

## MEMORANDUM FOR THE RECORD

**DATE:** October 17, 2019  
Room 417, Rembert Dennis Building  
10:45am

**SUBJECT:** Minutes of Board of Economic Advisors Meeting

**ATTENDEES:** *Board Members* -Edward Grimball-Chairman, Howell Clyborne, Emerson Gower, Hartley Powell. *Executive Director*, Frank Rainwater; *Staff* - Paul Athey, Natalie Gallagher, Lisa Jolliff, Sandra Kelly, Robert Martin, Mary K. Miller, David Patterson, Allyn Powell, Karen Rhinehart, Gordon Shuford. *Guests* - Kent Lesesne, Susan Turkopuls, Ann Berger, Josh Rhodes (SC Association of Counties); Ben Johnson (Dept. of Commerce); Kevin Baker, Scott Ludlam (Dept. of Transportation); Richard Eckstrom, Kathy Johnson, Michael Moore, John Barfield (Comptroller General's Office); Kevin Kibler (State Treasurer's Office); David Good, Ashley Harwell-Beach, Samantha Allen (Legislative Council); Katie Turner, Stephanie Meetze (WMC); Ryan Burnaugh (KMSO); Sarah Corbett, Peggy Boykin (PEBA); Tim Derrick (Dept. of Revenue); Kevin Ethridge (Executive Budget Office); Georges Tippens (Commission on Higher Education).

- Chairman Grimball welcomed everyone to the meeting at 10:47am.
- Chairman Grimball presented the meeting minutes for September 16, 2019 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)*
- **Frank Rainwater presented an overview of first quarter results. His major comments were:** *(See Attached)*
  - Through the first quarter of FY 2019-20, General Fund Revenues grew \$159.0 million or 7.3 percent.
  - Of the total growth, \$145.8 million or 91.7 percent is from Sales and Individual Income tax.
  - As a reminder, final revenues for last fiscal year, FY 2018-19 exceeded the estimate for the current year, FY 2019-20, by \$71.4 million.
  - As a result, revenue collections would need to decline by 3.8 percent to trigger a budget reduction required (§11-9-1140).

- Therefore, revenue growth for FY 2019-20 is well above expectations.
- New estimates will be made on November 8<sup>th</sup>.
- **Robert Martin presented an economic and revenue update and economic issues for the Regional Advisory Committee Meeting. His presentation agenda included charts covering:** *(See Attached)*
  - Measures of Confidence
    - Consumers and small businesses feel good about the economy; corporations do not have confidence in the economy; CEO confidence is low as well.
      - *Chairman Grimball asked if one of these measures is more reliable than another. Mr. Martin responded that all are reliable because they are surveying different groups, however, he feels that the National Association of Purchasing Managers is the most reliable as it has been in existence for a long span of time.*
  - Personal Income
    - This category gives a good reading of economic growth in the nation and state. The chart that shows growth in personal income in South Carolina is the key chart that shows changes in the last year. The Bureau of Economic Analysis revised their information going back to 1998 which showed that there has been more growth than previously thought – mainly in wages.
      - *Mr. Powell asked what prompted the revision in the Bureau of Economic Analysis data. Mr. Martin replied that there are many components to the report and those components are audited which causes a revision in the information. Mr. Gower asked if the BEA estimate last year was made on incomplete data due to this report. Mr. Martin replied that the estimate was based on the best information available at that time.*
  - Employment
    - South Carolina employment is 1.4% of total US employment and adding about 30,000 jobs per year. South Carolina is at full employment.
  - Domestic Economy
    - South Carolina is 1.1% of US GDP. Consumers are driving the economy.
      - *Mr. Rainwater reiterated that consumer confidence is growing. Chairman Grimball asked what percentage of GDP is represented by the consumer. Mr. Martin replied that the percentage is about 70%.*

- International Economy
  - Global growth is slowing.
    - *Chairman Grimball asked if Europe is on the brink of recession and if so, is that related to the strength of the dollar. Also, he asked how this will affect the South Carolina economy. Mr. Martin replied that over the last two years the Federal Reserve has been increasing interest rates while the European banks have been lowering interest rates. Most investing has been in the United States and not Europe which has slowed the economy in Europe. The US dollar is strong which causes other countries' purchasing power to be diminished.*
- Base Economic Assumptions
  - Sales tax is 35% of the total General Fund.
  - Growth in Income Tax has averaged about 4% over the last twenty years.
  - Growth in Income Tax Withholdings is between 4% and 6.5%.
  - Growth in Income Tax Non-Withholdings is about 5%.
  - Corporate Income Tax is very volatile.
  - Total General Fund Revenue – mostly running above the average.
    - *Mr. Martin sees the economy returning to a slowing steady state. The Carolina Panthers will take \$115 million from the General Fund over the next 15 years-this is a gross figure. Mr. Powell asked how that \$115 million figure was calculated. Mr. Martin replied that the \$115 million figure is for job development fees. They will be taxed in the future. Per Mr. Powell, employees with the Carolina Panthers who live in South Carolina will be taxed.*

### Working Group Comments

No comments.

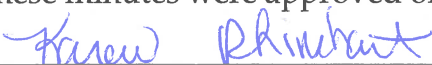
### ○ Other Business

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

*\*Chairman Grimball declared a break in the meeting for lunch at 12:10.*

The next scheduled BEA Meeting is Friday, November 8, 2019 at 1:30pm.  
 Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar> and at the Rembert Dennis Building.

These minutes were approved on 11/8/19.



Karen Rhinehart

## MEMORANDUM FOR THE RECORD

DATE: October 17, 2019  
Room 112, Solomon Blatt Building  
12:45pm

SUBJECT: Board of Economic Advisors Annual Regional Advisory Meeting

**ATTENDEES:** *Board Members* - Edward Grimball - Chairman; Howell Clyborne, Emerson Gower, Executive Director, Frank Rainwater; *Staff*- Robert Martin, Lisa Jolliff, Karen Rhinehart, David Patterson, Paul Athey, Amanda Martin, Sandra Kelly, Mary K. Miller, Lisa Wren, Ragan Griffith, Kenneth Harris, Gordon O. Shuford, Julia Williams, Natalie Gallagher, Allyn Powell, Debbie Glenn; *Guests* - Kathy Johnson, Michael Moore, John Barfield, Richard Eckstrom (Comptroller General's Office), Katie Turner, Stephanie Meetze, Daniel Boan (W&M), Joe Boyle, Brian Ford, Hogan Brown, Dolly Garfield (SC Education Lottery), Kevin Kibler (Treasurer's Office), Ted Pitts, Swati Patel (SC Chamber of Commerce), Carl Blackstone (Columbia Chamber of Commerce), Robert Hitt, Daniel Young (Dept. of Commerce), Kevin Baker, Scott Ludlam (Dept. of Transportation), Clare Luther (Dept. of Education), Grant Gibson (SFC), Eric Budds, Eric Shytle (Municipal Assoc. of SC), Kara Brurak (Retirement System Investment Commission), Don Hottel, Tom Cone (House Research), Kevin Ethridge (Executive Budget Office), Tim Derrick (Dept. of Revenue), Sarah Corbett, Peggy Boykin (PEBA), Russ Sobel-The Citadel, Joseph Von Nessen-USC, Mark Vitner - Wells Fargo Securities, Frank Hefner-College of Charleston, Raymond Sauer - Clemson (Regional Economic Advisors).

- I. Chairman Grimball called the meeting to order at 12:47pm.
- II. Frank Rainwater provided a review of SC personal income growth and introduced this year's Regional Advisory Committee speakers. *(See Attached)*
- III. Presentations were given by Regional Advisory Committee Members. *(See attached)* Their key forecast assumptions were:

**Dr. Matthew Martin - Regional, Banking**  
Senior Vice President, Federal Reserve Bank of Richmond

**\*Dr. Martin was unable to attend - Robert Martin presented Dr. Martin's information**

**\*No regional information was provided, only a national overview.**

~Dr. Martin feels the economy continues to be strong but is slowing down.

~The labor market continues to perform well and there is full employment with a 50-year low at 3.5%.

~There is moderate growth due to home sales; concern due to the tariffs and returning stock market volatility.

~There needs to be an external event in order to trigger a recession. We are in an expansion that has lasted ten years.

*\*Chairman Grimball asked if Dr. Martin noted any issues that will appear over the next two years and what type of growth he sees. Mr. Martin said that Dr. Martin does not see any issue that would cause problems in the economy and over the next two years he predicts real GDP growth of between 2.2% and 2.5%. He also stated there would be a long-term employment growth of 1.5%.*

**Dr. Joseph Von Nessen** – *Regional, Academia*

Research Economist, University of South Carolina, Darla Moore School of Business

Dr. Von Nessen's estimates were:

Personal Income	FY 2019-20 – 3.90%	FY 2020-21 – N/A
Employment	FY 2019-20 – 1.50%	FY 2020-21 – N/A
Inflation	FY 2019-20 – 1.90%	FY 2020-21 – N/A

~Dr. Von Nessen began his remarks by saying that even though this year has seen some economic volatility, there has been a strong labor market and stable GDP growth. However, he sees a softening in the South Carolina economy. Overall, consumer sentiment about the economy is high.

~Dr. Von Nessen discussed the effect that tariffs are having on the economy. In the short-term these are causing increases in plant and vehicle prices; in the long-term businesses are looking for an alternate supply chain. Beginning in July 2018, due to the retaliatory 40% tariff, exports in South Carolina decreased; as the tariff came down to 14% the exports increased. Overall, trade is still up. Trade is affecting vehicles specifically.

*\*Mr. Gower asked when the consumer credit limit would be reached since the credit and tuition debt is high. Dr. Von Nessen replied that in 2020 this should not be an issue as there is still room in the credit sector.*

*\*Chairman Grimball asked Dr. Von Nessen to comment on the fact that there is 100% GDP-he asked at what point that would be a problem for growth and stability. Dr. Von Nessen replied that it would be hard to measure, but he does not see that as a factor for 2020. Dr. Hefner commented that this issue would be recognized after it happens and mentioned that Japan is at 190% of debt to GDP and is in a 30-year slow down. Mr. Vitner commented that the world is getting older – people are focusing on fixed income and bonds. Dr. Sauer mentioned that when inflation comes, it will drive interest rates higher.*

*\*Dr. Von Nessen does not see a recession coming soon.*

**Mr. Mark Vitner** – *Regional, Banking*

Managing Director and Senior Economist – Wells Fargo Securities

Mr. Vitner's estimates were:

Personal Income	FY 2019-20 – 4.80%	FY 2020-21 – 4.80%
Employment	FY 2019-20 – 1.60%	FY 2020-21 – 1.40%
Inflation	FY 2019-20 – 2.00%	FY 2020-21 – 2.20%

~Mr. Vitner shared that his research shows the economy slowing but no recession through FY 2020-21.

~He is optimistic on trade policies because he feels that China needs a trade agreement due to the fact that businesses are now leaving China.

~South Carolina's economy is slowing because it has more ties to the global economy more than surrounding states-exports have slowed.

~Probability of recession in the next 6 months is 5%; in the next two years the chance is 30%.

**Mr. Rainwater called for a brief recess at 2:20pm. The meeting resumed at 2:32pm.**

**Dr. Raymond Sauer** – *Regional, Academia*

Professor of Economics, Clemson University, John E. Walker Department of Economics

Dr. Sauer's estimates were:

Personal Income	FY 2019-20 – 4.00%	FY 2020-21 – 3.50%
Employment	FY 2019-20 – 1.70%	FY 2020-21 – 1.50%
Inflation	FY 2019-20 – 2.00%	FY 2020-21 – 2.00%

~During Dr. Sauer's presentation he mentioned that we are in a period of slow economic expansion and GDP growth and the labor market growth is steady. Twenty-one million people have obtained employment since 2010 and wages have increased in the last two years.

~He sees risks to the economy in a slow-down of productivity, policy uncertainty, a slowdown in global manufacturing, declines in exports and business investments, leading Economic Indicators have turned down.

~He feels the risk of a recession is higher at this time than in previous years.

*\*Chairman Grimbball asked for clarification concerning policy uncertainties and Dr. Sauer responded that these uncertainties referred to trade, monetary and fiscal uncertainties.*

*\*Mr. Vitner said that trade policy would be where a misstep could be made if an agreement cannot be made with China.*

*\*Chairman Grimbball asked if the lowering of the Personal Income percentage from 4% in FY 2019-20 to 3.5% in FY 2020-21 is due to a possible recession to which Dr. Sauer replied that it is.*

**Dr. Frank Hefner - Regional, Academia**

Professor of Economics, Director of Office of Economic Analysis, College of Charleston

Dr. Hefner's estimates were:

Personal Income	FY 2019-20 - 5.60%	FY 2020-21 - 5.70%
Employment	FY 2019-20 - 1.50%	FY 2020-21 - 1.50%
Inflation	FY 2019-20 - 1.80%	FY 2020-21 - 2.00%

~Dr. Hefner began by stating that it is difficult at this time to discern what is happening in the economy. He said there is a lot of "noise" in the news that needs to be filtered when it comes to the economy. Hurricane Dorian and the impeachment talk have been items in the news as well as Brexit and the trade issues. Container ships are leaving Charleston, but the containers are not full, which is a concern.

~Internal policies can cause recessions just as external events do.

~Dr. Hefner sees a slowdown coming in the economy.

*\*Chairman Grimbball asked Dr. Hefner if the economy is heading into a slowdown period and wanted to confirm if personal income is holding steady. Dr. Hefner confirmed that a slowdown is approaching but the core economy will be stable.*

**Dr. Russell S. Sobel - Regional, Academia**

Professor of Economics and Entrepreneurship, The Citadel, Baker School of Business

Dr. Sobel's estimates were:

Personal Income	FY 2019-20 - 4.20%	FY 2020-21 - 4.03%
Employment	FY 2019-20 - 1.53%	FY 2020-21 - 1.30%
Inflation	FY 2019-20 - 2.00%	FY 2020-21 - 2.15%

~The final Advisory Committee Member to present information was Dr. Russell Sobel. He began his comments by sharing that he feels that the Olympic model of scoring is best and shared the economist's numbers for the last five years. He also stated that the South Carolina economy is closely tied to the United States national economy.

~To assist him in forming a forecast, he reviews the IMF World Economic Outlook, the Federal Reserve Bank of Philadelphia's Livingston Survey, and the Survey of Professional Forecasters.

~He is expecting a slight slowdown in growth over the next few years, a higher risk of recession, and overall slower growth due to tariff issues.

**Mr. Robert Martin, Staff Chief Economist, Board of Economic Advisors**  
Mr. Martin's estimates were:

Personal Income	FY 2019-20 – 5.25%	FY 2020-21 – 4.75%
Employment	FY 2019-20 – 1.50%	FY 2020-21 – 1.40%
Inflation	FY 2019-20 – 2.00%	FY 2020-21 – 2.00%

**Panel Discussion:**

- ~All forecast predictions were reviewed and compared by the BEA staff and Board members.
- ~Mr. Rainwater compared the different forecasts and stated that he and Mr. Martin and the Board members would discuss the information.
- ~Chairman Grimball and the Board members stated their appreciation for the wisdom and information shared by the advisors.

There were no other questions or comments from the Members or Working Group.

The meeting adjourned at 3:27pm (Mr. Gower motioned, Mr. Clyborne, seconded; all voted aye).

The next scheduled meeting is Friday, November 8, 2019.

Attachments: Agenda, Meeting Materials

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

These minutes were approved on 11/8/19.  
Karen Rhinehart  
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