BOARD OF ECONOMIC ADVISORS
AND WORKING GROUP MEETING
AGENDA
January 16, 2020, 1:30 P.M.
Bowers Conference Room
Room 417, Rembert C. Dennis Building
Members attending via GoToMeeting

I. Welcome

II. Review Revenues and Economic Conditions (F. Rainwater, R. Martin)
   A. Report for December 2019
   B. Discussion regarding February Forecast Meeting

III. Other Items for Discussion
   A. Statement of Economic Interests – due March 30

IV. Reports from Working Group Members
   A. Governor’s Office
   B. Senate Finance Committee
   C. Ways & Means Committee
   D. Treasurer’s Office
   E. Comptroller General’s Office
   F. Executive Budget Office

V. Future Meeting Schedule
   A. February 13, 2020, 1:30pm – Forecast (February 15)
   B. March 19, 2020, 1:30pm – If necessary, GoToMeeting for Members
   C. April 9, 2020, 1:30pm – Quarterly Review; Final Forecast (April 10)
   D. May 14, 2020, 1:30pm - If necessary, GoToMeeting for Members
   E. June 11, 2020, 1:30pm – Economic and Revenue Update
   F. 2020 Calendar at http://rfa.sc.gov/meetings

VI. Adjournment

Please note that the Agenda is subject to change.
For further information, please contact Karen Rhinehart at (803) 734-2265, or visit the RFA webpage at www.rfa.sc.gov
QUARTERLY REVIEW
As Required by §11-9-1140
FY 2019-20 General Fund Revenues Through December 2019

• General Fund Revenues through the second quarter of FY 2019-20 totaled $4,981.8 million and exceeded the estimate of $4,828.9 million by $152.9 million.

• The bulk of the excess is attributable to Individual Income tax ($49.3 million), Corporate Income and License Taxes ($33.2 million), and Earned on Investment ($22.8 million).

• Timing of receipts also contributed to the excess.
FY 2019-20 General Fund Revenues Through December 2019

- Revised Personal Income data for South Carolina showed slower growth, but still close to assumptions.
- Employment growth is 1.5 percent and slightly below our assumption of 1.6 percent.
## Board of Economic Advisors General Fund Revenue Monitor

### Revenues vs. 11/08/19 BEA Revenue Estimate of $9,838.2 Million in FY 2019-20  1/

### JULY - DECEMBER FY 2019-20

<table>
<thead>
<tr>
<th></th>
<th>Actual Revenues</th>
<th>Expected Revenues</th>
<th>Excess / (Shortfall)</th>
<th>Revenue Growth Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($ in Millions)</td>
<td></td>
<td></td>
<td>Estimate</td>
</tr>
<tr>
<td>Total General Fund Revenue</td>
<td>4,981.8</td>
<td>4,828.9</td>
<td>152.9</td>
<td>4.6</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>1,387.8</td>
<td>1,375.6</td>
<td>12.2</td>
<td>7.3</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>2,921.2</td>
<td>2,872.0</td>
<td>49.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>133.2</td>
<td>115.1</td>
<td>18.1</td>
<td>(4.0)</td>
</tr>
<tr>
<td>Other Revenue Sources</td>
<td>539.6</td>
<td>466.2</td>
<td>73.4</td>
<td>1.8</td>
</tr>
</tbody>
</table>

| Select Tax Revenues, Sub-Total | 460.4 | 419.8 | 40.6 | 1.7 | 8.7 |
| Admissions Tax - Total         | 9.4   | 7.9   | 1.5  | 2.7 | 21.9 |
| Alcoholic Liquors Tax          | 34.4  | 34.0  | 0.4  | 4.7 | 5.9  |
| Bank Tax                       | 35.5  | 28.8  | 6.7  | 9.3 | 34.6 |
| Beer and Wine Tax              | 47.8  | 48.4  | (0.6)| 1.5 | 0.2  |
| Corporation License Tax        | 109.6 | 94.5  | 15.1 | 3.1 | 19.5 |
| Documentary Tax                | 36.1  | 36.7  | (0.6)| 6.4 | 4.6  |
| Earnings on Investments        | 61.2  | 38.4  | 22.8 | 2.9 | 63.9 |
| Insurance Tax                  | 115.4 | 117.2 | (1.7)| (3.7)| (13.9)|
| Tobacco Tax                    | 10.9  | 11.6  | (0.6)| (1.1)| (6.5)|

| Residual Revenue, Sub-Total | 79.3 | 46.4 | 32.8 | 2.4 | 74.7 |

1/: BEA format - includes certified adjustments and excludes non-recurring cash transfers and certain "other source" revenues, where applicable.

2/: Refer to "Residual Revenue" on page 15 for a list of components in this subcategory.

Note: Detail may not sum to total due to independent rounding of individual revenue categories.
ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS TAX
Actuals, Estimates, and Limits - FY 2018-19 to FY 2020-21 (Ex. Lottery)

Source: Revenue and Fiscal Affairs/FAR/1-9-20

January 16, 2020

South Carolina Revenue and Fiscal Affairs Office
ROLLING FISCAL YEAR - INDIVIDUAL INCOME TAX REFUNDS
Actuats, Estimates, and Thresholds - FY 2018-19 to FY 2020-21

Source: Revenue and Fiscal Affairs/FAR/1-9-20

January 16, 2020

South Carolina Revenue and Fiscal Affairs Office
CONSIDERATIONS FOR FEBRUARY FORECAST REVIEW

REVENUES
• Growth has exceeded forecast but timing issues in several categories need to be considered.
• Question remains if pace of excess will continue for the next 18 months
• Economy is still growing

ASSUMPTIONS
• Personal Income and Employment growth are close to assumptions.
• Concerns about world and national economies have lessenened.
December 2019

Presentation Agenda

• Base Economic Assumptions for FY2019-20 and FY2020-21

• Review of General Fund Revenue – December 2019

• Review of Recent Economic Events
December 2019

Base Economic Assumptions for FY2019-20 and FY2020-21

Current Base Economic Assumptions
Fiscal Years 2019-20 and 2020-21

<table>
<thead>
<tr>
<th>Variable</th>
<th>FY2019-20</th>
<th>FY2020-21</th>
<th>Latest Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income</td>
<td>5.25%</td>
<td>4.50%</td>
<td>4.85%</td>
</tr>
<tr>
<td>Employment</td>
<td>1.60%</td>
<td>1.60%</td>
<td>1.50%</td>
</tr>
</tbody>
</table>

Note: Based on the BEA General Fund revenue estimate made on November 8, 2019.
Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.
S.C. Board of Economic Advisors, Columbia, S.C.
Growth in Wages and Salaries in South Carolina


S.C. Board of Economic Advisors
Total Nonfarm Employment Growth in South Carolina

(Percent Change Over Same Month One Year Ago)

Month

Source: U.S. Department of Labor, Bureau of Labor Statistics
Growth in Manufacturing Employment in SC and US

Source: Board of Economic Advisors
December 2019

Review of General Fund Revenue - December 2019

Sales Tax Revenue

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>Actual Revenue ($ Mil.)</th>
<th>Forecast Revenue ($ Mil.)</th>
<th>Excess/Shortfall ($ Mil.)</th>
<th>Revenue Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax</td>
<td>$1,387.8</td>
<td>$1,375.6</td>
<td>$12.2</td>
<td>Forecast (%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Actual Y-T-D (%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.3</td>
</tr>
</tbody>
</table>

- The Sales and Use tax increased 7.9 percent in December 2019 resulting in fiscal year-to-date growth of 8.3 percent

- The inclusion of $6.7 million in third-party sales taxes this fiscal year has positively impacted Sales and Use tax revenue as these revenues were not received during this time a year ago
December 2019

- Through the first half of FY2020, remote internet sales and third-party sales taxes have amounted to $46.6 million, or 47.1 percent of the $98.8 million estimated for all of FY2020.

- The monthly figures suggest a strong start to the holiday season with strong Black Friday sales and Cyber-Monday internet retail sales.
Growth in Major Types of Household Debt

Source: U.S. Department of Labor, Bureau of Labor Statistics
December 2019

Individual Income Tax Revenue

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>Actual Revenue ($ Mil.)</th>
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<td></td>
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<td></td>
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<td>Actual Y-T-D (%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.4</td>
</tr>
<tr>
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<td></td>
<td></td>
<td>6.4</td>
</tr>
</tbody>
</table>

- Individual Income tax withholding increased $36.2 million, or 7.4 percent, in December 2019 from December 2018, and has increased 5.7 percent through the first half of FY2020, reflecting the continued employment growth in the state.
Growth in Total Individual Income Tax Revenue Collections
FY2019 Monthly and Year-to-Date

Forecast: 4.4%

Source: Board of Economic Advisors
BEA/RWM/01/16/20

S.C. Board of Economic Advisors 24
Growth in Individual Income Tax Withholding Revenue
FY2020 Monthly and Year-to-Date

Forecast: 4.5%

Source: Board of Economic Advisors
BEA/RWM/01/16/20

S.C. Board of Economic Advisors
December 2019

Corporate Income Tax Revenue

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>Actual Revenue ($ Mil.)</th>
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<td>Corporation Income Tax</td>
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<td>$18.1</td>
<td>(4.0)    12.2</td>
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</table>

- The Corporate Income tax increased 25.5 percent in December 2019 and has increased 12.2 percent through the first six months in FY2019-20

- The Corporate License tax added $1.7 million to the overall revenue excess of $15.1 million in FY2020 in December 2019

- Total revenues for these two categories are $33.1 million above expectations
December 2019

Other Tax Revenues

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>Actual Revenue ($ Mil.)</th>
<th>Forecast Revenue ($ Mil.)</th>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>actual Y-T-D (%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15.1</td>
</tr>
</tbody>
</table>

- Other revenues were largely affected by the timing of revenue receipts

- Security Dealer Fees were booked one month earlier than last fiscal year resulting in nearly $21.0 million overstating the bottom line
December 2019

- Also, Interest Earnings on state investments posted $14.4 million in December 2019, or $8.7 million more than in December 2018

- Other revenues have increased 14.0 percent through the first one-half of FY2020
December 2019

Total General Fund Revenue

<table>
<thead>
<tr>
<th>Revenue Category</th>
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<tbody>
<tr>
<td>Total General Fund</td>
<td>$4,981.8</td>
<td>$4,828.9</td>
<td>$152.9</td>
<td>Forecast 4.6 Actual 8.0</td>
</tr>
</tbody>
</table>

- General Fund revenue increased 12.5 percent, or $117.3 million, during the month of December 2019 from December 2018

- Revenues through December 2019 have grown 8.0 percent, or $367.5 million year-to-date
Growth in Total General Fund Revenue Collections
FY2020 Monthly and Year-to-Date

Forecast: 4.6%
December 2019

Summary

- General Fund revenue collections through December 2019 amounted to $4,982.1 million in FY2019-20, or 8.0 percent higher than in FY2018-19

- This year-to-date revenue growth rate exceeds the 4.6 percent growth rate needed to meet the BEA General Fund revenue growth rate for FY2019-20 by $152.9 million
December 2019

Review of Recent Economic Events

- China / Tariffs
  - Growing trade deficit
  - Theft of intellectual property
  - Forced transfer of American technology
  - Phase I to be signed on January 15, 2020

- Federal Reserve Policy
  - Interest rates
  - Yield curve spread

- Foreign Conflict
  - Impact on Energy Prices
  - Impact on Commodity Prices

South Carolina Revenue and Fiscal Affairs Office

January 16, 2020
Customs Duties / Tariffs Revenue in the United States

U.S. Trade in Goods with China


S.C. Board of Economic Advisors
Growth in U.S. Trade with China

Growth in U.S. Trade with China

January Through October 2019


S.C. Board of Economic Advisors
Federal Funds Rate
Interest Rate Spread Between 10-Year Bond & 3-Month Bill

Source: The Board of Governors of the Federal Reserve System

S.C. Board of Economic Advisors
Growth in Precious Metals Prices

Source: The Chicago Mercantile Exchange
Growth in Industrial Metals Prices

Source: The Chicago Mercantile Exchange
APPENDIX
Growth in Total Manufacturer's Shipments of Nondefense Capital Goods Excluding Aircraft in the U.S.

Source: U.S. Department of Commerce, Bureau of the Census
Growth in Total Manufacturer's New Orders of Nondefense Capital Goods Excluding Aircraft in the U.S.

Source: U.S. Department of Commerce, Bureau of the Census
Growth in Homes Sold in Selected Housing Markets in South Carolina

Source: S.C. Association of Realtors, Columbia, SC
Total Light Vehicle Sales in the United States

Source: U.S. Department of Labor, Bureau of Labor Statistics
Automotive Inventories in the United States

(Dollars in Millions)

U.S. Trade-Weighted Exchange Rate Index of U.S. Dollar

Source: The Board of Governors of the Federal Reserve System
OTHER BUSINESS
REPORTS FROM WORKING GROUP
FUTURE MEETING SCHEDULE

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