

A Look Forward: Pennsylvania's Economic and Revenue Outlook

presented to the

2016 Keystone Rail Freight Seminar

May 13, 2016

Mark J. Ryan, Deputy Director
Independent Fiscal Office



Economic Outlook

- Stable Economic Growth
- Low Inflation
- Solid Labor Market
- Some Wage Weakness

Sources: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

Latest Annual PA Growth Rates

	2015 Q2	2015 Q3	2015 Q4	2016 Q1
Real GDP	2.3%	1.9%	n.a.	n.a.
Wages and Salaries	3.7%	2.2%	4.1%	1.8%
Consumer Prices	0.1%	-0.3%	-0.4%	0.3%
Job Gains (000s)	44.9	44.4	46.3	57.4
Realty Transfer Tax	12.4%	20.4%	18.8%	13.5%
Gasoline Prices	-28.2%	-28.0%	-27.3%	-18.0%

Year- over-year growth rates for respective quarters. The growth in wages and salaries is based on personal income tax withholding. The growth in consumer prices is based on the Philadelphia CPI-U.

Projected 2016 Growth Solid

	2012	2013	2014	2015	2016
Real GDP	0.7%	0.7%	1.5%	2.0%	2.0%
Wages and Salaries	3.7%	1.8%	4.0%	3.4%	3.7%
Consumer Prices	1.8%	1.2%	1.3%	-0.1%	1.0%
Job Gains (000s)	39.9	14.7	47.6	48.6	52.4
Realty Transfer Tax	12.7%	13.5%	8.0%	17.0%	7.5%
Gasoline Prices	3.6%	-3.4%	-3.4%	-29.2%	n.a.

Average annual rates. Gasoline is mid-Atlantic price. Values are forecasts for entire year.

Annual Payroll Job Gains (000s)

	2014	2015	2016
Mining	1.7	-3.6	-6.1
Construction	5.0	4.8	1.4
Manufacturing	3.0	0.6	-1.5
Wholesale-Retail	2.6	3.6	7.3
Transportation-Storage	7.4	10.2	6.2
Professional Services	13.6	13.4	10.2
Healthcare-Social	14.4	11.8	14.5
Leisure-Hospitality	5.3	9.5	14.7
Local Gov't	-7.5	-7.5	-4.0
State-Federal Gov't	-2.0	1.4	1.0
All Other	<u>4.1</u>	<u>4.6</u>	<u>8.7</u>
Total	47.6	48.6	52.4

Professional Services includes the Management and Administrative sectors.

PA Economic Forecasts

		Annual Growth Rate or Change		
		2015	2016	2017
Real GDP	Jun-2015	1.9%	2.0%	n.a.
	Updated	2.0%	2.0%	2.2%
Consumer Prices	Jun-2015	0.5%	1.9%	n.a.
	Updated	-0.1%	1.0%	1.6%
Wages and Salaries	Jun-2015	3.8%	3.9%	n.a.
	Updated	3.4%	3.7%	4.2%
Average Job Gains (000s)	Jun-2015	54.9	55.6	n.a.
	Updated	48.6	52.4	50.6

Short-Term Revenue Outlook

- Modest, But Steady Revenue Growth
- Capital Stock & Franchise Tax Phased-Out
- Recent Reliance on One-Time Revenues

IFO Revenue Estimates

	2015-16		2016-17	
	Amount	Growth	Amount	Growth
General Fund	\$31,022	1.4%	\$31,586	1.8%
Corporate Net Income	2,837	0.9	2,876	1.4
Sales and Use	9,840	3.6	10,183	3.5
Personal Income	12,601	4.1	13,100	4.0
Other Tax Revenue	5,083	0.0	4,938	-2.8
Non-Tax Revenue	662	-39.8	490	-26.1

Dollar amounts are in millions.

General Fund Revenue Comparison

	2015-16	2016-17
IFO (May 2016)	\$31,022	\$31,586
Growth Rate	1.4%	1.8%
Executive Budget (Feb 2016)*	\$30,872	\$31,772
Growth Rate	0.9%	2.9%
Dollar Difference	\$150	-\$186
Two-Year Total		-\$36

Dollar amounts are in millions.

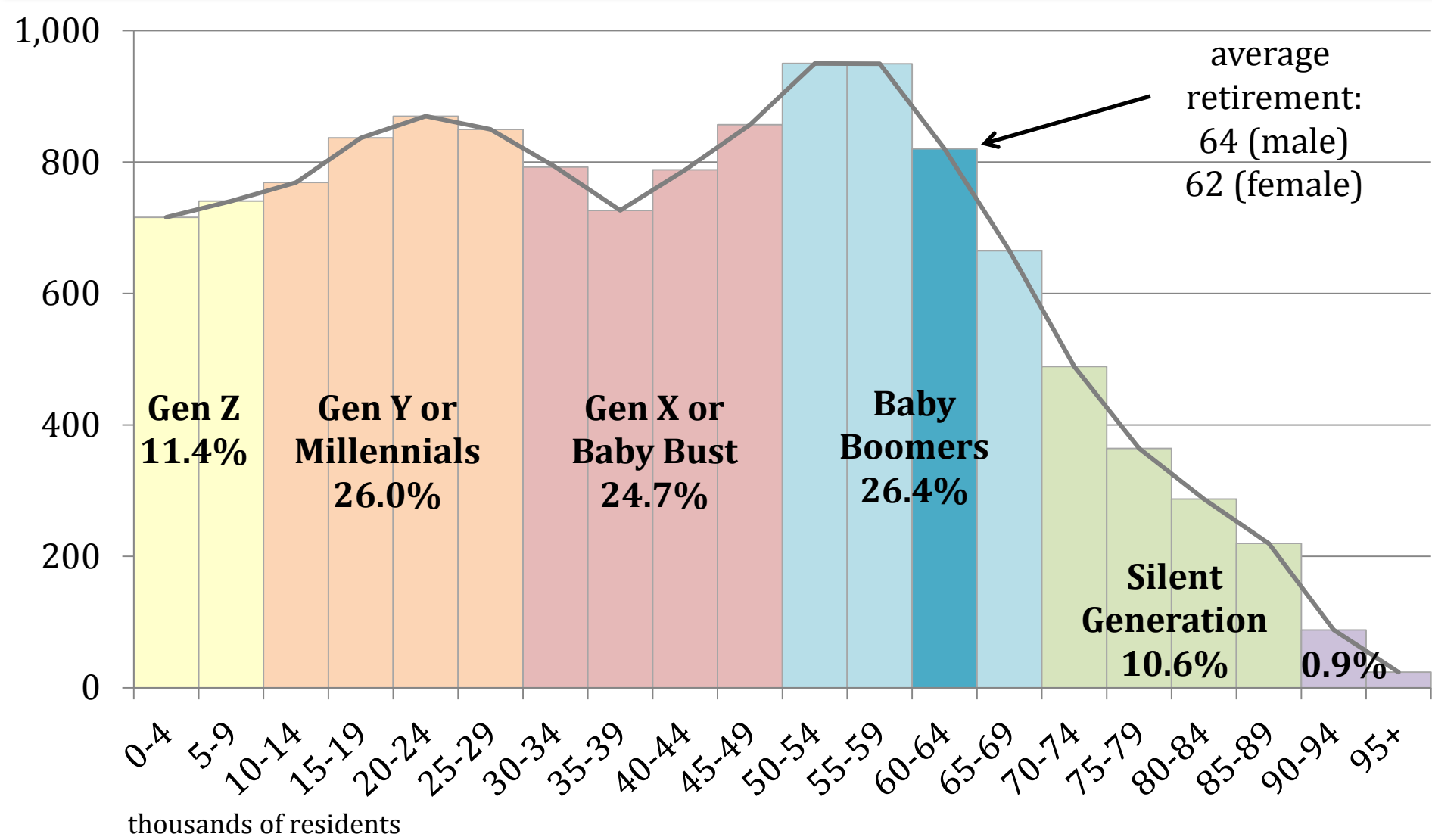
*FY 2016-17 Executive Budget, General Fund Financial Statement, p. C1.5. Excludes proposed revenue changes.

Impact of Demographics on the Long-Term Economic and Budget Outlook

- Large Wave of Retirements Next Decade
- Demographic Changes Contribute to Tax Base Erosion
- Health Care Costs Help Drive Expenditures

All Demographic Projections from Penn State Data Center.
Reflects U.S. Census Estimates for 2015

2015 Population by Generation

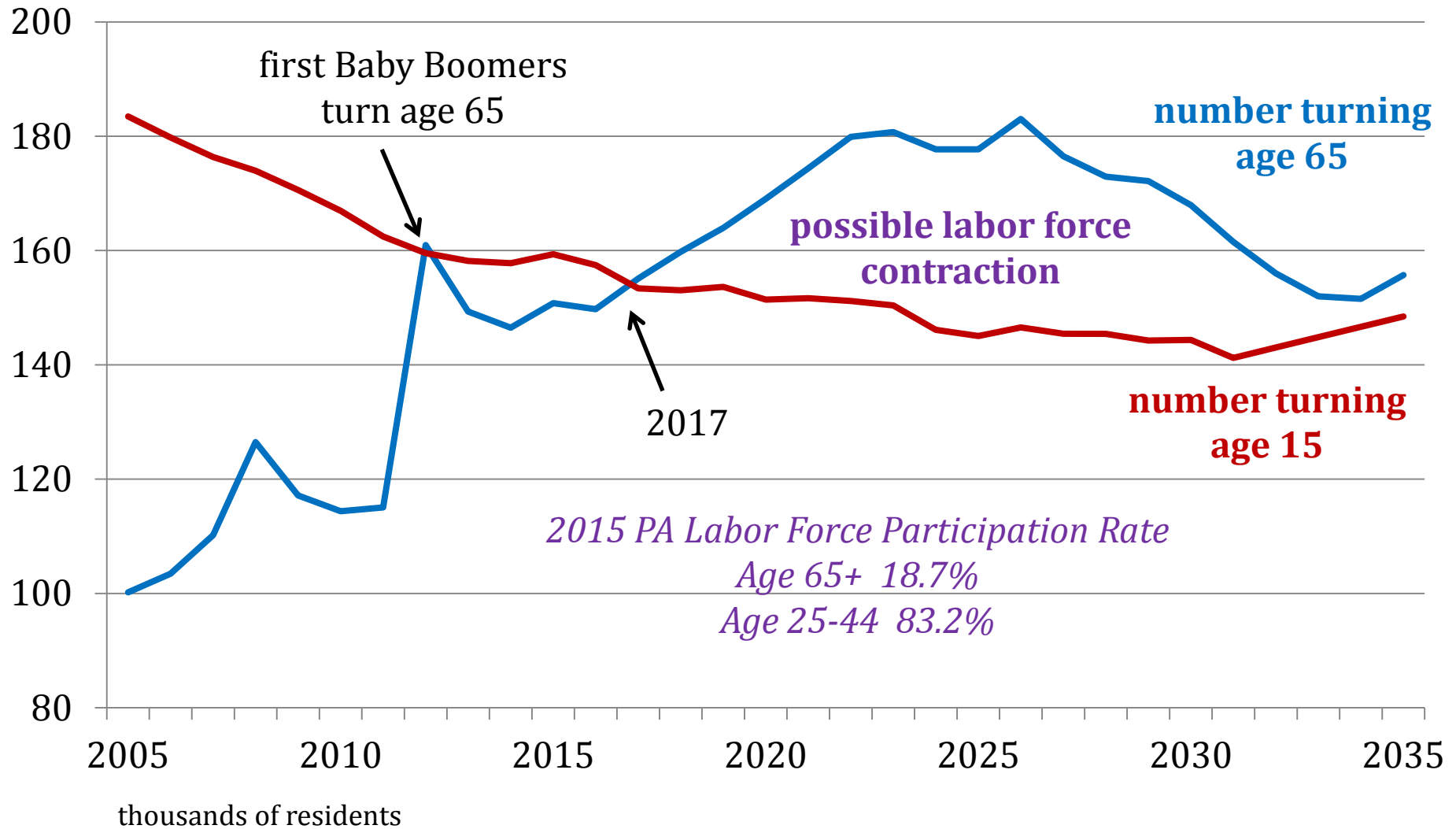


Population Change by Age Group

Age	Population Gain or Loss		Average Annual Growth	
	2005-15	2015-25	2005-15	2015-25
0-19	-164	-14	-0.5%	0.0%
20-39	116	139	0.4%	0.4%
40-59	-77	-438	-0.2%	-1.3%
60-79	439	663	2.1%	2.5%
80+	<u>39</u>	<u>86</u>	<u>0.6%</u>	<u>1.3%</u>
Total	353	436	0.3%	0.3%

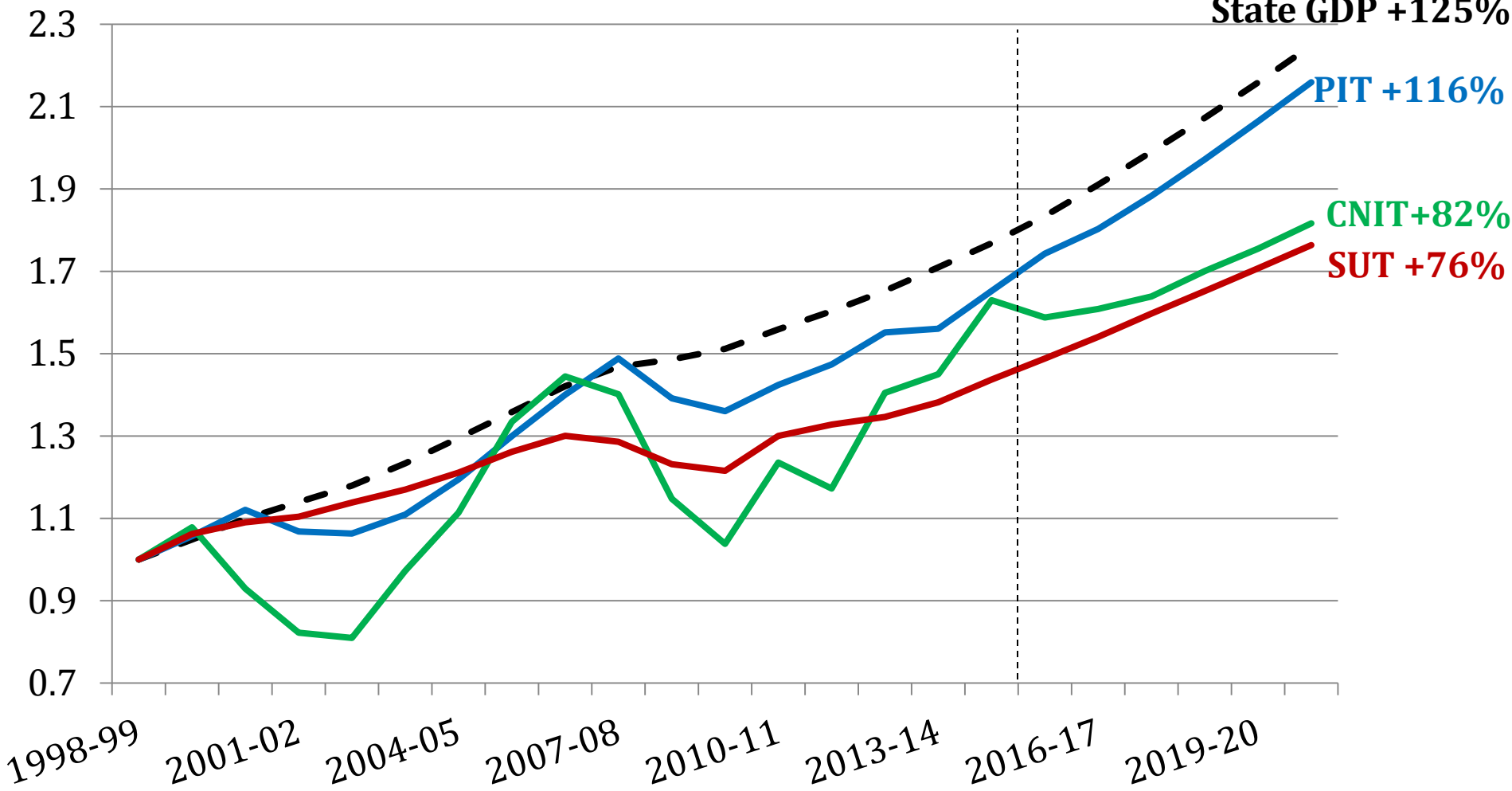
thousands of residents

PA Labor Force May Contract



Long-Term Tax Base Erosion

Cumulative Growth

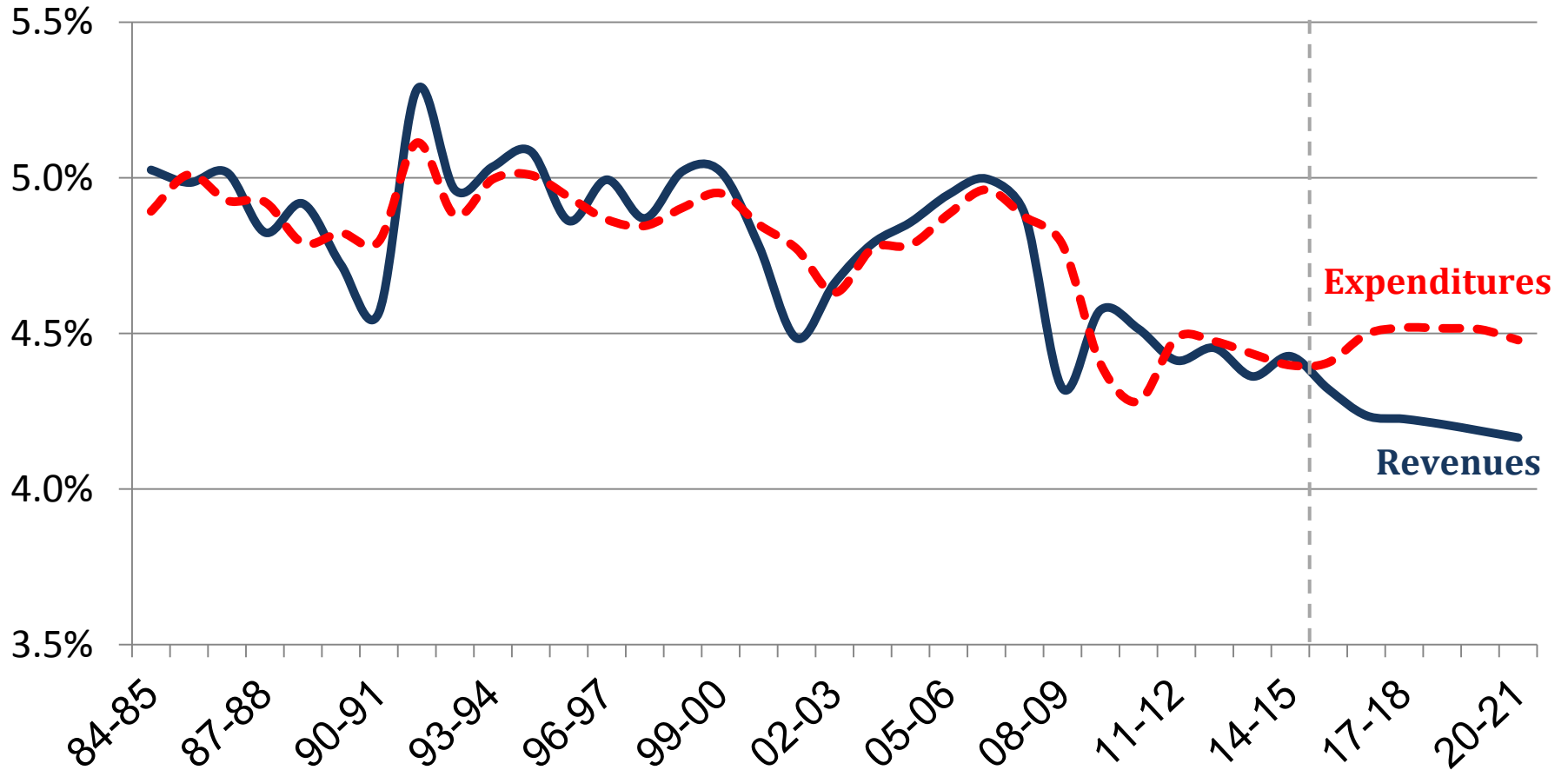


IFO Expenditure Projections

	General Expenditures	Older Resident Healthcare
(1) Demographics	0.3%	2.5%
(2) General Inflation	2.0%	2.0%
(3) Healthcare Premium	<u>n.a.</u>	<u>1.5%</u>
TOTAL ANNUAL FACTOR	2.3%	6.0%
Five-Year Cumulative Growth	12.0%	33.8%

Long-Term Budget Outlook

Revenues and Expenditures as a Share of State GDP



Thank You

Independent Fiscal Office
Rachel Carson Office Building, 2nd Floor
400 Market Street
Harrisburg, PA 17105

(717) 230-8293

contact@ifo.state.pa.us

www.ifo.state.pa.us