

# State Sales Tax Collections and Purchasing Power

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Tennessee state sales tax collections have grown rapidly in the past few months. In fact, for some areas current collections exceed the pre-recession peak. Does this mean sales tax collections have *recovered* from the Great Recession?

Maybe not. While the number of dollars collected in taxes has increased, the *purchasing power* of each dollar has declined due to rising prices for just about everything we purchase. And it is the purchasing power of dollars that matters.

We can adjust sales tax collections for falling purchasing power using the Consumer Price Index (CPI). After the adjustment, we find that *real* sales tax collections are still considerably lower than the pre-recession peak, except for one metropolitan area, the Clarksville MSA. For the state, real sales tax collections are still 9.0 percent lower than the 2007 peak, while the metropolitan areas range from 5.5 percent lower for the Cleveland MSA to a high of 12.9 percent lower for the Memphis MSA (figure).

Clearly, state sales tax collections for most areas are not near the pre-recession peak when inflation is taken into consideration. And since growth rates average less than 2.0 percent per year, real recovery will require considerably more time.

