



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 – August 8, 2017

Real GDP

Consumption,

Housing Starts

Federal Budget

Interest Rates and Inflation



GDP

GDP growth will average 2.1% in 2017 and accelerate to 2.7% in 2018 and 2.4% in 2019. This represents respectable growth. Thereafter, growth will be about 2%.

The current recovery is at 98 months. The average recovery (trough to peak) was 58 months in the postwar period (1949 to 2009).

- a. longest postwar recovery was 120 months (1990s).
- b. Shortest was 12 months (1980-81).
- c. IHS MARKIT argues the current long recovery is not a good argument for an impending recession.
- d. In fact, left to its own the recovery could break the 120 month record.



WHAT COULD KILL THE RECOVERY?

Recovery could be derailed by :

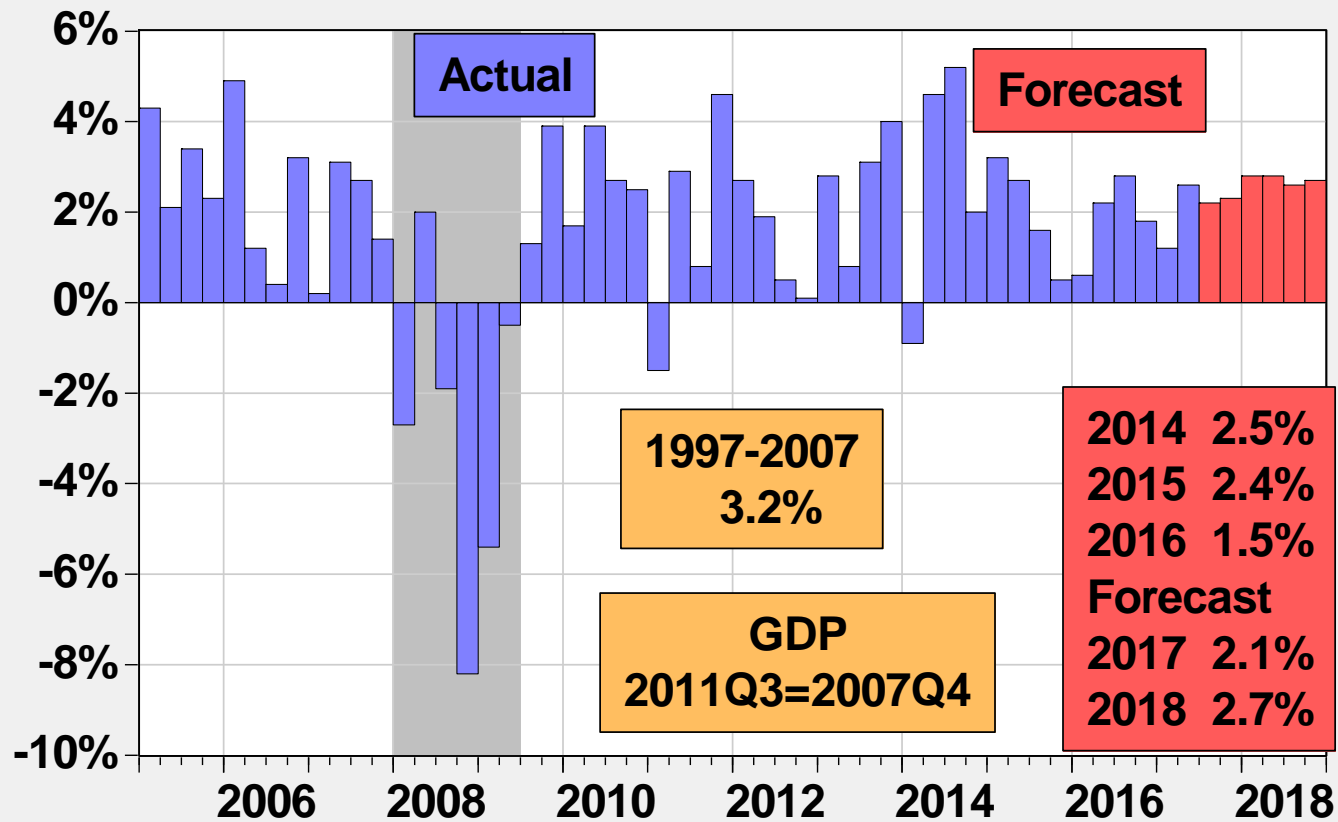
- a. FED overtightening.
- b. Oil price shock.
- c. Bursting of asset bubble.
- d. Trade war.
- e. Policy errors.

BOTTOM LINE: Few imbalances so recovery could break record.

25% Chance of Recession

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 is expected to be a steady contributor to economic growth. It is supported by higher employment, incomes, optimism, and asset appreciation.

Tax cuts expected in 2018 will further fuel spending and the saving rate pushing growth to 3.0% in 2018 and 2.8% in 2019.

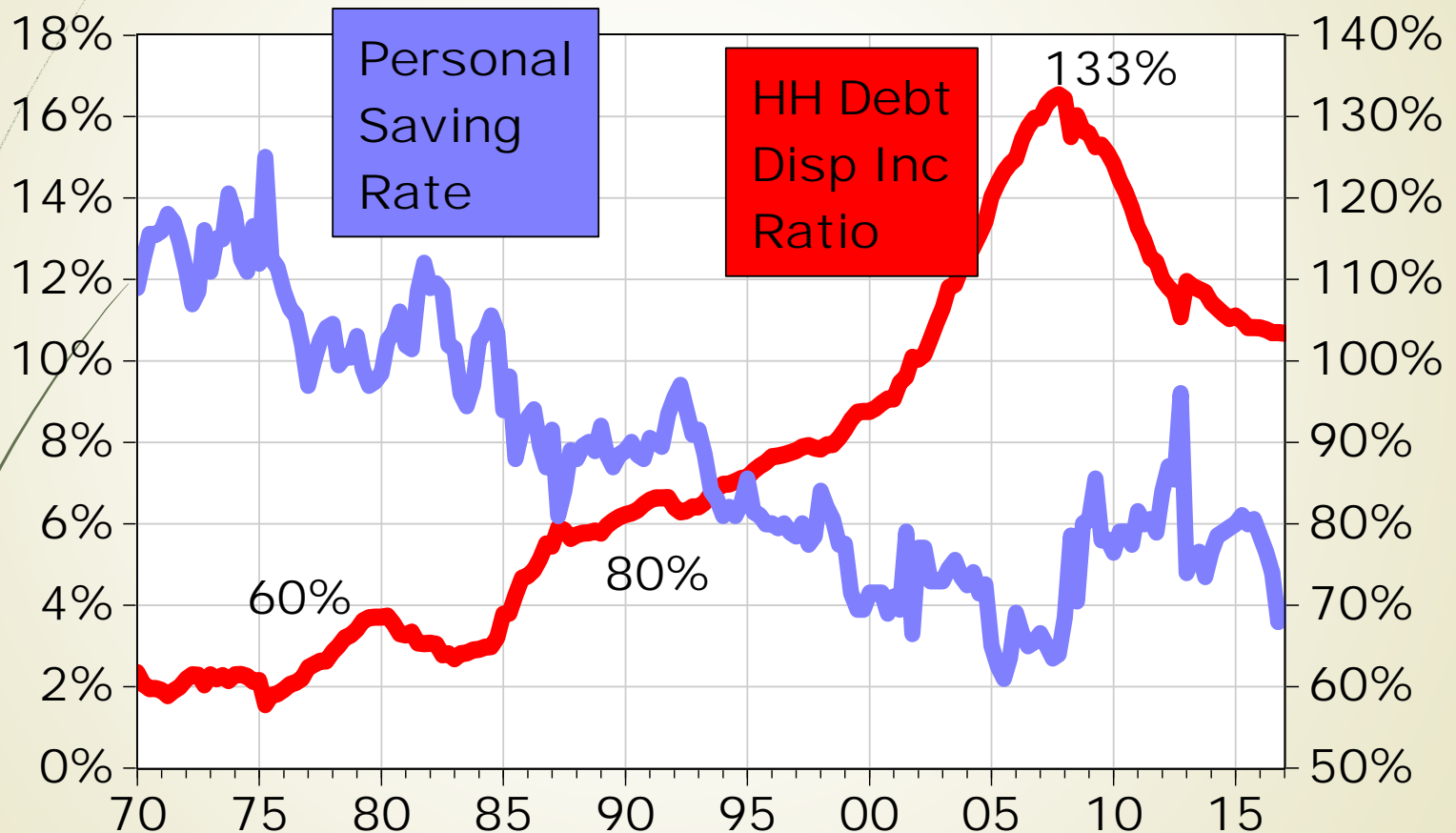
Cautions are consumer debt at record levels and the saving rate has dipped to 3.8%.

Near-record low debt service at 10% is a positive.

Unforeseen risks could be stock market crash and faster than expected rise in interest rates.

Deleveraging Continues

HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Record Low Debt Service

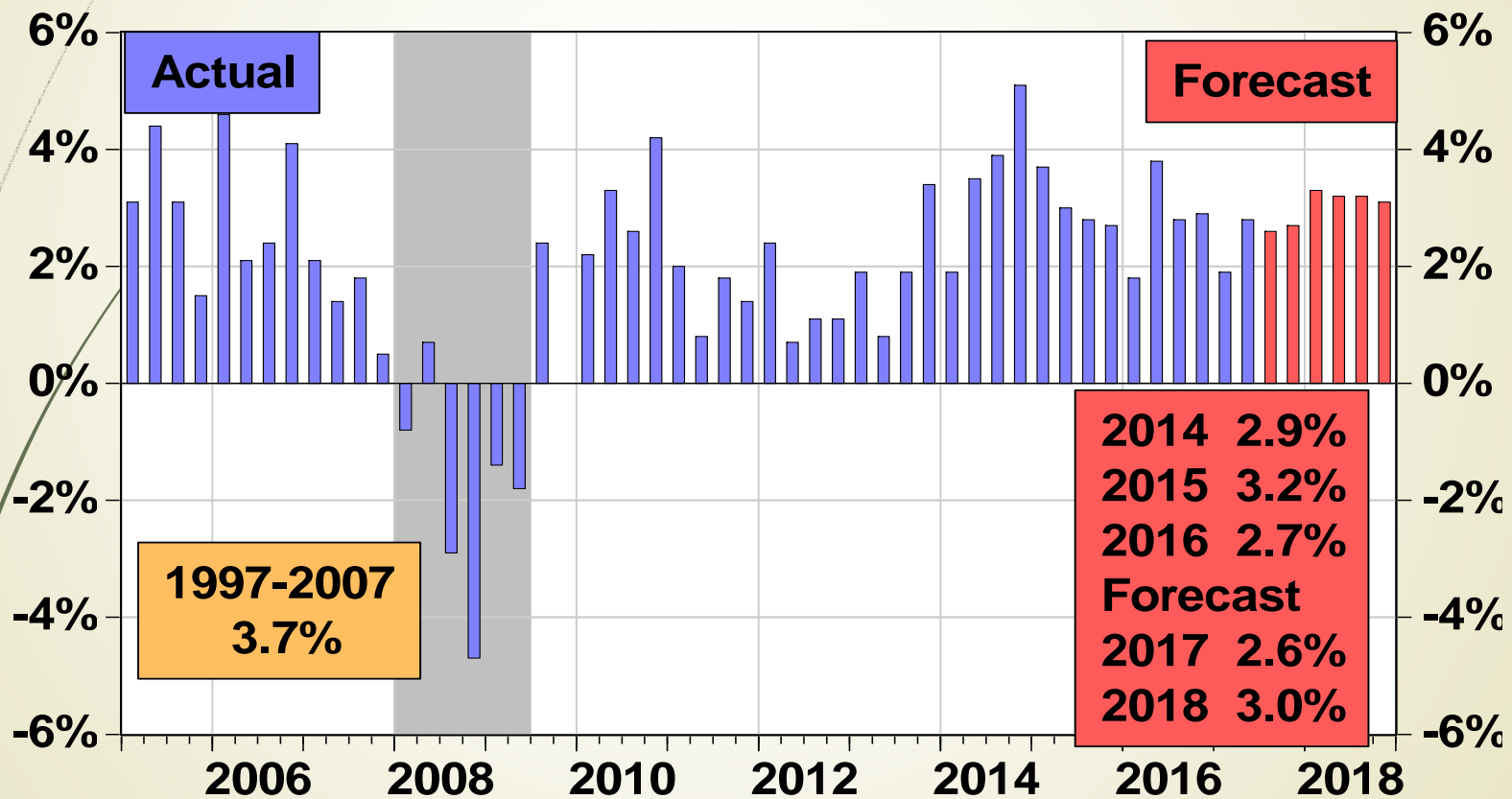
HH DEBT SERVICE PAYMENTS AS % OF
DISPOSABLE PERSONAL INCOME



Source: BEA and Federal Reserve System

Faster Growth Projected

REAL CONSUMPTION



Source: BEA and IHS



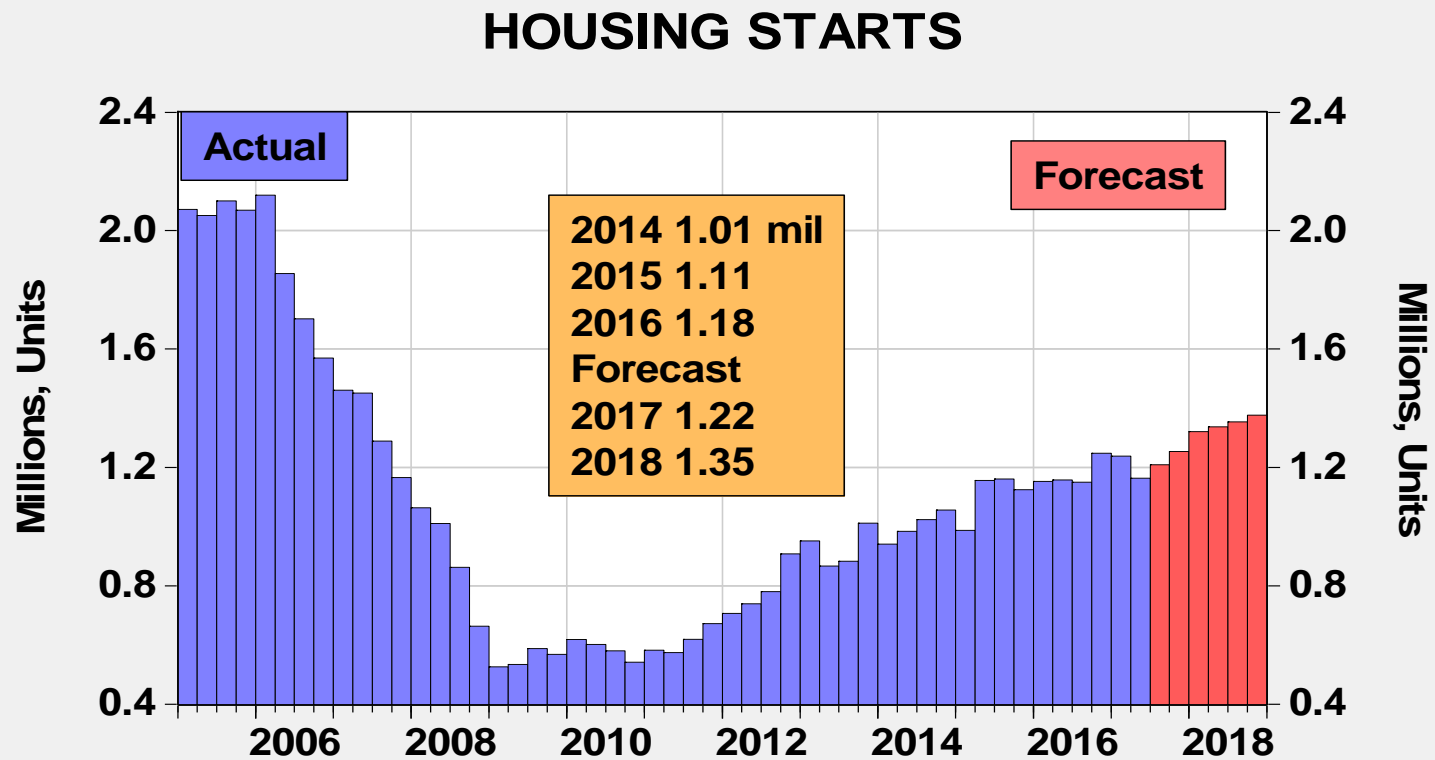
Investment Sector

Low oil prices has cooled the recovery of capital spending in the energy sector.

The construction sector has been in a rut, the lull is temporary as household formation will support residential building and an increase in infrastructure spending is forecasted for 2018 and 2019.

Business fixed investment spending is forecasted to see respectable growth next year.

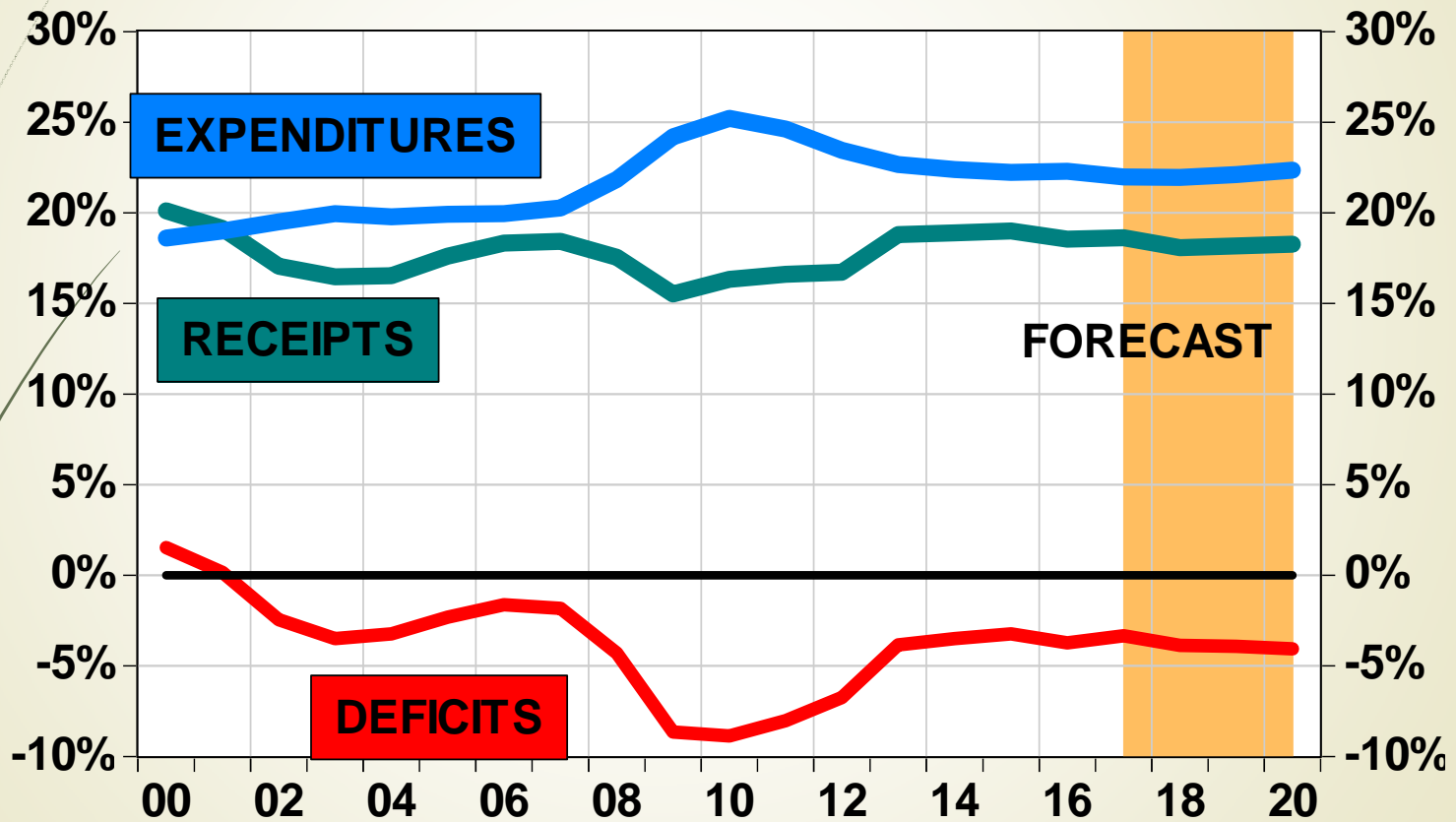
Recovery Proceeds



Source: US Census and IHS

Government Sector

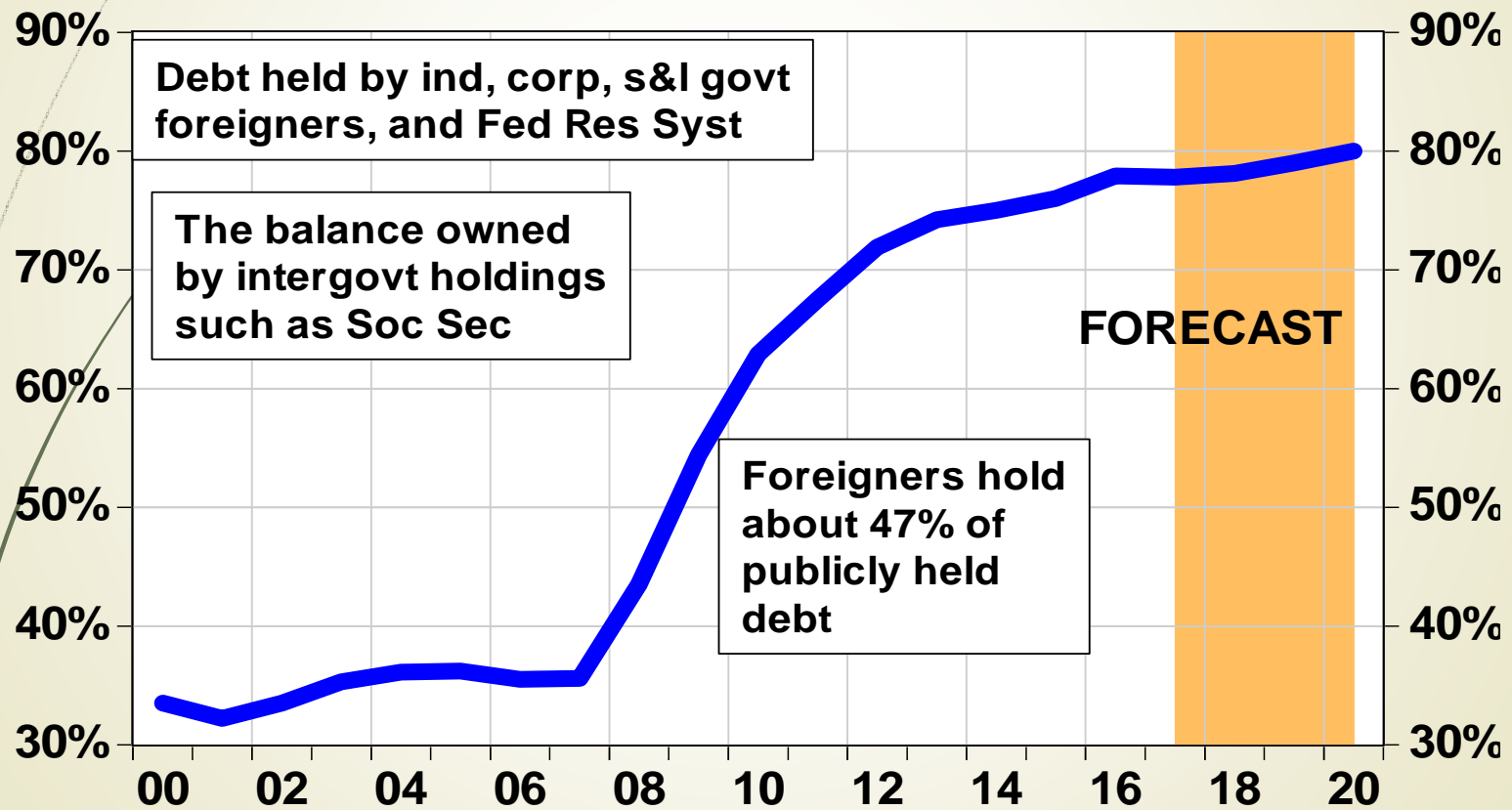
FEDERAL GOVERNMENT AS % OF GDP



Source: IHS

Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



The Fiscal Picture

IHS MARKIT projects lower personal and corporate Federal taxes somewhat along the lines of the House Republican plan (but excluding the border adjustment tax), removal of some loopholes, and \$800 billion in overseas repatriation to face a 10% tax.

Concerns in fiscal area is if no budget is passed and debt ceiling is not raised. Failure in this area, could lead to a recession.



Foreign Sector

IHS MARKIT expects the \$ to peak in the 2nd quarter of 2018. This will be followed by a steady decline throughout the forecast period, yielding a 12.6% drop through the end 2027.

The recent improvement in the economies of Japan and Europe have led to improvement in their currencies. Furthermore, across the globe other economies will pick up, further weakening the \$.

All of this should lead to an improvement in US exports. Imports will pickup next year as domestic demand picks up aided by tax cuts.

Employment & Unemployment

Pretty good job growth this past year at 180 thousand per month.

The July 2017 nonfarm employment numbers of 209 thousand look pretty strong as did the 4.3% unemployment rate.

Payroll employment growth is expected to slow to 1.5% in 2017, 1.4% in 2018, and 1.2% in 2019.

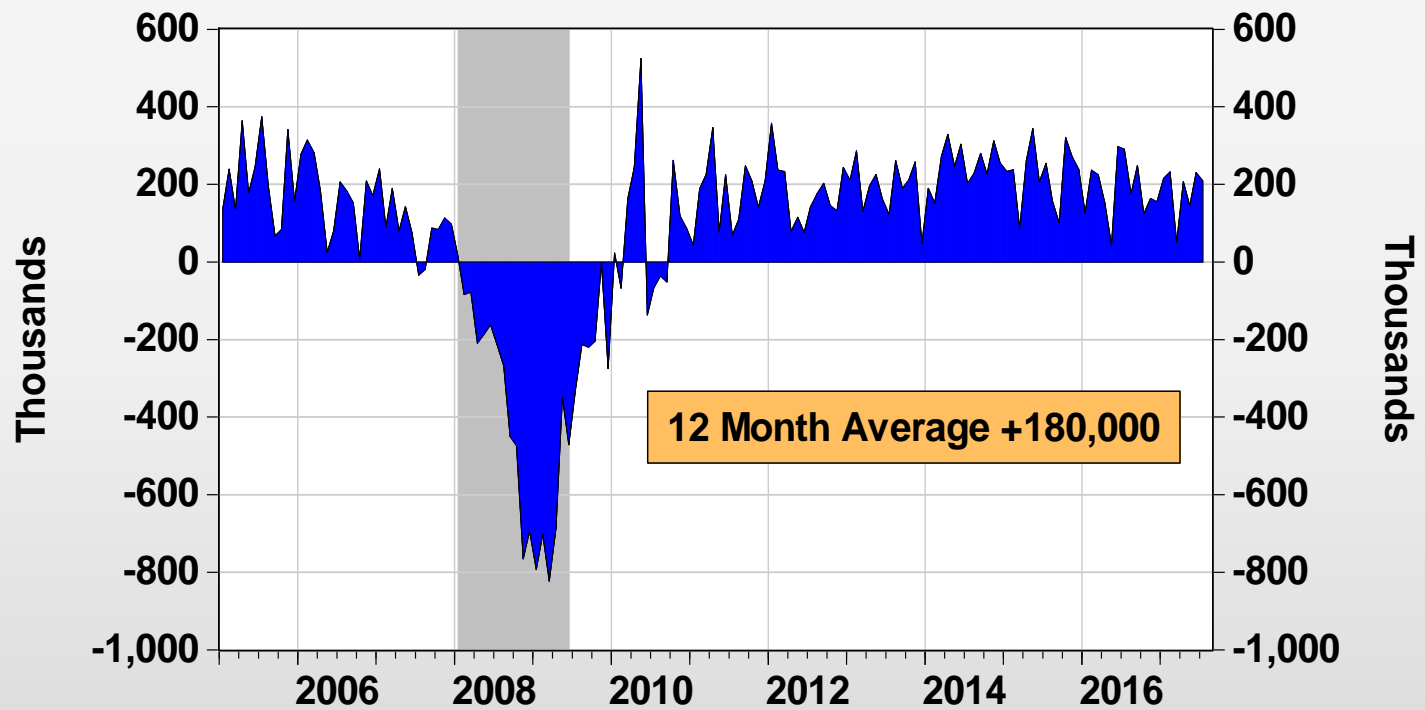
Unemployment rate averaged 4.9% in 2016, and will average 4.4% in 2017, 4.2% in 2018 and 4.0% in 2019.

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

Wage growth appears to have risen some in recent months.

Solid Growth

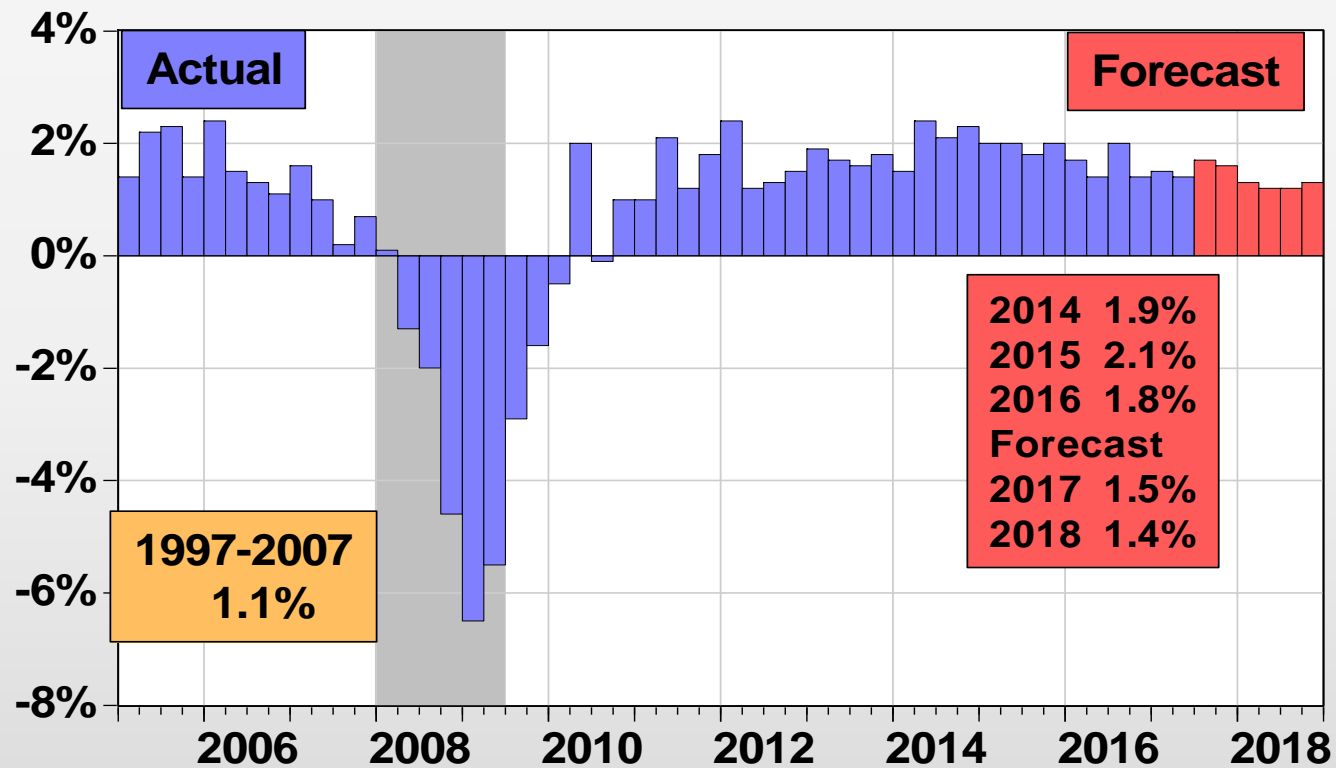
CHANGE IN NONFARM EMPLOYMENT



Source: BLS

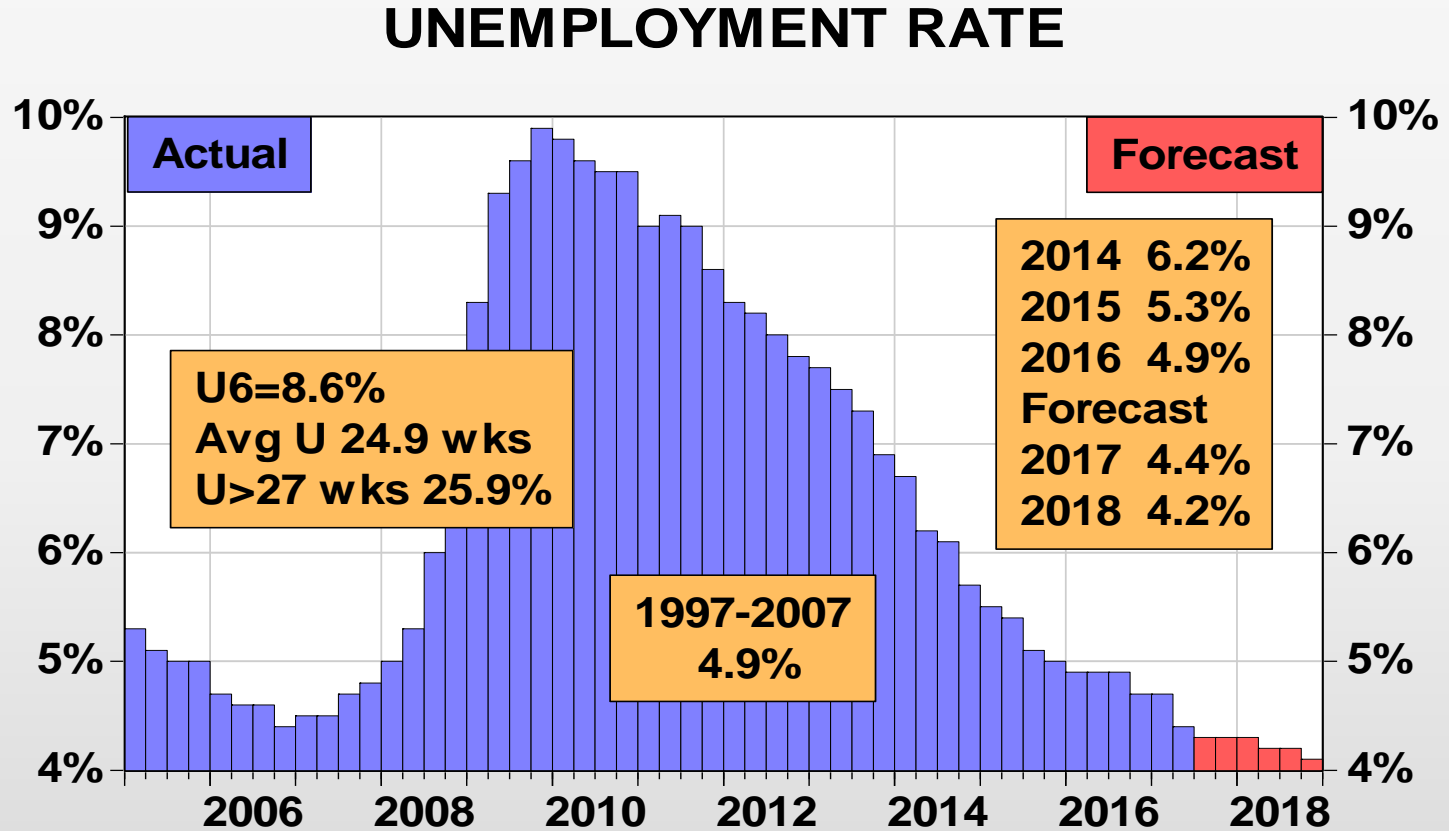
Future Job Growth Steady

NONFARM EMPLOYMENT



Source: BLS and IHS

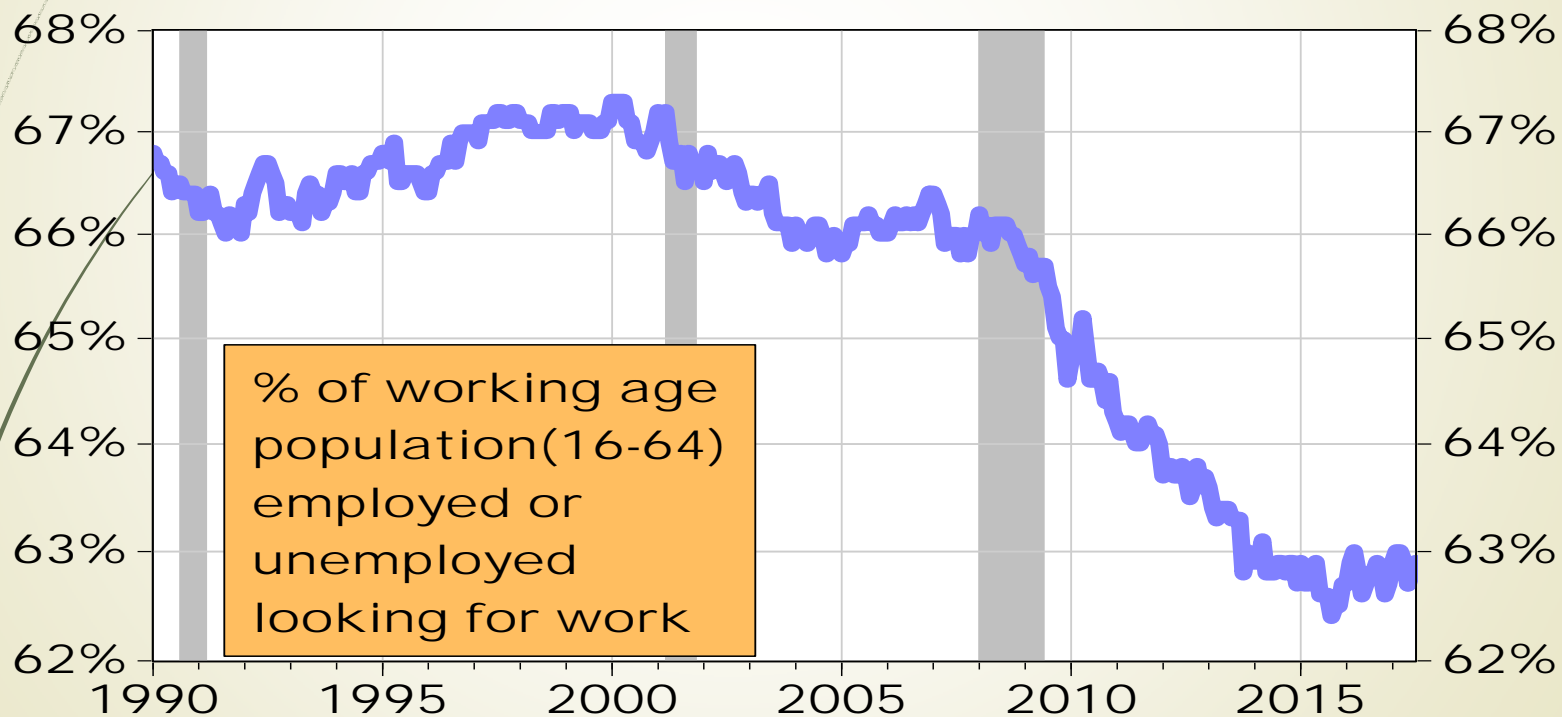
Low U3 Unemployment Rate at 4.3%



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

RECORD JOB OPENINGS

JOB OPENINGS, NONFARM



Source: BLS

Inflation & Interest Rates

The FED kept the federal funds rate steady at 1.00-1.25% in its July meeting.

The FED expects to begin its balance sheet “normalization” program relatively soon. It will start to reduce its \$4.5 trillion balance sheet at its September meeting.

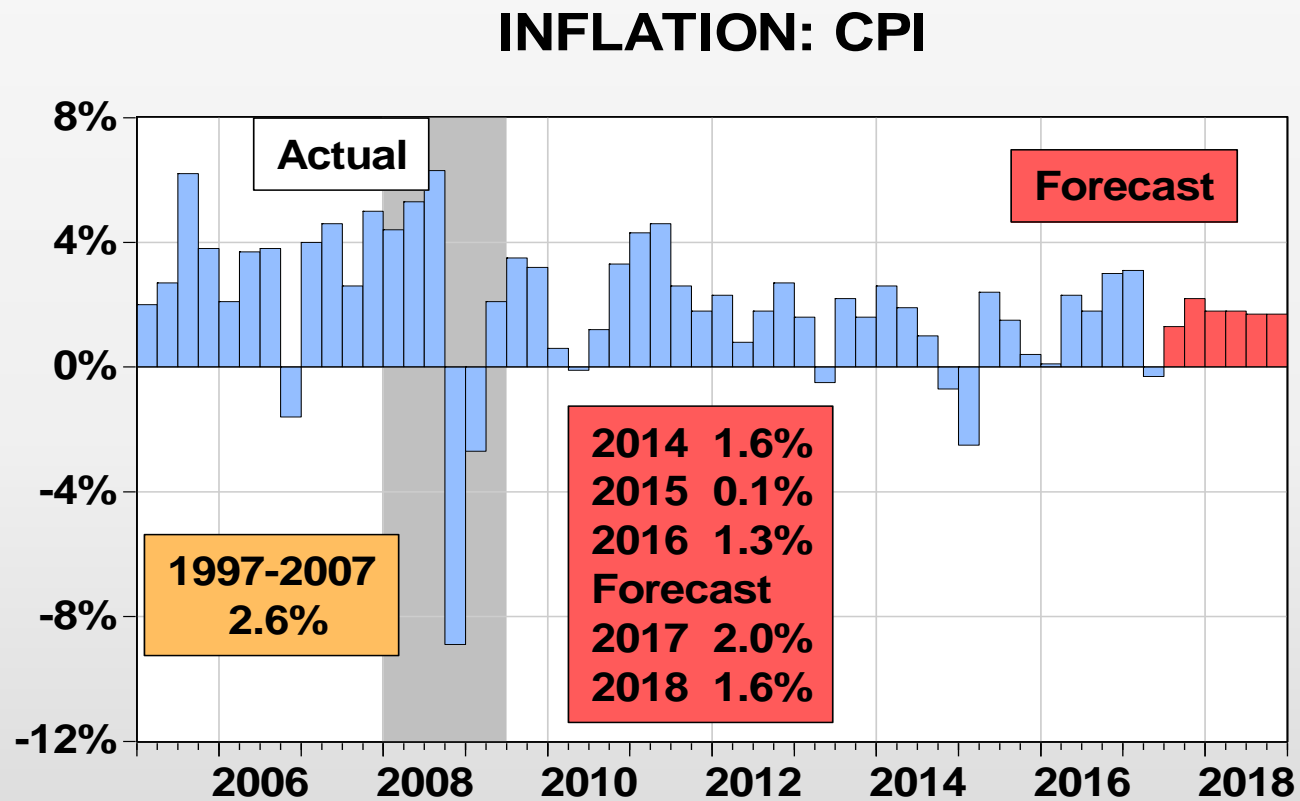
IHS MARKIT expects they will raise the federal funds rate 25 basis points in December and ultimately reaching 3% by 2020. They consider this to the long-term equilibrium rate.

The 10-Treasury note yield, currently at 2.3%, should rise to 4.1% by the end of 2019.

Inflation is still very low with the CPI reaching 2.1% in 2017, 1.6% in 2018, and 2.2% in 2019.

Oil prices will remain low in the low \$50s and high \$40s.

Still Very Low



Source: BLS and IHS



IHS GLOBAL INSIGHT FORECAST AUGUST 2017

Variable	2015	2016	2017	2018	2019
GDP	2.9%	1.5%	2.1%	2.7%	2.4%
Recession Probability 25%					
NA Emp	2.1%	1.8%	1.5%	1.4%	1.2%
Oil(Brent)	\$53	\$44	\$52	\$48	\$55
Housing	1.11	1.18	1.22	1.35	1.40
CPI	0.1%	1.3%	2.0%	1.6%	2.2%
Un Rate	5.3%	4.9%	4.4%	4.2%	4.0%



Key Variables Tracking SD Economy

Nonfarm employment

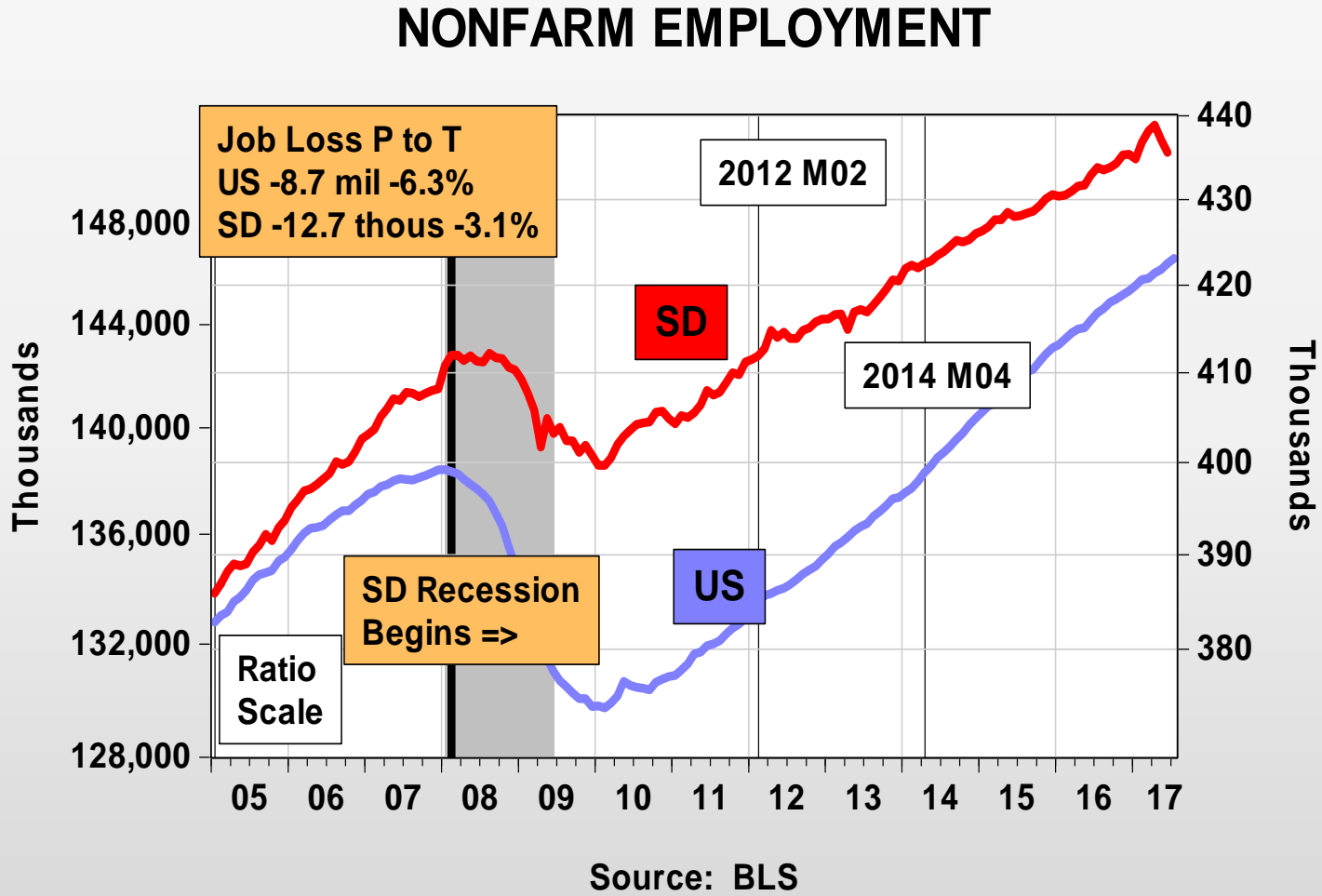
Housing starts

Real nonfarm personal income

Taxable sales

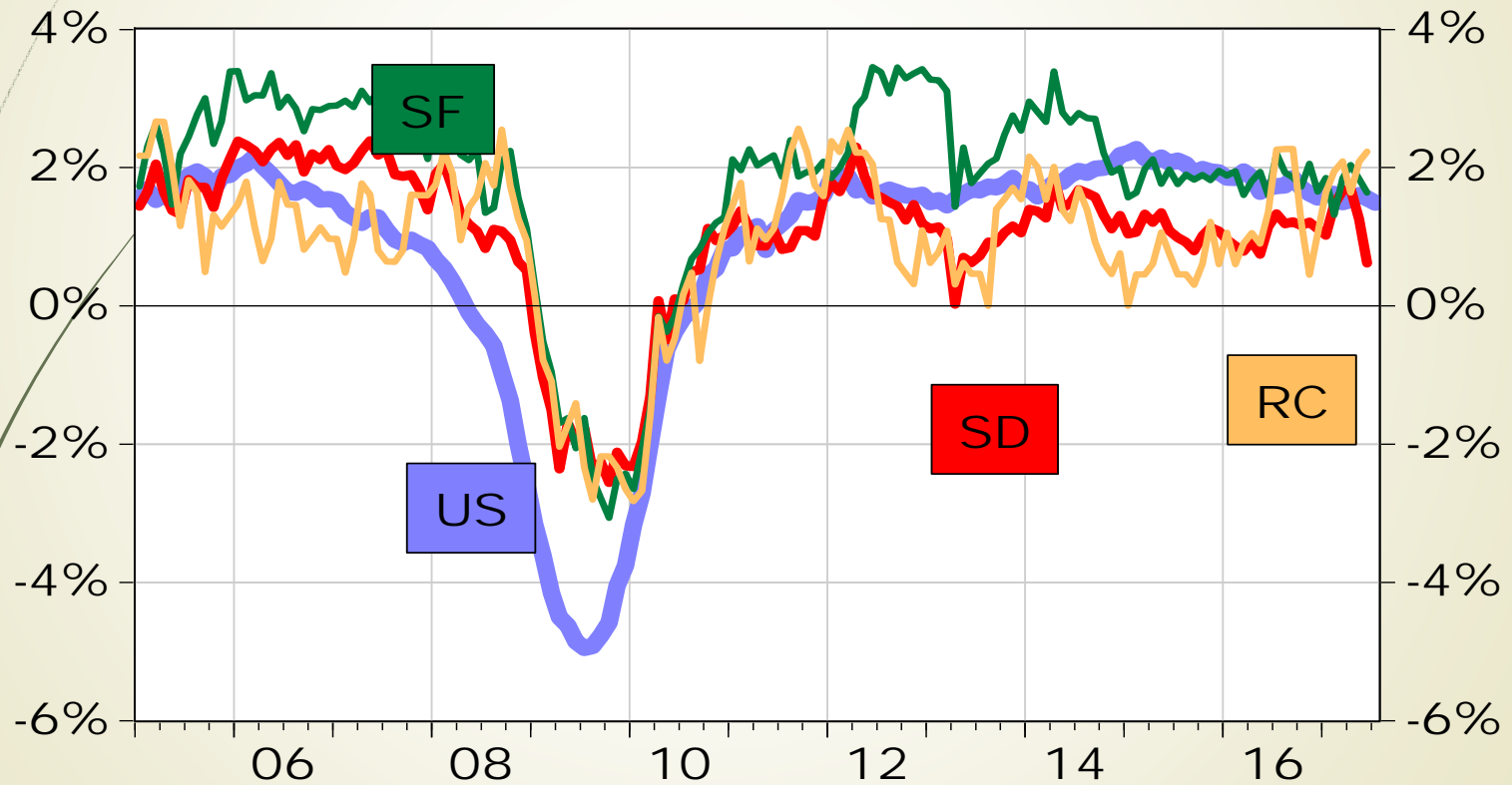
Leading indicator

Steady Growth



Interesting

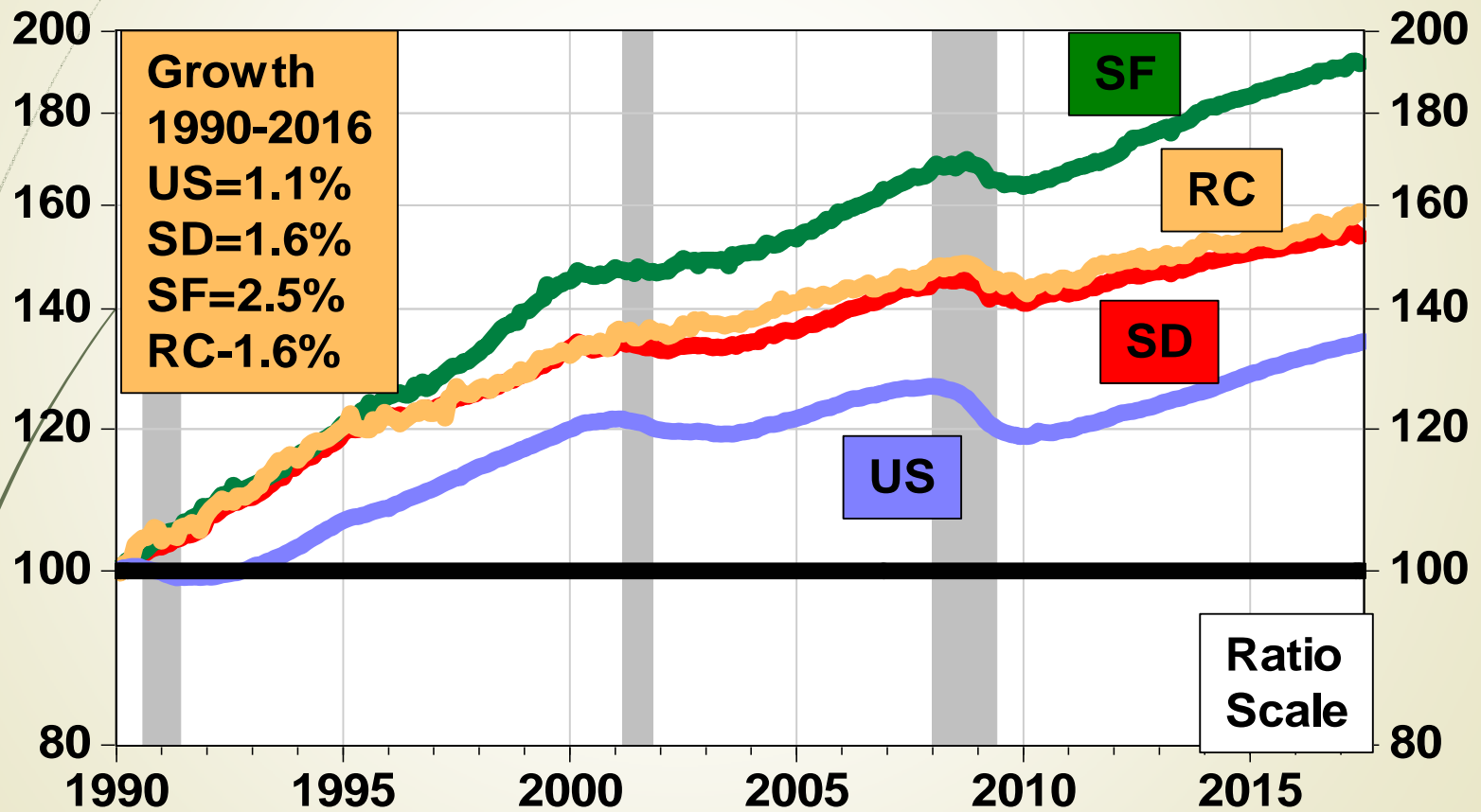
NONFARM EMPLOYMENT



Source: BLS

SF Easily Outpaces the Rest

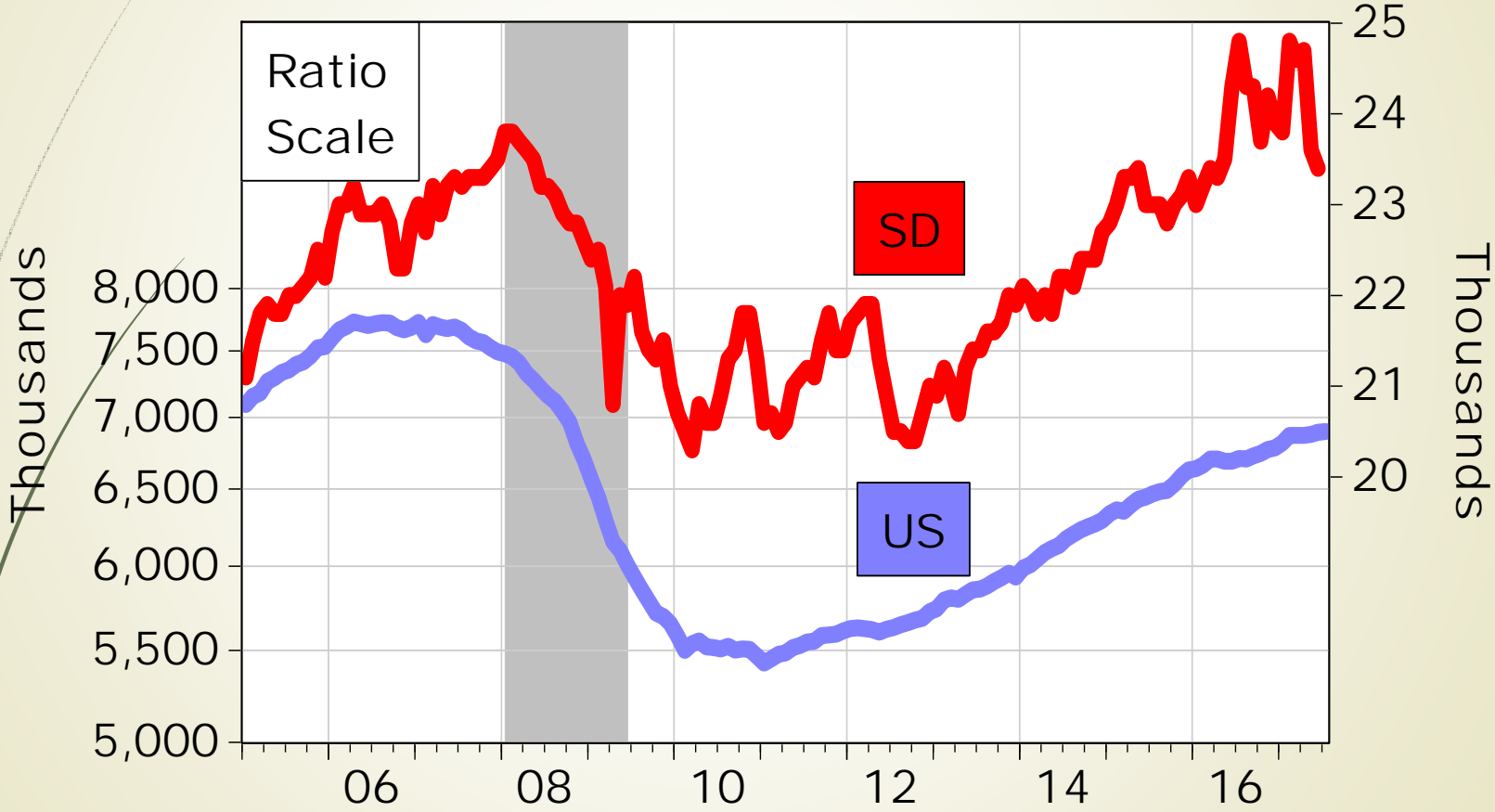
NONFARM EMPLOYMENT



Source: BLS

Above Peak

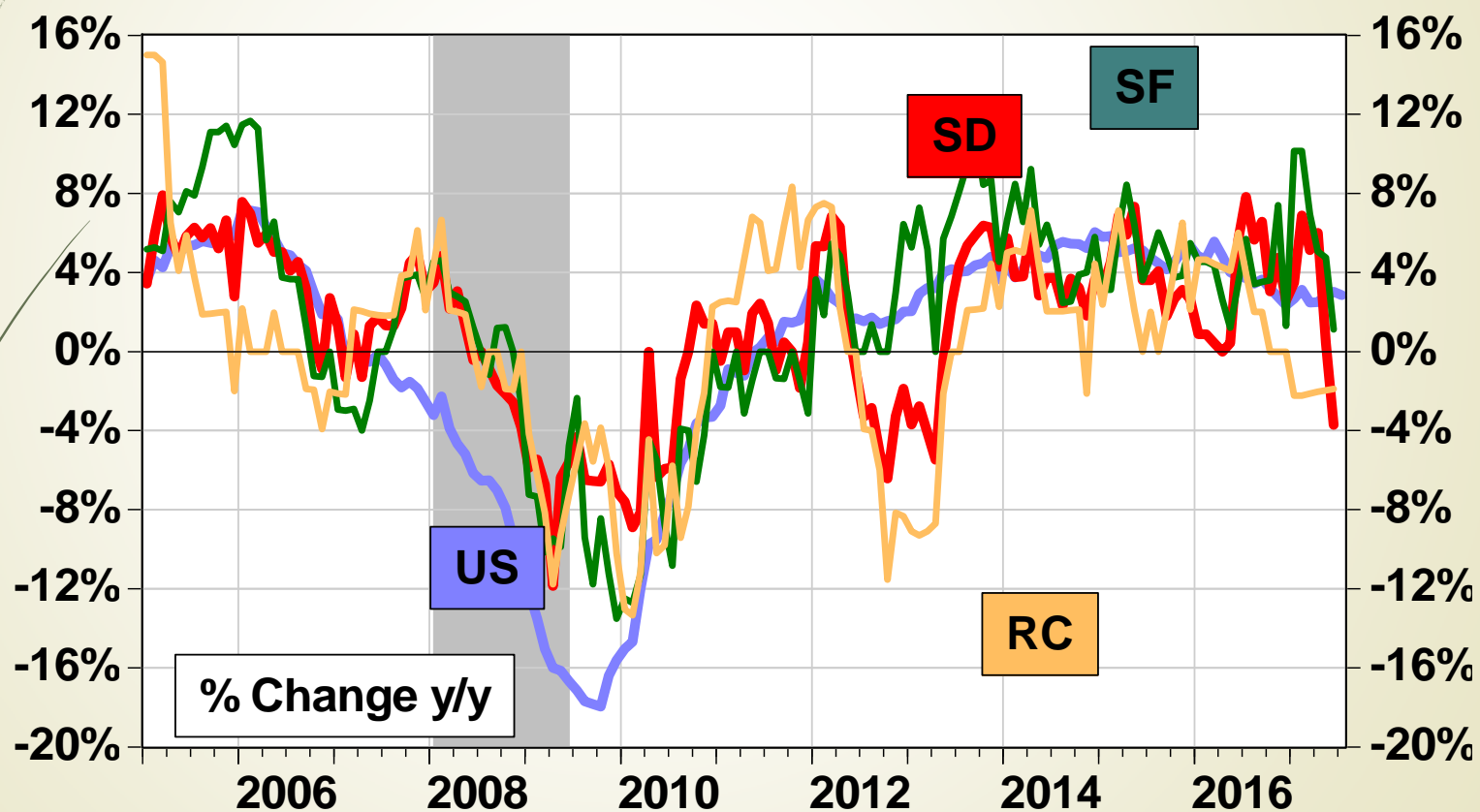
CONSTRUCTION EMPLOYMENT



Source: BLS

Positive Growth Since 2011

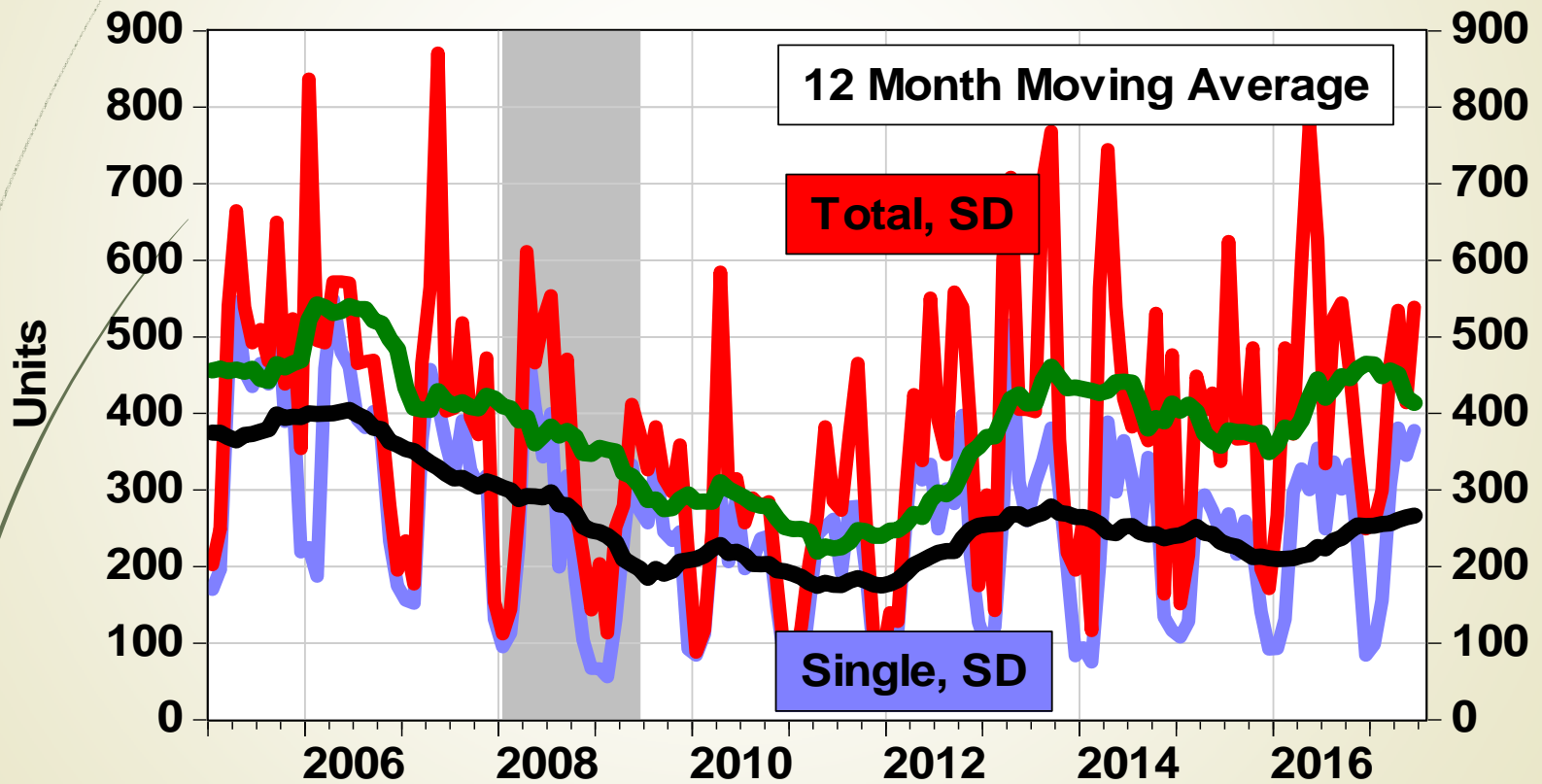
CONSTRUCTION EMPLOYMENT



Source: BLS

Good Growth

SD Building Permits, Total & Single

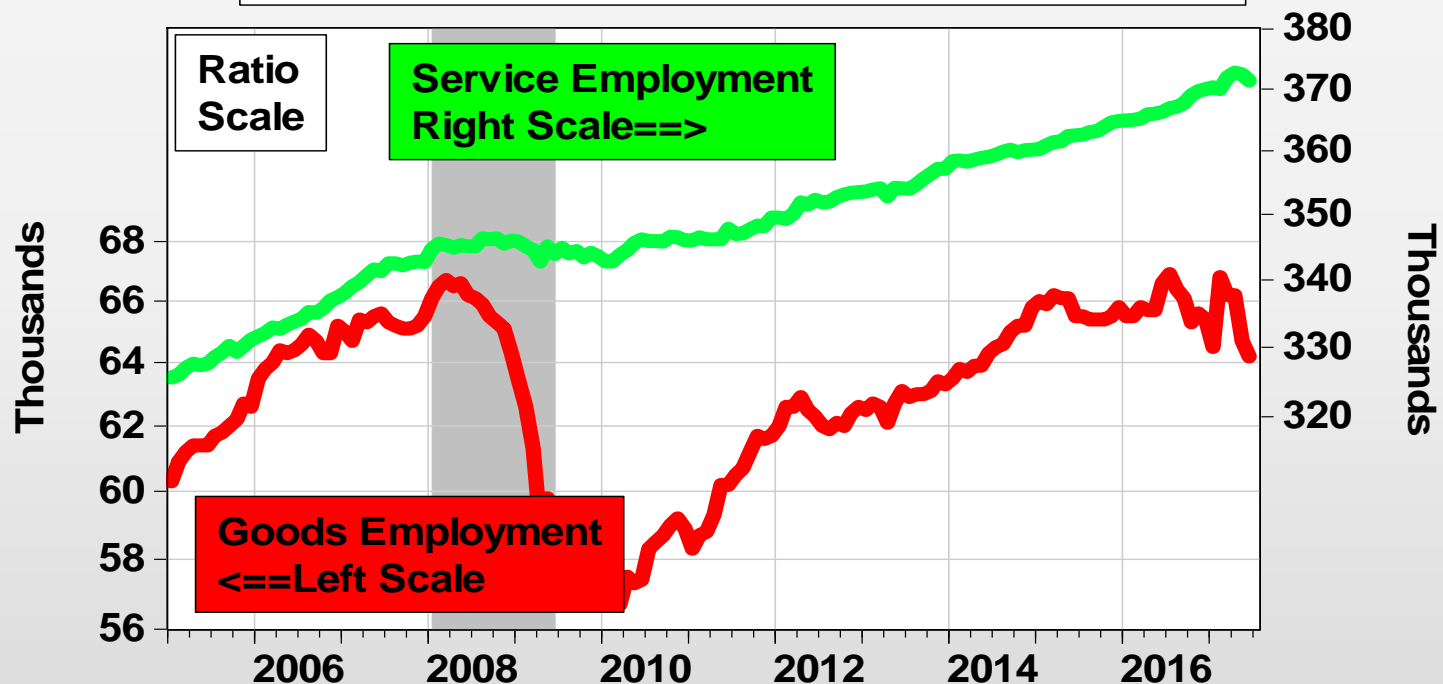


Source: Census Bureau

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

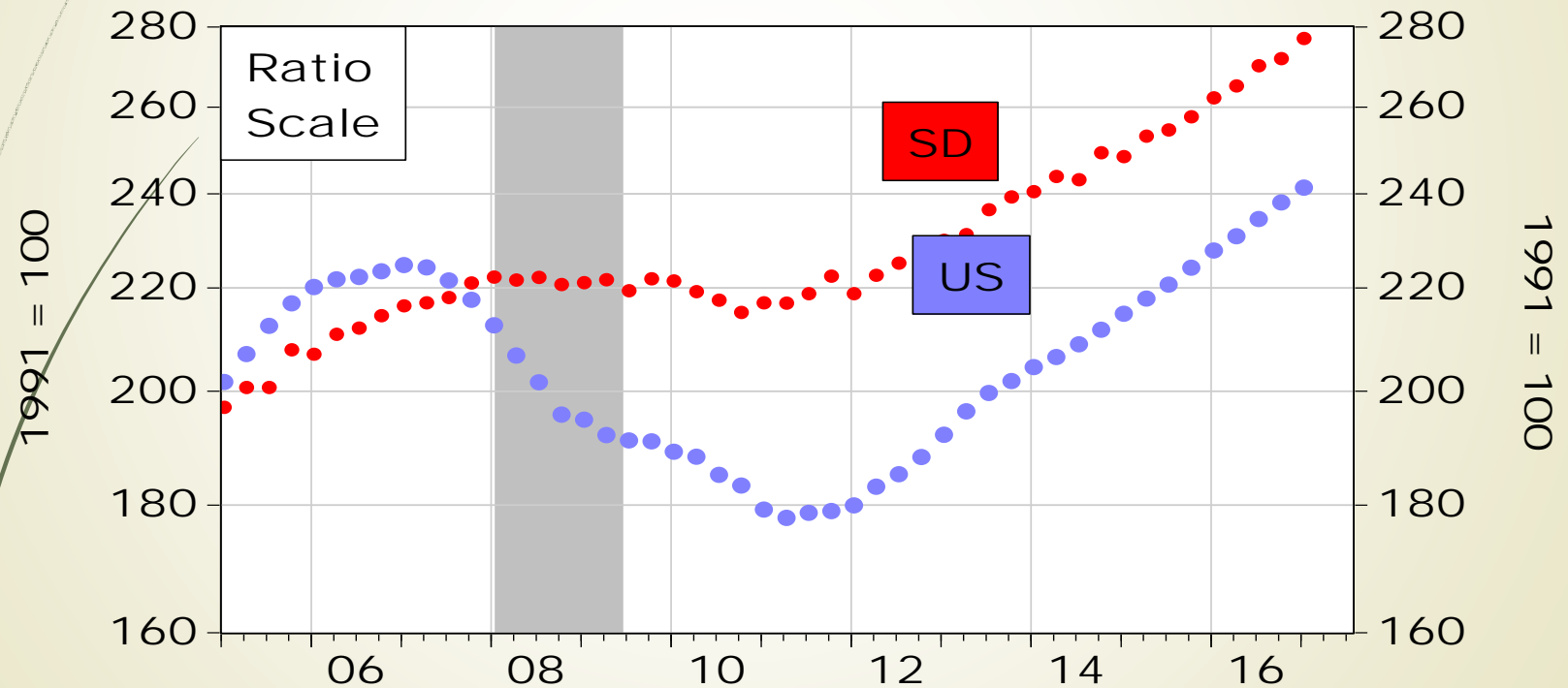
Goods-Producing = Manufacturing+Construction



Source: BLS

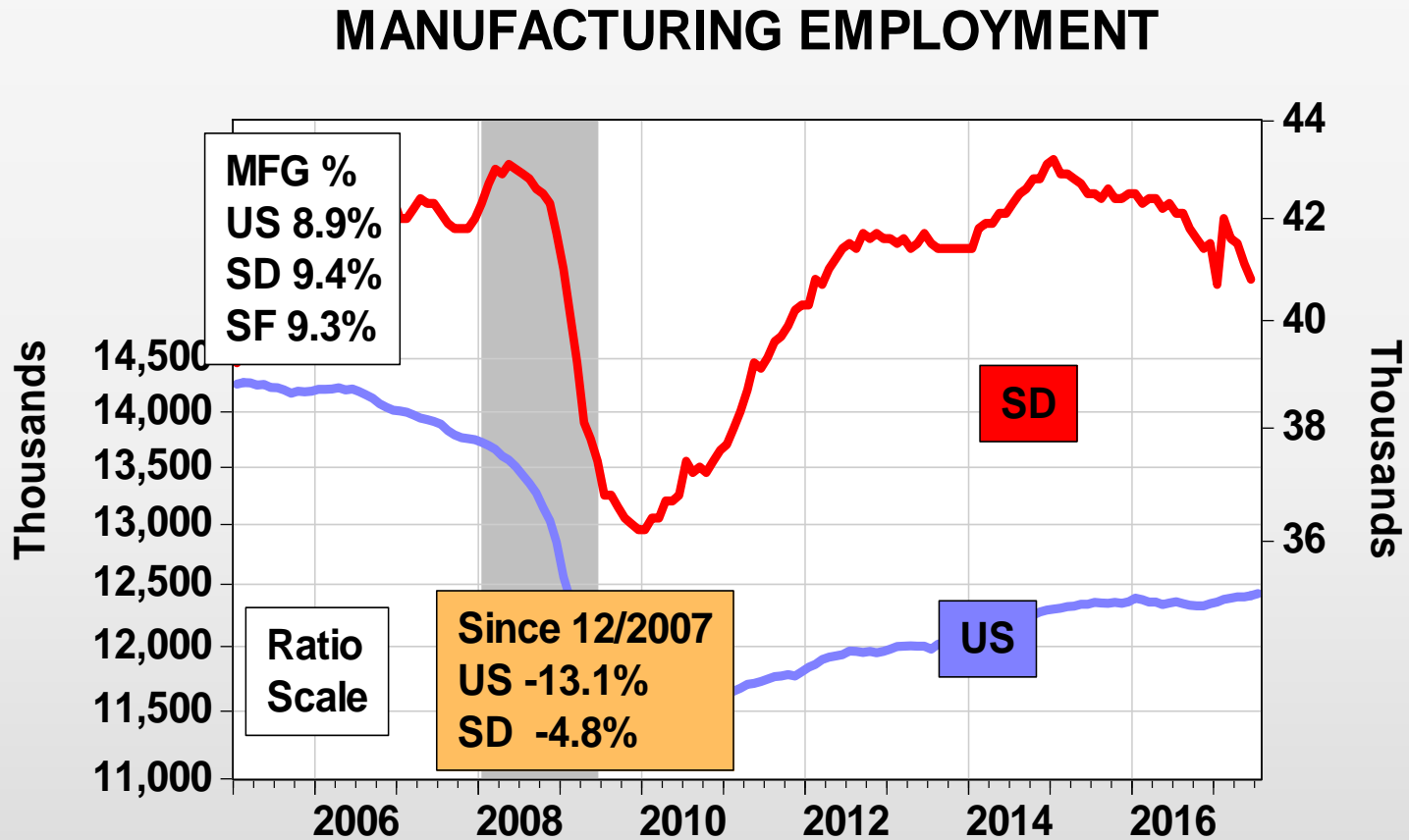
SD Peaked Later and Decline Less Severe

HOUSE PRICE INDEX



Source: FHLB

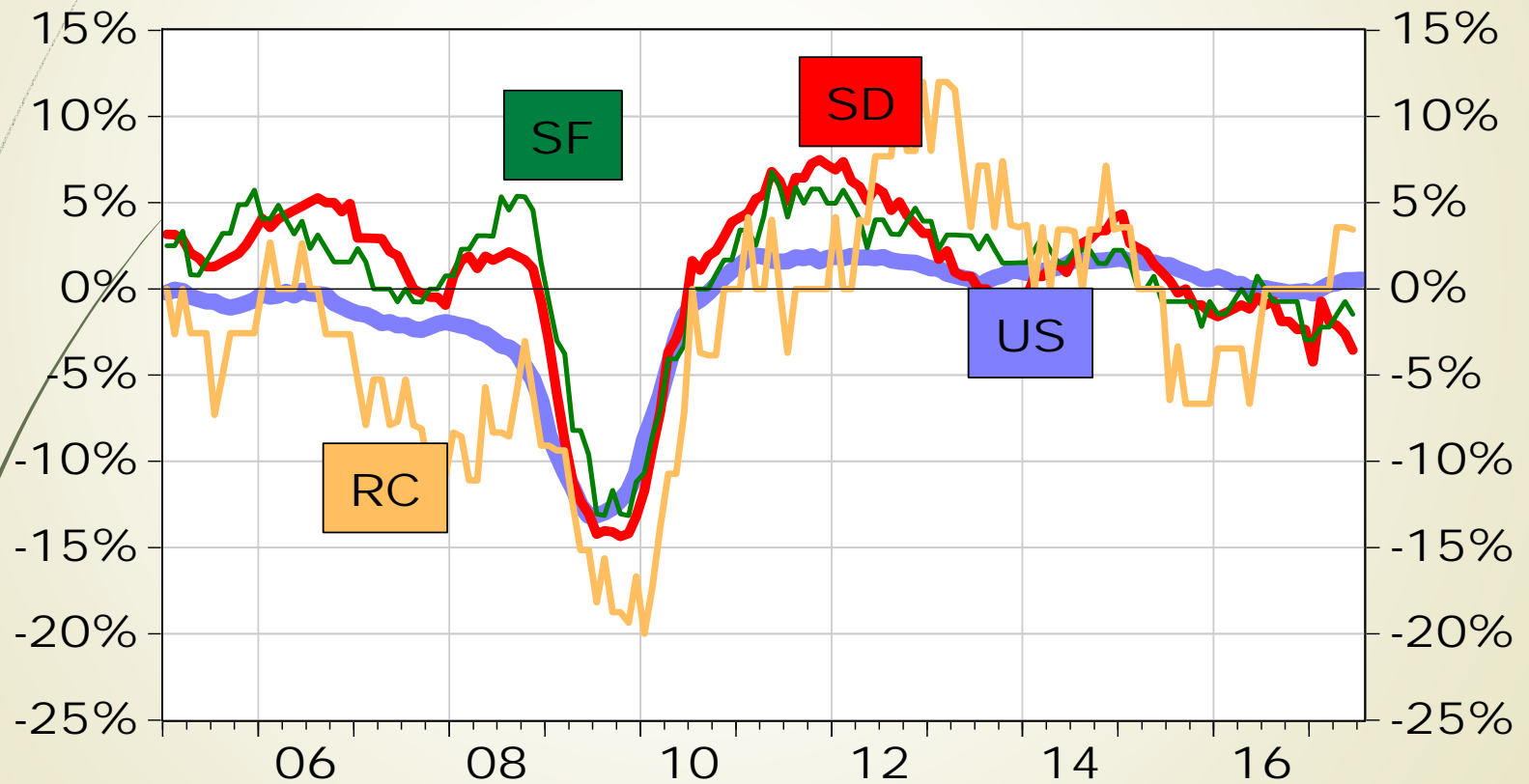
SD - Volatility But Growth



Source: BLS

Divergence

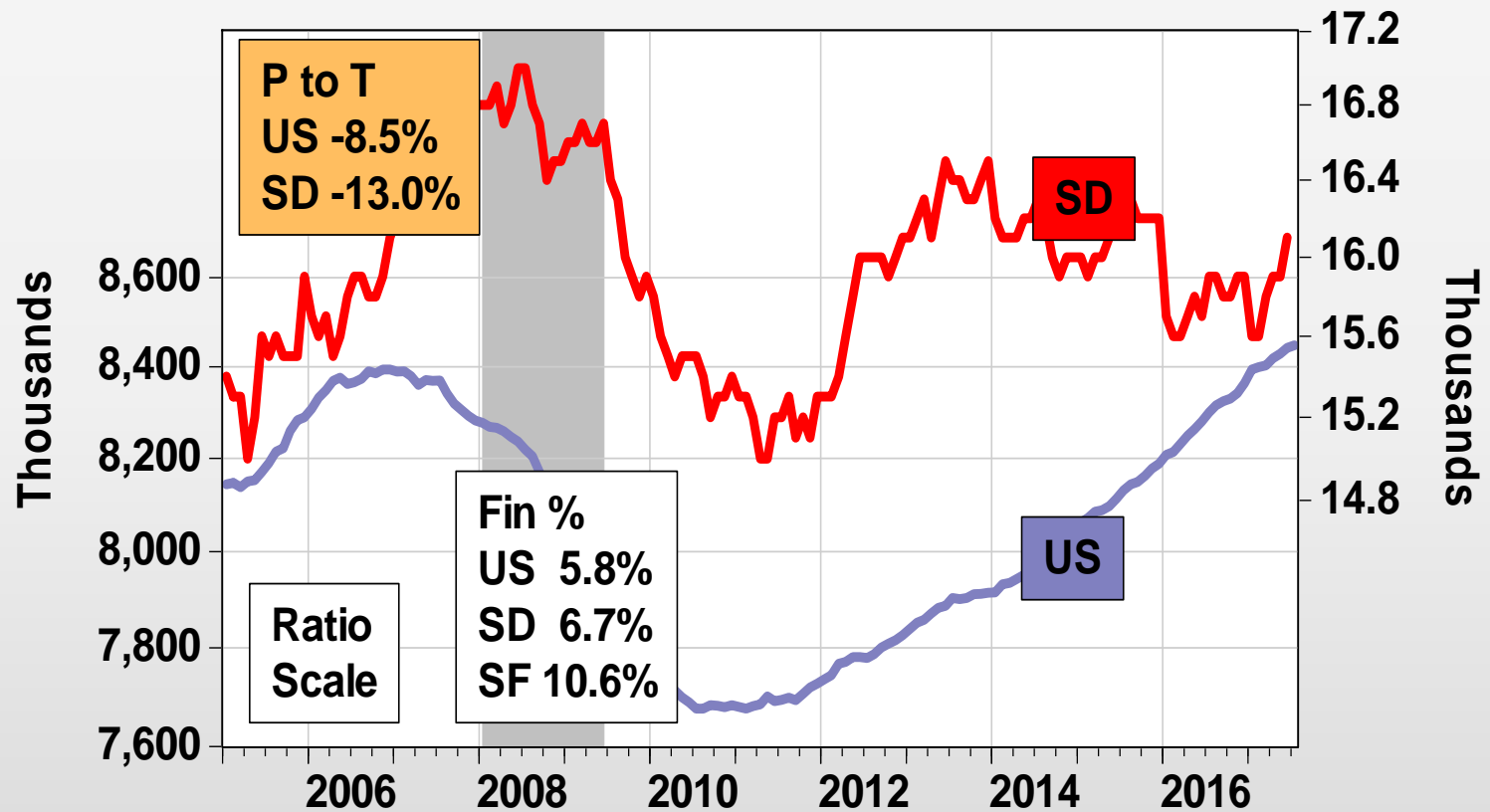
MANUFACTURING EMPLOYMENT



Source: BLS

SD More Volatile

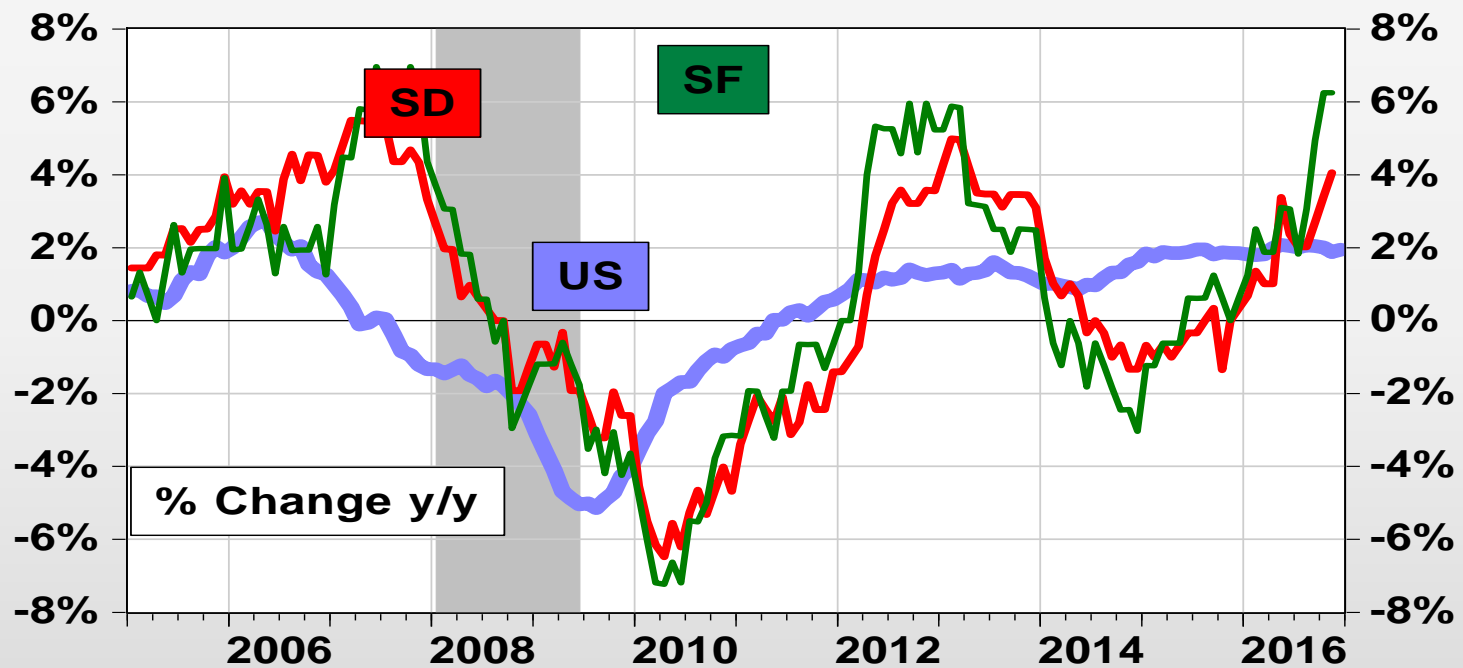
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

Note SD and SF Different Than US

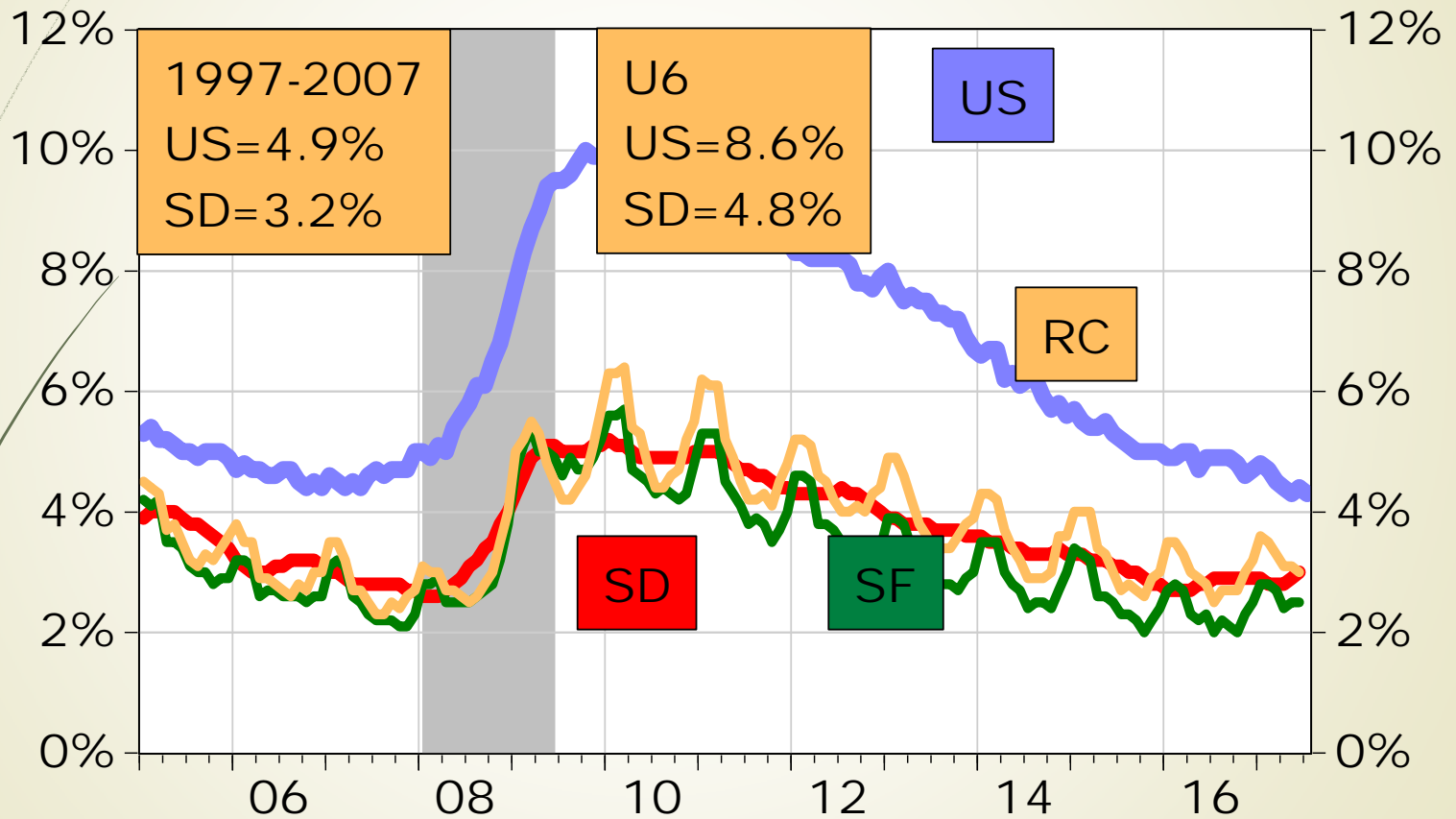
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

US 4.3% SD 3.0% SF 2.5% RC 3.0%

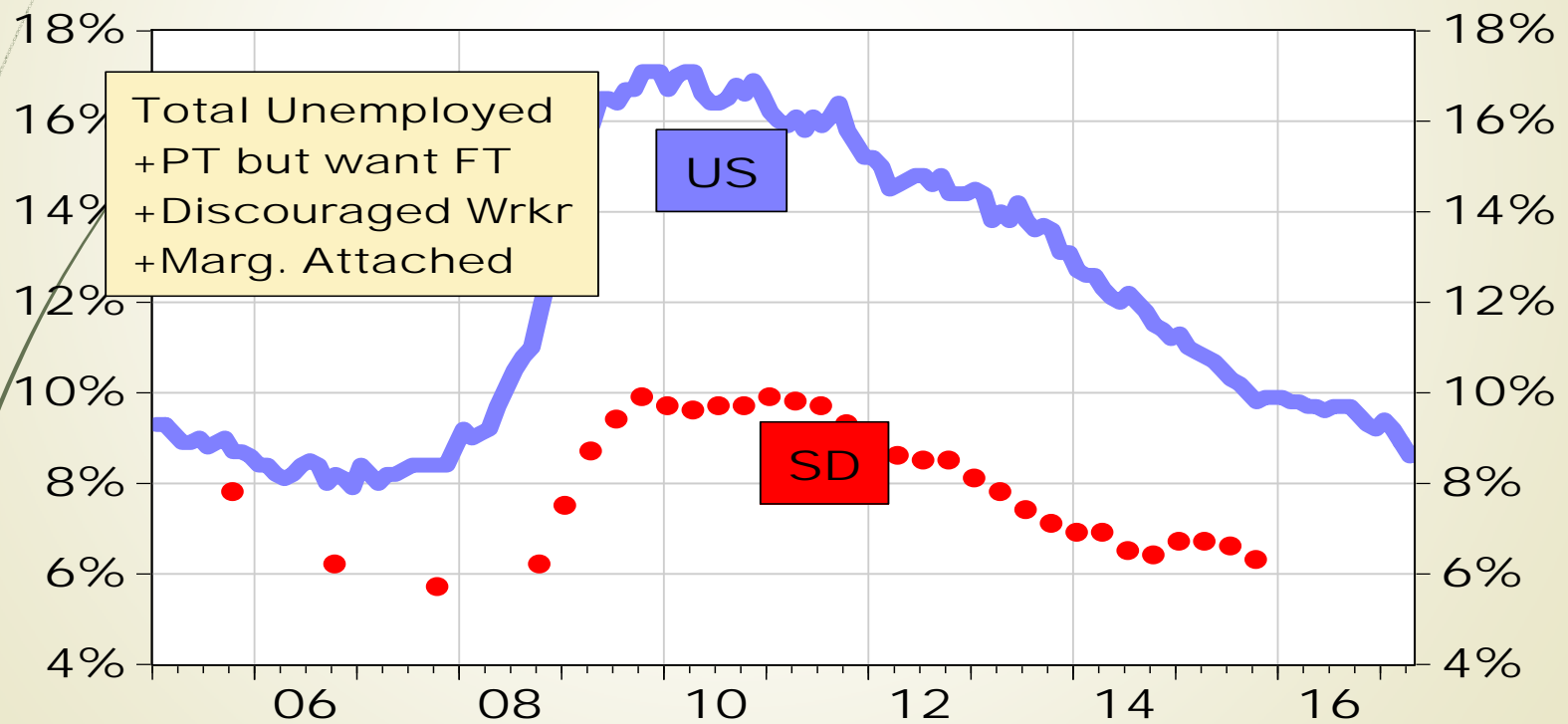
UNEMPLOYMENT RATES



Source: BLS

Definite Improvement SD Lowest of All States

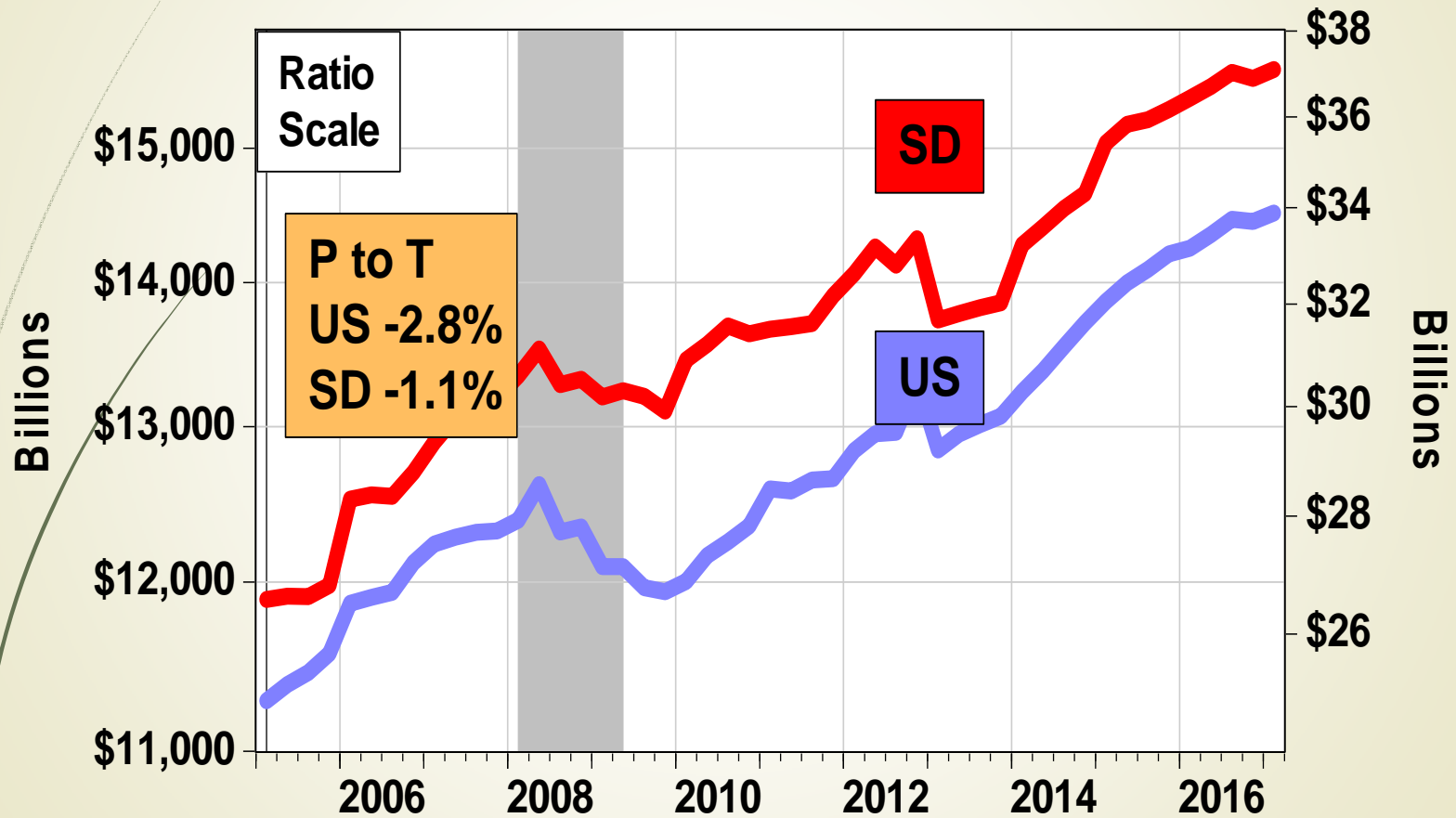
U6 UNEMPLOYMENT RATE



Source: BLS

Continued Real Growth

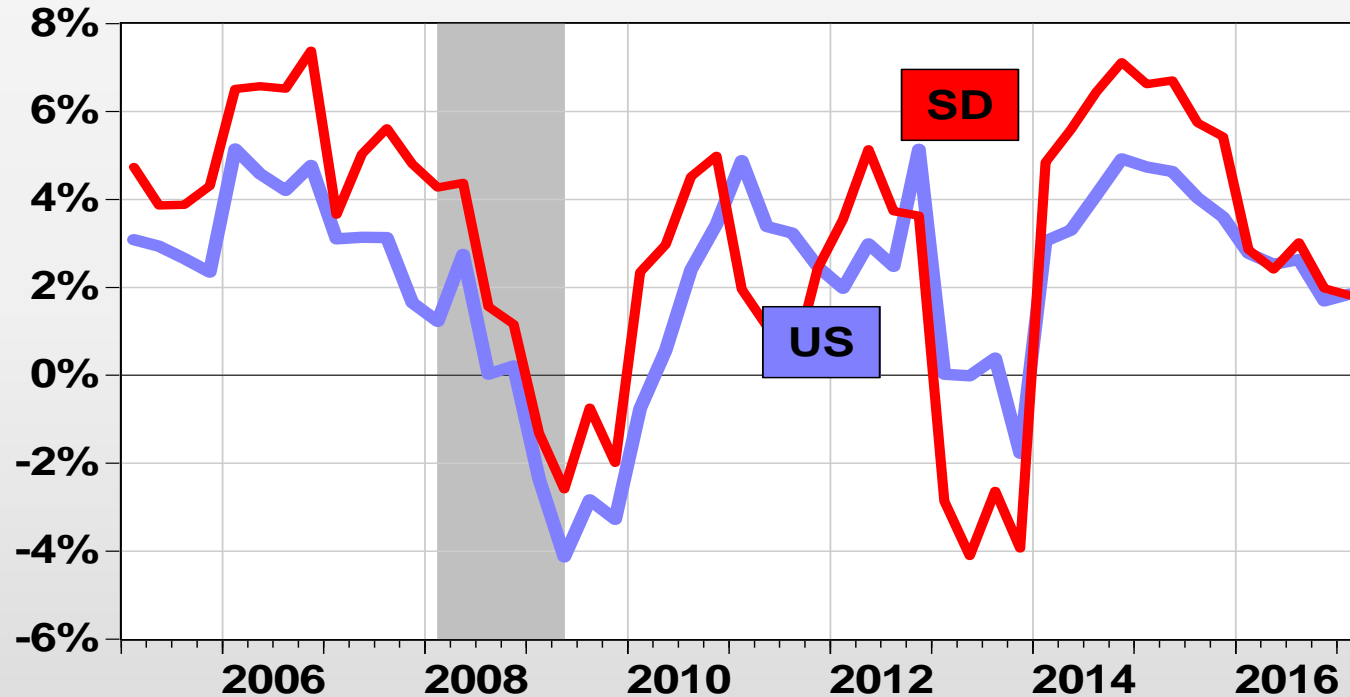
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

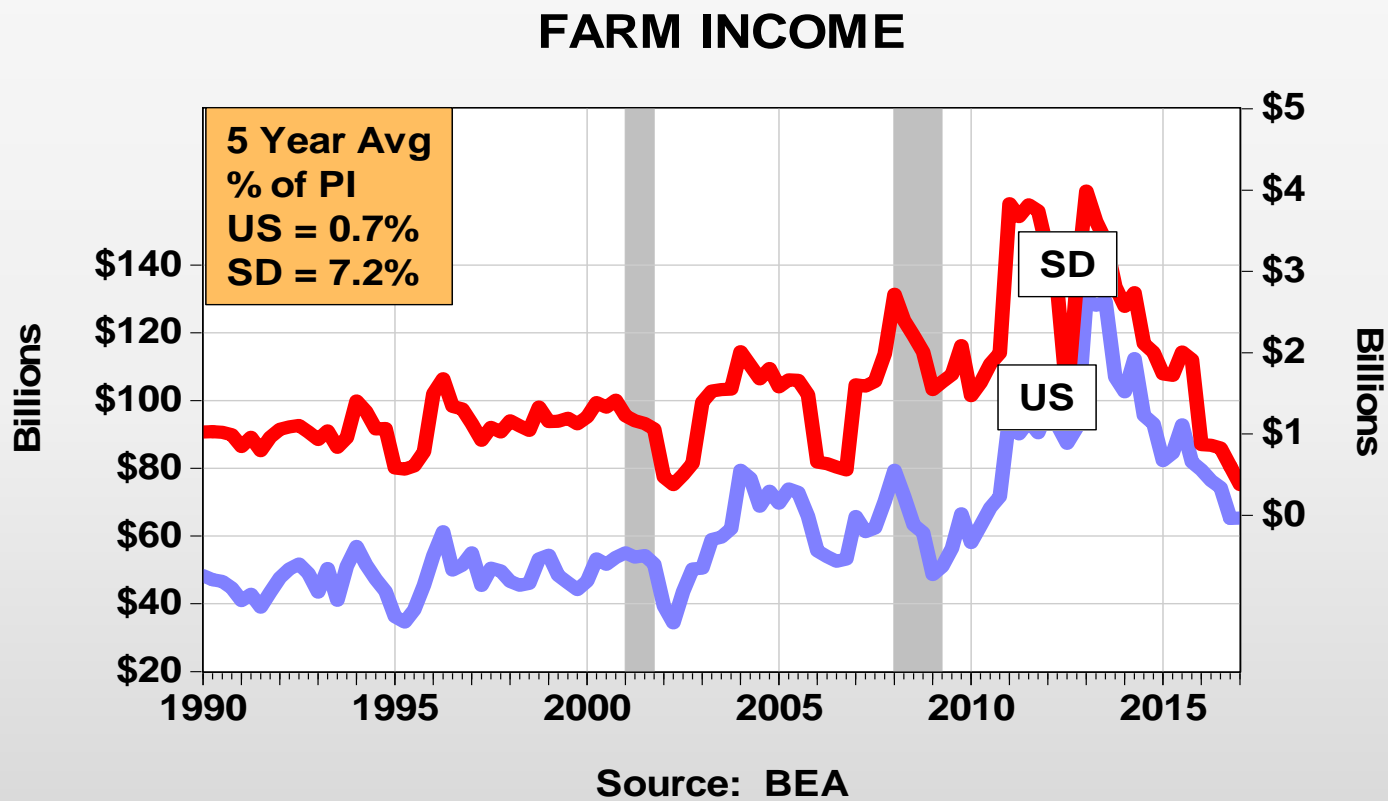
US and SD Track

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



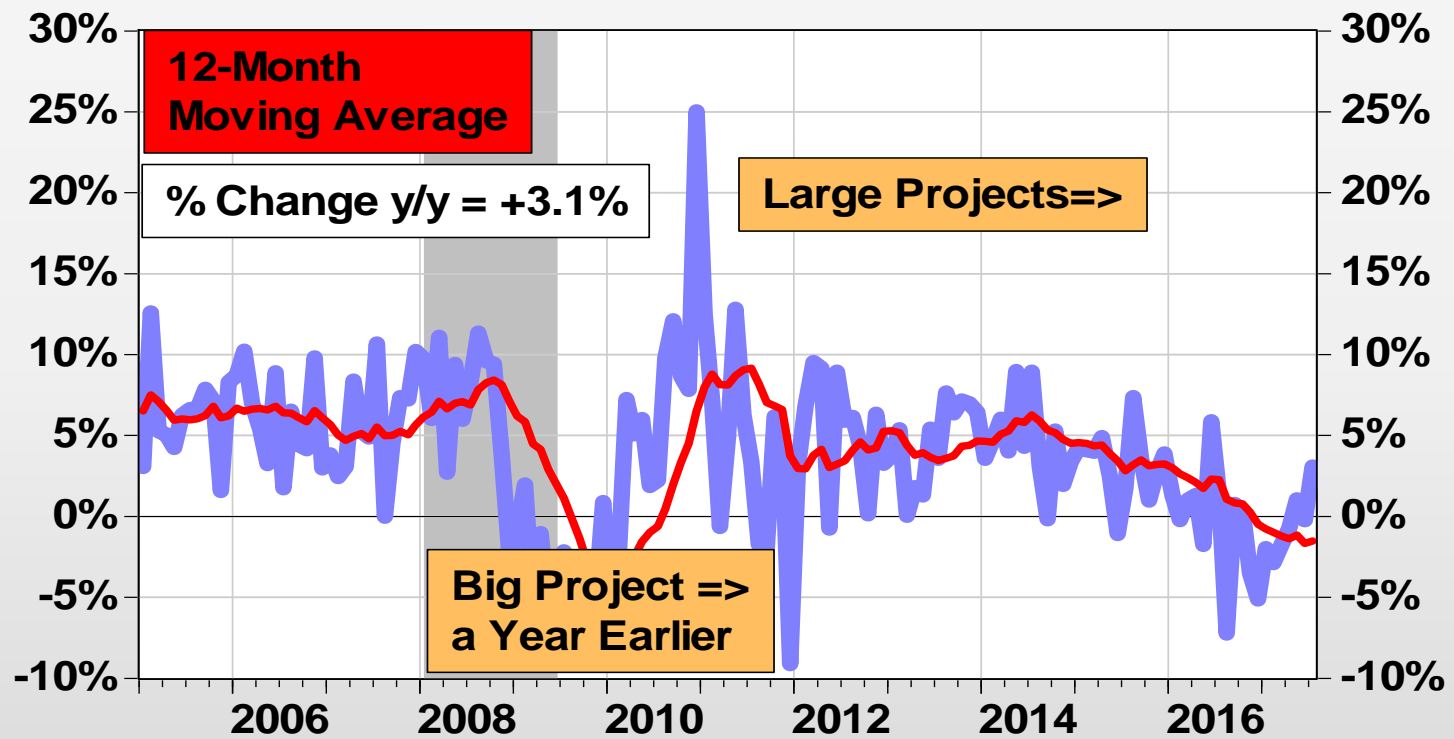
Source: BEA

Farm Down Sharply - High Prodn Low Prices



Low Inflation, Poor Farm Economy, & Online Sales

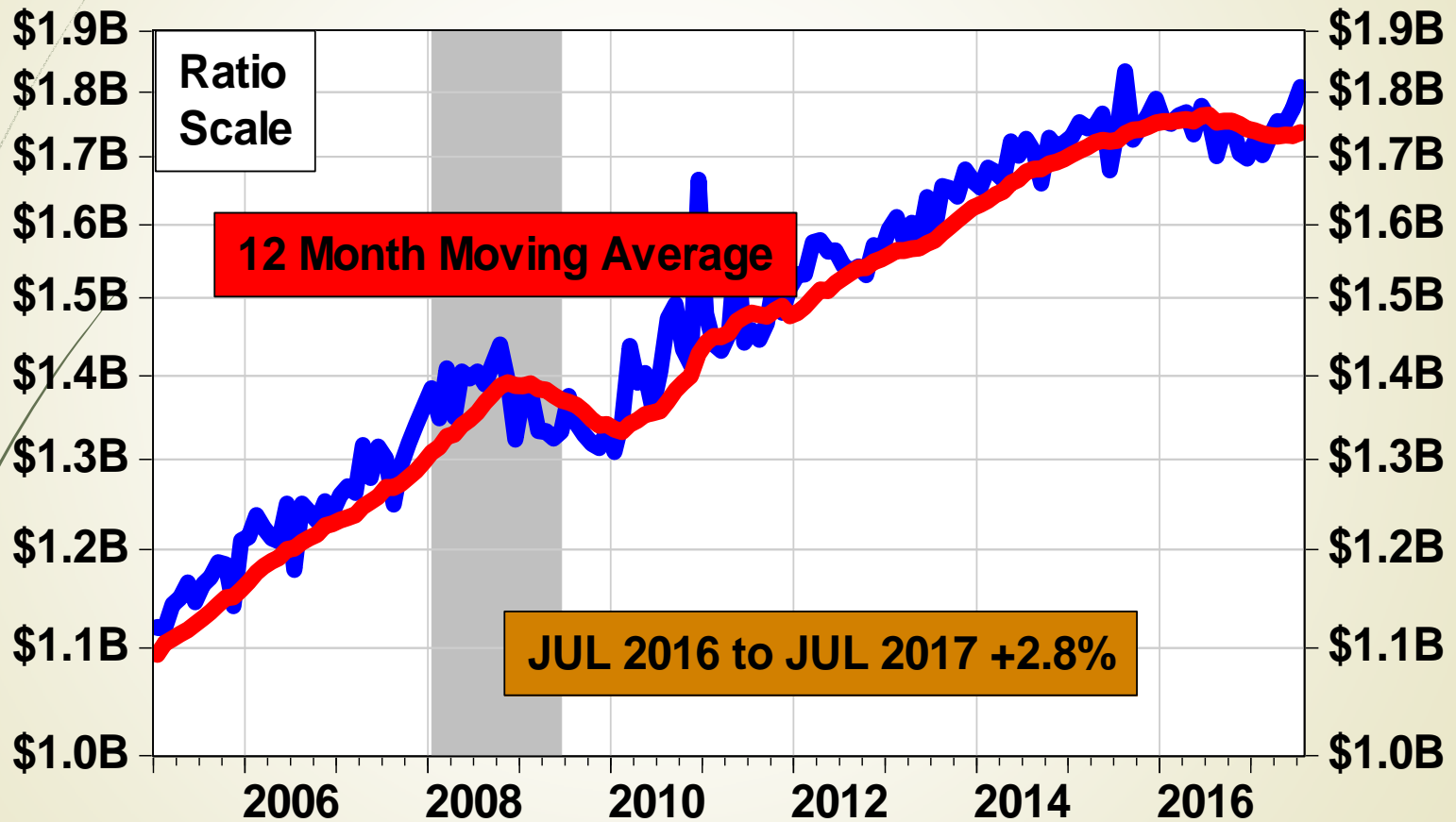
SD TAXABLE SALES



Source: SD Department of Revenue

Slow Growth

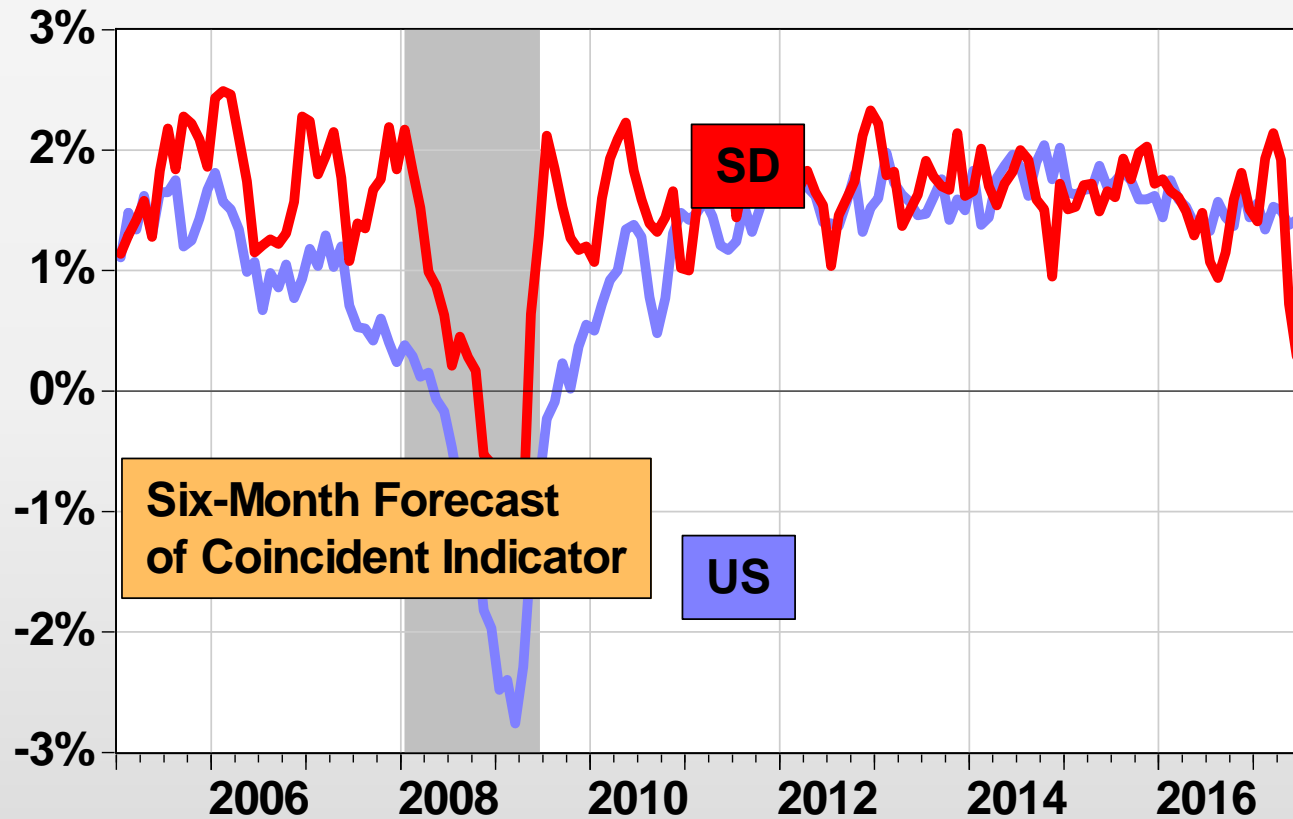
SD Taxable Sales - Seasonally Adjusted




Source: SD Department of Revenue

Forecasting Slower Growth

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

July 2017 Index > 50 Growth

Overall 53.3

New Orders 58.2

Sales 55.0

Delivery lead time 52.7

Inventories 46.9

Employment 53.7

“Growth in the months ahead will be positive but slow for the state.” said Goss.

Conclusions

SD economy growing at slower pace

SF economy growing at faster rate

US economy growing slowly

25% chance of recession

The End

