



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

May 17, 2018

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Outline of Presentation



Overview of US economy

US economy forecast

SD economy

Summary & Conclusions

US Forecast

IHS MARKIT Forecast – May 8, 2018

Real GDP

Consumption,

Housing Starts

Federal Budget

Interest Rates and Inflation



GDP

Good growth in 2018 and 2019 at 2.8%. In 2020 growth slows to 1.9%.

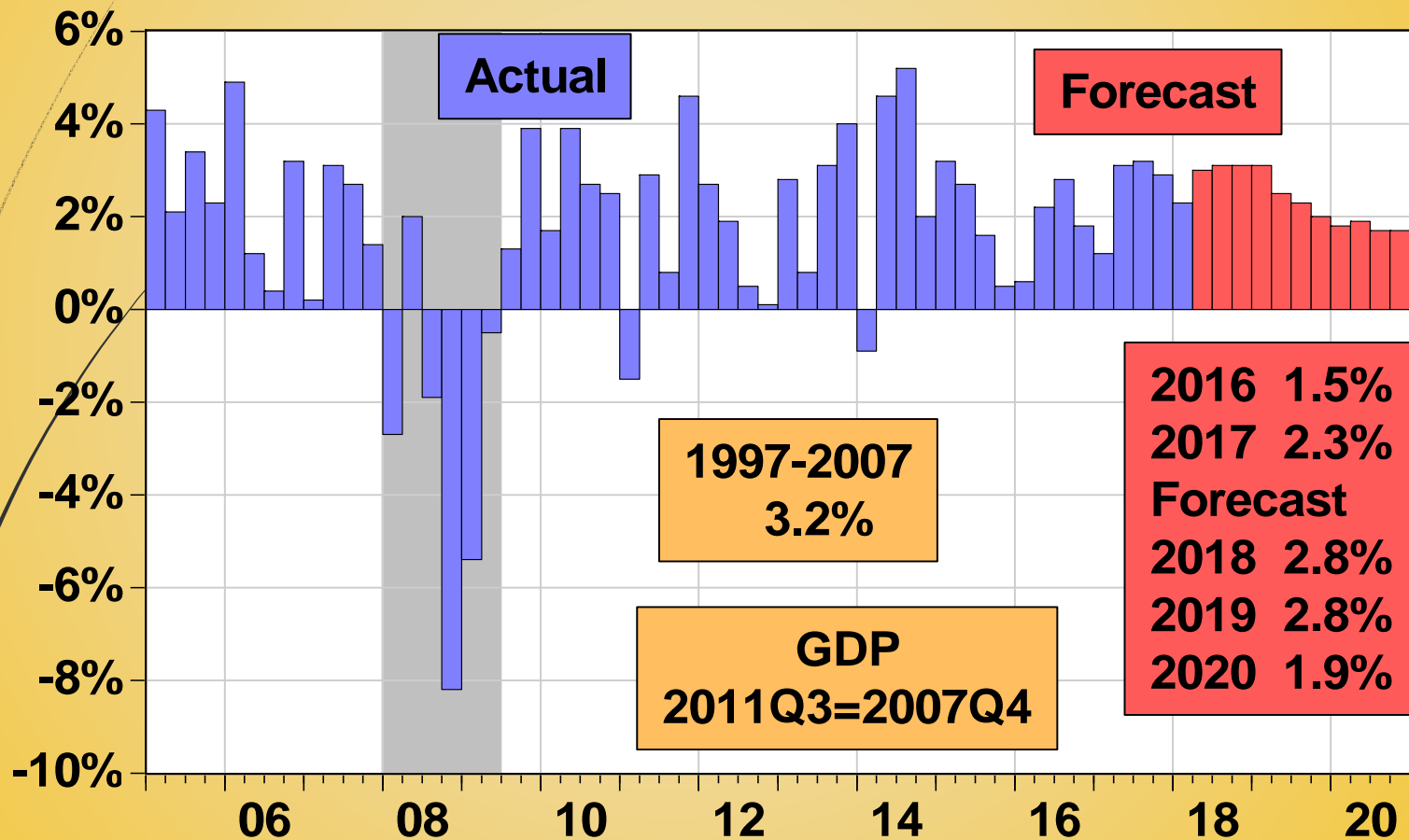
Consumer spending will continue to contribute to growth supported by improving HH finances, lower taxes, strong labor market, real income increases, and rising home prices.

Diluted tariffs will have little impact on budget or forecast.

Business fixed investment and some strength in the housing market, mainly multi-family.

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

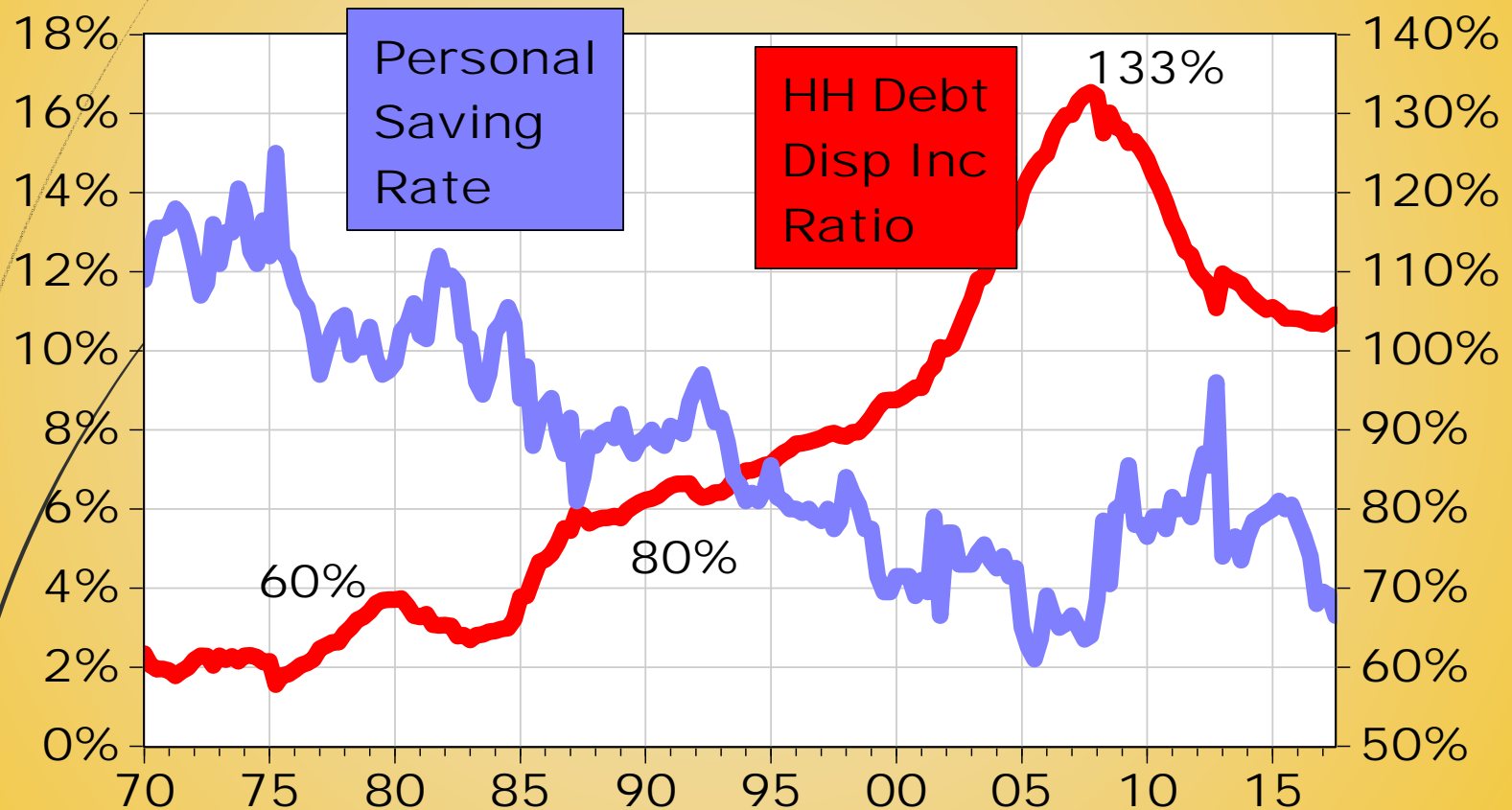
As previously mentioned, consumer fundamentals looks strong.

Projected growth is at 2.4% through 2020.

University of Michigan's Consumer Sentiment and the Conference Board's Consumer Confidence Index remain close to historical highs.

Deleveraging Plateaus

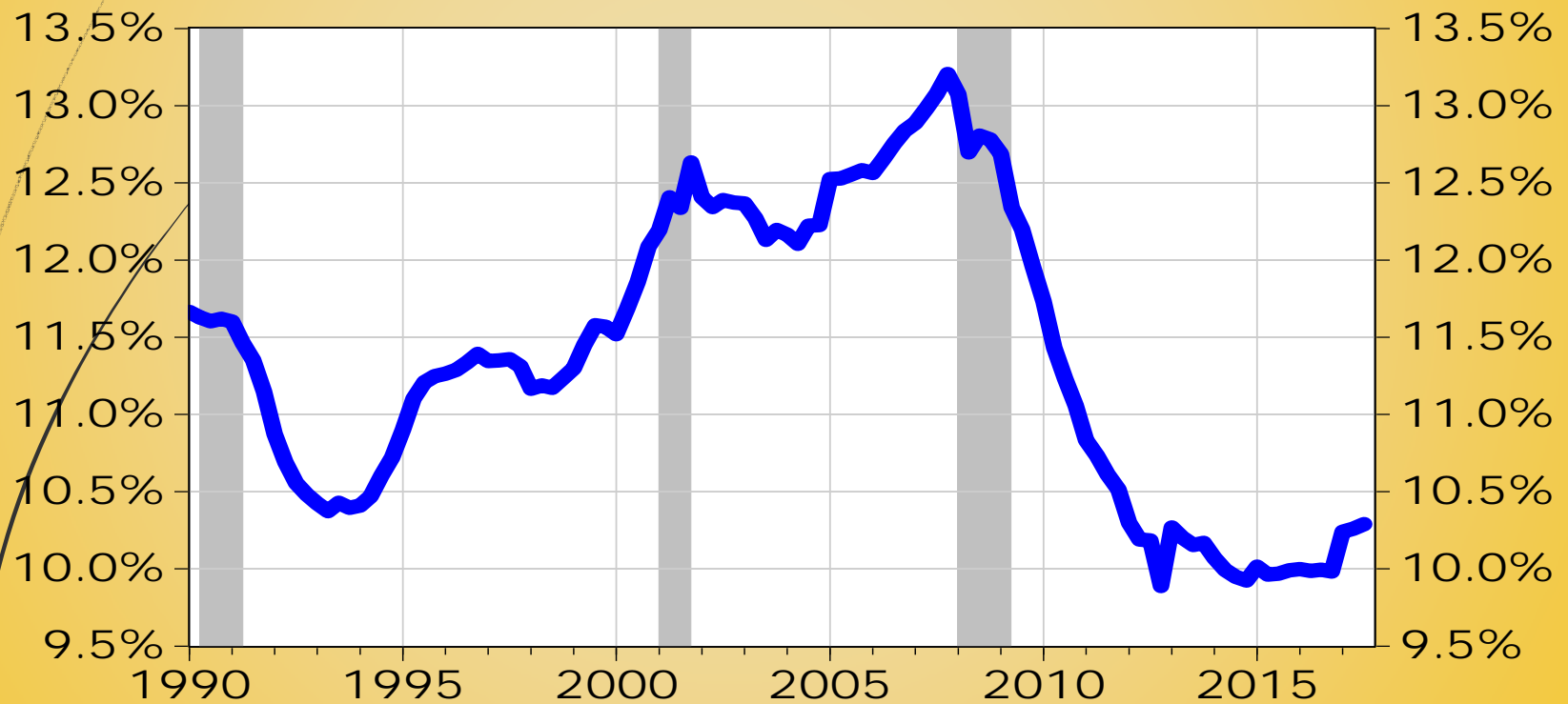
HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Record Low Debt Service

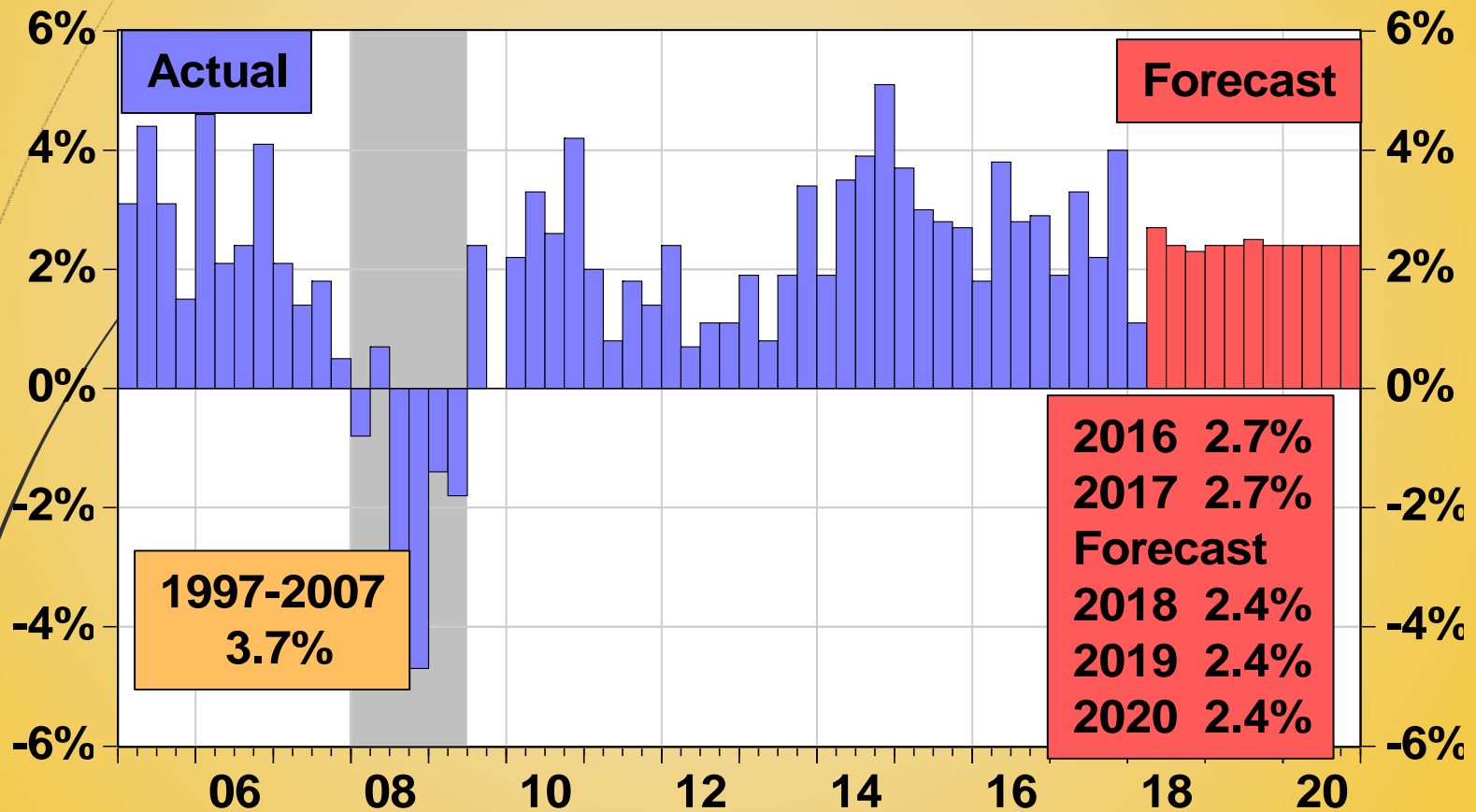
HOUSEHOLD DEBT SERVICE
AS % OF DISP. PERS. INC.



Source: BEA

Slower Growth Ahead

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

Fixed business investment showing solid growth.

2018 5.9% 2019 6.0% 2020 4.0%

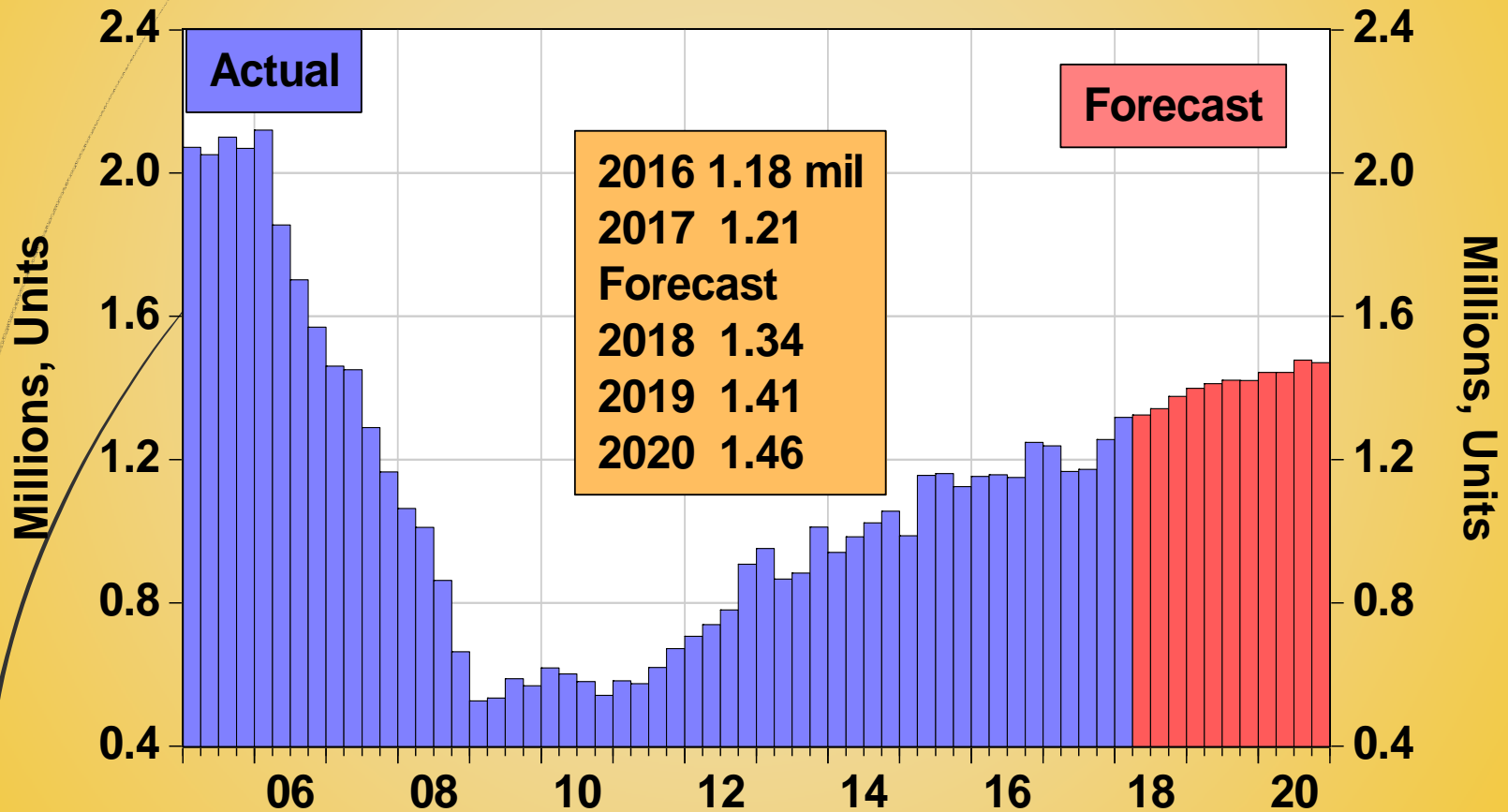
Growth supported by TCJA and expanded expensing.

Low inventories in housing market will drive prices higher. Recent increases of 7.3%.

In spite of tight housing market, most upturn in multi-family housing.

Recovery Continues

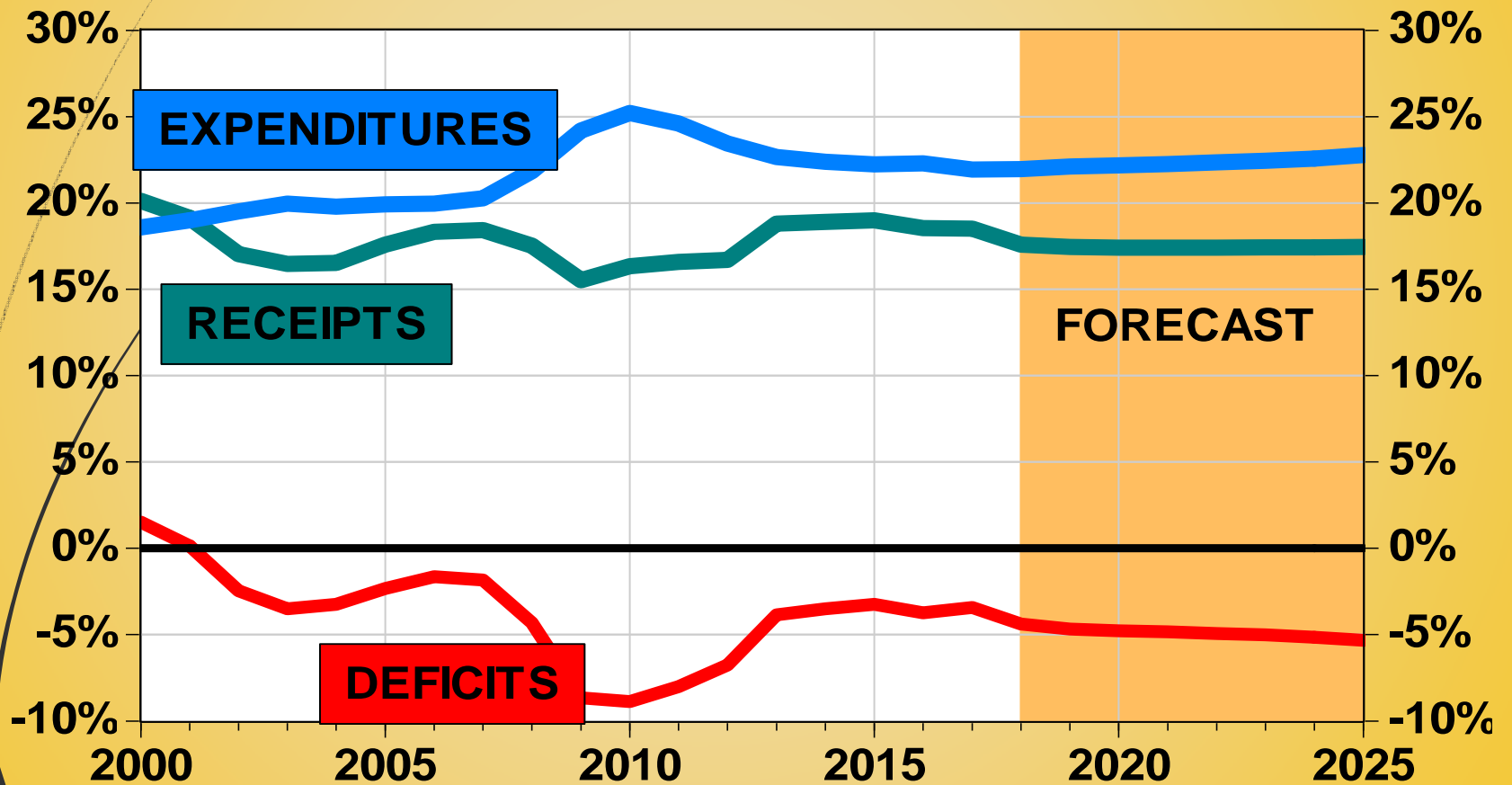
HOUSING STARTS



Source: US Census and IHS

Government Sector

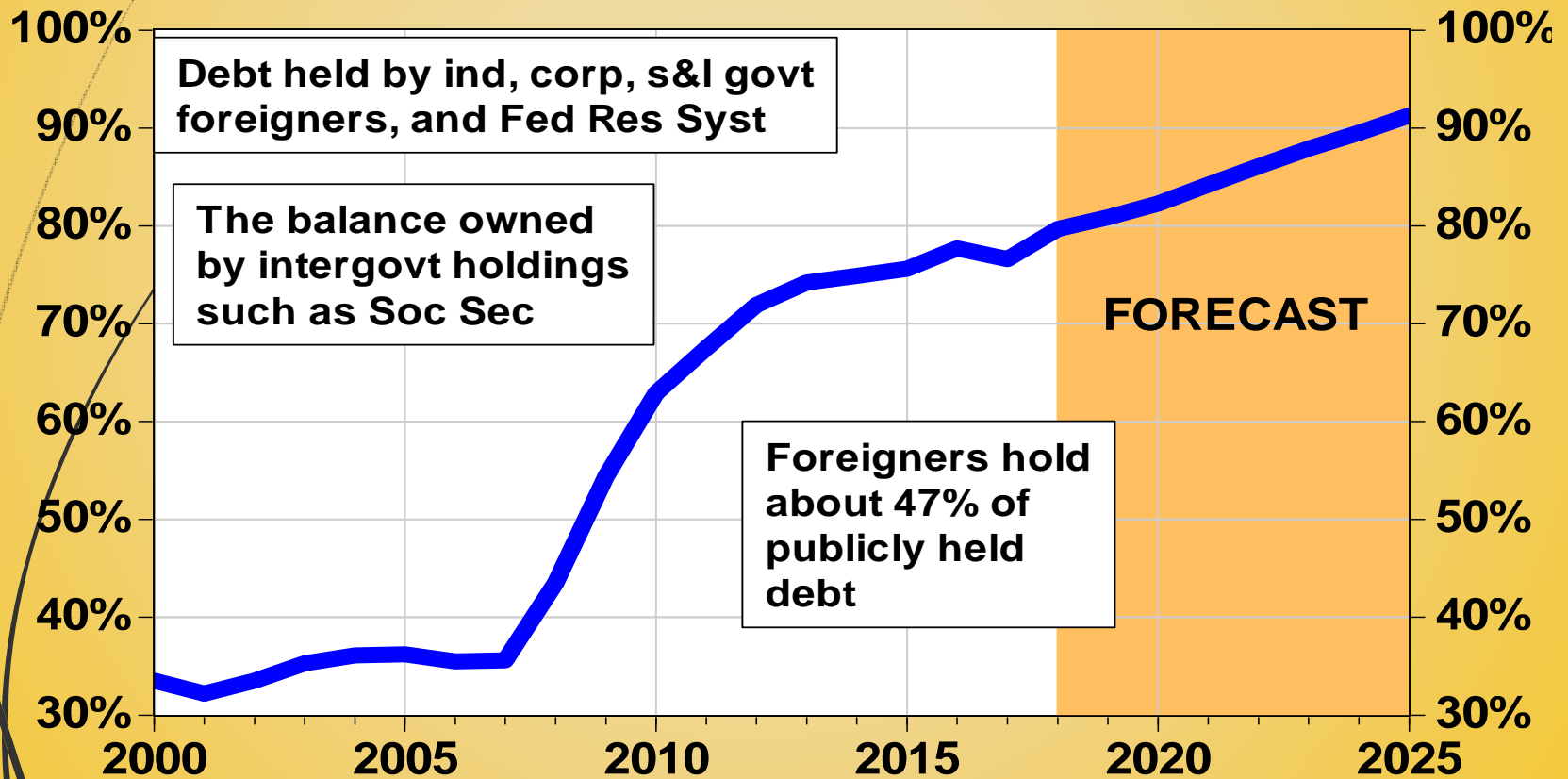
FEDERAL GOVERNMENT AS % OF GDP



Source: IHS

Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



The Fiscal Picture

The CBO projects real GDP growth at 1.9% through 2028. The contribution of TCJA is only about 0.06 percentage point per year.

In other words, they do not see that the TCJA will significantly spur growth or recoup the cost of tax cuts.

IHS Markit has accepted the CBO forecast.



Foreign Sector

The \$ is expected to strengthen over the next four quarters driven by the need to finance expected deficits due to recent legislation.

World real GDP growth will peak at 3.4% in 2018 and slow to 3.3% in 2019 and 3.1% in 2020.

The major change in the May report is that both imports and exports of petroleum will be higher over the 2018-2020 period.

Employment & Unemployment

Solid gains in employment will be driven by robust growth in production.

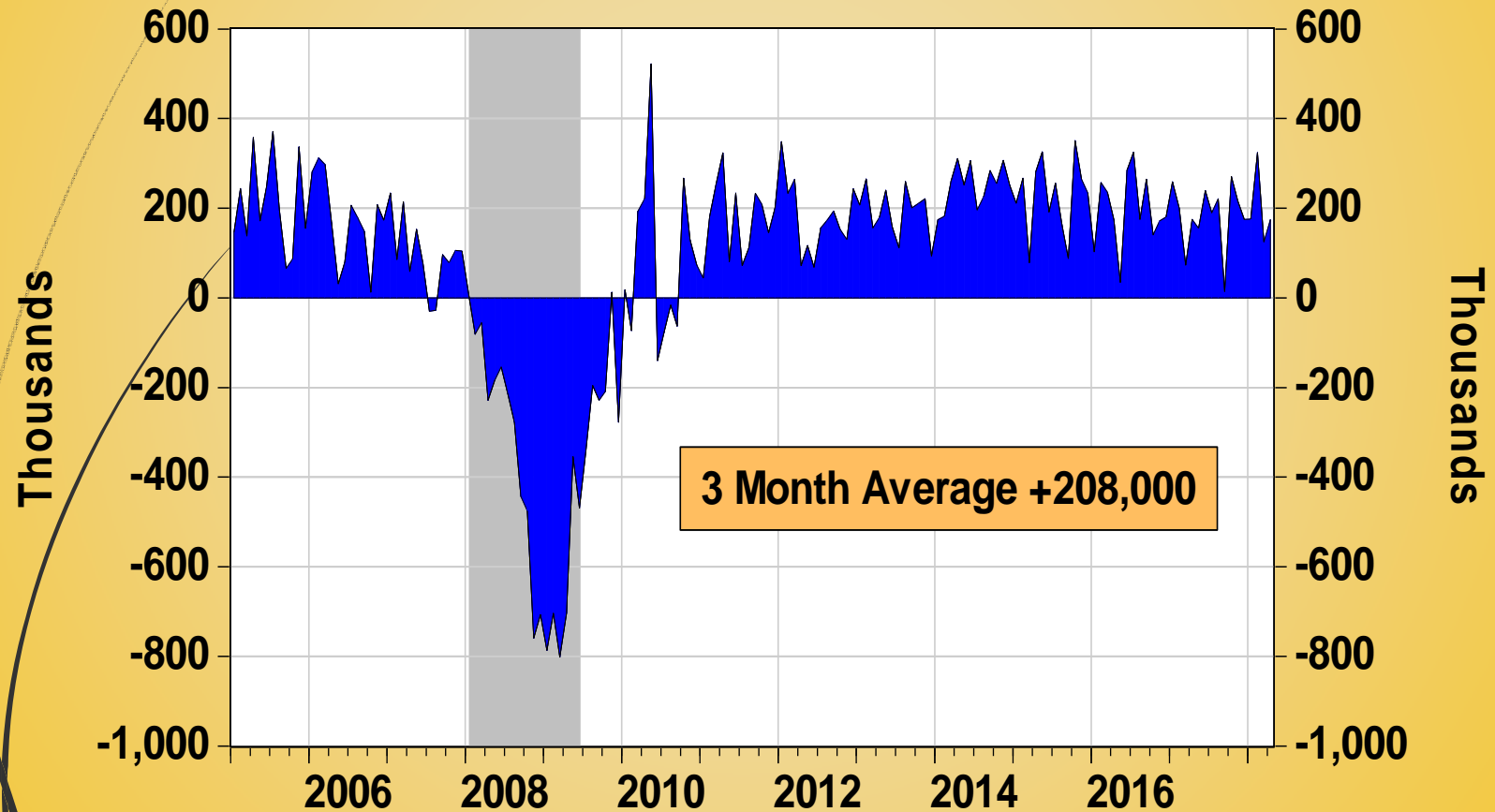
This strong growth will boost both wage growth and inflation pressures.

The employment cost index expected to increase 3.0% in 2018 and rise to 3.5% by 2021.

The unemployment rate averaged 4.4% in 2017. IHS projects 3.9% in 2018, 3.5% in 2019, and 3.7% in 2020.

Employment Growth

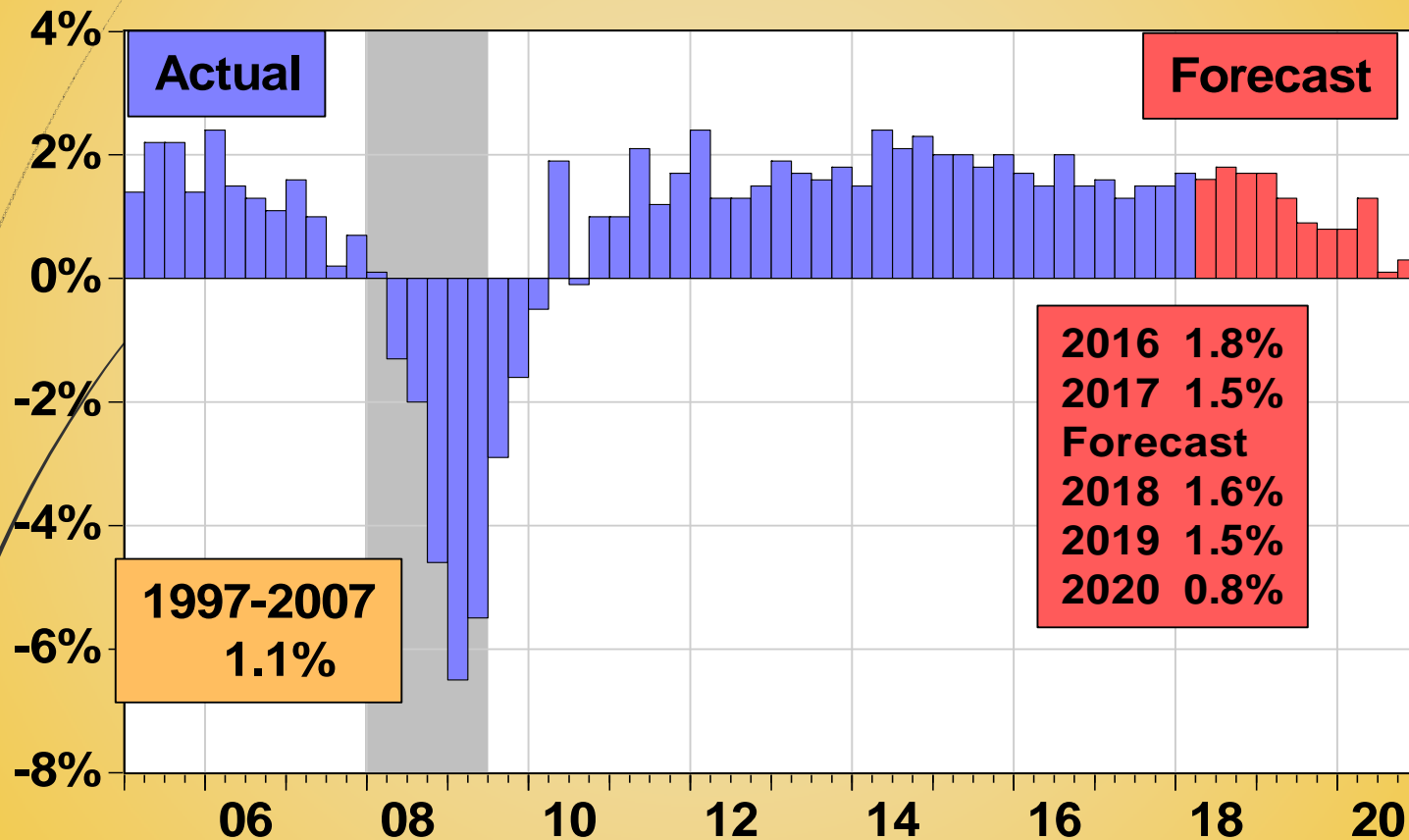
CHANGE IN NONFARM EMPLOYMENT



Source: BLS

Future Job Growth Steady

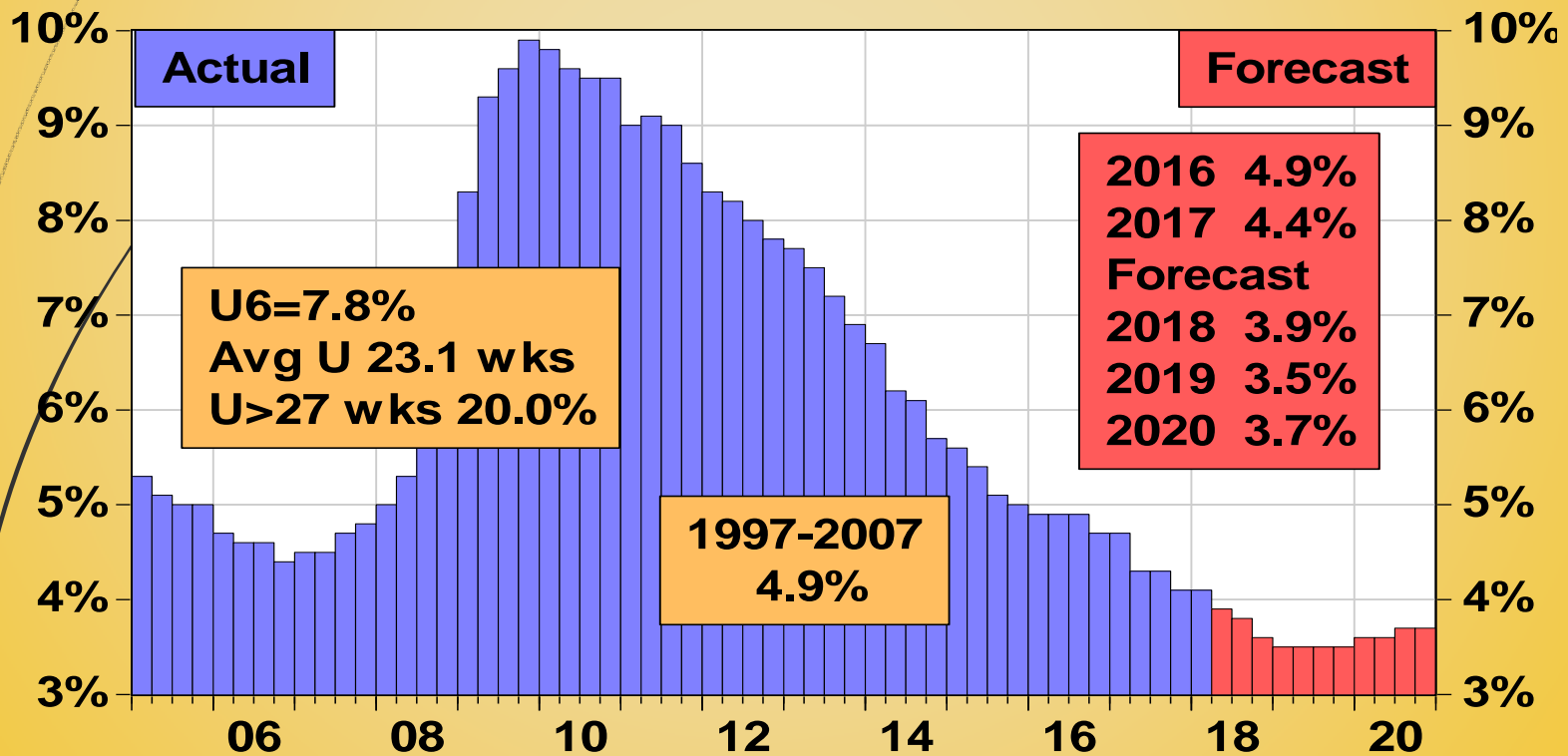
NONFARM EMPLOYMENT



Source: BLS and IHS

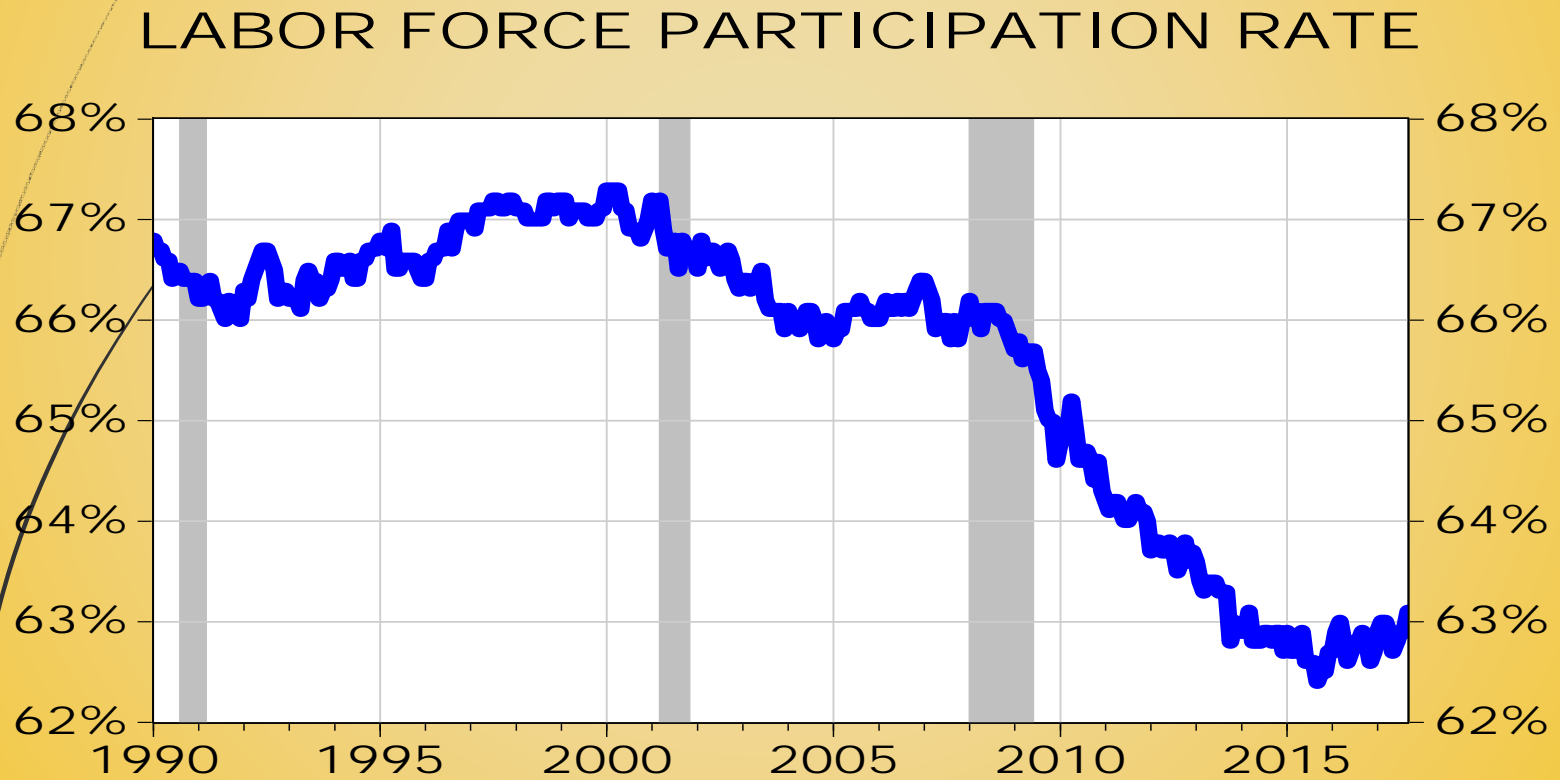
Low U3 Unemployment Rate Still Falling

UNEMPLOYMENT RATE



Source: BLS and IHS

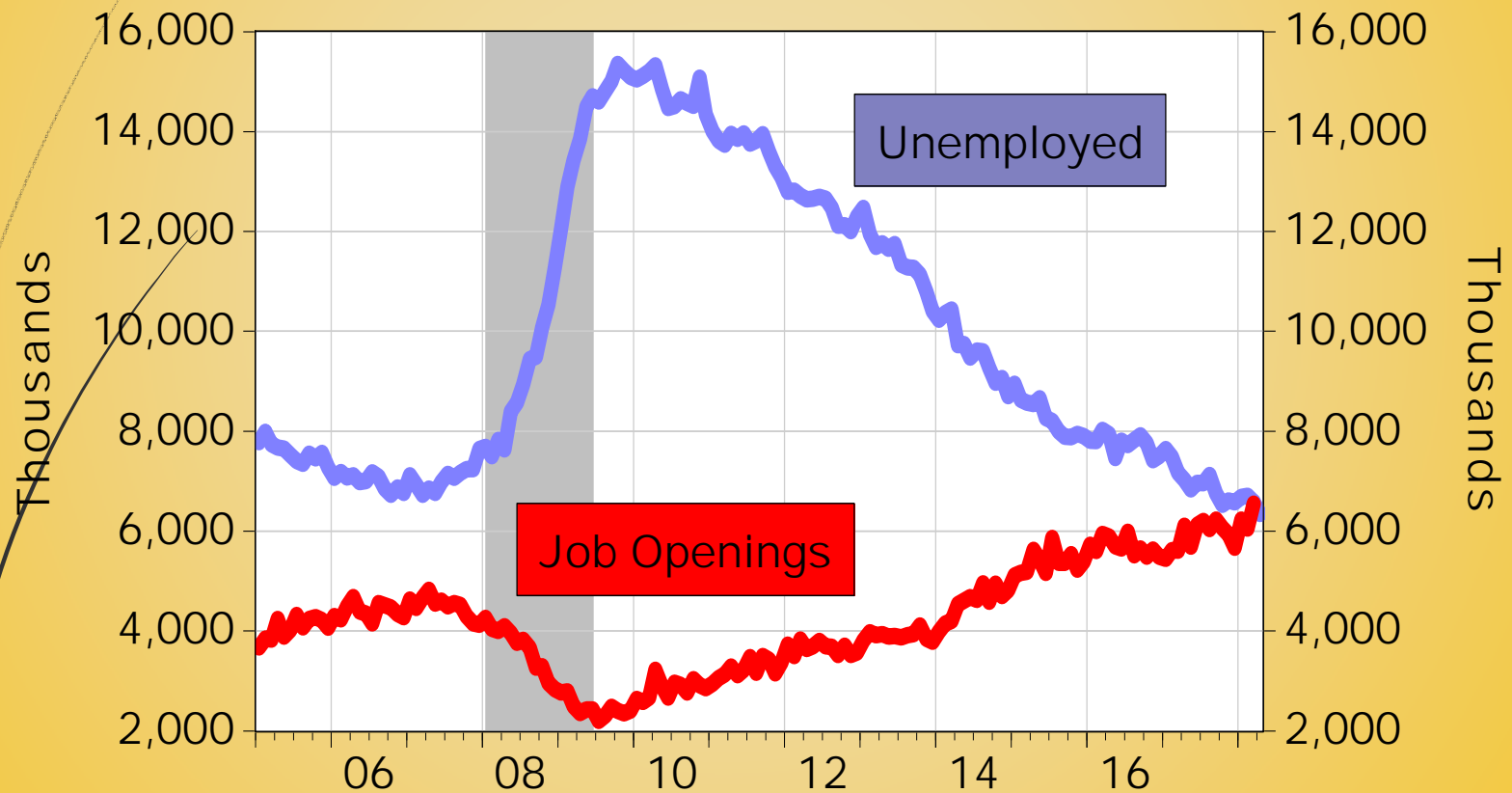
Labor Participation Rate Still Low



Source: BLS

Tight Labor Market

LABOR MARKET CONDITIONS



Source: BLS

Inflation & Interest Rates

The FED will increase the Federal Funds rate four times in 2018. Post-2018, they will increase the Federal Funds rate to 3.5% by 2020.

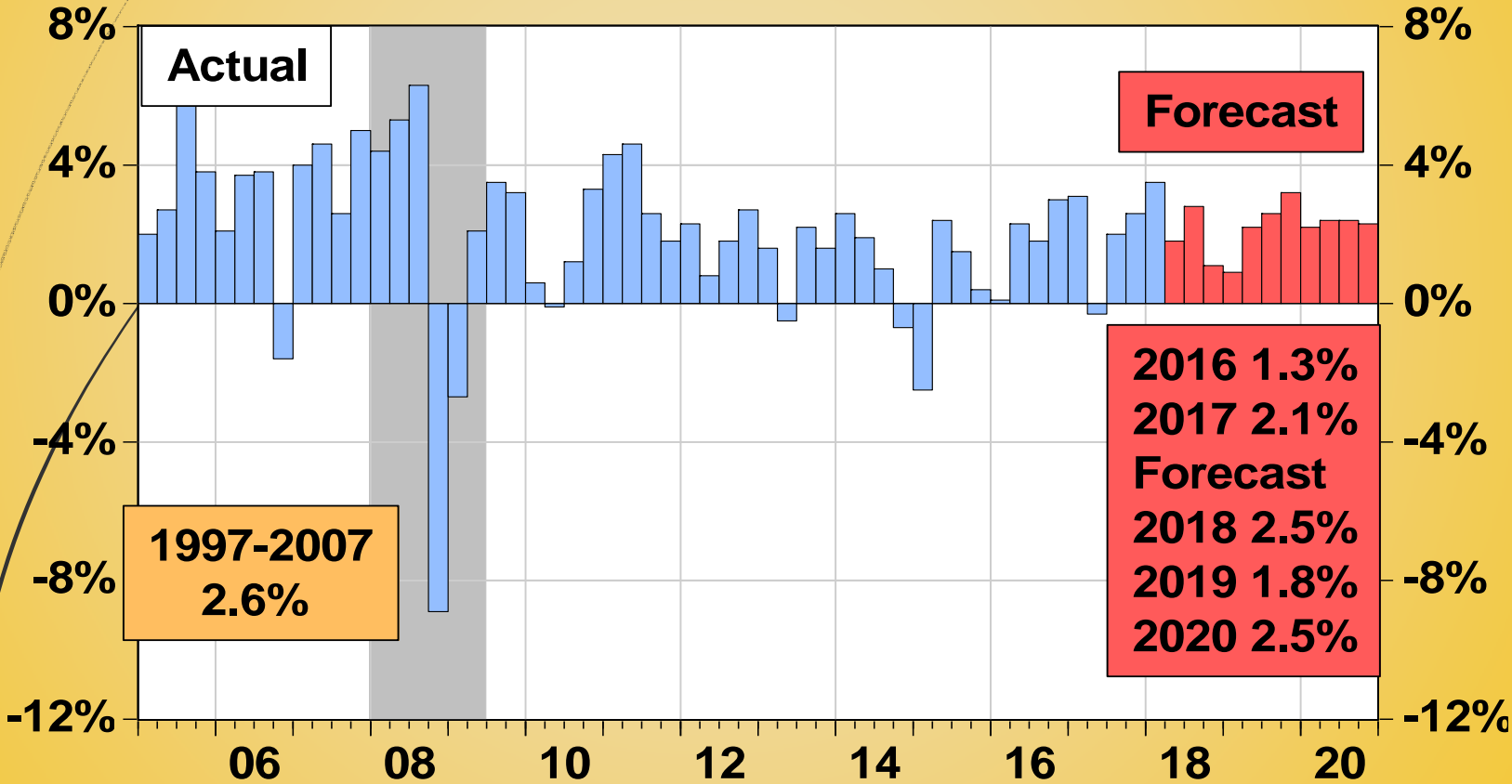
IHS Markit estimates the NAIRU at 4.6%. Therefore, they see the core PCE inflation rate at 2.3% by 2020.

Factors contributing to higher interest rates are the FED, FED balance sheet shrinkage, and higher inflation premia.

They see higher interest rates as a negative for equity valuation and expect little cumulative gains in the broad indexes over the next couple of years.

Still Very Low

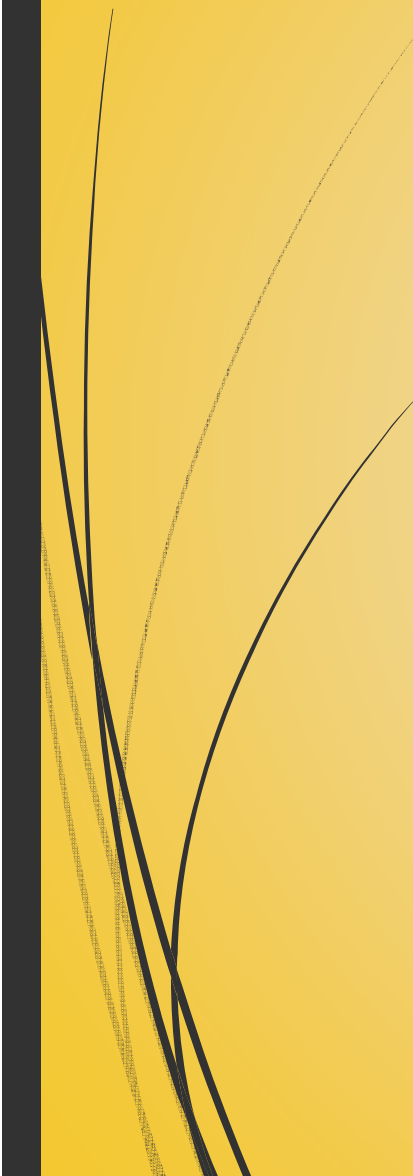
INFLATION: CPI



Source: BLS



MAJOR RISKS



Loss of confidence leading to fall in fixed residential and nonresidential investment and expansion ends in 117th month just short of 120 month record. The business sector seeing this weakness cuts back on spending on equipment, etc. (20%)

IHS MARKET FORECAST MAY 2018

Variable	2016	2017	2018	2019	2020
GDP	1.5%	2.3%	2.8%	2.8%	1.9%
Recession Probability 20%					
NA Emp	1.8%	1.5%	1.6%	1.5%	0.8%
Oil(Brent)	\$44	\$55	\$70	\$67	\$69
Housing	1.18	1.21	1.34	1.41	1.46
CPI	1.3%	2.1%	2.5%	1.8%	2.5%
Un Rate	4.9%	4.4%	3.9%	3.5%	3.7%



Wells Fargo Forecast May 2018

	2017	2018	2019	
GDP	2.3%	2.9%	2.8%	
NA EMP	182 thou	178 thou	153 thou	
CPI	2.1%	2.5%	2.3%	
10-YR T Note	2.33%	2.99%	3.40%	



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

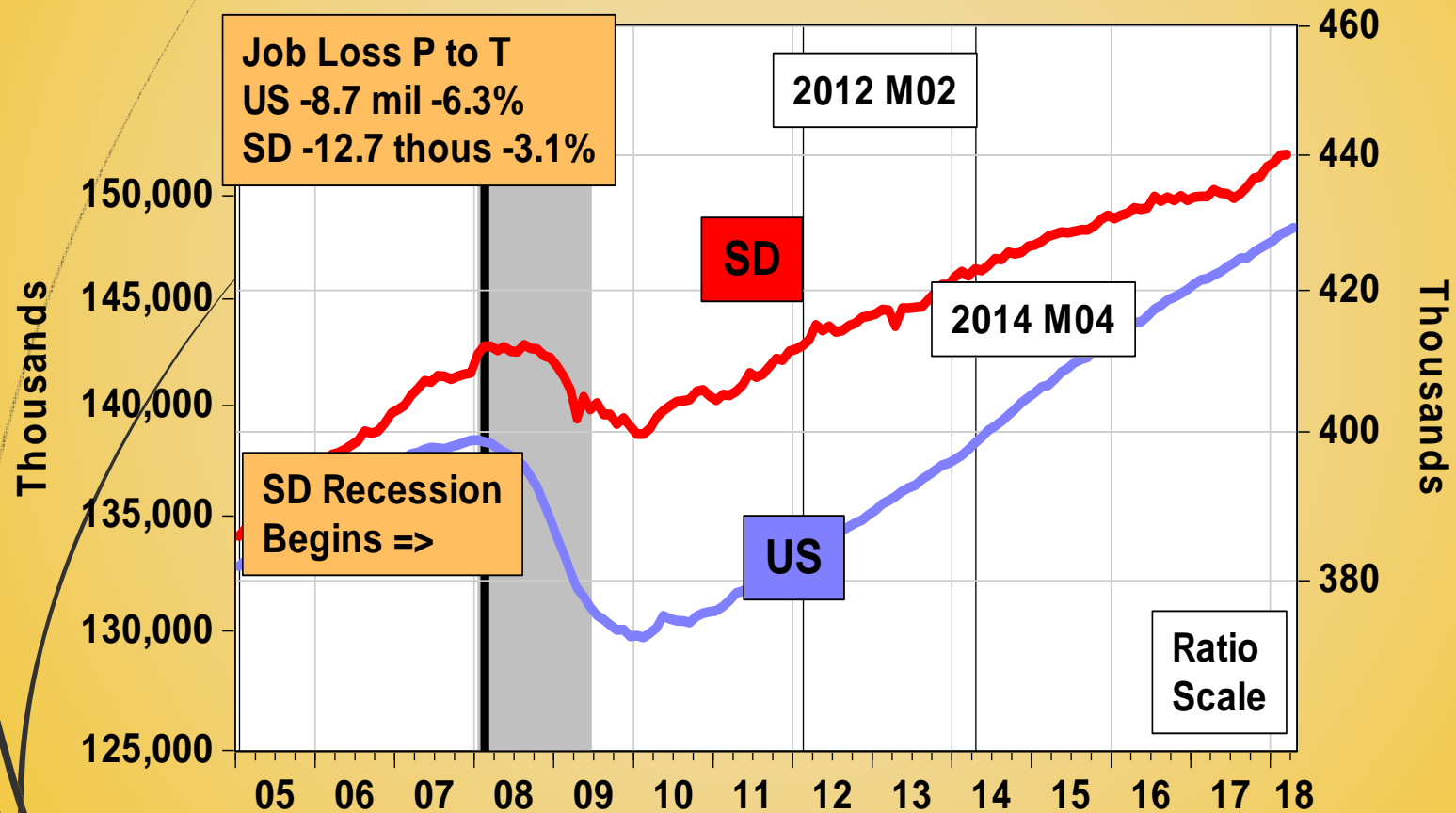
Real nonfarm personal income

Taxable sales

Leading indicator

Pick Up

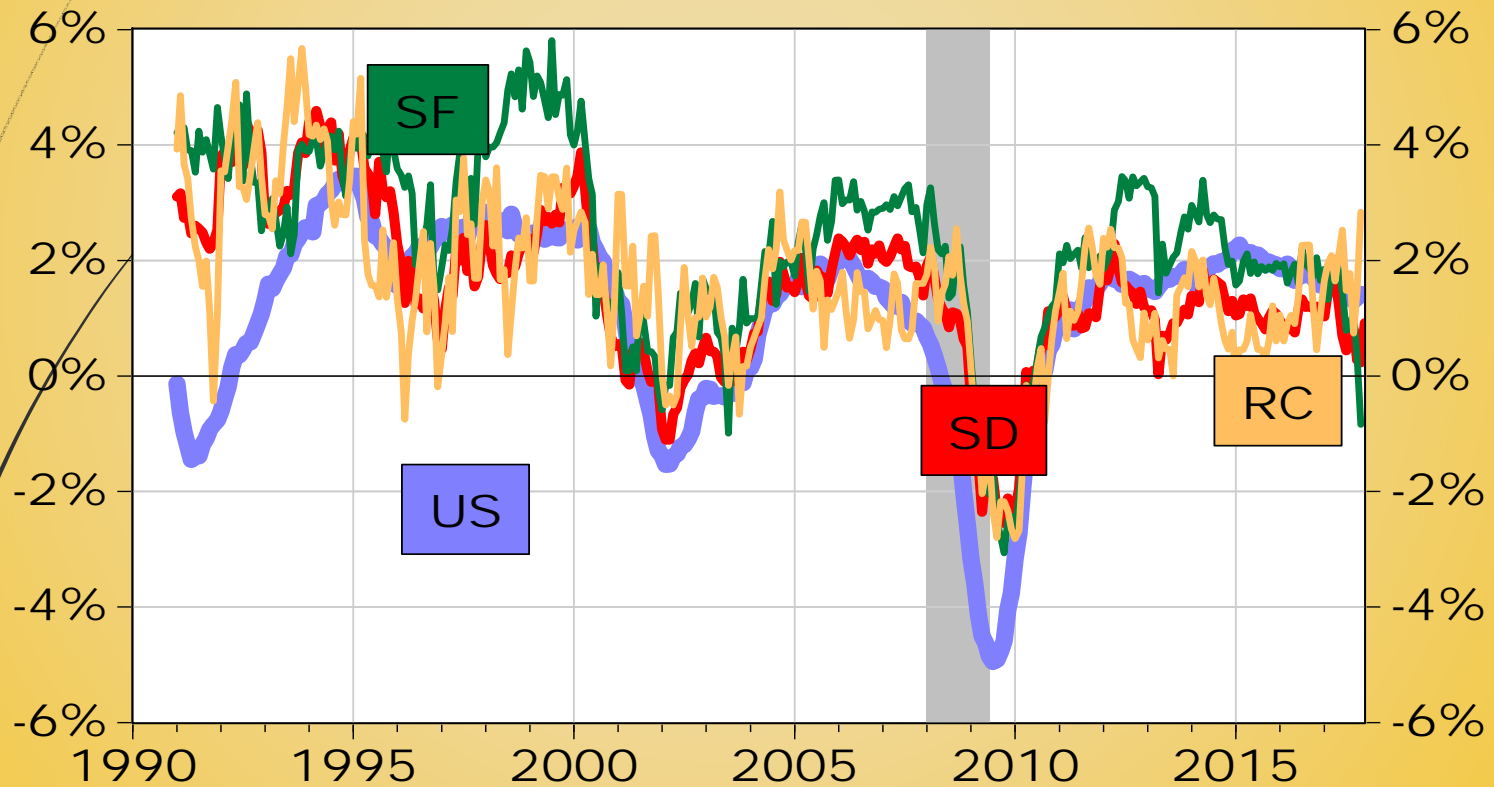
NONFARM EMPLOYMENT



Source: BLS

Divergence

NONFARM EMPLOYMENT



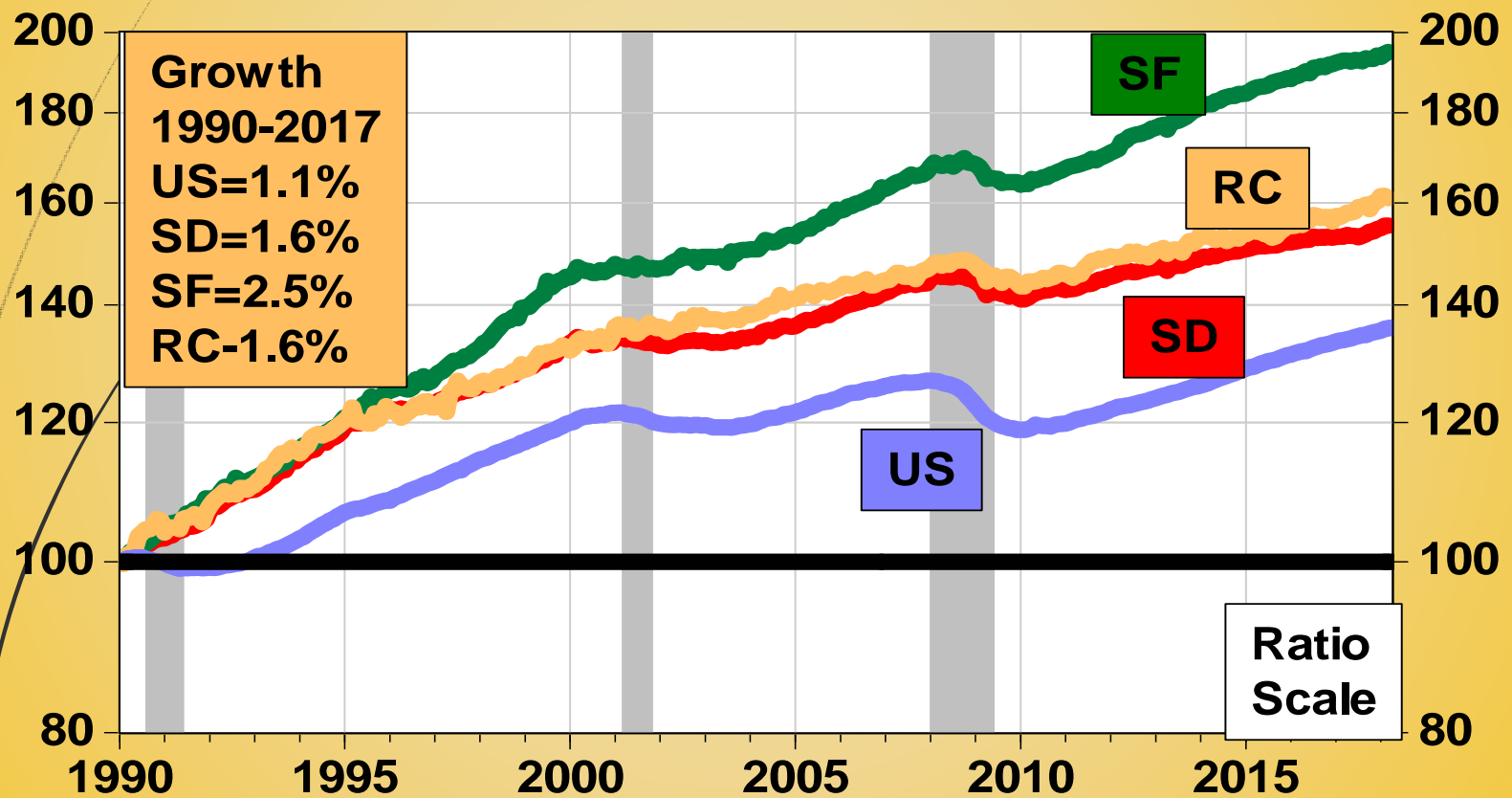
Source: BLS

ECONOMY AT A GLANCE (Employment Y/Y) MARCH

INDUSTRY	SD	SF	RC
Total NonFarm	1.5%	0.9%	2.3%
Min,log,const	0.4%	4.0%	2.2%
Manufacturing	5.6%	3.6%	0.0%
Trade,tran,util	-0.7%	-1.6%	3.8%
Information	-1.7%	-3.8%	0.0%
Finance	1.7%	0.0%	2.6%
Prof,business	3.2%	2.0%	3.8%
Educ,health	1.8%	1.3%	2.5%
Leisure,hosp	0.6%	0.0%	-1.1%
Other services	1.2%	3.4%	0.0%
Government	1.5%	2.1%	3.5%

SF Outpaces the Rest

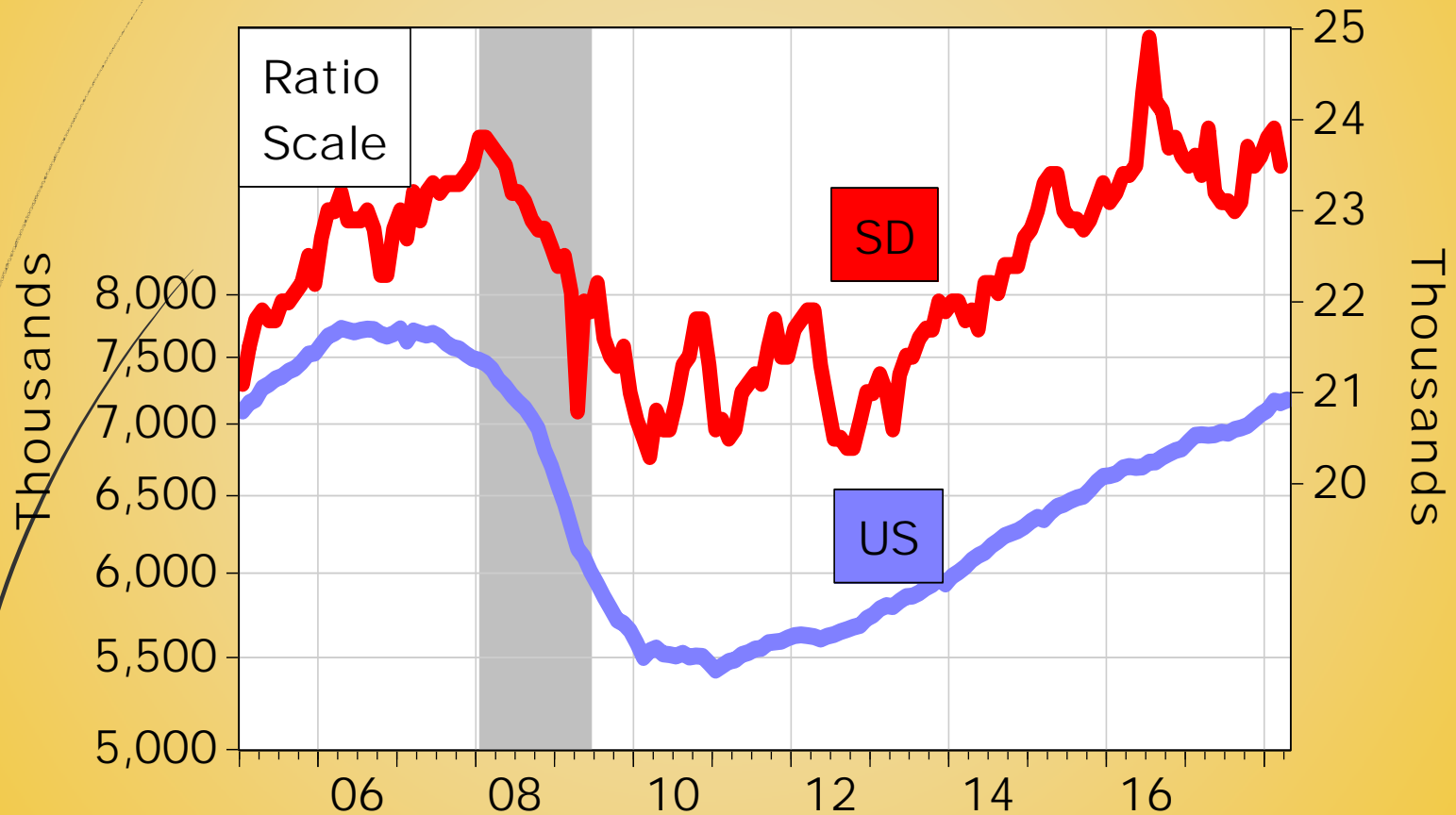
NONFARM EMPLOYMENT



Source: BLS

Recent Slowing

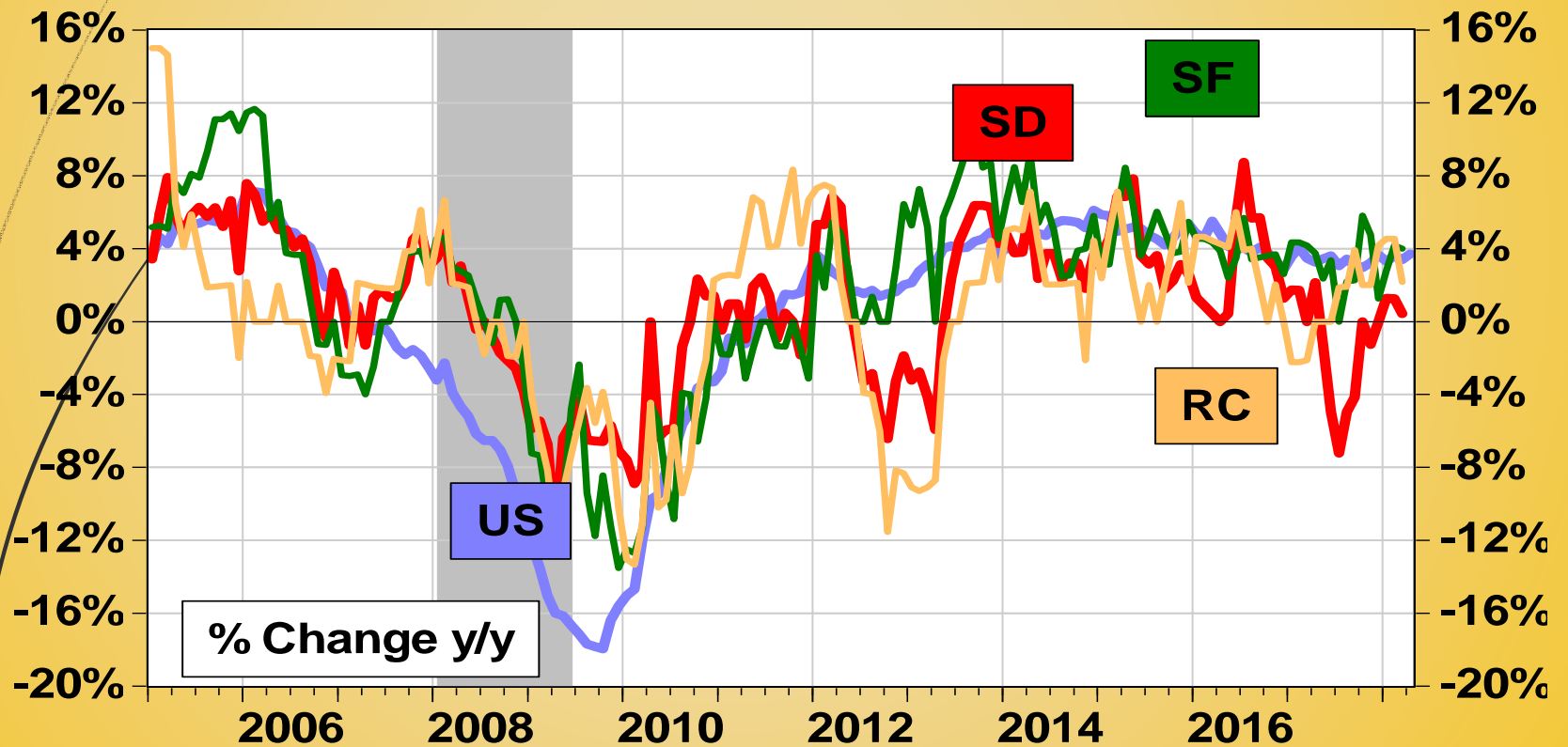
CONSTRUCTION EMPLOYMENT



Source: BLS

Negative Growth

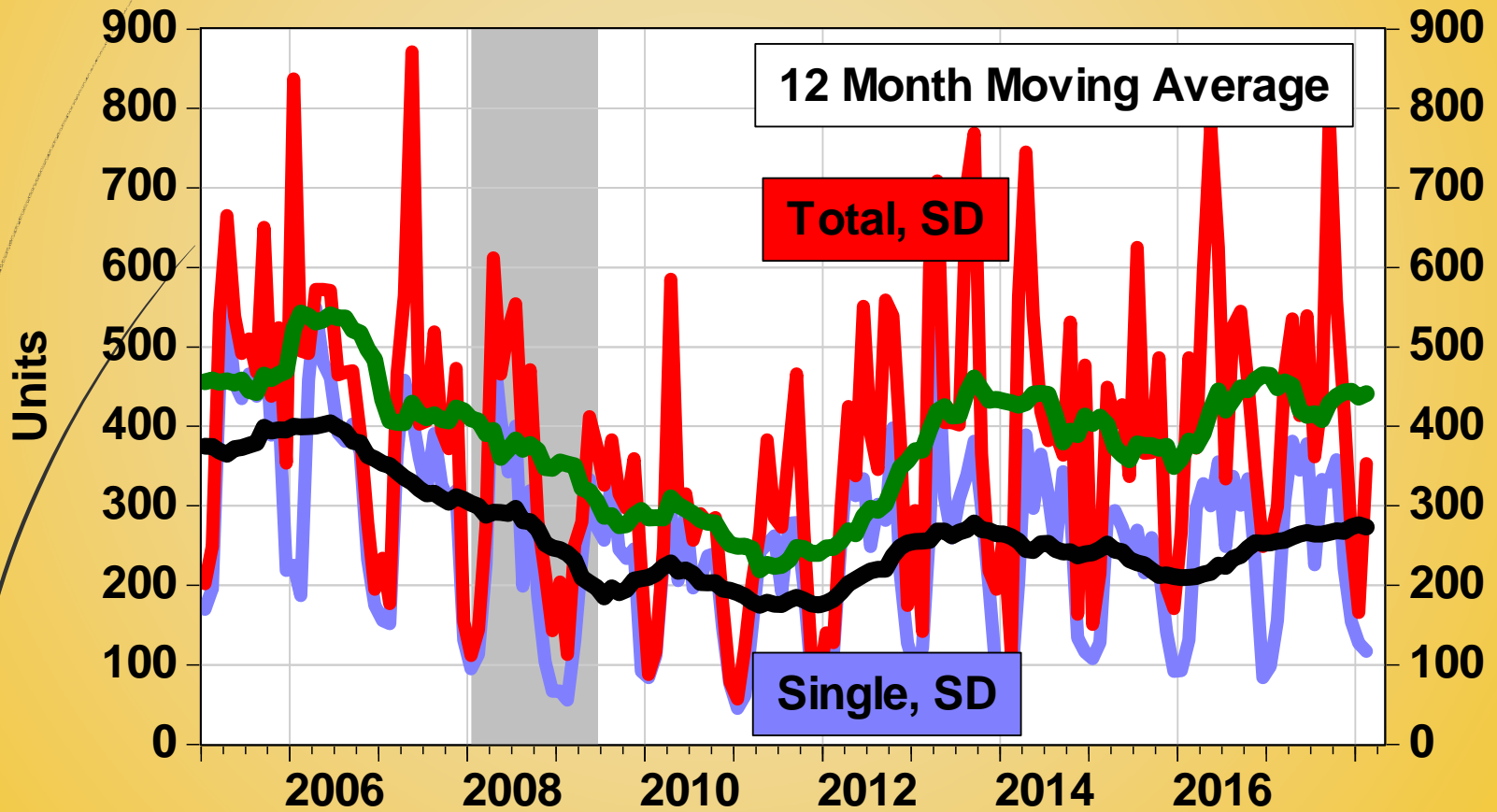
CONSTRUCTION EMPLOYMENT



Source: BLS

Some Growth

SD Building Permits, Total & Single

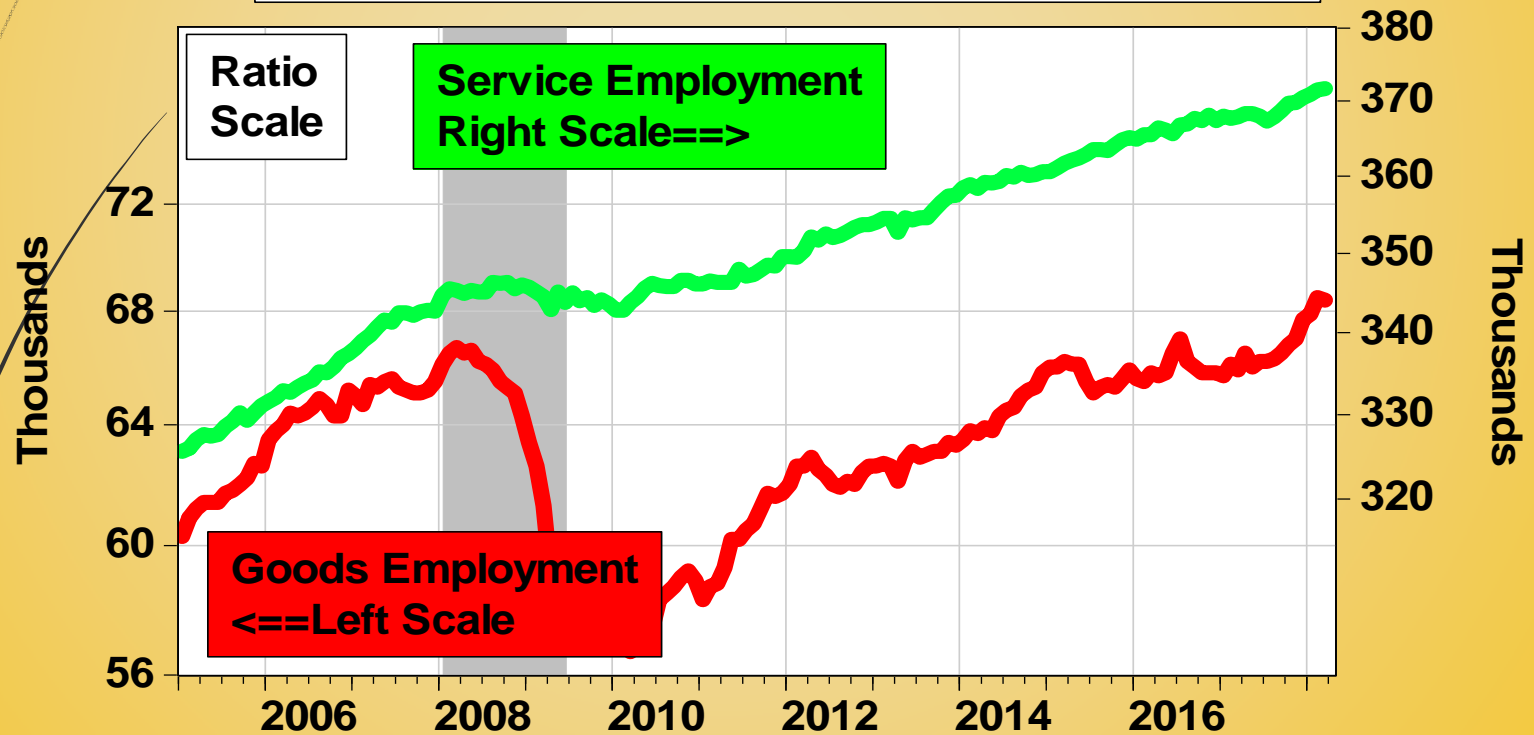


Source: Census Bureau

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

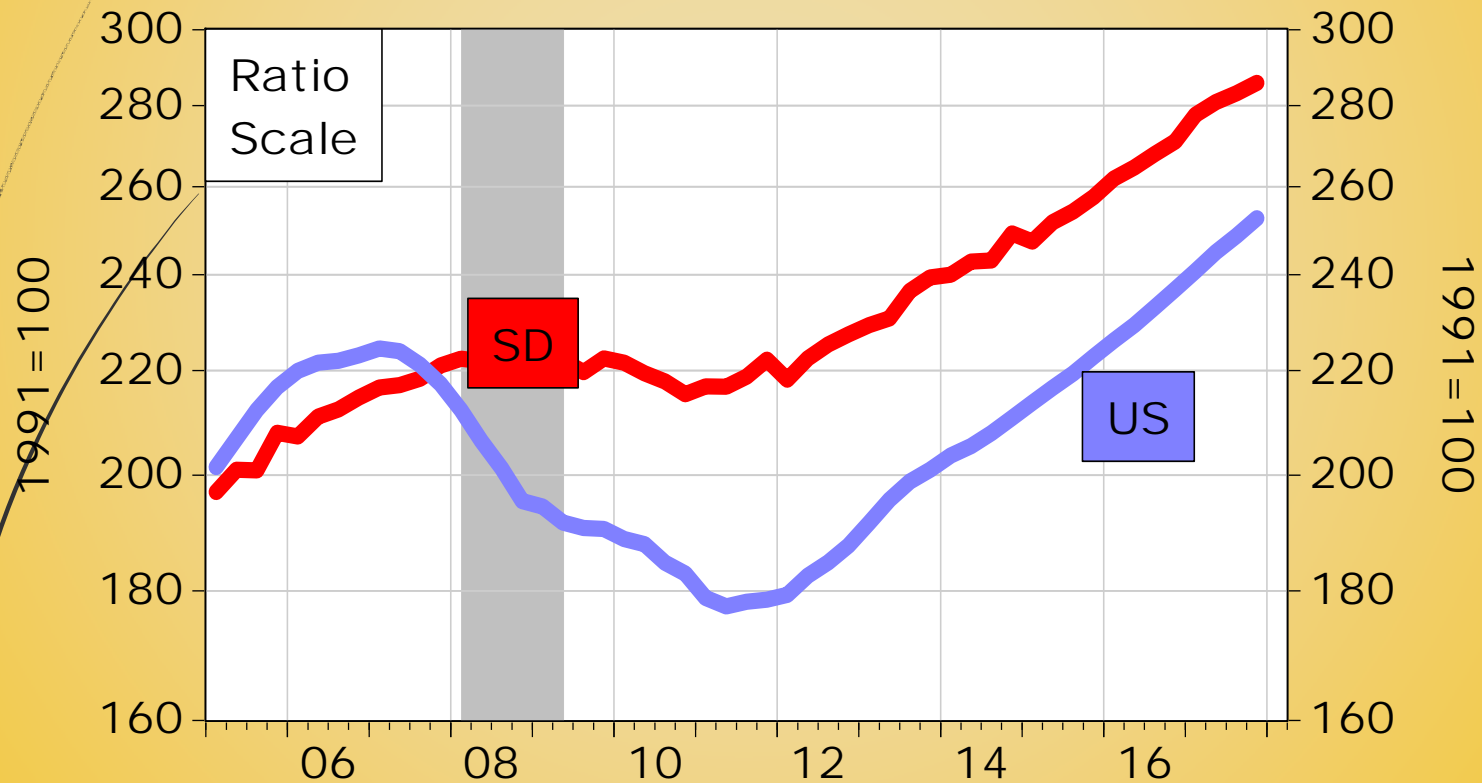
Goods-Producing = Manufacturing+Construction



Source: BLS

SD Peaked Later and Decline Less Severe

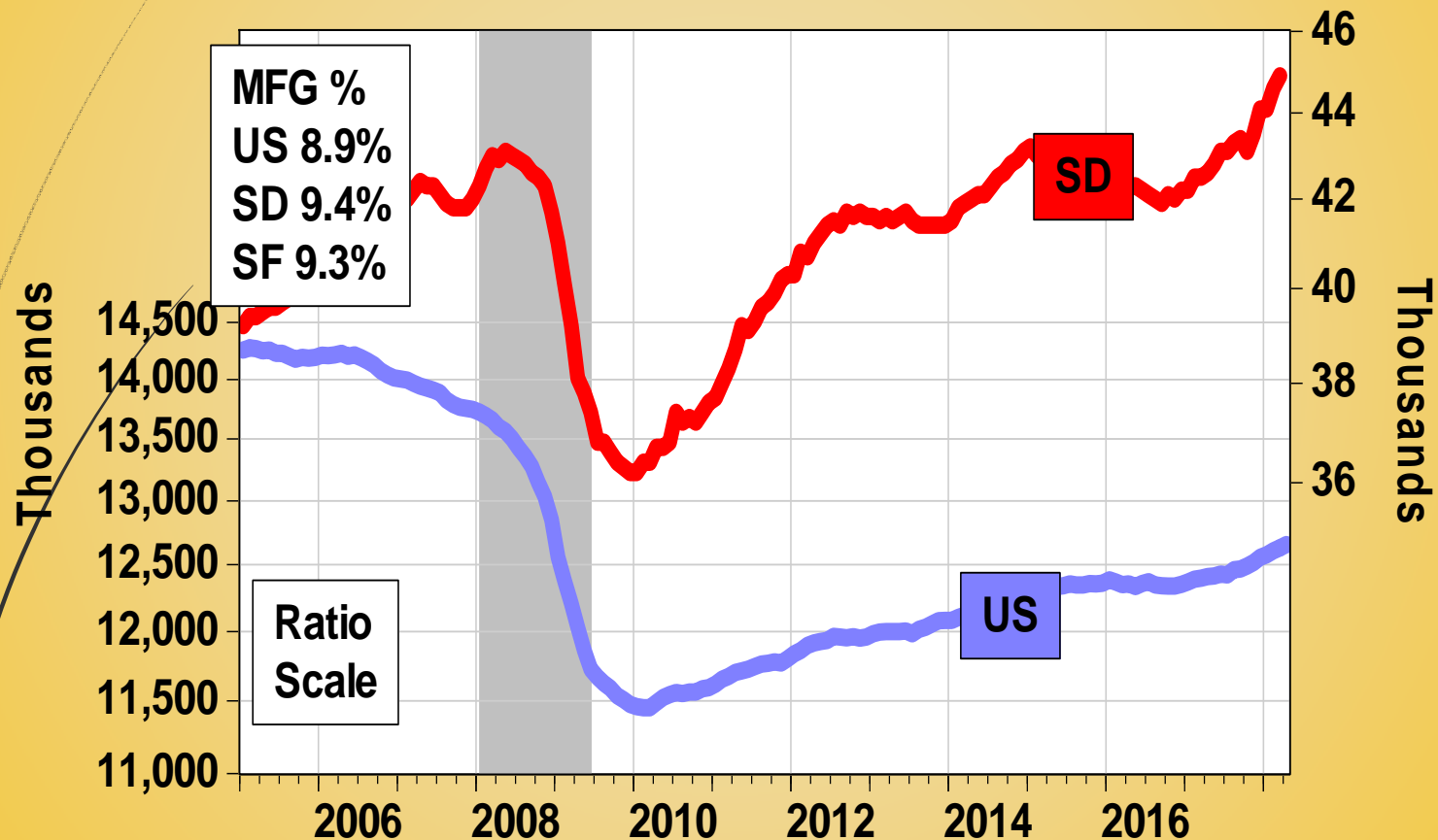
House Price Index



Source: FHLB

On the Uptick

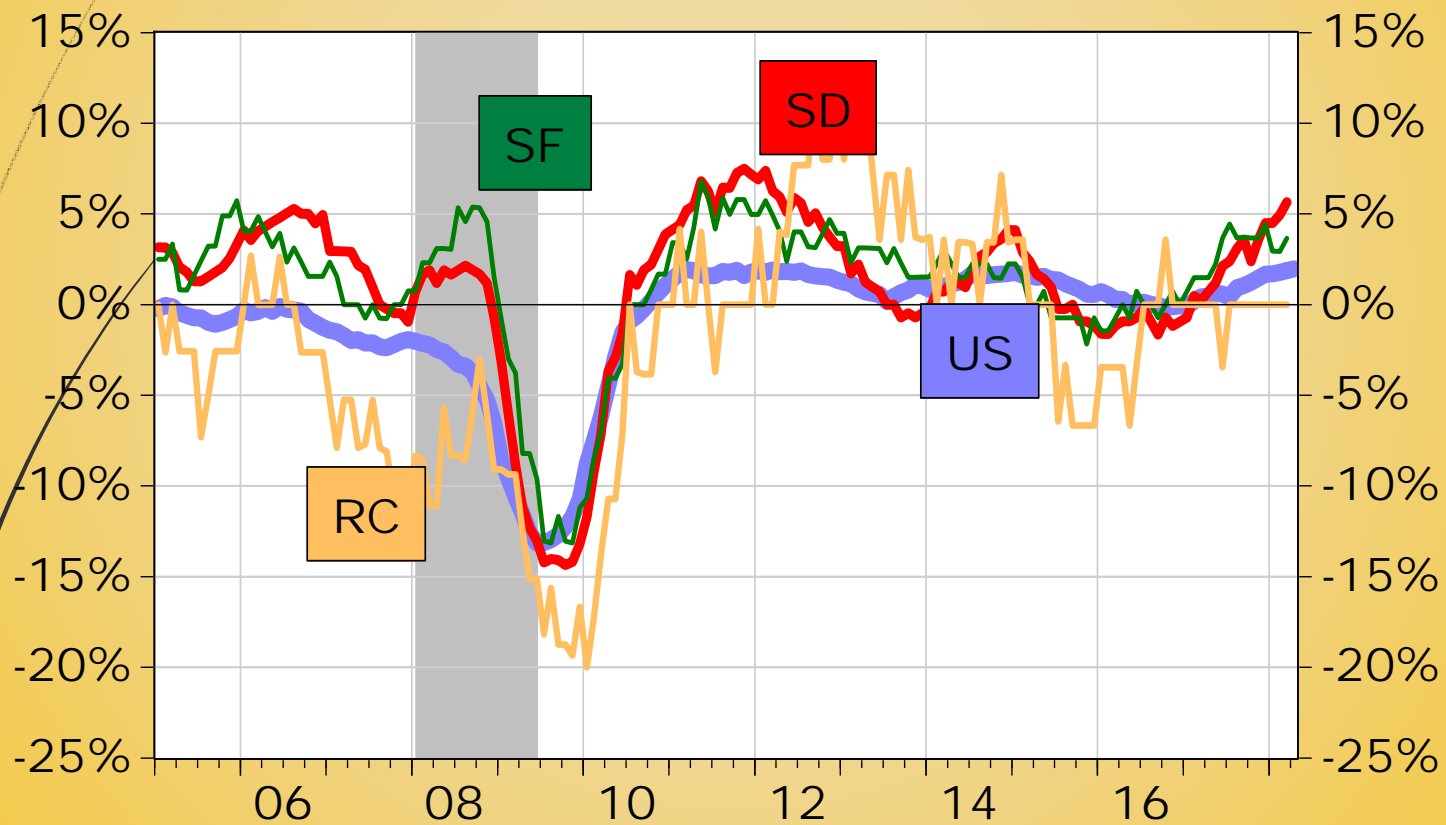
MANUFACTURING EMPLOYMENT



Source: BLS

Divergent Growth

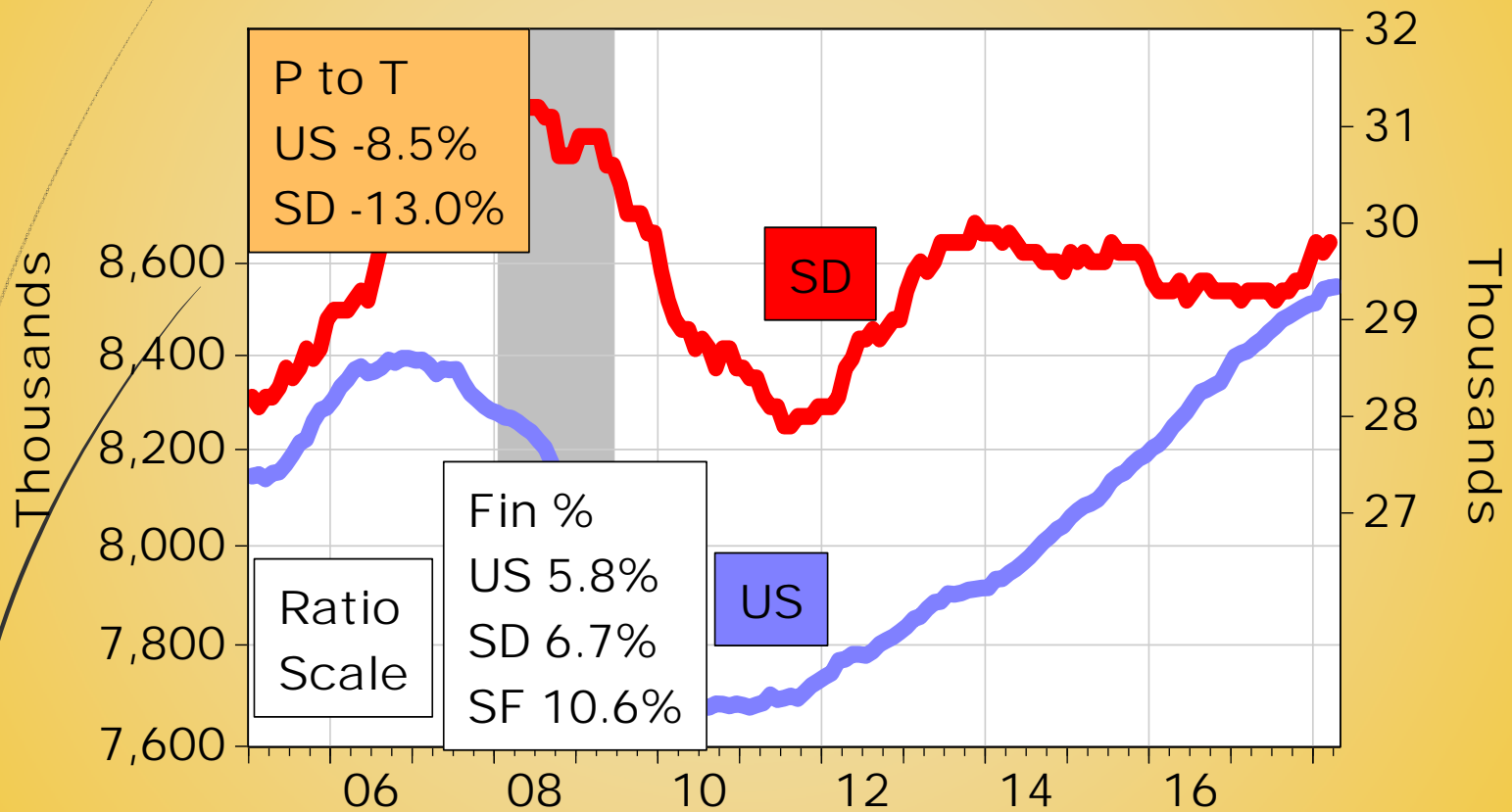
MANUFACTURING EMPLOYMENT



Source: BLS

SD More Volatile

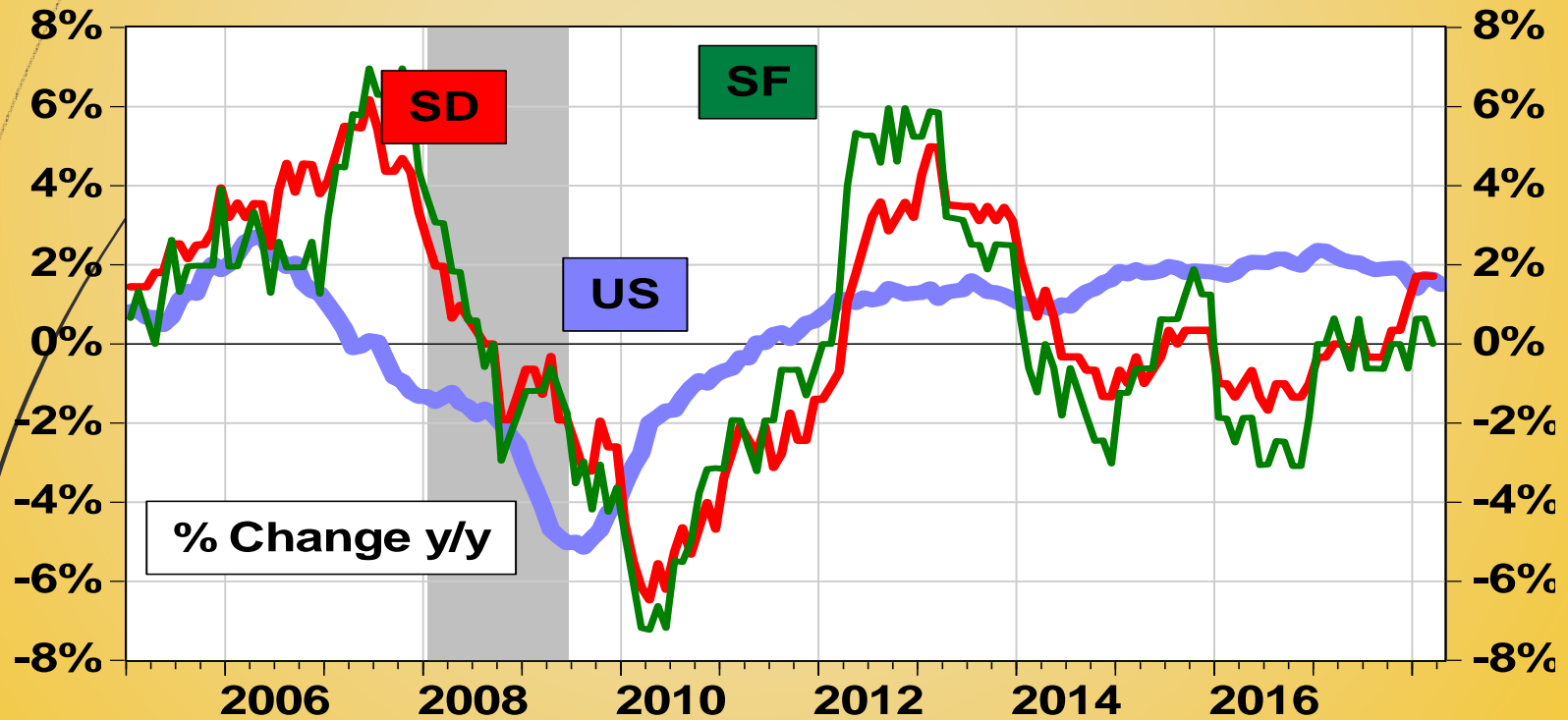
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

Note SD and SF Different Than US

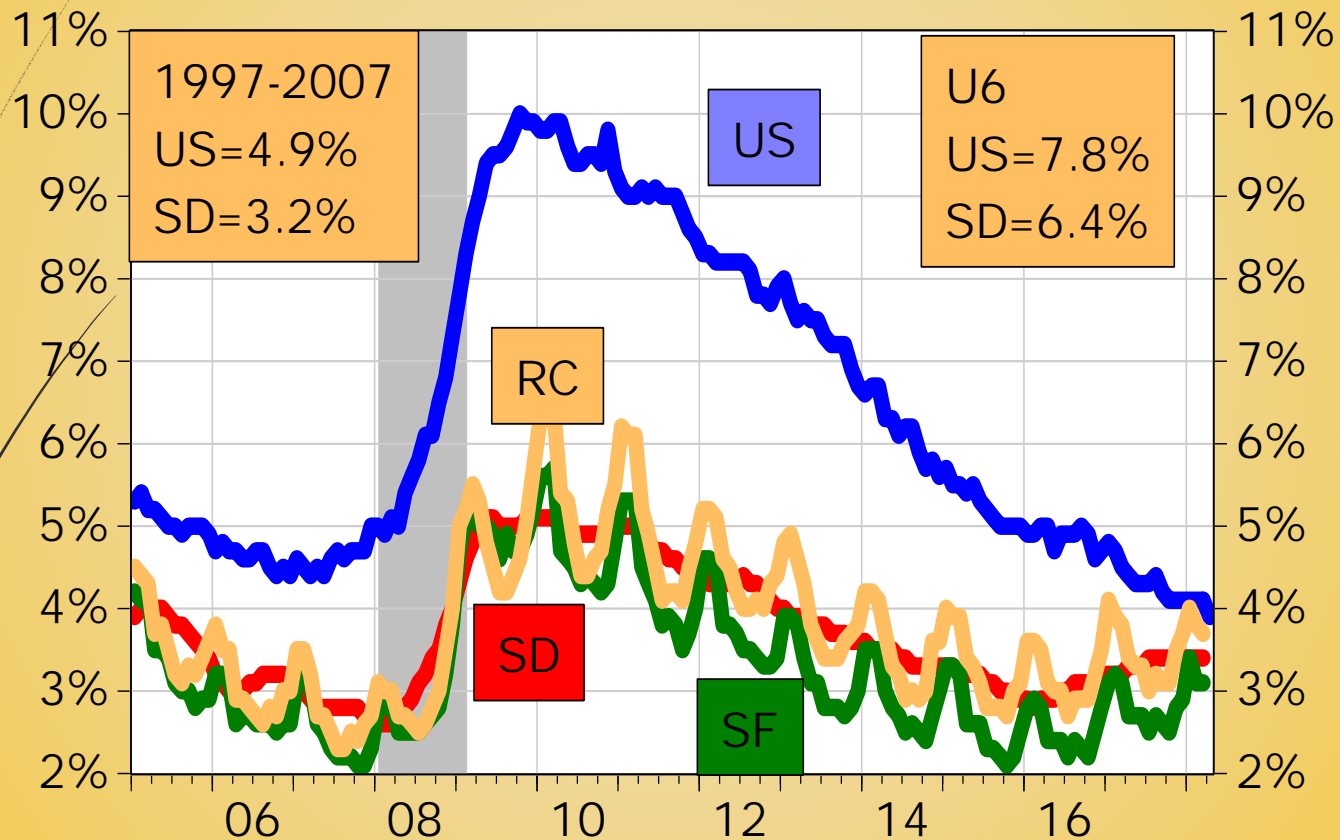
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

US 3.9% SD 3.4% SF 3.1% RC 3.7%

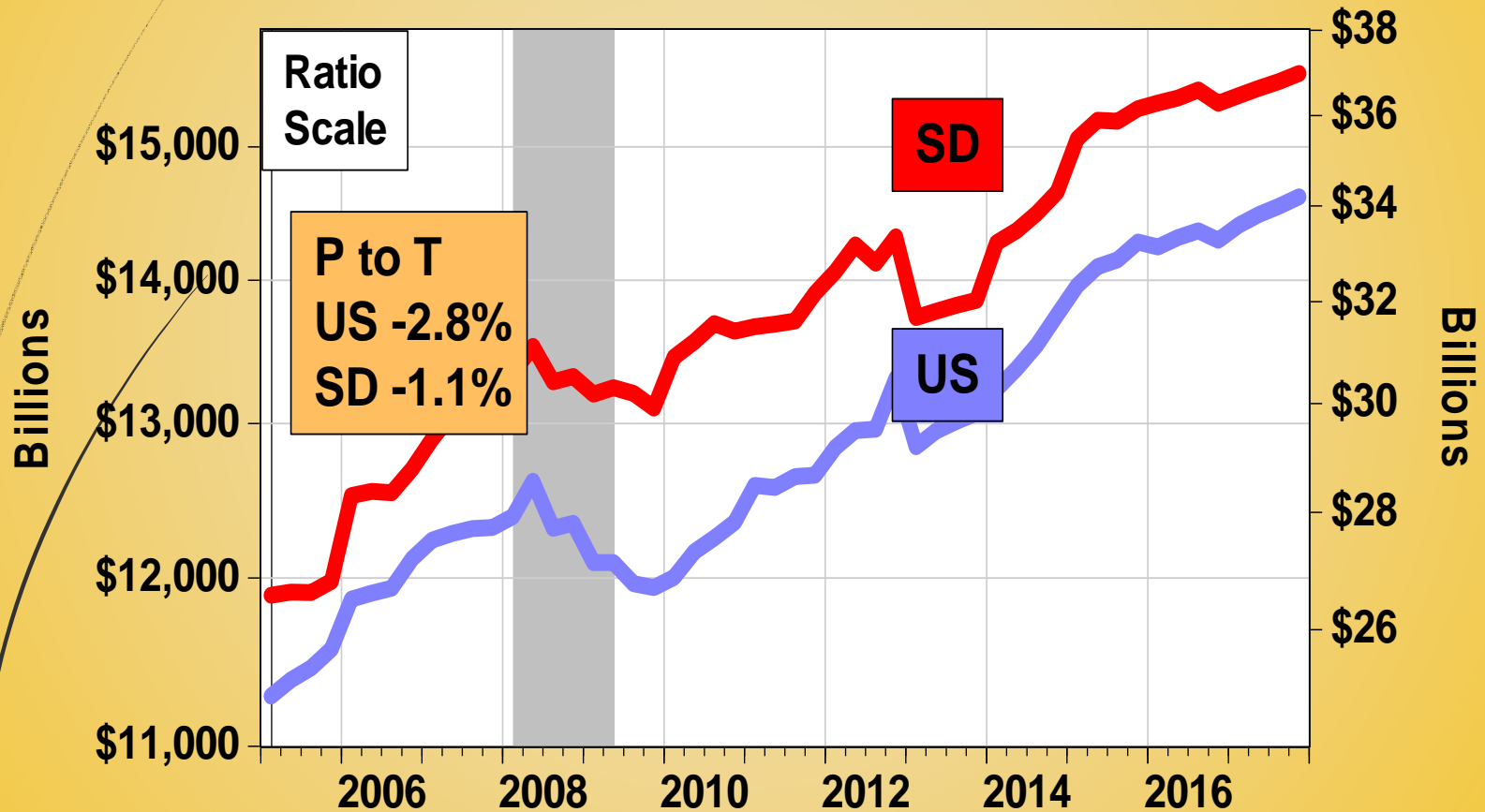
UNEMPLOYMENT RATES



Source: BLS

Real Growth But Slower

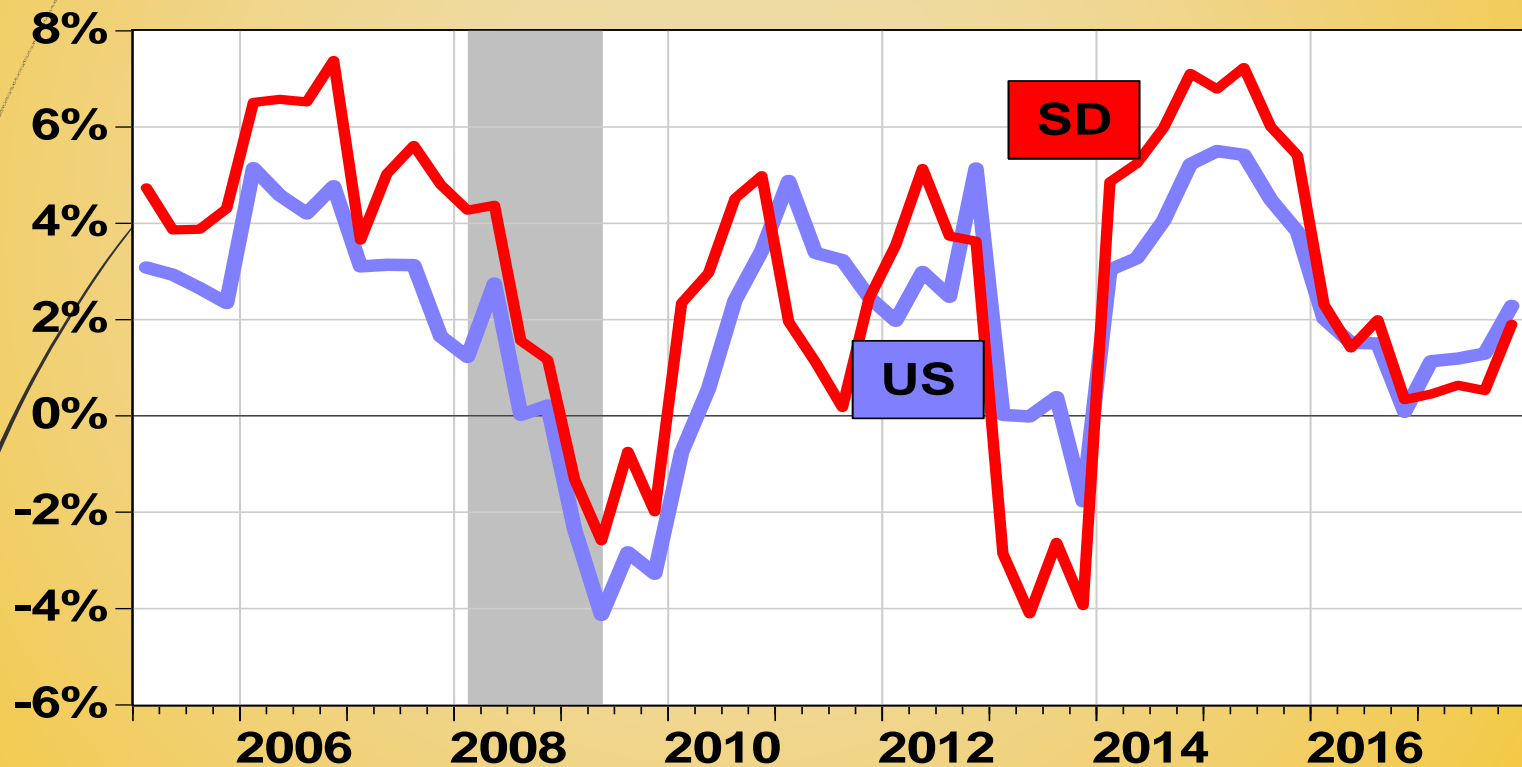
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

US and SD Track

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



Source: BEA

Farm Down Sharply – Low Prices

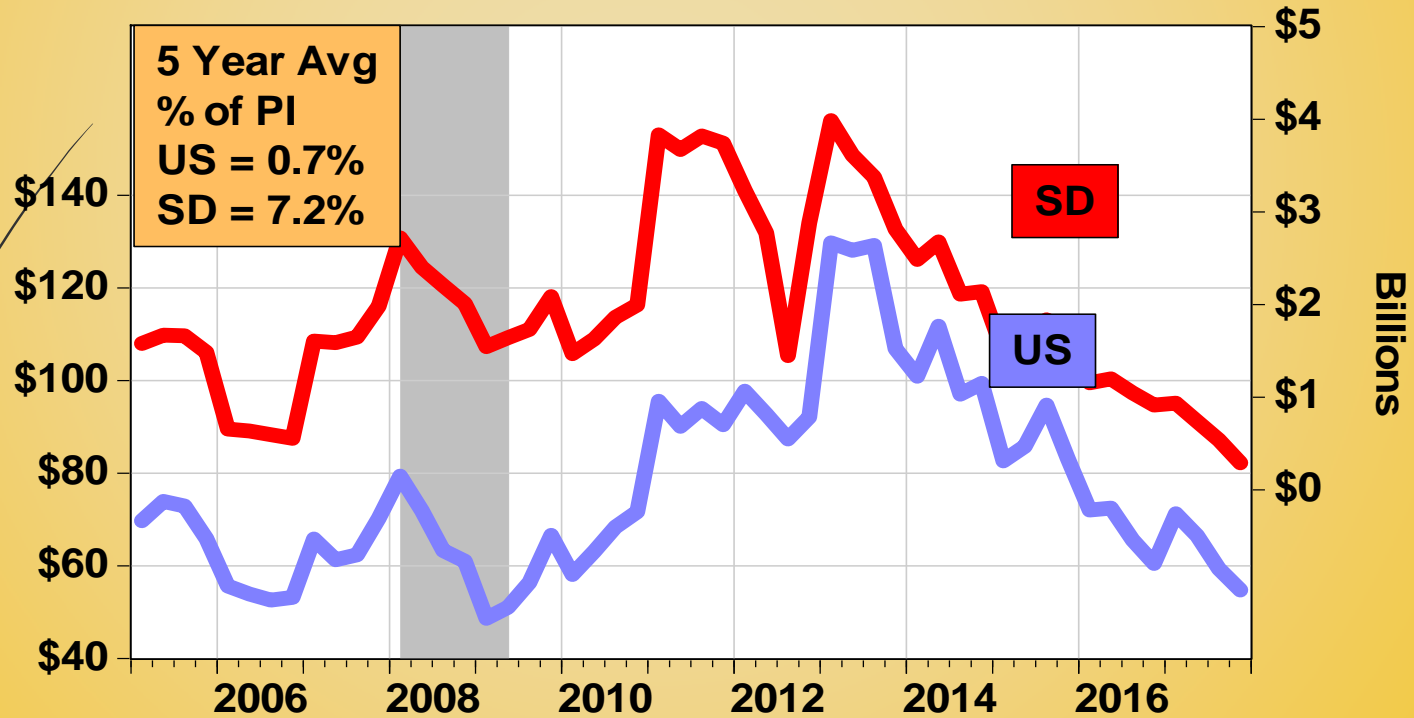
FARM INCOME

US and SD Track

NONFARM PERSONAL INCOME
(Year-over-Year Percent Change)



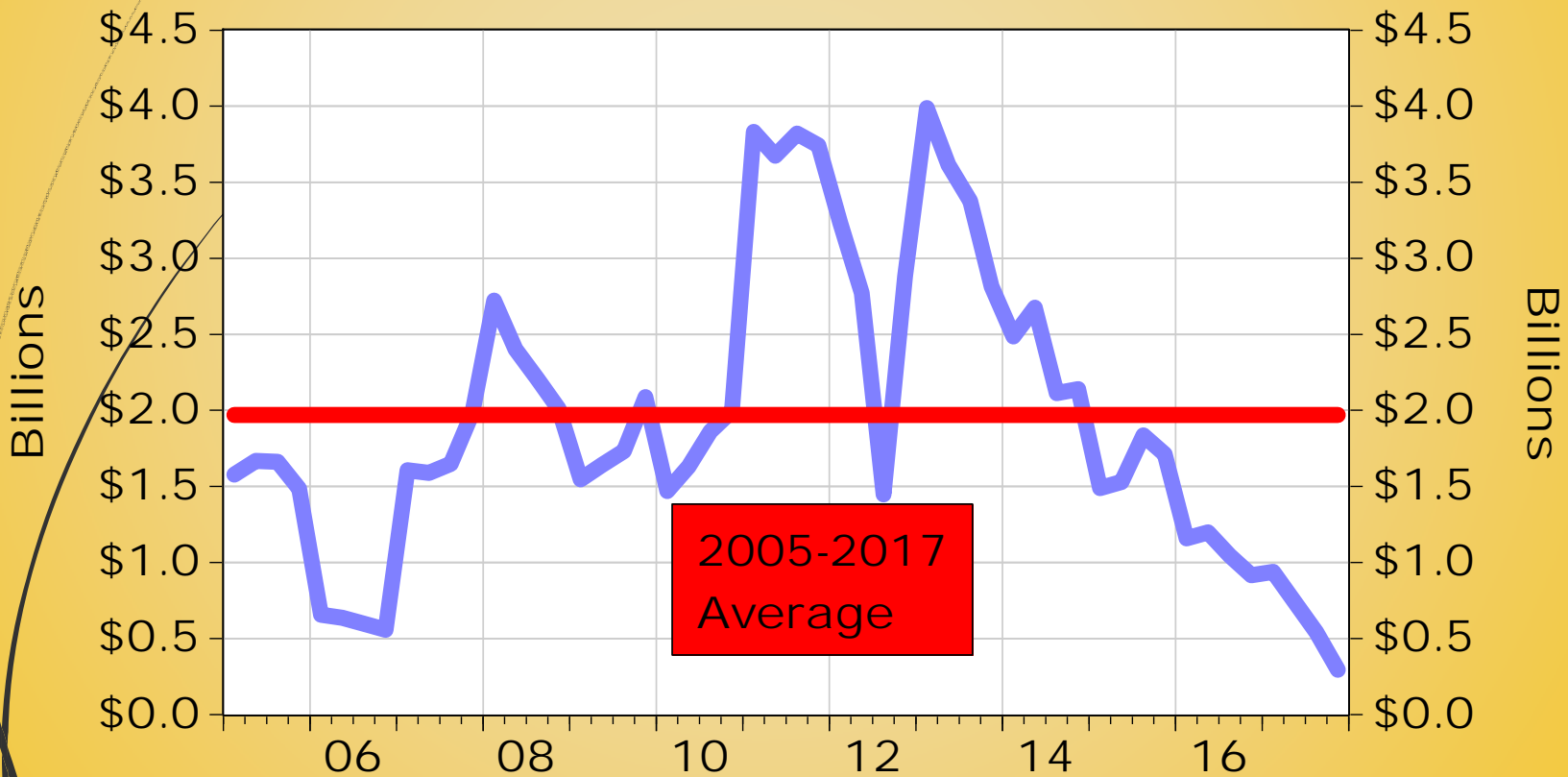
Source: BEA



Source: BEA

Way Below Average

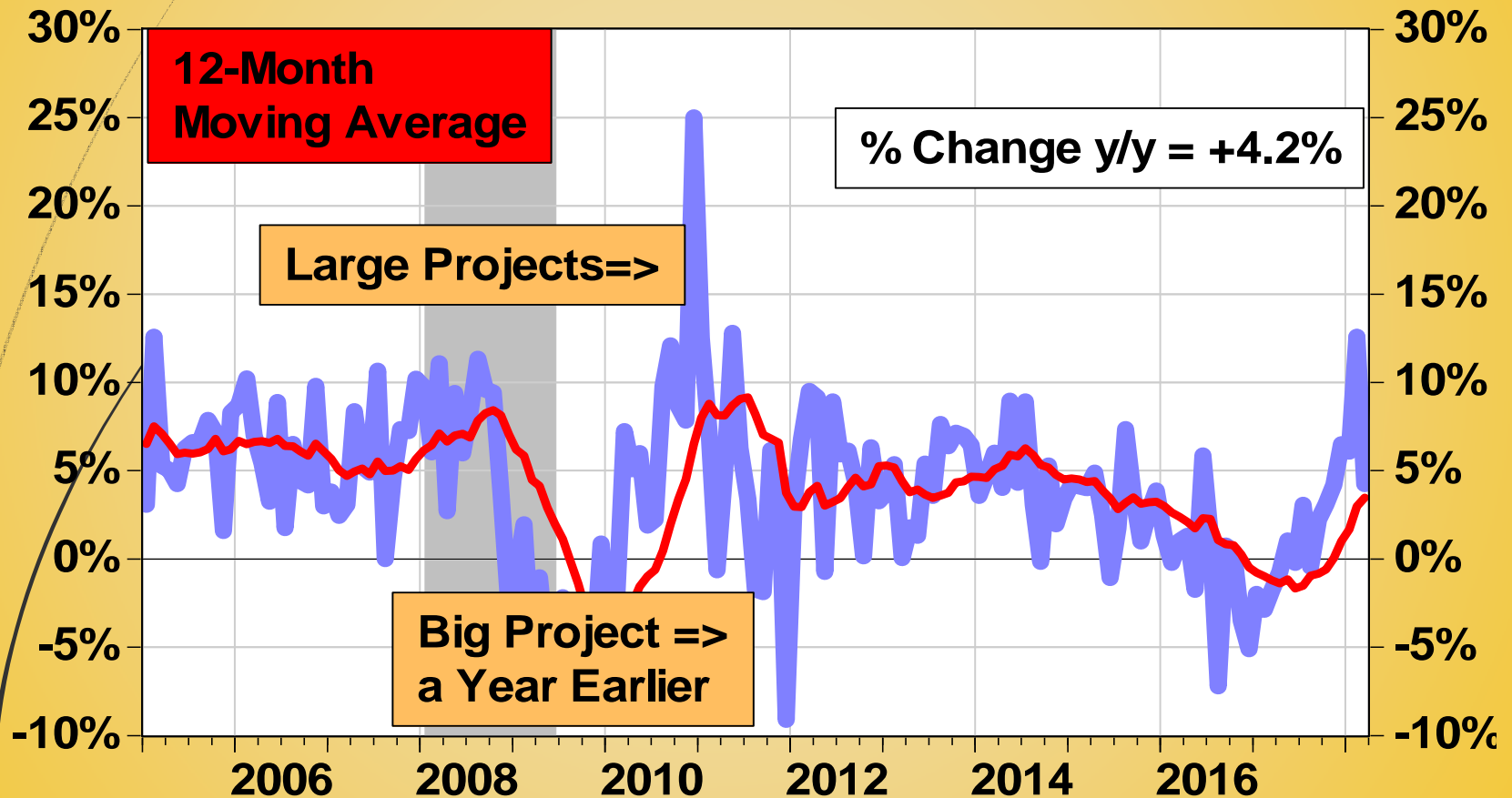
SOUTH DAKOTA FARM INCOME



Source: BEA

Recent Uptick

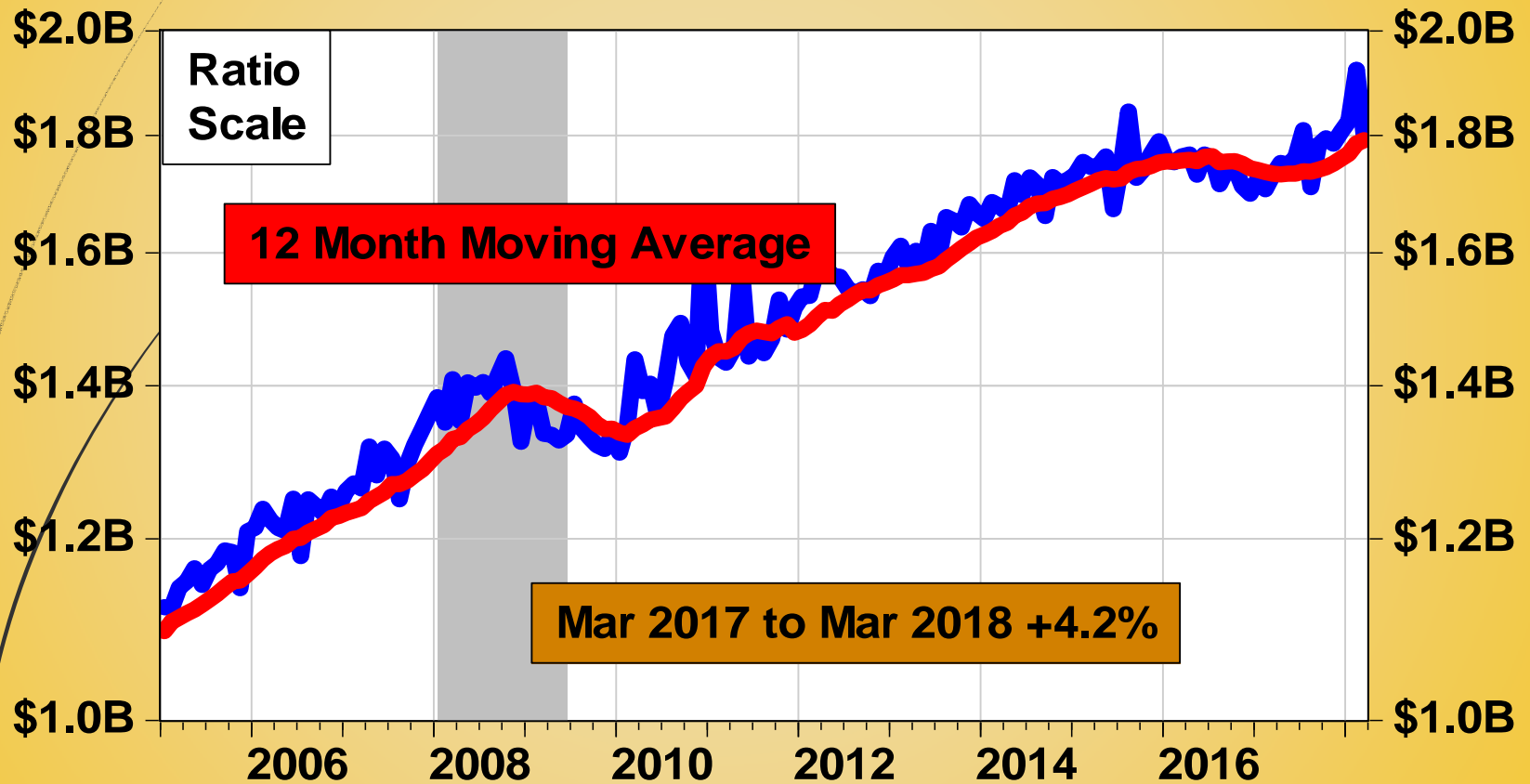
SD TAXABLE SALES



Source: SD Department of Revenue

Recent Pickup

SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue



Mid-American States Leading Indicators - GOSS

March 2018 Index > 50 Growth

Overall 67.4

New Orders 71.9

Sales 72.7

Delivery lead time 65.1

Inventories 64.2

Employment 62.9

More Optimistic Than Recent Reports



Goss Comments

- “In 2017, South Dakota ranked 49th in the nation, and ninth in the nine-state region in terms of the export of goods. These exports supported approximately 9,500 jobs, directly and indirectly in the state. The state’s new export orders for March of 70.6 indicates that South Dakota exports remain very strong,” said Goss.

Conclusions

SD economy growing at slower pace

SF economy growing at faster rate

US economy growing slowly

20% chance of recession

The End

