

MEMORANDUM FOR THE RECORD

Date: January 20, 2022, 1:00 p.m.
Bowers Conference Room, Room 417/ Attendees via Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* – Edward Grimball, Chairman (via Zoom), Emerson Gower (via Zoom), Alan Clemmons (via Zoom), and Hartley Powell (via Zoom). Frank Rainwater, Executive Director; *Staff* – Paul Athey, Ben Coomer, Natalie Gallagher, Lisa Jolliff, Kathryn Kelley, and Sandra Kelly. *Thirty-seven additional participants via Zoom (see attached).*

Note: Due to COVID-19 policies all 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 1:06 p.m.
- II. Chairman Grimball presented the October 14, 2021 and November 10, 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. Chairman Grimball introduced the presentation with the following statement:

This meeting is principally informational as we analyze the performance of the state's revenue sources and focusing on those of the General Fund through December. This meeting will offer insight for any revision to the forecast that the board may propose at the February 15, 2022 meeting.

Mr. Rainwater began the presentation by summarizing several main points regarding fiscal year-to-date revenues and the challenges for considering adjustments to the revenue estimate next month. His major points were:

Revenue growth through December continues to exceed expectations. We believe this high level of growth is temporary and unsustainable, and at some point, it will flatten and we will return to historical patterns. Determining when this change will occur is the critical issue in adjusting the forecast. Our challenge in identifying this change is that revenues are often our leading economic indicator. We may notice this change in revenues before we have any economic data to show what is going on. Because the current revenue growth is so strong, the risk to the budget estimate is quite significant. If this change occurs more slowly or later,

our estimate will undershoot actual performance. If this change happens sooner than we expected, our revenue estimate is likely to be overestimated. In normal years, we get 4-6% revenue growth in a year. In the past few months, we have seen double-digit growth and growth for this first six months has been 20%. If you look at this on a monthly basis, for every month that revenue continues double-digits and exceeds our normal growth, that's about \$100 million swing. That could be a substantial impact on the surplus or over-estimating the revenues. We are experiencing some great times right now but we don't think they will continue. The key part of our forecast is trying to make sure that we don't think it's going to last longer than it actually does.

Mr. Rainwater presented information regarding the General Fund Revenues, Quarterly Review October to December, FY 2021-22. December marked the end of the second quarter of the fiscal year which is a statutorily required period to analyze and report on performance. His comments included:

- 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 – 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.

Mr. Rainwater presented a Review of National and State Economic Indicators. The key points included:

- COVID-19 Case Rate: Infections have reached new highs in South Carolina and across the US.
- 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.
- Unemployment Rate: SC unemployment rate back to pre-pandemic level as of November 2021 and remains below the US rate.
- Consumer Price Index: Inflation continues to be well ahead of 10-year average driven by a handful of categories.
- SC Employment: Employment is above the forecast for the fourth straight month, partially due to data revision.

- 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).

Mr. Coomer presented information on General Fund Revenue, Individual Income Tax Components. The key points included:

- Individual Income Tax – 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.

Ms. Gallagher presented information on General Fund Revenue, Consumption Taxes. The key points included:

- Consumption Taxes (Includes items such as Sales, Alcoholic Liquors, Beer and Wine, Deed Recording Fees) – 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.
- 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 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.

Ms. Jolliff presented information on General Fund Revenue, Business Taxes. She noted that Corporate Income Tax is being driven by high sales tax collection in the retail industry and her comments included:

- Corporate Income Tax – Actual vs. Estimate: Corporate Income is above the November estimate by \$115.6 million year-to-date.

- Corporate License Tax – Actual vs. Estimate: License tax is \$17.3 million above the November estimate year-to-date.
- Insurance Tax – Actual vs. Estimate: Insurance tax is \$9.1 million ahead of the November estimate.
- Bank Tax – Actual vs. Estimate: Collections are above the forecast by \$8.0 million.

Mr. Rainwater presented the Issues and Assumptions for the February Forecast. His comments included:

- 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.
- 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.
- 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?

Board members asked several questions regarding second quarter growth and flattening of third quarter growth compared to last fiscal year which generated further discussion between staff and the Board.

Chairman Grimball, Mr. Gower and Mr. Clemmons thanked staff for their hard work and commended them on a job well done.

- IV. Reports from Working Group Members
No Working Group members offered comments.
- V. Other Items for Discussion
- VI. The next scheduled meeting is the BEA Meeting on Tuesday, February 15 beginning at 1:00 p.m.
- VII. Mr. Clemmons motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye, and the meeting adjourned at 2:00 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 2/15/2022

Kathryn Kelley Kathryn Kelley

BEA Zoom Webinar Attendee Report

Staff:

Lisa Wren
Amanda Martin
Mary Katherine Miller
Shannon Fields
Ragan Griffith
Stephen Gardner
Will Tipton

Guests:

Shirley Hinson
Lesley Johnson
Kevin Etheridge
Catherine Hart
Jennifer Patterson
Dan Cooper TCTC
Grant Gibson
Brad Wilson
Billy Routh
Harry Miley --- Richland Two
Tim Derrick
Morgan O'Donnell
T. Nance
Robert Macdonald
Endra Curry
Melissa Simmons
Billy Quinlan
David Seigler
Ryan Burnaugh
Gavin Jackson
Tara Boone
Richard Hutto
T. Watson
Jackie Hipes
C. Huffman
Beth Campbell
Mike Addy
M. Moore
Don Hottel
Kathy Johnson