

IFO Mid-Year Update

Fiscal Year 2023-24

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Today's Presentation

- Presentation runs ~30 minutes
 - Posted to IFO website at end
 - 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
- Economy somewhat stronger than assumed, but revenues running slightly under forecast

PA Economic Forecast Update: June 2023 vs January 2024

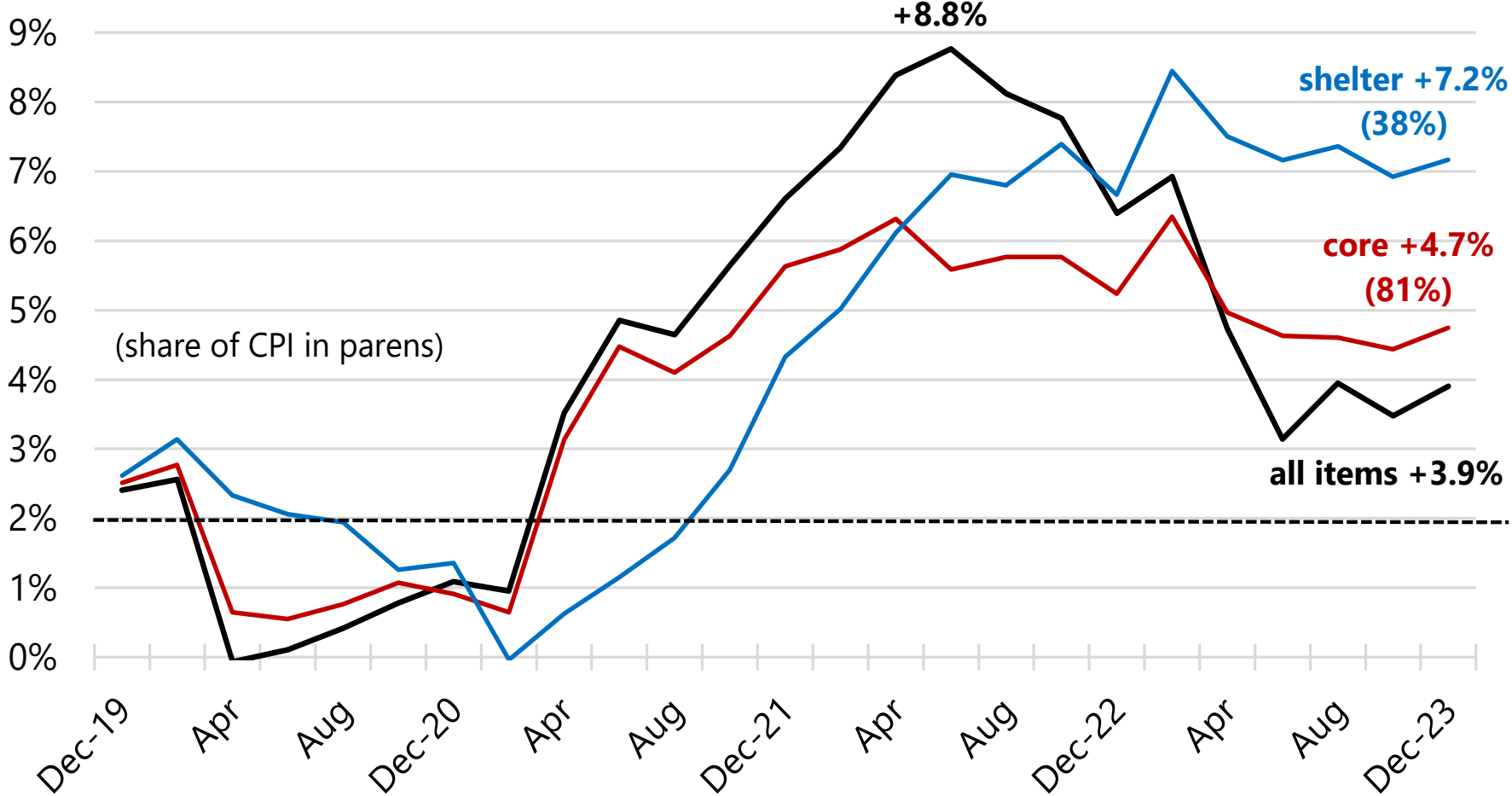
		2021	2022	2023	2024	2025
Real GDP	Jun 2023	4.4%	2.1%	1.7%	0.6%	1.3%
	Jan 2024	3.8%	1.0%	2.1%	0.9%	1.3%
Wages-Salaries	Jun 2023	7.2%	8.5%	5.1%	3.8%	3.9%
	Jan 2024	7.3%	7.7%	4.9%	3.6%	3.8%
Change Payroll Jobs (000s)	Jun 2023	155	227	90	5	30
	Jan 2024	155	227	110	25	31
Philadelphia CPI-U	Jun 2023	4.0%	7.9%	4.4%	3.2%	2.5%
	Jan 2024	4.0%	7.9%	4.4%	3.1%	2.4%

Notes: Change Payroll Jobs for 2023 assumes a -40k revision to preliminary figures based on research published by Federal Reserve Bank of Philadelphia. Blue shading is an estimate (some data available) or projection (no data available).

Latest PA Economic Trends

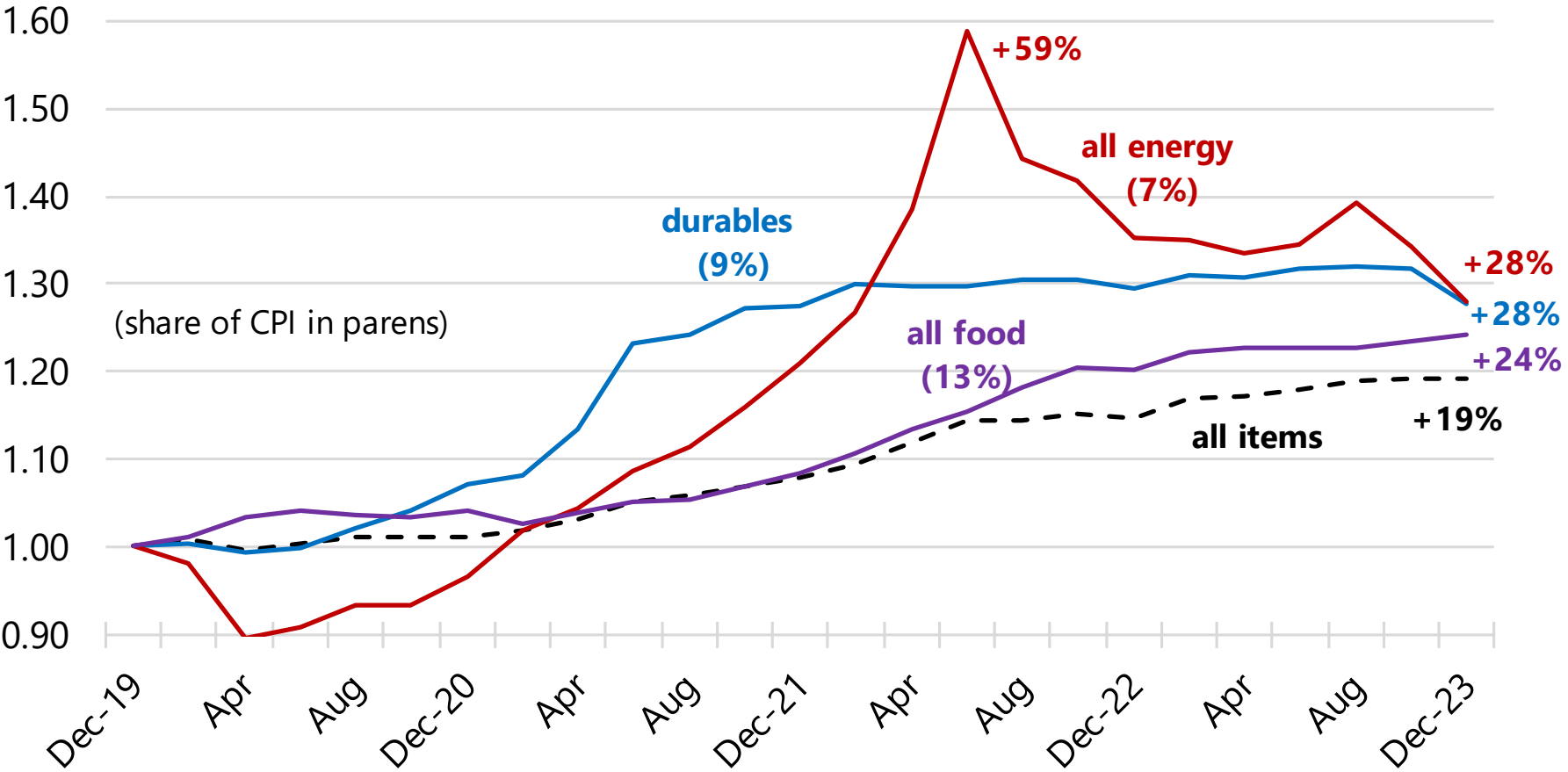
	2023.1	2023.2	2023.3	2023.4
<u>Macroeconomics</u>				
Real GDP	0.8%	2.3%	5.6%	--
Wages and Salaries	6.4%	5.2%	4.3%	4.3%
Philadelphia CPI-U	6.9%	3.9%	3.9%	3.7%
<u>Housing Market</u>				
FHFA Home Value Index	5.2%	5.3%	8.1%	--
RedFin Home Sales	-20.1%	-17.6%	-17.5%	-5.9%
30-Yr Mortgage Rate	6.37%	6.51%	7.04%	7.30%
<u>Labor Market</u>				
Unemployment Rate	4.3%	4.0%	3.5%	3.5%
Change Payroll Jobs (000s)	142	115	108	85
Change All Jobs (000s)	44	41	74	83
<p>Note: Figures are year-over-year growth rates, except Real GDP (quarterly annualized) and Unemployment Rate (average rate for quarter). Change Payroll Jobs assumes a -40k revision to preliminary data based on research published by the Federal Reserve Bank of Philadelphia. All Jobs include self-employed.</p>				

Annual Growth Philly CPI-U



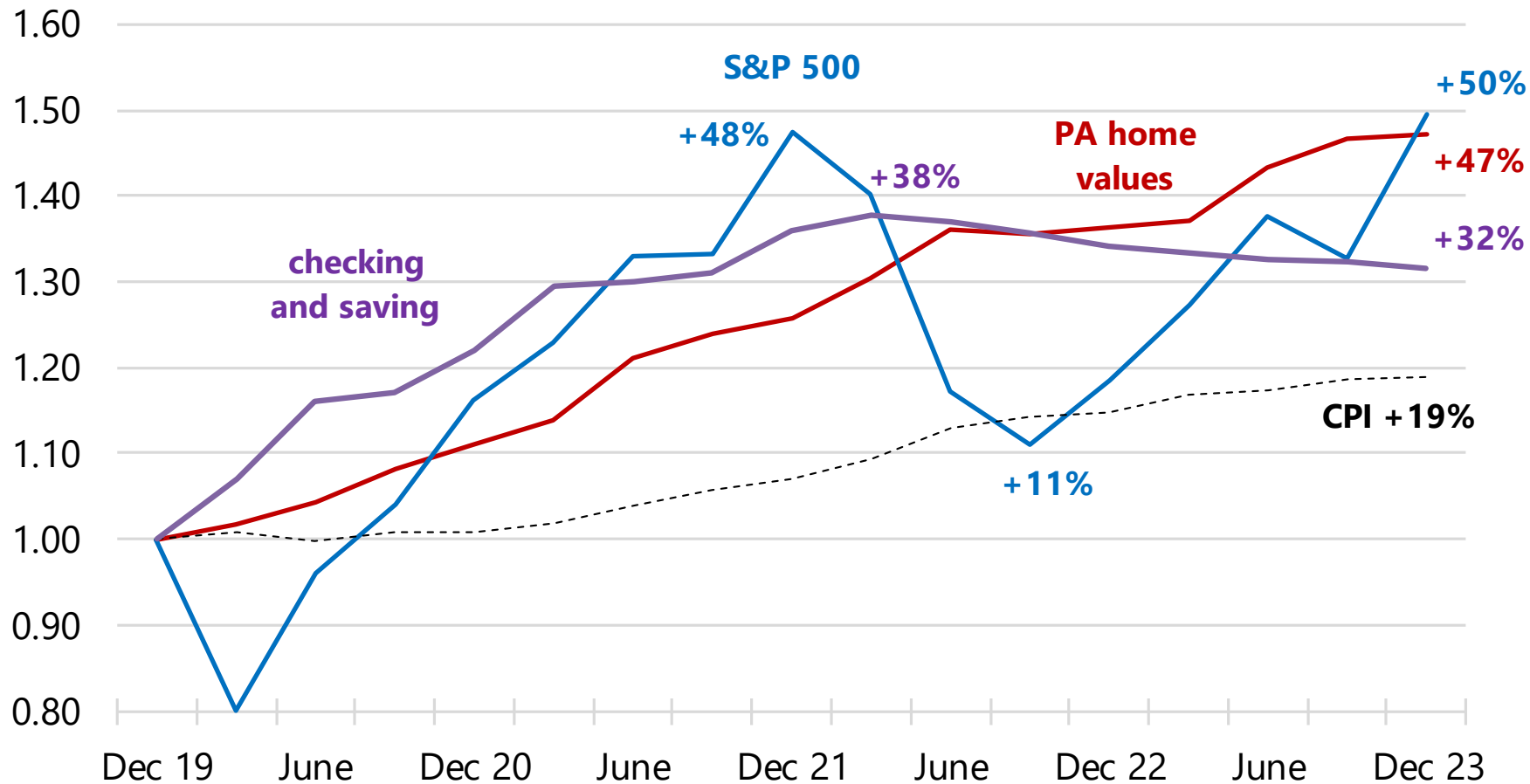
- Peaks June 2022 at 8.8%
- Core excludes food and energy
- Shelter continues to run very high
- Inflation to remain elevated in 2024 due to (1) lagging shelter component (2) no more energy and durable goods deflation

Cumulative Growth in Philly CPI-U



- Energy deflation since June 2022
- Gasoline, recently utility bills down (natural gas)
- Durable goods deflation in December
- Used cars down -12% since June 2022

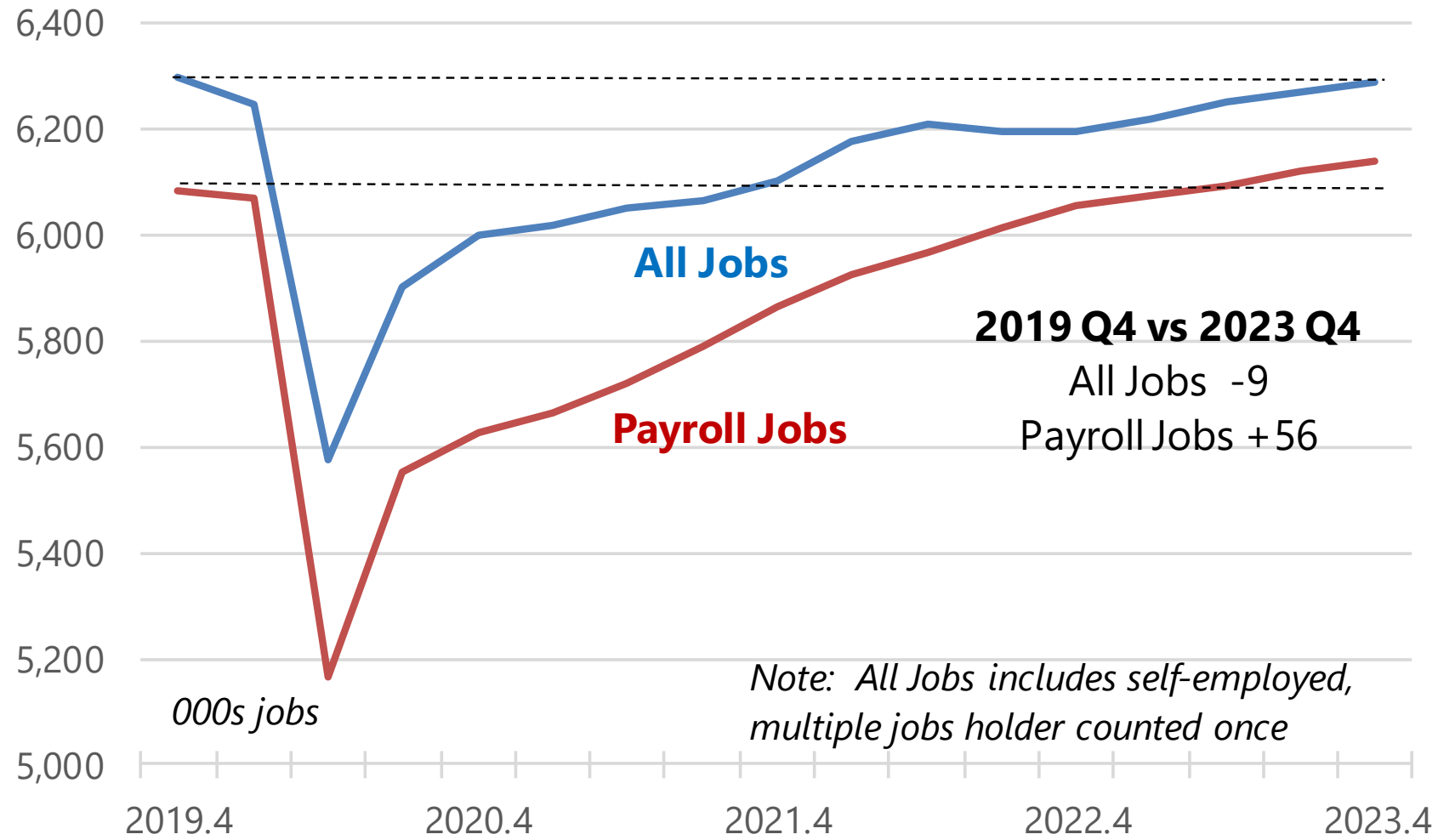
Wealth Effects and Savings Support Consumers



- January SUT up +6% YOY
- S&P 500 +48% Dec 2021; +50% Dec 2023
- No reversal in home values
- US Checking-Savings peaks in Mar 2022 +38%; falls to +32% Dec 2023

Top 20%: up +40%
 Middle 20%: up +22%
 Bottom 20%: down -12%

PA Jobs Revert to Pre-Covid Levels



Expansion (Payroll Jobs)

- Social Assistance +32
(most is elderly-disabled services)
- Warehouse-Storage +23
- Comp System Design +10
- Home Health Care +9

Contraction

- Nursing Home -17
- Full Serve Restaurant -13
- Retail Sales -12

FY 2023-24 Revenues Through January

	Dollar Amount	Dollar Change	YOY Growth	Notes
General Fund Revenues	\$23,735	\$376	1.6%	1.0% adjusted, \$140m below estimate
Corporate Net Income	2,852	20	0.7	gains despite 1.0 ppt rate cut
Sales - Non-Motor	7,717	128	1.7	strong January +6%
Sales - Motor Vehicle	781	-19	-2.4	
PIT - Withholding	7,610	456	6.4	4.2% adj. for extra deposit day
PIT - Other	1,766	-354	-16.7	very strong overpayments last year
Inheritance	870	19	2.2	
All Tobacco	530	-58	-9.8	
Realty Transfer	302	-105	-25.8	
All Other	1,306	290	28.5	\$59m in January from TSF earnings

Note: Dollar millions. PIT is personal income. January revenue preliminary. Figures control for processing delays last fiscal year.

Mid-Year Update for FY 2023-24

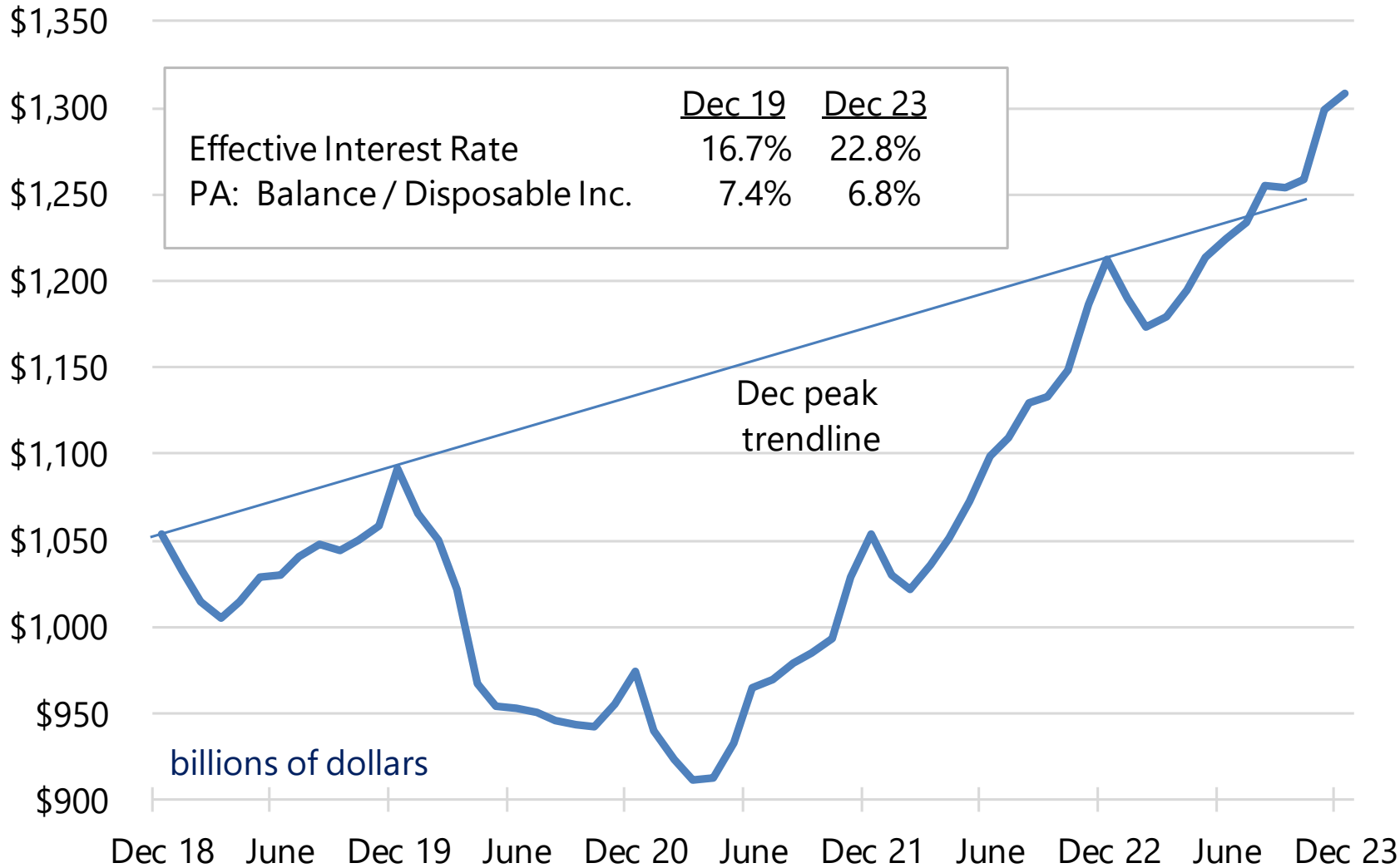
	IFO Estimate	Mid-Year Update			Notes
		Update	\$ Change	Growth	
General Fund Revenues	\$45,201	\$45,028	-\$173	0.2%	
Corporate Net Income	5,699	5,668	-31	-7.7	federal impact?
Sales - Non-Motor	12,651	12,737	87	0.8	savings depletion
Sales - Motor Vehicle	1,414	1,358	-56	-1.9	
PIT - Withholding	13,226	13,156	-70	4.0	some softness
PIT - Other	5,048	4,743	-305	-4.8	final payment +6%
Inheritance	1,526	1,548	22	1.5	
All Tobacco	892	838	-54	-9.5	
Realty Transfer	649	543	-106	-15.7	
All Other	4,098	4,437	339	10.1	Treasury earnings

Note: Dollar millions. Official estimate is adjusted for tax law changes enacted in December 2023. PIT is personal income.

Sales and Use Tax

	YOY Growth Rate			
	2023.1	2023.2	2023.3	2023.4
Sales and Use Tax				
Non-Motor Vehicle	3.5%	1.7%	1.8%	0.3%
Motor Vehicle	7.5%	-0.1%	-3.0%	-1.0%
Consumer Debt				
PA Auto Loans	4.8%	3.3%	3.5%	--
PA Credit Cards	13.0%	13.2%	14.2%	--
US Credit Cards	13.8%	11.4%	10.7%	7.9%
Wealth Metrics				
PA Home Value Index	5.2%	5.3%	8.1%	7.6%
S&P 500 Index	-9.3%	17.6%	19.6%	25.8%
US Checking-Savings Balance	-3.2%	-3.3%	-2.4%	-2.0%

Sources: Federal Reserve Bank of New York and FHFA. PA Home Value Index for 2023.4 is an estimate.



US Credit Card Debt above trend, but manageable

- Typically grows by \$40 billion per annum
- 2023 grows ~\$100 billion
- Dec 19 to Dec 23: balances up +20%, same as inflation
- Jan-Feb paydown cycle will reveal stress

Personal Income Tax

	YOY Growth Rate			
	2023.1	2023.2	2023.3	2023.4
Withholding	5.0%	4.6%	4.6%	4.2%
2023 Estimated Payments	-18.5%	-19.6%	-19.0%	-16.6%
PA Income Data				
Wages and Salaries	6.4%	5.2%	4.3%	--
Dividends, Interest, Rent	8.6%	7.0%	5.9%	--
Proprietor's Income	4.2%	2.9%	3.1%	--
Social Security	8.4%	11.3%	11.3%	--

Source: U.S. Bureau of Economic Analysis.

Corporate Net Income Tax

	YOY Growth Rate			
	March	June	Sept	Dec
2023 Estimated Payments	20.2%	1.3%	-15.0%	-28.1%
US Corporate Profit Trends				
Domestic Non-Financial Profits	5.5%	-1.9%	0.4%	--
FactSet: S&P 500 Net Earnings	-2.2%	-5.2%	4.1%	--
	2020	2021	2022	2023
CNIT Payments (tax year) *(2023 controls for rate cut)	13.8%	33.4%	23.5%	-2.1%

Source: U.S. Bureau of Economic Analysis, FactSet.

Other Revenue Trends

Realty Transfer

US home sales at all time low since 1995

Very strong lock in effect from higher rates

Forecast assumes recovery due to lower mortgage rates, pent-up demand

Treasury Earnings

FY 23-24 estimate is \$791 million

Pre-Covid average is ~\$30 million

Assumes no rate cuts until June | earning ~5.2%

Extra \$59 million deposit in January due to earnings on tobacco settlement funds

Cigarette

Pre-Covid trend decline of -4.5% per annum

FY 19-20 to FY 22-23 down -4.8% per annum

FY 23-24 through Jan 2024 down -8%

Preliminary Estimate for FY 2024-25

	Growth Rate	Dollar Change	Notes
General Fund Revenues	0.6%	\$250	growth is 2.9% excluding CNIT and Treasury
Corporate Net Income	-10.6	-601	rate falls to 8.49% (2024) and 7.99% (2025)
Sales - Non-Motor	2.5	315	
Sales - Motor Vehicle	2.1	29	car sales rebound, flat prices
PIT - Withholding	4.0	529	flat jobs growth, tight labor market
PIT - Other	4.3	206	
Inheritance	0.0	0	
All Tobacco	-7.4	-62	
Realty Transfer	11.2	61	home sales rebound
All Other	-5.1	-226	Treasury declines \$266 million

Note: Dollar millions. PIT is personal income.

Federal/National Factors Pose Greatest Risk

November Election

Uncertainty harms economic growth

Business investment may enter holding pattern until outcome known

Federal Budget

Powell: Fiscal policy is unsustainable (Oct 2023)

\$509 billion deficit 1st quarter of FFY 2024

Dec 2025: expiration of many TCJA provisions

Federal Reserve

Number and timing of rate cuts

Ongoing pace of Quantitative Tightening

Reduced liquidity from depletion of reserves kept at Federal Reserve

Questions?

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