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News Release

For Immediate Release

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MTF Forecast: Slower Revenue Growth in 2001 and 2002; Recession Risk Further Clouds Outlook

Given the recent economic downturn, state tax revenue growth will slow markedly in fiscal 2001 and 2002, according to a forecast released today by the Massachusetts Taxpayers Foundation.

The Foundation's forecast of 2002 tax revenues, which presumes a "soft landing" from the rapid expansion of the last several years, totals \$16.16 billion, up only 0.2 percent from 2001. Previously adopted tax cuts will reduce fiscal 2002 receipts by over \$675 million, almost completely offsetting the underlying tax growth. MTF estimates that base tax revenues (before cuts) will grow 4.3 percent in 2002, less than half the rate of annual increase in the state's tax base over the last five years.¹

However, because of the great uncertainty about the future course of the economy, MTF also examined the impact of a possible recession on 2002 revenues. According to the Foundation's analysis, a moderate recession would reduce fiscal 2002 tax receipts to \$15.65 billion, about \$500 million lower than MTF's baseline forecast for 2002. A severe recession, although not currently considered likely by most observers, would have an even more dramatic impact on revenues.

MTF Fiscal 2002 Forecast Soft Landing and Recession Scenarios (\$, billions)

	Soft Landing	Recession
State tax receipts ¹	\$16.2	\$15.7
Personal income	\$258.9	\$252.3
Employment (000)	3,396	3,377
Unemployment rate (%)	3.4	3.9

MTF President Michael J. Widmer presented the Foundation's economic and revenue forecast to members of the House and Senate Ways and Means Committees at their annual revenue hearing at the State House.

¹ Including 20 percent of regular sales tax revenues dedicated to state support of the MBTA.

"This is a time of major uncertainty in the national economy and the stock market," said Mr. Widmer. "At best the state will experience a period of much slower revenue growth. At worst we will have to weather a recession."

The Foundation's baseline forecast for fiscal 2002, which reflects current law, is \$188 million lower than the \$16.34 billion tax estimate in the Governor's House One budget. The Foundation's forecast for fiscal 2001 is \$104 million lower than the House One estimate.

MTF projects that Massachusetts will add 82,000 jobs in fiscal 2001 -- attributable in part to a surge in employment in the last three months of calendar 2000 -- and a more modest 36,000 jobs in 2002. In fiscal 2000, 72,000 jobs were added. The unemployment rate is expected to rise moderately to 2.6 percent in fiscal 2001, with a further increase to 3.4 percent in 2002. With the slower rise in employment and an easing of wage growth, the rate of increase in personal income will decline from 8.3 percent in fiscal 2000 to 7.0 percent in 2001 and 5.5 percent in 2002.

According to MTF's forecast, personal income taxes will drop \$295 million or 3.3 percent in 2002, a reduction that reflects the impact of Question 4 and other previously enacted cuts that are still phasing in. Adjusting for these cuts, the underlying growth in personal income taxes is 4.3 percent, compared to a 5.7 percent increase in 2001. While the lower 2002 growth is partly due to slower personal income gains, it also reflects the impact of a weaker stock market.

Sales taxes are projected to grow 4.4 percent in 2002, somewhat less than the expected 4.9 percent increase in 2001 and well below the almost 10 percent average growth in 1999 and 2000. Less rapid growth in personal income and diminished consumer spending explain the lower pace of sales tax growth.

The Foundation's Massachusetts forecast is based upon the February 2001 national economic forecast from the WEFA group, an economic consulting firm. WEFA predicts a gradual slowing of growth in GDP, the broadest measure of national economic activity, from 5.2 percent in fiscal 2000 to 3.2 percent in 2001 and 2.5 percent in 2002. National employment growth will decline from 2.3 percent in 2000 to 1.3 percent in 2001 and 0.6 percent in 2002, with an uptick in the unemployment rate from 4.1 percent in 2000 to 4.2 percent in 2001 and 5.0 percent in 2002. While WEFA expects stock prices to grow roughly two percent a year over the next several years, a sharp drop from the 16 percent increase in fiscal 2000, MTF has assumed a more gradual slowing of stock market growth in 2001 and beyond.

Founded in 1932, the Massachusetts Taxpayers Foundation is an independent, nonprofit organization which conducts research and policy analysis on state and local taxes, government spending and the economy. Dedicated to the public interest, MTF ranks as one of the largest and most effective organizations of its kind in the country. The Foundation has won five prestigious national awards in as many years for its work on capital spending, business costs, management of state budget surpluses, and reform of the MBTA.

MASSACHUSETTS TAXPAYERS FOUNDATION
FISCAL YEAR FORECAST SUMMARY

WEFA NATIONAL FORECAST:

			<<< History		Forecast >>>	
FEBRUARY 2001	1997	1998	1999	2000	2001	2002
Personal Income (billions of 1996 \$)	6,592.8	6,913.7	7,227.7	7,491.9	7,730.5	7,926.6
% change	3.6	4.9	4.5	3.7	3.2	2.5
Employment (millions)	121.1	124.3	127.3	130.3	131.9	132.7
% change	2.4	2.6	2.4	2.3	1.3	0.6
Unemployment Rate	5.2	4.7	4.4	4.1	4.2	5.0
CPI (% change)	2.8	1.8	1.7	2.9	3.2	2.4
PPI (% change)	1.5	(1.5)	(1.9)	4.4	4.7	0.6
Federal Discount Rate	5.0	5.0	4.7	5.1	5.4	4.3
Prime Comm Rate	8.3	8.5	8.0	8.6	8.9	7.8
Standard & Poor's 500 Index (% change)	21.9	33.8	19.5	16.4	1.5	2.8

			<<< History		Forecast >>>	
MTF MASS. ECONOMIC FORECAST	1997	1998	1999	2000	2001	2002
Personal Income (billions of current \$)	186.1	198.0	211.7	229.4	245.4	258.9
% change	6.5	6.4	6.9	8.3	7.0	5.5
Personal Income (billions of 1996 \$)	182.1	191.1	201.7	213.8	223.9	231.8
% change	4.3	4.9	5.5	6.0	4.7	3.5
Total Employment (000s)	3,075.4	3,143.6	3,205.9	3,277.5	3,359.3	3,395.7
% change	2.4	2.2	2.0	2.2	2.5	1.1
Unemployment Rate	4.1	3.7	3.2	3.0	2.6	3.4

			<<< History		Forecast >>>	
MTF MASS. TAX FORECAST	1997	1998	1999	2000	2001	2002
Income Tax (millions \$)	7,181	8,032	8,037	9,042	9,018	8,723
% change	7.1	11.8	0.1	12.5	(0.3)	(3.3)
Sales Tax	2,876	2,963	3,270	3,565	3,739	3,902
% change	10.2	3.0	10.4	9.0	4.9	4.4
Corporations Tax	964	1,067	1,009	1,131	1,246	1,256
% change	10.0	10.7	(5.5)	12.1	10.2	0.8
TOTAL TAXES	12,862	14,026	14,292	15,689	16,128	16,156
% change	6.7	9.1	1.9	9.8	2.8	0.2
TOTAL TAXES FOR BUDGET*	12,862	14,026	14,292	15,689	15,483	15,475
% change	6.7	9.1	1.9	9.8	(1.3)	(0.0)

* Fiscal 2001 and 2002 adjusted to reflect shift of twenty percent of the regular sales tax off budget to support MBTA.