

Pennsylvania
Economic and
Budget Outlook

FISCAL YEARS 2023-24 TO 2028-29

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Annual Five-Year Economic and Budget Outlook

- Report and presentation will be posted to IFO website at conclusion.
- Questions will be addressed at end of presentation. Please use chat feature to submit.
- More detailed questions can be submitted to contact@ifo.state.pa.us.
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Main Themes

Demographics

- Retirement wave is largely done
- Attention shifts to age 75+ and long-term care

Economics

- Not a forecast, a controlled simulation | PA economy reverts to long-term growth

Revenues

- Corporate profits still at very high levels, but reversion expected
- Treasury collections surge to \$680 million in FY 2023-24

Expenditures

- New wage contracts built in (effective July 2023)
- Expiring FMAP (+) and MA disenrollment savings (-)
- Strong growth in Long-Term Living

PA Demographic Trends and Projections

Age	Number Residents (000s)			Change 2020-25		Change 2025-30	
	2020	2025	2030	Number	Percent	Number	Percent
0 to 19	3,035	2,937	2,833	-98	-3.2%	-103	-3.5%
20 to 64	7,522	7,326	7,203	-196	-2.6%	-123	-1.7%
65 to 79	1,831	2,076	2,146	245	13.4%	70	3.4%
80+	<u>606</u>	<u>656</u>	<u>792</u>	<u>50</u>	<u>8.2%</u>	<u>137</u>	<u>20.8%</u>
Total	12,994	12,995	12,974	0	0.0%	-21	-0.2%

Source: U.S. Census Bureau. Estimates and projections by the IFO.

PA Older Adult Population

Age	Number Residents (000s)			Change 2020-25		Change 2025-30	
	2020	2025	2030	Number	Percent	Number	Percent
55 to 64	1,826	1,669	1,483	-157	-8.6%	-186	-11.1%
65 to 74	1,411	1,548	1,564	137	9.7%	16	1.0%
75 to 84	705	868	1,031	164	23.2%	163	18.7%
85+	<u>322</u>	<u>326</u>	<u>372</u>	<u>5</u>	<u>1.5%</u>	<u>45</u>	<u>13.8%</u>
Total	4,263	4,412	4,450	148	3.5%	38	0.9%

Source: U.S. Census Bureau. Estimates and projections by the IFO.

Pennsylvania Economic Forecasts

	COVID			Revert		Long-Term	
	2021	2022	2023	2024	2025	2026	2027
Real GDP	4.4%	2.1%	2.6%	0.5%	1.3%	1.6%	1.7%
Philadelphia CPI-U	4.0%	7.9%	4.1%	3.1%	2.5%	2.3%	2.3%
Wages and Salaries	7.3%	7.7%	5.0%	3.3%	3.7%	3.9%	3.9%
Payroll Jobs (000s)	155	227	145	15	31	37	37
U.S. Corporate Profits	28.7%	12.6%	10.1%	0.0%	-6.1%	-2.6%	0.4%

Note: Payroll Jobs exclude self-employed and independent contractors. U.S. Domestic Corporate Profits forecast from S&P Global. Forecast made November 2023. Includes banks and insurers.
Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics and S&P Global.

Recent Pennsylvania Economic Trends

	2022.4	2023.1	2023.2	2023.3
Macroeconomics				
Real GDP	3.2%	1.9%	--	--
Wages and Salaries	4.9%	6.6%	6.2%	5.5%
CPI-U – All Items	7.1%	6.9%	3.9%	3.9%
RedFin Home Sales	-24.5%	-20.1%	-17.6%	-17.5%
Labor Market				
Unemployment Rate	4.4%	4.3%	4.0%	3.5%
Change Payroll Jobs (000s)	189	172	155	148
Change All Jobs (000s)	95	44	41	74
Labor Force Participation Rate	61.7%	61.9%	62.0%	61.9%
<p>Note: Growth rates are year-over-year except Real GDP, which is quarterly annualized. Jobs change is change from prior year. Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FHFA and RedFin.</p>				

General Fund Revenues

Fiscal Year	23-24	24-25	25-26	26-27	27-28	28-29
Personal Income	\$18,294	\$19,030	\$19,812	\$20,789	\$21,531	\$22,425
Sales and Use	\$14,059	\$14,397	\$14,830	\$15,256	\$15,691	\$16,120
Corporate Net Income	\$5,540	\$5,139	\$4,767	\$4,572	\$4,439	\$4,292
Treasury Collections	\$678	\$561	\$323	\$207	\$75	\$75
All Other	<u>\$6,619</u>	<u>\$6,685</u>	<u>\$6,824</u>	<u>\$7,013</u>	<u>\$7,231</u>	<u>\$7,366</u>
Total Revenue	\$45,190	\$45,813	\$46,556	\$47,838	\$48,966	\$50,278
Growth Rate	0.6%	1.4%	1.6%	2.8%	2.4%	2.7%
Note: Millions of dollars.						

General Fund Revenues

Fiscal Year	23-24	24-25	25-26	26-27	27-28	28-29
Personal Income	3.8%	4.0%	4.1%	4.9%	3.6%	4.2%
Sales and Use	0.2%	2.4%	3.0%	2.9%	2.8%	2.7%
Corporate Income (CNIT)	-9.8%	-7.2%	-7.2%	-4.1%	-2.9%	-3.3%
Treasury Collections	50.0%	-17.3%	-42.4%	-35.9%	-63.8%	0.0%
All Other	<u>-0.8%</u>	<u>1.0%</u>	<u>2.1%</u>	<u>2.8%</u>	<u>3.1%</u>	<u>1.9%</u>
Total Revenue	0.6%	1.4%	1.6%	2.8%	2.4%	2.7%
Less CNIT and Treasury	1.7%	2.9%	3.4%	3.8%	3.2%	3.3%

Note: Millions of dollars.

Corporate Net Income Tax Rate Reduction

Fiscal Year	22-23	23-24	24-25	25-26	26-27	27-28	28-29
Revenues: Pre-Tax Cut	\$6,253	\$6,020	\$5,819	\$5,687	\$5,782	\$5,949	\$6,152
Growth Rate	17.5%	-3.7%	-3.3%	-2.3%	1.7%	2.9%	3.4%
Act 53 Tax Cut	<u>-\$110</u>	<u>-\$480</u>	<u>-\$680</u>	<u>-\$920</u>	<u>-\$1,210</u>	<u>-\$1,510</u>	<u>-\$1,860</u>
Net Revenues	\$6,143	\$5,540	\$5,139	\$4,767	\$4,572	\$4,439	\$4,292
Growth Rate	15.4%	-9.8%	-7.2%	-7.2%	-4.1%	-2.9%	-3.3%
Tax Year	2022	2023	2024	2025	2026	2027	2028
Tax Rate	9.99%	8.99%	8.49%	7.99%	7.49%	6.99%	6.49%
Note: Millions of dollars.							

General Fund Expenditures

Fiscal Year	23-24	24-25	25-26	26-27	27-28	28-29
Total Expenditures	\$44,524	\$46,528	\$48,379	\$49,996	\$51,600	\$53,149
Growth Rate	9.1%	4.5%	4.0%	3.3%	3.2%	3.0%
Medical Assistance	15.2%	5.6%	4.3%	4.2%	3.9%	3.8%
Long-Term Living	16.8%	9.2%	7.8%	5.6%	5.3%	5.1%
Intellectual Disability	18.7%	7.7%	4.9%	4.0%	3.9%	3.7%
Exclude Above DHS Programs	\$30,532	\$31,499	\$32,477	\$33,340	\$34,195	\$34,993
Growth Rate	6.1%	3.2%	3.1%	2.7%	2.6%	2.3%

Note: Millions of dollars. Includes Fall Update spending adjustments of -\$450 million for FY 23-24.

General Fund Expenditures: Average Growth and Dollar Change

Fiscal Year	Average Annual Growth Rate					
	Total GF	PreK-12	MA	LTL	Personnel	Other
18-19 to 23-24	5.9%	5.0%	4.8%	14.8%	4.9%	4.9%
23-24 to 28-29	3.6%	2.6%	4.4%	6.6%	3.8%	2.9%
Growth Rate Change	-2.3%	-2.4%	-0.5%	-8.2%	-1.1%	-2.0%
Fiscal Year	Average Annual Dollar Change (\$ millions)					
	Total GF	PreK-12	MA	LTL	Personnel	Other
18-19 to 23-24	\$2,225	\$683	\$244	\$553	\$235	\$510
23-24 to 28-29	\$1,725	\$437	\$276	\$416	\$228	\$367
Dollar Change	-\$500	-\$246	\$32	-\$136	-\$7	-\$143

Note: Millions of dollars. Includes Fall Update spending adjustments of -\$450 million for FY 23-24.

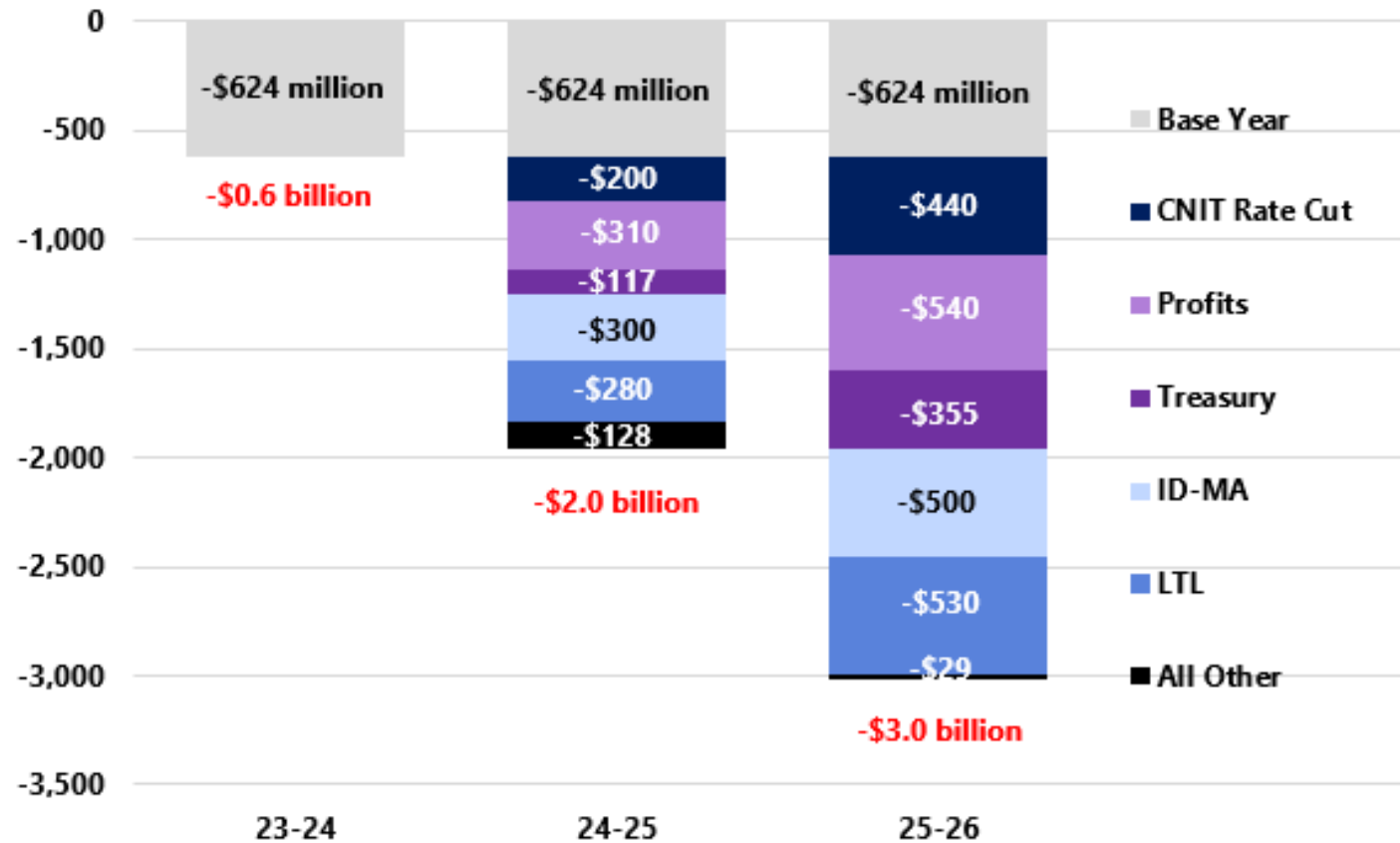
General Fund Financial Statement

	Budget	IFO Five-Year Outlook					
	23-24	23-24	24-25	25-26	26-27	27-28	28-29
Current Year Revenues ¹	\$44,766	\$45,190	\$45,813	\$46,556	\$47,838	\$48,966	\$50,278
Refund Reserve	<u>-1,495</u>	<u>-1,495</u>	<u>-1,445</u>	<u>-1,395</u>	<u>-1,345</u>	<u>-1,345</u>	<u>-1,345</u>
Net Revenue	43,386	43,695	44,368	45,161	46,493	47,621	48,933
State Expenditures	<u>-44,974</u>	<u>-44,974</u>	<u>-46,528</u>	<u>-48,379</u>	<u>-49,996</u>	<u>-51,600</u>	<u>-53,149</u>
Current Year Balance	-1,703	-1,279	-2,159	-3,218	-3,503	-3,979	-4,216
Adjustment for Lapses	205	205	200	200	200	200	200
Reduced Spending (Fall Update)	<u>450</u>	<u>450</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Prelim Ending Balance	-1,048	-624	-1,959	-3,018	-3,303	-3,779	-4,016
General Fund End Balance		7,461	5,501	2,483	0	0	0
Rainy Day Fund End Balance		6,314	6,588	6,841	6,236	2,602	-1,371

¹ FY 23-24 Budget figure deducts \$115 million anticipated transfer from cigarette tax revenues to Tobacco Settlement Fund.

Rapid Deficit Expansion Next Two Fiscal Years

Figure 6.1
Rapid Deficit Expansion Next Two Fiscal Years



Update: Deficit Contracts, Then Expands

	23-24	24-25	25-26	26-27	27-28
Nov 2022 Forecast	-\$1,532	-\$2,291	-\$3,015	-\$2,995	-\$3,121
Nov 2023 Forecast	<u>-\$624</u>	<u>-\$1,959</u>	<u>-\$3,018</u>	<u>-\$3,303</u>	<u>-\$3,779</u>
Dollar Change	\$907	\$332	-\$3	-\$308	-\$658
Note: Millions of dollars.					

- 23-24: Higher FMAP extended into 23-24 (\$473 million)
- 23-24: 2023 economy more resilient than assumed
- Long-term: lower revenue generating capacity

Update: Revenue Capacity Contracts

Net Revenue Forecasts	23-24	24-25	25-26	26-27	27-28
Nov 2022 Forecast	\$43,550	\$44,479	\$45,571	\$46,964	\$48,206
Nov 2023 Forecast	<u>\$43,695</u>	<u>\$44,368</u>	<u>\$45,161</u>	<u>\$46,493</u>	<u>\$47,621</u>
Dollar Change	145	-111	-409	-471	-585
Percent Change	0.3%	-0.2%	-0.9%	-1.0%	-1.2%

Interest Rates	Oct 20	Oct 21	Oct 22	Oct 23	Oct 24
Federal Funds	0.1%	0.1%	2.2%	5.3%	5.3%
30 Year Mortgage	2.8%	3.1%	6.9%	7.6%	--
Effective Credit Card	16.4%	17.1%	18.4%	22.8%	--

Note/Source: Freddie Mac, Federal Reserve Bank of New York.

Potential Under or Overstatement of Structural Deficit

IFO Assumption	Alternative Assumption	Annual Impact
State Related funding flat in FY 23-24	HB 612 (+7.6% growth)	-\$45
Higher Education flatlined all future years	grow by inflation (+2.4%)	-\$47
Basic and Special Education grow with inflation	+1.0% growth per annum	-\$94
State Police MLF funding remains at \$375 million	eliminate MLF funding of PSP	-\$375
No recession through 2029	recession next 6 years	unknown
2 new DCED programs are permanent	only this year	+\$100

Note: Millions of dollars.

Presentation is Posted to IFO Website

Questions?

Submit to contact@ifo.state.pa.us