

Official Revenue Estimate

FY 2020-21
Independent Fiscal Office



June 22, 2020

Solid PA Growth Prior to Pandemic

	Year-Over-Year Growth Rate or Change			
	2019.2	2019.3	2019.4	2020.1
Real GDP	2.1%	1.9%	2.3%	n.a.
Wages-Salaries	4.7%	3.5%	4.3%	3.7%
Net New Jobs (000s)	53.1	54.7	48.2	51.4
FHFA Home Price Index	4.9%	4.8%	5.3%	n.a.
Zillow Home Sales (nsa)	-1.4%	-0.1%	1.5%	6.3%
Per Capita Consumer Debt	4.3%	3.5%	3.7%	3.8%
Revenues Through March (exclude COVID-19)	+\$165 million over estimate			
<p>Note: Figures for 2020.1 for Net New Jobs and Home Sales are for January and February only. Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FHFA, NY Federal Reserve Board and Zillow.</p>				

Pandemic Timeline and Mitigation Efforts

February 29	First U.S. death from COVID-19 declared
March 6	First PA COVID-19 infection identified
March 13	President declares national emergency
March 16	PA schools closed for two weeks
March 18	First PA death from COVID-19 declared
March 23	PA non-life-sustaining businesses closed
April 1	Stay-at-home orders all counties
April 9	PA schools closed remainder of year
May 8-29	57 counties enter yellow status (partial reopen)
June 5	All counties in yellow status
End of June	All counties in green status (except Lebanon)

COVID-19 Moves Economy into Recession

COVID-19	2018	2019	2020	2021
Real GDP	2.6%	2.3%	-5.6%	5.5%
Wages-Salaries	4.3%	4.2%	-3.2%	5.0%
Net Job Gains (000s)	68.9	55.5	-453.0	309.7
Philadelphia CPI-U	1.3%	2.0%	0.5%	1.5%
Great Recession	2007	2008	2009	2010
Real GDP	3.4%	1.9%	-2.9%	2.8%
Wages-Salaries	5.3%	2.7%	-2.3%	2.0%
Net Job Gains (000s)	42.1	1.4	-184.1	5.1
Philadelphia CPI-U	2.2%	3.4%	-0.4%	2.0%

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

National Forecasts Are More Pessimistic

IHS Markit	Annual Growth Rate or Change			
	2019	2020	2021	2022
Real GDP	2.3%	-7.3%	5.1%	4.6%
Wages-Salaries	4.6%	-9.0%	7.7%	7.5%
Unemployment Rate	3.7	14.9	13.5	9.5
Net Payroll Jobs	1.4%	-13.5%	4.3%	7.3%
Congressional Budget Office	2019	2020	2021	2022
Real GDP	2.3%	-6.0%	4.4%	n.a.
Wages-Salaries	4.6%	-6.1%	4.9%	n.a.
Unemployment Rate	3.7	11.5	9.3	n.a.
Net Payroll Jobs	1.4%	-9.4%	3.0%	n.a.

Note: IHS Markit forecast released May 12. CBO released May 19.

Large Injection of Federal Monies

	Estimate		Estimate
<u>Individual Provisions</u>		<u>Federal Grants</u>	
Economic Impact Payments	\$10.8	State Governments	\$5.9
State UC Payments	6.0	Local Governments	2.4
Federal UC Payments	14.7	Healthcare Providers	2.1
SNAP	0.4	Educational Institutions	<u>0.5</u>
<u>Business Provisions</u>			
Business Tax Cuts	4.6		
Delay Employer Payroll Taxes	10.8	Total	\$78.7
PPP Forgivable Loans	20.5		

Note: Billions of dollars. Federal UC Payments include FPUC, PUA and 13 week extension.

FPUC – Federal Pandemic UC (\$600/wk bonus)

PA weekly UC benefits range from \$68 to \$572

- Average benefit is \$330 | ~50% wage replacement rate for most
- Extra \$600 per week up to 16 weeks, regardless of prior earnings
- \$12/hr wage earner moves from ~50% to ~175% replacement rate

High share of claimants are low-wage or part-time

- Replacement rate for them is far above 100%
- Same holds for Pandemic Unemployment Assistance (PUA) filers

Estimate assumes 1.57 million PA residents receive FPUC

- Average of 13 weeks | \$11.5 billion | ~\$700 million per week
- What happens when payments end in July?

Large Contraction of April-May Payroll Jobs

	YOY Growth, U.S.				YOY Growth, Pennsylvania			
	Feb	Mar	Apr	May	Feb	Mar	Apr	May
Total	1.6%	0.8%	-13.3%	-11.8%	1.0%	-0.3%	-17.5%	-14.4%
Construction	3.0	2.2	-12.1	-5.7	3.2	0.3	-40.1	-9.4
Manufacturing	0.3	-0.1	-10.6	-8.8	0.1	-0.7	-13.3	-8.9
Retail Trade	0.0	-0.1	-14.8	-12.2	-0.7	-0.4	-21.1	-17.5
Wholesale Trade	0.8	0.8	-6.0	-5.8	-0.6	-1.5	-12.7	-10.6
Transport-Storage	1.6	1.3	-9.0	-9.2	2.2	2.7	-9.1	-7.5
Financial-Real Estate	1.9	1.6	-1.8	-1.5	2.0	2.4	-0.9	-0.6
Professional Business	1.9	1.3	-9.2	-8.7	0.7	0.1	-9.9	-9.5
Education	3.1	1.4	-10.6	-10.2	2.3	-2.3	-16.1	-14.7
Healthcare	2.2	1.8	-7.8	-6.0	0.5	-0.6	-10.9	-10.0
Social Assistance	4.6	3.5	-13.2	-11.6	5.3	5.2	-13.3	-10.5
Arts-Entertainment	3.1	0.3	-52.5	-51.7	4.1	-0.9	-60.9	-55.8
Accommodation-Food Service	2.6	-0.9	-47.3	-38.6	1.0	-5.2	-58.6	-51.3
Other Services	1.6	0.6	-22.3	-17.6	2.3	-1.5	-32.8	-29.4
All Government	1.1	0.7	-3.5	-6.0	0.7	0.4	-2.3	-3.1
All Other	0.4	0.0	-7.7	-9.5	-1.3	-0.8	-11.8	-15.9

Note: Data not seasonally adjusted. April data are preliminary. Does not include self-employed. Source: U.S. Bureau of Labor Statistics.

Some Subsectors Hit Hard, but a Few Gain

	YOY Growth, U.S.				YOY Growth, Pennsylvania			
	Feb	Mar	Apr	May	Feb	Mar	Apr	May
Full-Service Restaurants	2.5%	-5.3%	-65.6%	n.a.	-1.1%	-8.1%	-79.5%	-65.2%
Amusements-Gaming	3.9	0.0	-56.4	-54.8%	1.5	-1.3	-70.7	-59.1
Personal Care-Laundry	1.2	-3.1	-54.8	-43.0	3.0	-4.2	-64.7	-56.5
Dentist Offices	1.3	-2.6	-55.1	-29.8	n.a.	n.a.	n.a.	n.a.
Child Care	3.1	-0.4	-33.1	-29.0	2.5	0.8	-43.5	-28.3
Employment Services	-0.1	-1.1	-27.4	-26.0	-7.0	-10.3	-26.1	-22.5
Couriers and Messengers	6.4%	5.8%	5.3%	8.3%	7.9%	6.7%	3.7%	6.7%
Federal Government	1.9	2.6	2.1	1.6	1.4	2.5	2.5	2.1

Note: Data are not seasonally adjusted. May data are preliminary. Does not include self-employed.
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics and State and Area Employment.

Annual Change in Payroll Jobs (000s)

	2018	2019	2020
Construction	6.6	5.2	-48.0
Manufacturing	8.0	4.1	-33.9
Wholesale-Retail	-2.6	-10.3	-70.1
Transport-Storage	8.7	8.8	-8.2
Administration-Waste Management	2.4	2.9	-29.3
Education	1.9	0.3	-12.6
Healthcare	13.6	6.9	-26.4
Social Assistance	13.8	14.2	-6.2
Arts and Entertainment	1.0	3.0	-31.6
Accommodation-Food Service	4.2	3.3	-134.2
All Government	-0.5	3.7	-15.7
All Other	<u>11.7</u>	<u>13.3</u>	<u>-36.9</u>
Total	68.9	55.5	-453.0

Note: Excludes self-employed and independent contractors. Source: U.S. Bureau of Labor Statistics. 2020 is a forecast by IFO.

Profits and Capital Income Contract

	Great Recession				COVID-19 Pandemic		
	2007	2008	2009	2010	2019	2020	2021
Net Profits (Pass Through)	15%	8%	-10%	8%	5%	-15%	6%
Capital Gains	26%	-40%	-39%	73%	8%	-20%	13%
Dividends	35%	-30%	-35%	14%	8%	-20%	13%
U.S. Corporate Profits	-10%	-11%	-14%	37%	-3%	-20%	13%
S&P 500 Index	5%	-39%	24%	10%	20%	-2%	n.a.

Note: Net Profits include income reported by independent contractors, sole proprietors, partners and S corporation shareholders on the state tax return. Capital Gains and Dividends are growth rates from state tax return. Corporate profits include all C and S corporation profits and exclude foreign profits and financial firms. S&P 500 Index uses December average or June 2020 average.

Forecast Assumes Quick Recovery from 2020 Q2

	Change or Growth from Prior Year				
	2020.1	2020.2	2020.3	2020.4	2021.1
Wages-Salaries	3.7%	-9.8%	-4.8%	-1.9%	-0.9%
Payroll Jobs (000s)	30	-950	-555	-295	-170

Note: Payroll Jobs exclude independent contractors and self-employed. Job loss includes seasonal workers and those who cannot file for unemployment compensation.
Sources: Value for 2020.1 jobs from the U.S. Bureau of Labor Statistics.

Miscellaneous Economic Notes

Programs largely offset lost wage income

- CY 2020 lost wages ~\$26 billion | ~\$1 to \$2 billion in tip income
- Federal and state UC = \$20.7 billion | impact payments = \$10.8 billion

COVID-19 not directly comparable to Great Recession

- No obvious bubble, although stock market appears overvalued
- Consumers not overextended | strong housing and labor market

Some key forecast assumptions

- Consumers largely revert to old spending patterns
- No second outbreak that causes business closures | no vaccine
- Schools reopen in fall

FY 2019-20 Revised Estimate

	IFO Official	Non-COVID Impact	Shifts	COVID-19 Impact	IFO Revised
General Fund	\$35,518	\$235	-\$1,995	-\$1,745	\$32,013
Corp. Net Income	3,458	-27	-350	-270	2,811
Gross Receipts	1,211	-95	0	0	1,116
Sales - Non-Motor	9,996	93	-135	-645	9,309
Sales - Motor Vehicle	1,548	13	0	-245	1,316
PIT - Withholding	10,793	24	0	-310	10,506
PIT - Other	3,751	40	-1,415	-120	2,256
All Tobacco	1,083	-9	0	-25	1,049
All Other Tax	3,057	123	-70	-125	2,985
All Non-Tax	622	73	-25	-5	665

Note: Dollar amounts are in millions. PIT is personal income tax.

Personal Income Tax Notes

Withholding performs much better than expected

- For April and May, YOY withholding growth rate is ~-7.0%
- But payroll employment down ~17% for April
- Due to types of workers affected: lower wage and part-time

Quarterly and annual payments delayed to July 15

- March and June quarterly, April 15 final payment | ~\$1.4 billion shift

Taxpayers can delay employer share of federal payroll taxes

- Delay 50% to no later than Dec 2021 and 50% no later than Dec 2022
- IFO estimates ~\$10.8 billion shifted

Sales and Use Tax Notes

Sales tax holds up well despite massive job loss

- Injection of federal monies to state economy
- Evidence that consumers are shifting spending patterns
- No dining out | more home improvement, internet shopping, fast food

May revenues provide some optimism

- Non-motor vehicle collections down ~20%
- Motor vehicle revenues pick up | April -89%, May -62% YOY
- Anticipate pent-up demand for personal care services, cars, etc.

Can consumers maintain pace of spending?

- \$600 weekly FPUC payments end in July
- Mortgage and rent payments in arrears | how bad is it?

Initial Revenue Estimate FY 2020-21

	Amount	Shifts	Adjusted	Growth	Adjusted
General Fund	\$35,874	-\$1,995	\$33,879	0.4%	-0.7%
Corp. Net Income	3,188	-350	2,838	-10.2	
Gross Receipts	1,005	0	1,005	-9.9	
Sales - Non-Motor	9,893	-135	9,758	3.3	2.1
Sales - Motor Vehicle	1,559	0	1,559	18.5	
PIT - Withholding	10,767	0	10,767	2.5	
PIT - Other	4,612	-1,415	3,197	-12.9	
All Tobacco	1,008	0	1,008	-3.9	
All Other Tax	3,175	-70	3,105	1.6	
All Non-Tax	667	-25	642	-7.0	

Note: Dollar amounts are in millions. PIT is personal income tax. Adjusted growth rate controls for the \$115 million transfer from non-motor sales tax to Tobacco Settlement Fund for FY 2019-20.

Lottery Sales Growth Tanks in April, Rebounds in May

	January	February	March	April	May
Instants	-4%	8%	-2%	-11%	30%
Numbers	-3	3	-9	-9	9
In-State Lotto	7	13	-33	-33	45
Multistate Lotto	49	-27	-74	-30	-27
iLottery	62	73	61	113	109
Keno/Xpress Sports	<u>14</u>	<u>20</u>	<u>-10</u>	<u>-37</u>	<u>-27</u>
Total	0	5	-17	-14	21

Note: Growth rates for May are based on weekly Lottery sales reports.

Lottery Sales and Revenues

	Amounts			Growth Rate		
	18-19	19-20	20-21	18-19	19-20	20-21
Total Sales	\$4,885	\$5,131	\$5,435	15.7%	5.0%	5.9%
Instants	3,093	3,238	3,315	5.2	4.7	2.4
Multistate Lotto	507	269	423	19.4	-47.0	57.5
In-State Lotto	272	253	255	8.6	-7.0	0.7
Numbers	575	569	556	1.3	-1.1	-2.3
iLottery	381	740	822	n.a.	93.9	11.2
All Other	57	63	64	193.5	10.7	1.7
Net Revenues	1,931	2,022	1,863	7.9	4.7	-7.9

Note: Millions of dollars.

Motor License Fund

COVID-19 reduces FY 19-20 revenues by ~\$105 million

- Full-month closure reduces gasoline consumption by ~40%
- Diesel more moderately affected

Licenses and fees largely unaffected

- Expiration dates for March, April and May extended to June 30
- Some shift of revenue to next fiscal year (~\$65 million)

FY 20-21 projection is flat from FY 19-20

- Assumes gasoline consumption falls by ~10% from historical levels
- More telecommuting, less travel, fewer social events

Wrap Up and Looking Forward

Initial jobs impact from virus/mitigation largely known

- However, do not know shape or pace of recovery
- Overall, revenues are holding up better than expected

Is economy in a temporary bubble?

- Extra \$600/week ends in mid- to late-July | windfall for some workers
- PPP loans/grants buys limited time for businesses
- One-time purchases to enable telecommuting
- Lack of seasonal sales still to be absorbed going forward

Permanent hit to the economy, lower productive capacity

- Non-financial wealth eliminated | labor force shrinks

Report is Posted to IFO Website

Questions?

Submit to contact@ifo.state.pa.us