Stress Testing States

DAN WHITE, Director of Fiscal Policy Research
daniel.white@moodys.com - @DanWhiteEcon

August 2019
We’re #1
Duration of business cycle expansion, months, Jul-Jun fiscal year

Sources: NBER, Moody’s Analytics
The Next Recession Is Coming Into View

Unemployment rate, %

![Graph showing unemployment rate over time with a green curve indicating the estimated natural unemployment rate. The average length of time between going past full-employment and recession is 3 years. Sources: BLS, Moody’s Analytics.]

MOODY’S ANALYTICS
Markets Sound Their Warning

Difference between 10-yr and 3-mo Treasury yield, ppts

Average length of time between inversion and recession is 12 months.

Sources: Federal Reserve, Moody’s Analytics
Economic Consequences Growing Larger

Fiscal drag/boost from states and local governments, ppts

Sources: BEA, Moody’s Analytics

MOODY’S ANALYTICS
Increased Volatility in Tax Collections

Standard deviation of annual % change, nominal

Sources: Census Bureau, BEA, Moody’s Analytics

MOODY’S ANALYTICS
Welcome to the 21st Century

State tax revenue, % change

Sources: Census Bureau, Moody’s Analytics

MOODY’S ANALYTICS
Recessions Affect Revenues AND Spending

% change yr ago

Sources: BEA, Moody’s Analytics
Mounting Mandatory Burden

State and local mandatory spending as a % of total

Sources: BEA, Moody’s Analytics

MOODY’S ANALYTICS
Unsustainable
State and local governments, 1965Q1=100

- Social benefit payments to individuals (predominantly Medicaid)
- Revenues

Sources: BEA, Moody's Analytics

MOODY'S ANALYTICS
Things Only Get Harder from Here

% of GDP, federal fiscal year

Source: BEA, CBO, OMB, Moody’s Analytics
MOODY’S ANALYTICS
States Better Prepared to Fend for Themselves…

State fund balances as a % of expenditures, state fiscal year

Sources: NASBO, Moody’s Analytics
...But Not All Shocks Are Created Equal

Fiscal shock from moderate recession, % of estimated 2018 revenues

Total sum of states = 11%

- < 8%
- 8% to < 10%
- 10% to < 12%
- > 12%

Sources: NASBO, Moody’s Analytics