

ECONOMIC AND BUDGET UPDATE

Presentation to the PA
Motor Truck Association

INDEPENDENT FISCAL OFFICE
APRIL 19, 2023

Some Background and Today's Presentation

Independent Fiscal Office (IFO) established in 2011

- Provides non-partisan analysis for budget and economic issues
- All 50 states have a legislative fiscal office | all are part of legislature
- Only IFO is separate and has no governing board
- Members can make requests, and all work published on website
- Office does not make recommendations unless required

Presentation has 3 parts

- I. Statewide economic trends: labor market, inflation and demographics
- II. Industry trends and state comparisons: jobs, wages and taxes
- III. State budget: revenue proposals and key issues

“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 | 33% |
| Dec 2007 | 38% (Dec 07 to Jun 09) |
| Jul 2022 | 49% |
| Oct 2022 | 63% |
| Jan 2023 | 61% |
| Apr 2023 | 61% |

I. Recent PA Economic Trends

| | Feb 2022 | June 2022 | Feb 2023 | Update or Note |
|----------------------|-------------|---------------|--------------|-----------------|
| Philadelphia CPI-U | 7.3% | 8.8% | 6.9% | |
| Energy Only | 24.4% | 46.0% | 6.6% | -5.3% (March) |
| Grocery Only | 10.1% | 13.1% | 13.3% | 12.1% (March) |
| Gasoline (\$/gallon) | \$3.69 | \$4.98 | \$3.52 | \$3.67 (Apr 17) |
| Diesel (all types) | \$4.29 | \$6.18 | \$4.96 | \$4.54 (Apr 17) |
| Unemployment Rate | 4.4% | 4.3% | 4.4% | near record low |
| # Unemployed (000s) | 284 | 277 | 284 | |

Note: All growth rates are year over year. **Recent max values in bold blue.** 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 U.S. Energy Information Administration.

PA Labor Market: 2020 Q1 vs 2023 Q1

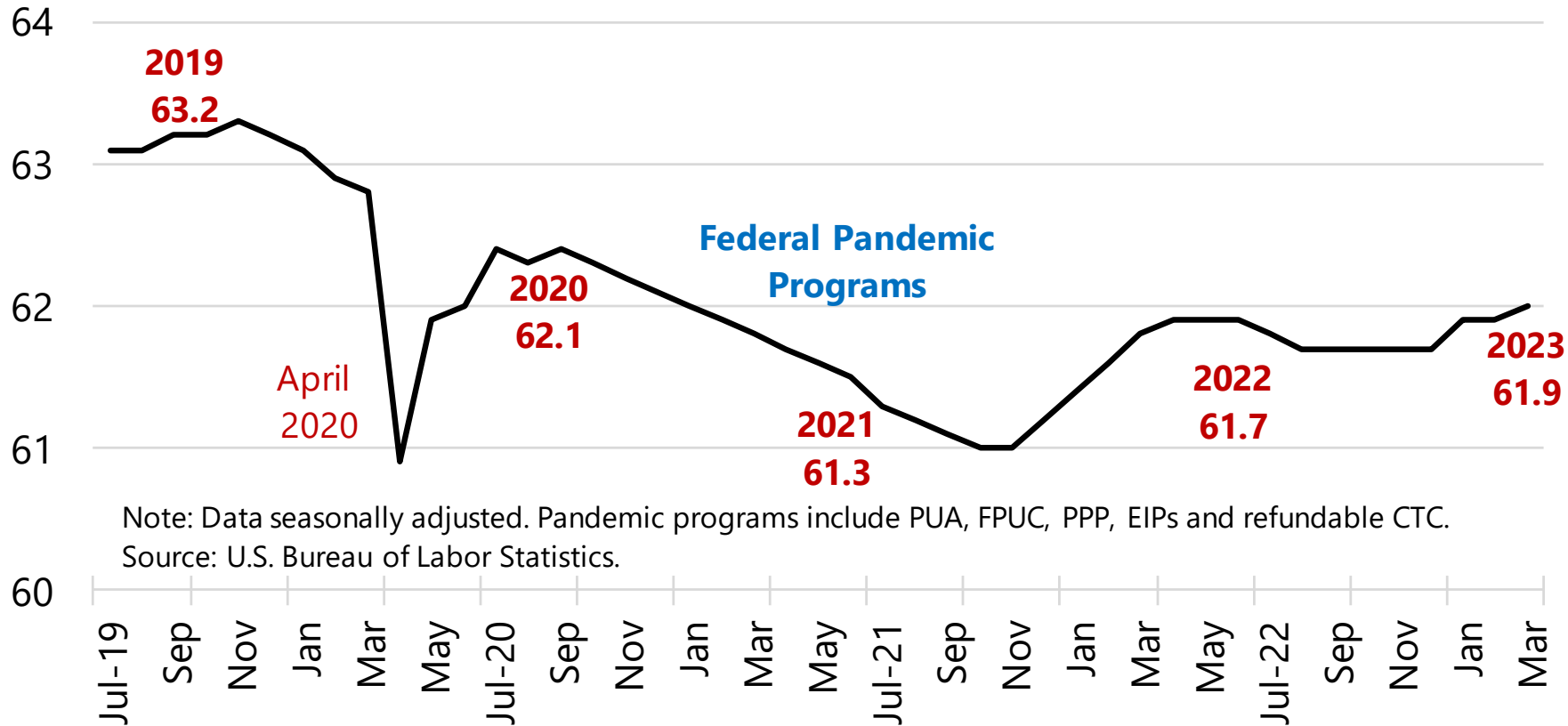
| | 2020 Q1 | 2023 Q1 | Change |
|---|---------|---------|--------|
| Number Jobs (000s) | | | |
| Establishment Survey (# jobs) | 6,010 | 6,010 | 0 |
| Household Survey (# people) | 6,244 | 6,183 | -61 |
| Labor Force (age 16+) | | | |
| Number (000s) | 6,556 | 6,480 | -76 |
| Participation Rate | 62.9% | 61.8% | -1.1% |
| Population (000s) | | | |
| Age 25 to 54 | 4,897 | 4,860 | -37 |
| Age 55 to 64 | 1,838 | 1,736 | -102 |
| Age 65+ | 2,417 | 2,586 | +169 |
| <p>Note: Data not seasonally adjusted. Establishment survey excludes self-employed. Participation rate is share age 16+ working or actively looking for work. Data for Q1 includes January and February only. Source: U.S. Bureau of Labor Statistics, Census Bureau.</p> | | | |

PA Demographics: 2020 - 2025 - 2030

| Age Cohort | Number (000s) | | | Number Change | | Percent Change | |
|--------------|---------------|---------------|---------------|---------------|------------|----------------|--------------|
| | 2020 | 2025 | 2030 | 20-25 | 25-30 | 20-25 | 25-30 |
| 0 to 19 | 3,044 | 2,916 | 2,790 | -128 | -126 | -4.2% | -4.3% |
| 20 to 64 | 7,528 | 7,311 | 7,136 | -217 | -175 | -2.9% | -2.4% |
| 65 to 79 | 1,839 | 2,108 | 2,208 | 269 | 100 | 14.6% | 4.7% |
| 80+ | <u>578</u> | <u>626</u> | <u>762</u> | <u>48</u> | <u>136</u> | <u>8.3%</u> | <u>21.7%</u> |
| Total | 12,990 | 12,960 | 12,897 | -29 | -63 | -0.2% | -0.5% |

Source: U.S. Census Bureau. Forecasts by IFO.

PA Labor Force Participation Rate Recovers



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

each +1.0 ppt worth ~100k workers

large drop males age 25-34 (-2.3 ppt)

LFPRs have returned to pre-COVID rates, except age 65+

ENTIRE drop now due to age composition (older residents work less)

Total Jobs Revert to Pre-COVID Level: 2020 Q1 vs 2023 Q1

| Sub-Sector | Change |
|------------------------------------|----------|
| Warehousing and Storage | +30 |
| Management (HQs) | +14 |
| Social Assistance Services | +13 |
| Computer System Design and Related | +8 |
| Truck Transportation | +3 |
| Nursing Home and Residential Care | -27 |
| Full-Service Restaurants | -19 |
| Local Gov't: Municipals | -11 |
| Colleges and Universities | -9 |
| All Other | -2 |
| Total Payroll Jobs | 0 |

Source: U.S. Bureau of Labor Statistics.

Change Payroll Jobs (000s)

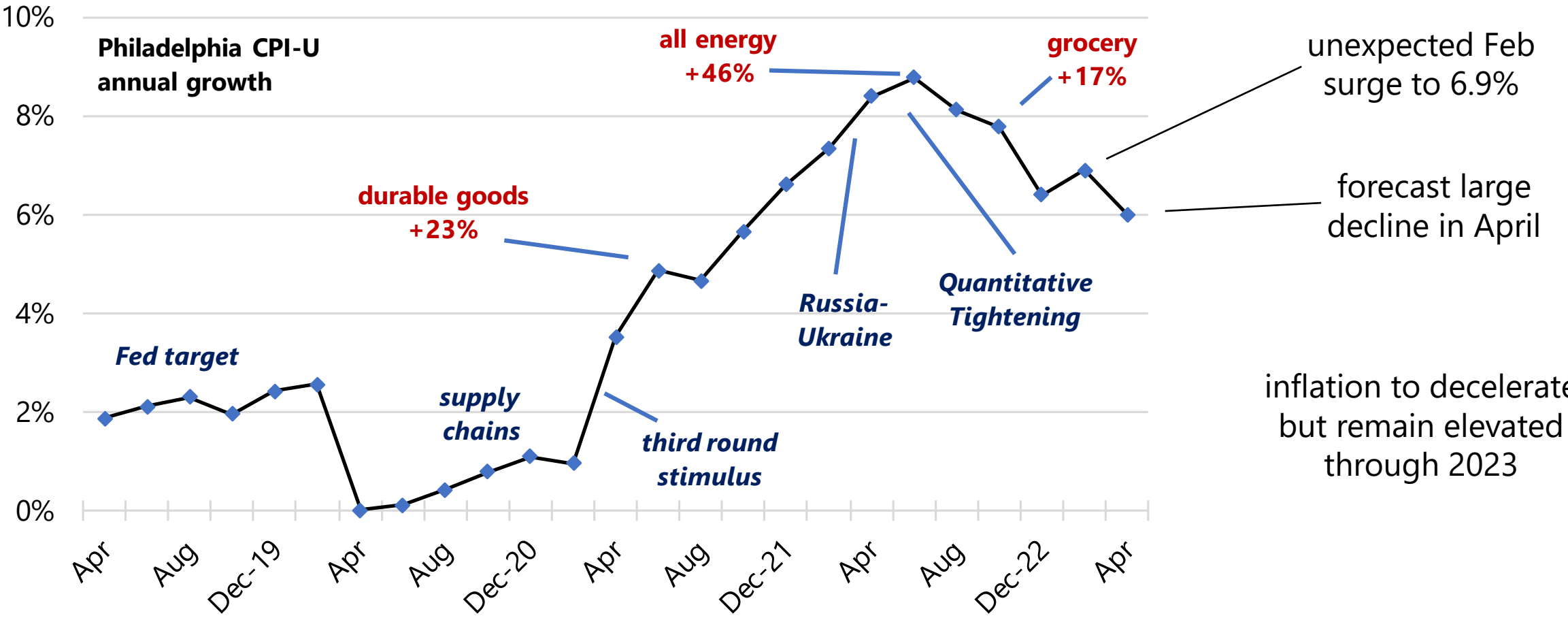
excludes self-employed
counts # jobs
location of job

youth, family, elderly,
food banks, housing
assistance

persistent loss

fast food +4,400

Three Inflation Waves So Far

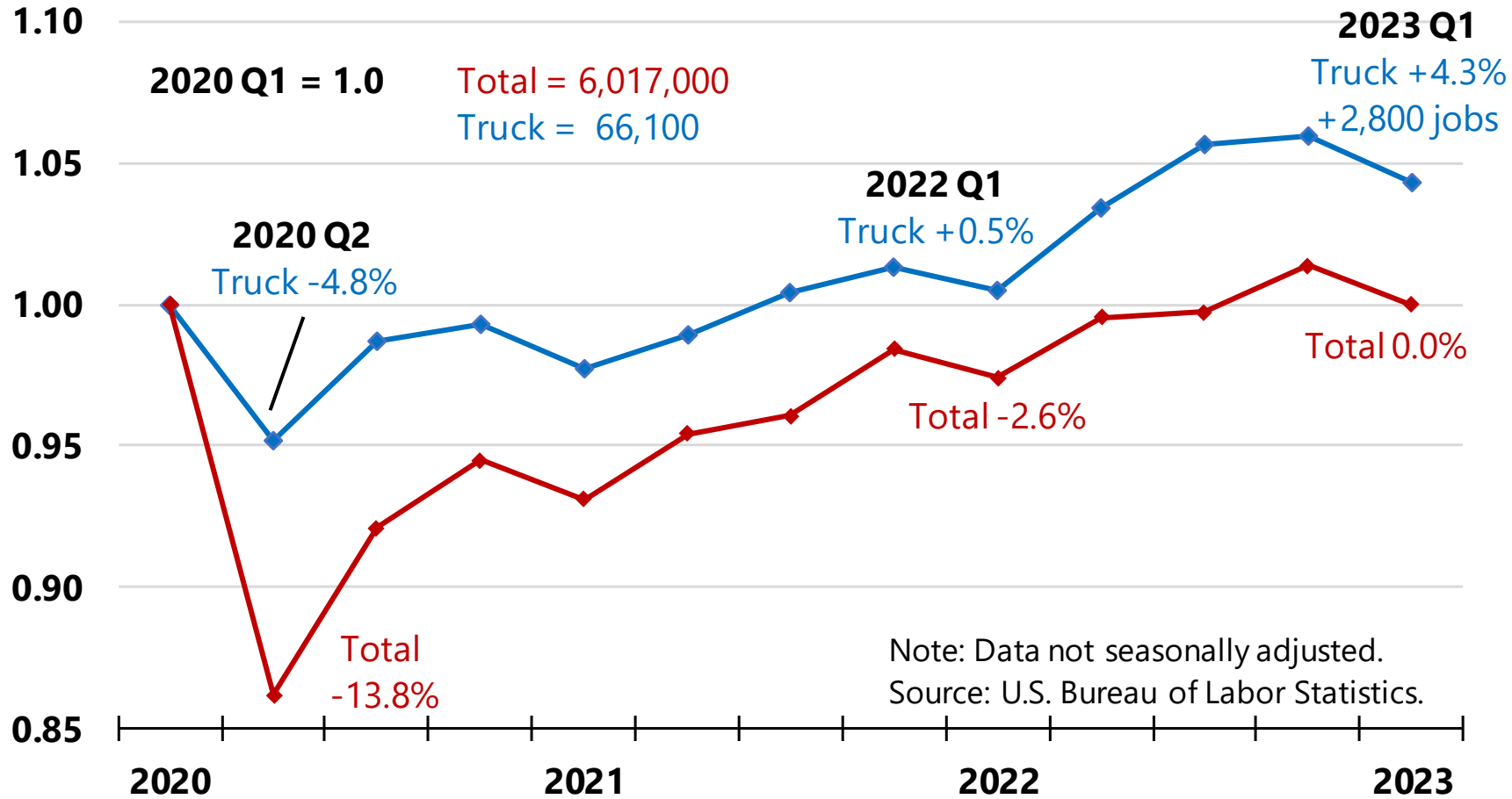


Pandemic Stimulus Ends (\$ billions to PA)

| | 2020 | 2021 | 2022 | 2023.1 | 2023.2 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Unemployment Comp | \$31.5 | \$16.9 | \$0.1 | -- | -- |
| Economic Impact Payments | 11.2 | 22.1 | 0.8 | -- | -- |
| Paycheck Protection | 20.7 | 10.0 | -- | -- | -- |
| Child Tax Credit and ERC | -- | 4.4 | 2.9 | -- | -- |
| SNAP and P-EBT | 1.3 | 3.4 | 2.2 | \$0.4 | \$0.2 |
| Rent and Childcare Assist | <u>0.1</u> | <u>0.6</u> | <u>1.1</u> | <u>0.3</u> | <u>0.2</u> |
| Total | 64.8 | 57.3 | 7.1 | 0.7 | 0.4 |
| Student Loan Moratorium | \$5.7 | \$7.7 | \$7.7 | \$1.9 | \$1.9 |

Note: Unemployment Comp includes \$5.2 billion (2020) and \$0.8 billion (2021) of state monies. Excludes direct federal monies to state (\$26.3 billion) and local (\$10.9 billion) governmental units and other entities (\$9.8 billion). Excludes enhanced FMAP funds. Childcare includes stabilization funds (\$820m) and block grants (\$865m).

II. Pre vs Post COVID Jobs – PA Truck Transport and Total



NAIC 484 Truck Transportation General and Specialized Freight

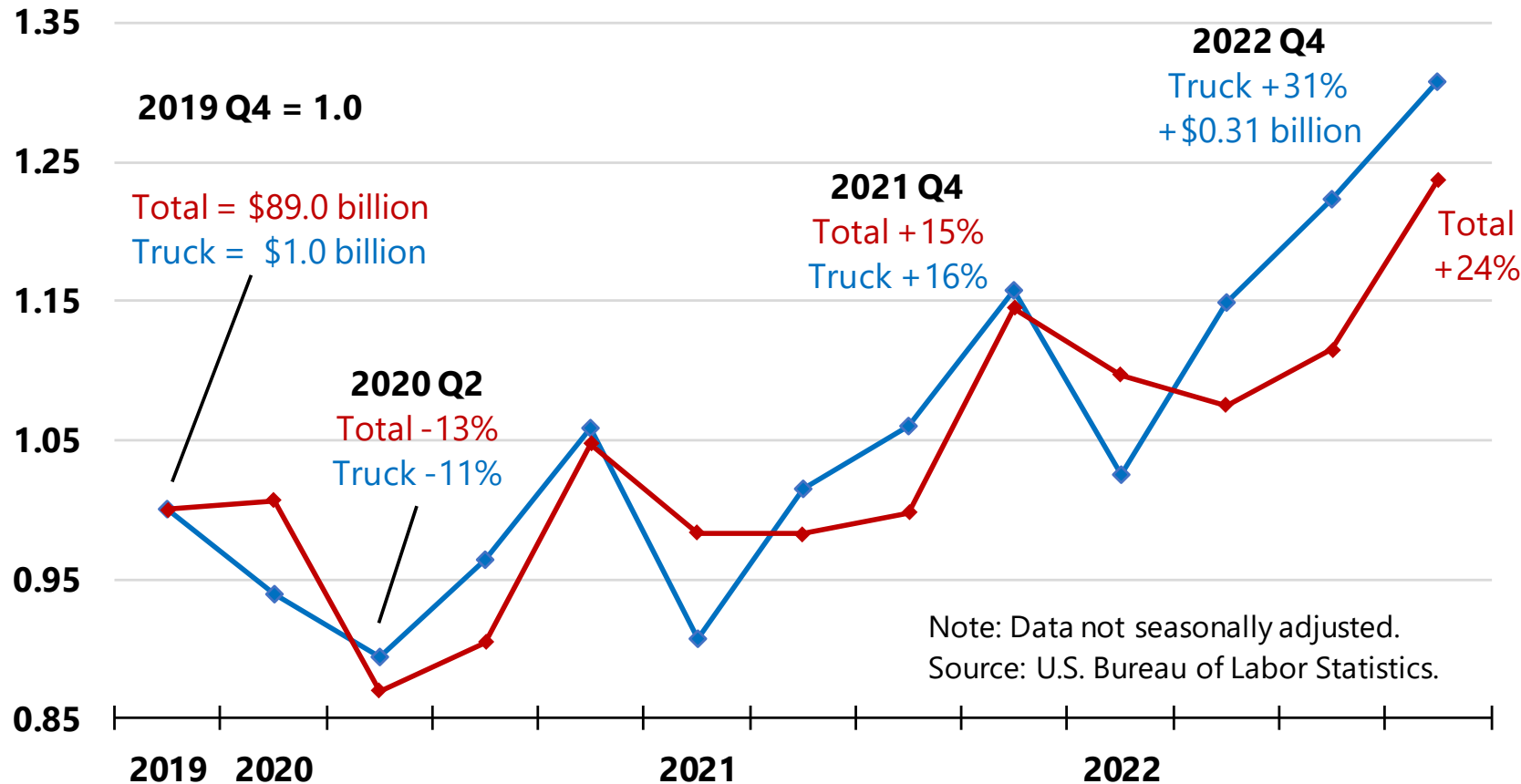
data exclude
self-employed

sector deemed
essential in 2020

2022 surge
+3,100 +4.6%

U.S. Truck Transport
2020 Q1 - 2023 Q1
+90,000 +6.0%

Wages Paid – PA Truck Transport and Total

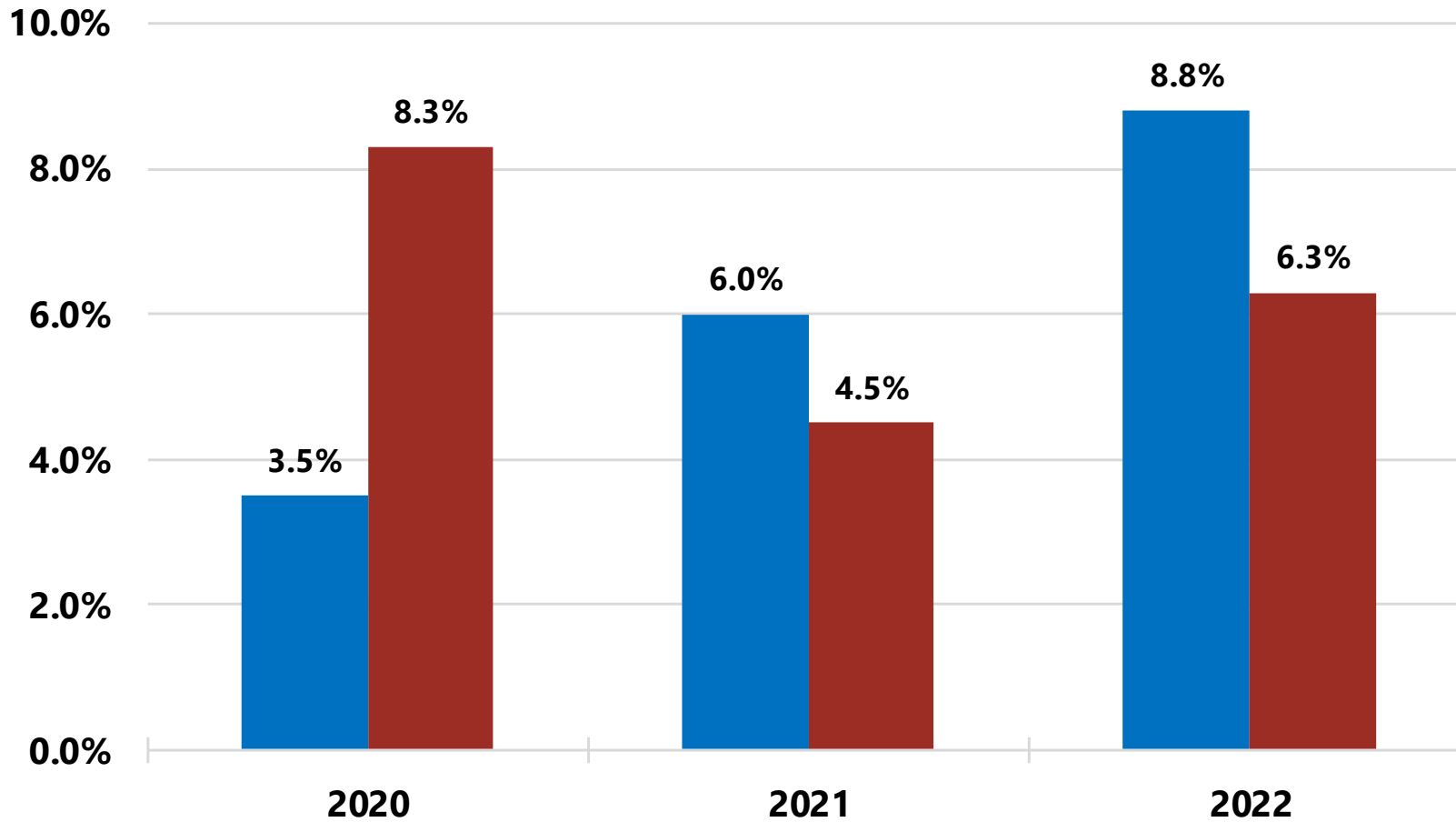


NAIC 484 Truck Transportation General and Specialized Freight

highly cyclical trend
 and
 clear acceleration in 2022

U.S. Truck Transport
 2019 Q4 - 2022 Q4 +35%

PA Average Weekly Wage Growth



Source: U.S. Bureau of Labor Statistics. Includes overtime and bonuses. 2022 Q4 is an estimate.

2019 Average Weekly Wage

All Private = \$1,100
(excludes gov't)
Trucking = \$1,100

2020

All Private jumps
low wage sectors close
some switch vocations

2021-22

All Private slows
solid gains Trucking

2019-2022

Total Growth
All Private = +20.3%
Trucking = +19.3%

PA State and Local Average Tax Rates

| Tax Source | % Total Tax | State Rank | PA Avg Tax Rate | U.S. Avg Tax Rate |
|-----------------|---------------|------------|-----------------|-------------------|
| Property | 26.3% | 27 | 2.66% | 2.87% |
| Personal Income | 25.4% | 22 | 2.57% | 2.28% |
| Sales and Use | 19.4% | 40 | 1.96% | 2.43% |
| All Other | 11.8% | 10 | 1.16% | 0.86% |
| "Sin" Taxes | 6.4% | 3 | 0.64% | 0.38% |
| Motor Vehicle | 5.5% | 17 | 0.55% | 0.48% |
| Corporate Net | <u>5.2%</u> | 16 | <u>0.53%</u> | <u>0.50%</u> |
| Total | 100.0% | 21 | 10.08% | 9.80% |

Source: State and Local Tax Revenues: A 50-State Comparison, IFO (Feb 2023). U.S. Avg Tax Rate is unweighted so that all states have equal weight. Total weighted average rate is 10.14%. Excludes all severance taxes.

Avg Tax Rate =
Taxes / Income

high ratio = high rank

Exemptions for groceries, clothing, fuel, services

Legalized gaming, high tax rates on slots and table games

High motor fuel taxes, but low car registration fees and taxes

2023 State Motor Fuel Taxes (cents/gallon)

| Top 5 - Gasoline | Rate | Rank | Border State | Rate | Rank |
|-------------------------|-------------|-------------|---------------------|-------------|-------------|
| California | 62.9 | 1 | New Jersey | 41.4 | 6 |
| Pennsylvania | 61.1 | 2 | Ohio | 38.5 | 8 |
| Washington | 49.4 | 3 | West Virginia | 37.2 | 10 |
| Illinois | 43.4 | 4 | New York | 26.2 | 31 |
| Maryland | 42.7 | 5 | Delaware | 23.0 | 40 |
| Top 5 – Diesel | Rate | Rank | Border State | Rate | Rank |
| California | 88.0 | 1 | New Jersey | 48.4 | 7 |
| Pennsylvania | 78.5 | 2 | Ohio | 47.0 | 8 |
| Indiana | 55.0 | 3 | Maryland | 43.5 | 9 |
| Illinois | 49.9 | 4 | West Virginia | 37.2 | 12 |
| Washington | 49.4 | 5 | New York | 24.4 | 36 |

Note: Illinois excludes local option taxes of 5 cents (Chicago) and 6 cents (Cook County, gasoline only). Excludes any sales tax levied.
Source: Federation of Tax Administrators (Jan 2023).

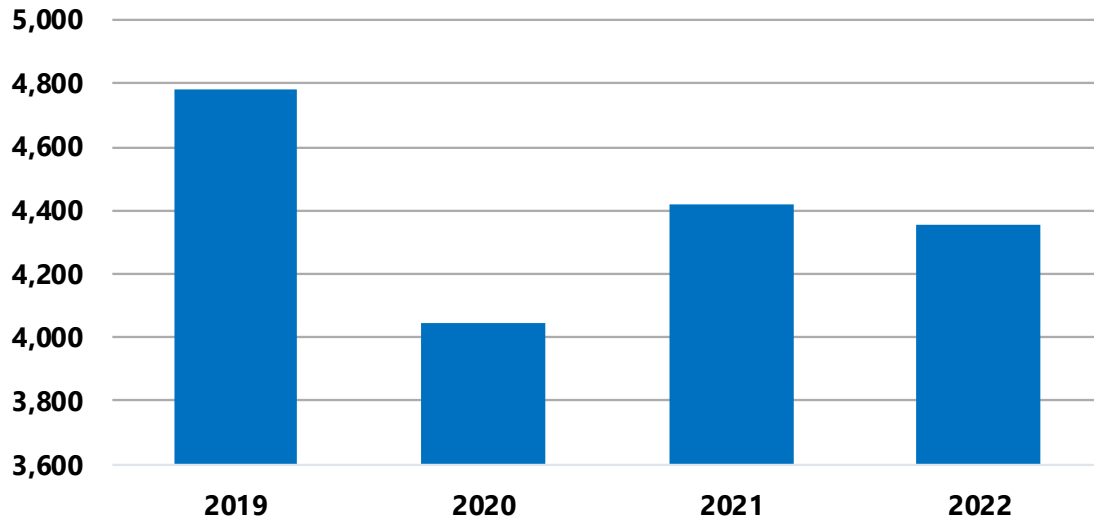
2023 All State Taxes on Motor Fuels (cents/gallon)

| Top 5 - Gasoline | | | Border State | | |
|---------------------|-------------|----------|---------------|------|------|
| | Rate | Rank | | Rate | Rank |
| Illinois | 67.4 | 1 | Maryland | 42.9 | 7 |
| California | 65.1 | 2 | New Jersey | 41.5 | 8 |
| Pennsylvania | 62.2 | 3 | Ohio | 38.5 | 10 |
| Indiana | 53.9 | 4 | West Virginia | 37.2 | 13 |
| Washington | 52.4 | 5 | New York | 26.5 | 32 |
| Top 5 – Diesel | | | Border State | | |
| | Rate | Rank | | Rate | Rank |
| Pennsylvania | 78.5 | 1 | New Jersey | 48.5 | 7 |
| California | 76.2 | 2 | Ohio | 47.0 | 8 |
| Illinois | 74.9 | 3 | Maryland | 43.6 | 9 |
| Michigan | 58.9 | 4 | West Virginia | 37.2 | 15 |
| Indiana | 56.0 | 5 | New York | 24.7 | 36 |

Note: This list includes rates of general application (including, but not limited to, sales tax, excise taxes, environmental taxes, special taxes, and inspection fees), exclusive of county and local taxes. Rates are also exclusive of any state taxes based on gross or net receipts. State rates in effect as of January 1, 2023. Alaska, Hawaii and other territories are excluded.
Source: U.S. Energy Information Administration, updated February 2023.

Gasoline and Diesel Fuel Consumption (million taxed gallons)

PA Gasoline

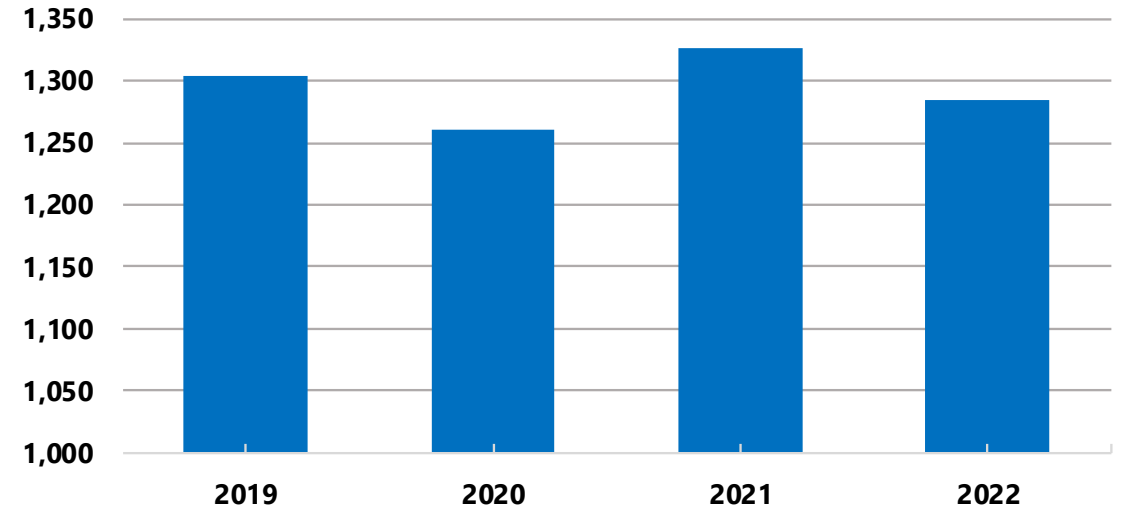


Source: Pennsylvania Department of Revenue.

Gasoline

-15.5% 2020
+9.2% 2021
-1.4% 2022
-8.9% Total

PA Diesel Fuel



Source: Pennsylvania Department of Revenue.

Diesel Fuel

-3.4% 2020
+5.2% 2021
-3.1% 2022
-1.5% Total

III. State Budget: Tax and Revenue Proposals

1 Increase state minimum wage to \$15.00 per hour

- Effective Jan. 1, 2024 | no phase-in and single rate for all employers
- 2024 rates: NY = \$14.60 | NJ = \$15.00 | OH = \$10.40 | MD = \$14.00

2 Recruitment and retention tax credit

- Effective Jan. 1, 2023 | 3-year \$2,500 annual credit from personal income tax
- Newly certified and licensed: nursing, teaching, public policing

3 Eliminate taxes on cell phone service (regressive)

- 5.0% gross receipts tax + 6.0% sales tax | ~\$70-\$80 million per year

4 Legalize cannabis and levy new adult use cannabis tax

- Effective Jan. 1, 2025 | 20% of wholesale price

State Budget: Key Issues and Proposals

1 Save or spend surplus/reserve funds?

- General Fund Balance + Rainy Day Fund = **~\$13.1 billion** | ~30% General Fund spend
- Some consensus that ~15% reserves prudent to weather moderate downturn

2 Encourage workforce participation

- Tax credit targets certain professions | more apprenticeship training

3 Medicaid redeterminations

- COVID policies increase Medicaid rolls from 2.9 to 3.7 million (+25%)
- ~450,000 likely to be disenrolled | state costs up ~\$1.7 billion in FY 23-24

4 Shift funding for State Police from Motor License Fund to other sources

- Other tobacco products + liquor tax + motor vehicle sales tax (~\$1.0 billion FY 23-24)

Questions?

Submit to contact@ifo.state.pa.us