

Economic Trends Affecting State Taxation  
*A national perspective on what to watch for...*

**REVENUE STABILIZATION AND TAX POLICY  
COMMITTEE**

*Scott Pattison*  
*October 19, 2023*

State Capitol

---



+



○

*The views  
expressed in this  
presentation are  
my own.*



MULTISTATE TAX COMMISSION

Economy

Supply

Budgets

Uncertainty for State Finances

Conflicts

Politics

# Current Situation



# *State Revenue Scenarios*

- **“Cliff” Scenario**
- **Soft Landing**
- **Continued (Strong) Growth**

# Indicators for “Soft Landing”?

---

- Chip shortage has eased
- Inflation moderating
- Big Companies Borrowing
- Stock market up this year
- Consumer sentiment slowing, but decent; spending strong
- Jobs/Wage Growth/No interest rate increase Sept.

# Waiting for Godot

Samuel [Barclay] Beckett

## Recession?

Goldman Sachs economists: chance  
15% from 25%.

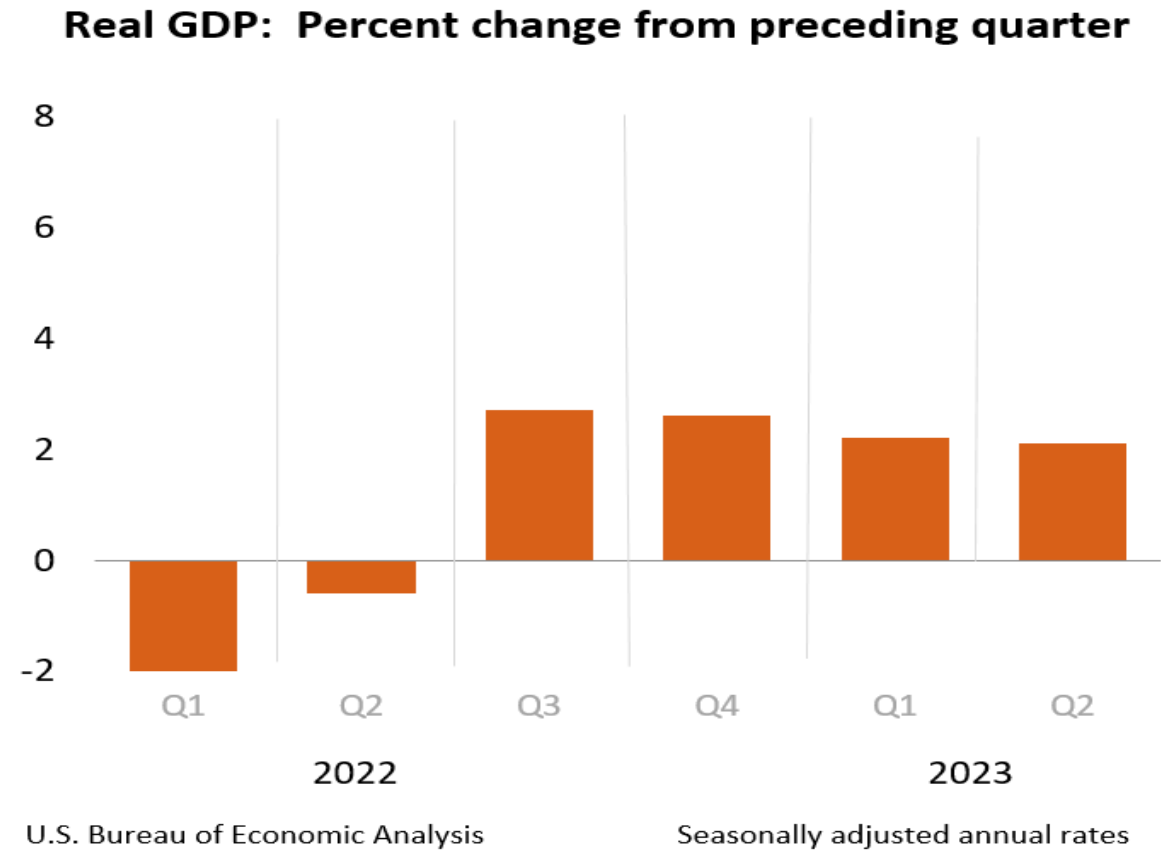
*(July '22 had the odds at 30%)*

Fed: Approx 2%

But –

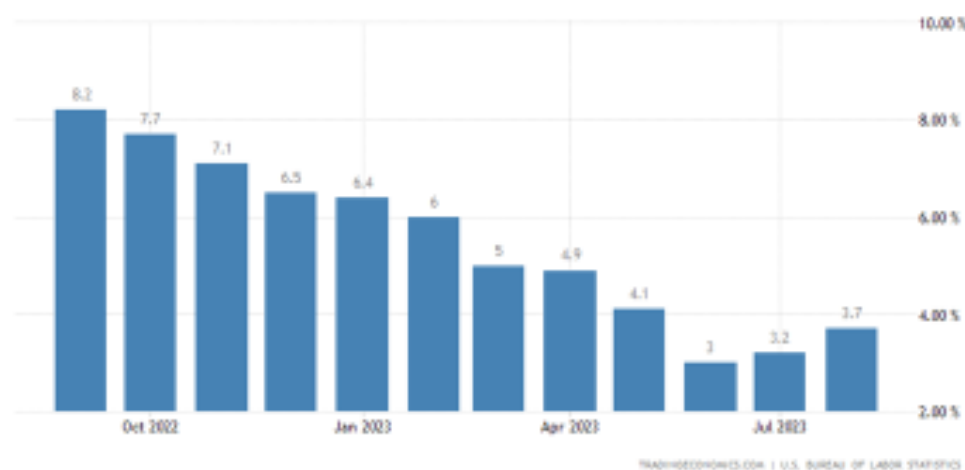
- Deutsche Bank - “More likely than not”
- NABE 50%
- Bankrate 59%
- Moody’s Analytics: One Third
- 84% CEOs say 2024 (Conf Board)
- Fannie Mae: '24 high likelihood

# GDP First Quarter, 2.2%, Second: 2.1%





# Inflation



# Unemployment

Chart 1. Unemployment rate, seasonally adjusted, September 2021 – September 2023

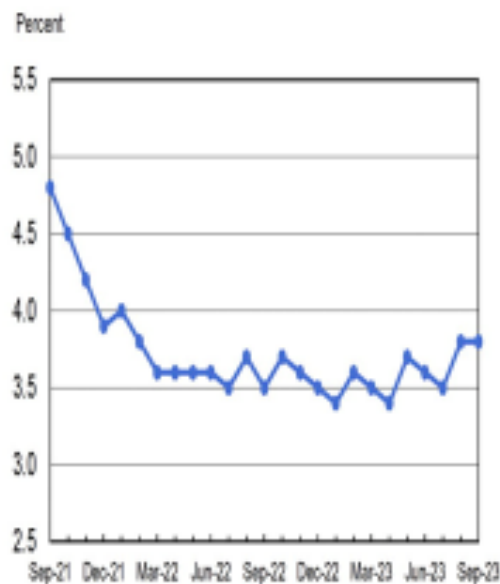
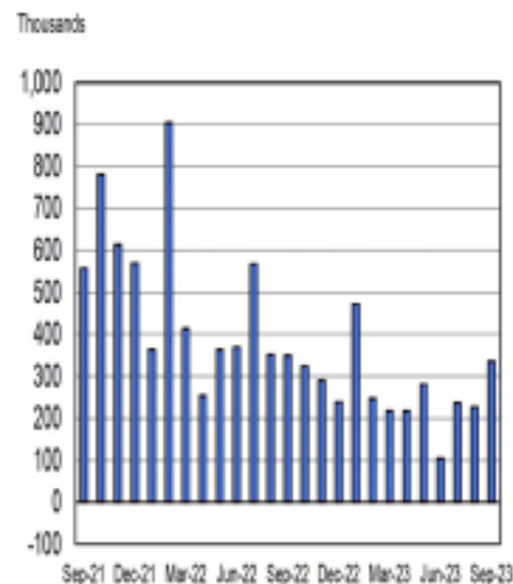
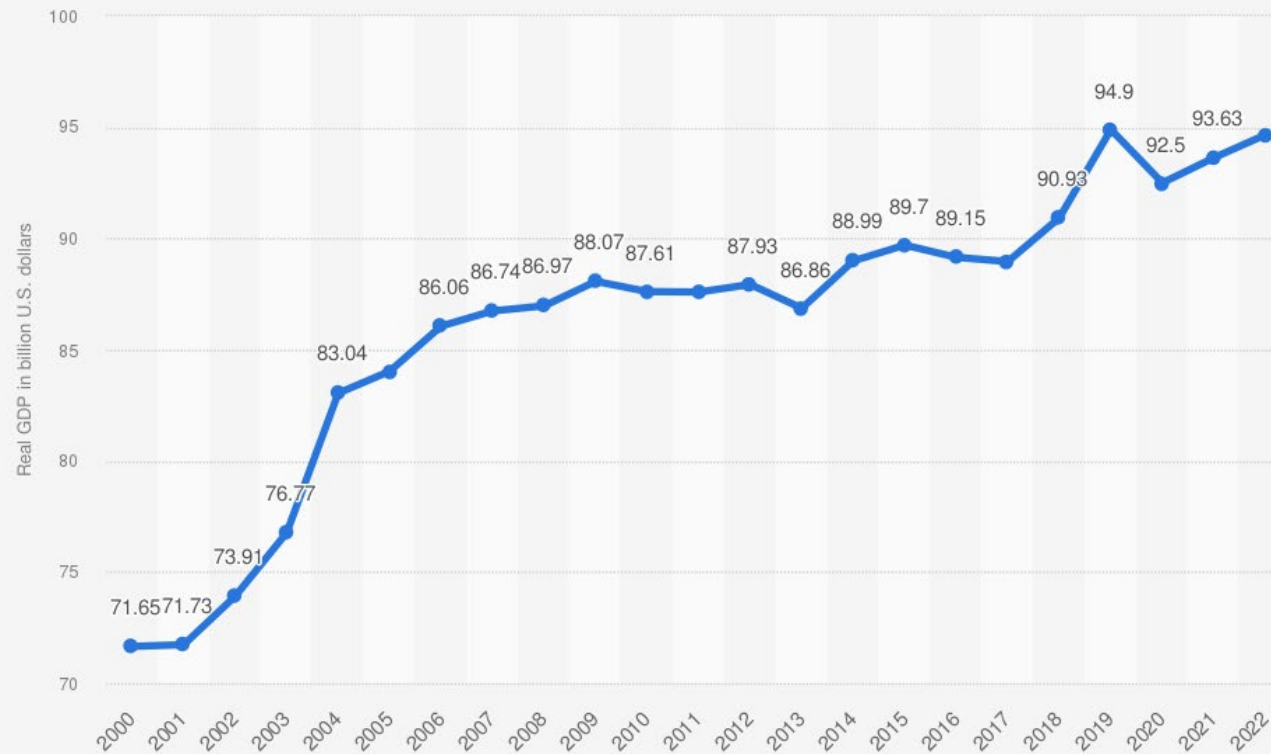


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, September 2021 – September 2023



### Real gross domestic product of New Mexico from 2000 to 2022 (in billion U.S. dollars)



Source  
BEA  
© Statista 2023

Additional Information:  
United States; BEA; 2000 to 2022

# Interest Rates

- Highest in 22 years, raised quarter point to upper range 5.5%
- In 16 months, increase 5%+
- Fighting inflation a top priority
- No increase at Federal Reserve meeting September

## *Many Causes of Inflation*

---

- Shrinkflation
- War and Conflict
- Stimulus
- Supply Disruption
- Labor Costs
- Energy Prices
- Food



National Issues  
Potentially  
Impacting  
New Mexico  
and all States

- Economy
- Governance (Federal)
- Natural Disasters
- War/International
- Energy Prices
- Supply Issues
- Strikes (Auto)

# Potential Impacts on State Finance and Revenue

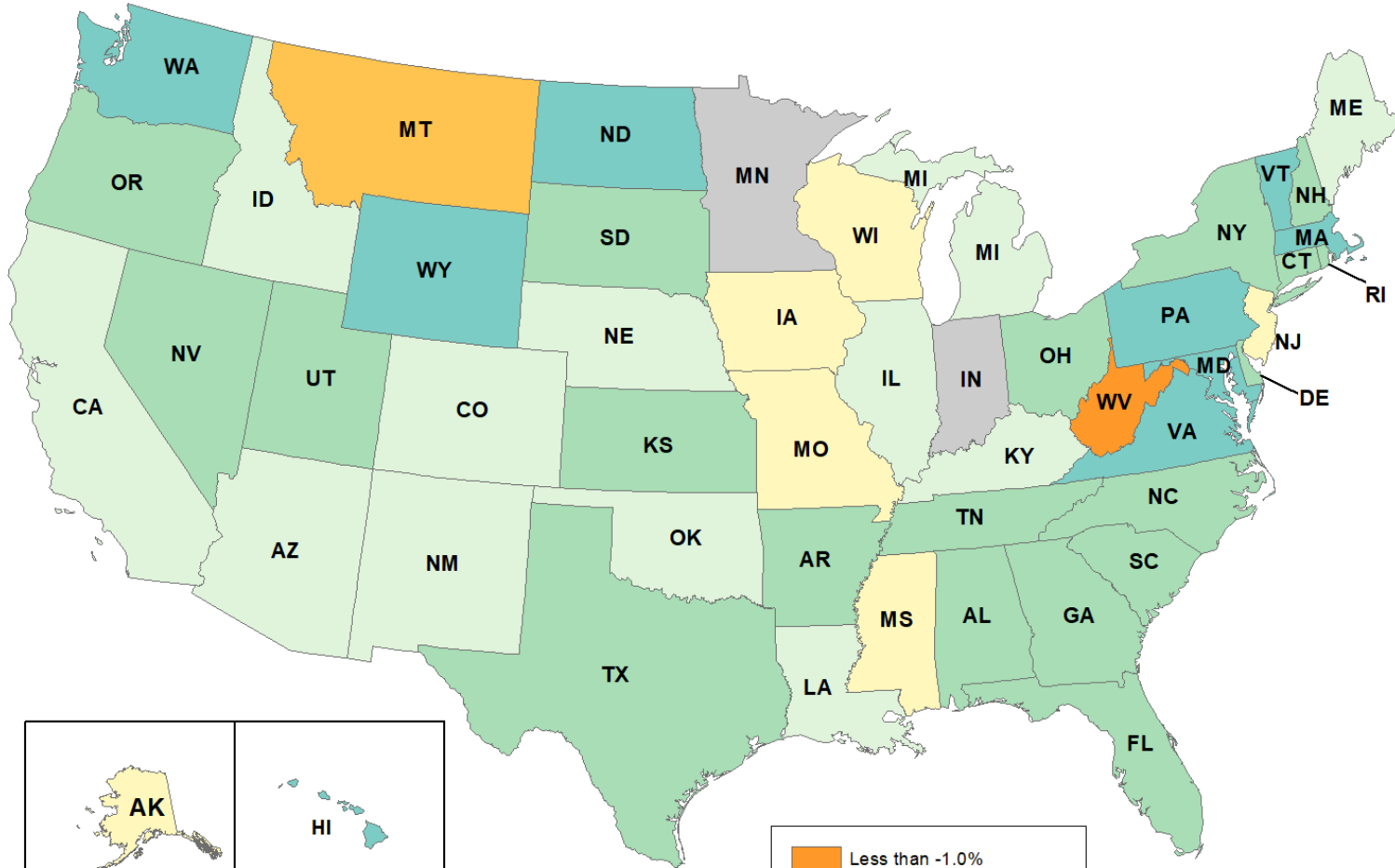
# States Overall

- Most states exceeded projections FY '23.
- Things look steady.
- Economy is better than expected

**25 states have  
cut individual tax rates  
since 2021**

- FY 24 is roughly 32% over FY 19
- Even 10% drop in FY 24, still 4% over FY 21 levels
- Tough choices as things slow, states have foundation to deal with

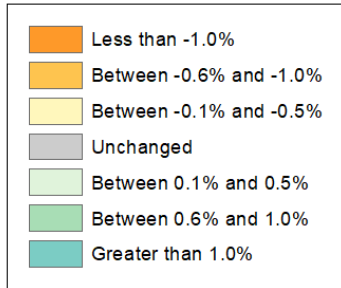
# August 2023 State Coincident Indexes: Three-Month Change



## State GDP

*Philadelphia Federal Reserve Coincident Indexes*

Source: Federal Reserve Bank of Philadelphia  
Map colors based on [www.ColorBrewer.org](http://www.ColorBrewer.org)

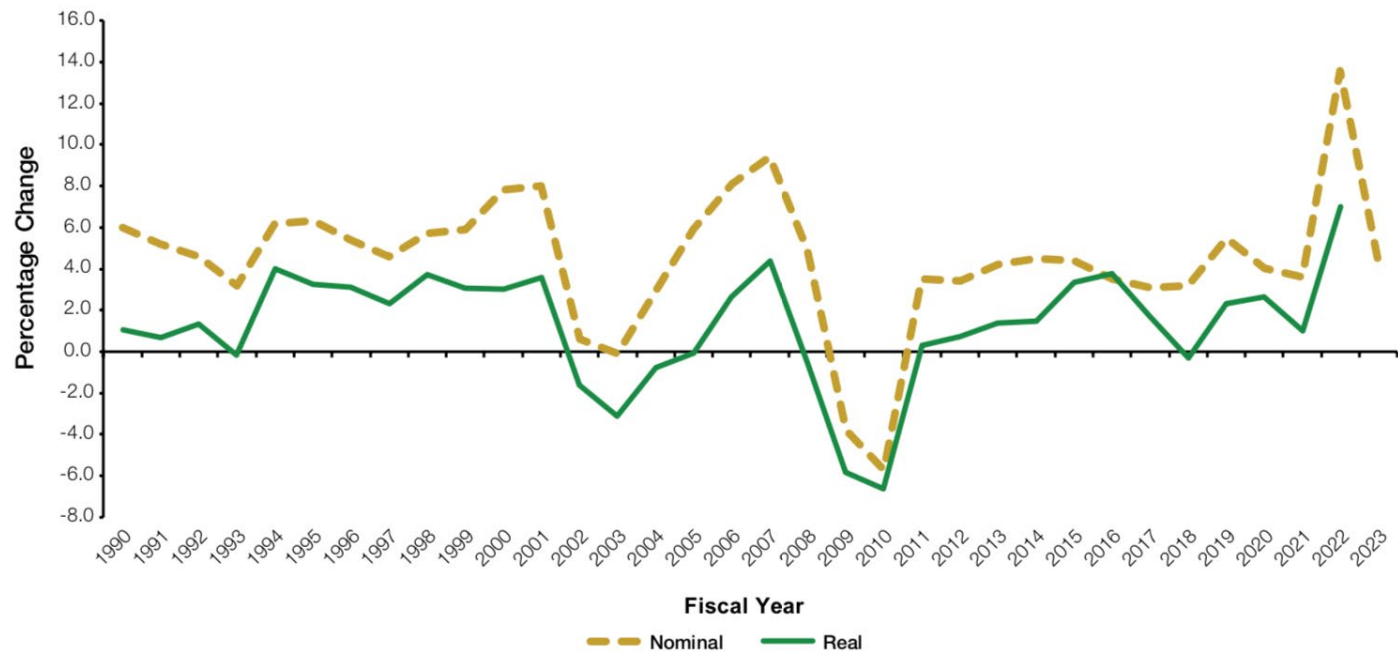




State revenue still strong – but slowing  
Higher-than-expected tax revenue growth and Huge federal aid amounts  
Now:  
Higher interest rates, slowing economy, and decreasing federal funds

FIGURE 1:

Annual General Fund Spending Changes, Fiscal 1990 to Fiscal 2023 (Recommended)



# Federal Stimulus

Have until December 31, 2024, to budget their money and until December 31, 2026 to spend it...

## ARPA

Medicaid Increase 6.2%

Amount (\$ billions)

States & District of Columbia

**\$195.3**

Counties

\$65.1

Metropolitan Cites

\$45.6

Tribal Governments

\$20.0

Territories

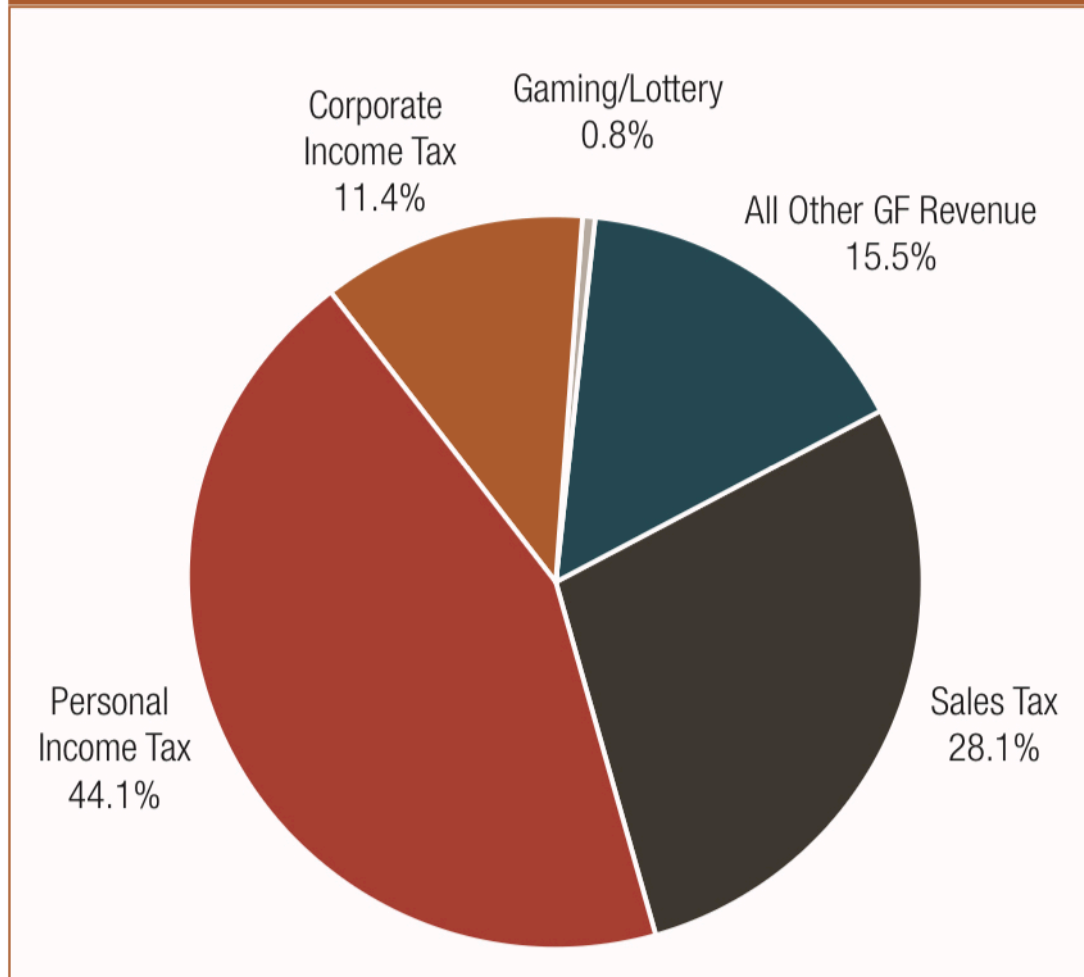
\$4.5

**+\$54 Billion in Medicaid**

## *State Revenue Sources*

# General Fund

### REVENUE SOURCES IN THE GENERAL FUND, ESTIMATED FISCAL 2022



# Sources

## What are the sources of revenue for state governments?

State governments collected \$2.3 trillion of general revenues in 2020.

### Sources of State General Revenue

Share of total state general revenues, by source, 2020



**Source:** US Census Bureau Annual Survey of State and Local Government Finances, 1977-2020 (compiled by the Urban Institute via State and Local Finance Data: Exploring the Census of Governments; accessed 30-Sep-2022 06:07), <https://state-local-finance-data.taxpolicycenter.org>.

URBAN INSTITUTE

# Employment to Population Rate

2020 16.9% over 65  
2030 20.6%

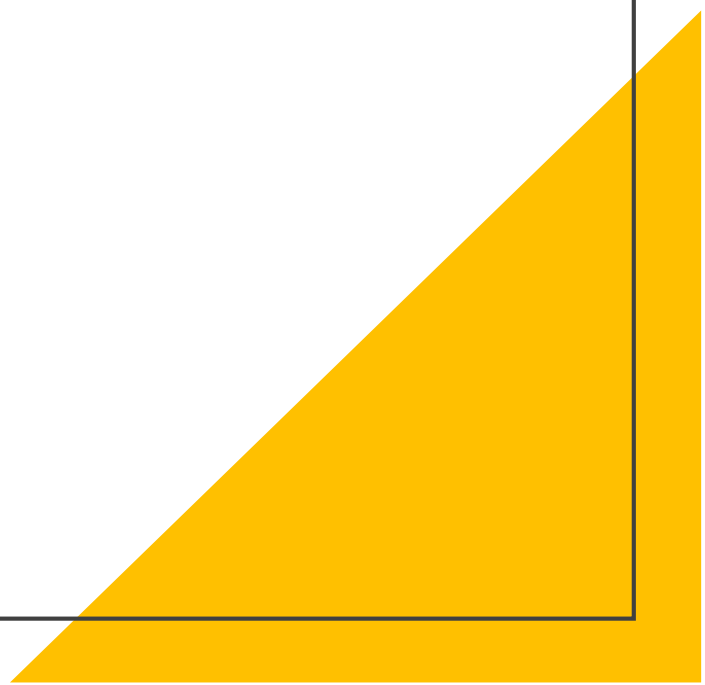


Source: U.S. Bureau of Labor Statistics.



US Labor participation rate

62%



# Labor Participation

## New Mexico

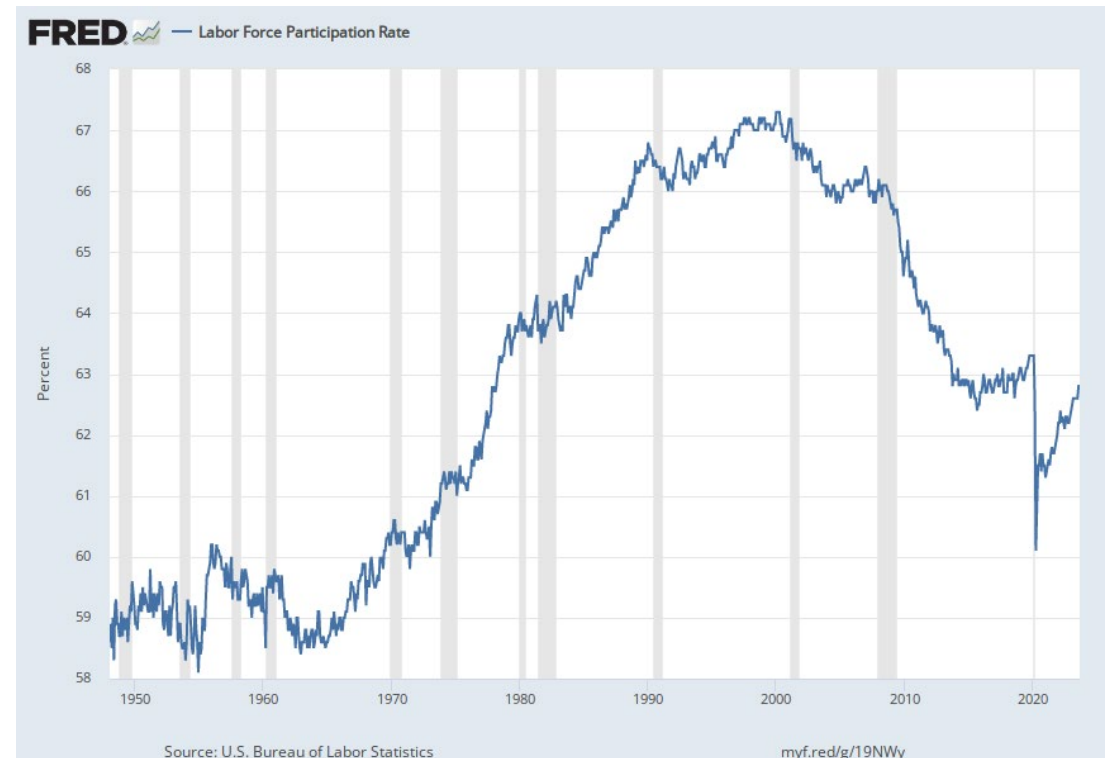
Median Age: NM 38.6 US 38.2

Age Distribution:

21.7% under 18 (US 22%) and  
19.1% over 65 (US 16.8%)

40.8%

## Nationwide



# Inflation Impacts and States

---

Inflation makes revenue increases look high – masks reality

---

Purchasing power declines

---

Balances decline in real terms

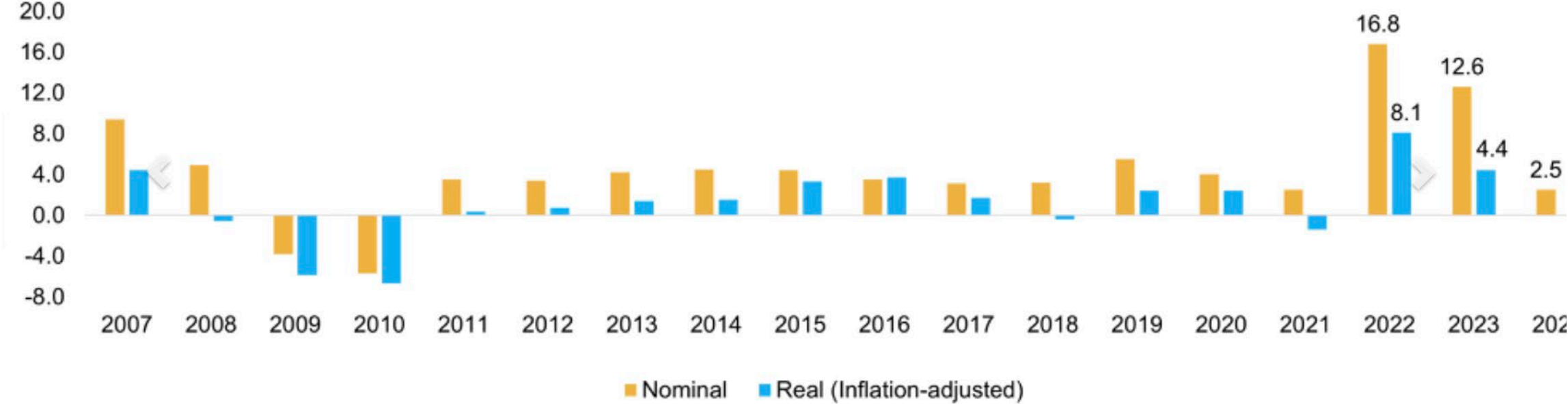
---

Pressure for automatic increases

---

Pressure: Higher pay

Annual General Fund Spending Changes, Fiscal 2007 To Fiscal 2024 (Percentage Change)





# Revenue Volatility

- Income Tax Volatility
- Sales Tax
- Excise Tax
- Overall Volatility

“Although states can raise or lower tax revenue by changing tax policies, the underlying volatility of individual tax streams is often driven by a variety of factors, many outside policymakers’ control. These include economic factors—such as the mix of industry, natural resources, workforce, and population growth—as well as changes to federal budget and tax policy and unforeseen events, such as the coronavirus pandemic.”

**Tax Revenue Swings Complicate State Budgeting**

Pew Charitable Trusts

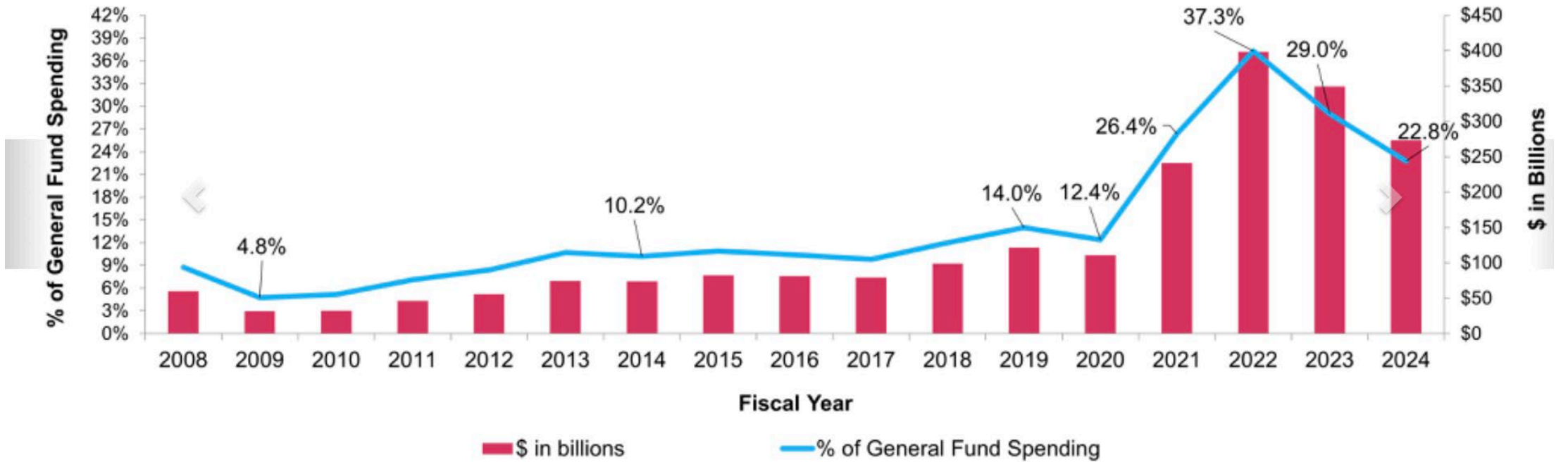
# New Mexico Comparisons

Energy States: Texas,  
**New Mexico**, North  
Dakota, Alaska,  
Colorado

|                                   |                  |
|-----------------------------------|------------------|
| <a href="#"><u>Kansas</u></a>     | 2,937,150        |
| <a href="#"><u>New Mexico</u></a> | <b>2,113,344</b> |
| <a href="#"><u>Nebraska</u></a>   | 1,967,923        |
| <a href="#"><u>Idaho</u></a>      | 1,939,033        |

# State Reserves

Total Balances in Dollars and as a Percentage of General Fund Expenditures



# Issues to Watch

- Income Tax Volatility
- Revenue Sources
- Sales Tax
- Excise Tax/Energy
  - Fuel
  - Tobacco, etc.

- Technology and Automation
  - Fuel Efficiency
- Remote Work
- Remote Sales
- Compensation changes
- Demographics

# Impactful Trends

- Economy, Worldwide Trends
- Decrease in federal *stimulus* impact
- Inflation
- Sustainability of spending and tax cuts
- Consumer behavior
- Business behavior

Wages

Non-salary compensation

Thank You!!!

---

Scott Pattison

**[spattison@mtc.gov](mailto:spattison@mtc.gov)**

