

IFO MID-YEAR UPDATE

FISCAL YEAR 2022-23

IFO Mid-Year Update

Presentation should run 25 minutes

- Will be posted to IFO website at end
- Please use chat feature to submit questions
- Will attempt to address them at end

If connection is lost, we will re-establish as soon as possible

IFO publishing series that examines end of pandemic programs

- SNAP emergency allotments (published last week)
- Childcare funding
- MA redeterminations

US Economic Forecasts

		Annual Growth Rates or Change			
		2021	2022	2023	2024
Real GDP	IHS Markit	5.9%	2.0%	0.5%	1.8%
	Wells Fargo	5.9%	2.1%	0.5%	0.3%
	PNC Bank	5.9%	2.0%	0.2%	0.1%
US CPI-U	IHS Markit	4.7%	8.0%	3.9%	2.2%
	Wells Fargo	4.7%	8.0%	3.3%	2.4%
	PNC Bank	4.7%	8.1%	4.3%	1.7%
Avg Monthly	IHS Markit	330	495	86	-27
Change Payroll	Wells Fargo	330	495	5	-38
Jobs (000s)	PNC Bank	330	492	42	-100

Note: IHS Markit and Wells Fargo forecasts released January 2023. PNC released December 2022.

PA Economic Forecasts

		IFO			IHS Markit		
		2022	2023	2024	2022	2023	2024
Real GDP	June 2022	1.1%	0.5%	--	2.4%	2.1%	--
	Jan 2023	1.9%	0.5%	1.2%	2.1%	0.9%	1.9%
Wages Paid	June 2022	8.1%	5.5%	--	9.4%	5.9%	--
	Jan 2023	8.3%	5.1%	4.3%	8.9%	5.3%	4.3%
Philly CPI-U	June 2022	7.6%	4.7%	--	7.4%	3.4%	--
	Jan 2023	7.9%	4.5%	2.8%	7.9%	4.0%	2.1%
Job Gains (000)	June 2022	135	30	--	199	74	--
	Jan 2023	190	25	30	205	48	-17

Note: Job Gains for payroll employment only. Excludes self-employed. June 2022 is economic forecast issued in that month.
 Source: Historical data from U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecasts by IFO or IHS Markit.

Pennsylvania Quarterly Economic Trends

	Year-Over-Year Growth Rate, Change or Current Level				
	2021.4	2022.1	2022.2	2022.3	2022.4
Real GDP	8.4%	-1.1%	-0.9%	3.2%	--
Wages-Salaries	8.3%	10.0%	9.6%	7.0%	5.6%
Philadelphia CPI-U	6.1%	7.3%	8.6%	8.1%	7.1%
Unemployment Rate	5.5%	5.1%	4.6%	4.2%	4.0%
Number Unemployed (000s)	353	327	288	270	255
Change Payroll Jobs (000s)	195	212	209	213	196
Labor Force Part. Rate	61.0%	61.1%	61.6%	61.7%	61.7%

Note: All growth rates relative to same quarter in prior year except Real GDP which is quarterly annualized rate. Wage-Salaries growth for 2022.3 and 2022.4 based on withholding tax revenues. Change Payroll Jobs is annual change for the quarter compared to prior year. Labor market data are seasonally adjusted.

Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis.

Federal Pandemic Stimulus Monies Largely End

	2020	2021	2022
Residents/Businesses	\$64.8	\$57.3	\$8.0
State and Federal UC	31.5	16.9	0.1
Economic Impact Payments	11.2	21.7	0.8
Paycheck Protection Program	20.7	10.0	0.0
Extra SNAP/CTC/Rent Assistance	1.3	7.3	4.9
Employee Retention Credit (ERC)	0.0	1.0	2.2
Direct State Govt Support	\$5.9	\$20.3	\$0.2
Direct Local Govt Support	\$2.6	\$8.3	\$0.1

Note: Billions of dollars. Extra SNAP/CTC/Rent Assist includes P-EBT, Sick and Family Leave (\$0.4 billion, self-employed) and expanded Child and Dependent Care (\$0.5 billion) refundable tax credits. Credits were attributable to tax year 2021 but received as a refund in CY 2022. Estimates for PA assume state is 4% of US total reported on tax return.

received Jan to April 2022

SNAP emergency allotments end Feb 2023
~\$100 per person monthly, 1.9m residents

~\$1.0 billion refundable tax credits received Jan to April 2022 (see note)

Pennsylvania Jobs Still Lag Pre-COVID Levels

	Change From Dec 2019		Annual Gain	Share of Dec 19
	Dec 21	Dec 22		
Total Payroll Employment	-254	-54	+200	99.1%
Construction	-11	-2	9	99.3
Manufacturing	-25	0	25	100.0
Retail-Wholesale Trade	-20	-5	15	99.4
Transportation-Storage	23	42	20	113.0
Professional and Technical	12	22	9	106.0
Admin-Waste Management	-32	-18	14	94.5
Education (excludes local SD)	-16	-12	4	95.2
Healthcare-Social Assistance	-62	-21	42	98.1
Arts-Entertainment	-11	0	11	99.7
Accommodation-Food Service	-57	-29	28	93.8
All Govt (includes local SD)	-34	-31	3	95.8
All Other Sectors	-21	0	21	99.9

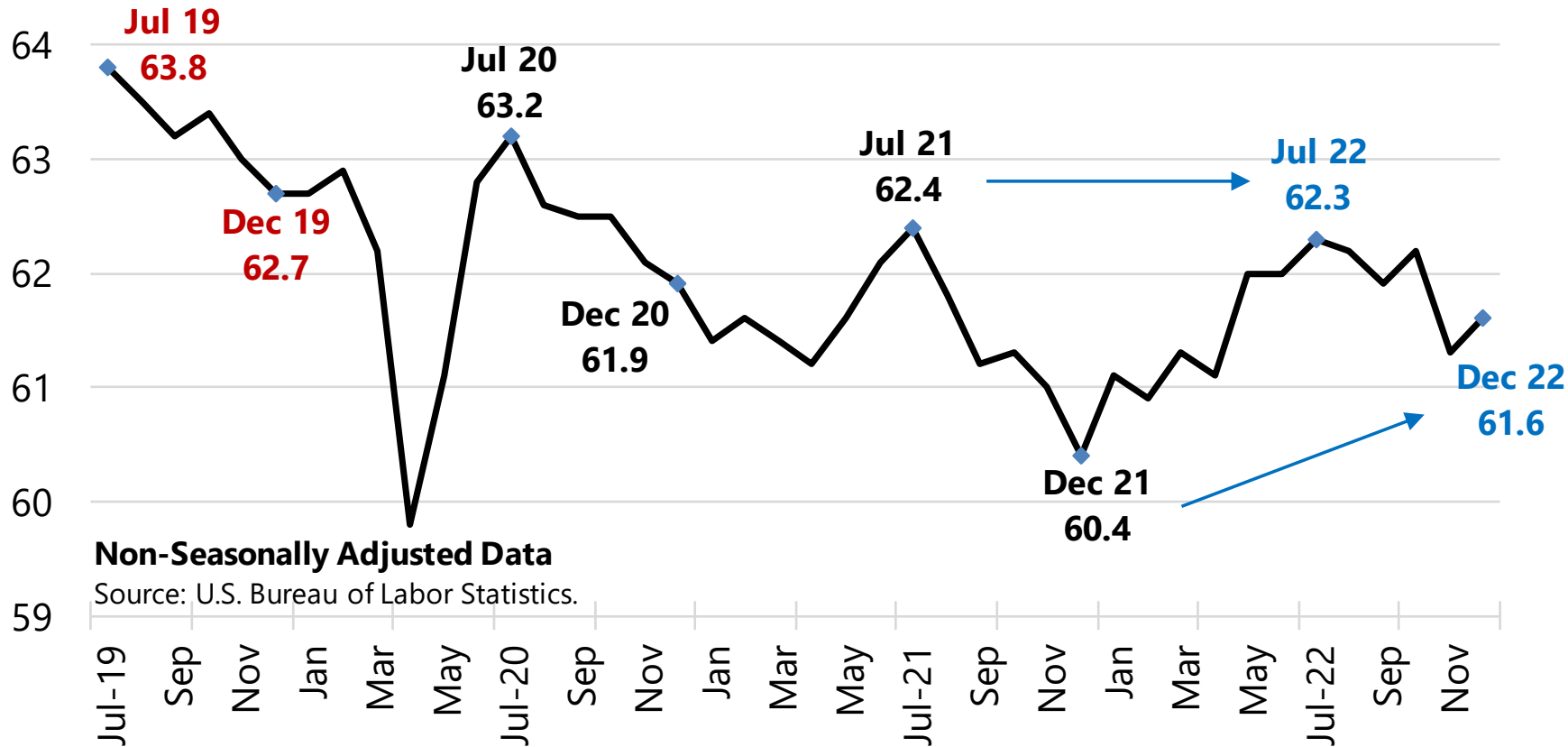
Note: Thousands of payroll jobs. Data not seasonally adjusted. Excludes self-employed. Source: U.S. Bureau of Labor Statistics.

Subsector Detail

	Change From Dec 2019		Annual Gain	Share of Dec 19
	Dec 21	Dec 22		
Jobs Contraction				
Nursing and Residential Care	-32	-25	7	87.8%
Full-Service Restaurants	-30	-17	13	91.5
Employment Services (temps)	-17	-15	2	88.4
Colleges and Universities	-10	-15	-5	91.0
Religious and Non-Profits	-16	-14	2	89.9
Jobs Expansion				
Warehouse and Storage	23	32	9	131.5%
Management of Companies	5	12	7	108.9
Couriers and Messengers	10	10	0	120.1
Services to Buildings	4	6	2	107.6

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

Labor Force Participation Rate Starting to Recover?

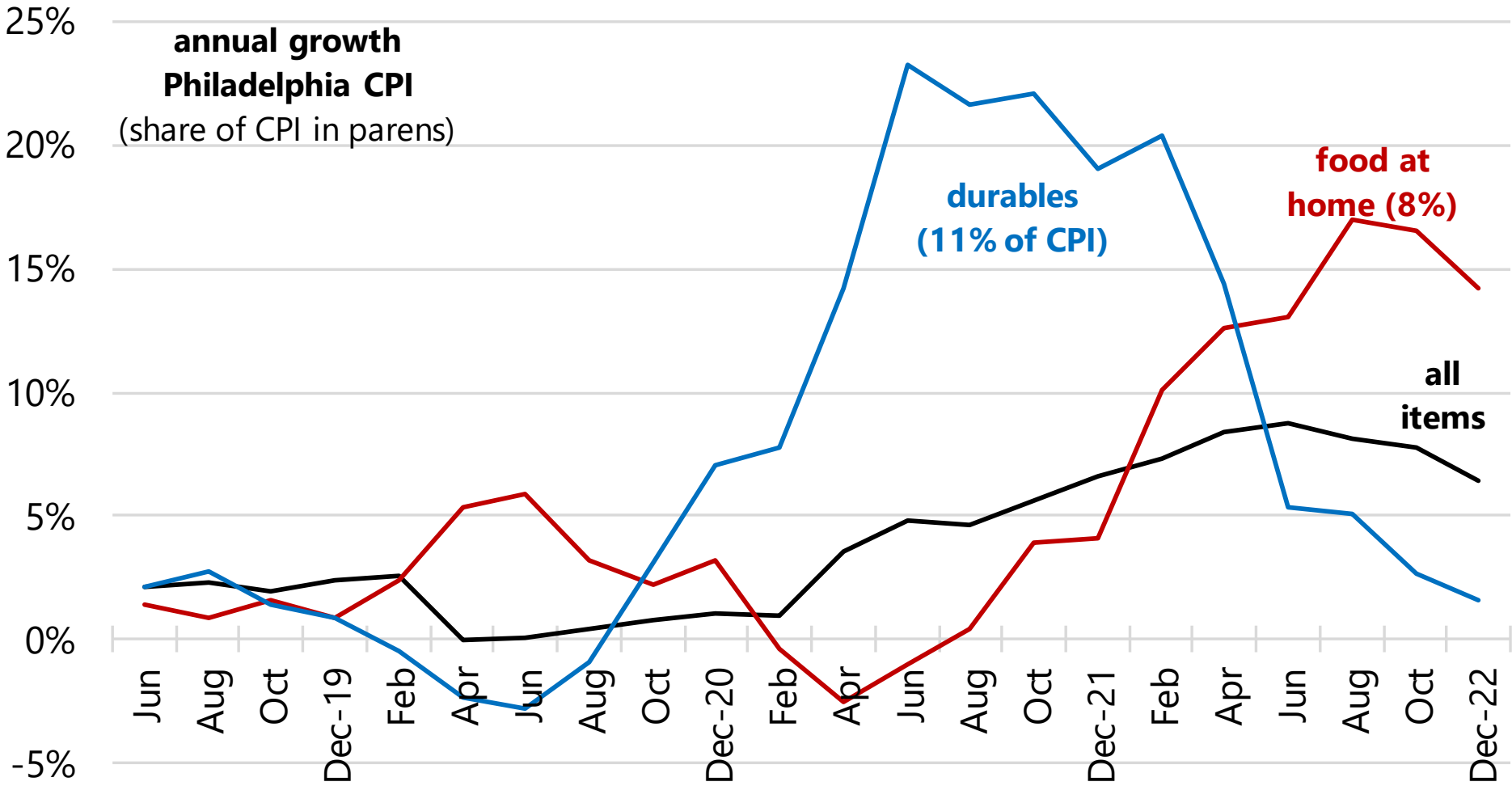


LFPR = share of adults age 16+ working or looking for work

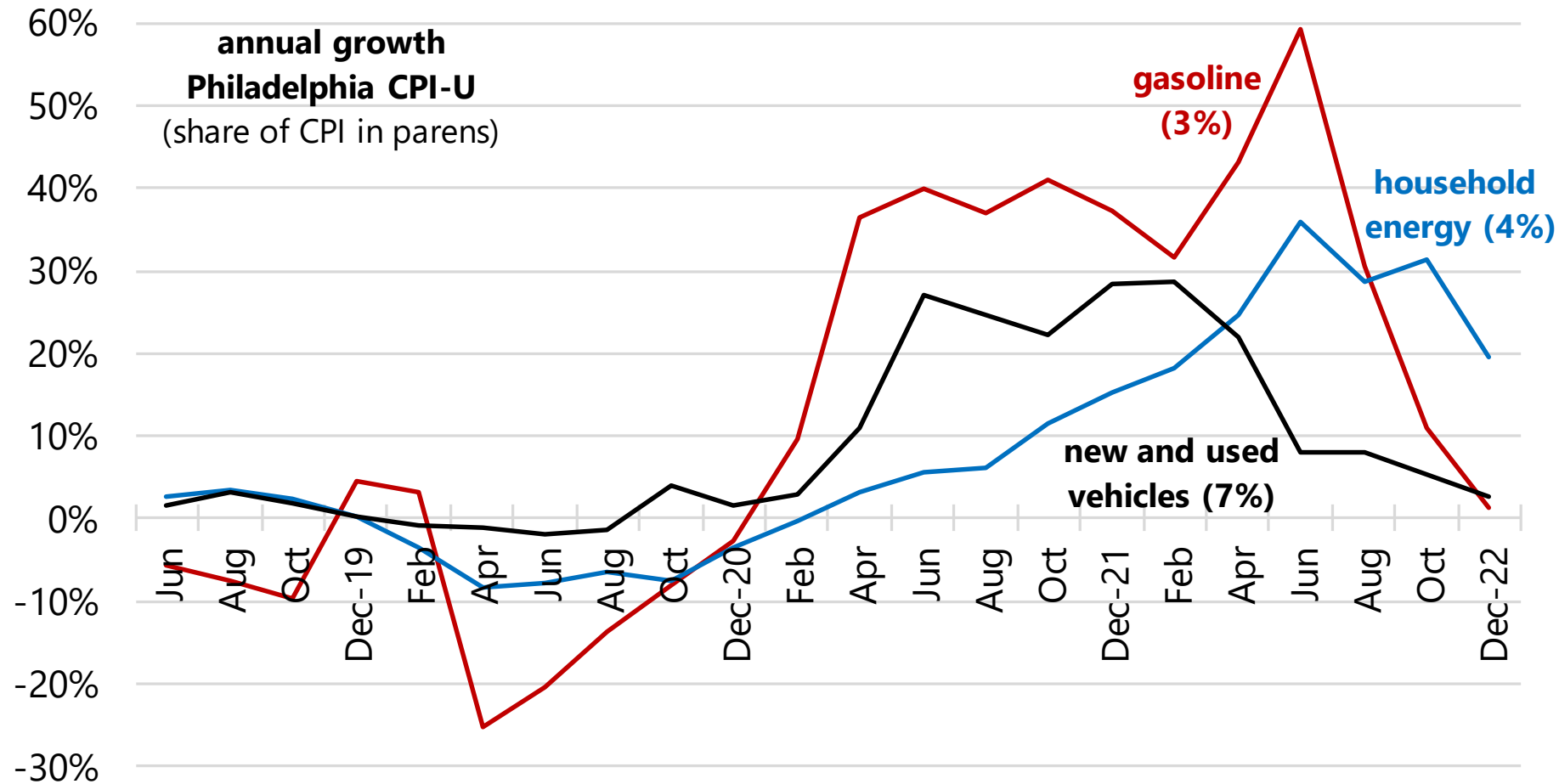
July down ~1.5 ppts from 2019
140,000 workers

Dec down ~1.1 ppts from 2019
95,000 workers

Consumer Inflation Peaks in June 2022



Three Minor Series Drive Recent CPI-U Growth

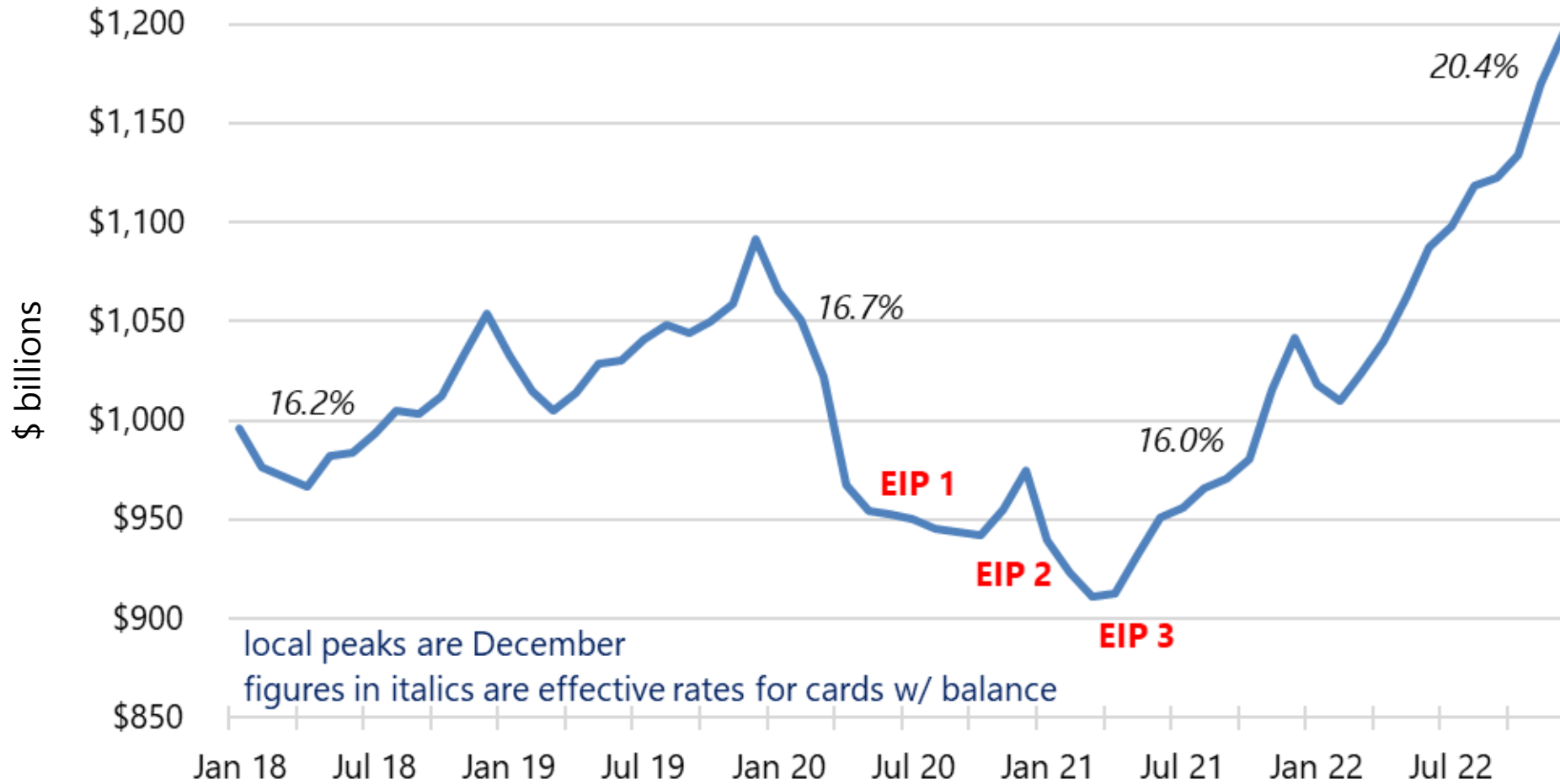


note: scale is different from prior graph

both energy series peak in June 2022

gasoline +30 cents per gallon Jan 2023

Consumer Credit Card Debt Explodes after Third EIP



Lower income consumers under increasing stress

SNAP emergency allotments end Feb 2023

Student loans not repaid since Spring 2020, extended to June 2023

Note: Data not seasonally adjusted. EIP is economic impact payment. Source: Federal Reserve Board.

Cash and Cash Equivalents Much Higher Than Pre-COVID

Income Group	Latest 2022 Q3	Change from 2020 Q1		Avg Gain Household
		Dollar	Percent	
Top 1%	\$4,123	\$1,190	+41%	\$906,180
80% to 99%	8,346	2,050	33	82,220
60% to 80%	2,402	367	18	13,970
40% to 60%	1,392	315	29	12,000
20% to 40%	869	57	7	2,150
0% to 20%	<u>677</u>	<u>122</u>	<u>22</u>	<u>4,640</u>
Total	17,809	4,100	30	31,250

Note: Billions of dollars. Includes checkable deposits, time deposits and money market accounts.
Source: Federal Reserve Board.

Checking + Savings
+ Money Market
Accounts

Balances peaked for
all groups in 2022 Q1

79% of gain
to top 20%

Inflation = 14%
real change is negative

FY 2022-23 Revenues Through January

	Dollar Amount	YOY Growth	Adjusted Growth	Notes
General Fund Revenues	\$23,344	-10.7%	6.4%	see note below
Corporate Net Income	2,829	11.8		
Sales - Non-Motor	7,589	6.1		
Sales - Motor Vehicle	801	-24.4	5.5	PTTF transfer (~\$42m/month)
PIT - Withholding	7,148	5.2	6.1	election integrity transfer
PIT - Other	2,123	16.4		
Inheritance	851	-4.2		
All Tobacco	588	-11.0		unexpected weakness
Realty Transfer	408	-16.9		consistent weakness
All Other	1,008	-78.8	11.4	fed funds/transfer (\$3.8b)

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for one-time/new transfers. January revenues are estimated.

Mid-Year Update for FY 2022-23

	IFO Official Estimate (June 2022)			Mid-Year Update		
	Amount	Growth	Adjusted	Amount	\$ Change	Adjusted
General Fund Revenues	\$42,187	-12.4%	-3.1%	\$43,713	\$1,526	+0.5%
Corporate Net Income	4,892	-8.1	-4.4	5,301	409	3.6
Sales - Non-Motor	11,831	-2.0		12,483	652	
Sales - Motor Vehicle	1,365	-25.7	3.1	1,365	0	3.1
PIT – Withholding	12,754	6.0	6.6	12,610	-144	5.4
PIT – Other	4,613	-24.4		5,013	400	
Inheritance	1,415	-8.7		1,457	42	
All Tobacco	1,009	-1.4		913	-96	
Realty Transfer	781	-7.8		674	-107	
All Other	3,528	-52.0	0.5	3,898	369	11.1

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for one-time/new transfers and CNIT law changes.

Detail on COVID Relief Programs for Pennsylvania

Student Loan Repayments

Student Loan Debt (federal)	~\$70 billion
Number PA Borrowers	1.83 million
Average Payment	\$350 /month
Monthly Total Amount	\$640 million
Monthly SUT Impact	~-\$12 million

FY 23-24 estimate assumes repayments resume
-\$150 million SUT impact, -1.2 ppts growth

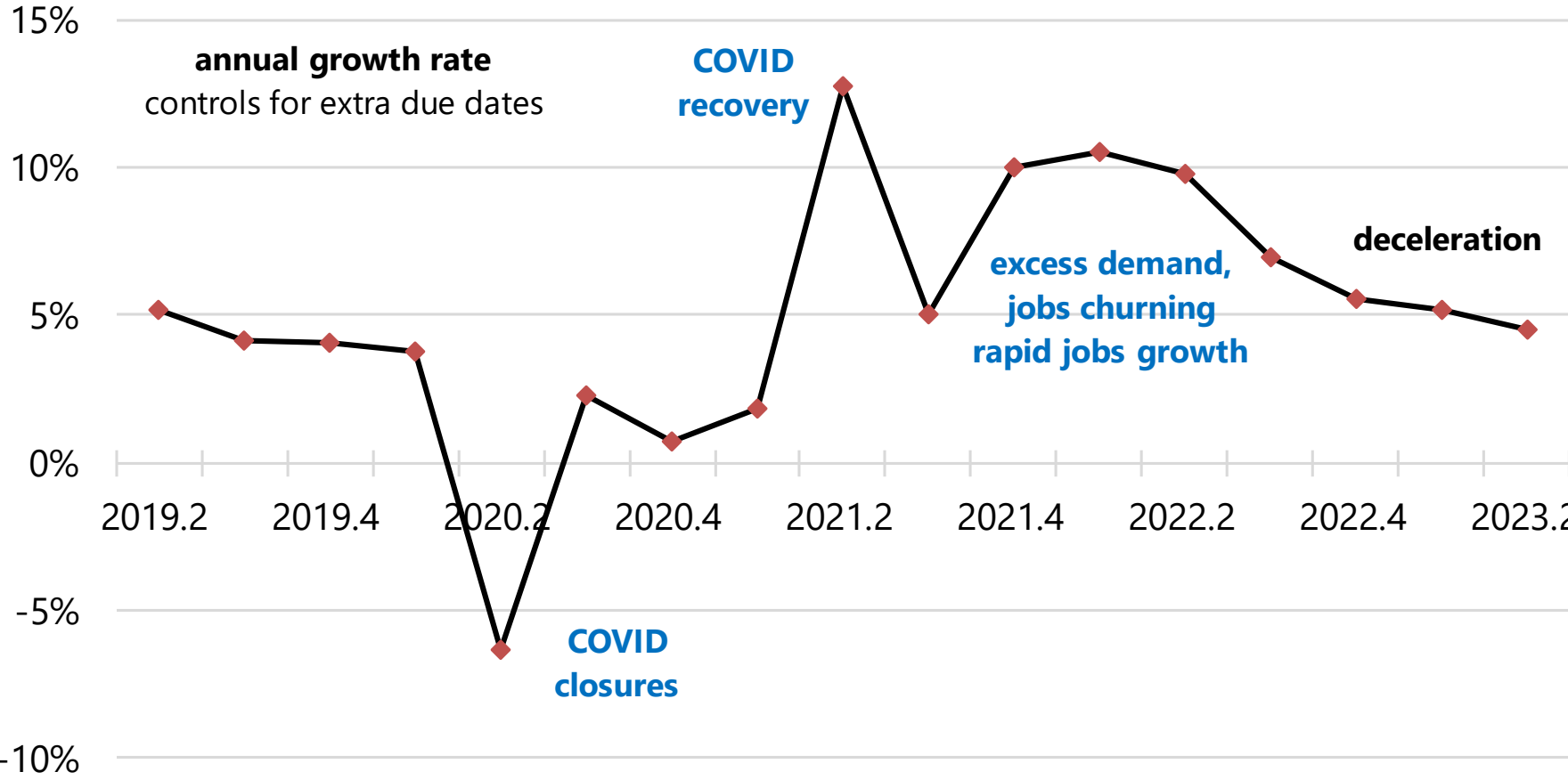
Moratorium extended to June 30, 2023

SNAP Benefits

Emergency allotments end Feb 2023
~\$100 per person per month
~\$200 million per month
1.9 million recipients

Higher benefits allow more spending on other goods/services
Many are taxable (dining out, electronics)
-\$7 million per month

Withholding: Large Wage Gains Largely Done



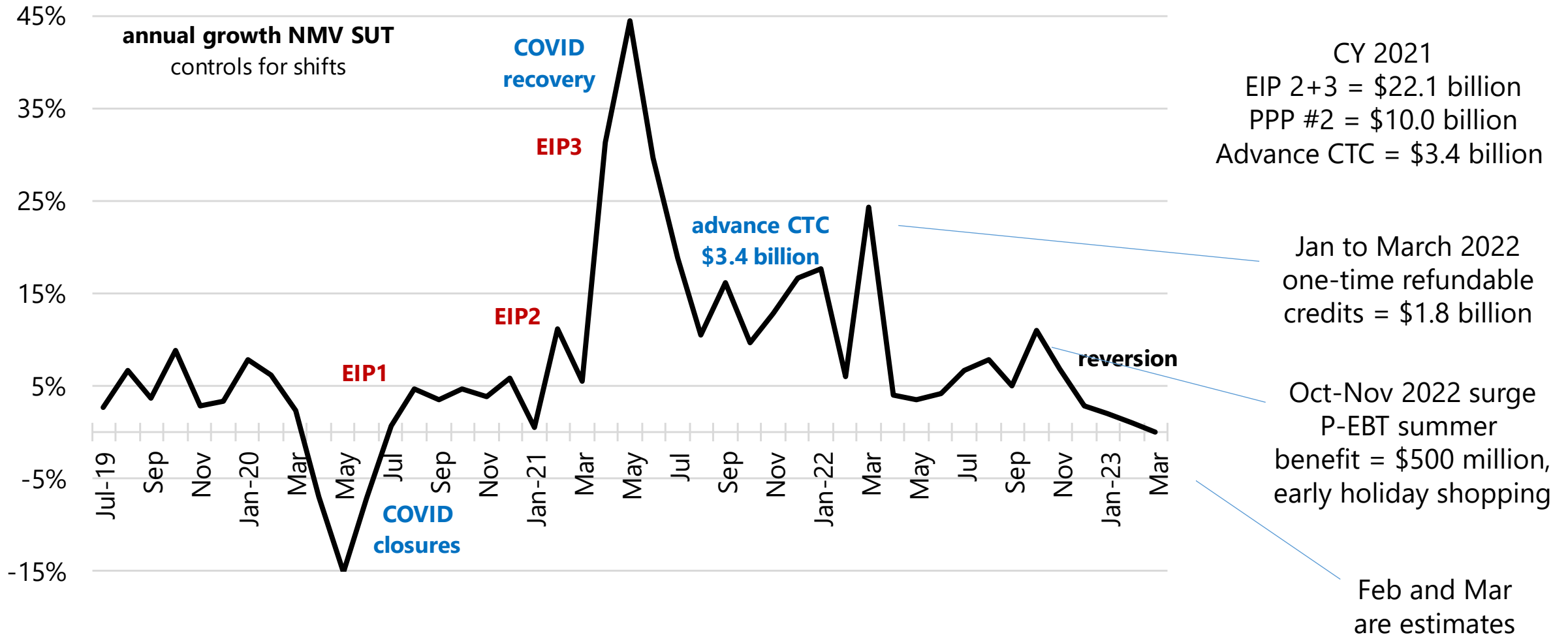
PA Unemployment Rate lowest on record

1.6 job openings per unemployed resident

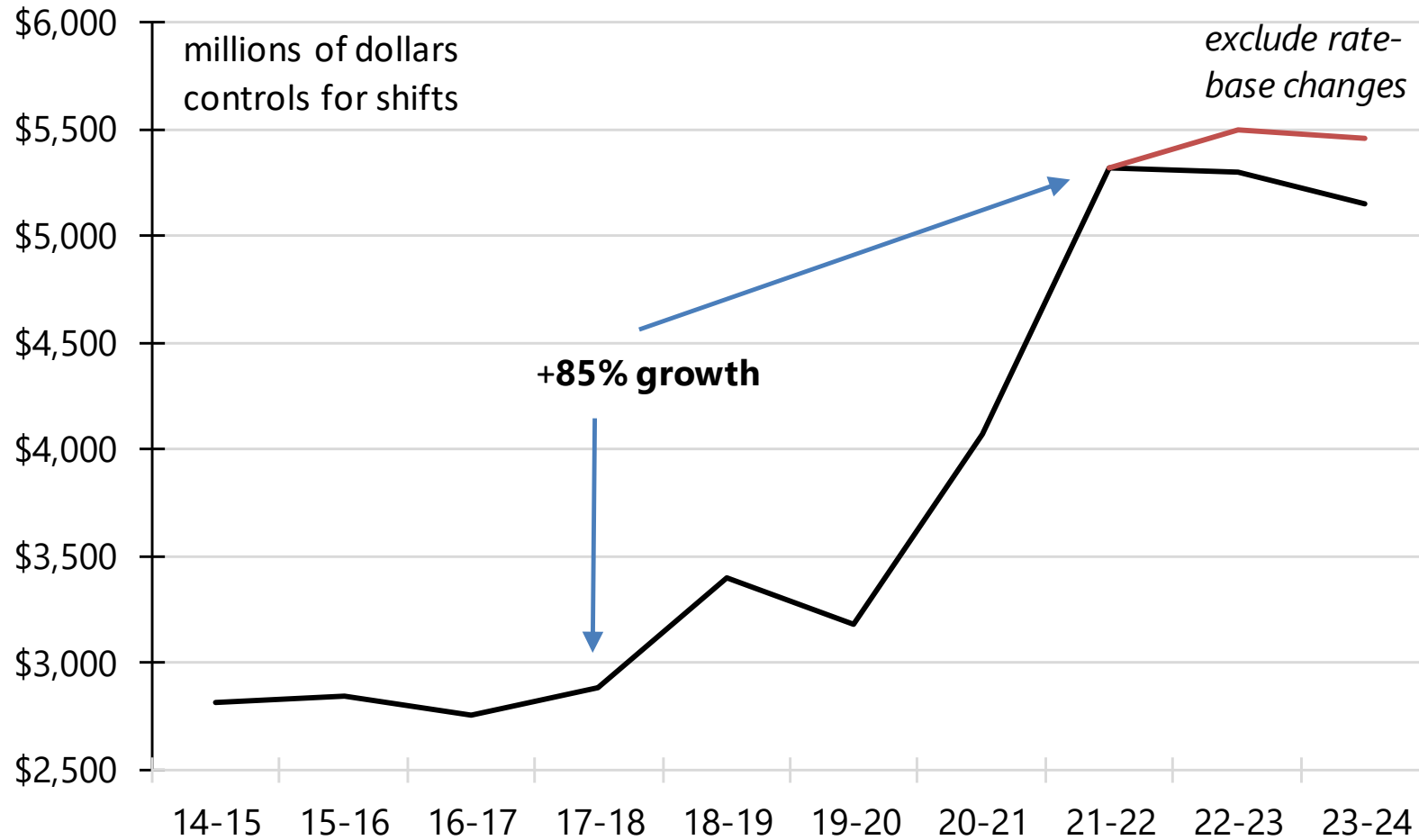
Wage growth slowing despite strong job gains

- avg hours worked fall
- more part-time jobs
- fewer hiring bonuses and overtime

Non-Motor Sales and Use Tax: Growth Turns Negative



Corporate Net Income Tax: Permanent Gains



FY 17-18 to 21-22
Inflation = 14%
~71% real profits growth

higher profit margins (FactSet)
stimulus increases purchases

2022 Q3-Q4 declining
profit margins (FactSet)

2017 Tax Cuts Jobs Act
must amortize
R&D costs (not expense)
~+\$150 million revenues
for TY 2022

Initial Revenue Estimate FY 2023-24

	Initial Estimate	Dollar Change	Percent Change	Notes
General Fund Revenues	\$44,580	\$867	2.0%	
Corporate Net Income	5,160	-141	-2.7	rate cut, base expansion
Sales - Non-Motor	12,690	207	1.7	loan repayments begin
Sales - Motor Vehicle	1,390	25	1.8	
PIT - Withholding	13,230	621	4.9	
PIT - Other	5,110	98	1.9	net profits flat 2023
Inheritance	1,480	23	1.6	
All Tobacco	880	-33	-3.6	
Realty Transfer	610	-64	-9.5	weakness in prices/sales
All Other	4,030	132	3.4	

Note: Dollars in millions. PIT is personal income tax.

Presentation is Posted to IFO Website

Questions?

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