



News Release

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For Immediate Release

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MTF Forecast: Dramatic Drop in Revenues in Fiscal 2009 and 2010

The global economic conflagration will drive a \$2.3 billion decline in Massachusetts tax revenues from fiscal 2008 to 2010, according to a forecast released today by the Massachusetts Taxpayers Foundation.

The Foundation estimates that fiscal 2009 tax revenues will total \$19.4 billion, \$900 million below the administration's revised forecast released in October and \$1.5 billion less than the \$20.9 billion collected in 2008. MTF projects an additional decline of \$800 million in fiscal 2010 to \$18.6 billion.

**Table 1- Tax Revenues
(\$ Billions)**

2008	Actual	20.9
2009	Original Estimate	21.4
2009	Revised Estimate	20.3
2009	MTF Forecast	19.4
2010	MTF Forecast	18.6

MTF President Michael J. Widmer presented the Foundation's economic and revenue forecast to members of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance at their annual consensus revenue hearings at the State House today.

The Foundation's Massachusetts projections are based on the most recent national economic forecast from Global Insight, an economic forecasting firm located in Waltham. That forecast anticipates that the national economy, having entered a recession last December, will continue to decline through most and possibly all of calendar 2009. Global Insight forecasts that the unemployment rate will climb two points to 8.7 percent by early 2010 as the country sheds nearly 2 million more jobs. Personal income growth will decline sharply from an annual average of 3 percent between 2004 and 2008 to only 0.5 percent for both 2009 and 2010.

Several factors shape MTF's forecast of sharply declining revenues in 2009 and 2010:

1. Employment

The forecast projects that Massachusetts will lose 75,000 jobs in fiscal 2009 and 51,000 in 2010, a 3.8 percent drop in employment from 2008 to 2010. While the 3.8 percent decline is higher than the forecasted national decline of 2.4 percent, it is significantly less than the 200,000 jobs and 6 percent drop suffered in the last recession. Historically, Massachusetts has lagged the US in economic downturns because the state's economy is less vulnerable to cyclical declines in housing, automobiles and retail. However, Massachusetts also lags the US in job recovery.

MTF projects that the Massachusetts unemployment rate will rise from today's 5.5 percent to an annual average of 8.1 percent in fiscal 2010, less than the national rate of 8.7 percent.

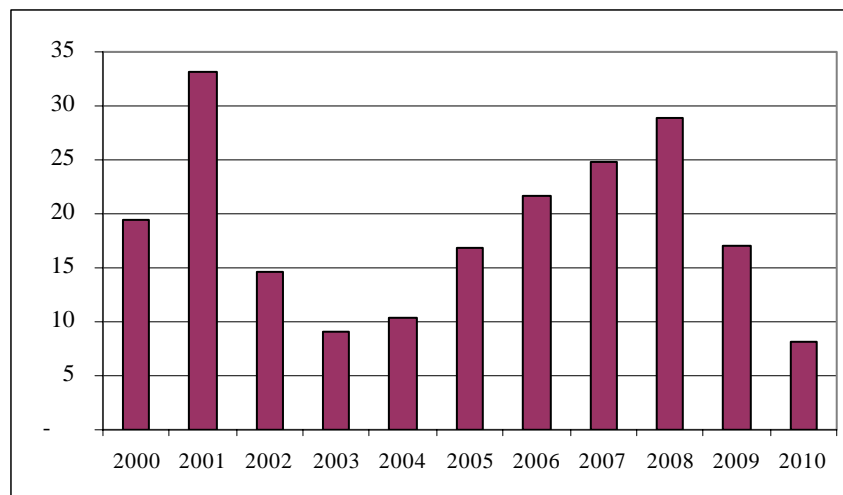
2. Personal Income

MTF forecasts that personal income will fall sharply from the 6 percent average annual growth for the past three years to 2 percent in fiscal 2009 and 0.7 percent in 2010, comparable to the 0.9 percent growth in 2002 and 0.4 percent in 2003. This large decline is caused by the 3.8 percent drop in employment and a significant slowing in the growth of wage rates from a 4.6 percent annual increase over the past three years to 2.2 percent in 2009 and 1.8 percent in 2010. Nevertheless, this forecasted wage rate growth from 2008 to 2010 is three-times the 1.3 percent wage rate growth over the two years from 2001 to 2003.

3. Capital Gains

Capital gains revenues are projected to decline from \$1.866 billion in fiscal 2008 to \$1.036 billion in 2009 and to \$666 million in 2010, a two-year drop of 64 percent. MTF's forecast of capital gains revenues is based on a projected decline of 71 percent in total long-term capital gains from 2008 to 2010, similar to the 73 percent drop in long-term capital gains experienced from 2002 to 2004 (see Figure 1).

Figure 1 - Long Term Capital Gains
(\$ Billions)



Based largely on the decline in capital gains taxes, MTF projects that total personal income taxes will decrease from \$12.5 billion in fiscal 2008 to \$11.5 billion in 2009 and \$10.9 billion in 2010.

4. Sales Taxes

MTF forecasts that sales tax revenues will fall sharply from \$4.1 billion in fiscal 2008 to \$3.8 billion in 2009 and \$3.6 billion in 2010, an unprecedented 5.9 percent decline in both 2009 and 2010.

In comparison, sales tax revenues declined by 1.6 percent in 2002. However, turmoil in the credit industry and a weakening economy have led to a dramatic slowdown in purchases of durable goods and a significant retrenchment in retail sales, meals and entertainment. Global Insight forecasts that the percentage of personal income spent on taxable items will fall 5 percent in 2009 and will not recover in 2010.

5. Corporate Profits

MTF projects that corporate tax revenue will fall 20 percent from \$1.5 billion in fiscal 2008 to \$1.2 billion in 2009 with modest growth of \$50 million in 2010. The 2009 decline matches national forecasts that corporate profits will plummet 21 percent in 2009.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, the Foundation has won numerous prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.

MASSACHUSETTS TAXPAYERS FOUNDATION
FISCAL YEAR FORECAST SUMMARY

GLOBAL INSIGHT NATIONAL FORECAST

					<<< History		Forecast >>>	
December 2008	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income (billions of 2000 \$)	8,439	8,636	8,902	9,148	9,470	9,746	9,781	9,831
% change	0.2	2.3	3.1	2.8	3.5	2.9	0.4	0.5
Employment (millions)	130.1	130.5	132.5	135.0	137.0	137.9	136.1	134.5
% change	-0.6	0.3	1.5	1.9	1.4	0.7	-1.3	-1.2
Unemployment Rate	5.9	5.8	5.3	4.8	4.5	4.9	7.1	8.6
CPI (% change)	2.2	2.2	3.0	3.8	2.6	3.7	1.0	0.1
PPI (% change)	3.3	4.8	6.9	7.7	2.9	9.0	-1.9	-5.7
Federal Discount Rate	1.6	2.0	3.2	5.2	6.3	4.3	1.1	0.7
Prime Commercial Rate	4.4	4.0	5.2	7.2	8.3	6.7	3.8	3.4
Standard & Poor's 500 Index (% change*)	-16.5	-3.2	17.3	6.8	8.6	12.7	-17.6	-19.4

					<<< History		Forecast >>>	
MTF MASS. ECONOMIC FORECAST	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income (billions of current \$)	250.3	260.8	273.2	289.1	307.3	325.0	331.6	334.0
% change	0.4	4.2	4.8	5.8	6.3	5.8	2.0	0.7
Personal Income (billions of 2000 \$)	235.2	239.2	243.0	248.7	256.8	265.5	265.1	264.1
% change	-1.4	1.7	1.6	2.3	3.3	3.4	-0.1	-0.4
Total Employment (000s)	3,227	3,190	3,202	3,228	3,264	3,288	3,213	3,162
% change	-1.9	-1.1	0.4	0.8	1.1	0.7	-2.3	-1.6
Unemployment Rate	5.6	5.6	4.9	4.8	4.7	4.5	5.8	8.1

					<<< History		Forecast >>>	
MTF MASS. TAX FORECAST	2003	2004	2005	2006	2007	2008	2009	2010
Income Tax (millions \$)	8,026	8,830	9,690	10,483	11,391	12,493	11,479	10,878
% change	1.4	10.0	9.7	8.2	8.7	9.7	-8.1	-5.2
Sales Tax	3,708	3,749	3,886	4,004	4,066	4,086	3,844	3,618
% change	0.3	1.1	3.7	3.0	1.5	0.5	-5.9	-5.9
Corporations Tax	799	998	1,063	1,391	1,585	1,512	1,213	1,268
% change	36.3	24.8	6.5	30.9	14.0	-4.6	-19.8	4.5
TOTAL TAXES**	14,964	15,953	17,087	18,487	19,732	20,888	19,384	18,596
% change	4.7	6.6	7.1	8.2	6.7	5.9	-7.2	-4.1
TOTAL TAXES FOR BUDGET***	14,279	13,867	14,368	16,011	17,105	17,967	16,282	15,299
% change	4.8	-2.9	3.6	11.4	6.8	5.0	-9.4	-6.0

* Percent change in index for prior calendar year.

** Includes collections from other tax sources not detailed above.

*** Tax revenues available for appropriation in the budget exclude a portion of sales tax receipts dedicated to the MBTA and school building construction, tax revenues dedicated to pension funding, and net revenues in excess of permissible tax revenues.