



The State of the SD Economy

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

May 23, 2019

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Outline of Presentation

Overview of US economy

**US economy forecast - Macroeconomic
Advisors by IHS Markit**

SD economy

Summary & Conclusions

US Forecast

Macroeconomic Advisors, By IHS MARKIT
Forecast – May 8, 2019 (one day before TW)

BEFORE CURRENT TRADE WAR

Real GDP

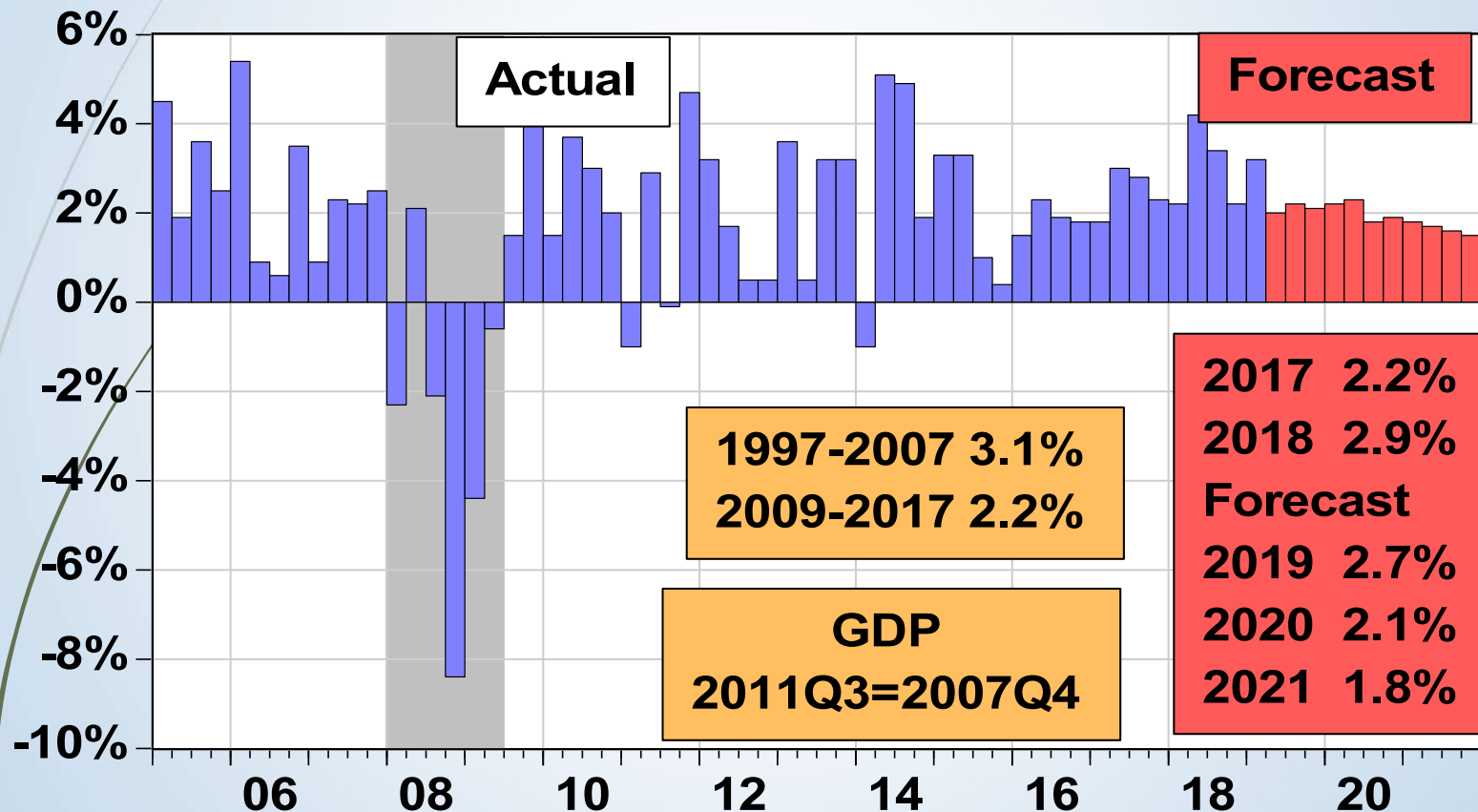
Consumption,

Housing Starts

Federal Budget

Good Growth 2018-2019

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. Both are expected to at least partially reverse in the 2nd quarter pulling growth back to 2.0%. Growth after 2019 is expected to slow to trend-like 2%.

President Trump's tariff increase on China are not incorporated in this forecast. IHS thinks the imposition of the tariffs are net negative for the US economy.

Chance of recession has been raised to 30%.



Components of GDP are:

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

Consumption

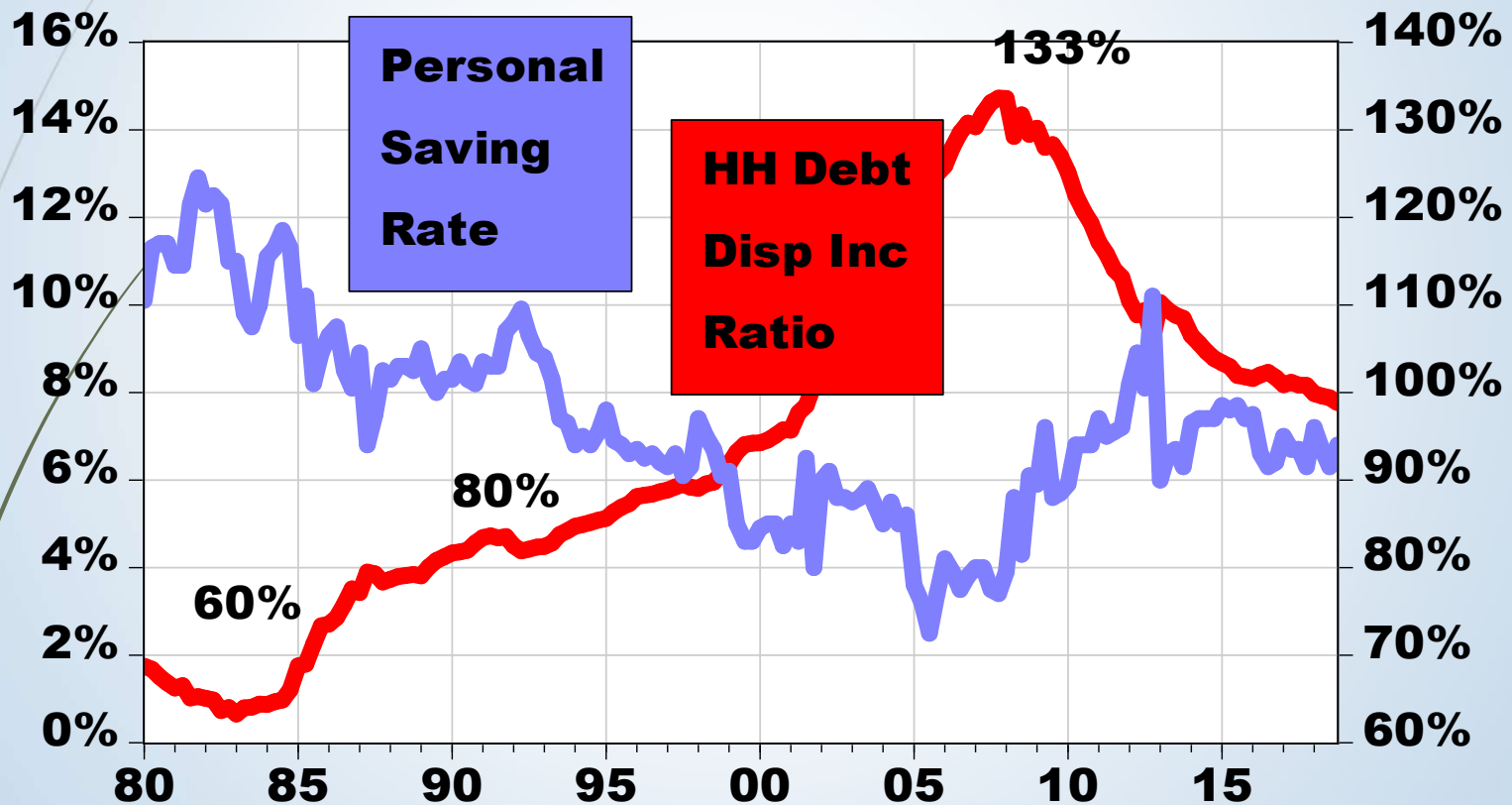
Consumer fundamentals looks strong for the next couple of years.

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

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

Deleveraging Plateaus

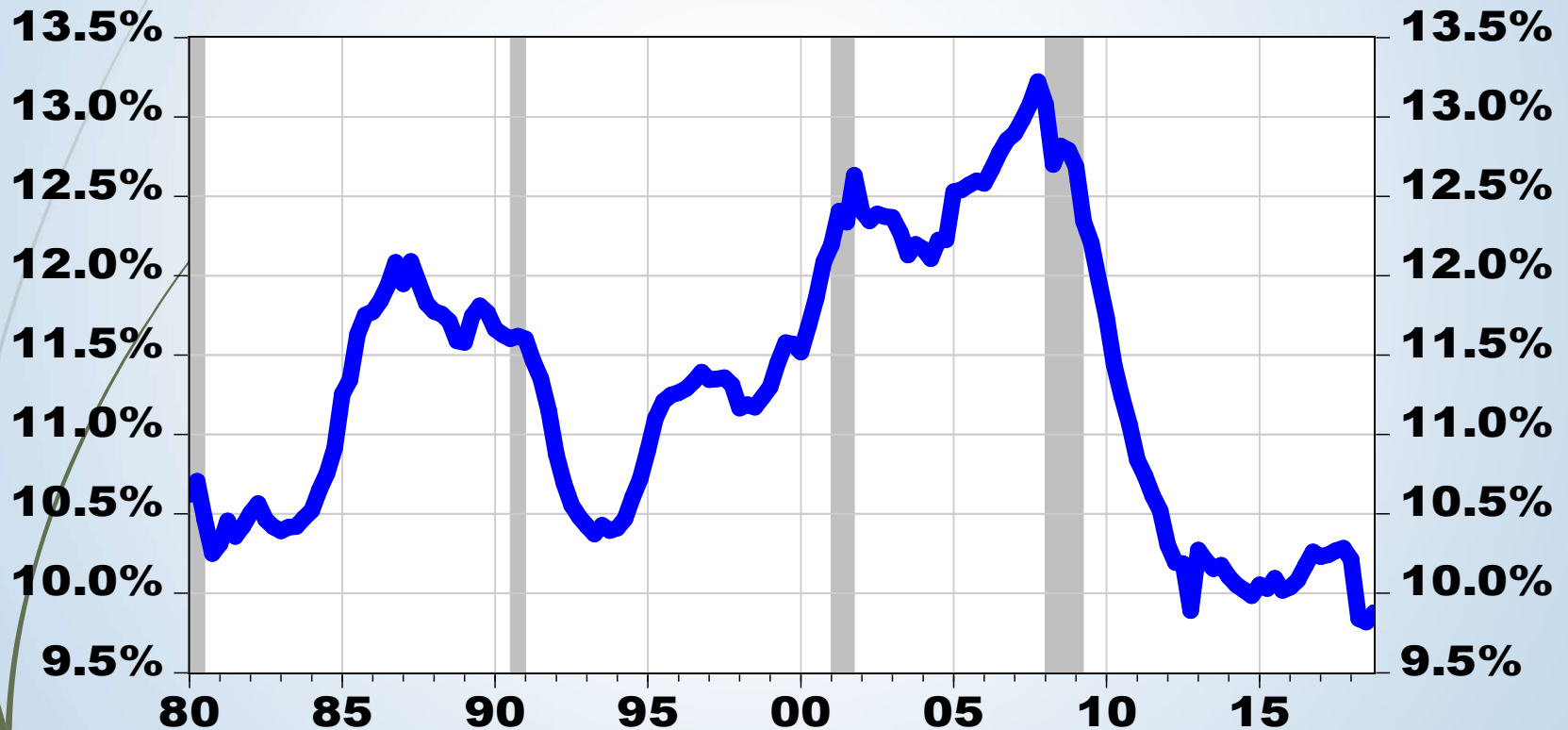
HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Record Low Debt Service

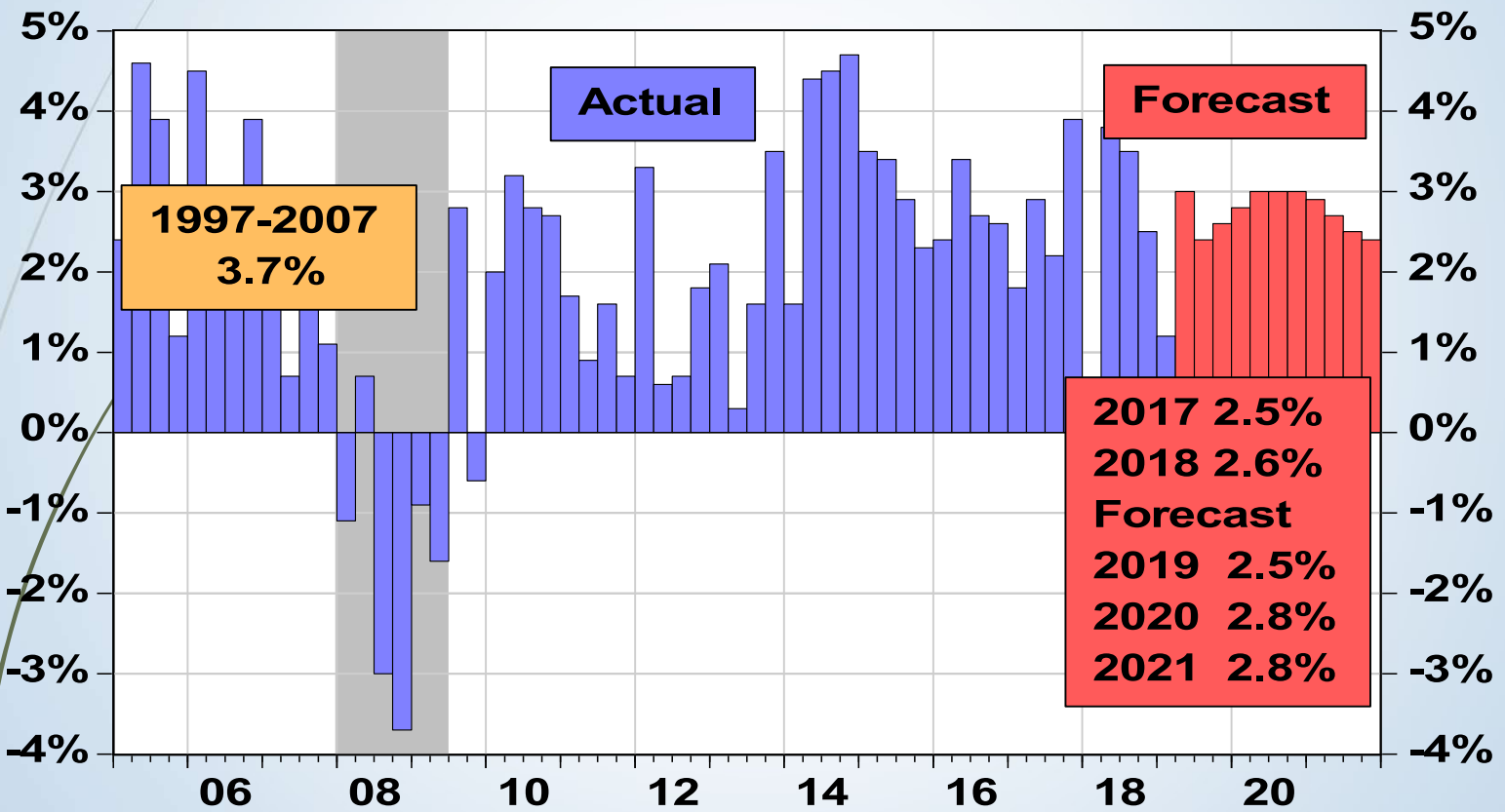
HH DEBT SERVICE PAYMENTS AS % OF DISPOSABLE PERSONAL INCOME



Source: BEA and Federal Reserve System

Steady Growth Ahead

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

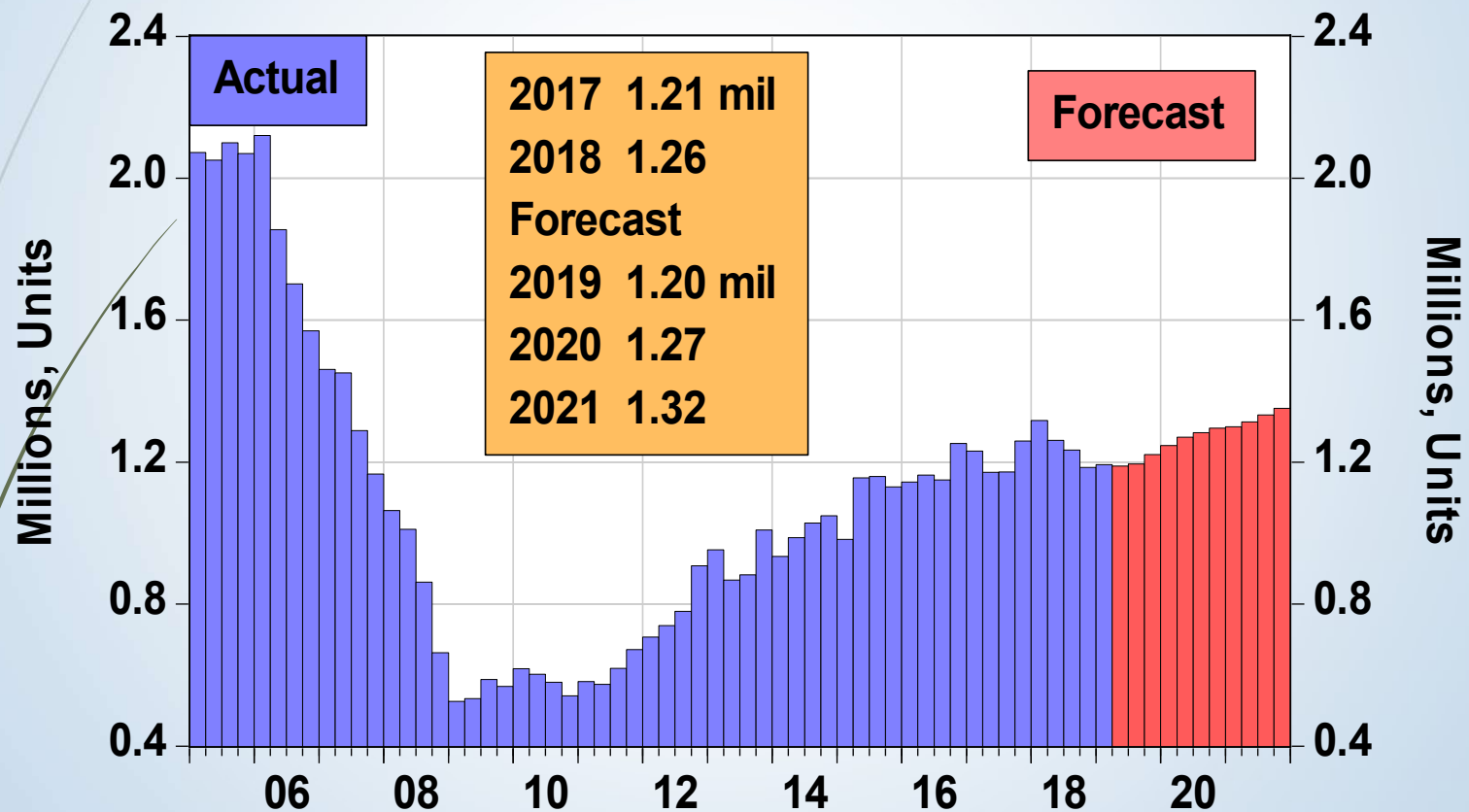
Strong inventory growth in the last half of 2018 and 1st quarter of 2019 reflects, in part, concern over imposition of tariffs and will slow.

Nonresidential fixed investment which was strong in 2018 as GDP growth slows so will nonresidential fixed investment.

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

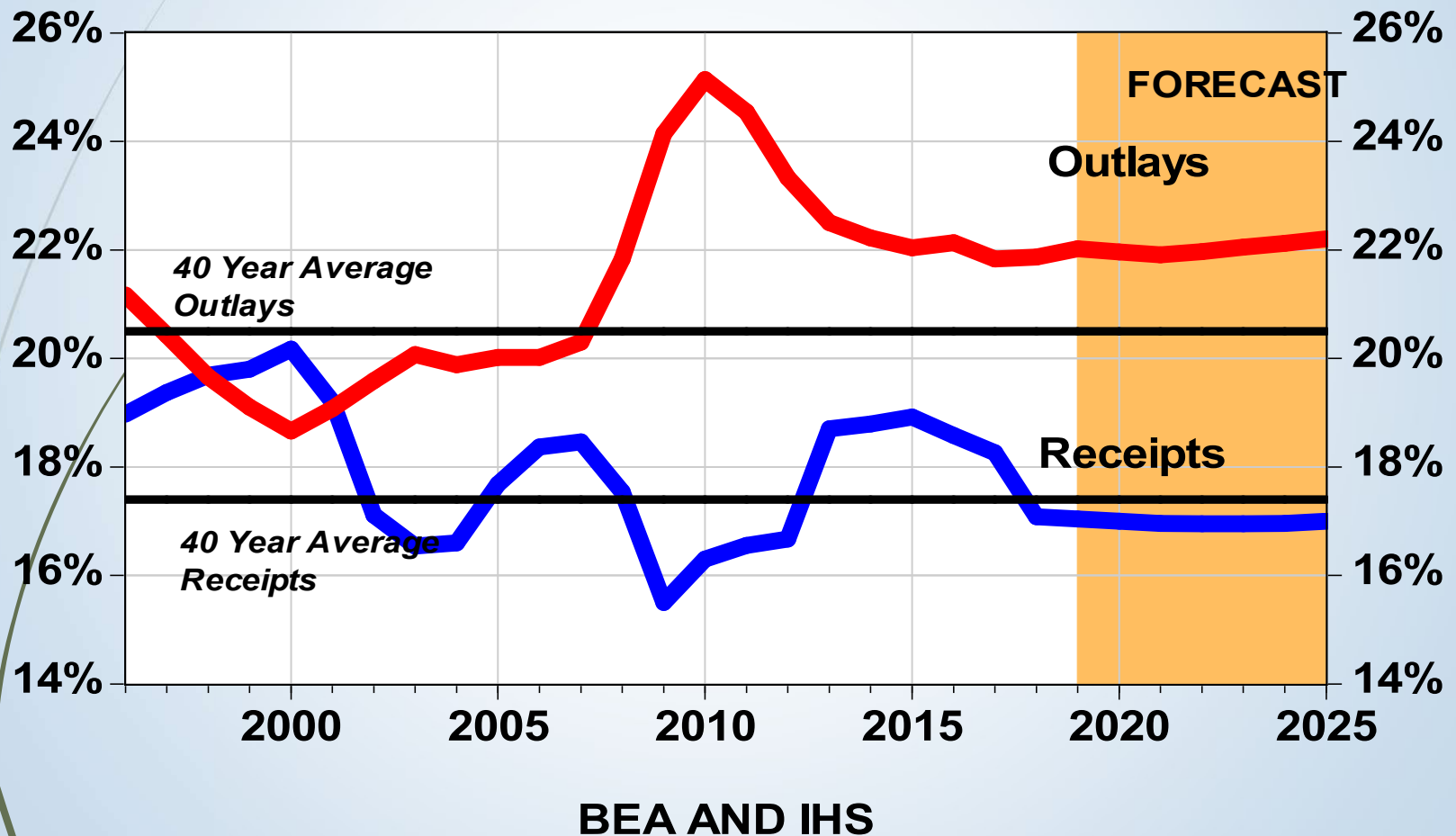
HOUSING STARTS



Source: US Census and IHS

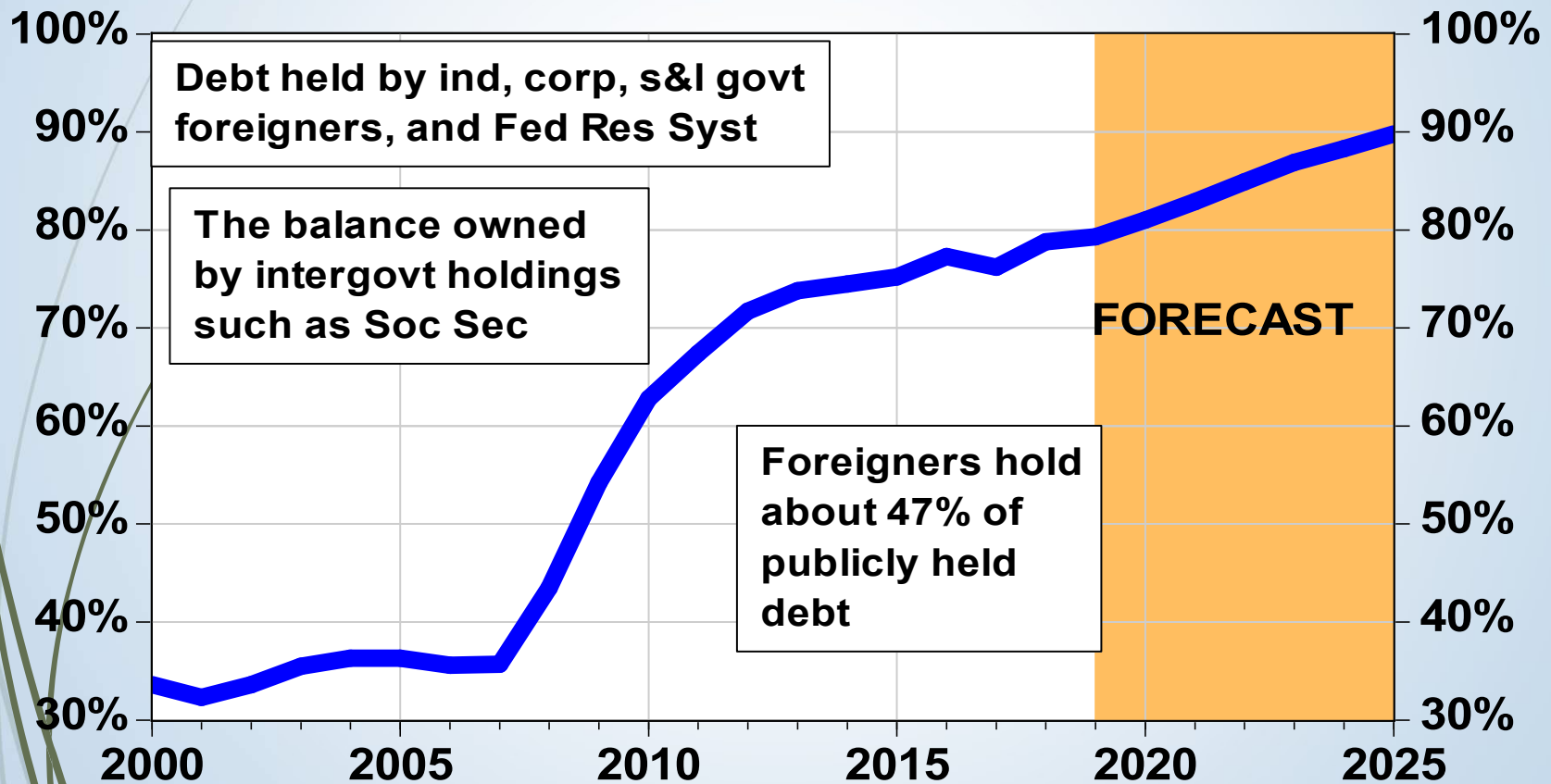
Government Sector

FEDERAL GOVERNMENT AS % OF GDP



Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



The Fiscal Picture

Fiscal stimulus – from tax cuts, government spending -- will peak in 2019 and recede in 2020 and 2021.

Nevertheless, the federal deficit is growing both in \$s and % of GDP. The deficit was 3.6% of GDP in 2017, rising to 4.8% in 2018 and 5.0% in 2019. It will remain above 5% through 2029.

In dollars, the deficit will rise to more than a trillion in 2019 and to \$1.7 trillion by 2029.

The publicly-held debt now about 80% of GDP will rise to 94% by 2029.



Foreign Sector

The \$ appreciated sharply in 2018 due to expected deficits and higher interest rates causing capital inflows. Also faster relative US growth supports imports at the expense of exports.

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

This forecast does not include the new tariffs and retaliation.

Employment & Unemployment

In 2020, slower output growth will lead to slower employment growth at 1.2% compared to 1.6% in 2019. In 2021, growth slows to 0.7%

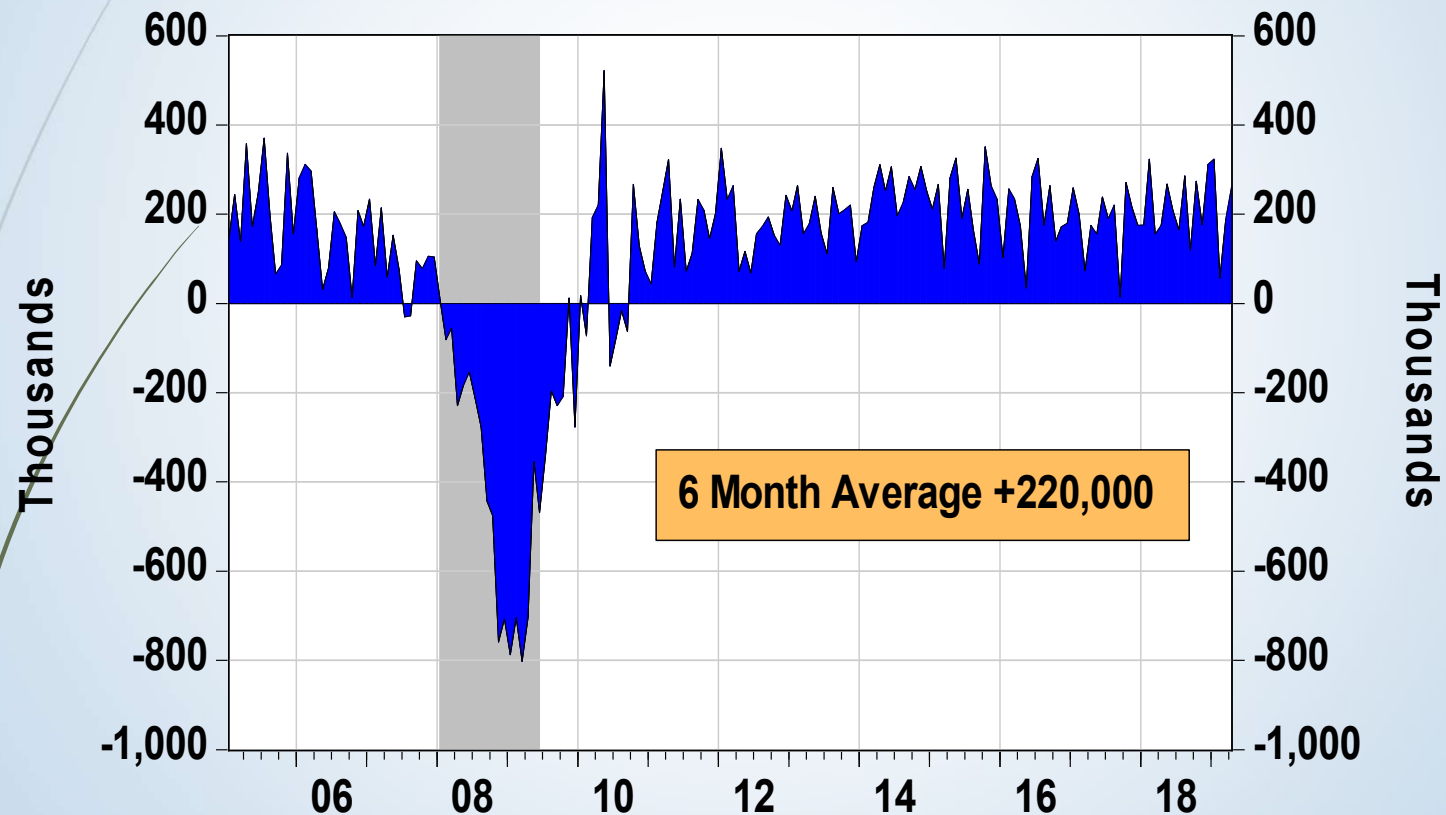
This strong growth will boost both wage growth and inflation pressures.

The labor force participation rate must firm up if we are to continue decent employment gains.

The unemployment rate will bottom out at 3.5% in 2020.

Employment Growth

CHANGE IN NONFARM EMPLOYMENT

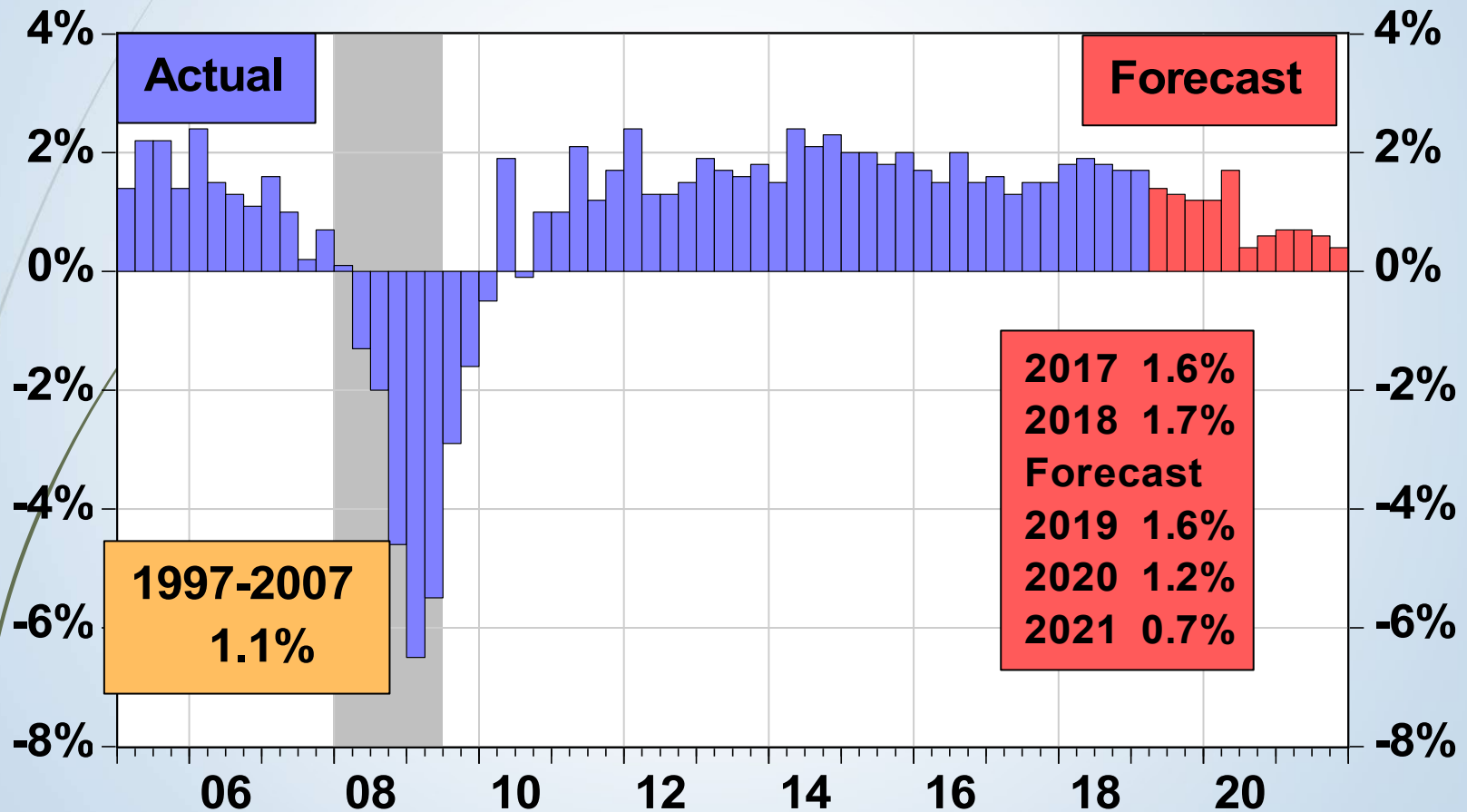


6 Month Average +220,000

Source: BLS

Future Job Growth Slowing

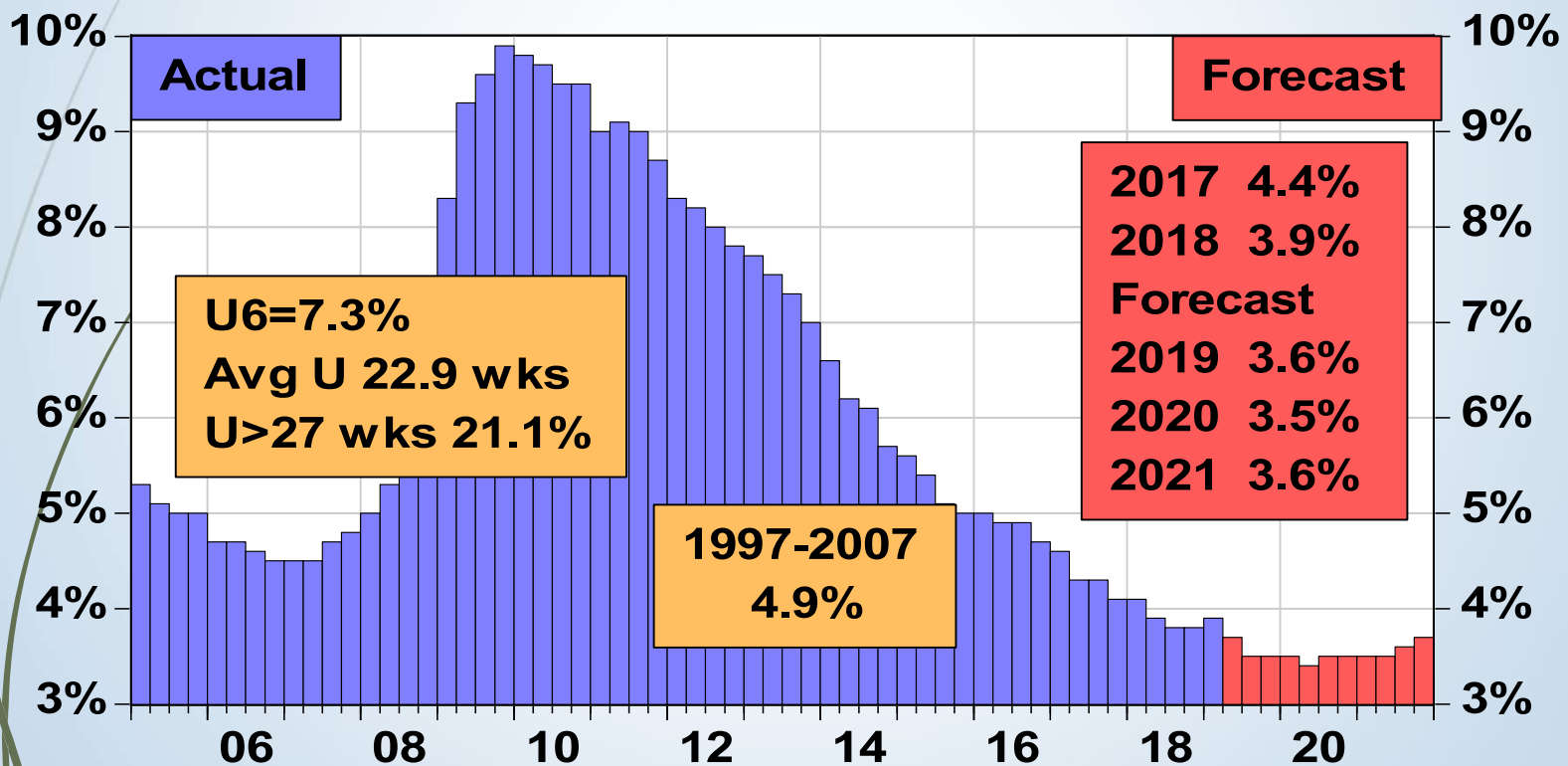
NONFARM EMPLOYMENT



Source: BLS and IHS

Low U3 Unemployment Rate Still Falling

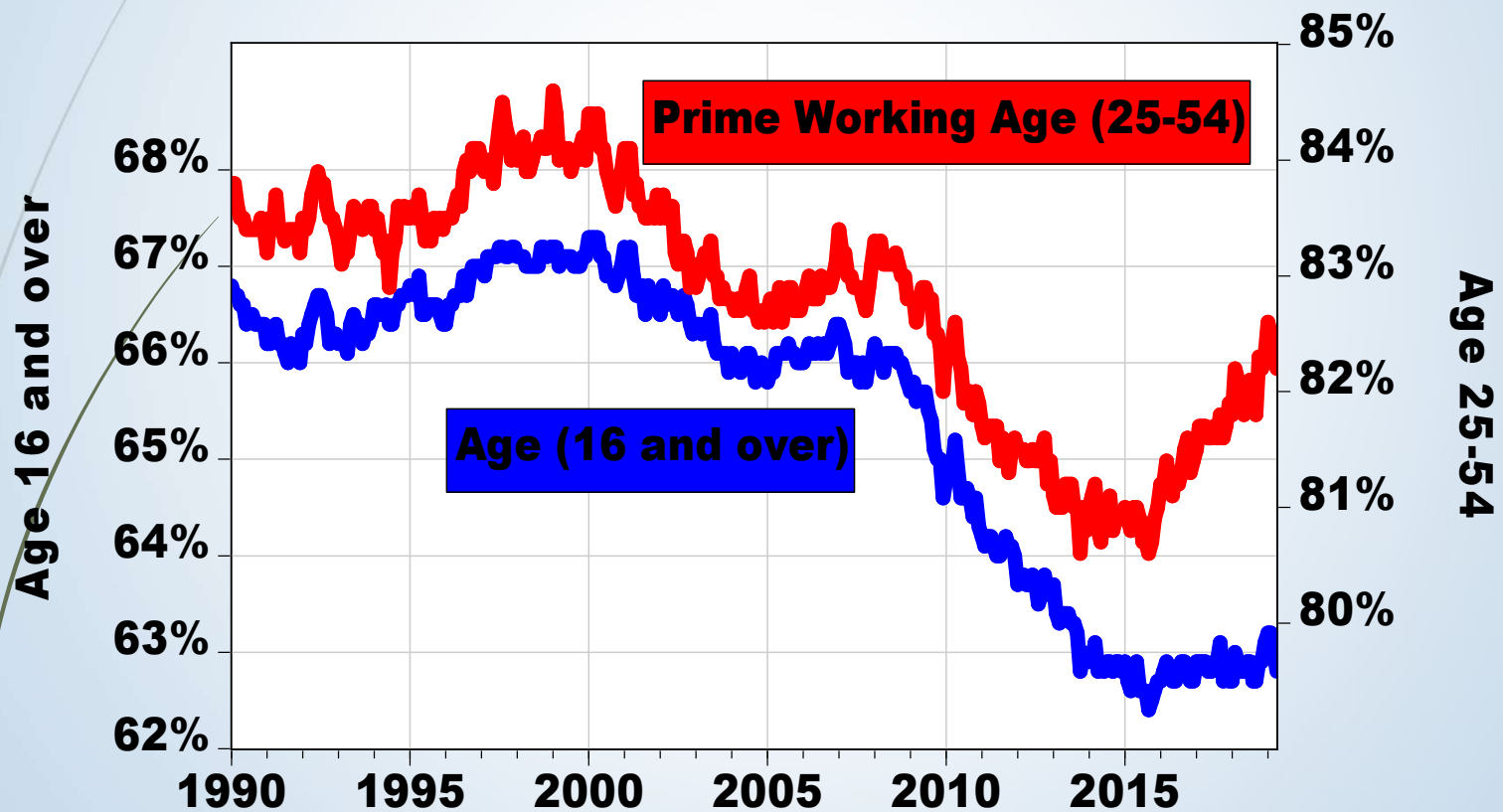
UNEMPLOYMENT RATE



Source: BLS and IHS

Increase Prime Working Age

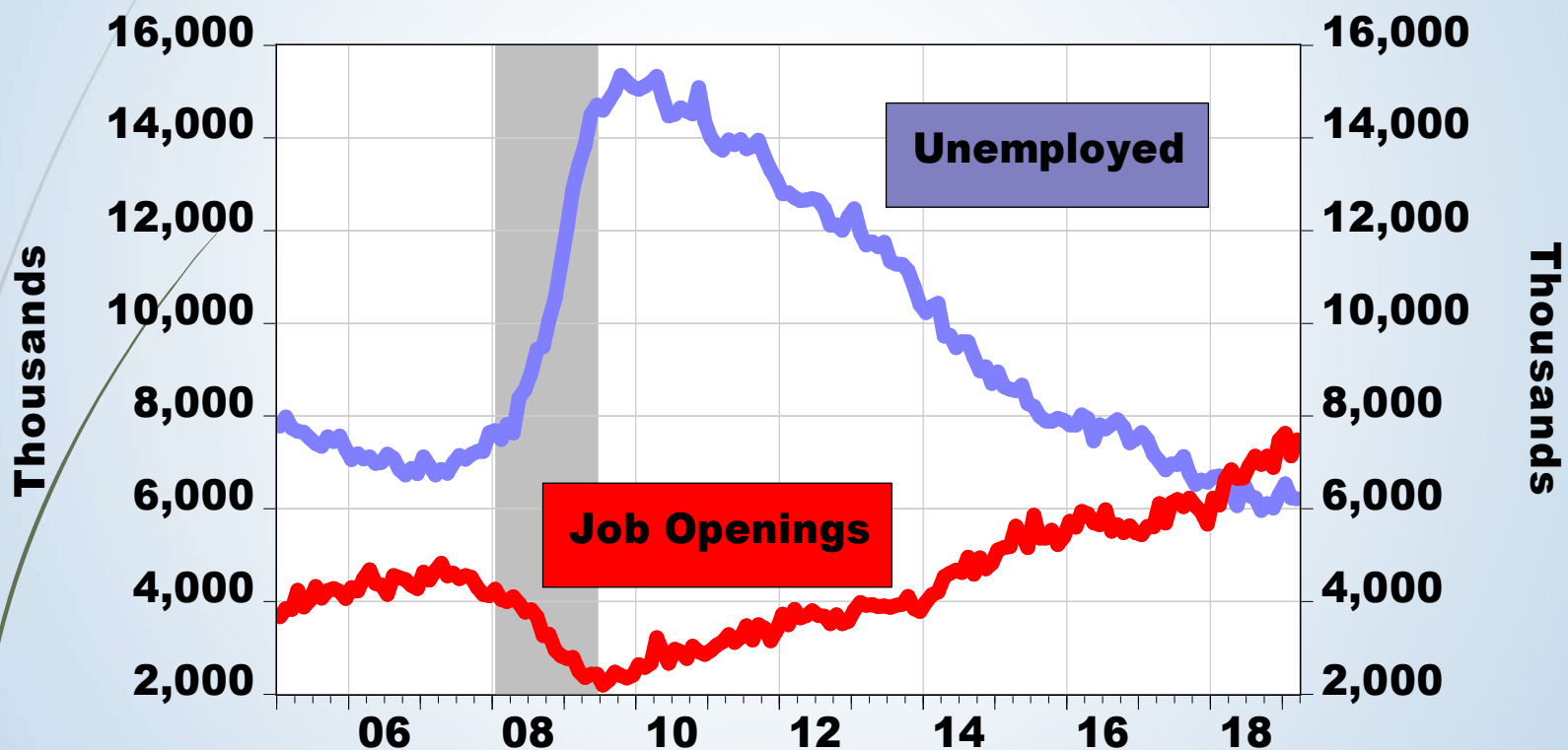
LABOR FORCE PARTICIPATION



BLS

Job Openings > Unemployed

LABOR MARKET CONDITIONS



Source: BLS

Inflation & Interest Rates

The Fed “pause” - keeping the federal funds rate at 2.25% to 2.5% - remains in place.

The FED states that the overall economy remains in good shape and that core inflation is running a little below the 2% target.

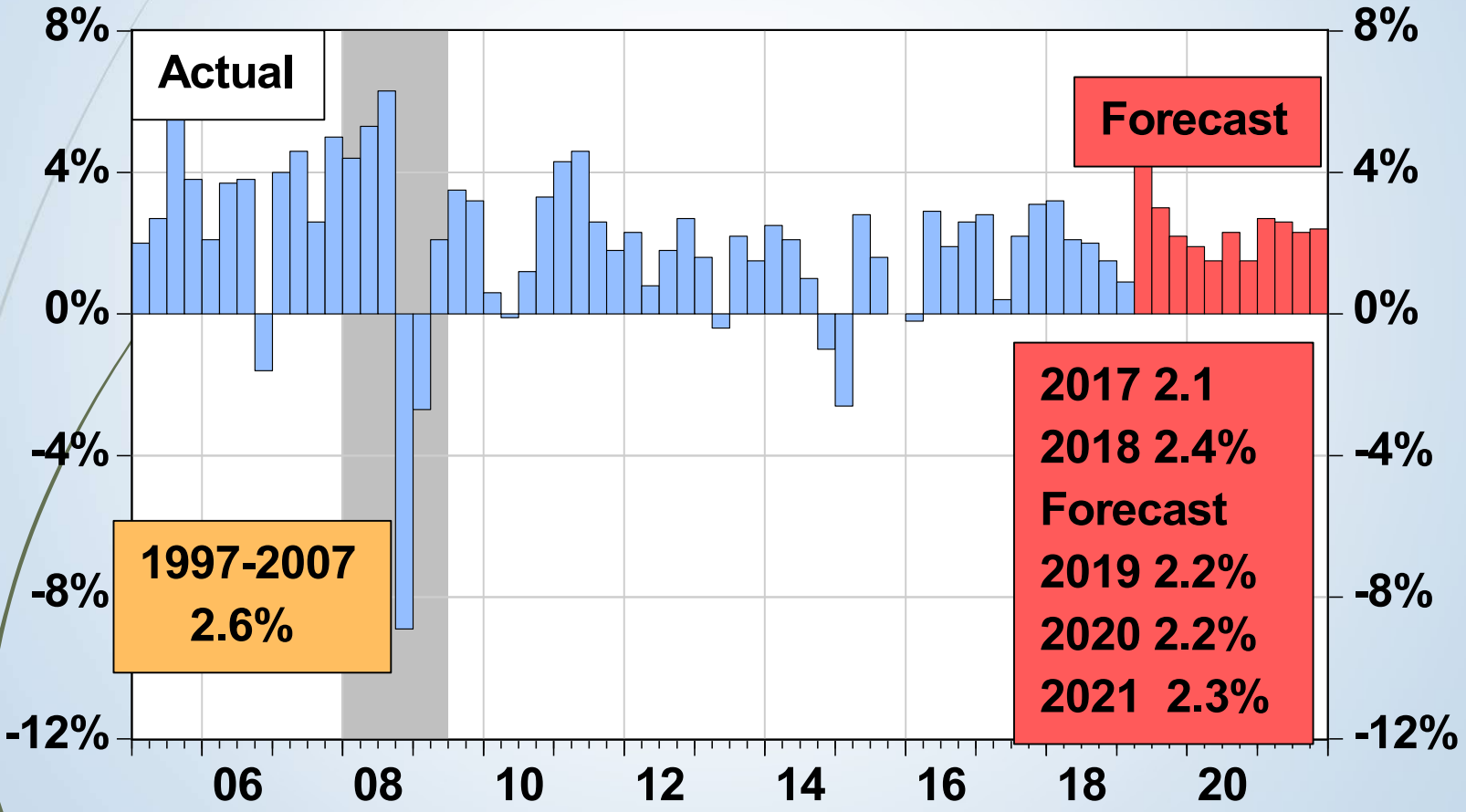
The 10-year T note has been trading at a low 2.5%.

IHS expects Treasury yields to firm gradually due, in part, to one more FED rate hike in late 2019. They expect the 10 year Treasury rate to rise to 2.8% by late 2019 and to 3.2% in late 2021.

Inflation is projected to remain low, at around 2.2% as measured by the CPI.

Still Very Low

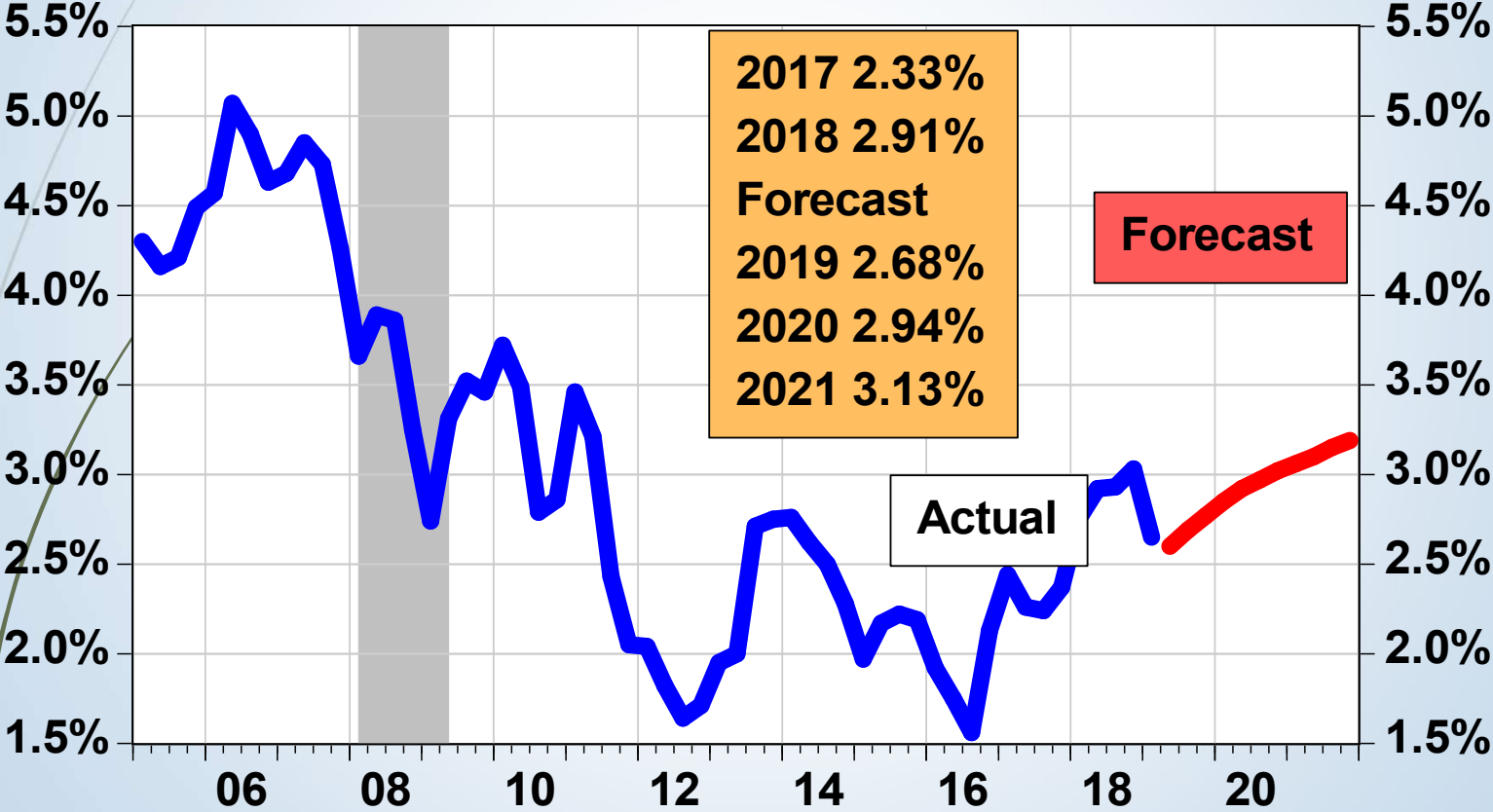
INFLATION: CPI



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%	2.7%	2.1%	1.8%
Recession Probability 25%					
NA Emp	1.6%	1.7%	1.6%	1.2%	0.7%
Oil(Brent)	\$55	\$71	\$72	\$67	\$67
Housing	1.21	1.25	1.20	1.27	1.32
CPI	2.1%	2.4%	2.2%	2.2%	2.3%
Un Rate	4.4%	3.9%	3.6%	3.5%	3.6%



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 30% Probability

**Broad-based loss of confidence
leading to drop in investment and
consumer spending ends expansion
128th month starting 2020Q1**

**3 quarter recession GDP drops
1.6% and unemployment 5.7%**

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



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

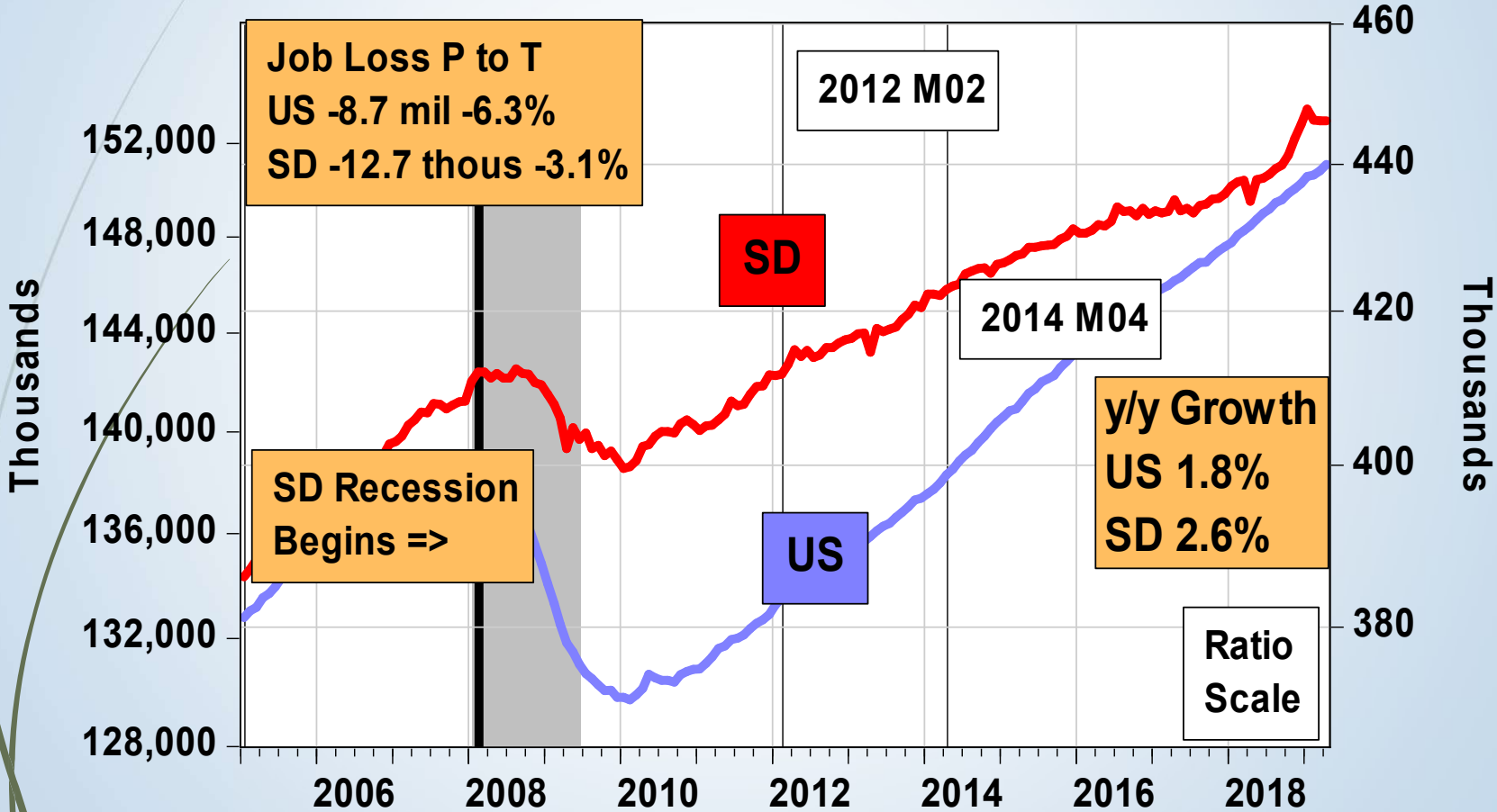
Real nonfarm personal income

Taxable sales

Leading indicator

Uptick

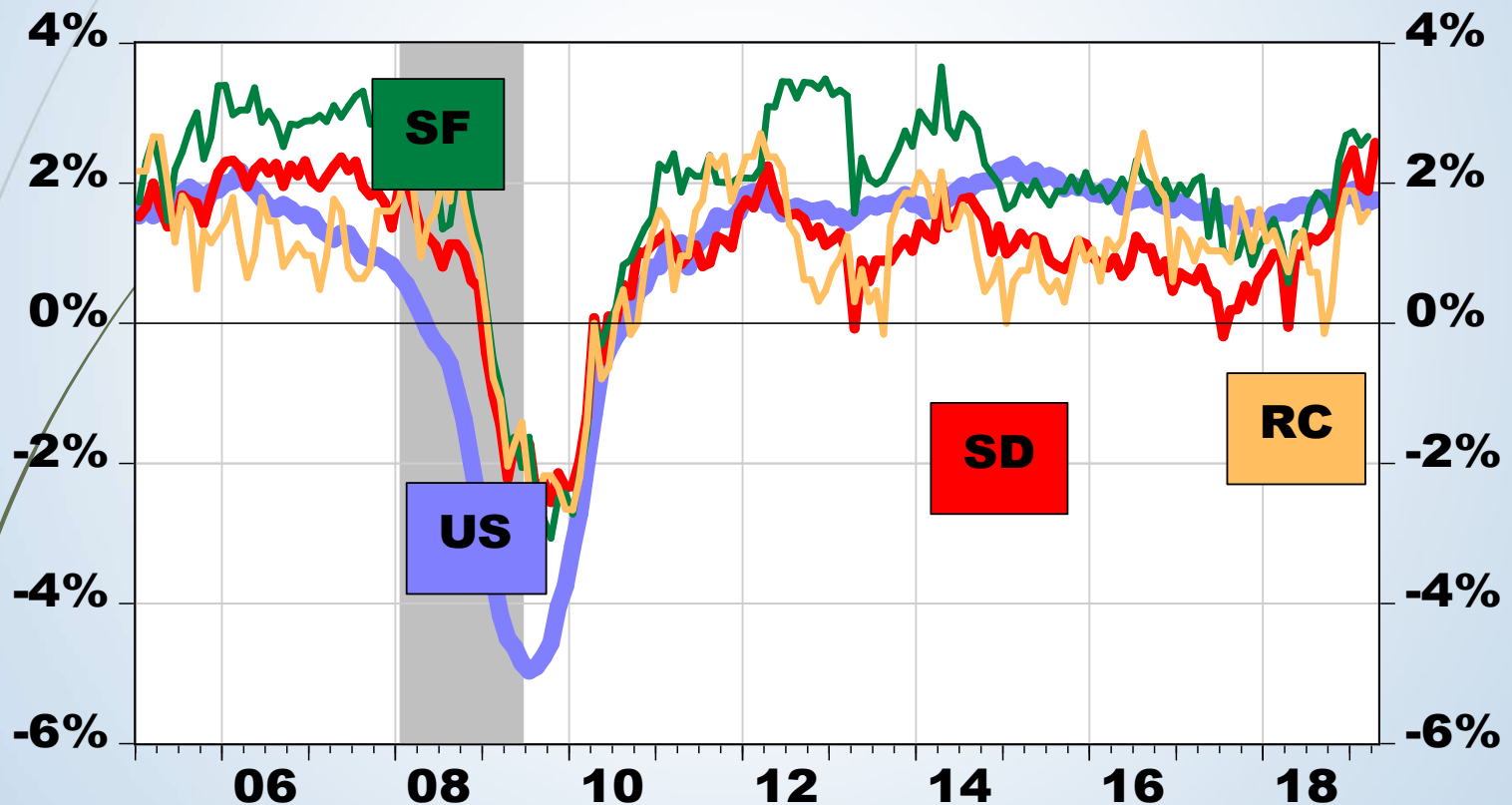
NONFARM EMPLOYMENT



Source: BLS

Divergence

NONFARM EMPLOYMENT



Source: BLS

ECONOMY AT A GLANCE

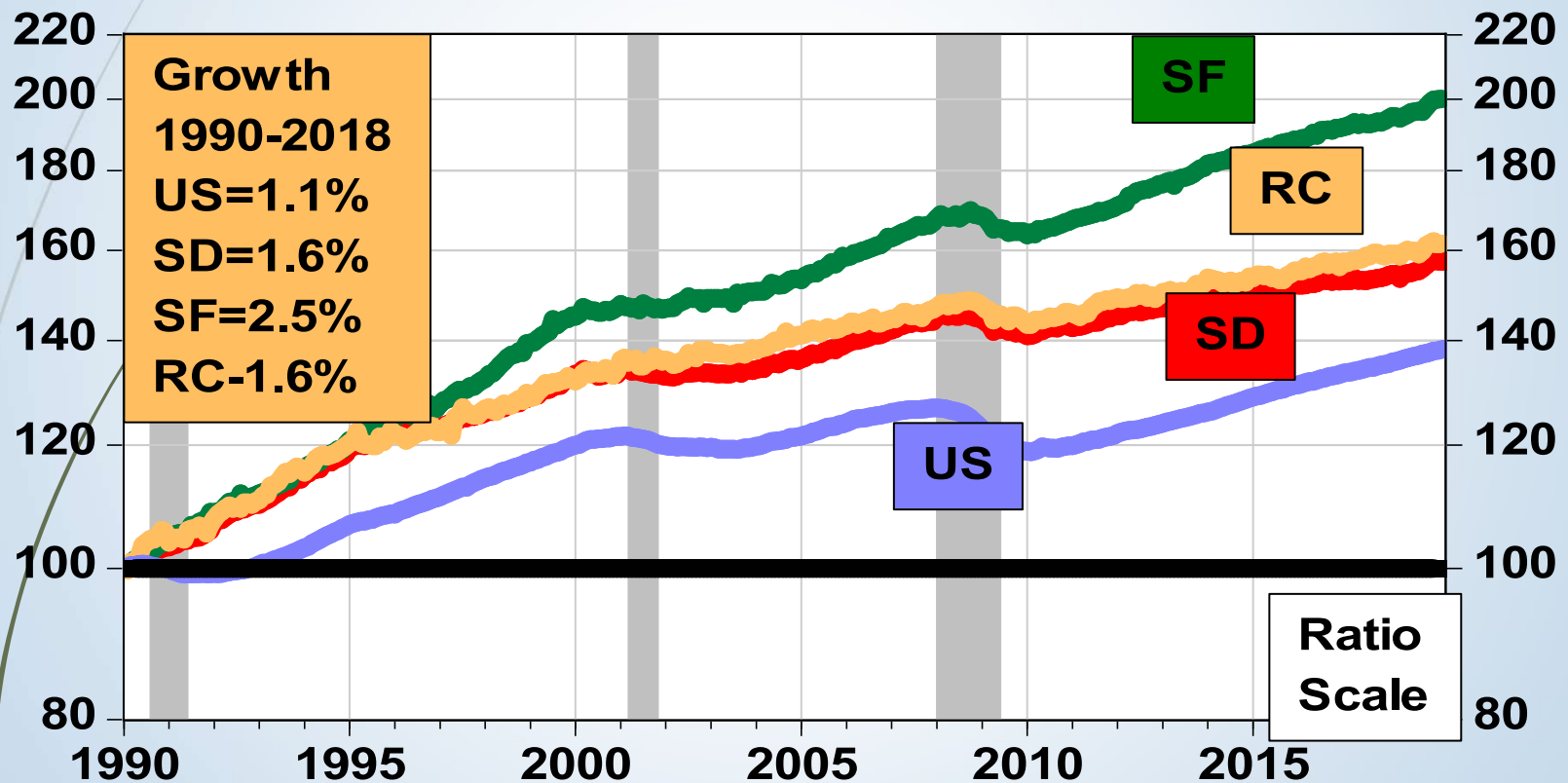
(Nonfarm Employment Y/Y)

APRIL 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

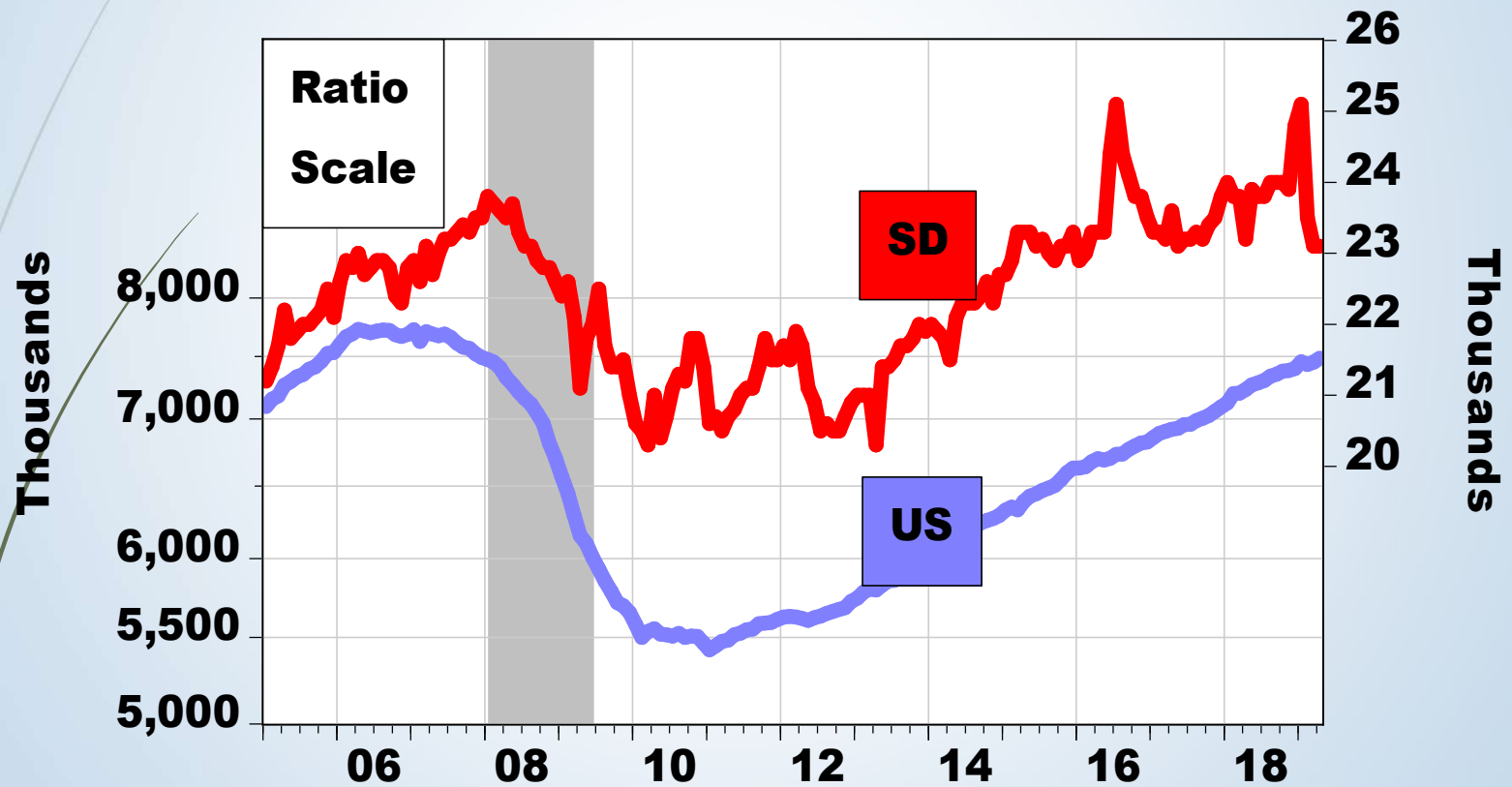
NONFARM EMPLOYMENT



Source: BLS

Decline

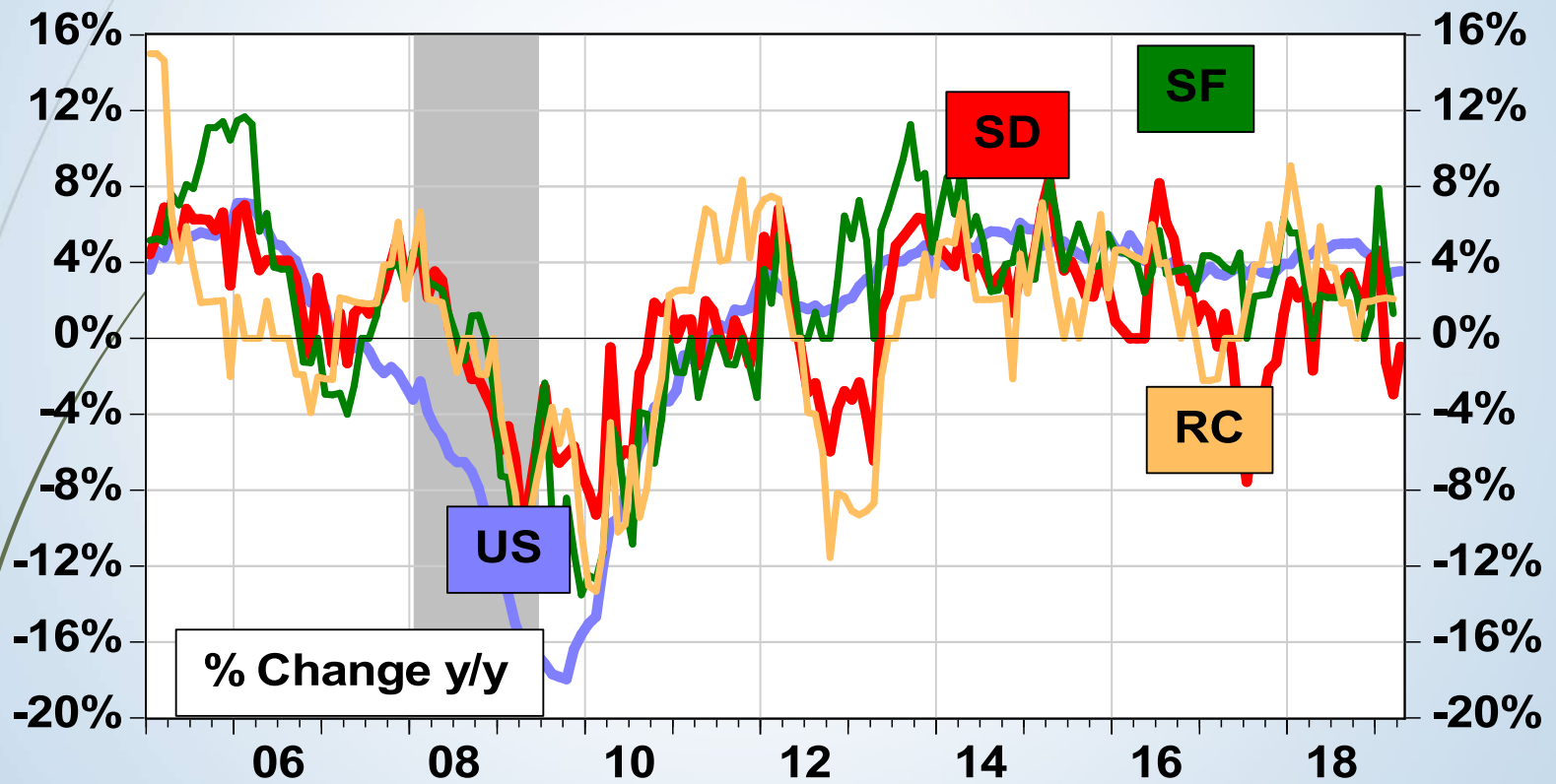
CONSTRUCTION EMPLOYMENT



Source: BLS

Growth-Except SD

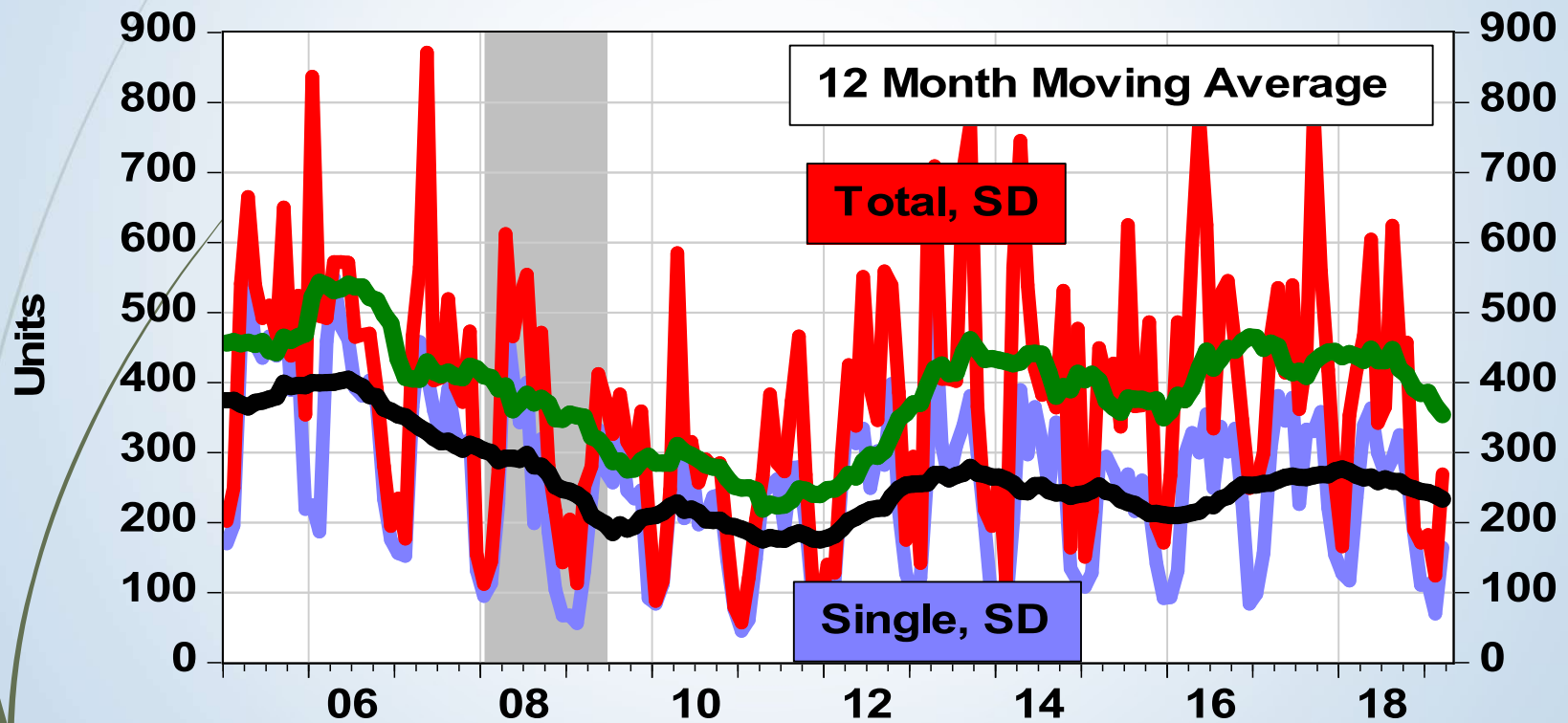
CONSTRUCTION EMPLOYMENT



Source: BLS

Small Decline

SD Building Permits, Total & Single

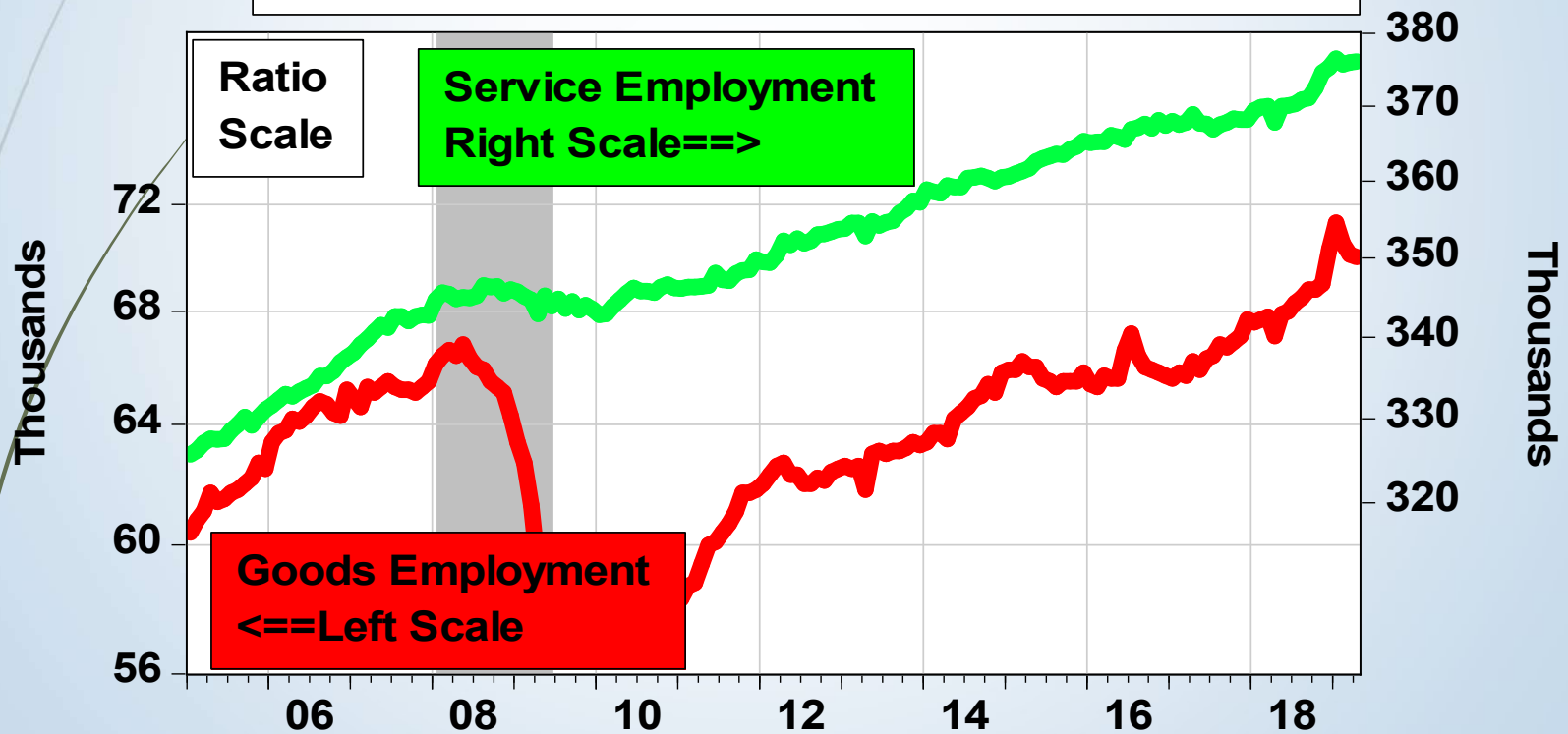


Source: Census Bureau

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

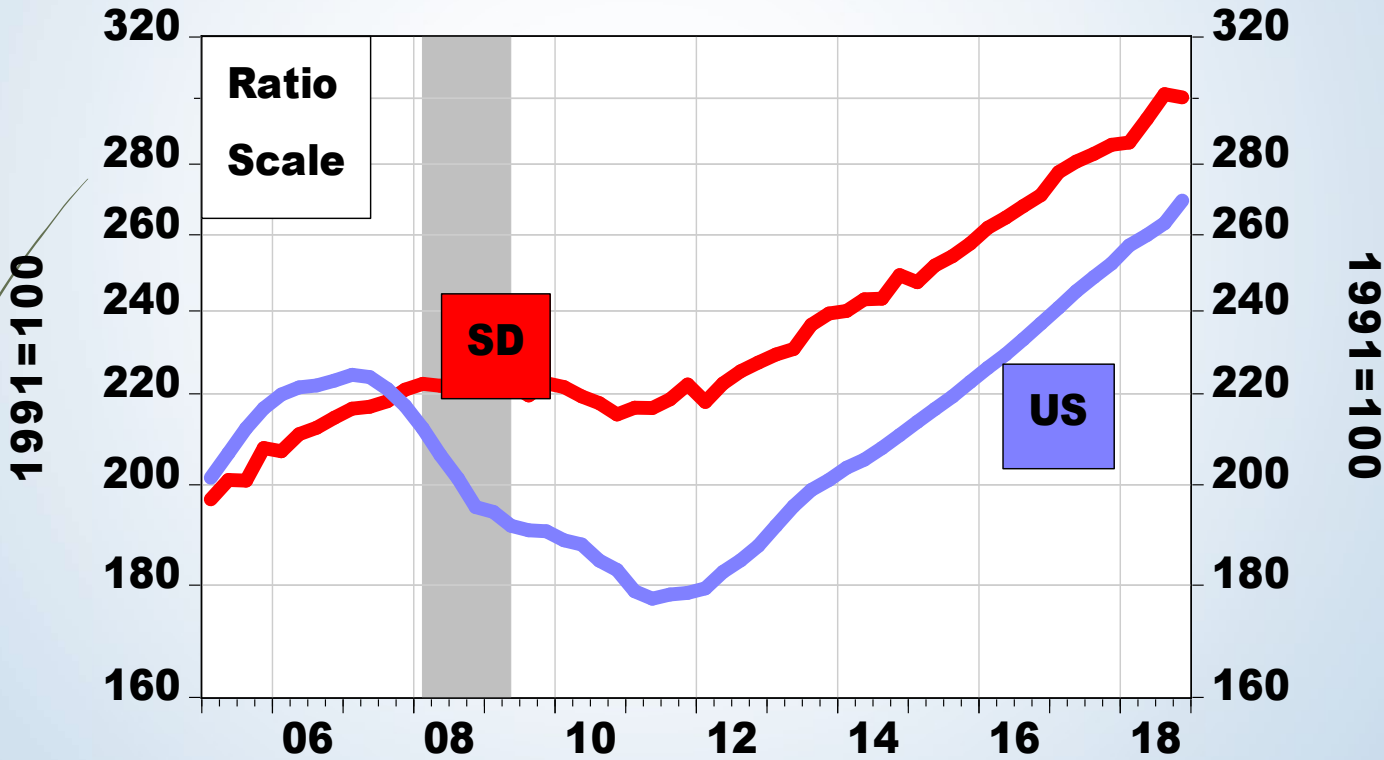
Goods-Producing = Manufacturing+Construction



Source: BLS

SD Peaked Later and Decline Less Severe

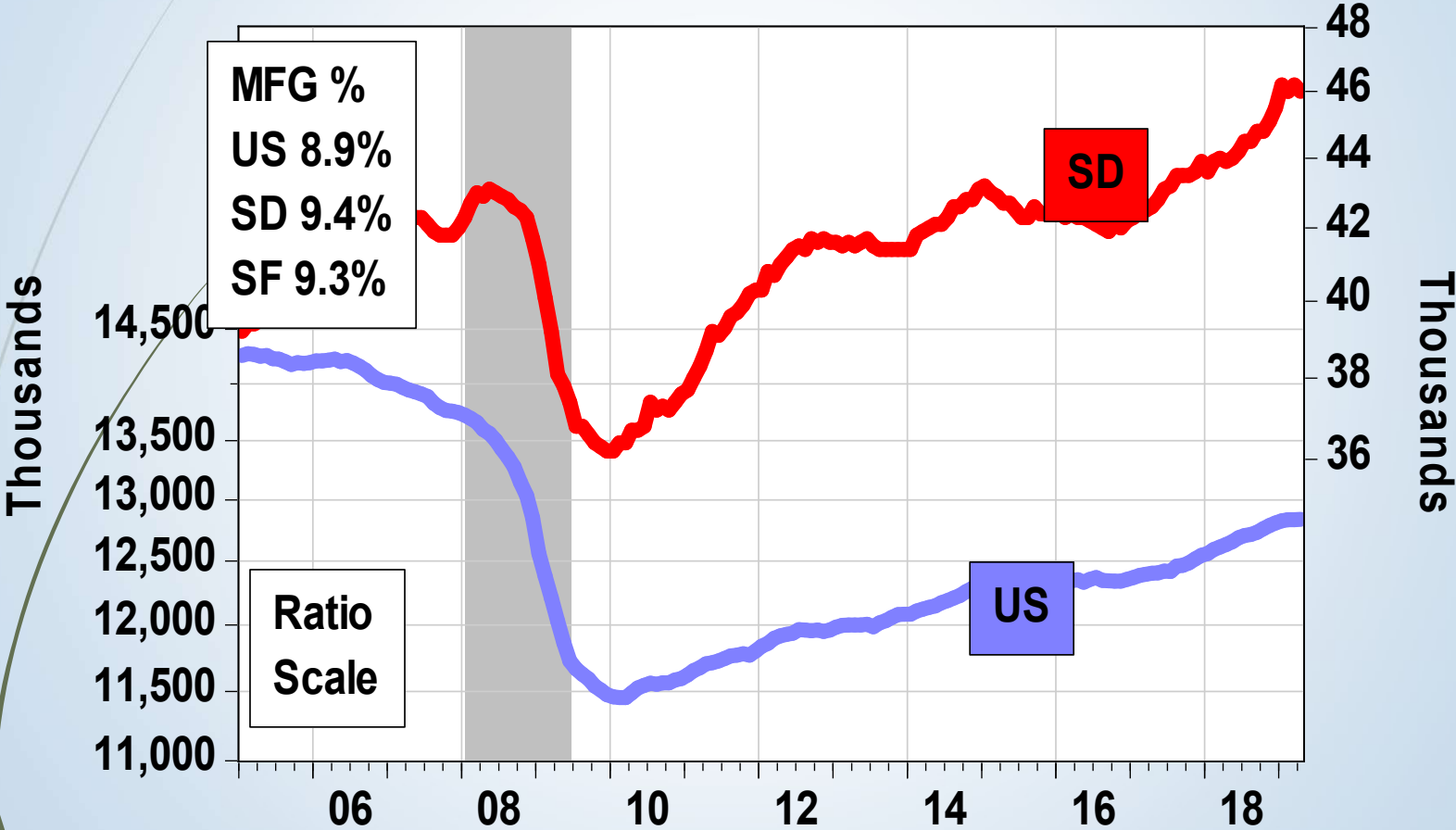
House Price Index



Source: FHLB

High Level

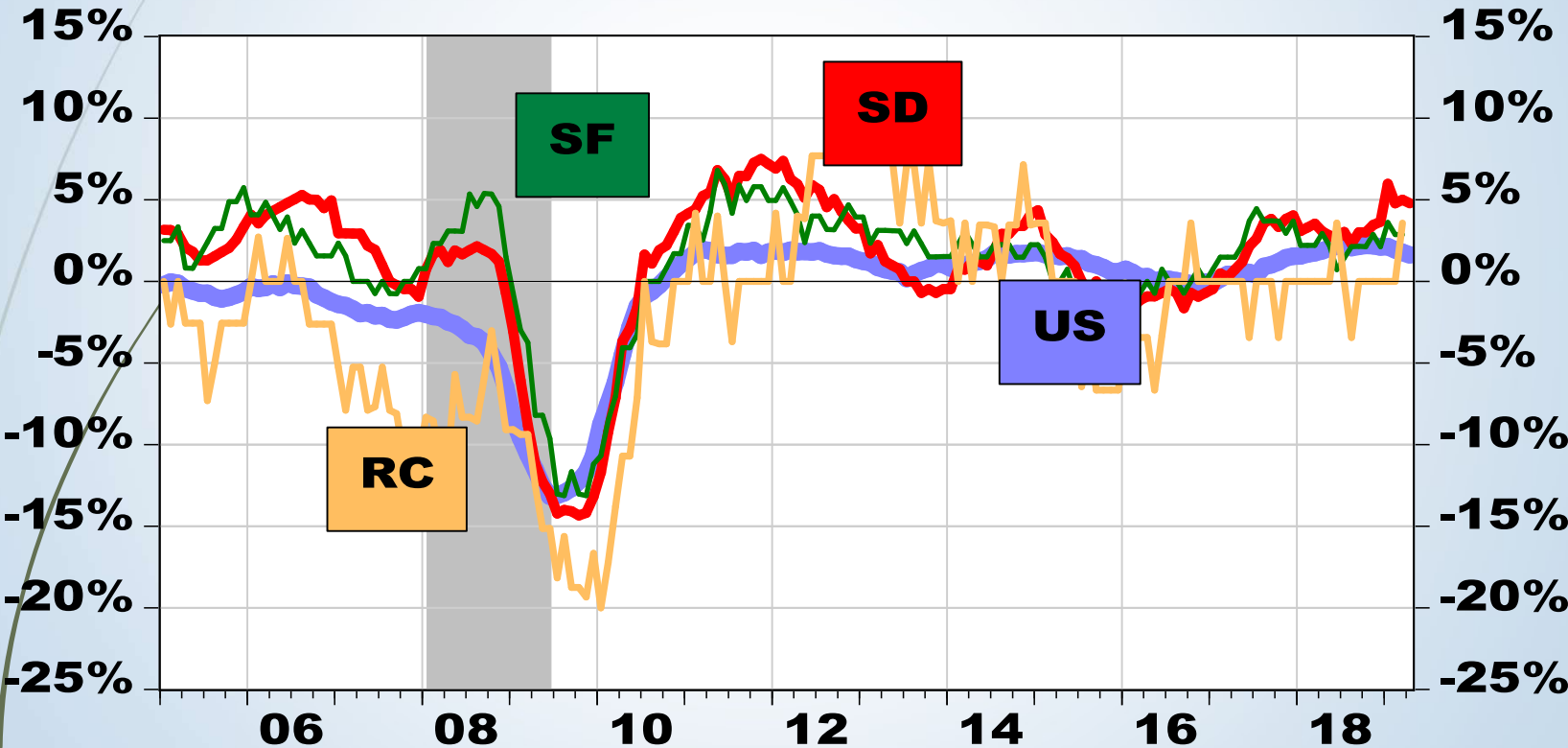
MANUFACTURING EMPLOYMENT



Source: BLS

Divergent Growth

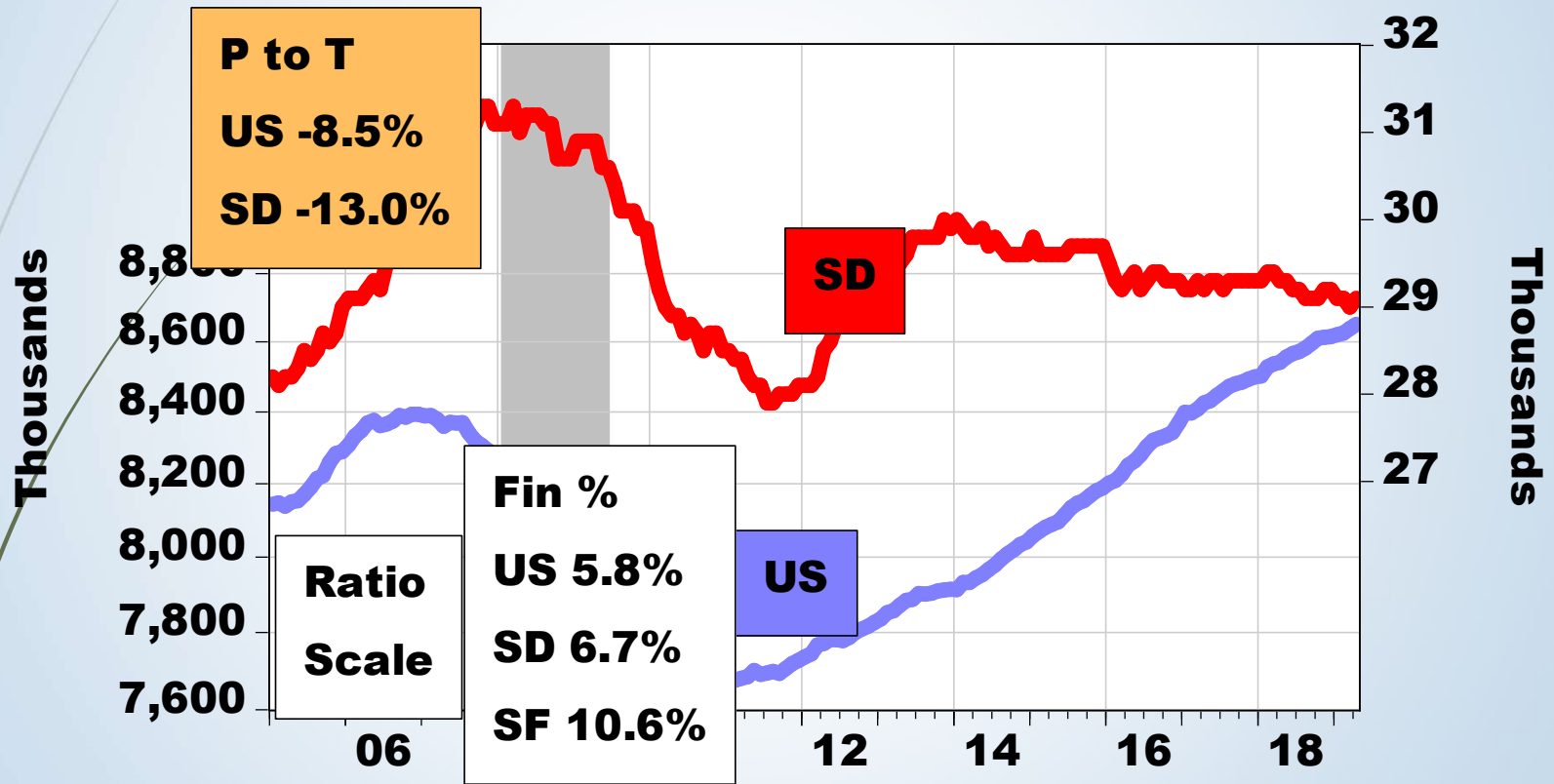
MANUFACTURING EMPLOYMENT



Source: BLS

SD Slight Decline

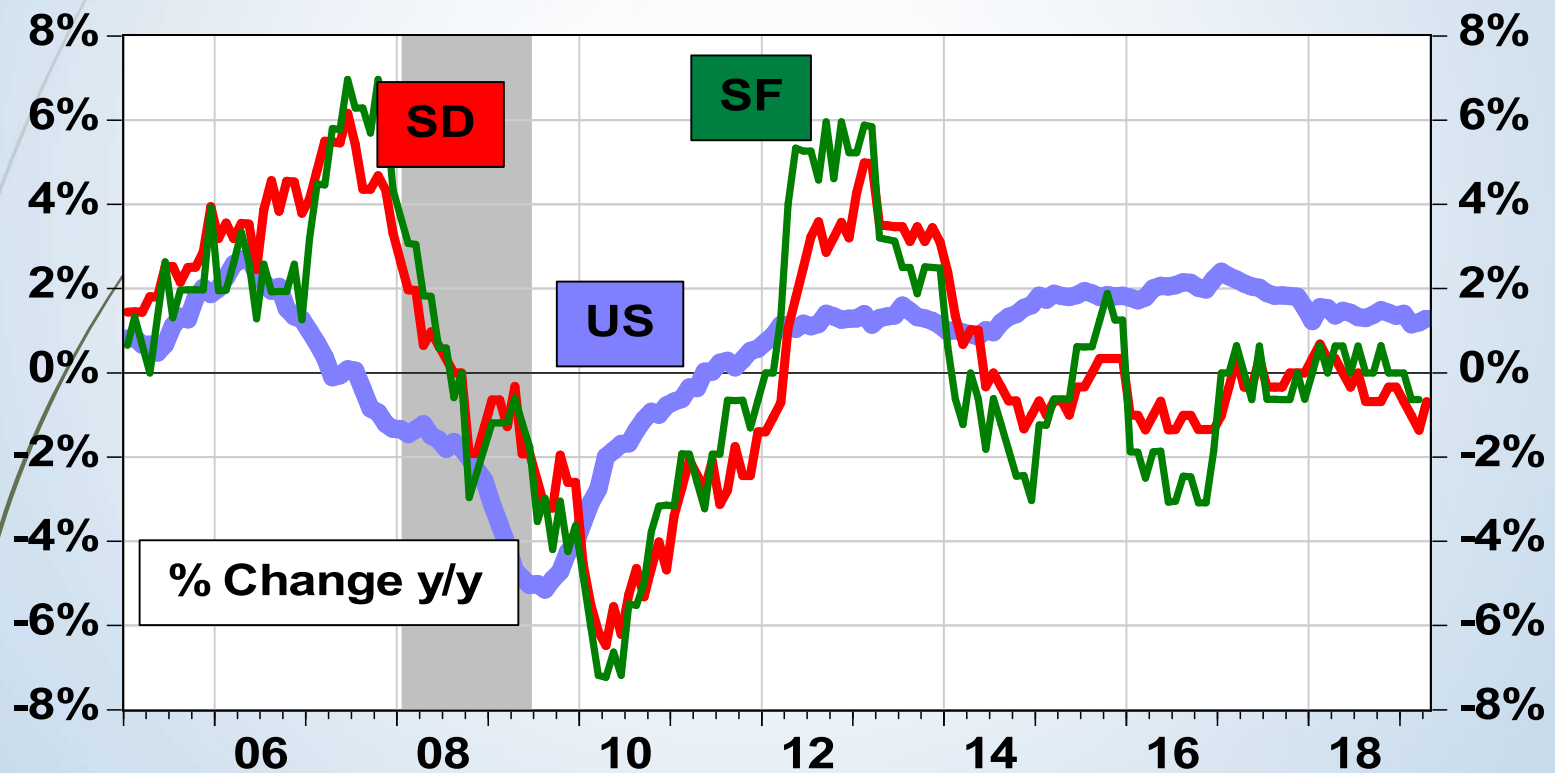
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

Note SD and SF Different Than US

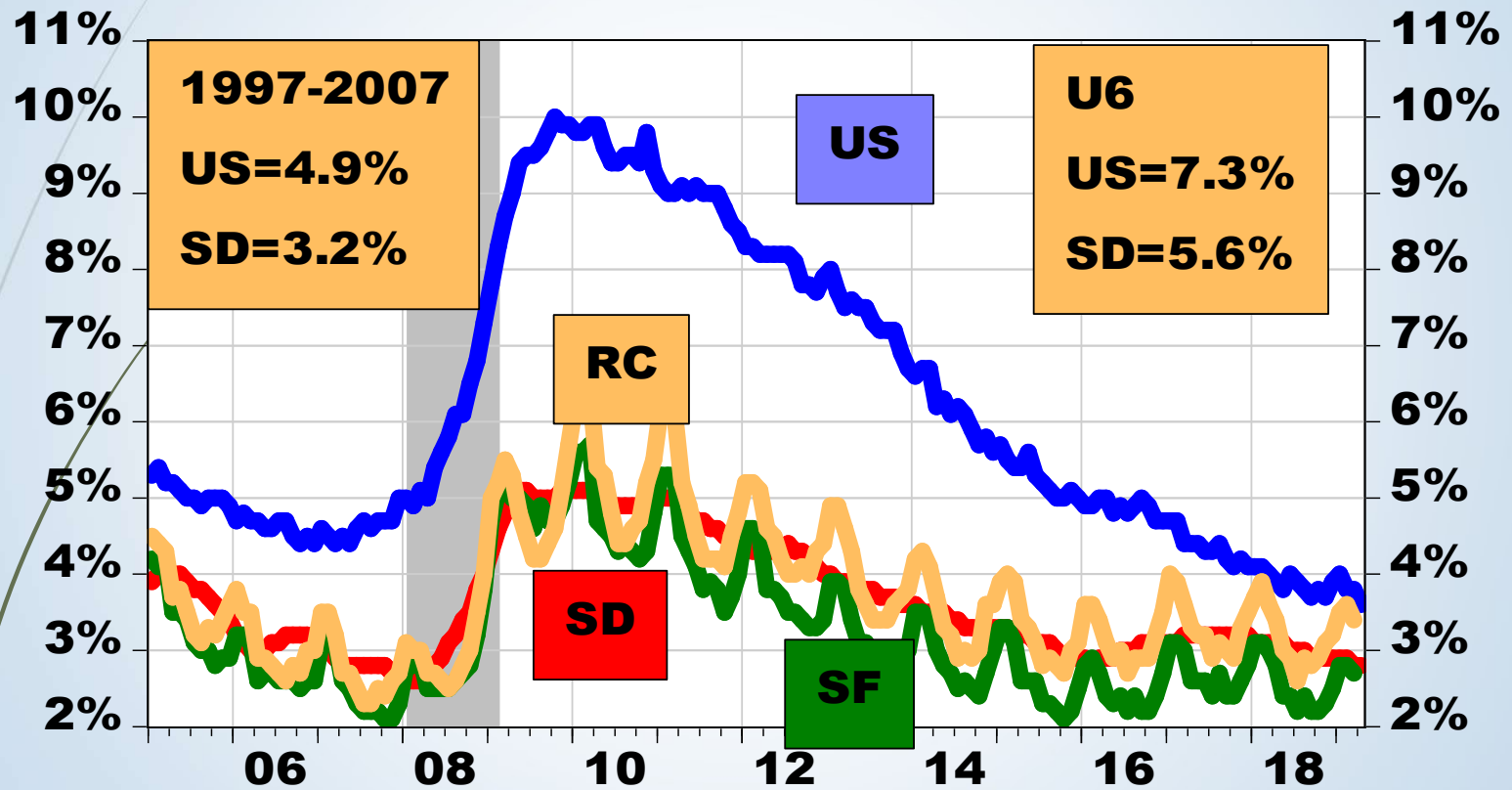
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

US 3.6% SD 2.8% SF 2.7% RC 3.4%

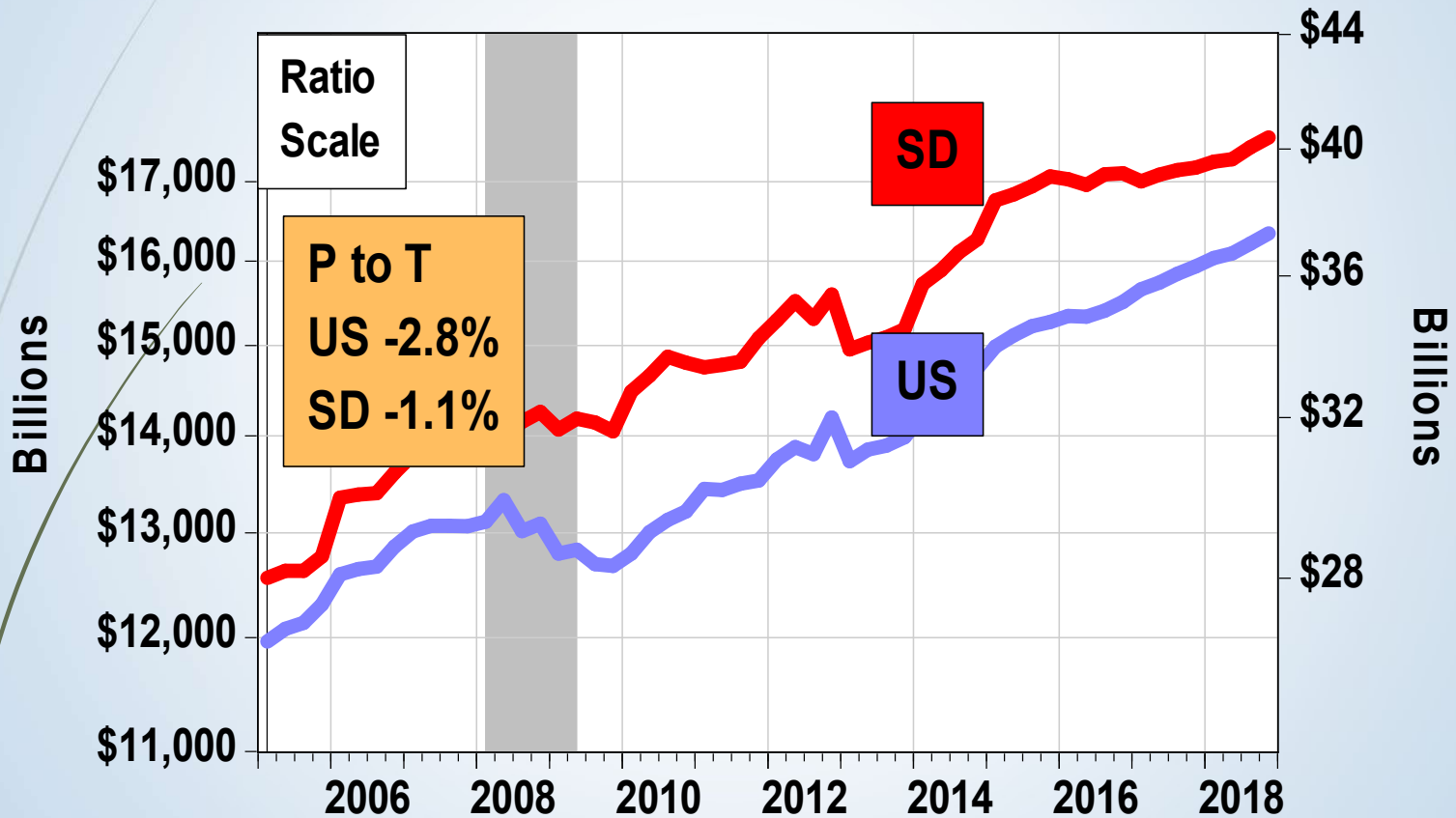
UNEMPLOYMENT RATES



Source: BLS

SD & US Growth

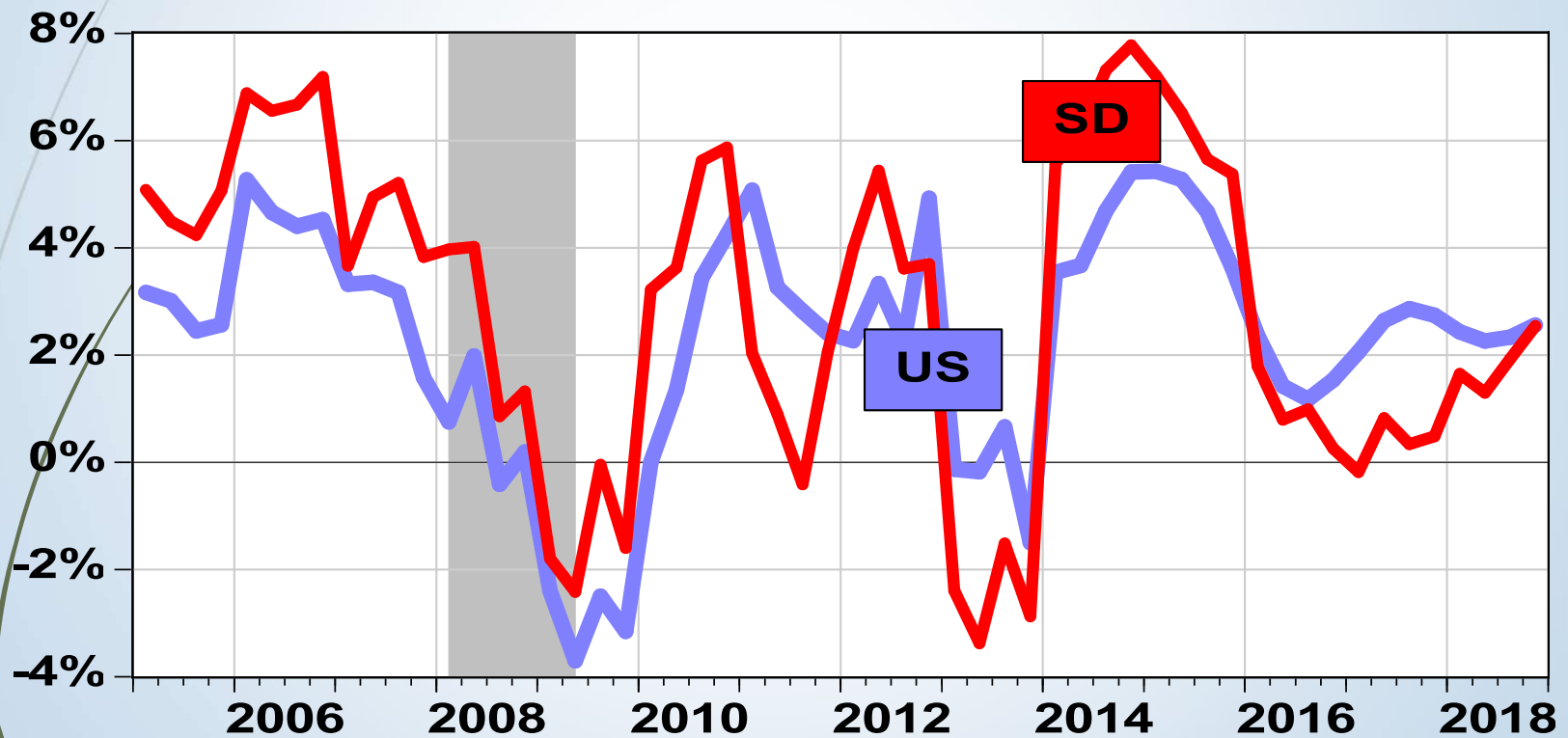
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

US and SD Track

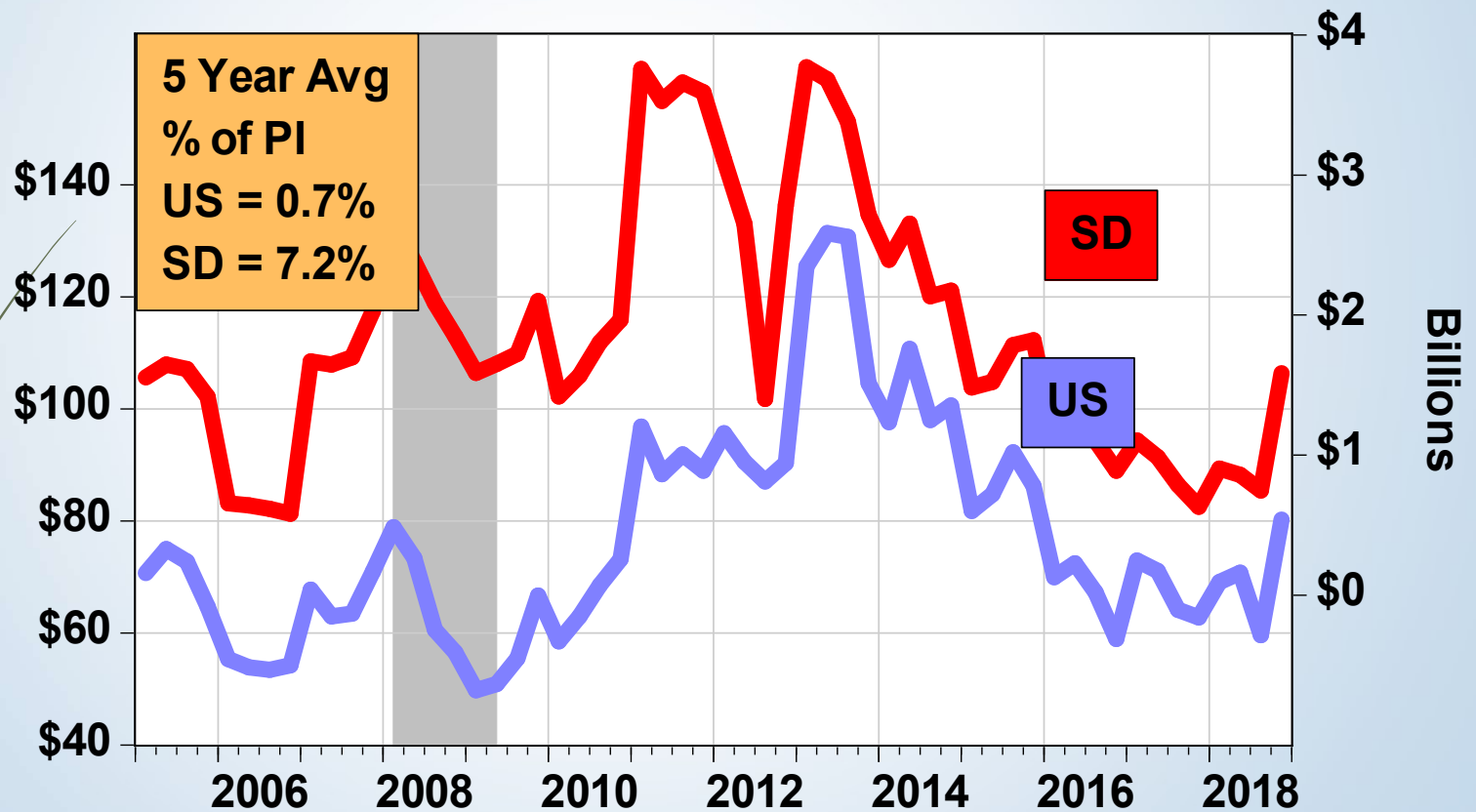
REAL NONFARM PERSONAL INCOME (Year-Over-Year Percent Change)



Source: BEA

Farm Income 4th Qtr Up

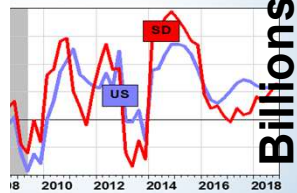
FARM INCOME



Source: BEA

US and SD Track

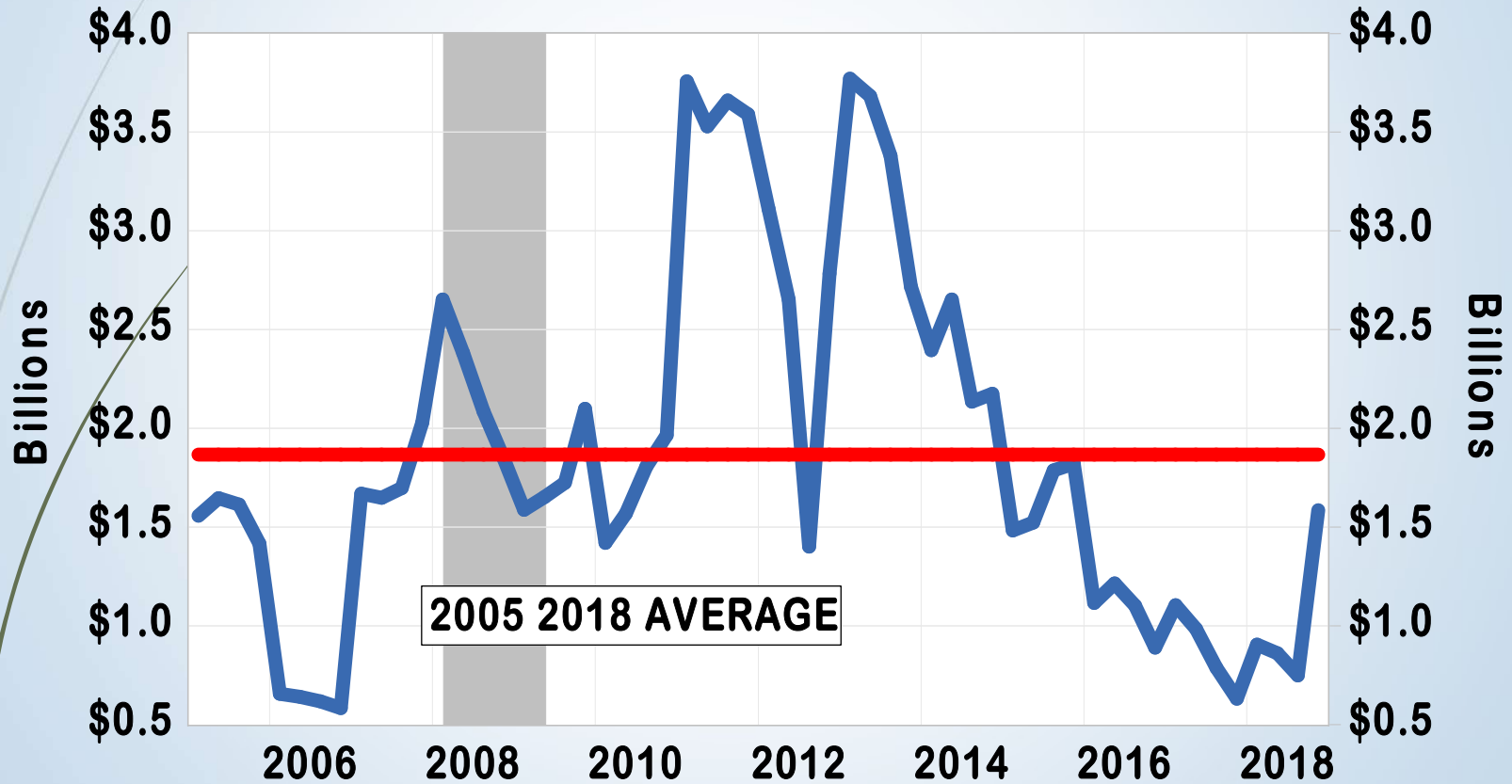
NFARM PERSONAL INCOME
3r-Year Percent Change



Source: BEA

Way Below Average

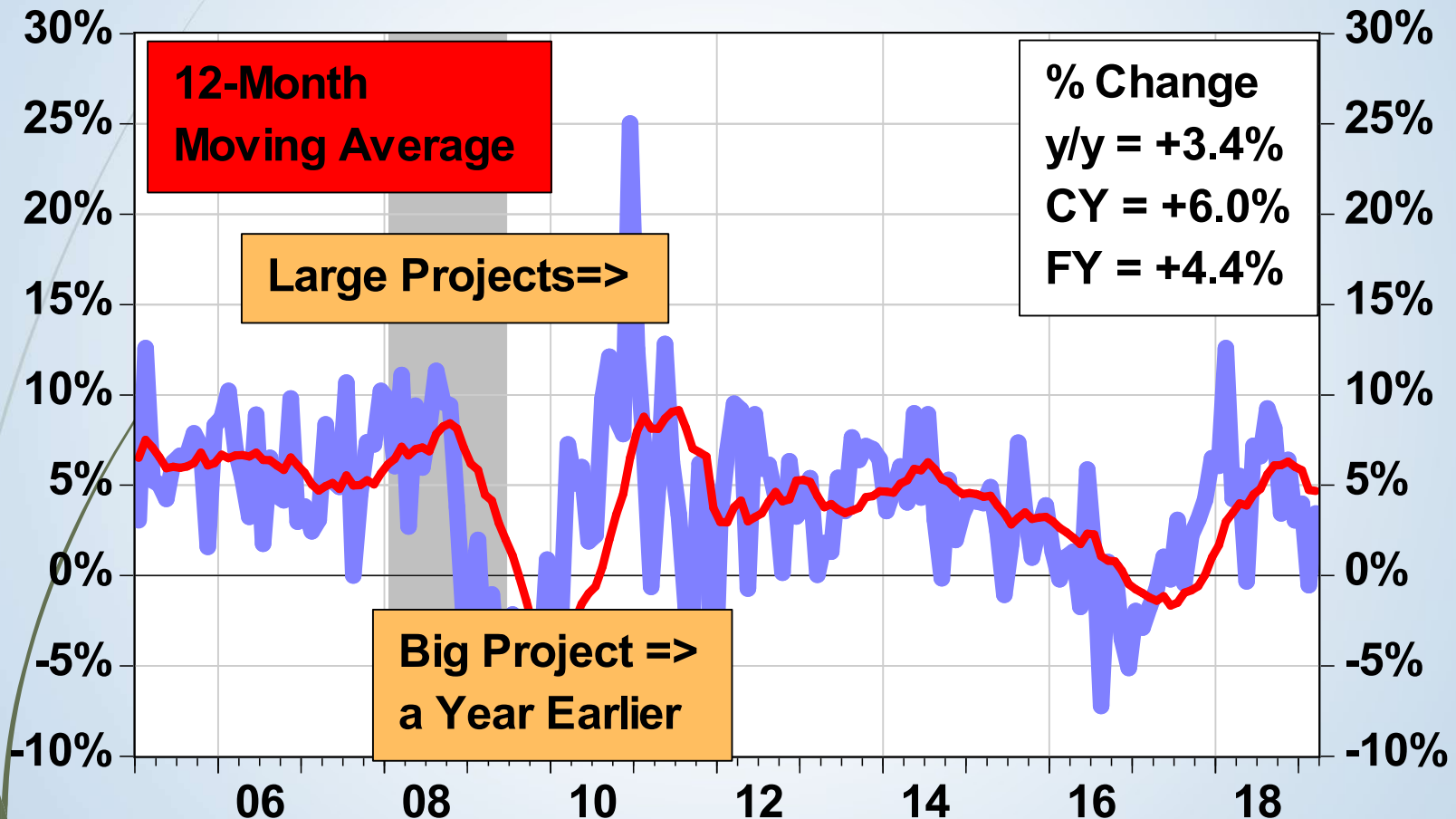
SD Farm Income



Source: BEA

Steady Growth

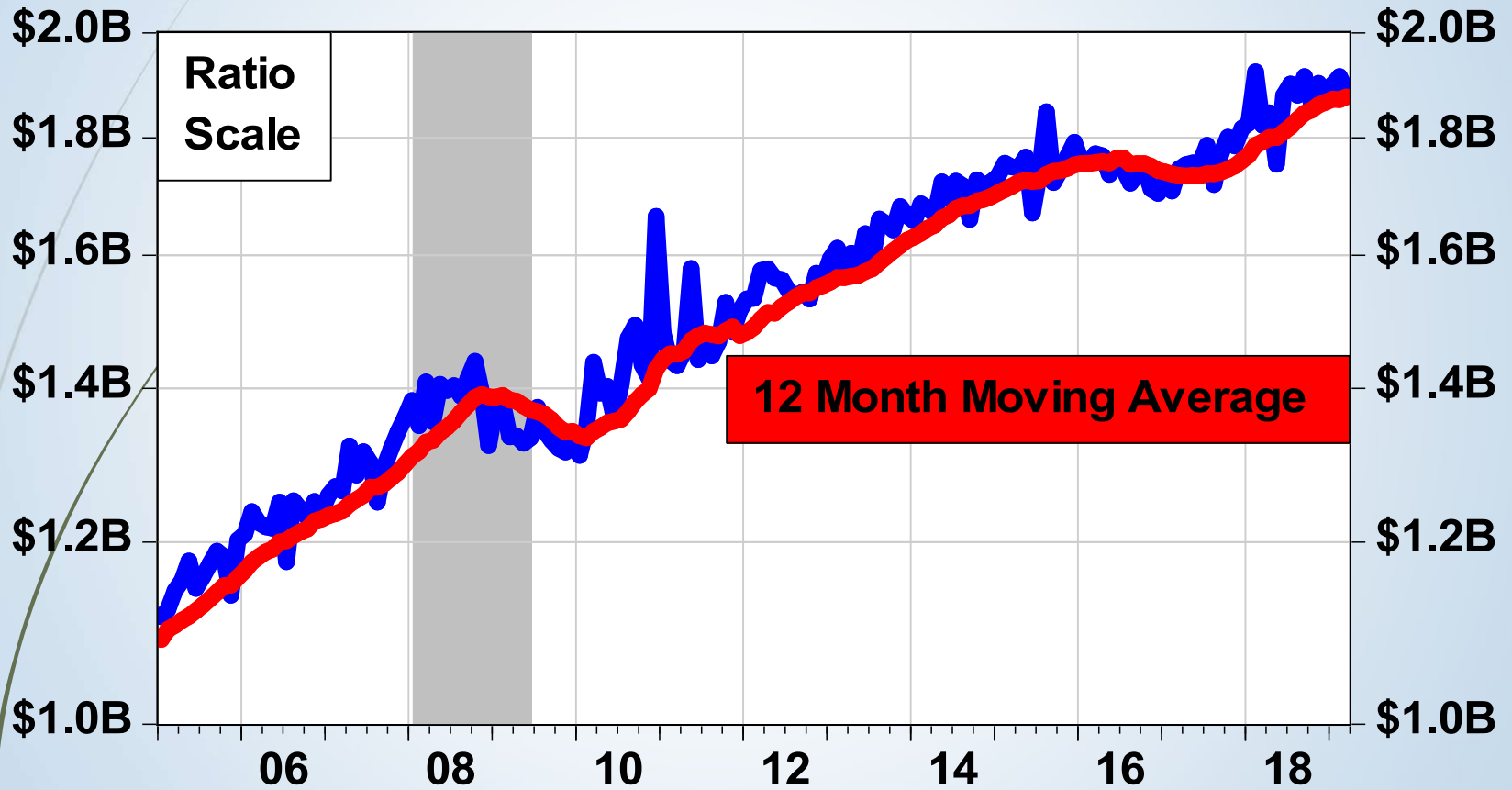
SD TAXABLE SALES



Source: SD Department of Revenue

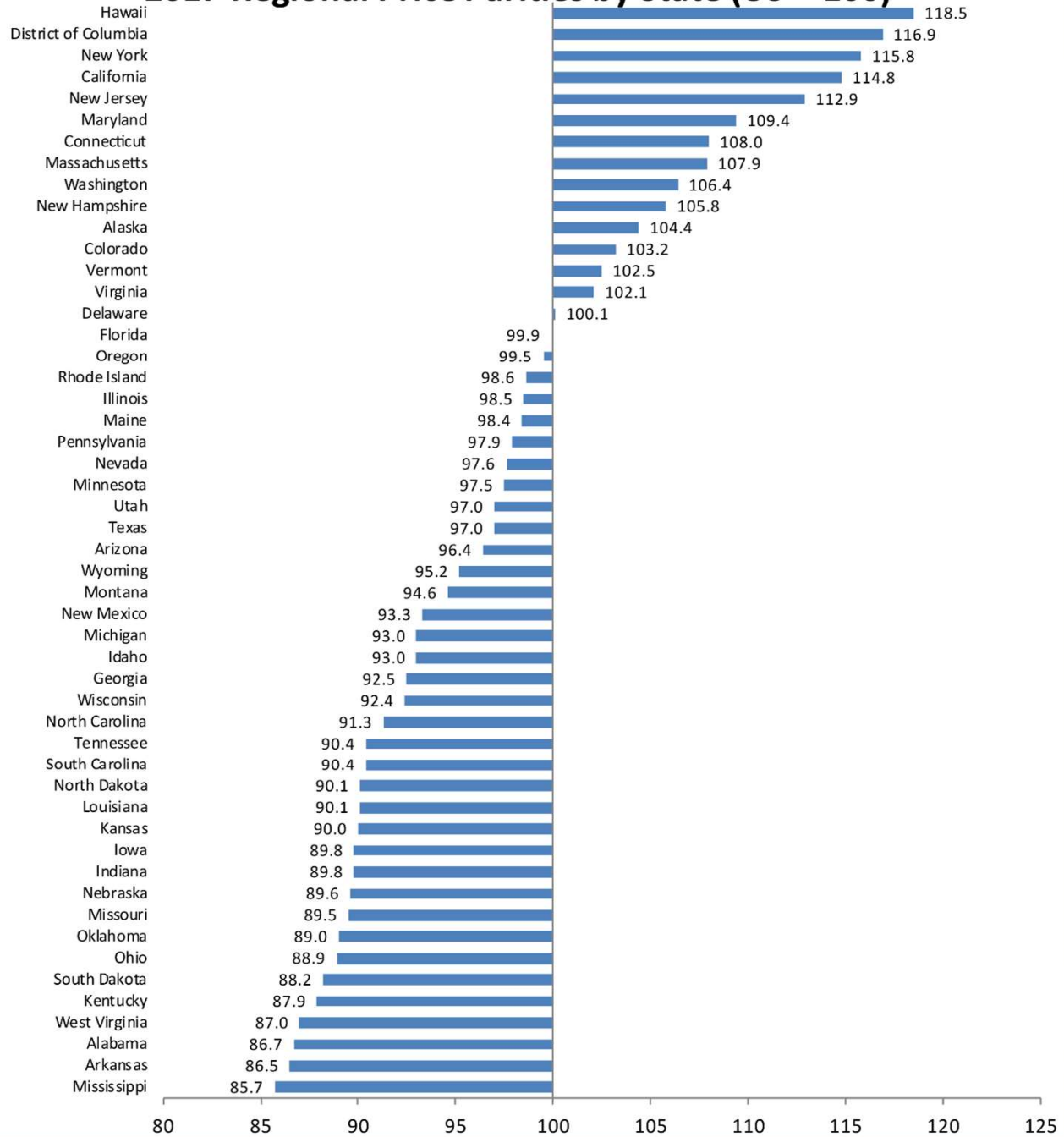
Growth

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 – April

Regional High

Overall 62.2

New Orders 68.7

Sales 66.2


Delivery lead time 60.0

Inventories 60.2

Employment 55.8



Goss Comments

- **“Over the last 12 months, the South Dakota economy has added jobs at a 1.7 percent pace, while durable and nondurable goods manufacturers have expanded jobs at a rate of 1.8 percent and 1.1 percent, respectively.” said Goss.**
- 

Conclusions

SD economy growing at moderate pace

SF economy growing at faster rate

US economy growing nicely

30% chance of recession

Impact of Trade War???

The End

