

ECONOMIC UPDATE

Presentation to PA Chamber
of Business and Industry

“Why the Recession is Always Six Months Away”

THE WALL STREET JOURNAL.

March 6, 2023 10:45 am ET

“The next economic downturn has become the most anticipated recession in recent U.S. history. It also keeps getting postponed.”

WSJ Economist Survey: Odds of Recession in Next 12 Months

Nov 2007	34%
Dec 2007	38% (Dec 07 to Jun 09)
Apr 2022	28%
Jun 2022	44%
Jul 2022	49%
Oct 2022	63%
Jan 2023	61%

PA Economic Data

	June 2022	Dec 2022	Latest	Notes
Philly CPI-U All Items	8.8%	6.4%	6.4%	projection
Energy Only	46.0%	11.8%	11.0%	January actual
Grocery Only	13.1%	14.2%	14.3%	January actual
Gasoline (\$/gallon)	\$5.07	\$3.40	\$3.63	March 10
Unemployment Rate	4.3%	4.3%	4.3%	January actual
Wage Growth	9.8%	5.6%	5.1%	2023 Q1
<p>Note: All growth rates are year over year. Energy is 7% of CPI-U and includes gasoline and household utilities. Groceries are 7.6% of CPI-U. Sources: U.S. Bureau of Labor Statistics and AAA (PA average gasoline price).</p>				

Federal Pandemic Stimulus (\$ billions to PA)

	2020	2021	2022	2023.1	2023.2	2023.3
Unemployment Comp	\$31.5	\$16.9	\$0.1	--	--	--
Economic Impact Payments	11.2	22.1	0.8	--	--	--
PPP Loans	20.7	10.0	--	--	--	--
CTC/ERC/Dependent Care	--	4.4	3.8	--	--	--
SNAP and P-EBT	1.3	3.4	2.7	\$0.4	\$0.1	\$0.2
Rent and Childcare Assist	<u>0.1</u>	<u>1.6</u>	<u>1.2</u>	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>
Total	64.8	58.3	8.6	0.7	0.3	0.4
Student Loan Moratorium	\$5.7	\$7.7	\$7.7	\$1.9	\$1.9	??

Note: Unemployment Comp includes \$5.2 (2020) and \$0.8 (2021) billion of state monies. Excludes direct federal monies to state and local government units and higher education institutions. Childcare includes stabilization funds (\$820m) and block grants (\$865m).

PA Labor Market: Pre vs Post Pandemic

	2019 Q4	2022 Q4	Change
Number Jobs (000s)			
Establishment Survey (# jobs)	6,142	6,099	-42
Household Survey (# people)	6,314	6,222	-92
Labor Force (age 16+)			
Number (000s)	6,580	6,474	-105
Participation Rate	63.2%	61.7%	-1.5%
Population (000s)			
Age 18 to 64	7,917	7,777	-140
Age 18 to 69	8,687	8,600	-87
Age 65+	2,362	2,537	+174
<p>Note: Data not seasonally adjusted. Establishment survey excludes self-employed. Participation rate is share age 16+ working or actively looking for work. Source: U.S. Bureau of Labor Statistics.</p>			

PA Payroll Job Gains/Losses (000s)

Sector or Sub-Sector	Change
Warehousing and Storage	+30
Management (HQs)	+14
Couriers and Messengers	+6
Nursing Home and Residential Care	-27
Full-Service Restaurants	-18
Local Gov't: municipals	-10
Colleges and Universities	-9
Non-Profits	-9
Accommodation	-8
Local Gov't: school districts	-7
All Other	-4
Total	-42

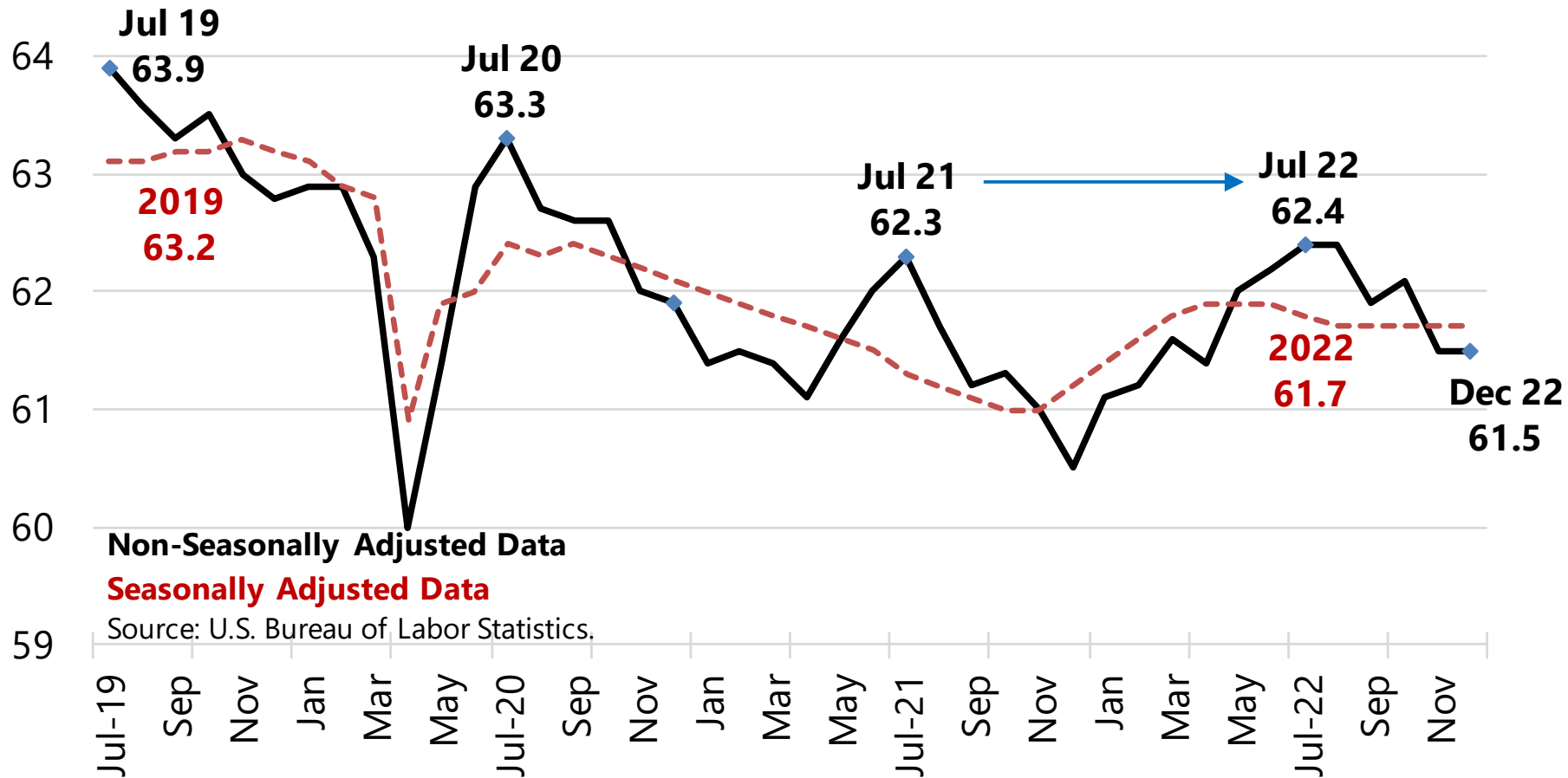
Source: U.S. Bureau of Labor Statistics.

2019 Q4 vs 2022 Q4
excludes self-employed

FedEx, UPS

Limited-Service Restaurants
now > pre-COVID (+3k)

PA Labor Force Participation Rate Recovers, Then Stagnates



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

Rapid growth age 65+ pushes LFPR down

Flat LFPR implies that more workers <65 joining labor force to offset impact of age 65+

Where Did the Workers Go?

	Population Change		Pre-COVID LFPR		Change in Labor Force
PA Labor Force (000s)					-105
PA Demographics (000s)					
Age 25-54	-63	*	82.5%	=	-52
Age 55-64	-75	*	65.3%	=	-49
Age 65-69	+54	*	34.3%	=	+18
Age 70-74	+57	*	19.8%	=	+11
Age 75+	+64	*	9.1%	=	+6
TOTAL	+36				-66
Residual: Other Factors					-39

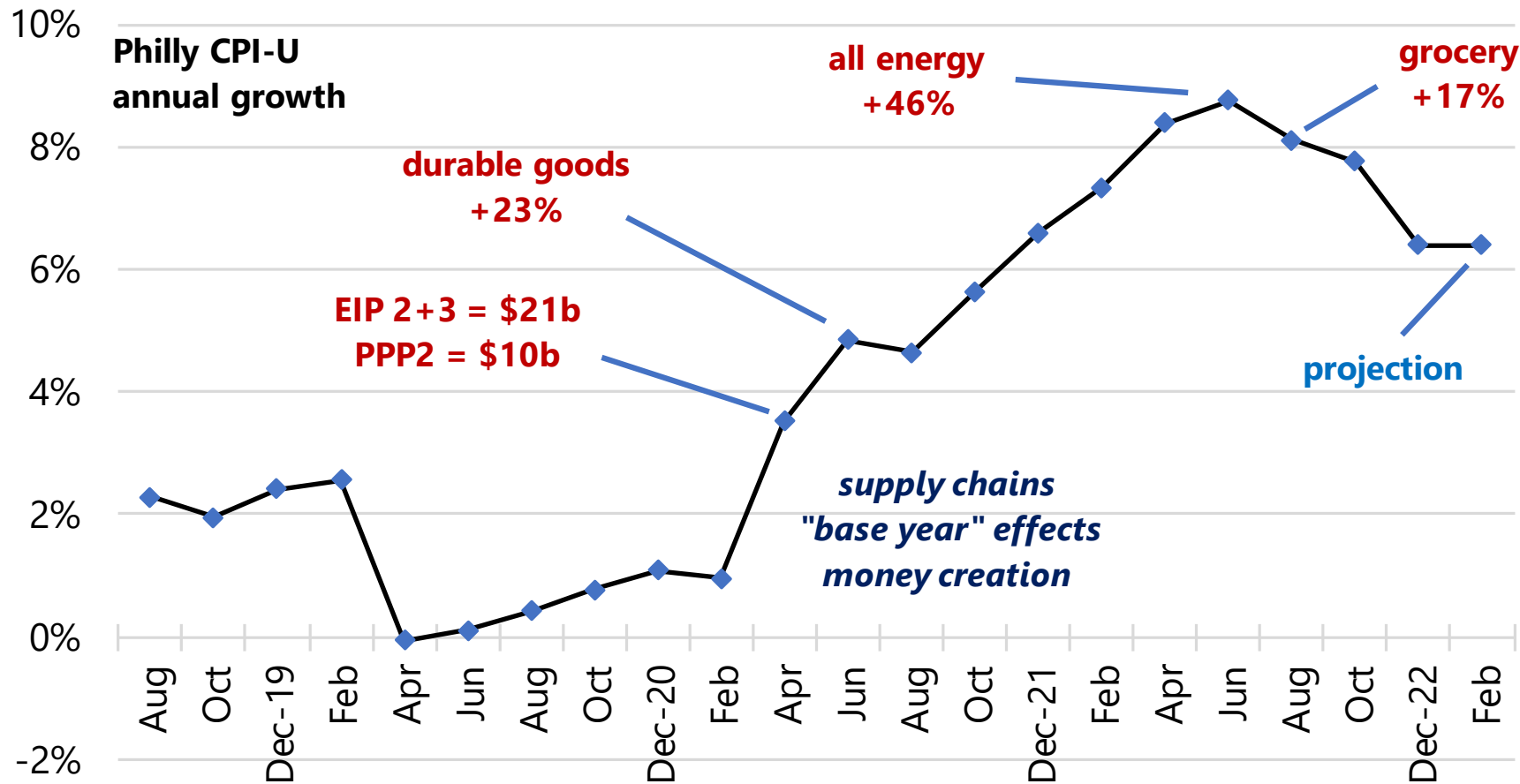
Note: Age 18-24 omitted: population change is -2k, Labor Force Participation Rate (LFPR) is ~70%. LFPRs are for U.S. due to higher reliability and greater detail for age 65+. Source: U.S. Bureau of Labor Statistics.

2019 to 2022

Due to aging demographic

Due to lower LFPRs
 pandemic savings
 homeschooling
 lifestyle choices
 care for elderly
 ongoing programs
 unreported jobs?

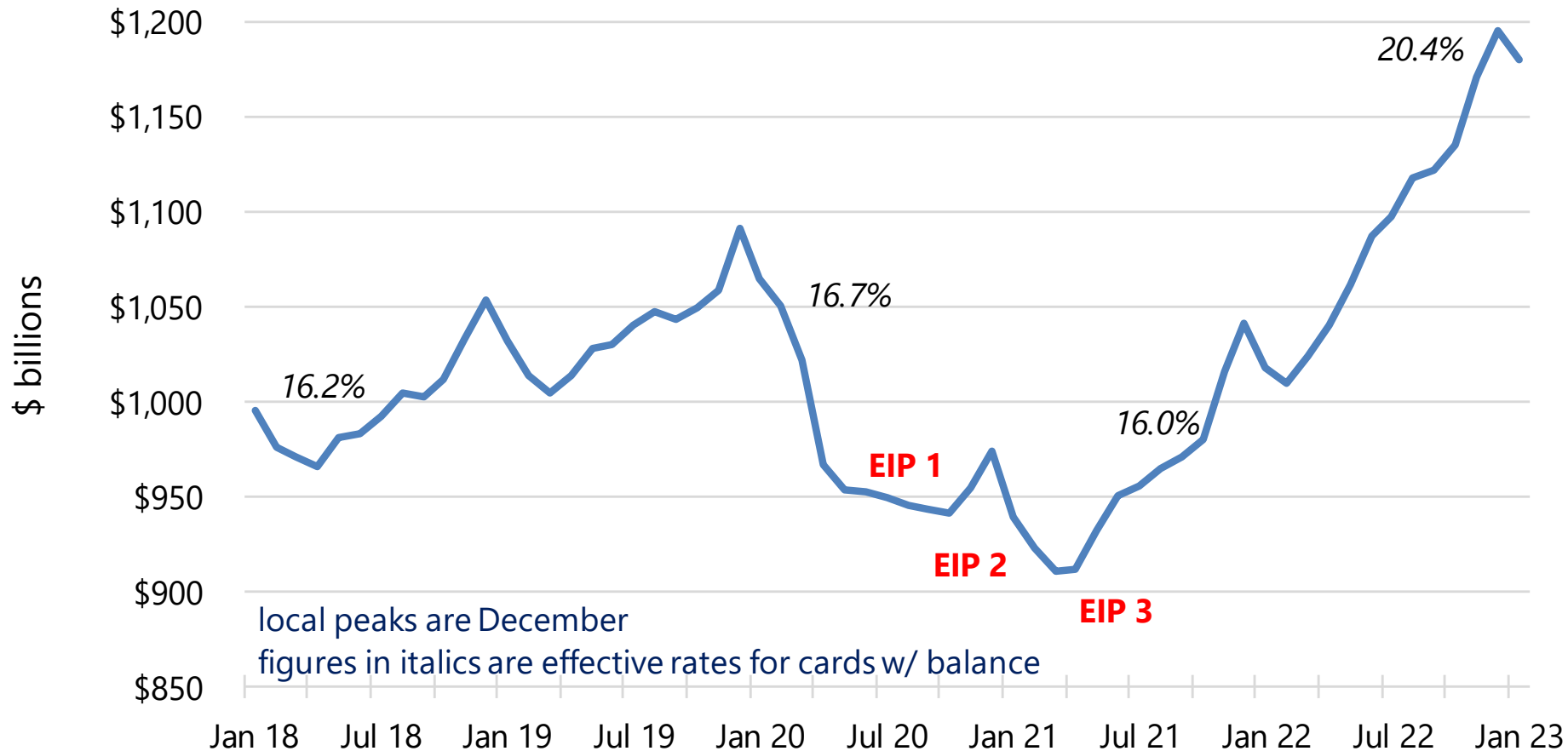
Inflation Waves: Is Wage Growth Next?



Wage-Price "Persistence"
 is 5% wage growth
 consistent with
 2% inflation?

Something must give
 energy deflation
 high productivity gains
 housing-rental slump

US Consumer Credit Card Debt Surges after Third EIP

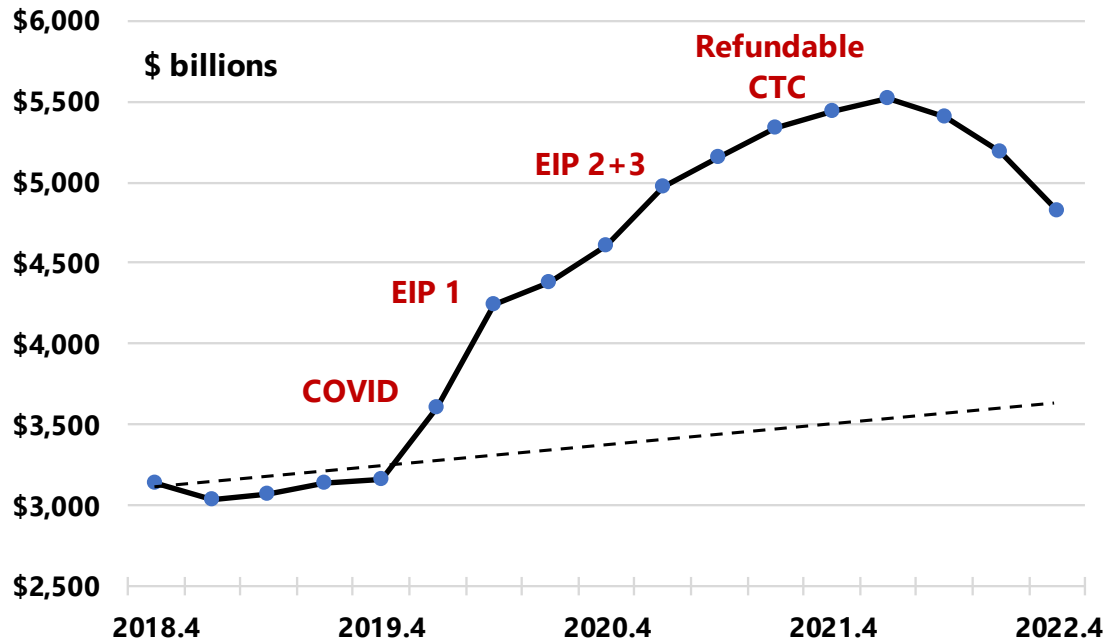


SNAP emergency allotments ended Feb 2023

PA Avg Balance
2021 Q4 = \$5,400
 +10% increase in 2022
 ~20% effective rate

Note: Data not seasonally adjusted. EIP is economic impact payment. Source: Federal Reserve Board.

Savings Cushion: Deposits at FDIC Banks and Savings/Loans

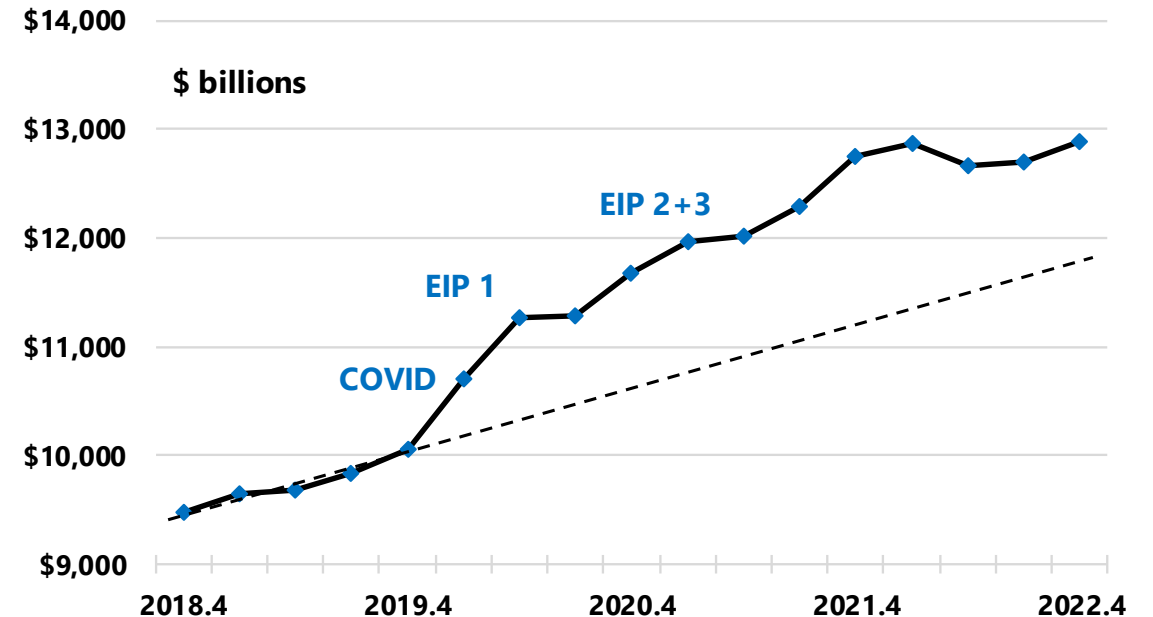


FDIC non-interest bearing deposits

+\$1.7 trillion (+53%) from 2019.4
 ~\$1.2 trillion (+34%) above trendline
 but falling rapidly

FDIC interest bearing deposits

+\$2.8 trillion (+28%) from 2019.4
 ~\$1.0 trillion (+8%) above trendline
 Inflation = +15% 2019 to 2022



Executive Budget - Major Policy Initiatives

Area or Policy	Description (estimates from Executive Budget)
Basic Education	Increase \$567m (+7.8%)
Special Education	Increase \$104m (+8.4%)
State Police Funding	Phase-out Motor License Funds (\$500m), replace with sales, liquor, and other tobacco, move out of General Fund
Eliminate Mobile Telecom Taxes	Gross receipts tax (5.0%) and sales tax (6.0%): -\$62m
Raise Minimum Wage	\$7.25 to \$15.00, effective Jan 1, 2024
Adult Use Cannabis Tax	20% wholesale price, effective Jan 1, 2025
Recruit and Retention Tax Credit	New professionals in nursing, teaching, public policing, effective Jan 1, 2023 (-\$25m)
Surplus Funds (~\$13 billion)	Rainy Day Fund and Carryforward Balances largely depleted by FY 27-28