

Revenue and Economic Update

Independent Fiscal Office | September 2019

On August 8th, the Independent Fiscal Office (IFO) released monthly revenue projections for fiscal year (FY) 2019-20. General Fund revenues exceeded the September estimate by \$111.0 million and by \$86.2 million for the fiscal year-to-date (FYTD). The monthly outcome was due to stronger than expected corporate net income tax (CNIT), personal income tax (PIT) and escheat collections.

September CNIT revenues outperformed the forecast by \$40.1 million due to overages in both final and estimated payments. CNIT collections are also exceeding the FYTD forecast (\$45.1 million) as both final and estimated payments are outperforming projections, up \$26.8 million and \$18.3 million respectively.

Sales and use tax (SUT) collections were \$6.5 million higher than anticipated for the month. The surplus was primarily driven by strength in motor vehicle sales. For the year, SUT collections are falling short of projection by \$77.2 million due to an unexpected, one-time transfer in July (-\$115.3 million). That shortfall is offset by higher than expected collections (\$38.1 million). For the first quarter of the fiscal year, total SUT base growth was 5.1 percent over the prior year, which excludes the impact of the one-time transfer.

Monthly PIT collections outpaced the estimate by \$34.9 million, largely due to quarterly payments exceeding expectation (\$28.7 million). Those payments increased by 11.1 percent compared to the prior year. Annual payments also exceeded estimate, while withholding came in largely as expected. FYTD collections are above the forecast by \$70.6 million, driven by stronger than anticipated quarterly and annual payments.

Non-tax revenues surpassed the estimate by \$29.9 million for September. Escheats collections were higher than anticipated due to a large \$47.9 million deposit. The overage generated by escheat revenues offset lower than projected licenses and fees (-\$15.0 million) and other miscellaneous collections (-\$5.6 million). Licenses and fees revenue was impacted by the absence of bids for the sixth mini casino license. The estimate assumed one bid (\$7.5 million) would have occurred during the September auction held by the Pennsylvania Gaming Control Board.

The next large collection month is December, when the fourth CNIT estimated payment for tax year 2019 will be received.

FY 2019-20 Revenue Performance Through September

	September Collections			FY Collections		
	Actual	Estimate	\$ Diff	Actual	Estimate	\$ Diff
General Fund	\$3,185.0	\$3,074.0	\$111.0	\$7,707.1	\$7,620.9	\$86.2
Corporate Net Income	610.6	570.5	40.1	767.0	721.9	45.1
SUT - Non-Motor	808.4	807.0	1.4	2,422.1	2,511.3	-89.2
SUT - Motor Vehicle	137.2	132.1	5.1	416.8	404.8	12.0
PIT - Withholding	803.0	805.7	-2.7	2,508.4	2,503.0	5.4
PIT - Non-Withholding	474.8	437.2	37.6	616.3	551.1	65.2
Cigarette	101.7	104.4	-2.7	255.0	263.6	-8.6
Inheritance	86.6	77.1	9.5	282.1	258.3	23.9
Other Taxes	120.1	127.3	-7.2	345.0	336.8	8.2
Non-Tax	42.6	12.7	29.9	94.4	70.1	24.4

Dollar amounts in millions. Estimate refers to IFO official estimate published in June 2019.

MONTHLY ECONOMIC INDICATORS

	United States				Pennsylvania			
	Jun-19	Jul-19	Aug-19	Sept-19	Jun-19	Jul-19	Aug-19	Sept-19
Unemployment Rate ¹	3.7%	3.7%	3.7%	n.a.	3.8%	3.9%	3.9%	n.a.
Net Job Gains (000s) ²	178.0	159.0	130.0	n.a.	45.4	36.5	32.9	n.a.
Average Gasoline Price ³	\$2.72	\$2.74	\$2.62	\$2.59	\$2.77	\$2.80	\$2.71	\$2.63
CPI-U All Items ⁴	1.6%	1.8%	1.7%	n.a.	2.1%	2.2%	2.3%	n.a.
Retail Sales ⁵	3.4%	3.3%	3.6%	n.a.	6.6%	4.9%	4.4%	4.0%
Consumer Sentiment Index ⁶	98.2	98.4	89.8	93.2	n.a.	n.a.	n.a.	n.a.

QUARTERLY ECONOMIC INDICATORS

	United States				Pennsylvania			
	2018.3	2018.4	2019.1	2019.2	2018.3	2018.4	2019.1	2019.2
Gross Domestic Product ⁷	2.9%	1.1%	3.1%	2.0%	3.2%	2.5%	2.9%	n.a.
Net Job Gains (000s) ²	189.3	233.3	173.7	152.0	64.1	60.5	50.8	45.4
Personal Income ⁸	5.9%	4.9%	4.6%	4.9%	6.3%	5.7%	5.0%	5.3%
Wages and Salaries ⁹	5.2%	4.0%	5.0%	5.4%	4.3%	3.2%	4.5%	5.0%
CPI-U All Items ⁴	2.6%	2.2%	1.6%	1.8%	1.7%	1.3%	1.5%	2.0%
FHFA House Price Index ¹⁰	6.4%	6.0%	5.4%	5.0%	4.8%	5.5%	5.5%	4.9%

Economic Trends

- Year-over-year state net job gains continued to decelerate in August. The data reveal significant weakness in the retail sector.
- The Philadelphia CPI-U accelerated in August to 2.3%. The trend is largely due to housing (3.2%) and medical care (4.1%) inflation.
- Recent data show strong wage growth for the U.S. (5.4%) and Pennsylvania (5.0%) in the second quarter.

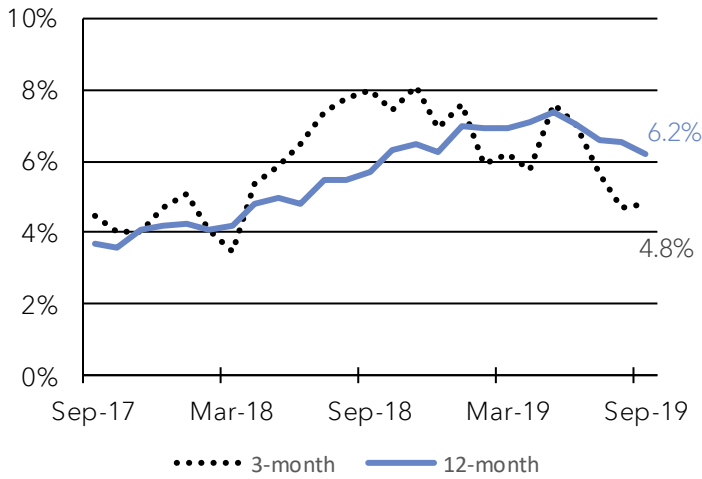
Sources and notes:

1. Source: U.S. Bureau of Labor Statistics—Survey of Households.
2. U.S.: Increase in payroll employment compared to the previous month or quarter. 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. Source: U.S. Bureau of Labor Statistics.
5. U.S.: Annual growth rate of advance retail sales based on latest three months of data. Excludes services. Source: U.S. Department of Commerce. PA: Annual growth rate of sales tax revenues based on latest three months of data. Source: PA Department of Revenue.
6. Source: UM—Survey of Consumers.
7. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
8. The year-over-year growth rate of personal income. Source: U.S. Bureau of Economic Analysis.
9. Year-over-year growth rate of wages and salaries paid to all payroll employees. Source: U.S. Bureau of Economic Analysis.
10. Source: Federal Housing Finance Agency.

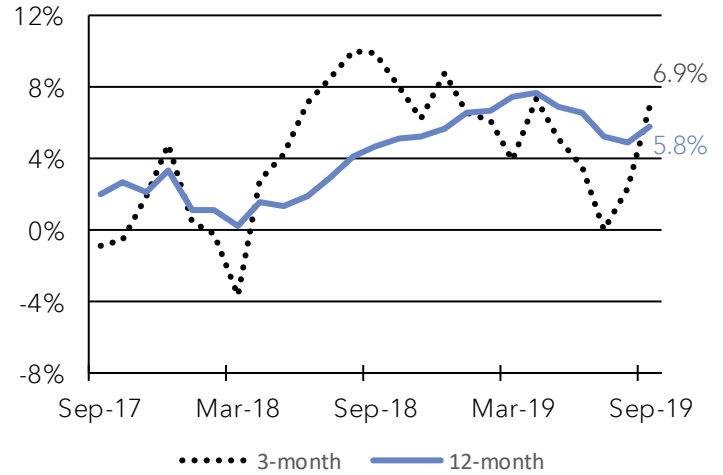
SELECT GENERAL FUND TAX REVENUES

ANNUAL GROWTH RATES

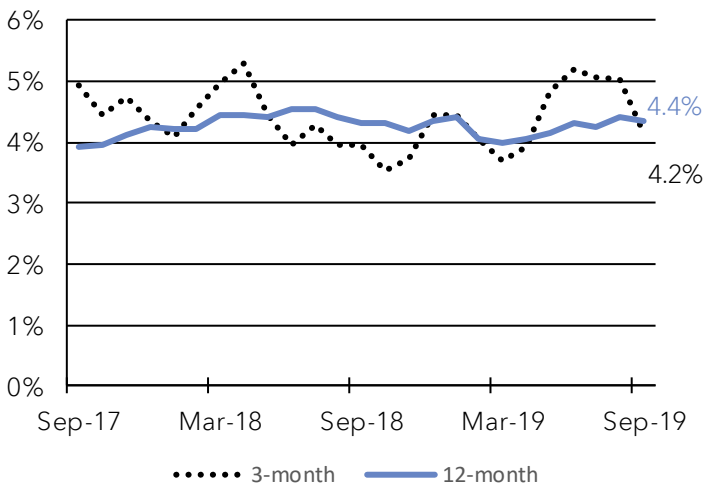
Sales and Use Tax – Non-Motor



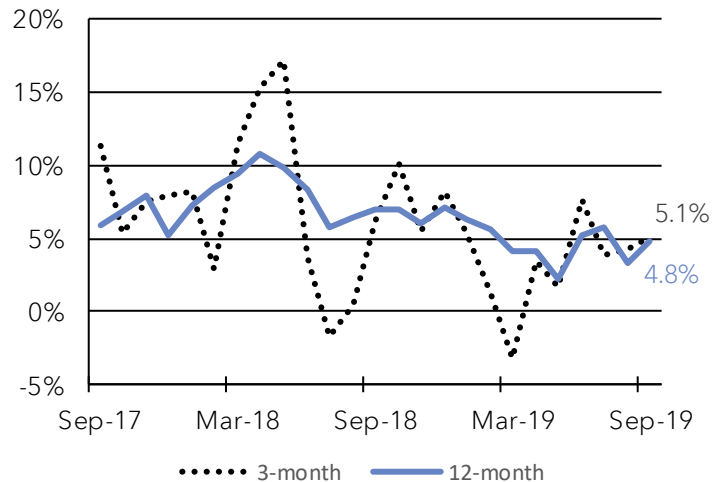
Sales and Use Tax – Motor



Personal Income Tax – Withholding



Realty Transfer Tax



Revenue Trends

- The non-motor SUT growth rate excludes a \$115.3 million one-time transfer that occurred in July 2019.
- The 3-month non-motor SUT growth rate leveled off in September, but the 12-month trend continues to fall, as revenue gains from the taxation of internet sales are fully incorporated into the year-over-year comparisons.
- The 3-month motor vehicle SUT growth rate ticked upward this month, as very strong September collections replaced a weak June in the average. The 12-month growth rate remains steady, but many analysts expect minimal growth in car and truck sales for the rest of the year.
- The 3-month PIT withholding growth rate is consistent with recent job reports, which have shown a deceleration of net job creation for June through August.
- Unexpectedly low mortgage rates continue to have a positive impact on realty transfer collections, as both the 3-month and 12-month averages ticked upward.

GENERAL FUND REVENUES SUMMARY

Revenue Source	September 2019	September 2018	FYTD 2019-20	FYTD 2018-19	Monthly Growth	FYTD Growth
Total General Fund	\$3,185.0	\$3,041.2	\$7,707.1	\$7,553.8	4.7%	2.0%
Total Tax Revenue	3,142.4	3,005.8	7,612.6	7,479.4	4.5	1.8
Total Corporation Taxes	627.2	647.0	813.1	830.3	-3.1	-2.1
Accelerated Deposits	1.7	0.1	2.0	(0.6)	n.a.	n.a.
Corporate Net Income	610.6	623.5	767.0	772.5	-2.1	-0.7
Gross Receipts	4.1	12.5	12.7	23.9	-67.4	-46.8
Utility Property	1.0	1.1	1.6	1.2	-12.4	32.2
Insurance Premiums	0.4	0.2	18.4	21.9	61.8	-15.9
Financial Institution	9.5	9.7	11.4	11.4	-1.4	-0.0
Total Consumption Taxes	1,090.3	1,049.8	3,226.5	3,232.5	3.9	-0.2
Sales and Use - Total	945.6	900.8	2,838.9	2,822.8	5.0	0.6
Non-Motor	808.4	779.7	2,422.1	2,432.8	3.7	-0.4
Motor Vehicle	137.2	121.1	416.8	390.0	13.3	6.9
Cigarette	101.7	106.5	255.0	282.0	-4.6	-9.6
Other Tobacco Products	11.7	11.1	34.6	31.9	5.6	8.4
Malt Beverage	2.1	2.2	6.2	6.8	-5.6	-8.1
Liquor	29.2	29.1	91.8	89.0	0.3	3.2
Total Other Taxes	1,425.0	1,309.0	3,573.0	3,416.6	8.9	4.6
Personal Income - Total	1,277.8	1,181.0	3,124.7	2,988.8	8.2	4.5
Withholding	803.0	759.6	2,508.4	2,449.4	5.7	2.4
Quarterly	440.2	396.1	524.6	470.2	11.1	11.6
Annual	34.6	25.3	91.7	69.2	36.9	32.5
Realty Transfer	49.5	40.5	124.4	131.4	22.1	-5.4
Inheritance	86.6	82.5	282.1	258.6	4.9	9.1
Gaming	13.3	8.7	38.1	30.0	52.7	27.1
Minor and Repealed	(2.1)	(3.7)	3.8	7.9	43.0	-51.9
Total Non-Tax Revenue	42.6	35.4	94.4	74.3	20.2	27.1
State Store Fund Transfers	0.0	0.0	0.0	0.0	0.0	0.0
Lic., Fees & Miscellaneous	34.9	27.8	71.9	50.5	25.4	42.5
Licenses and Fees	(1.1)	17.1	25.5	32.4	-106.6	-21.5
Miscellaneous	36.0	10.7	46.5	18.0	235.7	157.5
Treasury	4.1	4.3	15.6	47.4	-3.2	-67.1
Escheats	29.5	(1.7)	18.9	(51.8)	n.a.	136.4
Other Miscellaneous	2.5	8.2	12.0	22.5	-70.0	-46.6
Fines, Penalties & Interest	7.6	7.5	22.5	23.9	1.2	-5.6

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