



### Is Pennsylvania's economy picking up steam?

**Summary:** When fiscal year 2018 came to a close June 30<sup>th</sup> and the general fund revenues were finally tallied, the commonwealth's total tax revenues collected exceeded the previous fiscal year by 4 percent. Given the struggles in recent fiscal years with stagnating revenues (see *Policy Brief Vol. 17, No. 37*) does this point to a strengthening in the state's economy?

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According to the Pennsylvania Department of Revenue, total general fund tax revenue for fiscal 2018 topped \$32 billion, 4 percent higher than fiscal 2017's \$30.75 billion. This is the second largest percentage increase to the total tax revenues in the last five years (fiscal 2015 was 4.96 percent greater than fiscal 2014). The other growth rates were quite anemic: 0.11 percent, 1.63 percent and 2.60 percent. While the increase in general fund tax revenue was a plus for the state, the commonwealth had estimated that collections would reach \$32.13 billion, leaving actual collections about one-half of a percent below the projected level.

The corporate net income tax collections, the largest of the "corporation taxes" category, reached \$2.88 billion, 4.6 percent better than the previous fiscal year's \$2.75 billion. This was the second largest yearly gain over the last five years (fiscal '15's collections were 12.4 percent higher than fiscal '14). In fact, fiscal '17's level of \$2.75 billion was down 3.2 percent from fiscal '16 (\$2.84 billion). In what had to be a surprise, this category fell 7.7 percent short of the \$3.12 billion forecast. This may be a sign that businesses in Pennsylvania are not fully benefitting from a faster paced national economy. Or, it could be they are struggling under Pennsylvania's tax and regulatory environment.

The sales and use tax, the largest of the "consumption taxes", hit \$10.38 billion in fiscal 2018, up 3.8 percent over fiscal 2017's \$10 billion. Over the last five fiscal years, the growth in sales and use tax revenue has been fairly stable, ranging from a gain of 2.14 percent (fiscal '17 vs. fiscal '16) to a high of 3.98 (fiscal '15 vs. fiscal '14). Projected sales and use tax revenue for fiscal 2018 was close to the actuals (\$10.34 billion vs. \$10.38 billion).

Personal income tax, the largest revenue generator, produced \$13.4 billion in fiscal 2018 and accounted for 42 percent of all general fund tax revenue. This is a rise of 5.8 percent over the \$12.66 billion collected in fiscal 2017 and was close to the fiscal 2015 collections gain of 5.86 percent over fiscal 2014. Forecast personal income tax collections for fiscal 2018 (\$13.30 billion) were very close to the actual revenue for fiscal 2018.

By comparison, U.S. Treasury Department data indicate that thus far through the federal fiscal year (October 2017 through July 2018) personal income tax collections are up by 7.8 percent over the previous fiscal year, in spite of the tax cuts that took effect in January 2018.

Given that Pennsylvania's fiscal '18 tax revenues were greater than those collected in the previous fiscal year, is the state's economy picking up steam?

Household survey data (seasonally adjusted) for August 2018 suggest that a significant strengthening is not occurring. Compared to August 2017, the civilian labor force has fallen by 38,000 persons. That decline, combined with a gain of only 7,000 employed persons, pushed down the number of unemployed by 45,000. These data suggest that a large number of the population have stopped looking for work. Could be retirements are up or it could be discouraged workers and *that* would not be a healthy sign for the state's economy.

Contrast that with the national household survey data (seasonally adjusted) which shows the civilian labor force increasing by 1.18 million over the 12 months ended in August. The number claiming to be unemployed fell by 893,000 while those reporting themselves to be employed rose by 2.07 million. Thus, strong employment opportunities have been more than ample to absorb large numbers of the previously out of work as well as newcomers.

From the August 2018 employer payroll survey (seasonally adjusted), the number of total nonfarm jobs in Pennsylvania had moved up by 65,500 (1.1 percent) from a year earlier. This continues a trend in which total nonfarm employer payrolls have struggled to break out. Particularly concerning was the drop of 4,900 from July posted in the August report.

By contrast the national nonfarm jobs rose 1.6 percent from August 2017 to August 2018. Pennsylvania has not been able to keep up with the nation in nonfarm job gains. In fact Pennsylvania has not bested the national growth rate in nonfarm jobs since coming out of the last recession in 2011.

Industry employment data are broken down into two major categories: goods-producing and service-providing. The former consists of mining and logging, construction and manufacturing while the latter consists of services such as health and education, leisure and hospitality and professional and business services. Goods-producing industries are prized for the multiplier effects on an economy with higher wages and supporting other industries, particularly the service sector industries.

Pennsylvania's goods-producing industries have struggled to grow with the August 2018 job count up only 0.72 percent over the last 12 months. Nationally, the August year-over-year growth in the goods-producing sector rate was 3 percent. The goods-producing sector nationally has been gaining steam, while in Pennsylvania it has been weakening since March of this year.

The state's manufacturing job count was up 0.73 percent over the past 12 months. Only June of this year posted a yearly rise of more than one percent. Nationally, the annual gain in August was a robust 2.04 percent.

Pennsylvania has kept pace with the nation as a whole in service-providing industries. The seasonally adjusted growth rate of the service-providing industries in August was 1.16 percent for the commonwealth and only 1.36 percent nationally.

One service-providing sector where Pennsylvania's job growth tops that of the nation is in education and health services. Pennsylvania recorded a 2.62 percent 12-month rise in August while nationally that sector's employment was up 1.93 percent during the period. Again, while growth in service-providing sectors is welcome, these sectors do not have the wages, productivity or multiplier effects as the goods-producing sectors.

The 4 percent increase in general fund tax revenues for fiscal 2018 over 2017 should not be construed to mean the state is performing well compared to fast growing states or to the national economy. Rather, the below-national gains in nonfarm jobs in Pennsylvania point to persistent and longstanding problems with its business climate. The high corporate taxes, a smothering regulatory climate and fealty to unions all play a part in holding the state's economy at subpar levels.

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