

# Economic Forecast and Business Leadership Summit

February 2024

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# Good Afternoon. On Today's Agenda....

## PA Economy

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What happened to that recession?

March 2020, economy shuts down. What changed?

What do you expect this year?

## Some Caveats

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Data quality has deteriorated. Lower response rates. Larger revisions.

Some data that track same metric tell different stories (e.g., jobs)

## 3 Bold Predictions

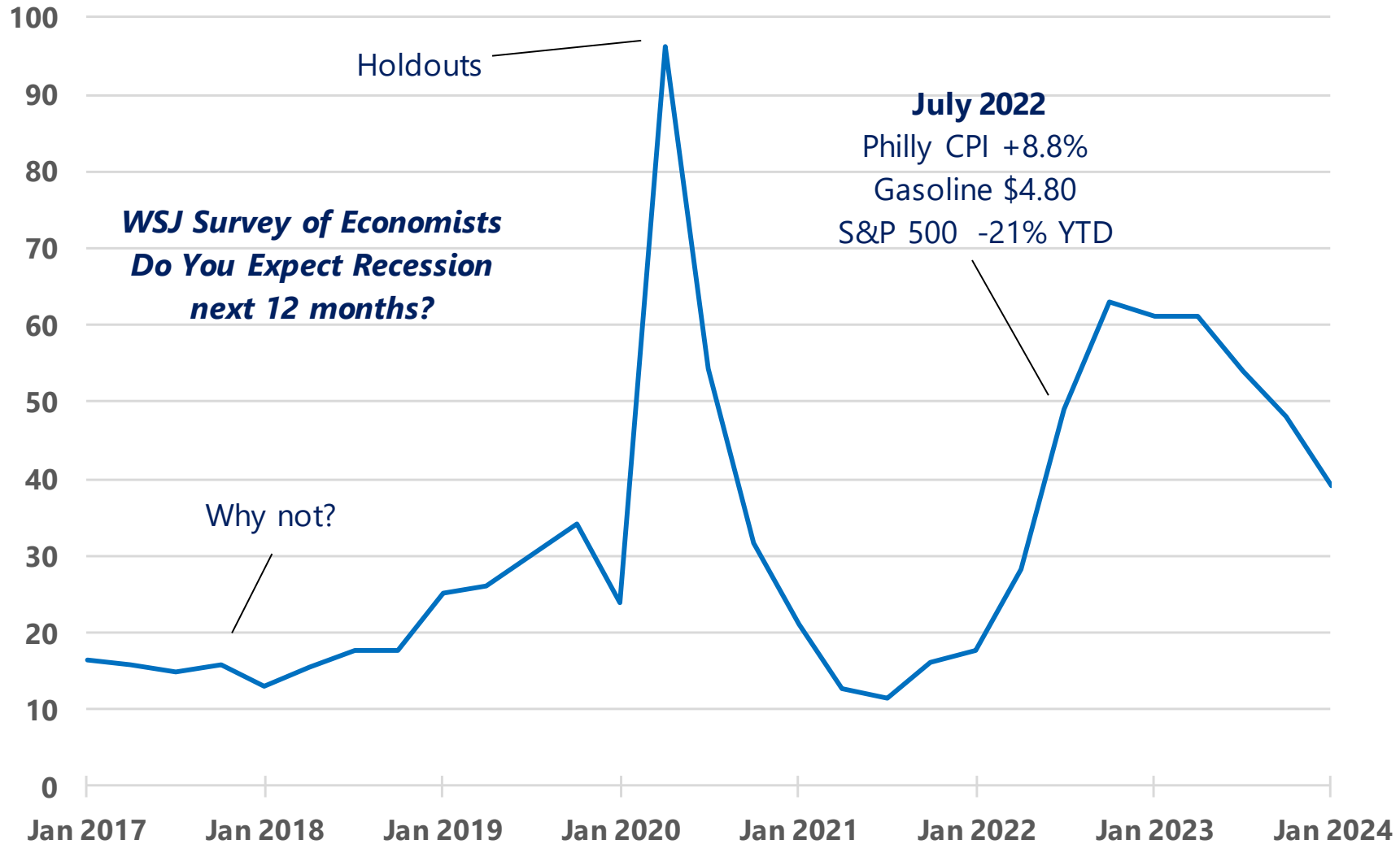
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Rapid PA labor market slowdown

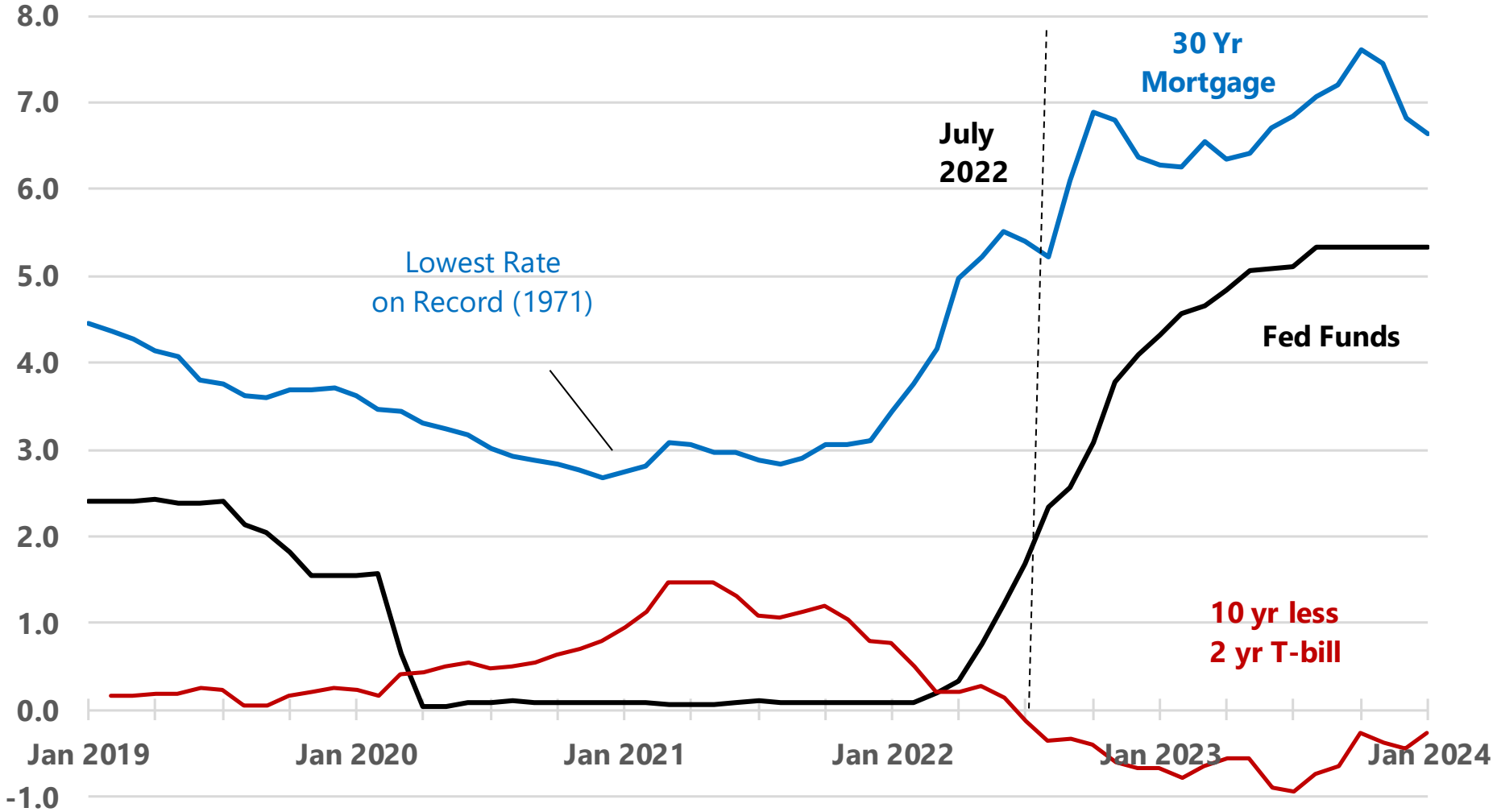
Inflation sticks around (Philly CPI-U)

A pause in Corporate Profits

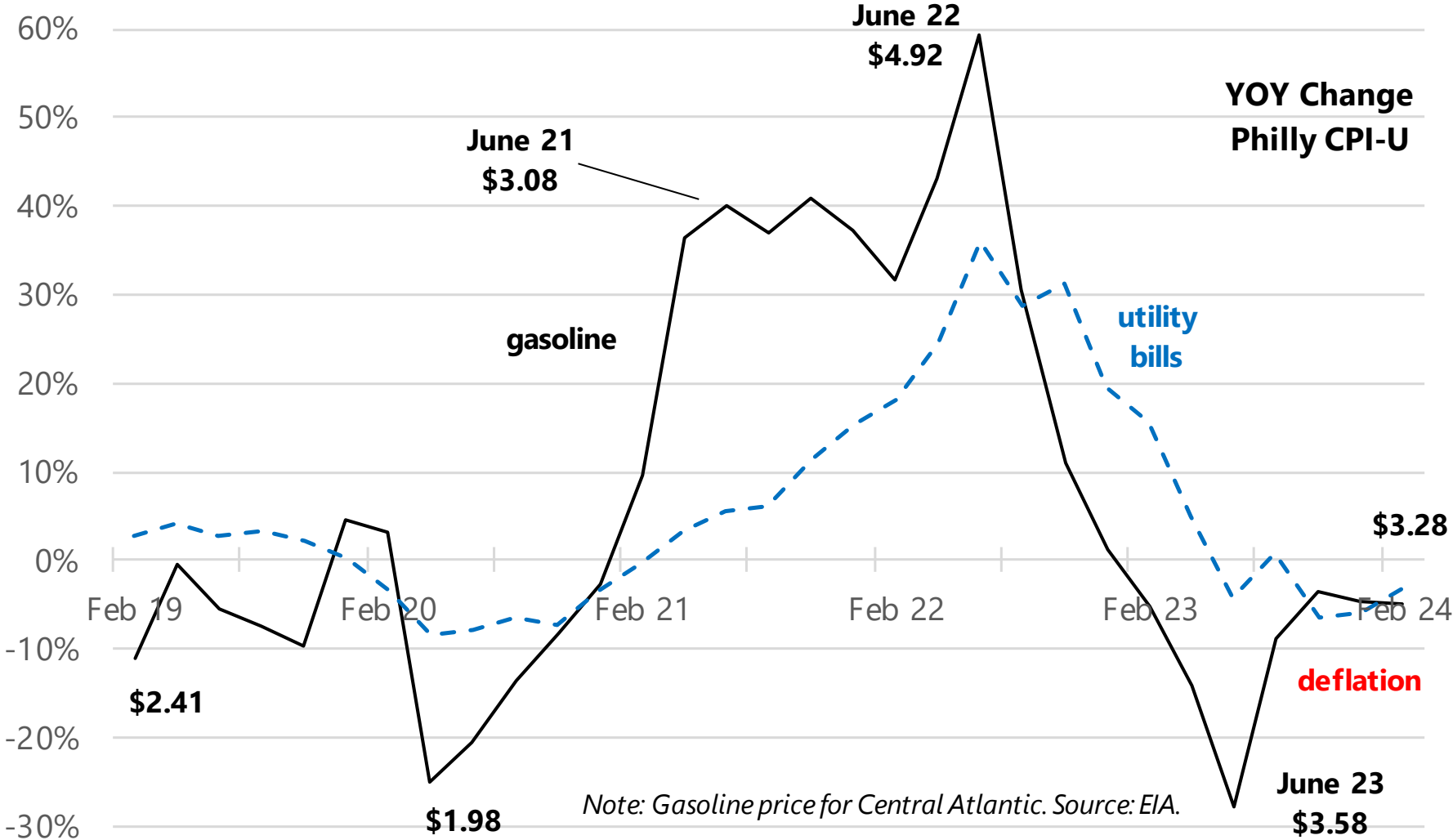
# “We Never Forecasted a Recession...”



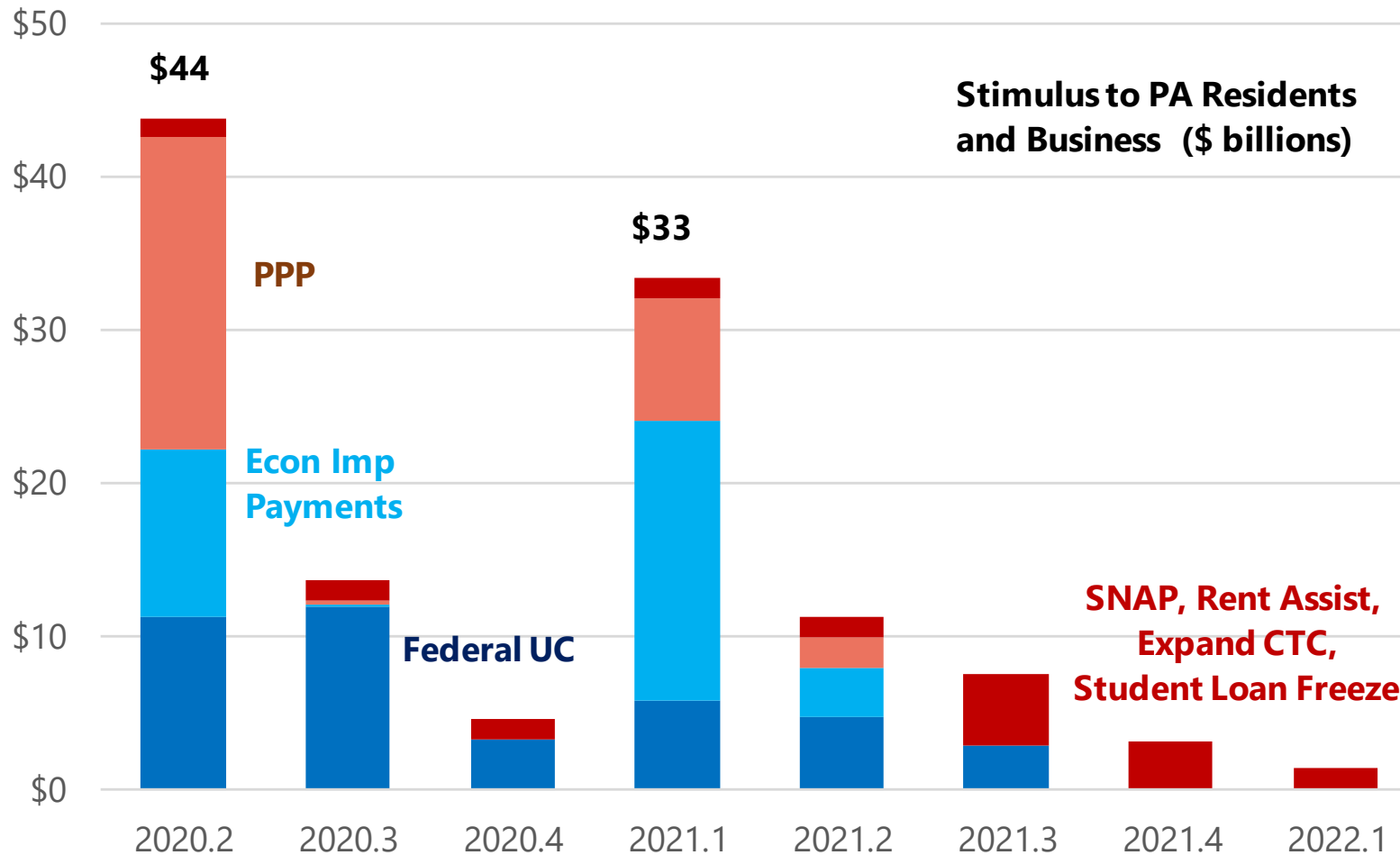
# Three Interest Rates Tell the Story



# An Energy Price Spike Too...



# Two Federal Stimulus Tsunamis Subside....



## PA Sales Tax Growth

2019	5.1%
2020	0.5%
2021	16.2%
2022	7.0%
2023	1.7%

## US Check-Save Balances

2019	4.8%
2020	23.2%
2021	11.7%
2022	-2.6%
2023	-2.0%

Note: US Data for Q4.  
Sources: FRB and FDIC.

# March 13, 2020: Pandemic Starts...

## Jobs and Workers

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1.1 million worker contraction April 2020; UE Rate goes to 16.2%

Was there a permanent exodus from Labor Force? (No.)

What industries added jobs over last 4 years?

## Inflation

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Inflated assets: homes and stocks

Most impacts permanent, but some deflation (durable goods, energy)

Home Price Inflation + Low Interest Rates

## Real Earnings

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Inflation creates winners and losers

Clear winners: homeowners, especially refinancers

How about wage earners?

# All Jobs Now Recovered, Thank You Boomers...

## Payroll Jobs (no self-employed)

2019 Q4 to 2023 Q4

**+24,000 Total (+0.4%)**  
+23,000 Services for Elderly-Disabled  
+1,000 All Other

## Workers Age 65+ (Boomers)

2019 Q2 to 2023 Q2

**Number Employed +17.1%**  
Change: Employment / Pop Ratio +1.7%  
Change: Share of Workforce +1.1%

## Workers Age 45-64 (Gen X)

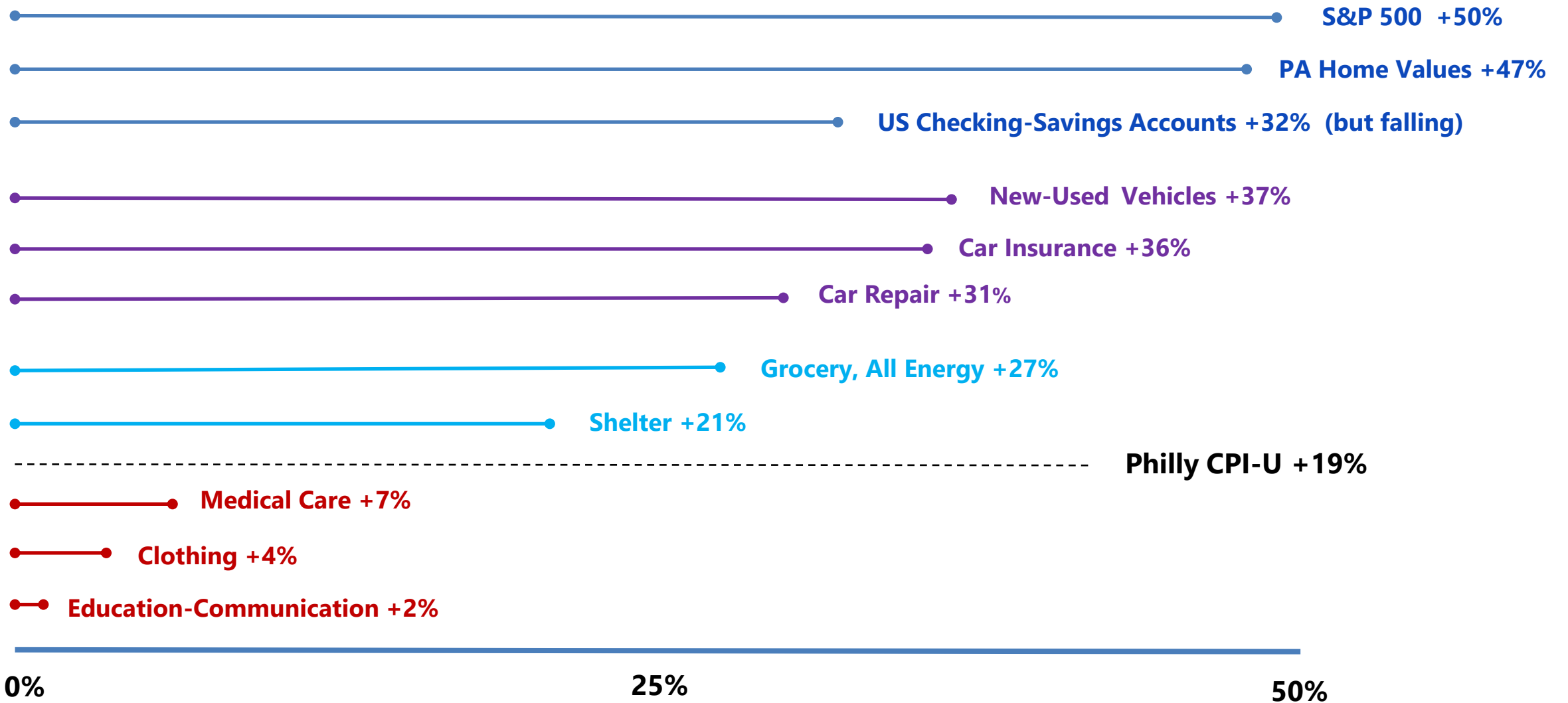
2019 Q2 to 2023 Q2

**Number Employed -3.8%**  
Change: Employment / Pop Ratio +1.5%  
Change: Share of Workforce -1.9%

Note: Services for Elderly-Disabled include Nursing Homes (-17k), Home Health Care (+9k) and Social Assistance, Elderly-Disabled (+31k). Age data span from 2019 Q2 to 2023 Q2 (latest data). Employment / Population ratio assumes all workers are age 65 to 74. However, a small share of workers in this age category are 75+. Sources: US Bureau of Labor Statistics and US Census Quarterly Workforce Indicators.



# Inflation Impact on Wealth and Prices: Dec 2019 to Dec 2023



0%

25%

50%

# Home Price Inflation + Very Low Rates = Large Cash Outs

## US Mortgage Originations



7.0 million	2015-19	baseline
13.7 million	2020-21	2.0x
4.3 million	2023	0.6x

## PA Data



2020 and 2021

Avg Annual Savings Refis	\$2,700
Total Annual Savings	\$1.1 billion
Avg U.S. Equity Cash Out	\$77,000
PA Annual Equity Cash Out	<b>\$10-\$12 billion</b> <b>3-4x baseline level</b>

### Rates on Existing Mortgages (2023)

<3%	23%
3-4%	38%
4-5%	20%
5-6%	10%
>6%	9%

Current Rate 6.8%

Sources: Freddie Mac, Black Knight Mortgage Monitor.

# Are PA Workers Better Off? Look at Real Earnings....

## The Simple Approach

2019 to 2023

All PA Wages Paid	+21%
Philly CPI-U	+19%
All Jobs	~0%

## Data Source 1

Average Hourly Earnings  
(counts all jobs, new workers)

2019 to 2023

<b>All Workers</b>	<b>+0.1%</b>
Leisure-Hospitality	+9.7%
Manufacturing	+2.9%
Retail-Wholesale	-2.0%

## Data Source 2

Average Monthly Earnings (Stable)  
(must have worked in prior quarter)

2019 Q1 to 2023 Q1

<b>All Workers</b>	<b>+2.4%</b>
Leisure-Hospitality	+8.7%
Manufacturing	-1.4%
Retail-Wholesale	+3.5%

Note: Both Earnings measures are converted to real amounts using the Philadelphia CPI-U based on the methodology used by the U.S. Bureau of Labor Statistics. Data Source 1 is U.S. Bureau of Labor Statistics. Data Source 2 is U.S. Census Quarterly Workforce Indicators.

# Now to the Prognostication...

## Jobs

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Large downward revision to PA jobs; rapid jobs slowdown

UE Rate begins to tick up from historic lows

## Inflation Sticks

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Energy and durable goods deflation ends

Medical Care inflation starts to rise

Housing inflation remains elevated due to pent up demand

## Corporate Profits

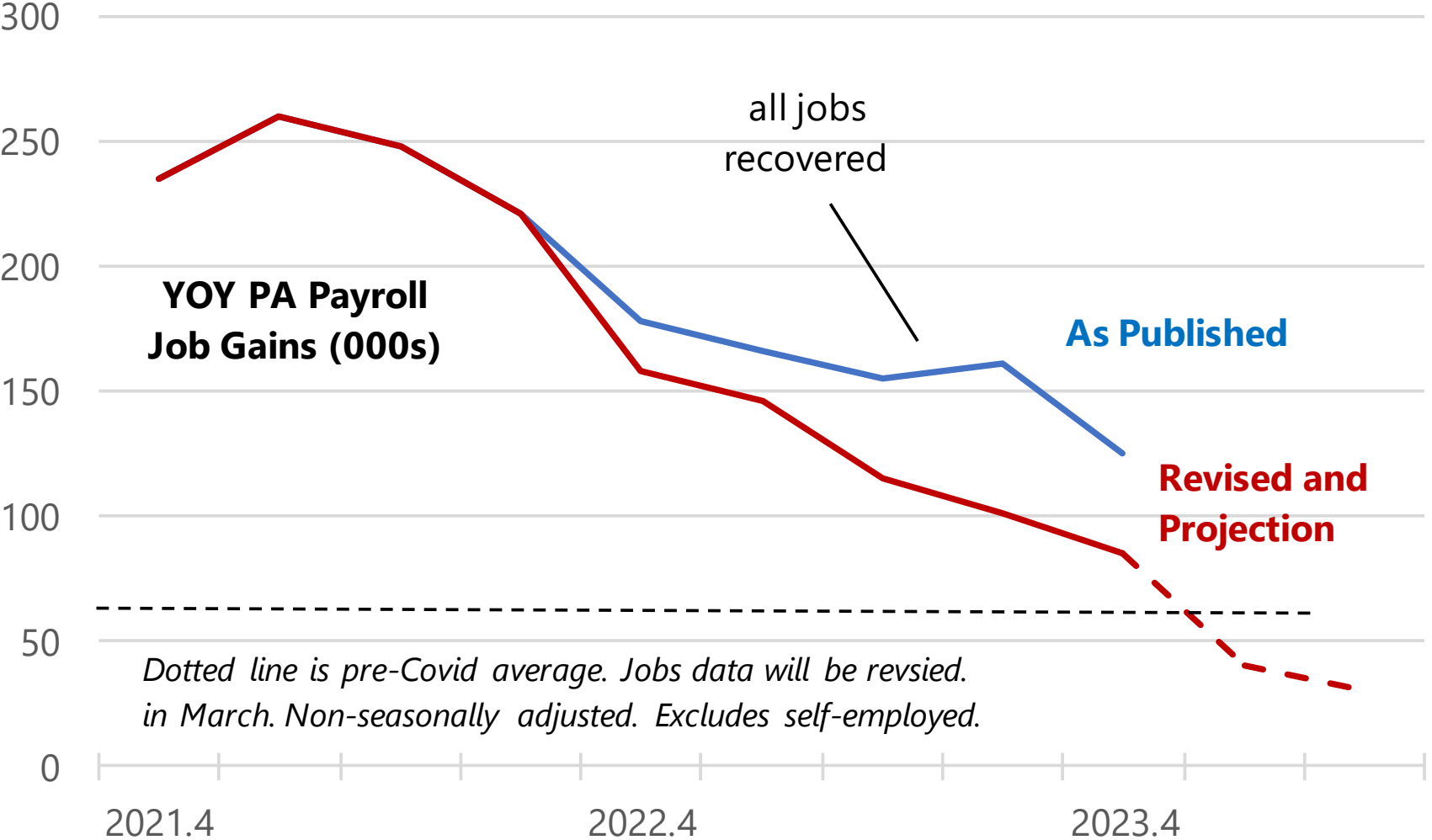
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At historically high share of economy

Inflation pads bottom lines, profit margins

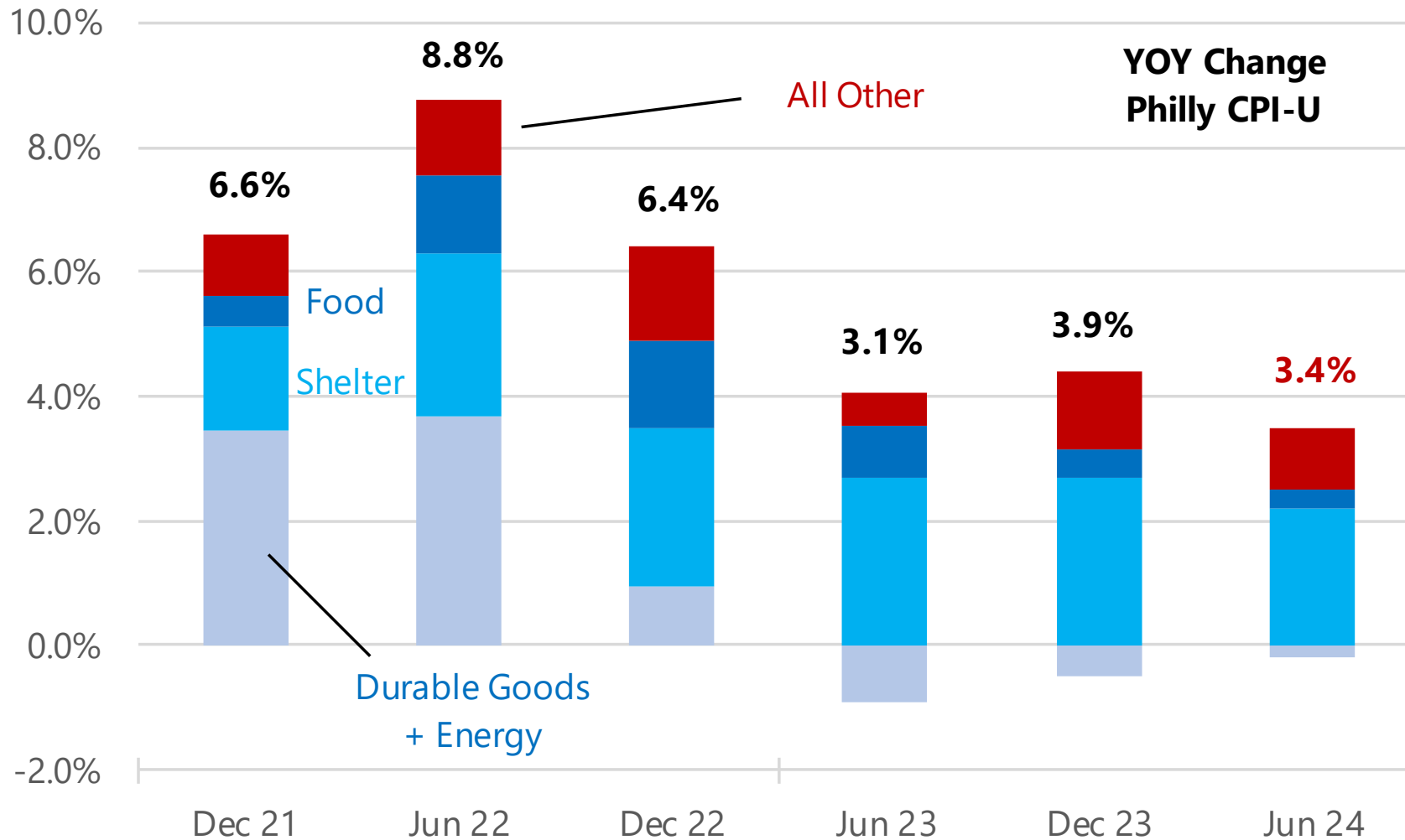
Consumer spending bump dissipates

# Notable Slow Down in PA Labor Market



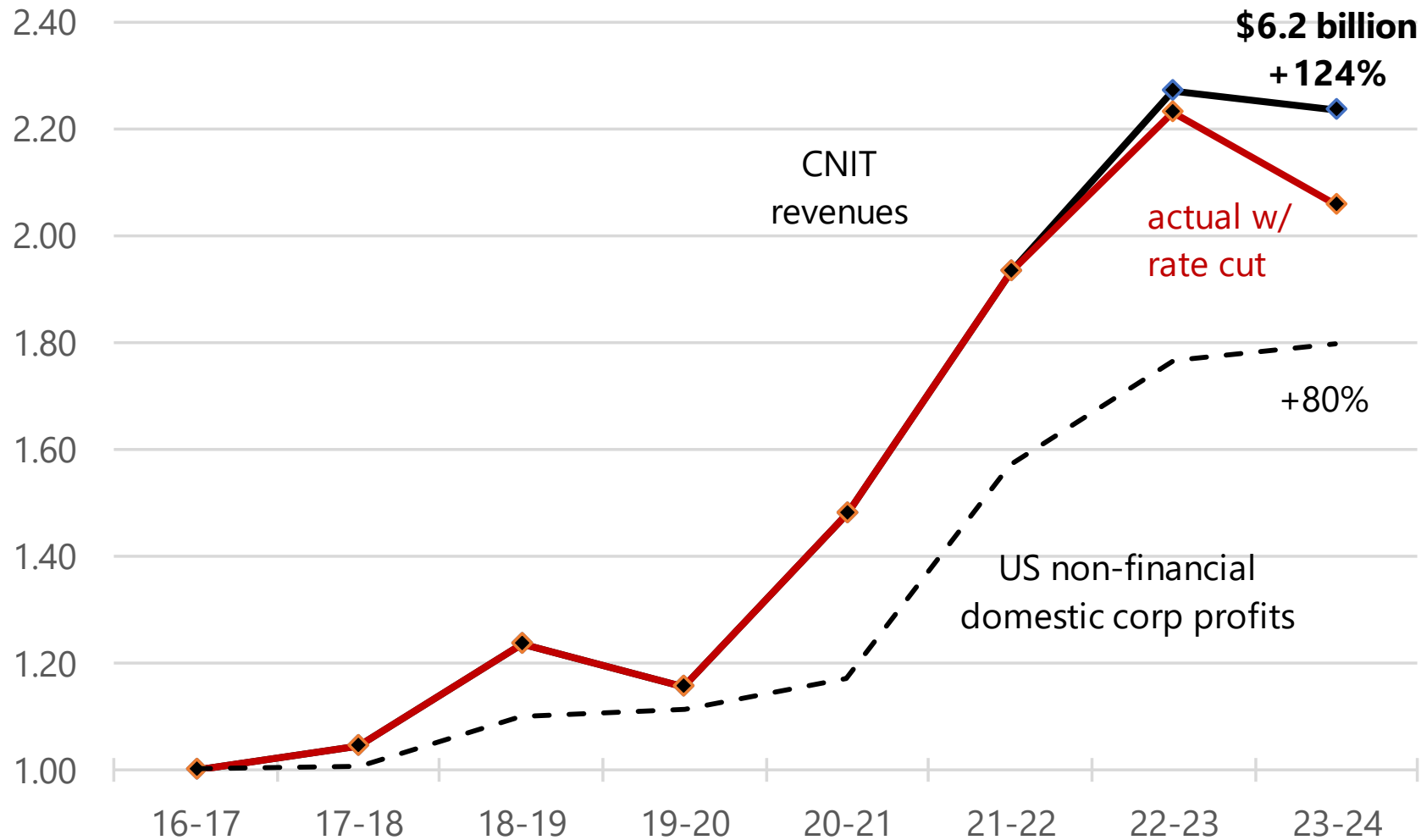
- Very high rate of recent jobs creation
- Depletion of excess savings, delayed interest rate impact
- Real-time: withholding tax revenues decelerate
- YTD New UI Claims up +14% YOY, but remain relatively low

# Sticky Philly CPI-U



- Fed: Will “last mile” of inflation be harder?
- Durable Goods + Energy were main drivers
- Recent disinflation in both largely played out
- Shelter (38% of total) lags, based on rent prices
- Medical Care to increase, has been subdued

## PA Profits (CNIT) Reversion



- Corporate Net Income Tax (CNIT) up 124% since 16-17
- Larger share of extra consumer spending falls to bottom line (i.e., higher margins)
- Non-traditional financing tapped (BNPL)?
- Lower-income credit cards now maxed out

# Questions?

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