



The State of the SD Economy

**Presentation to the Governor's
Council of Economic Advisors**

August 20, 2019

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Outline of Presentation

Overview of US economy

**US economy forecast - Macroeconomic
Advisors by IHS Markit 8/8/2019**

SD economy

Summary & Conclusions

US Forecast



Macroeconomic Advisors, By IHS MARKIT
Forecast – August 8, 2019

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation

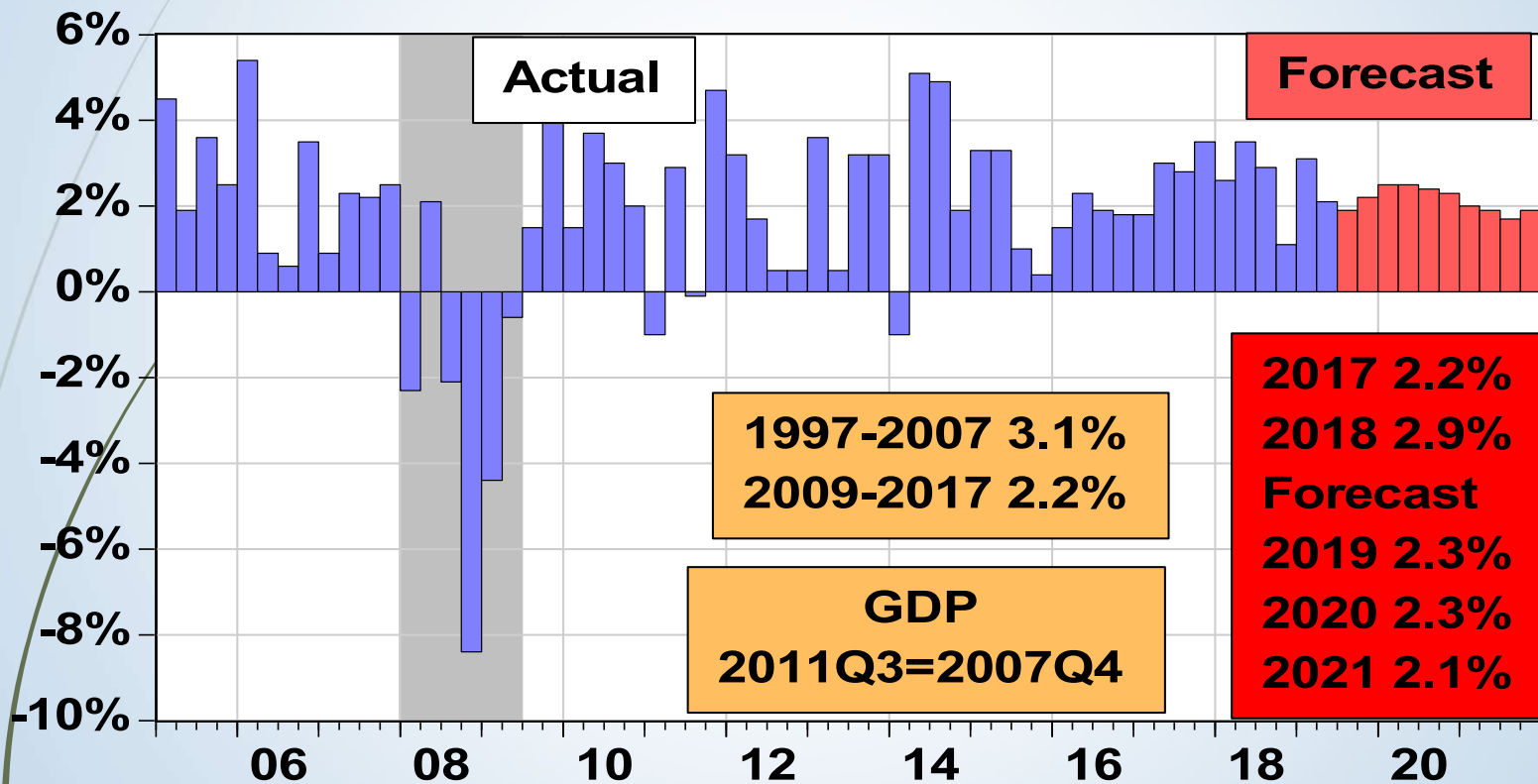


IMPORTANT NOTICE

NEWLY ANNOUNCED TARIFFS ON CHINA, THE CHINESE RETALIATION, AND FINANCIAL-MARKET REACTION TO THEM ARE NOT INCORPORATED IN THIS FORECAST, AND IF THEY ARE NOT QUICKLY REVERSED COULD MATERIALLY ALTER THE OUTLOOK.

Growth is Slowing

GROSS DOMESTIC PRODUCT



Source: BEA and IHS



GDP

GDP growth of 3.2% in 1st quarter was unexpected. However, fully one-half of the increase was due a large upturn in net exports and inventory building.

GDP growth slowed to 2.1% in the 2nd quarter. Growth is projected to be 2.3% in 2019. Growth after 2019 is expected to slow to trend-like 2%.

Chance of recession has been raised to 35%.



Components of GDP are:

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

Consumption

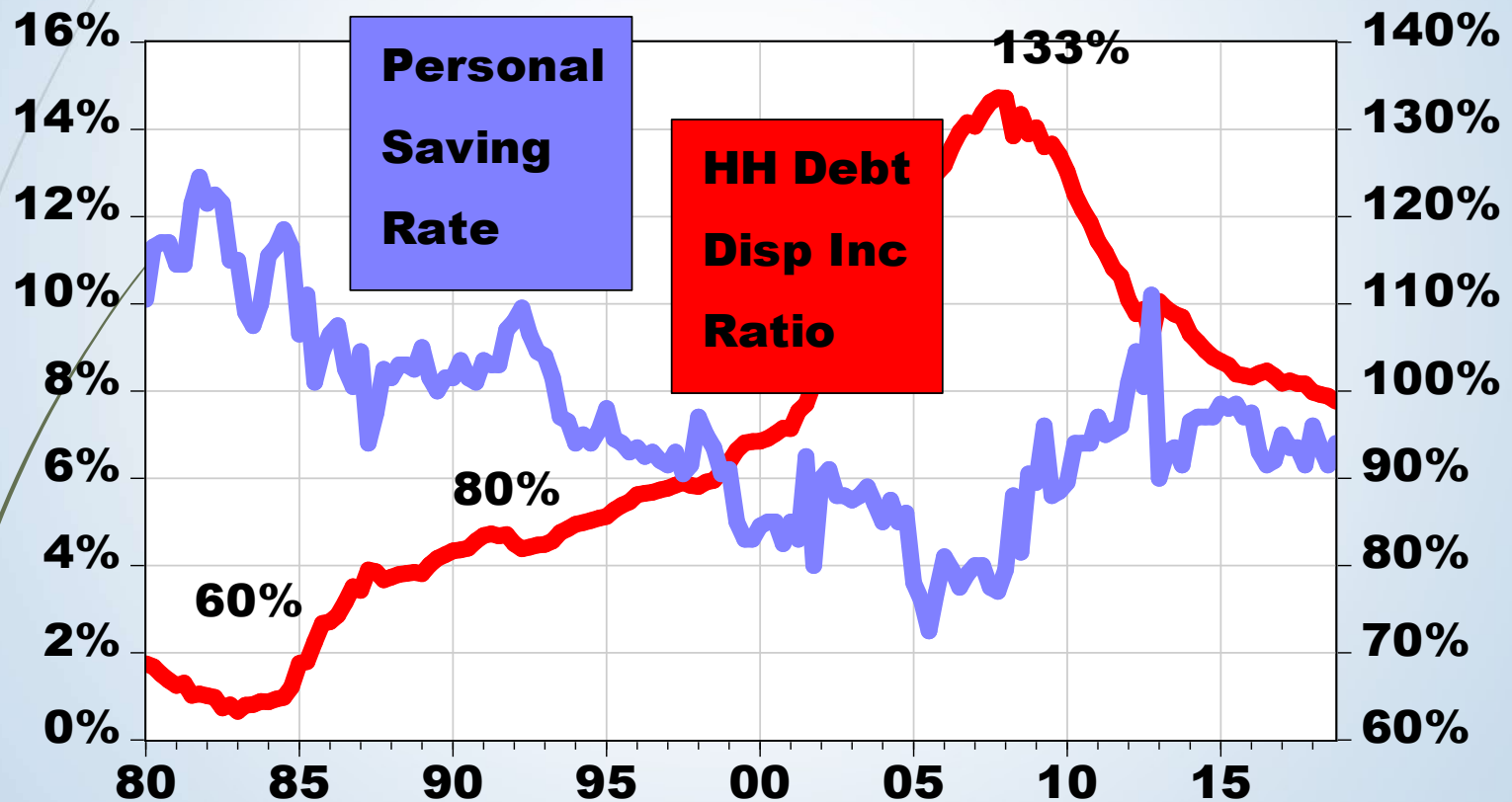
Consumer fundamentals looks strong for the next couple of years.

Projected growth is at 2.5% in 2019, 2.9% in 2020, and 2.8% in 2021.

The main concern is impact of the 25% tariffs on China and the US consumer.

Low Leverage

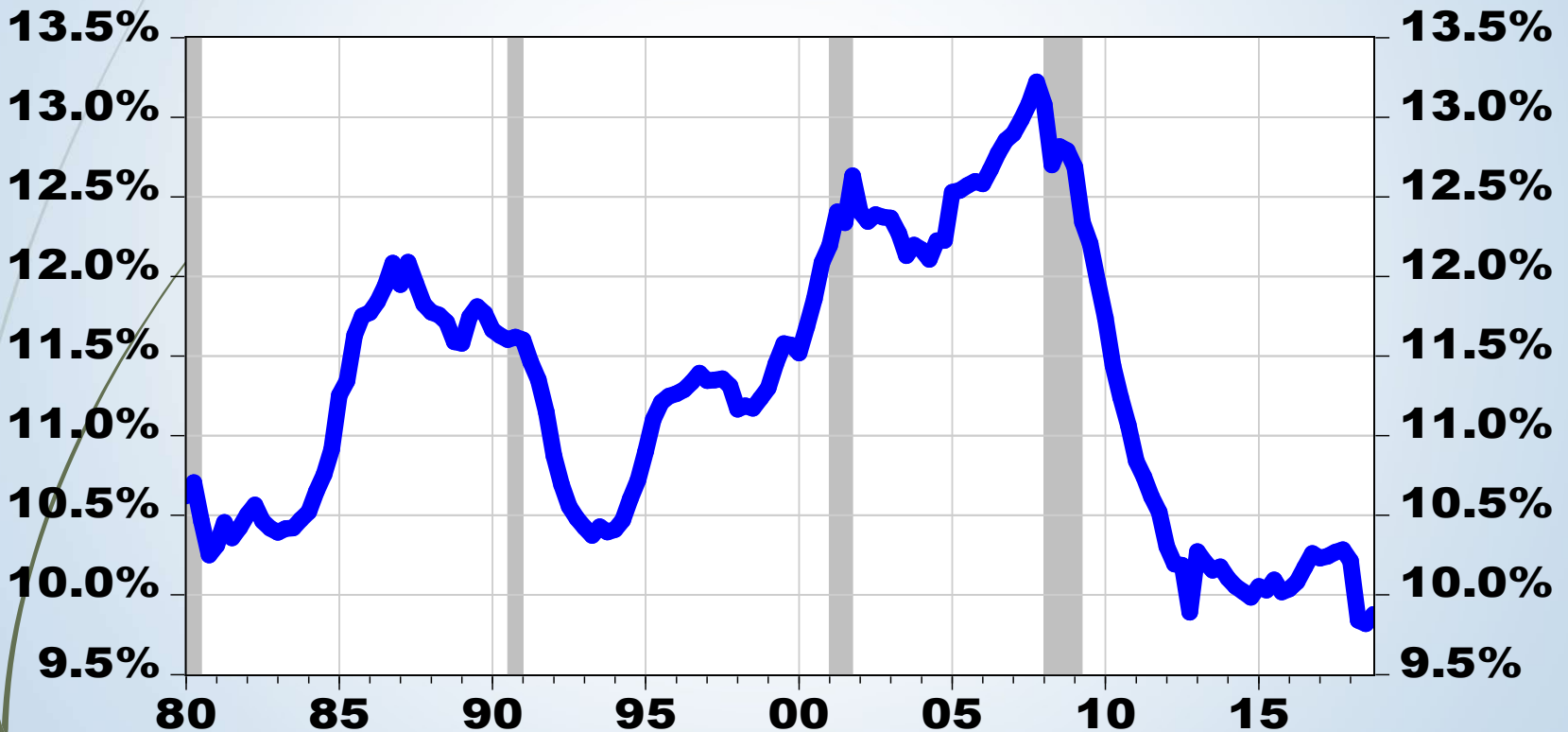
HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Record Low Debt Service

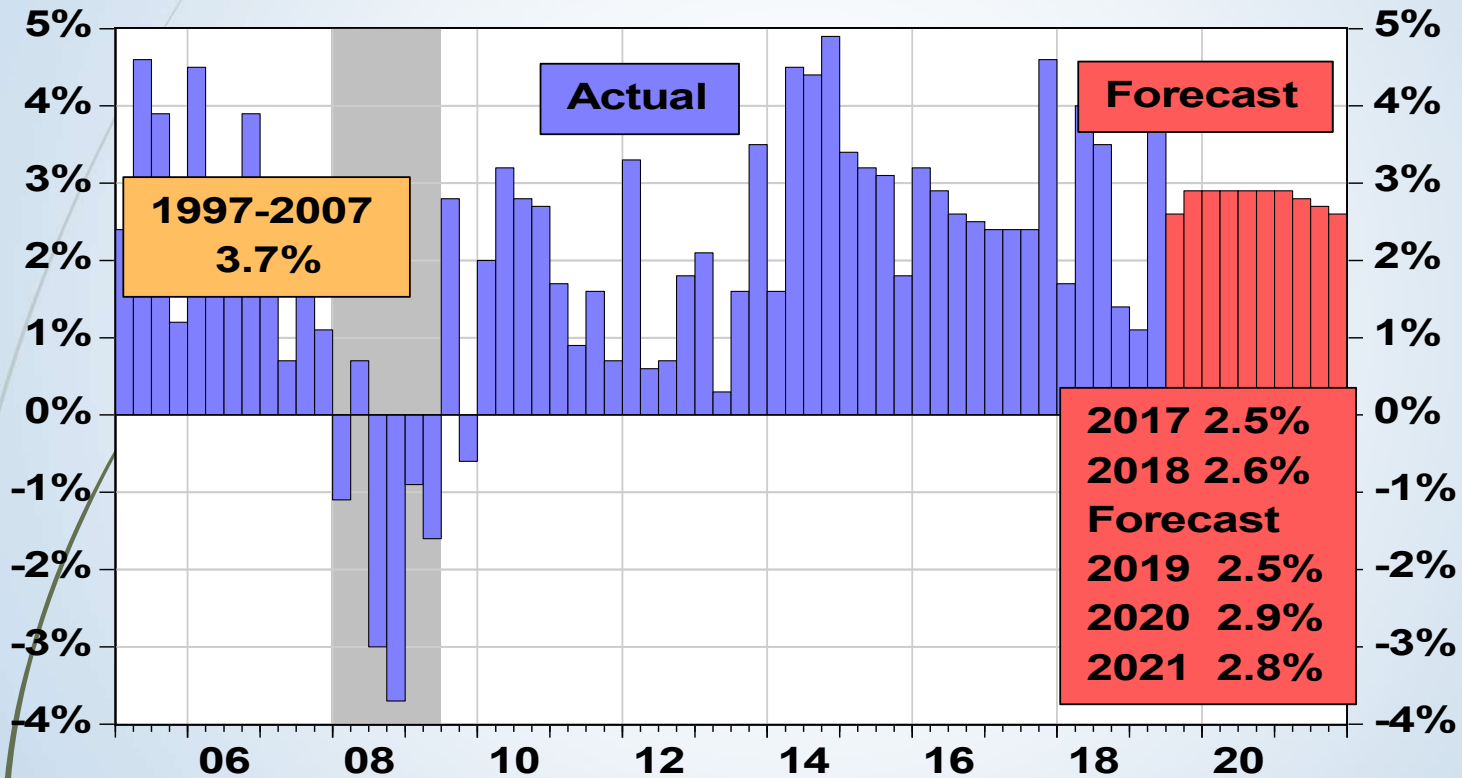
HH DEBT SERVICE PAYMENTS AS % OF DISPOSABLE PERSONAL INCOME



Source: BEA and Federal Reserve System

Steady Growth Ahead

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

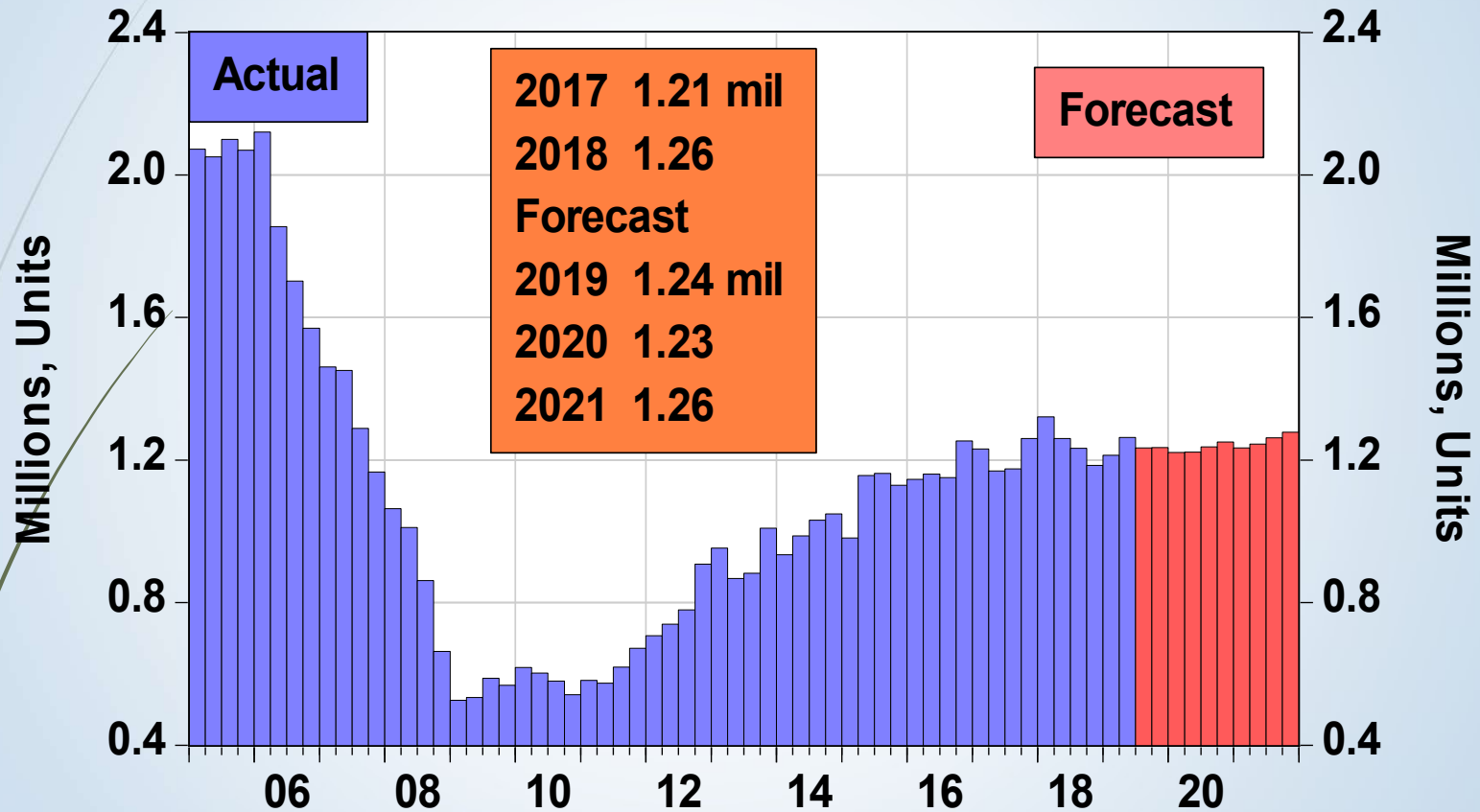
Strong inventory growth in the last half of 2018 and 1st quarter of 2019 reflects, in part, concern over imposition of tariffs and will slow.

Nonresidential fixed investment which was strong in 2018 as GDP growth slows so will nonresidential fixed investment. Uncertainty about trade war is a big issue.

Single family housing permits are expected to be below 2018 numbers in 2019 and a slow recovery is expected in 2020 and 2021.

Recovery Continues

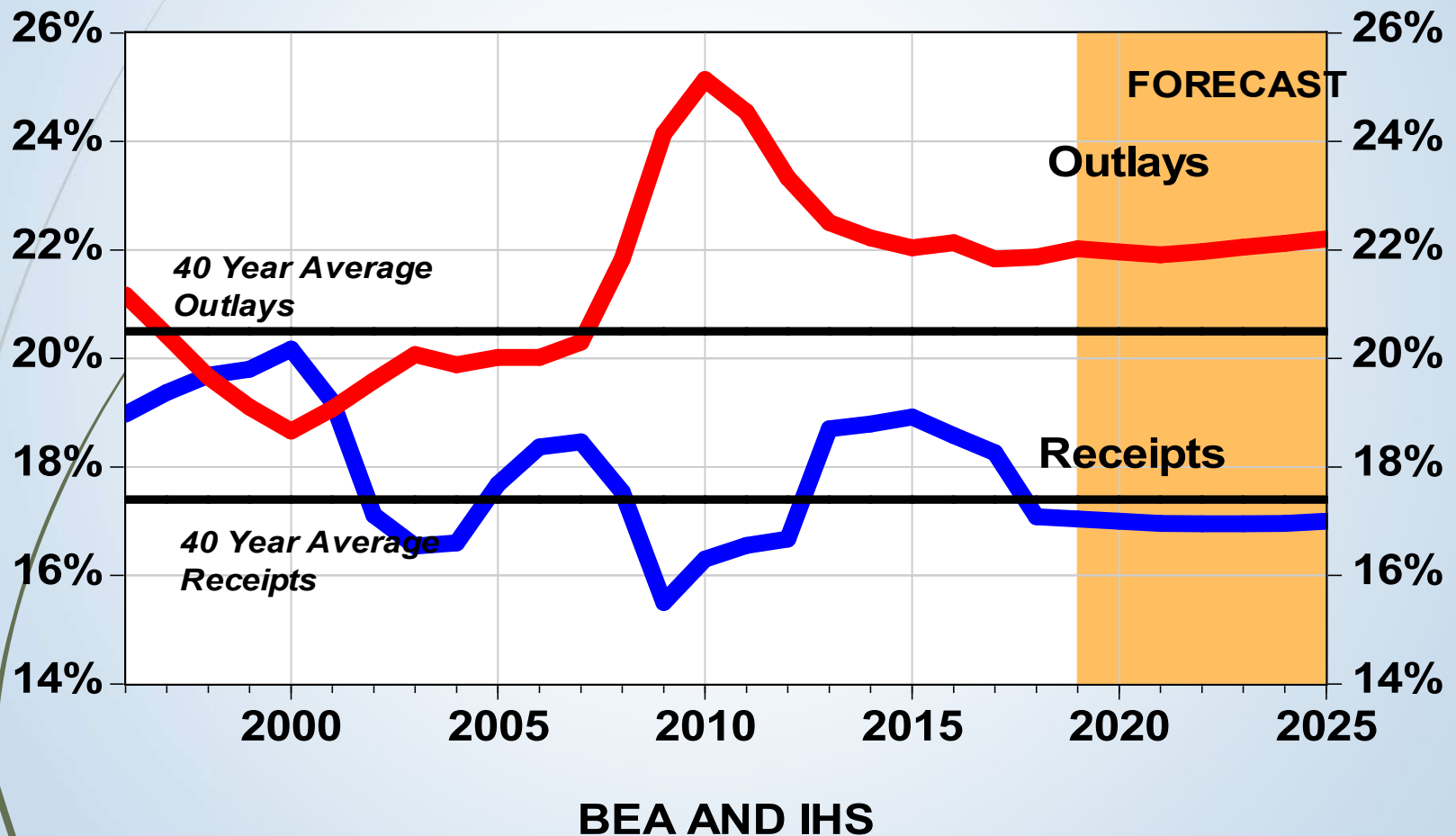
HOUSING STARTS



Source: US Census and IHS

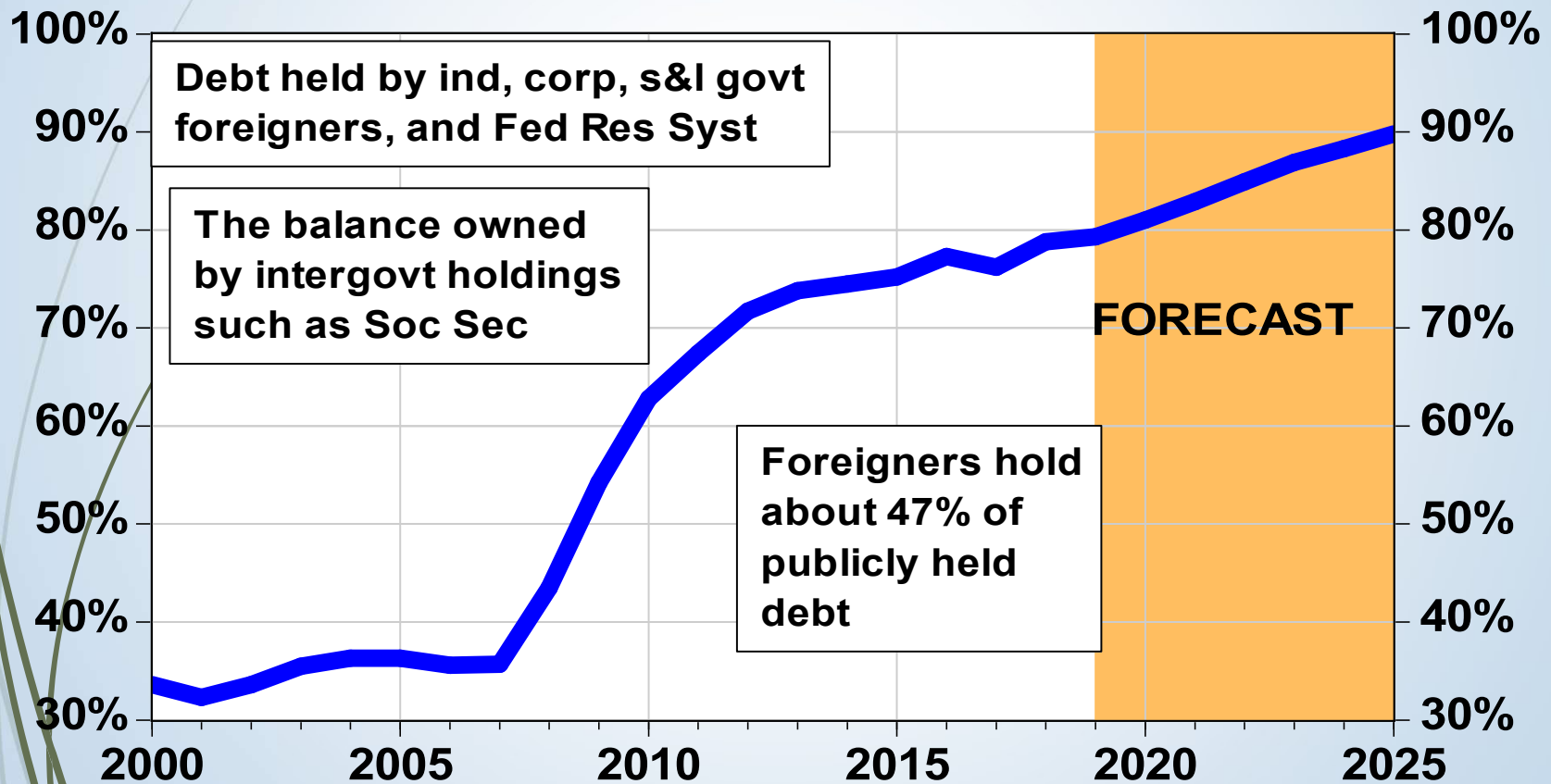
Government Sector

FEDERAL GOVERNMENT AS % OF GDP



Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



The Fiscal Picture

Passage of the Bipartisan Budget Act of 2019 implies more fiscal stimulus.

Tax cuts and government spending under the BA19 will add to the growth rate in 2020 but impact will fade in the later years.

Nevertheless, the federal deficit is growing both in \$s and % of GDP. The deficit was 3.7% of GDP in 2017, rising to 4.9% in 2018 and 5.4% in 2019. It will remain above 5% through 2029.

In dollars, the deficit will rise to more than a trillion in 2019 and to \$1.5 trillion by 2025.

The publicly-held debt now about 80% of GDP will rise to more than 90% by 2025.



Foreign Sector

The strong \$, weak global growth, and the trade war have all put downward pressure on net exports.

Looking ahead, the \$ is expected to rise gradually over the next couple of years before turning down beginning in 2022.

Slow global growth in China, Germany, the UK and others is drag.

This forecast does not include the new tariffs and retaliation.

Employment & Unemployment

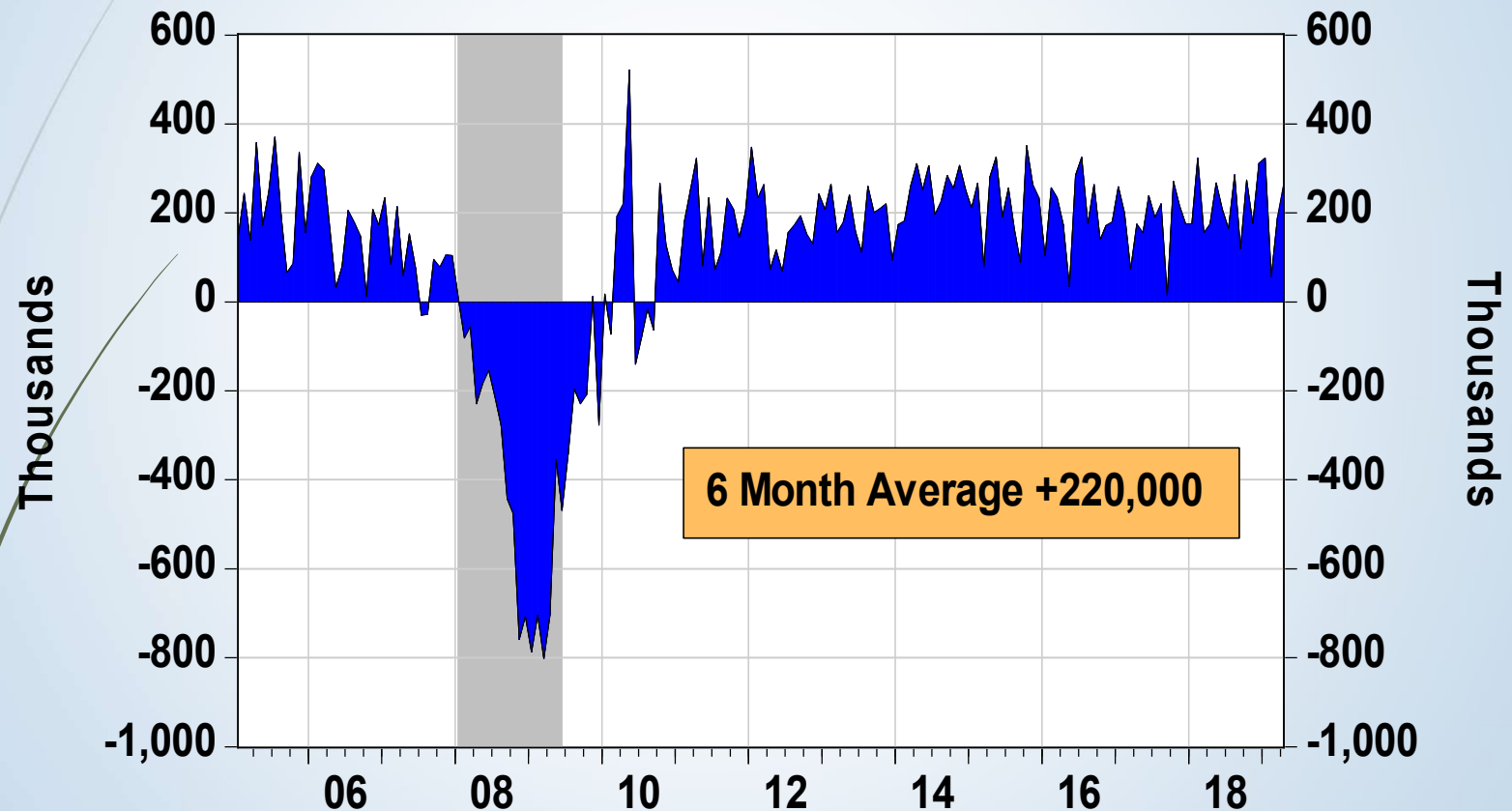
Employment growth is slowing from 1.5% in 2019 to 1.3% in 2020 and 1.0% in 2021.

The labor force participation rate will peak at 63.1% in mid-2021. This reflects the gradual unwinding of the “discouraged worker” effects still present in the labor market , e.g. the still elevated average duration of unemployment. After mid-2020, they project a return to a trend decline in labor force participation rate driven primarily by population aging.

The unemployment rate will bottom out at 3.3% in 2021.

Employment Growth

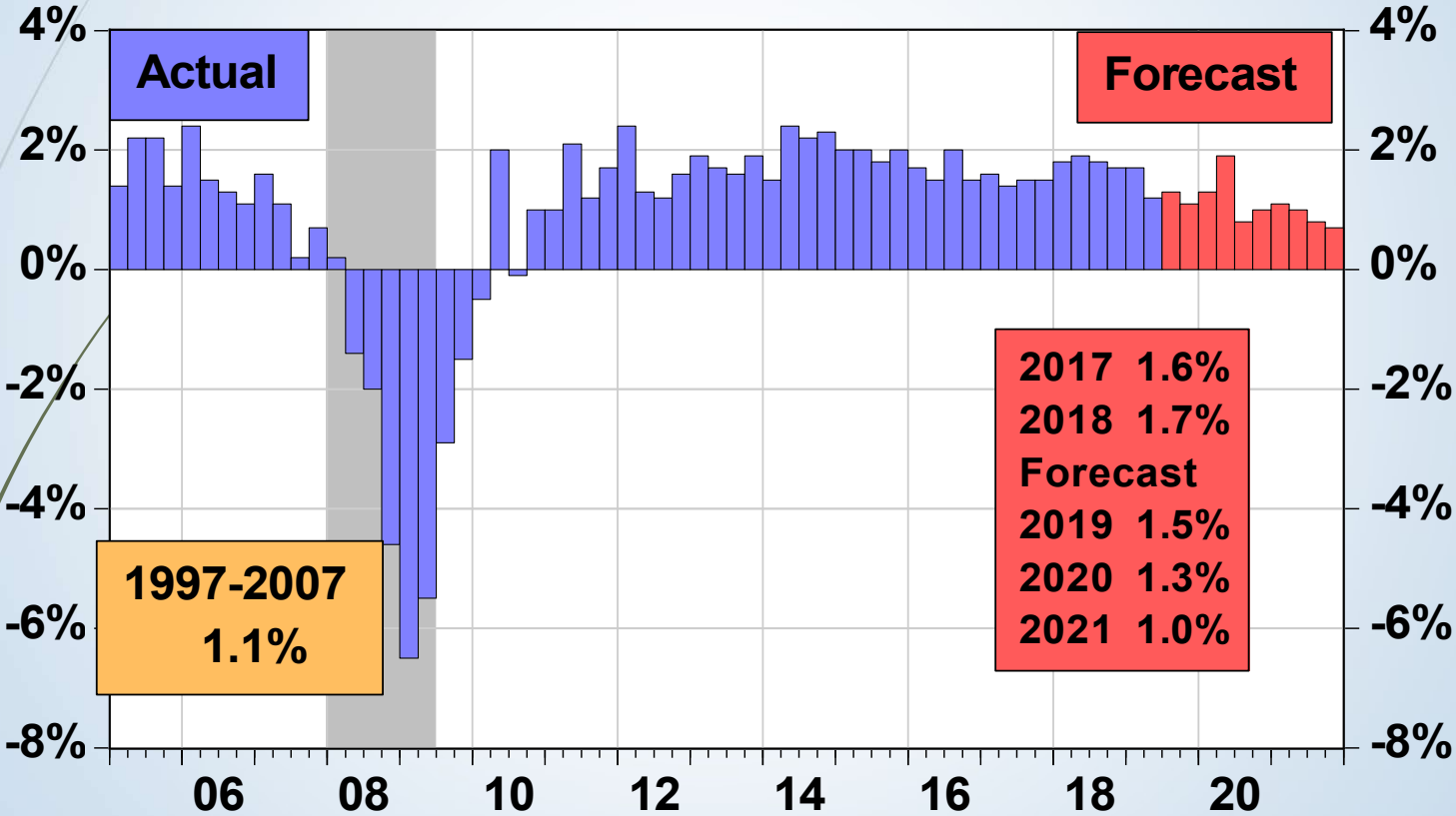
CHANGE IN NONFARM EMPLOYMENT



Source: BLS

Future Job Growth Slowing

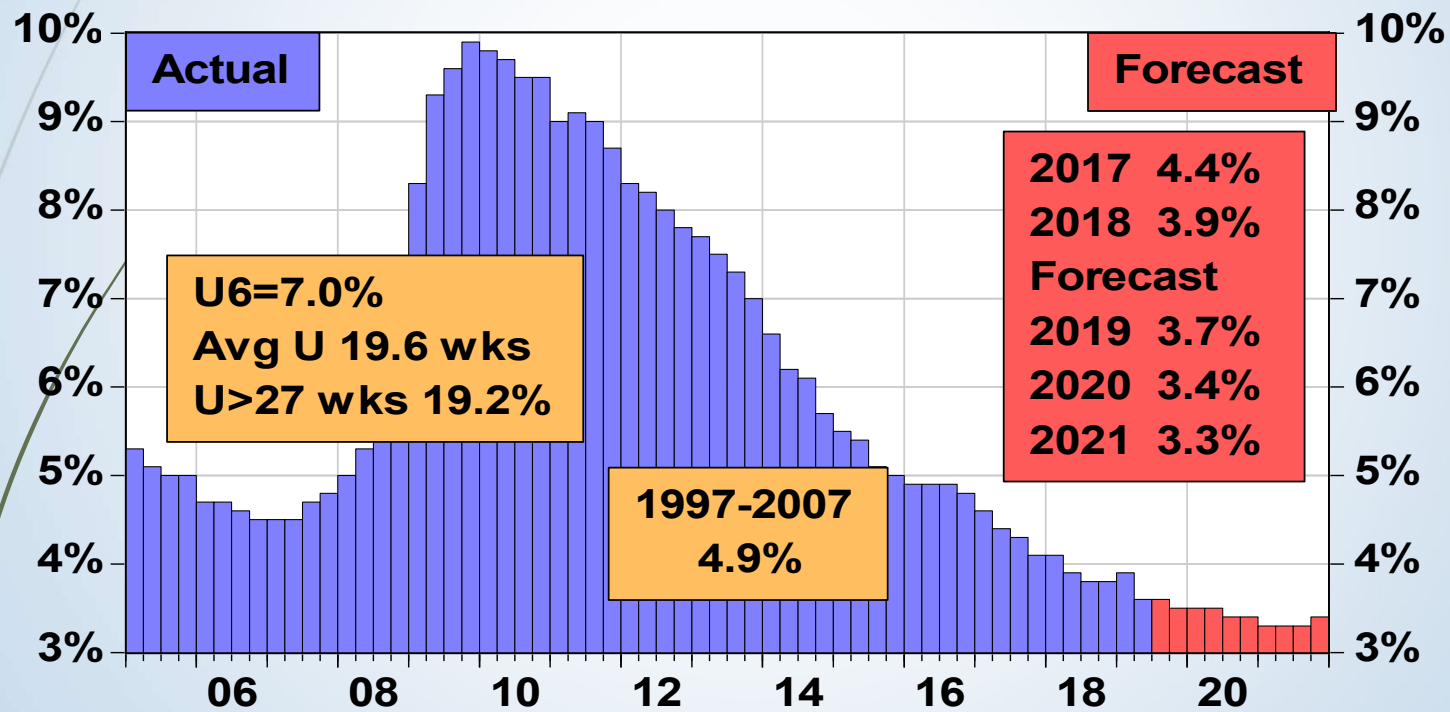
NONFARM EMPLOYMENT



Source: BLS and IHS

Low U3 Unemployment Rate Still Falling

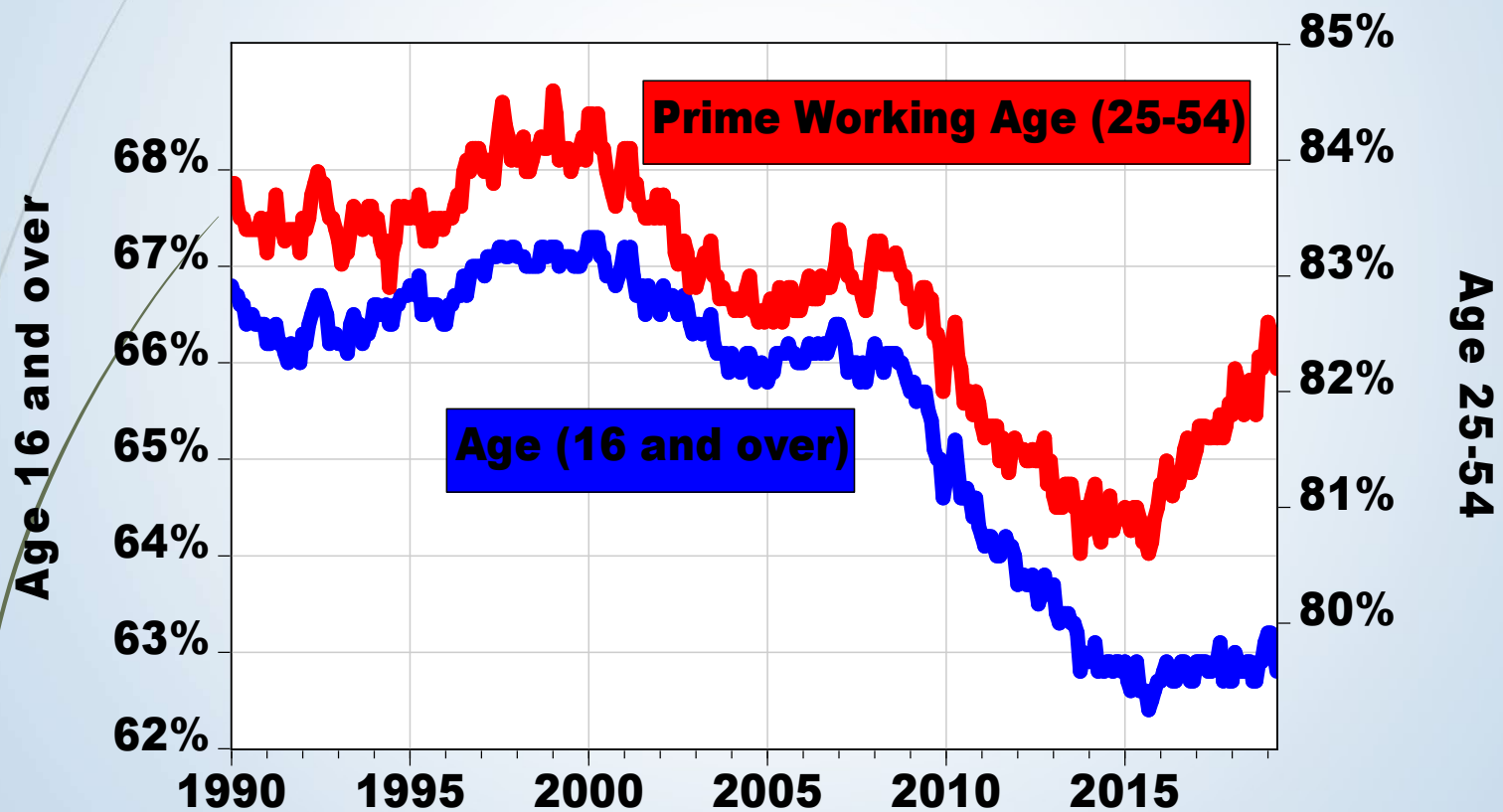
UNEMPLOYMENT RATE



Source: BLS and IHS

Increase Prime Working Age

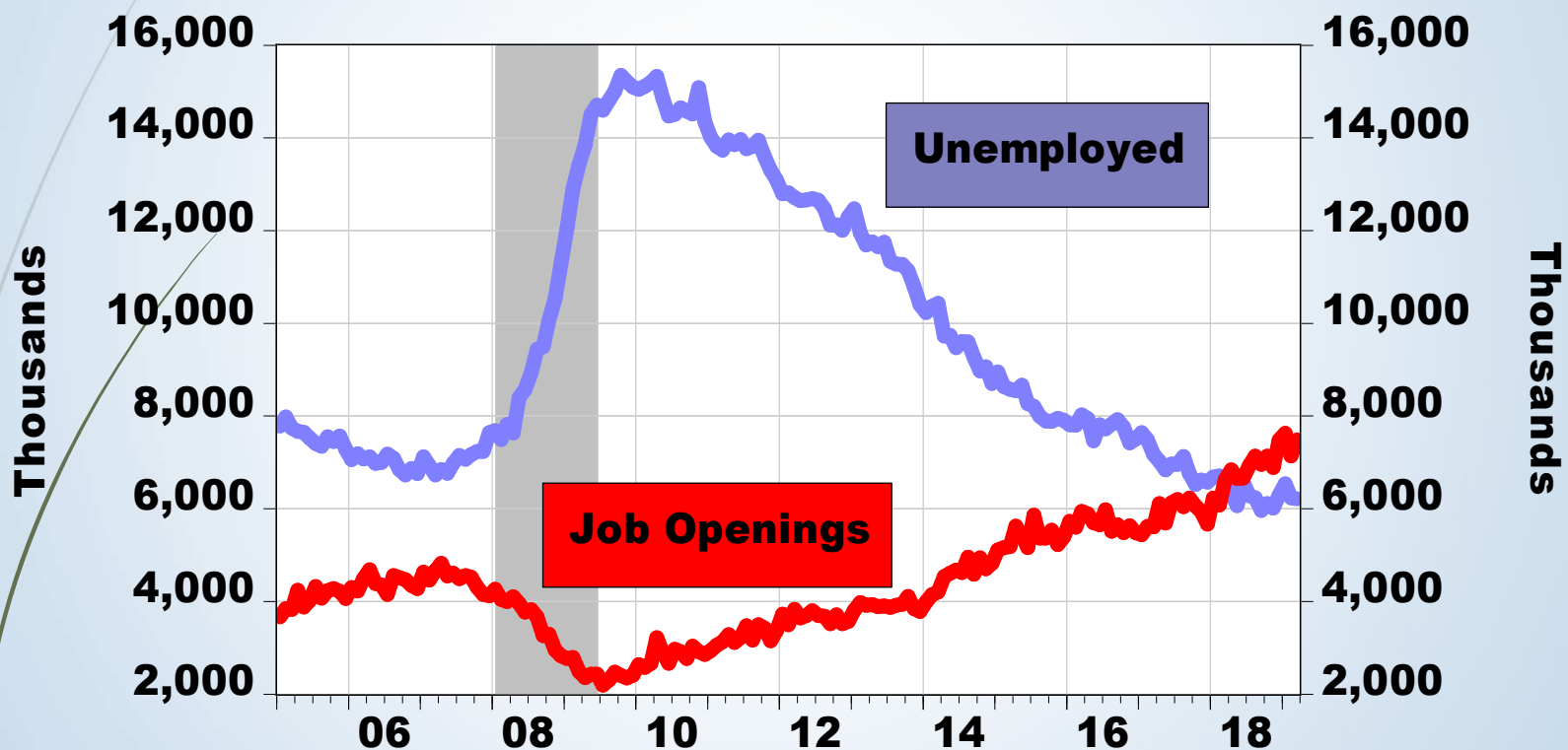
LABOR FORCE PARTICIPATION



BLS

Job Openings > Unemployed

LABOR MARKET CONDITIONS



Source: BLS

Inflation & Interest Rates

The Fed announced a quarter point rate cut in the federal funds rate to a range of 2.00% to 2.25%.

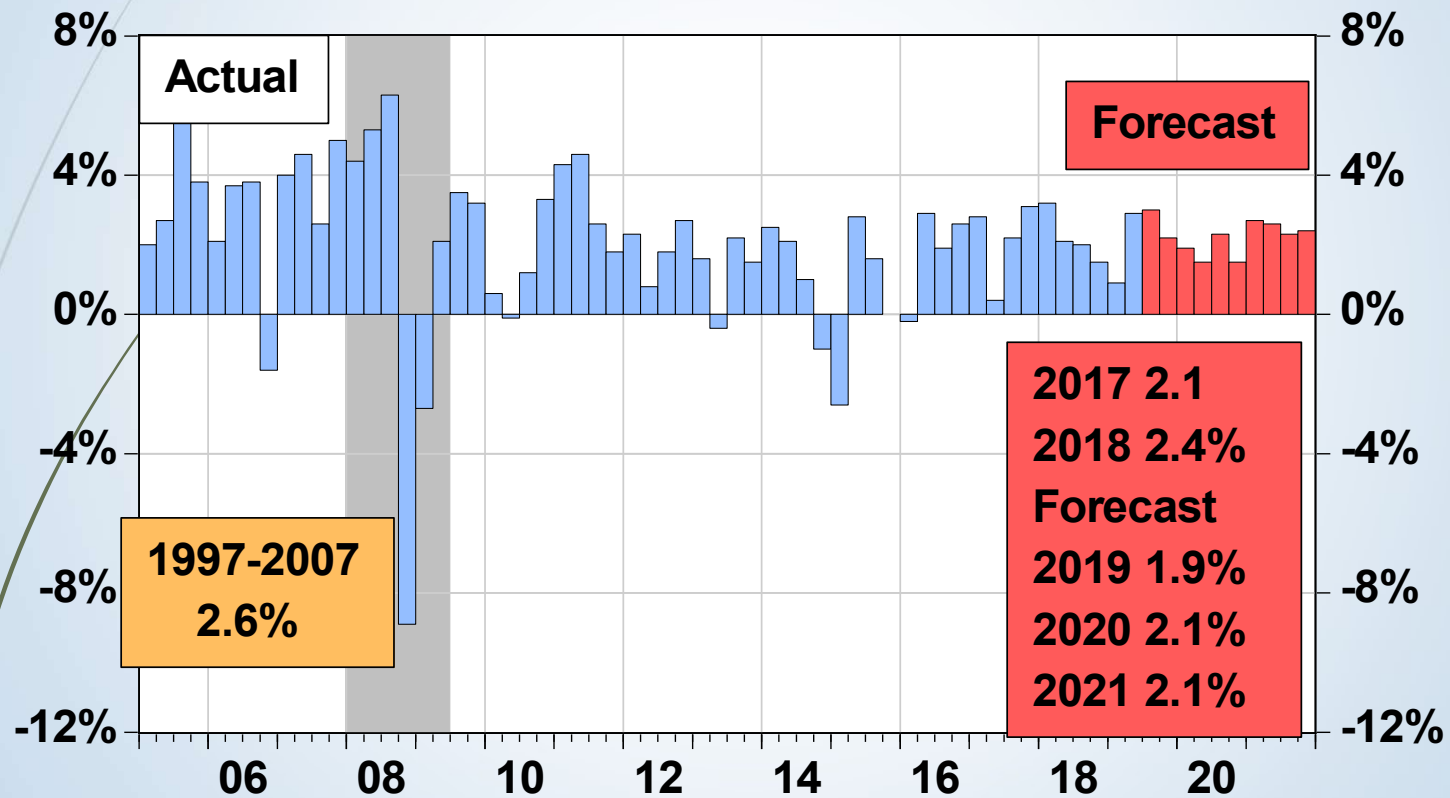
Additional rate cuts were not ruled out by Chairman Powell; however, IHS opines that solid real growth, strong labor markets, and a rise of inflation to 2% could lead to a reversal in the FED rate cut in 2020.

The 10-year T note has been trading below 2% as of late. IHS expects Treasury yields to firm. They expect the 10 year Treasury rate to rise to 2.57% in 2020 and to 2.95% in late 2021. They expect it to rise to 3.2% in 2022.

Inflation is projected to remain low, at around 2.1% as measured by the CPI.

Still Very Low

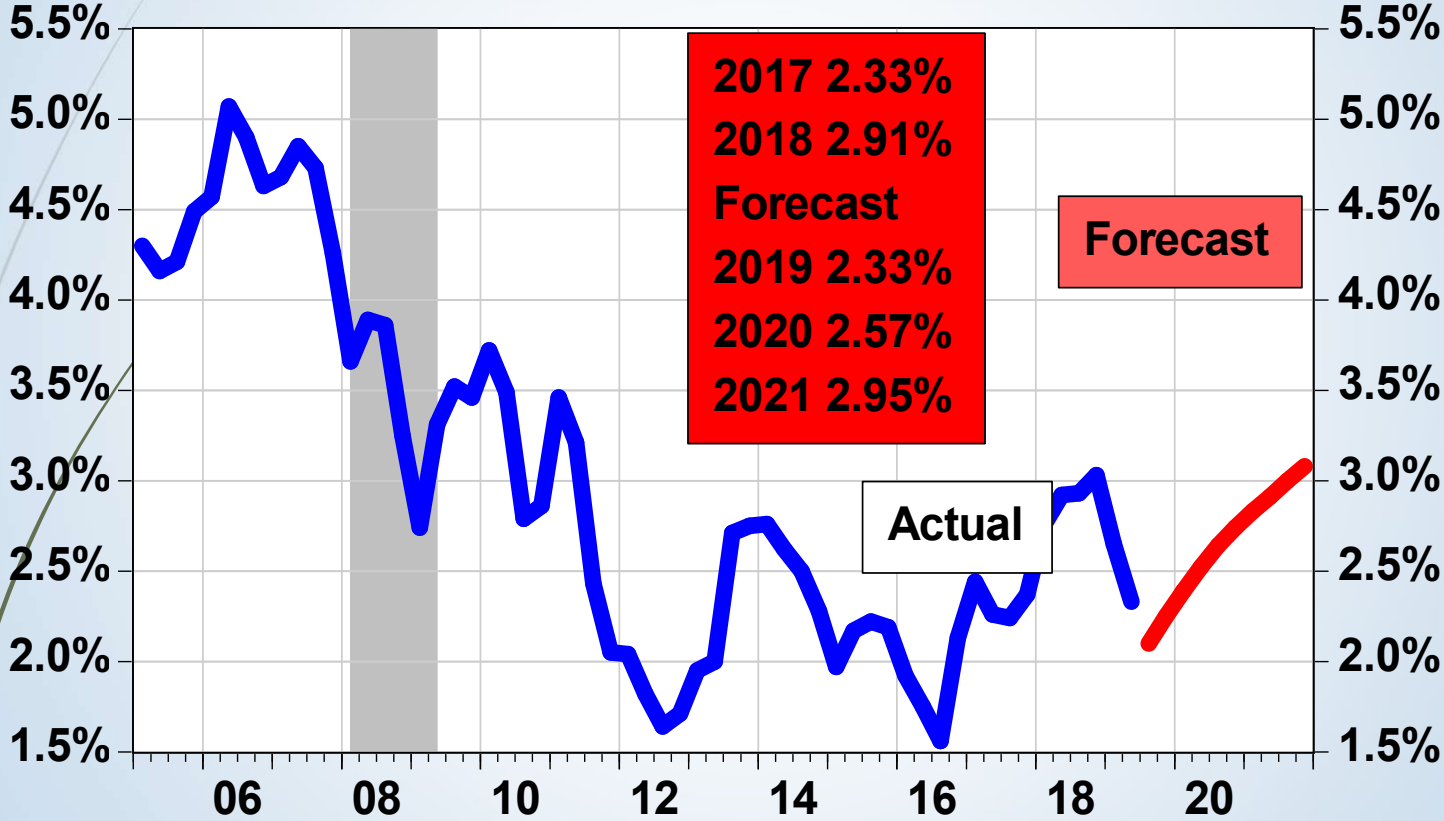
INFLATION: CPI



Source: BLS

Rising Interest Rates

10 YEAR TREASURY NOTE



Source:FED

IHS MARKET FORECAST MAY 2019

Variable	2017	2018	2019	2020	2021
GDP	2.2%	2.9%	2.3%	2.3%	2.1%
Recession Probability 35%					
NA Emp	1.6%	1.7%	1.5%	1.3%	1.0%
Oil(Brent)	\$55	\$71	\$67	\$64	\$64
Housing	1.21	1.25	1.24	1.23	1.26
CPI	2.1%	2.4%	1.9%	2.1%	2.1%
Un Rate	4.4%	3.9%	3.7%	3.4%	3.3%



Wells Fargo Forecast May 2019

	2018	2019	2020	
GDP	2.9%	2.8%	2.1%	
NA EMP	223 thou	179 thou	120 thou	
CPI	2.4%	2.0%	2.3%	
10-YR T Note	2.91%	2.59%	2.66%	



IHS Pessimistic Outlook Recession 35% Probability

Broad-based loss of confidence and growing risk aversion leading to drop in investment and consumer spending ends expansion 134th month starting 2020Q1.

3 quarter recession GDP drops a modest 1.9% and unemployment peaking at 5.8% in 2021Q4.

Recovery weak because interest rates already low and fiscal policy constrained by already large deficits.



RECESSION PROBABILITIES OVER TIME

- **2008 JANUARY 40% First month of R**
- **2009 JUNE 20% Last month of R**
- **2018 JANUARY 25%**
- **2019 MARCH 30%**
- **2019 JUNE 35%**



Causes of Recessions

Demand Side or Supply Side

- 1. FED tightens to restrain inflation 1950s,1960s,1980-84**
- 2. Bubble bursts (Dot-com & Housing) 2001 and 2008-2009**
- 3. Supply shock (oil prices) 1974**
- 4. Loss of business and consumer confidence 2020???**



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

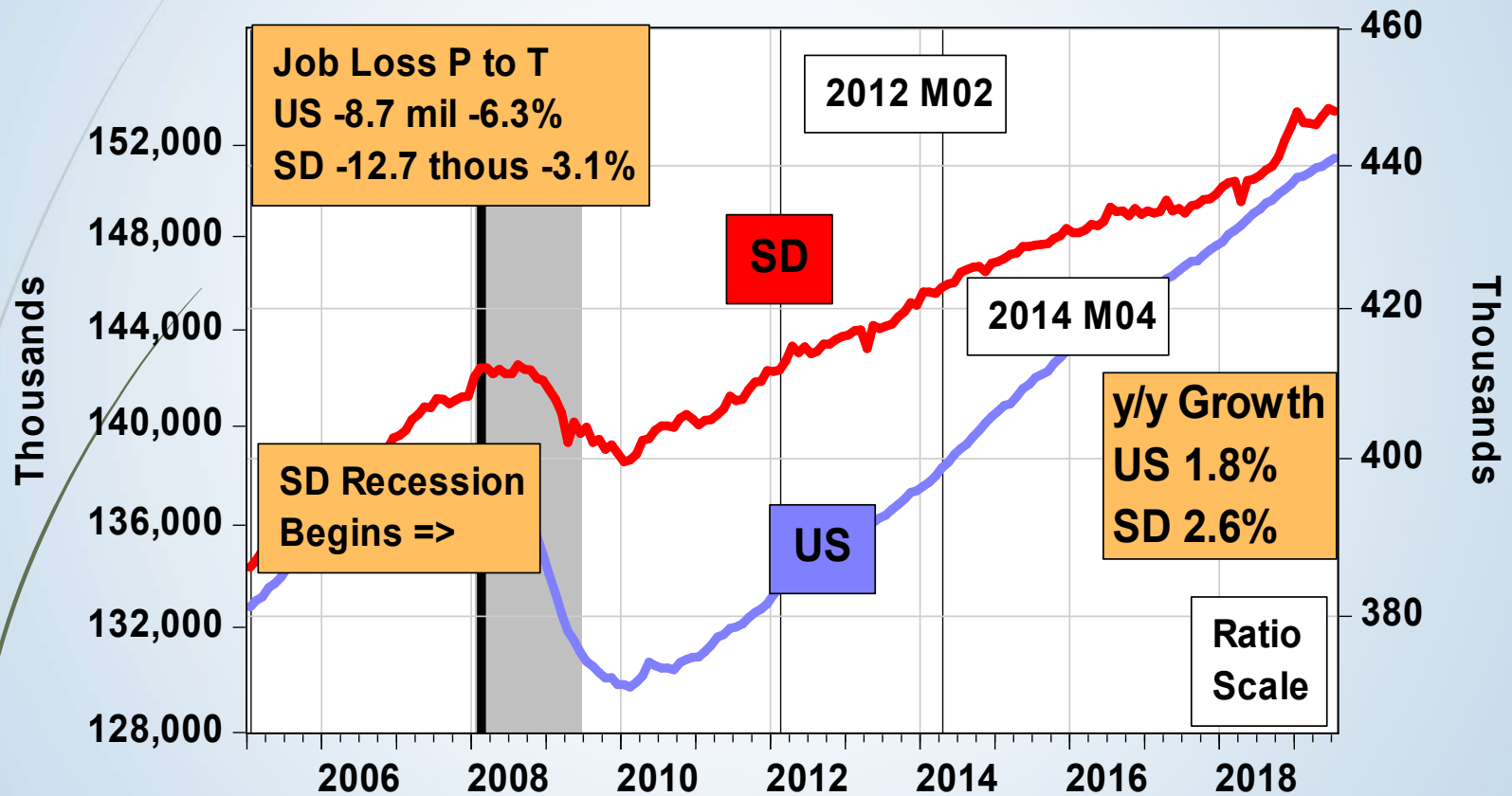
Real nonfarm personal income

Taxable sales

Leading indicator

Slowing?

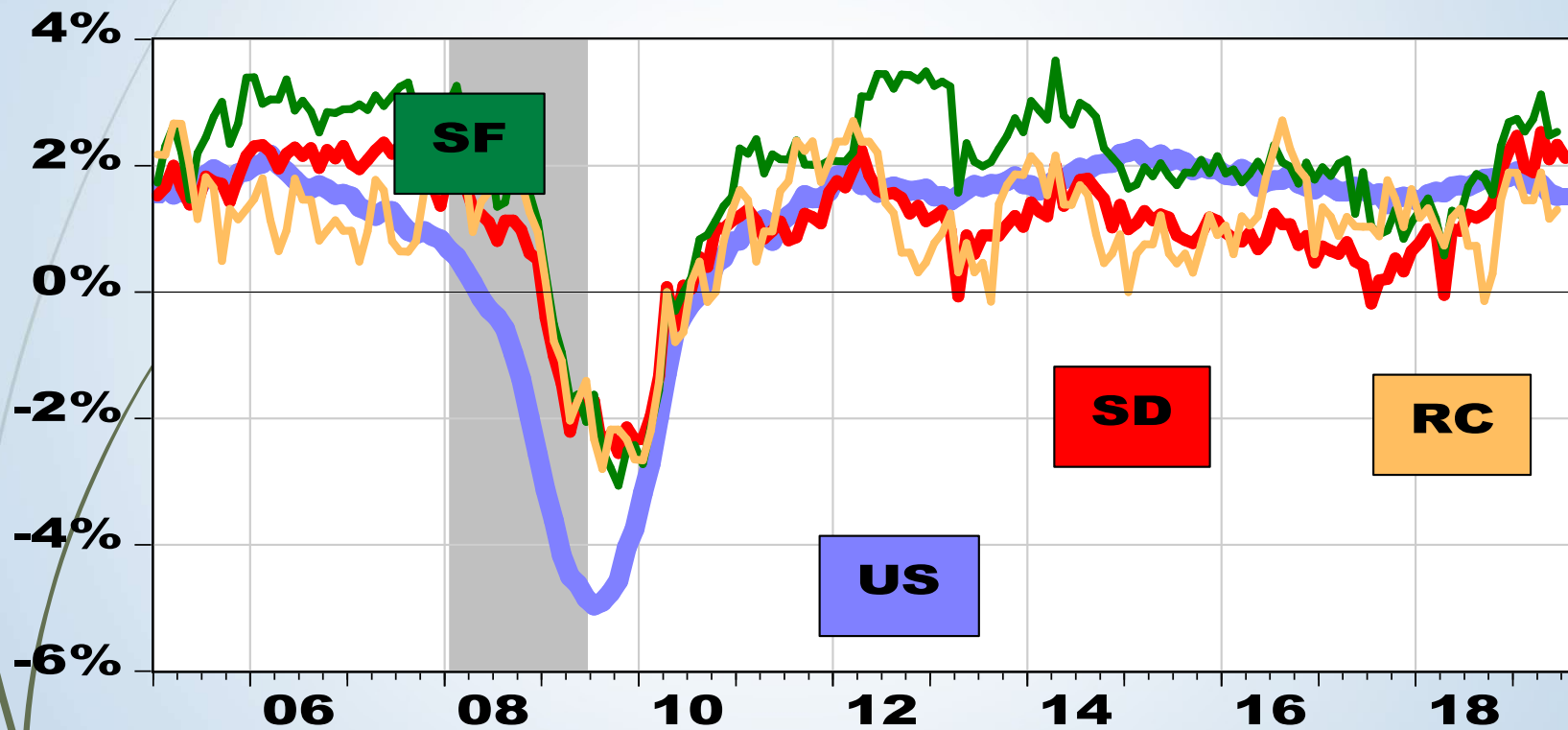
NONFARM EMPLOYMENT



Source: BLS

Divergence

NONFARM EMPLOYMENT



Source: BLS

ECONOMY AT A GLANCE

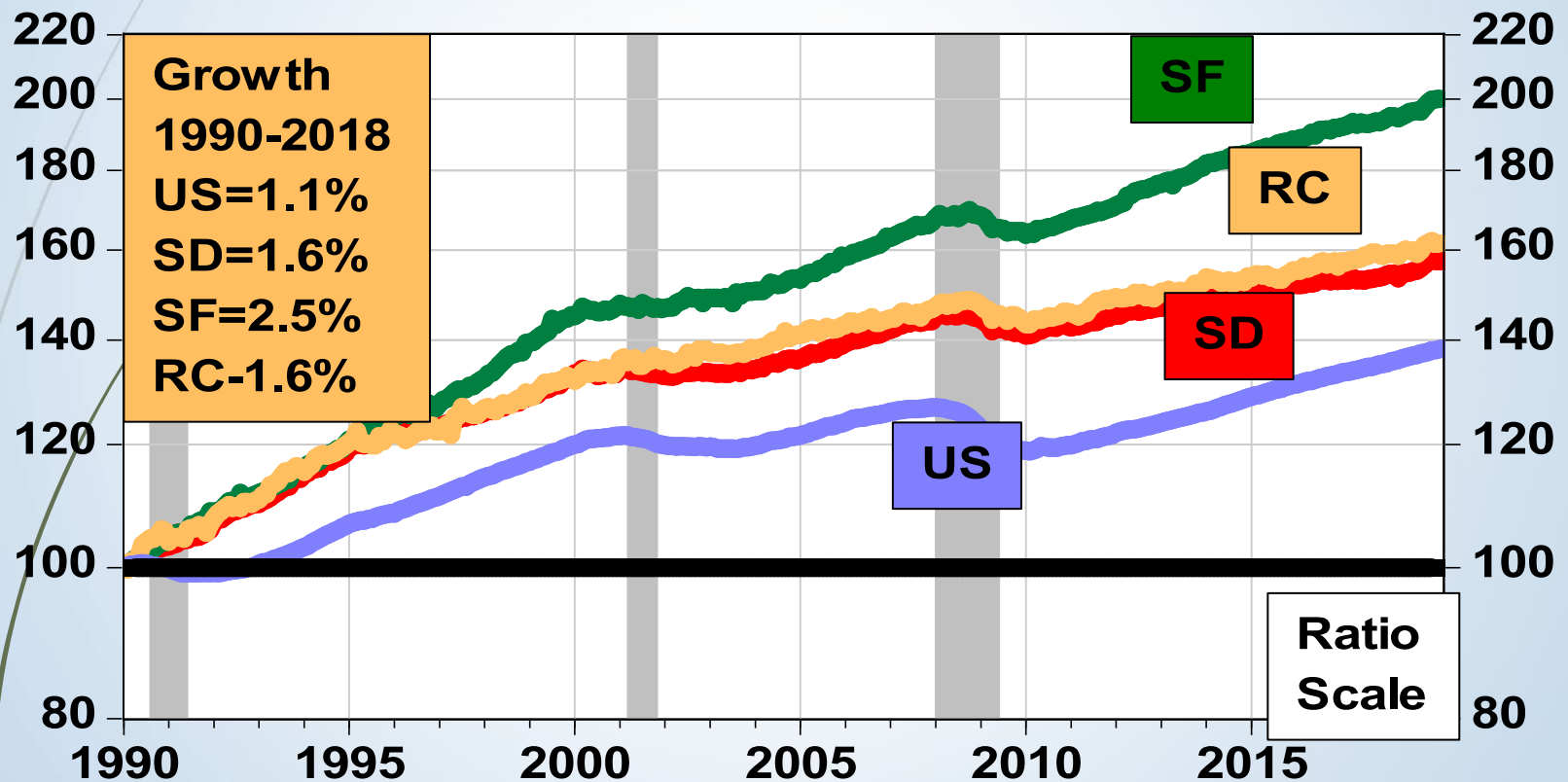
(Nonfarm Employment Y/Y)

JUNE 2019

INDUSTRY	SD	SF	RC
Total NonFarm	2.6%	3.3%	2.1%
Min,log,const	3.4%	0.0%	4.0%
Manufacturing	4.8%	2.8%	0.0%
Trade,tran,util	4.1%	3.8%	4.5%
Information	-1.8%	0.0%	-12.5%
Finance	-0.7%	-0.6%	0.0%
Prof,business	5.0%	5.3%	5.4%
Educ,health	1.8%	6.5%	0.8%
Leisure,hosp	1.3%	2.6%	1.1%
Other services	4.2%	3.4%	2.9%
Government	1.1%	1.4%	0.9%

SF Outpaces the Rest

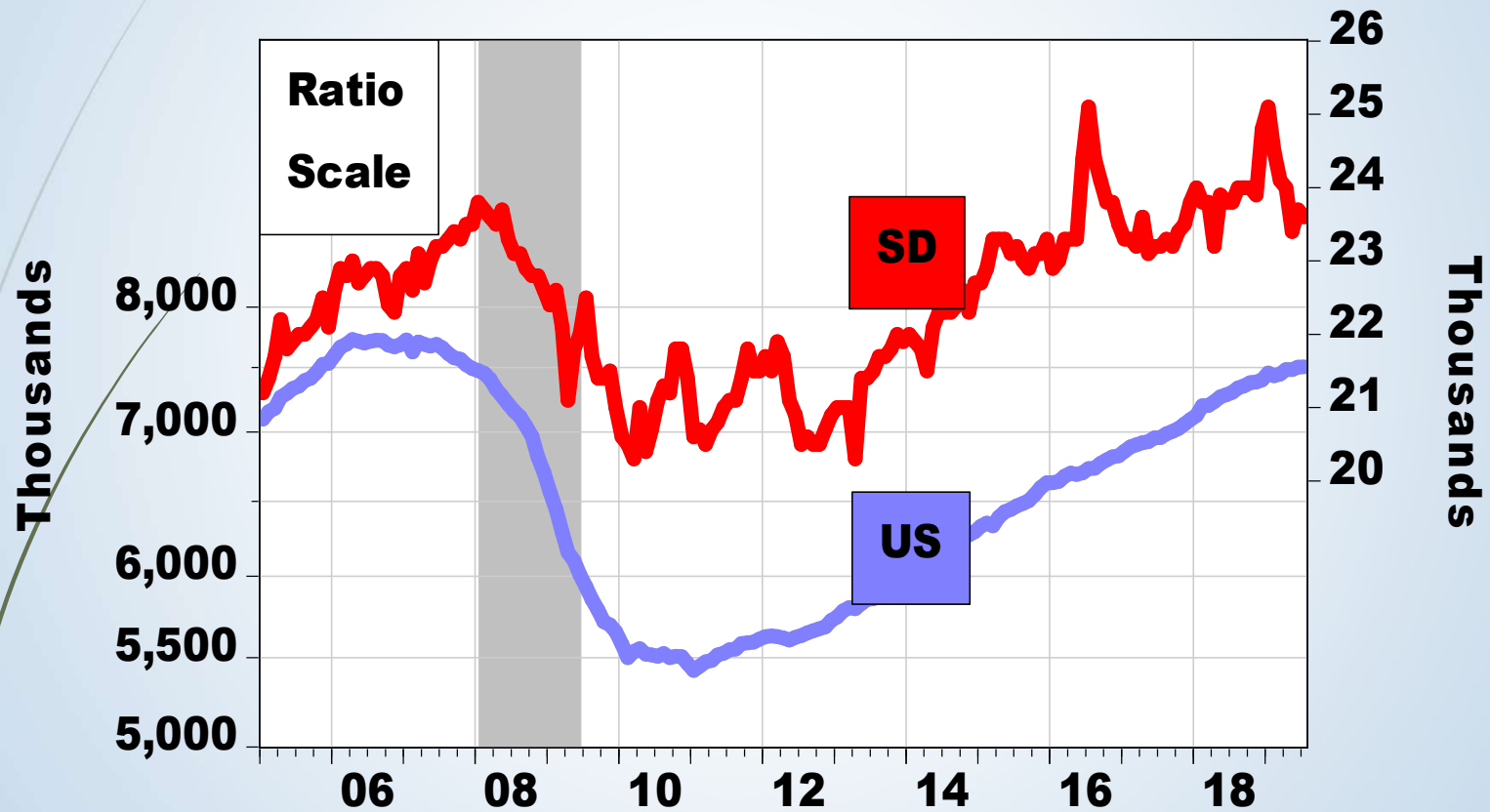
NONFARM EMPLOYMENT



Source: BLS

Decline

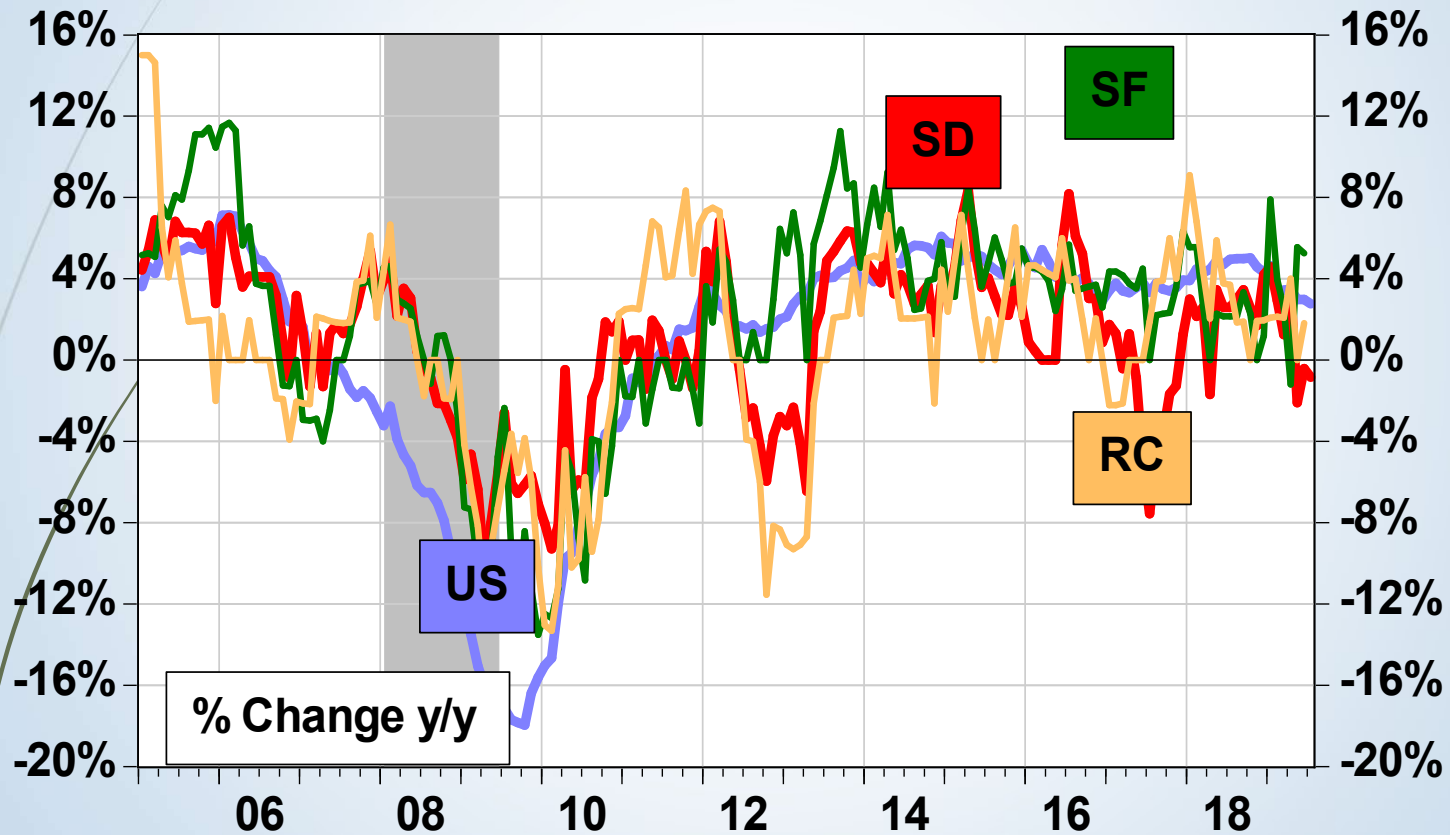
CONSTRUCTION EMPLOYMENT



Source: BLS

Growth-Except SD

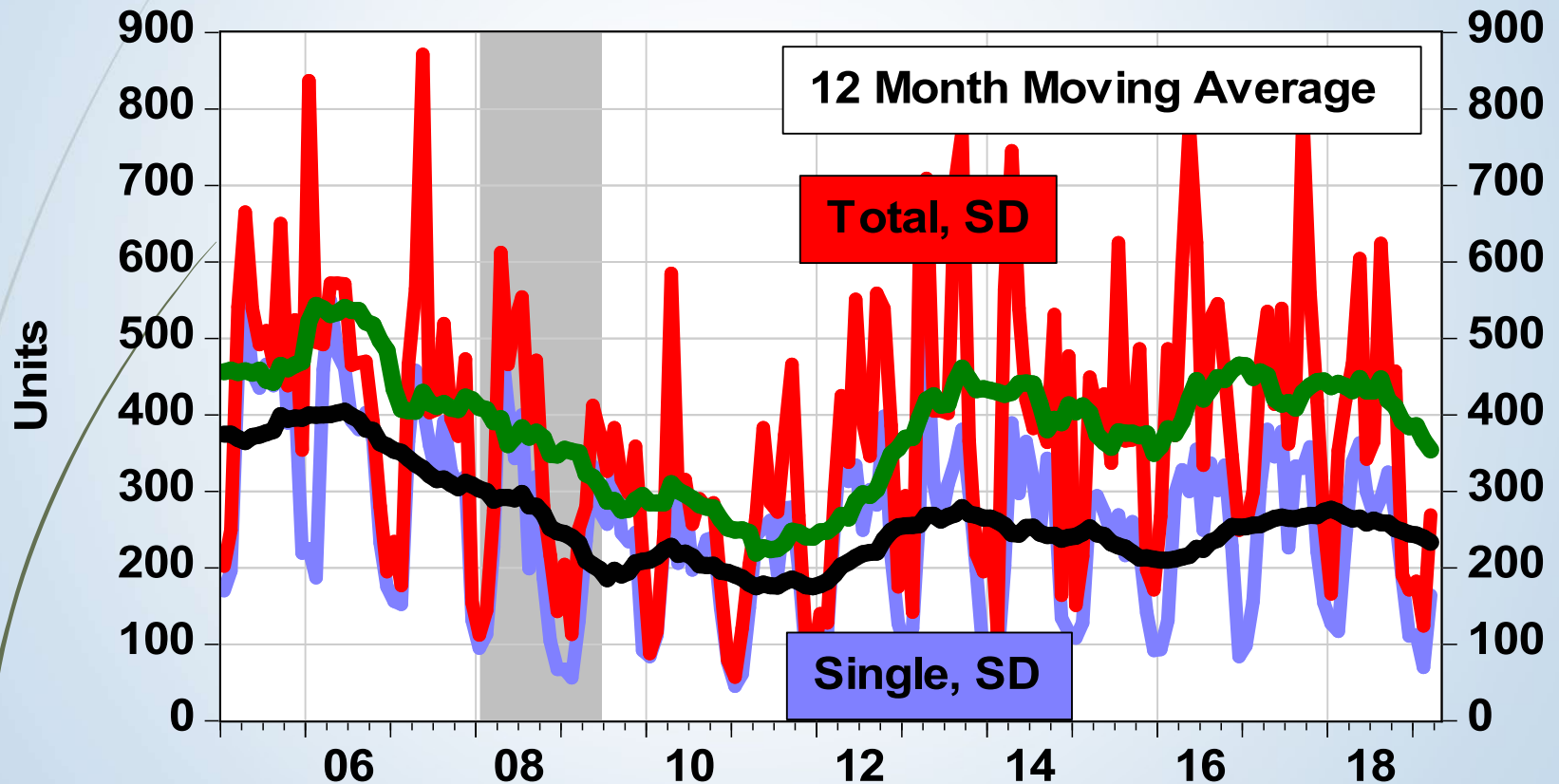
CONSTRUCTION EMPLOYMENT



Source: BLS

Small Decline

SD Building Permits, Total & Single

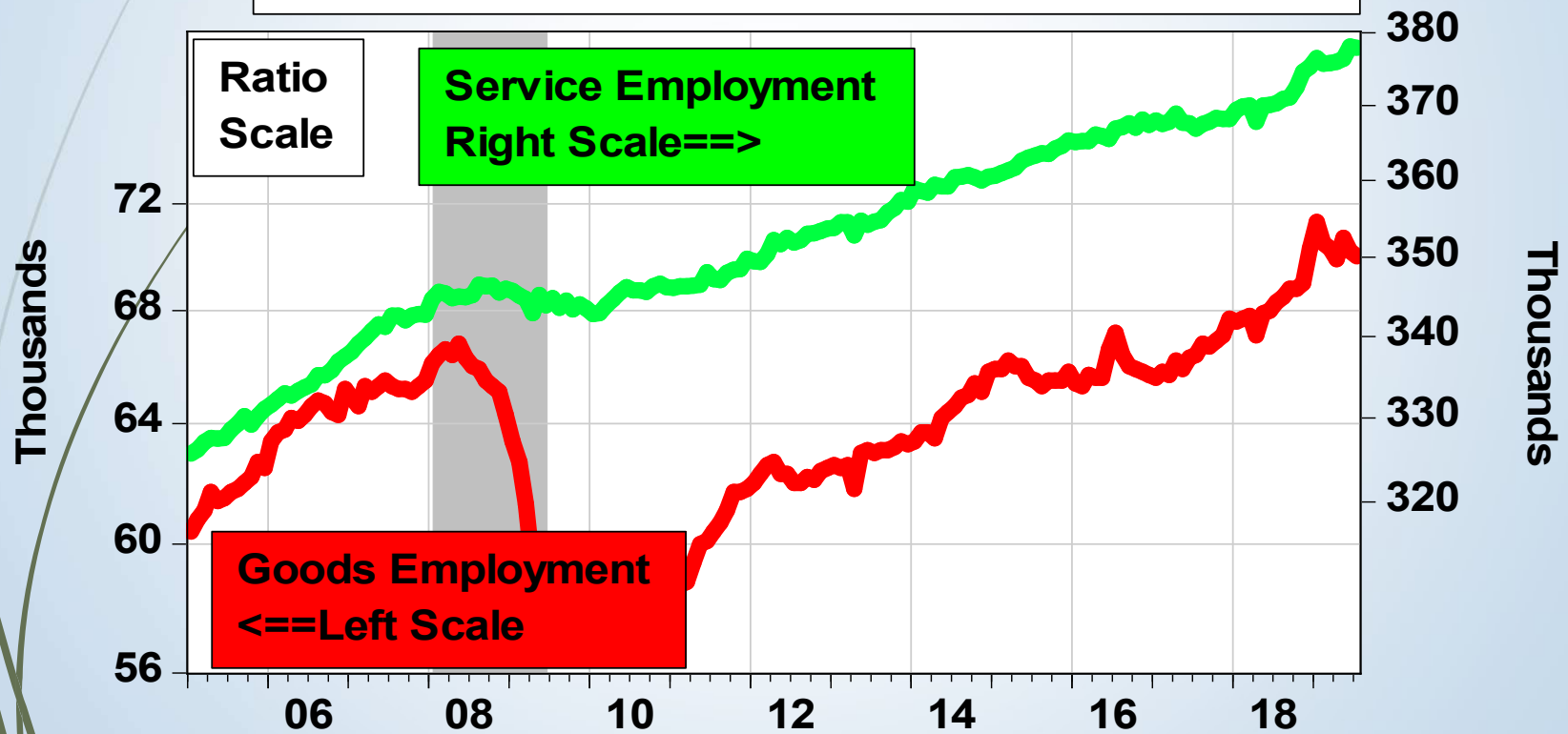


Source: Census Bureau

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

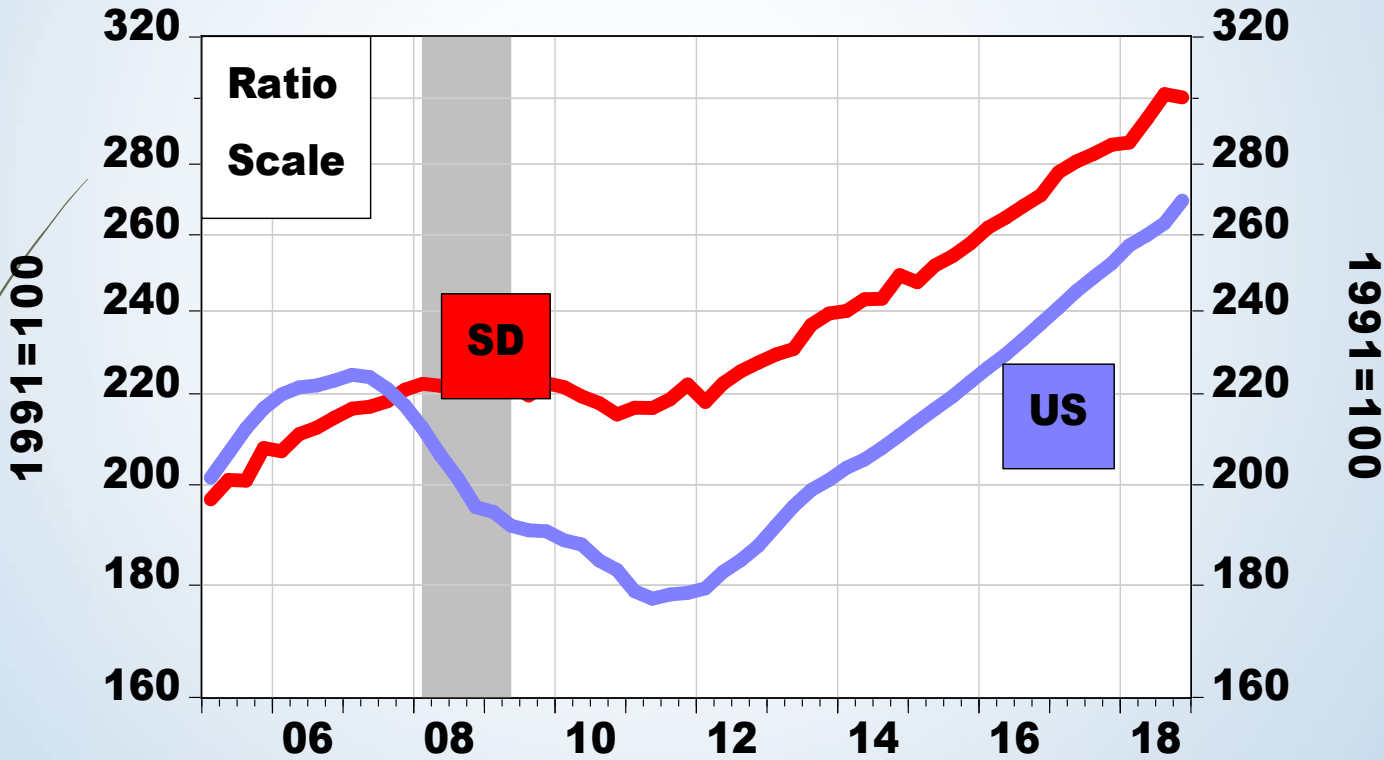
Goods-Producing = Manufacturing+Construction



Source: BLS

SD Peaked Later and Decline Less Severe

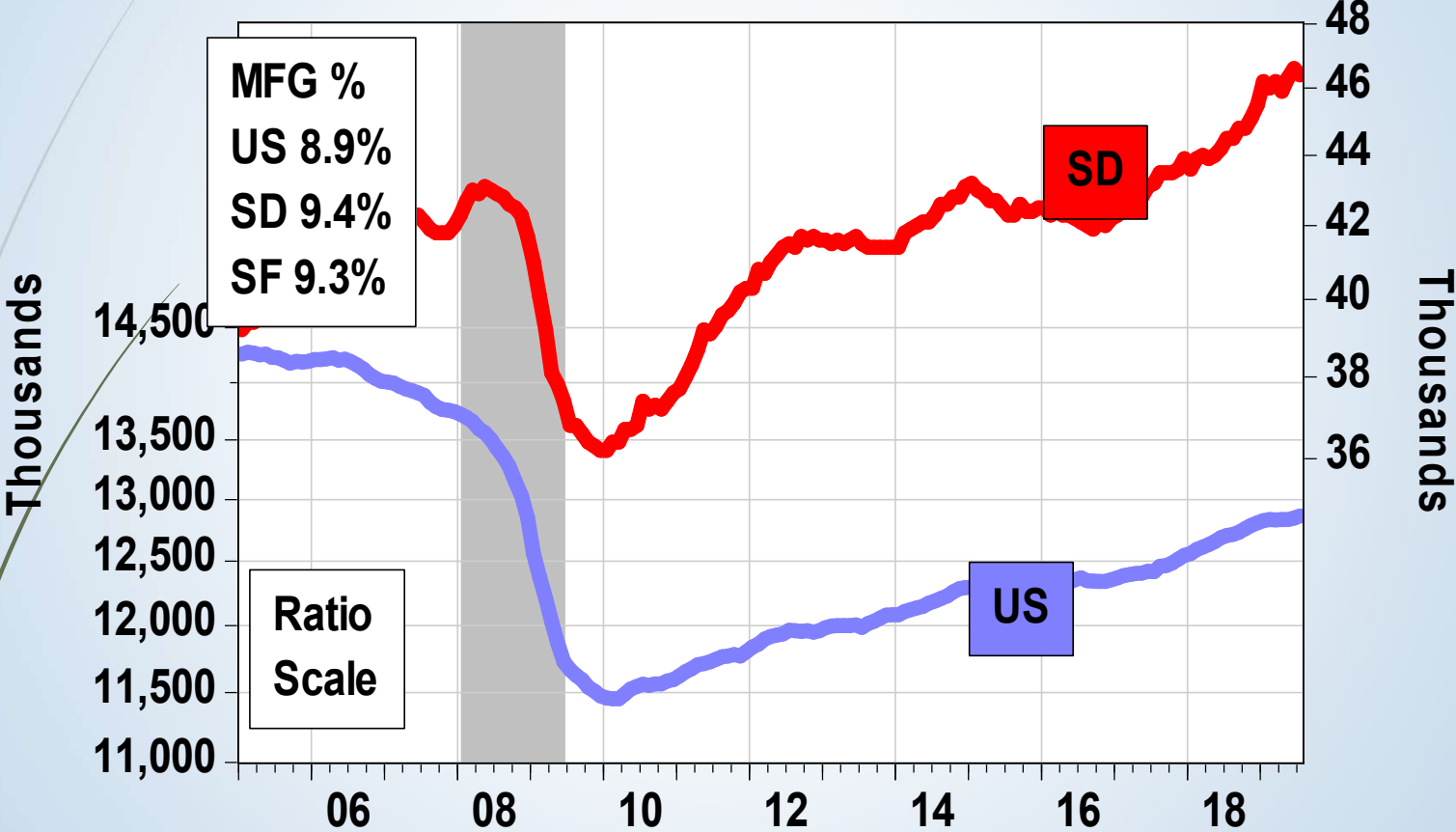
House Price Index



Source: FHLB

High Level

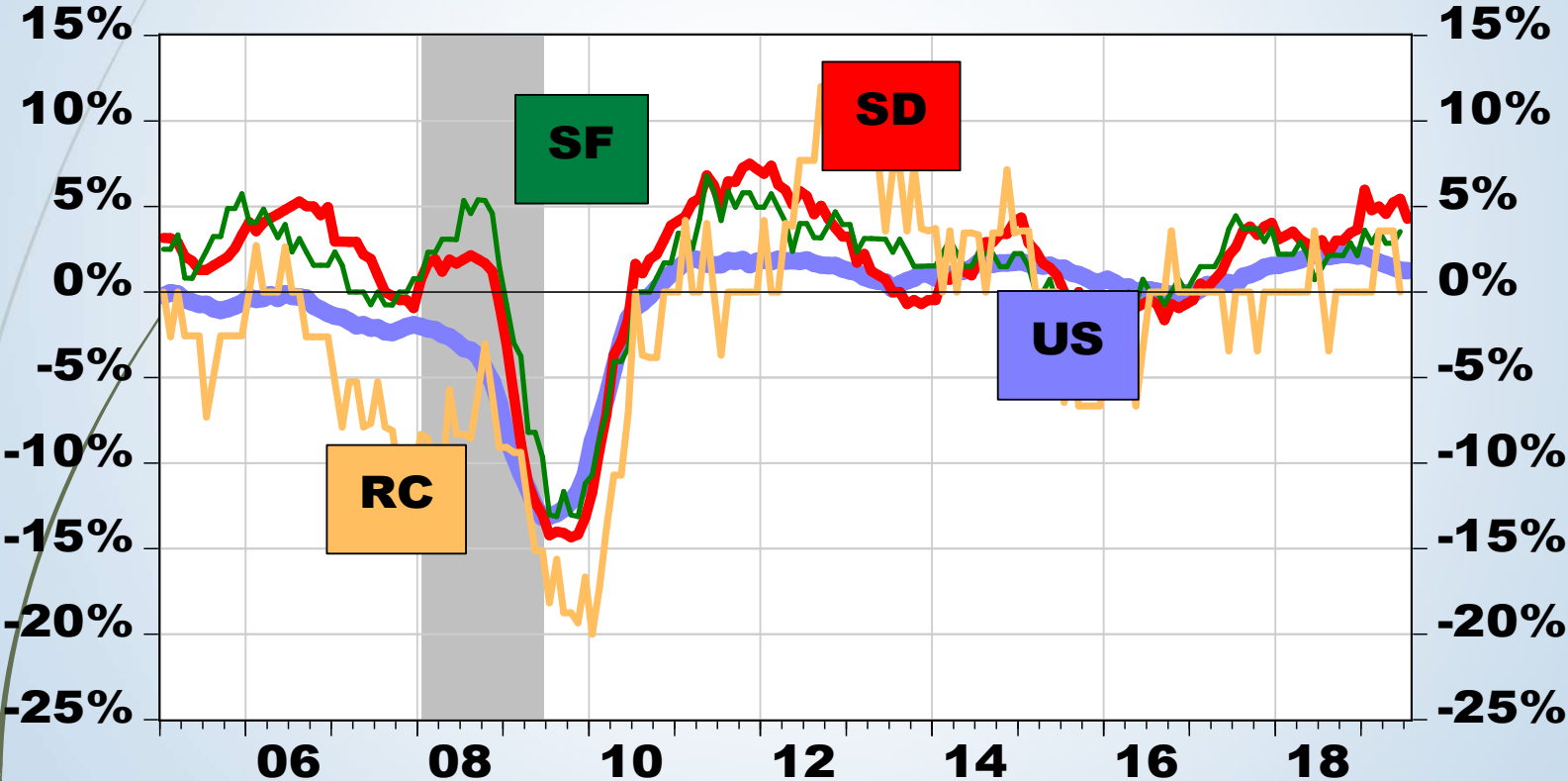
MANUFACTURING EMPLOYMENT



Source: BLS

Divergent Growth

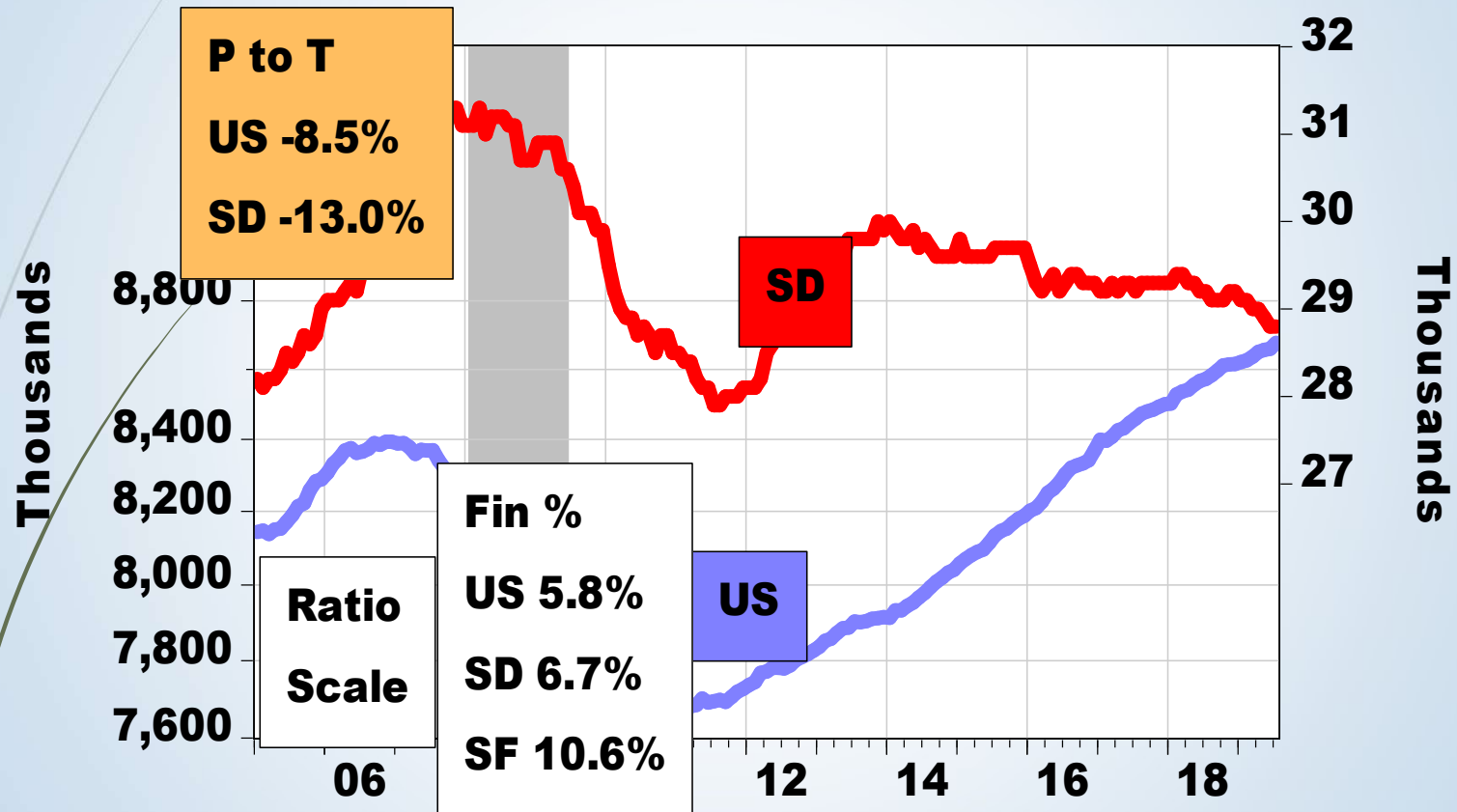
MANUFACTURING EMPLOYMENT



Source: BLS

SD Slight Decline

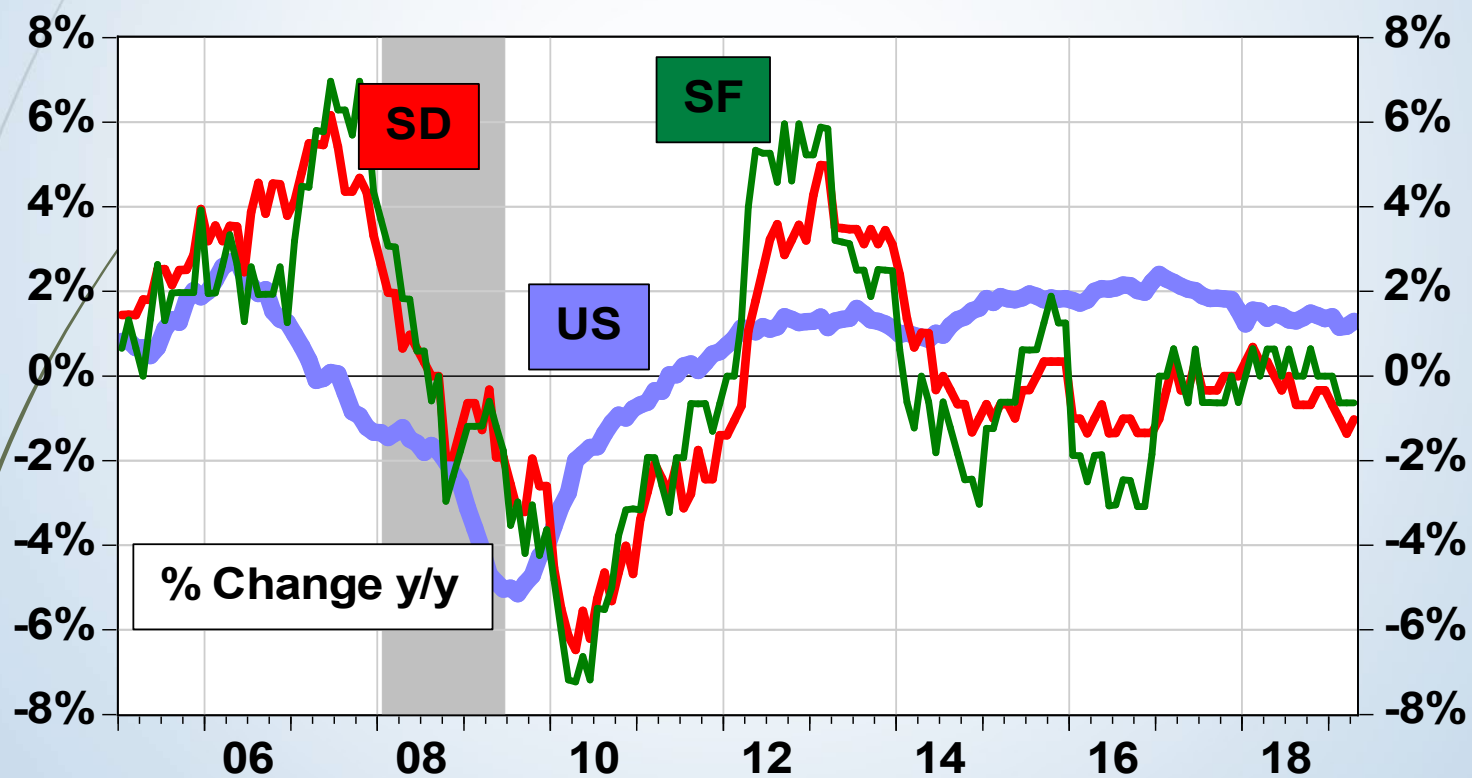
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

Note SD and SF Different Than US

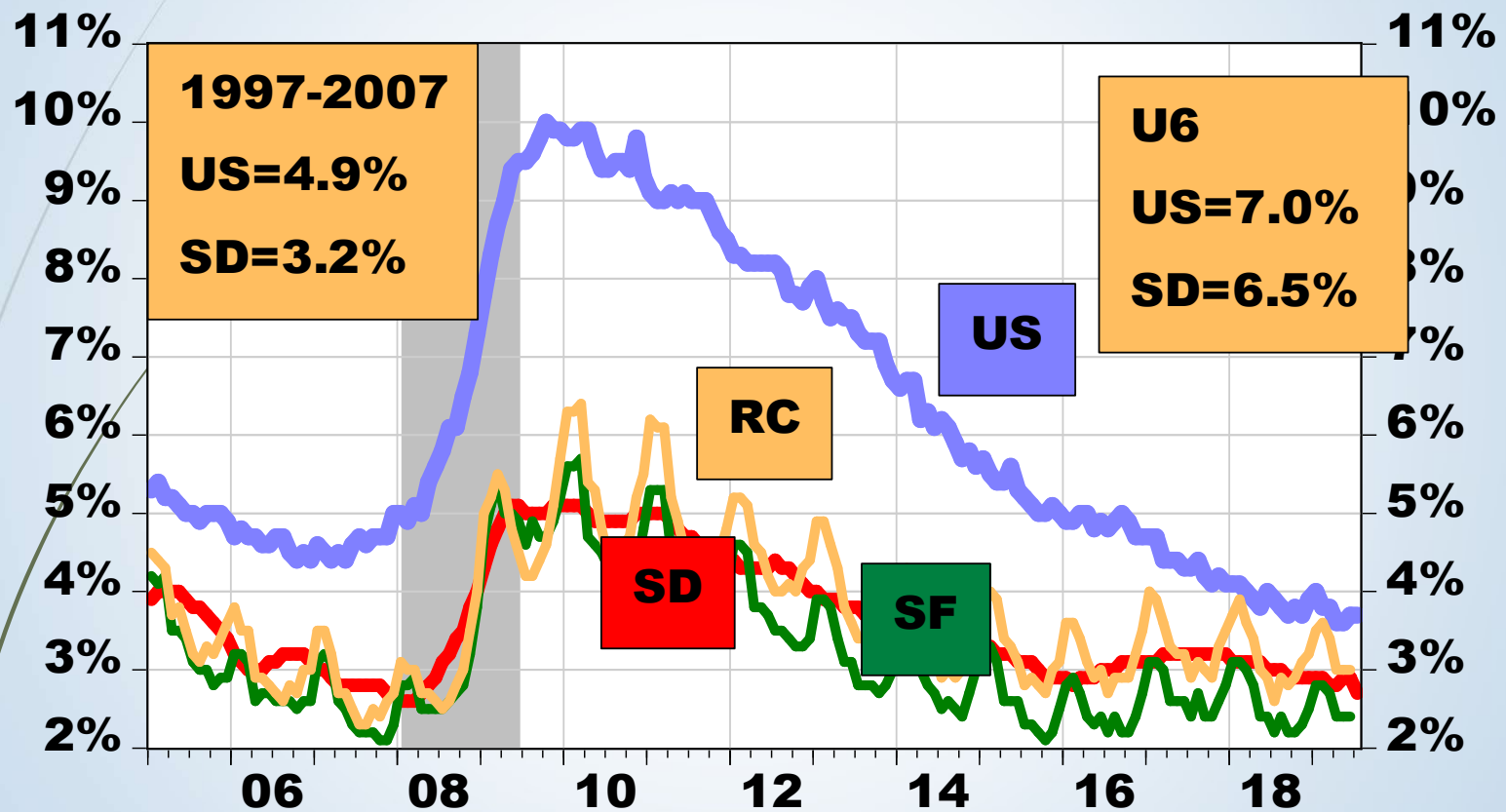
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

US 3.7% SD 2.7% SF 2.4% RC 3.0%

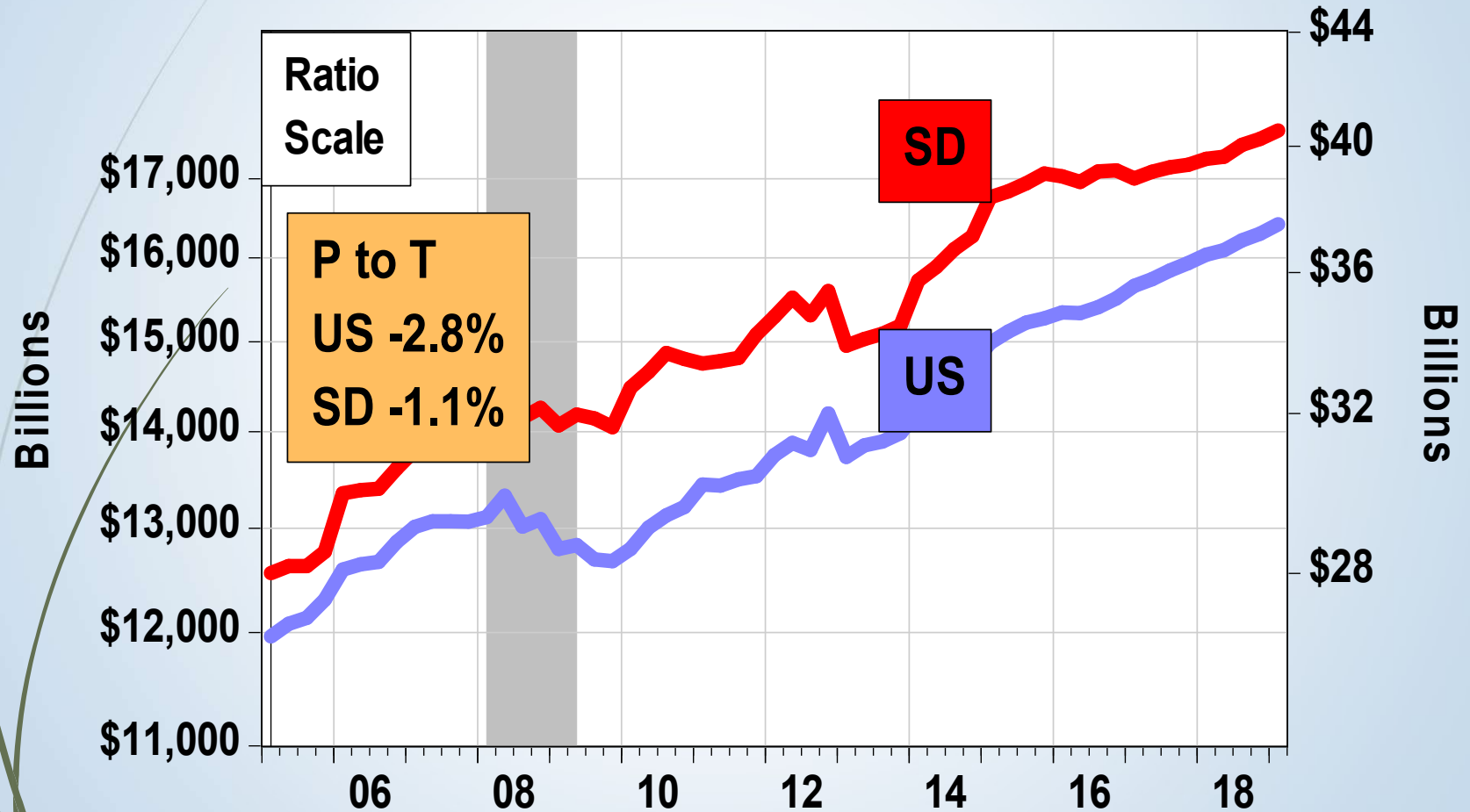
UNEMPLOYMENT RATES



Source: BLS

SD & US Growth

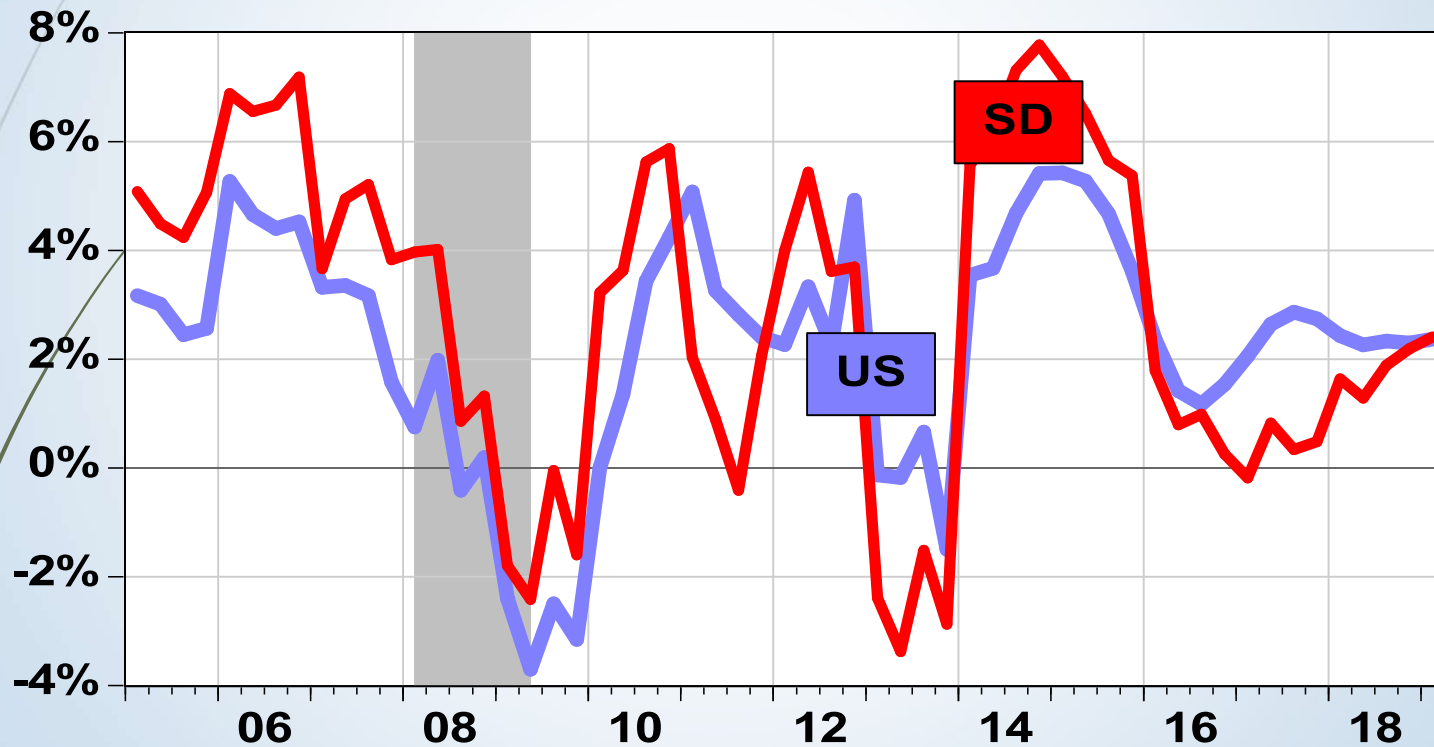
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

US and SD Track

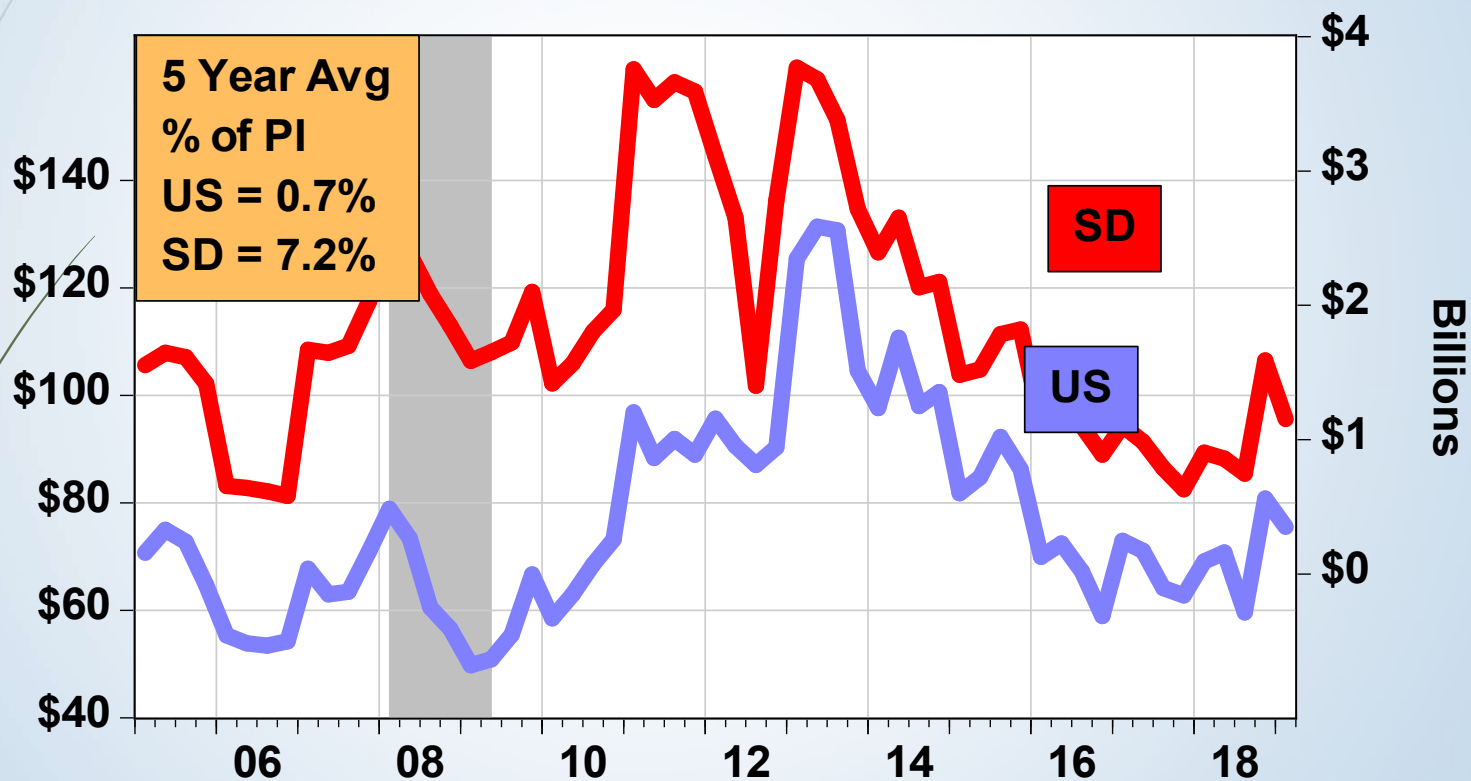
REAL NONFARM PERSONAL INCOME
(Year-Over-Year Percent Change)



Source: BEA

Farm Income Down

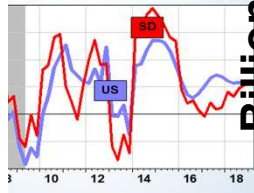
FARM INCOME



Source: BEA

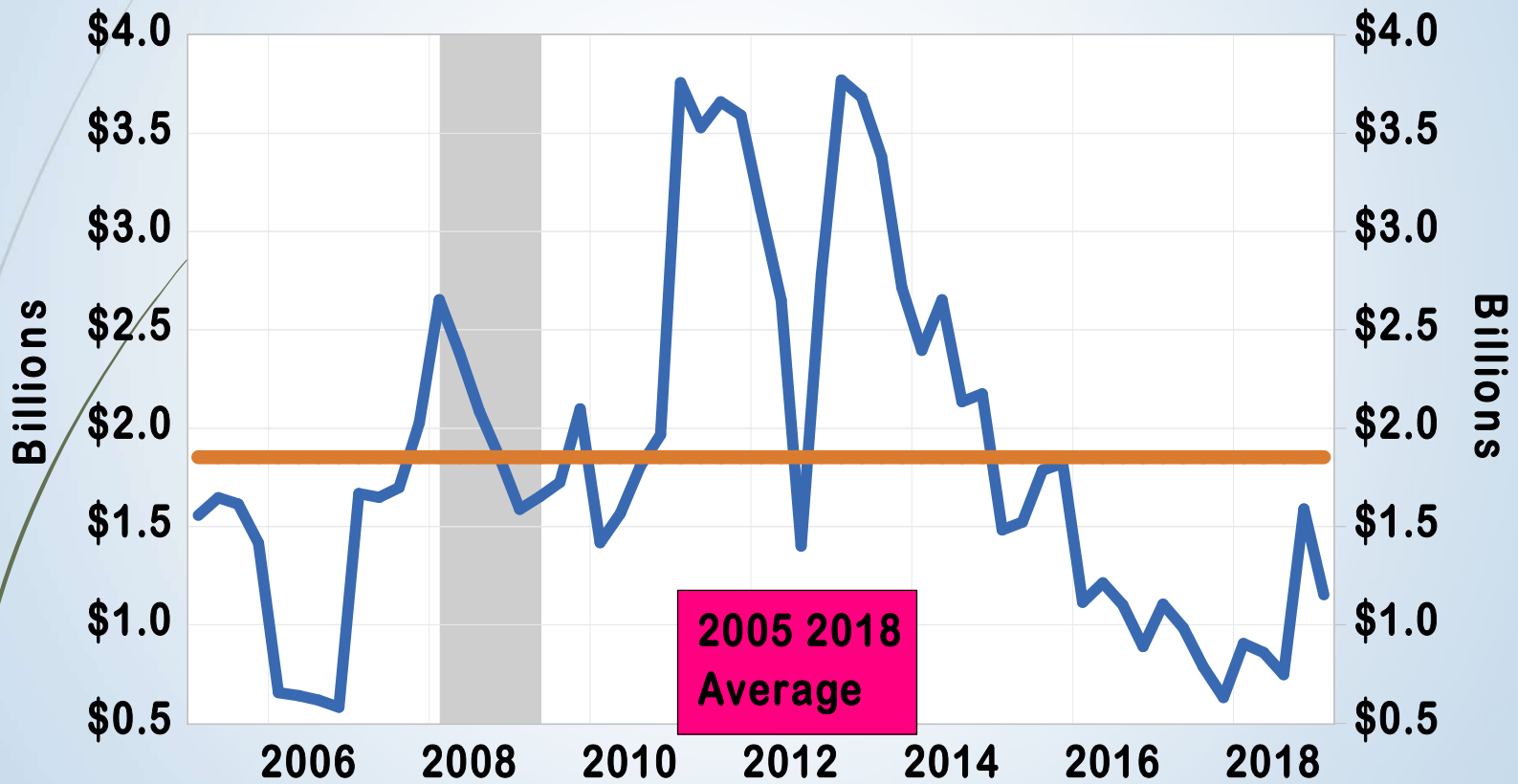
US and SD Track

(FARM PERSONAL INCOME
Year-Over-Year Percent Change)



Way Below Average

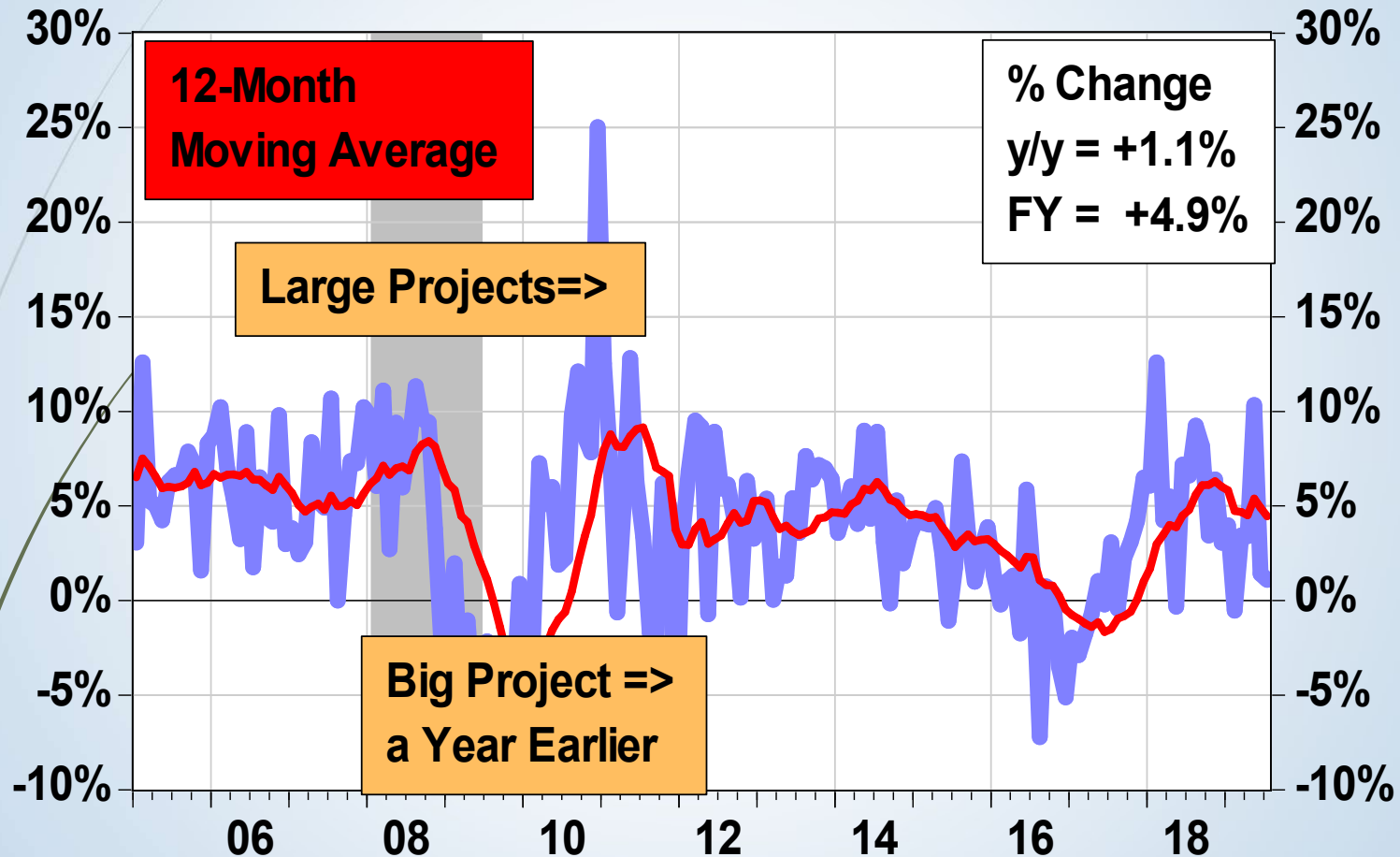
SD Farm Income



Source: BEA

Steady Growth

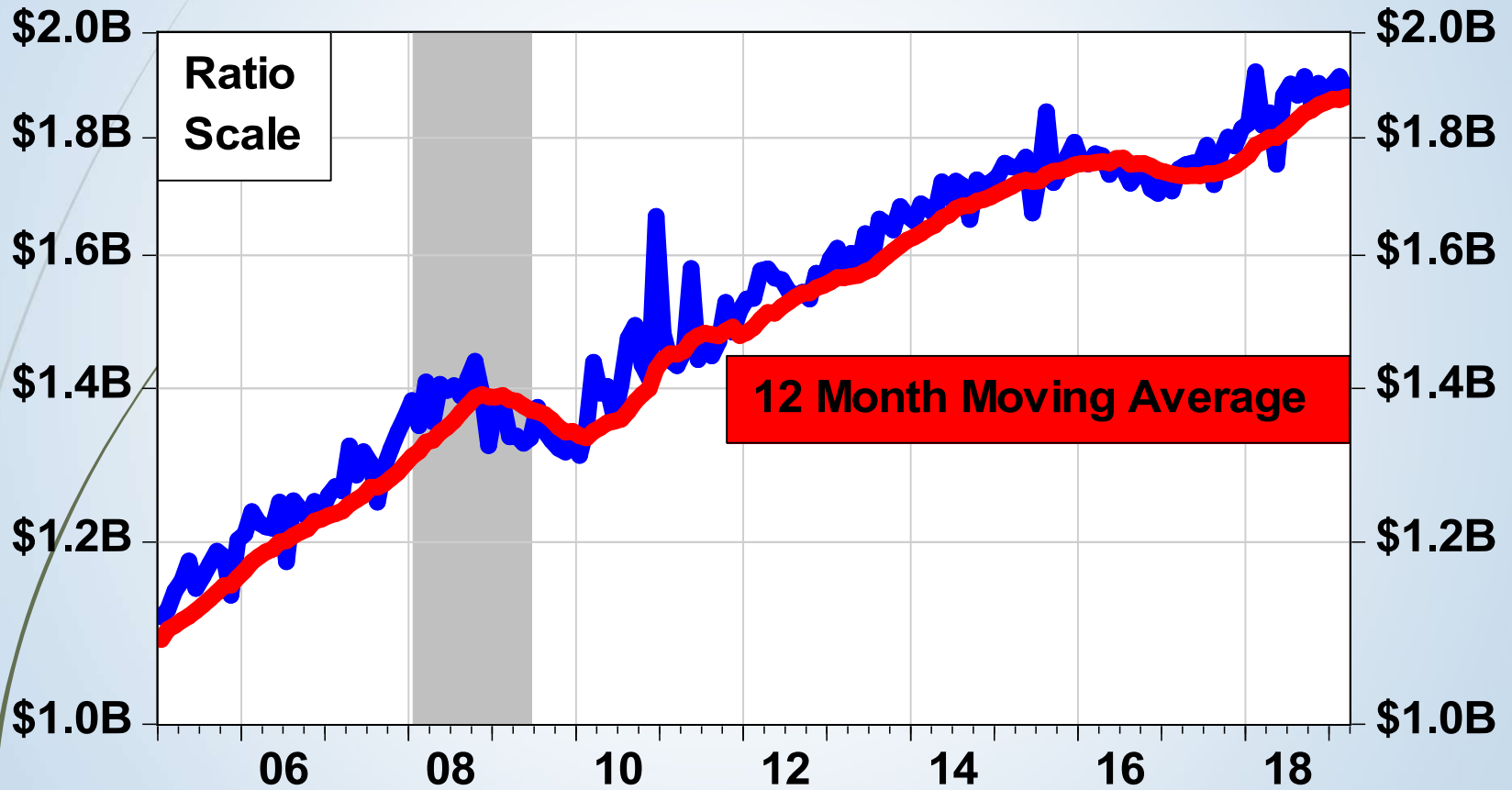
SD TAXABLE SALES



Source: SD Department of Revenue

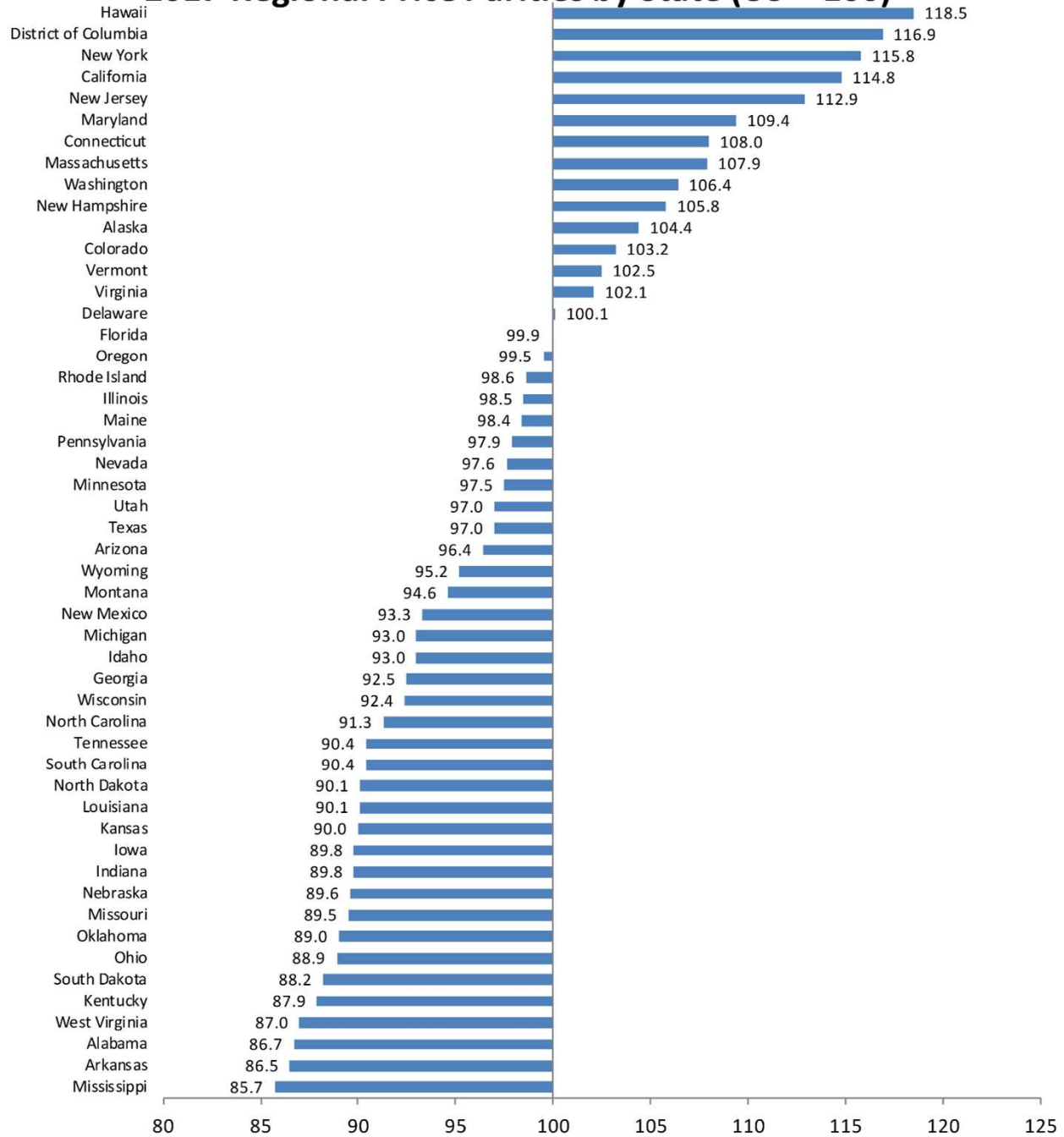
Growth

SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue


2017 Regional Price Parities by State (US = 100)





REGIONAL PRICE PARITIES (Cost-of-Living Indices)

	SD	SF	RC
ALL ITEMS	88.2	91.6	90.1
GOODS	94.7	96.4	95.5
RENT	70.2	81.5	78.0
SERVICES	90.7	92.2	91.8



Mid-American States Leading Indicators - GOSS

2019 Index > 50 Growth – June

A lot softer from April report - mostly in 60s.

Overall 54.1

New Orders 53.4

Sales 58.9

Delivery lead time 49.2

Inventories 55.9

Employment 53.3



Goss Comments

- ▶ “Both durable goods and nondurable goods manufacturers reported positive, but slowing growth for the month.” said **Goss.**



Conclusions

SD economic growth is slowing

SF economy growing at faster rate

US economy growing nicely

35% chance of recession

Impact of Trade War???

The End

