

# ECONOMIC AND BUDGET OUTLOOK

FISCAL YEARS 2022-23 TO 2027-28

# Annual Five-Year Economic and Budget Outlook

- Report and both presentations will be posted to IFO website at conclusion.
- Questions will be addressed at end of each presentation. Please use chat feature to submit.
- More detailed questions can be submitted to [contact@ifo.state.pa.us](mailto:contact@ifo.state.pa.us).
- If connection is lost, please wait and we will attempt to re-establish.

# Guest Presentation – Phillip Swagel, CBO Director

## Federal Budget Outlook

Phillip L. Swagel became the 10th Director of the Congressional Budget Office on June 3, 2019. Previously, he was a professor at the University of Maryland's School of Public Policy and a visiting scholar at the American Enterprise Institute and the Milken Institute. He has also taught at Northwestern University, the University of Chicago's Booth School of Business, and Georgetown University.

From 2006 to 2009, Dr. Swagel was Assistant Secretary for Economic Policy at the Treasury Department, where he was responsible for analysis of a wide range of economic issues, including policies relating to the financial crisis and the Troubled Asset Relief Program. He has also served as chief of staff and senior economist at the Council of Economic Advisers in the White House and as an economist at the Federal Reserve Board and the International Monetary Fund. He earned his Ph.D. in economics from Harvard University and his A.B. in economics from Princeton University.

# Four Parts and Main Themes

## Demographics

- Working age cohort (age 20-64) continues to contract
- Labor force participation rates must increase rapidly to facilitate jobs creation

## Economics

- Simulation assumes no recession, but no growth for CY 2023

## Revenues

- Inflation boosts stock and home values | capital gains surge in 2021 (+85%)
- Business profits far above historical levels
- CNIT rate cut reduces revenues by \$1.4 billion in FY 27-28

## Expenditures

- FY 22-23 funding increases assumed permanent
- Federal COVID relief/enhanced FMAP ends in FY 22-23 (assumed)

# PA Demographics: 2020 - 2025 - 2030

Age Cohort	Number (000s)			Number Change		Percent Change	
	2020	2025	2030	20-25	25-30	20-25	25-30
0 to 19	3,044	2,916	2,790	-128	-126	-4.2%	-4.3%
20 to 64	7,528	7,311	7,136	-217	-175	-2.9%	-2.4%
65 to 79	1,839	2,108	2,208	269	100	14.6%	4.7%
80+	<u>578</u>	<u>626</u>	<u>762</u>	<u>48</u>	<u>136</u>	<u>8.3%</u>	<u>21.7%</u>
<b>Total</b>	<b>12,990</b>	<b>12,960</b>	<b>12,897</b>	<b>-29</b>	<b>-63</b>	<b>-0.2%</b>	<b>-0.5%</b>

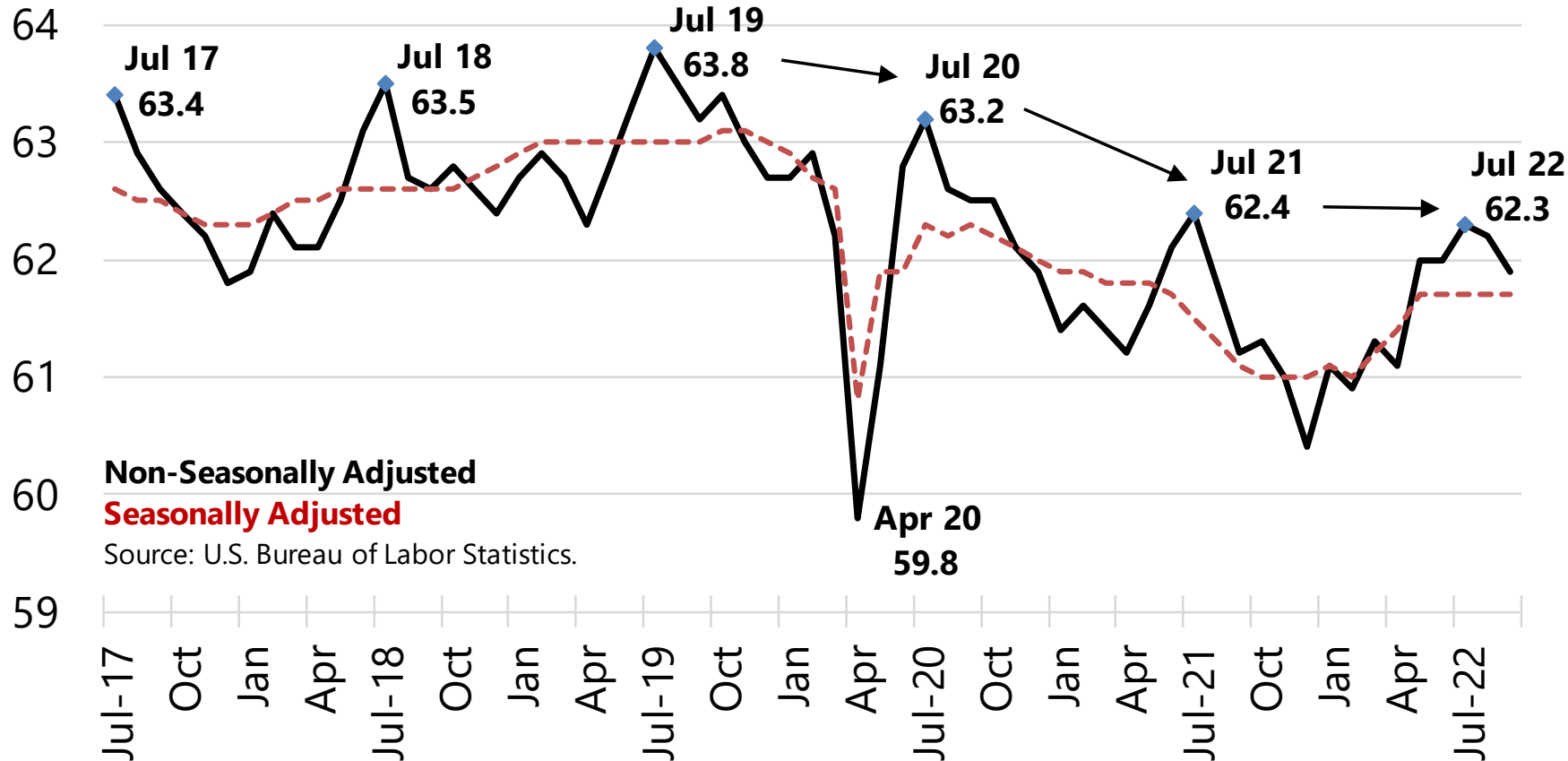
Source: U.S. Census Bureau. Forecast by IFO.

# PA Demographics: COVID and Near-Term

Age Cohort	Number (000s)			Number Change		Percent Change	
	2019	2022	2025	19-22	22-25	19-22	22-25
0 to 19	3,068	2,989	2,916	-79	-73	-2.6%	-2.4%
20 to 64	7,570	7,439	7,311	-131	-128	-1.7%	-1.7%
65 to 79	1,784	1,950	2,108	166	157	9.3%	8.1%
80+	<u>579</u>	<u>586</u>	<u>626</u>	<u>8</u>	<u>39</u>	<u>1.3%</u>	<u>6.7%</u>
<b>Total</b>	<b>13,001</b>	<b>12,965</b>	<b>12,960</b>	<b>-36</b>	<b>-4</b>	<b>-0.3%</b>	<b>0.0%</b>

Source: U.S. Census Bureau. Forecast by IFO.

# PA Labor Force Participation Rate (LFPR) Declines

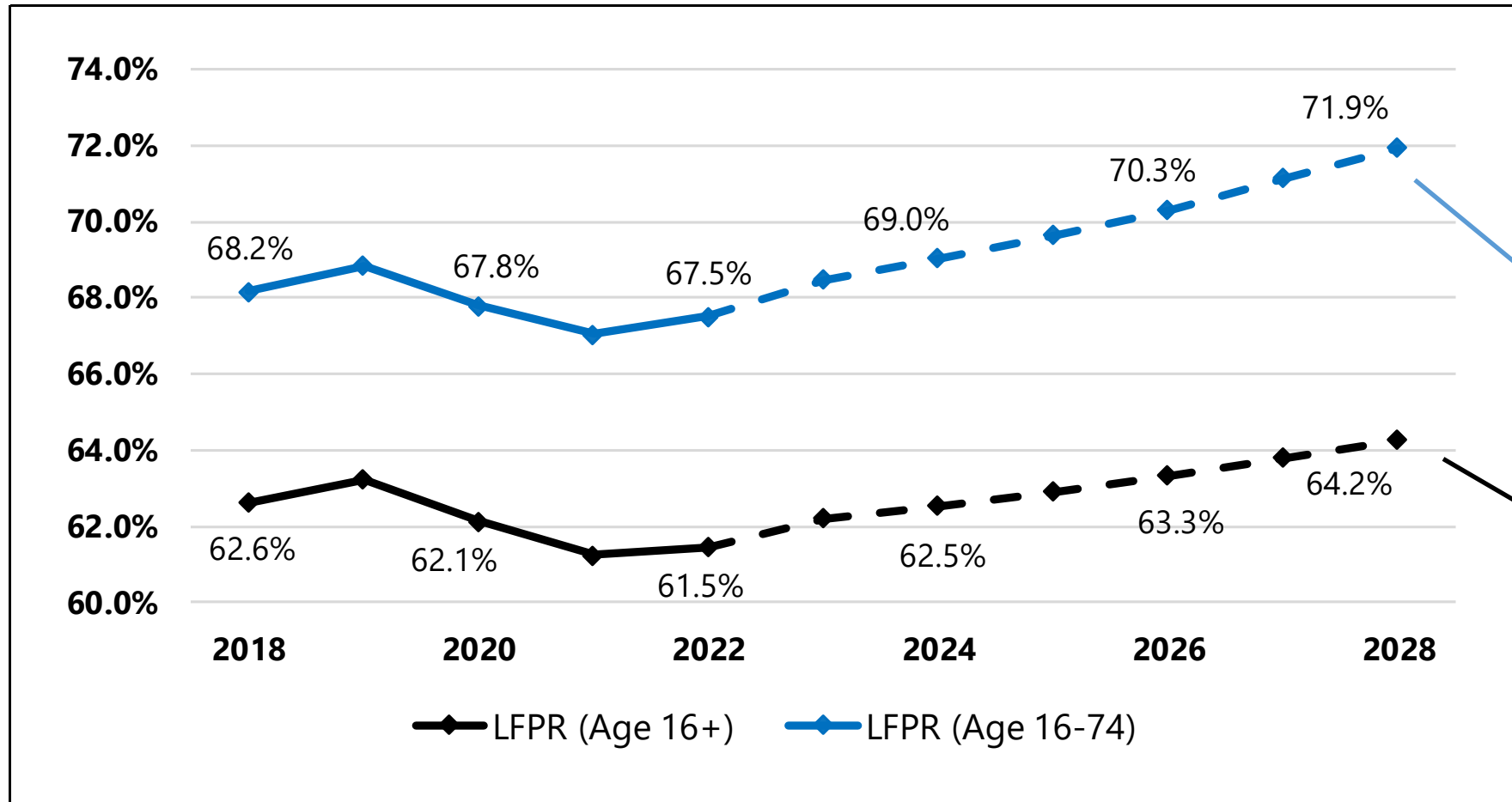


**LFPR** = share of adults age 16+ working or looking for work

**LFPR down ~1.5 ppts**  
 ~120,000 workers  
 ~50% demographics  
 ~50% other factors

Lower LFPR +  
 contracting demographic  
 = worker shortage

# LFPRs Needed to Facilitate 50,000 New Jobs per Annum



~50,000 jobs per annum  
is pre-COVID average

## Adjusted Series

Adults age 16-74 only  
Age 75+ LFPR = 8%  
+0.8 ppt each year

## Published Series

Adults age 16+  
+0.5 ppt each year



# Economic Forecast: Reversion to Normal Growth by 2025

	COVID			Reset		Steady State	
	2020	2021	2022	2023	2024	2025	2026
Real GDP	-4.8%	4.4%	1.5%	0.0%	1.2%	1.7%	1.8%
Nominal GDP	-3.5%	9.4%	9.3%	4.4%	3.8%	4.2%	4.1%
Wages and Salaries	-0.2%	7.2%	8.4%	4.7%	4.3%	4.0%	3.9%
Philadelphia CPI-U	0.9%	4.0%	7.9%	4.5%	2.8%	2.5%	2.3%
Payroll Job Gains (000s)	-461	146	180	0	30	39	42

Note: Payroll Job Gains exclude self-employed and independent contractors.  
 Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecast by IFO.

# Pennsylvania Payroll Employment Still Lags

Sector	Number (000s)		3-Year Change	
	Sept 2019	Sept 2022	Number	Percent
<b>Payroll Employment (000s)</b>	<b>6,096</b>	<b>6,011</b>	<b>-85</b>	<b>-1.4%</b>
Construction	273	265	-8	-2.9
Manufacturing	572	564	-8	-1.4
Retail and Wholesale Trade	817	818	2	0.2
Transportation and Warehouse	303	342	39	12.9
Professional and Technical	360	381	21	6.0
Admin and Waste Management	326	302	-25	-7.5
Healthcare and Social Assistance	1,061	1,031	-30	-2.8
Arts and Entertainment	106	102	-4	-4.2
Accommodation and Food Service	479	449	-29	-6.1
Other Services	261	246	-16	-6.1
All Government (includes local SDs)	716	688	-28	-3.9
All Other	822	823	1	0.1

Note: Data are not seasonally adjusted. Figures for September 2022 are preliminary. Excludes self-employed.  
Source: U.S. Bureau of Labor Statistics, State and Metro Area Employment.

# Subsectors: Persistent Staff Shortage at Nursing Facilities

Subsector	Number (000s)		3-Year Change	
	Sept 2019	Sept 2022	Number	Percent
Nursing and Residential Care	202	176	-27	-13.1%
Employment Services (temps)	123	103	-19	-15.7
Full-Service Restaurants	196	180	-17	-8.5
Colleges and Universities	163	148	-15	-9.2
Nonprofits	136	121	-15	-11.2
Local Government (exclude education)	275	268	-9	-4.9
State Government - education	60	51	-9	-15.4
Warehousing and Storage	94	125	32	33.7
Courier and Messengers	36	47	11	29.4
Building and Garden Retail	44	49	5	10.6

Source: U.S. Bureau of Labor Statistics, CES State and Metro Area Employment.

# Federal Pandemic Stimulus Monies Largely End

	2020	2021	2022
<b>Residents/Businesses</b>	<b>\$65.5</b>	<b>\$57.5</b>	<b>\$3.2</b>
State and Federal UC	31.5	16.9	0.1
Economic Impact Payments	11.0	21.0	0.2
Paycheck Protection Program	20.7	10.0	0.0
Extra SNAP/CTC/Rent Assistance	1.3	7.4	2.9
Employee Retention Credit (ERC)	1.0	2.2	0.0
<b>Direct State Govt Support</b>	<b>\$5.9</b>	<b>\$20.3</b>	<b>\$0.2</b>
<b>Direct Local Govt Support</b>	<b>\$2.6</b>	<b>\$8.3</b>	<b>\$0.1</b>

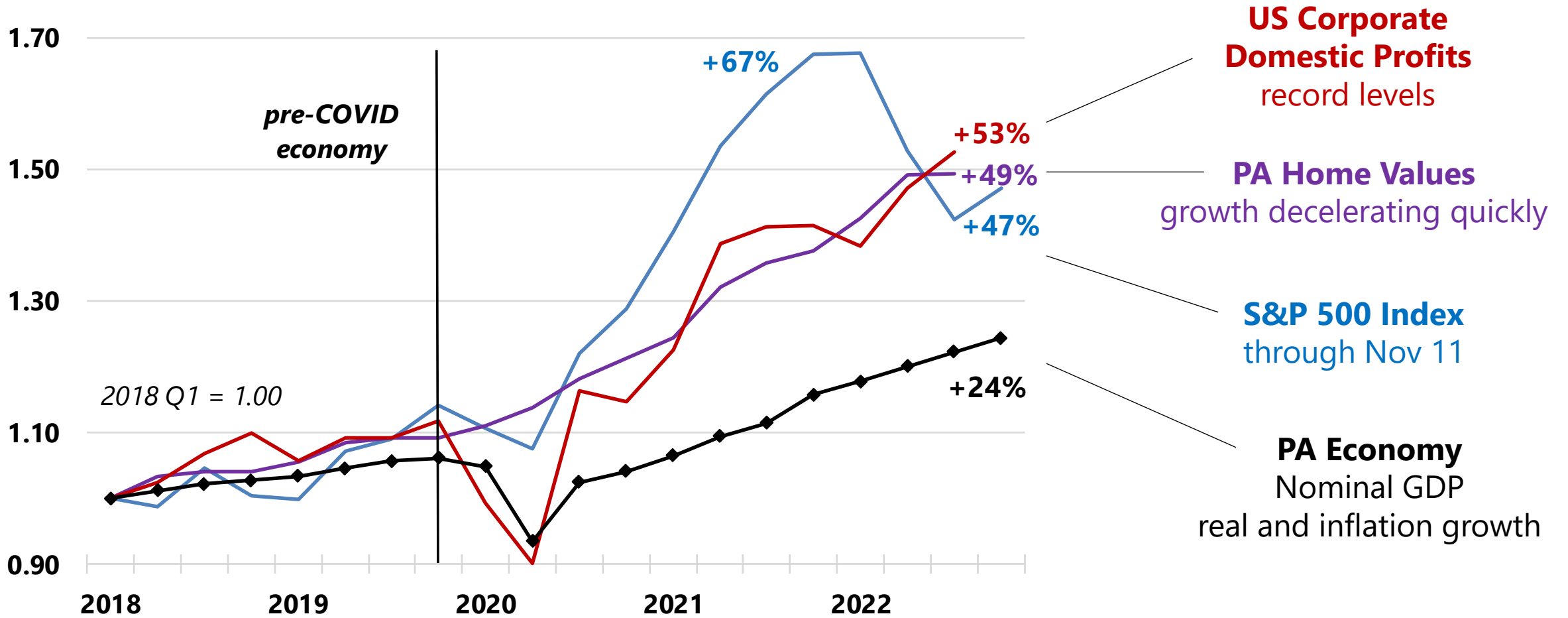
Note: Billions of dollars. PEBT included with SNAP.

SNAP still under Federal Public Health Emergency, income phase-out has been suspended

ERC ~\$57,000 per firm, temp boost to net profits (taxable)

FY 21-22  
\$3.84 billion in federal funds transferred to General Fund

# Economics: Pre vs Post-COVID Growth



# Tax Revenues Surge During COVID

	18-19 to 21-22	Share of GDP		
		18-19	21-22	Diff
<b>PA Nominal GDP (\$ billions)</b>	<b>12.6%</b>			
<b>General Fund Tax Revenue</b>	<b>27.7%</b>	<b>4.33%</b>	<b>4.91%</b>	<b>+0.58%</b>
PIT Non-Withheld	67.0	0.46	0.69	+0.22
Realty Transfer	58.6	0.07	0.10	+0.03
Corporate Net Income	56.7	0.43	0.60	+0.17
Inheritance	47.2	0.13	0.17	+0.04
Sales and Use	25.4	1.41	1.57	+0.16
PIT Withholding	15.2	1.33	1.36	+0.03
All Other Tax	-3.8	0.49	0.42	-0.07

Note: PIT is personal income tax. Nominal GDP includes inflation.

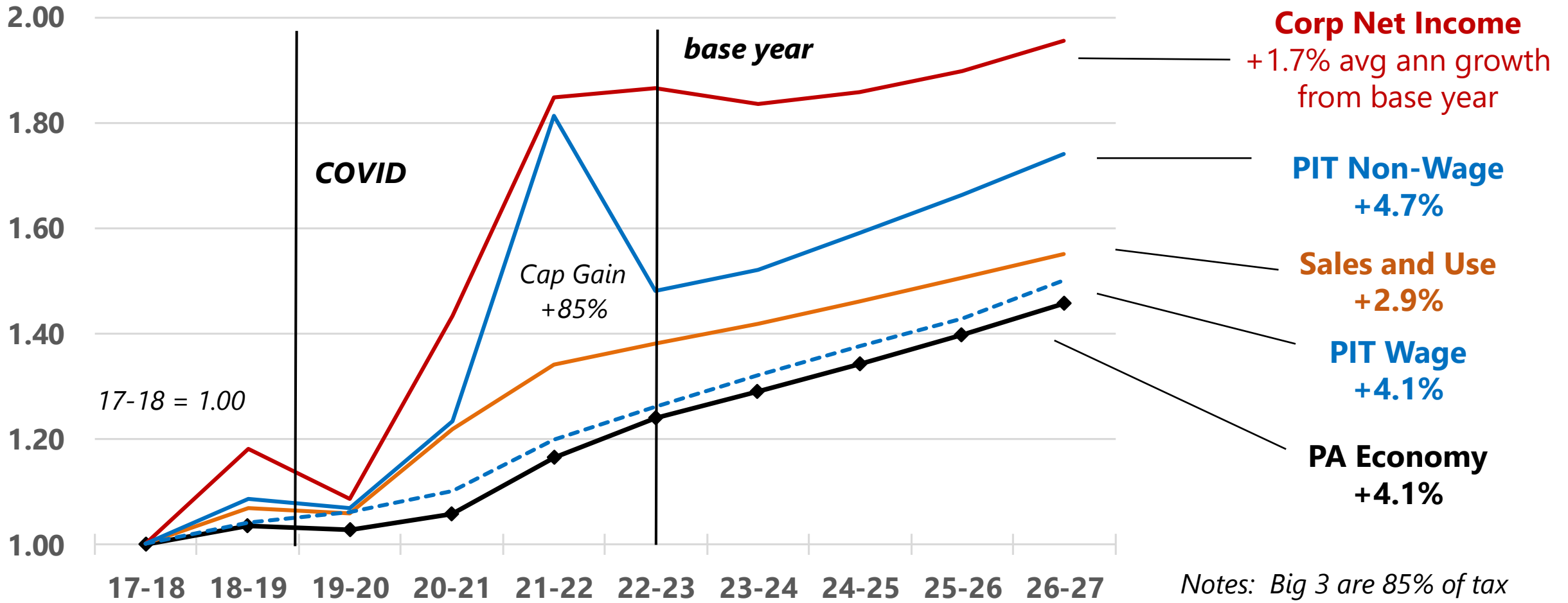
Revenues / GDP measures the revenue "capacity" of economy

"premium" is worth +\$5.1 billion

profits and stock market

federal stimulus and spending patterns

# Baseline Forecast: Big 3 Tax Revenues



Notes: Big 3 are 85% of tax revenues. Excludes CNIT changes and new SUT transfer.

# Revenues: Short- and Long-Term Growth

	22-23	23-24	Growth	27-28	AAGR
<b>General Fund Revenues</b>	<b>\$43.69</b>	<b>\$44.85</b>	<b>2.9%</b>	<b>\$49.61</b>	<b>3.1%</b>
Corporate Net Income	5.37	5.28	-1.6	5.85	2.6
Rate Cut/Base Expand	-0.20	-0.28		-1.37	
Sales and Use	13.84	14.21	2.7	15.97	3.0
PIT Withholding	12.66	13.24	4.2	15.51	4.0
PIT Non-Withheld	4.88	5.12	4.8	6.14	4.7
Inheritance	1.46	1.49	1.9	1.72	3.6
Cigarette	0.81	0.77	-5.1	0.65	-4.0
All Other Tax	3.76	3.86	2.8	4.27	2.6
Treasury	0.37	0.41	9.7	0.06	-38.1
All Other Nontax	0.74	0.75	0.9	0.80	1.7

Note: Billions of dollars. AAGR is average annual growth rate from FY 23-24 to FY 27-28. Growth rates adjusted for one-time transfers and due date shifts.

CNIT rate falls to 6.49% in 2028

PIT Withholding grows at same rate as PA economy

Treasury revenues inflated due to high cash balances and much higher rates



# Expenditures: Large Increase in FY 22-23 Base Year

Program or Category	21-22	22-23	\$ Diff	% Diff
<b>Total Expenditures</b>	<b>\$39.35</b>	<b>\$42.77</b>	<b>\$3.42</b>	<b>8.7%</b>
Pre K-12 Education	10.68	12.01	1.33	12.5
Medical Assistance	6.16	5.87	-0.29	-4.6
Long-Term Living	4.52	5.39	0.88	19.4
Intellectual Disability	2.14	2.71	0.57	26.6
Wages-Salaries	2.83	3.11	0.28	9.8
SERS/PSERS	3.73	4.01	0.28	7.5
Healthcare/Other	0.85	0.88	0.03	3.0
General Obligation Debt	1.13	1.13	0.00	0.4
All Other	7.32	7.66	0.34	4.6

Note: Billions of dollars. AAGR is average annual growth rate from FY 23-24 to FY 27-28.

New level-up supplement, basic ed subsidy increases

DHS programs affected by expiration of enhanced FMAP

Wage growth reflects PSP shift from MLF

Forecast assumes new spending in 22-23 base year is permanent

# Expenditures: Short- and Long-Term Growth

Program or Category	22-23	23-24	Growth	27-28	AAGR
<b>Total Expenditures</b>	<b>\$42.77</b>	<b>\$45.22</b>	<b>5.7%</b>	<b>\$51.47</b>	<b>3.3%</b>
Pre K-12 Education	12.01	12.44	3.6	13.63	2.3
Medical Assistance	5.87	6.24	6.3	7.17	3.5
Long-Term Living	5.39	5.85	8.4	7.25	5.5
Intellectual Disability	2.71	3.03	11.6	3.59	4.3
Wages-Salaries	3.11	3.31	6.5	3.86	4.0
SERS/PSERS	4.01	4.17	4.0	4.70	3.0
Healthcare/Other	0.88	1.07	22.1	1.26	4.1
General Obligation Debt	1.13	1.17	3.3	1.35	3.6
All Other	7.66	7.95	3.9	8.67	2.2

Note: Billions of dollars. AAGR is average annual growth rate from FY 23-24 to FY 27-28.

Pre K-12 grows with inflation

Enhanced FMAP ends in 2022-23 (assumed)  
LTL includes demographics growth

SERS employer contribution rates decline

Agency retiree healthcare increase funds a full fiscal year

# General Fund Financial Statement

	21-22	22-23	23-24	24-25	25-26	26-27	27-28
Beginning Balance	\$4	\$5,537	--	--	--	--	--
Current Year Revenues	48,134	43,686	\$44,850	\$45,804	\$46,921	\$48,339	\$49,606
Less Refunds	<u>-1,420</u>	<u>-1,220</u>	<u>-1,300</u>	<u>-1,325</u>	<u>-1,350</u>	<u>-1,375</u>	<u>-1,400</u>
Net Revenues	46,714	42,466	43,550	44,479	45,571	46,964	48,206
State Expenditures	-39,351	-42,766	-45,222	-46,910	-48,725	-50,099	-51,467
<b>Current Year Balance</b>	<b>7,367</b>	<b>-300</b>	<b>-1,672</b>	<b>-2,431</b>	<b>-3,155</b>	<b>-3,135</b>	<b>-3,261</b>
Reduced Spending	0	1,302	0	0	0	0	0
Plus Prior Year Lapses	<u>-1,830</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>
<b>Prelim Ending Balance</b>	<b>5,537</b>	<b>6,680</b>	<b>-1,532</b>	<b>-2,291</b>	<b>-3,015</b>	<b>-2,995</b>	<b>-3,121</b>

Note: Millions of dollars. Prior year lapses include transfers to Budget Stabilization Reserve Fund. [Current balance is \\$4.99 billion.](#)

# Unknown and Known Factors

## Unknown: short-term economic trends

- How quickly does inflation decelerate?
- Foreign economies: much of Europe likely in recession
- Housing market's rapid decline: does it spread?
- Residual stimulus: can consumers sustain spending?
- Student loans (moratorium and forgiveness)?

## Known: long-term challenges

- Housing affordability approaches record lows
- Low LFPRs + contracting working age demographic = worker shortage
- Rapid acceleration of age 80+

# Presentation is Posted to IFO Website

## Questions?

Submit to [contact@ifo.state.pa.us](mailto:contact@ifo.state.pa.us)