

MEMORANDUM FOR THE RECORD

Date: September 23, 2021, 1:00 p.m.
SC ETV Bank of America Room/ Attendees via Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* –Edward Grimball-*Chairman (via Zoom)*, Alan Clemmons (*via Zoom*), Emerson Gower; Frank Rainwater, *Executive Director*; *Staff* – Paul Athey, Ben Coomer, Natalie Gallagher, Lisa Jolliff, Kathryn Kelley, and Sandra Kelly; *Guest Speakers* – Dudley Jackson (PRT), Justin Hancock (PRT), Daniel Young (Commerce), Bob Morgan (*via Zoom*) (SC Chamber of Commerce). *Fourty-nine 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 12:55pm.
- II. Chairman Grimball presented the May 20, 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*)

Chairman Grimball opened the meeting with the following statement:

We want to welcome everyone and we are particularly delighted to have with us today key leaders from the South Carolina Chamber of Commerce, the South Carolina Department of Commerce, and South Carolina Parks, Recreation and Tourism. They will share their knowledge of the state's economy as they see it, presumably past, present, and future. We really appreciate their giving us their valuable time. This will provide the Board of Economic Advisors additional insight as we meet next month with our Regional Economic Advisors and then finalize in November our updated forecast for Fiscal Year 2022 and our outlook for Fiscal Year 2023.

III. Presentations on Economic and Revenue Reports, full presentation attached:

Mr. Rainwater made several prefatory remarks:

This meeting begins our process for developing a preliminary revenue estimate for Fiscal Year 2023. However, in order for us to make the estimate for FY 2023 we first have to consider and update our estimate for Fiscal Year 2022, the current fiscal year. This year, however, is much more of a challenge than we have experienced in prior years. In most cases we are able to take the prior year, this year being FY 2021, those final revenues as a base to consider FY 2022 adjustments. FY 2021 was significantly impacted by unique circumstances, especially being the impact of federal stimulus, we had several actions during the fiscal year, a large part of which was at the end of the fiscal year. We view those stimulus actions as one time though some will continue into this fiscal year. They are certainly not sustainable, and one of the underlying questions we are facing and will have to consider this month, next month and into November is "when will those stimulus actions begin to fade and can the normal economy replace the fiscal impact that this stimulus has had." Because of the huge amount of impact the stimulus had on FY 2021 we have some real questions on whether or not some of the revenue categories can grow. In a general sense last fiscal year, we had a lot of categories that grew twice the normal rate so one of the underlying questions will be "can we expect growth in the revenue categories and if so, where will that growth come from?"

Mr. Rainwater presented information regarding the FY 2020-21 Final Revenues. His comments included:

- General Fund FY 2020-21 Summary:
 - FY 21 finished \$1.028 billion ahead of the April 2021 forecast
 - Almost all categories finished ahead of estimates, largely due to an excess generated in the quarter after the April forecast.
 - Tax season was much better than anticipated, and the stimulus impact was greater than anticipated
- Total General Fund: Revenue grew much faster in the last three months of the fiscal year during tax season than anticipated; FY 21 ended with budget surplus of \$1.02 billion.
- Annual General Fund Revenue Growth: FY 21 revenue grew \$1.295 billion over FY 20, or 13.2%, significantly higher than ever before.

Mr. Rainwater presented information on FY 2021-22 General Fund Revenue. His comments included:

- Total General Fund – FY 21 Compared to Pre-pandemic Trend: Is final FY 21 revenue a solid base when considering adjustments to FY 22?
- Total General Fund – FY 22 Forecast: The spring stimulus continues to impact revenue collection.

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

- Individual Withholdings FY22: August collections were the second highest ever recorded; FY 22 yearly growth is at 10.9%
- Total Earnings in South Carolina: Total earnings recovered shortly after the initial disruption of COVID-19 and continue to grow despite lower employment.
- Average Hourly Earnings in South Carolina: After a spike during the beginning of the pandemic, hourly earnings have continued to increase; this indicates the potential for a lasting increase to Withholdings collections.
- Individual Withholdings FY22: Outlook and Risks
 - We may be on a normal employment growth trend instead of a faster recovery due to some workers having left the labor force for the long term. Consequently, a recovery of lost jobs is not expected to drive Withholdings growth.
 - The labor shortage has driven up average hourly earnings in most industries (not including bonuses), and it is not likely that these earnings will fall back down in the near term.
 - A high quit rate indicates that workers are confident enough in the economy to seek better jobs and higher wages.
 - While it is not yet clear how COVID-19 variants may impact economic activity, Withholdings collections are not expected to be overly affected.
- Individual Non-Withholdings FY 22: While the current estimate is 16.1% below the previous year, annualized expected growth since FY 2018-19 is 3.13%.
- Individual Non-Withholdings FY 22: Outlook and risks to these types of income.
 - Is final FY 21 a solid base to project FY 22?
 - The durability of the new self-employment trend is a vital component of the Non-Withholdings outlook. Will this trend persist?
 - Federal Reserve decisions regarding rate-setting and the bond-buying program will have implications for Non-Withholdings collections. Both financial markets and business activity may be impacted.
 - Risks over the next year include a potential asset bubble downswing, as well as disruptions to business and supply chains.

Ms. Gallagher presented information on General Fund Revenue, Consumption Taxes. Her comments included:

- Sales Tax FY 22: Aided by an audit payment of \$25 million, August 2021 collections were the highest Sales tax collections ever recorded, with year-over-year growth of 27.5%.
- Sales FY 22: Outlook and Risks
 - Is final FY 21 a solid base to project FY 22?
 - Consumer behavior has changed since the beginning of the pandemic.
 - Spending remains elevated over pre-pandemic levels
 - As supply constraints continue, durable goods orders declined slightly in July.
 - Unclear how long this growth trend will continue
 - Likely still seeing the impact of stimulus spending
 - Behavioral changes may be prolonged due to the Delta variant
- Consumer Spending – Goods and Services: Compared to the start of the pandemic, durable and non-durable goods purchases have increased, while spending on services has decreased.
- Durable Goods: Orders for durable goods decreased slightly in July, as manufacturers continued to grapple with shortages and confront higher material costs.
- Deed Recording Fee FY 22: August 2021 collections were the highest ever recorded in South Carolina, with year-over-year growth of 95.0%.
- South Carolina Home Sales and Prices: The number of homes sold and the median sales price have continued to grow, contributing to the recent spike in the Deed Recording Fees.
- Deed Recording Fees FY 22: Outlook and Risks:
 - Demand continues to outpace supply, resulting in high sales price.
 - Drivers of demand:
 - Ultra-low interest rates
 - Consumer responses to COVID-19 restrictions
 - Supply response
 - Residential permitting in South Carolina increased by 38.2% in FY 2020-21, and housing starts increased 16.6% in the Southern region.

II. Ms. Jolliff presented information on General Fund Revenue, Business Taxes. Her comments included:

- Corporate Income Tax FY 22: Growth in FY 21 likely driven by high retail sales; FY 22 will depend on consumer spending patterns.
- US Corporate Profits: Companies have shown strong profit growth following the drop during the start of the pandemic, spiking even higher in Q2 2021.
- Corporate License Tax FY21: FY 21 finished at \$148.1 million, \$10.2 million ahead of the forecast.

- Corporate License Tax FY 22: FY 22 forecast reflects a decline of \$46.9 million from FY 21 actual.
- Bank Tax FY 21: FY 21 ended up \$46.7 million over the forecast; \$39.7 million was collected in June, including a \$15.4 million audit payment.
- Bank Tax FY 22: FY 22 forecast expects a decline in collections; audits have boosted total collections in recent years but are unpredictable.
- Bank Performance: Net operating income for US banks improved significantly in Q1 & Q2 of 2021 despite low interest rate margins as banks released reserves built up during the pandemic.
- Business Taxes FY 22: Outlook and Risks
 - Is final FY 21 revenue a solid base for projecting FY 22?
 - Corporate Income and License taxes hit all-time highs in FY 21, but performance in FY 22 is less clear
 - Corporate Income taxes are likely to remain high so long as retail spending is up.
 - Corporate License tax is likely to be above the current forecast, but timing of collections makes growth uncertain.
 - Bank taxes will depend on interest rates, loans and any potential audit revenue, which is less predictable.

Mr. Rainwater presented information on Forecast Outlook for FY 2021-22 and FY 2022-23. His comments included:

- Potential Forecast Adjustments to FY 22:
 - Individual Income Withholdings are likely to exceed the current estimate.
 - Non-Withholdings may be above the forecast but are less predictable.
 - Sales tax is likely to be above the forecast, especially for the upcoming six months.
 - Corporate Income is likely to be above the forecast so long as retail sales are up.

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

- COVID Cases in South Carolina: 7-day average new cases in South Carolina exceeding US
- Unemployment Rates: South Carolina's unemployment rate of 4.2% as of August 2021 remains below the US rate of 5.3%.
- US Inflation: Short-term inflation expectations have changed significantly in the last 3 months.

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

- South Carolina Employment: Total employment has leveled out in recent months after running slightly above the forecast.
- SC Personal Income - Compared to Pre-pandemic Trend: Personal Income spiked in Q1 of 2021 well above expectations, largely due to three federal stimulus payments.
- General Fund Revenue as a Percentage of Personal Income: General Fund revenue for FY 21 is well above what would be expected based on estimated personal income.
- Annual General Fund Revenue Growth: FY 22 estimate is a decline of \$1.164 billion from FY 21.
- Key Questions for FY 2021-22 and FY 2022-23
 - How long does stimulus funding continue to affect revenues?
 - How does personal income perform without stimulus?
 - Can the natural economy replace the stimulus impact?
 - Does consumer spending revert to historical patterns or is this a new normal?
 - Is the COVID-19 resurgence going to cause further disruptions in supply chains and business growth?
 - Does Federal Reserve policy change, and how does that affect growth?
 - Federal budget and debt ceiling remain an uncertainty.

Mr. Clemmons asked that next meeting we be prepared to discuss how will Congress' current proposal to change our income tax structure impact personal income growth?

Chairman Grimbball commented whether everything in the state of South Carolina has been raised to a slightly higher level of performance, higher wages, more jobs, lower unemployment, inflation increases, etc. This is something we should consider over the next few months.

IV. Insights and Perspectives for FY 2021-22 and FY 2022-23

Mr. Daniel Young, Director of Grants and Incentives, SC Dept. of Commerce made the following comments:

- The pandemic has been a challenge for SC Dept. of Commerce and the businesses we deal with.
- Some of the trends we see trail what BEA numbers indicate.
- In August of 2020, Commerce had the highest number of inquiries in three years which pushes us 50% ahead of where we were last year in regards to announcements and commitments.
- This year, Commerce is substantially ahead of where they were last year.

- There are 20,000 fewer people employed now than before the pandemic so we still have room to grow. However, you have to consider that a lot of people have left the workforce and we don't know if they are going to come back.
- There was discussion around underlying conditions of why inquiries are so high and it was stated companies are bringing businesses back from overseas and wages continuing to rise.
- Durable goods demand is still high while employment is down so part of the income increase is overtime.
- The supply chain is going to cause continued problems.
- Workforce issues across the board in all sectors.

Bob Morgan, President, SC Chamber of Commerce

- Business and Industry Economic Outlook:
 - 73% of SC businesses are very concerned about the Delta variant
 - 93% of SC business rate South Carolina's overall economy as excellent or good
 - Nationally, 50% of small businesses say it is difficult to recruit and hire, 34% say the economy is in good health, and 72% say they find it difficult to manage higher costs due to inflation as they work to recover from the pandemic.
- Workforce Challenges in SC:
 - 60% of businesses are having to change how they operate long-term due to the pandemic by more telework, remote and online work options, conducting less business travel, and having more focus on health and well-being of employees
 - Workforce challenges include not enough applicants, lack of skilled workers, COVID health concerns, and lack of childcare.
 - Tools business are using to address challenges are increasing wages, implementing COVID safety protocols, changing hiring practices, and offering training.
- COVID Vaccine Update:
 - 79% of businesses are encouraging employees to get vaccinated while 28% of business are requiring or considering requiring vaccinations
 - 50% of businesses are requiring or considering requiring vaccinations for employees and 50% say they will not consider requiring vaccinations for employees.
- Key Priorities in the coming year:
 - Tax Reform and tort reforms

Mr. Rainwater asked what are the other underlying concerns besides COVID in the business community to which Mr. Morgan responded that people are surprised at how well the economy did this year but they are nervous about the numbers in terms of COVID and they are very focused on the challenge of workforce. Businesses are nervous coming out of the pandemic that we may go back into it.

Mr. Gower asked if the Chamber thinks the business community thinks growth will be the same as last year or if it will be better. Mr. Morgan stated he believes businesses think growth will be as good as last year but will still face the challenge of workforce issues.

Mr. Clemmons asked if Mr. Morgan has a feel for how businesses are receiving the messages from Congress that personal income taxes, capital gains, and corporate income taxes are going to be increased along with the changes to the budget this year. Mr. Morgan provided the Chambers position on the Infrastructure Bill and their concern on the follow-up budget bill and the tax increases that would be required.

Mr. Dudley Jackson, Director of Research; Mr. Justin Hancock, Director – Research, Grants, and Policy, SC Dept. of Parks, Recreation and Tourism

- Recovery Advertising: Increase awareness of South Carolina as an open, accessible tourism destination and drive increased visitation across the state by building familiarity within undiscovered areas, boosting perception as ready for business and a safe place to visit.
- Monthly Lodging Revenues: This calendar year is up 62% from 2020 and up 11% from 2019.
- SC State Parks: Occupancy is down about 1-1.5% as compared to this point last FY and is projecting out to be about the same through the FY. However, revenue is still ahead and is projecting to remain around 15-17% ahead of last year's record-breaking numbers.
- Consumer Fall 2021 Travel Outlook: Horry County, Hilton Head Island, and Charleston County are all up in hotel bookings for the Fall 2021. Columbia and Greenville sales bookings are up as well.
- The Good, The Bad, & The Unknown:
 - Travel Demand, COVID case trends, restrictions, vaccines, Tourism Labor Supply, and Hurricane Season

There was discussion around whether or not the demand is going to solve the labor problem or is the labor problem is going to restrict the potential for customers.
- Tourism Economy Forecast: CY 2021 Tourism Revenues ~55% above 2020. \$282 million more Sales & Use Tax than 2020 and \$154 million more Personal Income Tax than 2020. FY2021-22 Tourism Revenues 25% above FY 2020-21.

There was discussion around the various locations bringing in more tourism. Mr. Jackson indicated that the entire state has come back significantly over the last year with

tourism exploding along the coast. Chairman Grimball asked what part of the state is most impacted by decrease in international travel to which Mr. Jackson stated the entire coast is most impacted.

IV. Board Members Key Observations and Comments Regarding FY 2021-22

Mr. Rainwater asked for key observations from board members in regards to specific items to look for or prepare for as we prepare for the next two meetings. Chairman Grimball mentioned inflation and the infrastructure proposal and its economic affect on our infrastructure but also its increase on our national debt. Additionally, Chairman Grimball would like a discussion on the timeline of a recession and how does the injection of federal funds for facilities and upgrades affect our economy.

There was discussion around the labor shortage in South Carolina including people leaving the workforce permanently, people waiting for better opportunities or people getting jobs with better wages.

Mr. Clemmons requested information for the next meeting to help us understand how the federal interest rates will affect the housing industry in South Carolina and what impact that will have on our revenues. Mr. Gower commented that housing is a real indicator of the economy.

Mr. Clemmons also requested information on how COVID has impacted our enrollment rates in higher education institutes and how it impacts our economy.

V. Reports from Working Group Members

No Working Group members offered comments.

VI. The next scheduled meeting is the BEA and Regional Advisory Meeting on Thursday, October 14, 2021 beginning at 10:30 a.m.

VII. Mr. Clemmons motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye, and the meeting adjourned at 3:08 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 10/14/2021

Kathryn Kelley Kathryn Kelley

BEA Zoom Webinar Attendee Report

Staff:

Amanda Martin
Carrie Bundrick
Ken Harris
Lisa Wren
Mary Katherine Miller
Stephen Gardner

Guests:

Gavin Jackson
T. Derrick
Bob Coble
Joren Bartlett
S. Hinson
Eddie Gunn
Don Hottel
Ben Gallow
K. Taylor
Brian Gaines
Grant Gibson
Emily Keeney
David Carter
Debbie Elmore
Bryan Kost
Julie Cox
Harry Miley Richland 2
Toni Nance
Robin S.
Katie Titus
Sandy Smith
Leslie Clark
Joseph Bustos
Ted Riley
M. Moore
Endra Curry
Kent Lesesne
David Seigler
Dan Cooper TCTC

Rick Blackwell
Jeff Thordahl
Kayla Bingham
Kevin Etheridge
Lisa Catalanotto
Clark Phillip
Evelyn Sexton
Kathy Johnson
Mellanie Jinnette
Morgan O'Donnell
Mary Martha Greene
Kara Brurok
Rick Blackwell
Jeff Thordahl