

Governor's Council of Economic Advisors

October 25, 2023



Outline of Presentation

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

US Economy

Consumption

Investment

Federal Fiscal Picture

Employment and Unemployment

Inflation

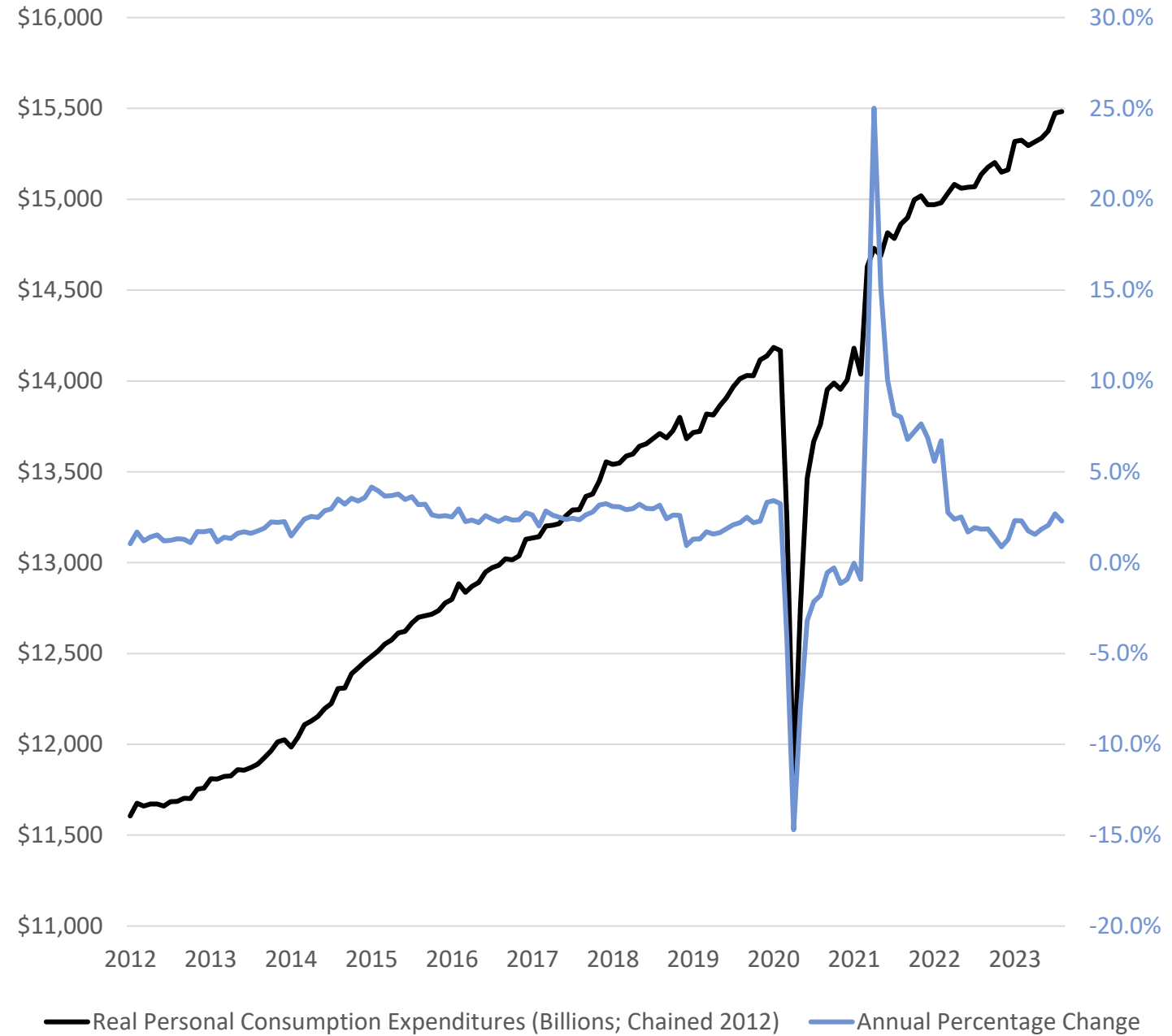
Consumption



- Real personal consumption expenditures slowed from 3.8% in the first quarter to 0.8% in the second quarter but estimated back up to 4.0% in third quarter.
- Tight labor markets and rising real wages have allowed consumers to maintain strong growth in spending.
- Real personal consumption expenditures grew 2.5% in 2022.
- Projected growth is at 2.3% in 2023 and 1.8% in 2024.

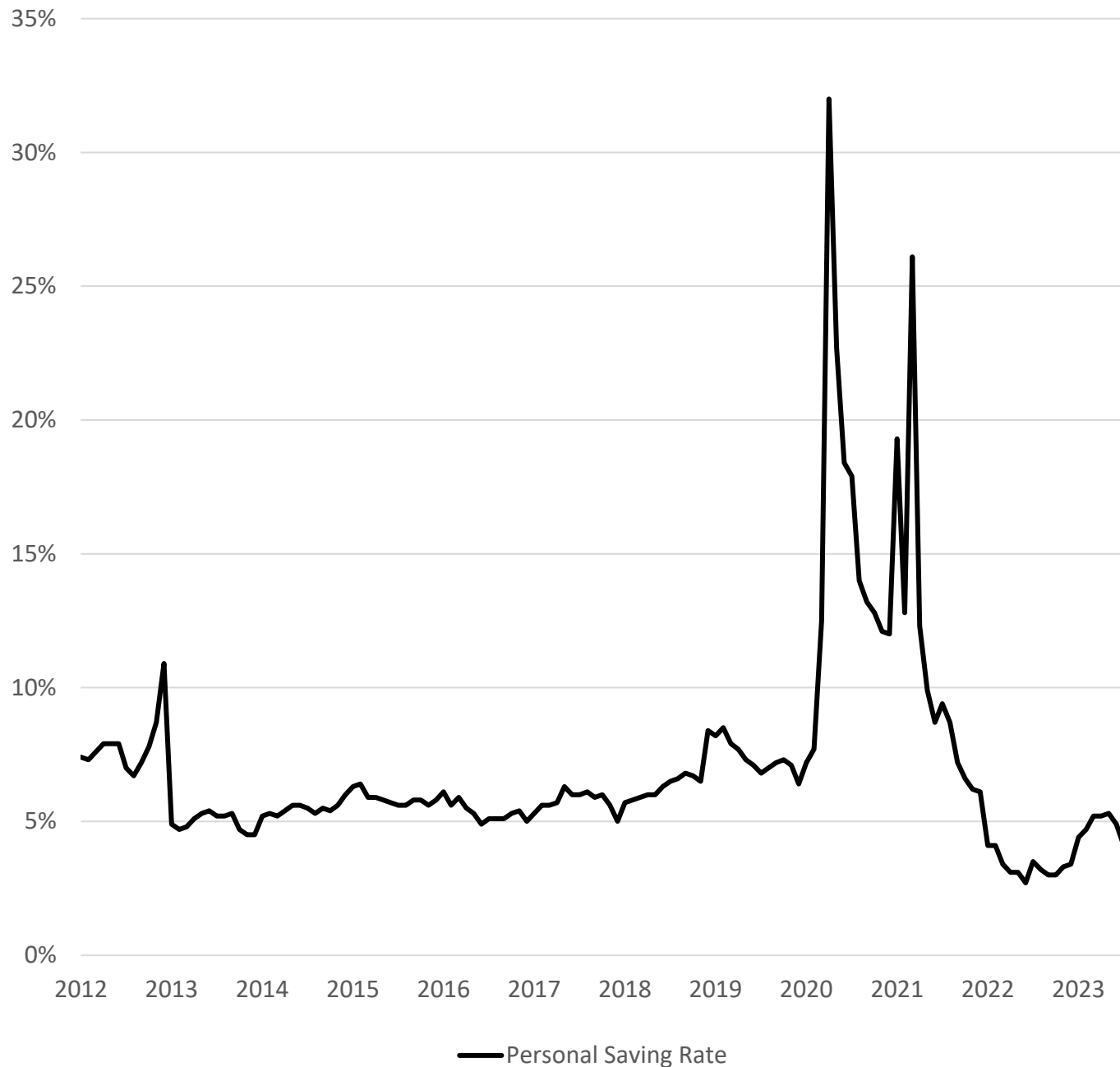


US Real Personal Consumption Expenditures



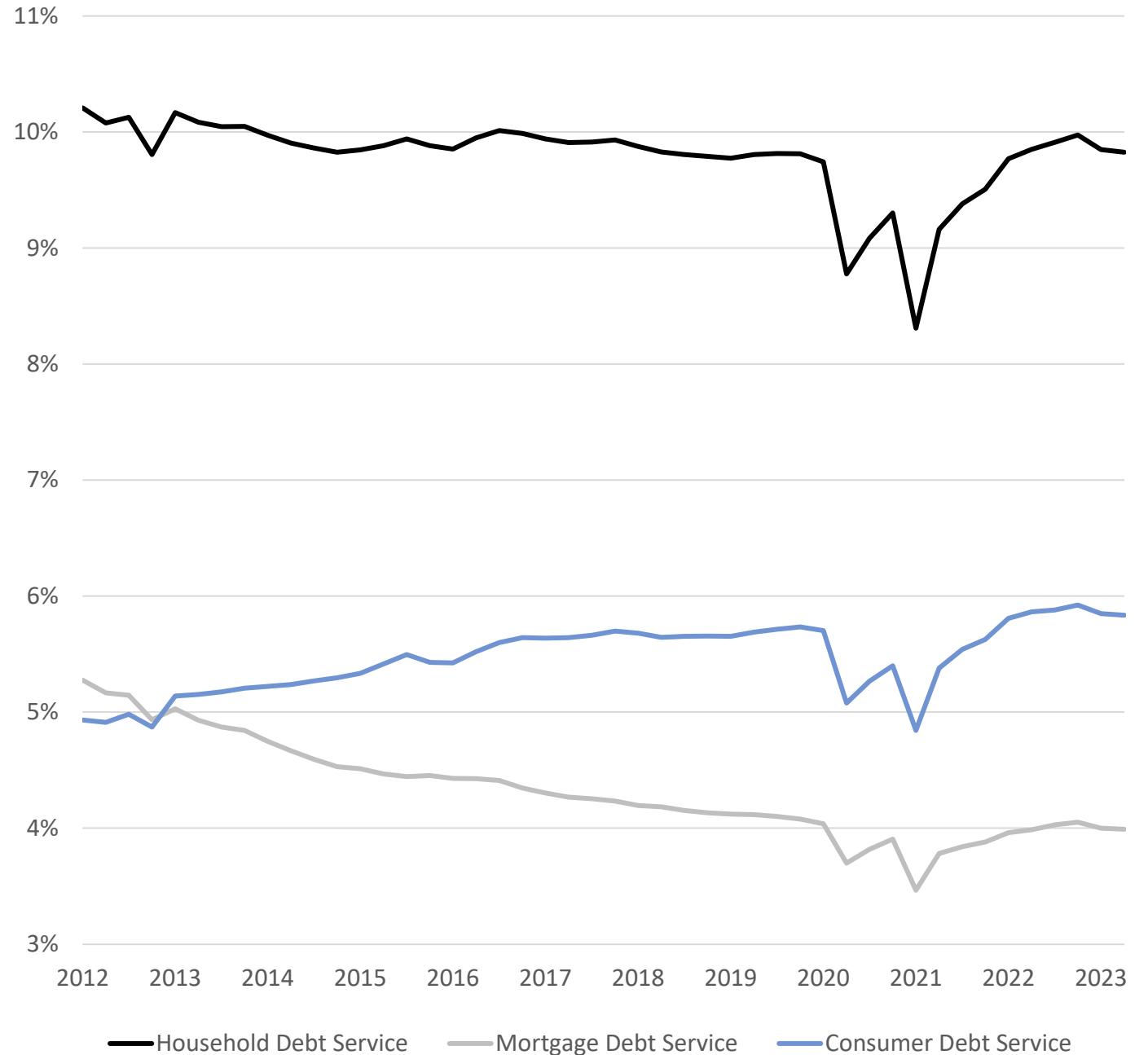


US Personal Saving Rate



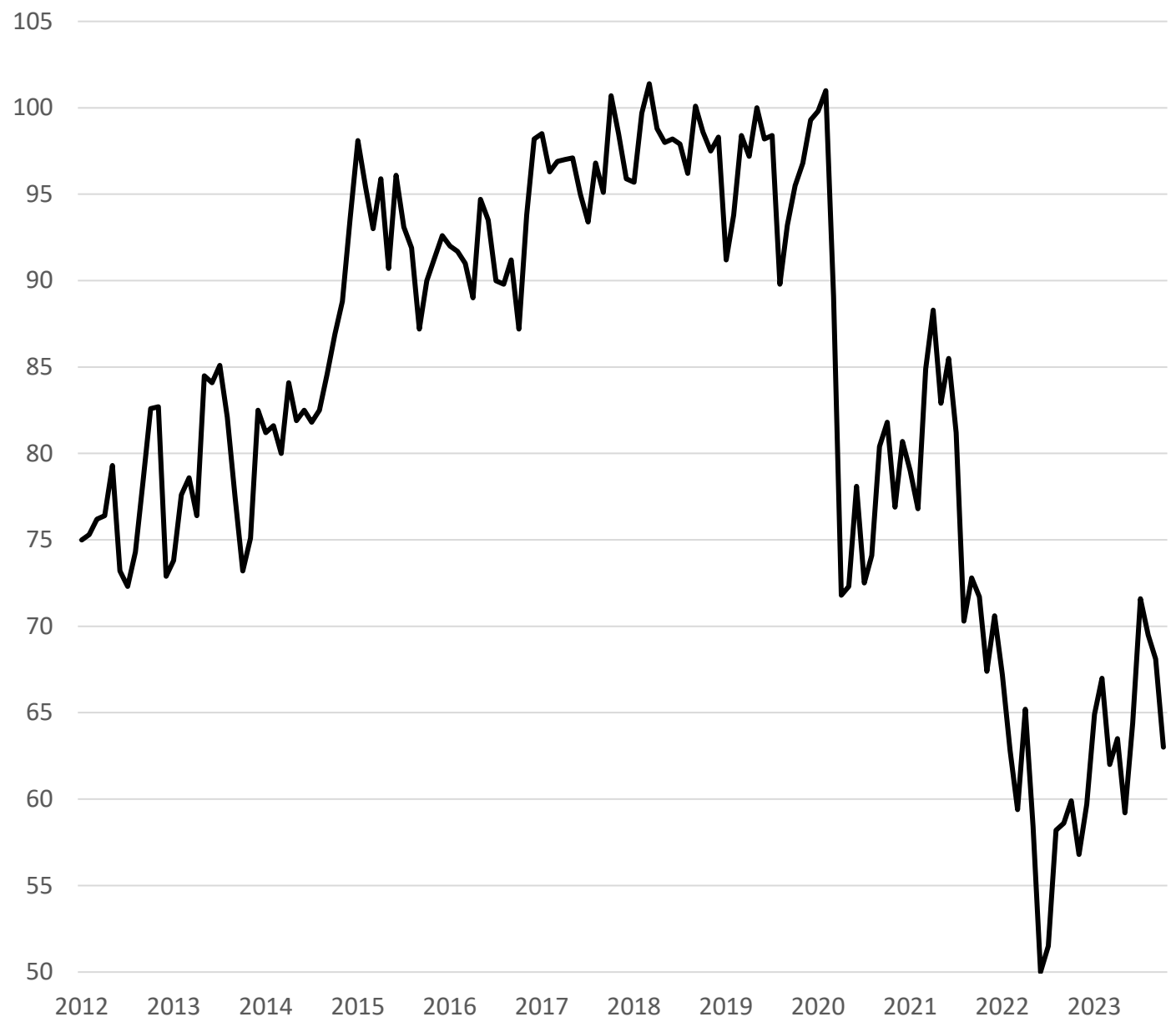


US Household Debt Service Ratio





US Consumer Sentiment



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

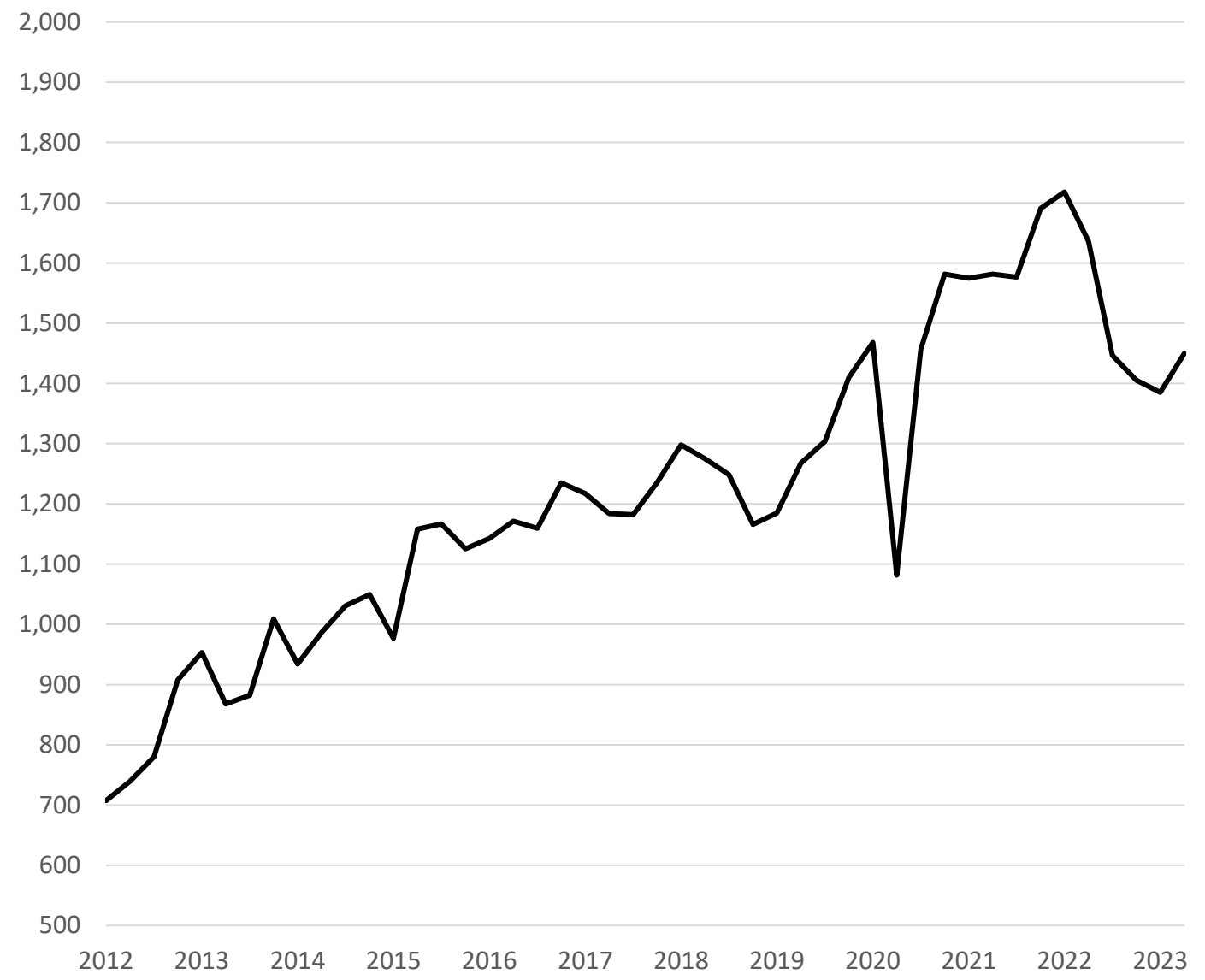
Investment



- Real business fixed investment is projected to slow from 5.2% in 2022 to 4.4% in 2023 and 1.6% in 2024 due to tighter financial and credit conditions.
- Residential investment finished 2022 at -9.0%. It is projected at -11.0% in 2023 and -0.4% in 2024.
- Housing starts are expected to slow from 1.55M in 2022 to 1.40M in 2023 and 1.38M in 2024.
- The single-family housing inventory estimate is at a record low. Market is tight and tightening.
- Real house prices have been revised up to reflect the current tightness.



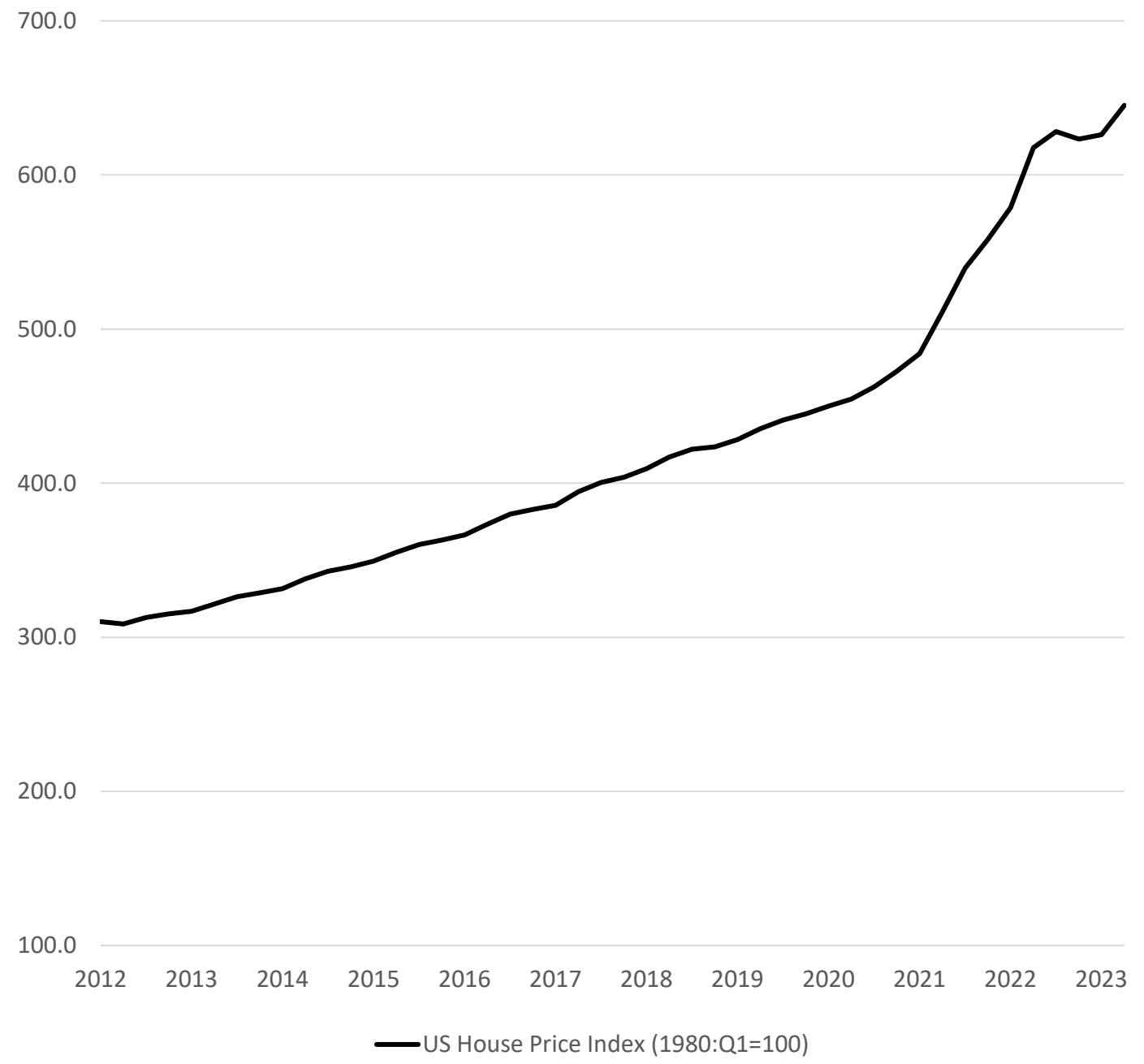
US Housing Starts



— Housing Starts (thousands - annual rate)



Home Price

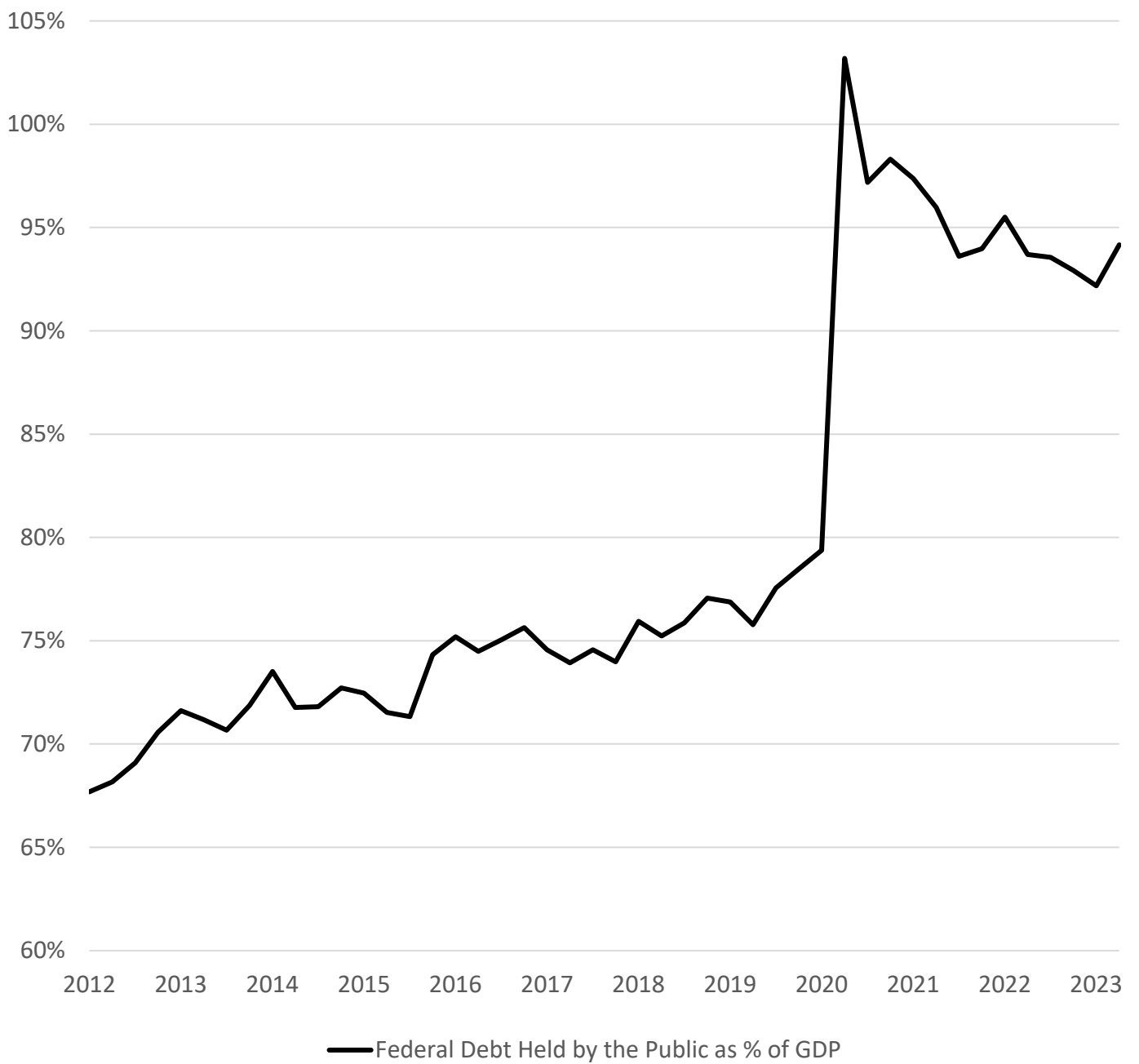


Federal Fiscal Picture

- The debt ceiling is suspended through 2024 but is assumed to be raised before then in the forecast. FY24 budget is passed in time to avoid a shutdown in mid-November.
- The pandemic-era 6.2% enhancement to the Federal Medical Assistance Percentage is phased out in 2023.
- Student loan forbearance ended August 31st, and principal payments resume October 1st.
- Federal Open Market Committee held the target federal funds rate at 5.25-5.50% in September.
- Forecast is for policy rate to increase 25 basis points (5.50-5.75%) in December.



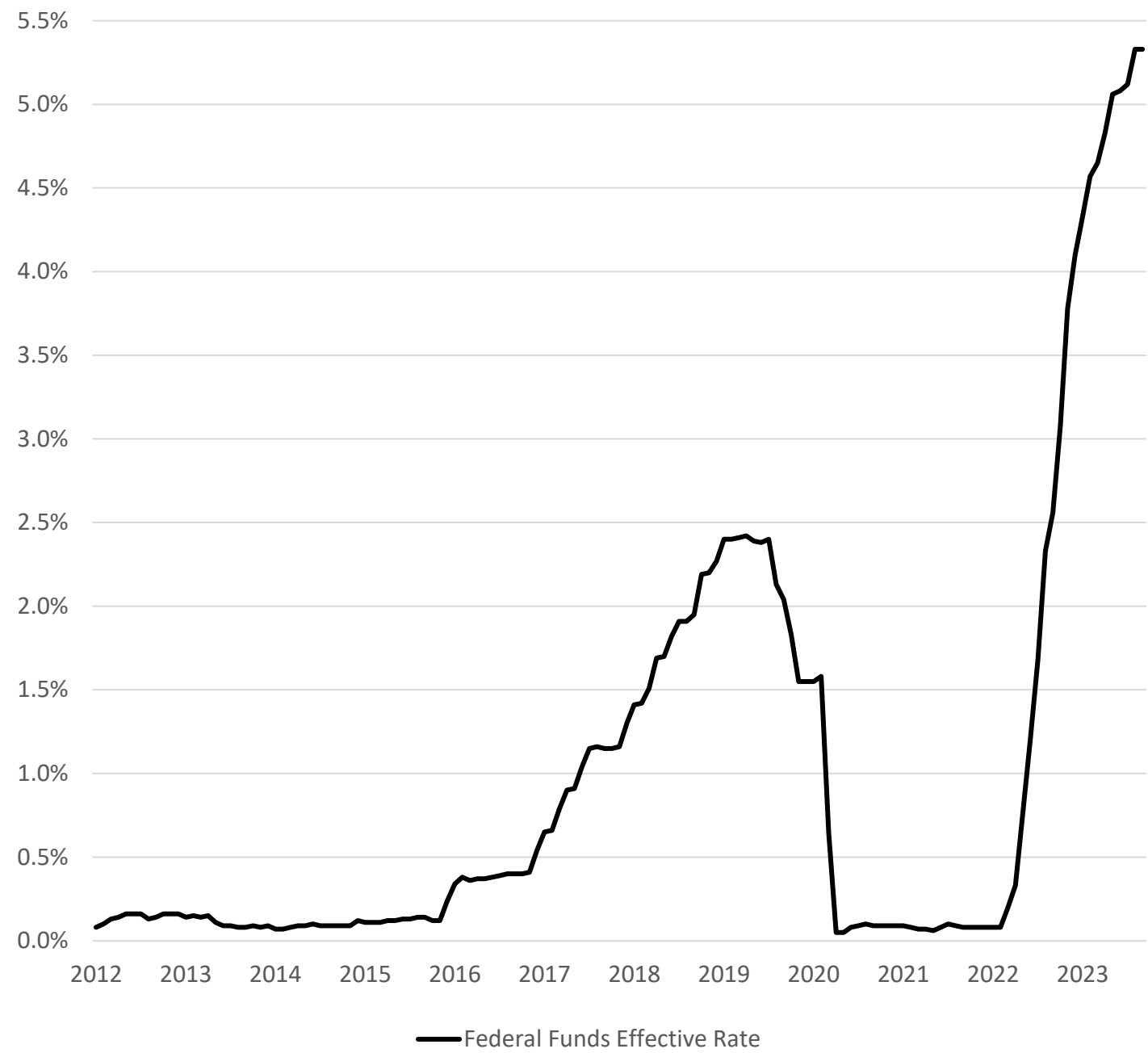
Debt Held by Public



— Federal Debt Held by the Public as % of GDP



Interest Rates



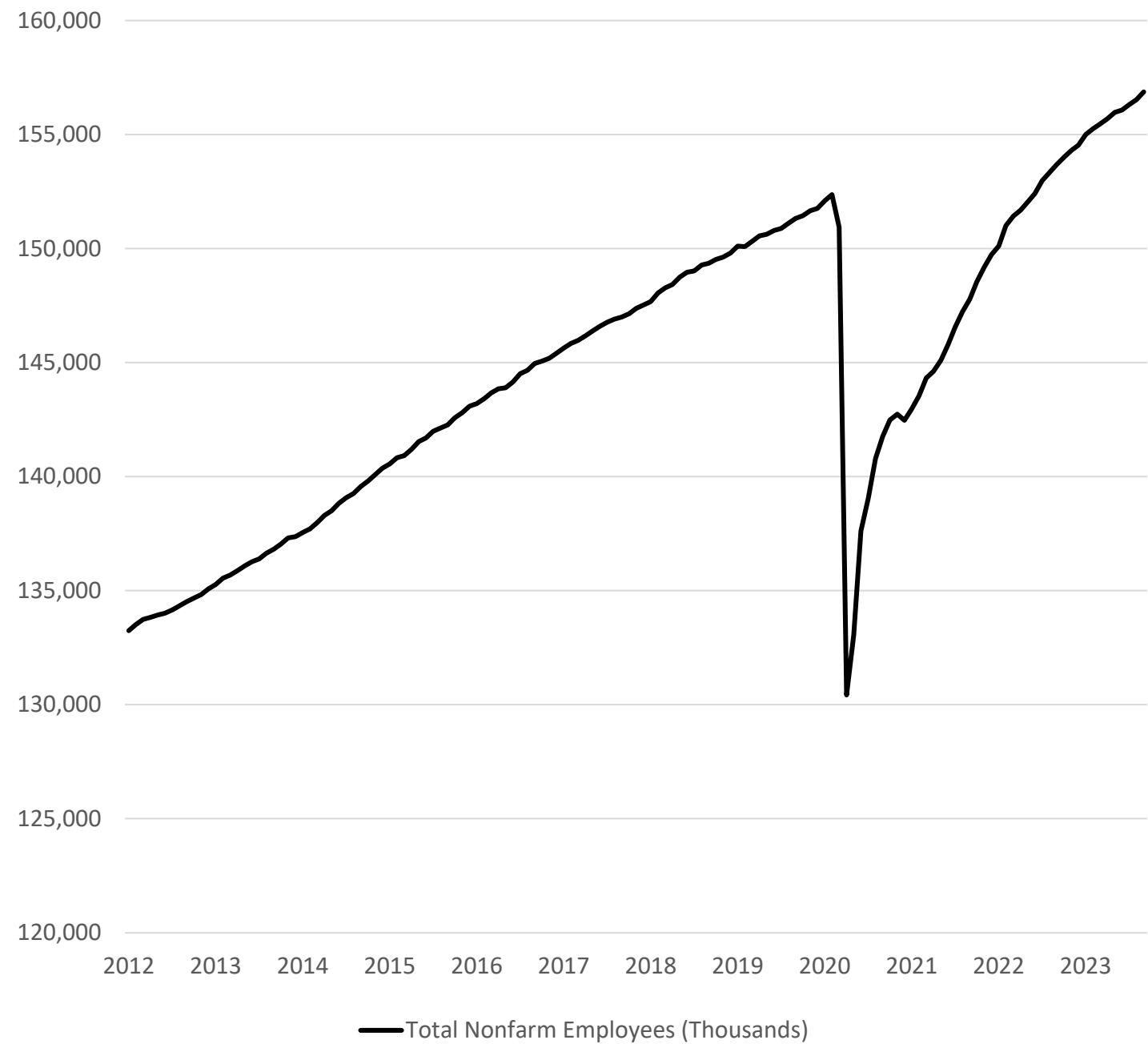
— Federal Funds Effective Rate

Employment and Unemployment

- Nonfarm payroll employment rose 336k in September – nearly double the consensus estimate.
- Employment growth projected to slow from 4.3% in 2022 to 2.4% in 2023 and 0.7% in 2024.
- The unemployment rate at 3.8% in September.
- Unemployment rate finished 2022 at 3.6%. Projections are 3.6% in 2023 and 3.8% in 2024.
- Wage growth is still higher than a rate consistent with long-term 2% inflation but showing signs of slowing.

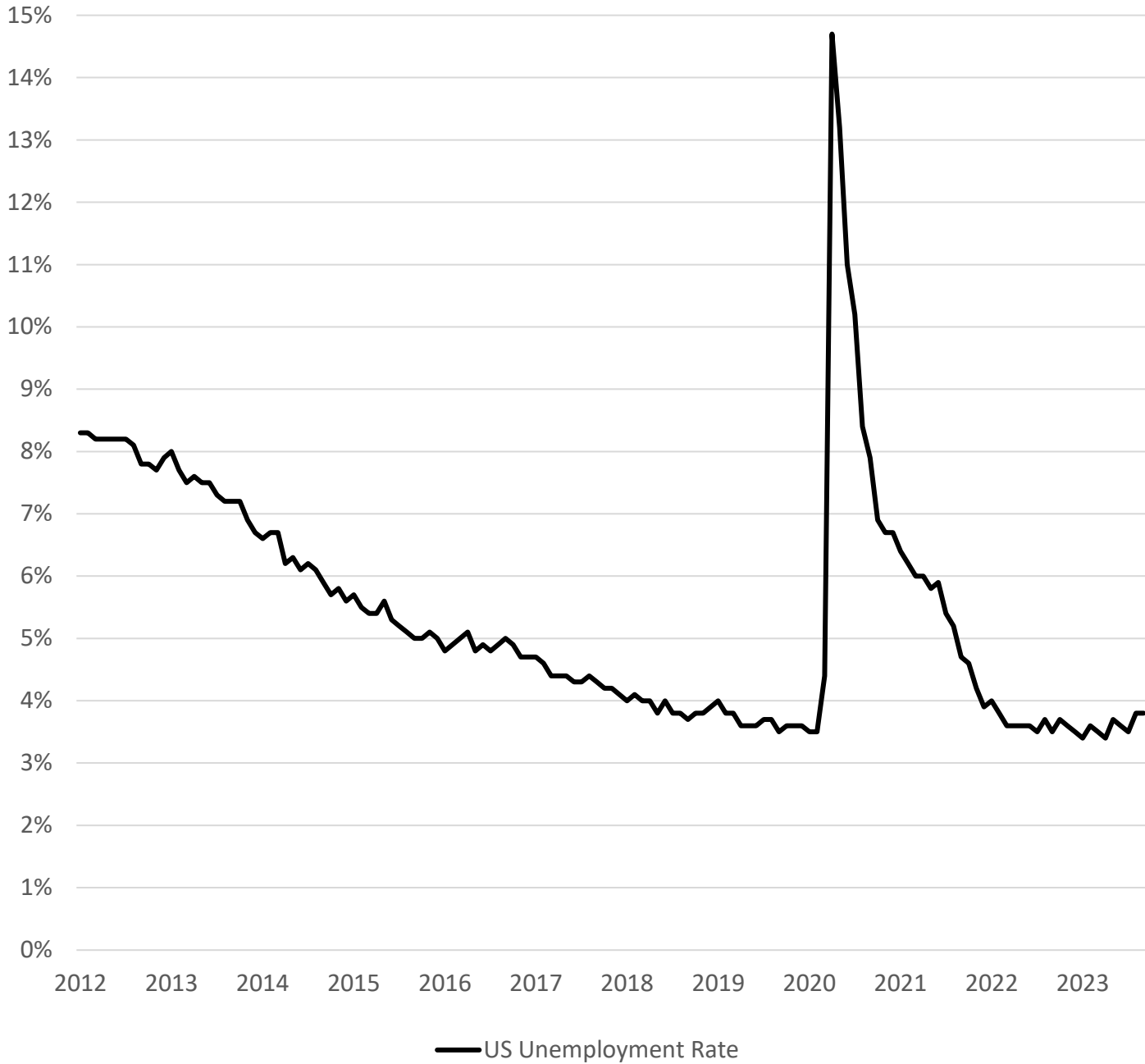


US Employment Growth





US Unemployment Rate



— US Unemployment Rate

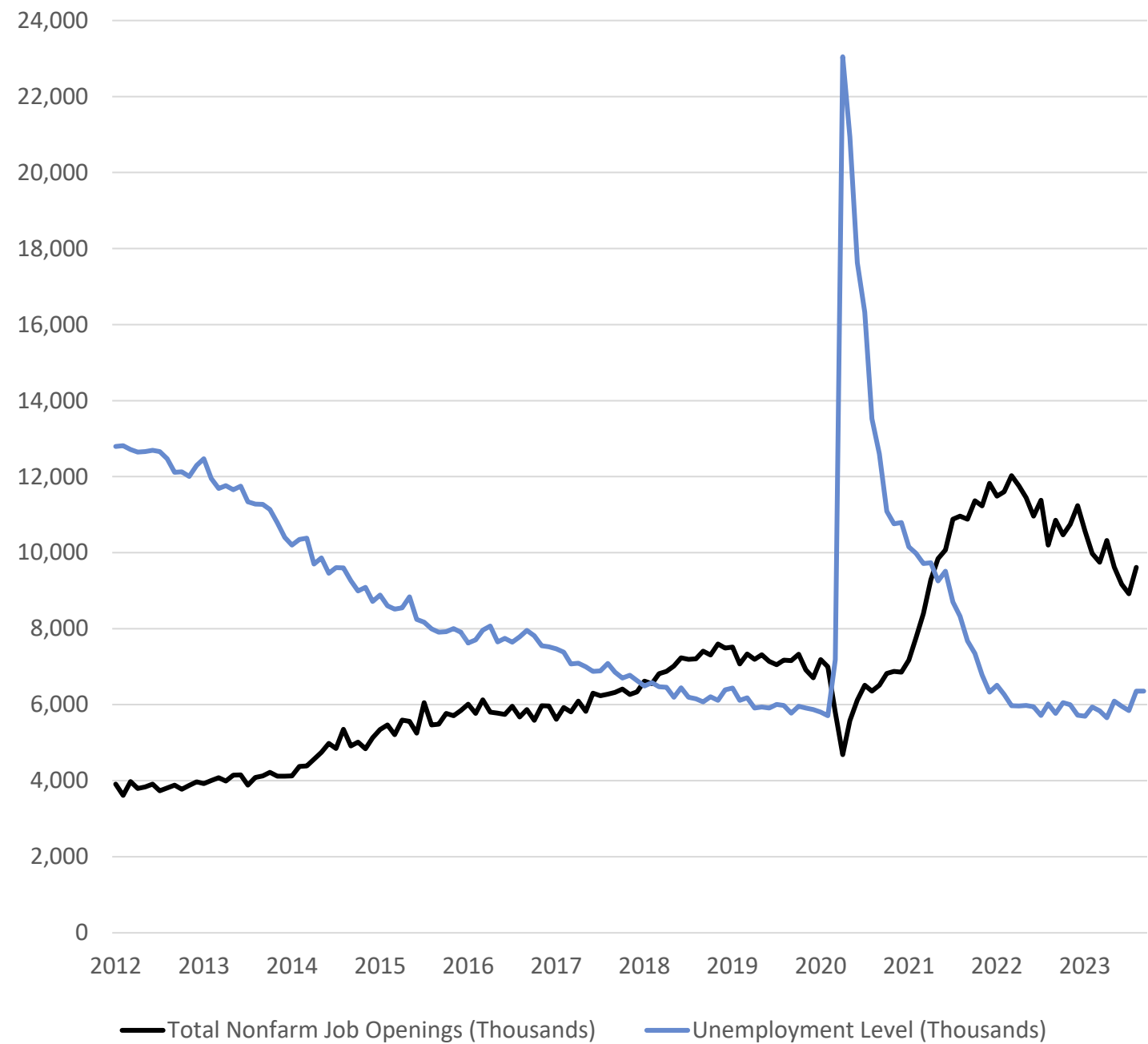


US Labor Force Participation Rate





US Job Openings vs. Unemployed



Inflation



- CPI rose 8.0% in 2022. Forecast is for 4.1% in 2023 and 2.4% in 2024.
- PPI on finished goods rose 13.4% in 2022. Forecast is for 1.8% in 2023 and 1.6% in 2024.
- Brent Crude spot price is forecast to decline from \$101 in 2022 to \$84 in 2023 and \$86 in 2024.



Inflation: CPI



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

S&P Global Forecast - US

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
Real GDP Growth	2.5%	3.0%	2.5%	-2.2%	5.8%	1.9%	2.5%	1.6%	2.3%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.4%	0.7%	1.4%
Personal Income	4.9%	5.2%	4.7%	6.9%	9.1%	2.0%	5.3%	5.0%	4.6%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.6%	3.8%	5.5%
CPI-U	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%	4.1%	2.4%	2.4%

S&P Global Alternate Scenarios - US

Optimistic Scenario (15% probability)			Pessimistic Scenario (30% probability)			
	2023 f	2024 f	2023 f	2024 f	'12-'22 avg.	
Real GDP Growth	2.6%	2.3%	2.3%	0.9%	2.3%	
Nonfarm Employment	2.4%	0.9%	2.2%	-1.1%	1.4%	
Personal Income	5.4%	5.9%	5.3%	4.1%	4.6%	
Unemployment Rate	3.5%	3.6%	3.8%	5.5%	5.5%	
CPI-U	3.9%	3.0%	4.3%	3.5%	2.4%	

SD Forecast

Employment

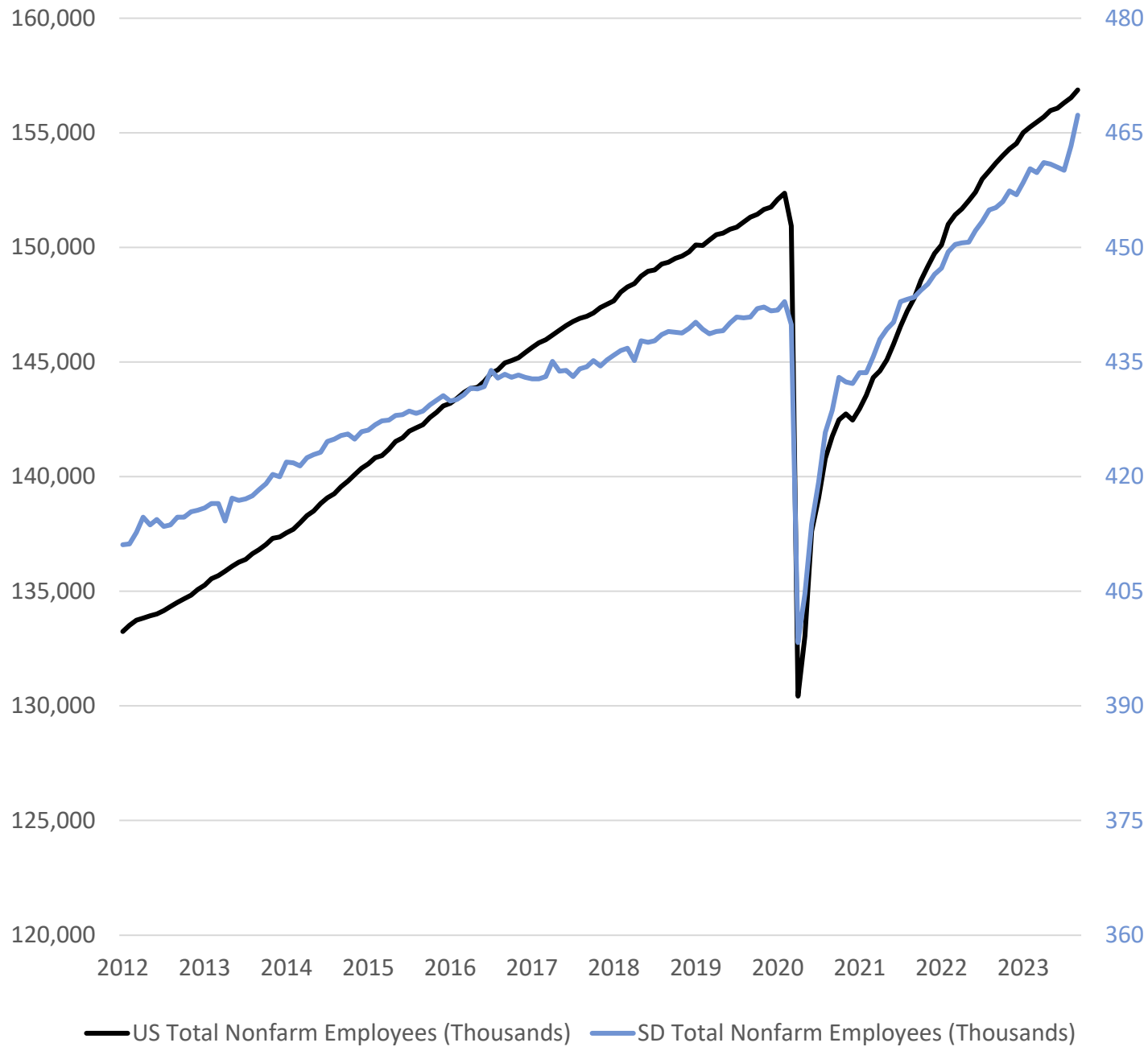
Housing

Personal Income

Tourism

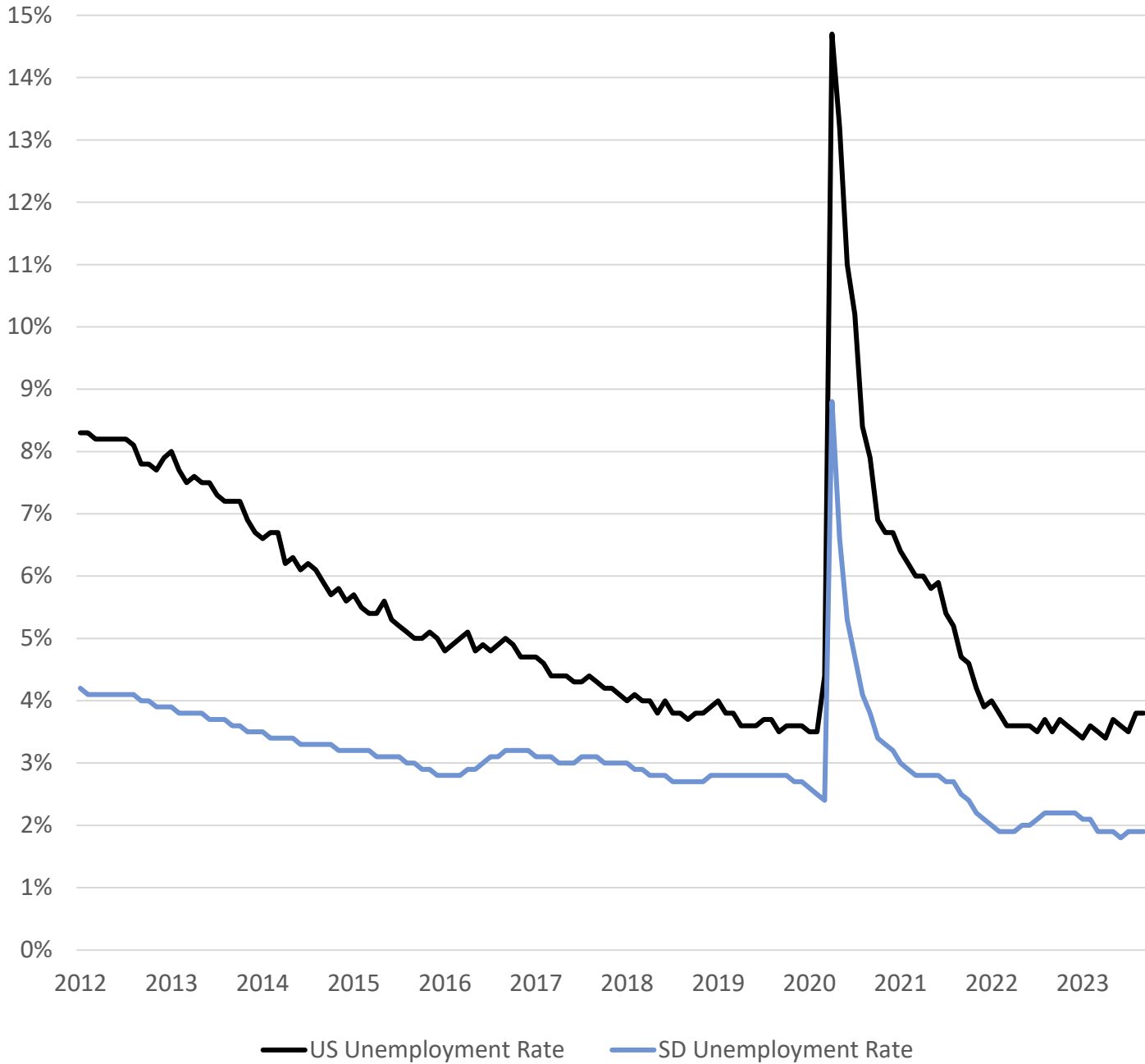


Employment Growth



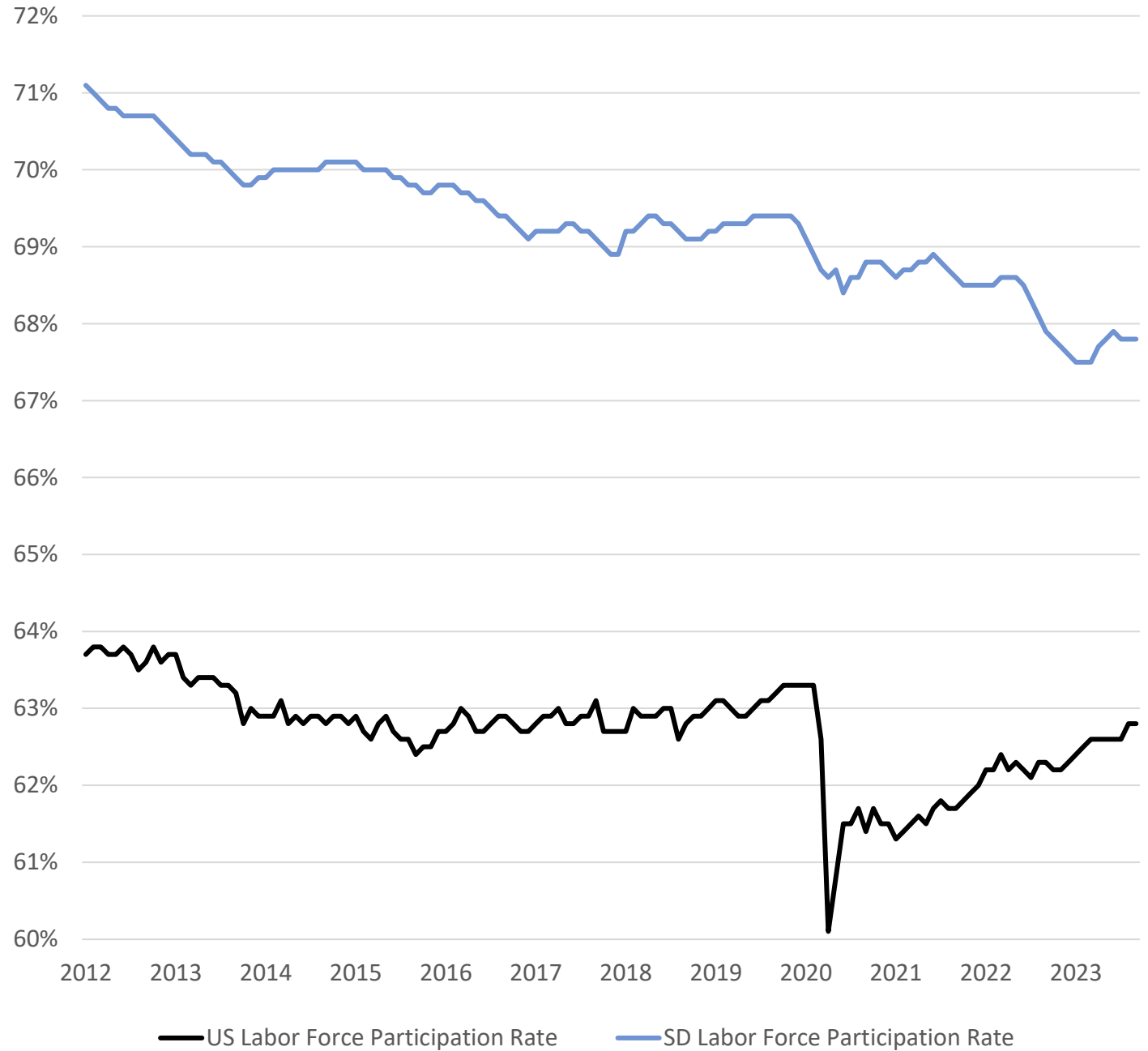


Unemployment Rate



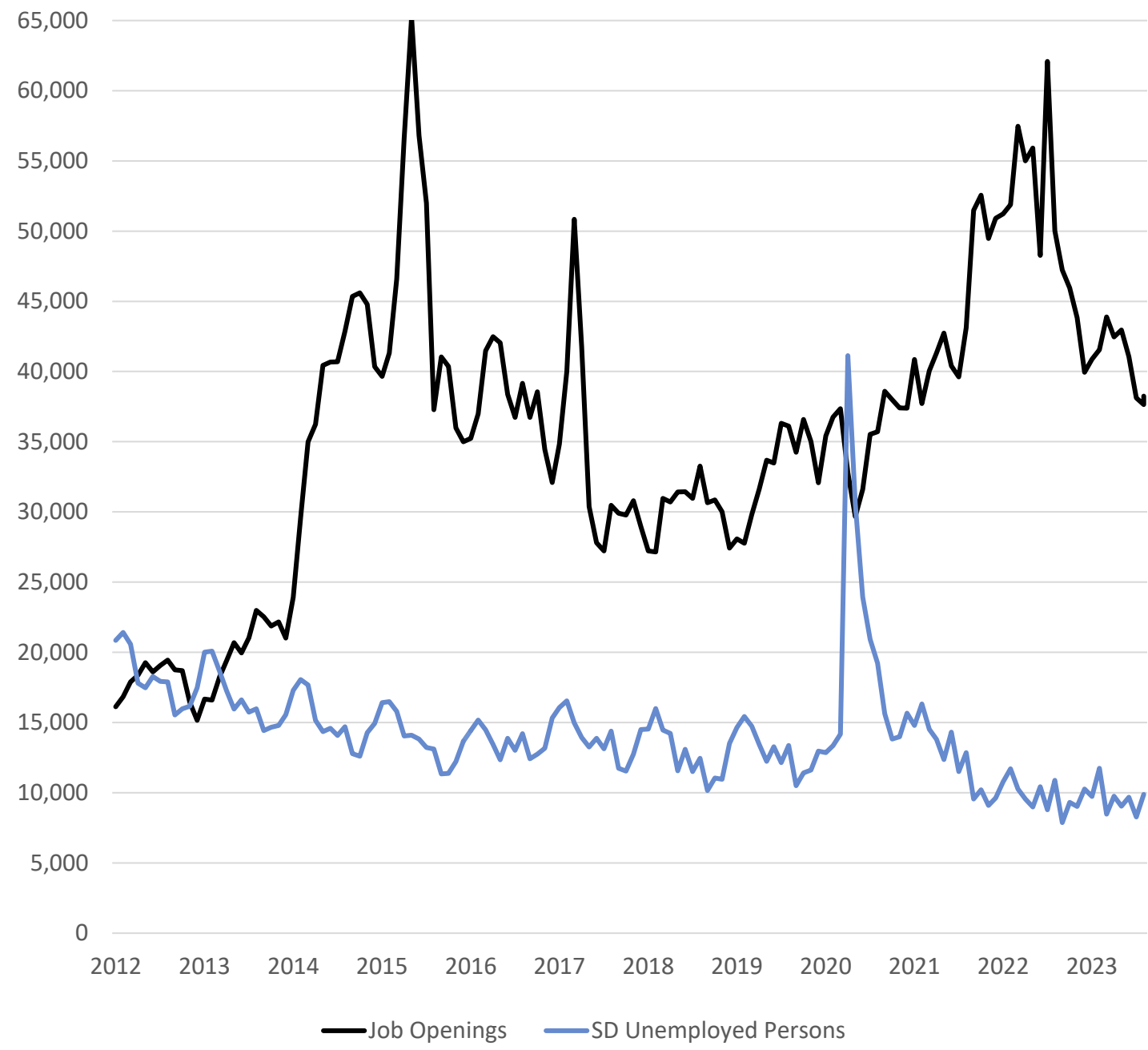


Labor Force Participation Rate



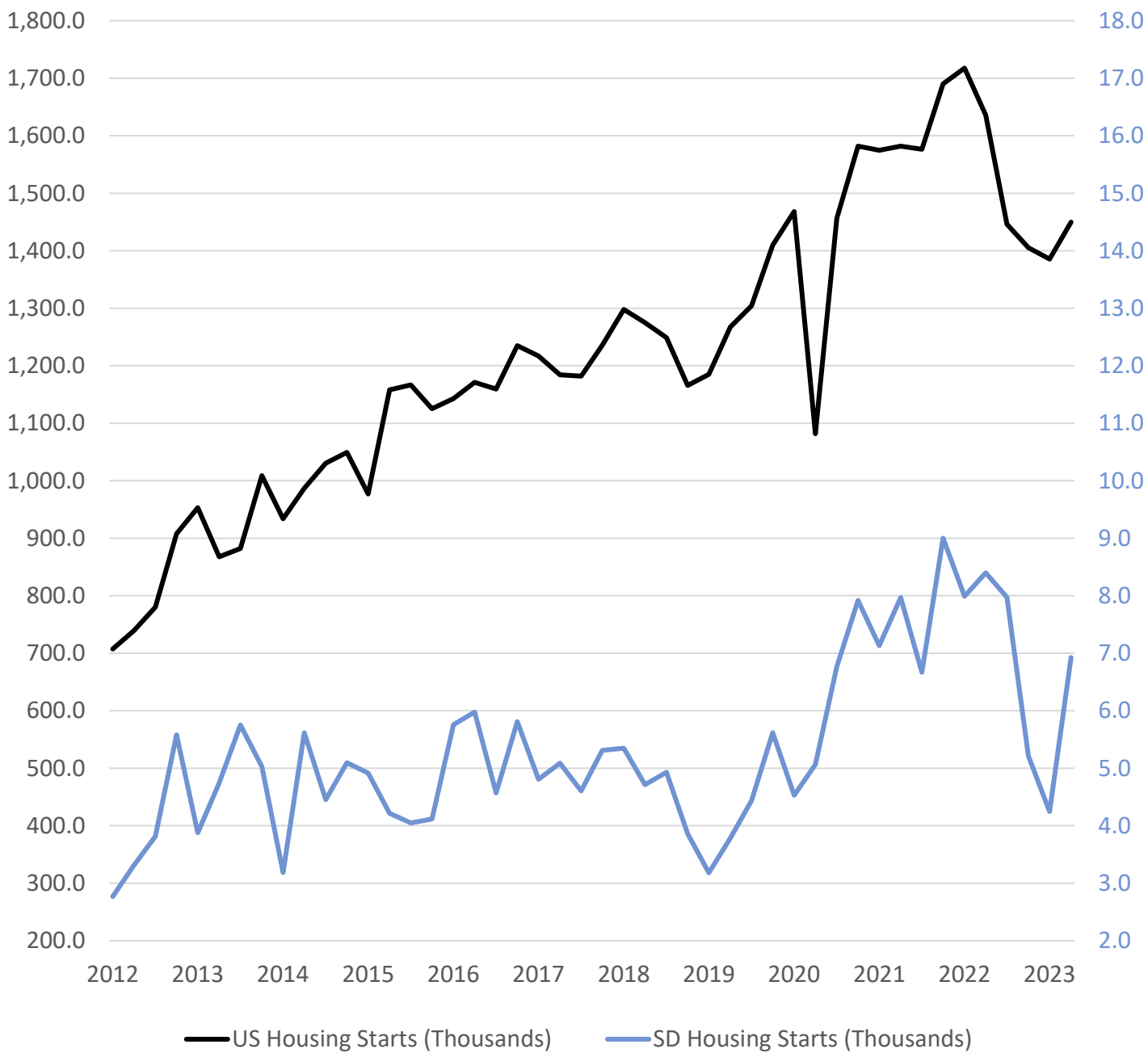


SD Job Openings vs. Unemployed



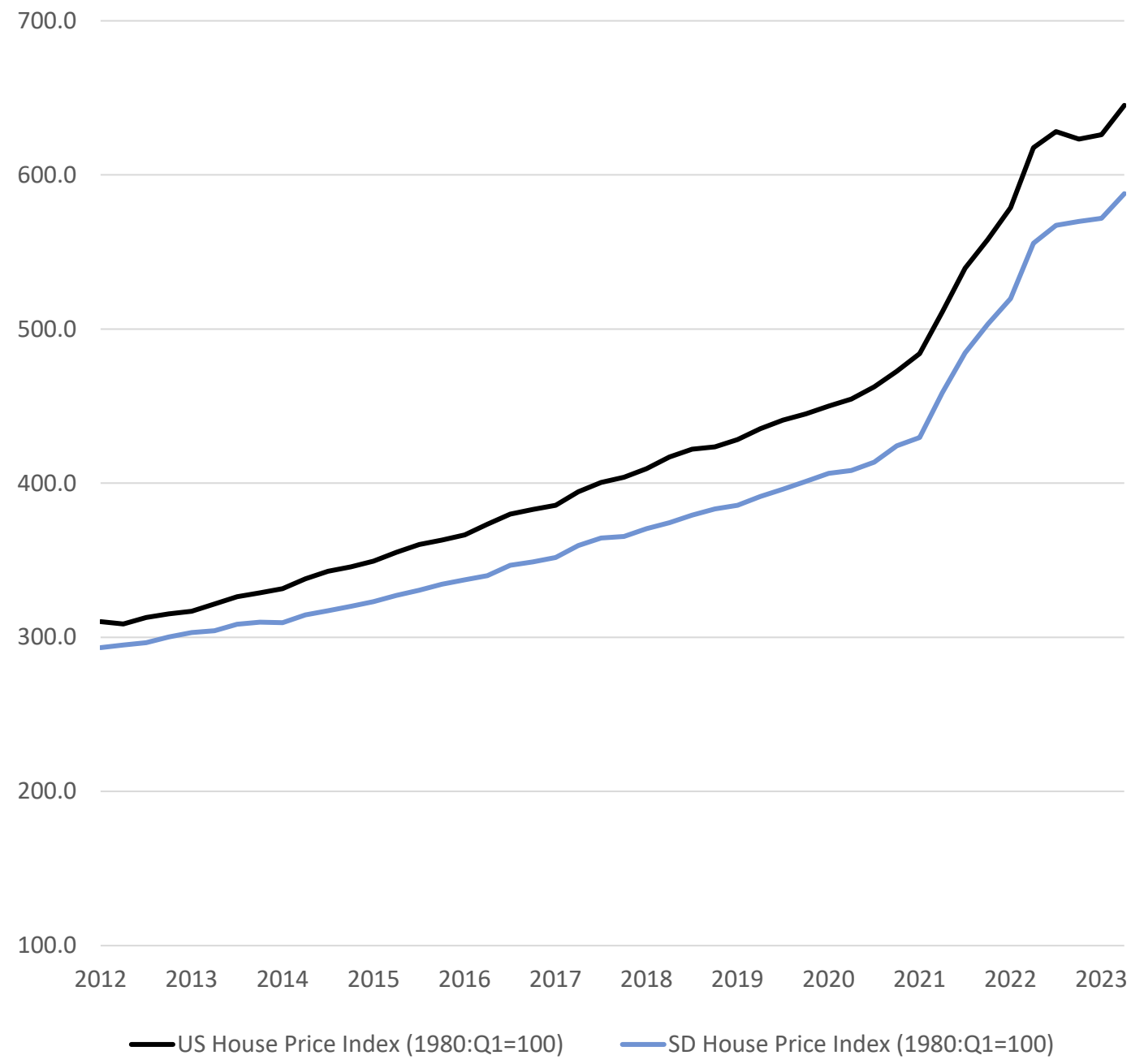


Housing Starts



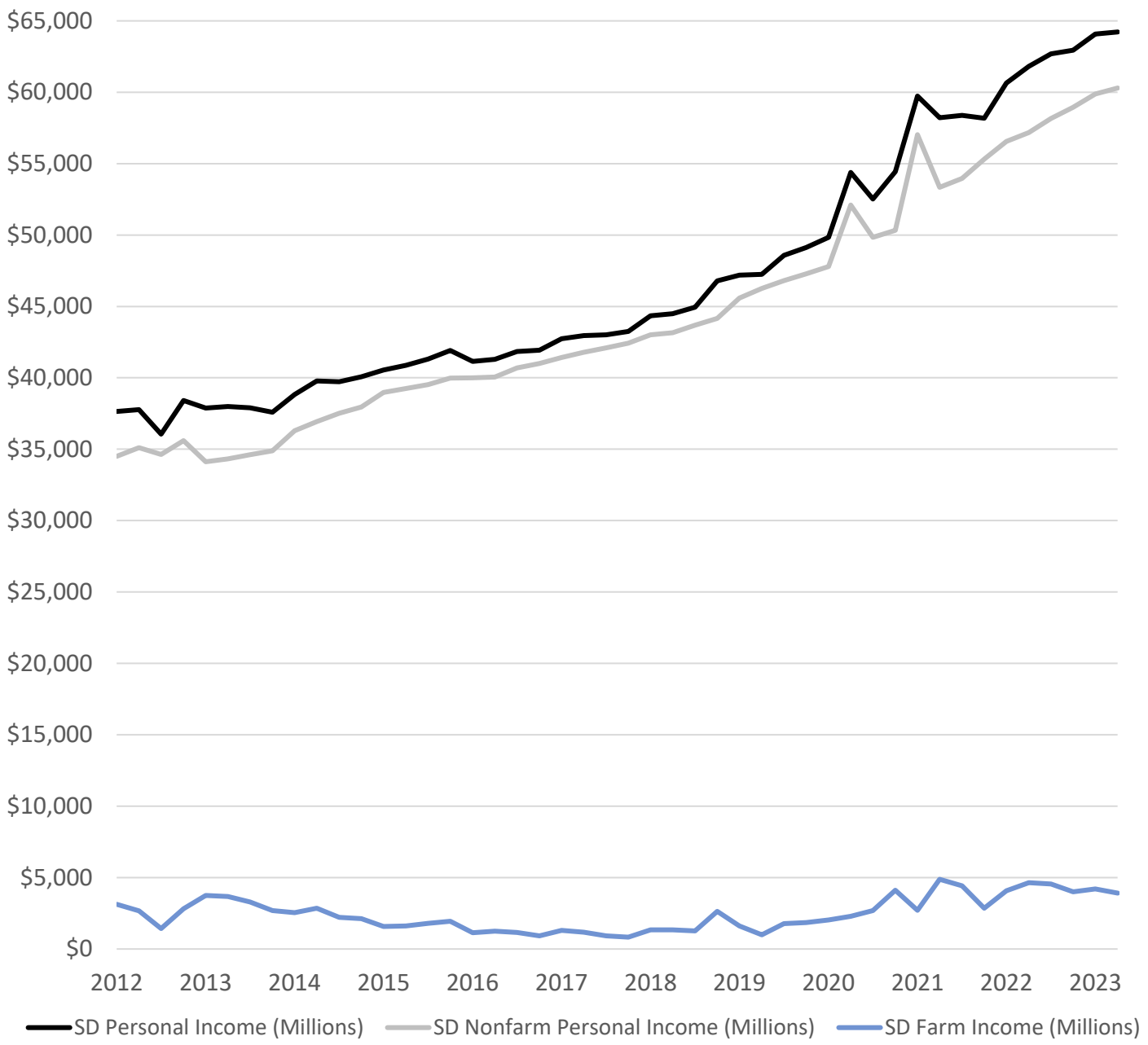


Home Price



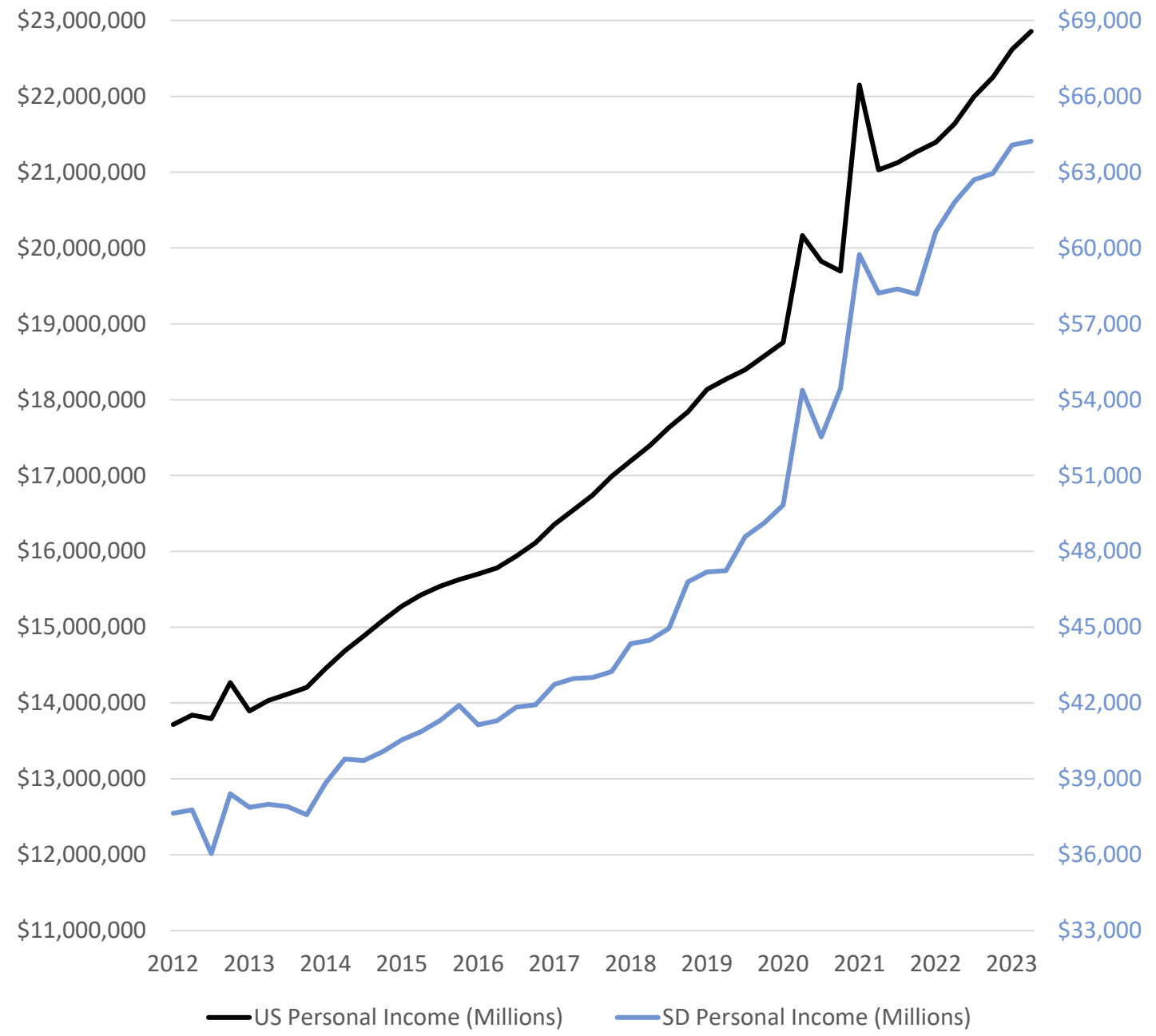


Personal Income



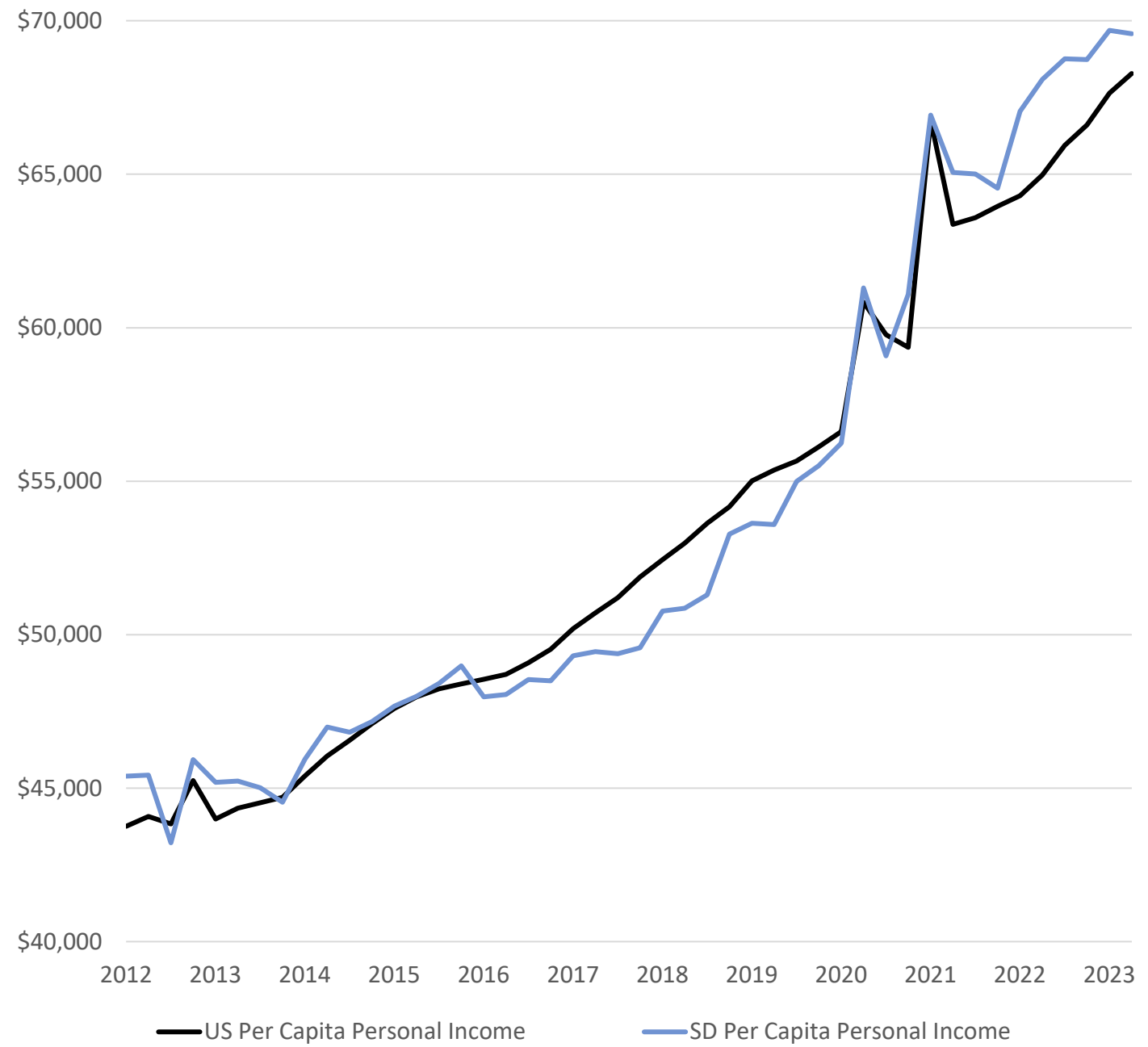


Personal Income



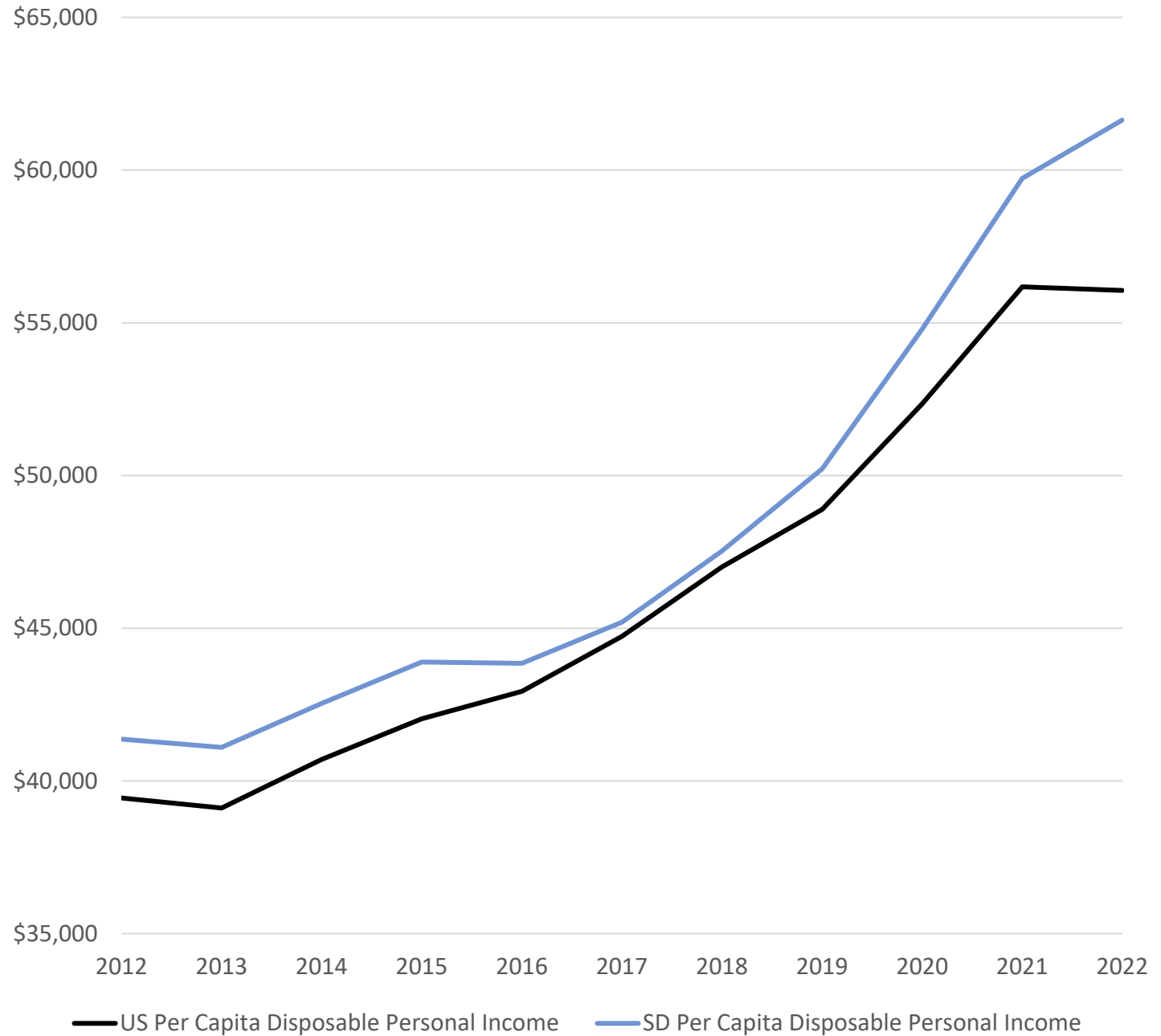


Per Capita Personal Income



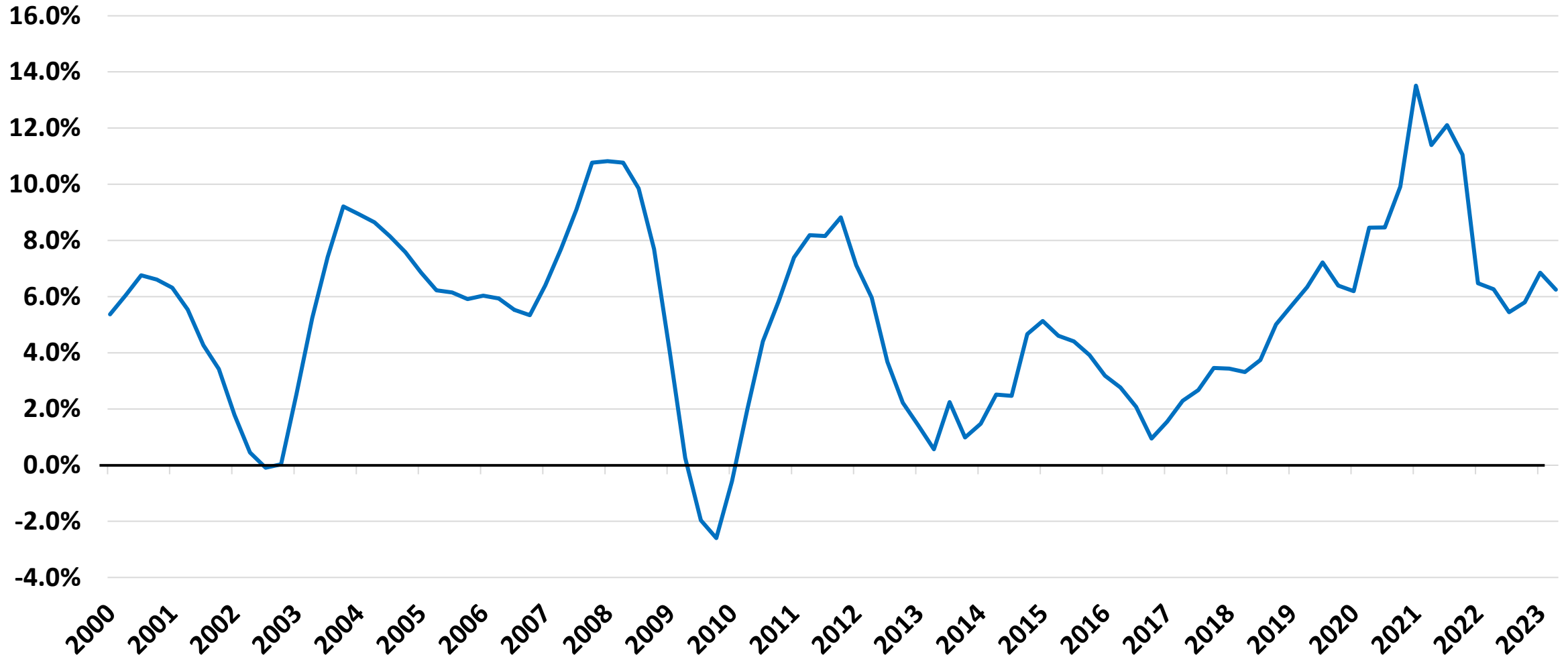


Per Capita Disposable Personal Income

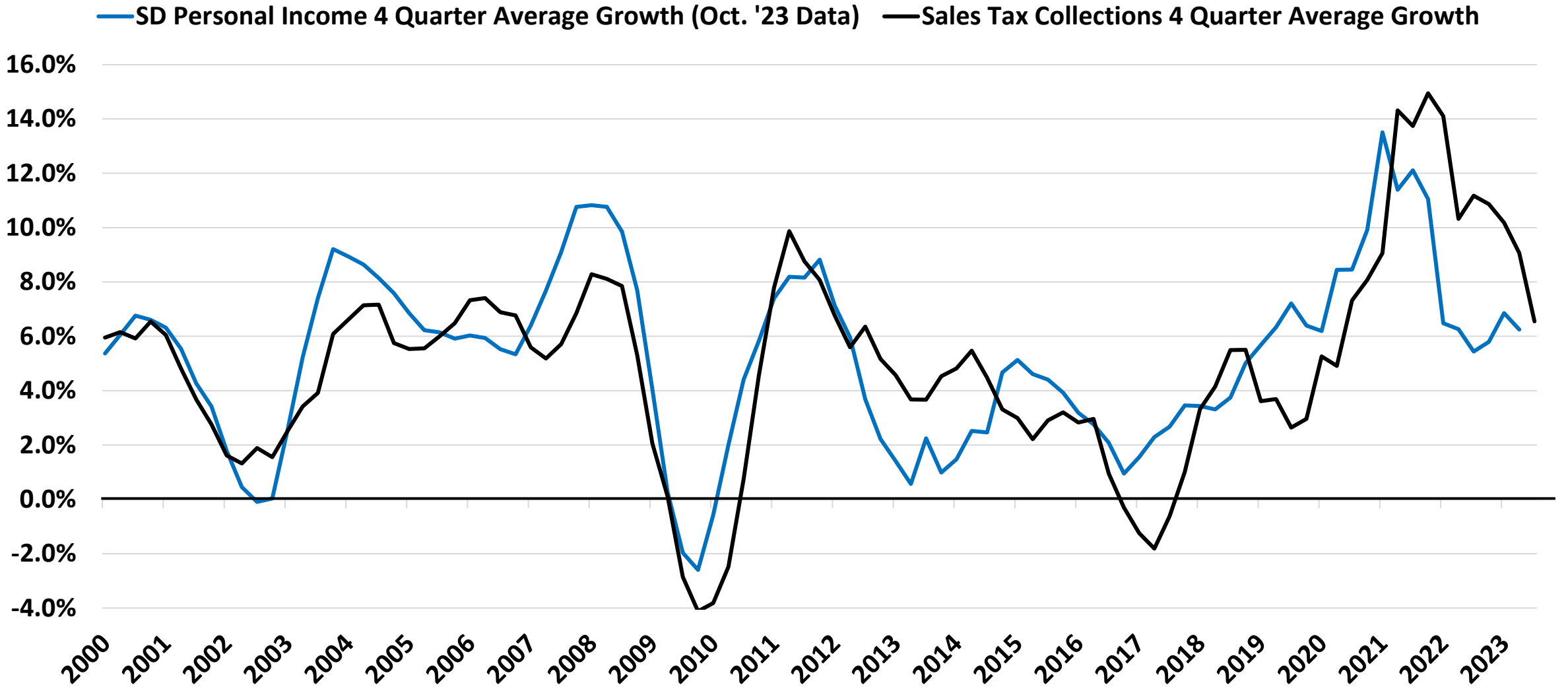


SD Personal Income

— SD Personal Income 4 Quarter Average Growth (Oct. '23 Data)



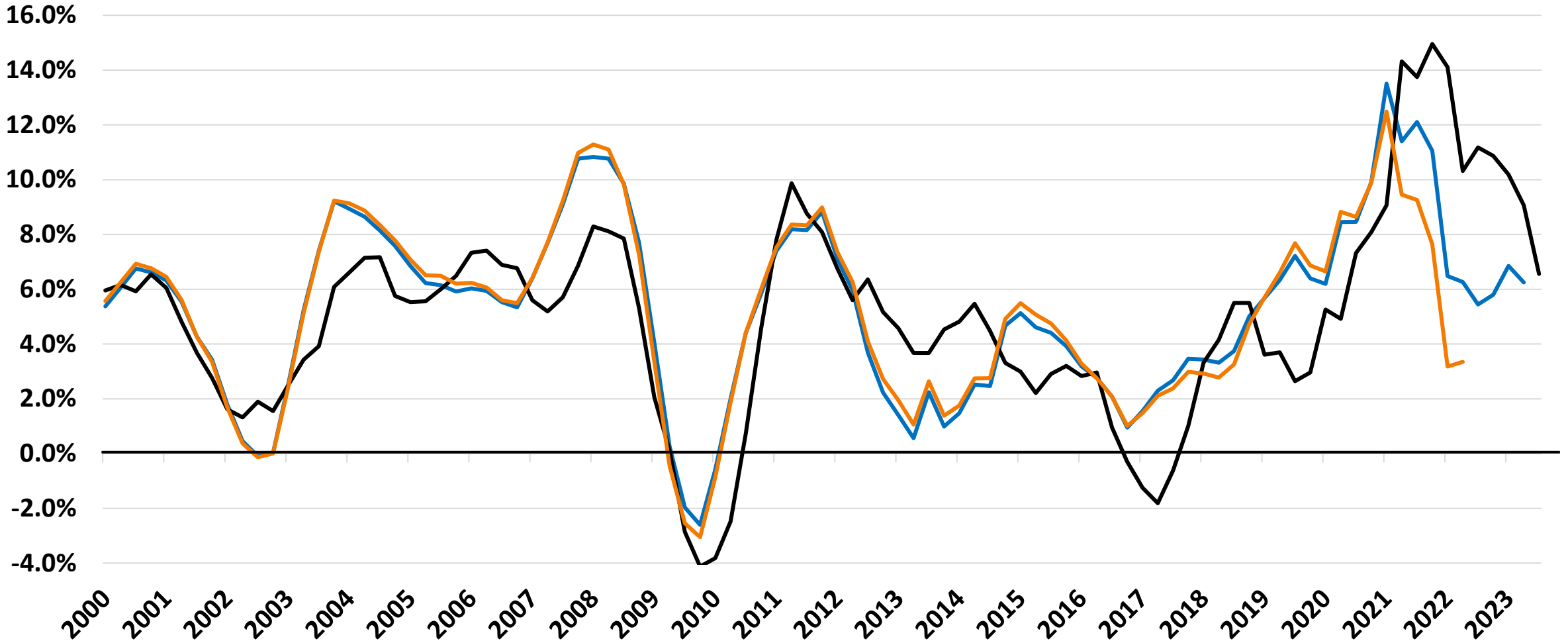
SD Personal Income vs. Sales Tax Collections



SD Personal Income vs. Sales Tax Collections

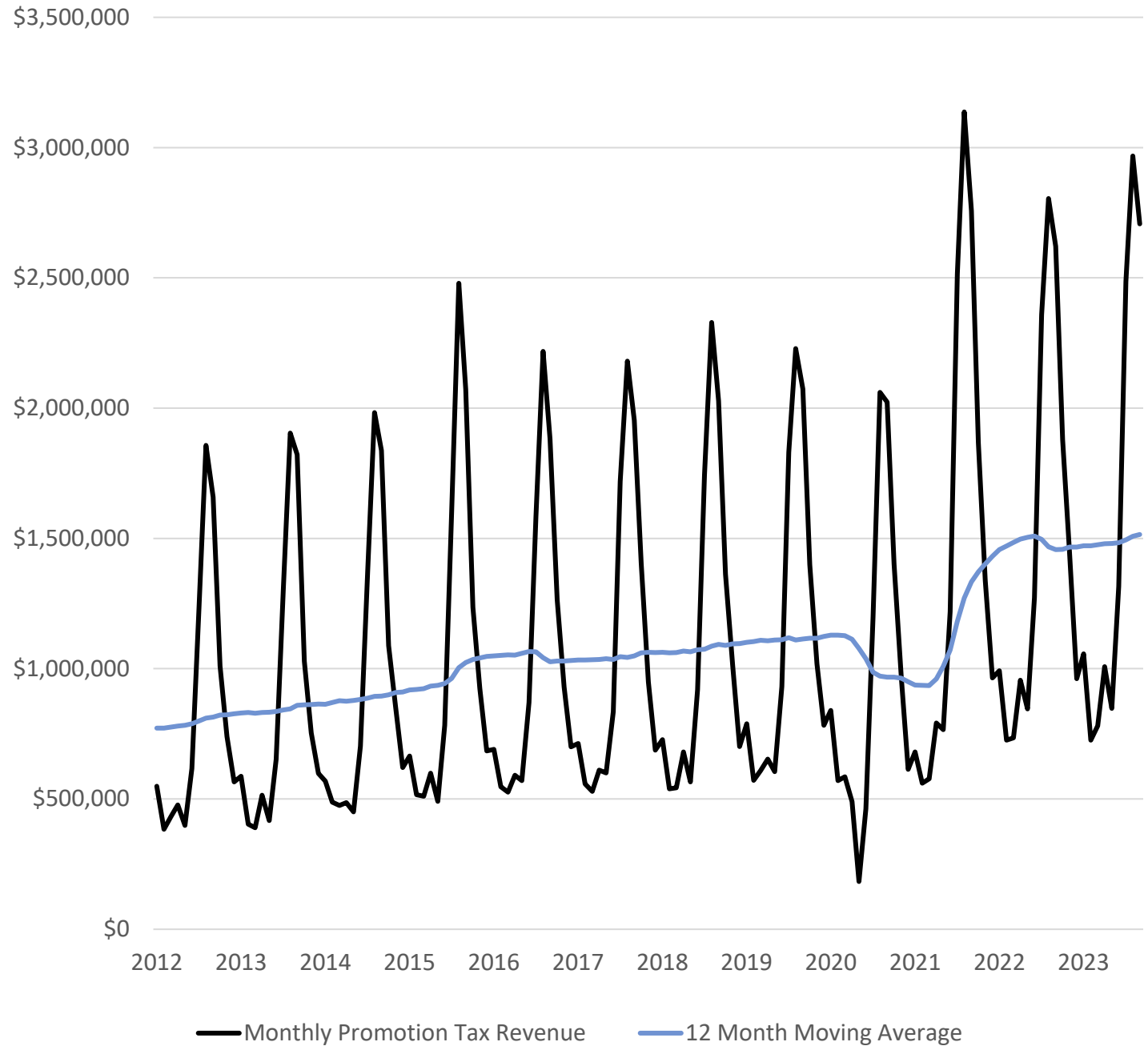
— SD Personal Income 4 Quarter Average Growth (Oct. '23 Data)
— SD Personal Income 4 Quarter Average Growth (Oct. '22 Data)

— Sales Tax Collections 4 Quarter Average Growth



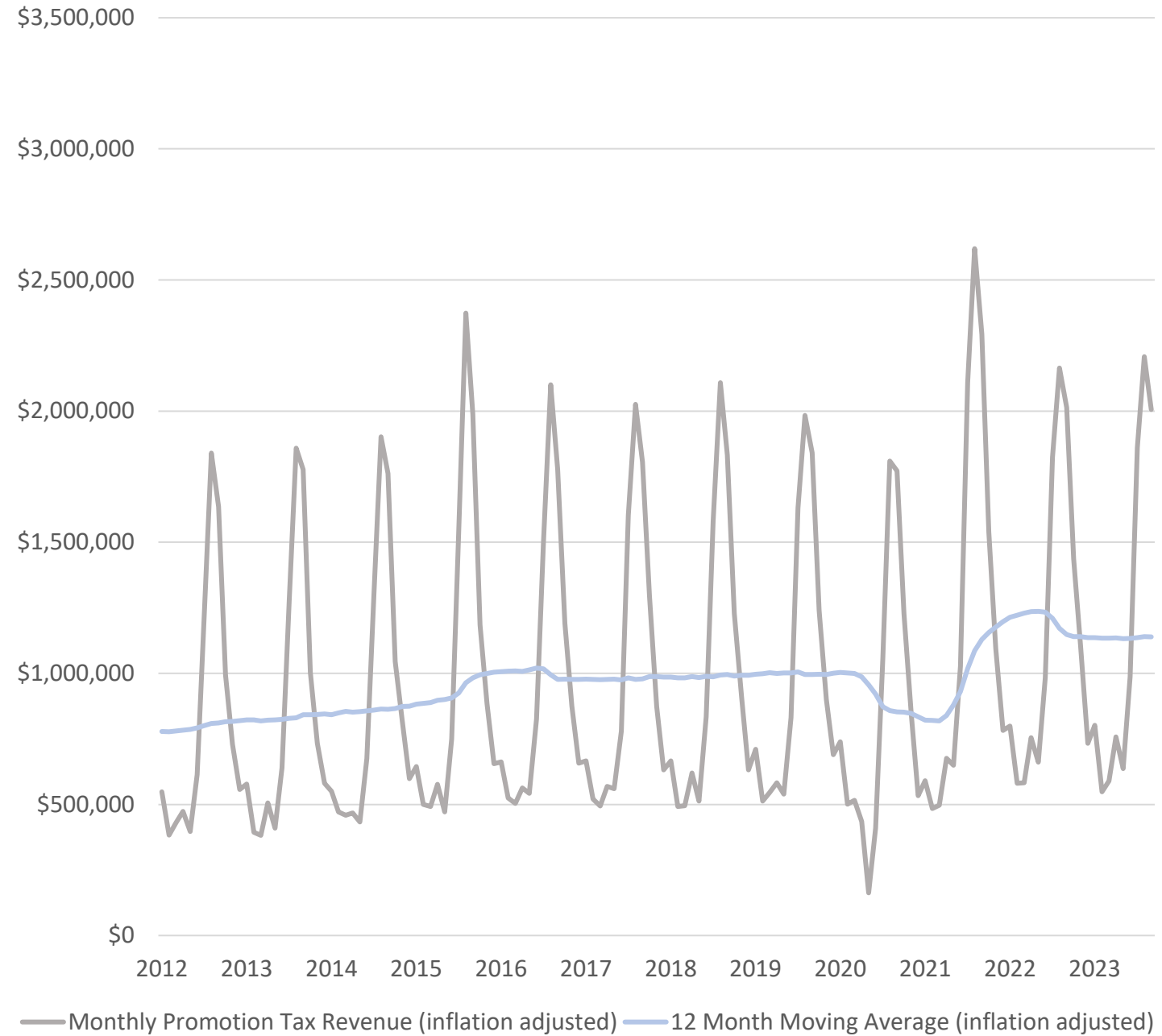


SD Tourism Promotion Tax Collections





SD Tourism Promotion Tax Collections (inflation adjusted)



S&P Global Forecast - SD

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
Real GDP Growth	-0.7%	1.1%	0.8%	1.6%	4.5%	0.5%	2.5%	1.7%	1.3%
Nonfarm Employment	0.4%	0.8%	0.6%	-3.3%	3.4%	2.8%	1.9%	0.5%	1.0%
Nonfarm Income	3.7%	3.7%	6.8%	7.6%	9.8%	5.1%	5.3%*	5.1%*	5.3%
Housing Starts	4,954	4,714	4,254	6,071	7,692	7,393	5,558	4,914	5,294
Unemployment Rate	3.1%	2.8%	2.8%	4.2%	2.6%	2.1%	2.0%	2.5%	3.2%

**Actual Revenue FY2023 vs. Actual Revenue FY2024
Year-To-Date Through SEPTEMBER FY2024 Comparison**



	Actual SEPTEMBER YTD FY2023	Actual SEPTEMBER YTD FY2024	DOLLAR CHANGE	YTD GROWTH OVER FY2023
ONGOING RECEIPTS				
Net Sales and Use Tax (excl. cost of admin)	407,329,481	394,520,407	(12,809,075)	-3.1%
Lottery	40,375,359	40,582,848	207,489	0.5%
Net Contractor's Excise Tax	53,773,411	62,140,754	8,367,343	15.6%
Insurance Company Tax	23,441,240	25,528,716	2,087,476	8.9%
Unclaimed Property Receipts	(3,684,942)	(5,877,183)	(2,192,241)	N/A
Licenses, Permits, and Fees	1,829,034	2,871,626	1,042,592	57.0%
Tobacco Taxes	14,806,432	12,933,321	(1,873,112)	-12.7%
Trust Funds	31,890,322	33,665,904	1,775,583	5.6%
Net Transfers In (excluding one-time)	9,604,141	11,679,249	2,075,108	21.6%
Alcohol Beverage Tax	39,539	47,587	8,048	20.4%
Bank Franchise Tax	669,946	1,222,645	552,699	82.5%
Charges for Goods and Services	2,593,137	2,959,195	366,058	14.1%
Telecommunications Tax	396,181	374,783	(21,398)	-5.4%
Severance Taxes	1,835,490	2,942,619	1,107,129	60.3%
Investment Income and Interest	13,739,869	48,961,158	35,221,289	256.3%
Alcohol Beverage 2% Wholesale Tax	743,617	775,888	32,270	4.3%
SUBTOTAL (ONGOING RECEIPTS)	\$ 599,382,257	\$ 635,329,515	\$ 35,947,258	6.0%
ONE-TIME RECEIPTS				
One-Time Sales and Use Tax*	-	9,726,426	9,726,426	N/A
Bank Franchise Tax Prior Year Revenue	14,625	1,632,214	1,617,589	11060.5%
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 14,625	\$ 11,358,640	\$ 1,617,589	77566.3%
GRAND TOTAL	\$ 599,396,882	\$ 646,688,155	\$ 47,291,273	7.9%

NOTES

* The state sales tax rate was decreased from 4.5% to 4.2% on July 1st. However, July sales tax collections were from June sales. The additional 0.3% was noted as a one-time receipt in July.

**Legislative Adopted FY2024 Estimate (Feb. 2023) vs. Actual Revenues
Year-to-Date Through SEPTEMBER FY2024 Comparison**

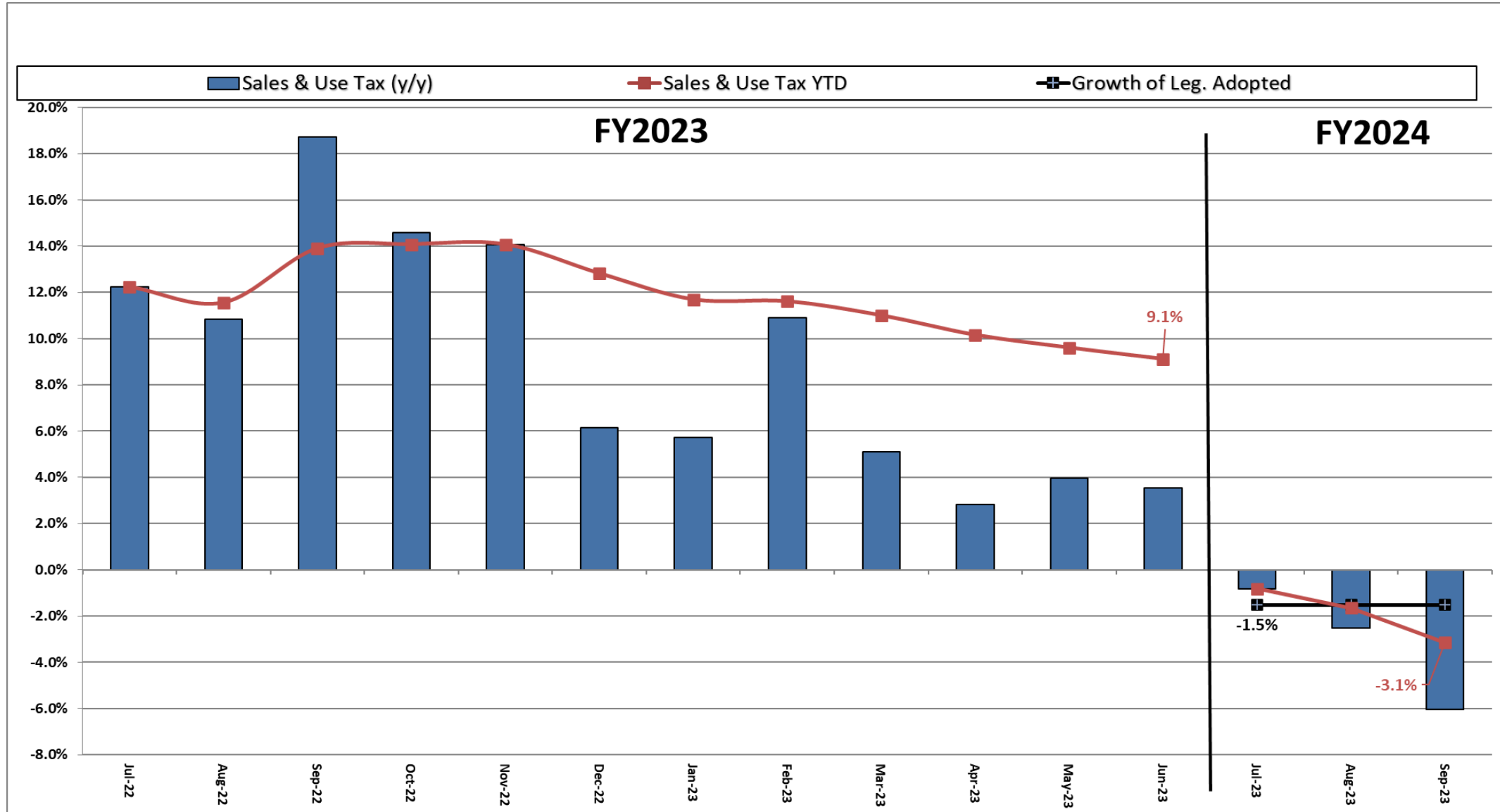


	Leg. Adopted SEPTEMBER YTD FY2024	Actual SEPTEMBER YTD FY2024	DOLLAR CHANGE	YTD % Chg. Actual/Adopt Comparison
ONGOING RECEIPTS				
Net Sales and Use Tax (excl. cost of admin)	392,849,510	394,520,407	1,670,896	0.4%
Lottery	41,943,927	40,582,848	(1,361,079)	-3.2%
Net Contractor's Excise Tax	56,680,902	62,140,754	5,459,852	9.6%
Insurance Company Tax	24,936,139	25,528,716	592,576	2.4%
Unclaimed Property Receipts	(4,696,385)	(5,877,183)	(1,180,798)	N/A
Licenses, Permits, and Fees	2,461,152	2,871,626	410,473	16.7%
Tobacco Taxes	14,522,433	12,933,321	(1,589,113)	-10.9%
Trust Funds	33,665,904	33,665,904	0	0.0%
Net Transfers In (excluding one-time)	9,823,503	11,679,249	1,855,746	18.9%
Alcohol Beverage Tax	32,556	47,587	15,031	46.2%
Bank Franchise Tax	774,362	1,222,645	448,283	57.9%
Charges for Goods and Services	3,718,971	2,959,195	(759,776)	-20.4%
Telecommunications Tax	344,352	374,783	30,431	8.8%
Severance Taxes	1,956,513	2,942,619	986,105	50.4%
Investment Income and Interest	19,994,539	48,961,158	28,966,619	144.9%
Alcohol Beverage 2% Wholesale Tax	799,632	775,888	(23,745)	-3.0%
SUBTOTAL (ONGOING RECEIPTS)	\$ 599,808,013	\$ 635,329,515	\$ 35,521,502	5.9%
ONE-TIME RECEIPTS				
One-Time Sales and Use Tax*	-	9,726,426	9,726,426	N/A
Bank Franchise Tax Prior Year Revenue	-	1,632,214	1,632,214	N/A
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 0	\$ 11,358,640	\$ 11,358,640	N/A
GRAND TOTAL	\$ 599,808,013	\$ 646,688,155	\$ 46,880,142	7.8%

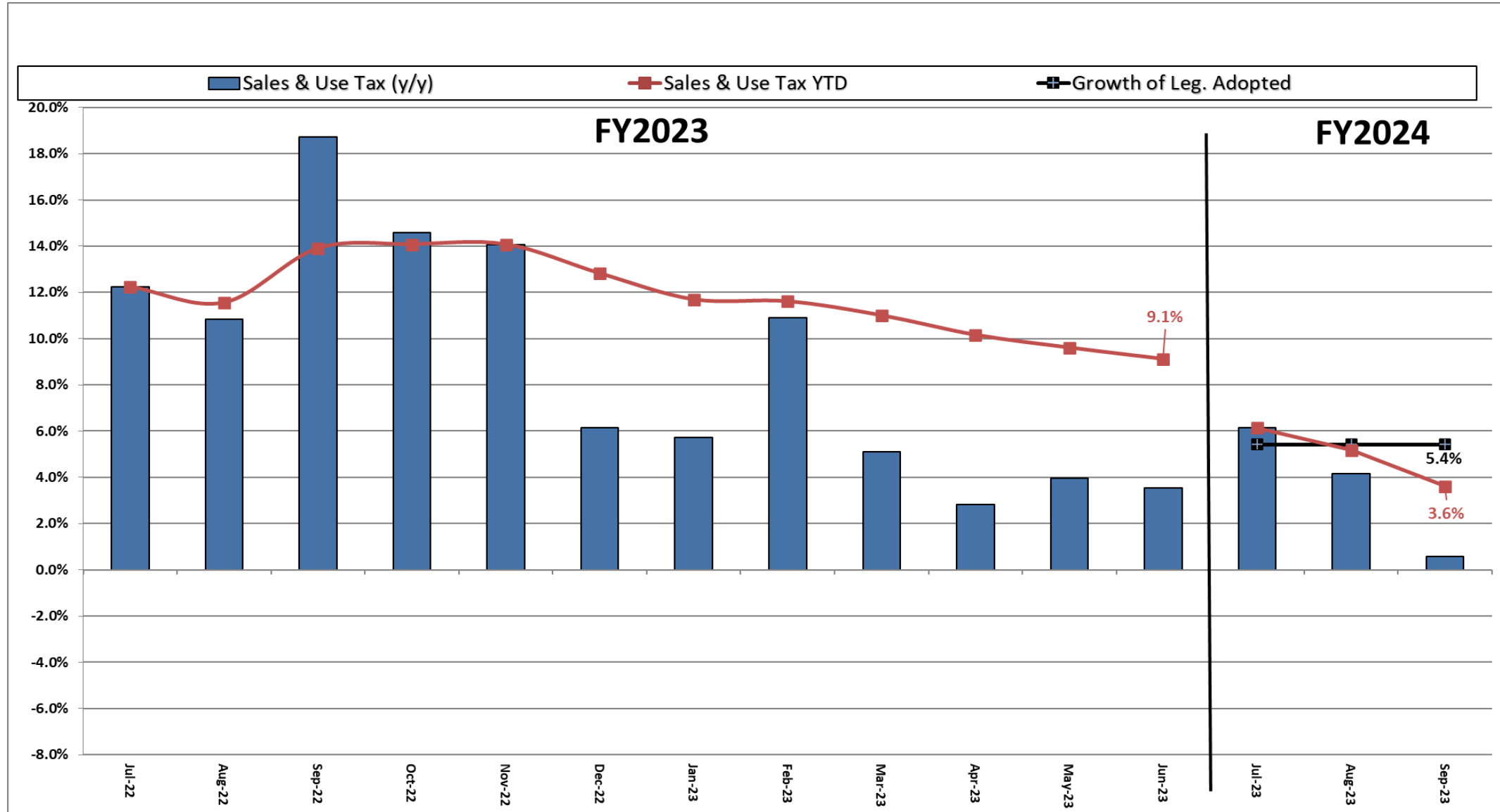
NOTES

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Sales & Use Tax Growth



Sales & Use Tax Growth *(RATE ADJUSTED)*





Council Discussion

S&P Global Forecast - US

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
Real GDP Growth	2.5%	3.0%	2.5%	-2.2%	5.8%	1.9%	2.5%	1.6%	2.3%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.4%	0.7%	1.4%
Personal Income	4.9%	5.2%	4.7%	6.9%	9.1%	2.0%	5.3%	5.0%	4.6%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.6%	3.8%	5.5%
CPI-U	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%	4.1%	2.4%	2.4%

S&P Global Forecast - SD

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
Real GDP Growth	-0.7%	1.1%	0.8%	1.6%	4.5%	0.5%	2.5%	1.7%	1.3%
Nonfarm Employment	0.4%	0.8%	0.6%	-3.3%	3.4%	2.8%	1.9%	0.5%	1.0%
Nonfarm Income	3.7%	3.7%	6.8%	7.6%	9.8%	5.1%	5.3%*	5.1%*	5.3%
Housing Starts	4,954	4,714	4,254	6,071	7,692	7,393	5,558	4,914	5,294
Unemployment Rate	3.1%	2.8%	2.8%	4.2%	2.6%	2.1%	2.0%	2.5%	3.2%

Other Discussion Items

- Next Meeting Date – late January/early February
- Other Comments
- Public Comments