The State of the SD Economy

Presentation to the Governor's Council of Economic Advisors

May 21, 2020

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Outline of Presentation

Overview of US economy

US economy forecast - Macroeconomic Advisors by IHS Markit 5/11/2020

SD economy

Summary & Conclusions

US Forecast

Macroeconomic Advisors, By IHS MARKIT

Forecast – May 11, 2020

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation

The Economy

This is a different world. We have no experience with the events unfolding.

Terms like lockdown, social distancing, and handwashing all have taken on new meaning.

Around 100 thousand deaths so far in a country of 333 million.

GDP decline of 37% annualized rate in 2nd quarter and consumer spending down 44% annualized rate in Q2 2020.

30,000+ job losses and unemployment rate near 20%.

Federal deficits over $3 trillion and 16.5% of GDP.

Is This Like the Great Depression?

The Great Depression was much worse. It lasted 12 years.

The unemployment rate hit 25% and from 1931 to 1940 it never got below 14%.

From 1929 to 1933, GDP fell 30% and the stock market fell 90%.

The GD was a financial crisis with over 11,000 banks failing.

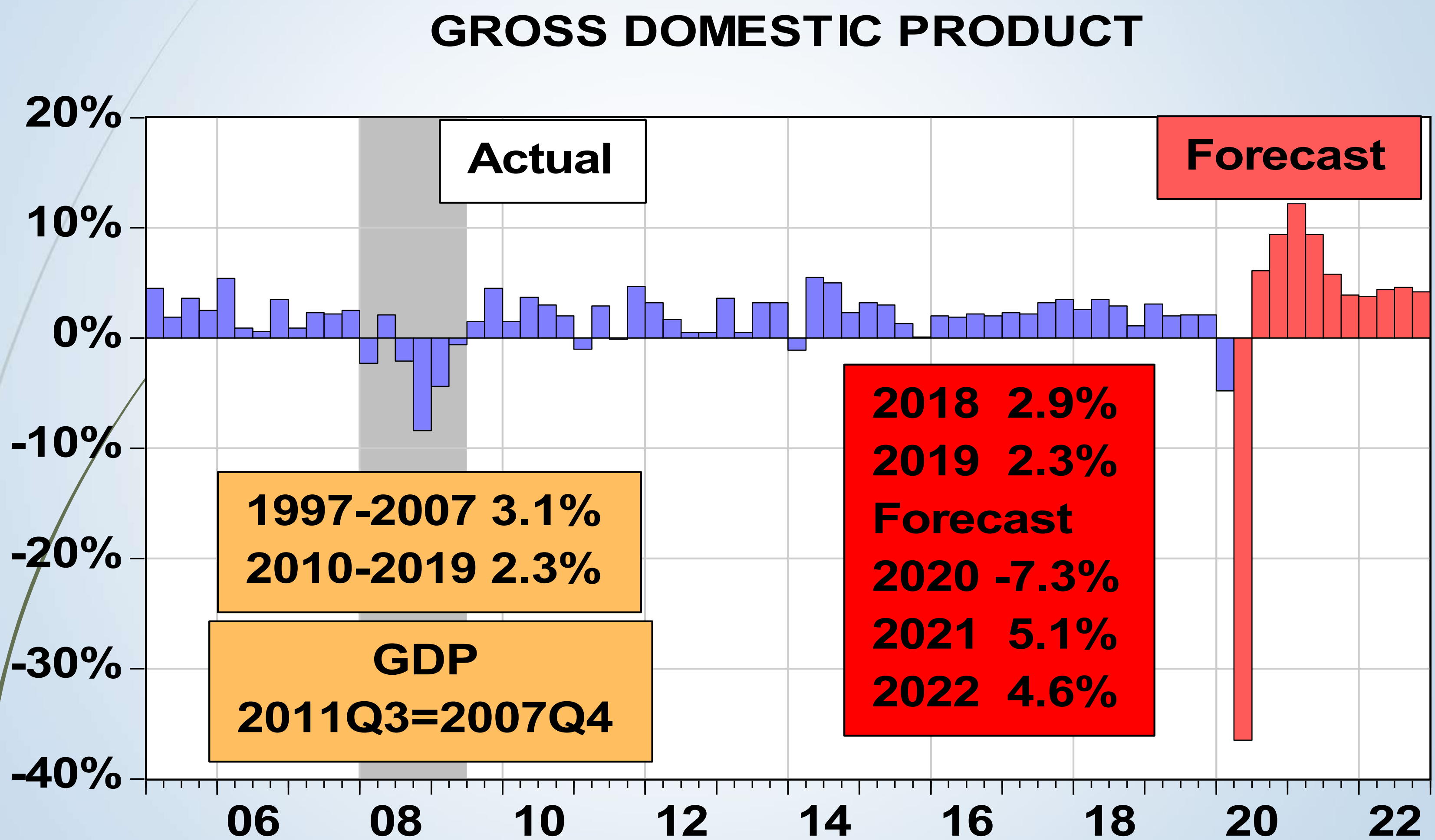
GDP

- GDP is projected to fall 37%in the 2nd quarter of 2020.
- For the year, GDP is expected to fall 7.3% in 2020, rise 5.1% in 2021, and 4.6% in 2022.
- GDP is expected reach previous peak in 2022 and continue growth above trend.
- By 2024, relaxing of social distancing, accommodative monetary policy, and the fiscal stimulus will drive the economy back to potential output.

SUPPLY-SIDE RECESSION

- **Whereas, most recessions in the post-war period have been demand-side recessions the is one is very different.**
- **It represents a contraction in the supply of economic resources, labor in particular, due to a lockdown.**
- **This loss of income, of course, has demand-side implications.**
- **The economic stimulus package is more like a relief effort due to a natural disaster.**

GDP Record Decline



Source: BEA and IHS

Components of GDP are:

GDP = Consumption (69%)

Investment (17%)

Government (18%)

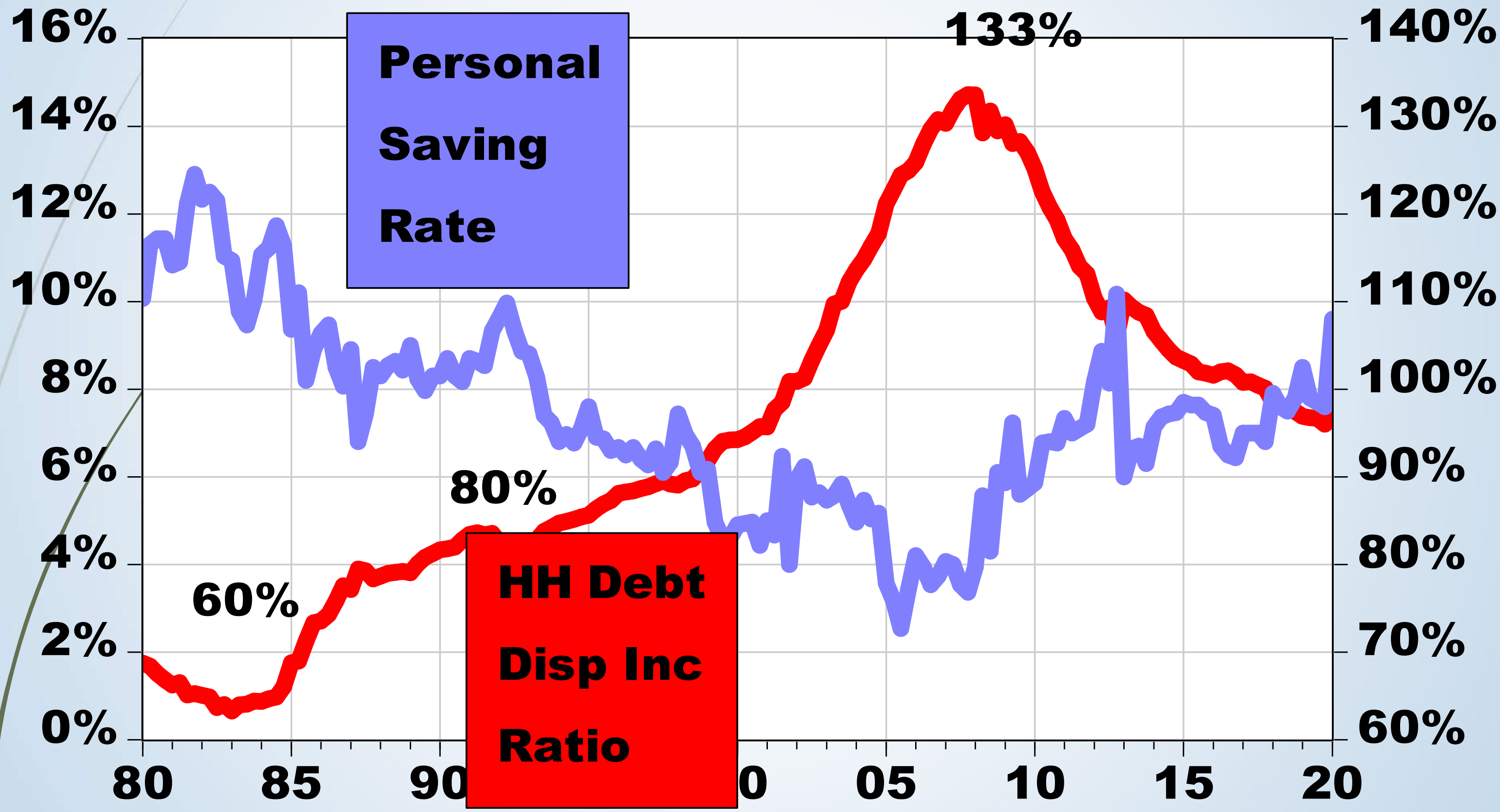
Net Export (-4%)

Consumption

- Since the declaration of a national emergency on March 13 and subsequent “stay at home” orders consumption has tumbled. Real consumer spending fell 7.3% in March (not annualized).
- Further declines continued in April as social distancing and business closures broadened.
- Projected growth is at -8.3% in 2020, 5.1% in 2021, and 5.0% in 2022.
- Consumption will not regain its previous peak until spring of 2022.

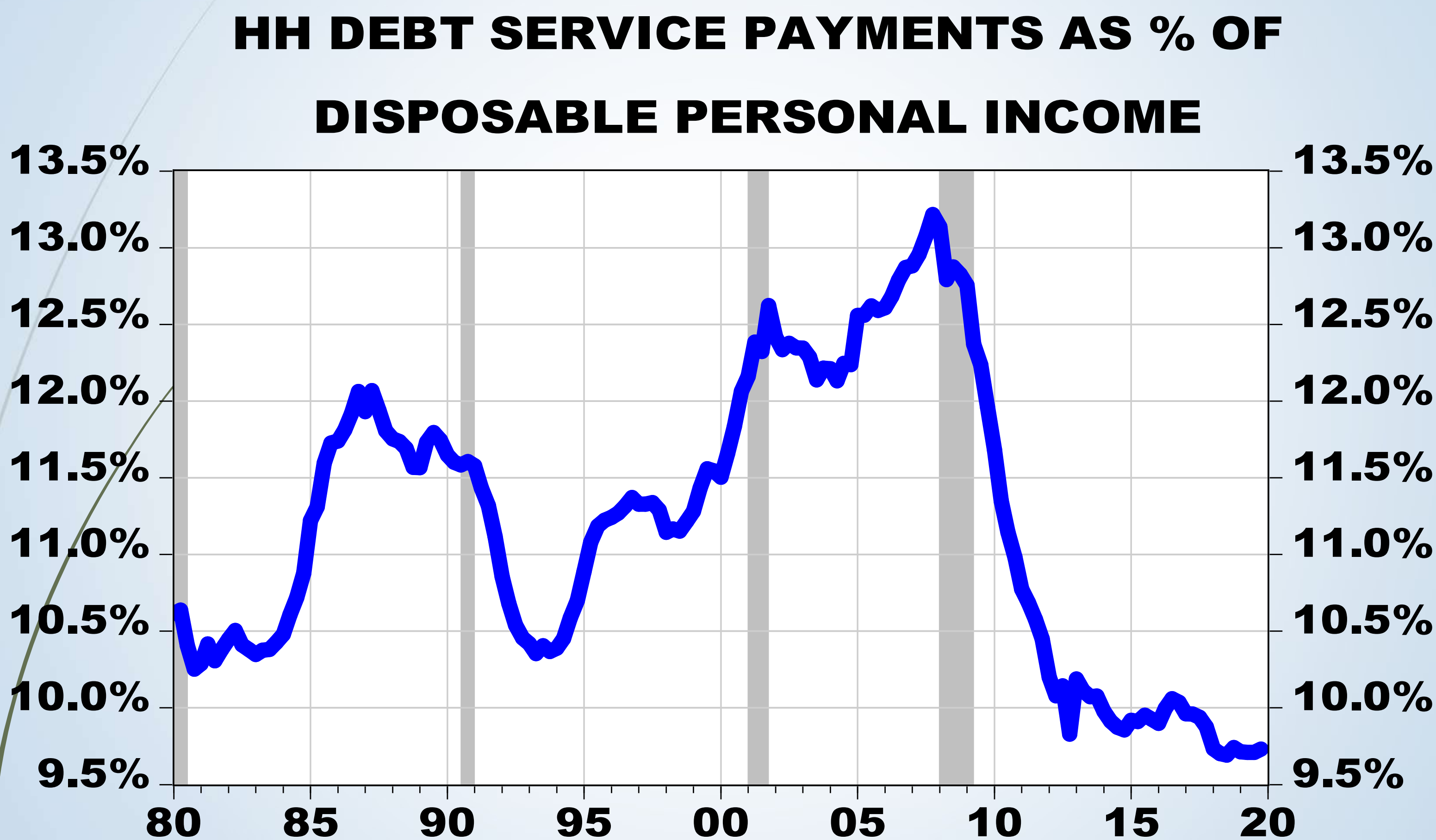
Low Leverage

HOUSEHOLD DEBT AND SAVING RATE



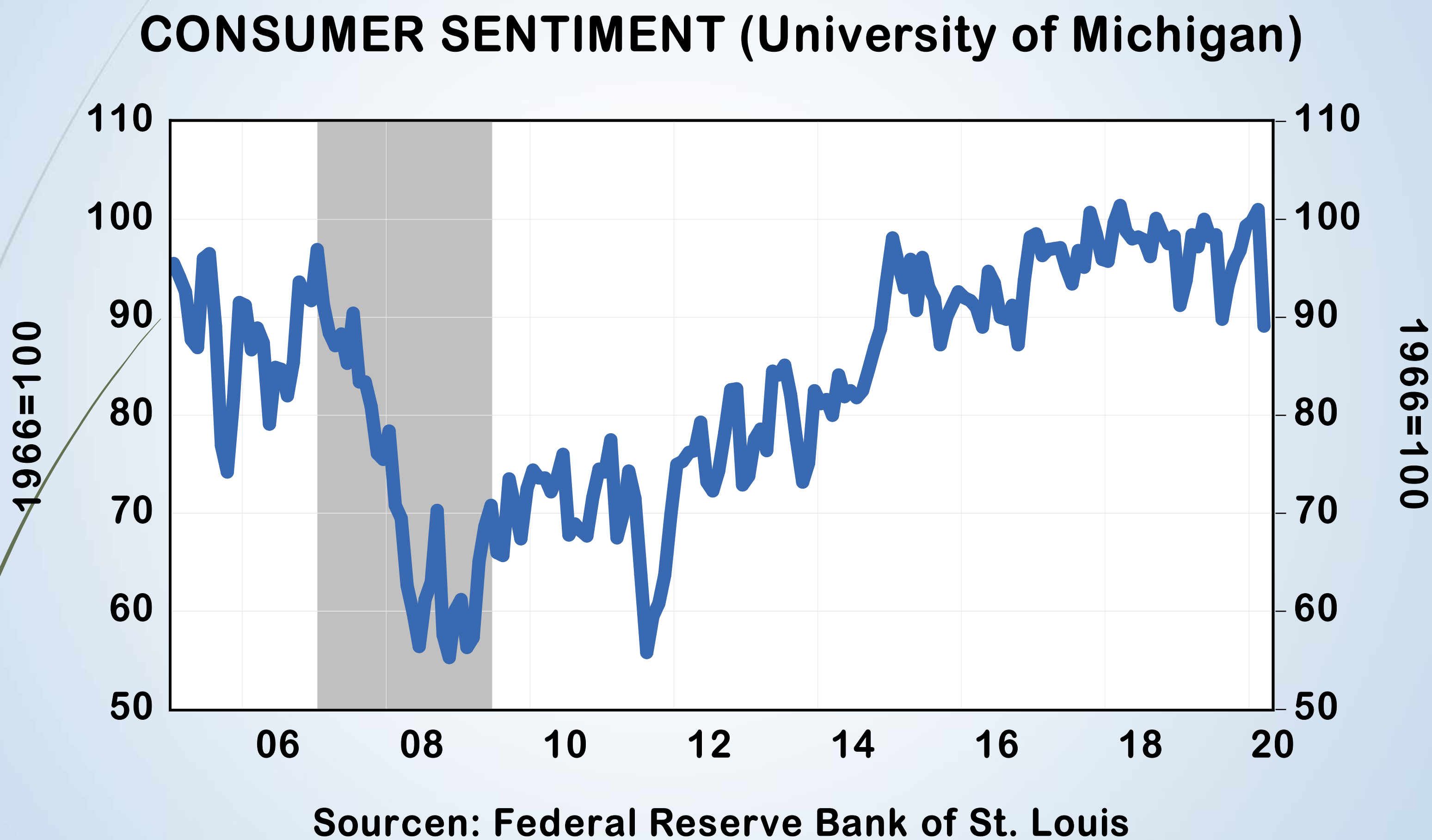
Source: BEA and FED

Record Low Debt Service

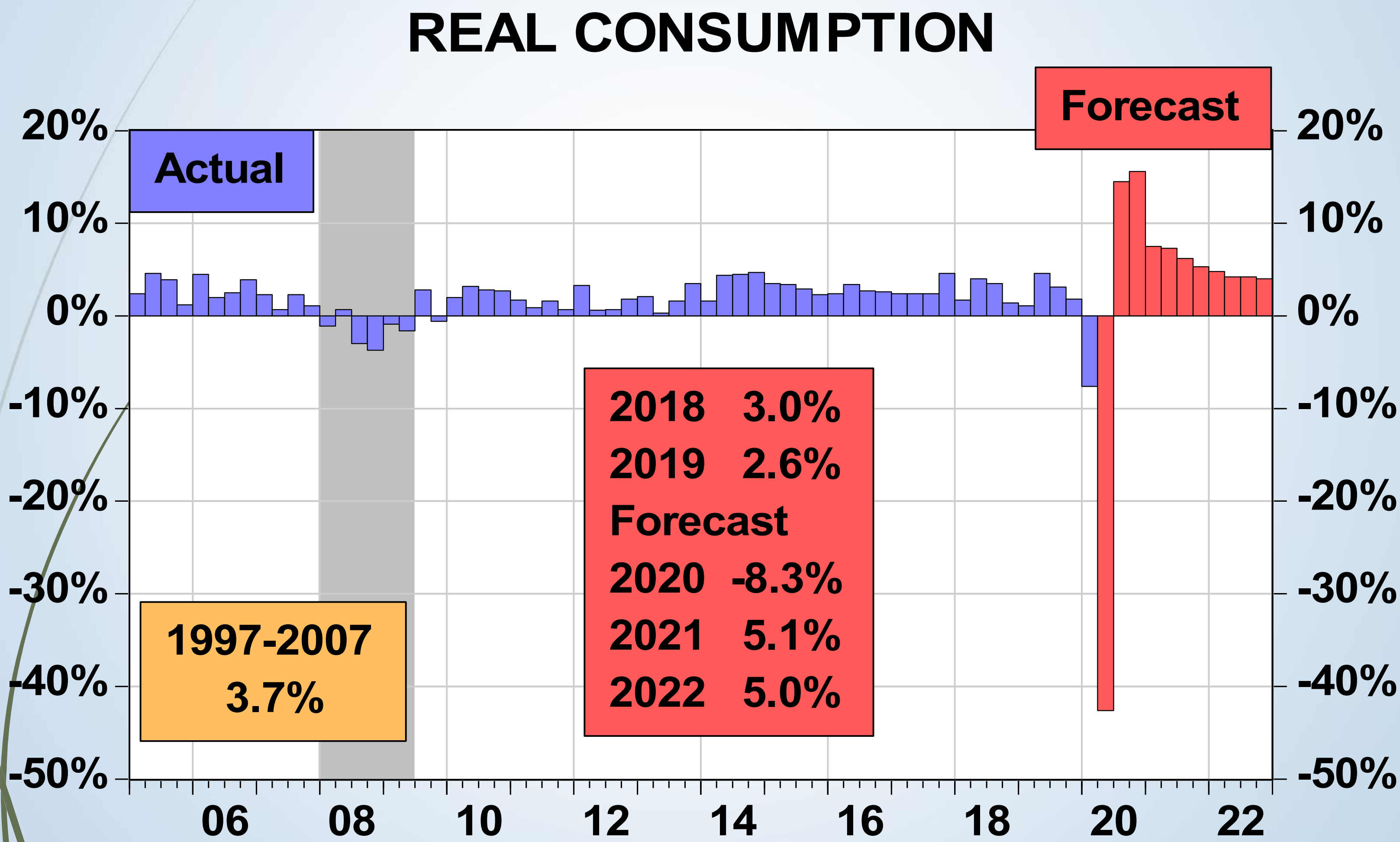


Source: BEA and Federal Reserve System

Consumer Cooling March



Record Decline

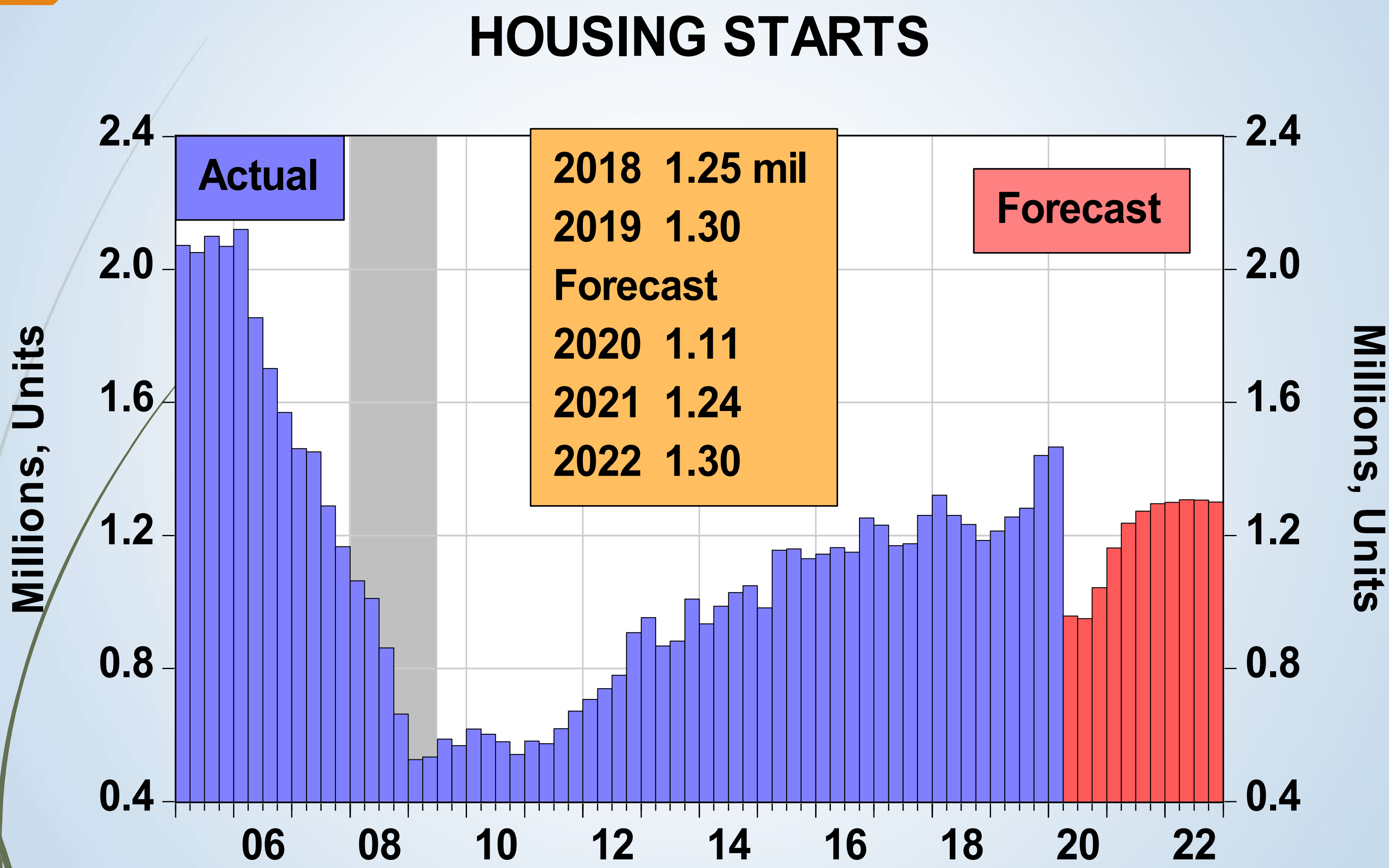


Source: BEA and IHS

Investment Sector

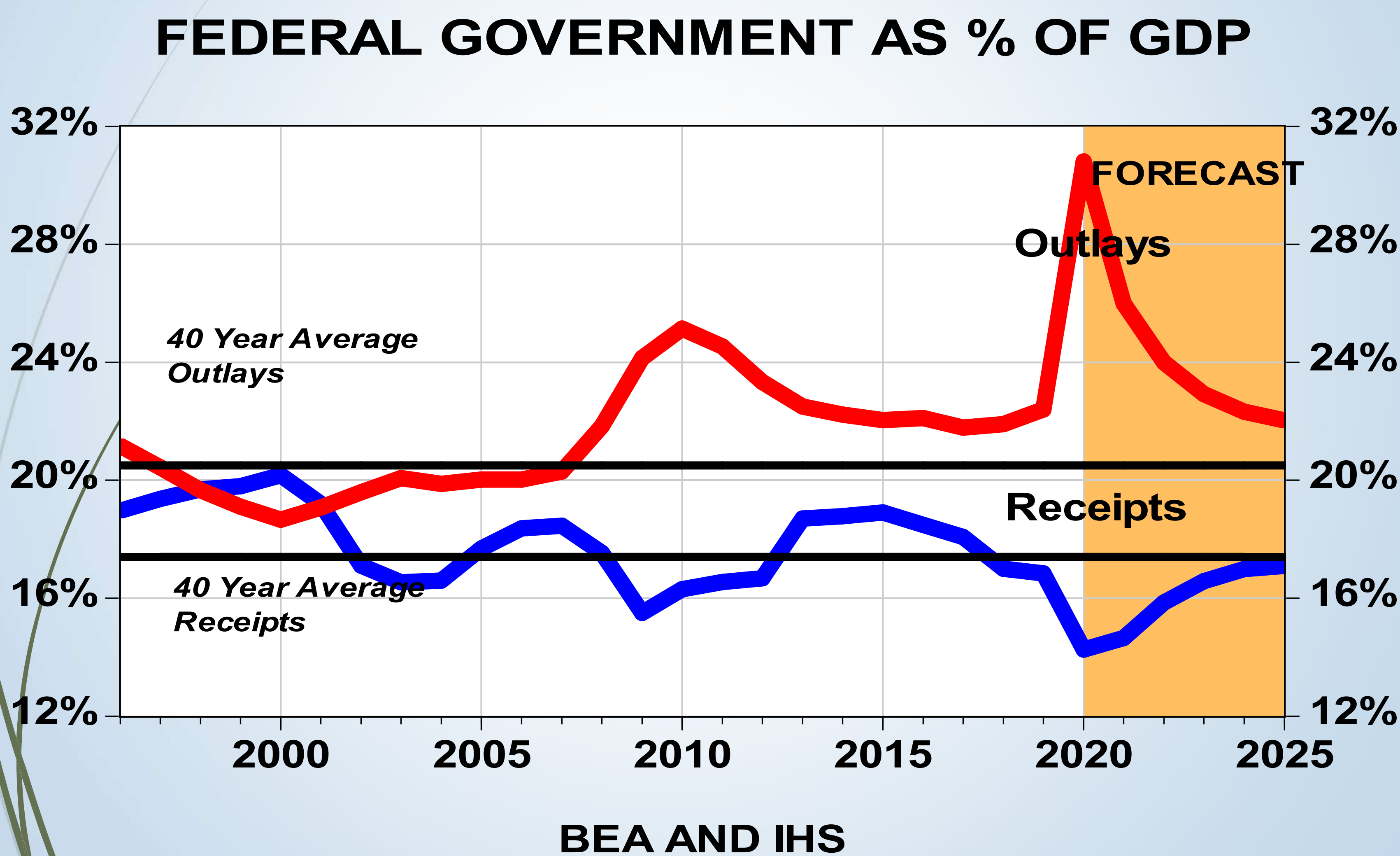
- Business fixed investment is expected to fall 11.2% this year but next year it should start growing at an average of 4.3% per year for the next four years.
- The behavior of business investment is a bit unusual in this recession. Normally, business investment is more cyclical than output, but since this is a consumer-led recession the decline in investment is largely induced.
- Housing starts will decline this year to 1.11 million units down from 1.30 million units in 2019. However, housing will recover to 1.30 million units by 2022.

Down Then Flat

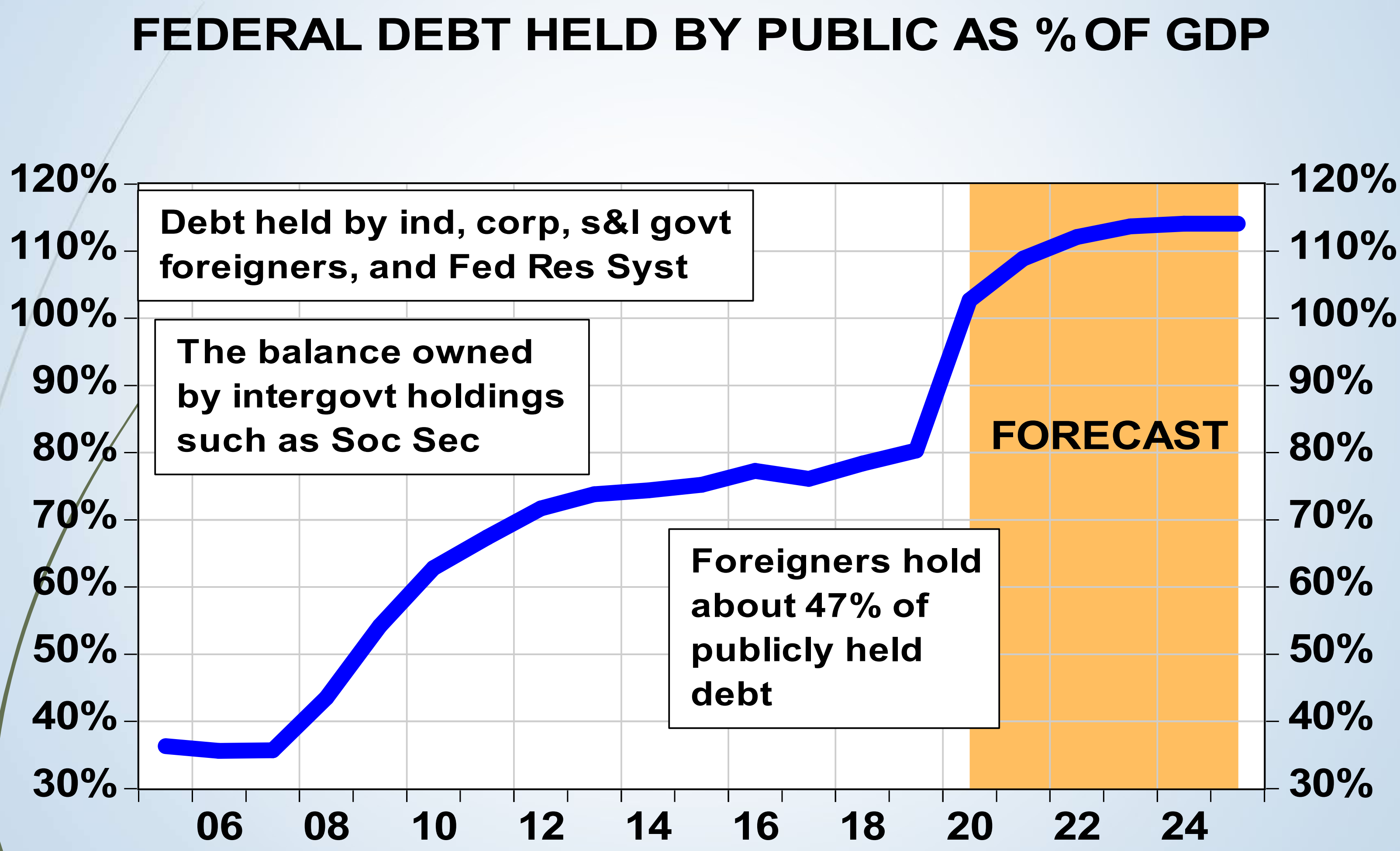


Source: US Census and IHS

Government Sector



Debt Held by Public



Source: IHS

The Fiscal Picture

Four “stimulus” bills have been enacted authorizing up to $2.5 trillion for: enhanced and extended unemployment benefits; cash payments to individuals; cash grants to states, hospitals, and endangered industries; forgivable loans to small businesses, and other loans to businesses.

The purpose of these monies is to limit the destruction of economic infrastructure, allowing a stronger recovery when the pandemic ends.

As mentioned earlier, they are more like a relief effort during a natural disaster.

Deficit hawks have plenty to worry about with deficits exceeding $3.5 trillion and 16.5% of GDP.

Foreign Sector

Global GDP growth is expected to decline 3% in 2020 and rebound to 2.6%in 2021.

Eurozone growth declines 4.6% in 2020 and China growth declines 2.0%.

Global growth forecasts remain under review and may be lowered if the pandemic is worse than currently assumed.

The $ is strong but looking ahead, the $ is expected to fall beginning next year through 2026.

Employment & Unemployment

The unemployment rate will surge to nearly 20% by the 3rd quarter of 2020 and then began an initially quick decline.

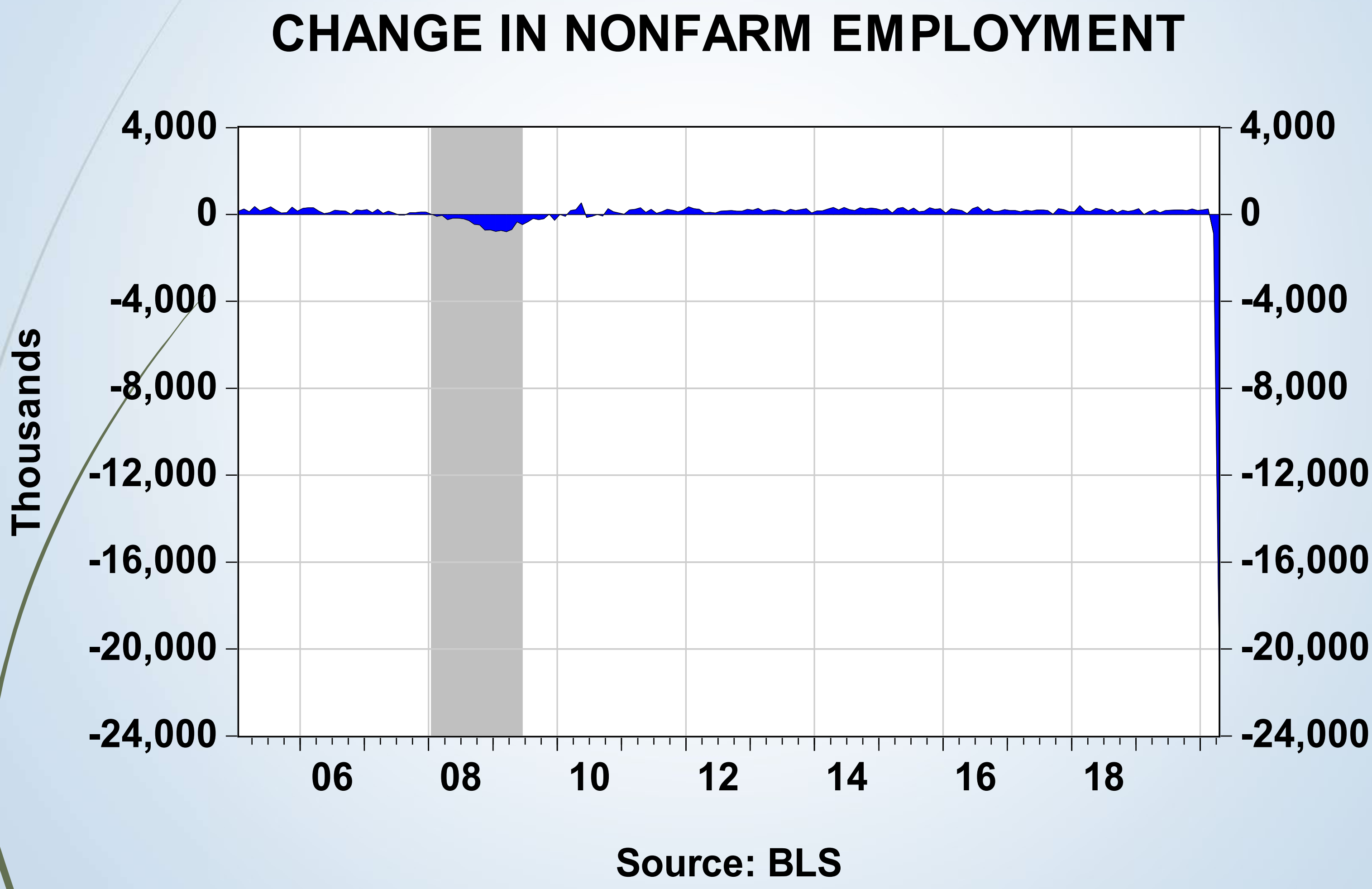
By the 2024, the unemployment rate will fall to around 4%.

The April Employment report showed an unprecedented decline of 20.5 million jobs and an unemployment rate of 14.7%.

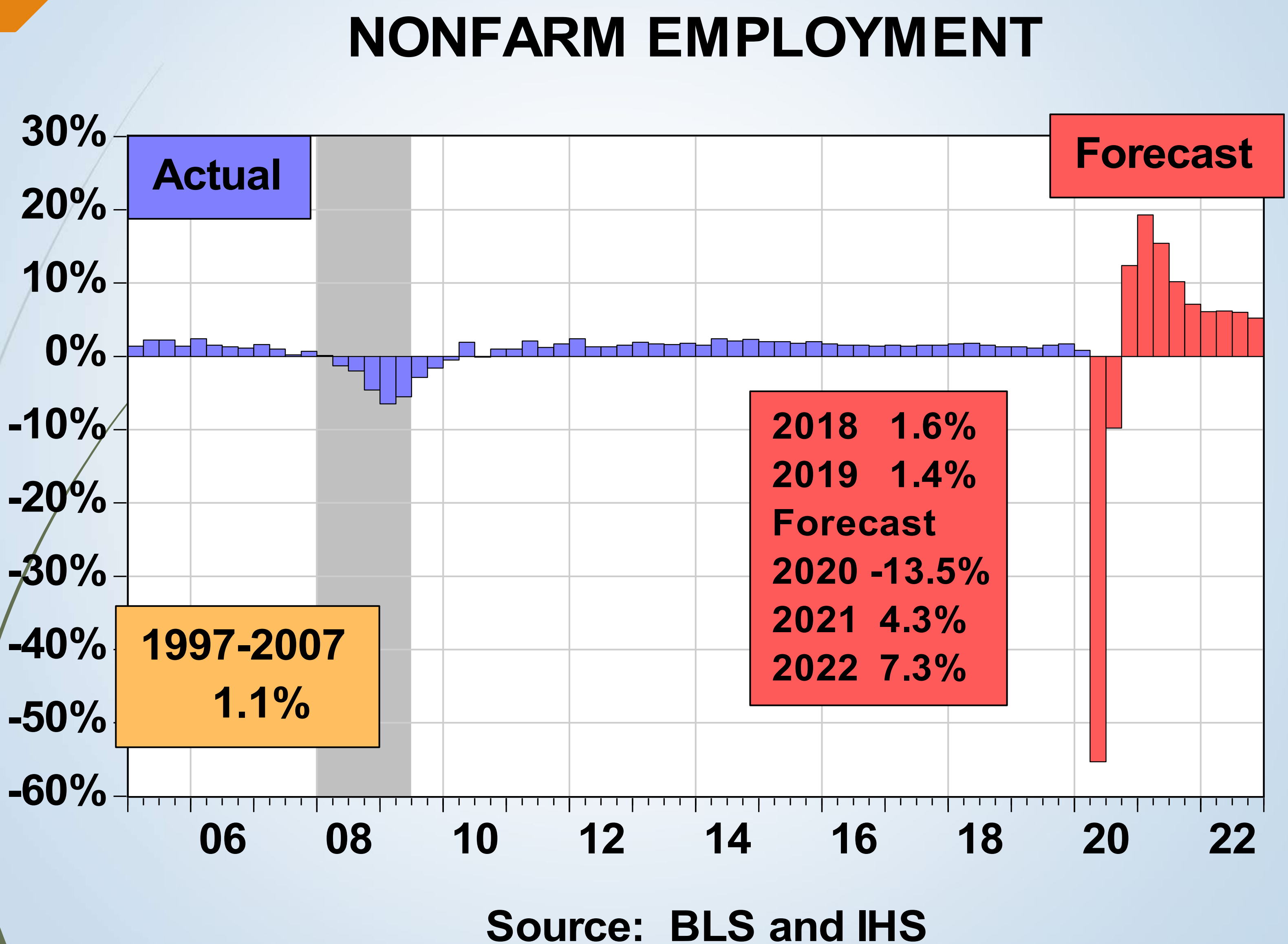
The labor force participation rate fell to 60.2% which mitigated the rise in the unemployment rate which would have been 3 percentage points higher.

For 2020, IHS projects a loss in employment of 13.5%. A projected gain of 4.3% for 2021 and 7.3% for 2022.

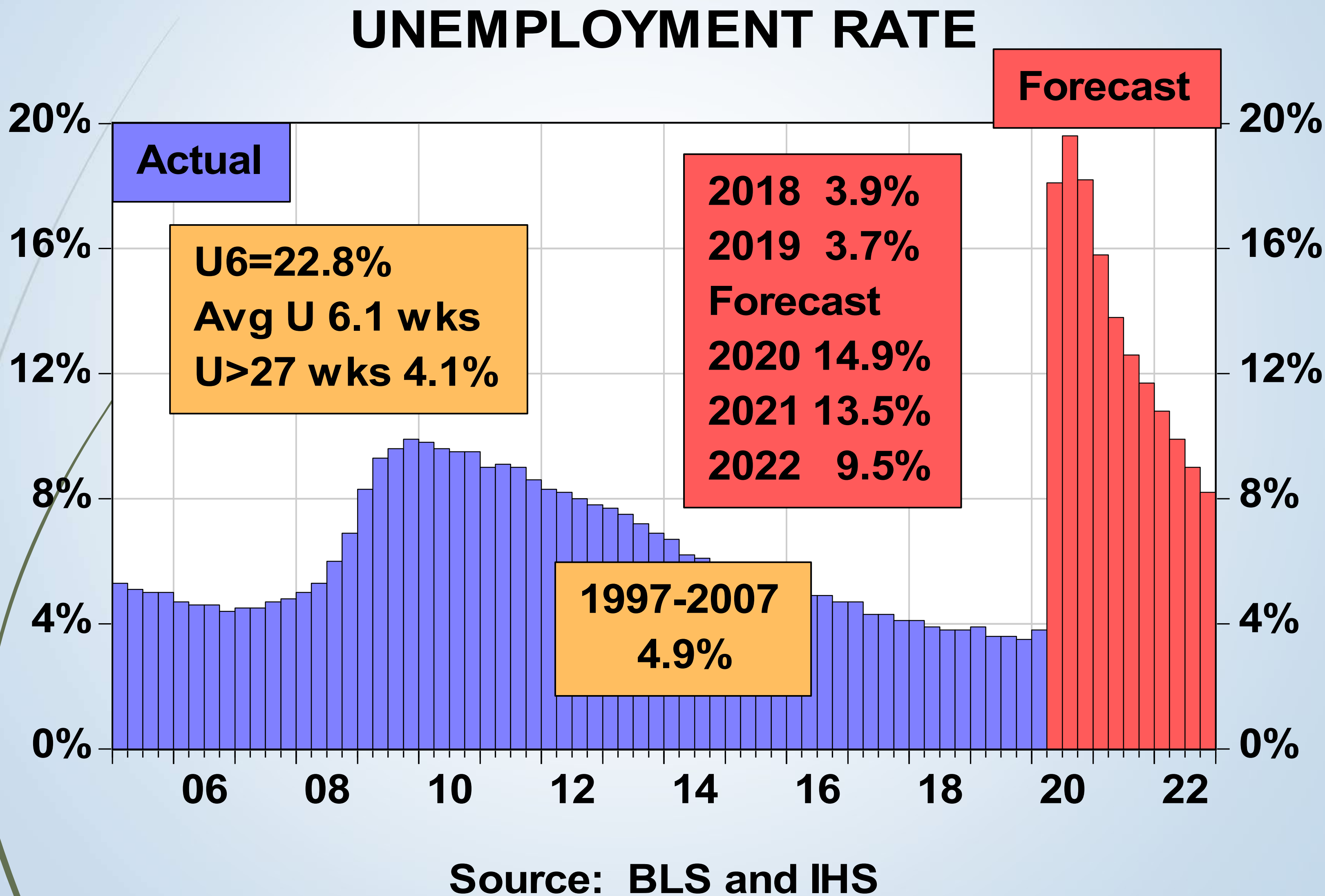
Off the Charts



Dramatic Job Loss

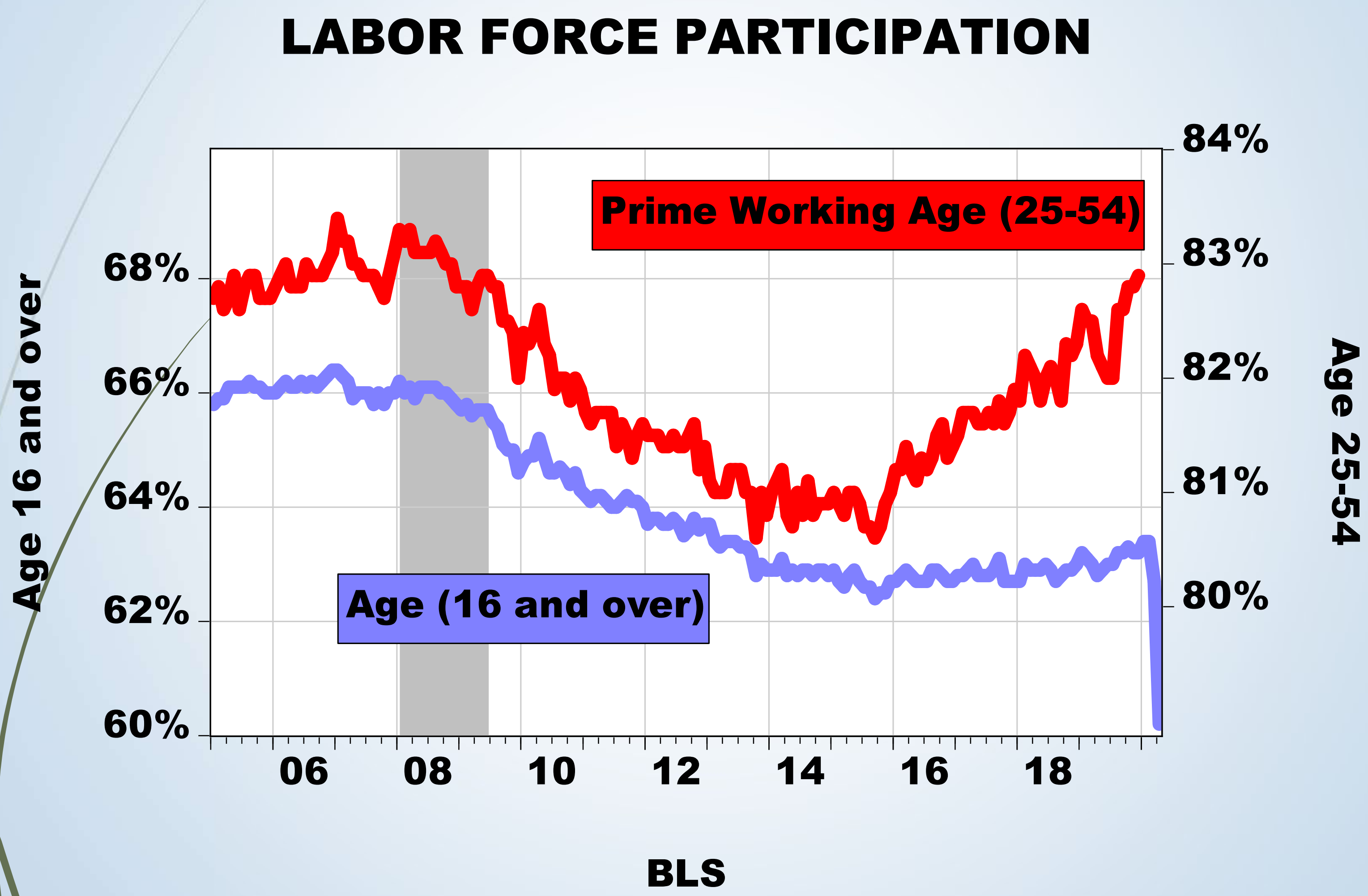


HUGE JUMP

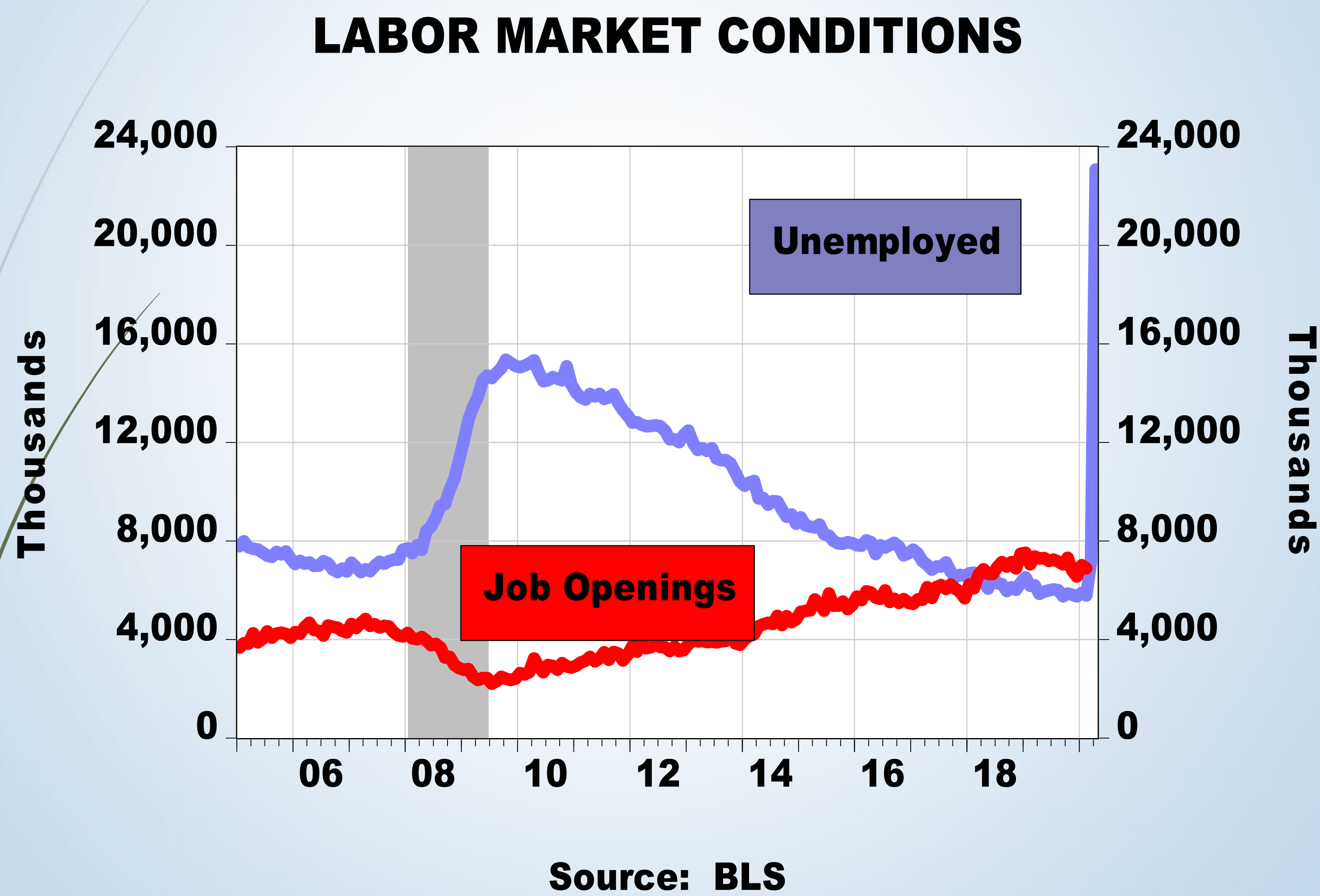


UNEMPLOYMENT RATE
Forecast
Actual
20%
16%
12%
8%
4%
0%
U6=22.8%
Avg U 6.1 wks
U>27 wks 4.1%
2018 3.9%
2019 3.7%
Forecast
2020 14.9%
2021 13.5%
2022 9.5%
1997-2007
4.9%
06
08
10
12
14
16
18
20
22
Source: BLS and IHS

Increase Prime Working Age



Job Openings < Unemployed



The Federal Reserve

The Federal Reserve bank and other central banks have responded aggressively with rate cuts, quantitative easing, massive liquidity programs, and regulatory forebearance.

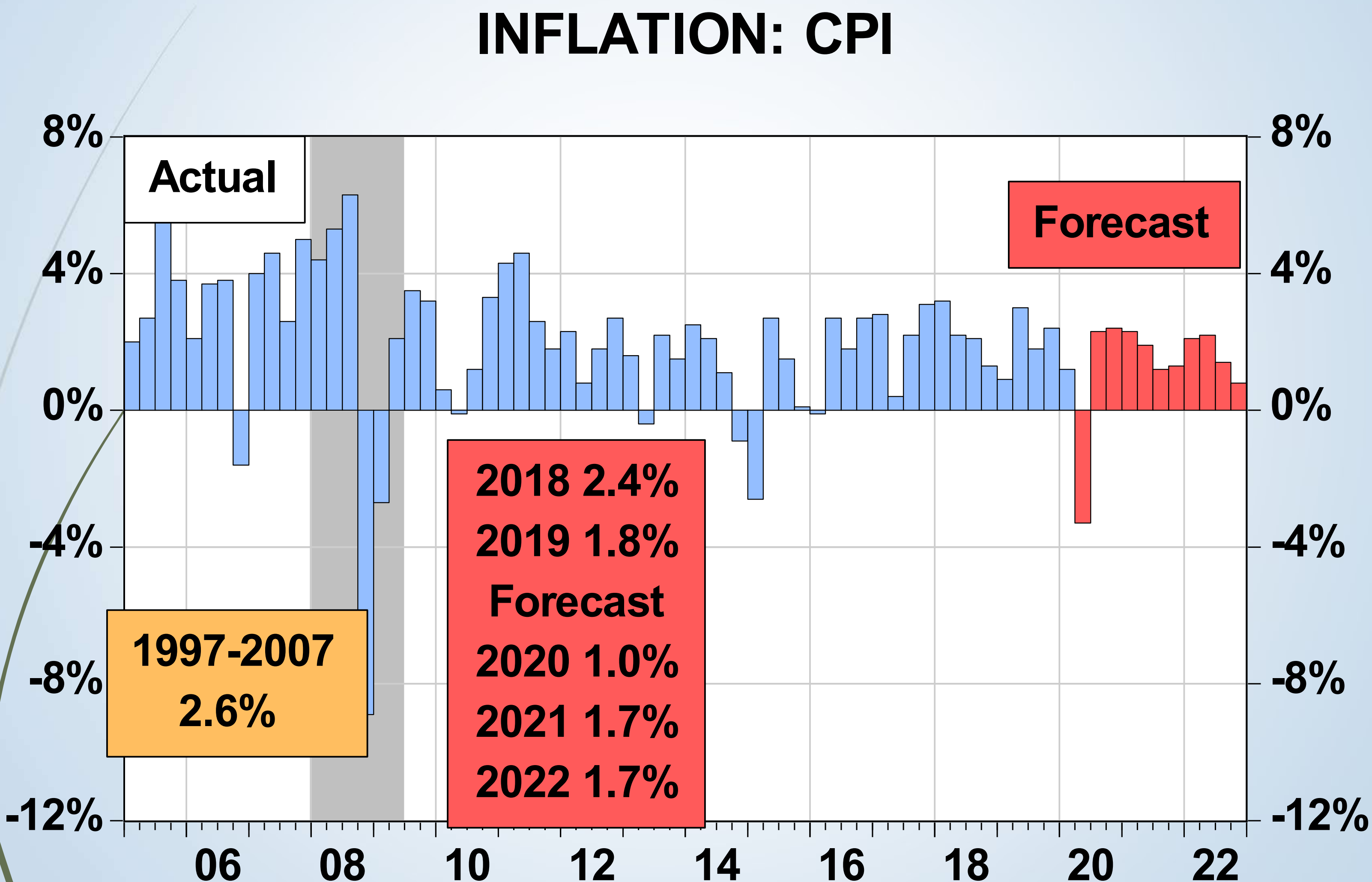
The FED has indicated it will do whatever it takes, but Chairman Powell has indicated that they will need some help. He was not specific.

Financial markets plunged with S&P 500 down 34% from February to mid-March. The market has regained about 2/3 of that decline.

Credit spreads widened and a rush to safety caused 10 year Treasury note yields below 1%.

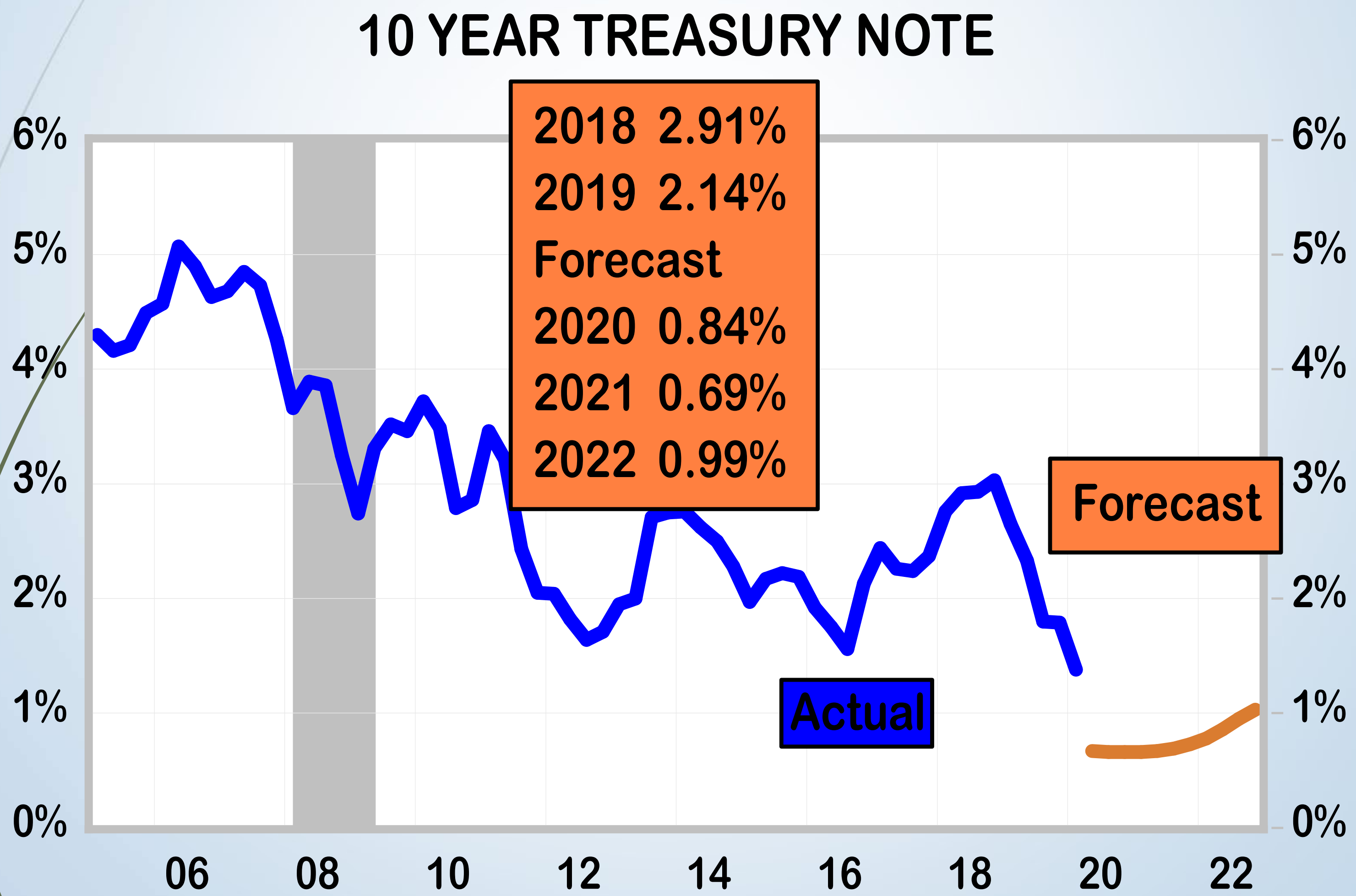
Core inflaton is forecast to remain below 2%

Lower Inflation



Source: BLS

Below 1% Interest Rates



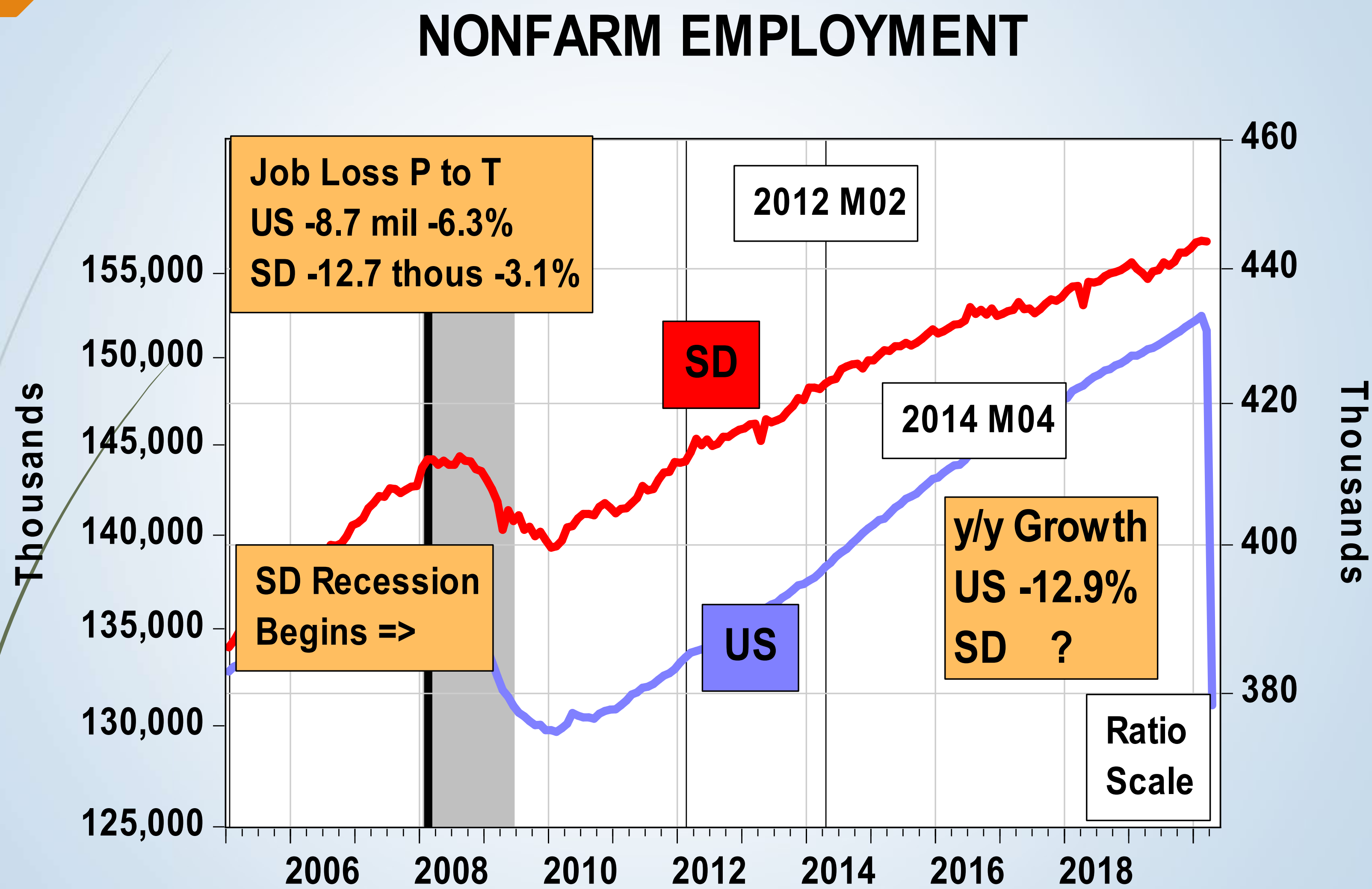
IHS MARKIT FORECAST MAY 2020

Variable	2018	2019	2020	2021	2022
GDP	2.9%	2.3%	7.3%	5.1%	4.8%
Probability 45% in next 12 months					
NA Emp	1.6%	1.4%	-13.5%	4.3%	7.3%
Oil(Brent)	$71	$64	$34	$44	$56
Housing	1.25	1.30	1.1	1.24	1.30
CPI	2.4%	1.8%	14.9%	13.5%	9.5%
Un Rate	3.9%	3.7%	3.7%	3.5%	3.6%

Key Variables Tracking SD Economy

- Nonfarm employment
- Housing starts
- Real nonfarm personal income
- Taxable sales
- Leading indicator

US Falls Off Cliff SD ?

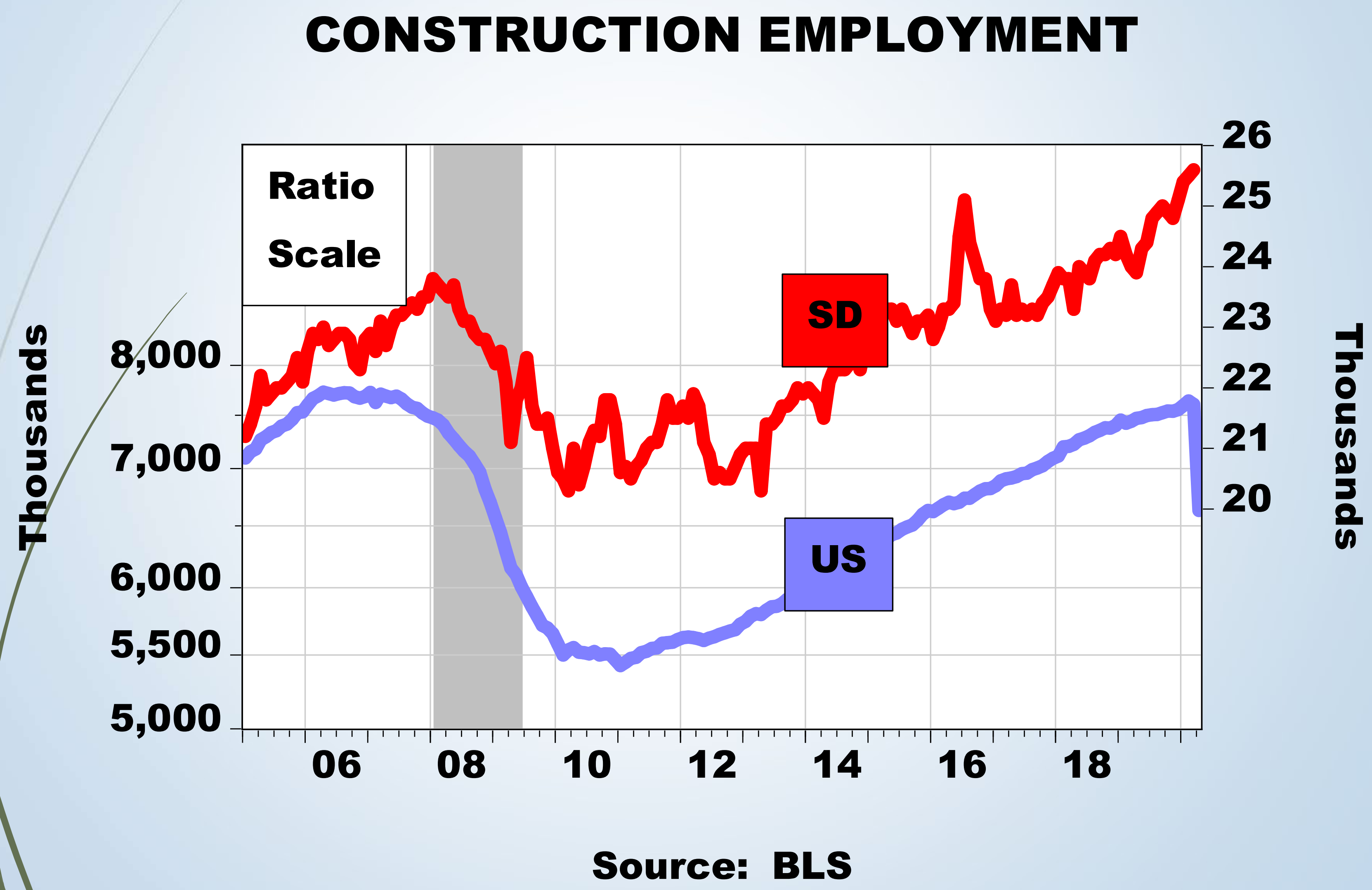


Source: BLS

State Employment data not available until 5/22/20

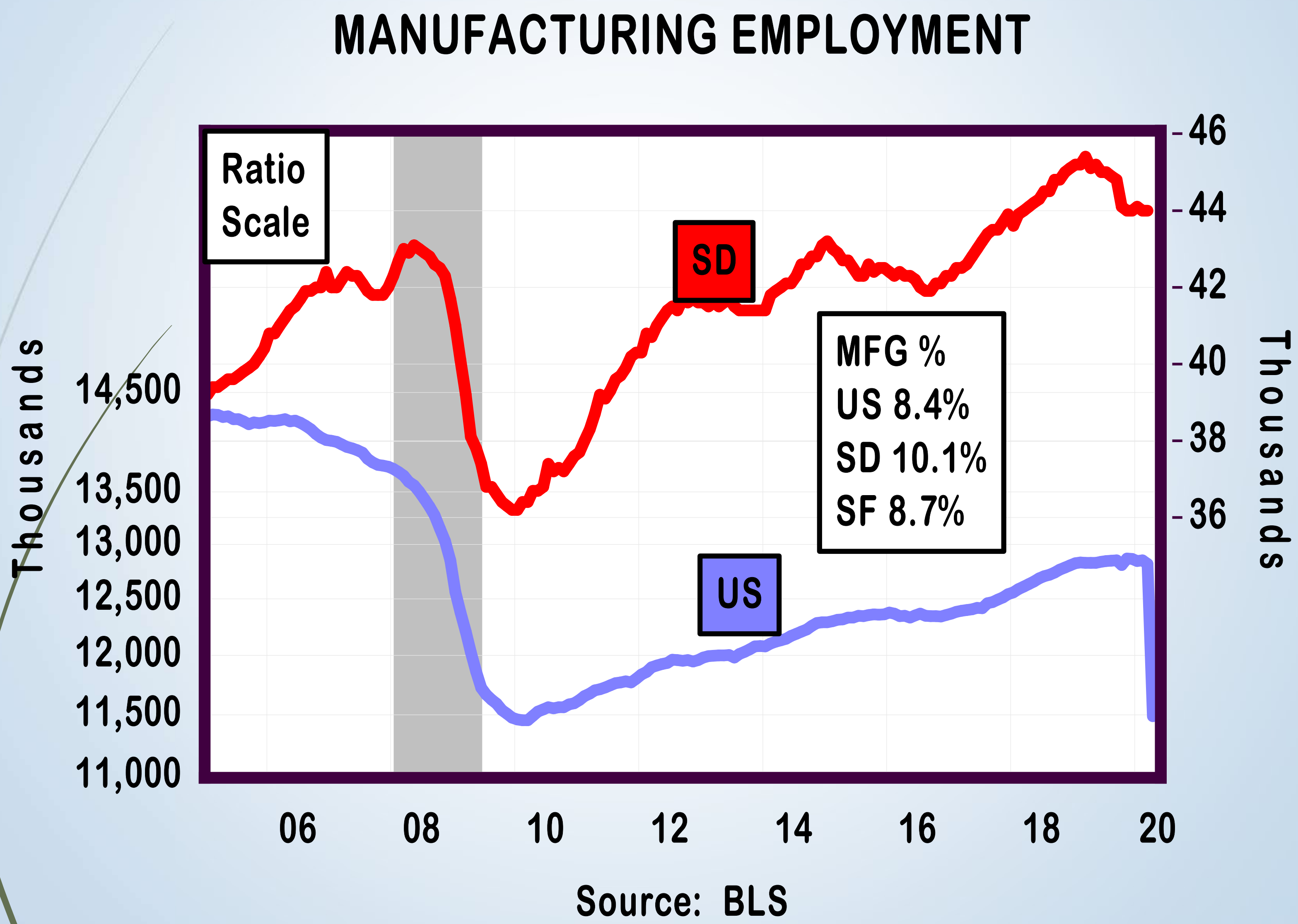
- I will update employment charts and forward to Mark.
- He will then forward to you.

Same Story

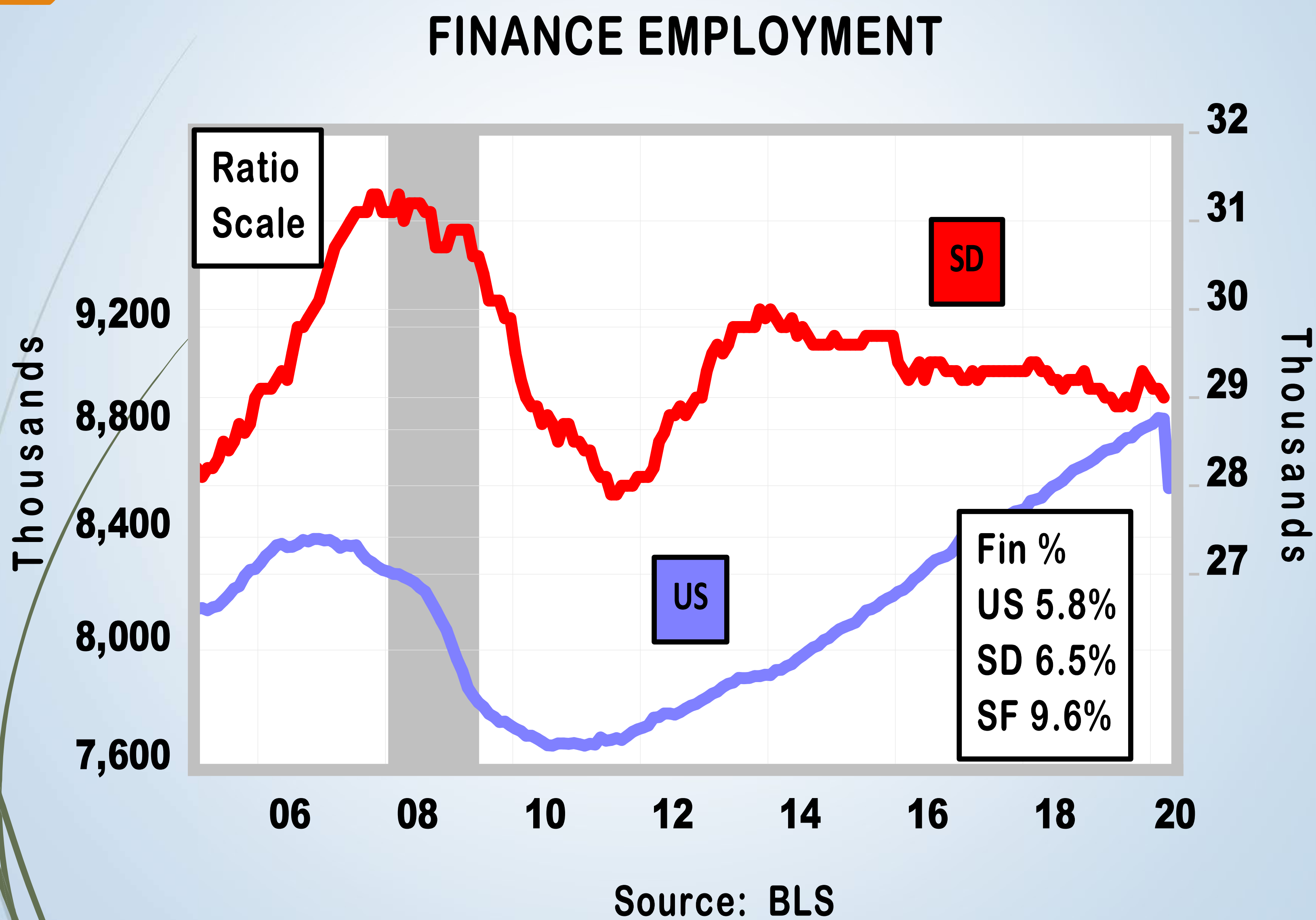


CONSTRUCTION EMPLOYMENT
Ratio Scale
Thousands
8,000
7,000
6,000
5,500
5,000
26
25
24
23
22
21
20
Thousands
SD
US
06
08
10
12
14
16
18
Source: BLS

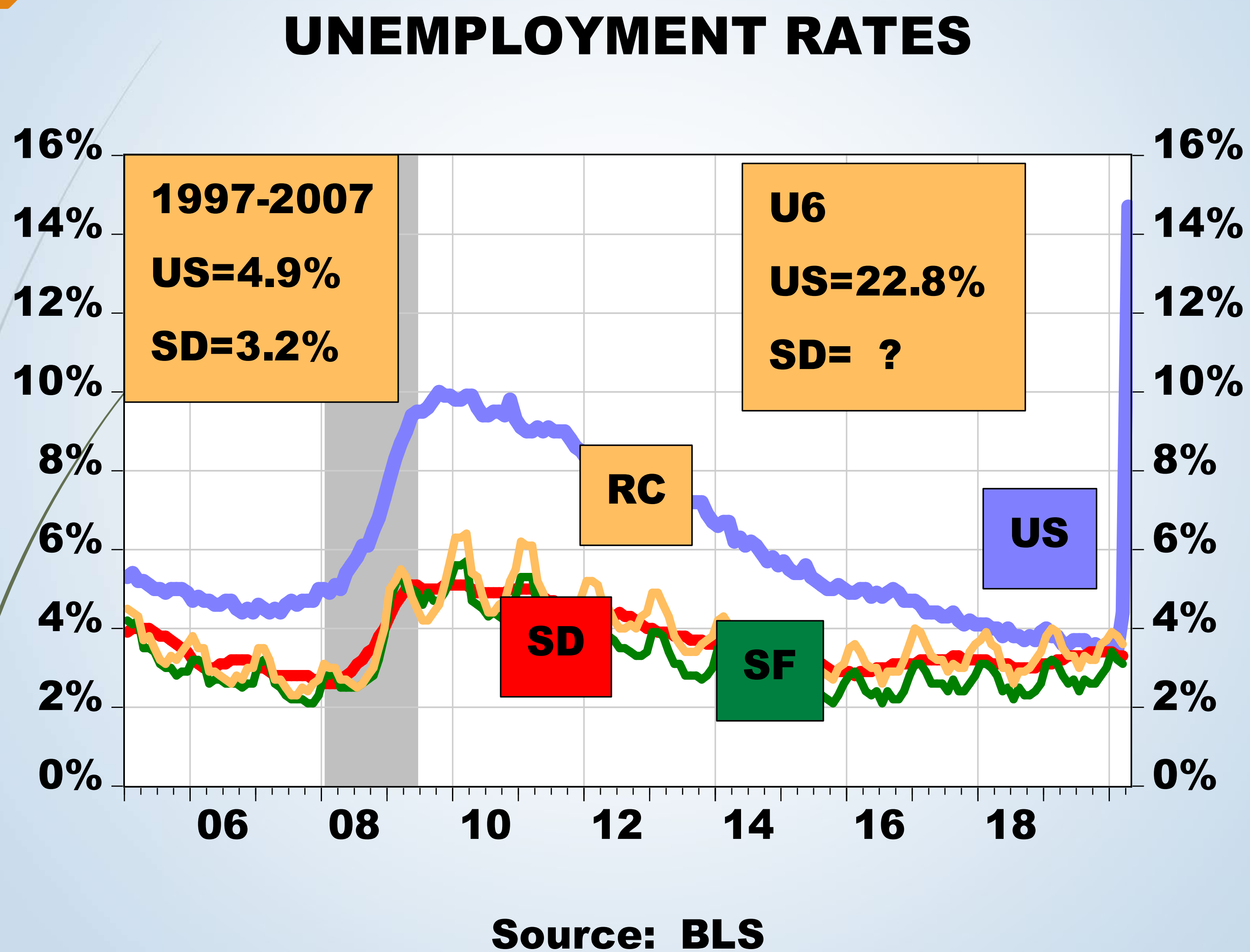
Same Story


MANUFACTURING EMPLOYMENT
Ratio Scale
SD
US
MFG %
US 8.4%
SD 10.1%
SF 8.7%
Thousands
14,500
13,500
13,000
12,500
12,000
11,500
11,000
46
44
42
40
38
36
Thousands
06
08
10
12
14
16
18
20
Source: BLS

US Down a Little

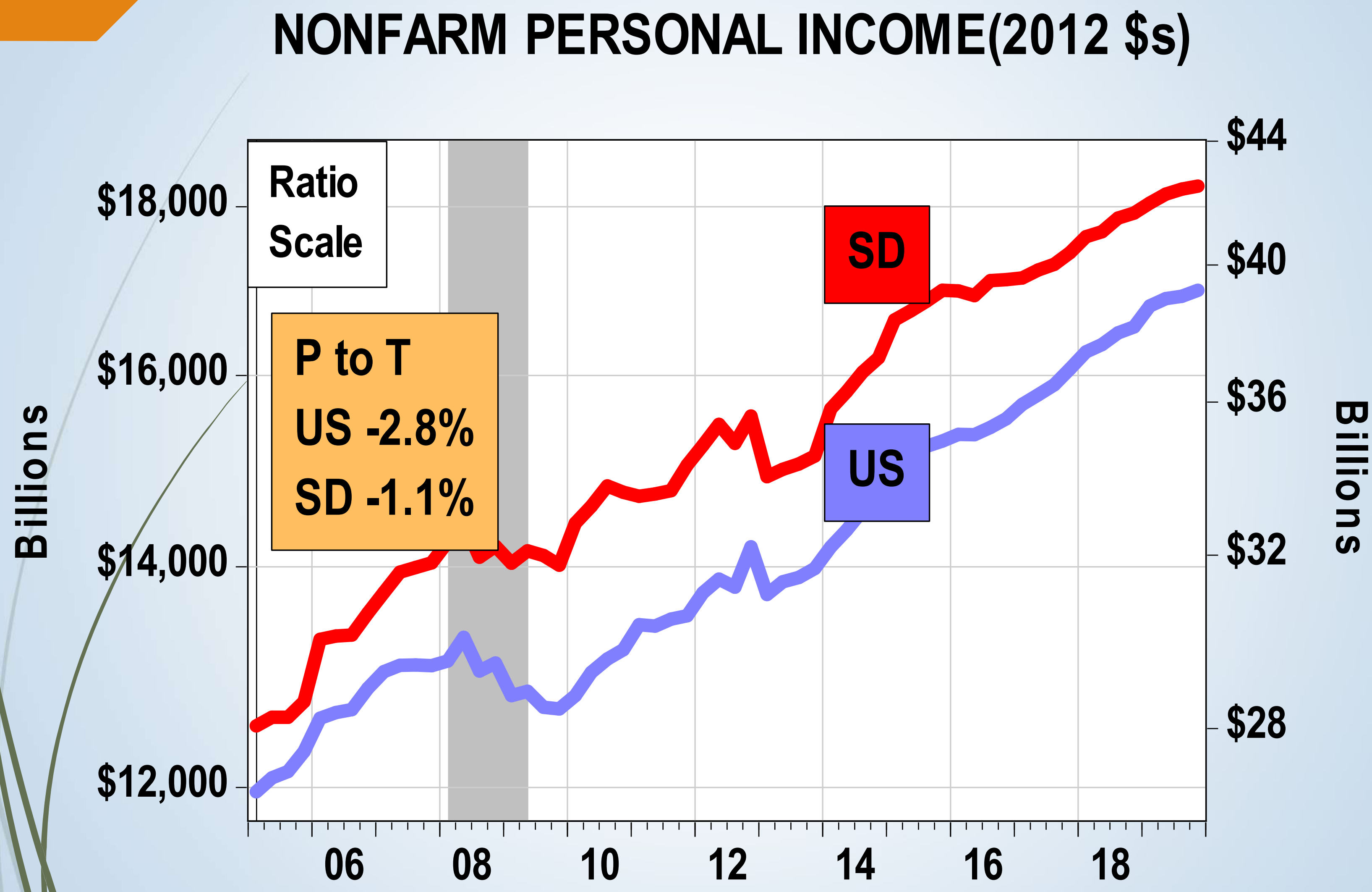


US 14.7%



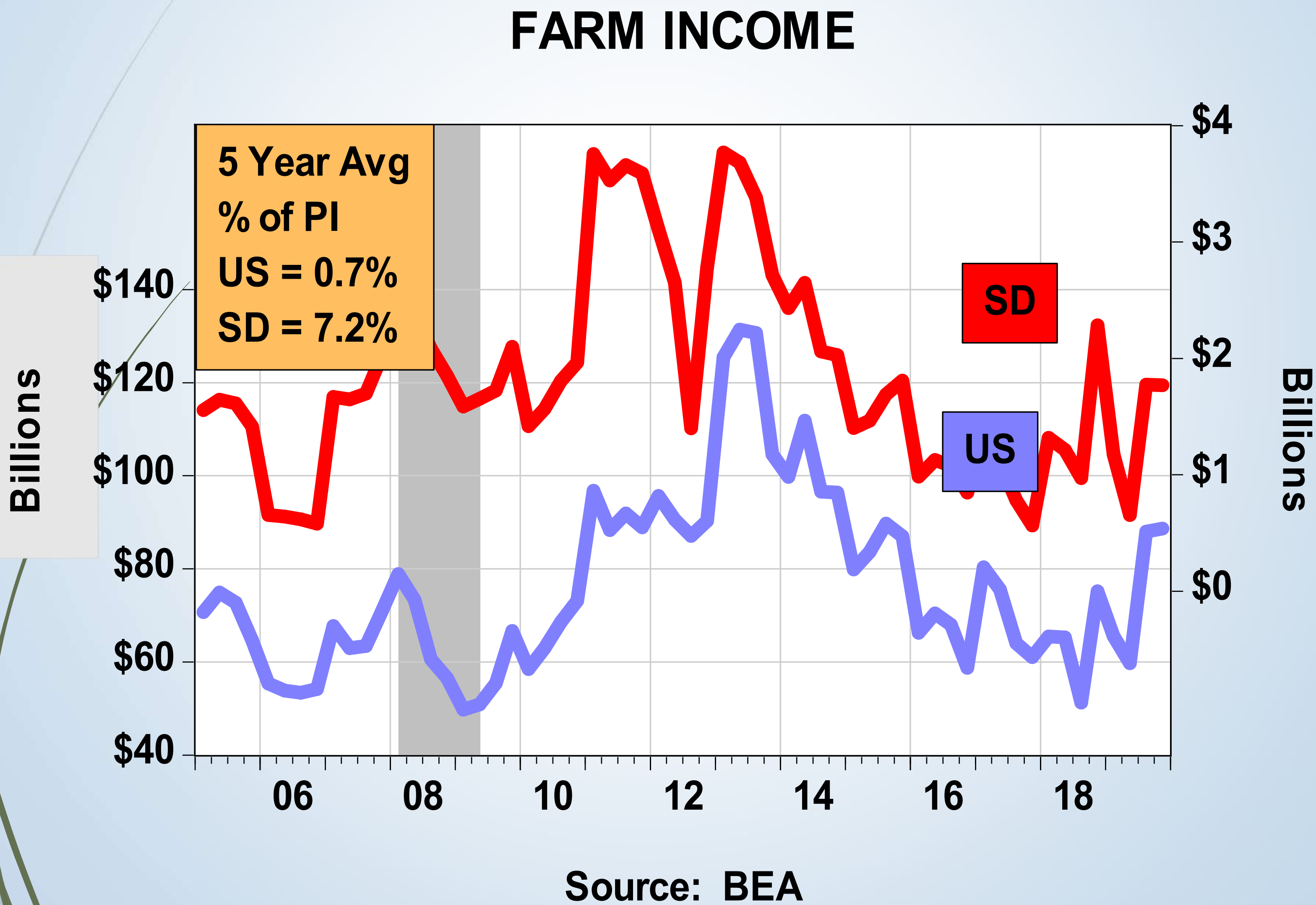
UNEMPLOYMENT RATES
16%
14%
12%
10%
8%
6%
4%
2%
0%
1997-2007
US=4.9%
SD=3.2%
U6
US=22.8%
SD= ?
RC
US
SD
SF
06
08
10
12
14
16
18
Source: BLS

SD & US Growth

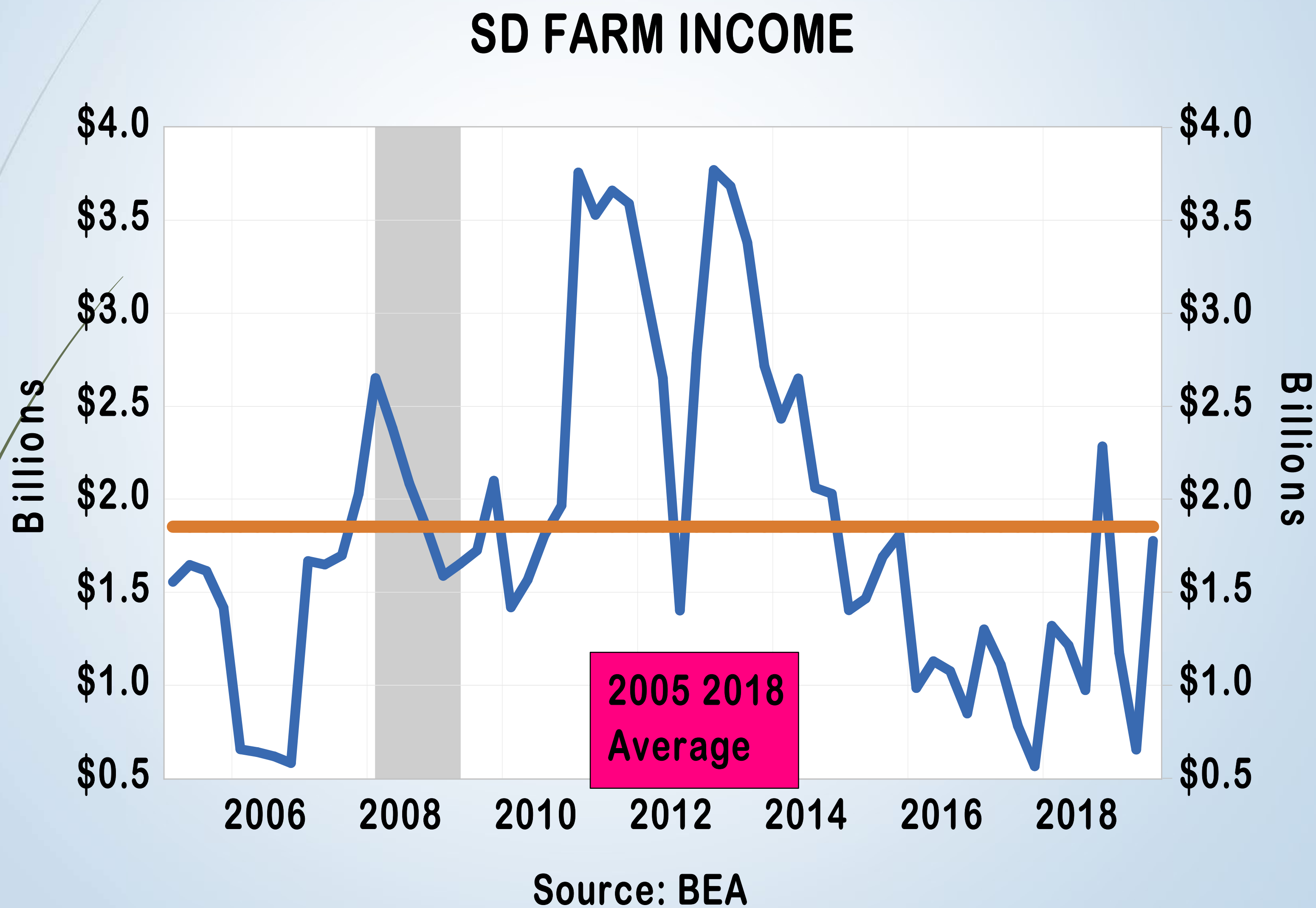


Source: BLS

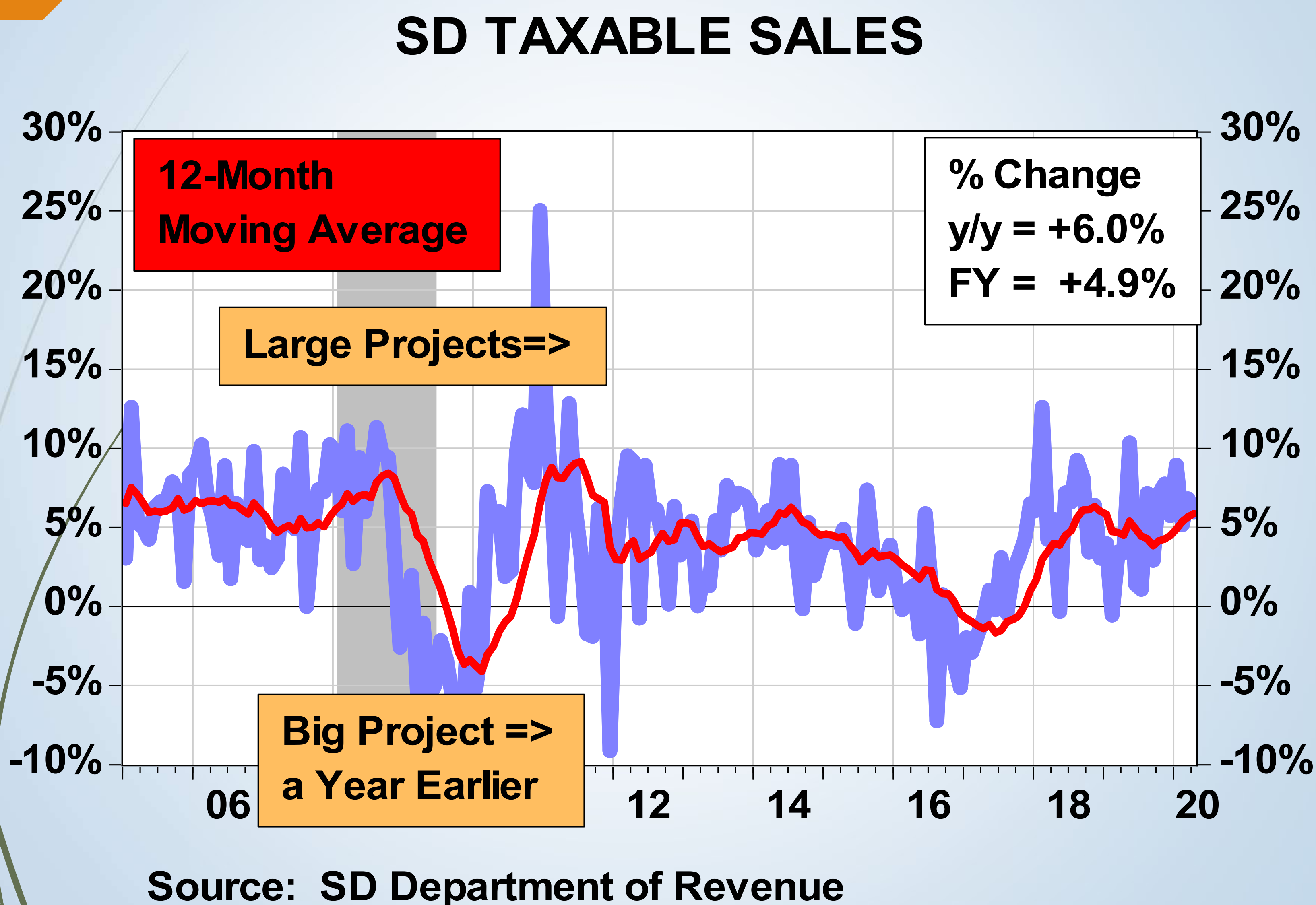
Farm Income Volatile



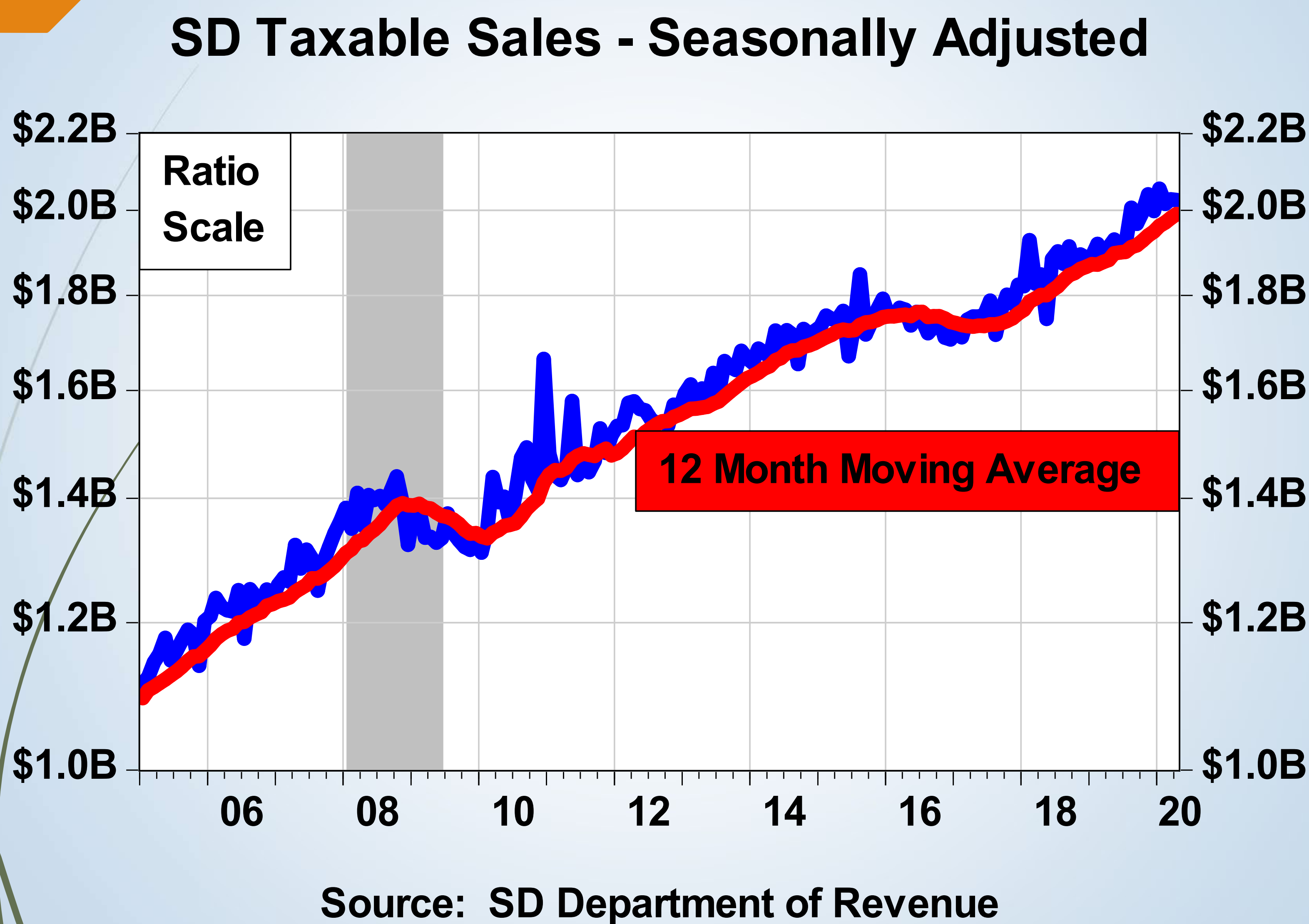
Recent Years Down



Good Growth Through March

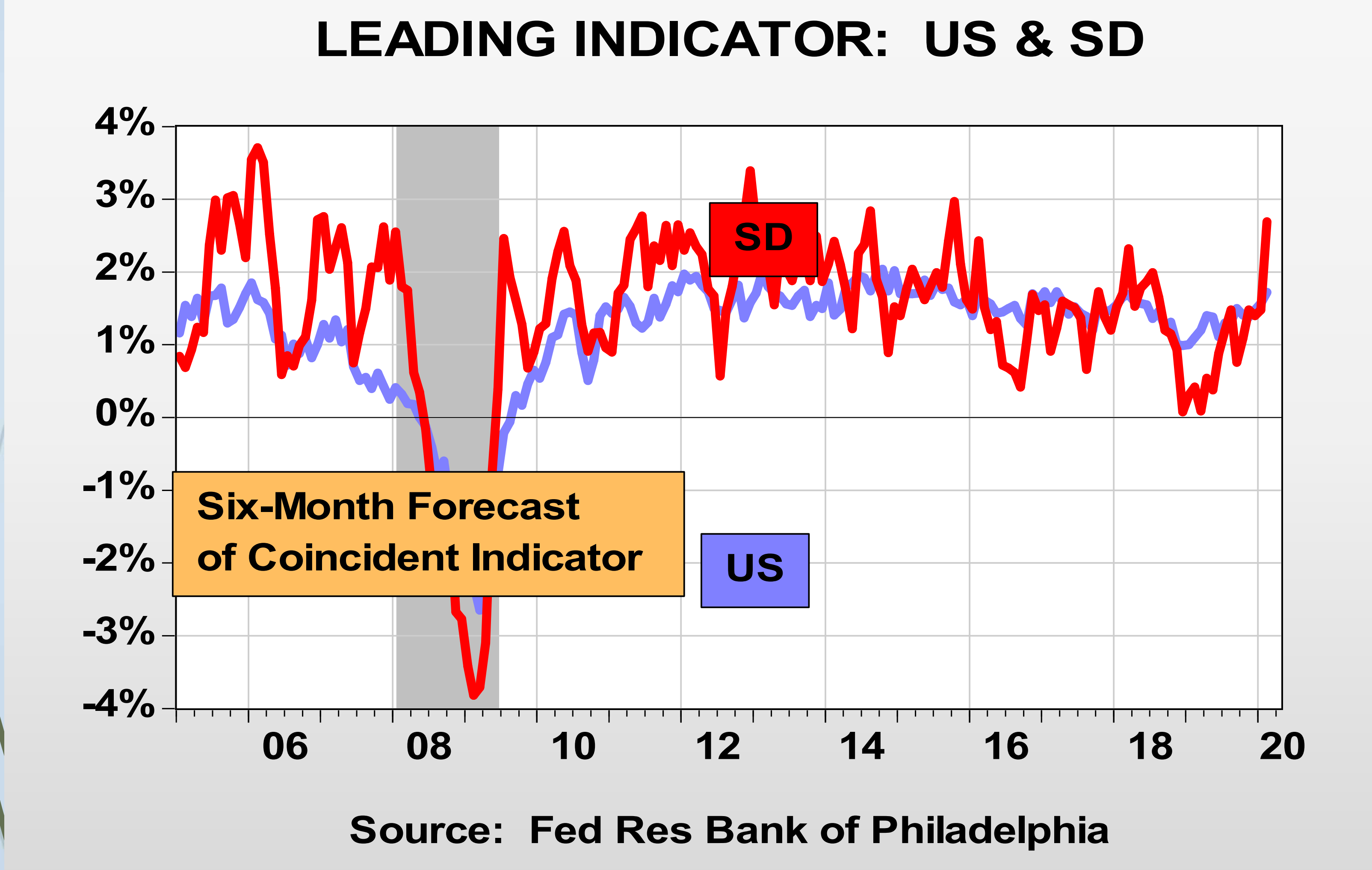


Growth



SD Taxable Sales - Seasonally Adjusted
Ratio Scale
$2.2B
$2.0B
$1.8B
$1.6B
$1.4B
$1.2B
$1.0B
12 Month Moving Average
06
08
10
12
14
16
18
20
Source: SD Department of Revenue

US and SD Positive



Conclusions

Both the SD and US economy are in deep recession.

However, IHS projects a recovery back to previous peaks by 2024 and back to “full employment” by 2025.

This recovery is due to unprecedented fiscal and monetary stimulus. Deficits of 16.5% of GDP and a near zero interest rate policy.

The End