

News Release

For Immediate Release

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MTF Forecast: Slow Economic Recovery Provides No Relief From Fiscal Crisis

State tax revenues will grow an anemic three to four percent in fiscal 2004 as Massachusetts begins a slow climb out of the economic recession, according to a forecast released today by the Massachusetts Taxpayers Foundation.

"The combination of a weak economic recovery and the state's large structural deficit means that fiscal 2004 will be the most difficult and painful year of the state's prolonged fiscal crisis," said MTF President Michael J. Widmer.

Mr. 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 revenue hearing at the State House.

According to the Foundation's forecast, tax revenues will total between \$14.76 billion and \$15.0 billion in fiscal 2003, compared to \$14.29 billion in fiscal 2002. The growth in 2003 is attributable solely to the package of tax increases approved six months ago. The 2003 forecast is between \$150 and \$385 million lower than the administration's most recent official forecast in October.

MTF projects that fiscal 2004 tax collections will total between \$15.27 and \$15.62 billion, a growth of roughly \$500 million over 2003 at each end of the range.

"These projections make it virtually certain that the state will confront at least a \$2 billion budget shortfall next fiscal year on top of a \$500 million or greater deficit this fiscal year," said Mr. Widmer.

For both 2003 and 2004, capital gains remain a significant risk to the forecast. The Foundation is projecting annual revenues from long-term gains totaling more than \$300 million in 2003 and approximately that amount in 2004. This estimate takes into account a forecasted decline in taxable capital gains from \$15.4 billion in 2001 to \$9.5 billion in 2002 and \$6.1 billion in 2003, as well as the somewhat higher effective tax rate for fiscal 2004 due to the timing of last year's tax increase.

The range in the Foundation's forecast results from the use of two alternative scenarios for the course of the recovery in the national and state economy: a more positive scenario that presumes steady economic improvement for the nation over the next 12 months; and a more pessimistic alternative in which economic growth continues to stagnate for one or two quarters before beginning to rebound.

Under either scenario Massachusetts will trail the nation in an economic recovery. In the first alternative, the state would lose a total of 38,000 jobs in fiscal 2003 before gaining back almost all of those jobs in 2004. In the second alternative, the state would lose 54,000 jobs in 2003 and regain only half of the lost jobs in 2004.

According to MTF's forecast, personal income taxes will increase between \$290 and \$450 million in fiscal 2003, including the approximately \$750 million impact of tax increases enacted in 2002. Adjusting for these increases, the baseline decline in personal income taxes is between 3.5 and 5.5 percent, the result of lower collections of withholding taxes and further deterioration of capital gains revenues due to the weak economy.

In 2004, personal income taxes will be close to flat, with growth between \$40 million and \$150 million. While withholding collections are expected to rise between 5.5 and 6.0 percent, this positive performance will be offset by the loss of one-time revenues from the retroactive reduction in personal exemptions and the tax amnesty program, as well as by further weakening of capital gains receipts. Adjusting for the one-time factors, baseline personal income tax growth will be between 2.5 and 4.0 percent in 2004.

Sales taxes are projected to be flat or decline slightly in 2003, with growth between -1.1 and 0.3 percent, followed by an increase of 5.8 percent in 2004 that is largely driven by the forecasted growth in total personal income in the state.

After an almost 50 percent decline over the last two years, corporate income taxes are expected to show moderate growth in 2003, up \$20 to \$40 million, or 3.0 to 6.8 percent. While corporate income taxes are projected to rise 20 to 25 percent in 2004 to a total of approximately \$750 million, that is still almost \$400 million less than the peak in 2000.

MTF's Massachusetts forecast is based upon two alternative projections drawn from the January 2003 national economic forecast from Global Insight, Inc. (formerly DRI-WEFA). In the first, more optimistic scenario, national employment growth will strengthen in the second quarter of calendar 2003 following eight consecutive quarters of declining or essentially flat employment. According to Global Insight, after falling 0.1 percent in fiscal 2003, national employment will grow by 1.8 percent in 2004, with low inflation (2.5 percent), a decline in the unemployment rate from 6.1 to 5.7 percent, and growth in national production averaging 5.5 percent. In the alternative scenario, gains in employment would be delayed by at least one quarter, producing less robust growth in 2003.

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, MTF ranks among the largest and most effective organizations of its kind in the country. The Foundation has won seven prestigious national awards in as many years for its work on business costs, capital spending, state finances, reform of the MBTA, and health care.

MASSACHUSETTS TAXPAYERS FOUNDATION
FISCAL YEAR FORECAST SUMMARY

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GLOBAL INSIGHT NATIONAL FORECAST

	2000	2001	2002	2003	2004
January 2002					
Personal Income (billions of current \$)	8,082	8,600	8,781	9,129 - 9,146	9,646 - 9,693
% change	6.2	6.4	2.1	4.0 - 4.2	5.7 - 6.0
Personal Income (billions of 1996 \$)	7,573	7,874	7,902	8,098 - 8,108	8,365 - 8,411
% change	4.4	4.0	0.4	2.5 - 2.6	3.3 - 3.7
Employment (millions)	130.5	132.2	131.1	130.8 - 131.0	132.9 - 133.4
% change	2.5	1.3	(0.8)	(0.2) - (0.1)	1.6 - 1.8
Unemployment Rate	4.1	4.2	5.5	6.1 - 6.2	5.7 - 5.9
CPI (% change)	1.7	1.8	1.8	2.2 - 2.3	2.2 - 2.3
PPI (% change)	1.3	1.4	1.3	1.3 - 1.5	0.4 - 0.5
Federal Discount Rate	5.1	5.2	1.8	1.0 - 1.7	1.4 - 3.5
Prime Comm Rate	8.6	8.7	5.3	4.2 - 4.4	5.0 - 5.5
Standard & Poor's 500 Index (% change)	16.4	(4.2)	(16.6)	(22.5) - (19.2)	9.2 - 9.6

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MTF MASS. ECONOMIC FORECAST

	2000	2001	2002	2003	2004
Personal Income (billions of current \$)	229	248	248	254 - 256	267 - 269
% change	8.6	8.2	0.3	2.4 - 2.8	4.9 - 5.3
Personal Income (billions of 1996 \$)	211	225	222	226 - 227	232 - 233
% change	6.1	6.4	(1.2)	1.0 - 1.3	2.6 - 3.0
Total Employment (000s)	3,277	3,350	3,310	3,256 - 3,272	3,285 - 3,309
% change	2.2	2.2	(1.2)	(1.6) - (1.2)	0.9 - 1.1
Unemployment Rate	2.9	2.9	4.3	5.6 - 6.0	4.9 - 5.6

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MTF MASS. TAX FORECAST

	2000	2001	2002	2003	2004
Income Tax (millions \$)	9,042	9,903	7,913	8,200 - 8,359	8,220 - 8,508
% change	12.5	9.5	(20.1)	3.6 - 5.6	0.2 - 1.8
Sales Tax	3,565	3,756	3,696	3,656 - 3,706	3,871 - 3,922
% change	9.0	5.3	(1.6)	(1.1) - 0.3	5.8 - 5.9
Corporations Tax	1,131	945	587	604 - 627	743 - 753
% change	12.1	(16.4)	(37.9)	3.0 - 6.8	18.5 - 24.6
TOTAL TAXES	15,689	16,730	14,290	14,758 - 14,996	15,270 - 15,615
% change	9.8	6.6	(14.6)	3.3 - 4.9	3.5 - 4.1
TOTAL TAXES FOR BUDGET*	15,689	16,075	13,626	14,073 - 14,312	14,586 - 14,931
% change	9.8	2.5	(15.2)	3.3 - 5.0	3.6 - 4.3

* Fiscal 2001-2004 adjusted to reflect shift of one cent of the regular sales tax off budget to support the MBTA.