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Economic a Review Outlook Fiscal Year
1987/88

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Economic and Revenue Outlook Fiscal Year 1987-88

The report of November 1, 1986 of the Board of Economic Advisors estimated that General Fund Revenues in FY 1987-88 would be \$2821.0 million. At the same time a revised estimate was issued for FY 1986-87 of \$2680.3 million.

Both estimates are based on projections of modest and uneven real growth in the national and State economies, with a gradual rise in prices, during the 20-month time period involved. There is a small probability of a recession in the first quarter of 1987 based on negative short-term effects of the tax reform bill, a possible slowdown in consumer spending and a lack of vigor in investment spending. A much higher probability exists, however, for continued positive growth, with personal income in the State rising by 5 - 5.5 percent this fiscal year and by 6 - 6.5 percent during FY 1987-88. It is assumed that a truly significant reduction in the federal deficit is unlikely but that the foreign trade balance will improve, with higher exports of manufactured and agricultural products. Growth in the service sector, with accompanying effects on employment, should continue at a reduced pace.

Revenues will rise generally with personal income with the pace and rate of collections affected by changes in law and administrative rulings. FY 1986-87 revenues have been revised downward by \$87.4 million, counting the \$10.3 million veto by the Governor. The effect on the budget is less

than this amount because of the reserve contained in the appropriations bill and anticipated lapses.

Fiscal Year 1987-88 revenues are based on expected positive changes in personal income, but also reflect expected reductions in growth of some revenue items. The estimate is realistic and conservative, based on present expectations of the course of the national and State economies during the fiscal year. Because of the many uncertainties in the national and State economic outlook, prudence in expenditures is recommended.

J.A.M.

Board of Economic Advisors

November 5, 1986

TABLE I

GENERAL FUND REVENUES
Forecast FY 1986-87 and FY 1987-88
In Millions of Dollars

	ACTUAL FY 1985-86	BEA Estimate FEB15/APR15, 1986 FY 1986-87	APPROPRIATION ACT JUNE 26, 1986 FY 1986-87	BEA November 1, 1986	
				REVISED 1986-87	ESTIMATE 1987-88
TOTAL GENERAL FUND (1)	2509.3	2734.0	2778.1	2680.3	2821.0
Total Regular Sources (1)	2468.2	2692.0	2735.3	2637.5	2778.0
Sales Tax (1)	893.3	956.0	963.2	950.3	1013.0
Individual Income Tax	907.3	1030.0	1041.2	986.8	1066.0
Corporation Income Tax	185.0	216.0	223.9	199.0	213.0
All Other	482.6	490.0	507.0	501.4 (2)	486.0
Miscellaneous Sources	41.1	42.0	42.8	42.8	43.0
Education Improvement Fund				237.6	253.25
Interest on Education Improvement Fund				1.8	1.80
TOTAL				239.4	255.05
				<u>RATES OF CHANGE</u>	
TOTAL GENERAL FUND				6.8%	5.2%
Total Regular Sources				6.9	5.3
Sales Tax				6.4	6.6
Individual Income Tax				8.8	8.0
Corporation Income Tax				7.6	7.0
All Other				3.9	-3.1
Miscellaneous Sources				4.1	0.5
Education Improvement Fund				7.0	6.6
Interest on Education Improvement Fund				-18.2	0.0
TOTAL				6.8	6.5

(1) Net of Education Improvement Fund.

(2) The changeover from an annual to a quarterly reporting system with the enactment of new insurance premium and retaliatory tax law will result in a one-time five quarter collection for the Insurance Tax, amounting to a \$16.4 million windfall for FY 1986-87.

Board of Economic Advisors
November 5, 1986