

MEMORANDUM FOR THE RECORD

DATE: October 15, 2020

Pastides Alumni Center / Attendees via YouTube and GoToMeeting
10:30am

SUBJECT: Minutes of Board of Economic Advisors Meeting and Annual Regional Advisory Meeting

ATTENDEES: *Board Members* –Edward Grimball -*Chairman*, Alan Clemmons, Emerson Gower, Hartley Powell; Frank Rainwater, *Executive Director*; *Staff* – Paul Athey, Ben Coomer, Natalie Gallagher, Elizabeth Hall, Lisa Jolliff, Sandra Kelly, Byron Kirby, Karen Rhinehart; *USC IT Staff:* Harold Coleman, Mike Scarborough, Clay Wray; *Working Group Guests:* Sym Singh (*Governor’s Office*), Grant Gibson (*Senate Finance Committee*), Kevin Ethridge (*Executive Budget Office*), Brad Wilson (*Treasurer’s Office*)

Due to COVID-19 policies all other guests participated via You Tube. An email invitation was sent to the usual BEA Distribution (121 contacts) list and Working Group (6 remaining contacts) list members and the meeting notification was posted on the RFA website and in the Rembert Dennis Building. Meeting information and call-in instructions were provided in the email and posted online. Meeting documents were posted online 15 minutes prior to the start of the meeting and the documents were also shared via YouTube. Guests were asked to direct any questions to Frank Rainwater after the meeting had concluded via email or phone.

- Chairman Grimball welcomed everyone to the meeting at 10:30pm. He then summarized the discussion at the last two BEA Meetings and shared that the meeting minutes for August 24th and August 31st were still being prepared and would be presented at the next meeting.
- **Frank Rainwater, Lisa Jolliff, Natalie Gallagher, and Ben Coomer presented the first quarter review.** (*See Attached*)
 - 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 – Sept), 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
- 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 15th filing extensions that were not received in time for the accrual.
- Withholdings on unemployment benefits are \$42.9 million of the excess, which may be attributable to some federal stimulus spending.
- Consumption of services was down substantially more than goods in the second quarter of 2020. The Great Recession saw greater decline in goods than services.
- Sales Tax accounted for another \$43.0 million of the excess, which may be attributable to some federal stimulus spending.
- The GDP growth estimate was revised by the federal government up from -6.5% to -3.7% for the fourth quarter of 2020. The revised estimate for the fourth quarter of 2021 is 4% down from 5%. A slower recovery is anticipated.
- There were large declines in the second quarter in all components of real GDP with exception to the government due to the federal stimulus.
- For interest rates, the federal reserve has targeted a range of 0% to 0.24% for the Federal Funds rate through 2022.
- There was a 9.8% Personal Income growth in the second quarter of 2020 buoyed by the federal stimulus. This will continue partially into the third quarter, but not to the same degree.
- Recipients of the federal stimulus spent 42% of the stimulus, saved 27%, and used the remaining 31% to pay down debt.
- The unemployment rate in South Carolina was down from the April peak of 12.2% to 6.6% in August. There were 189,000 jobs recovered from April. However, the total jobs were down 102,000 from August of 2019 to August of 2020. The percentage change in employment from August of 2019 to August of 2020 was down 4.7%. Leisure and Hospitality employment was down much more than other industries.
- The financial market is recovering, but volatility remains. Technology drove the overall growth of 2.7% from January to September.
- The small business sales improved in May and June and leveled out in the third quarter of 2020.

- *Chairman Grimball asked how the gap between the small business sales and the expectations can be explained. Mr. Coomer explained that the black line on the chart contains 10 separate components while the blue line is representative of the expectations of small businesses over the next three months-they have faith in the economy as a whole.*
- *Mr. Powell asked if these components were retail sales or services and Mr. Coomer replied that this line represents diverse businesses.*
- There were high income tax refunds in the lowest income ranges.
- It is likely that consumers will lead recession recovery as they feel comfortable returning to regular spending habits. However, consumer confidence remains well below pre-pandemic levels.
- There are short-run limitations on businesses as they restructure operations within confines of social distancing measures.
- The Sales Tax collections are likely leveling off at August and September levels, and the sales growth rate is slowing.
- The percentage change in Accommodations Tax is well below historical levels and is impacting the General Fund Sales Tax.
- Those households expecting loss of employment income in the next four weeks has declined since May, but remains high.
- For August, US retail sales was the third straight month of year-over-year growth, but the month-to-month growth over the past four months was slowing.
- In U.S. food services and drinking places sales, August was the sixth straight month of declining year-over-year growth, and month-to-month growth over the last four months is slowing.
- In net taxable sales by industry, the effect of social distancing on Retail Trade as well as Accommodations and Food Services likely to impact collections.
 - *Chairman Grimball asked Mr. Powell if South Carolina is receiving all appropriate taxes from remote sellers. Mr. Powell replied, yes, and that the state is receiving approximately over \$20 million per month in taxes from remote sellers.*
 - *Mr. Powell asked Ms. Gallagher what portion of the General Revenue is food service contributing. Ms. Gallagher and Ms. Jolliff said they could analyze data from DOR and provide the information.*
- In Corporate Income Tax, the first quarter includes delayed filings past the deadline and not accrued back to FY 20. In the percent change, growth is slowing through the end of the first quarter. In returns and tax liability, 68.3% of Returns pay \$0; 0.2% of Returns pay 42.5% of tax. Insurance Tax

is \$2.5 million above the quarterly estimate due to licensing fees. And premium taxes are \$1.4 million behind the forecast.

- In the insurance industry, premiums have grown an average of 5.8% over the last 5 years.
 - Bank Tax quarterly collections are below the forecast by \$7.9 million, and return on assets is down in the first half of 2020.
- **Frank Rainwater presented the forecast outlook for FY 2020-21 and FY 2021-22:**
(See Attached)
- 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.
 - 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 is supporting the economy.
 - Much of the impact is focused on one segment of the economy, the hospitality sector.
 - Traffic counts have almost recovered and stabilized about 8% below 2019.
 - 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 the first quarter of FY 22
- Scenario 2 - Moderate Growth
 - Some consumer behavior adjustments beginning in April 2021
 - No substantial federal stimulus programs
 - Moderate wage growth beginning in the last quarter of FY 21
 - Employment returns to pre-pandemic levels by the end of FY 21
 - *Chairman Grimball asked if staff will be creating models taking into account a possible stimulus package and what that may look like. Mr. Rainwater stated that a baseline model could be created, then create models with a \$1 trillion and \$2 trillion stimulus packages.*
 - *Mr. Rainwater also shared with the Board that all of the information that was going to be presented in the afternoon session by the Advisory Committee would be analyzed and shared with the Members.*
- **Other Matters for Consideration - no other matters**
- **Reports from Working Group Members - no reports**

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.

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Laura Ullrich (*Federal Reserve – via videoconference*), Mr. Mark Vitner (*Wells Fargo – via videoconference*)

- **Frank Rainwater re-presented the economic outlook for FY 2020-21 and 2021-22.**

- **Regional Advisory Committee Members Dr. Laura Ullrich, Mr. Mark Vitner, Dr. Russell Sobel, Dr. Frank Hefner, and Dr. Joseph Von Nessen shared their economic presentations. Dr. Von Nessen was present, the other speakers shared via videoconference. On the final page of these minutes a scoresheet is included showing each panelist’s forecast. (See Attached)**
 - **Dr. Laura Ullrich:**
 - *As of September, \$25.3 million people were still receiving some sort of unemployment benefit. One year ago, 1.4 million people were receiving benefits.*
 - *Leisure and hospitality as well as private education and health services have experienced the most job losses. Low income jobs have been hardest hit.*
 - *Chairman Grimball asked if the workforce participation will return to the former levels. Dr. Ullrich stated that she had not seen enough information to understand why it has declined the way it has, but that it could be because people are working from home, homeschooling children, retired, or have given up looking for work. Mr. Vitner commented that the labor force participation information is not completely accurate as the numbers are derived from information about the entire southeast.*
 - *Mr. Gower asked what the effect on the economy would be if a stimulus was included. Dr. Ullrich stated that it would depend on what the stimulus would look like. There are many methods; it depends on what and who the incentives benefit as to whether they will help.*
 - *In response to a question about employment growth, Dr. Ullrich feels that recovery to the pre-pandemic levels will not occur until calendar year 2022 or later, depending on the progression of the virus and when a vaccine will be available.*

 - **Mr. Mark Vitner:**
 - *In follow-up to the discussion from Dr. Ullrich’s presentation, Mr. Vitner said that GDP and employment will not return not pre-pandemic levels until early 2022. Low paying positions have suffered the most. Fifty percent of jobs in the hospitality industry and administrative positions were lost in March and*

April. Quite a few family businesses have closed. However, tourism is starting to recover.

- Other key assumptions included approval of a vaccine for widespread use will probably not occur until the middle of 2021 and felt that another stimulus would occur after the election and possibly a second one after that which would be helpful for the economy to recover. It is possible that a vaccine would be available for use with first responders, hospital workers, etc by the end of the year.
- *Mr. Rainwater asked how proprietors will be affected due to the impact of to the slow recovery of the leisure and hospitality industry. Mr. Vitner stated he was unsure of the impact since most small businesses are in the construction industry. Mr. Rainwater commented that the loss of proprietor's income won't show up until income tax returns are filed. Mr. Vitner looked at projections and stated that the projection is a 10-12% drop in proprietor's income from mid-2020 to mid-2021 with a possible 6% recovery in 2022 but will not get back to pre-pandemic levels until 2023.*
- *Chairman Grimball asked what effect Mr. Vitner felt winter would have on businesses. Mr. Vitner does not think it will have much of an effect since SC has mild winters. Dr. Ullrich commented that winter will bring complications to eating outside due to the fact that the heaters that restaurants use are in short supply.*
- **Dr. Russ Sobel:**
 - Dr. Sobel's estimates in his presentation and score sheet were a different comparison than the previous speakers and staff later noted that they would work to reconcile the methods.
 - Dr. Sobel does not think that SC will ever get back to the pre-pandemic level of employment; recovery will be very slow, at least 2-4 years out. He feels there will be a permanent reduction in labor force participation.
 - He believes there will be long-term significant changes in the economy and negative effects of recent governmental decisions.
 - *Chairman Grimball asked how Dr. Sobel thought SC would fair compared to the rest of the country. Dr. Sobel feels there are two offsetting effects: 1) because the coast is tourism dependent, it will be slow to recover; 2) if people migrate to SC from other states, that will help speed the recovery. Overall, Dr. Sobel feels SC will fair better than other states.*
 - *Chairman Grimball also asked what the ramifications of the federal debt will be. Dr. Sobel replied that he thinks there will be 2 to 4 years*

of higher interest rates. Before the pandemic, the national debt had interest payments of 10% to 11% of the federal budget. The interest payments will now be larger combined with the stimulus packages. He is concerned how this will affect seniors and Social Security payments.

Chairman Grimball called for a break at 2:23pm and the meeting was resumed at 2:36pm.

- **Dr. Frank Hefner:**
 - Dr. Hefner feels it will take at least six years for SC to get back to pre-pandemic levels; this is based on the recovery period from previous recessions
 - Dr. Hefner noted that making a forecast in the current environment was very challenging as there is no historical basis to be used for comparison or estimation.

- **Dr. Joseph Von Nessen:**
 - The Moore School did not do a single forecast for this year due to so much uncertainty, but offered three scenarios.
 - This recession is driven by biology so until we get a vaccine, we will not see a recovery.
 - Dr. Von Nessen feels it will be late 2021 – 2022 before we get back to pre-COVID employment levels. However, to date, 62% of all jobs lost in March and April have been recovered. The two main factors affecting a return to pre-COVID levels are the availability of a vaccine and whether or not there will be a stimulus.
 - Dr. Von Nessen is hopeful that SC will rebound in 3 to 5 years due to manufacturing and transportation/warehousing and distribution. The southeast is going to be a hub for e-commerce.

The following page contains the scoresheet with information shared by the panelists.

SC Board of Economic Advisors Forecast Scoring Sheet
Regional Advisors Meeting - October 2020

Variables	Actual	Utilities	Finance	Health	Other Services	Education	Average	Olympic Score	Goal Est
SC Personal Income									
FY 2018-19	5.6%								
FY 2019-20	5.6%								
Most Recent Qtr.	---								
Jul - Dec 2020 Est		(8.1%)	(4.1%)	13.4%	N/A	5.0%	1.6%	0.5%	(7.2%)
Jan - Jun 2021 Est		(2.7%)	(0.8%)	6.9%	N/A	5.0%	2.1%	2.1%	(8.2%)
Jul - Dec 2021 Est		2.8%	8.7%	5.2%	N/A	5.0%	4.9%	5.1%	7.8%
Jan - Jun 2022 Est		4.8%	2.0%	4.7%	N/A	4.0%	3.9%	4.4%	3.3%
SC Employment									
FY 2018-19	2.1%								
FY 2019-20	(0.9%)								
Most Recent Qtr.	(8.7%)								
Jul - Dec 2020 Est		10.6%	12.3%	15.2%	N/A	11.5%	12.4%	11.9%	11.5%
Jan - Jun 2021 Est		2.4%	3.7%	3.1%	N/A	3.0%	3.1%	3.1%	4.2%
Jul - Dec 2021 Est		2.8%	2.2%	3.1%	N/A	2.5%	2.7%	2.7%	3.5%
Jan - Jun 2022 Est		4.1%	2.0%	2.0%	N/A	2.0%	2.7%	2.3%	1.5%
Inflation (CPI)									
FY 2018-19	2.1%								
FY 2019-20	1.0%								
Most Recent Qtr.	0.4%								
FY 2020-21 Est		1.7%	1.9%	1.8%	N/A	2.0%	1.9%	1.9%	1.6%
FY 2021-22 Est		1.8%	2.0%	2.1%	N/A	2.0%	2.0%	2.0%	1.7%
SC Sales Tax									
FY 2018-19	3.0%								
FY 2019-20	3.2%								
Most Recent Qtr.	2.7%								
FY 2020-21 Est		3.2%	4.1%	8.1%	N/A	5.0%	5.1%	4.8%	N/A
FY 2021-22 Est		4.7%	4.4%	3.7%	N/A	4.0%	4.2%	4.2%	N/A
SC Individual Inc Tax									
FY 2018-19	7.2%								
FY 2019-20	6.5%								
Most Recent Qtr.	---								
FY 2020-21 Est		3.1%	4.4%	13.2%	N/A	5.0%	6.4%	4.7%	N/A
FY 2021-22 Est		5.7%	5.0%	4.2%	N/A	4.0%	4.9%	4.9%	N/A

October 15, 2020

South Carolina Revenue and Fiscal Affairs Office

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There were a few concluding comments regarding the scoresheet and the timetable for recovery that reiterated the information that was presented.

There were no comments by the Working Group Members.

Mr. Gower motioned to adjourn the meeting and Mr. Clemmons seconded the motion. All voted aye to adjourn the meeting at 3:40pm.

The next scheduled BEA Meeting is Tuesday, November 10, 2020 at 1:30pm. Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar> and at the Rembert Dennis Building.

These minutes were approved on 11/10/20.

 Karen Rhinehart