

Economic and Revenue Update

PACP Chamber Day 2021
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Three Issues Dominate Economic and Budget Outlook

What happens when federal support expires?

- Nearly \$160 billion of federal monies injected into state
- What happens to income levels when support is removed?

When do workers return? Will jobs be available?

- IFO forecast: 2022 output exceeds 2019 w/ ~250,000 less workers

What are implications for General Fund revenues?

- Should we expect a deceleration or possible contraction?

Federal Monies to Pennsylvania

	CY 2020	CY 2021	Total
Federal Pandemic Unemployment (FPUC)	\$16.2	\$8.0	\$24.2
Pandemic Unemployment Assistance (PUA)	7.1	3.3	10.4
LWA and UC Extensions	3.1	2.9	6.0
SNAP	0.9	1.4	2.4
Economic Impact Payments (EIPs)	11.1	21.4	32.5
Expanded Child Tax Credit	<u>0.0</u>	<u>3.5</u>	<u>3.5</u>
Total Individual Programs	38.4	40.5	78.9
PPP Forgivable Loans	\$20.7	\$10.0	\$30.7
Direct State-Local Support	8.7	30.8	39.5
Other Support	<u>5.4</u>	<u>2.9</u>	<u>8.3</u>
Total Other	34.8	43.7	78.5

Note: Billions of dollars. Does not include state funded UC (\$5.2 billion in 2020, \$0.7 billion in 2021). FPUC includes enhanced payments to both traditional UC and PUA claimants. An unknown amount of monies flow out of state.

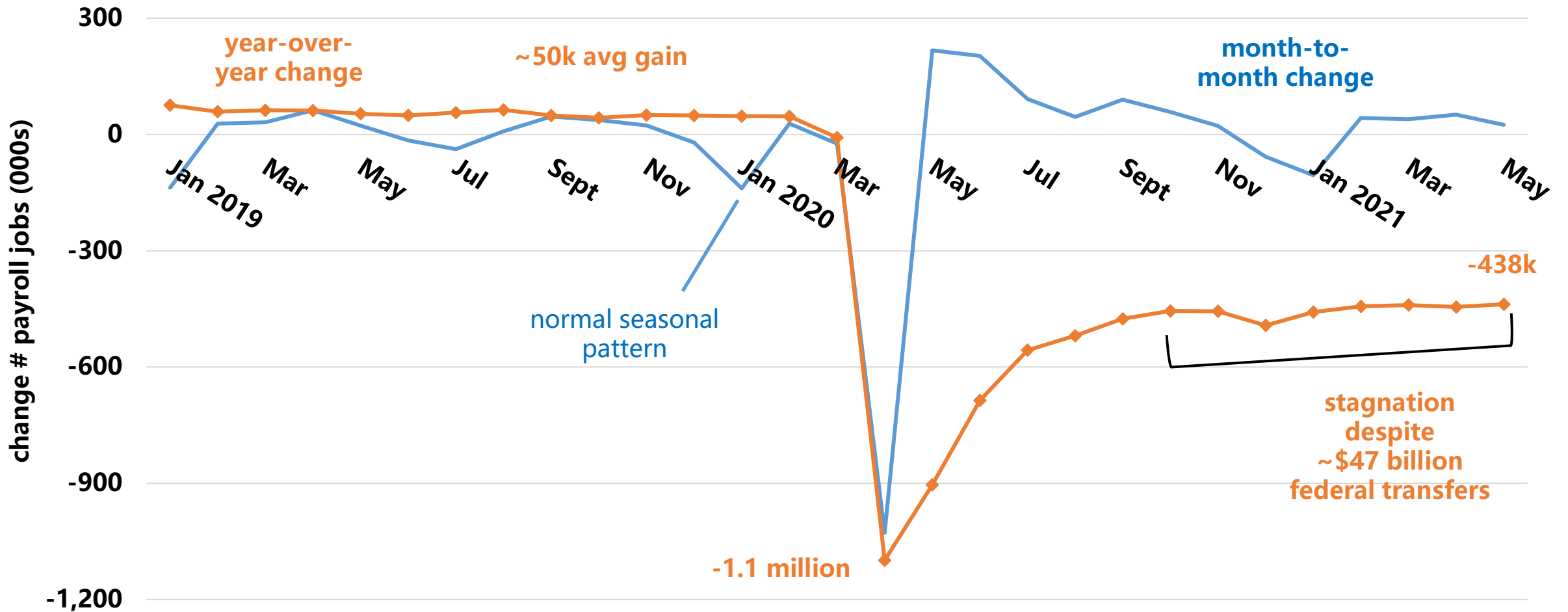
Federal Payments – Quarterly Pattern

	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4
Expanded UC Benefits	\$11.2	\$11.9	\$3.3	\$5.8	\$4.7	\$2.9	--
SNAP Expansion	0.3	0.3	0.3	0.4	0.4	0.4	\$0.3
EIPs	10.9	0.1	--	18.2	3.1	--	--
Expanded CTC	--	--	--	--	--	1.7	1.7
PPP Forgiven Loans	<u>20.4</u>	<u>0.3</u>	<u>--</u>	<u>8.0</u>	<u>2.1</u>	<u>--</u>	<u>--</u>
Total	42.8	12.6	3.6	32.4	10.3	4.9	2.0
Related Factoids	<p>About 30%-60% of EIPs spent. Most of that within 3 months. Most unemployment compensation is spent. Per capita credit card debt down 14% in 2021 Q1. Does not account for any fraud that flows out of state.</p>						
<p>Note: Billions of dollars. PPP includes both pass-through entities and C corporations. Source: U.S. Department of Labor, U.S. Treasury Department, Small Business Administration.</p>							

Growth of PA Cash Income Peaks in 2020 Despite COVID



PA Payroll Jobs Creation Stagnates



Note: Uses non-seasonally adjusted data. Year-over-year change for March to May 2021 assumes a no-pandemic scenario for 2020 and normal seasonal hiring. Excludes self-employed. Source: U.S. Bureau of Labor Statistics.

Impact of Business Closures vs. One Year Later

	YOY Change (000s)			YOY Growth		
	Apr 20	Oct 20	Apr 21	Apr 20	Oct 20	Apr 21
Total Payroll Employment	-1,099	-455	-447	-18.1%	-7.4%	-7.3%
Construction	-98	-16	-11	-37.9	-5.9	-4.2
Manufacturing	-85	-36	-29	-14.7	-6.3	-5.1
Retail-Wholesale Trade	-172	-42	-30	-21.0	-5.1	-3.7
Transportation-Storage	-27	-5	-5	-9.0	-1.5	-1.7
Professional and Technical	-19	-7	-1	-5.3	-2.0	-0.3
Admin-Waste Management	-68	-50	-47	-21.4	-15.0	-14.9
Education (excludes local SD)	-37	-27	-21	-14.4	-10.6	-8.3
Healthcare-Social Assistance	-109	-39	-60	-10.3	-3.6	-5.6
Arts-Entertainment	-56	-43	-29	-59.5	-32.3	-30.8
Accommodation-Food Service	-276	-110	-110	-57.7	-23.0	-22.7
All Government	-25	-31	-37	-3.4	-4.3	-5.1
All Other Sectors	-127	-51	-65	-15.2	-7.3	-7.7

Note: Data not seasonally adjusted. April 2021 data are preliminary and compares to a no-pandemic scenario. Excludes self-employed.
Source: U.S. Bureau of Labor Statistics.

Widely Reported Worker Shortage

Several factors could be relevant, but extra weekly benefits are key

- School is out | vaccinations available to nearly all
- Job openings rate highest on record | quit rate highest since 2000
- Implies labor market is “tight” | highly unusual given pool of available workers

Two studies: extra UC benefits have minor impact on employment

- San Francisco FRB (June 2021), Yale University (July 2020)
- Both exclude PUA recipients (~500,000 in PA) | traditional UC only
- Highly seasonal and part-time, move in-out of labor force, self-employed
- However, they are still a pool of potential workers
- Excluded from studies because there are no published detail or data

Expiration of UC Benefits Will Shock Economy

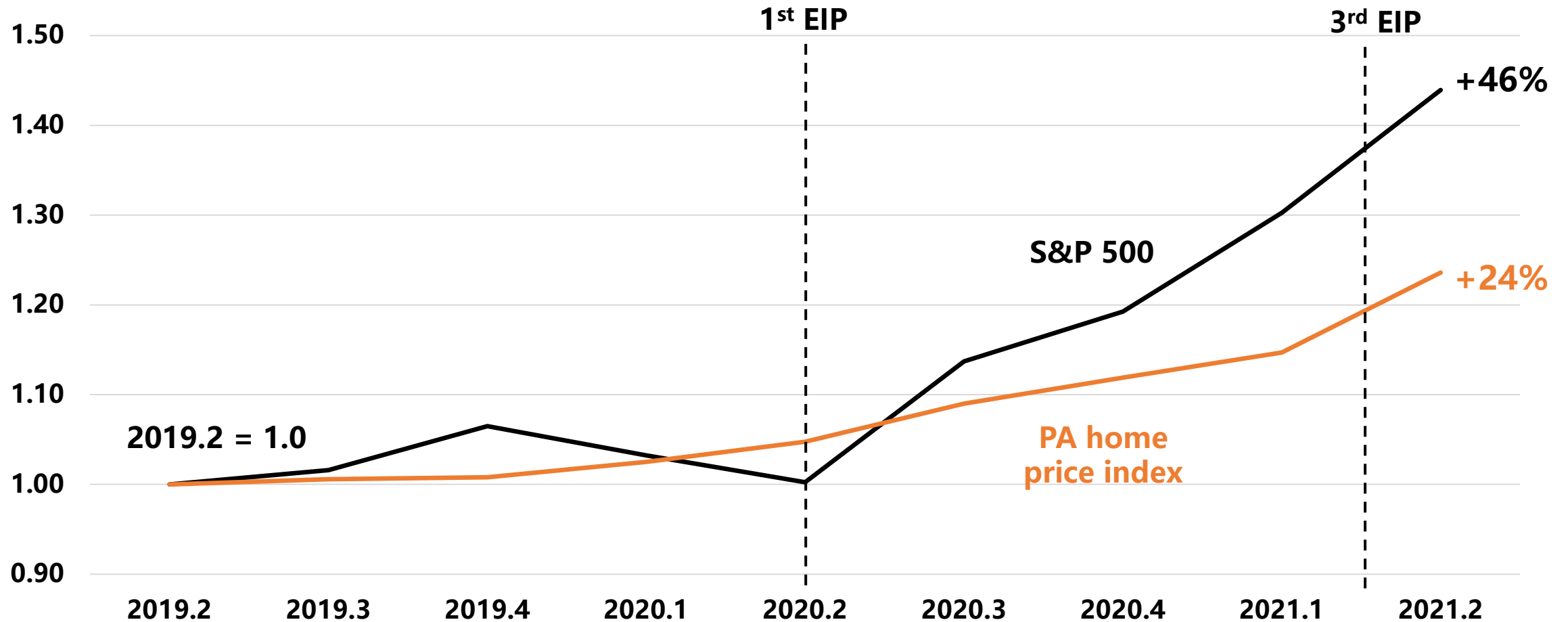
For May, roughly 1.0 million residents received some form of UC

- ~1 in 8 PA adults age 20 to 64 | ~\$570 per week (average)
- Assumes no large scale fraud that flows out of state (i.e., PUA program)
- 12 weeks remain | total value is ~\$6,800 (tax free)

When will workers return? Depends...

- Compute the tradeoff | what is gained vs lost
- Assume: workers have one-year time horizon | 30 hrs/wk @ 50 weeks
- Accept job now: must receive **\$5.20 per hour more** (pre-tax) over year
- When 8 weeks remain: **\$3.45 per hour**
- When 4 weeks remain: **\$1.75 per hour**
- Phase-out of extra benefits would have been better (e.g., \$200-\$100-\$0)

Potential Asset Bubbles: Stock and Housing Markets



Note: EIP is economic impact payment. 2021 Q2 data for S&P 500 as of June 11 2021. 2021 Q2 home price index is an estimate based on median increase in April home sales price. Growth rates at far right are cumulative growth rates since 2019 Q2.

Initial Revenue Estimate FY 2021-22

	Initial Estimate	Dollar Change	Percent Change	Adjusted Growth
General Fund	\$37,960	-\$2,152	-5.4%	0.7%
Corporate Net Income	3,707	-597	-13.9%	-5.6%
Sales - Non-Motor	10,789	-114	-1.0%	0.4%
Sales - Motor Vehicle	1,649	-157	-8.7%	-8.7%
PIT - Withholding	11,445	574	5.3%	4.3%
PIT - Other	4,096	-1,290	-23.9%	1.1%
Inheritance	1,290	-45	-3.4%	1.8%
All Tobacco	1,008	-86	-7.8%	-4.3%
All Other Tax	3,278	99	3.1%	3.1%
All Non-Tax	699	-538	-43.5%	-0.9%

Note: Dollar amounts in millions. PIT is personal income tax. Adjusted growth rate controls for payment shifts, one-time transfers and an extra deposit day for PIT withholding.