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ESTIMATES FOR FY 1992-93



STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

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To: South Carolina Budget and Control Board
From: Harry W. Miley, Jr.
Subject: Estimates for FY 1992-93

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STATE DOCUMENTS

The Board of Economic Advisors met on August 19 to evaluate the impact on Fiscal Year 1992-93 revenues of final collections for Fiscal Year 1991-92 of \$3341.6 million as reported by the Comptroller General August 18th. This was a decrease of \$43.4 million from the \$3385.0 million for Fiscal Year 1991-92 forecast by the Board of Economic Advisors on February 10, 1992. Given the lower base and slower economic conditions than had been anticipated at that time by national and State forecasters, the Board of Economic Advisors estimated revenues for Fiscal Year 1992-93 of \$3567.2 million, a reduction of \$195.0 million from the Appropriation Act of \$3762.2 million.

Board of Economic Advisors

August 21, 1992

TABLE I
GENERAL FUND REVENUES
FISCAL YEARS 1991-92 AND 1992-93
(In Millions of Dollars)

	ACTUAL FY 1991-92	BEA 8/19/92 ESTIMATE FY 1992-93
TOTAL GENERAL FUND (1)	3341.6	3567.2
Total Regular Sources (1)	3281.9	3393.0
Sales Tax (1)	1166.0	1207.0
Individual Income Tax	1410.9	1470.3
Corporation Income Tax	132.4	139.7
All Other	572.6	576.0
Miscellaneous Sources	59.7	174.2
Education Improvement Fund	294.223	301.750*
Interest on Education Improvement Fund	0.895	0.525
TOTAL	295.118	302.275
	<u>RATES OF CHANGE**</u>	
TOTAL GENERAL FUND	1.1%	6.8%
Total Regular Sources	0.7	3.4
Sales Tax	0.9	3.5
Individual Income Tax	1.7	4.2
Corporation Income Tax	7.2	5.5
All Other	-0.1	0.6
Miscellaneous Sources	26.5	191.6
Education Improvement Fund	1.3	2.6
Interest on Education Improvement Fund	-55.0	-41.3
TOTAL	0.9	2.4

- (1) Net of Education Improvement Fund.
* One-fifth of total sales tax.
** Percent change based on unrounded figures.

Board of Economic Advisors
August 21, 1992

TABLE II
STATE OF SOUTH CAROLINA
TOTAL BUDGETARY GENERAL FUND
QUARTERLY ESTIMATES
Fiscal Year 1992-93
(In Millions of Dollars)

	FY 1992-93 -----
FIRST QUARTER	904.8
SECOND QUARTER	1818.8
THIRD QUARTER	2589.3
FOURTH QUARTER	3567.2

PERCENT OF TOTAL REVENUES
COLLECTION BY QUARTER

	FY 1992-93 -----
FIRST QUARTER	25.4
SECOND QUARTER	25.6
THIRD QUARTER	21.6
FOURTH QUARTER	27.4

Note: Tax collections for June sales accrue in the month of June.

Board of Economic Advisors
August 21, 1992

REVENUE FORECASTING PROCEDURES
BOARD OF ECONOMIC ADVISORS
FISCAL YEAR 1992-93

The procedures and methodology of the Board of Economic Advisors in the preparation of the revenue forecast for Fiscal Year 1992-93 as of August 19, 1992 involved four major stages: 1) providing the economic background and setting at the national and State levels for the revenue forecasts; 2) interpreting recent and historical revenue relationships; 3) interacting with officials of other states with responsibility for revenue forecasting; and 4) evaluating final Fiscal Year 1991-92 collections and their impact on Fiscal Year 1992-93 revenues.

The Board members consulted as in the past with business and financial experts and professional economists for economic intelligence gathering. This included presentations on the national and State economies at the August 19, 1992 meeting of the Board of Economic Advisors by Bruce Yandle, Jr., Ph.D., Alumni Professor of Legal Studies and First Savings Bank Scholar, Clemson University and Frank L. Hefner, Ph.D., Assistant Professor and Research Economist, Division of Research, College of Business Administration, University of South Carolina.

The resources of the national forecasting groups by which the SCOPE model and other forecasts are driven, Data Resources, Inc., Evans Economics, Inc., and WEFA, Inc., were available weekly and monthly to Board members and staff. Materials from a variety of sources--international, national and State publications--were also made available to Board members and staff. In addition, there was Board interaction with numerous national and regional economists. Further, there was BEA staff interaction at the Carolinas Chapter of the National Association of Business Economists meeting held in Columbia, South Carolina on June 26, 1992. Board members and staff continued discussions with leading economists and business and financial leaders prior to the release of this Report as well as with forecasters from South Carolina universities before and at the Board's August 19, 1992 meeting in Columbia.

Board of Economic Advisors
August 21, 1992

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office). It was designed and operated as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity in the State relative to national economic activity with approximately 85 exogenous national variables provided by leading national forecasting services such as Data Resources, Inc., the WEFA Group, and Evans Economics, Inc.

The SCOPE core econometric model consists of 51 equations, of which 37 are stochastic* and 14 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 19 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income and unemployment.

Durable Manufacturing Employment

The durable manufacturing employment block consists of ten stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Wood Products, Stone, Clay and Glass, Primary and Fabricated Metal Products, Electrical and Nonelectrical Machinery and Other Durables which includes Furniture and Fixtures, Transportation, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of seven stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into eight stochastic equations: Mining, Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government and Federal Government. Employment growth in these industries is specified as functions of State population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 12 equations, one equation for the unemployment rate, one equation to adjust for nonresidents, and ten additional equations for each of the ten major components of personal income as published by the Bureau of Economic Analysis, U.S. Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

Revenues

The revenue section of the model is being structured to emphasize four major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales tax, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are two stochastic equations for taxable sales and refunds.

Equations of the model are continuously respecified to account for revisions in historical data. Reformulation and respecification of the model continues as an ongoing process. Forecasts from the SCOPE core and revenue models were made available for deliberations in the first official estimate of FY 1992-93 by the Board of Economic Advisors on October 10, 1991, and for the February 15 revisions of FY 1991-92 and FY 1992-93 made at the Board of Economic Advisors meeting on February 10, 1992.

Board of Economic Advisors
August 21, 1992

SCOPE MODEL

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL

