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Sales Tax Decline in Late 2008 Was the Worst in 50 Years

Early Data for 2009 Show Further, Sharp Drop in Tax Revenues for Most States

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HIGHLIGHTS

- State tax collections for the fourth quarter of 2008 showed a decline of 4 percent, the first decline in more than six years. After adjusting for inflation, legislative changes, and known anomalies, tax revenue declined in 42 states. The Far West was the weakest region in the fourth quarter.
- The sales tax decline was particularly sharp, at 6.1 percent in nominal terms. The inflation-adjusted decline in state and local sales taxes was the greatest in the 50 years for which quarterly data are available.
- For the opening months of 2009, early figures show an overall decline of more than 12 percent, a further dramatic worsening of fiscal conditions nationwide.
- Finally, income-tax states face the risk that payments with 2008 income tax returns filed in April could be even worse than they expect. Because the full extent of revenue declines may not be known immediately, there is great risk that state budget deals negotiated over the next month or two will have to be buttressed with additional spending cuts or tax increases as the year progresses.

Introduction

Tax data tend to be noisy and require careful interpretation. This is particularly true of data for the October-December quarter, the focus of most of this report. While we report data from the Census Bureau in Tables 8, 9, 10, and 11, throughout much of the discussion that follows we describe tax revenue growth or declines after reflecting adjustments that we believe are essential for proper interpretation. Since early data from the first quarter of 2009 indicate widespread declines in revenue, we also provide an initial look at currently available reports, which represent tax revenue data for 41 states for the January and February months.

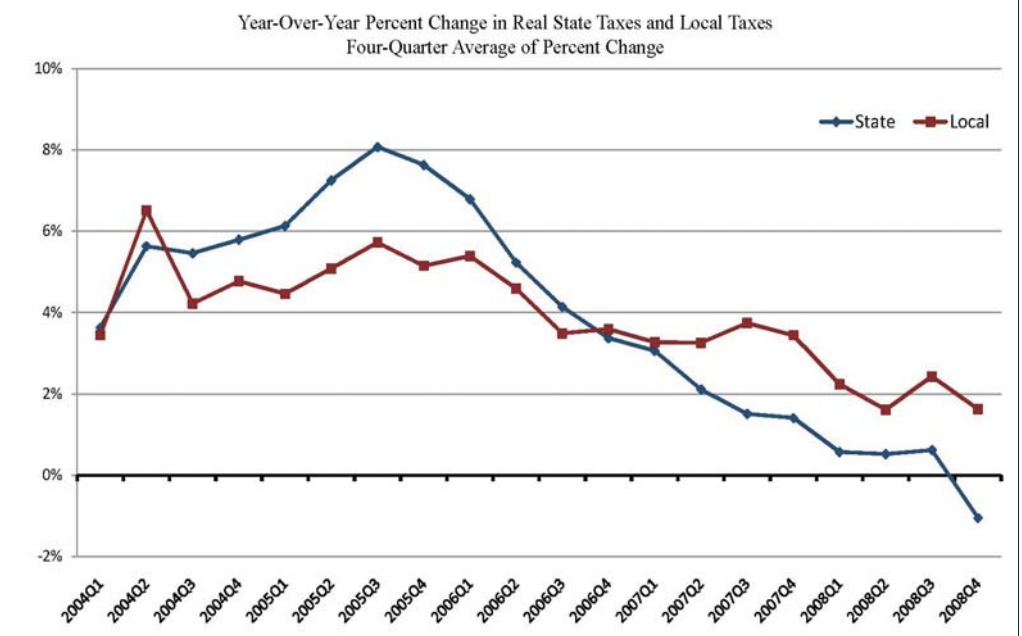
Overall State Taxes and Local Taxes

Overall state tax collections in the October to December quarter of 2008, as reported by the Census Bureau, declined by 4.7 percent from the same quarter of the previous year.[1] Local tax collections rose by 3.2 percent, including 4.6 percent growth in property taxes that was offset in part by declines in the sales tax.

The trend in state and local tax collections has been clearly downward from 2005 growth that was unusually high, and 2006 growth rates that were more in line with historical averages. Figure 1 shows the four-quarter moving average of year-over-year growth in state tax collections and local tax collections, after adjusting for inflation. Year-over-year change in state taxes, adjusted for inflation, has averaged negative 1.1 percent over the last four

IMPORTANT NOTE: We made two significant changes beginning with our April-June Revenue Report in 2008: (1) we now base our analysis upon quarterly tax data collected by the U.S. Bureau of the Census, which are more timely than in prior years; and (2) we have changed our method of adjusting for inflation. These changes allow us to broaden and strengthen our analysis, but they complicate comparisons between these reports and previous reports. We explained our reasons for these changes in appendices in the April-June 2008 Revenue Report available at www.rockinst.org.

Figure 1. State Taxes Are Faring Worse Than Local Taxes But Local Taxes Have Slowed



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

quarters, down from the 1.4 percent average growth of a year ago and 3.4 percent of two years ago. Year-over-year growth in local taxes has slowed to 1.6 percent over the last four quarters, from 3.4 percent a year ago. Inflation for the period, as measured by the gross domestic product deflator, was 2.0 percent.

The local tax slowdown has been less pronounced than the state tax slowdown. Most local governments rely heavily on property taxes, which tend to be relatively stable.

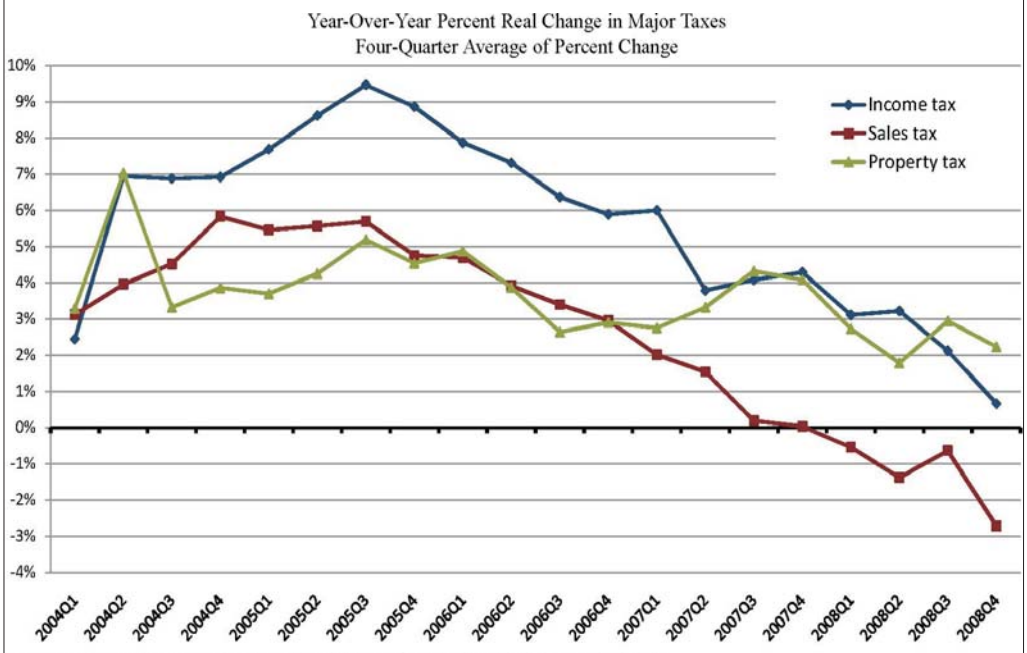
Figure 2 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax have been on a multiyear downward trend. The sales tax has slowed more sharply than the income tax and the average for the most recent four quarters declined, after adjusting for inflation, relative to the same period a year earlier. The relative stability of the property tax is apparent, but nonetheless growth has slowed sharply. Local governments that rely heavily on the property tax are feeling the effects of this slowing growth. Even though the property tax increased in the third quarter of 2008, it declined in the fourth quarter of 2008 in adjusted terms.

State Tax Revenue

Total state tax revenue in the fourth quarter of 2008 declined by 4.0 percent relative to a year ago, before adjustments. The income tax was down by 1.1 percent, the sales tax was down by 6.1 percent, and the corporate income tax was down by 15.5 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and for growth by major tax, respectively. Table 1 does not include adjustment for legislative changes. After adjustment for legislated changes, known anomalies, and inflation, state tax revenue was down 6.1 percent in the quarter.

Total tax revenue declined in 35 states in the fourth quarter, with six states seeing double digit declines. All regions except for the Plains region saw declines in total state tax collections, with the Far West seeing the largest decline at 7.6 percent. In the Plains

Figure 2. The Income Tax Has Slowed Sharply, Sales Tax Growth Is Negative



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

region, revenue growth was weak, at 0.4 percent in the fourth quarter.

Personal Income Tax

In the fourth quarter personal income tax revenue made up at least a third of total tax revenue in 27 states, and was larger than the sales tax in 28 states.

Personal income tax revenue declined 1.1 percent in the October-December 2008 quarter compared to the same quarter in 2007. The strongest growth in state personal income tax revenue was in the Plains region, where collections grew 2.0 percent. Although the Far West region also saw an increase in personal income tax at 2.0 percent, the growth was due to large increase in personal income tax rebate in single state Oregon. If we remove Oregon from the Far West total, the region's income tax would have declined by 8.2 percent. The Rocky Mountain region saw the largest decline at 6.9 percent. Finally, if we remove Oregon from the national totals for the income tax, the decline would have been 3.1 percent rather than 1.1 percent.

Twenty states reported growth, while twenty- three states showed decline in personal income tax in the fourth quarter of 2008. West Virginia led the states that have broad-based income taxes, with growth of 12.2 percent.[2] States seeing the largest declines in personal income tax were Utah at 18.5 percent and Maryland 13.9 percent.

We can get a clearer picture of collections from the personal income tax by breaking this source down into major component parts for which we have data: withholding and quarterly estimated payments. The Census Bureau does not currently collect data on withholding taxes and estimated payments. The data presented here were collected by the Rockefeller Institute.

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and is much less volatile than estimated payments or final settlements. Table 3 shows that withholding for the

Table 1. Quarterly State Tax Revenue

Adjusted for Inflation
Year-Over-Year Percent Change

	Total Nominal Change	Inflation Rate	Adjusted Real Change
2008 Q4	(4.0)	2.0	(5.9)
2008 Q3	2.9	2.6	0.3
2008 Q2	4.4	2.0	2.4
2008 Q1	1.3	2.3	(1.0)
2007 Q4	3.4	2.6	0.8
2007 Q3	2.4	2.5	(0.1)
2007 Q2	5.4	2.8	2.6
2007 Q1	5.4	2.9	2.4
2006 Q4	4.0	2.8	1.2
2006 Q3	5.6	3.2	2.3
2006 Q2	10.1	3.5	6.3
2006 Q1	7.1	3.4	3.6
2005 Q4	7.9	3.5	4.3
2005 Q3	10.2	3.4	6.7
2005 Q2	15.9	2.9	12.6
2005 Q1	10.6	3.3	7.0
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.9	8.1
2004 Q1	8.1	2.3	5.7
2003 Q4	7.0	2.2	4.7
2003 Q3	6.3	2.2	4.1
2003 Q2	2.1	2.1	0.1
2003 Q1	1.6	2.1	(0.5)
2002 Q4	3.4	1.7	1.7
2002 Q3	1.6	1.6	(0.1)
2002 Q2	(9.4)	1.6	(10.9)
2002 Q1	(6.1)	2.0	(7.9)
2001 Q4	(1.1)	2.4	(3.4)
2001 Q3	0.5	2.4	(1.9)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.2	0.5
2000 Q4	4.2	2.2	2.0
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.1	9.4
2000 Q1	12.4	2.1	10.2
1999 Q4	7.7	1.6	6.0
1999 Q3	6.5	1.5	5.0
1999 Q2	4.3	1.5	2.7
1999 Q1	3.8	1.2	2.5

Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Table 2. Quarterly State Tax Revenue

By Major Tax, Year-Over-Year Percent Change

	PIT	CIT	General Sales	Total
2008 Q4	(1.1)	(15.5)	(6.1)	(4.0)
2008 Q3	1.8	(5.9)	3.2	2.9
2008 Q2	7.4	(4.4)	(0.9)	4.4
2008 Q1	3.0	(3.0)	0.1	1.3
2007 Q4	4.3	(12.5)	3.5	3.4
2007 Q3	6.4	(1.7)	(1.3)	2.4
2007 Q2	8.9	1.7	3.4	5.4
2007 Q1	8.7	14.8	3.4	5.4
2006 Q4	4.0	12.6	4.3	4.0
2006 Q3	6.3	16.5	6.2	5.6
2006 Q2	18.8	1.2	5.2	10.1
2006 Q1	9.3	9.6	7.0	7.1
2005 Q4	6.7	33.4	6.4	7.9
2005 Q3	10.2	24.5	8.3	10.2
2005 Q2	19.7	64.1	9.1	15.9
2005 Q1	13.1	29.8	7.3	10.6
2004 Q4	8.8	23.9	10.7	9.4
2004 Q3	5.8	25.2	7.0	6.5
2004 Q2	15.8	3.9	9.5	11.2
2004 Q1	7.9	5.4	9.1	8.1
2003 Q4	7.6	12.5	3.6	7.0
2003 Q3	5.4	12.6	4.7	6.3
2003 Q2	(3.1)	5.2	4.6	2.1
2003 Q1	(3.3)	8.3	2.4	1.6
2002 Q4	0.4	34.7	1.8	3.4
2002 Q3	(3.4)	7.4	2.4	1.6
2002 Q2	(22.3)	(12.3)	0.1	(9.4)
2002 Q1	(14.7)	(15.7)	(1.4)	(6.1)
2001 Q4	(2.5)	(34.0)	1.8	(1.1)
2001 Q3	(0.0)	(27.2)	2.3	0.5
2001 Q2	3.7	(11.0)	(0.8)	1.2
2001 Q1	4.7	(8.4)	1.8	2.7
2000 Q4	6.5	(0.5)	4.4	4.2
2000 Q3	10.0	8.2	4.8	6.8
2000 Q2	21.2	4.2	7.0	11.7
2000 Q1	17.0	11.0	11.9	12.4
1999 Q4	7.3	4.7	7.2	7.7
1999 Q3	6.9	4.3	6.2	6.5
1999 Q2	5.2	5.4	5.0	4.3
1999 Q1	5.8	(5.4)	4.9	3.8

Source: U.S. Census Bureau (tax revenue).

October-December 2008 quarter was only 0.6 percent higher than the same quarter of 2007. This was a significant slowdown from the 3.2 percent year-over-year growth in the July-September quarter. Only North Dakota and Missouri reported growth of more than 10 percent. Thirteen of 39 reporting states had declines in withholding, with Utah and Wisconsin seeing the largest declines at 11.0 and 4.3 percent, respectively.

Estimated Payments

The highest-income taxpayers generally make estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, such as capital gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments. Strong business profits also tend

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2008			
	Jan.-Mar.	*Apr.-June*	*July-Sep.*	*Oct.-Dec.*
United States	**4.0**	**2.3**	**3.2**	**0.6**
New England	**4.5**	**1.8**	**2.6**	**0.4**
Connecticut	2.6	0.1	2.5	1.0
Maine	6.3	2.3	3.9	2.5
Massachusetts	5.6	2.6	2.4	(0.3)
Rhode Island	(0.4)	1.9	1.6	0.3
Vermont	8.8	1.0	6.9	3.5
Mid-Atlantic	**3.6**	**2.5**	**4.8**	**2.3**
Delaware	(0.3)	(0.1)	0.6	(1.1)
Maryland	3.3	1.9	2.8	1.1
New Jersey	3.5	0.6	(1.1)	3.9
New York	3.1	4.3	7.6	2.4
Pennsylvania	6.9	0.4	2.0	2.0
Great Lakes	**7.5**	**2.9**	**4.1**	**(0.9)**
Illinois	7.2	(0.2)	3.6	0.0
Indiana	7.2	4.2	2.0	1.9
Michigan	10.0	10.9	8.1	1.4
Ohio	(1.0)	0.5	(3.0)	(3.2)
Wisconsin	15.9	0.1	13.7	(4.3)
Plains	**6.7**	**3.4**	**4.5**	**5.4**
Iowa	8.1	4.9	4.5	2.3
Kansas	7.4	1.8	6.0	2.9
Minnesota	6.1	3.5	6.0	2.0
Missouri	7.2	2.9	3.1	15.6
Nebraska	2.9	2.6	(1.5)	(3.2)
North Dakota	11.2	12.8	19.3	15.3
Southeast	**4.4**	**1.9**	**2.5**	**2.2**
Alabama	5.5	1.8	(0.4)	(1.4)
Arkansas	10.2	5.6	3.1	0.2
Georgia	1.9	(0.7)	0.1	(0.5)
Kentucky	7.8	5.7	3.4	2.3
Louisiana	3.5	2.6	(2.1)	3.3
Mississippi	3.8	2.8	2.3	3.1
North Carolina	3.0	2.5	2.8	3.3
South Carolina	2.9	1.4	3.3	(2.7)
Virginia	5.2	1.0	5.5	6.2
West Virginia	14.7	7.4	5.3	7.7
Southwest	**(1.7)**	**3.3**	**(0.3)**	**(0.6)**
Arizona	(1.7)	(1.0)	(1.7)	(3.0)
New Mexico	(3.2)	12.5	ND	ND
Oklahoma	(1.3)	5.2	1.4	2.5
Rocky Mountain	**4.1**	**(2.8)**	**(2.0)**	**(2.4)**
Colorado	7.5	4.0	4.5	2.3
Idaho	(2.4)	(0.8)	(4.0)	(2.0)
Montana	4.8	(4.7)	ND	ND
Utah	1.3	(13.9)	(12.0)	(11.0)
Far West	**1.3**	**2.4**	**2.8**	**(3.0)**
California	0.7	2.7	2.5	(3.5)
Hawaii	20.9	(1.4)	3.8	4.6
Oregon	1.2	2.1	4.2	(1.5)

Source: Individual state data, analysis by Rockefeller Institute.

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no broad-based personal income tax and are therefore not shown in this table.

Table 4. Estimated Payments/Declarations, by State

Year-Over-Year Percent Change

	April-January (all four payments)	**December-January** (fourth payment)
Average (Mean)	**(3.5)**	**(13.8)**
Median	**(3.7)**	**(16.8)**
Alabama	(3.7)	(16.1)
Arkansas	5.1	(15.4)
California	(13.0)	(29.5)
Colorado	(2.9)	(20.6)
Connecticut	(9.9)	(22.9)
Delaware	0.5	(3.2)
Georgia	(14.8)	(26.7)
Hawaii	(19.4)	(44.2)
Illinois	(3.2)	(15.6)
Indiana	2.3	(23.0)
Iowa	5.0	2.8
Kansas	(1.2)	(7.1)
Kentucky	21.8	(4.6)
Louisiana	8.5	44.4
Maine	(1.5)	(11.9)
Maryland	(3.7)	(18.3)
Massachusetts	(6.1)	(31.2)
Michigan	1.1	(13.8)
Missouri	(0.3)	(1.1)
Nebraska	1.7	(10.6)
New Jersey	(9.3)	(18.9)
New York	9.2	(16.8)
North Carolina	(10.1)	(22.8)
North Dakota	17.7	37.6
Ohio	(12.0)	(26.4)
Oklahoma	(6.1)	(13.4)
Oregon	(5.0)	(28.6)
Pennsylvania	(4.2)	(18.7)
Rhode Island	(10.2)	(28.4)
South Carolina	(13.9)	(26.3)
Vermont	(6.3)	(26.4)
Virginia	(7.9)	(16.8)
West Virginia	(24.8)	14.8
Wisconsin	(2.0)	(10.5)

Source: Individual state data, analysis by Rockefeller Institute.

to boost these payments. And when the market declines or profits fall, these payments often decline.

The first payment for each tax year is due in April in most states and the second, third, and fourth are generally due in June, September, and January. The early payments often are made on the basis of the previous year's tax liability and may offer little insight into income in the current year. It is not safe to extrapolate trends from the first payment, or often even from the first several payments. In the 34 states for which we have complete data for all four payments, the median payment was down by 3.7 percent, while for the fourth payment the median payment was down by 16.8 percent from the year earlier (see Table 4). Declines were

recorded in 24 of 34 states for all four payments, and in 30 of 34 states for the fourth payment. The four states reporting growth for the fourth payment were Iowa, Louisiana, North Dakota, and West Virginia. The huge and widespread year-over-year declines in the December-January payment may be a harbinger of sharp declines in payments with income tax returns due on April 15. This is a source of huge uncertainty in state budgets and could lead to further large revenue shortfalls if the declines are as large as the December-January declines. We will write about these payments as soon as sufficient information is available.

General Sales Tax

Reported sales tax collections in the October-December 2008 quarter were down 6.1 percent from the same quarter in 2007. This decline is worse than the worst sales tax revenue decline in the previous recession. In fact, the inflation-adjusted decline in state and local sales taxes was the greatest in the 50 years for which quarterly data are available. (Our Census Bureau data are not easily available for years before 1988. However, measured by a similar concept — data from the Bureau of Economic Analysis NIPA Table 3.3, adjusted for inflation using the gross domestic product price index — state and local sales tax declined by more in the October-December quarter of 2008 than in any quarter since 1959.)[3]

The Far West had the largest decline at 13.6 percent, followed by the Rocky Mountain region at 10.4 percent. The Plains and Southwest were the only two regions with modest increases in sales tax revenue collections in the fourth quarter at 1.4 and 1.2 percent, respectively.

Thirty-four of 45 states with broad-based sales taxes had declines, and seven states had double-digit declines. The large increases in sales taxes in Iowa and Maryland are attributable to legislated tax increases.

Corporate Income Tax

Corporate income tax revenue is highly variable because of volatility in corporate profits, and volatility in the timing of tax payments. Many states, such as Delaware, Hawaii, Montana, Rhode Island, and Vermont, collect relatively little revenue from corporate taxes, resulting in large fluctuations in percentage terms. As a result, corporate income tax is an unstable revenue source and many states report sizeable changes from quarter to quarter.

Nominal corporate tax revenue decreased 15.5 percent in the October-December quarter compared to a year earlier, the sixth consecutive decline. All regions but the Great Lakes reported sharp declines, with the Plains region reporting the largest decline at 35.8 percent. The only region reporting a single-digit decline was the Mid-Atlantic at 2.8 percent, while collections in the Great Lakes rose 10.9 percent. Among 46 states for which the Census

Table 5. Percent Change in State Taxes Other Than PIT, CIT, and General Sales Taxes

	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle and operators license taxes	Other taxes
Collections (millions), latest 12 months	$12,145	$37,065	$16,625	$5,318	$21,777	$110,441
2008Q4	(4.1)	(4.1)	2.8	(0.1)	(2.4)	4.4
2008Q3	(1.4)	(3.3)	3.2	(0.5)	(1.5)	7.4
2008Q2	(0.8)	(2.0)	5.6	0.3	(1.1)	4.7
2008Q1	0.7	(1.4)	6.0	0.6	(1.6)	1.9
2007Q4	1.2	(1.8)	6.1	0.7	(0.7)	1.7
2007Q3	0.6	(0.5)	4.0	1.6	(1.0)	(0.8)
2007Q2	(0.2)	(1.1)	0.6	1.4	(0.8)	(1.1)
2007Q1	1.7	(0.0)	1.8	0.6	0.5	(1.0)
2006Q4	(0.1)	0.7	3.0	1.1	0.9	(0.5)
2006Q3	(0.5)	(1.1)	5.6	1.3	0.7	2.1
2006Q2	(0.3)	1.4	8.9	1.3	0.6	4.5
2006Q1	1.0	1.6	7.0	2.5	0.1	5.4
2005Q4	2.3	2.3	5.3	1.6	0.3	7.2
2005Q3	3.5	3.7	4.2	(0.2)	2.1	6.3
2005Q2	3.6	0.9	2.2	(0.6)	2.8	4.7
2005Q1	1.5	1.4	2.9	(2.3)	3.6	5.4
2004Q4	(4.4)	1.6	3.5	(1.3)	5.6	5.7
2004Q3	(1.6)	1.5	3.5	0.2	6.1	7.4
2004Q2	5.8	2.1	4.7	0.6	6.7	8.9
2004Q1	3.1	0.4	11.4	4.1	5.7	7.6
2003Q4	9.5	(1.0)	19.1	3.7	4.1	5.8
2003Q3	6.7	(1.2)	28.1	2.2	3.0	3.8
2003Q2	(1.4)	(0.4)	35.8	3.1	2.8	2.5
2003Q1	(4.6)	0.6	27.8	0.8	3.6	2.2
2002Q4	(4.6)	0.9	17.7	(0.1)	2.7	1.9
2002Q3	(6.6)	0.4	5.6	2.5	2.2	2.3
2002Q2	(3.5)	0.9	(6.2)	(0.5)	0.2	3.2
2002Q1	5.3	1.5	(5.2)	(0.5)	(1.3)	2.2
2001Q4	3.4	2.4	(1.1)	0.4	(2.8)	2.7
2001Q3	1.1	3.5	3.1	(1.4)	(3.2)	1.7
2001Q2	(4.8)	2.5	7.7	1.8	(0.2)	1.1
2001Q1	(12.7)	1.3	8.5	1.5	2.5	3.4
2000Q4	(11.4)	1.2	5.8	1.9	5.7	4.0
2000Q3	(4.3)	1.3	1.7	3.2	6.8	6.4
2000Q2	(2.3)	1.2	(1.3)	2.2	5.7	8.0
2000Q1	2.4	2.3	(4.5)	3.1	3.2	5.5
1999Q4	1.4	2.5	(5.2)	2.7	2.0	4.4
1999Q3	(1.5)	1.7	(2.9)	1.7	1.5	3.6
1999Q2	1.2	2.1	(1.0)	1.3	1.1	1.8
1999Q1	4.5	2.5	1.3	1.5	1.2	3.0

Source: U.S. Census Bureau.

Bureau reported corporate tax data, 33 showed decreases in corporate tax revenue.

Other Taxes

Census Bureau quarterly data on state tax collections provide detailed information for some of the smaller taxes not broken out separately in the advance data collected by the Rockefeller Institute. In Table 5 we show growth rates for the nation as a whole.

Motor fuel tax revenue continued to decline for the eighth consecutive quarter with a drop of 4.1 percent. Revenue from motor vehicle and operators' licenses also fell, for the seventh consecutive quarter, by 2.4 percent. State property taxes declined for the third consecutive quarter, by 4.1 percent.

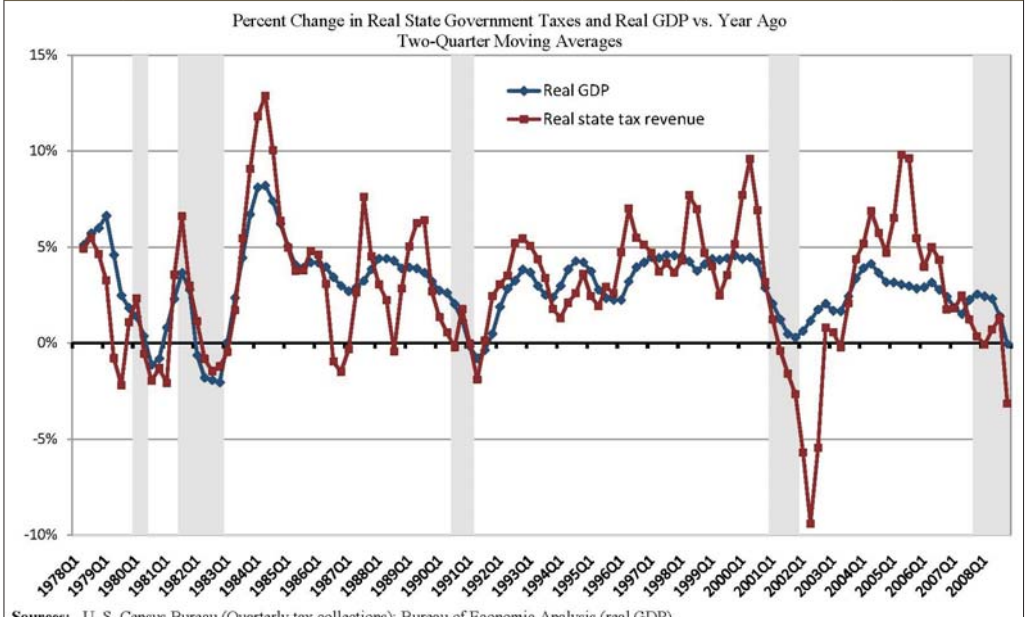
Underlying Reasons for Trends

State revenue changes result from three kinds of underlying forces: differences in the national and state economies, the ways in which these differences affect each state's tax system, and legislated tax changes. The next two sections discuss the economy and recent legislated changes; there is a separate box on Tax Structure and Revenue Growth.

National and State Economies

Most state tax revenue sources are heavily influenced by the economy — the income tax rises when income rises, the sales tax increases when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly and when it declines, tax revenue tends to decline. Figure 3 shows year- over-year growth in inflation-adjusted state tax revenue and in real gross domestic product. Tax revenue is highly related to economic growth, but there also is significant volatility in tax revenue that is not explained solely by one broad measure of the economy. As shown in Figure 4, the fourth quarter decline in real state tax revenue was sharper than the declines in the 1980-82 and 1991 recessions. It was not as sharp as in the 2001 recession, but much of that decline was driven by a huge falloff in income tax in the April-June quarter of 2002, when 2001 tax returns were filed. The comparable quarter for this recession is now upon us and soon we will know how bad it is. Meanwhile, preliminary data for the January-March quarter of 2009 indicate continuing worsening of declines in real state tax revenue.

Figure 3. State Tax Revenue Is Heavily Influenced By Economic Changes



Sources: U. S. Census Bureau (Quarterly tax collections); Bureau of Economic Analysis (real GDP).
Notes: (1) Percentage changes averaged over 2 quarters; (2) No legislative adjustments; (3) Recession periods are shaded.

The National Bureau of Economic Research has declared that a recession began in December 2007. Real gross domestic product declined at an annual rate of 6.3

percent in the October-December quarter. The last time we saw such large declines in real GDP was during the double-dip recession of the early 1980s, when economic activity fell by 6.4 percent for the first quarter of 1982 and 7.8 percent for the second quarter of 1980. Among individual sectors, investments in equipment and software saw the largest decline 28.1 percent. Residential investment declined by 22.8 percent — its twelfth straight decline. Durable goods consumption, an important element of state sales tax bases, declined for the fourth consecutive quarter at 22.1 percent.

It is helpful to examine economic measures that are closely related to state tax bases. Most states rely heavily on income taxes and sales taxes, and growth in income and consumption are extremely important to these revenue sources. Figure 4 shows year-over-year growth in two important sources of income: wages and the portion of nonwage income in the National Income and Products Accounts typically subject to income taxes. Most newspaper accounts of economic data show growth from one quarter or month to the next, rather than year over year. That is because most economic time series have been adjusted to remove seasonality so that comparisons from one period to the next are meaningful. Government tax data, by contrast, rarely are adjusted to remove seasonal variations. As a result, analysts usually examine these time series on a year-over-year basis, comparing data for this year to the same season or period last year and implicitly removing some of the seasonal effects. To make our analysis of economic data comparable to our analysis of tax data, for most purposes in this report we examine economic data on a year-over-year basis.

Figure 4 also shows growth in consumption of goods (excluding services because most states exclude a substantial share of services from the sales tax). All the data are adjusted for inflation. The period covered is January 2000 through February 2009 (two months after the close of the quarter covered in this report).

Figure 5 shows consumption of durable goods, nondurable goods, and services. The decline in consumption of durable and nondurable goods is still sharp due to the overall decline in the consumption of goods.

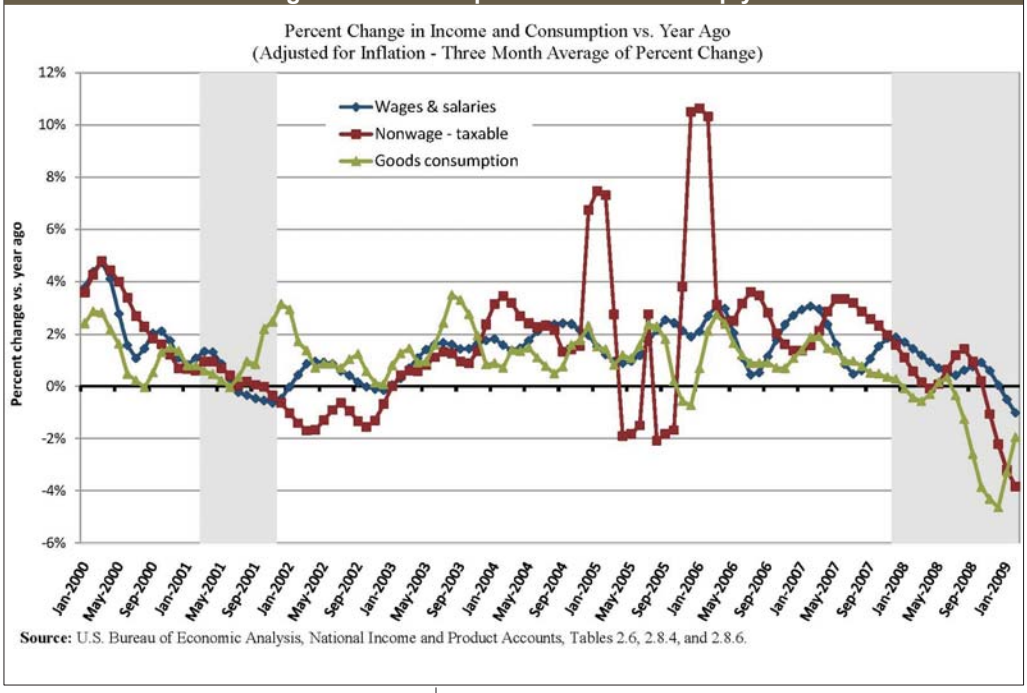
Several important points are evident:

While income growth has slowed, the big story so far is that consumption of goods — especially durables — has been declining. This is a classic response of consumers to economic uncertainty and fears of lower income — eliminating, postponing, and scaling back purchases of items that are not necessary or not needed immediately, such as new cars, washing machines, and so on.

Consumption in January and February did not decline as much relative to the year ago as it did in November and December, but was still very weak compared to historical levels.

Nonwage income historically has been more volatile than either wages or consumption. This income fell extremely sharply in the 2002-2003 period. Recently, national nonwage income has

Figure 4. Consumption Has Fallen Sharply



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, Tables 2.6, 2.8.4, and 2.8.6.

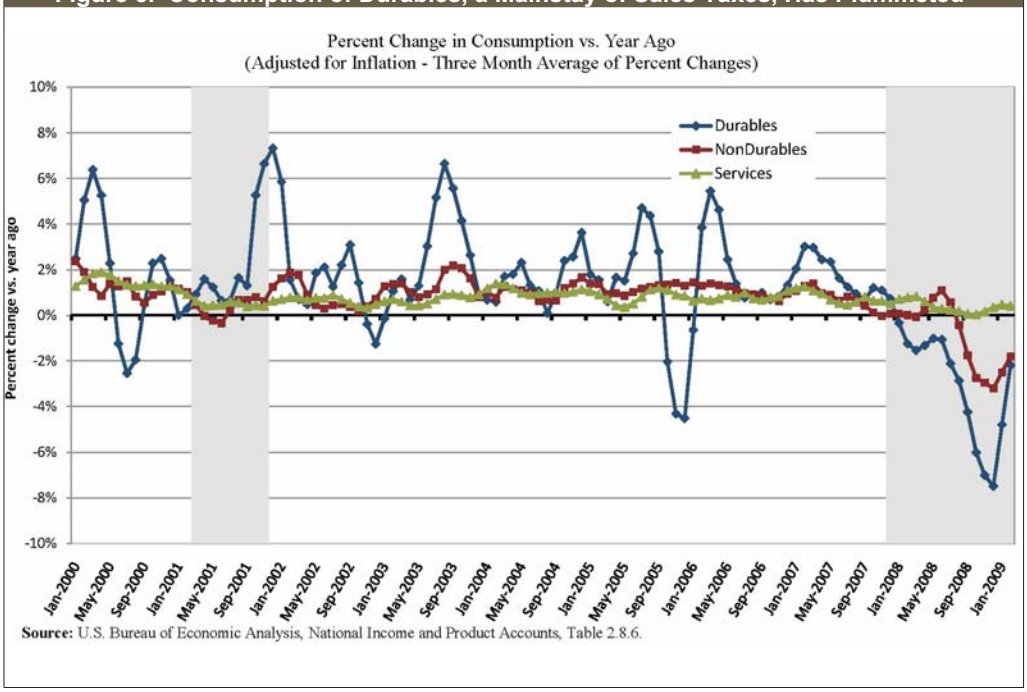
declined even more dramatically than in 2002-2003.

Unfortunately, state-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Traditionally, the Rocke- feller Institute has relied on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth for the last four quarters. For the nation as a whole, employment declined by 1.6 percent in the October-December quarter. On a year-over-year basis, employment declined in 41 states. Measured relative to the previous quarter (rather than a year ago), employment declined in a majority of states.

The regional patterns are quite varied: The Southeast and Great Lakes regions have suffered a malaise for more than a year and saw large employment declines in the fourth quarter at 2.4 and 2.3 percent respectively. The previously strong Southwest and Rocky Mountain regions slowed very sharply by this measure. The nine states that saw some increases in employment in the fourth quarter of 2008 compared to the same quarter of 2007 were Alaska, Kansas, Louisiana, Nebraska, North Dakota, Oklma, South Dakota, Texas, and Wyoming.

The employment data are compared to the same period a year

Figure 5. Consumption of Durables, a Mainstay of Sales Taxes, Has Plummeted



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 2.8.6.

Table 6. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	2008			
	Jan.-Mar.	*Apr.-June*	*July-Sep.*	*Oct-Dec.*
United States	**0.5**	**0.1**	**(0.5)**	**(1.6)**
New England	**0.7**	**0.4**	**(0.2)**	**(1.4)**
Connecticut	1.1	0.6	(0.1)	(1.2)
Maine	0.5	0.5	(0.3)	(2.0)
Massachusetts	0.9	0.6	0.2	(1.1)
New Hampshire	0.5	0.2	(0.1)	(0.8)
Rhode Island	(1.5)	(2.0)	(2.3)	(3.0)
Vermont	0.2	(0.1)	(0.7)	(2.2)
Mid-Atlantic	**0.8**	**0.5**	**0.2**	**(0.8)**
Delaware	0.4	(0.4)	(0.8)	(2.5)
Maryland	0.3	0.1	(0.5)	(1.3)
New Jersey	0.5	(0.2)	(0.7)	(1.7)
New York	1.2	1.0	1.0	(0.2)
Pennsylvania	0.6	0.3	0.0	(0.7)
Great Lakes	**(0.2)**	**(0.8)**	**(1.2)**	**(2.3)**
Illinois	0.3	(0.2)	(0.5)	(1.8)
Indiana	(0.0)	(0.5)	(1.0)	(2.0)
Michigan	(1.4)	(2.1)	(2.8)	(3.9)
Ohio	(0.3)	(0.8)	(1.1)	(2.2)
Wisconsin	0.4	(0.2)	(0.8)	(1.4)
Plains	**0.9**	**0.5**	**0.1**	**(0.5)**
Iowa	0.9	0.5	0.3	(0.6)
Kansas	1.6	1.1	0.3	0.1
Minnesota	0.3	(0.1)	(0.4)	(1.3)
Missouri	0.4	0.1	(0.2)	(0.7)
Nebraska	1.6	1.1	0.4	0.1
North Dakota	2.5	2.5	2.6	1.8
South Dakota	1.9	1.2	0.9	0.7
Southeast	**(0.0)**	**(0.6)**	**(1.2)**	**(2.4)**
Alabama	0.3	0.0	(0.6)	(1.9)
Arkansas	0.3	0.1	0.1	(0.6)
Florida	(2.0)	(3.0)	(3.5)	(4.3)
Georgia	0.2	(0.3)	(1.3)	(2.7)
Kentucky	0.3	(0.4)	(0.7)	(1.9)
Louisiana	1.5	1.9	1.2	0.8
Mississippi	0.8	0.3	(1.0)	(2.1)
North Carolina	1.2	0.2	(0.6)	(2.1)
South Carolina	0.6	(0.1)	(1.2)	(2.7)
Tennessee	0.5	0.0	(1.2)	(2.3)
Virginia	0.5	0.2	0.1	(1.3)
West Virginia	0.8	0.4	0.6	(0.2)
Southwest	**2.2**	**1.7**	**1.0**	**0.2**
Arizona	(0.2)	(1.3)	(2.3)	(4.4)
New Mexico	0.9	0.7	0.5	(0.4)
Oklahoma	2.2	2.0	1.6	1.2
Texas	3.0	2.5	1.9	1.2
Rocky Mountain	**1.7**	**0.8**	**0.4**	**(0.9)**
Colorado	2.0	1.3	0.7	(0.8)
Idaho	0.5	(0.8)	(1.0)	(3.0)
Montana	1.3	0.5	0.2	(0.6)
Utah	1.6	0.5	(0.2)	(1.0)
Wyoming	3.6	3.3	3.4	3.0
Far West	**0.2**	**(0.2)**	**(1.1)**	**(2.3)**
Alaska	0.9	1.4	1.7	1.6
California	(0.2)	(0.4)	(1.5)	(2.5)
Hawaii	0.6	(0.4)	(1.5)	(2.3)
Nevada	(0.7)	(1.4)	(2.0)	(3.9)
Oregon	0.5	(0.0)	(0.4)	(2.3)
Washington	2.2	1.4	0.9	(1.0)

Source: Bureau of Labor Statistics, analysis by Rockefeller Institute.

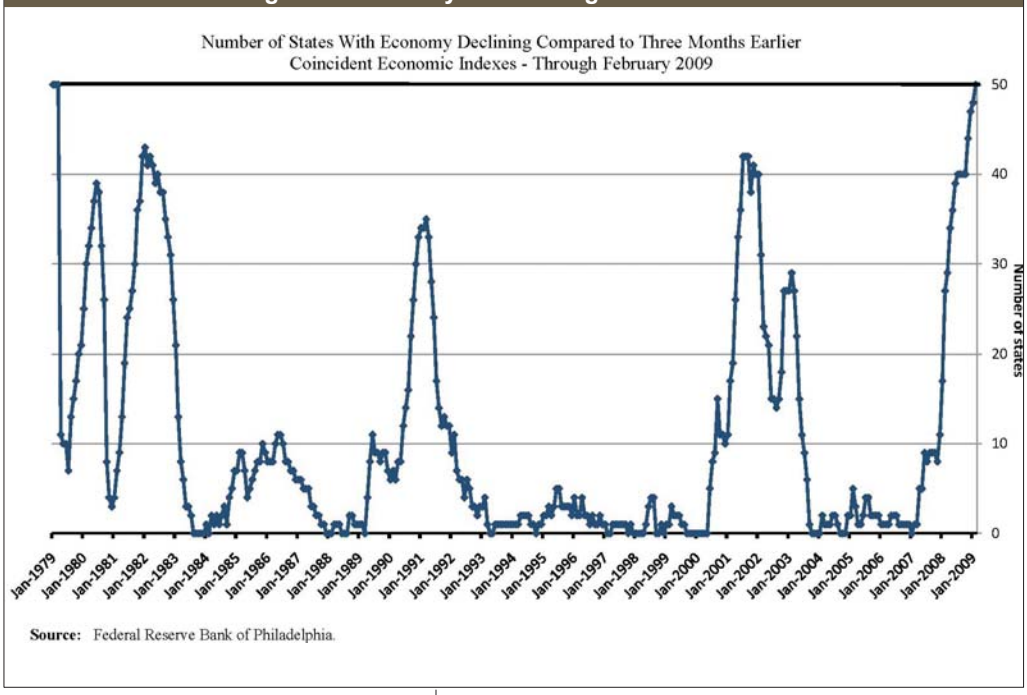
ago rather than to preceding months. If employment begins to decline relative to earlier months it can still be higher than its value a year ago. What we are likely to see in the employment data in such a case is a slowing rate of year- over-year growth when the economy begins to decline relative to recent months. The coincident indexes presented below can be compared more easily to recent months and thus can provide a more-intuitive picture of a declining economy. Both sets of data are useful.

Thanks to work by economists at the Philadelphia Federal Reserve Bank, we can supplement employment data with broader and highly timely measures known as "coincident economic indexes" intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.[4] They are modeled on a similar measure for the nation as a whole, but due to limited availability of state-level data they are focused on labor market conditions, incorporating information from nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and real wage and salary disbursements. These indexes can be used to measure the scope of economic decline.

Figure 6 shows, by month over the last three decades, the number of states that had declining economic activity relative to three months earlier. As recently as in January of 2008, only 17 states suffered declines, but since then economic weakening has spread rapidly throughout the country. By October of 2008, fully 40 states had declines in economic activity (as measured by the coincident index) compared with three months earlier. By February of 2009, all 50 states had declines in economic activity. This is the first time that all 50 states had declines in economic activity (as measured by this index) since 1979. The horizontal line drawn to the left of the February 2009 point on the graph shows that declines now are more widespread than in the previous recessions. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date.

Figure 7 shows that about one-third of the states, mostly states in the east coast, saw large declines of more than three percent for February 2009. Only six states, most of which are rich in oil and minerals, saw declines of less than one percent. Table 7 shows the states sorted by the change in the coincident economic index versus three months ago. Many of the states with

Figure 6. Economy Is Declining in All 50 States

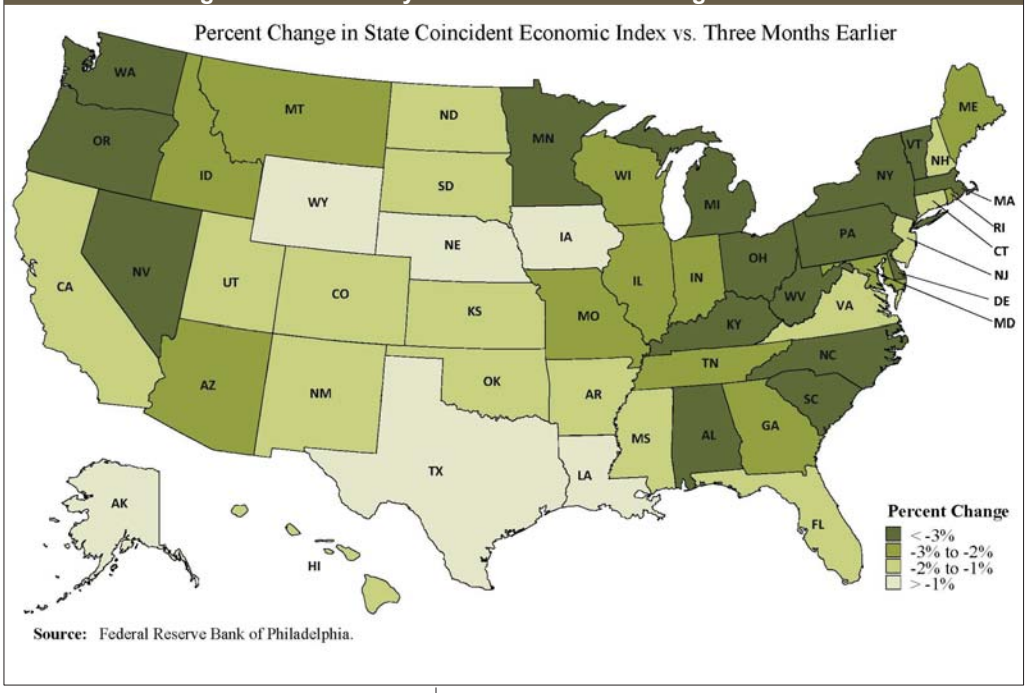


the largest declines, toward the bottom of the list, have suffered heavily from large declines in the price of housing as well as financial market, including Michigan, Nevada, and New York.

Figures 6 and 7 show the breadth of economic decline but provide little information on the depth of decline. Figure 8 shows the median percentage change compared to three months earlier — in a sense, how the typical state has been faring. The median state change generally will not be the same as the national change because it gives every state equal importance — in this measure, California is no more important than Wyoming.

Here we can see that the most-recently reported decline in the typical state is worse than those of the 1980-82, 1990-91 and 2001 recessions. For reasons discussed elsewhere, tax revenue has not yet suffered as much as it did in the last recession.[5] However, we expect declines in tax revenue ultimately will be even worse in this recession than in the last one.

Figure 7. In February: All States Had Declining Economies



The continued weakening in January and February suggests that state tax collections in the just-completed January-March quarter will have been worse than in October-December, and that tax collections will weaken further. We expect to issue a "flash report" on the January-March quarter as soon as we have enough data to report.

Table 7. State Economic Activity: Declining in All 50 States

State Indexes of Economic Activity
States are Sorted by Percent Change vs. 3 Months Ago

State	Coincident index November 2008 (Jan 2007=100)	Percent change vs. 1 year ago (February 2008)	Percent change vs. 3 months ago (November 2008)
Alaska	102.0	1.7	(0.1)
Wyoming	103.2	2.4	(0.5)
Louisiana	100.8	1.0	(0.5)
Nebraska	99.4	(0.7)	(0.7)
Texas	100.6	0.1	(0.8)
Iowa	98.8	(1.4)	(0.9)
New Mexico	98.7	(1.2)	(1.1)
Utah	98.2	(1.7)	(1.1)
Oklahoma	100.9	(0.1)	(1.1)
South Dakota	99.7	(0.8)	(1.1)
United States	**97.9**	**(2.2)**	**(1.3)**
North Dakota	101.1	0.3	(1.3)
New Hampshire	98.3	(1.8)	(1.3)
Virginia	97.9	(2.3)	(1.4)
Colorado	98.1	(2.2)	(1.4)
Mississippi	97.0	(3.1)	(1.5)
California	96.4	(3.6)	(1.6)
Connecticut	96.9	(3.2)	(1.7)
Arkansas	96.2	(3.7)	(1.7)
Hawaii	94.7	(5.1)	(1.7)
Kansas	97.7	(2.6)	(1.8)
Florida	93.6	(5.8)	(1.9)
New Jersey	96.3	(3.9)	(2.0)
Tennessee	96.3	(3.8)	(2.0)
Wisconsin	97.1	(3.0)	(2.0)
Illinois	94.9	(4.9)	(2.0)
Missouri	95.7	(4.2)	(2.1)
Maine	95.0	(4.9)	(2.1)
Rhode Island	94.9	(4.8)	(2.1)
Maryland	95.1	(4.8)	(2.3)
Montana	97.7	(2.1)	(2.5)
Georgia	94.5	(5.4)	(2.6)
Arizona	92.3	(7.2)	(2.7)
Indiana	94.6	(5.1)	(2.9)
Idaho	93.0	(6.5)	(2.9)
North Carolina	94.4	(5.8)	(3.2)
South Carolina	92.2	(7.7)	(3.4)
Massachusetts	96.2	(4.2)	(3.4)
Vermont	93.5	(6.3)	(3.4)
Kentucky	92.9	(6.9)	(3.5)
Delaware	90.5	(9.0)	(3.6)
Minnesota	92.7	(7.4)	(4.0)
Alabama	92.0	(7.8)	(4.3)
Ohio	92.0	(7.7)	(4.3)
Pennsylvania	91.3	(8.4)	(4.6)
West Virginia	96.1	(4.3)	(4.6)
New York	89.6	(10.3)	(4.7)
Nevada	87.9	(11.5)	(5.1)
Washington	87.7	(12.4)	(5.7)
Michigan	86.1	(13.5)	(7.0)
Oregon	81.0	(18.5)	(8.2)

Source: Federal Reserve Bank of Philadelphia.

Tax Law Changes Affecting This Quarter

Another important element affecting trends in tax revenue growth is changes in states' tax laws. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition from nominal collections data. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when tax-processing changes have had a major impact on revenue growth, even though these are not due to enacted legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

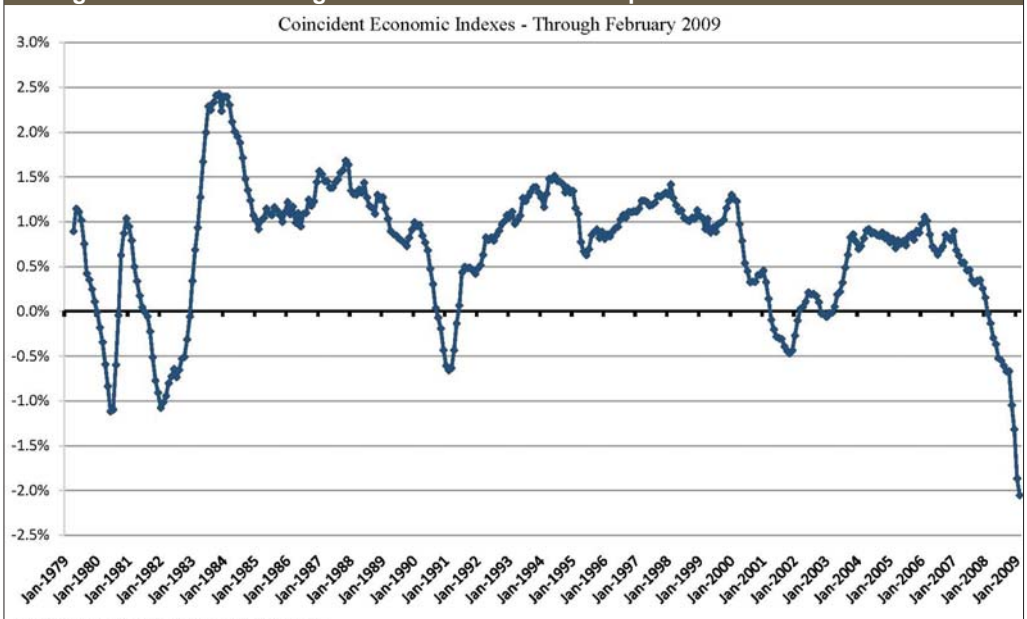
During the October-December 2008 quarter, enacted tax changes increased state revenue by an estimated net of $500 million compared to the same period in 2007. Sales tax increases accounted for approximately $428 million of the change, and the "other" tax category accounted for a $151 million increase, reflecting tobacco tax increases. Net reductions in personal-income and corporate taxes offset some of the increases.[6]

The net impact is that total tax revenue declined 0.2 percent more than it would have in absence of these changes — unadjusted growth would have been negative 4.0 percent rather than the 4.2 percent reported growth. Figure 9 shows adjusted growth by region.

Looking Ahead

The news from the October-December quarter was very bad for states. The worst decline in sales tax in 50 years represents historic weakness in one of the two major tax sources for states. Preliminary data for the January-March quarter suggest that fiscal conditions deteriorated even further, and the second major tax source for states — the income tax — is likely to weaken dramatically in April. With data for January and February now available for 41 states, tax revenue for the two months combined has declined by 12.8 percent versus the same period last year. Nearly 90 percent of states reporting sales tax data had a year-over-year

Figure 8. Percent Change in State Economies Compared to Three Months Earlier

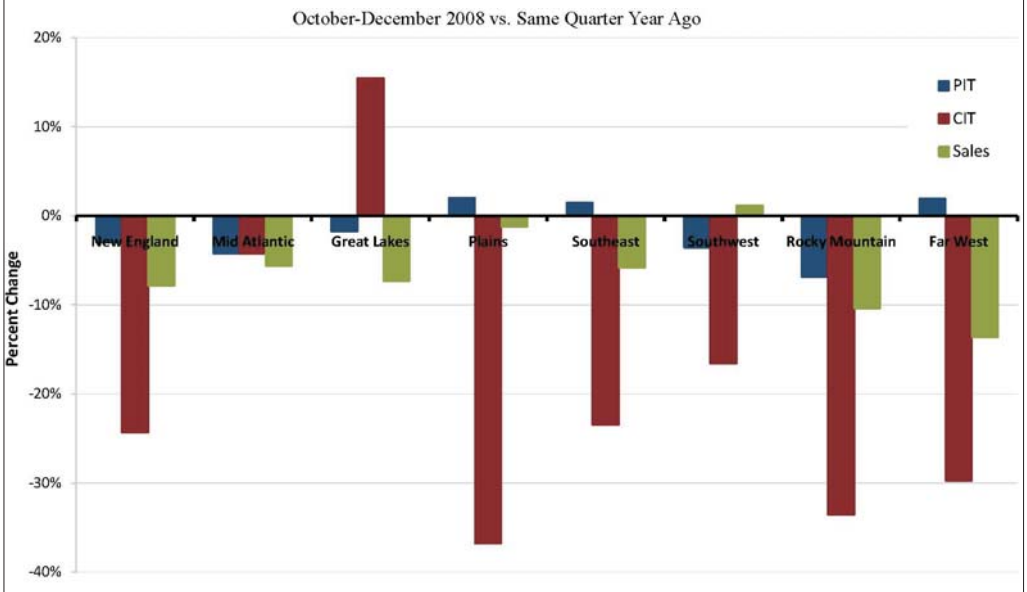


Source: Federal Reserve Bank of Philadelphia.
Note: Percent change is for the median state.

decline, with a median decline of 7.2 percent, while 86 percent of states reporting income tax data had a year-over-year decline, with a median decline of 12.6 percent. While March data could change things one way or the other, there is little reason to expect it to be strong. After March, income-tax states face the risk that payments with 2008 income tax returns filed in April could be even worse than they expect.

Weakness in tax revenue has forced states to take some steps to reduce planned expenditures in 2008-09 budgets and to consider more significant reductions in projected growth for fiscal 2010. As of March, state government employment as reported by the Bureau of Labor Statistics was still marginally higher than the year-ago figure, but reports of job reductions by many states may change the overall employment picture in the months ahead. Governors and legislatures in most states are currently negotiating budgets for the coming year. Based on our expectation that revenue conditions will deteriorate further, there is great risk that budgets being negotiated over the next month or two will have to be buttressed with additional spending cuts or tax increases as the year progresses.

Figure 9. State Tax Revenue Growth Adjusted for Legislative Changes



Sources: Rockefeller Institute Analysis of (1) data from U.S. Bureau of the Census (tax revenue, most states), (2) data from National Association of State Budget Officers (legislative enactments, most states), and (3) data from selected individual states (supplemental data on tax revenue and legislative enactments).

Endnotes

1 Census Bureau data with no adjustments show an overall decline of 4.7 percent. However, Census data do not include complete information for New Mexico. We incorporated some revised numbers for Virginia. We also used some estimates for Michigan, Missouri and Ohio based upon data and information provided to us directly by these states. These revisions together accounts for the small difference between the Census Bureau figure of 4.7 percent and our estimate of 4.0 percent. We were unable to obtain better data for New Mexico than those reported by the Census Bureau and so made no adjustments to New Mexico.

2 Oregon's personal income tax grew by more than 370 percent, which is attributable to a $1.1 billion rebate that taxpayers received in the previous year. New Hampshire also had a large personal income tax increase in percentage terms, but it has narrowly based taxes on nonwage income and is not normally thought of as income-tax state.

3 The body of the report notes that the decline in combined state/local sales taxes during the fourth quarter of 2008, adjusted for inflation, was the worst in 50 years. The quarterly Census data we focus on in this report are not available for 50 years, and this statement is based on analysis of data on state and local government sales taxes as defined by the Bureau of Economic Analysis, which are available back to the first quarter of 1958 in Table 3.3 of the National Income and Product Accounts. The BEA definition of sales taxes is broader than the Census Bureau definition because it includes some excise taxes and other taxes associated with production or sales, and it tends to be less volatile than the Census measure. After adjusting for inflation with the gross domestic product price index, BEA-defined sales taxes declined by 4.2 percent in the October-December quarter versus the year earlier, which was the largest decline over the 50 years for which data are available. The second-largest decline, of 3.6 percent, was in the April-June quarter of 1975. The Census Bureau data are readily available back to 1988. The decline in Census-defined sales tax was the largest by far over the 20 years since 1988.

4 For a technical discussion of these indexes and their national counterpart, see Theodore M. Crone and Alan Clayton-Matthews. "Consistent Economic Indexes for the 50 States," *Review of Economics and Statistics*, 87 (2005), pp. 593-603; Theodore M. Crone, "What a New Set of Indexes Tells Us About State and National Business Cycles," *Business Review*, Federal Reserve Bank of Philadelphia (First Quarter 2006); and James H. Stock and Mark W. Watson. "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* (1989), pp. 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.

5 See Donald J. Boyd, "What Will Happen to State Government Finances in a Recession?" The Nelson A. Rockefeller Institute of Government, January 30, 2008.

6 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.

Table 8. State Tax Revenue, October-December, 2007 and 2008 ($ in millions)

	2007				2008			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**59,183**	**10,332**	**60,659**	**178,042**	**58,439**	**7,934**	**56,932**	**169,643**
New England	**4,736**	**639**	**2,573**	**10,233**	**4,595**	**484**	**2,370**	**9,775**
Connecticut	1,419	104	986	3,203	1,336	24	855	2,975
Maine	354	34	277	892	355	30	268	877
Massachusetts	2,562	315	1,017	4,577	2,513	300	964	4,544
New Hampshire	9	156	NA	499	10	109	NA	379
Rhode Island	254	13	210	586	244	11	201	566
Vermont	138	17	83	476	137	11	82	434
Mid-Atlantic	**14,369**	**2,379**	**8,112**	**31,481**	**13,838**	**2,313**	**7,791**	**30,360**
Delaware	232	32	NA	635	232	43	NA	602
Maryland	2,184	56	861	3,996	1,882	112	971	3,902
New Jersey	2,720	764	2,190	6,945	2,469	586	2,018	6,257
New York	7,100	1,093	2,869	13,183	7,074	1,209	2,688	13,120
Pennsylvania	2,133	434	2,192	6,722	2,181	363	2,114	6,479
Great Lakes	**8,361**	**1,657**	**8,525**	**26,466**	**8,043**	**1,083**	**8,127**	**24,901**
Illinois	2,018	562	2,111	6,724	1,969	439	1,982	6,360
Indiana	951	159	1,362	3,513	938	196	1,530	3,519
Michigan	1,718	382	2,037	6,749	1,673	-34	1,750	5,902
Ohio	2,065	326	1,984	5,818	1,915	326	1,824	5,504
Wisconsin	1,609	229	1,031	3,662	1,548	155	1,040	3,616
Plains	**4,585**	**615**	**3,610**	**12,083**	**4,677**	**354**	**3,660**	**12,089**
Iowa	690	70	444	1,640	677	12	531	1,655
Kansas	603	112	572	1,652	623	113	550	1,631
Minnesota	1,675	264	1,135	4,392	1,699	118	1,096	4,291
Missouri	1,153	63	782	2,547	1,227	24	749	2,554
Nebraska	403	43	332	949	385	44	374	961
North Dakota	60	42	145	553	66	31	164	630
South Dakota	NA	21	199	351	NA	11	196	367
Southeast	**11,705**	**1,994**	**14,856**	**40,154**	**11,848**	**1,527**	**13,964**	**37,971**
Alabama	708	150	571	2,236	656	95	522	2,086
Arkansas	545	78	695	2,000	546	89	694	2,030
Florida	NA	599	5,004	8,829	NA	479	4,451	7,829
Georgia	2,297	235	1,358	4,556	2,217	168	1,379	4,404
Kentucky	798	126	718	2,508	860	112	716	2,581
Louisiana	716	172	786	2,470	724	180	773	2,497
Mississippi	356	58	762	1,549	369	58	755	1,533
North Carolina	2,541	210	1,387	5,448	2,597	83	1,282	5,236
South Carolina	1,113	83	720	2,345	1,060	35	672	2,180
Tennessee	9	87	1,702	2,478	8	66	1,574	2,300
Virginia	2,335	101	898	4,720	2,488	69	859	4,197
West Virginia	287	95	257	1,014	322	92	287	1,099
Southwest	**1,544**	**325**	**7,533**	**15,597**	**1,486**	**271**	**7,621**	**15,380**
Arizona	704	174	1,337	2,858	620	130	1,167	2,549
New Mexico	144	88	245	1,054	141	72	230	1,061
Oklahoma	697	63	522	1,976	725	69	580	2,146
Texas	NA	NA	5,429	9,708	NA	NA	5,644	9,623
Rocky Mountain	**2,345**	**272**	**1,636**	**5,841**	**2,183**	**181**	**1,466**	**5,745**
Colorado	1,112	115	562	2,205	1,102	67	533	2,159
Idaho	328	37	344	872	301	31	300	786
Montana	191	32	NA	567	198	47	NA	596
Utah	714	88	534	1,607	582	36	428	1,336
Wyoming	NA	NA	196	591	NA	NA	205	868
Far West	**11,538**	**2,451**	**13,814**	**36,187**	**11,769**	**1,722**	**11,933**	**33,421**
Alaska	NA	530	NA	1,617	NA	107	NA	1,213
California	10,860	1,822	9,513	26,616	9,926	1,549	7,949	23,678
Hawaii	370	6	653	1,252	386	5	607	1,174
Nevada	NA	NA	786	1,571	NA	NA	744	1,470
Oregon	308	92	NA	835	1,457	62	NA	1,966
Washington	NA	NA	2,863	4,295	NA	NA	2,633	3,919

Source: U.S. Census Bureau.

Table 9. Quarterly Tax Revenue by Major Tax

October-December, 2007 to 2008, Percent Change

	PIT	CIT	Sales	Total
United States	**(1.3)**	**(23.2)**	**(6.1)**	**(4.7)**
New England	**(3.0)**	**(24.2)**	**(7.9)**	**(4.5)**
Connecticut	(5.9)	(77.3)	(13.3)	(7.1)
Maine	0.2	(11.9)	(3.3)	(1.7)
Massachusetts	(1.9)	(5.0)	(5.2)	(0.7)
New Hampshire	10.3	(30.1)	NA	(24.0)
Rhode Island	(4.1)	(13.5)	(4.3)	(3.4)
Vermont	(0.2)	(36.3)	(0.8)	(8.8)
Mid-Atlantic	**(3.7)**	**(2.8)**	**(4.0)**	**(3.6)**
Delaware	(0.0)	32.7	NA	(5.1)
Maryland	(13.9)	100.2	12.7	(2.3)
New Jersey	(9.2)	(23.3)	(7.9)	(9.9)
New York	(0.4)	10.7	(6.3)	(0.5)
Pennsylvania	2.2	(16.5)	(3.6)	(3.6)
Great Lakes	**(3.8)**	**(34.7)**	**(4.7)**	**(5.9)**
Illinois	(2.4)	(21.9)	(6.1)	(5.4)
Indiana	(1.3)	23.9	12.4	0.2
Michigan	(2.6)	(108.9)	(14.1)	(12.5)
Ohio	(7.3)	0.0	(8.1)	(5.4)
Wisconsin	(3.8)	(32.0)	0.8	(1.3)
Plains	**2.0**	**(42.5)**	**1.4**	**0.0**
Iowa	(1.9)	(82.7)	19.5	0.9
Kansas	3.3	1.0	(3.8)	(1.2)
Minnesota	1.4	(55.2)	(3.5)	(2.3)
Missouri	6.4	(61.3)	(4.2)	0.3
Nebraska	(4.6)	2.6	12.5	1.3
North Dakota	10.3	(27.9)	12.9	13.9
South Dakota	NA	(45.5)	(1.2)	4.8
Southeast	**1.2**	**(23.4)**	**(6.0)**	**(5.4)**
Alabama	(7.3)	(36.8)	(8.5)	(6.7)
Arkansas	0.3	14.6	(0.1)	1.5
Florida	NA	(20.0)	(11.1)	(11.3)
Georgia	(3.5)	(28.6)	1.6	(3.3)
Kentucky	7.7	(10.9)	(0.2)	2.9
Louisiana	1.1	4.7	(1.6)	1.1
Mississippi	3.8	(0.1)	(0.8)	(1.0)
North Carolina	2.2	(60.4)	(7.5)	(3.9)
South Carolina	(4.8)	(58.2)	(6.7)	(7.0)
Tennessee	(11.3)	(23.9)	(7.5)	(7.2)
Virginia	6.5	(31.5)	(4.4)	(11.1)
West Virginia	12.2	(2.9)	11.6	8.3
Southwest	**(3.8)**	**(16.6)**	**1.2**	**(1.4)**
Arizona	(11.9)	(25.0)	(12.7)	(10.8)
New Mexico	(2.0)	(18.2)	(6.1)	0.6
Oklahoma	4.1	8.8	11.2	8.6
Texas	NA	NA	4.0	(0.9)
Rocky Mountain	**(6.9)**	**(33.6)**	**(10.4)**	**(1.7)**
Colorado	(0.8)	(42.0)	(5.2)	(2.1)
Idaho	(8.1)	(17.1)	(12.7)	(9.9)
Montana	3.4	46.1	NA	5.1
Utah	(18.5)	(58.8)	(19.9)	(16.8)
Wyoming	NA	NA	4.5	46.9
Far West	**2.0**	**(29.7)**	**(13.6)**	**(7.6)**
Alaska	NA	(79.8)	NA	(25.0)
California	(8.6)	(15.0)	(16.4)	(11.0)
Hawaii	4.3	(28.3)	(7.0)	(6.2)
Nevada	NA	NA	(5.3)	(6.5)
Oregon	373.5	(32.6)	NA	135.4
Washington	NA	NA	(8.0)	(8.8)

Source: U.S. Census Bureau.

Table 10. State Tax Revenue, July-December, 2007 and 2008 ($ in millions)

	2007				2008			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**119,551**	**22,187**	**117,329**	**352,665**	**119,792**	**19,090**	**115,429**	**349,409**
New England	**9,293**	**1,357**	**4,621**	**19,531**	**8,995**	**1,209**	**4,483**	**18,982**
Connecticut	2,370	175	1,425	5,154	2,226	107	1,386	4,947
Maine	656	78	497	1,658	674	69	493	1,652
Massachusetts	5,449	764	2,087	9,685	5,286	752	2,010	9,536
New Hampshire	27	274	NA	902	32	220	NA	790
Rhode Island	510	27	444	1,268	489	27	430	1,237
Vermont	281	38	169	864	288	34	164	820
Mid-Atlantic	**28,415**	**4,723**	**16,025**	**63,192**	**28,479**	**4,690**	**15,836**	**62,944**
Delaware	464	100	NA	1,323	468	135	NA	1,326
Maryland	3,751	211	1,441	7,554	3,640	337	1,655	7,876
New Jersey	4,849	1,263	4,364	13,020	4,644	1,102	4,135	12,344
New York	14,973	2,265	5,744	27,325	15,255	2,364	5,637	27,834
Pennsylvania	4,378	884	4,477	13,970	4,471	753	4,409	13,564
Great Lakes	**17,065**	**3,675**	**17,146**	**53,254**	**17,129**	**3,392**	**17,166**	**52,854**
Illinois	4,089	1,100	4,095	13,582	4,119	959	4,005	13,316
Indiana	2,073	414	2,778	7,067	2,039	425	3,226	7,398
Michigan	3,912	1,088	4,564	14,790	4,037	1,048	4,404	14,566
Ohio	4,095	651	3,890	11,369	3,922	651	3,743	11,034
Wisconsin	2,896	423	1,820	6,446	3,012	309	1,788	6,540
Plains	**9,181**	**1,236**	**7,179**	**23,601**	**9,429**	**917**	**7,313**	**23,981**
Iowa	1,178	100	802	2,871	1,198	54	976	3,015
Kansas	1,246	239	1,143	3,282	1,283	201	1,132	3,277
Minnesota	3,428	538	2,190	8,488	3,553	355	2,128	8,464
Missouri	2,366	154	1,623	5,216	2,443	113	1,560	5,193
Nebraska	837	105	747	2,032	811	101	772	1,997
North Dakota	126	69	267	1,018	142	68	331	1,307
South Dakota	NA	31	406	694	NA	25	413	728
Southeast	**23,067**	**4,289**	**29,089**	**78,552**	**23,209**	**3,394**	**28,373**	**75,882**
Alabama	1,433	263	1,133	4,395	1,411	198	1,108	4,322
Arkansas	1,105	181	1,412	3,782	1,142	179	1,438	3,869
Florida	NA	1,057	9,435	16,987	NA	953	9,137	15,851
Georgia	4,475	440	2,766	8,974	4,300	359	2,777	8,696
Kentucky	1,621	309	1,446	4,935	1,736	207	1,468	5,030
Louisiana	1,486	339	1,605	5,042	1,401	288	1,598	5,091
Mississippi	726	143	1,442	3,039	733	131	1,453	3,045
North Carolina	5,097	529	2,731	10,816	5,169	312	2,581	10,427
South Carolina	1,720	111	1,278	3,919	1,644	53	1,176	3,710
Tennessee	13	339	3,461	5,278	13	255	3,298	4,982
Virginia	4,734	325	1,817	9,070	4,958	256	1,762	8,472
West Virginia	656	253	562	2,315	701	203	578	2,387
Southwest	**3,081**	**663**	**14,830**	**31,657**	**2,955**	**551**	**15,234**	**32,339**
Arizona	1,431	414	2,697	5,834	1,291	305	2,429	5,298
New Mexico	235	92	431	1,668	234	76	422	1,765
Oklahoma	1,416	157	1,073	4,092	1,431	171	1,157	4,508
Texas	NA	NA	10,629	20,063	NA	NA	11,226	20,767
Rocky Mountain	**4,522**	**561**	**3,299**	**11,184**	**4,338**	**485**	**3,118**	**11,183**
Colorado	2,230	239	1,176	4,478	2,278	183	1,129	4,501
Idaho	619	77	718	1,738	578	70	655	1,615
Montana	401	73	NA	1,064	415	93	NA	1,155
Utah	1,272	172	1,014	3,030	1,068	140	916	2,723
Wyoming	NA	NA	391	874	NA	NA	418	1,190
Far West	**24,928**	**5,683**	**25,139**	**71,694**	**25,260**	**4,453**	**23,905**	**71,245**
Alaska	NA	852	NA	2,276	NA	465	NA	4,104
California	22,518	4,583	17,016	53,108	21,537	3,787	16,157	50,117
Hawaii	749	39	1,299	2,508	769	42	1,276	2,464
Nevada	NA	NA	1,030	2,093	NA	NA	986	1,990
Oregon	1,660	210	NA	2,702	2,954	158	NA	3,981
Washington	NA	NA	5,794	9,006	NA	NA	5,486	8,589

Source: U.S. Census Bureau.

Table 11. Tax Revenue by Major Tax

July-December, 2007 to 2008, Percent Change

	PIT	CIT	Sales	Total
United States	**0.2**	**(14.0)**	**(1.6)**	**(0.9)**
New England	**(3.2)**	**(10.8)**	**(3.0)**	**(2.8)**
Connecticut	(6.1)	(38.5)	(2.7)	(4.0)
Maine	2.8	(12.0)	(0.6)	(0.3)
Massachusetts	(3.0)	(1.5)	(3.7)	(1.5)
New Hampshire	18.3	(19.8)	NA	(12.5)
Rhode Island	(4.2)	0.0	(3.3)	(2.5)
Vermont	2.4	(12.3)	(3.1)	(5.1)
Mid-Atlantic	**0.2**	**(0.7)**	**(1.2)**	**(0.4)**
Delaware	0.7	35.0	NA	0.2
Maryland	(3.0)	59.5	14.9	4.3
New Jersey	(4.2)	(12.8)	(5.2)	(5.2)
New York	1.9	4.3	(1.9)	1.9
Pennsylvania	2.1	(14.8)	(1.5)	(2.9)
Great Lakes	**0.4**	**(7.7)**	**0.1**	**(0.8)**
Illinois	0.7	(12.9)	(2.2)	(2.0)
Indiana	(1.7)	2.7	16.1	4.7
Michigan	3.2	(3.6)	(3.5)	(1.5)
Ohio	(4.2)	0.0	(3.8)	(2.9)
Wisconsin	4.0	(26.9)	(1.8)	1.5
Plains	**2.7**	**(25.8)**	**1.9**	**1.6**
Iowa	1.7	(46.3)	21.7	5.0
Kansas	2.9	(15.8)	(1.0)	(0.2)
Minnesota	3.6	(34.0)	(2.8)	(0.3)
Missouri	3.2	(26.6)	(3.9)	(0.4)
Nebraska	(3.1)	(4.0)	3.3	(1.7)
North Dakota	12.5	(1.1)	24.0	28.4
South Dakota	NA	(21.9)	1.8	5.0
Southeast	**0.6**	**(20.9)**	**(2.5)**	**(3.4)**
Alabama	(1.5)	(24.7)	(2.3)	(1.7)
Arkansas	3.3	(0.8)	1.8	2.3
Florida	NA	(9.8)	(3.2)	(6.7)
Georgia	(3.9)	(18.4)	0.4	(3.1)
Kentucky	7.1	(33.1)	1.5	1.9
Louisiana	(5.7)	(15.2)	(0.5)	1.0
Mississippi	0.9	(8.7)	0.8	0.2
North Carolina	1.4	(41.1)	(5.5)	(3.6)
South Carolina	(4.4)	(52.6)	(8.0)	(5.3)
Tennessee	3.8	(24.9)	(4.7)	(5.6)
Virginia	4.7	(21.2)	(3.0)	(6.6)
West Virginia	6.9	(19.5)	2.8	3.1
Southwest	**(4.1)**	**(16.8)**	**2.7**	**2.2**
Arizona	(9.8)	(26.4)	(9.9)	(9.2)
New Mexico	(0.5)	(17.6)	(2.1)	5.8
Oklahoma	1.1	8.9	7.9	10.2
Texas	NA	NA	5.6	3.5
Rocky Mountain	**(4.1)**	**(13.4)**	**(5.5)**	**(0.0)**
Colorado	2.1	(23.4)	(4.0)	0.5
Idaho	(6.7)	(8.9)	(8.8)	(7.1)
Montana	3.3	27.2	NA	8.5
Utah	(16.1)	(18.8)	(9.7)	(10.1)
Wyoming	NA	NA	6.9	36.2
Far West	**1.3**	**(21.6)**	**(4.9)**	**(0.6)**
Alaska	NA	(45.4)	NA	80.3
California	(4.4)	(17.4)	(5.0)	(5.6)
Hawaii	2.7	9.2	(1.8)	(1.8)
Nevada	NA	NA	(4.3)	(4.9)
Oregon	78.0	(24.6)	NA	47.3
Washington	NA	NA	(5.3)	(4.6)

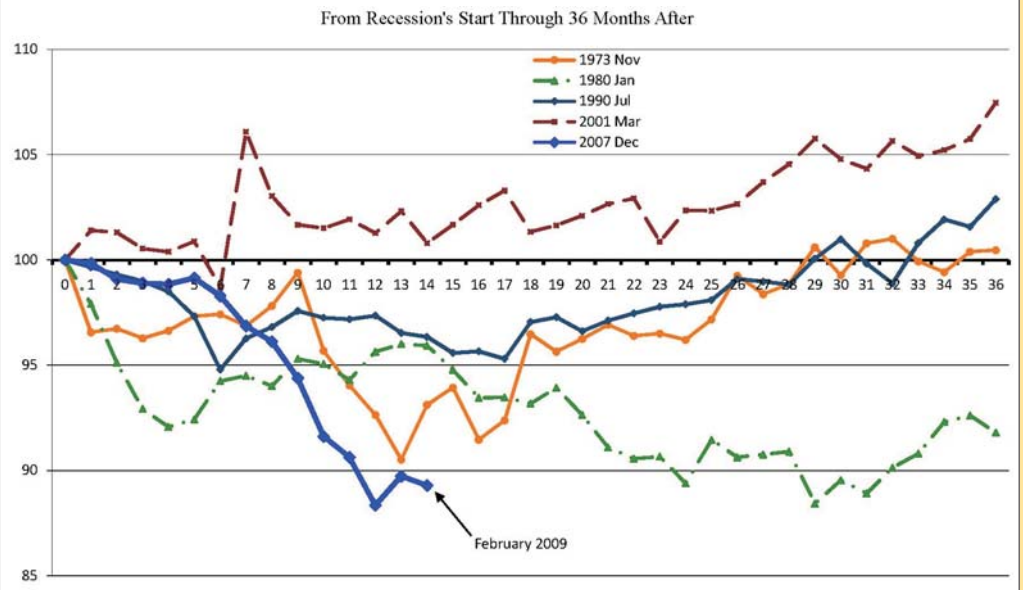
Source: U.S. Census Bureau.

The Spreading Regional Pain

As we noted in the body of this report, the sales tax decline in the latest quarter was the worst in 50 years, based on our analysis of sales tax data from the Bureau of Economic Analysis going back to 1958.

Figure 10 shows inflation-adjusted monthly retail sales for the current and four previous recessions, from the start of the recession through 36 months afterward, indexed to the start of the recession.* As the graph shows, the decline in retail sales in this recession has been sharper than in any recent recession, although it is not yet as prolonged as the decline during the 1980 and 1982 double-dip recessions (which are treated here like one long recession). Many current economic forecasts suggest that retail sales will decline further and may take many months before they begin to recover.

Figure 10. Real Monthly Retail Sales Indexed to Start of Recession



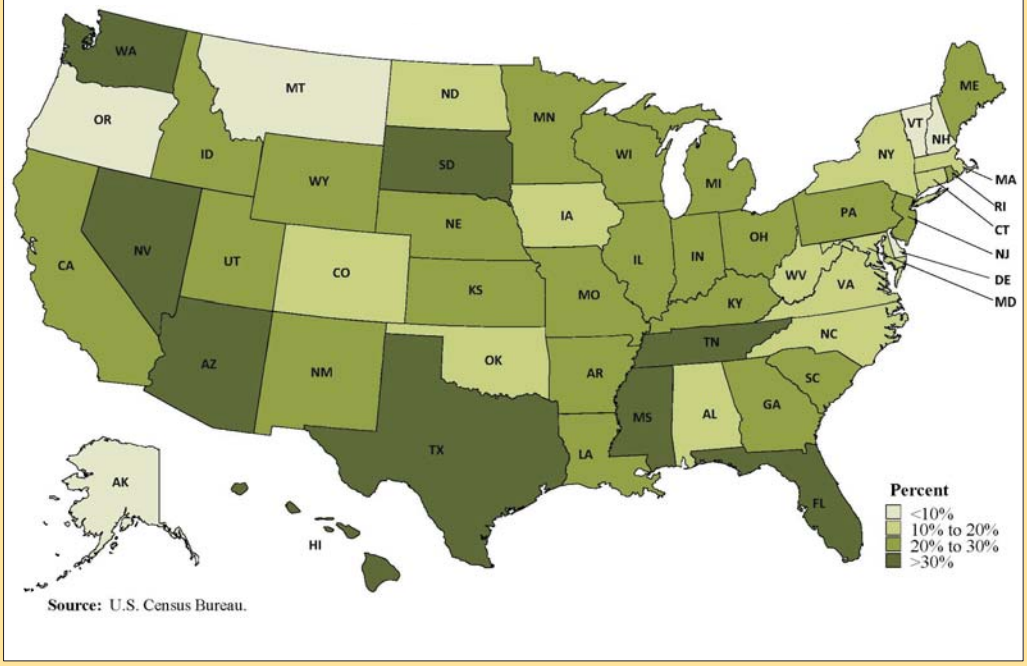
Sources: Retail sales: St. Louis Federal Reserve Bank; CPI-U (for price adjustment): Bureau of Labor Statistics.

The decline in this recession is a stark contrast to the 2001 recession, during which real retail sales barely declined at all. That recession precipitated a severe fiscal crisis nonetheless, felt hardest in income-tax-reliant states, due to huge declines in investment income and a significant slowdown in wage payments to upper-income taxpayers.

This recession's steep decline in retail sales has been a double-whammy for states that were hit hard and early by the mortgage bust, because several of these states are highly reliant on sales taxes. For example, Arizona, Nevada, and Florida all suffered early from the real estate bust and are among the hardest hit states, and all 3 rely far more heavily on the sales tax than the typical state. These three states all have faced budget gaps that are among the largest in the country. By contrast, some of the states that suffered the least economically — early on — such as Montana, North Dakota, and several northeastern states, relied less on the sales tax than the typical state. Their existence at the start of this recession was charmed, although that has since changed. (See Figure 11, which shows sales tax as a percentage of own-source revenue.)

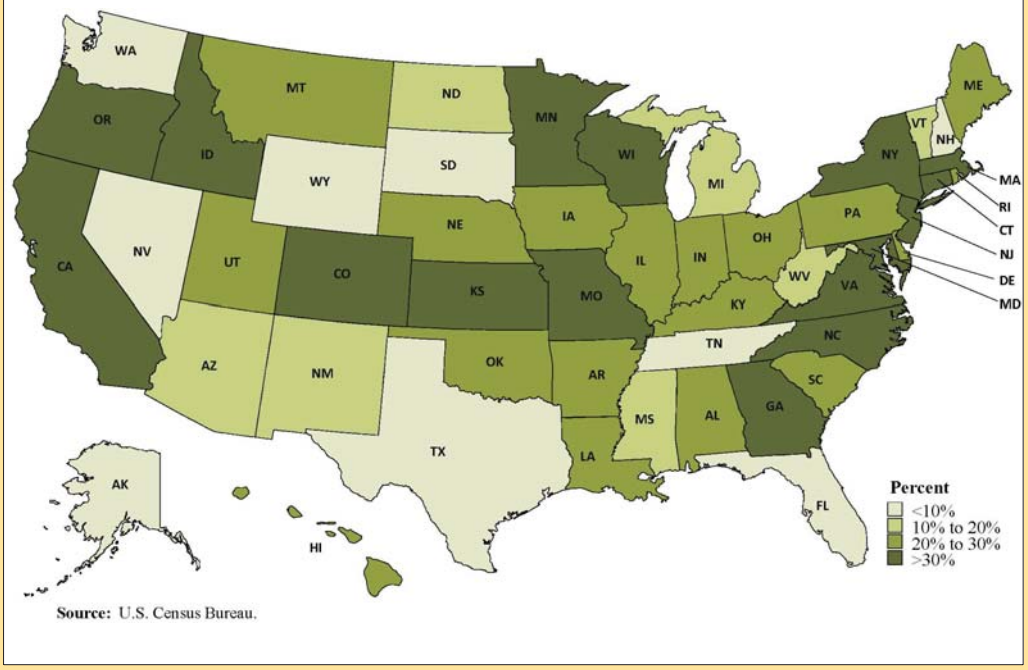
* Retail sales were adjusted by the Consumer Price Index. Ordinarily this would not be the ideal price index for these adjustments, but it is available monthly, which makes it the index of choice for this purpose.

Figure 11. Sales Tax as Percentage of State Government Own-Source Revenue, 2007



The pain that began in the mortgage-bust and sales-tax-reliant states does not look likely to lessen any time soon — sales tax collections appear to have been even worse in the January-March quarter than in the October-December quarter, based on preliminary data for January and February described elsewhere in this report, and chain-store sales appear to have worsened in March. But these states' misery is getting increasingly dour company. In recent quarters, income tax collections have been falling and as we've noted in several reports now, tax returns on 2008 income, filed on April 15, could easily show huge declines, largely due to stock-market-driven declines in investment income, and declines in bonus payments as well. As a result, states that rely more heavily on income taxes — as shown in Figure 12 — will begin to bear more and more of the fiscal brunt of this recession.

Figure 12. Income Tax as Percentage of State Government Own-Source Revenue, 2007



Source: U.S. Census Bureau.

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The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

This report was researched and written by Donald J. Boyd, senior fellow, and Lucy Dadayan, senior policy analyst at the Institute. Shuqin Pan, graduate research assistant, assisted with data collection. Michael Cooper, the Rockefeller Institute's director of publications, did the layout and design of this report, with assistance from Michele Charbonneau. Robert B. Ward, deputy director of the Institute, directs the Fiscal Studies Program.

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