










United States Economic Indicators

	<u>Aug-11</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug-12</u>	
Unemployment Rate The number of individuals unemployed divided by the labor force. ¹	9.1%	8.2%	8.3%	8.1%	
Monthly Net Job Gains (000s) Average net increase in payroll employment based on latest three months of data. ²	88.3	66.7	91.0	94.0	
Advance Retail Sales Year-over-year growth rate of retail sales based on latest three months of data. Includes purchases of gas and motor vehicles. ³	8.8%	4.7%	4.2%	4.1%	
Residential Home Sales Year-over-year growth rate in residential home sales based on latest three months of data. ⁴	9.9%	8.6%	8.7%	8.1%	
Consumer Confidence Index A diffusion index that reflects consumer optimism. A declining index signals increasing pessimism. ⁵	55.8	73.2	72.3	74.3	
Purchasing Managers Index (PMI) A diffusion index that reflects the relative health of the manufacturing sector. An index greater than 50 generally indicates that the sector is expanding. ⁶	52.5	49.7	49.8	49.6	
Average Gas Price National average price for one gallon of unleaded gasoline. ⁷	3.64	3.54	3.44	3.72	
S&P 500 Index An index based on the stock prices of 500 top publicly traded corporations. Index values are from month end. ⁸	1,218	1,362	1,379	1,407	
Consumer Price Index (CPI - U) Year-over-year change in average price level. Includes outlays for energy. ⁹	3.8%	1.7%	1.4%	1.7%	

Sources:

1/ U.S. Department of Labor - Survey of Households.
 2/ U.S. Department of Labor - Survey of Establishments.
 3/ U.S. Department of Commerce.
 4/ National Association of Realtors.
 5/ University of Michigan - Survey of Consumers.

6/ Institute of Supply Management.
 7/ Energy Information Administration.
 8/ Standard and Poor's.
 9/ U.S. Department of Labor - Bureau of Labor Statistics.

Monthly Economic Report

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Pennsylvania Economic Indicators

	<u>Aug-11</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug-12</u>	
Unemployment Rate The number of individuals unemployed divided by the labor force. ¹	8.1%	7.6%	7.9%	8.1%	▼
Monthly Net Job Gains (000s) Average net increase in payroll employment based on latest three months of data. ²	2.6	-5.3	-4.4	-2.1	▼
Sales-Use Taxes Year-over-year growth rate of sales taxes based on latest three months of collections. Excludes motor vehicle sales taxes. ³	0.3%	2.3%	2.0%	3.4%	▲
Motor Vehicle Sales Taxes Year-over-year growth rate of motor vehicle sales taxes based on latest three months of collections. ⁴	2.0%	3.9%	9.3%	3.3%	■
Realty Transfer Taxes Year-over-year growth rate of realty transfer taxes based on latest three months of collections. Monthly residential sales data are not available at state level. ⁵	-10.4%	12.9%	11.6%	10.2%	▲
Current Business Outlook Index A diffusion index that measures the current outlook of manufacturing firms in the third federal reserve district (PA, NJ, DE). A negative number indicates increasing pessimism. ⁶	-22.7	-16.6	-12.9	-7.1	▼
Average Gas Price Central Atlantic (PA, NY, NJ) average price for one gallon of unleaded gasoline. ⁷	3.69	3.51	3.49	3.72	■
Consumer Price Index (PA-NJ-DE-MD) A measure of the average change in prices over the past year. Includes outlays for energy. Data are published on a bi-monthly basis. ⁸	3.4%	1.3%	1.3%	1.4%	■

Sources:

- 1/ U.S. Department of Labor - Survey of Households.
- 2/ U.S. Department of Labor - Survey of Establishments.
- 3/ PA Department of Revenue.
- 4/ PA Department of Revenue.

- 5/ PA Department of Revenue.
- 6/ Federal Reserve Bank of Philadelphia.
- 7/ Energy Information Administration.
- 8/ U.S. Department of Labor. For non-release months, values held constant.

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Quarterly United States Economic Indicators

	<u>2011.3</u>	<u>2011.4</u>	<u>2012.1</u>	<u>2012.2</u>	
Real Gross Domestic Product (GDP) The quarterly annualized growth rate of the U.S. economy. Excludes inflation. ¹	1.3%	4.1%	2.0%	1.3%	
Personal Income The year-over-year growth rate of U.S. personal income. Includes wages, interest, dividends, rents, pensions, business and transfer income. Includes any inflationary gains. ¹	4.7%	4.1%	2.9%	3.3%	
Corporate Profits The year-over-year growth rate of domestic and foreign profits of U.S. corporations. ¹	4.8%	9.2%	10.3%	6.7%	
FHFA House Price Index An index that measures the average price change of residen- tial homes whose mortgages have been purchased or securit- ized by Fannie Mae or Freddie Mac. Rate is the year-over- year change in the index. ²	-3.6%	-2.5%	0.7%	3.0%	
Delinquent Debt Share of U.S. consumer debt more than 90 days delinquent. ³	7.1%	7.1%	7.0%	6.7%	

Quarterly Pennsylvania Economic Indicators

	<u>2011.3</u>	<u>2011.4</u>	<u>2012.1</u>	<u>2012.2</u>	
Personal Income The year-over-year growth rate of PA personal income. In- cludes wages, interest, dividends, rents, pensions, business and transfer income. Includes any inflationary gains. ¹	3.8%	3.5%	3.1%	3.1%	
FHFA House Price Index An index that measures the average price change of residen- tial homes whose mortgages have been purchased or securit- ized by Fannie Mae or Freddie Mac. Rate is the year-over- year change in the index. ²	-1.1%	-2.8%	-0.1%	-0.3%	
Delinquent Debt Share of PA consumer debt more than 90 days delinquent. ³	5.5%	5.2%	4.9%	5.1%	

Sources:

1/ U.S. Bureau of Economic Analysis. 2/ Federal Housing Financing Authority. 3/ Federal Reserve Bank of New York.

Snapshot: Demographics and the Impact on State Revenues

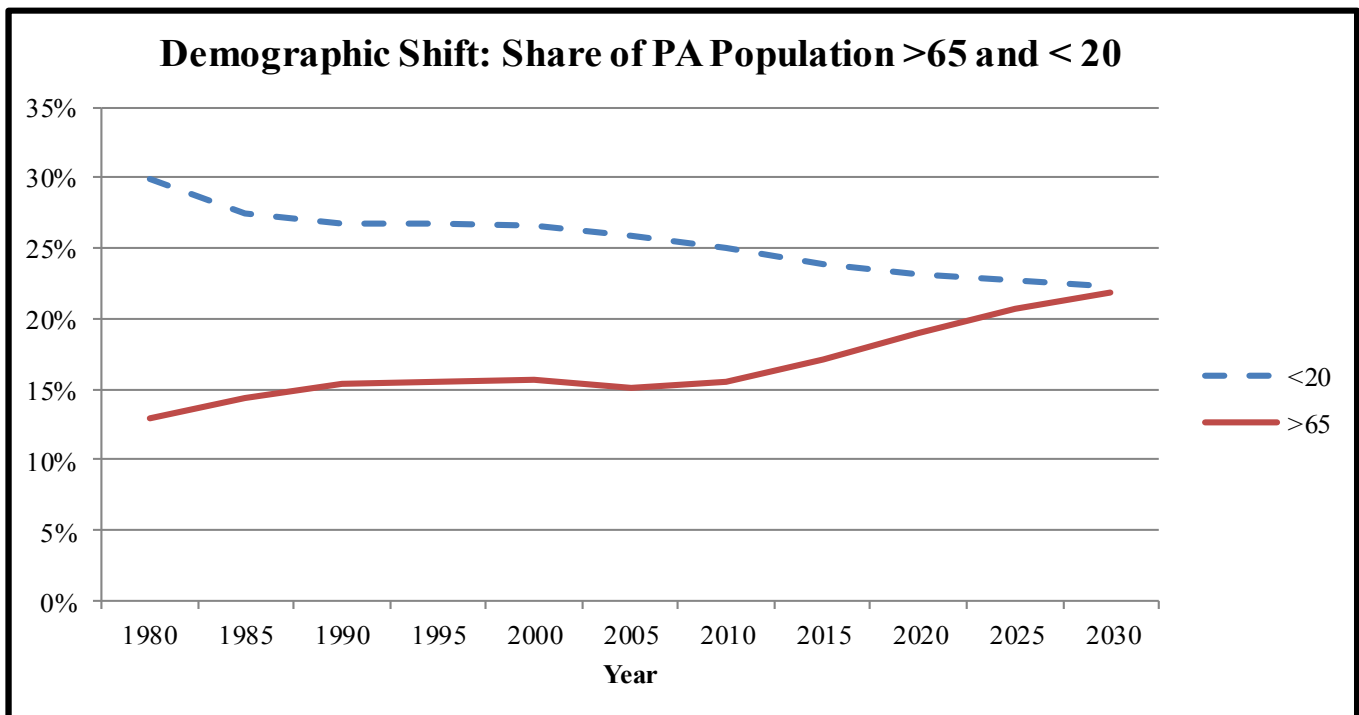
Some of the best predictors of Pennsylvania state tax revenues are economic indicators such as the unemployment rate, job growth and overall wages. As the economy strengthens (lower unemployment and higher wages), state revenues typically rise. As the economy weakens, state revenues typically fall (barring any tax changes). However, significant demographic shifts can also impact tax revenues and should not be ignored.

The largest revenue source for Pennsylvania is the personal income tax (PIT). During FY 2011-12, PIT collections comprised 43.4 percent of Pennsylvania's General Fund revenues. Over three-quarters of the \$12.0 billion collected from PIT remittances were attributable to earned income (typically wages and salary).

While Pennsylvania tax law does not allow individuals to claim deductions for contributions made to retirement accounts like pensions, IRAs and 401(k)s, the state does not tax that income when individuals withdraw the money during retirement. Taxing residents when they earn income rather than when they spend income (i.e., in retirement) relieves the tax

burden on older residents. However, if a large portion of the population retires around the same time, PIT collections could be negatively impacted.

As of July 1, 2011, the U.S. Census Bureau estimates that Pennsylvania had the fourth largest share of population age 65 and over (15.6 percent) behind Florida (17.6 percent), Maine (16.3 percent) and West Virginia (16.2 percent). As baby boomers leave the workforce, a greater share of overall individual income will consist of retirement income. While this issue is not unique to Pennsylvania, the impact on revenue collections may be greater in Pennsylvania because (1) Pennsylvania does not tax most retirement income and (2) Pennsylvania currently has a larger share of elderly residents than other states. As the graph below illustrates, Pennsylvania's 65+ population is expected to grow from 15.6 percent in 2011 to roughly 22.6 percent by 2030. By contrast, the share of residents under 20 years of age will decline from 26.6 percent in 2011 to 22.3 percent by 2030. These two age cohorts will comprise roughly equal portions of the PA population by 2030. The working age cohort between 20 and 64 declines by roughly four percentage points over that time span.



Source: Data from the U.S. Census Bureau and IHS Global Insight.