

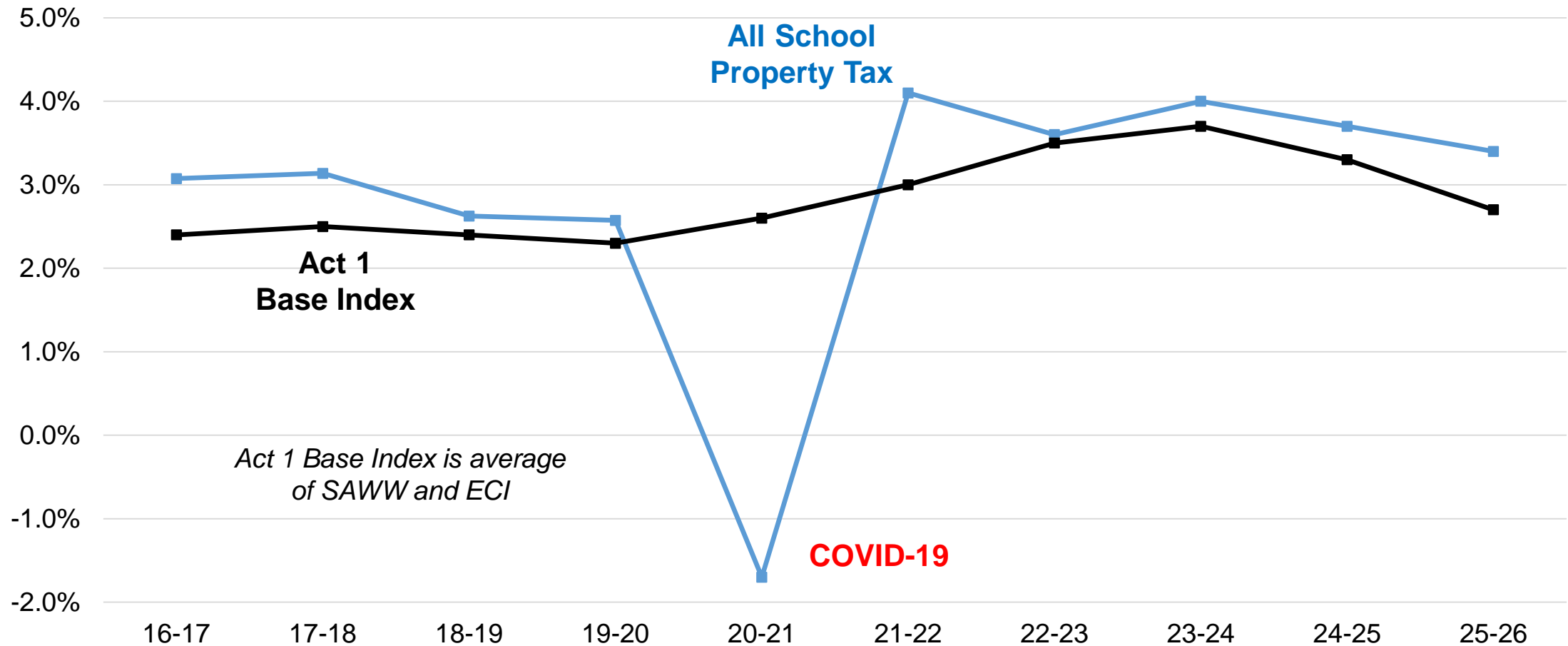


Projecting the Components of the Act 1 Index

Pennsylvania Association of School
Business Officials

March 17, 2021

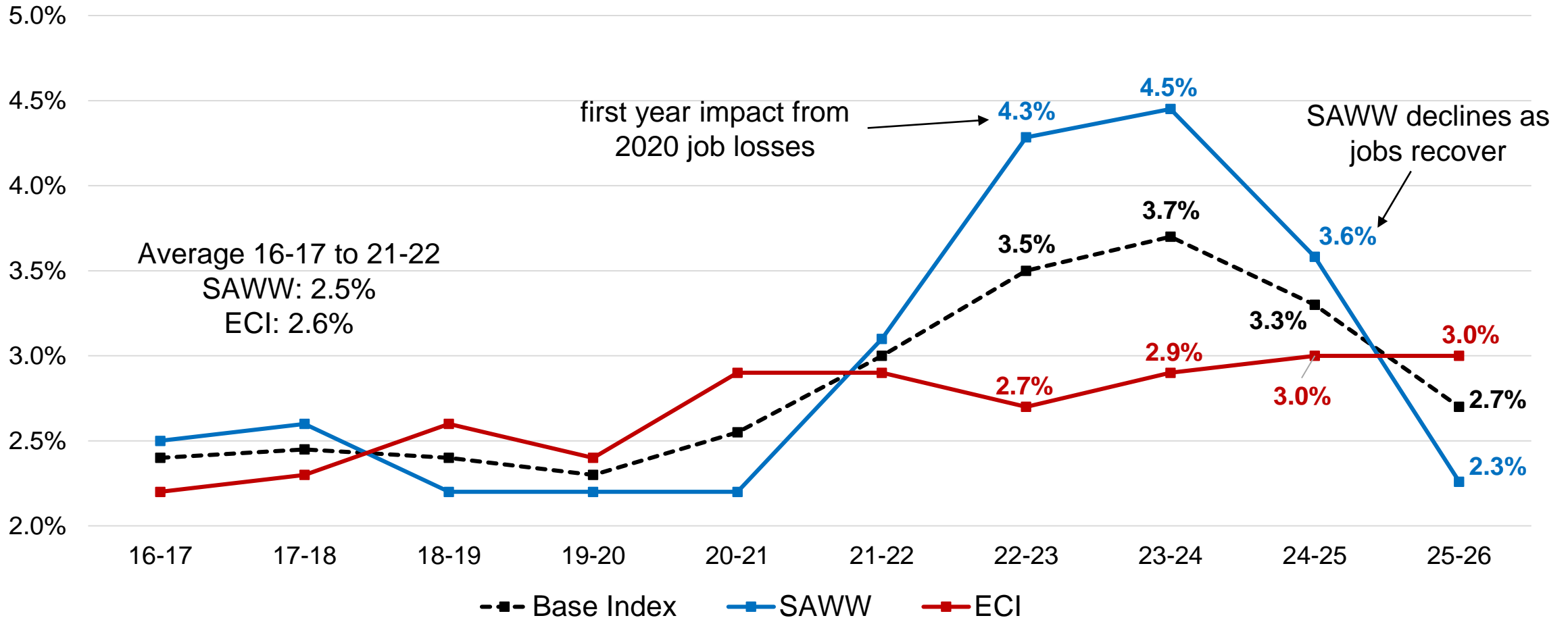
Statewide School Property Tax Growth Rates



Note: Includes Current and Interim, Act 1 Allocations and delinquent taxes.

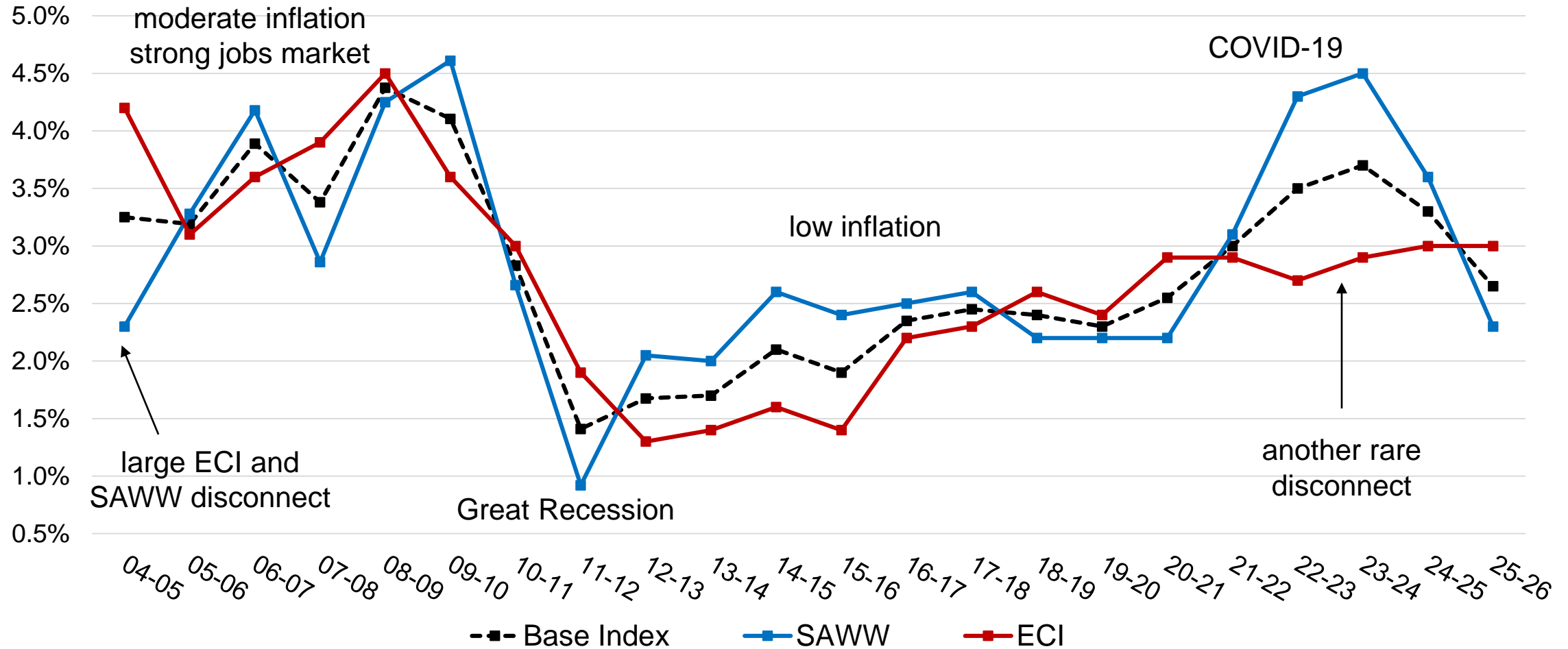
Source: School District Property Tax Forecast, IFO (February 2021).

Act 1 Index Components: Actual and Forecast



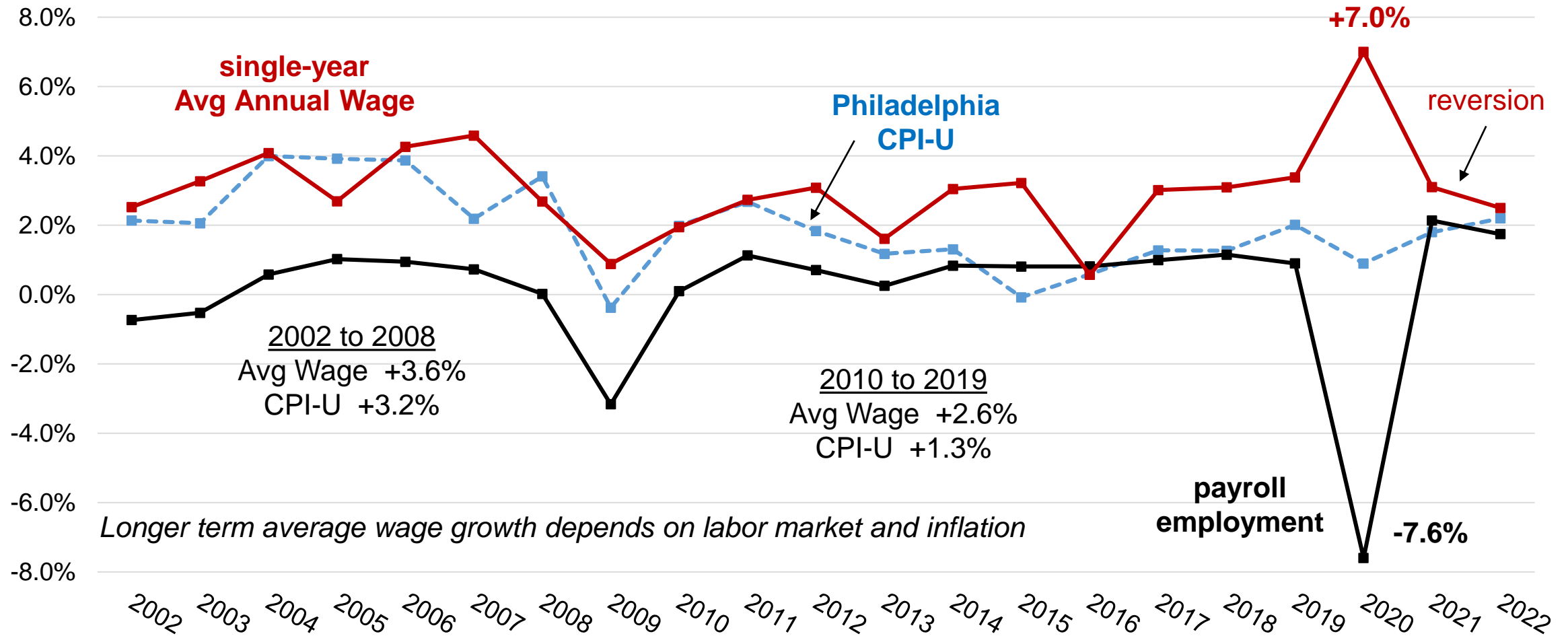
Sources: Index and components through 21-22 published by PDE. For later years, SAWW is projected by the Department of Labor and Industry and ECI is projected by IHS Markit with minor adjustments by the IFO. Assumes no change in minimum wage.

Act 1 Index Components: Long-Term Perspective



Sources: Index and components through 21-22 published by PDE. For later years, SAWW is projected by the Department of Labor and Industry and ECI is projected by IHS Markit with minor adjustments by the IFO. Assumes no change in minimum wage.

PA Macroeconomic Growth Rates: 2002 to 2022



Contraction of Low Wage Jobs Boosts Average Annual Wage

	2017	2018	2019	2020	2021	2022
Total Statewide Wages	4.0%	4.3%	4.3%	-1.2%	5.3%	4.3%
All Payroll Jobs	1.0%	1.2%	0.9%	-7.6%	2.1%	1.7%
Average Annual Wage	3.0%	3.1%	3.3%	7.0%	3.1%	2.5%

Note: Payroll Jobs exclude self-employed. Computations are by IFO and differ slightly from PA Dept. of Labor and Industry.
Sources: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics.

Average Wage Growth 2017-2019 3.1%
Average Wage Growth 2018-2020 4.4%

Other Factor: pay freezes for professional jobs less important than originally assumed

Low-Wage and Part-Time Jobs Hit Hardest

	YOY Number Change (000s)			YOY Percent Change		
	Apr 20	Aug 20	Jan 21	Apr 20	Aug 20	Jan 21
PA Payroll Employment	-1,099	-519	-460	-18.1%	-8.6%	-7.7%
Construction	-98	-19	-13	-37.9%	-6.8%	-5.3%
Manufacturing	-85	-44	-32	-14.7%	-7.6%	-5.7%
Retail and Wholesale Trade	-172	-52	-34	-21.0%	-6.3%	-4.1%
Transport and Warehouse	-27	-12	1	-9.0%	-4.2%	0.3%
Financial and Real Estate	-9	-8	-9	-2.7%	-2.4%	-2.7%
Professional and Technical	-19	-10	-1	-5.3%	-2.7%	-0.4%
Admin and Waste Management	-68	-48	-36	-21.4%	-15.0%	-11.9%
Education (excludes local SD)	-37	-13	-25	-14.4%	-6.6%	-11.0%
Healthcare-Social Assistance	-109	-51	-52	-10.3%	-4.8%	-4.9%
Arts-Entertainment	-56	-43	-34	-59.5%	-34.7%	-39.6%
Accommodation-Food Service	-276	-136	-125	-57.7%	-27.7%	-26.8%
Other Services	-95	-41	-38	-36.5%	-15.5%	-14.5%
All Government	-25	-20	-43	-3.4%	-3.0%	-6.1%
All Other	-23	-23	-20	-9.3%	-9.0%	-8.0%

Note: Data are not seasonally adjusted. Figures for January are preliminary. YOY is year-over-year. **Excludes self-employed.**

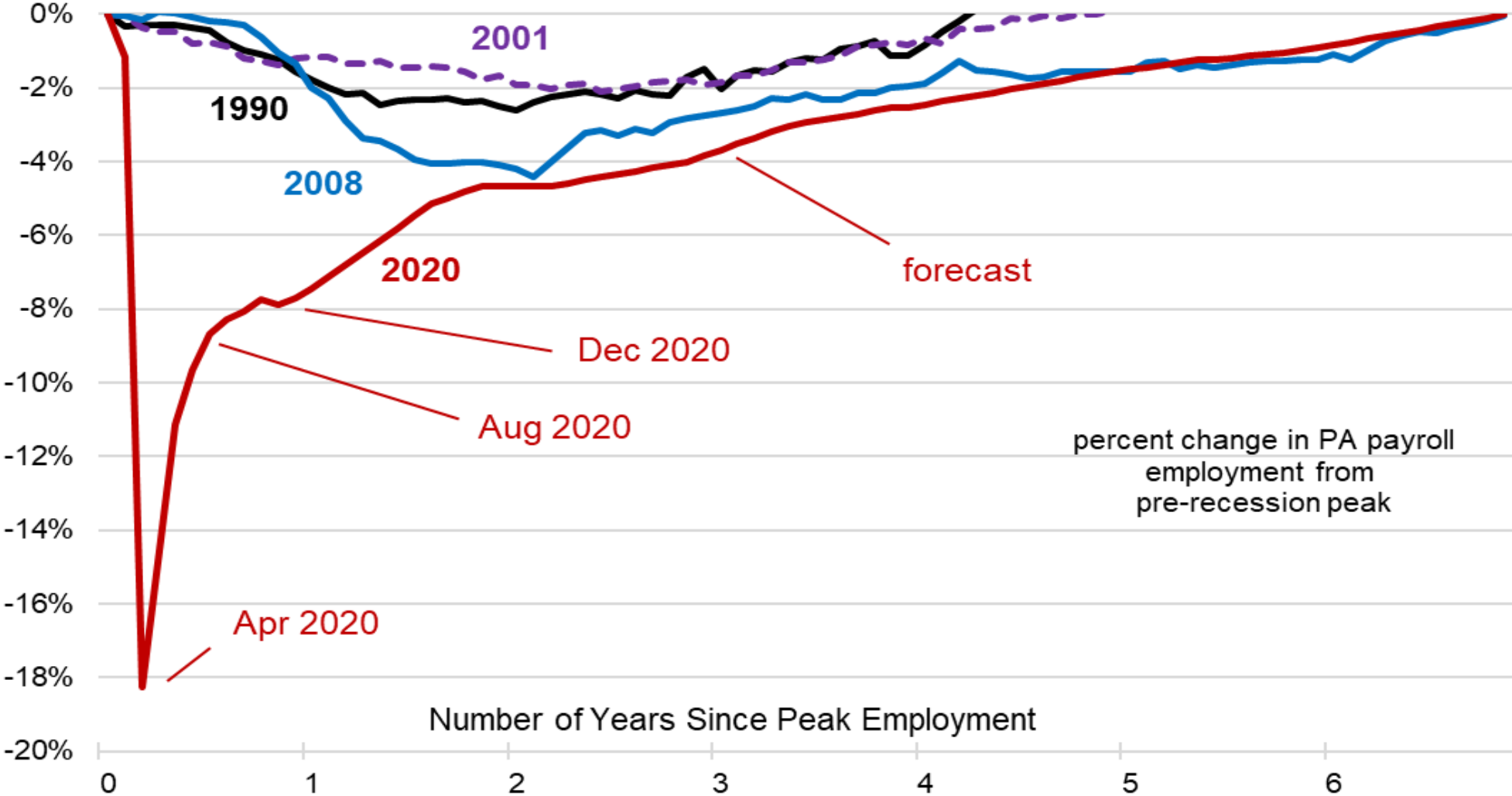
Source: U.S. Bureau of Labor Statistics, CES State and Metro Area Employment.

Payroll Employment: Drilling Down to the Subsector Level

	Number (000s)		Change	
	Jan 2020	Jan 2021	Number	Percent
Education				
Colleges-Universities, Prof. Schools	148	125	-23	-16%
Local School Districts	275	257	-18	-7%
State Education (state system, related)	56	45	-11	-20%
Private Schools (K-12)	49	44	-5	-9%
Significant Contraction				
Amusements – Gaming	61	36	-24	-40%
Accommodation	58	35	-23	-39%
Full-Service Restaurant	195	127	-69	-35%
Transit and Ground Passenger	39	27	-12	-31%
Employment Services (temps)	117	96	-21	-18%
Personal Care-Dry Cleaning	71	59	-12	-17%
Nursing and Residential Care	202	183	-20	-10%

Note: Data are not seasonally adjusted. Figures for January 2021 are preliminary. YOY is year-over-year. **Excludes self-employed.**
Source: U.S. Bureau of Labor Statistics, CES State and Metro Area Employment.

Forecast: Years Needed for Full PA Jobs Recovery



percent change in PA payroll employment from pre-recession peak

Reasons Why Lost Jobs Will Not Return Soon

Labor productivity (output per hour) surged in 2020

- More automation | release less productive employees | working more

Dramatic shift in consumer spending patterns

- Online sales tax collections double | shift to larger firms with online presence
- Investment in the home: gyms, meal preparation, entertainment, remodels

Remote working is here to stay

- Impacts restaurants, dry cleaners, formal/business casual clothing sales
- Gasoline consumption down 10% for FY 2020-21

Businesses tighten belts

- Operations and procurement | travel and meals/entertainment | leased space

Alternative Scenarios: High and Low Average Wage Growth

High Growth: impact of new stimulus, inflation and early retirements

- American Rescue Plan (ARP) injects ~\$56 billion into PA economy
- Causes faster wage growth and higher inflation
- Also: a contracting working age demographic | exits from labor force do not return
- Lots of early retirements (i.e., higher wage workers) depresses 2020 wage growth, but increases future growth

Low Growth: excess labor supply, remote working, part-time jobs

- Most former workers return to labor force (seek jobs), suppress wage growth
- Most jobs return rapidly due to new stimulus, and most are part-time
- Lower raises in exchange for remote working and other benefits

Alternative Scenarios: High and Low Average Wage Growth

	Prelim	Low Growth		Base Case		High Growth	
	2020	2021	2022	2021	2022	2021	2022
Avg Annual Wage	7.0%	1.5%	2.0%	3.1%	2.5%	4.0%	3.5%
Job Gains (000s)	-463	200	150	120	100	80	60

	Prelim	Act 1 Index Year					
	22-23	23-24	24-25	23-24	24-25	23-24	24-25
3-Year SAWW	4.3%	3.9%	2.9%	4.5%	3.6%	4.8%	4.2%
Employ Cost Index	<u>2.7%</u>	<u>2.3%</u>	<u>2.5%</u>	<u>2.9%</u>	<u>3.0%</u>	<u>3.2%</u>	<u>3.4%</u>
Base Act 1 Index	3.5%	3.1%	2.7%	3.7%	3.3%	4.0%	3.8%

Note: ECI co-trends with SAWW and is adjusted in the high and low scenarios. Scenarios are not equally likely and are for illustrative purposes only.

Wrap Up: Some Technical Notes

IFO data allows us to “front run” official published wage data

- Use real-time withholding tax data | very good indicator of final wage growth
- **SAWW** for 2018-2020 is largely known now with relatively high degree of accuracy
- SAWW for 2019-2021 appears solid based on most recent withholding data

IFO does not make national forecasts, relies on IHS Markit for ECI

- US macro economics provider for all state executive agencies
- The “all private workers” forecast is used for **ECI**
- Usually a high correlation with the elementary-secondary school ECI

IFO plans to update and re-release projection in fall

- Good estimate for 2021 wage growth at that time

Questions

Presentation posted on the IFO website

<http://www.ifo.state.pa.us/>

Follow the IFO on Twitter
[@ind_fisc_office](https://twitter.com/ind_fisc_office)

Independent Fiscal Office
Rachel Carson State Office Building
400 Market Street
Harrisburg, PA 17105
(717) 230-8293