



Monthly Trends Report

September 2016

WEAK GLOBAL DEMAND REDUCES DAIRY PRICES

U.S. consumers have recently benefited from very low inflation in 2015 (0.1% annual increase) and 2016 (1.1% through August). Pennsylvania consumers have also benefited, as the Philadelphia metro area Consumer Price Index (CPI-U) shows even weaker regional inflation (-0.1% and 0.4%, respectively).¹ Originally driven by a collapse in energy prices, this trend has now spread to commodities such as groceries. Through August, the CPI-U data show that general grocery prices (called "food at home") have declined in the U.S. (-0.9%) and Philadelphia (-1.2%) on a year-over-year basis. The latest reading shows that overall food price levels in the U.S. have declined for 9 consecutive months, which represents the longest period of food deflation since the 1960s, excluding the 2009 recession.² Milk prices have recorded especially sharp declines, with average U.S. and PA prices falling by nearly 20% during the past two years. Some articles attribute the decline to falling energy prices, which reduce refrigeration and transportation costs.³ However, other factors are also relevant for the dairy industry.

A major factor in the downturn of dairy prices is falling overseas demand, which has produced a temporary surplus in the U.S. The U.S. dollar has grown stronger relative to the currencies of major dairy importers such as China and Mexico. That trend increases the cost of U.S. imports for consumers in those countries. Over the past two years, the volume of U.S. whole milk powder exports has declined by nearly two-thirds to China and roughly one-third to Mexico.⁴ Moreover, a Russian ban on agricultural imports from western countries likely had

GENERAL FUND SNAPSHOT

The Commonwealth collected \$2.63 billion in General Fund revenues for September, a decrease of \$106.5 million (-3.9%) compared to September 2015. Fiscal year-to-date revenues were \$6.61 billion, a decrease of \$121.2 million (-1.8%) from the prior year.

	General	Tax	Non-Tax
Sept-16	\$2,627	\$2,625	\$1
Growth	-3.9%	-3.1%	-95.6%
FYTD	\$6,614	\$6,555	\$59
Growth	-1.8%	-1.5%	-26.6%

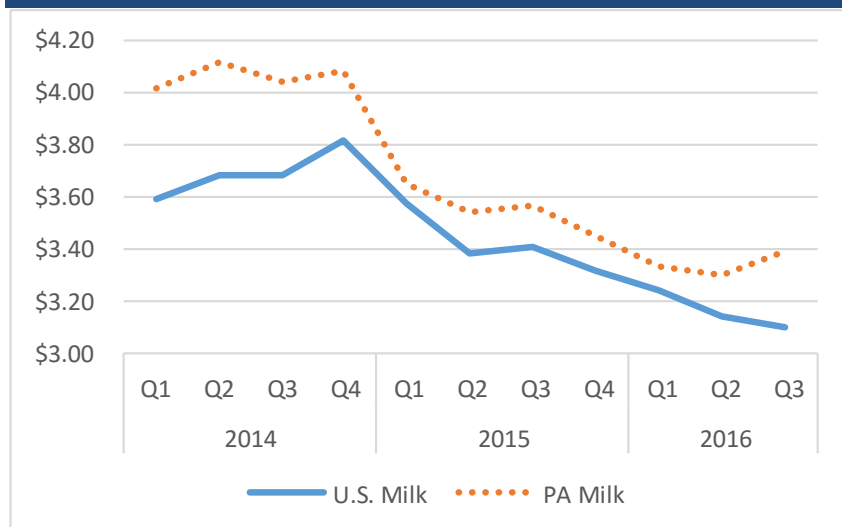
Dollar amounts are in millions.

spillover effects, and many EU countries that lost a major export market now offer more competition to U.S. exports, depressing dairy prices further.

As shown by the graph, the average U.S. price for a gallon of reduced fat milk declined from \$3.81 in the fourth quarter of 2014, to \$3.10 in the third quarter of 2016.¹ For Pennsylvania, the average price for a gallon of reduced fat milk declined from \$4.09 to \$3.30 in the second quarter of 2016. Preliminary data for the third quarter suggest a slight recovery of approximately five to ten cents per gallon.

Looking forward, the Global Dairy Market Outlook projects that dairy prices will be volatile, but prices should generally recover as foreign dairy production slows.⁴ Many factors will affect domestic prices including overseas demand, the relative strength of the U.S. dollar and energy prices. However, even if dairy prices fully recover to 2014 levels, the impact on overall food inflation will be modest, since dairy purchases comprise a little more than ten percent of consumer spending on groceries.⁵

Average Milk Prices per Gallon



Commonwealth of Pennsylvania Milk Marketing Board, "Wholesale Retail Pricing," Jan 2014-Aug 2016. Notes: Prices reflect the average retail price for a gallon of reduced fat milk. PA price reflects the average price per county weighted by sales per county.

¹ U.S. Bureau of Labor Statistics.

² Bloomberg, "Grocery Prices are Plunging," September 27, 2016.

³ WSJ, "Food Price Deflation Cheers Consumers, Hurts Farmers, Grocers and Restaurants," August 29, 2016.

⁴ Global Dairy Market Outlook, "Global Markets see August Rally," August 29, 2016.

⁵ U.S. Bureau of Labor Statistics, Consumer Expenditure Survey.

MONTHLY ECONOMIC INDICATORS

	United States				Pennsylvania			
	Jun-16	Jul-16	Aug-16	Sep-16	Jun-16	Jul-16	Aug-16	Sep-16
Unemployment Rate ¹	4.9%	4.9%	4.9%	n.a.	5.6%	5.6%	5.7%	n.a.
Net Job Gains (000s) ²	292.0	254.0	151.0	n.a.	50.9	53.8	58.5	n.a.
Average Gasoline Price ³	\$2.37	\$2.24	\$2.18	\$2.22	\$2.34	\$2.25	\$2.17	\$2.22
Consumer Price Index ⁴	1.0%	0.8%	1.1%	n.a.	0.1%	0.2%	0.3%	n.a.
Retail Sales ⁵	2.7%	2.4%	2.4%	n.a.	0.8%	-0.3%	-2.3%	n.a.
Consumer Sentiment Index ⁶	93.5	90.0	89.8	91.2	n.a.	n.a.	n.a.	n.a.
New Building Permits ⁷	8.3%	4.4%	5.5%	n.a.	25.6%	8.7%	3.5%	n.a.

QUARTERLY ECONOMIC INDICATORS

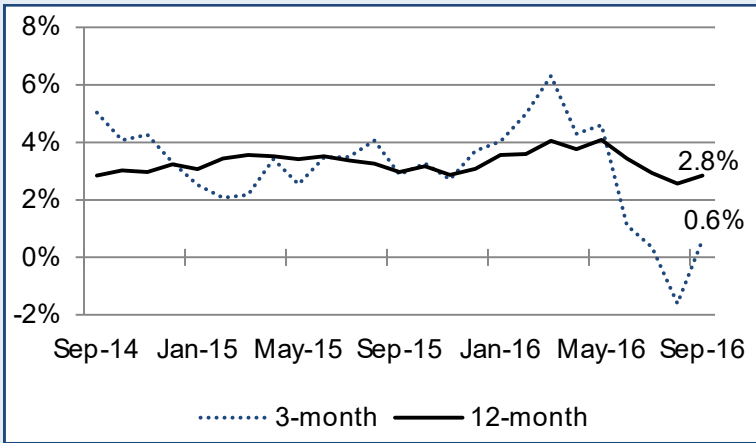
	United States				Pennsylvania			
	2015.3	2015.4	2016.1	2016.2	2015.3	2015.4	2016.1	2016.2
Gross Domestic Product ⁸	2.0%	0.9%	0.8%	1.4%	2.0%	1.7%	1.5%	n.a.
Personal Income ⁹	4.2%	3.9%	3.6%	3.2%	3.4%	3.5%	3.3%	3.7%
Completed Home Sales ¹⁰	8.3%	2.0%	5.7%	4.0%	13.4%	7.1%	11.2%	9.9%
FHFA House Price Index ¹¹	5.7%	5.9%	6.0%	5.6%	2.7%	2.7%	3.8%	3.0%
Student Loan Debt ¹²	\$4,480	\$4,600	\$4,710	\$4,690	\$5,170	\$5,310	\$5,450	\$5,430
Industrial Electricity Sales ¹³	-3.8%	-5.3%	-1.0%	-3.4%	-1.2%	-4.5%	-1.7%	-2.3%

Notes:

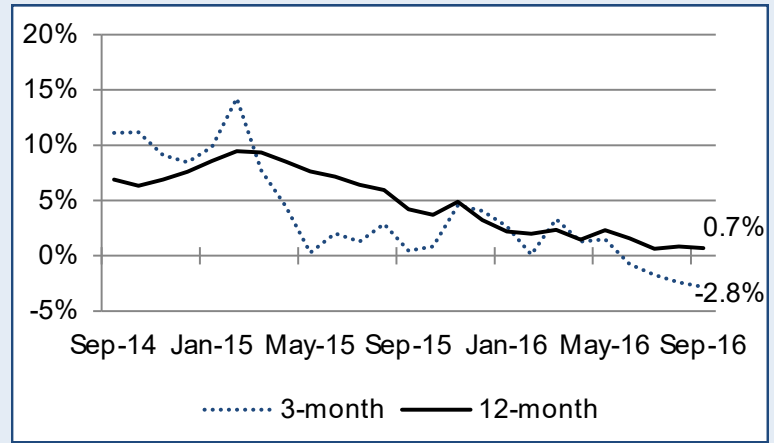
1. Source: U.S. Bureau of Labor Statistics—Survey of Households.
2. U.S.: Increase in payroll employment compared to the previous month. PA: Average year-over-year increase in payroll employment based on latest three months of data. Source: U.S. Bureau of Labor Statistics—Survey of Establishments.
3. Average price for one gallon of regular gasoline. Source: U.S. Energy Information Administration.
4. Annual change in average price level for U.S. and PA-NJ-DE-MD. Data for PA-NJ-DE-MD only published on a bi-monthly basis. For non-release months, values are an interpolation. Source: U.S. Bureau of Labor Statistics.
5. U.S.: Annual growth rate of advance retail sales based on latest three months of data. Includes purchases of gas and motor vehicles. Excludes services. Source: U.S. Dept. of Commerce. PA: Annual growth rate of sales tax revenues based on latest three months of data. Excludes transfers to or from the Enhanced Revenue Collection Account. Source: PA Dept. of Revenue.
6. A diffusion index that reflects consumer optimism. Source: UM—Survey of Consumers.
7. Annual growth of new, privately owned single-housing units authorized for construction based on latest three months of data. Source: U.S. Census Bureau.
8. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
9. The annual growth rate of personal income. Includes any inflationary gains. Source: U.S. Bureau of Economic Analysis.
10. The annual growth rate of sales of existing single-family properties, townhomes and condominiums. (PA data contain some new properties.) Sources: National Association of Realtors and PA Association of Realtors.
11. The annual growth rate of an index that measures the average price change of residential homes with mortgages purchased or securitized by Fannie Mae or Freddie Mac. Source: Federal Housing Finance Agency.

SELECT GENERAL FUND TAX REVENUES - ANNUAL GROWTH RATES

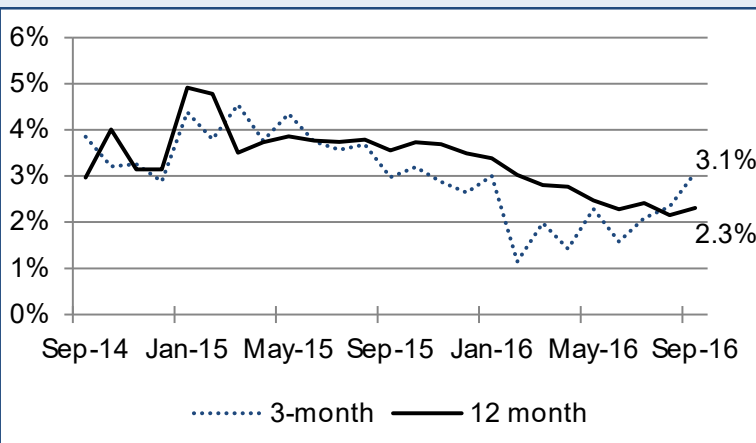
Sales and Use Tax — Non-Motor



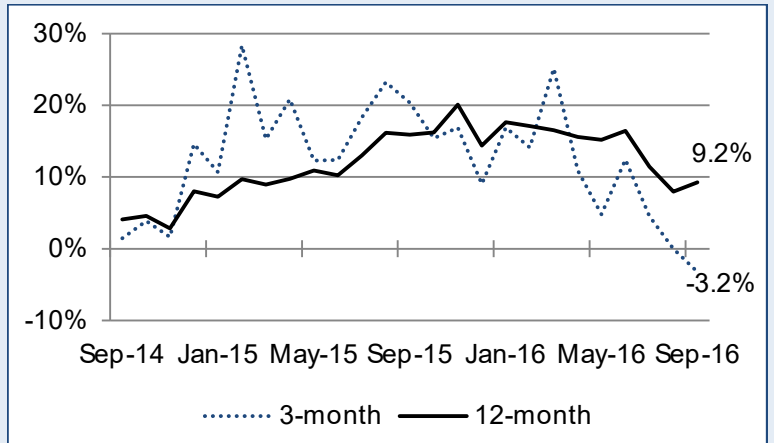
Sales and Use Tax — Motor



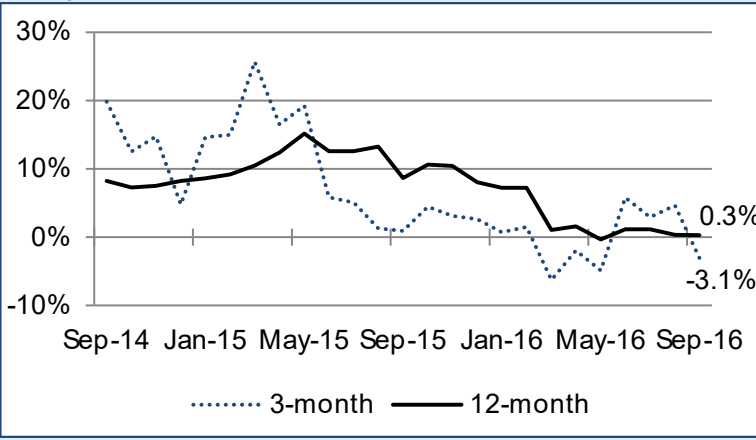
Personal Income Tax — Withholding



Realty Transfer Tax



Corporate Net Income Tax



Technical Notes (for revenue graphs and table on next page):

- ↳ Transfers from the General Fund to the Enhanced Revenue Collection Account were \$27.8 million and included: \$11.8 million from Corporate Net Income Tax; \$6.8 million from Sales and Use Tax; \$6.2 million from Personal Income Tax; and \$2.7 million from Inheritance Tax.
- ↳ Personal income tax withholding collections year-over-year growth rate was impacted by an extra weekly filer due date that occurred in September of 2015, but occurred in August this year.
- ↳ The transfer from Sales and Use Tax to the Commonwealth Financing Authority was -\$9.5 million for September.

Note: Three- and twelve-month annual growth rates are rolling averages relative to the previous fiscal year.

Pennsylvania General Fund Revenues Summary

Revenue Source	Sep 2016	Sep 2015	Sep 2014	FYTD 2016-17	FYTD 2015-16	FYTD 2014-15	Monthly Growth	FYTD Growth
Total General Fund	\$2,626.5	\$2,733.0	\$2,576.8	\$6,614.5	\$6,735.7	\$6,614.3	-3.9%	-1.8%
Total Tax Revenue	2,625.5	2,709.9	2,564.5	6,555.5	6,655.3	6,334.6	-3.1	-1.5
Total Corporation Taxes	472.7	516.9	539.3	583.9	648.3	665.4	-8.6	-9.9
Accelerated Deposits	0.8	1.0	1.5	1.2	0.9	3.2	-14.7	25.0
Corporate Net Income	447.8	465.6	478.1	529.2	572.6	570.2	-3.8	-7.6
Capital Stock & Fran.	3.7	28.6	38.5	18.1	38.8	55.4	-87.2	-53.4
Gross Receipts	9.9	5.0	4.0	17.7	17.2	16.6	95.9	3.0
Utility Property	1.3	2.6	1.5	2.2	2.7	1.8	-49.6	-17.3
Insurance Premium	1.1	0.6	0.3	3.3	2.0	1.9	87.6	67.7
Financial Institution	8.2	13.6	15.4	12.4	14.2	16.3	-40.3	-13.1
Total Consumption Taxes	958.2	898.0	893.5	2,865.8	2,814.1	2,754.0	6.7	1.8
Sales and Use - Total	811.5	783.0	777.3	2,494.6	2,489.7	2,429.1	3.6	0.2
Non-Motor	688.5	658.1	652.6	2,136.6	2,121.4	2,062.4	4.6	0.7
Motor Vehicle	122.9	124.9	124.7	358.0	368.3	366.7	-1.6	-2.8
Cigarette	115.9	86.7	89.8	279.8	236.5	240.2	33.6	18.3
Other Tobacco Products	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Malt Beverage	2.5	2.3	2.2	7.0	7.1	6.9	11.6	-1.8
Liquor	28.2	25.9	24.2	84.4	80.7	77.8	8.9	4.6
Total Other Taxes	1,194.6	1,295.0	1,131.6	3,105.8	3,192.9	2,915.2	-7.8	-2.7
Personal Income - Total	1,077.4	1,179.7	1,017.0	2,731.6	2,799.2	2,564.0	-8.7	-2.4
Withholding	711.4	790.2	670.6	2,278.2	2,310.8	2,133.8	-10.0	-1.4
Quarterly	344.3	362.6	325.4	407.2	429.5	382.9	-5.1	-5.2
Annual	21.7	26.9	20.9	46.1	58.9	47.4	-19.3	-21.8
Realty Transfer	41.9	36.2	36.2	119.7	136.8	113.7	15.6	-12.5
Inheritance	64.7	71.5	70.3	223.6	228.0	212.6	-9.5	-2.0
Table Games	11.0	7.0	7.3	29.6	24.8	23.1	58.0	19.2
Minor and Repealed	-0.5	0.5	0.9	1.4	4.0	1.9	-191.7	-66.3
Total Non-Tax Revenue	1.0	23.0	12.3	59.0	80.4	279.7	-95.6	-26.6
State Store Fund Transfers	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Lic., Fees & Misc.	-6.4	15.6	3.7	34.8	57.6	257.0	-141.4	-39.5
Licenses and Fees	5.5	6.8	5.1	18.5	20.2	17.2	-19.0	-8.5
Miscellaneous	-12.0	8.7	-1.4	16.3	37.4	239.8	-237.5	-56.3
Treasury	0.8	0.4	1.2	6.5	1.3	5.1	82.9	413.2
Escheats	-15.5	2.9	-7.2	-25.9	11.1	-10.5	-641.4	-333.9
Other Miscellaneous	2.7	5.4	4.6	35.8	25.0	245.2	-50.7	43.1
Fines, Pen. & Int. - Total	7.5	7.5	8.6	24.2	22.9	22.7	-0.6	5.9

Note: Dollar amounts in \$ millions. Growth rates computed from the same time period from the previous year.