



STATE OF ARKANSAS
**Department of Finance
and Administration**

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MEMORANDUM

TO: Larry Walther, Director
Paul Louthian, Deputy Director

FROM: John Shelnett, Economic Analysis & Tax Research ^{JS}

SUBJECT: **General Revenue Report for June and FY 2019 Summary**

DATE: July 2, 2019

Copy: Governor's Office
Management Services

FISCAL YEAR 2019 REVENUE SUMMARY

Fiscal Year 2019 Net Available General Revenues and Surplus: Fiscal year 2019 net available general revenue collections total \$5,921.4 million. This amount is \$426.5 million or 7.8 percent above prior year results and \$231.2 million or 4.1 percent above forecast.

The fiscal year ended above forecast as a result of high growth in Individual and Corporate Income Tax collections and lower than expected deductions from gross revenue. The two main revenue indicators of the state economy in Sales Tax and Payroll Withholding showed mixed growth of 2.0 percent and 5.1 percent, respectively. Individual and Corporate Income Tax Refunds increased. Sales Tax collections were below forecast and marginally above year ago levels.

The year end result in Net Available revenue produced a surplus above the maximum allocations for distribution of \$295.4 million of which \$64.0 million was designated in the Revenue Stabilization Act (RSA) for division between the Restricted Reserve Fund (75%) and the Arkansas Highway Transfer Fund (25%). The surplus amount above \$64.0 million shall be distributed between General Revenue Allotment Reserve Fund (75%) and Arkansas Highway Transfer Fund (25%).

Fiscal Year 2019 Gross General Revenues: Fiscal year 2019 gross collections total \$7,143.9 million, representing an increase of \$417.3 million or 6.2 percent above last year. Gross general revenues were \$226.1 million or 3.3 percent above forecast.

Fiscal Year 2019 Individual Income Taxes: Fiscal year 2019 individual income tax collections total \$3,520.0 million, \$160.5 million or 4.8 percent above FY 2018 collections and \$74.9 million or 2.2 percent above forecast.

Fiscal Year 2019 individual income tax refunds total \$507.5 million, \$14.1 million or 2.9 percent above last year and \$2.3 million or -0.4 percent below forecast. Amounts below forecast in refund categories add to net general revenue results.

Fiscal Year 2019 Sales and Use Collections: Fiscal year 2019 Sales and Use tax collections total \$2,465.0 million, an increase of \$47.5 million or 2.0 percent over FY 2018 and \$32.1 million or -1.3 percent below forecast.

Fiscal Year 2019 Corporate Income Taxes: Fiscal year corporate collections total \$570.2 million, an increase of \$163.5 million or 40.2 percent above FY 2018. Collections came in \$162.4 million or 39.8 percent above forecast.

Fiscal Year 2019 Corporate income tax refunds total \$62.7 million, \$19.9 million or 46.5 percent above last year and \$14.3 million above the general revenue forecast.

JUNE REVENUE SUMMARY

June Net Available General Revenues total \$652.1 million, \$94.2 million or 16.9 percent above last year. Net general revenues were \$56.8 million, or 9.5 percent above forecast for the month.

Revenues in June were above forecast and year ago levels in Individual and Corporate Income Tax. Revenues were below forecast and year ago in Sales Tax with Motor Vehicle Sales Tax down -5.3 percent. Individual and Corporate Refunds were less than expected.

Among smaller revenue sources, Tobacco was below forecast by \$2.2 million. Results in Gaming were above forecast by \$0.5 million.

June Gross General Revenues: June collections total \$743.0 million, an increase of \$84.0 million or 12.7 percent above last year and \$31.1 million or 4.4 percent above the monthly forecast.

June Individual Income Tax collections total \$328.2 million. Collections increased by \$32.2 million, or 10.9 percent, compared to last year. Monthly collections were above forecast by \$9.3 million or 2.9 percent. Withholding tax from payrolls increased by 13.5 percent above year ago levels due to payroll timing effects.

June Individual Income Tax Refunds total \$15.6 million. This amount is \$10.1 million or -39.3 percent below year ago refunds and \$11.4 million below the monthly forecast.

June Sales and Use Collections: June collections total \$209.0 million, a decrease of \$1.9 million or -0.9 percent below last year. Collections were below forecast by \$5.2 million or -2.4 percent. The motor vehicle portion of Sales Tax was down -5.3 percent from year ago levels.

June Corporate Income Tax collections total \$73.2 million, an increase of \$9.8 million or 15.4 percent from year earlier levels, and \$9.8 million or 15.5 percent above forecast.

June Corporate Income Tax Refunds total \$1.7 million. This amount is \$2.6 million below refund levels a year ago.

June Tobacco Tax collections, a small component of general revenue, total \$16.8 million or -11.5 percent below year earlier levels. Monthly changes in tobacco tax collections can be attributed to uneven patterns of stamp sales to wholesale purchasers.

SPECIAL REVENUES OF NOTE

Educational Adequacy Fund: Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004 a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004.

The additional revenues are deposited as special revenues to the Educational Adequacy Fund to be used to fulfill the financial obligations of the state to provide an adequate educational system. In June 2019, \$44.2 million was collected and deposited to the fund. After deductions, the net amount is \$42.9 million. The monthly collection is equivalent to a 1.2 percent decrease from prior year collections. Fiscal year net collections total \$516.3 million, compared to \$504.8 million last year. This represents a 2.3 percent fiscal year increase from prior year collections.

June 2019 Year-to-Date General Revenue Report
Economic Analysis and Tax Research, DFA

Forecast Date: 11/14/2018

Millions of \$

	Actual June FY18	Forecast June FY19	Actual June FY19	<u>Change from Forecast</u>		<u>Change from Last Year</u>	
				Dollar Difference	Percent Difference	Dollar Difference	Percent Difference
Individual Income	3,359.6	3,445.1	3,520.0	74.9	2.2	160.5	4.8
Corporate Income	406.7	407.8	570.2	162.4	39.8	163.5	40.2
Sales & Use	2,417.5	2,497.1	2,465.0	-32.1	-1.3	47.5	2.0
Alcohol	59.4	59.6	60.5	0.9	1.5	1.2	2.0
Tobacco	219.9	213.3	212.0	-1.3	-0.6	-7.8	-3.6
Insurance	114.9	144.7	161.6	16.9	11.7	46.6	40.6
Racing	2.2	2.1	2.0	-0.1	-3.2	-0.1	-6.7
Gaming	64.5	66.8	69.7	2.9	4.3	5.2	8.1
Miscellaneous ¹	82.1	81.3	82.9	1.6	2.0	0.8	1.0
Total Gross	6,726.5	6,917.8	7,143.9	226.1	3.3	417.3	6.2
LESS: (SCSF/COF) ²	208.4	214.5	220.2	5.7	2.6	11.8	5.7
Individual Income Tax Refunds	493.4	509.8	507.5	-2.3	-0.4	14.1	2.9
Corporate Income Tax Refunds	42.8	48.4	62.7	14.3	29.6	19.9	46.5
Claims	0.0	10.0	0.0	-10.0	-100.0	0.0	0.0
Economic Development Incentive	12.4	23.4	11.4	-12.0	-51.5	-1.0	-8.4
Amendment 82 Bonds	5.3	5.3	5.3	0.0	-0.2	0.0	0.0
Recycling Tax Credit	16.0	16.0	16.0	0.0	0.0	0.0	0.0
Water / Sewer Bonds	14.8	14.8	14.8	0.0	0.0	0.0	0.0
College Savings Bonds	23.2	24.0	23.2	-0.8	-3.5	0.0	-0.2
City & County Tourist	0.9	0.9	0.9	0.0	-1.3	0.0	0.0
School Desegregation	65.8	0.0	0.0	0.0	0.0	-65.8	-100.0
Educational Excellence	320.3	331.2	331.2	0.0	0.0	10.9	3.4
Educational Adequacy	28.3	29.3	29.3	0.0	-0.1	1.0	3.4
Total Deductions	1,231.6	1,227.6	1,222.5	-5.1	-0.4	-9.2	-0.7
Net Available	5,494.9	5,690.2	5,921.4	231.2	4.1	426.5	7.8
LESS: Surplus	0.0	64.2	295.4				
Net AVAILABLE Distribution	5,494.9	5,626.0	5,626.0	0.0	0.0	131.1	2.4

Revenue Forecast Summary for June

Year-to-Date Gross: \$ 226.1 Million OR 3.3% Above Forecast
Year-to-Date Net Available: \$ 231.2 Million OR 4.1% Above Forecast

- 1) Miscellaneous includes severance, corporate franchise, real estate transfer, dyed diesel, and other miscellaneous taxes.
- 2) State Central Services Fund and Constitutional Officers Fund.

June 2019 General Revenue Report
Economic Analysis and Tax Research, DFA

Forecast Date: 11/14/2018

Millions of \$

	Actual June FY18	Forecast June FY19	Actual June FY19	<u>Change from Forecast</u>		<u>Change from Last Year</u>	
				Dollar Difference	Percent Difference	Dollar Difference	Percent Difference
Individual Income	296.0	318.9	328.2	9.3	2.9	32.2	10.9
Corporate Income	63.5	63.4	73.2	9.8	15.5	9.8	15.4
Sales & Use	210.9	214.2	209.0	-5.2	-2.4	-1.9	-0.9
Alcohol	7.2	7.2	7.0	-0.2	-3.0	-0.3	-3.6
Tobacco	19.0	19.0	16.8	-2.2	-11.5	-2.2	-11.5
Insurance	52.0	78.9	96.2	17.3	21.9	44.2	85.1
Racing	0.1	0.1	0.1	0.0	18.0	0.0	-7.6
Gaming	5.6	5.7	6.2	0.5	9.5	0.7	12.1
Miscellaneous ¹	4.7	4.5	6.2	1.7	38.6	1.5	31.7
Total Gross	659.1	711.9	743.0	31.1	4.4	84.0	12.7
LESS: (SCSF/COF) ²	20.3	22.1	21.7	-0.4	-1.6	1.4	7.1
Individual Income Tax Refunds	25.7	27.0	15.6	-11.4	-42.2	-10.1	-39.3
Corporate Income Tax Refunds	4.3	3.7	1.7	-2.0	-55.2	-2.6	-61.3
Claims	0.0	10.0	0.0	-10.0	-100.0	0.0	0.0
Economic Development Incentive	0.4	2.3	0.5	-1.8	-79.4	0.1	14.7
Amendment 82 Bonds	4.2	4.2	4.2	0.0	0.2	0.0	0.6
Recycling Tax Credit	16.0	16.0	16.0	0.0	0.0	0.0	0.0
Water / Sewer Bonds	1.2	1.2	1.2	0.0	0.0	0.0	0.0
College Savings Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
City & County Tourist	0.0	0.0	0.0	0.0	0.0	0.0	0.0
School Desegregation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Educational Excellence	26.7	27.6	27.6	0.0	0.0	0.9	3.4
Educational Adequacy	2.4	2.5	2.4	-0.1	-2.4	0.1	3.4
Total Deductions	101.2	116.6	90.9	-25.7	-22.0	-10.2	-10.1
Net Available	557.9	595.3	652.1	56.8	9.5	94.2	16.9

Revenue Forecast Summary for June

June Gross:	\$ 31.1 Million OR 4.4% Above Forecast
June Net Available:	\$ 56.8 Million OR 9.5% Above Forecast

- 1) Miscellaneous includes severance, corporate franchise, real estate transfer, dyed diesel, and other miscellaneous taxes.
2) State Central Services Fund and Constitutional Officers Fund.

Official General Revenue Forecast
FY 2019 - 2021 Biennium

Millions of Dollars	05/15/19 Estimate	FY 19 Increase	% CH	05/15/19 Estimate	FY 20 Increase	% CH	05/15/19 Estimate	FY 21 Increase	% CH
INDIVIDUAL INCOME	3,445.1	85.5	2.5	3,578.8	133.7	3.9	3,689.5	110.7	3.1
CORPORATE INCOME	407.8	1.1	0.3	404.6	-3.2	-0.8	405.5	0.9	0.2
SALES and USE TAX	2,497.1	79.6	3.3	2,572.4	75.3	3.0	2,649.4	77.0	3.0
ALCOHOLIC BEVERAGE	59.6	0.2	0.4	61.0	1.4	2.3	62.4	1.4	2.3
TOBACCO	213.3	-6.6	-3.0	205.0	-8.3	-3.9	198.7	-6.3	-3.1
INSURANCE	144.7	29.8	25.9	120.7	-24.0	-16.6	148.4	27.7	22.9
RACING	2.1	0.0	-3.0	2.1	0.0	0.0	2.0	-0.1	-4.8
GAMING	66.8	2.3	3.6	31.2	-35.6	-53.3	31.2	0.0	0.0
SEVERANCE	10.6	0.6	5.9	10.7	0.1	0.9	9.6	-1.1	-10.3
CORPORATE FRANCHISE	8.0	0.0	0.0	8.0	0.0	0.0	8.0	0.0	0.0
REAL ESTATE TRANSFER	2.6	0.0	0.0	2.6	0.0	0.0	2.6	0.0	0.0
MISCELLANEOUS	60.1	-1.4	-2.2	58.9	-1.2	-2.0	57.3	-1.6	-2.7
TOTAL GROSS	6,917.8	191.3	2.8	7,056.0	138.2	2.0	7,264.6	208.6	3.0
LESS: SCS/COF	214.5	6.1	2.8	218.7	4.2	2.0	225.2	6.5	3.0
INDIVIDUAL REFUNDS	509.8	16.4	3.3	581.1	71.3	14.0	608.2	27.1	4.7
CORP REFUNDS	48.4	5.6	13.2	52.4	4.0	8.3	53.4	1.0	1.9
CLAIMS RESERVE	10.0	10.0	100.0	10.0	0.0	0.0	10.0	0.0	0.0
ECON DEV INCENTIVE	23.4	11.0	88.7	23.4	0.0	0.0	23.4	0.0	0.0
RECYCLING TAX CREDIT	16.0	0.0	0.0	16.0	0.0	0.0	22.5	6.5	40.6
AMENDMENT 82 BOND	5.3	0.0	0.0	5.3	0.0	0.0	5.3	0.0	0.0
WATER/SWR BONDS	14.8	0.0	0.0	14.8	0.0	0.0	14.8	0.0	0.0
COLL SVNGS BONDS	24.0	0.8	3.4	24.0	0.0	0.0	24.0	0.0	0.0
MLA CITY/CO TOURIST	0.9	0.0	0.0	0.9	0.0	0.0	0.9	0.0	0.0
EDUC EXCEL TRUST	331.2	10.9	3	342.1	10.9	3.3	352.5	10.4	3.0
DESEGREGATION	0.0	-65.8	-100.0	0.0	0.0	0.0	0.0	0.0	0.0
EDUCATIONAL ADQCY	29.3	1.0	3.5	30.2	0.9	3.1	31.2	1.0	3.3
NET AVAILABLE	5,690.2	195.3	3.6	5,737.1	46.9	0.8	5,893.2	156.1	2.7
LESS: SURPLUS	64.2	64.2							
NET AVAILABLE DISTRIBUTION	5,626.0	131.1	2.4	5,737.1	111.1	2.0	5,893.2	156.1	2.7

Prepared by Economic Analysis and Tax Research, DFA

Total State and General Revenue Impact of Acts of the 2019 General Assembly

Bill #	Lead Sponsor	Act	Description	Note	Total Revenue FY20	Total Revenue FY21	General Revenue FY20	General Revenue FY21
SB186	Rapert	110	amend distribution of security dept fees		\$0	\$0	-\$1,000,000	-\$1,200,000
HB1245	Boyd	172	include podiatrist in definition of "physician" for sales tax purposes		minimal	minimal	minimal	minimal
SB211	Dismang	182	Tax Competitiveness and Relief Act of 2019 (income tax)	1	-\$25,600,000	-\$74,100,000	-\$25,600,000	-\$74,100,000
HB1036/SB17	Dotson/Garner	188/61	reduce concealed carry license by \$50 and reduce renewal fee		-\$1,400,000	-\$1,400,000	\$0	\$0
SB196	Ingram	201	adopt IRC provisions for Opportunity Zones; provide state tax incentives	2	-\$2,600,000	-\$2,600,000	-\$2,600,000	-\$2,600,000
SB226	Pitsch	203	amend income tax credit for donations/sales to educational institutions		unknown	unknown	unknown	unknown
HB1172	Gonzales	287	require special license plate fee		unknown gain	unknown gain	\$0	\$0
HB1496	Fortner	368	change vehicle age requirement for antique car plates		unknown gain	unknown gain	\$0	\$0
SB336	Rice	416	provide add'l motor fuel and registration tax; amend casino tax distribution	3	\$57,580,907	\$86,124,496	\$0	\$0
SB345	J. Hendren	457	reduce salary credit for insurance premium tax	4	\$860,000	\$3,900,000	\$860,000	\$3,900,000
HB1565	A. Davis	580	increase cigarette paper tax; raise tobacco age to 21; abolish border zone	5	\$720,000	\$630,000	-\$1,691,000	-\$1,775,000
SB146	A. Clark	583	provide exemption of sales and use tax on certain withdrawals of stock		-\$486,000	-\$728,500	-\$291,000	-\$391,311
SB268	B. Johnson	586	increase fee for driving record search by \$1.50		\$1,500,000	\$1,500,000	\$0	\$0
HB1212	House	592	extend sunset date for medical marijuana privilege tax		\$2,500,000	\$2,500,000	\$0	\$0
SB581	Dismang	634	sales tax exemption for certain sales by nonprofit youth athletic organizations		unknown	unknown	unknown	unknown
HB1564	M. Gray	660	develop a next generation 911 system; levies phone fees		\$10,100,000	\$10,100,000	\$0	\$0
SB523	Dismang	705	amend distribution of gas assessment fees		\$0	\$0	\$2,200,000	\$2,000,000
SB582	B. Johnson	772	sales tax refund for machinery used to modify/replace/repair molds & dies	6	-\$116,667	-\$206,000	-\$78,265	-\$132,172
SB447	J. Hendren	808	increase the homestead property tax credit	7	-\$12,500,000	-\$12,800,000	\$0	\$0
SB561	J. Hendren	819	AR Tax Reform Act of 2019; reforms sales, income, property & franchise taxes		-\$37,500	-\$50,000	-\$25,157	-\$33,542
SB576	Hester	822	remote sellers; corporate NOL; sales factor; car washes	8	\$32,233,963	\$26,895,039	\$21,543,027	\$11,076,985
HB1075	J. Mayberry	825	creates a inc. tax deduction for contributions to disability savings (ABLE) acct		-\$10,000	-\$10,000	-\$10,000	-\$10,000
HB1449	Sullivan	831	include dwelling of beneficiary of irrevocable trust for homestead tax credit		unknown loss	unknown loss	\$0	\$0
HB1618	Gonzales	840	create sales tax exemption for washer-extractors used by a fire department		-\$20,000	-\$30,000	-\$13,417	-\$17,028
HB1945	Holcomb	869	online insurance verification; transfers \$1.5M yearly from Insurance Fund		\$0	\$0	\$0	-\$3,000,000
HB1953	M. Gray	870	adopt recent changes to the internal revenue code	9	-\$1,500,000	\$320,600	-\$1,500,000	\$320,600
HB1109	JBC	1006	extend tourist facilities payments through FY2025		\$0	-\$887,908	\$0	-\$887,908
HB1965	V. Flowers	1066	provide tax incentives for art projects along designated Hwys		-\$25,000	-\$25,000	-\$25,000	-\$25,000
HB1985	A. Davis	1073	amend the water resource conservation & development incentives act		-\$294,000	-\$587,000	-\$294,000	-\$587,000
HJR1018	Wardlaw		continue permanently the half-cent sales tax for highways beginning FY2024	10	\$0	\$0	\$0	\$0
TOTAL					\$60,905,703	\$38,545,727	-\$8,524,812	-\$67,461,376

For more detailed information about any act and its estimated impact, see DFA's Legislative Impact Statement for that act.

Notes:

- 1) FY22 loss of \$97 million
- 2) FY19 loss of \$1M; FY20-26 annual losses of \$2.6M; FY27 gain of \$13M; FY28 gain of \$4.3M
- 3) Reduction in general revenue resulting from transfer of casino taxes not included
- 4) FY22 gain of \$6.1M, FY23 gain of \$9.9M
- 5) FY22 loss of \$2.3M total (\$4.4M general revenue)
- 6) FY22 loss of \$0.27M total (\$0.16M general revenue), FY23 loss of \$0.36M (\$0.2M general revenue)
- 7) Increase in property tax credits reimbursed from Property Tax Relief Trust Fund
- 8) Estimates include gain from remote sellers collections; FY22 gain of \$7.6M (-\$8.3M general revenue); FY23 loss of \$2.3M (-\$18.2M general revenue); gradually increasing losses afterward
- 9) FY22 gain of \$0.8M
- 10) Proposed constitutional amendment; \$293.7 million annual gain in special revenue to highways starting FY2024

Summary of Arkansas Economic, Revenue, and Inflation Update 2019

July 2019

DFA-Economic Analysis and Tax Research

Revenue Update

- FY 2019 Actual
 - FY 19 finished with a surplus of \$295.4 million on collection base of \$5.921 billion in Net Available Revenue. Gross Revenues totaled \$7.144 billion before refunds and other deductions.
 - Large, one-time collections in Corporate and Individual Income Tax contributed to the gain above forecast.
 - Corporate Income collections rebound after three consecutive years of declines. Tax strategy derived from the Federal Tax Cut and Jobs Act aided many state collection results as a side benefit to Federal tax moves on accelerated depreciation among other changes.
 - Sales Tax collections underperformed the forecast with declines in the sectors of Utilities and Information. Weaker than projected growth in the Motor Vehicle portion of Sales Tax also detracted from forecast. The large consumer-dominated sectors of Retail and Food Services (restaurants) did well.
 - RSA included a category for surplus of \$64 million and the FY19 collections exceeded full RSA and the forecast by \$231 million or 4.1%.

- FY 2020 Forecast
 - The FY 20 forecast accounts for a variety of tax policy changes from two regular sessions and the triggered Sales Tax cut on groceries from the phase-out of desegregation payments. A total of \$108 million in tax policy changes are accounted for in the forecast from the combination of phased-in and lagged changes converted to fiscal year impact occurrences.
 - Annual net revenue growth would be about \$155 million or 2.7%, excluding the policy changes.
 - FY 20 growth over FY 19 actuals indicates negative growth in order to meet forecast as a result of large one-time collections in FY 19 and growth in Refunds from Low-Income taxpayer tax cut in the next tax filing season.
 - Timing of the tax policy changes in FY 20 are notable.

- Collections from Remote Sellers and Marketplace Facilitators Tax will begin with August Sales Tax collections. The 11-month collection estimate is \$21.8 million for General Revenue, \$32.4 million for total state Sales Tax, and \$10.8 million for local option Sales Tax collections. (FY21 state collections are estimated at \$35.4 million and \$11.8 million for local Sales Tax.)
 - The full-year impact of the Individual Income Tax cut for low-income tax filers will impact net revenues in the next income tax filing period starting in February 2020 at an estimated \$50 million in additional refunds claimed.
 - Full-year impact of the triggered tax cut on food for home consumption (groceries) will impact FY20 after its start on January 1, 2019 at the midpoint of FY19. The 12-month impact in FY20 is estimated at \$60 million for General Revenue and \$80.5 million for total state revenue.
 - The 2019 Regular Session largely delayed or phased in further tax cuts after FY20. Net change for FY20 was -\$8.5 million in General Revenue, largely accomplished by the offset of Act 182 (income tax cuts) with positive impacts of Act 822 (remote sellers).
 - The Casino Amendment lowered the tax rate for the general revenue portion of taxes from 18 percent to 7.15 percent on the first \$150 million of net wagering and to 11 percent on amounts above \$150 million net wagering.
- FY 2021
 - The 2019 Regular Session produced combined revenue reductions of -\$67.5 million in FY21 for General Revenue and +\$38.5 million for total state revenue. The divergence was caused by positive impacts to special (dedicated) revenues from Act 416 (motor fuel tax and casino tax distribution) and Act 822 (remote sellers). Annual growth in the forecast for General Revenue in FY21 over FY20 is \$156 million or 2.7%, including the net effects of the tax policy changes. Older tax cuts will be in the collections base by that point.

Economic Update

Macro U.S. and Global Economic Conditions (July 2019)

- Main theme of stable trend-like growth but with elevated downside risks
- Real GDP growth in process of slowing to trend growth rate, 2.2% in 2019 and 1.8% in 2020
- Inflation to remain in check near 2% thanks to slowing global growth

- Domestic final sales expected to slow from solid level of 2.8*% in 2018 to 2.1% in 2019
- Fed rate cut amounts to some insurance against downside risk, not current conditions
- Tariff skirmishes are impacting the German and Japanese export economies and global commodity prices. U.S. producers and wholesalers are also impacted.
- Macro Forecast Summary Table
See Table 1

Baseline Forecast and Alternate Recession Scenario

See Table 2

Inflation Trends and Forecast

See Table 3

Labor Market Conditions

See Table 4

Personal Income Growth: U.S., State, and Select Regions

See Table 5

State Economy

- Stable growth largely matching national expansion
- Continuation of low unemployment rate with wage and job gains from long expansion
- Economic indicators from tax data shows stable growth of 4.0 to 4.5 percent wage growth and 3.5 to 4.0 percent retail sales gains. Motor vehicle sales lagged other growth in FY 19.
- Sector growth shows stable gains in Manufacturing, Health Services, and Professional Services but decline in the Information sector and job trimming in Retail
- The outlook for FY 20 and 21 in Arkansas largely follows the macro forecast scenario of slowing to trend-level growth in a low-inflation expansion. The longest post war expansion will continue, partly as product of modest recovery rates earlier and

moderate expansion later in the cycle with weakness in the global economy throttling inflation factors.

- Interest rate policy adjustment largely keeps the expansion on track amid weakness in more trade-dependent trading partners

Table 1.

Summary of the US Economy

	2018	2019	2020	2021
Composition of Real GDP, Percent Change				
Gross Domestic Product	2.9	2.6	1.8	1.7
Final Sales of Domestic Product	2.7	2.4	2.0	1.7
Nonresidential Fixed Investment	6.9	3.2	1.9	2.1
Residential Fixed Investment	-0.3	-1.8	-1.6	-1.5
Exports	4.0	2.5	3.8	2.3
Imports	4.5	1.9	3.3	4.0
Federal Government	2.6	2.8	1.6	-0.8
Prices & Wages, Percent Change, Annual Rate				
GDP Deflator	2.2	1.8	2.3	2.4
Consumer Prices	2.4	1.9	2.2	2.2
Excl. Food & Energy	2.1	2.1	2.2	2.2
Other Key Measures				
Brent Crude, Spot Price (\$/bbl)	70.96	66.91	64.25	65.98
Nonfarm Inven. Chg. (Bil. of 2012 \$)	50.9	88.6	42.4	43.1
Light Vehicle Sales (Million units)	17.19	16.76	16.63	16.48
Housing Starts (Million units)	1.250	1.223	1.216	1.235
Exist. House Sales (Total, Million units)	5.341	5.295	5.490	5.543
Unemployment Rate (%)	3.9	3.6	3.7	3.9
Payroll Employment (%change)	1.7	1.5	1.0	0.6
Federal Surplus (Unified, FY, bil. \$)	-779	-1038	-1025	-1070
Current Account Balance (Bil. \$)	-491	-510	-489	-496
Incomes				
Personal Income (% change)	4.4	4.1	4.7	4.5
Real Disposable Income (%change)	2.8	2.3	2.6	2.5
Disposable Income (%change)	4.9	3.9	4.6	4.5

IHS Markit Inc.

July 2019

Table 2.

Baseline Forecast vs. Recession Scenario

Baseline (55% probability)	CY 19	CY 20	CY 21
Real GDP Growth	2.6%	1.8%	1.7%
Real Consumption	2.4%	2.4%	2.5%
Nominal GDP Growth	4.4%	4.2%	4.1%
Unemployment Rate	3.6%	3.7%	3.9%
Personal Income Growth	4.1%	4.7%	4.5%
Employment Growth	1.5%	1.0%	0.6%
Recession Scenario (35% probability)	CY 19	CY 20	CY 21
Real GDP Growth	2.5%	-0.3%	0.1%
Real Consumption	2.3%	0.9%	0.8%
Nominal GDP Growth	4.2%	1.7%	2.2%
Unemployment Rate	3.8%	4.7%	6.0%
Personal Income Growth	4.0%	3.1%	2.0%
Employment Growth	1.4%	-0.3%	-0.8%

..and a look back at state budget impacts from recessions

FY 2010

- 1) RSA funded to 96.1% of "A" category
- 2) Forecast cuts in Oct., Jan., and May
- 3) Budget cuts but with ongoing grocery tax cut
- 4) Inflow of funds of \$61 M from GIF to General Revenue

FY 2011

- 1) RSA funded plus \$93.9 M surplus

FY 2002

- 1) RSA funded to 97.55% of "A" category
- 2) Forecast cuts Nov., April, and June

FY 2003

- 1) RSA funded to 94.12% of "A" category
- 2) Forecast cuts in Feb. and May
- 3) Tax increases for FY04-05 from Cig., Income tax surcharge, Tob. Products

Table 3.

Inflation Summary (July 2019 Update)

	Arkansas FY						
	CY 17	CY 18	CY 19*	CY 20*	FY 18	FY 19	FY 20*
CPI- All Items	2.1%	2.4%	1.9%	2.2%	2.3%	2.1%	2.2%
GDP Inflation	1.9%	2.2%	1.8%	2.3%	2.1%	2.0%	2.1%
Personal Consumer Expend.	1.8%	2.0%	1.6%	2.0%	1.9%	1.7%	2.0%
PCE Core**	1.6%	1.9%	1.7%	2.0%	1.7%	1.8%	1.9%

Other Measures

SSA COLA Determination	0.3%	2.0%	2.8%
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Cost of Living - Arkansas as Percent of U.S. (Regional Price Parity)	2015	2016	2017
	87.4%	87.0%	86.5%

Wage Earnings Growth (Arkansas)	CY 17	CY 18	CY 19*
	3.3%	2.3%	2.2%

*Projected

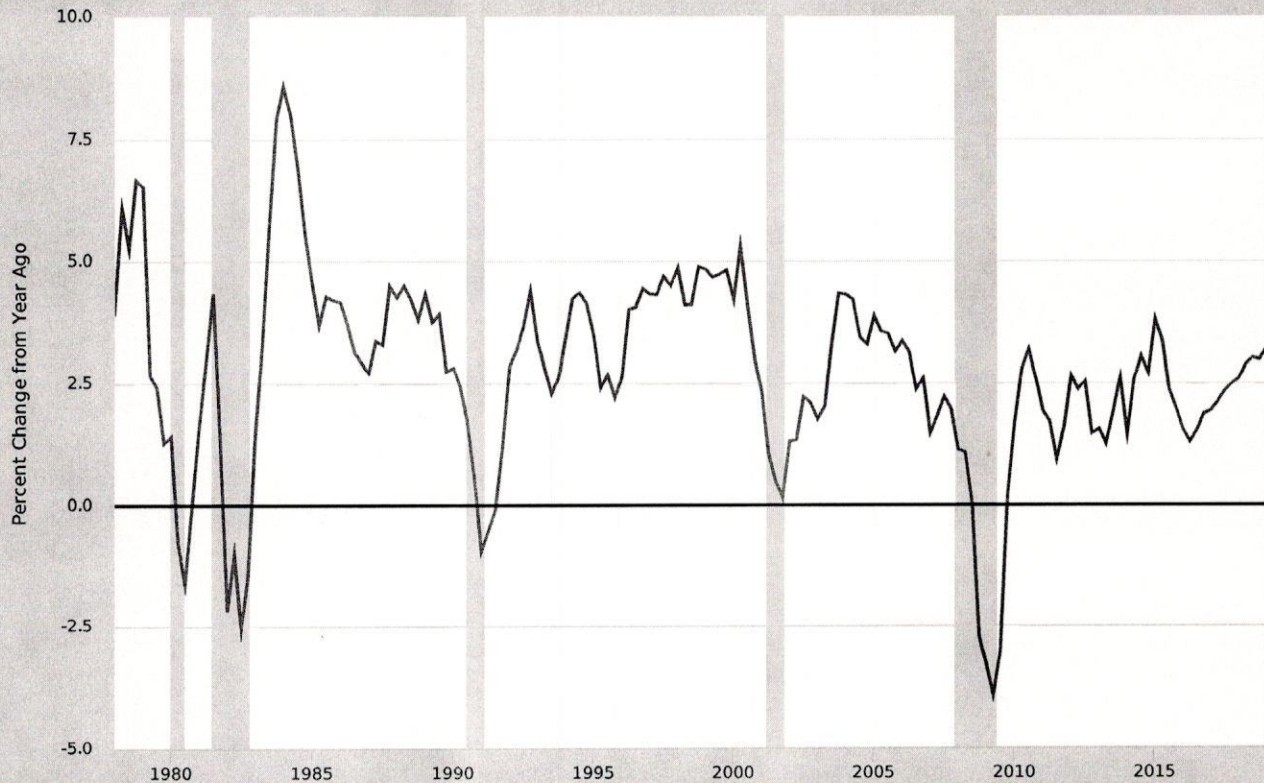
**Inflation excluding volatile food and energy components and the focus of Federal Reserve FOMC Fed. Funds rate setting

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, SSA, IHS Markit Inc.

Table 4.

Labor Market Conditions

	U.S.	Latest	CY 18	CY 19	CY 20	CY 21
Unemployment Rate		3.7%	3.9%	3.6%	3.7%	3.9%
	Arkansas					
Unemployment Rate		3.5%	3.7%	3.6%	3.7%	4.0%
	U.S.					
Private Payroll Employment		1.9%	1.7%	1.0%	0.7%	
Mfg. Employment		2.0%	1.2%	-0.9%	-1.4%	
	U.S.					
Labor Force Participation - Prime Working Age (Age 25 - 54)		82.2%				
	Arkansas					
Private Payroll Employment		1.2%	1.1%	0.8%	0.5%	
Mfg. Employment		2.0%	1.8%	-0.5%	-0.9%	

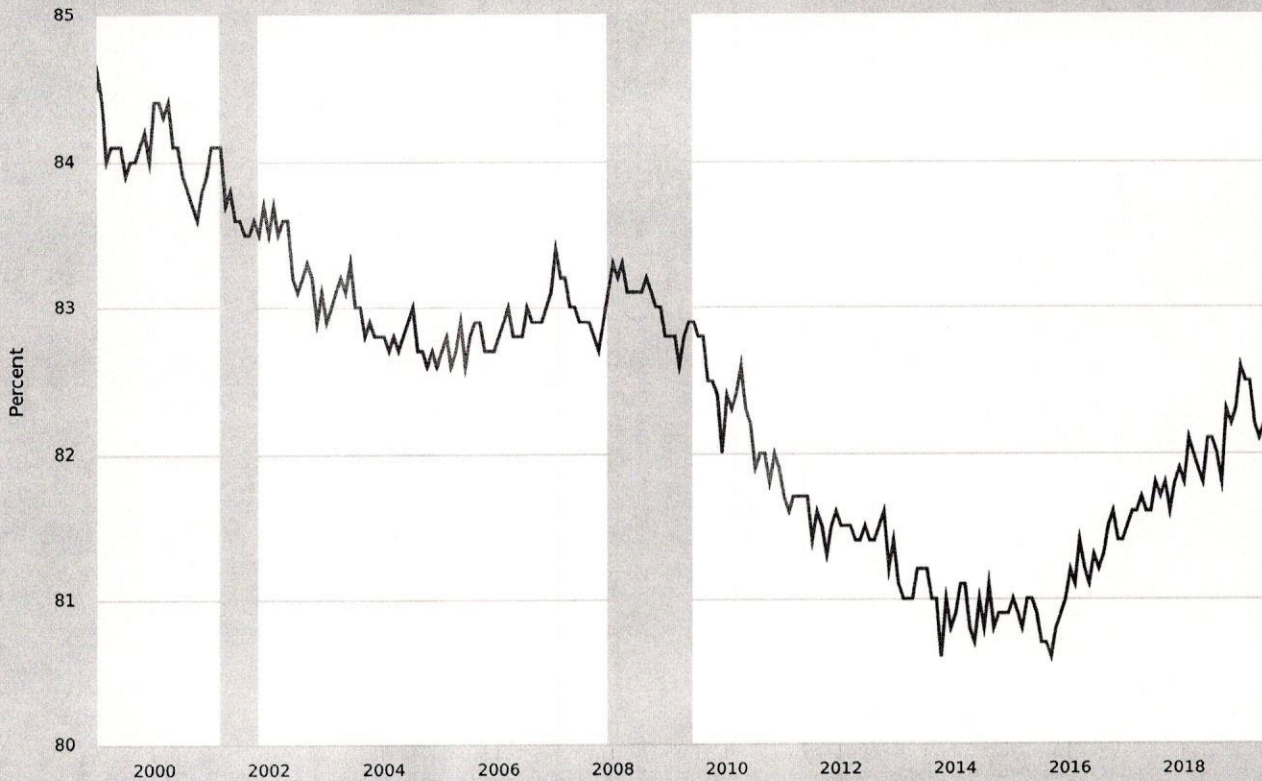


Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Economic Analysis

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FRED — Civilian Labor Force Participation Rate: 25 to 54 years



Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

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