

Budget Roundtable

Fiscal Year 2023-24

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Overview and Notes

Mid-Year Update presented Jan 30

- Revenue and economic update
- A few demographic, revenue and economic slides added to provide context

Economy performs as expected

- Through January, IFO estimate ~\$130 million (0.5%) over actual \$23.7 billion
- Expecting modest growth next year

IFO required to examine all revenue proposals in the Executive Budget

PA Short-Term Demographics Forecast

Age Cohort	Number (000s)			Number Change		Percent Change	
	2020	2023	2026	20-23	23-26	20-23	23-26
0 to 19	3,035	2,951	2,919	-84	-33	-2.8%	-1.1%
20 to 64	7,522	7,418	7,293	-105	-125	-1.4%	-1.7%
65 to 79	1,831	1,982	2,119	151	137	8.2%	6.9%
80+	<u>606</u>	<u>630</u>	<u>667</u>	<u>24</u>	<u>37</u>	<u>4.0%</u>	<u>5.9%</u>
Total	12,994	12,981	12,998	-13	17	-0.1%	0.1%

Note: Numbers in thousands. Source: U.S. Census Bureau. In Dec 2023, the Census released a 2023 PA population estimate of 12,961,000 but age detail were not included. Next release is Dec 2024. Forecast by IFO.

PA Economic Forecast: January 2024

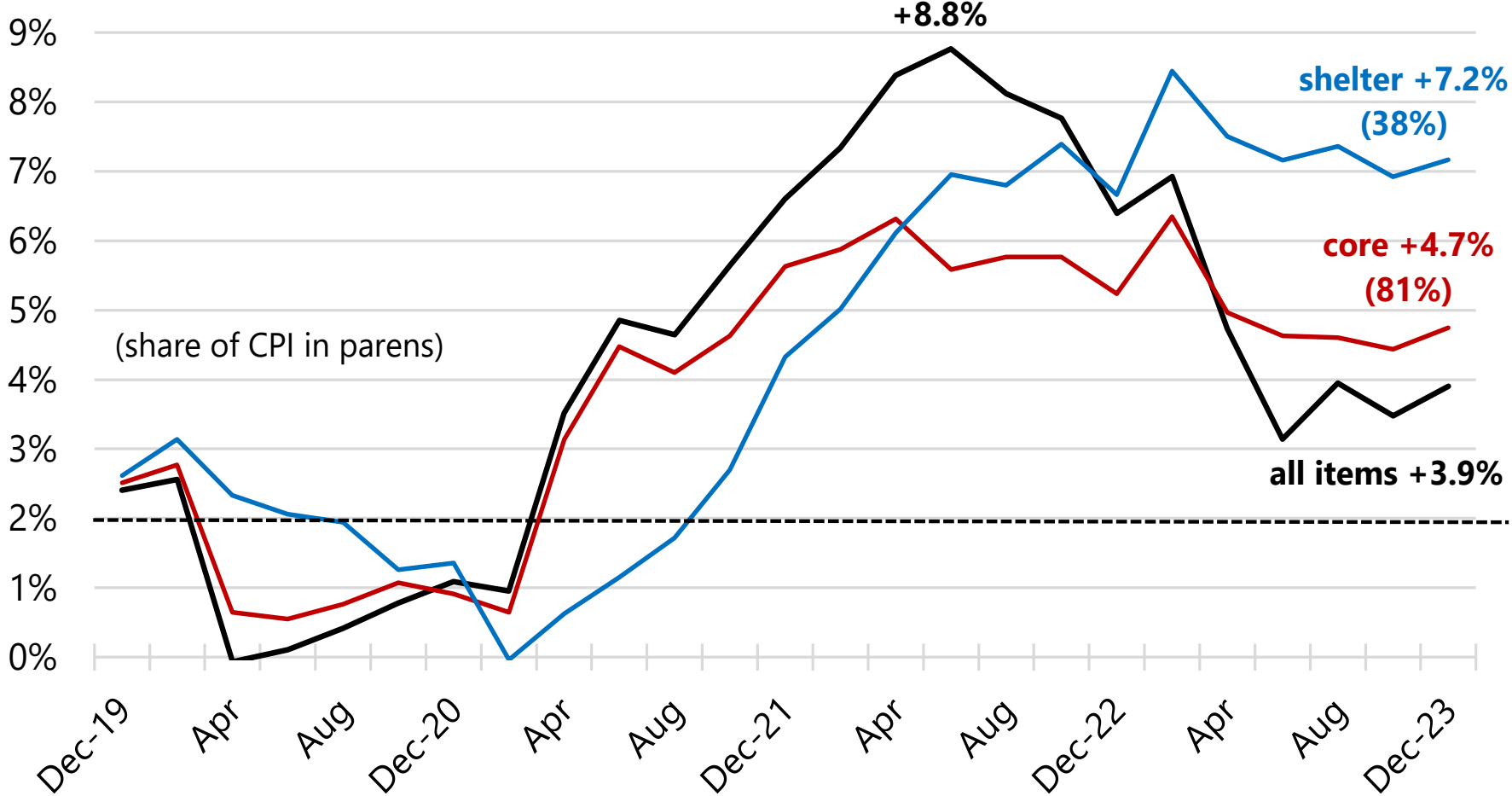
	2020	2021	2022	2023	2024	2025
Real GDP	-4.7%	3.8%	1.0%	2.1%	0.9%	1.3%
Wages-Salaries	-1.0%	7.3%	7.7%	4.9%	3.6%	3.8%
Change Payroll Jobs (000s)	-461	155	227	110	25	31
Philadelphia CPI-U	0.9%	4.0%	7.9%	4.4%	3.1%	2.4%

Notes: Change Payroll Jobs for 2023 assumes a -40k revision to preliminary figures based on research published by Federal Reserve Bank of Philadelphia. Blue shading is an estimate (some data available) or projection (no data available).

Latest PA Economic Trends

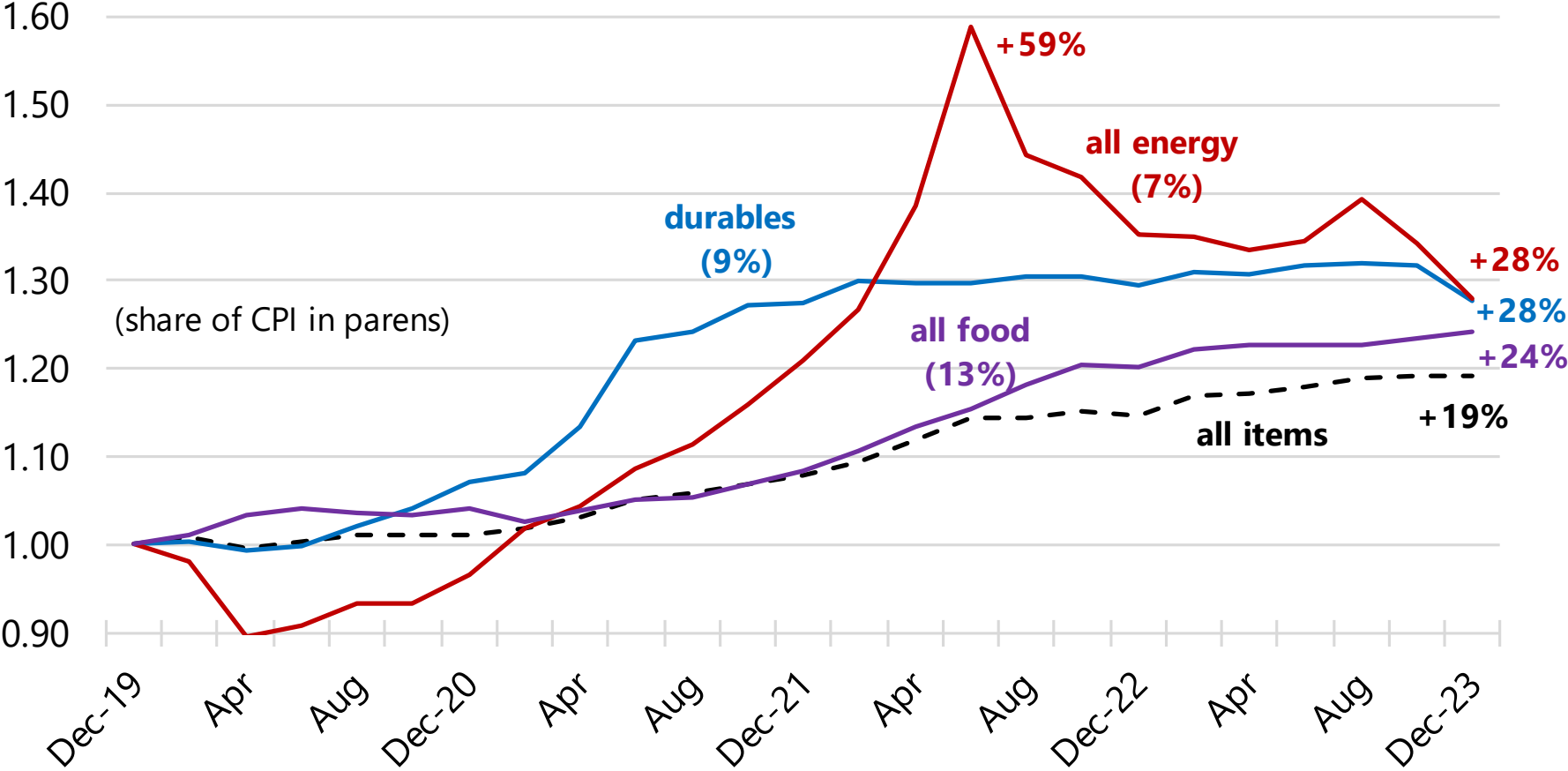
	2023.1	2023.2	2023.3	2023.4
<u>Macroeconomics</u>				
Real GDP	0.8%	2.3%	5.6%	--
Wages and Salaries	6.4%	5.2%	4.3%	4.3%
Philadelphia CPI-U	6.9%	3.9%	3.9%	3.7%
<u>Housing Market</u>				
FHFA Home Value Index	5.2%	5.3%	8.1%	--
RedFin Home Sales	-20.1%	-17.6%	-17.5%	-5.9%
30-Yr Mortgage Rate	6.37%	6.51%	7.04%	7.30%
<u>Labor Market</u>				
Unemployment Rate	4.3%	4.0%	3.5%	3.5%
Change Payroll Jobs (000s)	142	115	108	85
Change All Jobs (000s)	44	41	74	83
<p>Note: Figures are year-over-year growth rates, except Real GDP (quarterly annualized) and Unemployment Rate (average rate for quarter). Change Payroll Jobs assumes a -40k revision to preliminary data based on research published by the Federal Reserve Bank of Philadelphia. All Jobs include self-employed.</p>				

Annual Growth Philly CPI-U



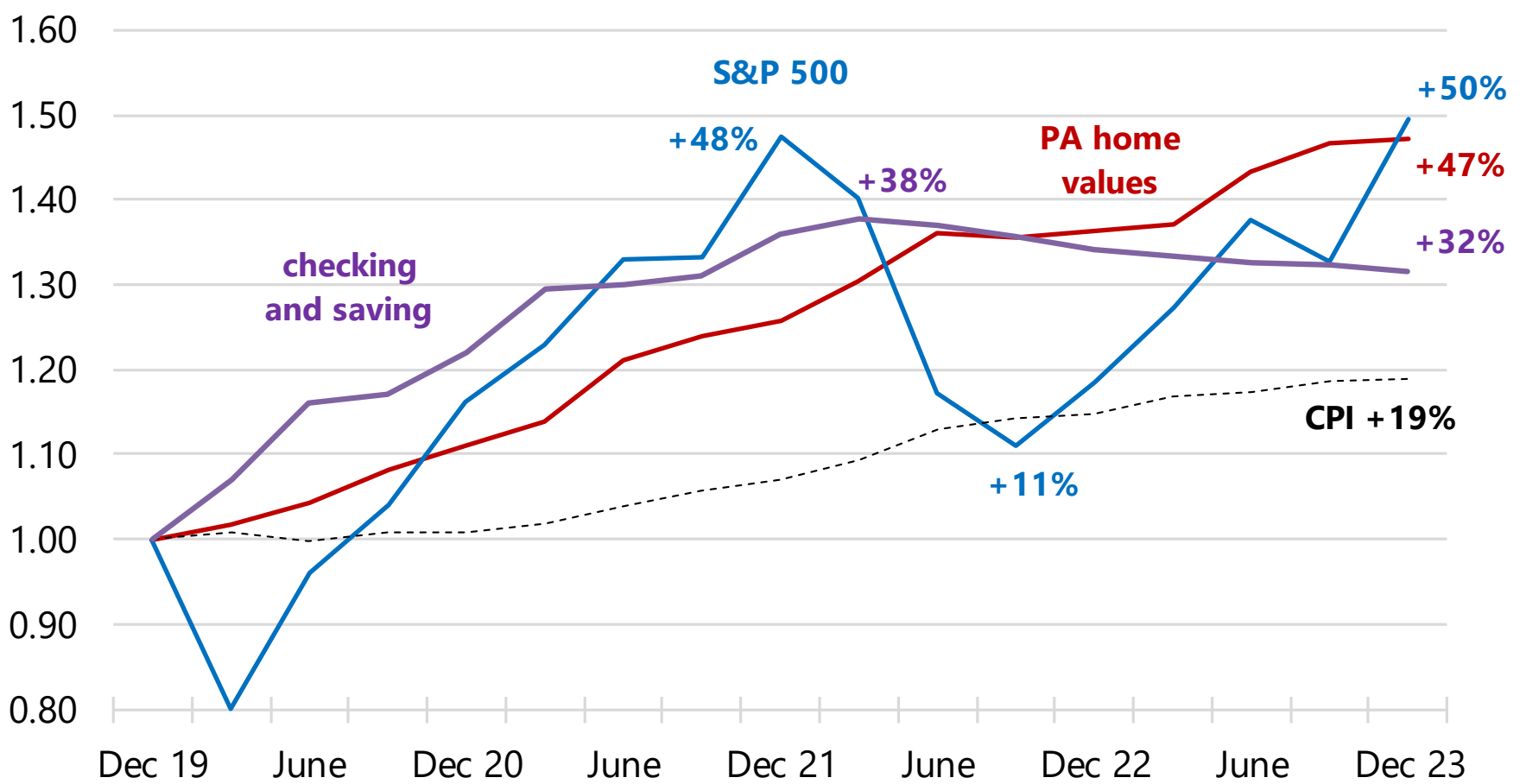
- Peaks June 2022 at 8.8%
- Core excludes food and energy
- Shelter continues to run very high
- Inflation to remain elevated in 2024 due to (1) lagging shelter component (2) no more energy and durable goods deflation

Cumulative Growth in Philly CPI-U



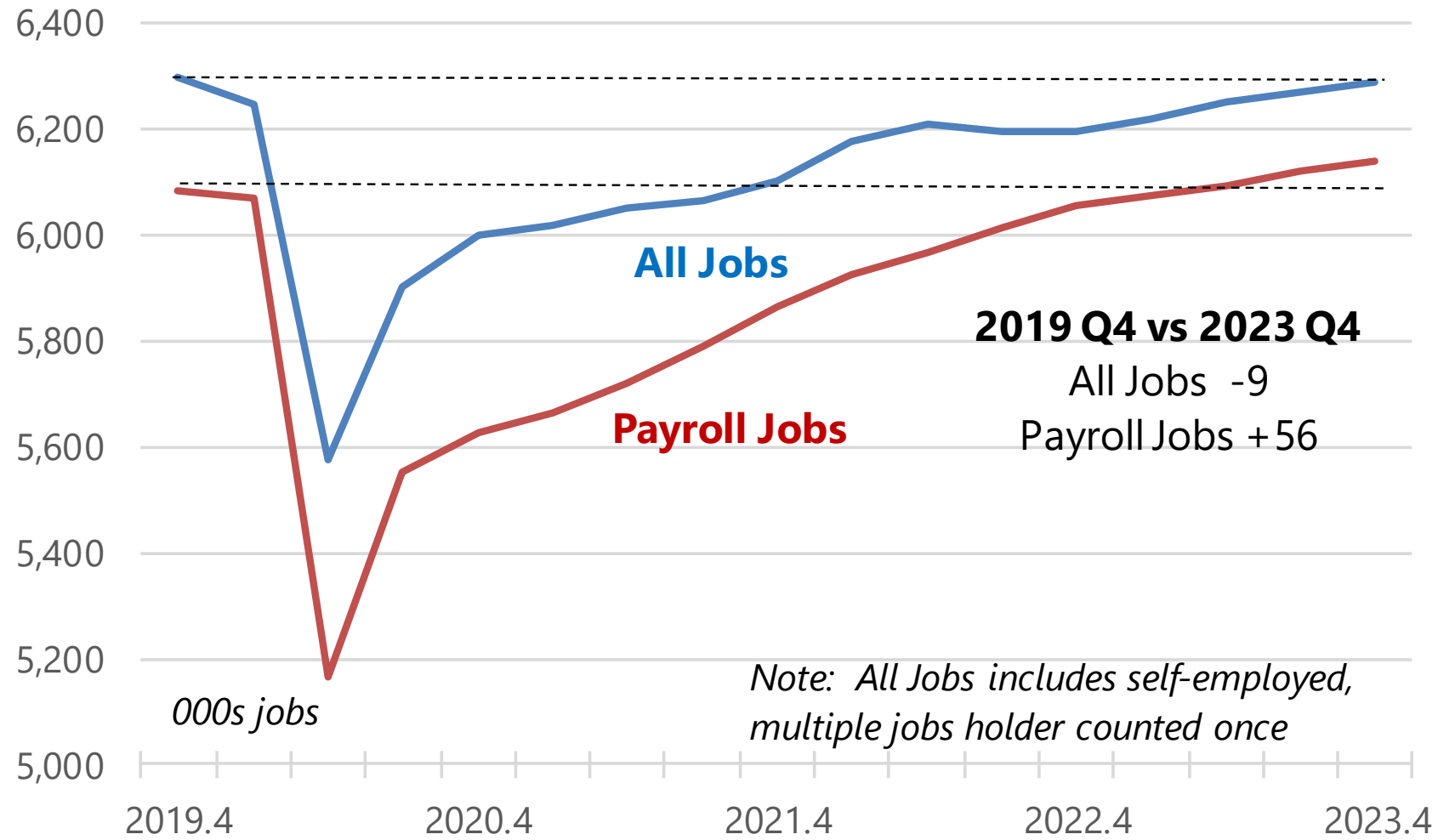
- Energy deflation since June 2022
- Gasoline, recently utility bills down (natural gas)
- Durable goods deflation in December
- Used cars down -12% since June 2022

Wealth Effects and Savings Support Consumers



- January SUT up +6% YOY
 - S&P 500 +48% Dec 2021; +50% Dec 2023
 - No reversal in home values
 - US Checking-Savings peaks in Mar 2022 +38%; falls to +32% Dec 2023
- Top 20%: up +40%
 Middle 20%: up +22%
 Bottom 20%: down -12%

PA Jobs Revert to Pre-Covid Levels



Expansion (Payroll Jobs)

- Social Assistance +32
(most is elderly-disabled services)
- Warehouse-Storage +23
- Comp System Design +10
- Home Health Care +9

Contraction

- Nursing Home -17
- Full Serve Restaurant -13
- Retail Sales -12

FY 2023-24 Revenues Through January

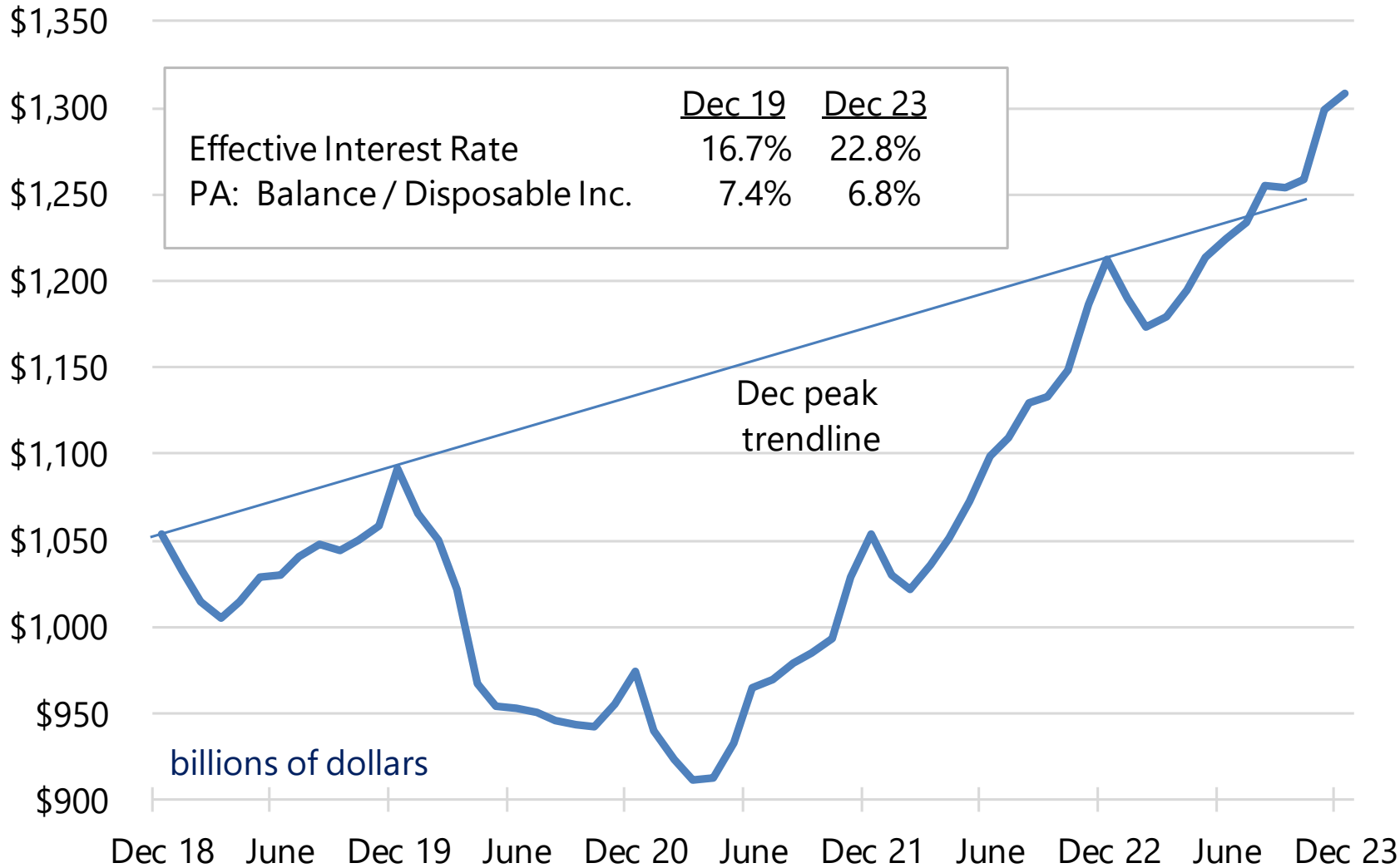
	Dollar Amount	Dollar Change	YOY Growth	Notes
General Fund Revenues	\$23,735	\$376	1.6%	1.0% adjusted, \$140m below estimate
Corporate Net Income	2,852	20	0.7	gains despite 1.0 ppt rate cut
Sales - Non-Motor	7,717	128	1.7	strong January +6%
Sales - Motor Vehicle	781	-19	-2.4	
PIT - Withholding	7,610	456	6.4	4.2% adj. for extra deposit day
PIT - Other	1,766	-354	-16.7	very strong overpayments last year
Inheritance	870	19	2.2	
All Tobacco	530	-58	-9.8	
Realty Transfer	302	-105	-25.8	
All Other	1,306	290	28.5	\$59m in January from TSF earnings

Note: Dollar millions. PIT is personal income. January revenue preliminary. Figures control for processing delays last fiscal year.

Sales and Use Tax

	YOY Growth Rate			
	2023.1	2023.2	2023.3	2023.4
Sales and Use Tax				
Non-Motor Vehicle	3.5%	1.7%	1.8%	0.3%
Motor Vehicle	7.5%	-0.1%	-3.0%	-1.0%
Consumer Debt				
PA Auto Loans	4.8%	3.3%	3.5%	--
PA Credit Cards	13.0%	13.2%	14.2%	--
US Credit Cards	13.8%	11.4%	10.7%	7.9%
Wealth Metrics				
PA Home Value Index	5.2%	5.3%	8.1%	7.6%
S&P 500 Index	-9.3%	17.6%	19.6%	25.8%
US Checking-Savings Balance	-3.2%	-3.3%	-2.4%	-2.0%

Sources: Federal Reserve Bank of New York and FHFA. PA Home Value Index for 2023.4 is an estimate.



US Credit Card Debt above trend, but manageable

- Typically grows by \$40 billion per annum
- 2023 grows ~\$100 billion
- Dec 19 to Dec 23: balances up +20%, same as inflation
- Jan-Feb paydown cycle will reveal stress

Personal Income Tax

	YOY Growth Rate			
	2023.1	2023.2	2023.3	2023.4
Withholding	5.0%	4.6%	4.6%	4.2%
2023 Estimated Payments	-18.5%	-19.6%	-19.0%	-16.6%
PA Income Data				
Wages and Salaries	6.4%	5.2%	4.3%	--
Dividends, Interest, Rent	8.6%	7.0%	5.9%	--
Proprietor's Income	4.2%	2.9%	3.1%	--
Social Security	8.4%	11.3%	11.3%	--

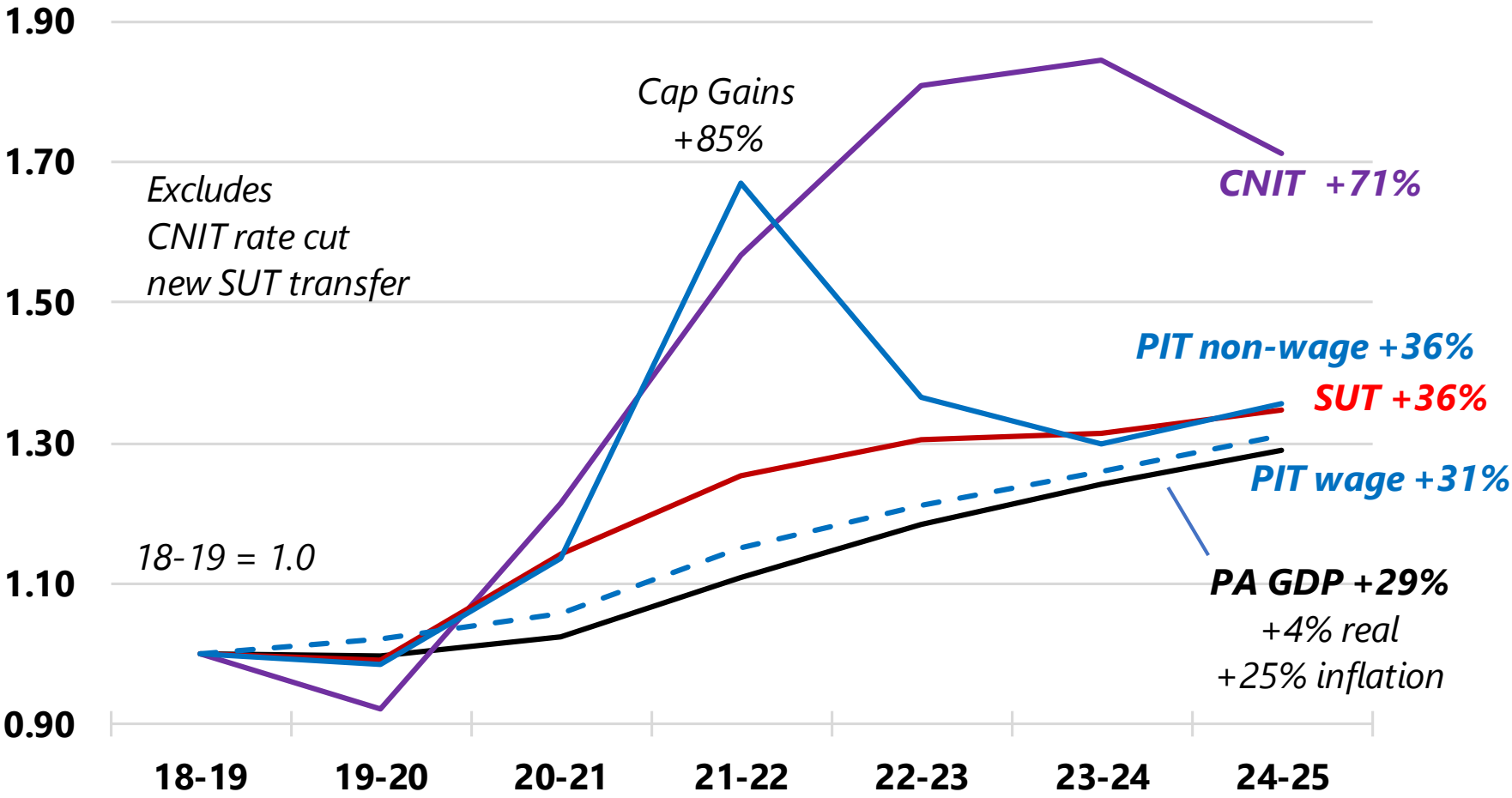
Source: U.S. Bureau of Economic Analysis.

Corporate Net Income Tax

	YOY Growth Rate			
	March	June	Sept	Dec
2023 Estimated Payments	20.2%	1.3%	-15.0%	-28.1%
US Corporate Profit Trends				
Domestic Non-Financial Profits	5.5%	-1.9%	0.4%	--
FactSet: S&P 500 Net Earnings	-2.2%	-5.2%	4.1%	--
	2020	2021	2022	2023
CNIT Payments (tax year) *(2023 controls for rate cut)	13.8%	33.4%	23.5%	-2.1%

Source: U.S. Bureau of Economic Analysis, FactSet.

Revenue Growth Unusually Strong During Pandemic



- Can profits level be maintained?
- How much of sales tax gain was dependent on federal stimulus and excess savings?

Other Revenue Trends

Realty Transfer

US home sales at all time low since 1995

Very strong lock in effect from higher rates

Treasury Earnings

FY 23-24 estimate is \$791 million

Pre-Covid average is ~\$30 million

Assumes no rate cuts until June | earning ~5.2%

Extra \$59 million deposit in January due to earnings on tobacco settlement funds

Cigarette

FY 19-20 to FY 22-23 down -4.8% per annum

FY 23-24 through Jan 2024 down -8% ; Philly down -12%

Preliminary Estimate for FY 2024-25

	Growth Rate	Dollar Change	Notes
General Fund Revenues	0.6%	\$250	growth is 2.9% excluding CNIT and Treasury
Corporate Net Income	-10.6	-601	rate falls to 8.49% (2024) and 7.99% (2025)
Sales - Non-Motor	2.5	315	
Sales - Motor Vehicle	2.1	29	car sales rebound, flat prices
PIT - Withholding	4.0	529	flat jobs growth, tight labor market
PIT - Other	4.3	206	
Inheritance	0.0	0	
All Tobacco	-7.4	-62	
Realty Transfer	11.2	61	home sales rebound
All Other	-5.1	-226	Treasury declines \$266 million

Note: Dollar millions. PIT is personal income.

General Fund Income Statement

	Nov 2023 IFO Five-Year Outlook						AAGR
	23-24	24-25	25-26	26-27	27-28	28-29	
Current Year Revenues ¹	\$45,190	\$45,813	\$46,556	\$47,838	\$48,966	\$50,278	2.2%
Refund Reserve	<u>-1,495</u>	<u>-1,445</u>	<u>-1,395</u>	<u>-1,345</u>	<u>-1,345</u>	<u>-1,345</u>	
Net Revenue	43,695	44,368	45,161	46,493	47,621	48,933	
State Expenditures	<u>-44,974</u>	<u>-46,528</u>	<u>-48,379</u>	<u>-49,996</u>	<u>-51,600</u>	<u>-53,149</u>	3.4%
Current Year Balance	-1,279	-2,159	-3,218	-3,503	-3,979	-4,216	
Adjustment for Lapses	205	200	200	200	200	200	
Reduced Spending (Fall Update)	<u>450</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Prelim Ending Balance	-624	-1,959	-3,018	-3,303	-3,779	-4,016	
General Fund End Balance	7,461	5,501	2,483	0	0	0	
Rainy Day Fund End Balance	6,314	6,588	6,841	6,236	2,602	-1,371	

Notes: Millions of dollars. AAGR is average annual growth rate from 23-24 to 28-29.
¹ FY 23-24 Budget figure deducts \$115 million anticipated transfer from cigarette tax revenue to Tobacco Settlement Fund.

Federal/National Factors Pose Greatest Risk

November Election

Uncertainty harms economic growth

Business investment may enter holding pattern until outcome known

Federal Budget

Powell: Fiscal policy is unsustainable (Oct 2023)

\$509 billion deficit 1st quarter of FFY 2024

Dec 2025: expiration of many TCJA provisions

Federal Reserve

Number and timing of rate cuts

Ongoing pace of Quantitative Tightening

Reduced liquidity from depletion of reserves kept at Federal Reserve

Questions?

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