

# Initial Revenue Estimate

FY 2020-21  
Independent Fiscal Office



May 26, 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

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

# COVID-19 Moves Economy into Recession

<b>COVID-19</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Real GDP	2.6%	2.3%	-6.2%	6.3%
Wages-Salaries	4.3%	4.2%	-3.2%	5.5%
Net Job Gains (000s)	68.9	55.5	-495.3	357.1
Philadelphia CPI-U	1.3%	2.0%	0.5%	1.5%
<b>Great Recession</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
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
<b><u>Individual Provisions</u></b>		<b><u>Federal Grants</u></b>	
Economic Impact Payments	\$10.8	State Governments	\$5.8
State UC Payments	6.2	Local Governments	2.4
Federal UC Payments	13.9	Healthcare Providers	1.9
SNAP	0.3	Educational Institutions	<u>0.5</u>
<b><u>Business Provisions</u></b>			
Business Tax Cuts	4.6		
Delay Employer Payroll Taxes	10.8	<b>Total</b>	<b>\$78.0</b>
PPP Forgivable Loans	20.8		

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 \$375 | ~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 1.45 million PA residents receive FPUC

- Average of 13 weeks | \$11.0 billion | ~\$700 million per week
- What happens when payments end in July?

# PA April Payroll Jobs Fall by 1.04 Million

	YOY Growth, U.S.				YOY Growth, Pennsylvania			
	Jan	Feb	Mar	Apr	Jan	Feb	Mar	Apr
<b>Total</b>	<b>1.5%</b>	<b>1.6%</b>	<b>0.8%</b>	<b>-12.9%</b>	<b>0.7%</b>	<b>1.0%</b>	<b>-0.3%</b>	<b>-17.1%</b>
Construction	2.4	3.0	2.2	-11.3	2.2	3.2	0.3	-39.9
Manufacturing	0.2	0.3	-0.1	-10.5	-0.2	0.1	-0.7	-13.6
Retail Trade	-0.4	0.0	-0.1	-13.4	-1.8	-0.7	-0.4	-20.9
Wholesale Trade	1.2	0.8	0.8	-5.5	-0.3	-0.6	-1.5	-12.0
Transport-Storage	2.3	1.6	1.3	-9.4	1.5	2.2	2.7	-10.2
Financial-Real Estate	1.7	1.9	1.6	-1.6	1.8	2.0	2.4	-0.1
Professional Business	2.1	1.9	1.3	-9.0	0.8	0.7	0.1	-9.1
Education	3.9	3.1	1.4	-10.3	1.7	2.3	-2.3	-15.5
Healthcare	2.3	2.2	1.8	-7.2	0.2	0.5	-0.6	-9.8
Social Assistance	4.3	4.6	3.5	-12.8	5.1	5.3	5.2	-12.3
Arts-Entertainment	3.4	3.1	0.3	-53.6	6.0	4.1	-0.9	-63.7
Accommodation-Food Service	2.1	2.6	-0.9	-46.2	0.7	1.0	-5.2	-59.5
Other Services	1.5	1.6	0.6	-21.3	0.8	2.3	-1.5	-30.9
All Government	1.0	1.1	0.7	-3.6	0.7	0.7	0.4	-2.2
All Other	0.5	0.4	0.0	-7.2	1.3	-1.3	-0.8	-10.0

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			
	Jan	Feb	Mar	Apr	Jan	Feb	Mar	Apr
Full-Service Restaurants	1.6%	2.5%	-2.8%	n.a.	-2.5%	-1.1%	-8.1%	-81.3%
Amusements-Gaming	4.0	3.9	1.8	-58.7%	2.4	1.5	-1.3	-73.6
Personal Care-Laundry	1.7	1.2	-0.7	-53.1	1.7	3.0	-4.2	-61.9
Dentist Offices	1.3	1.3	-0.9	-52.9	n.a.	n.a.	n.a.	n.a.
Child Care	3.5	3.1	1.2	-31.6	3.1	2.5	0.8	-40.8
Employment Services	0.7	-0.1	-1.2	-27.5	-5.5	-7.0	-10.3	-24.3
Couriers and Messengers	10.3%	6.4%	5.8%	5.3%	5.1%	7.9%	6.7%	3.1%
Federal Government	1.6	1.9	2.6	2.1	1.6	1.4	2.5	2.5

Note: Data are not seasonally adjusted. April 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	-51.7
Manufacturing	8.0	4.1	-36.3
Wholesale-Retail	-2.6	-10.3	-86.5
Transport-Storage	8.7	8.8	-6.9
Administration-Waste Management	2.4	2.9	-36.9
Education	1.9	0.3	-11.3
Healthcare	13.6	6.9	-27.6
Social Assistance	13.8	14.2	-8.7
Arts and Entertainment	1.0	3.0	-34.0
Accommodation-Food Service	4.2	3.3	-133.9
All Government	-0.5	3.7	-15.6
All Other	4.9	2.7	-45.9
<b>Total</b>	<b>68.7</b>	<b>55.5</b>	<b>-495.3</b>

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%	-25%	20%
Dividends	35%	-30%	-35%	14%	8%	-25%	20%
U.S. Corporate Profits	-10%	-11%	-14%	37%	-3%	-25%	20%
S&P 500 Index	4%	-39%	24%	10%	20%	-7%	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 May 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%	-9.7%	-5.2%	-1.7%	-1.3%
Payroll Jobs (000s)	30	-1,035	-615	-315	-165

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.

# Virus and Mitigation Costs: COVID-19 vs. Non-Recession Scenario

	CY 2020	CY 2021
Wages and Salaries	-\$24.8	-\$20.0
Taxable Business Income	-\$8.7	-\$8.3
Payroll Employment (000s)	-540	-228
	FY 19-20	FY 20-21
General Fund (include shifts)	-\$3.9	-\$0.9
General Fund (exclude shifts)	-\$1.8	-\$3.0
<p>Note: Billions of dollars. Figures are difference between current IFO forecast and counterfactual scenario that assumes normal economic and revenue growth for current stage of economic cycle.</p>		

# Miscellaneous Economic Notes

## Programs largely offset lost wage income

- CY 2020 lost wages ~\$25 billion | ~\$1 to \$2 billion in tip income
- Federal and state UC = \$20.2 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
<b>General Fund</b>	<b>\$35,518</b>	<b>\$153</b>	<b>-\$2,130</b>	<b>-\$1,770</b>	<b>\$31,771</b>
Corp. Net Income	3,458	-30	-470	-260	2,698
Gross Receipts	1,211	-89	0	0	1,122
Sales - Non-Motor	9,996	56	-135	-635	9,282
Sales - Motor Vehicle	1,548	20	0	-280	1,288
PIT - Withholding	10,793	22	0	-290	10,525
PIT - Other	3,751	14	-1,500	-140	2,126
All Tobacco	1,083	-8	0	-35	1,040
All Other Tax	3,057	116	0	-130	3,043
All Non-Tax	622	50	-25	0	648

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 ~-6.0%
- 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 | ~\$1.5 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 -67% 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
<b>General Fund</b>	<b>\$36,073</b>	<b>-\$2,130</b>	<b>\$33,943</b>	<b>0.1%</b>	<b>-0.2%</b>
Corp. Net Income	3,178	-470	2,708	-14.5	
Gross Receipts	1,085	0	1,085	-3.2	
Sales - Non-Motor	10,011	-135	9,876	4.9	3.6
Sales - Motor Vehicle	1,579	0	1,579	22.6	
PIT - Withholding	10,774	0	10,774	2.4	
PIT - Other	4,668	-1,500	3,188	-12.1	
All Tobacco	1,007	0	1,007	-3.1	
All Other Tax	3,100	0	3,100	1.8	
All Non-Tax	651	-25	626	-6.9	

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%	-13%	21%
Numbers	-3	3	-9	-11	7
In-State Lotto	7	13	-33	-37	25
Multistate Lotto	49	-27	-74	-30	-29
iLottery	62	73	61	110	119
Keno/Xpress Sports	<u>14</u>	<u>20</u>	<u>-10</u>	<u>-38</u>	<u>-26</u>
<b>Total</b>	<b>0</b>	<b>5</b>	<b>-17</b>	<b>-15</b>	<b>14</b>

Note: Growth rates for April and 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
<b>Total Sales</b>	<b>\$4,885</b>	<b>\$5,110</b>	<b>\$5,401</b>	<b>15.7%</b>	<b>4.6%</b>	<b>5.7%</b>
Instants	3,093	3,213	3,277	5.2	3.9	2.0
Multistate Lotto	507	271	423	19.4	-46.4	55.9
In-State Lotto	272	253	254	8.6	-7.0	0.4
Numbers	575	569	559	1.3	-1.1	-1.7
iLottery	381	743	826	n.a.	94.7	11.2
All Other	57	61	62	193.5	8.3	1.7
<b>Net Revenues</b>	<b>1,931</b>	<b>1,937</b>	<b>1,977</b>	<b>7.9</b>	<b>0.3</b>	<b>2.1</b>

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 largely unaffected

## **Licenses and fees largely unaffected**

- Expiration dates for March, April and May extended to June 30
- Small shift of revenue to next fiscal year (~\$10 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

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