Sales Tax Growth Slumps in 35 States

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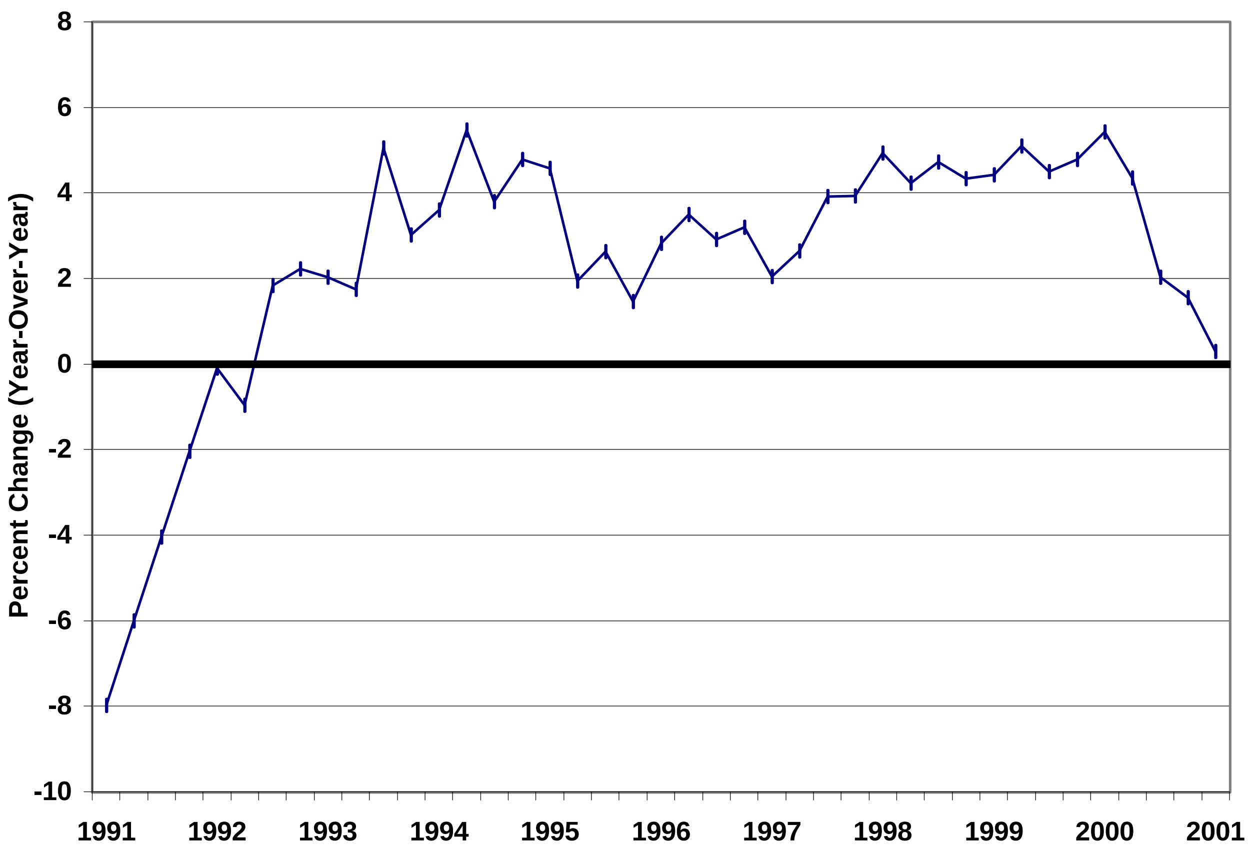
State sales tax growth slowed markedly in recent quarters, declining from 8.2 percent in January-March of 2000 to 3.3 percent in January-March of 2001. Growth has slowed in 35 of 45 states with a general sales tax. This is the slowest growth in the nearly nine years since the last recession. Adjusted for the effects of legislated changes and inflation, growth in January-March 2001 was barely positive at 0.3 percent, down from 5.4 percent in January-March 2000.

Figure 1 shows the long-term trend in real sales tax growth. From July 1992 – the end of the last recession – to June 2000, real growth was between 1.5 and 5.5 percent, with a mean of 3.6 percent. Growth has now dropped significantly below this range. Nevertheless, sales tax revenues are still much stronger than in the recession of 1991-1992, when they actually declined on a real basis by as much as 6 to 8 percent.

Figure 1: Year-Over-Year Change in Sales Tax Revenues



Data adjusted for inflation and legislated tax changes

Source: State revenue data collected by The Nelson A. Rockefeller Institute of Government.

While the sales tax slowdown has been widespread, its magnitude shows a regional pattern. Table 1 shows that growth slowed in 35 of the 45 states that have a general sales tax, when comparing the last three quarters to the previous six quarters. Every region had some decline, but as shown in Figure 2 the declines in the Great Lakes and Plains states were much greater than the national average. Twelve states had declines of over 5 percent – Alabama, Florida, Indiana, Maine, Michigan, Minnesota, Nebraska, Ohio, Tennessee, Vermont, Washington, and Wyoming.

Table 1: Slowdown in Sales Tax Growth Adjusted for Legislation

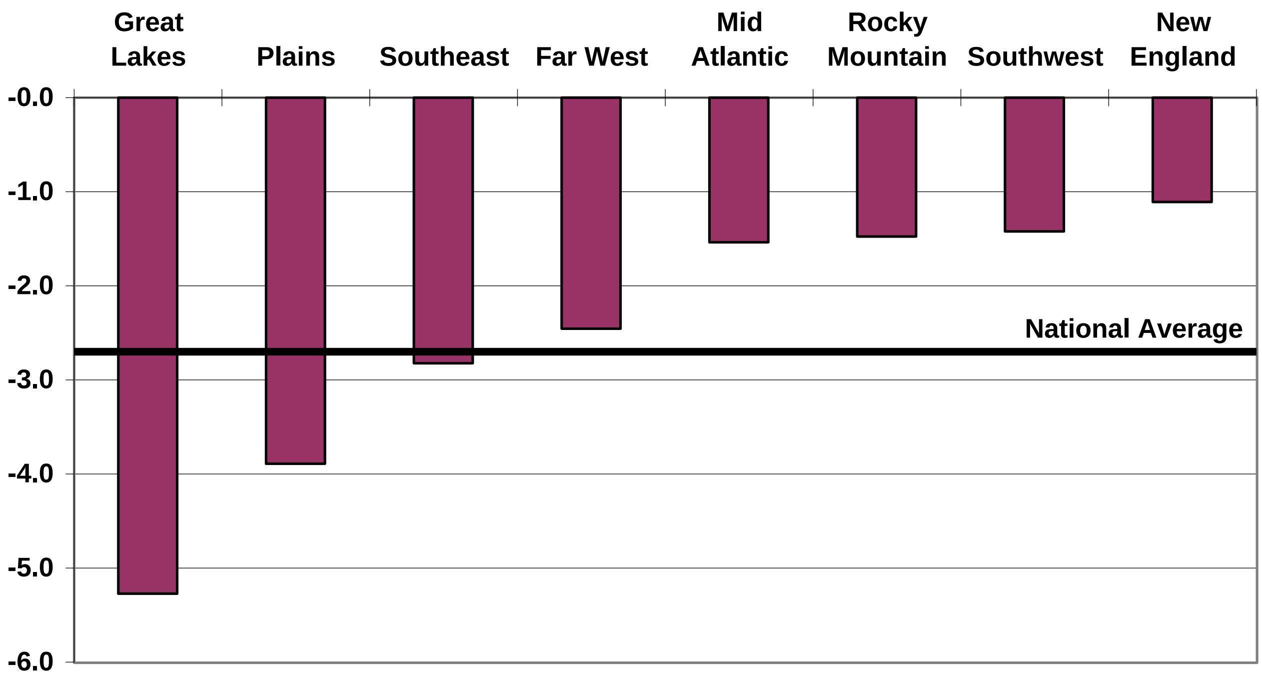
Average Growth in Three Most Recent Quarters Minus Average Growth in Previous Six Quarters

State	Change in Percentage		Change in Percentage
United States Total:	**(2.7)**	**Southeast**	**(2.8)**
New England	**(1.1)**	Alabama	(5.1)
Connecticut	0.2	Arkansas	(3.8)
Maine	(5.2)	Florida	(5.1)
Massachusetts	(1.9)	Georgia	1.1
Rhode Island	3.6	Kentucky	(3.3)
Vermont	(6.7)	Louisiana	8.4
Mid Atlantic	**(1.5)**	Mississippi	(4.8)
Maryland	0.6	North Carolina	(0.1)
New Jersey	(2.3)	South Carolina	(2.5)
New York	0.1	Tennessee	(5.2)
Pennsylvania	(3.9)	Virginia	(2.4)
Great Lakes	**(5.3)**	West Virginia	(1.2)
Illinois	(4.2)	**Southwest**	**(1.4)**
Indiana	(5.2)	Arizona	(3.1)
Michigan	(5.8)	New Mexico	7.3
Ohio	(6.2)	Oklahoma	0.8
Wisconsin	(4.8)	Texas	(2.0)
Plains	**(3.9)**	**Rocky Mountain**	**(1.5)**
Iowa	(2.0)	Colorado	(2.5)
Kansas	(4.3)	Idaho	(3.0)
Minnesota	(5.8)	Utah	0.2
Missouri	(1.1)	Wyoming	(6.2)
Nebraska	(6.6)	**Far West**	**(2.5)**
North Dakota	(1.4)	California	(2.1)
South Dakota	(0.1)	Hawaii	4.9
		Nevada	(3.0)
		Washington	(5.2)

Note: The comparison is between the average growth rate for the 6 quarters from January 1999 through June 2000 and the average growth rate for the 3 quarters from July 2000 through March 2001.
The missing states do not have a general sales tax.
Numbers reflect adjustments for the effects of legislated tax changes, but not inflation, which would have had only a minor effect anyway.
Source: State revenue data collected by The Nelson A. Rockefeller Institute of Government.

Figure 2: Slowdown in Sales Tax Growth By Region

Average Growth in Three Most Recent Quarters Minus Average Growth in Previous Six Quarters



Note: The comparison is between the average growth rate for the 6 quarters from January 1999 through June 2000 and the average growth rate for the 3 quarters from July 2000 through March 2001.
Numbers reflect adjustments for the effects of legislated tax changes, but not inflation, which would have had only a minor effect anyway.
Source: State revenue data collected by The Nelson A. Rockefeller Institute of Government.

The Nelson A. Rockefeller Institute of Government is the public policy research arm of the State University of New York. Nick Jenny is a Policy Analyst in the Institute's Fiscal Studies Program, and Don Boyd is Deputy Director of the Institute. All data used in this report is from the Institute's state revenue database. For more, see the *State Revenue Report* .