

MEMORANDUM FOR THE RECORD

DATE: January 17, 2019
Room 417, Rembert Dennis Building
1:30pm

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: *Board Members* -Edward Grimball-Chairman (via *GoToMeeting*), Howell Clyborne (via *GoToMeeting*), Emerson Gower (via *GoToMeeting*), Hartley Powell (via *GoToMeeting*); *Executive Director*, Frank Rainwater; *Staff* - Robert Martin, Karen Rhinehart, Lisa Jolliff, Allyn Powell, Gordon O. Shuford, Kenneth Harris, Sandra Kelly, David Patterson, Paul Athey, Amanda Martin, Stephen Gardner, Mary K. Miller, Natalie Gallagher. *Guests* - John Barfield, Michael Moore (Comptroller General's Office); Katie Turner (Ways and Means); Grant Gibson (Senate Finance Committee); David Seigler, Kevin Ethridge (EBO); Kevin Kibler (State Treasurer's Office).

Press:

- I. Chairman Grimball welcomed everyone to the meeting at 1:30pm.
- II. Chairman Grimball presented the meeting minutes for November 8, 2018 which had previously been shared with the Members and asked if any Member had additions or corrections. There were no comments from the Members and Chairman Grimball declared the minutes approved as presented and written. *(See attached)*
- III. Frank Rainwater presented an overview of January 2019. **His major comments were:** *(See Attached)*
 - **As required by §11-9-1140, General Fund Revenues through the second quarter of FY 2018-19 totaled \$4,614.6 million and exceeded the quarterly estimate of \$4,575.8 million by \$38.7 million.**
 - **Withholdings, the largest revenue item, is \$54.4 million above estimate and is growing at a rate of 6.1 percent compared to an estimated growth of 3.9 percent.**
 - **Sales tax is \$5.4 million below estimates, despite receiving \$2.7 million from new retailers who registered in compliance with the Wayfair Decision.**
 - **The above retailers were out-of-state companies.**

- No revenue adjustment is warranted at this time. The BEA, however, will review the FY 2018-19 and FY 2019-20 estimates at its next meeting on February 14, 2019.

IV. Robert Martin shared December 2018 revenue information. His major comments were: *(See Attached)*

Total General Fund Revenue

- General Fund revenue increased 0.3 percent during the month of December 2018 from December 2017.
 - Positively affected by Individual Income Tax withholdings
 - A large increase in Corporation Income Tax declarations
 - Negatively affected by Corporate License Tax
 - Timing disruptions in a wide variety of Other Revenues
- Revenues have grown 4.9 percent year-to-date.
 - ❖ *Chairman Grimball asked if the federal government shutdown has affected South Carolina. Mr. Martin replied that even though some of the IRS employees are back at work, it's uncertain how that will affect South Carolina. This issue will be discussed more in the contingency section.*

Sales Tax Revenue

- Sales and Use Tax revenue increased 3.6 percent for the month of December resulting in year-to-date growth of 3.8 percent.
- The cumulative Sales and Use tax revenue growth through December 2018 is running slightly below the 4.2 percent revenue forecast for FY 2018-19.

Individual Income Tax Revenue

- The Individual Income Tax revenue increased 1.2 percent during the month of December.
- Individual Income Tax withholdings added an additional \$41.2 million above collections in December 2017.
- Continued employment growth and the addition of temporary workers during the holidays added to the withholdings revenue growth.
- Total Individual Income Tax revenue growth is 3.5 percent year-to-date through December 2018 and is above the 3.0 percent revenue forecast for FY 2018-19.

Corporate Income Tax Revenue

- **The Corporation Income Tax, the most volatile of the largest revenue categories, increased 27.3 percent in December 2018 compared to the same month one year ago.**
- **Strong Corporation Income quarterly tax declarations generated an additional \$18.0 million above collections in December 2017.**
- **Companies are prepaying corporate taxes in anticipation of increased tax liability from healthy corporate earnings in the future.**
- **Corporations transferred less out of the Corporation Income Tax and into the Corporation License Tax in December.**
- **This resulted in the Corporation License Tax decreasing 46.1 percent in December, yet well above the revenue forecast estimate.**
- **The Corporation Income Tax has increased 3.8 percent year-to-date through December 2018 and is running below the 8.0 percent revenue forecast for FY 2018-19.**

Other Revenue

- **Other Revenues decreased 15.4 percent in December 2018 compared to December 2017 and have increased 13.2 percent year-to-date from a variety of sources and timing of receipts.**
- **Other Revenues have benefitted from strong monthly increases in the Insurance Tax, the Bank Tax, and the Documentary Stamp Tax (real estate deed tax).**
- **Other Revenues have also benefitted from continued strong Interest Earnings on state General Fund investments of nearly \$6 million in December.**

Summary

- **Through the first six months of FY 2018-19, General Fund revenues have increased 4.9 percent and are trending above current forecast projections by an estimated \$38.7 million.**
- **Based upon current revenue trends, we expect the year-to-date revenue growth to converge toward the forecast growth rate of 4.0 percent for FY 2018-19.**
- **Pursuant to Section 11-9-890, total General Fund revenue collections through the second quarter of FY 2018-19 have exceeded the quarterly revenue estimate. At this time, no adjustments are warranted.**

Contingencies and Other Items of Concern

- **South Carolina**
 - **No lottery winner - may take \$61.5 million off of the table.**
 - **No lottery winner has come forth to claim the \$1.5 billion prize - may have to take \$61.5 million applicable to state individual income taxes out of 2019 forecast.**
 - **State Personal Income revised lower**
 - **Full employment - businesses want to expand, but can't find enough qualified workers**
 - ❖ *Mr. Powell asked if full employment means SC wages will increase. Mr. Martin replied that, at the moment even though this was supposed to be occurring, it is not. Many businesses are turning to giving their employees bonuses as opposed to pay raises.*

- **United States**
 - **Federal government shutdown - may affect IIT refunds and spending**
 - **Lagged effects of monetary tightening**
 - **Federal Reserve - raised interest rates in December**
 - **Number of rate increases reduced from three to two in 2019**
 - **Unwinding of the Fed balance sheet**
 - ❖ **The federal government is reducing securities holdings on their balance.**
 - **Flattening of the yield curve spread**

- **International and Global**
 - **Global economic growth is slowing - China and Europe**
 - **Declining PMI in China (main manufacturing gauge)**
 - ❖ *Chairman Grimball asked if manufacturing is going down in China or if the rate of increase is declining. Mr. Martin replied that investment in manufacturing is going down and this could possibly be tariff-related.*
 - **Tariffs (China retaliation and trade negotiations)**
 - **Brexit (PM May survives vote of no confidence)**

- ❖ *Chairman Grimball asked if Britain has the option to not proceed with Brexit and how this would affect South Carolina. Mr. Martin replied that many lawmakers in Britain feel that Brexit is too bold and will have negative consequences to their economy. A referendum is also being considered as the citizens are not as comfortable with Brexit as they once were. Brexit affects South Carolina because England is one of the top 5 countries that could affect the US trade balance and we also export many products to England, Ireland and Scotland.*
- **Decline in the price of oil – Saudi Arabia and Russia to reduce output**
 - **Countries leaving OPEC**
 - ❖ **At least one country, Qatar, is leaving OPEC and others are considering doing so.**
 - **In 2019, many European countries considering anti-cartel legislation**

V. Other Business

- ❖ *Mr. Rainwater reminded the members to file their Statement of Economic Interest by March 30, 2019 and to make sure that they enter information for the BEA and RFA Boards.*
- ❖ *Mr. Martin is going to contact the Regional Advisors to see if their thoughts have changed concerning the economy.*

There was no further business or comments from the Working Group Members.

Mr. Clyborne motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye and the meeting adjourned at 2:13pm.

The next scheduled BEA Meeting is Thursday, February 14, 2019 at 1:30pm.

Attachments: Agenda, Meeting Materials

Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar>

These minutes were approved on 2/14/19.

Karen Rhinehart

Karen Rhinehart

