

SOUTH CAROLINA GENERAL FUND REVENUE

Quarterly Review October to December, FY 2021-22

January 20, 2022



Quarterly Review Requirements

- SC Code of Laws §11-9-1130 requires a review of revenue collections relative to the estimates
- If any quarter shows a shortfall over 1.5 percent of projected collections a synopsis must be prepared indicating the factors contributing to the shortfall; and is similarly required for a shortfall of 1.5 percent in sales, individual income tax, corporate income tax, insurance tax, and earnings on investments
- SC Code of Laws §11-9-1140 requires a quarterly review of estimated and actual revenues
- If, at the end of the first (Jul – Sep), second (Oct – Dec), or third (Jan – Mar) quarter, the BEA reduces the estimate by
 - 3.0 percent or less, the Director of the Executive Budget Office must reduce appropriations
 - More than 3.0 percent, the General Assembly may take action; otherwise, the Director of the Executive Budget Office must reduce appropriations

General Fund FY 2021-22 Second Quarter Summary

- General Fund Revenues are \$626.7 million above estimates after record December collections
- Individual Withholdings are \$278.4 million ahead of expectations
- Sales tax accounted for \$145.9 million of the excess as consumers continued to spend more on taxable items
- Corporate Income tax is \$115.6 million ahead of the estimate
- Insurance tax is \$9.1 million ahead of the estimate
- Earnings on Investment are \$2.8 million ahead of the estimate

General Fund Revenue



REVENUES V. BEA MONTHLY ESTIMATES

JULY - DECEMBER FY 2021-22

(\$ in Millions)

	Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD		Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD
Total General Fund Revenue	\$6,218.0	\$5,591.3	\$626.7	(1.7%)	20.2%	Other Revenue Items, Sub-Total	\$465.1	\$387.2	\$78.0	(0.9%)	23.1%
Sales Tax	1,781.4	1,635.5	145.9	(1.8%)	20.0%	Admissions Tax	14.1	8.1	6.0	13.2%	95.3%
Individual Income Tax	3,526.9	3,248.8	278.1	(0.4%)	18.3%	Alcoholic Liquors Tax	44.7	40.2	4.5	(3.4%)	15.0%
Withholdings	3,346.7	3,068.3	278.4	2.3%	14.8%	Bank Tax	24.4	16.4	8.0	(46.5%)	183.3%
Nonwithholdings	488.4	490.5	(2.1)	(8.7%)	(2.3%)	Beer and Wine Tax	50.2	48.9	1.2	(1.2%)	1.0%
Refunds	308.2	310.0	(1.8)	0.9%	(29.1%)	Corporate License Tax	130.4	113.2	17.3	6.8%	23.0%
Corporate Income Tax	306.2	190.6	115.6	(1.8%)	75.2%	Deed Rec. (Doc. Tax)	65.0	46.3	18.7	(15.8%)	43.5%
Insurance Tax	138.3	129.2	9.1	(7.0%)	(11.0%)	Earnings on Investments	36.8	34.0	2.8	3.3%	11.9%
Other Revenue Items, Sub-Total	465.1	387.2	78.0	(0.9%)	23.1%	Residual Revenue	99.5	80.1	19.4	(11.0%)	11.5%

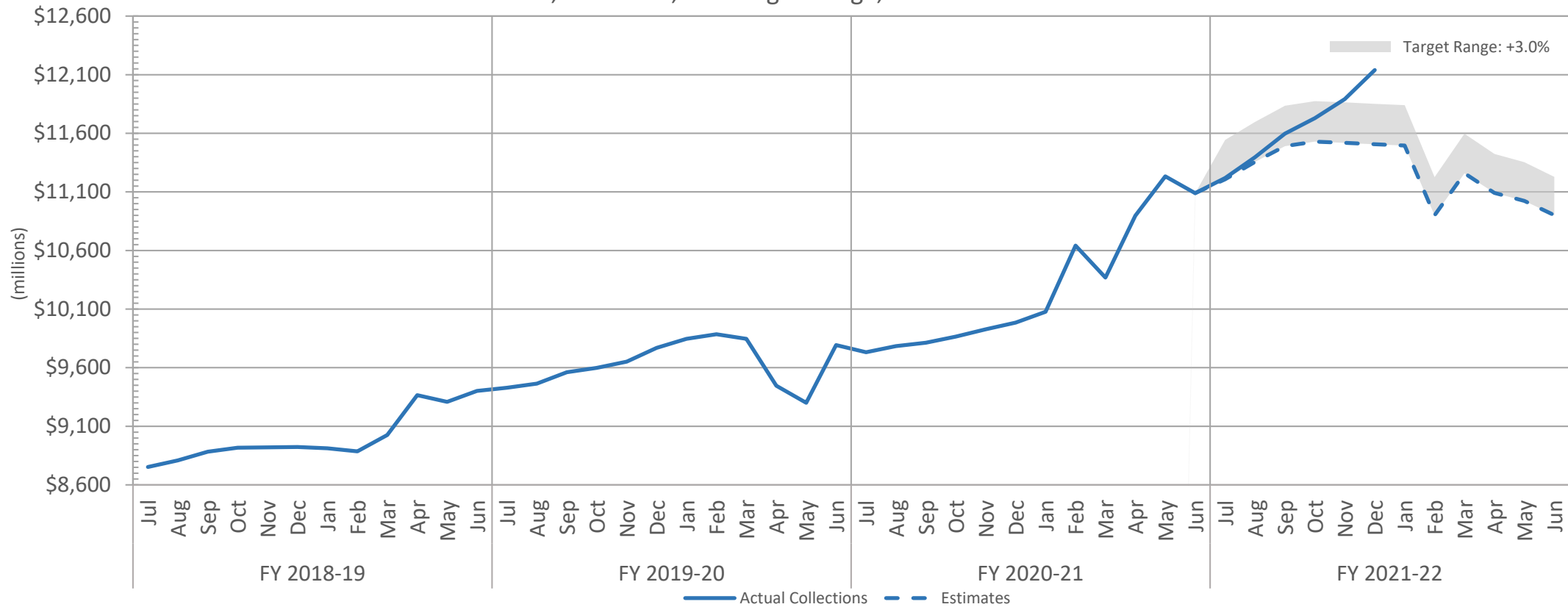
Based on BEA Forecast as of November 10, 2021



General Fund Revenue – Actual vs. November Estimate

Collections are up 20.2% over last year and \$626.7 million ahead of the estimate; expected flattening following stimulus has not yet occurred

ROLLING FISCAL YEAR - GENERAL FUND
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22

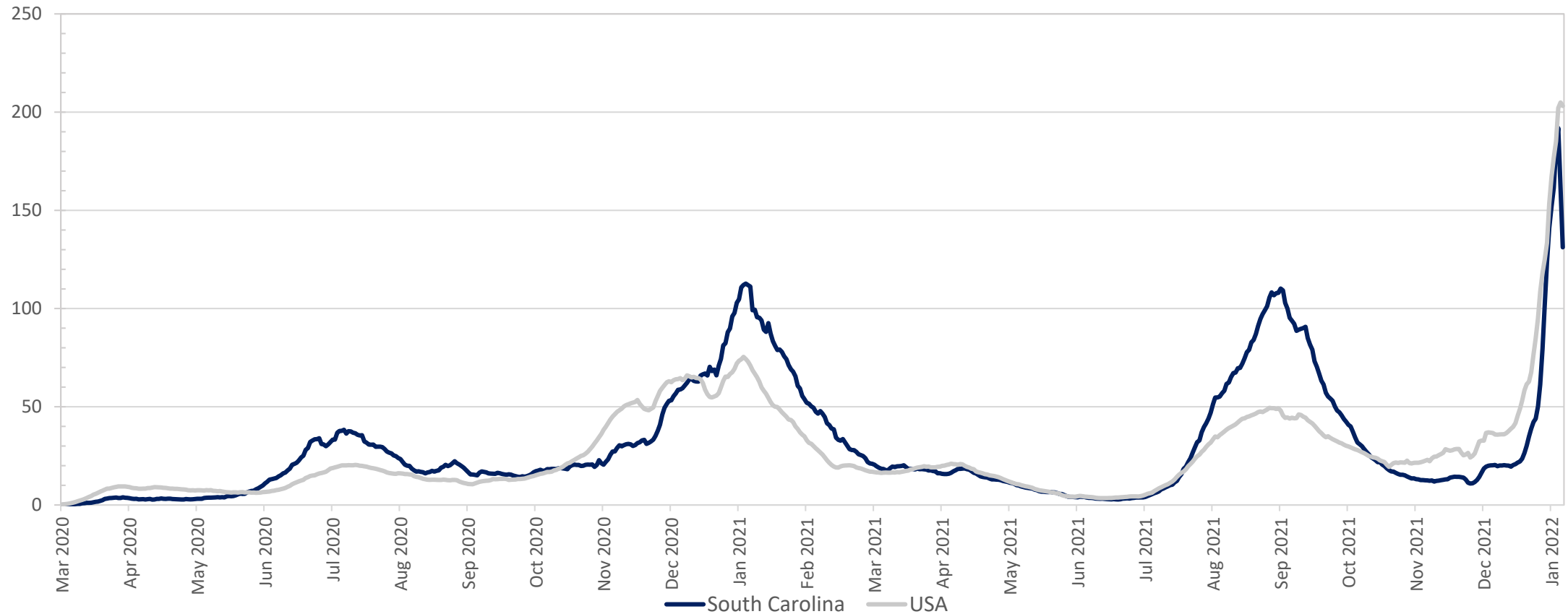


National Economic Indicators

COVID-19 Case Rate

Infections have reached new highs in South Carolina and across the US

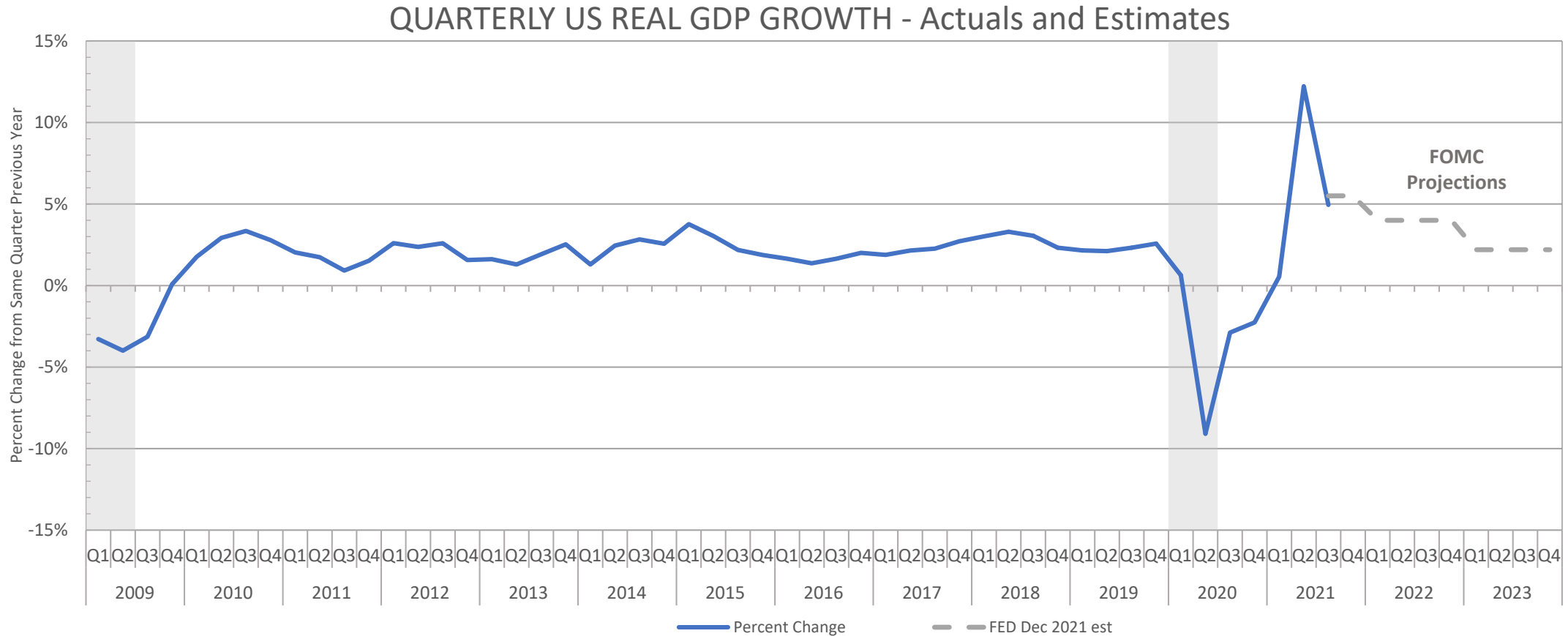
7-DAY AVERAGE NEW CASES PER 100K



Source: Centers for Disease Control and Prevention COVID Data Tracker 294 - RFA/bdc/01/11/2022

Real GDP Growth

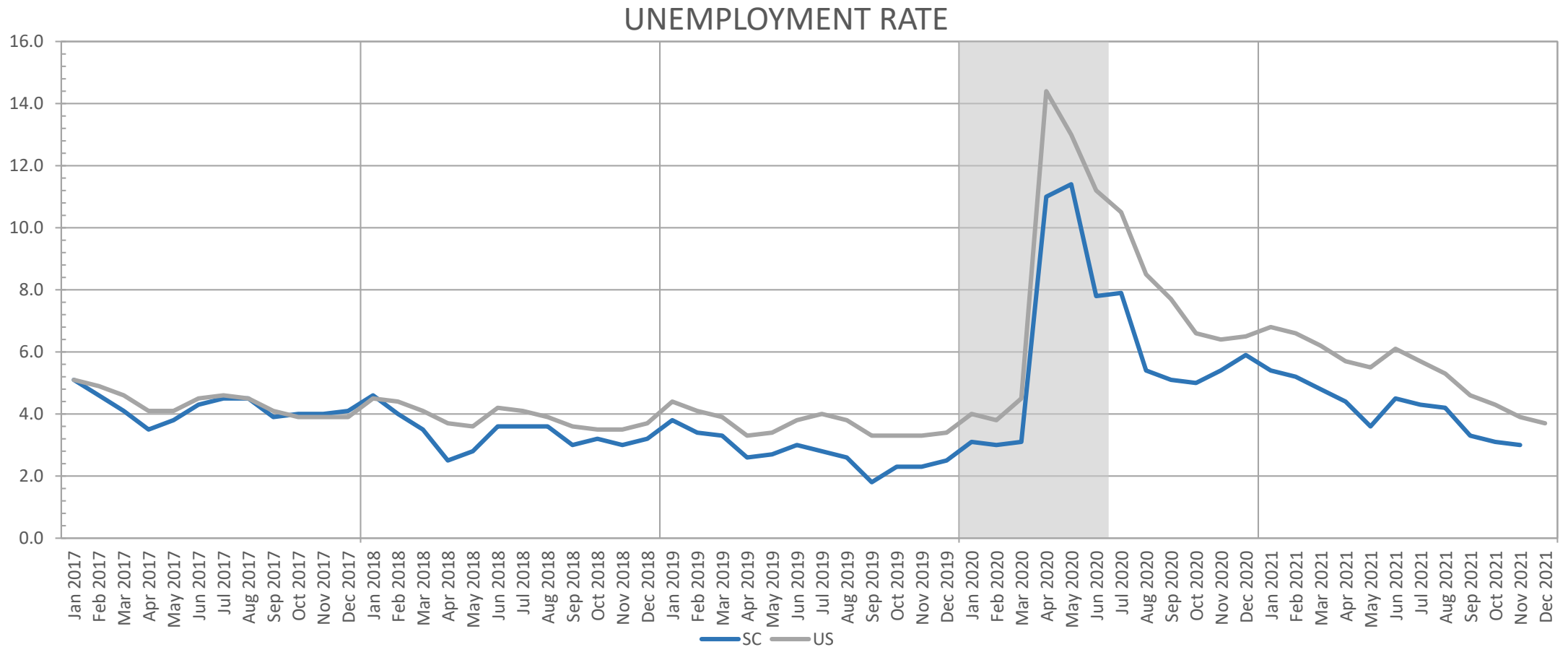
Fed revised estimate for 2021 Q4 down from 5.9% to 5.5% and revised 2022 Q4 up from 3.8% to 4.0%; adjustment reflects timing shift but expectations remain positive



Source: U.S. Dept. of Commerce, Bureau of Economic Analyses; Federal Reserve Open Market Committee, Dec 2021 RFA/nmg/266/01/16/2022

Unemployment Rate

SC unemployment rate back to pre-pandemic level as of November 2021 and remains below the US rate



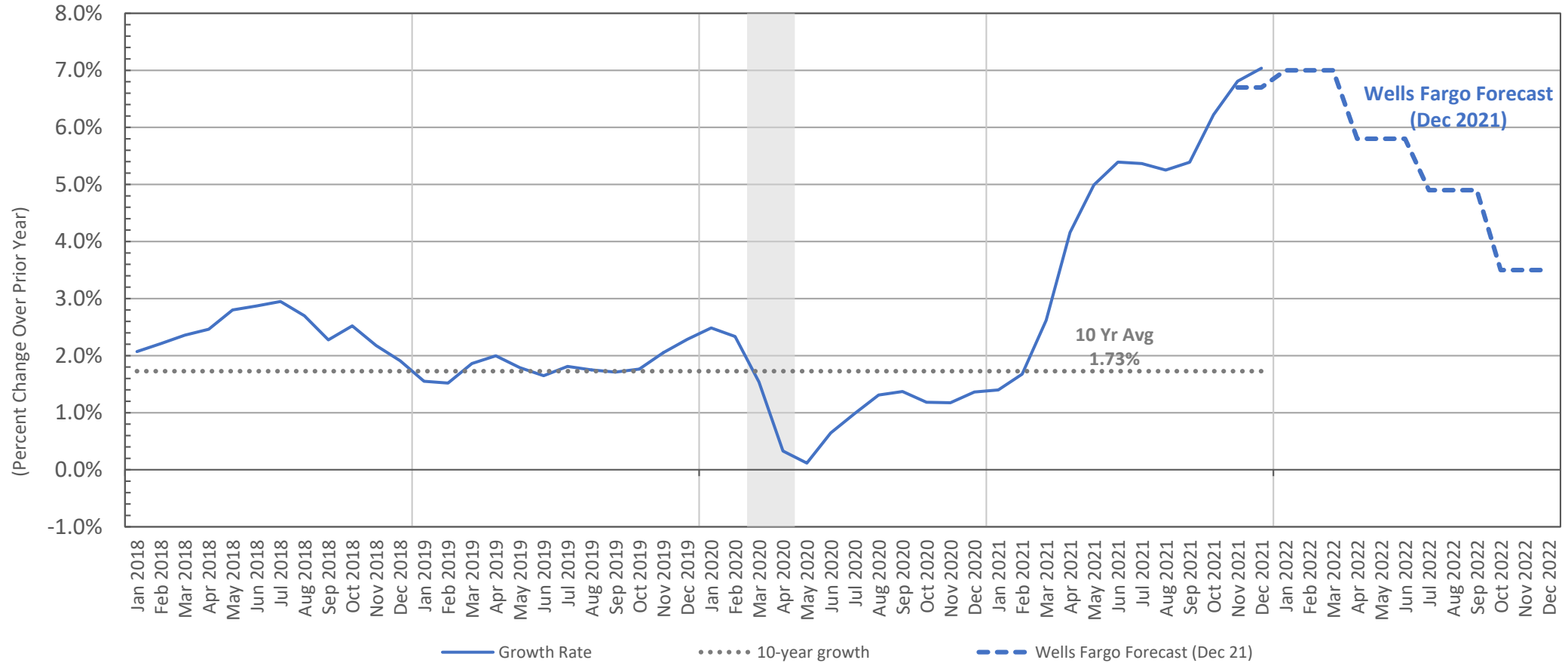
Source: Bureau of Labor Statistics 129--RFA/nmg/1/10/2021



Consumer Price Index

Inflation continues to be well ahead of 10-year average driven by a handful of categories

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS



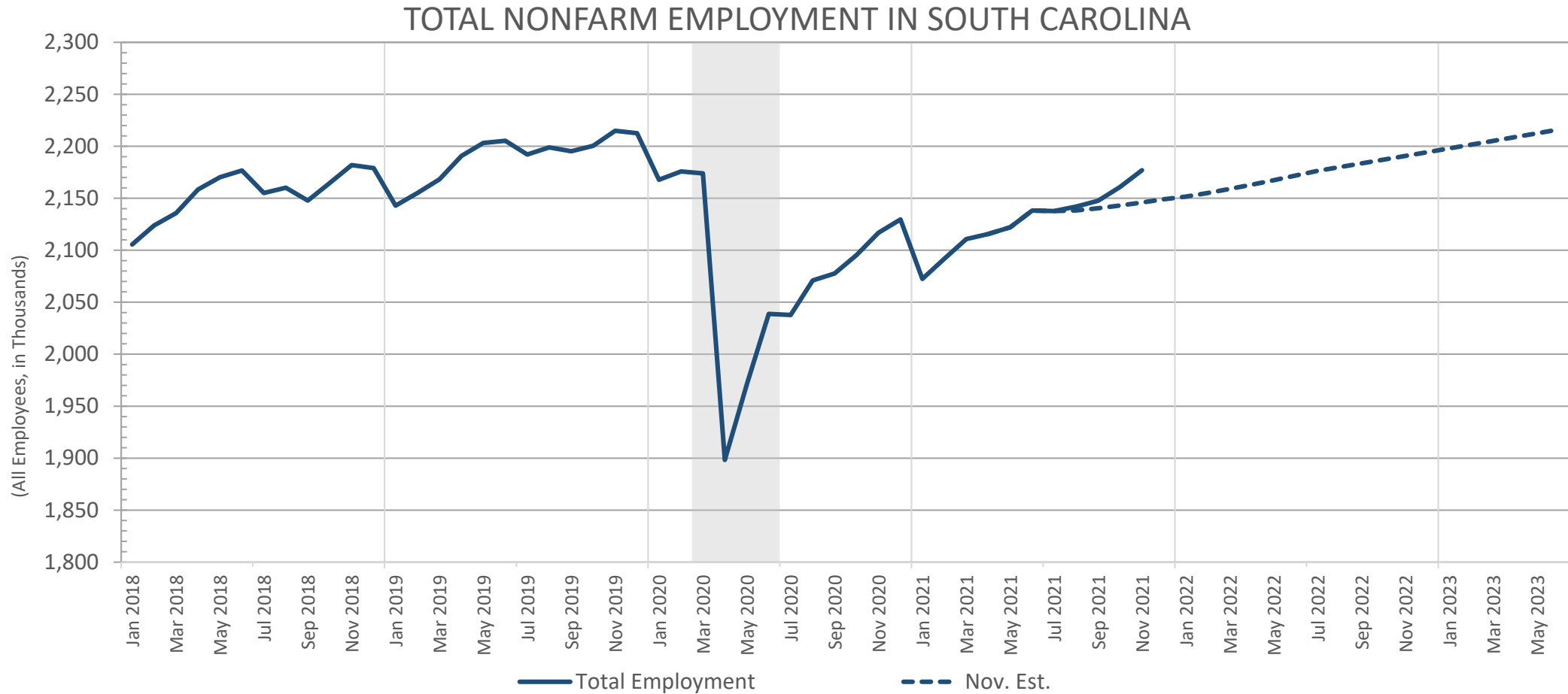
Source: U.S. Department of Labor, Bureau of Labor Statistics; Wells Fargo Securities 216 - RFA/bdc/1/12/2021

South Carolina Economic Indicators



SC Employment

Employment is above the forecast for the fourth straight month, partially due to data revisions

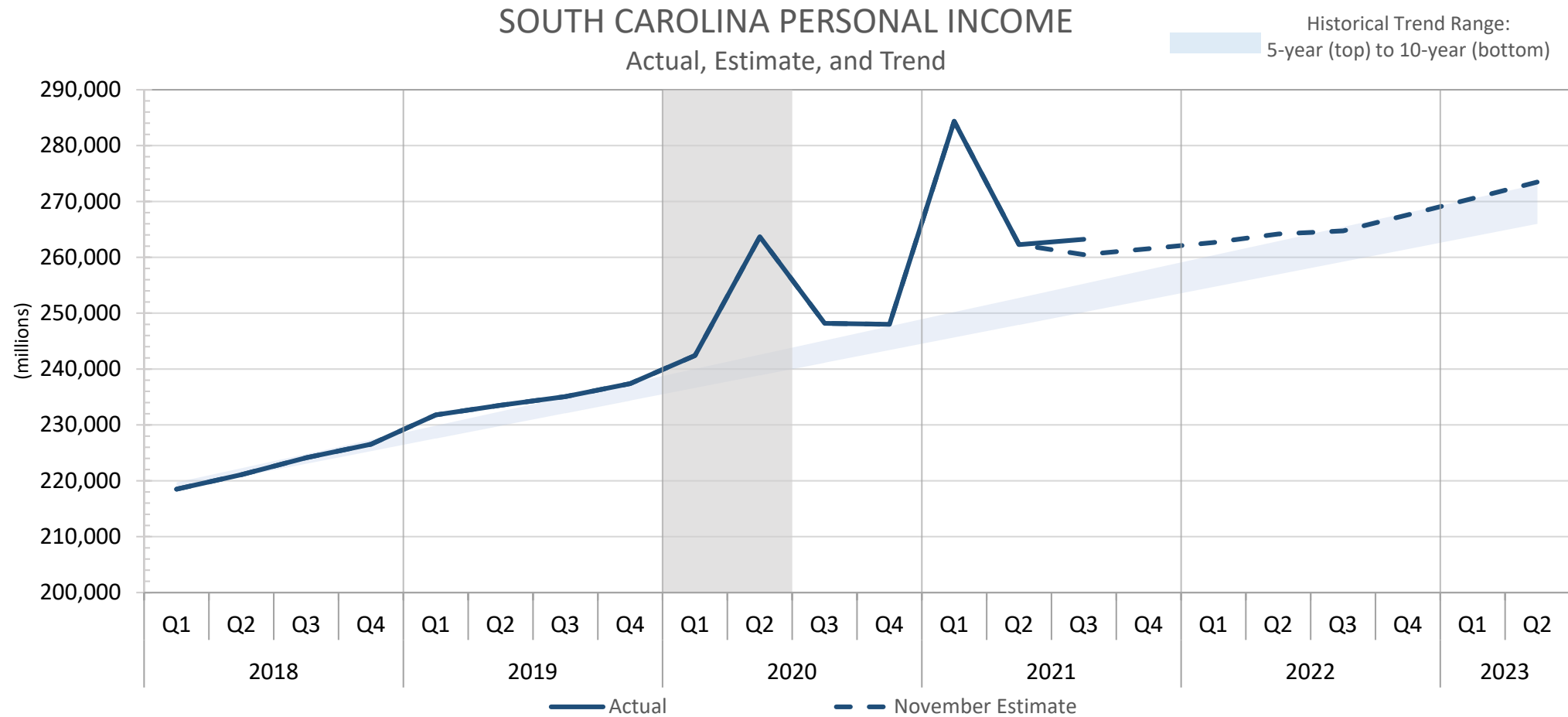


Source: U.S. Department of Labor, Bureau of Labor Statistics 60-RFA/nmv/1/10/2022



SC Personal Income

Actual 2021 Q3 personal income was slightly above estimate, driven by higher than expected wage growth (8.6% forecasted, 10.3% actual)



Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors, nmg/1/10/2022

General Fund Revenue

Individual Income Tax Components



Individual Income Taxes

Key Issues

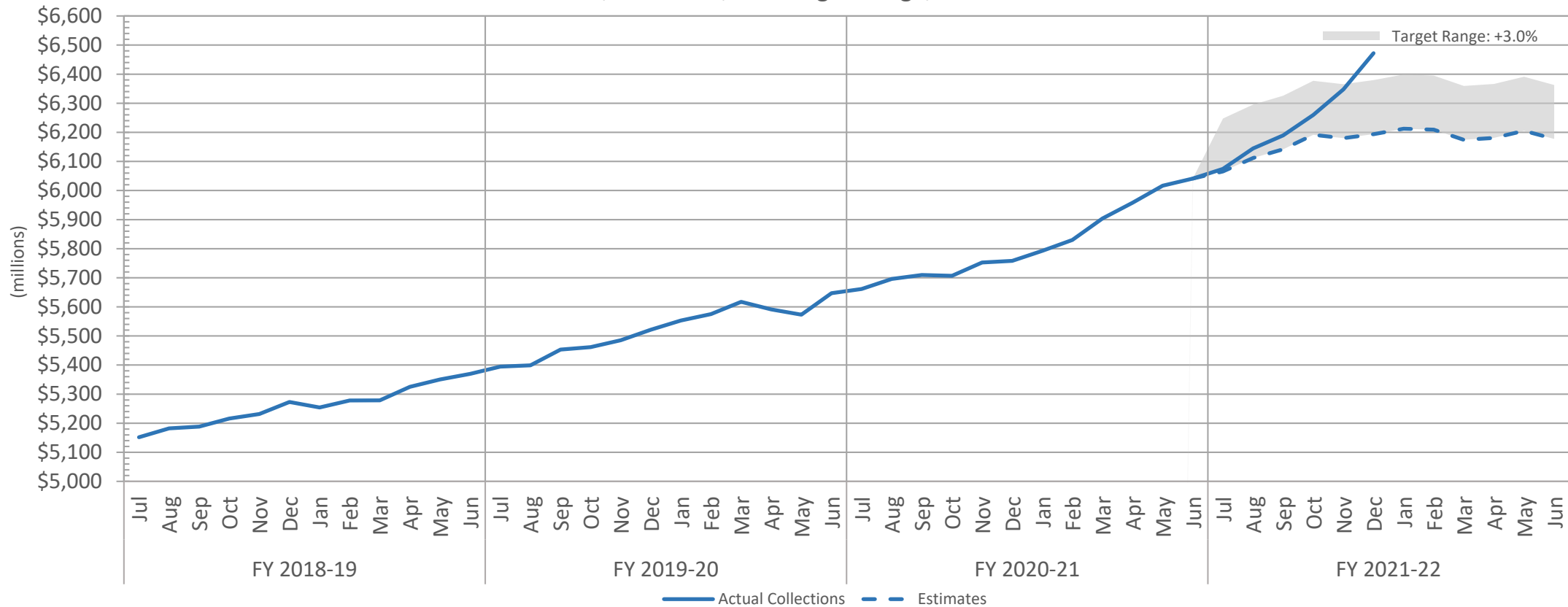
- Wage growth for the first half of the fiscal year has proven robust and may remain elevated longer than initially anticipated
- Non-Withholdings showed steady growth through most of the fiscal year, but Fed decisions and shifting trends add to uncertainty for the rest of the fiscal year
- Refunds are in line with the estimate, but tax season will be key to determining final results

Withholdings - Actual vs. Estimate

After a record December, Withholdings are up **14.8%** over last year and are running **\$278.4 million** above the estimate

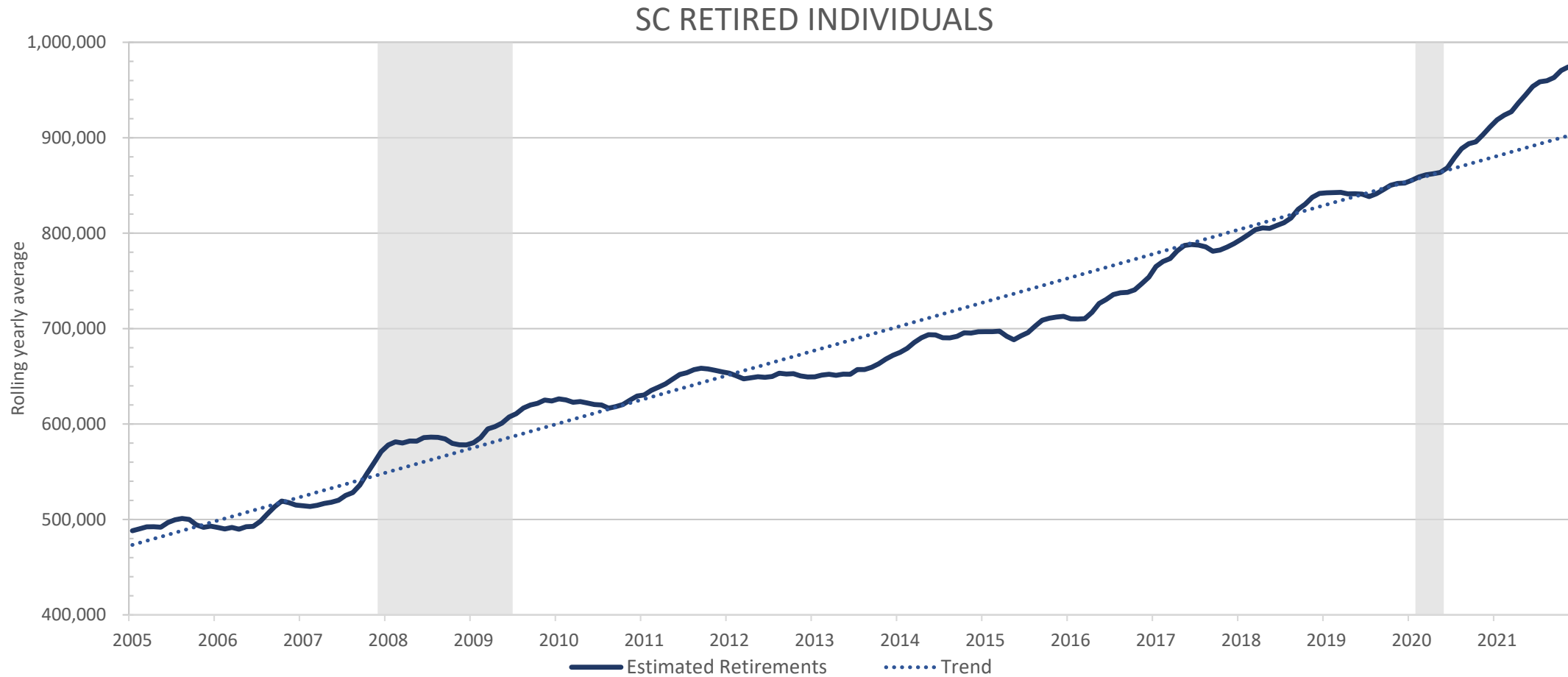
ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



SC Retired Population

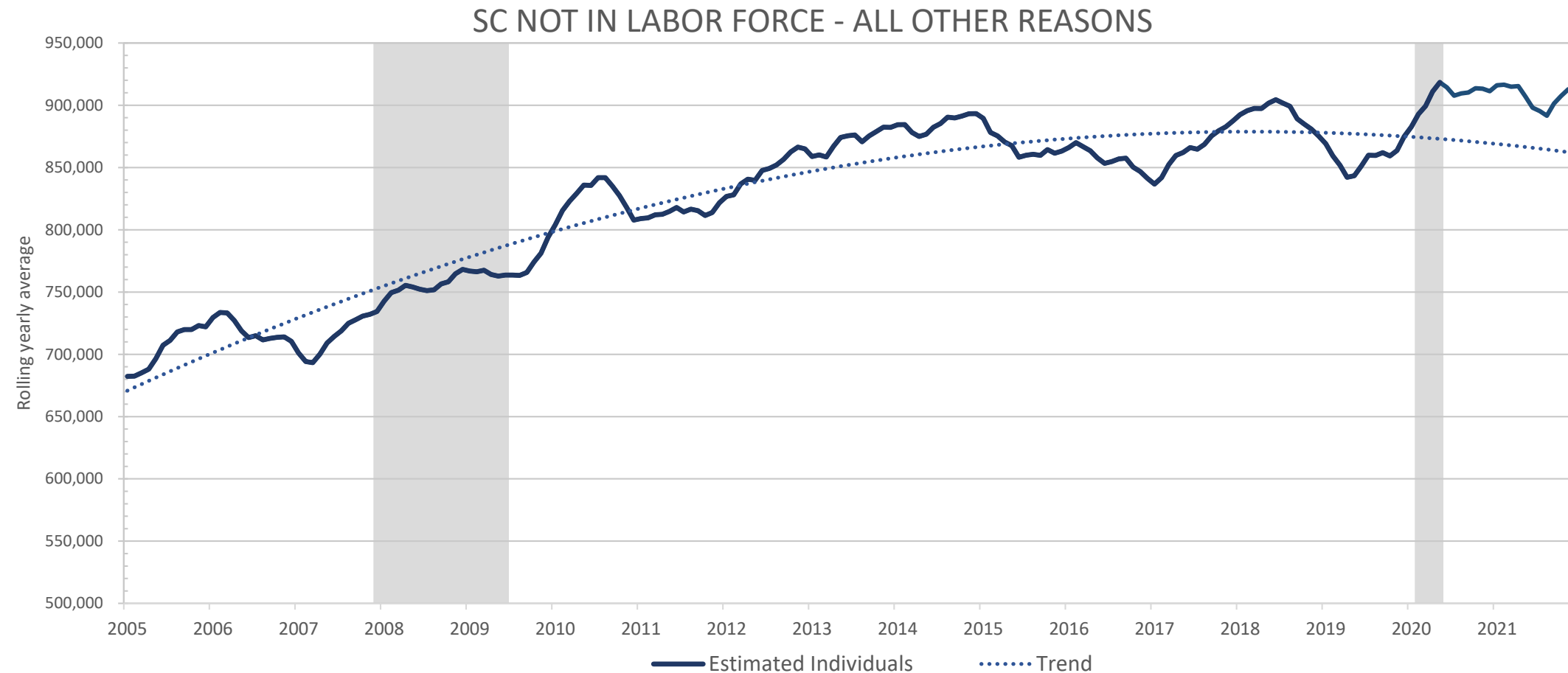
South Carolina retirement levels jumped in the past year and have continued to rise



Integrated Public Use Microdata Series, Current Population Survey: Version 9.0: IPUMS, 2021; 309B - RFA/bdc/1/6//2021

SC Individuals Not in Labor Force - All Other Reasons

Individuals exited the labor force during the pandemic for other reasons; these levels remain elevated above the trend

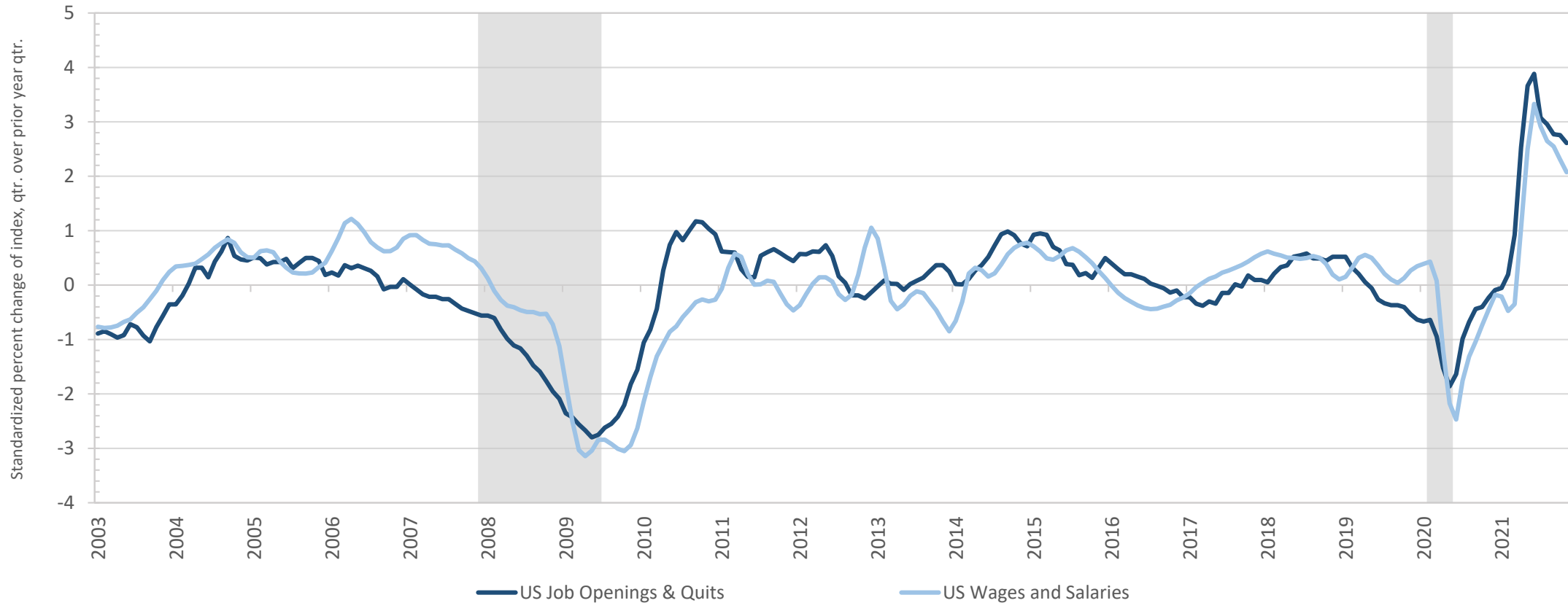


Integrated Public Use Microdata Series, Current Population Survey: Version 9.0: IPUMS, 2021. 309C - RFA/bdc/1/7/2021

Wages and the Labor Market

Job openings and quits are up, indicative of a labor shortage; wage growth continues to be highly elevated as a result

US JOB OPENINGS & QUILTS VS. WAGE GROWTH



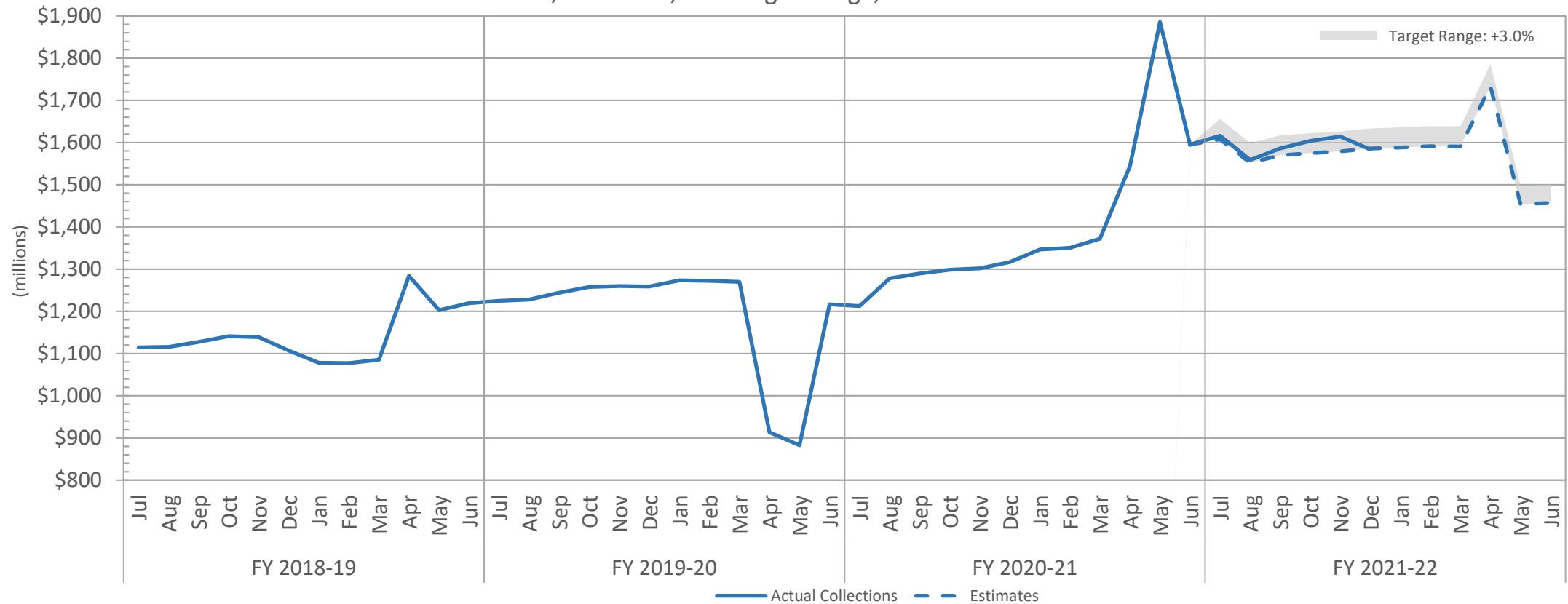
Source: U.S. Bureau of Economic Analysis, Compensation of Employees, Received; U.S. Bureau of Labor Statistics, JOLTS; 309A - RFA/bdc/1/10/2022

Non-Withholdings - Actual vs. Estimate

Collections are in line with the estimate after an abnormally low December caused by payment processing delays

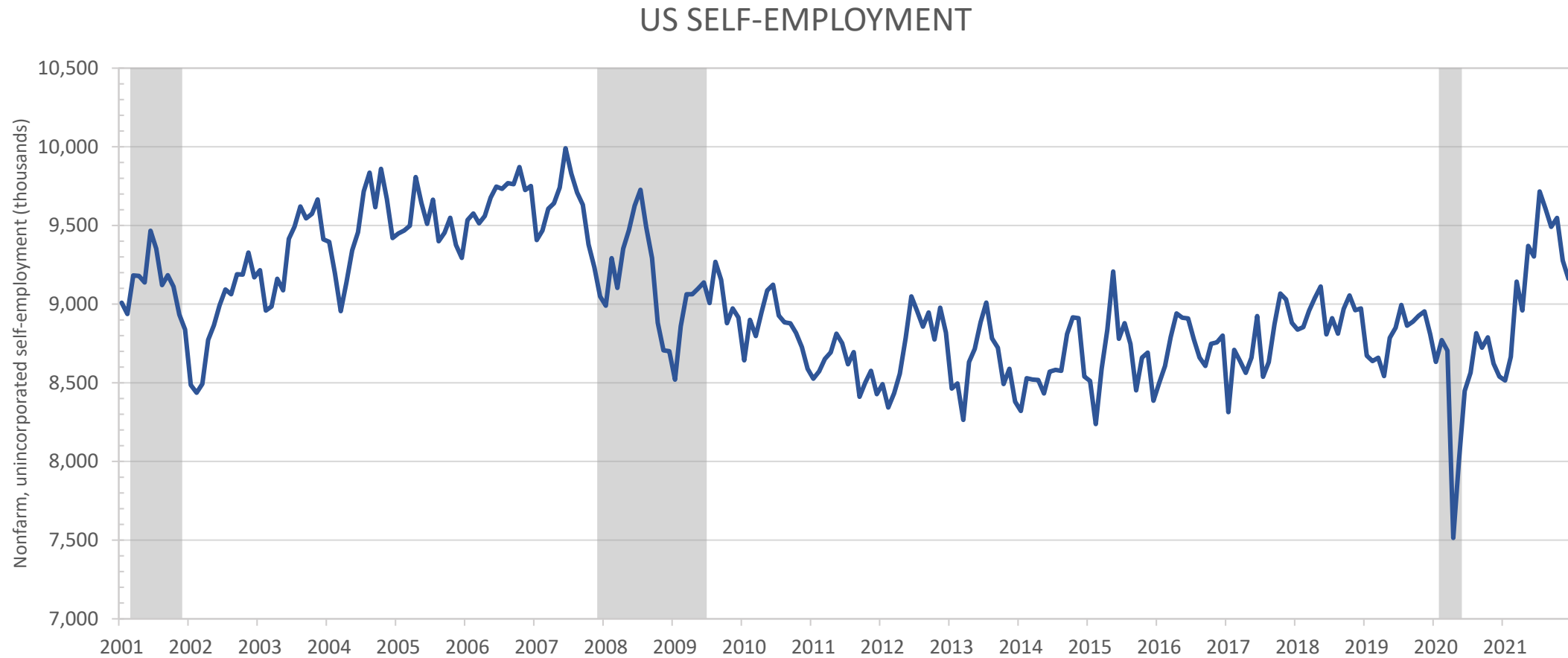
ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



Self-employment Trend

After reaching a 13-year high, self-employment levels have begun to fall



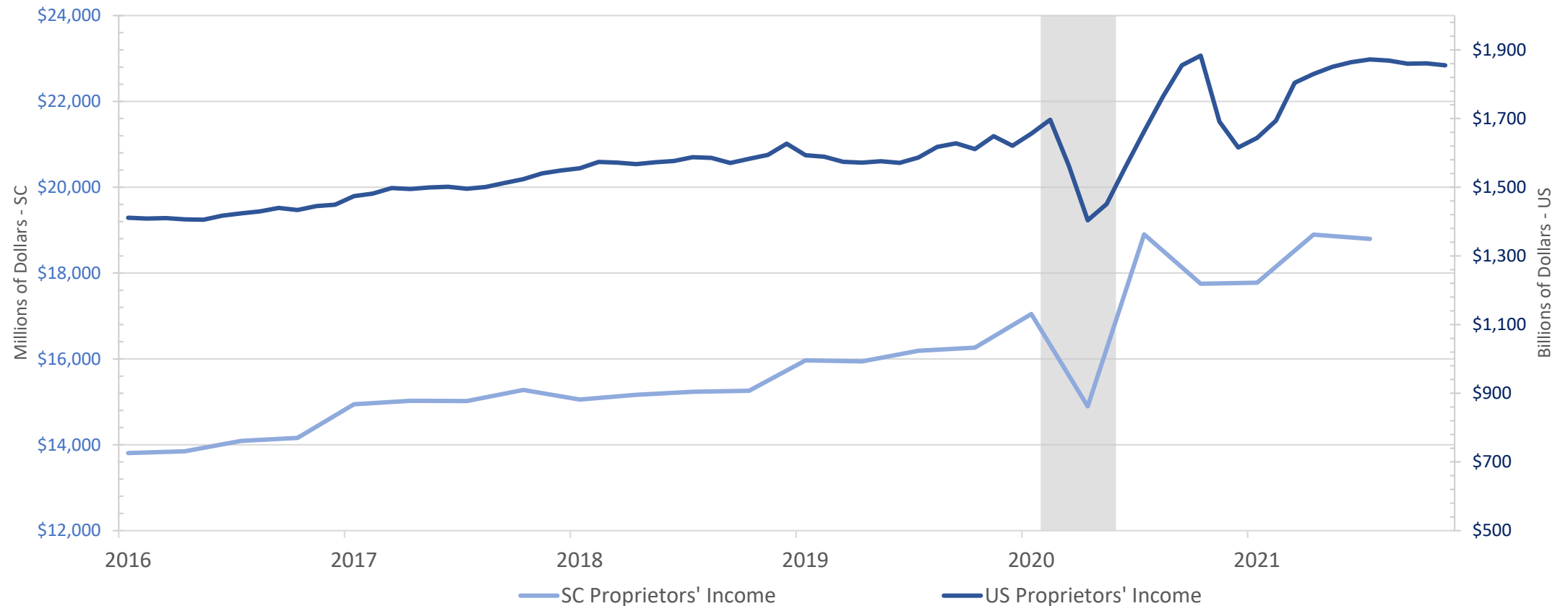
U.S. Bureau of Economic Analysis, Current Employment Statistics - 311A RFA/bdc/1/10/2022



Proprietors' Income

Growth has leveled out, but total proprietors' income remains above the normal trend

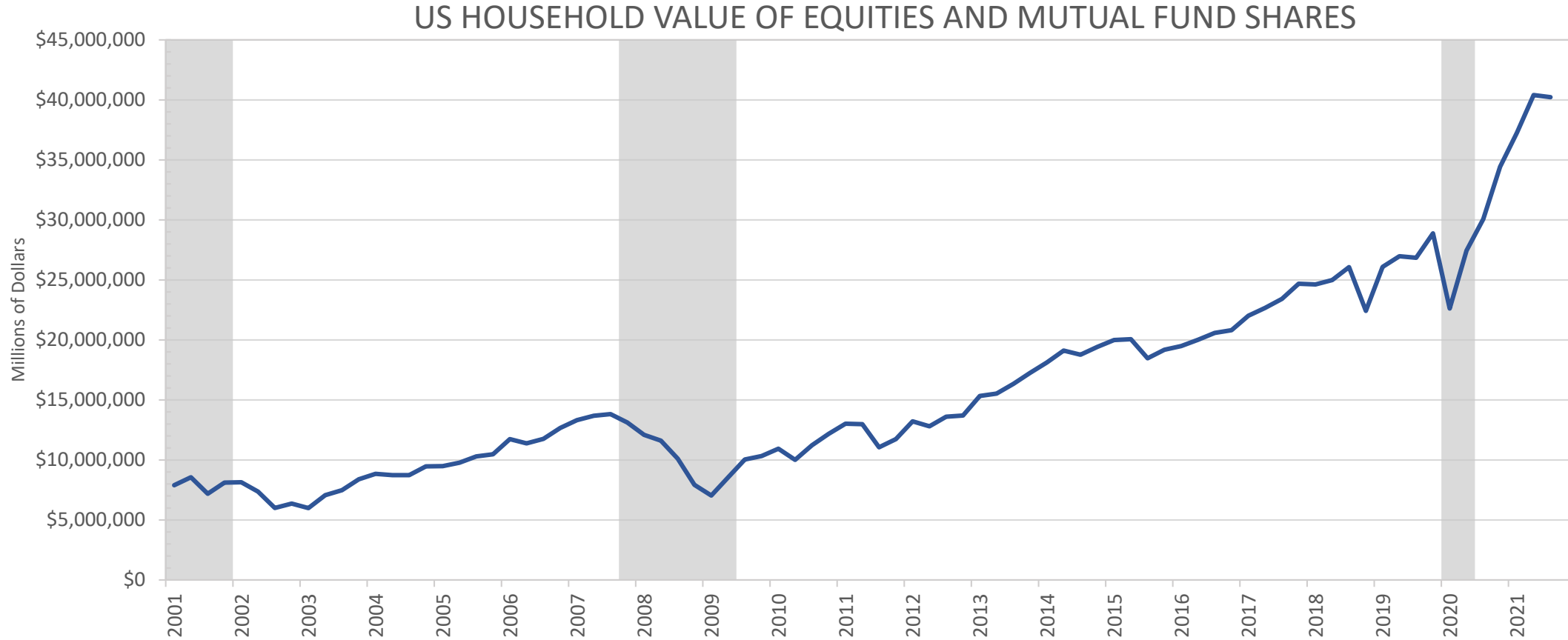
US AND SC PROPRIETORS' INCOME



U.S. Bureau of Economic Analysis, Proprietors' Income - 311E RFA/bdc/1/10/22

Personal Financial Asset Values

Asset values skyrocketed in the past year but have recently leveled out



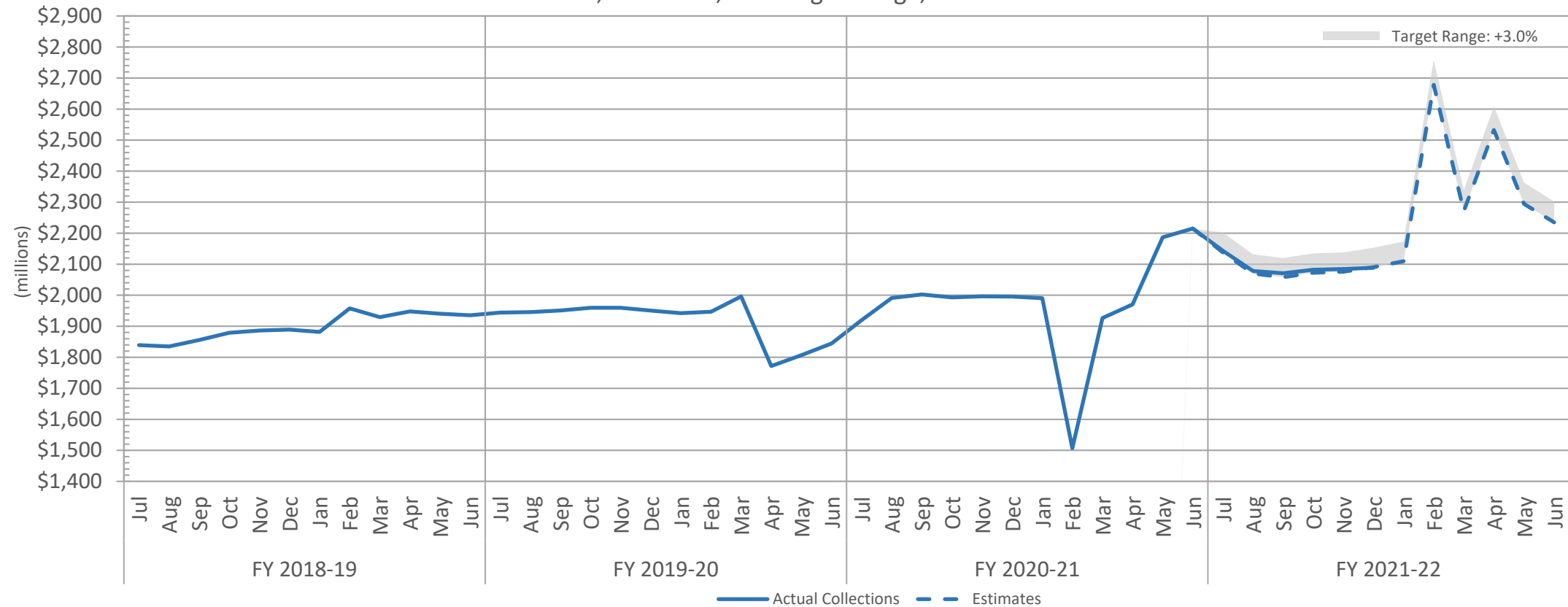
Board of Governors of the Federal Reserve System, Financial Accounts of the United States - 311D RFA/bdc/1/10/2022

Refunds - Actual vs. Estimate

Refunds are in line with estimate, but 86% of expected refunds remain

ROLLING FISCAL YEAR - INDIVIDUAL INCOME REFUNDS

Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



General Fund Revenue Consumption Taxes

Consumption Taxes

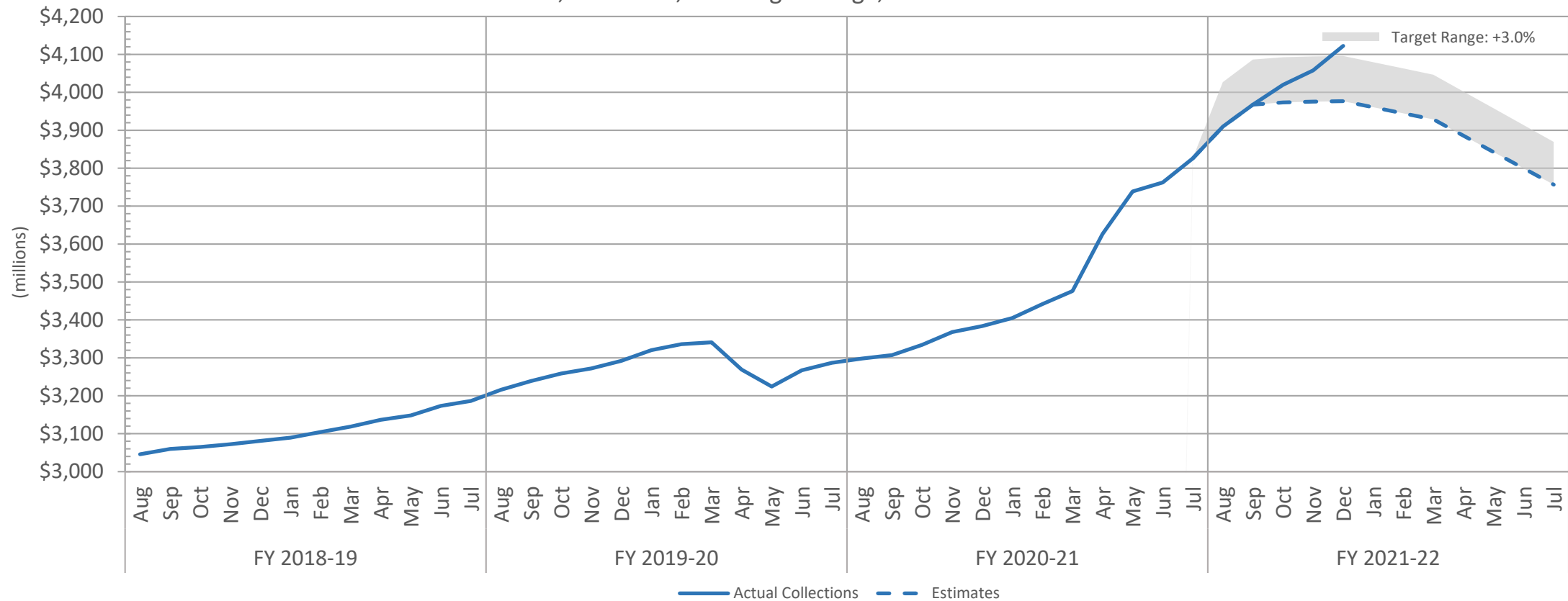
Key Issues FY 2021-22

- FY 2021-22 growth continues to greatly exceed expectations, with fiscal year-to-date growth at 20.0% compared to the estimate of 10.2%
- Personal savings rate has fallen back to its 5-year trend; however, cumulative excess savings have allowed households greater economic capacity to spend in the medium-term
- Inflation is not a major driver of sales tax growth at this time

Sales Tax - Actual vs. Estimate

Collections are \$145.9 million above the estimate fiscal year-to-date

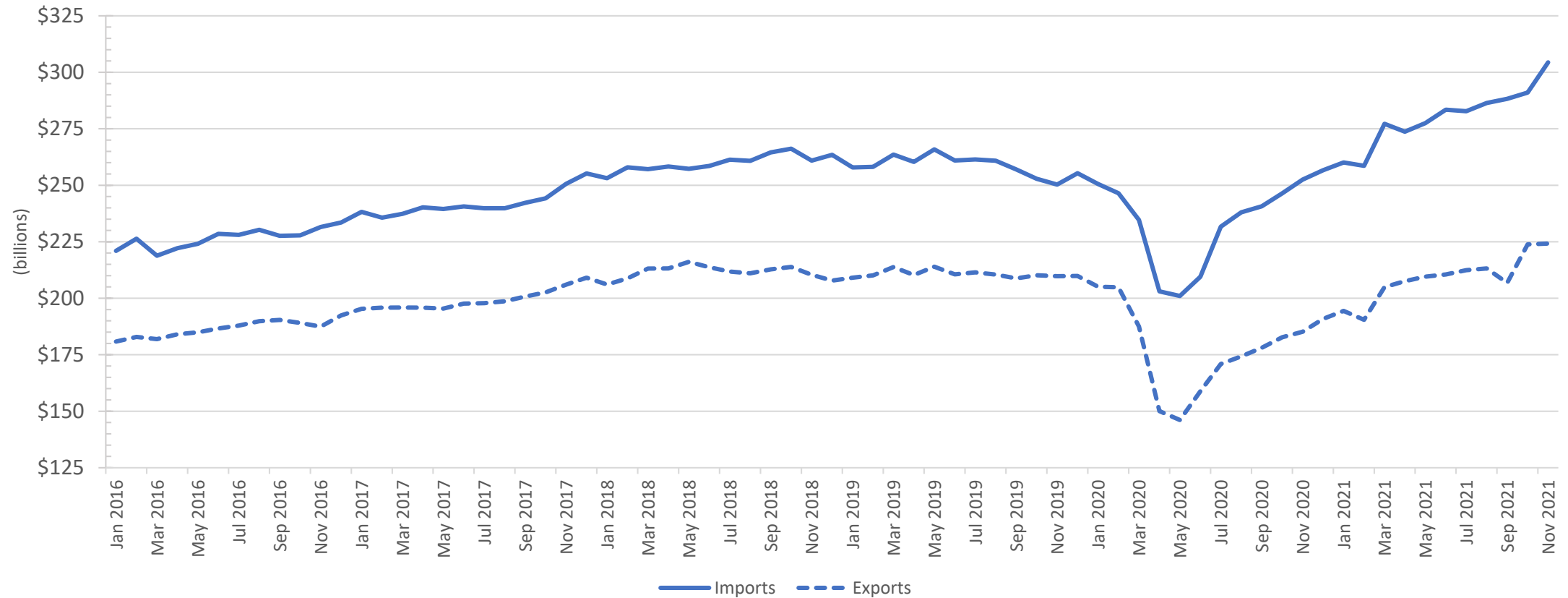
ROLLING FISCAL YEAR - SALES TAX
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



Consumer Spending

A 4.6% increase in imports indicates consumer demand remains strong

US IMPORTS VS EXPORTS

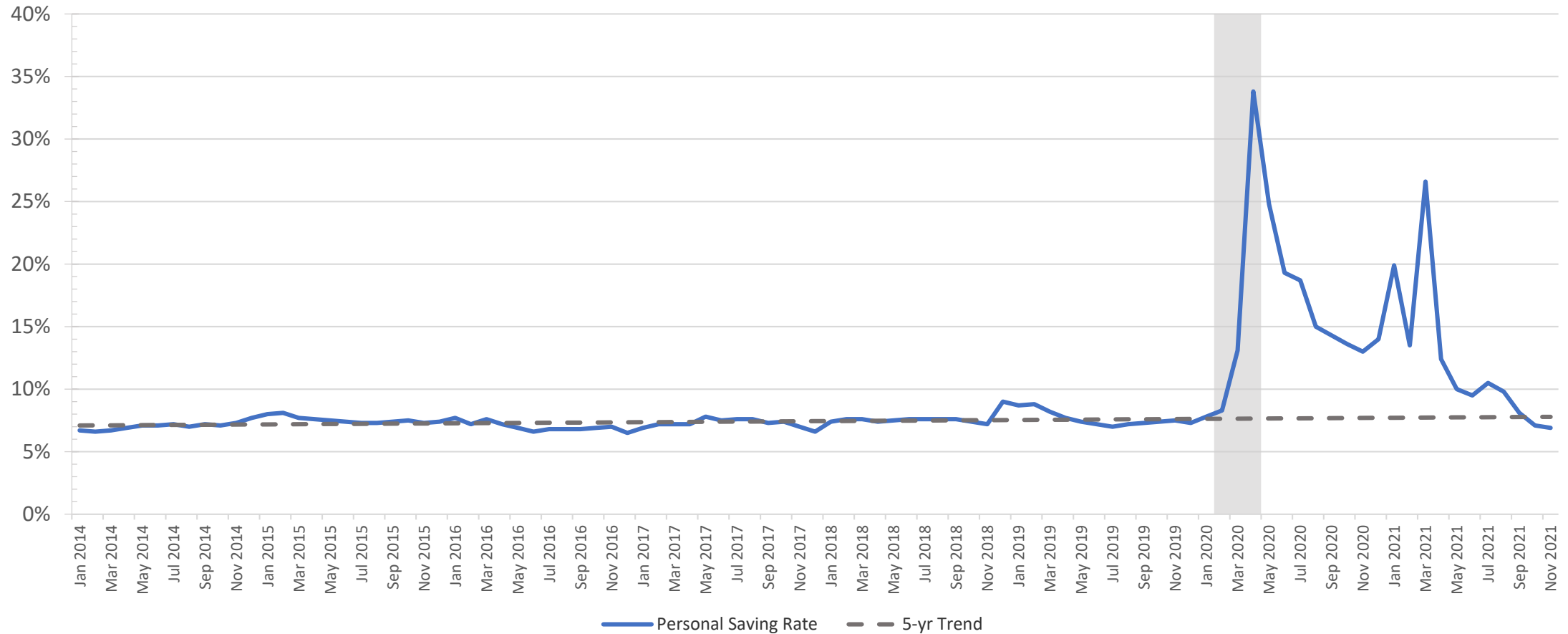


U.S. Bureau of Economic Analysis, Imports of Goods and Services, Exports of Goods and Services, nmg/1/10/2022

Consumer Savings

The personal saving rate has fallen back near the 5-year trend

PERSONAL SAVING RATE

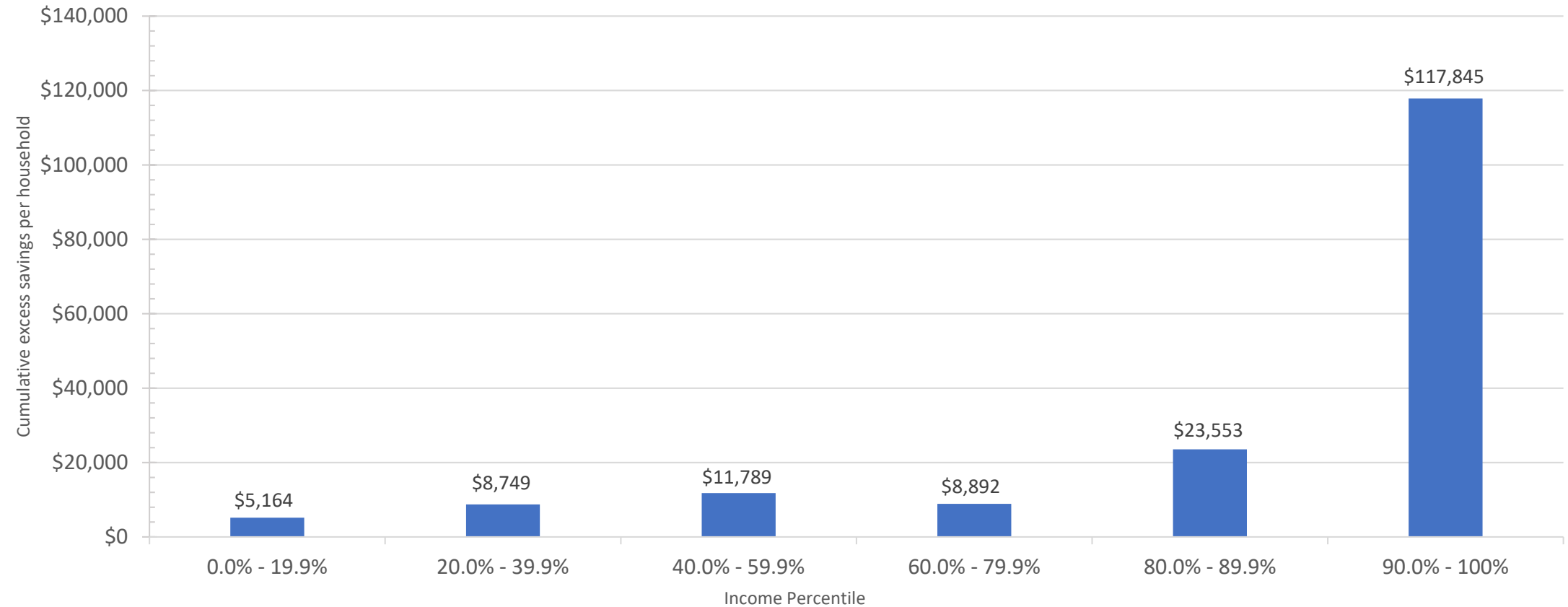


U.S. Bureau of Economic Analysis, Personal Saving Rate, nmg/1/10/2022

Excess Savings Per Household

Households at all income percentiles accumulated excess savings during the pandemic, increasing economic capacity to spend

US CUMULATIVE EXCESS SAVINGS PER HOUSEHOLD BY INCOME LEVEL

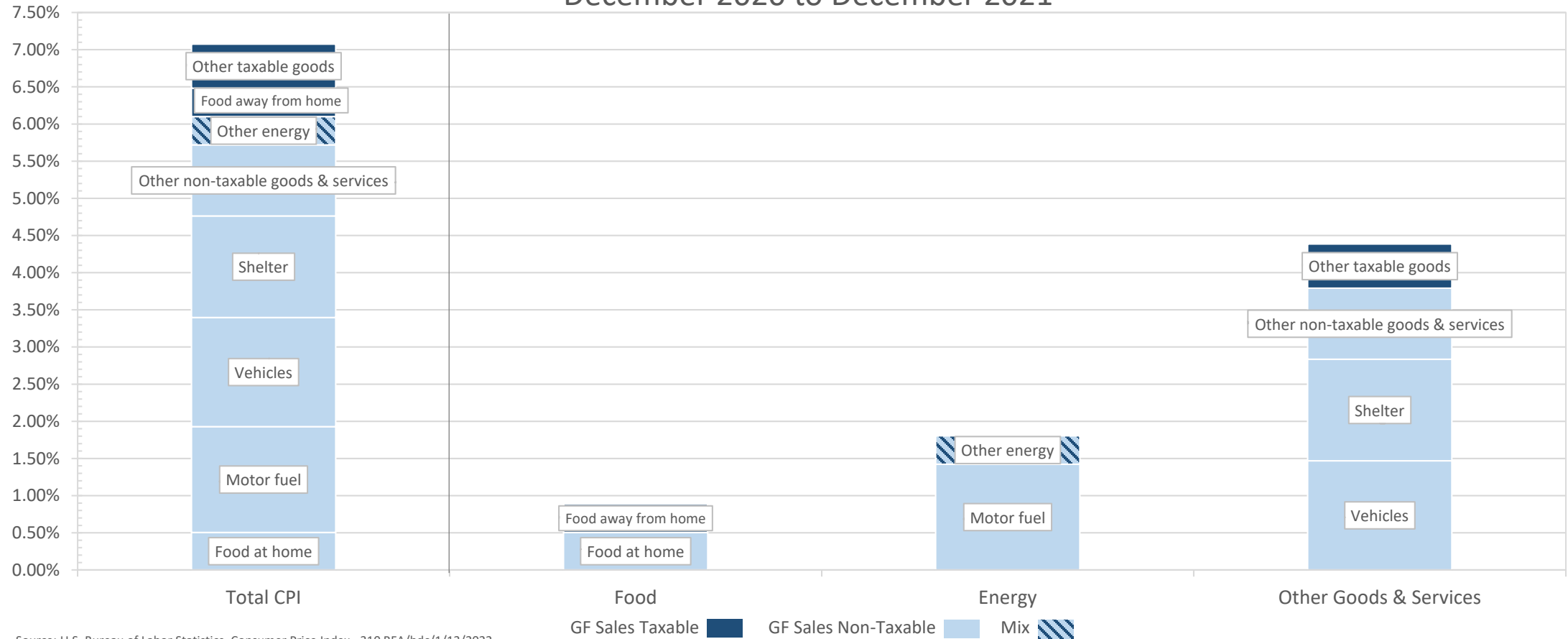


Moody's Analytics (excess saving by household), U.S. Bureau of Economic Analysis (personal saving rate) from the Wall Street Journal, data through Q3 2021, nmg/1/10/2022

Consumer Price Index

Inflation is congregated in areas that are not impacting General Fund sales tax collections

CPI - PERCENTAGE POINT CONTRIBUTION TO TOTAL CHANGE BY SUBCOMPONENT
December 2020 to December 2021



Source: U.S. Bureau of Labor Statistics, Consumer Price Index - 310 RFA/bdc/1/13/2022

Consumption Taxes

Conclusions

- Although the personal savings rate has fallen back towards its historical trend, excess savings have allowed households to continue spending
- Sales tax is running ahead for FY 2021-22 and growth for the remainder of the year is likely to be more than currently estimated
- Sustainability of the current growth remains a concern in FY 2022-23 as excess savings are depleted
- Adjustments to other smaller consumption taxes may be necessary

General Fund Revenue Business Taxes

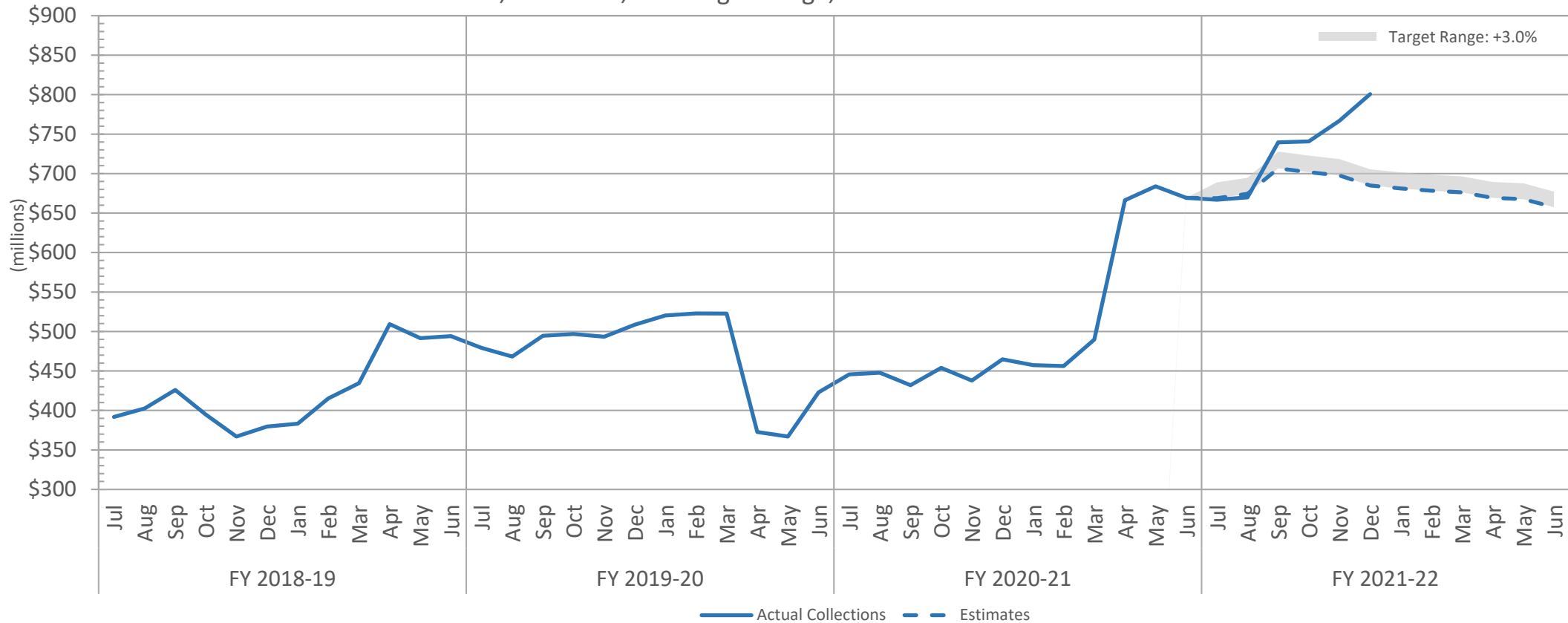


Corporate Income Tax – Actual vs. Estimate

Corporate Income is above the November estimate by \$115.6 million year-to-date

ROLLING FISCAL YEAR - CORPORATE INCOME TAX

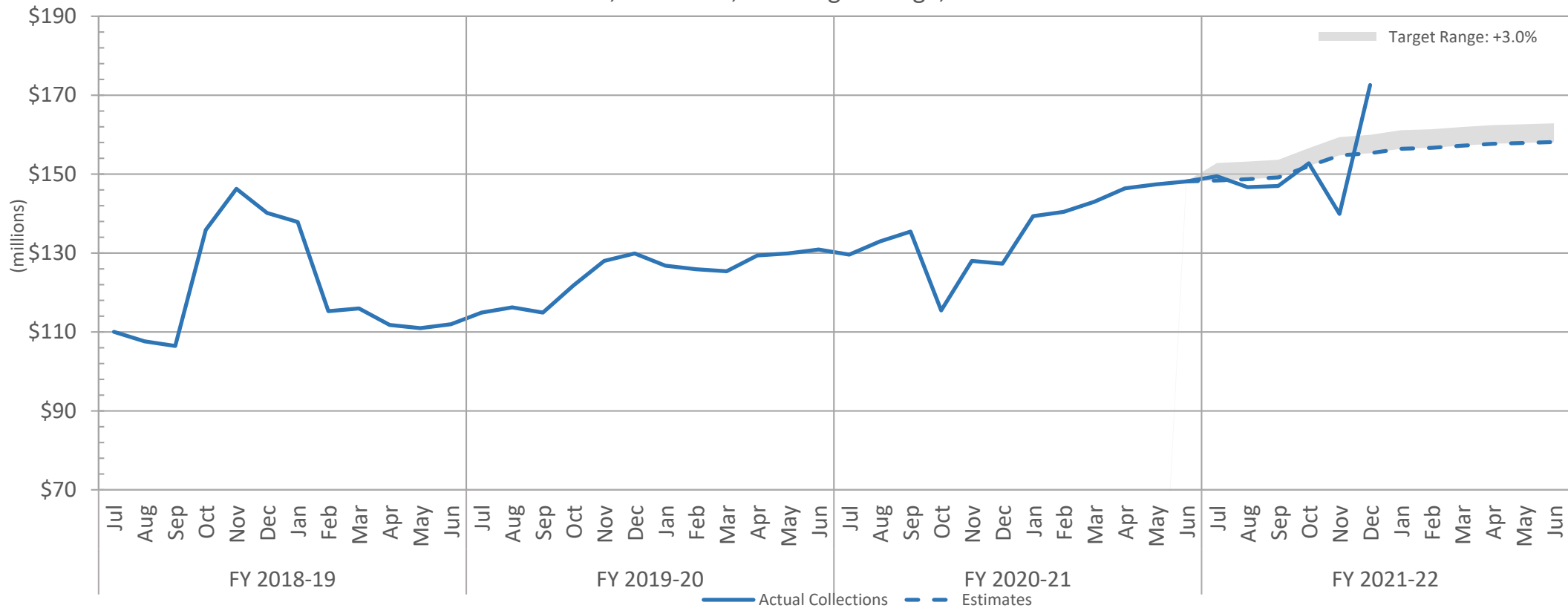
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



Corporate License Tax – Actual vs. Estimate

License tax is \$17.3 million above the November estimate year-to-date

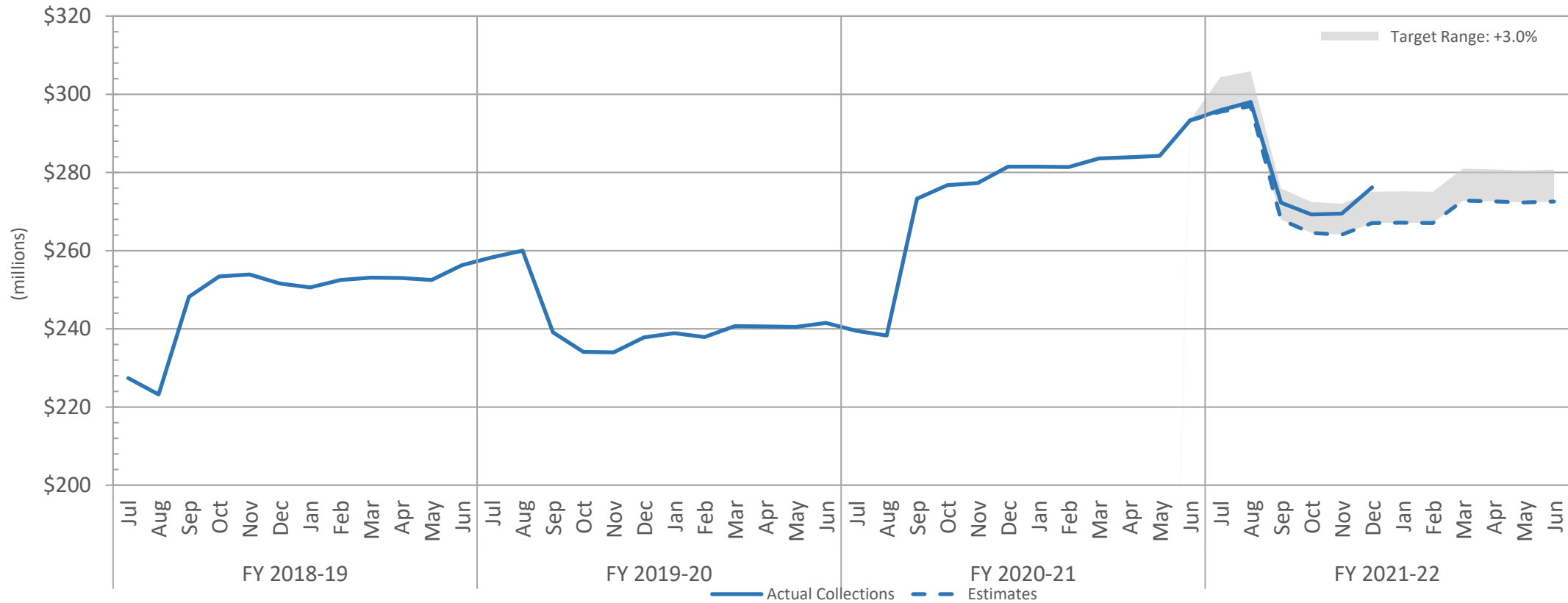
ROLLING FISCAL YEAR - CORPORATE LICENSE TAX
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



Insurance Tax – Actual vs. Estimate

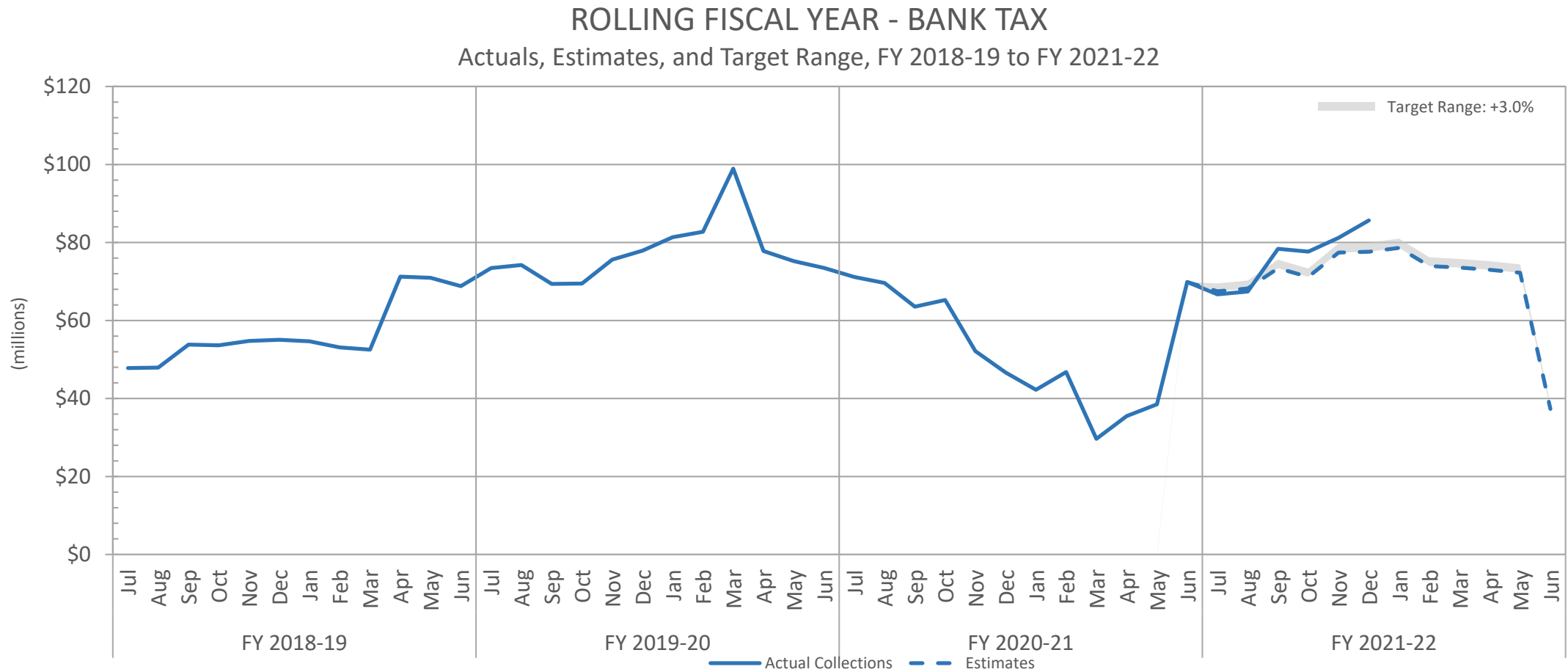
Insurance tax is \$9.1 million ahead of the November estimate

ROLLING FISCAL YEAR - INSURANCE TAX
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



Bank Tax – Actual vs. Estimate

Collections are above the forecast by \$8.0 million

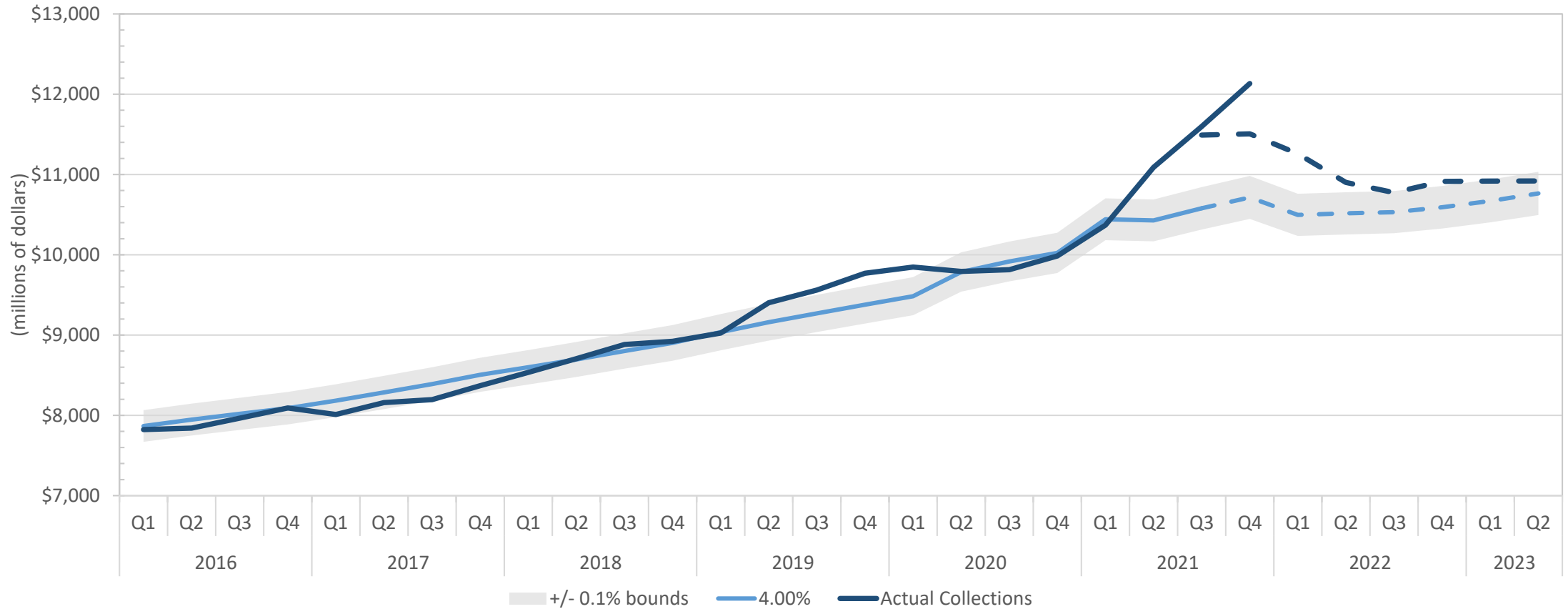


Issues and Assumptions for February Forecast



General Fund Second Quarter Summary

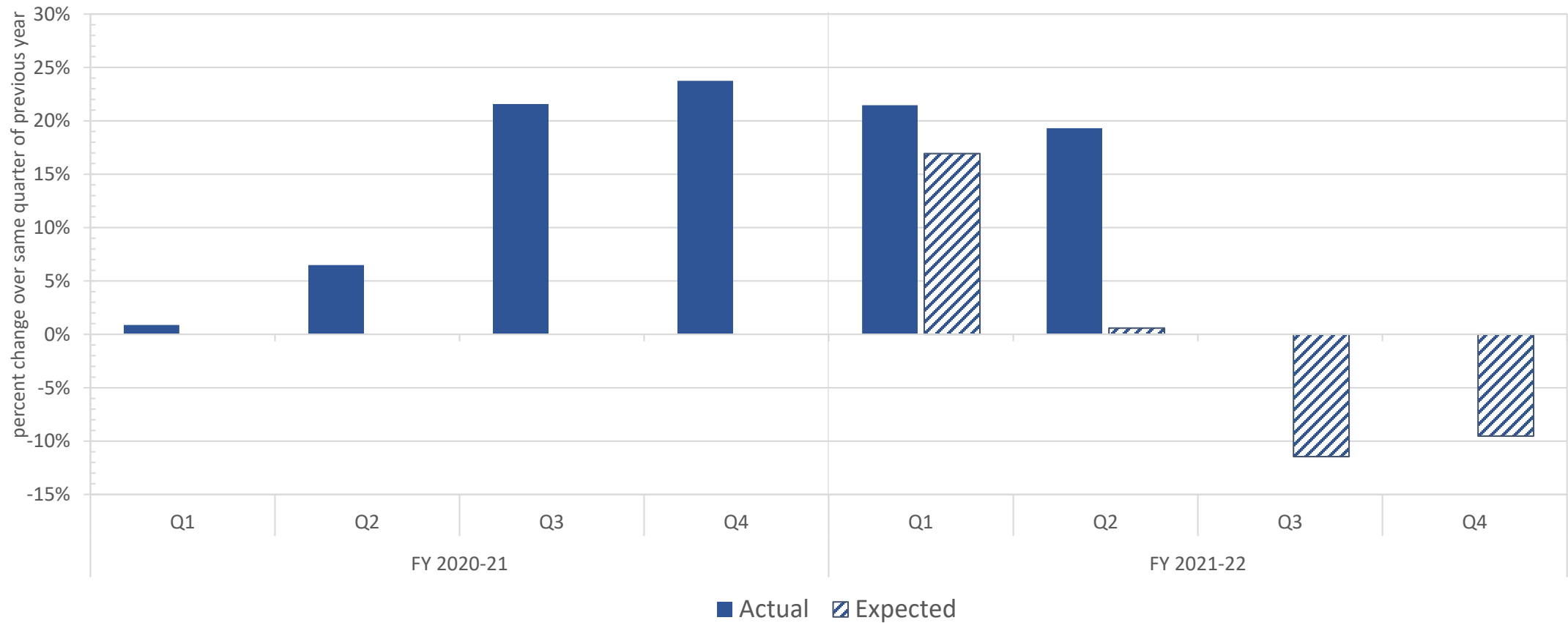
ROLLING FISCAL YEAR GENERAL FUND REVENUE
AS A PERCENTAGE OF PERSONAL INCOME — ACTUALS AND ESTIMATES



Source: U.S. Bureau of Economic Analysis; S.C. Board of economic Advisors; 307 - RFA/bdc/1/12/2021

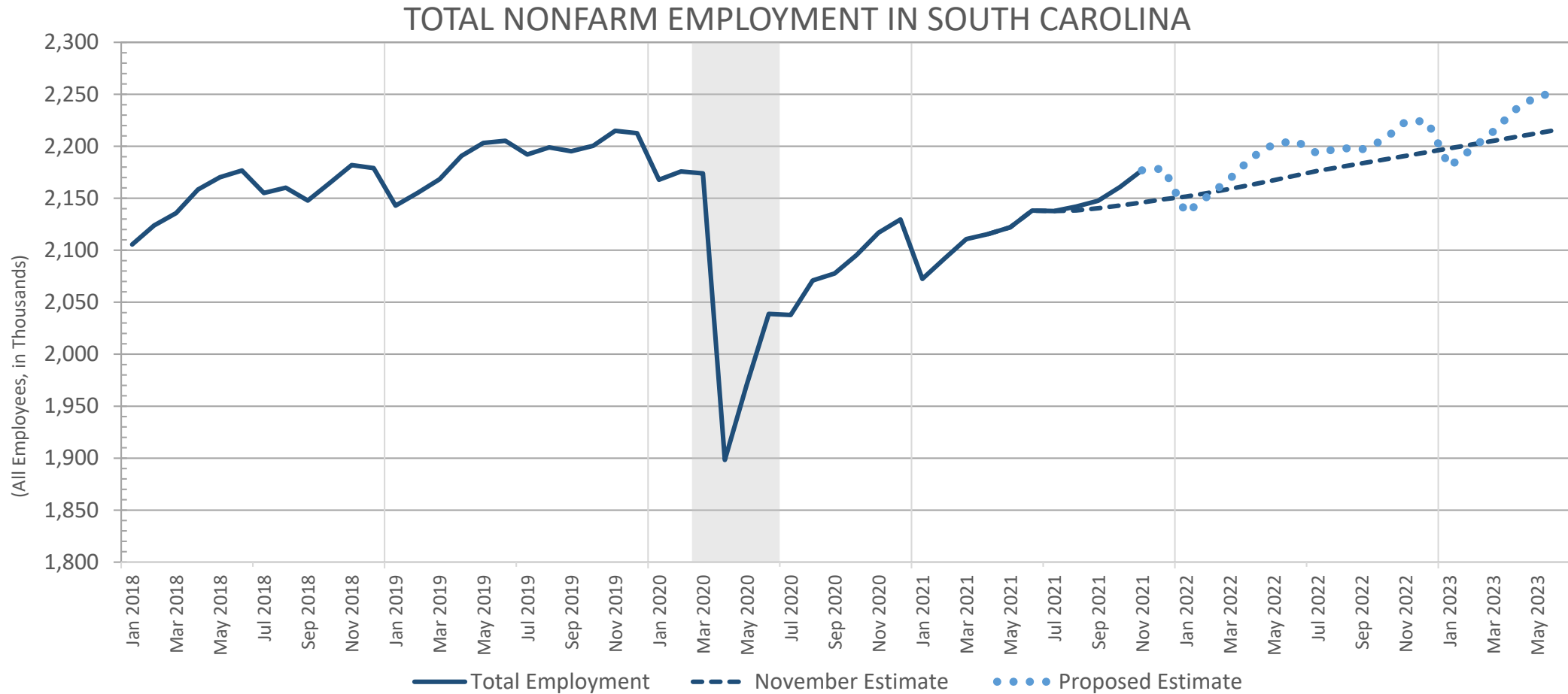
Quarterly Growth Rates – Actual vs. November 2021 Estimate

GENERAL FUND REVENUE QUARTERLY GROWTH



SC Employment - Proposal

Proposed increases in FY 2021-22 and FY 2022-23 take into account faster than expected employment growth, partially due to data revisions

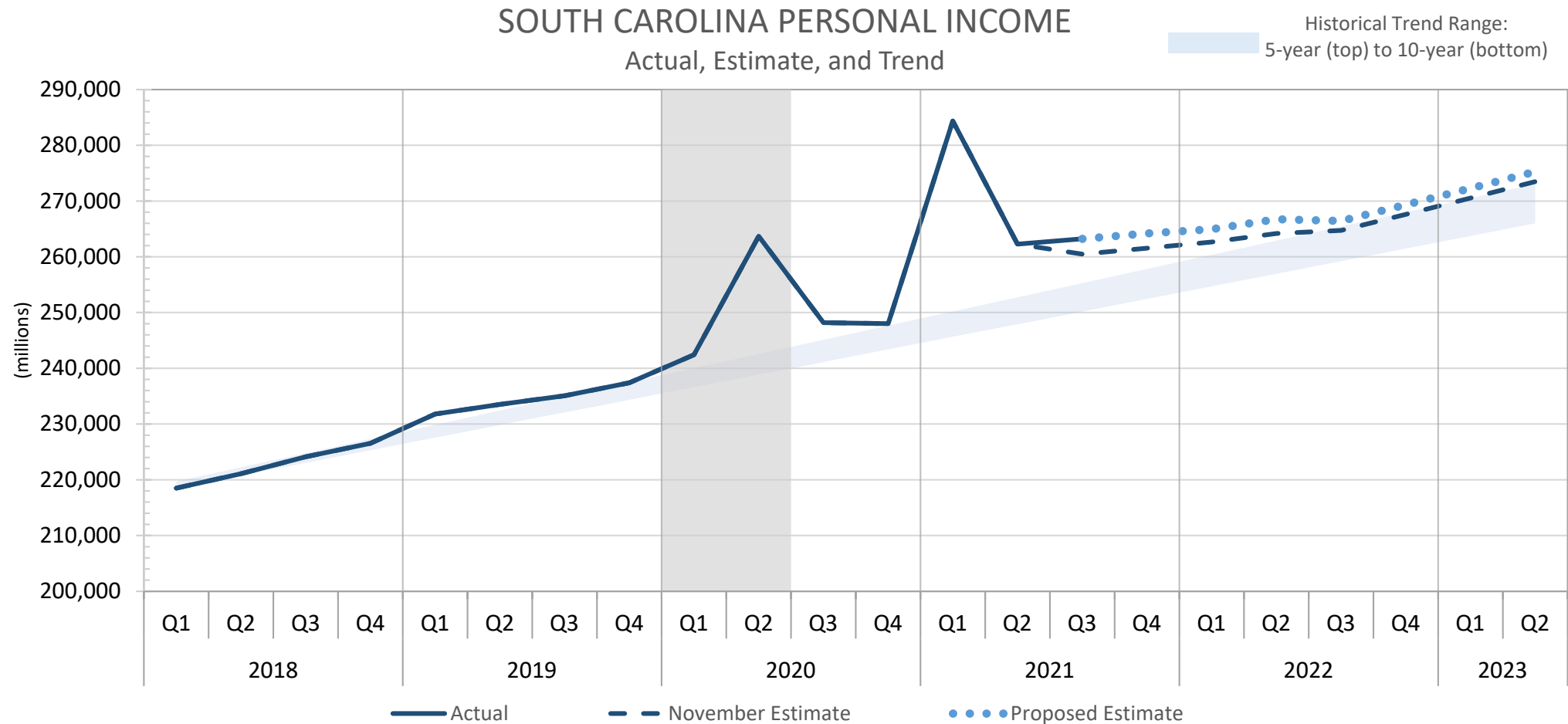


Source: U.S. Department of Labor, Bureau of Labor Statistics 60-RFA/bdc/1/12/2022



SC Personal Income - Proposal

Proposed increases in the FY 2021-22 and FY 2022-23 personal income estimate take into account higher than anticipated wage growth



Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors, nmg/1/10/2022

Forecast Considerations

- FY 2021-22 revenues through December are well above estimates
- Growth for the second half of FY 2021-22 will likely be higher than previously estimated for some categories
- FY 2022-23 remains uncertain
 - How long will high wage growth persist?
 - Will Sales tax growth fall back to historical patterns? If so, when?
 - How long will corporate profits remain elevated?

Reports from Working Group Members

Other Business

