

# Initial Revenue Estimate

FY 2021-22  
Independent Fiscal Office



May 26, 2021

# Key Issues and Questions

## **Economy overperforms due to massive federal transfers**

- Nearly \$160 billion of federal monies injected into state

## **Four key questions**

- What happens when federal monies are removed?
- Is there a labor shortage?
- Is the uptick in inflation transitory?
- Is there a stock market and/or housing market bubble?

## **Many unusual factors impact FY 2021-22 revenues**

- Removal of federal monies | behavioral impacts | tax shifting

# Key Assumptions

## **No new COVID restrictions moving forward**

- No new variants that require widespread mitigation efforts
- Schools fully reopen | childcare available

## **Federal programs expire as scheduled**

- Enhanced UC ends first week of September
- Potential infrastructure package and tax changes excluded

## **Other miscellaneous assumptions**

- Supply constraints ease during next several months
- Inflation is temporary and peaks in late summer 2021
- No major correction in stock or housing markets

# Pennsylvania Economic Forecast

	Annual Growth Rate or Change			
	2019	2020	2021	2022
Real GDP	2.4%	-4.4%	3.6%	2.4%
Philadelphia CPI-U	2.0%	0.9%	3.5%	2.7%
Net Job Gains (000s)	56.0	-438.0	100.0	80.0
Wages-Salaries	4.3%	-0.1%	6.7%	4.3%
Home Price Index	5.1%	7.4%	11.9%	--

Note: Net Job Gains for payroll employment only. Excludes self-employed and independent contractors. Home Price Index for 2021 is year-over-year gain for Q1 only.

Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, FHFA. Forecasts by IFO.

# Recent Quarterly Trends

	Annual Growth Rate or Change				
	2020.2	2020.3	2020.4	2021.1	2021.2
Real GDP	-34.0%	35.5%	3.7%	--	--
Philadelphia CPI-U	0.0%	0.4%	0.9%	1.0%	3.5%
Net Job Gains (000s)	-896	-517	-468	-426	-447
Wages-Salaries	-6.6%	-2.0%	4.7%	2.0%	13.8%
Labor Force (000s)	-96	-160	-231	-216	-150
Home Price Index	4.7%	8.4%	11.0%	11.9%	--

Note: Real GDP is quarterly annualized growth rate. All other rates or change relative to same quarter in prior year. Wages-Salaries for CY 2021 based on adjusted withholding patterns. Other data for 2021.2 based on data for April only.  
Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis. Forecasts by IFO.



# Federal Monies to Pennsylvania

	CY 2020	CY 2021	Total
Federal Pandemic Unemployment (FPUC)	\$16.2	\$7.6	\$23.8
Pandemic Unemployment Assistance (PUA)	7.1	3.0	10.0
LWA and UC Extensions	3.1	2.8	5.9
SNAP	0.9	1.4	2.3
Economic Impact Payments (EIPs)	11.1	21.4	32.5
Expanded Child Tax Credit	<u>0.0</u>	<u>3.5</u>	<u>3.5</u>
<b>Total Individual Programs</b>	<b>38.4</b>	<b>39.6</b>	<b>78.0</b>
PPP Forgivable Loans	\$20.7	\$10.1	\$30.8
Direct State-Local Support	8.7	31.0	39.7
Other Support	<u>5.4</u>	<u>2.9</u>	<u>8.3</u>
<b>Total Other</b>	<b>34.8</b>	<b>44.0</b>	<b>78.8</b>

Note: Billions of dollars. Does not include state-funded UC (\$5.2 billion in 2020, \$1.3 billion in 2021). FPUC includes enhanced payments to both traditional UC and PUA claimants.

# Federal Payments – Quarterly Pattern

	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4
Expanded UC Benefits	\$11.2	\$11.9	\$3.3	\$5.8	\$4.7	\$2.9	--
SNAP Expansion	0.3	0.3	0.3	0.4	0.4	0.4	\$0.3
EIPs	10.9	0.1	--	18.2	3.1	--	--
Expanded CTC	--	--	--	--	--	1.7	1.7
PPP Forgiven Loans	<u>20.4</u>	<u>0.3</u>	<u>--</u>	<u>8.0</u>	<u>2.1</u>	<u>--</u>	<u>--</u>
<b>Total</b>	<b>42.8</b>	<b>12.6</b>	<b>3.6</b>	<b>32.4</b>	<b>10.3</b>	<b>4.9</b>	<b>2.0</b>
Related Points	<p>About 30% to 60% of EIPs spent. Most of that within 3 months.            Most unemployment compensation is spent.            Nearly 75% of non-PPP stimulus to residents with &lt; \$50k income.            Per capita credit card debt down 14% in 2021 Q1.</p>						
<p>Note: Billions of dollars. PPP includes both pass-through entities and C corporations.            Source: U.S. Department of Labor, U.S. Treasury Department, Small Business Administration. Calculations by the IFO.</p>							

# Impact of Business Closures One Year Later

	YOY Change (000s)			YOY Growth		
	Apr 20	Oct 20	Apr 21	Apr 20	Oct 20	Apr 21
<b>Total Payroll Employment</b>	<b>-1,099</b>	<b>-455</b>	<b>-447</b>	<b>-18.1%</b>	<b>-7.4%</b>	<b>-7.3%</b>
Construction	-98	-16	-11	-37.9	-5.9	-4.2
Manufacturing	-85	-36	-29	-14.7	-6.3	-5.1
Retail-Wholesale Trade	-172	-42	-30	-21.0	-5.1	-3.7
Transportation-Storage	-27	-5	-5	-9.0	-1.5	-1.7
Professional and Technical	-19	-7	-1	-5.3	-2.0	-0.3
Admin-Waste Management	-68	-50	-47	-21.4	-15.0	-14.9
Education (excludes local SD)	-37	-27	-21	-14.4	-10.6	-8.3
Healthcare-Social Assistance	-109	-39	-60	-10.3	-3.6	-5.6
Arts-Entertainment	-56	-32	-29	-59.5	-32.3	-30.8
Accommodation-Food Service	-276	-110	-110	-57.7	-23.0	-22.7
All Government	-25	-31	-37	-3.4	-4.3	-5.1
All Other Sectors	-127	-61	-65	-15.2	-7.3	-7.7

Note: Data not seasonally adjusted. April 2021 data are preliminary and compares to a no-pandemic scenario. Excludes self-employed.  
Source: U.S. Bureau of Labor Statistics.



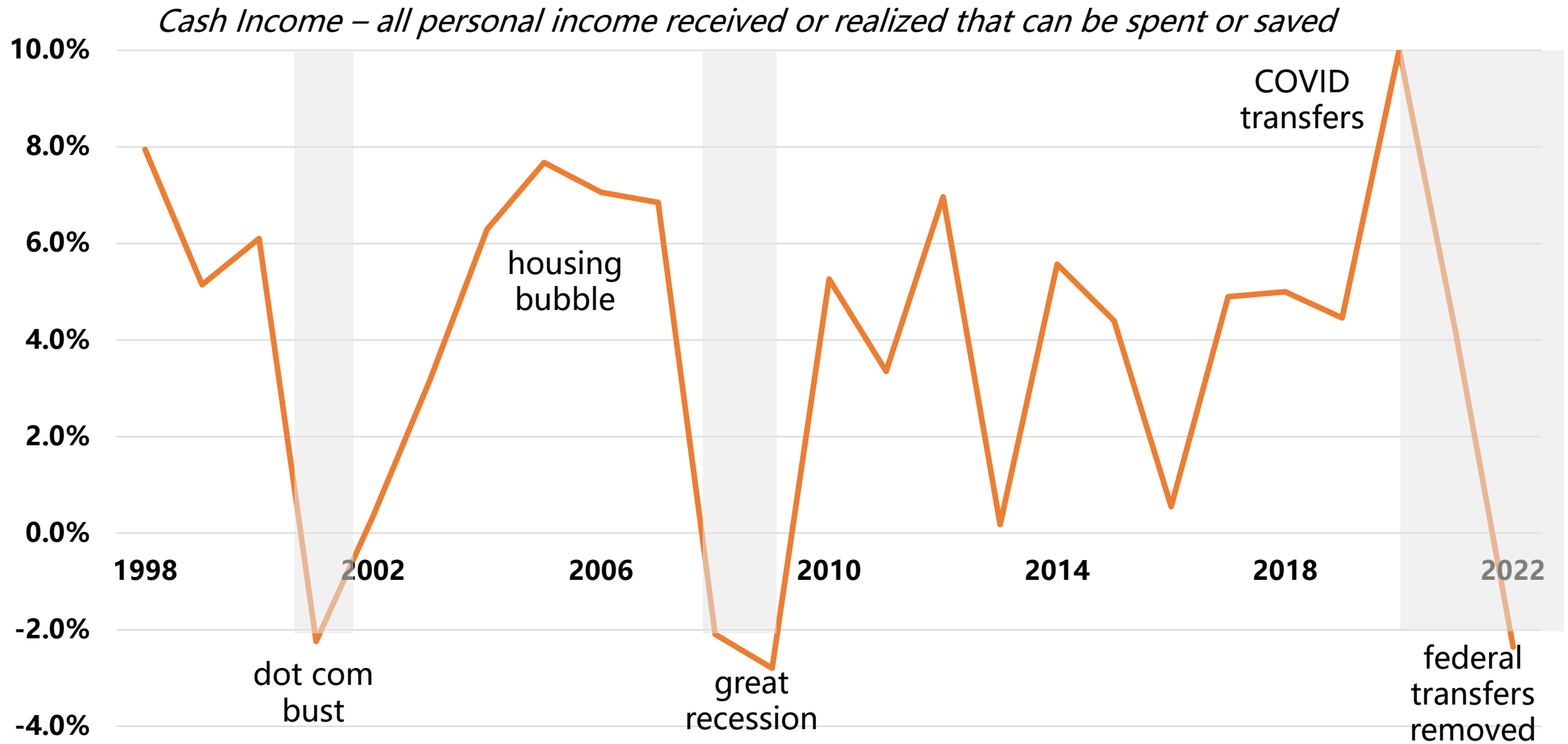
# Philadelphia Metro CPI-U Accelerates in April

	CPI-U Weight	Year-Over-Year Growth		
		Dec 20	Feb 21	Apr 21
<b>All Items CPI-U</b>	<b>100.0%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>3.5%</b>
Food and Beverage	14.8	4.2	1.2	0.5
Housing – Shelter	33.0	1.4	0.0	0.6
Housing – Utilities	4.3	-1.8	-0.3	3.1
Housing – Furnishings	5.3	9.5	8.5	8.3
Transportation	14.4	-3.8	-0.4	13.0
New and Used Vehicles	7.5	1.5	2.9	11.0
Gasoline	2.6	-2.8	9.6	36.4
Medical Care	8.7	0.8	4.0	4.4
All Items Less Energy	94.0%	1.4%	0.8%	2.7%
All Items Less Shelter	67.0	1.0	1.4	5.0

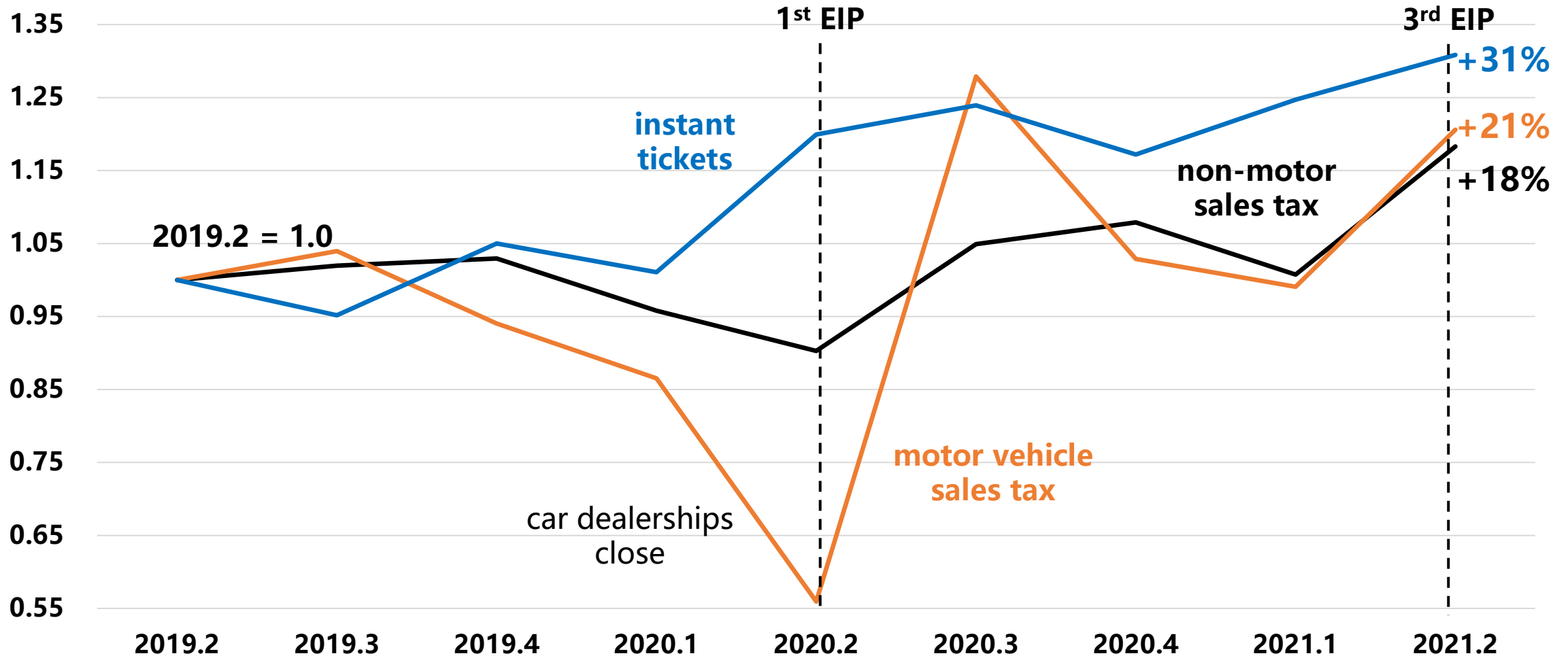
Note: CPI-U weight is relative importance of sub-index. Some series are omitted so weights do not sum to 100%.

Source: U.S. Bureau of Labor Statistics.

# Growth of PA Cash Income Peaks in 2020 Despite COVID

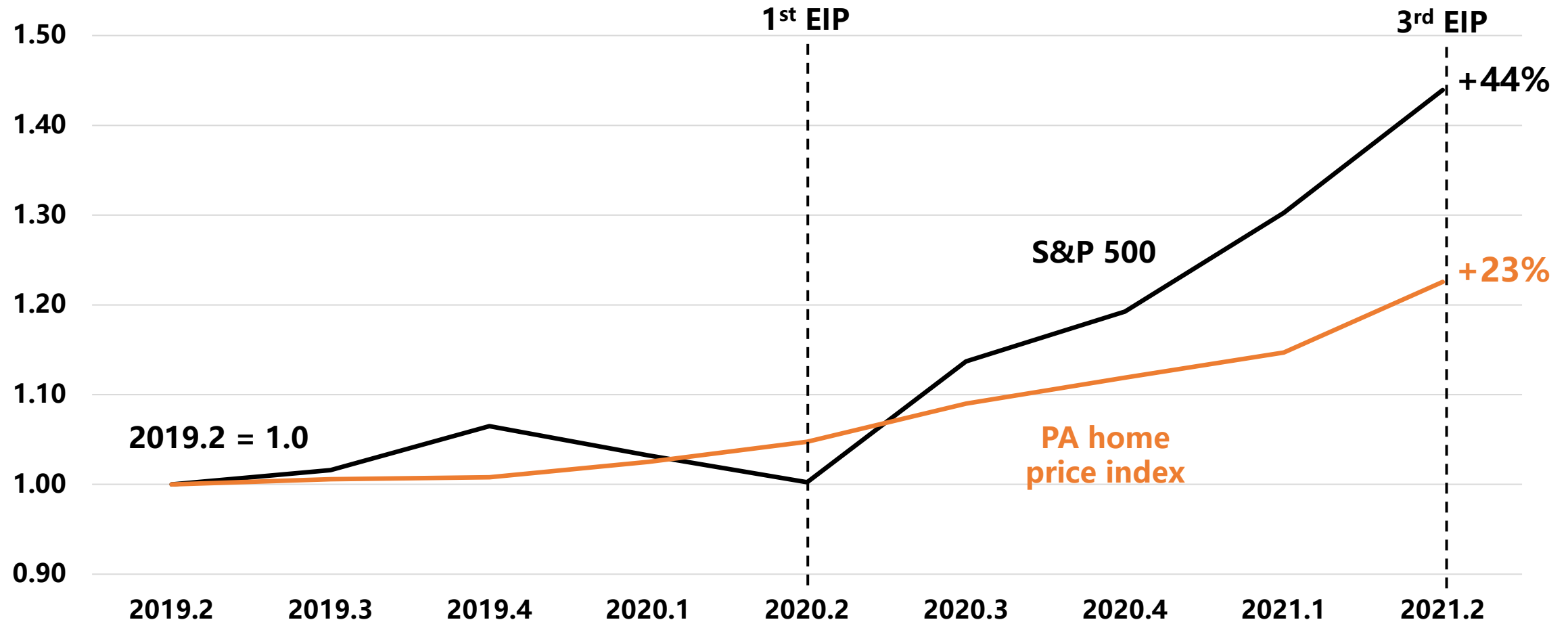


# Economic Impact Payments Drive Consumption



Note: 2021 Q2 data are estimates based on data for April and May. Percentages at far right are cumulative growth rates since 2019 Q2.

# Potential Asset Bubbles: Stock and Housing Markets



Note: 2021 Q2 data for S&P 500 as of May 25, 2021. 2021 Q2 home price index is an estimate based on median increase in April home sales price. Growth rates at far right are cumulative growth rates since 2019 Q2.

# Is There a Labor Shortage?

## Large number of residents currently receive UC (avg for April 2021)

- ~520,000 receive traditional UC payments
- ~120,000 is normal non-recession level | difference of +400,000
- ~500,000 receive PUA payments
- ~900,000 potential workers | excludes most college and high school students

## Translates into ~\$1.9 billion per month (April 2021)

- Expires September 4 | dramatic impact: \$500 per week to no income

## Likely jobs not available for great majority when benefits expire

- Economy operating at higher level of productivity | new spend patterns
- Tradeoff: fewer jobs but higher wages

# FY 2020-21 Revised Estimate

	Revised Official	Dollar Change	Updated Estimate	Payment Shifts	Adjusted Growth
<b>General Fund</b>	<b>\$38,437</b>	<b>\$1,674</b>	<b>\$40,111</b>	<b>\$1,978</b>	<b>9.4%</b>
Corporate Net Income	3,775	529	4,304	375	22.7
Sales - Non-Motor	10,640	262	10,903	160	10.4
Sales - Motor Vehicle	1,687	119	1,806		32.3
PIT - Withholding	10,837	33	10,870		3.3
PIT - Other	4,970	415	5,385	1,335	11.7
Inheritance	1,196	139	1,335	68	10.2
All Tobacco	1,066	27	1,094	40	-3.5
All Other Tax	3,046	132	3,179		6.0
All Non-Tax	1,220	16	1,236		6.0

Note: Dollar amounts in millions. PIT is personal income tax. Adjusted growth rate controls for payment shifts, one-time transfers and an extra deposit day for PIT withholding.



# What Caused the Large Upward Revision?

## **Previous estimate did not include the ARP and 2<sup>nd</sup> round of PPP**

- Injects ~\$25 billion into state economy immediately (tax free)

## **Mid-sized and large businesses fare much better than expected**

- Cost cutting measures | streamline operations
- Telework and travel savings | sales of higher margin products

## **Inflation in housing and stock markets – “wealth effects”**

## **Stimulus induced sales are more likely to be taxed**

- Cars, appliances, home improvement, home entertainment, take out delivery

# Personal Income Tax

## **Withholding growth appears to accelerate despite minimal hiring**

- Data very preliminary | not possible to assign gains to certain workers

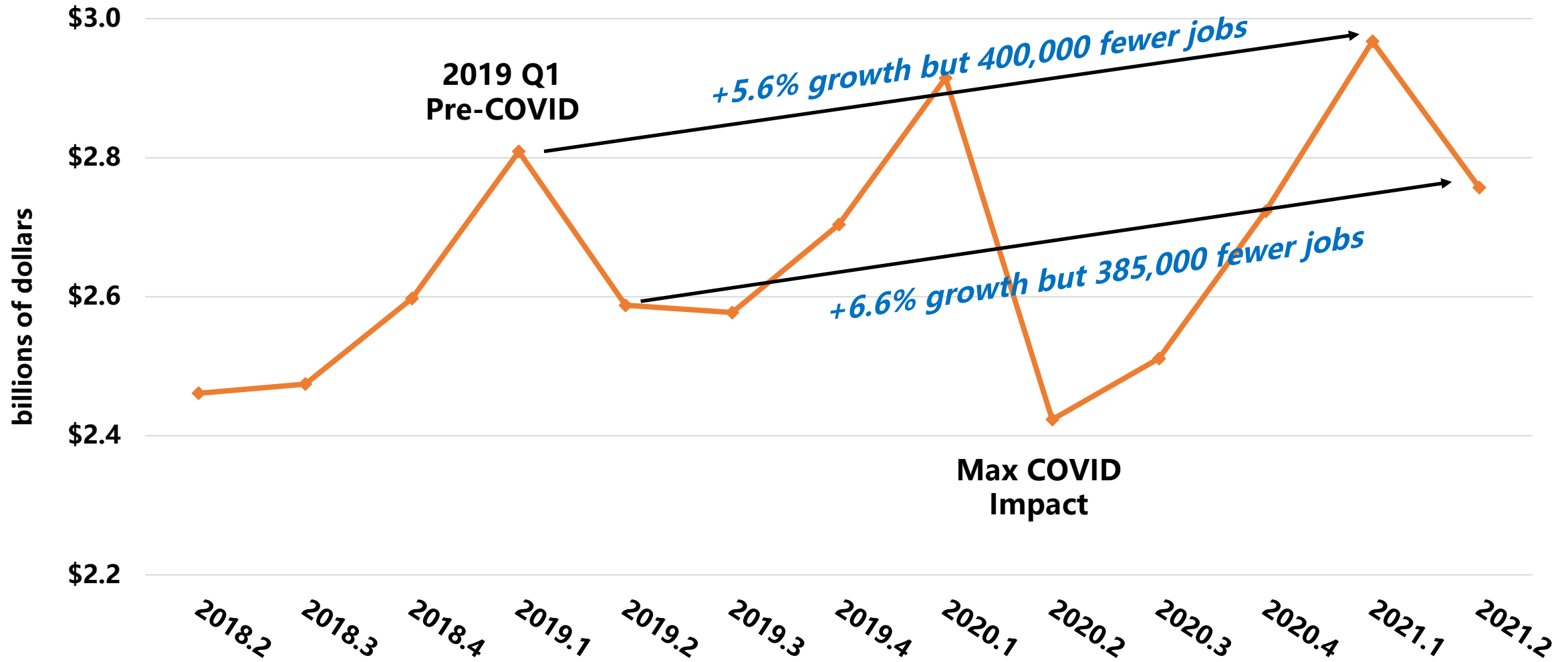
## **Annual payments much stronger than last fiscal year**

- Up ~+17% (adjusted for shifts)
- Likely causes: stock market and timing of payments
- Estimated payments contracted for tax year 2020 (-2.5%)

## **Delay employer portion of federal payroll taxes**

- Delay 50% to no later than Dec 2021 and 50% no later than Dec 2022
- Boosts taxable income now | reverses next two fiscal years

# Solid Withholding Growth and Accelerating



# Sales and Use Tax Notes

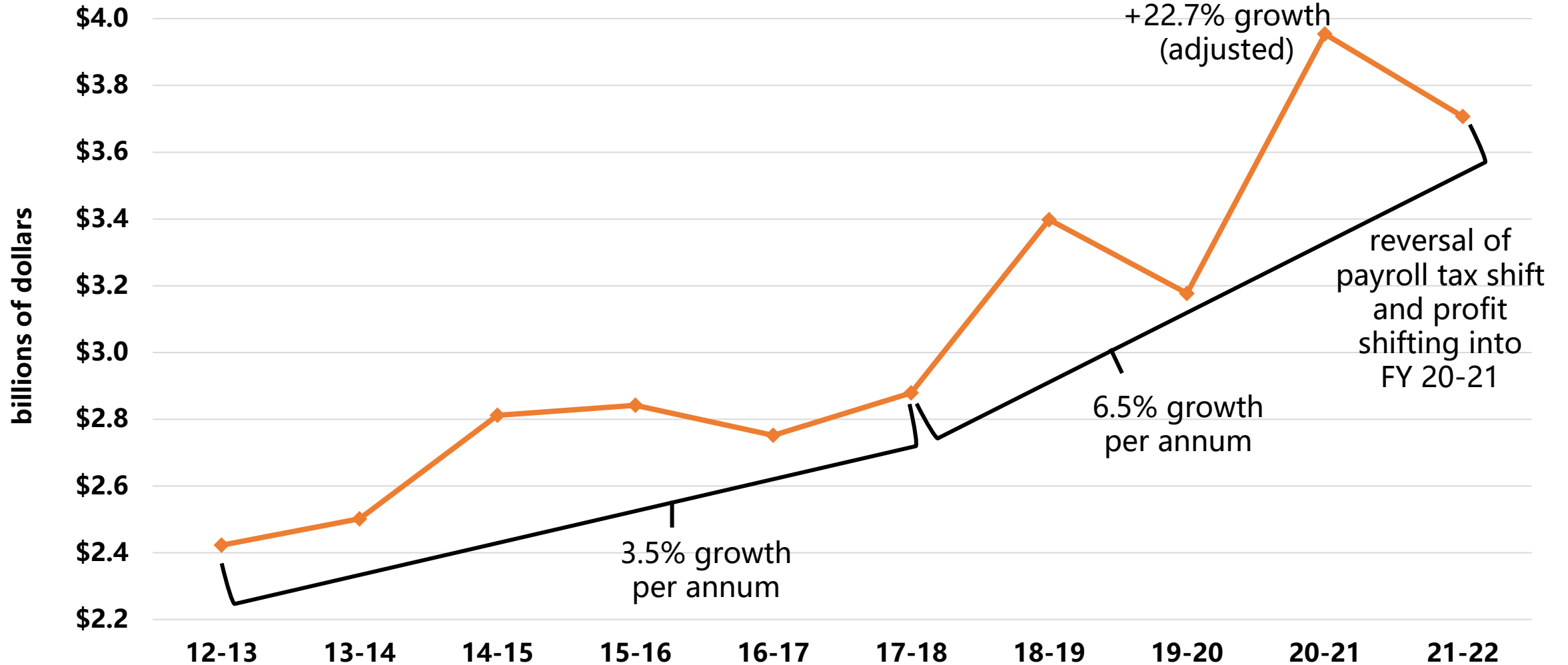
## **Non-motor sales tax responds to federal transfers**

- Up +10.4% (adjusted for shifts/transfers) from FY 19-20
- Up +11.7% from FY 18-19
- Research: most EIP monies are spent/used within 3 months
- Forecast: one more very strong month for June

## **Motor vehicle sales tax up ~+32% this fiscal year**

- Car dealerships closed April-May last year (~one-third of gain)
- Other factors: stimulus, aversion to public transportation
- Forecast includes pull forward of future sales
- April CPI-U: new car prices up +8.7% | used cars up +20.7%

# CNIT Jumps but Reverses Next Year



# Initial Revenue Estimate FY 2021-22

	Initial Estimate	Dollar Change	Percent Change	Adjusted Growth
<b>General Fund</b>	<b>\$37,960</b>	<b>-\$2,152</b>	<b>-5.4%</b>	<b>0.7%</b>
Corporate Net Income	3,707	-597	-13.9%	-5.6%
Sales - Non-Motor	10,789	-114	-1.0%	0.4%
Sales - Motor Vehicle	1,649	-157	-8.7%	-8.7%
PIT - Withholding	11,445	574	5.3%	4.3%
PIT - Other	4,096	-1,290	-23.9%	1.1%
Inheritance	1,290	-45	-3.4%	1.8%
All Tobacco	1,008	-86	-7.8%	-4.3%
All Other Tax	3,278	99	3.1%	3.1%
All Non-Tax	699	-538	-43.5%	-0.9%

Note: Dollar amounts in millions. PIT is personal income tax. Adjusted growth rate controls for payment shifts, one-time transfers and an extra deposit day for PIT withholding.



# Economy Reverts to Former Path... But Not Jobs

Tax Revenues (\$ millions)	Pre-COVID FY 18-19	Post-COVID FY 21-22	Avg Growth or Change
<b>General Fund Tax Revenue</b>	<b>\$34.06</b>	<b>\$37.26</b>	<b>3.0%</b>
Corporate Net Income	3.40	3.71	3.0%
Sales and Use	11.10	12.44	3.9%
Personal Income	14.10	15.54	3.3%
Economics (\$ billions)	CY 2019	CY 2022	
Real Gross Domestic Product	\$726.2	\$736.6	0.5%
Wages-Salaries Paid	\$353.8	\$393.5	3.6%
Net Payroll Employment (000s)	6,066	5,808	<b>-258</b>

# Critical Factors Going Forward

## What will Federal Reserve do?

- Next CPI and PCE price index data points very important
- Further accommodation or signal higher interest rates?

## What happens to housing and stock markets?

- Market correction? Many potential factors could cause it
- Forecast assumes modest/moderate correction

## What impact from surplus labor?

- Do wage gains stick? | Do new entrants accept lower wages?
- How many UC recipients attempt to re-enter when benefits expire?

# Report is Posted to IFO Website

**Questions?**

Submit to [contact@ifo.state.pa.us](mailto:contact@ifo.state.pa.us)