

MEMORANDUM FOR THE RECORD

Date: October 14, 2021, 10:30 a.m.
DoubleTree by Hilton, Columbia, SC/ Attendees via Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* –Edward Grimball-*Chairman*, Alan Clemmons, Emerson Gower; Frank Rainwater, *Executive Director*; Staff – Paul Athey, Ben Coomer, Natalie Gallagher, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, and Byron Kirby; *Working Group Guests:* Grant Gibson (*Senate Finance Committee*), Kevin Etheridge (*Executive Budget Office*), Richard Eckstrom (*Comptroller General*), Robert McDonald (*Treasurer’s Office*), Brad Wilson (*Treasurer’s Office*), Stephanie Meetze (*House Ways & Means*), Katie Turner (*House Ways & Means*), Daniel Boan (*House Ways & Means*), Meredith Ross (*House Ways & Means*) *Additional Guests:* Daniel Young (*SC Commerce*), Tim Derrick (*Dept. of Revenue*), Brian Ford (*SC Lottery*), Hogan Brown (*SC Lottery*), *Thirty-five additional participants via Zoom (see attached).*

Note: Due to COVID-19 policies all other Guests participated via Zoom. An email invitation was sent to the BEA 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 Zoom. Guests were asked to direct any questions to Frank Rainwater after the meeting had concluded via email.

- I. Chairman Grimball welcomed everyone to the meeting at 10:30 a.m.
- II. Chairman Grimball presented the September 23, 2021 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. Presentations on Revenue and Economic Update:

Mr. Rainwater made several prefatory remarks regarding the current economic climate and revenue trends.

We are experiencing very good economic times in this state. Our challenge is deciding whether this will last, and if so, how long; or will this change. As far as revenues are concerned, this is our first quarter of the fiscal year which means we have statutory requirements to report on performance versus our estimate. Revenues are doing much better despite continuing to be in a pandemic situation.

Mr. Rainwater then began the presentation which provided details regarding the economic and revenue performance as compared to the assumptions and estimates, which are summarized as follow.

Mr. Rainwater presented information regarding the FY 2021-22 First Quarter Revenues. His comments included:

- Total General Fund – Actual vs. Estimate: Collections are running \$457.4 million ahead of the forecast. (Revenues exceeded quarterly estimates and no budget action is required)
- General Fund First Quarter Summary:
 - Total General Fund Revenue for FY 22 has grown by 21.5% over last fiscal year and is above the April forecast by \$457.4 million.
- Annual General Fund Revenue Growth: FY 21 revenue grew \$1.295 billion over FY 20, or 13.2%, significantly higher than ever before.

Mr. Coomer presented information on General Fund Revenue First Quarter FY 22, Individual Income Tax Components. His comments included:

- Individual Income Taxes, Key Issues FY 2021-22:
 - Total Individual Income tax growth has exceeded expectations
 - After adjusting for distortions to the pattern, FY 22 growth is approximately 13%
 - Wage growth has continued despite fluctuations in the labor force.
 - Increased self-employment activity and financial market activity has driven Non-Withholdings growth.
 - Refunds continue to be in line with the estimate, but too early to tell
 - May increase if low-wage employment returns
- Withholdings – Actual vs. Estimate: Withholdings are up 10.6% cumulatively and up \$146.0 million other the estimate
- SC Retired Population: South Carolina retirement levels have jumped during the pandemic.
- SC Individuals not in Labor Force – All Other Reasons: Individuals exited the labor force during the pandemic for other reasons, but they have begun to return.
- Wages and the Labor Market: The labor shortage is driving the growth in wages.
- Non-Withholdings – Actual vs. Estimate: Collections are currently above the estimate by \$38.7 million after the first quarter.
- Proprietors’ Income: Proprietor’s Income has fluctuated but remained elevated throughout the pandemic.

- SC Business Applications: Business applications in SC have reached new levels during the pandemic, which may have paved the way for a permanently higher base of Non-Withholdings.
- US Interest and Dividend Income: Interest and dividend income stayed relatively flat during the pandemic.
- US Household Investment: Increased investment participation and overall returns contributed to Non-Withholdings growth in the past year.
- Refunds – Actual vs. Estimate: Refunds are above the estimate by \$11.0 million, but around 5% of the yearly total is processed during the first quarter.

Ms. Gallagher presented information on General Fund Revenue First Quarter FY 22, Consumption Taxes. Her comments included:

- Sales Tax – Actual vs. Estimate: Strong collections continue into September, with 19.7% growth year over year.
- Consumption Taxes, Key Issues FY 2021-22:
 - FY 22 growth continues to exceed expectations, even with higher growth built in for the first 6 months.
 - Stimulus payments increased capacity to spend
 - Personal saving rates continue to be elevated
 - Debt service payments, as a percent of disposable income, are below historic levels.
 - Disposable income is high
 - As this increased capacity wanes, we should see moderated growth rates
 - Likely negative in the spring
- Stimulus Payments: Households were more likely to spend their first federal stimulus check and save or pay off debt with second and third payments.
- Savings: Personal saving rate spikes coincide with stimulus payments, with current rate elevated over the 5-yr trend.
- Debt Service: Debt service payments as a percentage of disposable income are at their lowest point since the beginning of the series in 1980.
- Disposable Income: US disposable income has settled following stimulus, but continues to be above trend.
- Transfer Receipts: Transfer Receipts, through second quarter of calendar year 2021 are temporarily driving personal income higher due to federal stimulus programs.
- Other Consumption Taxes:
 - Alcoholic Liquor collections are running ahead of the estimate by \$5.7 million. Collections likely to exceed estimate.

- Beer and Wine collections are exactly in line with the estimate.
- Deed Recording Fees are ahead of the estimate by \$8.3 million. Collections are likely to exceed estimate.

Ms. Jolliff presented information on General Fund Revenue in First Quarter FY 22, Business Taxes. Her comments included:

- Corporate Income Tax – Actual vs. Estimate: First quarter collections are a total of \$100.8 million above the forecast.
- Corporate License Tax – Actual vs. Estimate: Collections are \$3.7 million above the forecast.
- Insurance Tax – Actual vs. Estimate: Insurance tax is \$8.4 million above the quarterly estimate.
- Insurance Tax Components: Premium tax growth has been relatively stable and will likely exceed the current estimate.
- Bank Tax – Actual vs. Estimate: Quarterly collections are above forecast by \$8.4 million.
- Bank Tax and Audit Revenue: Audits significantly contributed to revenue in FY 20 and FY 21.

Mr. Rainwater presented information on the National Economic Indicators. His comments included:

- Real GDP Growth: US GDP growth is expected to slow over the next 2 years but remain positive.
- Inflation: Temporary supply issues are raising prices for energy, food, and other items and driving the increase in inflation, which reached 5.3% YTD for August; without food and energy, inflation is 4.0%.
- Interest Rates: Federal Reserve Open Market Committee is expected to raise interest rates to 1% by 2023, slightly higher than the current levels of 0-0.25 percent.

Mr. Rainwater presented information on the South Carolina Economic Indicators. His comments included:

- South Carolina Employment: Currently in line with April Estimate.
- SC Personal Income: Personal income is above the April forecast.
- General Fund Revenue as historical Percentage of Personal Income: Percentage for FY 22 is at the bottom of our range (3.9% to 4.1%) before any revisions to Personal Income or General Fund forecast.
- SC Personal Income – Historical Trends: Personal Income was more predictable before 2020.

- SC Personal Income – Trend vs. Estimate: April forecast is in line with 10-year trend but below 5-year.
- US Real GDP and SC Personal Income – Growth: GDP and Personal Income historically track together except for in 2020 due to federal stimulus payments propping up income.

Mr. Rainwater presented information on the Forecast Outlook for FY 2021-22 and FY 2022-23. His comments included:

- Key Questions for FY 2021-22 and FY 2022-23
 - How long does stimulus funding continue to affect revenues?
 - How does personal income perform without stimulus?
 - Can the natural economy replace the stimulus impact?
 - Does consumer spending revert to historical patterns or is this a new normal?
 - Is the COVID-19 resurgence going to cause further disruptions in supply chains and business growth?
 - Does Federal Reserve policy change, and how does that affect growth?
 - Federal debt ceiling remains an uncertainty.

Chairman Grimball called a recess of the meeting at 11:45am for lunch.

Chairman Grimball called the afternoon session of the meeting to order at 12:45pm.

Attendees: *Board Members –Edward Grimball-Chairman, Alan Clemmons, Emerson Gower; Frank Rainwater, Executive Director; Staff – Ben Coomer, Natalie Gallagher, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, and Byron Kirby; Guest Speakers – Dr. Laura Dawson Ullrich, Federal Reserve Bank of Richmond, Mark Vitner, Wells Fargo Securities, Dr. Russell Sobel, The Citadel, Dr. Frank Hefner, College of Charleston. Working Group Guests: Grant Gibson (Senate Finance Committee), Kevin Etheridge (Executive Budget Office), Richard Eckstrom (Comptroller General), Robert McDonald (Treasurer’s Office), Brad Wilson (Treasurer’s Office), Stephanie Meetze (House Ways & Means), Katie Turner (House Ways & Means), Daniel Boan (House Ways & Means), Meredith Ross (House Ways & Means) Additional Guests: Daniel Young (SC Commerce), Tim Derrick (Dept. of Revenue), Brian Ford (SC Lottery), Hogan Brown (SC Lottery), Thirty-five additional participants via Zoom (see attached).*

IV. Economic Outlook

Mr. Rainwater provided a brief introduction on the Economic Outlook for FY 2021-22 and FY 2022-23. His comments included:

- General Fund as a Percentage of Personal Income: Percentage for FY 22 is at the bottom of our historical range (3.9% to 4.1%) before any revisions to Personal Income or General Fund forecast.
- SC Personal Income – Trend vs. Estimate:
Mr. Rainwater commented regarding the 10-year and 5-year trend that we had been doing better the past five years than the 10-year trend but over time they were somewhat close together. When we made our forecast last year for this fiscal year we had a forecast that moved us back into line with our 10-year trend. The question we have is are we on a new trend with all the stimulus, has the economy shifted, or are we going to revert back post-stimulus to one of these trends. There’s a lot going on out there, a lot of challenges and a lot of potential. The question we have to answer is are we going to continue at a higher pace or are we going to revert to a lower pace.

Regional Advisory Committee Members Dr. Laura Ullrich, Mr. Mark Vitner, Dr. Russell Sobel, and Dr. Frank Hefner shared their economic presentations. Additionally, Dr. Joseph Von Nessen was unable to attend but did provide information for the Board. On the final page of these minutes a scoresheet is included showing each panelist’s forecast.

Dr. Laura Ullrich, Regional Economist, Federal Reserve Bank of Richmond, Charlotte Branch

- Strong growth in real GDP is expected in calendar year 2021 after a volatile 2020.
- The level of economic activity has recovered to pre-pandemic levels.
- Consumption spending has more than recovered, fueled by recovery and fiscal support but there are some concerns moving forward, mostly due to supply chain and labor issues. Sales of some products, including autos, have already fallen due to inventory constraints as have home sales.
- Employment remains well below pre-pandemic levels and the September jobs report was disappointing. Many have not returned to the labor force and the recovery path of labor force participation remains uncertain.
 - There have been a tremendous number of retirements and also there are a lot of families who are making different decisions.
- The loss of jobs and the employment recovery is unique compared to other recessions and there may be reasons not to expect a full recover. Firms anticipate ongoing challenges in finding labor and inputs.
 - The implicit cost to work for people with children has gone up.
- Unemployment rates are coming down and South Carolina has outpaced the US for the entirety of the pandemic but labor force participation remains an issue, as SC continues to lag the US as a whole.
- Jobs are coming back across industries. Overall, South Carolina MSAs have seen relatively strong long-term growth, even considering COVID.
- The employment decline has ended for middle and high wage workers, but job loss persists for low wage workers.
- Where do we go from here?
 - The biggest concern right now remains COVID. If vaccine rates continue to improve, 2021 will bring with it substantial GDP growth.
 - The path to full employment recovery remains uncertain; the wild card is remote work.
 - Fiscal support and a recovering economy will push inflation above 2% for a period of time, but expectations over the longer term remain at around the 2% level.

Chairman Grimball asked about the period of time expected for inflation above 2% which generated discussion around staffing and wages which we see in prices.

Mr. Mark Vitner, Managing Director and Senior Economist, Wells Fargo Securities

- Economic Growth moderated late this summer. The recent surge of COVID cases has moderated and high-frequency measures of economic engagement

are vastly improved relative to last year. Activity appears to be leveling off amid the rise of the Delta variant.

- Inflation will remain higher for longer than the Fed has said with the primary culprit being expansive fiscal and monetary policies.
- The pandemic accelerated the move from transit-oriented cities to suburban areas and automobile-centric metropolitan areas is fueling sales of single-family homes and motor vehicles.
- The effects of dwindling stimulus have prevented a sustained increase in personal income. Real disposable income is likely to be pressured in the months ahead as inflation is already eating into household purchasing power.

Dr. Russell S. Sobel, Professor of Economics and Entrepreneurship, Baker School of Business, The Citadel

- There is obvious uncertainty suggesting a careful and conservative approach. Another COVID variant outbreak could result in more economic restrictions.
- Inflation could jump as high as 6%-8% during the next two years based on current monetary growth.
- The degree to which supply-chain disruptions continue will impact prices and economic activity.
- Substantially higher government spending as a share of the economy, and the higher debt that will accompany it, will all tend to lead to slower long run economic growth rates over the coming decade.
- Higher interest rates that may result from a combination of higher government debt, faster inflation, or monetary tightening could cause troubles for the housing market and federal budget.

Dr. Frank Hefner, Professor of Economics, Director of Office of Economic Analysis, College of Charleston

- Money has gone to the housing markets and financial asset prices.
- The price of everything, including financial assets, are being driven up by the huge increase in money supply. If there is a drop in the money supply, there will be a hit in asset markets first and foremost.
- COVID is still spreading uncertainty and it's not just a medical issue, it's now about COVID policy. Predicting the policy response has been contentious which created more uncertainty.
- The leading indicator of port traffic is not at full capacity yet. There is more port traffic coming into Charleston than in the last 5-6 years and every indication is there is more coming in.

- The supply chain is backed up starting overseas and continuing in the ports. Charleston is not backed up at this time which is a good leading indicator for South Carolina.

Mr. Rainwater summarized Dr. Von Nessen’s slides. His comments included:

- Employment is down but it is concentrated in Leisure & Hospitality. Excluding Leisure & Hospitality, employment levels are only down 1.9%.
- South Carolina is the 2nd highest in migration state in the U.S. especially those 55 and older.
- Supply shortages remain a source of uncertainty.
- Spending on goods is artificially higher right now as people shift spending from services to goods.

Mr. Rainwater led the review and discussion of key assumptions regarding the panelist’s forecasts for SC Personal Income, SC Nonfarm Employment, and Inflation. Additionally, the scoresheet with information shared by the panelists is attached.

The Board Members thanked staff and the Regional Advisory panelists for their work and presentations noting they very much appreciated the interactions and discussions during today’s meeting.

- IV. Reports from Working Group Members
No Working Group members offered comments.
- V. The next scheduled meeting is the BEA and RFA Board Meeting on Wednesday, November 10, 2021 beginning at 1:00 p.m.
- VI. Mr. Clemmons motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye, and the meeting adjourned at 3:19 p.m.

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

These minutes were approved on 1/20/2022
Kathryn Kelley Kathryn Kelley

BEA Zoom Webinar Attendee Report

Staff:

Amanda Martin
Carrie Bundrick
David Patterson
Lisa Wren
Mary Katherine Miller
Stephen Gardner
Debbie Glenn
Shannon Fields
Ragan Griffith

Guests:

Billy Routh
Bunnie Ward
Richard D Davis III
DonHottel
Swati Patel
Tim Derrick
Tomeakia Pressley
Michelle Jaco
Coyet Greene
Wendy Arndt Holmquist
Jake Scoggins
Kathy Johnson
Ryan Burnaugh
S. Hinson
Julie Cox
Jeff Thordahl
C. Huffman
Erica Von Nessen
Roger Hall
tnance
K. Taylor
Eddie Gunn
B. Campbell
Brian Gaines
Kayla Bingham
Morgan O'Donnell

SC Board of Economic Advisors Forecast Scoring Sheet
Regional Advisors Meeting - October 2021

Variables	Actual	Dr. Ullrich	Mr. Vitner	Dr. Sobel	Dr. Hefner	Dr. Von Nessen	Average	Olympic Score	Working Estimate
SC Personal Income									
FY 2019-20	6.83%								
FY 2020-21	6.53%								
FY 2021-22 Est.		2.58%	2.07%	5.86%	1.72%	5.80%	3.61%	3.48%	0.61%
FY 2022-23 Est.		1.49%	1.83%	7.11%	5.00%	N/A	3.86%	3.42%	2.62%
SC Employment									
FY 2019-20	-1.59%								
FY 2020-21	-1.80%								
FY 2021-22 Est.		2.41%	2.87%	4.25%	1.00%	2.00%	2.50%	2.43%	2.56%
FY 2022-23 Est.		2.59%	2.17%	3.30%	1.20%	N/A	2.31%	2.38%	2.06%
Inflation									
FY 2019-20	1.58%								
FY 2020-21	2.29%								
FY 2021-22 Est.		4.30%	4.92%	4.38%	2.50%	3.50%	3.92%	4.06%	N/A
FY 2022-23 Est.		2.07%	4.05%	2.41%	3.00%	N/A	2.88%	2.71%	N/A