

Economic Outlook

Outline of Presentation

- **US Economy**
- **US Economy Forecast**
- **SD Economy**
- **SD Economy Forecast**
- **General Fund Revenue Collections**
- **Roundtable Discussion**
- **Other Items**

US Economy

Real GDP

Consumption

Investment

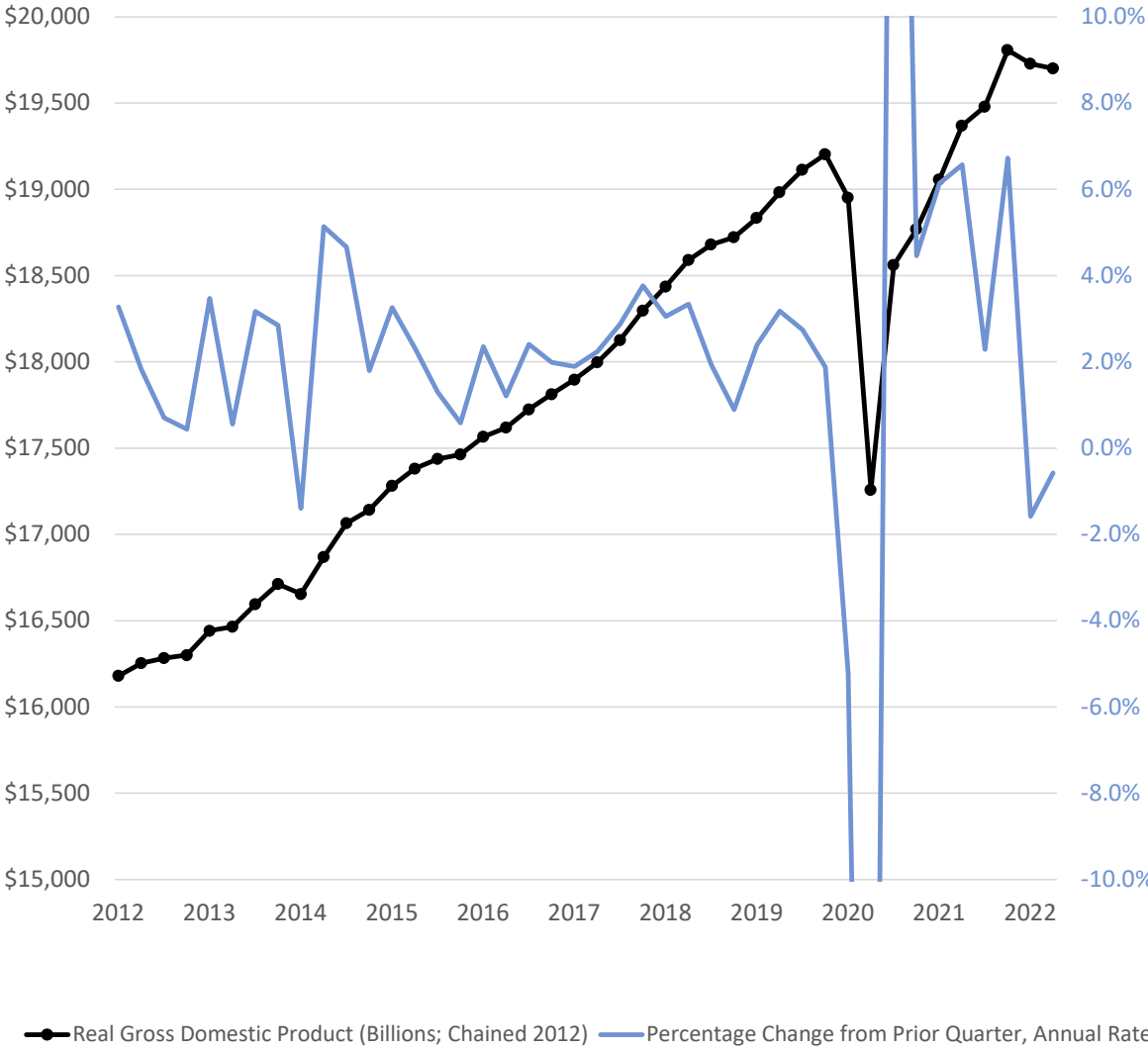
Federal Fiscal Picture

Employment and Unemployment

Inflation



US Real Gross Domestic Product





GDP

- Real GDP growth for 2022 is projected at 1.5%. Baseline forecast is 1.0% in 2023 and 1.7% in 2024.
- Real GDP has declined for two consecutive quarters. However, other indicators considered by NBER grew.
- Forecast does not include the Inflation Reduction Act. Initial assessment is that it will have relatively minor impacts on real GDP growth, inflation, and budget deficits.
- Estimate that Real Gross Domestic Income grew 1.4% in second quarter.

Components of GDP

Consumption (68.4%)

Investment (18.7%)

Government (17.3%)

Net Export (-4.4%)

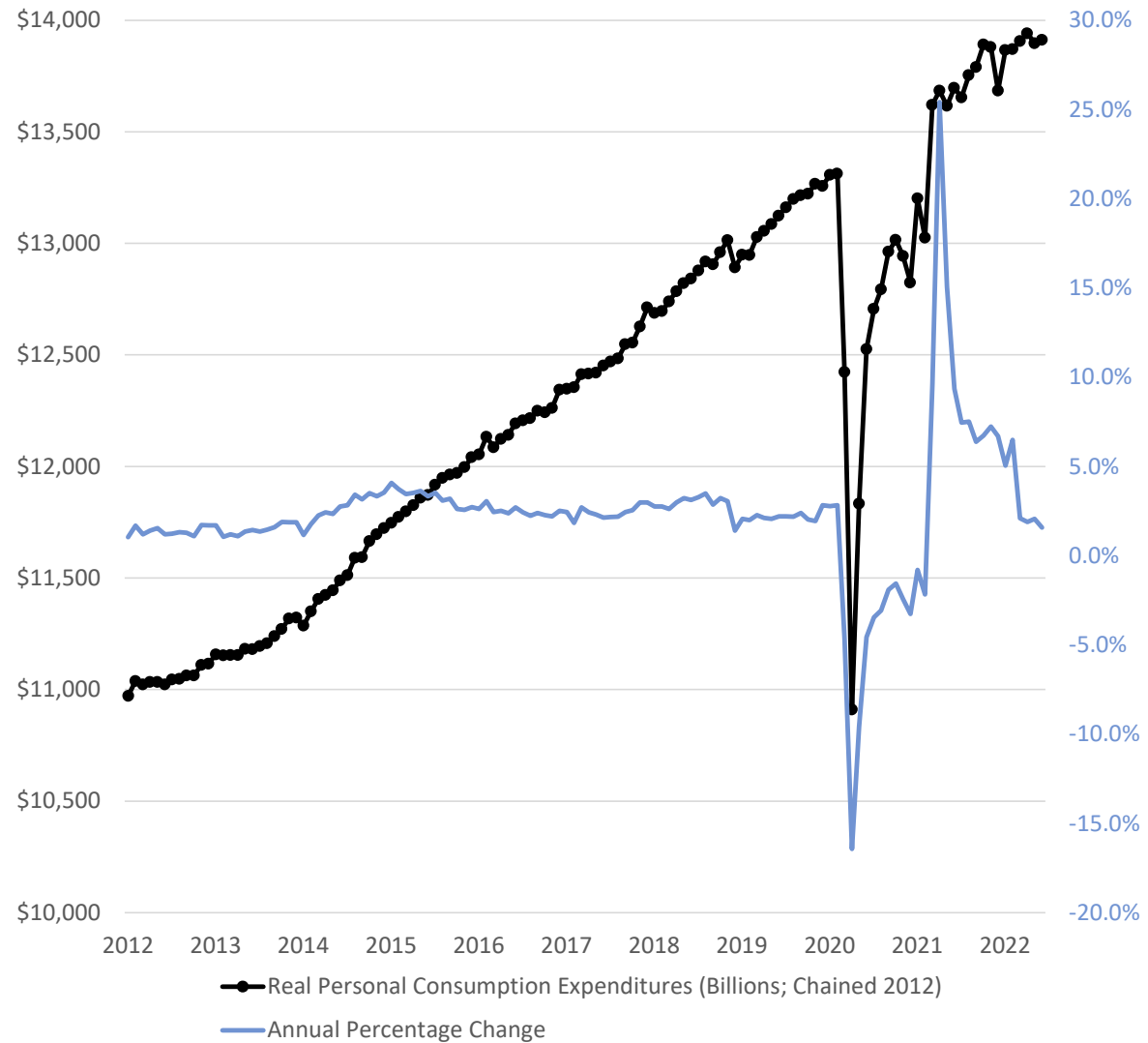


Consumption

- Normalization of consumer spending habits expected.
- Downside risks include persistent and elevated inflation, and low consumer sentiment.
- Real personal consumption expenditures grew 7.9% in 2021.
- Projected growth is at 2.4% in 2022, 1.9% in 2023, and 2.0% in 2024.
- Modest growth for remainder of 2022 reflects ongoing recovery on services partially offset by weakening expenditures on goods.

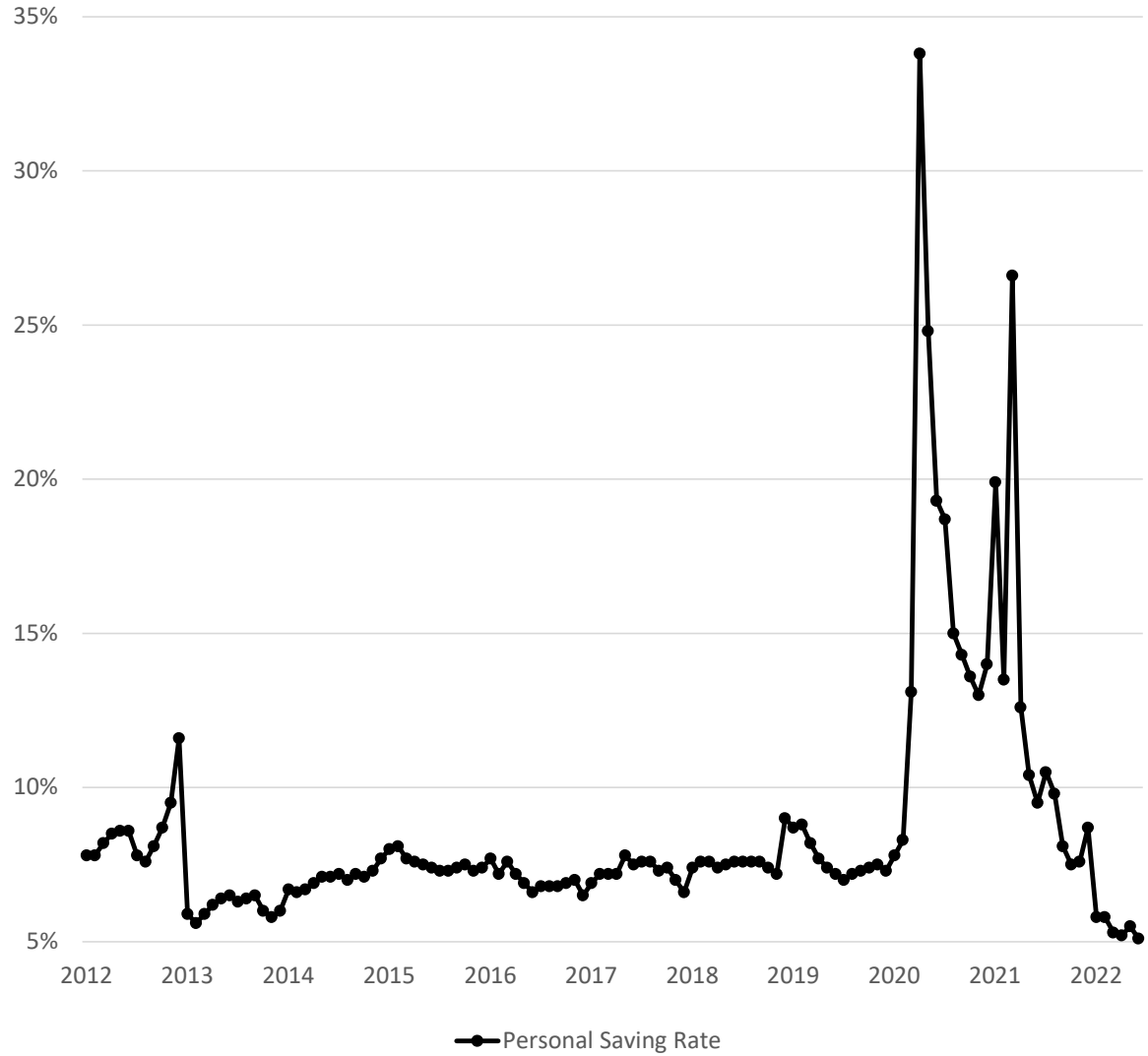


US Real Personal Consumption Expenditures



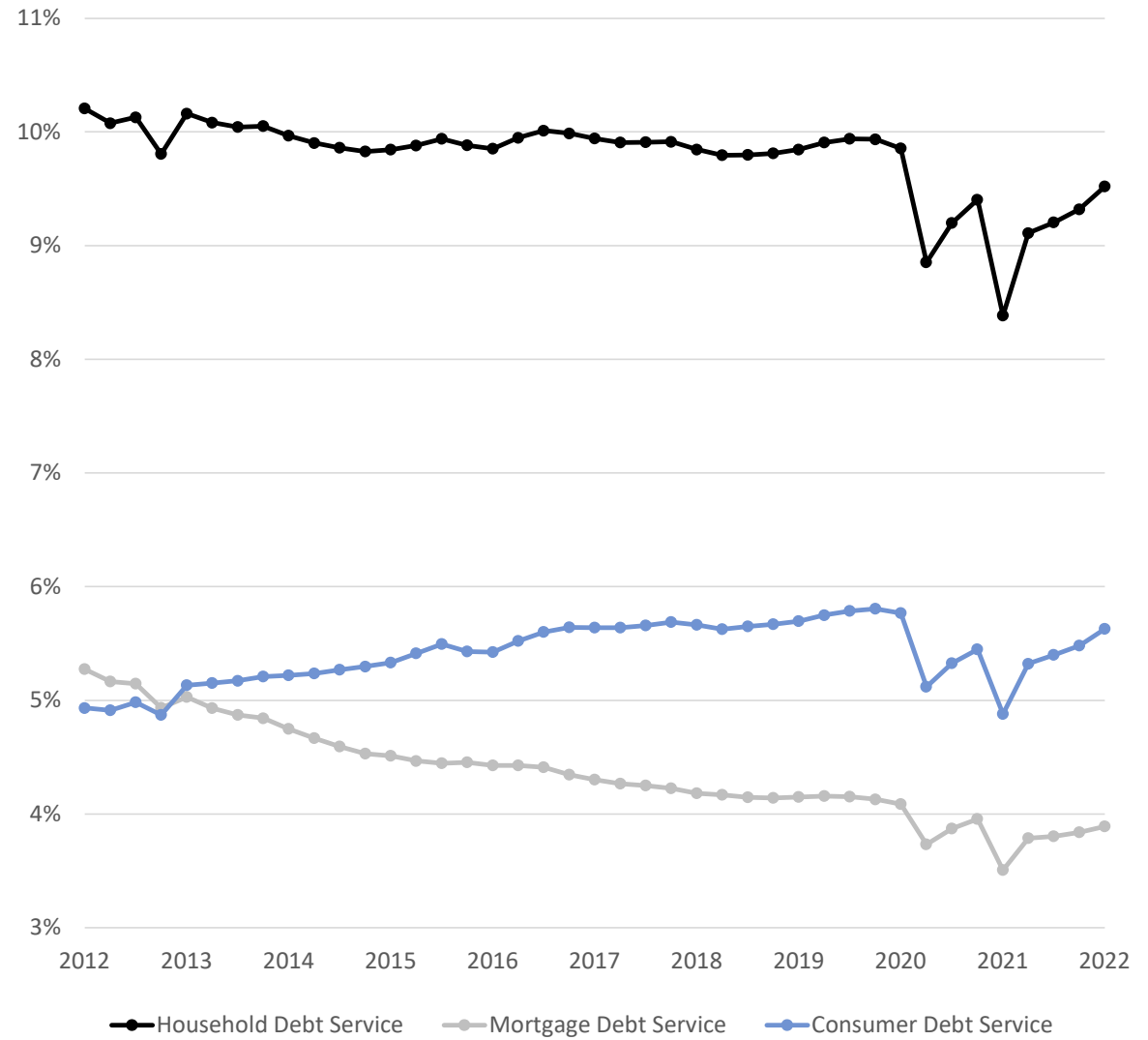


US Personal Saving Rate



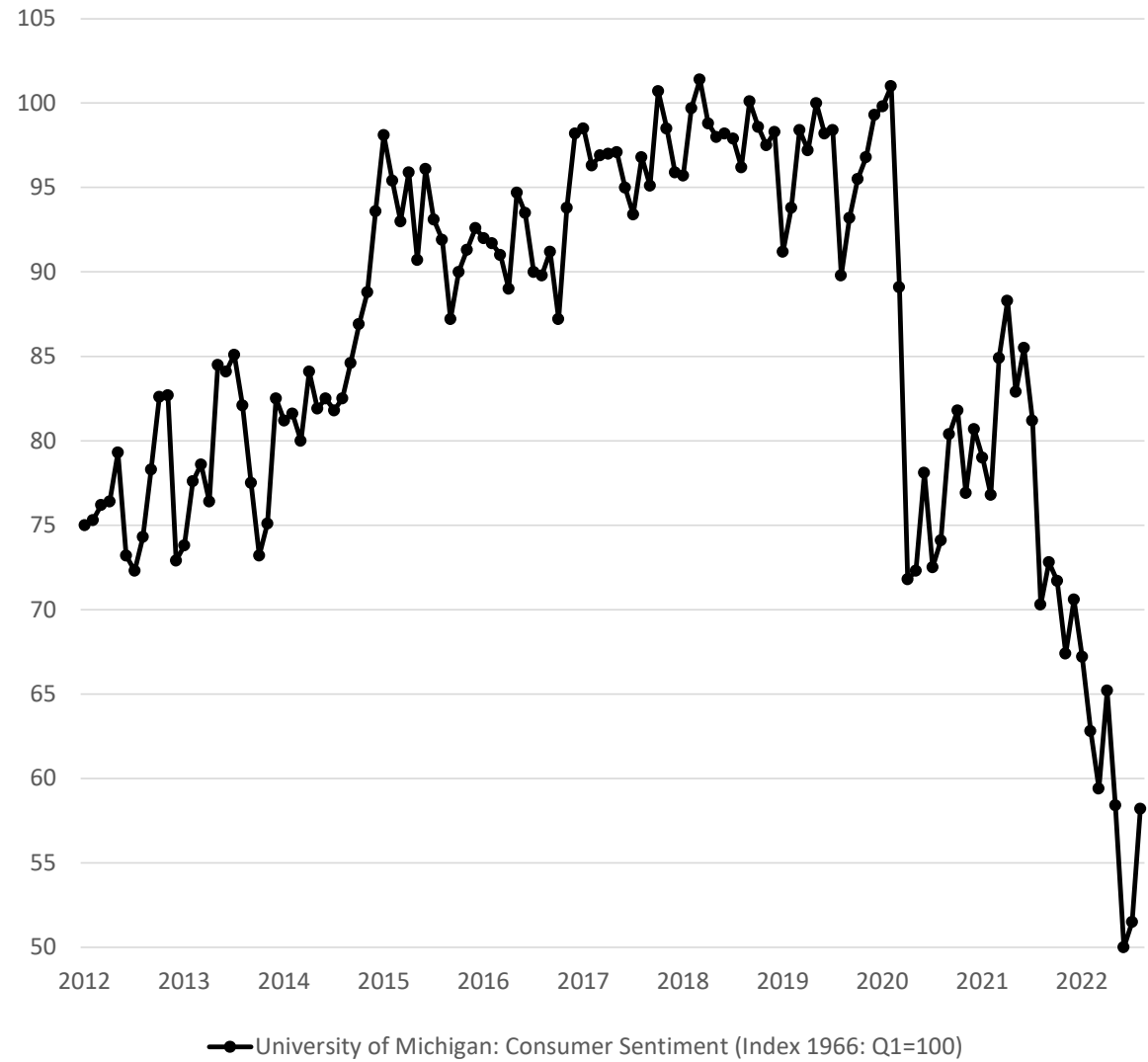


US Household Debt Service Ratio





US Consumer Sentiment



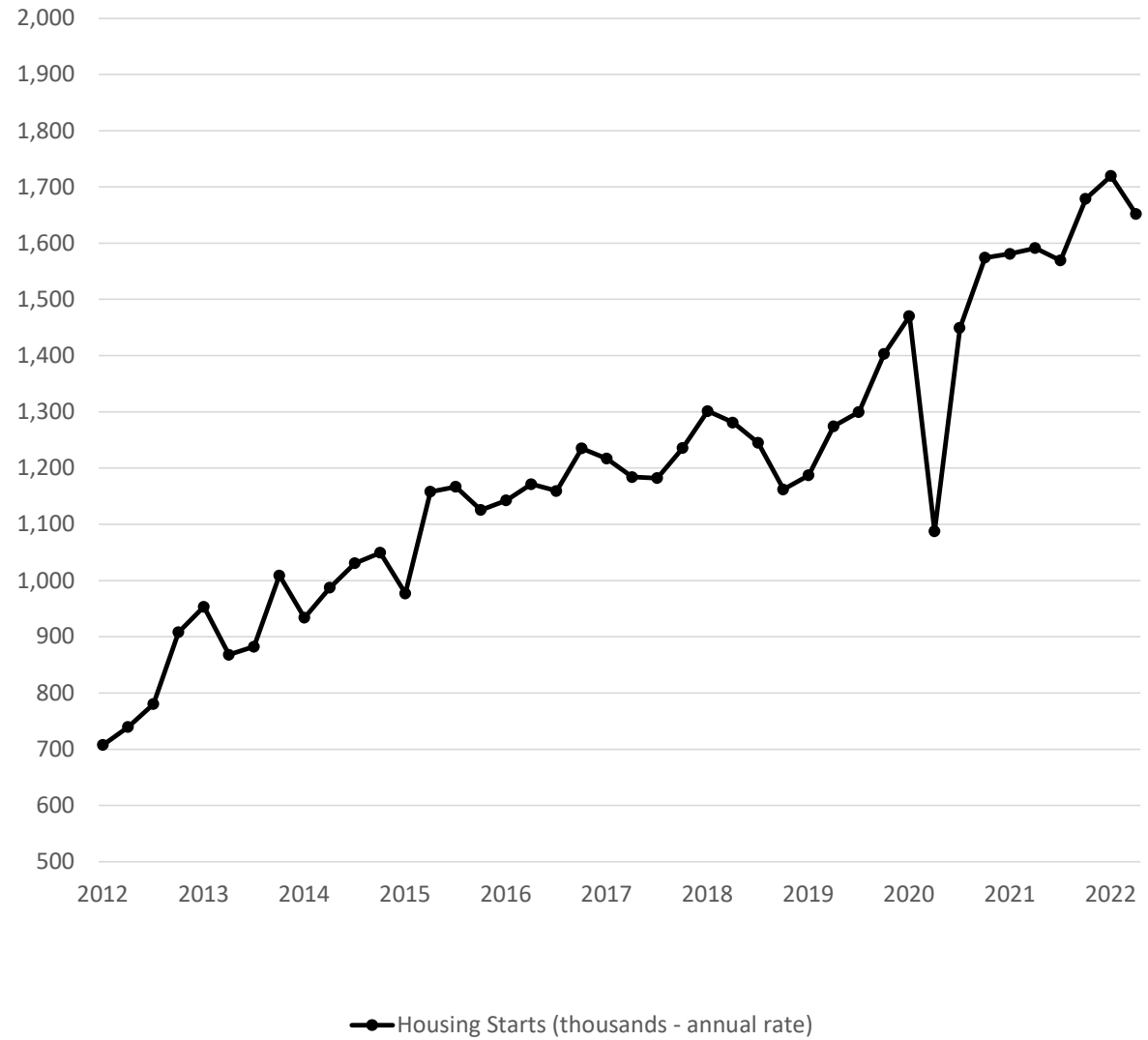


Investment

- Real business fixed investment is projected to slow from 4.5% in 2022 to 1.2% in 2023 and 0.3% in 2024 due to rising borrowing costs and slowing output.
- Housing starts are expected to slow from 1.58M in 2022 to 1.36M in 2023 and 1.38M in 2024.
- Housing activity weakening due to higher prices and increases in mortgage rates.



US Housing Starts



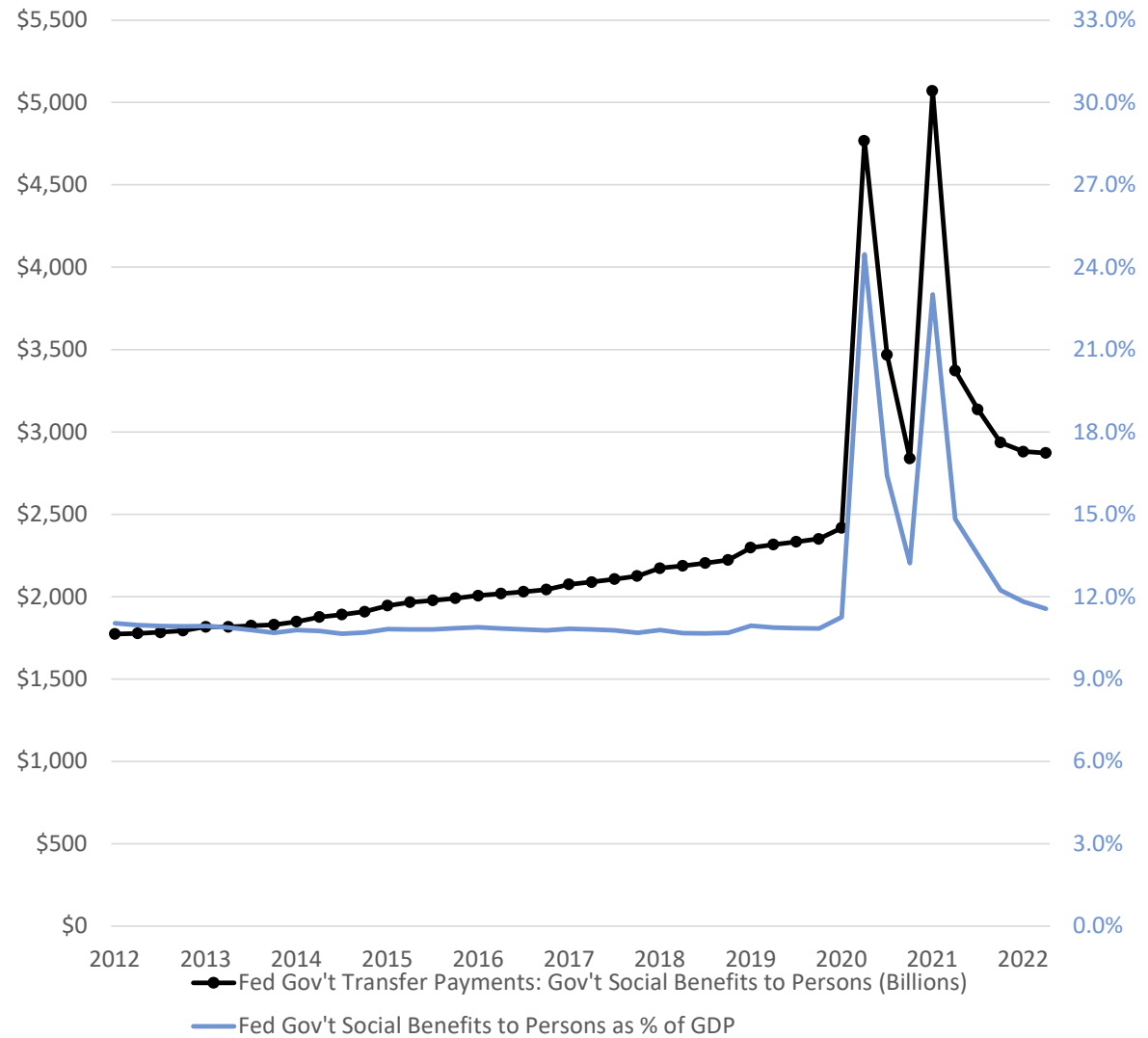
Federal Fiscal Picture



- Federal payments to states jumped in second quarter with second tranche of funds authorized under the American Rescue Plan Act.
- Pandemic relief payments shrink to near zero in 2023.
- The temporary 6.2% enhancement to the Federal Medical Assistance Percentage remains in effect through 2022.
- Federal Open Market Committee raised the target federal funds rate by 75 basis points in July to a target range of 2.25%-2.50%.
- Forecast is for the fed to raise its policy rate to the range of 3.50%-3.75% by year end 2022.

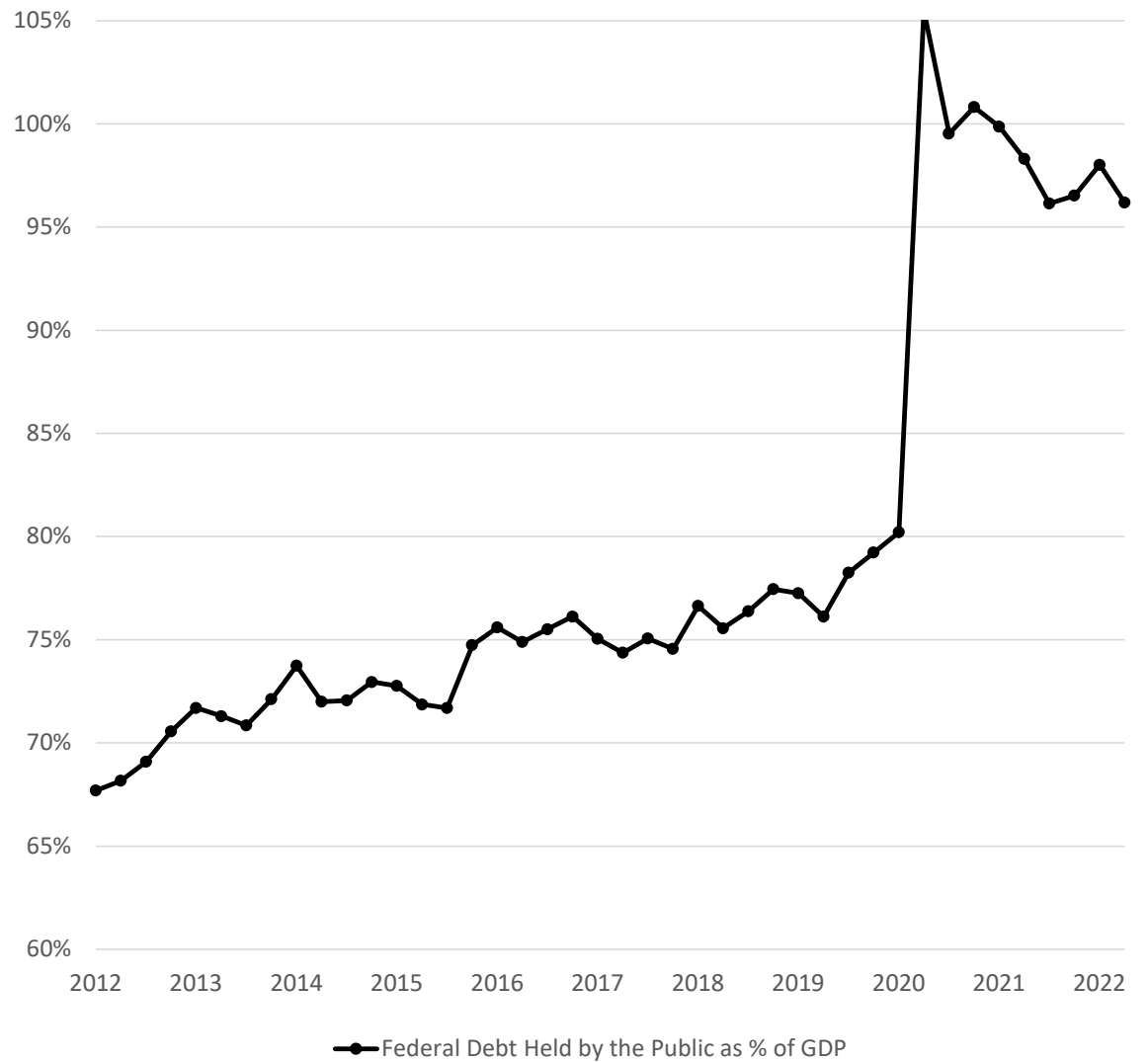


Government Sector



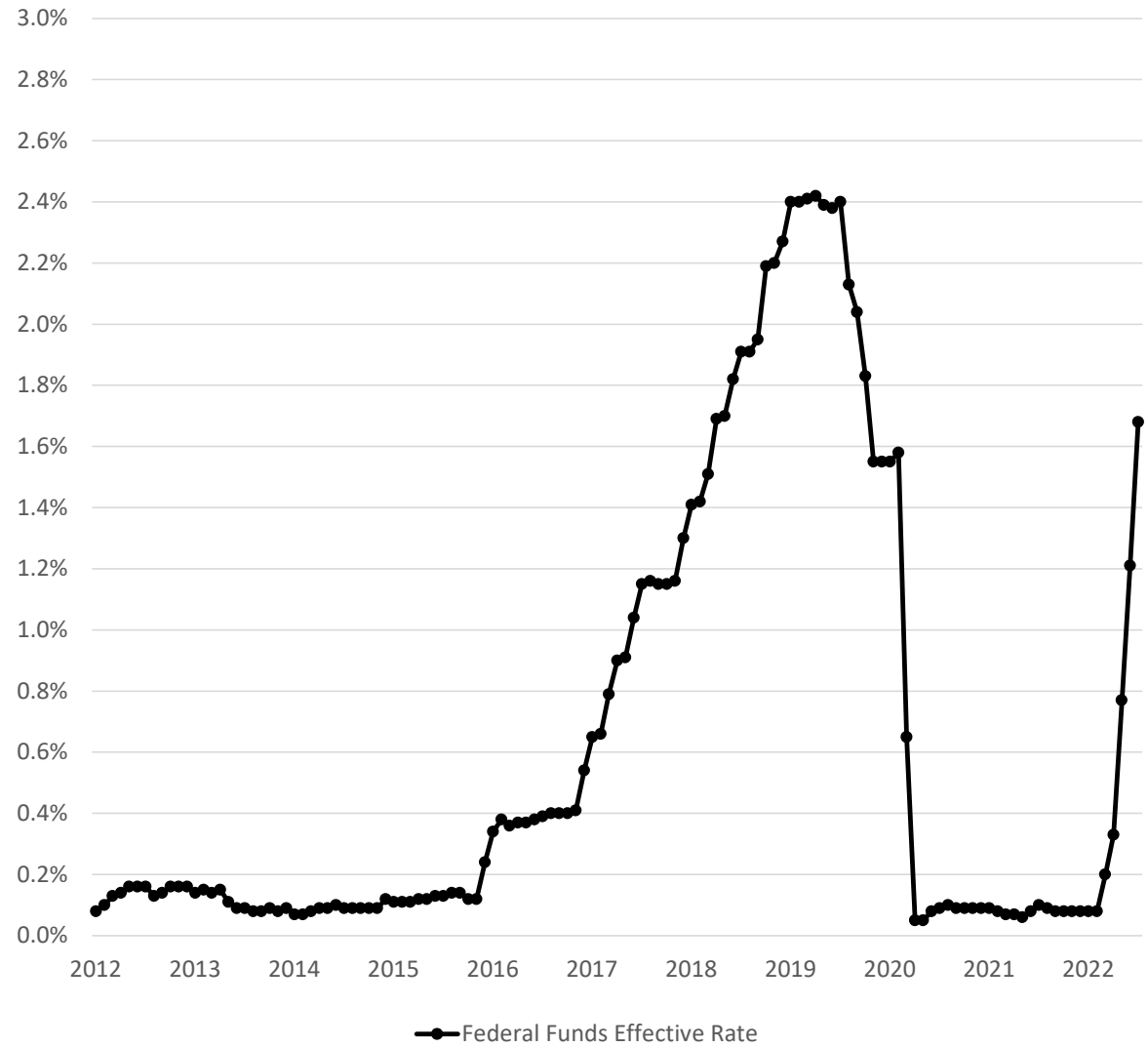


Debt Held by Public





Interest Rates



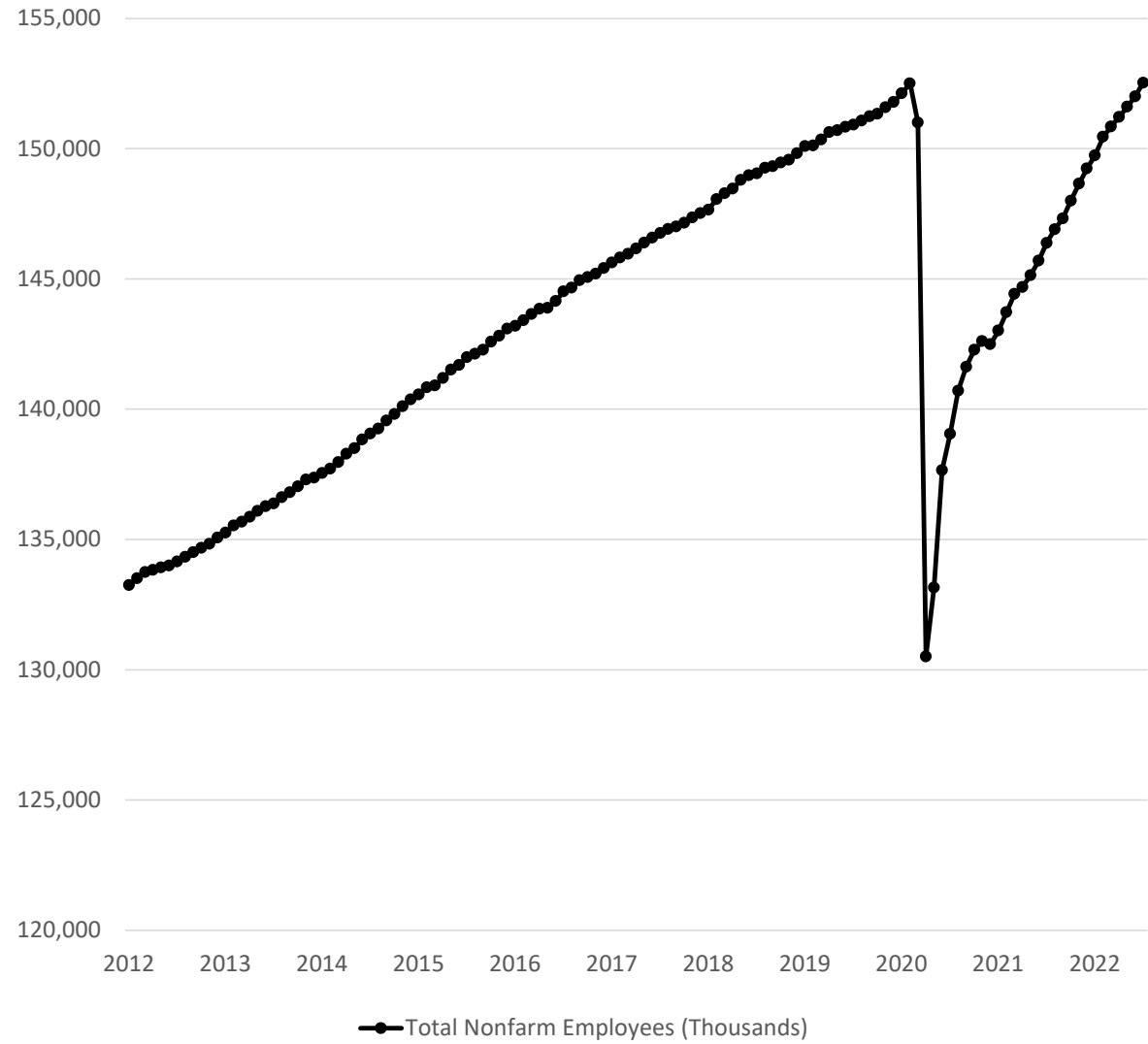
Employment and Unemployment



- Nonfarm payroll employment rose 528k in July, well above expectation.
- Labor demand is strong but expected to ease. Employment growth projected to slow from 4.0% in 2022 to 1.1% in 2023 and 0.0% in 2024.
- The unemployment rate declined to 3.5% in July, equaling the pre-pandemic low.
- Unemployment rate projected to increase from 3.6% in 2022 to 4.2% in 2023 and 4.7% in 2024.
- Nearly two jobs open for every unemployed person.
- Job openings declining.

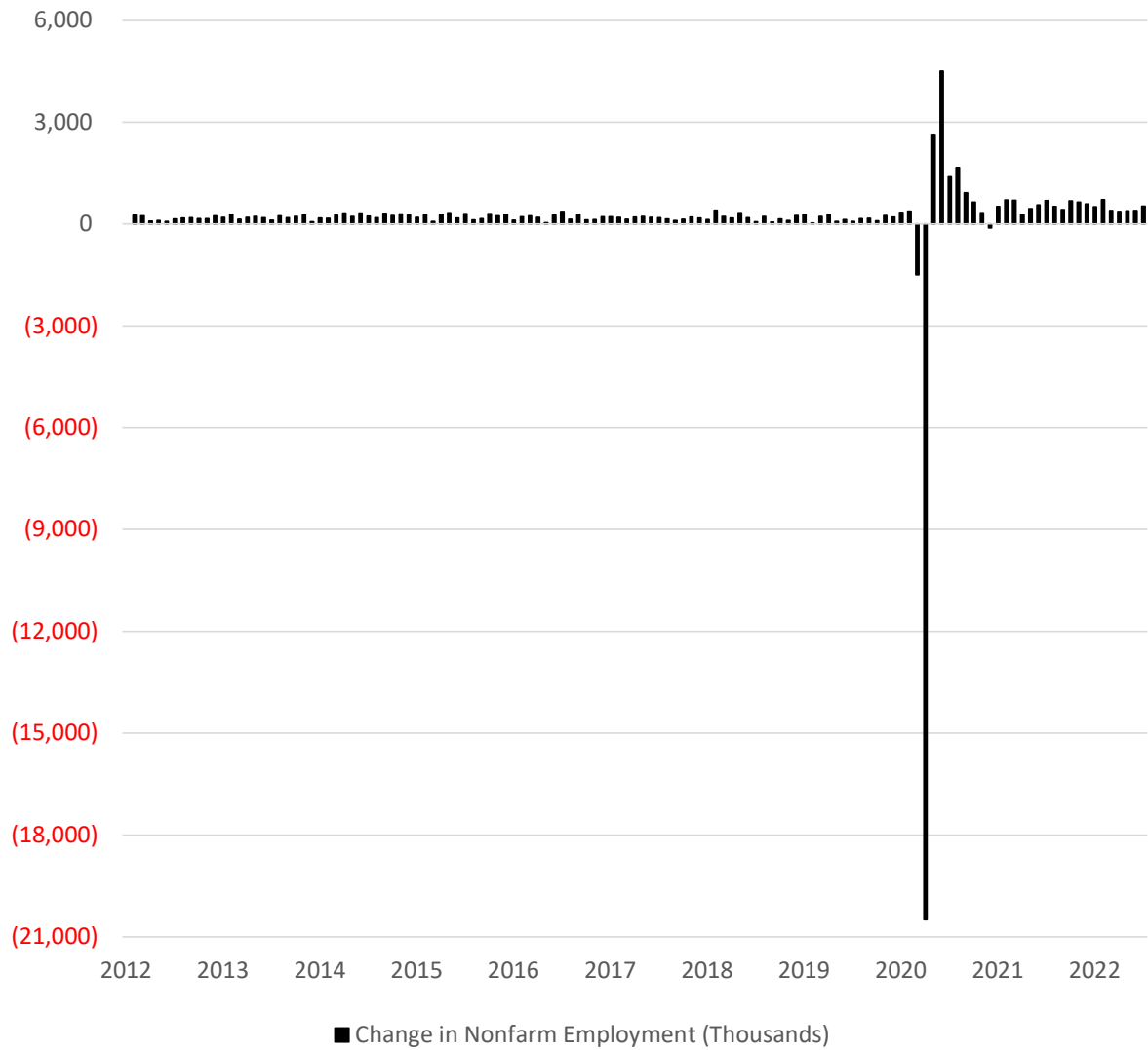


US Employment Growth



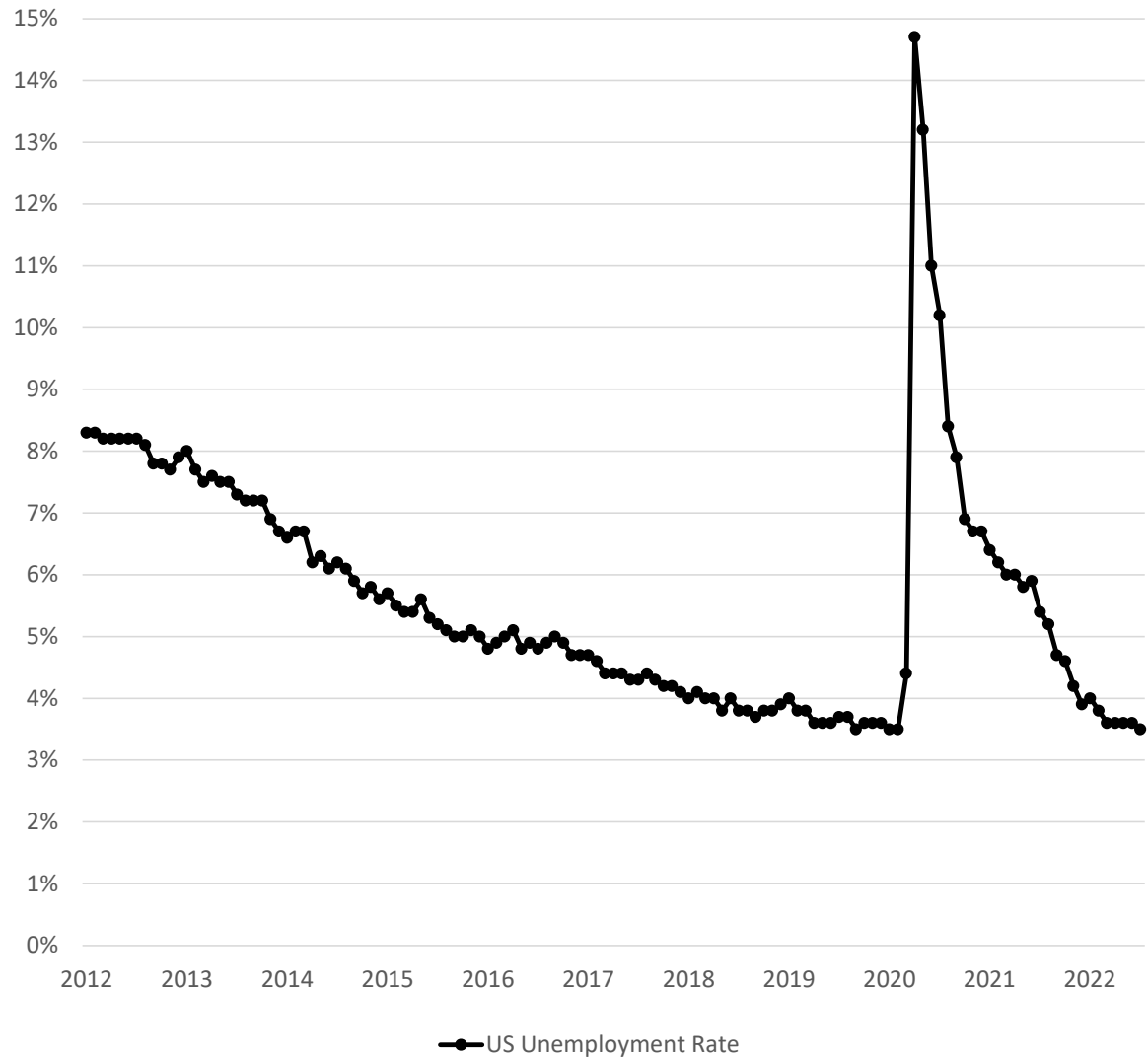


US Employment Growth





US Unemployment Rate



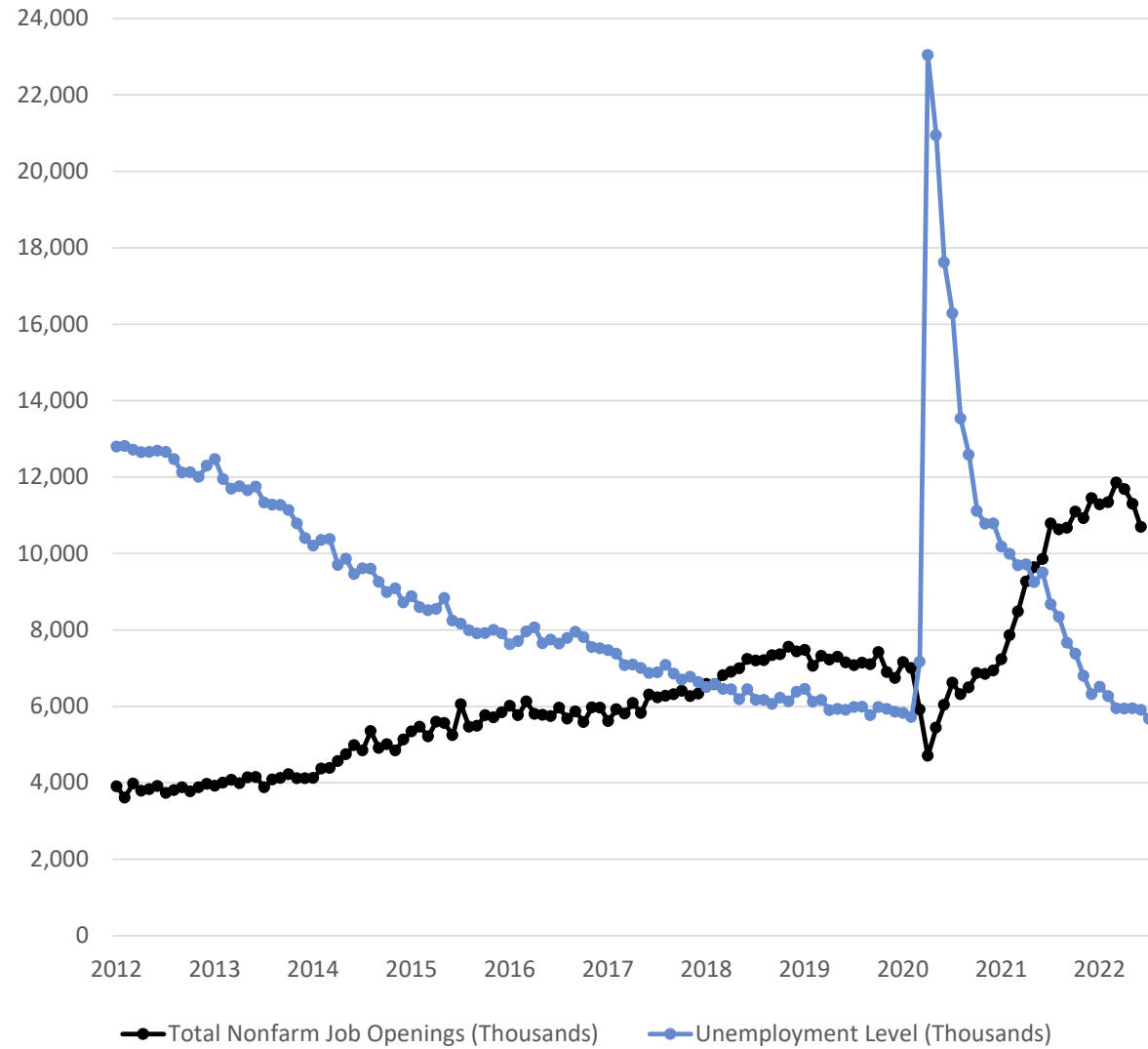


US Labor Force Participation Rate





US Job Openings vs. Unemployed



Inflation

- CPI expected to rise 8.2% in 2022, 4.1% in 2023, and 1.9% in 2024.
- PPI on finished goods projected to rise 15.4% in 2022, 4.6% in 2023, and 1.0% in 2024.
- Brent Crude spot price is forecast to decline from \$106 in 2022 to \$100 in 2023 and \$90 in 2024.



Inflation: CPI



IHS Markit Forecast - US

	2017	2018	2019	2020	2021	2022 f	2023 f	'11-'21 avg.
Real GDP Growth	2.3%	2.9%	2.3%	-3.4%	5.7%	1.5%	1.0%	2.0%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.8%	4.0%	1.1%	1.1%
Personal Income	4.7%	5.1%	4.1%	6.5%	7.5%	3.2%	5.0%	4.8%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	4.2%	6.0%
CPI-U	2.1%	2.4%	1.8%	1.2%	4.7%	8.2%	4.1%	2.0%

IHS Markit Alternate Scenarios - US

Optimistic Scenario (5% probability)			Pessimistic Scenario (45% probability)		
	2022 f	2023 f	2022 f	2023 f	'11-'21 avg.
Real GDP Growth	1.8%	1.7%	1.1%	-0.2%	2.0%
Nonfarm Employment	4.1%	1.2%	3.7%	-0.3%	1.1%
Personal Income	3.4%	5.7%	3.1%	4.0%	4.8%
Unemployment Rate	3.5%	3.9%	3.9%	5.5%	6.0%
CPI-U	7.7%	4.5%	8.4%	5.3%	2.0%

SD Forecast

Real GDP

Employment

Housing

Personal Income

Tourism

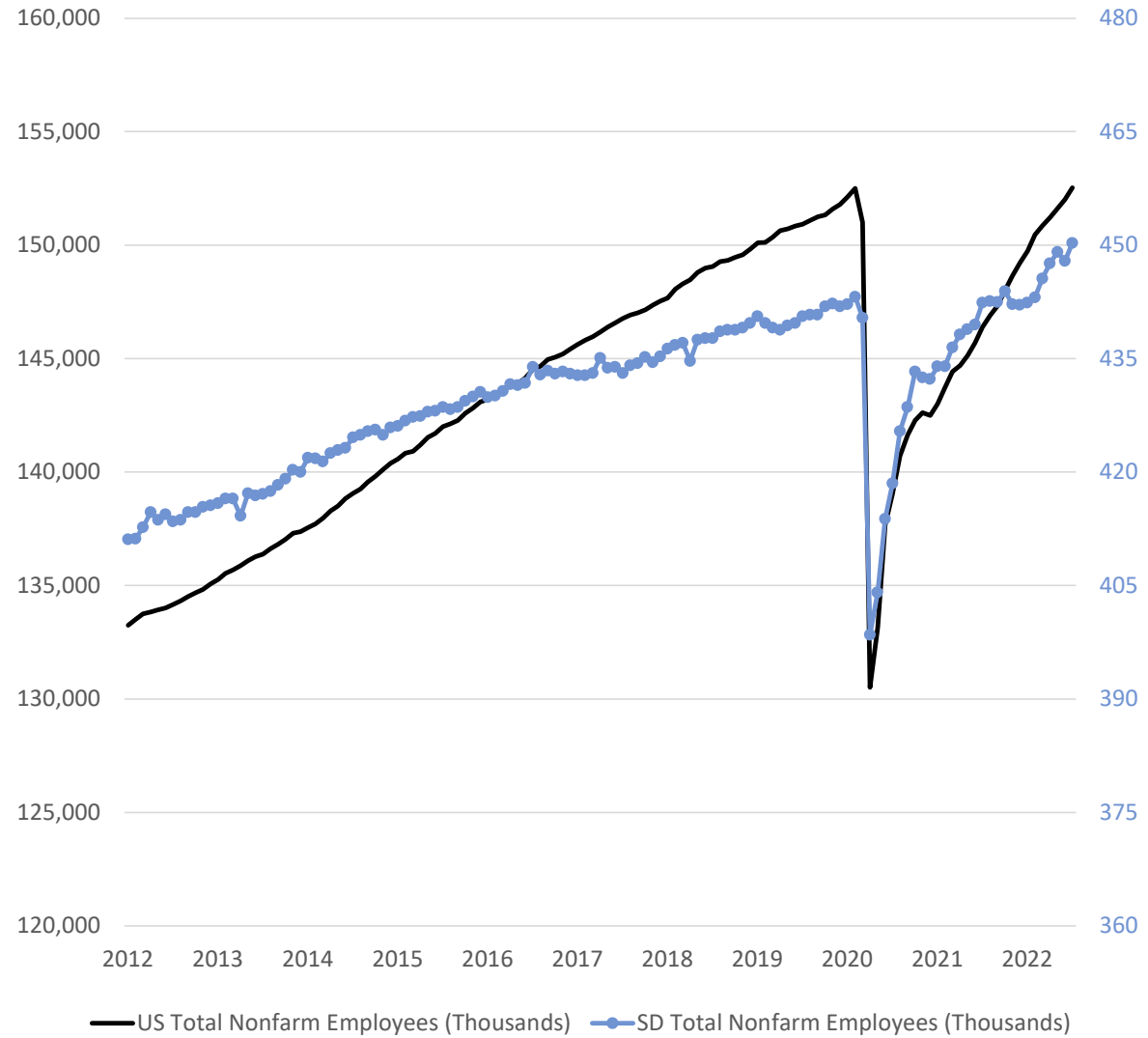


Real Gross Domestic Product



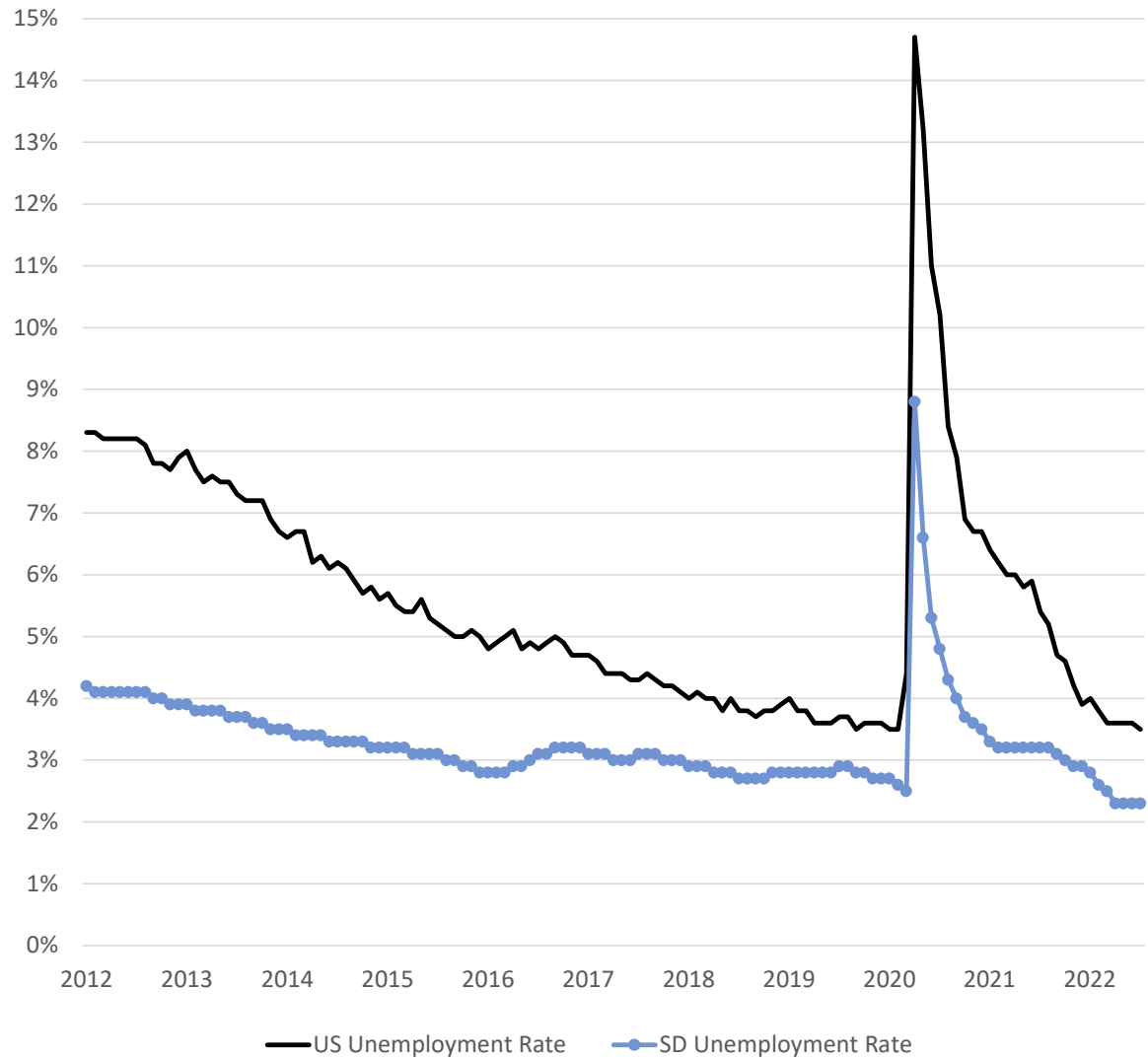


Employment Growth



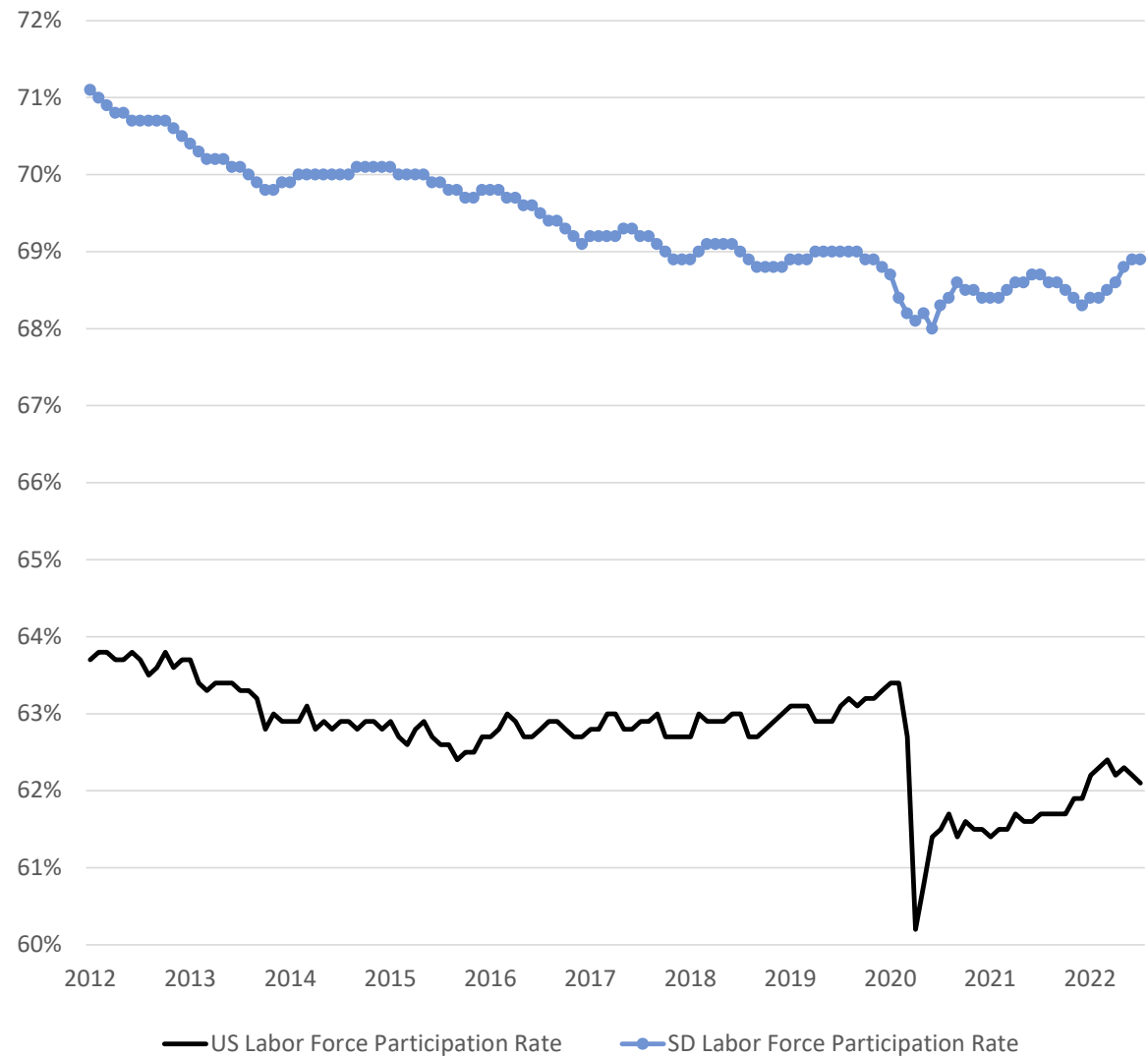


Unemployment Rate



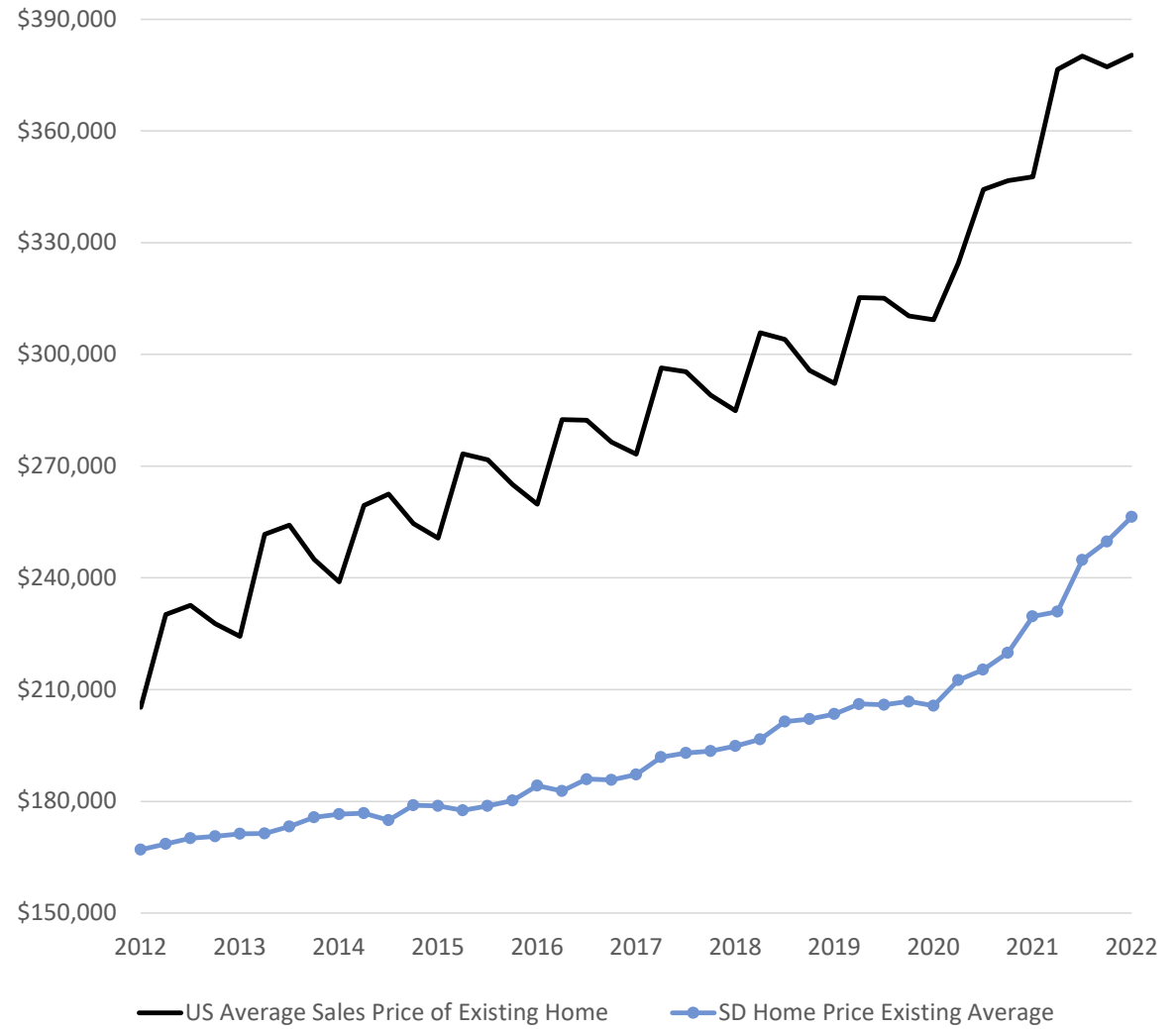


Labor Force Participation Rate



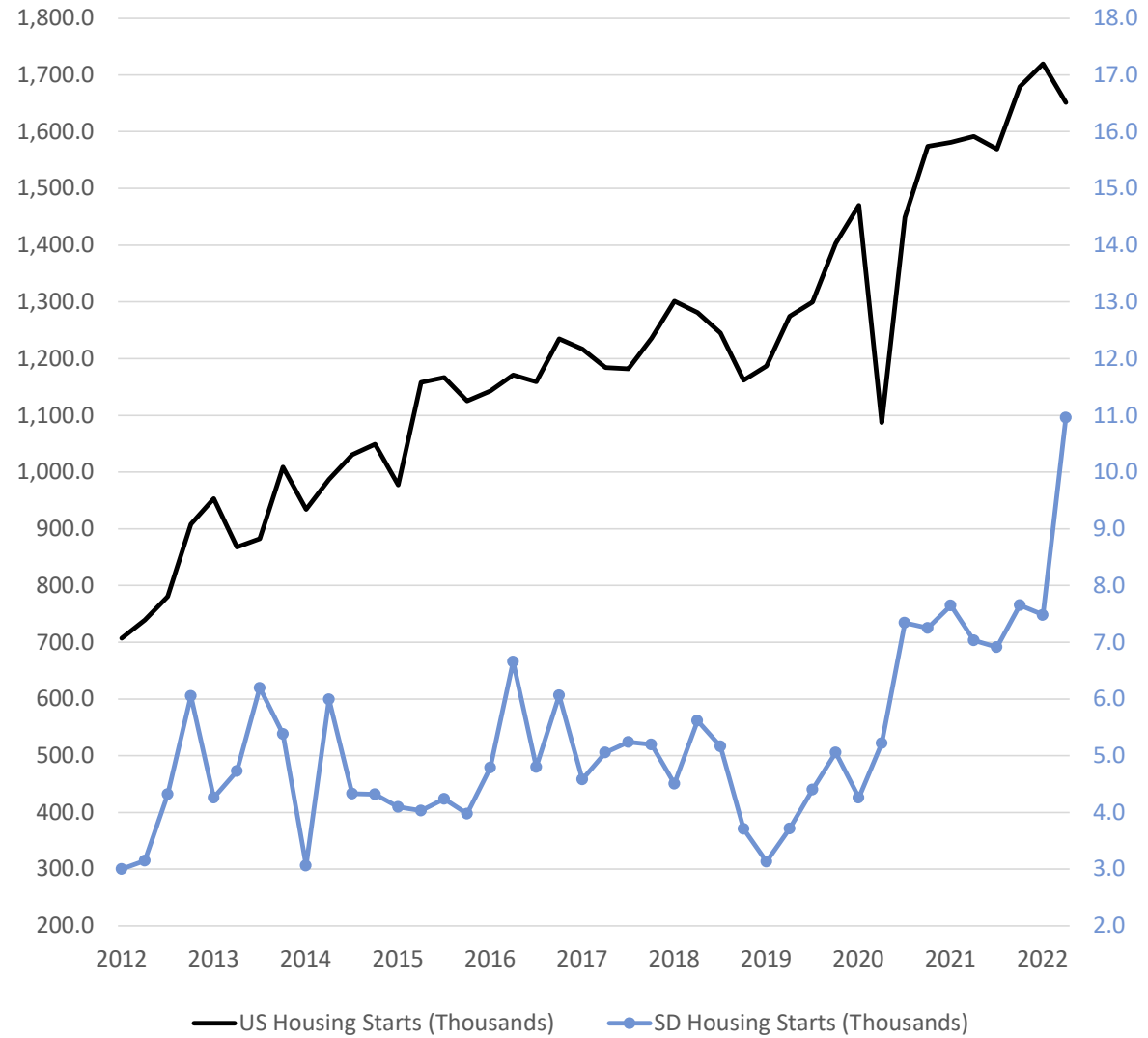


Home Price



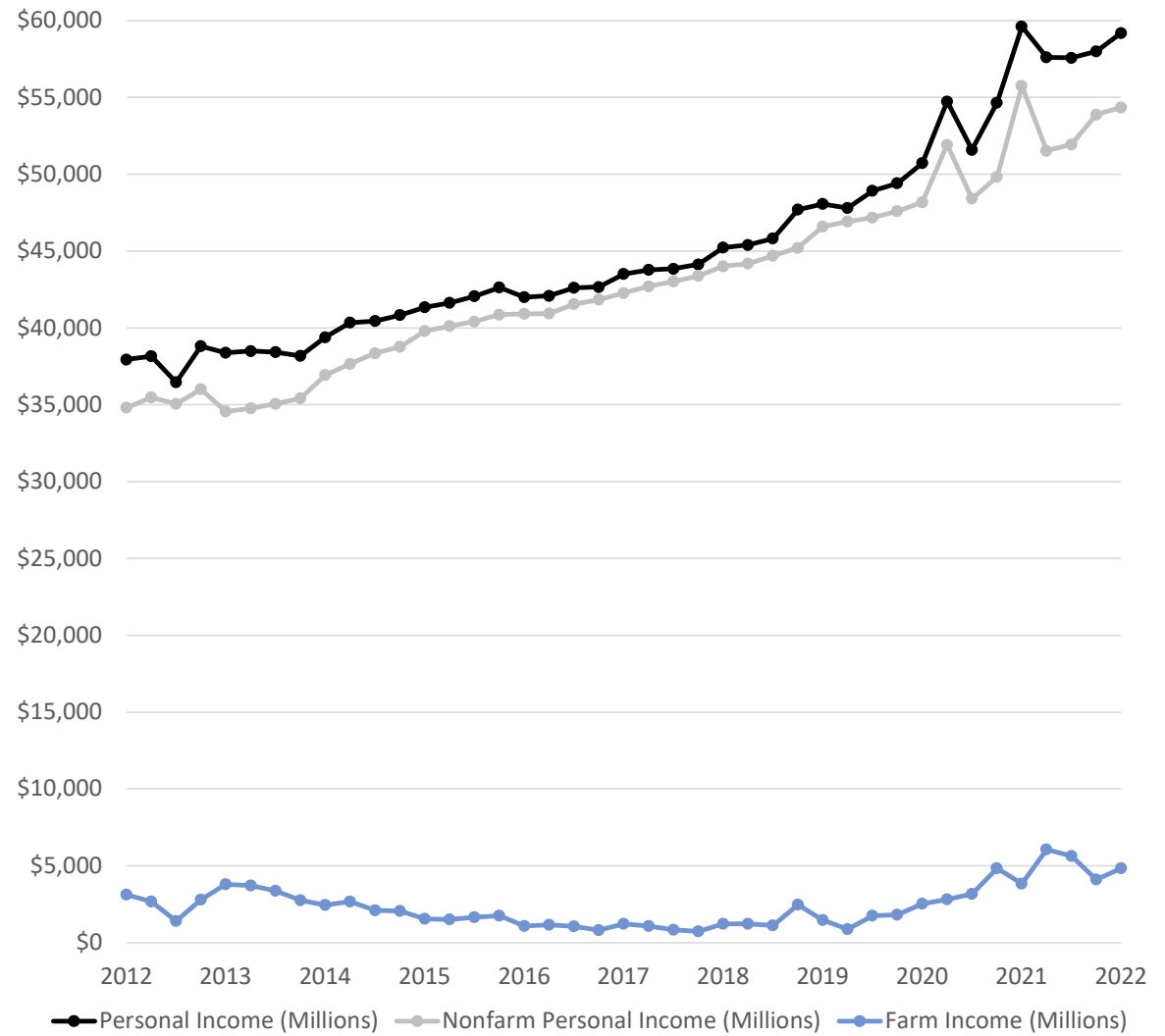


Housing Starts



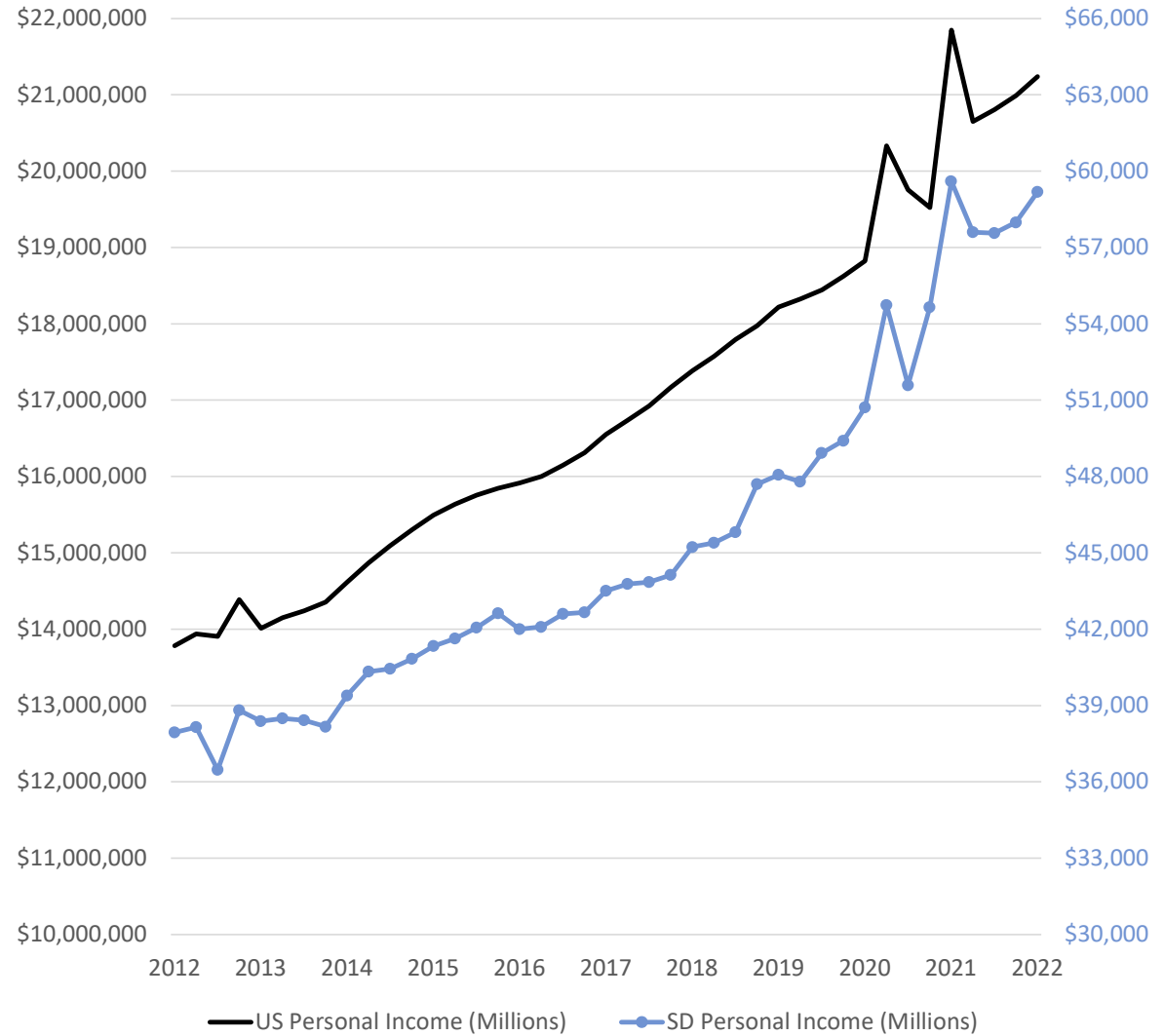


Personal Income



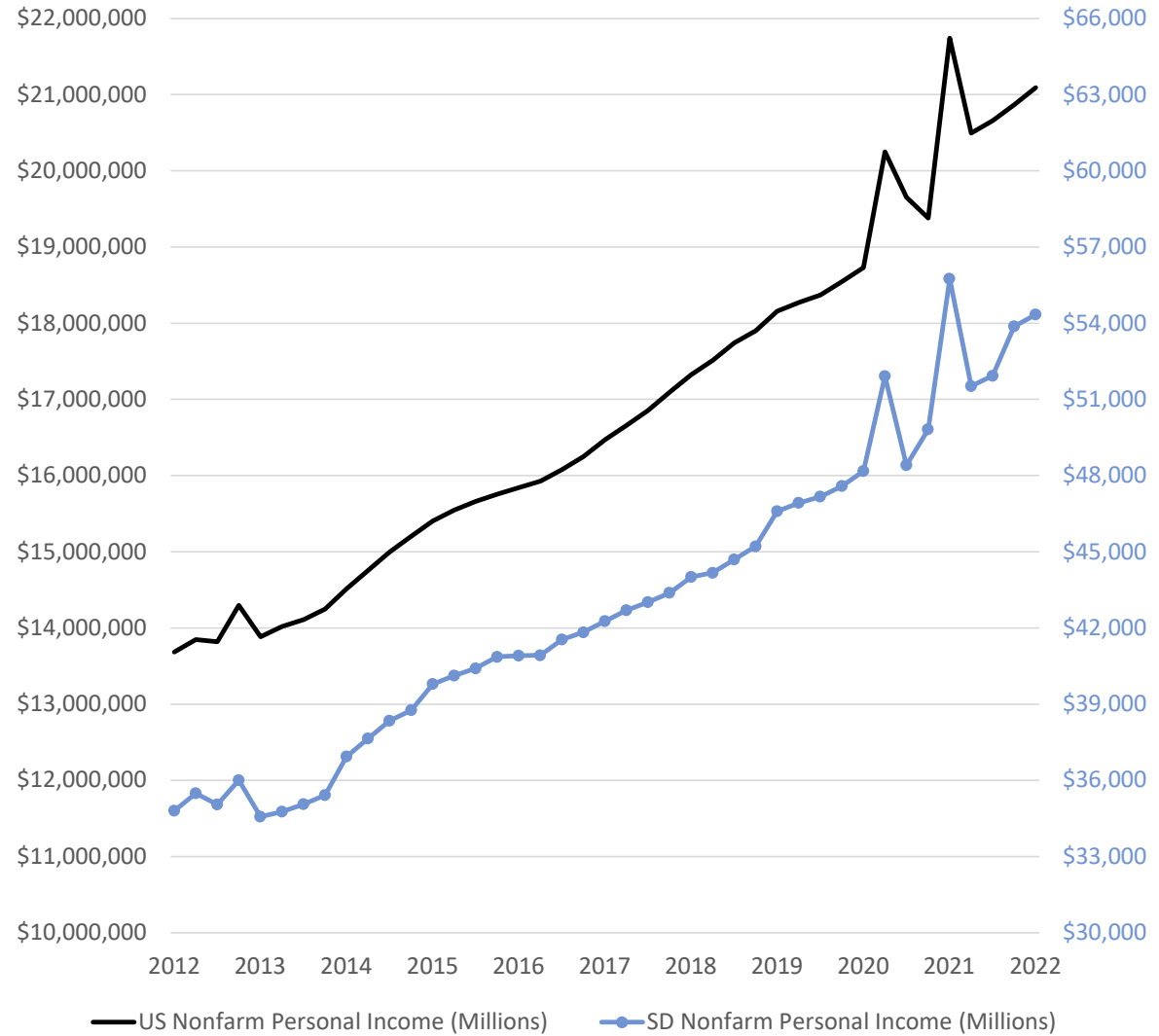


Personal Income



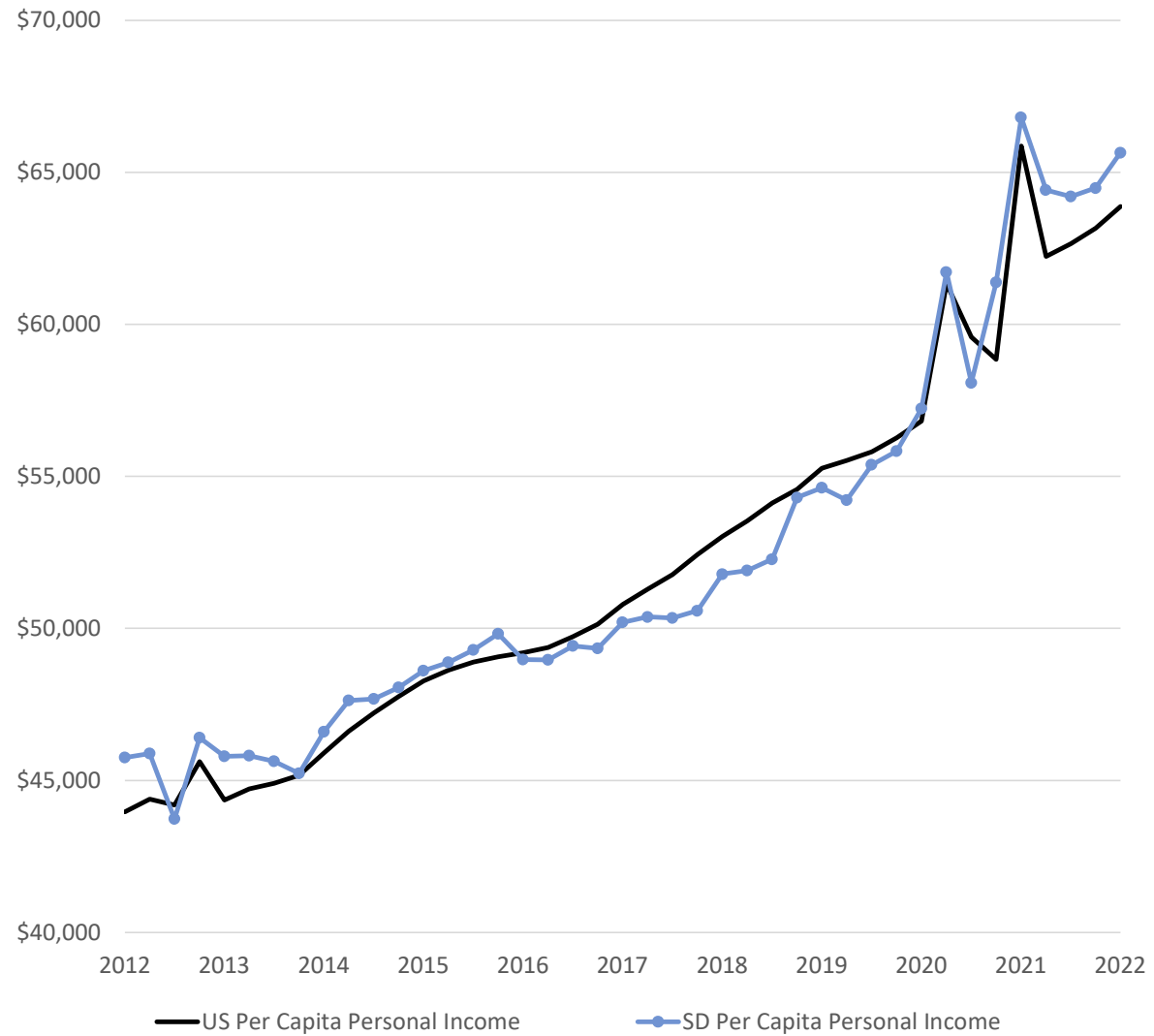


Nonfarm Personal Income



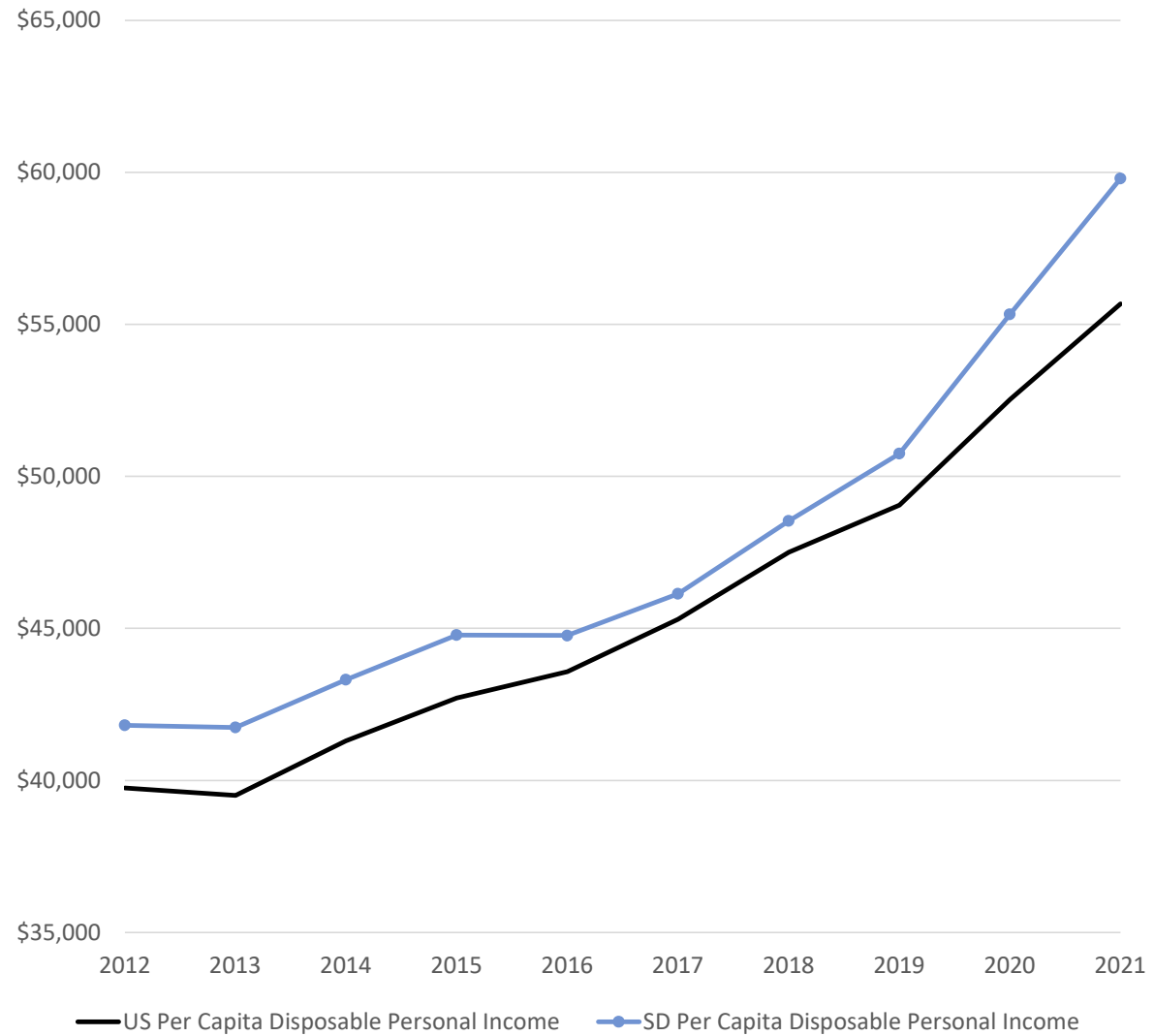


Per Capita Personal Income



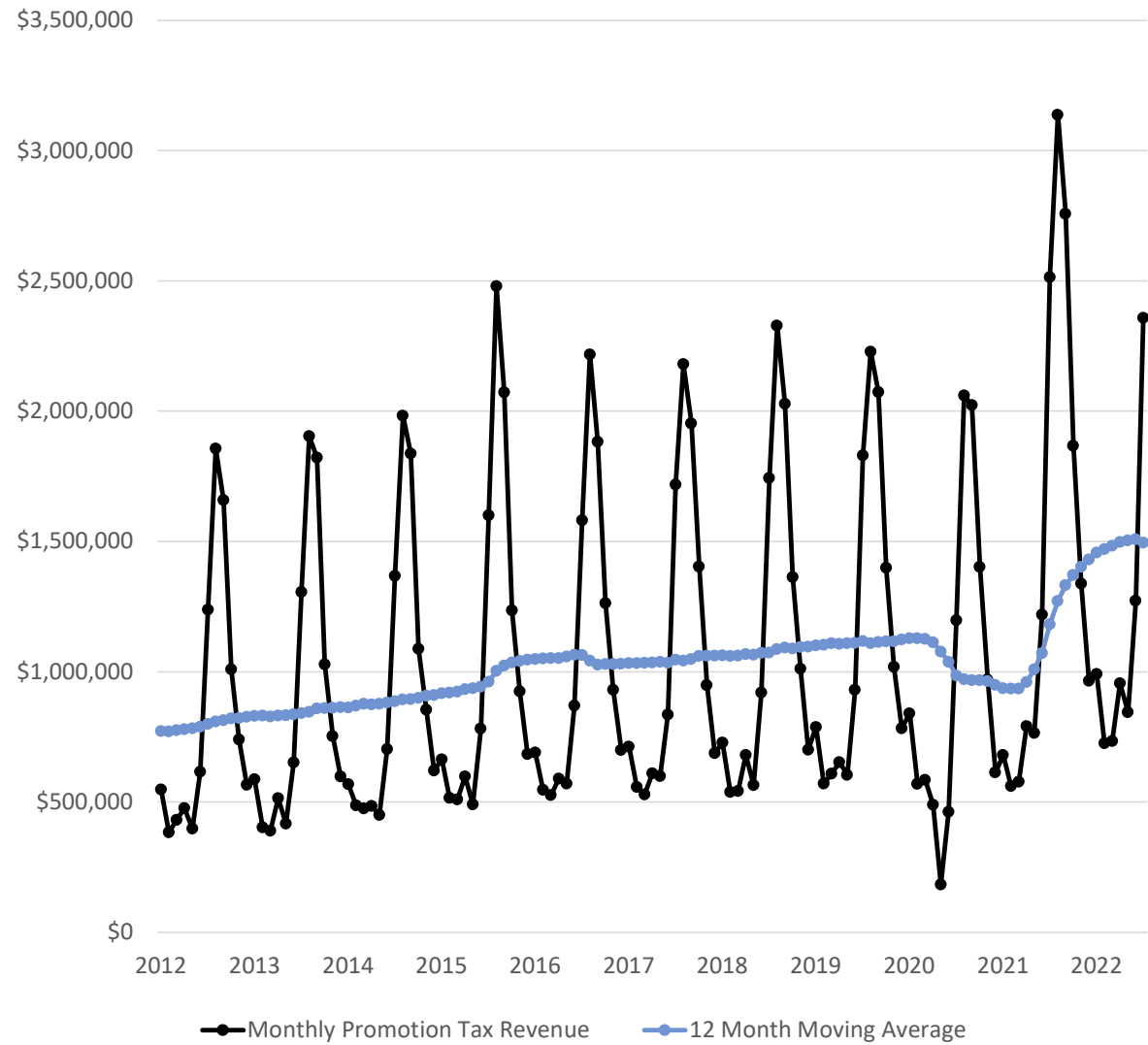


Per Capita Disposable Personal Income





SD Tourism Promotion Tax Collections



IHS Market Forecast - SD

	2017	2018	2019	2020	2021	2022 f	2023 f	'11-'21 avg.
Real GDP Growth	-0.4%	1.3%	0.4%	0.1%	4.9%	-0.8%	1.4%	1.8%
Nonfarm Employment	0.4%	0.9%	0.6%	-3.3%	3.2%	2.0%	1.1%	0.8%
Nonfarm Income	3.7%	3.9%	5.7%	5.3%	7.4%	4.2%	4.9%	4.8%
Housing Starts	5,019	4,751	4,078	6,019	7,312	7,760	4,910	4,850
Unemployment Rate	3.1%	2.8%	2.8%	4.4%	3.1%	2.4%	3.0%	3.4%

FY2022 General Fund Overview

How the General Fund Ended FY2022

Adopted Revenue Surplus (March 2022)	<u>\$0</u>
Actual Revenue Collections Compared to Feb 2022 Estimates	
Sales and Use Tax	\$36,619,388
Net Contractor's Excise Tax	\$7,313,936
Bank Franchise Tax	\$6,910,683
Insurance Company Tax	\$5,814,460
Net Transfers In	\$5,209,740
Lottery	\$4,594,686
Licenses, Permits, and Fees	\$3,545,949
Unclaimed Property Receipts	\$1,365,572
Severance Taxes	\$244,177
Alcohol Beverage Tax	\$233,140
Alcohol Beverage 2% Wholesale Tax	\$145,553
Trust Funds	\$0
Investment Income and Interest	(\$52,652)
Telecommunications Tax	(\$212,413)
Charges for Goods and Services	(\$336,015)
Tobacco Taxes	(\$2,025,961)
Unexpended Carryovers/Specials/Deferred	\$2,900,492
Total Change in Revenues	<u>\$72,270,734</u>
Miscellaneous Cash Adjustments (Included in NTI)	<u>\$758,347</u>
Total Revenue Change	<u>\$72,270,734</u>
Budgeted Reversions	
Executive Branch Reversions (includes BOR)	\$40,770,199
Legislative Reversions	\$543,350
Judicial and Constitutional Office Reversions	\$1,894,150
Total Reversions	<u>\$43,207,698</u>
Cash Surplus	<u>\$115,478,433</u>
Amount Obligated to the Budget Reserve Fund	(\$7,177,198)
Amount Obligated to the General Revenue Replacement Fund	(\$108,301,235)
Revised Ending Unobligated Cash Balance	<u>\$0</u>

General Fund Receipts

*Legislative Revised
FY2022 vs.
Actual FY2022*

	LEG REVISED FY2022	ACTUAL FY2022	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	1,320,225,405	1,356,844,793	36,619,388	2.77
Lottery	167,014,996	171,609,682	4,594,686	2.75
Contractor's Excise Tax	148,509,836	155,823,772	7,313,936	4.92
Insurance Company Tax	98,180,960	103,995,420	5,814,460	5.92
Unclaimed Property Receipts	63,732,056	65,097,628	1,365,572	2.14
Licenses, Permits, and Fees	71,531,222	75,077,171	3,545,949	4.96
Tobacco Taxes	51,411,340	49,385,379	(2,025,961)	(3.94)
Trust Funds	43,495,271	43,495,271	0	0.00
Net Transfers In	23,130,804	25,279,507	2,148,703	9.29
Alcohol Beverage Tax	8,970,828	9,203,968	233,140	2.60
Bank Franchise Tax	16,753,147	22,511,850	5,758,703	34.37
Charges for Goods and Services	15,140,266	14,804,251	(336,015)	(2.22)
Telecommunications Tax	2,900,871	2,688,458	(212,413)	(7.32)
Severance Taxes	7,789,765	8,033,942	244,177	3.13
Investment Income and Interest	19,701,217	19,648,565	(52,652)	(0.27)
Alcohol Bev 2% Wholesale Tax	2,764,158	2,909,711	145,553	5.27
TOTAL (ONGOING RECEIPTS)	\$ 2,061,252,142	\$2,126,409,366	\$ 65,157,224	3.16
ONE-TIME RECEIPTS				
Bank Franchise Tax Prior Year Revenue	416,316	1,568,296	1,151,980	276.71
One-Time Sales and Use Tax	28,305,843	28,305,843	0	0.00
Surplus Property	0	3,061,037	3,061,037	N/A
Unexpended Carryovers and Specials	0	2,900,492	2,900,492	N/A
Transfer from Budget Reserve Fund	0	0	0	N/A
Obligated Cash Carried Forward	85,875,130	85,875,130	0	0.00
Prior Period Adjustment	5,332,982	5,332,982	0	0.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 119,930,271	\$ 127,043,781	\$ 7,113,510	5.93
GRAND TOTAL	\$ 2,181,182,413	\$2,253,453,148	\$72,270,735	3.31

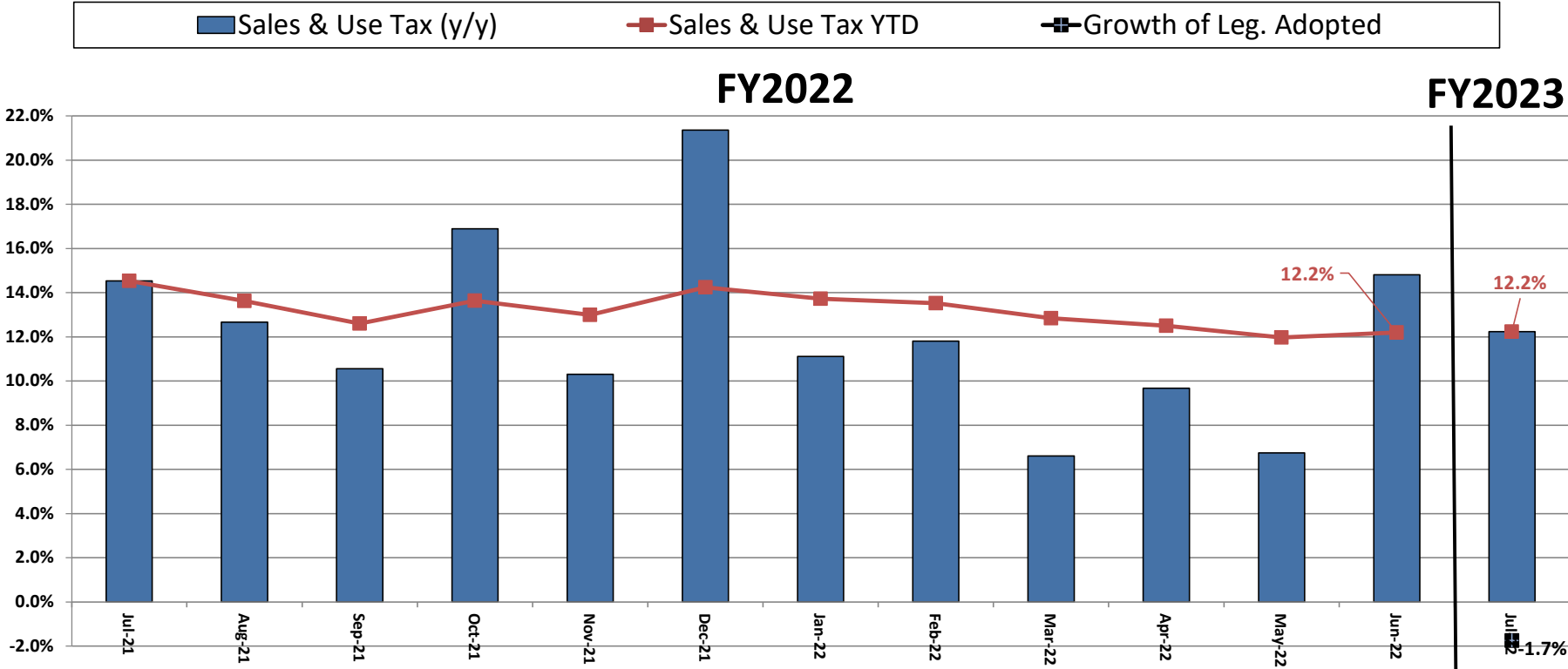
General Fund
Receipts

Legislative
Adopted FY2023
vs.
FY2023 Actuals

Legislative Adopted FY2023 Estimate (Feb. 2022) vs. Actual Revenues
Year-to-Date Through JULY FY2023 Comparison

	Leg. Adopted JULY YTD FY2023	Actual JULY YTD FY2023	DOLLAR CHANGE	YTD % Chg. Actual/Adopt Comparison
ONGOING RECEIPTS				
Net Sales and Use Tax (excl. cost of admin)	121,631,958	139,814,673	18,182,716	14.9%
Lottery	12,364,860	12,979,955	615,095	5.0%
Net Contractor's Excise Tax	14,716,753	18,041,434	3,324,680	22.6%
Insurance Company Tax	18,275,901	16,362,971	(1,912,930)	-10.5%
Unclaimed Property Receipts	(1,341,965)	(2,024,146)	(682,182)	50.8%
Licenses, Permits, and Fees	884,721	608,375	(276,345)	-31.2%
Tobacco Taxes	5,813,506	5,108,802	(704,704)	-12.1%
Trust Funds	31,890,322	31,890,322	0	0.0%
Net Transfers In (excluding one-time)	7,998,149	7,662,177	(335,973)	-4.2%
Alcohol Beverage Tax	18,134	11,062	(7,072)	-39.0%
Bank Franchise Tax	61,217	53,876	(7,340)	-12.0%
Charges for Goods and Services	1,340,902	727,596	(613,305)	-45.7%
Telecommunications Tax	-	-	0	N/A
Severance Taxes	1,461,831	273,240	(1,188,590)	-81.3%
Investment Income and Interest	7,439	5,687	(1,752)	-23.6%
Alcohol Beverage 2% Wholesale Tax	233,890	285,194	51,304	21.9%
SUBTOTAL (ONGOING RECEIPTS)	\$ 215,357,617	\$ 231,801,217	\$ 16,443,601	7.6%

Sales & Use Tax Growth





Council Discussion

IHS Markit Forecast - US

	2017	2018	2019	2020	2021	2022 f	2023 f	'11-'21 avg.
Real GDP Growth	2.3%	2.9%	2.3%	-3.4%	5.7%	1.5%	1.0%	2.0%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.8%	4.0%	1.1%	1.1%
Personal Income	4.7%	5.1%	4.1%	6.5%	7.5%	3.2%	5.0%	4.8%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	4.2%	6.0%
CPI-U	2.1%	2.4%	1.8%	1.2%	4.7%	8.2%	4.1%	2.0%

IHS Markit Forecast - SD

	2017	2018	2019	2020	2021	2022 f	2023 f	'11-'21 avg.
Real GDP Growth	-0.4%	1.3%	0.4%	0.1%	4.9%	-0.8%	1.4%	1.8%
Nonfarm Employment	0.4%	0.9%	0.6%	-3.3%	3.2%	2.0%	1.1%	0.8%
Nonfarm Income	3.7%	3.9%	5.7%	5.3%	7.4%	4.2%	4.9%	4.8%
Housing Starts	5,019	4,751	4,078	6,019	7,312	7,760	4,910	4,850
Unemployment Rate	3.1%	2.8%	2.8%	4.4%	3.1%	2.4%	3.0%	3.4%

Other Discussion Items

- **Next Meeting Date - October**
- **Other Comments**
- **Public Comments**