

City of Philadelphia Monthly Economic and Quarterly Revenue Review

*Department of Finance
Office of Budget and Program Evaluation
City of Philadelphia
March 2010*

March 2010 Economic Summary:



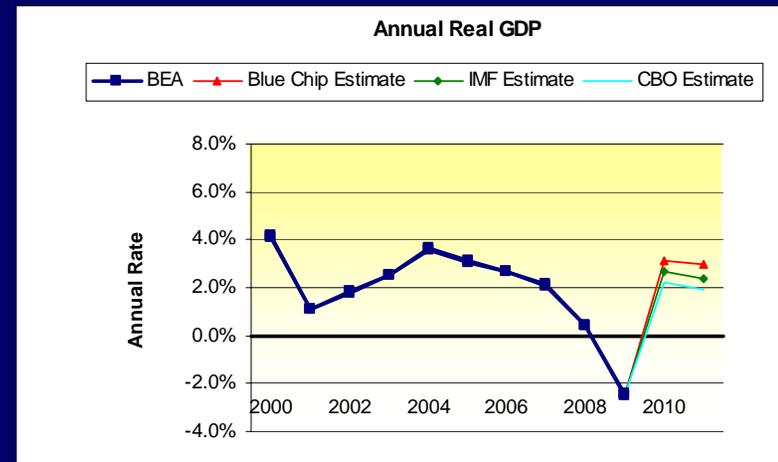
- The national economy showing signs of recovery.
 - Real GDP, based on the 4th Quarter preliminary (second) estimate, showed growth of 5.9% from 2.2% in the 3rd Quarter. This is largely due to increases in business inventories.
 - National unemployment rate at 9.7% in February
 - Federal Funds remain low, as the 10-year Treasury stabilizes between 3% and 4% since the second half of 2009. Fed keeps target rate range of 0 – 0.25%.
 - National inflation at 2.63% in January.
 - Retail sales, a large portion of the GDP, showing an upwards turn in recent months.
 - Rate of annual growth for median home sales price at a decrease in Quarter 4.

- Philadelphia indicators showing slowed growth.
 - Philadelphia total unemployment rate remained unchanged at 10.9% in January. Philadelphia unemployment is reported at a one month lag to the nation.
 - Philadelphia showed increasing retail sales for the month of November. (Philadelphia reports the Sales Tax at a 2-3 month lag to the nation). In October 2009, the City portion of the Sales Tax was temporarily raised from 1% to 2%.
 - Philadelphia's housing industry showing stabilization from the prior year in Quarter 4, faring slightly better than the nation.
 - Anecdotal evidence from the Federal Reserve Beige Book showing slow, but improving conditions for Philadelphia industries.



U.S. Economic Growth I: Real GDP Projected to Recover in 2010

- According to the Bureau of Economic Analysis (BEA), annual real GDP fell by -2.4% in 2009. Annual real GDP has not shown negative growth since 1991.
- Blue Chip Economic Indicators
3.1% est. growth for 2010
3.0% est. growth for 2011.
- International Monetary Fund
2.7% est. growth for 2010
2.4% est. growth for 2011
- Congressional Budget Office
2.2% est. growth for 2010
1.9% est. growth for 2011

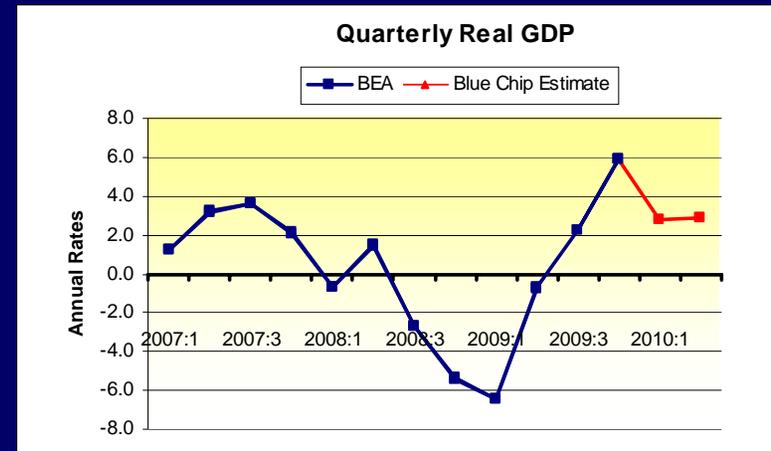


*Note: The latest estimates for annual Real GDP are from the following:
Bureau of Economic Analysis
Blue Chip Economic Indicators, March 2010 (monthly)
International Monetary Fund, World Economic Outlook, January 2010
(bi-annual)
Congressional Budget Office, Budget and Economic Outlook, January 2010
(bi-annual)*



U.S. Economic Growth II: Fourth Quarter Real GDP Grows by 5.9%

- In its preliminary (second) estimate, The BEA reported real GDP growth of 5.9% in the fourth quarter 2009.
 - This estimate, however, is subject to revision over the coming months
 - Two-thirds of fourth quarter growth due to increased business inventories, as well as contributions from stimulus expenditures.
- Blue Chip projections for the first and second quarters of 2010 are 2.8% and 2.9%, respectively. These estimates are reflected in red on the accompanying chart.



Sources: Bureau of Economic Analysis, Blue Chip Economic Indicators

U.S. Economic Growth III:



- The March 3rd Federal Reserve Beige Book reported improving conditions in Philadelphia.

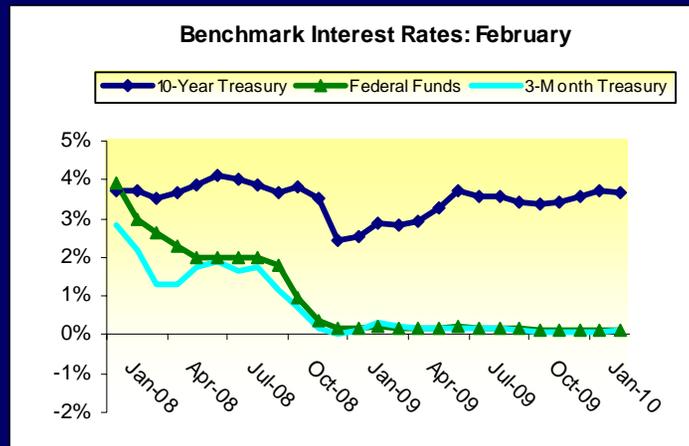
Third District - Philadelphia:

- Retail Sales – Area retailers and car dealers showed increasing sales in recent months, with marked month to month decline from February snow storms. Overall sales are expected to be slightly above growth achieved last year.
 - Manufacturing – Manufacturers reported an increase in new shipments and new orders during the month of February, with many reporting a pick up in customer base. A third of manufacturers plan for capital expansion in the next six months, and half were able to maintain the current level of operations.
 - Finance industry – Lenders showed an increase in business and real estate loans, with a decrease in consumer loans. Strict credit standards continue to hinder many from obtaining financing.
 - Real Estate – Despite seasonal delays, real estate agents reported improvement in residential sales for new and existing homes, however inventories remained high. The homebuyer tax credit allowed for increased sales from low to middle income households, but credit conditions have hampered additional sales from this group.
- The February Consumer Sentiment Index decreased from 56.5 in January to 46.0 in February. An improving short-term outlook fell in February as consumers expressed concerns about business and job market conditions. Those surveyed also showed declining confidence for improvements in income and earnings. A reading above 90 represents high confidence for economic stability. The Index is released monthly by the Conference Board.

U.S. Interest Rates: Federal Funds at 0.13%



- At the most recent meeting, March 16th, the Federal Reserve Federal Open Market Committee (FOMC), maintained the target rate range at 0% to 0.25%.
- The FOMC increased the Federal Funds rate from 0.11% to 0.13% from January to February.
- Short term debt securities have remained relatively low and unchanged over the past year as firms improve liquidity. Rates for long term Treasury bills have increased in recent months.



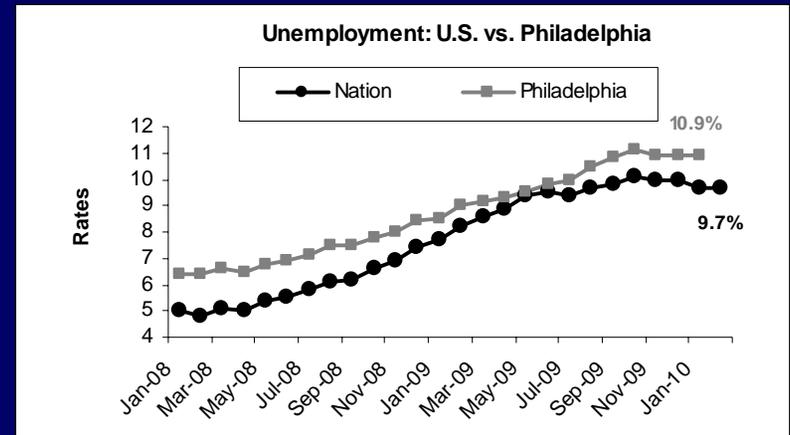
Sources: Board of Governors of the Federal Reserve System

Employment I:

National Unemployment at 9.7% in February



- The national unemployment rate remained unchanged from January to February at 9.7%. Philadelphia also showed no change in unemployment at 10.9% in January¹.



Sources: Bureau of Labor Statistics, Center for Workforce Information and Analysis

Notes: Unemployment rates are seasonally adjusted (SA).

¹Philadelphia and other county unemployment rates are reported at a one month lag to the nation.

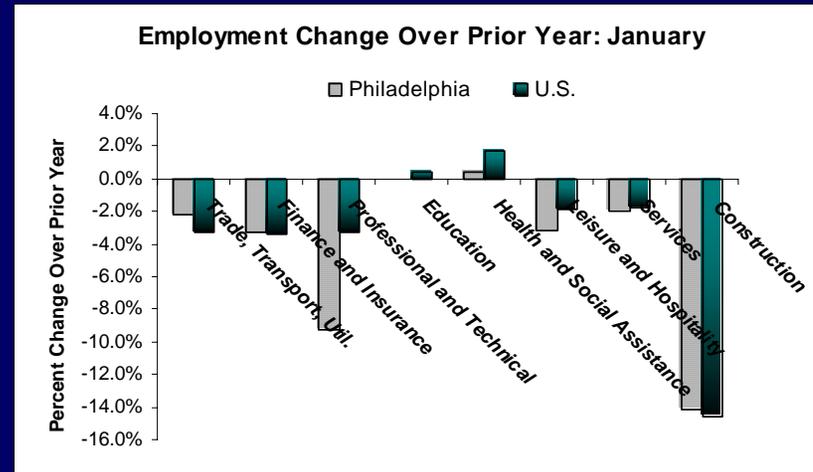
Employment II: Job Growth Delayed Across Major Industries



- National non-farm payroll employment, compared to last year, has decreased by -2.5% in February. Philadelphia employment fell by -2.5% in January¹.
- U.S. employment has shown slowing levels of decline between Quarters 3 and 4 (average loss of -4.8% and -4.0%, respectively). In contrast, Philadelphia employment worsened during this time (average loss of -3.3% and -3.6%, respectively)

By Industry

- The latest **employment by industry** data for both U.S. and Philadelphia is for the month of **January**.
 - Philadelphia Professional and Technical jobs showed substantial loss during the month of January, at -9.2%. Nationally, growth fell by -3.2%.



Sources: Bureau of Labor Statistics, Center for Workforce Information and Analysis

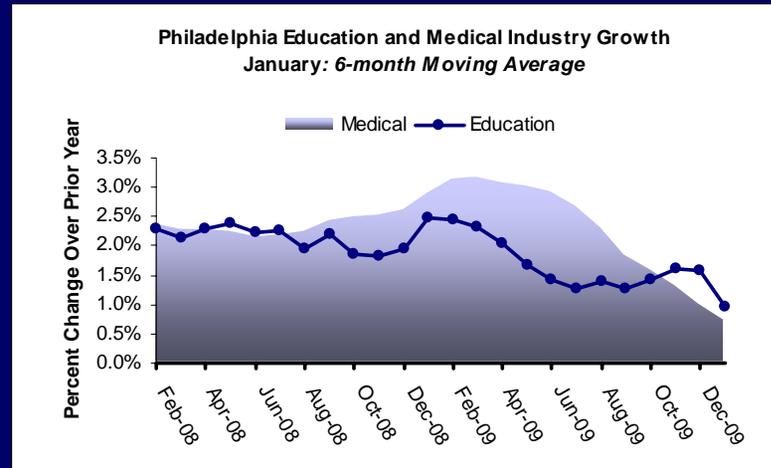
Note: Total non-farm payroll employment is seasonally adjusted (SA)

¹ SA Philadelphia total non-farm payroll employment reported at a one to two month lag to the nation.

Employment II cont. :



- The graph to the right shows employment growth at a six-month moving average for Philadelphia's most concentrated industries, Health (Medical) and Education.

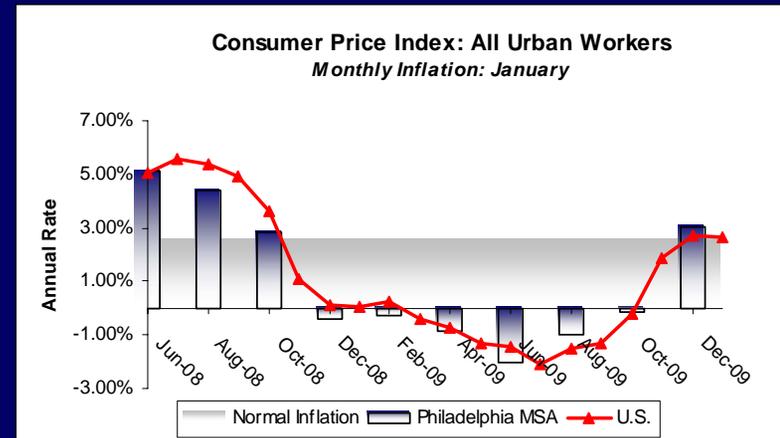


Source: Bureau of Labor Statistics



Consumer Prices: National and Local Inflation Continues to Grow

- National inflation reached 2.63% in January. This is up 0.3% from December.
- Philadelphia inflation at 3.03% for the month of December¹ - the first sign of positive growth since October 2008.
- The Bureau of Labor Statistics Employment Cost Index reports that total compensation (Wages, salaries and benefits) for U.S. state and local workers have decreased in the past year.
 - Wages and salaries grew by 2.0% during the 12-month period ending in December 2009. This is down from 3.1% last year, and below current national inflation.
 - Benefits grew by 3.2% during the same time, up from 2.9% last year.



Source: Bureau of Labor Statistics

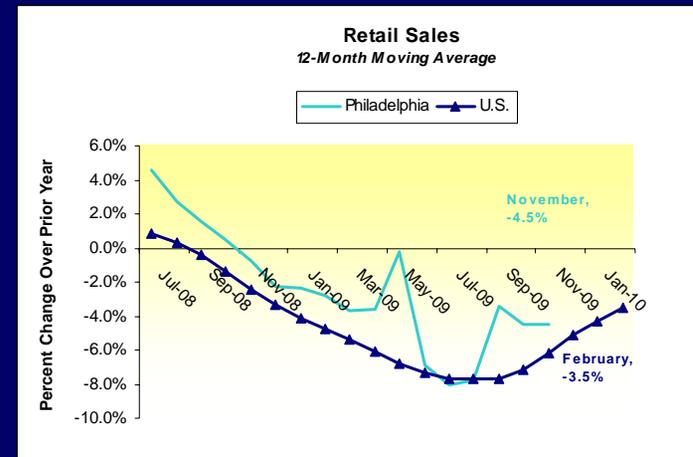
¹ Note: The Bureau of Labor Statistics releases national consumer price index data monthly and Philadelphia Metropolitan Statistical Area (MSA) data every other month. Consumer Price Index not seasonally adjusted.



Retail Sales:

Slow Recovery for National and Retail Sales

- At a 12-month moving average, the rate of growth for national retail sales was -3.5% in February. Philadelphia sales were reported at -4.5% in November.
 - Philadelphia gross sales expenditure is reported at a 2-3 month lag to the nation
 - National retail sales are adjusted, excluding expenditures for groceries, gas, health/personal care and clothing – major items exempt from the Philadelphia sales tax
 - Philadelphia expenditures are adjusted for a 2% sales tax rate increase established in October 2009. Expenditures before this time reflect the original sales tax rate of 1%.
 - Philadelphia sales derived from tax receipts and represents taxable sales

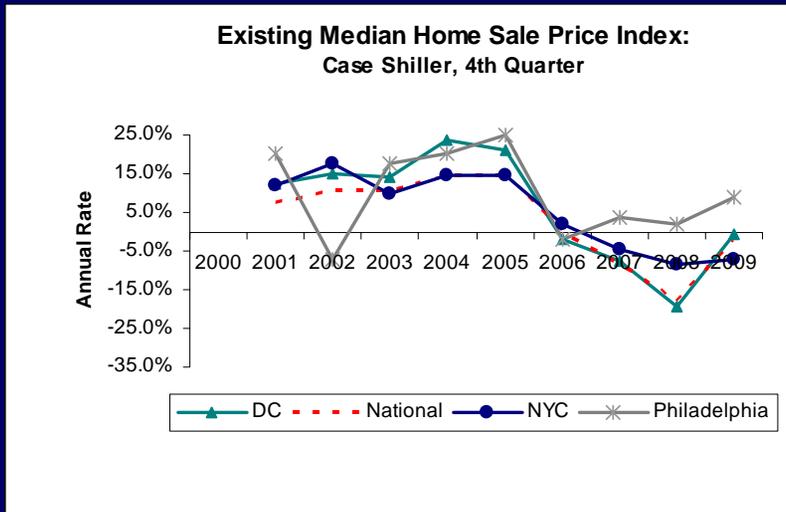


Sources: U.S. Census Bureau, Philadelphia Department of Revenue



Housing:

Philadelphia Housing Market Showing Growth in Quarter 4



Sources: National Association of Realtors, Standard and Poor's Case-Schiller Index, Office of Budget and Program Evaluation

■ Case-Shiller Home Price Index

The housing index provided by Case-Shiller shows indexed purchase prices for single-family homes on a value-weighted basis.

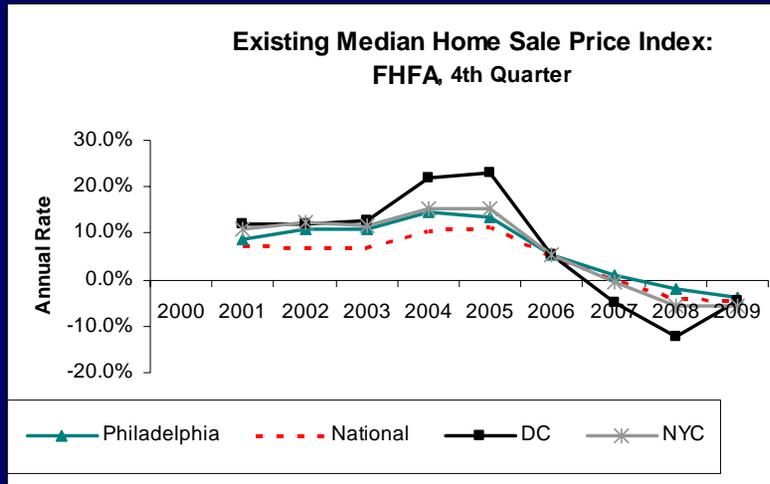
- Philadelphia is not covered under the Case Shiller Housing Index. Basing his index on Case Shiller, Dr. Kevin Gillen of the University of Pennsylvania has contributed the Philadelphia housing values seen on the graph.
- The annual rate of growth for existing Philadelphia homes showed an increase of 8.9% in Quarter 4, up from 1.8% in the same quarter last year. This is largely due to increased sales for high income households that are able to meet increasingly strict credit requirements.

□ Q4 Y-T-Y Growth

Washington, DC: -0.5%
New York, NY: -7.1%
Nation: -2.5%

Housing cont.:

FHFA Showing Decrease in Philadelphia Home Sales, Including Refinancing



Sources: Federal Housing Finance Agency (FHFA) Quarter 4 Index, Office of Budget and Program Evaluation

¹ During the first quarter of calendar year 2009, the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board (FHFB) and the HUD Government Sponsored Enterprise team merged under the Federal Housing Finance Agency (FHFA). As a part of the Housing and Economic Recovery Act of 2008, FHFA provides oversight of U.S. secondary mortgage markets.

- Federal Housing Finance Agency (FHFA)¹**
 The FHFA Index includes transactions of conforming, conventional mortgages for single-family homes. Data reflects purchase prices as well as refinance appraisals.

 - The FHFA reported growth for Philadelphia median home sale price decreased by -3.7% in Quarter 4 2009. This is down from -2.1% during the same quarter last year.
 - Q4 Y-T-Y Growth**
 Washington, DC: -4.6%
 New York, NY: -5.8%
Nation: -4.7%
- Quarter 4 median home sales prices are available from the National Association of Realtors (NAR). The NAR reported the median home sale price for Philadelphia at \$212,600. The fourth quarter growth rate remained unchanged from a -5.6% decline in the third quarter.

Fiscal Year 2010: Second Quarter Tax Revenue Summary



-  **Wage Tax:** Quarter two wage tax receipts fell for the sixth consecutive quarter, though decline has been lessening for the past three quarters. Collections came in at \$355.4 million, down -1.9% from the same period last year. FY10 receipts are estimated to total \$1.486 billion.
-  **Real Estate Transfer Tax (RTT):** The RTT is up for the first time in three years. Second quarter brought in revenue of \$30.5 million, a 19.2% year-over-year increase. RTT receipts are projected to reach \$118.8 by the end of FY10. The latest data for RTT by property type is for FY10 Quarter Two. The average home sales price for condos decreased by -4.4%, after six consecutive quarters of loss. Average prices for single family homes increased by 14.9%.
-  **Sales Tax:** In October 2009, a temporary sales tax rate increase from 1% to 2% became effective for the City portion of the tax. The amount allocated to the Commonwealth remained 6%, for a total sales tax of 8%. In the second quarter, receipts of \$35.6 million were received, a 12.8% increase from the same time last year. Total sales tax receipts are estimated to be \$199.8 for FY10.
-  **Parking Tax:** Parking tax receipts totaled \$17.5 million during the second quarter. This is up 6.6% from last year. The Parking tax is projected to produce \$70.7 million in revenue in FY10.

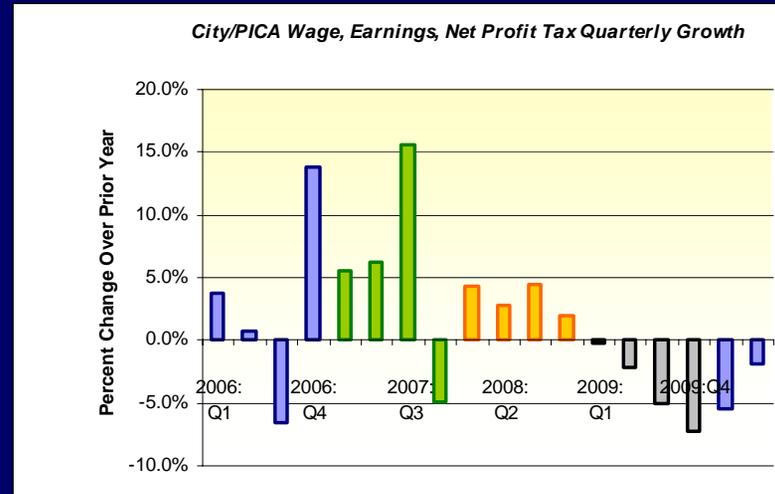
Note: Quarterly tax revenue and annual estimates reflect final numbers from the latest Quarterly City Managers Report (QCMR), for the period ending December 31, 2009. Estimates are from the Five-Year Financial Plan FY11 to FY15 as presented to City Council March 4, 2010.

Sources: Revenue and Budget Departments

Philadelphia Wage Taxes: Wage Tax Receipts Showing Slowed Decline in Quarter Two



- The City received \$355.4 million in FY10 second quarter wage tax receipts. This is down -1.9% from the second quarter last year.
- Wage tax receipts are estimated to generate \$1.486 billion in FY10 and \$1.499 billion in FY11.
- Average annual growth from FY11 to FY15 is 1.3%.



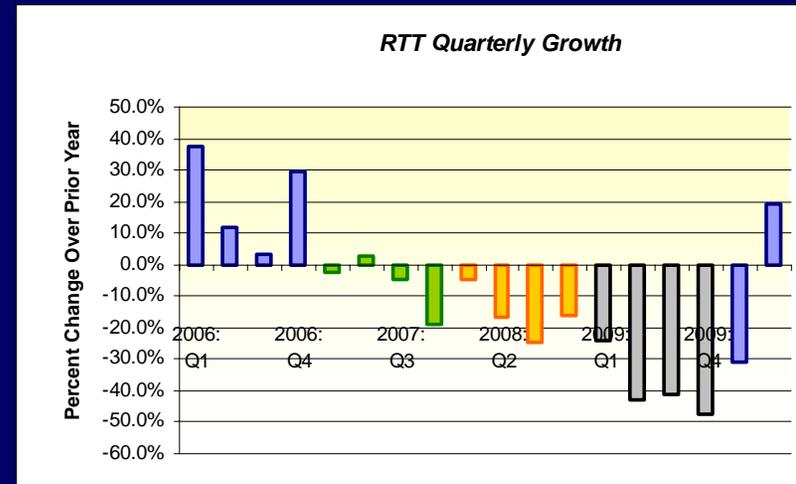
Note: Wage tax revenue includes PICA contribution

Sources: Philadelphia Department of Revenue, Budget Department

Philadelphia Real Estate Transfer Taxes: RTT Receipts Back Up in the Second Quarter



- RTT receipts year-over-year rate has increased for the first time in three years to \$30.5 million in the second quarter. This is up 19.2% from last year.
- The RTT is estimated to total \$118.8 at the end of FY10 and \$125.2 in FY11.
- The Five-Year Plan assumes 2.5% average annual growth.

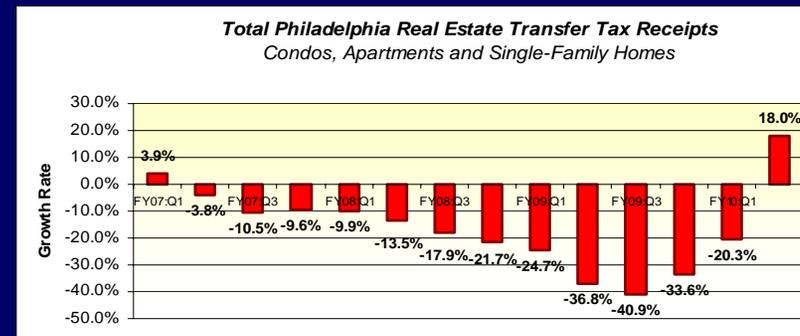
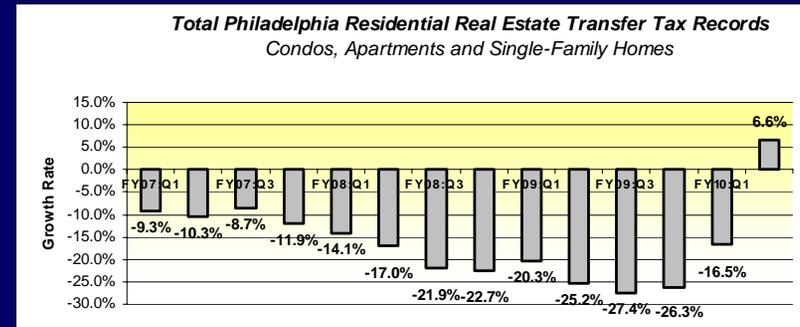


Sources: Philadelphia Department of Revenue, Budget Department

Philadelphia Real Estate Transfer Taxes (cont.): RTT Records and Receipts Up in FY10 Quarter Two



- In FY10 Quarter 2 Real Estate Transfer Tax (RTT) records increased by 6.6%. Receipts increased for by 18.0%.
- RTT revenue is primarily bolstered by residential properties. By the close of FY09, 84.2% of RTT receipts originated from real estate categorized as condos, apartments and single-family homes.

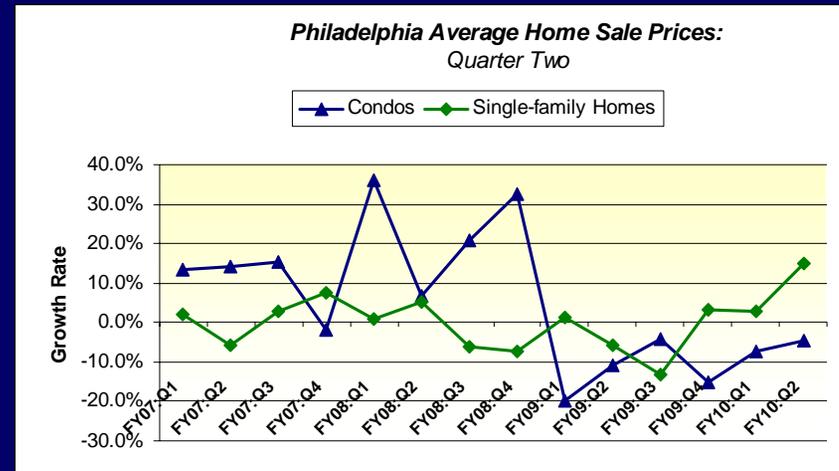


Source: Philadelphia Department of Revenue

Philadelphia Real Estate Transfer Taxes (cont.): Homes Sales Prices Showing Upwards Turn in FY10 Quarter Two



- Average condo sales price fell by -4.4% in FY10 Quarter 2. Decreasing has slowed from Quarter 1 loss of -7.2%.
- In FY10 Quarter 2, the sales price for single-family homes showed growth of 14.9%. This is up from 2.9% in Quarter 3.



Source: Philadelphia Department of Revenue

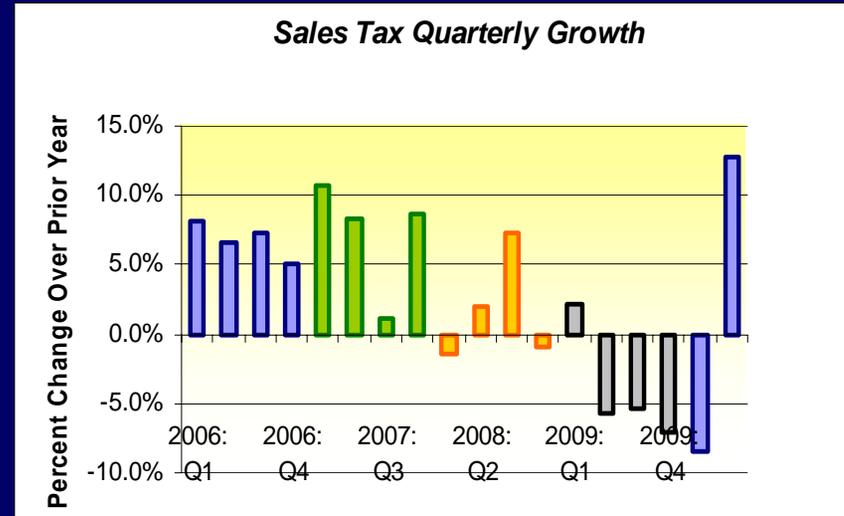
Note: Rates based on quarterly receipts, records and a 3 percent real estate transfer tax for new and existing home sales.

Philadelphia Sales Tax:

Sales Tax Revenues Reach Significant Increase in Quarter Two



- \$35.6 million in sales tax revenue was received in FY10 second quarter. This is up 12.8% from the same quarter last year.
- The City introduced a temporary sales tax increase, changing the City portion of the tax from 1 to 2% in October 2009. Tax revenues allocated to the Commonwealth of Pennsylvania remains 6%.
- Sales tax receipts are projected to reach \$199.8 million in FY10 and \$241.9 in FY11.



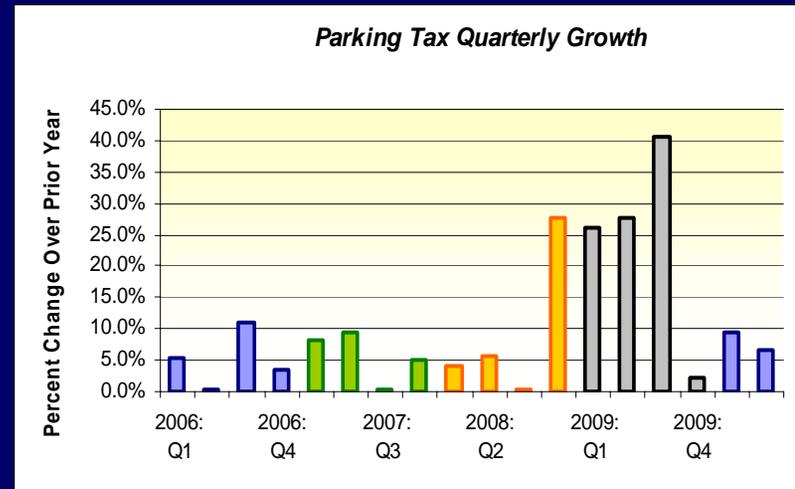
Sources: Philadelphia Department of Revenue, Budget Department

Philadelphia Parking Tax

Parking Tax Receipts Up in Quarter Two



- \$17.5 million in parking tax receipts were received in the second quarter of FY10. This is up 6.6% from last year.
- The parking tax rate increased from 15% to 20% in July 2008.
- Parking tax receipts are estimated to total \$70.7 million in FY10 and \$72.5 million in FY11.



Sources: Philadelphia Department of Revenue, Budget Department