



EDWARD B. GRIMBALL, Chairman  
ALAN D. CLEMMONS  
EMERSON F. GOWER, JR.

## SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

FRANK A. RAINWATER  
Executive Director

### BOARD OF ECONOMIC ADVISORS WORKING GROUP/REGIONAL ADVISORY COMMITTEE MEETING AGENDA October 15, 2020, 10:30am

**Instructions for accessing the meeting virtually will be posted on our website at <http://rfa.sc.gov/> the afternoon prior to the meeting**

- I. Welcome
- II. Revenue and Economic Update
  - A. Quarterly Review - (Frank Rainwater, Lisa Jolliff, Natalie Gallagher, Ben Coomer)
  - B. Forecast Outlook for FY 2020-21 and FY 2021-22 (Frank Rainwater)

**Recess for Lunch** (*Please note that lunch is by invitation only*)

*Regional Advisory Committee Meeting will begin at 12:45 P.M.*

- III. Economic Outlook for FY 2020-21 and FY 2021-22
  - A. Introduction (Frank Rainwater)
  - B. Regional Advisory Committee Members
    - Dr. Laura Dawson Ullrich** (*Via videoconference*) - Regional Economist - Federal Reserve Bank of Richmond, Charlotte Branch
    - Mr. Mark Vitner** (*Via videoconference*)- Managing Director and Senior Economist - Wells Fargo Securities
    - Dr. Russell S. Sobel** (*Via videoconference*) - Professor of Economics and Entrepreneurship - Baker School of Business, The Citadel
    - Dr. Frank Hefner** (*Via videoconference*) - Professor of Economics, Director of Office of Economic Analysis - College of Charleston
    - Dr. Joseph Von Nessen** - Research Economist - Darla Moore School of Business, University of South Carolina
  - C. Review and Discussion of Key Assumptions (Frank Rainwater)

- IV. Reports from Working Group Members
  - A. Governor's Office
  - B. Senate Finance Office
  - C. Ways & Means Office
  - D. Treasurer's Office
  - E. Comptroller General's Office
  - F. Executive Budget Office
- V. Future Meeting Schedule
  - A. November 10, 2020, 1:30pm (Forecast for FY 2020-21 and FY 2021-22)
  - B. December 10, 2020, 1:30pm (If Necessary)
  - C. 2020 Calendar at <http://rfa.sc.gov/meetings>
- VI. Adjournment

**Please note that the Agenda is subject to change.**

For further information, please contact Karen Rhinehart at (803) 734-2265,  
or visit the RFA webpage at [www.rfa.sc.gov](http://www.rfa.sc.gov)

# **SOUTH CAROLINA GENERAL FUND REVENUE**

## **Quarterly Review July to September FY 2020-21**

October 15, 2020

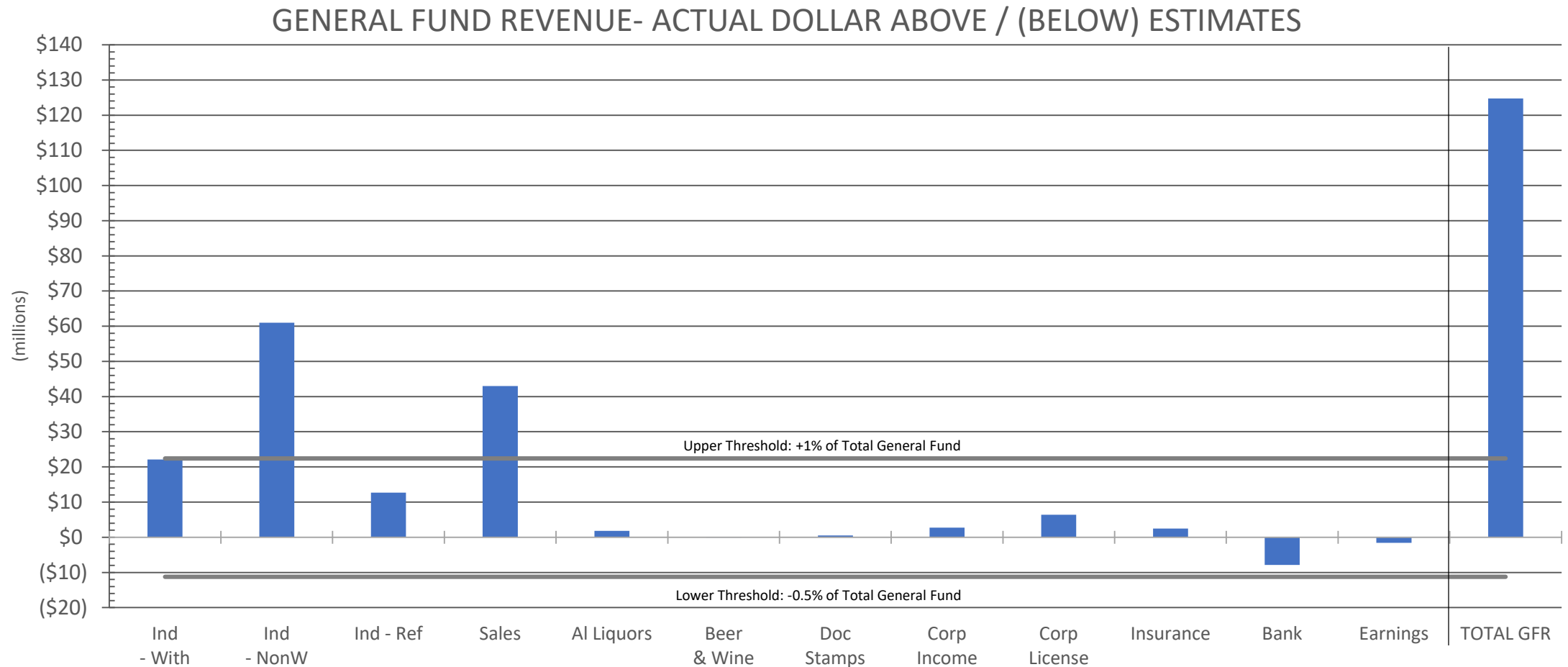


# Quarterly Review Requirements

- 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

# Quarterly Review

## Revenues are \$124.7 m above quarterly estimate



# General Fund Revenue



## REVENUES V. BEA MONTHLY ESTIMATES

JULY - SEPTEMBER FY 2020-21

(\$ 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
<b>Total General Fund Revenue</b>	<b>\$2,367.9</b>	<b>\$2,243.1</b>	<b>\$124.7</b>	<b>(3.0%)</b>	<b>0.9%</b>	<b>Other Revenue Items, Sub-Total</b>	<b>\$116.0</b>	<b>\$109.9</b>	<b>\$6.0</b>	<b>(7.6%)</b>	<b>0.0%</b>
Sales Tax	598.6	555.6	43.0	2.5%	3.5%	Admissions Tax	(0.5)	(0.5)	0.0	(2.0%)	(32.0%)
Individual Income Tax	1,426.3	1,355.8	70.5	(6.2%)	(1.5%)	Alcoholic Liquors Tax	15.5	13.7	1.8	2.5%	23.3%
Withholdings	1,406.5	1,384.3	22.2	3.0%	4.6%	Bank Tax	5.5	13.4	(7.9)	18.7%	(64.3%)
Nonwithholdings	299.6	238.6	61.0	(24.7%)	32.3%	Beer and Wine Tax	20.9	21.0	(0.1)	1.2%	0.5%
Refunds	279.9	267.2	12.7	8.7%	129.6%	Corporate License Tax	15.1	8.7	6.4	(18.1%)	42.3%
Corporate Income Tax	134.3	131.6	2.7	(11.2%)	7.1%	Doc. Tax (Deed Rec.)	17.4	16.9	0.5	11.4%	14.9%
Insurance Tax	92.8	90.3	2.5	19.7%	52.1%	Earnings on Investments	16.9	18.5	(1.5)	(42.7%)	(47.4%)
Other Revenue Items, Sub-Total	116.0	109.9	6.0	(7.6%)	0.0%	Residual Revenue	25.1	18.3	6.8	(4.9%)	(10.4%)

Based on BEA Forecast as of August 31, 2020



# General Fund First Quarter Summary

- General Fund Revenues are \$124.7 million above quarterly estimates, but this should not be considered a trend.
- Approximately half of the excess, \$59.6 million, is likely due to individual income tax payments from the July 15<sup>th</sup> filing extensions that were not received in time for the accrual.
- Withholdings on unemployment benefits are \$42.9 million above the same quarter last year.
- Sales tax accounted for another \$43.0 million of the excess, which may be attributable to some federal stimulus spending.

# National Economic Indicators

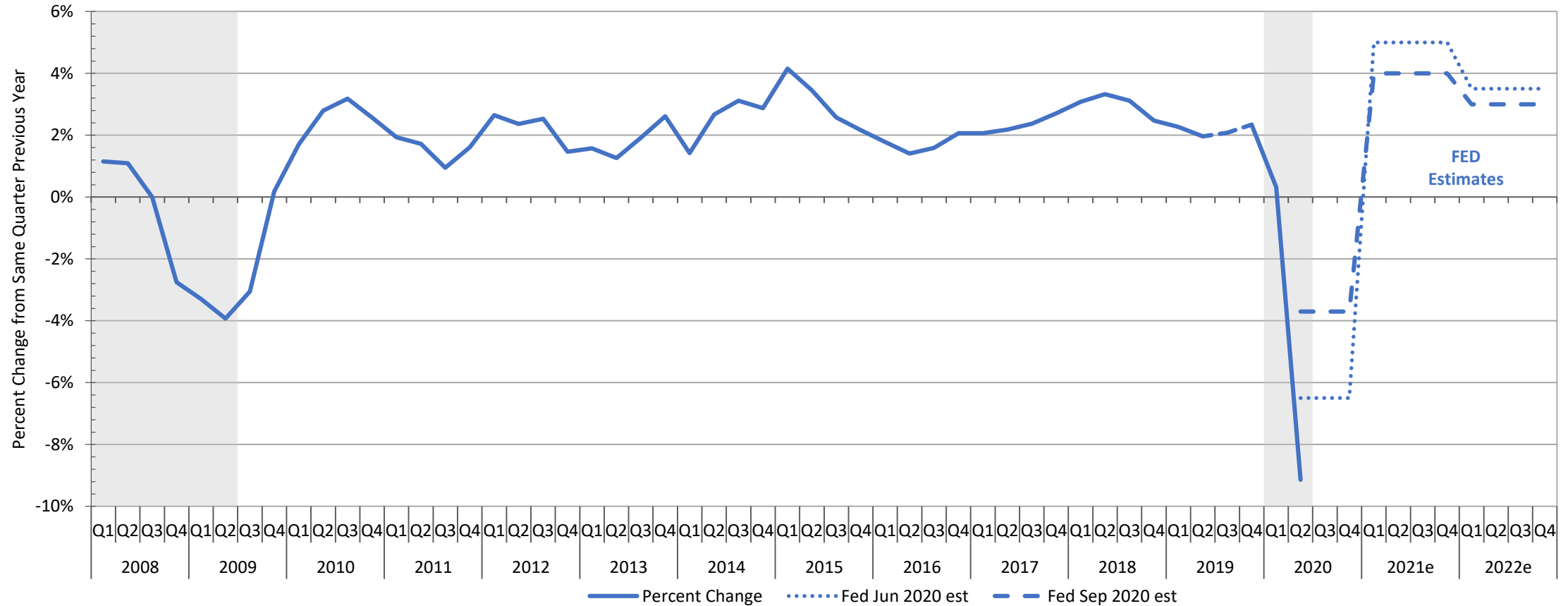




# Real GDP Growth

Fed revised estimate up from -6.5% to -3.7% for Q4 2020; revised down Q4 2021 from 5% to 4%; anticipating less of a decline but slower recovery

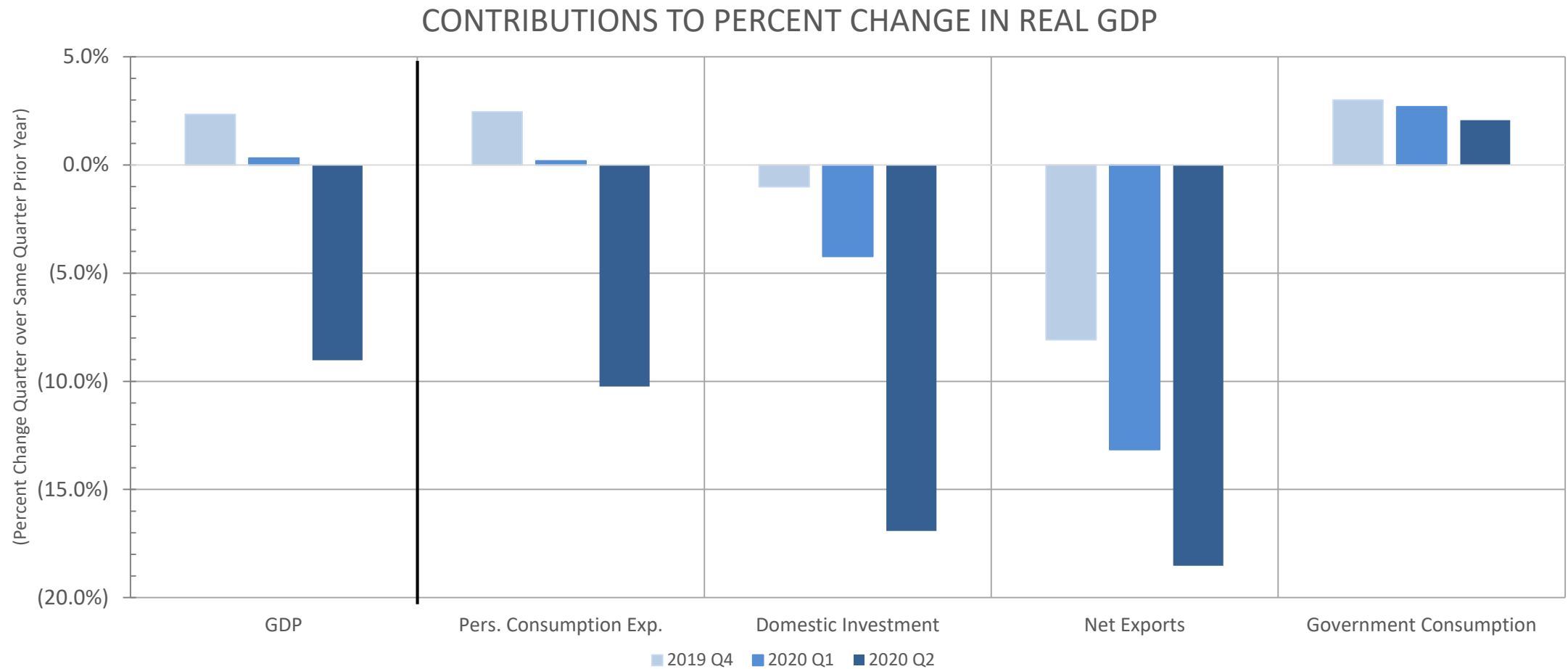
QUARTERLY U.S. REAL GDP GROWTH - Actuals and Estimates



Source: U.S. Dept. of Commerce, Bureau of Economic Analyses; Federal Reserve Open Market Committee, Sep 2020 RFA/lhj/266/09/18/2020

# Real GDP By Component - Percent Change

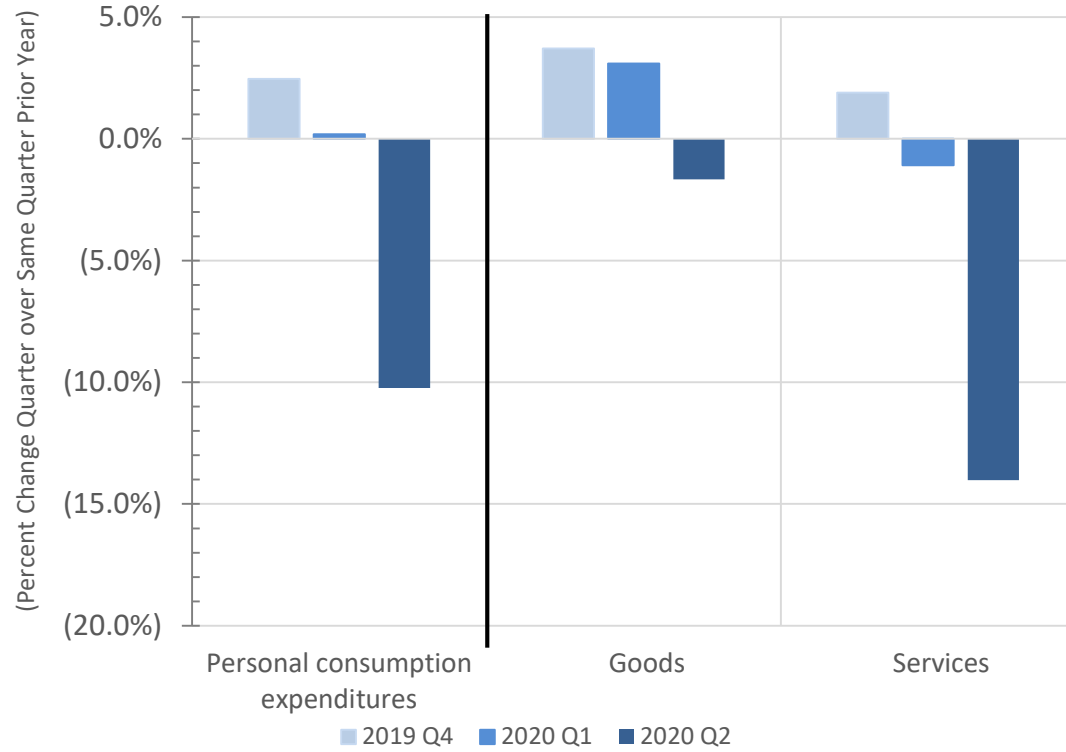
## Large declines in second quarter in all components except government due to federal stimulus



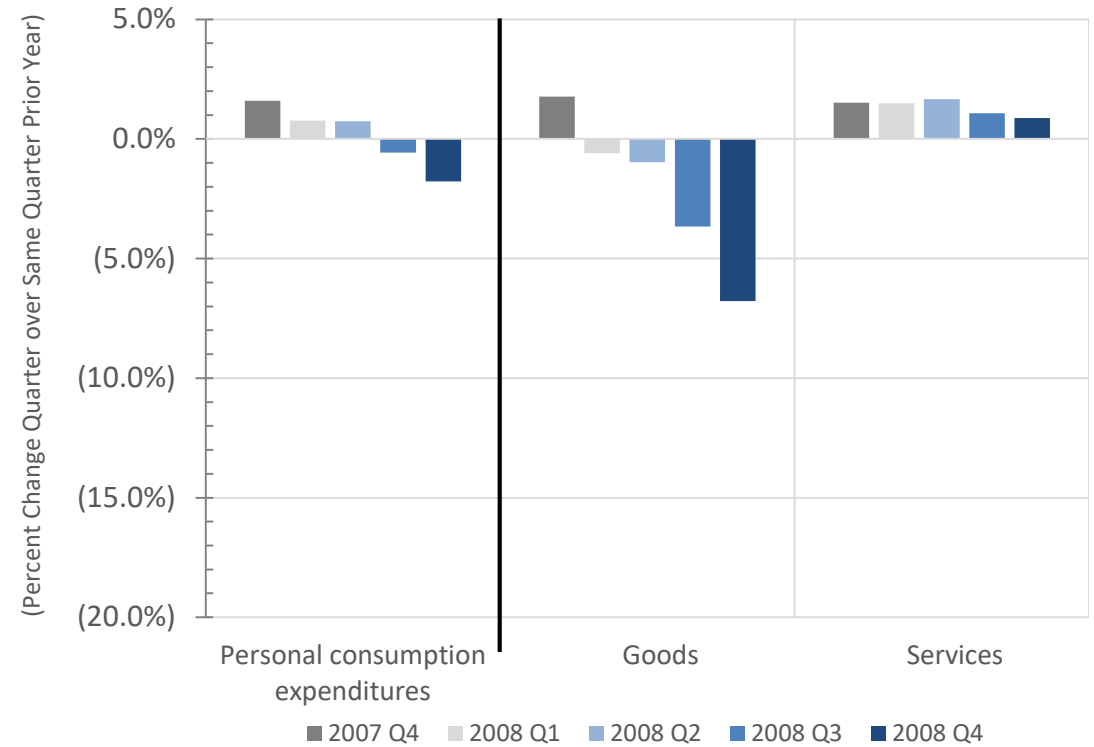
# Real GDP - Personal Consumption of Goods and Services

Consumption of services was down substantially more than goods in Q2 2020;  
Great recession saw greater decline in goods than services

PERSONAL CONSUMPTION EXPENDITURES  
COVID-19 - Q4 2019 to Q2 2020

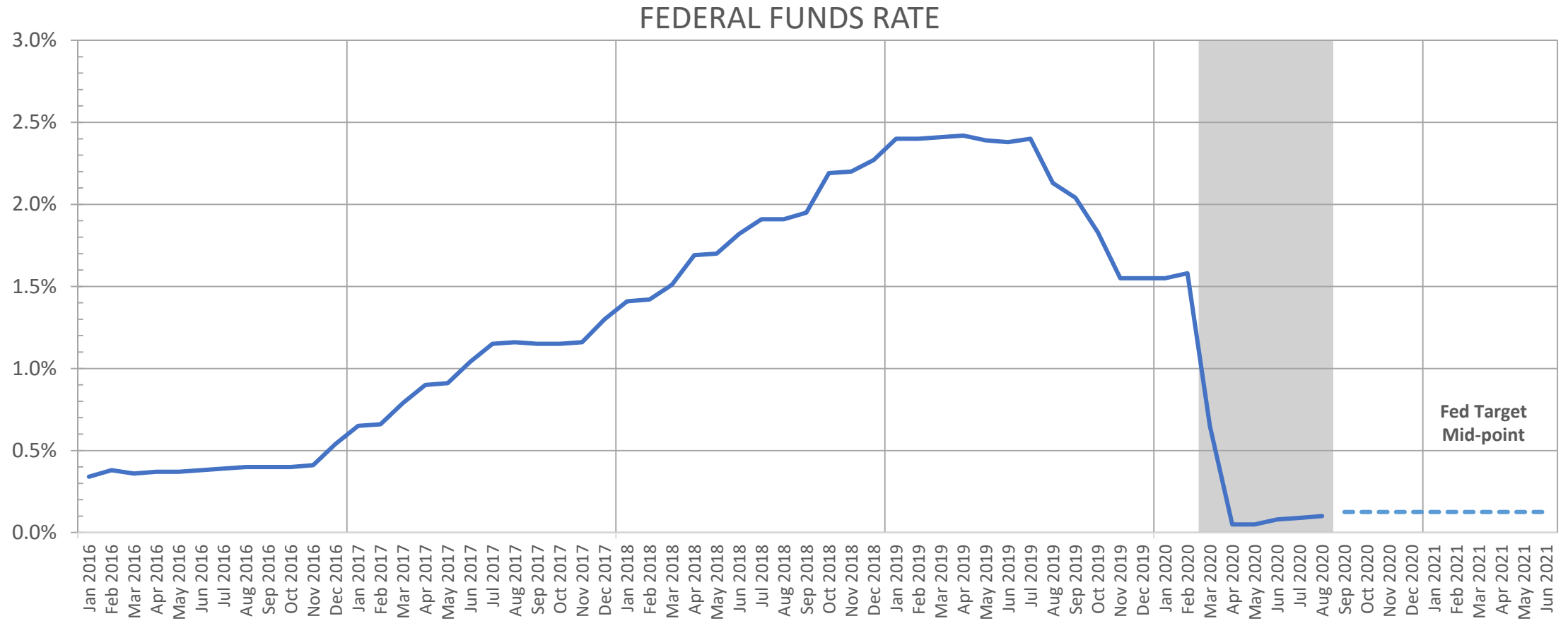


PERSONAL CONSUMPTION EXPENDITURES  
Great Recession - Q4 2007 to Q4 2008



# Interest Rates

Fed target range is 0% to 0.25% through 2022



Source: Board of Governors of the Federal Reserve System via FRED Economic Data 277-RFA/lhj/09/22/20



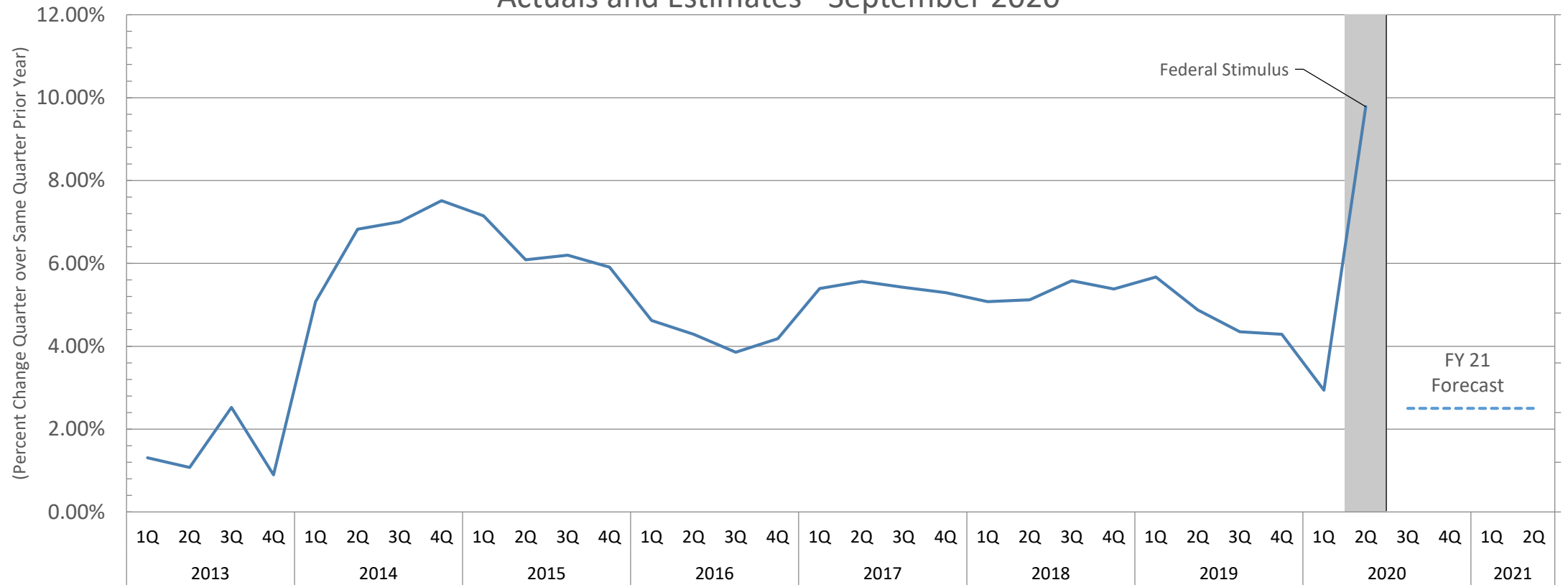
# South Carolina Economic Indicators



# SC Personal Income Growth

Q2 2020 grew 9.8%, buoyed by federal stimulus

SC PERSONAL INCOME GROWTH RATES  
Actuals and Estimates - September 2020

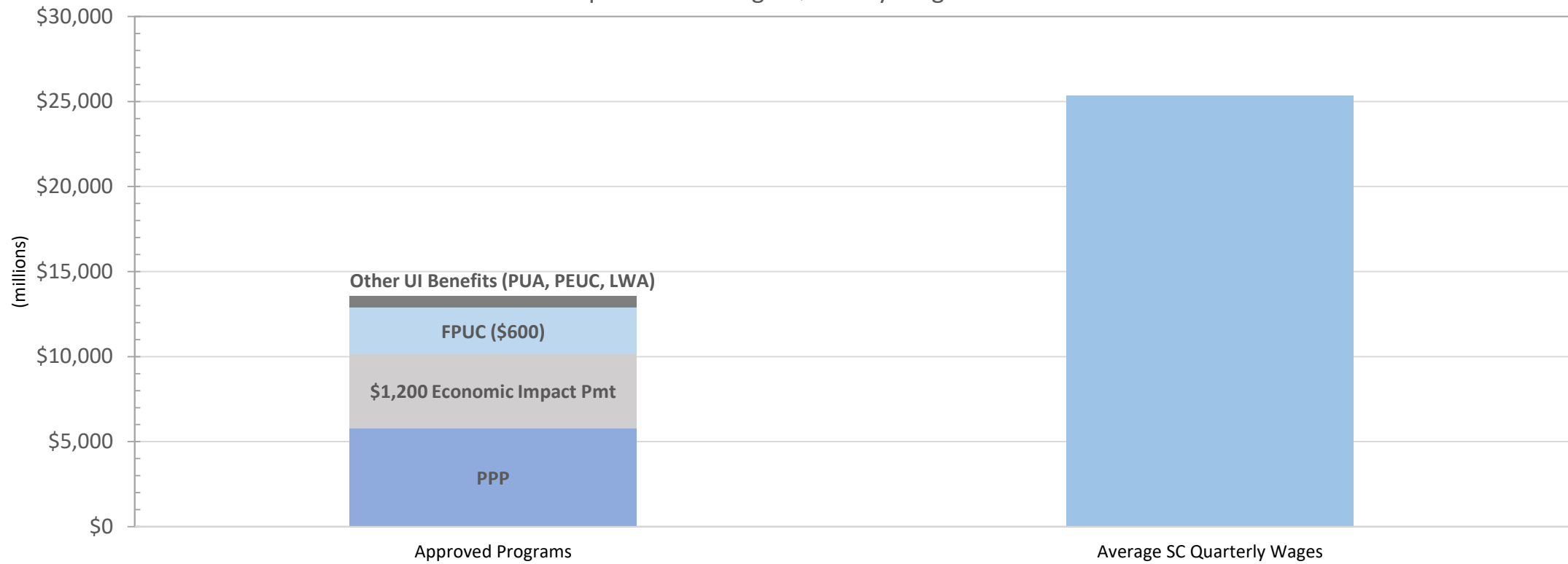


Source: US Department of Commerce, Bureau of Economic Analysis RFA-173 lhj/09/24/20



# Federal Stimulus Payments for March through September

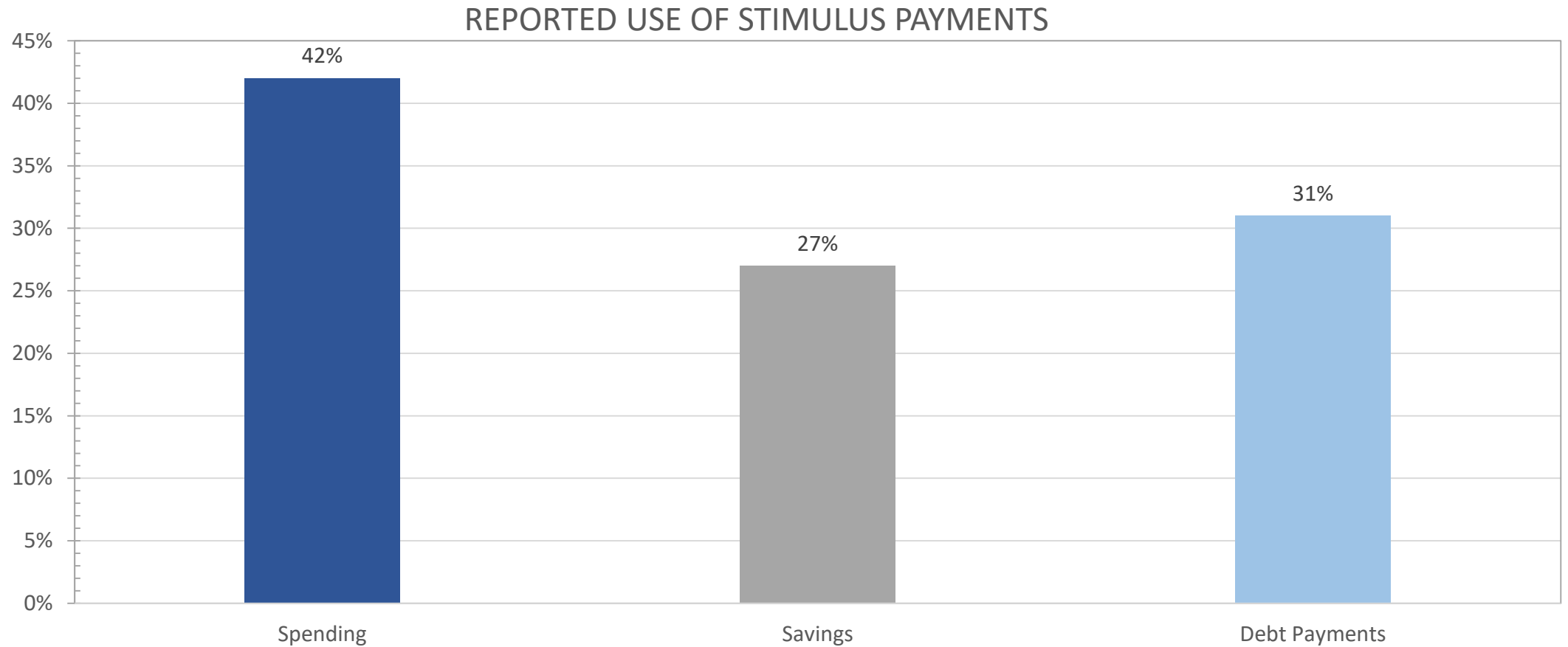
S.C. FEDERAL STIMULUS FUNDING  
Compared to Average Quarterly Wages



Source: U.S. Small Business Administration; Internal Revenue Service; S.C. Department of Employment and Workforce 278-RFA/ZP/09/25/20

# Spending of Federal \$1,200 Stimulus Payments

Recipients spent 42% of stimulus, saved 27%, and used remaining 31% to pay down debt



Source: National Bureau of Economic Research; calculations from the Nielsen Homescan Panel



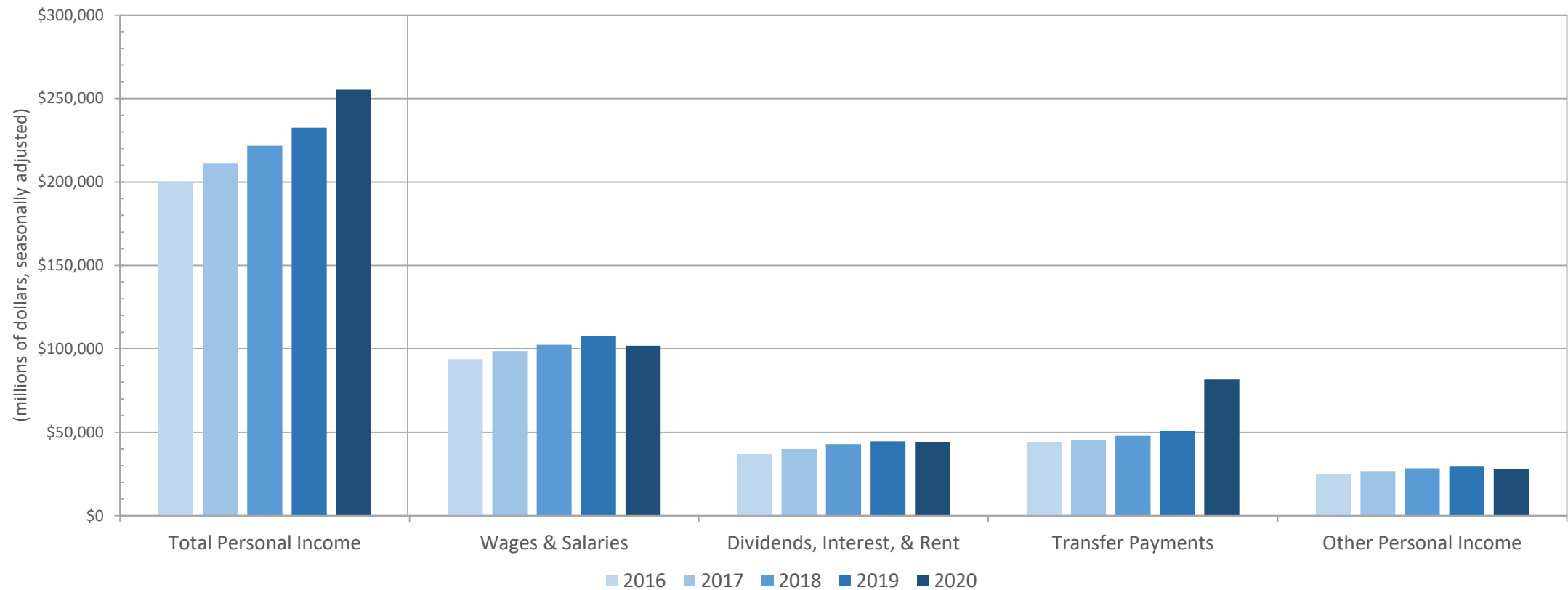


# Personal Income Components

## Massive transfer payments from federal stimulus prop up personal income in Q2 2020

### PERSONAL INCOME COMPONENTS FOR SOUTH CAROLINA

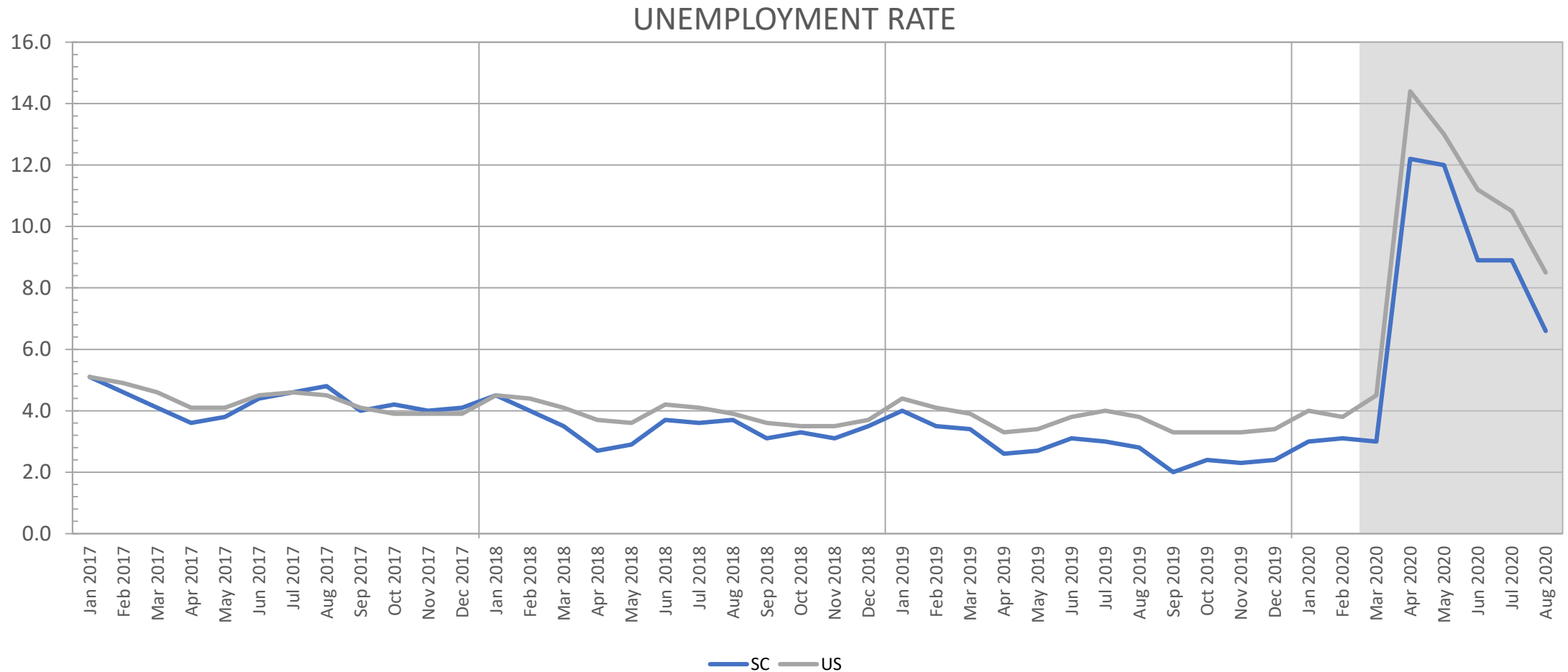
Quarter 2 – April through June



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis 222b -- Oct 2020 RFA/bdc/10/06/2020

# Unemployment Rate

SC unemployment rate down from April peak of 12.2% to 6.6% in August

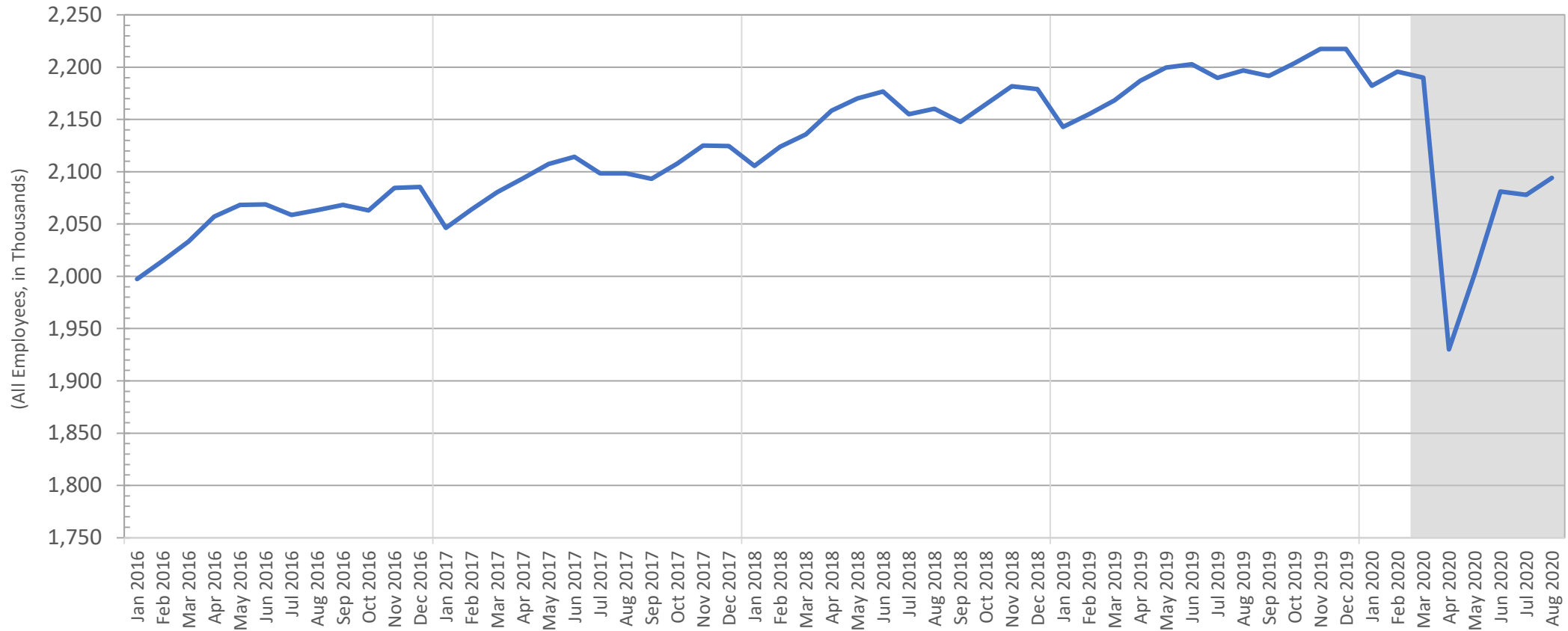


Source: U.S. Department of Commerce, Bureau of Labor Statistics 129--RFA/lhj/09/30/2020

# SC Employment – Total Jobs

## Down 102,000 jobs from Aug 2019 to 2020

TOTAL NONFARM EMPLOYMENT IN SOUTH CAROLINA

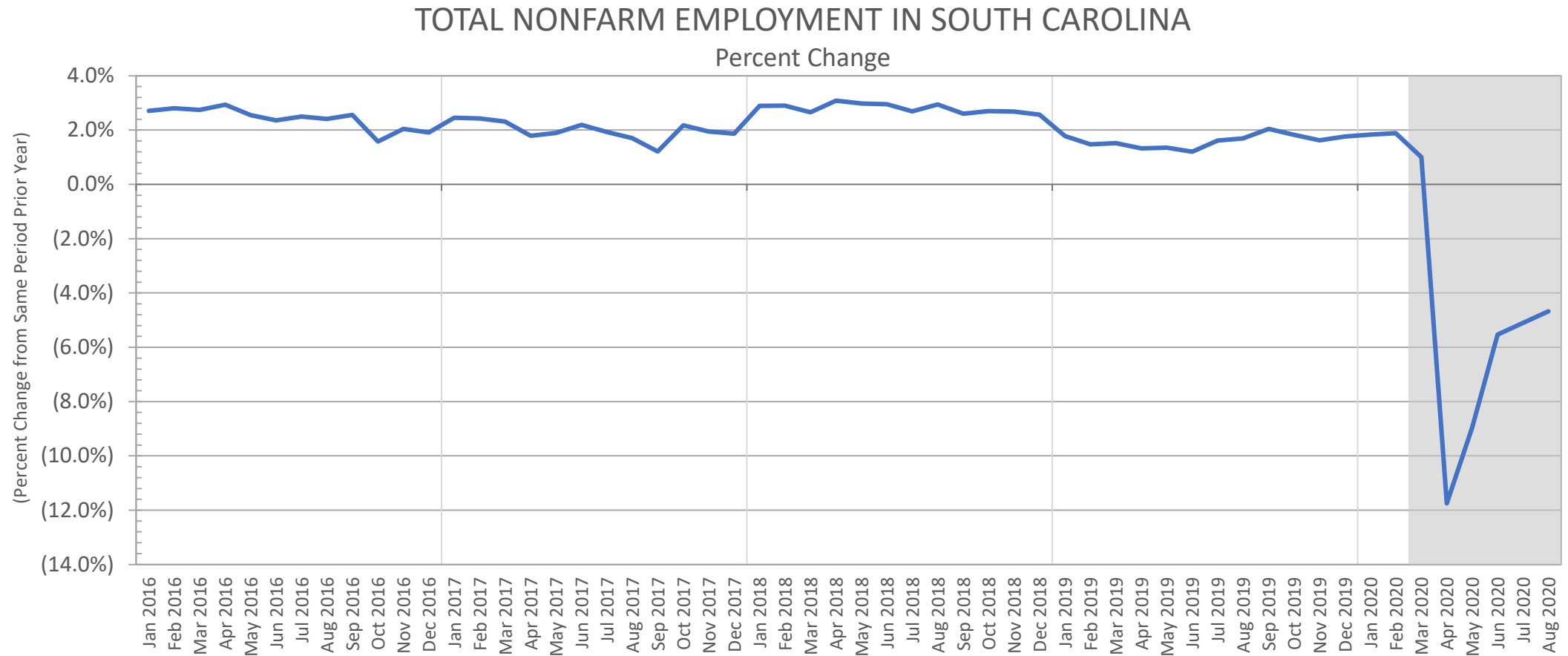


Source: U.S. Department of Labor. Bureau of Labor Statistics 60-RFA/lhi/09/22/2020



# SC Employment – Percent Change

## Down 4.7% from Aug 2019 to 2020



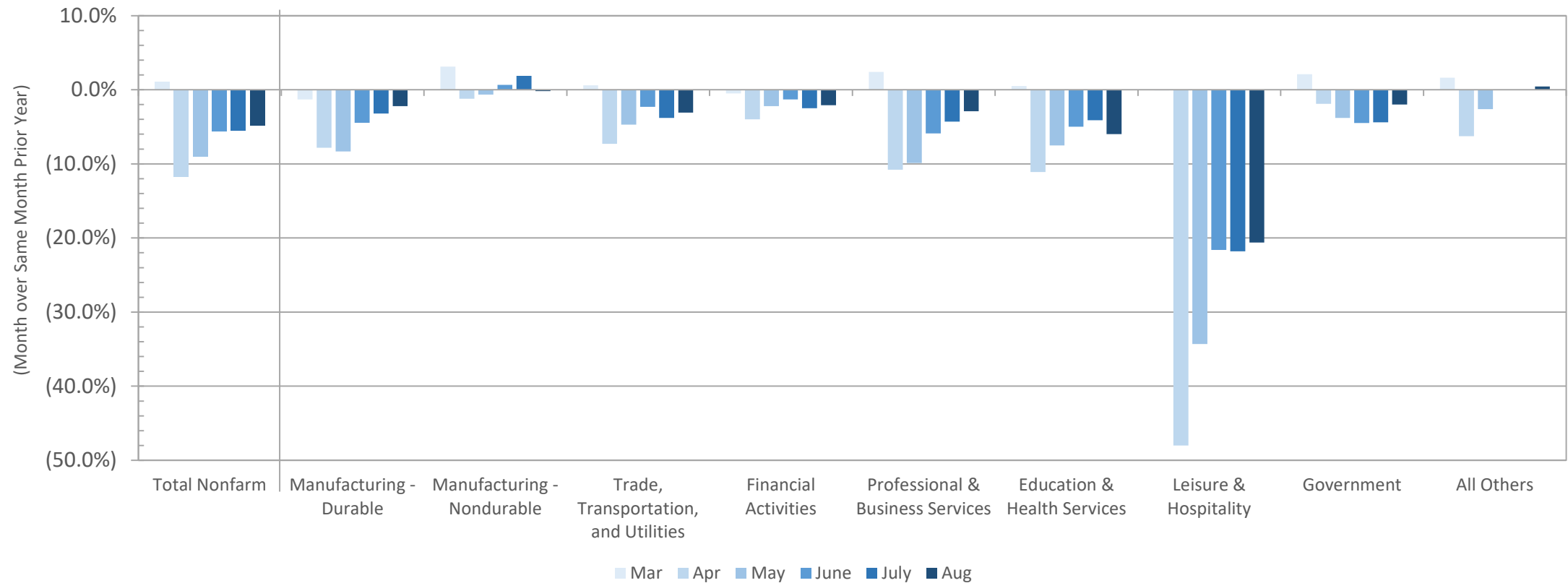
Source: U.S. Department of Labor. Bureau of Labor Statistics 60-RFA/lhi/09/22/2020

# SC Employment By Sector

Leisure and Hospitality employment down much more than other industries

## SC EMPLOYMENT BY INDUSTRY

March through August 2020



Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Federal Reserve Bank of St. Louis, FRED 281a--Oct 2020 RFA/bdc/10/06/2020



## Economic Overview Summary

- Personal income growth was supported by federal stimulus in Q2 of 2020, which will continue partially into Q3 but not to the same degree
- Employment has partially returned and recovered 189,000 lost jobs from April; appears to have stabilized at a lower level

# General Fund Revenue

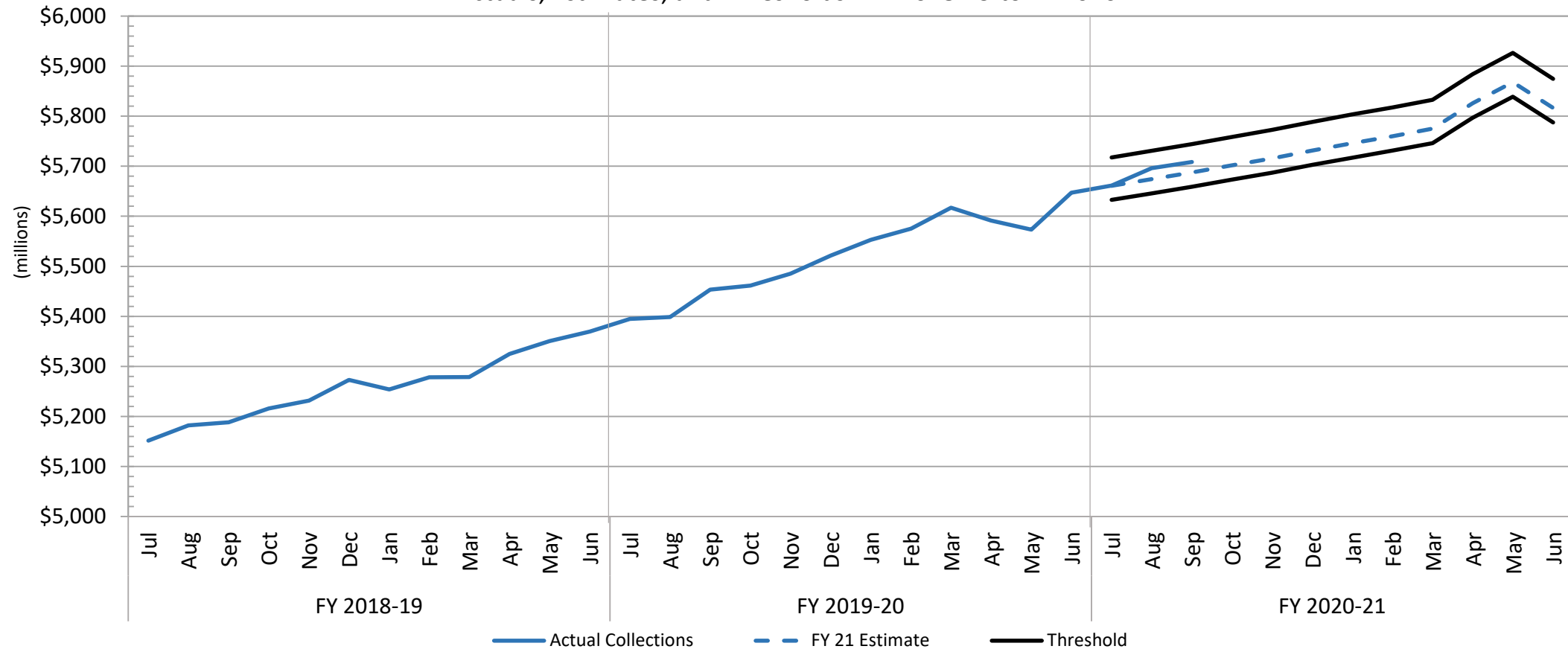
## Individual Income Tax Components



# Withholdings - Actual vs. Estimate

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21

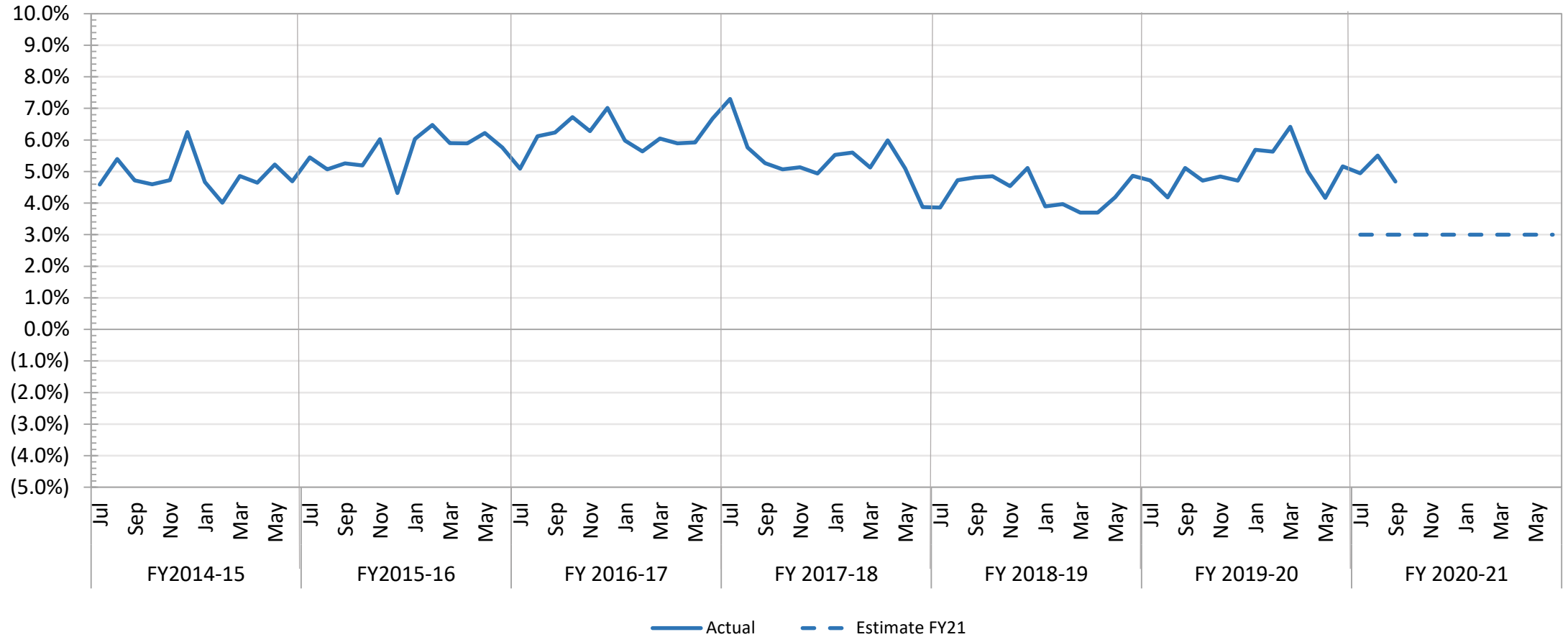




# Withholdings - Percent Change

## ROLLING FISCAL YEAR PERCENT CHANGE - INDIVIDUAL INCOME WITHHOLDINGS

Actuals and Estimates - FY 2014-15 to FY 2020-21

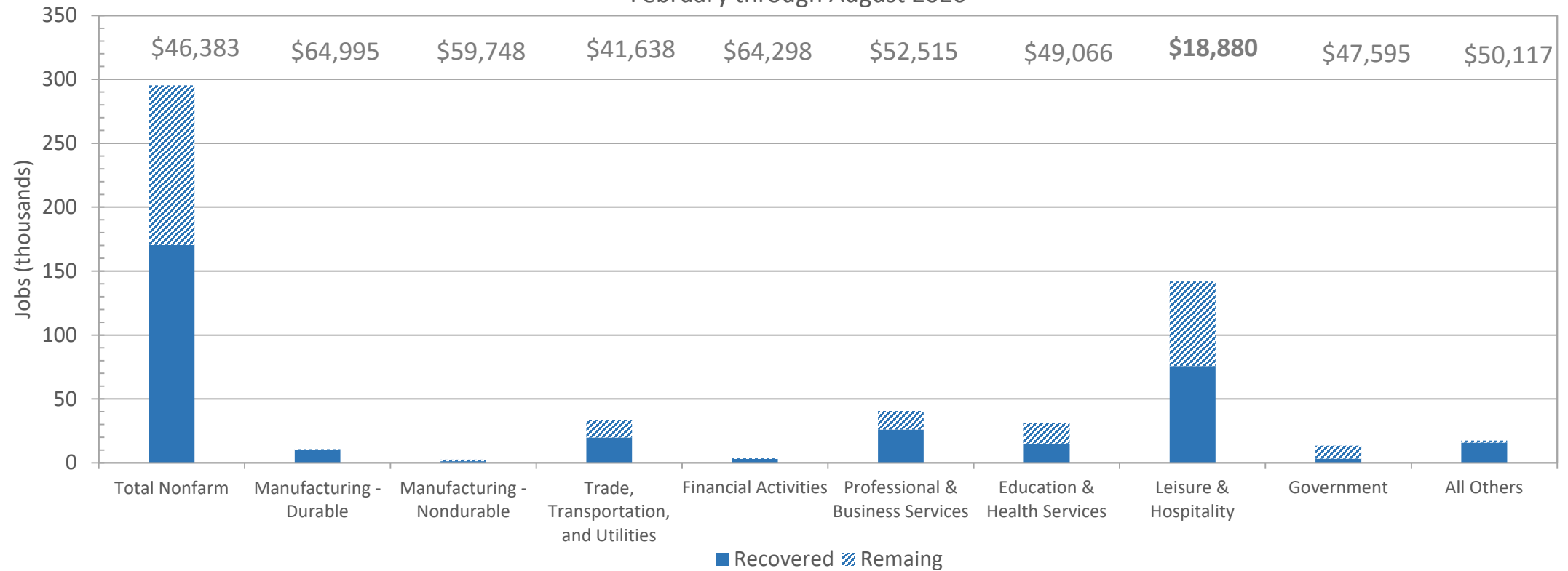


# SC Employment By Sector

Leisure & Hospitality stands out in losses, remaining recovery, average wage

RECOVERED JOBS AND REMAINING LOSSES BY SECTOR VS. AVERAGE WAGE

February through August 2020

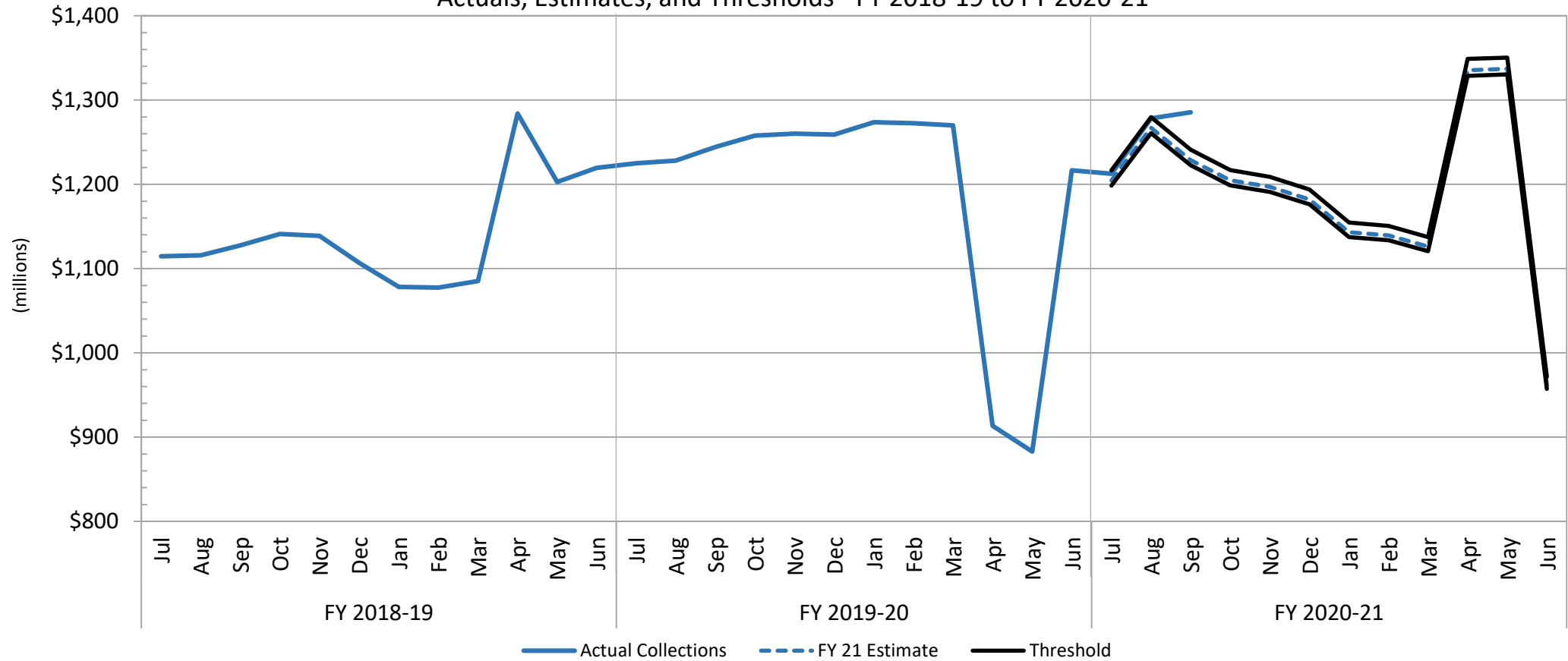


Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Federal Reserve Bank of St. Louis, FRED 281b--Oct 2020 RFA/bdc/10/06/2020

# Non-Withholdings - Actual vs. Estimate

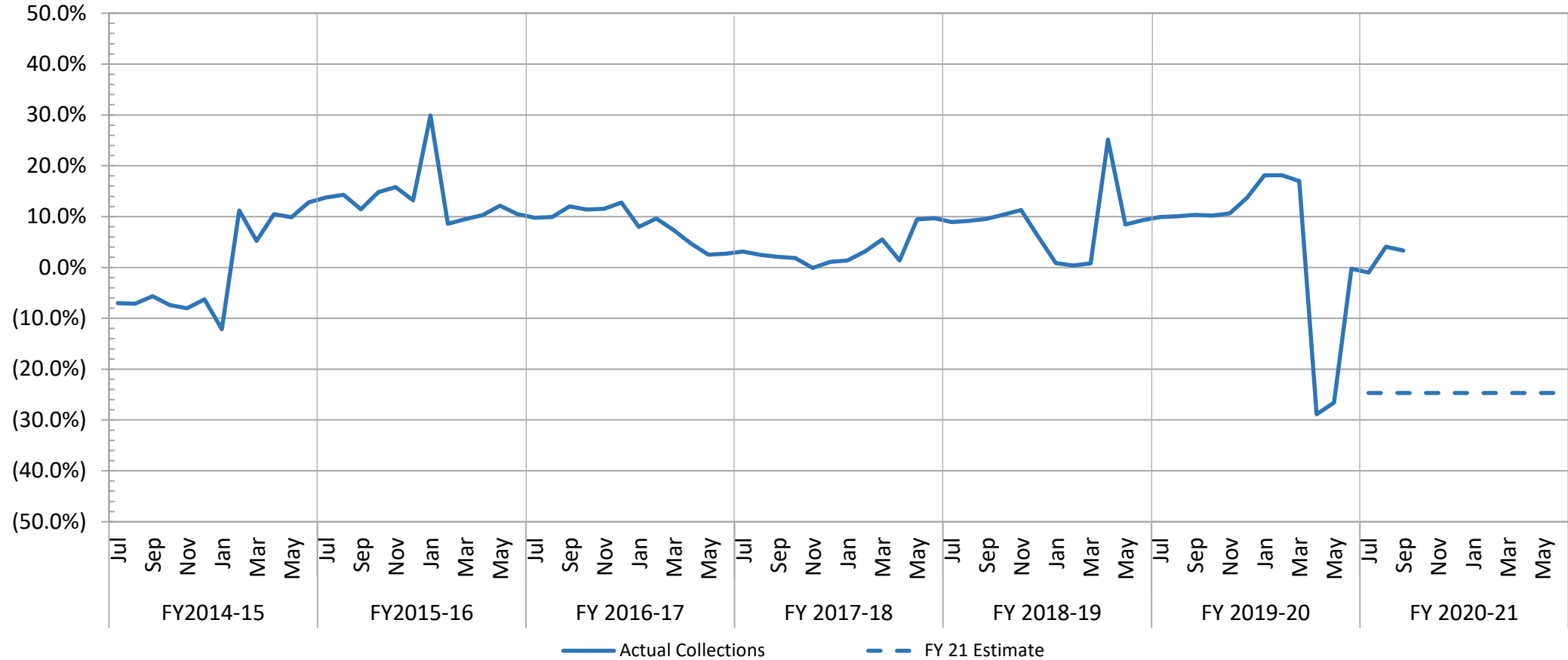
## ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21



# Non-Withholdings - Percent Change

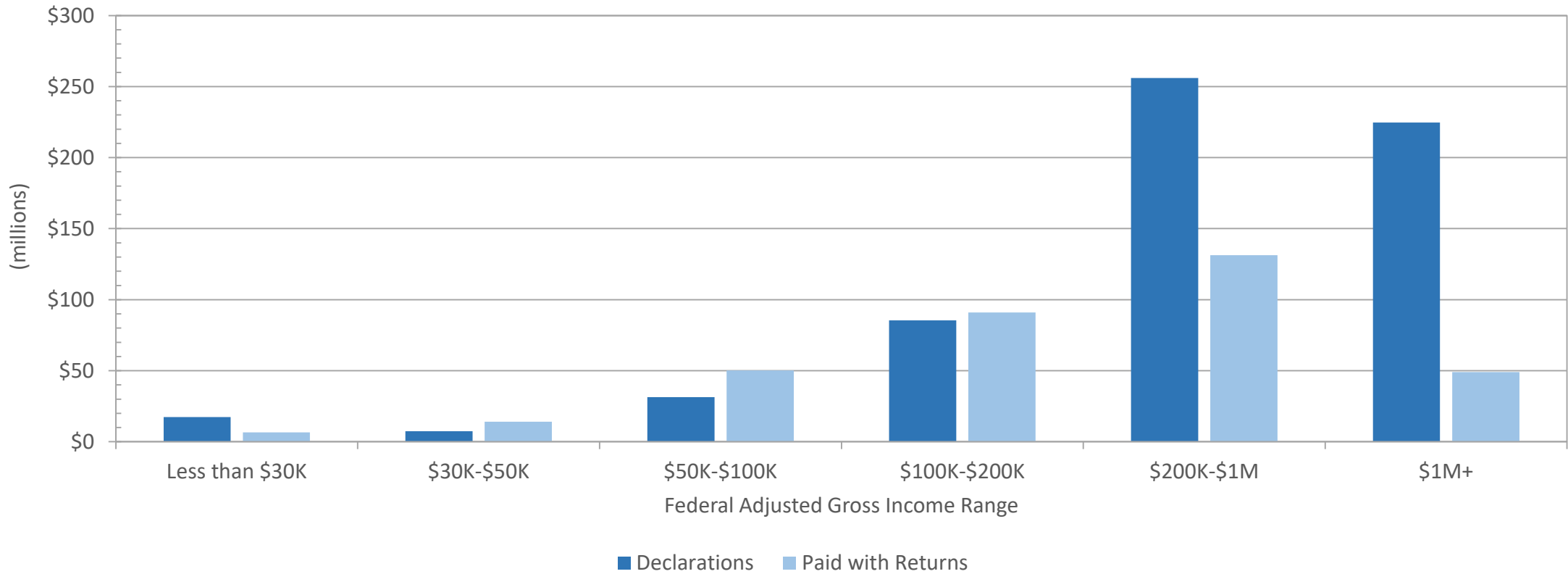
ROLLING FISCAL YEAR PERCENT CHANGE - INDIVIDUAL INCOME NON-WITHHOLDINGS  
 FY 2014-15 to FY 2020-21 Actuals and Estimates



# Non-Withholdings by Income Ranges

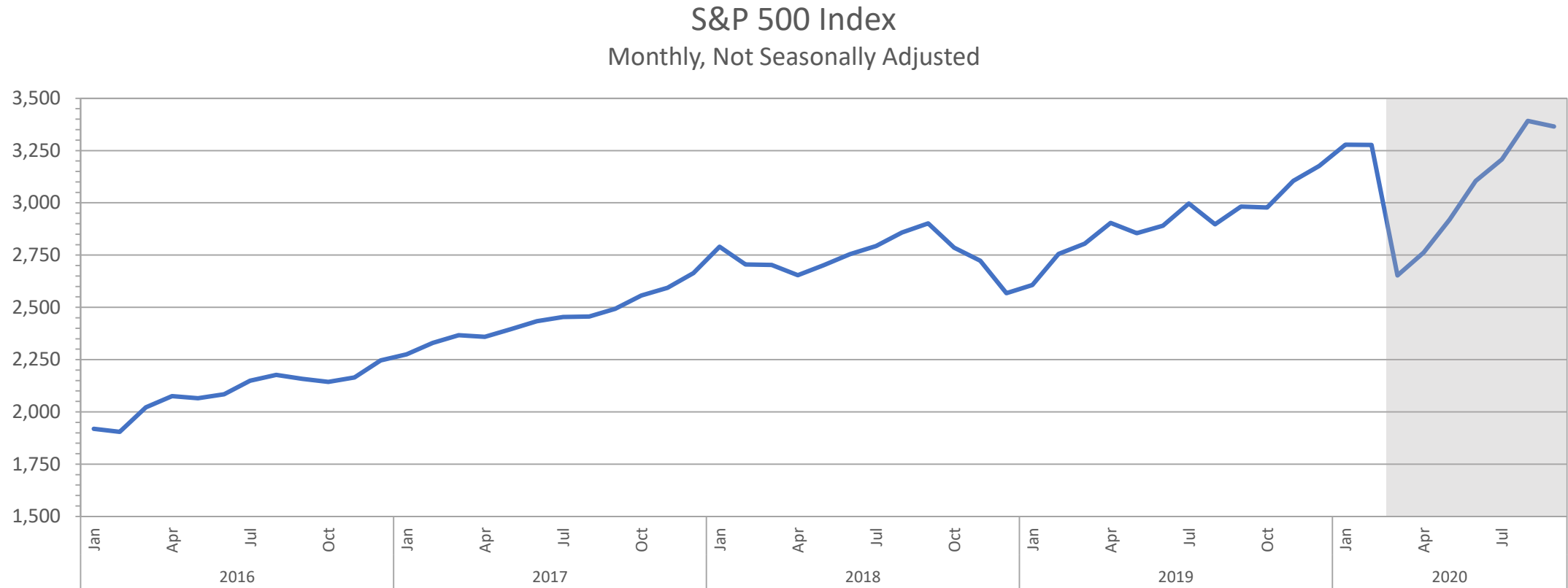
Highest liability in upper ranges

NON-WITHHOLDINGS BY INCOME LEVEL  
Tax Year 2018



# Financial Markets

## S&P recovers in the midst of the pandemic, but volatility remains



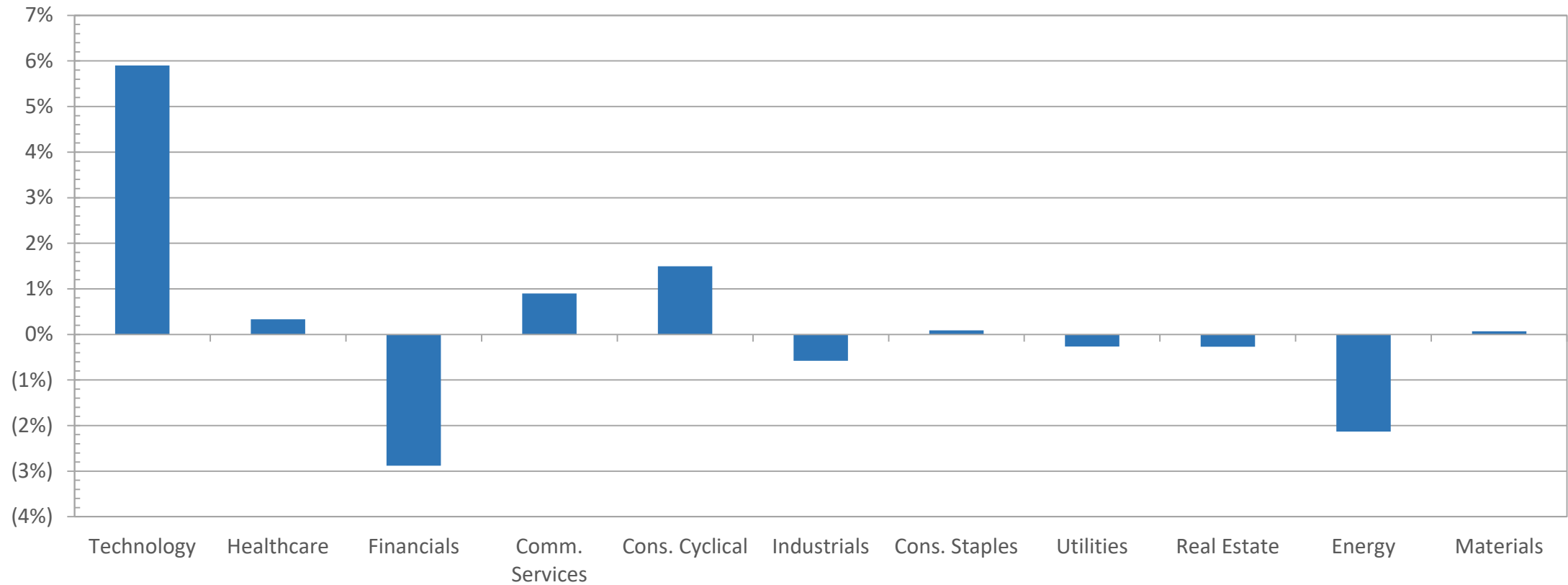
Source: Federal Reserve Bank of St. Louis, FRED 282--Oct 2020 RFA/bdc/10/06/2020



# S&P 500 Growth by Sector

Technology drove overall growth of 2.7% from Jan. to Sep.

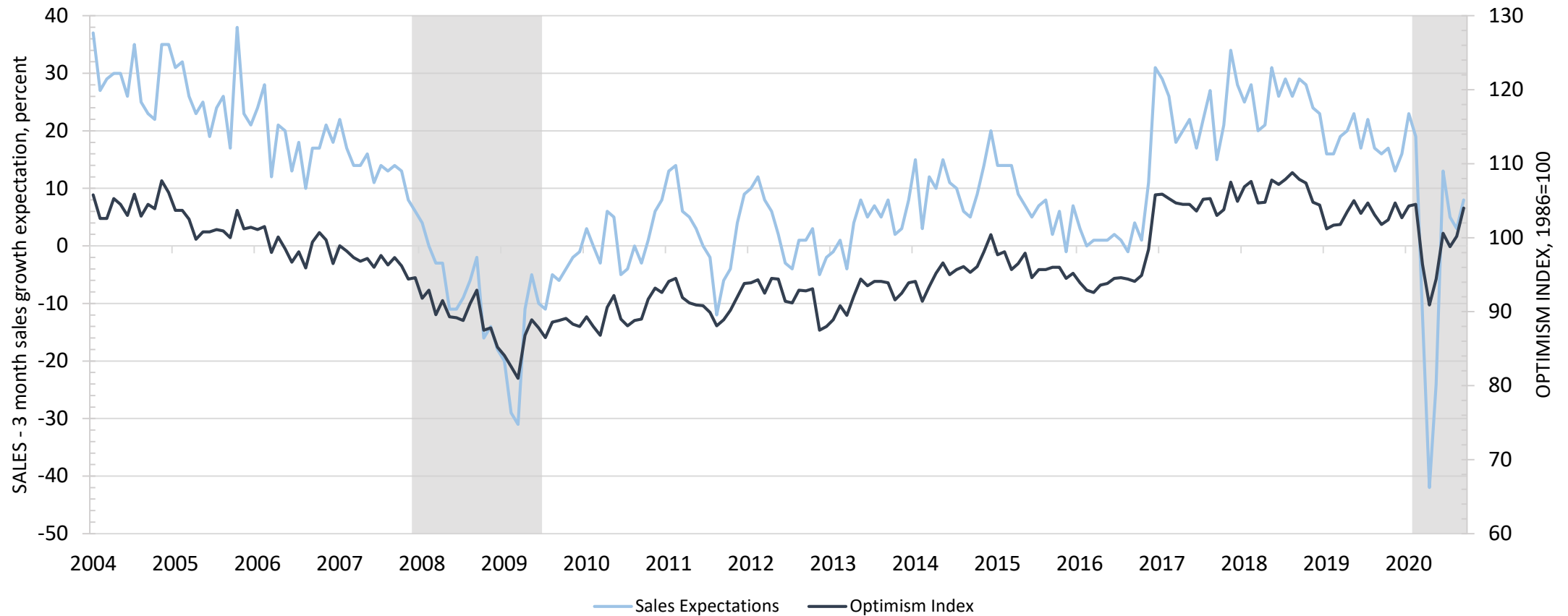
ESTIMATED GROWTH CONTRIBUTION TO S&P 500 BY SECTOR  
January to September 2020



# Small Business Sales Expectations and Optimism

## Improved in May and June, leveled out in Q3 2020

SMALL BUSINESS SALES EXPECTATIONS AND OPTIMISM INDEX

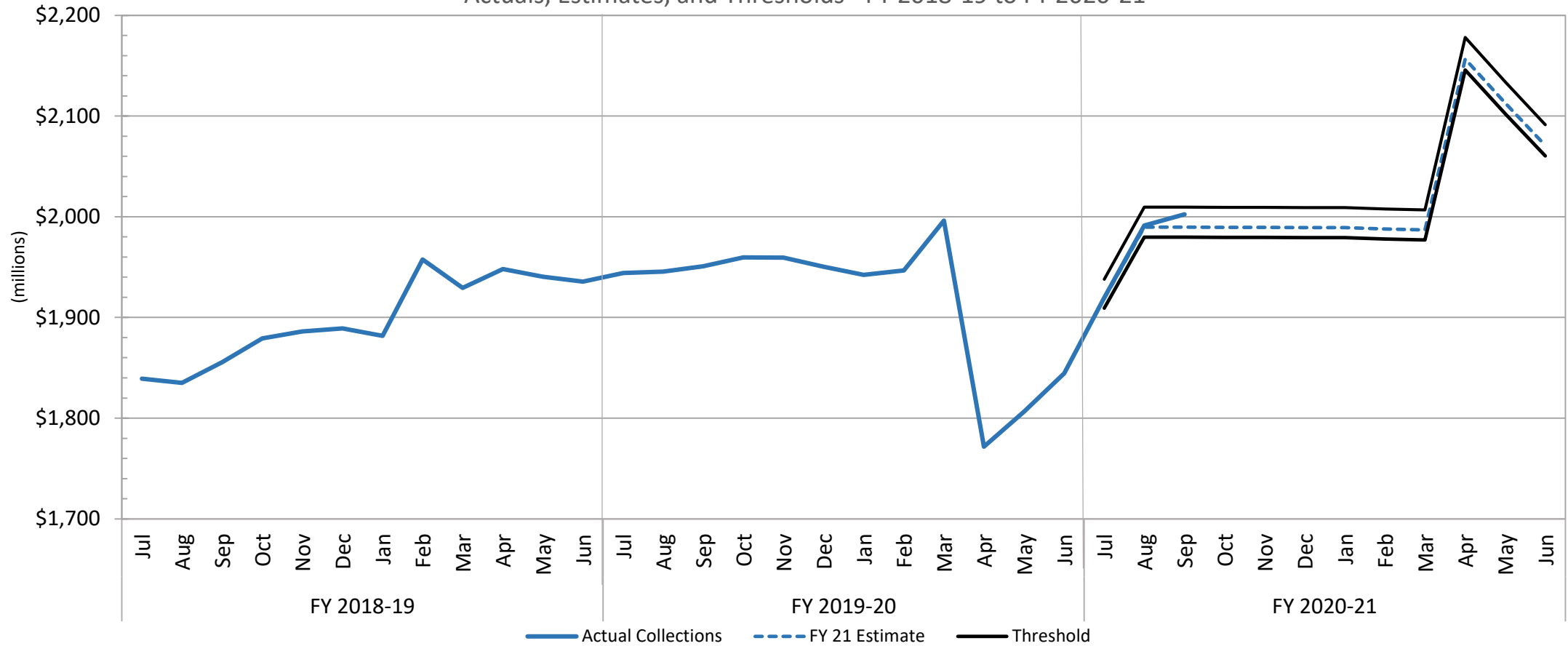


Source: National Federation of Independent Business, Small Business Economic Trends, 283-3 RFA/nmg/10/07/2020



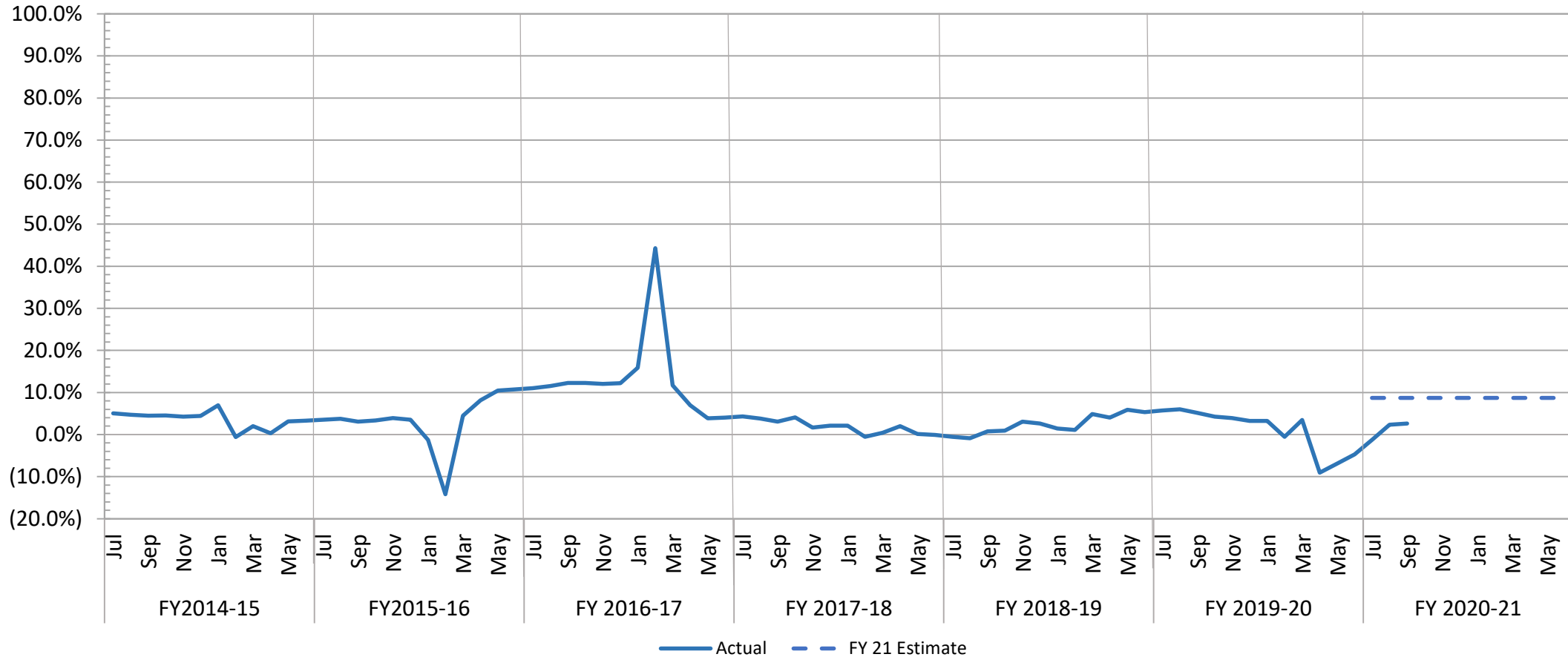
# Refunds - Actual vs. Estimate

ROLLING FISCAL YEAR - INDIVIDUAL INCOME REFUNDS  
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21



# Refunds - Percent Change

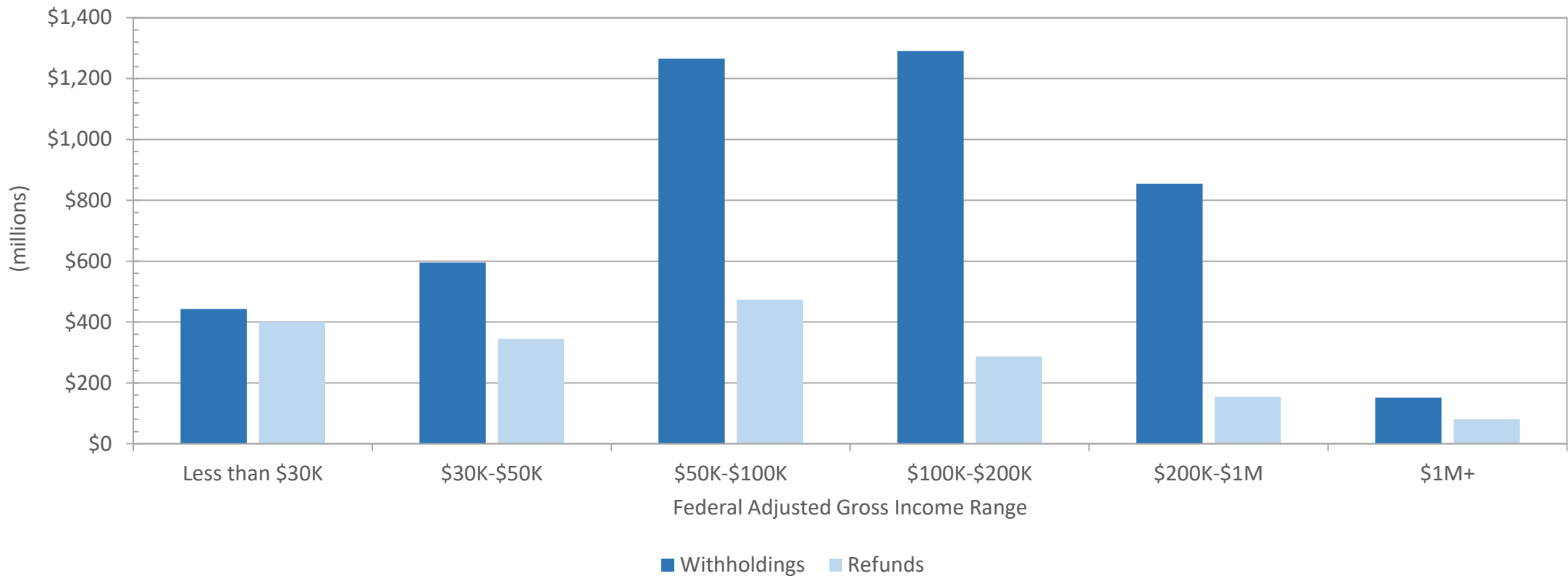
ROLLING FISCAL YEAR PERCENT CHANGE - INDIVIDUAL INCOME REFUNDS  
 Actuals and Estimates - FY 2014-15 to FY 2020-21



# Refunds By Income Range

Low tax liability, high refunds in the lowest income ranges

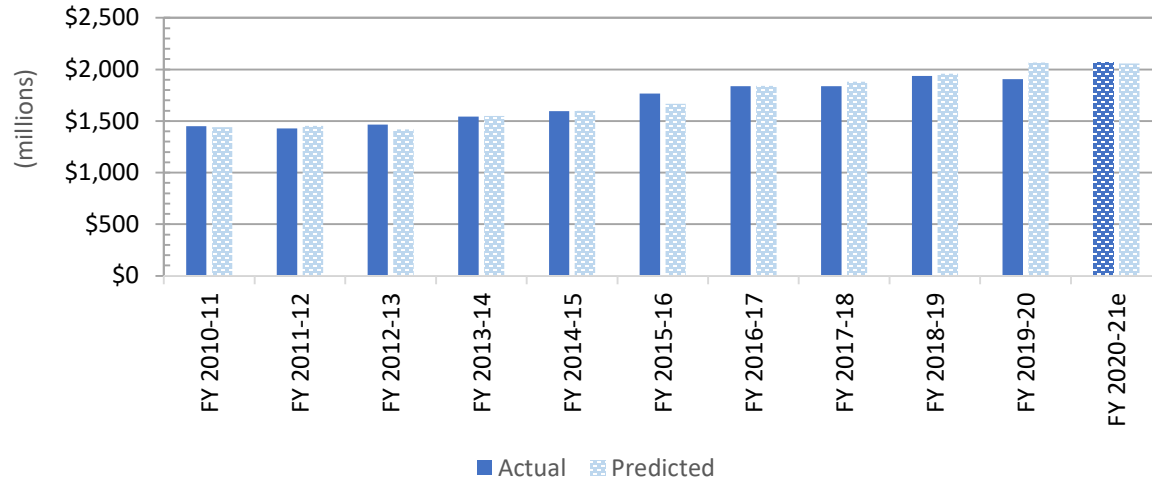
WITHHOLDINGS VERSUS REFUNDS BY INCOME LEVEL  
Tax Year 2018



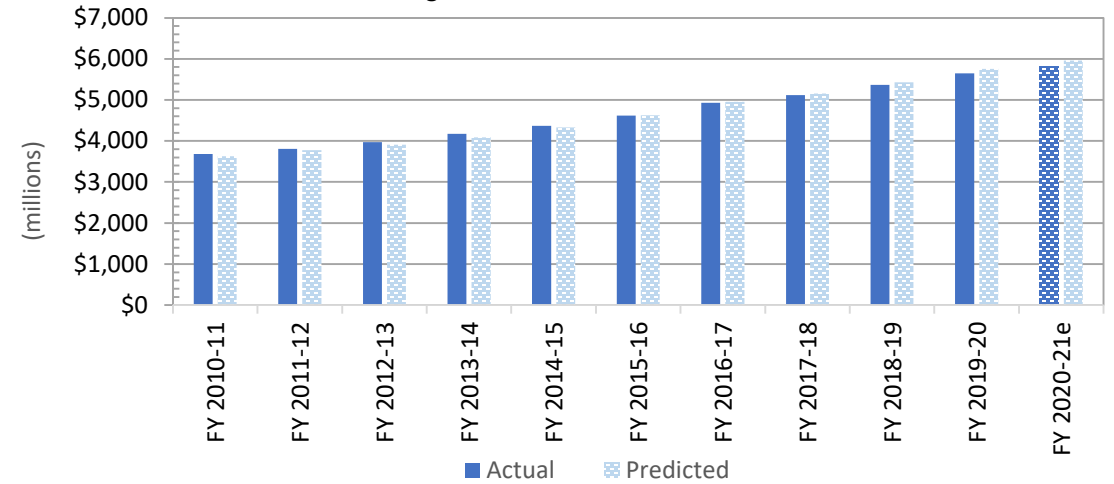
# Working Towards New Models

## Individual Income Tax Components

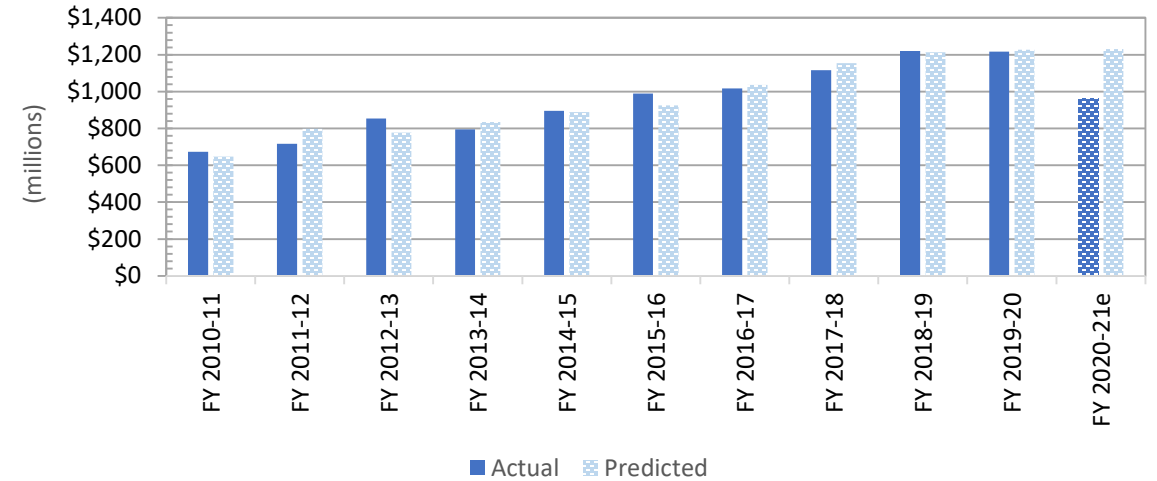
PREDICTED VS ACTUAL REFUNDS  
Average Absolute Forecast Error: 2.126%



PREDICTED VS ACTUAL WITHHOLDINGS  
Average Absolute Forecast Error: 0.882%



PREDICTED VS ACTUAL NON-WITHHOLDINGS  
Average Absolute Forecast Error: 5.59%

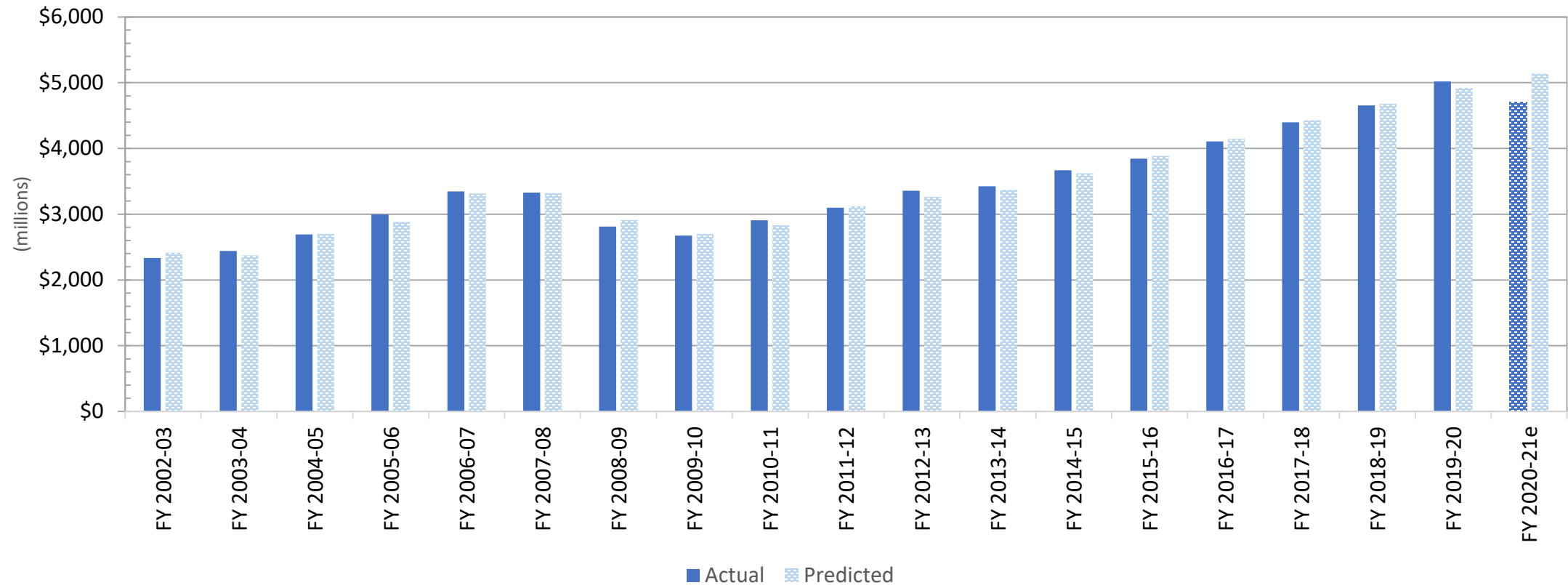


# Working Towards New Models

## Aggregated Individual Income Tax Component Models

### PREDICTED VS ACTUAL INDIVIDUAL INCOME TAX REVENUE

Average Absolute Forecast Error: 1.692%



# General Fund Revenue Consumption Taxes

# Consumption Taxes

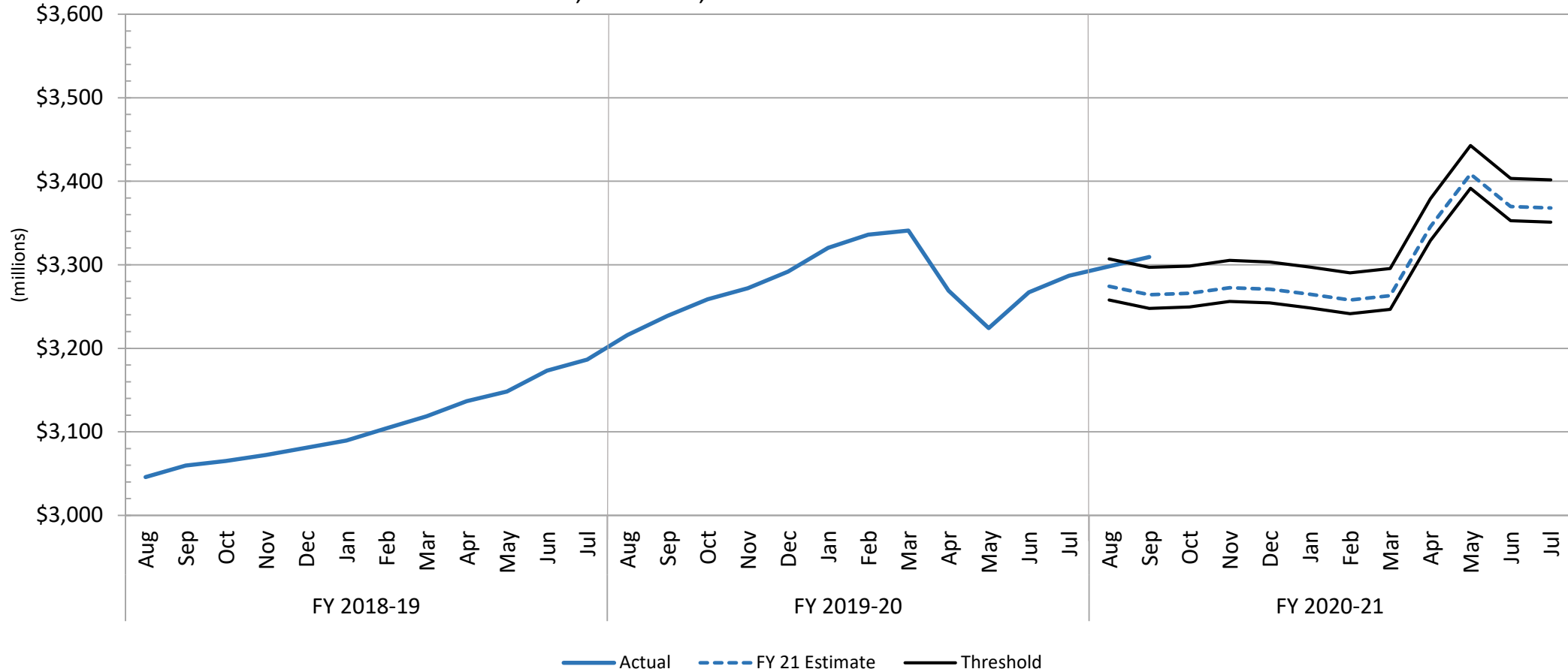
## Key Issues FY 2020-21

- It is likely that consumers will lead recession recovery as they feel comfortable returning to regular spending habits
- There are short-run limitations on businesses as they restructure operations within confines of social distancing measures

# Sales Tax - Actual vs. Estimate

## Collections likely leveling off at August, September levels

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





# Sales Tax – Percent Change

## Sales Growth Rate Is Slowing

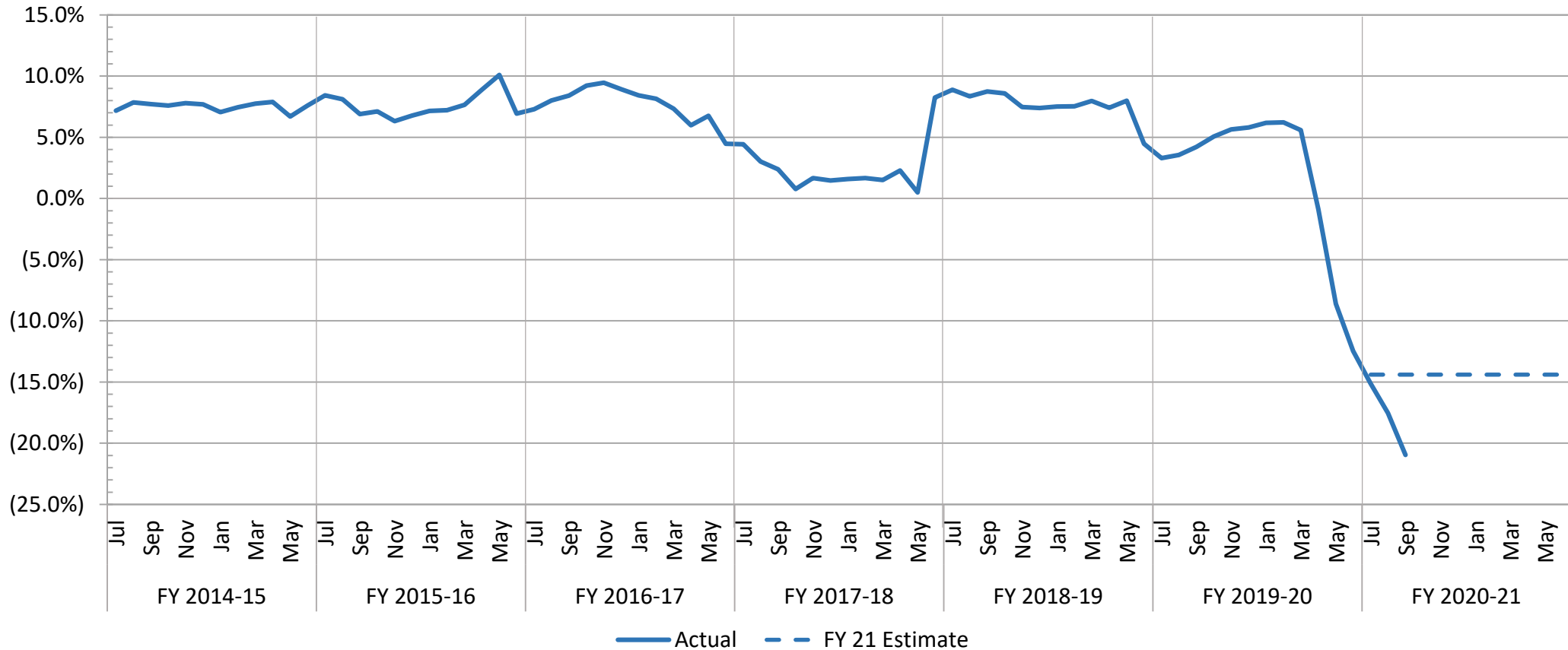
ROLLING FISCAL YEAR PERCENT CHANGE - SALES TAX  
Actuals and Estimates - FY 2014-15 to FY 2020-21



# Accommodations Tax- Percent Change

## Well below historical levels and impacting General Fund Sales Tax

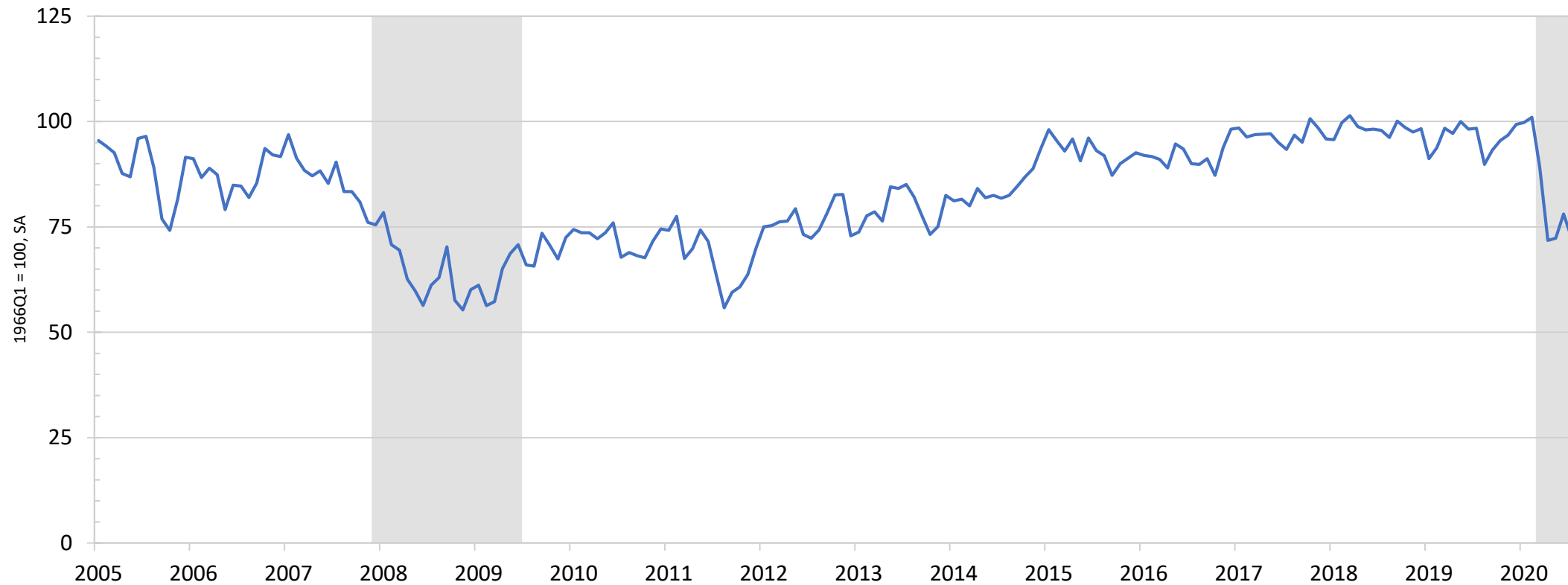
ROLLING FISCAL YEAR PERCENT CHANGE - ACCOMMODATIONS TAX  
Actuals and Estimates - FY 2014-15 to FY 2020-21



# Consumer Confidence

## Remains Well Below Pre-pandemic Levels

CONSUMER CONFIDENCE, 2005-2020

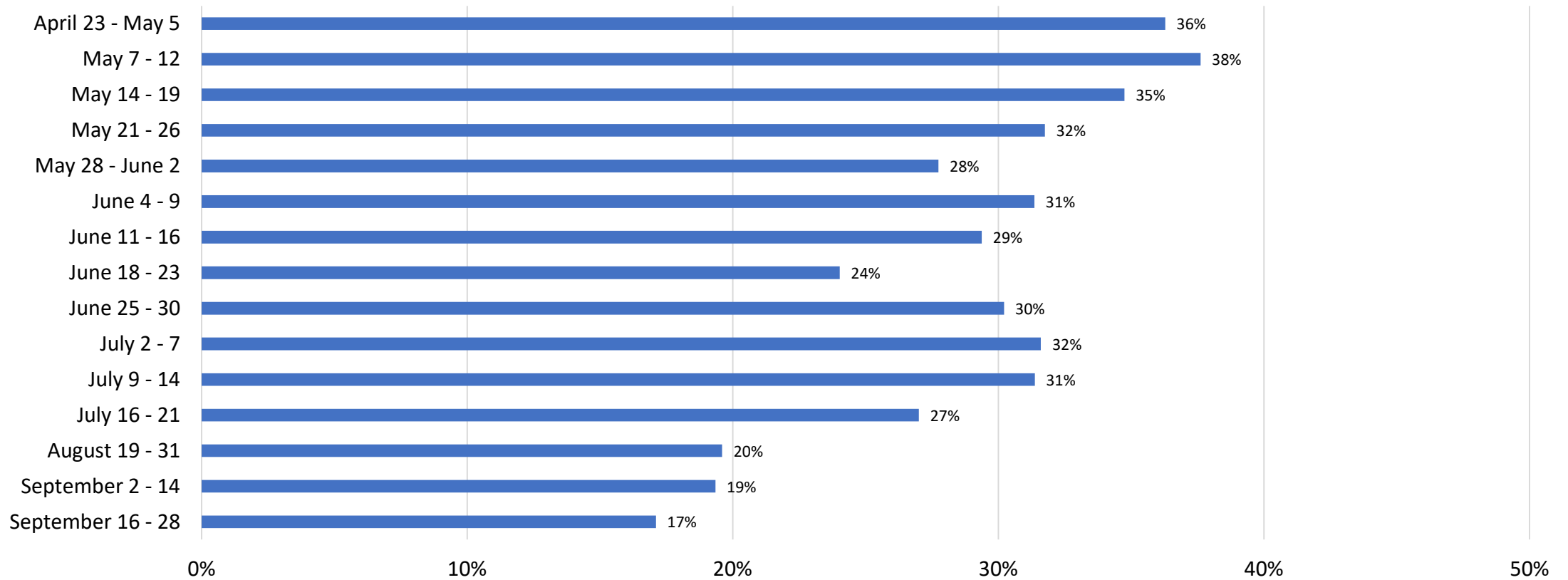


Source: University of Michigan, Survey of Consumers, 283-2 RFA/nmg/10/07/2020

# Employment Expectations

Share of households expecting loss of employment income in the next four weeks has declined since May, but remains high

S.C. HOUSEHOLDS EXPECTING LOSS OF EMPLOYMENT INCOME IN NEXT FOUR WEEKS

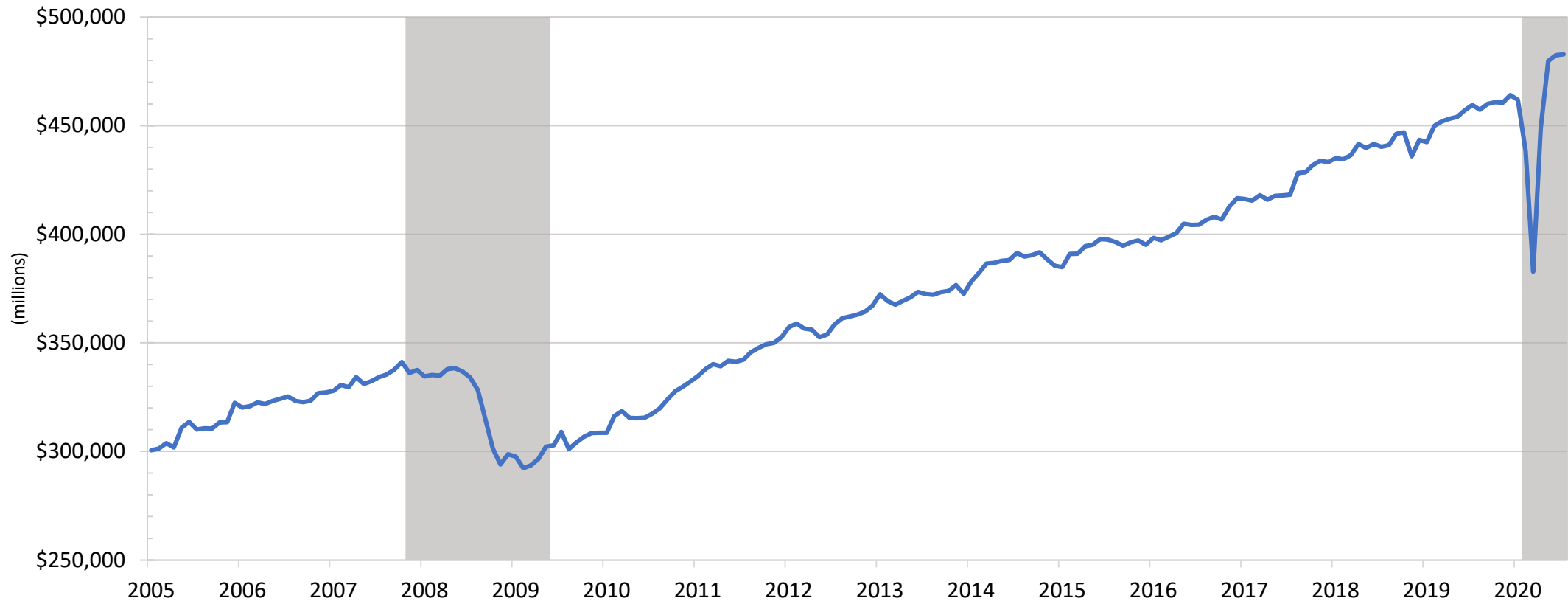


Source: U.S. Census Bureau, Household Pulse Survey, 283-4 RFA/nmg/10/07/2020

# U.S. Retail Sales

Third straight month of year-over-year growth in August, monthly growth over last four months is slowing

RETAIL SALES, SEASONALLY ADJUSTED 2005-2020



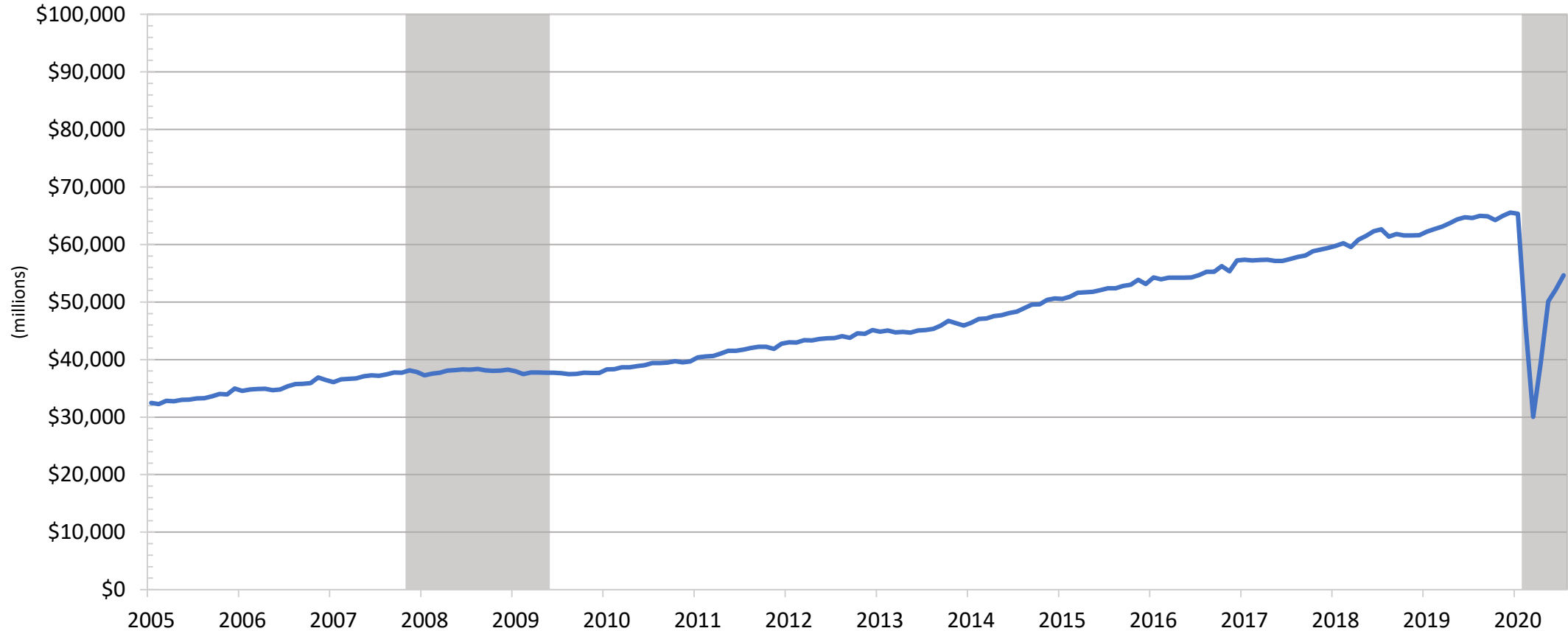
Source: U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services, 283-6 RFA/nmg/10/07/2020



# U.S. Food Services and Drinking Places Sales

Sixth straight month of year-over-year negative growth in August; monthly growth over the last four months is slowing

FOOD SERVICES AND DRINKING PLACES SALES, 2005-2020



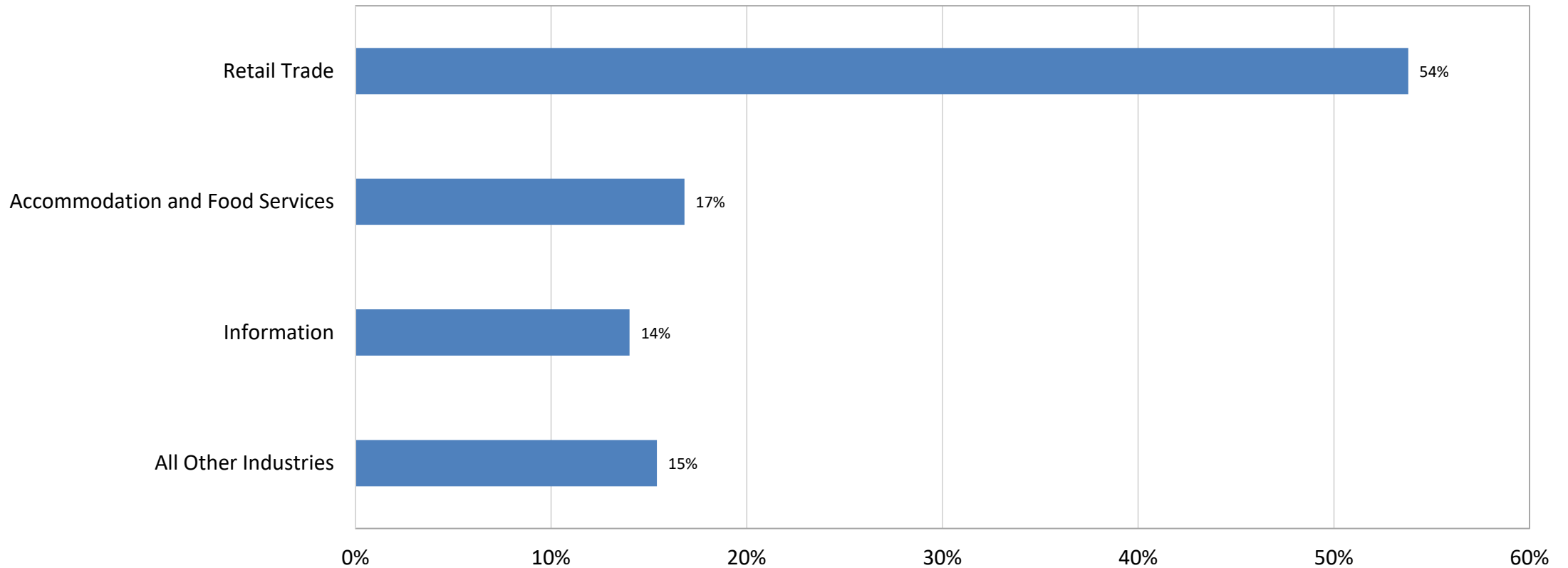
Source: U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services, 283-5 RFA/nmg/10/07/2020



# Net Taxable Sales By Industry

Effect of social distancing on Retail Trade as well as Accommodations and Food Services likely to impact collections

SHARE OF TOTAL SC NET TAXABLE SALES

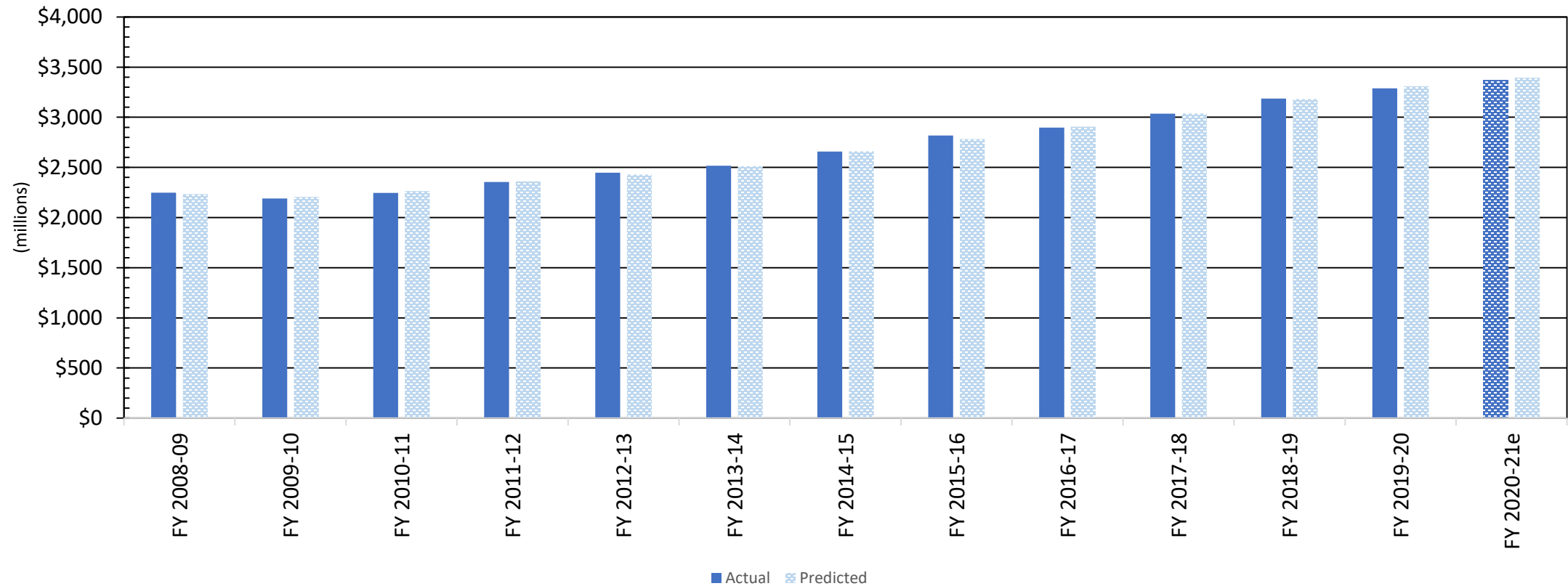


Source: S.C. Department of Revenue, 284-1 RFA/nmg/10/07/2020

# Working Towards A New Sales Tax Model

## PREDICTED VS ACTUAL GENERAL FUND SALES TAX REVENUE

Average Absolute Forecast Error: 0.513%



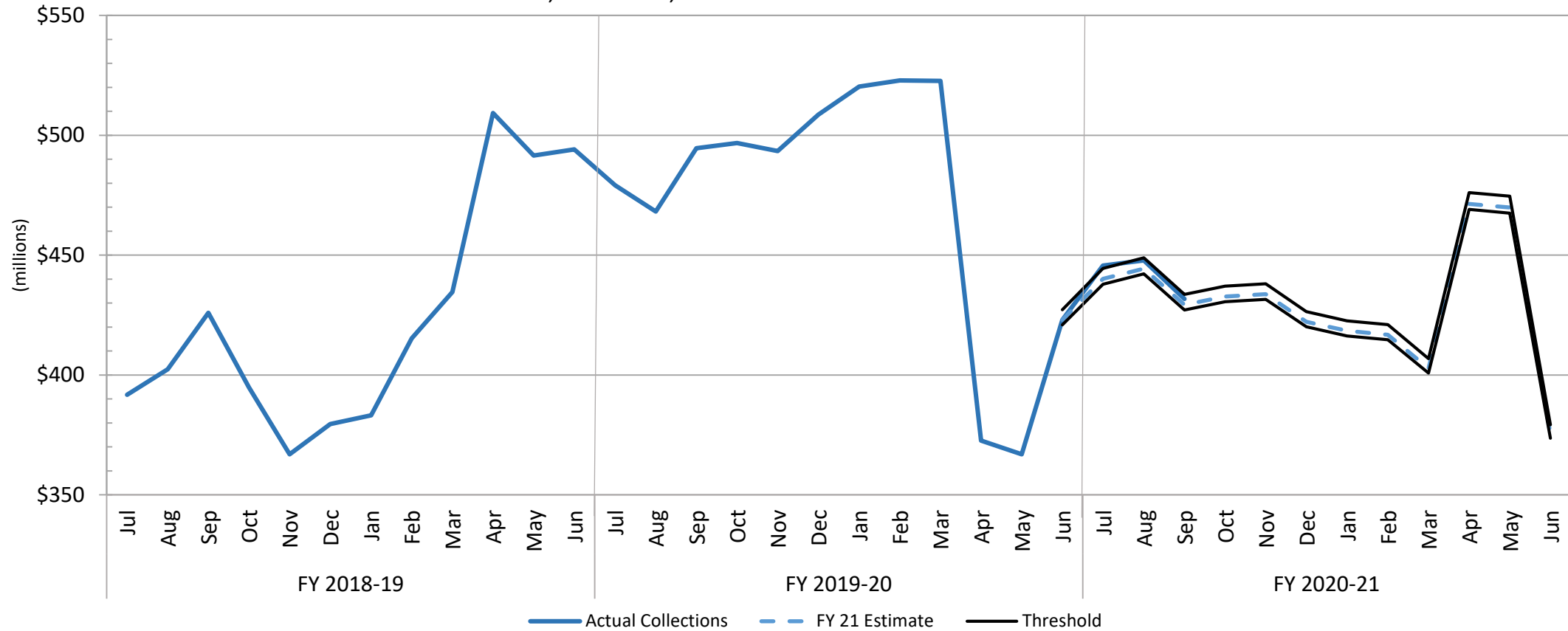


# General Fund Revenue Business Taxes

# Corporate Income Tax – Actual vs. Estimate

First quarter includes delayed filings past deadline and not accrued back to FY 20

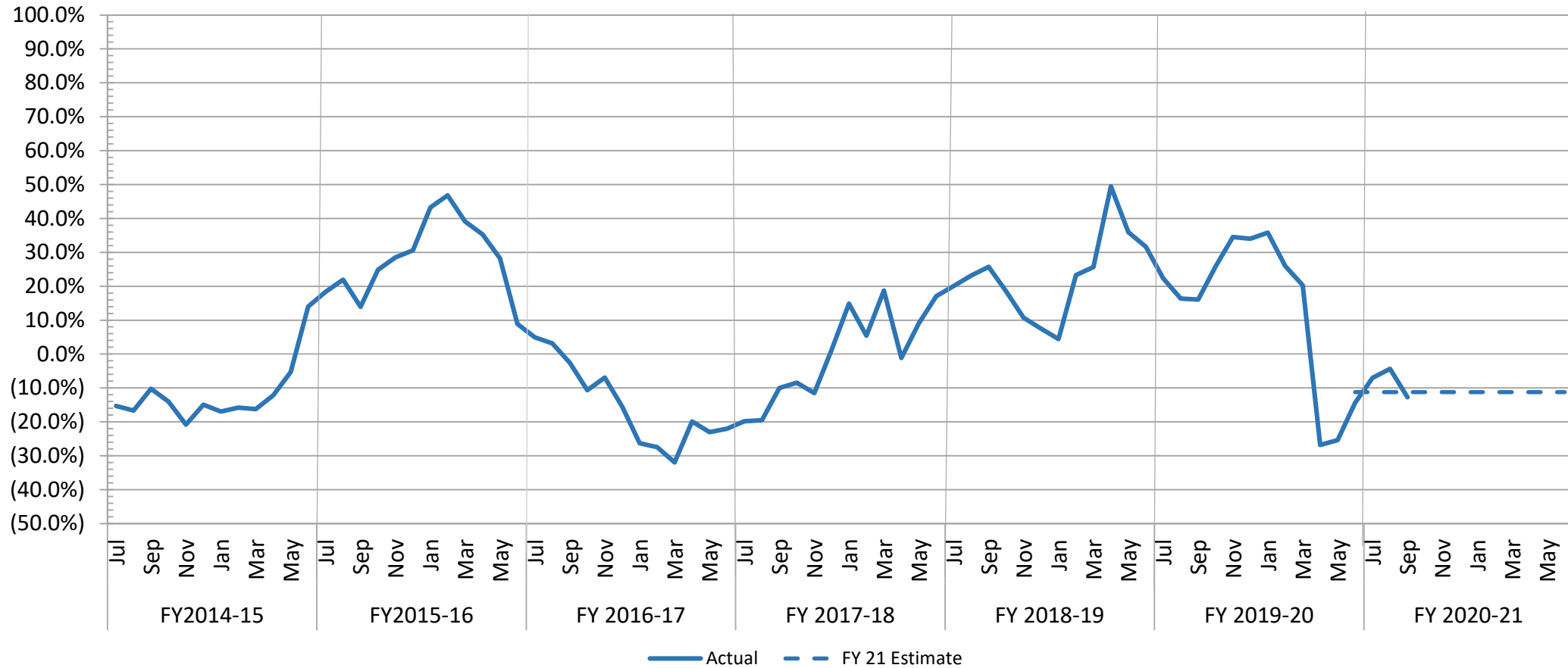
ROLLING FISCAL YEAR - CORPORATE INCOME TAX  
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2021-22



# Corporate Income Tax – Percent Change

## Growth is slowing through end of first quarter

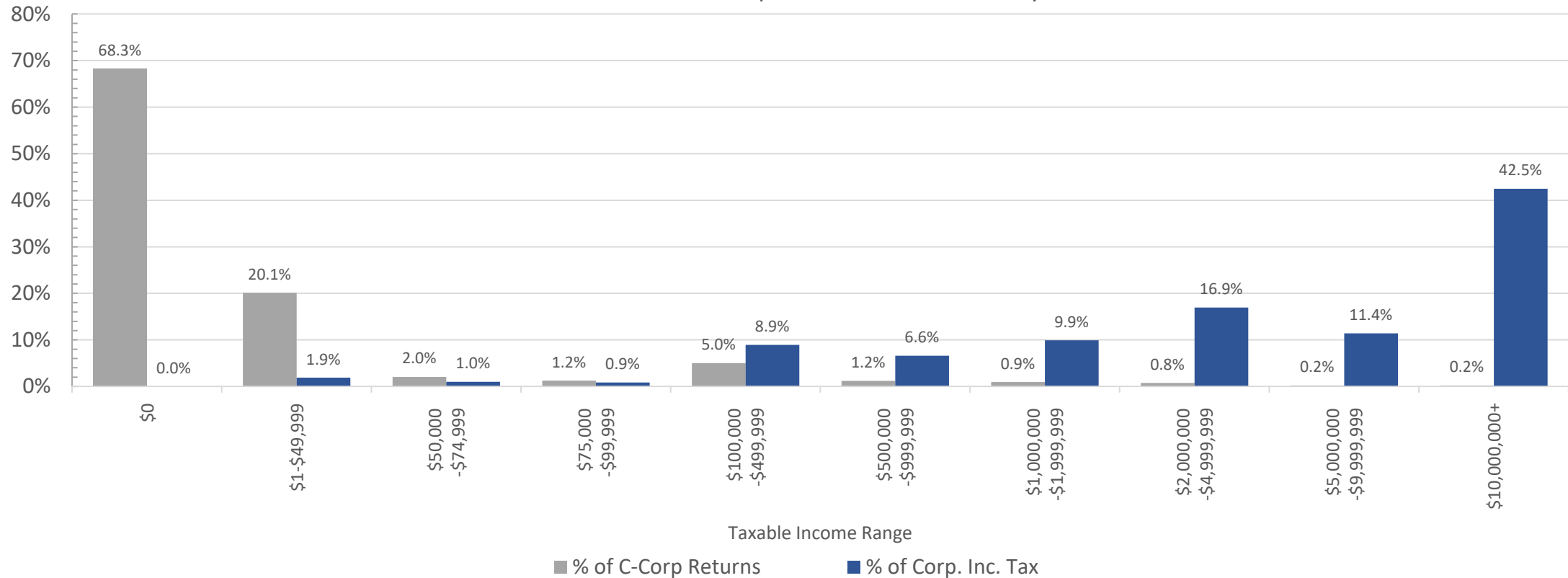
ROLLING FISCAL YEAR PERCENT CHANGE - CORPORATE INCOME TAX  
 Actuals and Estimates - FY 2014-15 to FY 2020-21



# Corporate Income Tax - Returns and Tax Liability

68.3% of Returns pay \$0; 0.2% of Returns pay 42.5% of tax

CORPORATE INCOME TAX  
Tax Year 2017 C-Corp Returns and Tax Liability

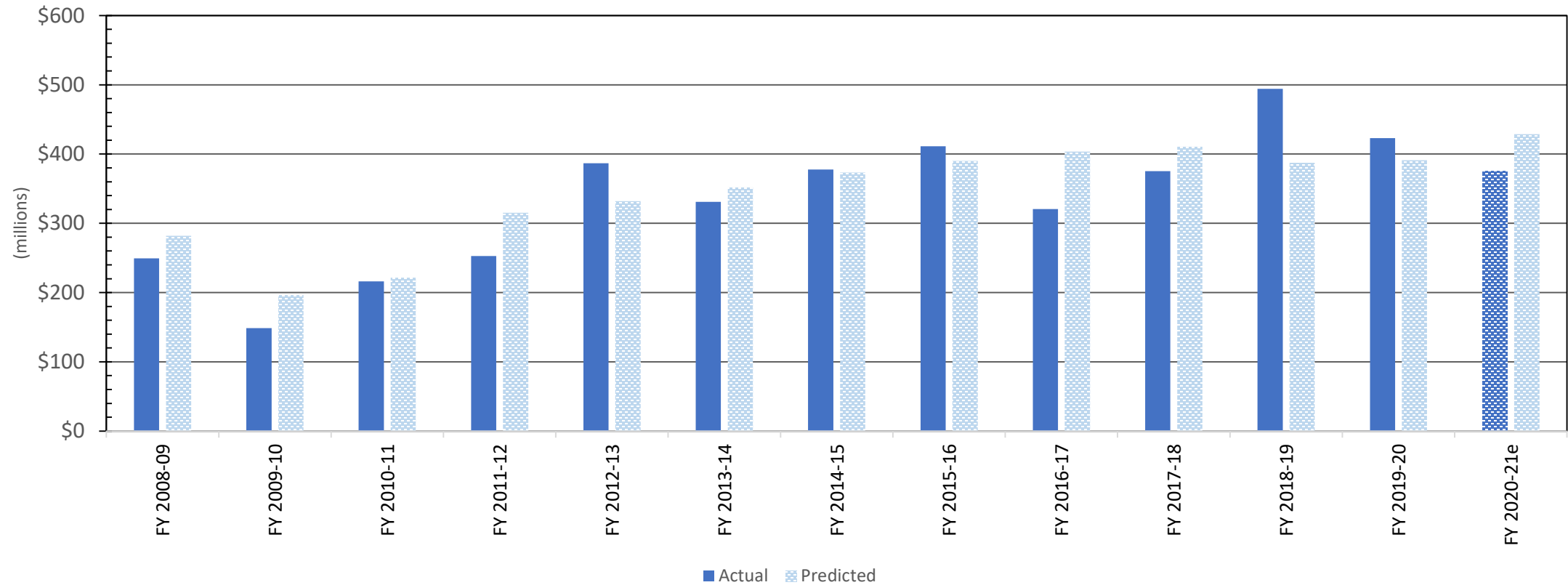


Source: S.C. Dept. of Revenue C-Corp Returns; Compiled by RFA; 9/1/2020

# Working Towards A New Corporate Income Tax Model

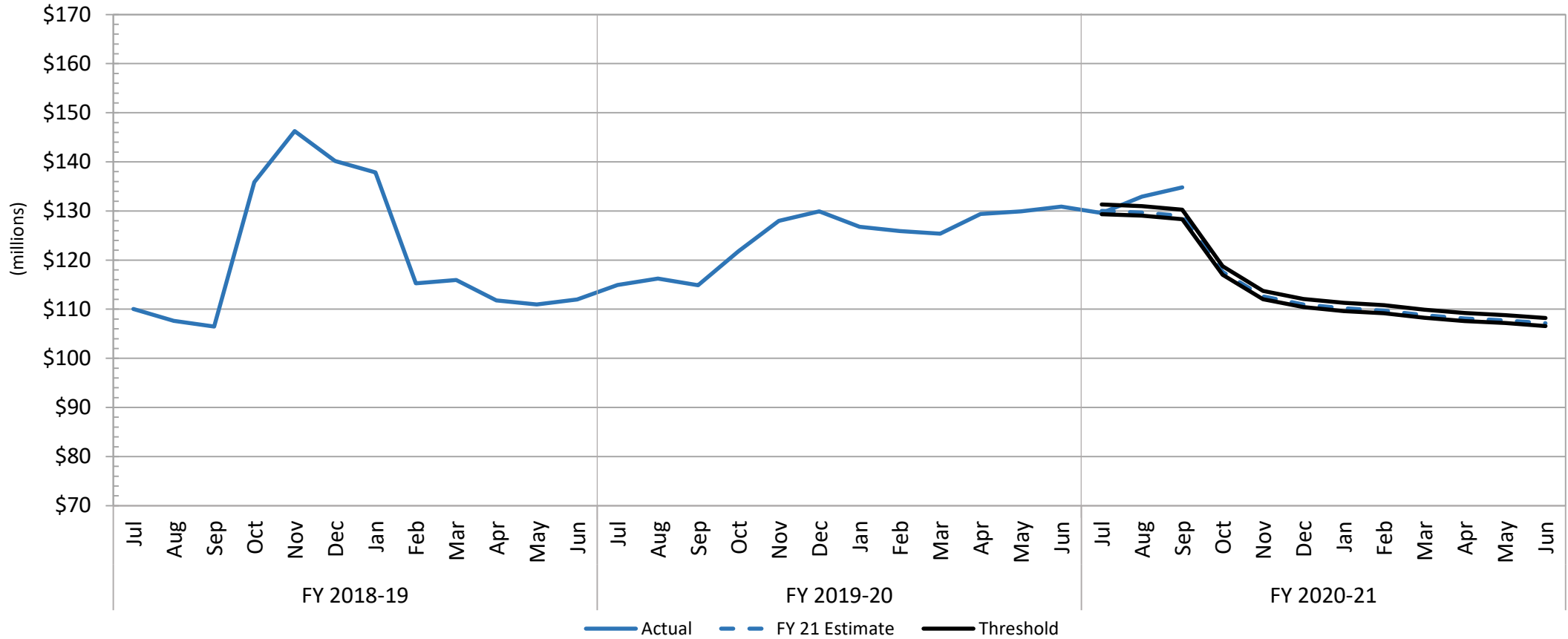
## PREDICTED VS ACTUAL CORPORATE INCOME TAX REVENUE

Average Absolute Forecast Error: 13.6%



# Corporate License Tax – Actual vs. Estimate

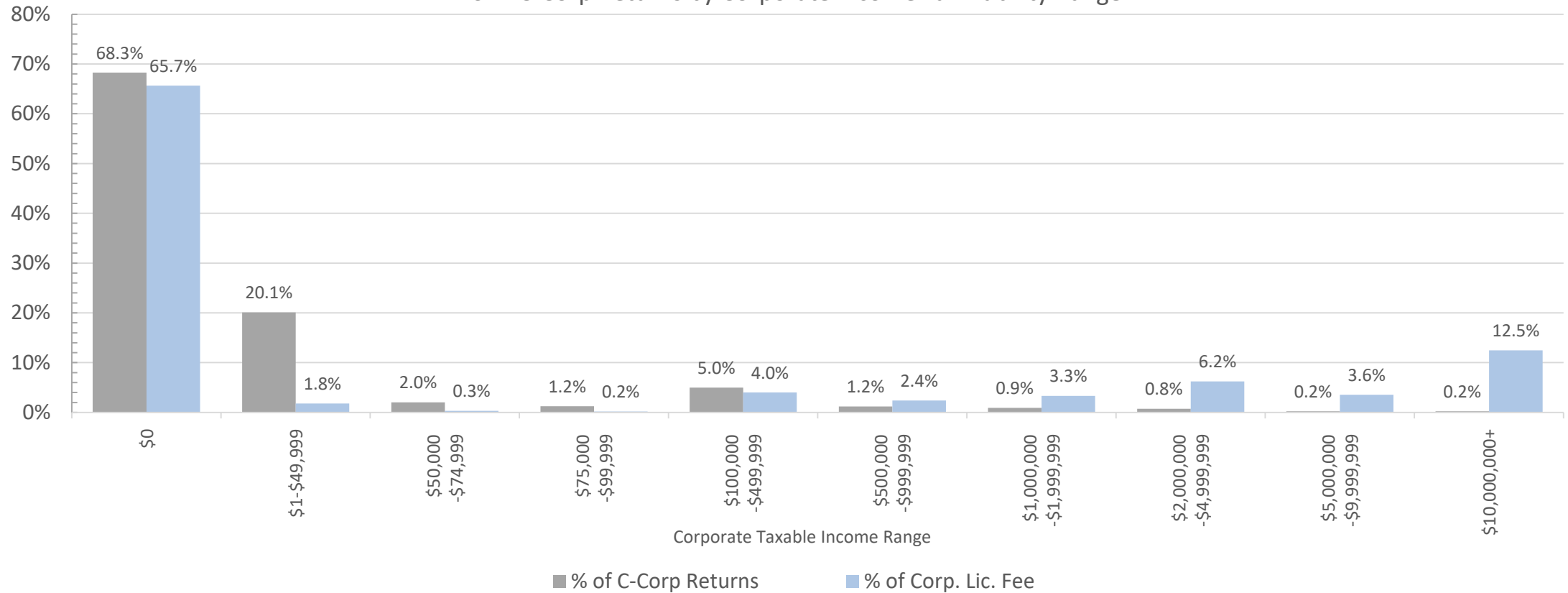
ROLLING FISCAL YEAR - CORPORATE LICENSE TAX  
Actuals and Estimates, FY 2014-15 to FY 2020-21



# Corporate License Fees by Corp. Income Tax Liability Range

## Bulk of license fees paid by corporations with \$0 income tax liability

CORPORATE LICENSE FEES  
2017 C-Corp Returns by Corporate Income Tax Liability Range

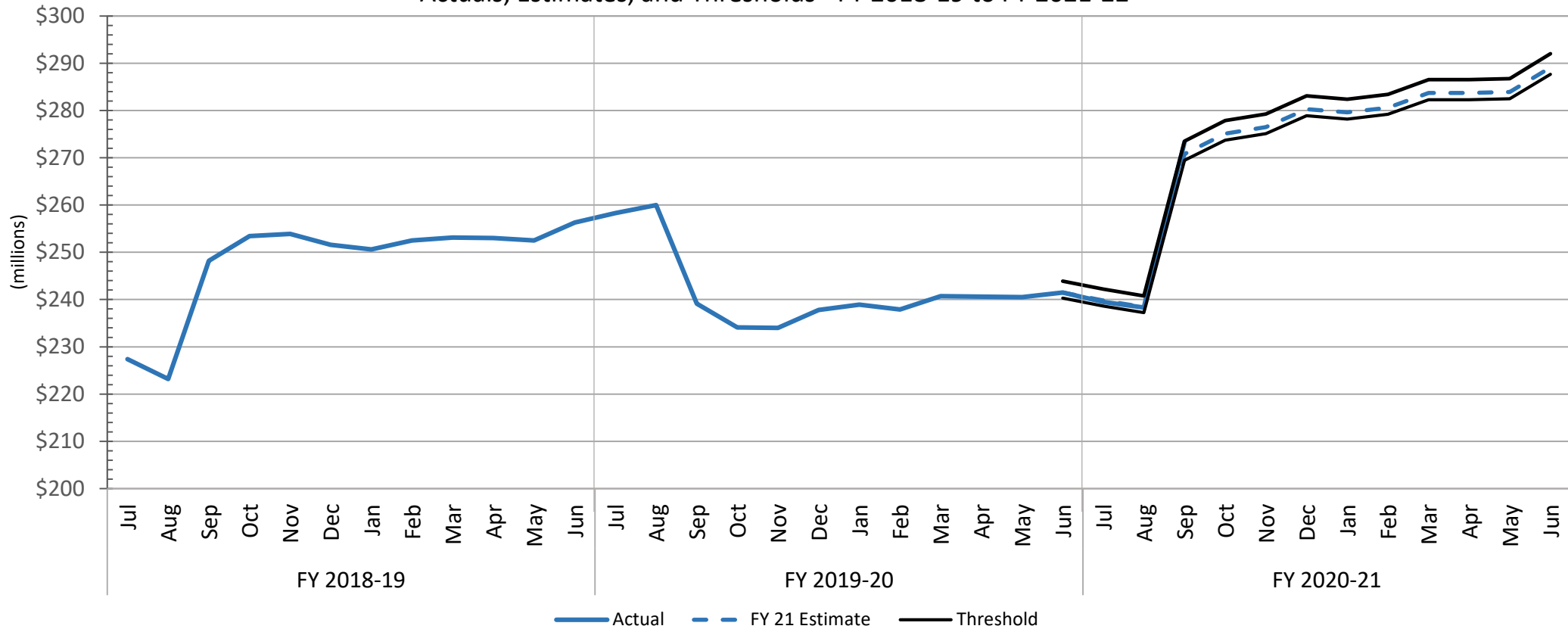


Source: S.C. Dept. of Revenue C-Corp Returns; Compiled by RFA; 9/1/2020

# Insurance Tax – Actual vs. Estimate

Insurance tax is \$2.5 m above the quarterly estimate due to licensing fees; premium taxes are \$1.4 m behind forecast

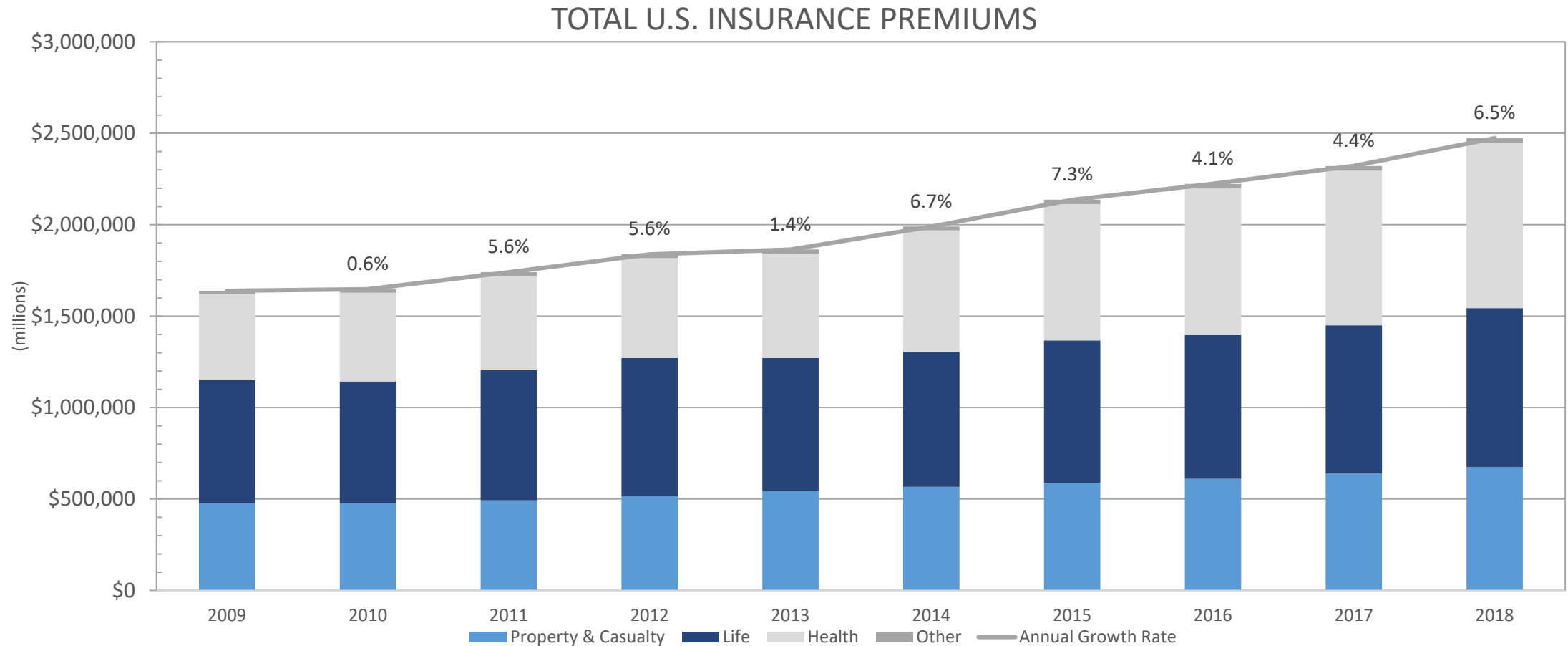
ROLLING FISCAL YEAR - INSURANCE TAX  
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2021-22





# US Insurance Industry

Premiums have grown an average of 5.8% over last 5 years



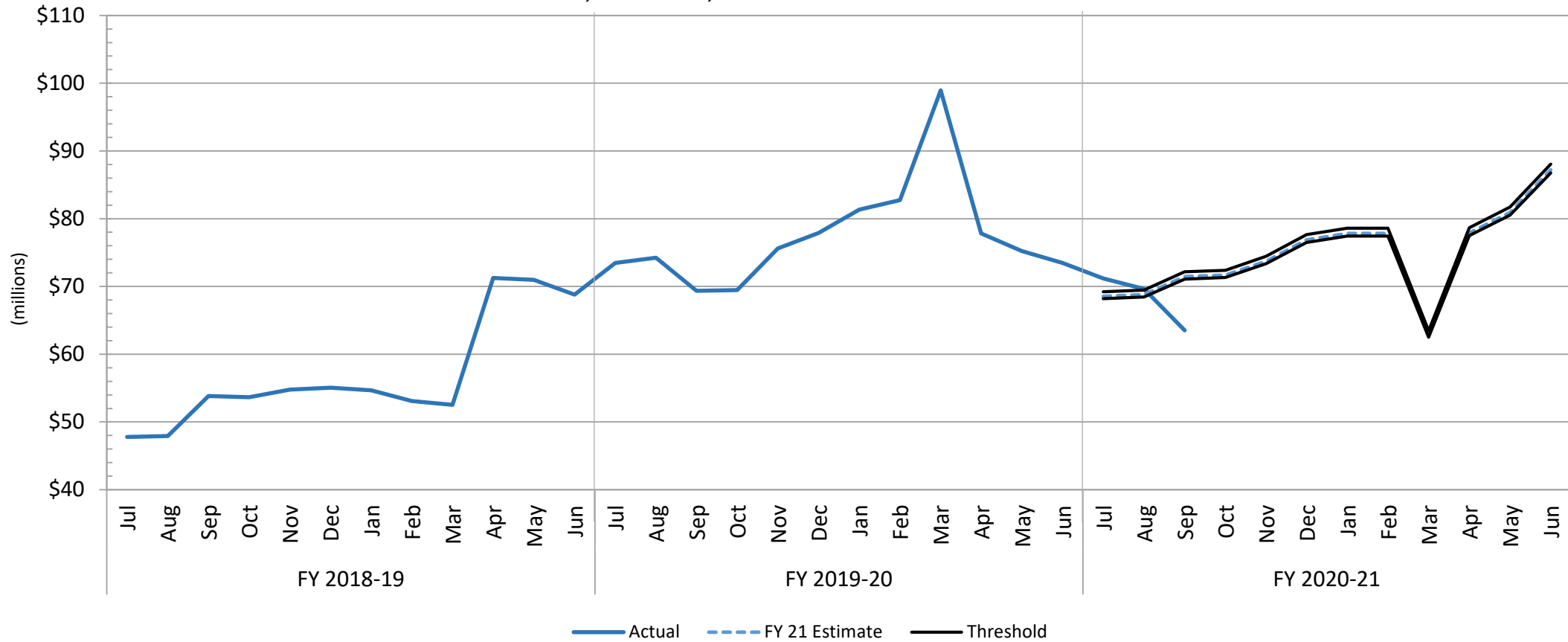
Source: National Association of Insurance Commissioners 280-RFA/lhj/10/04/2020



# Bank Tax – Actual vs. Estimate

## Quarterly collections below forecast by \$7.9 m

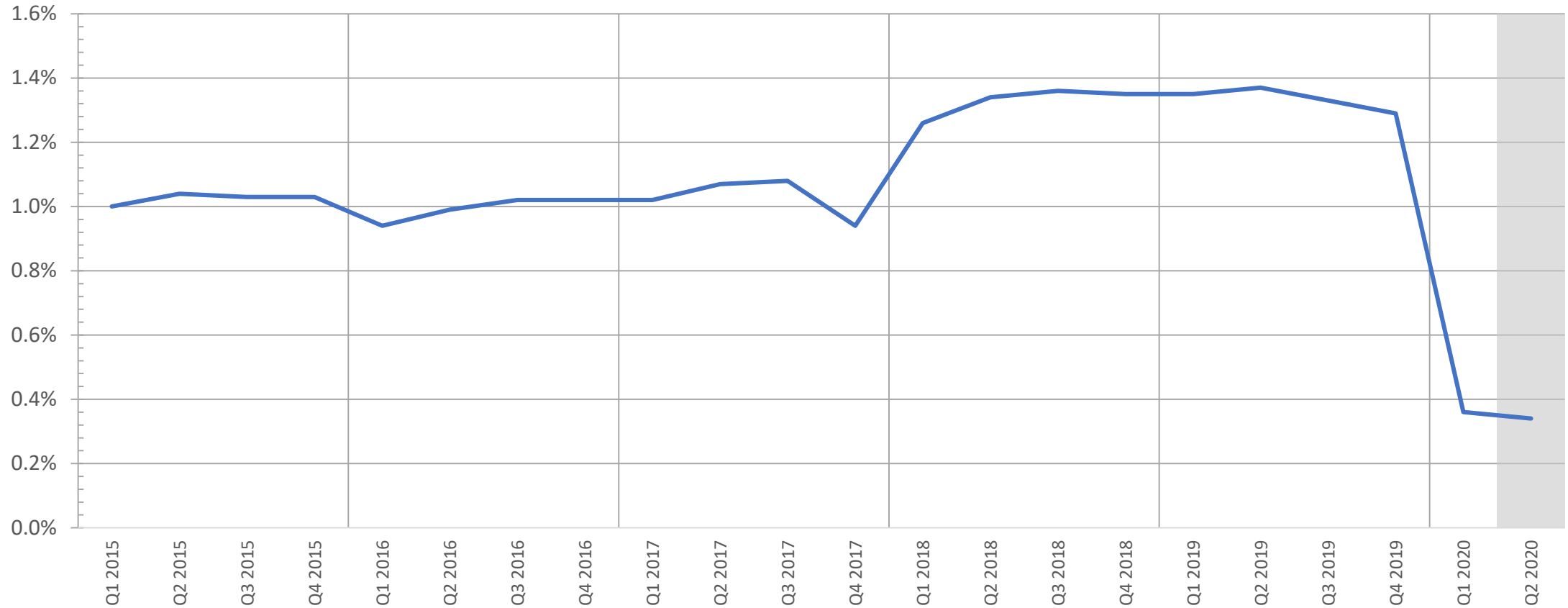
ROLLING FISCAL YEAR - BANK TAX  
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2021-22



# Bank – Key Economic Indicators

## Return on assets is down in the first half of 2020

RETURN ON AVERAGE ASSETS FOR ALL US BANKS



Source: Federal Reserve Bank of St. Louis 279/RFA/lhj/10/01/2020

# Forecast Outlook for FY 2020-21 an FY 2021-22

## Issues and Concerns for FY 2020-21 and FY 2021-22

- The sudden and sharp impact of the economic shutdown and resulting federal stimulus distorted quarterly trends and historical relationships.
- Much of the forecast depends on the assumptions regarding the degree and duration of both COVID-19 and additional federal stimulus.

# COVID-19 INFECTION PROJECTIONS – SC

## IHME Estimates of total infections including those not tested

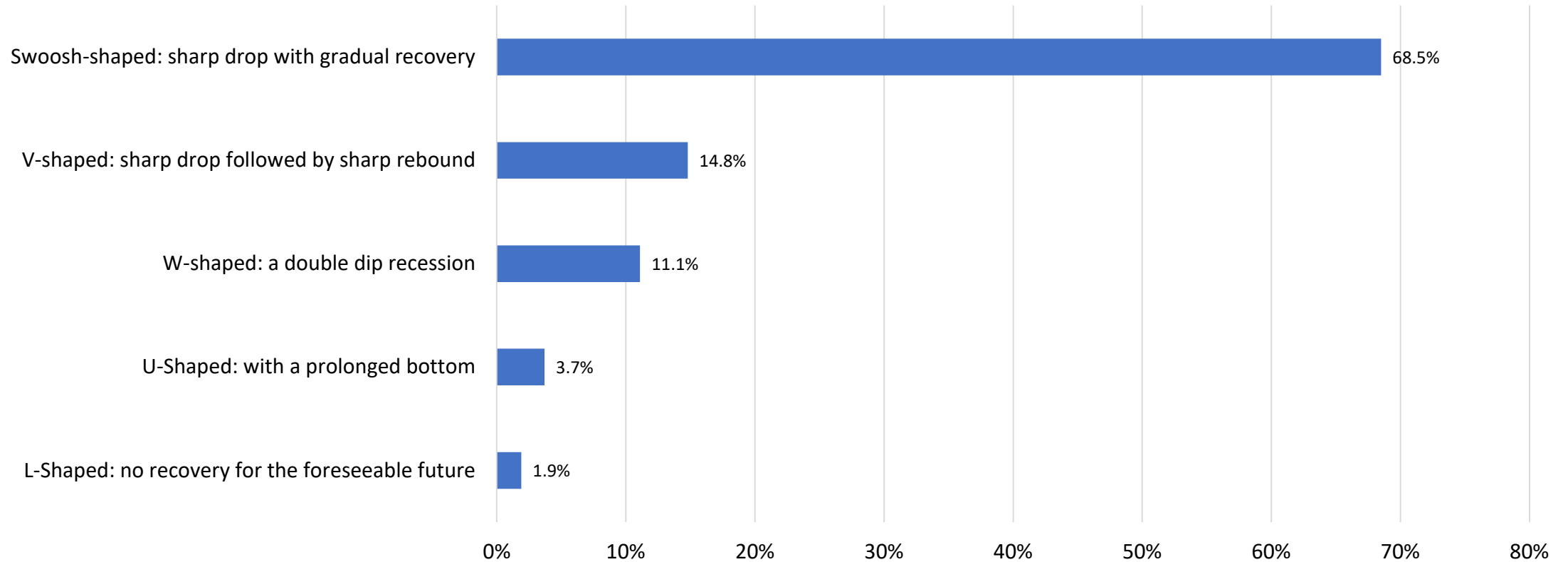
Estimated infections are the number of people we estimate are infected with COVID-19 each day, including those not tested.



Source: <http://www.healthdata.org/> Institute for Health Metrics and Evaluation at University of Washington, as of October 14, 2020

# What will an economic recovery look like?

## WALL STREET JOURNAL ECONOMIC FORECASTING SURVEY RESPONSES September 2020



Source: Wall Street Journal, Economic Forecasting Survey, 283-1 RFA/nmg/10/07/2020



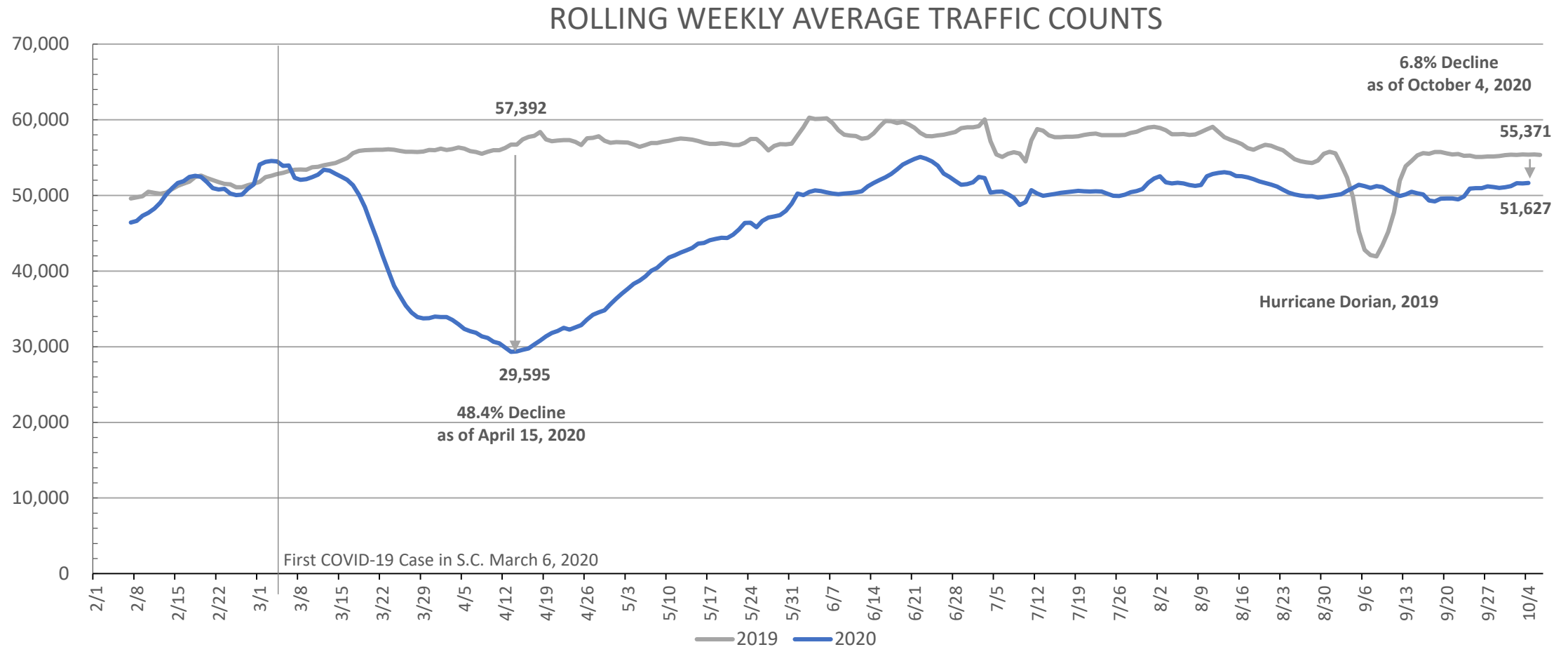
## Key Economic Factors for FY 2020-21 - Positives

- Employment has recovered and appears to have stabilized but at lower levels
- Personal income benefitted from significant federal stimulus
- Very accommodating monetary policy by the Federal Reserve supporting economy
- Much of the impact is focused on one segment of the economy, the hospitality sector



# SC Weekly Traffic Counts

Traffic levels have almost recovered and stabilized about 8% below 2019



Data Source: SC Dept. of Transportation, 10/05/2020

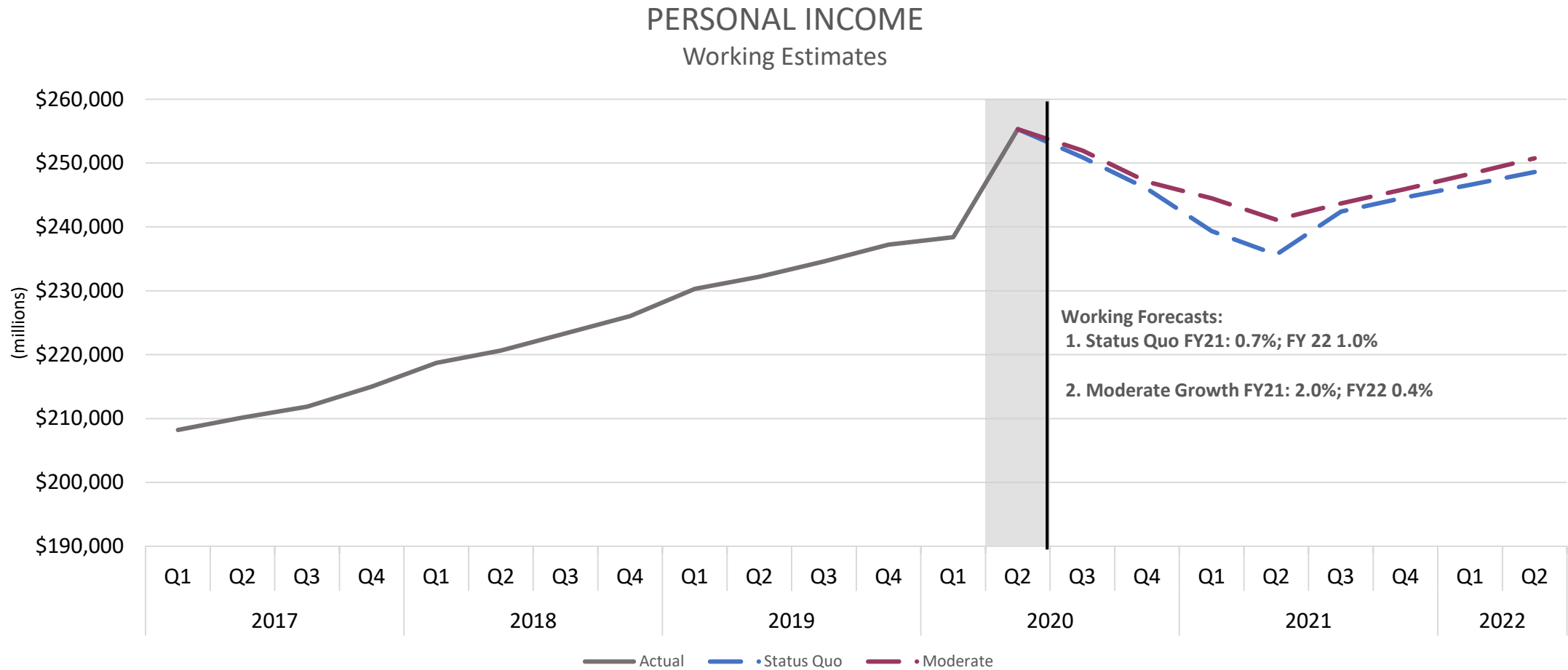
## Key Economic Factors for FY 2020-21 - Risks

- The uncertainty of COVID-19
- Additional federal stimulus – likely at reduced levels
- Ability of key employment sectors to return to pre-COVID levels

# Key Assumptions for FY 2020-21 and FY 2021-22 – Working Estimates

- Scenario 1 – Status Quo
  - COVID infections remain steady, no additional restrictions but continued social distancing and reduced consumer activity
  - No substantial federal stimulus programs and little wage growth in FY 21
  - Wage growth delayed to FY 22
  - Employment returns to pre-pandemic levels in Q1 FY 22
- Scenario 2 – Moderate Growth
  - Some consumer behavior adjustments beginning in April 2021
  - No substantial federal stimulus programs
  - Moderate wage growth beginning in last quarter of FY 21
  - Employment returns to pre-pandemic levels by end of FY 21

# Personal Income – Actual and Working Estimates

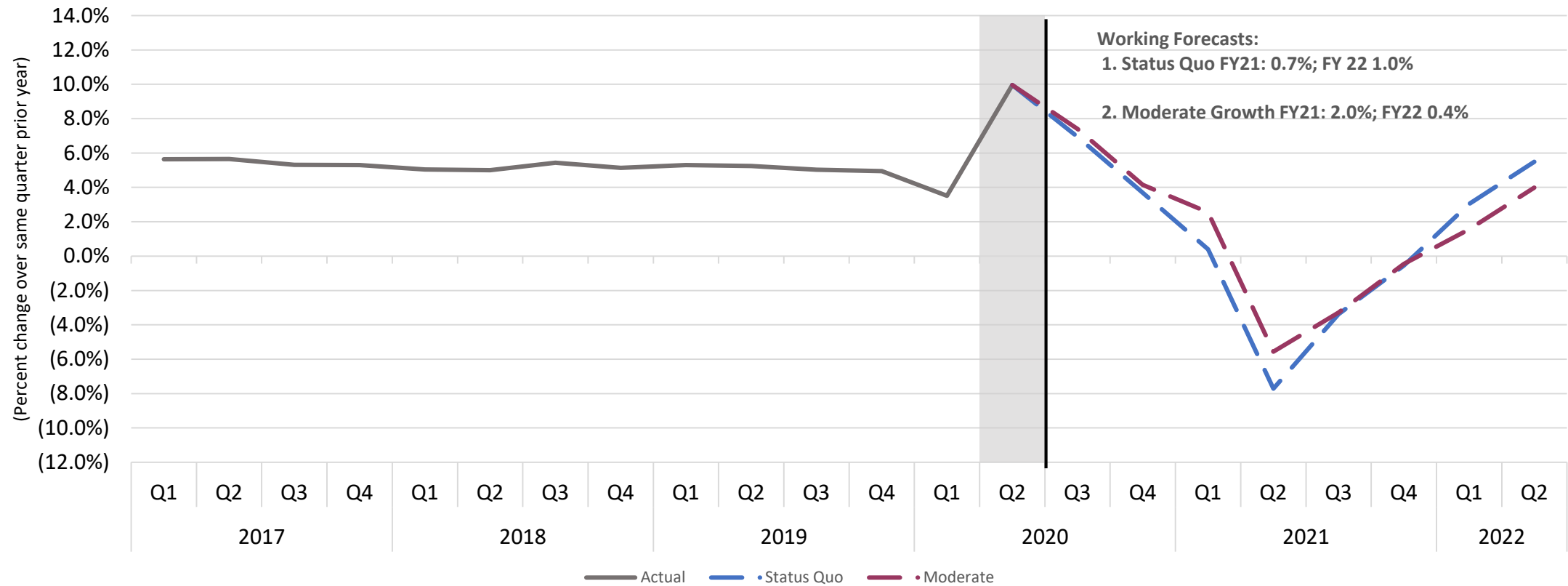


Source: Bureau of Economic Analysis, State Personal Income and Employment, 173-6 RFA/nmg/10/12/2020

# Personal Income – Actual and Working Estimates

## Percent Change

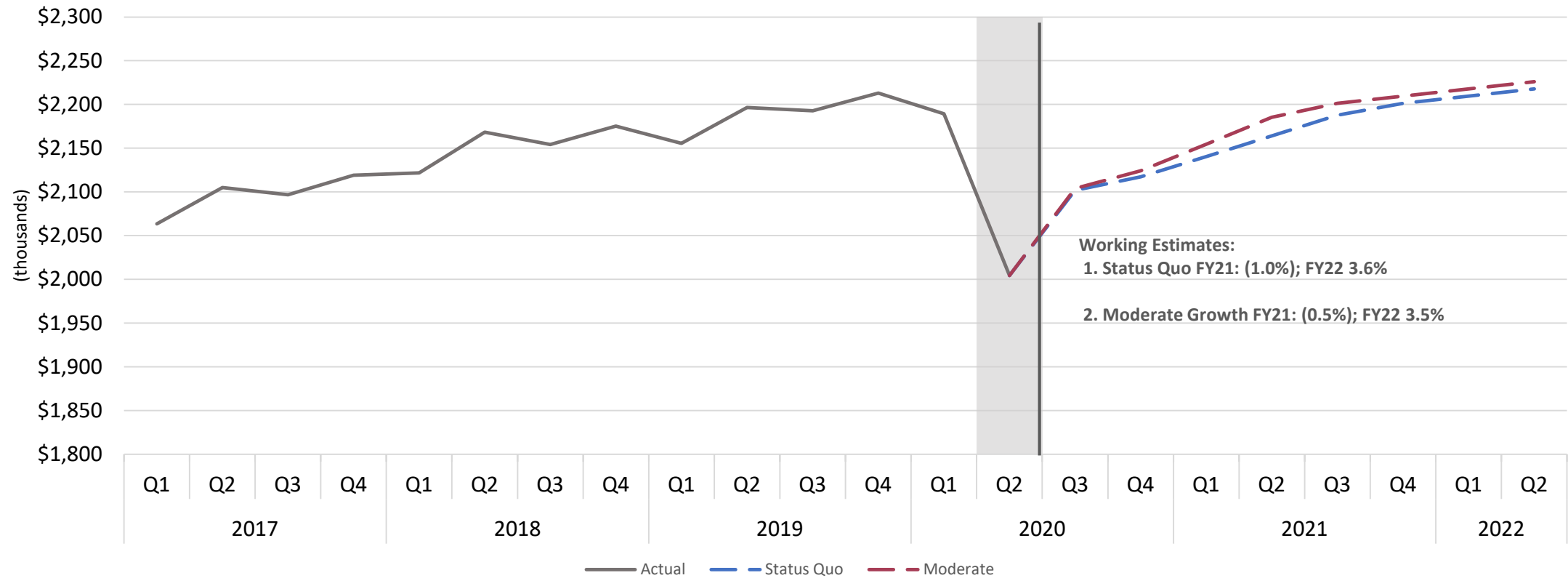
PERSONAL INCOME - PERCENT CHANGE  
Working Estimates



Source: Bureau of Economic Analysis, State Personal Income and Employment, 173-5 RFA/nmg/10/12/2020

# South Carolina Employment – Actual and Working Estimates

SOUTH CAROLINA EMPLOYMENT  
Working Estimates

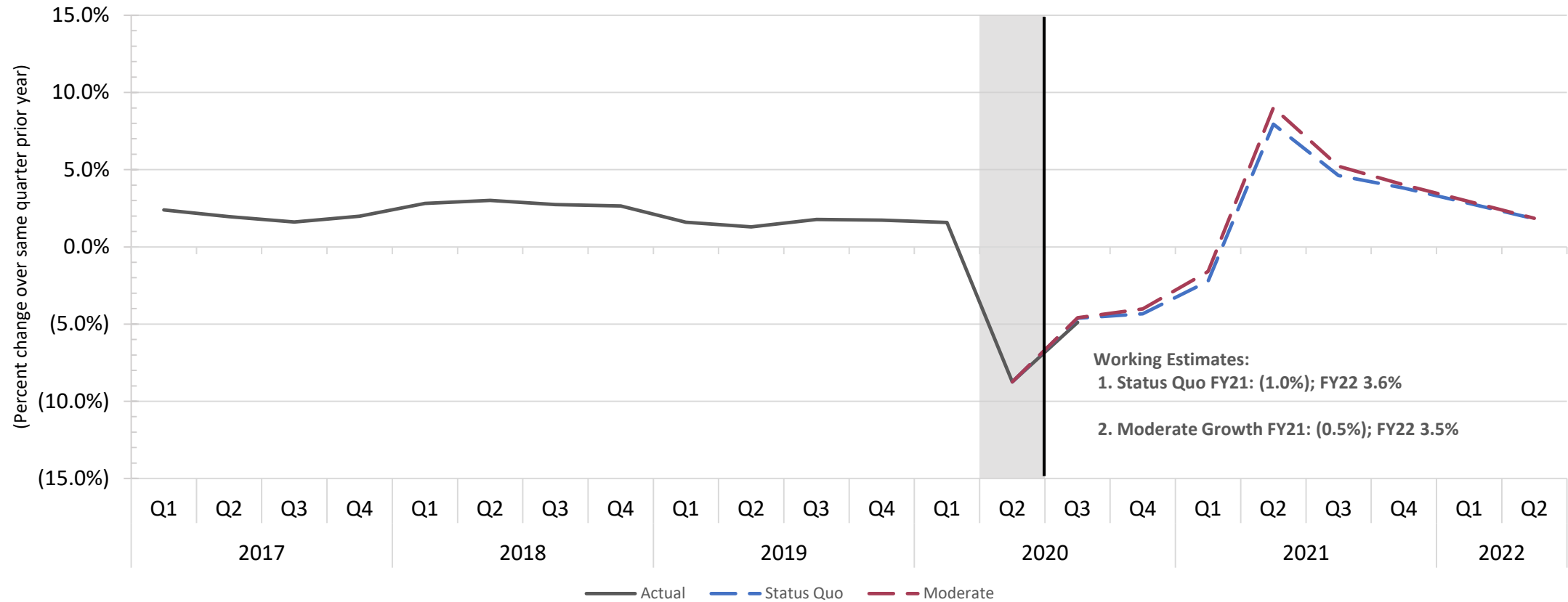


Source: Bureau of Labor Statistics, State and Area Employment, Hours, and Earnings, 142-2 RFA/nmg/10/12/2020

# South Carolina Employment – Actual and Working Estimates

## Percent Change

SOUTH CAROLINA EMPLOYMENT PERCENT CHANGE  
Working Estimates



Source: Bureau of Labor Statistics, State and Area Employment, Hours, and Earnings, 142-3 RFA/nmg/10/12/2020