



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

May 4, 2016

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Outline of Presentation

Overview of US economy

US economy forecast

SD economy

Summary & Conclusions

US Forecast

Global Insight Forecast – April 6, 2016

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation



GDP

IHS has downgraded its 2016 forecast to 2.1%. Wells Fargo at 1.7%.

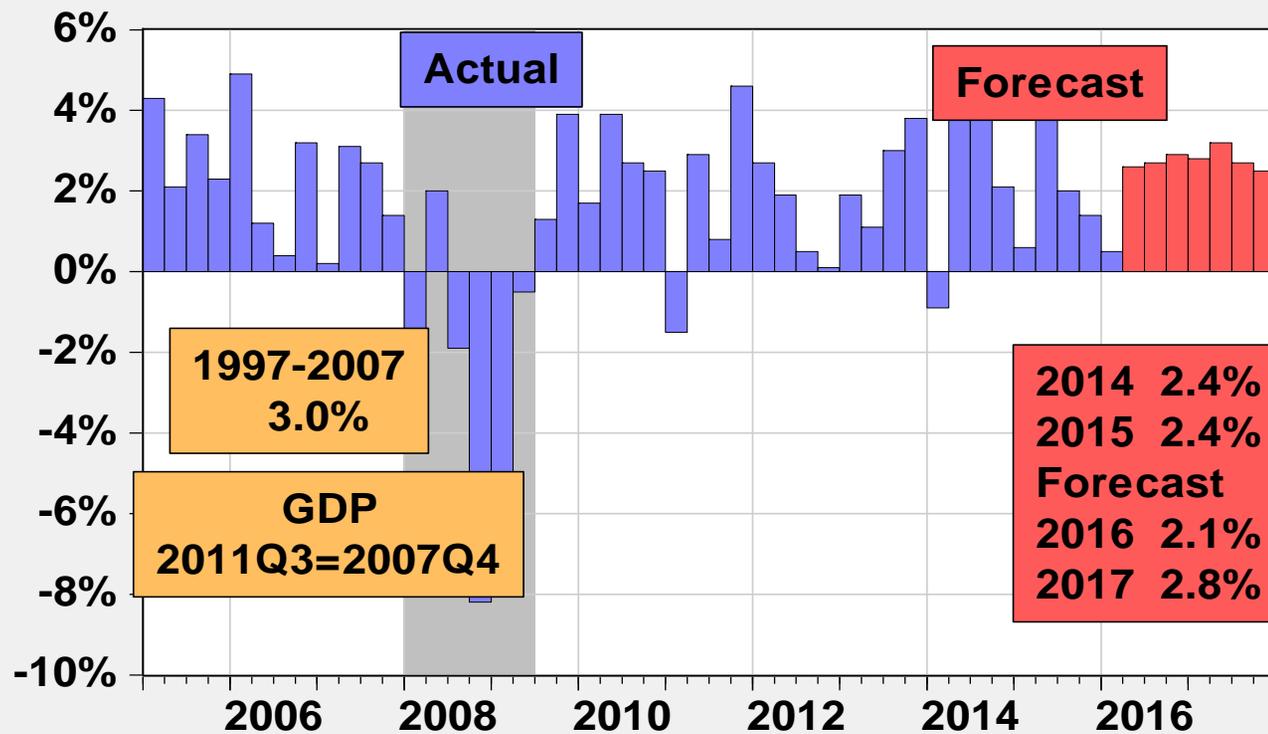
Weakness in consumer spending, nonresidential investment, and net exports are the reason. The energy sector is down sharply.

The economy is two-tiered with the service sector doing well and a weak manufacturing sector.

IHS expect growth to accelerate in the 2nd half of 2016 and stronger growth in 2017 at 2.8%.

Slower Growth in 2016

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 be weak in the first quarter but pick up in the remainder of the year.

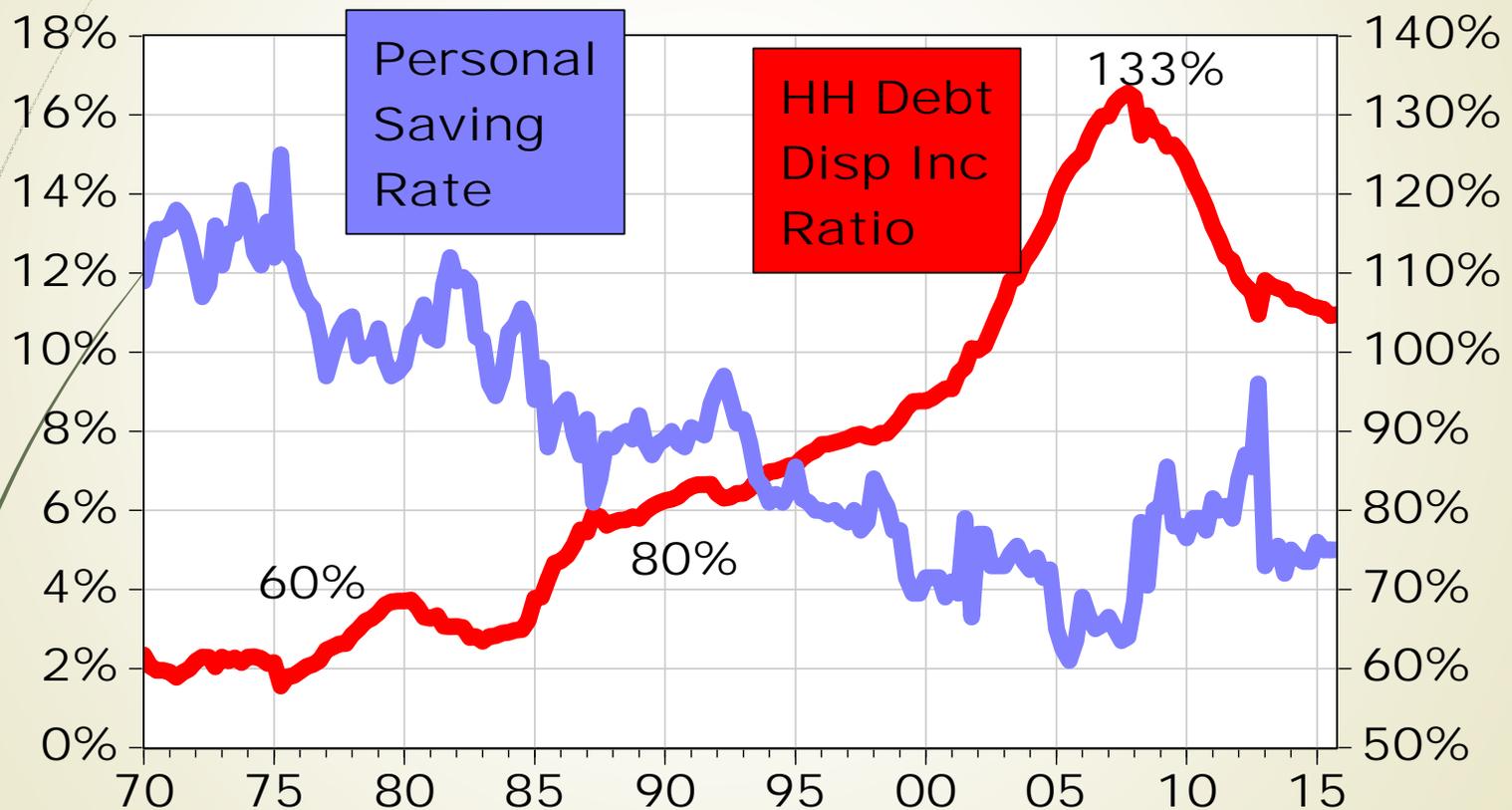
Mostly positive news on the employment front, strong consumer confidence, and lower energy prices all support consumer growth.

Auto sales have been weaker than expected.

However, the outlook for the next couple of years remains positive.

Deleveraging is Nearly Over

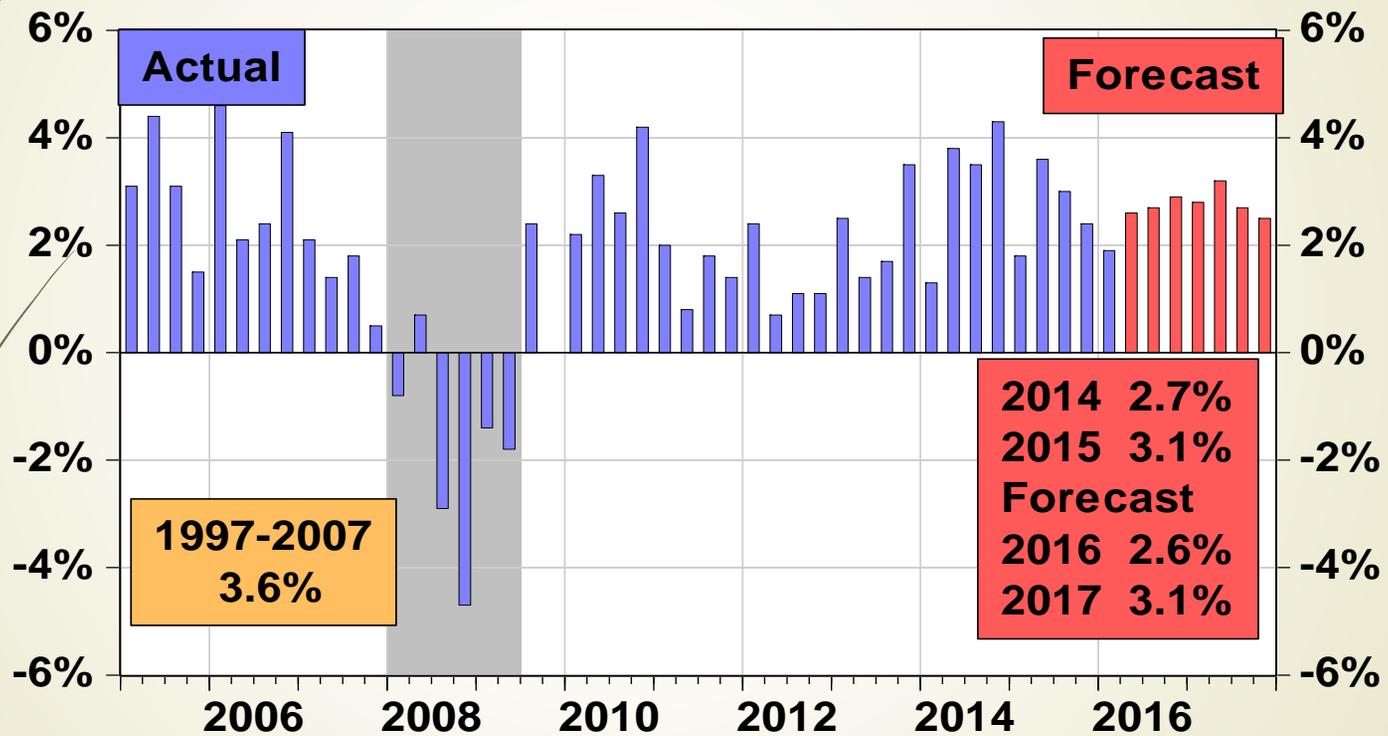
HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

A Slowdown in 2016

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

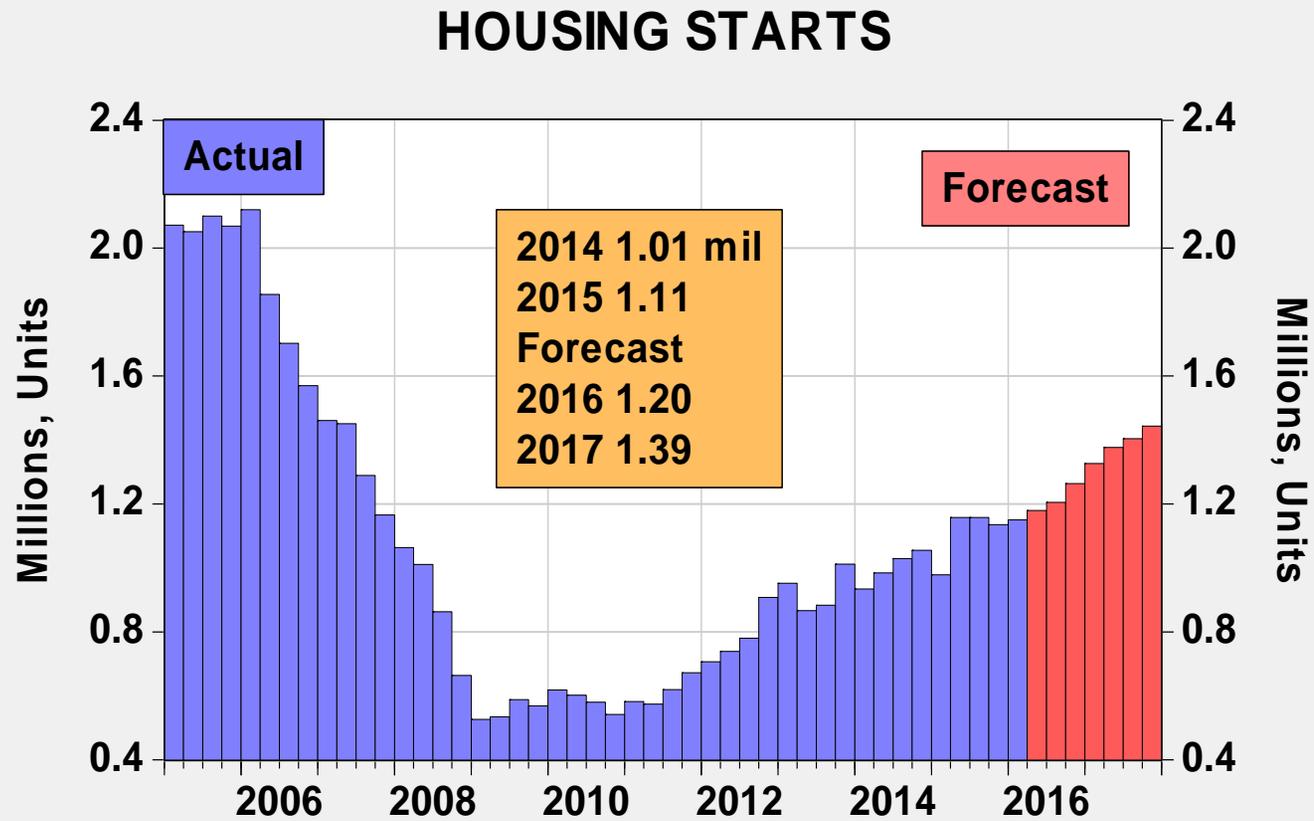
In the energy sector, the drilling rig count is still falling. The rig count for natural gas is at an all-time low and the oil rig count is at its lowest since 1940.

The silver-lining is that it appears that prices have bottomed out.

Housing starts will continue their slow rise hitting 1.26 million-unit starts by the end of 2016.

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

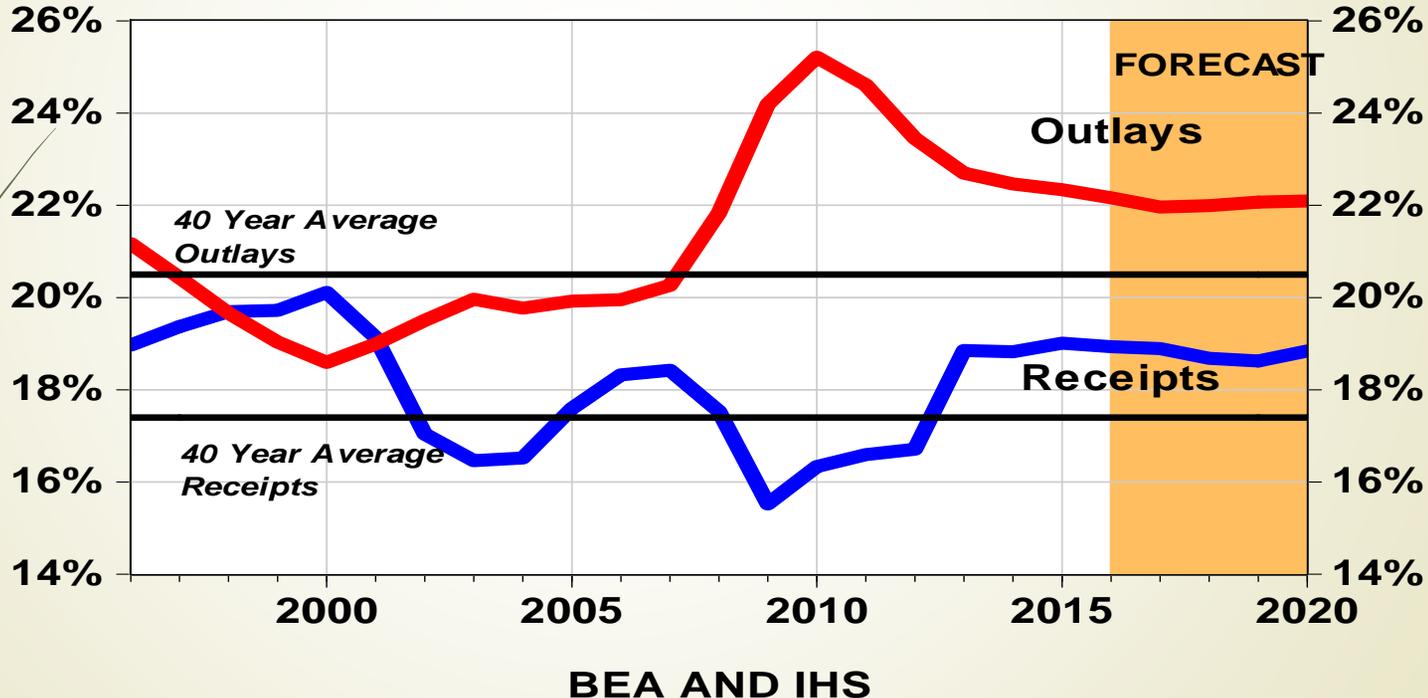
Recovery Proceeds



Source: US Census and IHS

Government Sector

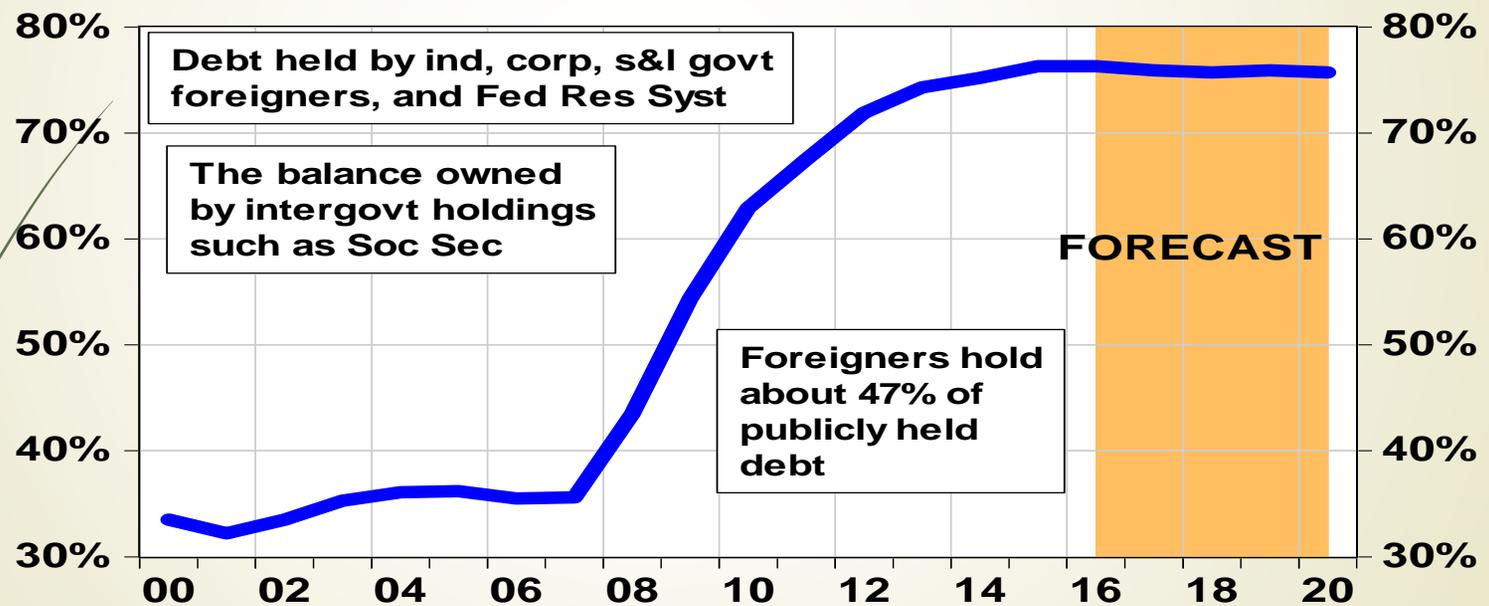
FEDERAL GOVERNMENT AS % OF GDP



BEA AND IHS

Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



Foreign Sector

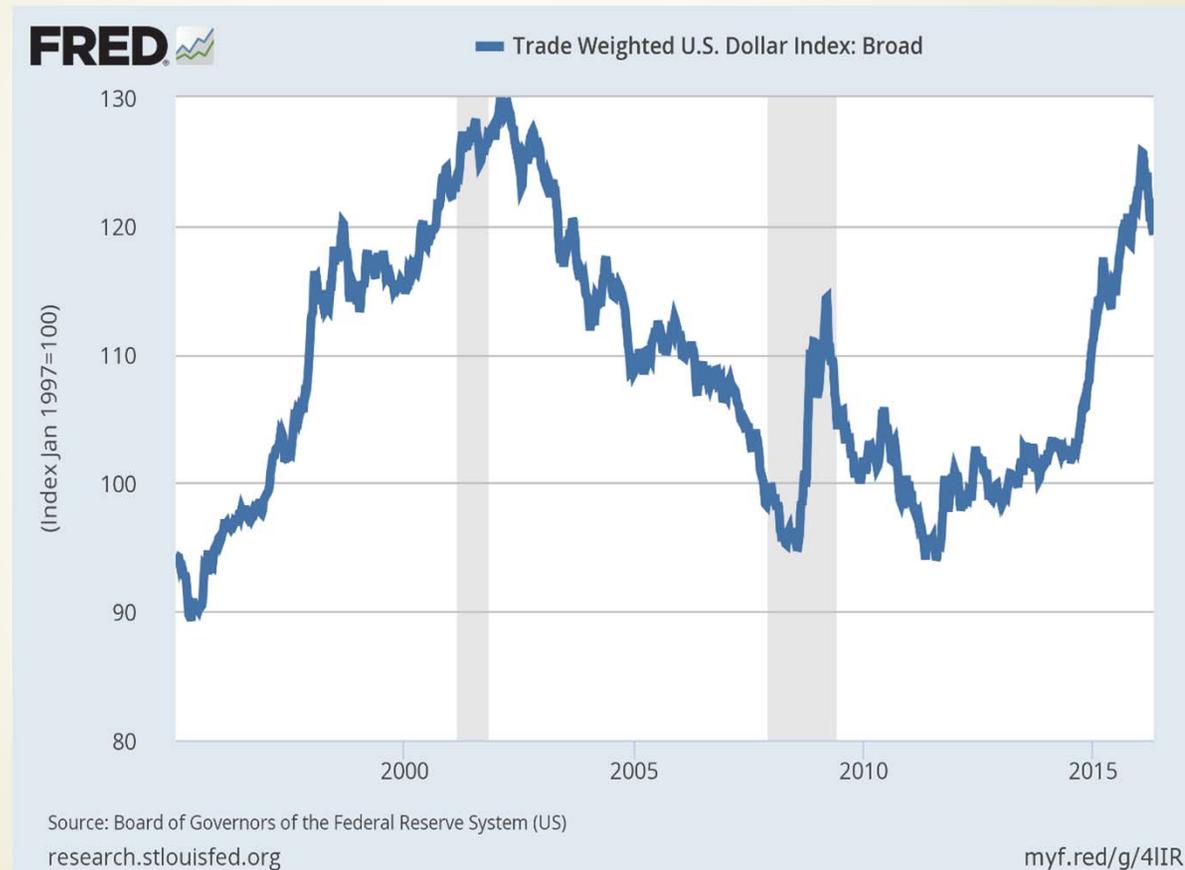
\$ at highest level since 2003 and expected to rise through first half of 2016. But will weaken.

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.

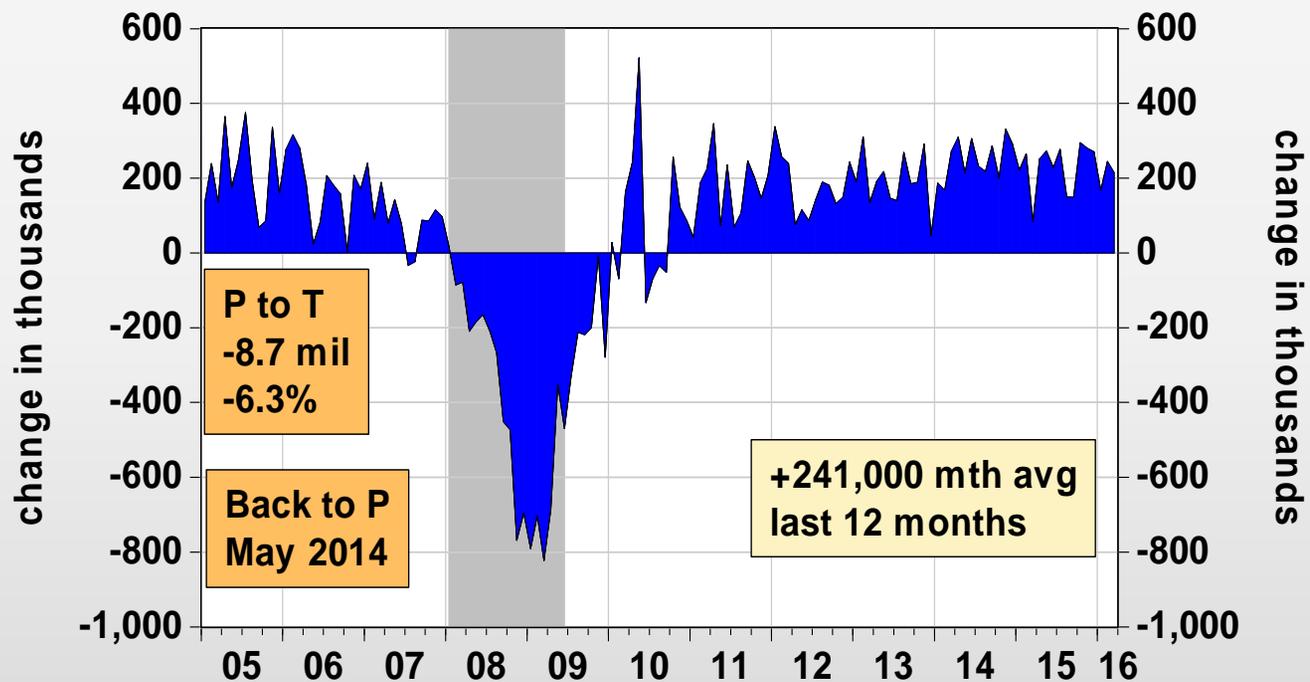
IHS does not mention BREXIT.

Has it Peaked?



Continued Good Growth

NONFARM EMPLOYMENT



Source: BLS



Employment & Unemployment

Pretty good job growth this past year at 241,000 per month.

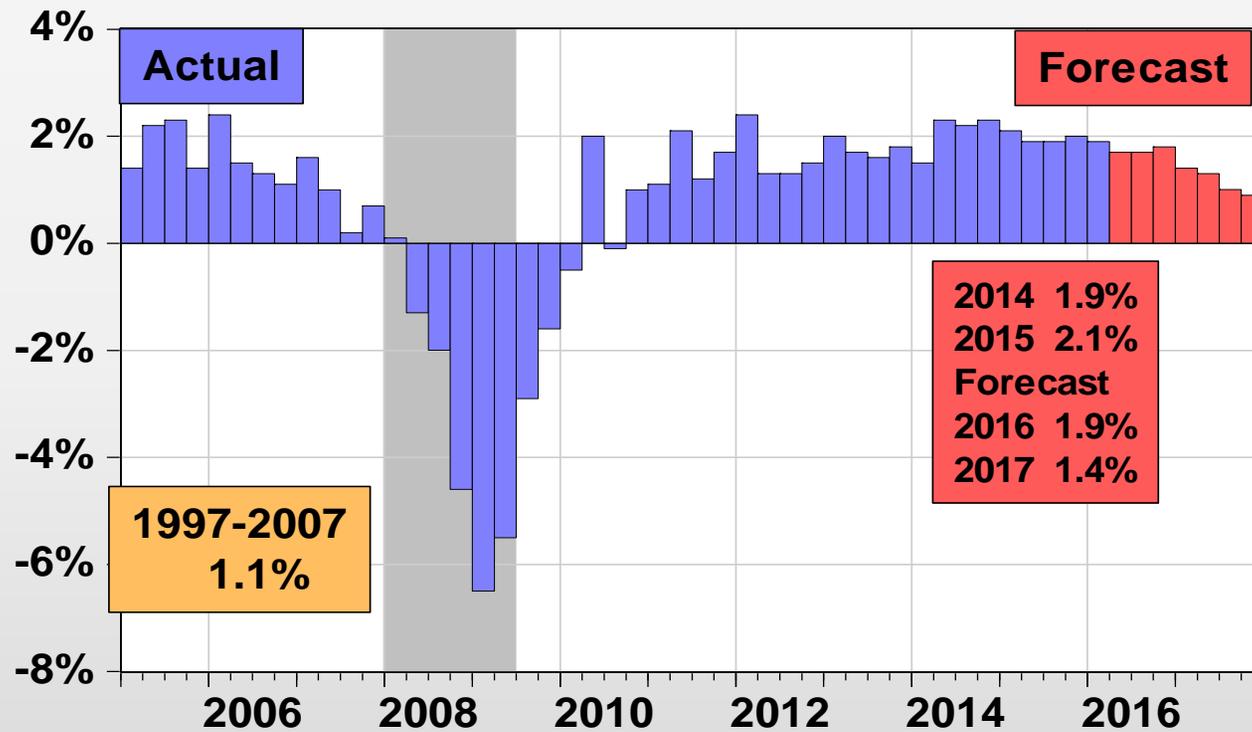
Unemployment rate averaged 5.2% in 2015 and 4.8% in 2016 and 4.7% in 2017.

Yet the labor force participation rate is at a 38 year low and wage growth is sluggish, but did see a slight uptick last month.

FED feels labor market is healing and mostly healthy.

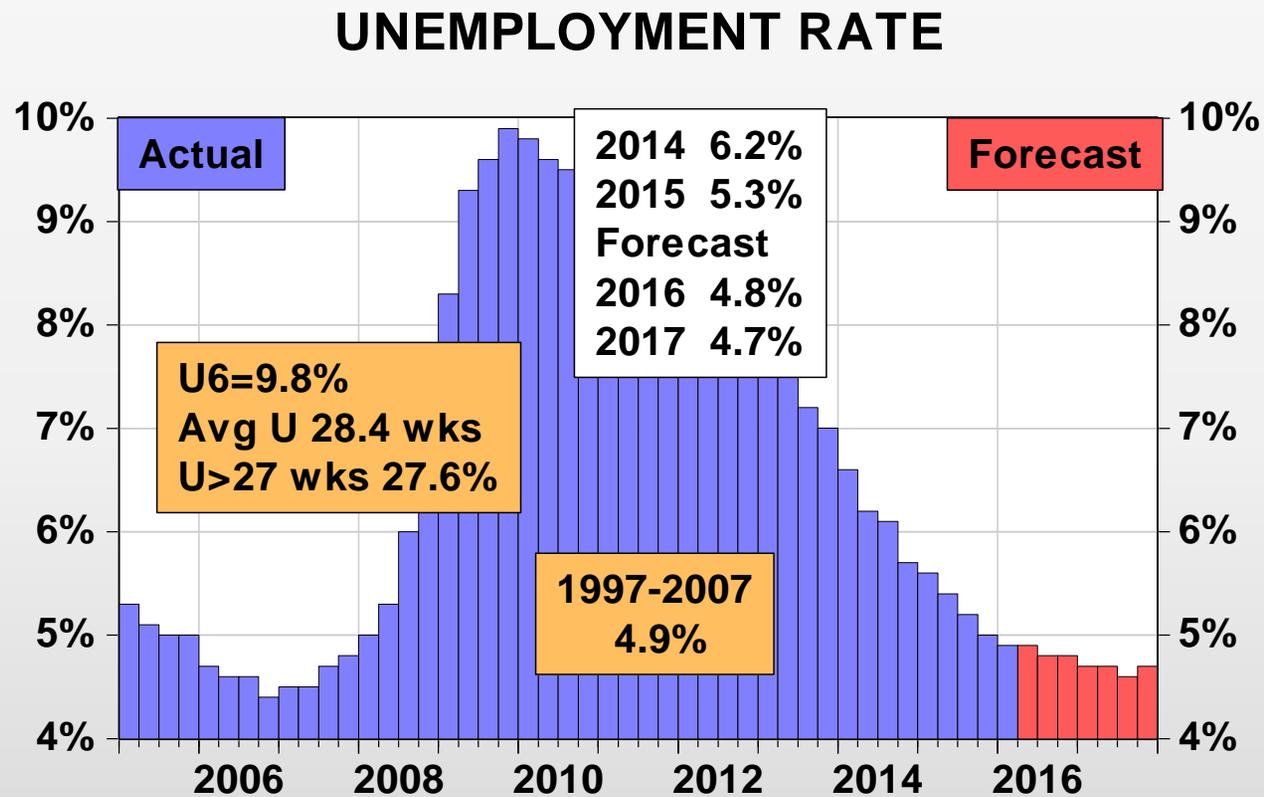
Future Job Growth Slows

NONFARM EMPLOYMENT



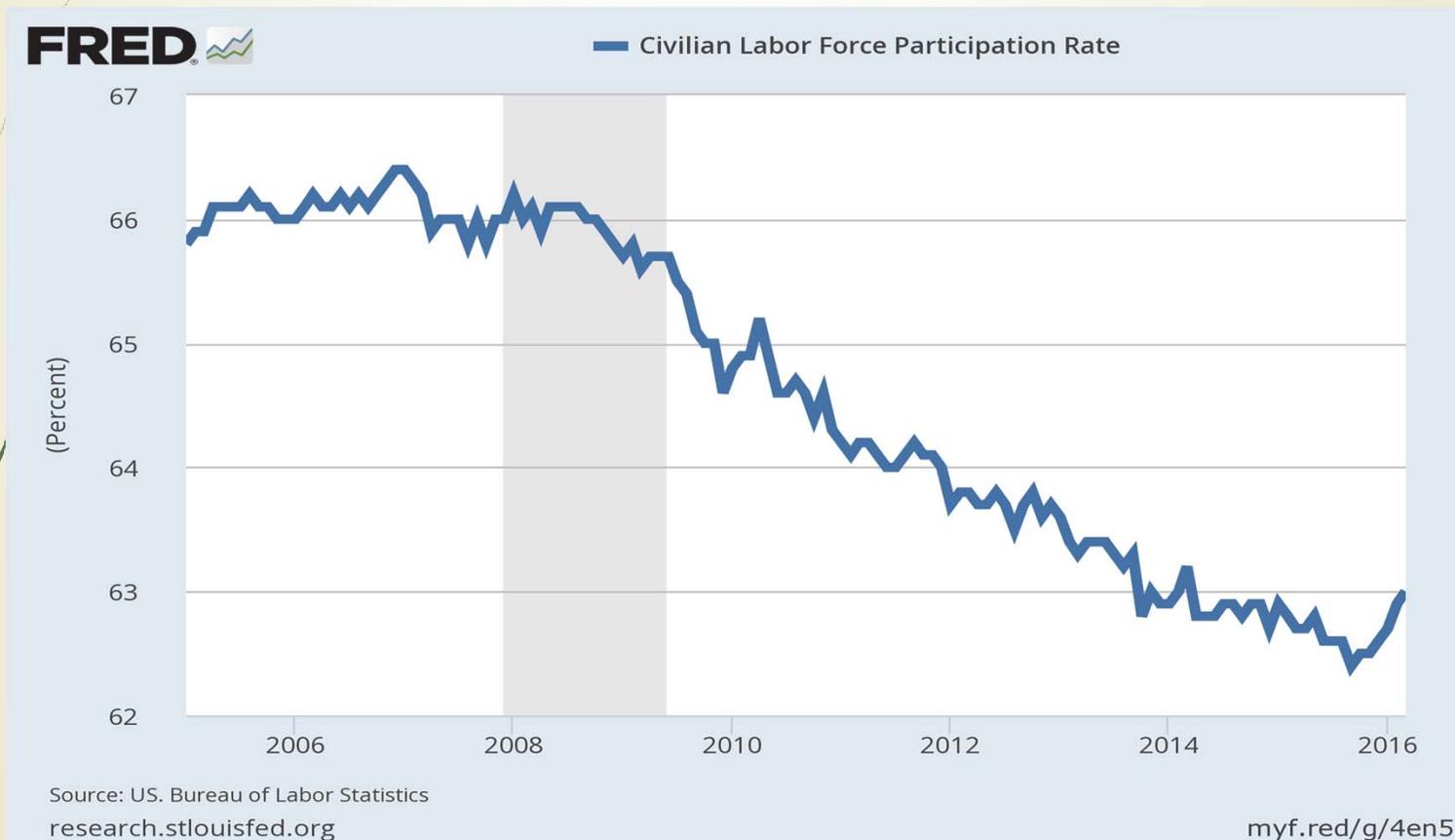
Source: BLS and IHS

Low U3 Unemployment Rate



Source: BLS and IHS

Labor Participation Rate Slight Upick



U6 Not Quite Back to Pre-recession Levels



Inflation & Interest Rates

The FED did not change the federal funds rate at the April meeting and it is doubtful that they will raise it at the June meeting.

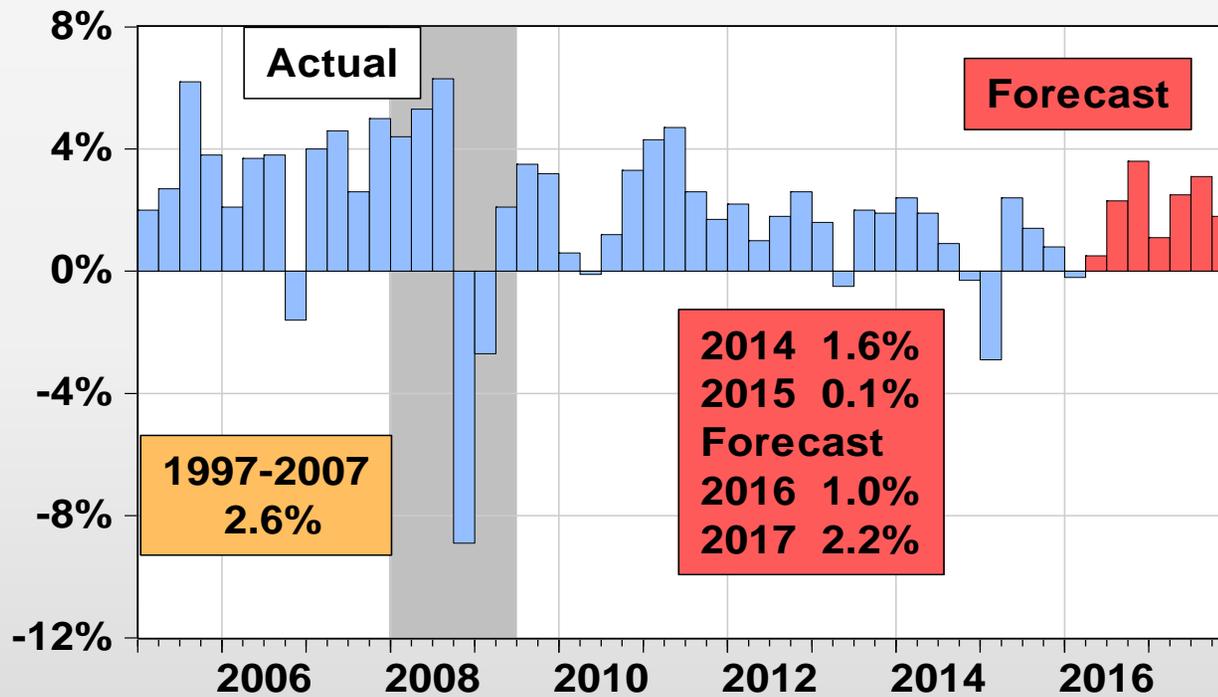
While employment growth has been strong output growth has been weak with growth of 1.4% in the 4th qtr of 2015 and 0.5% in the 1st qtr of 2016.

Weak foreign growth and the possibility of “BREXIT” has the FED concerned.

Inflation is under control with the CPI projected at 1.0 % in 2016 and 2.2% in 2017.

Still Low

INFLATION: CPI



Source: BLS and IHS



IHS GLOBAL INSIGHT FORECAST April 2016

Variable	2014	2015	2016	2017
GDP	2.4%	2.4%	2.1%	2.8%
NA Emp	1.9%	2.1%	1.9%	1.4%
Oil(Brent)	\$100	\$54	\$41	\$49
Housing	1.01	1.11	1.11	1.20
CPI	1.6%	0.1%	1.0%	2.2%
Un Rate	6.2%	5.3%	4.8%	4.7%



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

Real nonfarm personal income

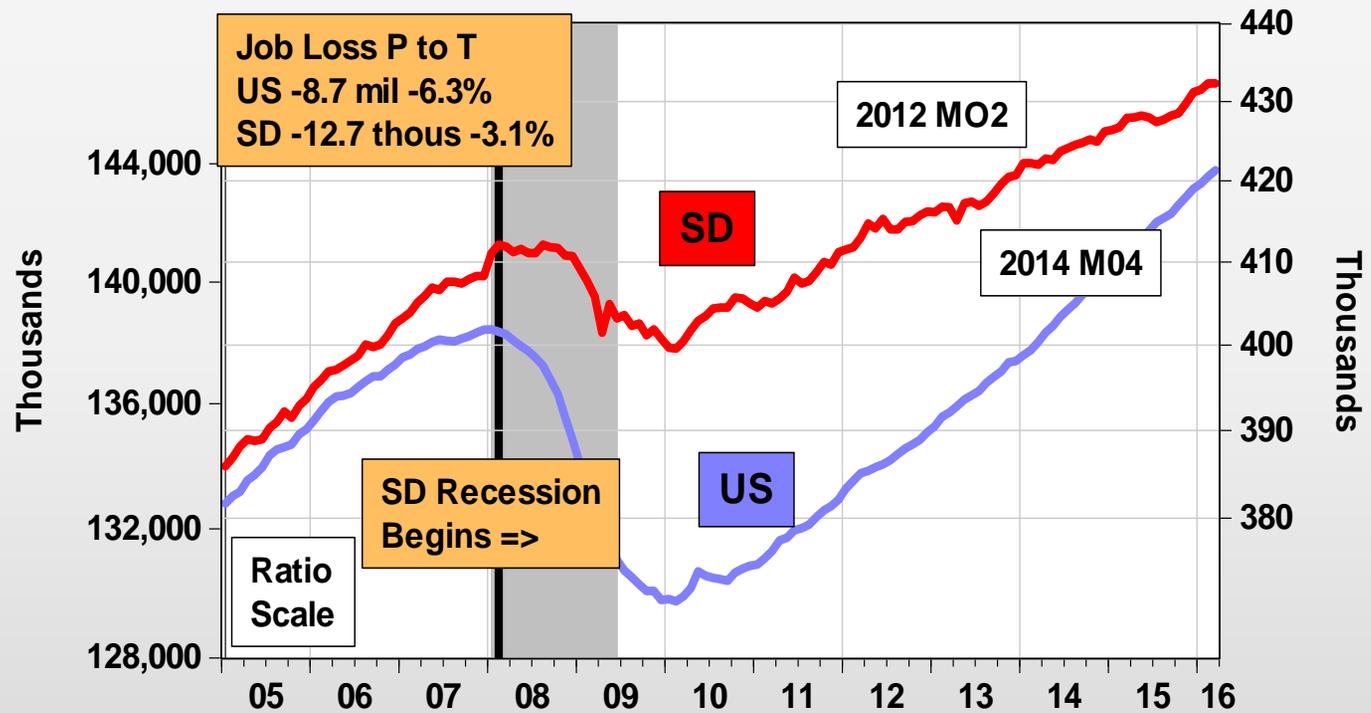
Taxable sales

Leading indicator



Steady Growth

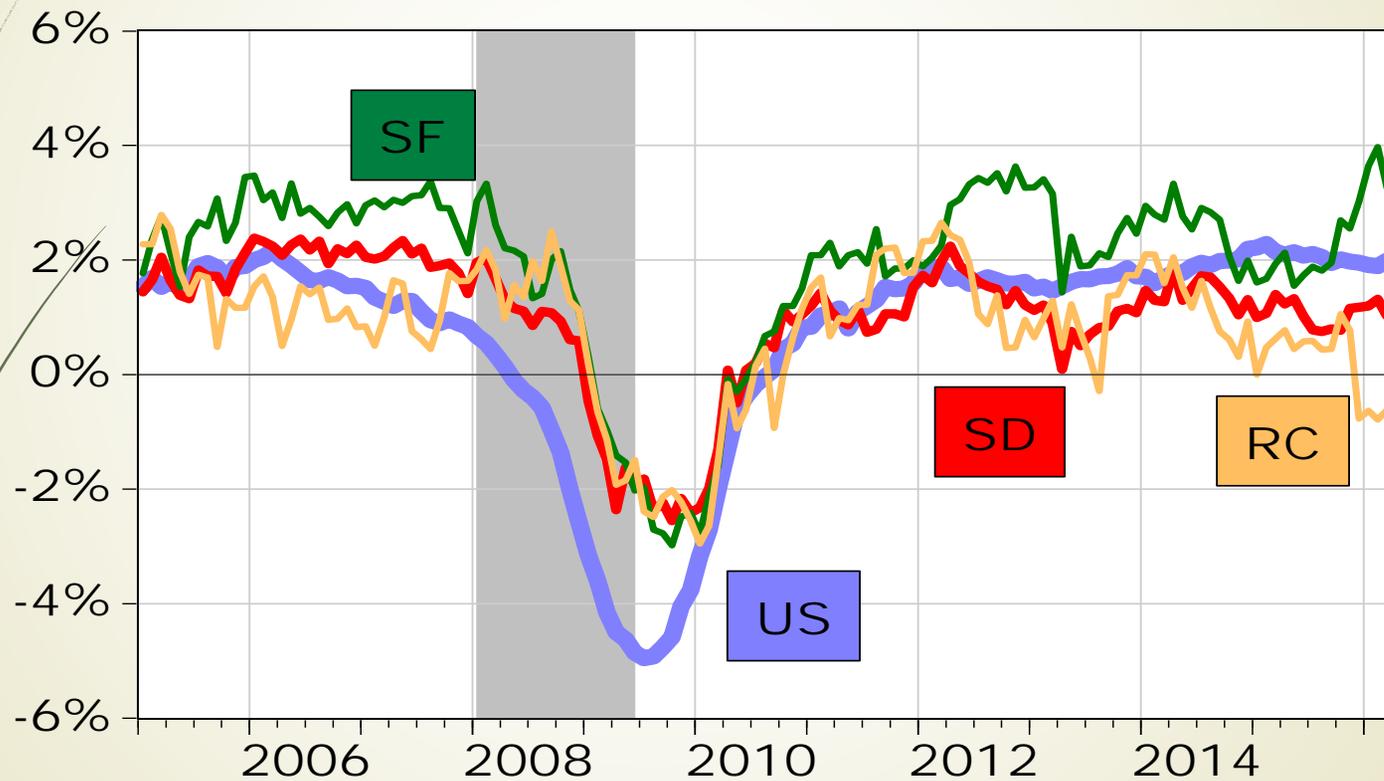
NONFARM EMPLOYMENT



Source: BLS

Interesting

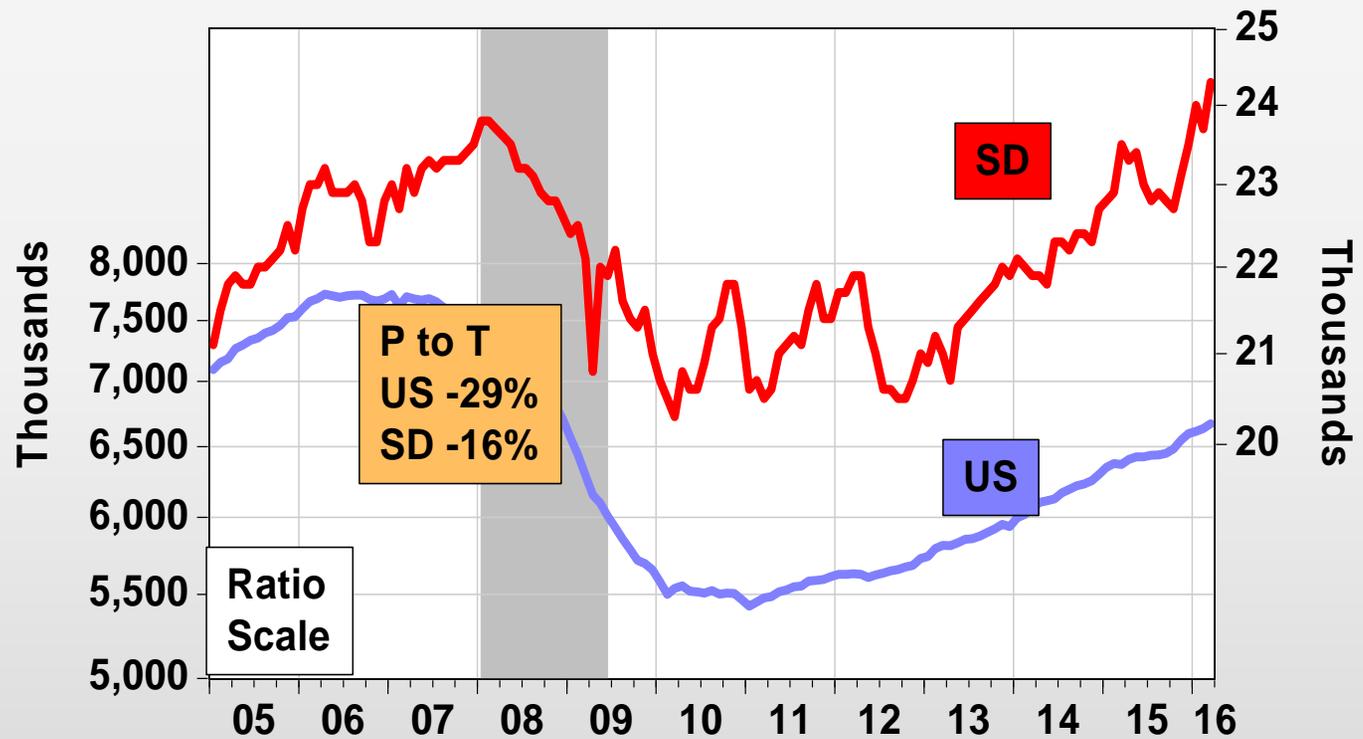
NONFARM EMPLOYMENT



Source: BLS

Above Peak

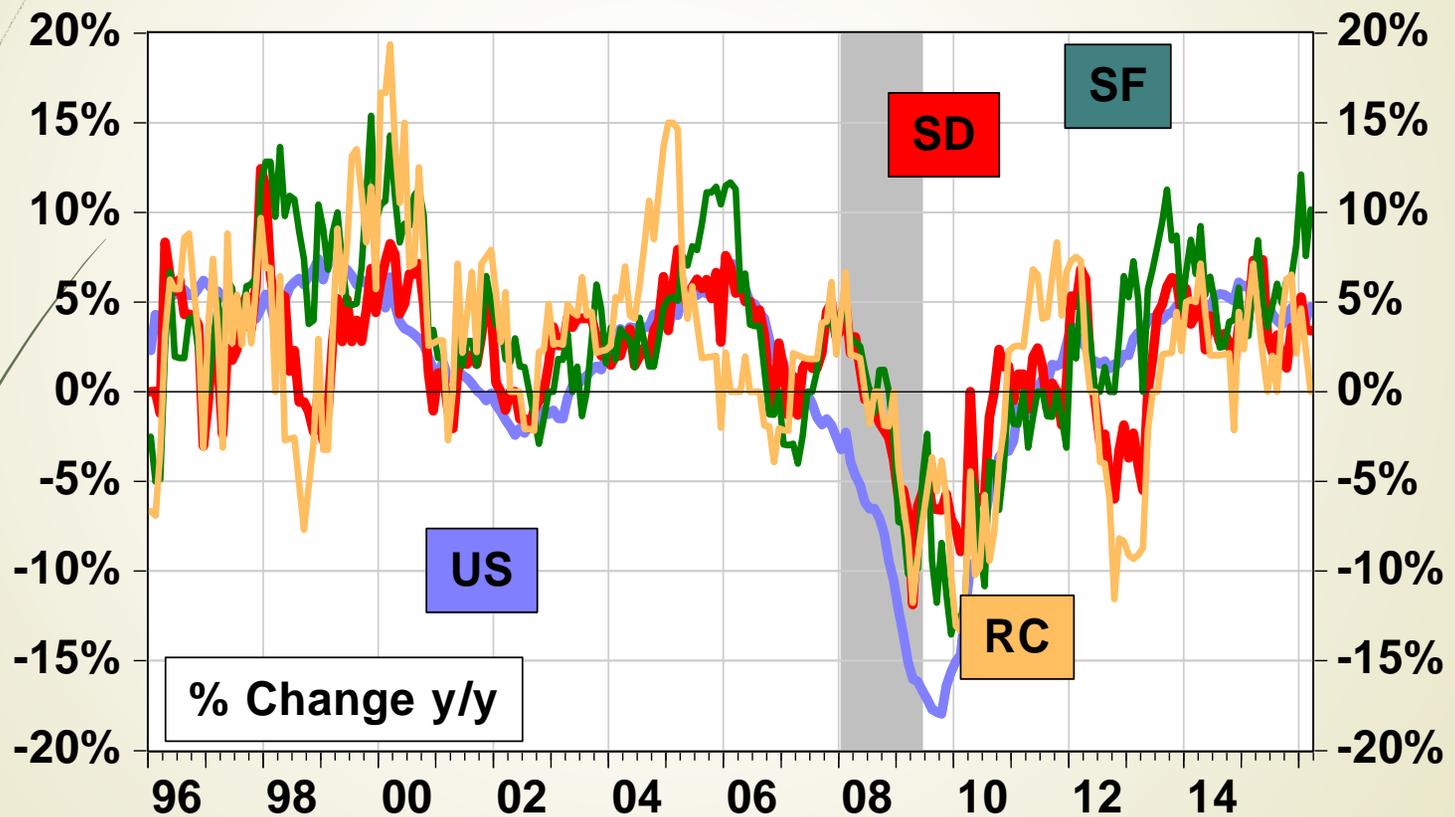
CONSTRUCTION EMPLOYMENT



Source: BLS

Divergence

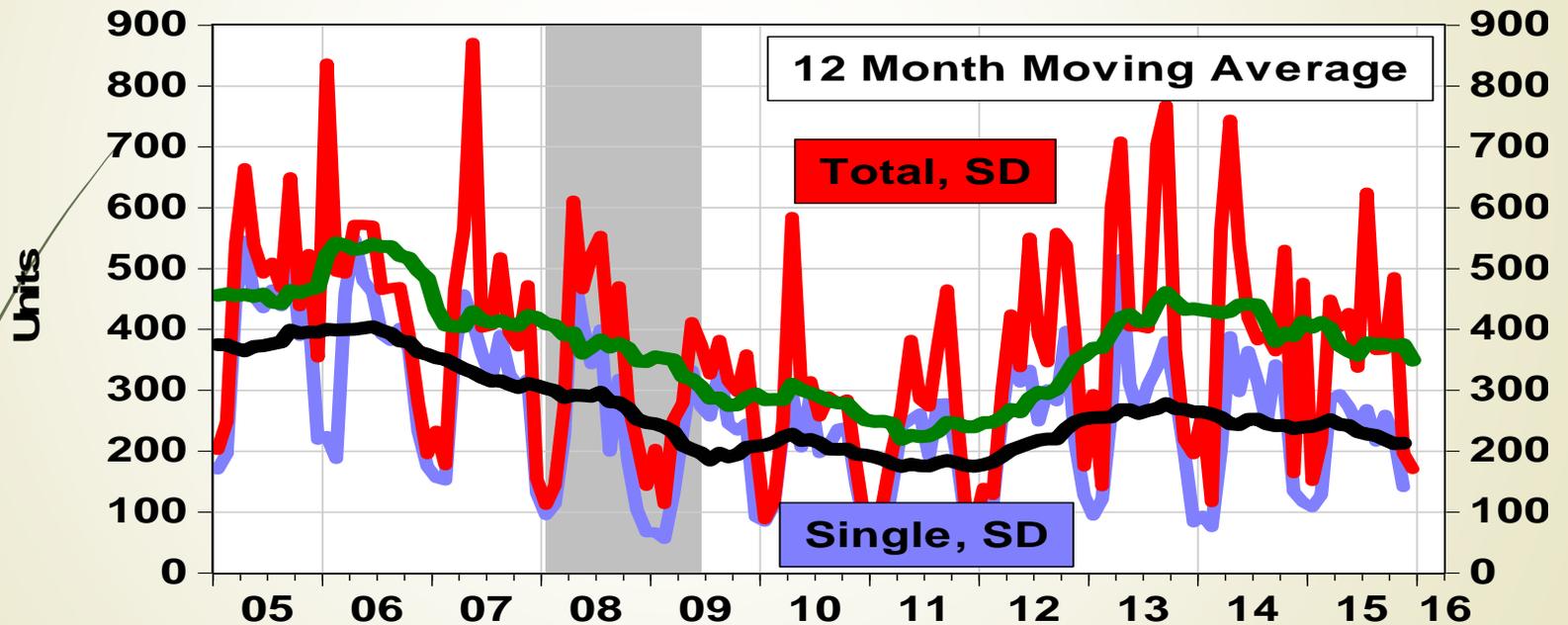
CONSTRUCTION EMPLOYMENT



Source: BLS

Pretty Good Growth

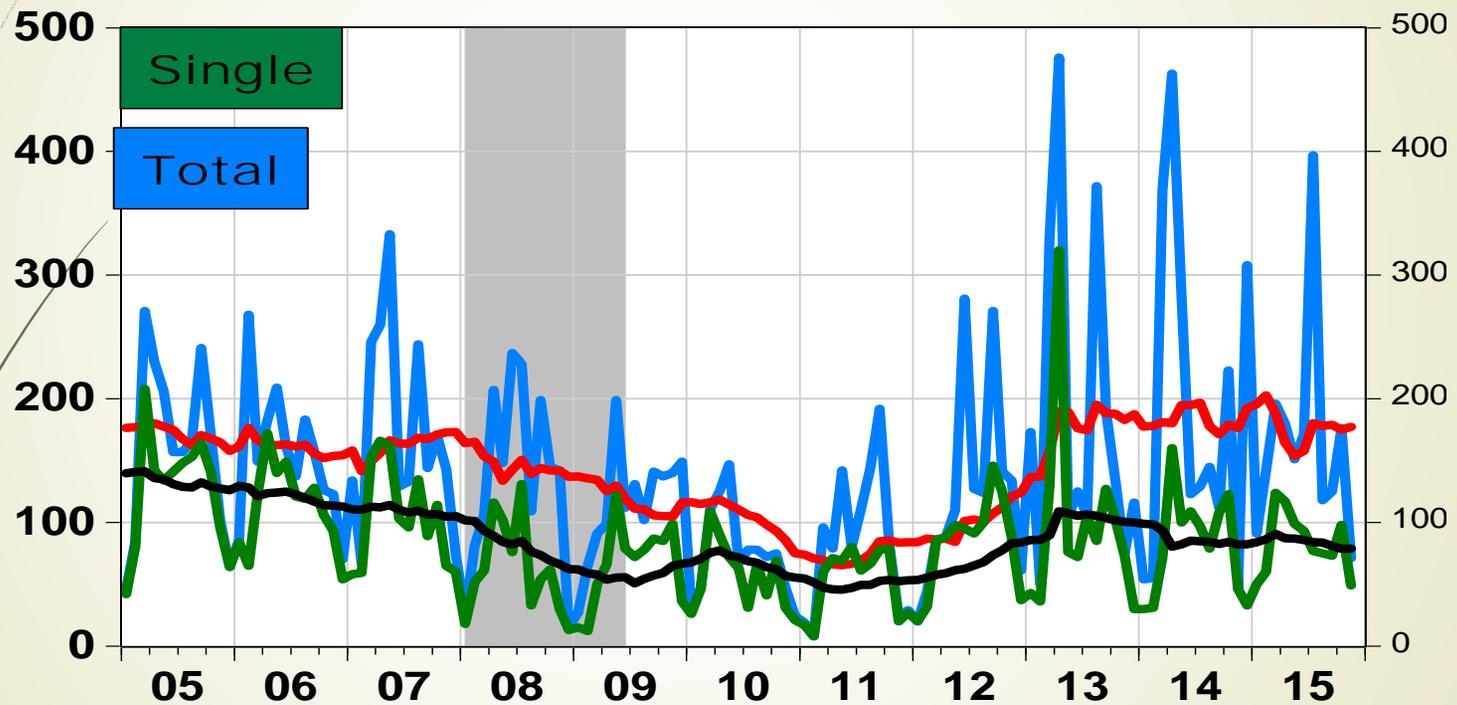
SD Building Permits, Total & Single



Source: Census Bureau

Very Good Performance

SIOUX FALLS BUILDING PERMITS

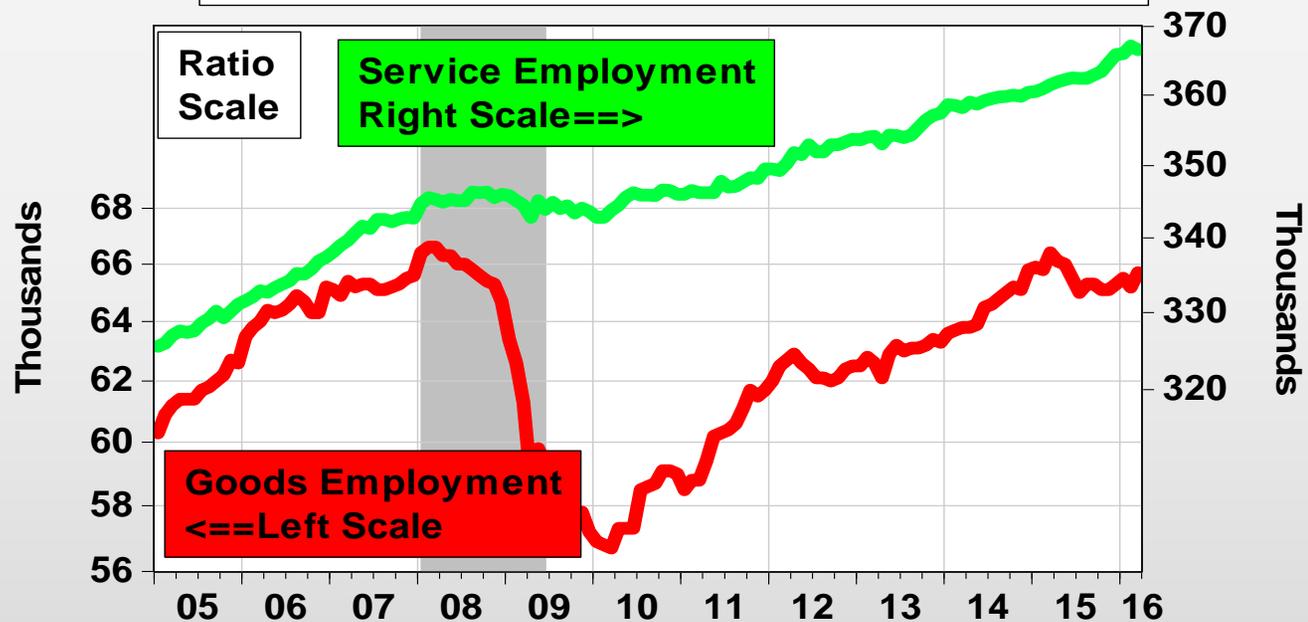


Source: US Census Bureau

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

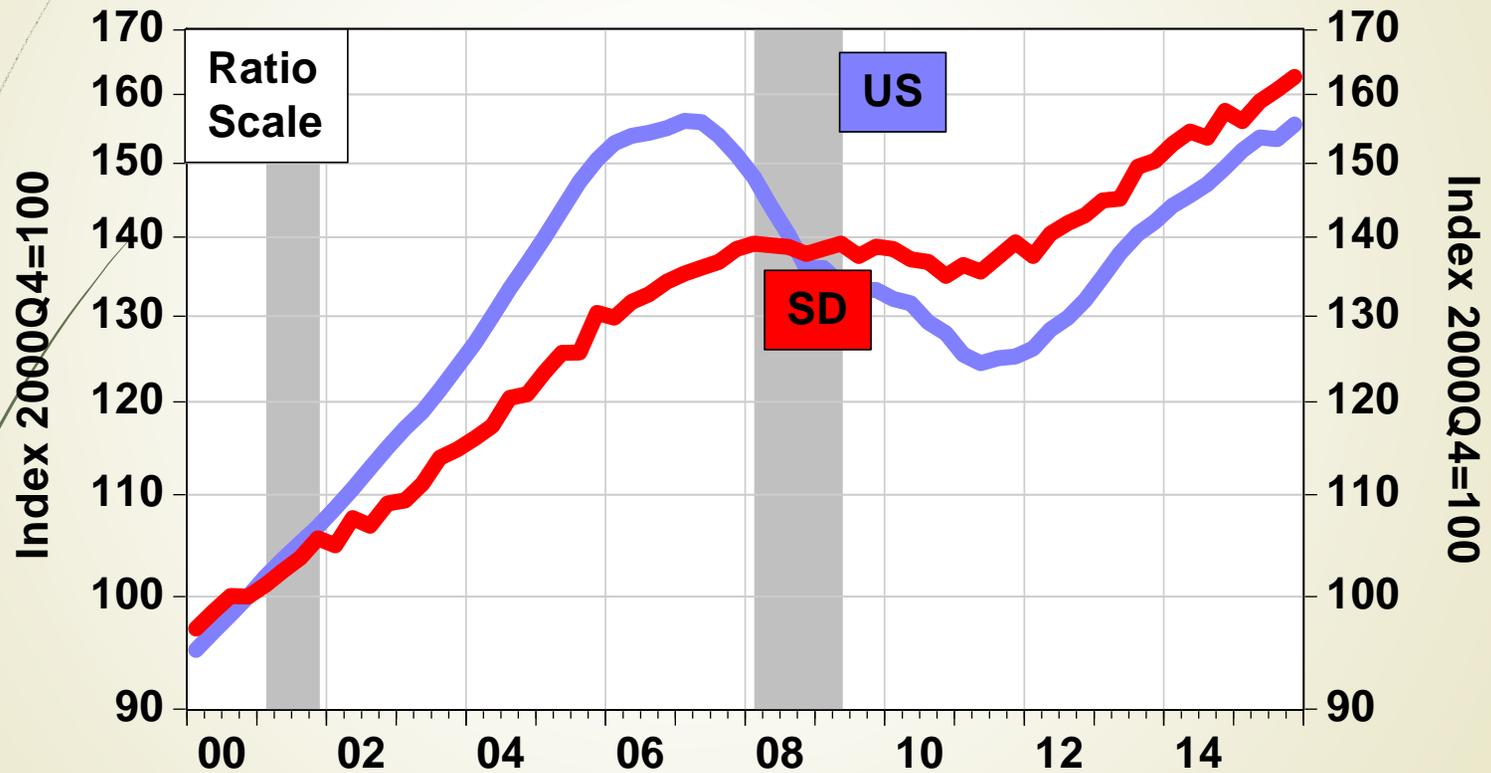
Goods-Producing = Manufacturing+Construction



Source: BLS

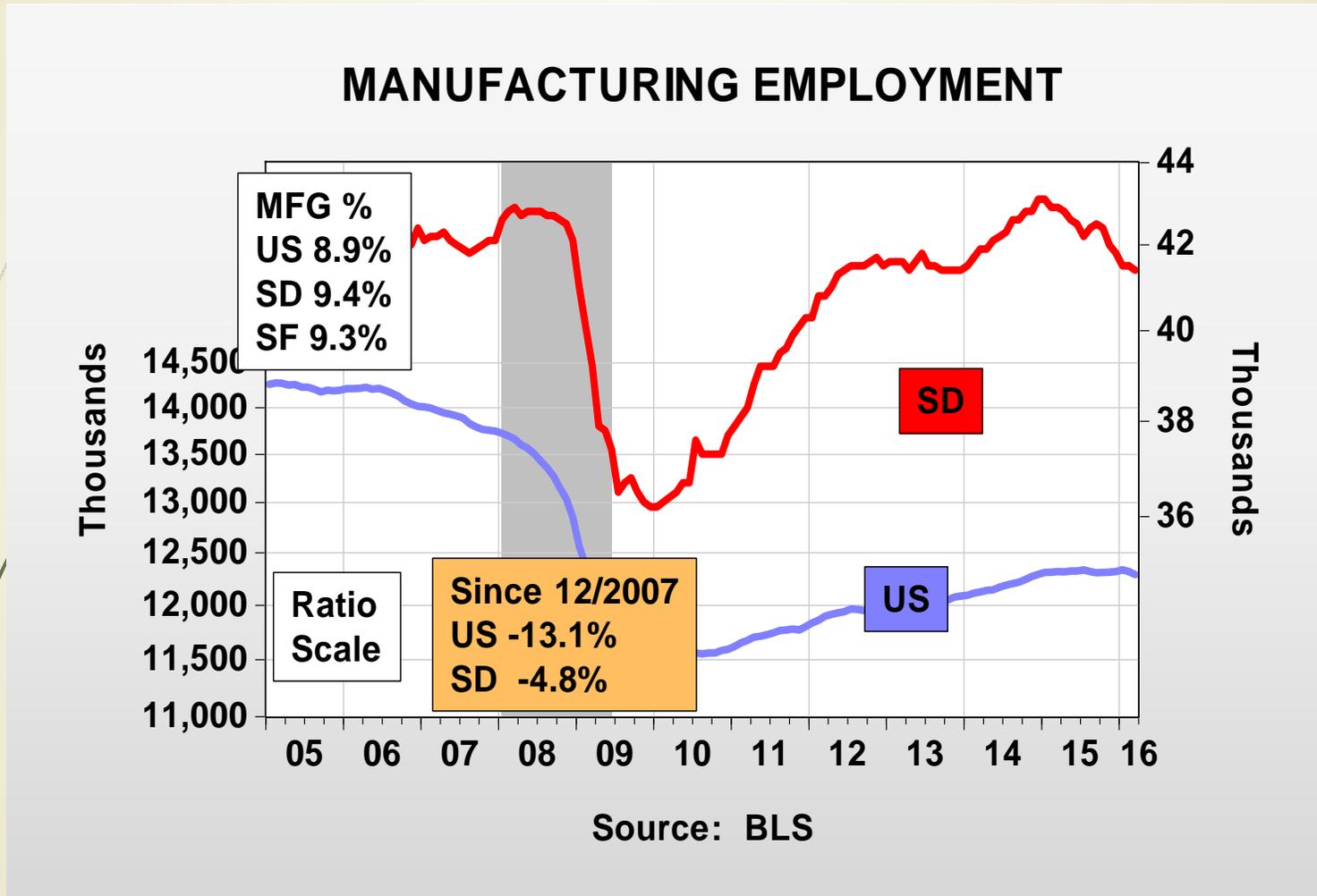
SD Peaked Later and Decline Less Severe

HOUSE PRICE INDEX: PURCHASE ONLY PRICE



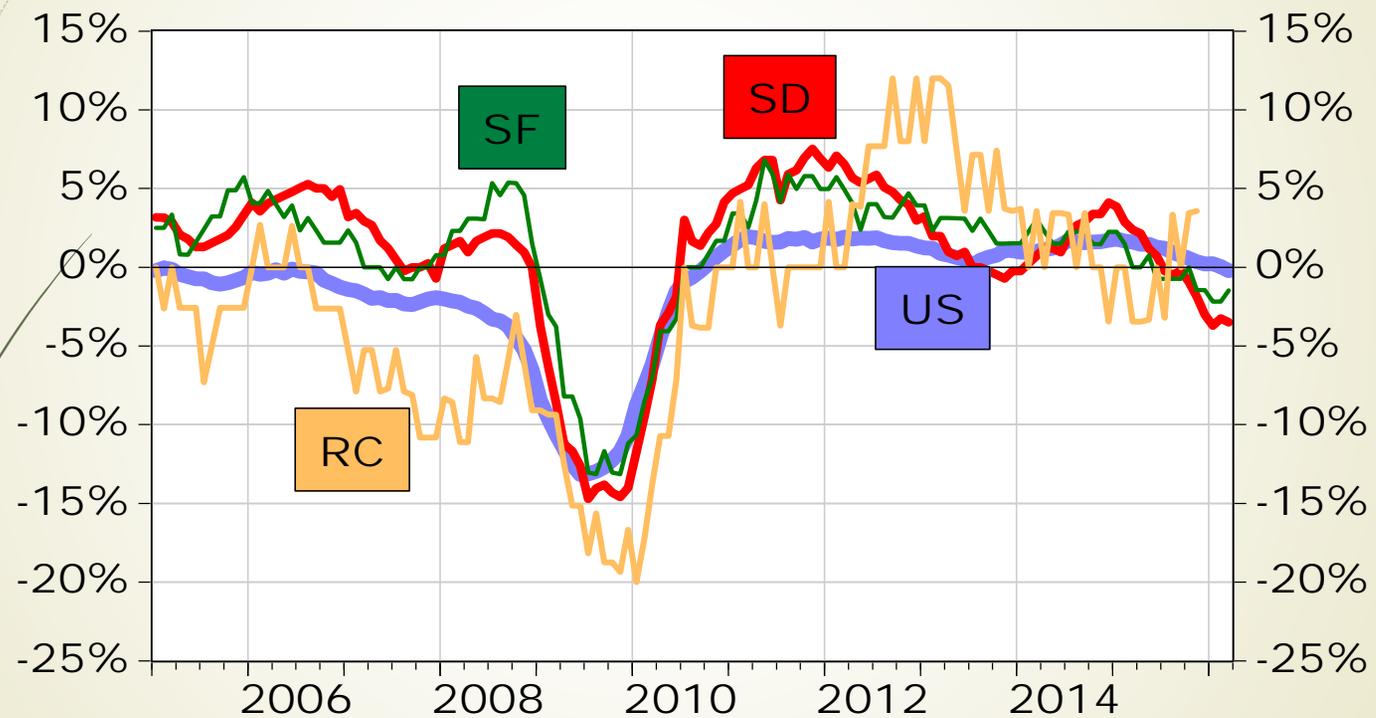
Source: FHFA.GOV

SD Above Peak



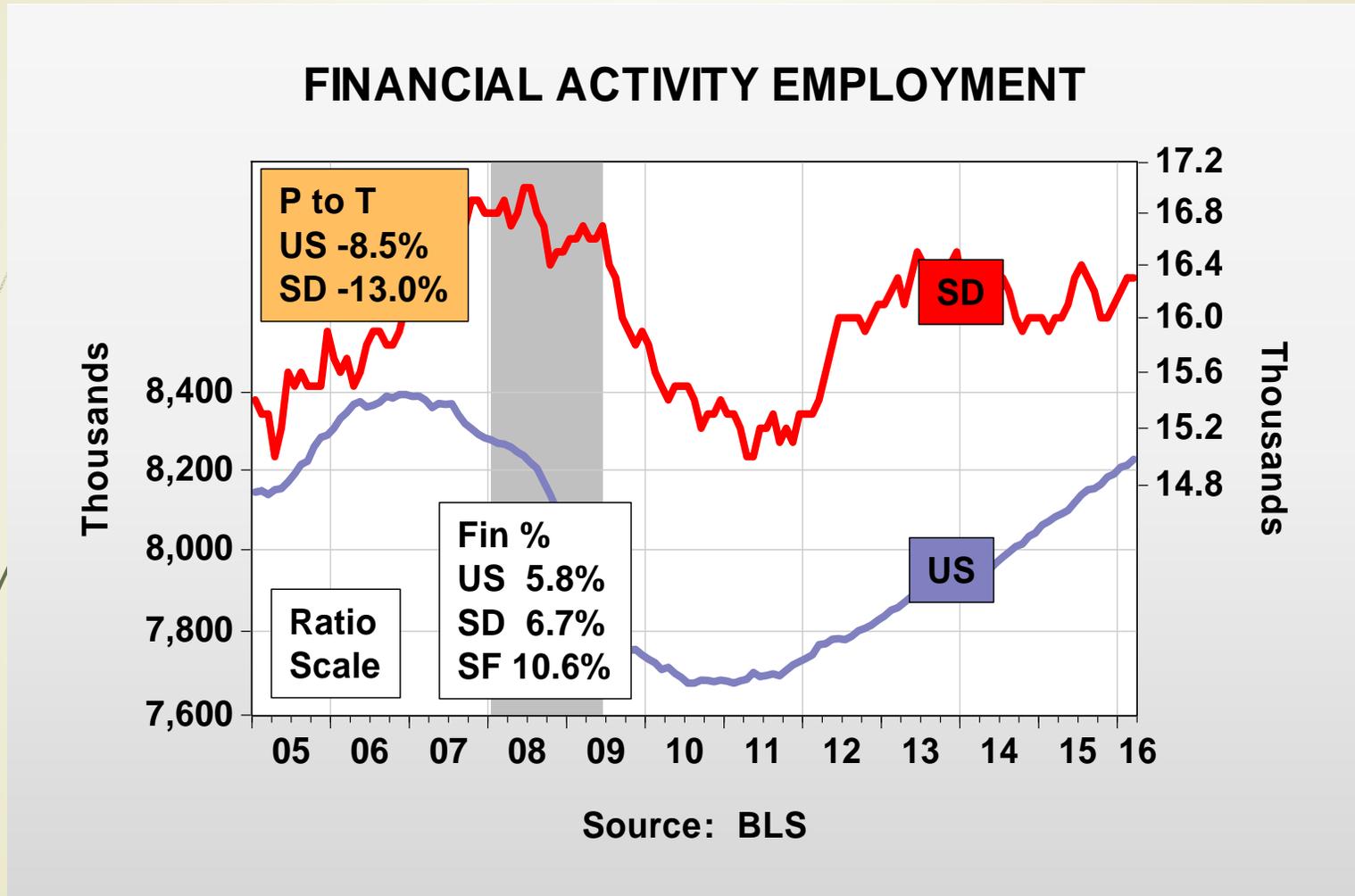
Divergence

MANUFACTURING EMPLOYMENT



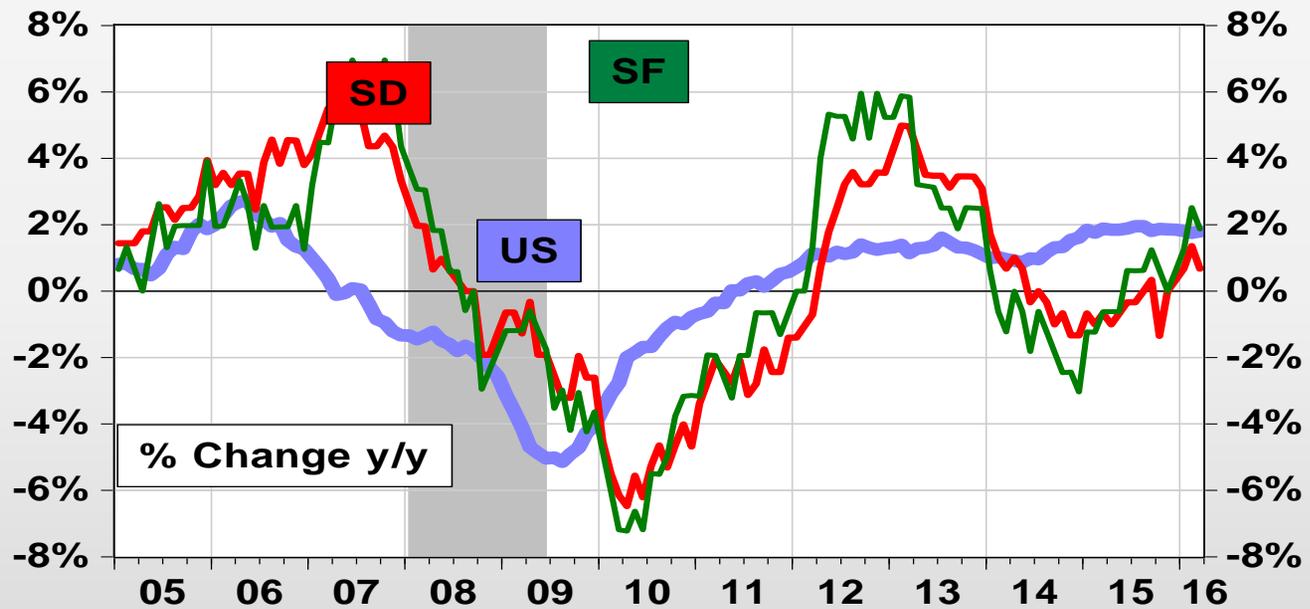
Source: BLS

SD Not Back to Peak



Note SD and SF Different Than US

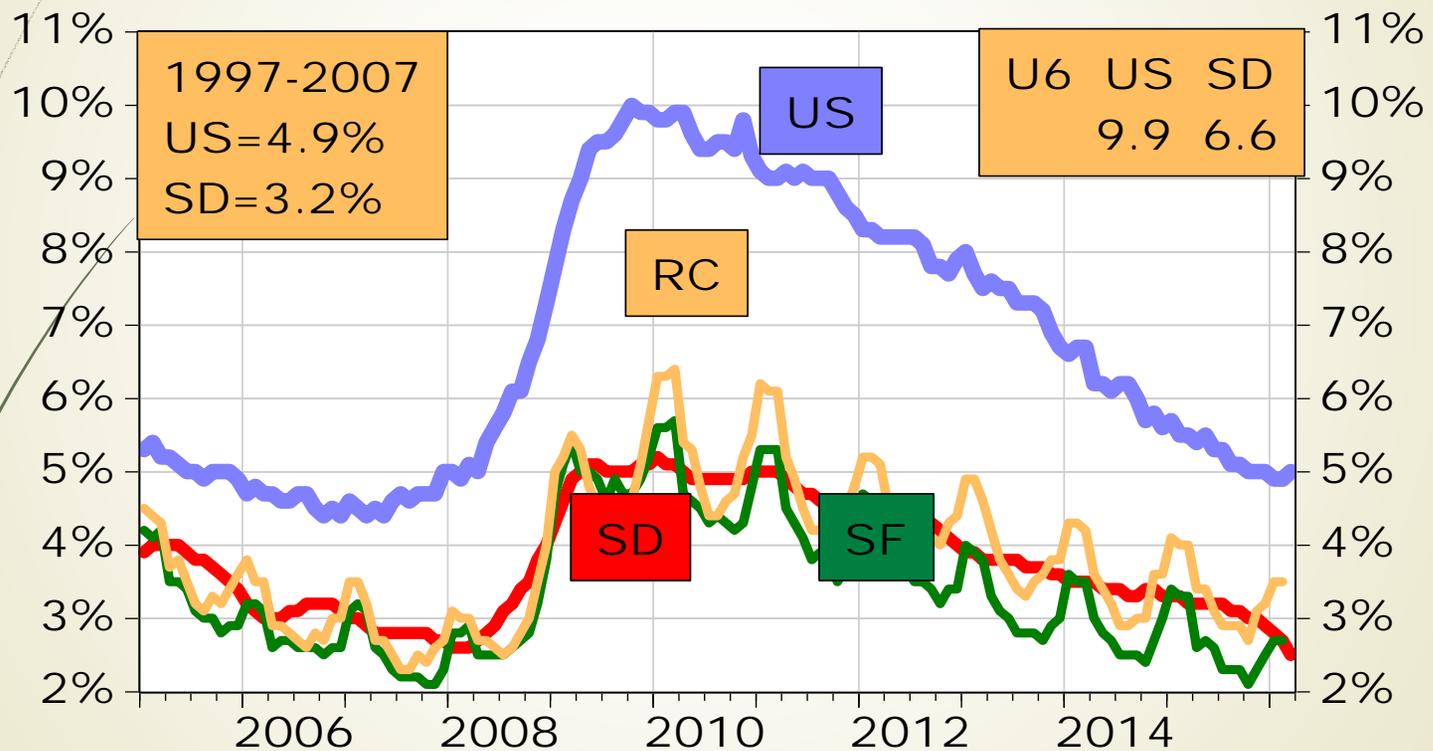
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

SD 2.5% SF(SA) 2.7%

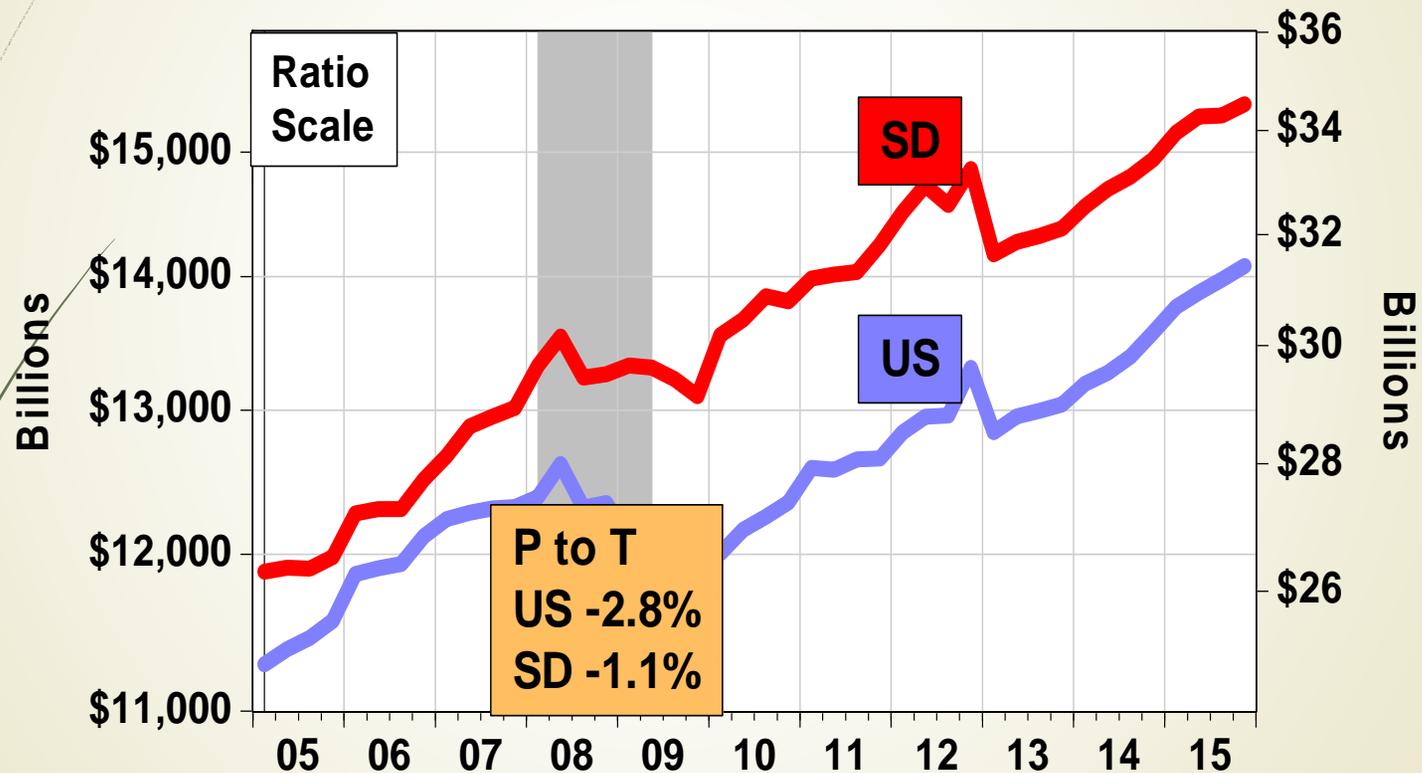
UNEMPLOYMENT RATES



Source: BLS

SD Smaller Decline – Way Above Previous Peak

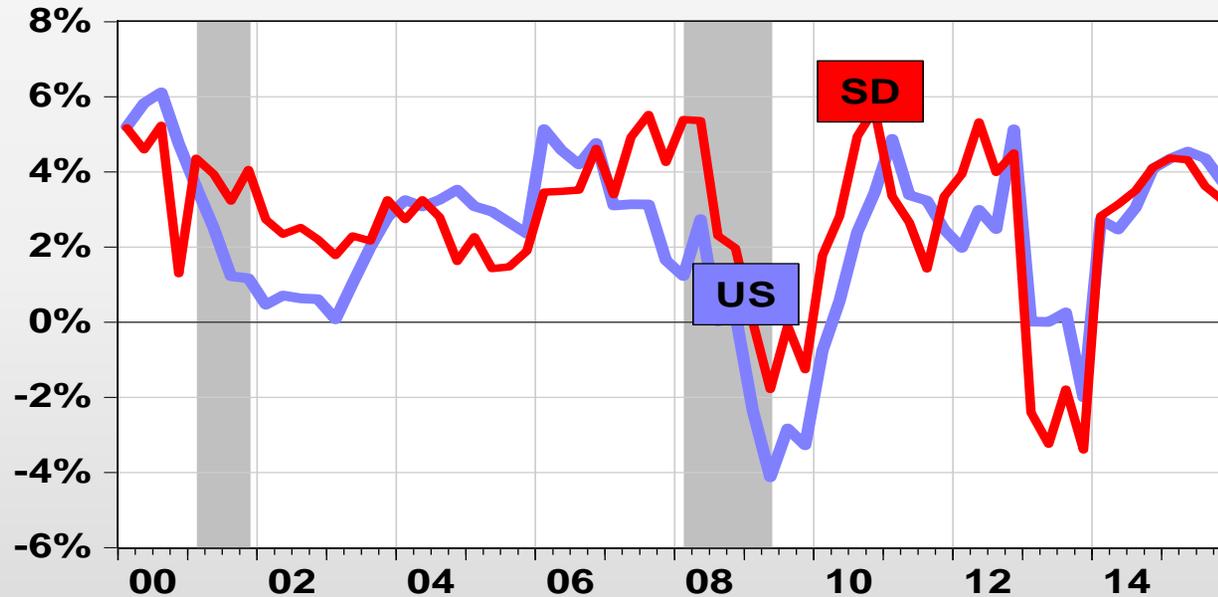
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

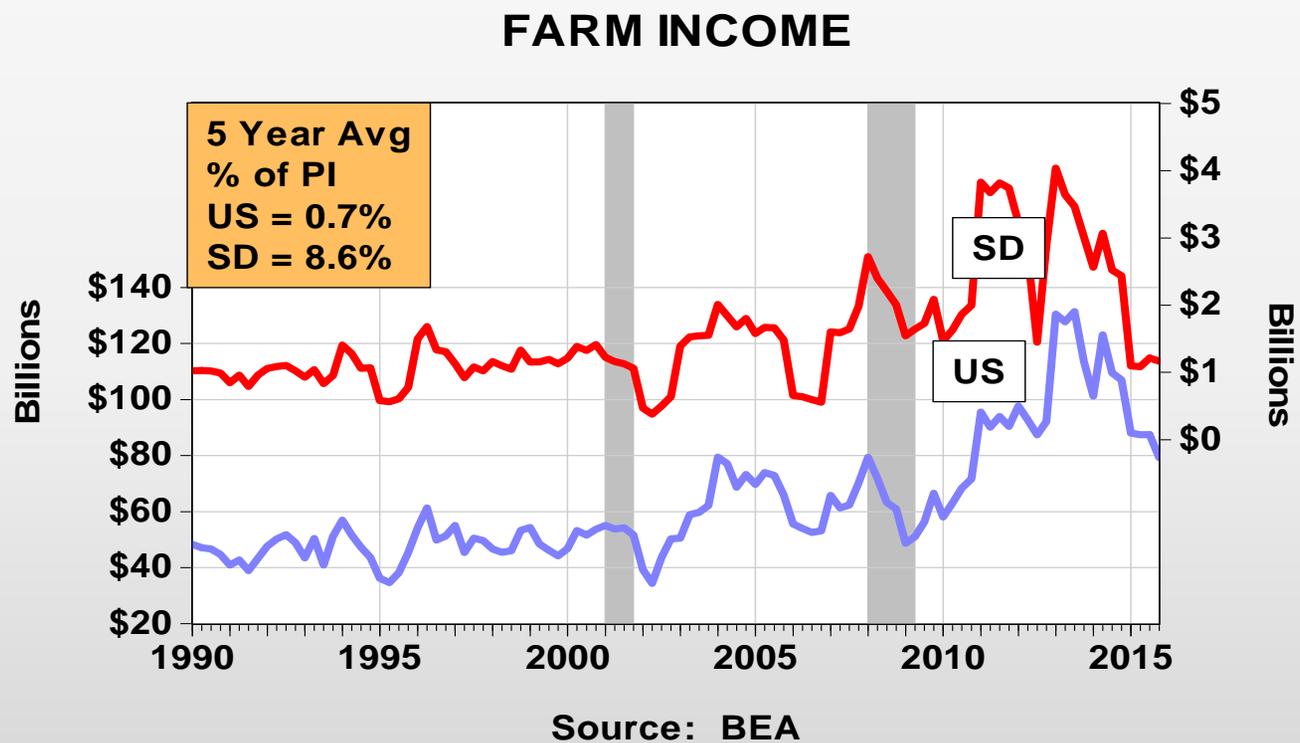
US and SD Track

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



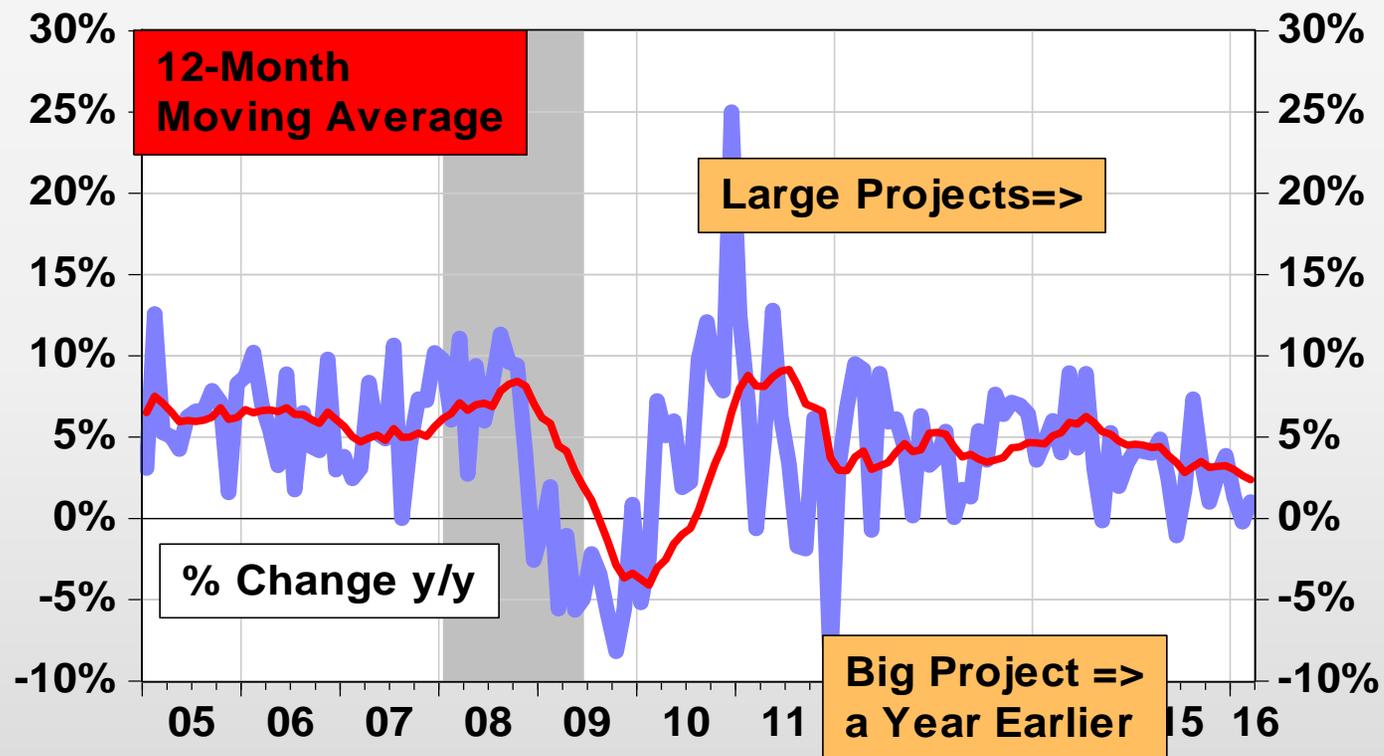
Source: BEA

Farm Down Sharply - High Prodn Low Prices



Low Inflation and Growth

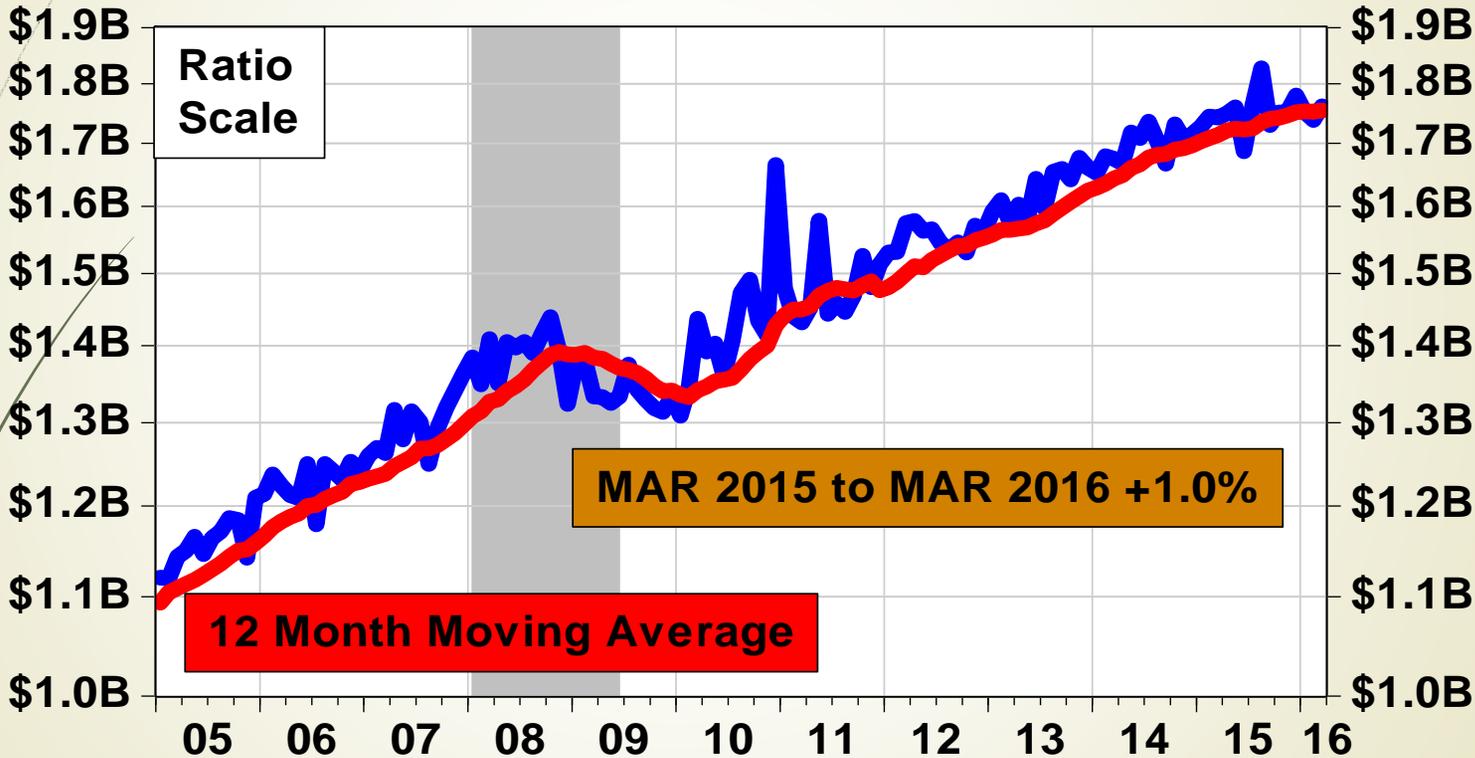
SD TAXABLE SALES



Source: SD Department of Revenue

Steady Growth

SD Taxable Sales - Seasonally Adjusted



Ratio Scale

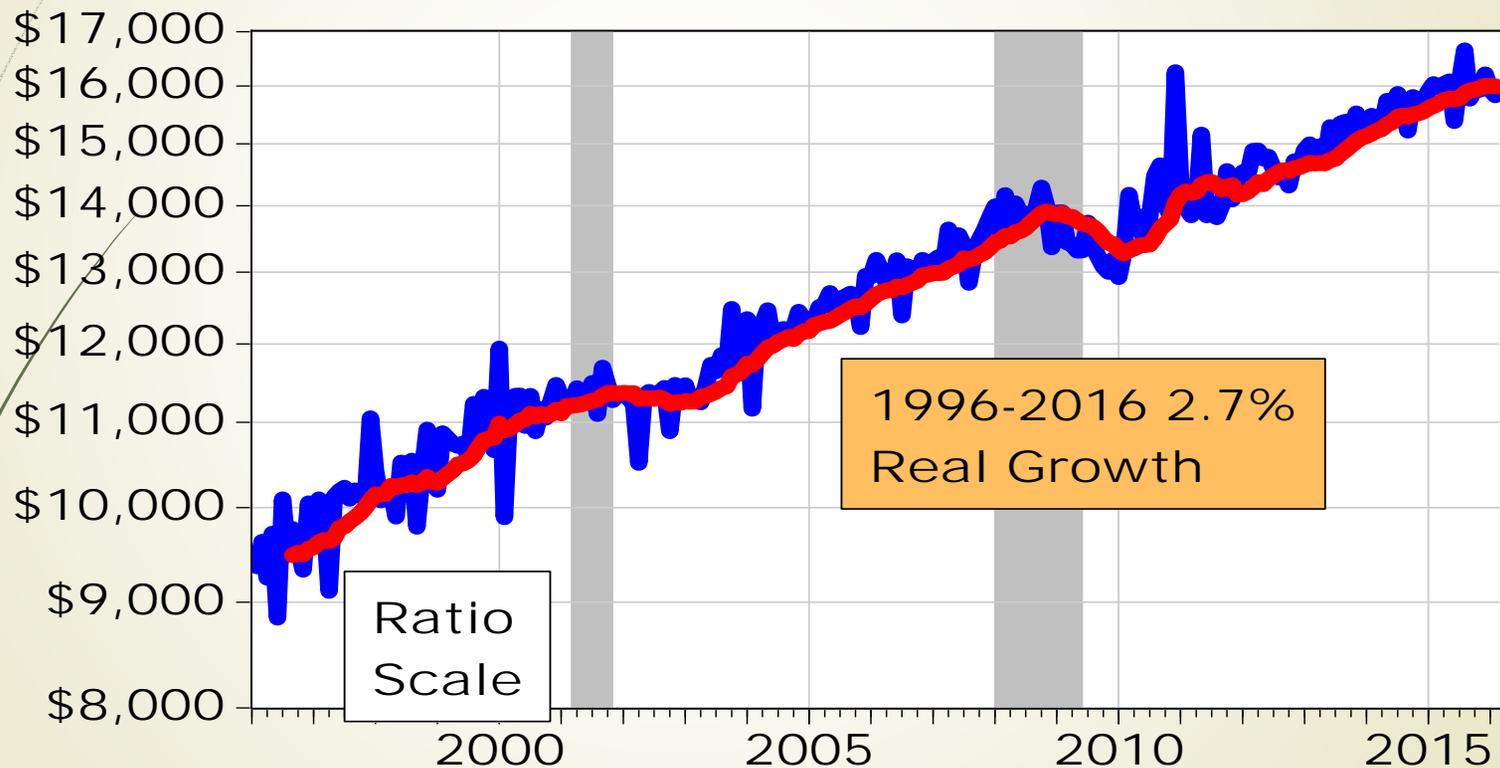
MAR 2015 to MAR 2016 +1.0%

12 Month Moving Average

Source: SD Department of Revenue

Growth in Real Terms

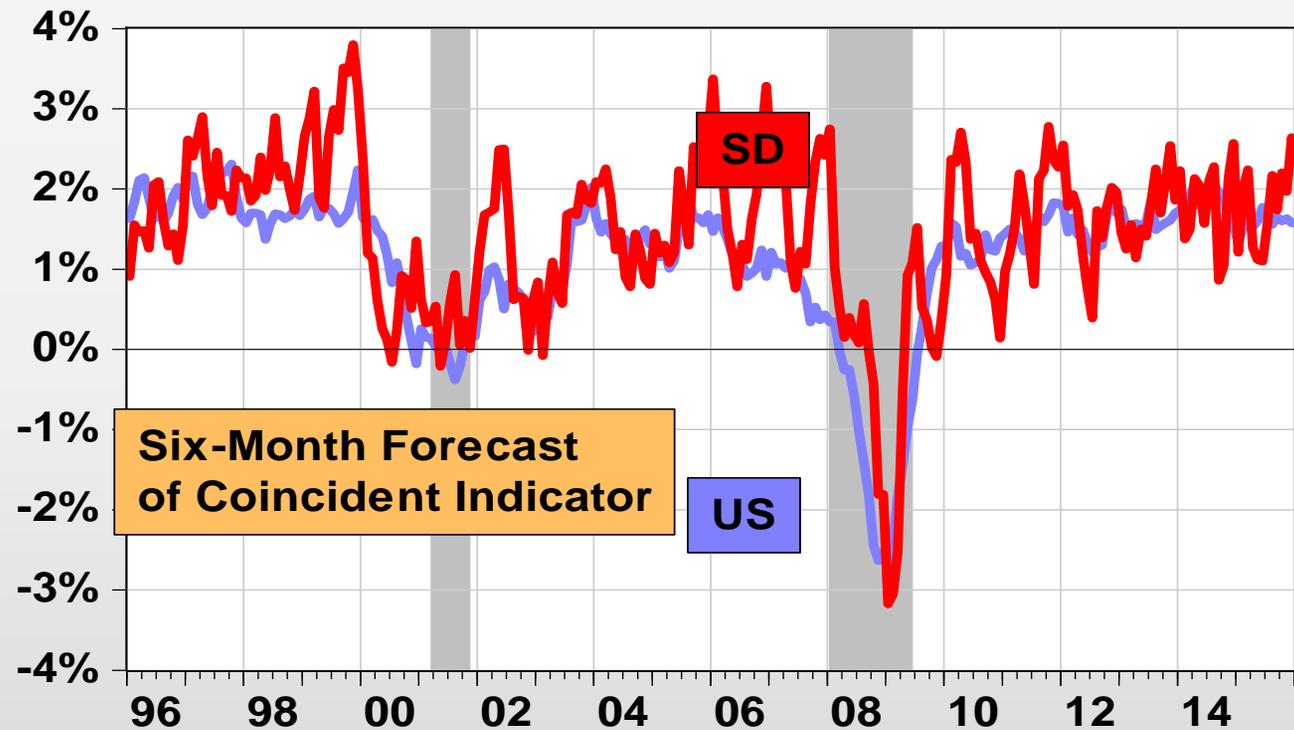
REAL TAXABLE SALES (2009 \$S)



Source: SD Dept of Revenue and BEA

Forecasting Growth

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

March 2016 Index > 50 Growth

Overall 51.1 3 months in a row above 50

New Orders 54.0

Sales 51.1

Delivery lead time 52.6

Inventories 51.4

Employment 46.5

“Since the beginning of the recovery in 2009, SD’s mfg sector has added almost 5,000 jobs while output per worker has expanded by approx. 8.1 percent, or the 5th highest among in the 9 states ”

Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing slowly

Only 20% chance of recession

Wells Fargo 26% chance of recession

The End

