

The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

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Outline of Presentation

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Overview of US economy

US economy forecast

SD economy

Summary & Conclusions

US Forecast

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Global Insight Forecast – October 9, 2015

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation

GDP

GDP growth in the 2nd half of 2015 will be constrained due to large inventory accumulation in the 1st half.

GDP growth in 2016 and 2017 will be strong at 2.9% and 3.0%, respectively.

Consumption spending will be strong.

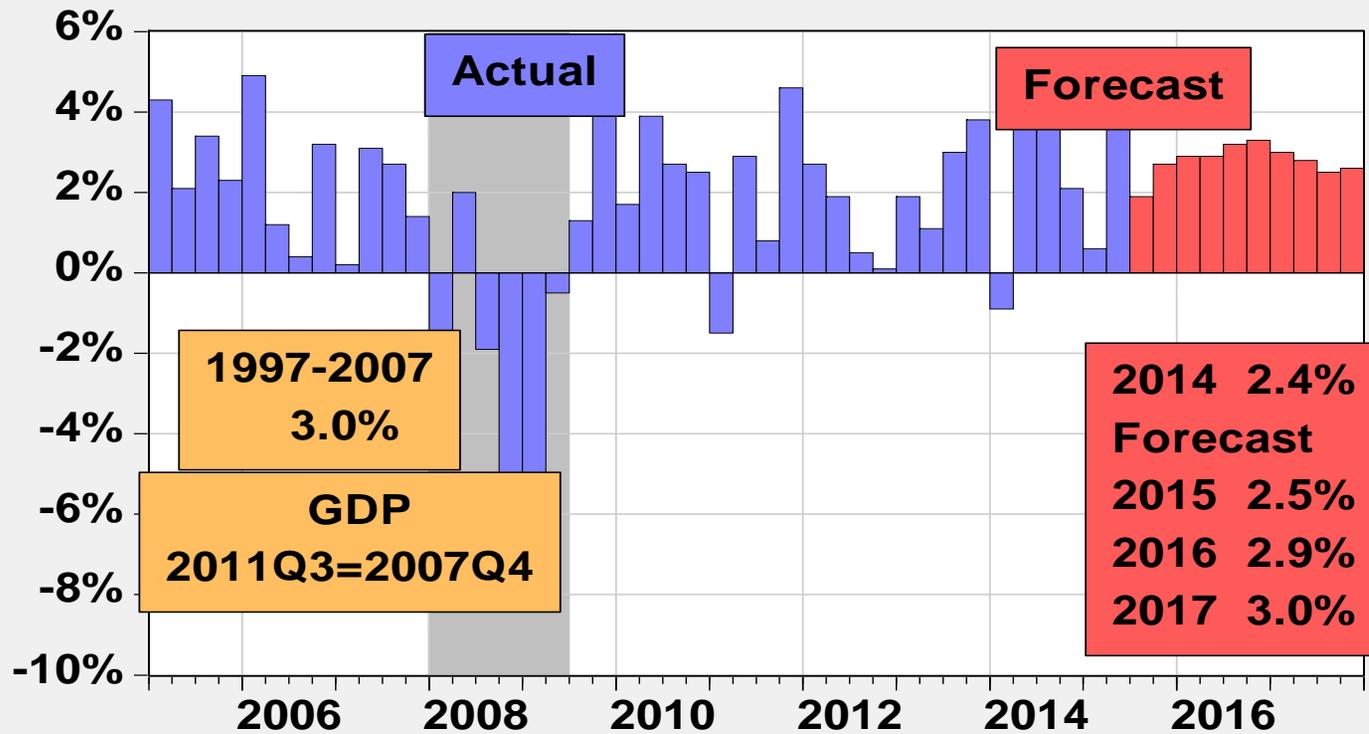
Business investment and housing will also be strong over the next two years.

The strong \$ will hold back growth in the foreign sector.

Faster Growth 2016 & 2017

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GROSS DOMESTIC PRODUCT



Source: BEA and IHS

Components of GDP are:

**GDP = Consumption (69%)
Investment (17%)
Government (18%)
Net Export (-4%)**

Consumption

Consumption spending is expected to remain strong through 2017.

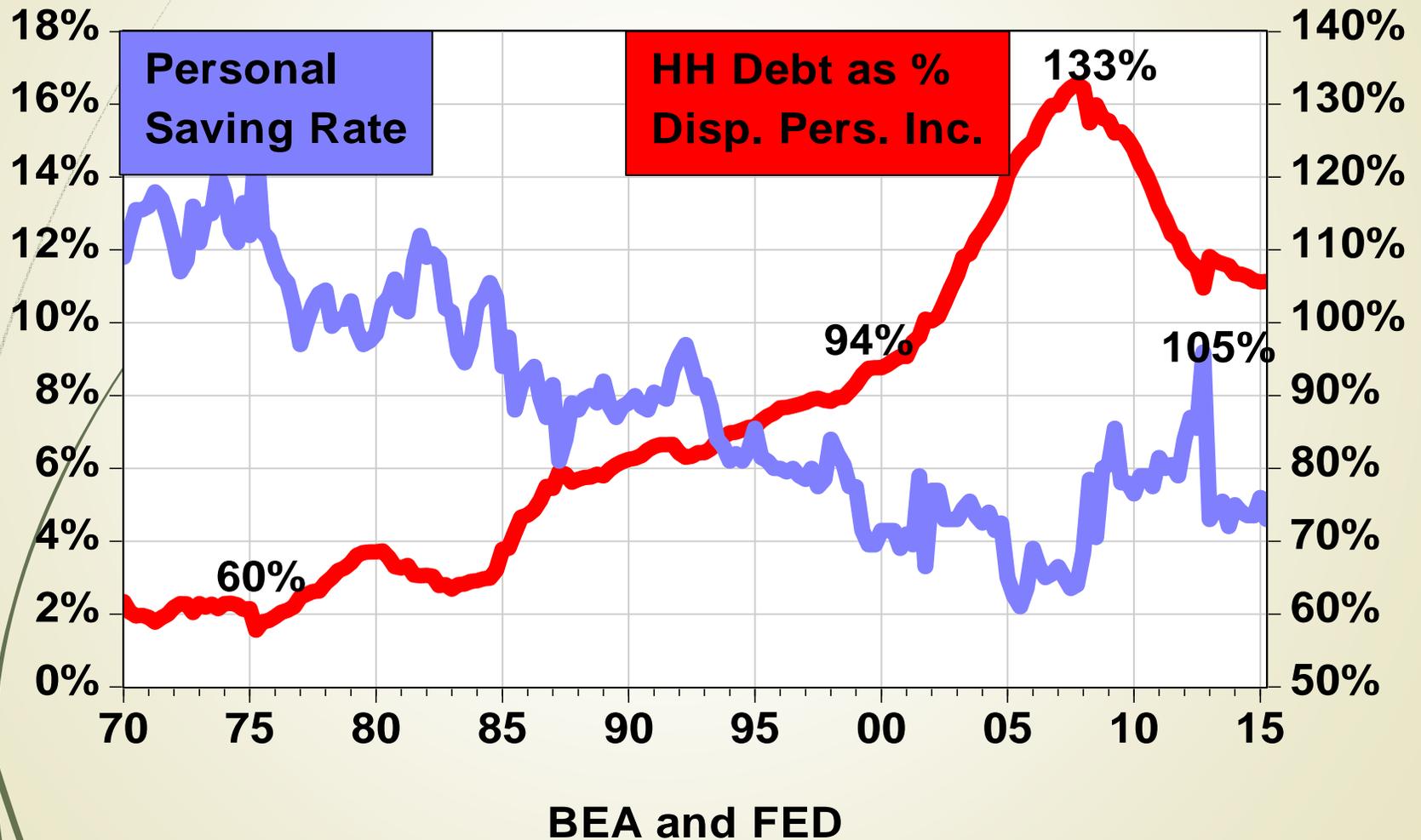
Solid job growth, low inflation, strong HH finances, and lower energy prices all support consumer growth.

Auto sales are expected to be strong.

Low import prices will support consumption as well.

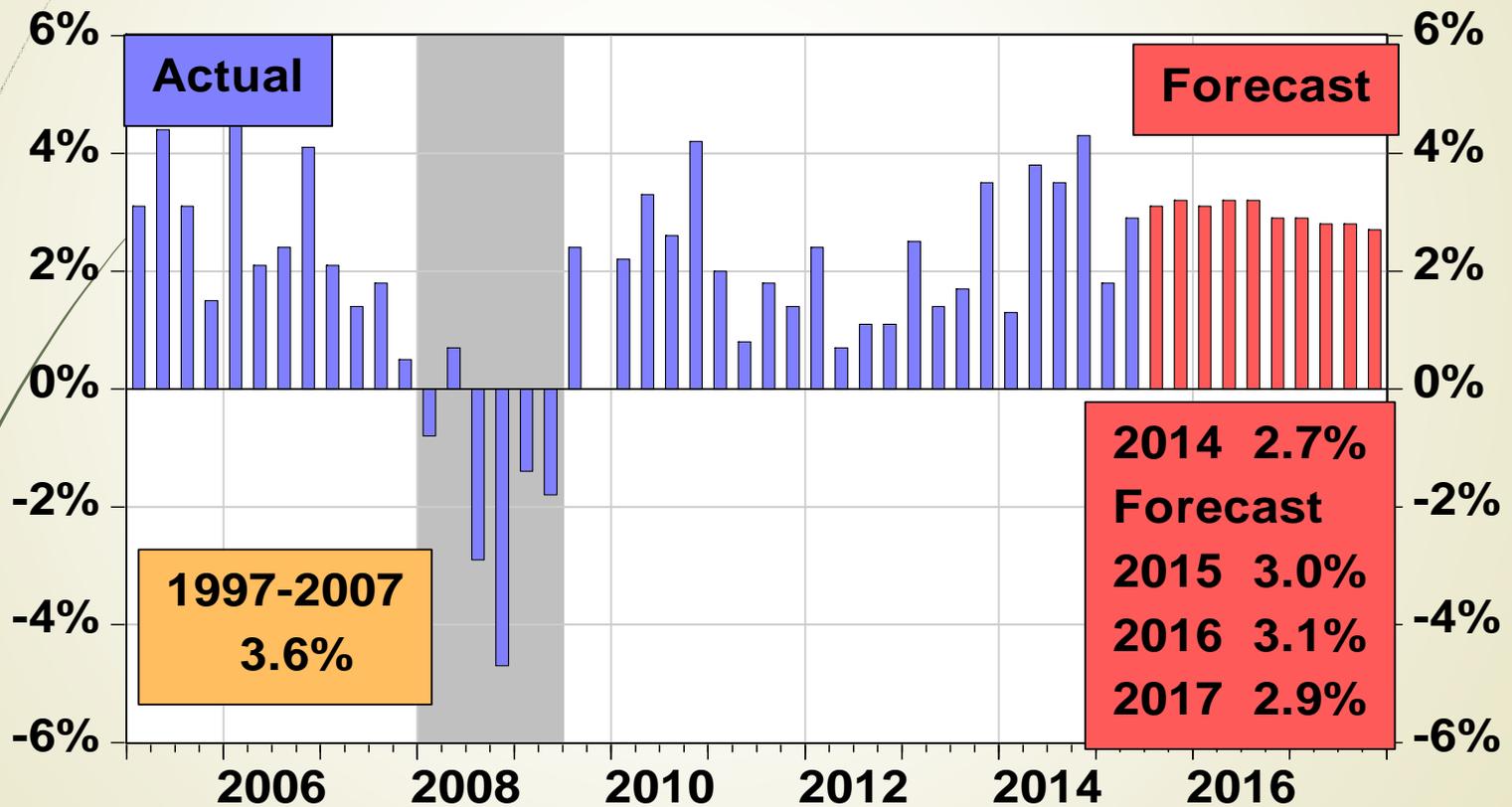
Deleveraging is Nearly Over

HOUSEHOLD DEBT AND SAVING RATE



Good Growth

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

In the energy sector, it looks like the drilling rig count will continue to be negative and bottom out next year.

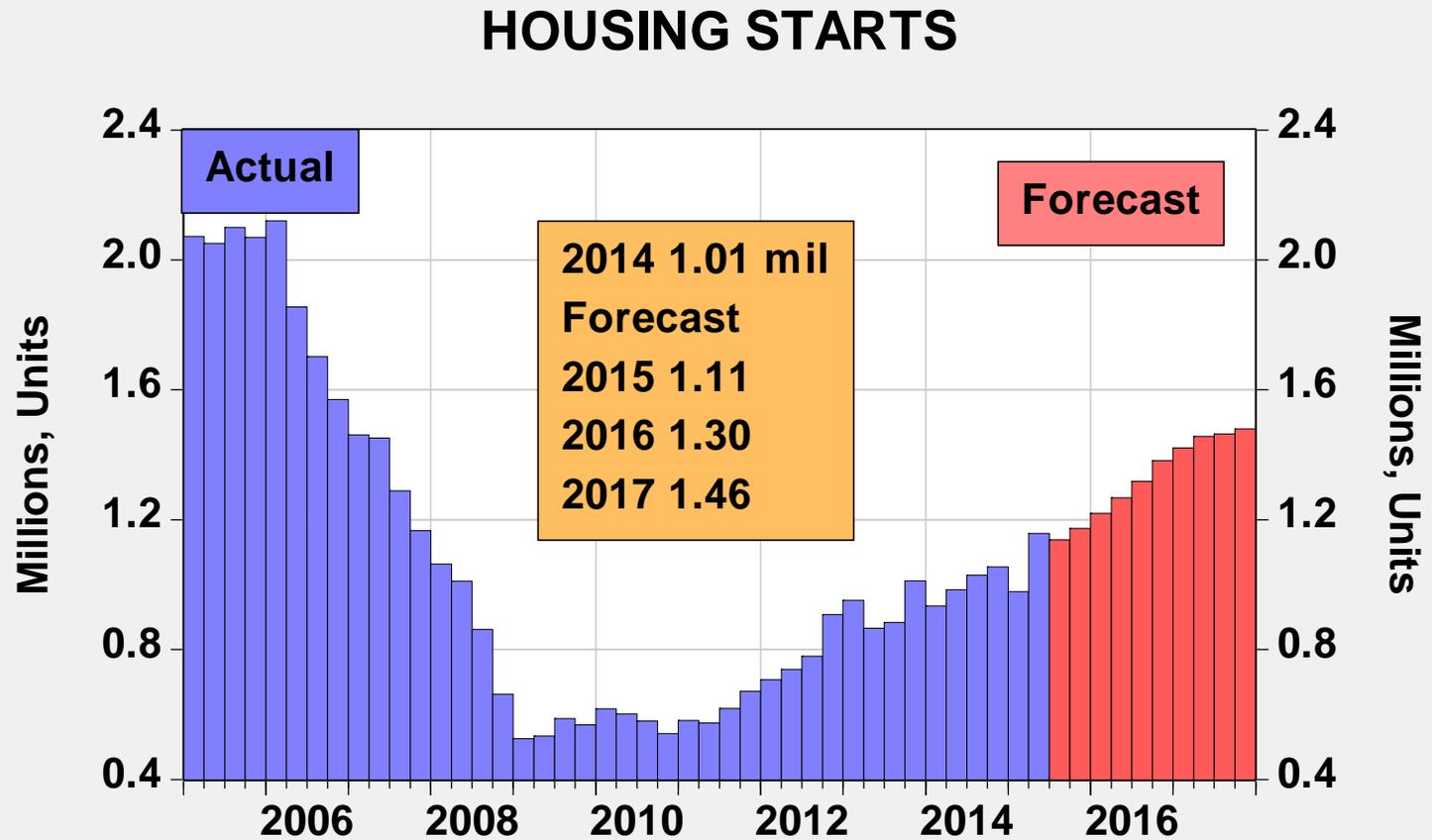
Housing starts will be strong over the next two years.

Investment in commercial structures is projected for positive growth in 2016 and 2017 after a decline in 2015.

Spending on equipment is projected for good growth in 2016 and 2017.

Continued Recovery

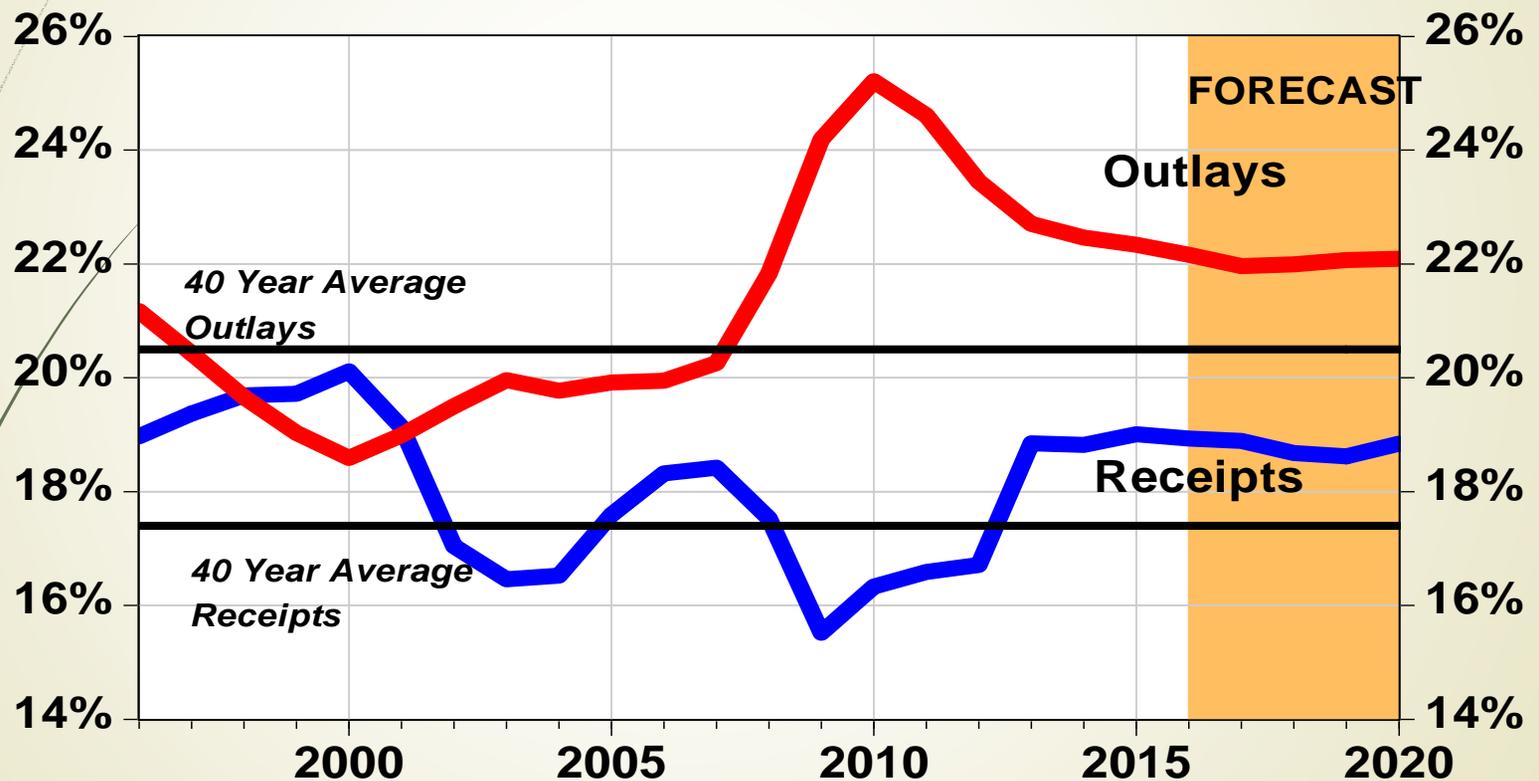
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Source: US Census and IHS

Government Sector

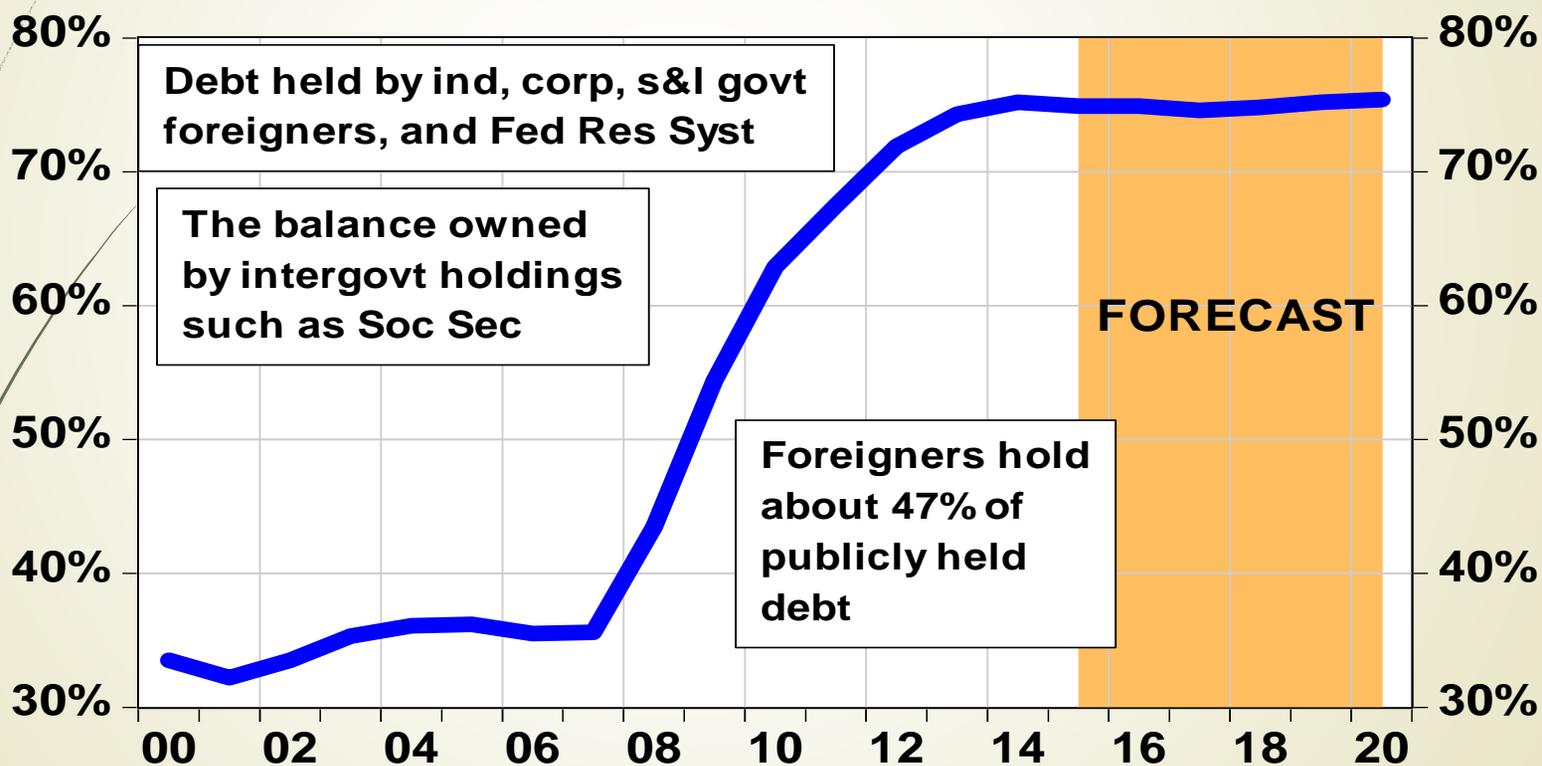
FEDERAL GOVERNMENT AS % OF GDP



BEA AND IHS

Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS

Foreign Sector

\$ at highest level since 2003 and will continue to be strong through the first half of 2016.

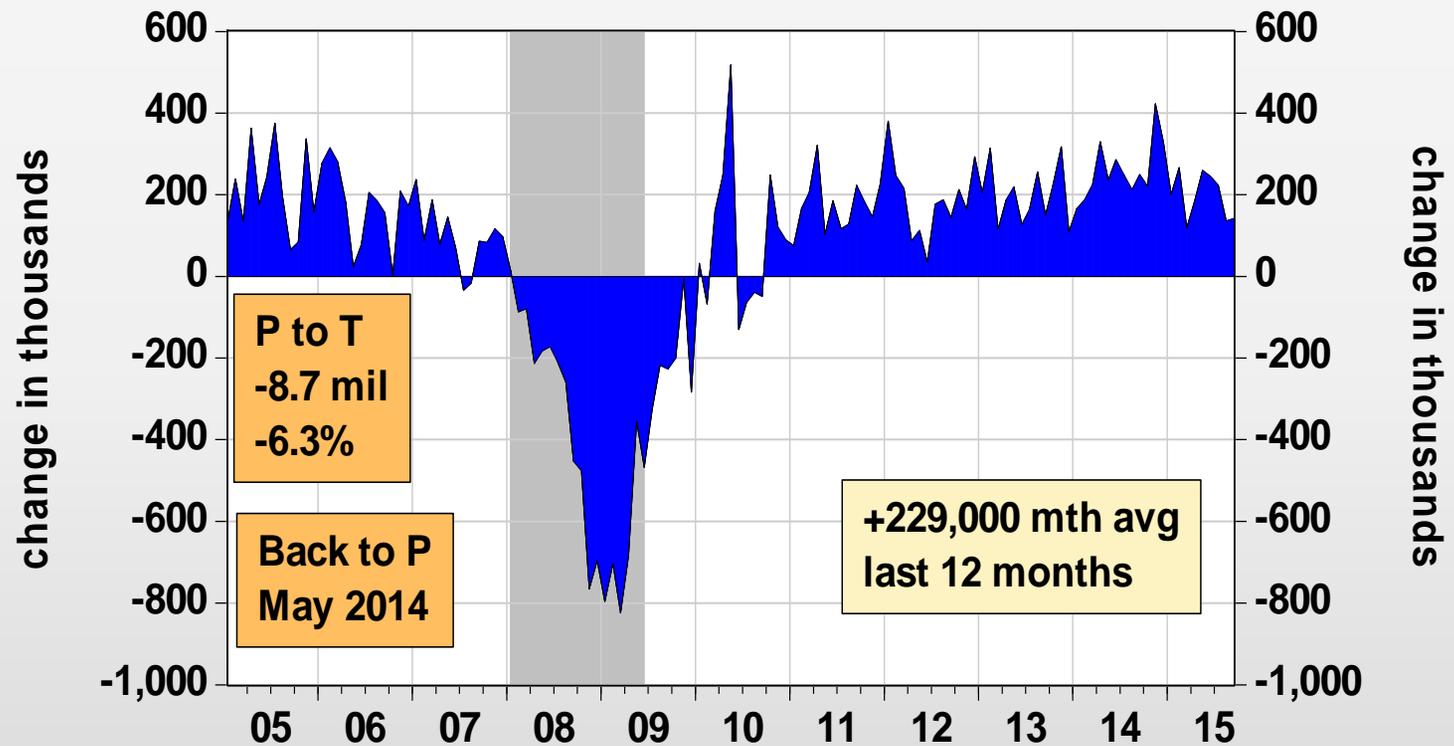
China is no longer the locomotive leading the growth in Asian countries and commodity-exporting countries.

China is undergoing a series of transitions (external to internal demand, rural to urban, industry to services, and fixed investment to consumption).

The US is one of the bright spots in the world economy.

Last Month Only 142K

NONFARM EMPLOYMENT



Source: BLS

Employment & Unemployment

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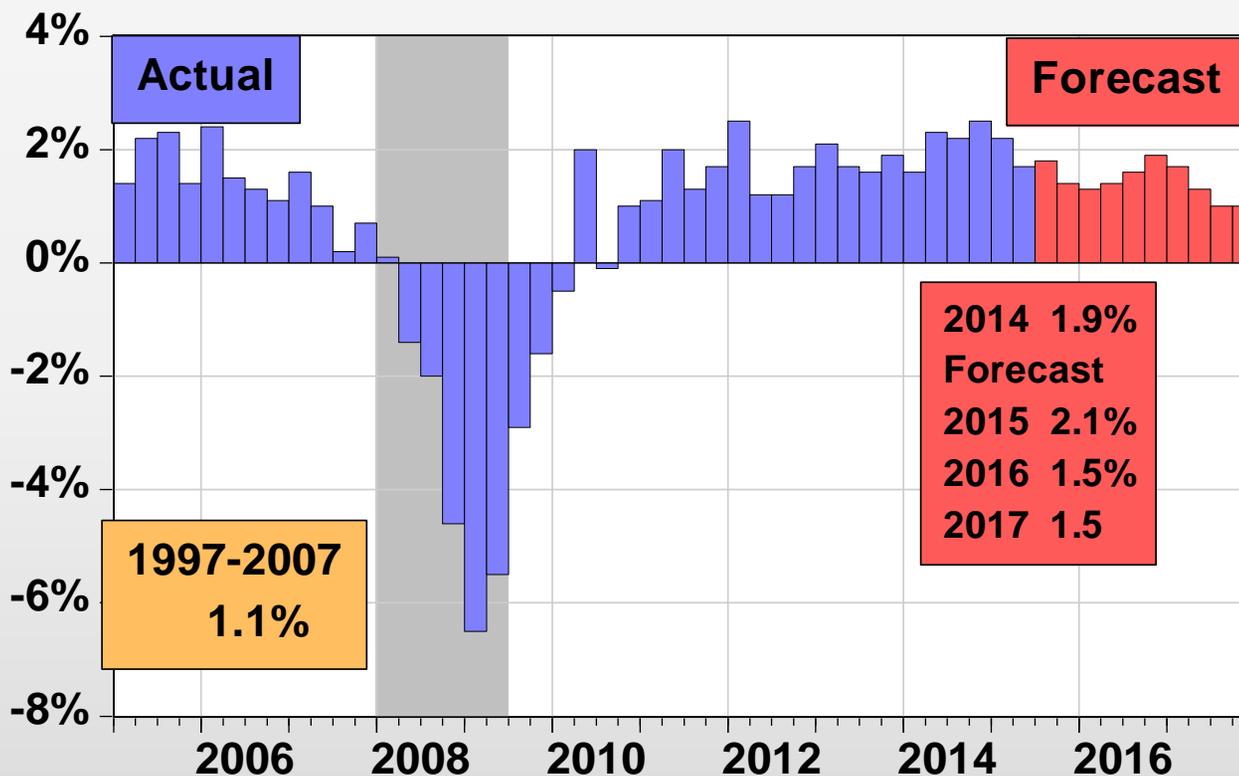
After a year of job growth of more than 200,000 per month, there is some evidence that the job market is losing momentum.

Unemployment rate will average 5.3% in 2015 and 5.0% in 2016 and 4.9% in 2017.

Yet, the labor force participation rate is at a 38 year low and wage growth is sluggish.

Job Growth Slows But Positive

NONFARM EMPLOYMENT

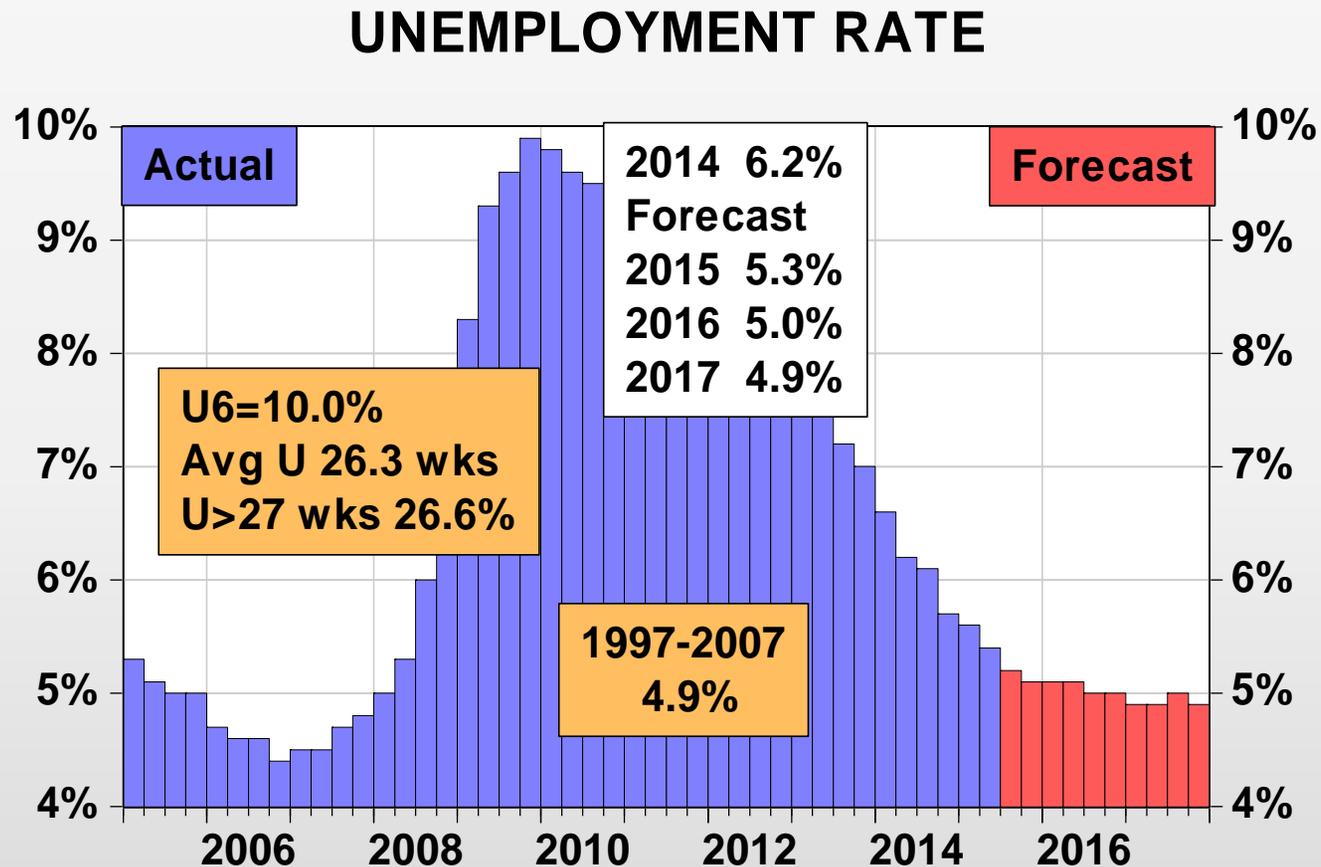


2014 1.9%
Forecast
2015 2.1%
2016 1.5%
2017 1.5

1997-2007
1.1%

Source: BLS and IHS

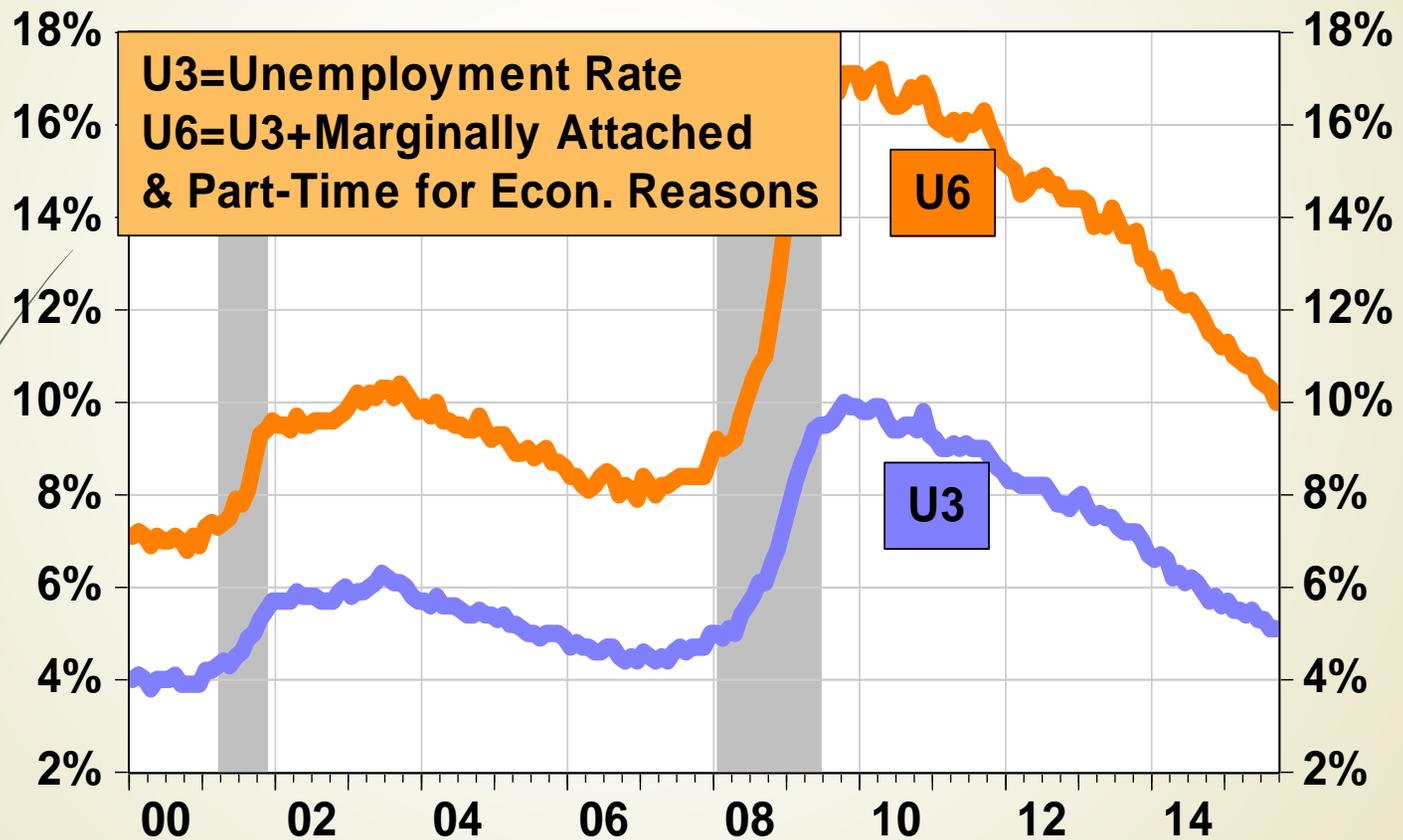
Low U3 Unemployment Rate



Source: BLS and IHS

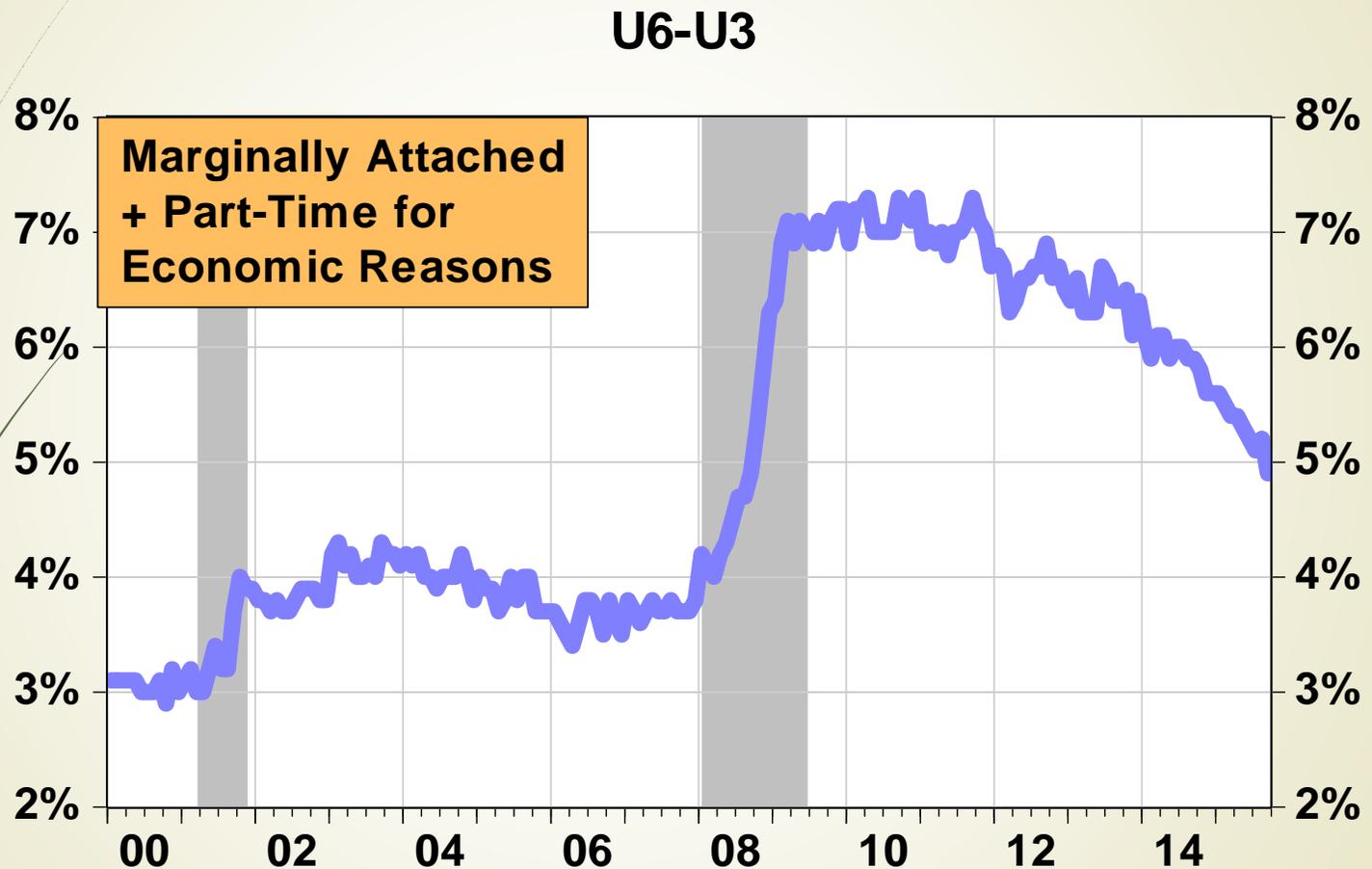
U3 & U6 Unemployment Rates

Unemployment Rates



Source: BLS

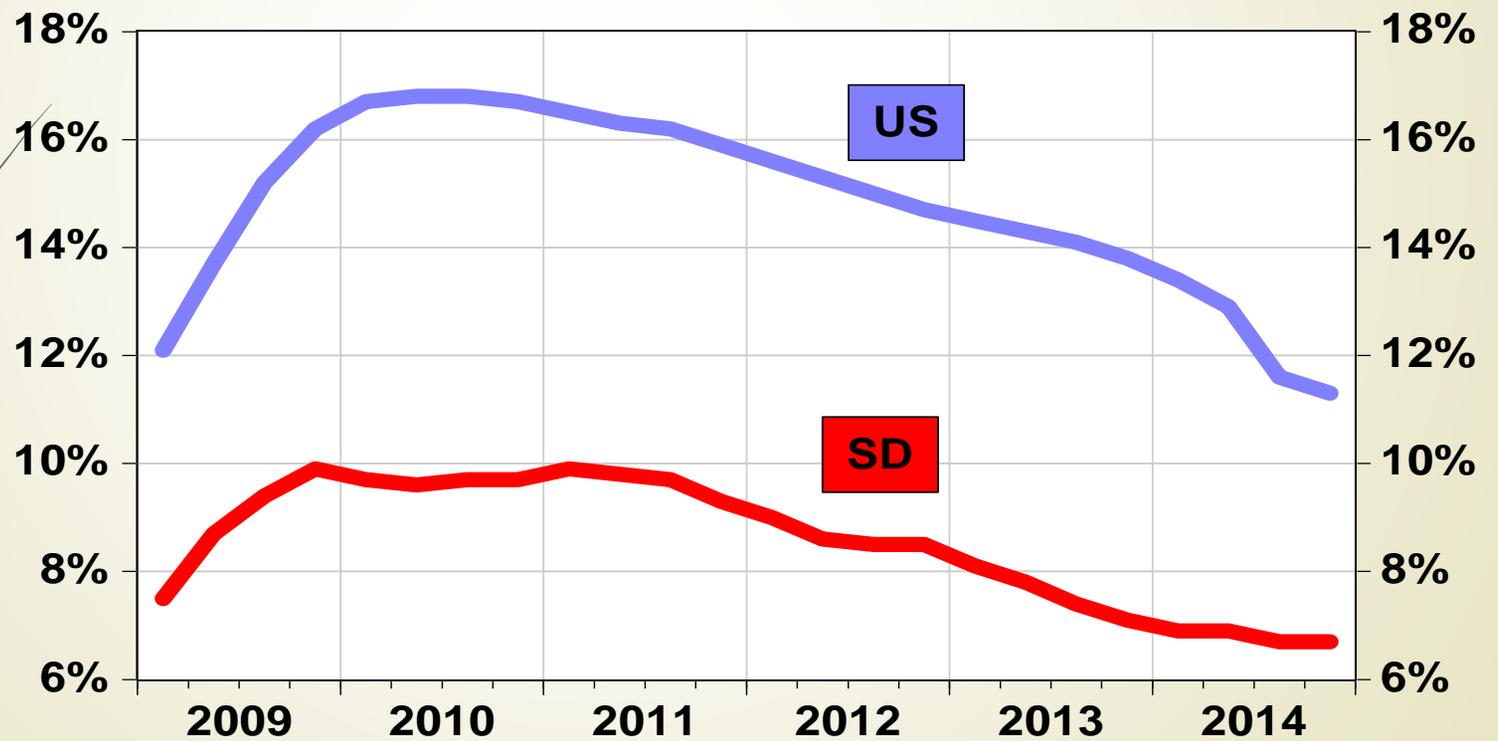
Marginally Attached & Part-Time



Source: BLS

US & SD U6

US AND SD U6 UNEMPLOYMENT RATE



Source: BLS

Inflation & Interest Rates

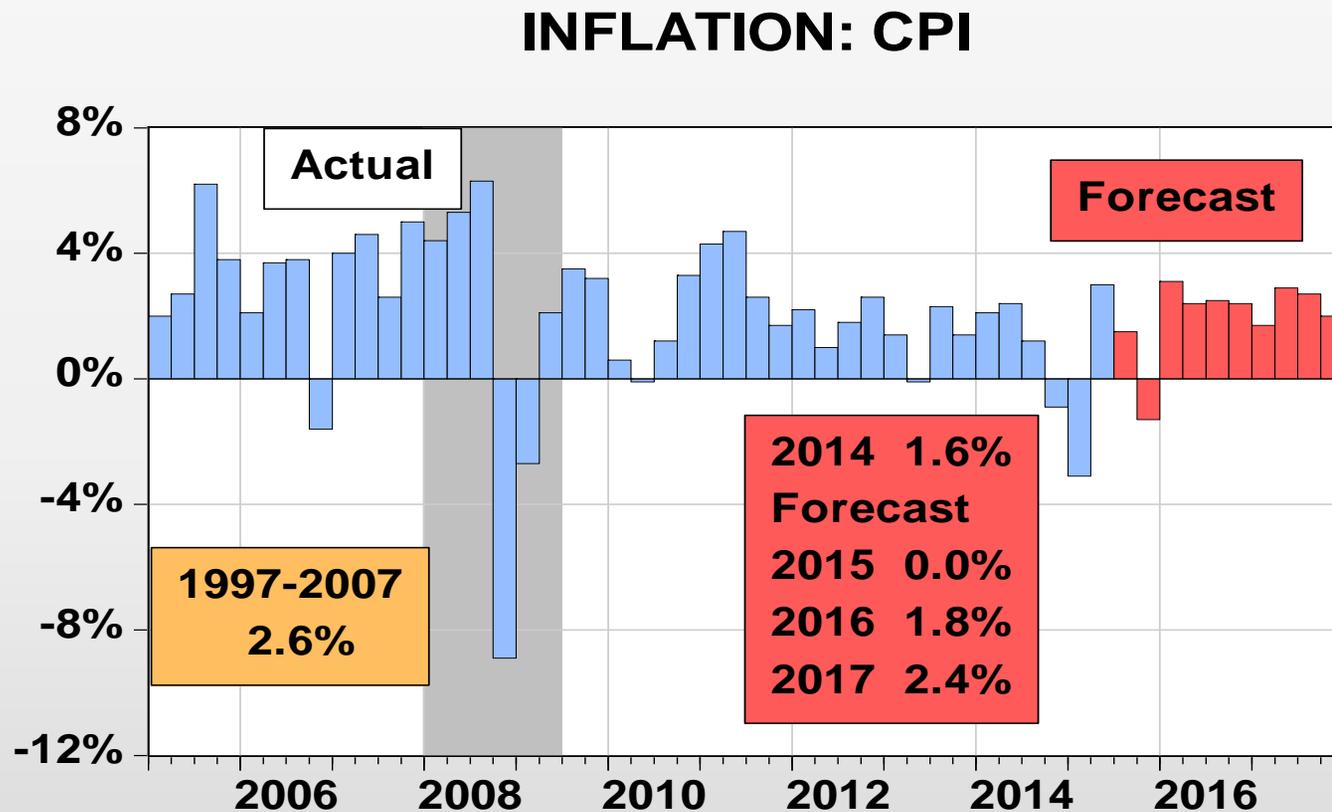
Low energy prices and the strong \$ keep inflation under control and well below FED's 2% target.

Weak international sector and financial market volatility is the reason FED did not raise rates in September.

IHS expects FED to begin raising rates in December 2015. Greater than 50/50.

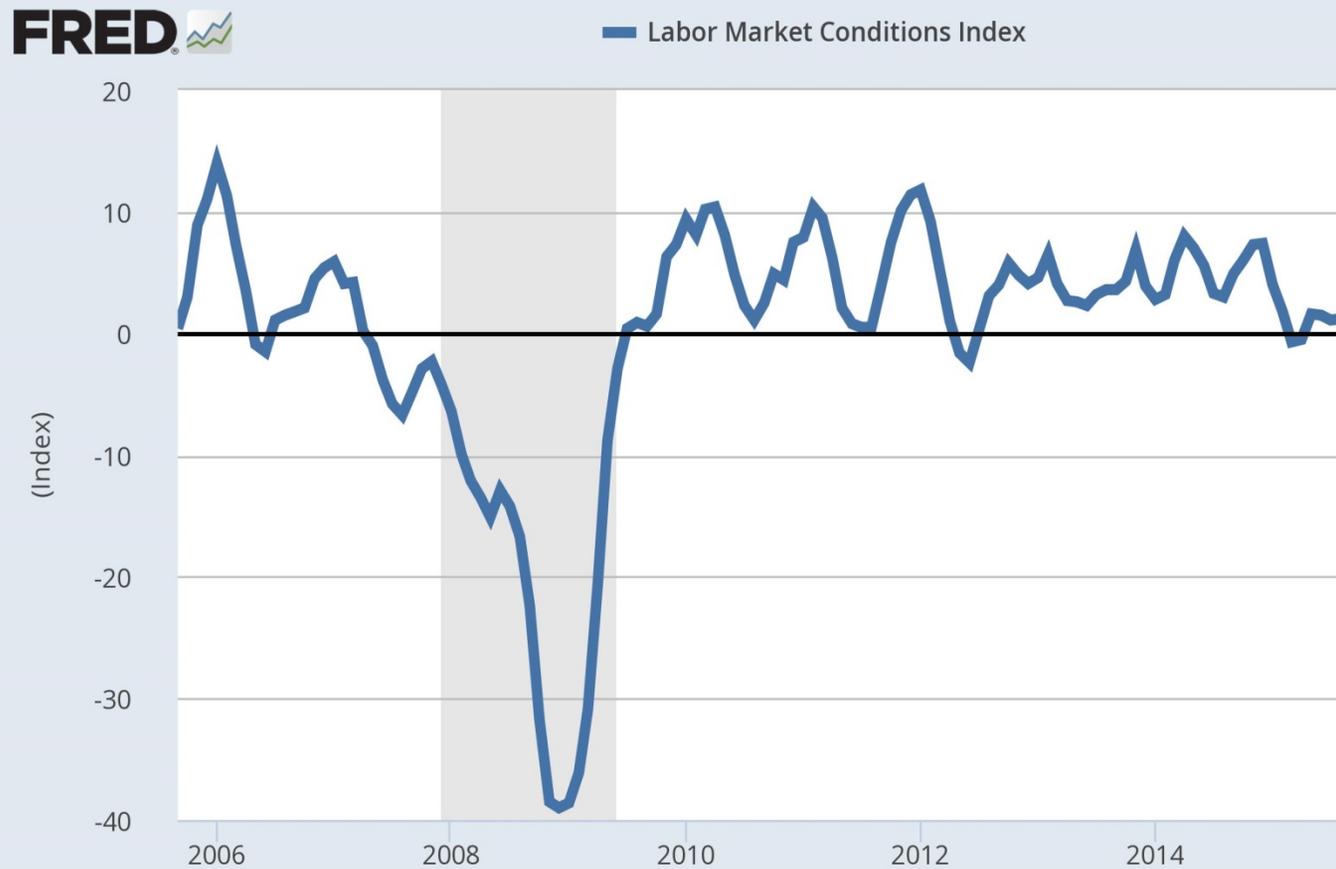
If the job market loses more momentum and/or a govt shutdown, December rate rise could be delayed again.

Still Very Low



Source: BLS and IHS

LABOR MARKET CONDITIONS INDEX



Source: Board of Governors of the Federal Reserve System (US)
research.stlouisfed.org

PERSONAL CONSUMPTION EXPENDITURES DEFLATOR LESS FOOD AND ENERGY

FRED 

— Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



Source: US. Bureau of Economic Analysis
research.stlouisfed.org

IHS GLOBAL INSIGHT

FORECAST October 2015

Variable	2014	2015	2016	2017
GDP	2.4%	2.5 %	2.9%	3.0%
NA Emp	1.9%	2.1%	1.5%	1.5%
Oil(Brent)	\$100	\$54	\$55	\$63
Housing	1.01	1.11	1.30	1.46
CPI	1.6%	0.0%	1.8%	2.4%
Un Rate	6.2%	5.3%	5.0%	4.9%

Risks to Forecast

20% chance of recession.

Risks are:

Slowing growth of developing economies because of low commodity prices.

The international weakness causes risk-averse investors to seek security in US assets driving up the value of the \$.

Then US economy slows causing a sharp drop in the stock market. By 2nd qtr of 2016 the S&P 500 down 24% year-over-year.

Consumer confidence drops, etc. etc.

Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

Real nonfarm personal income

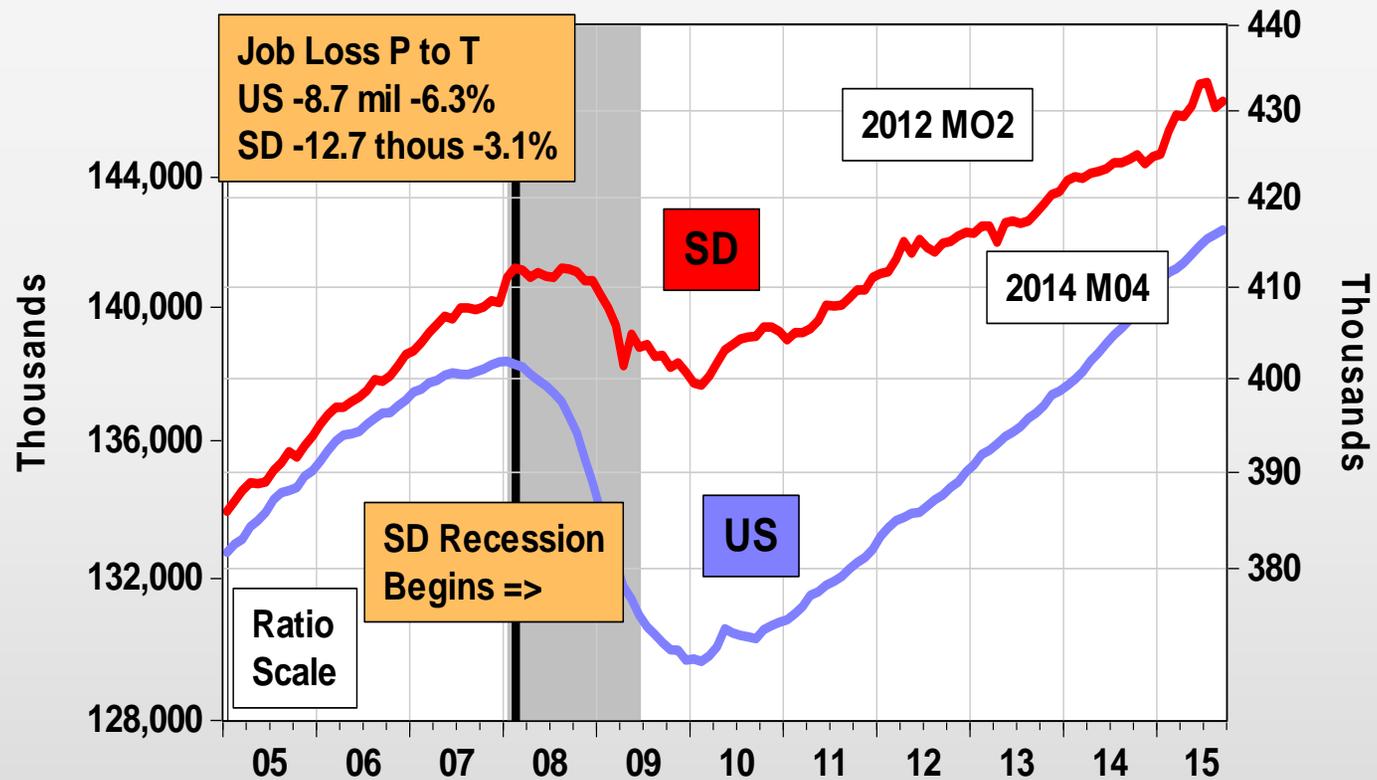
Taxable sales

Leading indicator

Steady Growth

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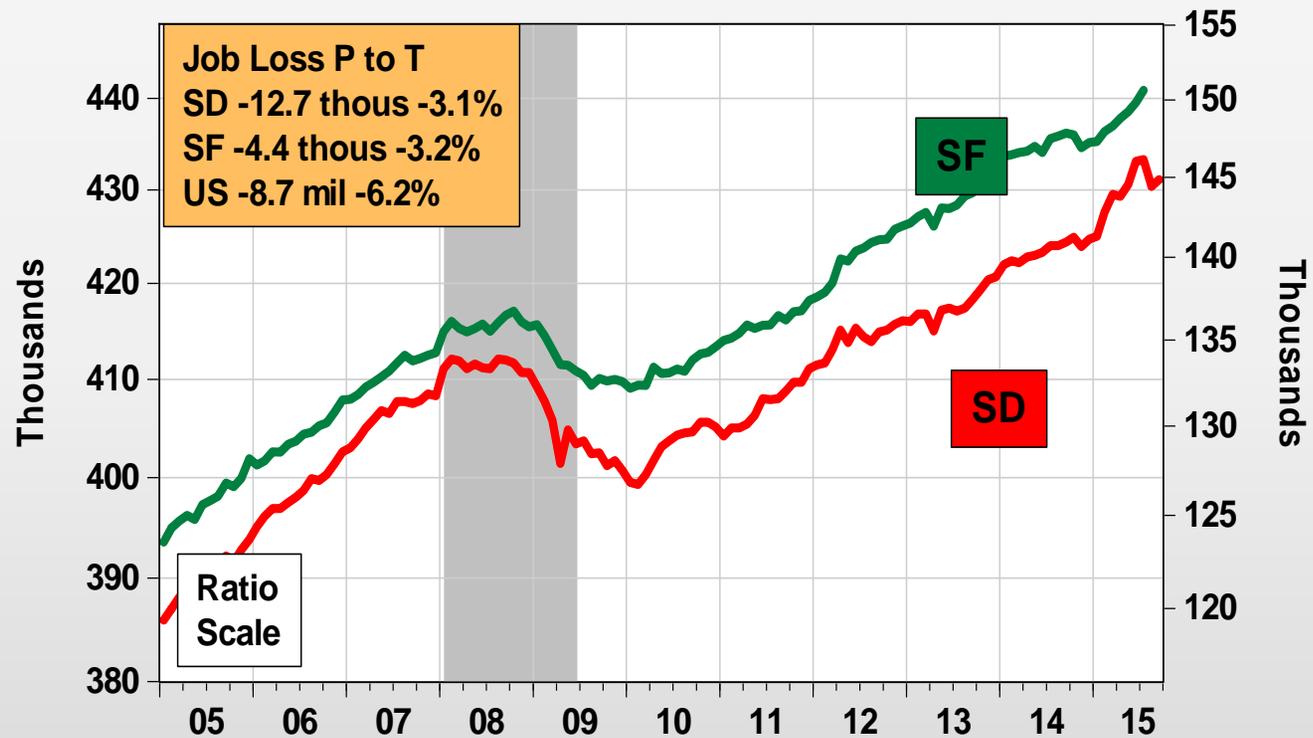
NONFARM EMPLOYMENT



Source: BLS

SD & SF Very Similar

NONFARM EMPLOYMENT - SD & SF

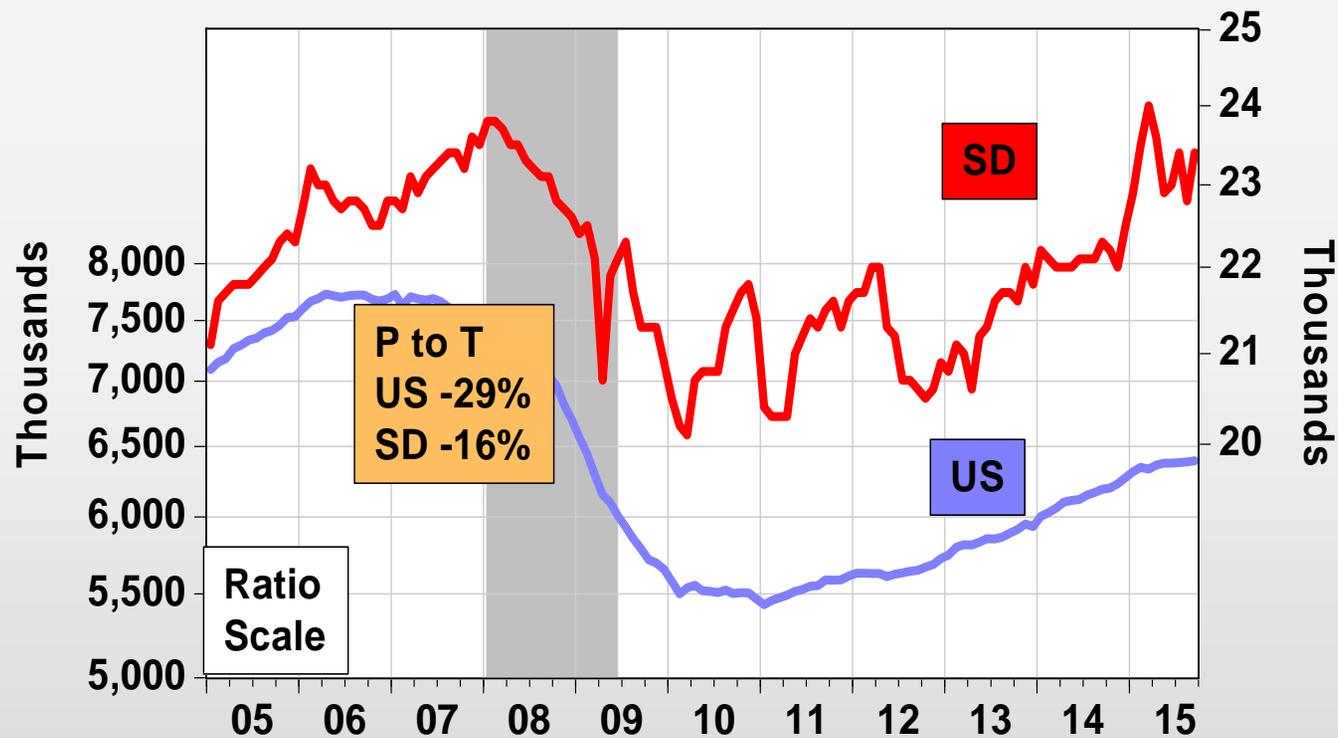


Source: BLS

Recovery - Almost Back

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CONSTRUCTION EMPLOYMENT

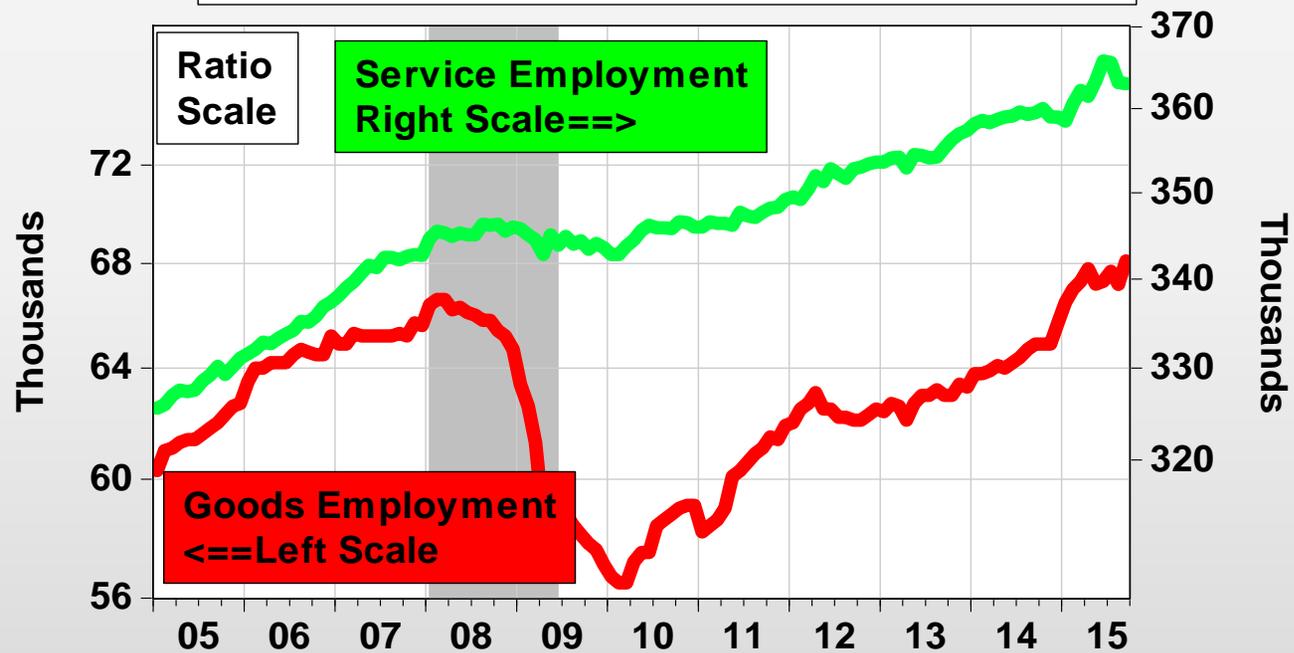


Source: BLS

Which is More Cyclical?

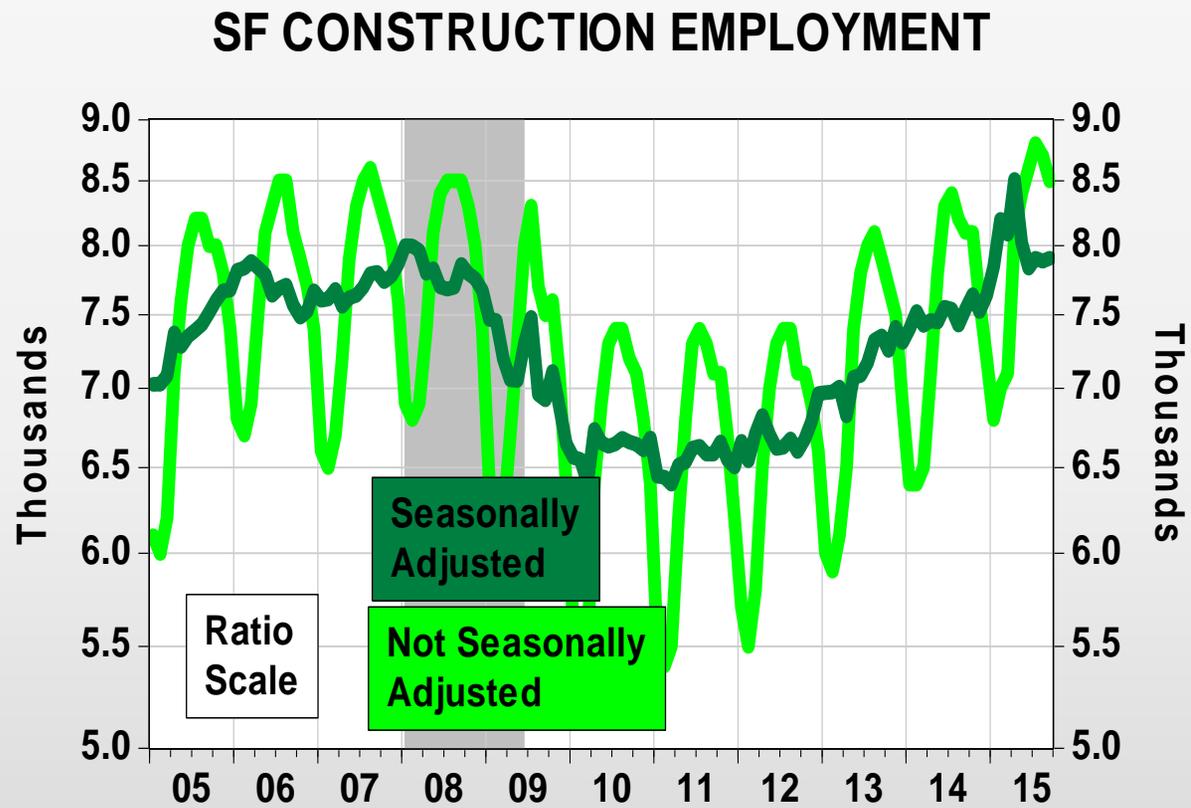
SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

Goods-Producing = Manufacturing+Construction



Source: BLS

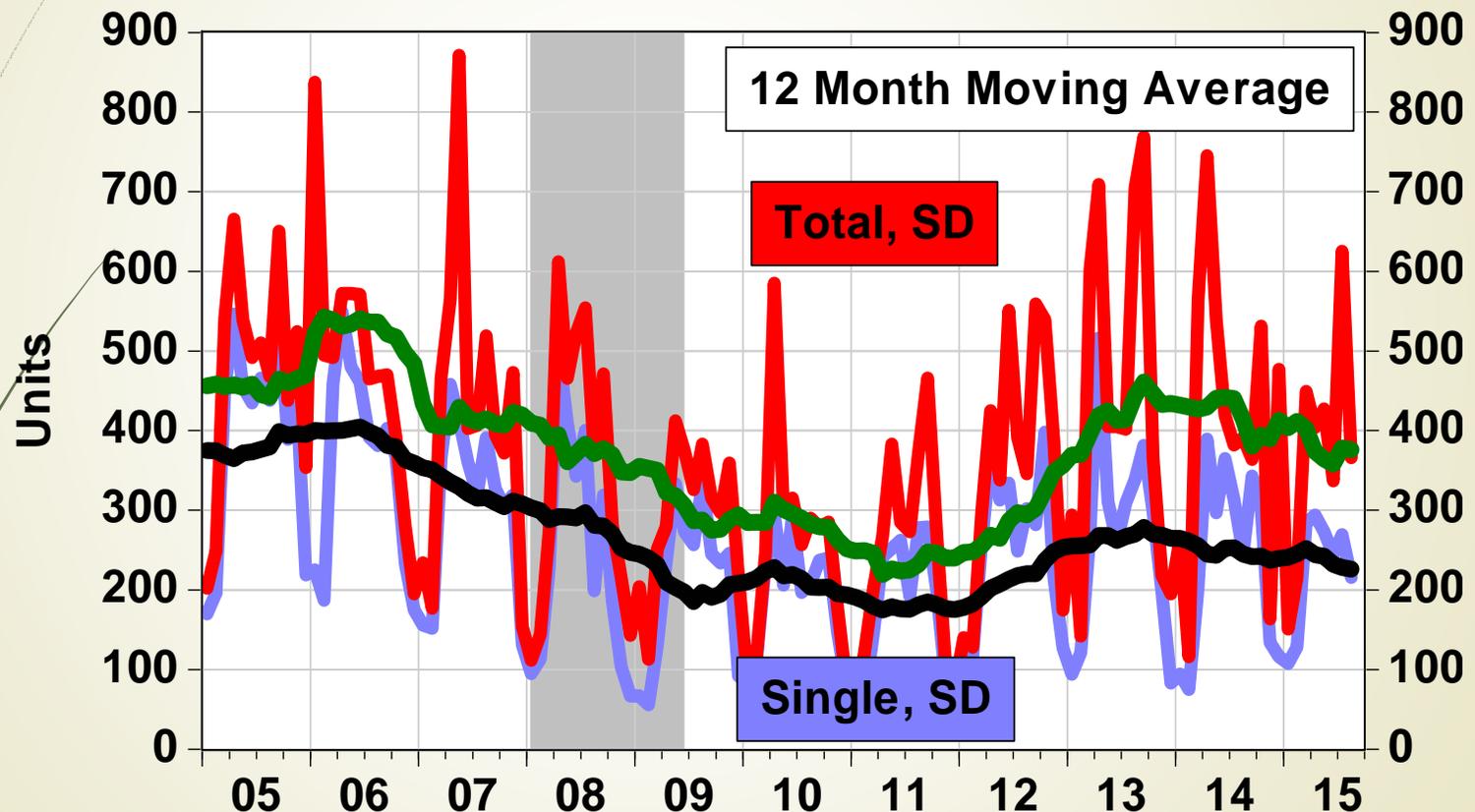
Boom



Source: BLS

Not Quite Back to Peak

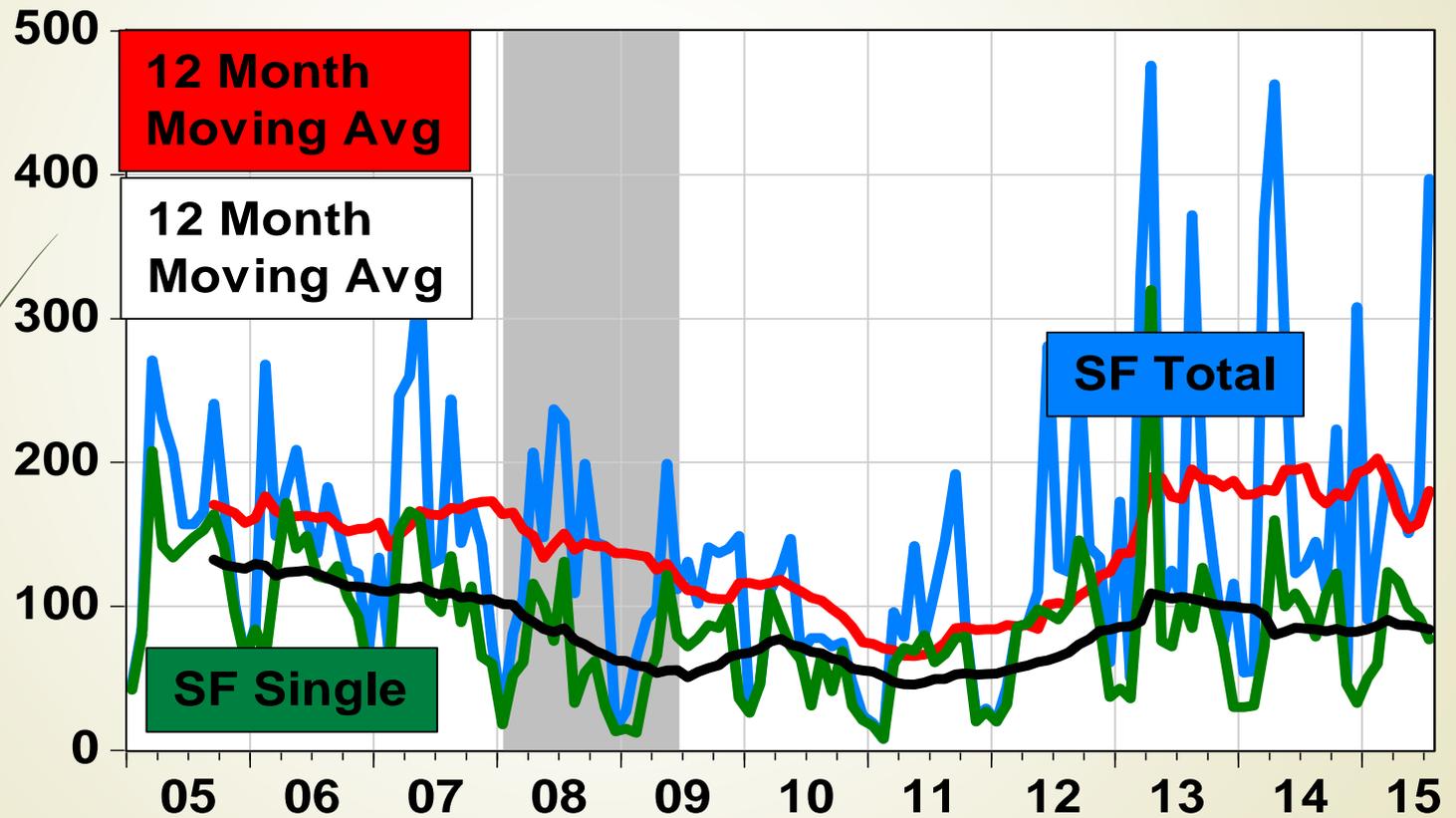
SD Building Permits, Total & Single



Source: Census Bureau

Booming

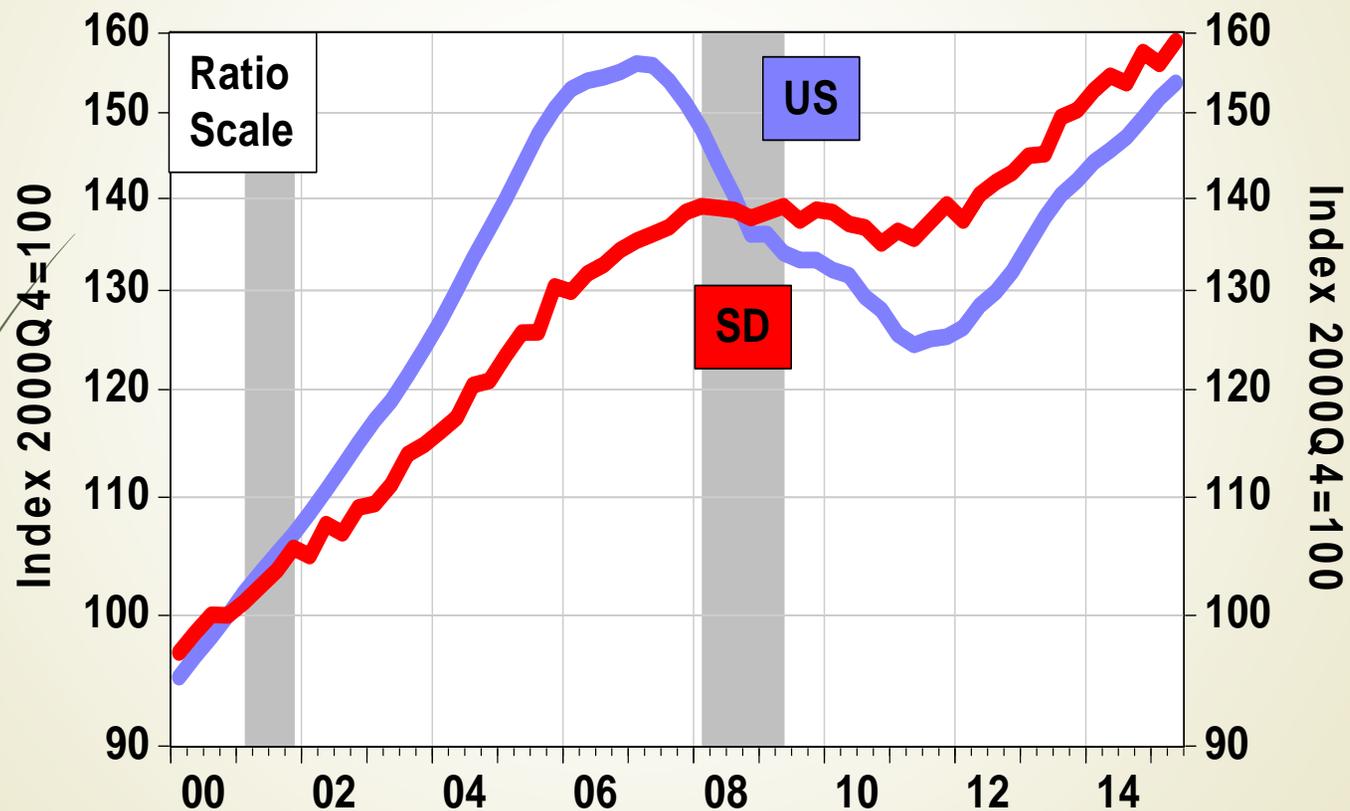
Sioux Falls Building Permits



Source: US Census Bureau

SD Peaked Later and Decline Less Severe

HOUSE PRICE INDEX: PURCHASE ONLY PRICE

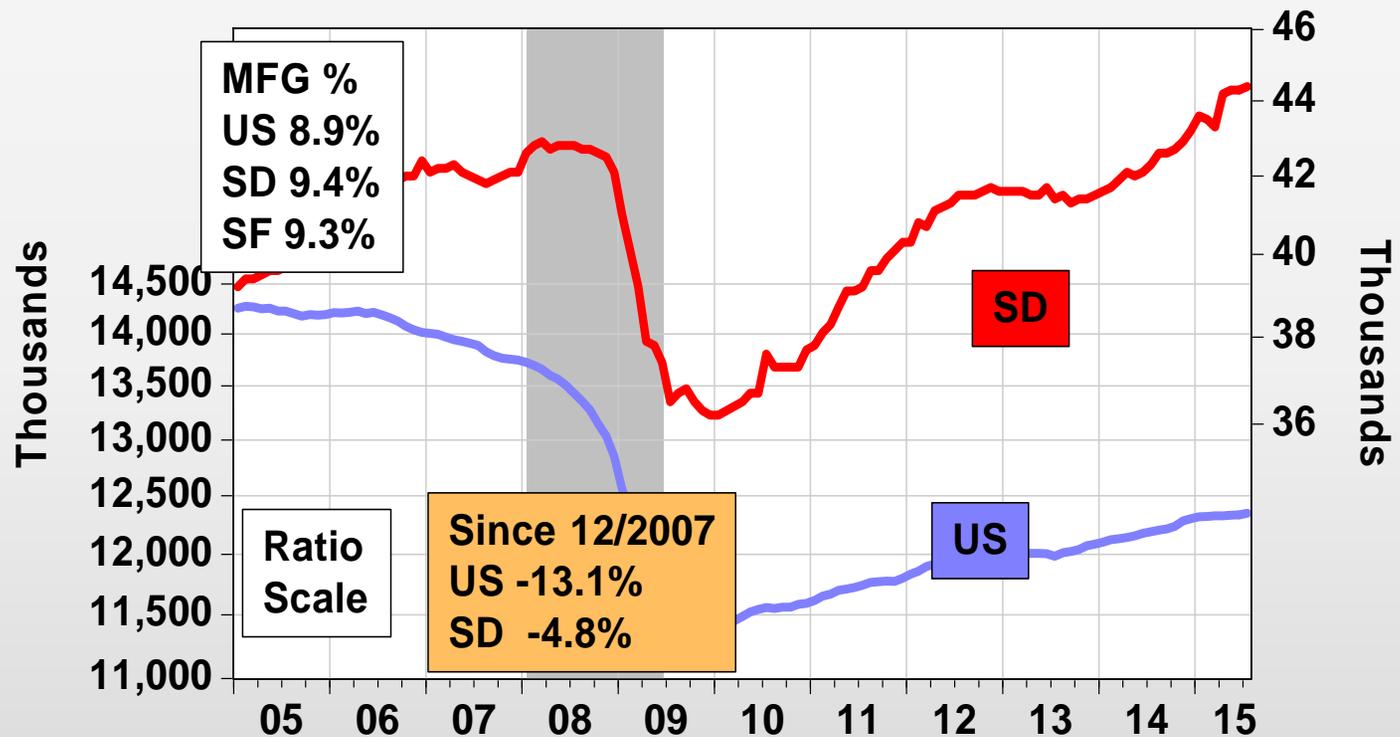


Source: FHFA.GOV

Mfg Above Peak Fin Not

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MANUFACTURING EMPLOYMENT

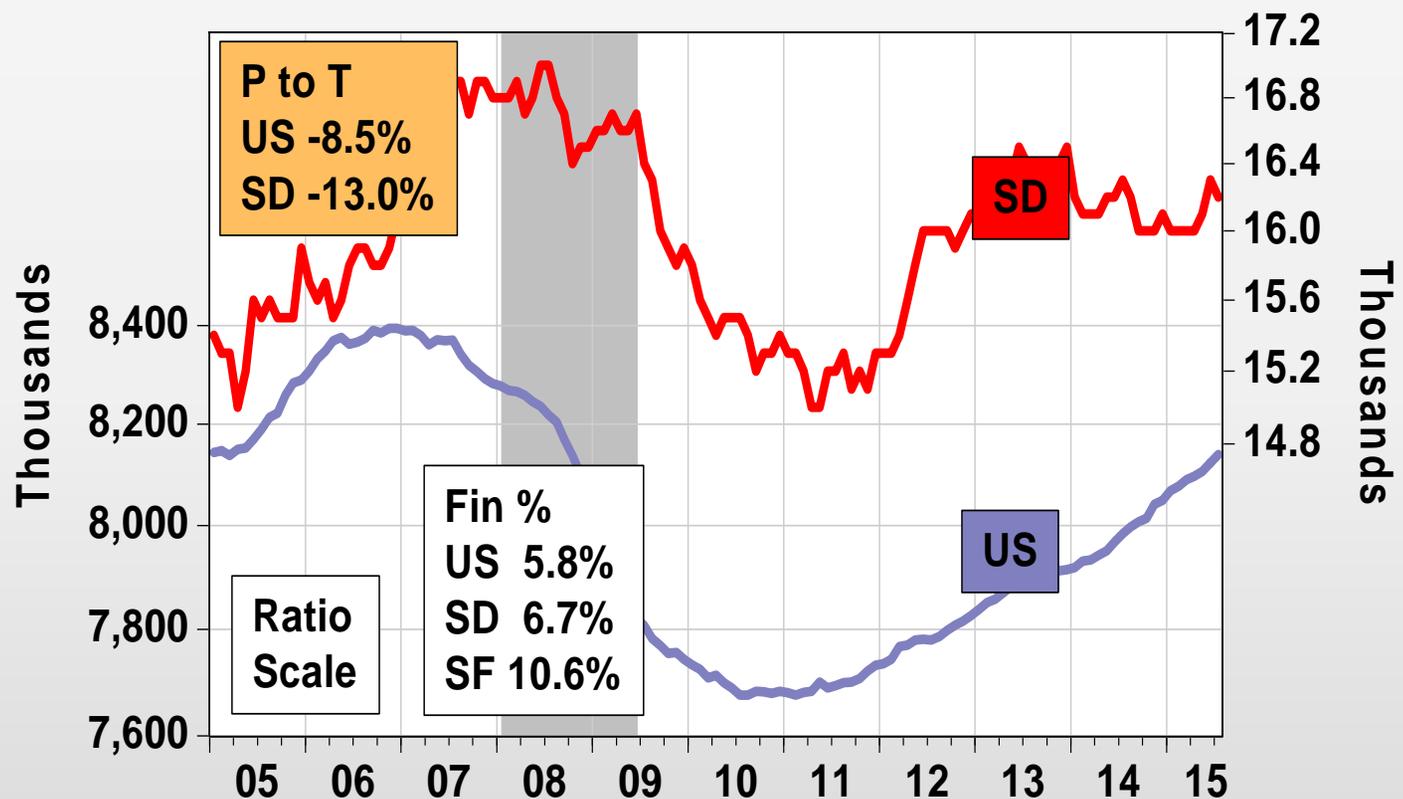


Source: BLS

SD Not Back to Peak

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FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

Again Mfg But Not Fin

Sioux Falls Employment - Finance & Manufacturing

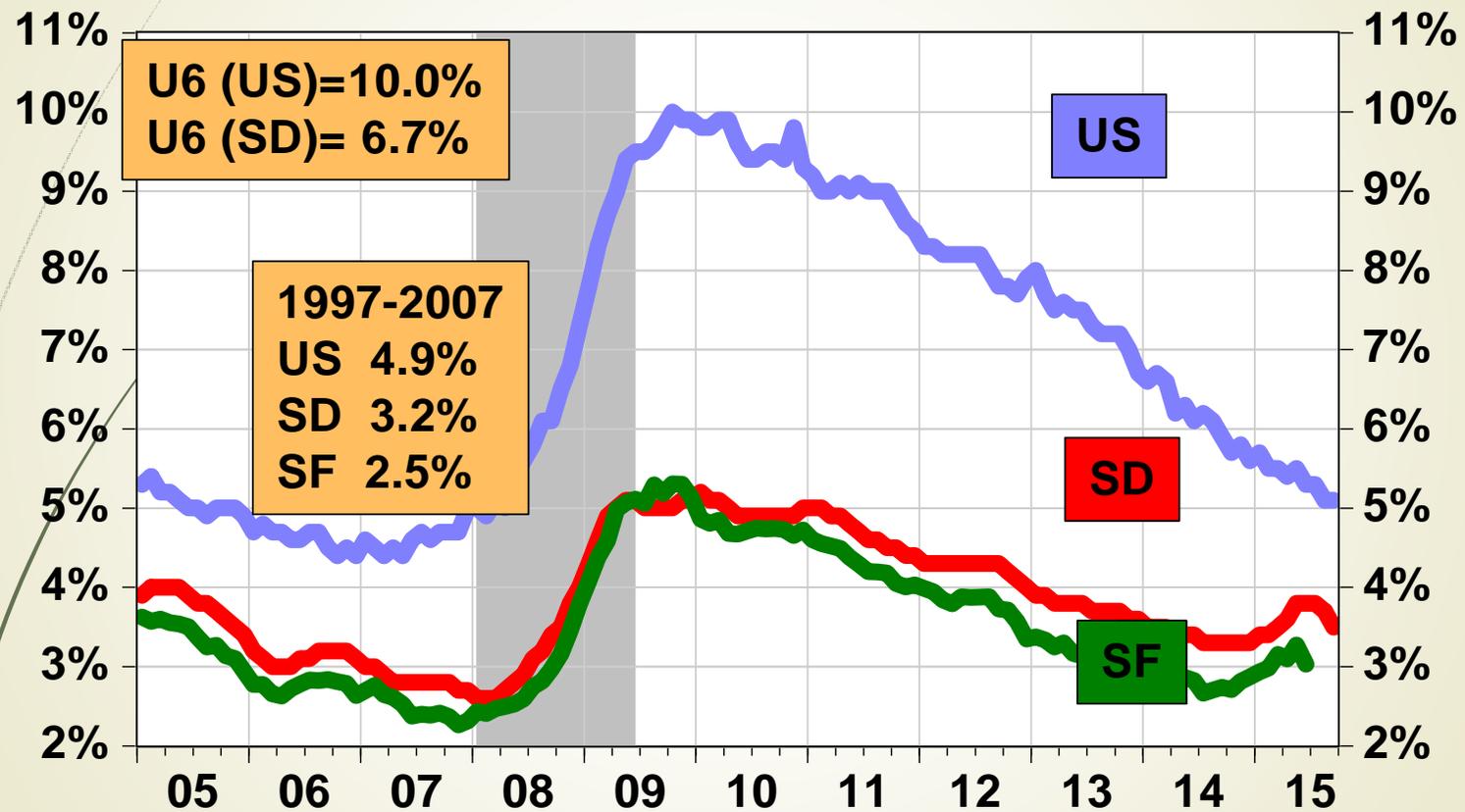


Source: BLS

SD 3.5% SF(SA) 2.7%

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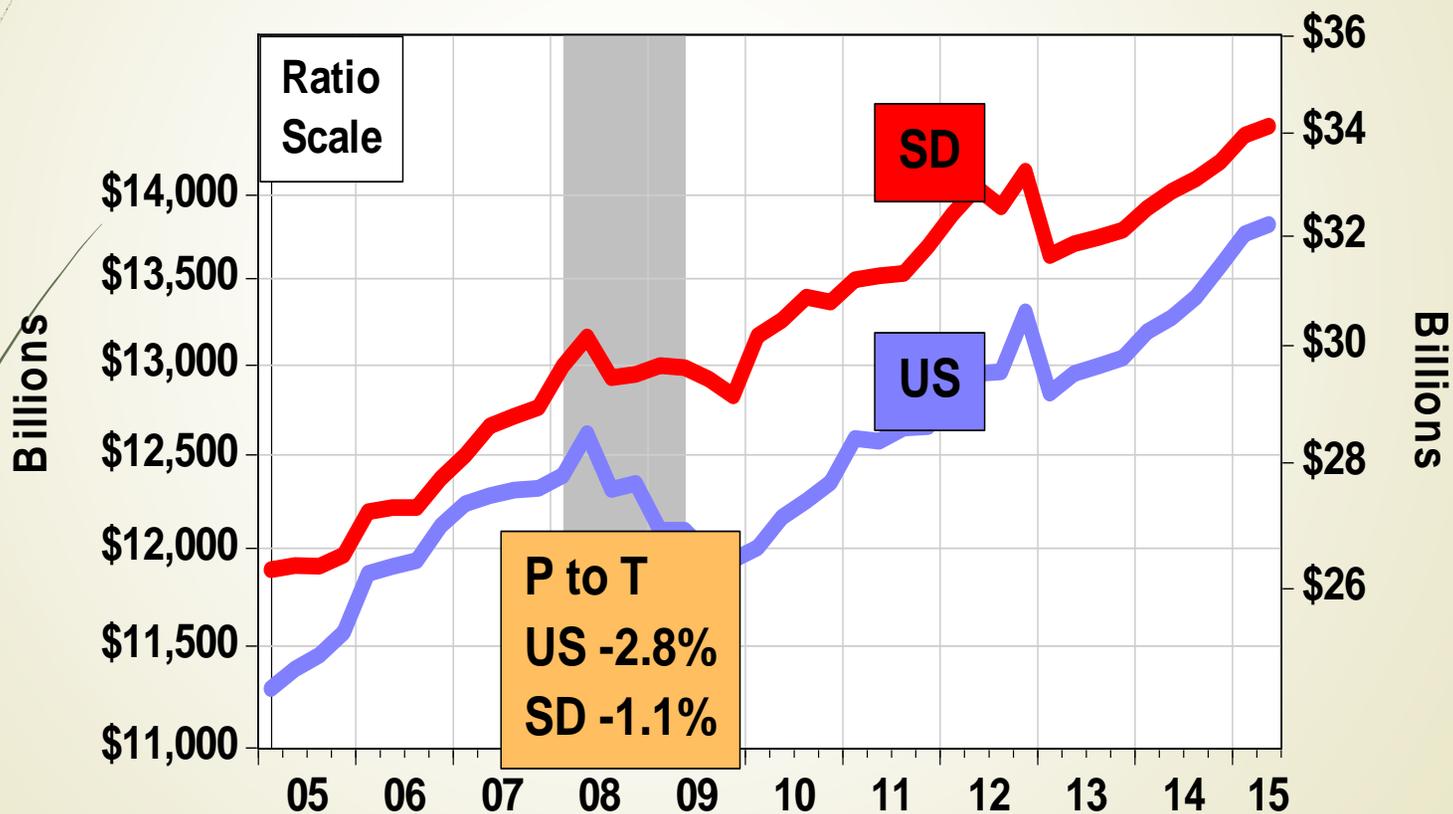
UNEMPLOYMENT RATE



Source: BLS

SD Smaller Decline – Way Above Previous Peak

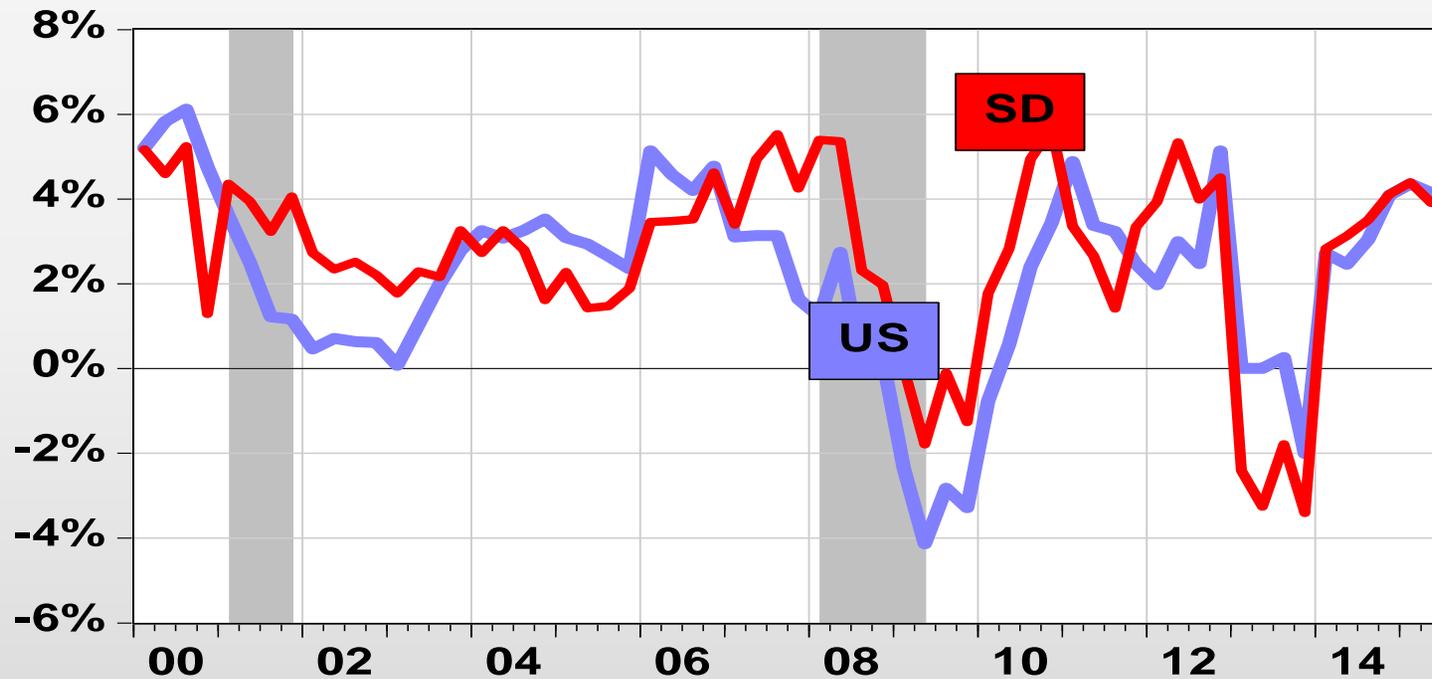
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

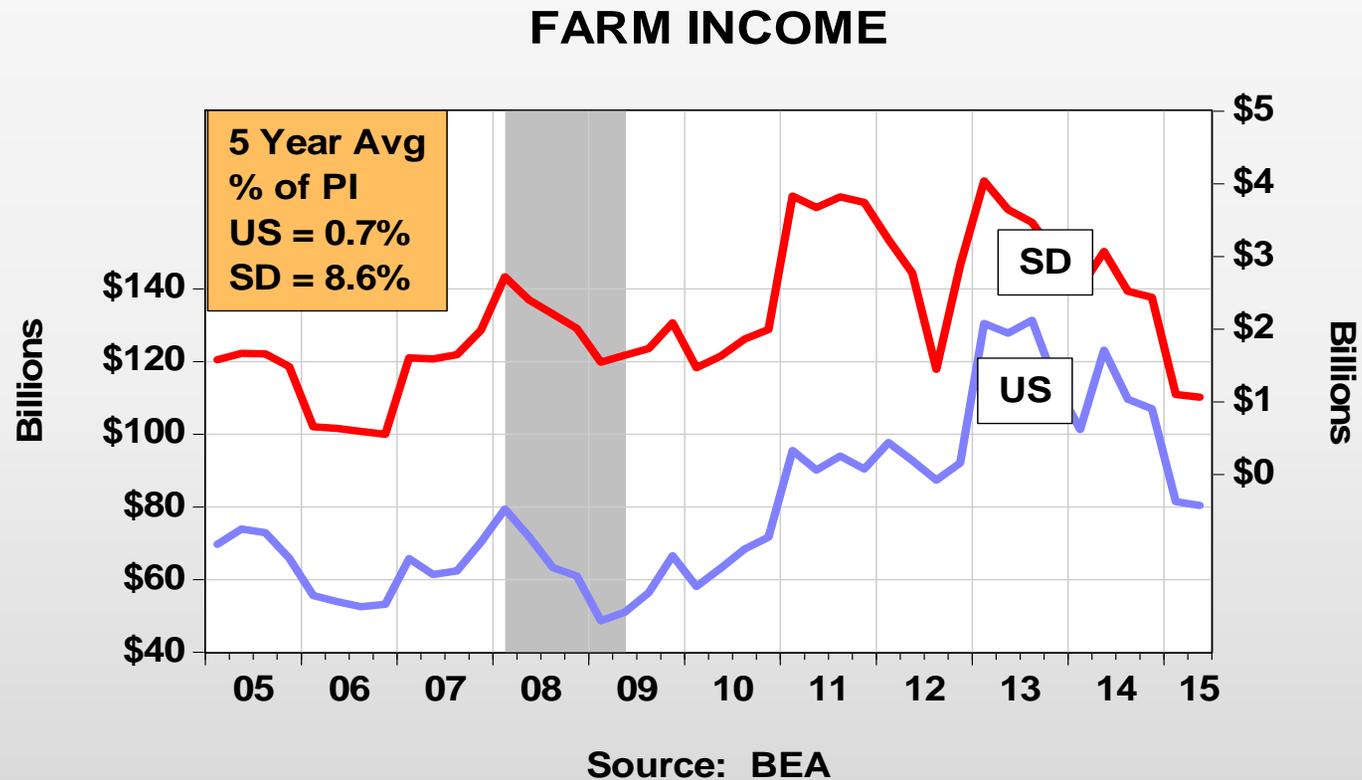
US and SD Track

REAL NONFARM PERSONAL INCOME (Year-Over-Year Percent Change)



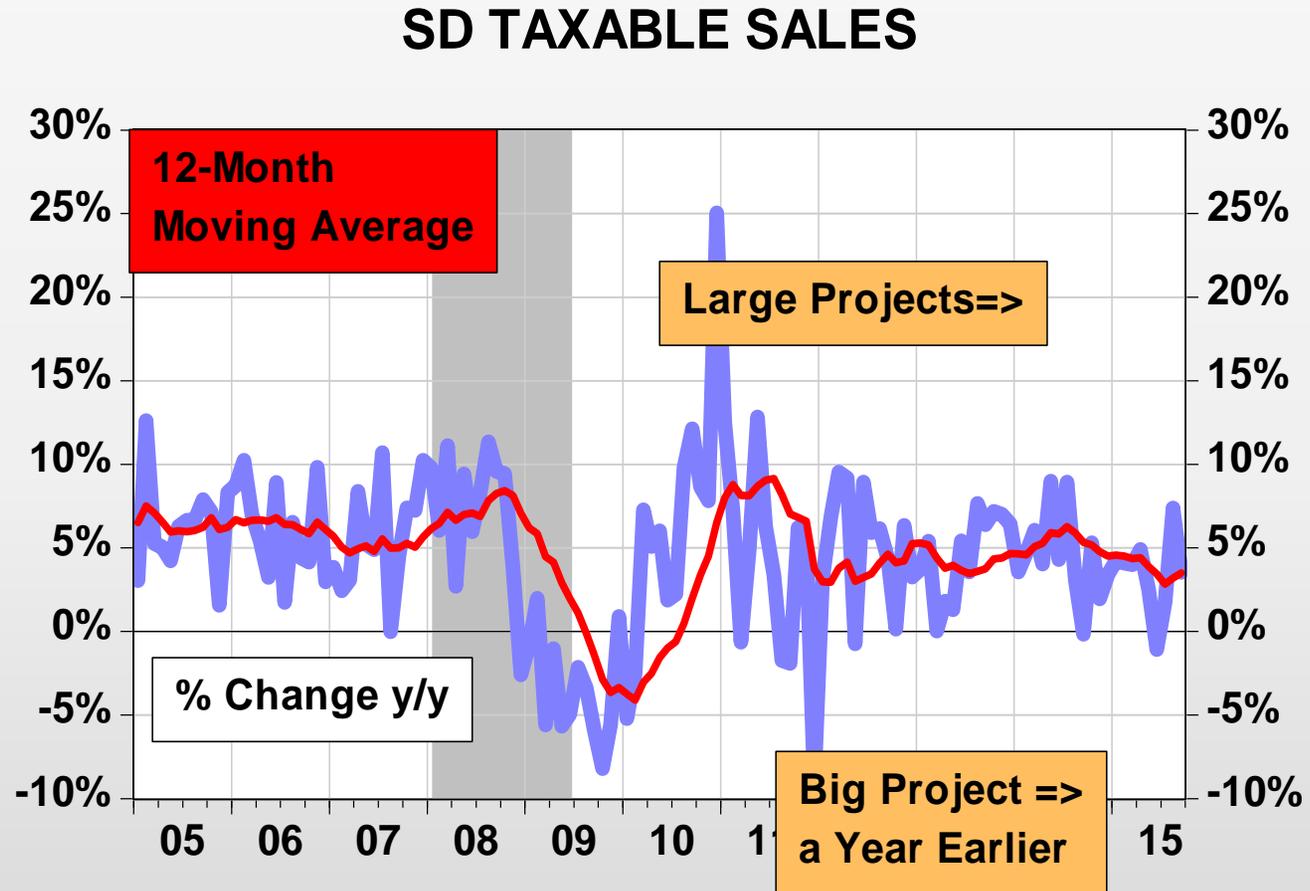
Source: BEA

High Prodn Low Prices



Pretty Good Growth

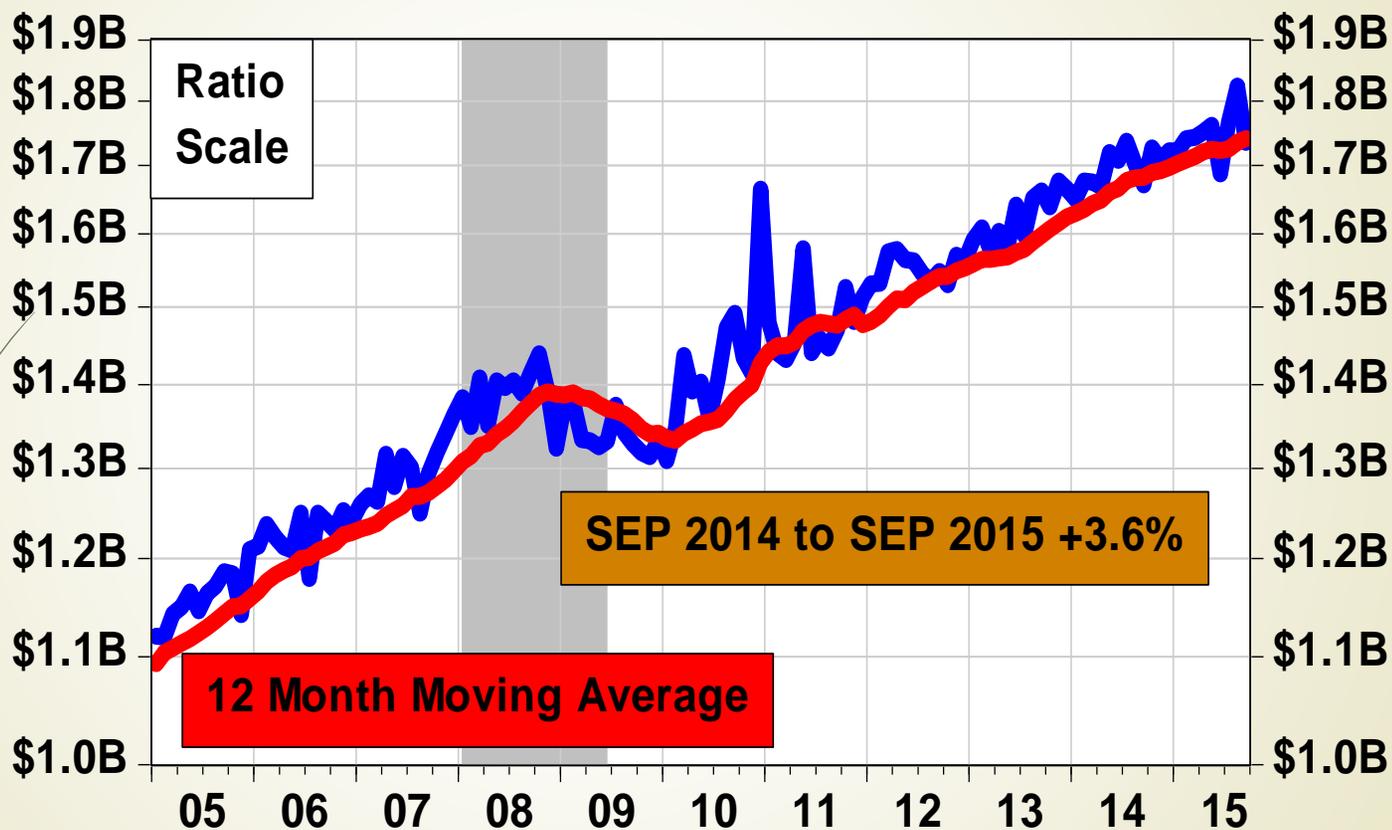
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Source: SD Department of Revenue

Steady Growth

SD Taxable Sales - Seasonally Adjusted

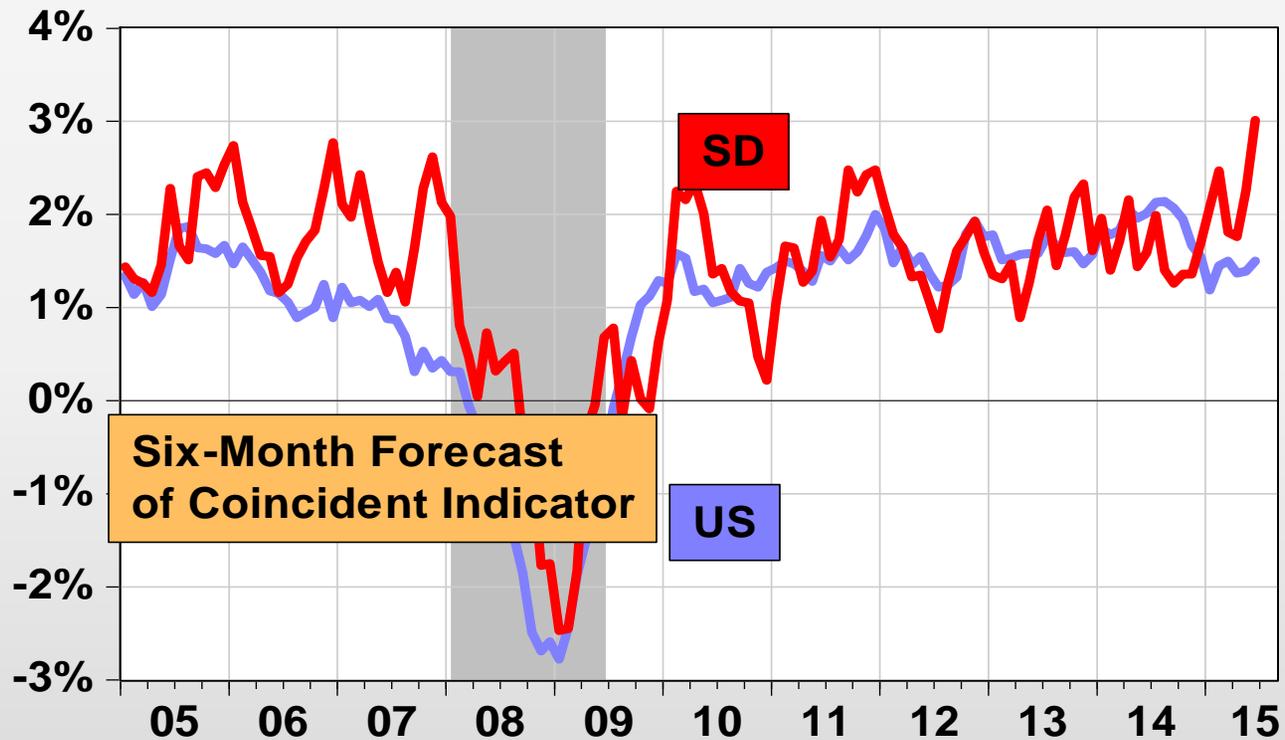


Source: SD Department of Revenue

Forecasting Growth?

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LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia

Mid-American States Leading Indicators - GOSS

September 2015 Index > 50 Growth

Overall 50.9

New Orders 48.9

Sales 51.6

Delivery lead time 61.3

Inventories 43.9

Employment 45.5

"Manufacturers in the state, both durable and nondurable, continue to expand at a positive pace in the state. I expect the state to add more than 2,000 jobs in the final quarter of 2015."

PER CAPITA PERSONAL INCOME

Per Capita Personal Income

2014 DATA	US	SD	SD % of US	Rank
Per Capita Personal Income	\$46,049	\$45,279	98%	23
Regional Price Parity (col)				
Per Capita Personal Income	\$46,049	\$51,688	112%	6
Regional Price Parity (col)				
Per Capita Disp. Personal Income	\$40,471	\$41,147	102%	22
Regional Price Parity (col)				
Per Capita Disp. Personal Income	\$40,471	\$46,971	114%	5

Conclusions

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SD economy growing at moderate rate

SF economy growing at faster rate

US economy will speed up

Only 15% chance of recession

The End

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