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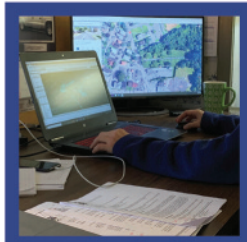


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SHRINKING PENNSYLVANIA WORKFORCE ENDANGERS PA BUDGET SURPLUS, RESERVES



**By Anthony Hennen,
The Center Square**

While economic experts expect a few years of middling economic growth before a return to normal, the biggest concern is Pennsylvania's shrinking labor force. The Independent Fiscal Office announced its Economic and Budget Outlook through fiscal year 2027-28 last month that touched on federal projections as well as what it expects to happen in Pennsylvania.

The IFO expects normal growth of 50,000 jobs annually, about a 1.8 percent increase in real GDP, to return to the commonwealth by 2025. However, as its population ages out of the workforce, the state's labor force participation rate will struggle to recover to levels before COVID-19. The rate is the number of people in the workforce, either working or looking for work.

"Demographically speaking, it's fair to say that Pennsylvania probably faces more challenges than most states due to contracting demographics, and the dropoff in the labor force participation rate was greater here," IFO Director Matthew Knittel said.

For example, the IFO noted the working age population (ages 20-64) declined by 131,000 from 2019-22, and expects another decline of 128,000 people from 2022-25. "We do have a lot of concern about how we get more residents back into the labor force to facilitate the jobs creation," Knittel said.

In July 2017, Pennsylvania had a labor force participation rate of 63.4; by July 2022, that had declined to 62.3. With a

lower labor force participation rate and a shrinking population, the IFO was concerned about a worker shortage. The shortage and population stagnation presents a risk to economic growth. To reach the prepandemic norm of 50,000 new jobs every year, the participation rate would have to increase by 0.8 percentage points each year, according to the IFO. However, that is a tall order.

"If you look at the data, this has never happened," Knittel said, noting that the data on labor force participation goes back to 1976. Accordingly, the IFO projections don't expect Pennsylvania to return to its number of jobs until 2025.

The IFO outlook estimates that tax revenues will grow 3.1 percent through 2027-28, boosting the General Fund from \$43.7 billion in 2022-23 to \$49.6 billion in 2027-28. However, state expenditures will grow 3.3 percent through the same time period, growing from \$42.7 billion to \$51.5 billion.

Unless economic growth improves, the IFO projects budget deficits to erase the current budget surplus of \$6.7 billion and the \$5 billion rainy day fund by 2027-28 with deficits starting in 2023-24.

Along with concerns about a worker shortage, the IFO outlook also flagged housing affordability reaching "record lows" and the "rapid acceleration of 80+" as the commonwealth's population ages, putting more demand on services and state funds.

Anthony Hennen is a reporter for The Center Square. Previously, he worked for Philadelphia Weekly and the James G. Martin Center for Academic Renewal. He is managing editor of *Expatalachians*, a journalism project focused on the Appalachian region.

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