

INITIAL REVENUE ESTIMATE FY 2023-24

Welcome to IFO Initial Revenue Estimate

Presentation should run 30 minutes

- Will be posted to IFO website at end
- Use chat feature to submit questions | will address at conclusion
- Today's focus: corporate profits and consumers

If connection is lost, we will re-establish as soon as possible

IFO will issue final revenue estimate June 20

- Minimal new economic data available
- Key: CNIT and PIT second estimated payment June 15
- Impact of CNIT rate reduction not evident in first estimated payment

Critical Forecast Assumptions

1 No recession in 2023 or 2024

- April WSJ Survey of Economists: 61% expect recession next 12 months
- Debt ceiling impasse resolved before default
- Federal Reserve largely done with rate hikes
- No collapse in asset markets: stocks and housing

2 Student loan repayment moratorium ends in Fall

- Supreme Court disallows forgiveness plan

3 Inflation continues to decelerate

- April Philadelphia CPI-U = 4.7% | December to 3.8%

US Economic Forecasts

		Annual Growth Rates			
		2021	2022	2023	2024
Real GDP	IHS Markit	5.9%	2.1%	1.2%	0.9%
	Wells Fargo	5.9%	2.1%	1.3%	0.3%
	PNC Bank	5.9%	2.1%	1.2%	-0.4%
U.S. CPI-U	IHS Markit	4.7%	8.0%	4.2%	2.5%
	Wells Fargo	4.7%	8.0%	3.9%	2.5%
	PNC Bank	4.7%	8.0%	4.2%	1.6%
U.S. Corporate Profits	IHS Markit (domestic)	29.0%	8.4%	6.3%	-3.4%
	Wells Fargo (all)	22.6%	6.6%	-5.0%	2.1%
	CBO (domestic)	29.0%	8.4%	-15.8%	-0.6%

Note: IHS Markit and Wells Fargo forecasts released May 2023. PNC released March 2023. CBO released February 2023.

PA Economic Forecasts

	IFO			IHS Markit		
	2022	2023	2024	2022	2023	2024
Real GDP	2.1%	1.6%	1.2%	2.1%	1.4%	1.0%
Wages-Salaries	9.3%	5.3%	4.1%	9.3%	6.8%	4.2%
Philadelphia CPI-U	7.9%	4.7%	3.2%	7.9%	4.5%	2.5%
Payroll Job Gains (000)	227	80	24	231	126	-7

Note: Job Gains for payroll employment only. Excludes self-employed. IHS Markit forecast from May 2023.
 Source: Historical data from U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecasts by IFO or IHS Markit.

Pennsylvania Quarterly Economic Trends

	Year-Over-Year Growth Rate, Change or Level				
	2022.2	2022.3	2022.4	2023.1	2023.2
Real GDP	-0.9%	3.2%	3.2%	--	--
Wages-Salaries	9.5%	9.6%	8.1%	5.3%	5.1%
Philadelphia CPI-U	8.6%	8.1%	7.1%	6.9%	4.7%
Unemployment Rate	4.3%	4.3%	4.4%	4.3%	4.1%
Number Unemployed (000s)	279	279	282	280	268
Change Payroll Jobs (000s)	249	224	189	172	147
Labor Force Part. Rate	61.6%	61.7%	61.7%	61.9%	62.0%

Note: All growth rates relative to same quarter in prior year except Real GDP which is quarterly annualized rate. Wage-Salaries growth for 2023.1 and 2023.2 based on withholding tax revenues. Change Payroll Jobs is annual change for quarter compared to prior year. Labor market data are seasonally adjusted.
Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis.

Revenues and Assets Outperform Economic Growth

Economics or Financials	2019 Q1	2023 Q1	Growth	
Real GDP	\$709.0	\$730.3	3.0%	Total 4-yr Growth pre vs post pandemic
Philadelphia CPI-U	253.2	300.9	18.8%	
Nominal GDP	\$787.9	\$960.0	21.8%	
Wages and Salaries	\$351.2	\$423.0	20.4%	
S&P 500 Index	2,834	4,109	45.0%	common benchmark
PA Home Value Index	226.7	327.5	44.5%	
				up +60% through 2022 Q1
FY Revenues	18-19	22-23	Growth	
Corporate Net Income	\$3.40	\$6.12	80.0%	excludes rate cut
Inheritance	\$1.05	\$1.53	45.7%	
Personal Income Tax – Other	\$3.65	\$5.02	37.5%	typically underperforms
Sales and Use	\$11.10	\$14.60	31.5%	
Personal Income Tax – Withhold	\$10.44	\$12.65	21.2%	

Note: Non-index values in billions of dollars. S&P 500 Index is end of quarter value. For 22-23, SUT adds back new motor vehicle SUT transfer (\$508 million).
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FHFA.

Payroll Jobs Surpass Pre-COVID Levels

	Payroll Jobs (000s)		Number Change	Percent Change
	Mar 19	Mar 23		
Total Payroll Employment	6,010	6,061	+52	+0.9%
Transportation and Warehouse	271	314	43	15.8
Professional and Technical	360	397	37	10.3
Social Assistance	231	256	25	10.8
Management of Companies	134	148	15	11.0
Finance and Real Estate	328	338	10	3.2
Construction	244	251	7	3.0
All Other (residual)	1,600	1,595	-5	-0.3
Other Services	259	252	-7	-2.8
Manufacturing	576	565	-11	-1.8
Healthcare	821	803	-19	-2.3
Accommodation-Food Service	468	447	-21	-4.5
All Government	719	695	-24	-3.3

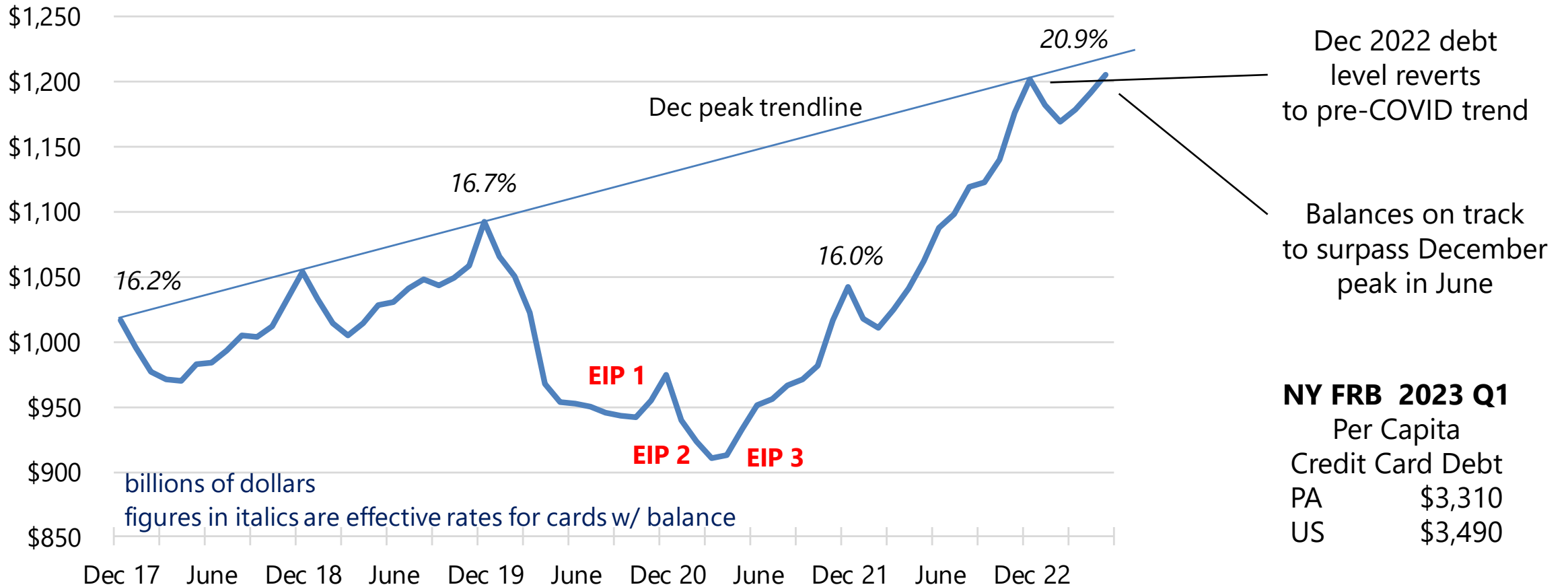
Note: Thousands of payroll jobs. Data not seasonally adjusted. Excludes self-employed. Source: U.S. Bureau of Labor Statistics.

Drilling Down: Subsector Detail

	Payroll Jobs (000s)		Number Change	Percent Change
	Mar 19	Mar 23		
Jobs Contraction				
Nursing and Residential Care	203	176	-28	-13.5%
Full-Service Restaurants	196	182	-14	-7.3
Local Govt (exclude education)	180	169	-11	-6.1
Religious and Non-Profits	136	128	-8	-6.1
Jobs Expansion				
Warehouse and Storage	89	125	+36	+40.1%
Couriers and Messengers	33	43	+10	+28.8
Computer System Design	70	80	+10	+13.5
Scientific Research-Development	39	48	+9	+21.1

Note: Thousands of payroll jobs. Data not seasonally adjusted. Excludes self-employed. Source: U.S. Bureau of Labor Statistics.

U.S. Credit Card Debt Reverts, But on Pace to Surpass Trend



Note: Data not seasonally adjusted. EIP is economic impact payment. Source: Federal Reserve Board.

FY 2022-23 Revenues Through May (preliminary)

	Dollar Amount	YOY Growth	Adjusted Growth	Notes
General Fund Revenues	\$41,264	-6.0%	3.1%	see footnote below
Corporate Net Income	5,120	17.6		record setting profits
Sales - Non-Motor	11,593	5.2		
Sales - Motor Vehicle	1,264	-24.9	4.1	PTTF transfer (~\$42m/month)
PIT - Withholding	11,666	6.5	7.0	election integrity transfer
PIT - Other	4,518	-18.4		large capital gains contraction
Inheritance	1,397	-2.2		
All Tobacco	824	-10.2		unexpected weakness
Realty Transfer	581	-24.6		consistent weakness
All Other	4,301	-40.6	11.1	Treasury earnings

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for one-time/new transfers (e.g., \$3.84 billion transfer to General Fund from federal funds in FY 21-22). May revenues are estimated.

General Fund Update for FY 2022-23

	IFO Official Estimate (June 2022)			May 2023 Update		
	Amount	Growth	Adjusted	Amount	\$ Change	Adjusted
General Fund Revenues	\$42,187	-12.4%	-3.1%	\$44,710	\$2,523	+2.7%
Corporate Net Income	4,892	-8.1	-4.5	5,922	1,029	15.6
Sales - Non-Motor	11,831	-2.0		12,659	828	
Sales - Motor Vehicle	1,365	-25.7	2.7	1,354	-11	1.9
PIT – Withholding	12,754	6.0	6.4	12,651	-103	5.6
PIT – Other	4,613	-24.4		5,017	405	
Inheritance	1,415	-8.7		1,527	112	
All Tobacco	1,009	-1.4		927	-82	
Realty Transfer	781	-7.8		639	-142	
All Other	3,528	-52.0	0.5	4,014	486	14.4

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for one-time/new transfers (e.g., \$3.84 billion transfer to General Fund from federal funds for FY 21-22) and CNIT law changes.

Looking Back: FY 2022-23 Forecast

PIT annuals and 2023 first quarterly hit estimates

- Assumed 45% drop capital gains for TY 2022 | moderate rebound TY 2023

Corporate profits extend surge into 2023 | modest contraction assumed

- 2022 non-financial corporate domestic profits highest share of GDP since 1968
- 2017 TCJA amortization change adds +\$300 million to CNIT for FY 22-23

Non-motor vehicle SUT robust growth continues | decline assumed

- Jul to Nov +7.5% | Dec to Apr +3.9% | May **-1.0%** (est.)
- More savings than assumed | student loan moratorium extended
- ERC **much larger** (FY 22-23): \$2 billion (original), \$8 billion (revised)

Initial Revenue Estimate FY 2023-24

	Initial Estimate	Dollar Change	Percent Change	Notes
General Fund Revenues	\$45,292	\$582	1.3%	
Corporate Net Income	5,578	-344	-5.8	rate cut, base expansion
Sales - Non-Motor	12,707	48	0.4	loan repayments begin
Sales - Motor Vehicle	1,385	32	2.3	
PIT - Withholding	13,240	589	4.7	all dollar growth here
PIT - Other	5,164	146	2.9	capital gains rebound 5%
Inheritance	1,533	6	0.4	
All Tobacco	891	-36	-3.9	long-term trend decline
Realty Transfer	641	2	0.3	weak sales/+ \$20m PHARE
All Other	4,153	138	3.4	Treasury still elevated

Note: Dollars in millions. PIT is personal income tax.

Corporate Net Income Revenues and Profits

Revenues (\$ millions)	19-20	20-21	21-22	22-23	23-24
Actual Collections	\$2,827	\$4,424	\$5,323	\$5,922	\$5,578
Less: Shifts and Tax Cut	<u>-\$350</u>	<u>\$350</u>	<u>\$0</u>	<u>-\$200</u>	<u>-\$380</u>
Adjusted Baseline	\$3,177	\$4,074	\$5,323	\$6,122	\$5,958
Growth	-6.5%	28.2%	30.7%	15.0%	-2.7%
FactSet S&P 500	2022.1	2022.2	2022.3	2022.4	2023.1
Net Earnings (YOY growth)	9.4%	5.8%	2.5%	-4.9%	-2.2%
Revenues (YOY growth)	13.0%	12.7%	10.9%	5.4%	4.1%
Profit Margin (level)	12.3%	12.2%	11.9%	11.3%	11.5%
Note: Net Earnings growth equal to product of Revenue growth and Profit Margin growth. Profit Margin is Net Earnings / Revenues.					

Sales and Use Tax and Consumer Outlook

Revenues	2022.2	2022.3	2022.4	2023.1	2023.2
Non-Motor Vehicle SUT	3.9%	6.5%	6.9%	3.3%	2.3%
Motor Vehicle SUT	-6.9%	5.5%	0.0%	7.5%	-6.0%
Debt and Financial	2022.2	2022.3	2022.4	2023.1	2023.2
PA Auto Loans	5.0%	0.6%	2.8%	4.8%	--
PA Credit Card	11.0%	11.2%	12.5%	13.0%	--
U.S. Credit Card	14.4%	15.6%	15.4%	16.0%	15.0%
PA Home Value Index	12.9%	9.6%	8.1%	4.2%	--
S&P 500 Index	-11.9%	-16.8%	-19.4%	-9.3%	10.8%

Note: Growth rates are YOY. Motor Vehicle SUT growth rates control for new PTTF transfer in FY 22-23. S&P 500 through May 19 for 2023.2.
Sources: NYFRB, FHFA, Federal Reserve Board.

Alternate Views of FY 2023-24 Revenue Growth (+1.3%)

Alternate View 1		
PIT Withholding	4.7%	(29%)
All Other	0.0%	(79%)
Total Growth	1.3%	(100%)

Alternate View 2	
<u>Policy Changes</u>	
CNIT Rate Base Changes	-\$180m (-0.4%)
2017 TCJA Amortization	-\$160m (-0.4%)
End Student Loan Moratorium*	-\$150m (-0.3%)
Total Policy Impact	-\$490m (-1.1%)
Adjusted Growth Rate	+2.4%

Alternate View 3	
<u>GF Tax Revenues / GDP</u>	
FY 15-16 to 18-19	4.23%
FY 21-22 to 22-23	4.75%
FY 23-24	4.40%

Looking Forward: June Final Revenue Estimate for FY 23-24

Two critical revenue data points June 15

- Second PIT quarterly | first quarterly **-18.5% YOY** (March + April)
- Second CNIT estimated | first estimated **+20.2% YOY** (March)
- U.S. CNIT, first estimated **-5% YOY** (April, includes financial corporations)

New economic releases

- U.S.: corporate profits 2023 Q1, May CPI-U, May retail sales
- Federal Reserve Board meets June 13-14
- PA: May jobs report

More clarity on other factors

- Debt ceiling impasse
- Possible Supreme Court ruling on student loan forgiveness

Presentation is Posted to IFO Website

Questions?

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