

# STATE FISCAL BRIEF

Fiscal Studies Program  
June 2000

June 2000  
No. 59

## *States Predict Slowing But Still Strong Growth for 2000*

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### HIGHLIGHTS

- ❖ States predict that economic growth will slow a bit from last year, but remain fairly strong.
- ❖ The economic future looks brighter now than it did in October-January, when most of the state forecasts underlying executive budgets were made.
- ❖ Medicaid caseloads and states' prison populations are forecast to rise moderately, while cash assistance welfare caseloads are predicted to fall again, although not as steeply as last year.
- ❖ States have underestimated the strength of the economy in each of the past four years of this survey, leaving most with comfortable revenue surpluses at the end of those years.
- ❖ States predicting strong employment growth tended to be in the west and south, with the northeast and midwest lagging.

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This is the fifth annual survey of key economic assumptions underlying states' budgets. In each of the previous four years, we found that states have consistently underestimated the prior year's economic growth, both for themselves and for the nation as a whole. While some of this may have been due to conservative state forecasting practices, the main reason for this under-shooting has been an economy that has consistently outperformed the expectations of public and private forecasters alike. Figure 1 shows how last year's state and private forecasts both underestimated actual 1999 growth.<sup>1</sup>

### So What Did They Predict This Time?

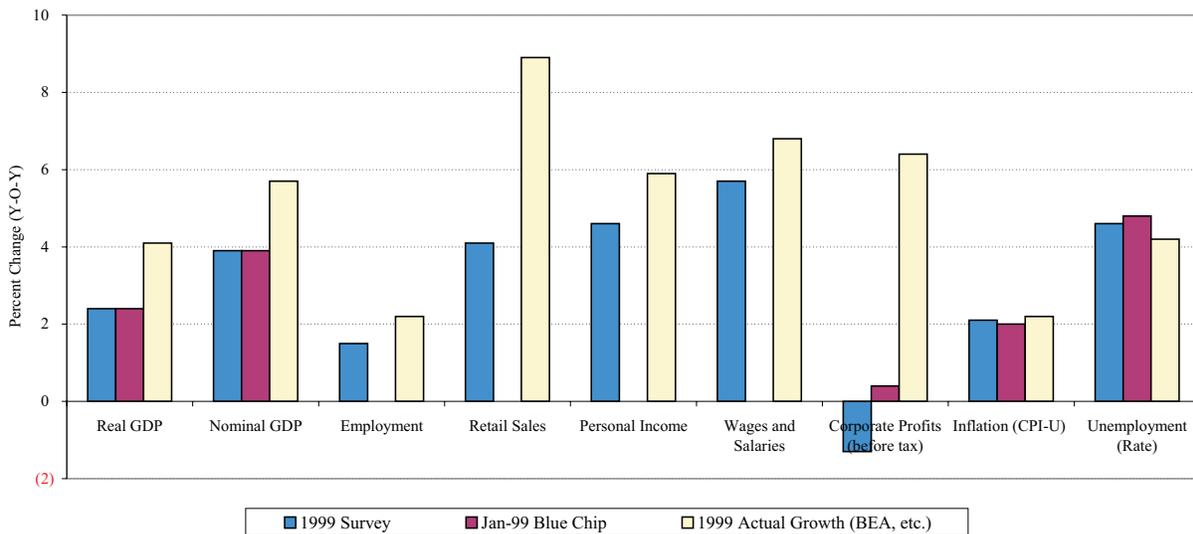
For calendar 2000 and 2001, states estimated that the economy will slow from its heretofore break-neck pace. (See Table 1 and 2 for state-by-state and median forecasts of the national economy.) For example, although the Bureau of Economic Analysis estimates that real GDP grew 4.1 percent in calendar 1999 over the year before, the median forecast for real GDP in 2000 is 3.4 percent growth, and the median for 2001 is 3.1 percent. Interestingly, states' originally forecasted 2.4 percent real GDP growth for 1999, so it would appear that the future looks rosier to states this year than it did last year at this time. Figure 2 shows that this pattern carries through most of the forecast variables.

As Figure 3 shows, there are definite regional differences in states' predictions of their own economies, mostly mirroring current economic trends. For example, New England states are all forecasting employment growth of slightly below or just about at the national median, while the Far West states are much more dispersed, with California forecasting one of the strongest employment growth rates in the nation and Hawaii forecasting one of the lowest. Many of the states whose economies and state coffers have been suffering recently have predicted below-average growth as well: Louisiana, North Dakota, Tennessee, and West Virginia are all in this group. Pennsylvania had the lowest forecast, although its economy and revenue have not been suffering. Given that that state has been consistently more conservative than average in its forecasts over the past few years of this survey, it seems likely that that tendency is behind the weak numbers here as well.

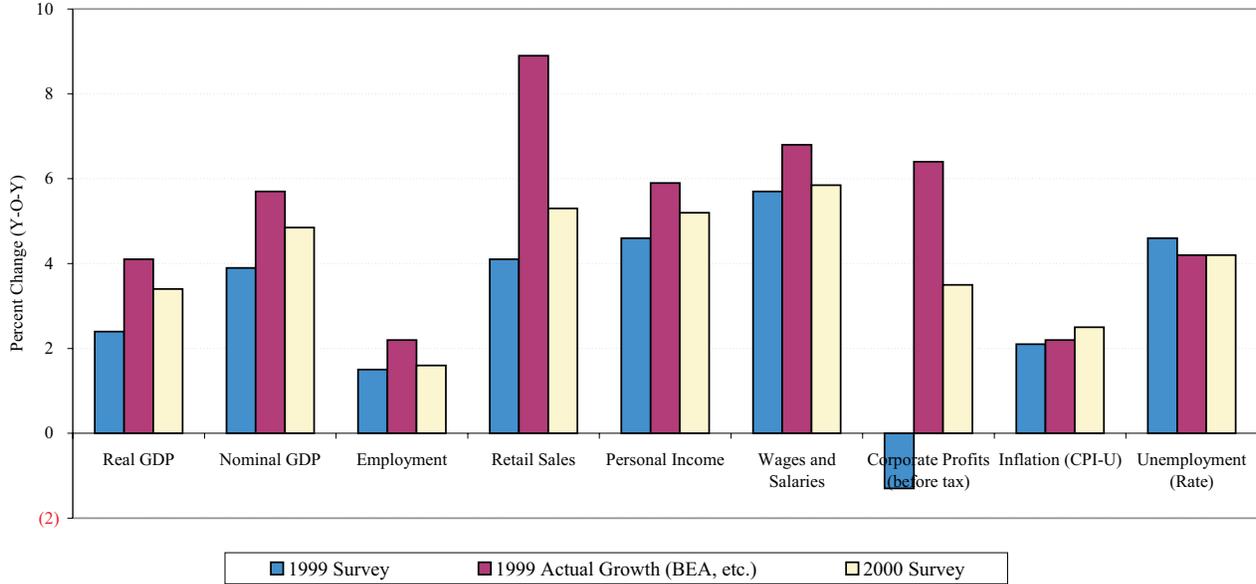
### State vs. Private Forecasts of the Economy

State forecasts were fairly close to January's Blue Chip Consensus of Economic Forecasts. Figure 4 shows that state and January Blue Chip forecasts for such national measures of the economy as real and nominal gross domestic product (GDP), inflation, and the unemployment rate were actually fairly close. The only major difference between the two sets of medians was

**Figure 1**  
**Early State and Blue Chip Forecasts Both Substantially Underestimated 1999 Economic Growth**

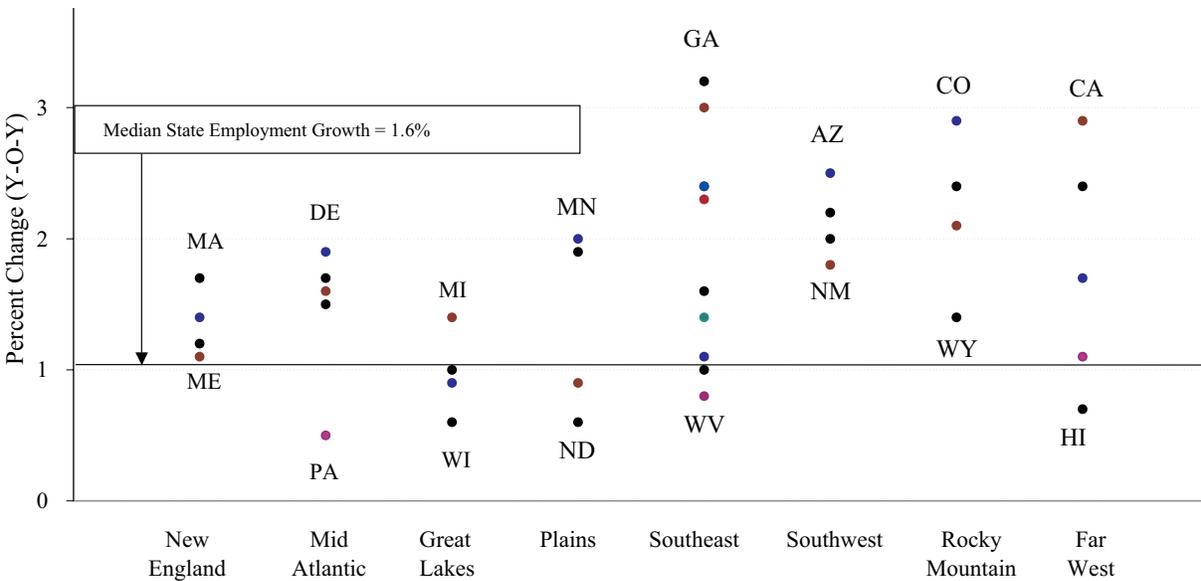


**Figure 2**  
**States Expect National Economy to Slow,**  
**But Not By As Much As They Expected This Time Last Year**



**Figure 3**

**Figure 3**  
**Regional Variation in Forecasts of 2000 State Employment Growth**



**Table 1**  
**National Economic Forecasts (year-over-year percent change)**

	<i>Real GDP</i>		<i>Nominal GDP</i>		<i>Employment</i>		<i>Nominal Retail Sales</i>	
	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>
<b>United States (median)</b>	<b>3.4%</b>	<b>3.1%</b>	<b>4.9%</b>	<b>4.9%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>5.3%</b>	<b>4.1%</b>
<b>New England</b>								
Connecticut	<u>3.2</u>	<u>2.5</u>	<u>4.7</u>	<u>4.7</u>	<u>1.5</u>	<u>1.5</u>	—	—
Maine								
Massachusetts	4.2	3.7	6.0	5.4	1.7	1.2	—	—
Rhode Island	3.6	2.8	5.2	4.7	1.7	1.2	5.1	3.5
<b>Mid Atlantic</b>								
Delaware	3.1	3.4	4.6	5.1	1.2	1.2	—	—
Maryland	3.2	2.9	—	—	1.5	1.4	—	—
New Jersey	3.0	3.5	—	—	1.2	1.2	4.5	4.5
New York	3.5	2.9	5.1	4.5	1.7	1.5	—	—
Pennsylvania	3.0	3.5	4.3	5.0	1.2	1.2	—	—
<b>Great Lakes</b>								
Illinois	3.7	3.1	5.1	4.6	1.8	1.1	—	—
Indiana	2.8	—	4.5	—	—	—	—	—
Michigan	3.5	3.2	5.3	5.3	—	—	—	—
Ohio	3.6	3.7	5.4	5.3	2.0	1.5	—	—
Wisconsin	3.7	3.1	4.9	4.6	1.6	1.3	5.2	4.1
<b>Plains</b>								
Kansas								
Minnesota	3.9	3.4	4.8	5.0	2.2	1.6	5.3	4.4
Nebraska	3.5	3.3	4.8	4.9	0.9	0.9	3.1	2.1
North Dakota	1.7	2.1	3.6	4.3	1.4	1.3	—	—
South Dakota	4.4	2.9	—	—	1.5	1.2	6.2	3.7
<b>Southeast</b>								
Arkansas	3.7	3.1	4.9	4.7	1.7	1.3	5.2	4.1
Florida	2.8	2.6	4.4	4.2	1.6	1.3	—	—
Georgia	3.1	2.7	5.1	5.1	1.9	1.6	7.1	6.4
Kentucky	4.5	3.0	—	—	2.1	1.4	6.9	3.3
Louisiana	4.2	3.7	6.0	5.4	1.9	1.7	—	—
North Carolina	4.4	2.9	5.8	4.5	2.2	1.4	6.2	3.7
South Carolina	3.4	3.1	5.2	4.6	2.4	2.4	6.8	5.4
Tennessee	3.0	3.5	4.3	5.0	1.2	1.2	—	—
Virginia	<u>3.2</u>	<u>2.5</u>	<u>4.7</u>	<u>4.3</u>	<u>1.5</u>	<u>1.0</u>	—	—
West Virginia	3.6	3.1	5.1	4.6	1.7	1.3	5.5	4.1
<b>Southwest</b>								
Arizona	3.1	2.8	—	—	—	—	—	—
New Mexico	—	—	—	—	—	—	—	—
Oklahoma	3.4	3.5	4.8	5.1	1.6	1.5	—	—
Texas	<u>2.6</u>	<u>2.6</u>	<u>5.1</u>	<u>5.1</u>	—	—	—	—
<b>Rocky Mountain</b>								
Colorado	3.4	3.8	4.8	5.0	1.6	1.4	—	—
Idaho	3.4	3.5	4.8	5.0	1.6	1.4	5.3	4.4
Montana	—	—	—	—	—	—	—	—
Utah	3.1	3.4	4.6	5.1	1.2	1.2	3.5	4.0
Wyoming	1.7	2.9	—	—	1.1	1.6	—	—
<b>Far West</b>								
Alaska	—	—	—	—	—	—	—	—
California	3.1	2.8	4.9	4.4	1.8	1.6	5.0	4.2
Hawaii	3.6	3.0	5.3	4.9	1.4	0.8	—	—
Oregon	2.0	2.0	—	—	1.7	0.8	—	—
Washington	2.8	2.6	4.4	4.2	1.6	1.3	3.6	3.0

States Predict Slowing But Still Strong Growth for 2000

<b>Table 1 (continued)</b>										
<b>National Economic Forecasts (year-over-year percent change)</b>										
	<i>Personal Income</i>		<i>Wage and Salary</i>		<i>Corporate Profits</i>		<i>Inflation (CPI-U)</i>		<i>Unemployment Rate</i>	
	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>
<b>United States (median)</b>	<b>5.2%</b>	<b>5.1%</b>	<b>5.9%</b>	<b>5.5%</b>	<b>3.5%</b>	<b>1.3%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>4.2%</b>	<b>4.3%</b>
<b>New England</b>										
Connecticut	<u>5.0</u>	<u>5.0</u>	—	—	—	—	<u>2.5</u>	<u>2.5</u>	<u>4.5</u>	<u>4.5</u>
Maine	—	—	—	—	—	—	2.5	2.5	—	—
Massachusetts	5.8	5.4	5.1	5.4	13.9	1.9	2.6	2.3	4.1	4.2
Rhode Island	5.8	5.6	7.0	5.7	5.0	2.8	2.5	2.3	4.2	4.7
<b>Mid Atlantic</b>										
Delaware	4.7	5.3	3.6	5.3	5.4	0.3	2.5	2.5	4.4	4.3
Maryland	5.7	5.7	—	—	2.5	5.4	2.2	2.2	4.4	4.8
New Jersey	4.8	4.8	3.6	3.6	2.3	2.3	2.5	2.5	4.4	4.4
New York	5.5	5.0	6.1	5.7	4.8	2.0	2.4	2.5	4.1	4.2
Pennsylvania	4.8	5.5	3.6	5.4	2.3	0.8	2.5	2.5	4.4	4.3
<b>Great Lakes</b>										
Illinois	5.0	5.0	4.8	4.4	10.4	1.3	2.4	2.5	4.3	4.4
Indiana	—	—	—	—	—	—	—	—	—	—
Michigan	5.8	5.3	6.4	6.0	-1.8	0.8	2.8	2.8	4.2	4.2
Ohio	5.5	5.3	4.9	5.1	2.0	2.6	2.4	2.4	4.3	4.5
Wisconsin	5.4	4.8	6.1	5.5	0.0	-0.3	2.3	2.1	4.0	4.2
<b>Plains</b>										
Kansas	—	—	—	—	—	—	2.5	2.5	—	—
Minnesota	5.2	4.9	6.0	5.9	3.5	1.1	2.3	2.1	4.1	4.1
Nebraska	5.1	5.2	4.9	5.5	4.8	7.0	2.4	2.4	—	—
North Dakota	4.9	5.1	—	—	10.8	—	2.2	2.3	4.8	4.7
South Dakota	6.3	5.2	7.0	5.8	—	—	2.4	2.2	3.9	4.1
<b>Southeast</b>										
Arkansas	5.4	4.8	6.1	5.5	1.0	-0.1	2.3	2.1	4.0	4.2
Florida	5.0	4.5	5.6	5.1	5.5	-0.8	2.7	2.0	4.2	4.3
Georgia	5.7	5.1	7.0	6.3	5.2	4.5	2.4	2.5	4.4	4.8
Kentucky	6.1	5.5	6.6	5.8	—	—	2.7	2.1	3.9	4.0
Louisiana	5.8	5.4	5.1	5.4	13.9	1.9	2.6	2.3	4.1	4.2
North Carolina	6.3	5.2	7.0	5.8	3.5	-5.5	2.4	2.2	3.9	4.1
South Carolina	5.4	5.2	5.4	5.3	5.9	3.0	2.5	2.3	4.3	4.2
Tennessee	4.8	5.5	—	—	—	—	1.2 <sup>2</sup>	1.5 <sup>2</sup>	4.4	4.3
Virginia	<u>5.0</u>	<u>5.1</u>	<u>5.8</u>	<u>4.9</u>	<u>-0.9</u>	<u>1.6</u>	<u>2.5</u>	<u>2.4</u>	<u>4.5</u>	<u>4.5</u>
West Virginia	5.6	4.9	6.3	5.5	0.7	-0.1	2.3	2.1	4.0	4.2
<b>Southwest</b>										
Arizona	—	—	—	—	—	—	2.5	2.5	—	—
New Mexico	—	—	—	—	—	—	—	—	—	—
Oklahoma	5.2	4.9	6.1	5.9	—	—	2.3	2.2	4.1	4.1
Texas	—	—	—	—	—	—	<u>2.5</u>	<u>2.5</u>	—	—
<b>Rocky Mountain</b>										
Colorado	5.2	4.9	—	—	4.1 <sup>1</sup>	1.3 <sup>1</sup>	2.3	2.1	4.1	4.1
Idaho	5.2	4.9	6.1	5.9	3.5	1.2	2.3	2.1	4.1	4.1
Montana	—	—	—	—	-2.5	1.9	2.6	2.4	—	—
Utah	4.8	5.5	5.0	5.4	1.6	0.3	2.5	2.5	4.4	4.3
Wyoming	4.8	5.5	—	—	—	—	2.4	2.7	4.7	4.9
<b>Far West</b>										
Alaska	—	—	—	—	—	—	—	—	—	—
California	5.3	5.0	5.9	5.8	5.6	-6.0	2.9	2.5	4.0	4.0
Hawaii	5.3	5.5	4.1	3.8	2.4	2.0	2.5	2.5	4.1	4.3
Oregon	4.6	3.9	6.6	5.5	-3.8	0.4	2.4	2.5	4.4	4.9
Washington	5.0	4.5	5.6	5.1	3.0	-1.4	2.7	2.0	4.2	4.3

1 — After tax

2 — GDP Implicit Deflator

Note: Underlined numbers indicate forecast is for fiscal year rather than calendar year.

— Data not available.

**Table 2**  
**State Economic and Caseload Forecasts**  
**(year-over-year percent change)**

	<i>Employment</i>		<i>Nominal Retail Sales</i>		<i>Personal Income</i>		<i>Wage and Salary</i>	
	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>
<b>United States (median)</b>	<b>1.7%</b>	<b>1.6%</b>	<b>5.0%</b>	<b>5.2%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.9%</b>	<b>5.7%</b>
<b>New England</b>								
Connecticut	<u>1.4</u>	<u>0.8</u>	—	—	<u>5.0</u>	<u>4.8</u>	—	—
Maine	1.1 <sup>1</sup>	1.3 <sup>1</sup>	—	—	4.8	5.0	5.4	6.0
Massachusetts	1.7	1.1	6.3	4.5	4.4	4.8	6.1	5.6
Rhode Island	1.2	0.8	4.6	3.6	5.3	5.1	6.3	5.2
<b>Mid Atlantic</b>								
Delaware	1.9	1.5	—	—	5.3	5.6	4.7	5.7
Maryland	1.6	2.1	—	—	5.4	5.9	5.8	6.2
New Jersey	1.5	0.7	—	—	6.1	5.2	6.0	4.7
New York	1.7	1.3	—	—	5.2	5.2	6.7	6.0
Pennsylvania	0.5	0.8	—	—	5.0	4.8	5.4	5.0
<b>Great Lakes</b>								
Illinois	0.9	1.1	7.9	6.2	4.4	3.8	4.6	3.5
Indiana	—	—	—	—	4.2	0.0	—	—
Michigan	1.4	1.1	—	—	4.8	4.6	5.4	5.3
Ohio	1.0	1.0	4.0	4.5	4.0	4.5	3.5	4.5
Wisconsin	0.6	1.8	—	—	4.8	5.4	4.6	5.9
<b>Plains</b>								
Kansas	—	—	4.0	3.8	4.2	4.2	5.6	—
Minnesota	2.0	1.6	—	—	5.1	4.7	6.2	5.8
Nebraska	0.9	0.9	4.6	4.9	4.6	4.8	—	—
North Dakota	0.6	0.5	—	—	2.3	1.8	—	—
South Dakota	1.9	1.6	5.0 <sup>2</sup>	6.3 <sup>2</sup>	4.1	5.2	4.8	4.4
<b>Southeast</b>								
Arkansas	1.1	1.2	3.4	3.7	3.0	4.4	5.4	5.8
Florida	3.0	2.2	—	—	6.3	5.5	7.4	6.2
Georgia	3.2	2.7	6.8	6.2	7.4	6.6	8.3	7.0
Kentucky	1.6	1.7	—	—	5.7	5.6	7.2	5.4
Louisiana	1.0	1.5	1.0 <sup>2</sup>	1.1 <sup>2</sup>	4.2	3.9	3.4	3.4
North Carolina	2.4	2.0	6.5	6.0	6.4	5.6	6.5	5.9
South Carolina	<u>2.3</u>	<u>2.3</u>	<u>6.3</u>	<u>6.3</u>	5.7	6.1	<u>6.3</u>	<u>6.3</u>
Tennessee	1.4	1.9	4.7 <sup>2</sup>	5.5 <sup>2</sup>	5.0	5.5	3.9	5.4
Virginia	<u>2.4</u>	<u>1.7</u>	—	—	<u>6.5</u>	<u>6.0</u>	<u>8.7</u>	<u>6.9</u>
West Virginia	0.8	0.8	3.5	3.4	3.3	3.5	3.5	3.3
<b>Southwest</b>								
Arizona	<u>2.5</u>	<u>1.9</u>	<u>8.2</u>	<u>5.8</u>	<u>6.0</u>	<u>5.0</u>	—	—
New Mexico	1.8	2.0	—	—	4.2	4.7	5.2	5.5
Oklahoma	2.2	2.1	2.2	0.7	5.3	5.2	6.3	6.2
Texas	<u>2.0</u>	<u>1.8</u>	<u>6.0</u>	<u>5.9</u>	<u>6.3</u>	<u>6.1</u>	<u>6.6</u>	<u>5.9</u>
<b>Rocky Mountain</b>								
Colorado	2.9	2.0	7.0	6.7	7.5	6.5	7.0	6.6
Idaho	2.1	2.1	—	—	5.6	5.4	6.4	6.4
Montana	—	—	—	—	—	—	4.6	4.7
Utah	2.4	2.6	7.1	5.2	5.7	5.8	6.2	6.6
Wyoming	1.4	1.1	—	—	5.0	5.0	5.9	5.5
<b>Far West</b>								
Alaska	1.7	1.3	—	—	—	—	—	—
California	2.9	2.5	5.8 <sup>2</sup>	5.9 <sup>2</sup>	6.5	5.7	7.1	6.1
Hawaii	0.7	1.0	—	—	2.8	3.0	2.7	2.9
Oregon	2.4	1.9	—	—	5.7	4.9	6.6	5.5
Washington	1.1	1.8	<u>4.9</u> <sup>2</sup>	<u>3.1</u> <sup>2</sup>	4.9	4.7	5.4	5.3

States Predict Slowing But Still Strong Growth for 2000

<b>Table 2 (continued)</b>										
<b>State Economic and Caseload Forecasts</b>										
<b>(year-over-year percent change)</b>										
	<i>Unemployment Rate</i>		<i>Capital Gains</i>		<i>Medicaid Caseload</i>		<i>AFDC Caseload</i>		<i>Prison Population</i>	
	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>
<b>United States (median)</b>	<b>4.0%</b>	<b>4.1%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>2.4%</b>	<b>1.7%</b>	<b>-11.0%</b>	<b>-4.8%</b>	<b>4.4%</b>	<b>3.8%</b>
<b>New England</b>										
Connecticut	<u>3.1</u>	<u>3.3</u>	—	—	<u>2.4</u>	<u>3.0</u>	<u>-19.8</u>	<u>-15.8</u>	<u>7.5</u>	<u>4.7</u>
Maine	4.1	4.0	—	—	—	—	—	—	—	—
Massachusetts	2.8	2.9	—	—	6.6	2.5	-15.1	-10.1	0.5	0.5
Rhode Island	4.3	4.7	—	—	<u>2.4</u>	<u>1.9</u>	<u>-2.5</u>	<u>-3.6</u>	-2.7	<u>0.0</u>
<b>Mid Atlantic</b>										
Delaware	3.5	—	-11.5	-20.0	10.2	4.1	-8.5	-18.5	4.5	4.5
Maryland	3.8	4.1	13.1	13.1	<u>3.7</u>	<u>-1.2</u>	<u>-14.0</u>	<u>-25.9</u>	<u>4.4</u>	<u>2.6</u>
New Jersey	—	-0.2	5.0	8.5	-2.0	-0.5	-18.1	-11.2	0.1	5.0
New York	5.1	5.1	8.7	2.0	<u>-1.0</u>	<u>-0.4</u>	<u>-9.9</u>	<u>-0.9</u>	1.3	1.2
Pennsylvania	4.5	4.3	—	—	-0.7	0.7	-15.1	-2.6	—	6.6
<b>Great Lakes</b>										
Illinois	4.4	4.2	—	—	5.5	1.8	-26.3	-15.9	4.9	4.9
Indiana	—	—	—	—	—	—	—	—	—	—
Michigan	3.4	3.4	—	—	<u>-2.2</u>	<u>-2.4</u>	<u>-18.6</u>	<u>-14.4</u>	3.3	2.9
Ohio	4.2	4.4	—	—	-0.8	1.7	-12.2	-2.8	3.0	3.0
Wisconsin	2.8	2.7	—	—	<u>0.9</u>	<u>1.2</u>	-11.6	-11.3	13.9	14.8
<b>Plains</b>										
Kansas	<u>3.6</u>	<u>3.5</u>	—	—	<u>13.3</u>	<u>5.6</u>	<u>-6.1</u>	<u>-0.8</u>	<u>6.0</u>	<u>3.2</u>
Minnesota	6.0	—	—	6.0	—	—	—	—	—	—
Nebraska	2.6	—	—	—	9.2	5.1	-10.1	-2.9	-1.1	3.5
North Dakota	2.7	2.5	—	—	0.5	0.0	-6.6	-3.8	15.0	14.0
South Dakota	2.5	2.5	—	—	6.3	3.9	-12.3	0.0	5.0	5.0
<b>Southeast</b>										
Arkansas	4.1	4.2	-4.0	-2.0	—	—	—	—	<u>4.9</u>	<u>4.7</u>
Florida	3.9	4.1	—	—	13.3	3.5	-18.1	-6.7	5.2	4.0
Georgia	4.0	4.3	12.8	9.6	<u>-0.8</u>	<u>-1.2</u>	-17.4	-16.6	5.7	4.1
Kentucky	—	—	—	—	<u>3.7</u>	<u>1.3</u>	-11.8	-5.1	0.3	3.1
Louisiana	—	—	—	—	4.8	1.6	-20.4	-3.0	13.1	13.0
North Carolina	3.3	3.5	—	—	3.6	5.0	-10.0	0.0	1.5	1.9
South Carolina	5.2	4.9	—	—	10.5	10.3	-0.4	3.5	3.5	3.5
Tennessee	3.6	3.8	—	—	<u>-1.0</u>	<u>0.0</u>	-2.1	-0.2	<u>13.6</u>	<u>0.0</u>
Virginia	<u>3.3</u>	<u>3.4</u>	—	—	-0.5	2.3	<u>-7.7</u>	<u>-4.8</u>	2.9	1.7
West Virginia	6.5	6.4	0.0	5.0	—	—	—	—	—	—
<b>Southwest</b>										
Arizona	4.5	4.5	—	—	<u>6.9</u>	<u>4.2</u>	<u>-3.8</u>	<u>0.0</u>	<u>1.4</u>	<u>1.8</u>
New Mexico	—	—	—	—	—	—	—	—	—	—
Oklahoma	2.9	2.2	—	—	7.0	5.0	-22.8	-12.9	2.9	-1.9
Texas	<u>5.1</u>	<u>5.1</u>	—	—	<u>-3.3</u>	<u>-2.6</u>	<u>-5.9</u>	<u>-10.2</u>	<u>0.5</u>	<u>-0.1</u>
<b>Rocky Mountain</b>										
Colorado	3.3	3.6	—	—	—	—	—	—	8.2	3.5
Idaho	—	—	—	—	1.5	1.7	-8.5	5.1	9.1	8.8
Montana	—	—	5.0	5.0	-3.0	0.0	-15.6	-15.8	7.2	6.3
Utah	3.9	3.8	10.0	5.0	0.0	0.0	-15.1	1.5	4.8	4.6
Wyoming	5.0	5.3	—	—	—	—	—	—	—	—
<b>Far West</b>										
Alaska	6.0	—	—	—	3.2	3.9	-11.0	-1.0	0.7	4.7
California	4.8	4.7	-5.0	—	<u>0.7</u>	<u>-1.8</u>	<u>-8.2</u>	<u>-5.4</u>	<u>1.4</u>	<u>1.4</u>
Hawaii	5.2	5.0	—	—	-6.4	2.7	-9.0	-7.7	—	—
Oregon	—	—	-0.7	0.5	6.1	3.2	-1.5	-0.9	7.0	6.5
Washington	5.2	5.2	—	—	<u>4.8</u>	<u>0.2</u>	<u>-4.9</u>	<u>-5.6</u>	<u>2.3</u>	<u>4.6</u>

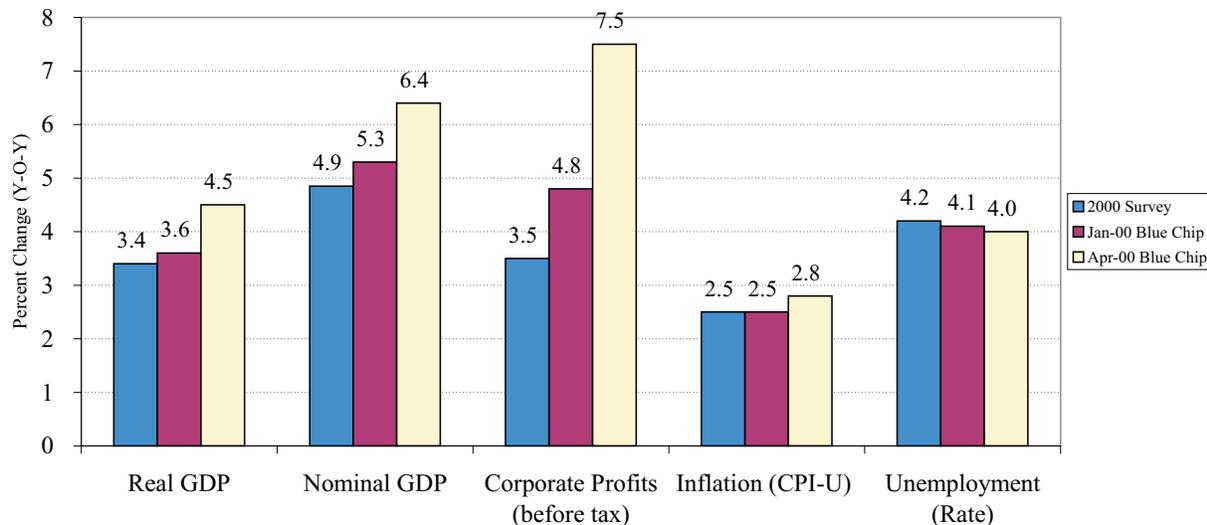
1 — Wage and Salary Employment

2 — Taxable Sales

Note: Underlined numbers indicate forecast is for fiscal year rather than calendar year.

— Data not available.

**Figure 4**  
**2000 Forecasts: State Survey vs. January and April Blue Chip Consensus**



corporate profits. The figure also shows, however, that state forecasts were far more conservative than April Blue Chip Forecasts, which were affected by newer economic data indicating faster growth than expected for 2000.

### **Herd Mentality? Not for 2000 Real GDP**

Interestingly, state forecasts for 2000 real GDP growth were more widely dispersed than the Blue Chip forecasts. The highest state estimate, made by Kentucky, was for 4.5 percent real GDP growth in 2000, as compared with 4.2 percent by one of the Blue Chip's private forecasters. The lowest state forecast of 2000 real GDP called for 1.7 percent growth, compared with the lowest private forecast of 2.9 percent. Forecasts have not been this dispersed in years past, nor was this wide variation characteristic of the national projections, generally. Further examination of the state forecasts revealed that most of the difference was due to when the forecasts were made: all of the 4.2 percent or higher forecasts were made by those states reporting February or later projections, while most of the lower-than 2.9 percent forecasts were made by states prior to January – in three cases, by those sending us forecasts from April 1999 or earlier.

### **Spending for 2000**

We asked about three variables that might affect state spending: Medicaid and Temporary Assistance for Needy Families (TANF) caseloads, and state prison population.

States estimated that the Medicaid population would continue to increase gradually – a median rate of 2.4 percent in 2000, 1.7 percent in 2001. There was quite a wide variation in these growth predictions, however – from predictions of over 13 percent growth for 2000 in Florida and Kansas, to a 6.4 percent decline forecast by Hawaii. In fact, ten states forecast declines in Medicaid caseloads for 2000, and six forecast declines for 2001.

By contrast, every responding state forecast a drop in TANF caseloads, for a median 11.0 percent drop, even after several consecutive years of steep declines. Anticipated reductions ranged from almost none to 26.3 percent in Illinois. States anticipated a slowing of this trend in 2001, with a median decline of 4.8 percent, and six states projecting no decline or some increase for that year.

Prison population is predicted to grow at 4.4 percent in 2000, and 3.8 percent in 2001. Forecasts for 2000 ranged from –2.7 percent in Rhode Island to +15 percent in North Dakota.

## *Economic Forecasts and State Budgets*

The economic and demographic assumptions in this survey form the basis from which states create their forecasts of both revenue and spending. For example, a state may use projections of retail sales to forecast sales tax revenue or projections of the prison population to forecast capital and operating expenses for prisons.

Economic assumptions, in particular, can have far-reaching implications for policy decisions. Recently, for example, states have been experiencing better-than-expected revenue growth fueled in part by strong economic growth. This revenue growth has enabled many states to make tax cuts or increase spending for certain programs. Nonetheless, most states have been reluctant to cut taxes too drastically, as their predictions of future economic growth have generally not been as rosy. If states forecast future strong economic growth, they might be more inclined to increase tax cuts. If they do not, they might be content to build up surpluses against a projected rainy day, rather than chance a budget shortfall and unpopular tax increases in the near future.

We received 44 responses to our survey this year. Of the 41 that reported the date of their forecast, all but five were prepared in February or earlier, generally for use in preparing official executive budget projections for fiscal year 2000-2001. Four states – Montana, North Dakota, Oregon and Texas – prepared their forecasts in early calendar 1999, for biennial budgets. States update their forecasts on varying schedules, according to their resources; with most updating them again at least once before passage of a final budget in June. Seven of the 36 states reporting their next forecast date, however, reported that they prepare only one forecast each year, generally at the end of the year.

One of the most common ways to forecast state economic variables is to start by forecasting elements of the national economy. A state can then use this information in developing forecasts of its own economic future, such as employment, income and unemployment. Some states base their national economic forecasts upon forecasts by private firms, such as the WEF Group, Standard and Poor's DRI, or Regional Financial Associates. Other states develop their own forecasts, although they often use published sources as a guide. Some forecasts are developed by a single state agency, perhaps with outside advice, and others are the product of a forecasting advisory board or commission.

Not all states forecast every variable we requested on our survey. Of the national variables, almost all forecasted real gross domestic product (GDP) and inflation, and most forecasted the unemployment rate, employment, personal income and nominal GDP as well. State variables included both demographic and economic factors. Almost all states forecasted state prison population, Medicaid and welfare caseloads, personal income and employment. Most forecasted wages and the unemployment rate as well.



## Pros and Cons of Chronic Underestimation of the Economy

Overall, underestimating the strength of the current economy obviously has not hurt states' bottom lines. According to the December 1999 Fiscal Survey of the States, state revenues were about \$7.5 billion higher than originally forecast. As Table 3 shows, nearly every state with an income tax (88 percent) underestimated personal income tax revenue, and three-quarters of states with a sales tax underestimated sales tax revenue. The corporate income tax continues to lag estimates, but only slightly, with about half the states still getting more than anticipated.

Large surpluses each year have given states the leeway to offer annual tax cuts and spending increases, just the sort of revenue picture that makes lawmakers happy. So what is the danger in underestimating revenue? The main problem arises when, after several years of significant underestimation, a state embarks upon a major tax cut or spending increase that assumes much higher growth than the forecast shows. Just as investors are spurred to enter the stock market at its peak, state lawmakers may be tempted to assume a constant upward trajectory for revenue just before the economy sags.

In addition, to the extent that states do not update their forecasts regularly, especially just before passing their final budgets, they run the risk of overestimating

economic growth in an economic downturn. As is obvious from comparing January to April forecasts for this year and last, new information can radically alter estimates of economic growth within relatively short time frames.

On the other hand, such sagging does not appear to be in sight for this April's revenue. Payments with tax returns, net of refunds, appears to have been quite strong in some states, and the federal government reports having received more revenue than expected.<sup>2</sup> Indeed, the broader economic picture appears quite strong for at least the first quarter of 2000. Real GDP grew 5.4 percent from the first quarter of 1999 – even faster than the April Blue Chip predicted for the year. This will doubtless strengthen updated forecasts of 2000, such as the May Blue Chip Consensus.

Nonetheless, if the stock market continues its current rocky slide, revenue will be affected, both directly – through capital gains – and indirectly – through reduced consumer spending (currently at extremely high levels) and eventually a broader economic slowdown.

### Endnotes

1. Most state forecasts were made between October 1998 and February 1999. The private forecasts used are from the January Blue Chip Consensus of Economic Indicators.
2. Congressional Budget Office, Monthly Budget review, May 12, 2000, <http://www.cbo.gov>.

<b>Table 3</b>			
<b>Fiscal 1999 Tax Collections Compared with Projections Used in Adopting Fiscal 1999 Budgets</b>			
<i>States Underestimating Revenue</i>			
	<i>Amount (billions)</i>	<i>Number</i>	<i>Percent</i>
Personal Income Tax (42 states)	\$5.8	37	88%
Sales Tax (44 states)	2.2	33	75
Corporate Income Tax (44 states)	(0.5)	23	52
Source: National Association of State Budget Officers.			

## *The Nelson A. Rockefeller Institute of Government*

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

### *The Fiscal Studies Program*

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Center 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. The Program is directed by Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues.

### *This Report*

This report was written by Elizabeth I. Davis, the Program's Senior Policy Analyst, and Donald Doyd, its director, with research assistance from graduate assistant Nicholas Jenny. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design.

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### ***Note on Tables 1-2***

We asked for calendar-year forecasts wherever possible, so that numbers would be comparable across states and with private forecasts. Where we have fiscal year forecasts or other deviations from the standard (for example, taxable rather than total retail sales), these are noted.