



# 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 – May 8, 2017**

***Real GDP***

***Consumption,***

***Housing Starts***

***Federal Budget***

***Interest Rates and Inflation***



# GDP

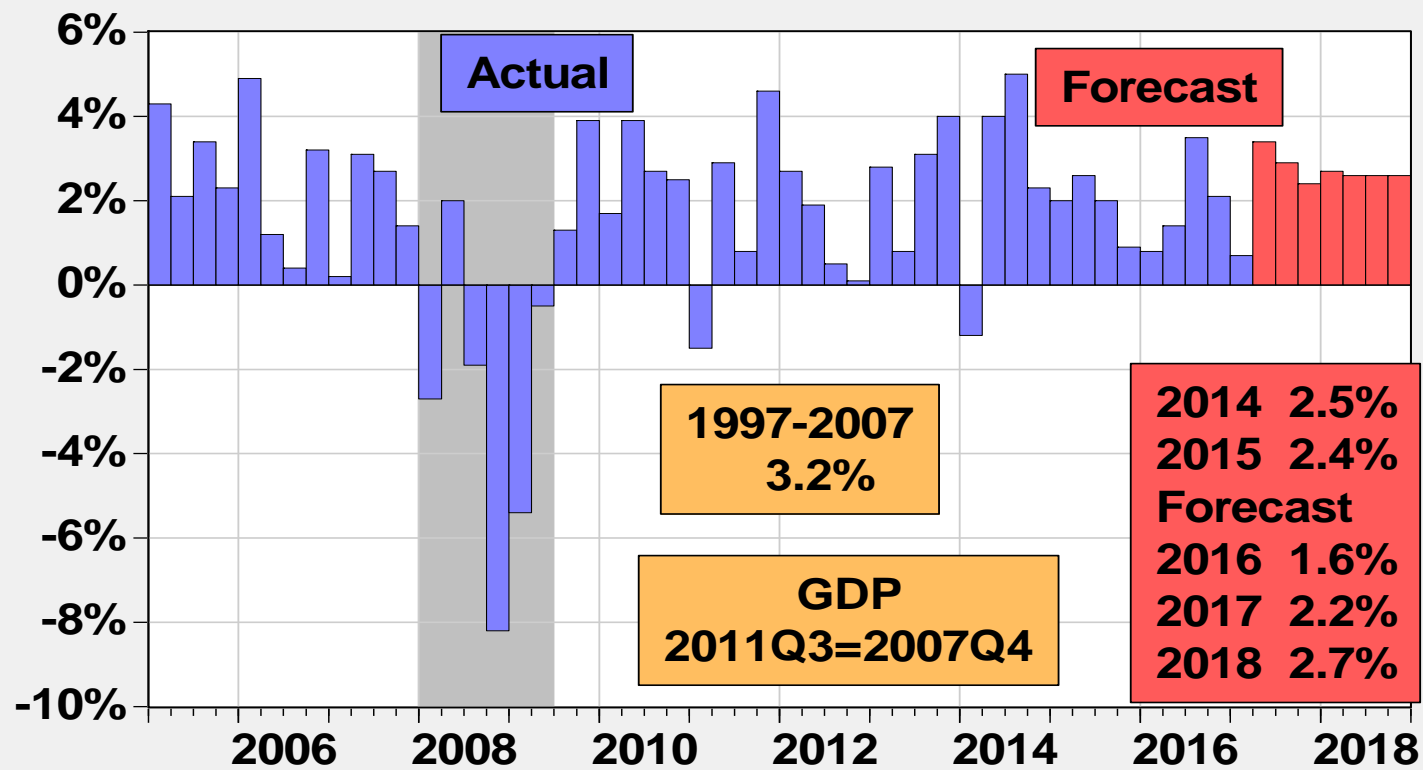
After slow 1<sup>st</sup> qtr growth of 0.7%, growth is expected to pick up in the 2<sup>nd</sup> qtr at 3.4% led by the consumer.

Global Insight attributes part of the slow 1<sup>st</sup> qtr growth to “residual seasonality” or a technical problem in the seasonal adjustment process that has shaved growth from the 1st qtr pushing it into the 2<sup>nd</sup> qtr.

GDP growth is expected to be 2.2% in 2017 and 2.7% in 2018. The LR growth rate is still expected to be 2.0% to 2.5%.

# Growth Picks Up

## 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 pick up in 2017 and 2018 reaching 2.5% in 2017 and 3.2%, respectively.**

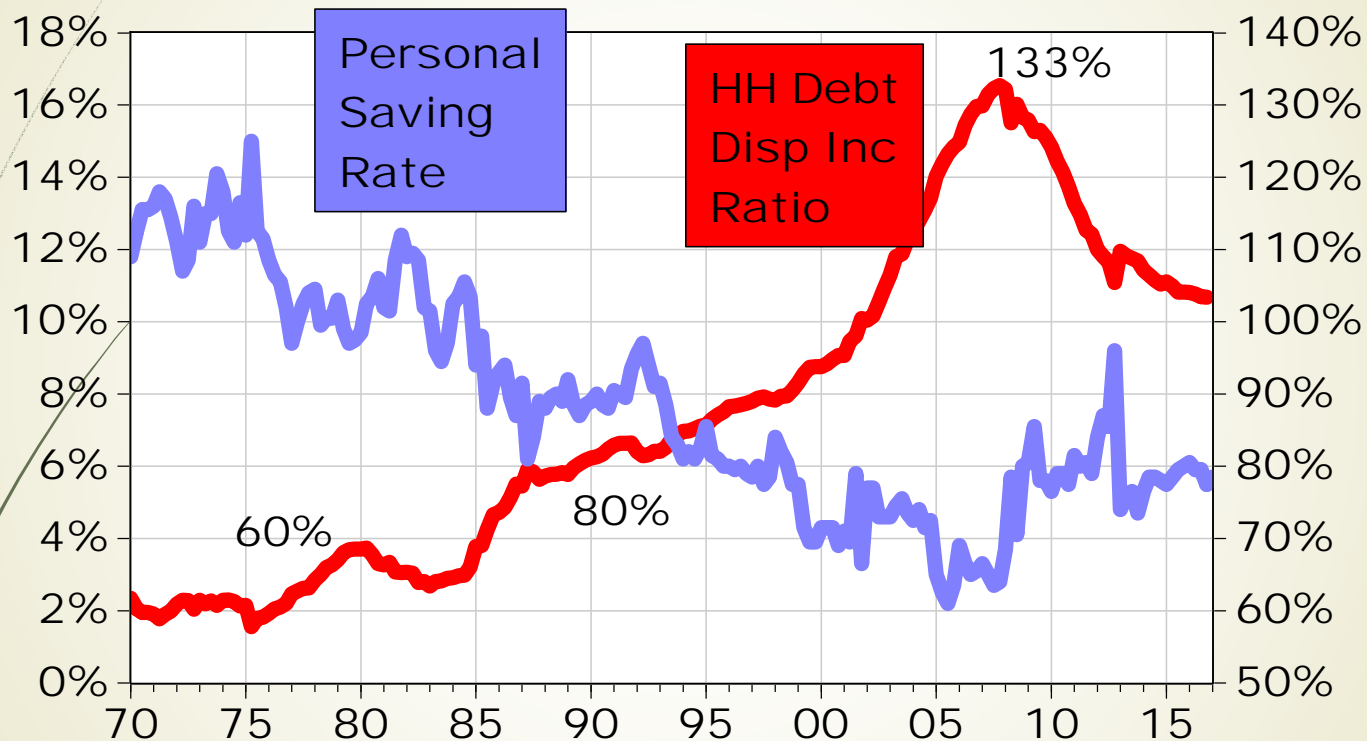
**The drivers for stronger household demand are higher employment, incomes, optimism, and asset appreciation.**

**Tax cuts expected in 2018 will further fuel spending and the saving rate.**

**Spending on durables will be especially strong.**

# Deleveraging Continues

## HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED



# Record Low Debt Service

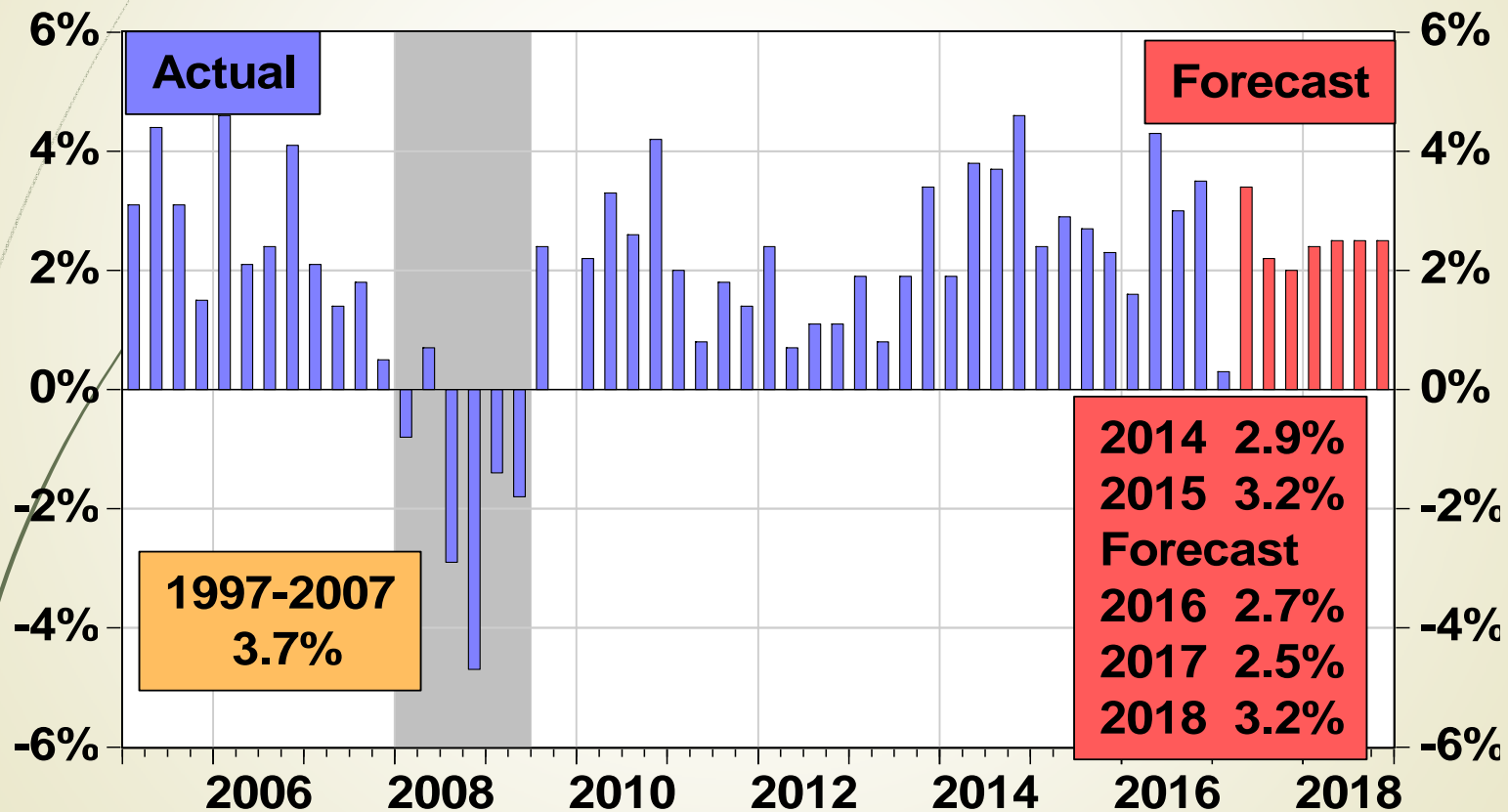
HOUSEHOLD DEBT SERVICE  
AS % OF DISP. PERS. INC.



Source: BEA

# Faster Growth Projected

## REAL CONSUMPTION



Source: BEA and IHS

# Investment Sector

Beginnings of a recovery in oil prices continuing into 2018 has sparked an upturn in capital spending in the energy sector. Since there is still excess capacity in this sector further improvement will be modest.

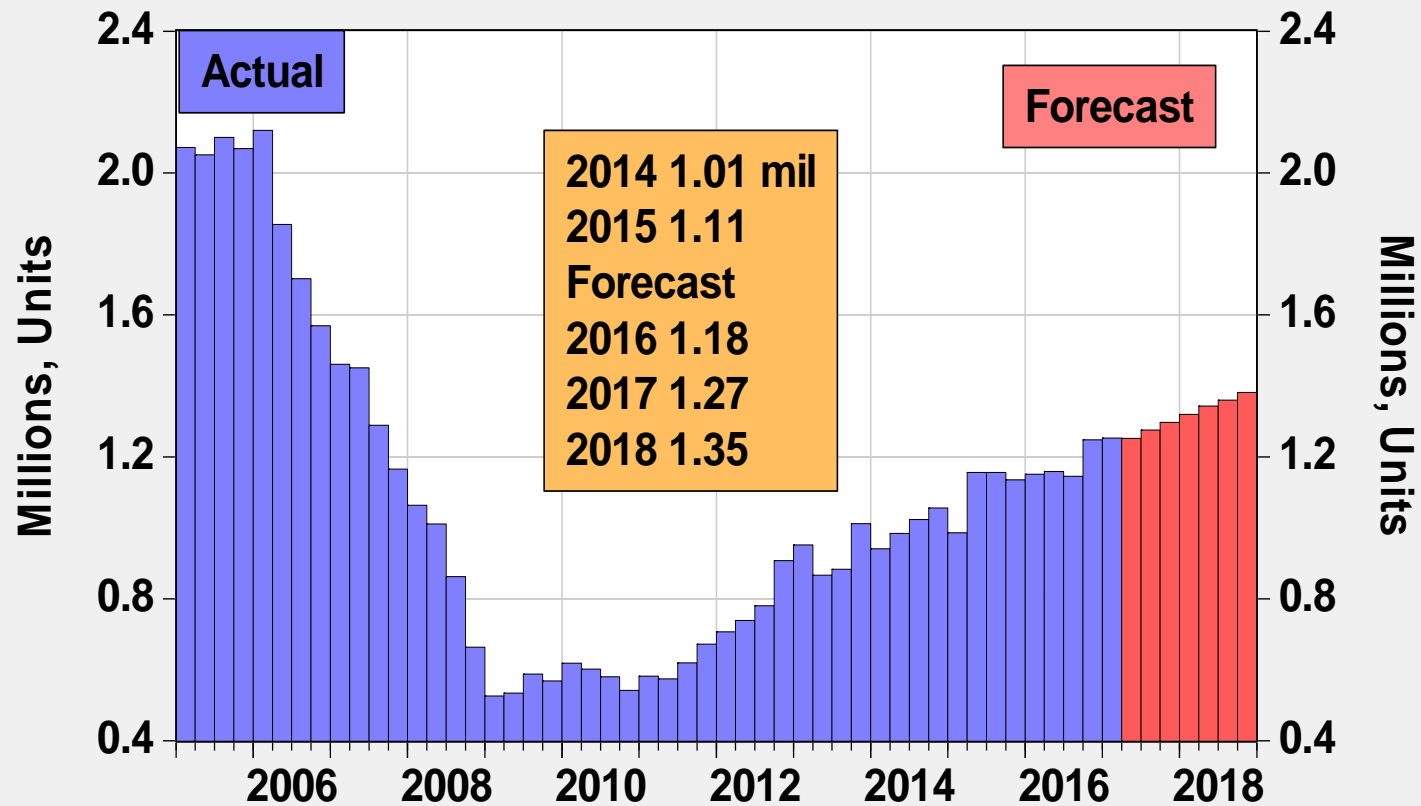
In the housing sector, they project steady growth; however, higher mortgage rates will hurt affordability and may limit price increases and transactions.

Overall, 2017 and 2018 should see pretty good growth (4 - 6%) in nonresidential fixed investment.

Spending on intellectual property products are expected grow modestly at 3 - 5% rates.

# Recovery Proceeds

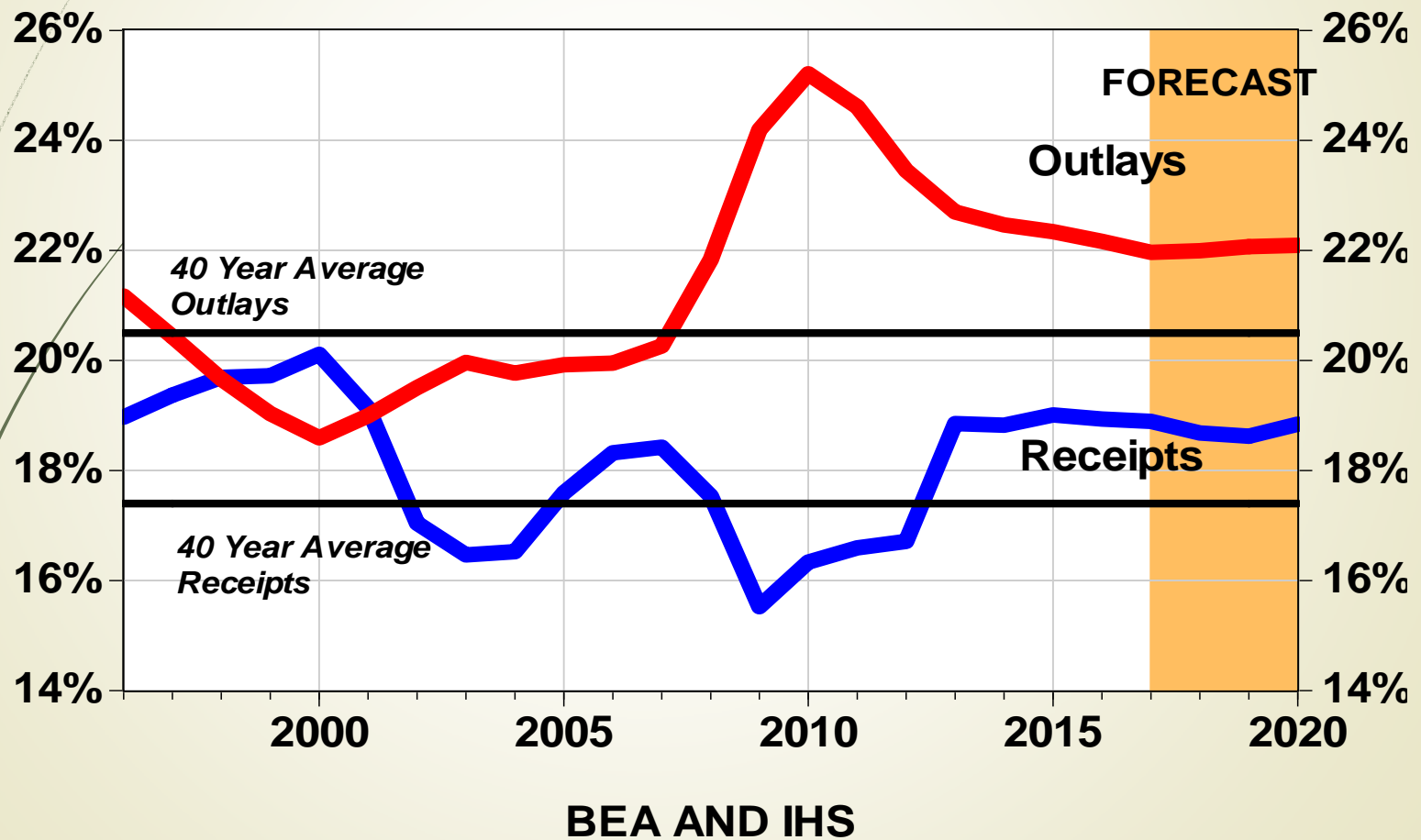
## HOUSING STARTS



Source: US Census and IHS

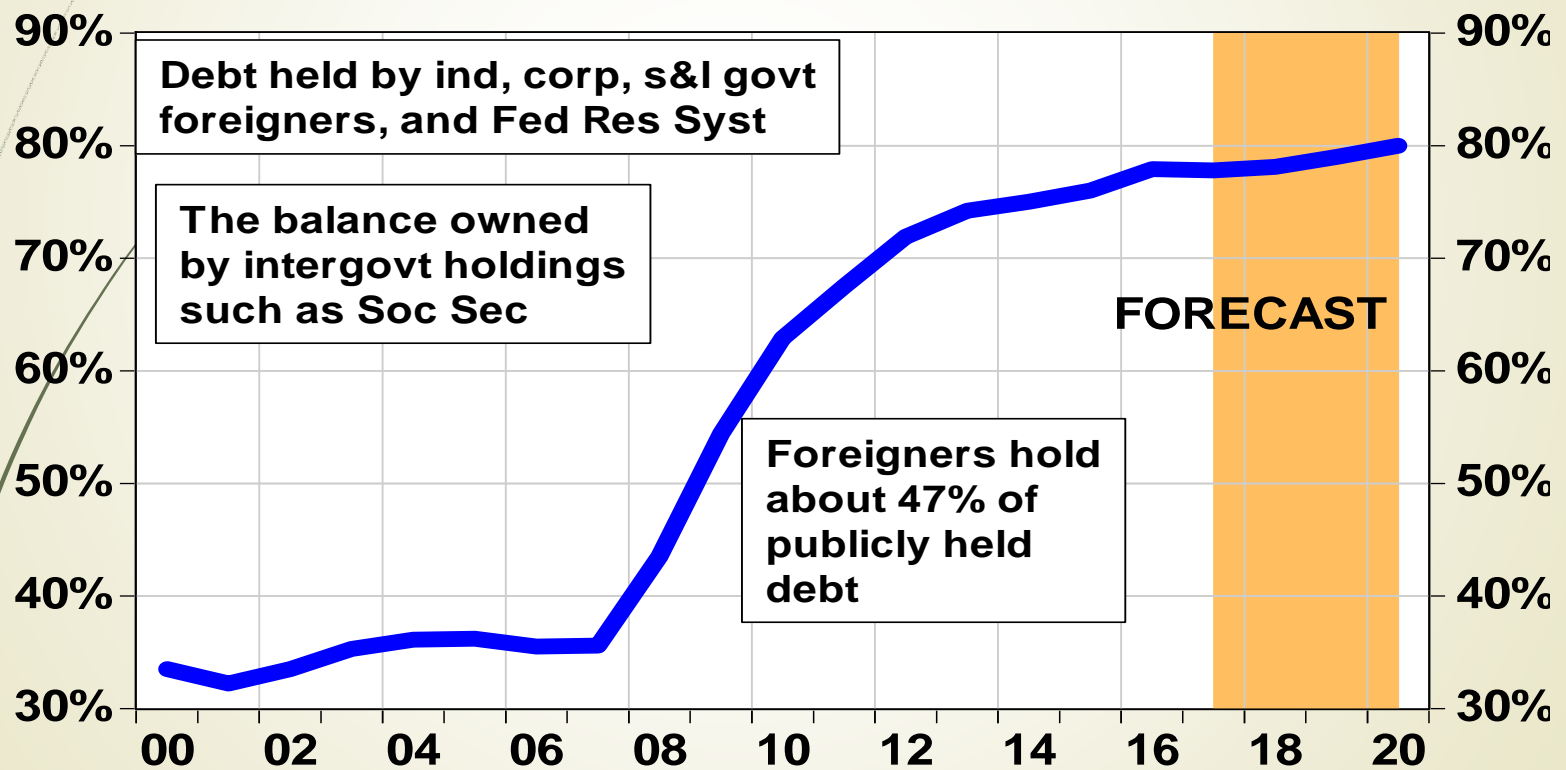
# Government Sector

## FEDERAL GOVERNMENT AS % OF GDP



# Debt Held by Public

## FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



# The Fiscal Picture

The fiscal outlook still remains a mystery.

Global Insight notes tax cuts and reform will be contentious. They feel the outlook for modest tax cuts and limited reform are reasonably good, but the path to the passage of tax bill will be tortuous.

Global Insight does agree the US corporate tax rate is among the highest in the world at 39.1% and tax rates in 9 of the G20 have been cut at least 5 percentage points over the past 10 years.

The problem with the US personal and corporate tax code is complexity and loopholes. One of the most egregious is the incentive for American companies to park more than \$2 trillion overseas to avoid US taxes.

The bottom line is that modest tax cuts will be enacted later this year and chances for comprehensive tax reform remain remote.



# Foreign Sector

The effects a strong \$ are fading and exports are beginning to pickup.

GDP growth for the nation's major currency trading partners is assumed to average 1.8% through 2026. A pickup in growth in Euroland will help offset some the effect of the strong \$ on the trade balance.

Because of strong import demand, we still expect significant trade deficits and that will continue to be a drag on growth through 2019.

The broad-based exchange rate which shot up after the election has settled back to near pre-election levels. Nevertheless the \$ will remain strong.



# Employment & Unemployment

Pretty good job growth this past year at 186 thousand per month.

The April 2017 numbers of 211 thousand look pretty strong as did the 4.4% unemployment rate.

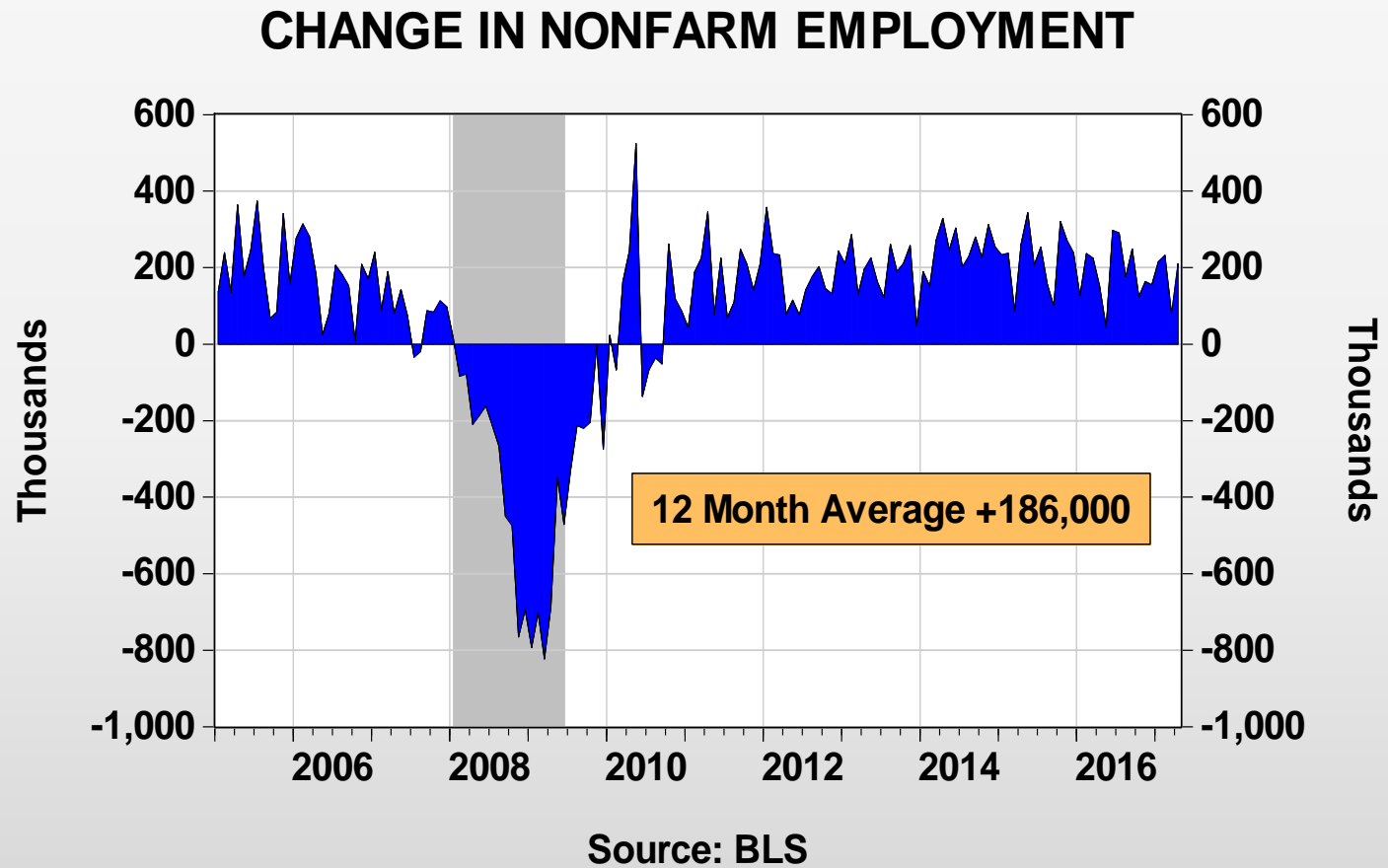
Payroll employment growth is expected to slow to 1.5% in 2017 and 1.1% in 2018, down from 2.1% in 2015 and 1.7% in 2016.

Unemployment rate averaged 4.9% in 2016, and will average 4.5% in 2017 and 4.2% in 2018.

The labor force participation rate has not moved much and still remains low at about 63%.

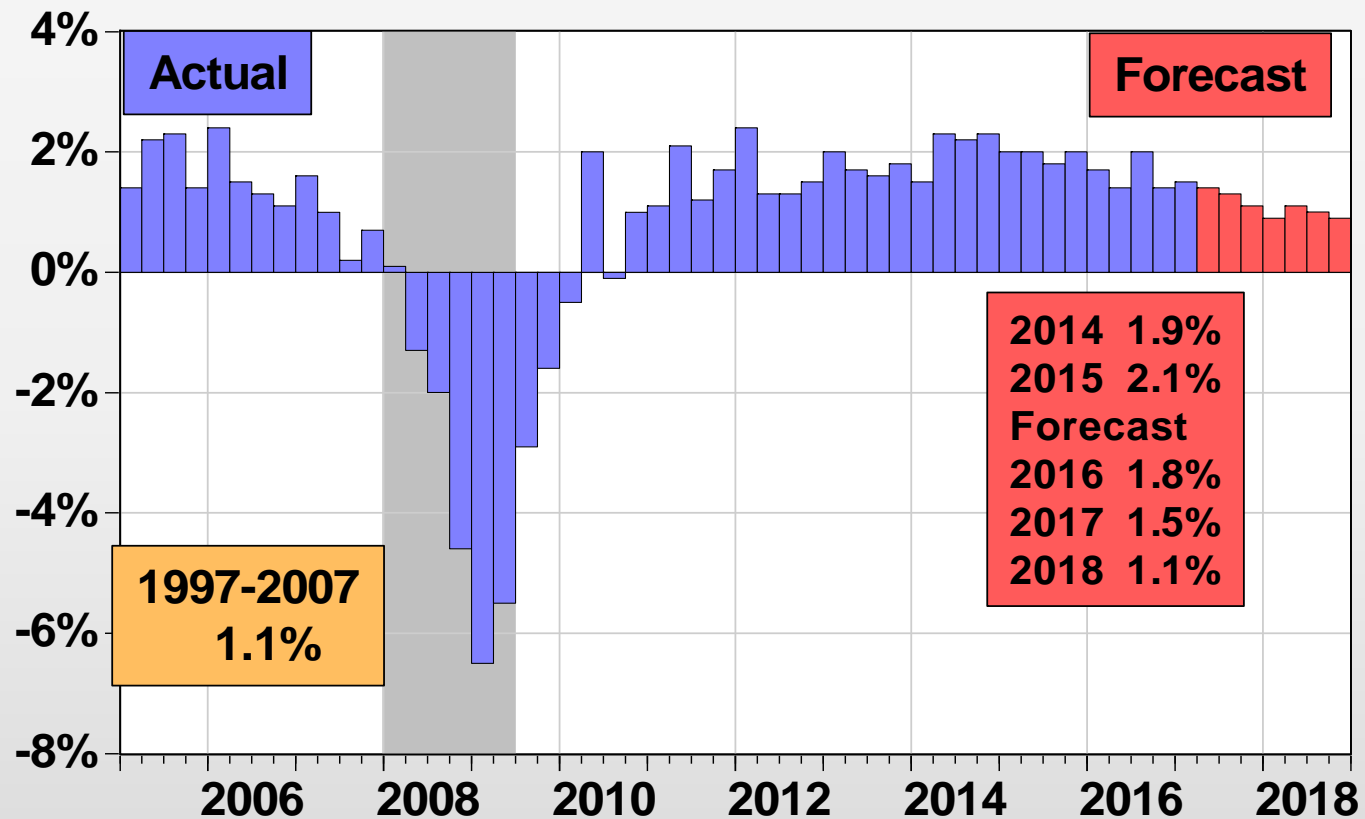
Wage growth still remains low and Phillips Curve is dead for now.

# Solid Growth



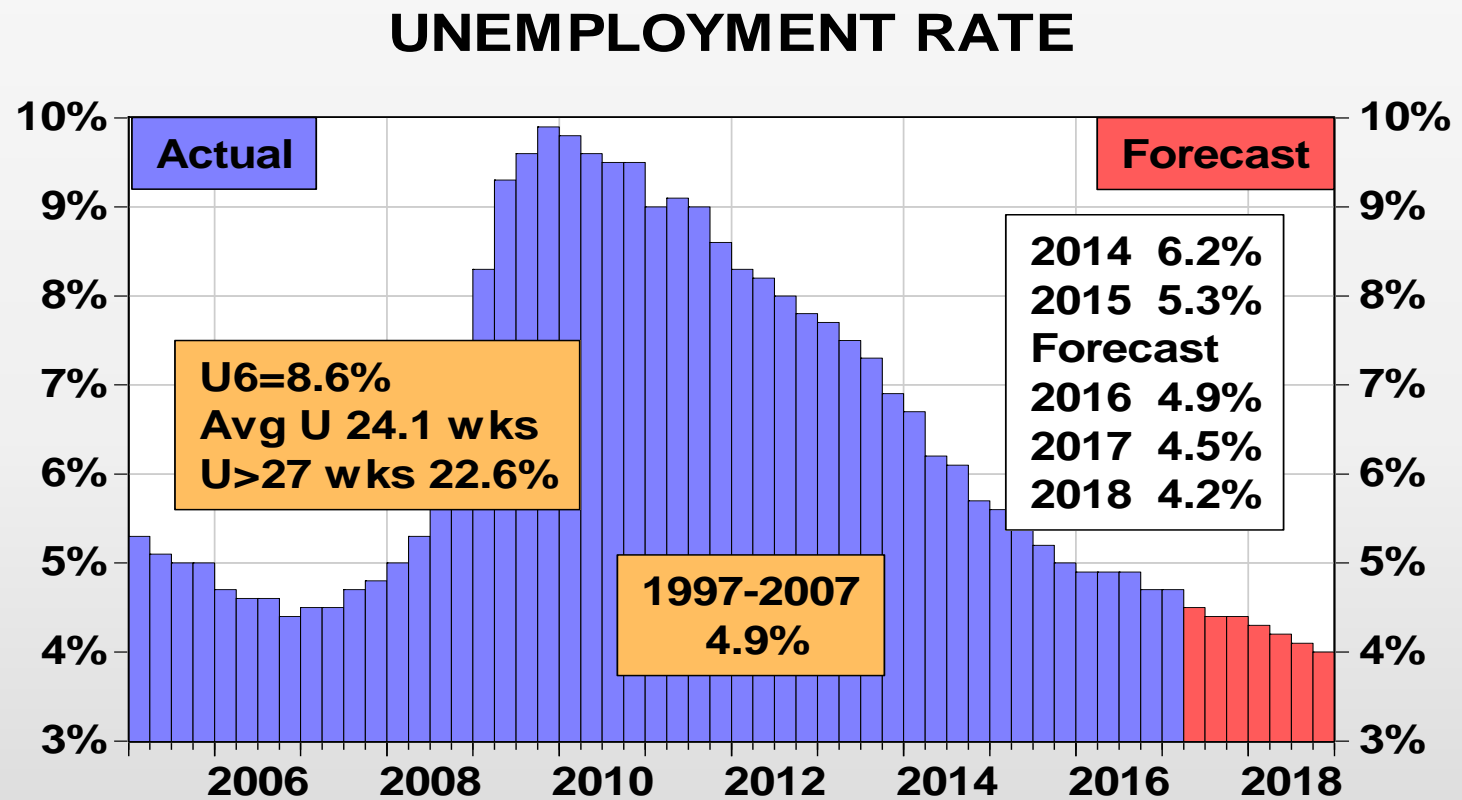
# Future Job Growth Slows

## NONFARM EMPLOYMENT



Source: BLS and IHS

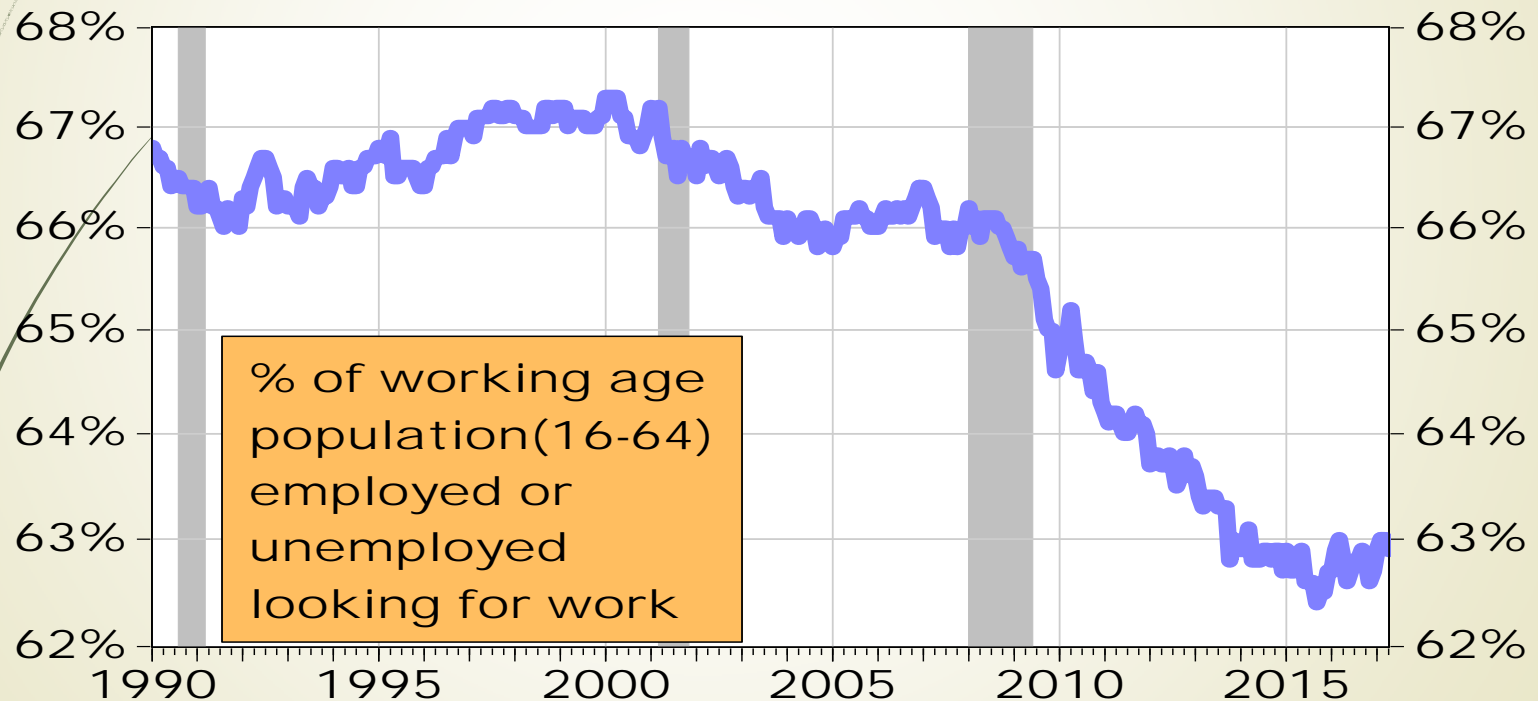
# Low U3 Unemployment Rate at 4.4%



Source: BLS and IHS

# Labor Participation Rate Not Much Improvement

LABOR FORCE PARTICIPATION RATE



% of working age population(16-64) employed or unemployed looking for work

Source: BLS

# Inflation & Interest Rates

**Global Insight forecasts that the federal funds rate will be increased 25 basis points in June and December.**

**The FED expects the federal funds rate to reach 3% by 2020. They consider this to the long-term equilibrium rate.**

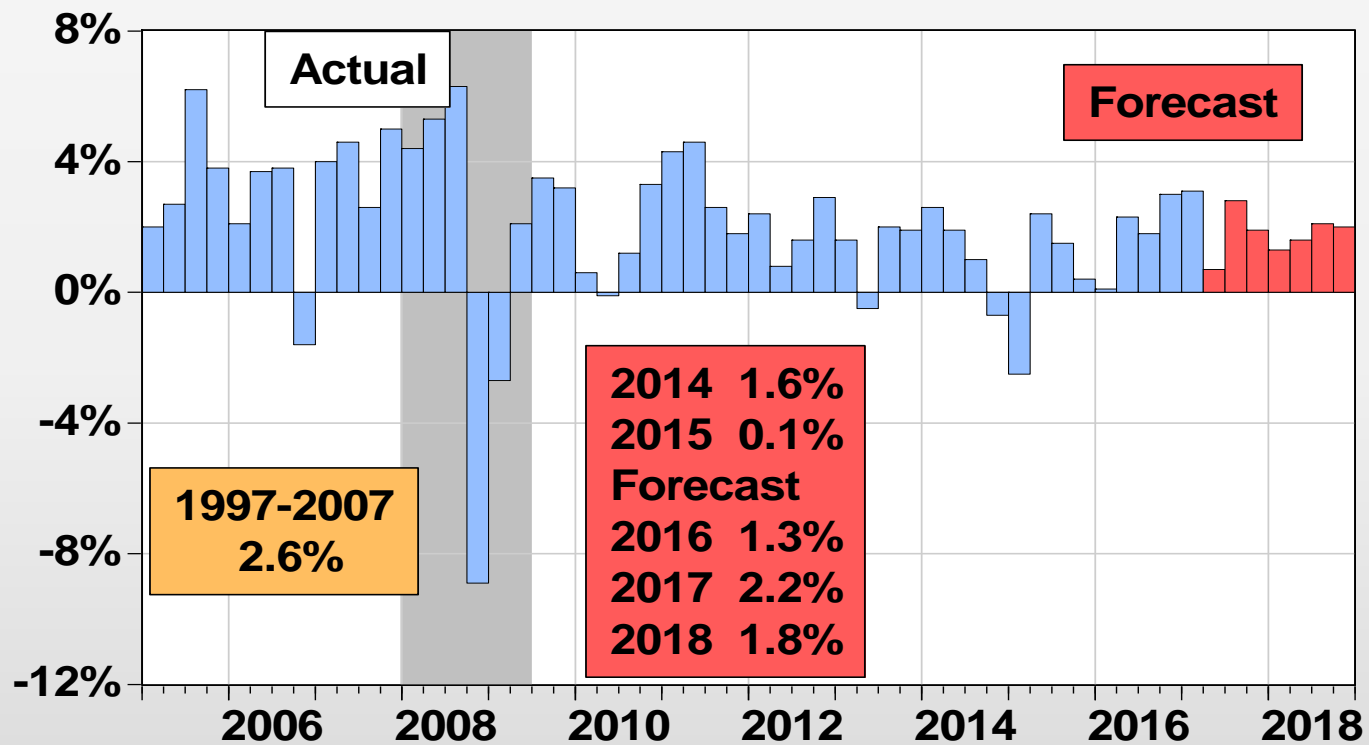
**They further expect the FED to start shrinking the balance sheet late this year or early next year. This will cause long-term rates to rise.**

**IHS projects west Texas intermediate crude oil prices at \$73 by 2020.**

**Inflation is still very low with the CPI reaching 2.2% in 2017 and 1.8% in 2018.**

# Still Low But Rising

## INFLATION: CPI



Source: BLS and IHS



# IHS GLOBAL INSIGHT FORECAST MAY 2017

<u>Variable</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>GDP</b>	<b>2.6%</b>	<b>1.6%</b>	<b>2.2%</b>	<b>2.7%</b>
<b>Recession Probability 20%</b>				
<b>NA Emp</b>	<b>2.1%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>1.1%</b>
<b>Oil(Brent)</b>	<b>\$53</b>	<b>\$44</b>	<b>\$55</b>	<b>\$54</b>
<b>Housing</b>	<b>1.11</b>	<b>1.18</b>	<b>1.27</b>	<b>1.35</b>
<b>CPI</b>	<b>0.1%</b>	<b>1.3%</b>	<b>2.2%</b>	<b>1.8%</b>
<b>Un Rate</b>	<b>5.3%</b>	<b>4.9%</b>	<b>4.5%</b>	<b>4.2%</b>





# Key Variables Tracking SD Economy

**Nonfarm employment**

**Housing starts**

**Real nonfarm personal income**

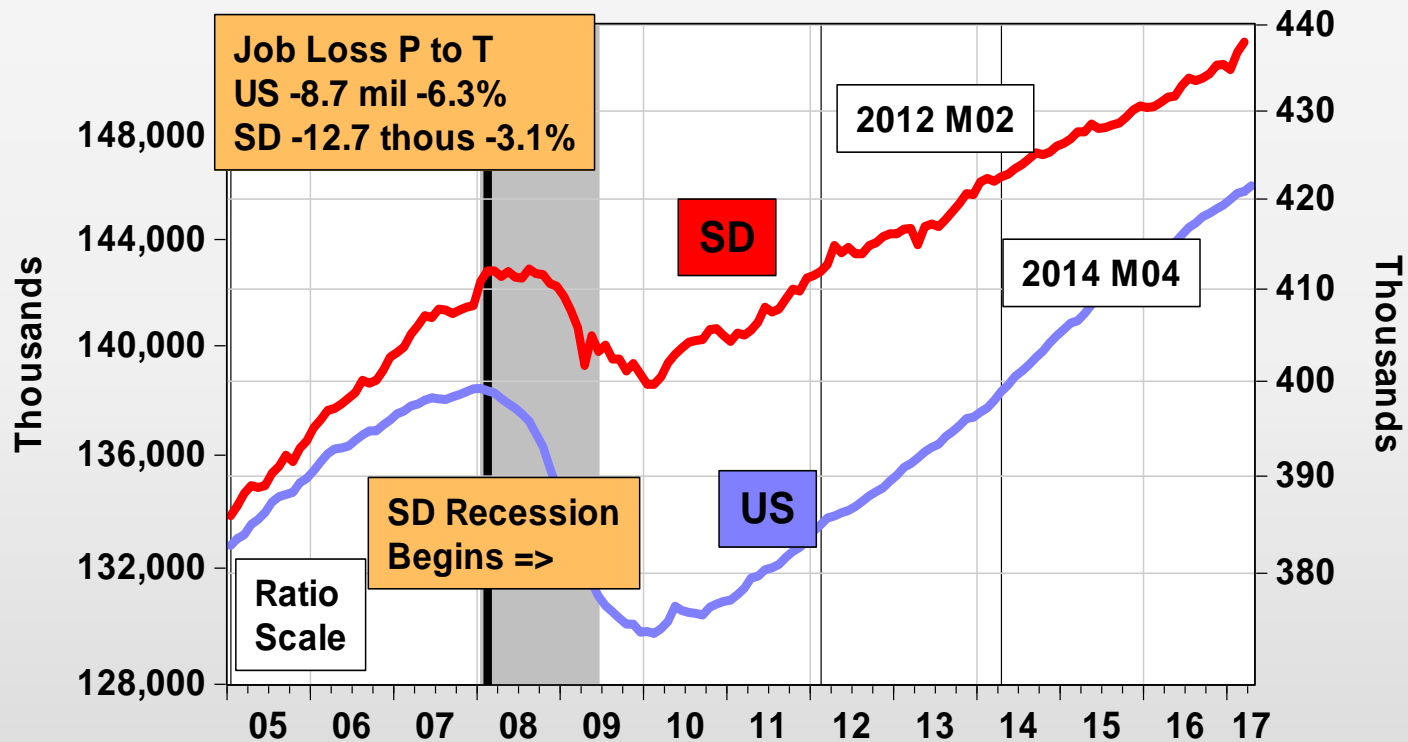
**Taxable sales**

**Leading indicator**



# Steady Growth

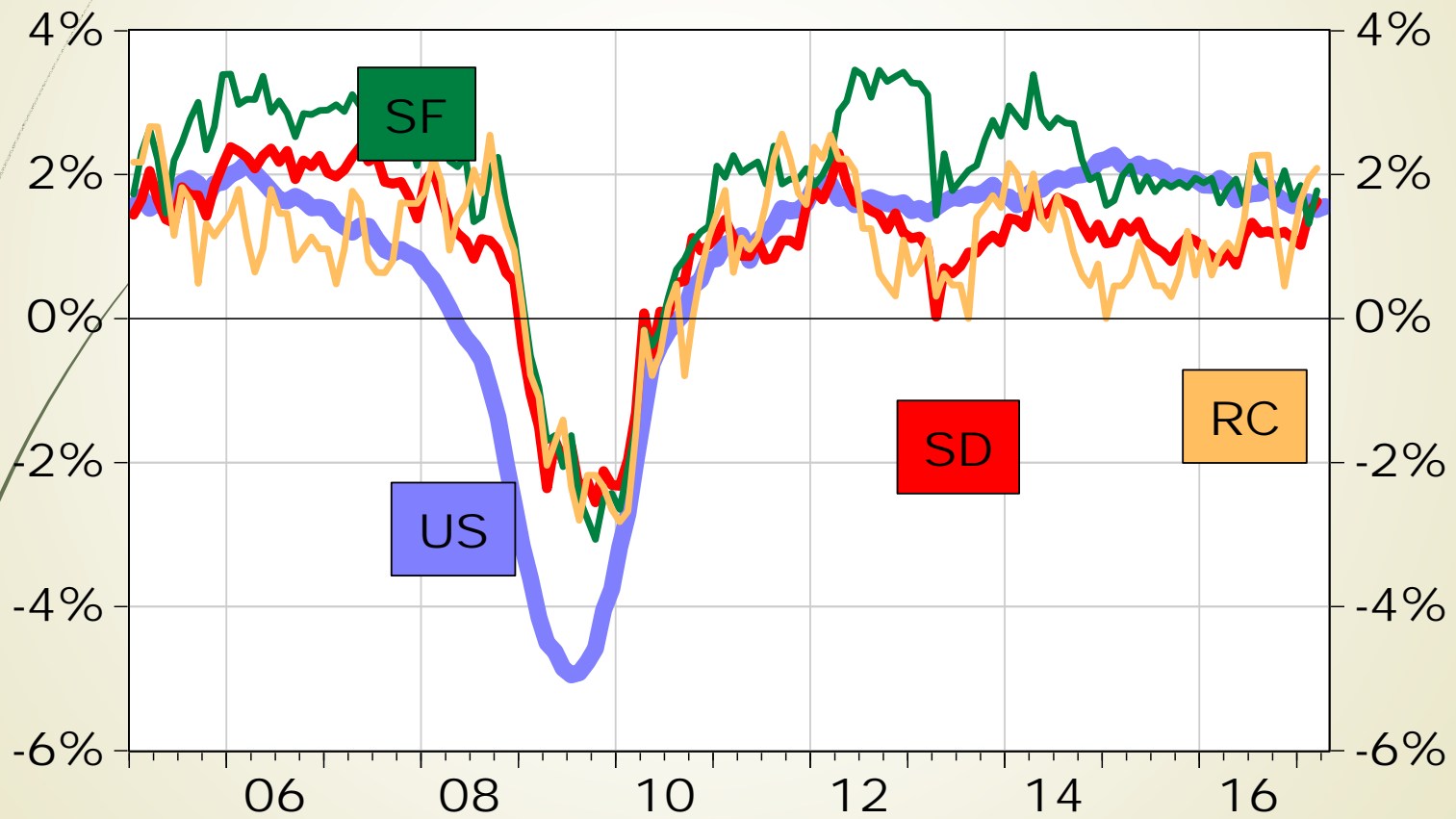
## NONFARM EMPLOYMENT



Source: BLS

# Interesting

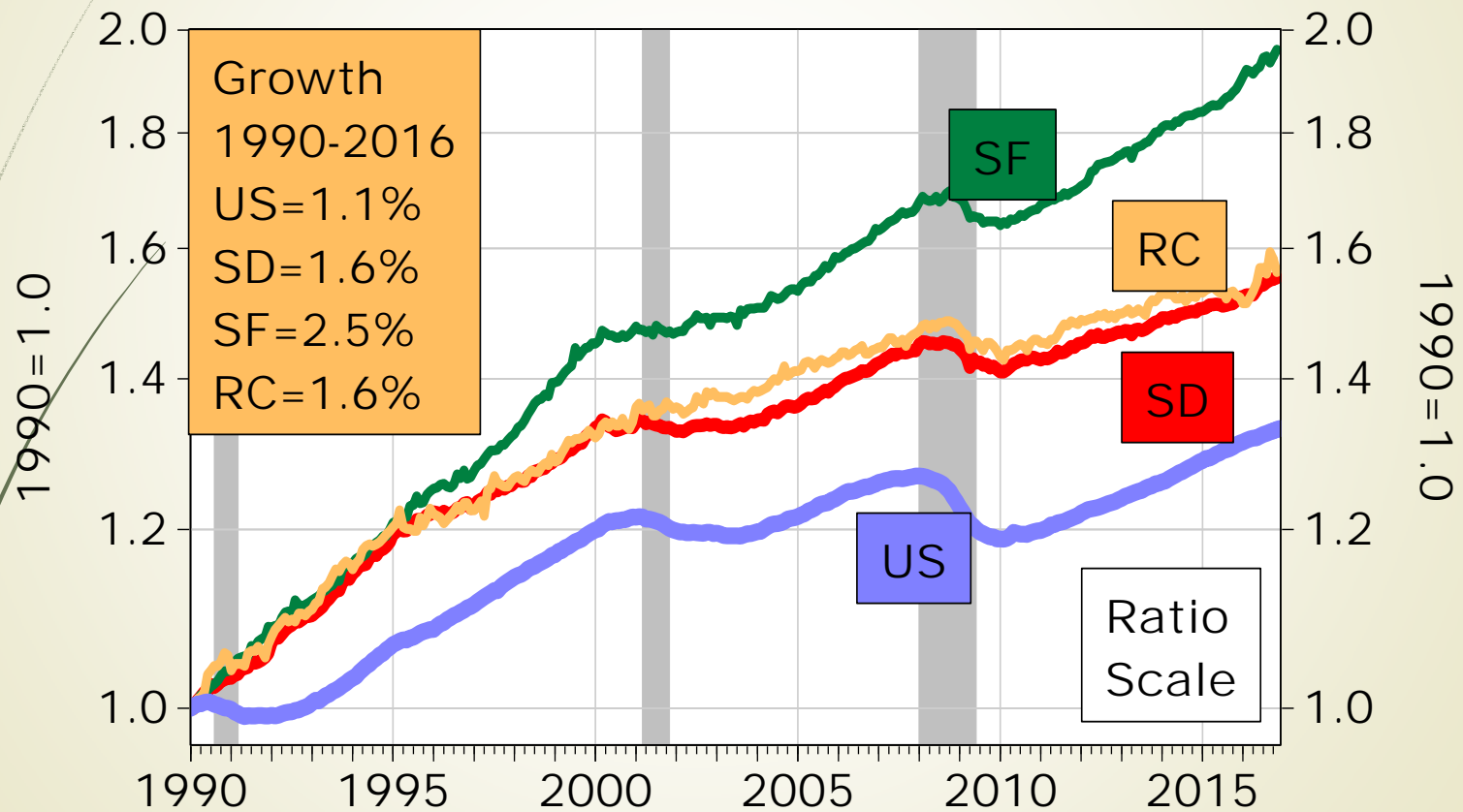
## NONFARM EMPLOYMENT



Source: BLS

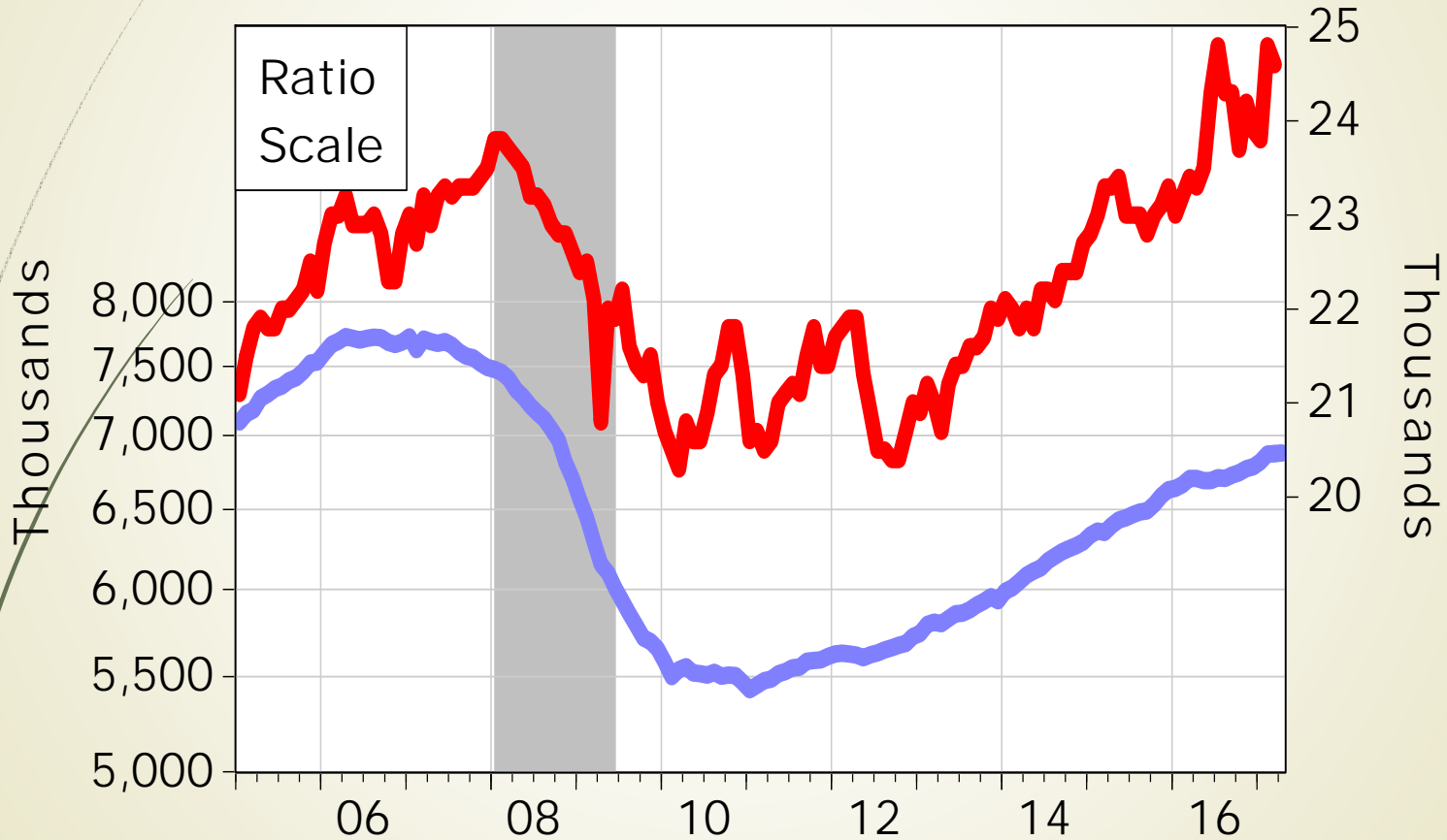
# SF Easily Outpaces the Rest

## NONFARM EMPLOYMENT



# Above Peak

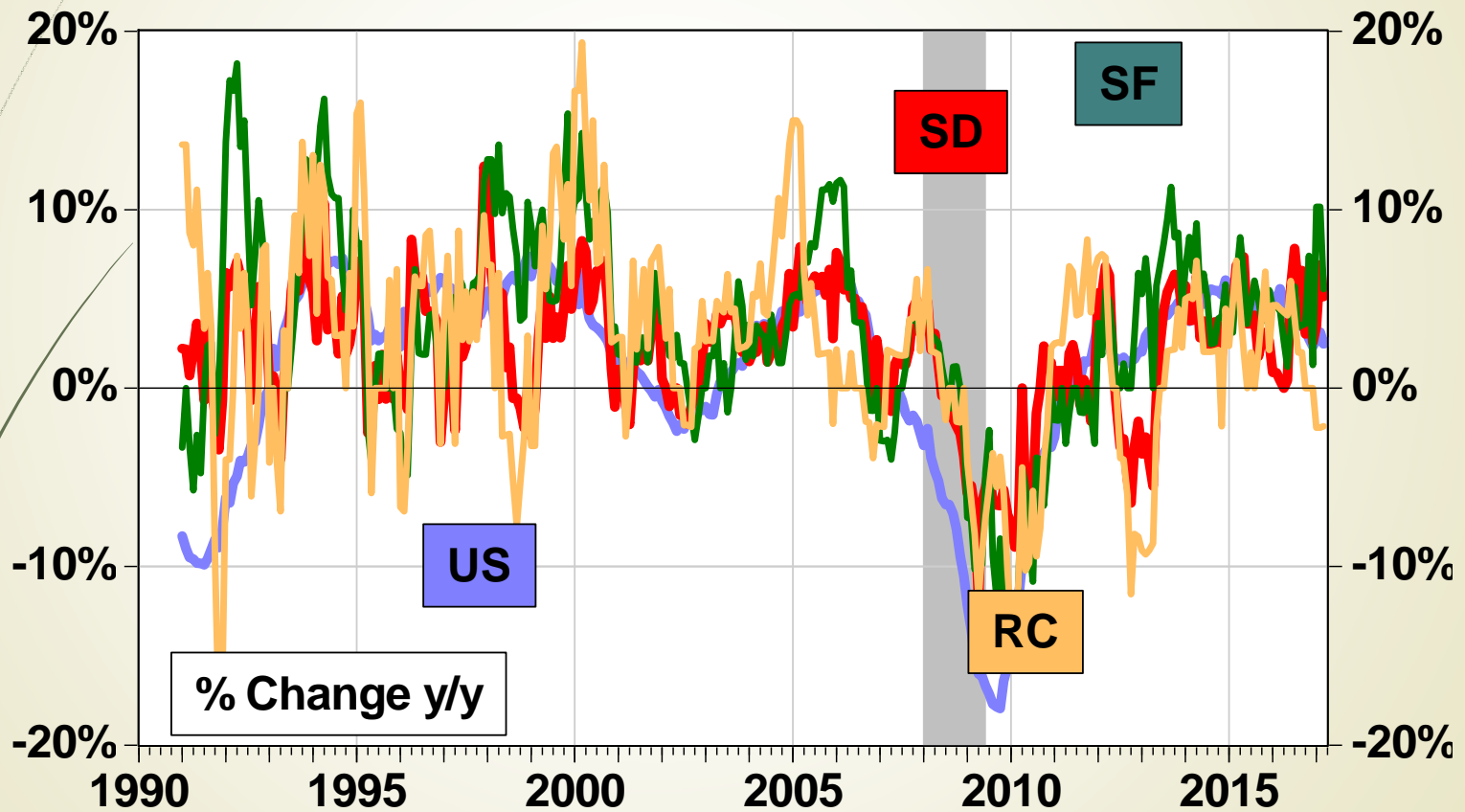
## CONSTRUCTION EMPLOYMENT



Source: BLS

# Positive Growth Since 2011

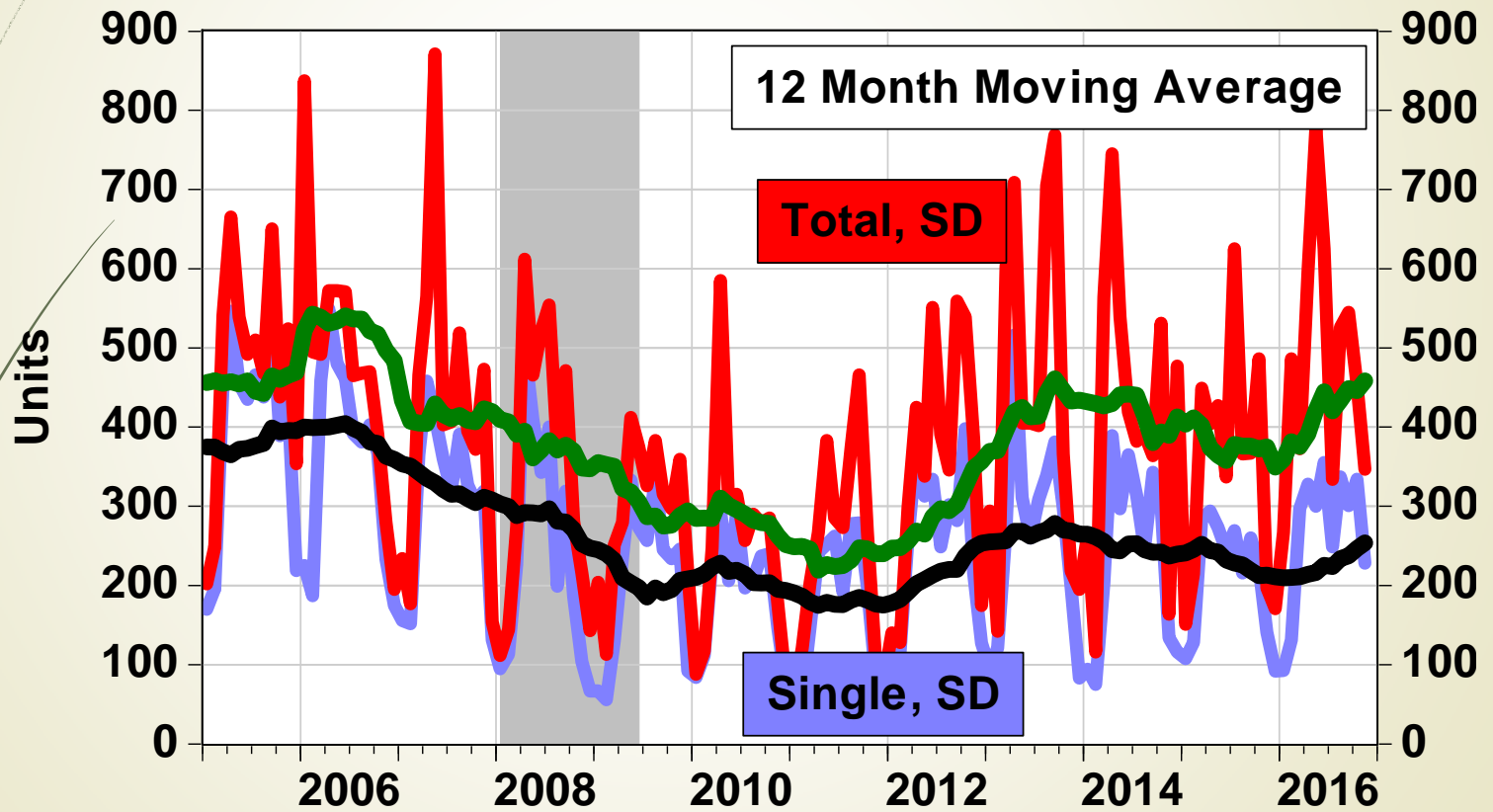
## CONSTRUCTION EMPLOYMENT



Source: BLS

# Good Growth

## SD Building Permits, Total & Single

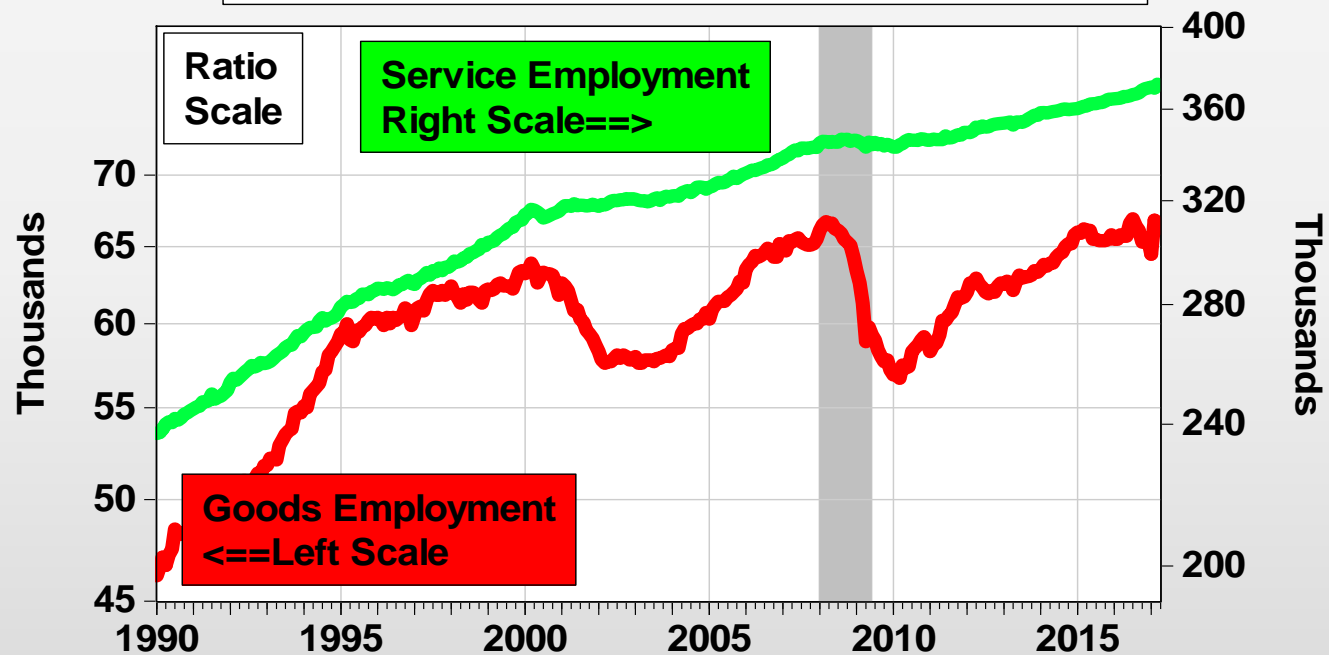


Source: Census Bureau

# Which is More Cyclical?

## SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

Goods-Producing = Manufacturing+Construction

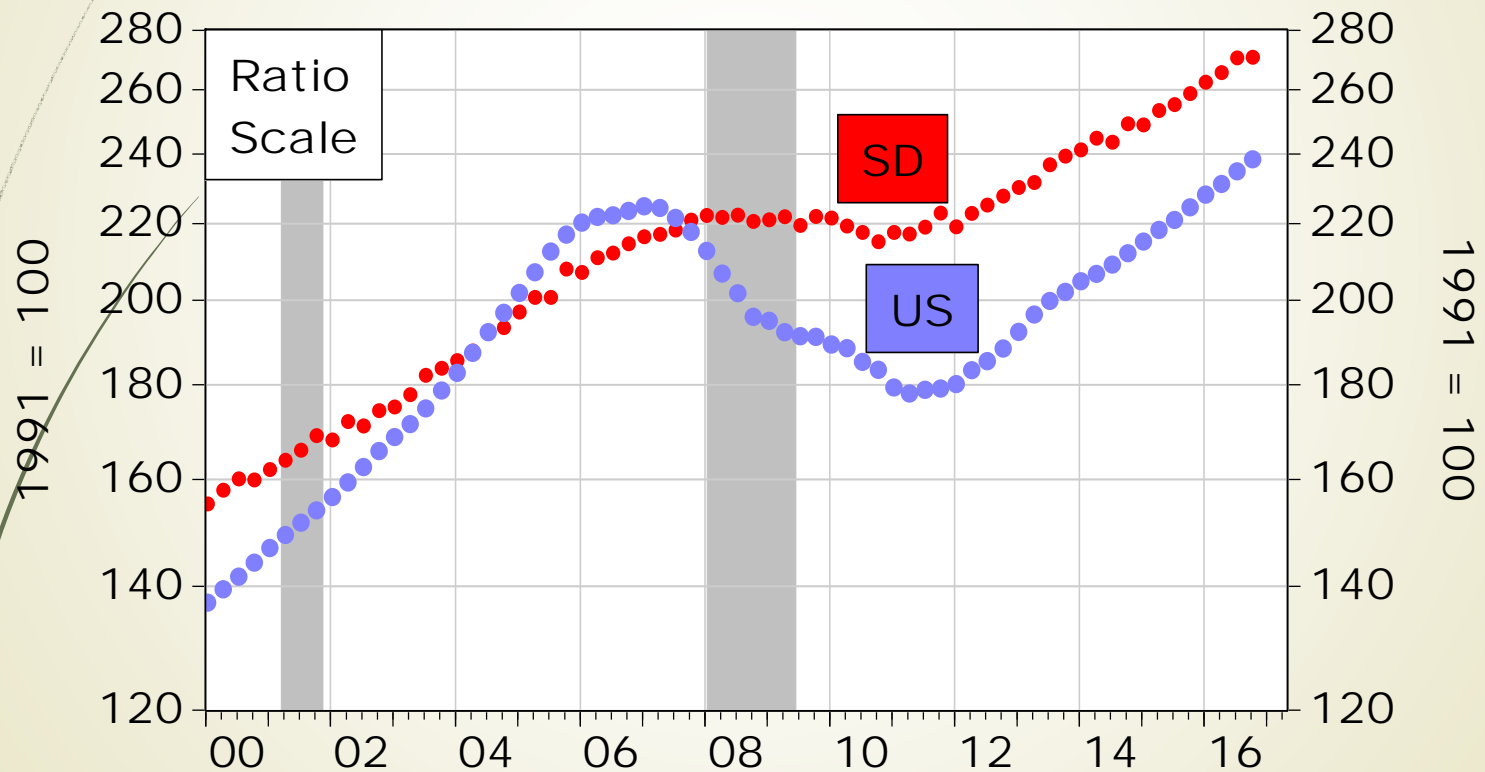


Source: BLS



# SD Peaked Later and Decline Less Severe

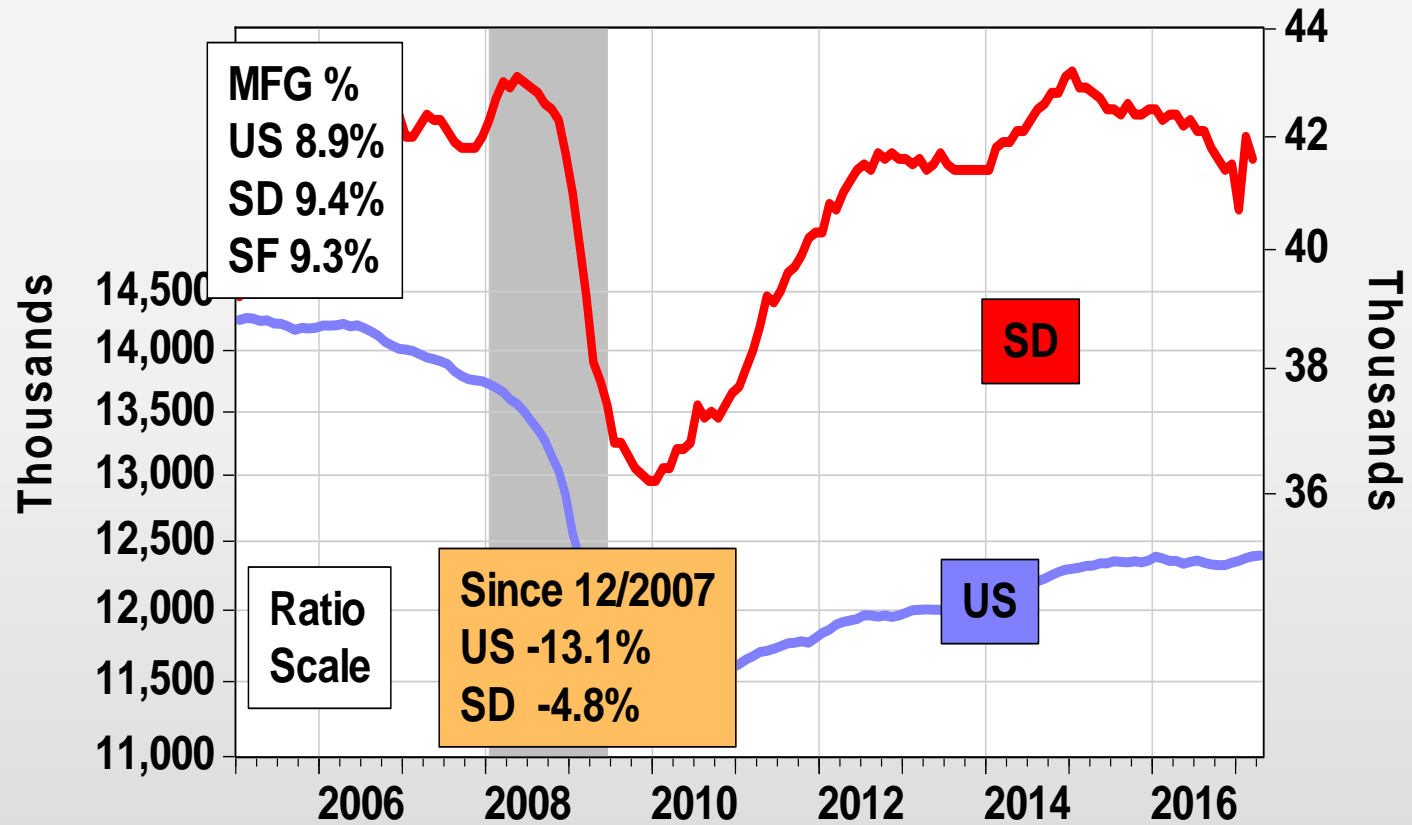
## HOUSE PRICE INDEX



Source: FHLB

# SD - Volatility But Growth

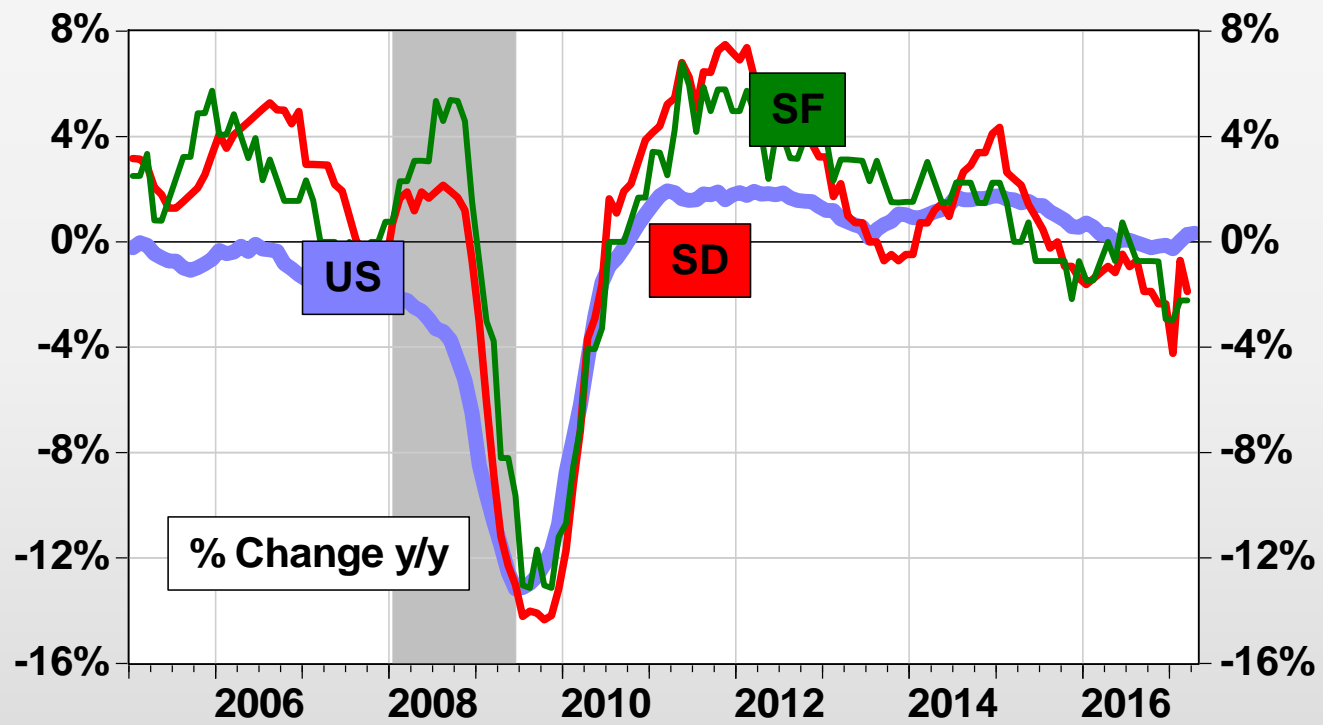
## MANUFACTURING EMPLOYMENT



Source: BLS

# Divergence

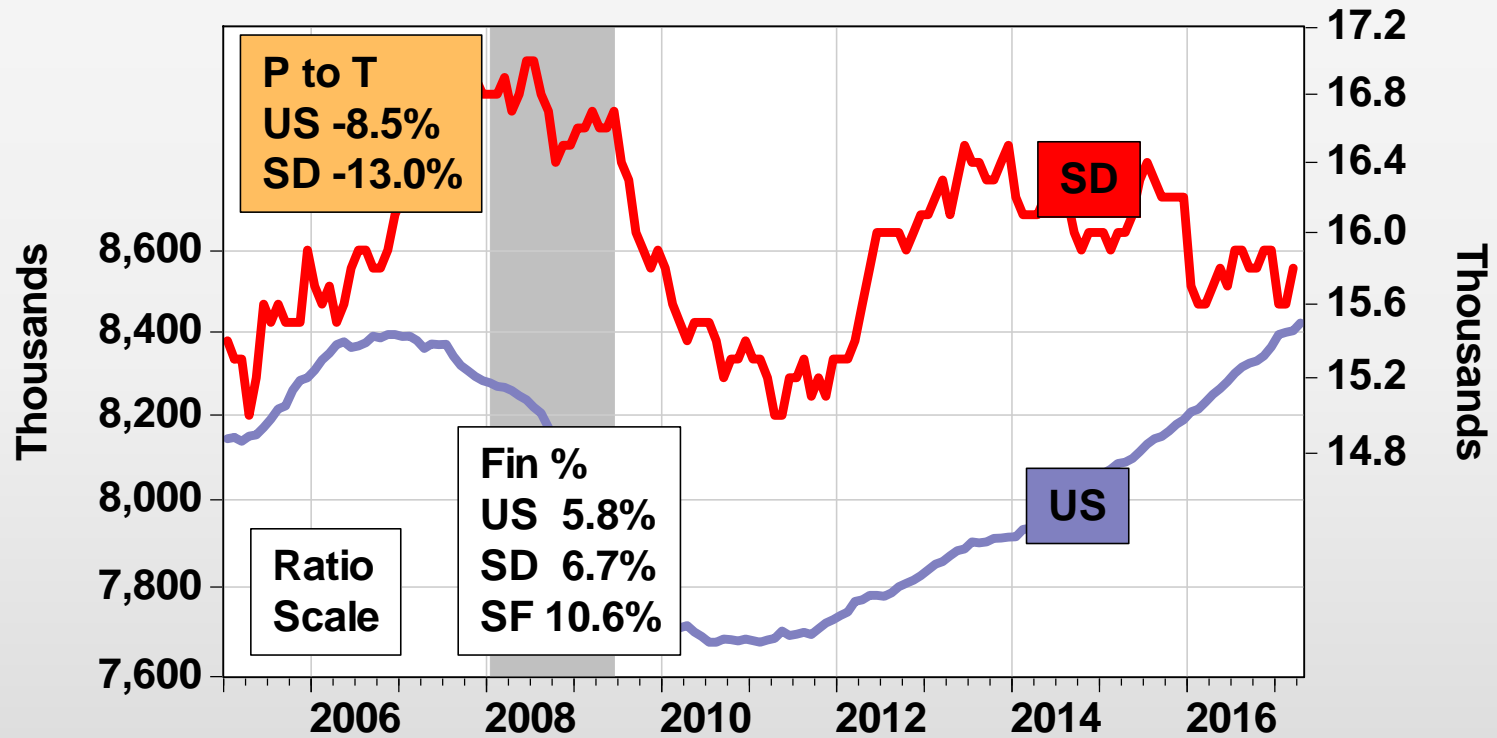
## MANUFACTURING EMPLOYMENT



Source: BLS

# SD More Volatile

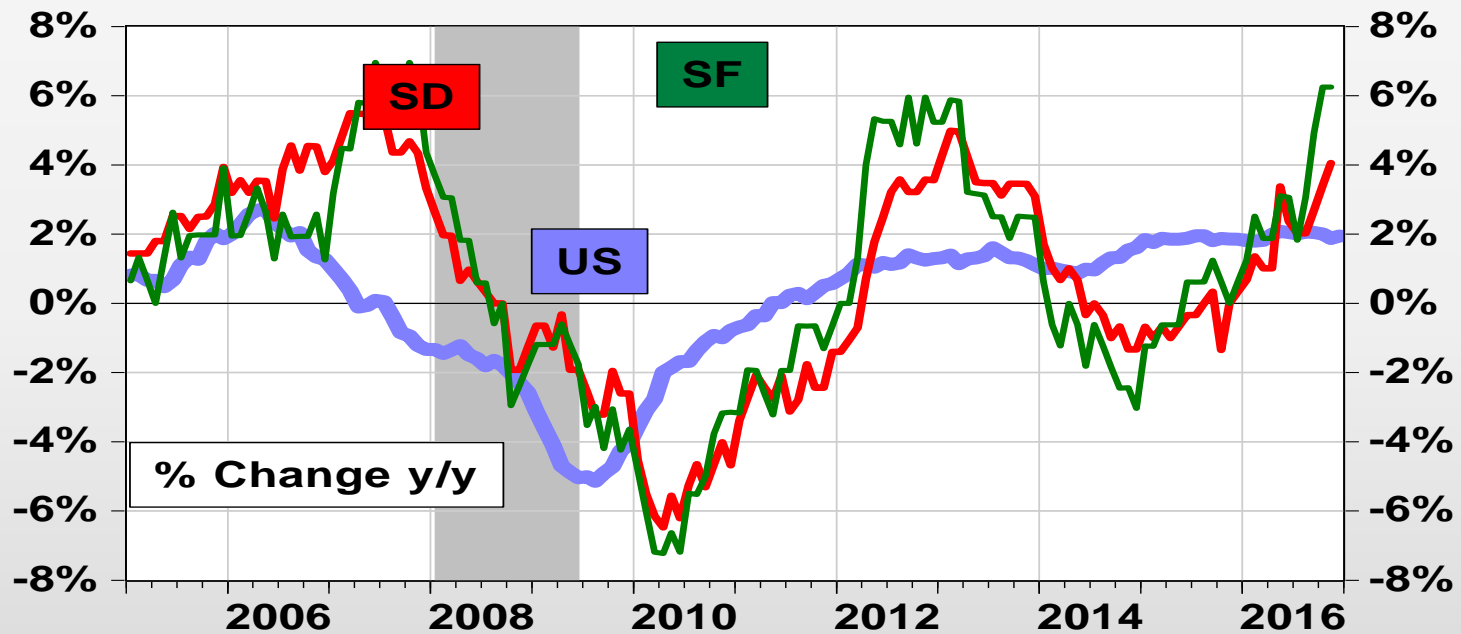
## FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

# Note SD and SF Different Than US

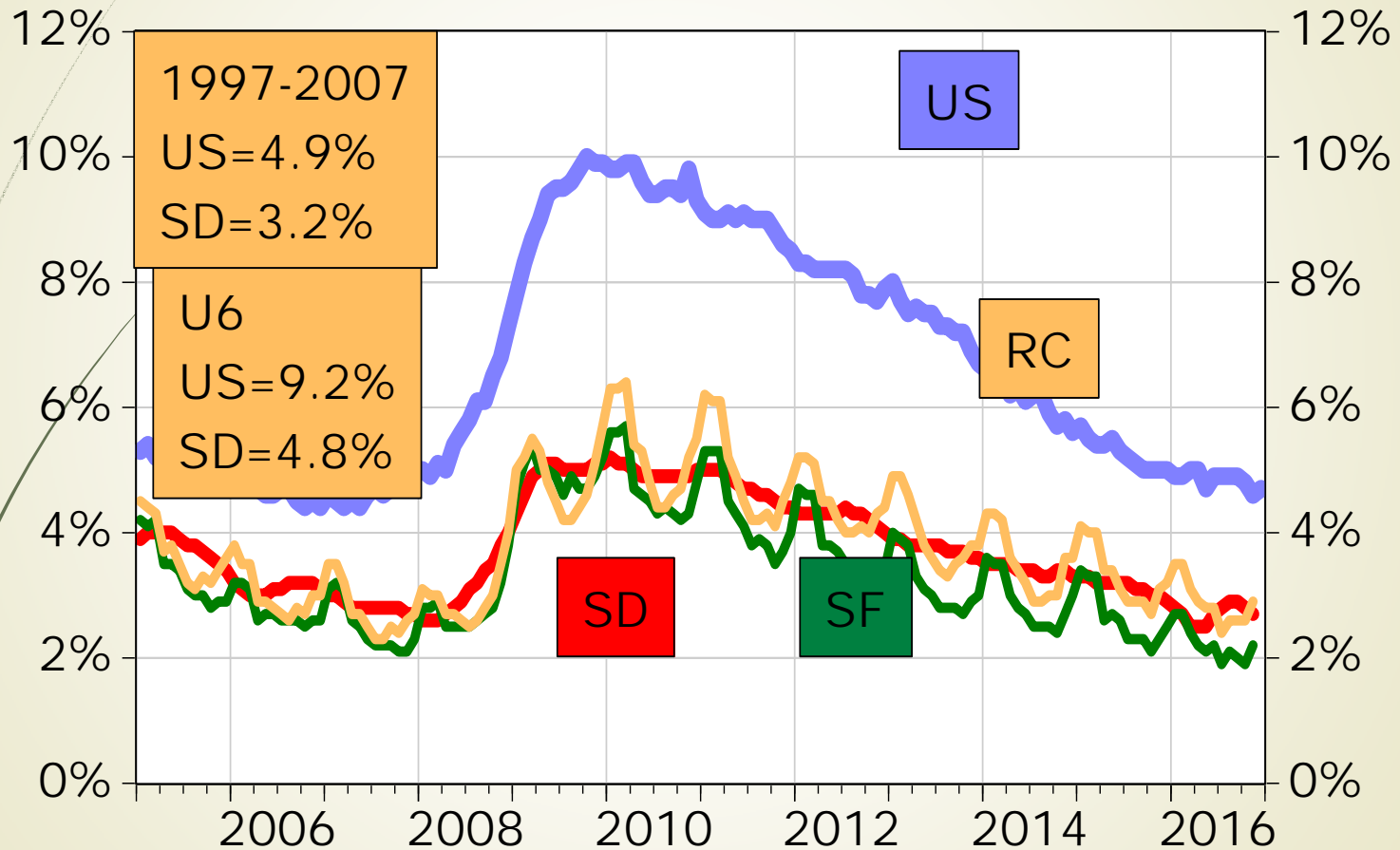
## FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

US 4.4% SD 2.8% SF 2.3% RC 2.9%

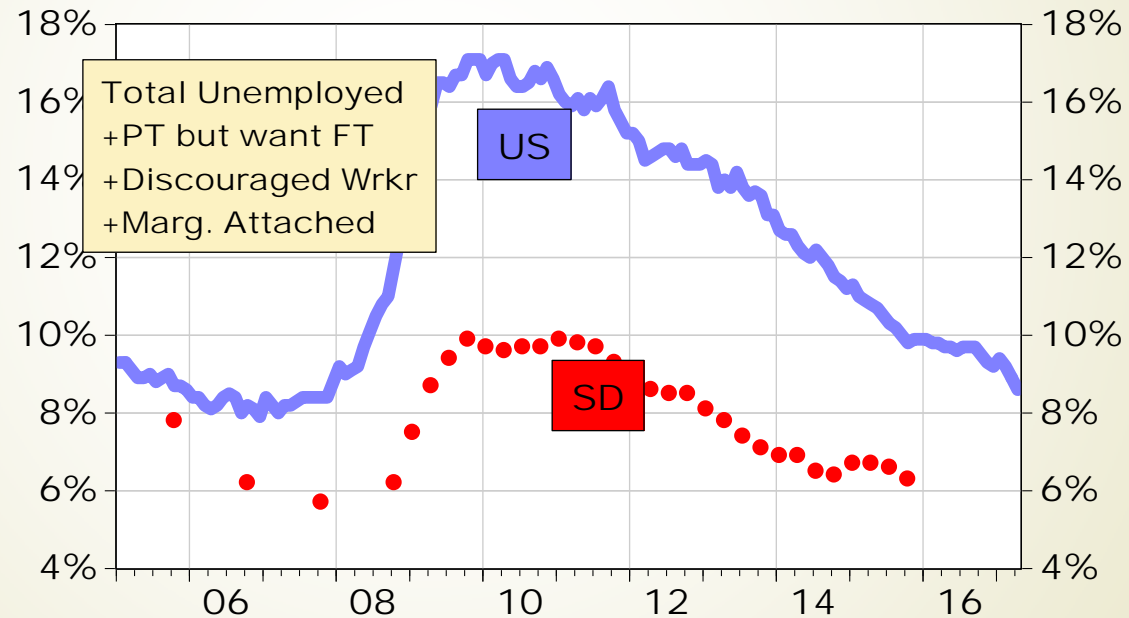
## UNEMPLOYMENT RATES



Source: BLS

# Definite Improvement SD Lowest of All States

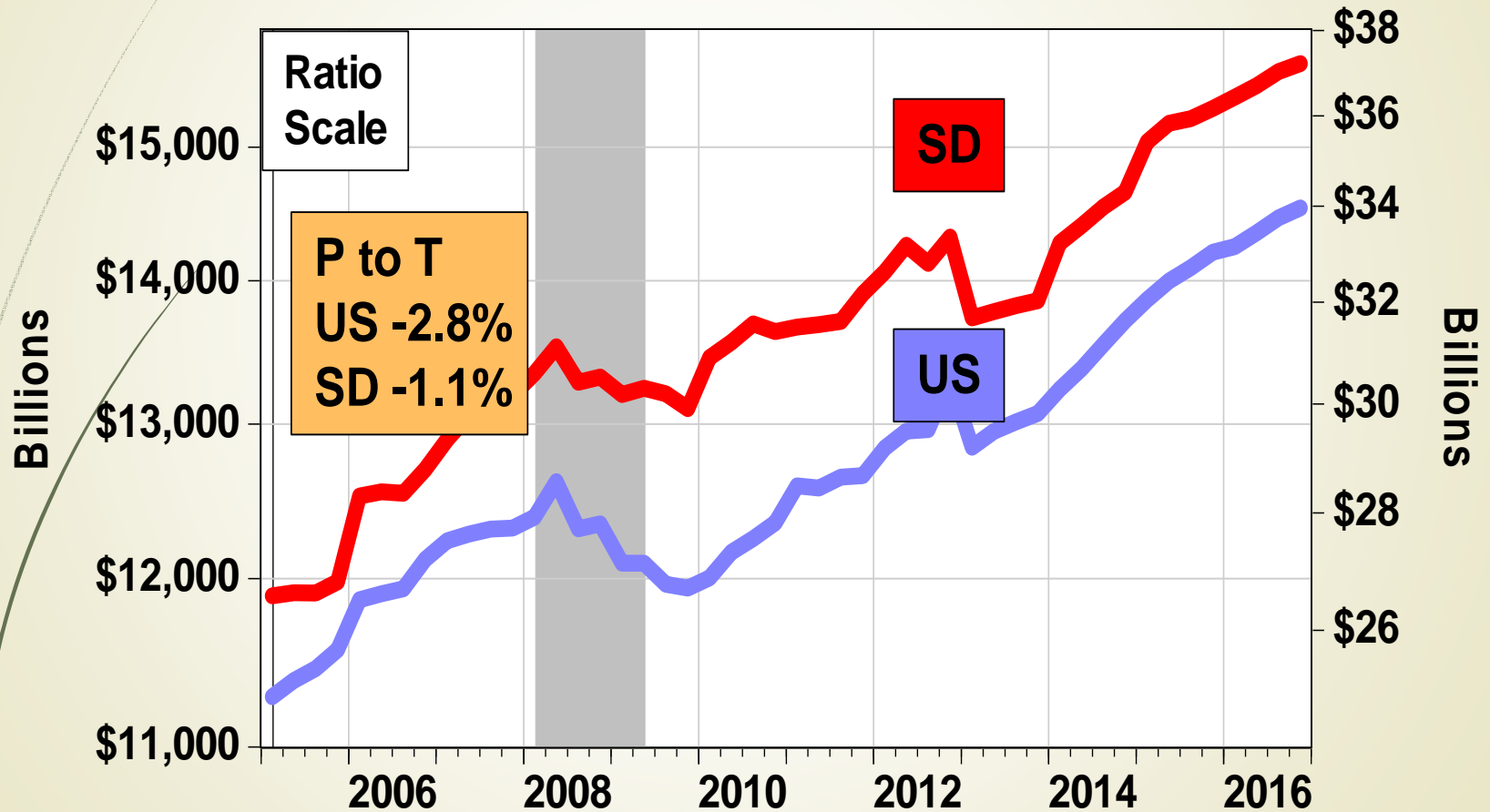
U6 UNEMPLOYMENT RATE



Source: BLS

# Continued Real Growth

## NONFARM PERSONAL INCOME (2009 \$)

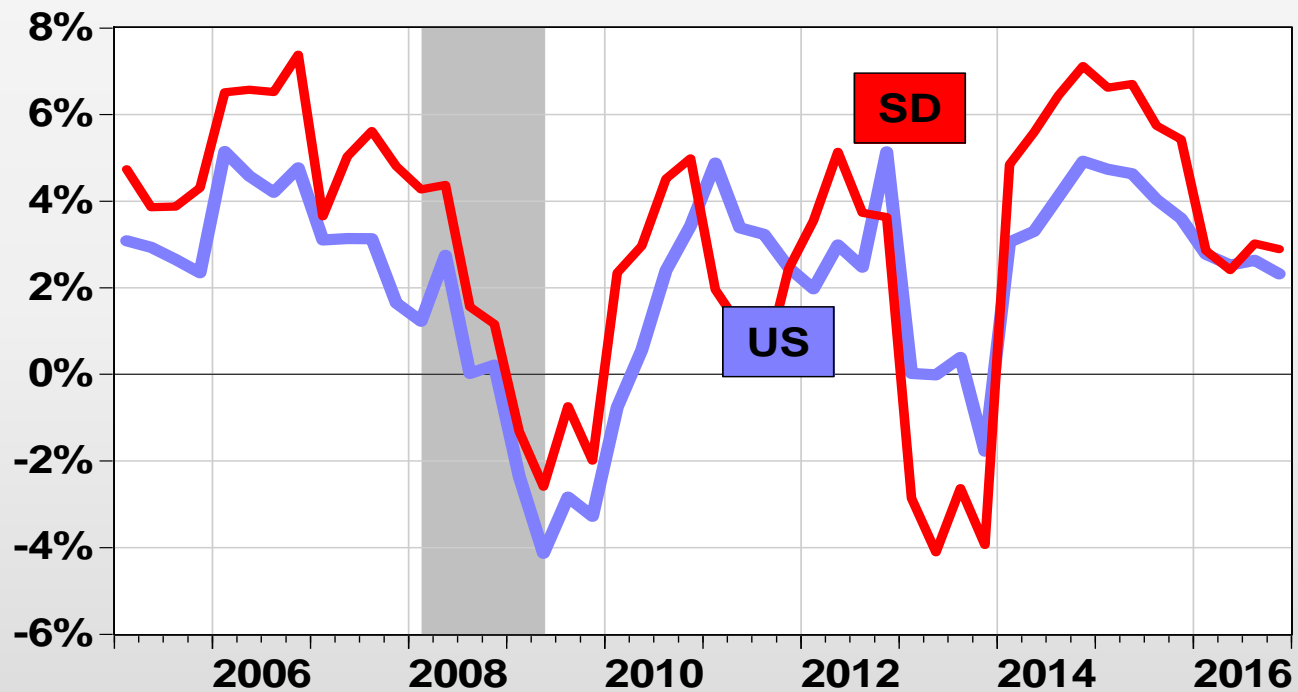


Source: BLS



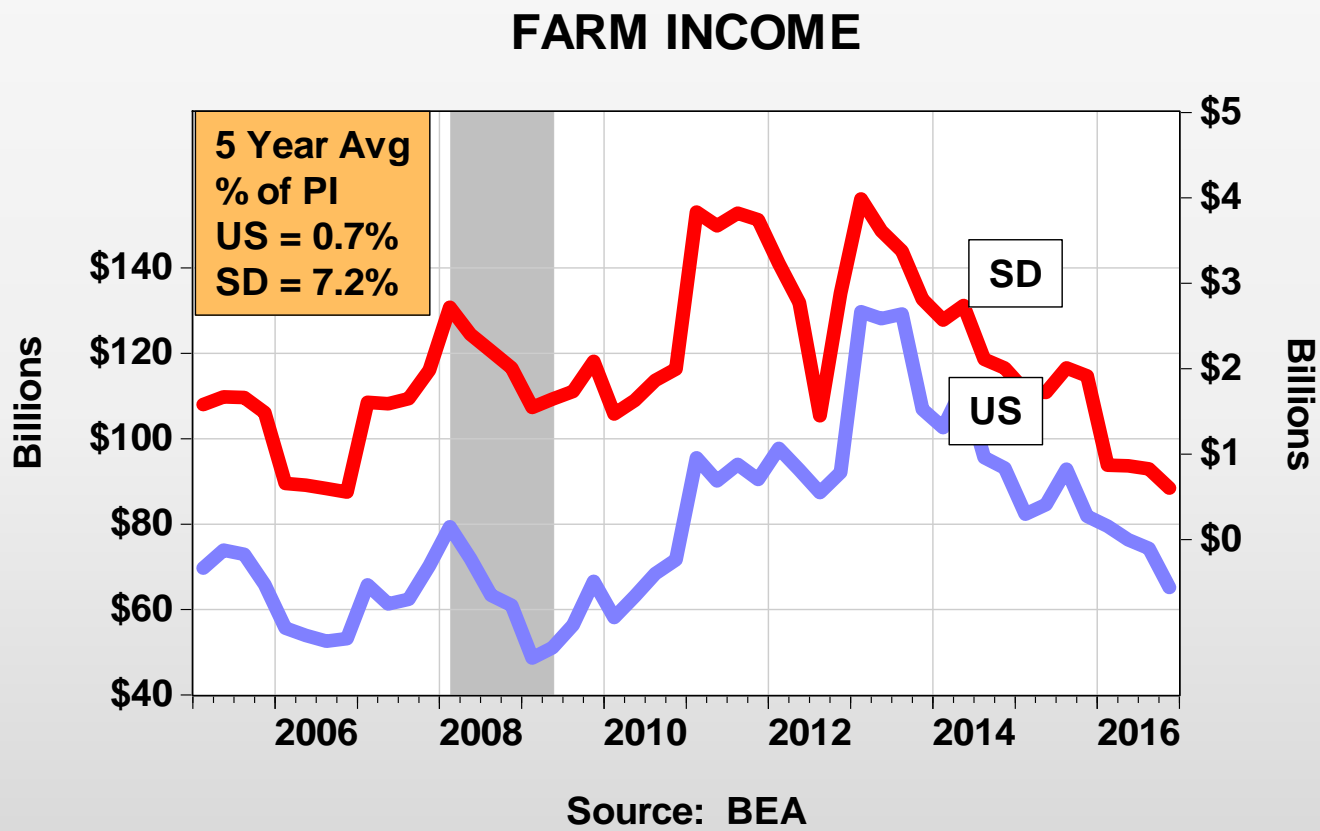
# US and SD Track

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



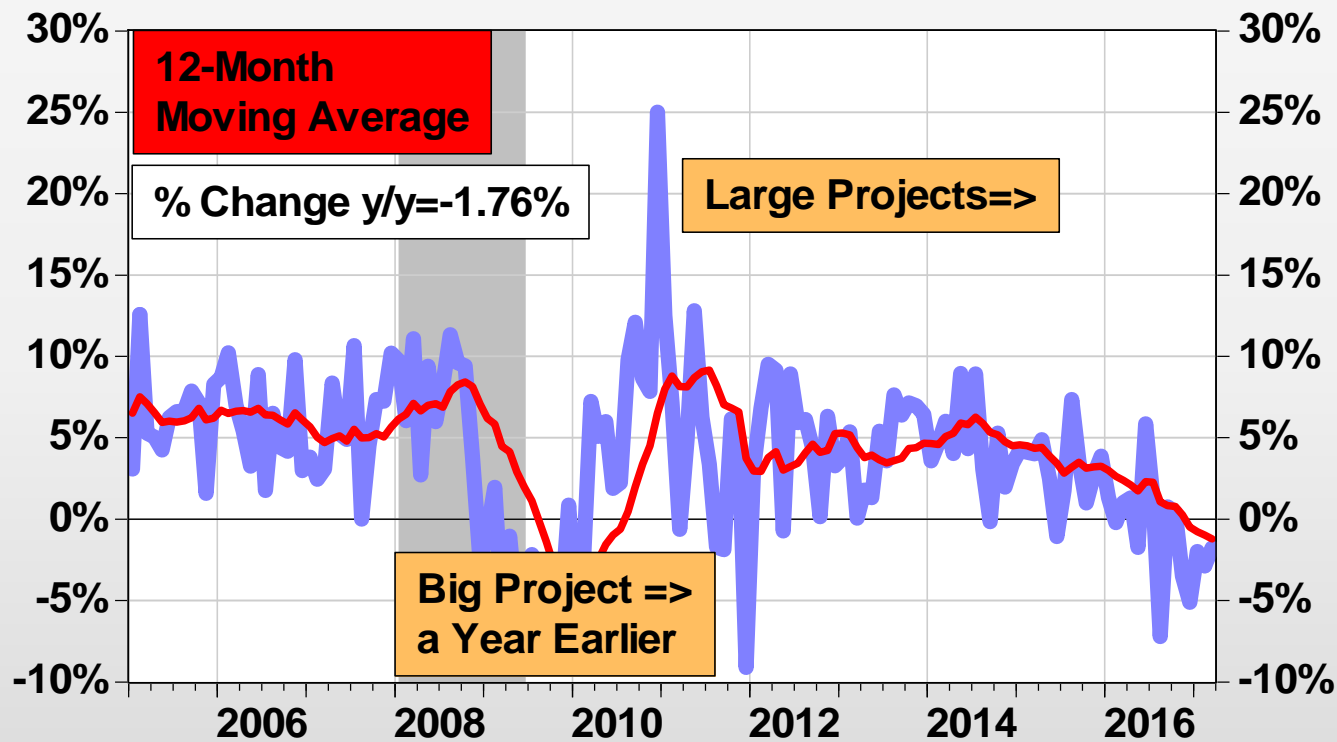
Source: BEA

# Farm Down Sharply - High Prodn Low Prices



# Low Inflation, Poor Farm Economy, and Online Sales

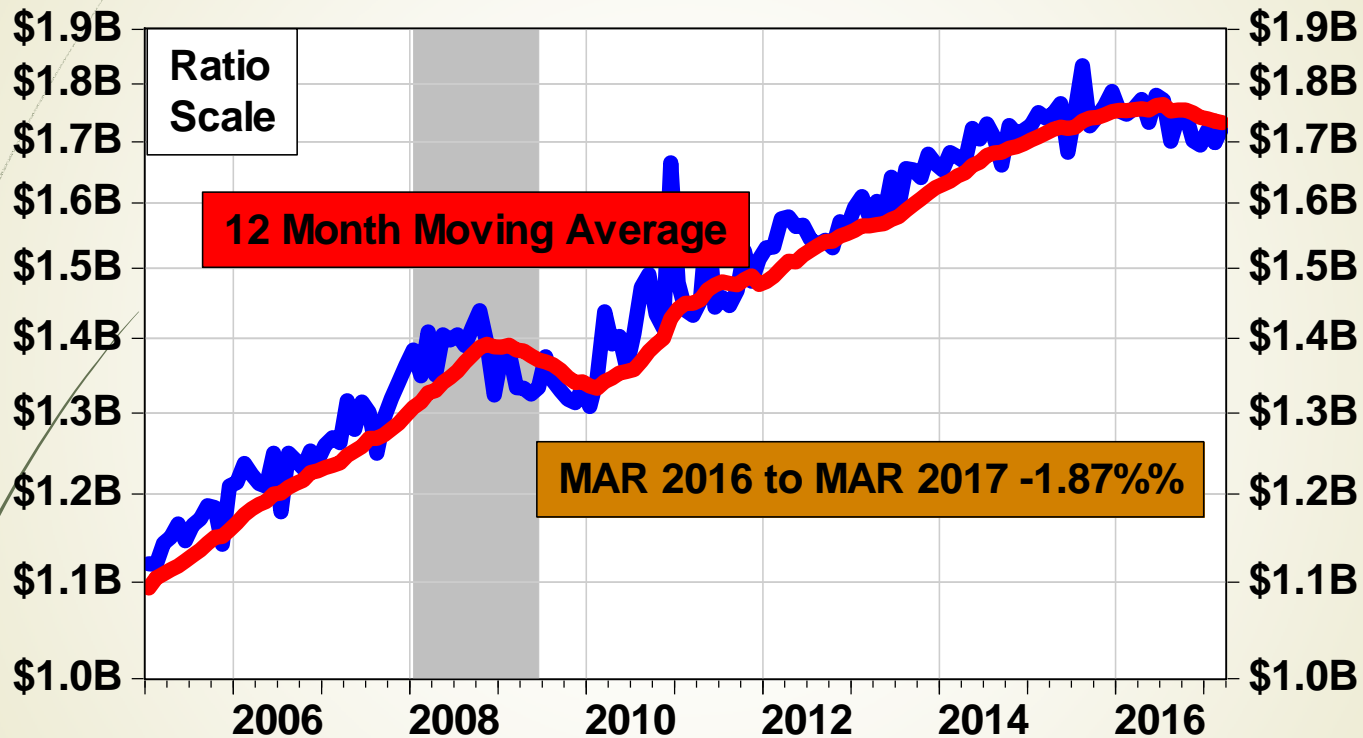
## SD TAXABLE SALES



Source: SD Department of Revenue

# Negative Growth

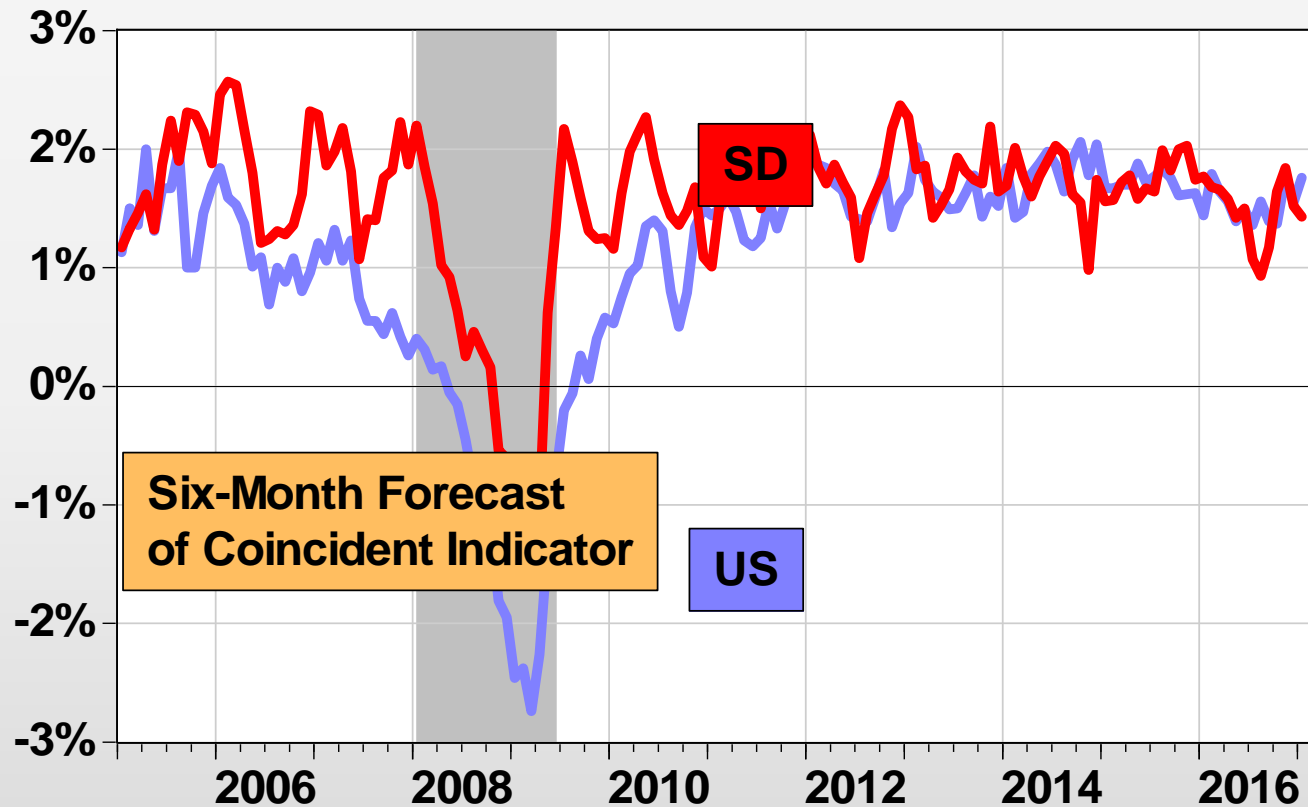
## SD Taxable Sales - Seasonally Adjusted




Source: SD Department of Revenue

# Forecasting Growth: Uptick

## LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



# Mid-American States Leading Indicators - GOSS

April 2017 Index > 50 Growth

Overall 68.8 region high

New Orders 69.2

Sales 71.7

Delivery lead time 61.6

Inventories 70.9

Employment 70.7

“Creighton’s survey results over the past several months indicate that South Dakota job and economic growth will continue to exceed the regional and national averages through the third quarter of this year,” said Goss.

# INEQUALITY INDEX

One way of measuring inequality is the ratio of the average income of the top 1% to the bottom 99%.

$$\text{Inequality Index} = \frac{\text{Avg income Top 1\%}}{\text{Avg income bottom 99\%}}$$

$$\text{US} = \$1,153,432 / \$45,567 = 25.3$$

$$\text{SD} = \$1,025,091 / \$53,213 = 19.3$$

# INCOME INEQUALITY - STATE

Rank	State	Avg inc top 1%	Avg inc bottom 99%	1%/99% Ratio
-	US	\$1,153,432	\$45,567	25.3
25	SD	\$1,025,091	\$53,213	19.3
1	NY	\$2,006,632	\$44,163	45.4
2	CT	\$2,402,339	\$56,445	42.6
3	WY	\$2,118,167	\$52,196	40.6
14	UNION SD	\$4,106,670	\$85,543	48.0
1	TETON WY	\$28,163,786	\$120,884	233.0
3062	SHANNON SD	\$174,433	\$32,860	5.3
1274	CLAY SD	\$557,760	\$39,343	14.2

Source: Economic Policy Inst. based on 2013 IRS data



# Conclusions

**SD economy growing at moderate rate**

**SF economy growing at faster rate**

**US economy growing slowly**

**Only 20% chance of recession**

The End

