Michael Brown - Wells Fargo
Forecast and Analysis

	Forecast FY2016-17	Forecast FY2017-18
SC Personal Income	4.5%	4.8%
SC Employment	2.9%	3.2%
Inflation Rate	2.1%	2.4%
Sales Tax	4.8%	4.6%
Individual Income Tax	4.8%	4.7%

What are the significant/specific factors/sectors affecting personal income?

The most significant factor affecting South Carolina's personal income over the next year will be the mix of employment growth. Currently the slower pace of manufacturing hiring is being offset by growth in office employment, mostly related to professional services. The state's labor force participation rate has begun to decline again which could put some downside risk to personal income growth should the trend persist. The biggest

What are the significant/specific factors/sectors affecting employment?

The state continues to struggle to add manufacturing jobs in light of slower global demand and only modest domestic demand. We continue to expect professional services employment growth and job growth in industries related to consumer spending.

What are the key risks you see over the next 20 months?

Over the next 20 months we expect more downside risk to our current U.S. economic outlook than upside risk. This year, assuming an average of 2.5 percent GDP growth in the second half of the year, would result in the slowest year over year rate of GDP growth since 2009. We are already seeing evidence that credit standards are tightening for business loans and commercial and industrial loan delinquencies are edging higher. The fact that business investment remains weak and the only key support to GDP growth is consumer spending remains concerning to us. In my view, the economic assumptions for the next fiscal year should be even more conservative than usual given the increasing potential for an economic downturn over the forecast horizon.

Are there any other key points that should be considered?

Well Fargo Economics expects U.S. economic growth to average around 2.2 percent in FY2017 and FY2018. As mentioned, however the pace of growth is increasingly dependent on the pace of consumer spending. Should jobless claims begin to rise or consumer confidence begin to fall, there could be sizable downward movement in our estimate for GDP growth over the forecast horizon. One positive factor that could create some upside risk would be for global demand to recover and thus resulting in greater business investment. At this point however, we still see more downside risks to global growth than upside.