

Mid-Year Update

FY 2021-22
Independent Fiscal Office



January 31, 2022

Today's Presentation

Revenues significantly outperform estimates

- Corporate net income, sales tax, personal income, inheritance

Main economic issues

- What happened to the labor force?
- Inflation for 2022 | wage-price spiral taking hold?

Unknown factors (mostly negative)

- Stock market correction | S&P 500 down 7% in January
- Fed tightening and raising interest rates
- Expiration of remaining relief: student loans, SNAP, rent assistance

Economic Forecast: Stronger Wages and Inflation

		Annual Growth Rates or Change				
		2019	2020	2021	2022	2023
Real GDP	June 2021	2.4%	-4.4%	3.8%	2.4%	--
	Jan 2022	1.7%	-4.5%	4.1%	2.3%	2.1%
Wages Paid	June 2021	4.3%	-0.1%	6.4%	4.3%	--
	Jan 2022	4.4%	-0.3%	8.2%	5.1%	4.4%
Philly CPI-U	June 2021	2.0%	0.9%	3.7%	2.7%	--
	Jan 2022	2.0%	0.9%	4.0%	3.9%	2.4%
Job Gains (000s)	June 2021	56	-438	100	80	--
	Jan 2022	56	-463	116	80	65

Note: Job Gains for payroll employment only. Excludes self-employed.
Source: Historical data from U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecasts by IFO.

Federal Stimulus - Quarterly Pattern

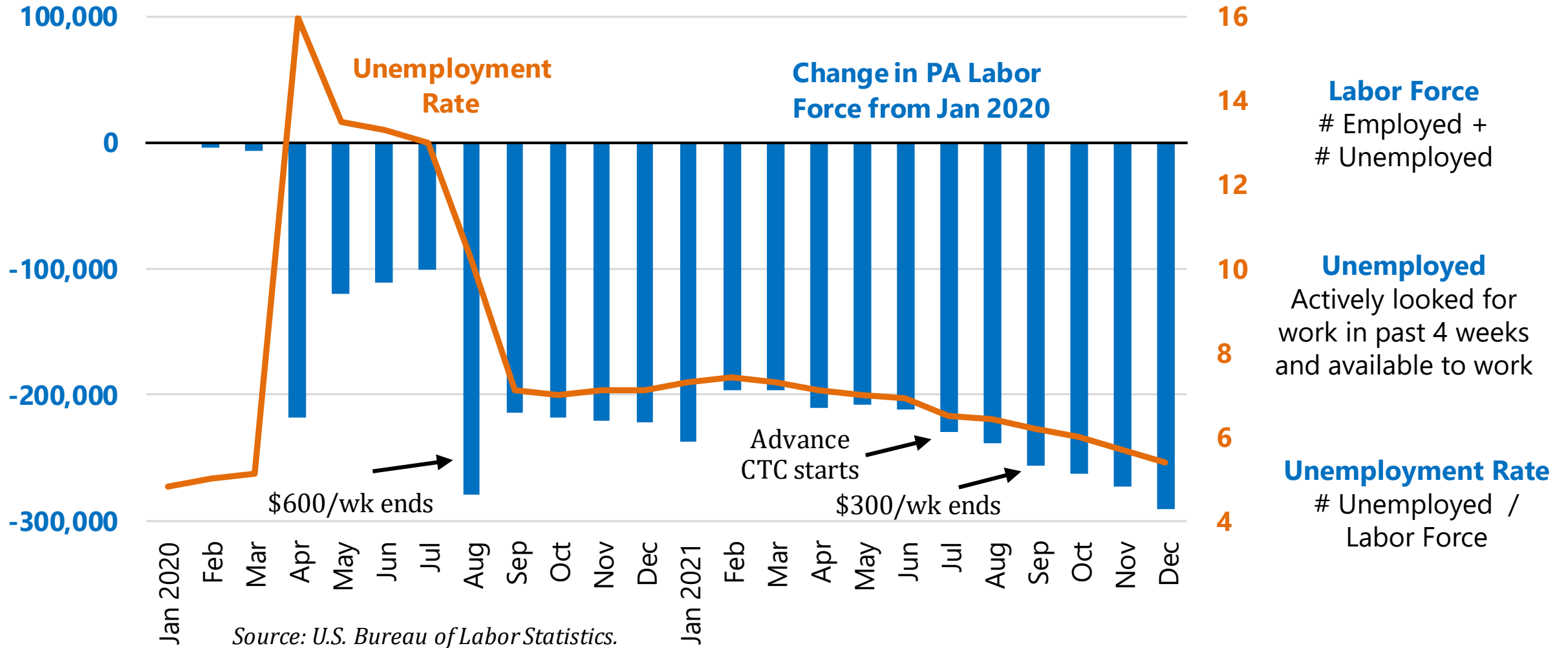
	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4
Expanded UC Benefits	\$11.2	\$11.9	\$3.3	\$5.7	\$5.9	\$4.4	\$0.1
SNAP Expansion	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Econ. Imp. Payment	10.9	0.1	--	5.7	15.3	--	--
Expanded CTC	--	--	--	--	--	1.7	1.7
PPP Forgiven Loans	<u>20.4</u>	<u>0.3</u>	<u>--</u>	<u>8.0</u>	<u>2.0</u>	<u>--</u>	<u>--</u>
Total	42.8	12.6	3.6	19.8	23.6	6.5	2.3
Notes	Expanded/advance CTC ends Jan 2022. Roughly one half of advance will result in higher tax liability. Expanded UC subject to federal but not state income tax. All EIPs are non-taxable.						
<p>Note: Billions of dollars. PPP includes both pass-through entities and C corporations. Source: US Department of Labor, US Treasury Department, Small Business Administration and PA Department of Labor.</p>							

Recent Quarterly Trends for PA Economics

	Year-Over-Year Growth Rate or Change				
	2020.4	2021.1	2021.2	2021.3	2021.4
Real GDP	-3.4%	-0.3%	11.5%	4.1%	--
Wages-Salaries	1.8%	2.2%	11.9%	9.9%	9.5%
Philadelphia CPI-U	0.9%	1.0%	4.2%	4.6%	6.1%
Unemployment Rate	7.1%	7.3%	7.0%	6.4%	5.7%
Change vs 2019					
Job Loss (000s)	--	-399	-373	-321	-294
Labor Force (000s)	--	-167	-200	-231	-311

Note: All growth rates relative to same quarter in prior year. Job Loss and Labor Force data not seasonally adjusted.
Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis.

PA Labor Force Contraction Continues



Jobs Lag Pre-COVID Levels (vs 2019)

	Change From 2019 (000s)		Growth From 2019	
	Jun 21	Dec 21	Jun 21	Dec 21
Total Payroll Employment	-337	-279	-5.5%	-4.8%
Construction	-16	-17	-5.7	-7.0
Manufacturing	-34	-17	-5.9	-3.0
Retail-Wholesale Trade	-31	-27	-3.7	-3.3
Transportation-Storage	4	25	1.5	7.0
Professional and Technical	8	11	2.1	2.8
Admin-Waste Management	-44	-46	-13.6	-16.8
Education (excludes local SD)	2	-9	1.0	-3.7
Healthcare-Social Assistance	-43	-48	-4.1	-4.7
Arts-Entertainment	-28	-18	-23.2	-24.0
Accommodation-Food Service	-84	-70	-17.2	-17.2
All Govt (includes local SD)	-23	-31	-3.3	-4.5
All Other Sectors	-48	-33	-5.7	-4.0

Note: Data not seasonally adjusted. Excludes self-employed.
Source: U.S. Bureau of Labor Statistics.

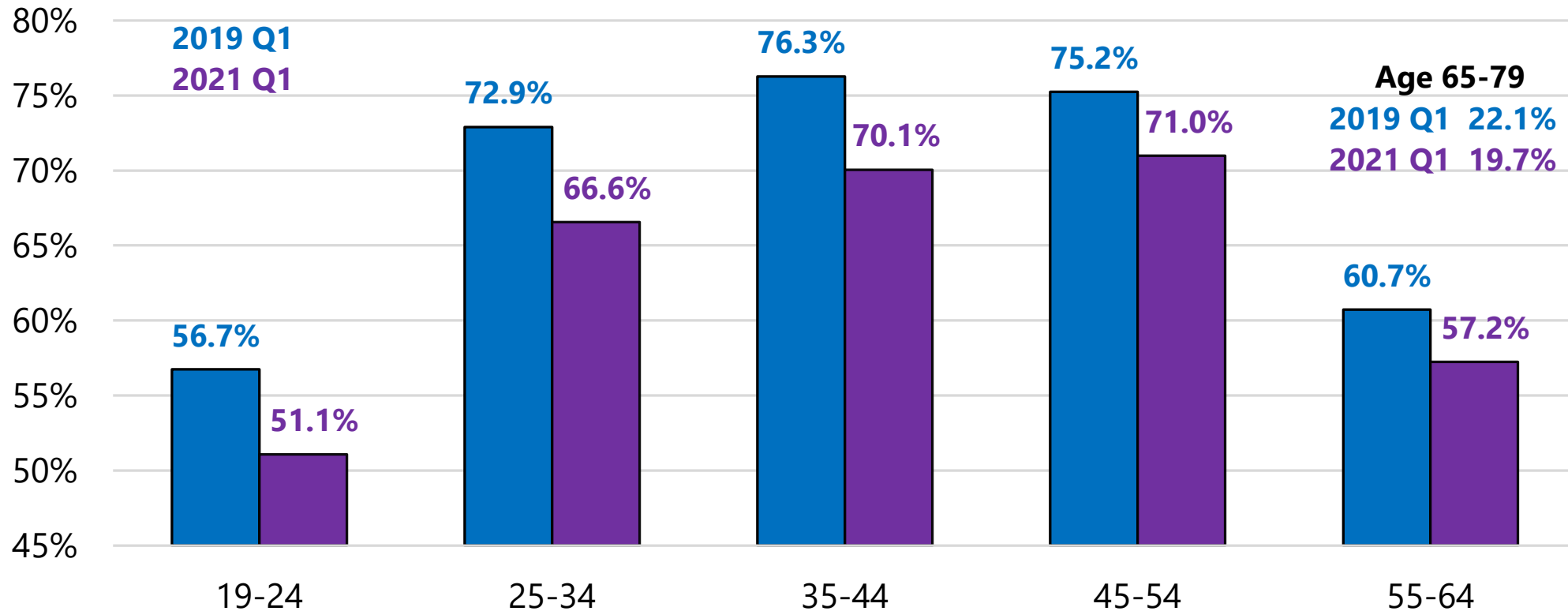
Subsector Detail: Winners and Losers

	Change From 2019 (000s)		Growth From 2019	
	Jun 21	Dec 21	Jun 21	Dec 21
Jobs Contraction				
Employment Services (temps)	-27	→ -33	-23%	-34%
Full-Service Restaurants	-37	-30	-18	-17
Nursing and Residential Care	-26	→ -28	-13	-16
Accommodations	-20	-17	-31	-40
Amusements and Gaming	-20	-15	-22	-31
Jobs Expansion				
Warehouse and Storage	13	21	14%	17%
Couriers and Messengers	13	15	37	23
Retail: Building Material-Garden	2	4	5	7

Note: Data not seasonally adjusted. Excludes self-employed.
Source: U.S. Bureau of Labor Statistics.

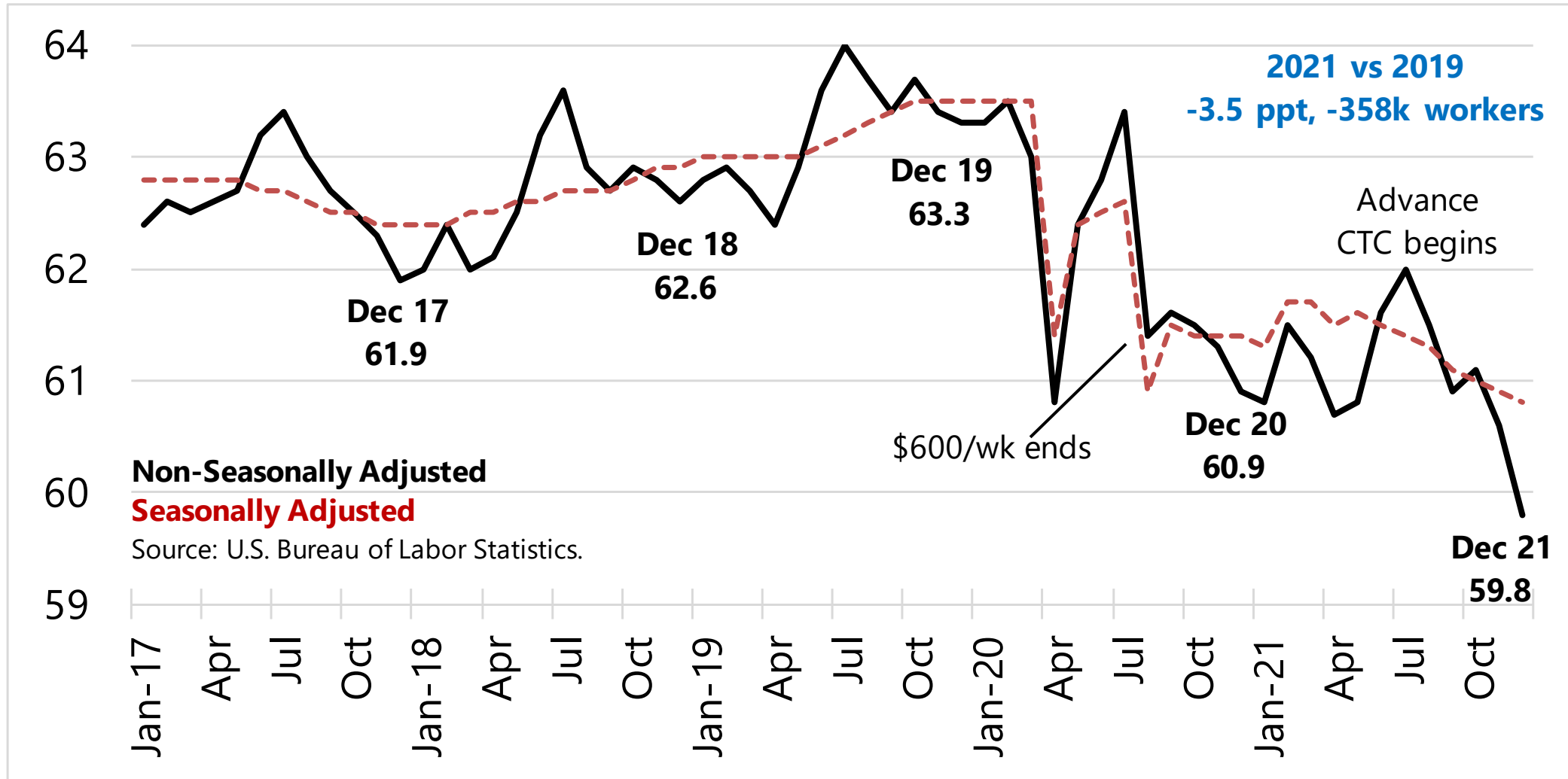
All Age Groups Working Less

PA Employment / Population Ratio by Age Group

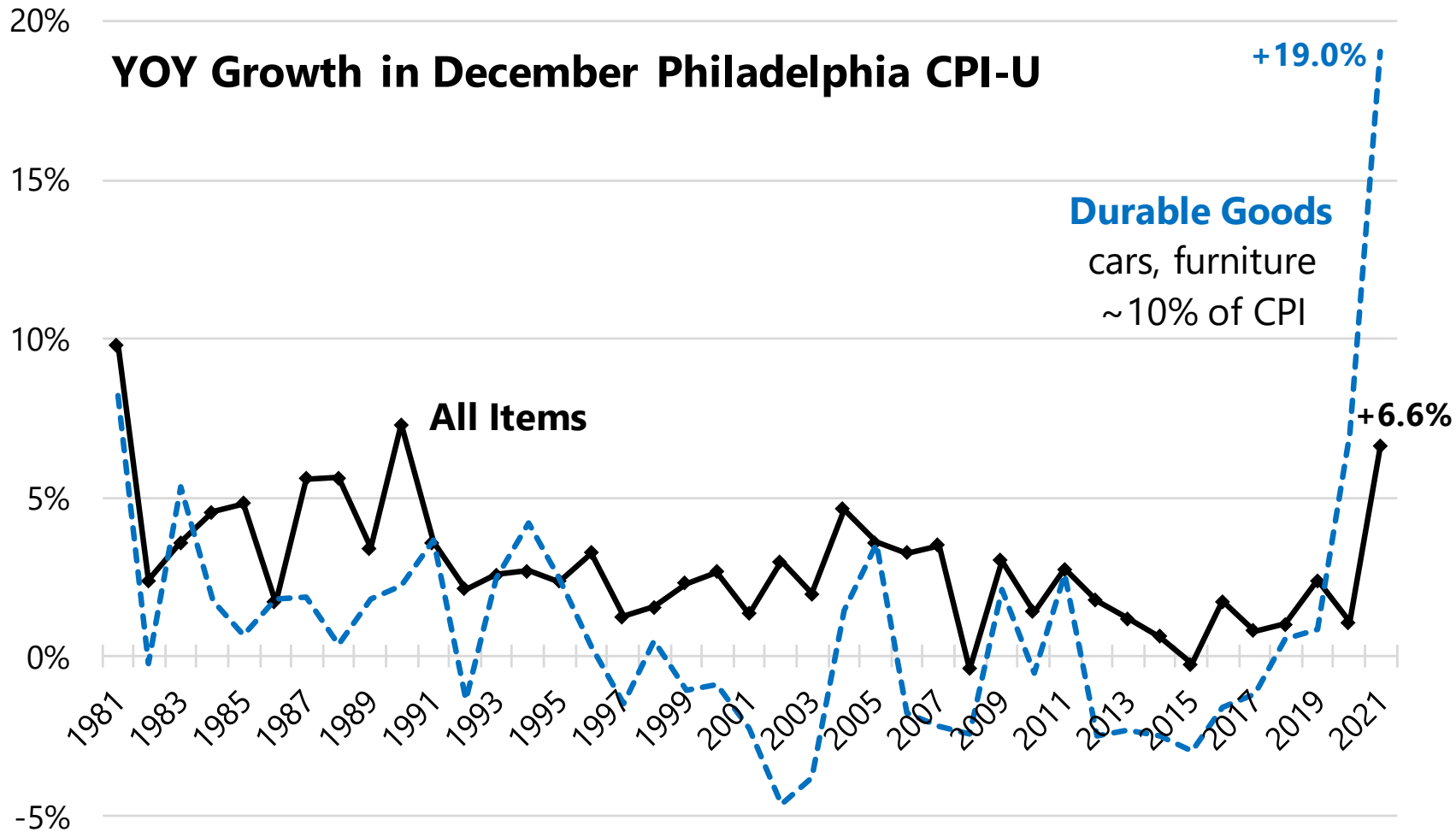


Source: Quarterly Workforce Indicators, U.S. Census Bureau.

PA Labor Force Participation Rate



Recent Rapid Acceleration of Inflation



Very High (Dec 21)

- Used Cars +38.1%
- Gasoline +37.4%
- Energy +25.1%
- New Cars +22.4%

Relatively Low (Dec 21)

- Education-Comm +1.9%
- Medical Care +3.3%
- Shelter +4.3%

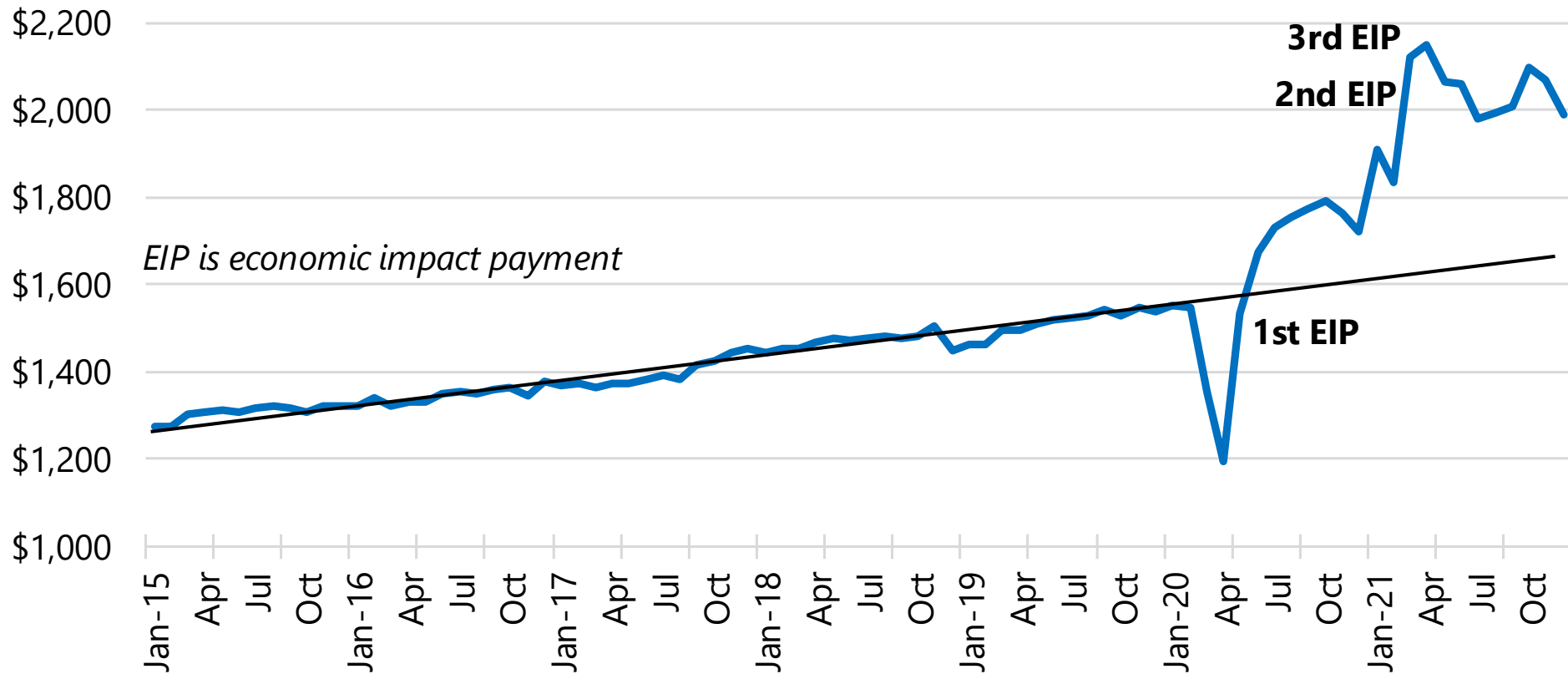
Philadelphia Metro Inflation Accelerates

	CPI-U Weight	Year-Over-Year Growth		
		Feb 21	Jun 21	Dec 21
All Items CPI-U	100.0%	1.0%	4.9%	6.6%
Food and Beverage	14.8	1.2	0.9	4.0
Housing - Shelter	33.0	0.0	1.2	4.3
Transportation	14.4	0.0	18.9	21.0
New Vehicles	3.1	2.7	18.7	22.4
Gasoline	2.6	9.6	40.0	37.4
Medical Care	8.7	4.0	2.8	3.3
All Items Less Energy	94.0%	0.8%	3.9%	5.4%
All Items Less Shelter	67.0	1.4	6.7	7.2

Note: CPI-U weight is relative importance of sub-index. Some series are omitted so weights do not sum to 100%.
Source: U.S. Bureau of Labor Statistics.

U.S. Durable Goods Purchases Still Very High

U.S. Purchases of Durable Goods



Note: Billions of dollars. Nominal dollars.

Source: U.S. Bureau of Economic Analysis, Table 2.8.5.

Checking Account Balances Still Very High

Income Group	U.S. Checkable Deposits Q3 (\$ billions)				2021 Q3 Excess		
	2018	2019	2020	2021	Amount	Percent	
Top 1%	\$177	\$138	\$349	\$1,026	\$868	552%	<i>likely not stimulus</i>
80% to 99%	383	328	622	1,297	941	265	
60% to 80%	155	135	273	624	479	330	<i>PA share is ~4% about \$35 billion</i>
40% to 60%	92	74	153	364	281	339	
20% to 40%	62	54	92	163	105	180	
0% to 20%	<u>50</u>	<u>50</u>	<u>70</u>	<u>66</u>	<u>16</u>	<u>32</u>	<i>most is spent</i>
Total	918	779	1,559	3,539	2,690	317	

	Debt Holdings (December, \$ billions)				2021 Dec Excess		
	2018	2019	2020	2021	Amount	Percent	
Securities Held by Fed	\$3,880	\$3,751	\$6,731	\$8,270	\$4,454	117%	<i>a direct increase in money supply</i>

Note: 2021 Q3 Excess is difference compared to average for 2018 Q3 and 2019 Q3.
Source: Federal Reserve Board.

FY 2021-22 Revenues Through January

	Dollar Amount	Growth Rate	Adjusted Growth	Notes on Adjustments
General Fund	\$26,126	23.3%	14.8%	
Corporate Net Income	2,530	10.7	27.5	due date shift
Sales - Non-Motor	7,159	11.6	14.5	due date shift
Sales - Motor Vehicle	1,055	0.8	--	
PIT - Withholding	6,786	12.5	11.1	extra deposit + transfer
PIT - Other	1,819	-25.9	62.6	due date shift
Inheritance	888	25.5	38.9	delayed receipts
All Tobacco	667	-3.9	2.0	
Realty Transfer	491	32.3	--	
All Other	4,732	299.4	3.1	fed funds/transfer

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for due date shifts, one-time transfers and extra deposit day for withholding.

Mid-Year Update for FY 2021-22

	IFO Official Estimate			Mid-Year Update		
	Amount	Growth	Adjusted	Amount	\$ Change	Adjusted
General Fund	\$41,915	3.8%	0.0%	\$45,322	\$3,407	8.1%
Corporate Net Income	3,766	-14.9	-8.7	4,866	1,100	18.0
Sales - Non-Motor	10,781	-1.9	-0.4	11,668	887	7.8
Sales - Motor Vehicle	1,677	-9.3	--	1,802	125	-2.5
PIT – Withholding	11,436	5.5	4.8	11,790	354	8.0
PIT – Other	4,082	-25.0	-0.7	4,501	419	9.5
Inheritance	1,307	-2.9	2.3	1,516	209	18.6
All Tobacco	1,012	-7.9	-4.4	1,040	28	-1.8
Realty Transfer	683	6.7	--	770	87	20.3
All Other	7,171	90.5	--	7,370	199	3.3

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for due date shifts, one-time transfers and extra deposit day for withholding.

Why Did the Estimate Increase So Much?

1 Inflation higher than projected, not transitory

- Consumers continue to spend | now demanding higher wages
- Higher costs pushed forward | record corporate profits

2 Consumers do not switch back from durable goods to services

3 Strong house and stock markets through December (wealth effects)

4 More stimulus \$\$ (EIPs) makes their way into economy

- Original Surveys: ~25% spent | ~75% saved or pays down debt
- Spending recirculating faster? (money velocity and [economic multipliers](#))
- Student loan moratorium | no renter eviction tsunami | SNAP extension

Active COVID Relief Programs (PA data)

Student Loan Repayments

Student Loan Debt (federal)	~\$70 billion
Number Borrowers	1.83 million
Average Payment	\$350 /month
Monthly Amount	\$640 million
Share That Defer	80%
Monthly Payment Deferred	\$510 million
Monthly Sales Tax Impact	~\$10 million

Moratorium extended to May 1, 2022

SNAP Benefits

Max benefit, family of 4 = \$835 /month

FFY 2019	1.63 million, \$2.5 billion
FFY 2020	1.79 million, \$3.3 billion
FFY 2021	1.79 million, \$5.2 billion

Current extension to March 2022

Emergency Rental Assistance

Sept to Nov 2021 \$72 million/month

Assume relief runs through Sept 2022

Sales and Use Tax Notes

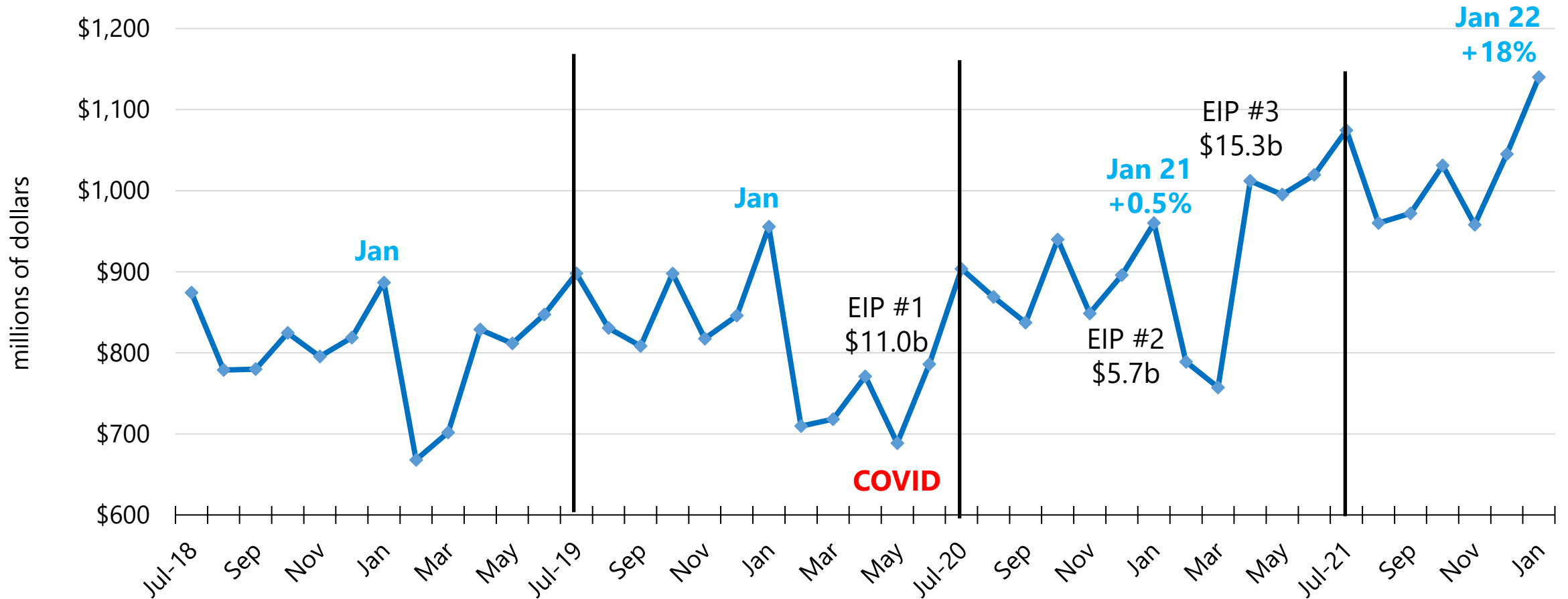
Non-motor sales tax continues to exceed estimates

- Holiday season exceptionally strong
- Impact from end of monthly advance CTC unclear (no data yet)
- Expiration of expanded UC in Sept appears to have little impact

Motor vehicle sales tax up +4.3% YOY latest six months

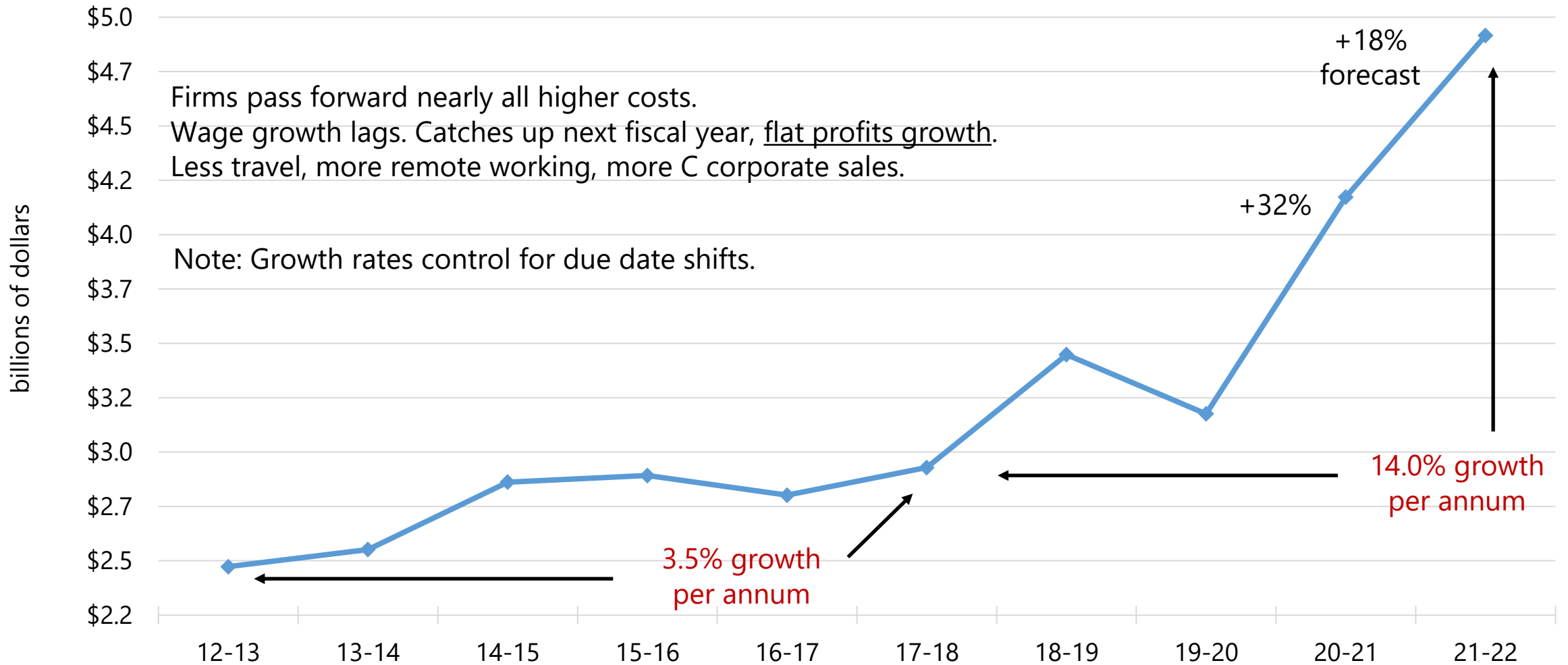
- YOY July-Dec avg inflation: new cars +22% | used cars +32%
- Forecast assumes higher prices stick, but flat demand
- PA auto loan debt grows dramatically (YOY) in 2021 Q2 (+12.7%) and Q3 (+9.9%)

Non-Motor Sales Tax Breaks Record in January



Note: EIP is economic impact payment. Data shifts \$160 million of delayed tax revenues from June-July 2020 to April-May 2020.

Corporate Net Income: Two Consecutive Strong Years



Initial Revenue Estimate FY 2022-23

	Initial Estimate	Dollar Change	Percent Change	Adjusted Growth or Notes
General Fund	\$43,319	-\$2,003	-4.4%	-0.8%
Corporate Net Income	4,654	-212	-4.4%	no stimulus, wages
Sales - Non-Motor	11,300	-368	-3.2%	no stimulus
Sales - Motor Vehicle	1,281	-521	-28.9%	new transfer
PIT - Withholding	12,355	565	4.8%	
PIT - Other	4,698	197	4.4%	
Inheritance	1,462	-54	-3.6%	
All Tobacco	1,015	-24	-2.4%	
Realty Transfer	786	16	2.1%	
All Other	5,768	-1,602	-21.7%	0.9%

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for a \$2.19 billion one-time transfer.

Report is Posted to IFO Website

Questions?

Submit to contact@ifo.state.pa.us