

Economic & Budget Update

Education Policy and Leadership Center

April 5, 2024

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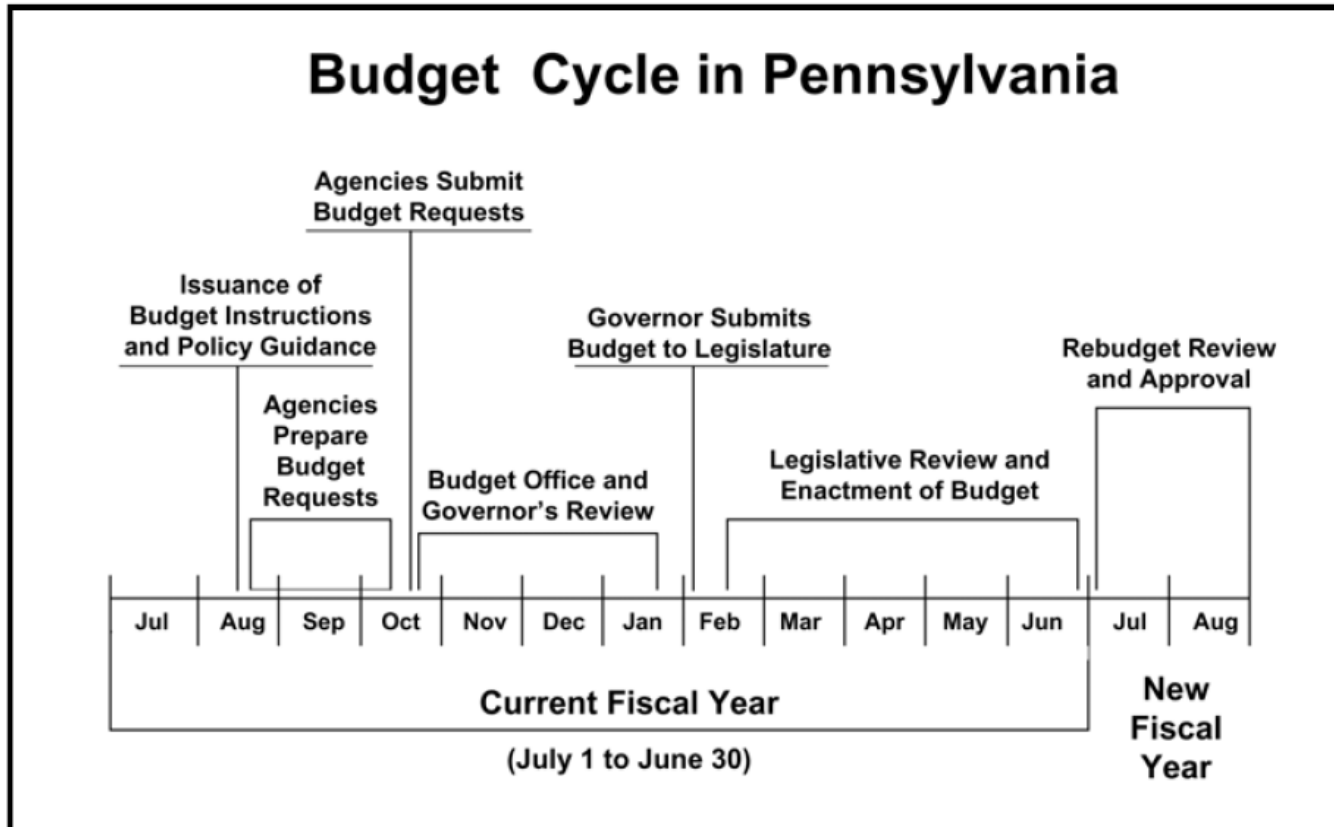
Matthew Knittel, Director

About the Independent Fiscal Office

- Most states have a fiscal office | PA is unique
- Office Responsibilities
 - Revenue estimates | Economic & demographic trends
 - Economic analysis of executive revenue proposals
 - 5-Year Economic & Budget Outlook
 - Performance-based budgeting | Tax credit reviews
 - Pension analysis | Dynamic modeling | Economic impact
 - Analyze impact of collective bargaining agreements
- Special Studies and Legislative Requests
 - Property tax reform | Natural gas & electricity
 - State comparisons | Others as requested

Budget Cycle and IFO's Role

IFO Role in Budget Process



Source: Governor's Executive Budget 2024-25, page 4.

- **Nov 15: 5-Year Economic & Budget Outlook**
- **Jan 31: Mid-Year Revenue Update**
- **Mar/Apr: Analysis of Executive Budget Revenue Proposals**
- **May 20: Preliminary Revenue Estimate**
- **June 20: Final Revenue Estimate**

Overview and Notes

● Demographics and Economics

- Demographics & impact on labor force participation rates
- Economic projections and recent trends

● State General Fund (GF) Revenues

- FY 23-24 & FY 24-25 revenues
- Recent economic trends impact on sales and use tax

● Executive Budget Proposal & Long-Term Implications

- GF balance sheet and long-term implications
- Administration's expenditure projection
- Major Executive Budget initiatives

PA Demographics Forecast

Age Cohort	Number (000s)			Number Change		Percent Change	
	2020	2024	2028	20-24	24-28	20-24	24-28
0 to 19	3,035	2,943	2,872	-92	-71	-3.0%	-2.4%
20 to 64	7,522	7,371	7,248	-151	-123	-2.0%	-1.7%
65 to 74	1,411	1,520	1,566	109	46	7.7%	3.0%
75 to 84	705	833	950	128	117	18.2%	14.0%
85+	<u>322</u>	<u>321</u>	<u>357</u>	<u>-1</u>	<u>36</u>	<u>-0.3%</u>	<u>11.2%</u>
Total	12,994	12,988	12,994	-6	5	0.0%	0.0%

Note: Numbers in thousands. Source: 2020 from the U.S. Census Bureau. Forecast by IFO.

Notes

- Large Baby Boomer population are age 60 to 78 in 2024
- Decline in children & teens due to falling fertility rates & declining childbearing female population
- Small decline in 85+ from 2020 to 2024 was from 2020 to 2022 (excess deaths)

PA Labor Force Participation Rates

Age Group	Years					
	2018	2019	2020	2021	2022	2023
Total (16+)	62.6%	63.2%	62.1%	61.3%	61.7%	62.2%
Total (16-74)	68.4%	68.8%	67.9%	67.3%	67.6%	68.4%
16-24	58.5%	60.7%	61.3%	61.4%	58.0%	59.7%
25-54	84.0%	83.8%	83.4%	82.7%	83.4%	83.9%
55-64	66.3%	67.6%	66.7%	66.1%	65.9%	66.9%
65-74	27.1%	27.9%	26.7%	25.9%	26.7%	27.0%

Notes: Total (16-74) and 65-74 are estimates by the IFO based on U.S. participation rates for age groups and Pennsylvania's population levels above age 65. Source: U.S. BLS Local Area Unemployment Statistics and U.S. Labor Force Statistics from the Current Population Survey.

Notes

- Total (16+) is the usual LFPR cited, but denominator includes all non-institutionalized residents age 16+, including residents age 75+ unlikely to be in labor market in large numbers
- As PA experiences rapid growth in the 75+ population, an adjusted Total LFPR of age 16 to 74 likely a better measure
- Blue shading impacted by pandemic

PA Economic Forecast: January 2024

	2020	2021	2022	2023	2024	2025
Real GDP	-4.7%	3.8%	1.0%	2.1%	0.9%	1.3%
Wages-Salaries	-1.0%	7.3%	7.7%	4.9%	3.6%	3.8%
Change Payroll Jobs (000s)	-461	155	227	110	25	31
Philadelphia CPI-U	0.9%	4.0%	7.9%	4.4%	3.1%	2.4%

Notes: Blue shading is an estimate (some data available) or projection (no data available) by the IFO.

Notes

- Real GDP (adjusts for inflation) expected to decelerate, but still positive
- PIT Withholding slowing returning to non-inflation era growth
- Payroll jobs for 2023 recently adjusted downward as more complete administrative data became available
- Inflation decelerating, but still above the Fed target rate of 2.0%

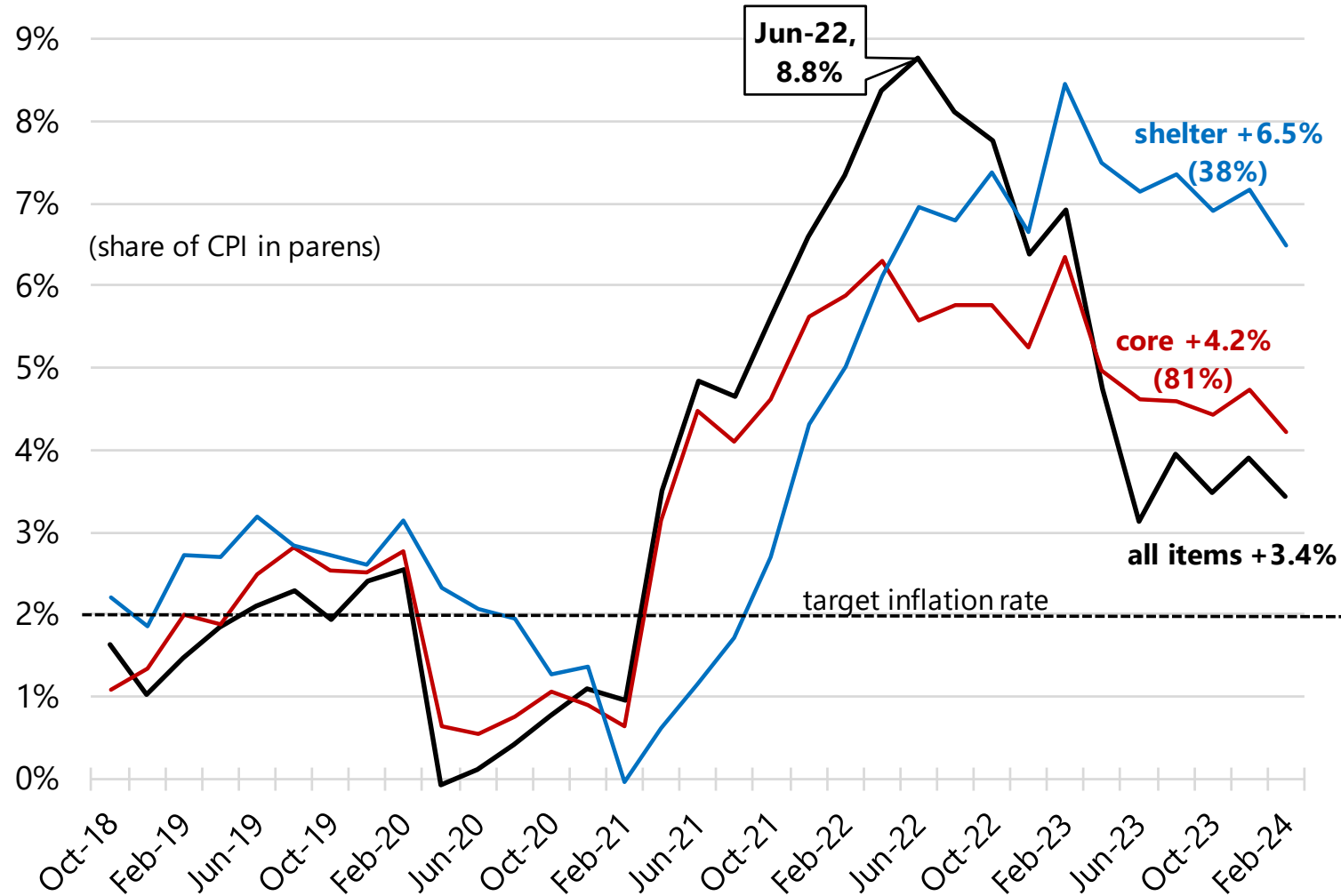
Latest PA Economic Trends

	2023.1	2023.2	2023.3	2023.4	2024.1
<u>Macroeconomics</u>					
Real GDP	0.8%	2.3%	5.6%	3.8%	--
Wages and Salaries	6.4%	5.1%	4.6%	6.0%	4.7%
Philadelphia CPI-U	6.9%	3.9%	3.9%	3.7%	3.4%
<u>Housing Market</u>					
FHFA Home Value Index	5.1%	5.3%	7.9%	6.9%	--
RedFin Home Sales	-21.6%	-18.8%	-18.1%	-5.5%	-1.1%
30-Yr Mortgage Rate	6.4%	6.5%	7.0%	7.3%	6.7%
<u>Labor Market</u>					
Unemployment Rate	3.7%	3.3%	3.3%	3.4%	3.4%
Change Payroll Jobs (000s)	140	104	81	85	65
Change All Jobs (000s)	86	82	97	96	70
<p>Note: Figures are year-over-year growth rates, except Real GDP (quarterly annualized) and Unemployment Rate (average rate for quarter). All Jobs include self-employed.</p>					

Notes

- Wages and Salaries 2024.1 estimated based on personal income tax withholding collections
- RedFin Home Sales 2024.1 is based on Jan. and Feb. data
- Change Payroll Jobs and All Jobs 2024.1 are based on Jan. and Feb. (prelim.) data

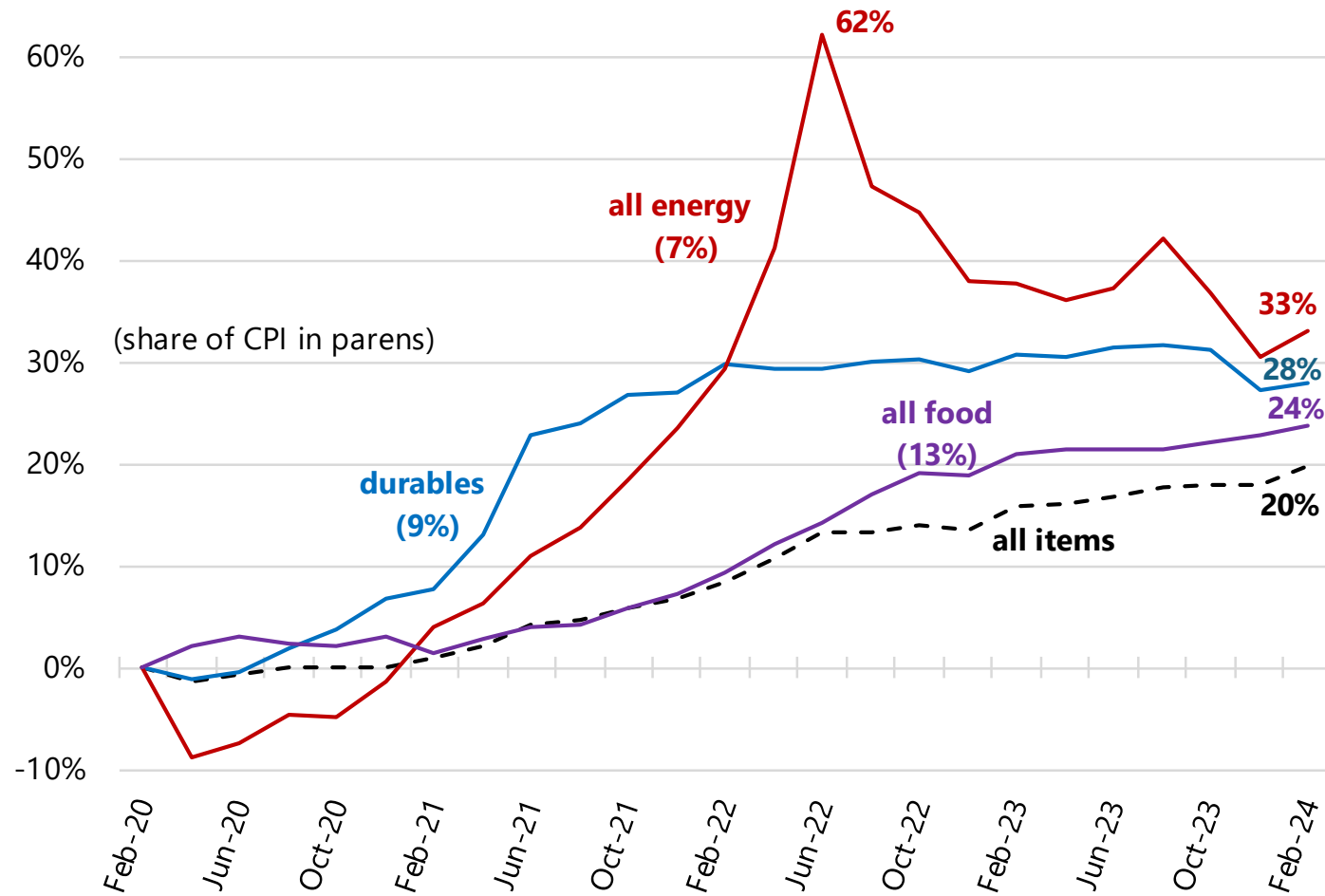
Annual Growth in Philadelphia CPI-U



Notes

- Peaks June 2022 at 8.8%
- Core excludes food and energy
- Shelter, a large (38%) component of CPI-U, continues to run very high
- Inflation to remain elevated in 2024 due to:
 - (1) lagging shelter component
 - (2) no more energy and durable goods deflation (more on next slide)

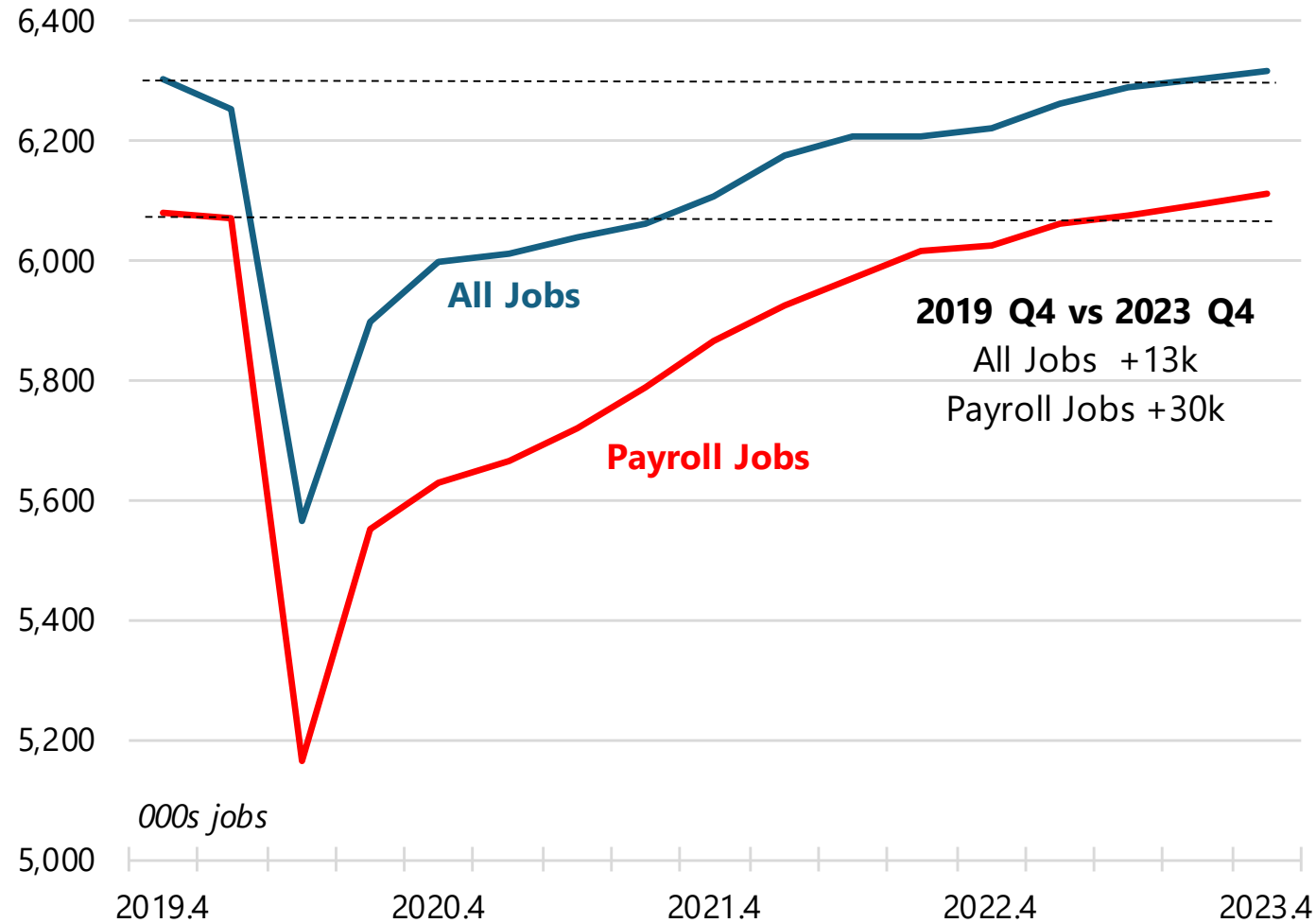
Cumulative Growth in Philadelphia CPI-U



Notes

- Energy deflation since June 2022, but February had a slight increase
- Durable goods prices increased rapidly in 2021 and remained elevated, but relatively stable since early 2022
- Food continues to increase, but more gradually compared to 2021

PA Jobs Revert to Pre-Covid Levels

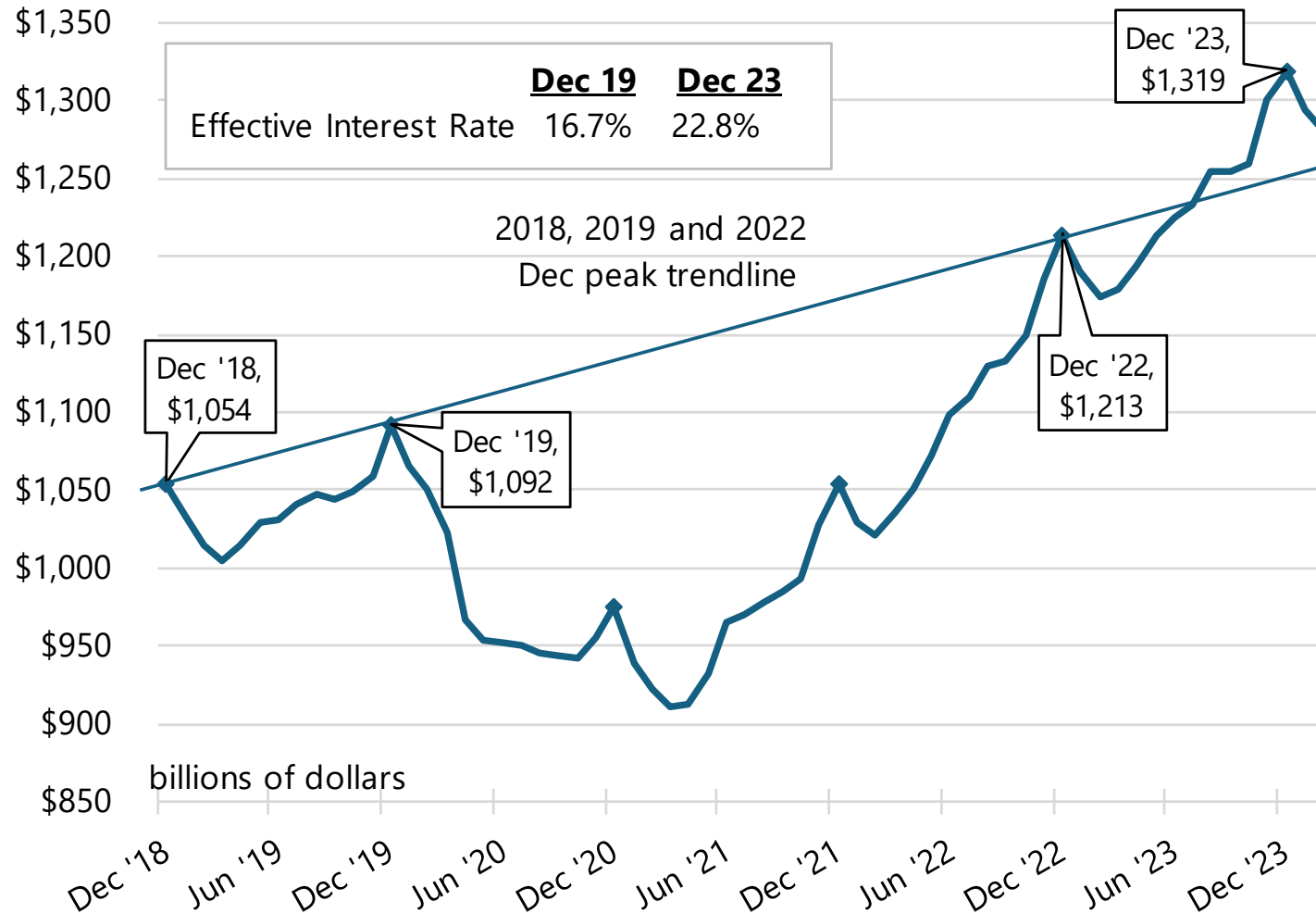


Source: U.S. Bureau of Labor Statistics.

Notes

- All jobs based on survey data and include self-employed; A person with multiple jobs is counted once
- Payroll jobs are based on administrative data and exclude self-employed but count two part-time jobs by one person as two jobs
- By 2023.4, both measures are close to where they were in 2019.4

U.S. Credit Card Debt Over Time

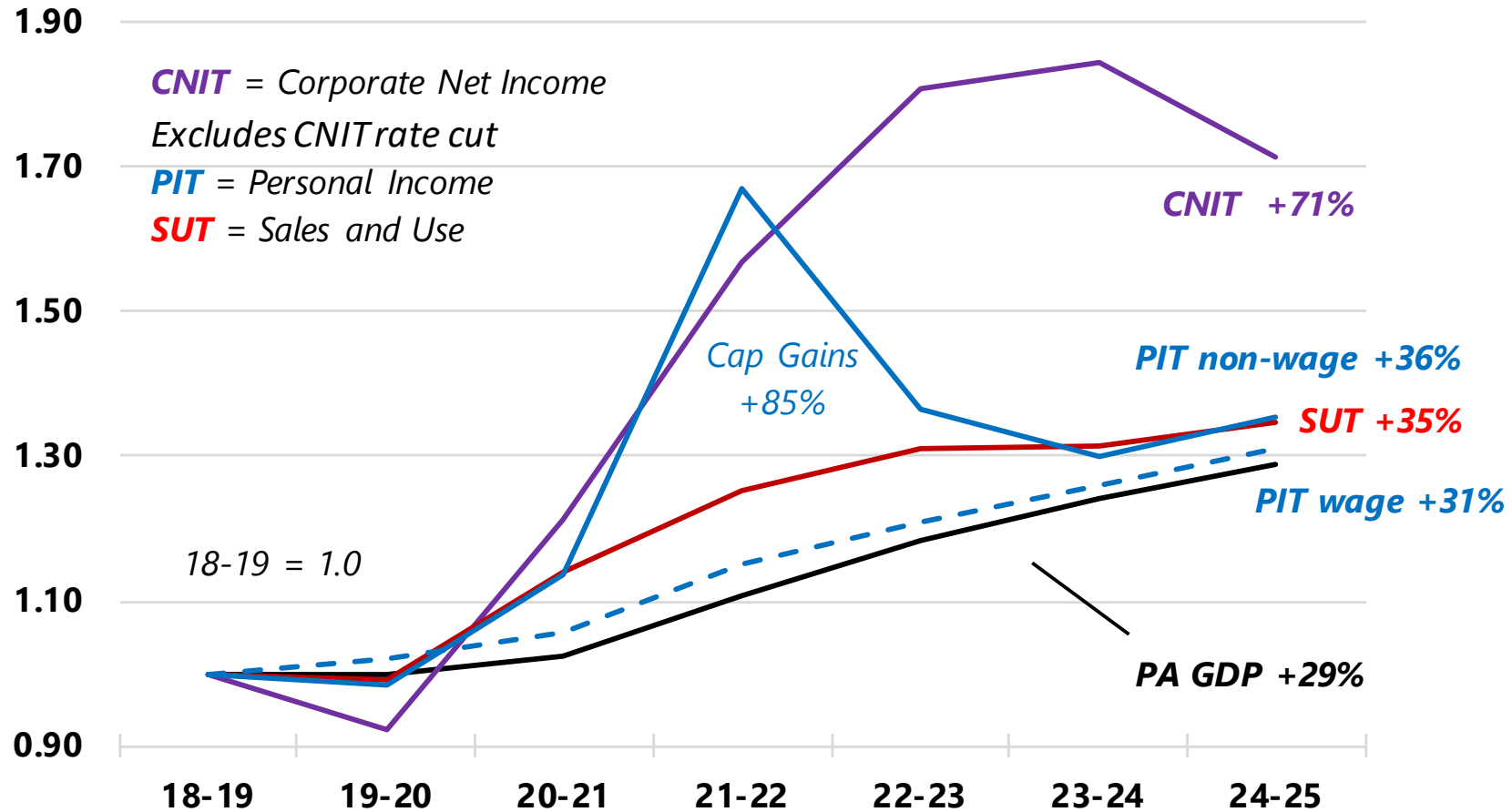


Source: U.S. Federal Reserve.

Notes

- Credit card debt currently above trend
- Typically grows by \$40 billion (roughly 3.6%) per annum
- 2023 grows ~\$100 billion (8.7% over 2022)
- Dec 19 to Dec 23: balances up +21%, roughly same as inflation
- Roughly 3.8% of Dec 18 and Dec 19 debt was paid off in following Jan/Feb; In Dec 23, only 2.9% was paid off in following Jan/Feb

Strong Revenue Growth During Pandemic



Notes

- GDP is growth of overall PA economy
- Corporate profits surge
- Capital gains surge in 2021
- Sales tax continues to hold up well

Latest General Fund Revenue Forecast

	FY 2023-24		FY 2024-25	
	Amount	\$ Change	Amount	\$ Change
General Fund Revenues	\$45,028	\$449	\$45,278	\$251
Corporate Net Income	5,668	-475	5,067	-601
Sales - Non-Motor	12,737	97	13,052	315
Sales - Motor Vehicle	1,358	-26	1,387	29
Pers Inc – Withholding	13,156	512	13,684	529
Pers Inc – Other	4,743	-241	4,949	206
Inheritance	1,548	23	1,548	0
All Tobacco	838	-88	776	-62
Realty Transfer	543	-101	604	61
Treasury Interest	791	339	525	-266
All Other	3,646	409	4,211	40

Note: Amounts in \$ millions. IFO forecasts from January 2024. \$ Change is change from prior year.

Notes

- FY 24-25 growth is 0.6%, but 2.9% if Corp Net Income and Treasury excluded
- CNI: Rate falls from 9.99% to 8.99% (2023); 8.49% (2024); and 7.99% (2025)
- Realty Transfer: Massive lock-in effect for 2023-24
- Treasury balances earn ~5.25%

Sales-Use Tax and Consumer Recent Trends

	YOY Growth Rate			
	2023.2	2023.3	2023.4	2024.1
Sales and Use Tax				
Non-Motor Vehicle	1.7%	1.8%	0.3%	4.5%
Motor Vehicle	-0.1%	-3.0%	-1.0%	-5.5%
Consumer Debt				
PA Auto Loans	3.3%	3.5%	3.8%	--
PA Credit Cards	13.2%	14.2%	12.0%	--
US Credit Cards	11.4%	10.7%	8.8%	7.6%
Wealth Metrics				
PA Home Value Index	5.3%	7.9%	6.9%	--
S&P 500 Index	17.6%	19.6%	24.5%	27.9%
US Check-Savings Balance	-3.4%	-2.6%	0.0%	--
Sources: Federal Reserve Bank of New York and FHFA.				

Notes

- Sales tax continues to surprise to upside
- Heavy credit card spending, but manageable
- Stock market and home values drive spending

Long-term Projections: Large Structural Deficits

	Fiscal Year						Avg Ann Growth	
	23-24	24-25	25-26	26-27	27-28	28-29	24-25	25-29
<u>Executive Budget</u>								
Net Revenues	\$44.3	\$45.1	\$46.5	\$47.9	\$48.9	\$50.1	1.8%	2.7%
Expend. (w/policy)	<u>44.6</u>	<u>48.3</u>	<u>49.9</u>	<u>50.9</u>	<u>51.6</u>	<u>52.3</u>	8.4%	2.0%
Current Year Deficit	-0.3	-3.2	-3.4	-3.0	-2.7	-2.2		
<u>Independent Fiscal Office</u>								
Net Revenues	\$44.1	\$44.1	\$44.8	\$46.1	\$47.2	\$48.5	0.1%	2.4%
Expend. (w/FY 24-25 policy)	<u>44.6</u>	<u>48.3</u>	<u>50.3</u>	<u>51.9</u>	<u>53.6</u>	<u>55.2</u>	8.4%	3.4%
Current Year Deficit	-0.5	-4.2	-5.4	-5.9	-6.4	-6.7		
General Fund Balance	6.9	2.4	--	--	--	--		
Rainy Day Fund Balance	7.0	7.4	4.5	--	--	--		
Note: Amounts in \$ billions. General and Rainy Day Fund Balances are projections based on IFO revenues and expenditures. Balances are end of fiscal year.								

Education: Flat Funding vs Inflation Growth

	Dollar Amounts (\$ millions)			Avg. Annual Growth		
	Prelim	EB	EB	EB	EB	IFO
	23-24	24-25	28-29	24-25	FYE 25-29	FYE 25-29
Expenditures	\$44,610	\$48,338	\$52,300	8.4%	2.0%	3.4%
Less: New Programs		-656	-916			
Less: MLF Spend Shift		<u>-125</u>	<u>-375</u>			
Adj. Expenditures	44,610	47,558	51,010	6.6%	1.8%	3.4%
<u>Program Detail</u>						
Basic Education	7,992	8,944	8,944	11.9%	0.0%	2.3%
Special Education	1,387	1,437	1,437	3.6%	0.0%	3.3%
County Child Welfare	1,493	1,495	1,495	0.1%	0.0%	2.8%
MA & LTL	11,307	11,799	13,355	4.4%	3.1%	5.0%
Intellectual Disabilities	2,765	3,157	3,741	14.2%	4.3%	4.1%
GO Debt Service	1,175	1,237	1,625	5.3%	7.1%	2.8%
All Other Programs	<u>18,491</u>	<u>19,488</u>	<u>20,412</u>	<u>5.4%</u>	<u>1.2%</u>	<u>2.7%</u>
Total Expenditures	44,610	47,558	51,010	6.6%	1.8%	3.4%

Notes: FYE is fiscal year ending; MA is medical assistance; LTL is long-term living; GO is general obligation and MLF is Motor License Fund. New Programs include programs that were not included in the prior budget year.

Notes

- EB FYE 25-29 growth low due to flat-funding of education
- A standard convention for certain discretionary spend programs
- IFO projections allow growth for (1) inflation to maintain real purchasing power and (2) demographics (e.g., programs for older residents)
- New Programs were line items not included in prior budget

Major Administration Initiatives

Revenues	IFO Estimate	Spending	Exec Bud Amount
Tax Skill Games	\$380	Basic Education Funding	\$1,072
Minimum Wage Increase	\$75	School Environmental Repairs	\$300
Tax Adult Use Cannabis	\$260	School Safety and Security (Mental Health)	\$100
Transfer to PTF	(\$283)	PASSHE & Community Colleges	\$127
		PHEAA Student and Family Affordability (FY25-26)	\$279
		Intellectual Disabilities-Community Waiver	\$249
		Fund State Police from General Fund (full phase in)	\$375

Notes: Amounts in \$ millions. Revenue proposals at full implementation. PTF is Public Transportation Trust Fund. State Police Funding Initiative shifts funding from Motor License to General Fund.

Notes

- Revenue proposal estimates from IFO
- Shows full phase in impact which takes 2-3 years

Questions?

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