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Jobs and State Tax Revenue Still Tied Together

Summary: In a recent *Policy Brief*, we discussed the Lincoln Institute of Public Opinion's spring business climate survey and noted how it struck a more optimistic tone compared to previous surveys. But is this optimism based on actual performance or simply a better attitude? There appears to be some pickup in employment but as of yet it is not strengthening appreciably.

The statewide employer payroll data, seasonally adjusted, indicates that March 2017's level of total non-farm employment is about one percent better than one year ago. In fact since September 2016 the non-farm employment levels are about one percent higher than the twelve month earlier levels for each month. However, prior to that, from January 2015 to August 2016, the year over year increase was less than one percent each month with the exceptions of March and April 2015. While the recent pickup in growth is not eye-popping, it does show slow acceleration over the past few months, perhaps reflecting business optimism.

Statewide employment levels in the goods producing industries (manufacturing, construction, mining and logging) appeared to be slowing their losses in the last several months. For instance, the levels for January and March 2017 are less than one percent below what they were in 2016, with February's level slightly better than February 2016 (up 0.10 percent). The smaller losses in goods producing jobs can be traced to a leveling off in mining jobs following a sharp decline through the early part of 2016. Construction continued to add jobs in March, tacking on an almost three percent gain. Unfortunately, manufacturing employment has yet to shift to a growth path.

On the other hand, service providing industries that are comprised of industries such as education and healthcare, professional and business services, leisure and hospitality, and trade, transportation, and utilities have continued to post gains. From March 2016 through March 2017 service industries added just over 60,000 workers to payrolls, a rise of 1.25 percent. After a slowdown in 2015, the service industries returned to the one percent growth range in 2016 and appear to have picked up the pace slightly in recent months.

However, retail has not fared well of late. In March 2017, the seasonally adjusted level of employment in the statewide retail sector was 0.85 percent below March 2016. And the weak retail jobs numbers extend back for some time. Indeed, the March 2017 posting is below the early 2011 level as recovery from the last recession got underway and is 35,000 jobs under the 1990 reading.

As we have been documenting during this fiscal year, revenue collections for the Commonwealth have not been keeping pace with their projected levels. And through March with three quarters of the fiscal year completed this pattern has not changed. The year to date collection is 0.7 percent higher than the revenue for the first nine months of the last fiscal year. But the nine month total continues to trail the budget's projected level. After the first quarter of this fiscal year, general fund revenues were below projections by over $218.5 million. After three quarters, that gap has widened to more than $679.3 million or three percent below official estimates.

The corporate net income tax has the widest gap between what has actually been collected through three quarters and the projected level—$1.738 billion vs. $1.974 billion, a difference of twelve percent. Indeed, this year's nine months of collected revenue has fallen almost seven percent behind the $1.864 billion collected through the first three quarters of the previous fiscal year.

The personal income tax also lags its projected level by 1.62 percent so far in this fiscal year ($8.684 billion vs. $8.828 billion). On a year to date basis however, it is above the fiscal 2016 collections by just over one percent. Keeping in mind that April is the biggest revenue month for this tax, revenue may rebound when April's data becomes available. But given the trend of not keeping up with its projected level, it is far from certain that will happen.

The sales and use tax is also trailing its projected level through three quarters of the fiscal year. It was projected to collect $7.488 billion but the state has only actually collected $7.356 billion—a shortfall of 1.76 percent. But, like the personal income tax, it is ahead of fiscal 2016's year to date level by 1.5 percent.

The Pennsylvania economy, as measured by seasonally adjusted employment levels, has been plodding along with slow growth in non-farm jobs. While recent growth has been slightly faster since September 2016, it is still struggling to shift to a higher sustained pace, especially with manufacturing weakness and mining still yet to launch a full recovery. While job growth of any kind is welcome, when much of it is lower wage employment, the effect on incomes and profits can be felt. This is being reflected in the amount of tax revenues being collected by the state. The corporate net income tax is struggling to match last year's pace let alone meet budget projections.

The improvement in business optimism and consumer optimism bodes well for the Pennsylvania economy. But hard realities must still be faced. Very high fuel taxes, the pension crisis facing the state, school districts and the two largest municipalities, labor legislation that is increasingly out of step with much of the nation where 28 states have now adopted right to work laws and many have significantly lower corporate taxes. A stronger national economy will help Pennsylvania, but much more needs to be done to improve the regulatory and policy environment in the Commonwealth.

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