

# ECONOMIC AND BUDGET OUTLOOK

FISCAL YEARS 2022-23 TO 2027-28

# Outlook Released November 15, 2022

## Demographics

- Working age cohort (age 20-64) continues to contract
- Labor force participation rates do not recover from COVID decline

## Economics

- Forecast assumes reversion to “normal” economic growth

## Revenues

- Inflation boosts stock and home values | business profits far above historical levels

## Expenditures

- All FY 22-23 funding increases assumed permanent (e.g., education)
- Federal COVID relief/enhanced FMAP (6.2%) ends in FY 22-23 (assumed)
- **UPDATE:** 6.2% (through March) | 5.0% (June) | 2.5% (September) | 1.5% (December)

# PA Long-Term 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>
<b>Total</b>	<b>12,990</b>	<b>12,960</b>	<b>12,897</b>	<b>-29</b>	<b>-63</b>	<b>-0.2%</b>	<b>-0.5%</b>

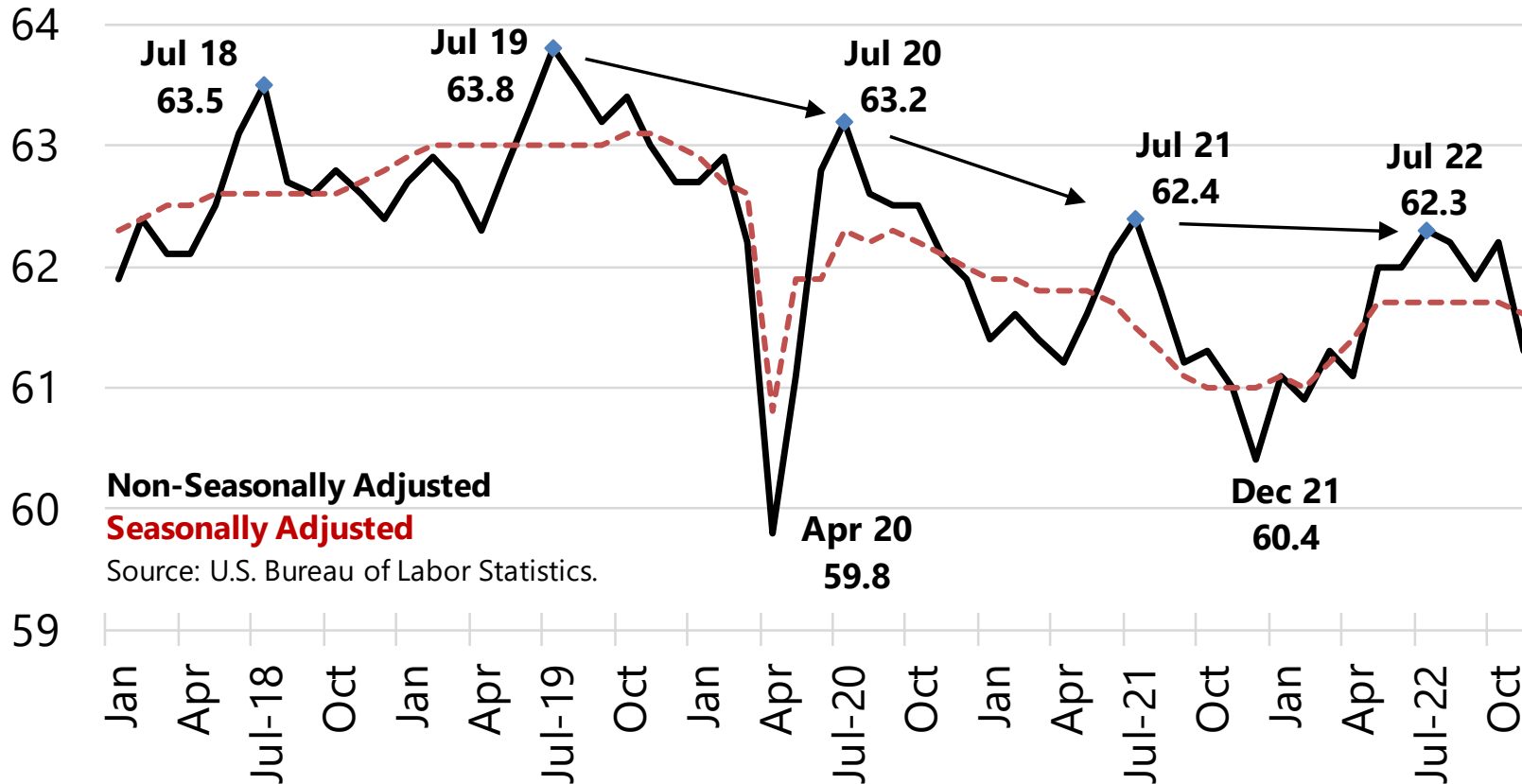
Note: Numbers in thousands. Source: U.S. Census Bureau. Forecast by IFO.

# PA Short-Term Demographics: COVID and Post-COVID

Age Cohort	Number (000s)			Number Change		Percent Change	
	2019	2022	2025	19-22	22-25	19-22	22-25
0 to 19	3,068	2,989	2,916	-79	-73	-2.6%	-2.4%
20 to 64	7,570	7,439	7,311	-131	-128	-1.7%	-1.7%
65 to 79	1,784	1,950	2,108	166	157	9.3%	8.1%
80+	<u>579</u>	<u>586</u>	<u>626</u>	<u>8</u>	<u>39</u>	<u>1.3%</u>	<u>6.7%</u>
<b>Total</b>	<b>13,001</b>	<b>12,965</b>	<b>12,960</b>	<b>-36</b>	<b>-4</b>	<b>-0.3%</b>	<b>0.0%</b>

Note: Number in thousands. Source: U.S. Census Bureau. Forecast by IFO.

# PA Labor Force Participation Rate (LFPR) Declines and Stabilizes



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

**LFPR down ~1.5 ppts**  
 ~120,000 workers  
 ~50% demographics  
 ~50% other factors

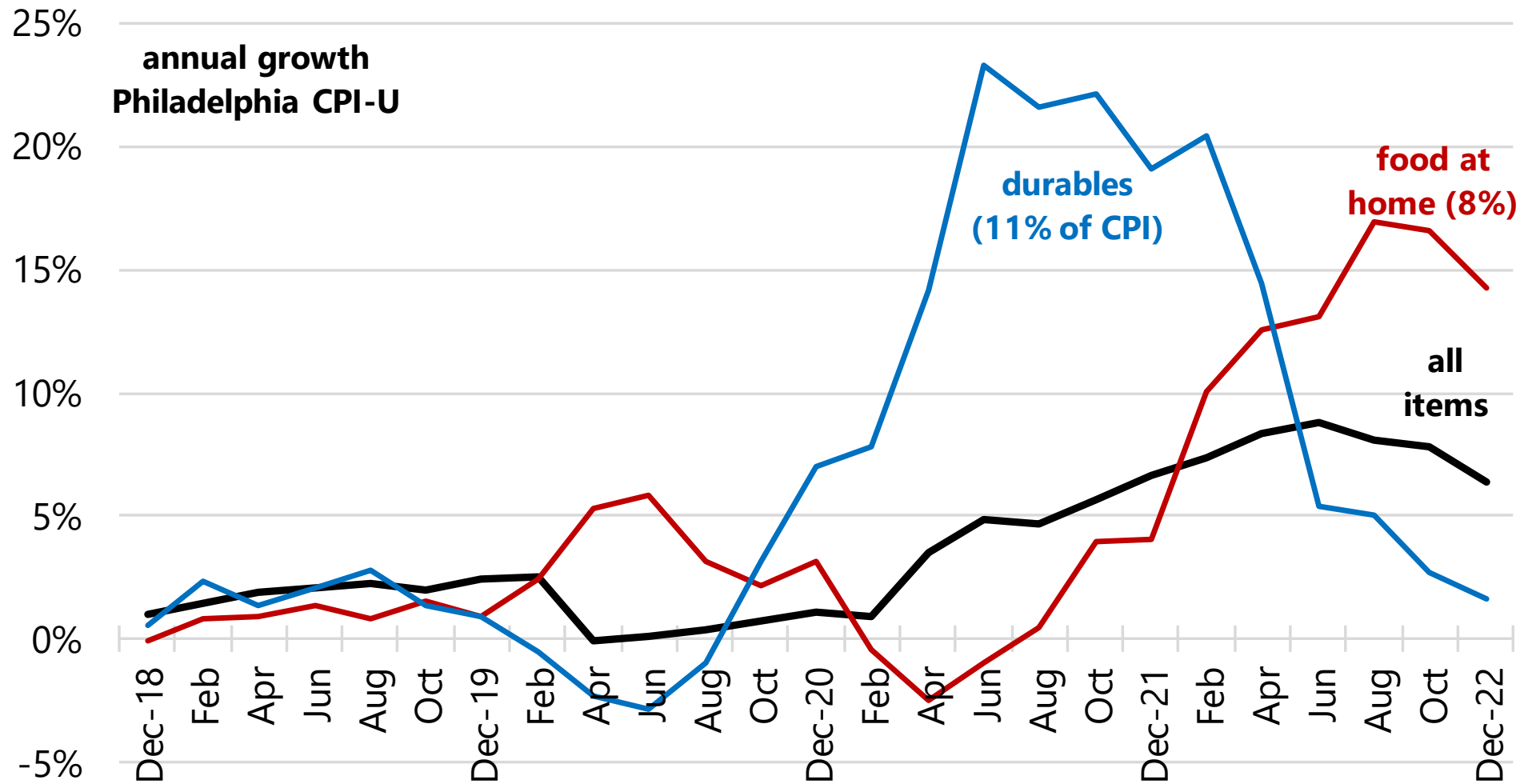
**Lower LFPR + contracting demographic = worker shortage**

# Economics: Reversion to Normal Growth by 2025

	COVID			Reset		Steady State	
	2020	2021	2022	2023	2024	2025	2026
Real GDP	-4.8%	4.4%	1.5%	0.0%	1.2%	1.7%	1.8%
Nominal GDP	-3.5%	9.4%	9.3%	4.4%	3.8%	4.2%	4.1%
Wages and Salaries	-0.2%	7.2%	8.4%	4.7%	4.3%	4.0%	3.9%
Philadelphia CPI-U	0.9%	4.0%	7.9%	4.5%	2.8%	2.5%	2.3%
Payroll Job Gains (000s)	-461	146	180	0	30	39	42

Note: Payroll Job Gains exclude self-employed and independent contractors.  
 Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecast by IFO.

# Inflation Appears to Peak June 2022



# Pennsylvania Payroll Employment: Change from Nov 2019

Sector	Number (000s)		Percent	
	Nov 2021	Nov 2022	Nov 2021	Nov 2022
<b>Payroll Employment (000s)</b>	<b>-262</b>	<b>-69</b>	<b>-4.3%</b>	<b>-1.1%</b>
Construction	-7	-4	-2.7	-1.5
Manufacturing	-25	-4	-4.3	-0.6
Retail and Wholesale Trade	-28	-9	-3.3	-1.0
Transportation and Warehouse	20	42	6.2	13.2
Professional and Technical	12	23	3.2	6.2
Admin and Waste Management	-25	-22	-7.6	-6.7
Healthcare and Social Assistance	-61	-21	-5.7	-2.0
Arts and Entertainment	-9	2	-10.4	1.8
Accommodation and Food Service	-55	-30	-11.6	-6.4
Other Services	-22	-13	-8.5	-4.8
All Government (includes local SDs)	-35	-32	-4.8	-4.4
All Other	-26	0	-3.1	0.1

Note: Data are not seasonally adjusted. Figures for November 2022 are preliminary. Excludes self-employed.  
Source: U.S. Bureau of Labor Statistics, State and Metro Area Employment.



# Winners and Losers by Subsector: Change from Nov 2019

Subsector	Number (000s)		Percent	
	Nov 2021	Nov 2022	Nov 2021	Nov 2022
Nursing and Residential Care	-30	-26	-14.8%	-12.7%
Colleges and Universities	-15	-18	-8.2	-10.1
Employment Services (temps)	-4	-17	-2.8	-13.1
Full-Service Restaurants	-29	-17	-14.6	-8.8
Religious and Non-profits	-16	-14	-11.4	-10.2
Warehousing and Storage	18	32	17.8	32.3
Management of Companies	4	13	3.1	9.4
Courier and Messengers	7	10	16.0	23.6
Building and Garden Retail	1	4	2.0	9.9
Limited-Service Restaurants	-3	3	-2.0	1.6

Note: Order based on Nov 2022 job change. Source: U.S. Bureau of Labor Statistics, CES State and Metro Area Employment.

# Federal Pandemic Stimulus Monies Largely End

	2020	2021	2022
<b>Residents/Businesses</b>	<b>\$64.6</b>	<b>\$58.1</b>	<b>\$4.8</b>
State and Federal UC	31.5	16.9	0.1
Economic Impact Payments	11.0	21.0	0.2
Paycheck Protection Program	20.7	10.0	0.0
Extra SNAP/CTC/Rent Assistance	1.3	9.3	2.4
Employee Retention Credit (ERC)	0.0	1.0	2.2
<b>Direct State Govt Support</b>	<b>\$5.9</b>	<b>\$20.3</b>	<b>\$0.2</b>
<b>Direct Local Govt Support</b>	<b>\$2.6</b>	<b>\$8.3</b>	<b>\$0.1</b>

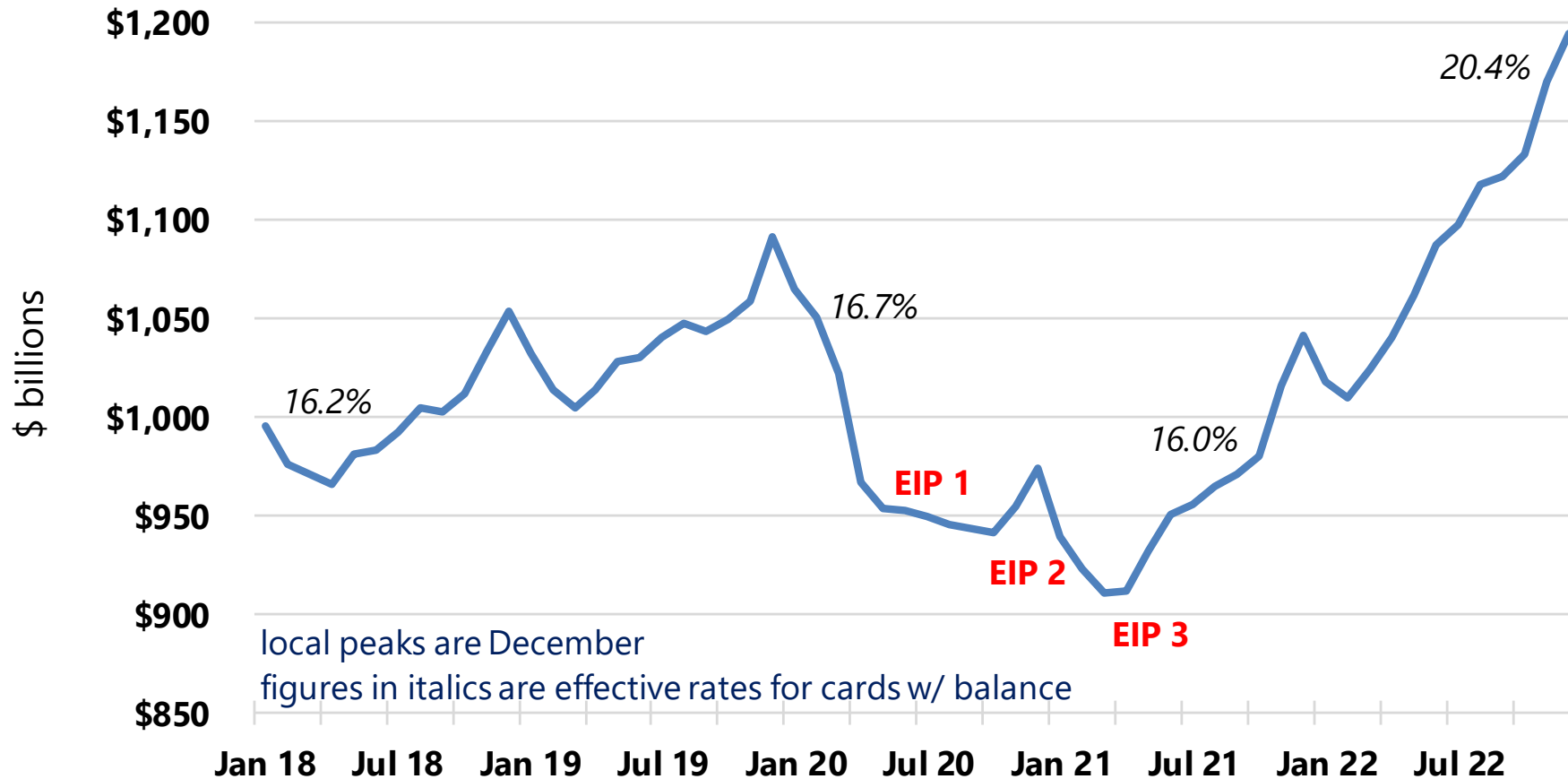
Note: Billions of dollars. PEBT included with SNAP.

SNAP emergency allotments end Feb 2023  
 ~\$100 per person monthly, 1.9m residents

ERC ~\$57,000 per firm

FY 21-22  
 \$3.84 billion in federal funds transferred to General Fund

# Consumer Credit Card Debt Explodes after Third EIP



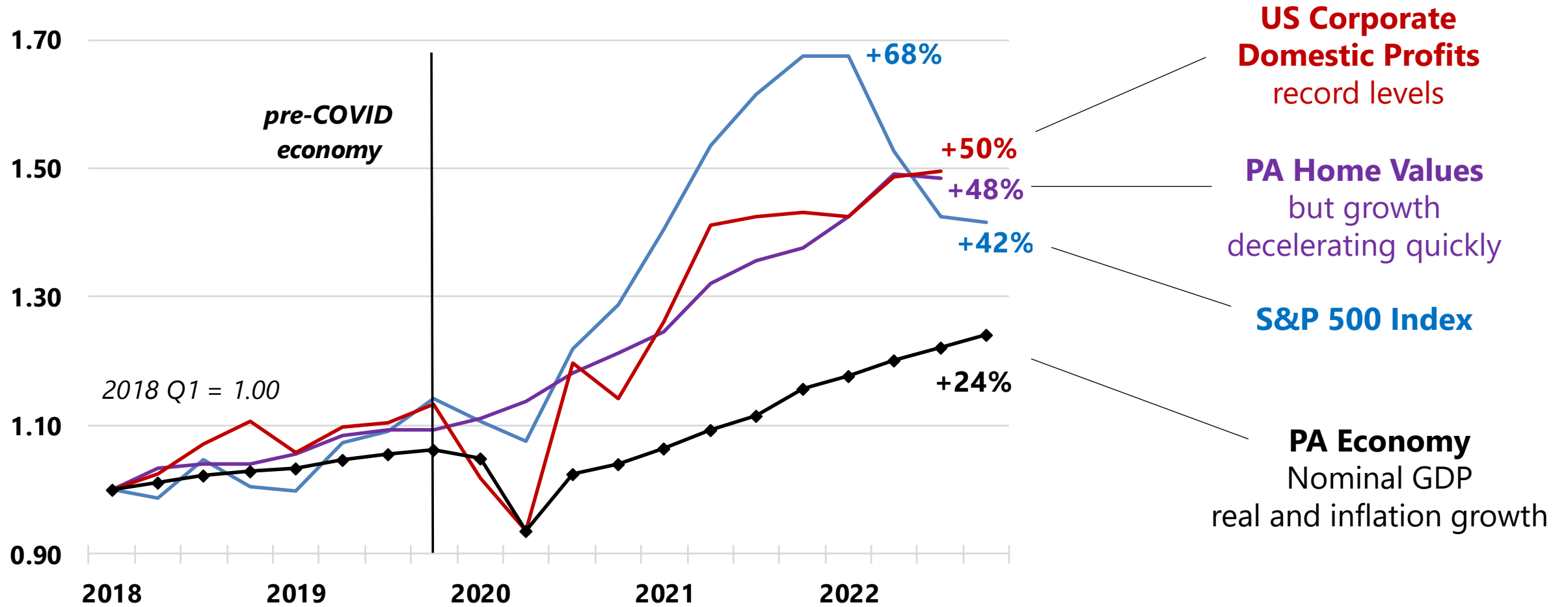
Lower income consumers under increasing stress

SNAP emergency allotments end Feb 2023

Student loans not repaid since Spring 2020, extended to June 2023

Note: Data not seasonally adjusted. EIP is economic impact payment. Source: Federal Reserve Board.

# PA Economy vs Financials: Pre vs Post-COVID Growth



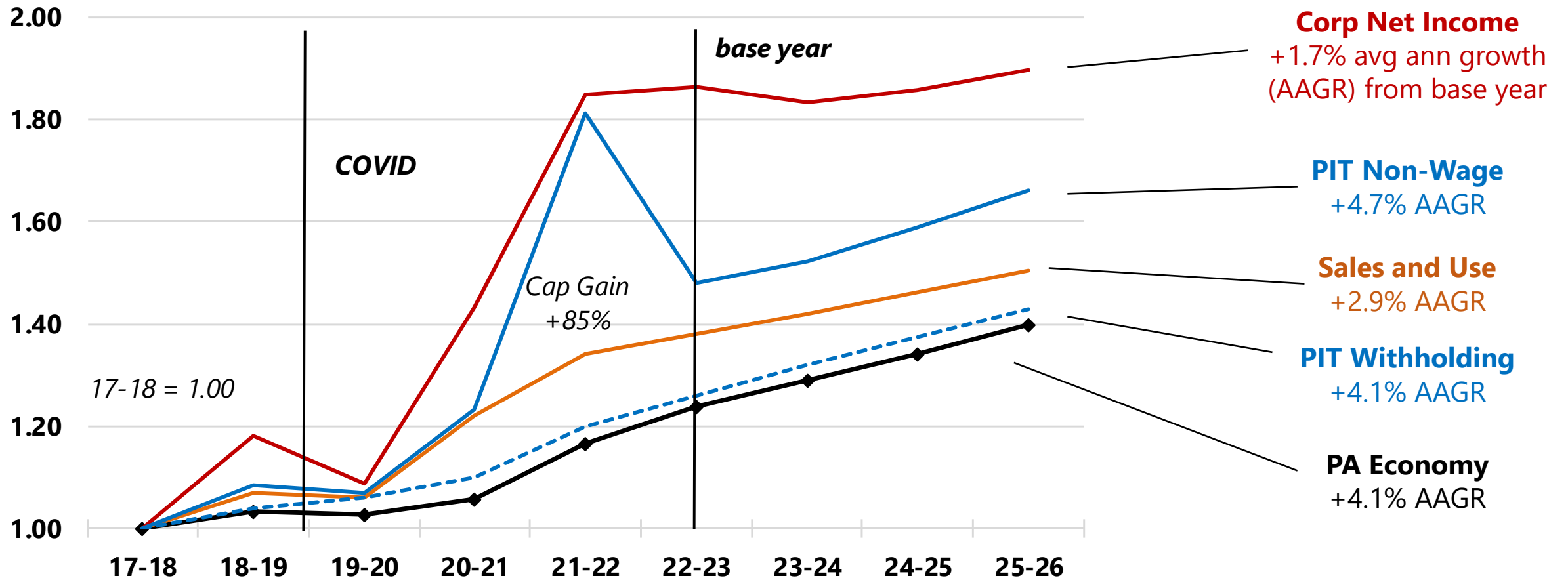
**US Corporate Domestic Profits**  
record levels

**PA Home Values**  
but growth  
decelerating quickly

**S&P 500 Index**

**PA Economy**  
Nominal GDP  
real and inflation growth

# Baseline Forecast: Big 3 Tax Revenues



Notes: Big 3 are 85% of tax revenues. Excludes CNIT changes and new SUT transfer.

# General Fund Revenues: Short- and Long-Term Growth

	22-23	23-24	Growth	27-28	AAGR
<b>General Fund Revenues</b>	<b>\$43.69</b>	<b>\$44.85</b>	<b>2.9%</b>	<b>\$49.61</b>	<b>3.1%</b>
Corporate Net Income	5.37	5.28	-1.6	5.85	2.6
Rate Cut/Base Expand	-0.20	-0.28		-1.37	
Sales and Use	13.84	14.21	2.7	15.97	3.0
PIT Withholding	12.66	13.24	4.2	15.51	4.0
PIT Non-Withheld	4.88	5.12	4.8	6.14	4.7
Inheritance	1.46	1.49	1.9	1.72	3.6
Cigarette	0.81	0.77	-5.1	0.65	-4.0
All Other Tax	3.76	3.86	2.8	4.27	2.6
Treasury	0.37	0.41	9.7	0.06	-38.1
All Other Nontax	0.74	0.75	0.9	0.80	1.7

Note: Billions of dollars. AAGR is average annual growth rate from FY 23-24 to FY 27-28. Growth rates adjusted for one-time transfers and due date shifts.

CNIT rate falls to 6.49% in 2028

PIT Withholding grows at same rate as PA economy

Treasury revenues inflated due to high cash balances and much higher rates

# General Fund Expenditures: Large Increase in FY 22-23 Base Year

Program or Category	21-22	22-23	\$ Diff	% Diff
<b>Total Expenditures</b>	<b>\$39.35</b>	<b>\$42.77</b>	<b>\$3.42</b>	<b>8.7%</b>
Pre K-12 Education	10.68	12.01	1.33	12.5
Medical Assistance	6.16	5.87	-0.29	-4.6
Long-Term Living	4.52	5.39	0.88	19.4
Intellectual Disability	2.14	2.71	0.57	26.6
Wages-Salaries	2.83	3.11	0.28	9.8
SERS/PSERS	3.73	4.01	0.28	7.5
Healthcare/Other	0.85	0.88	0.03	3.0
General Obligation Debt	1.13	1.13	0.00	0.4
All Other	7.32	7.66	0.34	4.6

Note: Billions of dollars. AAGR is average annual growth rate from FY 23-24 to FY 27-28.

New level-up supplement, basic ed subsidy increases

DHS programs affected by expiration of enhanced FMAP

Wage growth reflects PSP shift from MLF

Forecast assumes new spending in 22-23 base year is permanent

# General Fund Expenditures: Short- and Long-Term Growth

Program or Category	22-23	23-24	Growth	27-28	AAGR
<b>Total Expenditures</b>	<b>\$42.77</b>	<b>\$45.22</b>	<b>5.7%</b>	<b>\$51.47</b>	<b>3.3%</b>
Pre K-12 Education	12.01	12.44	3.6	13.63	2.3
Medical Assistance	5.87	6.24	6.3	7.17	3.5
Long-Term Living	5.39	5.85	8.4	7.25	5.5
Intellectual Disability	2.71	3.03	11.6	3.59	4.3
Wages-Salaries	3.11	3.31	6.5	3.86	4.0
SERS/PSERS	4.01	4.17	4.0	4.70	3.0
Healthcare/Other	0.88	1.07	22.1	1.26	4.1
General Obligation Debt	1.13	1.17	3.3	1.35	3.6
All Other	7.66	7.95	3.9	8.67	2.2

Note: Billions of dollars. AAGR is average annual growth rate from FY 23-24 to FY 27-28.

Pre K-12 grows with inflation

Enhanced FMAP ends in 2022-23 (assumed)  
LTL includes demographics growth

SERS employer contribution rates decline

Agency retiree healthcare increase funds a full fiscal year



# General Fund Financial Statement

	21-22	22-23	23-24	24-25	25-26	26-27	27-28
Beginning Balance	\$4	\$5,537	--	--	--	--	--
Current Year Revenues	48,134	43,686	\$44,850	\$45,804	\$46,921	\$48,339	\$49,606
Less Refunds	<u>-1,420</u>	<u>-1,220</u>	<u>-1,300</u>	<u>-1,325</u>	<u>-1,350</u>	<u>-1,375</u>	<u>-1,400</u>
Net Revenues	46,714	42,466	43,550	44,479	45,571	46,964	48,206
State Expenditures	<u>-39,351</u>	<u>-42,766</u>	<u>-45,222</u>	<u>-46,910</u>	<u>-48,725</u>	<u>-50,099</u>	<u>-51,467</u>
<b>Current Year Balance</b>	<b>7,367</b>	<b>-300</b>	<b>-1,672</b>	<b>-2,431</b>	<b>-3,155</b>	<b>-3,135</b>	<b>-3,261</b>
Reduced Spending	0	1,302	0	0	0	0	0
Plus Prior Year Lapses	<u>-1,830</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>
<b>Prelim Ending Balance</b>	<b>5,537</b>	<b>6,680</b>	<b>-1,532</b>	<b>-2,291</b>	<b>-3,015</b>	<b>-2,995</b>	<b>-3,121</b>

Note: Millions of dollars. Prior year lapses include transfers to Budget Stabilization Reserve Fund. [Current balance is \\$4.99 billion.](#)