

# The Outlook for State Revenues

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## *Introduction*

In the October 23 Revenue Outlook, this next paragraph captured the mood of the moment:

**Through August, sales tax revenues were lagging, but corporate income tax proceeds were beginning to show signs of life, and this—corporate profits—is a leading indicator of economic recovery. That said, total general fund revenues came in with a 0.9% growth, a good bit short of the needed 1.4% growth to make the BEA estimate. Things looked much better when September's revenues were counted. Sales tax revenues were up strongly, and corporate income tax revenues were healthy again. Through September, total general fund revenues are up 2.2%. Revenue growth is ahead of the estimate. What are the prospects for the rest of the year? For now, at least, it appears that the budget cutters can put their knives away.**

## *Two Important Intervening Events*

Since then, two important events have occurred to give a significant positive nudge to state's fiscal picture. GDP growth for the nation's third quarter came in with a preliminary estimate of 8.2%. Included in this almost incredibly strong growth was record growth in productivity and the beginnings of a turnaround in manufacturing employment. The second important event has to do with state revenues themselves. Through November, the fifth month in the 2003-04 fiscal year, revenues have grown 2.7%, with sales tax revenues, which have grown 5.2% for the year, doing the heavy lifting.

Appropriations for the year are based on 1.4% growth. It is safe to say that this year's budget is safe from shortfalls. What about FY2004-05? Does the high GDP growth rate suggest a positive revision for next year's numbers? I believe so. Let me provide a bit more detail on this.

## *The Revised (Better) Outlook*

The October outlook indicated revenues for the next fiscal year would hit 3.9%. Once again, this estimate was based on weaker assumptions for GDP growth and without having the benefit of the recent record of state revenue growth. Nominal GDP growth for 2003-04 is now estimated to hit 7%. This higher platform is then translated into 6% growth for 2004-05 and 5.5% growth in 2005-06.

Because of the state's temporarily weak linkage to the higher growth national economy, the 2003-04 personal income growth is now estimated to be 4.2%. This, in turn, yields a revenue estimate of 3.1%, which of course, is well above the BEA 1.4% estimate for this year. Revenue growth for 2004-05 is now estimated to be 4.3%, an upward revision from the 3.9% previously given. These estimates and related data are shown in the accompanying chart.

**S.C. Income Growth & General Fund Revenues<sub>120603</sub>**  
**1990-2002**  
**Estimates to 2005-06**

