

# Monthly Economic Update

June 2020



## COVID-19 Revenue Losses Place Some Pennsylvania Municipalities at Risk

The University of Pittsburgh released [a tool that estimates](#) the potential revenue loss to Pennsylvania municipalities due to the COVID-19 pandemic. Researchers estimate that revenue losses range from \$833 million to \$3.4 billion, or a 4% to 16% reduction in total municipal revenues in FY 2019-20 across a low, medium, and high impact scenario. The medium impact scenario projects that between FY 2019-20 and FY 2020-21 an estimated 150 municipalities will face cash insolvency and may not have sufficient revenues to continue operations. For FY 2019-20, the primary driver of this outcome is the projected reduction in earned income tax revenues, with an estimated shortfall of \$526 million. Other revenue sources including amusement tax (-25%), parking revenue (-20%) and business tax (-20%) are projected to record the largest percentage declines. Across the six regions of the state outlined in the model, the share of municipalities at risk for cash insolvency over the two-year period ranges from 3% to 8% with the highest share of municipalities at risk in the northeast and southwest regions.

## U.S. Personal Income Records Strong Growth in April

On May 29, 2020 the U.S. Bureau of Economic Analysis released [personal income statistics](#) for April 2020. Compared to the prior year, data show that U.S. personal income grew by 11.7% in April. The largest earnings increase was from government social benefits, with the unemployment insurance category growing 1,574%. The large increase in government support temporarily offset the decline in wages and salaries (-8.5%) for the month. Personal consumption fell 16.9% in April as states continued to implement stay-at-home measures to help contain the spread of the COVID-19 virus.

## Consumers Spent Roughly Half of Federal Economic Impact Payments

The Federal Reserve Bank of Chicago released a [working paper](#) that measured the effects of COVID-19 Economic Impact Payments on consumer spending. Debit card spending patterns were tracked for a sample of consumers (approximately 16,000 recipients) after receipt of the \$1,200 (or more) payment. The analysis found that average consumer spending increased by \$577 two weeks following the deposit, indicating a marginal propensity to consume (MPC) of 48%. Consumers who live paycheck-to-paycheck had an MPC around 68%, while those who generally save more of their monthly income had an MPC of 23% in the two weeks following the receipt of the payment. After the two-week period, consumer spending patterns appeared to return to normal. The study estimated that the \$296 billion of payments from the CARES Act will increase consumer spending by \$138 billion, assuming an average MPC. The study notes that if the same type of federal program was targeted to those with the highest MPCs, consumer spending could have increased by \$201 billion.

## May Retail Sales Records Largest Ever Monthly Increase

The U.S. Census Bureau released national [retail sales data](#) for May. Retail sales increased by 17.7% from April, a stronger than expected recovery as many states began to reopen non-essential businesses. All retail categories recorded an increase in spending from April, notably clothing stores (188%), motor vehicle and parts dealers (44.1%) and food and drinking places (29.1%). However, retail sales are 6.1% lower than May 2019 levels, which illustrates that consumer spending remains weak despite the significant gains. Similarly, [Pennsylvania consumer spending](#) for the first day in May (-17.5%) and June (-5.4%) is lower than the same day of the prior year. While consumer spending remains below prior year levels, recent patterns suggest a V-shaped recovery in the near term.

## Pennsylvania Economic Indicators

<u>Monthly Data</u>	<u>Feb-20</u>	<u>Mar-20</u>	<u>Apr-20</u>	<u>May-20</u>	<u>Jun-20</u>
Unemployment Rate <sup>1</sup>	4.7%	5.8%	15.1%	n.a.	n.a.
Net Job Gains (000s) <sup>2</sup>	62.0	-16.4	-1044.0	n.a.	n.a.
Avg. Gasoline Price <sup>3</sup>	\$2.53	\$2.35	\$2.06	\$2.03	\$2.13
CPI-U All Items <sup>4</sup>	2.6%	1.2%	-0.1%	n.a.	n.a.
Natural Gas Price <sup>5</sup>	\$1.60	\$1.37	\$1.43	\$1.31	\$1.40
Home Sales <sup>6</sup>	9.7%	n.a.	n.a.	n.a.	n.a.
<u>Quarterly Data</u>	<u>2019.1</u>	<u>2019.2</u>	<u>2019.3</u>	<u>2019.4</u>	<u>2020.1</u>
Gross Domestic Product <sup>7</sup>	3.3%	1.7%	2.1%	2.1%	n.a.
Personal Income <sup>8</sup>	5.0%	5.2%	4.0%	3.8%	n.a.
Wages and Salaries <sup>9</sup>	4.6%	4.7%	3.5%	4.3%	3.7%
FHFA House Price Index <sup>10</sup>	5.6%	5.1%	5.0%	4.7%	4.9%

## United States Economic Indicators

<u>Monthly Data</u>	<u>Feb-20</u>	<u>Mar-20</u>	<u>Apr-20</u>	<u>May-20</u>	<u>Jun-20</u>
Unemployment Rate <sup>1</sup>	3.5%	4.4%	14.7%	13.3%	n.a.
Home Sales <sup>6</sup>	4.1%	n.a.	n.a.	n.a.	n.a.
S&P 500 <sup>11</sup>	6.1%	-8.8%	-1.1%	10.6%	4.2%
10 Year Note <sup>12</sup>	1.13	0.70	0.62	0.64	0.70
<u>Quarterly Data</u>	<u>2019.1</u>	<u>2019.2</u>	<u>2019.3</u>	<u>2019.4</u>	<u>2020.1</u>
Gross Domestic Product <sup>7</sup>	3.1%	2.0%	2.1%	2.1%	-5.0%
Personal Income <sup>8</sup>	4.6%	4.7%	4.2%	4.2%	3.2%
Wages and Salaries <sup>9</sup>	5.0%	4.8%	4.1%	4.8%	2.3%
Corporate Profits <sup>13</sup>	-2.4%	-1.1%	-3.7%	-0.3%	-10.3%

Notes:

1. Source: U.S. Bureau of Labor Statistics- Survey of Households.
2. Year-over-year increase in payroll employment. 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. Source: U.S. Bureau of Labor Statistics.
5. Price is weighted average from major Pennsylvania gas hubs. Unit is dollars per MMBtu. Source: Bentek Energy.
6. Source: Zillow.
7. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
8. Year-over-year growth rate of personal income. Source: U.S. Bureau of Economic Analysis.
9. Year-over-year growth rate of wages and salaries paid to all payroll employees. Source: U.S. Bureau of Economic Analysis.
10. Source: Federal Housing Finance Agency.
11. Year-over-year growth rate of S&P 500 closing price. Data as of the first of the month. Source: Yahoo! Finance.
12. Source: Yahoo! Finance.
13. Year-over-year growth rate, domestic profits only. Source: U.S. Bureau of Economic Analysis.