

Revenue and Economic Update

Independent Fiscal Office | December 2019

On August 8th, the Independent Fiscal Office (IFO) released monthly revenue projections for fiscal year (FY) 2019-20. General Fund collections were \$58.5 million (-2.0 percent) below estimate for December and \$213.9 million (1.4 percent) above estimate for the fiscal-year-to-date (FYTD). The monthly shortfall was a result of lower than anticipated corporate net income tax (CNIT) and personal income tax (PIT) revenues.

CNIT collections were \$526.5 million for the month, which was 3.6 percent below estimate. The monthly result was due to a combination of lower than anticipated regular payments (-\$43.9 million, -45.9 percent) and higher than expected estimated payments (\$24.2 million, 5.4 percent). Year-to-date CNIT collections are \$1.6 billion and are surpassing estimate by 4.3 percent.

Total sales and use tax (SUT) collections reached \$981.4 million for the month, meeting the December projection (-\$0.4 million). Motor vehicle sales collections were \$135.4 million for the month, exceeding the estimate by \$17.6 million (15.0 percent). Non-motor collections recorded a \$18.1 million shortfall for the month, offsetting the motor vehicle

overage. For the year, total SUT collections are posting a shortfall of \$38.6 million.

Monthly PIT collections missed the estimate by -\$47.9 million, largely due to lower than projected quarterly payments (-\$53.2 million). Prior to the implementation of the cap on state and local tax (SALT) deductions under the federal Tax Cuts and Jobs Act (TCJA), taxpayers had an incentive to pay their last PIT quarterly payment for the current tax year in December (in advance of the January due date). It is unclear whether the December shortfall is related to adjusted taxpayer behavior in response to the TCJA changes or a true shortfall. Withholding payments also fell short for the month (-\$2.2 million), while annual payments came in slightly above (\$7.5 million) expectations. FYTD collections exceed the forecast by \$69.9 million, primarily driven by stronger than anticipated annual payments.

Non-tax revenues fell short of the monthly estimate by \$2.2 million, mainly due to the partial refund of a Category 4 gaming license fee due to the rejection of the application. FYTD non-tax revenues exceed estimate by \$61.7 million. The overage is driven by escheat revenues (\$87.8 million).

FY 2019-20 Revenue Performance Through December

	December Collections			FY Collections		
	Actual	Estimate	\$ Diff	Actual	Estimate	\$ Diff
General Fund	\$2,907.1	\$2,965.6	-\$58.5	\$15,641.1	\$15,427.2	\$213.9
Corporate Net Income	526.5	546.1	-19.6	1,572.3	1,508.1	64.2
SUT - Non-Motor	845.9	864.0	-18.1	4,983.6	5,038.7	-55.1
SUT - Motor Vehicle	135.4	117.8	17.6	793.8	777.3	16.5
PIT - Withholding	913.1	915.3	-2.2	5,212.3	5,191.9	20.4
PIT - Non-Withholding	114.9	160.6	-45.7	971.3	921.8	49.5
Cigarette	106.5	104.0	2.5	554.1	558.5	-4.4
Inheritance	94.7	82.2	12.6	555.7	516.8	38.9
Other Taxes	145.9	149.2	-3.3	736.4	714.3	22.1
Non-Tax	24.2	26.5	-2.2	261.5	199.8	61.7

Note: Dollar amounts in millions. Estimate refers to IFO official estimate published in June 2019.

MONTHLY ECONOMIC INDICATORS

	United States				Pennsylvania			
	Sep-19	Oct-19	Nov-19	Dec-19	Sep-19	Oct-19	Nov-19	Dec-19
Unemployment Rate ¹	3.5%	3.6%	3.5%	n.a.	4.0%	4.2%	4.3%	n.a.
Net Job Gains (000s) ²	193.0	156.0	266.0	n.a.	33.3	34.5	38.6	n.a.
Average Gasoline Price ³	\$2.59	\$2.63	\$2.60	\$2.56	\$2.63	\$2.60	\$2.62	\$2.60
CPI-U All Items ⁴	1.7%	1.8%	2.1%	n.a.	2.1%	1.9%	2.1%	n.a.
Retail Sales ⁵	4.0%	3.9%	3.5%	n.a.	5.2%	6.4%	5.1%	5.1%
Consumer Sentiment Index ⁶	93.2	95.5	96.8	99.3	n.a.	n.a.	n.a.	n.a.

QUARTERLY ECONOMIC INDICATORS

	United States				Pennsylvania			
	2018.4	2019.1	2019.2	2019.3	2018.4	2019.1	2019.2	2019.3
Gross Domestic Product ⁷	1.1%	3.1%	2.0%	2.1%	0.4%	3.3%	1.7%	n.a.
Net Job Gains (000s) ²	233.3	173.7	152.0	192.7	60.5	50.8	45.4	33.3
Personal Income ⁸	4.9%	4.6%	4.7%	4.4%	5.7%	5.0%	5.1%	4.4%
Wages and Salaries ⁹	4.0%	5.0%	4.8%	4.6%	3.2%	4.6%	4.6%	4.3%
CPI-U All Items ⁴	2.2%	1.6%	1.8%	1.8%	1.3%	1.5%	2.0%	2.2%
FHFA House Price Index ¹⁰	6.0%	5.5%	5.2%	4.9%	5.5%	5.6%	5.1%	5.1%

Economic Trends

- The Pennsylvania unemployment rate ticked upward again in November due to increased labor force participation, while the net job gains held steady.
- For the fourth consecutive month, Pennsylvania retail sales continued to display unusually strong growth.
- Growth in Pennsylvania personal income fell to 4.4 percent for 2019.3, the slowest growth since 2017.4. Growth in wages and salaries also declined to 4.3 percent, a difference of 0.3 percent compared to growth for 2019.2.
- The U.S. CPI-U and Philadelphia metro CPI-U increased to 2.1 percent in November.

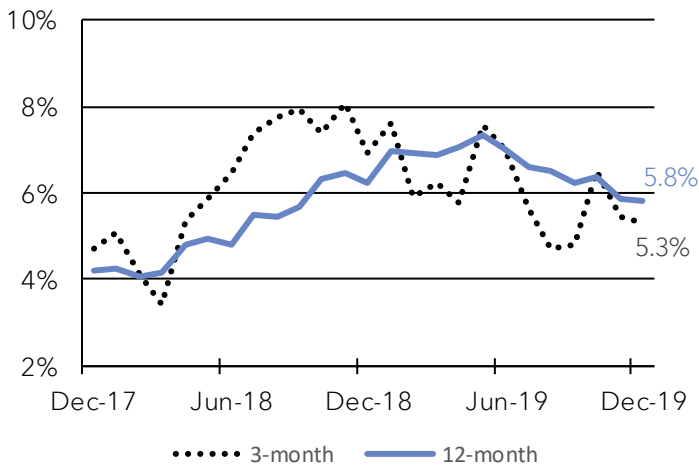
Sources and notes:

1. Source: U.S. Bureau of Labor Statistics—Survey of Households.
2. U.S.: Increase in payroll employment compared to the previous month or quarter. PA: Average year-over-year increase in payroll employment based on latest three months of data. 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. U.S.: Annual growth rate of advance retail sales based on latest three months of data. Excludes services. Source: U.S. Department of Commerce. PA: Annual growth rate of sales tax revenues based on latest three months of data. Source: PA Department of Revenue.
6. Source: UM—Survey of Consumers.
7. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
8. The 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.

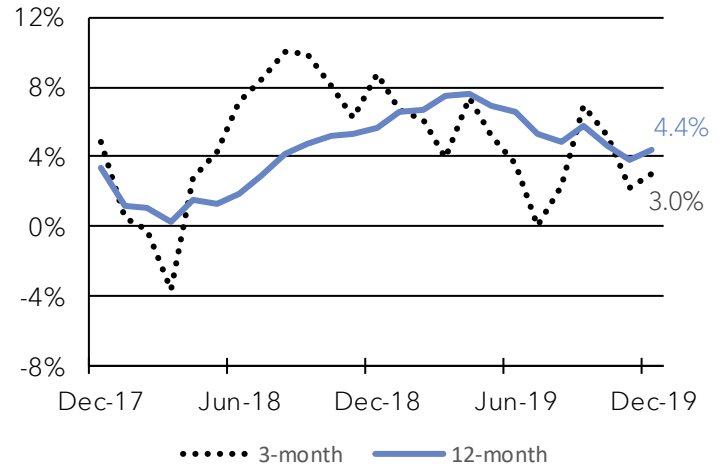
SELECT GENERAL FUND TAX REVENUES

ANNUAL GROWTH RATES

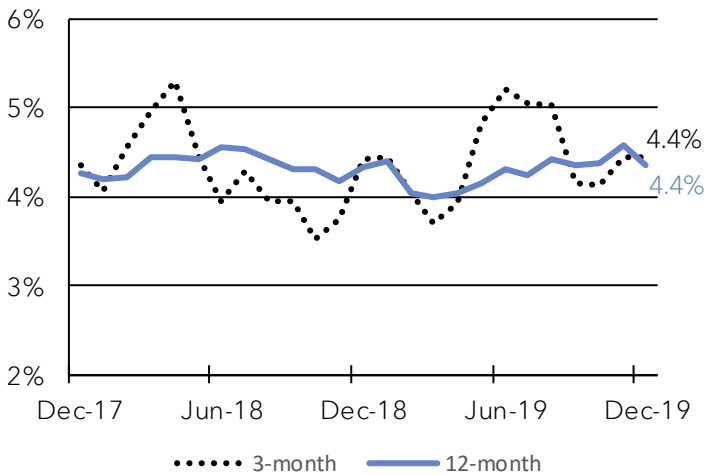
Sales and Use Tax – Non-Motor



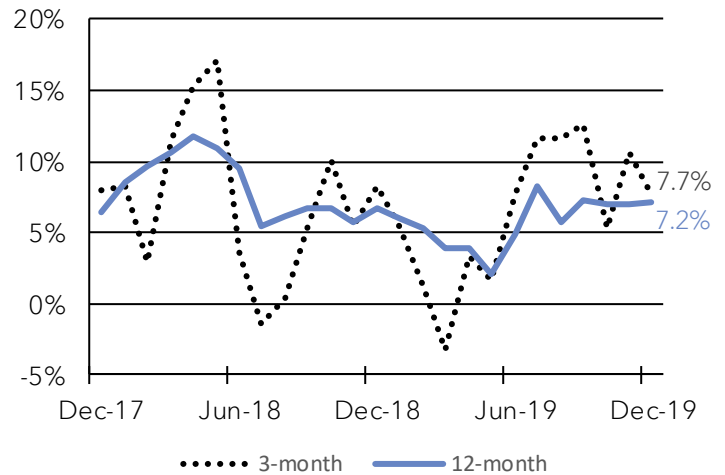
Sales and Use Tax – Motor



Personal Income Tax – Withholding



Realty Transfer Tax



Revenue Trends

- The non-motor SUT growth rate excludes a \$115.3 million one-time transfer that occurred in July 2019.
- After falling in November, the 3-month and 12-month non-motor SUT growth rates leveled off in December. The full impact of the holiday shopping season will not be known until January collections are received.
- The 3-month and 12-month motor vehicle SUT growth rates ticked upward this month due to very strong collections in December 2019.
- The 3-month withholding growth rate held steady while the 12-month growth rate registered a slight decline.
- The 12-month realty transfer growth rate remained steady, while the 3-month growth rate returned to a more normal level.

GENERAL FUND REVENUES SUMMARY

Revenue Source	December 2019	December 2018	FYTD 2019-20	FYTD 2018-19	Monthly Growth	FYTD Growth
Total General Fund	\$2,907.1	\$2,905.1	\$15,641.1	\$15,270.1	0.1%	2.4%
Total Tax Revenue	2,882.9	2,811.5	15,379.6	14,914.6	2.5	3.1
Total Corporation Taxes	542.2	577.9	1,651.2	1,657.4	-6.2	-0.4
Accelerated Deposits	3.4	0.1	4.1	0.4	n.a.	n.a.
Corporate Net Income	526.5	557.9	1,572.3	1,555.0	-5.6	1.1
Gross Receipts	5.6	12.3	33.7	55.2	-54.7	-39.0
Utility Property	0.0	0.2	1.9	1.4	-83.9	35.6
Insurance Premiums	1.0	1.1	19.8	23.5	-12.9	-15.8
Financial Institution	5.8	6.3	19.4	21.9	-8.0	-11.1
Total Consumption Taxes	1,148.7	1,110.7	6,619.7	6,507.3	3.4	1.7
Sales and Use - Total	981.4	935.2	5,777.4	5,627.7	4.9	2.7
Non-Motor	845.9	818.8	4,983.6	4,871.7	3.3	2.3
Motor Vehicle	135.4	116.4	793.8	756.0	16.3	5.0
Cigarette	106.5	114.6	554.1	598.8	-7.1	-7.5
Other Tobacco Products	10.1	11.5	66.3	65.7	-12.7	1.0
Malt Beverage	1.9	1.7	11.9	12.2	8.6	-2.4
Liquor	48.9	47.7	209.9	202.9	2.6	3.4
Total Other Taxes	1,192.1	1,122.9	7,108.7	6,749.9	6.2	5.3
Personal Income - Total	1,028.0	972.4	6,183.6	5,884.3	5.7	5.1
Withholding	913.1	876.9	5,212.3	5,047.0	4.1	3.3
Quarterly	88.7	76.0	706.4	629.5	16.6	12.2
Annual	26.2	19.4	265.0	207.8	35.2	27.5
Realty Transfer	53.4	48.1	281.0	276.9	11.1	1.5
Inheritance	94.7	87.0	555.7	517.8	8.9	7.3
Gaming	17.0	9.1	85.2	60.0	87.2	42.0
Minor and Repealed	(1.1)	6.3	3.2	10.9	-117.8	-71.1
Total Non-Tax Revenue	24.2	93.6	261.5	355.5	-74.1	-26.4
State Store Fund Transfers	0.0	0.0	100.0	100.0	0.0	0.0
Lic., Fees & Miscellaneous	17.6	86.6	117.3	211.0	-79.6	-44.4
Licenses and Fees	26.7	79.2	69.8	201.8	-66.3	-65.4
Miscellaneous	(9.1)	7.4	47.5	9.2	-222.6	418.5
Treasury	0.4	1.8	21.3	53.2	-75.1	-60.0
Escheats	(11.7)	1.3	6.7	(81.0)	-975.0	108.3
Other Miscellaneous	2.2	4.3	19.5	37.0	-48.5	-47.2
Fines, Penalties & Interest	6.6	7.0	44.2	44.5	-6.0	-0.8

Note: Dollar amounts in millions. Growth rates computed from same time period in previous year and use the unrounded amounts.