



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

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Outline of Presentation

Overview of US economy

US economy forecast

SD economy

Summary & Conclusions

US Forecast

Global Insight Forecast – January 4, 2016

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation



IHS TOP 10 ECONOMIC PROJECTIONS 2016

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- 1. US growth remains solid.
 - 2. Europe will keep growing at modest pace.
 - 3. Japan will limp along.
 - 4. China's growth will slow even more.
 - 5. Some emerging markets will remain in recession.

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- ▶ 6. Commodity prices will reach reach a trough.
 - ▶ 7. Any rise in inflation will be modest.
 - ▶ 8. FED and Bank of England will raise rates a little, others will hold or ease more.
 - ▶ 9. The US \$ will rise further.
 - ▶ 10. The risks buffeting the global economy will likely not derail it.



GDP

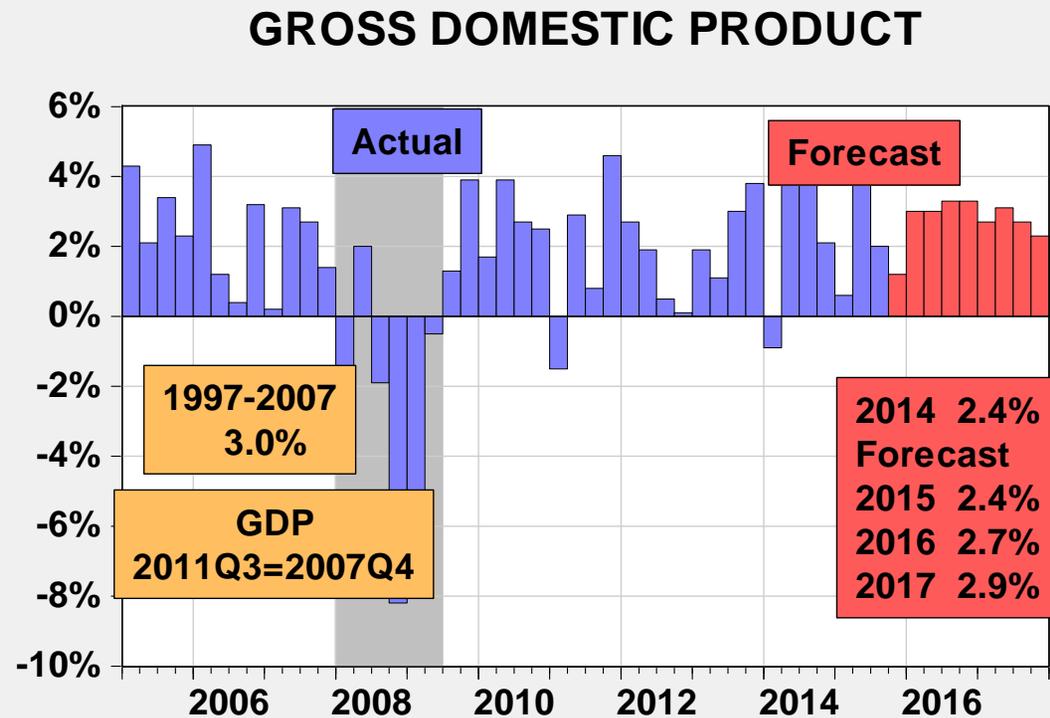
IHS sees mostly solid foundations of the US economic recovery.

Consumer spending and housing have been the mainstay of GDP growth.

However, the manufacturing sector suffers from the strong \$ and the inventory cycle.

They expect growth to accelerate to 3.0%-3.5% between the 4th quarter of 2015 and the end of 2016.

Stronger Growth in 2016



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.

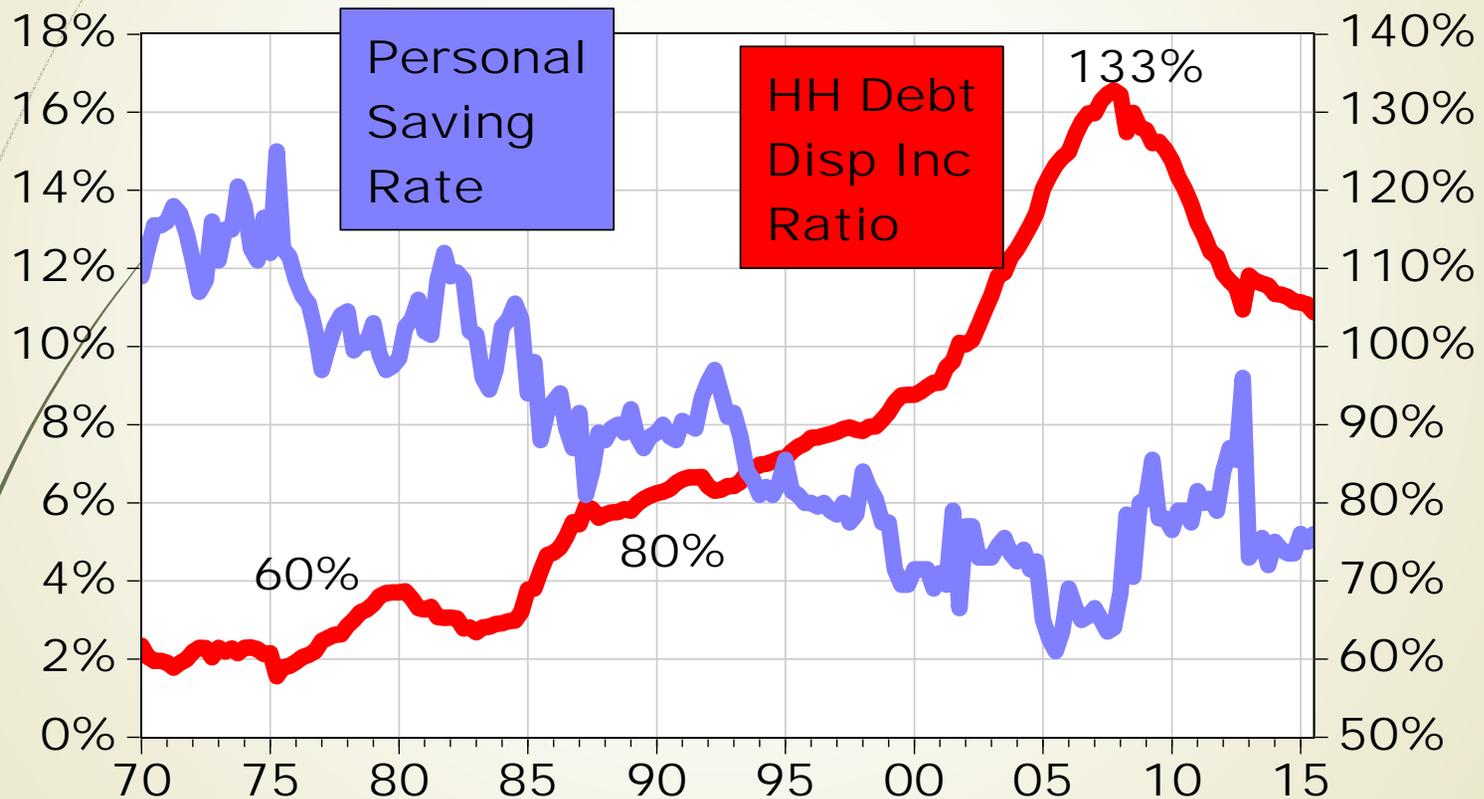
Mostly positive news on the employment front, strong consumer confidence, and lower energy prices all support consumer growth.

Auto sales are expected to remain strong.

One area of some weakness has been in the area of consumer services.

Deleveraging is Nearly Over

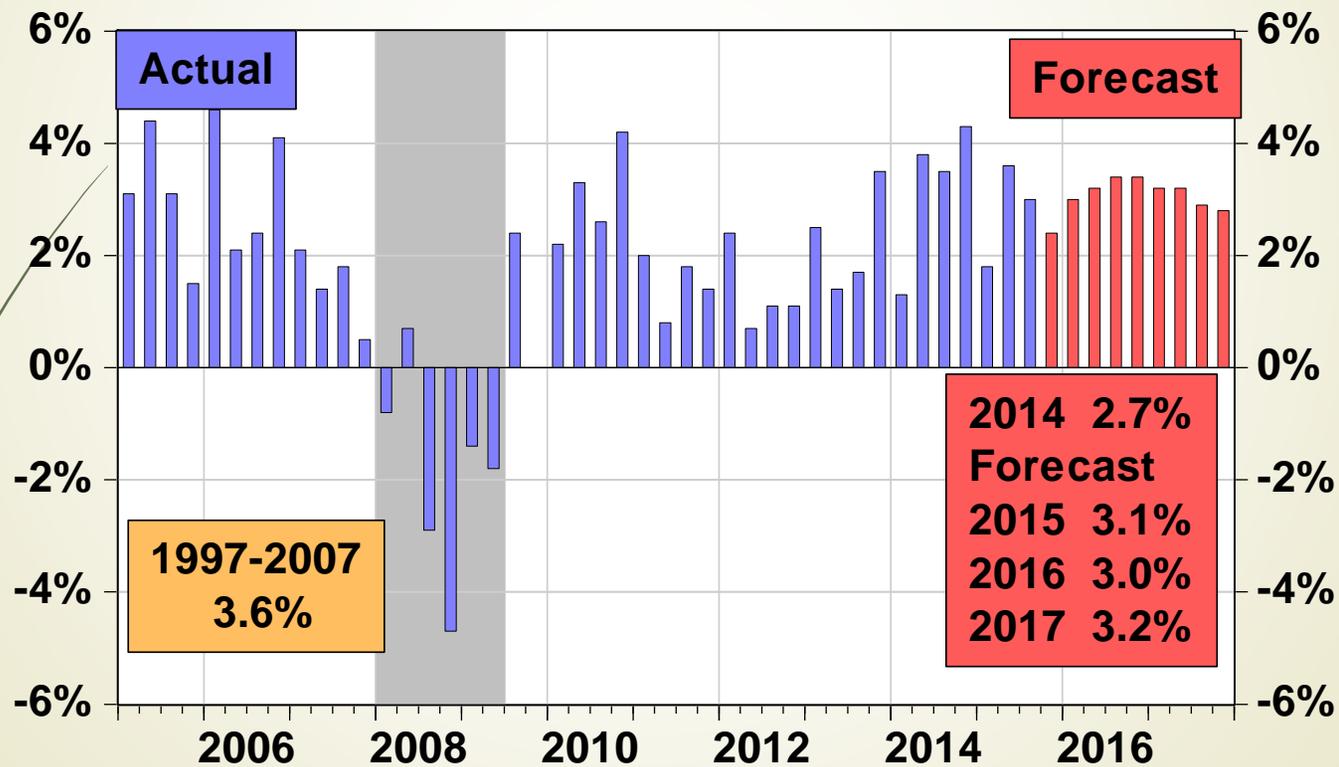
HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Good Growth for Next Couple of Years

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

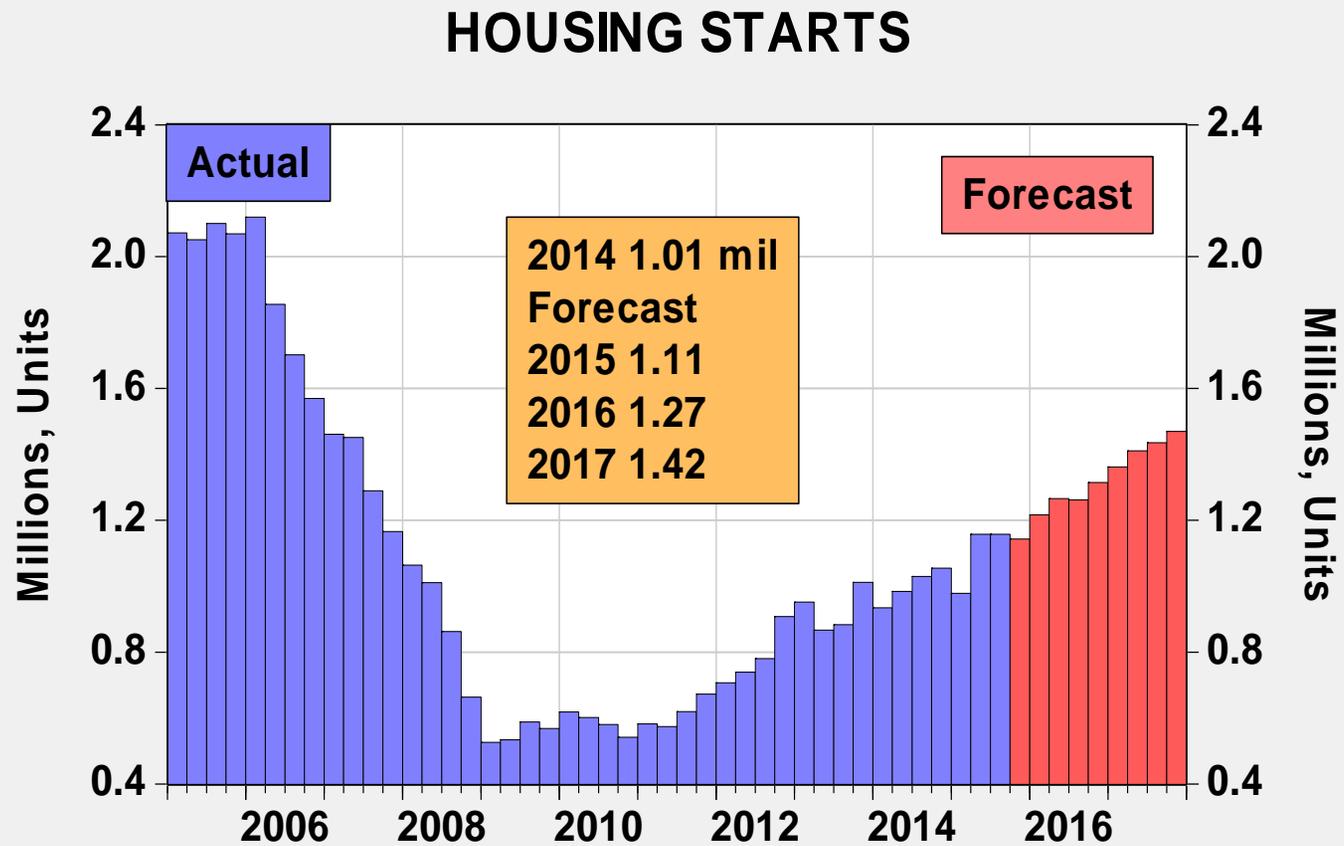
In the energy sector, the drilling rig count is still falling. The rig count for natural gas is at an all-time low and the oil rig count is down as well.

Housing starts will continue to be strong passing a 1.3 million-unit starts by the end of 2016.

The big news is the passage of the \$1.1 trillion spending package by Congress and the extension of the bonus depreciation, the five-year highway spending bill, and removal of the oil export ban.

Equipment spending will increase in 2016 and 2017 as the impact of the strong \$ and low energy prices dissipates.

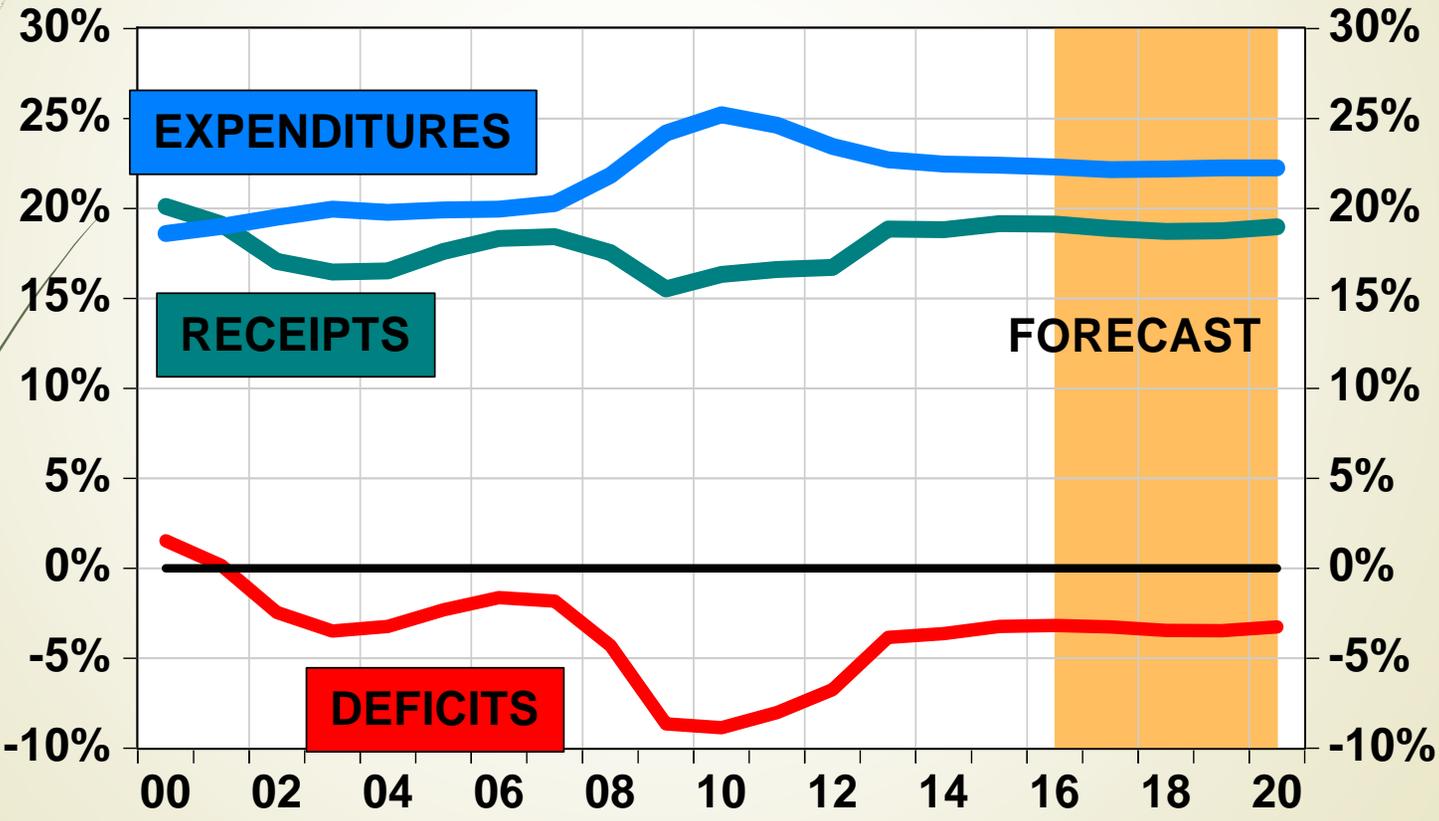
Recovery Proceeds



Source: US Census and IHS

Government Sector

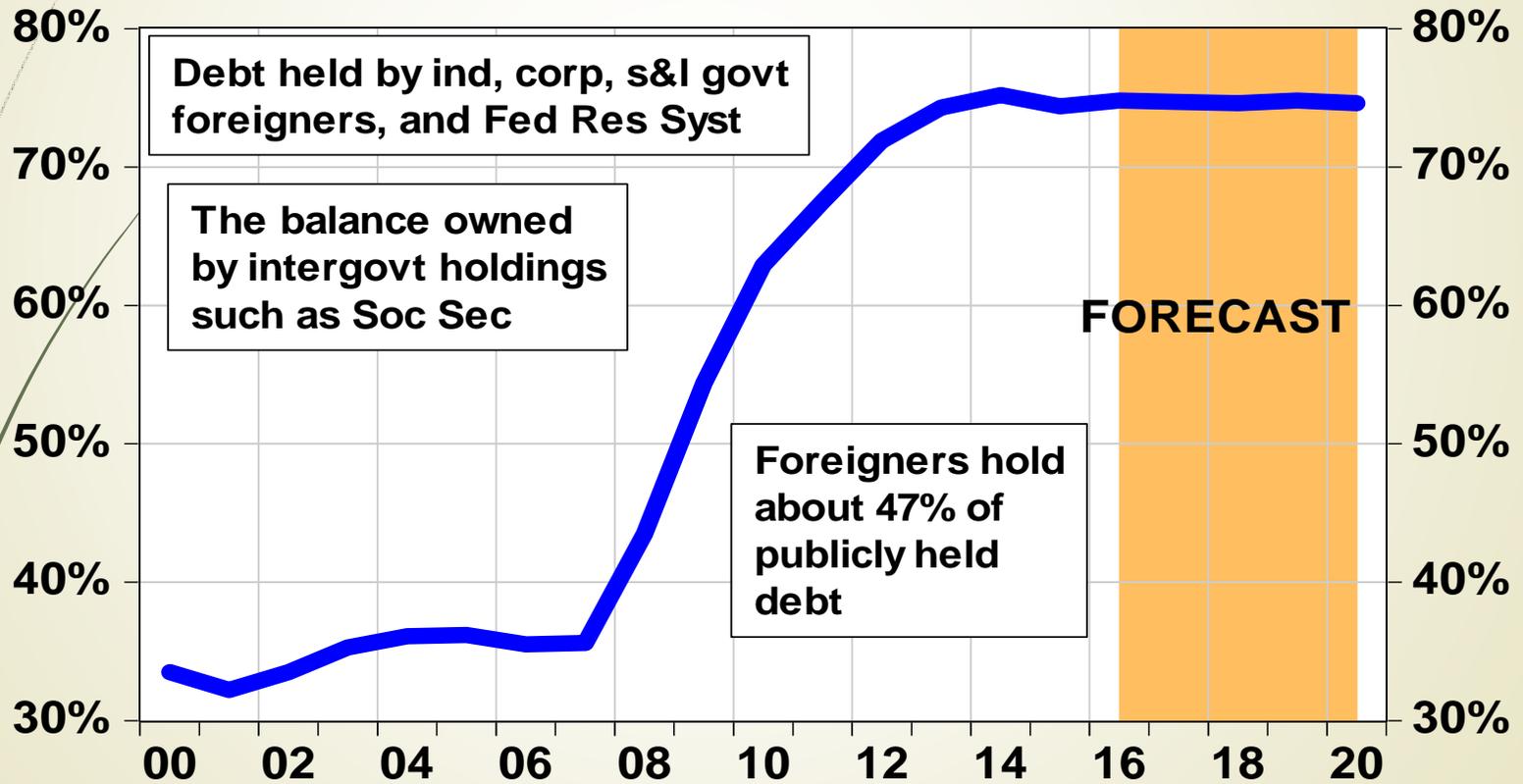
FEDERAL GOVERNMENT AS % OF GDP



Source: IHS

Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



Foreign Sector

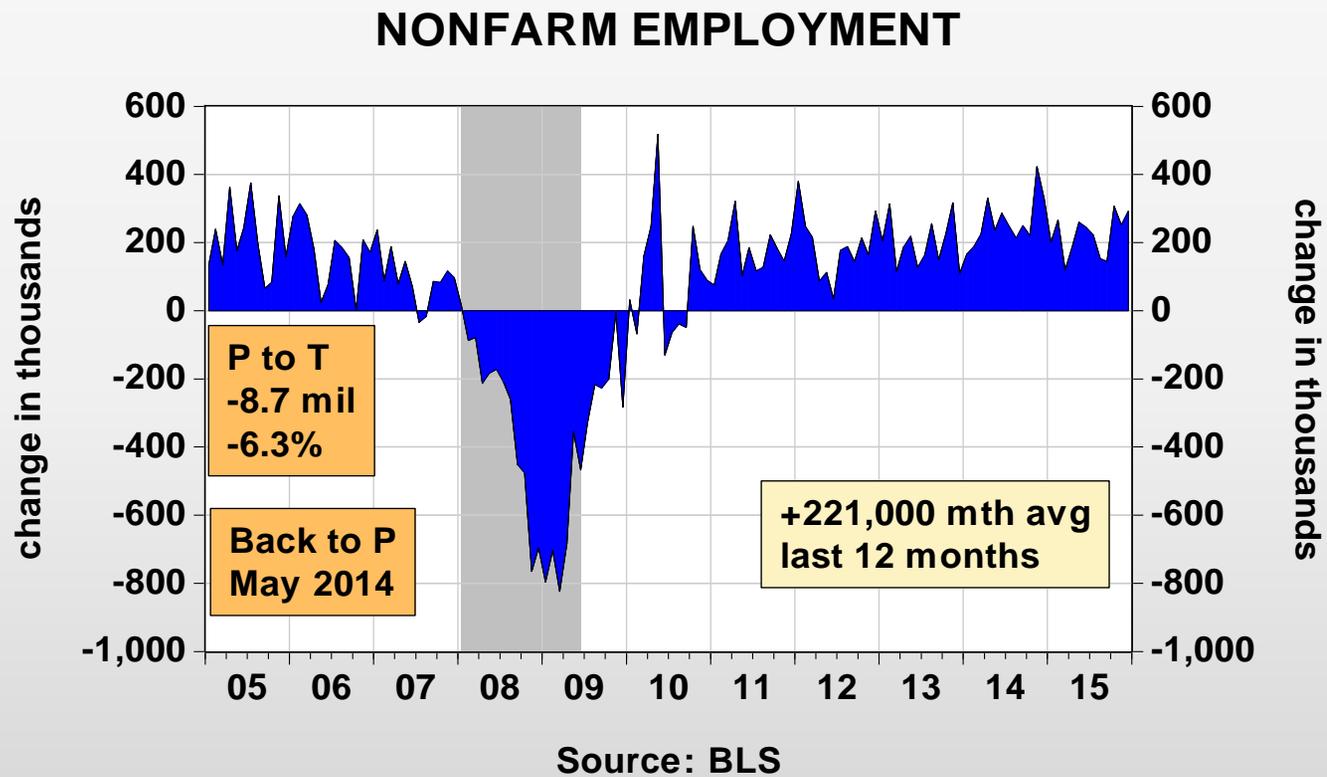
\$ at highest level since 2003 and expected to rise through first half of 2016.

Thereafter, faster world growth and as other countries raise interest rates the \$ will begin a slow multi-year descent.

Non-US GDP growth for major trading partners will average 1.8% per year.

IHS does not seem too concerned about the China situation.

Good Growth in 2015



Employment & Unemployment

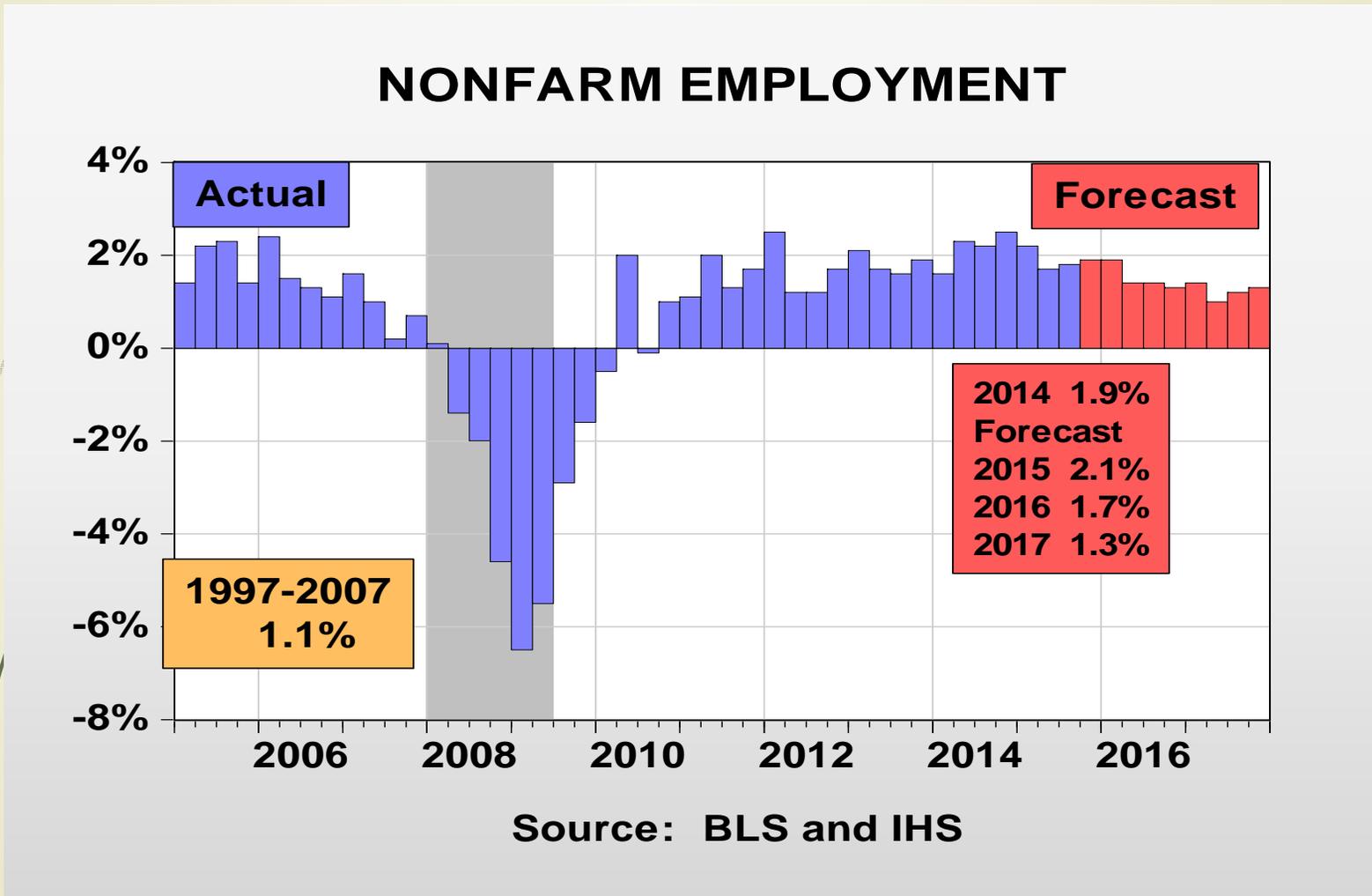
Pretty good job growth this past year at 221,000 per month.

Unemployment rate averaged 5.2% in 2015 and 4.9% in 2016 and 2017.

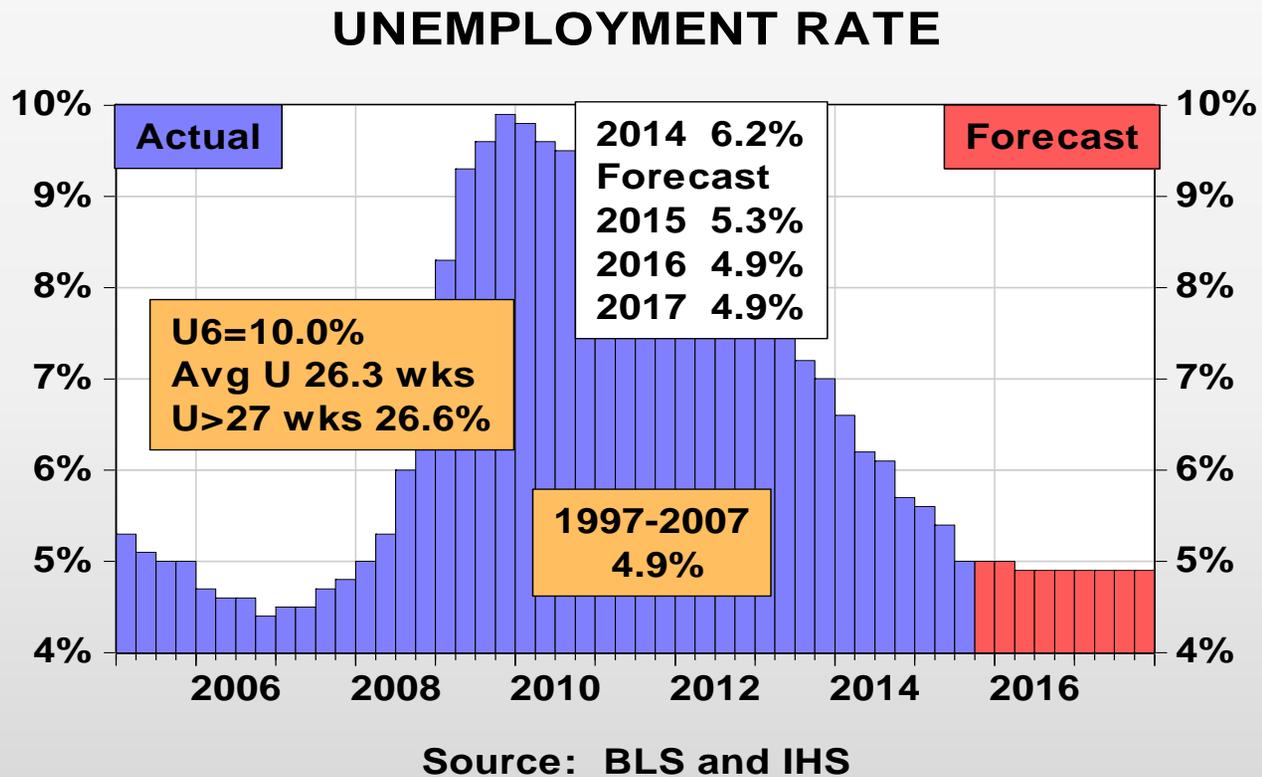
Yet the labor force participation rate is at a 38 year low and wage growth is sluggish.

In ND, nonfarm employment fell by 15.1 thou. (-3.2%) and mining employment fell by 7.1 thou. (-21.9%)

Future Job Growth Slows



Low U3 Unemployment Rate





Inflation & Interest Rates

The FED increased the federal funds rate by 25 bp in December indicating their belief in a sustainable recovery.

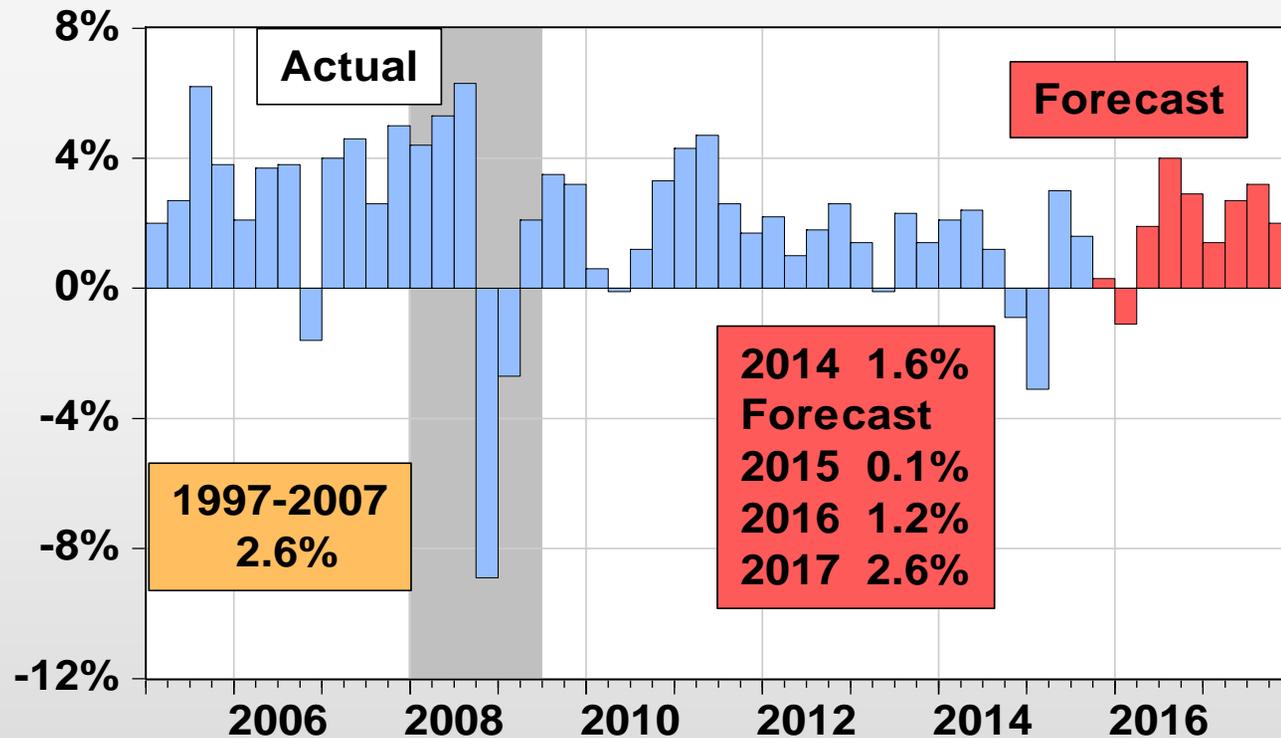
IHS expects FED to increase rates four times in 2016, four more in 2017, and peak at 3.25% by the end of 2018.

The core PCE deflator has stabilized at 1.3% well below the FED's target of 2%.

The CPI is projected to increase 1.2% in 2016 and 2.6% in 2017 (snap-back).

Still Low

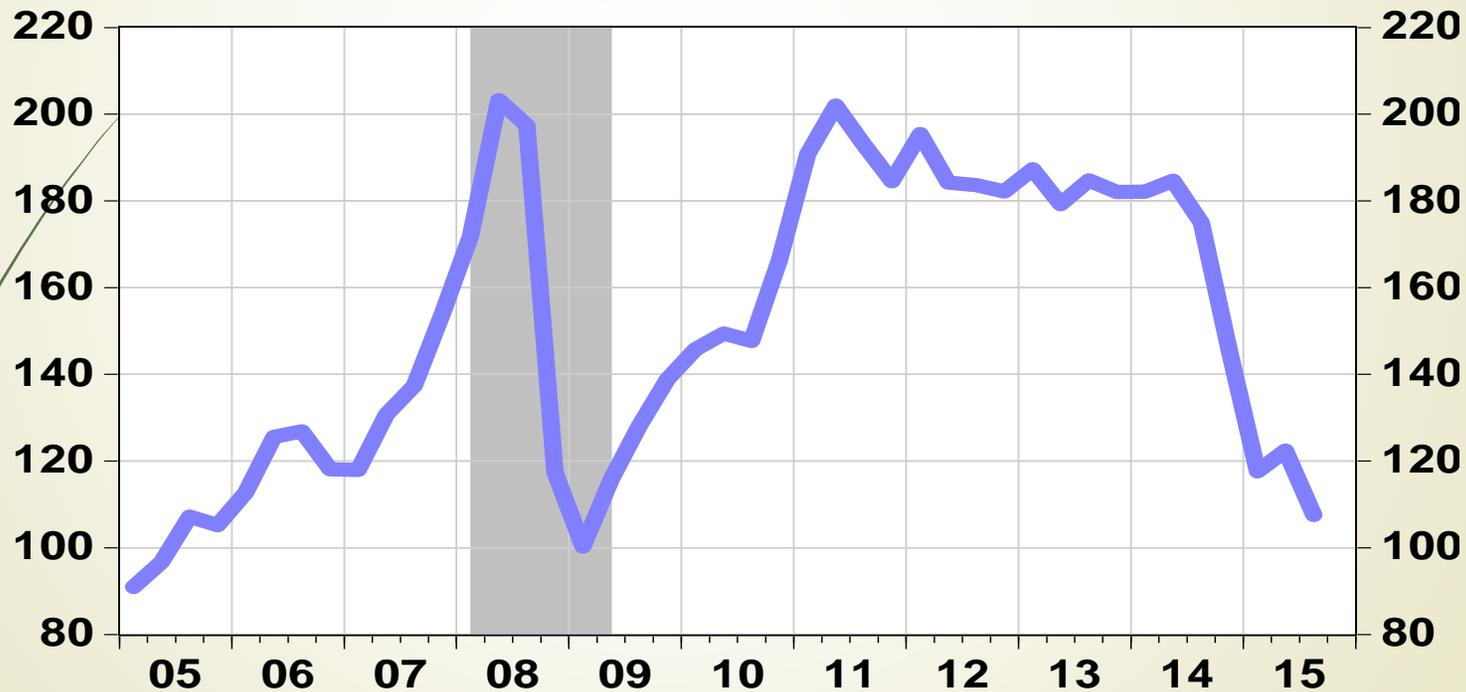
INFLATION: CPI



Source: BLS and IHS

STEEP DROP IN GLOBAL COMMODITY PRICES

GLOBAL COMMODITY PRICES



Source: FRED

HIGHEST SINCE 2003

TRADE-WEIGHTED US DOLLAR



Source: FRED



IHS GLOBAL INSIGHT FORECAST January 2016

Variable	2014	2015	2016	2017
GDP	2.4%	2.4%	2.7%	2.9%
NA Emp	1.9%	2.1%	1.7%	1.3%
Oil(Brent)	\$100	\$54	\$48	\$58
Housing	1.01	1.11	1.27	1.42
CPI	1.6%	0.1%	1.2%	2.6%
Un Rate	6.2%	5.3%	4.9%	4.9%



IHS List Top-10 Global Risks

- 1. World growth disappoints
- 2. Deflation gets worse
- 3. Commodity prices do not stabilize
- 4. EM private-sector debt stress
- 5. Global investment drought

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- 6. China hard landing
 - 7. US \$ continues rise
 - 8. EU political crisis
 - 9. Cyber attack
 - 10. Geopolitical risks
- CHANCE OF RECESSION 20%



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

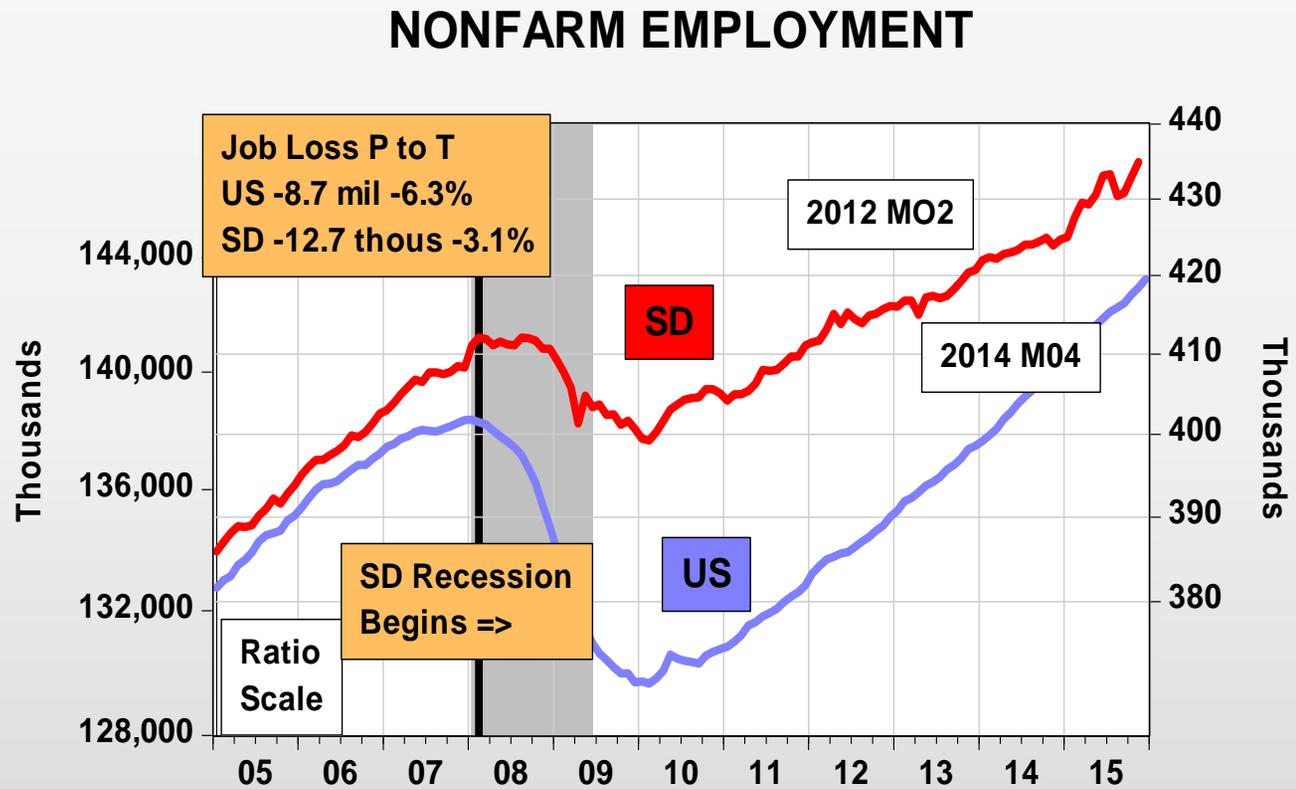
Real nonfarm personal income

Taxable sales

Leading indicator



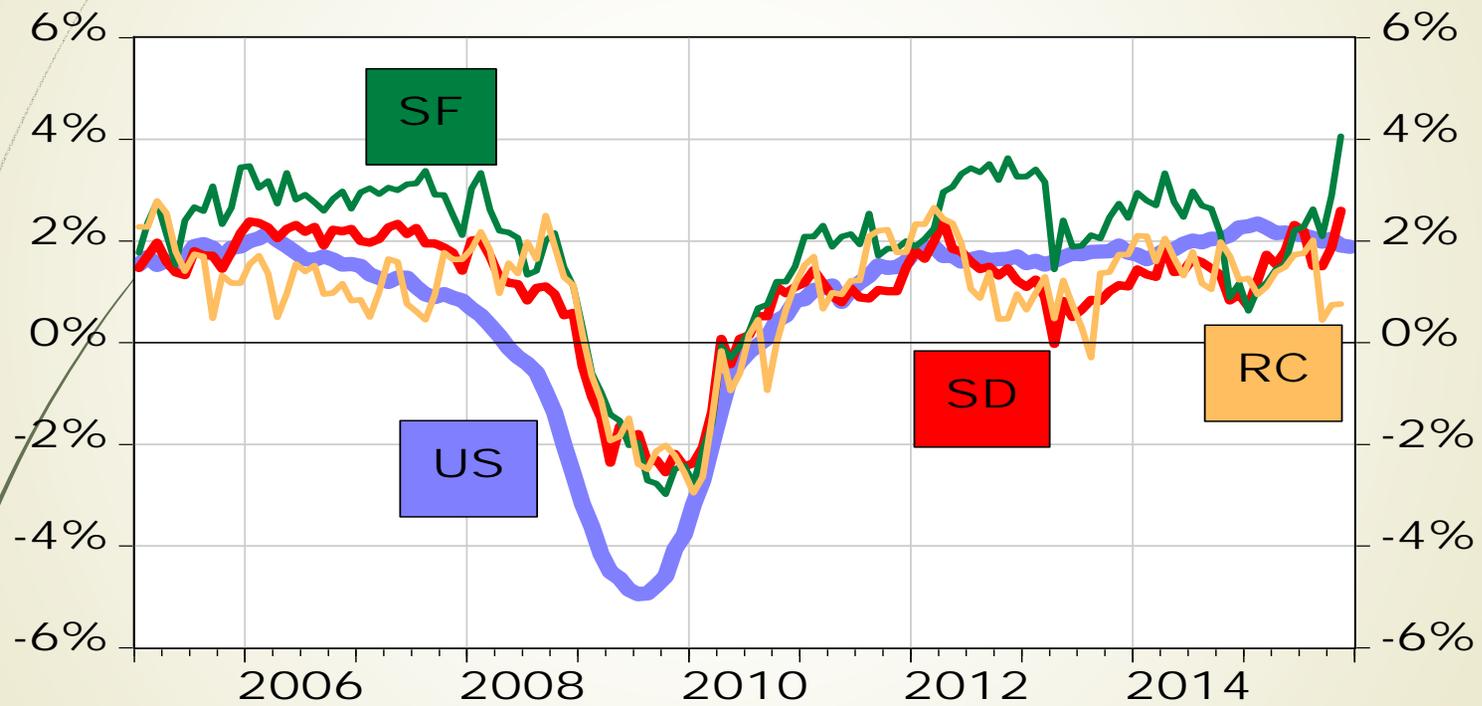
Steady Growth



Source: BLS

Interesting

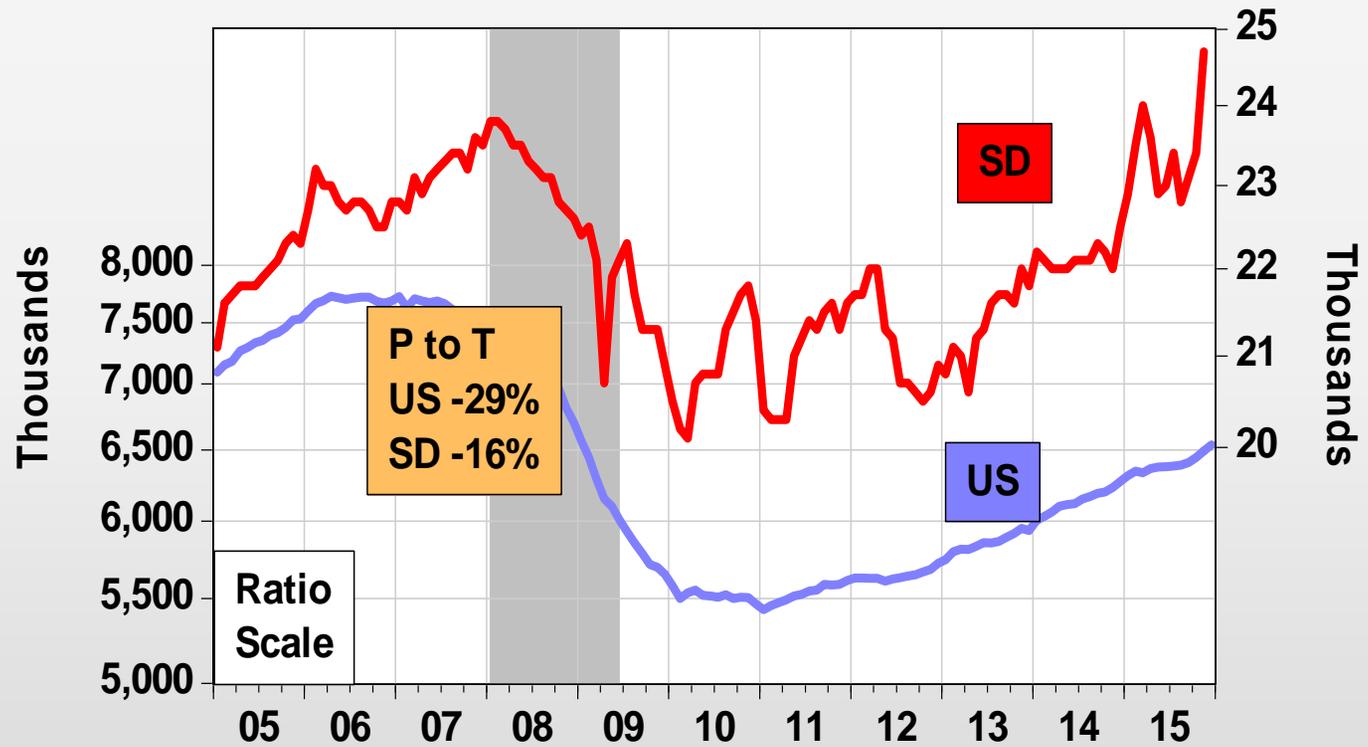
NONFARM EMPLOYMENT



Source: BLS

Above Peak

CONSTRUCTION EMPLOYMENT



Source: BLS

Divergence

CONSTRUCTION EMPLOYMENT

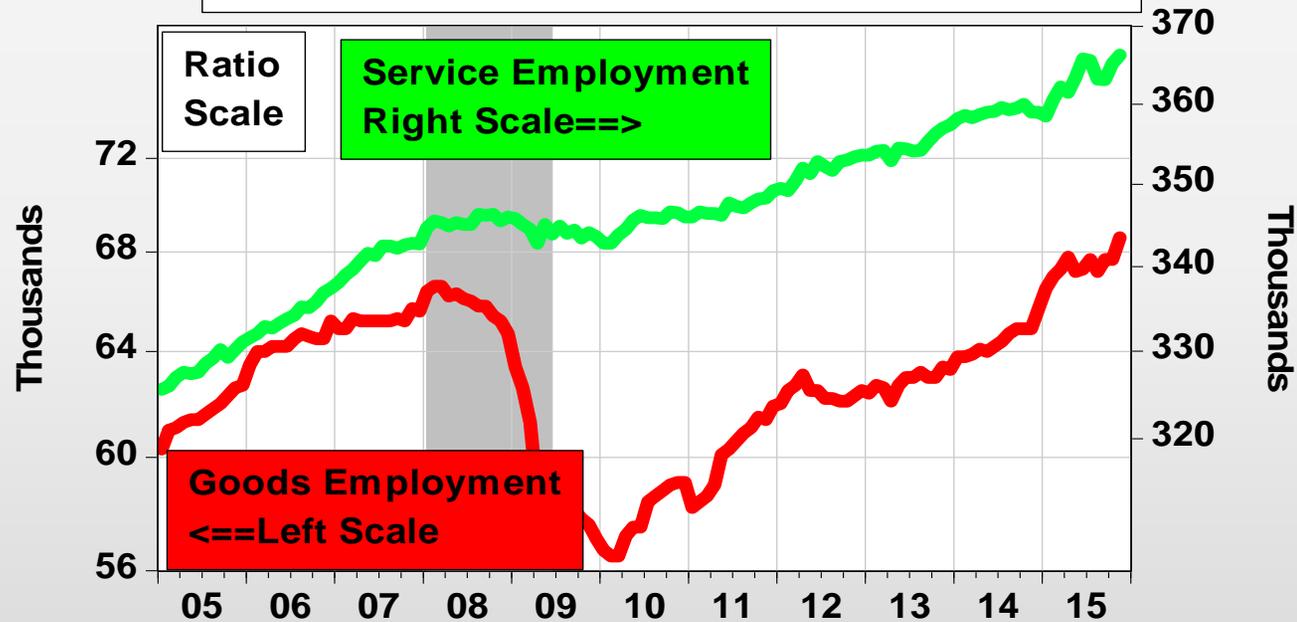


Source: BLS

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

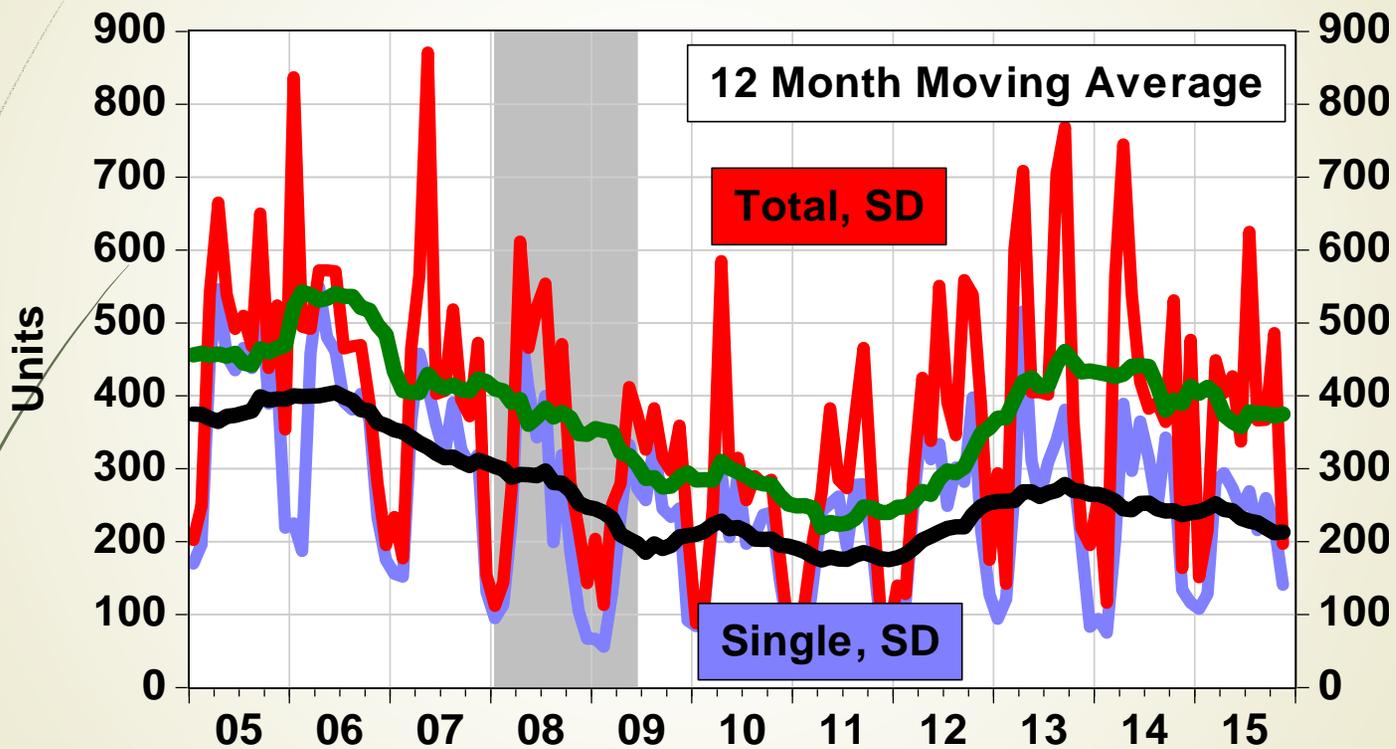
Goods-Producing = Manufacturing+Construction



Source: BLS

Not Quite Back to Peak

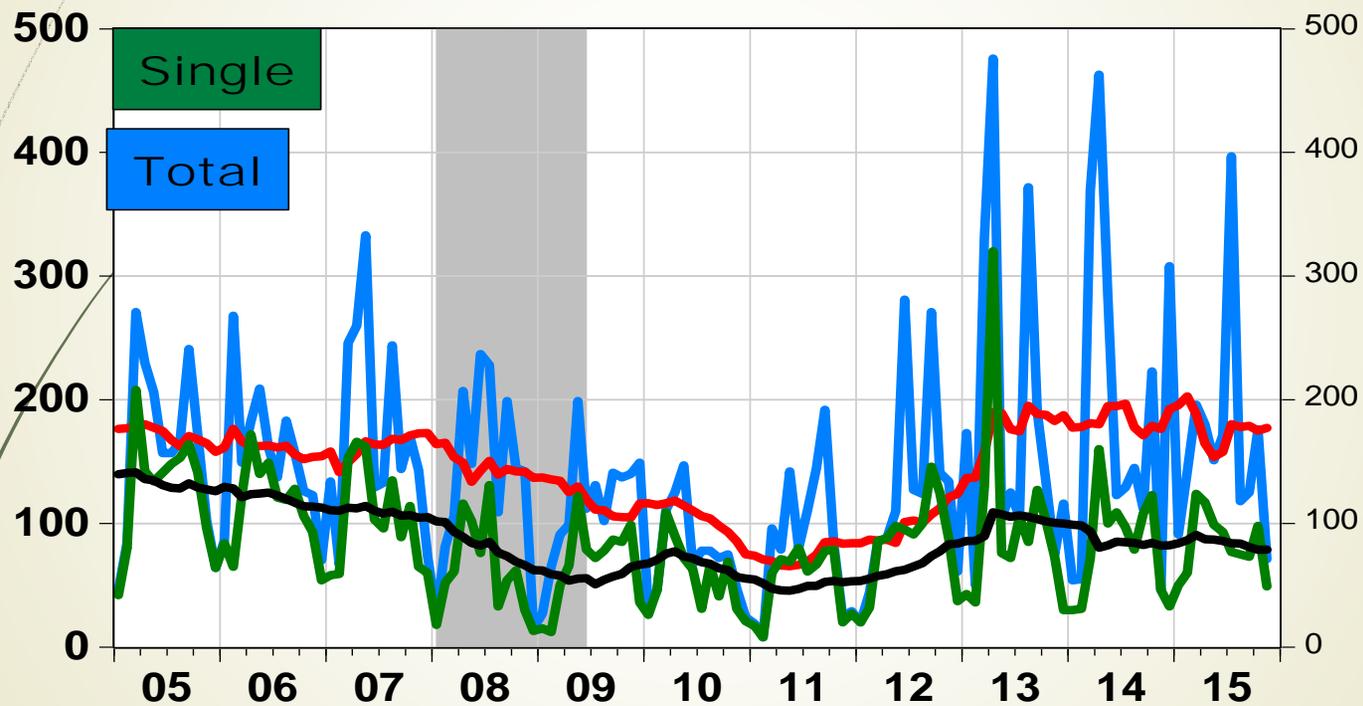
SD Building Permits, Total & Single



Source: Census Bureau

Very Good Performance

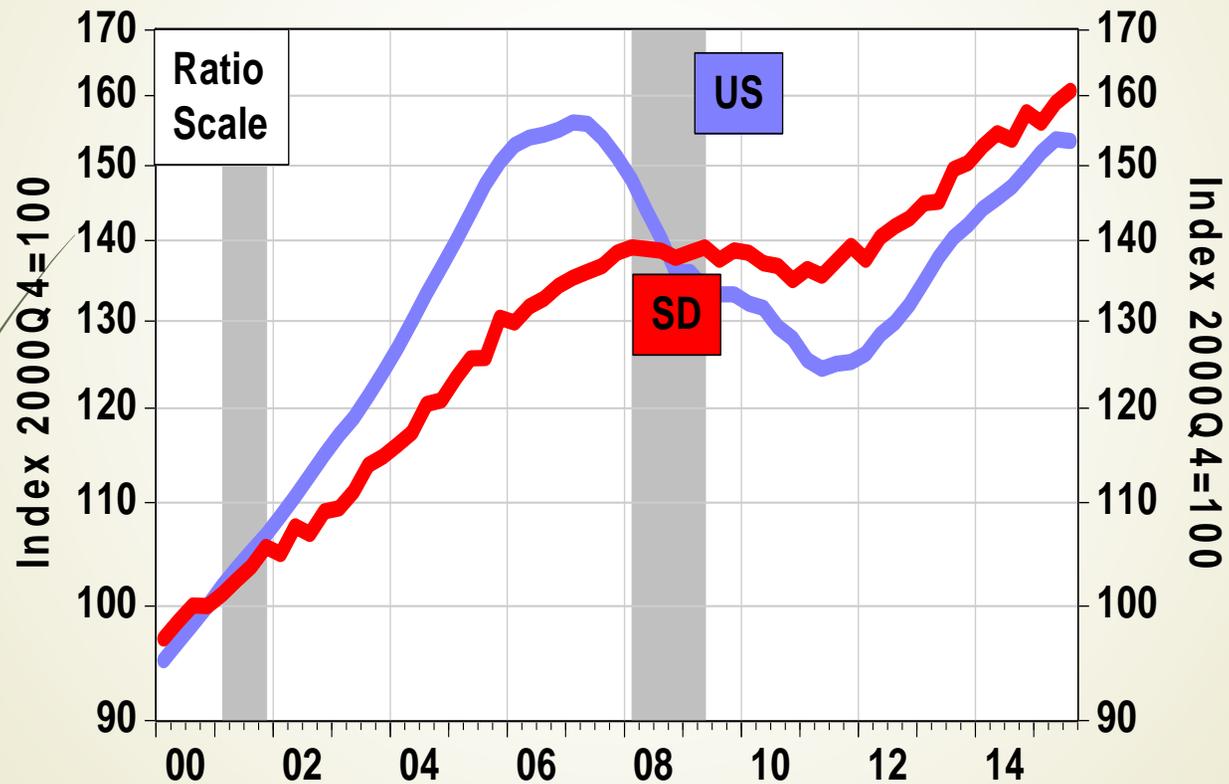
SIOUX FALLS BUILDING PERMITS



Source: US Census Bureau

SD Peaked Later and Decline Less Severe

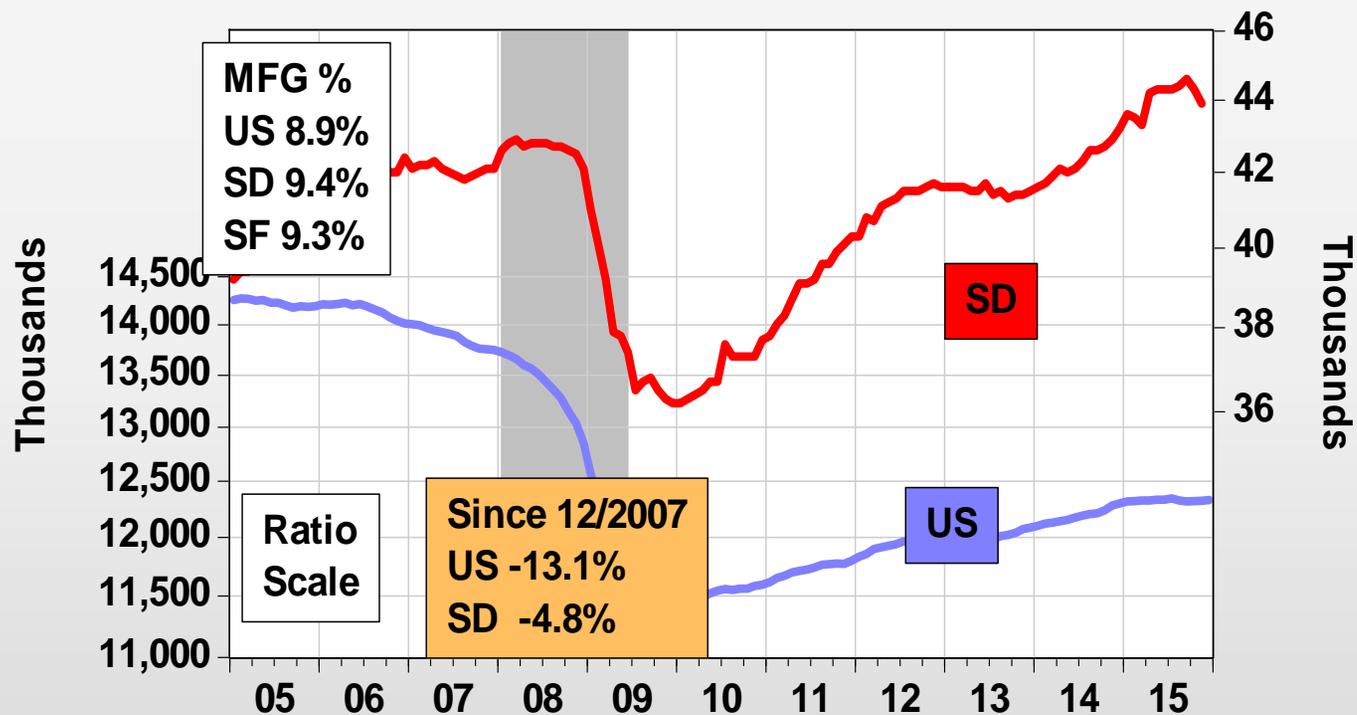
HOUSE PRICE INDEX: PURCHASE ONLY PRICE



Source: FHFA.GOV

SD Above Peak

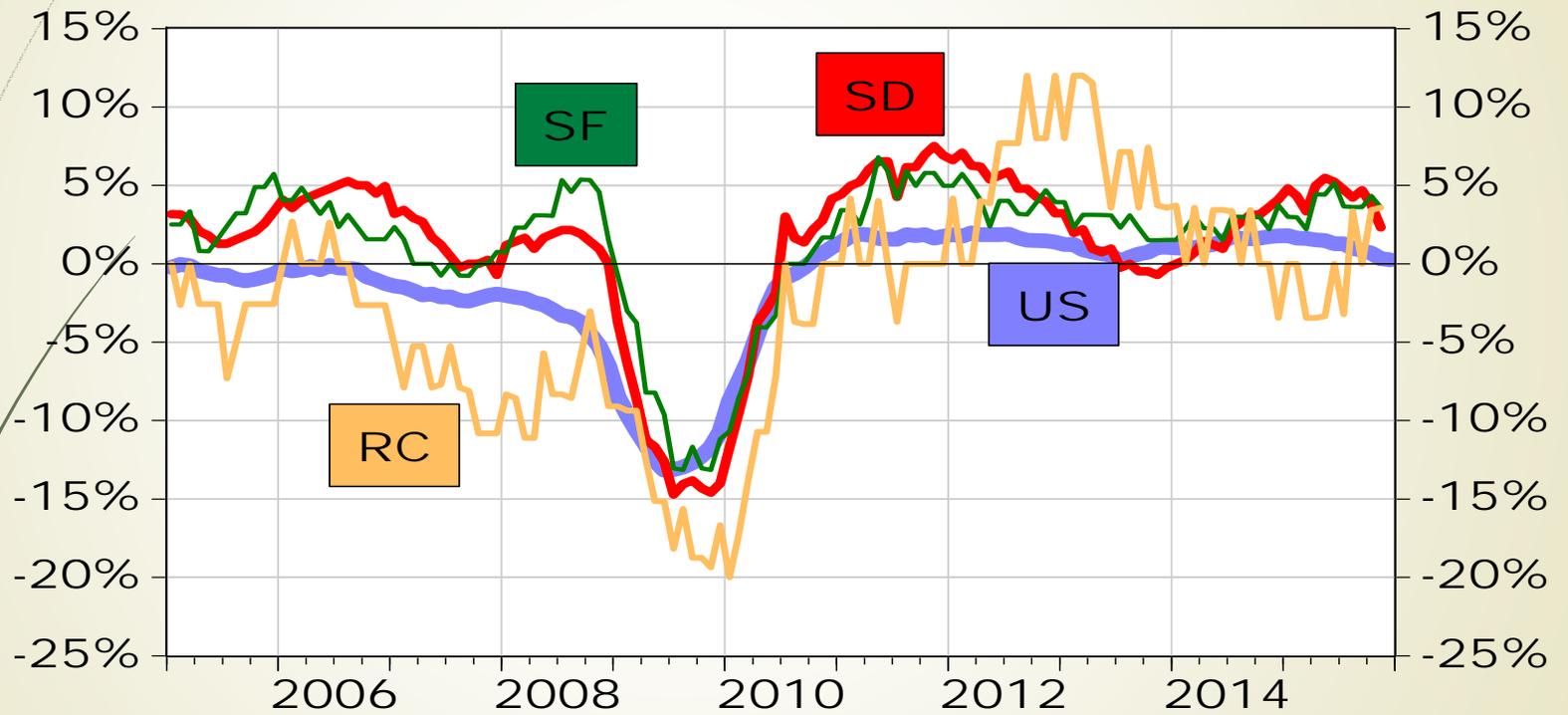
MANUFACTURING EMPLOYMENT



Source: BLS

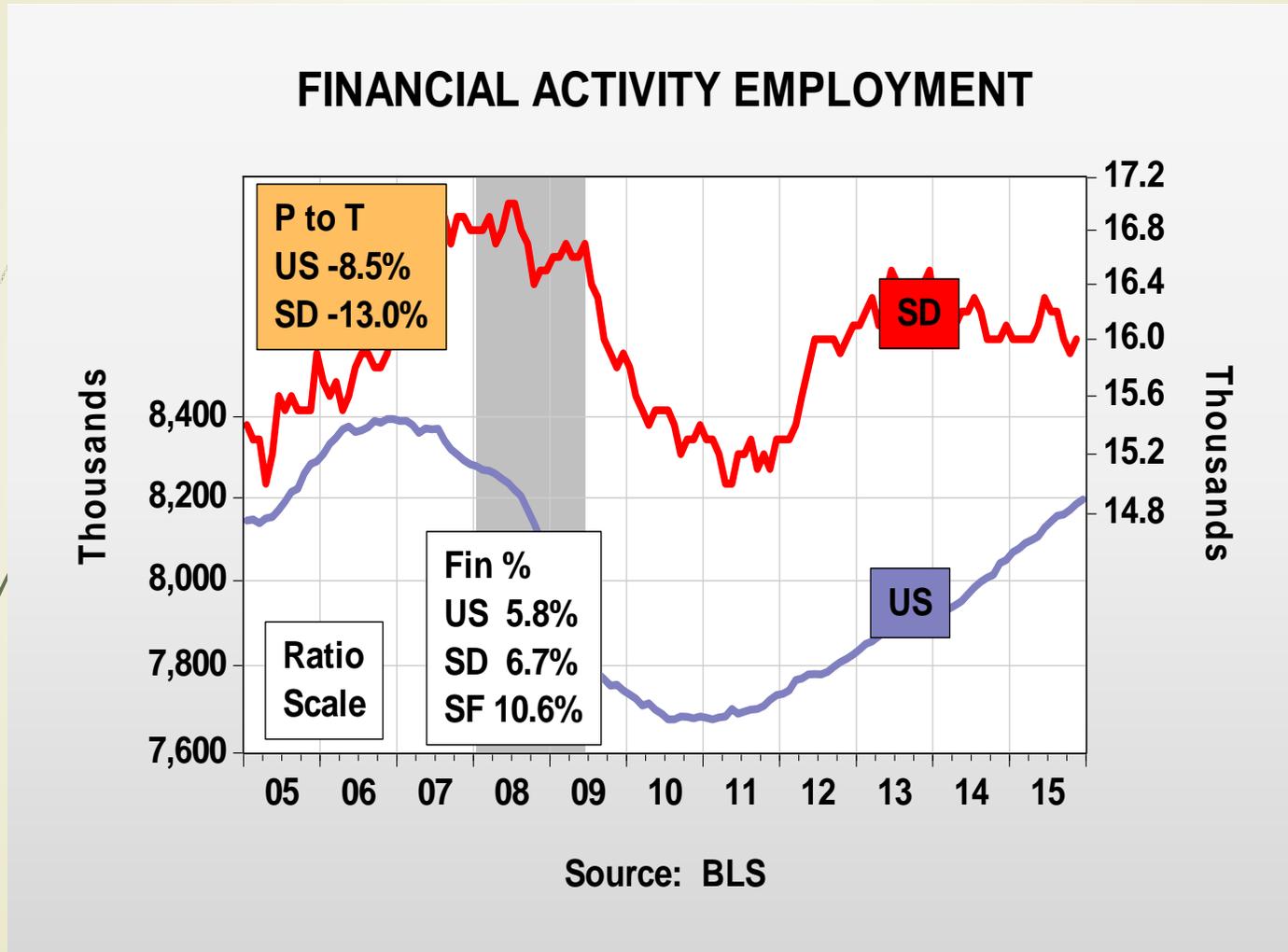
Divergence

MANUFACTURING EMPLOYMENT



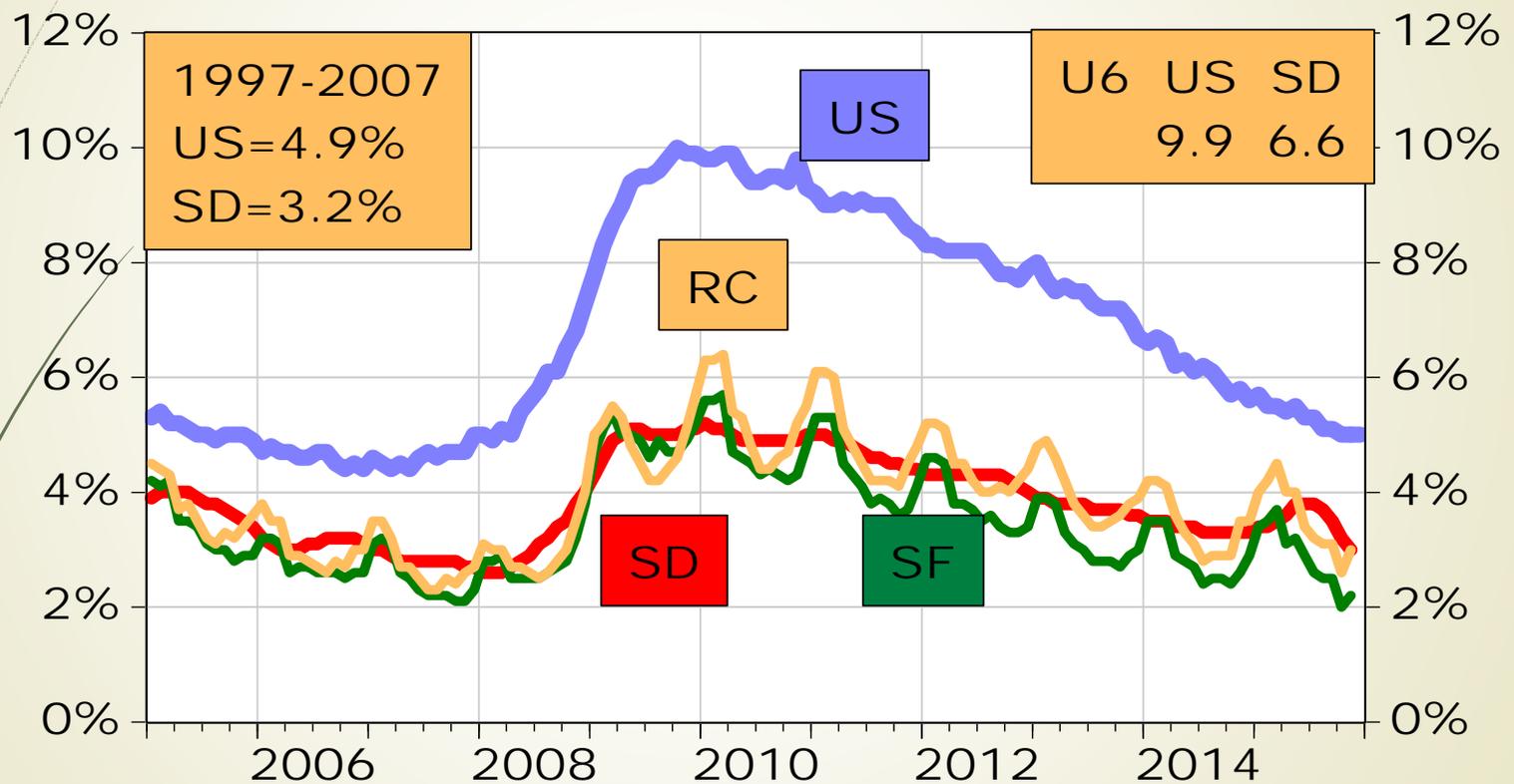
Source: BLS

SD Not Back to Peak



SD 3.0% SF(SA) 2.4%

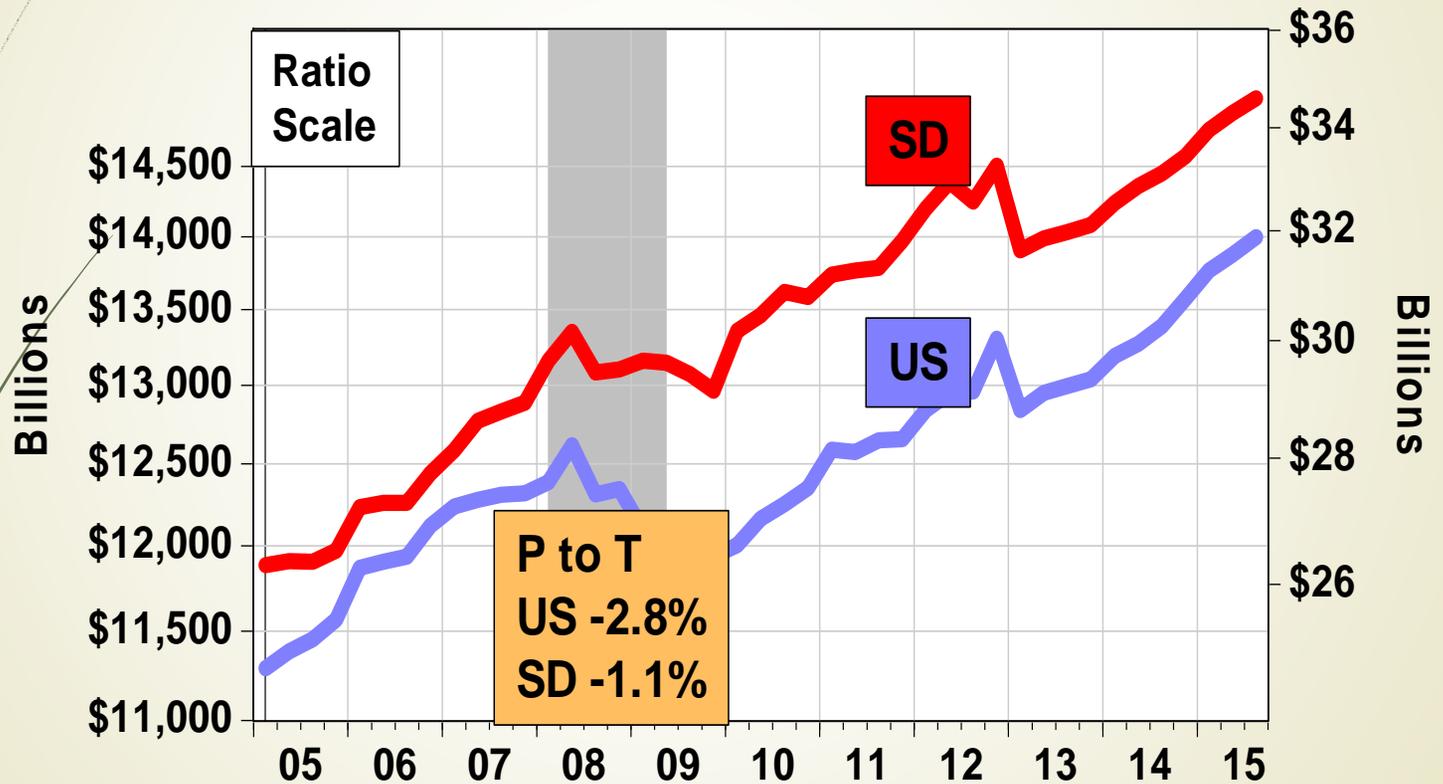
UNEMPLOYMENT RATES



Source: BLS

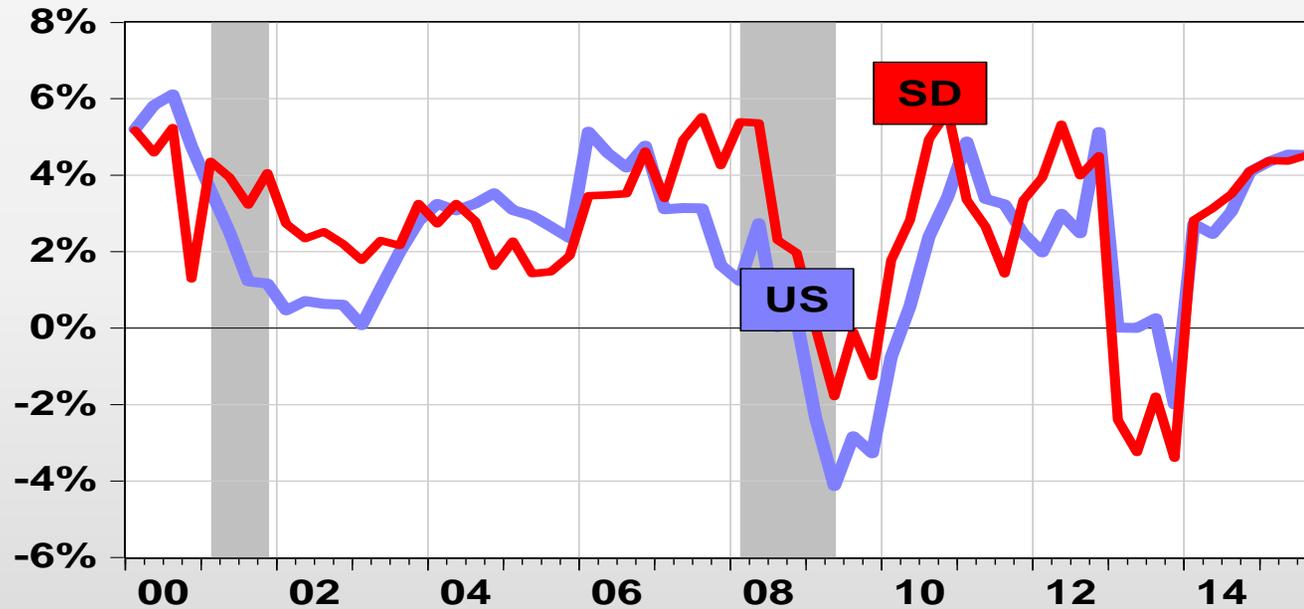
SD Smaller Decline – Way Above Previous Peak

NONFARM PERSONAL INCOME (2009 \$)



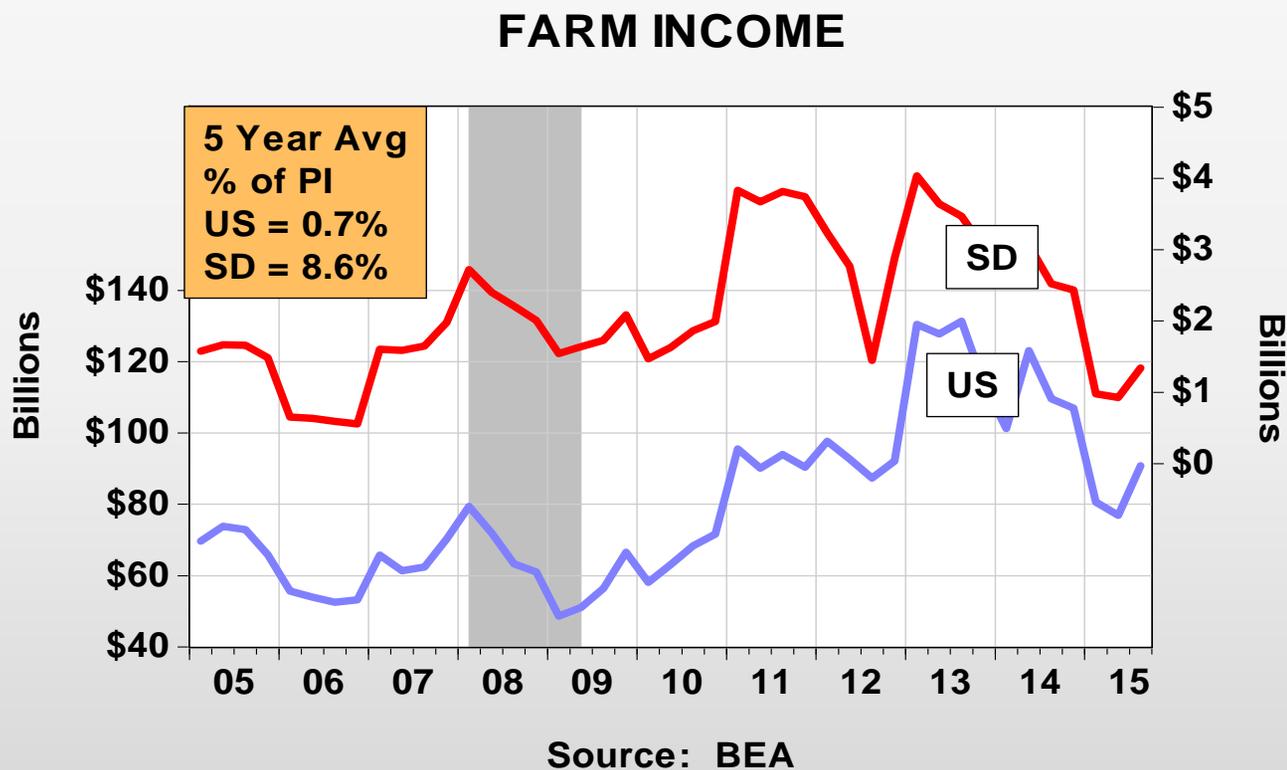
US and SD Track

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



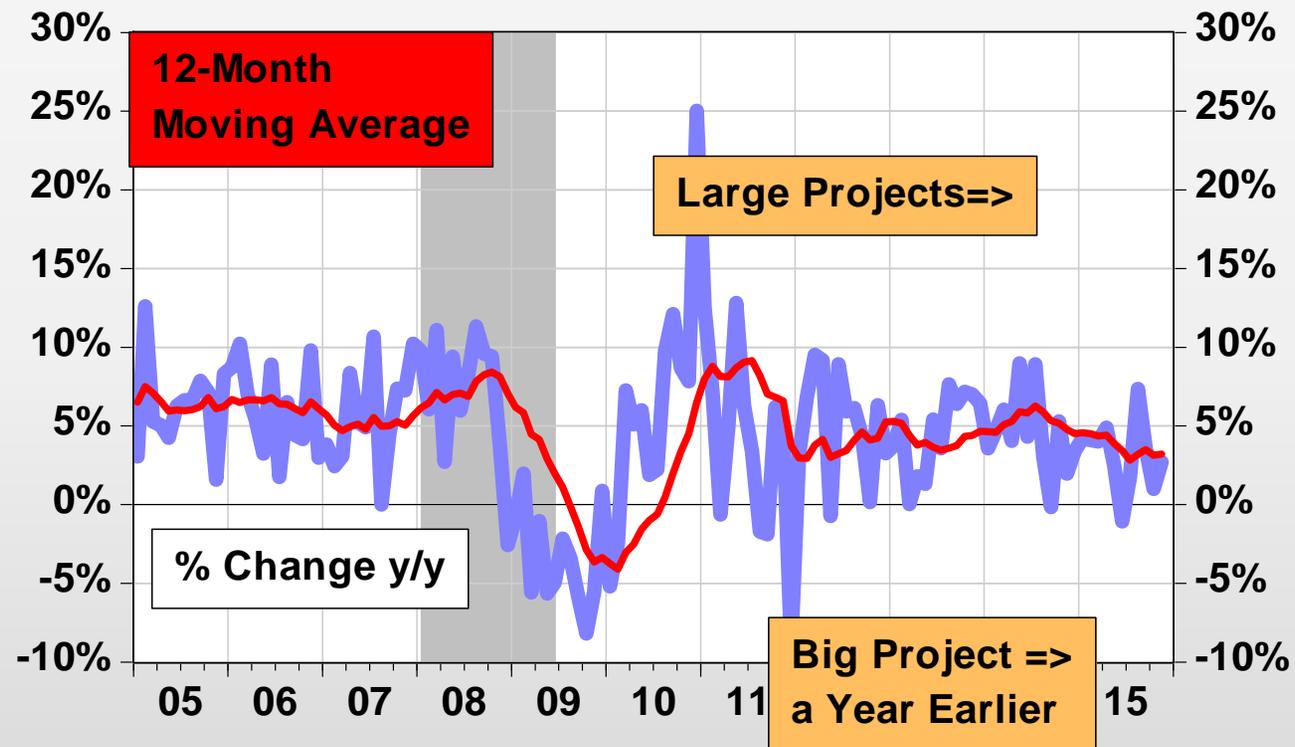
Source: BEA

Down High Prodn Low Prices



Low Inflation and Growth

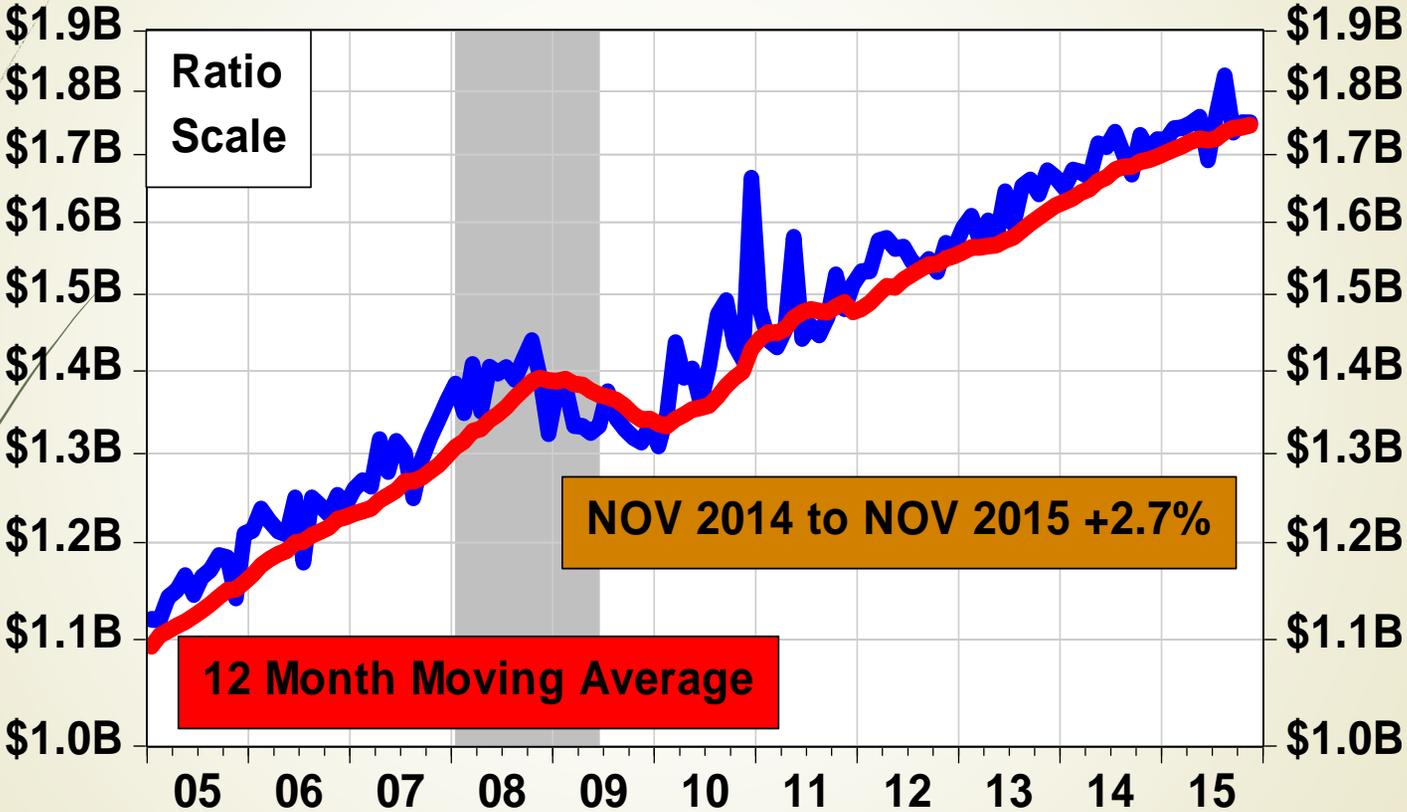
SD TAXABLE SALES



Source: SD Department of Revenue

Steady Growth

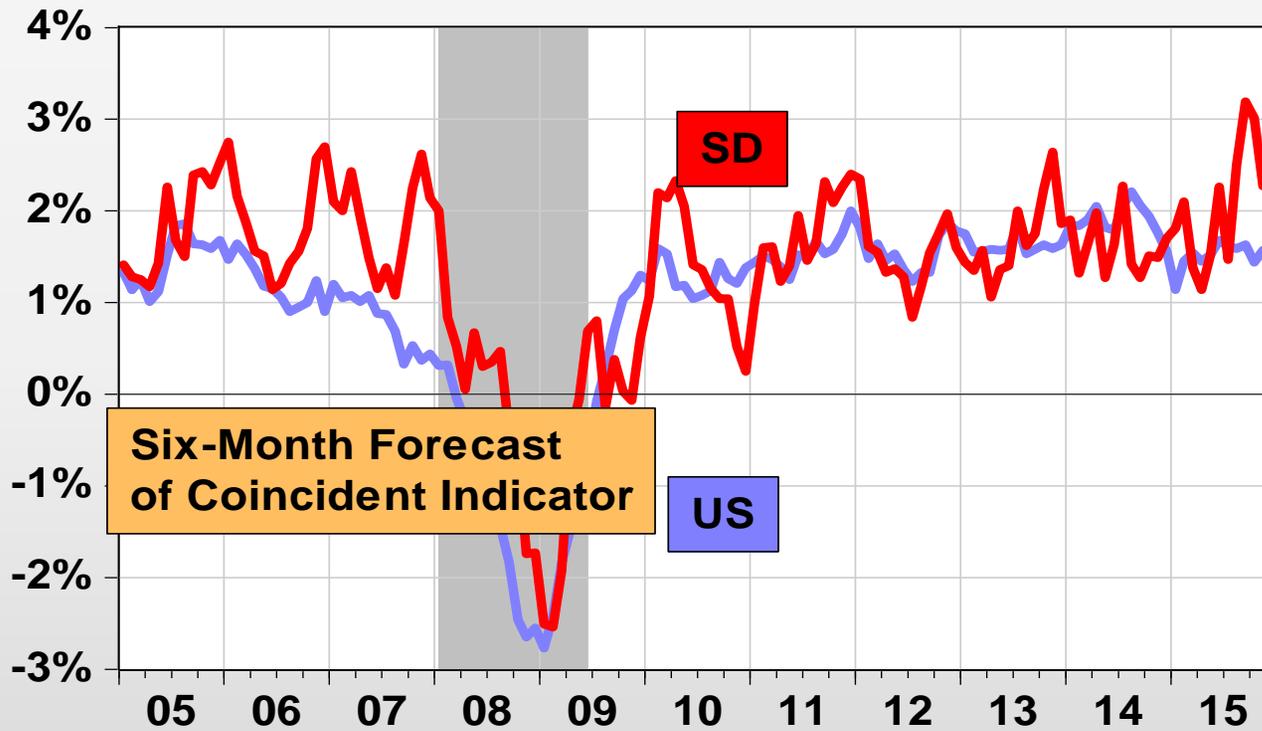
SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue

Forecasting Growth

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

December 2015 Index > 50 Growth

Overall 40.2

New Orders 35.2

Sales 35.9

Delivery lead time 48.0

Inventories 44.3

Employment 37.7

“For a third consecutive month, South Dakota’s leading economic indicator remained below growth neutral 50.0.”

Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing slowly

Only 20% chance of recession

The End

