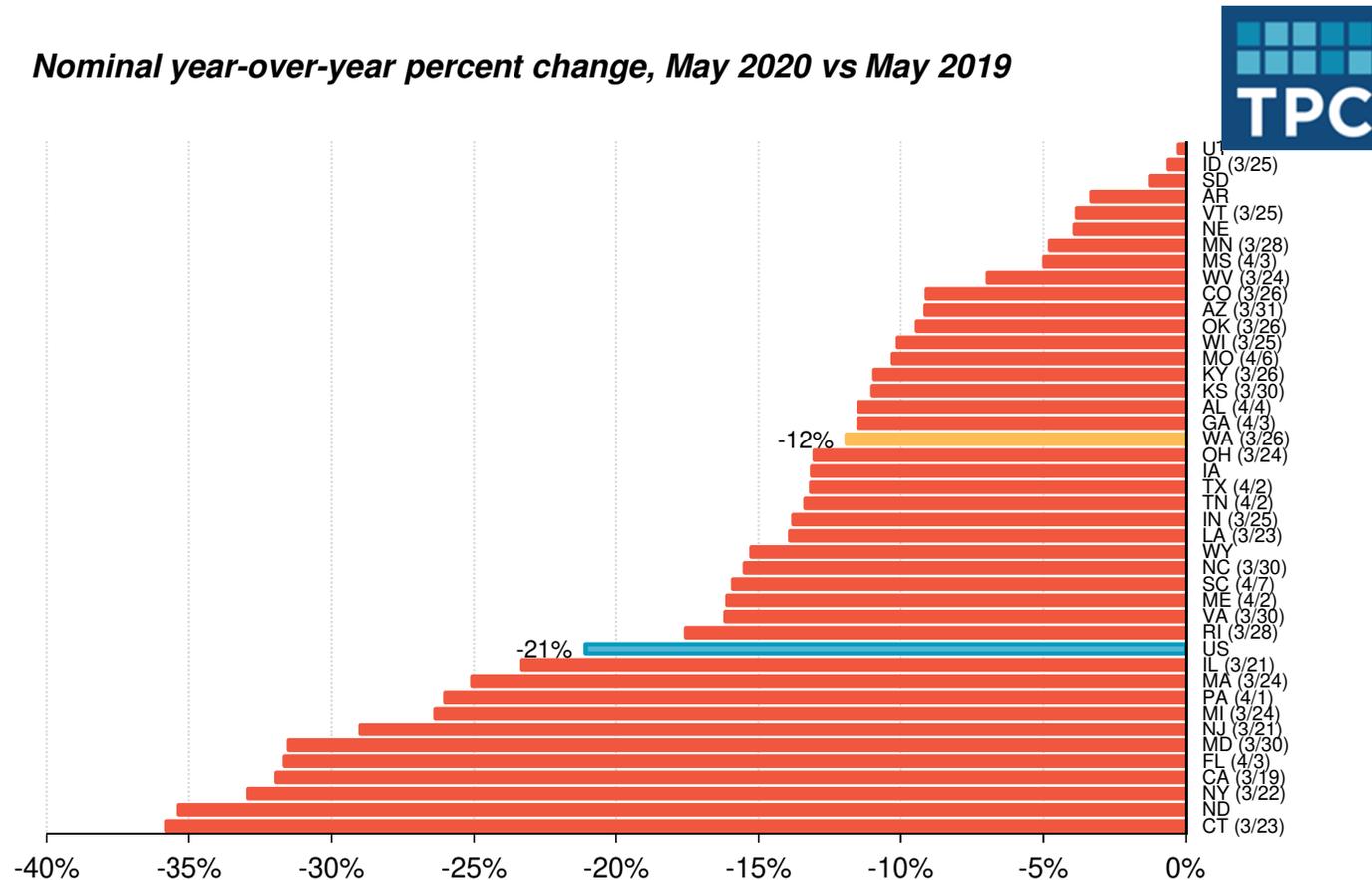
State sales tax rates and sales tax reliance
State general sales tax as share of total taxes, FY 2019



Note: State labels include current general sales tax rates.

State sales tax declines were widespread in May

Nominal year-over-year percent change, May 2020 vs May 2019



Note: State labels include stay-at-home effective order dates.

State Sales Tax Receipts Shrank \$6 billion in May

- Stay-at-home orders
- Business closures
- COVID-19 cases
- States' sales tax filing and payment deadline extensions

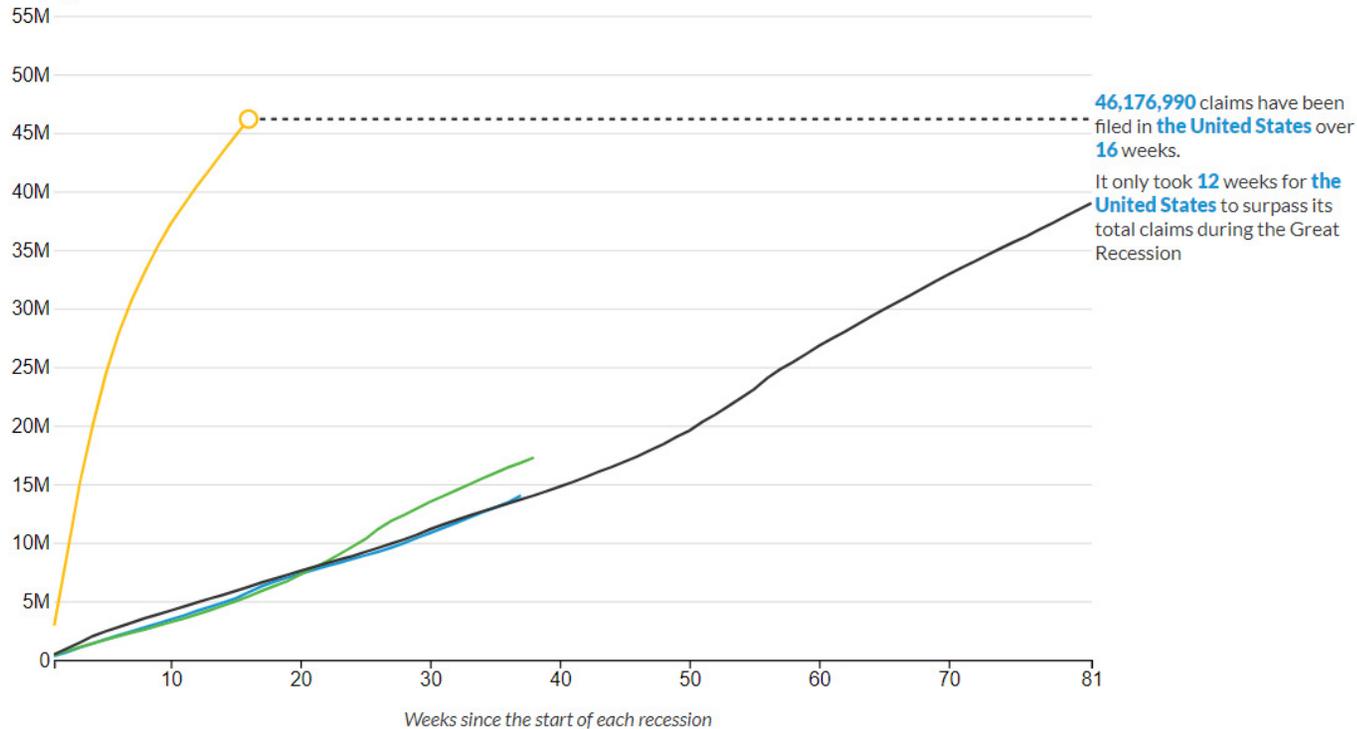
The COVID-19 Effect: Staggering Unemployment Insurance Claims, Job Losses

Concerns about lost wages and jobs, United States

All US ▾ Unemployment Insurance Claims as of July 9, 2020

— 1990 recession Beginning 7/14/1990
 — 2001 recession Beginning 3/17/2001
 — Great Recession Beginning 12/15/2007
 — COVID-19 pandemic Beginning 3/14/2020

Total Unemployment Insurance claims



COVID-19 And The Collapsing Job Market

In just 4 weeks, total weekly unemployment insurance claims were higher compared to any point in the 1990's and 2001 recessions and exceeded the first 50 weeks of claims in the Great Recession.

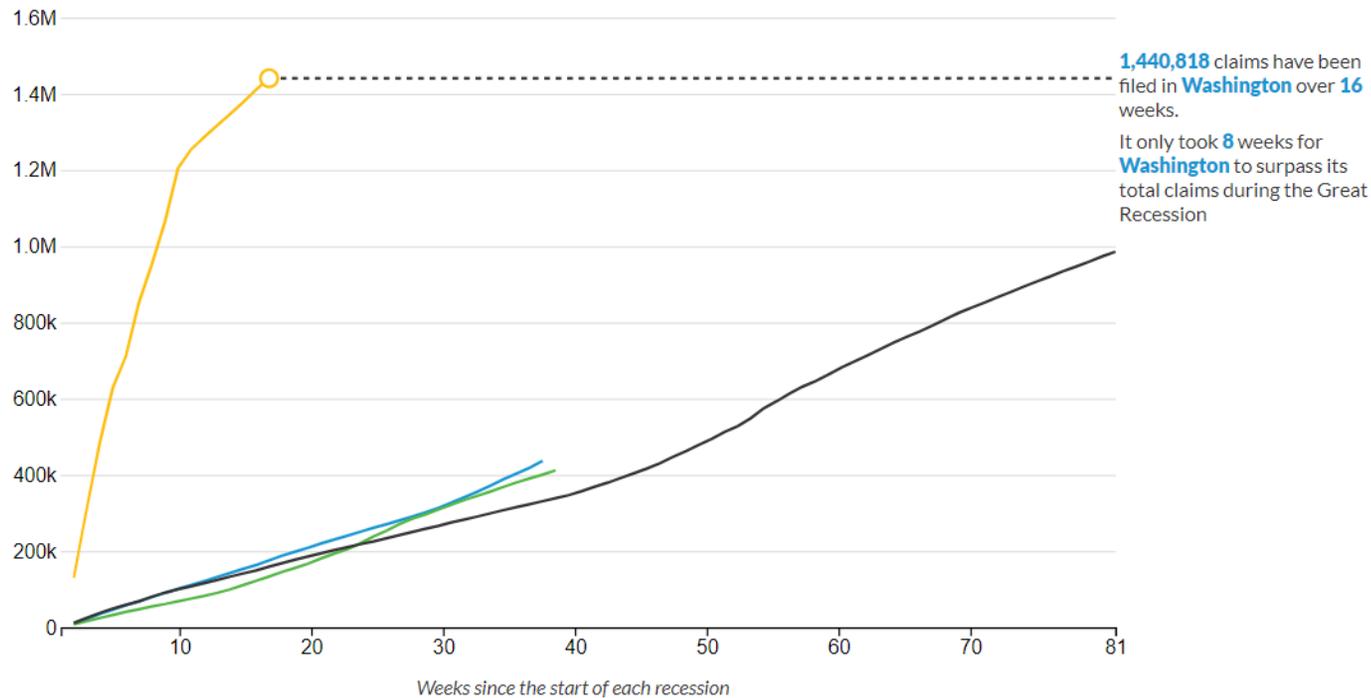
1.4 million total UI claims in Washington since March 14



Washington Unemployment Insurance Claims as of July 9, 2020

1990 recession Beginning 7/14/1990
2001 recession Beginning 3/17/2001
Great Recession Beginning 12/15/2007
COVID-19 pandemic Beginning 3/14/2020

Total Unemployment Insurance claims



1,440,818 claims have been filed in Washington over 16 weeks.
It only took 8 weeks for Washington to surpass its total claims during the Great Recession

Monitoring State UI Claims during the COVID-19 Pandemic

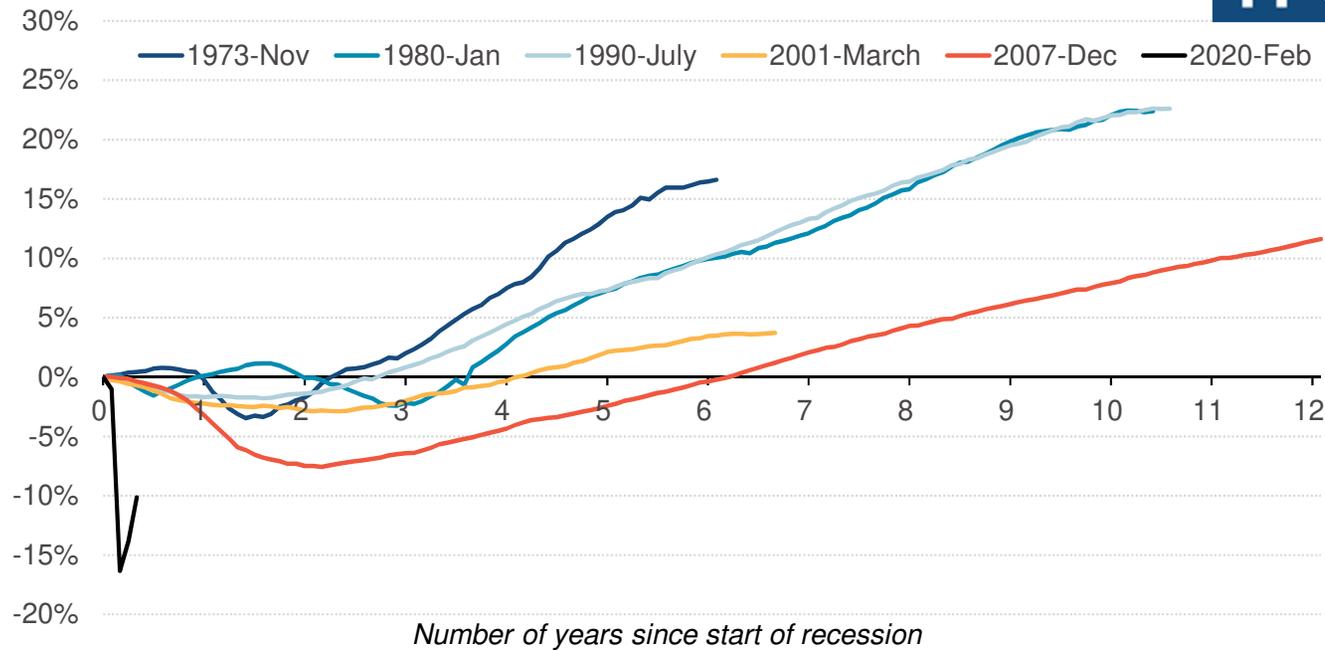
Interactive tool, updated weekly and showing cumulative UI claims for all 50 state and DC.

COVID-19 led to free fall in private sector employment



Private sector employment in selected recessions

Cumulative percent change since start of recession



Source: US Bureau of Labor Statistics (CES, seasonally adjusted).

Note: Data are shown until the start of the next recession.

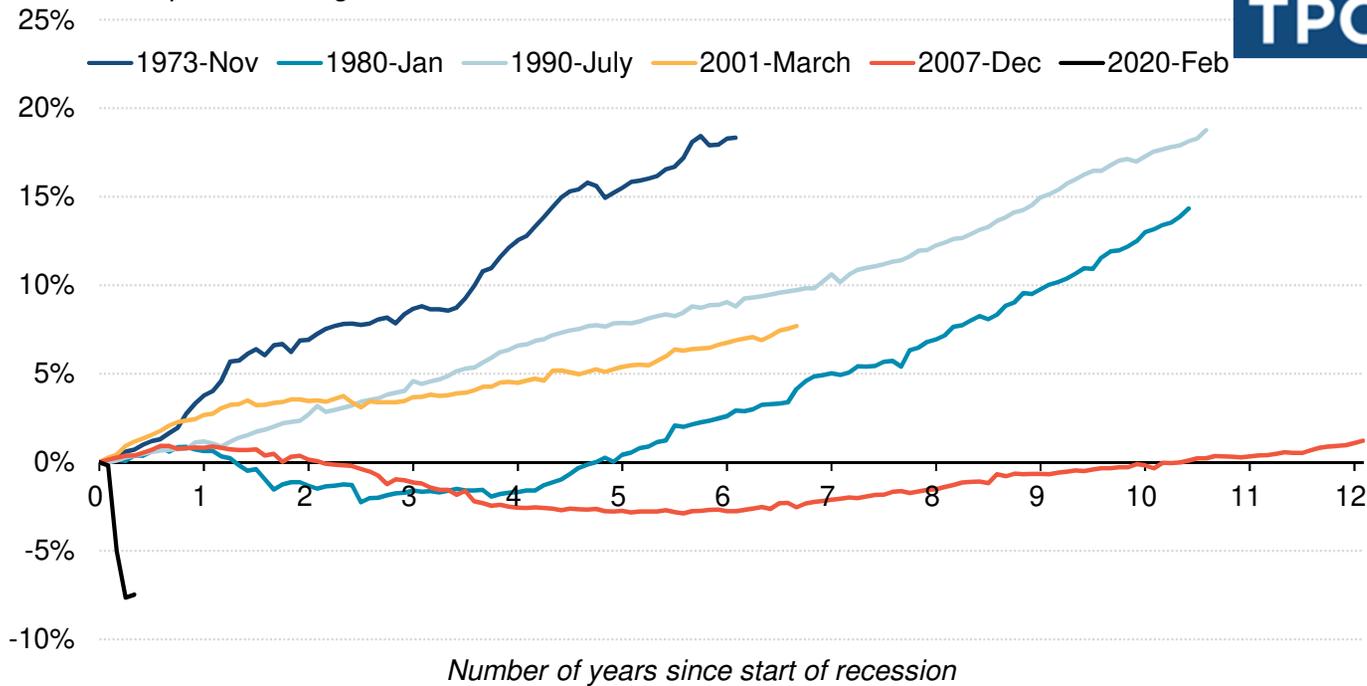
Steepest cuts in state-local government employment

Furloughs? Temporary layoffs?



State and local government employment in selected recessions

Cumulative percent change since start of recession



Source: US Bureau of Labor Statistics (CES, seasonally adjusted).

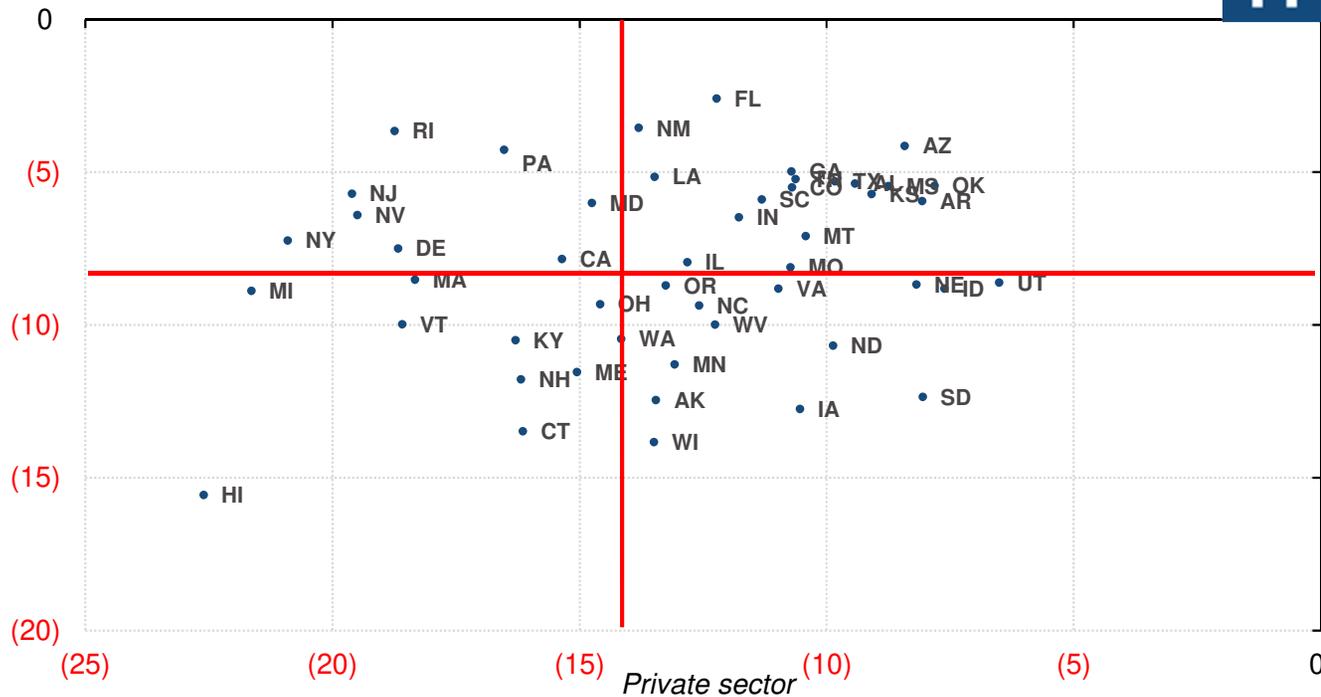
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Widespread declines in private and government employment since February



Percent change in private vs state-local employment, May 2020 vs February 2020

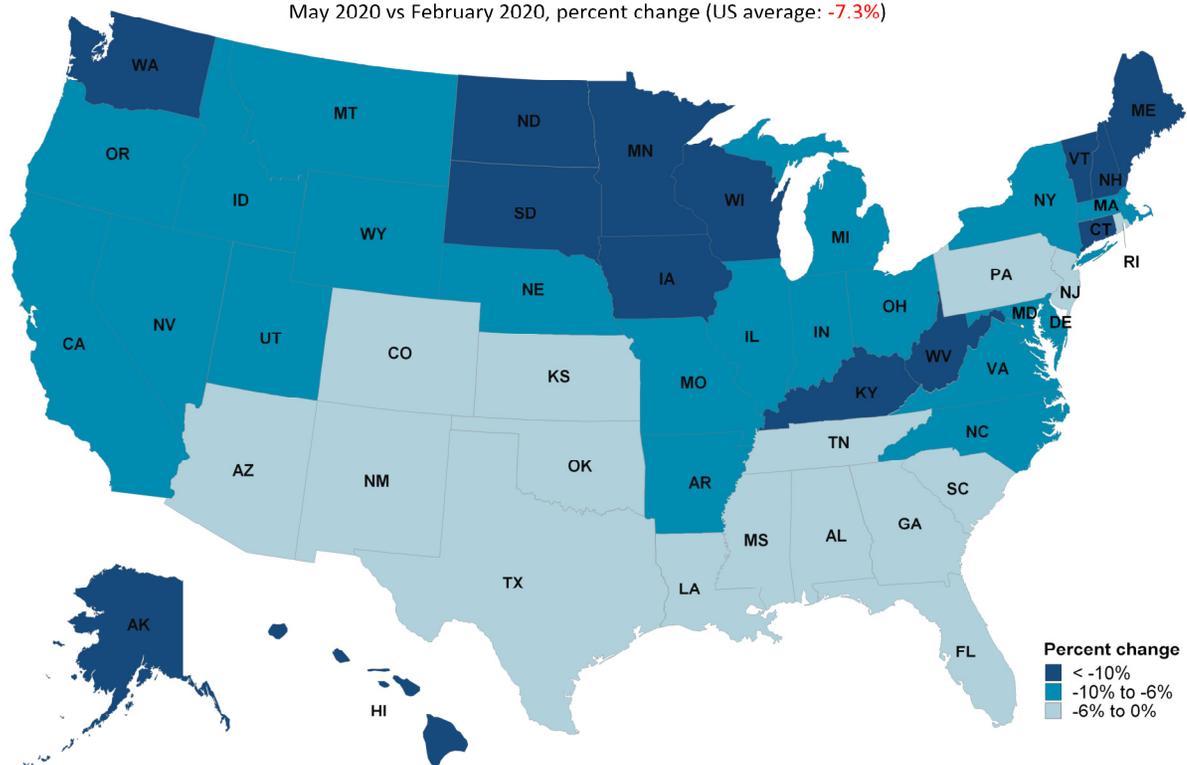
State and local government employment



State-local government employment down by 1.5 million or 7.3 percent since February



State & local government employment
May 2020 vs February 2020, percent change (US average: -7.3%)

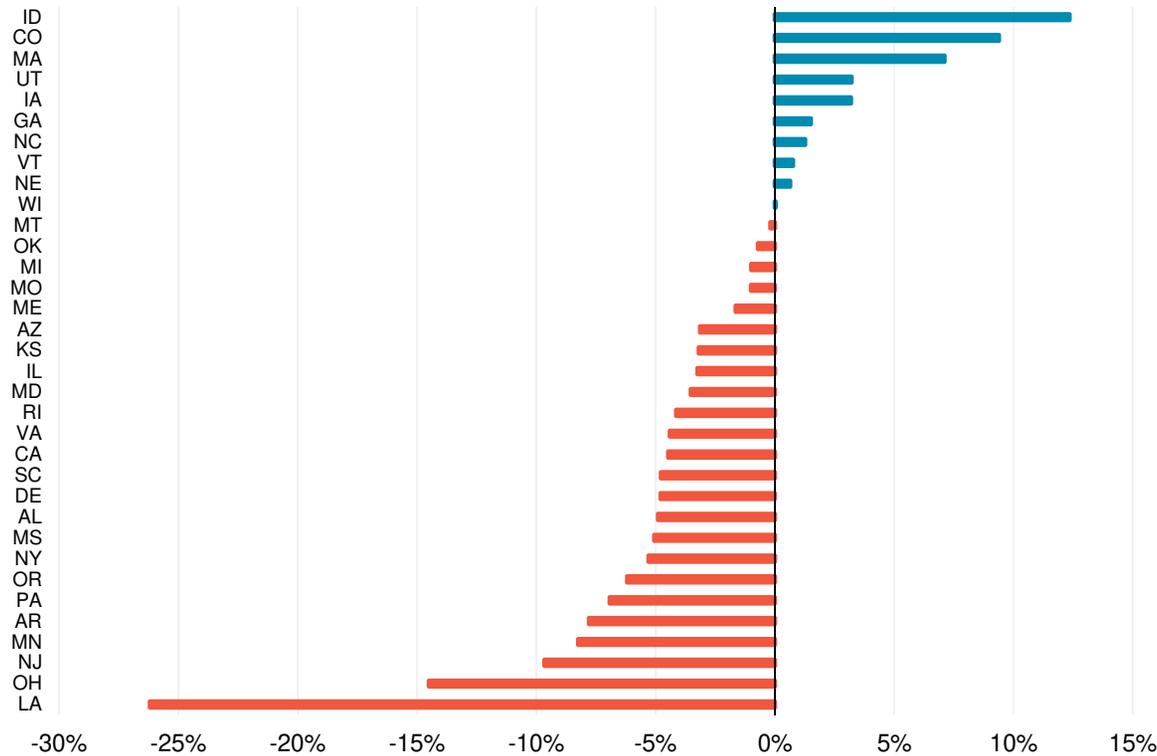


Current Status of State Income and Total Tax Receipts

Temporary \$600 per week UI benefits temporarily softened the blow to withholding taxes



Year-over-year percent change in withholding
April-May 2020 vs April-May 2019

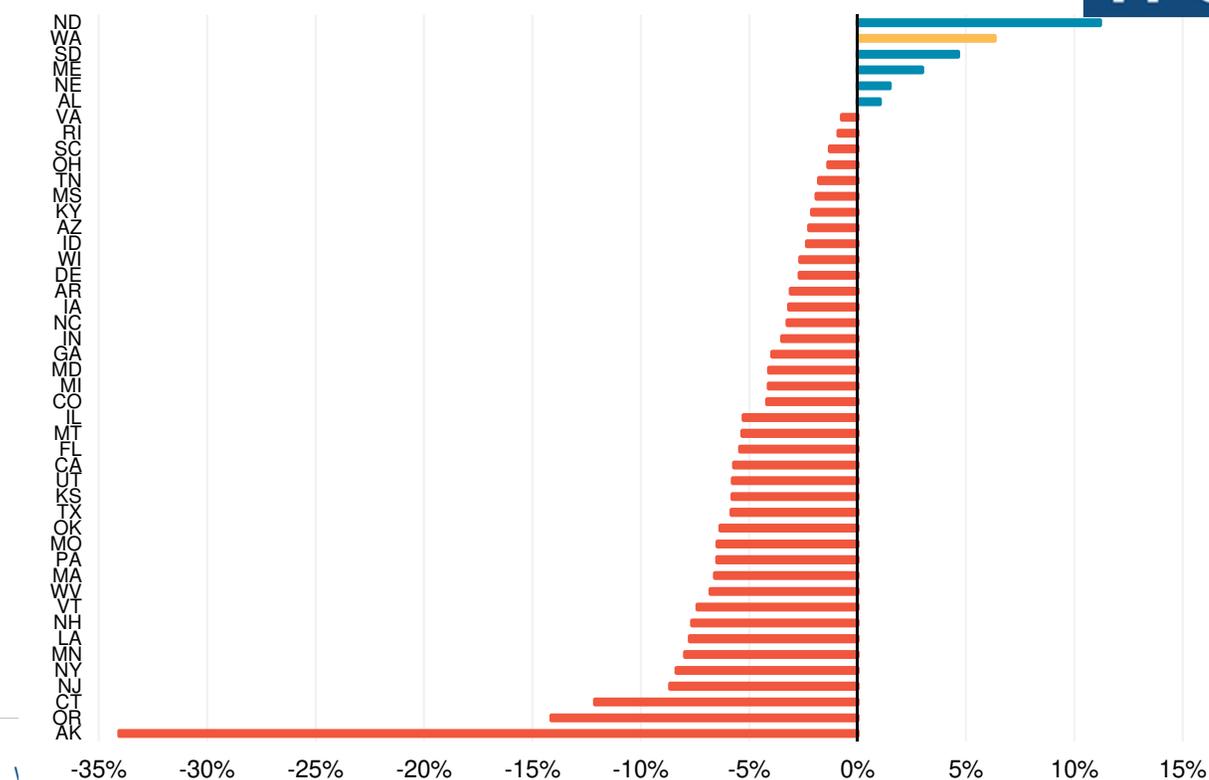


State fiscal-year-to-date tax revenues through May were down in most states



Year-over-year percent change in total state tax revenues

Fiscal year-to-date 2020 vs fiscal year-to-date 2019



The Outlook: An Uncertain Path

- No crystal ball
- Are we still in recession or already in expansion?
 - Doesn't matter! Possibility of double (or multiple) dip recession is likely
- What matters is the severity and duration of COVID-19 pandemic, which will determine the trajectory of the economy
- Federal, state, and local public health actions will play a crucial role
- If COVID-19 outbreaks continue, many people will self-regulate their economic activity. Consumer behavioral responses will play a key role in economic recovery
- Exposure of various industries and sectors
- Exposure of various state and local revenue sources