Preliminary Economic Outlook Amid COVID-19

PRESENTED TO

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UNITED STATES REAL GDP GROWTH FROM PRIOR QUARTER

TOTAL EMPLOYMENT, SOUTH CAROLINA

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics; Calculations by Revenue and Fiscal Affairs NG 06/19/2020
COVID-19 Economic Conditions vs the Great Recession

- The current pandemic and the 2008 financial crisis are characteristically different in a number of ways.
- The majority of unemployment during the current crisis is attributable to the service-providing sector.
- In the Great Recession it was concentrated in the goods producing sector.
COVID-19 Economic Conditions vs the Great Recession

• Current job losses are largely concentrated in sectors with lower average wages
  • The Leisure and Hospitality Sector has been affected the most, with a 42% decrease in employment from February 2020 to May 2020
  • As of May 2020, the average weekly earnings for employees in this sector are 57% lower than the average weekly earnings of all private employees
• While unemployment is up significantly, withholdings have not declined substantially
COVID-19 Economic Conditions vs the Great Recession

• Increases in unemployment claims are largely due to temporary layoffs instead of permanent job losses as in the 2008 crisis
• Changes in the requirements for unemployment insurance allow workers to claim benefits if they have been temporarily furloughed
• Many businesses report that they intend to bring workers back
• This may change if:
  • business leaders’ expectations change
  • consumers do not readily re-enter the economy
  • social distancing measures are ongoing businesses cannot adapt (e.g. manufacturing, restaurants, hotels, and retail, must implement social distancing)
PERCENT TEMPORARILY UNEMPLOYED RELATIVE TO TOTAL UNEMPLOYED

Business License and Local Option Sales Tax Revenue

**Business License Tax Revenue**

- In March 2020, gross sales were 6.55% less than March 2019
- Based on average growth rates from the last 3 years, RFA would have anticipated a 5% increase in gross sales over this same period
- Gross sales are expected to continue to decrease relative to past years as community shutdowns, temporary business closures, and social distancing precautions persist, negatively impacting business license tax revenue
- These decreases will likely be particularly evident in the Leisure and Hospitality Sector and the Retail Sector
- Further, it is likely that industries will experience slower than average growth in FY 2020-21, depending on how quickly businesses are able to return to normal functions

**Local Option Sales Tax Revenue**

- April local option sales tax collections account for 8.64% of total FY collections on average
- Based on local option sales tax collections from July 2019 to February 2020, RFA would have anticipated April 2020 collections to total $34,615,631
- Actual April 2020 collections totaled $26,394,535
- However due to COVID-19 emergency measures DOR extended state returns and payments due April 1 to June 1 to be due June 1. Many accounts waited to file until this deadline, resulting in April 2020 collections being unreliably low.
- Local option sales tax revenue is expected to decrease relative to past years in line with gross sales
Impact on Property Taxes

• Due to the slow down in the economy property value growth may slow down.

• However, we do not anticipate that property values will decrease due to COVID-19.

• Prior to COVID-19 the estimated projected growth rate for assessed property value statewide was 3.5 percent.

• Counties currently reassessing property values MAY experience delays due to issues with COVID-19 such as staffing and social distancing complications.
SC Revenue Forecast Timeline

• Mid-August – Comptroller General Release of Final Results for FY 2019-20

• Aug 31 – BEA to update FY 2020-21

• Sep 15 – General Assembly returns to consider updating FY 2020-21 Budget (currently operating under Continuing Resolution

• Nov 10 – BEA to provide FY 2021-22 Estimate