

MEMORANDUM FOR THE RECORD

Date: October 18, 2022, 10:30 a.m.
S.C. Association of Counties/ Attendees via Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* –Edward Grimball-*Chairman*, Emerson Gower, Curtis Hutto, Hartley Powell; Frank Rainwater, *Executive Director*; Staff – Paul Athey, Ben Coomer, Lisa Jolliff, Kathryn Kelley, and Sandra Kelly; *Working Group Guests:* Grant Gibson (*Senate Finance Committee*), Jake Scoggins (*Senate Finance Committee*), Kevin Etheridge (*Executive Budget Office*), Richard Eckstrom (*Comptroller General*), Katie Turner (*House Ways & Means*), Tim Derrick (*Dept. of Revenue*), *Thirty-five additional participants via Zoom (see attached).*

Note: Guests were invited to attend virtually. An email invitation was sent to the 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.

- I. Chairman Grimball welcomed everyone to the meeting at 10:32 a.m.
- II. Chairman Grimball presented the September 15, 2022 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 began the presentation which provided details regarding the economic and revenue performance as compared to the assumptions and estimates, which are summarized as follows:

Mr. Rainwater presented information regarding the FY 2022-23 First Quarter Revenues. His comments included:

- Total General Fund – Actual vs. Estimate: Collections are running \$457.6 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 23 has grown by 12.5% over last fiscal year and is above the May forecast by \$457.6 million.
- Sales Tax has grown 6.6% year-to-date and is running \$153.6 million ahead.

- Individual Income Tax is ahead by \$74.9 million, largely due to strong Withholdings and Non-Withholdings growth of 10.4% and 8.0% year-to-date, respectively.
- Corporate Income Tax is \$172.9 million ahead of the forecast.
- Earnings on Investments are \$22.9 million ahead of the estimate, and Insurance Tax is currently \$3.5 million ahead.

Mr. Coomer presented information on General Fund Revenue First Quarter FY 23, Individual Income Tax Components. His comments included:

- Individual Income Taxes, Key Issues FY 2022-23:
 - Total Individual Income tax growth has exceeded expectations, growing at 9.4% year-to-date.
 - Wage growth has continued nationally despite uncertainty in the economy, easing to 8.6% year-over-year in August after a recent high of 11.4% in February.
 - Some drivers of Non-Withholdings collections, such as interest and dividend income, may see growth in the coming year; others, such as capital gains and proprietors' income, may flatten or decline.
 - Refunds are \$48.4 million above the estimate and up 18.3% over last year.
- Withholdings - Actual vs. Estimate: Withholdings are up 10.4% cumulatively and up \$56.2 million over the estimate, though well within the target range.
- Wages and the Labor Market: The labor shortage has driven growth in wages; with job openings and quits peaking in recent months, wage growth should come down.
- Non-Withholdings - Actual vs. Estimate: Collections are currently above the estimate by \$67.1 million after the first quarter.
- US Personal Income, Select Components: Interest, dividend, and proprietors' income are exceeding pre-pandemic levels; these components are similar in size and drive Non-Withholding collections.

Ms. Jolliff presented information on General Fund Revenue First Quarter FY 23, Consumption Taxes. Her comments included:

- Sales Tax - Actual vs. Estimate: September collections grew by 11.1% over last year, bringing fiscal year-to-date collections to \$153.6 million above the estimate.
- US Consumer Expenditures: Consumers are spending more on services, while spending on goods was relatively flat through August.
- Deed Recording Fees - Actual vs. Estimate: Collections are \$8.3 million ahead of the current forecast due to strong collections in September.

- US Housing Market: Many Wall Street firms are now predicting declines in home prices during 2023.
- Other Consumption Taxes:
 - Alcoholic Liquor collections are running ahead of the estimate by \$4.8 million.
 - Beer and Wine collections are \$0.3 million below the estimate.

Ms. Jolliff presented information on General Fund Revenue in First Quarter FY 23, Business Taxes. Her comments included:

- Corporate Income Tax – Actual vs. Estimate: First quarter collections are a total of \$172.9 million above the forecast.
- Corporate License Tax – Actual vs. Estimate: Collections are \$5.7 million above the current forecast.
- Insurance Tax – Actual vs. Estimate: Collections are currently \$3.5 million above the estimate.
- Bank Tax – Actual vs. Estimate: Quarterly collections are above the forecast by \$0.9 million.

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

- Key Assumptions for FY 2022-23 and FY 2023-24 – Working Estimates:
 - Employment:
 - Employment is expected to grow without significantly affecting income growth. (Income growth is being influenced by wage inflation.)
 - Above-average growth in employment in FY 23 and below average growth in FY 24.
 - Personal Income:
 - Wage base is expected to be stable; while growth may slow, we do not anticipate negative growth.
 - Above-average wage growth in calendar year 2022 Q3 and Q4, followed by a slower period for 9 months and a return to historical growth rates in 2023 Q4.
 - Other personal income components are generally expected to grow more slowly than wages in FY 23.
 - Social Security income is anticipated to be impacted by higher cost-of-living adjustments in both FY 23 and FY 24.
- SC Employment: Working estimate assumes above-average growth in FY 23 followed by a slowdown in job gains in FY 24 but no recessionary decline.

- SC Personal Income: Working estimate is above the historical trend through FY 24 primarily due to wage gains.
- Inflation: Recent forecasts by TD Bank and Wells Fargo expect inflation to fall during FY 23 and return to historical levels in FY 24.
- Summary – Fiscal Year Growth Rates:
 - FY 2022-23 Personal Income: 4.92%, Employment: 3.2%, Inflation: 6.3%
 - FY 2023-24 Personal Income: 4.88%, Employment: 1.3%, Inflation: 2.6%
- General Fund as a Percentage of Personal Income: FY 23 percentage is above the historical range based on the working personal income estimate relative to the May General Fund forecast.

Mr. Rainwater presented key questions on the Forecast Outlook for FY 2022-23 and FY 2023-24 that were expected to be discussed in the afternoon. These included:

- Personal Income:
 - Will wage growth continue or slow?
 - Will the US enter a recession, and what level of impact will we see?
 - How long will the Federal Reserve continue to raise interest rates?
 - How will global economic issues affect SC's economy?
 - GDP
 - Energy Prices
 - Supply Chain Issues
- Consumer Spending:
 - Will consumer spending change due to inflation?

Chairman Grimball called a recess of the meeting at 11:30 a.m. for lunch.

Chairman Grimball called the afternoon session of the meeting to order at 12:50pm.

Attendees: Board Members –Edward Grimball-Chairman, Emerson Gower, Curtis Hutto, Hartley Powell; Frank Rainwater, Executive Director; Staff – Paul Athey, Ben Coomer, Lisa Jolliff, Kathryn Kelley, and Sandra Kelly; Working Group Guests: Grant Gibson (Senate Finance Committee), Jake Scoggins (Senate Finance Committee), Kevin Etheridge (Executive Budget Office), Richard Eckstrom (Comptroller General), Katie Turner (House Ways & Means), Tim Derrick (Dept. of Revenue), Brian Ford (SC Lottery), Anne Langley (SC Lottery), Haley Mottel (Speaker’s Office), Thirty-five additional participants via Zoom (see attached).

Chairman Grimball welcomed everyone to the meeting with a special welcome to the panel of economists from around the state.

IV. Economic Outlook

Chairman Grimball welcomed everyone to the meeting with a special welcome to the panel of economists.

Mr. Rainwater provided a brief introduction on the Economic Outlook for FY 2022-23 and FY 2023-24. He then introduced the panel of economists who were sharing their thoughts and perspectives regarding the economic outlook. The Regional Advisory Committee Members Dr. Laura Ullrich, Dr. Russell Sobel, Dr. Joseph Von Nessen and Dr. Mark Witte shared their economic presentations. Additionally, Dr. Frank Hefner was in attendance as a guest and provided his insights and estimates to 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

- On the positive side, South Carolina has been very strong from an employment perspective. However, consumer inflation remains well-above the Fed target and September report slightly outpaced expectations.
- Inflation remains broad-based and rents are playing a more significant role in recent months.
 - There is a concern around the components that seem to be driving the unexpected portions of inflation, i.e. – rent and increase in cost of services.
- The Federal Reserve is strongly committed to returning to 2 percent inflation.
- The Federal Reserve is looking at data in real time and making decisions based off the latest information.

- Federal Reserve's Chairman Powell stated "We'll want to see growth continuing to run below trend, we'll want to see movements in the labor market showing a return to a better balance between supply and demand, and ultimately we'll want to see clear evidence that inflation is moving back down to 2%."
- The federal funds rate is going to increase some more but by how much is the question.
- Dr. Ullrich does not believe we are in a recession right now but does believe there is reason to be concerned about one in the next year.
- Labor supply is going to continue to be an issue which would continue to lead to higher wages. The question, though, is going to be around labor demand.
- Geopolitical concerns, especially in Europe. South Carolina may be affected by European markets due to manufacturing in the state.

Chairman Grimbball asked what would cause inflation to abate to which Dr. Ullrich replied that it comes down to supply and demand; it will be difficult to control the supply issues so we will need combat the demand.

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

- The key driver right now is the higher than anticipated inflation.
- Dr. Sobel's focus was on the Fiscal Year Growth Rates chart. His main points were:
 - Lower the 3.2% Employment for FY 2022-23
 - Bump up the 2.6% Inflation for FY 2023-24
 - Maybe bump up the 4.92% Personal Income for FY 2022-23
 - Agree with FY 2022-23 Inflation, FY 2023-24 Personal Income and Employment

Chairman Grimbball asked if the panel could agree on what defines a recession. Dr. Sobel stated it used to be two consecutive quarters of real negative GDP growth but that now the NBER (National Bureau of Economic Research) dates a recession based on economic indicators. Dr. Ullrich explained that they look at multiple economic indicators.

Dr. Joseph Von Nessen, Research Economist – Darla Moore School of Business, University of South Carolina

- We are not currently in a recession, but maybe we would be considered in a lagged period where we see some pull back and that is not going to have an affect on the labor market until later.

- Consumer spending is an important metric to follow:
 - This is the biggest component of GDP, approximately 70%
 - Personal consumption expenditures have been steady. While there has been some pull back, they have not been the primary cause of decline in GDP growth in the first half of the year.
- Are we expecting a recession going forward?
 - Likely yes, primarily because there is really no path where we do not see a broad pull back in economic activity.
- There is not much evidence that we have seen meaningful change yet with the inflation rate going up.
- Not much change in the labor market – SC employment levels are currently 2.0% above pre-pandemic peak.
- The unemployment rate is still low at 3.1% but anticipate going forward as the labor market begins to soften, we are likely to see increase in the unemployment rate later this year into next year.
- The job openings rate can predict a pull back in the labor market and was significantly lower the last time unemployment in the U.S. was at 3.5% in Feb. 2020.
- Checking account balances are beginning to come down but explain why we continue to see Consumer Spending

The Board Members asked questions regarding S.C. Employment Growth which generated discussion between the panelists, staff, and Members.

Dr. Mark Witte, Professor of Economics, College of Charleston

Dr. Witte focused on concerns and expectations in the International Monetary Fund Model.

- Prior to March 2021, “Needs” and “Wants” of the Adobe Digital Price Index have similar inflation rates.
- After March 2021, “Needs” keep rising in price while “Wants” fall to flat prices.
- Consumers are shifting away from the items they do not need to the items that they have to have and we’re not supplying them.
- A recession has already hit the bottom quintile. The question is does it hit financial institutions and do we bail them out?

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

- Optimistic about the near-term, FY 22-23 but going further out can become very pessimistic.
- Anecdotally, looking at traffic in South Carolina there is a lot going on which makes the outlook for South Carolina positive.

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 16, 2022, beginning at 9:00 a.m.
- VI. Mr. Hutto motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye, and the meeting adjourned at 3:36 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 11/16/2022
Kathryn Kelley Kathryn Kelley

BEA Zoom Webinar Attendee Report

Staff:

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

Guests:

4 Unidentified Guests
Anna Berger
Brad Bundrick
Billy Routh
Brad Wilson
Bryan Grady
CD Greene
Dan Cooper
D. Seigler
Endra Curry
Evelyn Sexton Tucker
James Tracey
Jeff Thordahl
Josh Rhodes
Julie Cox
Kathy Johnson
K. Taylor
Mike Addy
M. Moore
Morgan O'donnell
Nathan Smith
Rob Lyon
Robert Macdonald
Erica Von Nessen
T. Pressley
T. Watson