MEMORANDUM FOR THE RECORD

Date: June 22, 2023, 1:00 p.m.
Revenue and Fiscal Affairs Office/ Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* – Edward Grimball-Chairman, Curtis Hutto, Dr. Michael Mikota, and Hartley Powell *(all via Zoom)*. Frank Rainwater, Executive Director; *Staff* – Carrie Bundrick, Chris Finney, Elizabeth Hall, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, Emily Prosser; *Thirty-eight 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 1:04 p.m.

II. Chairman Grimball presented the May 9, 2023, 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. FY 2022-23 General Fund Revenue and Economic Updates *(See materials)*

Mr. Rainwater and Ms. Jolliff presented information regarding General Fund revenue and economic updates:

- General Fund FY 2022-23 – June 2023 Update:
  - General Fund Revenue is $85.9 million ahead of the revised forecast through May, down from $207.6 million through April, due to lower than anticipated Individual Income tax payments and higher Refunds in final tax processing.
  - Sales tax collections are $27.1 million ahead of the forecast.
  - Total Individual Income tax is $16.6 million below the forecast.
  - Withholdings is $45.2 million ahead of the forecast.
  - Individual Income tax payments were lower than anticipated and Refunds were higher for final tax processing in May.
  - Corporate Income tax is ahead of expectations by $20.9 million.
- U.S. Real GDP (Gross Domestic Product) and Real GDI (Gross Domestic Income):

- While GDP and GDI should move generally in the same direction, they began to diverge in Q1 of 2023, which may indicate a stronger potential for a recession; the last significant divergence was in 2007 prior to the Great Recession.

Mr. Hutto asked for clarification of GDI, to which Ms. Jolliff responded that GDP and GDI are basically two different ways of measuring everything that's occurring in the economy. GDP is measuring from a productivity standpoint, GDI is measuring the income the product is producing, which includes personal income and business income. Productivity should have an equivalent impact on income growth in the economy, but they are derived from two different sets of underlying data. They are expected to move together because they should be measuring the same output, just using two different sources, but the fact that they have diverged could potentially show a recession. GDI gets revised less than GDP, which is revised twice, so GDI tends to be more stable, which makes it particularly more interesting seeing the decline in GDI. It could be a statistical or accounting anomaly, and it could reverse with revisions in data. It could also reverse in the next quarter, but the Q2 analysis will not be available until the end of July. Chairman Grimball asked if one was more reliable than the other in measuring current economic trends and stated that it seems like the GDP is more reliable since it is revised more often than GDI, to which Ms. Jolliff agreed.

- SC Employment:
  - Employment for April is tracking slightly below the May estimate by about 5,700 jobs.
- SC Employment by Industry:
  - While most sectors recovered by 2022, the Leisure and Hospitality sector just recently reached pre-pandemic employment; government employment is still below pre-pandemic levels due to declines in local government.
- FY 2022-23 Revenue Summary:
  - May revenues in the major categories came in lower than anticipated and reduced the excess compared to the revised May forecast.
  - Sales tax growth has slowed from an average of 7.7% through March to 3.4% for the last two months; collections need to average 3.9% for June and July to meet the revised forecast.
  - Withholdings are in line with expectations for lower collections with the tax table adjustments.
  - The lower than anticipated Individual Income tax collections in May are the result of final tax processing and not expected to impact Individual and Corporate Income tax declarations for June.
- FY 2023-24 Recession Considerations:
  - Economic recessions are generally characterized as 2 consecutive periods of declining GDP.
  - While GDP has experienced an increase for 2023 Q1, Gross Domestic Income (GDI), an equivalent indicator of recession, has experienced a decline; GDI could be explaining something that GDP is not, or the

difference could be evidence of statistical/accounting discrepancies between the two indicators.
  - Inflation reports show lower total inflation, falling from 4.9% in April to 4% in May, but core inflation remains over 5%.
  - The Fed continues to weigh the need to raise interest rates to control inflation against the potential negative impact of higher interest rates, particularly on the banking industry that jeopardize the asset-liability balance for banks.
  - Potential for a recession may be pushed further out again:
    - The latest report from Wells Fargo has pushed their expectations for a slow down out from late 2023 to early 2024 based on recent continued momentum in the labor market and consumer spending.
    - Goldman Sachs lowered its odds of a U.S. recession in the next year to 25% from an already below consensus 35%, given easing banking sector stress and the debt ceiling deal.
  - A thriving labor market, increasing real personal income, positive business investments, and increased consumer expenditures, among other factors, contradict the potential for a looming recession.
- FY 2024-25 Preliminary Budget Outlook:
  - Revenues for FY 2022-23 are running close to estimates.
  - Depending on how the year finishes, the surplus in the Contingency Reserve Fund will likely be much smaller than in recent years when the surpluses were over $1 billion (currently estimated to be $85.9 million)
  - Unlike in the last two fiscal years when the revenue forecast was increased repeatedly to catch up to base revenue growth, the revenue base is likely to finish close to estimates for FY 2022-23, and any potential surplus for FY 2023-24 and budget growth for FY 2024-25 may be much lower than in recent years.

Chairman Grimball asked if the General Assembly is adequately prepared for this scenario for the next budget cycle (revenues running close to the estimates and potentially lower surplus and budget growth), to which Mr. Rainwater responded that this report is the initial notice for everyone. FY 2023-24 will be back to a more normal-type budget year. The past few budgets have had extraordinary surpluses, stemming from the effects of the pandemic and stimulus funds, but these effects have waned over time and revenues are returning to a more historical pattern. More will be known in August and September after fiscal year end.

Chairman Grimball asked if Wells Fargo was diminishing the possibility of a recession, as Goldman Sachs did, since they are pushing out the possible recession from 2023 to 2024. Ms. Jolliff responded that the report did not state Wells Fargo lowered expectations, it just noted that because of the positive signs in the economy, they were pushing it out, and the report did not give a likelihood change. Dr. Mikota stated that in looking at the leading indicators from employment it does not look like a recession. He added that in 2007/2008, there was a leading *indicator with unemployment, but labor is not showing a decline and there is a strong demand for jobs right now. Ms. Jolliff responded that there is a possible full employment recession. Employers are hesitant to give up workers and are labor hoarding. Weekly hours worked are down from 35 to 34, and productivity is down, which means there may be a full employment recession. It is contrary to what is normally seen, but there may be a recession without unemployment. Chairman Grimball stated that in looking back at the October 2022 BEA meeting with the panel of regional economists, speakers expressed the same thought, that there may be that rare possibility of a recession with full employment.*

IV. Reports from Working Group Members
No Working Group members offered comments.

V. Other Items for Discussion
No items for discussion.

VI. The next scheduled meeting is on Thursday, July 20, 2023, beginning at 1:00 p.m.

VII. Dr. Mikota motioned to adjourn the meeting and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 1:38 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 8/24/2023
Emily Prosser Emily Prosser

BEA Zoom Webinar Attendee Report

Staff:

Paul Athey
Geoff Johnson
Daniel Tompkins
David Morrison
Lisa Wren
Will Tipton
Amanda Martin
Adam DeMars
Rachel Passer
Stephen Gardner

Guests:

1 Unidentified Guest
ryanburnaugh
MorganO'Donnell
JessicaWigington
Tim Derrick
jakescoggins
Carlton Dallas
Jennifer Patterson
Jackie Hipes
grantgibson
Michael Moore
John Williams
Will Kelley
julie cox
MMills
Robert Macdonald
Gerald Byrne
bbundrick
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Amelia
Justin Powell – SCDOT
Clara Cullum
Amelia Wilks
angie graham
Susan von Schenk
Billy Routh
Kathy Johnson
Kevin Ethridge