



MEMORANDUM FOR THE RECORD

Date: September 19, 2024, 9:00 a.m.
Location: Revenue and Fiscal Affairs Office, Conference Room 417/Web Conference
Subject: Minutes of Board of Economic Advisors Meeting

Participants: *Board Members* – Edward Grimball- Chairman, Curtis Hutto, Dr. Michael Mikota, and Hartley Powell (*all via web conference*). Frank Rainwater- Executive Director, *Staff* – Morgan Daigle, Lisa Jolliff, Dr. Marian Manic, and Karl Vesely; **Attendees:** RFA – Kathryn Kelley, and Emily Prosser. *Forty-seven additional participants via web conference.*

Note: Guests were invited to attend in-person or virtually. An email invitation was sent to the Distribution list and Working Group list members, and the meeting notification was posted on the RFA website and in the Rembert Dennis Building. Meeting information and log-in instructions were posted online. Meeting materials were posted online 15 minutes prior to the start of the meeting, and the documents were also shared via web conference.

- I. Chairman Grimball welcomed everyone to the meeting at 9:00 a.m.
- II. Chairman Grimball presented the August 22, 2024, meeting minutes, which previously had been shared with the Members, and asked if any Member had edits or questions. Hearing no amendments or objections, Chairman Grimball declared the minutes approved as written. ([See minutes](#))

Chairman Grimball noted that the August meeting was focused on the conclusion of FY 24, and today's meeting will address the results of July and August of FY 25 and beyond.

- III. FY 2024-25 Update and Outlook through August ([See materials](#))

Mr. Rainwater noted that today's meeting would focus on current revenue trends and performance for the first two months of the fiscal year. Staff will also present updates on some economic factors, but any substantial discussion on the economy will be deferred until next month when the panel of economists will offer additional comments and perspectives.

Mr. Rainwater presented the FY 25 General Fund revenue and noted that revenues through August were \$148.3 million above expectations and were following recent patterns. Most revenue categories continued to be close to expectations, while a few items exceeded expectations significantly.

He then offered a special note of interest that the estimated decline in revenues for FY 25 of 4.3 percent was not indicative of economic concerns, but due to tax cuts and changes in consumer behavior.

Staff presented on the main components of General Fund revenue.

Ms. Daigle discussed Consumption taxes. Her key points included:

Sales tax:

- August is the first month of collections for the fiscal year and revenue grew 2.2 percent and was \$1.7 million above expectations.

Retail Sales:

- Wells Fargo's September expectations have been revised down slightly since the May forecast was presented. September retail sales expectations now reflect 1.9 percent growth in 2024 and 2.0 percent growth in 2025.

Personal Consumption of Goods – Quantity:

- In 2024, consumers seem to be purchasing goods at a lower volume than the 10-year pre-Covid trend suggests, following above trend consumption during Covid years. Looking ahead, the volume of goods that consumers purchase will hinge on their response to further changes in inflation, which will determine whether the quantity of goods purchased settles below the 10-year trend or rebounds to historical levels.

Dr. Manic discussed Individual Income tax components. His key points included:

Withholdings:

- Total collections through August were approximately \$1.13 billion, which is \$34.7 million (or 3.2 percent) above expectations.
- Collections were particularly strong in July as they grew 7.8 percent over the same period in FY 24, especially after May and June had close to no growth.
- FY 25 estimated growth for the full year is 3.3 percent. Withholdings declined 2.0 percent in FY 24 due to the change in the Withholdings tax tables.

Personal Income Growth:

- Both the national and SC growth rates in personal income are converging towards the pre-pandemic average of about 5 percent.
- SC continued to outpace the nation by more than half a percentage point in Q1 2024 (Jan – Mar).
- According to the US Bureau of Economic Analysis, SC had the highest annualized growth rate in the nation between Q4 (Oct – Dec) of 2023 and Q1 (Jan – Mar) of 2024.

Non-withholdings:

- Non-withholdings also registered a surprisingly strong month in July when collections grew approximately 43 percent over the same period in FY 24. July, however, is a small month for Non-withholding collections.
- Fiscal year-to-date collections were almost \$114 million, which is \$12.3 million (or 12.1 percent) above expectations.
- Collections are expected to decrease by 3.9 percent over the fiscal year in FY 25 as a result of the marginal tax rate decrease from 6.4 percent to 6.2 percent.

Refunds:

- Refunds during the first two months of FY 25 were \$10.8 million (or 10.1 percent) lower than monthly estimates.
- Refunds are expected to grow 15.9 percent in FY 25 because of the stronger than expected Withholdings in FY 24, as well as the marginal tax rate reduction.

Ms. Jolliff discussed Corporate Income tax. Her main points were:

Corporate Income tax:

- Corporate Income tax collections through August were \$42.2 million ahead of expectations; however, \$25 million was due to an audit payment received in July.
- The forecast for FY 25 reflects a sharp decline compared to FY 24, but currently revenues are exceeding the monthly estimates.

Corporate Profits:

- During 2020 and 2021, corporate profits increased significantly, similar to personal income, as a result of stimulus payments and changes in consumer behavior; current expectations for FY 25 and FY 26 from S&P indicate that the overall volume of corporate profits has increased permanently.

Corporate Income tax – Growth Trends:

- Corporate Income tax revenue is well above the historical trend indicated by corporate profits but also exceeds expectations based on the growth trend in corporate profits since 2019.
- The Department of Revenue is working with staff to provide an analysis of the largest corporate taxpayers and how their taxes have changed since 2019. This, as well as any other information that can be shared about the industries affected, should assist in understanding more about the changing dynamics of Corporate Income tax collections in advance of the November forecast.

Mr. Vesely discussed national economic indicators. His main points included:

- National gross domestic product rose 3.1 percent year-over-year, while SC gross state product grew 3.8 percent year-over-year.
- In July, SC’s unemployment rate rose 3.9 percent, though it remains below the national 4.3 percent rate; however, there are still more job openings than unemployed people in the state.
- Though inflation continues to fall, it remains above the Federal Reserve’s desired target of 2.0 percent. In light of the recent decision to reduce the Federal Funds rate by 0.5 percentage point, the inflation and interest rates outlook will be discussed at the October BEA meeting with the Regional Advisory panelists.

Mr. Rainwater then discussed a series of charts describing the historical and estimated relationships between SC Personal Income and specific revenue items. The general point was that the historical relationships that existed between these categories were significantly affected during the pandemic, and this provided an additional boost to revenue collections. Further, if these relationships return to normal, this will mean that revenues may not grow as fast as Personal Income.

Mr. Rainwater expressed appreciation for the Comptroller General’s Office and staff, especially Ms. Kelly Stigamier, for their assistance in updating RFA revenue reports.

Members asked questions throughout the presentation which generated further discussions between Members and staff.

- IV. Reports from Working Group Members
No Working Group members offered comments.
- V. Other Items for Discussion
No items for discussion.

- VI. The next scheduled meeting is October 14, 2024.
- VII. Dr. Mikota moved to adjourn the meeting, and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 9:50 a.m.

Public notice of this meeting was posted at <http://rfa.sc.gov> and the Rembert Dennis Building.

These minutes were approved on 10/14/2024

Emily Prosser *Emily Prosser*