

# The State of the SD Economy

Presentation to the Governor's  
Council of Economic Advisors

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# Outline of Presentation

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**Overview of US economy**

**US economy forecast**

**SD economy**

**Summary & Conclusions**

# US Forecast

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**Global Insight Forecast – August 13, 2015**

***Real GDP***

***Consumption***

***Housing Starts***

***Federal Budget***

***Interest Rates and Inflation***

# GDP

GDP growth in the 2<sup>nd</sup> half of 2015 will be constrained due to large inventory accumulation in the 1<sup>st</sup> half.

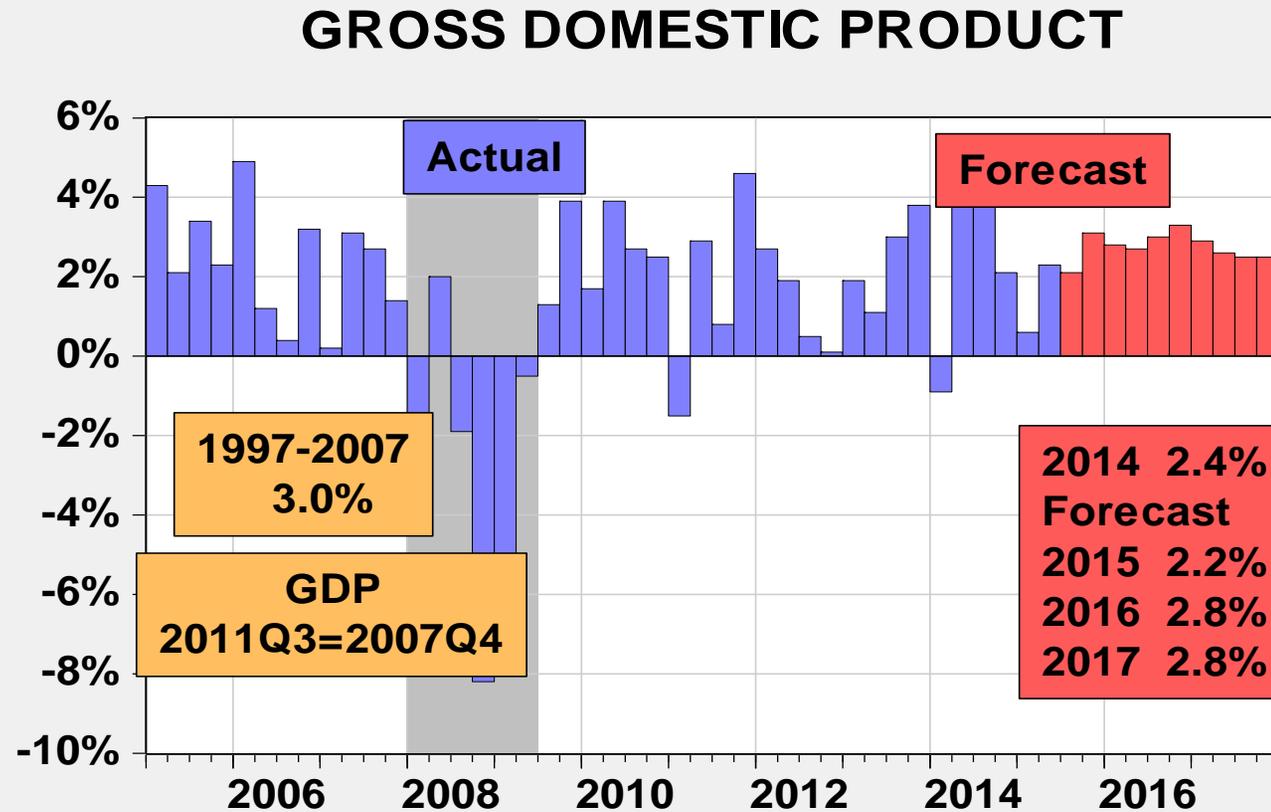
Consumer spending and housing have been the mainstay of GDP growth.

Business investment was lackluster in the 1<sup>st</sup> half but will pick up a bit in the 2<sup>nd</sup> half.

The Greek drama and China devaluation will have a rather limited impact on the US economy.

# Modest Growth in 2015

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Source: BEA and IHS

## Components of GDP are:

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

# Consumption

**Consumption spending is expected to remain strong through 2017.**

**Solid job growth, low inflation, strong HH finances, and lower energy prices all support consumer growth.**

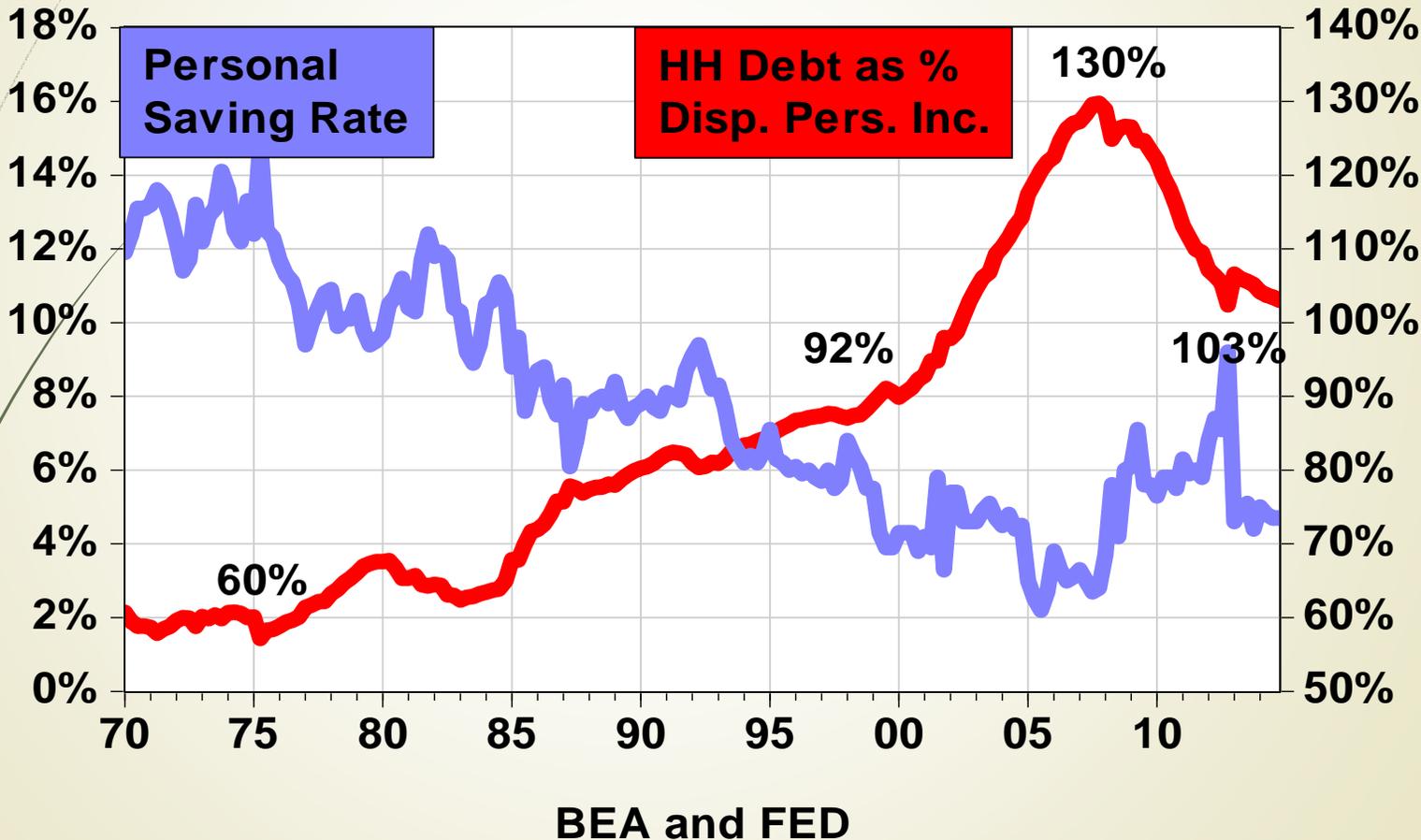
**Auto sales are expected to be strong.**

**Headline effects of Greek crisis and China devaluation on consumer confidence will wear off in coming months.**

# Deleveraging is Nearly Over

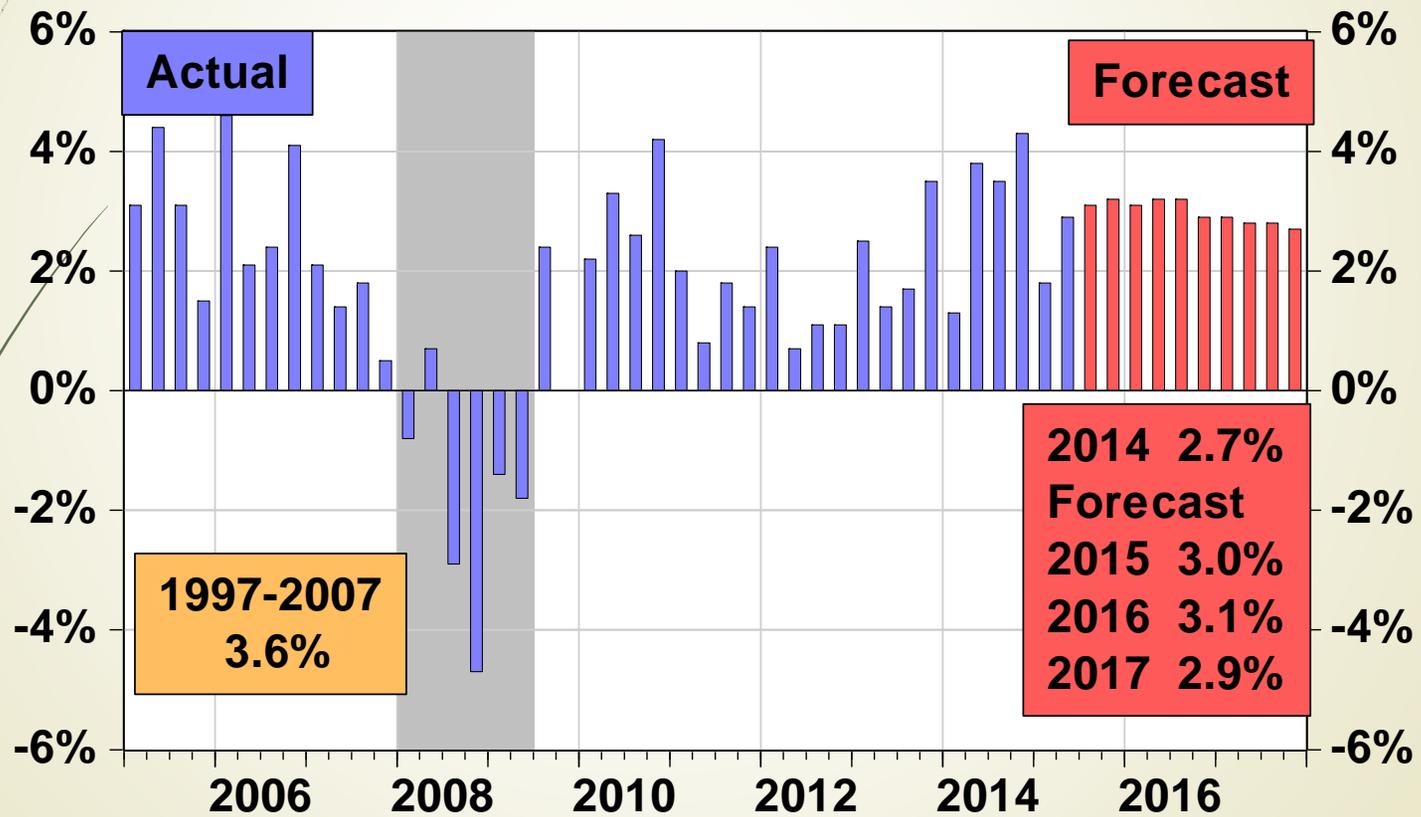
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## HOUSEHOLD DEBT AND SAVING RATE



# Good Growth

## REAL CONSUMPTION



Source: BEA and IHS

# Investment Sector

**In the energy sector it looks like the drilling rig count has hit bottom.**

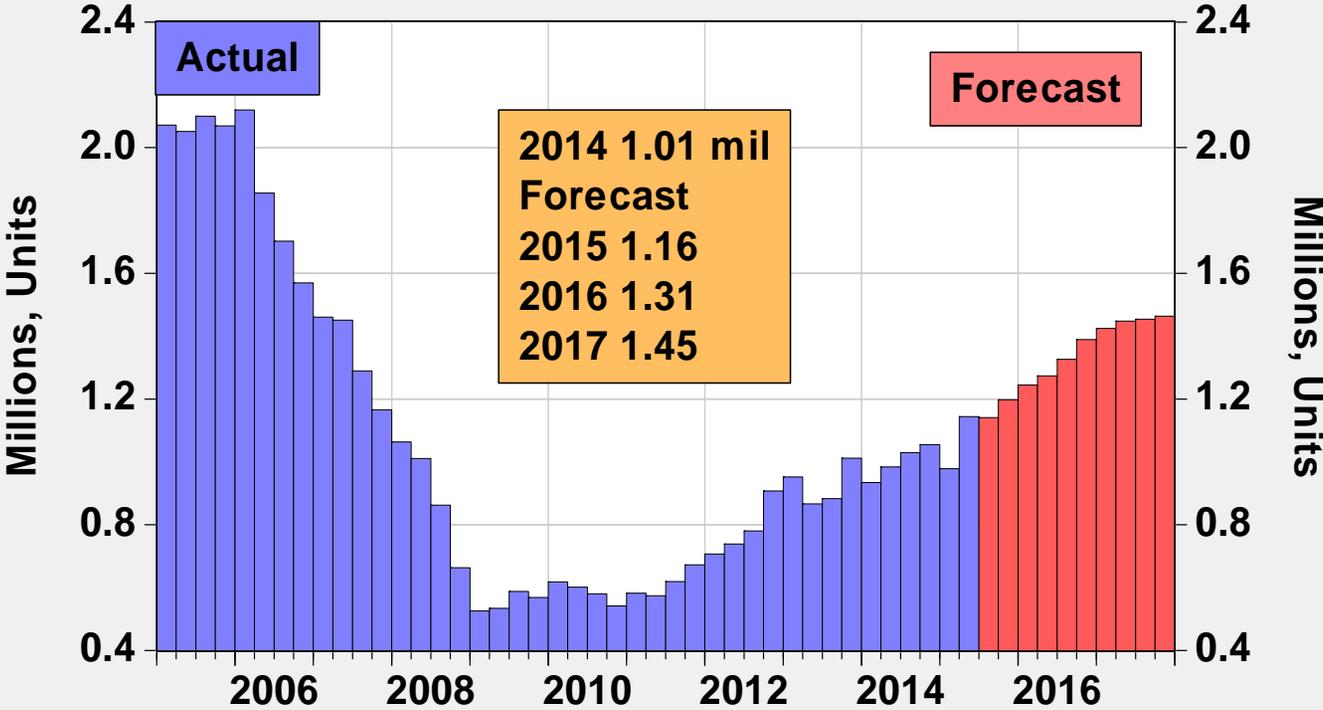
**Housing starts will continue their slow rise particularly as credit availability improves.**

**Actually, investment in commercial and manufacturing structures is leading the rebound in capital spending.**

**Spending on equipment is flat while expenditures on R&D and software show modest growth.**

# Recovery Proceeds

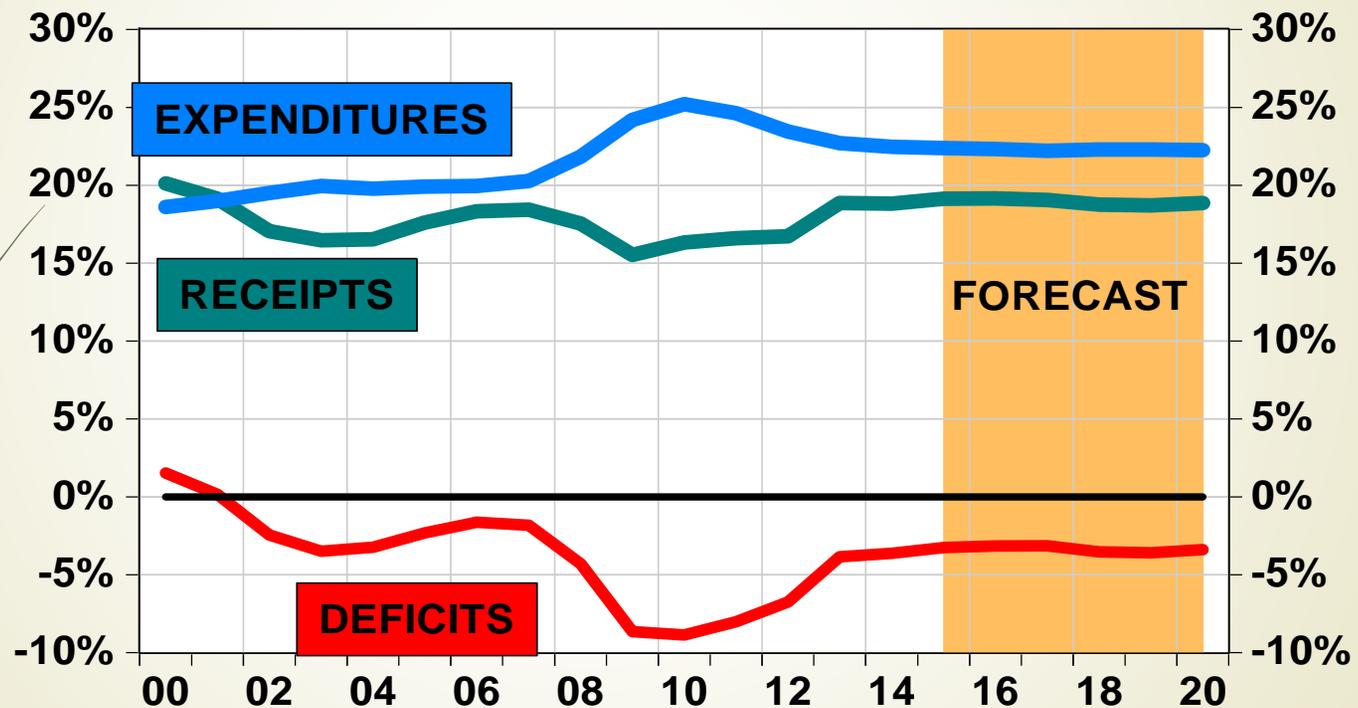
## HOUSING STARTS



Source: US Census and IHS

# Government Sector

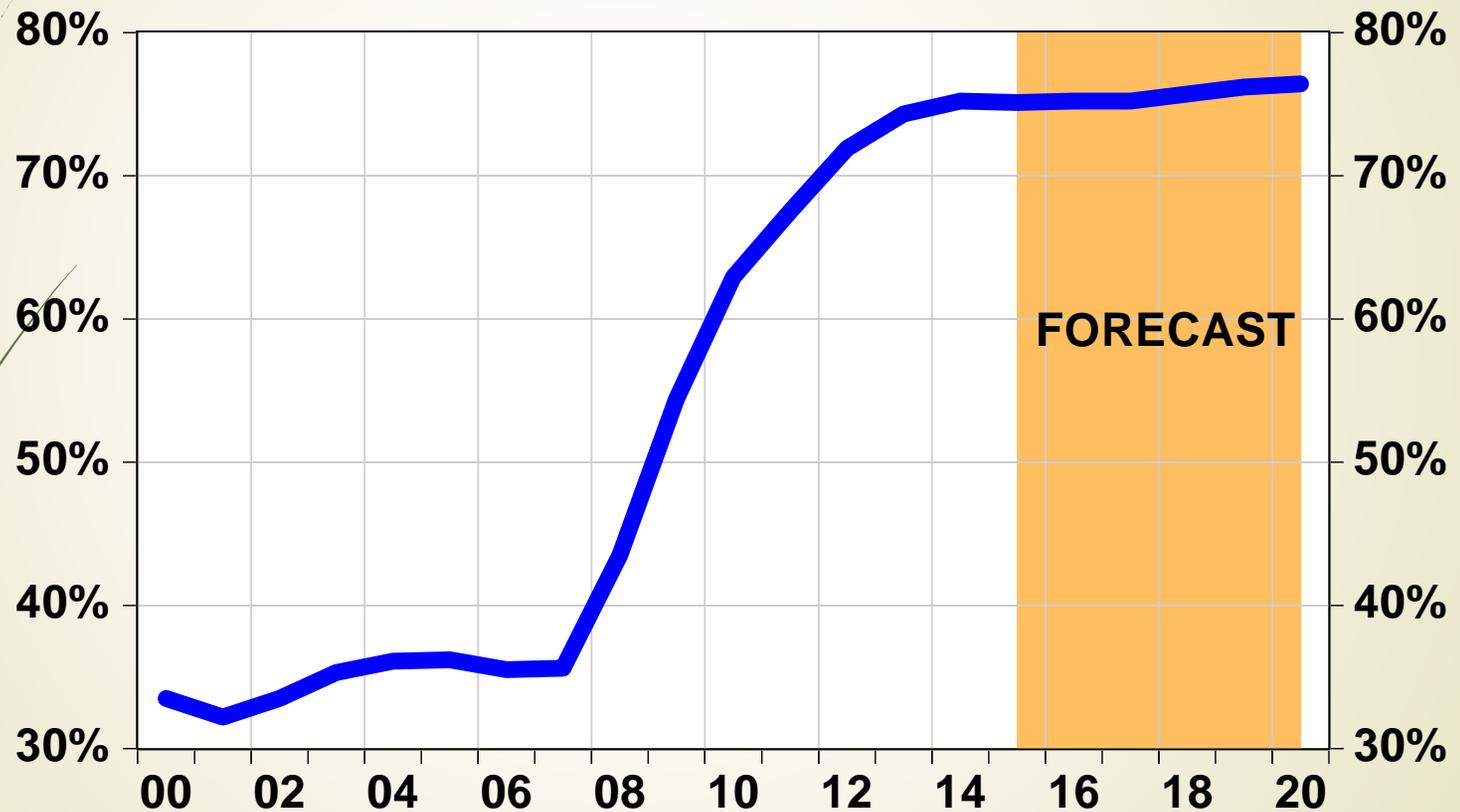
## FEDERAL GOVERNMENT AS % OF GDP



Source: IHS

# Debt Held by Public

## FEDERAL DEBT HELD BY PUBLIC



Source: IHS

# Foreign Sector

**\$ at highest level since 2003 and will continue to be strong.**

**The devaluation of the renminbi should not have large direct effects on the US economy because devaluation is small and spread over 1-2 years.**

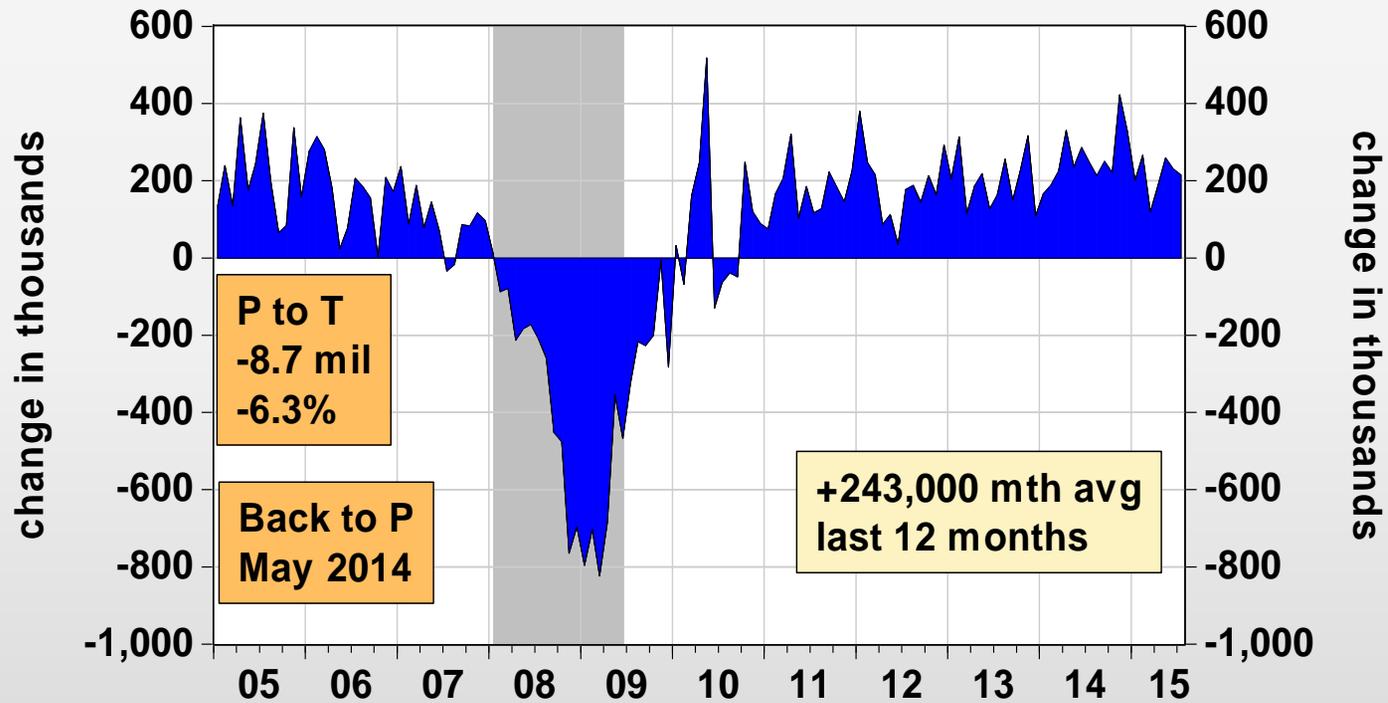
**In 2014, China accounted for 7% of our exports and 17% of our imports.**

**Both the devaluation and Greek crisis will not be a recovery-breaker.**

**The prognosis for the Greek economy and LT debt sustainability is bleak.**

# Modest Growth

## NONFARM EMPLOYMENT



Source: BLS

# Employment & Unemployment

**Pretty good job growth this past year, more than 200,00 per month.**

**Unemployment rate will average 5.4% in 2015 and 5.2% in 2016 and 2017.**

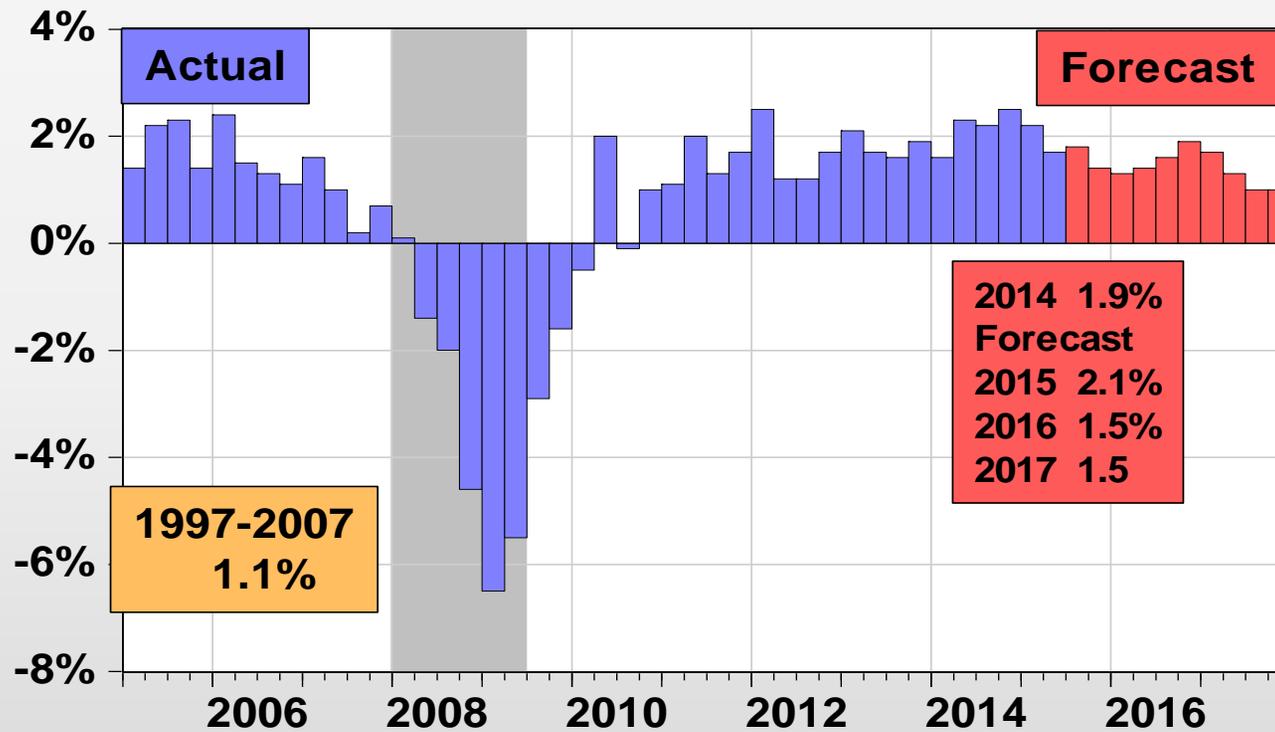
**Yet the labor force participation rate is at a 38 year low and wage growth is sluggish.**

**Wage growth has been about the same as inflation since 2011.**

# Job Growth Slows

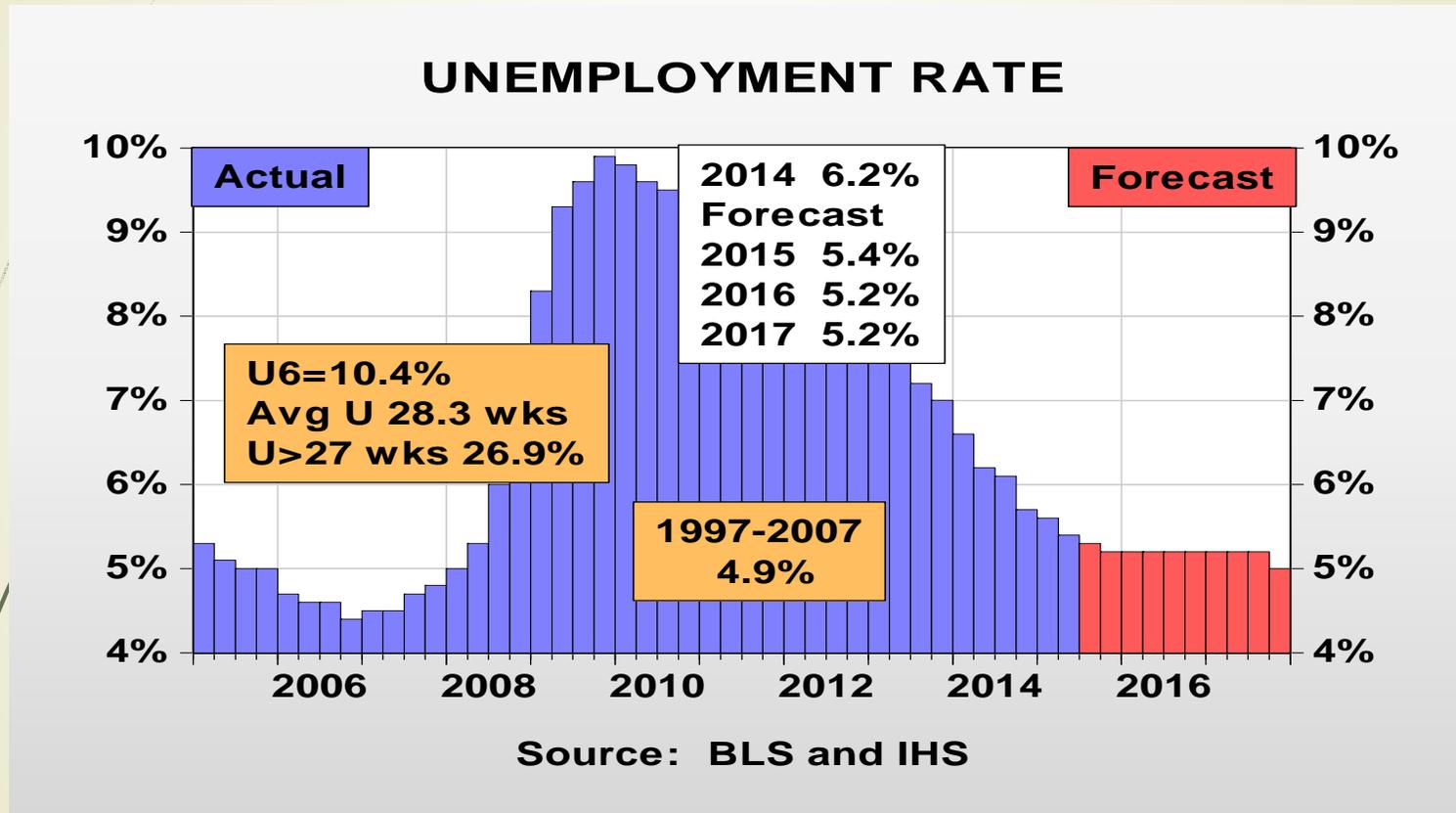
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## NONFARM EMPLOYMENT



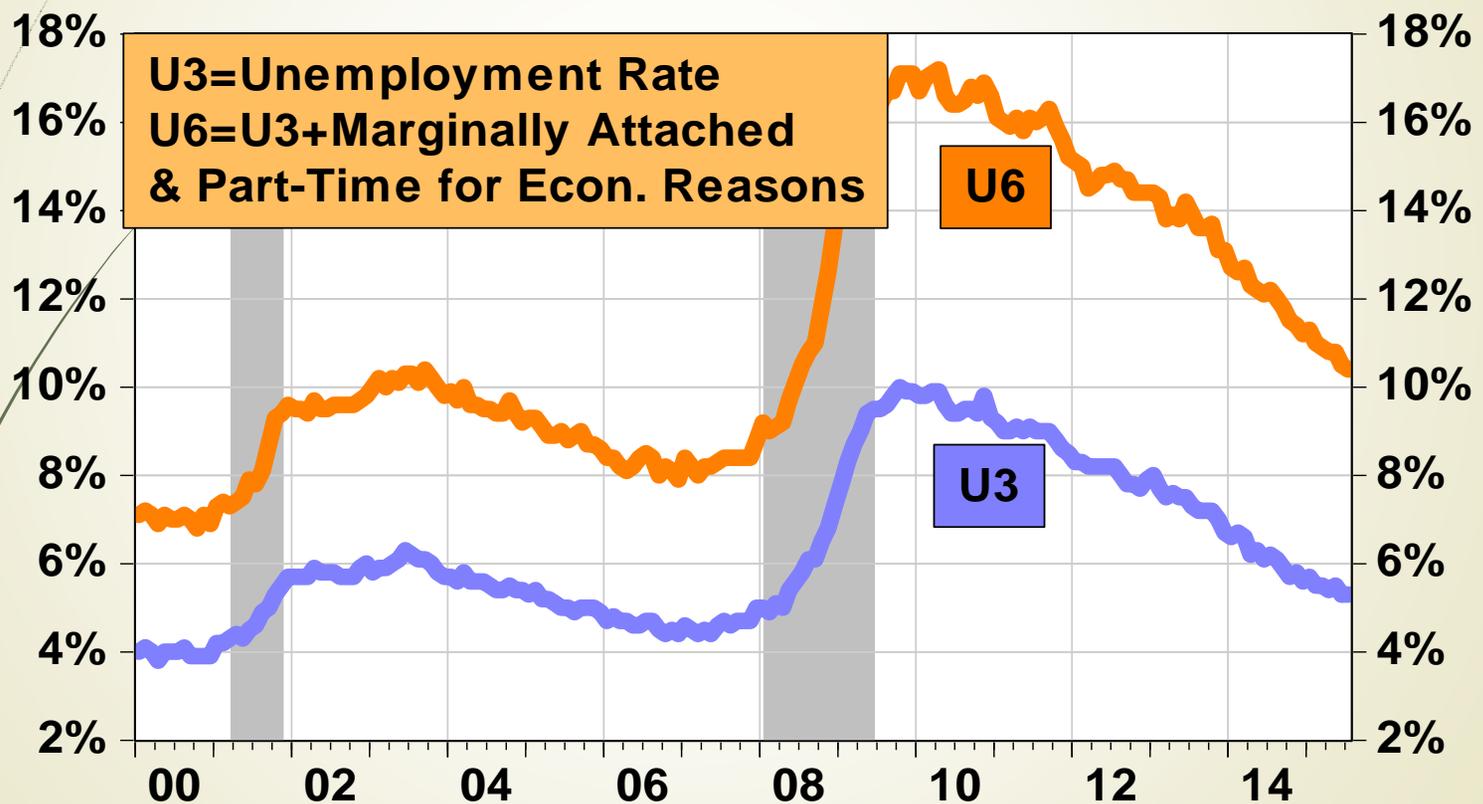
Source: BLS and IHS

# Low U3 Unemployment Rate



# U3 & U6 Unemployment Rates

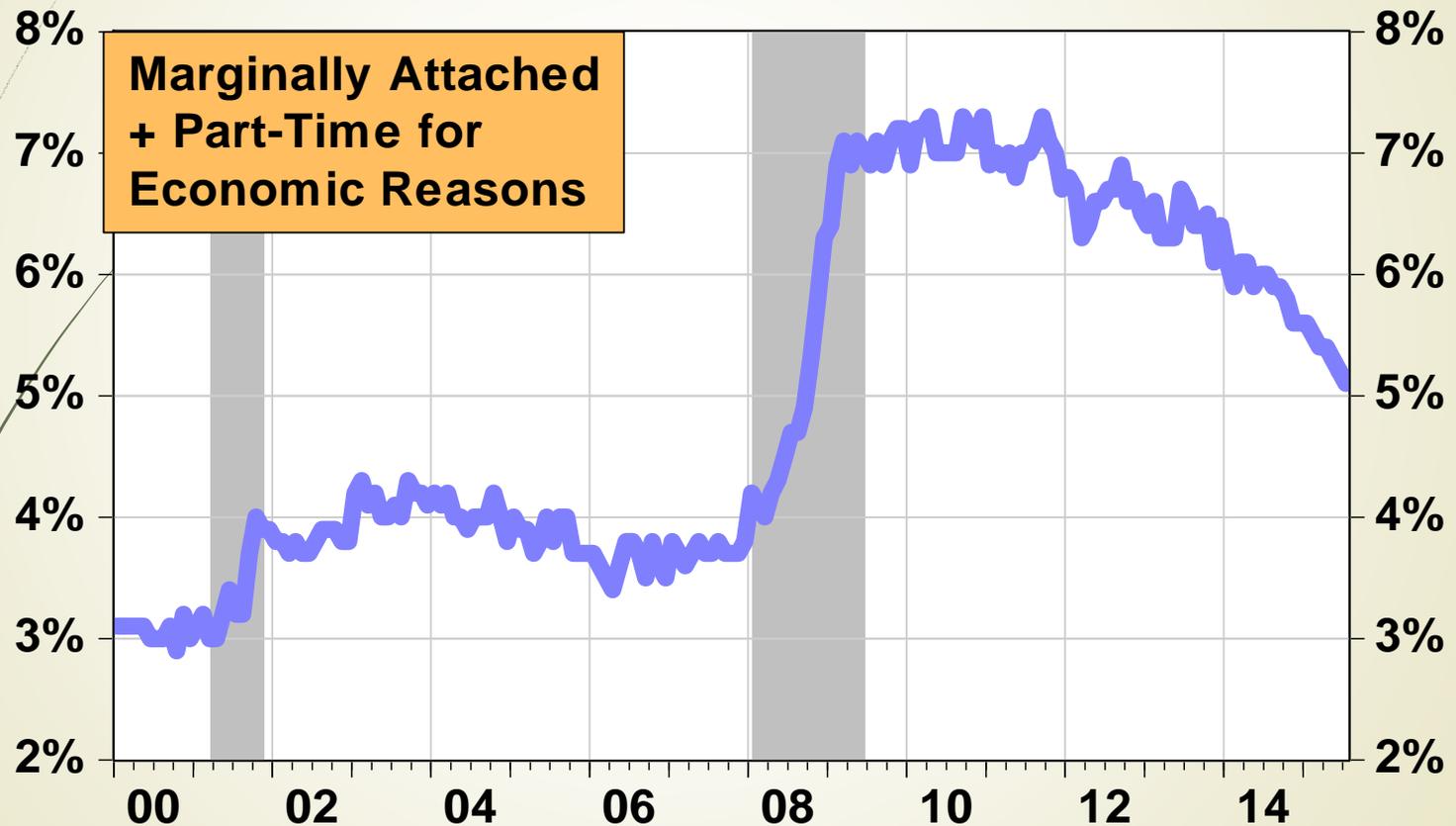
## Unemployment Rates



Source: BLS

# Marginally Attached & Part-Time

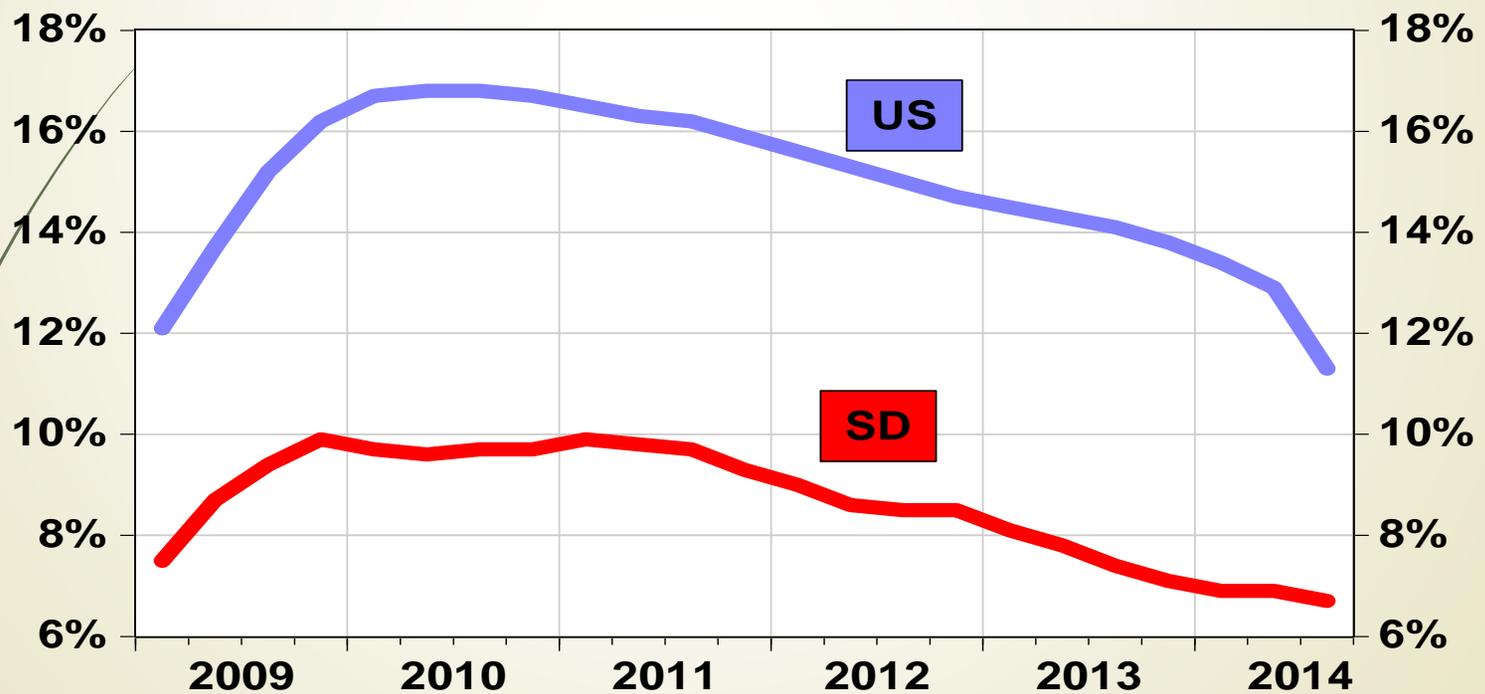
## U6-U3



Source: BLS

# US & SD U6 Unemployment Rate

## US AND SD U6 UNEMPLOYMENT RATE



Source: BLS

# Inflation & Interest Rates

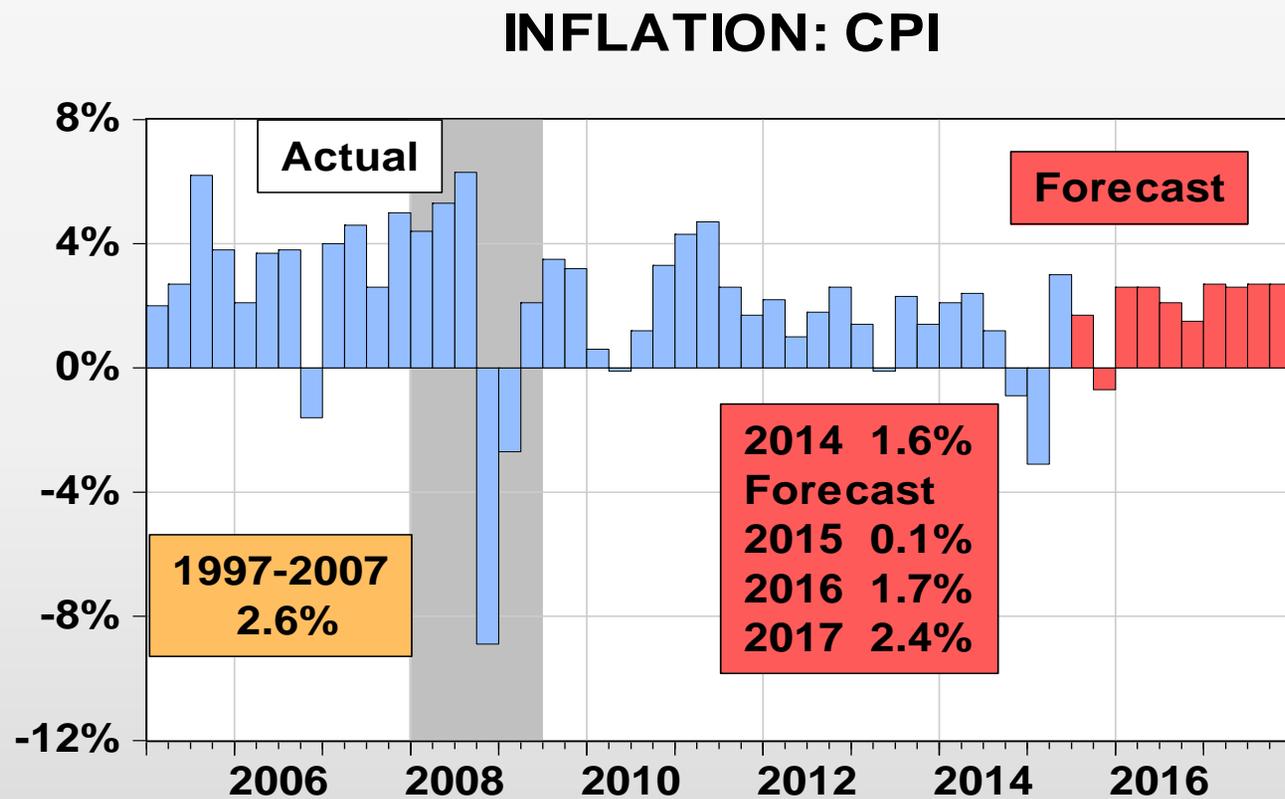
**Inflation remains under control and well below FED's 2% target.**

**IHS expects FED to begin raising rates in September 2015.**

**IHS expects two rate increases in 2015 and four more in 2016.**

**They expect federal funds rate to rise 3.25% by the end of 2017.**

# Still Low



Source: BLS and IHS

# IHS GLOBAL INSIGHT FORECAST August 2015

<b>Variable</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>GDP</b>	<b>2.4%</b>	<b>2.2%</b>	<b>2.8%</b>	<b>2.8%</b>
<b>NA Emp</b>	<b>1.9%</b>	<b>2.1%</b>	<b>1.5%</b>	<b>1.5%</b>
<b>Oil(Brent)</b>	<b>\$100</b>	<b>\$55</b>	<b>\$60</b>	<b>\$73</b>
<b>Housing</b>	<b>1.01</b>	<b>1.16</b>	<b>1.31</b>	<b>1.45</b>
<b>CPI</b>	<b>1.6%</b>	<b>0.1%</b>	<b>1.7%</b>	<b>2.4%</b>
<b>Un Rate</b>	<b>6.2%</b>	<b>5.4%</b>	<b>5.2%</b>	<b>5.2%</b>

# Risks to Forecast

**15% chance of recession.**

**Risks are:**

**Debt problems in other (large) European countries combined with slow growth could be a problem.**

**Slowing growth in China combined with high debt used to finance real estate speculation and the vast amounts of excess industrial capacity could be a problem.**

**Protracted emerging markets slump.**

**Persistent corporate caution in capital spending.**

# Key Variables Tracking SD Economy

**Nonfarm employment**

**Housing starts**

**Real nonfarm personal income**

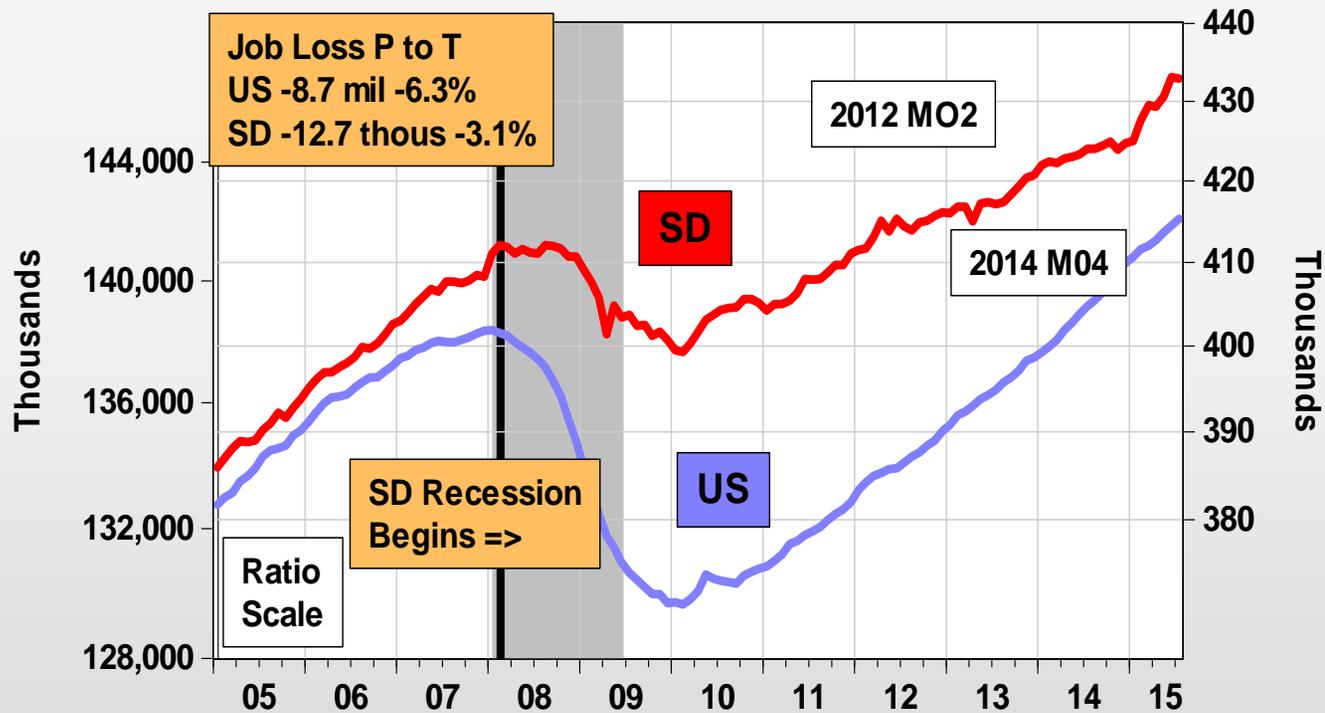
**Taxable sales**

**Leading indicator**

# Steady Growth

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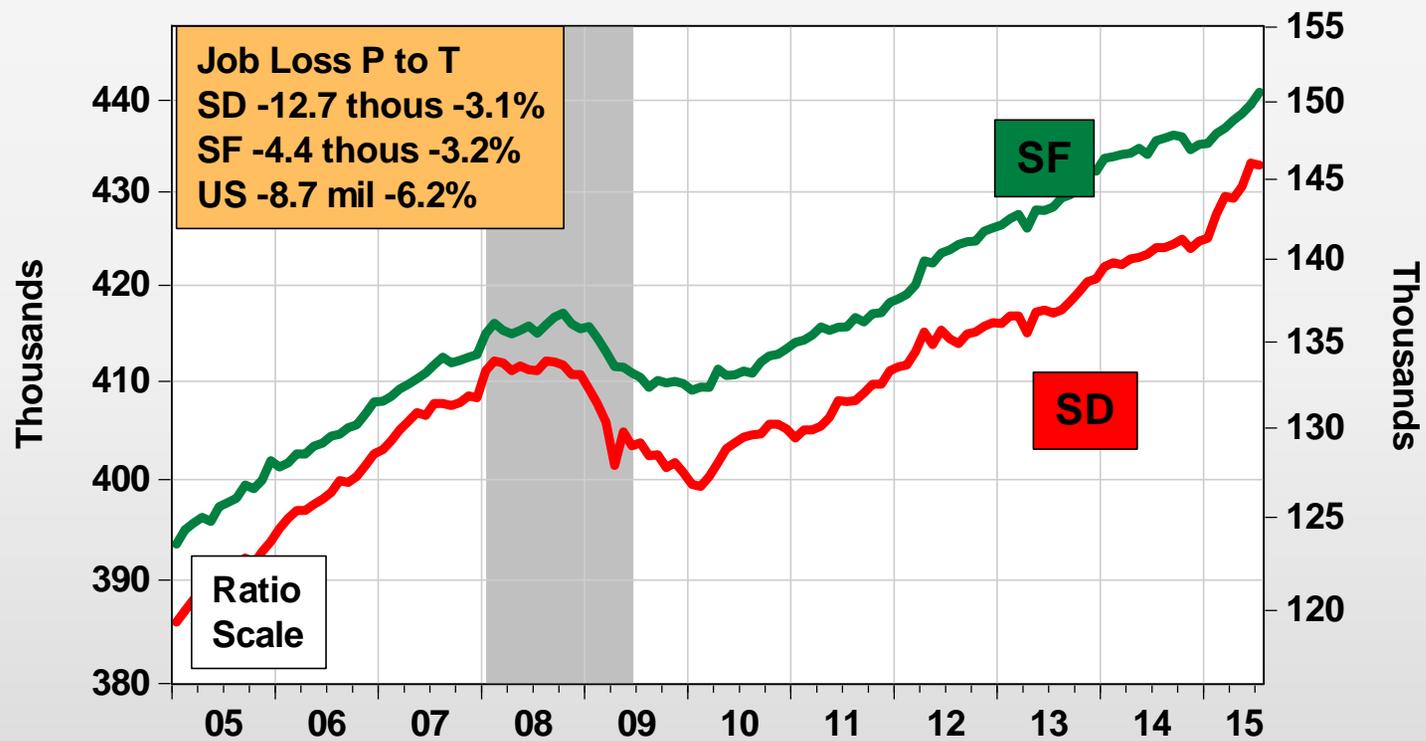
## NONFARM EMPLOYMENT



Source: BLS

# SD & SF Very Similar

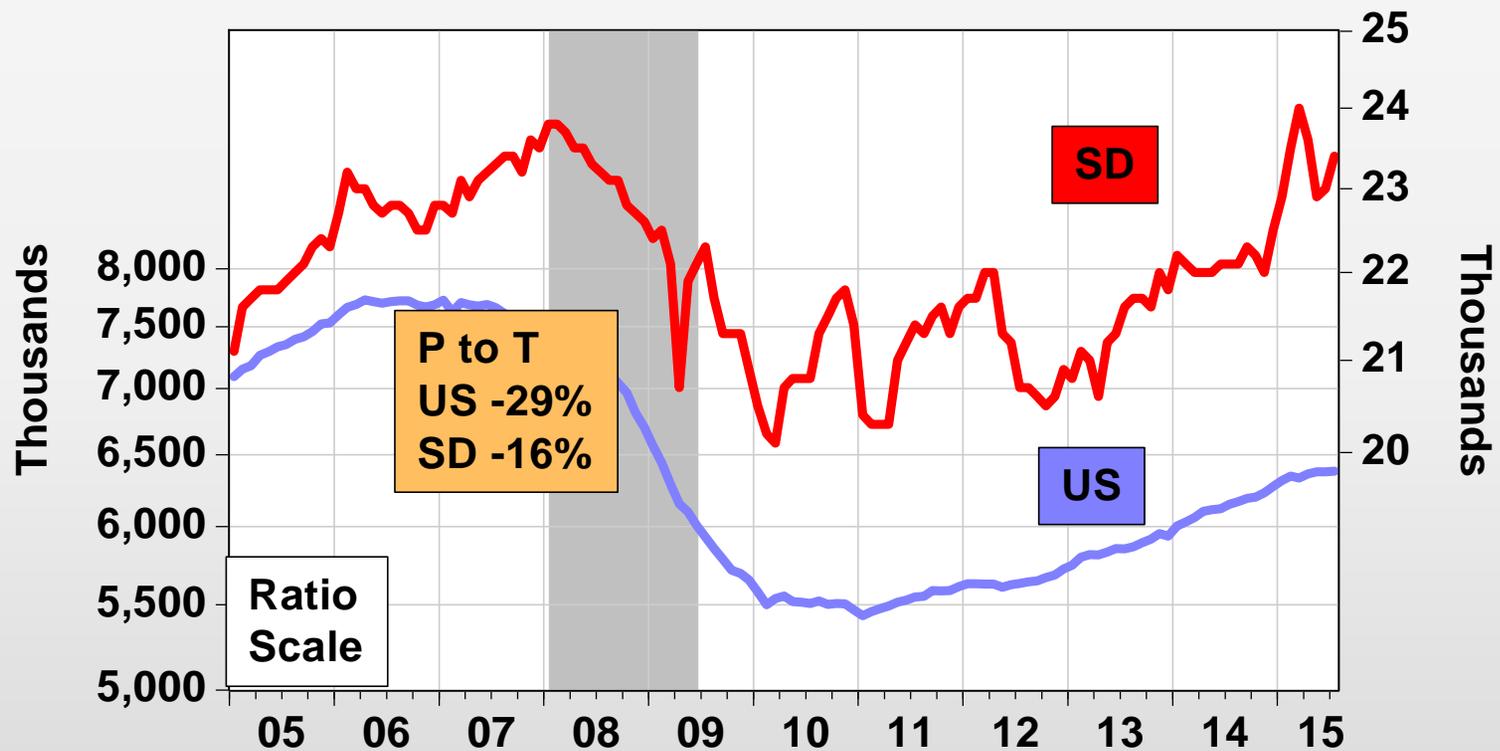
## NONFARM EMPLOYMENT - SD & SF



# Recovery - Almost Back

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## CONSTRUCTION EMPLOYMENT

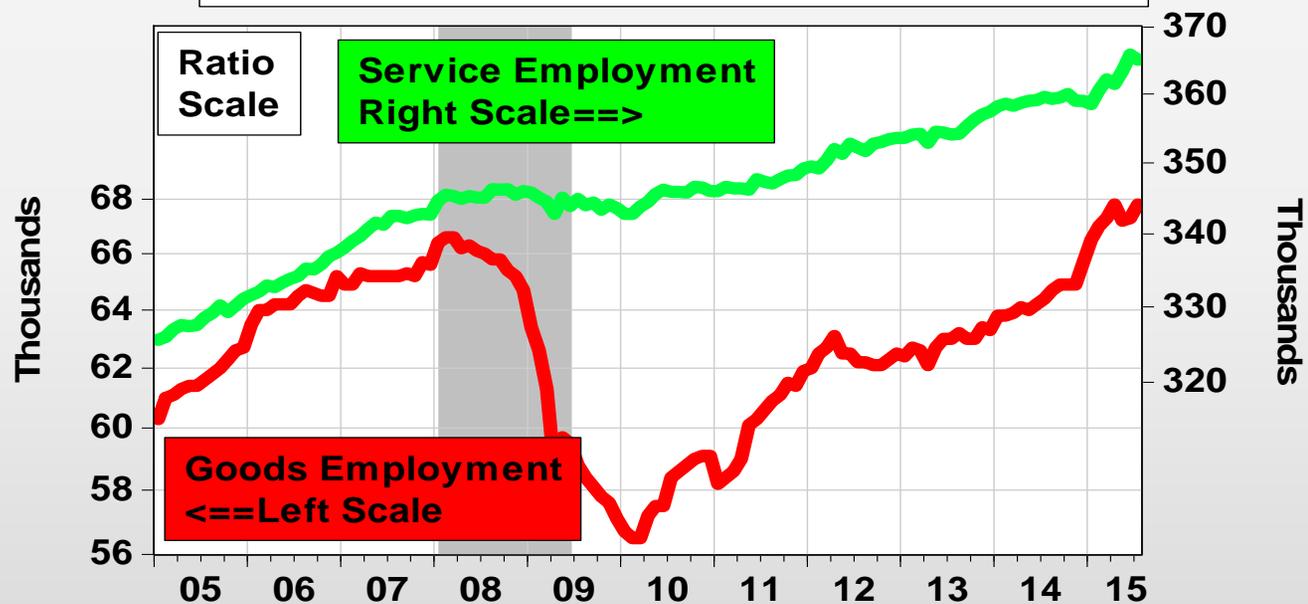


Source: BLS

# Which is More Cyclical?

## SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

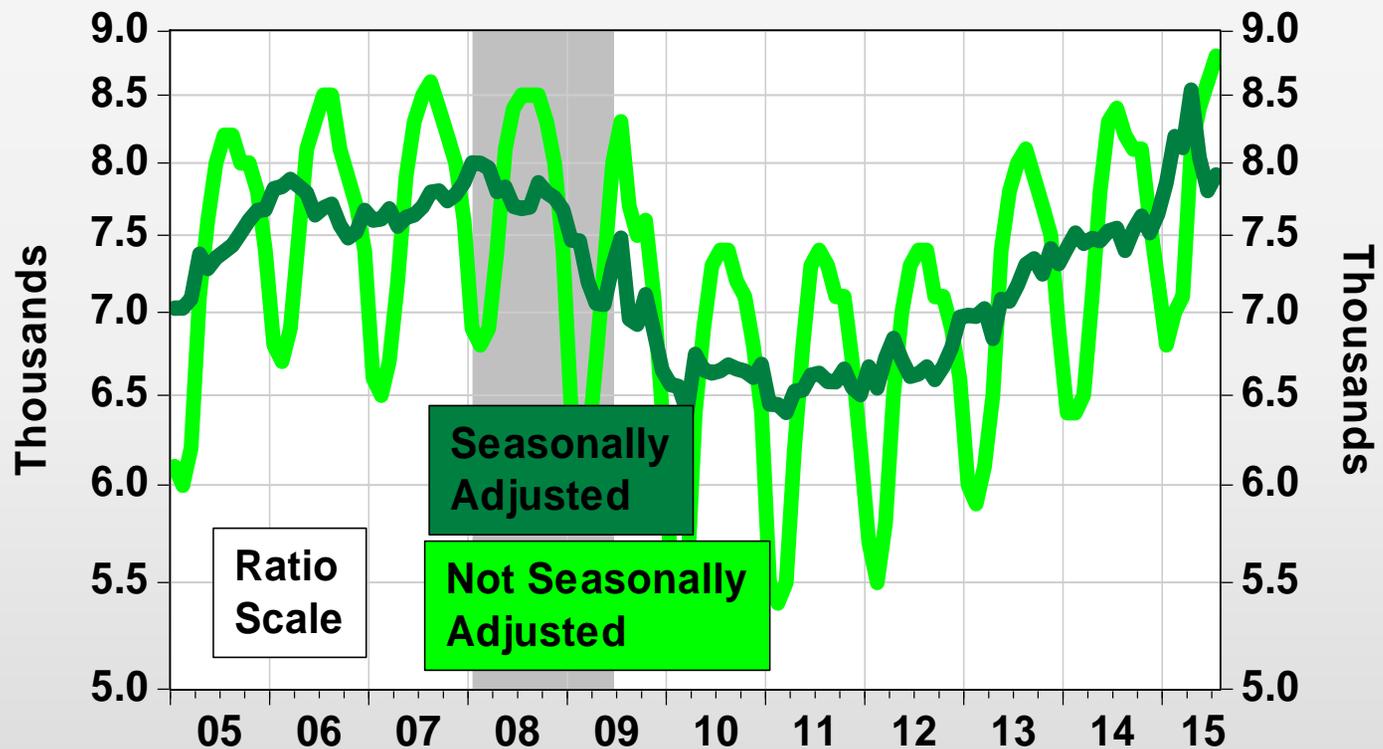
Goods-Producing = Manufacturing+Construction



Source: BLS

# Above Peak

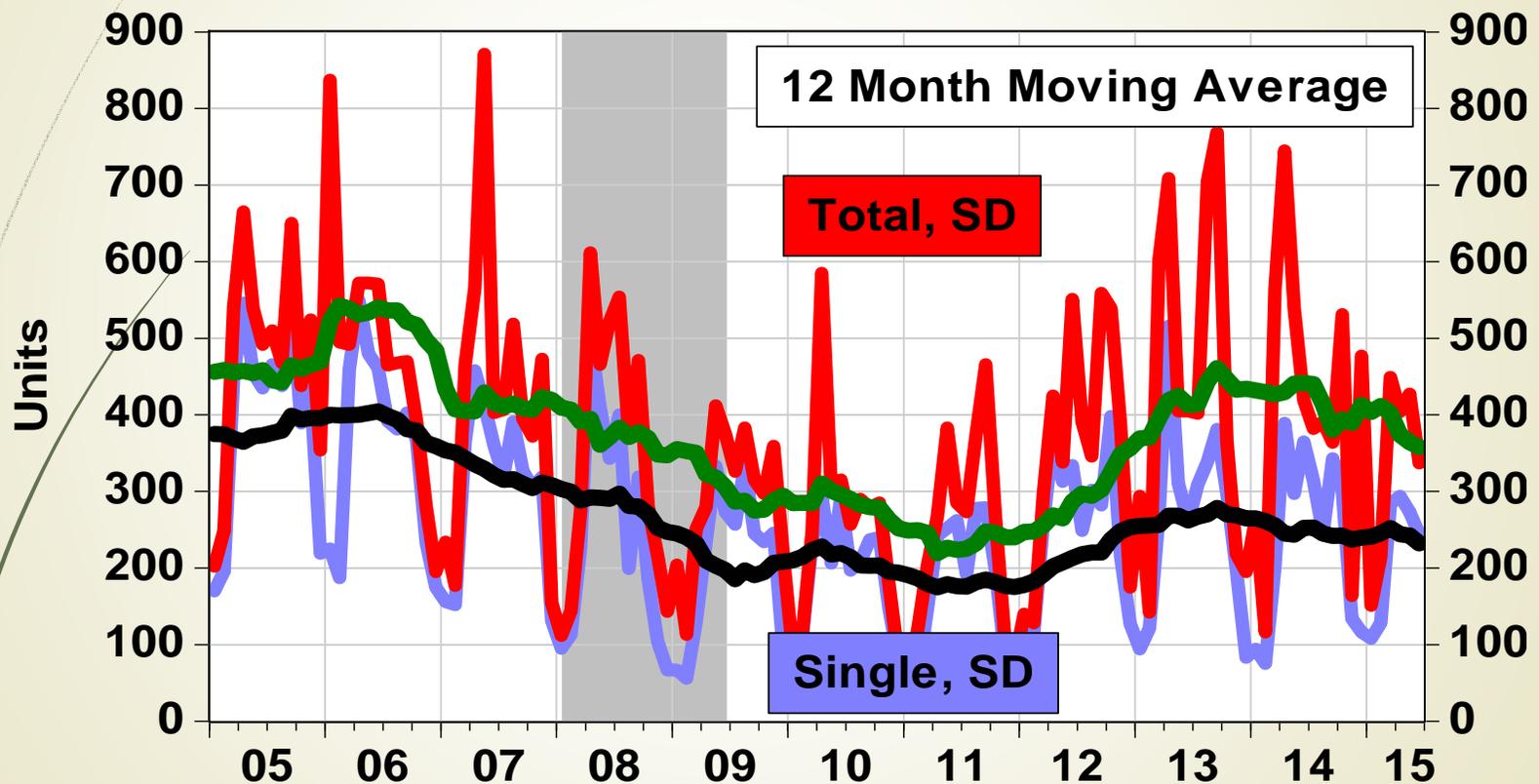
## SF CONSTRUCTION EMPLOYMENT



Source: BLS

# Not Quite Back to Peak

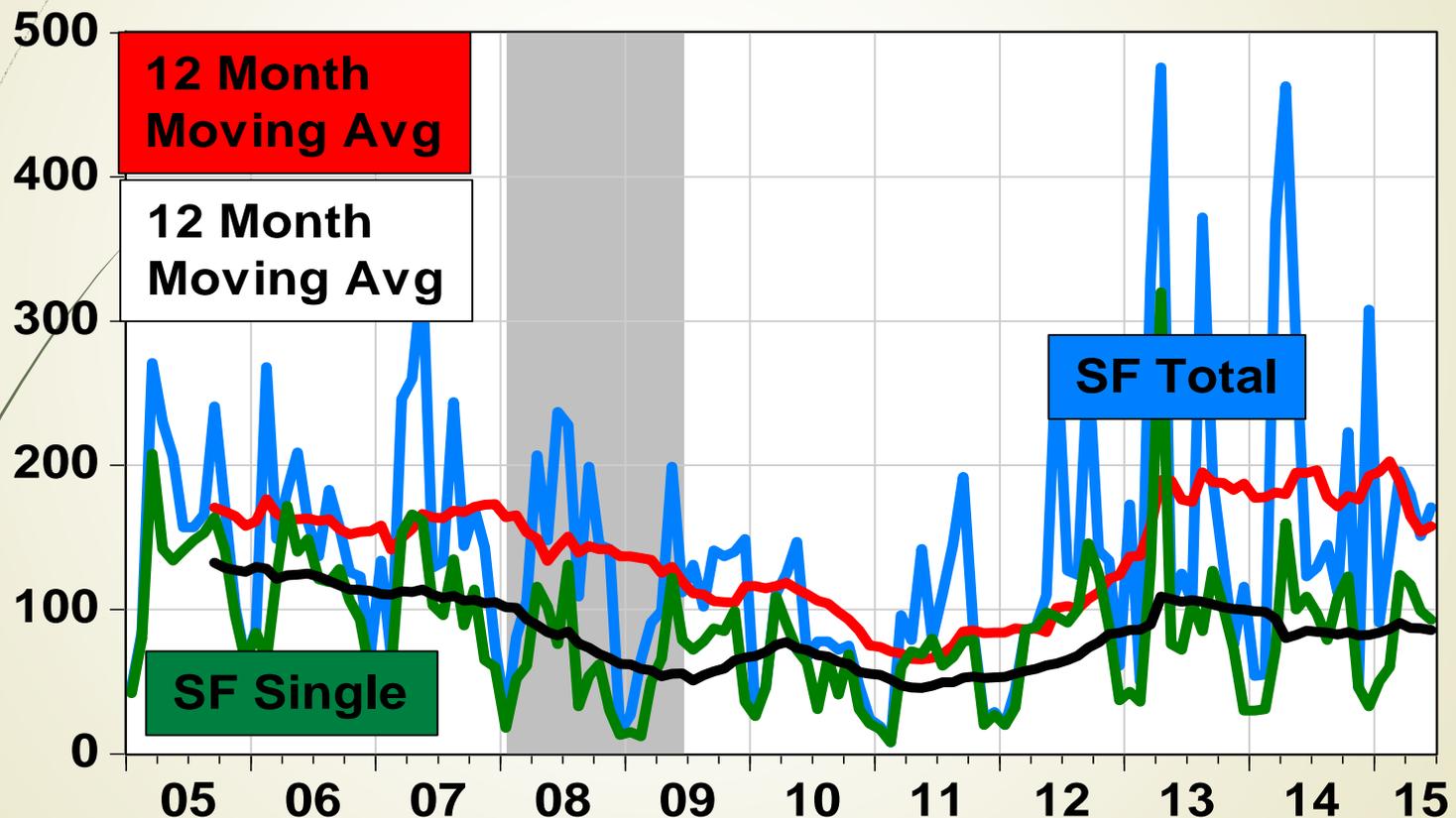
## SD Building Permits, Total & Single



Source: Census Bureau

# Very Good Performance

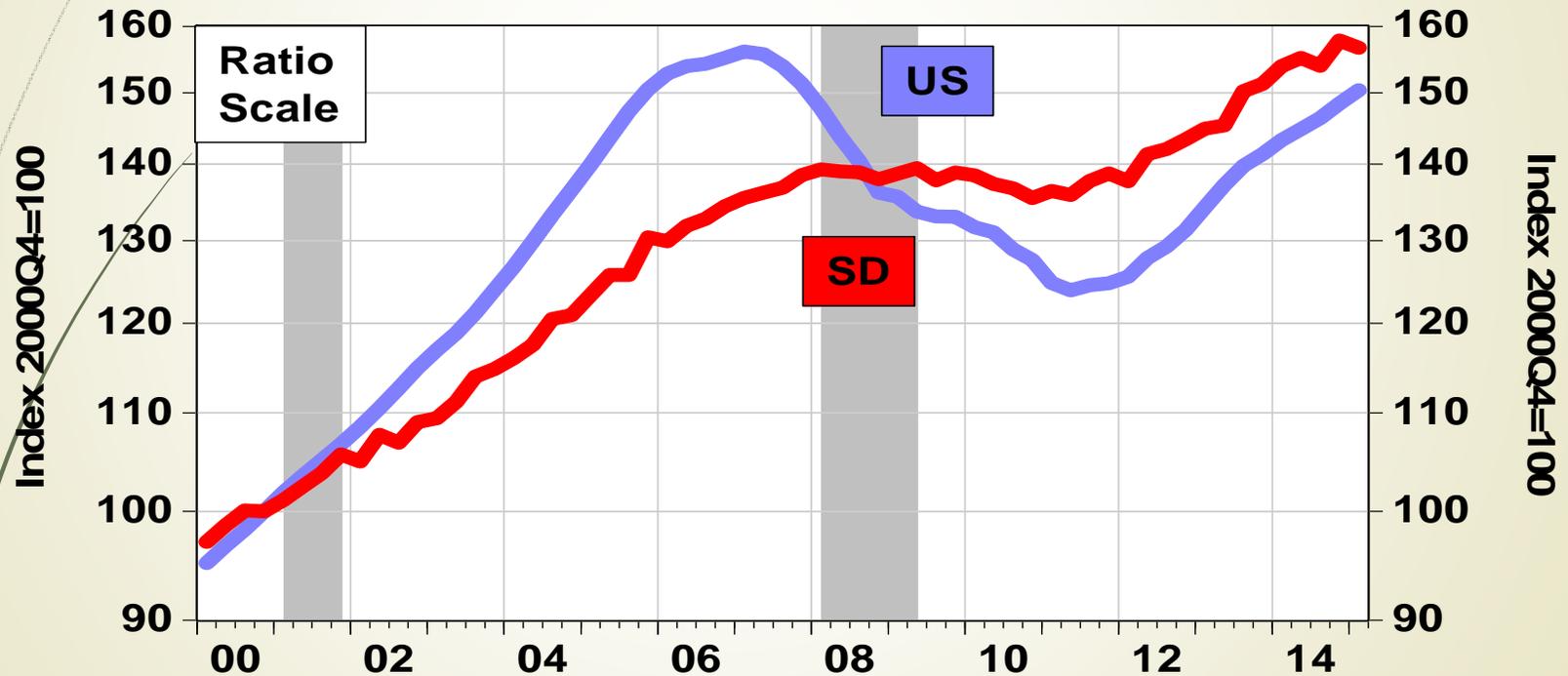
## Sioux Falls Building Permits



Source: US Census Bureau

# SD Peaked Later and Decline Less Severe

## HOUSE PRICE INDEX: PURCHASE ONLY PRICE

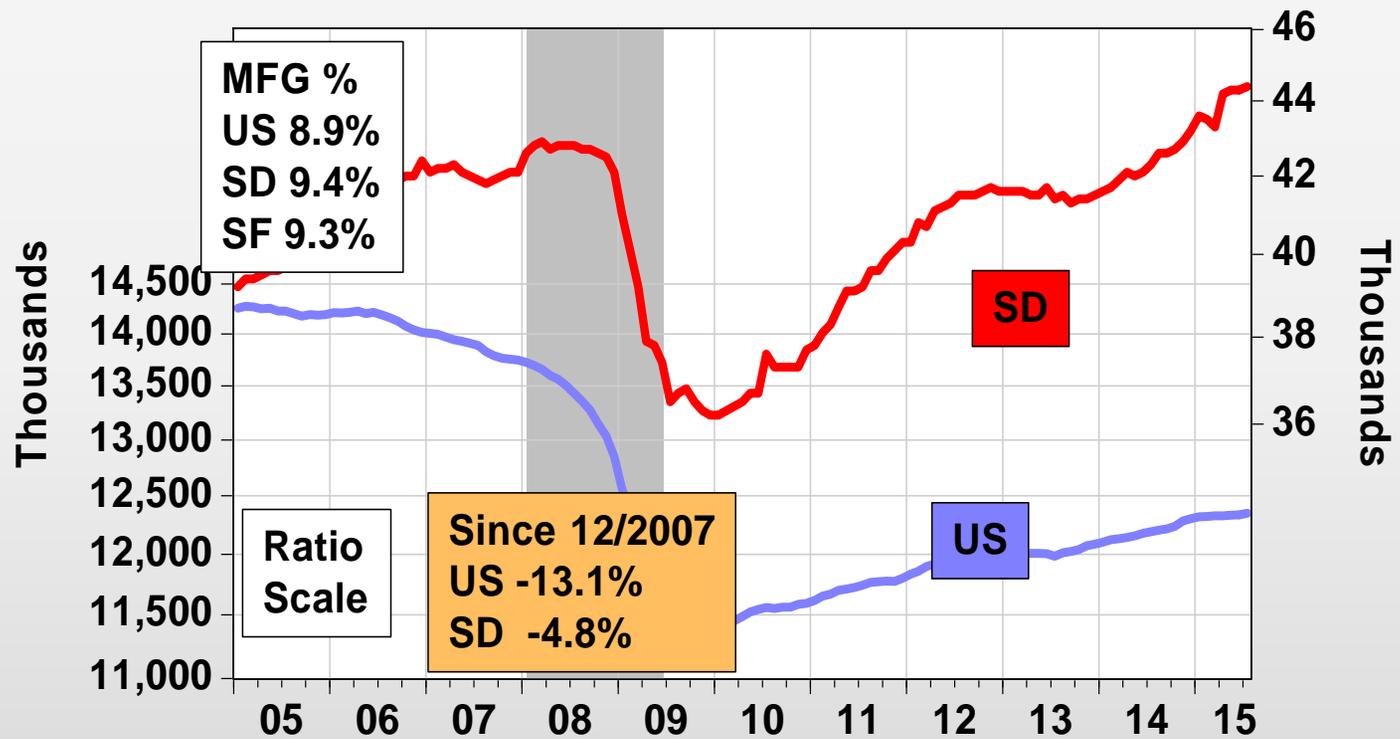


Source: FHFA.GOV

# SD Back to Peak

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## MANUFACTURING EMPLOYMENT

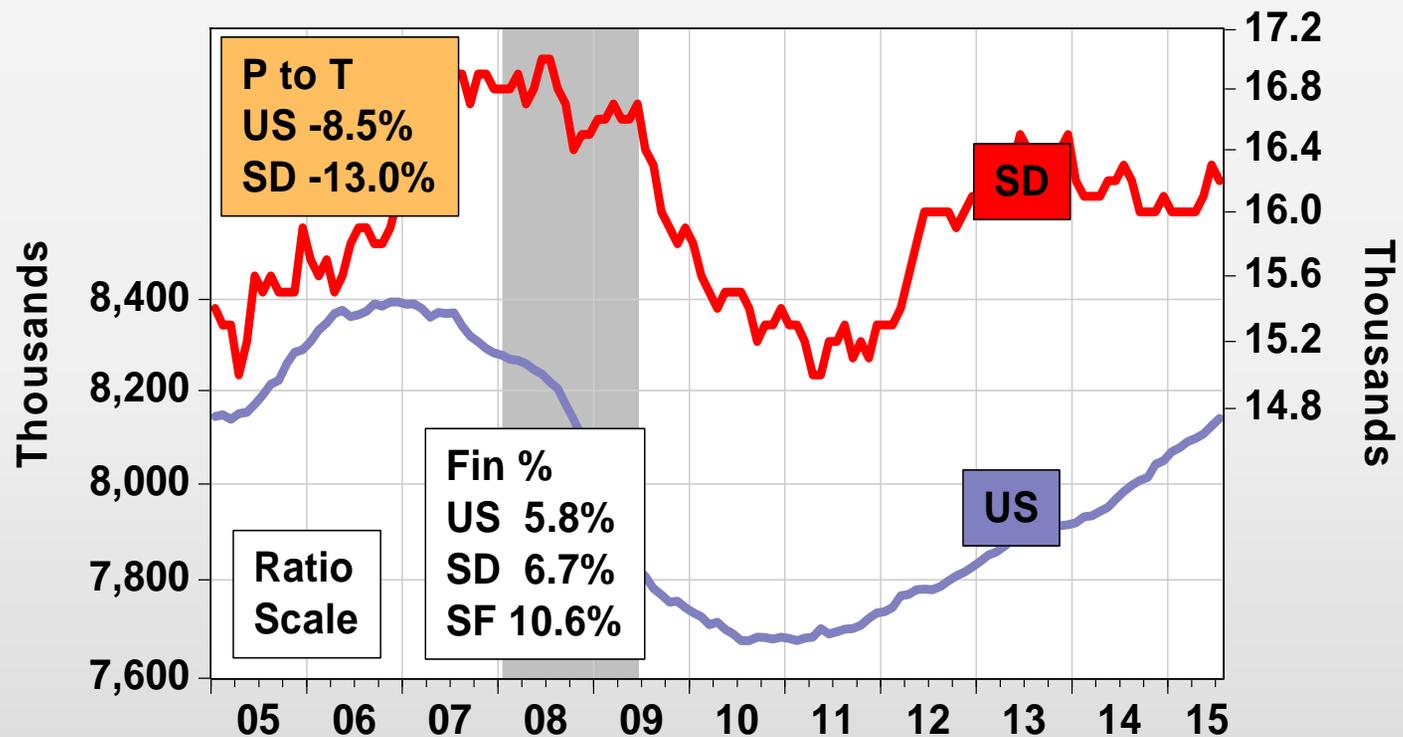


Source: BLS

# SD Not Back to Peak

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## FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

# Almost Back to Peak

## Sioux Falls Employment - Finance & Manufacturing

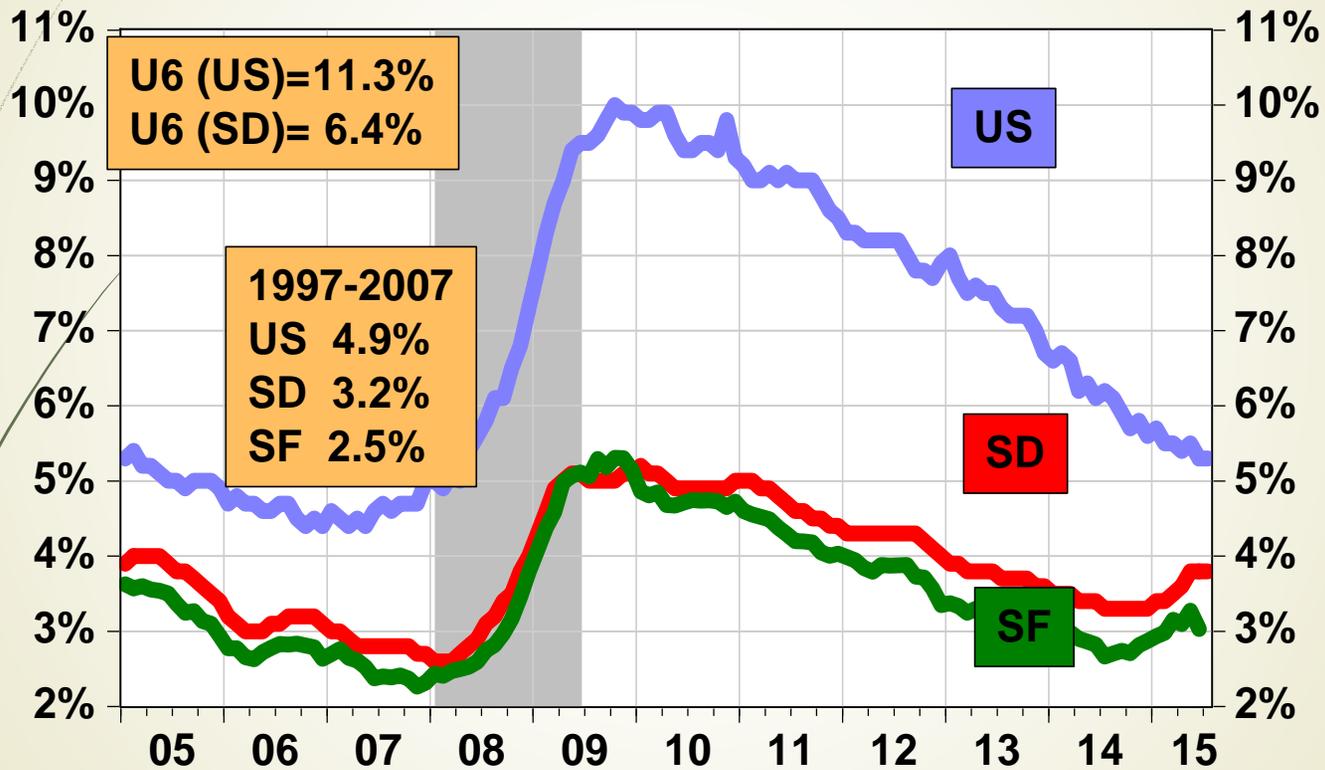


Source: BLS

SD 3.8% SF(SA) 3.0%

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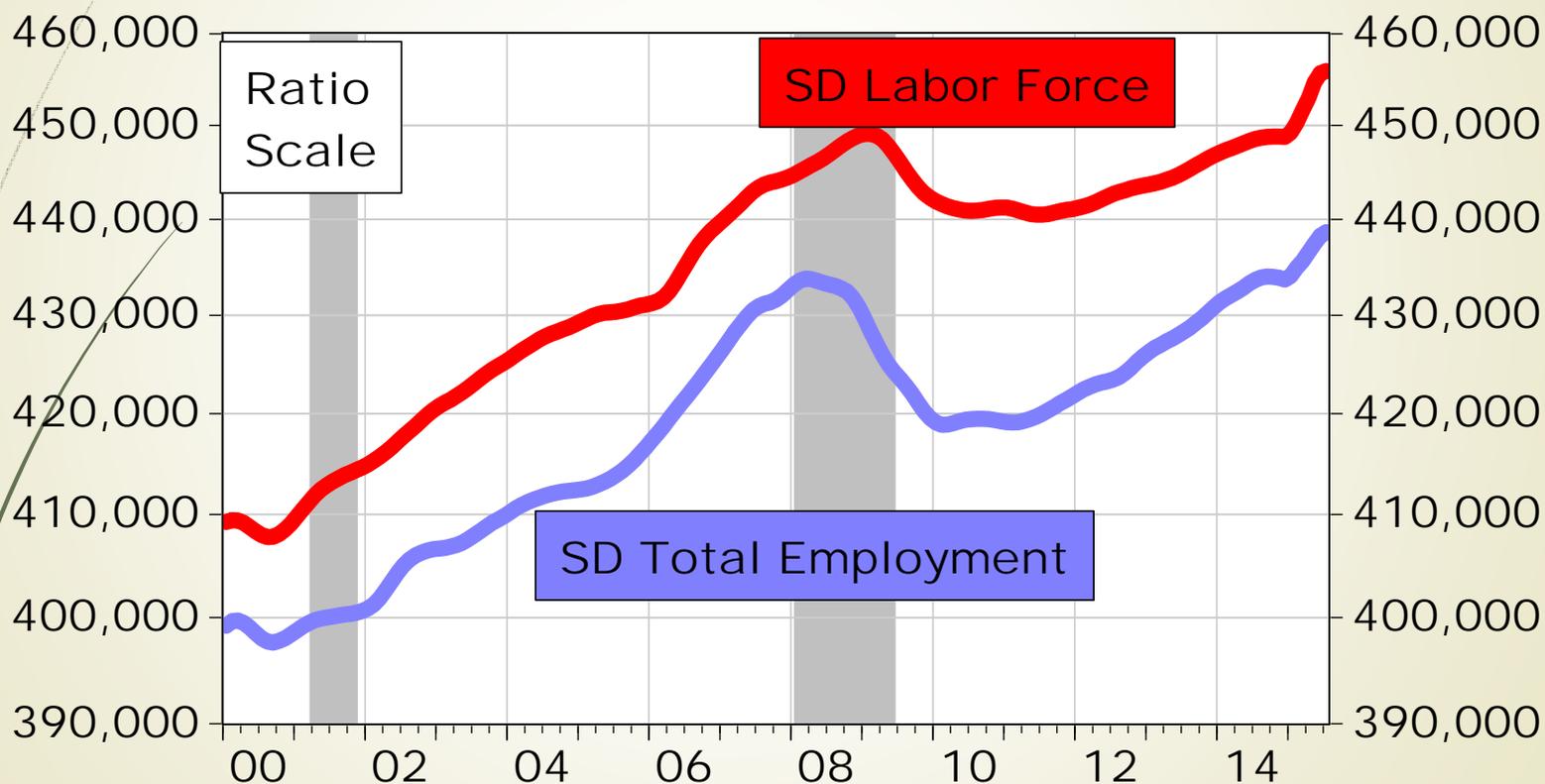
### UNEMPLOYMENT RATE



Source: BLS

# Sharp Uptick - LF & EMP

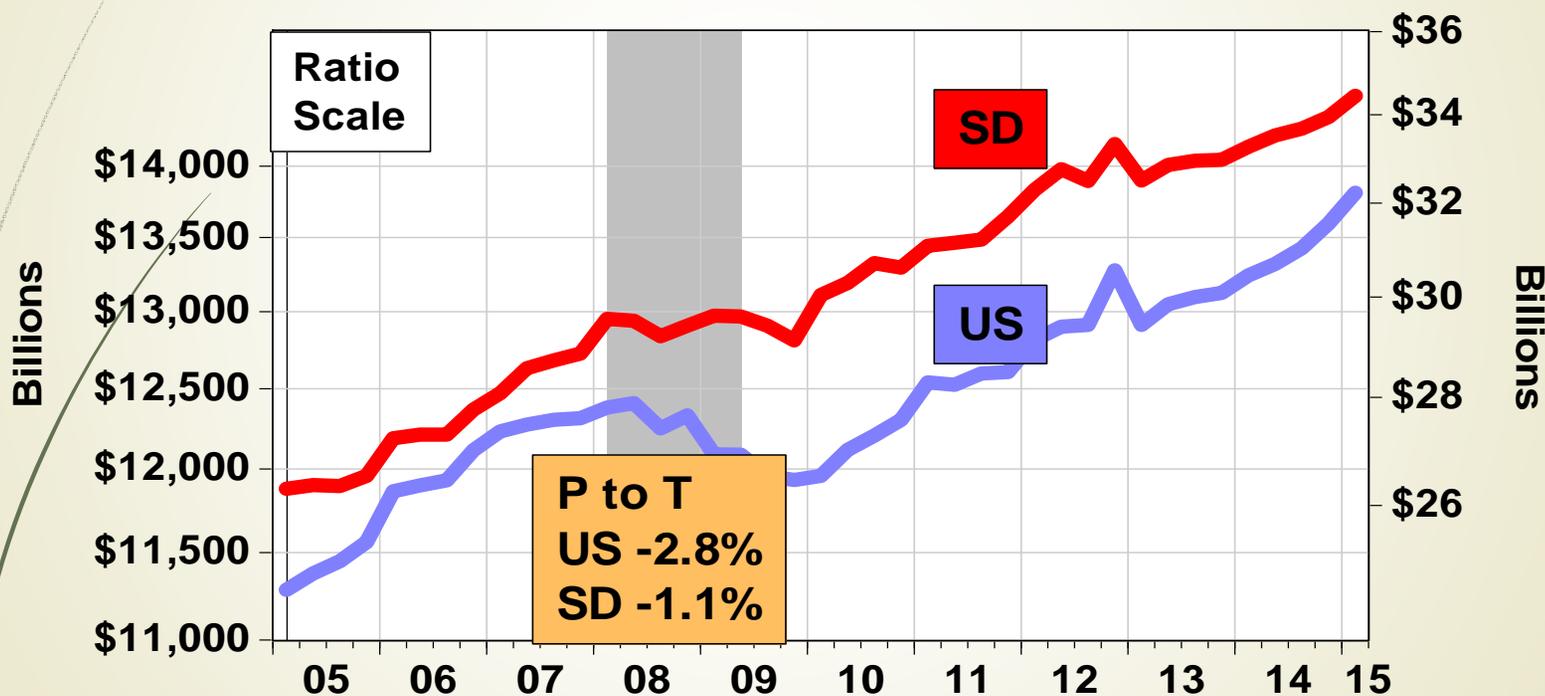
## SD LABOR FORCE AND TOTAL EMPLOYMENT



Source: BLS

# SD Smaller Decline - Way Above Previous Peak

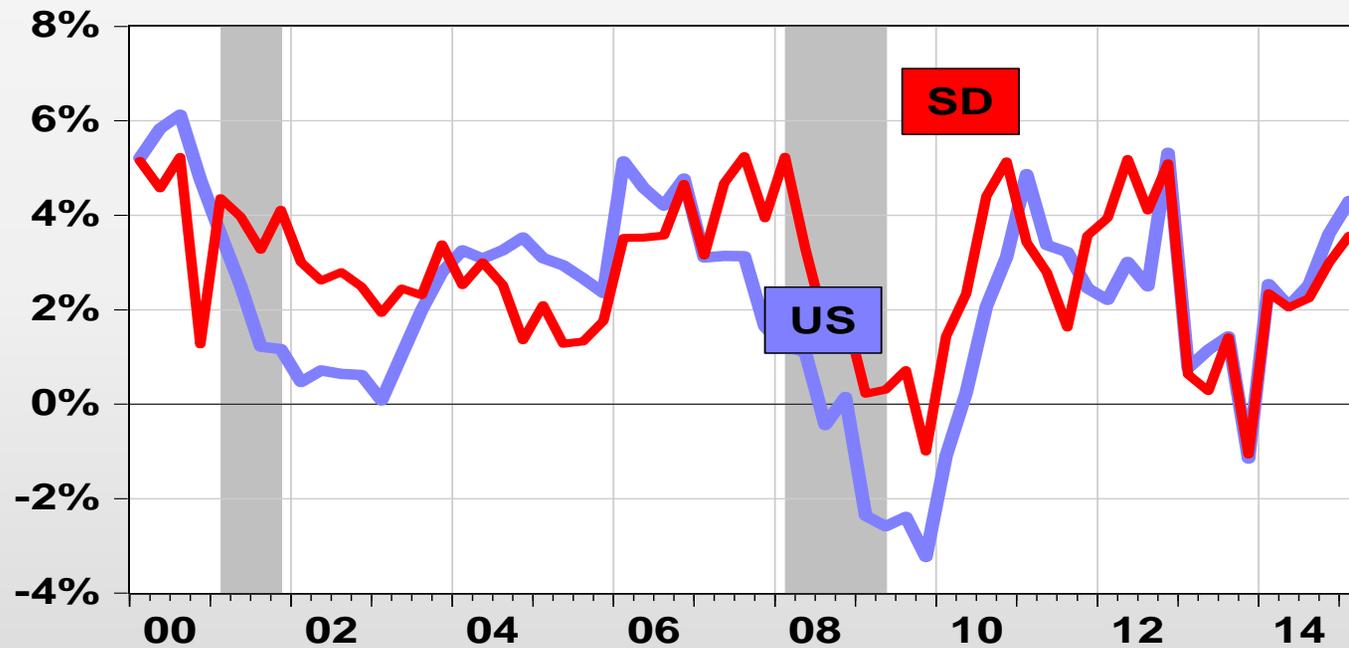
## NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

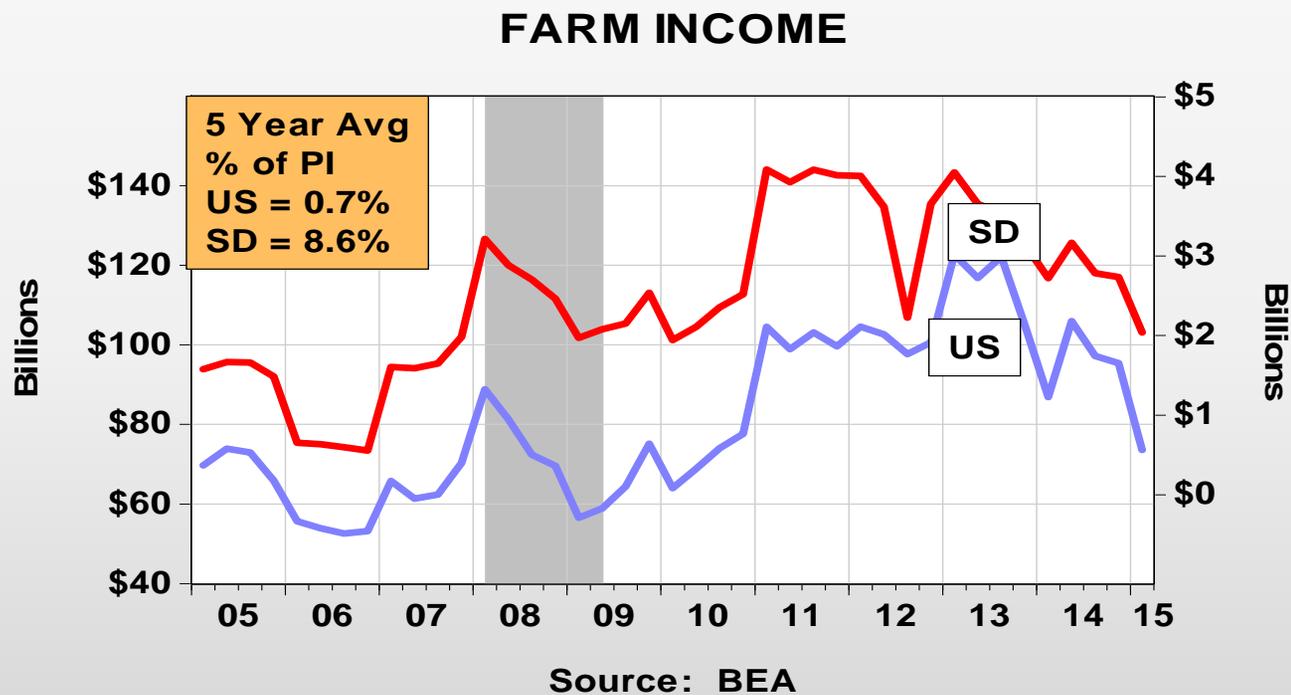
# US and SD Track

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



Source: BEA

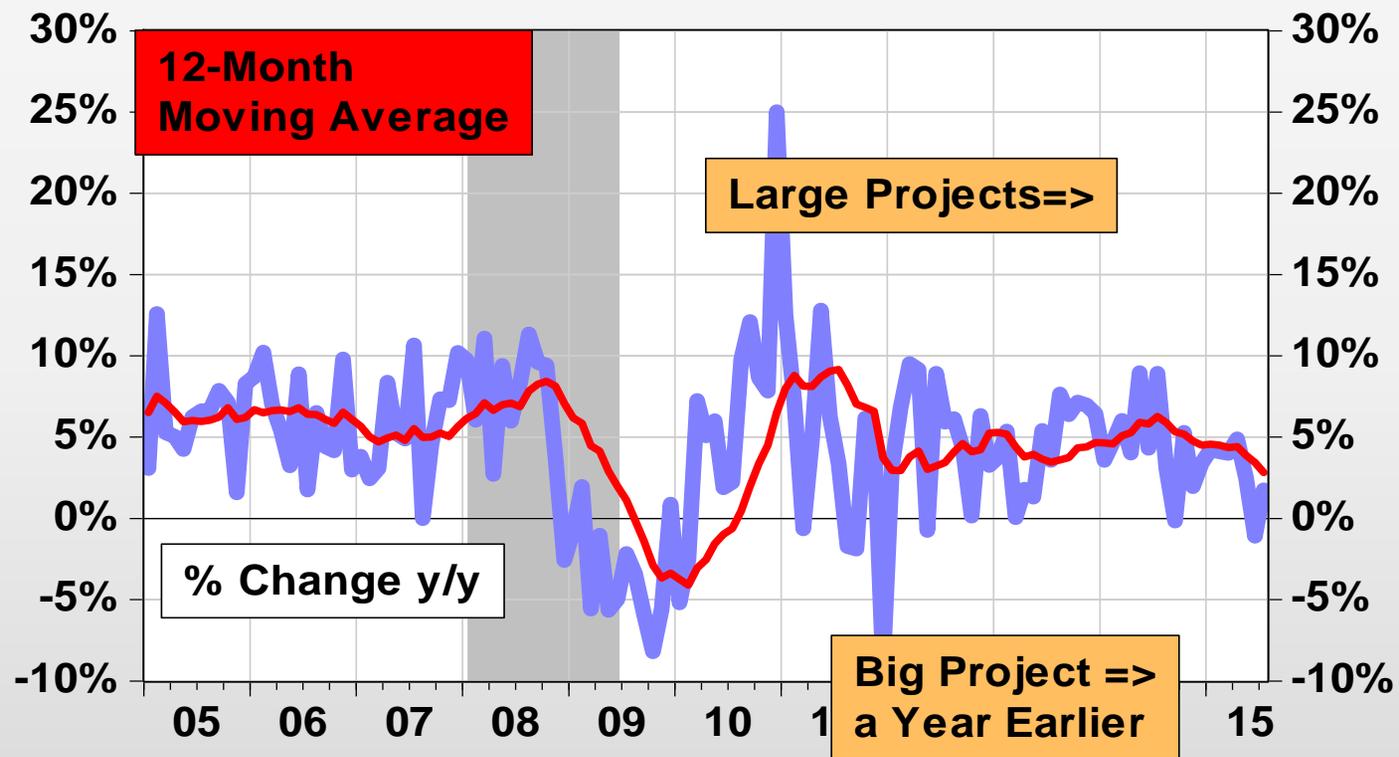
# Down High Prodn Low Prices



# Pretty Good Growth

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## SD TAXABLE SALES

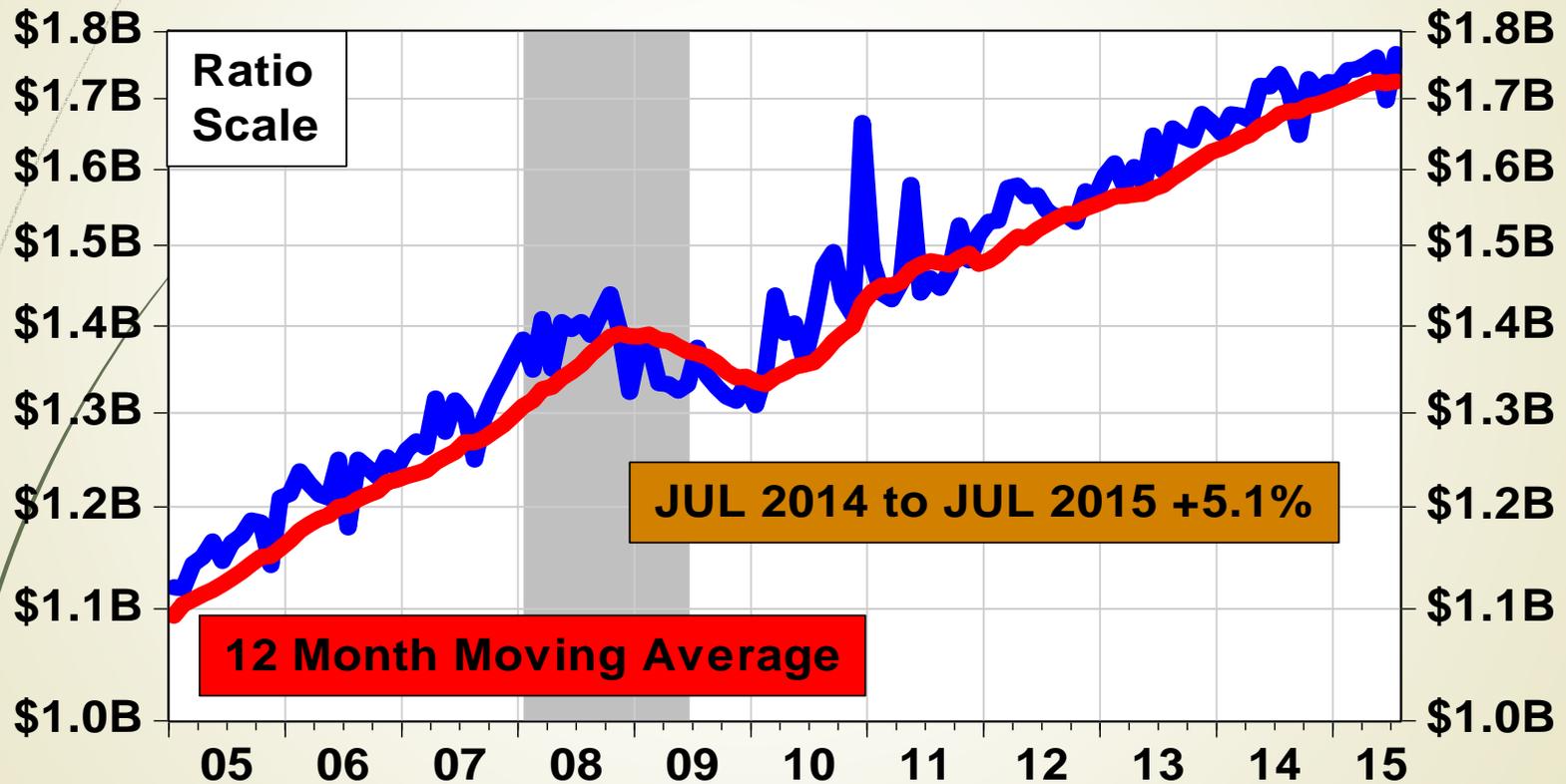


Source: SD Department of Revenue

# Steady Growth

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## SD Taxable Sales - Seasonally Adjusted

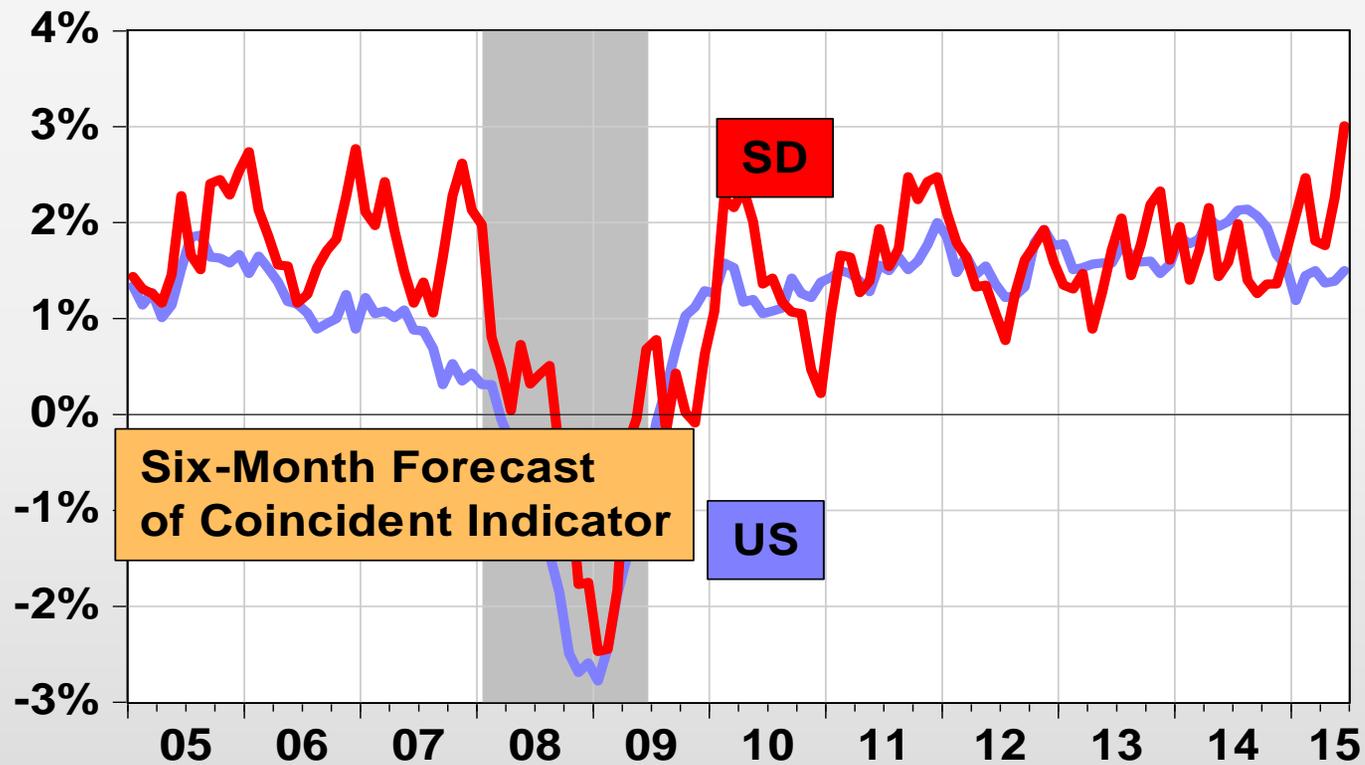


Source: SD Department of Revenue

# Forecasting Growth?

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## LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia

# Mid-American States Leading Indicators - GOSS

July 2015 Index > 50 Growth

Overall 55.8

New Orders 53.2

Sales 52.2

Delivery lead time 57.7

Inventories 60.7

Employment 55.0

“Our surveys indicate that healthy growth in SD will continue through the 4<sup>th</sup> quarter of the year.”

# PER CAPITA PERSONAL INCOME

2014	US	SD	SD % of US	Rank
Per Capita Pers Income	\$46,129	\$46,345	100%	21
RPP Per Capita Pers Income	\$46,129	\$52,905	115%	5
Per Capita Disp Pers Income	\$40,670	\$42,133	104%	18
RPP Per Capita Disp Pers Income	\$40,670	\$48,097	118%	4

# Conclusions

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**SD economy growing at moderate rate**

**SF economy growing at faster rate**

**US economy growing slowly**

**Only 15% chance of recession**

# The End

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