

November Economic and Revenue Update

PICA Fall Conference 2020

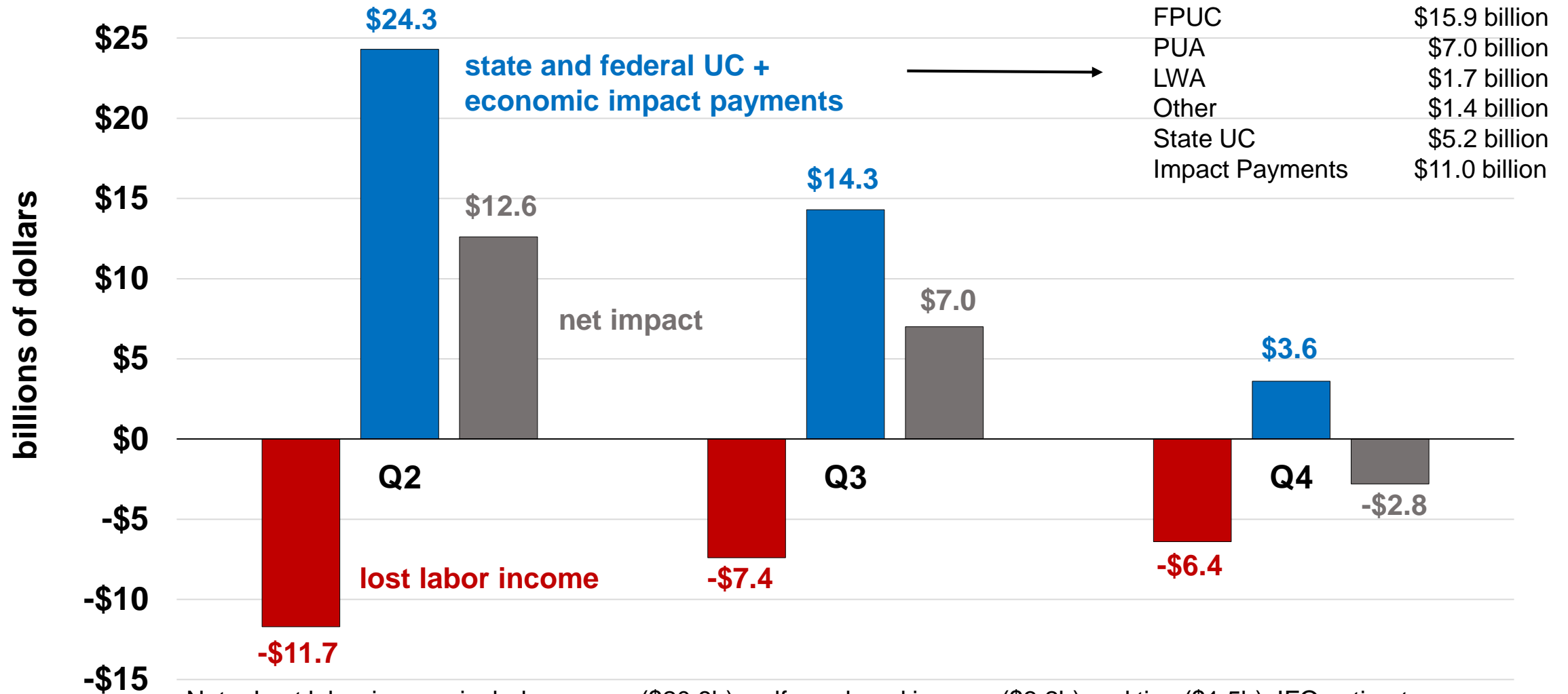


Matthew Knittel, IFO Director
November 18, 2020

PA Economic Forecast and Latest Quarterly Data

October 2020 Annual Forecast	2018	2019	2020	2021
Real GDP	1.9%	2.4%	-4.6%	3.0%
Wages-Salaries Paid	4.3%	4.3%	-2.0%	3.7%
Net Job Gains (000s)	68	54	-450	100
Philadelphia CPI-U	1.3%	2.0%	0.9%	1.5%
Latest Quarterly Data	2020.1	2020.2	2020.3	2020.4
Real GDP	-5.8%	-34.0%	--	--
Wages-Salaries Paid	3.7%	-6.5%	-2.6%	-1.0%
Net Job Gains (000s)	28	-849	-506	-440
Philadelphia CPI-U	2.6%	0.0%	0.4%	--
Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis. Forecasts by IFO. Net Job Gains using quarterly data represent annualized amount and exclude self-employed. All rates or changes are year-over-year except Real GDP.				

PA Income Support Greatly Reduced in 2020 Q4



FPUC	\$15.9 billion
PUA	\$7.0 billion
LWA	\$1.7 billion
Other	\$1.4 billion
State UC	\$5.2 billion
Impact Payments	\$11.0 billion

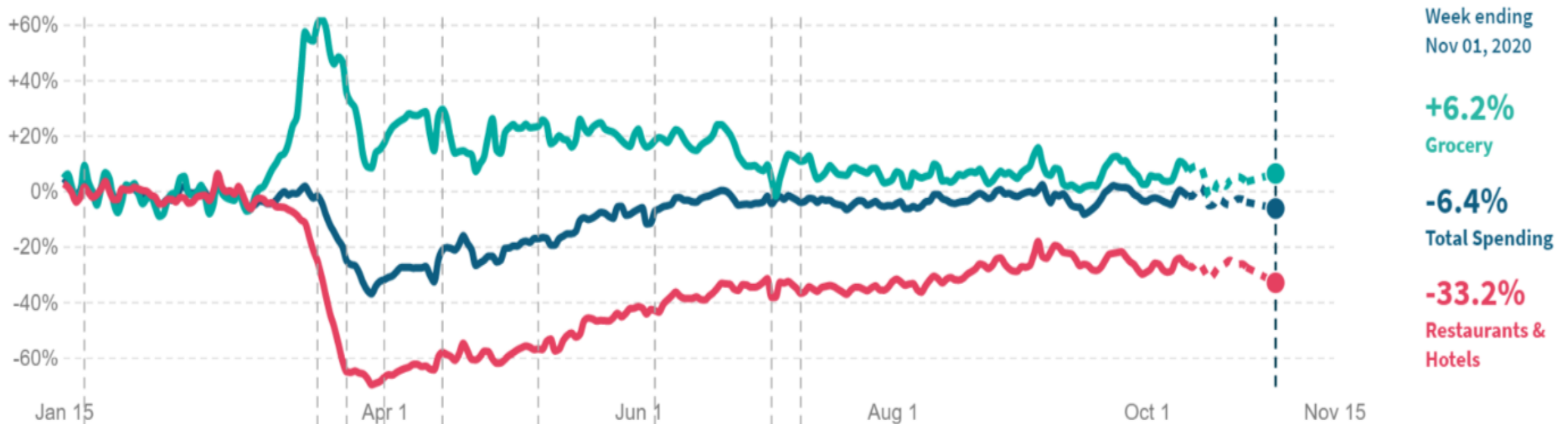
Note: Lost labor income includes wages (\$20.8b), self-employed income (\$3.2b) and tips (\$1.5b). IFO estimate.

PA Consumer Spending Holds Up, But Recent Weakness

Source: tracktherecovery.org

Percent Change in All Consumer Spending*

In **Pennsylvania**, as of **November 01 2020**, total spending by all consumers **decreased** by **6.4%** compared to January 2020.



PA Jobs Recover Through July, Then Moderate

	YOY Number Change (000s)			YOY Percent Change		
	Apr	Jul	Sept	Apr	Jul	Sept
Total Payroll Employment	-1,062	-539	-477	-17.5%	-8.9%	-7.8%
Construction	-104	-19	-15	-40.1%	-6.8%	-5.6%
Manufacturing	-77	-38	-36	-13.3%	-6.6%	-6.3%
Retail-Wholesale Trade	-155	-86	-62	-18.9%	-10.3%	-7.5%
Administration-Waste Man.	-53	-33	-27	-16.8%	-10.3%	-8.3%
Education (exc. local SDs)	-42	-9	-36	-16.1%	-4.3%	-15.0%
Healthcare	-89	-39	-34	-10.9%	-4.7%	-4.1%
Social Assistance	-31	-16	-8	-13.3%	-6.7%	-3.2%
Arts-Entertainment	-58	-34	-21	-60.9%	-27.3%	-19.5%
Accommodation-Food Service	-280	-138	-128	-58.6%	-28.2%	-26.8%
Other Services	-86	-42	-33	-32.8%	-15.9%	-12.8%
All Government	-17	-15	-27	-2.3%	-2.2%	-3.7%
All Other	-71	-71	-50	-5.8%	-5.7%	-4.0%

Note: **Data not seasonally adjusted**. Sept data preliminary. Does not include self-employed. YOY is year-over-year. Source: U.S. Bureau of Labor Statistics.

Drilling Down: PA Job Gains/Losses by Sub-Sector

	YOY Number Change (000s)			YOY Percent Change		
	Apr	Jul	Sept	Apr	Jul	Sept
Full Service Restaurants	-158	-63	-58	-79.5%	-31.4%	-29.3%
Limited Service Restaurants	-67	-32	-27	-40.9%	-18.7%	-16.9%
Accommodation	-32	-29	-23	-54.1%	-41.5%	-37.7%
Colleges and Universities	-17	-5	-27	-9.6%	-4.1%	-16.5%
Local Government	-20	-17	-25	-4.4%	-3.9%	-5.5%
Employment Services (temps)	-30	-21	-22	-26.1%	-18.3%	-18.4%
Personal Care-Dry Cleaner	-46	-22	-20	-64.7%	-31.0%	-28.3%
Clothing and Accessory Stores	-27	-21	-19	-65.1%	-50.5%	-48.0%
Federal Government	2	3	9	2.5%	3.4%	8.9%
Home Health Care	0	3	3	0.1%	3.7%	3.8%
Retail – Building/Garden Supply	-4	1	3	-9.1%	2.3%	5.6%
Couriers and Messengers	1	3	2	3.7%	8.1%	4.2%

Note: **Data not seasonally adjusted**. Sept data are preliminary. Does not include self-employed. YOY is year-over-year. Colleges and Universities excludes state system which is included with state government. Source: U.S. Bureau of Labor Statistics.

COVID-19 Produces Permanent Structural Changes

Telecommuting and remote working

- Gasoline consumption down ~10% | ~\$1.5 billion spending (redirected)
- Excess supply in commercial real estate rental market
- Less business travel, accommodation and dry cleaning services

New spend patterns, more on-line sales and productivity gains = job loss

- Grocery spending up ~+10% June to Sept | but employment down -4%
- Rapid acceleration to on-line sales | e.g., retail clothing jobs down -48%
- US labor productivity up +10.6% (Q2) and +4.9% (Q3) | avg +1.5% 2018-19

How many of the ~475k PA job losses in September will be recouped?

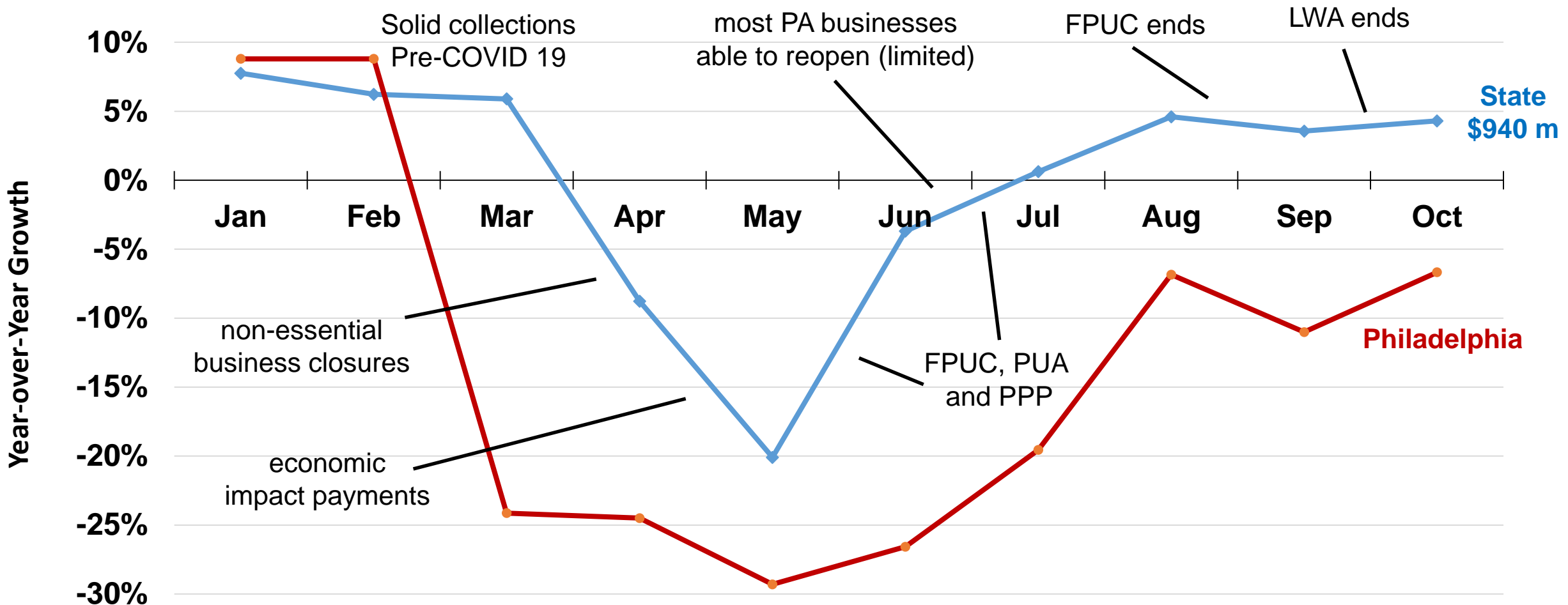
- Do consumer spending patterns revert?
- Do individuals rejoin the labor force, or get by with less?

Revenues Are Up First 4 Months of Fiscal Year

	Mitigation Period Mar to Jun	Recovery Period Jul to Oct	Notes
General Fund Tax	-9.2%	0.4%	year-over-year growth rate
Corporate Net Income	-12.3%	-5.2%	much better than expected
Sales - Non-Motor	-7.1%	3.2%	UC payments, lack of travel
Sales - Motor Vehicle	-33.6%	20.6%	March-June lost sales recouped
Income - Withholding	-4.4%	-2.4%	lower wage and part-time jobs
Income - Other	-8.9%	-6.6%	S&P500 up ~+10% for year
Cigarette	-39.2%	8.6%	processing issues
Inheritance	5.9%	-11.7%	
Realty Transfer	-30.9%	6.2%	
All Other Tax	-7.7%	2.0%	

Note: Growth rates control for revenue shifts for tax relief and miscellaneous one-time transfers. Excludes non-tax revenues.

Non-Motor Sales Tax Growth: State and Philadelphia



Note: FPUC is Federal Pandemic Unemployment Compensation. PUA is Pandemic Unemployment Assistance. PPP is Paycheck Protection Program. LWA is Lost Wage Assistance. Growth rates control for revenue shifts. Collections partially based on sales from prior month. Philadelphia values for Jan and Feb represent three-month average growth Dec to Feb.

Looking Forward

Anticipated drop off in consumer spending has yet to occur

- FPUC payments diminish in August, but consumer spending held up
- October sales tax revenues supported by temporary LWA payments
- November first real test of strength | but some federal support remains

Long-term unemployment is a major concern

- High-risk sectors: retail, food service, accommodation, travel
- Government job losses not fully reflected
- Hidden: PA labor force contracts by 151,000 in Sept 2020 from prior year

Other relief programs expire at end of year | impact unclear

- Expiration of rent, mortgage and student loan forbearance
- Expiration of extra/special federal UC support: PUA and extended benefits

Presentation is Posted to IFO Website

Questions?

Submit to contact@ifo.state.pa.us