

# Mid-Year Update

Economic Forecast  
Revenues Through January  
Revised Forecast FY 2019-20  
Preliminary Forecast FY 2020-21



January 28, 2020

# PA Economic Forecast: June 2019 vs January 2020

		Annual Growth Rates or Change				
		2017	2018	2019	2020	2021
Real GDP	Jun 2019	1.7%	2.1%	1.9%	1.9%	
	Jan 2020	0.6%	2.6%	2.1%	1.9%	1.9%
Total Wages	Jun 2019	4.0%	4.1%	4.1%	4.1%	
	Jan 2020	4.0%	4.3%	4.4%	3.9%	4.0%
Philly CPI-U	Jun 2019	1.3%	1.3%	1.7%	2.0%	
	Jan 2020	1.3%	1.3%	2.0%	1.8%	1.9%
Net Payroll	Jun 2019	58.8	65.6	57.7	54.6	
Employment (000s)	Jan 2020	58.8	65.6	45.6	45.4	45.7

Note: Real GDP and Wage data revised for 2017 and 2018.  
 Source: Historical data from U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecasts by IFO.

# Annual Economic Trends

	2015	2016	2017	2018	2019
<b>United States</b>					
Real GDP	2.9%	1.6%	2.4%	2.9%	2.3%
Wages-Salaries	5.1%	2.9%	4.7%	5.0%	4.9%
Real Equip Investment	3.2%	-1.3%	4.7%	6.8%	1.7%
<b>Pennsylvania</b>					
Real GDP	2.2%	1.3%	0.6%	2.6%	2.1%
Wages-Salaries	4.1%	1.3%	4.0%	4.3%	4.4%
Net Jobs Creation (000s)	46.2	48.8	58.8	65.6	45.6
<b>U.S. Financials</b>					
Corporate Domestic Profits	-1.5%	-6.0%	-1.0%	0.9%	-1.5%
10 Year Note Yield	2.14	1.84	2.33	2.91	2.14
S&P 500 Index (annual avg.)	5.8%	2.0%	16.6%	12.2%	7.6%
<p>Note: S&amp;P 500 Index uses average values for entire year. Corporate Domestic Profits for non-financial firms only. Includes S corporations.  Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics. U.S. forecasts by IHS Markit. PA forecasts by IFO.</p>					

# Recent Quarterly Economic Trends

	2018.4	2019.1	2019.2	2019.3	2019.4
<b>United States</b>					
Real GDP	3.5%	2.9%	1.1%	3.1%	2.0%
Wages-Salaries	5.3%	5.2%	4.0%	5.0%	4.8%
Real Equip Investment	7.2%	6.4%	5.0%	3.3%	2.7%
<b>Pennsylvania</b>					
Real GDP	0.4%	3.3%	1.7%	2.1%	--
Wages-Salaries	3.2%	4.6%	4.6%	4.3%	4.1%
Net Jobs Creation (000s)	60.4	50.8	49.4	37.3	41.1
<b>U.S. Financial</b>					
Corporate Domestic Profits	7.3%	-3.1%	-1.1%	-6.0%	--
10 Year Note Yield	3.03	2.65	2.33	1.80	1.79
S&P 500 Index (prior year)	-6.2%	7.3%	8.2%	2.2%	29.5%
<p>Note: Real GDP growth rates are quarterly annualized rates. All others are year-over-year. Interest rates are levels. Corporate Domestic Profits for non-financial firms only. S&amp;P 500 Index uses values at the closing day of the quarter, not averages for the quarter.  Source: U.S. forecasts from IHS Markit.</p>					

# Annual PA Employment Change (000s)

	2017	2018	2019
Mining-Logging	1.7	1.9	1.0
Construction	9.9	7.0	5.4
Manufacturing	2.0	6.3	-3.6
Wholesale-Retail	-7.8	-2.9	-4.4
Transportation-Warehousing	7.3	9.1	7.1
Professional Services	5.3	3.5	6.5
Healthcare-Social Service	26.4	27.2	20.5
Leisure-Hospitality	9.1	4.9	6.1
State-Federal Gov't	-0.5	-1.0	2.9
Local Gov't	0.7	0.7	0.2
All Other Sectors	<u>4.5</u>	<u>8.9</u>	<u>4.0</u>
<b>Total Payroll Job Gains</b>	<b>58.8</b>	<b>65.6</b>	<b>45.6</b>

Note: Figures represent change in average level for calendar year. Excludes independent contractors and self-employed.  
Source: U.S. Bureau of Labor Statistics. Figures for 2019 based on preliminary data through December.

# Other PA Economic Indicators

	Year-Over-Year Growth				
	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>
# Refinancing Applications	43.0%	107.0%	88.0%	120.9%	125.2%
# Home Sales	2.7%	-3.4%	1.4%	0.5%	-0.3%
Median Home Sales Price	5.8%	6.1%	6.4%	6.9%	7.8%
FHFA House Price Index	--	5.1%	--	--	5.1%
	<u>2018.3</u>	<u>2018.4</u>	<u>2019.1</u>	<u>2019.2</u>	<u>2019.3</u>
Auto Loan	1.5%	2.0%	3.6%	5.0%	4.7%
Credit Card Loan	4.0%	6.9%	3.0%	4.3%	1.0%
All Mortgage Loans	<u>0.6%</u>	<u>-1.1%</u>	<u>-1.3%</u>	<u>4.2%</u>	<u>3.6%</u>
<b>All Consumer Debt</b>	<b>1.8%</b>	<b>0.9%</b>	<b>0.5%</b>	<b>4.3%</b>	<b>3.5%</b>

Note: Home sales not seasonally adjusted. Median price seasonally adjusted.  
Source: Home sales and median home price from Zillow. House Price Index from Federal Housing Finance Agency. Debt data from New York Federal Reserve Board.

# Demographic Trends Cause Tight Labor Market

	Annual Change (000s)					
	2015	2016	2017	2018	2019	2020
<b>Total Population</b>	<b>-3.5</b>	<b>-2.6</b>	<b>5.4</b>	<b>13.3</b>	<b>1.1</b>	--
Organic Growth	8.4	9.9	1.7	2.3	1.1	--
International Migrate	31.8	38.0	31.0	31.7	19.5	--
Domestic Migrate	<b>-43.7</b>	<b>-50.4</b>	<b>-27.4</b>	<b>-20.7</b>	<b>-19.6</b>	--
Age 20-64	<b>-23.9</b>	<b>-32.5</b>	<b>-32.2</b>	<b>-26.7</b>	<b>-30.6</b>	<b>-32.4</b>
Net Payroll Jobs	46.2	48.8	58.8	65.6	45.6	45.4
Unemployment Rate	5.3	5.4	4.9	4.3	4.0	--

Note: Payroll jobs exclude independent contractors and self-employed.  
Source: U.S. Census Bureau, U.S. Bureau of Labor Statistics. Forecasts by IFO.

# Revenues July 2019 to January 2020

	Actual Revenues			IFO Estimate		Admin Estimate	
	Amount	Growth	Adjust	Amount	\$ Diff	Amount	\$ Diff
<b>General Fund</b>	<b>\$18,710</b>	<b>3.1%</b>	<b>4.1%</b>	<b>\$18,517</b>	<b>\$194</b>	<b>\$18,534</b>	<b>\$177</b>
Corp. Net Income	1,665	0.9		1,632	33	1,797	-132
Sales - Non-Motor	5,933	3.0	5.5	5,970	-37	5,891	42
Sales - Motor Veh.	919	5.5		900	19	890	29
PIT - Withholding	6,276	3.6	4.4	6,268	8	6,300	-25
PIT - Other	1,485	13.4		1,463	22	1,355	130
All Tobacco	697	-5.4		695	3	696	1
Inheritance	650	8.7		600	50	628	22
Escheats	2	-102.2		-98	100	-87	90
All Other	1,082	-15.5		1,087	-5	1,063	21

Note: Millions of dollars. Adjusted column controls for (1) \$115m SUT transfer and \$27m higher CFA transfer and (2) \$74m withholding transfer this year and \$25m last year.



# Update for FY 2019-20

	IFO Official Estimate	Mid-Year Update			
		Amount	\$ Change	Growth	Adjust
<b>General Fund</b>	<b>\$35,518</b>	<b>\$35,738</b>	<b>\$220</b>	<b>2.5%</b>	<b>3.1%</b>
Corporate Net Income	3,458	3,433	-25	1.0	
Sales - Non-Motor	9,996	10,051	55	4.5	5.9
Sales - Motor Vehicle	1,548	1,564	17	5.4	
PIT - Withholding	10,793	10,810	18	3.5	4.0
PIT - Other	3,751	3,796	45	3.9	
All Tobacco	1,083	1,075	-8	-13.9	
Inheritance	1,067	1,118	52	6.1	
Escheats	91	205	114	151.0	
All Other	3,733	3,685	-48	-5.0	

Note: Millions of dollars. For FY 19-20 IFO Official Estimate is \$21 million higher than the Administration. Adjusted column controls for (1) \$115m SUT transfer and \$15m higher CFA transfer for FY 19-20 and (2) \$82m in withholding transfers for FY 19-20 and \$25m in transfers for FY 18-19.

# Personal Income Tax

## **CY 2019 withholding strong ~4.3%**

- 2019 Q2 notably strong ~+5.0%
- Some deceleration since then | 2019 Q4 ~4.1% | net jobs growth slows too
- Outlook is for ~3.9% growth

## **Estimated payments very strong**

- April +12.3% | June +13.0% | Sept +11.1%
- Jan-Dec: +9.6% (prelim)

## **Anticipating flat March-April final payment**

- Down by -3.0% | form of payment shift | impact from safe harbors
- Upside: strong stock market to end year
- Natural gas royalties down due to prices

# PIT Payments Growth

	Tax Year Basis					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Quarterlies	16.1%	-3.2%	11.5%	-5.6%	10.9%	
Annuals	<u>-7.5%</u>	<u>-0.9%</u>	<u>6.4%</u>	<u>28.5%</u>	<u>-3.0%</u>	
<b>Total Non-Withheld</b>	4.8%	-2.2%	9.3%	8.6%	4.0%	5.4%
<b>Quarterly Share Total</b>	57.8%	57.2%	58.3%	50.7%	54.0%	
Withholding	<u>2.3%</u>	<u>2.4%</u>	<u>4.2%</u>	<u>4.3%</u>	<u>4.3%</u>	<u>3.9%</u>
<b>Total Payments</b>	<b>2.9%</b>	<b>1.3%</b>	<b>5.4%</b>	<b>5.4%</b>	<b>4.2%</b>	<b>4.3%</b>

Note: Withholding growth rates for 2018 and 2019 adjusted for transfers.

# Sales and Use Tax

## **Solid Gains in non-motor | +5.5% thru January (adjusted)**

- Wealth effects from stock market
- Applications for mortgage refis double August through November
- Continued phase in of marketplace sales
- Growth of streaming services

## **Solid gains in motor vehicle too | +5.5% thru January**

- Auto loan debt up ~+5% for 2019 Q2-Q3
- Delinquencies remain low
- Continued shift to truck and SUV

# Broad Growth in Sales Tax in 18-19

	Annual Growth Rates				
	15-16	16-17	17-18	18-19	19-20
<b>Total</b>	<b>3.2%</b>	<b>2.1%</b>	<b>3.8%</b>	<b>6.9%</b>	<b>4.6%</b>
Motor Vehicle	1.6	1.5	1.9	6.6	5.4
Wholesale-Retail	0.7	1.5	3.7	4.5	
Food-Beverage Stores	4.5	-0.9	0.4	4.9	
Food-Drink Establishment	5.1	0.4	2.2	5.1	
Accommodations	3.6	4.6	2.3	6.8	
Electronic or On-line	17.1	19.4	25.0	67.7	
Publishing-Broadcasting	-0.9	1.0	-2.2	14.5	
Building Materials	4.1	2.2	3.6	8.9	
All Other	5.1	2.9	5.4	3.4	

Source: DOR Annual Statistical Supplement to the Tax Compendium.

# Corporate Net Income Tax

## **Estimated payments flat (tax year 2019)**

- March -1.8% | June +5.8% | Sept -0.4% | Dec +0.5%
- Consistent with U.S. Corporate Profits

## **Expect flat final payment March to May ~+2.0%**

- Strong correlation between growth estimated and finals
- Phase in to 40% NOL offset taxable income
- Profits shift into tax year 2018

## **Outlook for 2020: 3.5% taxable profits growth**

# Growth Rates: Corporate Payments, Profits, S&P 500

	Year-Over-Year Growth, Tax Year Basis					
	2015	2016	2017	2018	2019	2020
Estimated	-7.9%	1.0%	8.0%	16.0%	1.1%	--
Finals	<u>-12.6%</u>	<u>1.7%</u>	<u>9.2%</u>	<u>11.9%</u>	<u>1.8%</u>	--
<b>Total</b>	<b>-9.9%</b>	1.3%	8.5%	14.3%	1.4%	3.5%
Share Finals	40.3%	40.4%	40.7%	39.8%	40.0%	
Corporate Domestic Profits	-1.5%	-6.0%	-1.0%	0.9%	-1.5%	3.5%
S&P 500 Index (ann avg.)	5.8%	2.0%	16.6%	12.2%	7.6%	--

Note: Profits are for non-financial domestic corporate profits and include S corporations. S&P 500 Index is average for year.

# Miscellaneous Revenue Sources

## Large Gain for Escheats 19-20

- 15-16 \$251m | 16-17 \$192m | 17-18 \$71m | 18-19 \$82m
- 19-20 original forecast \$91m | adding \$114m
- Lump sum deposit in September of \$40m

## Cigarette and Other Tobacco

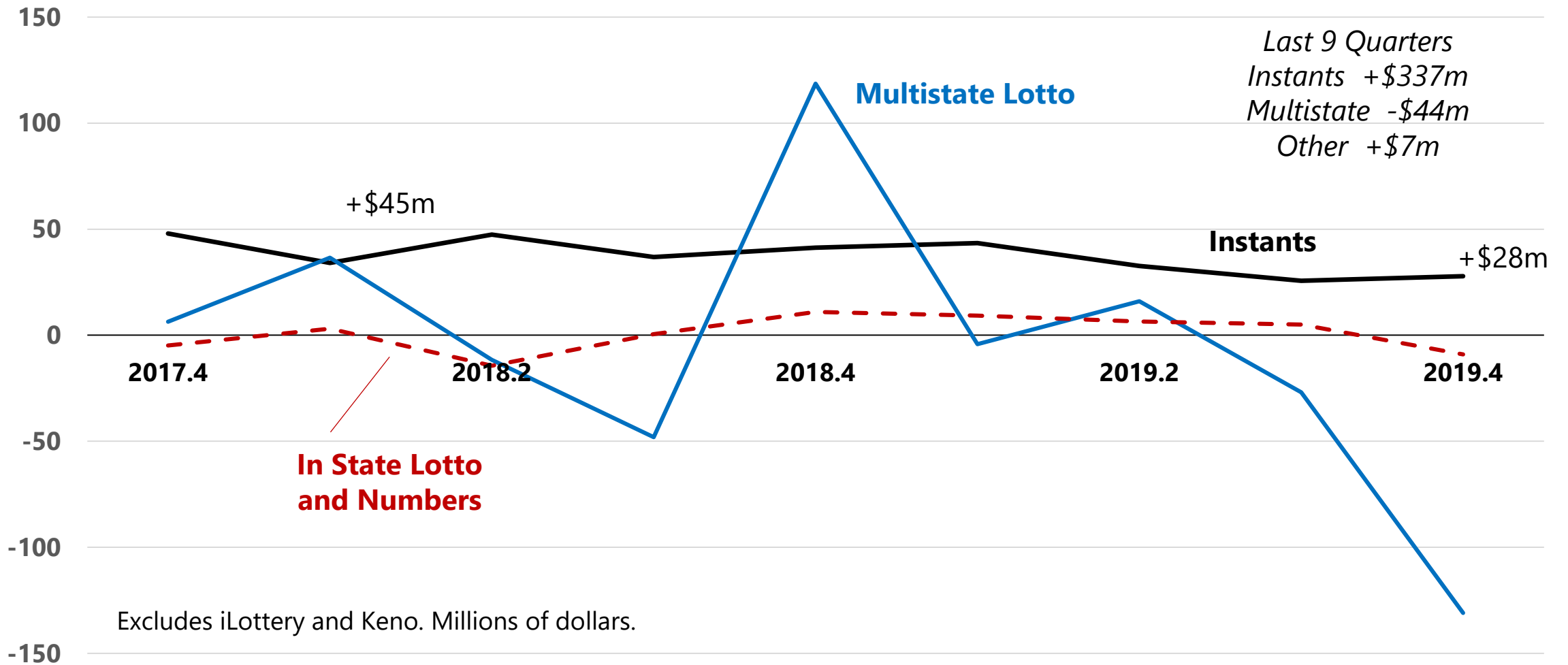
- Legal age raised to 21
- FDA bans most e-cig flavors
- -\$8m for 19-20 | -\$32m for 20-21

## Gross Receipts

- EIA electric sales | CY 2018 +3.5% | CY 2019 -5.3% (through Oct)
- Total collections TY 2018 -11.5% | estimated payments TY 2019 +16%
- Fiscal year revenues | 18-19 +8.7% | 19-20 -4.3%



# Year-Over-Year Change in Lottery Sales



# Wage Growth Drives Revenue Growth

	15-16	16-17	17-18	18-19	19-20	20-21	15-16 to 20-21
<b>Wages-Salaries</b>	<b>4.1%</b>	<b>1.3%</b>	<b>4.0%</b>	<b>4.3%</b>	<b>4.4%</b>	<b>3.9%</b>	<b>3.6%</b>
SUT	3.2%	2.1%	3.8%	6.9%	5.7%	2.8%	4.2%
PIT	3.3	1.3	5.8	5.4	3.9	4.4	4.1
CNIT	<u>1.1</u>	<u>-3.2</u>	<u>4.6</u>	<u>18.0</u>	<u>1.0</u>	<u>3.3</u>	<u>4.5</u>
Total	3.0	1.1	4.9	7.3	4.3	3.6	4.2
<b>Adjusted</b>	<b>2.8%</b>	<b>1.1%</b>	<b>4.7%</b>	<b>6.5%</b>	<b>3.9%</b>	<b>3.6%</b>	<b>3.9%</b>

Note: The adjusted growth rates remove the estimated impact of Act 43-2017 and PA Bulletin 2018-01 from SUT. PIT for FY 20-21 excludes extra withholding deposit date.

# Initial Outlook for FY 2020-21

	FY 20-21	Change from FY 19-20		
	Prelim	Dollar	Growth	Adjusted
<b>General Fund</b>	<b>\$37,117</b>	<b>\$1,379</b>	<b>3.9%</b>	<b>3.0%</b>
Corporate Net Income	3,546	113	3.3	
Sales - Non-Motor	10,464	413	4.1	2.9
Sales - Motor Vehicle	1,591	27	1.7	
PIT - Withholding	11,417	607	5.6	3.8
PIT - Other	4,033	237	6.2	
All Tobacco	992	-83	-7.7	
Inheritance	1,137	19	1.7	
Escheats	206	1	0.3	
All Other	3,732	46	1.3	

Note: Millions of dollars. Adjusted growth rate controls for \$115m transfer from SUT and \$69m transfer from withholding in FY 19-20. All Tobacco includes a \$115m transfer in FY 19-20 and FY 20-21. Adjusted withholding growth rate controls for extra Wednesday deposit date in FY 20-21.

# Things to Watch in 2020

## **Will stocks continue to post gains?**

- Continued disconnect with profits
- PE ratio high by historical standards
- China impact | election uncertainty

## **Recent uptick in PA consumer debt**

- Mortgages and auto loans | delinquency rates remain very low
- 2019 Q4 data released next month

## **PA labor market**

- Can it continue to expand at moderate pace?
- Does tight labor market/demographics affect business expansion decisions?