

Pennsylvania
Economic and
Budget Outlook

FISCAL YEARS 2024-25 TO 2029-30

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November 14, 2024

Today's Presentation

- Report and PowerPoint posted to IFO website at conclusion.
- For questions, please submit to contact box.
- Demographics not discussed in presentation. See full report posted on IFO website.
- If connection is lost, we will re-establish as soon as possible.

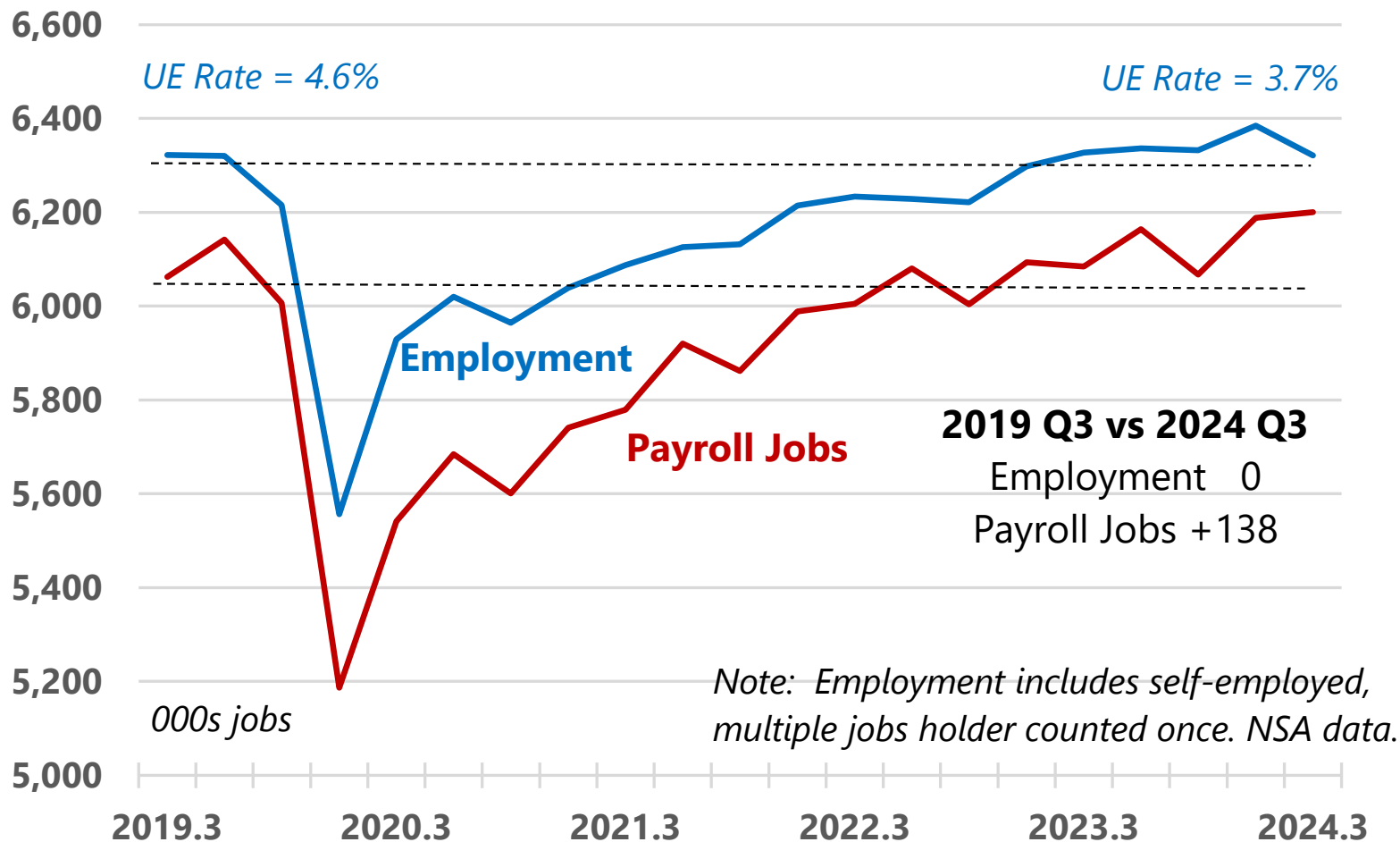
PA Annual Economic Forecast

	2023	2024	2025	2026	2027	2028
Real GDP	2.5%	2.1%	1.4%	1.8%	1.9%	2.0%
Wages and Salaries	4.5%	4.3%	3.8%	4.1%	4.1%	4.1%
Payroll Jobs (000s)	102	70	37	46	47	47
Philadelphia CPI-U	4.4%	3.4%	2.6%	2.2%	2.2%	2.2%

Note: Payroll Jobs exclude self-employed and independent contractors.
Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. All forecasts by IFO.

PA Recent Economic Trends

	2023.4	2024.1	2024.2	2024.3	2024.4
Macroeconomics					
Real GDP	3.3%	-0.5%	3.2%	--	--
Withholding Tax Revenues	4.2%	4.7%	4.6%	4.4%	4.1%
CPI-U - All Items	3.7%	3.4%	3.8%	3.4%	3.4%
Housing Market					
FHFA Home Value Index	7.0%	7.9%	7.2%	--	--
RedFin Home Sales	-5.5%	-3.6%	-0.1%	3.0%	--
30-Yr Mortgage Rate	7.30	6.75	7.00	6.51	6.53
Labor Market					
Unemployment Rate	3.4%	3.4%	3.4%	3.4%	--
Change Payroll Jobs (000s)	85	72	90	103	--
Change Employment (000s)	96	78	82	52	--
<p>Note: All growth rates or changes are year-over-year except Real GDP, which is quarterly annualized. Labor market data are seasonally adjusted. Mortgage rates are average for quarter. 2024 Q4 based on data for October only. Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FHFA, Red Fin and Freddie Mac.</p>					



Two Job Metrics – Different Results

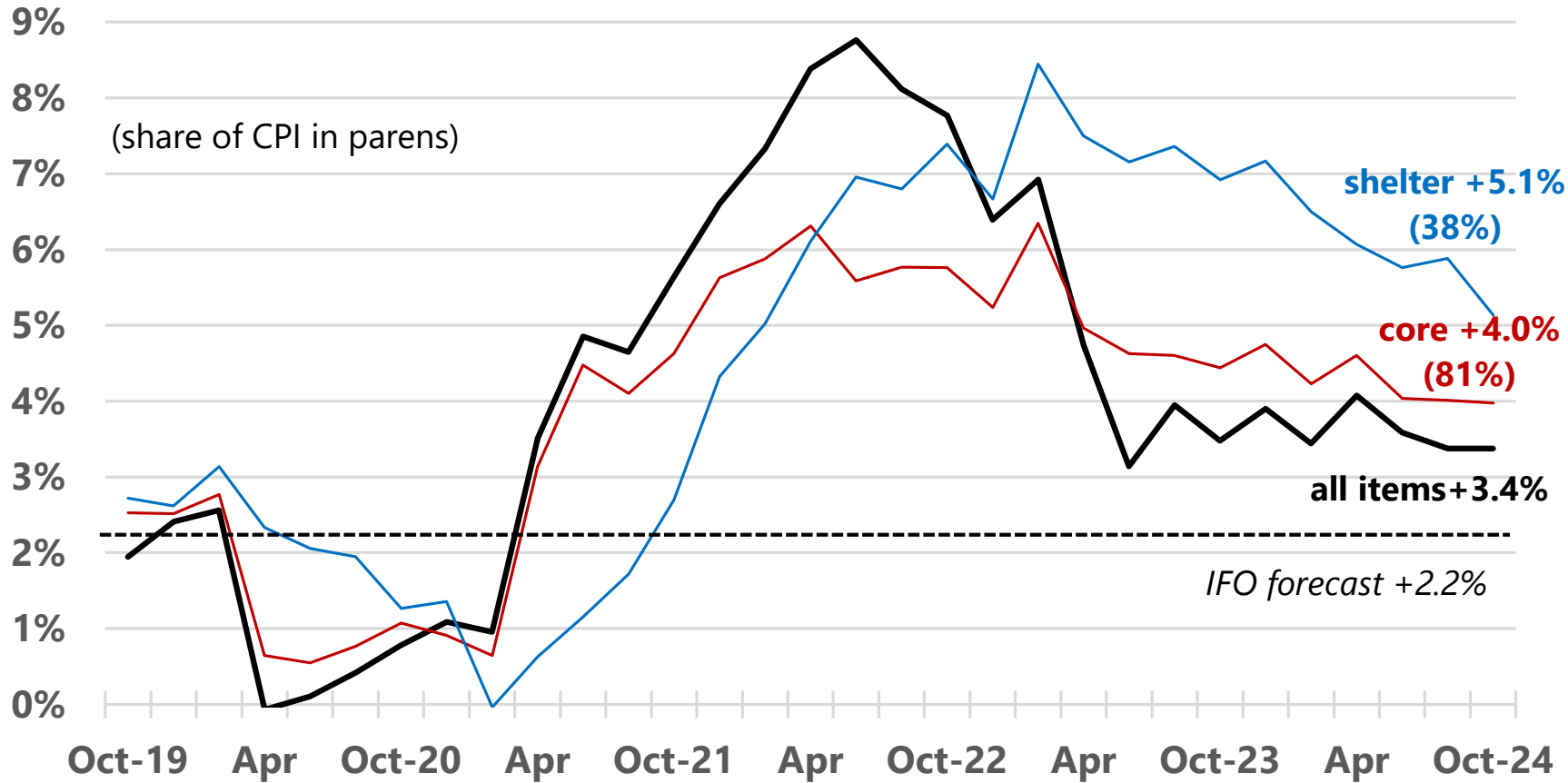
- Employment reverts to pre-Covid level, recent drop
- Payroll jobs up +138k
- Multiple job holders?
- Decline in self-employed?
- Payroll jobs likely revised down in the spring

PA Payroll Job Gains

	Change From (000s)		Notes
	2019 Q3	2023 Q3	
All Payroll Jobs	138	116	
All Healthcare	35	40	select detail below
Social Assistance	45	21	select detail below
Food Service	6	15	gains at full-service restaurants
Performing Arts & Spectator Sports	10	10	+32% gain over prior year
All Government	-4	8	gains at local school districts
Transportation and Warehousing	33	6	
Professional and Management	23	2	
All Other	-9	14	
Elderly Related	47	34	
Healthcare: Home Healthcare	15	7	visiting nurses, in-home hospice
Healthcare: Resident-Nursing Home	-12	10	most related to nursing homes
Social Assistance: Family-Elderly	43	17	most related to elderly and disabled

Note: Change compares average for third quarter. Non-seasonally adjusted data. Data are preliminary.
Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics.

Philadelphia Metro Region Inflation Persists



- October 2024 +3.4%
- Notable recent deceleration in housing
- Car Repairs-Insurance (+12.0%) still very strong
- All Energy : -4.0%
- Used (-2.2%) and New Cars (-0.5%) both decline
- Groceries at +3.0%

General Fund Revenues

Amount (\$ billions)	24-25	25-26	26-27	27-28	28-29	29-30
Personal Income	\$18.38	\$19.26	\$20.27	\$20.98	\$21.95	\$22.94
Sales and Use	\$14.60	\$15.01	\$15.40	\$15.81	\$16.21	\$16.61
Corporate Net Income	\$5.43	\$5.04	\$4.60	\$4.32	\$4.06	\$3.83
All Other	<u>\$7.49</u>	<u>\$7.37</u>	<u>\$7.41</u>	<u>\$7.45</u>	<u>\$7.56</u>	<u>\$7.67</u>
Total Revenue	\$45.89	\$46.68	\$47.68	\$48.56	\$49.78	\$51.05
Growth Rate	24-25	25-26	26-27	27-28	28-29	29-30
Personal Income	2.9%	4.8%	5.2%	3.5%	4.6%	4.5%
Sales and Use	2.4%	2.8%	2.6%	2.7%	2.5%	2.5%
Corporate Net Income	-4.0%	-7.1%	-8.6%	-6.3%	-5.9%	-5.8%
All Other	<u>-2.9%</u>	<u>-1.6%</u>	<u>0.5%</u>	<u>0.5%</u>	<u>1.5%</u>	<u>1.5%</u>
Total Revenue	0.9%	1.7%	2.2%	1.8%	2.5%	2.5%
<i>Exclude CNIT & Treasury</i>	2.0%	3.5%	3.8%	2.9%	3.5%	3.4%

Are Consumers Tapped Out?

- Several studies find that all stimulus savings now depleted
- Due to wealth effects (stock market and housing), middle- and upper-income consumers doing well
- 2024 Q3: PA mortgage debt +3.1%, credit cards +5.9%, auto loans -0.2%

	YOY Growth Rate			Thru Oct 24-25
	21-22	22-23	23-24	
All Sales Tax	8.4%	4.4%	1.7%	0.8%
Cigarette Tax	-9.3%	-11.6%	-13.6%	-12.0%
Liquor Tax	3.7%	4.5%	-0.4%	1.3%
Gaming Taxes	27.3%	18.6%	-1.3%	10.3%
Instant Ticket Sales	-6.2%	-4.6%	-6.2%	-6.0%

Note: Millions of dollars. Gaming is General Fund only. Sales tax excludes new PTF transfer.

General Fund Expenditures

Amount (\$ billions)	Share	24-25	25-26	26-27	27-28	28-29	29-30
Pre-K to 12	36%	\$17.10	\$17.59	\$18.04	\$18.48	\$18.89	\$19.31
State Personnel	13%	5.99	6.16	6.32	6.53	6.67	6.84
Long-Term Living	12%	5.91	6.53	7.02	7.38	7.75	8.11
Medical Assistance	12%	5.59	5.86	6.13	6.37	6.62	6.87
All Other Programs	<u>27%</u>	<u>13.08</u>	<u>13.64</u>	<u>14.07</u>	<u>14.40</u>	<u>14.74</u>	<u>15.12</u>
Total Expenditures	100%	\$47.67	\$49.78	\$51.58	\$53.16	\$54.66	\$56.26
Growth Rate		24-25	25-26	26-27	27-28	28-29	29-30
Pre-K to 12		8.0%	2.9%	2.6%	2.4%	2.3%	2.2%
State Personnel		7.1%	2.9%	2.6%	3.3%	2.2%	2.5%
Long-Term Living		4.8%	10.4%	7.5%	5.2%	5.0%	4.7%
Medical Assistance		1.9%	4.8%	4.6%	3.9%	3.8%	3.8%
All Other Programs		5.8%	<u>4.3%</u>	<u>3.2%</u>	<u>2.3%</u>	<u>2.3%</u>	<u>2.6%</u>
Total Expenditures		6.1%	4.4%	3.6%	3.1%	2.8%	2.9%

Key Expenditure Assumptions

MA – Managed Care Organization (MCO) Rate Increase

- Under negotiation
- 3% rate increase for CY 2025
- Each 1 ppt worth +\$140 million

Higher Education Flatlined

- Inflation adjustment (+2.2%) worth +\$50 million for FY 25-26
- If each year, then +\$250 million by FY 29-30

Motor License Fund contributes \$250 million to State Police

No DHS Cycle Rolls

- Possible one month delay in payments
- One year savings that could range from \$0.5 to \$1.0 billion

Historical Deficits and Surplus

Fiscal Year	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Fiscal Year Surplus/Deficit	-\$346	-\$2,764	\$5,337	\$7,633	\$3,025	-\$791	-\$3,425
Less: Net Federal Covid Monies	--	<u>964</u>	<u>2,949</u>	<u>5,925</u>	<u>1,741</u>	<u>266</u>	--
Adjusted Fiscal Year	-346	-3,728	2,388	1,708	1,284	-1,057	-3,425
Policy Impacts From Base Year		<u>-147</u>	<u>7</u>	<u>-226</u>	<u>-941</u>	<u>-1,663</u>	<u>-3,483</u>
1 Education/PHEAA Boost		0	0	0	0	0	-1,143
2 CNIT Rate Reduction		0	0	0	-110	-613	-915
3 New/Expanded Transfers		-68	-17	-16	-574	-507	-609
4 Motor License Fund Shift		-32	-64	-270	-270	-395	-520
5 New/Expanded Tax Credits		-47	-68	-124	-233	-391	-564
6 Gaming Expansion		0	156	184	245	243	267
General Fund Ending Balance	0	-2,734	0	5,537	8,085	6,632	2,950
Rainy Day Fund Ending Balance	23	343	244	2,869	5,129	6,250	7,191

Note: Millions of dollars. Net Federal Covid Monies deducts federal Covid monies related to enhanced FMAP, the CRF Fund (FY 20-21) and \$3.84 billion in State Fiscal Recovery Funds (FY 21-22). FY 18-19 excludes \$696 million in one-time revenues.

General Fund Financial Statement

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Fiscal Year Revenues	\$45,894	\$46,676	\$47,685	\$48,561	\$49,779	\$51,046
Less Refunds	<u>-1,900</u>	<u>-1,560</u>	<u>-1,540</u>	<u>-1,570</u>	<u>-1,600</u>	<u>-1,640</u>
Net Revenues	43,994	45,116	46,145	46,991	48,179	49,406
Expenditures (see note)	<u>-47,419</u>	<u>-49,583</u>	<u>-51,385</u>	<u>-52,960</u>	<u>-54,465</u>	<u>-56,061</u>
Fiscal Year Deficit	-3,425	-4,467	-5,240	-5,969	-6,286	-6,655
Policy Impacts From Base Year		<u>-331</u>	<u>-693</u>	<u>-1,088</u>	<u>-1,509</u>	<u>-1,958</u>
1 CNIT Rate Reduction/NOL Cap		-269	-586	-963	-1,368	-1,814
2 New/Expanded Transfers		-7	-17	-27	-27	-27
3 New/Expanded Tax Credits		-55	-89	-97	-114	-116
General Fund Ending Balance	2,950	0	0	0	0	0
Rainy Day Fund Ending Balance	7,191	6,149	932	0	0	0
Note: Millions of dollars. For FY 24-25, excludes \$95 million in reduced spending from the fall update. Expenditures are reduced by estimated prior year lapses.						

Policy Drives Deterioration in Deficit Outlook

	23-24	24-25	25-26	26-27	27-28	28-29
November 2023 Outlook	-\$624	-\$1,959	-\$3,018	-\$3,303	-\$3,779	-\$4,016
November 2024 Outlook	<u>-791</u>	<u>-3,425</u>	<u>-4,467</u>	<u>-5,240</u>	<u>-5,969</u>	<u>-6,286</u>
Difference	-167	-1,466	-1,449	-1,937	-2,190	-2,270
Policy Changes		<u>-1,572</u>	<u>-1,618</u>	<u>-1,707</u>	<u>-1,778</u>	<u>-1,850</u>
Education Boost		-1,000	-1,000	-1,000	-1,000	-1,000
PHEAA Increase		-143	-143	-143	-143	-143
Tax Credits Expansion		-241	-269	-298	-303	-317
CNIT NOL Threshold		0	-12	-61	-116	-175
Motor License Fund Transfer		-125	-125	-125	-125	-125
New/Expanded Transfers		-63	-70	-80	-90	-90

Note: Millions of dollars.

Notable Factors Not Included

Expiration of TCJA

- End of CY 2025
- Potential \$13 billion tax increase for PA filers
- Direct leakage from PA economy

Recent Stock Market Gains

- S&P 500 up +25% since Jan 1
- Up +8% since Aug 1

Other Federal Policies

- Student Loan Debt
- Budget Deficit
- Potential for higher interest rates long term

Questions?

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