



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

October 25, 2016

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Outline of Presentation

Overview of US economy

US economy forecast

SD economy

Summary & Conclusions

US Forecast

Global Insight Forecast – October 8, 2016

Real GDP

Consumption,

Housing Starts

Federal Budget

Interest Rates and Inflation



GDP

Uncertainty is unusually high due to the Election, the FED, and OPEC.

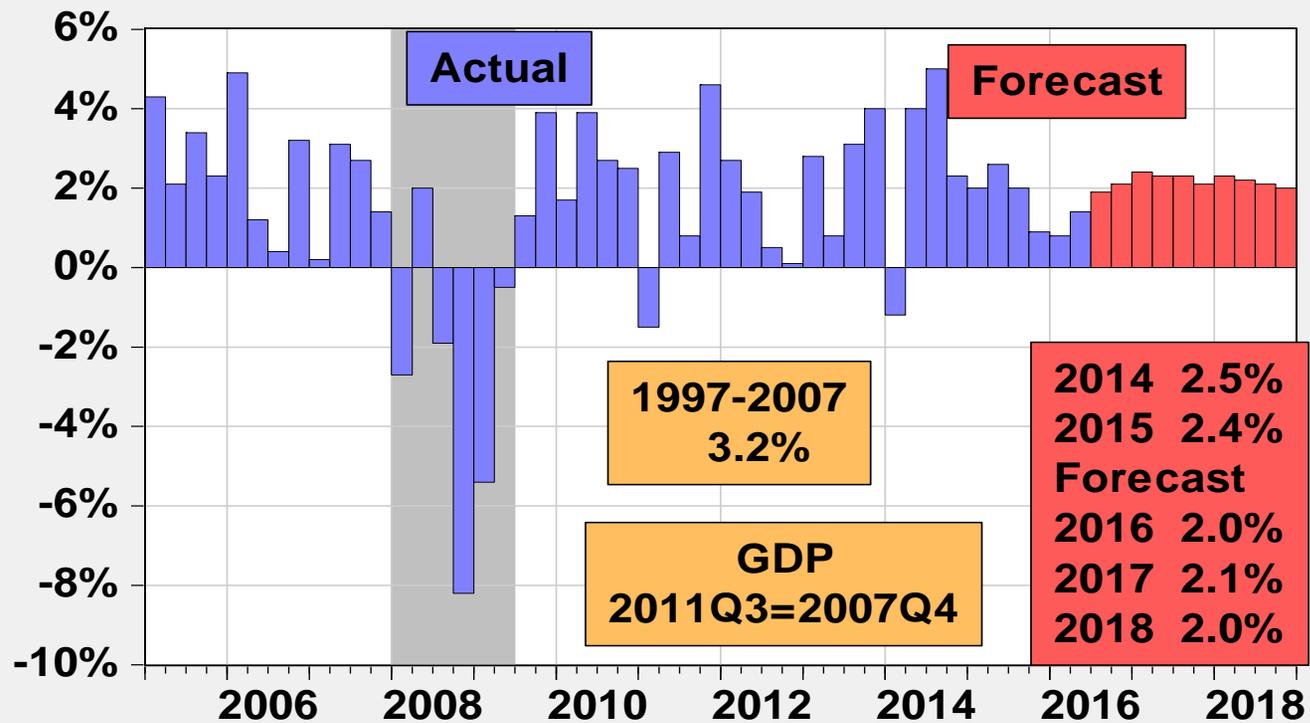
We only had 1.1% growth in the first half of 2016 due to inventory correction. GDP growth should be stronger in the last half of the year as the inventory correction subsides and the recovery of commodity prices begins.

Looking ahead into 2017 and 2018, IHS expects growth in the 2% area. Wells Fargo projects the same.

IHS expects consumption growth to moderate and nonresidential fixed investment, capital spending, to pick up in the mining and oil sector.

2.0% Growth

GROSS DOMESTIC PRODUCT



Source: BEA and IHS



Components of GDP are:

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

Consumption

Consumption spending will moderate reflecting slower employment growth and weakening of the lower commodity price effects.

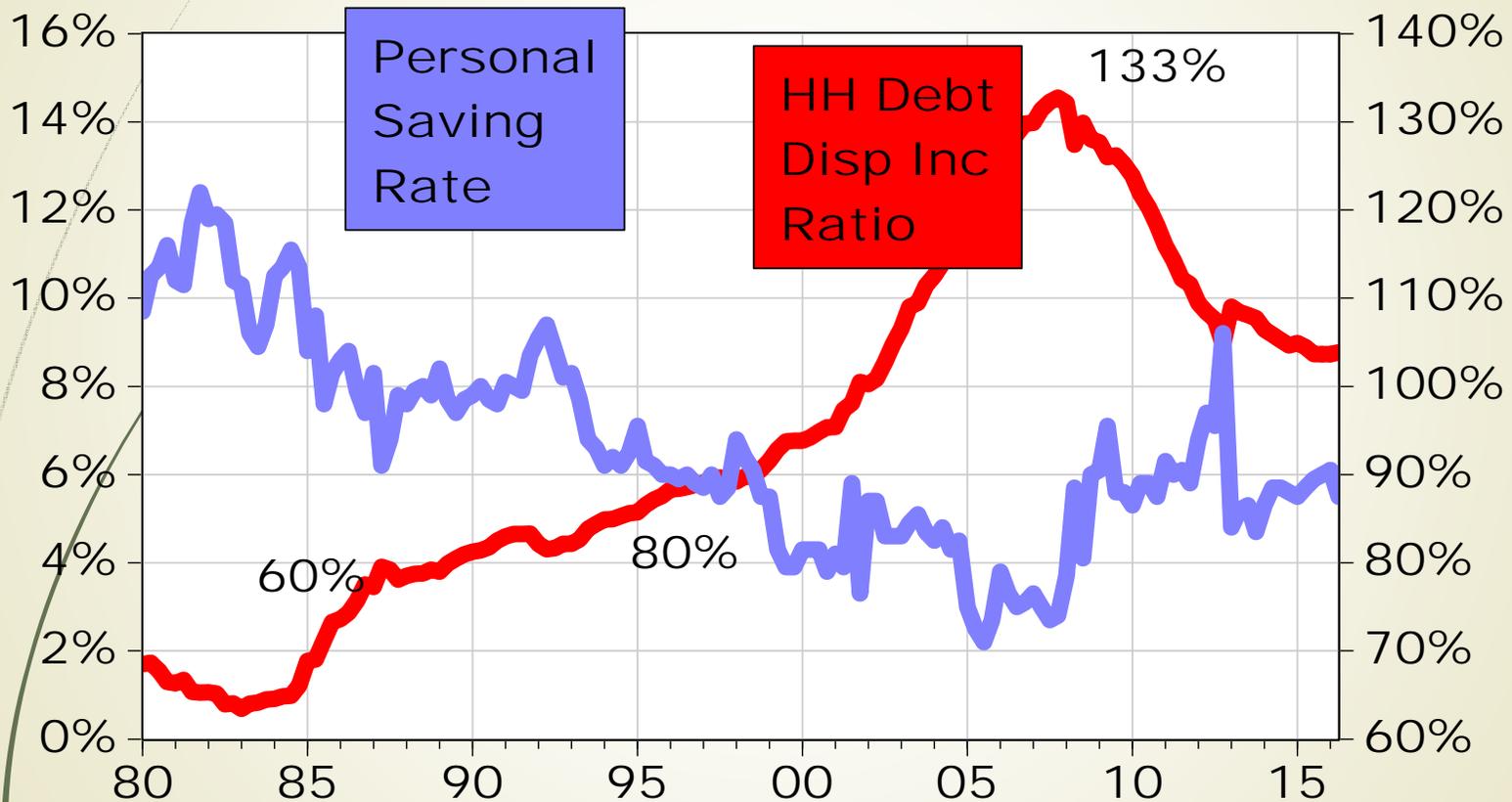
IHS expects growth of 2.5% in 2017 and 2.3% in 2018.

Holiday retail sales look brighter with an increase of 3.7% y/y.

Auto sales have been weak in 2016 are expecting moderate growth in 2017 and 2018.

Deleveraging Continues

HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Record Low Debt Service

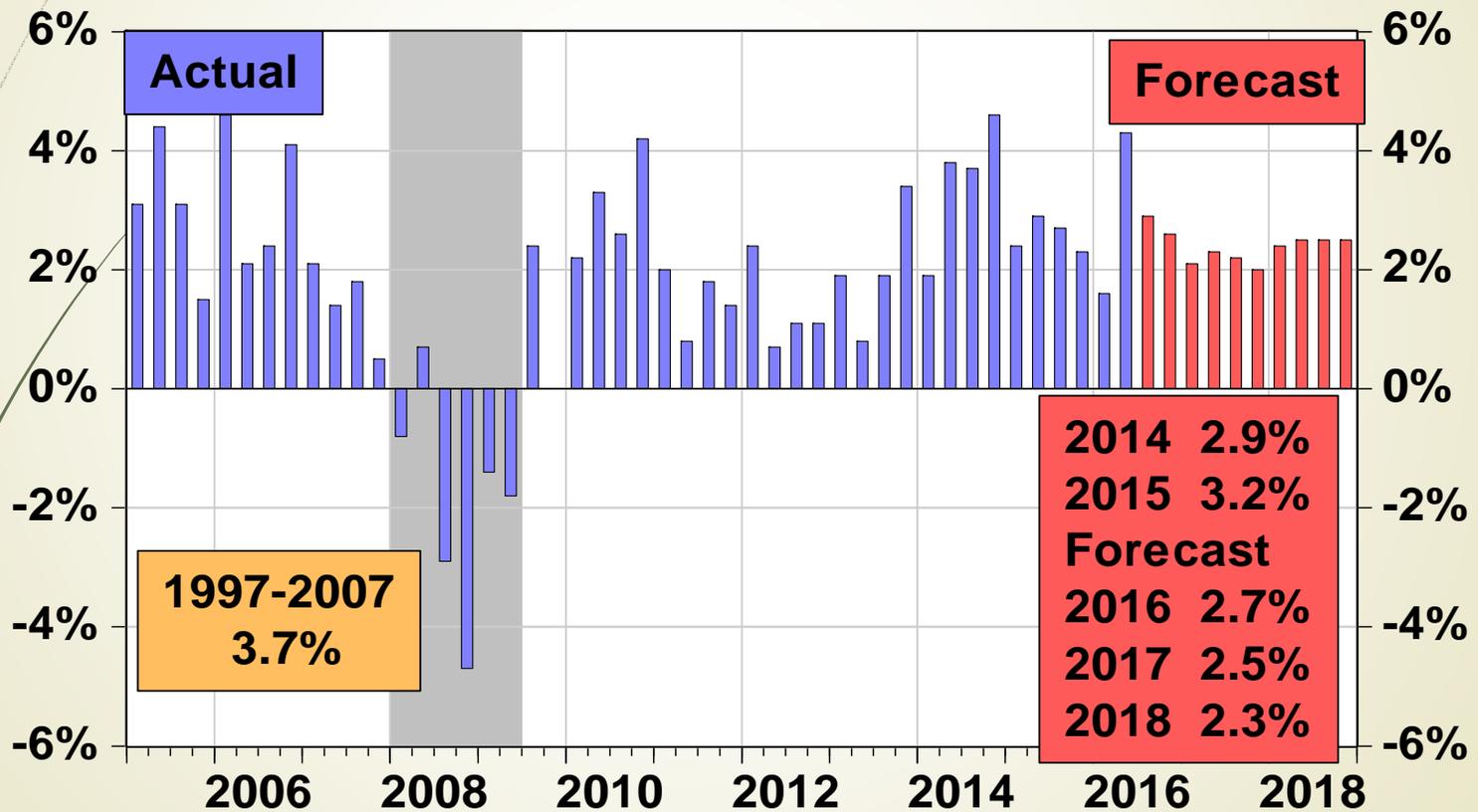
HH DEBT SERVICE PAYMENTS AS % OF DISPOSABLE PERSONAL INCOME



Source: BEA and Federal Reserve System

Slower Growth Projected

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

Fixed nonresidential investment is improving, but unevenly. Beginnings of a recovery in commodity prices will spark an upturn in capital spending in the energy sector.

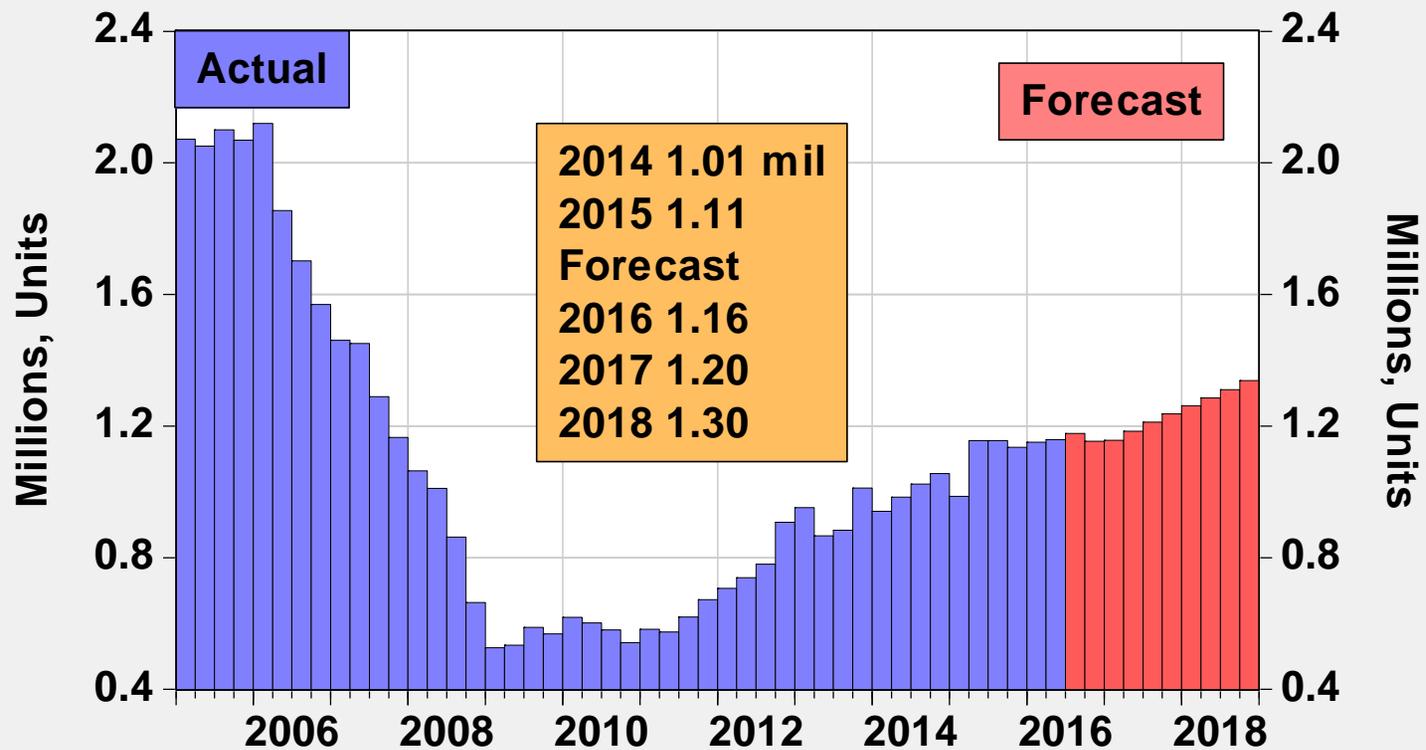
On the downside, spending on non-energy capital goods is weak, in part, due to political uncertainty in the US.

IHS has moderated its forecasts for the housing sector as supply constraints, including labor shortages and restricted credit for land development, are holding back the housing market recovery.

On the demand side, lower household formation will moderate the housing recovery.

Recovery Proceeds

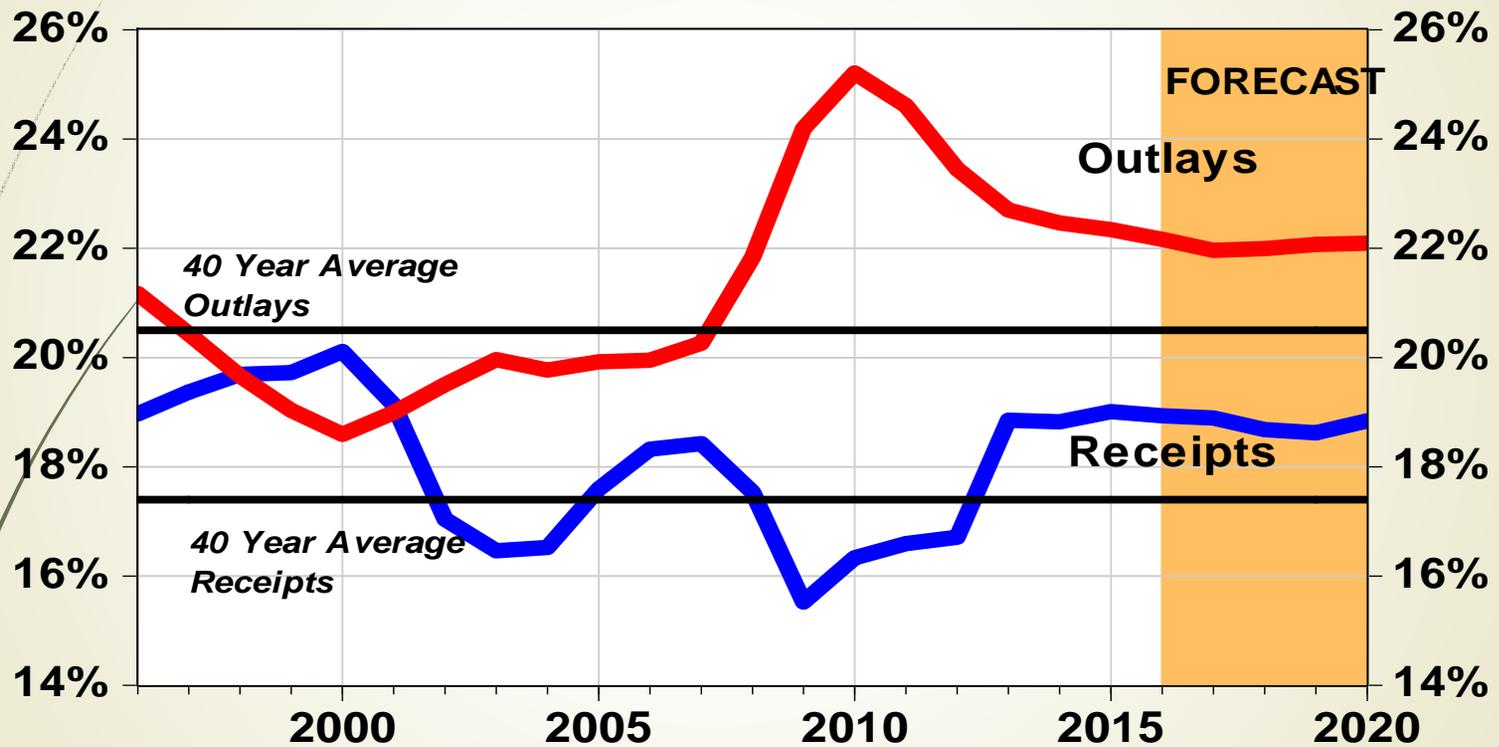
HOUSING STARTS



Source: US Census and IHS

Government Sector

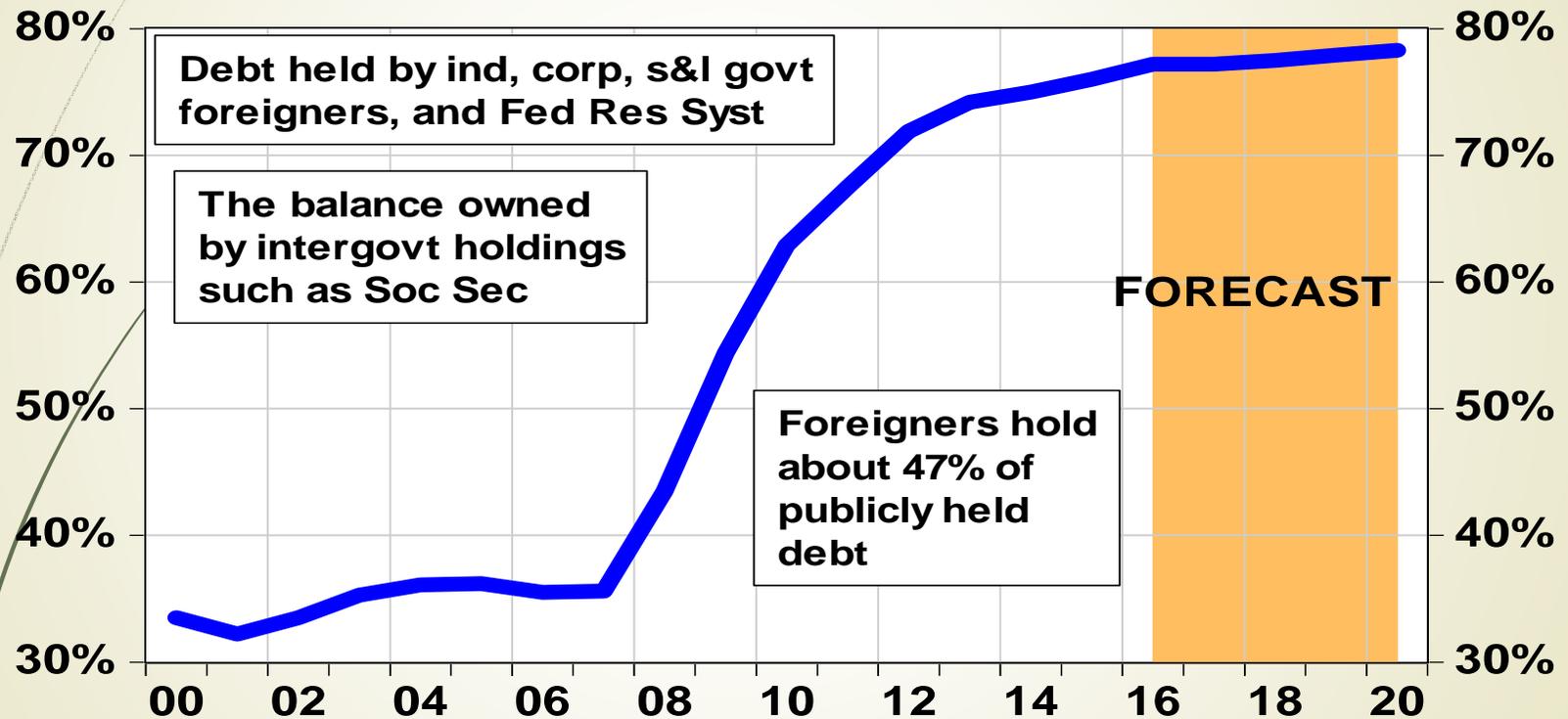
FEDERAL GOVERNMENT AS % OF GDP



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 expected to rise through the first half of 2017. Continued international turmoil and higher US interest rates will keep the \$ strong for the near future.

GDP growth for the nation's major currency trading partners is assumed to average 1.7% through 2026.

Other important trading partners will have GDP growth averaging 3.6%.

IHS is not saying much about BREXIT in this report.

Employment & Unemployment

Pretty good job growth this past year at 204,000 per month, but slowing in recent months and projected slower growth of about 150,000 per month.

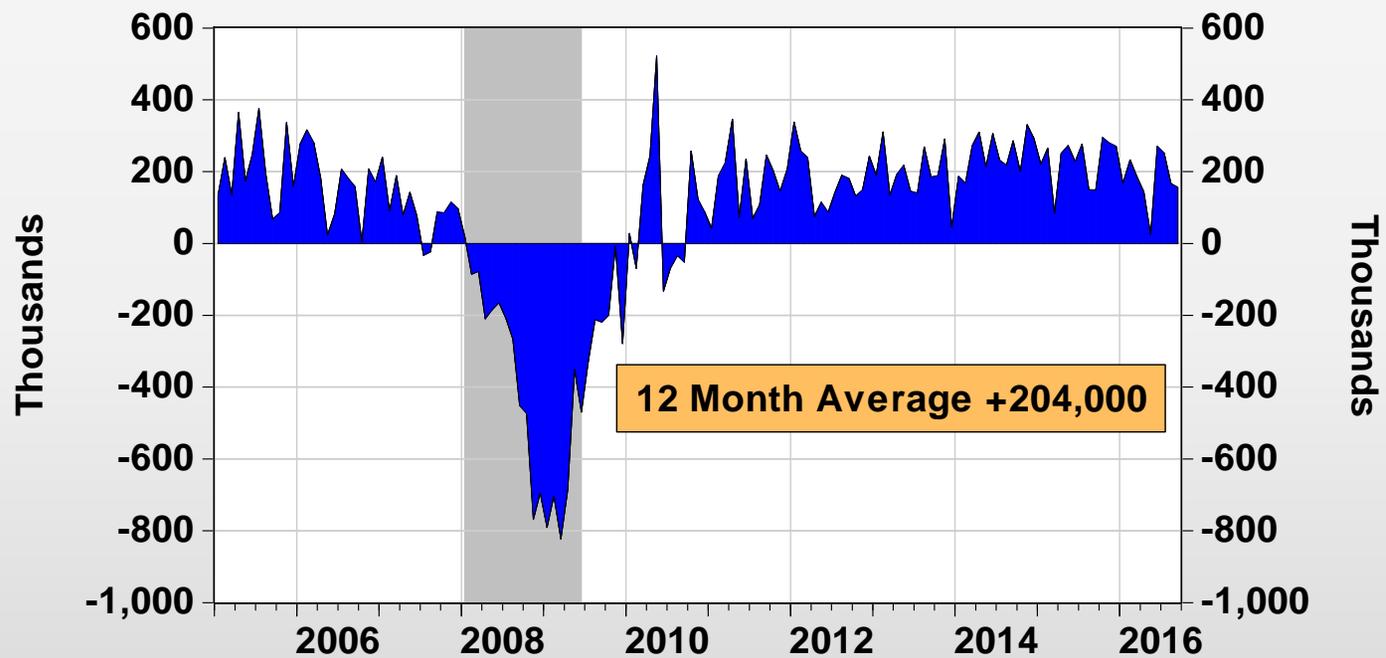
Unemployment rate averaged 5.3% in 2015 and 4.9% in 2016, 4.8% in 2017, 4.6% in 2018.

The labor force participation rate has picked up a little as of late but still low.

Wage growth is sluggish, but did see a slight uptick last month.

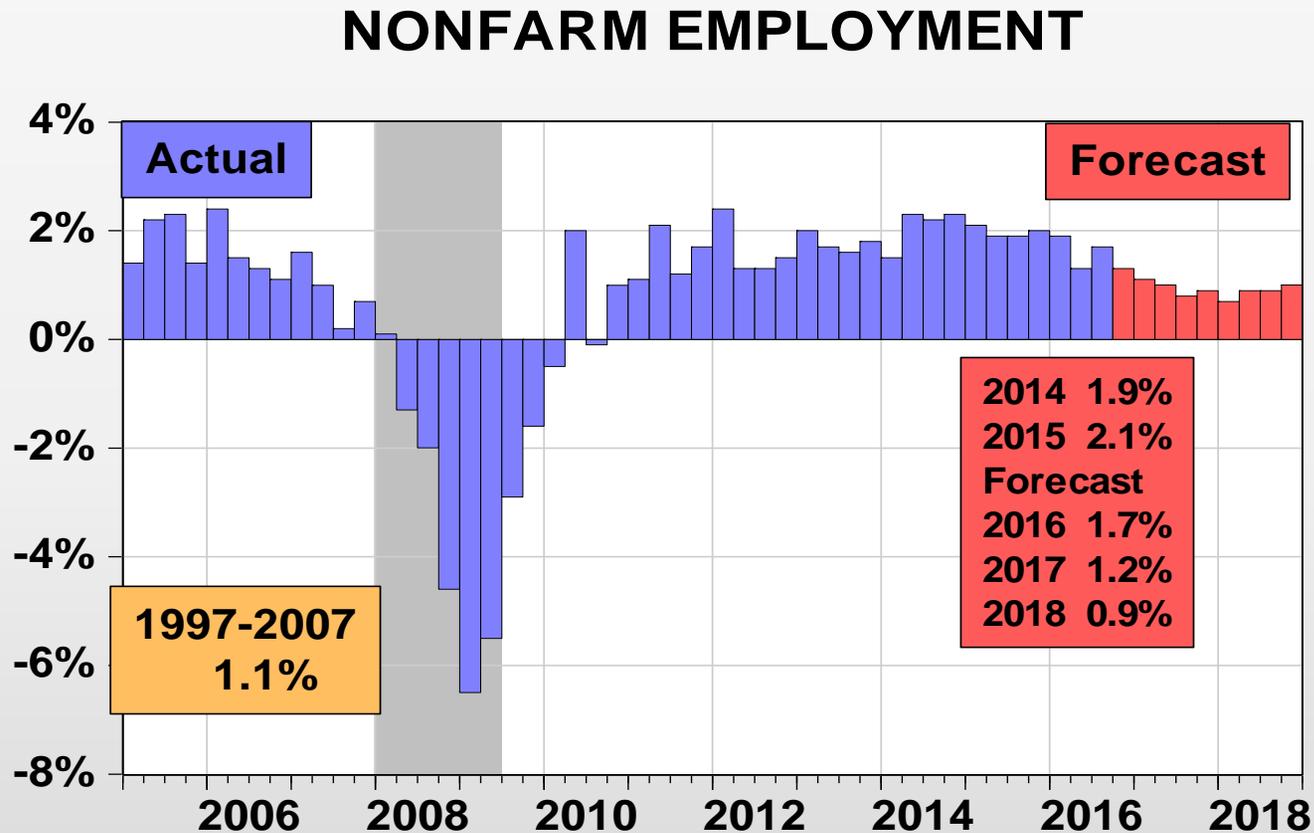
Pretty Good Growth

CHANGE IN NONFARM EMPLOYMENT



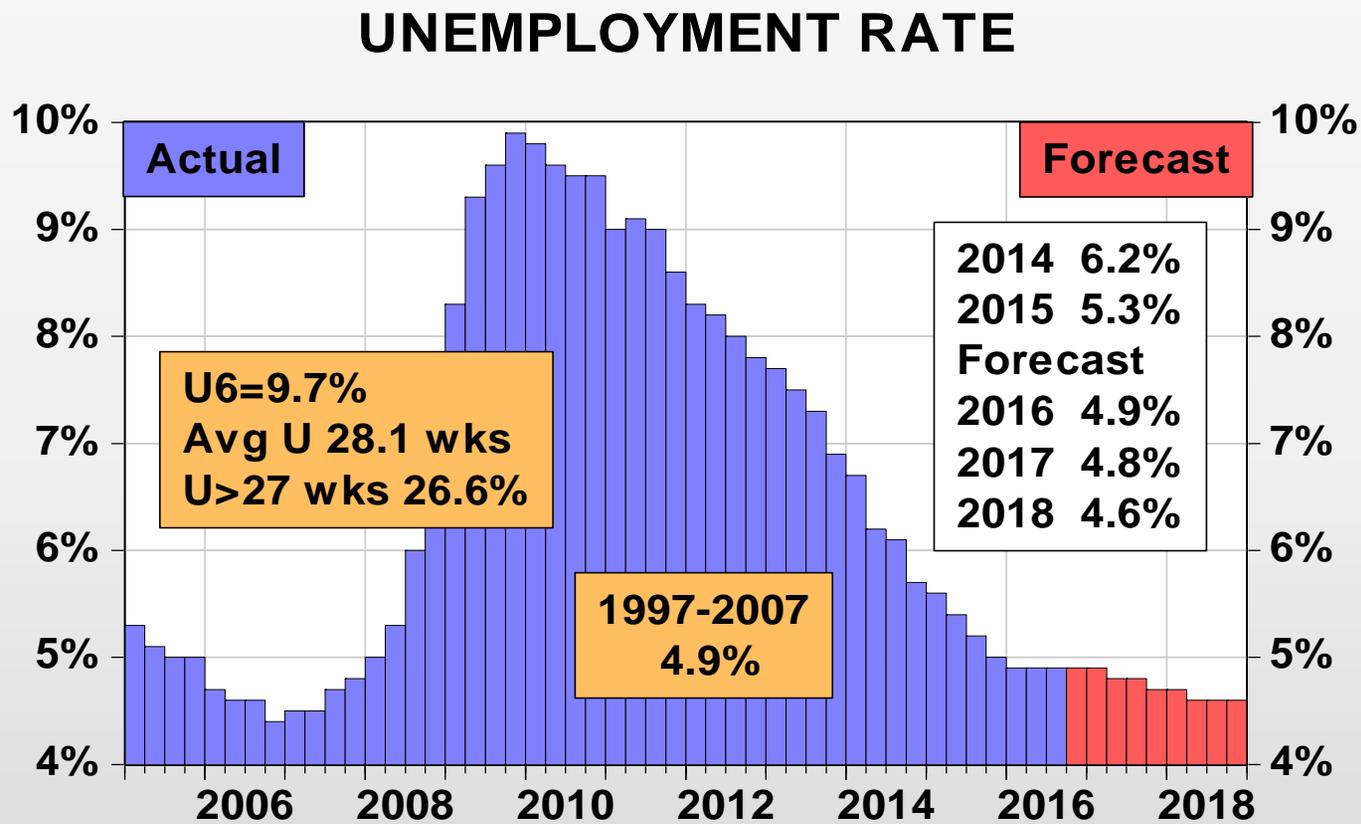
Source: BLS

Future Job Growth Slows



Source: BLS and IHS

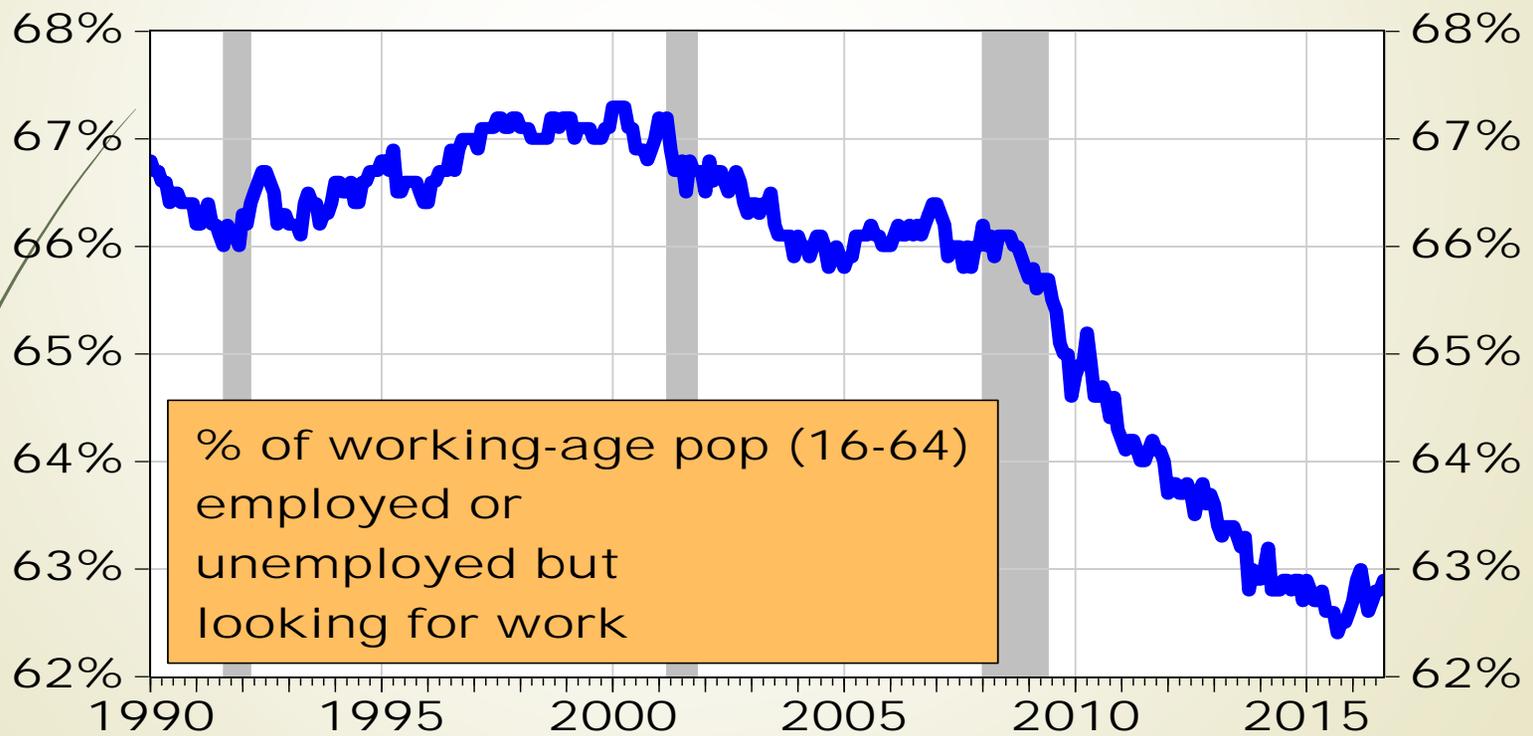
Low U3 Unemployment



Source: BLS and IHS

Labor Participation Rate Not Much Improvement

LABOR FORCE PARTICIPATION RATE



Source: BLS

Inflation & Interest Rates

IHS forecasts that the federal funds rate will be increased 25 basis points in December, two more times in 2017, and 3 times in 2018.

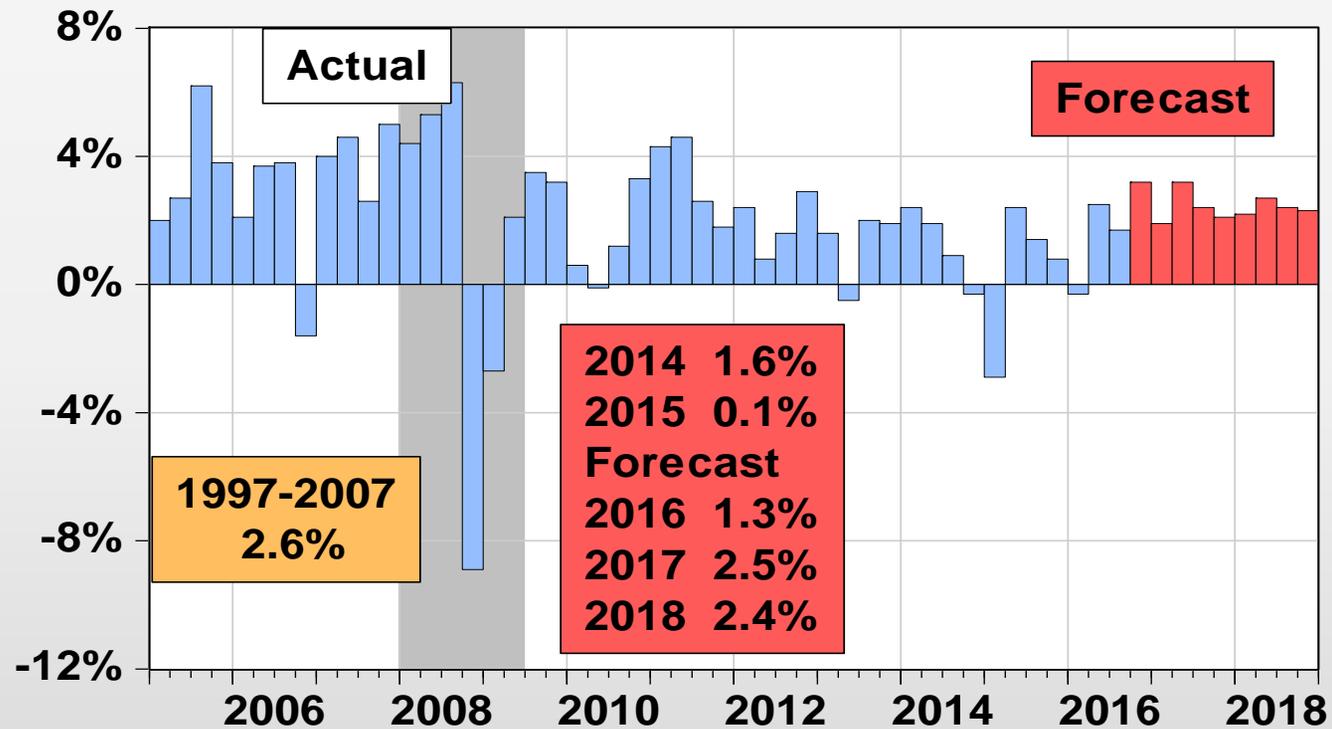
IHS addresses the issue of whether central banks are running out of ammunition. Central banks have used QE and NIRP with little apparent impact.

IHS argues banking problems, austerity programs, and low inflation expectations have made monetary policy less effective in the Eurozone and Japan, compared with the UK and US.

Inflation is still very low at 1.6% y/y for the core personal consumption expenditure deflator.

Still Low But Rising

INFLATION: CPI



Source: BLS and IHS



IHS GLOBAL INSIGHT FORECAST October 2016

<u>Variable</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
GDP	2.6%	1.4%	2.2%	2.2%
Recession Probability 20%				
NA Emp	2.1%	1.7%	1.2%	0.9%
Oil(Brent)	\$53	\$44	\$52	\$57
Housing	1.11	1.16	1.20	1.30
CPI	0.1%	1.3%	2.5%	2.4%
Un Rate	5.3%	4.9%	4.8%	4.6%



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

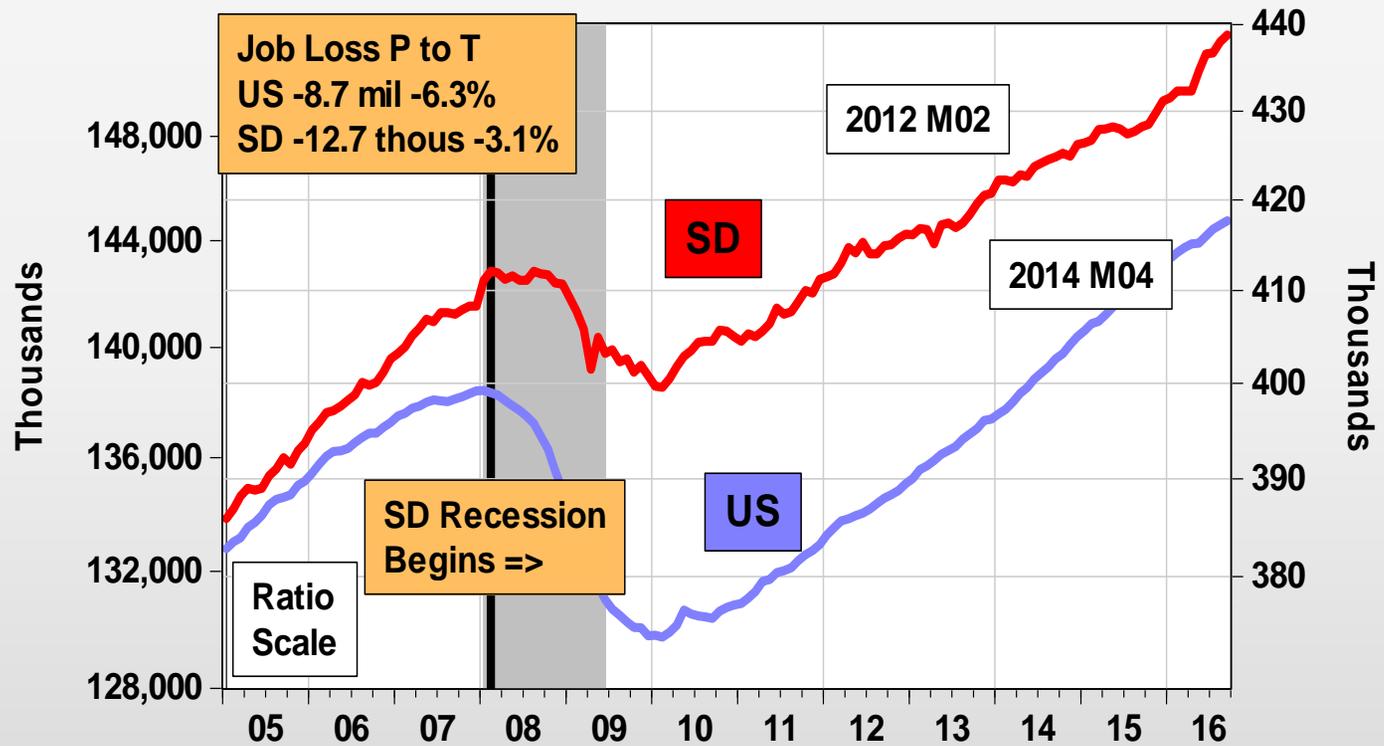
Real nonfarm personal income

Taxable sales

Leading indicator

Steady Growth

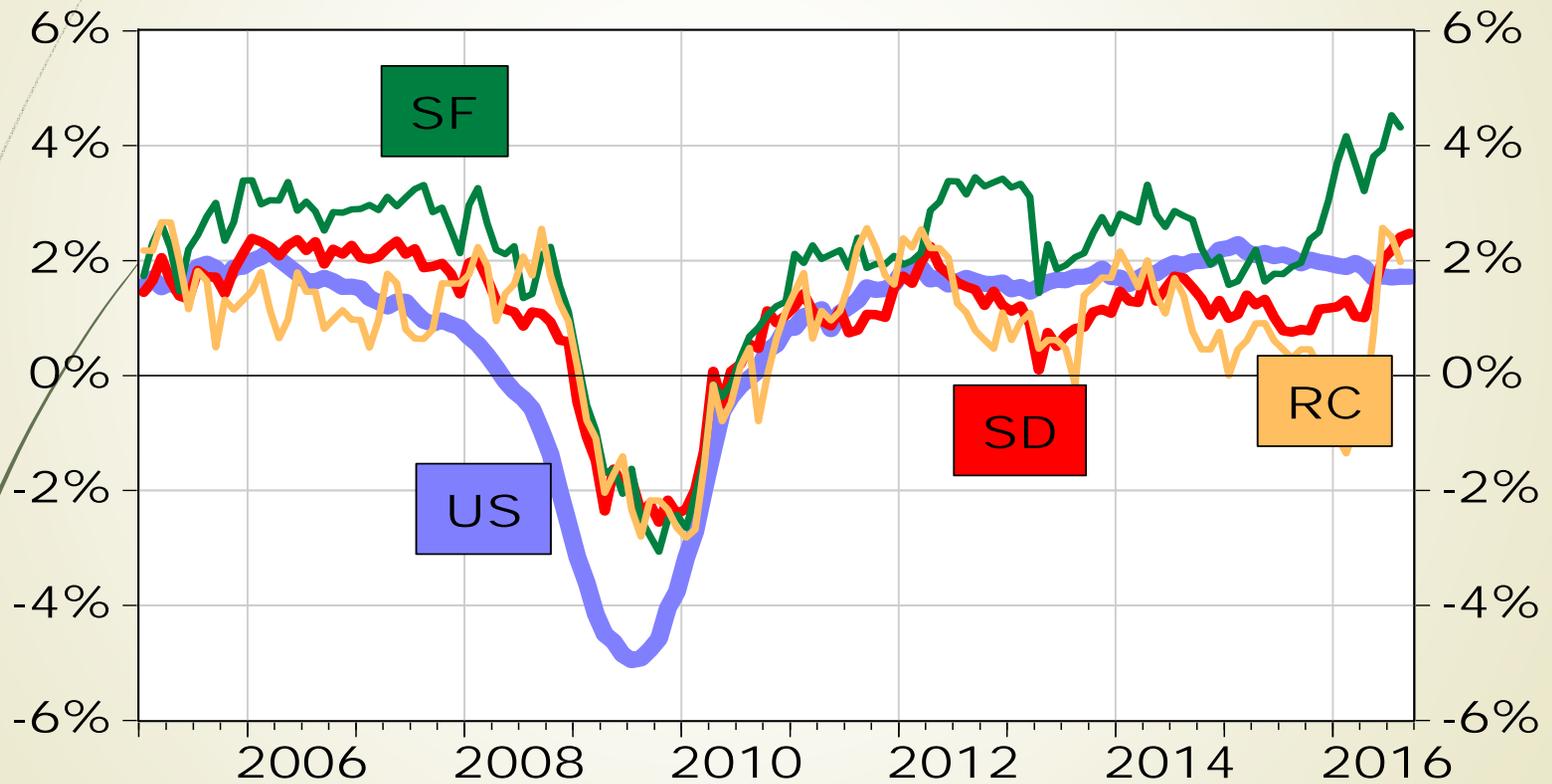
NONFARM EMPLOYMENT



Source: BLS

Interesting

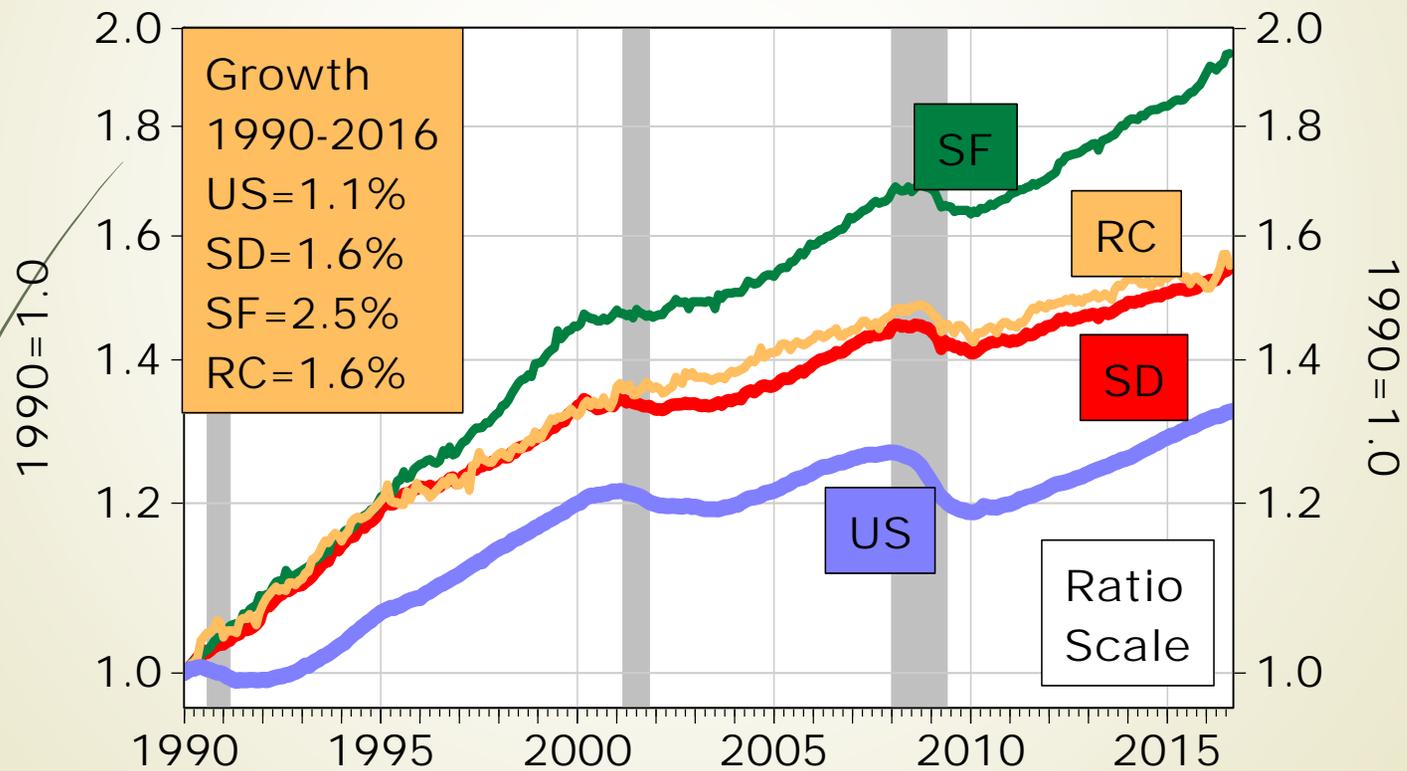
NONFARM EMPLOYMENT



Source: BLS

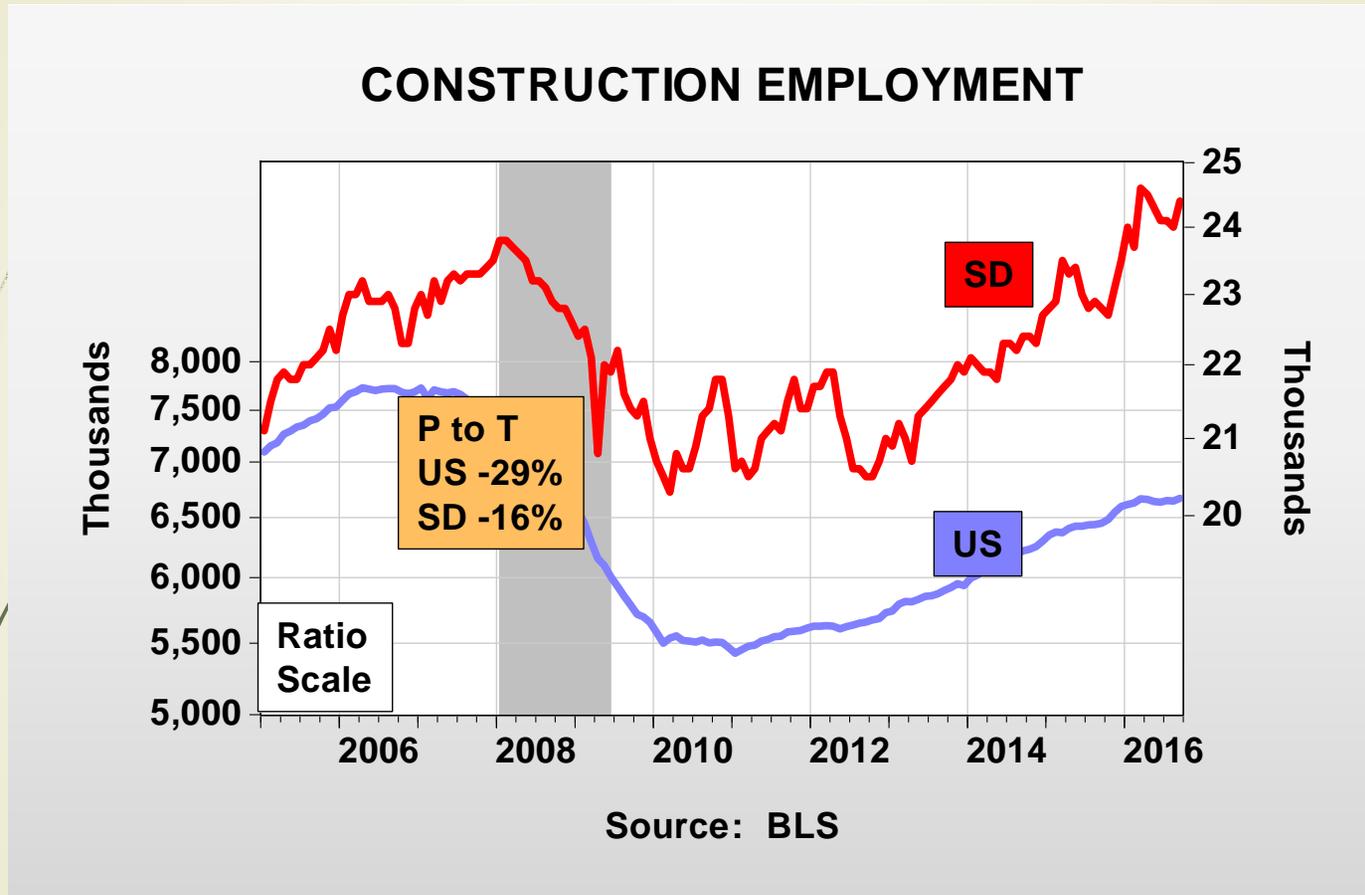
SF OUTPACES ALL THE REST

NONFARM EMPLOYMENT



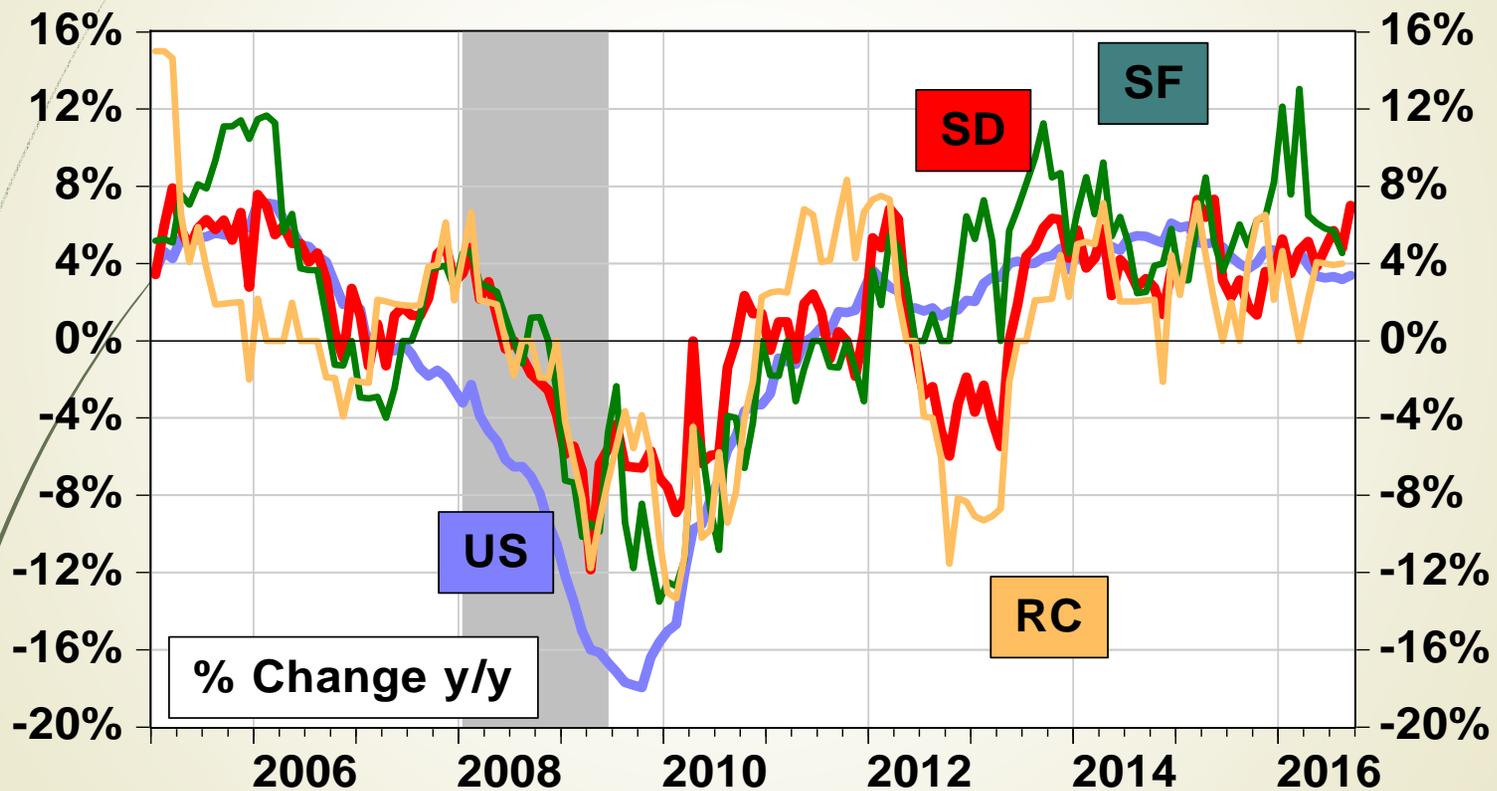
Source: BLS

Above Peak



Divergence

CONSTRUCTION EMPLOYMENT

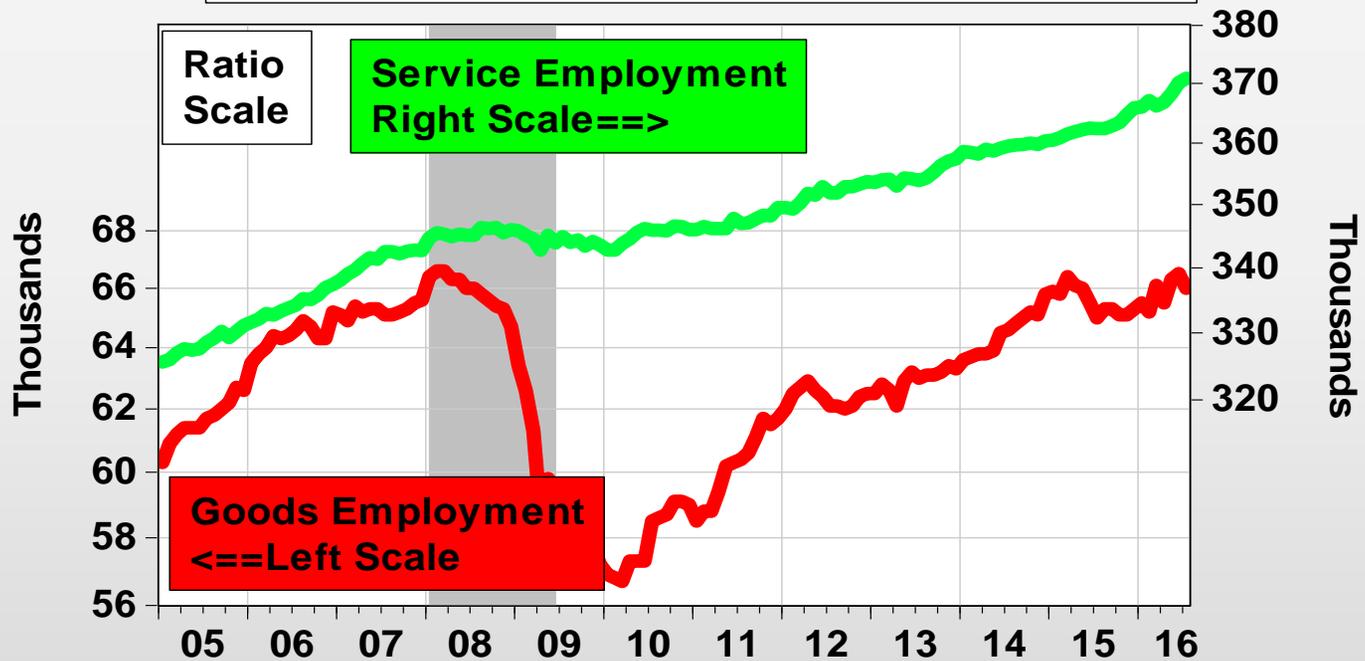


Source: BLS

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

Goods-Producing = Manufacturing+Construction



Source: BLS

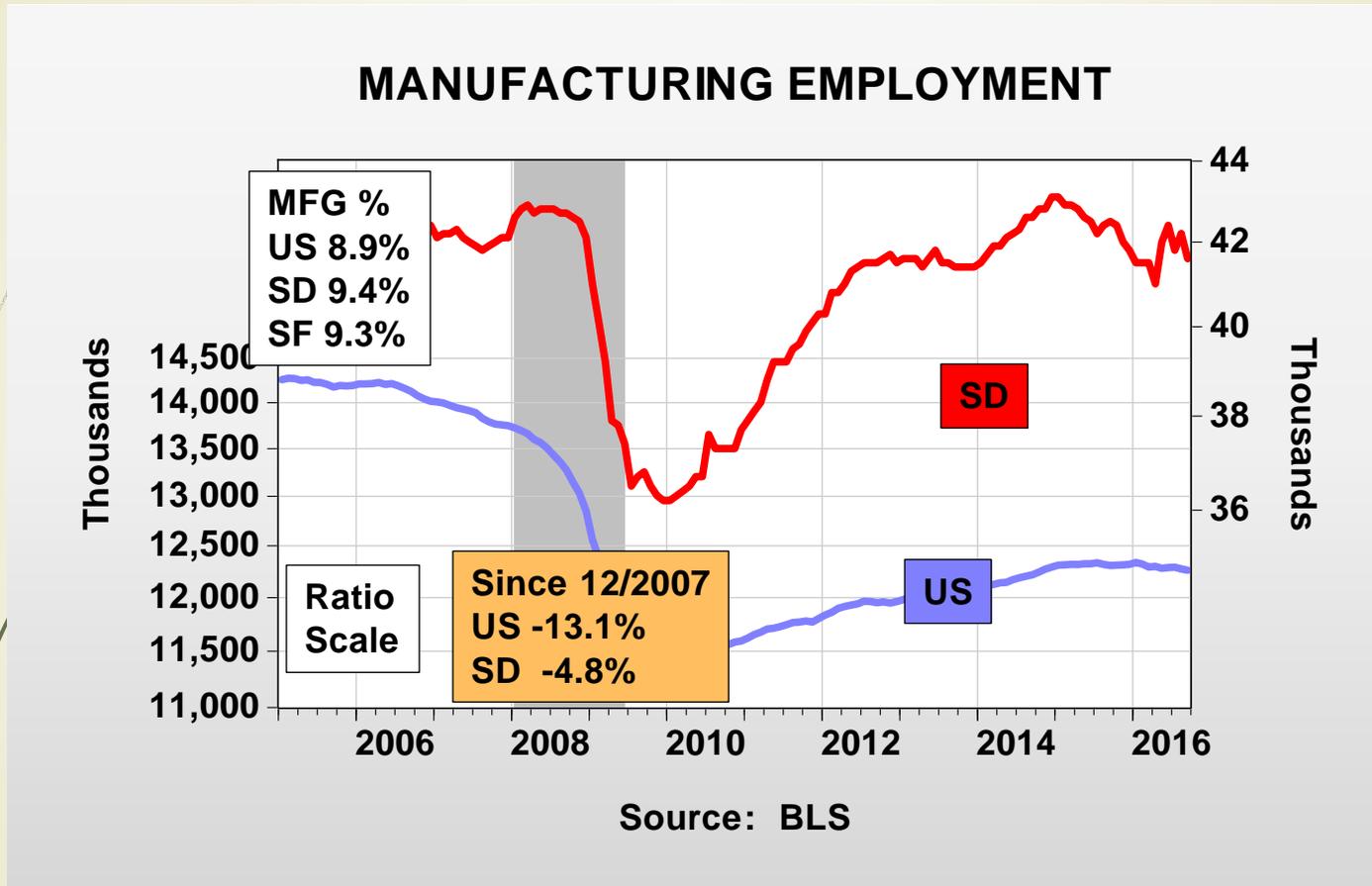
SD Peaked Later and Decline Less Severe

HOUSE PRICE INDEX



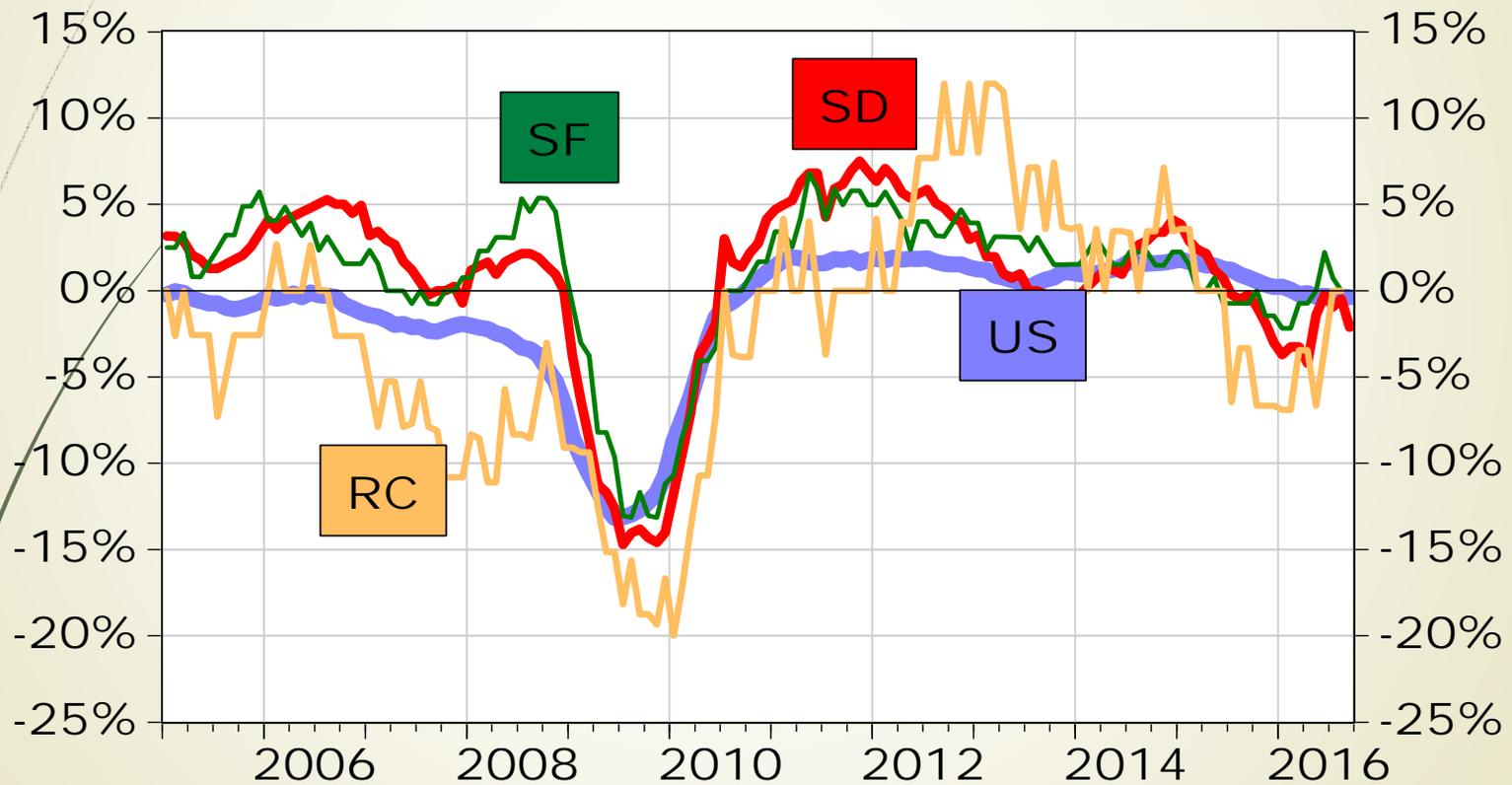
Source: FHFB

SD Around Peak



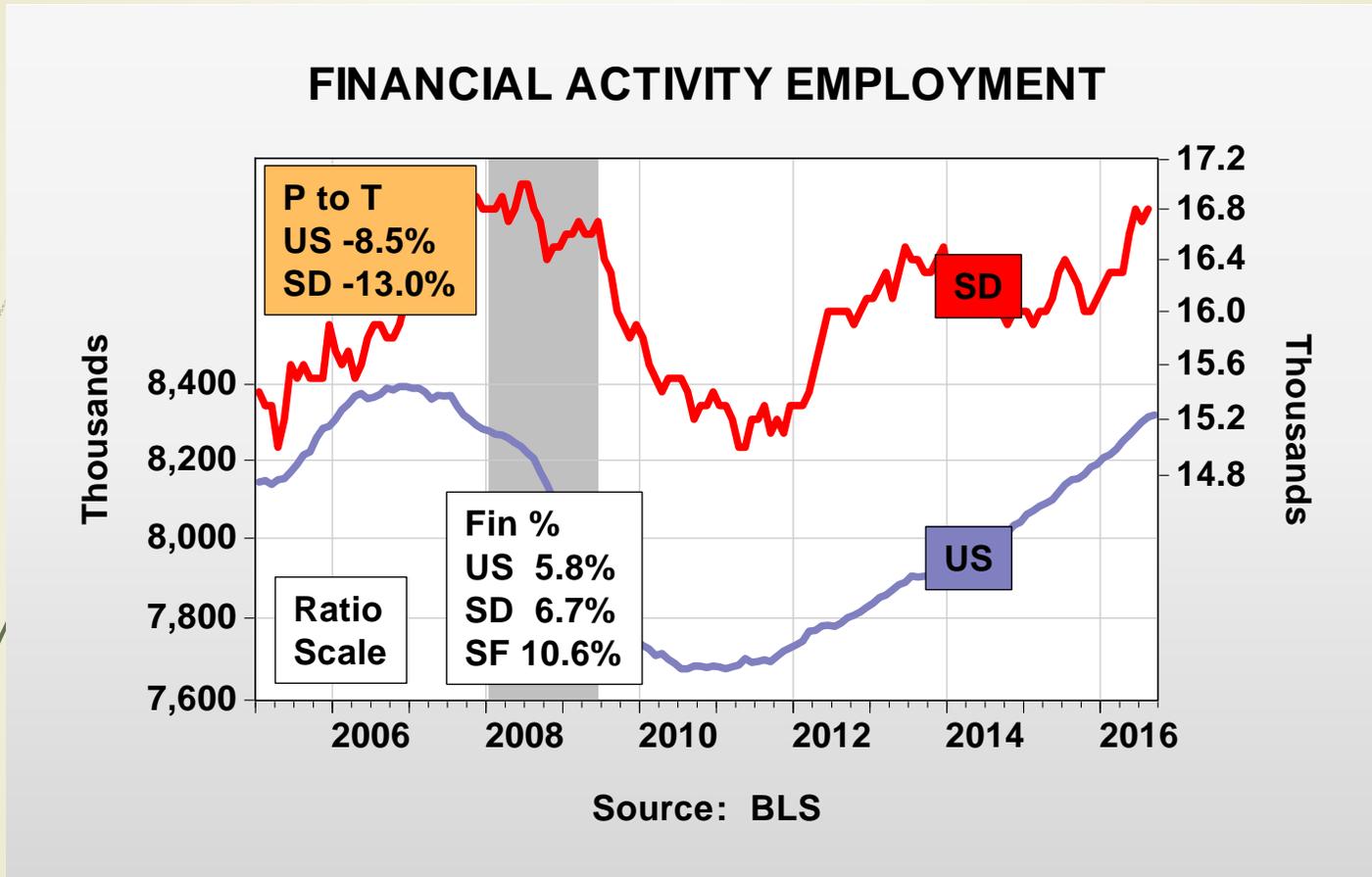
Divergence

MANUFACTURING EMPLOYMENT



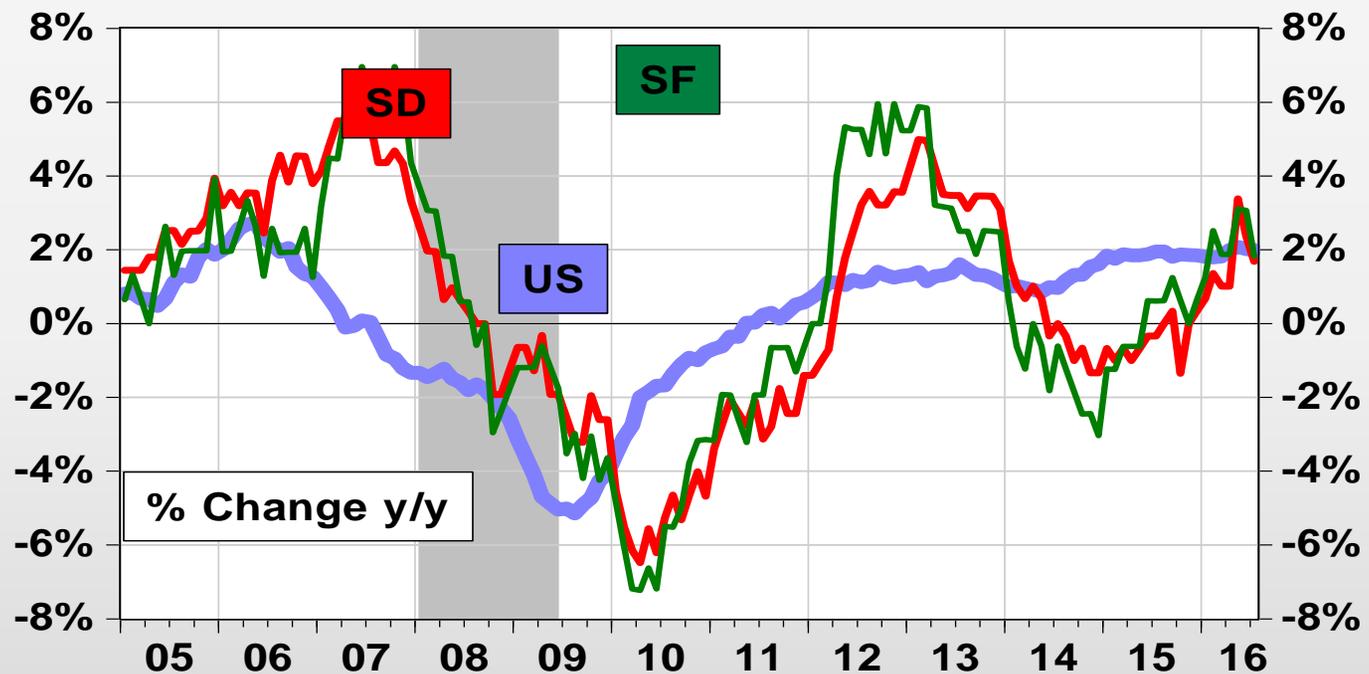
Source: BLS

SD Near Pre-Recession Peak



Note SD and SF Different Than US

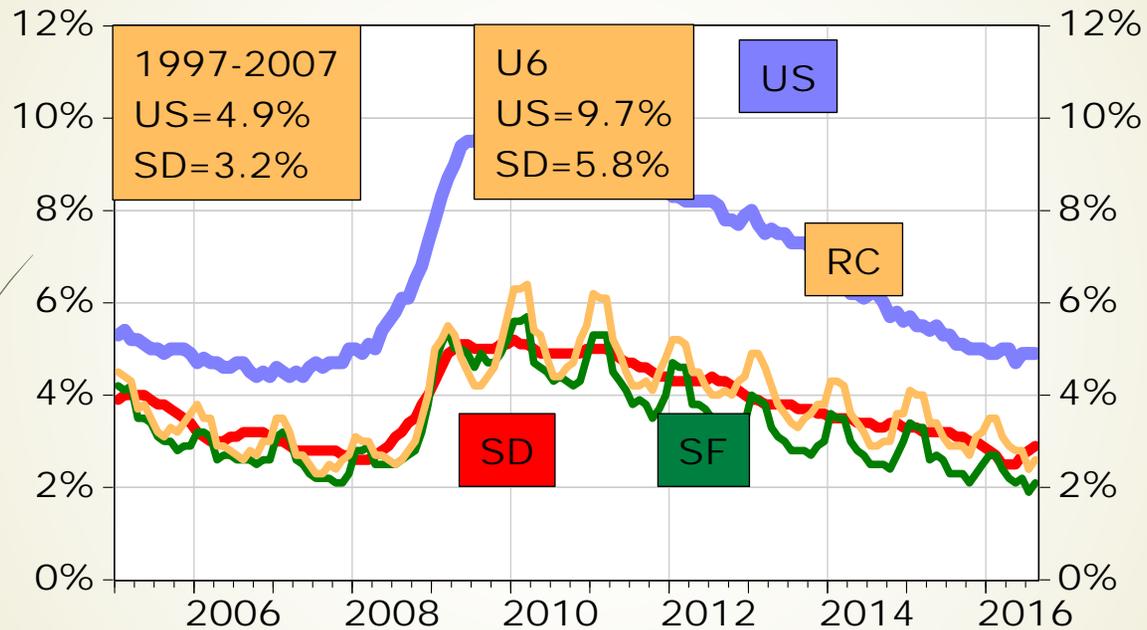
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

SD 2.9% SF(SA) 2.3%

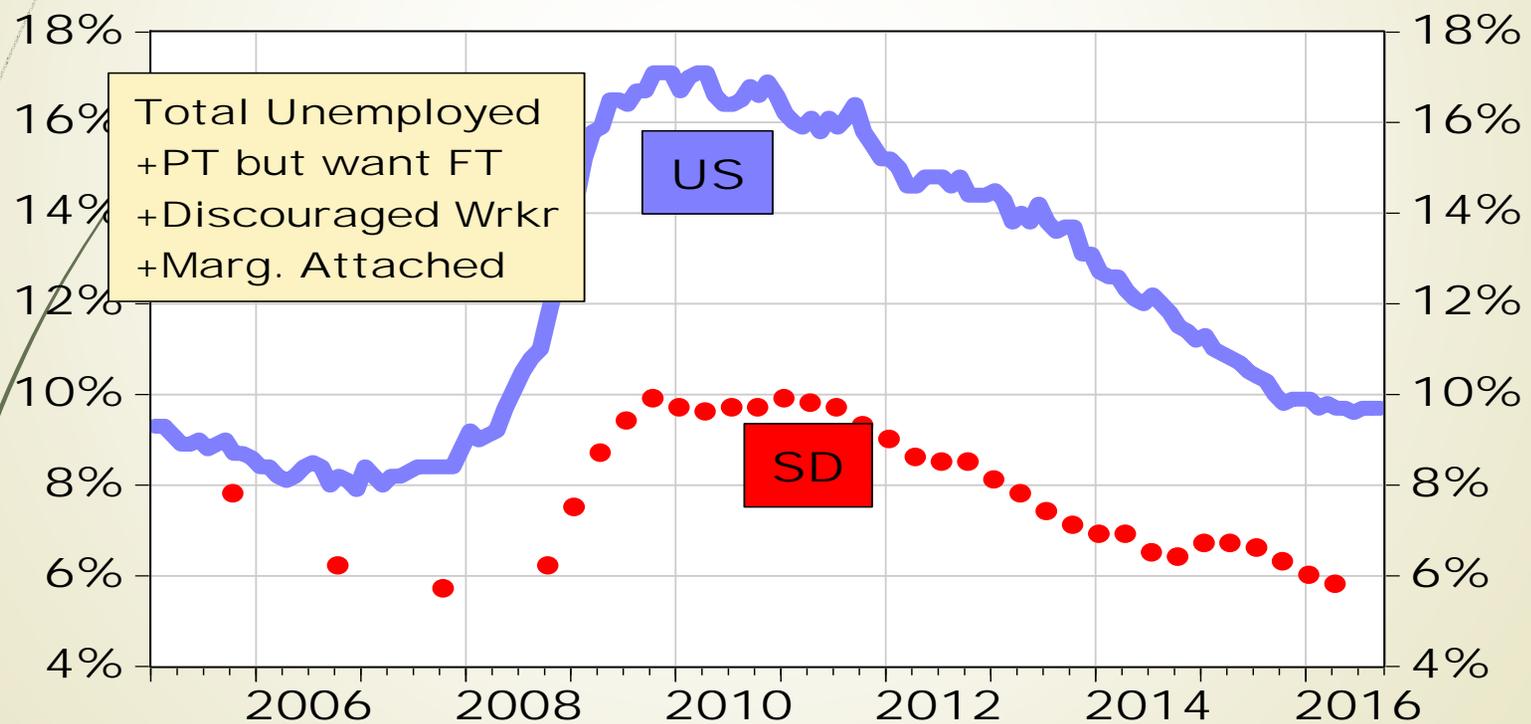
UNEMPLOYMENT RATES



Source: BLS

Definite Improvement SD Lowest of All States

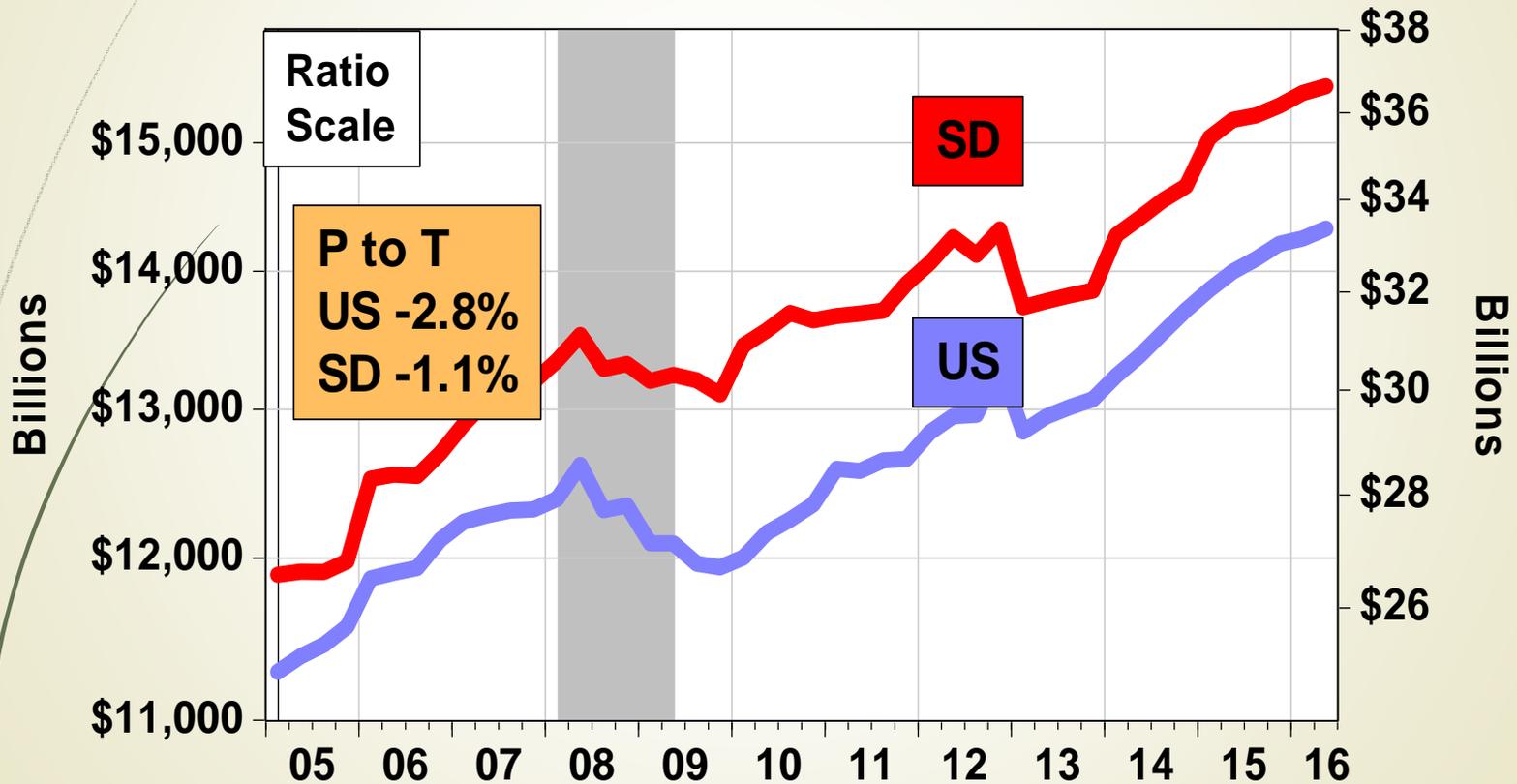
U6 UNEMPLOYMENT RATE



Source: BLS

SD Smaller Decline – Way Above Previous Peak

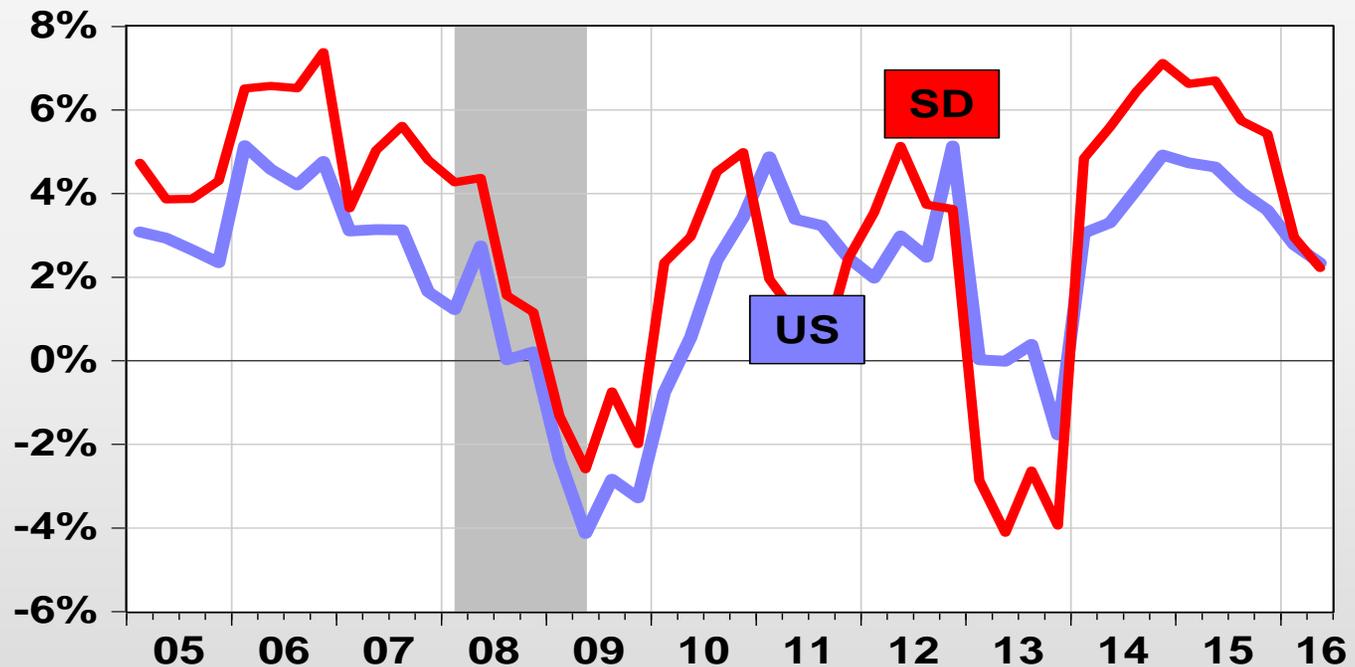
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

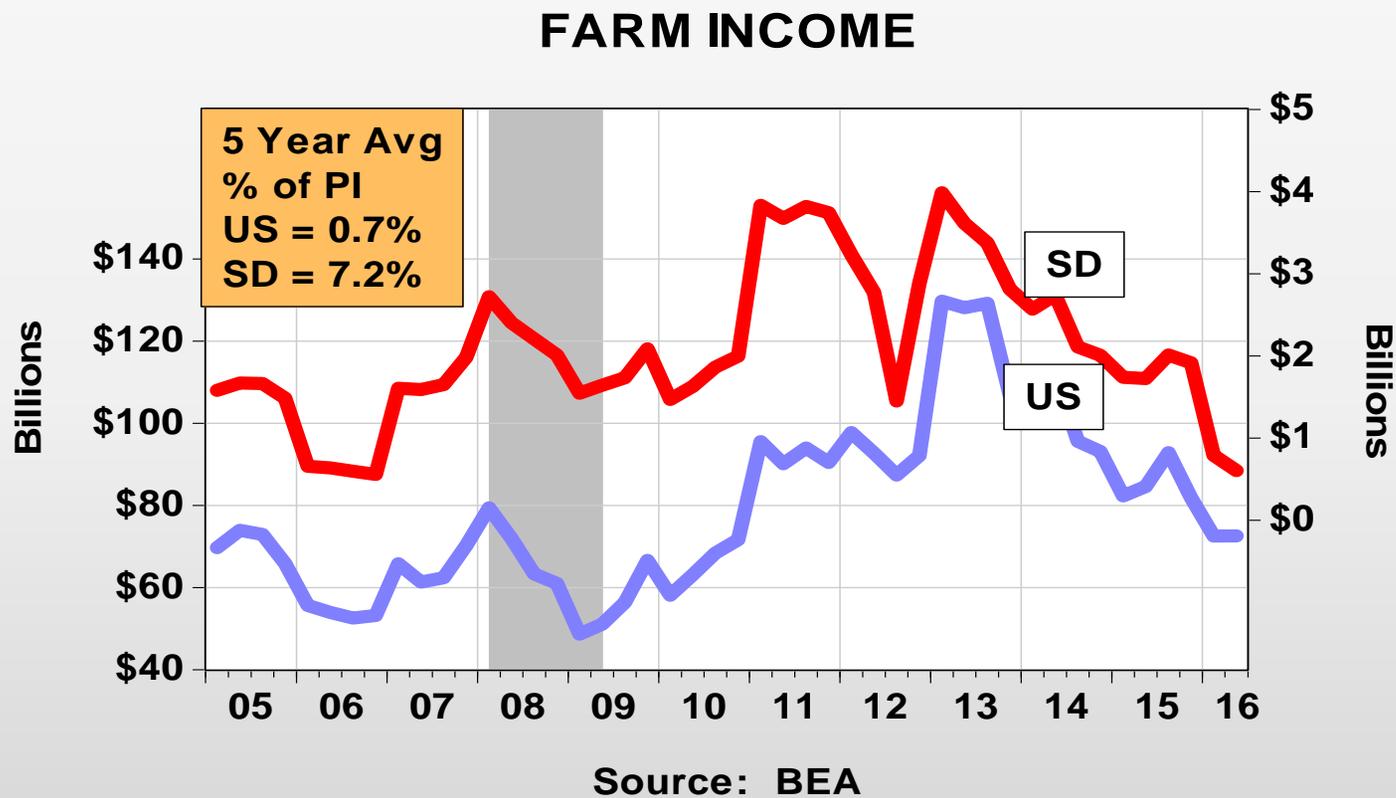
US and SD Track

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



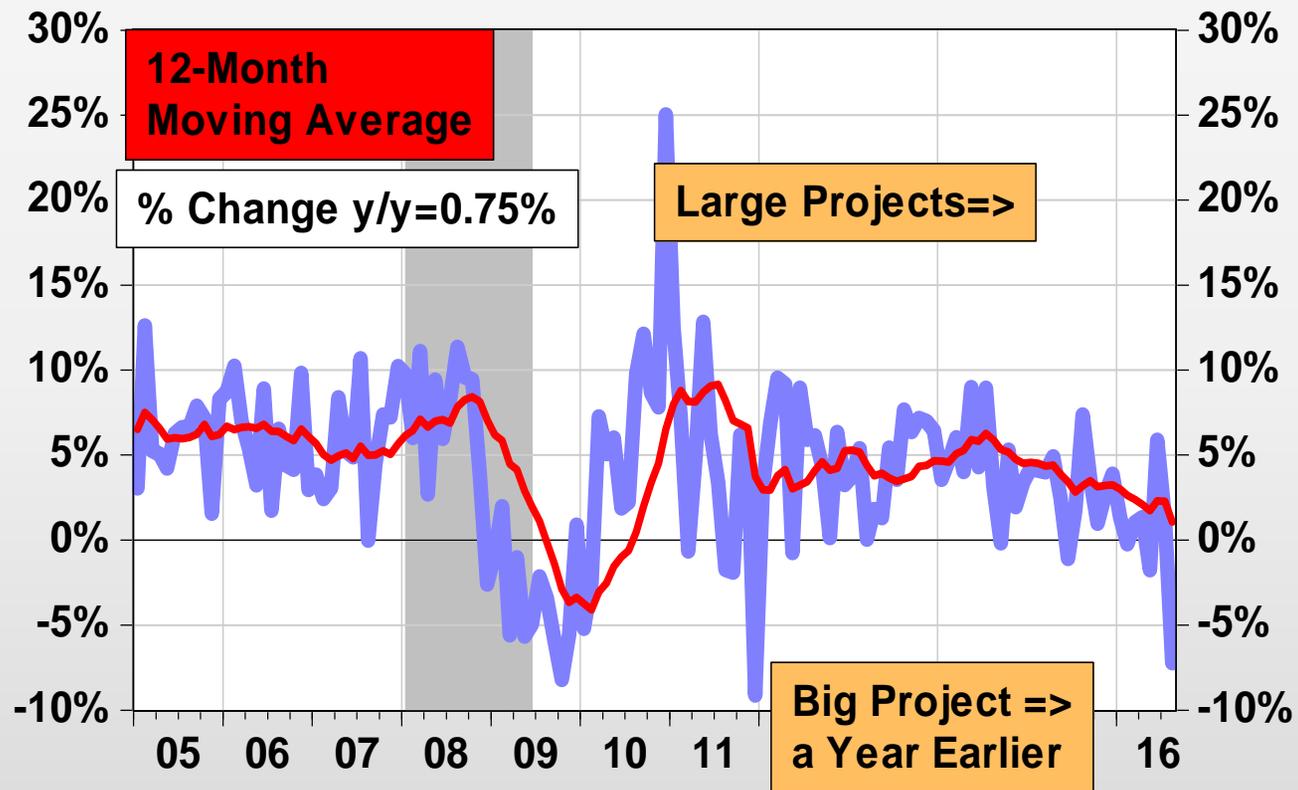
Source: BEA

Farm Down Sharply - High Prodn Low Prices



Low Inflation and Growth

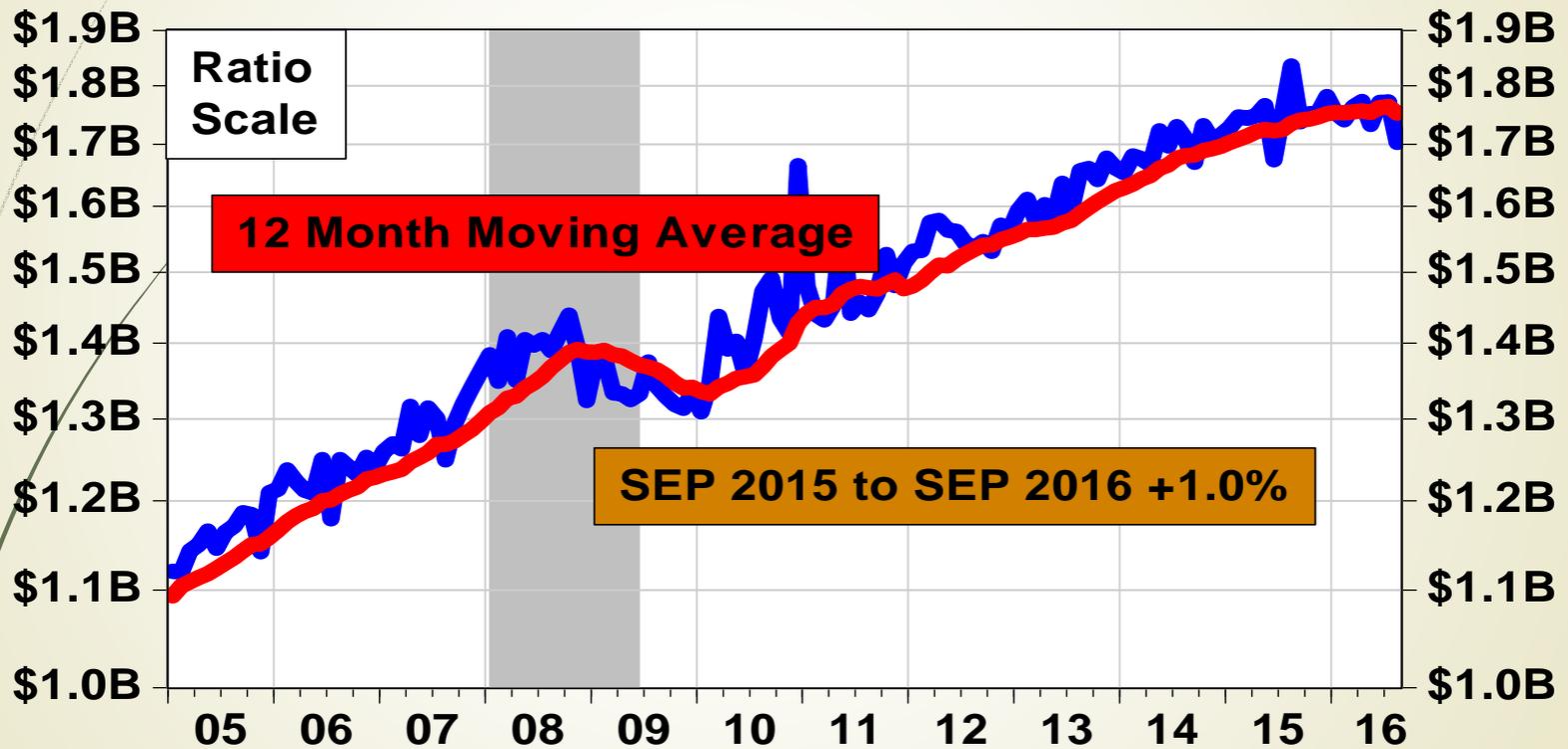
SD TAXABLE SALES



Source: SD Department of Revenue

Slow Growth

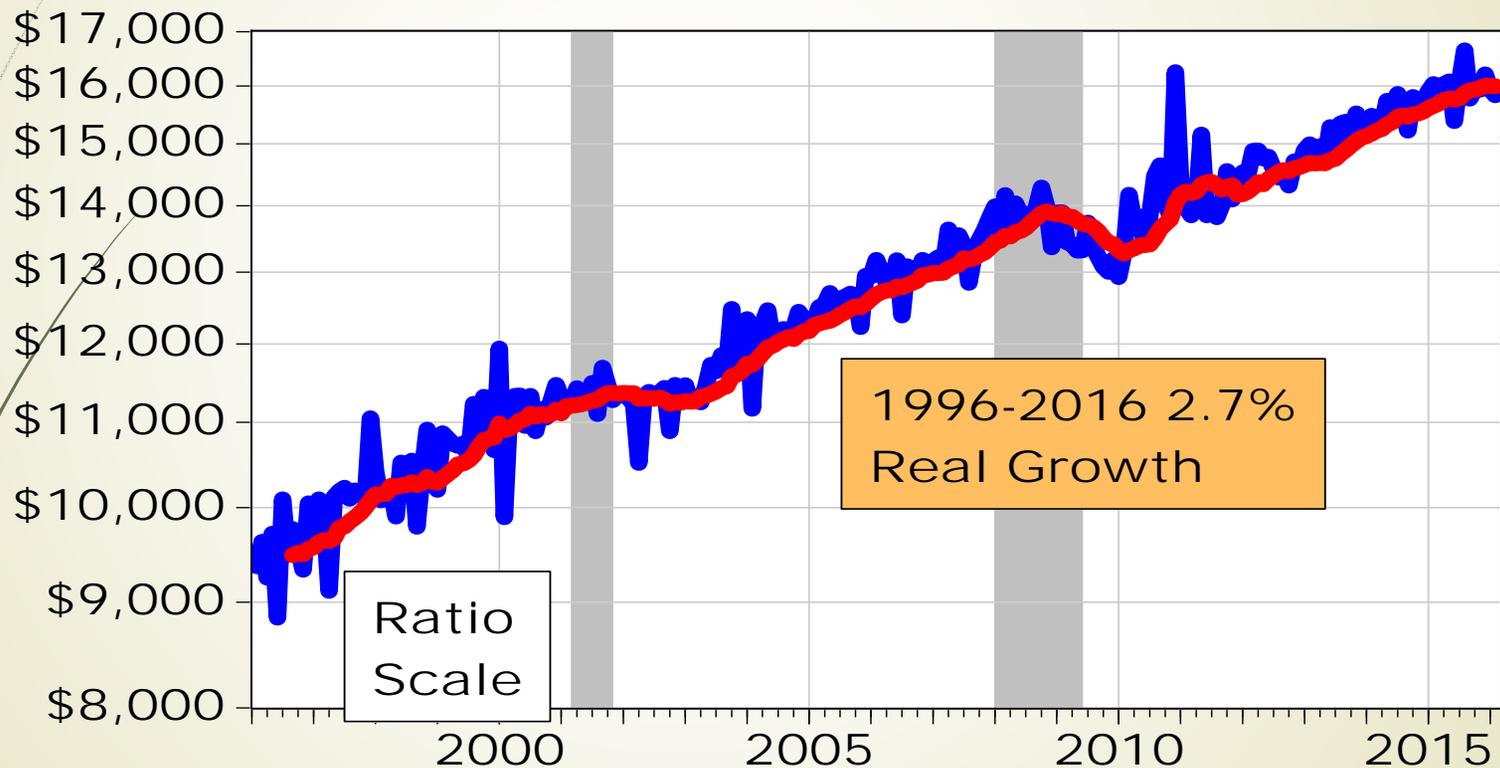
SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue

Growth in Real Terms

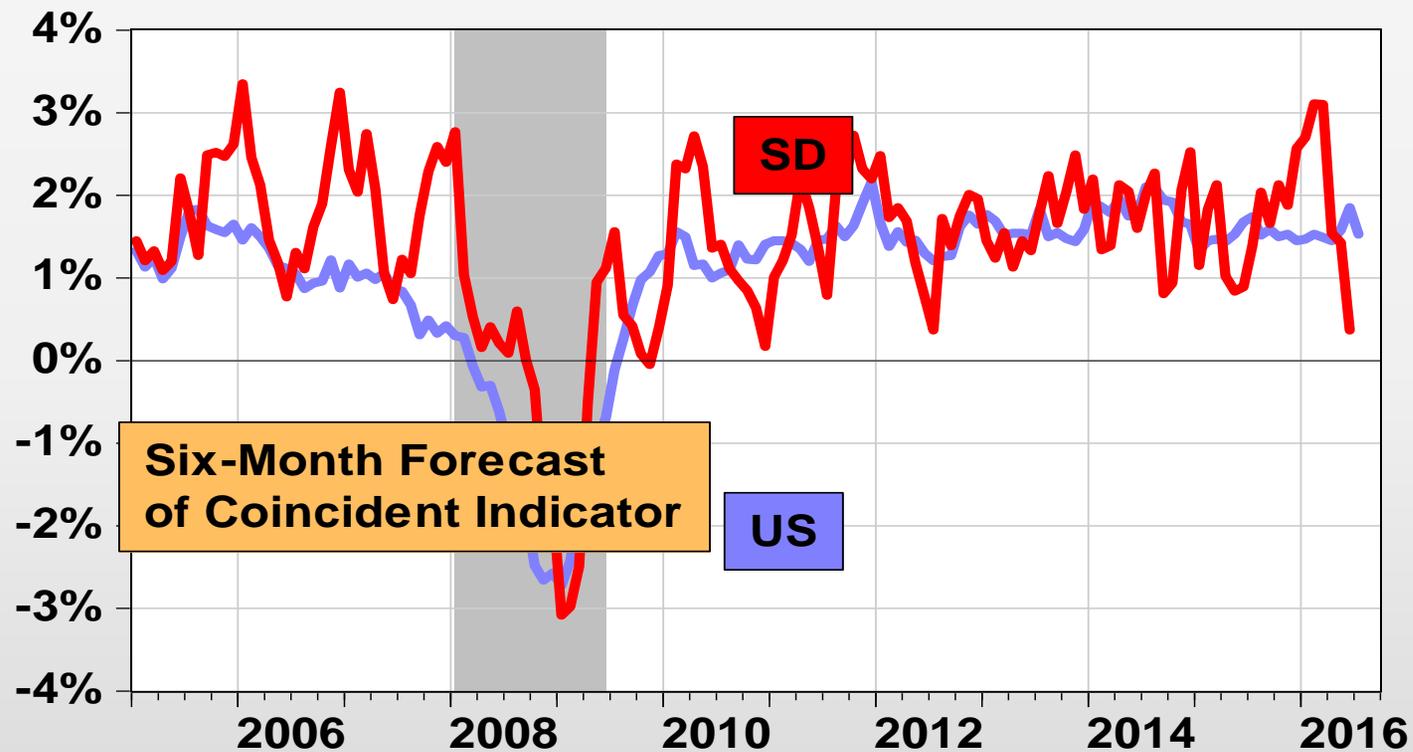
REAL TAXABLE SALES (2009 \$S)



Source: SD Dept of Revenue and BEA

Forecasting Growth: But Barely

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

September 2016 Index > 50 Growth

Overall 51.1 9 months in a row above 50

New Orders 42.4

Sales 46.4

Delivery lead time 65.7

Inventories 49.9

Employment 51.4

“Manufacturers in South Dakota linked to agriculture, energy and international markets are experiencing slower, but positive growth.”

Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing slowly

Only 20% chance of recession

The End

