

The Outlook for State Income & Revenues

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Estimating State Personal Income Growth

With manufacturing employment still suffering from the severe manufacturing recession that gripped the national economy, growth in South Carolina total personal income is predicted to be off track until 2004. Economy.com, a national forecasting group, calls for growth in total personal income across the current fiscal year to average 3.5%, with no adjustment made for inflation. Wake Forest's Gary Shoesmith predicts S.C. real income growth to average roughly 1.7% this and next year, which becomes 3.5% in nominal terms when the current inflation rate is factored into the equation. By way of comparison, the University of South Carolina's second quarter forecast indicated that state total personal income growth would rise from "3.3 percent in the second quarter to 5.5 percent at the end of the year." The USC report indicated income growth would grow "roughly 5.5% during 2003." Taken together, these estimates for the current 2002-03 fiscal year suggest growth in state nominal income, the stuff that generates sales tax and income tax revenues, will average 3.5% to 4%. This compares with recent norms of 5.5% to 6.0%.

The State Revenue Estimators Respond

The state ended the 2001-2002 fiscal year showing an absolute decline in general fund revenues. This means that the current fiscal year, 2002-2003, which began in July, suffers from a net disadvantage in achieving meaningful growth. Unless adjustments are made on the spending side, state revenues will have to grow by 10.2%, starting in July and ending in June 2003, to meet the 2002-2003 appropriations budget.

On the basis of the forecasts for state income, 10.2% revenue growth just cannot happen. Recognition of this possibility came on September 9 when in a rare off-schedule meeting the State Board of Economic Advisors voted to cut this fiscal year's revenue estimate by 6.2%. This adjustment means that state income growth would average 4%. Following the BEA meeting, on September 17, the State Budget & Control Board chose to leave the unaltered revenue estimate in place. By statute, the State Board of Economic Advisors will provide another revenue estimate in November. The state now operates on the assumption that revenues will grow by 10.2%.

Taking a Look at the Data

By mapping growth in total person income to growth in state revenues, an estimate of general fund revenue growth can be estimated. This is shown the chart below where actual income and revenue numbers are mapped for earlier fiscal years and an estimate of 3.5% income growth is shown for this fiscal year.

Based on 3.5% income growth, shown on the right-hand axis, general fund revenues would be expected to grow by roughly 2.0%, as shown on the left-hand axis. If income growth rises to 4%, general fund revenues could grow by 2.5% to 3.0%. This assumes that revenue growth will be less than income growth, which is the general past pattern.

