

The Outlook for State Income & Revenues

Bruce Yandle
Senior Fellow
yandle@clemson.edu

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Introduction and Background

The May 12, 2003 Outlook for State Income and Revenue offered a somewhat pessimistic comment on revenue prospects for FY 2002-03, but concluded on an optimistic note for the next fiscal year, FY 2003-04, the year we have just entered. The report put the situation this way:

With just three months to go in this fiscal year, the prospects for achieving 1.4% growth are slim to none. But while the outlook for this fiscal year is anything but bright, things look more promising for next year.

When this was written in May, the outlook was based on data through March. At the time, the net increase for the year was 0.05%, just barely positive, and unfortunately, declining. Things have hardly improved. Through June 30, with preliminary data for FY 2002-03 in hand, total general fund revenues have declined. Growth for the year is negative 0.6%. Additional revenue data are still in the works. Even so, it is highly unlikely that the targeted 1.4% growth rate for the year will be achieved. Failure to hit the estimate for FY 2002-03 places the FY 2003-04 estimate of 2.0% growth at risk. Instead of beginning FY 2003-04 with a revenue base of \$5.3 billion, the number will look more like \$5.1 billion. To make matters worse, growth forecasts are not all that robust.

Instead of experiencing growth of 2.0% in FY 2003-04, the number will be more like 1.2%. This implies that state budgets will be cut by something like \$300 million.

Revenue Estimates for the Next 18 Months and Beyond

Estimates of state revenue growth are based largely on expected growth in total personal income, which, in turn, depends on overall economic performance of the nation and state. The most recent forecasts for national GDP provided by the Federal Reserve and Congressional Budget Office suggest nominal GDP growth will average 4.0% for FY 2003-2004, 4.5% for FY 2004-05, and 5% for FY 2005-06. Following past growth patterns, growth in state personal income should lie just below these GDP growth rates. Revenue growth will be less than income growth.

A set of estimates for each of these variables and a resulting graph are shown below. The state income projections are based on a linear growth path. As indicated, growth in state revenues is expected to hit 1.2% in this fiscal year, 3.4% in FY 2004-05, and 3.8% in FY 2005-06. Of course, these estimates, like all such projections, rest on a host of assumptions about the way the world will work, and none of these include a cushion for additional wars or other national tragedies.

S.C. Income Growth & General Fund Revenues 1990-2002 Estimates to 2006

