As we have noted for some time, the overall credit quality of the States has been sound and stable to improving. State General Funds have benefitted from a nearly 12 year economic recovery which began slowly, but has turned out to be the longest economic expansion on record. Jobs growth has continued (as seen in the most recent figures released by the Department of Labor) and, along with positive consumer confidence, has spurred positive trends in personal income tax and sales tax collection, the major sources of State revenue.

To aid in the monitoring of State economic trends and performance, the references we review are two statistics released by the Federal Reserve Bank of Philadelphia: a Coincident Index and a Leading Index for each state. The monthly Coincident Index is a statistic which takes into consideration four variables for every state:

- Non-Farm Payroll Employment
- Average Hours Worked in Manufacturing
- Unemployment Rate
- Wage and Salary Disbursements

Following the release of this indicator, the Bank produces a Leading Index, a prediction of each state’s coincident index over 6 months which adds state level variables such as Housing Permits and Initial Unemployment Claims into the model. By focusing on these variables, each index is a suitable estimation of a Gross State Product and the future expansion or contraction of that state’s economy.

The most recent analysis by the Bank shows nine states which may have economic contractions in 2020, the most since the end of the financial crisis and The Great Recession.

While of interest from the perspective of state credit quality, economic contraction in key states may have important political implications, as this list includes Kentucky, Pennsylvania and West Virginia. Other states of note are Connecticut, New Jersey and Vermont.

Furthermore, very recent events still unfolding are likely to impact each state’s economy to varying degrees, and subsequently their fiscal performance. The uncertain and unpredictable economic impact of the Coronavirus along with the heightened volatility in the stock markets are worrisome, as states assemble updates adjustments to fiscal 2020 budgets and prepare for 2021. On a positive note, however, state General Fund reserves are at historical highs, the result of prudent planning and prioritization following the Recession. These cushions will serve to soften the impact of a potential economic slowdown.

Finally, we note the likely shock impact of falling oil prices on the state economies most tied to the oil industry: Louisiana and Texas. If protracted, this would prove problematic for the state budgets. Specifically, the State of Texas had projected that WTI would approximate low-to-mid $50-per barrel through at least the end of 2021.

We will continue to monitor fiscal and budget updates in these critical states and revise opinions and positions as necessary.
All investments involve risks, including loss of principal. Certain investments involve greater risks that should be considered along with the objectives, fees and expenses before investing.

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