



MEMORANDUM FOR THE RECORD

Date: January 23, 2025, 1:30 p.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, and Hartley Powell (*via web conference*); Dr. Michael Mikota (*in person*). Frank Rainwater- Executive Director, *Staff* – Morgan Daigle, Lisa Jolliff, Dr. Marian Manic, and Karl Vesely;

Attendees: *RFA* – Paul Athey, Kathryn Kelley, and Emily Prosser. *Forty-six 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.

Chairman Grimball noted that the meeting minutes are a comprehensive synopsis of the October Board meeting, including the regional advisors' analyses.

- I. Chairman Grimball welcomed everyone to the meeting at 1:30 p.m.
- II. Chairman Grimball presented the November 19, 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](#))
- III. Quarterly Review and Forecast Considerations ([See materials](#))

Mr. Rainwater began the presentation by noting that there are two goals for the meeting: 1) to review and comment on the General Fund Revenue status at the end of the second quarter (October – December 2024) as required by law, and 2) to lay the foundation for the February forecast meeting by reviewing the economic and revenue assumptions in relation to the actual results.

General Fund Revenues:

- December revenues were above expectations by \$122.8 million.
- Corporate Income tax accounted for \$91.7 million, or 75 percent of the excess.
- Residual items were \$18.6 million below expectations due to timing, which is expected to be resolved in January.
- For the second quarter of the fiscal year, revenues are \$295.8 million above expectations. Pursuant to §11-9-1140, no General Fund appropriation adjustments are required.
- Corporate, Individual, and Sales taxes are the three largest sources of the year-to-date excess and represent over 90 percent of that amount.
- While \$296 million is a significant amount in terms of appropriations, in terms of revenue forecasting, it is within the 3 percent forecast target range.

Economic Indicators:

Employment:

- Employment growth in November 2024 over the same month in the prior year was 2.5 percent, which is above the monthly estimate of 1.9 percent, and the full FY 2024-25 (FY 25) estimate of 2.2 percent.

Unemployment:

- South Carolina's unemployment rate rose to 4.8 percent in November 2024. Most of this increase comes from rising labor force participation as more people are looking for jobs.
- This unemployment rate is not a negative for the economy as the rate is still in the range that is expected when the economy is considered to be at full employment.

Personal Income:

- With the latest and revised data, South Carolina's personal income for the FY 25 first quarter (July - September 2024) is now running below assumptions. Prior to the November estimate, personal income growth was above projections.
- While a slow decrease in the personal income growth rate was expected, it appears, however, that a more noticeable drop occurred in July - September, but this does not mean the annual assumption is incorrect.
- The panel of economists who presented at the October 2024 meeting have been contacted for any updates to the economic outlook from their perspective; any updates will be shared.

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

Withholdings:

- Over the course of FY 25, Withholdings have been growing slightly better than expected.
- Collections are running \$60.2 million ahead of the November forecast and are cumulatively 7.9 percent higher than the same period last year.
- December was a particularly strong month with collections growing by 11.2 percent relative to the same month last year.
- For the remainder of the fiscal year, however, growth is expected to slow and settle closer to the estimate of approximately 4.7 percent.
- Given the surplus in Withholdings and the continued steady growth, there may be room for a small increase in the Withholdings estimate by up to half of the current surplus.

Wage Growth:

- Wage growth is one of the driving forces behind the Withholdings estimate.
- Nationwide, the wage growth rate has been generally steady since the end of 2022.
- National wage growth slowed from about 6.7 percent in the first quarter of 2024 to about 5.3 percent in the third quarter of 2024.

- Wage growth in South Carolina has been considerably higher than the national rate in the last three years. At the end of the first quarter in FY 25 though, the gap between the national and state level had narrowed to approximately 1.3 percent.

Non-withholdings:

- Non-withholdings is presenting an unexpected pattern as it is currently running about \$27.1 million behind the November estimate.
- This shortfall is most likely due to the Hurricane Helene tax filing deadline extensions as the October and November collections were considerably below estimates, but December quarterly payments were closer to expectations.

S&P 500 Index:

- The S&P 500 market index, which is a benchmark reflecting the overall performance of the US stock market, experienced very strong growth during 2024.
- Comparing the December 2024 level of the index to the same month last year, the annual growth rate comes to over 23 percent.
- Given this strong performance, capital gains tax revenue is expected to increase as well, which would have a positive impact on Non-withholdings collections.

Dividends and Interest Income:

- Both interest and dividend income have been mostly flat relative to the previous year, however interest income is expected to drop slightly in 2025 after the interest rate cuts by the Federal Reserve.
- The expected significant increase in capital gains, contrasted with the overall stagnant dividend and the expected decreasing interest income for this year, appear to be generally in line with the November estimate of only 1.2 percent growth in Non-withholdings for the fiscal year.

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

Sales Tax:

- December collections are \$11.5 million above expectations and grew by 5.3 percent over last December; fiscal year-to-date revenues are up 4.0 percent and are \$41.5 million above monthly estimates
- Retail sales expectations have been revised since September. Wells Fargo is now anticipating that 2024 sales will end 2.5 percent above 2023 and grow by 3.4 percent in 2025 compared to September forecasts of 1.9 percent growth in 2024 and 2.0 percent growth in 2025.
- Retail sales growth in 2024 averaged 2.3 percent over 2023, slightly below Wells Fargo's expectations. It appears they anticipate that some of the strength seen in November and December retail sales growth could continue into 2025. However, there is uncertainty about how consumers will respond to policy changes and potential price increases due to tariffs.

Deed Recording Fees:

- December collections are \$0.3 million above the estimate. Fiscal year-to-date collections are growing by 7.7 percent over last year.

Ms. Jolliff then presented on Corporate taxes. Her key points included:

Corporate Income Tax:

- Corporate Income tax from December quarterly payments exceeded expectations for the month by \$91.7 million, significantly boosting collections year-to-date. In total, revenues are now above the November estimate by \$127.0 million.
- Total collections for the first six months of FY 25 are approximately \$521 million, or about 50 percent of the total fiscal year estimate for FY 25. This amount well exceeds the typical pattern of collections in which the average is approximately 30 percent of total collections in the first half of the fiscal year, indicating that FY 25 collections may be better than previously estimated.
- US corporate profits for the third quarter of 2024 were better than S&P anticipated in September. S&P is now expecting profits to remain elevated through FY 25 and FY 26, but growth will be relatively flat.
- US corporate profits have grown approximately 62 percent since 2019; however, state Corporate Income tax collections have grown significantly more in recent fiscal years, which may indicate that collections are elevated above the new long-term level.
- While collections have likely reached a new higher level over historical trends, the relationship to total US corporate profits continues to cause some concern over future long-term performance as collections may eventually stabilize at a lower level.

Corporate License Tax:

- Corporate License tax is \$0.8 million above the November estimate fiscal year-to-date and close to expectations.

Mr. Vesely discussed Insurance and Bank taxes. His key points included:

Insurance Tax:

- Through December, Insurance tax collections were \$8.5 million above monthly estimates, mostly due to higher than anticipated insurance premiums tax revenue. Insurance premiums tax revenue is up 3.1 percent fiscal year-to-date compared to last year.

Bank Tax:

- Bank tax collections were \$4.1 million above the estimate through December due to higher-than-expected collections in November and in December.
- Measures of the banking sector appear to show broad growth continuing, but growing levels of consumer debt and uncertainty about interest rates may be a concern.

Mr. Rainwater concluded the presentation by summarizing the considerations for the February forecast. His key points included:

FY 2024-25 Forecast Considerations:

- Key economic factors are tracking closely to estimates.
 - The regional panel has been surveyed, and their responses will be shared.
- A slow-down in growth rates appears to be happening as anticipated.
- While revenues are running ahead of expectations, most of the excess revenue is in Corporate Income tax, while Sales and Individual income tax are within the 3 percent forecast margin.
- Changes to each component of the forecast need to be considered individually to determine if there is sufficient support to revise the estimate for each item.
- With the filing deadline extensions for Hurricane Helene, timing of collections is expected to be delayed, but the amount of impact is unknown.
- Tax filing season remains the biggest factor that is likely to impact collections this year.

FY 2025-26 Forecast Considerations:

- National economic expectations have not changed significantly since the November forecast.
 - Federal interest rate reductions have proceeded largely as expected.
 - Tariffs and federal tax changes remain an unknown.
- The revenue outlook for FY 2025-26 is largely unchanged from November.
 - Wage growth is expected to be below historical levels.
 - Sales tax growth will remain below historical levels as well.
 - Long-term corporate profits remain uncertain.
- Except for Corporate Income tax, FY 2024-25 collections are close to expectations in the major categories.

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

Chairman Grimball thanked the staff for the well-done presentation.

IV. Reports from Working Group Members

No Working Group members offered comments.

V. Other Items for Discussion

VI. The next scheduled meeting is February 13, 2025.

VII. Dr. Mikota moved to adjourn the meeting, and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 2:28 p.m.

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

These minutes were approved on 2/13/2025

Emily Prosser *Emily Prosser*