

October Revenue and Economic Update

FY 2020-21
Independent Fiscal Office



October 29, 2020

Modest Improvement to 2020 Economic Forecast

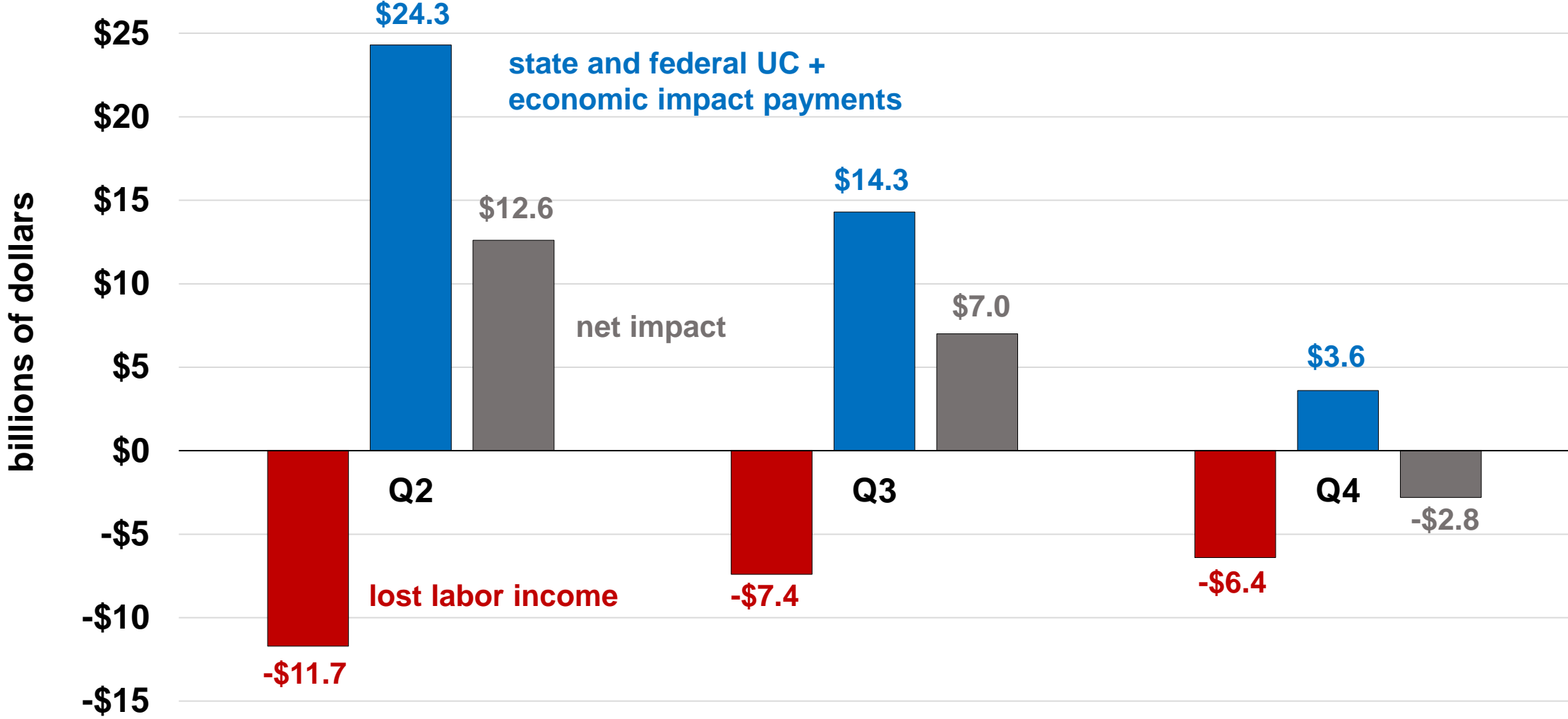
June 2020 Forecast	2018	2019	2020	2021
Real GDP	2.6%	2.3%	-5.6%	5.5%
Wages-Salaries Paid	4.3%	4.2%	-3.2%	5.0%
Net Job Gains (000s)	69	56	-453	310
Philadelphia CPI-U	1.3%	2.0%	0.5%	1.5%
October 2020 Forecast	2018	2019	2020	2021
Real GDP	1.9%	2.4%	-4.6%	3.0%
Wages-Salaries Paid	4.3%	4.3%	-2.0%	3.7%
Net Job Gains (000s)	68	54	-450	100
Philadelphia CPI-U	1.3%	2.0%	0.9%	1.5%

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

CY 2020 Lost Labor Income More Than Offset

	Estimate	Notes
<u>Lost Labor Income (\$ billions)</u>		
Wages-Salaries	-\$20.8	6% reduction vs no-pandemic scenario
Self-Employment	-3.2	15% reduction vs no-pandemic scenario
Tips	<u>-1.5</u>	high degree of uncertainty
Total	-25.5	excludes any unreported income
<u>UC and Individual Rebates</u>		
State UC	\$5.2	average of \$330 per week
Federal Pandemic UC	15.9	program has concluded
Other Federal Assistance	10.2	PUA (\$7.0b), LWA (\$1.8b), PEUC (\$0.9b)
Economic Impact Payments	<u>11.0</u>	goes to 6.6 million PA recipients
Total	+42.3	

Quarterly Income Gains and Losses



PUA - Pandemic Unemployment Assistance

Program runs from Jan 27 (back claims) to end of year

- Uses only federal dollars | Average weekly amount ~\$200 to \$230
- Benefits to self-employed, gig workers and others normally ineligible

Payouts are much higher than anticipated at ~\$7.0 billion

- Regular weekly PUA claims running from ~750k to 850k in Q3
- Social Security Admin: total number PA self-employed ~750k

Weekly claims for regular state UC at ~620k in Q3

- Those data line up: ~505k fewer payroll jobs + ~110k normal claims
- All part and full-time job losses appear to be accounted for
- Who is receiving PUA payments?
- Many states report serious issues with identity and other fraud

PA Employment Recovers Thru July, Then Moderates

	YOY Number Change (000s)			YOY Growth Rate		
	Apr	Jul	Sept	Apr	Jul	Sept
Total	-1,062	-539	-477	-17.5%	-8.9%	-7.8%
Construction	-104	-19	-15	-40.1%	-6.8%	-5.6%
Manufacturing	-77	-38	-36	-13.3%	-6.6%	-6.3%
Retail-Wholesale Trade	-155	-86	-62	-18.9%	-10.3%	-7.5%
Transport-Storage	-27	-20	-14	-9.1%	-6.8%	-4.5%
Professional-Technical	-28	-27	-23	-5.6%	-5.4%	-4.6%
Administration-Waste Man.	-53	-33	-27	-16.8%	-10.3%	-8.3%
Education	-42	-9	-36	-16.1%	-4.3%	-15.0%
Healthcare	-89	-39	-34	-10.9%	-4.7%	-4.1%
Social Assistance	-31	-16	-8	-13.3%	-6.7%	-3.2%
Arts-Entertainment	-58	-34	-21	-60.9%	-27.3%	-19.5%
Accommodation-Food Service	-280	-138	-128	-58.6%	-28.2%	-26.8%
Other Services	-86	-42	-33	-32.8%	-15.9%	-12.8%
All Government	-17	-15	-27	-2.3%	-2.2%	-3.7%
All Other	-17	-25	-13	-3.7%	-5.5%	-2.9%

Note: **Data not seasonally adjusted**. Sept data preliminary. Does not include self-employed. YOY is year-over-year. Source: U.S. Bureau of Labor Statistics.

Recent PA Economic Growth Rates or Change

	2019	2020.1	2020.2	2020.3	Notes
Real GDP	2.4%	-5.8%	-34.0%	---	data very preliminary
Personal Income	3.6%	2.6%	12.0%	---	Q2 has federal transfers
Wages and Salaries	4.3%	3.7%	-6.5%	-2.6%	stronger than expected
Philadelphia CPI-U	2.0%	2.6%	0.0%	0.4%	weak energy prices
Unemployment Rate	4.4%	5.4%	14.0%	10.4%	ex. discouraged workers
Change Payroll Jobs (000s)	54	28	-849	-506	expect long-term job loss
Change Labor Force (000s)	68	92	-17	-156	women leaving labor force

Note: All growth rates or change relative to the same period in prior year except Real GDP, which is a quarterly annualized growth rate. Payroll Jobs does not include self-employed. Labor Force includes those employed and those actively seeking work age 16 and older.
Source: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis.

Other Economic Factors That Bolster Spending

PA applications for refinancings grew +200% March to May

- Reduce monthly payments | take out equity
- Latest monthly data show clear deceleration | September ~+80%

CARES Act allows early withdrawals from 401k and IRA

- Up to \$100,000 for qualified persons | 10% penalty does not apply
- Associated taxes can be paid off ratably over three years
- Unknown how much withdrawn under program

Shifting consumer spending patterns

- Less out of state travel | gasoline consumption down ~10%
- Home improvement, cars, appliances and computers all taxable

Mitigation vs. Recovery Period: Revenue Growth Rates

	Mitigation Mar to Jun	Recovery Jul to Oct	Notes
General Fund Tax	-9.2%	0.4%	
Corp. Net Income	-12.3%	-5.2%	much better than expected
Sales - Non-Motor	-7.1%	3.2%	UC payments, lack of travel
Sales - Motor Vehicle	-33.6%	20.6%	pent-up demand
PIT - Withholding	-4.4%	-2.4%	better than expected
PIT - Other	-8.9%	-6.6%	meets expectations
Cigarette	-39.2%	8.6%	COVID impact, processing
Inheritance	5.9%	-11.7%	
Realty Transfer	-30.9%	6.2%	pent-up demand, low rates
All Other Tax	-7.7%	2.0%	

Note: Growth rates control for revenue shifts for tax relief and miscellaneous one-time transfers. Excludes non-tax revenues.

IFO and Administration Revenue Estimates FY 2020-21

	IFO Official	Admin Official	Dollar Difference
General Fund	\$35,874	\$34,631	\$1,243
Corporate Net Income	3,188	2,828	360
Sales - Non-Motor	9,893	9,769	124
Sales - Motor Vehicle	1,559	1,307	252
PIT - Withholding	10,767	10,413	354
PIT - Other	4,612	4,752	-140
Cigarette	881	844	37
Inheritance	1,196	1,034	162
All Other Tax	3,111	2,998	113
All Non-Tax	667	686	-19

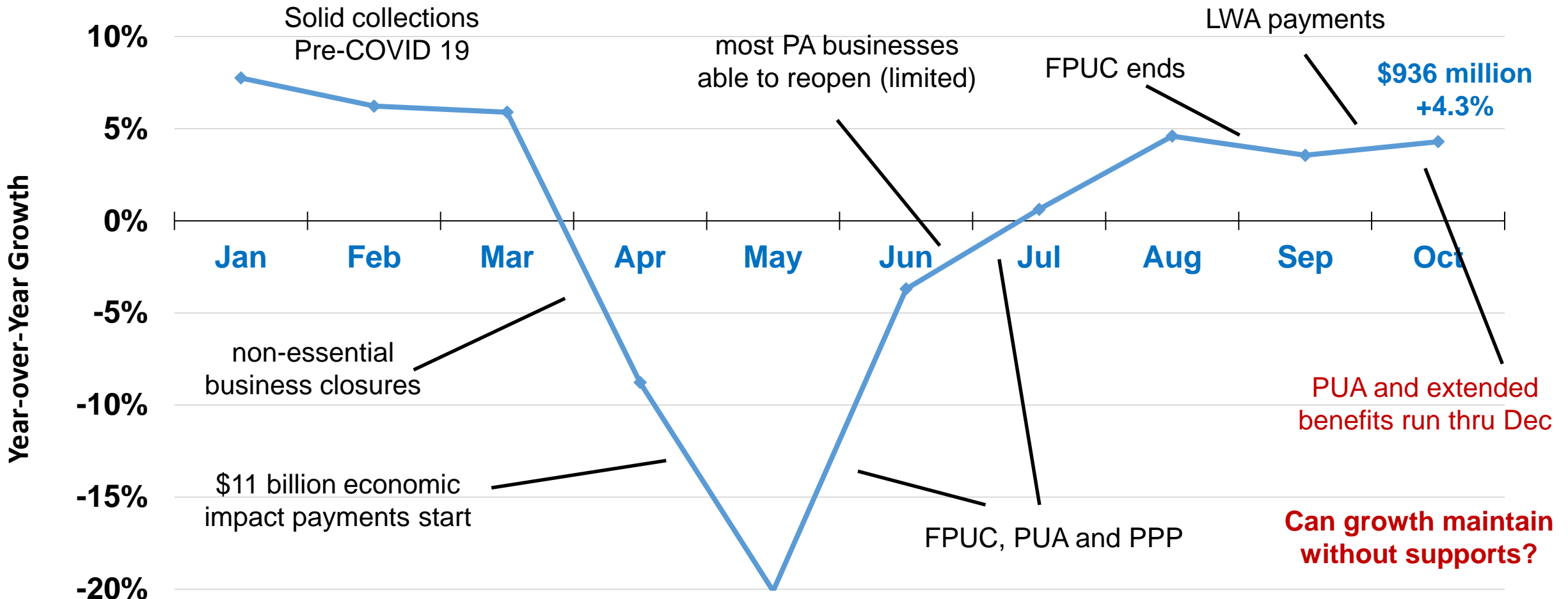
Note: Dollar amounts in millions. PIT is personal income tax. Estimates include roughly \$2.0 billion of shifted monies. Estimates released in May 2020 (Administration) and June 2020 (IFO).

FY 2020-21 IFO Revised Estimate

	June Official	Revision	October Update	Dollar Shifts	Adjusted Growth
General Fund	\$35,874	\$650	\$36,524	\$1,938	0.2%
Corp. Net Income	3,188	120	3,308	375	-8.4
Sales - Non-Motor	9,893	400	10,293	160	4.2
Sales - Motor Vehicle	1,559	90	1,649		20.8
PIT - Withholding	10,767	30	10,797		0.7
PIT - Other	4,612	-60	4,552	1,335	-11.3
Cigarette	881	40	921		-0.4
Inheritance	1,196	0	1,196	68	-1.9
All Other Tax	3,111	15	3,126		0.0
All Non-Tax	667	15	682		2.6

Note: Dollar amounts in millions. PIT is personal income tax. Adjusted growth removes shifts (\$1.94 billion), one-time transfers in both fiscal years and an extra withholding deposit (\$130 million) this fiscal year.

Non-Motor Sales Tax Much Stronger Than Expected



Note: FPUC is Federal Pandemic Unemployment Compensation. PUA is Pandemic Unemployment Assistance. PPP is Paycheck Protection Program. LWA is Lost Wage Assistance. Growth rates control for revenue shifts. Collections partially based on sales from prior month.

Factors That Motivate Upward Revenue Revision

Sales and use tax much stronger than expected

- Federal UC | home improvement | limited travel | tap home equity
- Lost car sales in April and May (dealers closed) have been recouped

Corporate profits more resilient than anticipated

- Some analysts now project no reduction in profits for CY 2020
- But, a wide disparity in results: high-tech and grocers vs. energy firms
- Productivity gains | cost cutting | elimination of travel expenses

Personal income taxes moderately exceed expectations

- Wage growth slightly better than expected
- Small business income and capital gains outperform (hard to quantify)

Impact of Other Factors Unclear

National renter eviction ban ends December 31, 2020

- How much delinquent rent? | What estimates do we believe?
- [U.S. Census](#): 18.8% of PA renter households missed last rental payment (Oct 2020)
- Impacts 300,400 renter households (new experimental Pulse Survey)
- [Philly Fed](#): 4.5% of PA renter households have rental debt by Dec (IPUMS)
- Impacts 48,100 renter households | \$224 million debt | \$4,700 average

Taxable status of Paycheck Protection Program (PPP) loans

- Nearly all will be forgiven | IRS determines it is taxable (April 2020)
- \$525 billion US loans (CNIT base) | \$21 billion to PA businesses (PIT base)
- Estimates assume they will be effectively non-taxable
- If taxable, significant implications for revenues

How Could COVID-19 Transform the PA Economy?

CY 2020: 450,000 less jobs | ~\$25 billion lower labor income

- Directly translates to lower spending | great majority spent in state

Some lost spending and output (GDP) will be replaced

- ~10% reduction in gasoline consumption = ~+\$1.5 billion spending
- Net gain from less personal out-of-state travel (less leakage)
- +1% productivity gain = ~+\$7 billion in GDP (telework, other)

Productivity, cost savings and redirected spend could fill much of gap

- What happens to jobs that were lost?
- To what extent is prior level of income merely redistributed in new form?

Looking Forward

Projections do not assume new major federal stimulus or closures

- The form and timing of stimulus are unclear due to the election
- Additional business closures could occur due to recent surge in cases

Anticipated drop off in consumer spending has yet to occur

- FPUC payments diminish in August, but consumer spending remains solid
- October sales tax revenues supported by temporary LWA payments
- How long can record setting car purchases continue?

Long-term unemployment is a major concern

- Many former jobs will not return | food service, accommodation, travel
- Businesses undergo transformation | teleworking and automation
- Higher worker productivity = fewer employment opportunities

Report is Posted to IFO Website

Questions?

Submit to contact@ifo.state.pa.us