

Governor's Council of Economic Advisors



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May 31, 2023

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

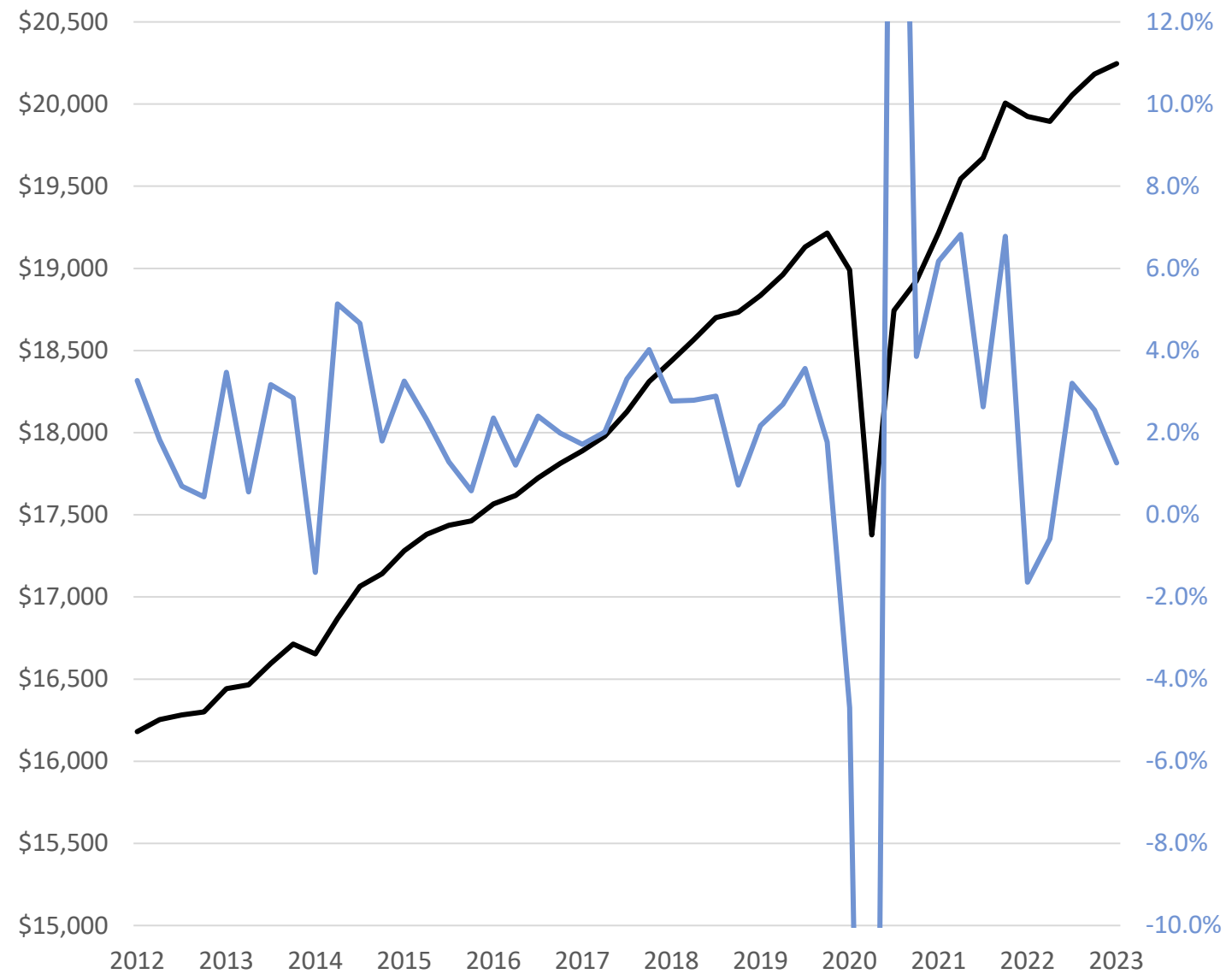
Federal Fiscal Picture

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 finished at 2.1%. Baseline forecast is 1.2% in 2023 and 0.9% in 2024.
- Forecast assumes debt limit is raised and technical default is avoided.
- However, a mid-year dip in stock prices that restrains growth throughout the forecast period for 2023 and 2024 is included.
- Tightening of lending standards expected to undermine growth this year and next.

Components of GDP

Consumption (68.4%)

Investment (17.2%)

Government (17.6%)

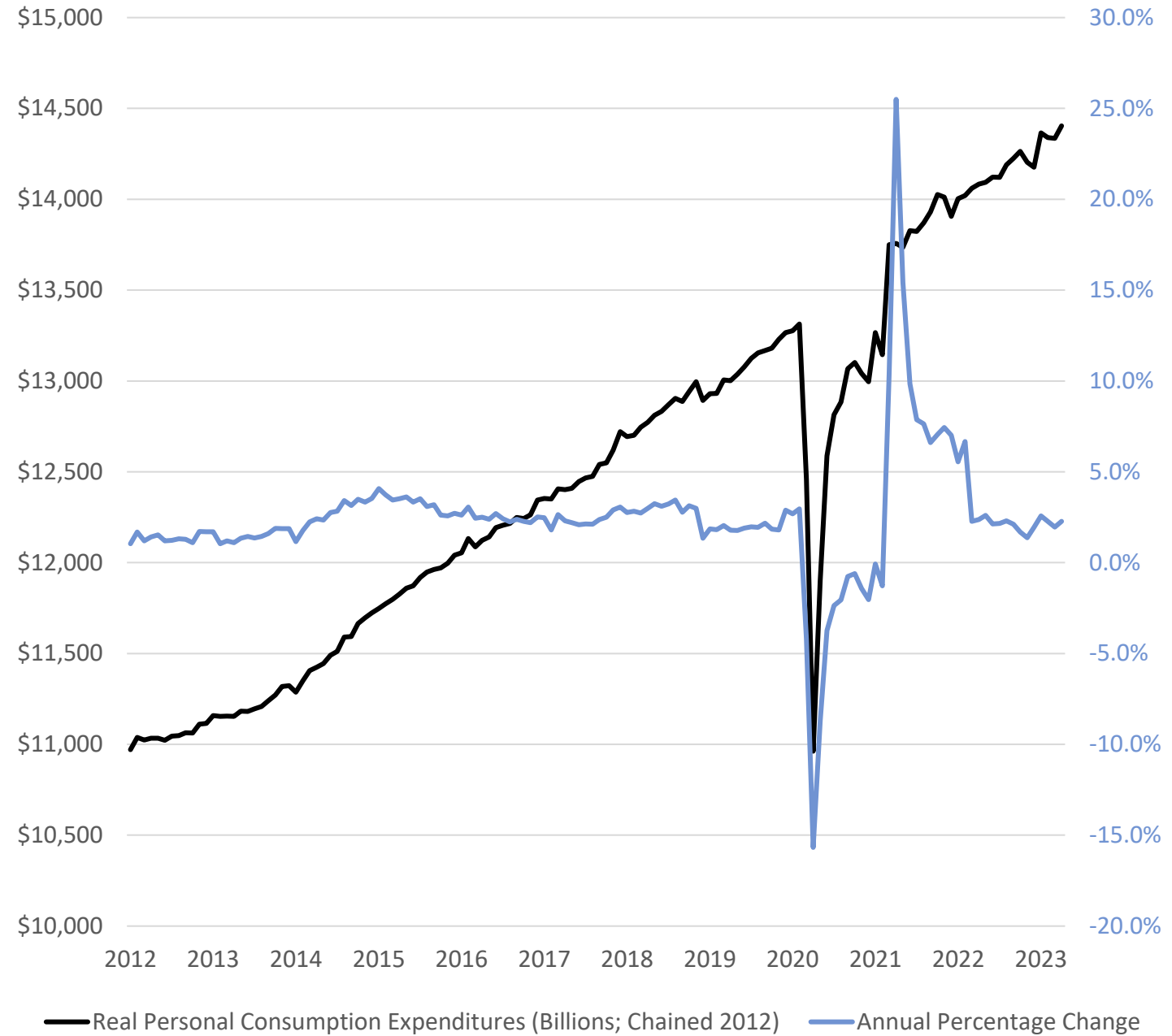
Net Export (-3.2%)

Consumption

- Real personal consumption expenditures slowed from 3.7% in the first quarter to a 0.1% estimate in the second quarter due to weakening momentum.
- Tightening lending conditions, ongoing inflation, and slumping confidence limit upside on the forecast of real consumer spending in the short term.
- Real personal consumption expenditures grew 2.7% in 2022.
- Projected growth is at 1.6% in 2023 and 0.6% in 2024.

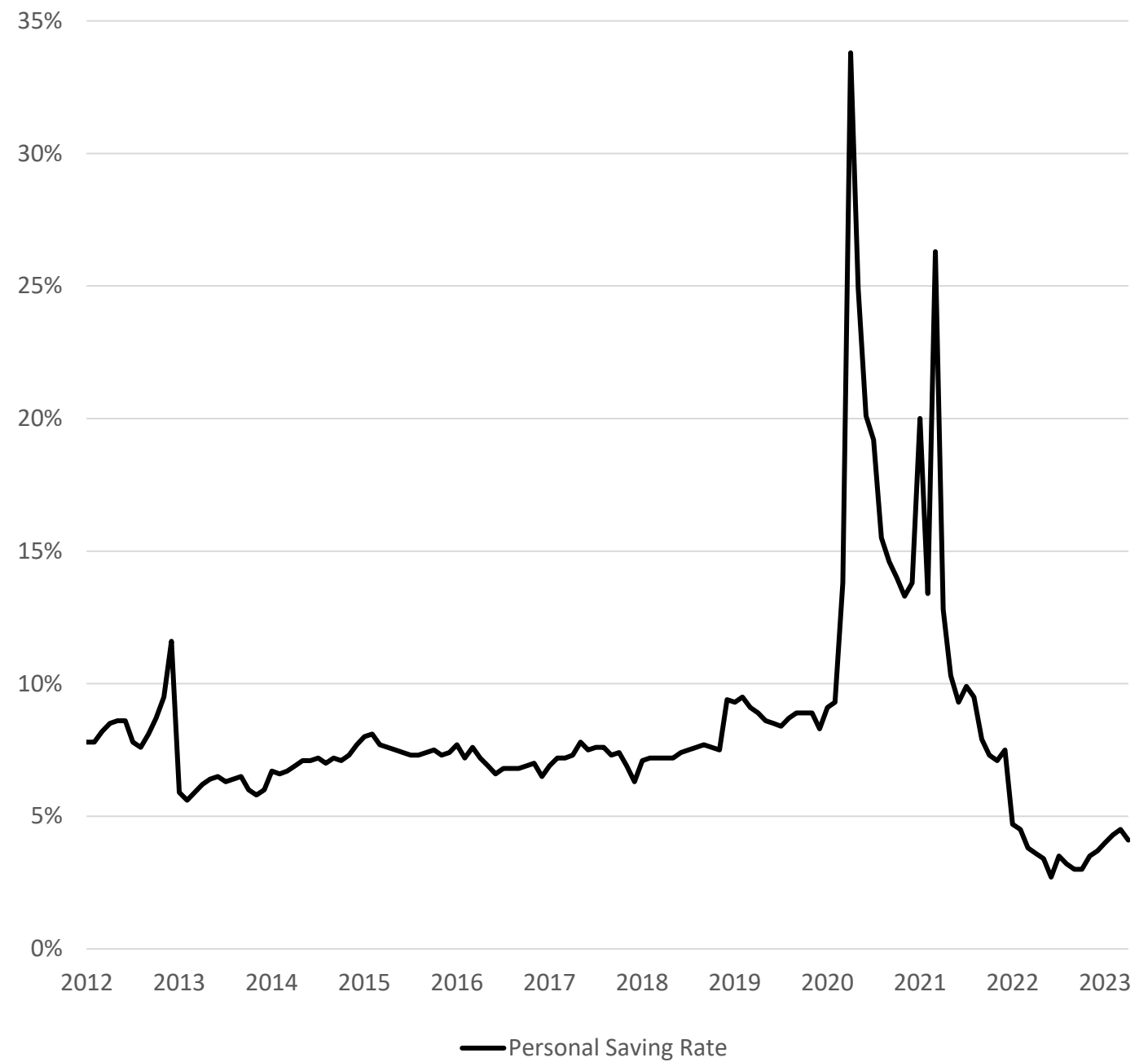


US Real Personal Consumption Expenditures



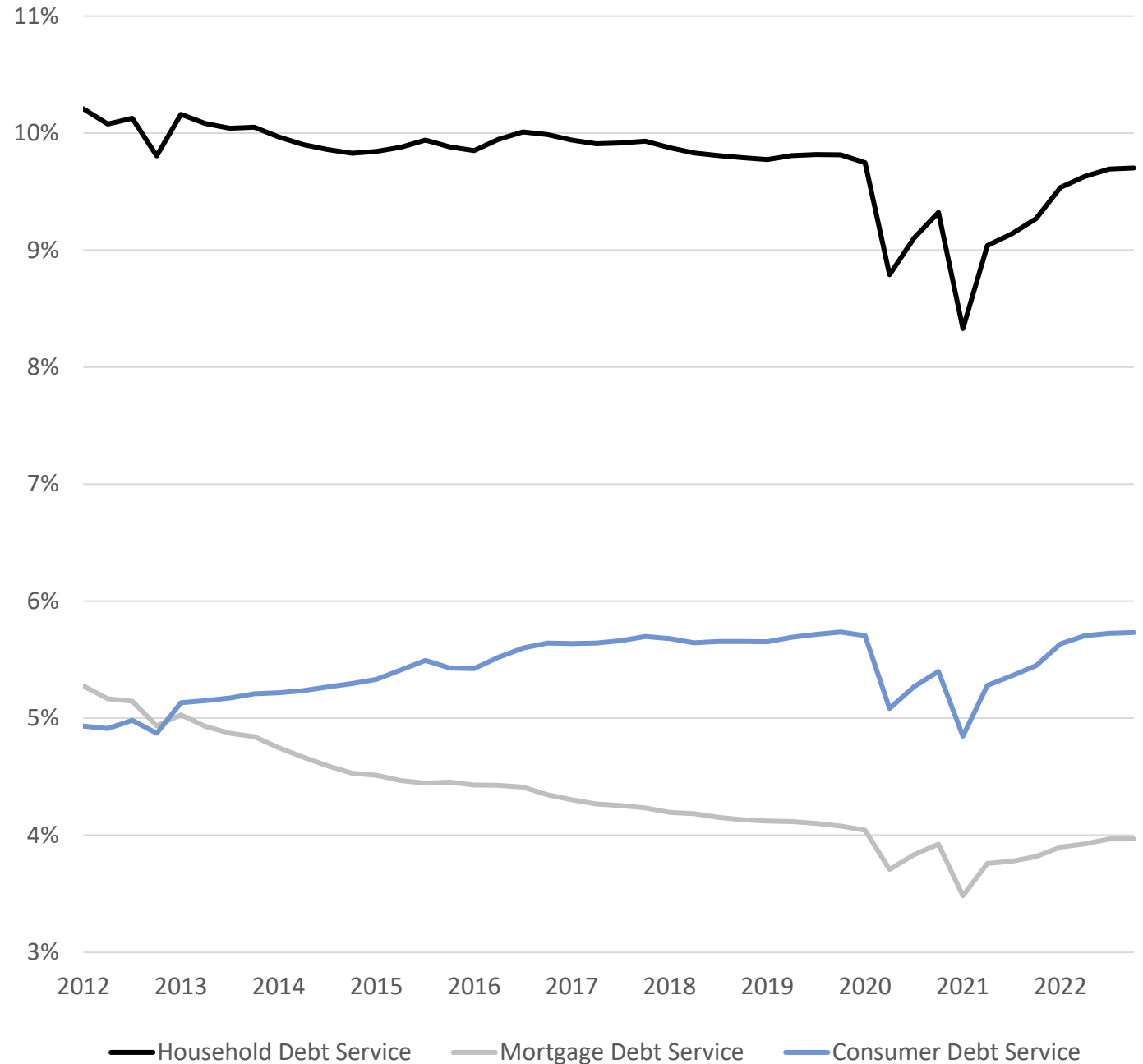


US Personal Saving Rate



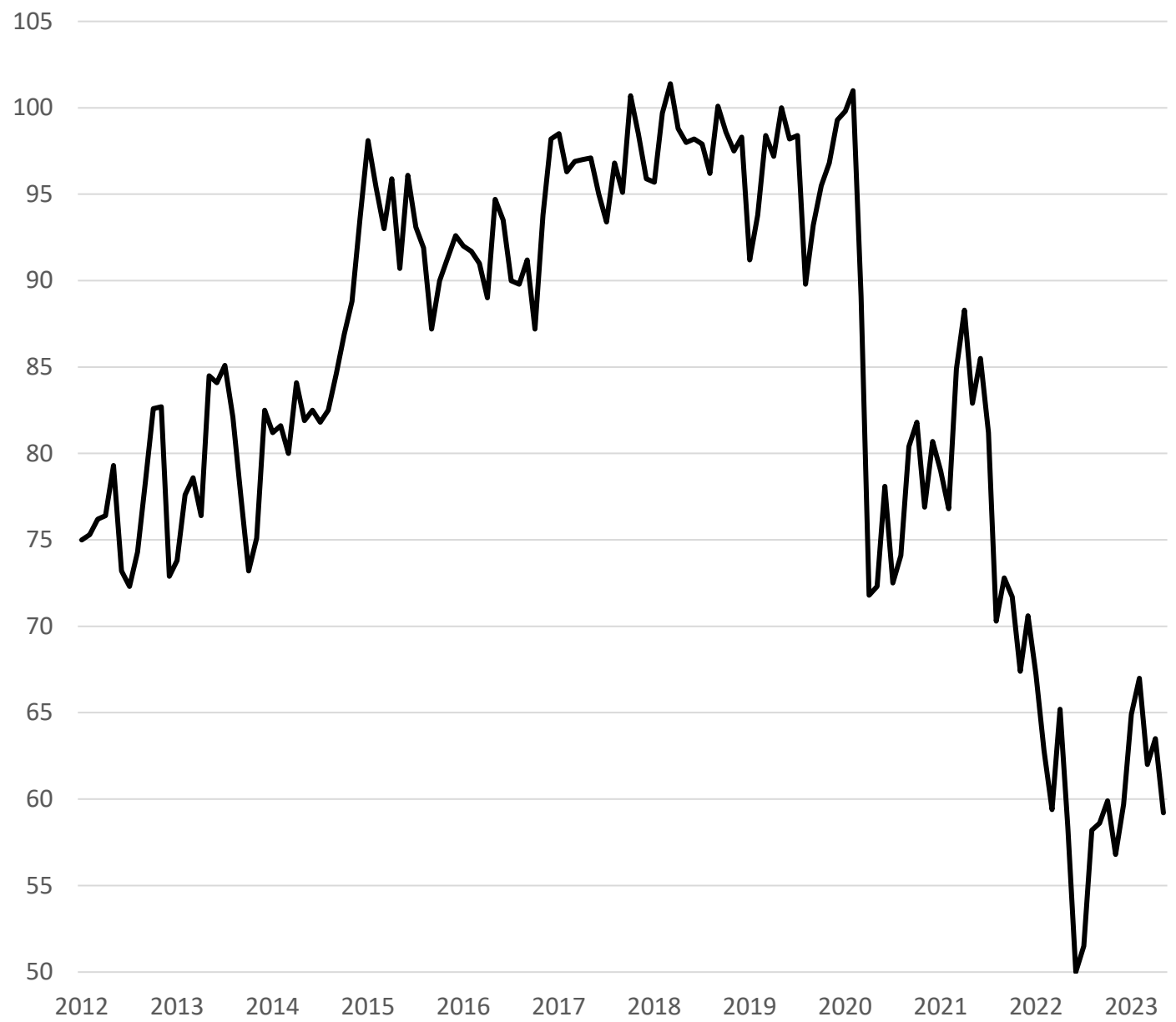


US Household Debt Service Ratio





US Consumer Sentiment



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

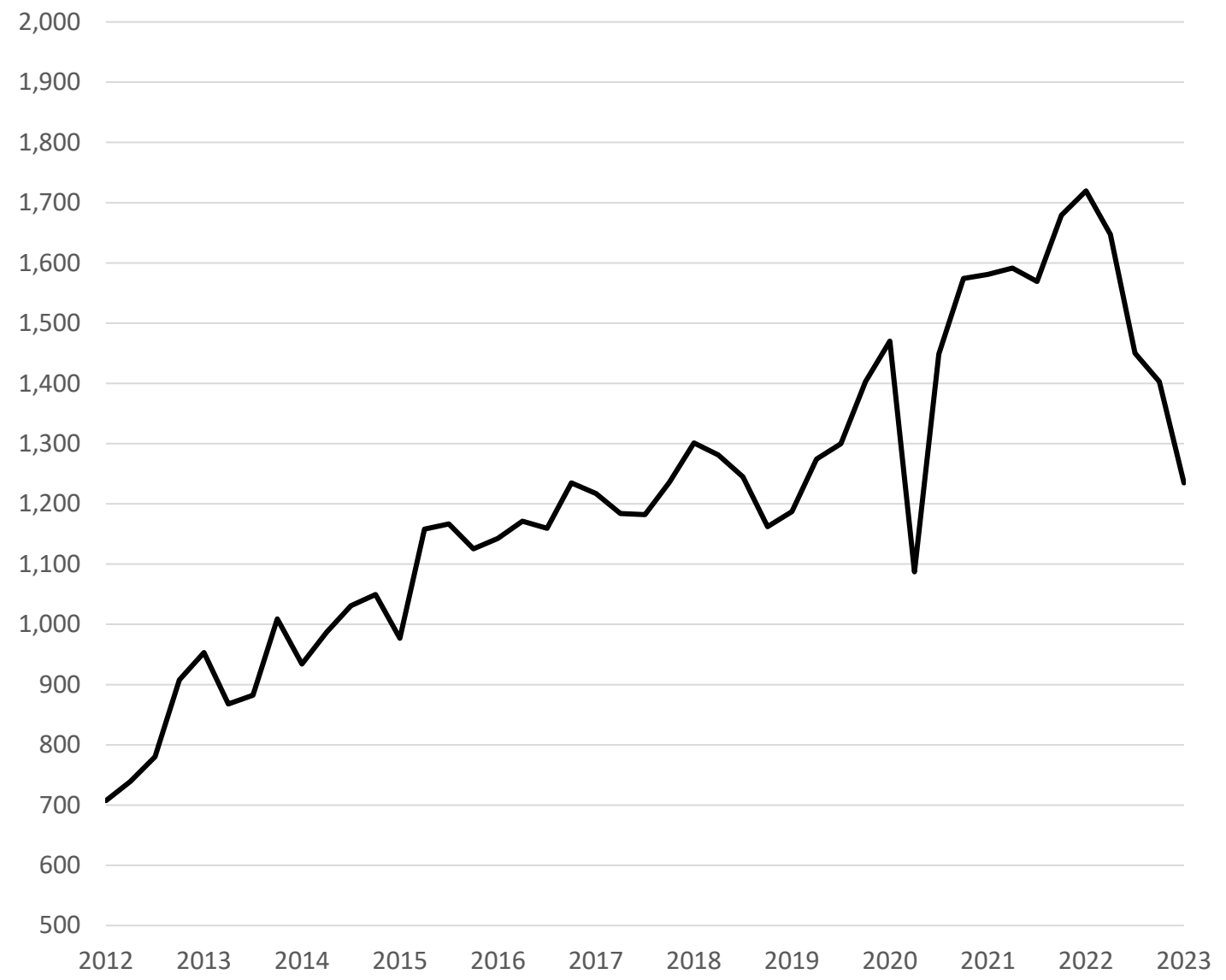
Investment



- Real business fixed investment is projected to slow from 3.9% in 2022 to 1.6% in 2023 and -0.3% in 2024 due to tighter lending standards.
- Residential investment finished 2022 at -10.6%. It is projected at -12.5% in 2023 and 0.9% in 2024.
- Housing starts are expected to slow from 1.55M in 2022 to 1.34M in 2023 and 1.32M in 2024.
- Single family permits did increase in the first quarter as housing became more affordable.
- Nominal house prices expected to decline by 3% through 2024. Adjusted for inflation, the decline is projected at 12%.



US Housing Starts



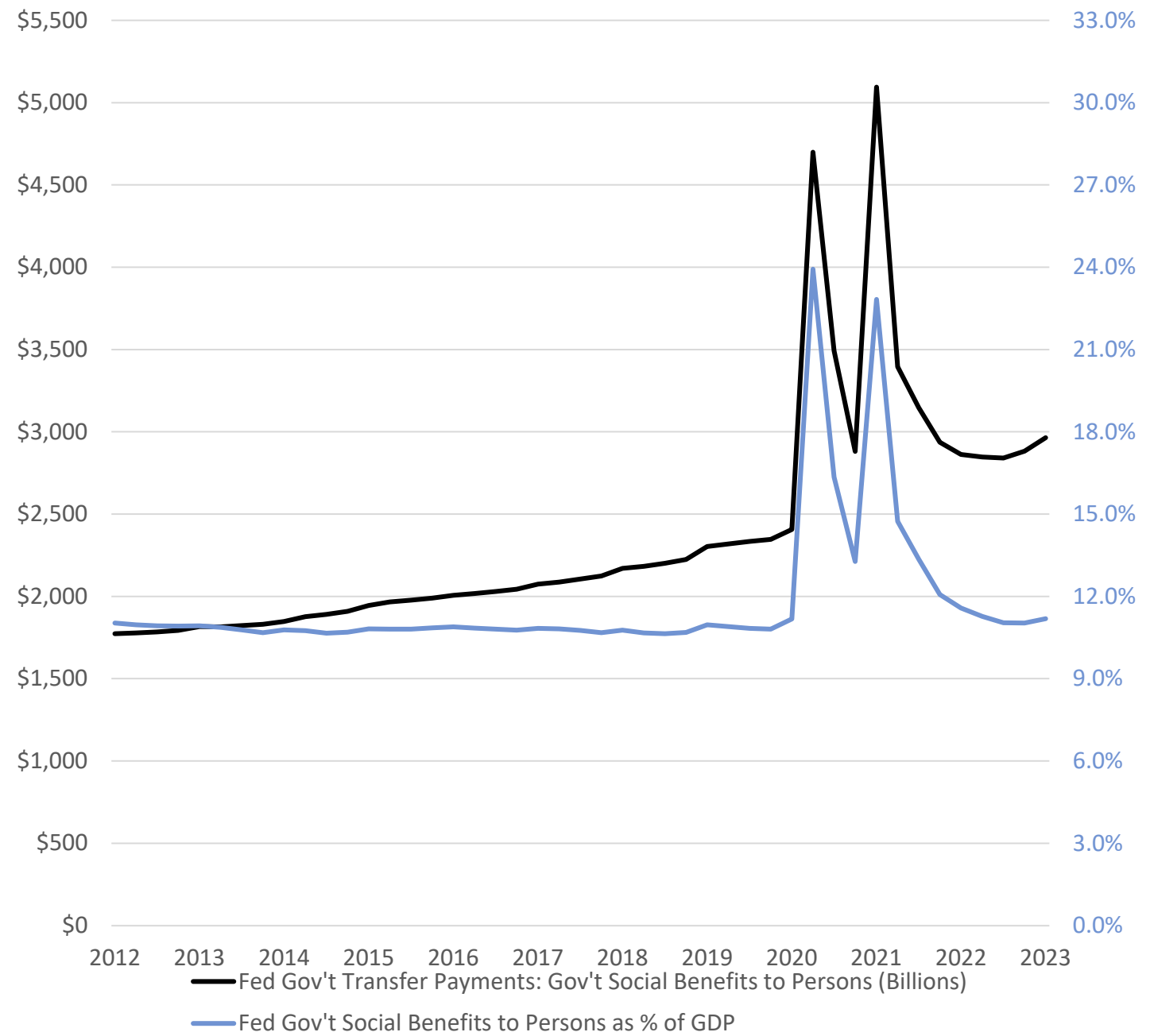
— Housing Starts (thousands - annual rate)

Federal Fiscal Picture

- Forecast assumes debt ceiling is raised in time to avoid default and a federal FY2024 budget is passed in the Fall.
- The pandemic-era 6.2% enhancement to the Federal Medical Assistance Percentage phases out in 2023.
- Student loan forbearance expires July 1st; forecast does not include cancellation of student debt pending ruling by the Supreme Court.
- Federal Open Market Committee raised the target federal funds rate by 25 basis points in May to a target range of 5.00-5.25%.
- Forecast is for policy rate to stay at the current level (5.00-5.25%) until next March, but further rate hikes still possible.

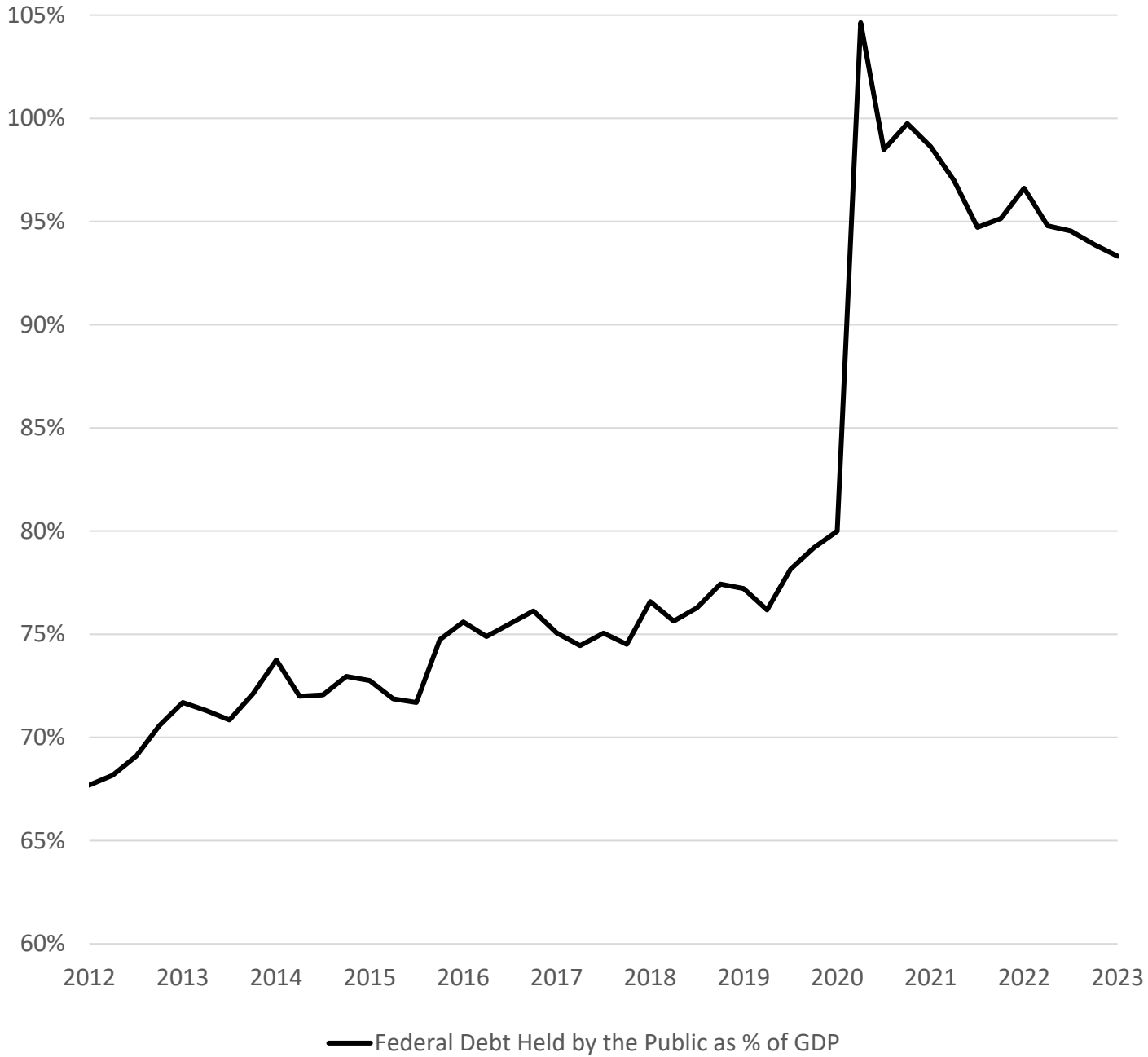


Government Sector





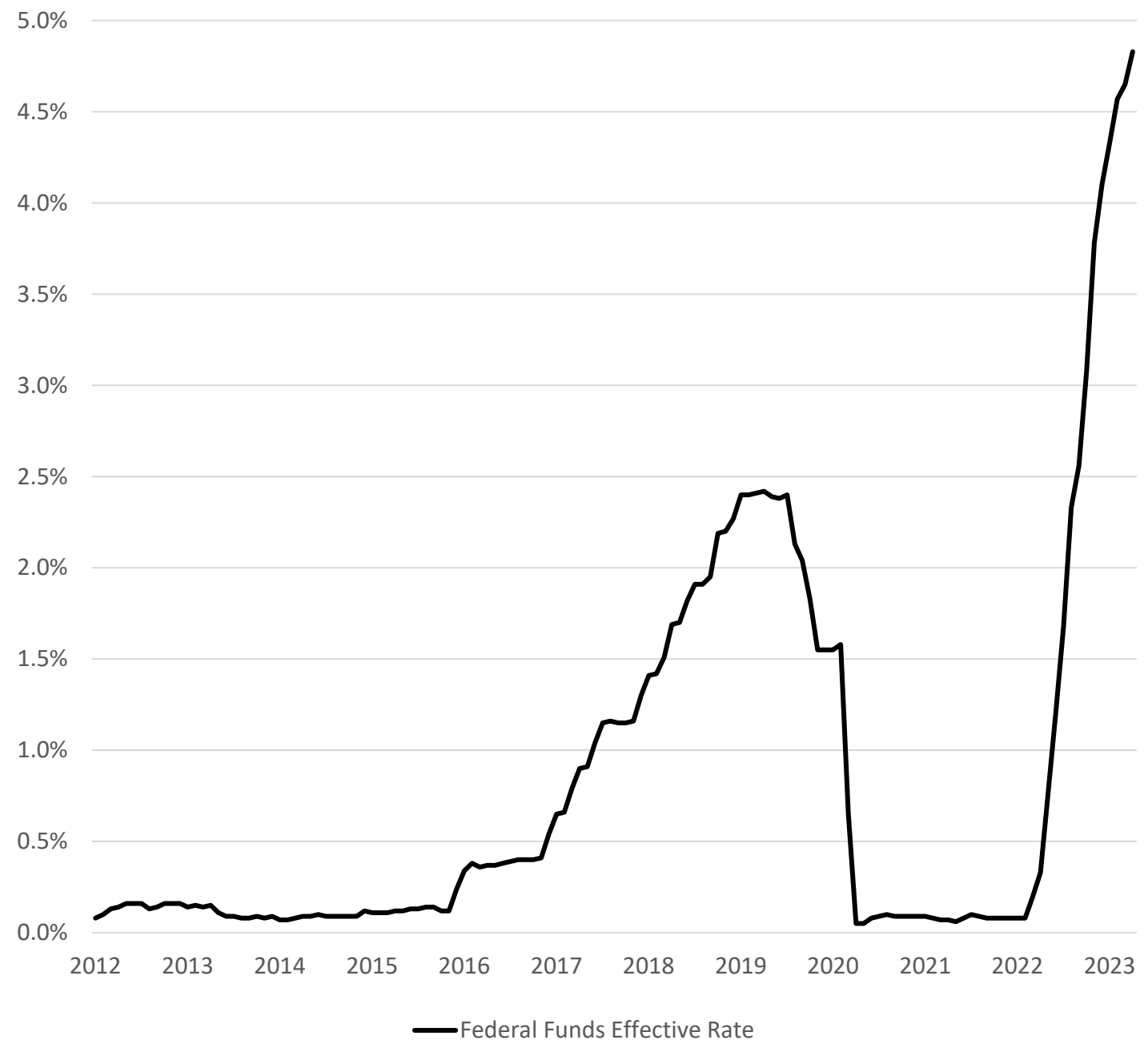
Debt Held by Public



— Federal Debt Held by the Public as % of GDP



Interest Rates

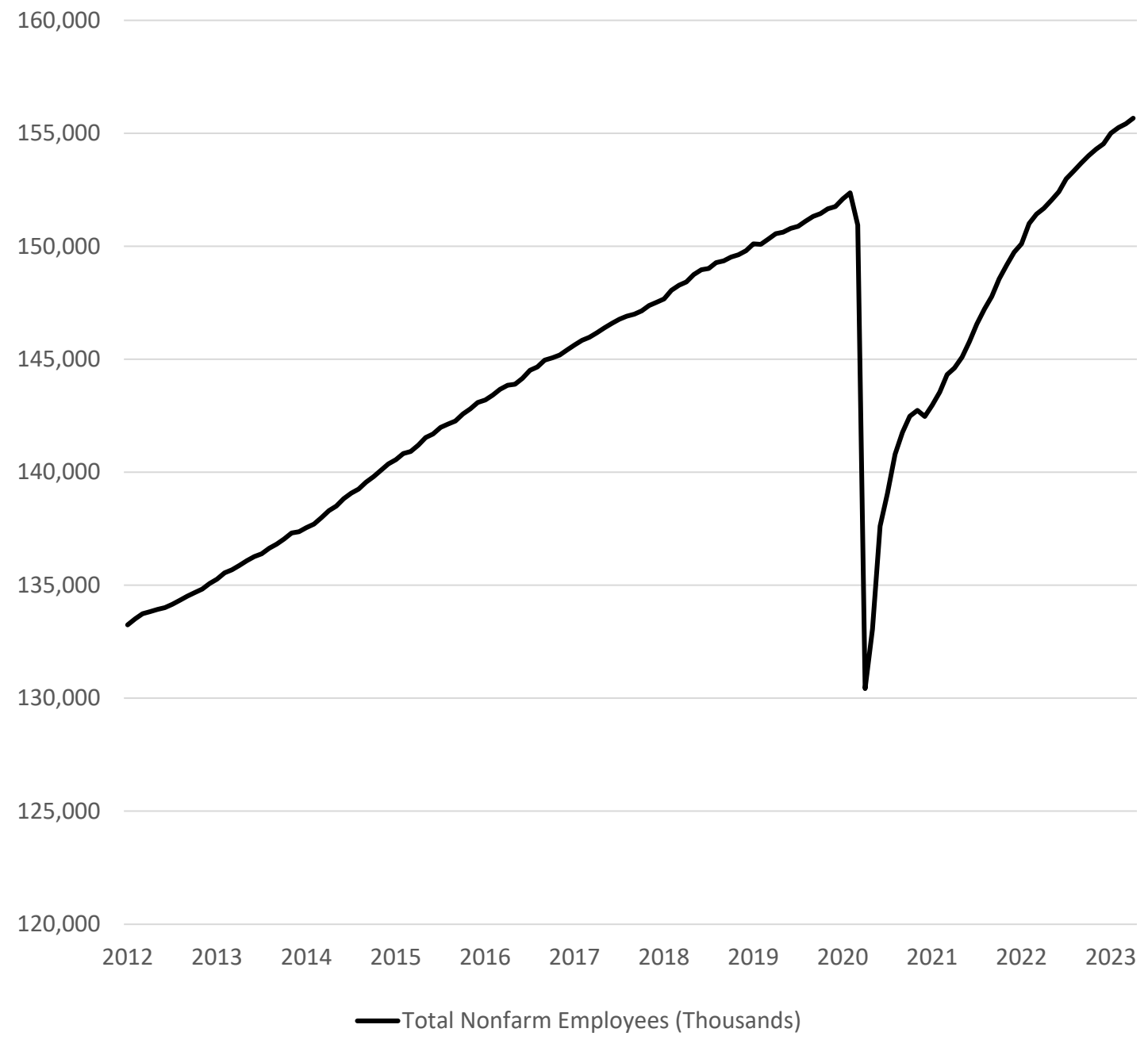


Employment and Unemployment

- Nonfarm payroll employment rose 253k in April, higher than expectations.
- Trend in payroll gains has slowed. Employment growth projected to slow from 4.3% in 2022 to 2.0% in 2023 and -0.1% in 2024.
- The unemployment rate at 3.4% in April.
- Unemployment rate finished 2022 at 3.6%. Projections are 3.6% in 2023 and 4.3% in 2024.
- Wage growth is decelerating, but still higher than a rate consistent with long-term 2% inflation.

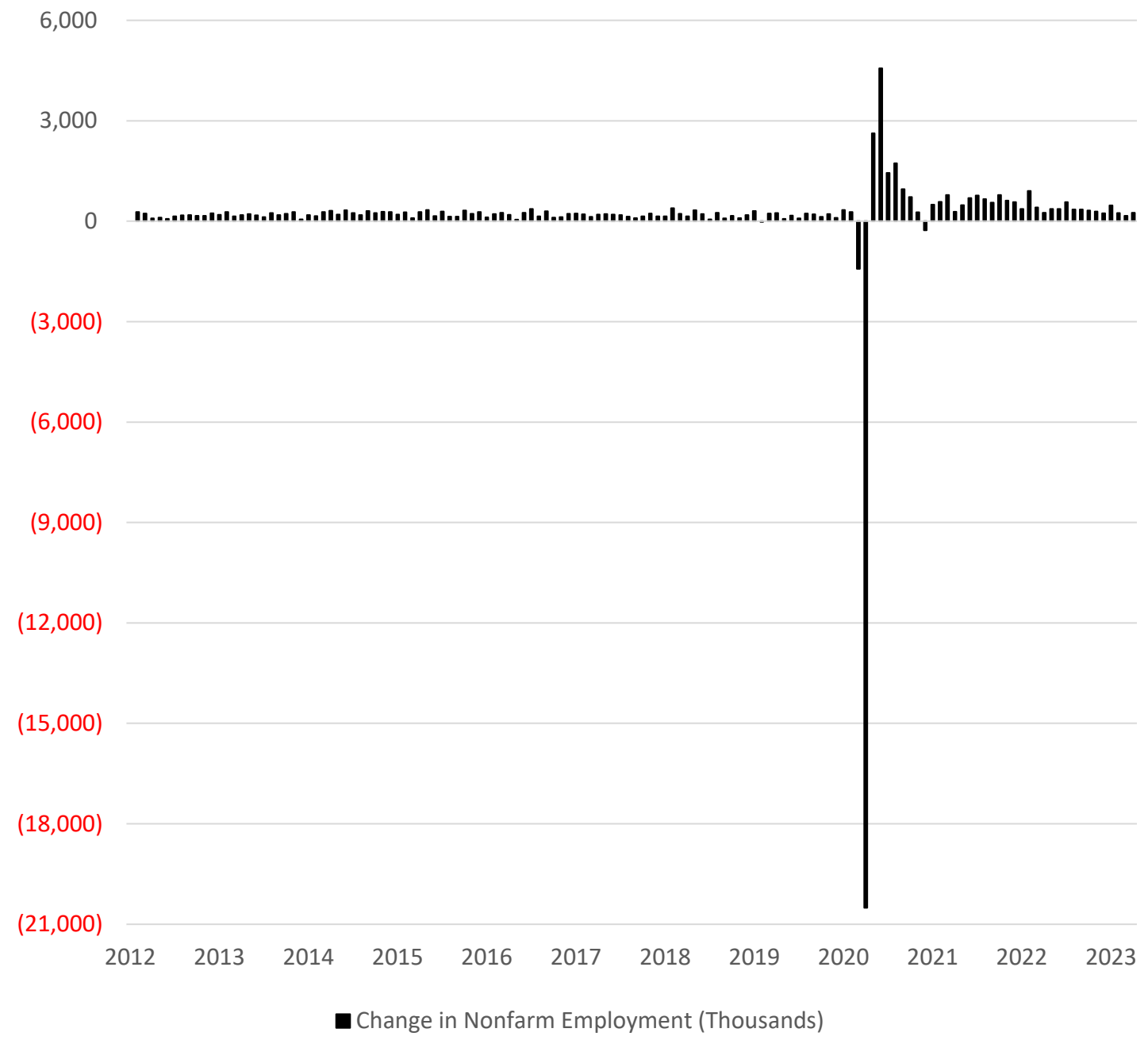


US Employment Growth



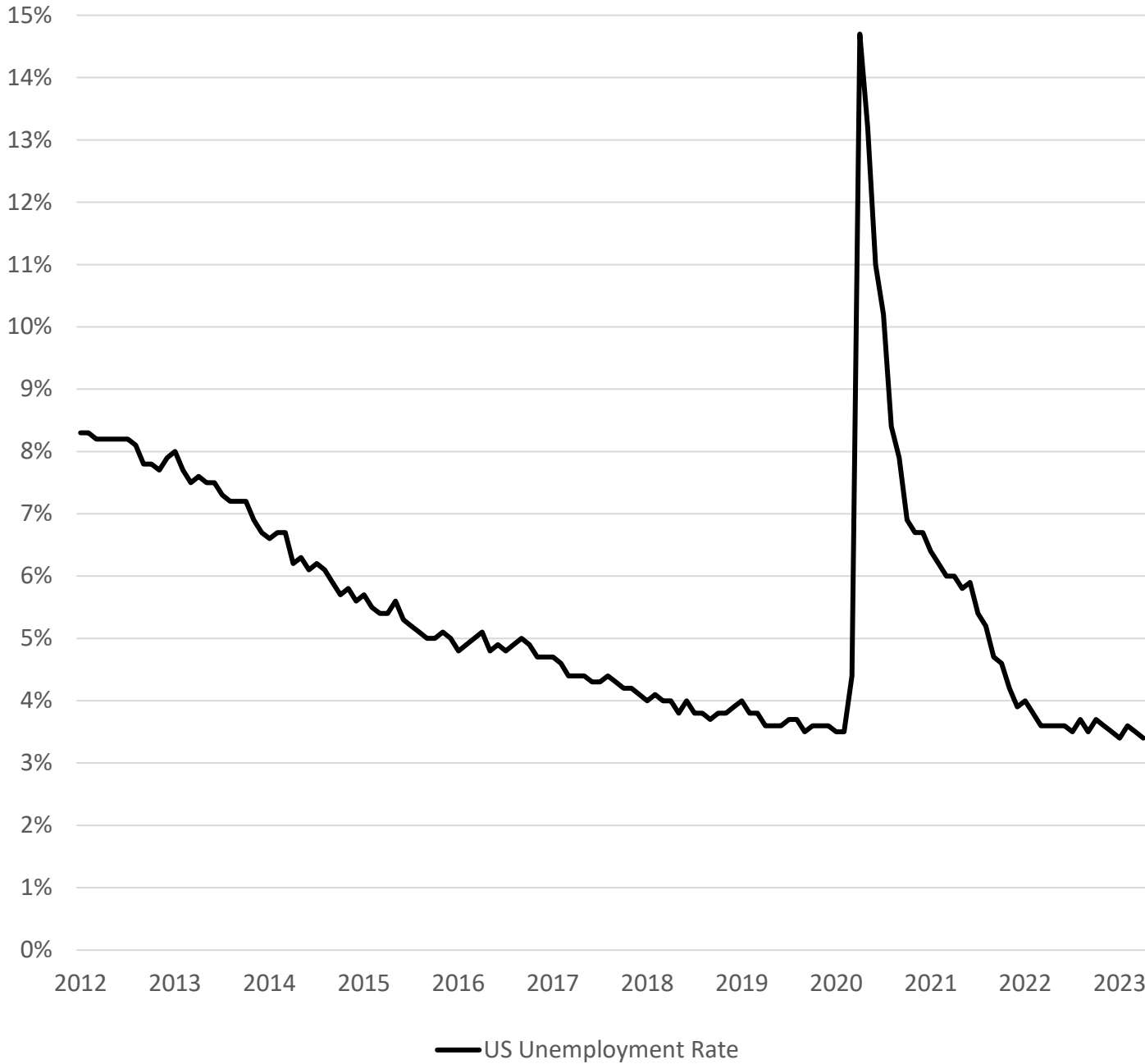


US Employment Growth





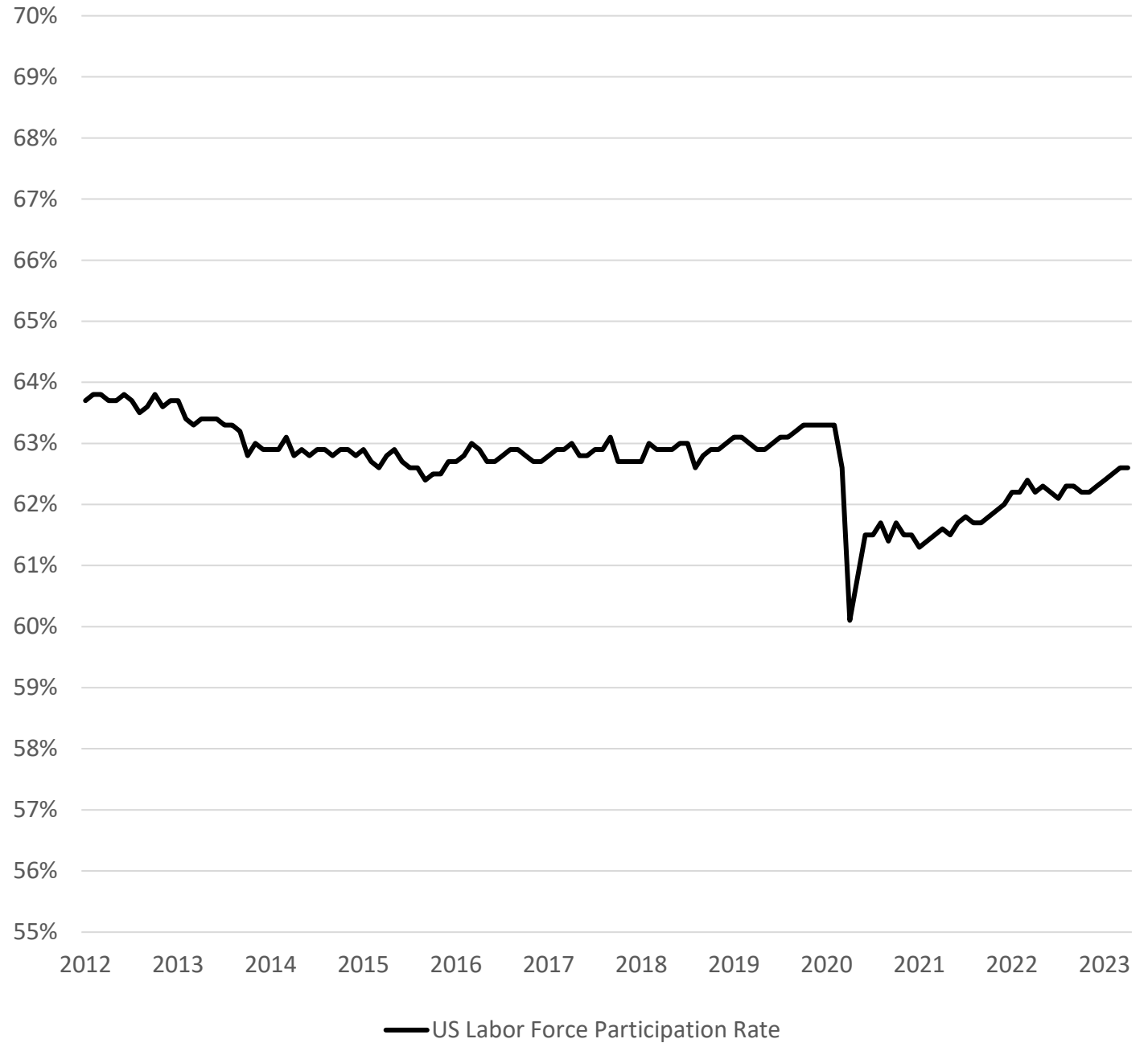
US Unemployment Rate



— US Unemployment Rate

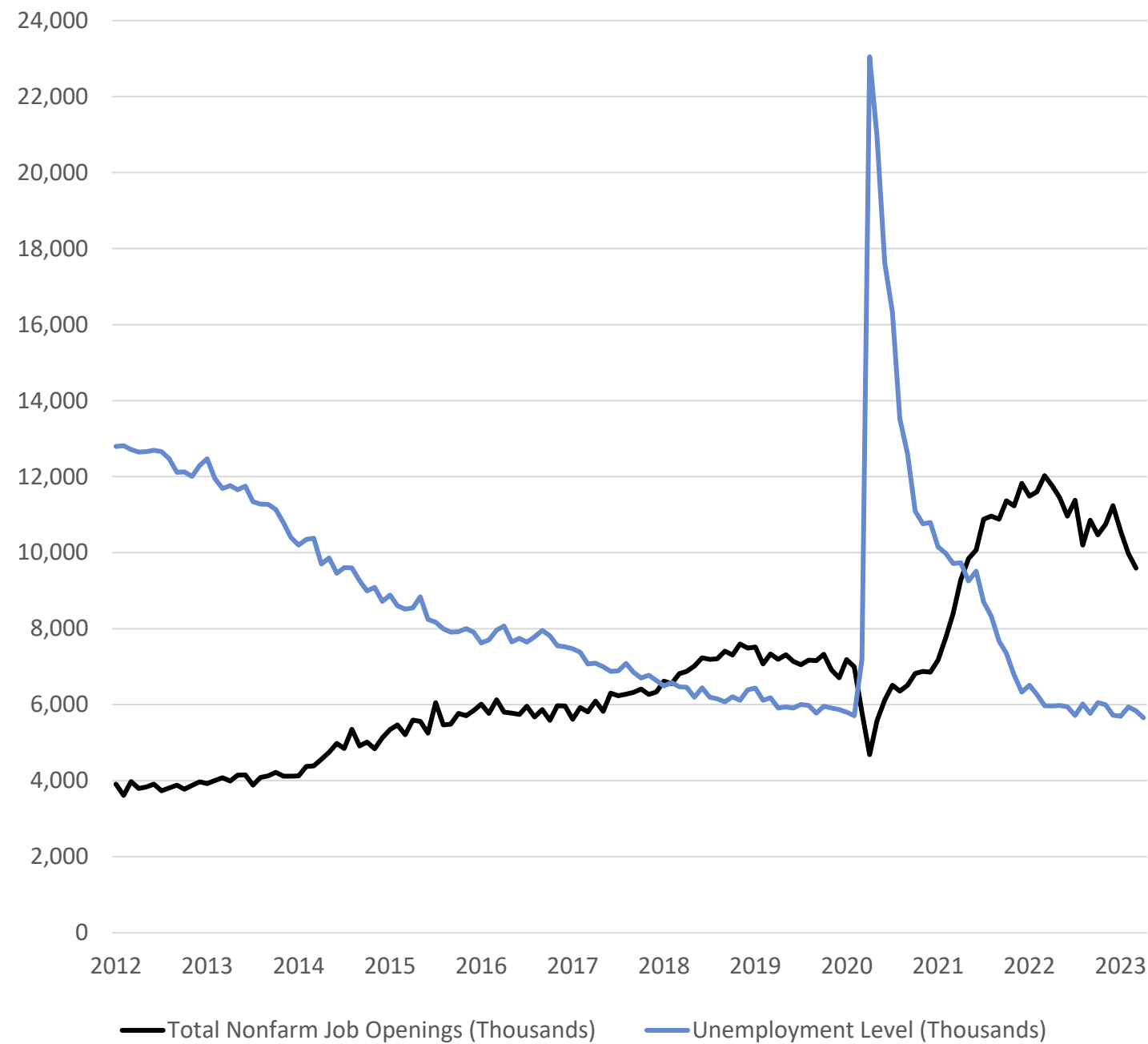


US Labor Force Participation Rate





US Job Openings vs. Unemployed



Inflation

- CPI rose 8.0% in 2022. Forecast is for 4.2% in 2023 and 2.5% in 2024.
- PPI on finished goods rose 13.4% in 2022. Forecast is for 2.9% in 2023 and 1.4% in 2024.
- Brent Crude spot price is forecast to decline from \$101 in 2022 to \$87 in 2023 and \$84 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	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%	1.2%	0.9%	2.1%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.0%	-0.1%	1.4%
Personal Income	4.6%	5.0%	5.1%	6.7%	7.4%	2.4%	5.5%	4.1%	4.6%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.6%	4.3%	5.5%
CPI-U	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%	4.2%	2.5%	2.4%

S&P Global Alternate Scenarios - US

Optimistic Scenario (20% probability)			Pessimistic Scenario (25% probability)			
	2023 f	2024 f	2023 f	2024 f	'12-'22 avg.	
Real GDP Growth	1.6%	1.2%	0.8%	0.3%	2.1%	
Nonfarm Employment	2.2%	0.0%	1.3%	-1.6%	1.4%	
Personal Income	5.9%	4.8%	5.3%	3.1%	4.6%	
Unemployment Rate	3.5%	4.0%	4.4%	6.2%	5.5%	
CPI-U	4.1%	3.1%	4.7%	3.3%	2.4%	

SD Forecast

Employment

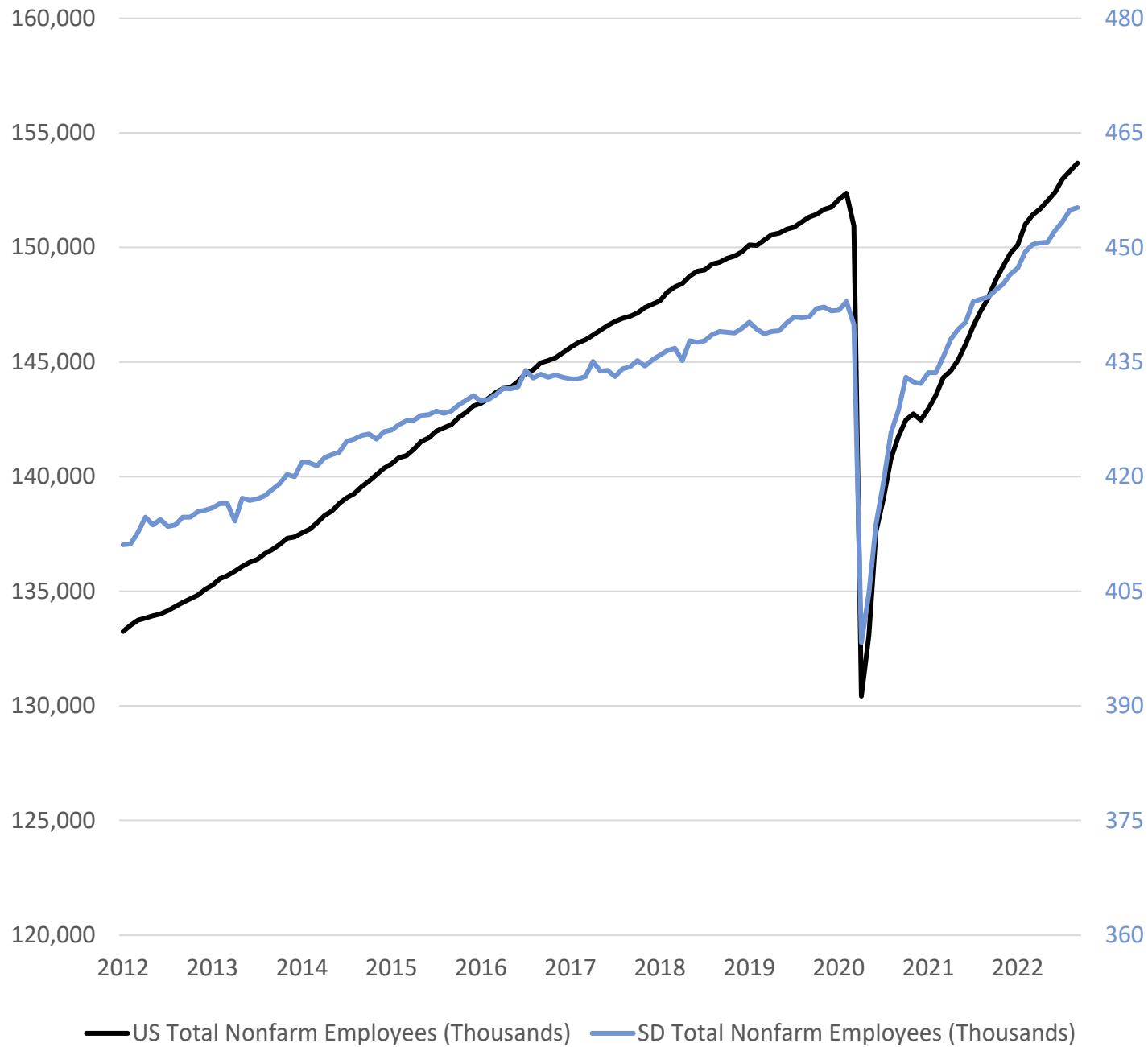
Housing

Personal Income

Tourism

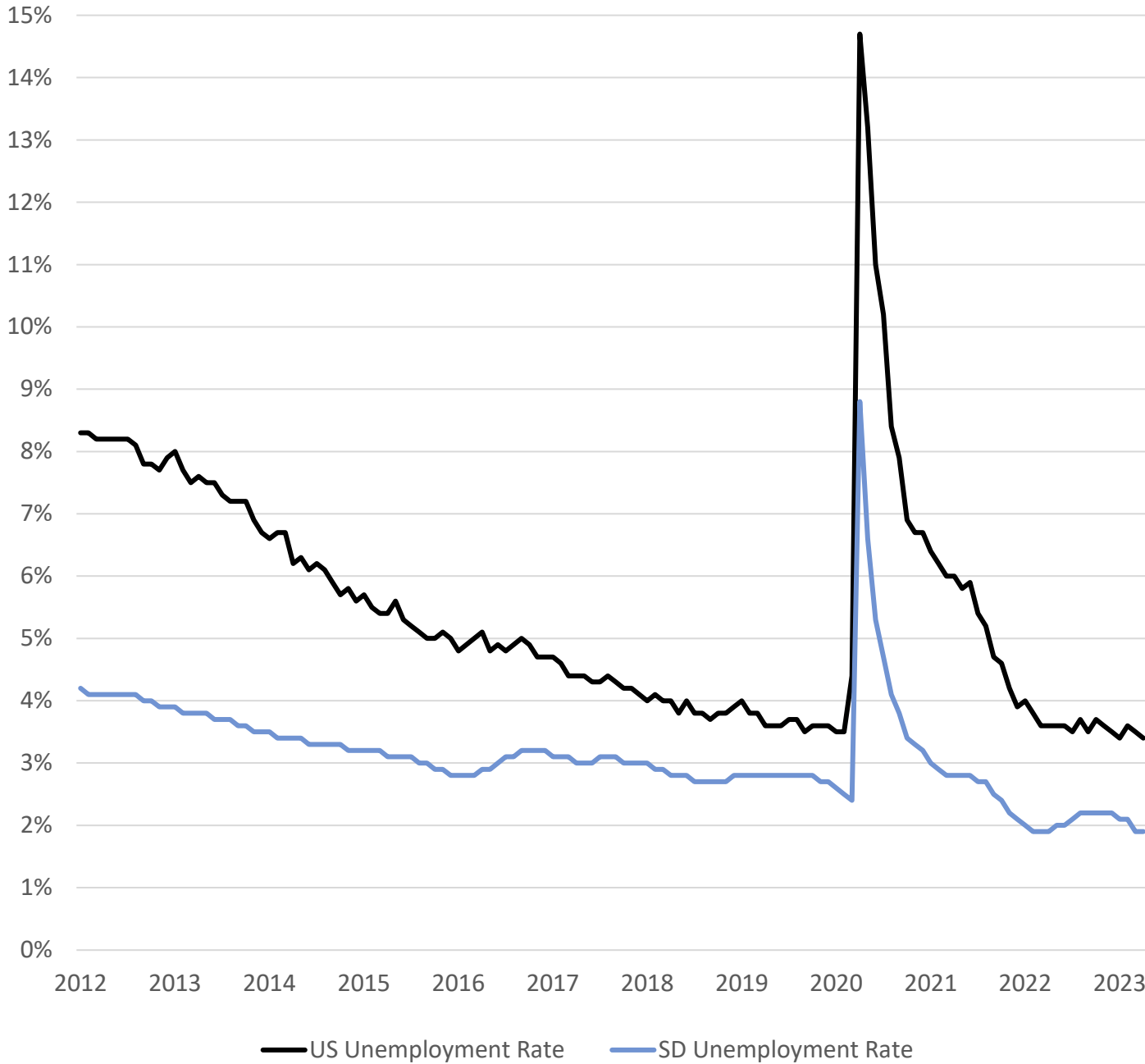


Employment Growth



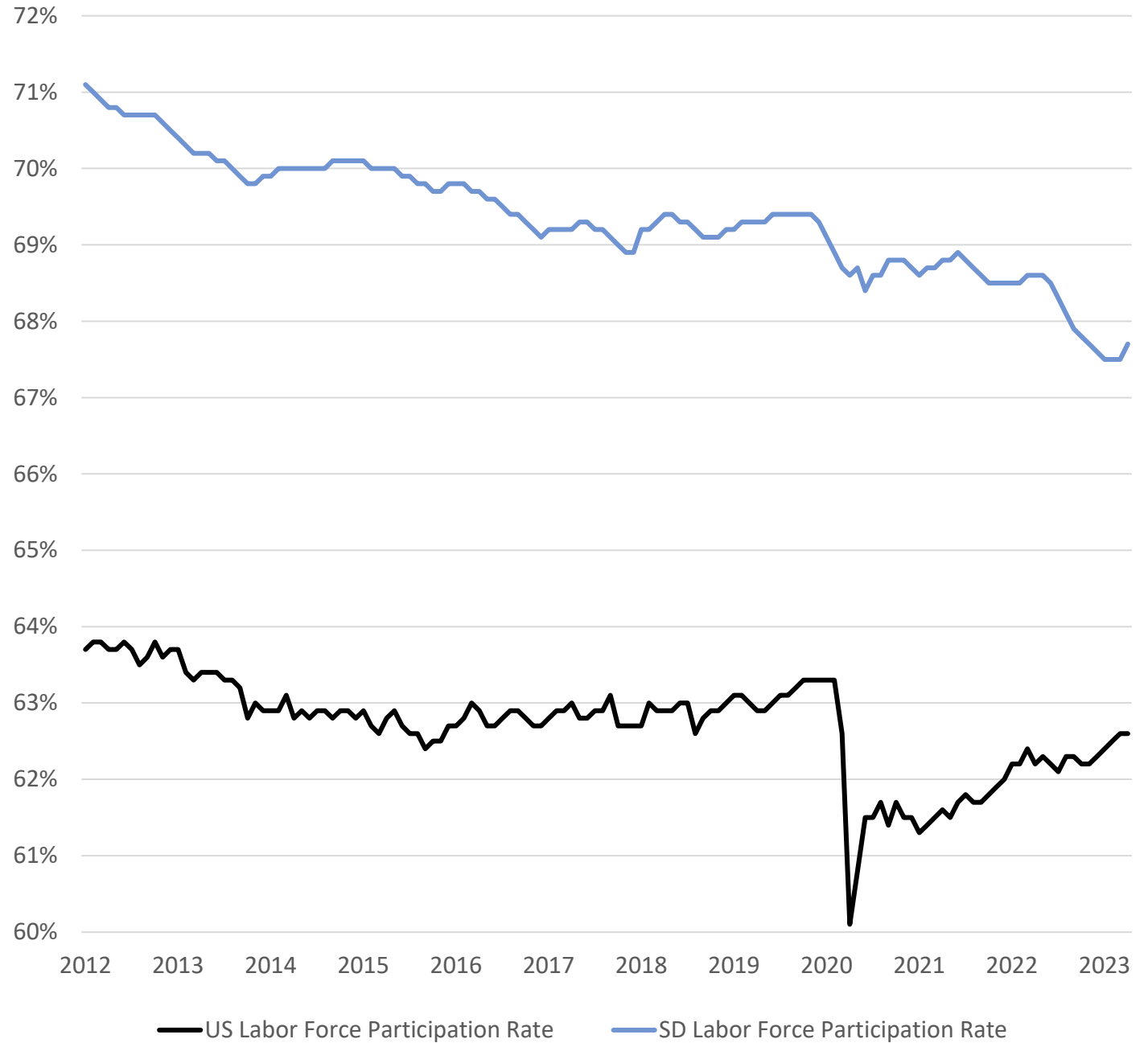


Unemployment Rate



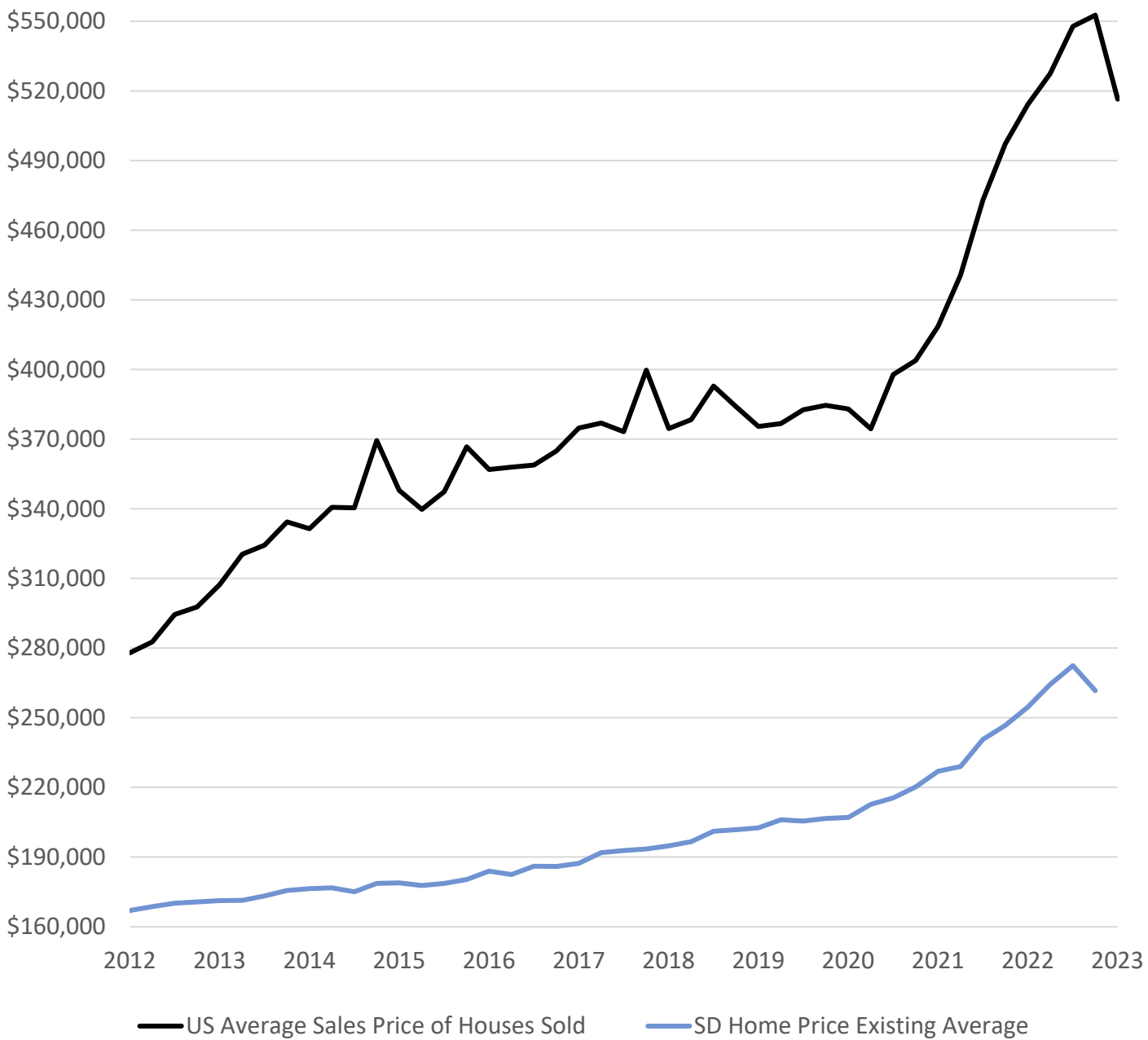


Labor Force Participation Rate



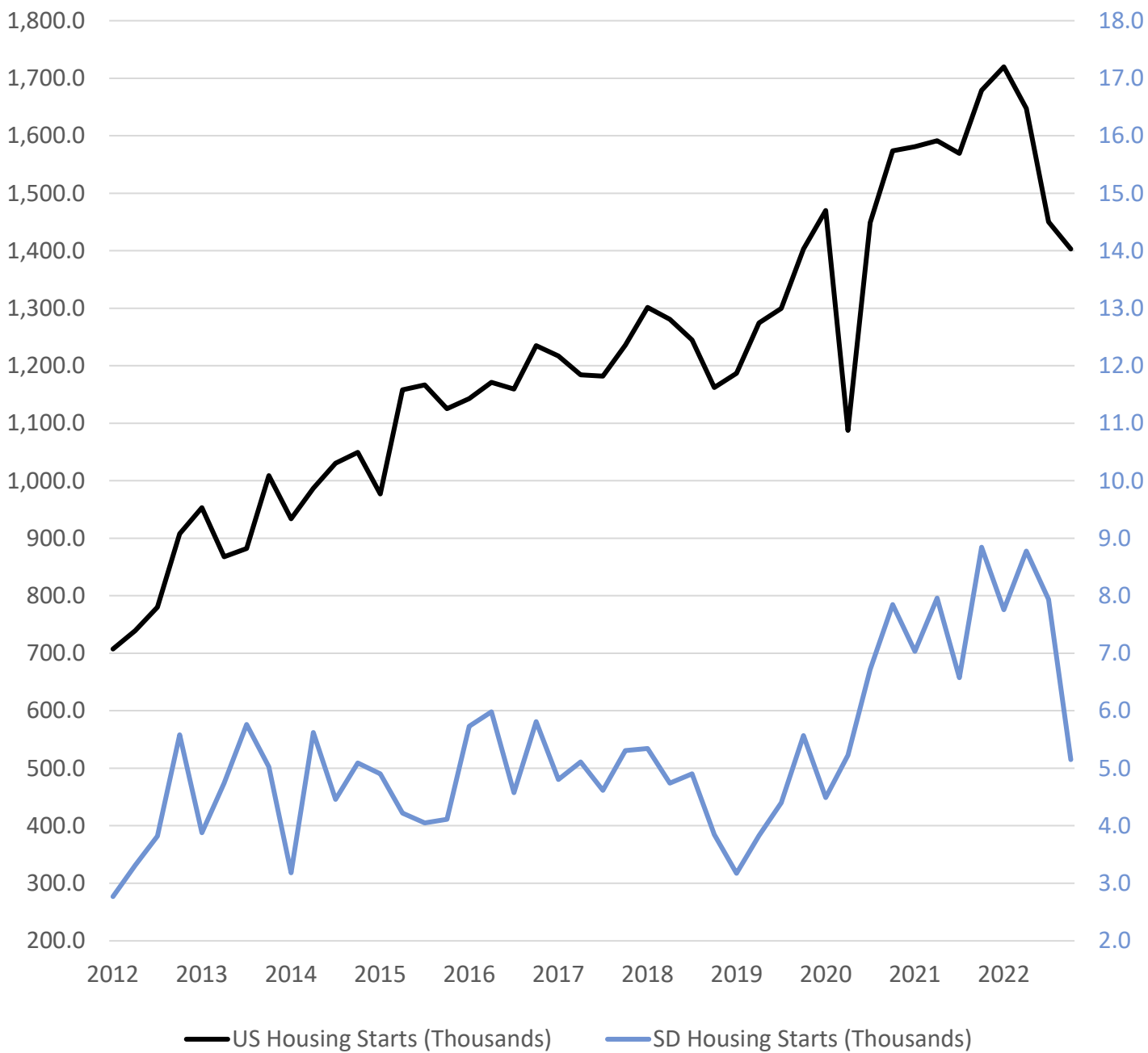


Home Price



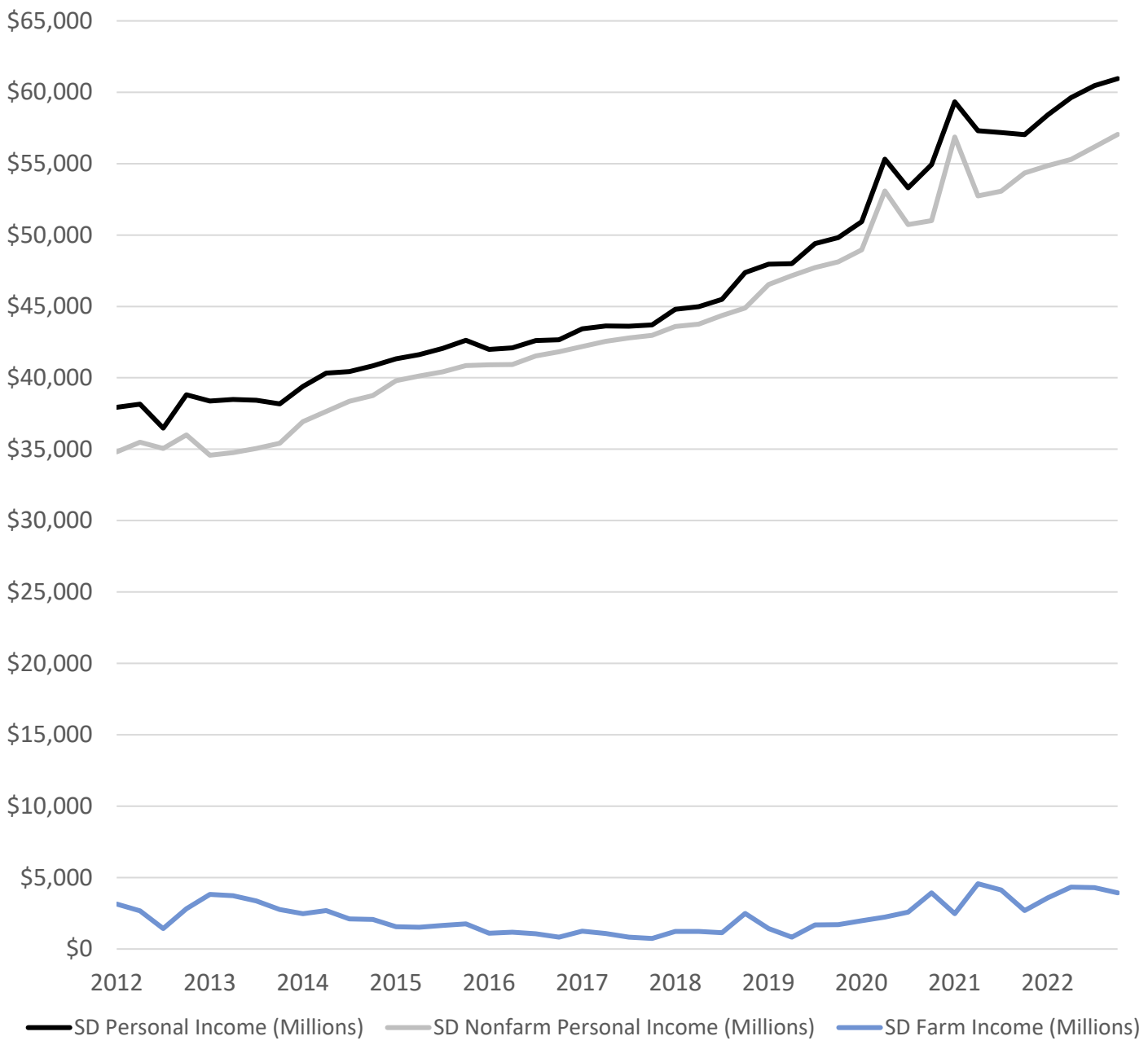


Housing Starts



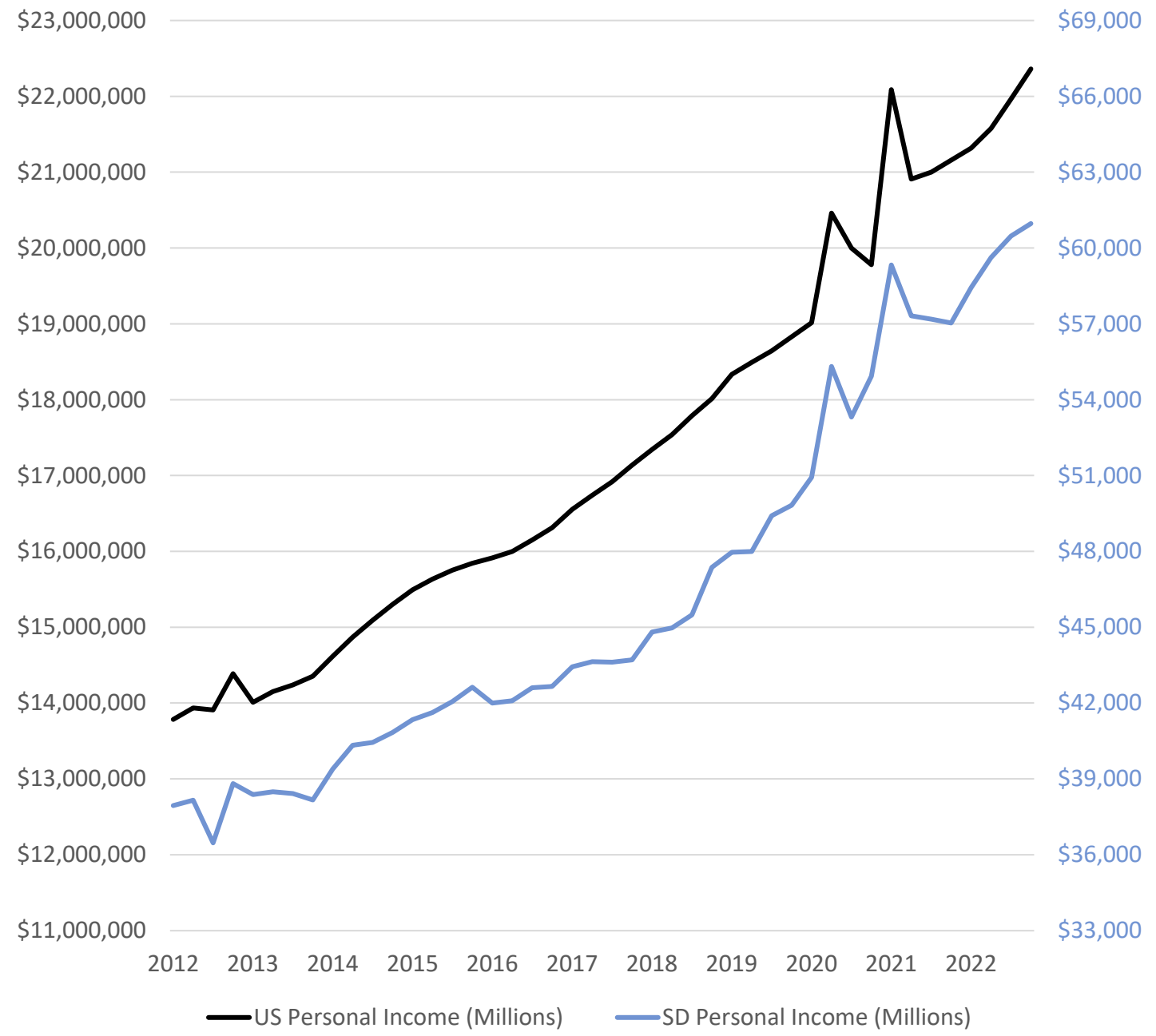


Personal Income



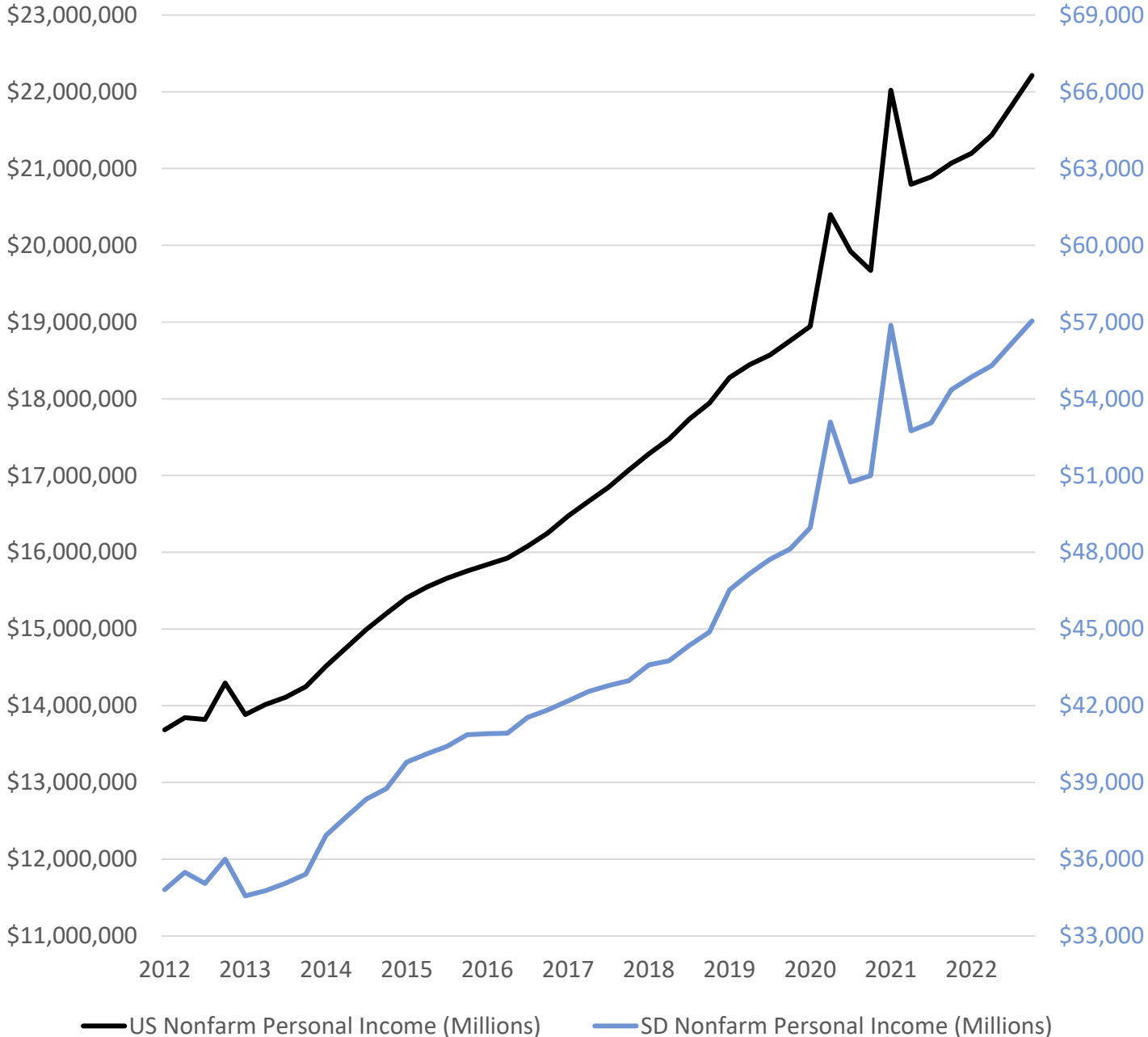


Personal Income





Nonfarm Personal Income



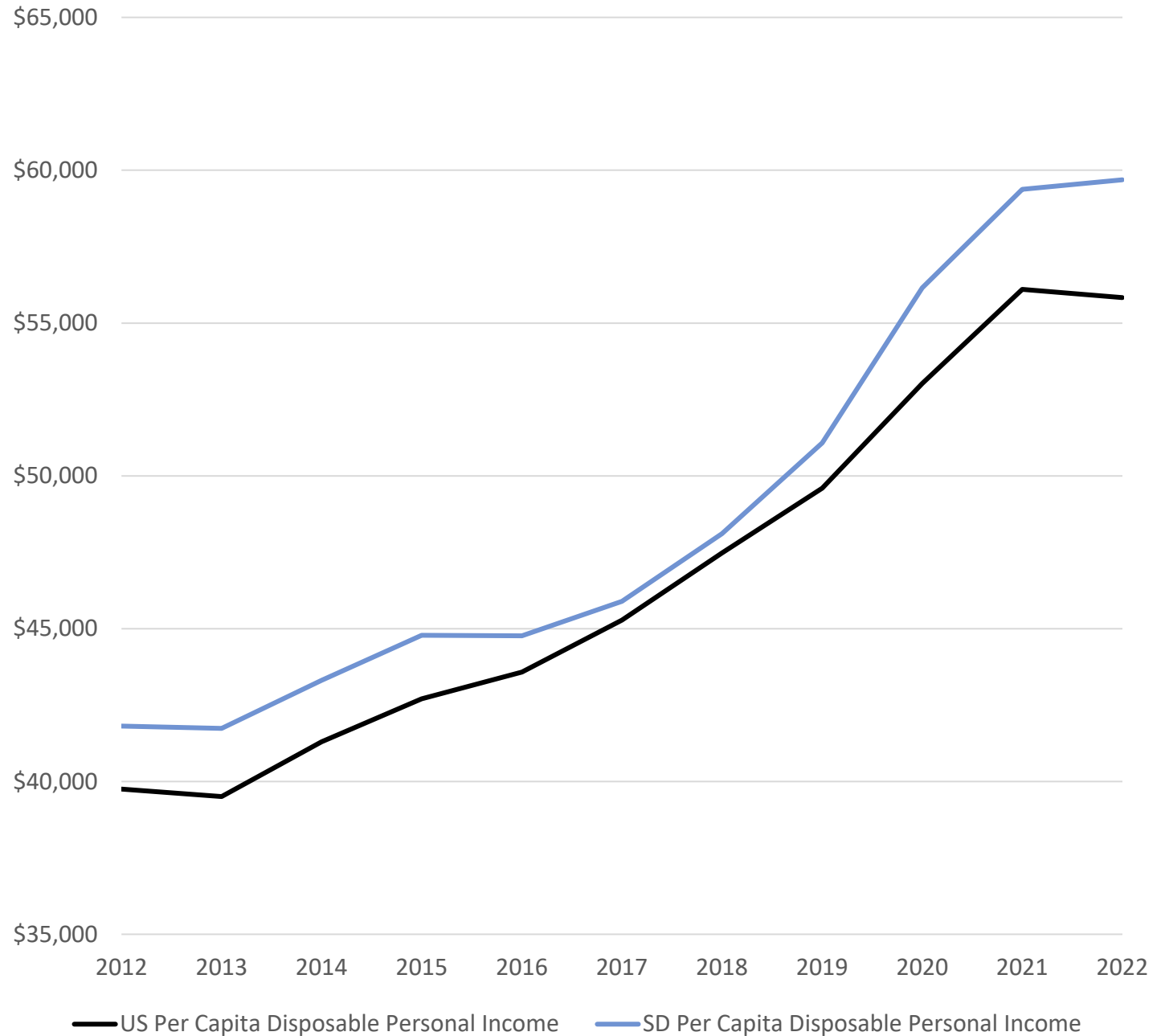


Per Capita Personal Income



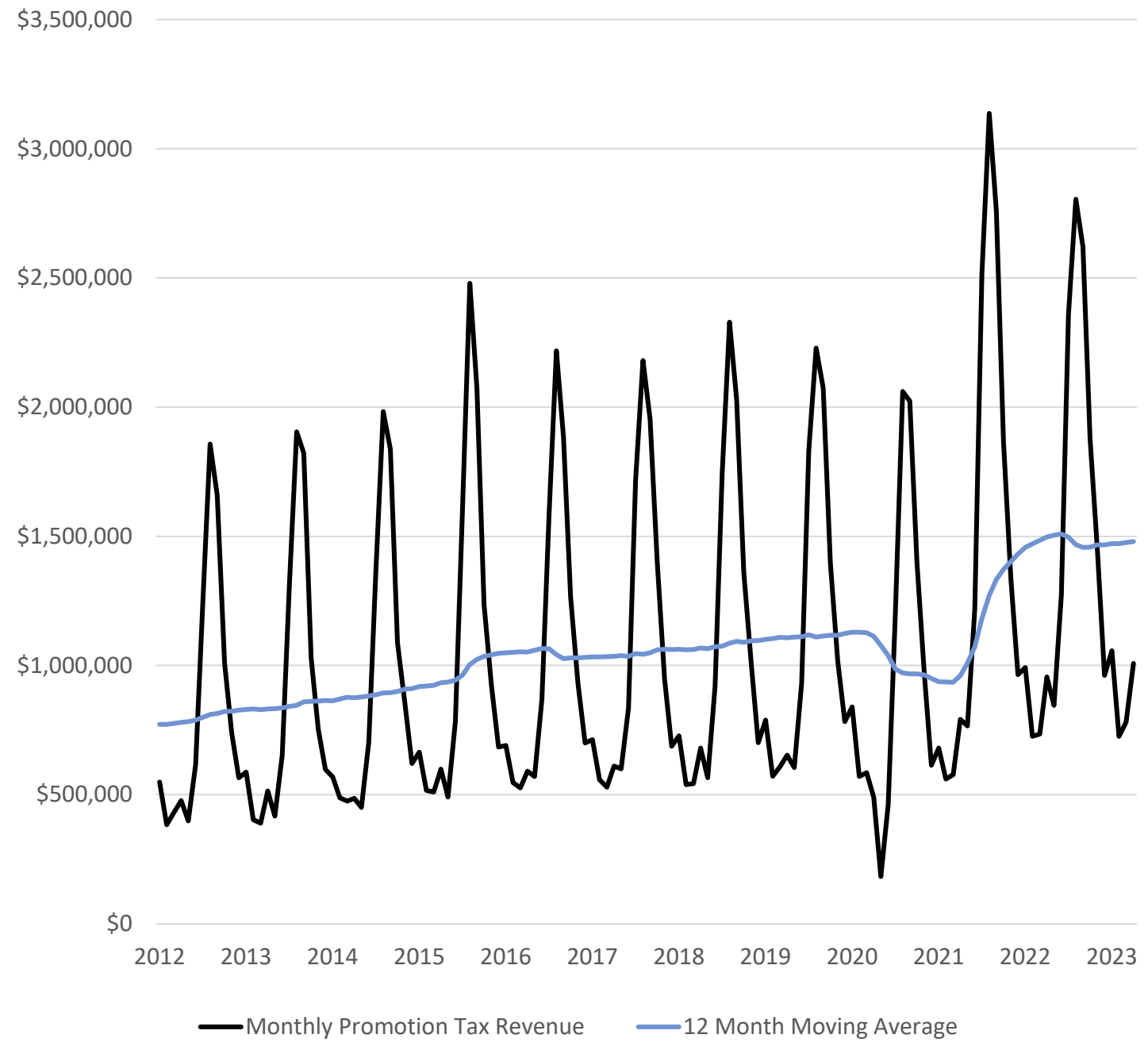


Per Capita Disposable Personal Income





SD Tourism Promotion Tax Collections



S&P Global Forecast - SD

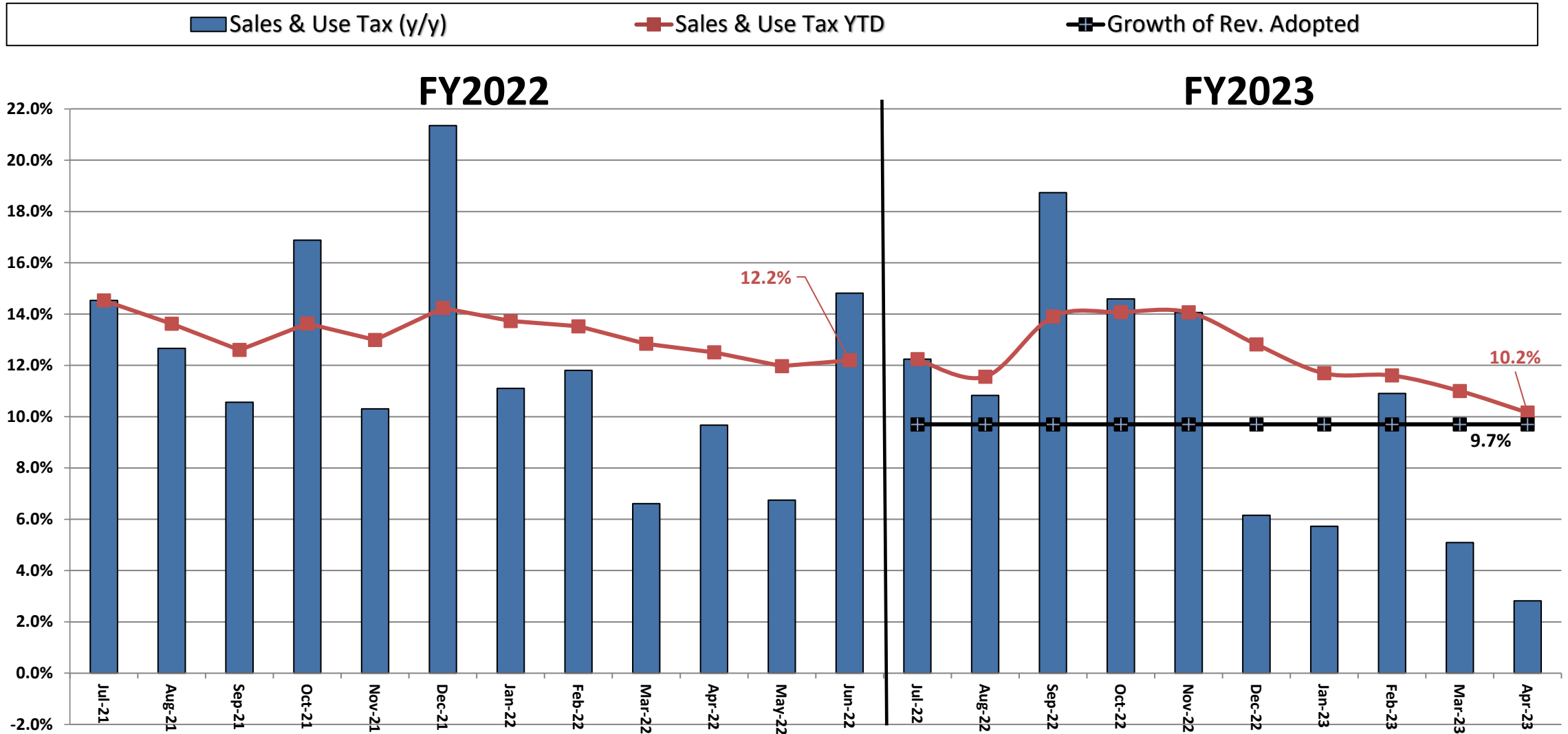
	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
Real GDP Growth	-0.7%	1.1%	0.8%	1.6%	4.5%	0.5%	-0.3%	1.2%	1.3%
Nonfarm Employment	0.4%	0.8%	0.6%	-3.3%	3.4%	2.8%	1.9%	-0.1%	1.0%
Nonfarm Income	3.2%	3.6%	7.3%	7.5%	6.5%	2.9%	5.5%	5.1%	4.9%
Housing Starts	4,959	4,708	4,243	6,070	7,603	7,405	4,282	4,574	5,286
Unemployment Rate	3.1%	2.8%	2.8%	4.2%	2.6%	2.1%	2.3%	2.9%	3.2%

**Legislative Revised Adopted FY2023 Estimate (Feb. 2023) vs. Actual Revenues
Year-to-Date Through APRIL FY2023 Comparison**



	Leg. Rev. Adopted APRIL YTD FY2023	Actual APRIL YTD FY2023	DOLLAR CHANGE	YTD % Chg. Actual/Adopt Comparison
ONGOING RECEIPTS				
Net Sales and Use Tax (excl. cost of admin)	1,256,313,698	1,251,839,779	(4,473,918)	-0.4%
Lottery	143,200,264	140,075,314	(3,124,950)	-2.2%
Net Contractor's Excise Tax	162,666,073	163,250,534	584,461	0.4%
Insurance Company Tax	102,950,381	102,931,610	(18,771)	0.0%
Unclaimed Property Receipts	73,403,762	76,424,692	3,020,930	4.1%
Licenses, Permits, and Fees	55,201,606	56,710,964	1,509,358	2.7%
Tobacco Taxes	38,417,459	36,559,607	(1,857,852)	-4.8%
Trust Funds	31,890,322	31,890,322	0	0.0%
Net Transfers In (excluding one-time)*	19,905,155	22,218,835	2,313,680	11.6%
Alcohol Beverage Tax	6,740,376	6,874,576	134,200	2.0%
Bank Franchise Tax	17,158,466	19,983,635	2,825,169	16.5%
Charges for Goods and Services	11,177,876	10,308,087	(869,789)	-7.8%
Telecommunications Tax	1,820,134	1,909,021	88,887	4.9%
Severance Taxes	6,013,144	4,797,527	(1,215,616)	-20.2%
Investment Income and Interest	13,785,710	13,764,818	(20,892)	-0.2%
Alcohol Beverage 2% Wholesale Tax	2,549,786	2,439,796	(109,990)	-4.3%
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,943,194,211	\$ 1,941,979,119	\$ (1,215,092)	-0.1%
ONE-TIME RECEIPTS				
Bank Franchise Tax Prior Year Revenue	692,349	692,349	0	0.0%
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 692,349	\$ 692,349	\$ 0	0.0%
GRAND TOTAL	\$ 1,943,886,560	\$ 1,942,671,468	\$ (1,215,092)	-0.1%

Sales & Use Tax Growth





Council Discussion

S&P Global Forecast - US

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Real GDP Growth	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%	1.2%	0.9%	2.1%
Nonfarm Employment	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.0%	-0.1%	1.4%
Personal Income	4.6%	5.0%	5.1%	6.7%	7.4%	2.4%	5.5%	4.1%	4.6%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.6%	4.3%	5.5%
CPI-U	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%	4.2%	2.5%	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%	-0.3%	1.2%	1.3%
Nonfarm Employment	0.4%	0.8%	0.6%	-3.3%	3.4%	2.8%	1.9%	-0.1%	1.0%
Nonfarm Income	3.2%	3.6%	7.3%	7.5%	6.5%	2.9%	5.5%	5.1%	4.9%
Housing Starts	4,959	4,708	4,243	6,070	7,603	7,405	4,282	4,574	5,286
Unemployment Rate	3.1%	2.8%	2.8%	4.2%	2.6%	2.1%	2.3%	2.9%	3.2%

Other Discussion Items

- Next Meeting Date - August
- Other Comments
- Public Comments