Independent Fiscal Office

Initial Revenue Estimate

FY 2026-27

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Today's Presentation

Presentation runs ~25 minutes

If connection is lost, we will attempt to re-establish.

Please submit inquiries to IFO contact box listed at end of presentation.

Report and presentation posted to website at conclusion.

Four Parts to Presentation

1 **US and PA Economic Forecasts**

2 **FY 2025-26 Update: Stocks – Profits - Investment drive income and sales tax gains**

- Very strong consumer and business spending

3 **FY 2026-27 Outlook: Corporate profits and business spending surge continues**

- Data for 2026 Q1 still very strong

4 **$230 million reduction to FY 25-26 structural deficit forecast from Nov 2025**

- FY 2025-26 **~$4.8 billion**
- FY 2026-27 **~$5.6 billion** using HB 2400 as placeholder for spending plus negative spending adjustments from Spring Update released by Budget Office

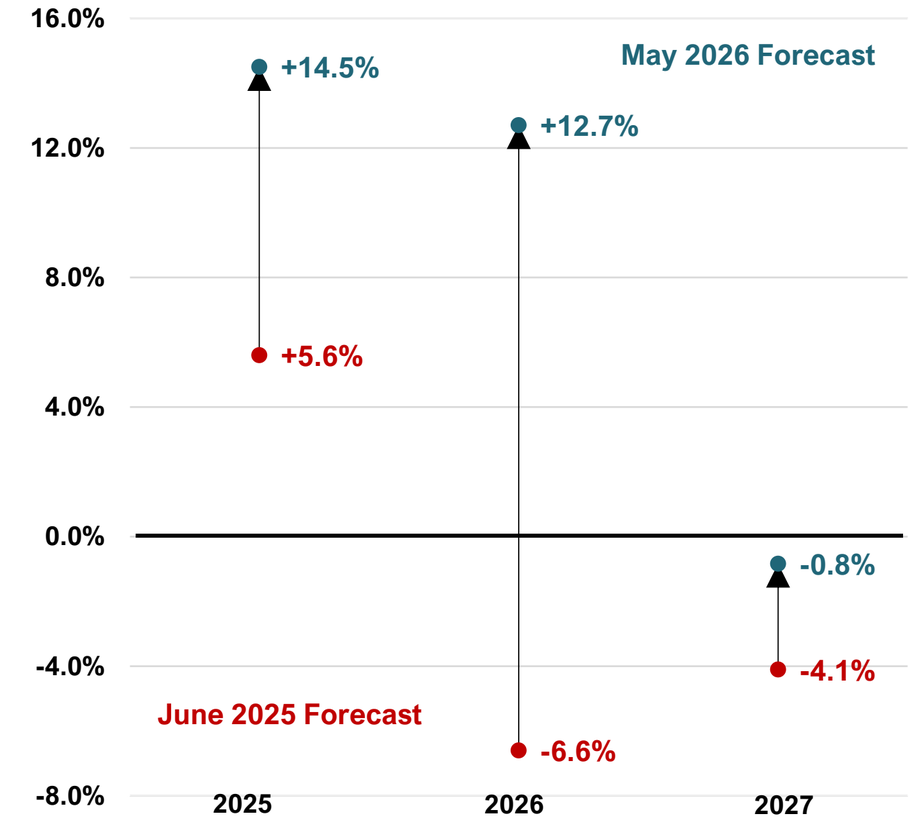
US Economic Forecast

	2024	2025	2026	2027
1 **Consumer Spending**	5.6%	5.3%	5.8%	4.4%
2 **Equipment Investment**	5.7%	**10.7%**	**12.2%**	2.3%
3 **Consumer Price Index**	3.0%	2.7%	4.0%	2.5%
4 **US Corporate Profits**	5.0%	4.4%	**15.5%**	4.9%
5 **S&P 500 Index**	**26.7%**	**14.5%**	**12.7%**	-0.8%

Note: Corporate Profits are domestic only. S&P 500 is annual average. All growth rates are year-over-year.
Source: S&P Global. Forecast released May 2026.

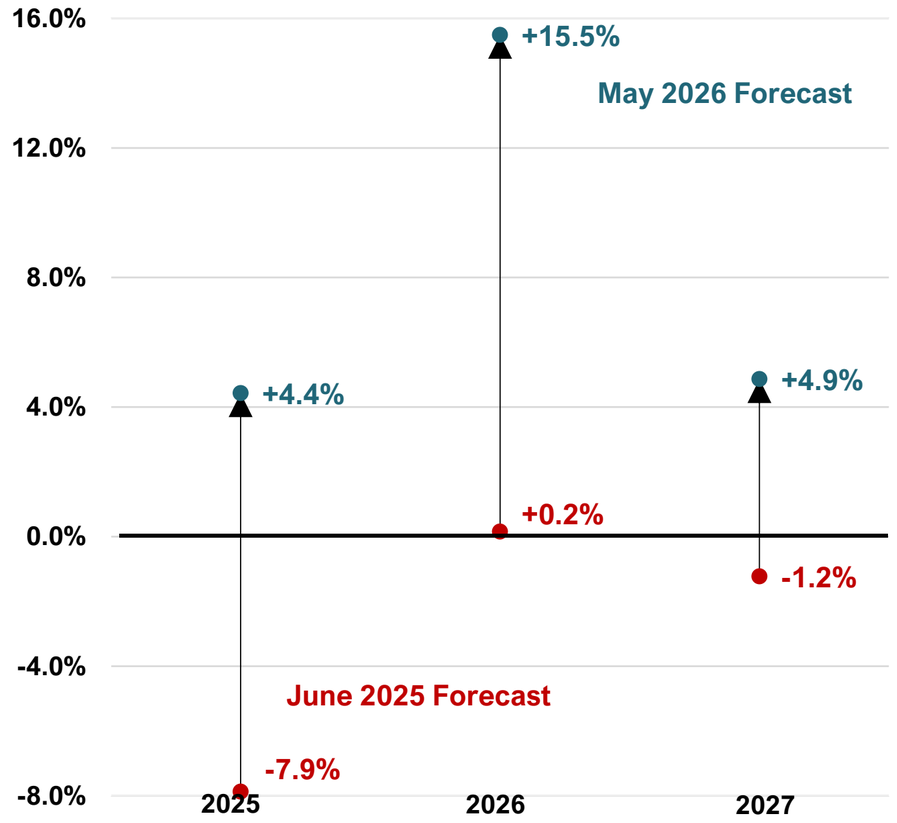
Stocks and Profits Much Stronger than Projected

Figure 1.1
S&P 500 YOY Growth



Source: S&P Global.

Figure 1.2
U.S. Corporate Profits YOY Growth



Note: Profits are domestic only. Source: S&P Global.

Pennsylvania Economic Forecast

	2024	2025	2026	2027
1 **All Taxable Spending**	2.3%	4.8%	3.6%	3.2%
2 **Philadelphia CPI-U**	3.6%	3.2%	3.9%	2.8%
3 **Wages and Salaries**	4.5%	4.5%	4.1%	3.9%
4 **Change Age 20-64 (# 000s)**	-12	-21	-36	-31

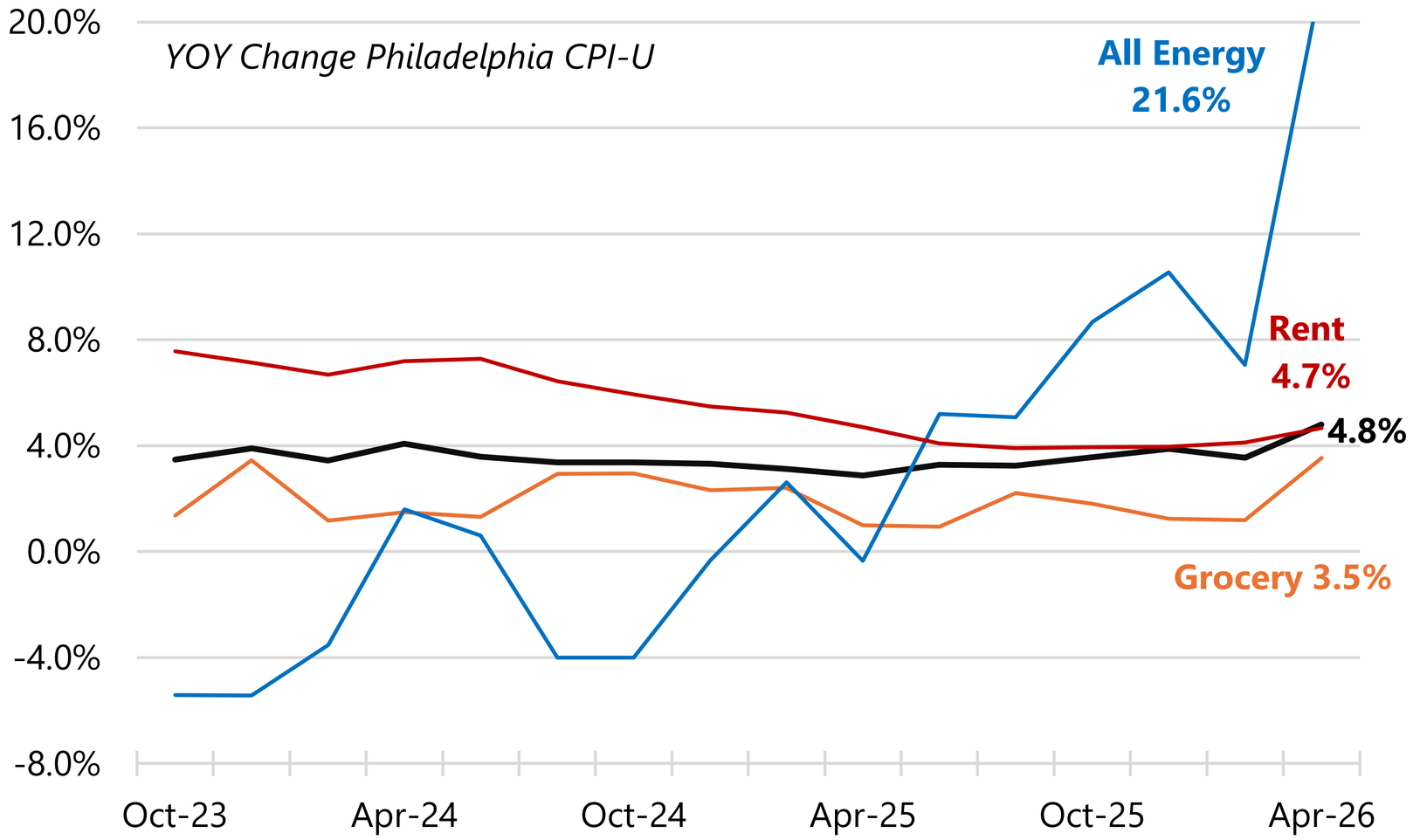
Note: All Taxable Spending includes consumers and business.
Source: Historical data from U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. All forecasts by IFO.

Pennsylvania Latest Economic Trends

	YOY Latest Quarters			YOY Latest Monthlies		
	2025.3	2025.4	2026.1	Feb	Mar	Apr
1 Taxable Spending						
Non-Motor Vehicle	5.8%	6.2%	4.0%	1.6%	7.5%	6.3%
Motor Vehicle	3.2%	1.1%	1.1%	-6.2%	3.7%	-3.5%
2 Philadelphia CPI-U	3.3%	3.9%	3.5%	3.5%	--	4.8%
All Energy (6.1% of total)	5.1%	9.6%	7.1%	7.1%	**16.2%**	**21.6%**
3 Wages and Salaries	4.3%	4.6%	4.2%	5.1%	5.8%	3.5%
4 Payroll Job Gains (# 000s)	23	15	18	13	8	--

Note: Payroll Jobs exclude self-employed and are non-seasonally adjusted. All Energy is gasoline and utility bills.
Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Taxable Spending from IFO.

Affordability: Groceries, Rent & Energy Prices



All Energy (6.1% of CPI) includes gasoline (2.3%) and utilities (3.8%)

CEX: Avg household with income $50k to $150k ~3% of total spend to gasoline

Since Feb, price up +$1.10 (+35%); +$50 to +$80 per month

Main impact: long-term inflation outlook and bond yields

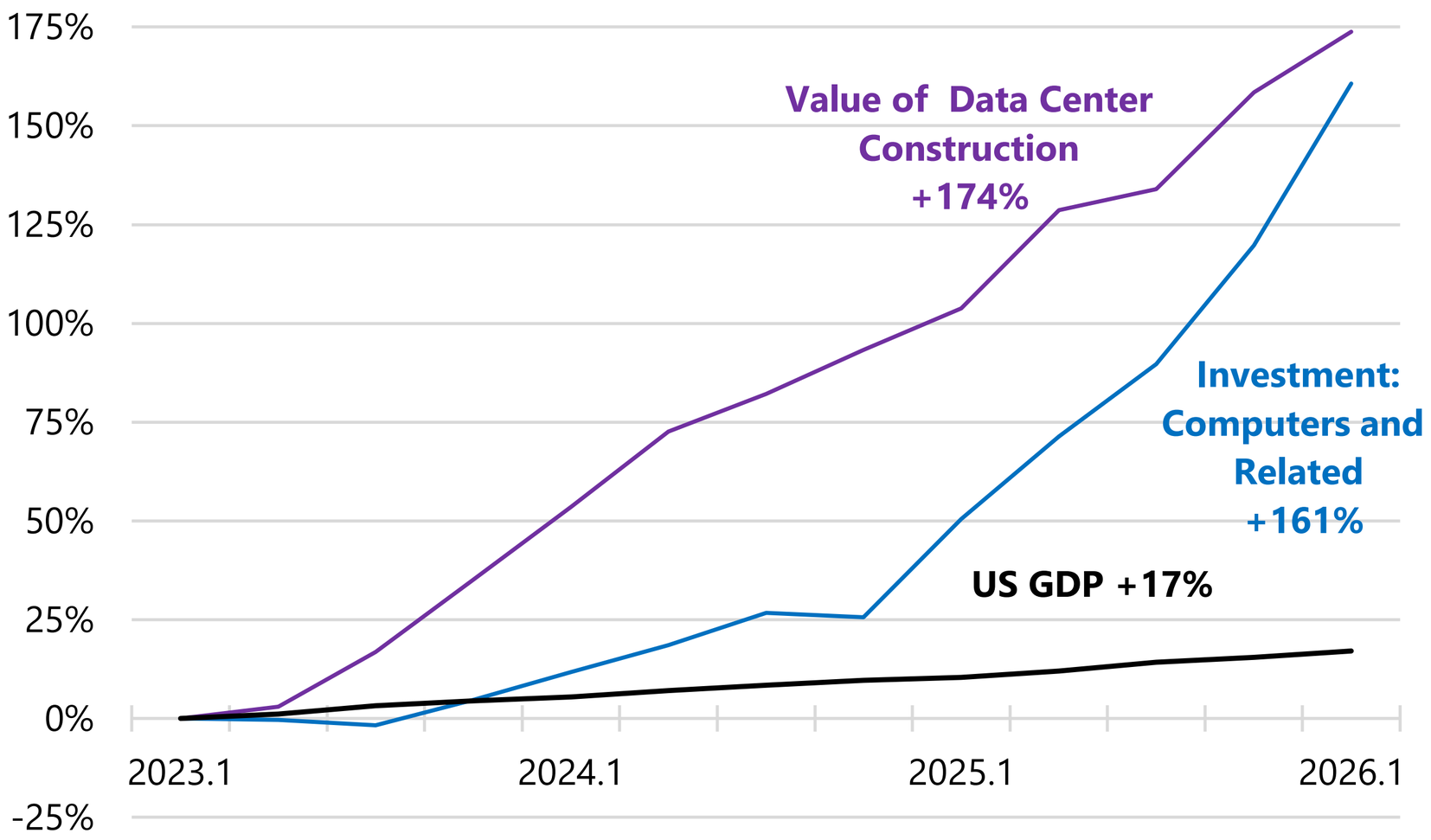
Latest US Treasury auction: 30-year yield = 5.05%, first time >5.0% since Jun 2007

Stock Market, Corporate Profits and Business Spending

	YOY Growth		
	2024.4	2025.4	2026.1
S&P 500 Index	23.3%	17.2%	19.3%*
FactSet S&P 500 Earnings	18.2%	14.0%	27.7%
Business Equipment Purchases	5.3%	13.3%	13.7%
Computers and Related	20.0%	**74.9%**	**73.3%**

Note: All growth rates are year-over-year. S&P 500 Index rate for 2026.1 is gain from June 30, 2025 to May 18, 2026. FactSet Earnings from quarterly filings with SEC.
Source: U.S. Bureau of Economic Analysis and FactSet.

Cumulative Growth Since 2023



Initial Revenue Estimate

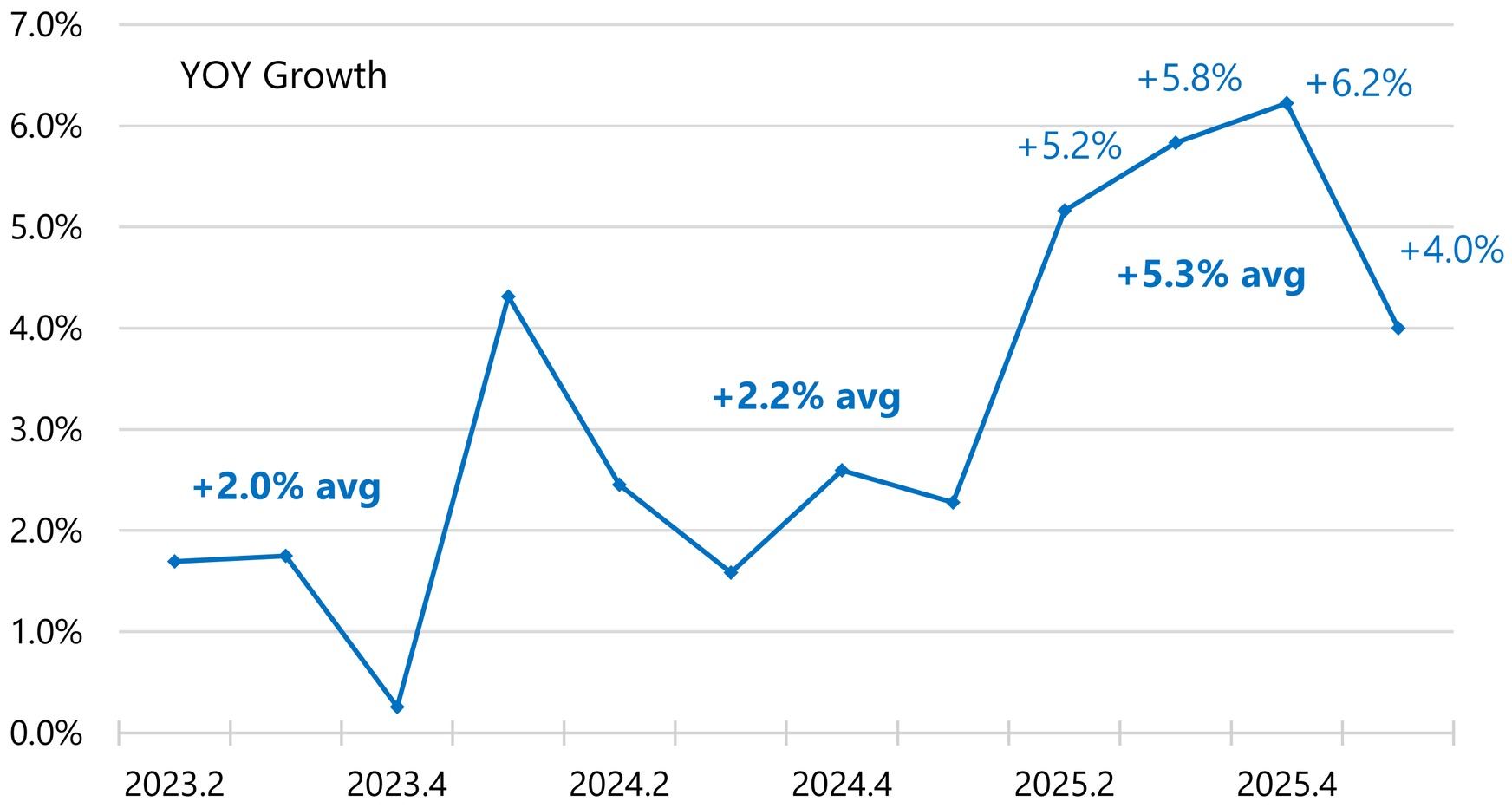
US Census Bureau
Data Center Value of Construction "Put in Place" 2026 Q1 = $49.5 billion on-going or underway

US BEA
Computer-Related Equipment Invest 2026 Q1 = $386 billion (annualized)

Data Center Proposal Tracker (PA Only)
72 Active
5 Under Construct
62 Proposed

DOR does not publish exempt data center equipment purchases

Non-Motor Vehicle Sales Tax Surge



Surge coincides with stock market growth

Unknown but positive impact: taxable business purchases (20-25% of sales tax base)

Federal tax cut: 20% refund boost ~+$2.5 billion; similar reduction for tax due

WPTC ~+$200 million

PA Labor Market: Low Hiring and Low Firing Dynamic

Latest Continued UC Claims

85,000

Down 9,000 from 2025

Down 11,000 from 2024

March Unemployment Rate

4.2%

Full employment

2026 Q1 Labor Force Expansion

+61,000

Second quarterly gain after

5 quarters of contraction

2026 Feb-Mar Payroll Jobs Created

+10,400

Lowest gain since 2014

All gains are healthcare-related (+24,400)

Fiscal Year-to-Date Revenues Through April

	Dollar Amount	Dollar Change	YOY Growth	Notes
General Fund Revenues	**$41,661**	**$2,226**	**5.6%**	
Corporate Net Income	3,791	-281	-6.9	rate cut 8.49% - 7.99% - 7.49%
Sales – Non-Motor	11,634	628	5.7	very strong – business spending too
Sales – Motor Vehicle	1,150	-18	-1.6	
PIT – Withholding	12,116	513	4.4	
PIT – Non-Withholding	4,975	452	10.0	strong capital gains likely
Inheritance	1,544	107	7.5	stock market impact
Gross Receipts	1,381	115	9.0	residential electric prices +9% 2025
Treasury Interest	362	-119	-24.8	declining General Fund balance
All Other	4,708	829	21.4	$670 million one-time transfer

Note: Dollar millions. PIT is personal income tax.

FY 2025-26 Revised Estimate

	Dollar Amount	Dollar Adjust	YOY Growth	Notes
General Fund Revenues	**$48,770**	**$848**	**5.1%**	
Corporate Net Income	4,943	-56	-4.4	
Sales – Non-Motor	13,987	229	5.2	stock market, business spending, refunds
Sales – Motor Vehicle	1,393	-50	-0.2	
PIT – Withholding	14,313	40	4.3	
PIT – Non-Withholding	5,730	343	9.5	capital gains and business profits
Inheritance	1,835	101	5.7	
Gross Receipts	1,389	24	5.2	
Treasury Interest	409	109	-27.8	budget impasse ~+$65m
All Other	4,771	109	20.3	bank shares +$73m, gaming +$59m

Note: Dollar millions. PIT is personal income tax.

FY 2026-27 Outlook

Key Trend or Variable		Forecast
Consumer Spending	→	Stock market “wealth effect” built in: ~+$150 million to sales tax in FY 25-26 – does not reverse, further modest boost
Business Investment	→	Financial Times: “hyperscalers” continue to invest at rapid pace (Google, Meta, Microsoft, Amazon)
Stock Market and Profits	→	FactSet: Analysts calling for +21.0% earnings growth in CY 2026; +27.7% for 2026 Q1

FY 2026-27 Initial Estimate

	Dollar Amount	Dollar Change	YOY Growth	Notes
General Fund Revenues	**$49,559**	**$789**	**1.6%**	
Corporate Net Income	4,961	18	0.4	+10% profits; 0.5 ppt rate cut
Sales – Non-Motor	14,514	527	3.8	
Sales – Motor Vehicle	1,416	23	1.6	
PIT – Withholding	15,053	741	5.2	extra deposit day, ~4.0% base growth
PIT – Non-Withholding	5,882	151	2.6	
Inheritance	1,921	86	4.7	
Gross Receipts	1,481	92	6.6	residential PTC up +17% in 2026 Q1-Q2
Treasury Interest	189	-219	-53.7	balance depleted, no fed funds rate cut
All Other	4,143	-628	-13.2	-1.4% if $570m net transfer excluded

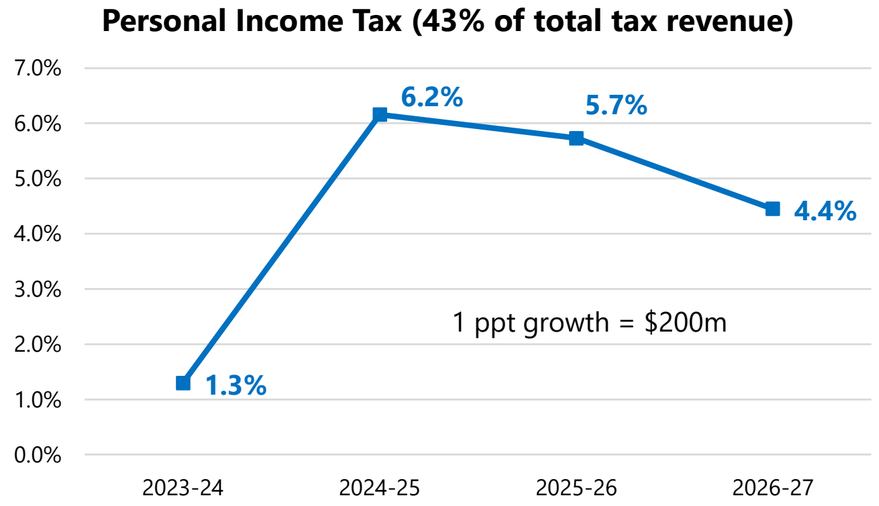
Note: Dollar millions. PIT is personal income tax.

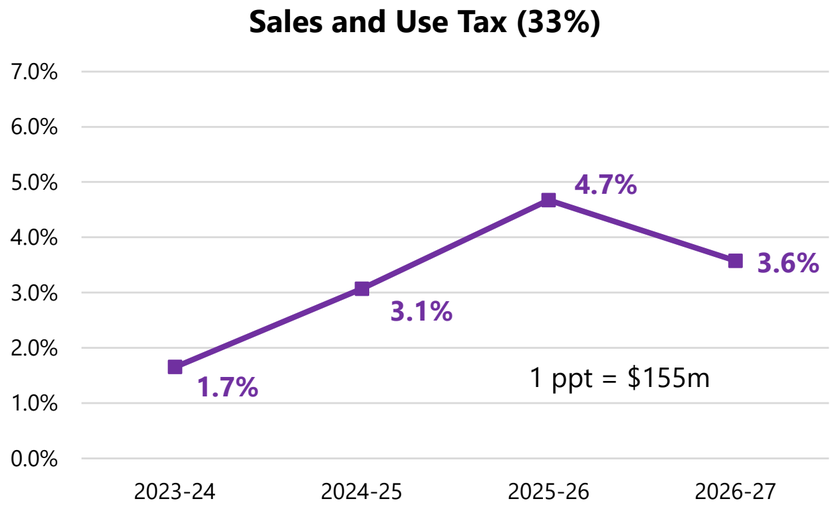
FY 2026-27 Revenue Reconciliation

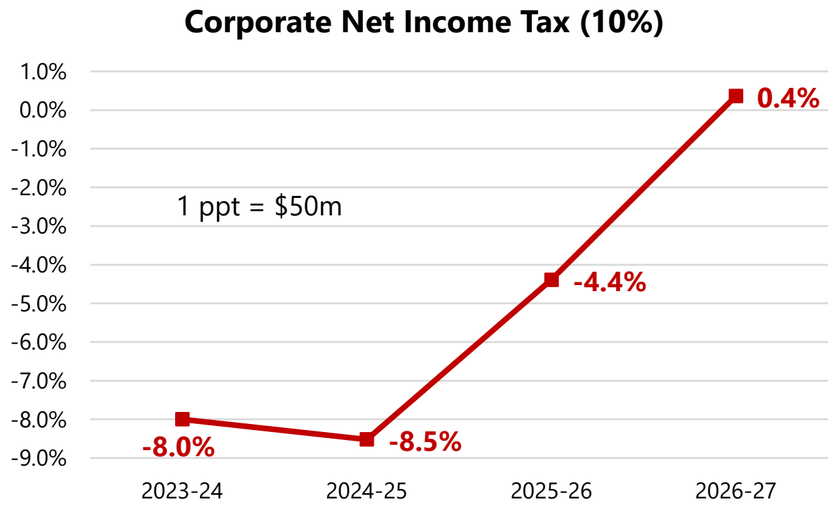
	Change		Notes
	Dollar	Percent	
Normal Change/Growth	**$1,658**	**3.4%**	pre-Covid average, no recession
1 High Profits Growth	250	+0.5	10% profits growth
2 Extra Withholding Deposit	170	+0.3	53 Wednesdays in FY 26-27
3 All Other	-200	-0.4	Liquor Store Profits transfer (-$100m)
4 Treasury Interest Earnings	-219	-0.4	General Fund balance depleted
5 CNIT Rate Cut	-300	-0.6	7.99% - 7.49% - 6.99%
6 One Time Funds	-570	-1.2	change special funds net transfer
Projected FY 26-27 Increase	**$789**	**1.6%**	

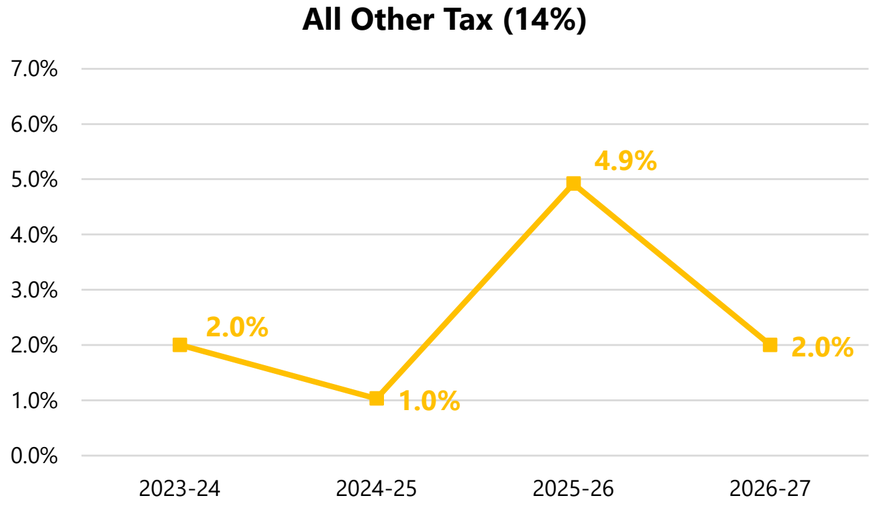
Note: Dollar millions.

Tax Revenue Projections









Financial Statement: Modest Reduction in Structural Deficit

	Actual	FY 2025-26 Estimate			Forecast
	FY 2024-25	Nov 2025	Revision	May 2026	FY 2026-27
Revenues	$46.41	$48.10	$0.67	$48.77	$49.56
Less Refunds	-$2.25	-$2.15	-$0.30	-$2.45	-$2.40
Net Revenues	$44.16	$45.95	$0.37	$46.32	$47.16
Expenditures	-$47.82	-$50.09	-$0.14	-$50.24	-$53.07
Plus Prior Year Lapses	$1.12	$0.50	$0.00	$0.50	$0.35
Current Year Deficit	**-$2.55**	**-$3.65**	**$0.23**	**-$3.42**	**-$5.56**
Less Temporary Support	$0.87	$1.33	$0.00	$1.33	tbd
Structural Deficit	**-$3.42**	**-$4.98**	**$0.23**	**-$4.75**	**-$5.56**
Ending Balances					
General Fund	$4.15	$0.51	$0.21	$0.72	$0.00
Rainy Day Fund	$7.47	$7.75	$0.13	$7.88	n.a.

Note: Billions of dollars. FY 2026-27 spend uses HB 2400, Budget Office Spring Update and includes $230 million for legislative adds.

Questions?

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