# Current Economic Conditions of States

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Multistate Tax Commission researchers pulled together data from a number of public and private sources to provide a picture of the current economic condition of states; and, to offer some glimpse of future conditions. The data used to portray current economic conditions of the states include: earnings and compensation; housing and housing prices; taxes; and, index of coincident economic indicators of the Federal Reserve Bank of Philadelphia (FRBP). The FRBP's index of leading indicators; and, other sources predict future conditions.

## Earnings

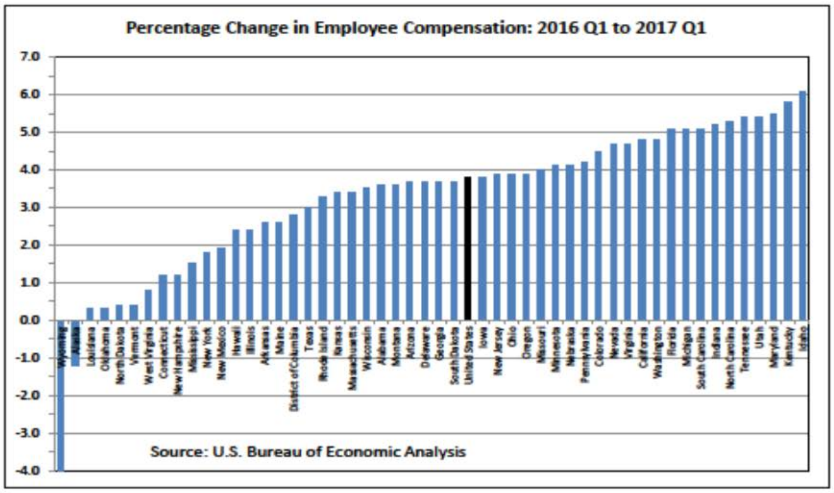
In June 2017, average private sector weekly earnings were $905.63, according to the Bureau of Labor Statistics.[1] There was, however, a wide range of weekly earnings – from $701 in Mississippi to $1,073 in Washington, DC. Next in line descending order was: Massachusetts $1,055 Connecticut $1,039: California $1,024: and New York $994. In thirty-eight states average weekly earnings were below the national average.

According to the Bureau of Economic Analysis (BEA), total employee compensation declined only in two states between the first quarter of 2016 and the first quarter of 2017. Wyoming and Alaska saw declines of 4percent and 1.2percent respectively. Other oil dependent states such as North Dakota, Oklahoma and Louisiana saw very small growth in employee compensation, all between 0.3percent and 0.5percent.

Idaho topped the list with a 6.1percent increase in employee compensation between first quarter 2016 and first quarter 2017. Idaho added the most jobs in the country between March 2015 and March 2016. But it did so with a mix of high paying jobs such as construction, which grew by 6.5 percent, and low paying jobs such as food services, which grew by 6.2 percent. Since the Great Recession Idaho has a hard time attracting highly paid service sector jobs. The state has been

[1] June 2017, Monthly Economic News Release.

expecting wages to increase for some time now, and it appears this is finally happening.[2] Kentucky, Maryland, Utah, Tennessee, Florida, Michigan, South Carolina, Indiana and North Carolina were the only other states to register growth in employee compensation above 5%.



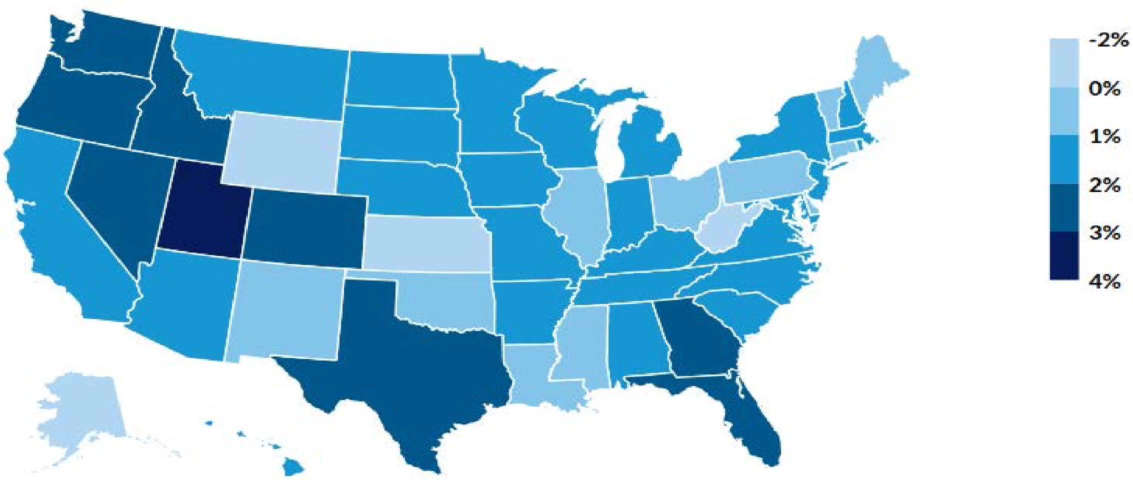

**Employment**

The national unemployment rate was 4.3 percent in May 2017. Alaska has the highest unemployment rate out of any state at 6.7percent. The next highest states were New Mexico with 6.6 percent, followed by the District of Columbia (DC) at 6 percent, Louisiana at 5.7 percent, and Arizona at 5.0percent. Colorado had the lowest unemployment rate of any state with 2.3 percent. In total, 20 states had May rates below 4.0 percent.

Total employment rose 1.6 percent from May 2016 to May 2017. Only four states saw a decline in total employment: Alaska, Kansas, West Virginia, and Wyoming. Wyoming had the largest decrease in total employment at 1.4 percent.

<u>Change in Employment Fiscal 2016-17</u>

[2] Idaho Department of Labor. Examining Idaho's strong wage growth from industry/wage perspective. June 2017. https://idaholabor.wordpress.com/2016/06/03/examining-idahos-strong-job-growth-from-industry-wage-perspective/




Source: Bureau of Labor Statistics (Employment)

**Housing**

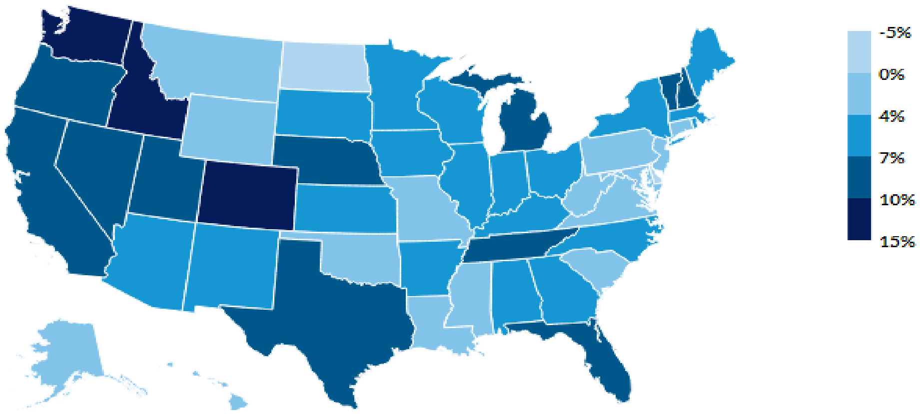
Changes in housing prices are a good indicator of labor market conditions and overall economic conditions in a given area, which can result in changes in the level of construction activity. Rising prices can indicate improvements in an area's economic conditions and wage and income growth. If households feel more confident about their current and future earnings prospects, they may wish to change their status from renter to owner; or, to remodel and existing home or purchase a more expensive home. In addition, changes in housing prices may predict construction activity in the future; for example, rising prices may induce home builders to increase their level of building activity if they expect higher profits in the future. If rising home prices put owner occupied housing out of reach for some households, and influence their decisions regarding renting and owning. If rents rise along with the prices of single family homes, the level of multifamily construction may also increase.

With the exceptions of Delaware and North Dakota, where housing prices fell by 0.2 percent and 0.1 percent respectively from May 2016 to May 2017, housing prices rose in the other 48 states and DC. Nationally, housing prices rose over 6 percent during that period. A number of states saw housing prices rise of 10 percent since May 2016: Colorado 10.7 percent; Idaho 10.3 percent; and Washington 10.2 percent. DC saw the highest price increase at 13.9 percent. In total, 26 states saw house prices increase 5 percent or more over the past year.

Furthermore, housing prices influence how much revenue can be collected by the local governments in the form of property taxes. Property taxes are crucially important to local governments, who use much of the revenue to provide basic public services such as education, police and fire protection, garbage removal, and other public services. Although high housing prices increase revenues from property taxes, a higher cost of housing can decrease consumer spending, and therefore negatively impact sales tax revenue. This is currently the case in the state of California.[3]

[3] 2017-18 Governor's Budget Summary. http://www.ebudget.ca.gov/FullBudgetSummary.pdf.

Change in Price of Housing Fiscal 2016-17




Source: Federal Housing Finance Agency (Housing Prices)

Nationally, housing prices are, as of May 2017, 7.4 percent higher than they were at the depths of the Great Recession (2007). Although national prices recovered in the first quarter of 2016, prices in 12 states still have not surpassed their 2007 peak. Nevada's prices continue to be furthest from their peak, with house prices 17.2 percent below their 2007 levels. House prices were also 10 percent or more below 2007 levels in Arizona, Connecticut, Delaware, Florida, Maryland, and New Jersey. Other housing markets in the United States are showing much stronger signs of recovery. In DC housing prices were 55 percent above their 2007 high, North Dakota followed at 50.5 percent, next Colorado at 50.2 percent, and Texas followed at 43.1 percent.

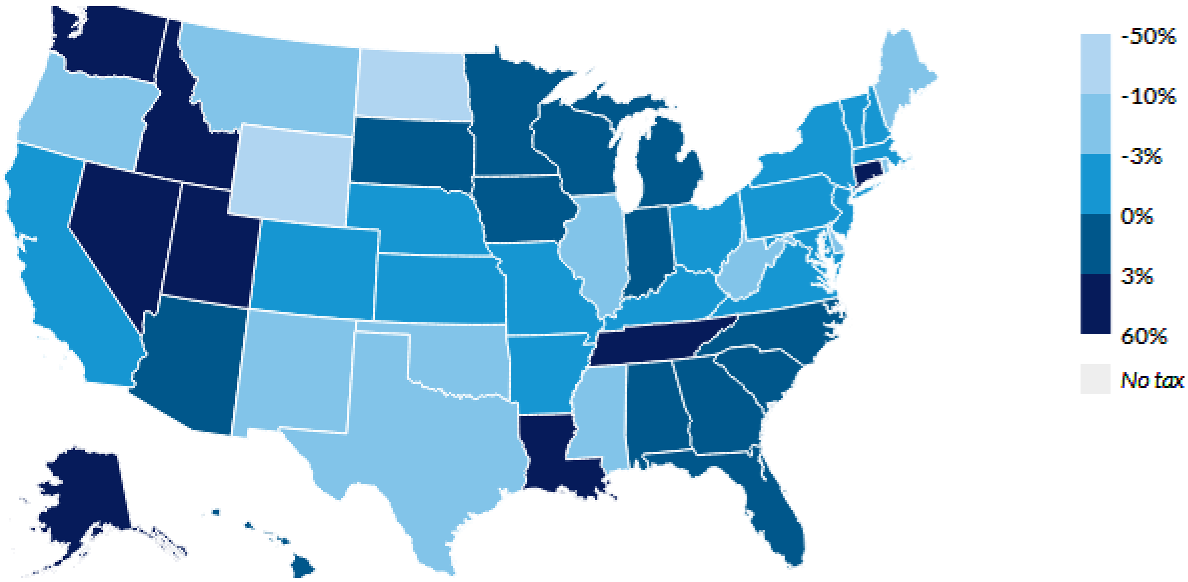
According to the US Census Bureau, total seasonally adjusted construction rose 4.5percent from May 2016 to May 2017. Private construction rose 6.2 percent in this time period. Private residential housing grew 11.2 percent in this time period as well.

According to Freddie Mac, the multifamily market will continue to grow in line with the historical average in 2017. At a national level, multifamily completions are expected to be higher in 2017 than in 2016 but will continue to enter the market at a steady rate. Vacancies are therefore likely to increase modestly in 2017 and are expected to breach 5 percent for the first time since 2011. This remains well below the historical average.

**Taxes** (Total, Sales, Personal Income, and Corporate)

Total state tax revenue decreased 0.9percent in the first quarter of 2017. Total State tax revenue fell in 29 states between 2016 and 2017. North Dakota (one of many oil and gas dependent states) saw their total state revenues decline 19.2 percent. Other oil and gas resource dependent states also saw a decrease: Wyoming 13 percent; Oklahoma 7.3 percent; West Virginia 5.4 percent; New Mexico saw a 5.7 percent decrease, Texas 4 percent; and Montana 1 percent. A number of non-resource dependent states saw similar declines which have been contributed to shrinking income tax bases. Illinois saw a decrease of 5.8 percent; Maine 4.8percent; Mississippi 4.4percent; Delaware and Oregon each saw decrease of about 4 percent; Oregon 4.1 percent; Rhode Island 3.6 percent; and Nebraska 2.9 percent.

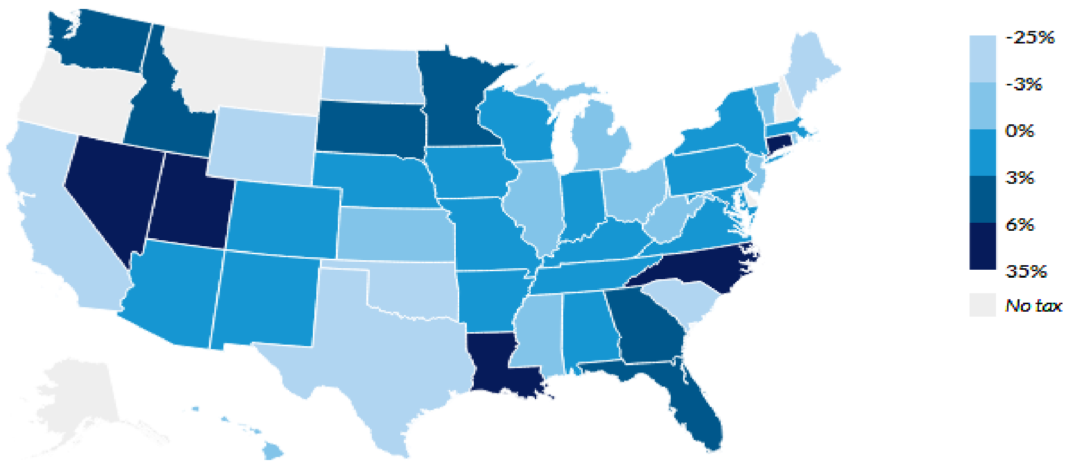
Change in Total Tax Revenue Fiscal 2016-17




Source: US Census Bureau

Total sales tax revenue increased 0.2percent since the 2016 and 2017 fiscal years. Revenue declined in 17 of the 45 states that levy a general sales tax. The largest decline was in North Dakota 20 percent; Wyoming saw a decrease of 16.7 percent; Oklahoma 6.1percent; and Texas saw a 5.8 percent decrease. Sales tax revenue increased the most in Louisiana 34.4 percent, Utah saw next biggest increase with 14.2 percent and Nevada followed with a 13.3 percent. In 2016, Louisiana raised its sales tax rate from 4 percent to 5 percent, which likely explains the substantial rise in sales tax revenues. As part of larger effort to increase spending on education in the state of Nevada, the state levied a gross receipts tax.

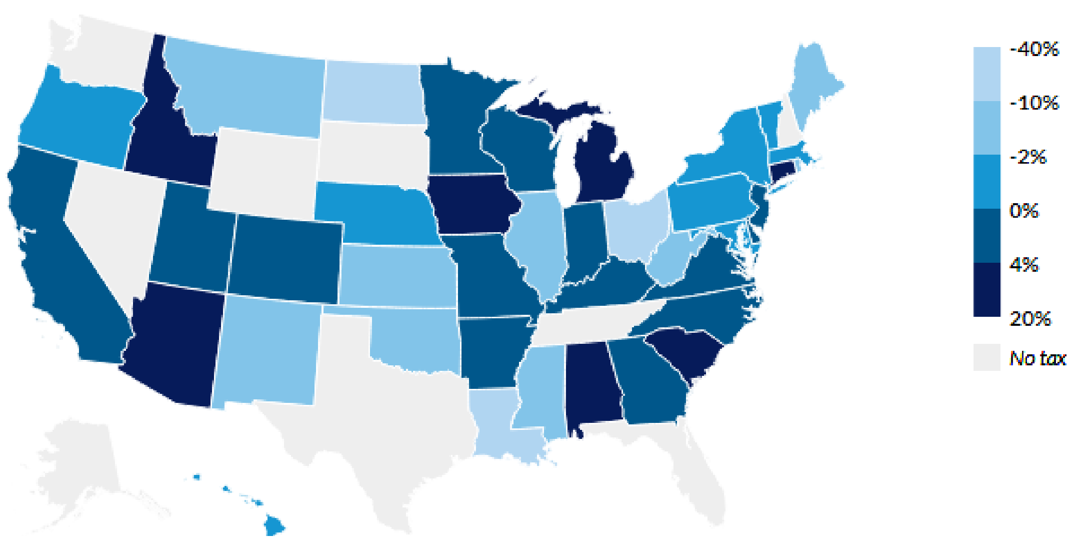
Change in Sales Tax Revenue Fiscal 2016-17




Source: US Census Bureau

Total state revenue from taxes on personal income decreased 0.2 percent from 2016-2017. However, there may be a delay in the reporting of capital gains earnings due to Congress and the President signaling a desire for lower taxes. Regardless, a number of states registered substantial growth in their personal income tax revenues. Connecticut saw a 17.7 percent increase, South Carolina 11 percent; Alabama, Arizona, and Indiana saw increases of about 6.8 percent, and Michigan saw an increase of 5 percent. Twenty one of the states and territories which impose a broad based personal income tax, (New Hampshire and Tennessee do not place an income tax on wages), saw income tax decreases. North Dakota saw the largest decline at 33.1 percent.

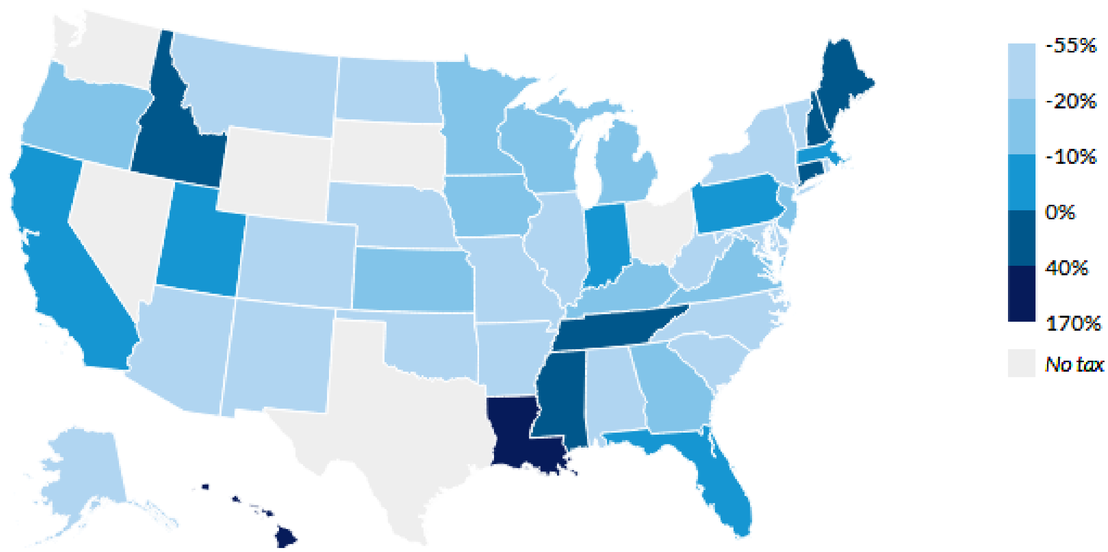
Change in Personal Income Tax Revenue Fiscal 2016-17




Source: US Census Bureau

State corporate income tax revenues fluctuate irregularly. Profits, the timing of tax payments, losses, depreciation and elections are all subject to forces beyond the control of the revenue agencies. For those reasons, there were substantial revenue declines for many states. Nationally, revenue from state corporate income taxes decreased 13.8 percent between 2016 and 2017. In 36 of the 44[4] states and territories with a corporate income tax, corporate income tax revenues declined. The largest decline in corporate income tax revenue came in Oklahoma, with a 51.9percent decline. Delaware followed Oklahoma with a decrease of 49 percent; New Mexico 48 percent; North Dakota 44.5 percent; and Arkansas 40.6 percent. Hawaii, Louisiana, Mississippi and Maine all saw increases, but they varied substantially in size. Hawaii saw an increase of 166.8percent, Louisiana saw a rise of 108.5 percent, and Mississippi saw increase of 37.2percent, While Connecticut and Maine saw increases of 16 percent and 11.8 percent respectively.

Change in Corporate Income Tax Revenue Fiscal 2016-17




Source: US Census Bureau

Hawaii's gain was not caused by legislated changes to their tax code, because the state did not enact any corporate income related tax changes during the period. In contrast, Louisiana's increase was because of changes in state law. For much of 2015, the paid more in tax credits to corporations than it collected in tax revenue, reflecting corporate tax rules and declining prices for natural resources. Reforms in 2016 ensured the tax would bring in more revenue.

The Rockefeller Institute of Government (RIG) reports on changes in state tax revenues and economic indicators. Currently the RIG is reporting that: "state and local government tax revenues continue to grow at an extremely slow pace. Overall, state governments have been hit harder by slowing tax revenue growth than local governments. Some state and local governments particularly those that rely heavily on sales taxes or income taxes, as some large cities do and local governments in oil-producing states are likely to be faring much worse than average."[5] For example, corporate tax

[4] Nevada, Ohio, Texas, Washington, and Wyoming do not tax corporate income; South Dakota taxes only financial institutions.

[5] Lucy Dadayan and Donald J. Boyd, *State Tax Revenues in Flux,* State Revenue Report #107, June 2017

revenue declined 2.5 percent from last quarter, marking the 5th consecutive quarter of decline in a row. States are also struggling to deal with the uncertainty surrounding the status of federal tax reform. As mentioned earlier, there are expected delays in the reporting of personal capital gains.

According to Lucy Dadayan and Donald J. Boyd of the PFRB, "the overall fiscal outlook of the states remains bleak because of uncertainty about the potential changes in federal tax policy."[6] President Trump's proposed cuts to intergovernmental funding, coupled with weak growth projections by the states for fiscal 2017 and 2018 creates a circumstance where state revenue growth will be slow and uncertain.

## Current Conditions: Coincident Indicators

### Description of Coincident Indicators

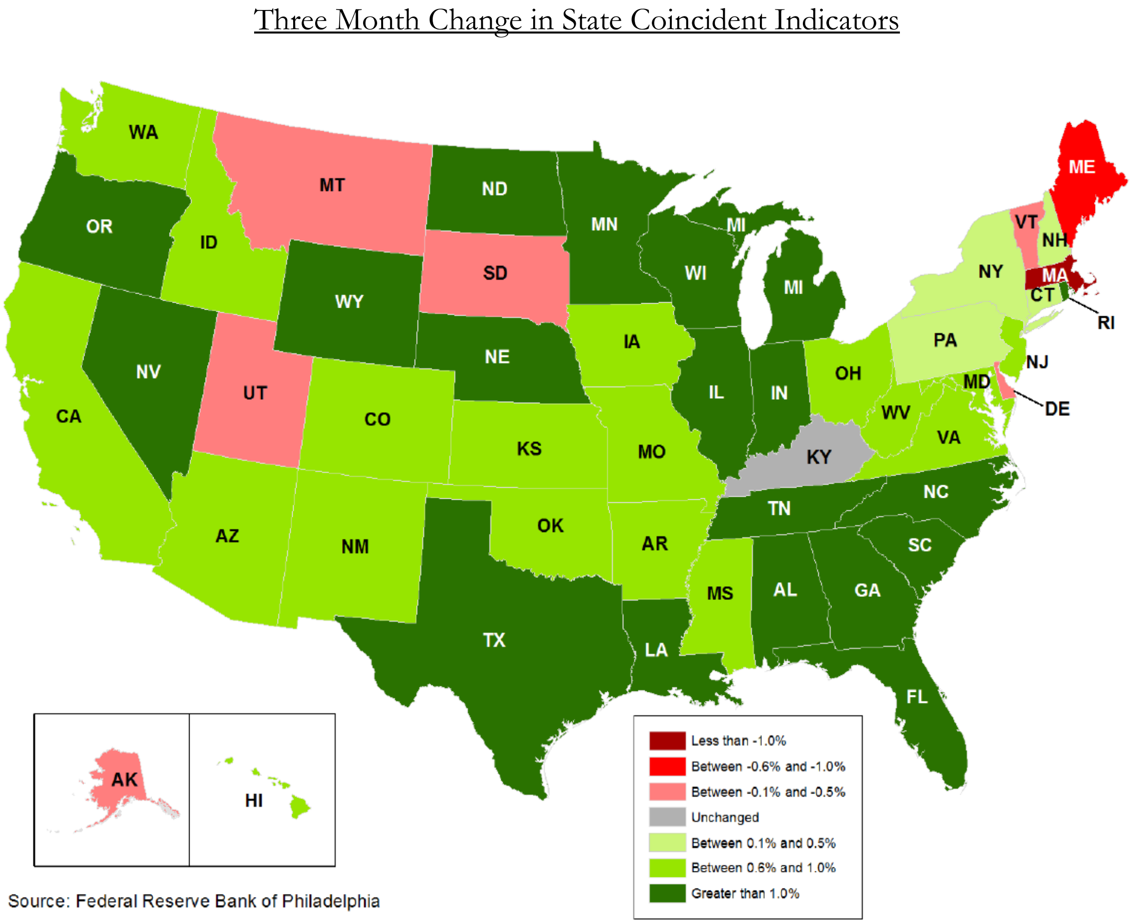
There are 3 types of statistical indicators to consider: Leading, lagging and coincident. Leading indicators signal future events. They give us a future prediction that is based on a number of statistics that are closely related to what the indicator tries to predict. Lagging indicators follow an event; they give us a picture of the past. Coincident indicators occur at approximately the same time as the conditions they signify.

The Federal Reserve Bank of Philadelphia Index of Coincident Indicators combines four state level indicators into a single statistic-- nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements that are deflated by the Consumer Price Index (US City Average).[7] This statistic gives us a good picture the current economic conditions of states. The trend for each states coincident indicator is matched to the trend of the states GDP which ensures that long term growth in the state's coincident indicator matches long term growth in the state's GDP. The model and the input variables are consistent across the 50 states, so the state indexes are comparable to one another.

[6] http://www.rockinst.org/government_finance/state_revenue_reports.aspx (June 3, 2017)

[7] A dynamic single-factor model is used to create the state indexes. The method involves a system of five major equations: one equation for each input variable and one equation for an underlying (latent) factor that is reflected in each of the indicator (input) variables. The underlying factor represents the state coincident index

## Changes in Coincident Indicators over Most Recent 3 Months




As mentioned earlier, coincident indicators yield a picture of current economic conditions. Change in coincident indicators therefore measures the changes in aggregate economic conditions from 2 points in time. When we look how these coincident indicators have changed over the past 3 months, we get a picture of how economic conditions have changed over the past 3 months.

In the most recent three months, the coincident indicators increased in 41 states, decreased in eight, and were unchanged in one (Kentucky). The oil dependent states of Texas, Oklahoma, New Mexico, Louisiana, Wyoming and North Dakota all registered growth in coincident indicators of at least 0.6. This rise has coincided with a small rebound in the international price of oil. On May 8, 2017 the international price of crude oil hovered around $48/barrel. The price fell for a number of weeks, until it bottomed out at $44/barrel on June 23, and has since rebounded to close to $52/barrel as of July 26, 2017.[8]

The manufacturing intensive states have seen lower levels of growth in coincident indicators. Over the past 3 months, Pennsylvania registered coincident indicator growth of 0.1. The payroll

[8] State Coincident Indicators Quarterly Report. June 2017. Federal Reserve Bank of Philadelphia.

employment part of the indicator increased. However, overall unemployment in the state increased, and average hours worked in manufacturing decreased for the three-month period. Pennsylvania's economic activity as measured by the coincident index has increased 2.6 percent over the past 12 months.[9]

The coincident index for New Jersey rose 0.7 percent over the past three months. Payroll employment increased while the unemployment rate declined over the most recent three months. The manufacturing sector in New Jersey saw an increase in average hours worked as well. In the past 12 months, New Jersey's economic activity has risen by 3.3 when measured using the coincident indicator.[10]

The coincident index for Delaware fell 0.4 percent in the most recent 3 months. Payroll employment declined, and the unemployment rate increased over the three-month period. On the other hand, Delaware also saw an increase in average hours worked in its manufacturing sector. Delaware's economic activity has increased 0.8 percent over the past 12 months, according to the FRBP's coincident indicators.[11]

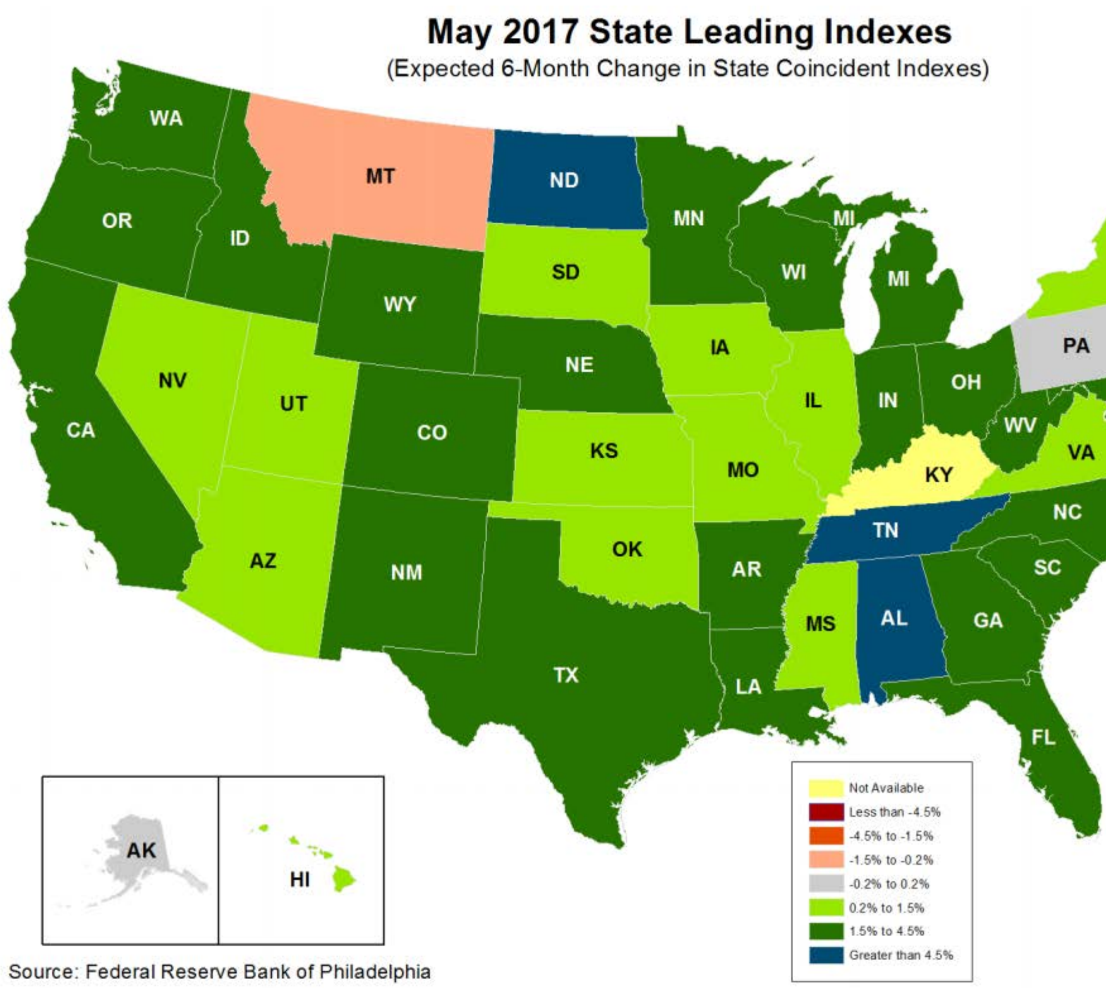
## Leading Indicators

As mentioned earlier, Leading indicators signal future events.

The FRBP's leading indicators for each state predict the six-month growth rate of the state's coincident index. In addition to the coincident index, the leading index includes other variables that are crucial to economic performance: state-level housing permits, state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill.

The map below represents the leading indicators for each state:

[9] State Coincident Indicators Quarterly Report. June 2017. Federal Reserve Bank of Philadelphia.
[10] Ibid
[11] ibid




Forty-four coincident indexes are expected to increase in the coming 6 months. Five are expected to decrease, and one (Kentucky) is not available this month. For comparison purposes, the FRBP has also developed a similar leading index for its U.S. coincident index, which is projected to grow 1.4 percent over the next six months.

Besides Alaska and Montana, all other oil dependent states all registered a leading index value of at least 0.2. North Dakota is projected to perform particularly well with leading index value of 4.5. This rise has coincided with a small rebound in the international price of oil. On May 8, 2017 the international price of crude oil hovered around \$48/barrel. The price fell for a number of weeks, until it bottomed out at \$44/barrel on June 23, and has since rebounded to close to \$52/barrel as of July 26, 2017.

The leading index for Pennsylvania was -0.1 in May. This could possibly be attributed to the rise in initial unemployment insurance claims. Also, delivery times from the Institute for Supply Management's manufacturing survey fell. These downward factors were offset by the sharp rise in building permits. The FRBP has suggested that Pennsylvania's leading index for May suggests stability in the state's economy into the fourth quarter of 2017.[12]

[12] State Leading Indexes. June 30, 2017.

0.6 was the leading index value for the state of New Jersey in May. The state's coincident index did not increase or decrease significantly. Building permits increased after declining over the most recent three months. Offsetting this was two things: An increase in initial unemployment insurance claims and the index of delivery times from the Institute for Supply Management's manufacturing survey decreased. Despite these downward forces, New Jersey's leading index for May suggests expansion in the state's economy into the fourth quarter of 2017.

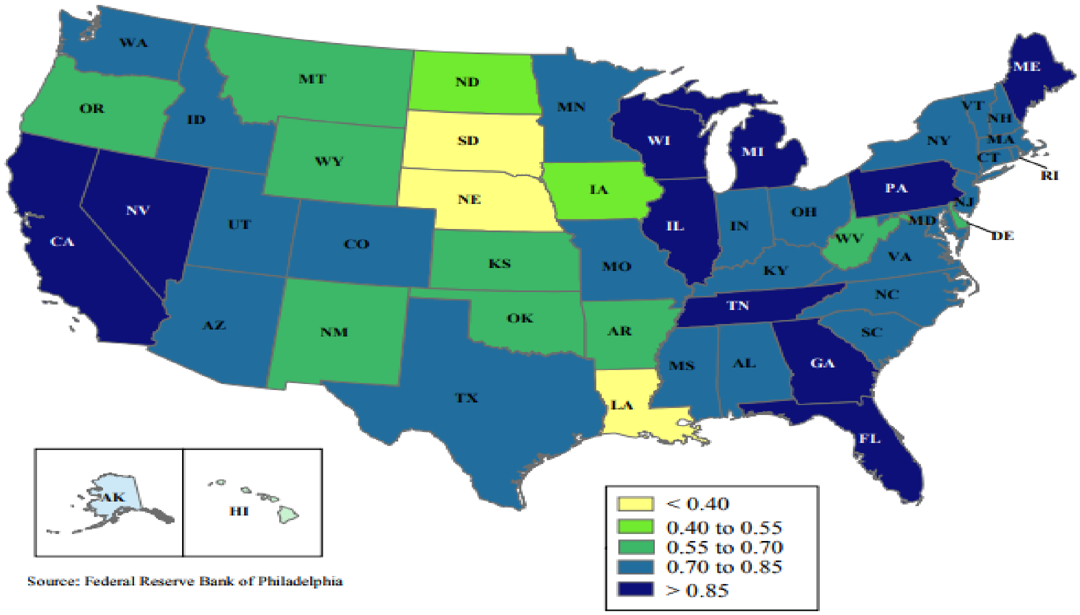
Delaware has a leading index of -0.1. Both the state's coincident index and the index of delivery times from the Institute for Supply Management's manufacturing survey fell. Offsetting this was a decrease in initial unemployment insurance claims and an increase in building permits. Delaware's leading index for May suggests stability in the state's economy into the fourth quarter of 2017.

**Effectiveness of FRBP Coincident Indicators**

The effectiveness of the coincident indicators can be measured by the strength of the correlation between annual growth of state GDP and the state coincident variables. This correlation illustrates whether the indicators is an effective tool to predict the future. With a correlation coefficient of 0.69, the state coincident indexes do have a strong and positive relationship with state GDP. However, the relationship is not perfect.

When the strength of the correlation between state GDP change and the individual state coincident indicator is analyzed on a state by state basis, it becomes clear the indicators are more effective in some states than others. However, the correlation still remains rather strong in the states with weaker correlations.

Strength of Coincident Indicators by State




Source: Federal Reserve Bank of Philadelphia

## Looking Forward

### Forecast for Remainder of 2017

In the first half of fiscal 2017, states collected $438.6 billion, according to the US Census Bureau. This is a 1.6 percent increase from the same period in fiscal 2016. Total state collections from personal income taxes grew 1.4percent and sales tax collections grew 1.9 percent when compared to the first half of fiscal 2016. Corporate income taxes declined 6.6 percent when compared to the first half of fiscal 2017. Regions outside the southwest and Great Plains regions saw overall growth in state tax collections. The southeast had the largest increase at 4.3 percent, while the rocky mountain region posted a growth of 2.9 percent. Altogether, 34 states reported growth in tax collections in the first half of 2017.

The median state forecast for personal income tax growth is 3.6 percent for 2017, slightly faster than the actual growth rate of 2.8 percent in 2016.[13] Fourteen states forecast slower growth in 2017 than in 2016. Four states Arkansas, Maine, Oklahoma, and Tennessee project declines in personal income tax growth. The federal government and some states appear to be anticipating a shift in income from 2016 to 2017. The most recent analysis from the Congressional Budget Office

[13] Lucy Dadayan and Donald J. Boyd, "By the Numbers, Weak Revenue Forecasts, Large Uncertainties Ahead." Rockefeller Institute of Government. March 2017.

estimated a 10.4 percent decline in capital gains in 2016, despite the strong stock market, followed by an 11 percent bounce-back in 2017.[14]

There could be another explanation for this. In late 2016 taxpayers may have expected significant federal tax cuts in 2017 after the election of Donald Trump, who promised such cuts. Taxpayers, thus, had an incentive to push income out of the 2016 calendar year into calendar year 2017, possibly reducing state tax collections in fiscal 2017 and boosting them in fiscal 2018.

States are more slightly more optimistic about growth in sales tax revenues. The median state forecast for sales tax growth is 3.1percent, a rise from 2.6 percent in 2016.[15] Seventeen states forecast slower sales tax growth in 2017 than in 2016. Five states Kansas, Michigan, New Mexico, Oklahoma, and Wyoming project declines.

**Forecasts for 2018**

States are predicting that sales and personal income tax revenue will grow faster in 2018 than in 2017. The median income tax forecast calls for 4.1 percent growth in fiscal year 2018, up from 3.6 percent in 2017.[16] 23 of the 40 states that have a personal income tax and have predicted growth in personal income tax revenues, while 17 expect slower growth. Ohio and West Virginia expect year to year declines. The declines in Ohio are mostly attributable to planned reductions in personal income tax rates.

The median sales tax forecast calls for 3.5percent growth in fiscal year 2018, up from 3.1 percent in 2017.[17] Approximately half of the states that have released sales tax forecasts expect accelerating growth in 2018, and half expect slowing growth. Two states Connecticut and West Virginia, expect declines in both 2017 and 2018. The states expecting the greatest increase in sales tax growth are the oil and gas dependent states of New Mexico, Oklahoma, Texas, and Wyoming. All of these states predict weaker growth in 2017. It is important to note that oil prices are incredibly difficult for policy makers to predict.

[14] The Budget and Economic Outlook: 2017 to 2027 (www.cbo.gov/publication/52370). The specific data file is https://www.cbo.gov/sites/default/files/recurringdata/51138-2017-01- revenueprojections.xlsx.
[15] Lucy Dadayan and Donald J. Boyd. “By the Numbers, Weak Revenue Forecasts, Large Uncertainties Ahead.” Rockefeller Institute of Government. March 2017.
[16] Lucy Dadayan and Donald J. Boyd. “By the Numbers, Weak Revenue Forecasts, Large Uncertainties Ahead.” Rockefeller Institute of Government. March 2017.
[17] ibid