

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

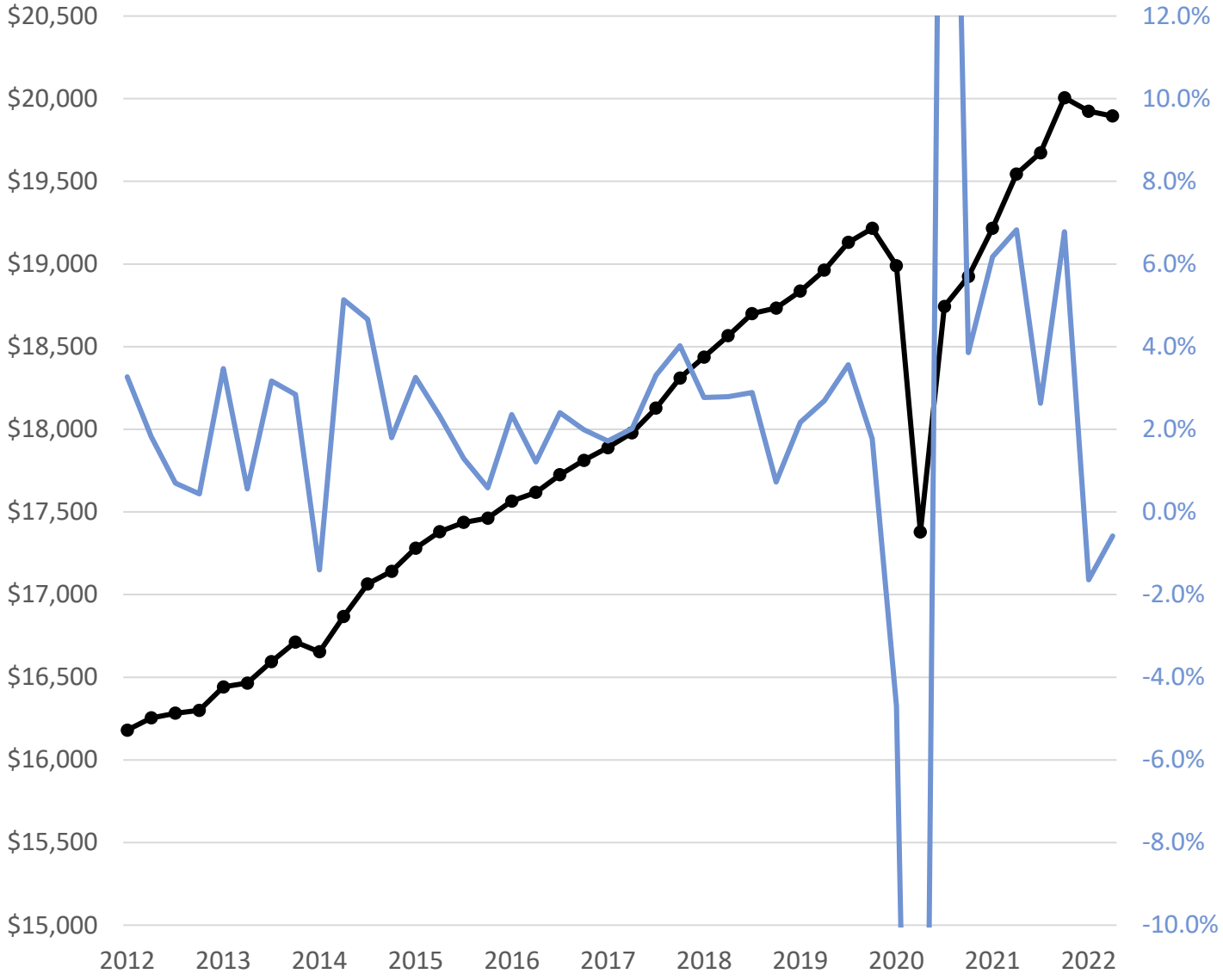
Federal Fiscal Picture

Employment and Unemployment

Inflation



US Real Gross Domestic Product



● Real Gross Domestic Product (Billions; Chained 2012) — Percentage Change from Prior Quarter, Annual Rate

GDP



- Real GDP growth for 2022 is projected at 1.7%. Baseline forecast is -0.5% in 2023 and 1.3% in 2024.
- Real GDP has declined for two consecutive quarters.
- Revised estimates of Real Gross Domestic Income (GDI) show that it grew by less in the first quarter than previous estimates and declined in the second quarter.
- Gross Domestic Output (average of GDP and GDI) contracted in both quarters.

Components of GDP

Consumption (68.4%)

Investment (18.3%)

Government (17.5%)

Net Export (-4.1%)

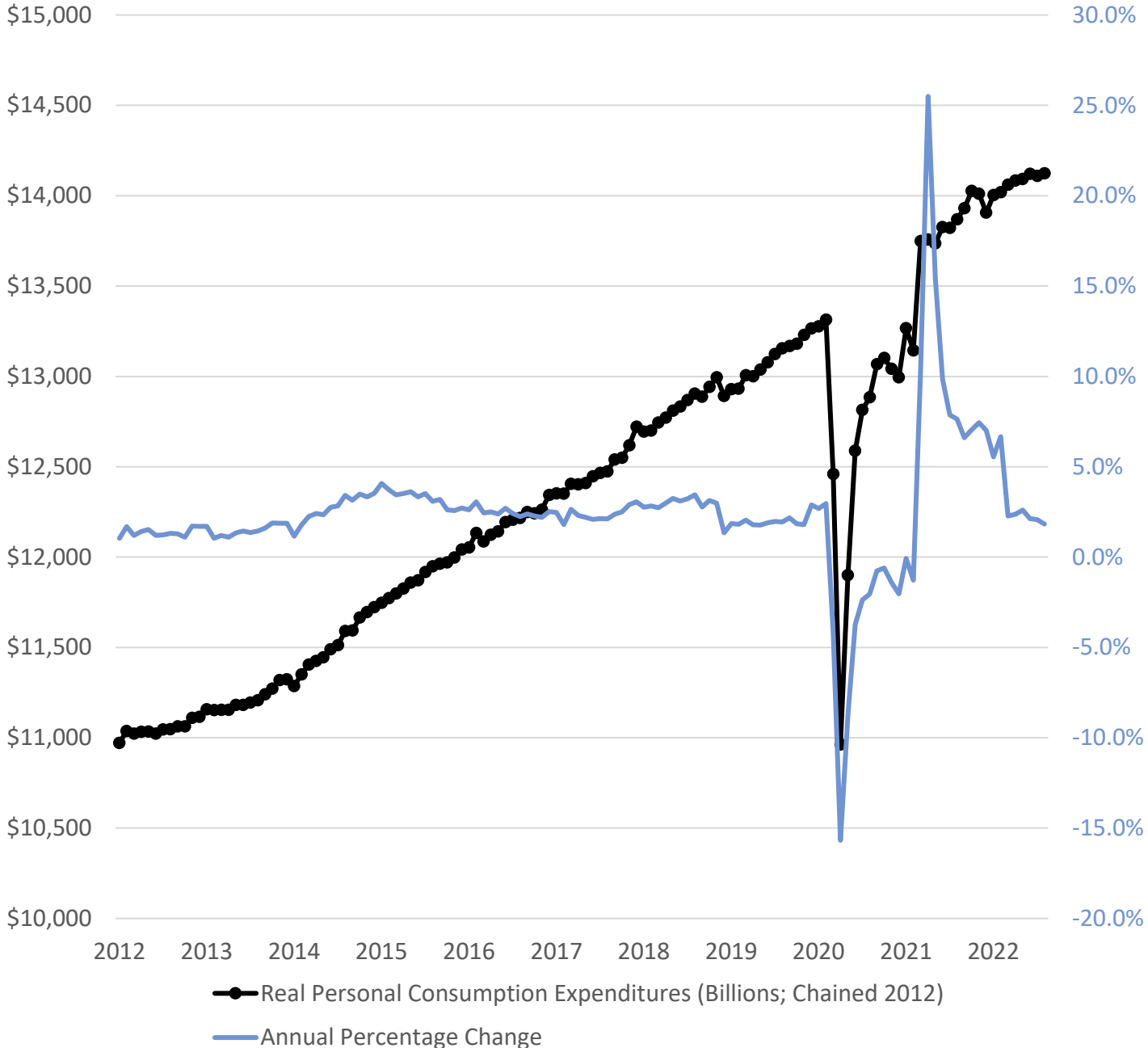
Consumption



- Tighter financial conditions lower forecast of equity values and household net worth for remainder of 2022 and 2023, which lower forecast of consumer spending in the short term.
- Real personal consumption expenditures grew 8.3% in 2021.
- Projected growth is at 2.5% in 2022, 0.3% in 2023, and 1.4% in 2024.
- Modest growth in real personal consumptions expenditures on services is offset by ongoing weakening in expenditures on goods, intensifying in the 4th quarter of 2022.

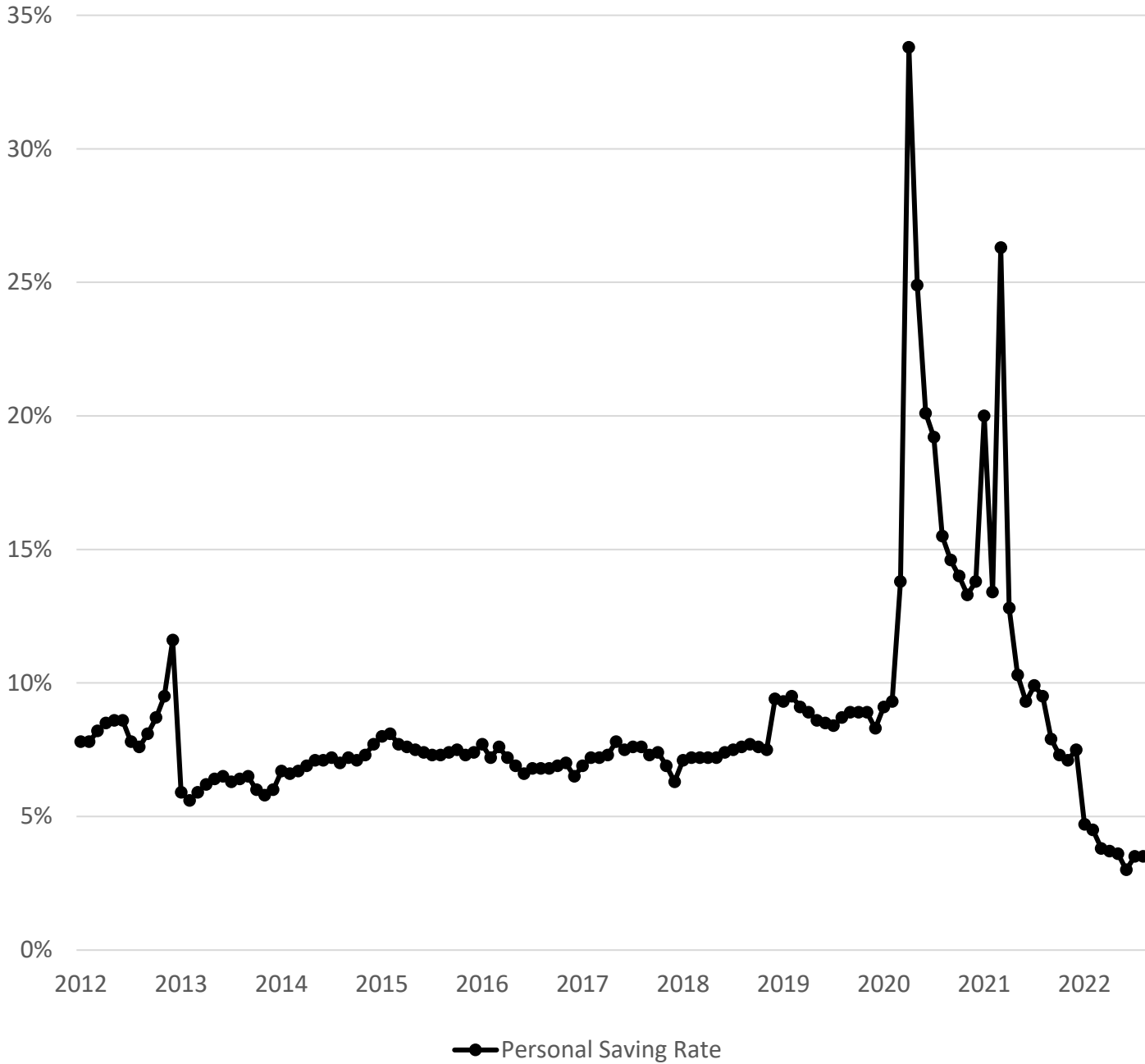


US Real Personal Consumption Expenditures





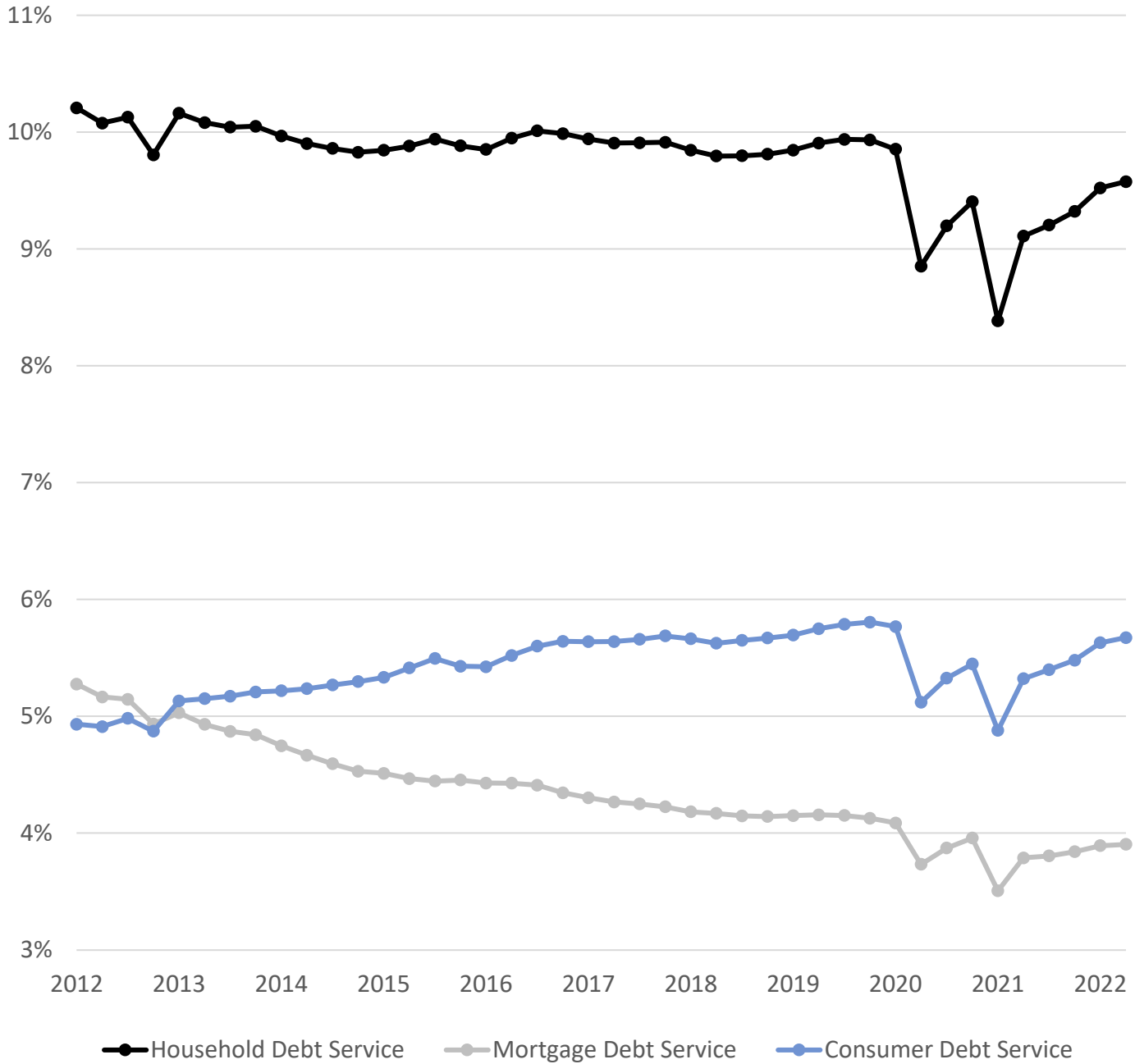
US Personal Saving Rate



● Personal Saving Rate

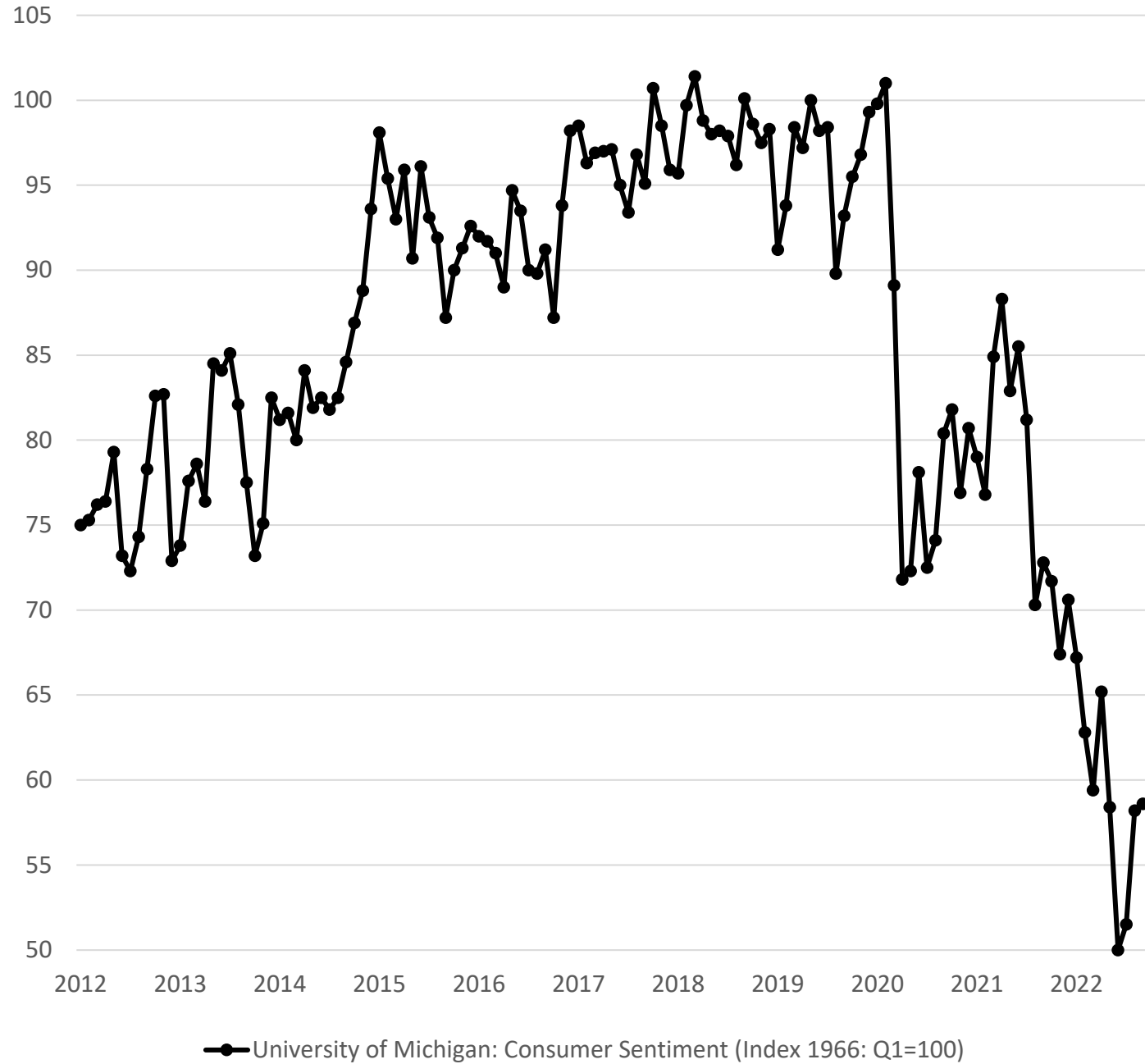


US Household Debt Service Ratio





US Consumer Sentiment



—●— University of Michigan: Consumer Sentiment (Index 1966: Q1=100)

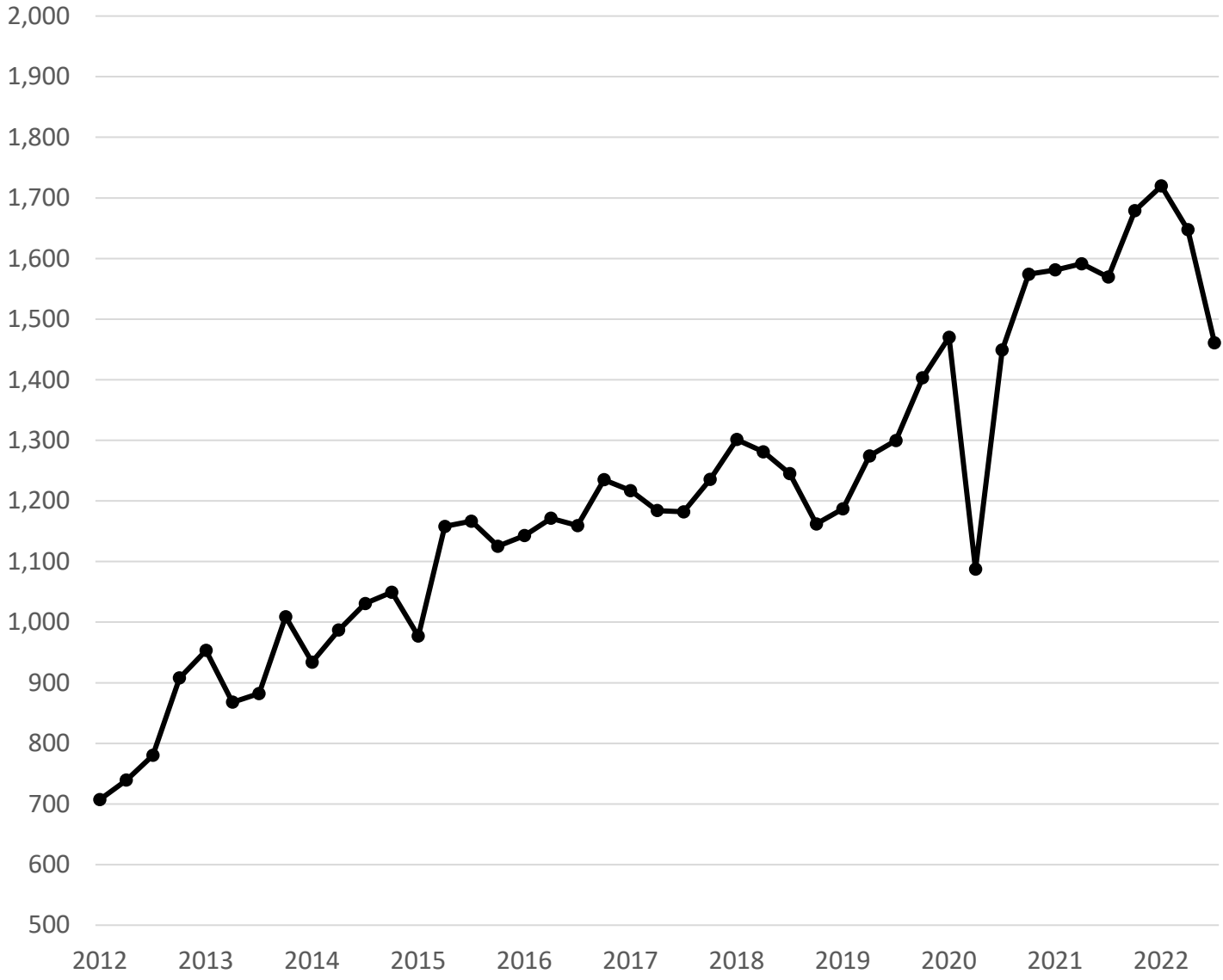
Investment



- Recession is investment-led.
- Real business fixed investment is projected to slow from 3.2% in 2022 to -1.6% in 2023 and -0.2% in 2024 due to continued erosion of financial conditions and weaker output.
- Residential investment projected at -10.7% in 2022, -14.4% in 2023, and 6.1% in 2024.
- Housing starts are expected to slow from 1.57M in 2022 to 1.22M in 2023 and 1.32M in 2024. Housing activity weakening due to higher prices and increases in mortgage rates.



US Housing Starts



● Housing Starts (thousands - annual rate)

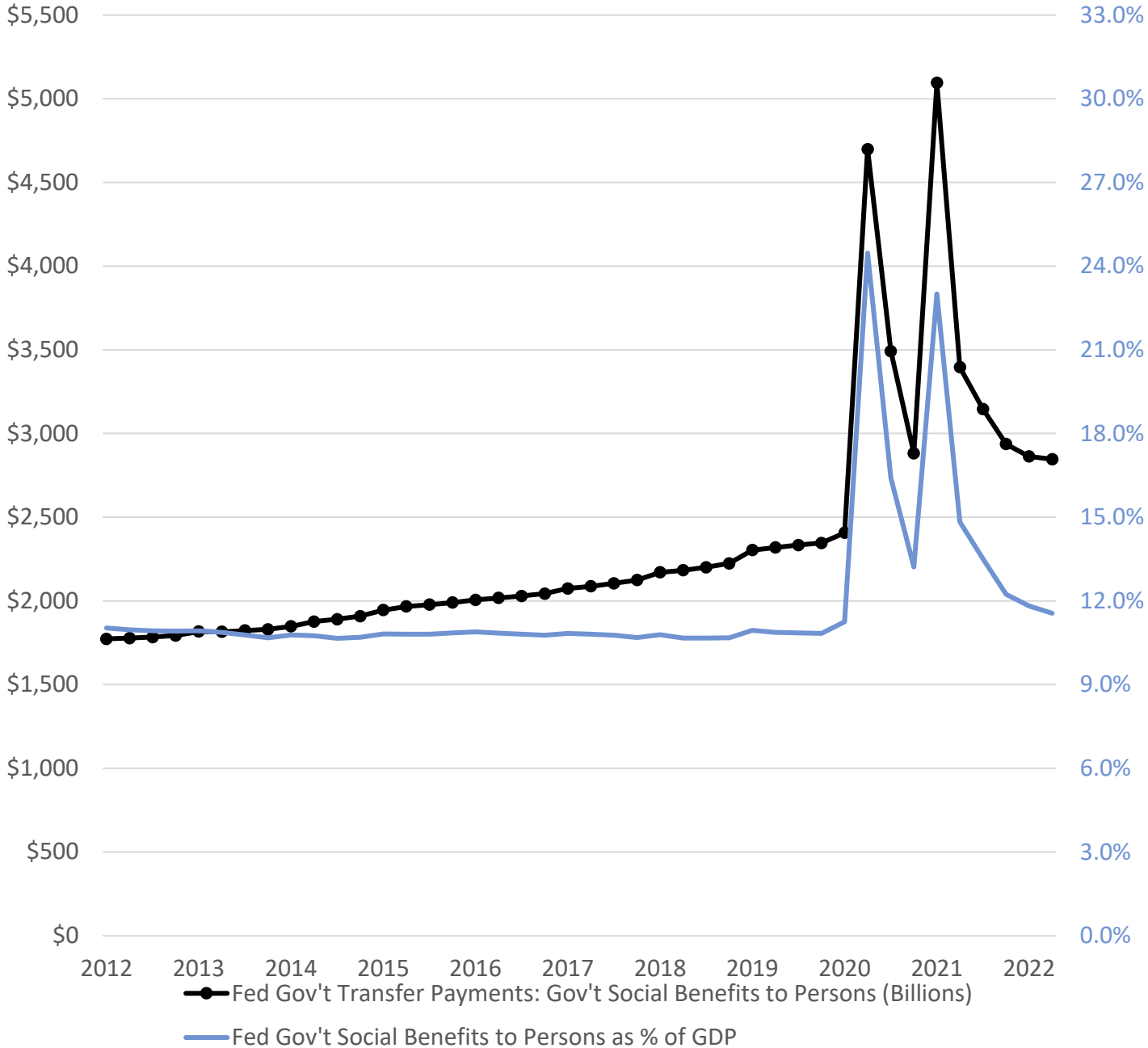
Federal Fiscal Picture



- 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 the first quarter of 2023.
- Federal Open Market Committee raised the target federal funds rate by 75 basis points in September to a target range of 3.00%-3.25%.
- Forecast is for the fed to raise its policy rate to the range of 4.50%-4.75% by March 2023.

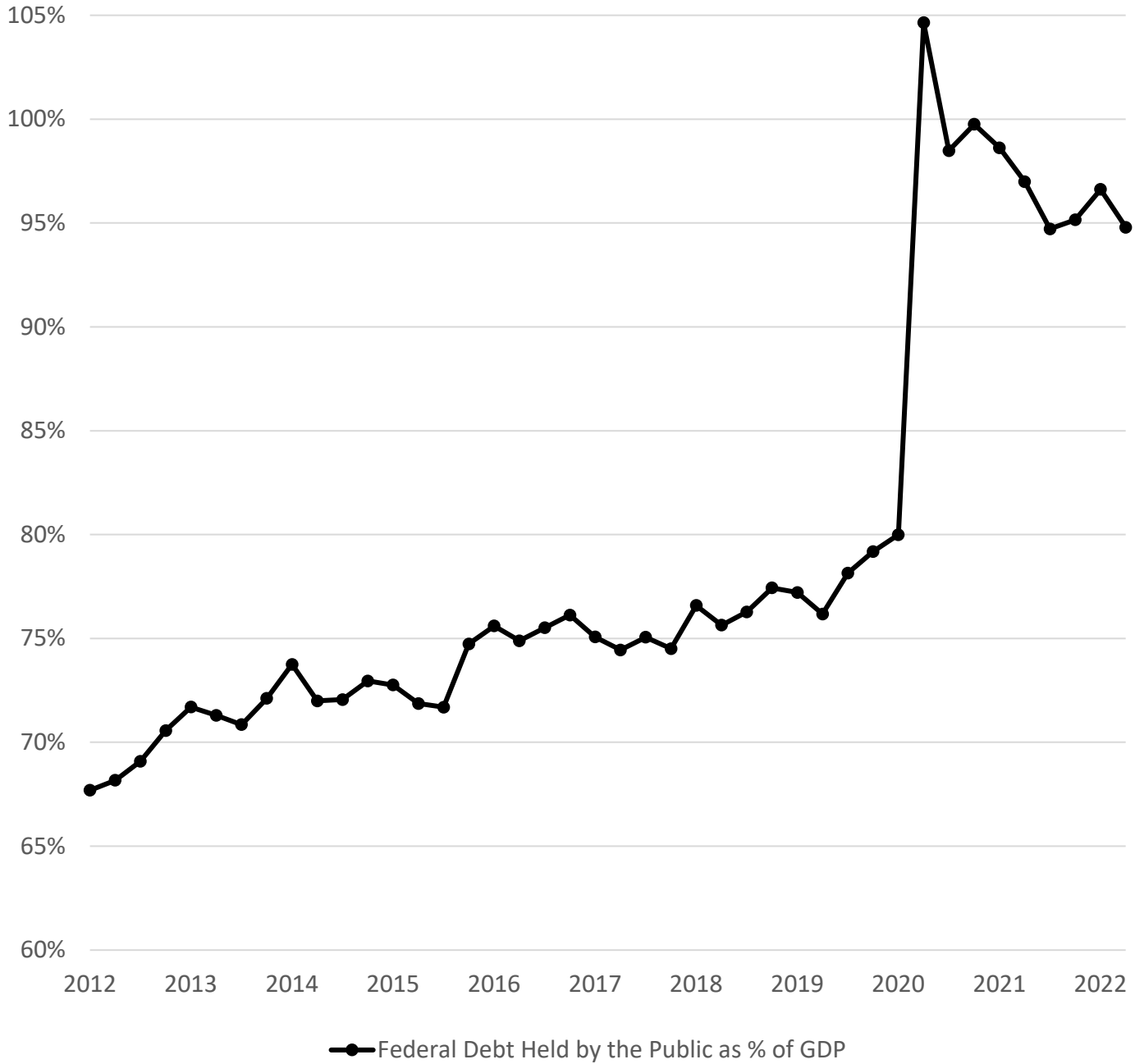


Government Sector





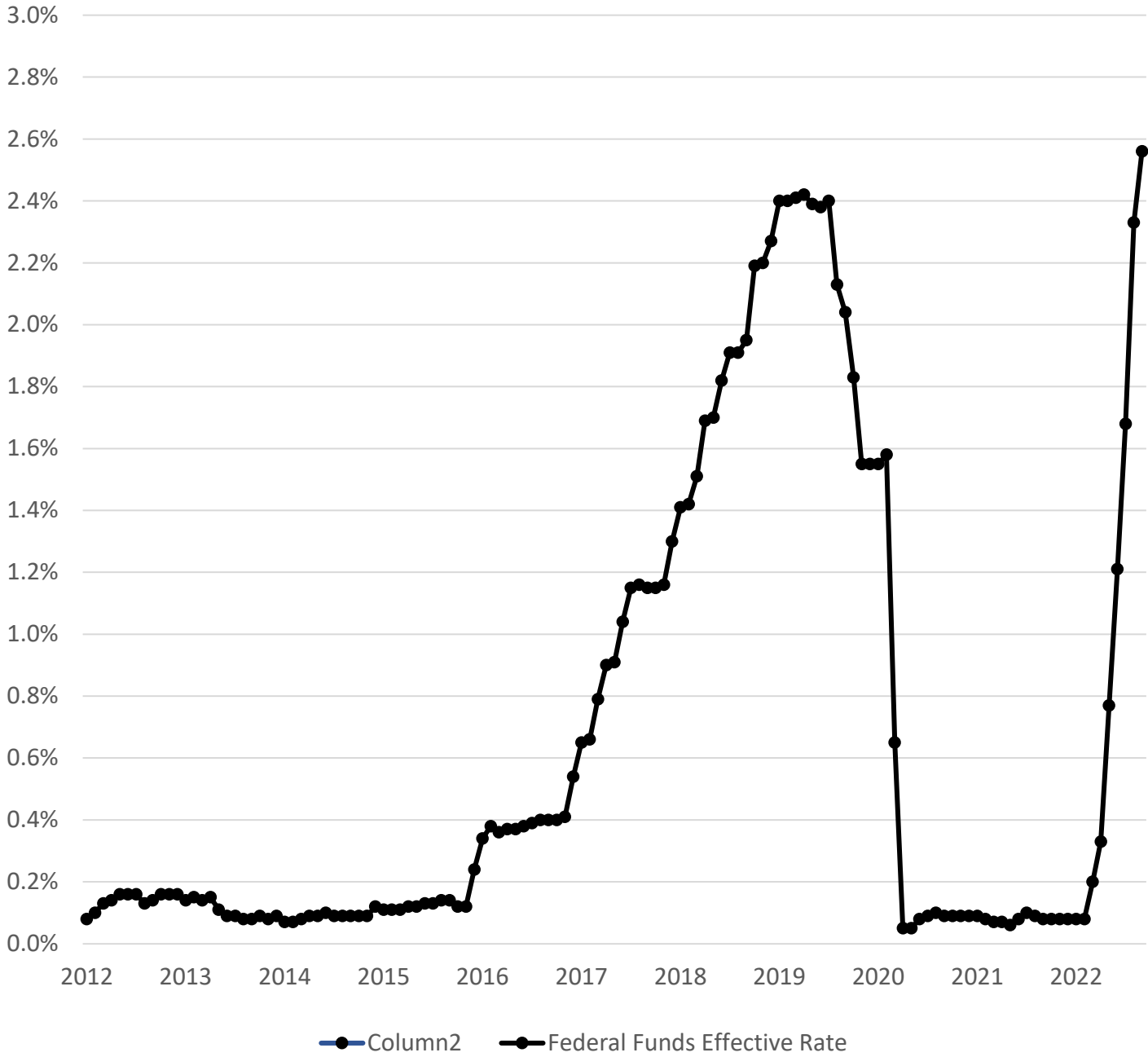
Debt Held by Public



● Federal Debt Held by the Public as % of GDP



Interest Rates

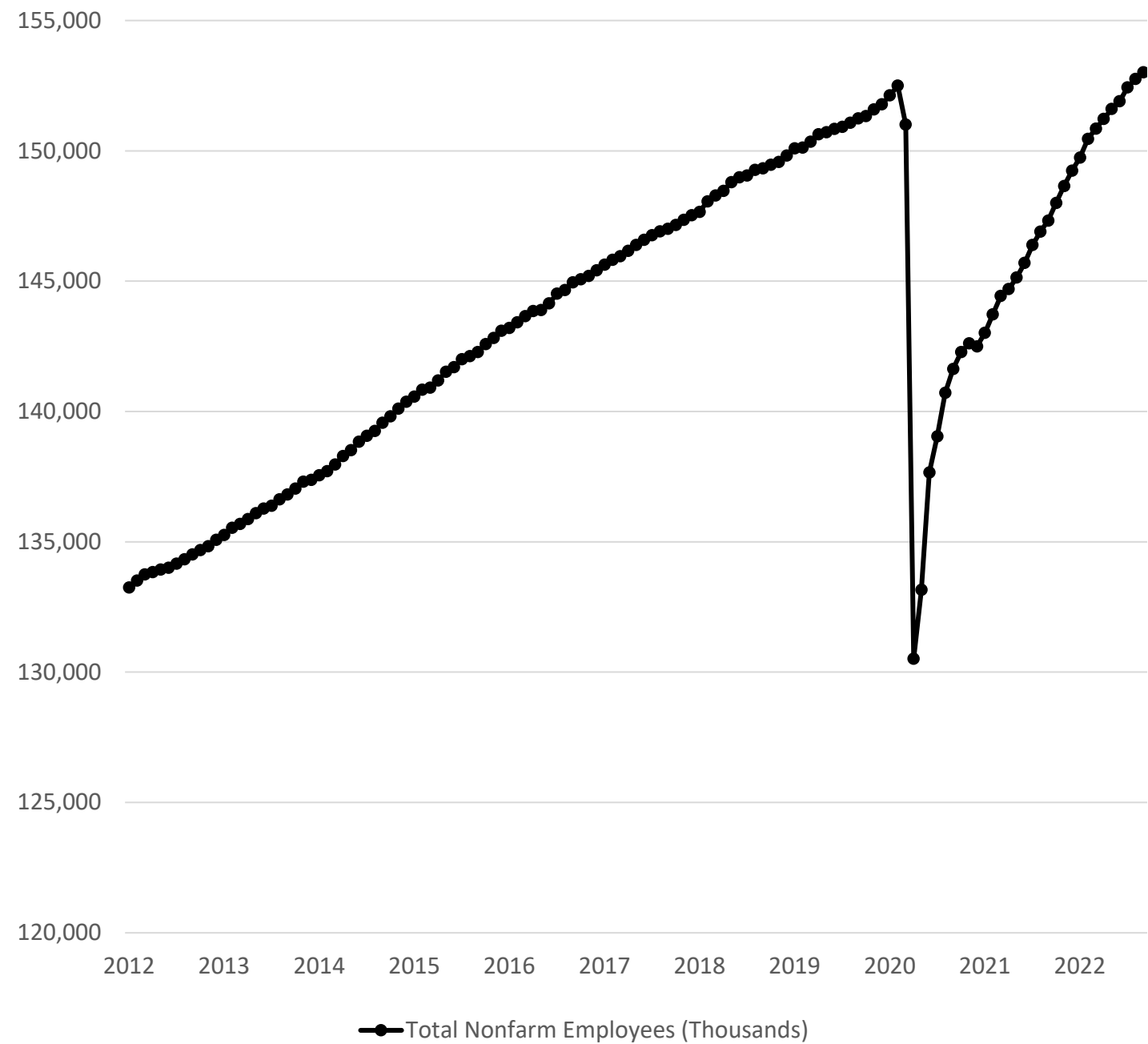


Employment and Unemployment

- Nonfarm payroll employment rose 263k in September, in line with expectations.
- Trend in payroll gains has slowed. Employment growth projected to slow from 4.0% in 2022 to -0.4% in 2023 and -0.5% in 2024.
- The unemployment rate at 3.5% in September, still at the pre-pandemic low.
- Unemployment rate projected to increase from 3.7% in 2022 to 5.1% in 2023 and 5.7% in 2024.
- Job openings declining.



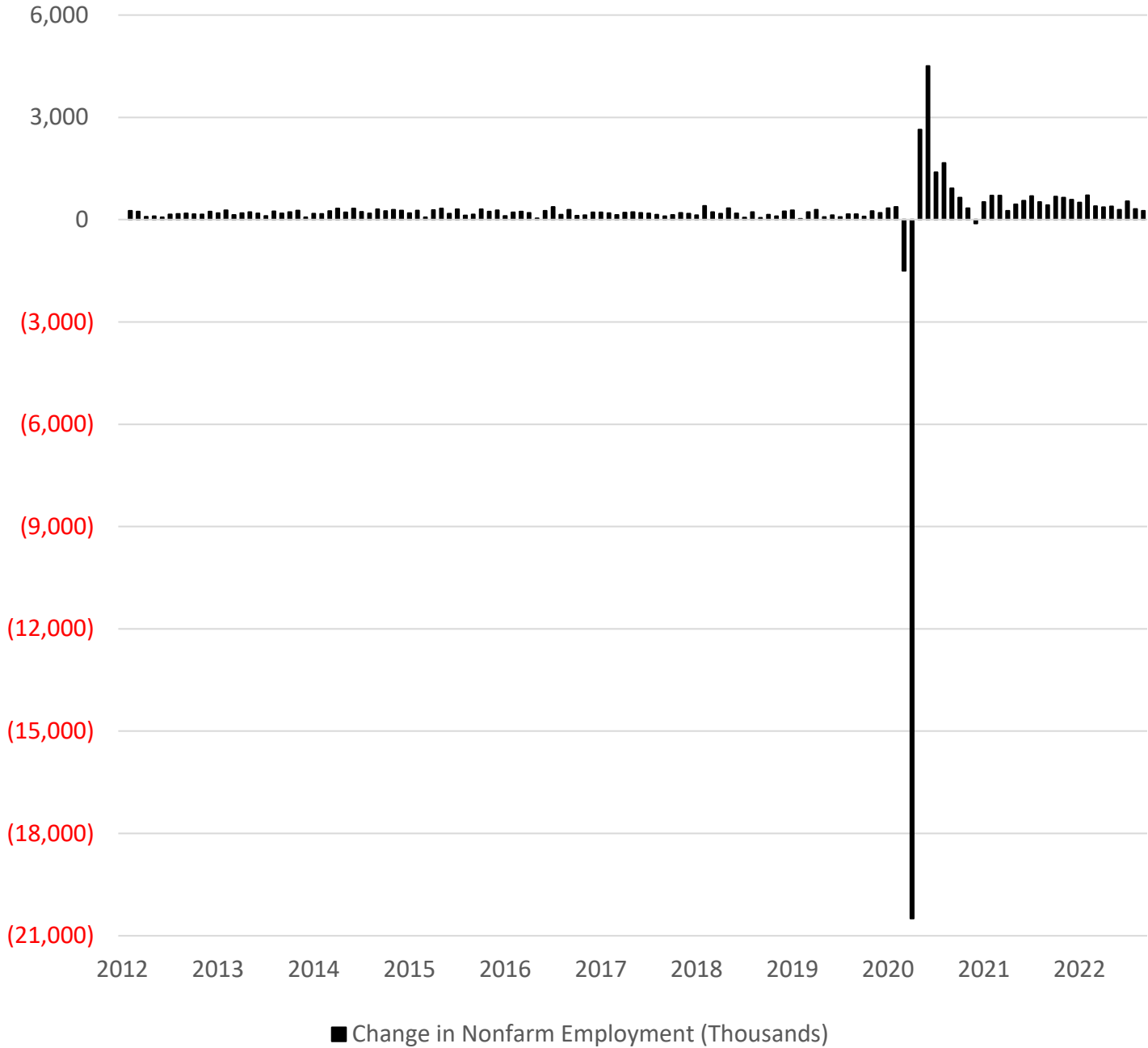
US Employment Growth



—●— Total Nonfarm Employees (Thousands)

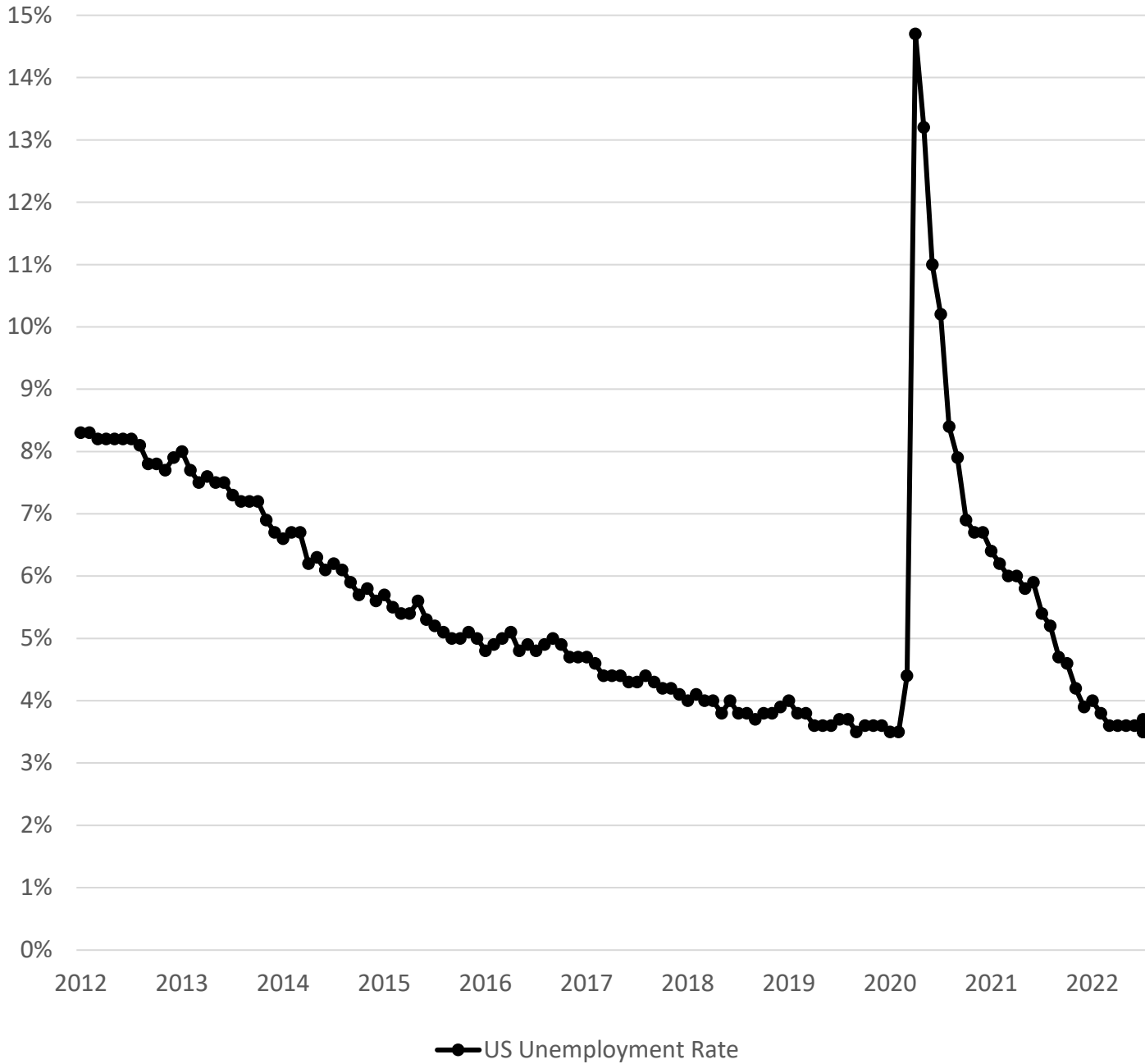


US Employment Growth





US Unemployment Rate



—●— US Unemployment Rate



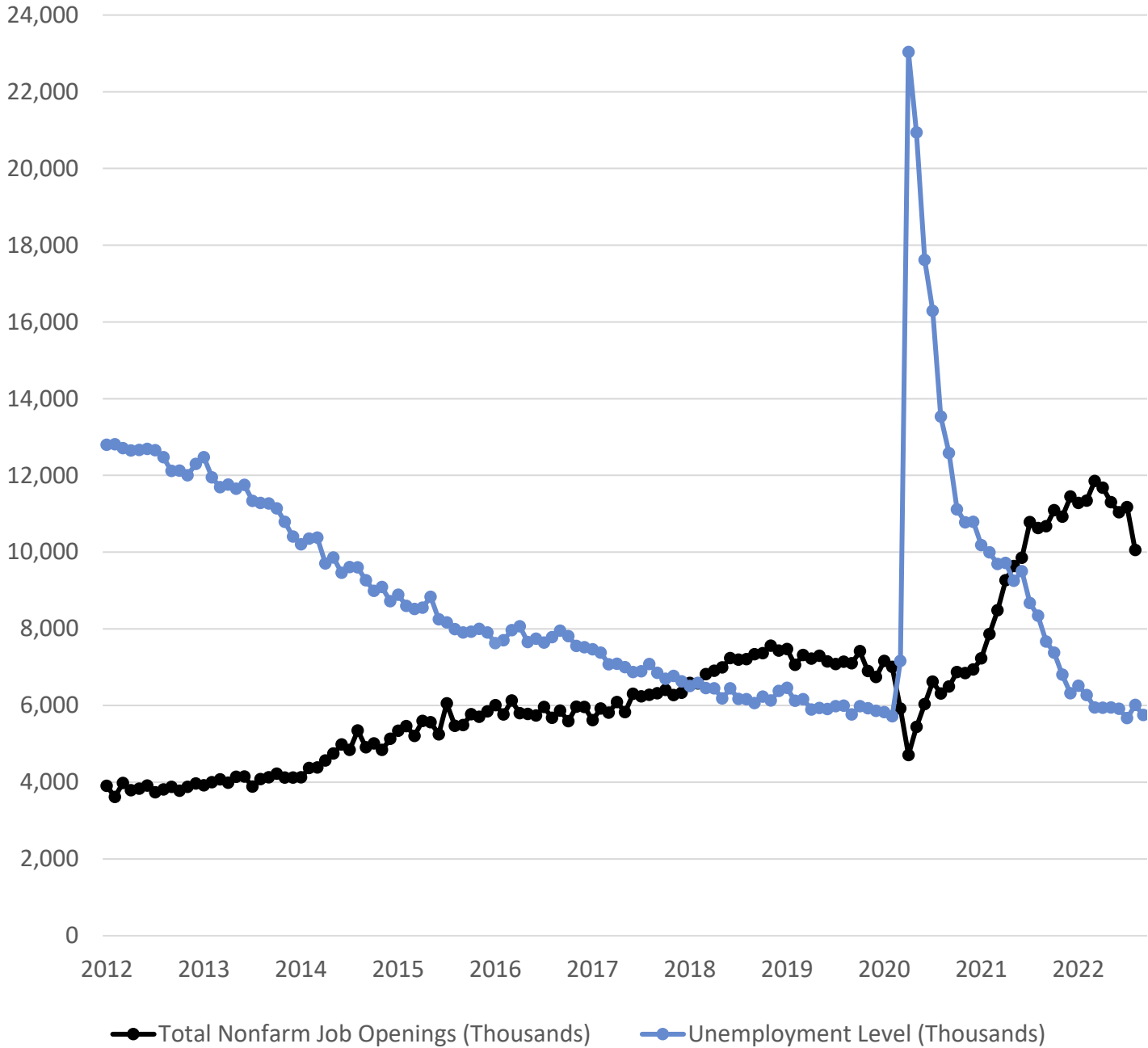
US Labor Force Participation Rate



—●— US Labor Force Participation Rate



US Job Openings vs. Unemployed



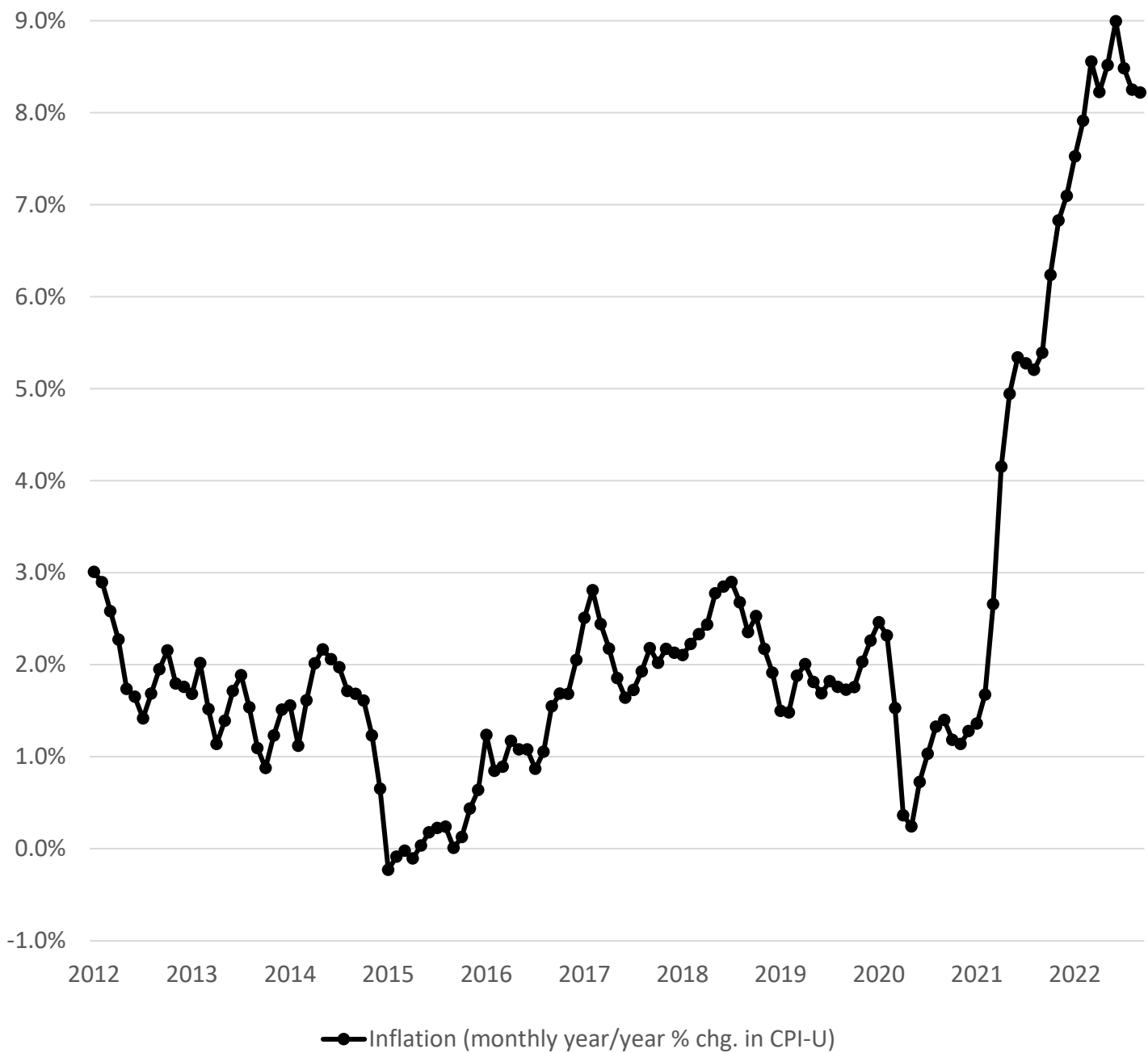
—●— Total Nonfarm Job Openings (Thousands) —●— Unemployment Level (Thousands)

Inflation

- CPI expected to rise 8.1% in 2022, 4.2% in 2023, and 2.5% in 2024.
- PPI on finished goods projected to rise 13.5% in 2022, 1.9% in 2023, and 0.0% in 2024.
- Brent Crude spot price is forecast to decline from \$103 in 2022 to \$87 in 2023 and \$87 in 2024.



Inflation: CPI



—●— Inflation (monthly year/year % chg. in CPI-U)

IHS Markit Forecast - US

	2017	2018	2019	2020	2021	2022 f	2023 f	2024 f	'11-'21 avg.
Real GDP Growth	2.2%	2.9%	2.3%	-2.8%	5.9%	1.7%	-0.5%	1.3%	2.1%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.8%	4.0%	-0.4%	-0.5%	1.1%
Personal Income	4.6%	5.0%	5.1%	6.7%	7.4%	2.1%	3.7%	4.6%	4.9%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.7%	5.1%	5.7%	6.0%
CPI-U	2.1%	2.4%	1.8%	1.2%	4.7%	8.1%	4.2%	2.5%	2.0%

IHS Markit Alternate Scenarios - US

Optimistic Scenario (15% probability)				Pessimistic Scenario (30% probability)			
	2022 f	2023 f	2024 f	2022 f	2023 f	2024 f	'11-'21 avg.
Real GDP Growth	1.8%	0.2%	1.3%	1.5%	-1.5%	0.9%	2.1%
Nonfarm Employment	4.1%	-0.2%	-0.5%	3.9%	-1.9%	-1.7%	1.1%
Personal Income	2.2%	4.5%	4.9%	2.1%	2.6%	3.8%	4.9%
Unemployment Rate	3.6%	4.8%	5.4%	3.8%	6.4%	7.7%	6.0%
CPI-U	7.6%	4.5%	2.8%	8.3%	5.3%	2.5%	2.0%

SD Forecast

Real GDP

Employment

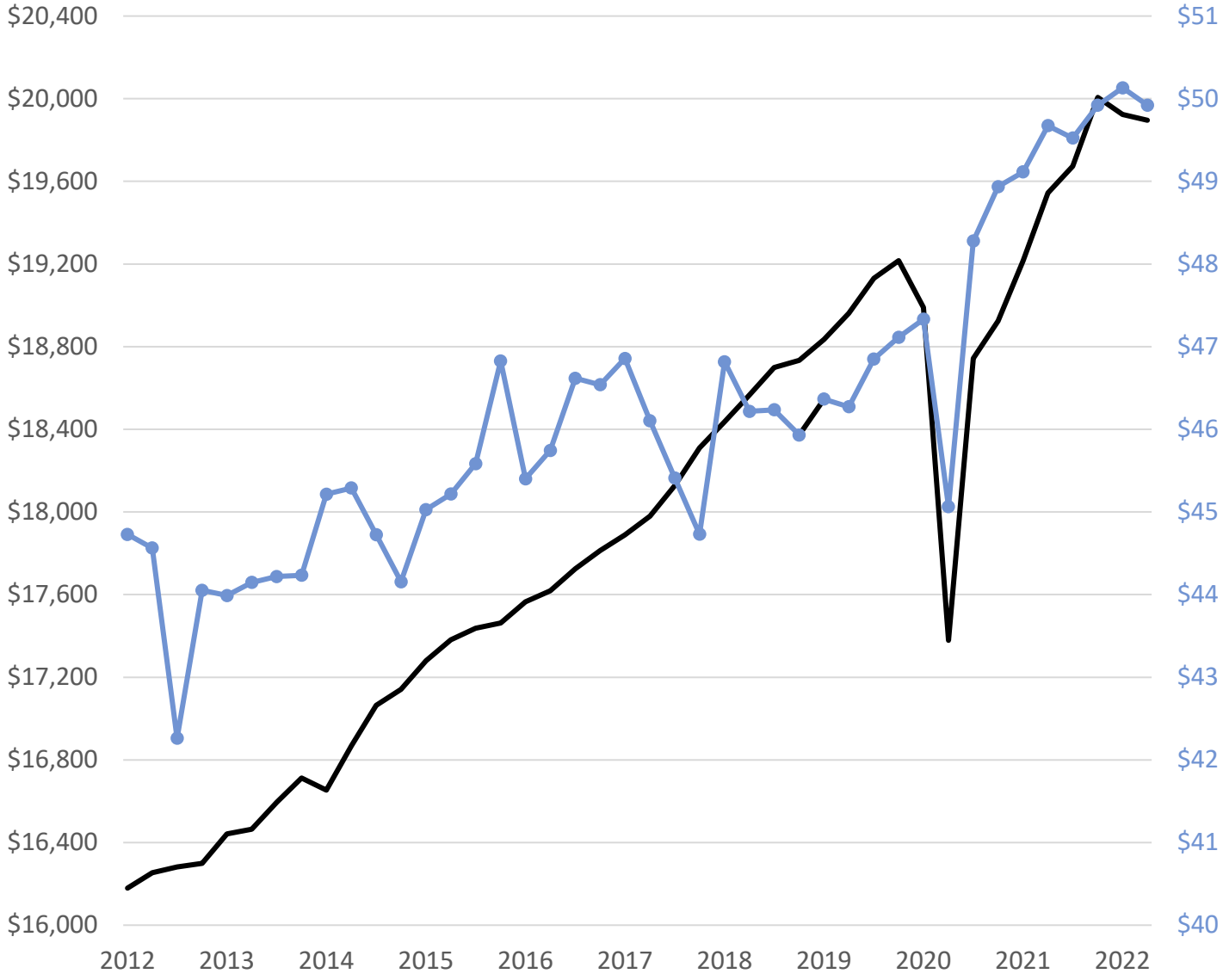
Housing

Personal Income

Tourism



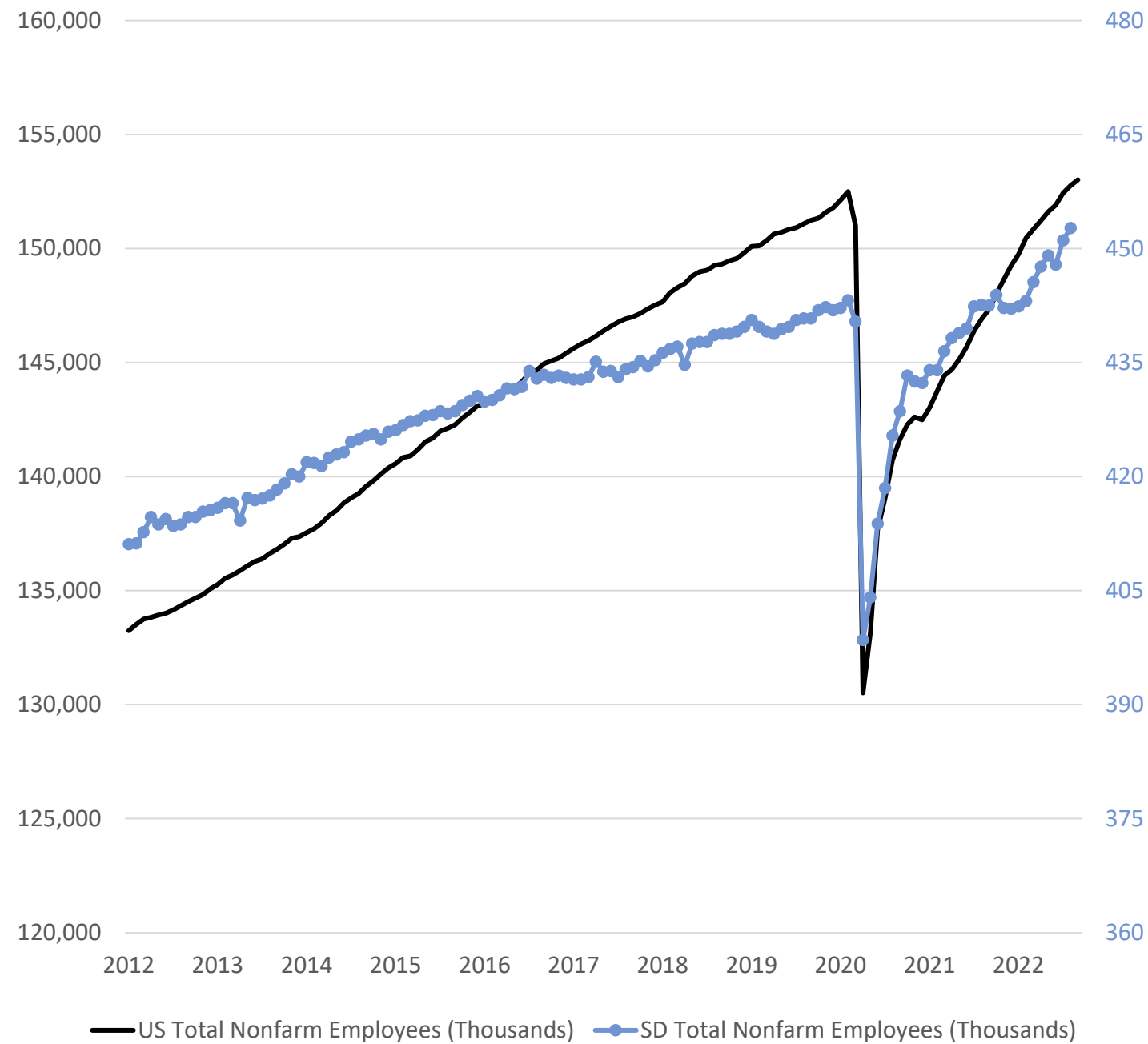
Real Gross Domestic Product



— US Real Gross Domestic Product (Billions; Chained 2012)
—● SD Real Gross Domestic Product (Billions; Chained 2012)

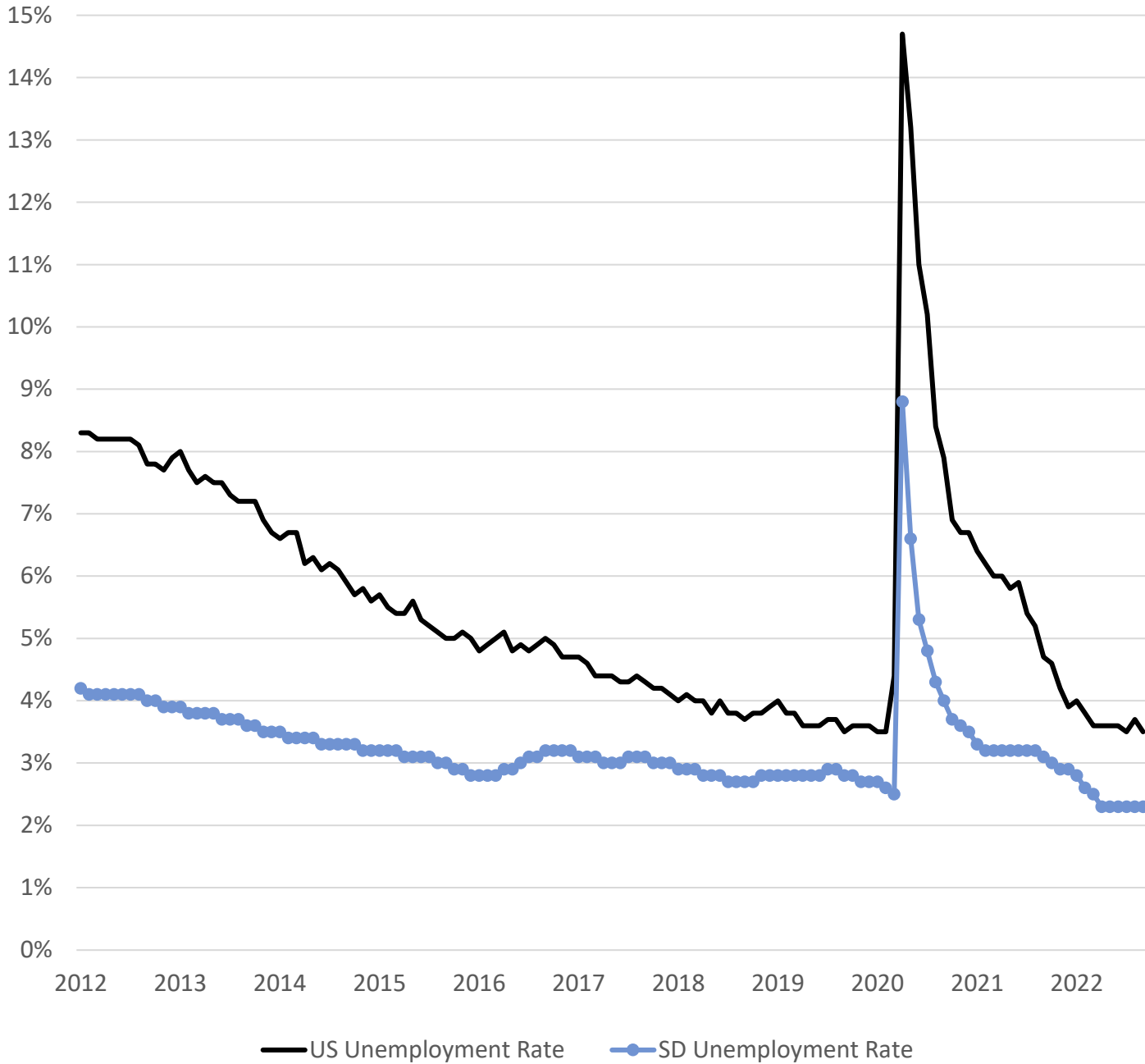


Employment Growth



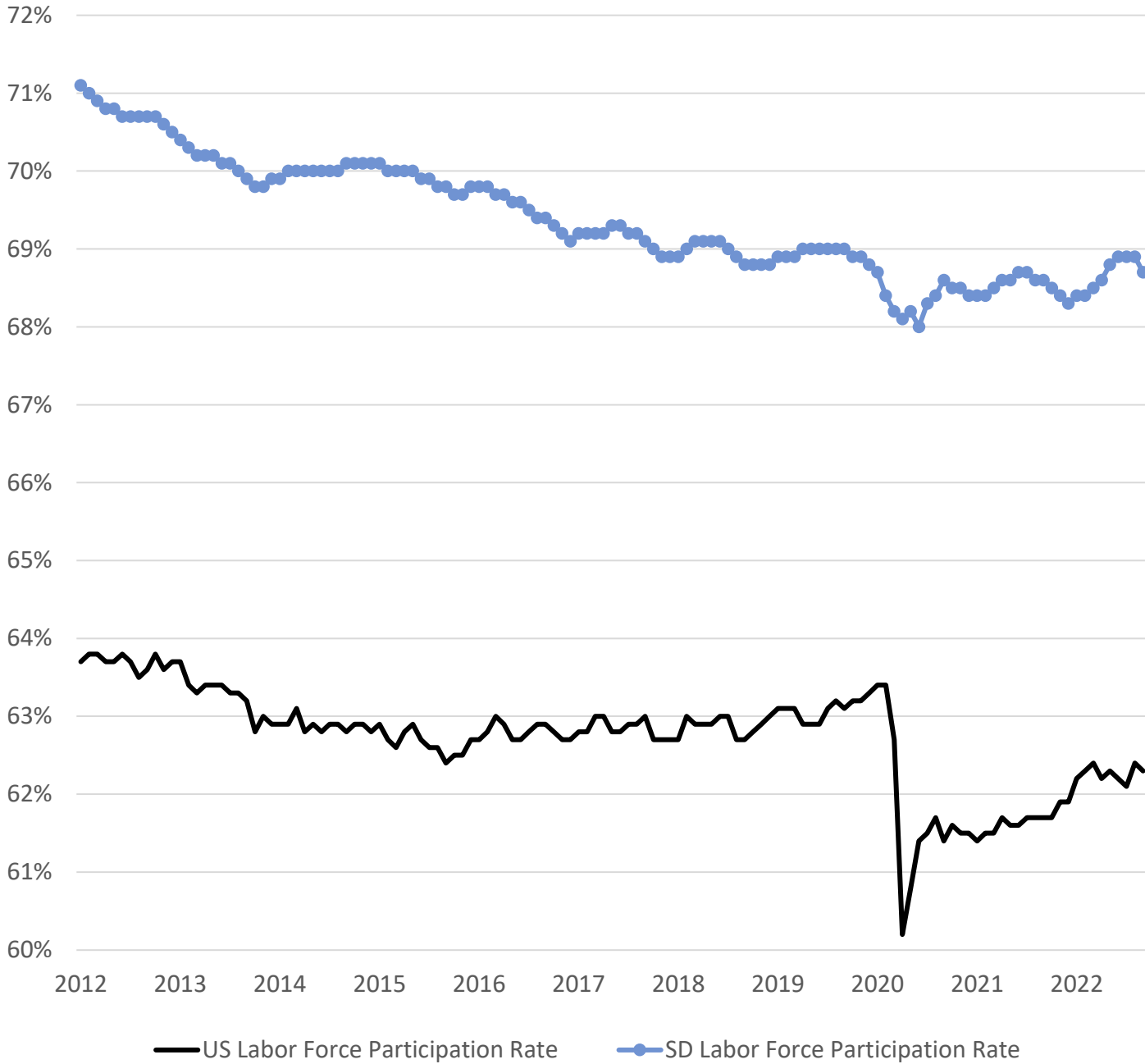


Unemployment Rate



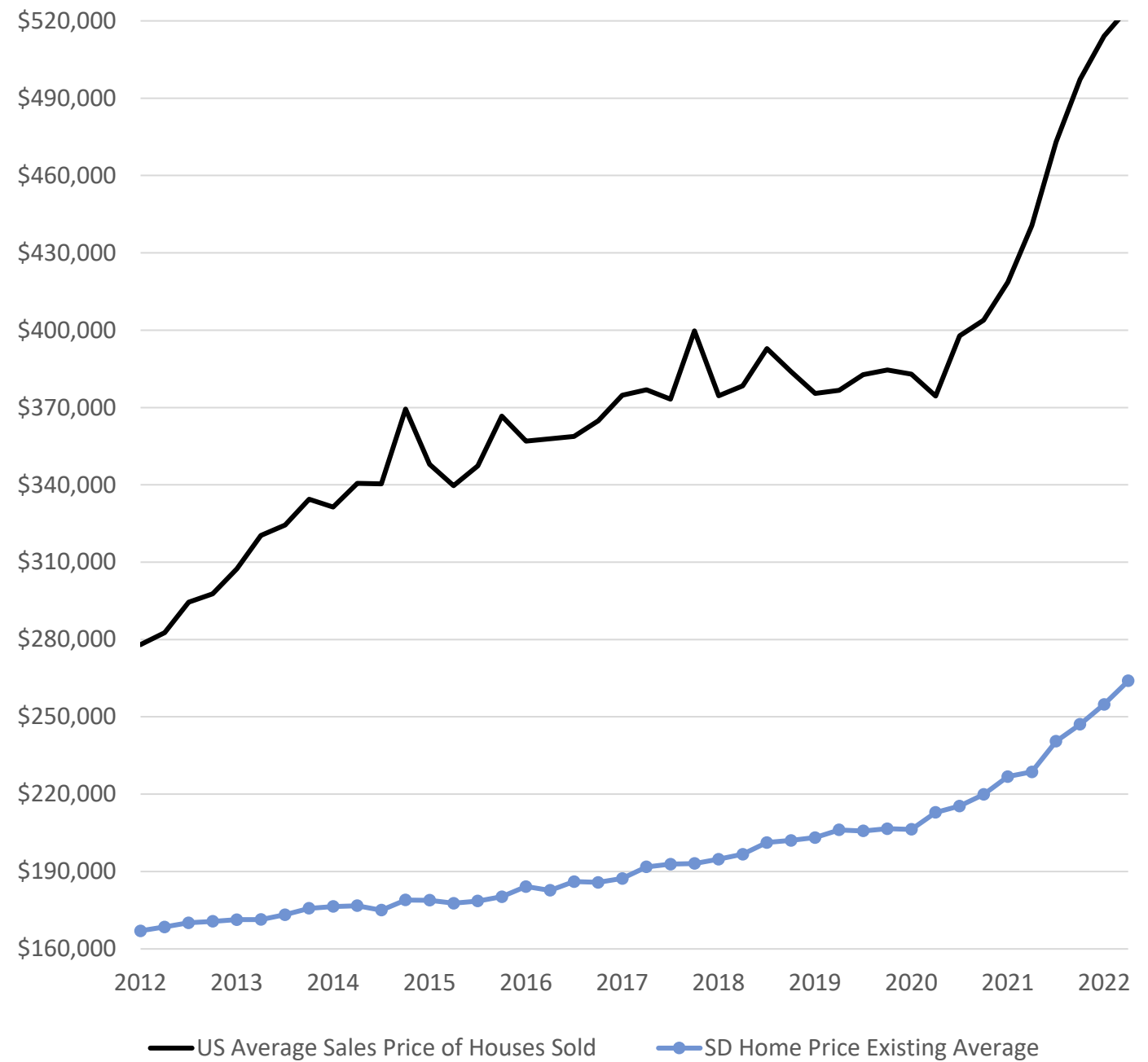


Labor Force Participation Rate



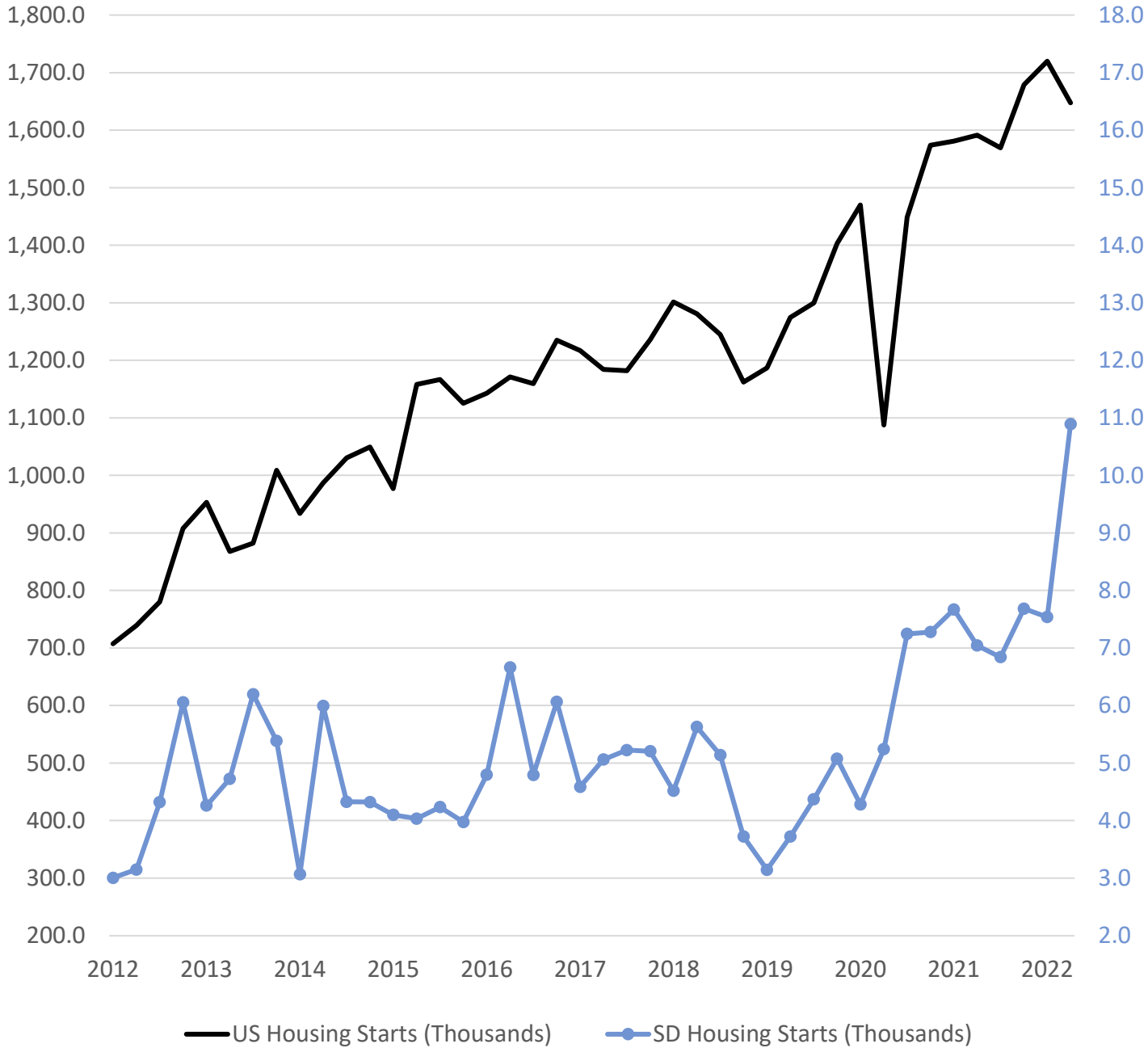


Home Price



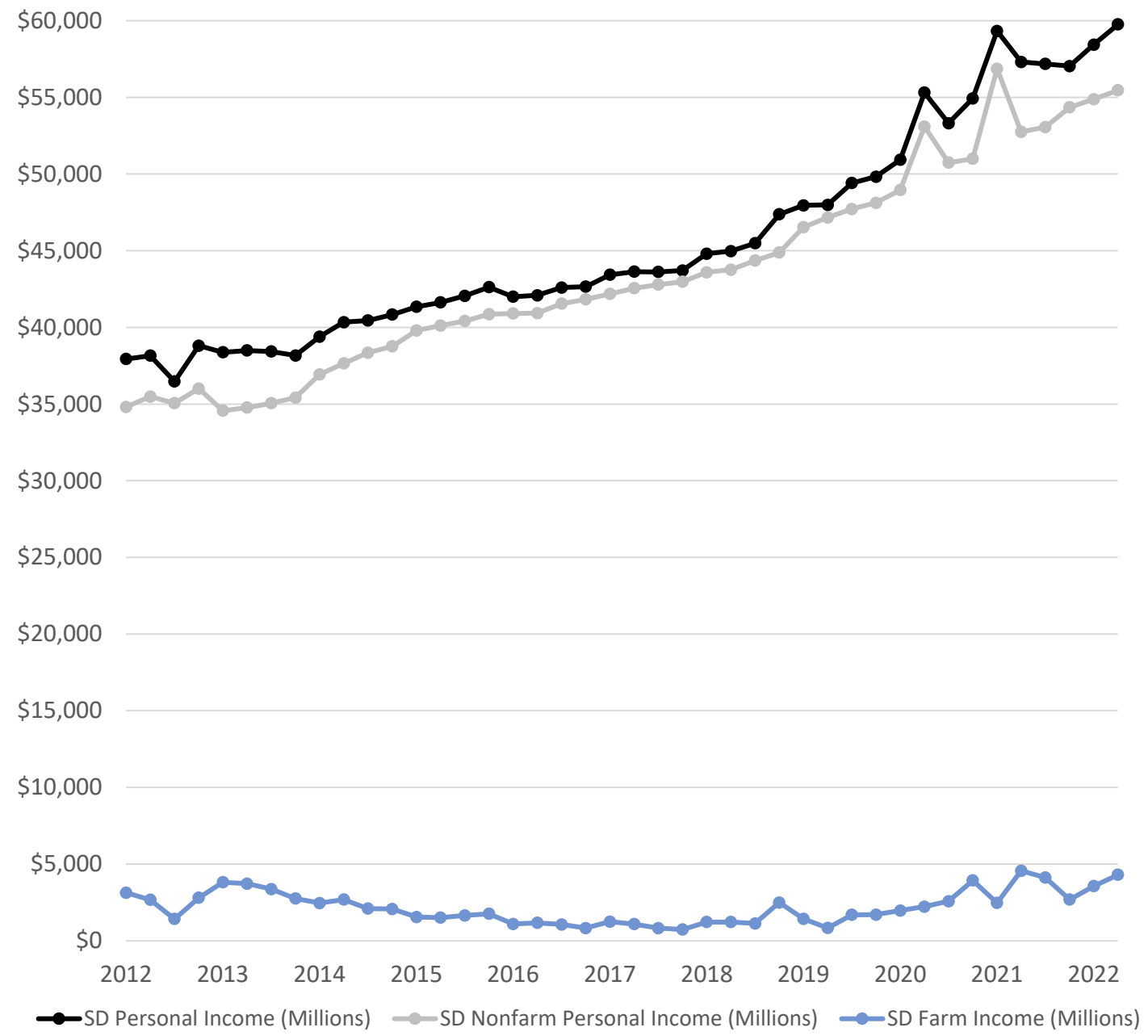


Housing Starts



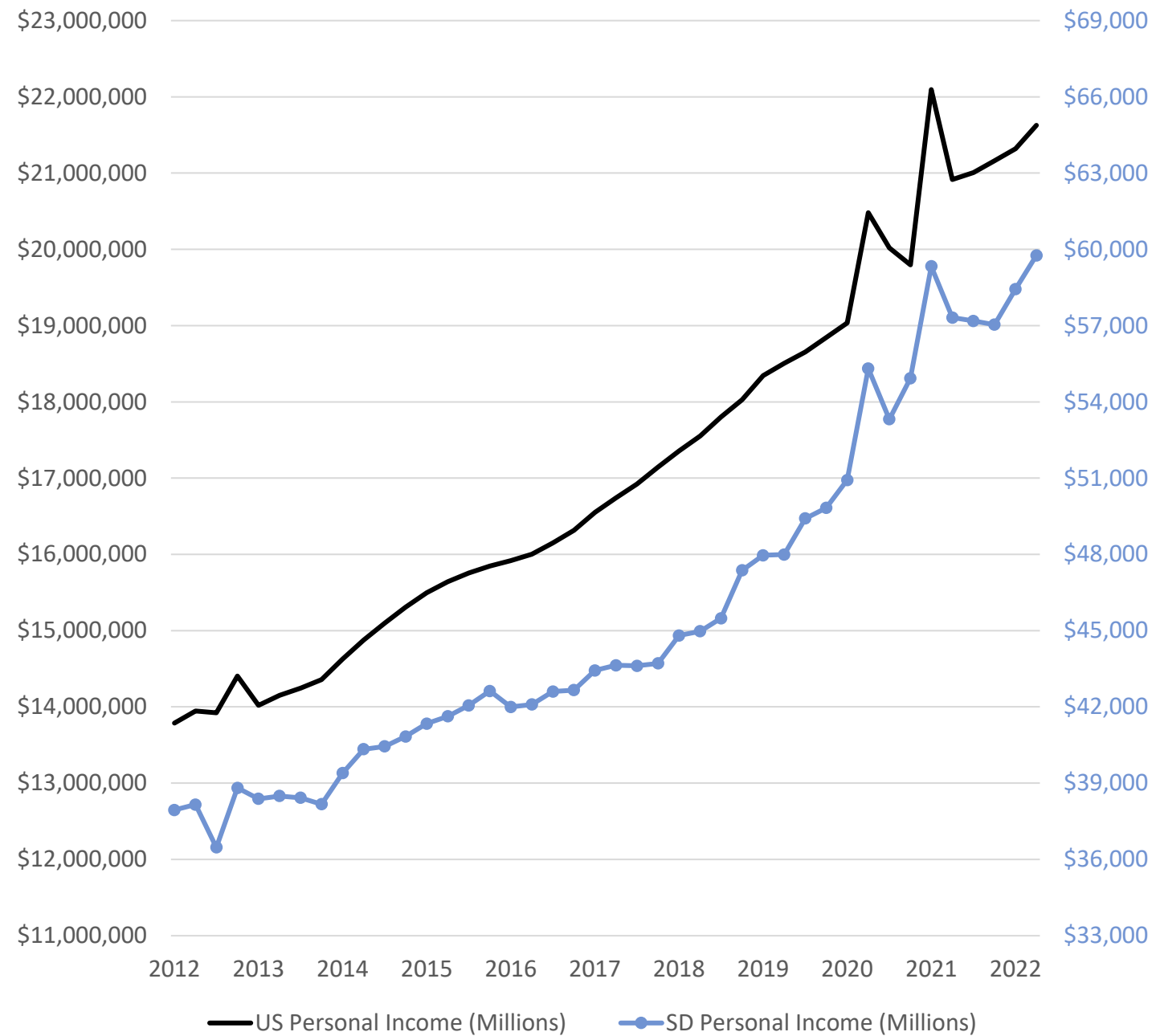


Personal Income



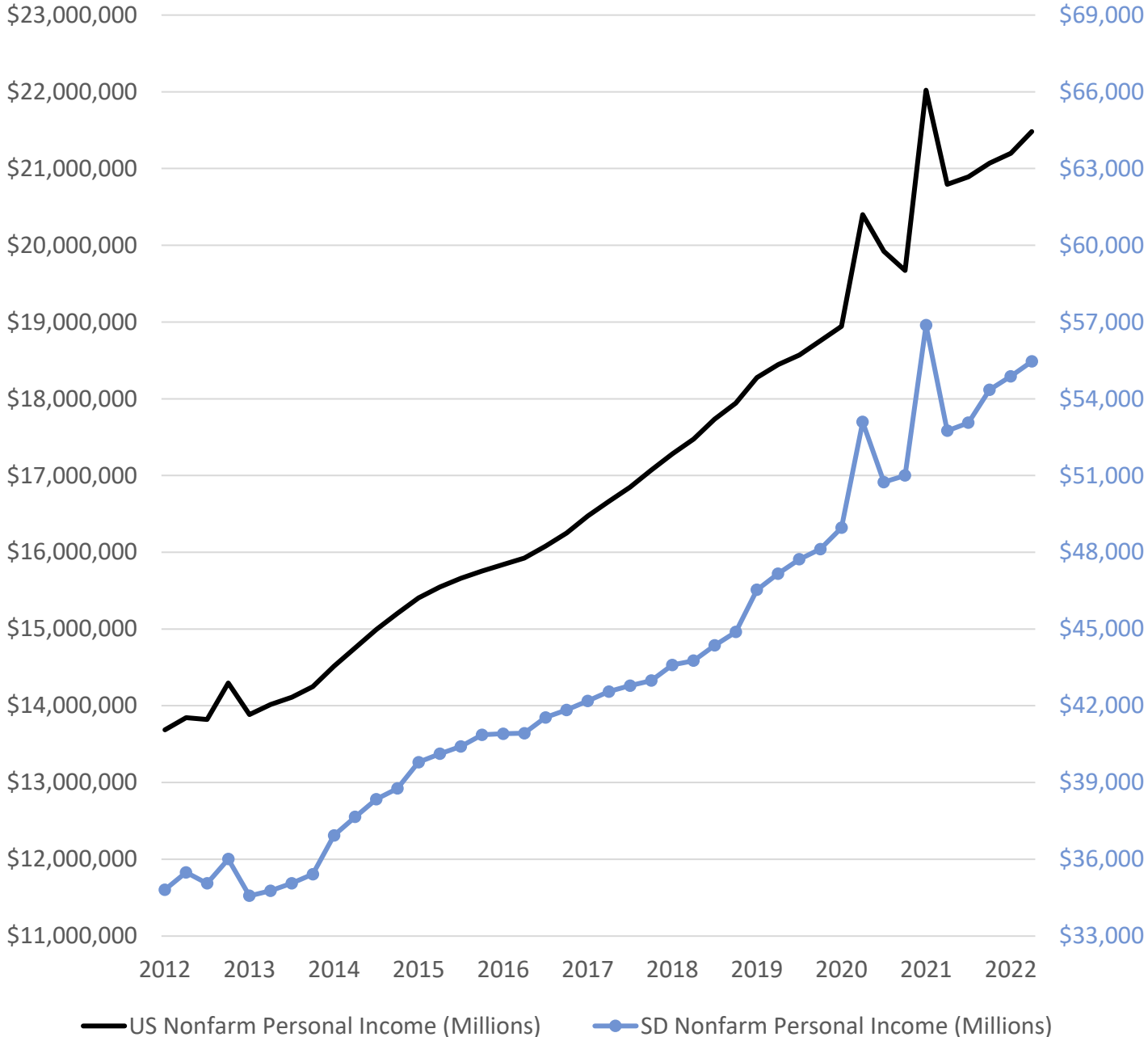


Personal Income



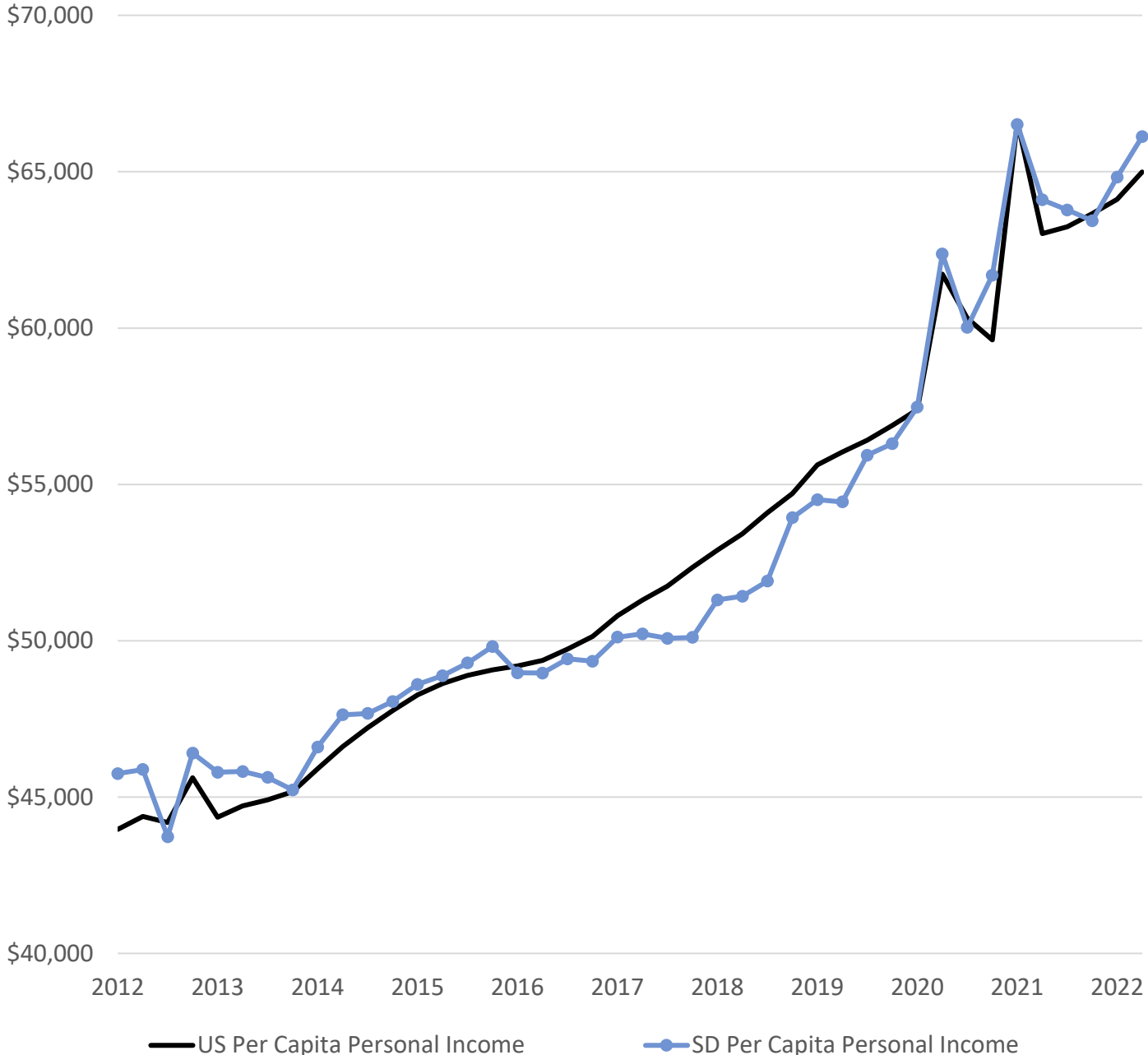


Nonfarm Personal Income



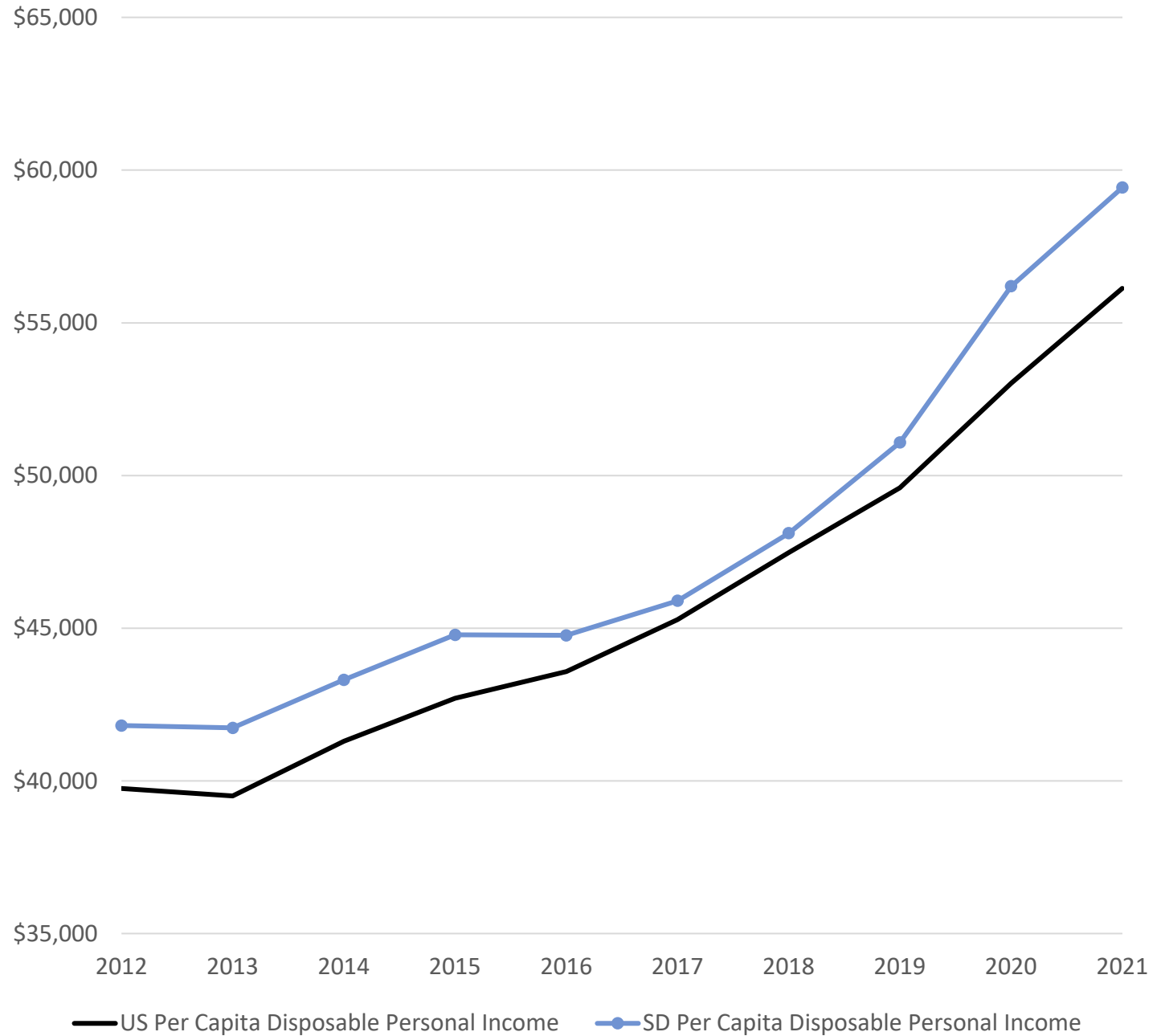


Per Capita Personal Income



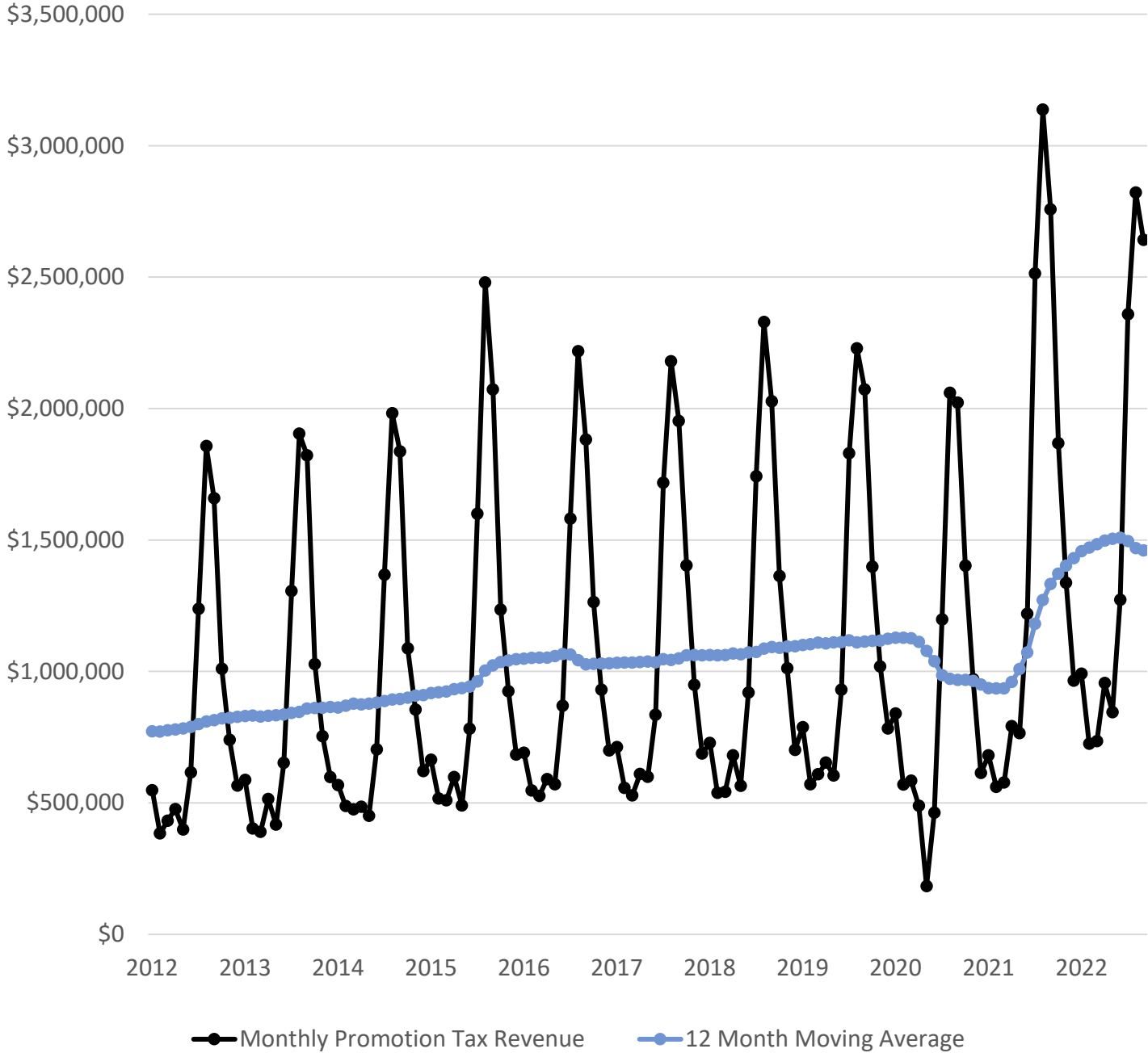


Per Capita Disposable Personal Income





SD Tourism Promotion Tax Collections



● Monthly Promotion Tax Revenue ● 12 Month Moving Average

IHS Markit Forecast - SD

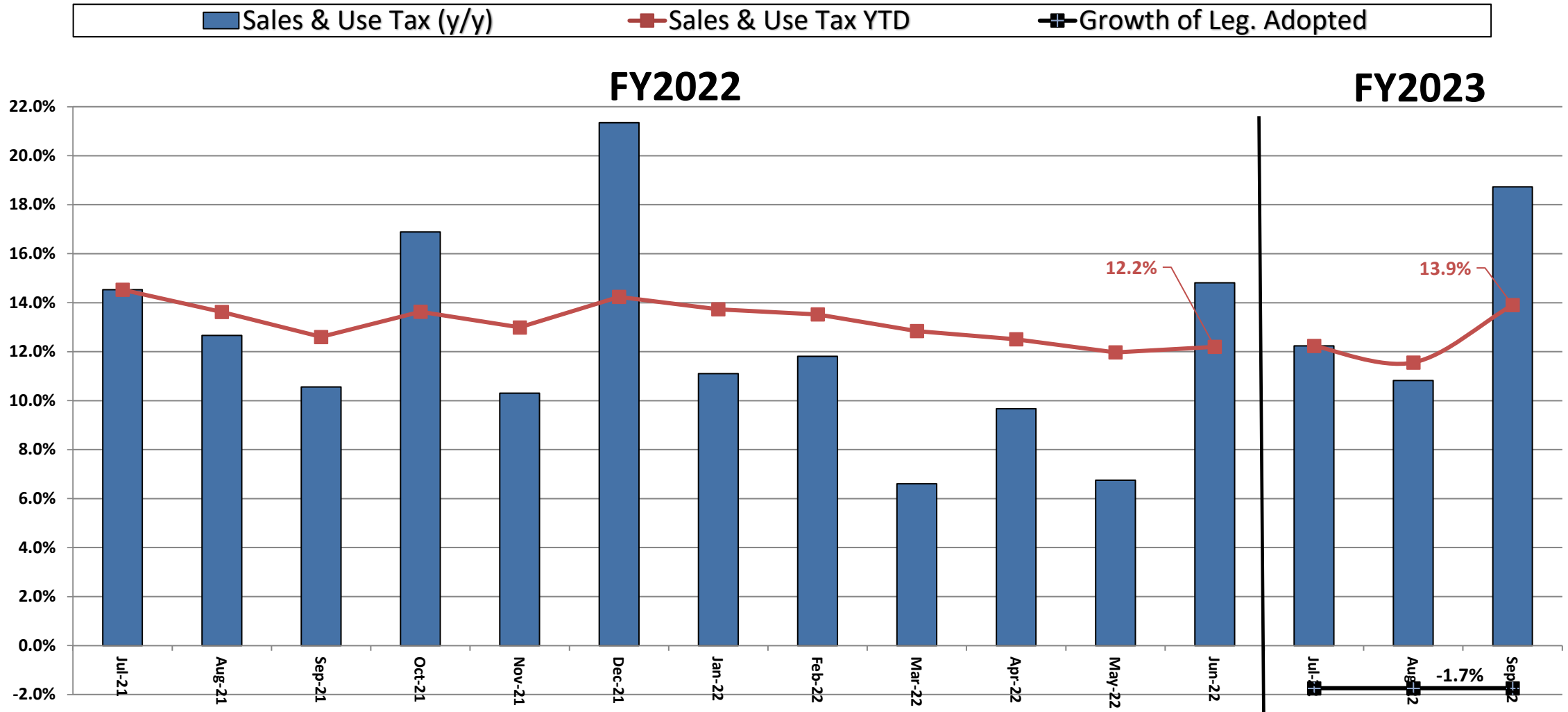
	2017	2018	2019	2020	2021	2022 f	2023 f	2024 f	'11-'21 avg.
Real GDP Growth	-0.7%	1.1%	0.8%	1.6%	4.5%	1.0%	-0.4%	1.4%	1.9%
Nonfarm Employment	0.4%	0.9%	0.6%	-3.3%	3.2%	2.2%	-0.1%	-0.4%	0.8%
Nonfarm Income	3.7%	3.9%	5.7%	5.3%	7.4%	4.2%	4.9%	4.6%	4.8%
Housing Starts	5,020	4,752	4,078	6,011	7,310	7,937	4,439	4,525	4,848
Unemployment Rate	3.1%	2.8%	2.8%	4.4%	3.1%	2.4%	3.6%	4.1%	3.4%

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



	Leg. Adopted SEPTEMBER YTD FY2023	Actual SEPTEMBER YTD FY2023	DOLLAR CHANGE	YTD % Chg. Actual/Adopt Comparison
ONGOING RECEIPTS				
Net Sales and Use Tax (excl. cost of admin)	359,374,371	407,329,481	47,955,110	13.3%
Lottery	38,521,520	40,375,359	1,853,839	4.8%
Net Contractor's Excise Tax	44,437,954	53,773,411	9,335,456	21.0%
Insurance Company Tax	22,271,049	23,441,240	1,170,190	5.3%
Unclaimed Property Receipts	(3,863,956)	(3,684,942)	179,014	N/A
Licenses, Permits, and Fees	2,430,629	1,829,034	(601,595)	-24.8%
Tobacco Taxes	15,966,141	14,806,432	(1,159,709)	-7.3%
Trust Funds	31,890,322	31,890,322	0	0.0%
Net Transfers In (excluding one-time)	9,631,664	9,604,141	(27,522)	-0.3%
Alcohol Beverage Tax	30,852	39,539	8,687	28.2%
Bank Franchise Tax	578,765	669,946	91,181	15.8%
Charges for Goods and Services	4,055,730	2,593,137	(1,462,594)	-36.1%
Telecommunications Tax	438,355	396,181	(42,174)	-9.6%
Severance Taxes	1,719,912	1,835,490	115,578	6.7%
Investment Income and Interest	15,581,871	13,739,869	(1,842,002)	-11.8%
Alcohol Beverage 2% Wholesale Tax	701,919	743,617	41,698	5.9%
SUBTOTAL (ONGOING RECEIPTS)	\$ 543,767,099	\$ 599,382,257	\$ 55,615,159	10.2%
ONE-TIME RECEIPTS				
Bank Franchise Tax Prior Year Revenue	-	14,625	14,625	N/A
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 0	\$ 14,625	\$ 14,625	N/A
GRAND TOTAL	\$ 543,767,099	\$ 599,396,882	\$ 55,629,784	10.2%

Sales & Use Tax Growth



Sales Tax on Food

- Governor Noem announced a plan to eliminate the sales tax on food in her next budget.
- Savings for all South Dakotans and families.
- CPI for Food projected to finish 2022 at 10.0% and forecast at 6.7% for 2023.
- Approximately \$100M in sales tax.



Council Discussion

IHS Markit Forecast - US

	2017	2018	2019	2020	2021	2022 f	2023 f	2024 f	'11-'21 avg.
Real GDP Growth	2.2%	2.9%	2.3%	-2.8%	5.9%	1.7%	-0.5%	1.3%	2.1%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.8%	4.0%	-0.4%	-0.5%	1.1%
Personal Income	4.6%	5.0%	5.1%	6.7%	7.4%	2.1%	3.7%	4.6%	4.9%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.7%	5.1%	5.7%	6.0%
CPI-U	2.1%	2.4%	1.8%	1.2%	4.7%	8.1%	4.2%	2.5%	2.0%

IHS Markit Forecast - SD

	2017	2018	2019	2020	2021	2022 f	2023 f	2024 f	'11-'21 avg.
Real GDP Growth	-0.7%	1.1%	0.8%	1.6%	4.5%	1.0%	-0.4%	1.4%	1.9%
Nonfarm Employment	0.4%	0.9%	0.6%	-3.3%	3.2%	2.2%	-0.1%	-0.4%	0.8%
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Unemployment Rate	3.1%	2.8%	2.8%	4.4%	3.1%	2.4%	3.6%	4.1%	3.4%

Other Discussion Items

- Next Meeting Date - January
- Other Comments
- Public Comments