

MONTHLY TRENDS

Report

March 2018

- INDEPENDENT FISCAL OFFICE -

In December, the Independent Fiscal Office (IFO) released an update of the fiscal year (FY) 2017-18 official revenue estimate (originally published in June 2017) and corresponding revised monthly projections.¹ Through March, total General Fund revenues are \$498 million, or 2.0 percent, above the IFO's updated official estimate.

For the month of March, General Fund collections were \$121 million (-2.7 percent) below estimate. Overall sales and use tax revenues exceeded estimate by \$17 million, with a small shortfall in motor vehicle receipts (-\$6 million) more than offset by an overage in non-motor collections (\$22 million).

Corporate net income tax payments were below estimate by \$80 million (-15.8 percent). The shortfall was entirely attributable to final payments, which were below estimate by \$80 million (-39.1 percent). It is unclear how much of this shortfall is a temporary timing issue related to a change in due dates effective for certain payments made beginning in calendar year 2017.

Gross receipts tax (GRT) fell short of estimate by \$88 million (-7.5 percent), primarily due to lower than anticipated electric receipts. Recent data from the U.S. Energy Information Administration (EIA) indicate a decline in both electric utility prices and demand for calendar year 2017.

Personal income tax (PIT) collections came in as expected. Year-to-date quarterly payments remain strong and exceed estimate by \$132 million (10.9 percent). Non-withholding PIT collections will likely be weaker than expected through June,

| GENERAL FUND SNAPSHOT | | | |
|-----------------------|--------------|-------------|-----------------|
| | General Fund | Tax Revenue | Non-Tax Revenue |
| Mar-18 | \$4,324 | \$4,289 | \$35 |
| Growth | -2.2% | -2.0% | -23.3% |
| FYTD | \$25,273 | \$23,017 | \$2,256 |
| Growth | 12.9% | 4.4% | 566.3% |

Dollar amounts in millions. See final page for detail.

due to the acceleration of payments into December and January as taxpayers attempted to maximize the benefits of federal tax law changes.

Non-tax revenues were below estimate by \$53 million in March. Most of the shortfall was attributed to interactive gaming fees (-\$20 million), casino auctions (-\$8 million) and escheats (-\$17 million). Although year-to-date escheats collections are also below estimate by \$69 million (generally due to higher than anticipated claims), non-tax revenues exceed estimate by \$320 million. This strength is related to higher than expected revenues from casino auctions (\$90 million) and earlier than anticipated liquor profits transfers (\$85 million).

FY 2017-18 Revenue Performance Through March

| | March Collections | | | FYTD Collections | | |
|-------------------------|-------------------|----------|---------|------------------|----------|---------|
| | Actual | Estimate | \$ Diff | Actual | Estimate | \$ Diff |
| General Fund | \$4,324 | \$4,445 | (\$121) | \$25,273 | \$24,775 | \$498 |
| Corp. Net Income | 426 | 507 | (80) | 1,810 | 1,882 | (72) |
| Sales and Use | 787 | 771 | 17 | 7,647 | 7,601 | 45 |
| Personal Income | 1,089 | 1,089 | 0 | 9,251 | 9,087 | 164 |
| Other Taxes | 1,986 | 1,991 | (5) | 4,310 | 4,270 | 41 |
| Non-Tax | 35 | 88 | (53) | 2,256 | 1,936 | 320 |

Dollar amounts in millions. Estimate refers to IFO official revised estimate published in December 2017.

¹The update incorporated estimates of various tax law changes, authorized transfers and borrowing. The original baseline estimates did not change from June 2017. See *Official Monthly & Quarterly Revenue Estimates* for more information: http://www.ifo.state.pa.us/download.cfm?file=/Resources/Documents/MQRE_FY17-18_Update.pdf.

MONTHLY ECONOMIC INDICATORS

| | United States | | | | Pennsylvania | | | |
|---------------------------------------|---------------|--------|--------|--------|--------------|--------|--------|--------|
| | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Dec-17 | Jan-18 | Feb-18 | Mar-18 |
| Unemployment Rate ¹ | 4.1% | 4.1% | 4.1% | n.a. | 4.8% | 4.8% | 4.8% | n.a. |
| Net Job Gains (000s) ² | 175.0 | 176.0 | 326.0 | 103.0 | 76.8 | 78.1 | 80.0 | n.a. |
| Average Gasoline Price ³ | \$2.48 | \$2.55 | \$2.59 | \$2.59 | \$2.58 | \$2.66 | \$2.71 | \$2.65 |
| Consumer Price Index ⁴ | 2.1% | 2.1% | 2.2% | n.a. | 0.8% | 0.7% | 0.5% | n.a. |
| Retail Sales ⁵ | 5.4% | 4.9% | 4.3% | n.a. | 4.7% | 4.5% | 3.6% | 2.5% |
| Consumer Sentiment Index ⁶ | 95.9 | 94.4 | 99.7 | 101.4 | n.a. | n.a. | n.a. | n.a. |
| New Building Permits ⁷ | 9.5% | 9.2% | 8.1% | n.a. | -3.9% | -1.2% | 8.9% | n.a. |

QUARTERLY ECONOMIC INDICATORS

| | United States | | | | Pennsylvania | | | |
|--|---------------|---------|---------|---------|--------------|---------|---------|---------|
| | 2017.1 | 2017.2 | 2017.3 | 2017.4 | 2017.1 | 2017.2 | 2017.3 | 2017.4 |
| Gross Domestic Product ⁸ | 1.2% | 3.1% | 3.2% | 2.9% | 0.3% | 2.5% | 3.2% | n.a. |
| Personal Income ⁹ | 3.1% | 2.7% | 2.8% | 3.9% | 3.0% | 2.5% | 2.4% | 3.5% |
| Wages and Salaries ¹⁰ | 3.4% | 2.5% | 2.6% | 4.7% | 2.8% | 1.9% | 1.9% | 4.2% |
| FHFA House Price Index ¹¹ | 6.5% | 6.8% | 6.7% | 6.7% | 4.3% | 4.6% | 4.5% | 4.9% |
| Student Loan Debt ¹² | \$5,030 | \$5,020 | \$5,060 | \$5,150 | \$5,840 | \$5,810 | \$5,870 | \$5,880 |
| Industrial Electricity Sales ¹³ | -4.0% | -2.3% | -3.5% | -2.6% | -0.4% | 2.0% | -0.6% | 2.0% |

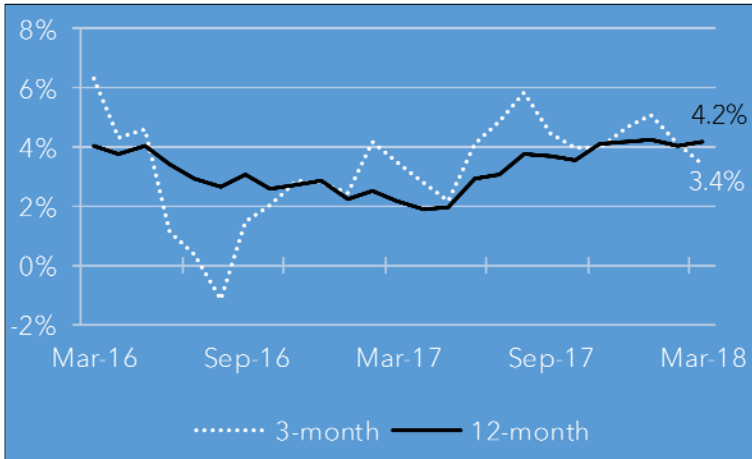
Notes:

1. Source: U.S. Bureau of Labor Statistics–Survey of Households.
2. U.S.: Increase in payroll employment compared to the previous month. PA: Average year-over-year increase in payroll employment based on latest three months of data. Source: U.S. Bureau of Labor Statistics–Survey of Establishments.
3. Average price for one gallon of regular gasoline. Source: U.S. Energy Information Administration.
4. Annual change in average price level for U.S. and PA-NJ-DE-MD. Data for PA-NJ-DE-MD only published on a bi-monthly basis. For non-release months, values are an interpolation. Source: U.S. Bureau of Labor Statistics.
5. U.S.: Annual growth rate of advance retail sales based on latest three months of data. Includes purchases of gas and motor vehicles. Excludes services. Source: U.S. Dept. of Commerce. PA: Annual growth rate of sales tax revenues based on latest three months of data. Excludes transfers to or from the Enhanced Revenue Collection Account. Source: PA Dept. of Revenue.
6. A diffusion index that reflects consumer optimism. Source: UM–Survey of Consumers.
7. Annual growth of new, privately owned single-housing units authorized for construction based on latest three months of data. Source: U.S. Census Bureau.
8. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
9. The annual growth rate of personal income. Includes any inflationary gains. Source: U.S. Bureau of Economic Analysis.
10. Year-over-year growth rate of wages and salaries paid to all payroll employees. Source: U.S. Bureau of Economic Analysis.
11. The annual growth rate of an index that measures the average price change of residential homes with mortgages purchased or securitized by Fannie Mae or Freddie Mac. Source: Federal Housing Finance Agency.
12. Per capita levels. Levels represent total student loan debt divided by number of consumers with a credit report. For Q4 2016, Pennsylvania has 10.9 million consumers (includes children). Source: Federal Reserve Bank of New York.
13. The annual growth rate in megawatt-hours of electricity sold to industrial customers. Source: U.S. EIA.

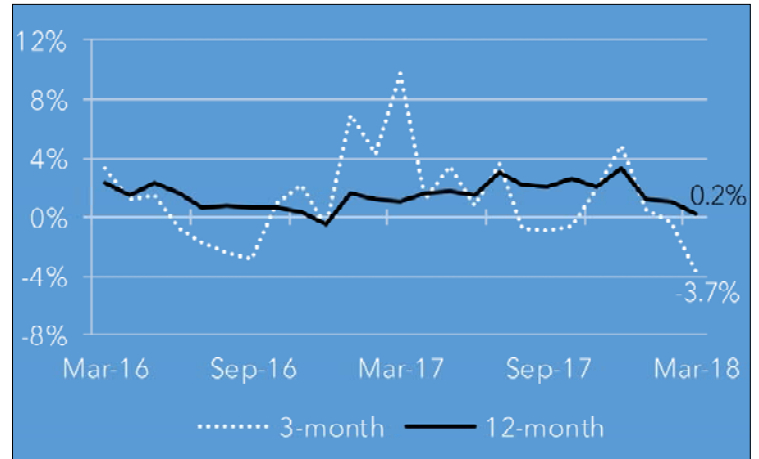
SELECT GENERAL FUND TAX REVENUES

ANNUAL GROWTH RATES

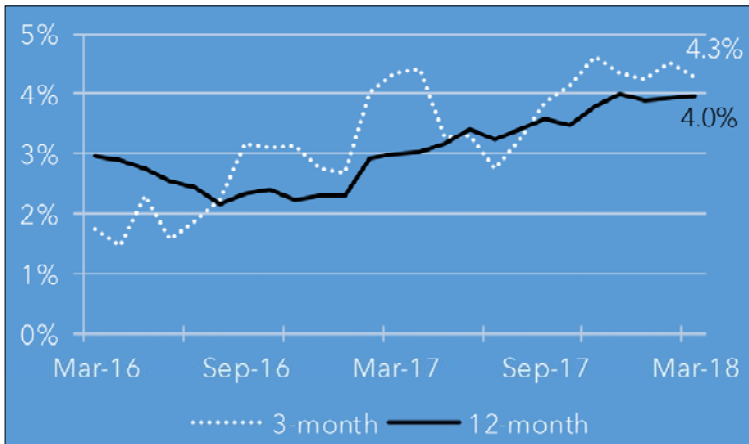
Sales and Use Tax – Non-Motor



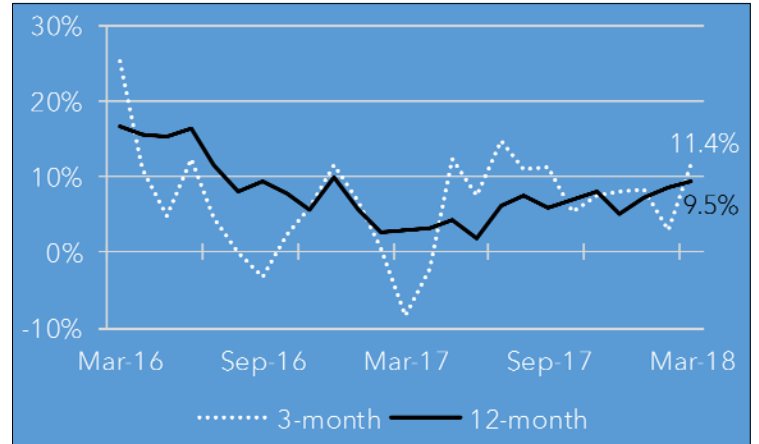
Sales and Use Tax – Motor



Personal Income Tax – Withholding



Realty Transfer Tax



Note: Three- and twelve-month annual growth rates are rolling averages relative to the previous fiscal year.

Technical Notes

- The graphs above correct for (1) transfers to the Commonwealth Financing Authority, Enhanced Revenue Collection Account and Housing Affordability and Rehabilitation Enhancement Fund and (2) issues related to fluctuating payment due dates.
- The non-tax revenue year-over-year growth rate (next page) was impacted by (1) a new \$50 million slots license fee, (2) \$90.2 million from the auction of new casino licenses, (3) \$1.5 billion from the securitization of Tobacco Settlement Fund payments and (4) \$248 million related to the leasing of the Pennsylvania Farm Show Complex and other miscellaneous transfers.
- The PIT withholding revenue monthly growth rate (next page) was impacted by an extra payment due date in March 2017.

GENERAL FUND REVENUES SUMMARY

| Revenue Source | March 2018 | March 2017 | FYTD 2017-18 | FYTD 2016-17 | Monthly Growth | FYTD Growth |
|----------------------------|------------|------------|--------------|--------------|----------------|-------------|
| Total General Fund | \$4,324.1 | \$4,421.5 | \$25,273.3 | \$22,394.1 | -2.2% | 12.9% |
| Total Tax Revenue | 4,288.9 | 4,375.7 | 23,017.2 | 22,055.5 | -2.0 | 4.4 |
| Total Corporation Taxes | 2,212.5 | 2,248.6 | 3,730.2 | 3,666.5 | -1.6 | 1.7 |
| Accelerated Deposits | (1.4) | 1.2 | 3.2 | 2.9 | -212.3 | 7.3 |
| Corporate Net Income | 426.3 | 457.5 | 1,809.5 | 1,738.2 | -6.8 | 4.1 |
| Gross Receipts | 1,093.3 | 1,159.1 | 1,136.6 | 1,206.4 | -5.7 | -5.8 |
| Utility Property | 0.0 | 0.6 | 1.5 | 2.9 | -99.8 | -48.3 |
| Insurance Premium | 367.9 | 342.5 | 425.0 | 405.4 | 7.4 | 4.8 |
| Financial Institution | 326.4 | 287.8 | 354.4 | 310.7 | 13.4 | 14.1 |
| Total Consumption Taxes | 923.9 | 909.1 | 8,919.7 | 8,625.5 | 1.6 | 3.4 |
| Sales and Use - Total | 787.1 | 760.6 | 7,646.6 | 7,356.8 | 3.5 | 3.9 |
| Non-Motor | 672.3 | 639.0 | 6,641.1 | 6,351.5 | 5.2 | 4.6 |
| Motor Vehicle | 114.8 | 121.6 | 1,005.5 | 1,005.3 | -5.6 | 0.0 |
| Cigarette | 93.5 | 108.6 | 886.2 | 923.5 | -13.9 | -4.0 |
| Other Tobacco Products | 9.1 | 8.6 | 87.6 | 53.2 | 4.9 | 64.5 |
| Malt Beverage | 2.2 | 1.6 | 18.1 | 18.0 | 40.6 | 0.1 |
| Liquor | 32.0 | 29.7 | 281.2 | 274.0 | 7.7 | 2.6 |
| Total Other Taxes | 1,152.5 | 1,217.9 | 10,367.3 | 9,763.4 | -5.4 | 6.2 |
| Personal Income - Total | 1,089.4 | 1,162.1 | 9,250.6 | 8,684.8 | -6.3 | 6.5 |
| Withholding | 920.8 | 1,004.9 | 7,575.3 | 7,258.1 | -8.4 | 4.4 |
| Quarterly | 51.5 | 47.7 | 1,344.2 | 1,134.6 | 7.9 | 18.5 |
| Annual | 117.1 | 109.5 | 331.0 | 292.0 | 6.9 | 13.4 |
| Realty Transfer | 40.3 | 33.4 | 374.8 | 343.2 | 20.6 | 9.2 |
| Inheritance | 89.5 | 92.9 | 718.7 | 691.4 | -3.7 | 4.0 |
| Gaming | 12.5 | 12.2 | 91.9 | 89.5 | 2.7 | 2.7 |
| Minor and Repealed | (79.1) | (82.6) | (68.7) | (45.4) | 4.2 | -51.3 |
| Total Non-Tax Revenue | 35.2 | 45.8 | 2,256.0 | 338.6 | -23.3 | 566.3 |
| State Store Fund Transfers | 0.0 | 0.0 | 185.1 | 144.9 | n.a. | 27.7 |
| Lic., Fees & Miscellaneous | 27.9 | 39.9 | 2,004.7 | 129.4 | -30.0 | n.a. |
| Licenses and Fees | 19.6 | 33.5 | 268.2 | 102.6 | -41.5 | 161.4 |
| Miscellaneous | 8.3 | 6.3 | 1,736.6 | 26.8 | 31.1 | n.a. |
| Treasury | 0.8 | 3.4 | 12.4 | 14.8 | -75.9 | -16.2 |
| Escheats | 1.9 | 0.0 | (80.7) | (59.4) | n.a. | -35.7 |
| Other Miscellaneous | 5.6 | 2.9 | 1,804.8 | 71.4 | 94.6 | n.a. |
| Fines, Pen. & Int. - Total | 7.3 | 6.0 | 66.2 | 64.3 | 21.2 | 2.9 |

Note: Dollar amounts in millions. Growth rates computed from same time period in previous year and use the unrounded amounts.