



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

August 30, 2016

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Outline of Presentation

Overview of US economy

US economy forecast

SD economy

Summary & Conclusions

US Forecast

Global Insight Forecast – August 12, 2016

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation



GDP

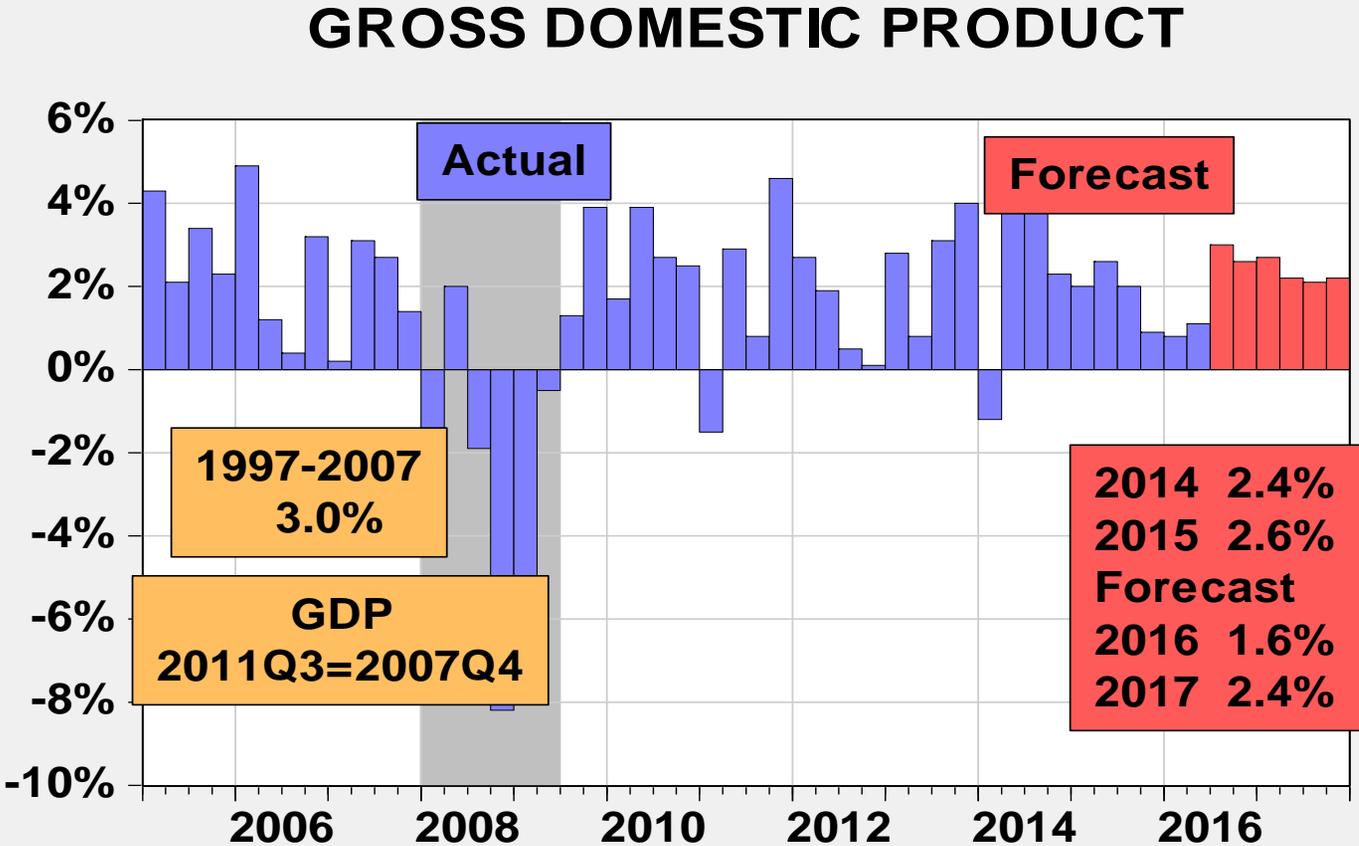
IHS has further downgraded its 2016 forecast to 1.6% and 2.4% in 2017. Wells Fargo at 1.4% and 1.9%

First half of 2016 very weak partly due to inventory correction. GDP growth should be stronger in the last half of the year.

Looking ahead into 2017, consumer spending is expected to be the key source of growth.

IHS expects nonresidential fixed investment, which has been very weak due to the oil market collapse and the strong dollar, should improve as the impact of these factors fades.

Slowdown in Growth in 2016



Source: BEA and IHS



Components of GDP are:

GDP = Consumption (69%)
Investment (17%)
Government (18%)
Net Export (-4%)

Consumption

Consumption spending was weak in the 1st quarter but picked up in the 2nd quarter, 4.2%, and will remain moderately strong for the rest of 2016.

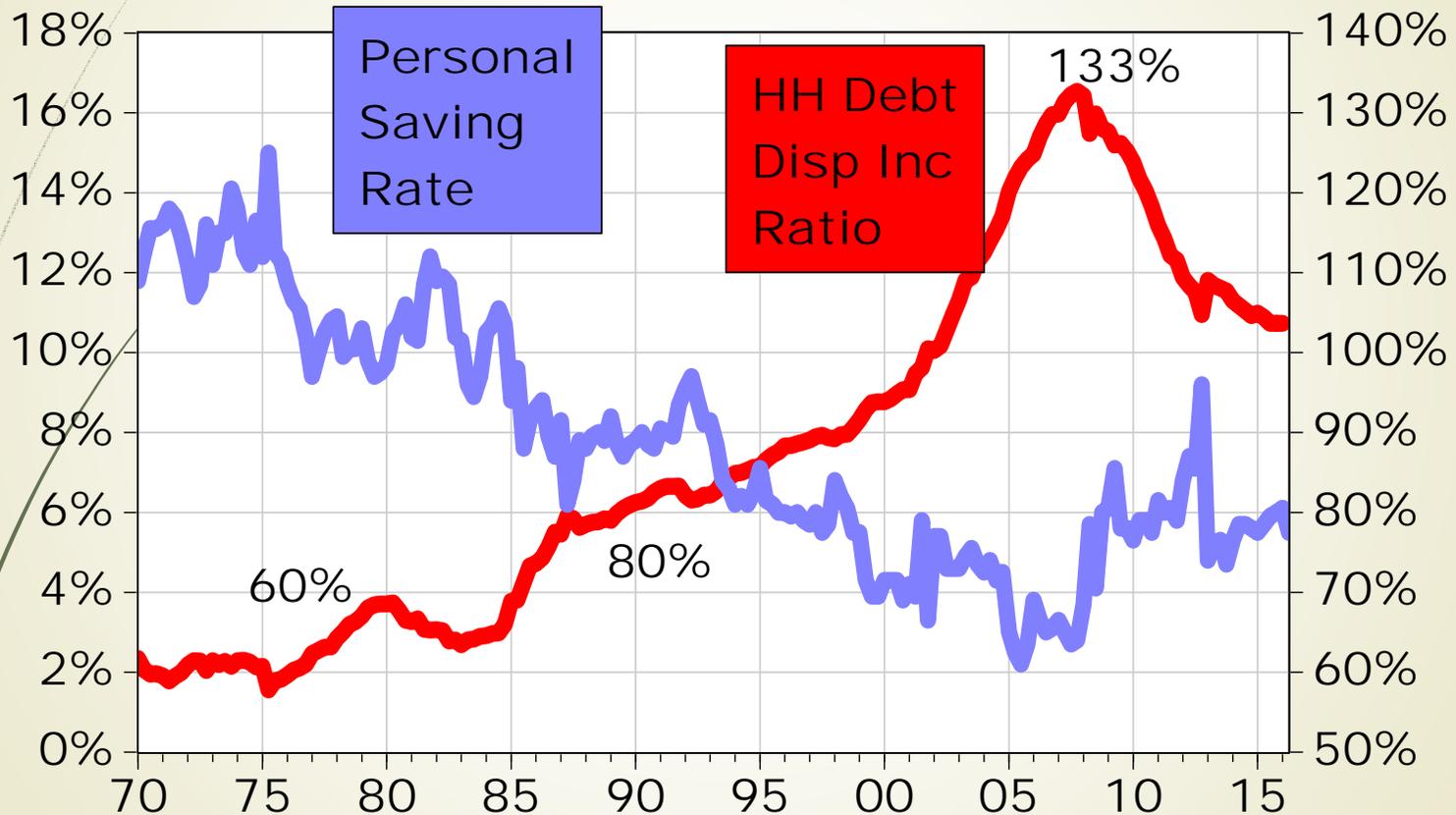
Mostly positive news on the employment front, strong consumer confidence, strong income growth, and lower energy prices all support consumer growth.

IHS expects growth of 2.6% in 2017.

Auto sales have been strong and modest growth expected in 2017.

Deleveraging is Nearly Over

HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Very Low Debt Service

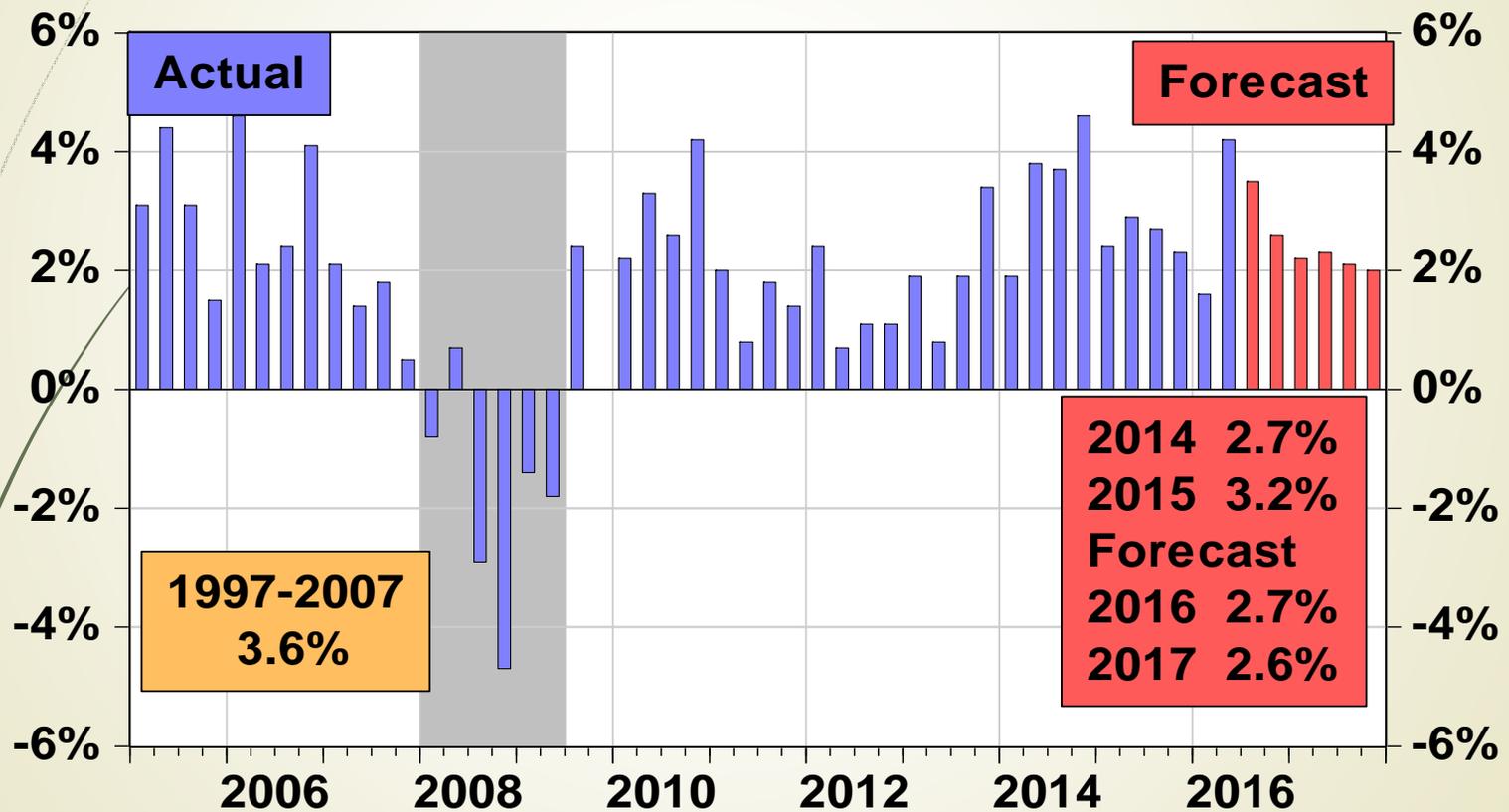
HH DEBT SERVICE PAYMENTS AS % OF
DISPOSABLE PERSONAL INCOME



Source: BEA and Federal Reserve System

Better Growth in 2016

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

In the energy sector, the drilling rig count which collapsed in 2015-16, appears to have bottomed out.

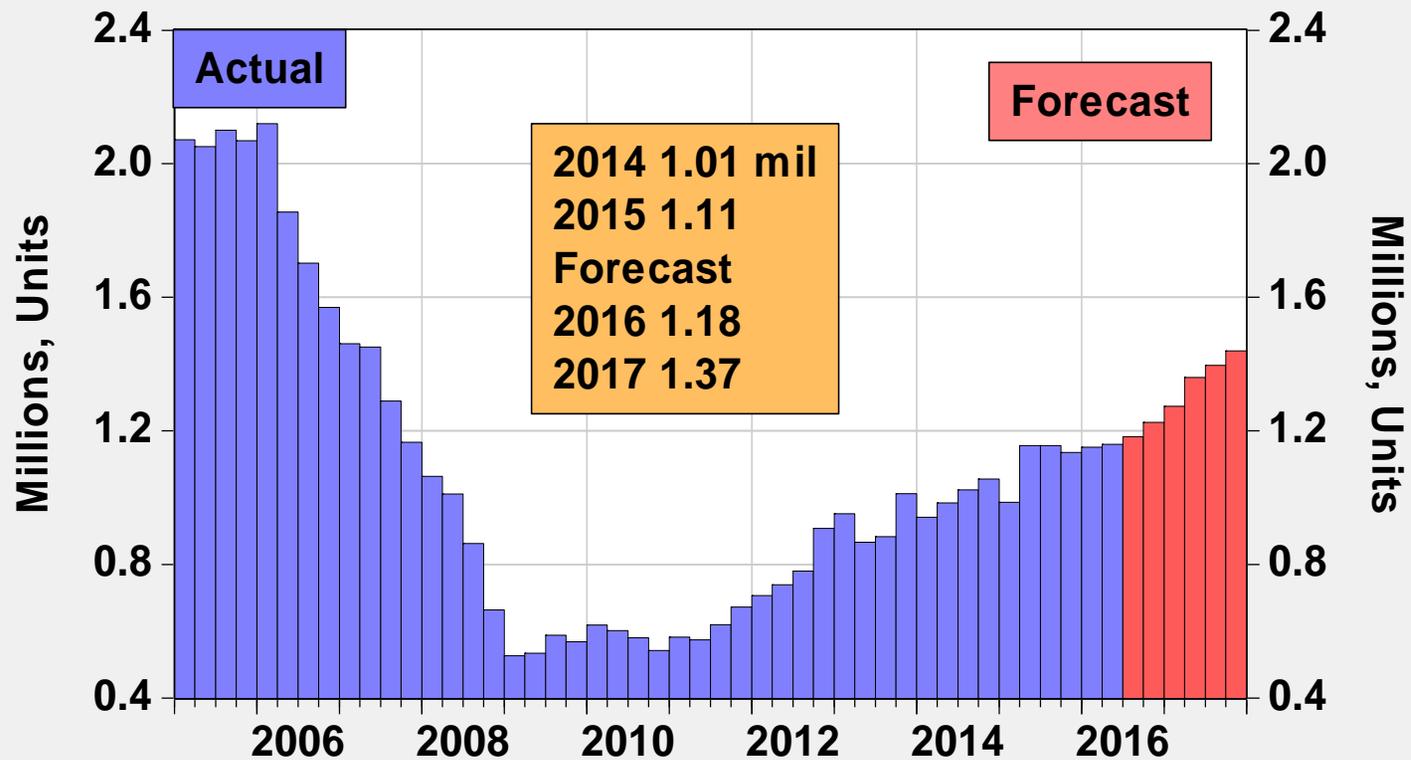
Spending on equipment, which has declined for 3 quarters, will improve to +4.1% in 2017.

Houses are selling at a solid pace. Yet, home ownership is at its lowest rate in 51 years. It peaked at 69.2% in 2004 and is down to 62.9% now.

IHS forecasts new household formation, moderate price appreciation, and an expanding inventory of houses for sale.

Recovery Proceeds

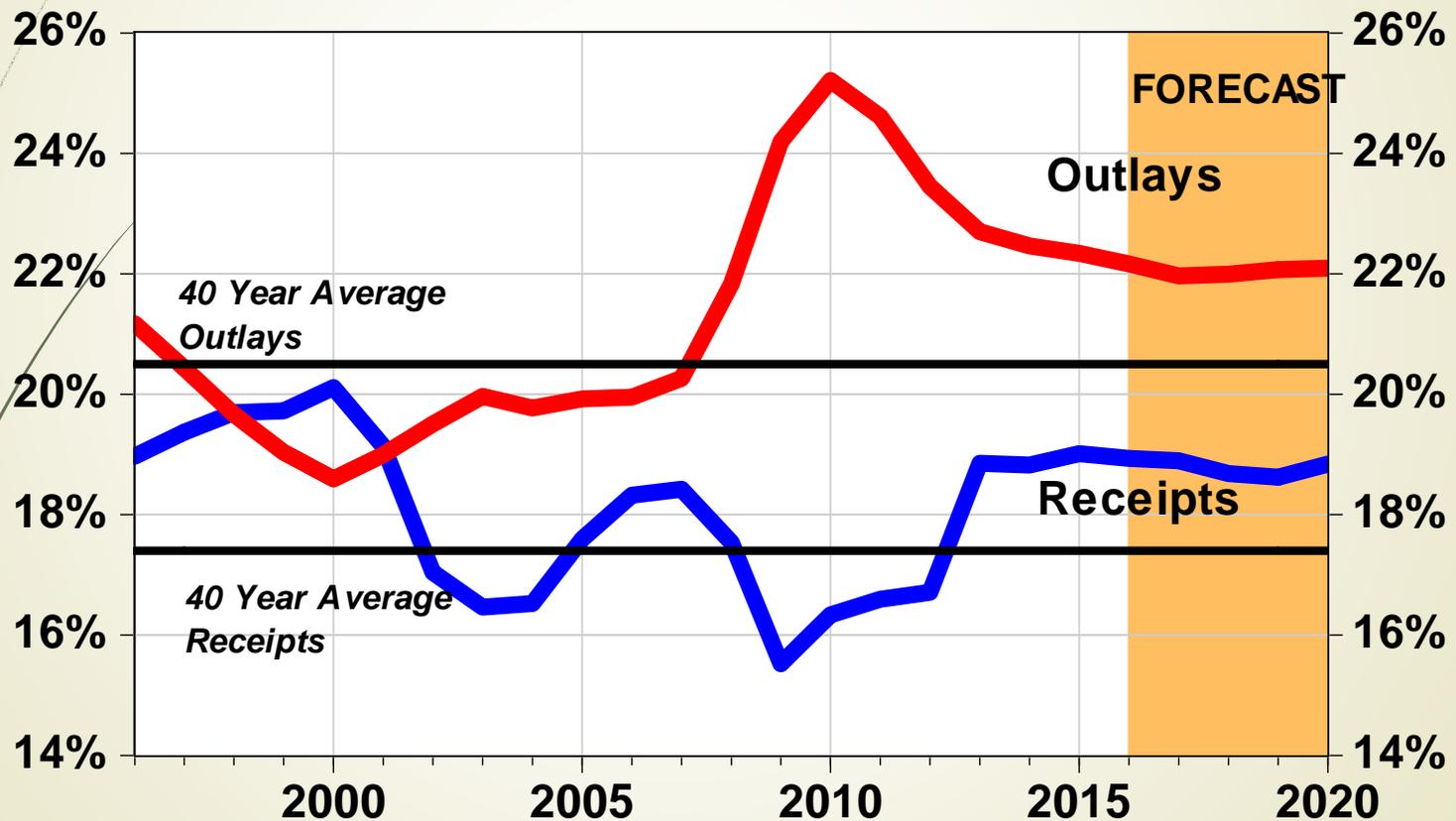
HOUSING STARTS



Source: US Census and IHS

Government Sector

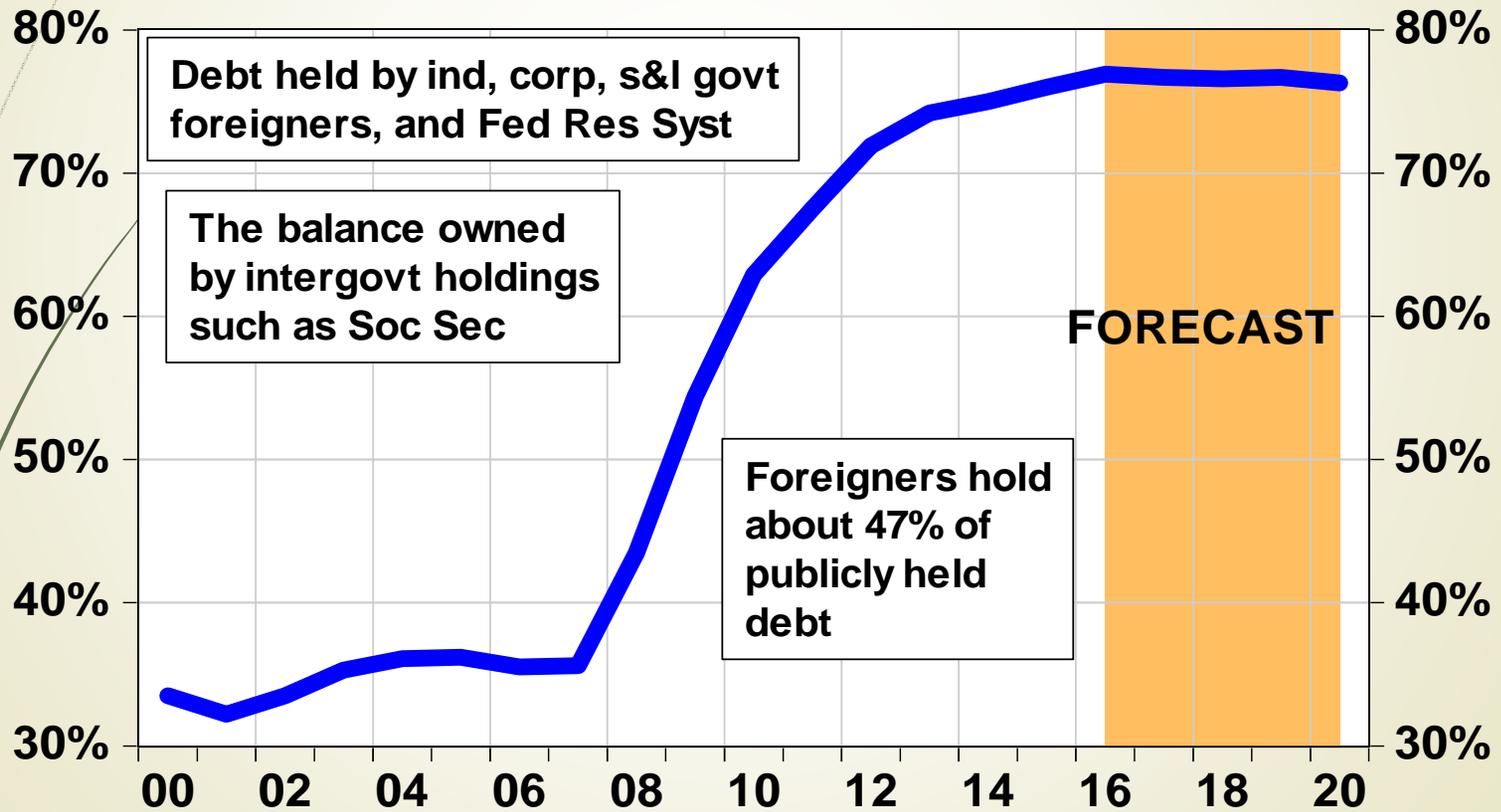
FEDERAL GOVERNMENT AS % OF GDP



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 2016. But will weaken in 2017 and 2018.

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 considers BREXIT to be benign in the short-term.



Employment & Unemployment

Pretty good job growth this past year at 204,000 per month.

Unemployment rate averaged 5.3% in 2015 and 4.9% in 2016 and 4.7% in 2017.

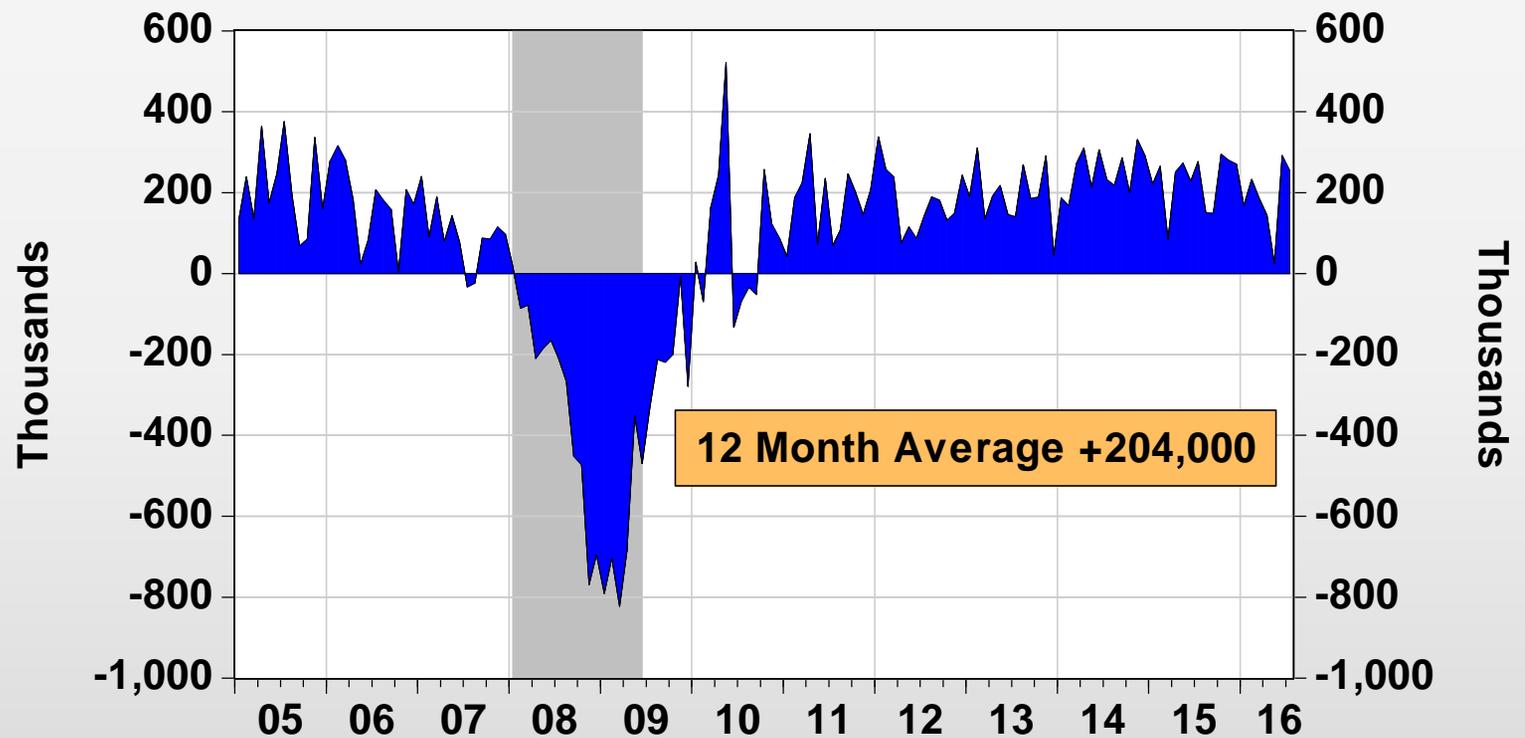
Yet the labor force participation rate is at a 38 year low and does not appear to be improving.

Wage growth is sluggish, but did see a slight uptick last month.

FED feels labor market is healing and mostly healthy and a rate hike is coming soon.

Pretty Good Growth

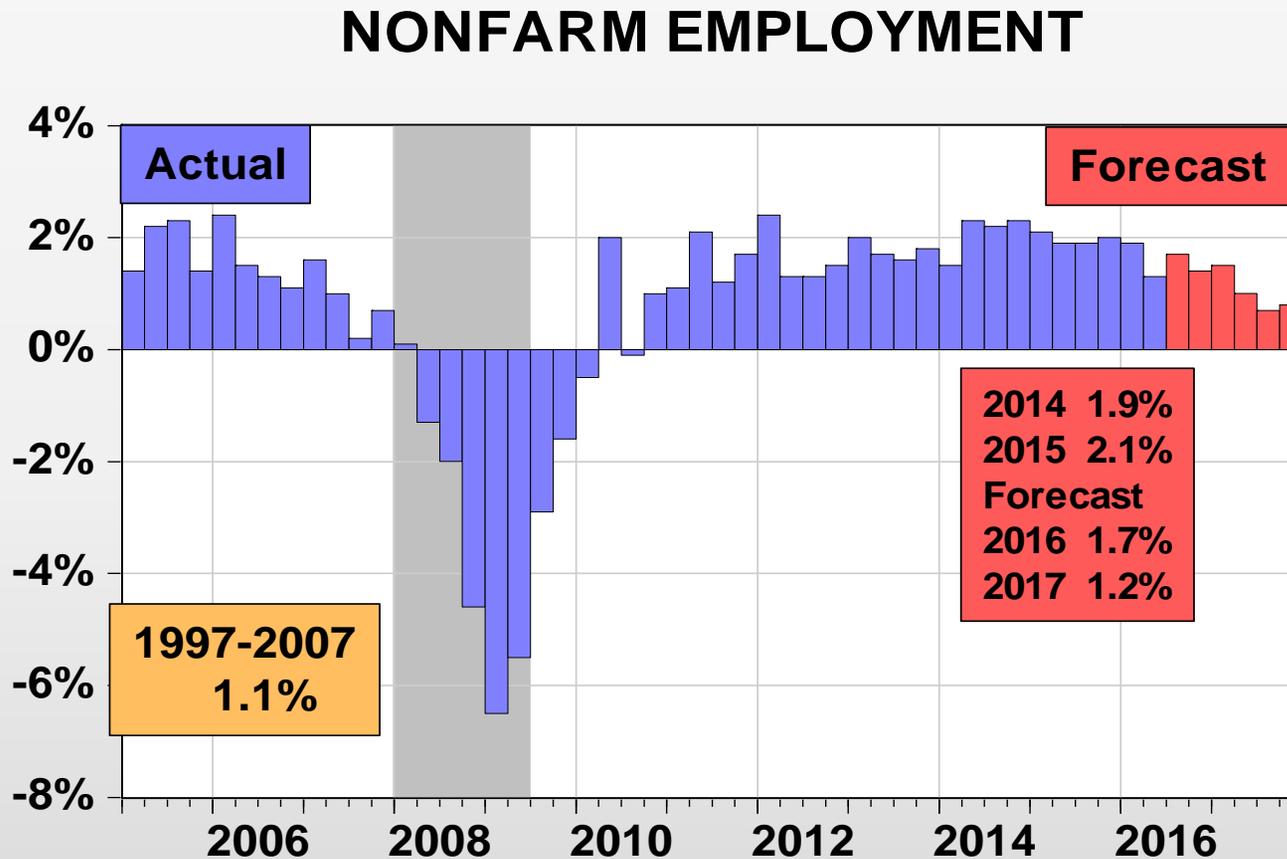
CHANGE IN NONFARM EMPLOYMENT



12 Month Average +204,000

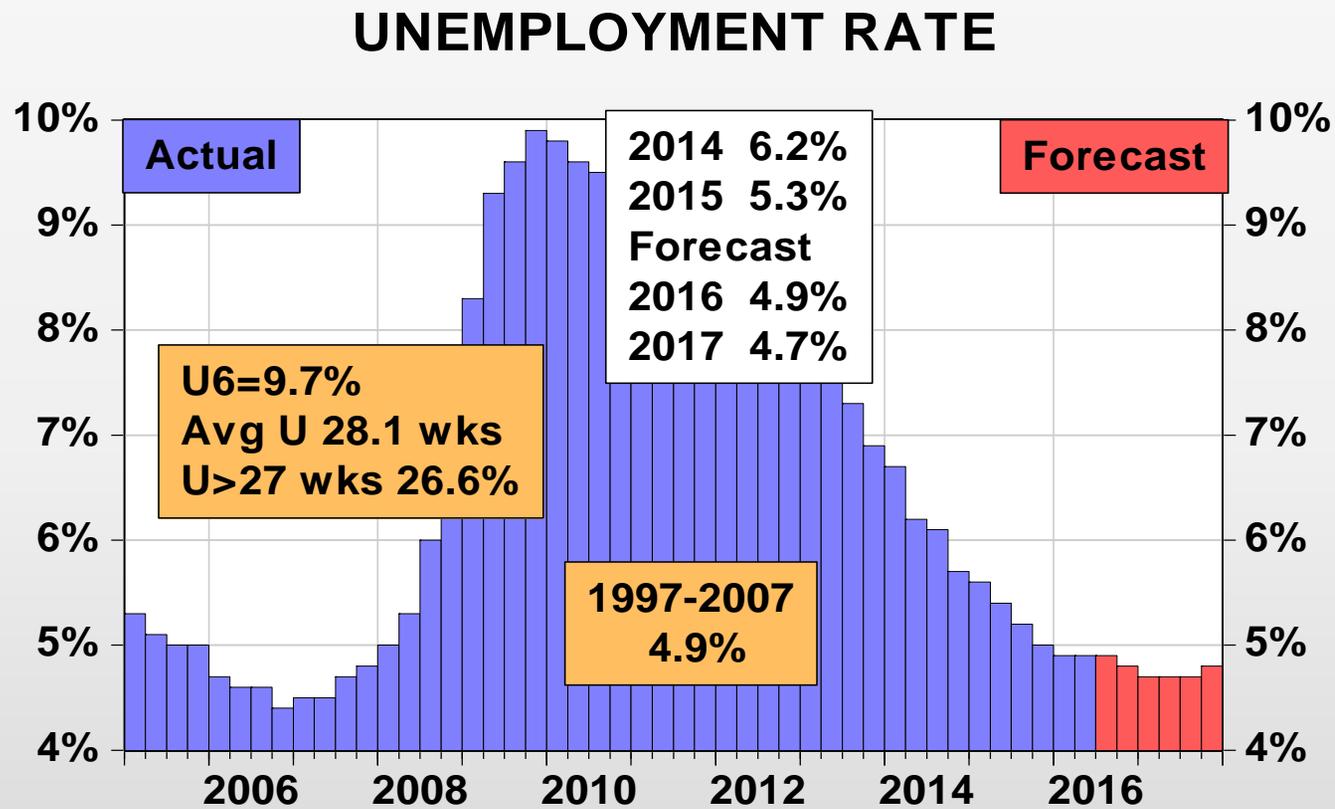
Source: BLS

Future Job Growth Slows



Source: BLS and IHS

Low U3 Unemployment Rate



Source: BLS and IHS

Labor Participation Rate Not Much Improvement

LABOR FORCE PARTICIPATION RATE



Source: BLS

Inflation & Interest Rates

The FED did not change the federal funds rate at the July meeting, but there is a good chance we will see one in September.

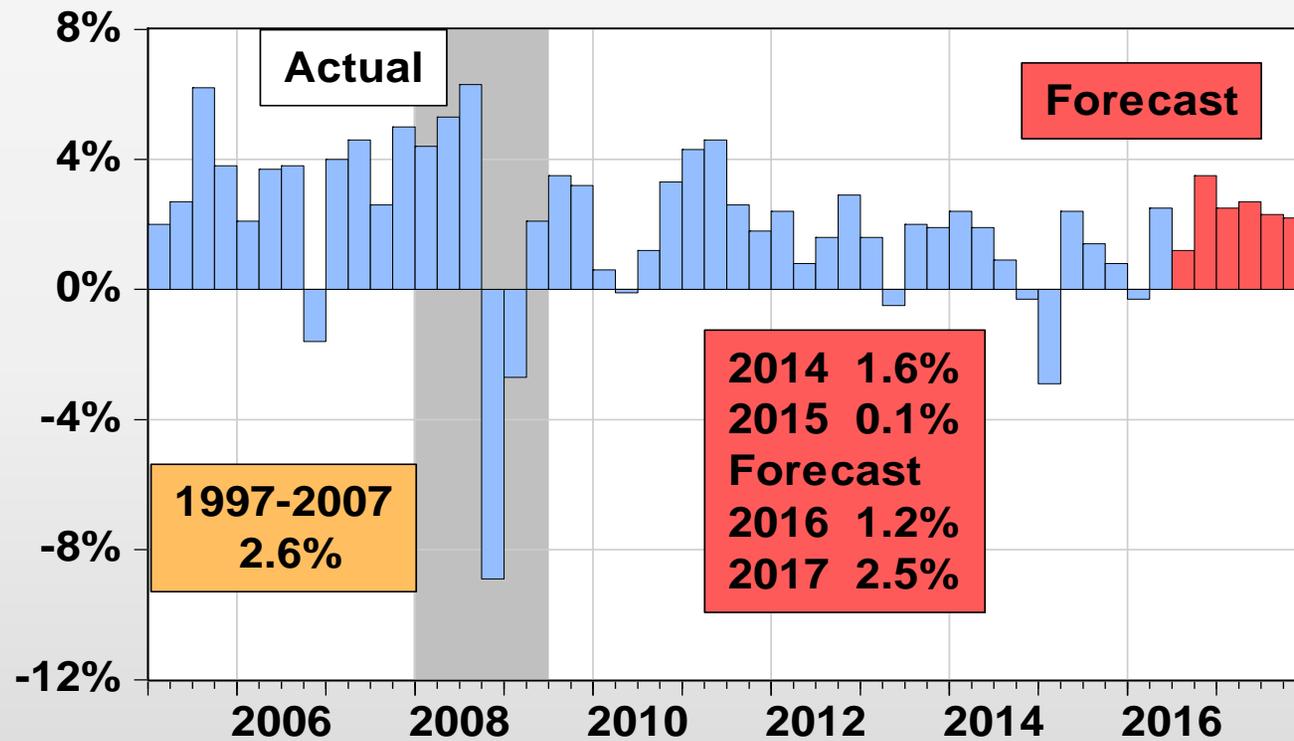
IHS August report thinks rate rise in December. (This may have changed)

IHS forecasts that the federal funds rate will 0.75% higher by the end of 2016, 1.50% higher by the end of 2017, and 2.25% higher by the end of 2018.

Inflation is still very low at 1.6% y/y for the core personal consumption expenditure deflator.

Still Low

INFLATION: CPI



Source: BLS and IHS



IHS GLOBAL INSIGHT FORECAST August 2016

| Variable | 2014 | 2015 | 2016 | 2017 |
|-------------------|--------------|-------------|-------------|-------------|
| GDP | 2.4% | 2.6% | 1.6% | 2.4% |
| NA Emp | 1.9% | 2.1% | 1.7% | 1.2% |
| Oil(Brent) | \$100 | \$54 | \$44 | \$57 |
| Housing | 1.01 | 1.11 | 1.18 | 1.37 |
| CPI | 1.6% | 0.1% | 1.2% | 2.5% |
| Un Rate | 6.2% | 5.3% | 4.9% | 4.7% |



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

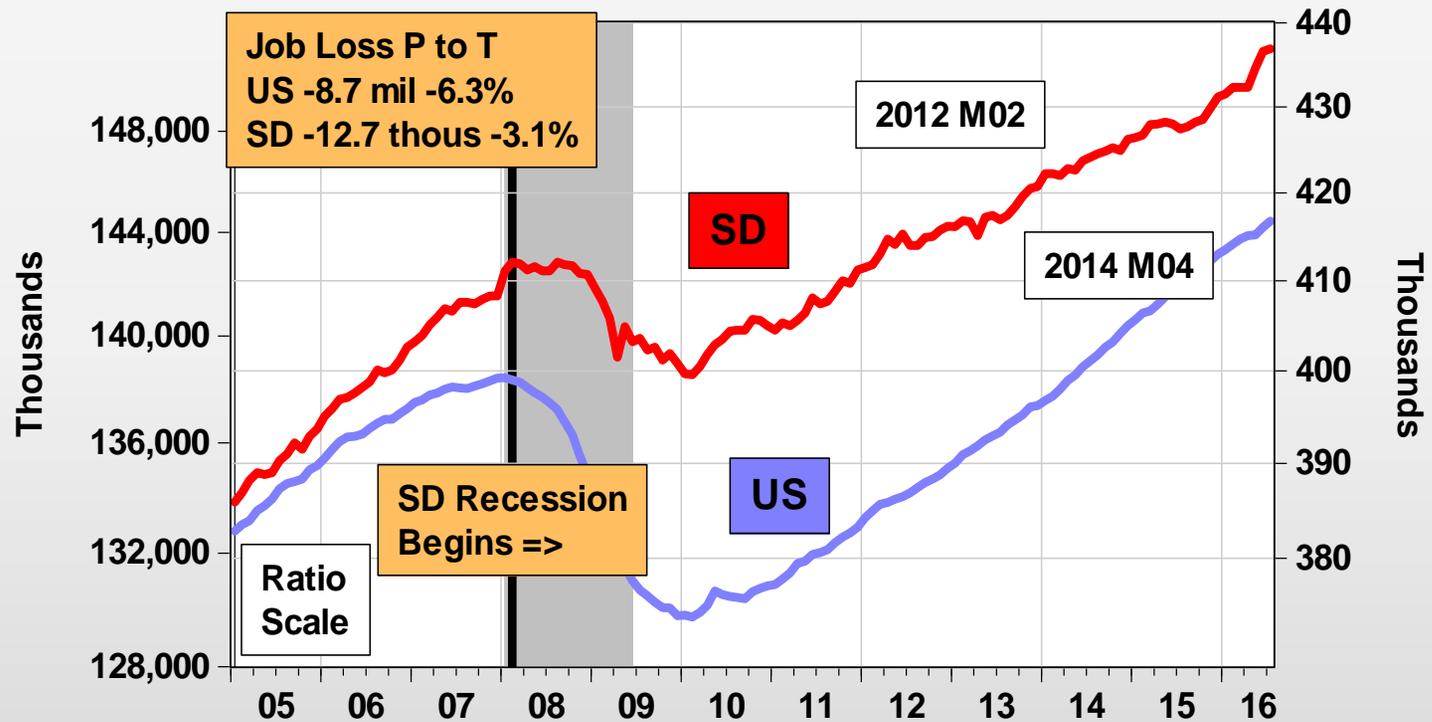
Real nonfarm personal income

Taxable sales

Leading indicator

Steady Growth

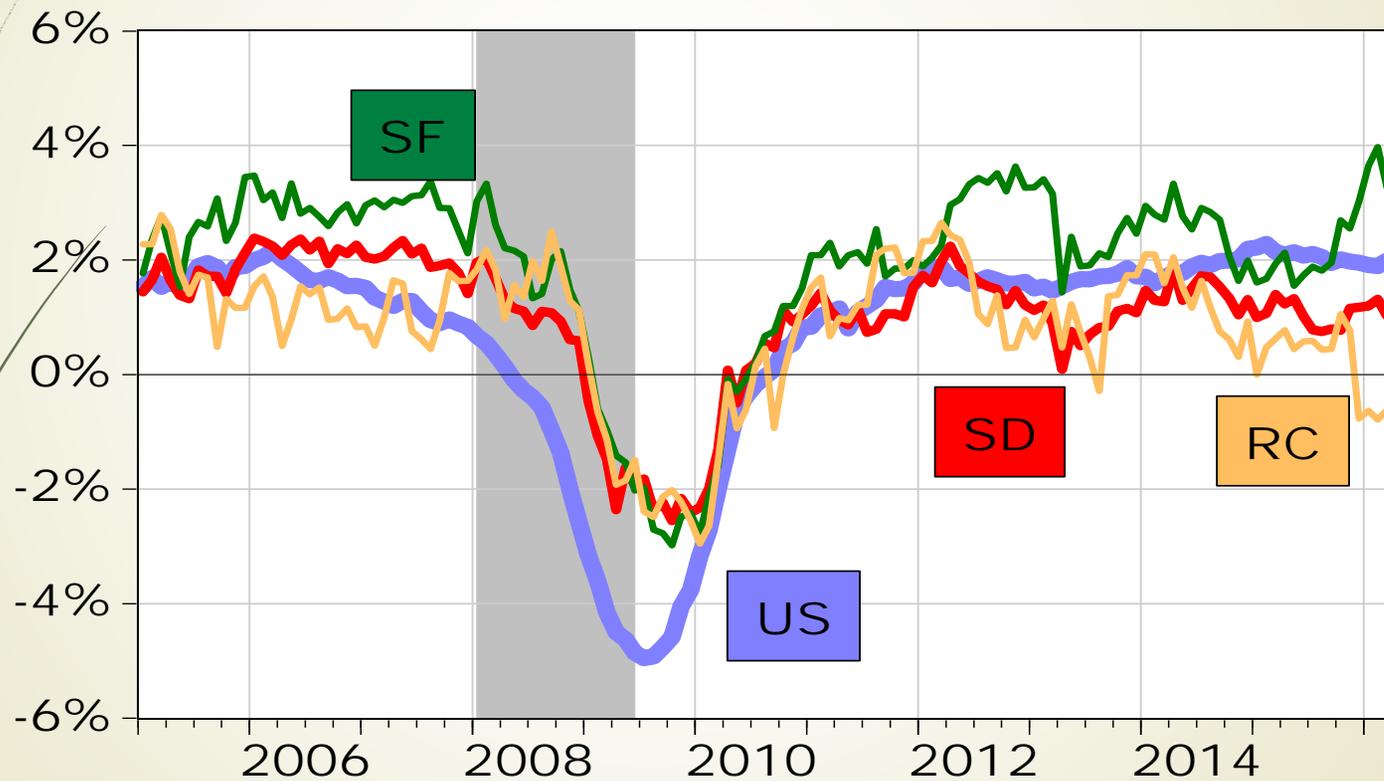
NONFARM EMPLOYMENT



Source: BLS

Interesting

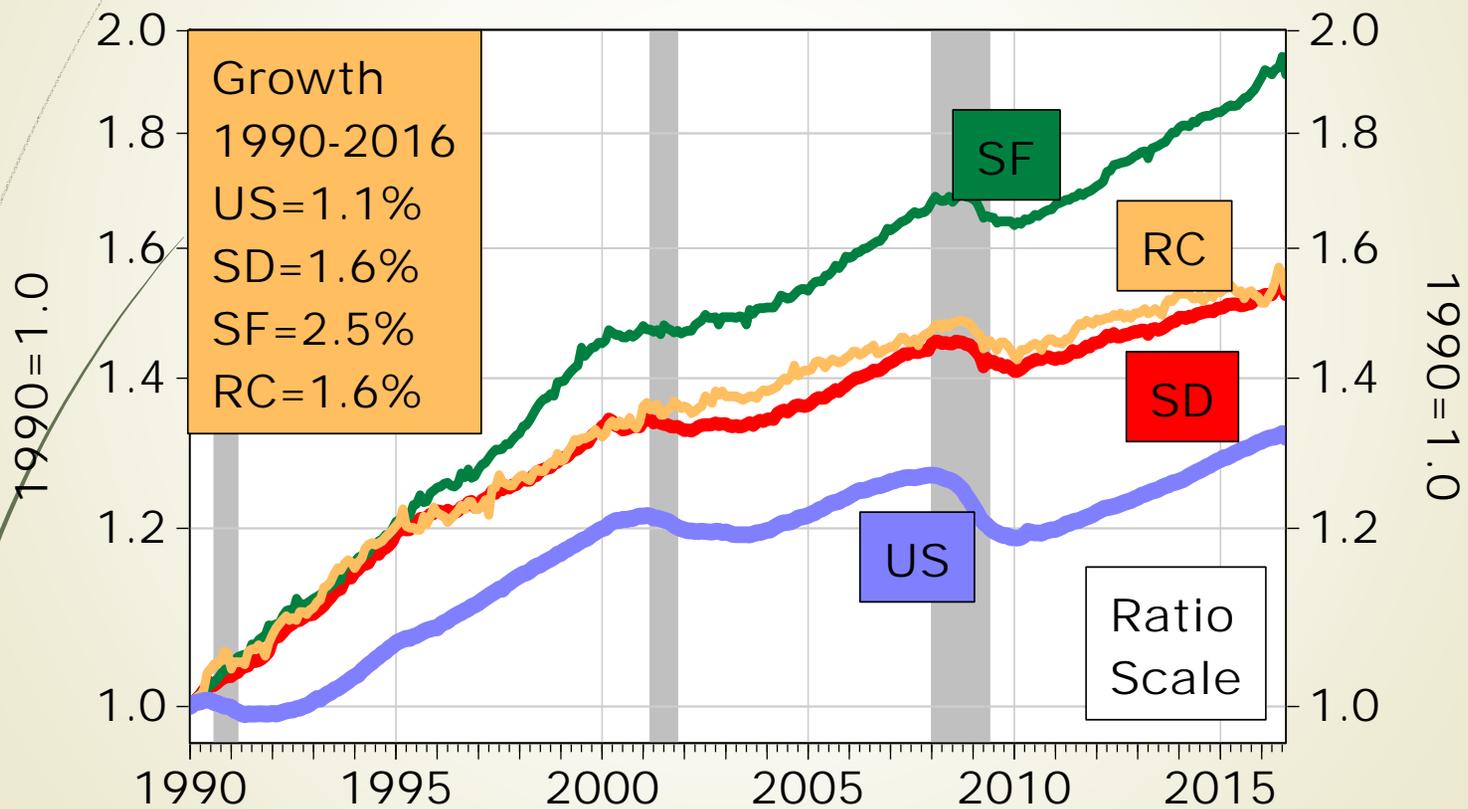
NONFARM EMPLOYMENT



Source: BLS

SF OUTPACES ALL THE REST

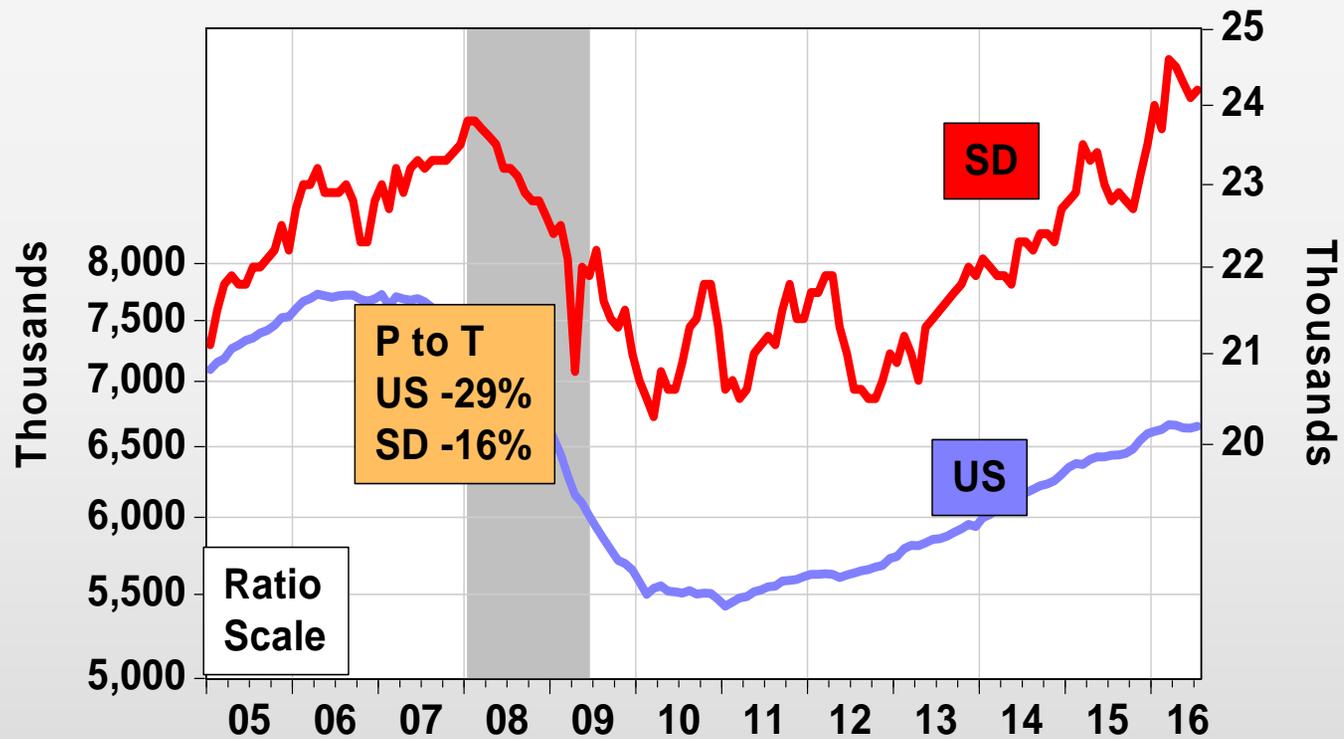
NONFARM EMPLOYMENT



Source: BLS

Above Peak

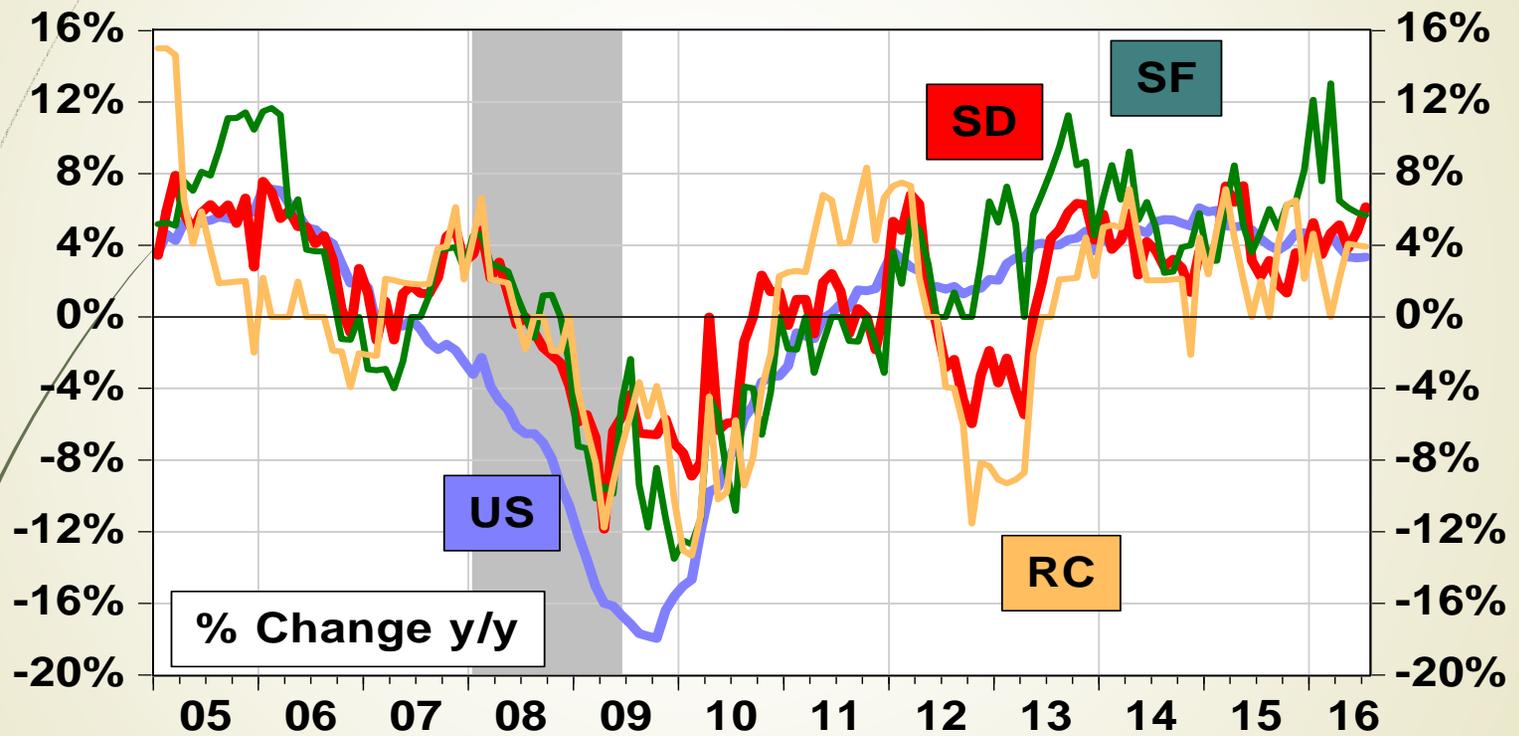
CONSTRUCTION EMPLOYMENT



Source: BLS

Divergence

CONSTRUCTION EMPLOYMENT

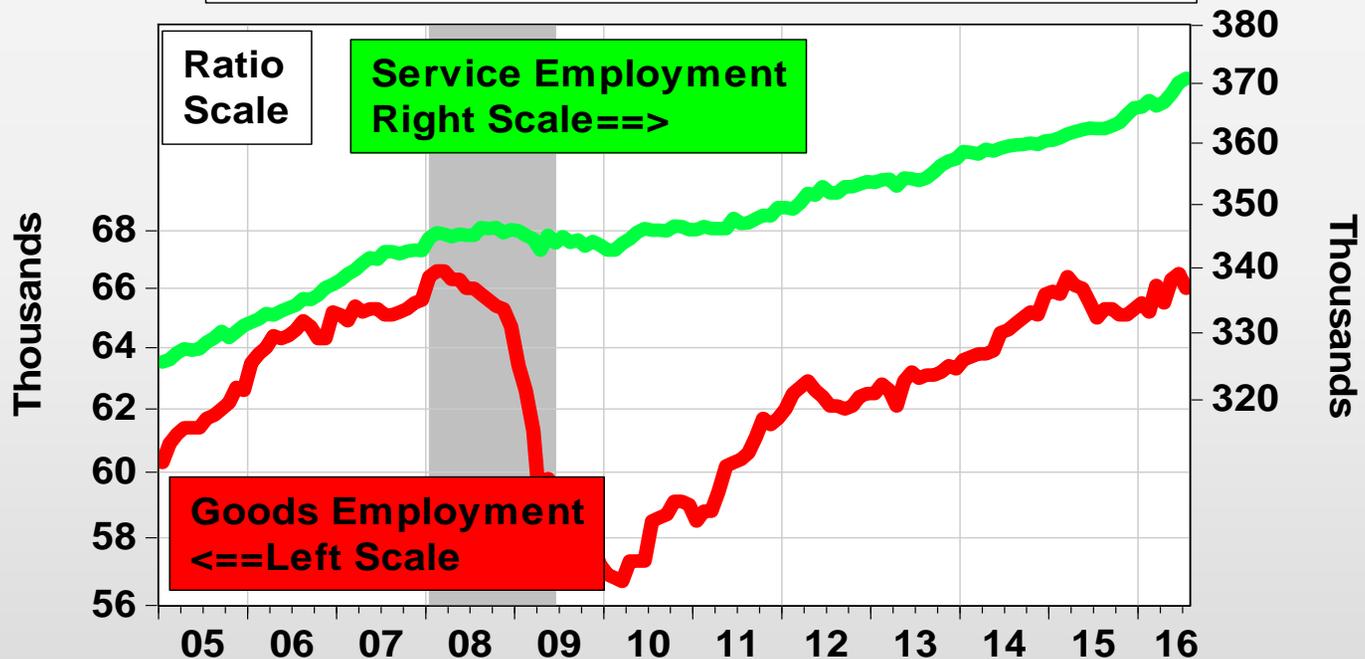


Source: BLS

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

Goods-Producing = Manufacturing+Construction



Source: BLS

SD Peaked Later and Decline Less Severe

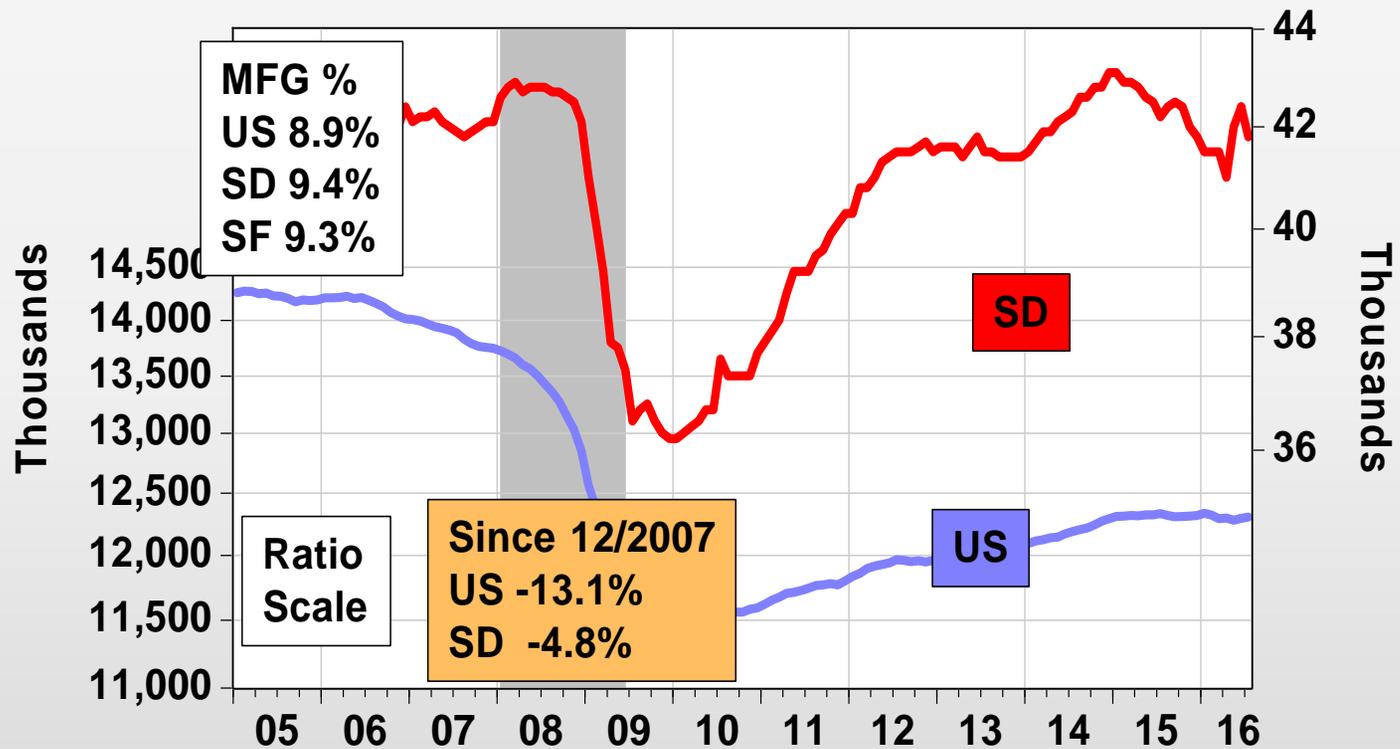
HOUSE PRICE INDEX



Source: FHFB

SD Around Peak

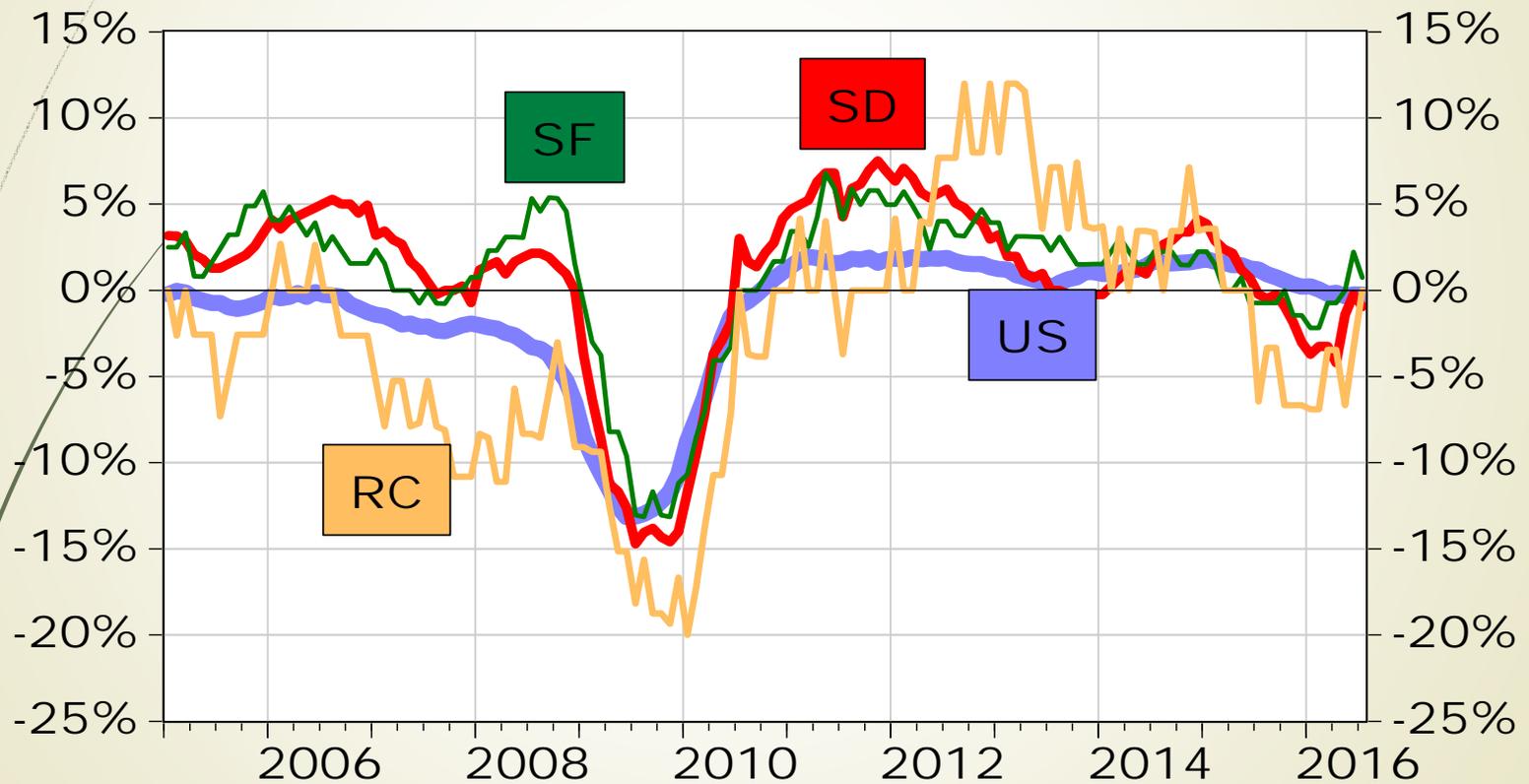
MANUFACTURING EMPLOYMENT



Source: BLS

Divergence

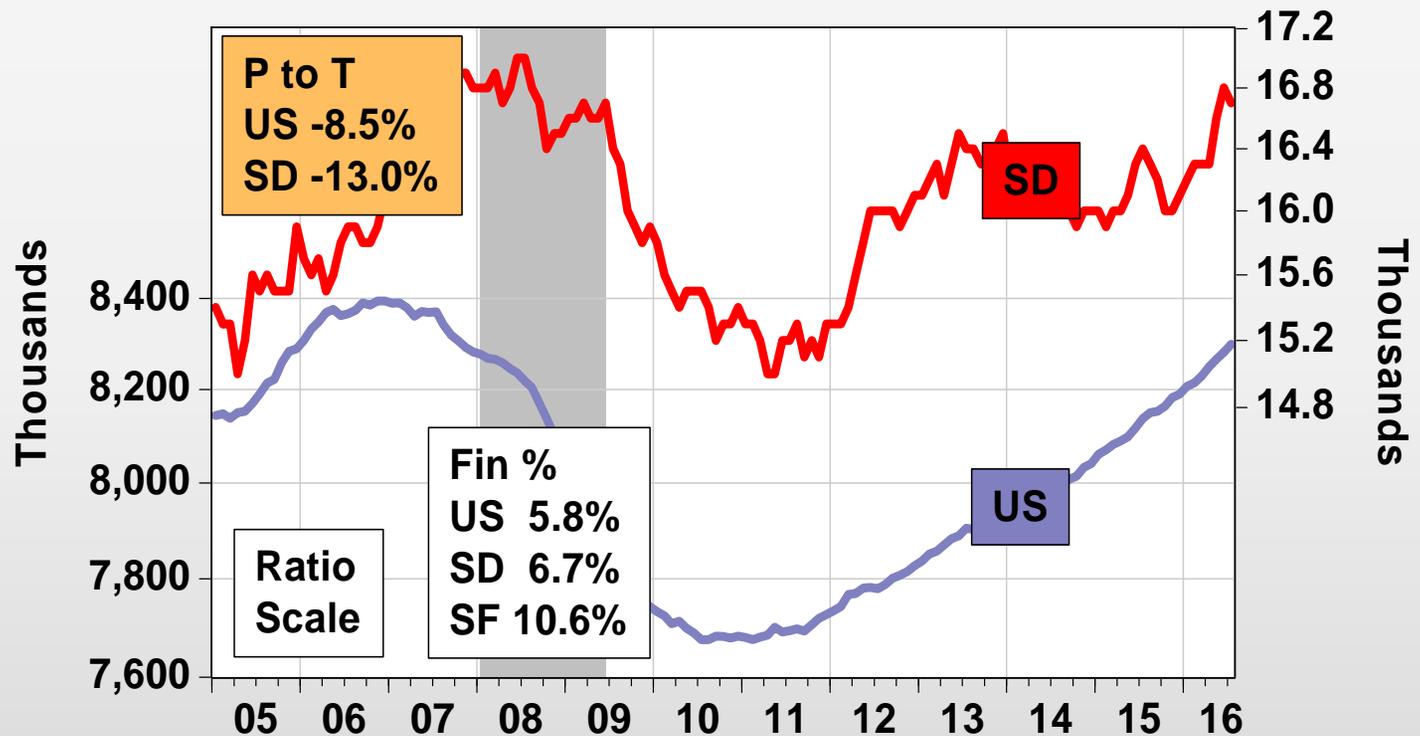
MANUFACTURING EMPLOYMENT



Source: BLS

SD Near Pre-Recession Peak

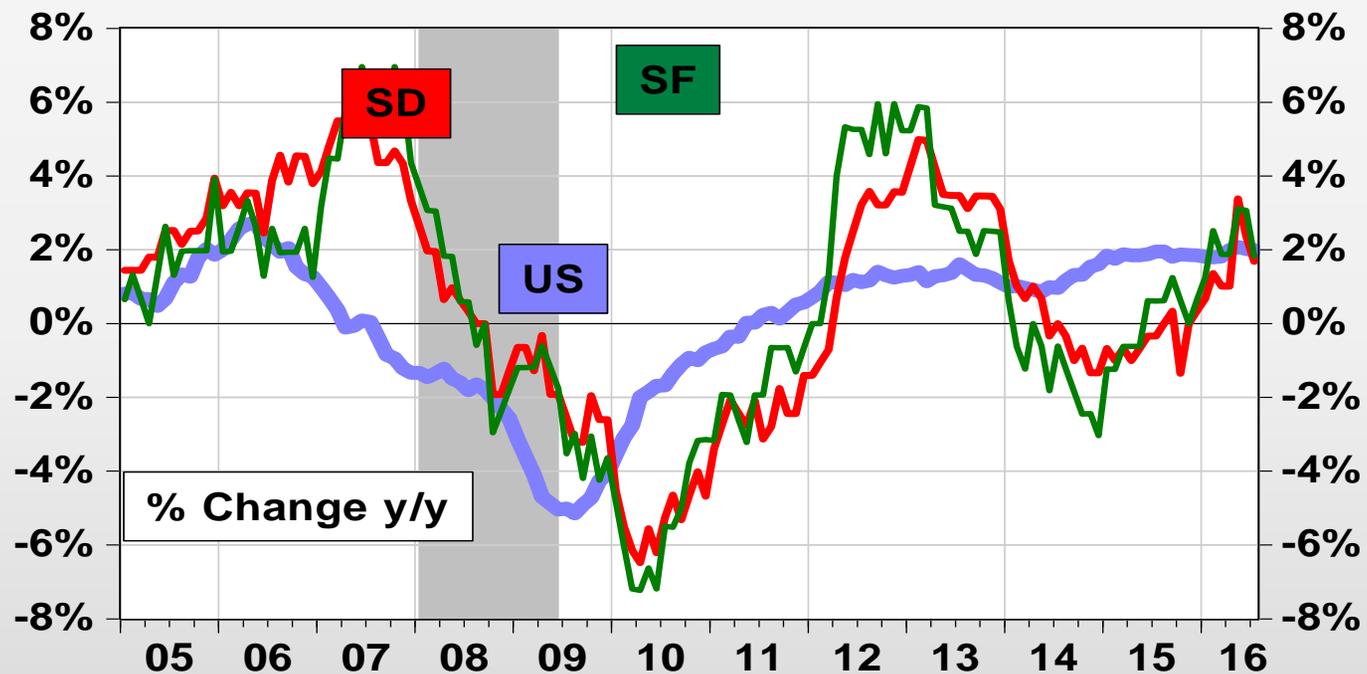
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

Note SD and SF Different Than US

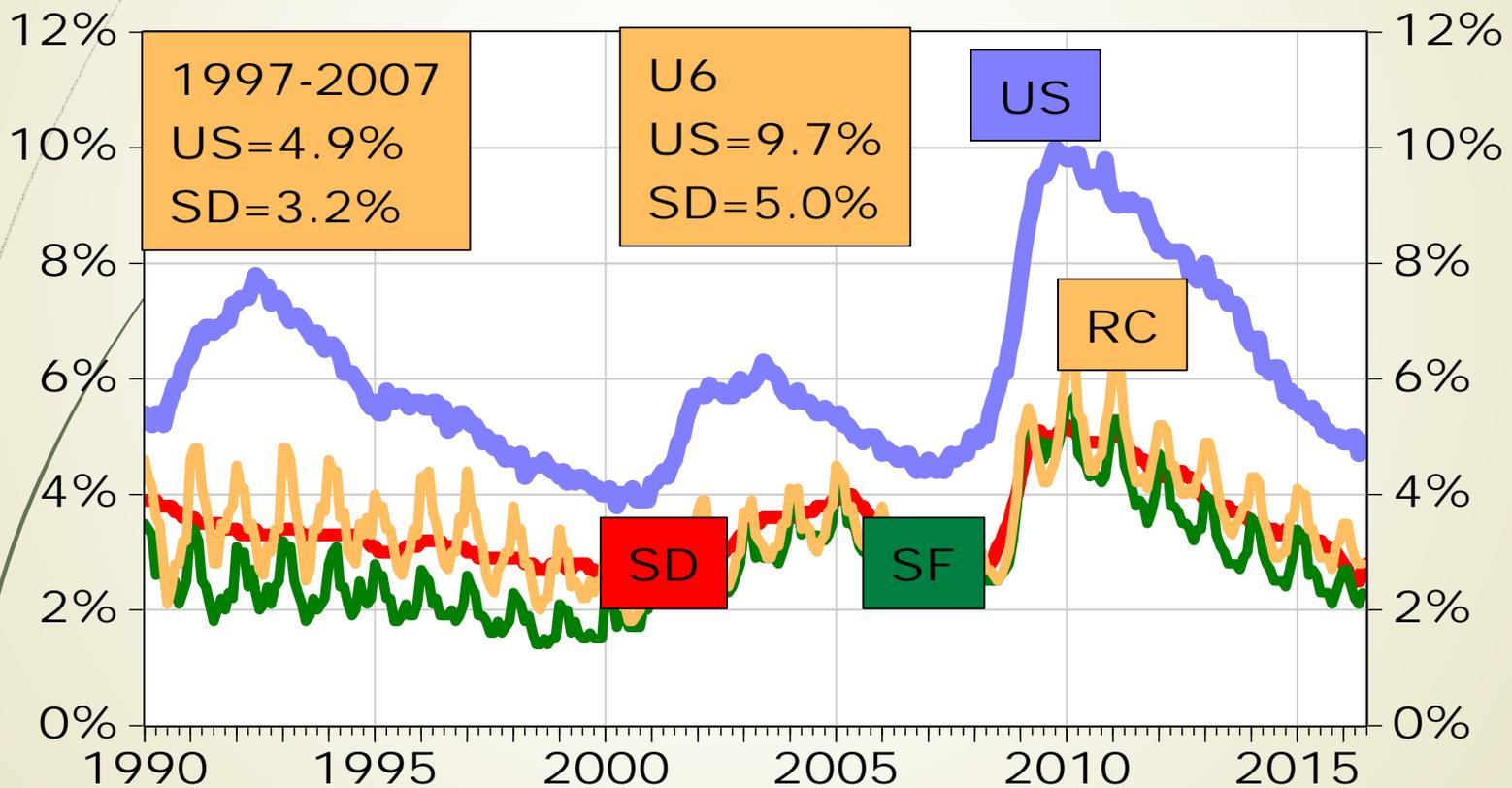
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

SD 2.8% SF(SA) 2.4%

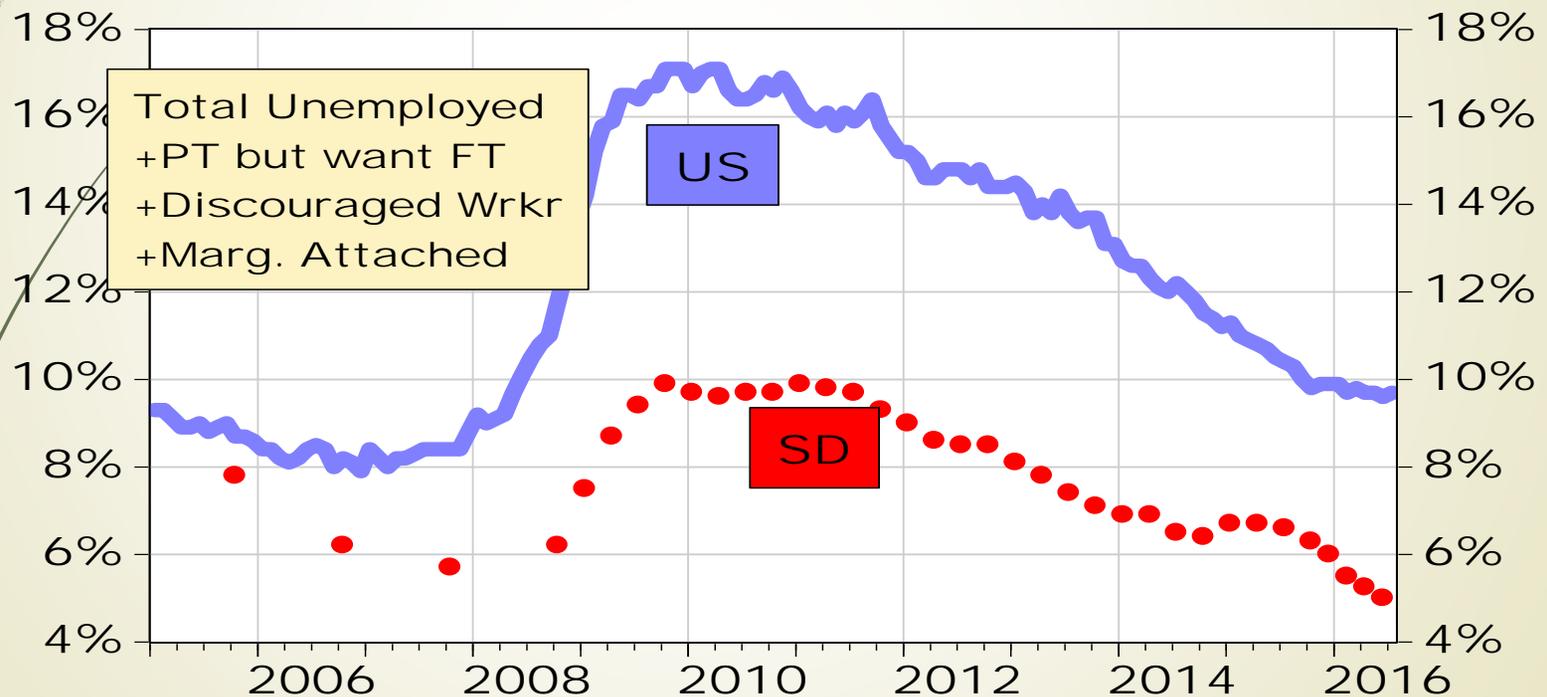
UNEMPLOYMENT RATES



Source: BLS

Definite Improvement SD Lowest of All States

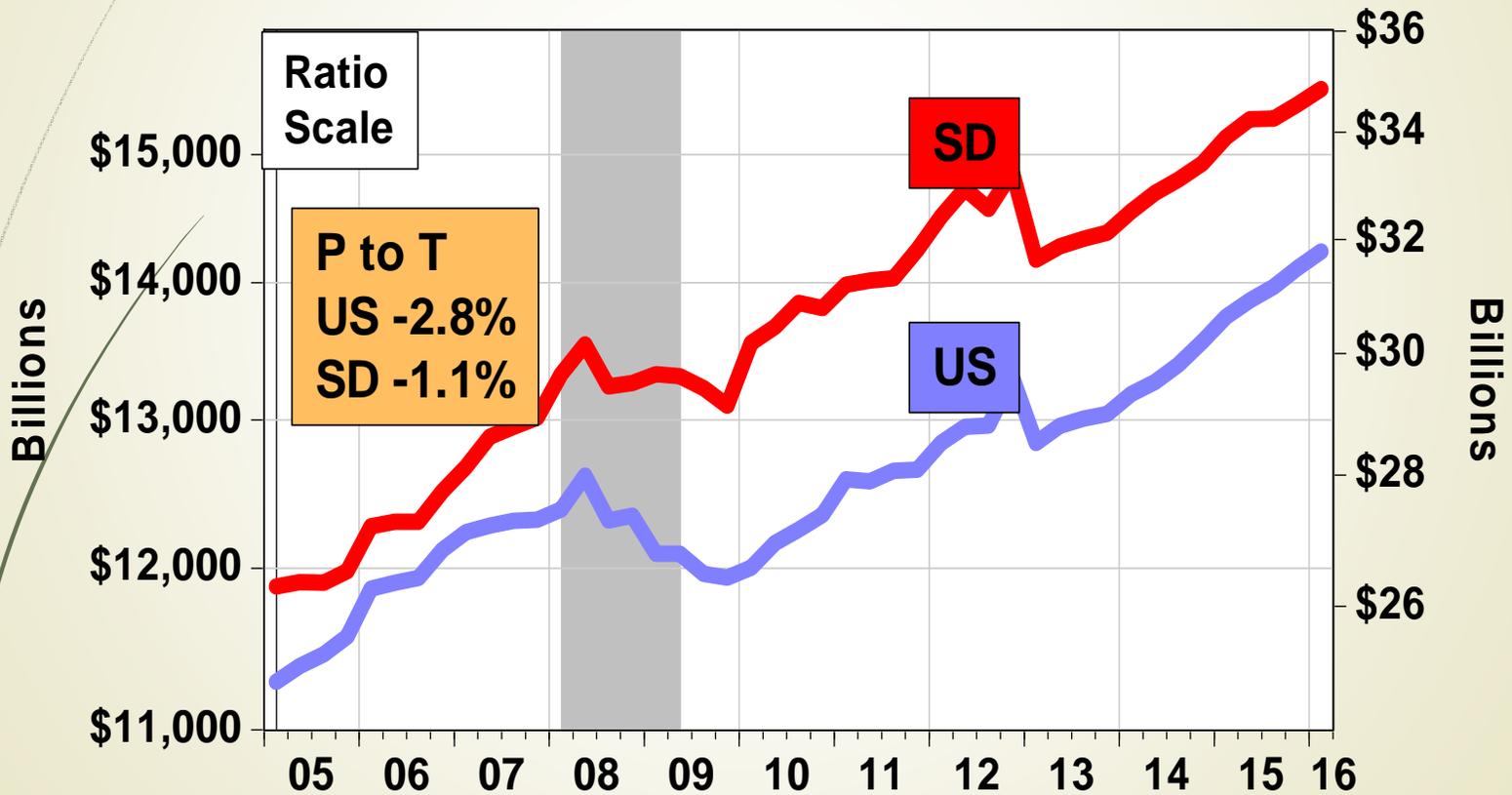
U6 UNEMPLOYMENT RATE



Source: BLS

SD Smaller Decline – Way Above Previous Peak

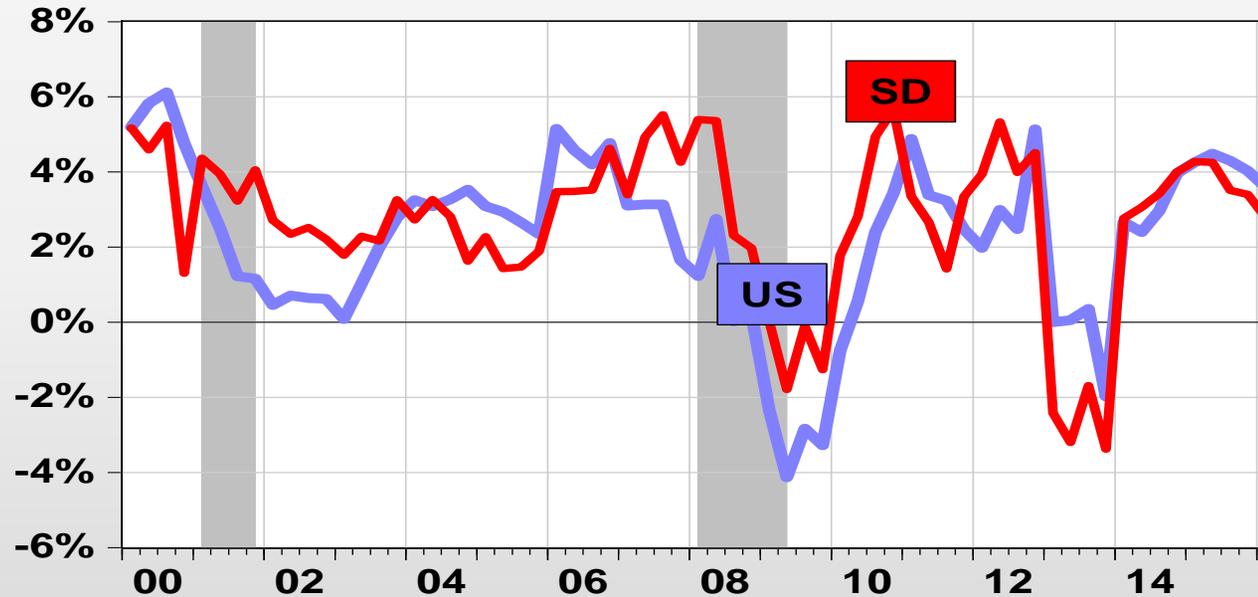
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

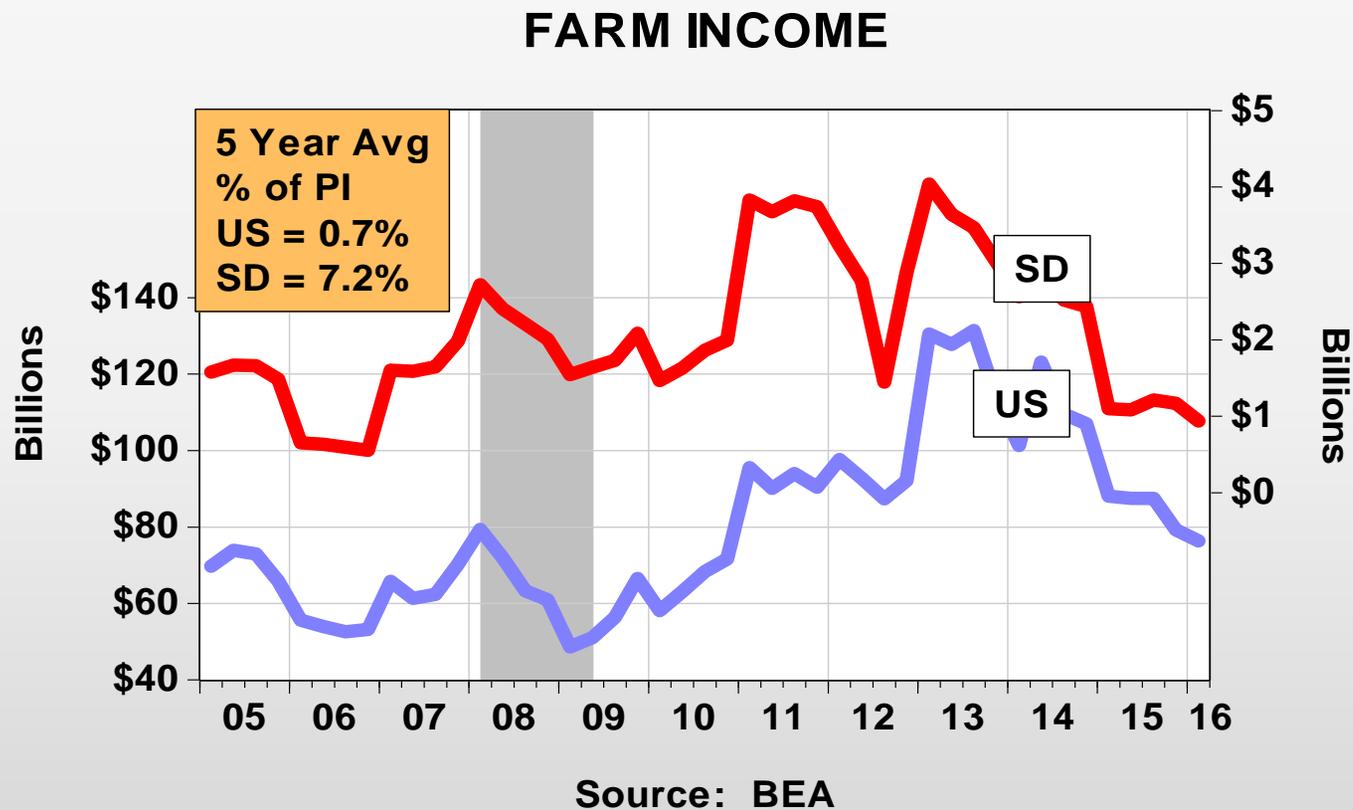
US and SD Track

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



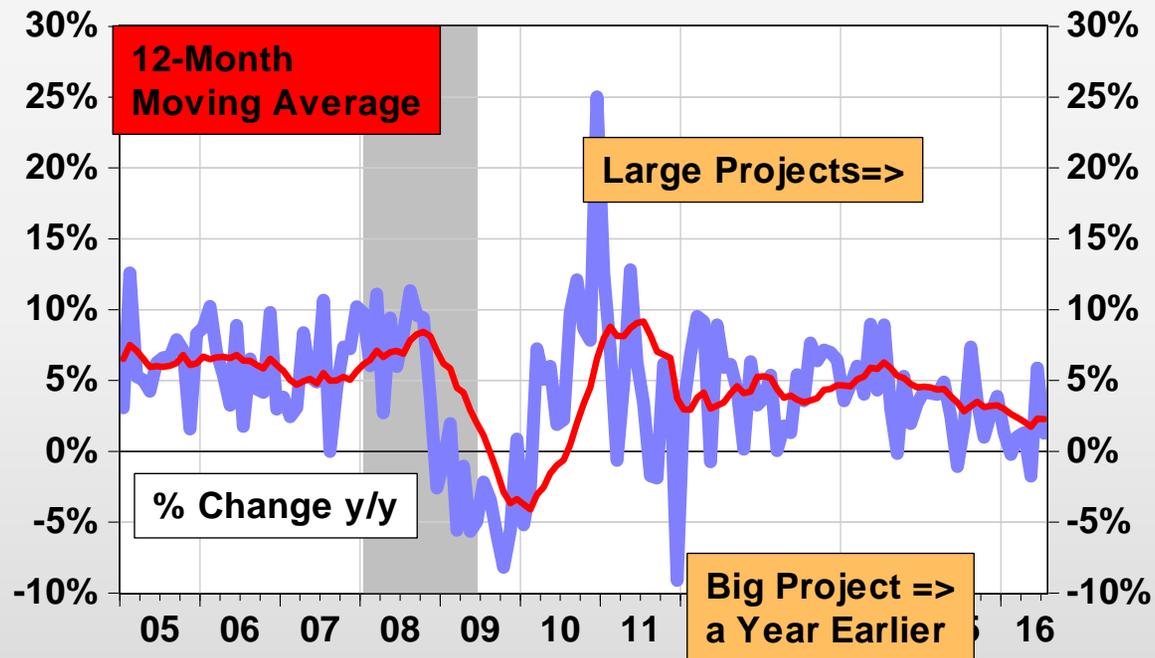
Source: BEA

Farm Down Sharply - High Prodn Low Prices



Low Inflation and Growth

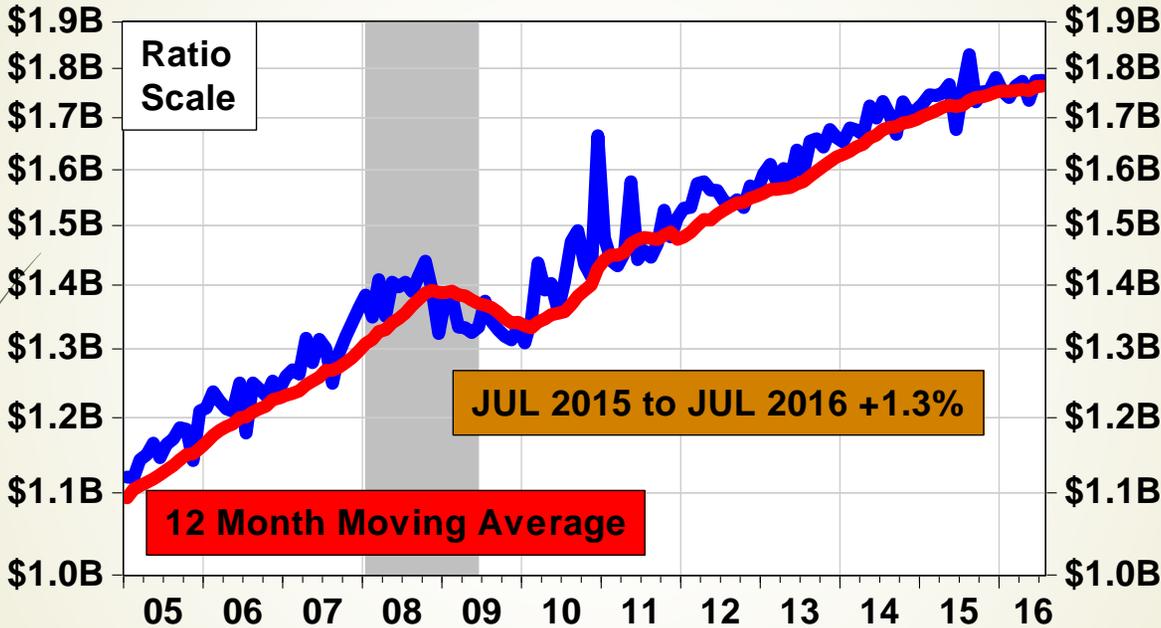
SD TAXABLE SALES



Source: SD Department of Revenue

Steady Growth

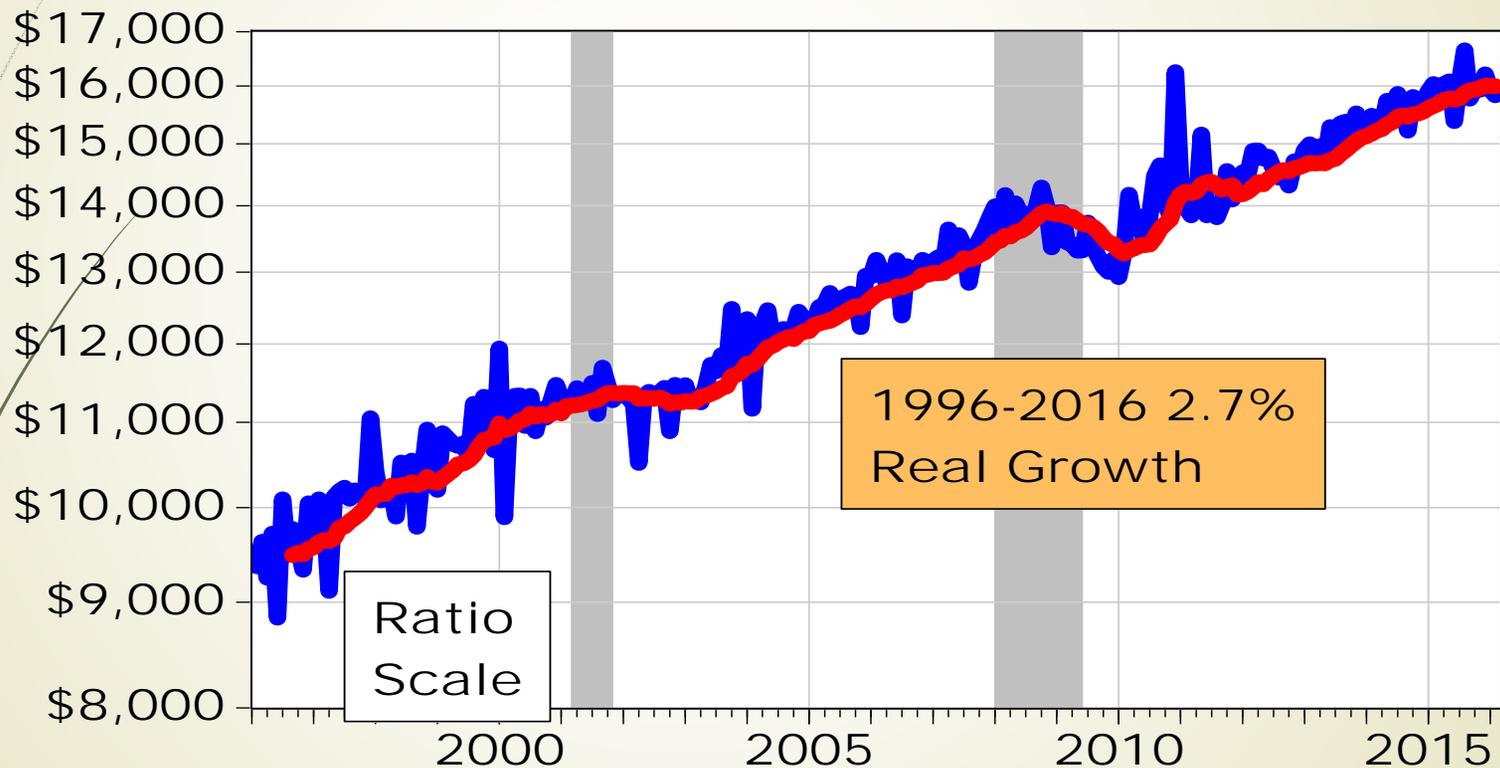
SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue

Growth in Real Terms

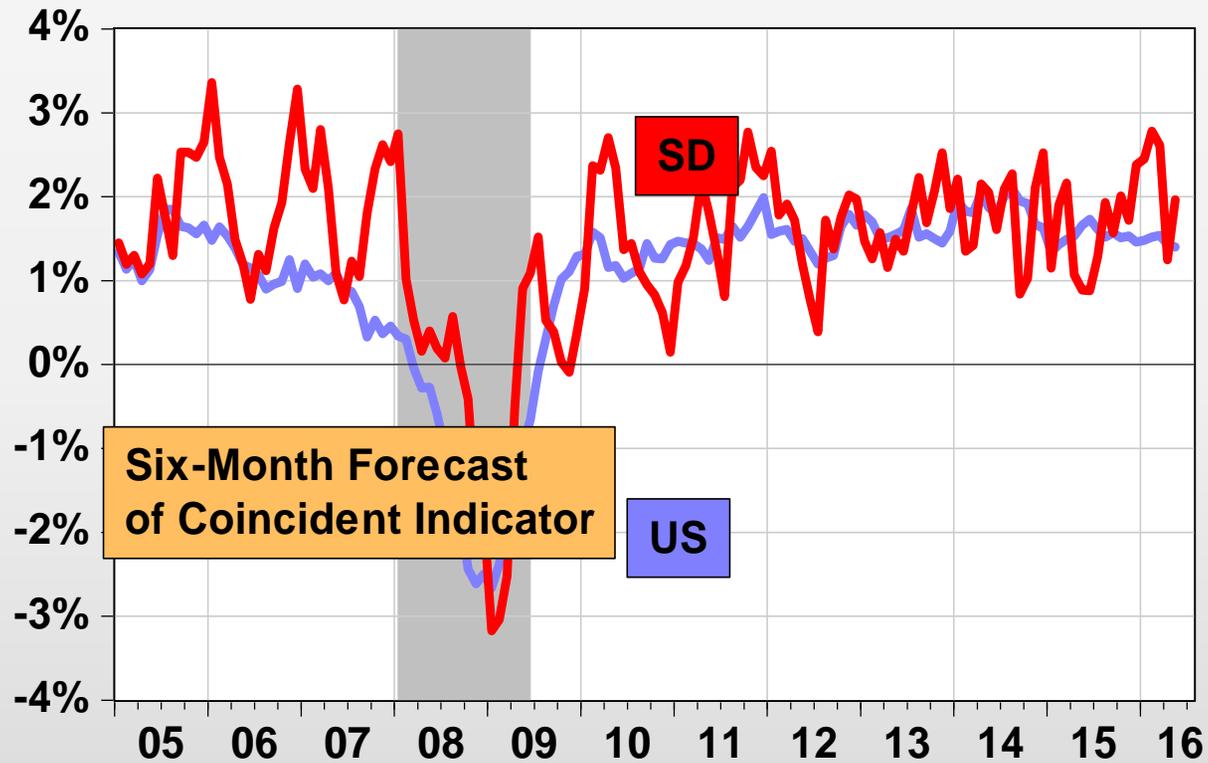
REAL TAXABLE SALES (2009 \$S)



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

June 2016 Index > 50 Growth

Overall 50.2 7 months in a row above 50

New Orders 41.6

Sales 47.5

Delivery lead time 61.9

Inventories 51.0

Employment 49.1

"In terms of employment, South Dakota's manufacturing sector has added almost no net new jobs even as producers expanded sales and production. I expect the state's manufacturing sector to add jobs in the second half of 2016 with the overall state economy expanding at a slow, but positive pace."

Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing slowly

Only 20% chance of recession

The End

