

MARYLAND REVENUE ESTIMATES

*REVENUES & ECONOMICS
OCTOBER 2018*

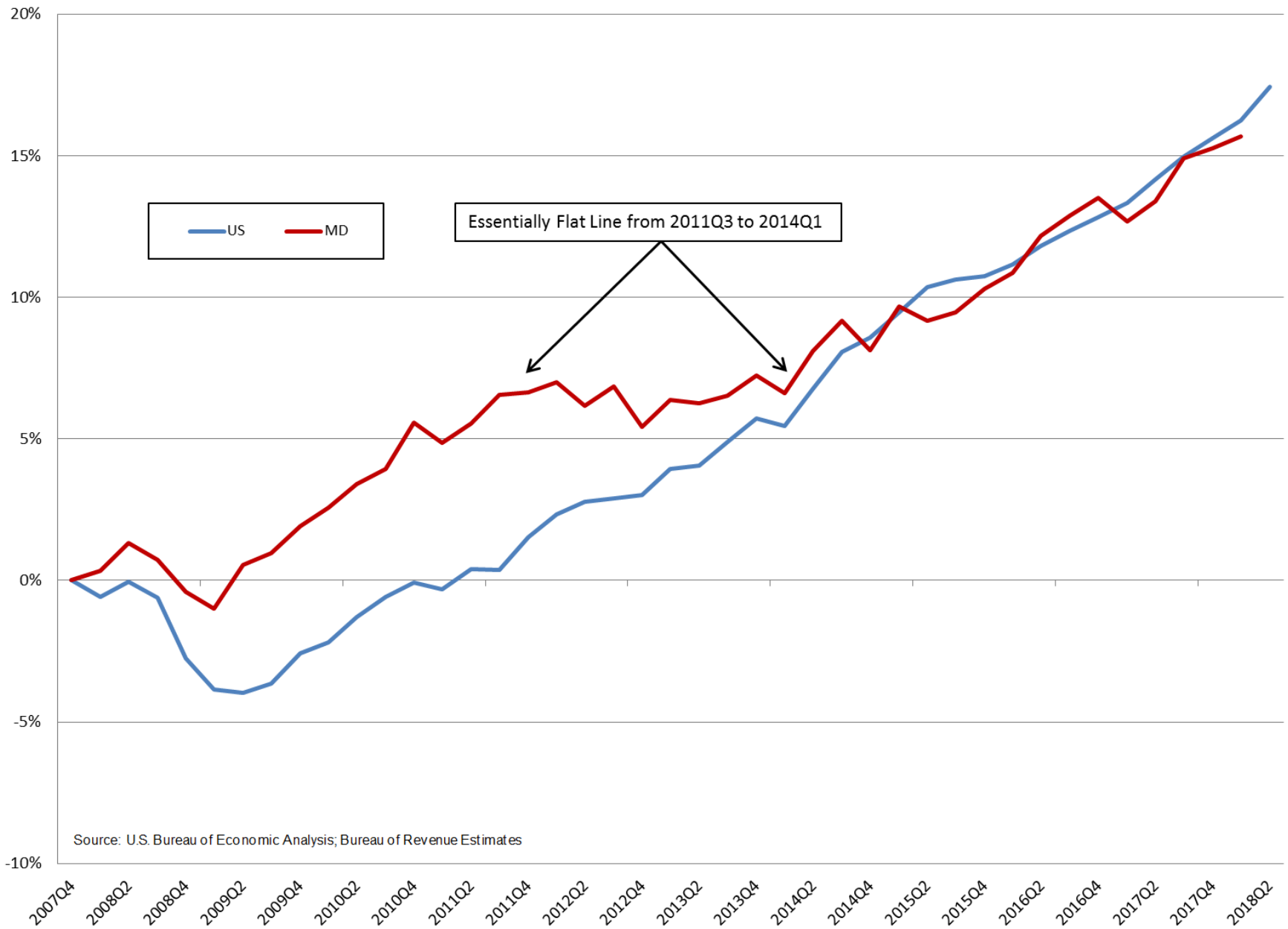
Office of the Comptroller
State of Maryland

Andrew Schaufele: Director, Bureau of Revenue Estimates

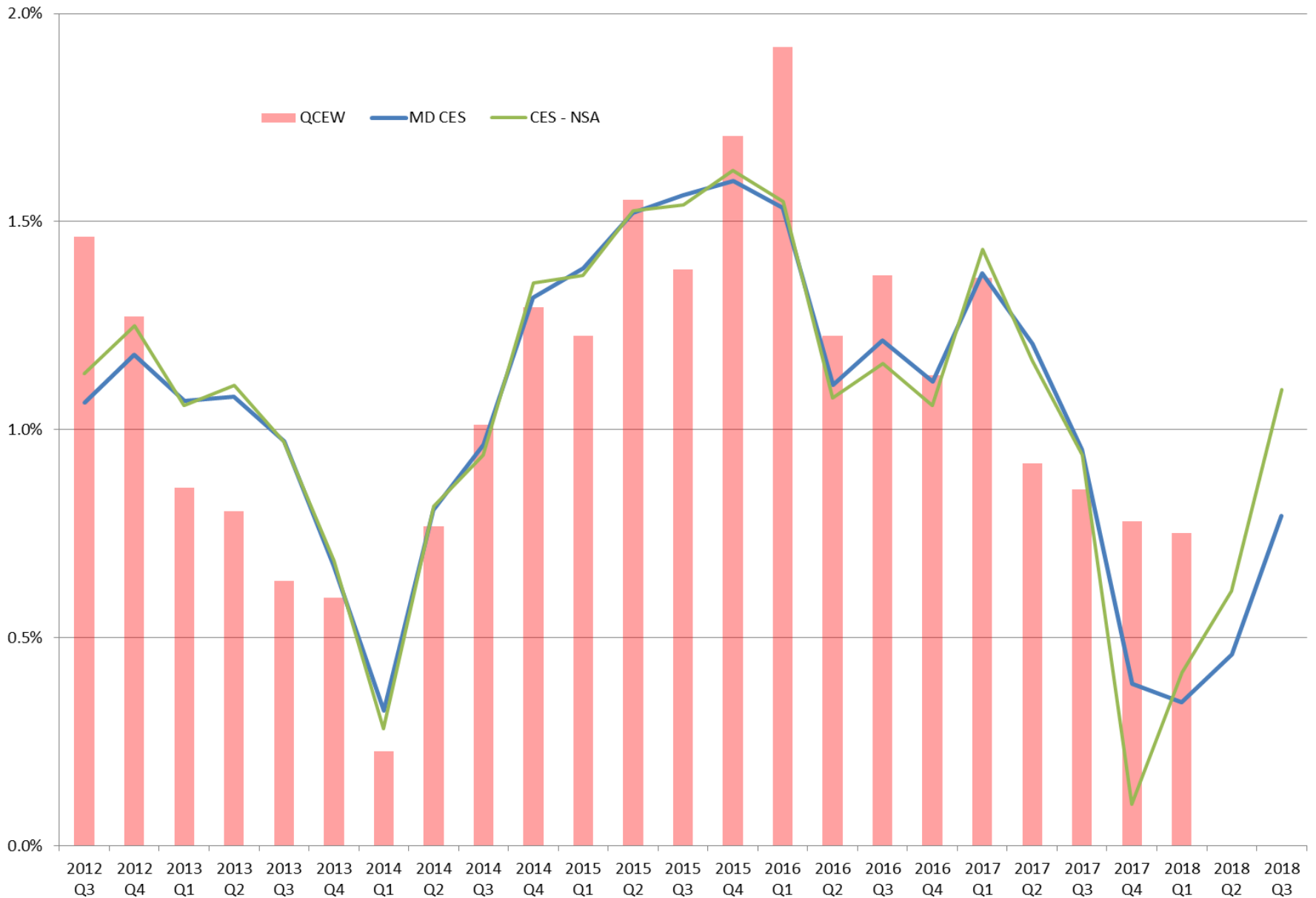
Disclaimer

- I represent myself today
- Not the Comptroller, not the Board of Revenue Estimates

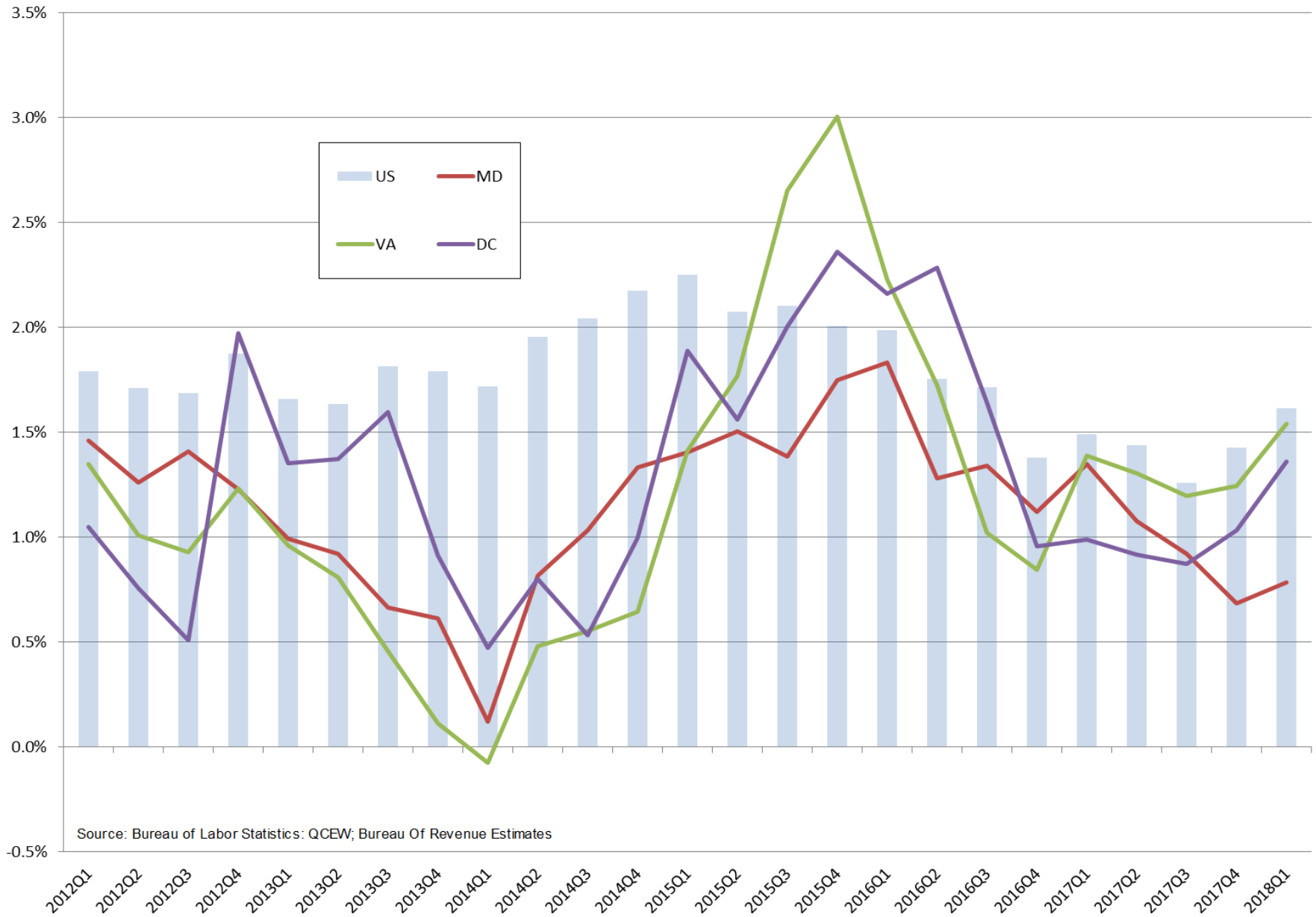
Real GDP Growth, Indexed to 4th Qtr 2007



MD Employment History QCEW v CES



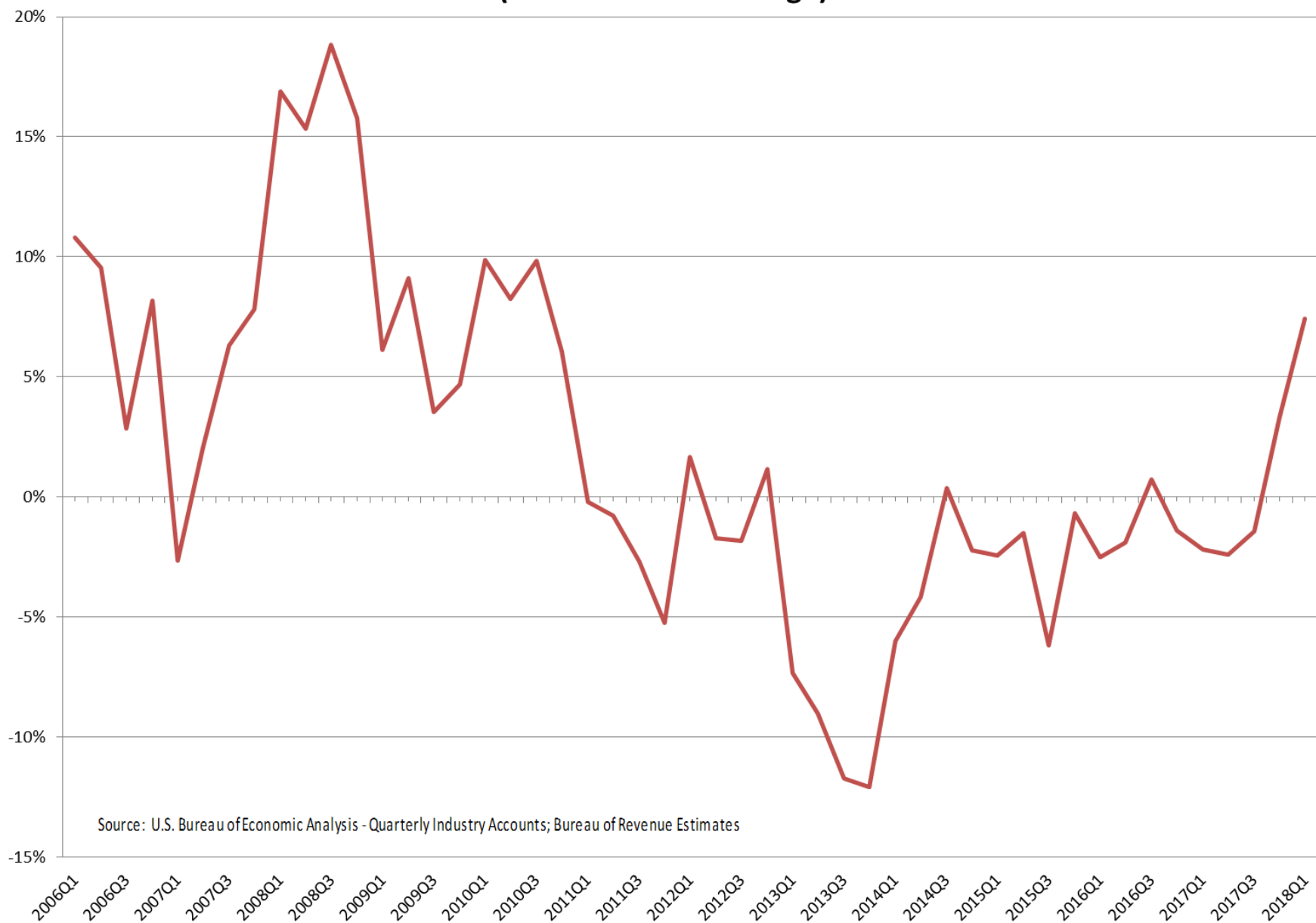
QCEW Employment Growth



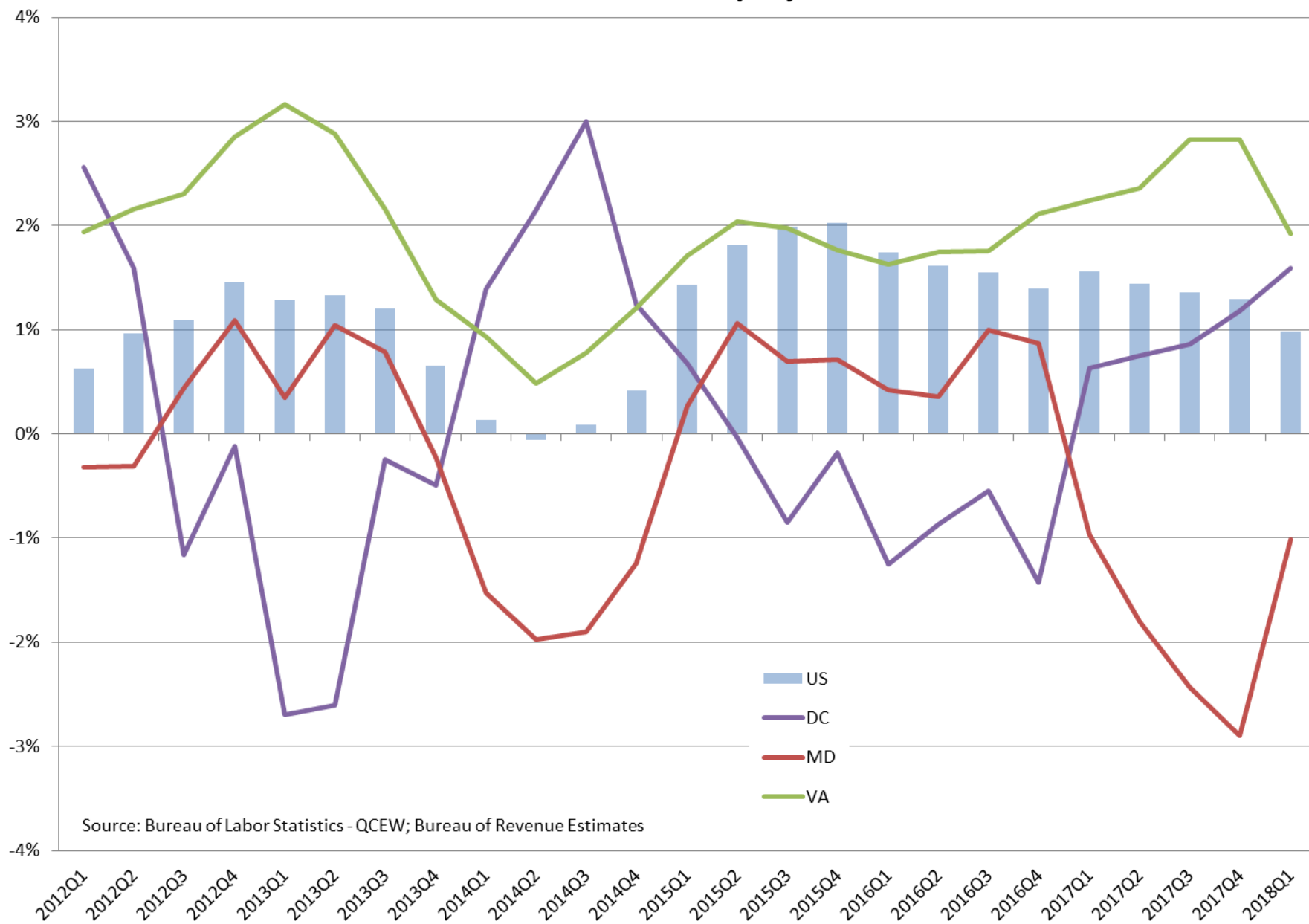
Federal Employment Growth



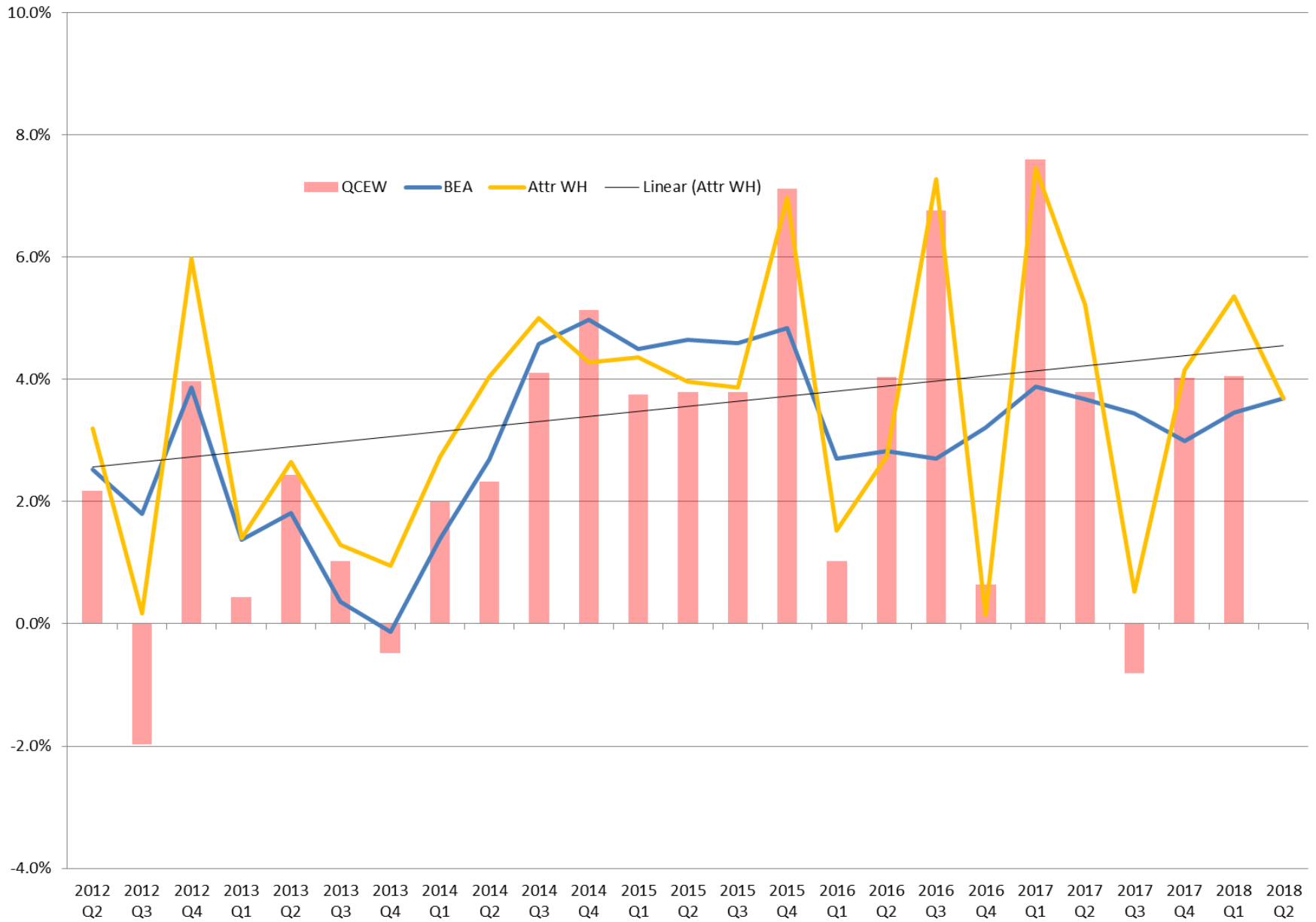
Federal Government Purchases of Input Goods & Services (Year-Over-Year Change)



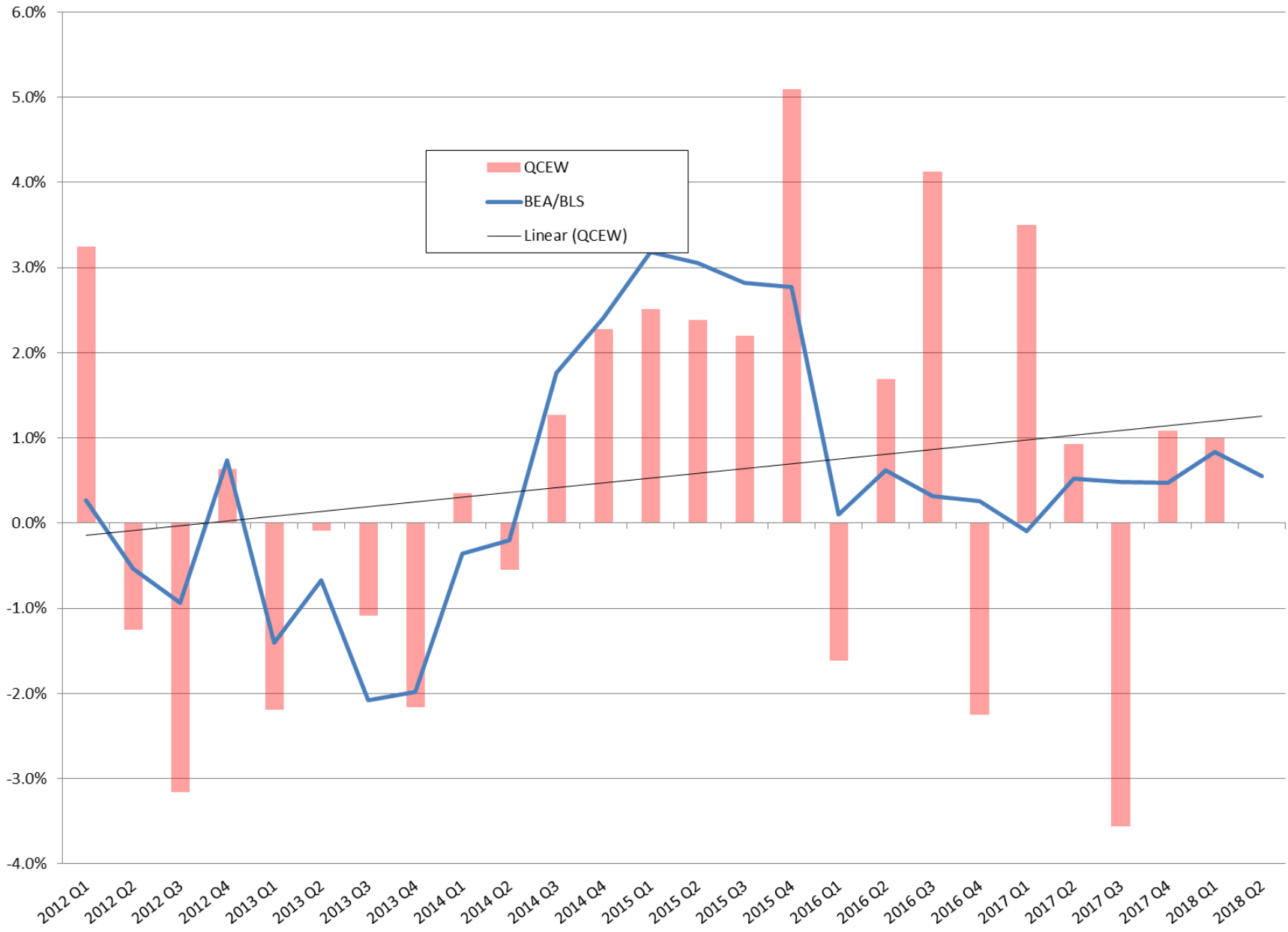
Finance and Insurance Employment Growth



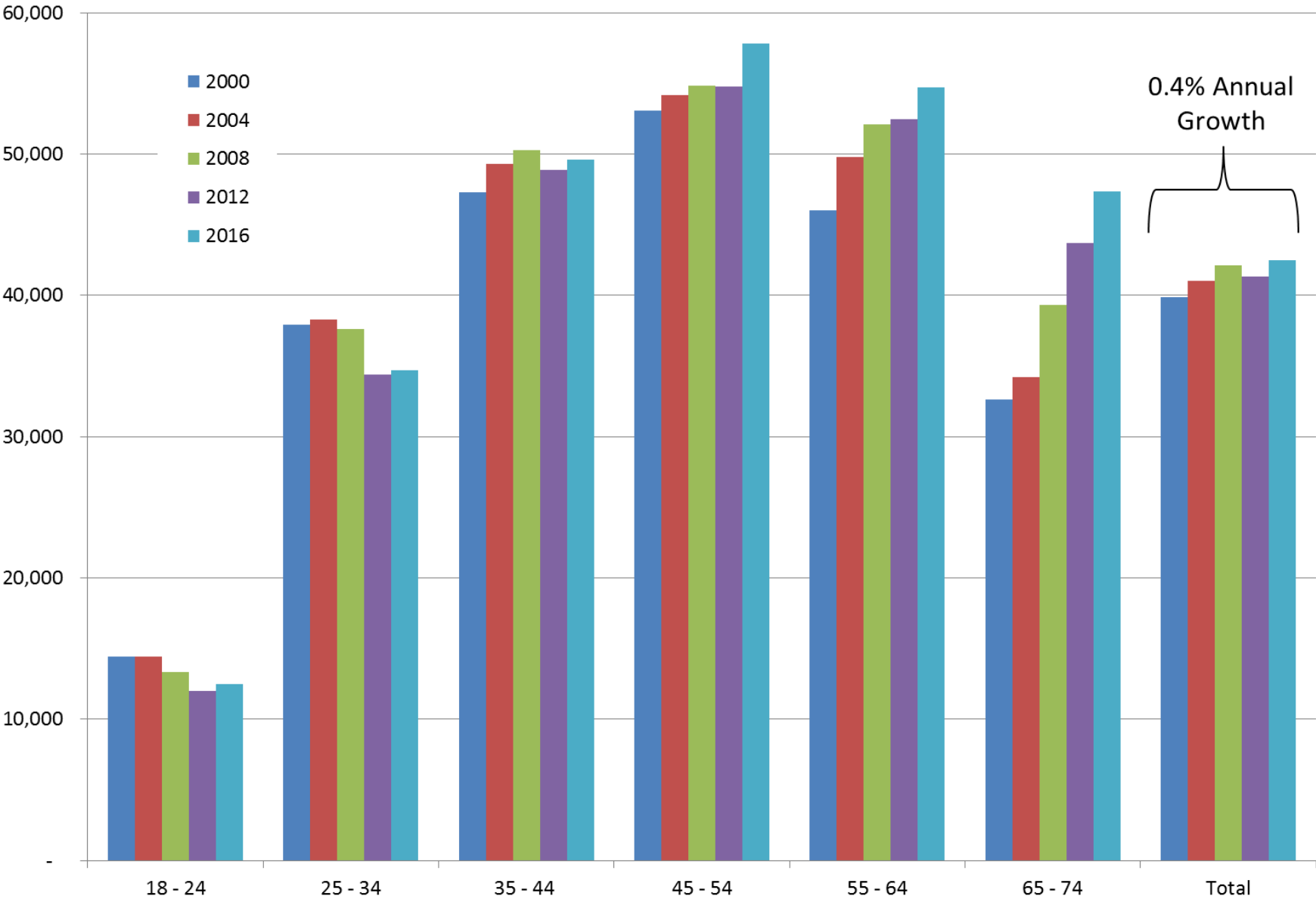
Aggregate Wage Growth



Average Real Wage Growth



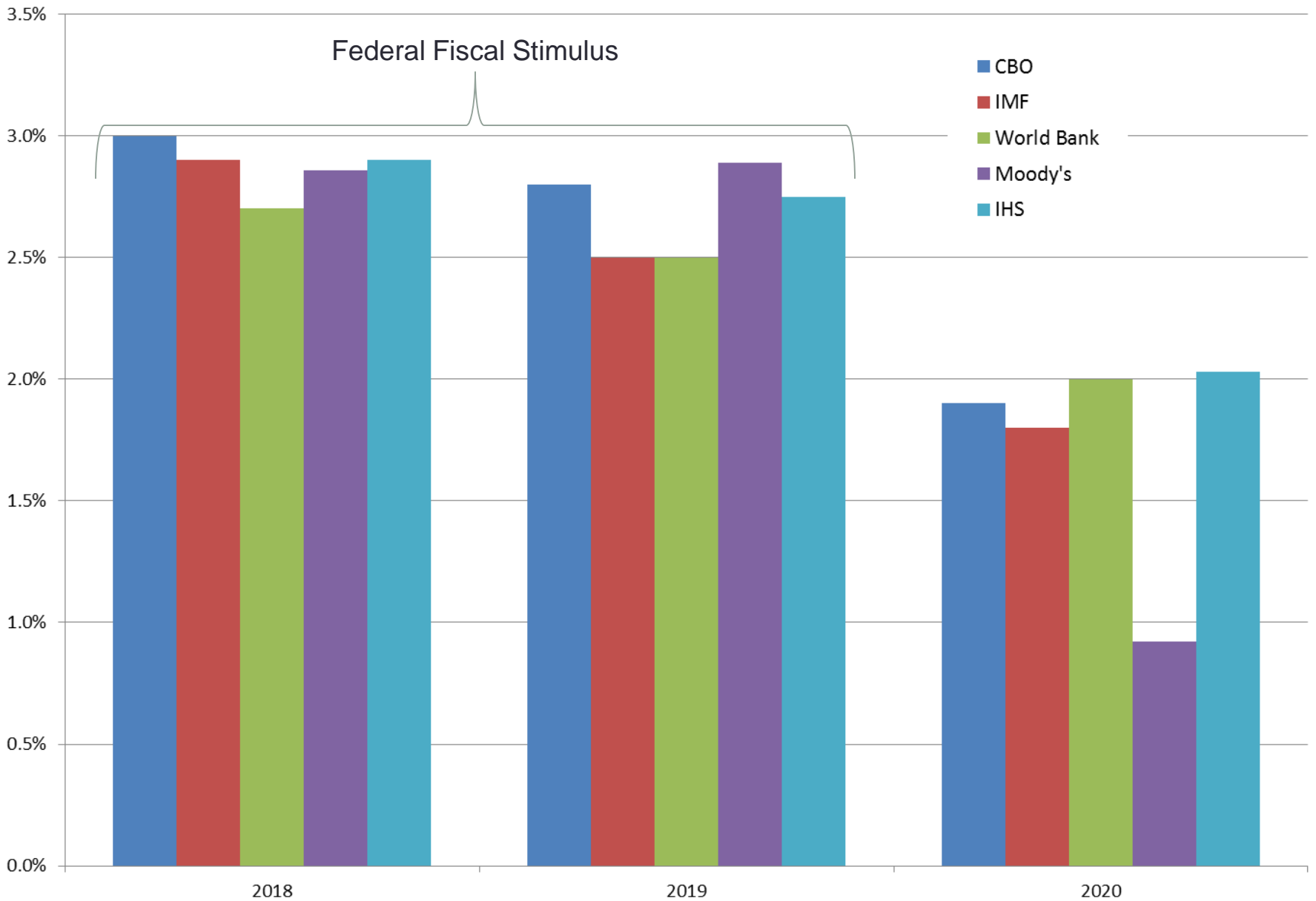
Maryland Median AGI by Age Cohort, 2016 \$s*



Source: MD Bureau of Revenue Estimates

*Adjusted for inflation using PCE Inflation Index

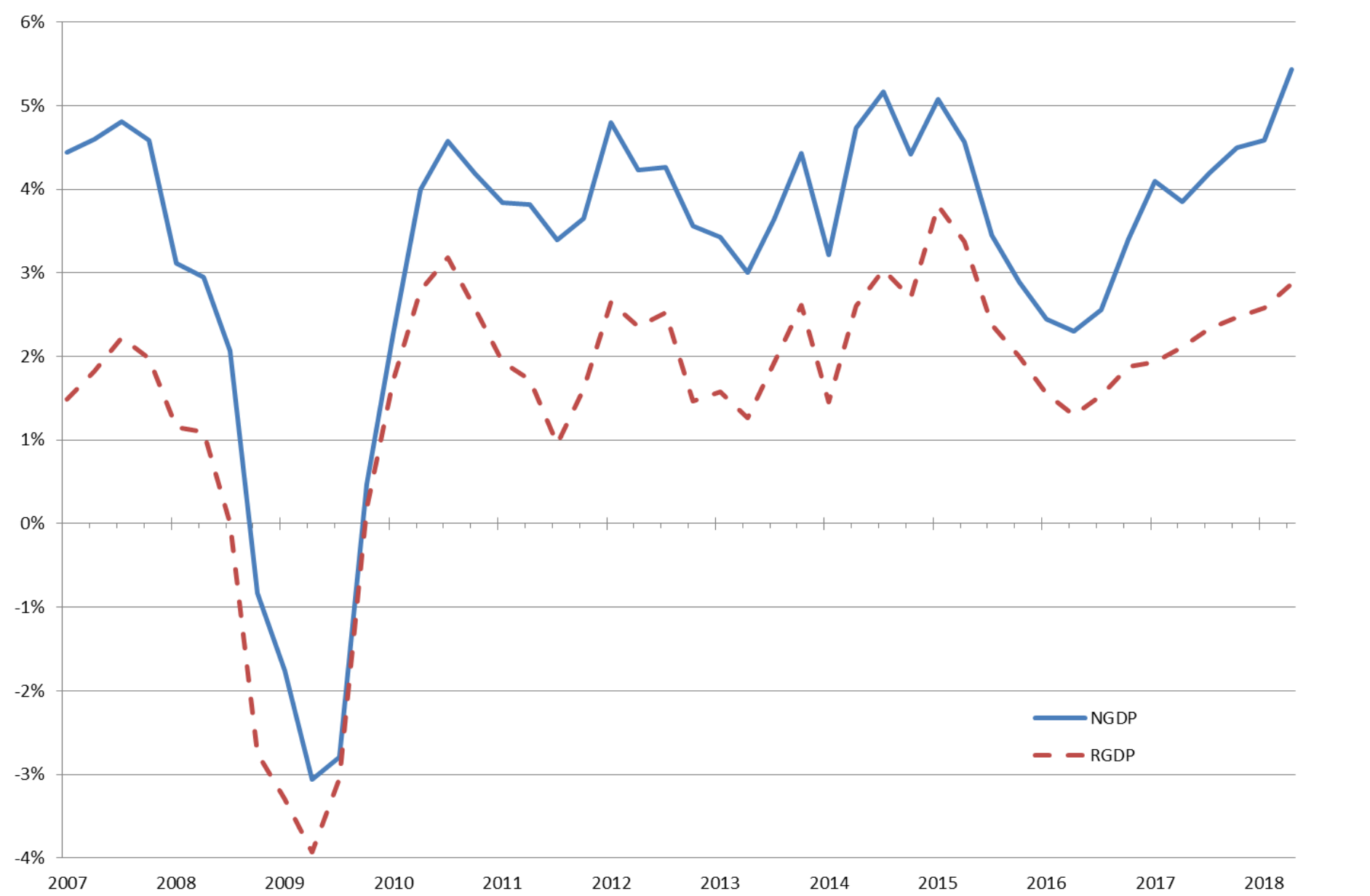
Real GDP Growth Forecasts



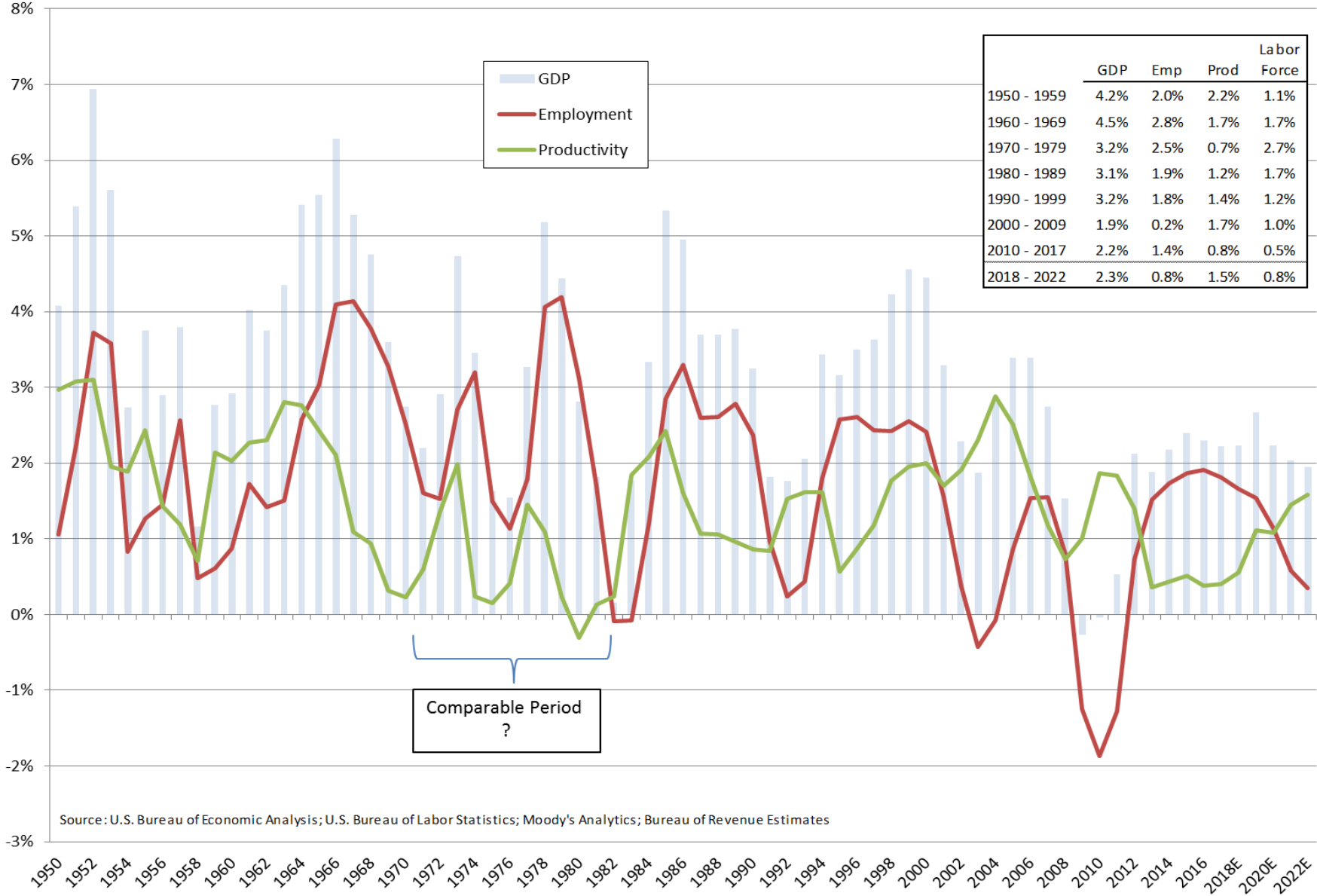
US Inflation (Y-o-Y % Change)



US GDP (Y-o-Y % Change)



National Employment, Productivity, GDP -- 3 Year Moving Average



Econ Outlook from September Forecast (% growth)

Calendar Year	Employment	Personal Income	Aggregate Wages	Average Wage
	Sep 18	Sep 18	Sep 18	Sep 18
2016	1.2	3.6	3.0	1.7
2017	1.1	3.1	2.6	1.5
2018	0.7	3.6	3.9	3.2
2019	0.8	4.2	4.0	3.2
2020	0.6	3.9	3.9	3.3
2021	0.5	3.7	3.3	2.9
2022	0.4	3.9	3.5	3.0

Almost unchanged from our prior outlook – In fact, we've been expecting wage growth to accelerate to 3.2% in 2018 since 2013!

But Revenues are Robust – Aren't They??

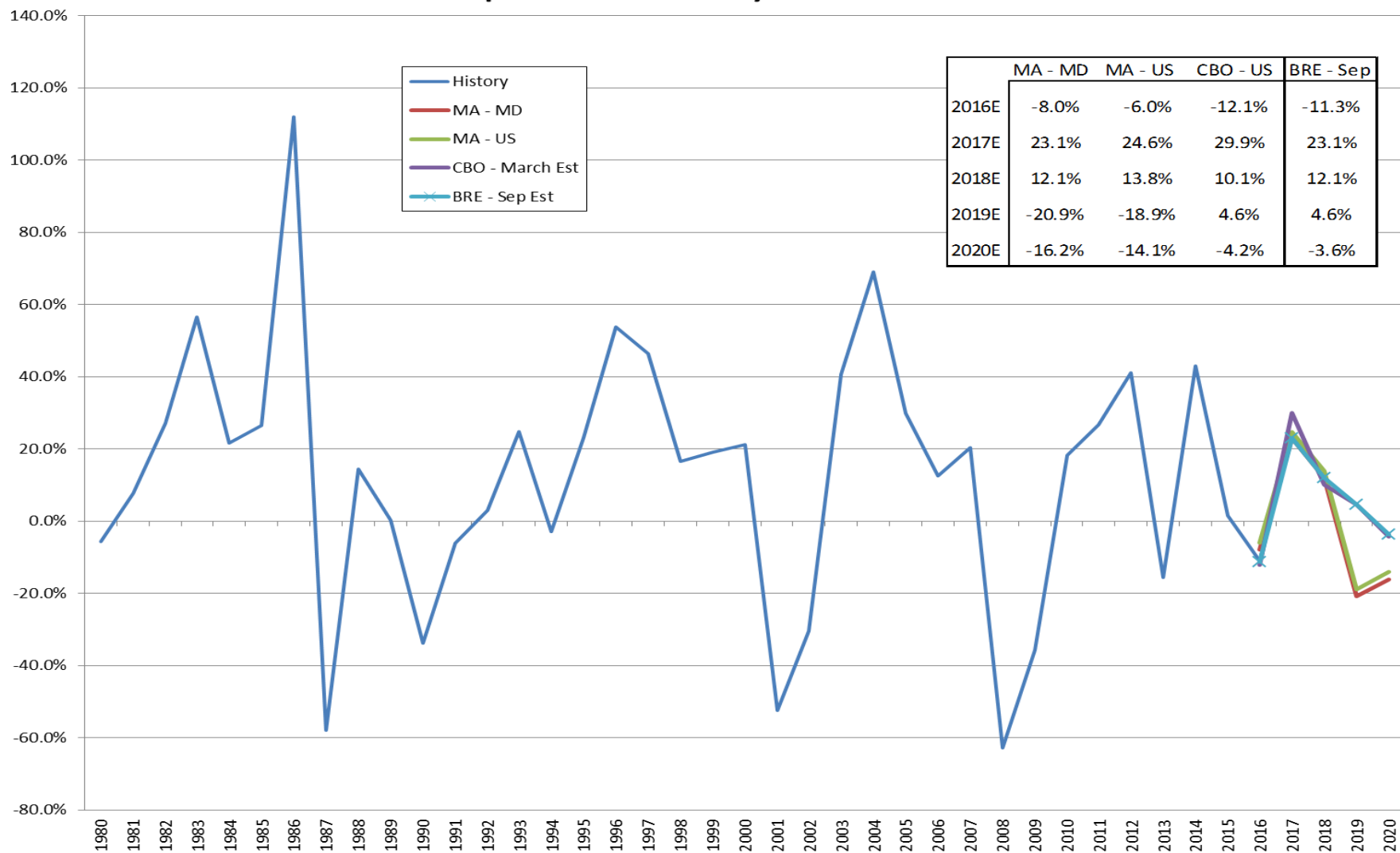
September 2018 General Fund Estimate

Tax Type	Approx Share GF	FY 2018 Closeout Variance	FY 2019 September Estimate	FY 2020 September Estimate
Personal Income Tax	54%	218	178	238
Sales Tax	27%	34	112	155
Other	19%	86	35	15
Total Ongoing General Fund	100%	339	325	407
Change From Previous Estimate		2.0%	1.8%	2.2%

Note: Dollars in Millions; FY20 change is relative to planning numbers; \$62M for sales tax from SCOTUS decision in FY19 and \$99M in FY20

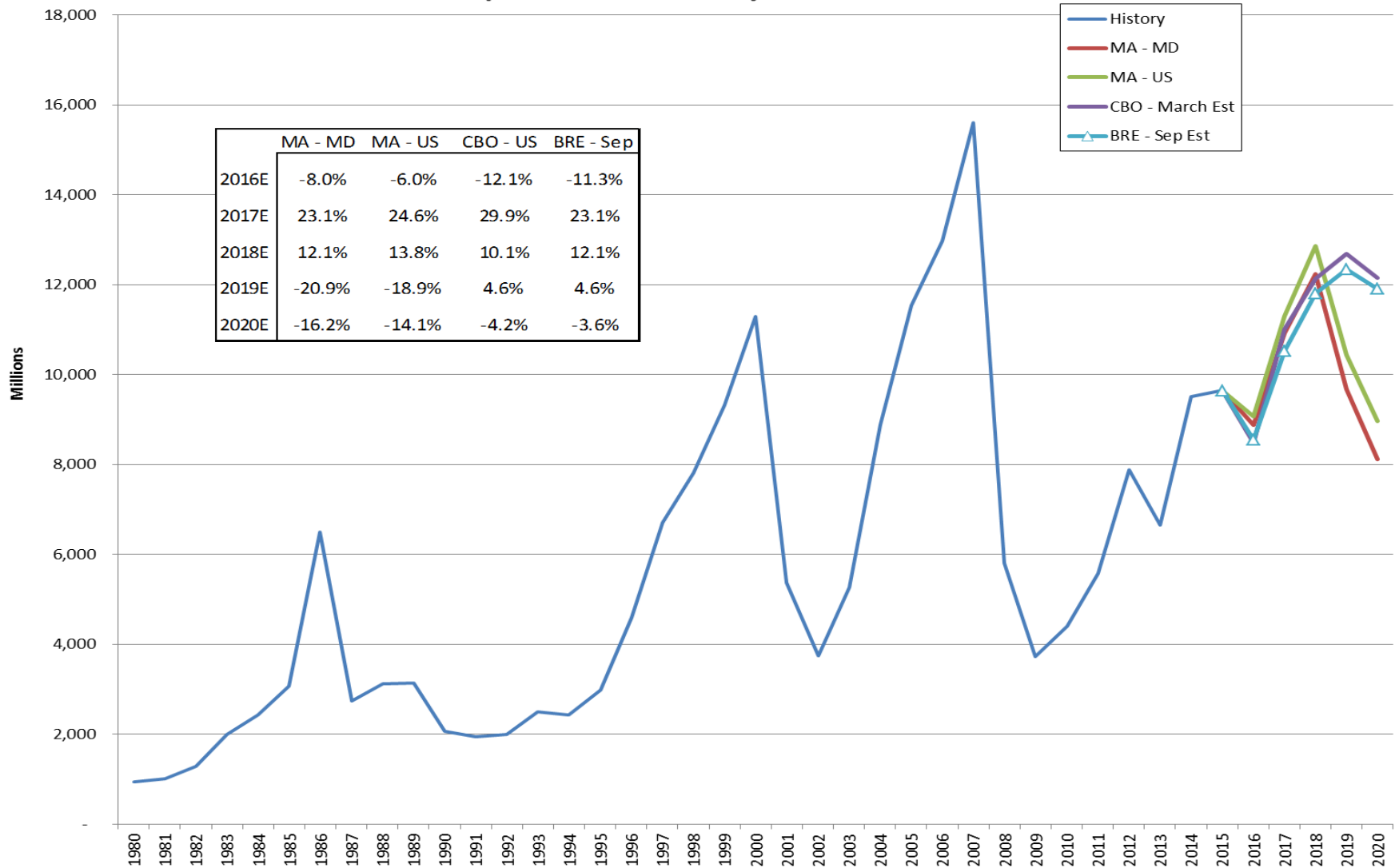
Capital Gains Are Back

Capital Gains - History and Estimates



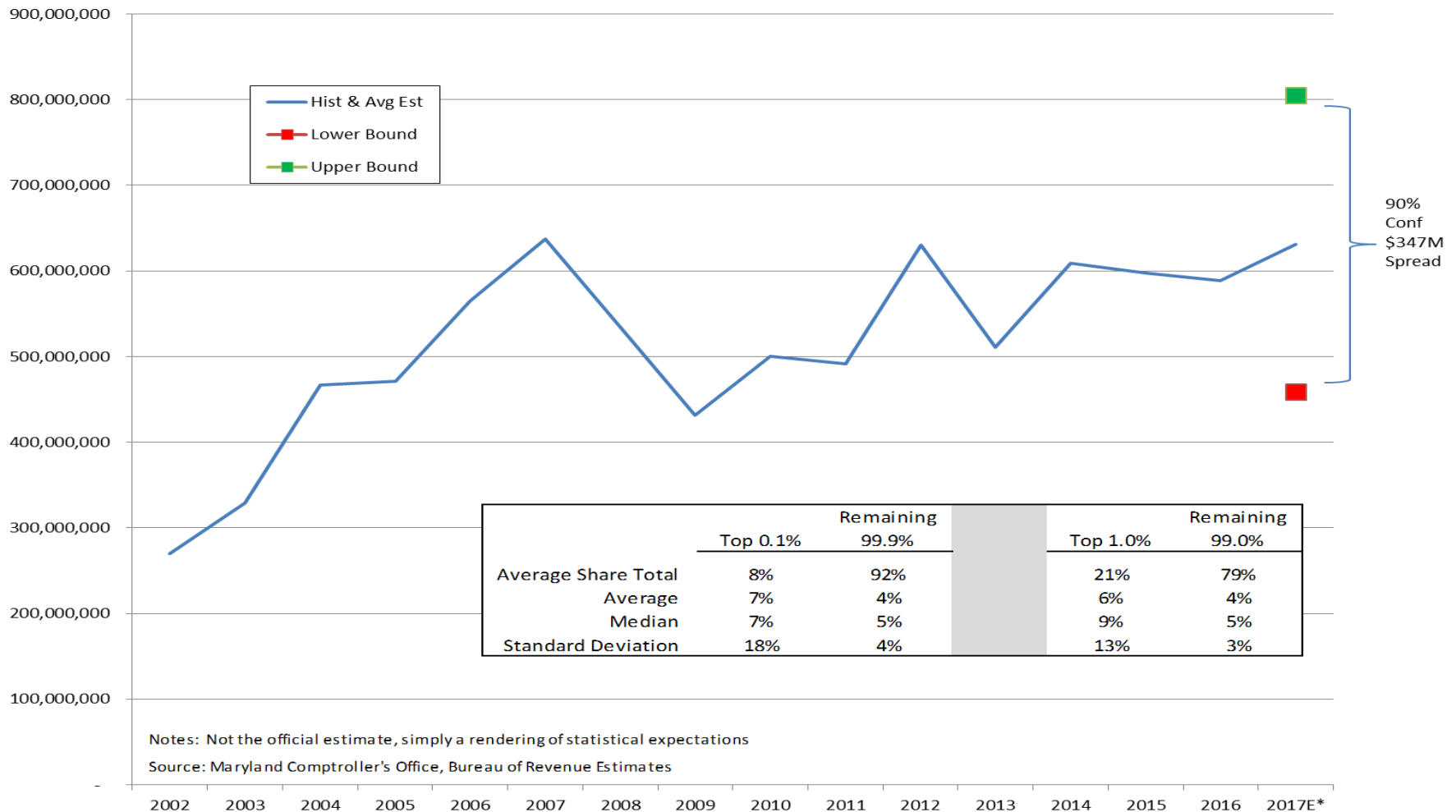
Capital Gains Are Back

Capital Gains - History and Estimates



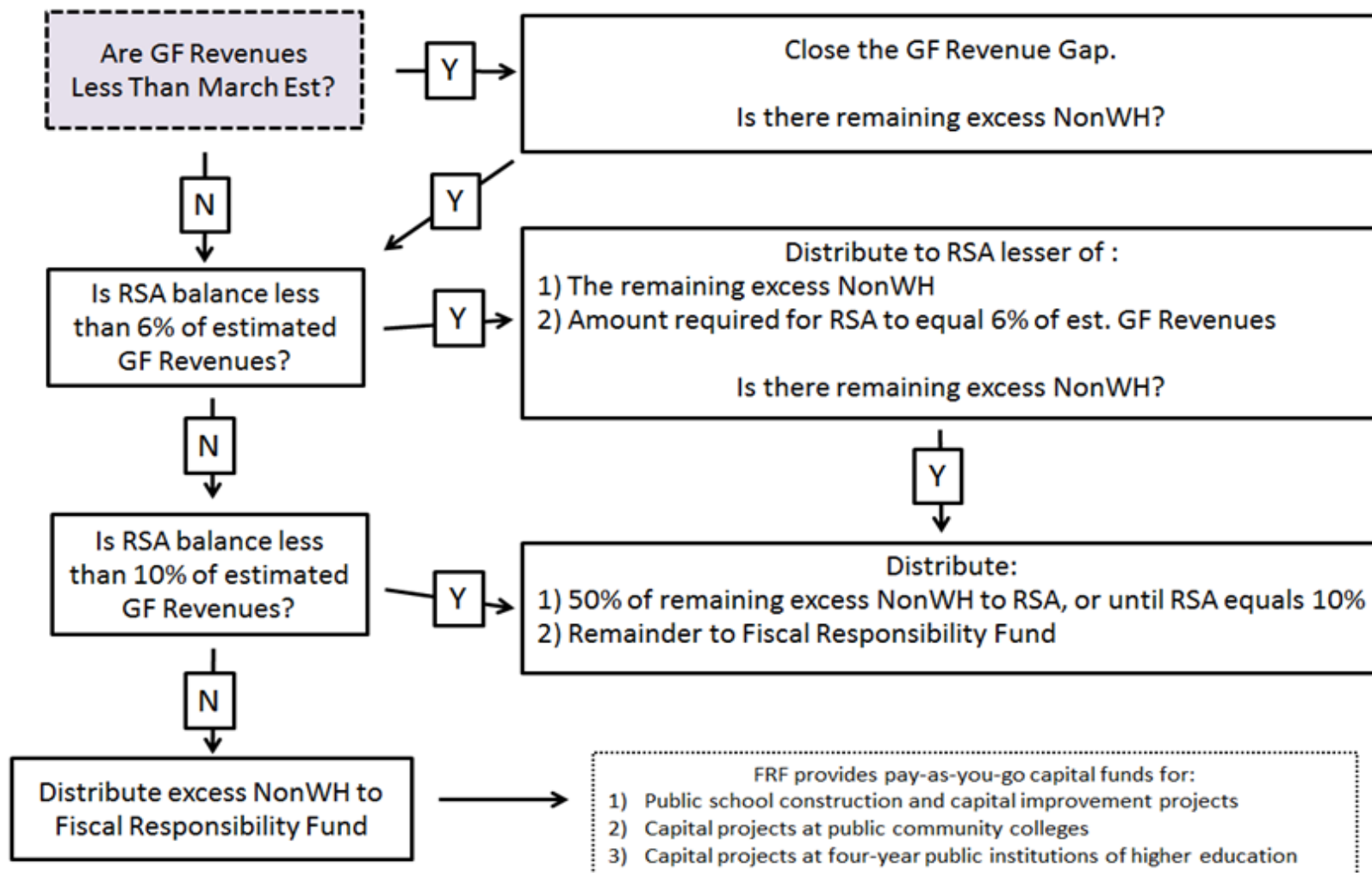
Income Concentration & Taxpayer Behavior

Maryland Income Tax Collections from Top 0.1% Payers



We Have A Volatility Hedge – Great Policy

Revenue Volatility Distributions: Flow of Non-Withholding Amount that Exceeds Cap



Risks Abound – Many Exogenous Estimates

Description of Extraordinary Explicit Revenue Adjustments						
TCJA		FY19	FY20	FY21	FY22	FY23
Personal Income Tax		397,355,607	300,650,704	309,858,959	319,239,828	328,890,767
Corporate Income Tax		76,556,610	58,931,254	102,102,286	146,837,052	146,837,052
Remote Sales - Wayfair Desc		FY19	FY20	FY21	FY22	FY23
Sales Tax		62,864,261	99,115,999	109,941,430	114,508,543	119,534,655
Total Incr		536,776,479	458,697,958	521,902,675	580,585,423	595,262,474
MGA Responses		FY19	FY20	FY21	FY22	FY23
Standard Deduction Incr		(56,587,000)	(44,228,000)	(49,748,000)	(55,441,000)	(61,473,000)
Kirwan DownPay		(200,000,000)				
		Baselining Attempt				
			Estimated	Adj For Above		
		FY18	4.4%	4.4%		
		FY19	5.6%	2.9%		
		FY20	2.6%	2.7%		
		FY21	3.5%	3.6%		
		FY22	3.7%	3.8%		
		FY23	3.5%	3.6%		

Risks Abound

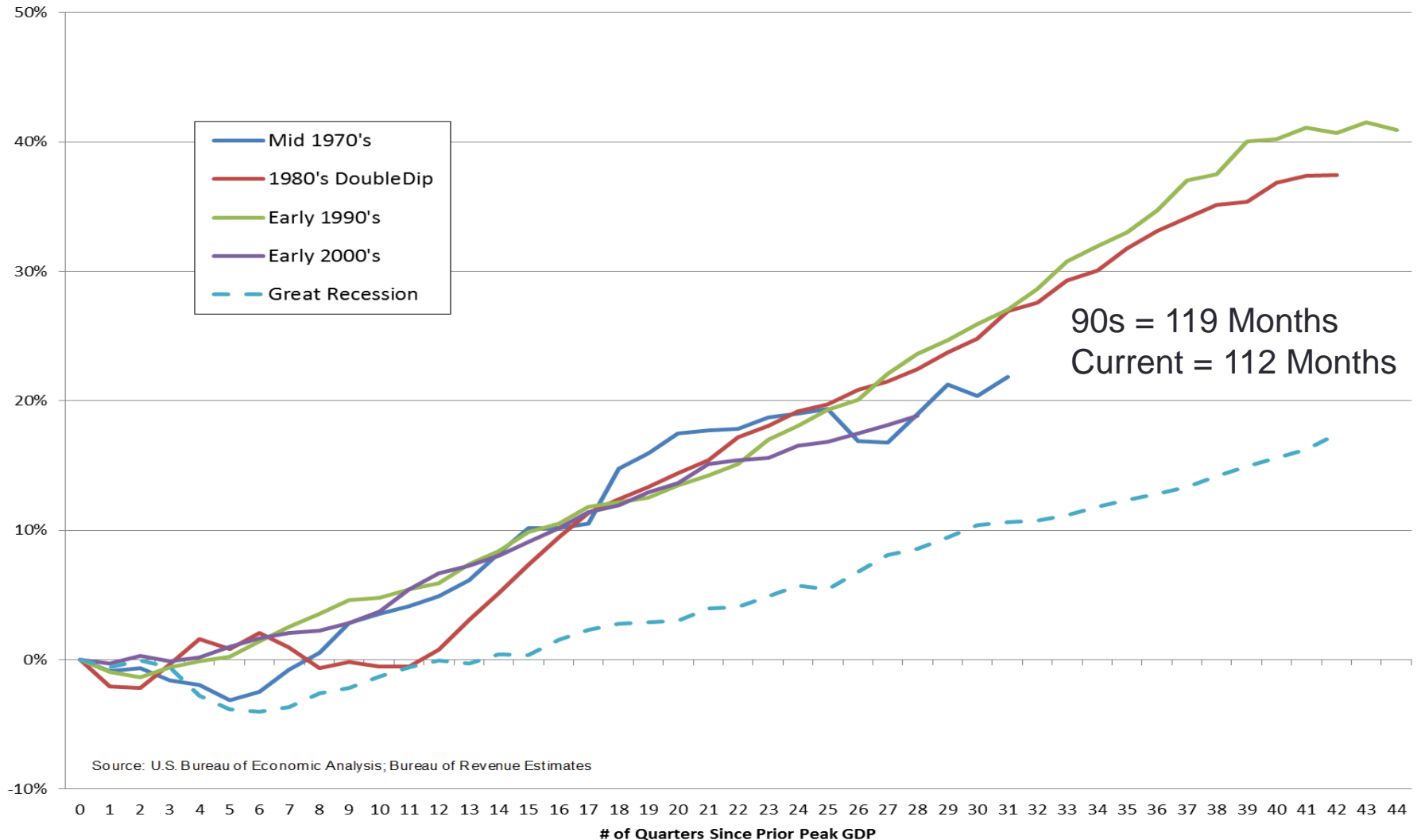


We Do Not Predict Recessions

- Nobody can predict recessions with any sort of accuracy
- If we did, a recession would cut the revenues by 4% to 6%
 - That would lead to significant budget cuts, often erroneously
- Instead, we warn of heightened risk
- It is up to the budgeter to register that risk and react accordingly

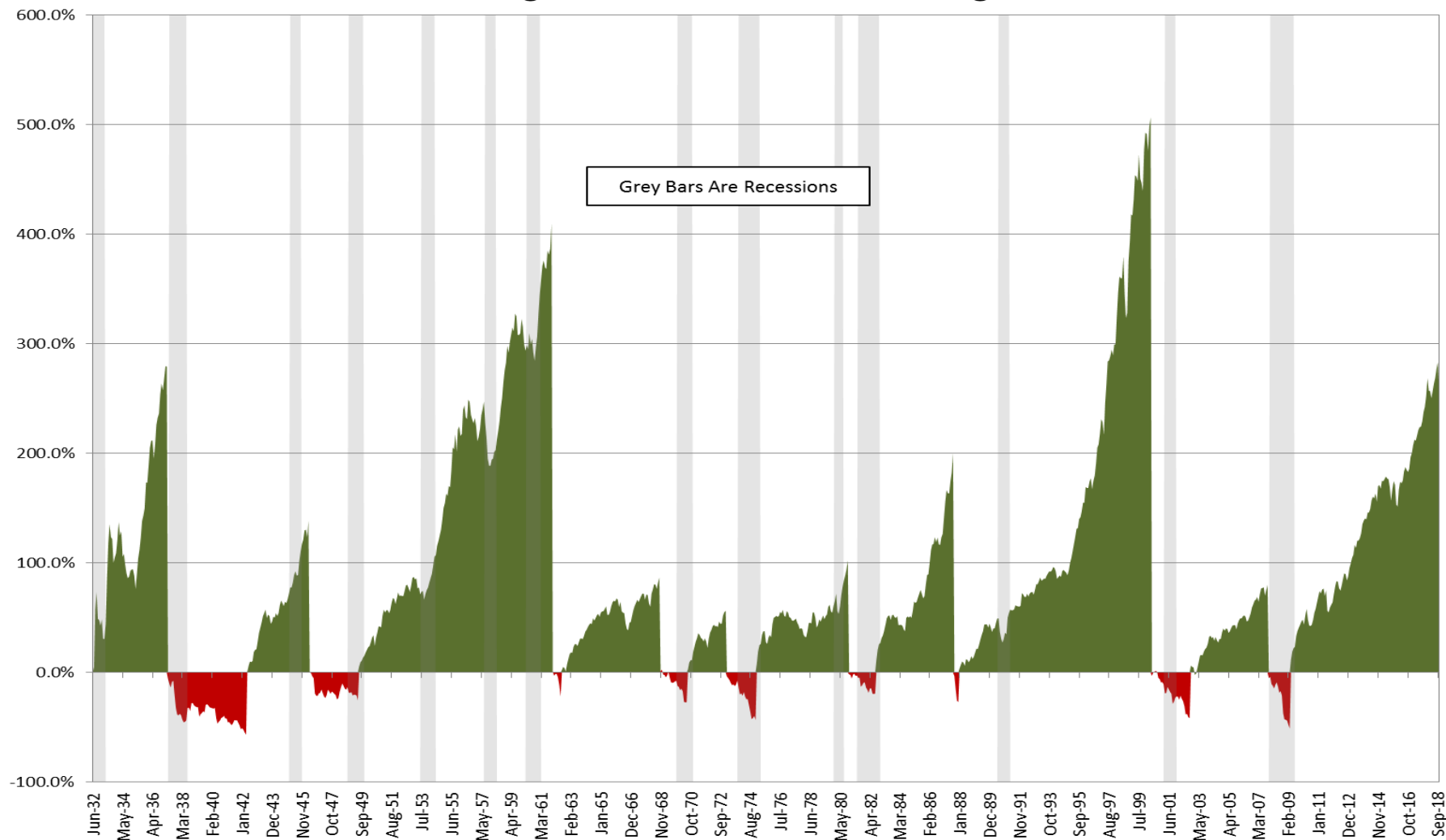
Expansion Headed to Unprecedented Tenure

Historic Recessions -- % of Previous Peak GDP (Quarterly)



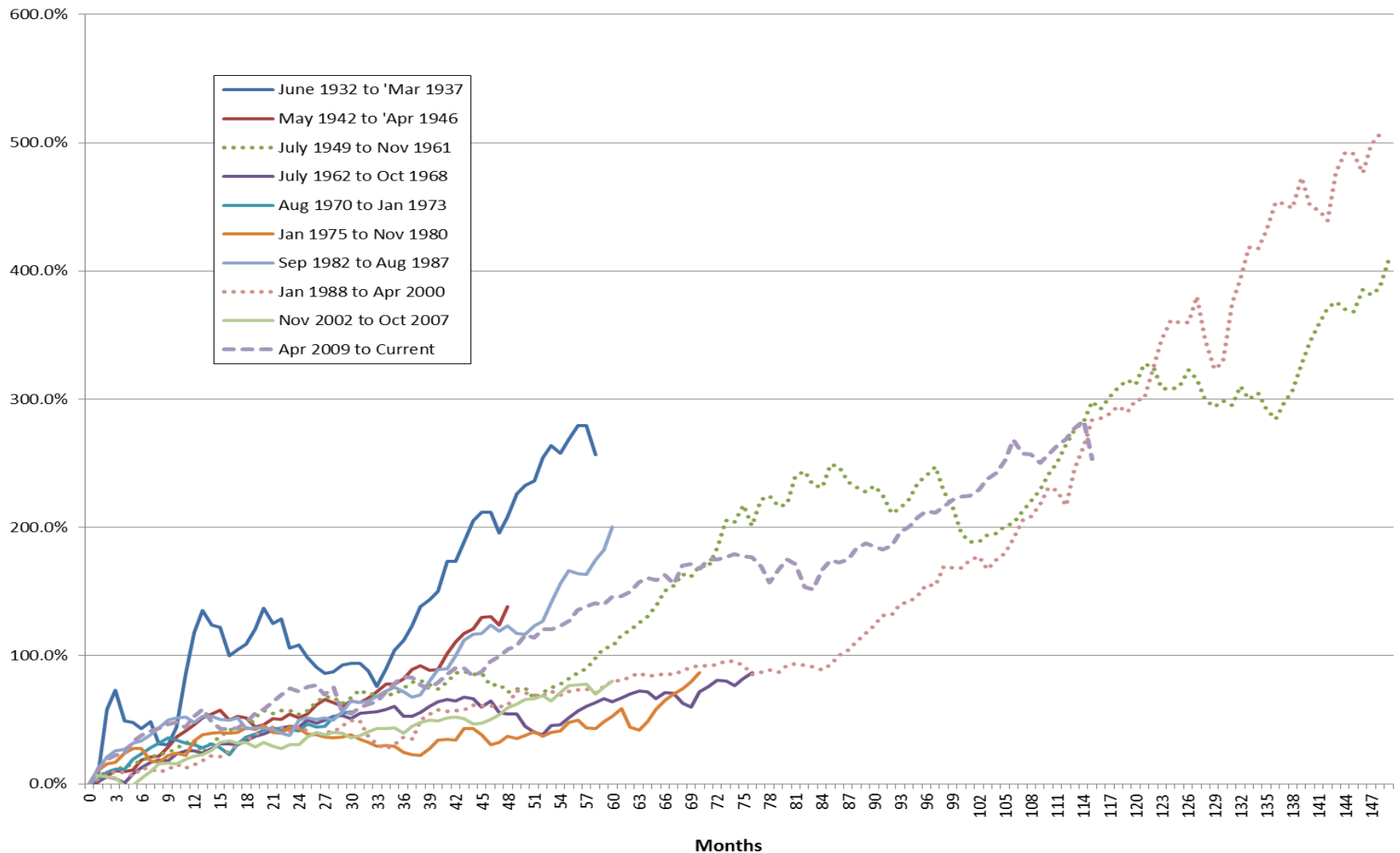
Can the Bull keep running??

Measuring Bull & Bear Markets - Indexing Each



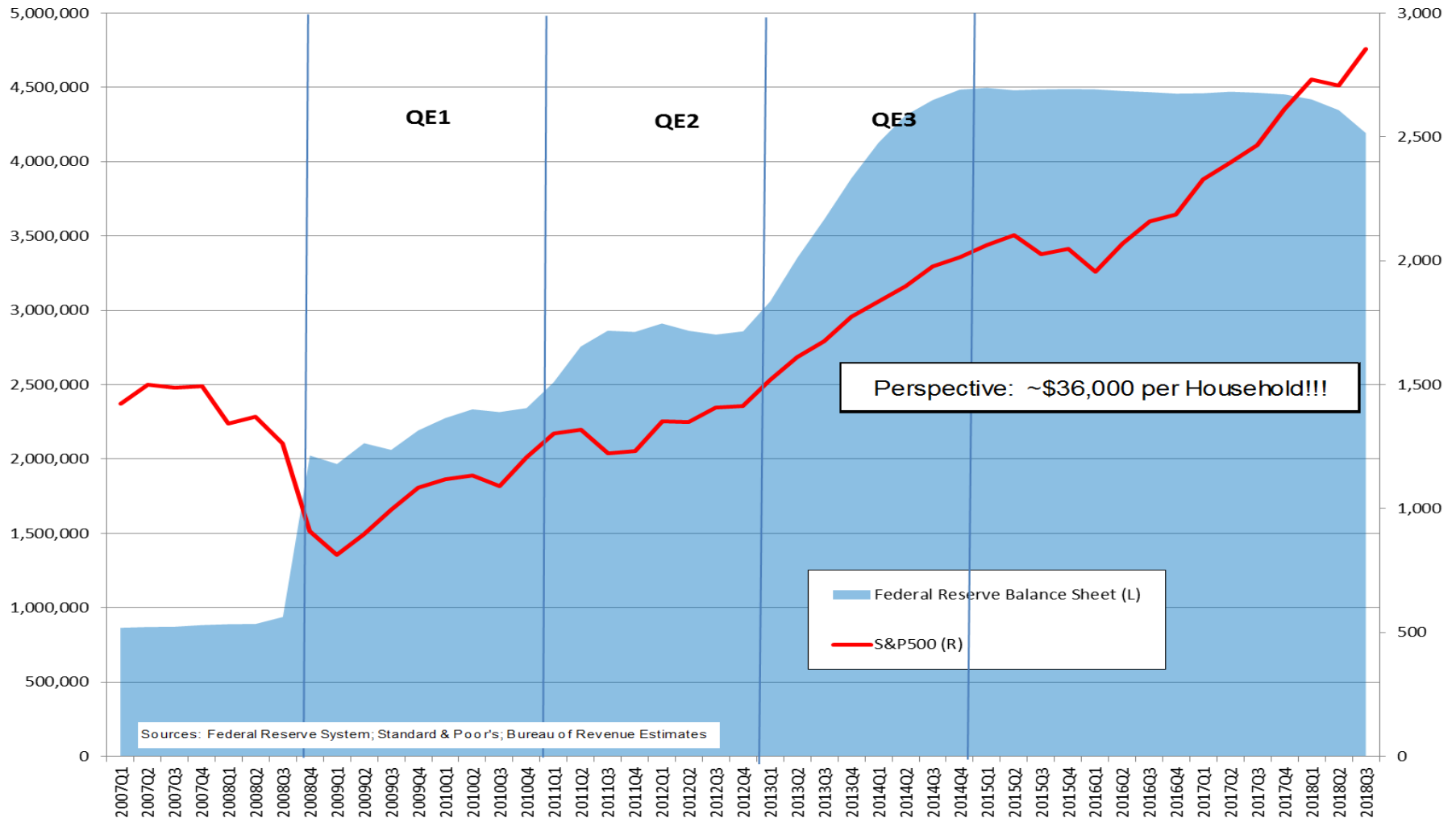
Can the Bull keep running??

Historical Bull Markets - Indexed



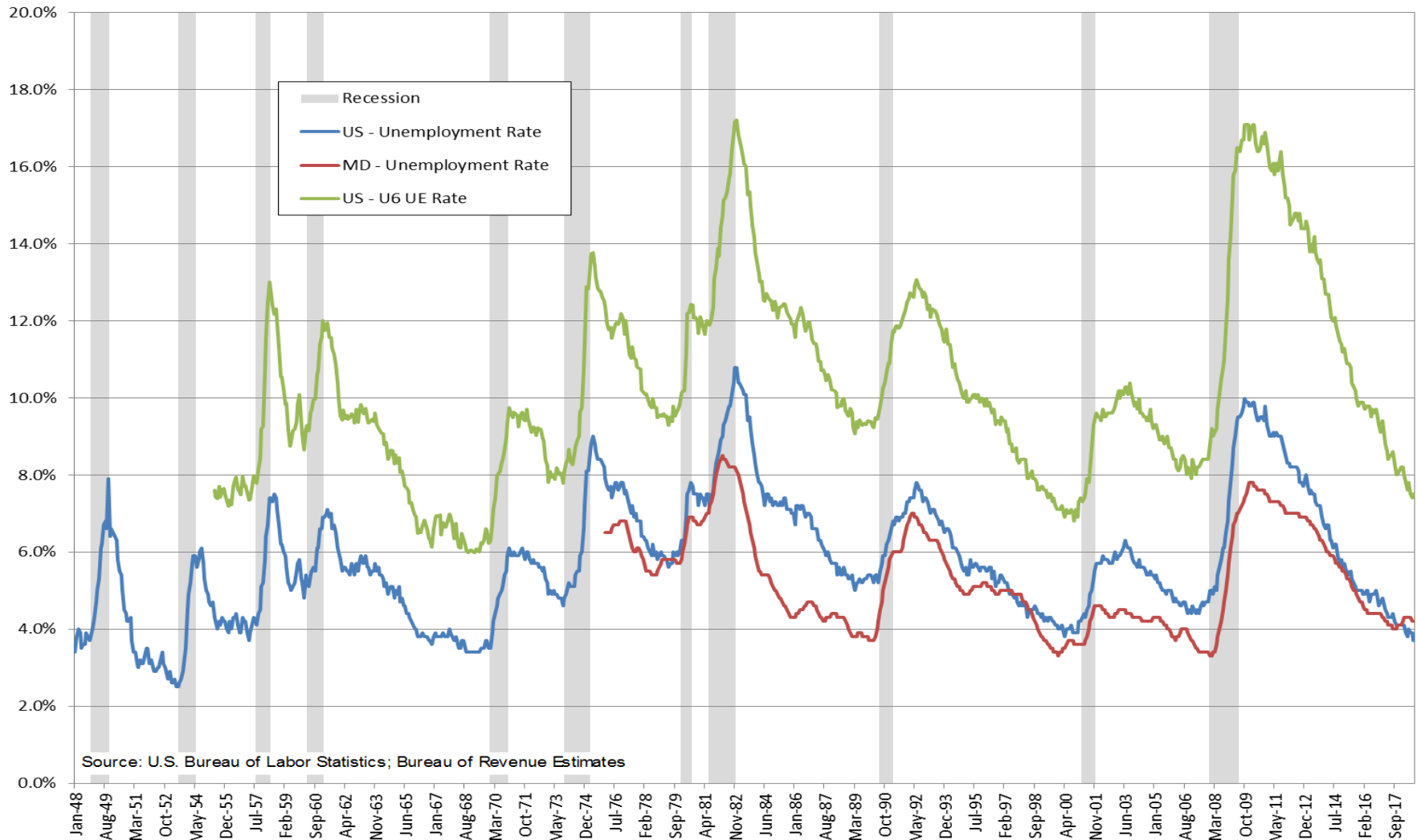
On Top of Raising Rates – FRB Unwinding Balance Sheet

Federal Reserve Liquidity Actions and Equity Prices



Unemployment very low

Various Unemployment Rates - Leading Indicators??



Conclusion

- The near-term looks strong, even with a moderate market correction
- We may finally be heading up the upward slope of a business cycle
- Optimistic scenarios have growth slowing to 2% - smoothly
- Risk of recession is heightened
 - Many potential points of failure – lots of pressure on FRB
- If we are indeed in for a near-term boost in revenue, then **it may make sense to grow reserves for inevitable correction**

Thank You

Andrew Schaufele

Comptroller of Maryland

Director, Bureau of Revenue Estimates

410.260.7450

aschaufele@comp.state.md.us