

# Governor's Council of Economic Advisors



*Governor's Council of Economic Advisors*  
*August 29, 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*

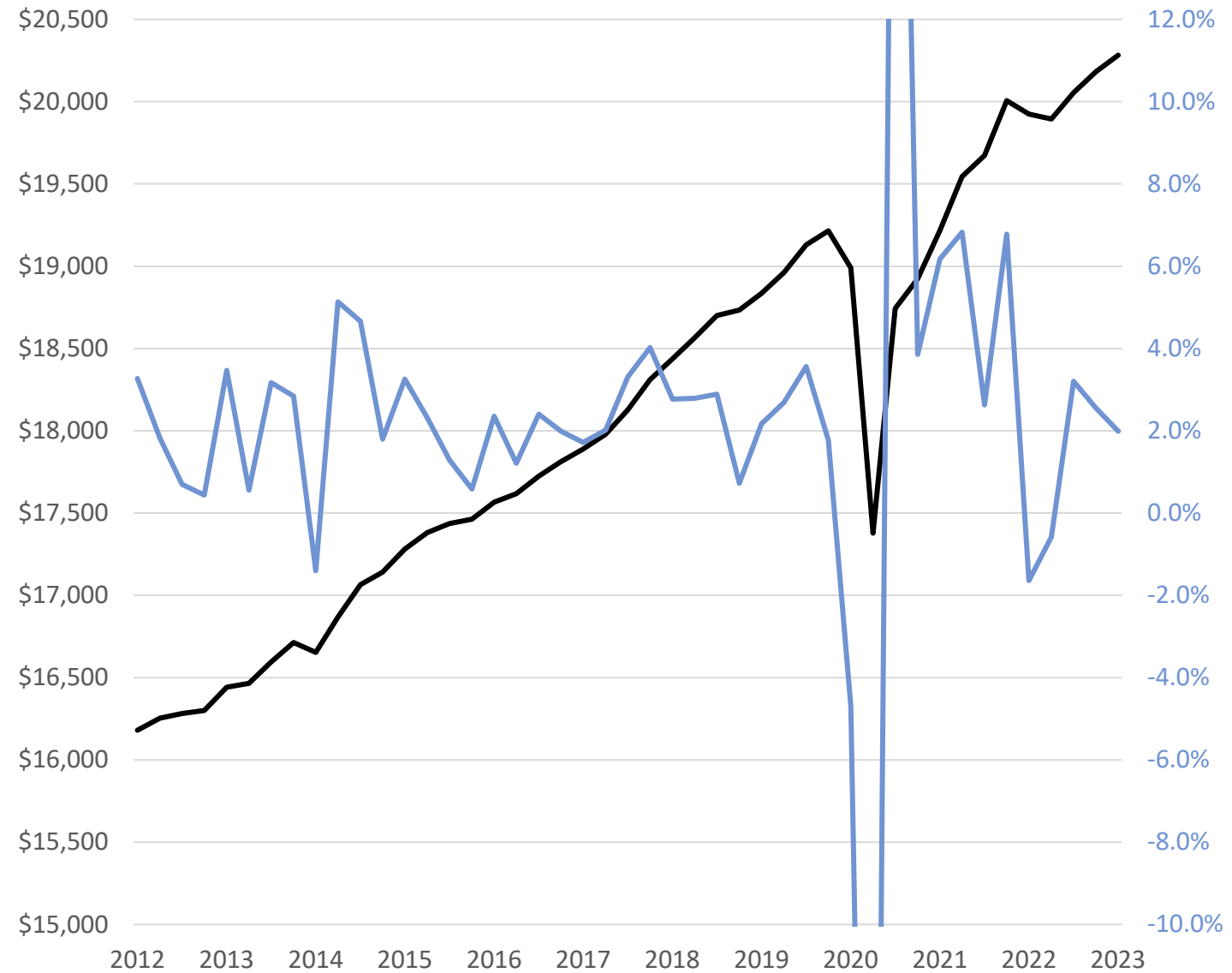
*Federal Fiscal Picture*

*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 2.2% in 2023 and 1.4% in 2024.
- BEA's first estimate is that real GDP grew 2.4% in the second quarter.
- Upward revision for 2023 due to improved momentum heading into the third quarter.
- Forecast is for the economy to avoid the outright recession that has been the consensus forecast for months.
- Period of below-trend growth and rises in unemployment necessary to lower inflation to 2% within a time frame acceptable to the Fed.

# *Components of GDP*

*Consumption (68.2%)*

*Investment (17.3%)*

*Government (17.5%)*

*Net Export (-3.0%)*

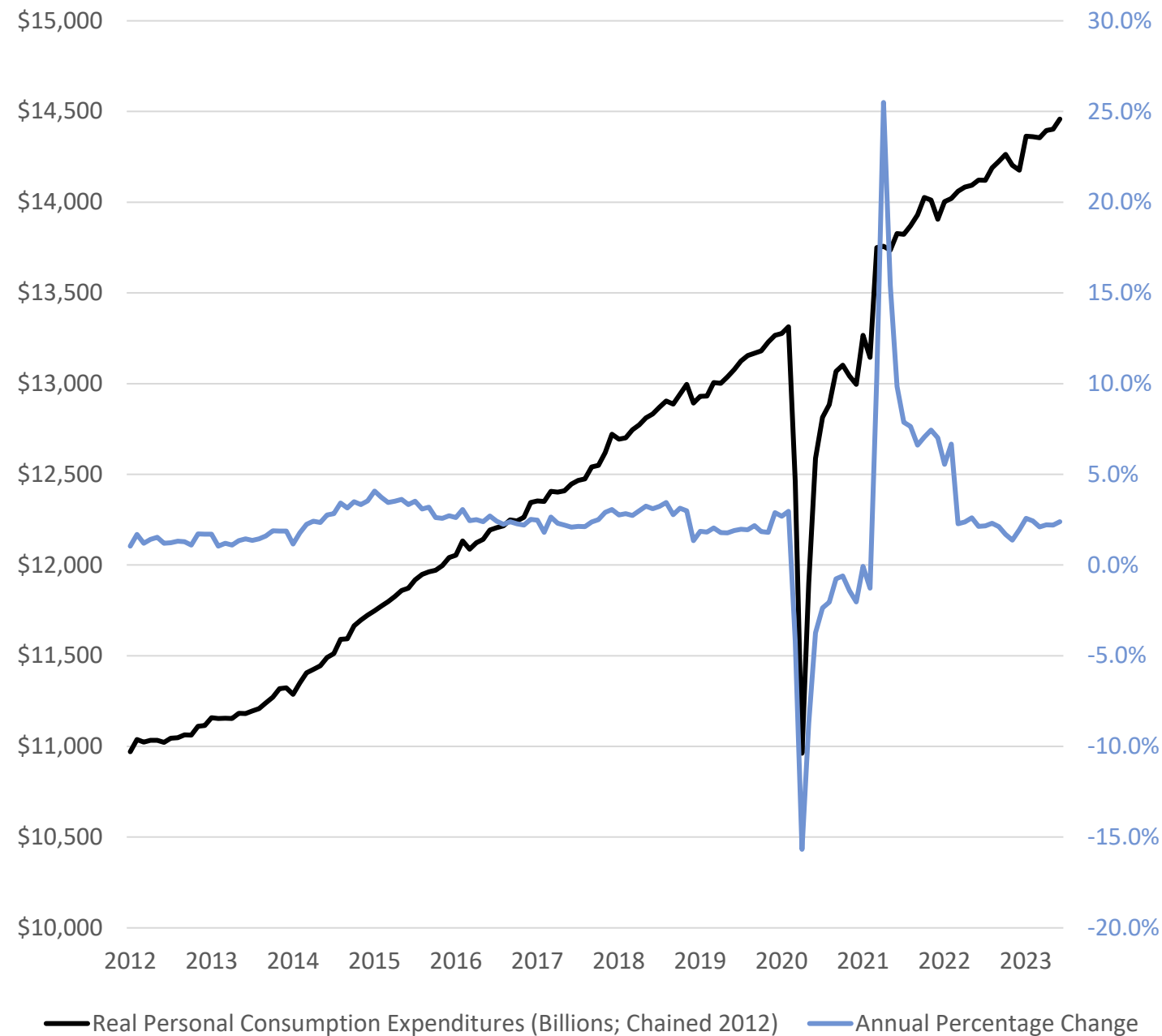
# *Consumption*



- Real personal consumption expenditures slowed from 4.2% in the first quarter to 1.6% in the second quarter.
- Solid income gains have allowed consumers to maintain strong growth in spending.
- Real personal consumption expenditures grew 2.7% in 2022.
- Projected growth is at 2.3% in 2023 and 1.5% in 2024.



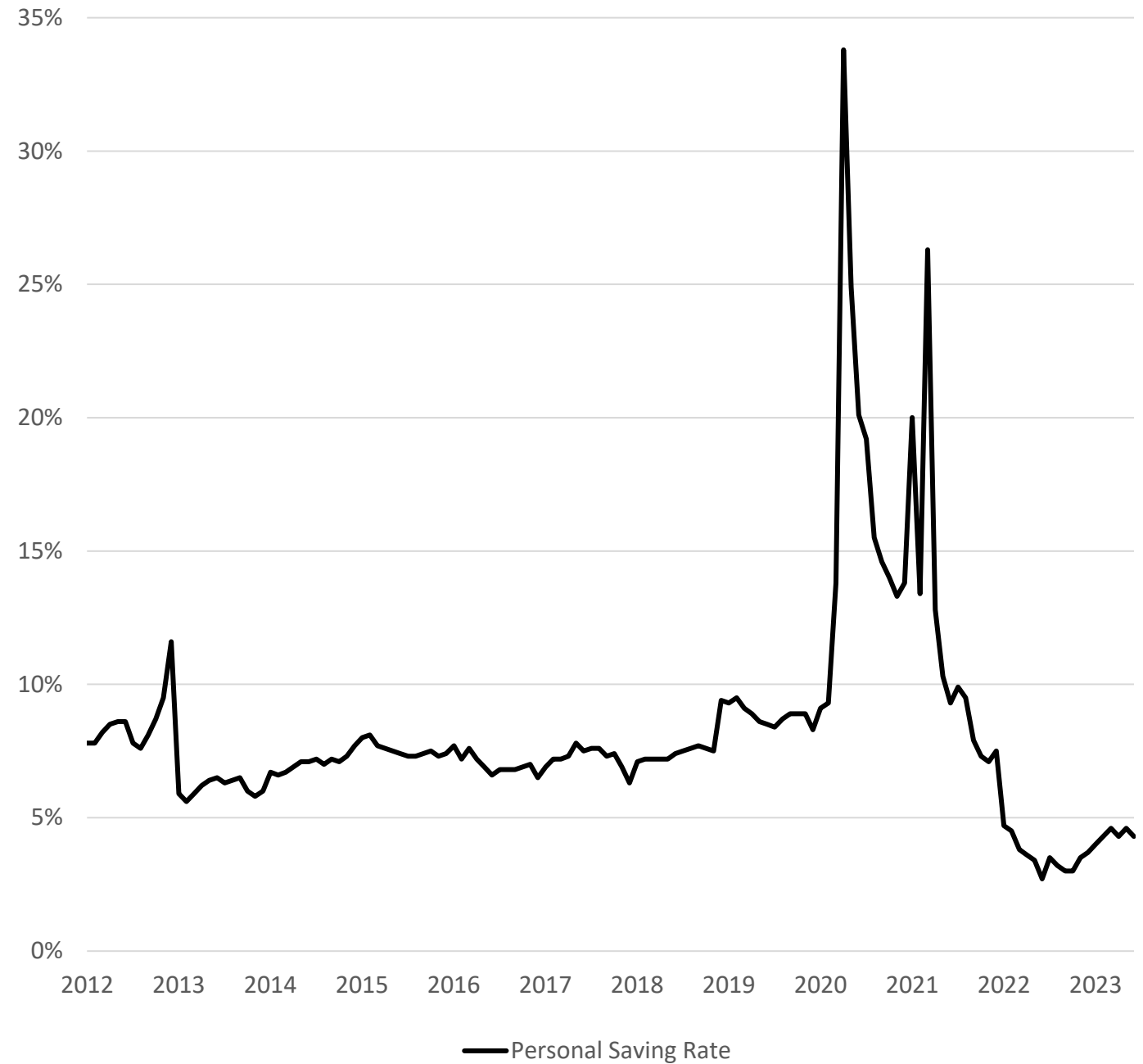
# US Real Personal Consumption Expenditures





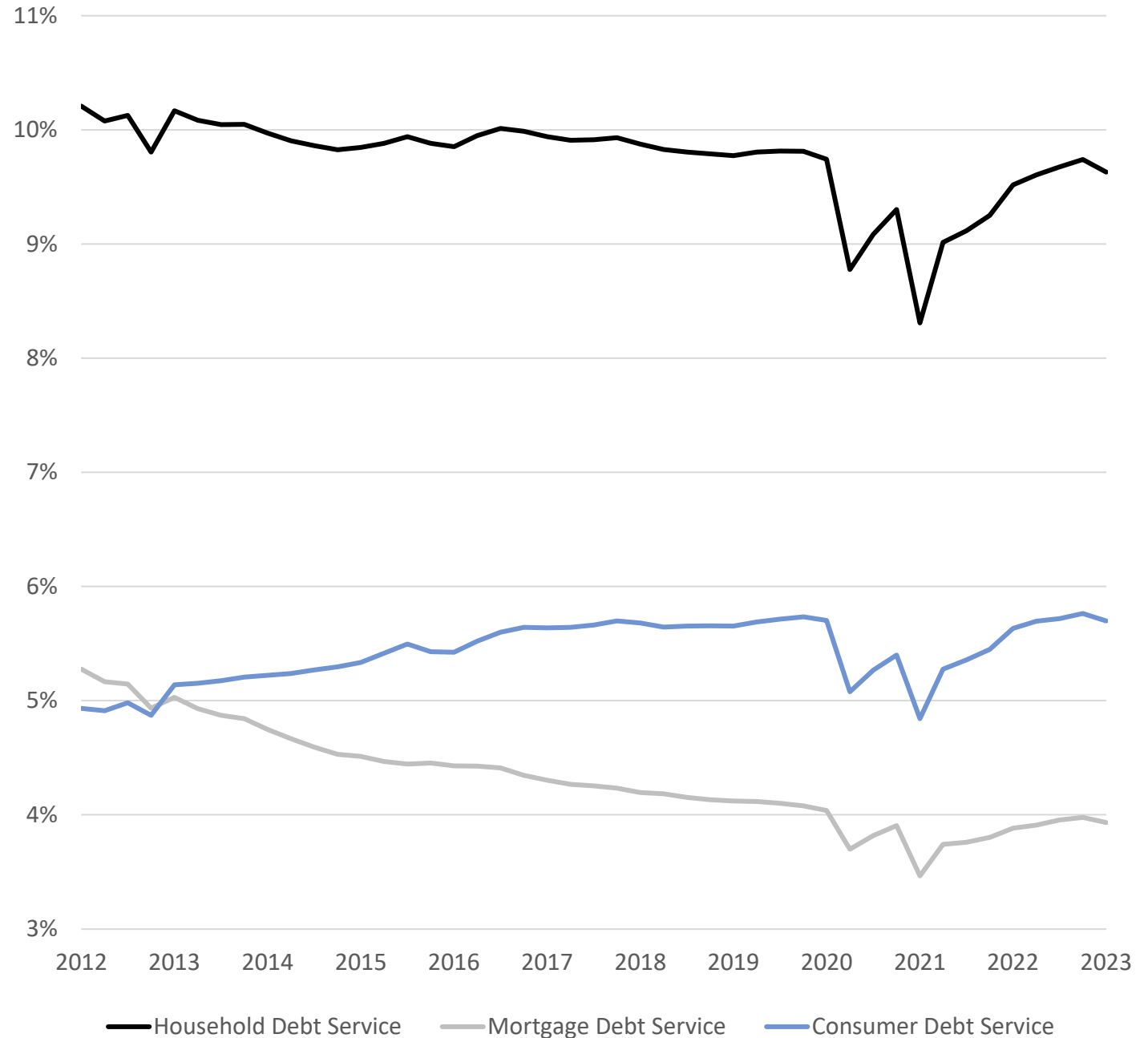


# US Personal Saving Rate



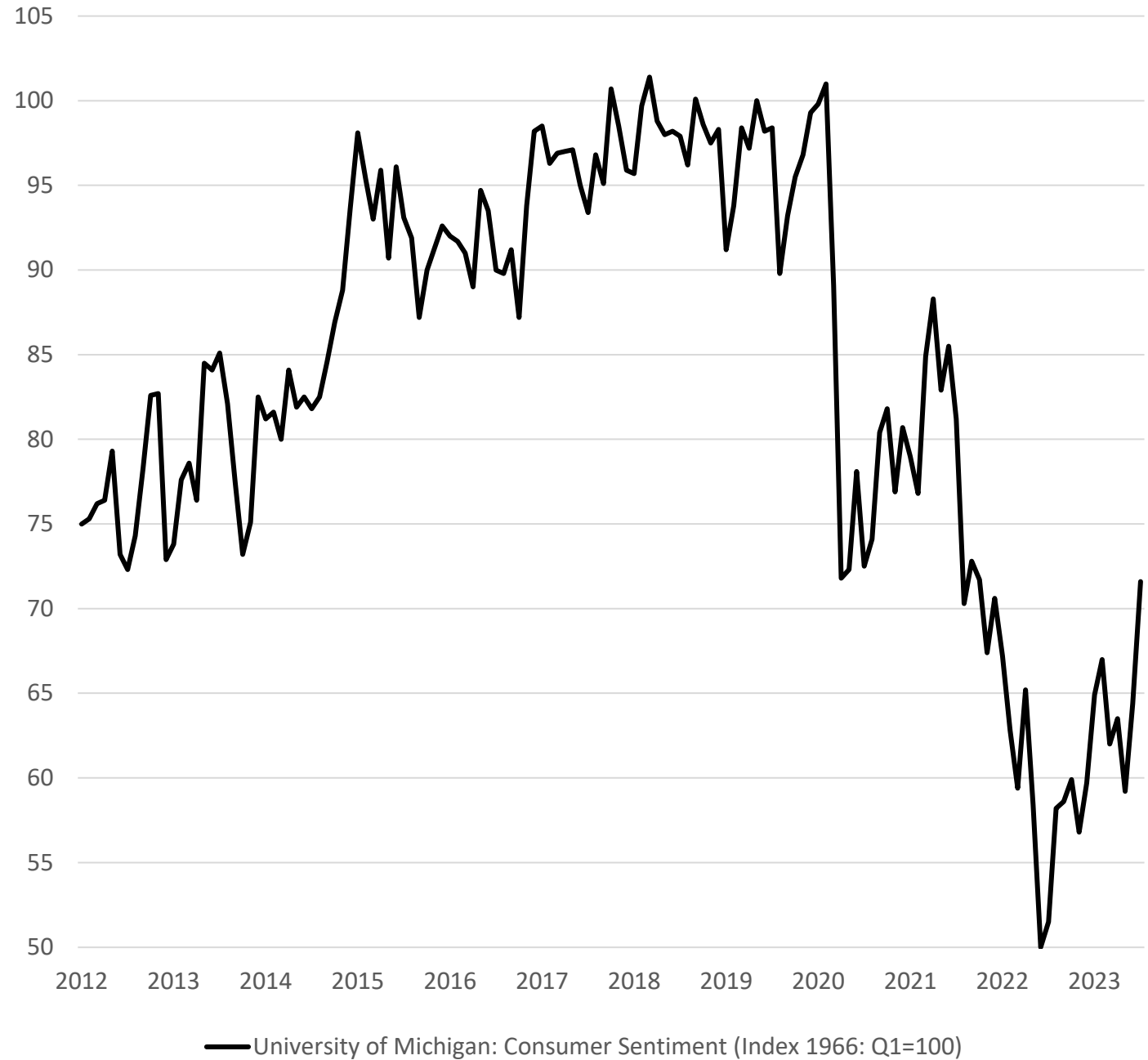


# US Household Debt Service Ratio





# US Consumer Sentiment



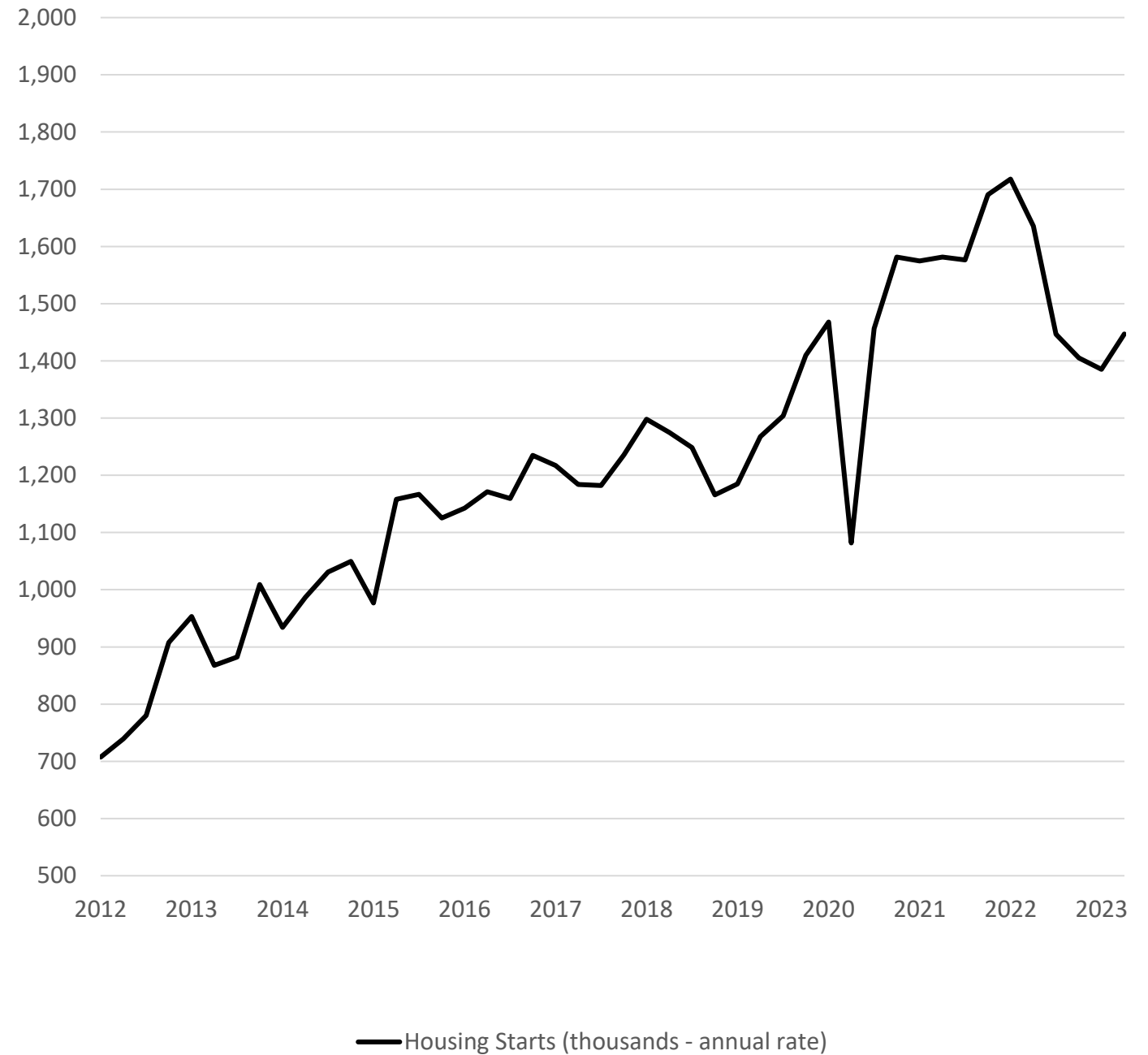
# *Investment*



- Real business fixed investment is projected to slow from 3.9% in 2022 to 3.3% in 2023 and 1.3% in 2024 due to tighter financial and credit conditions.
- Residential investment finished 2022 at -10.6%. It is projected at -11.2% in 2023 and 1.0% in 2024.
- Housing starts are expected to slow from 1.55M in 2022 to 1.42M in 2023 and 1.39M in 2024.
- The homeowner vacancy rate fell to an all-time low of 0.7% in the second quarter.
- Real house prices are expected to decline modestly over the next few years, with nominal growth just below the rate of inflation.



# US Housing Starts

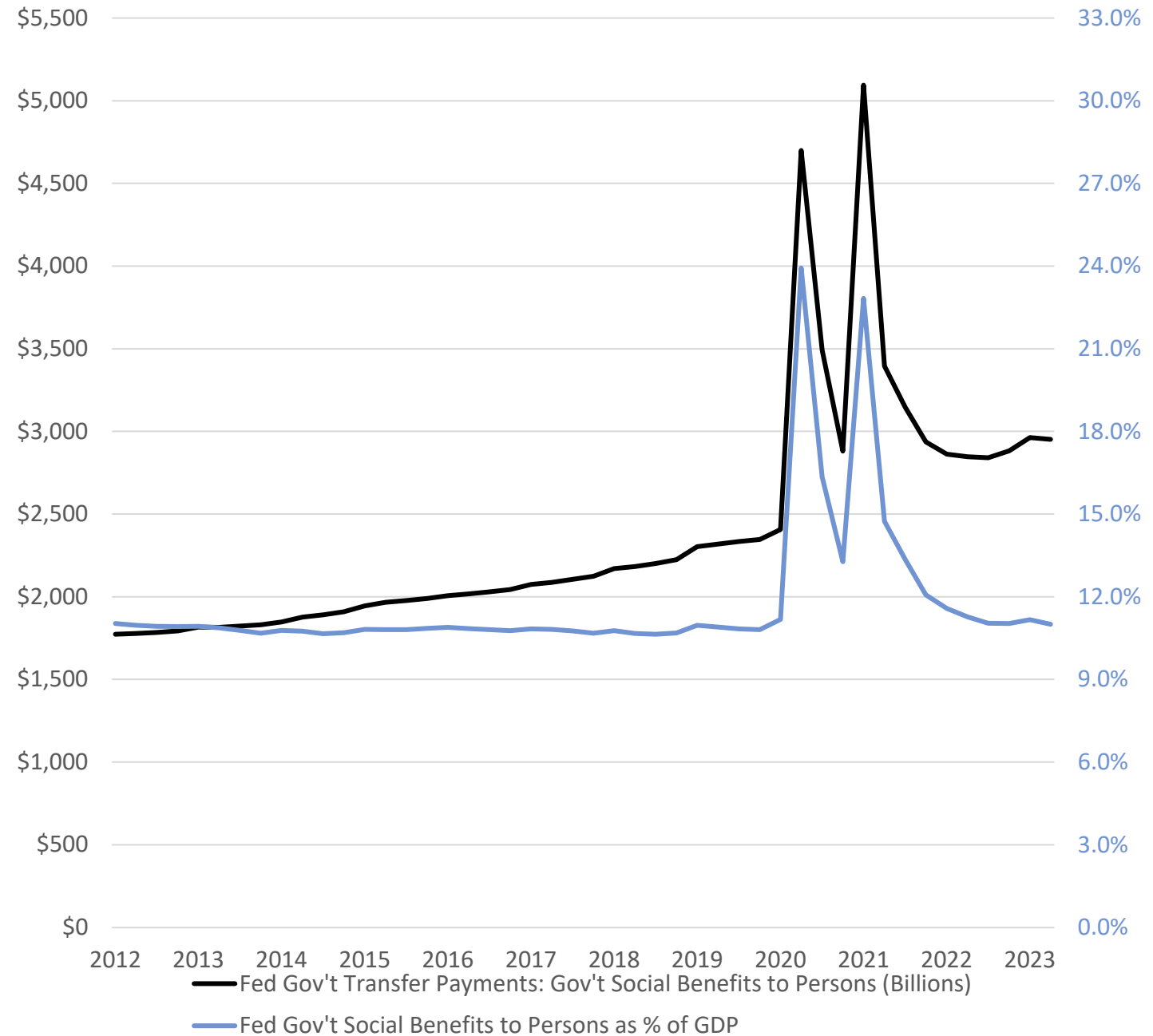


# *Federal Fiscal Picture*

- The debt ceiling is suspended through 2024, but is assumed to be raised before then in the forecast.
- The pandemic-era 6.2% enhancement to the Federal Medical Assistance Percentage is phased out in 2023.
- Student loan forbearance expires August 31<sup>st</sup>.
- Federal Open Market Committee raised the target federal funds rate by 25 basis points in July to a target range of 5.25-5.50%.
- Forecast is for policy rate to increase 25 basis points (5.50-5.75%) in November.

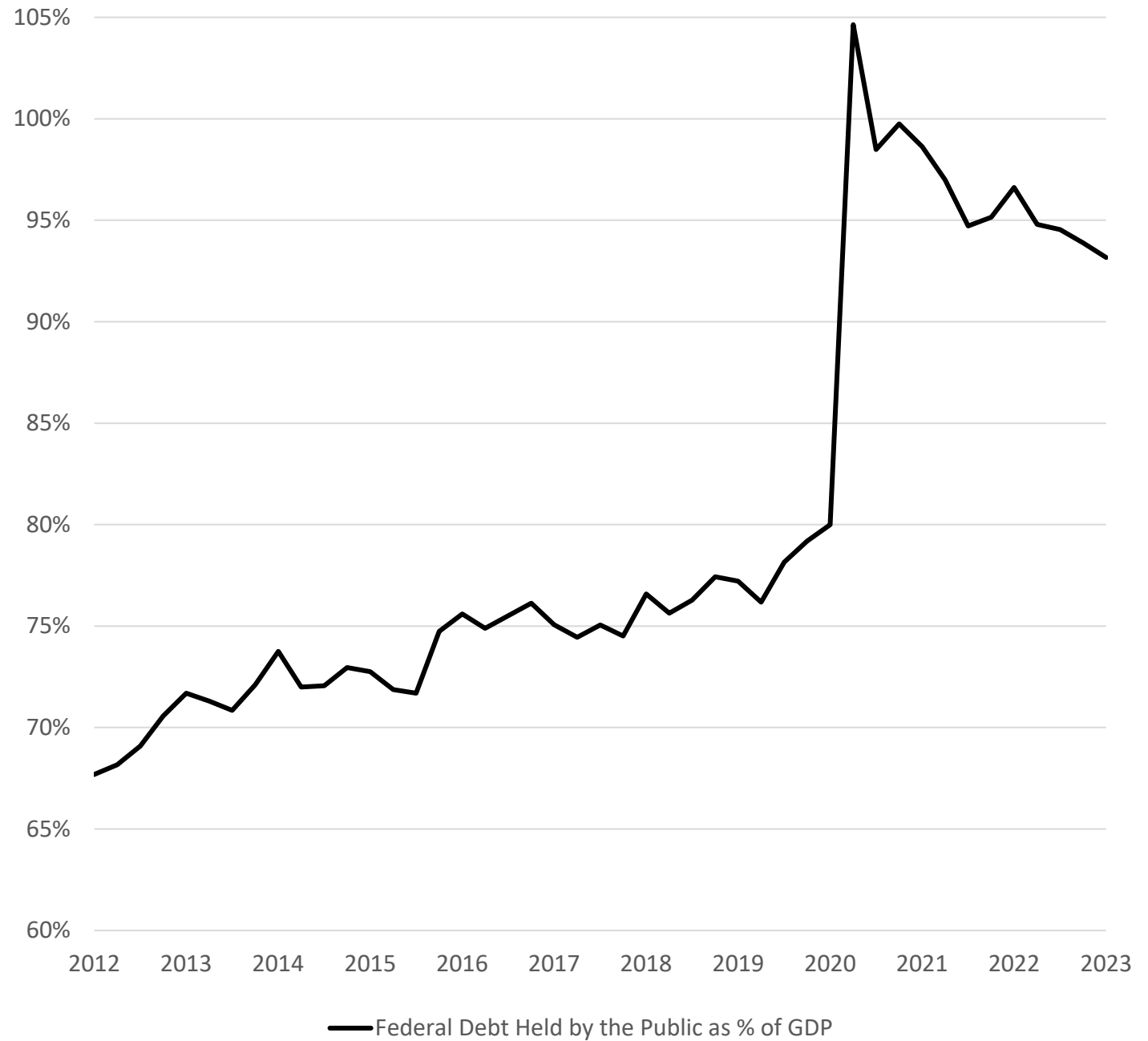


# Government Sector





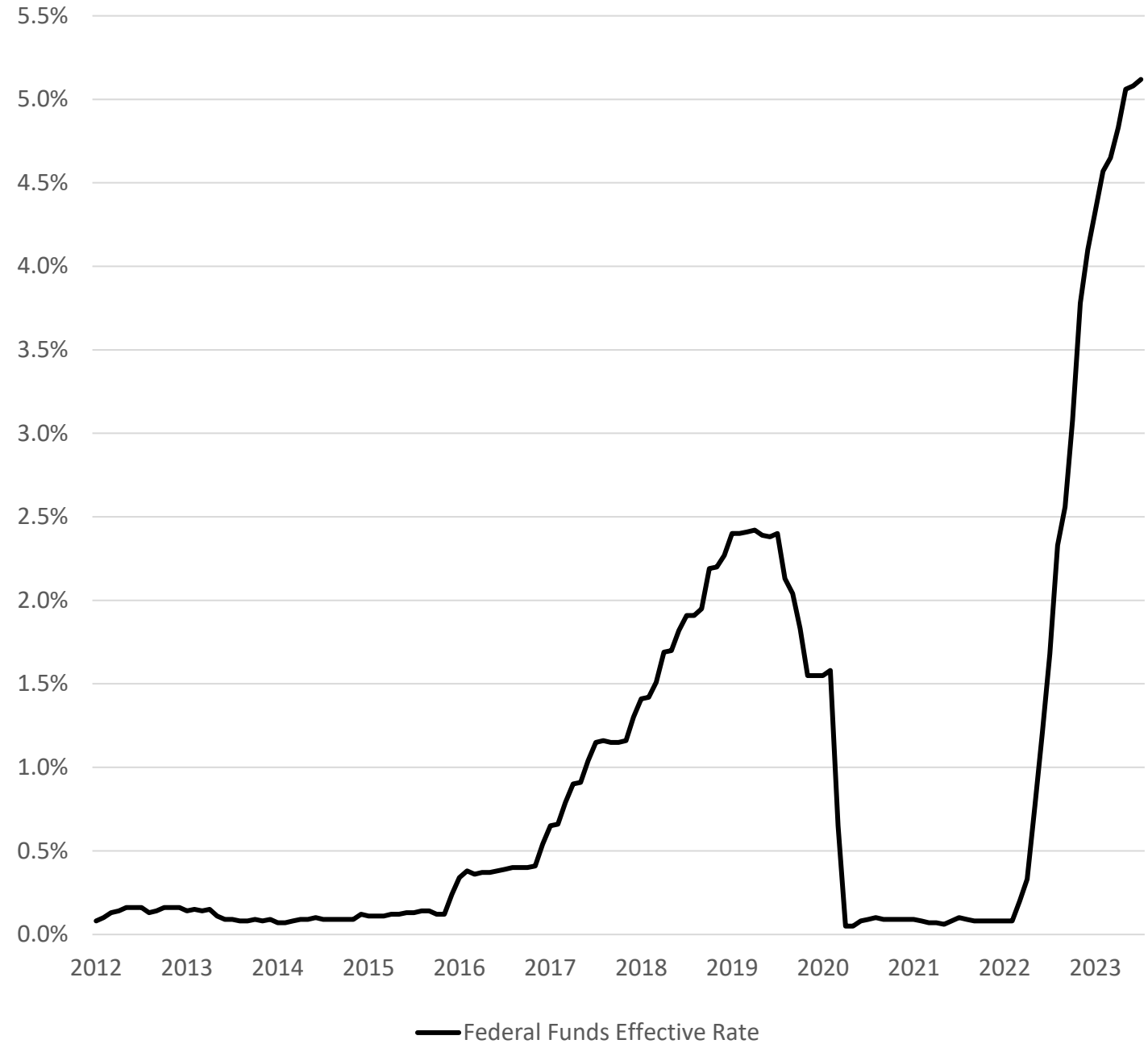
# Debt Held by Public







# Interest Rates



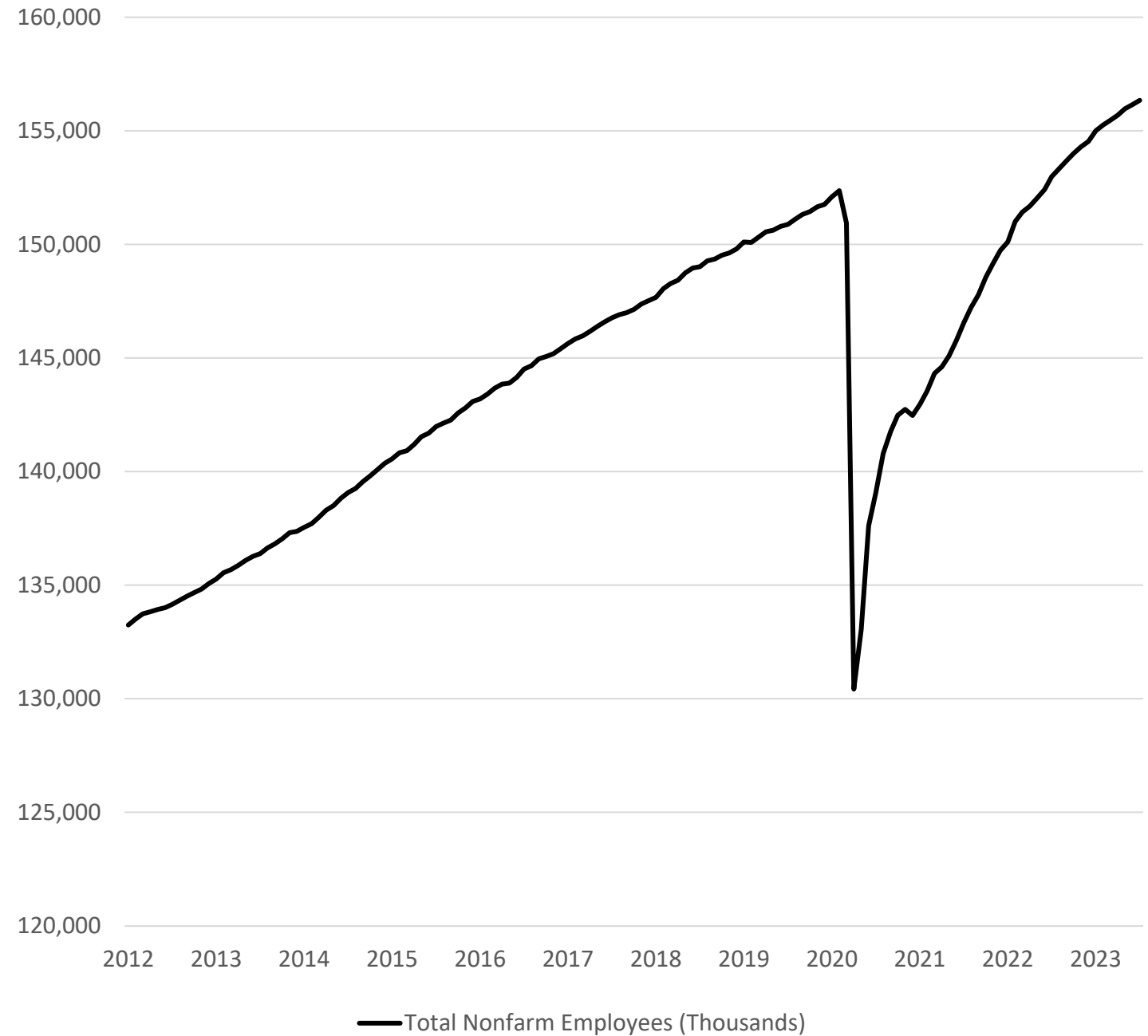
# *Employment and Unemployment*



- Nonfarm payroll employment rose 187k in July. Still expanding, but at a slowing pace.
- Employment growth projected to slow from 4.3% in 2022 to 2.3% in 2023 and 0.4% in 2024.
- The unemployment rate at 3.5% in July.
- Unemployment rate finished 2022 at 3.6%. Projections are 3.5% in 2023 and 3.9% in 2024.
- Wage growth is still higher than a rate consistent with long-term 2% inflation.

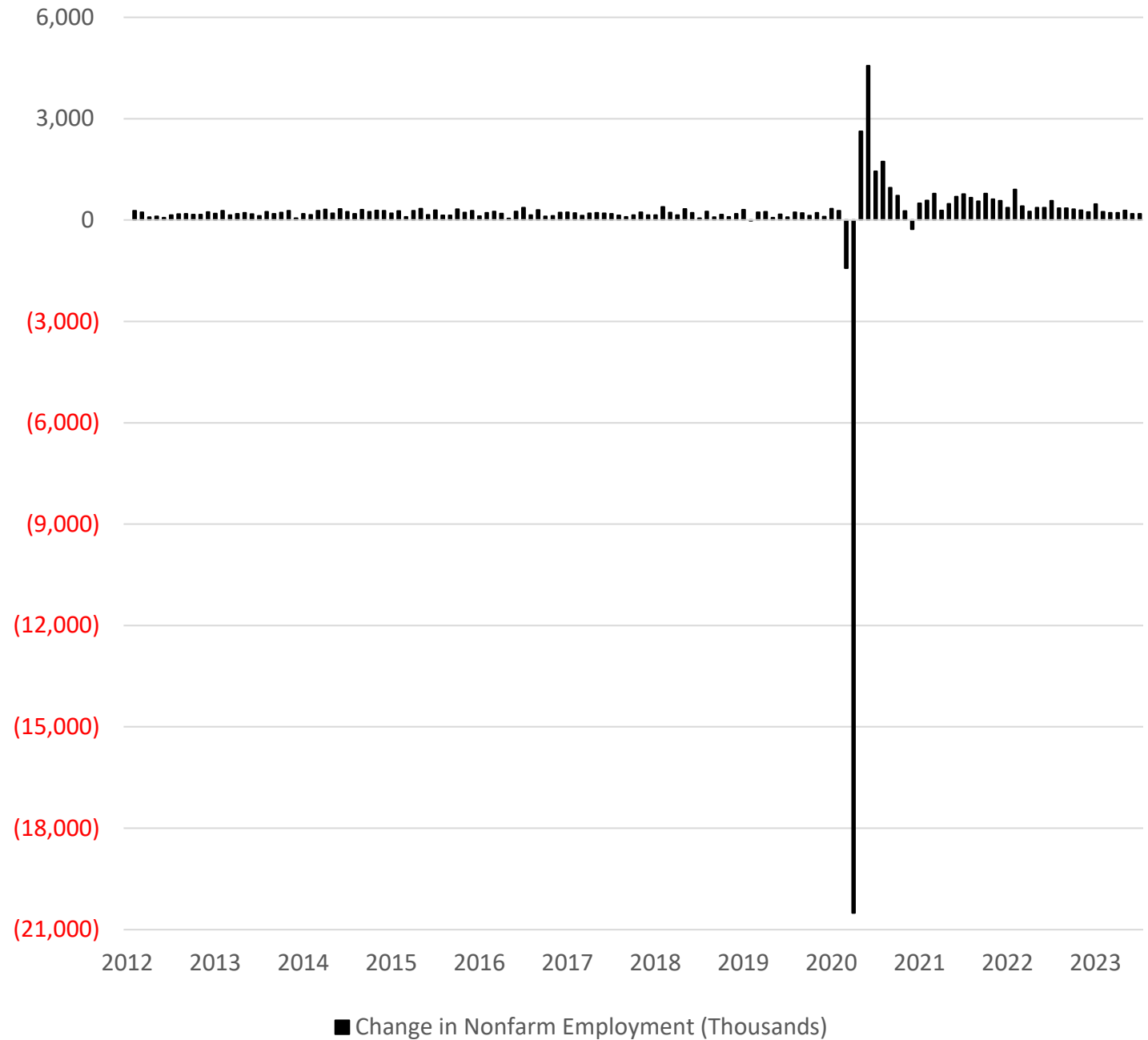


# US Employment Growth



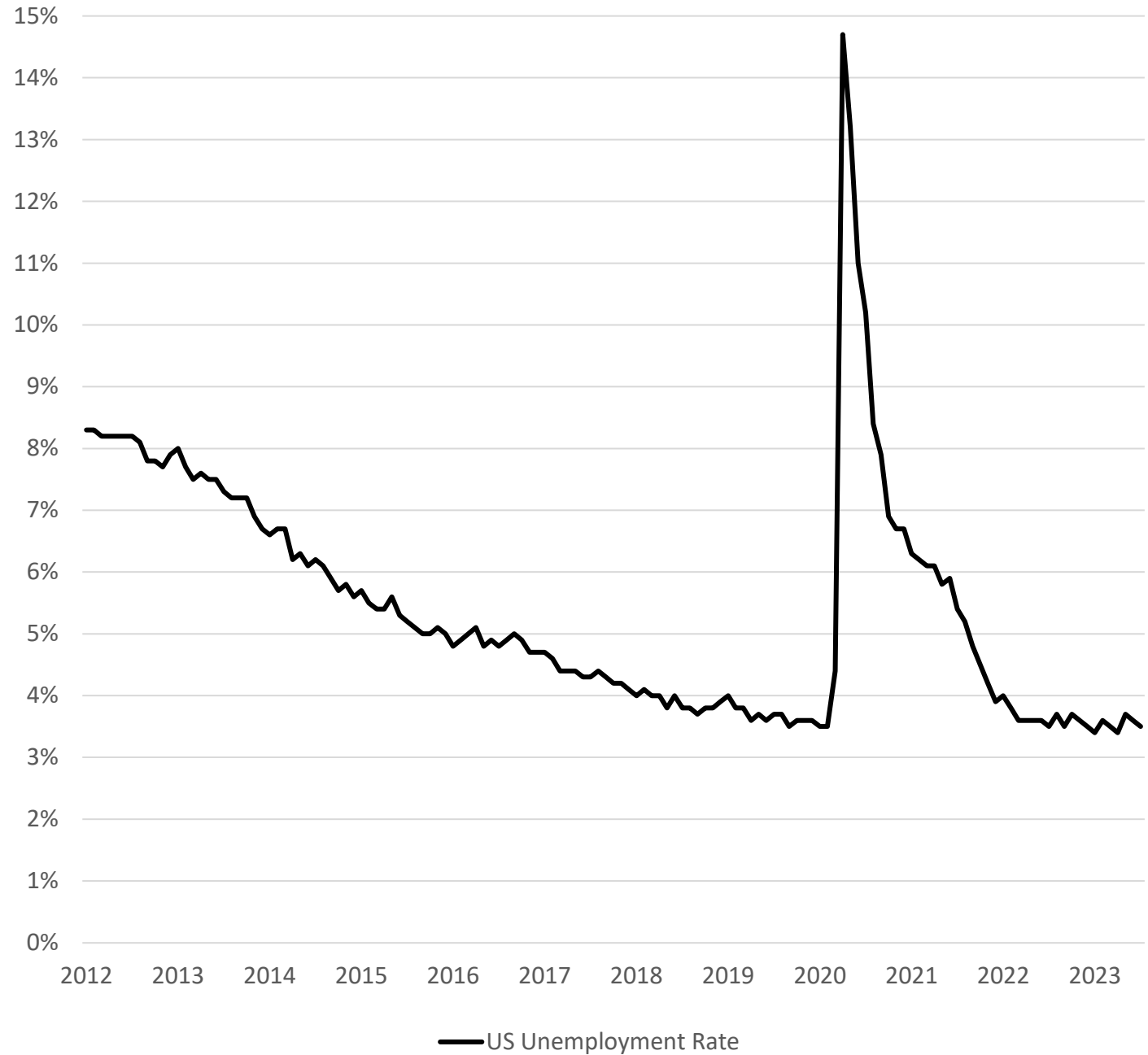


# US Employment Growth





# US Unemployment Rate



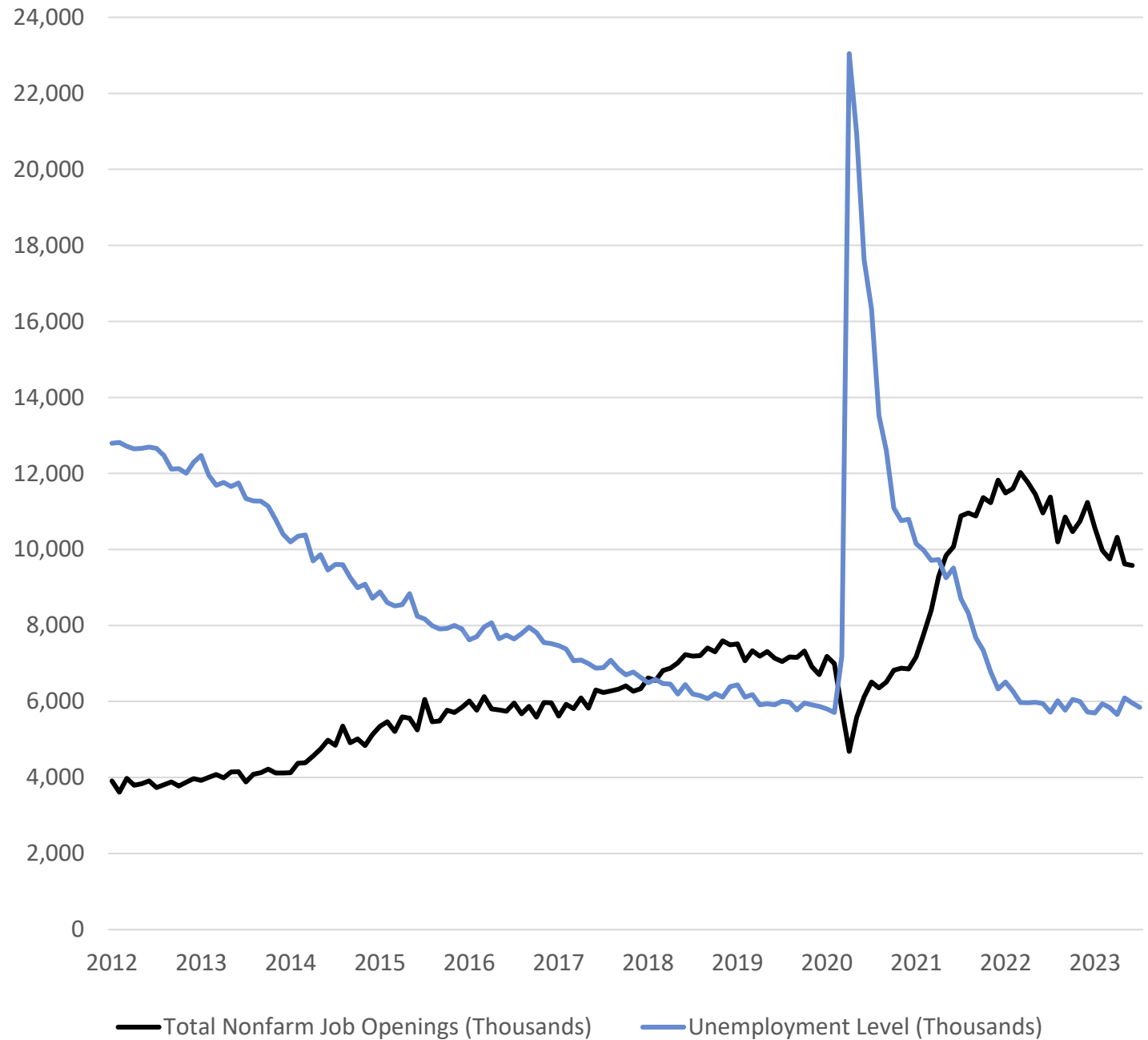


# US Labor Force Participation Rate





# US Job Openings vs. Unemployed



# *Inflation*



- CPI rose 8.0% in 2022. Forecast is for 4.1% in 2023 and 2.5% in 2024.
- PPI on finished goods rose 13.4% in 2022. Forecast is for 1.1% in 2023 and 0.6% in 2024.
- Brent Crude spot price is forecast to decline from \$101 in 2022 to \$81 in 2023 and \$77 in 2024.





# Inflation: CPI



# *S&P Global Forecast - US*

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
<b>Real GDP Growth</b>	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%	2.2%	1.4%	2.1%
<b>Nonfarm Employment</b>	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.3%	0.4%	1.4%
<b>Personal Income</b>	4.6%	5.0%	5.1%	6.7%	7.4%	2.3%	5.1%	4.7%	4.6%
<b>Unemployment Rate</b>	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.5%	3.9%	5.5%
<b>CPI-U</b>	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%	4.1%	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.
<b>Real GDP Growth</b>	2.3%	2.1%		2.0%	0.6%	2.1%
<b>Nonfarm Employment</b>	2.4%	0.5%		2.0%	-1.6%	1.4%
<b>Personal Income</b>	5.3%	5.5%		4.9%	4.0%	4.6%
<b>Unemployment Rate</b>	3.5%	3.6%		4.0%	5.8%	5.5%
<b>CPI-U</b>	3.9%	3.1%		4.3%	3.5%	2.4%

# *SD Forecast*

*Employment*

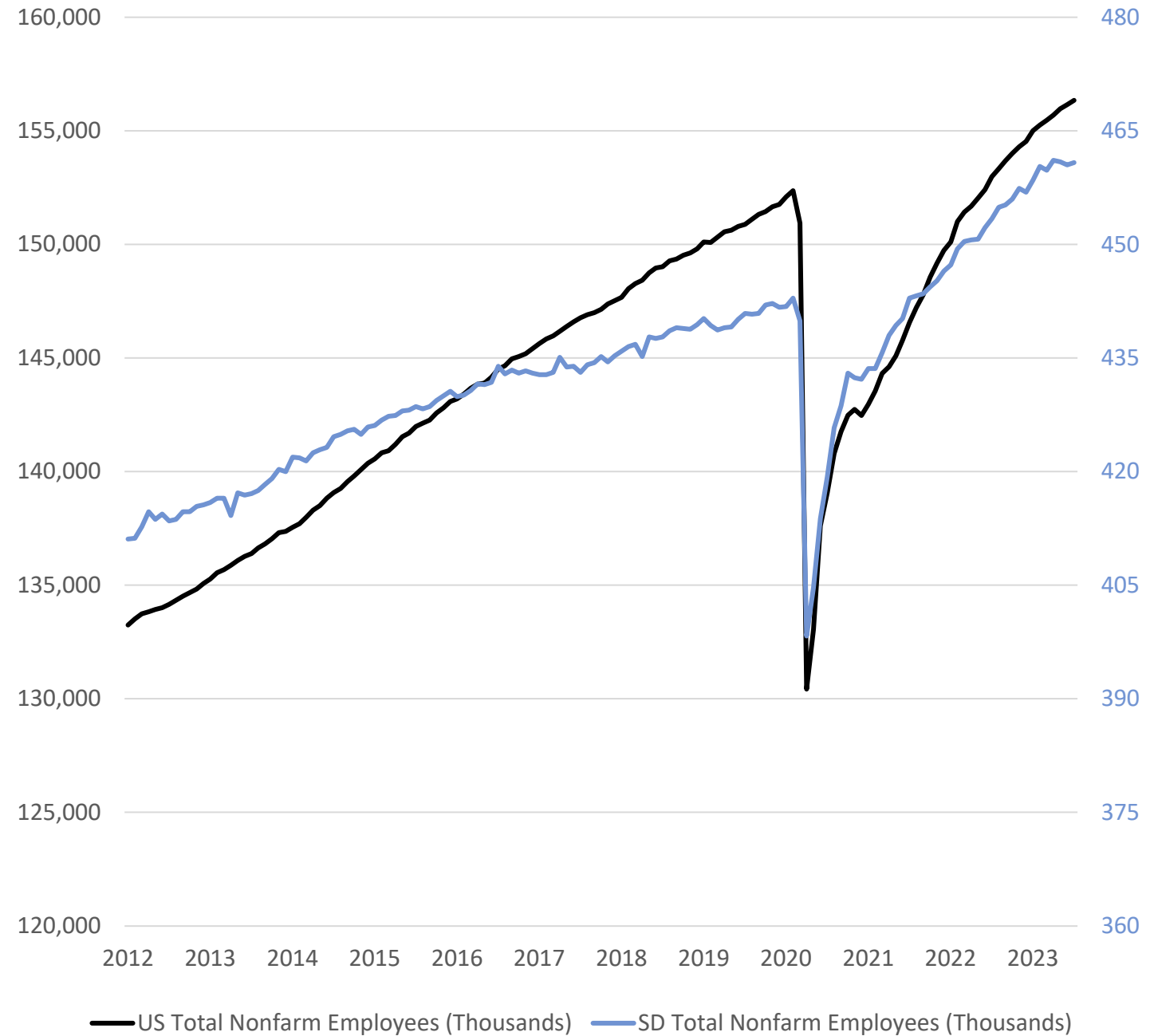
*Housing*

*Personal Income*

*Tourism*

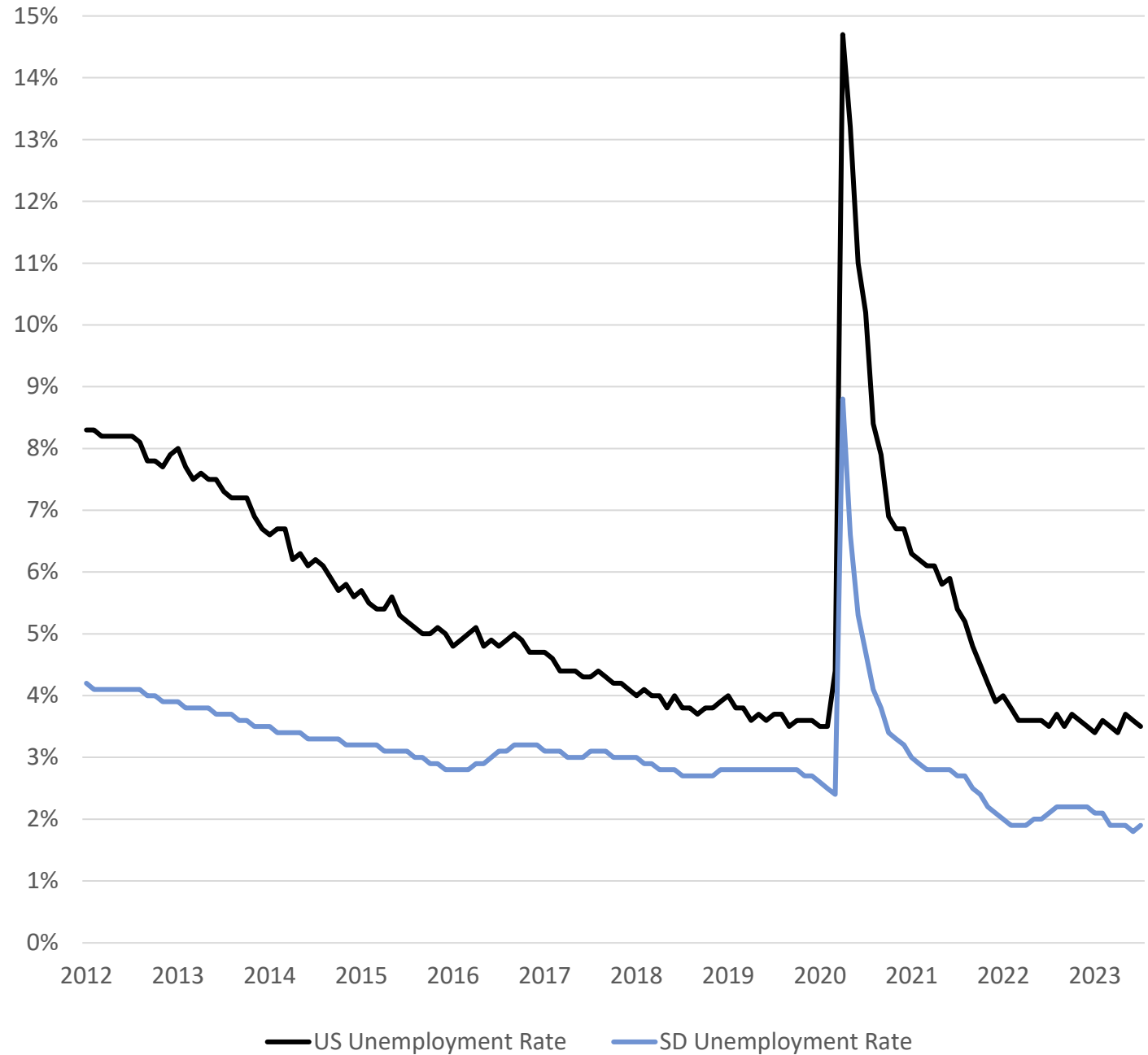


# Employment Growth



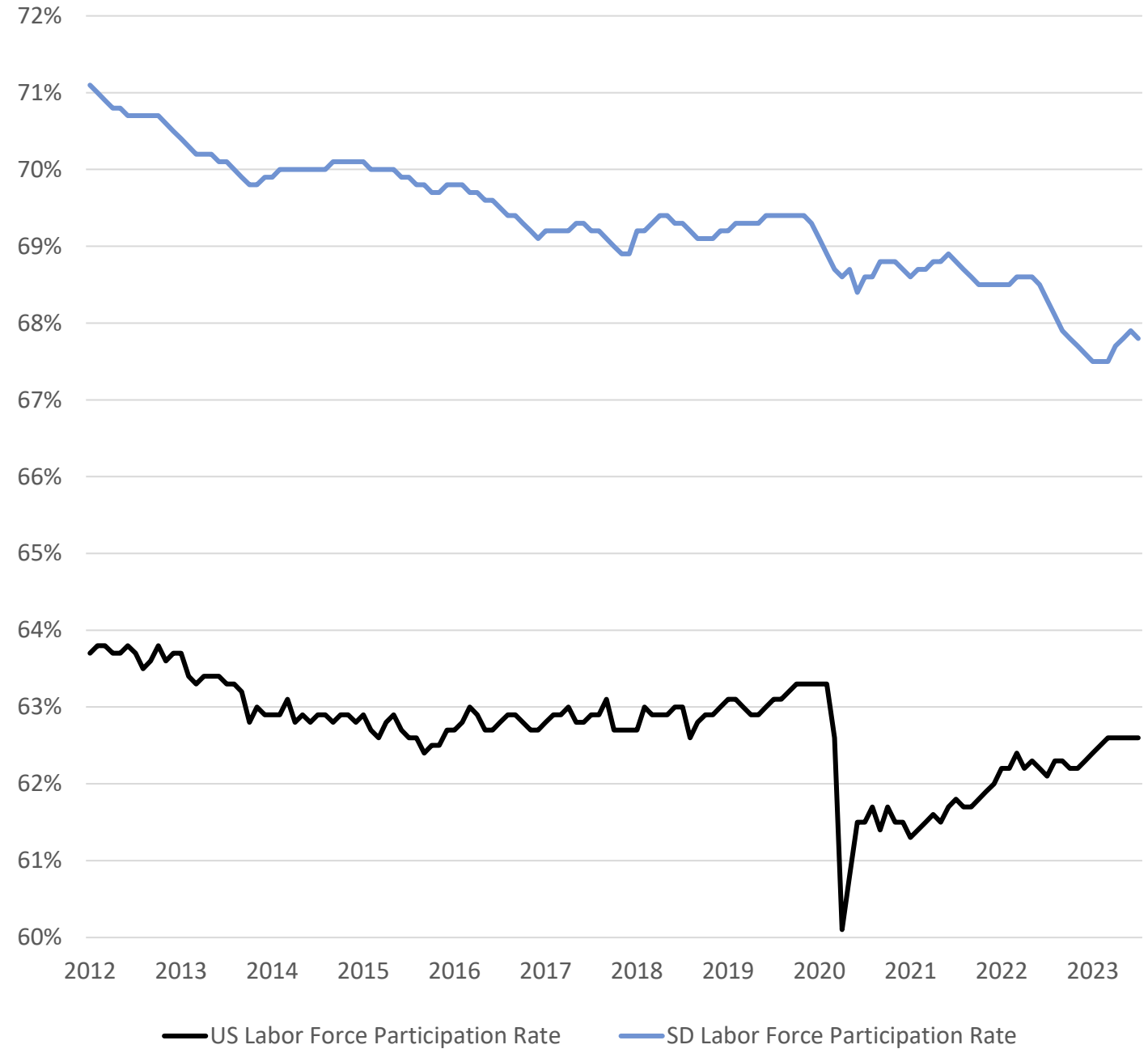


# Unemployment Rate



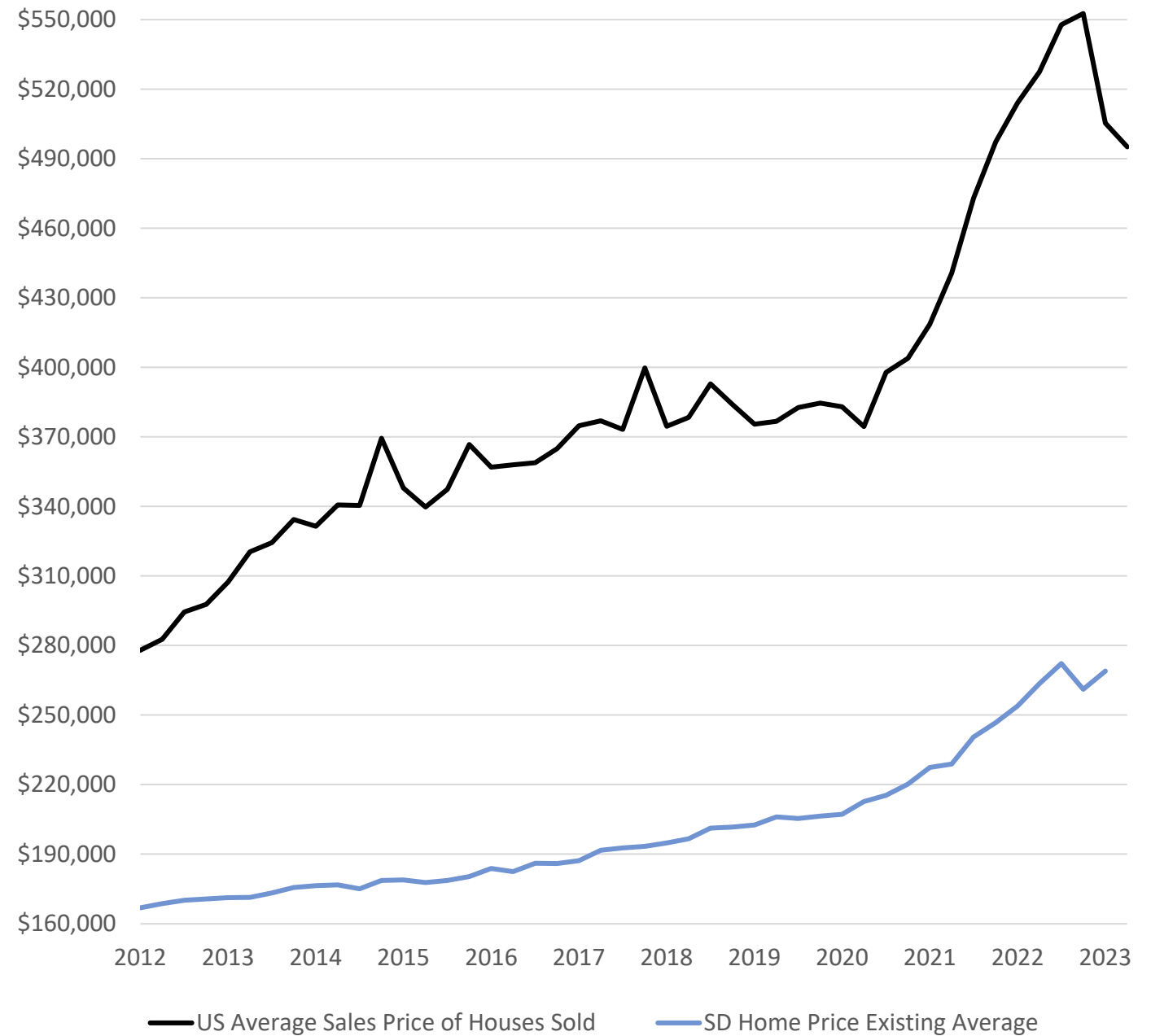


# Labor Force Participation Rate





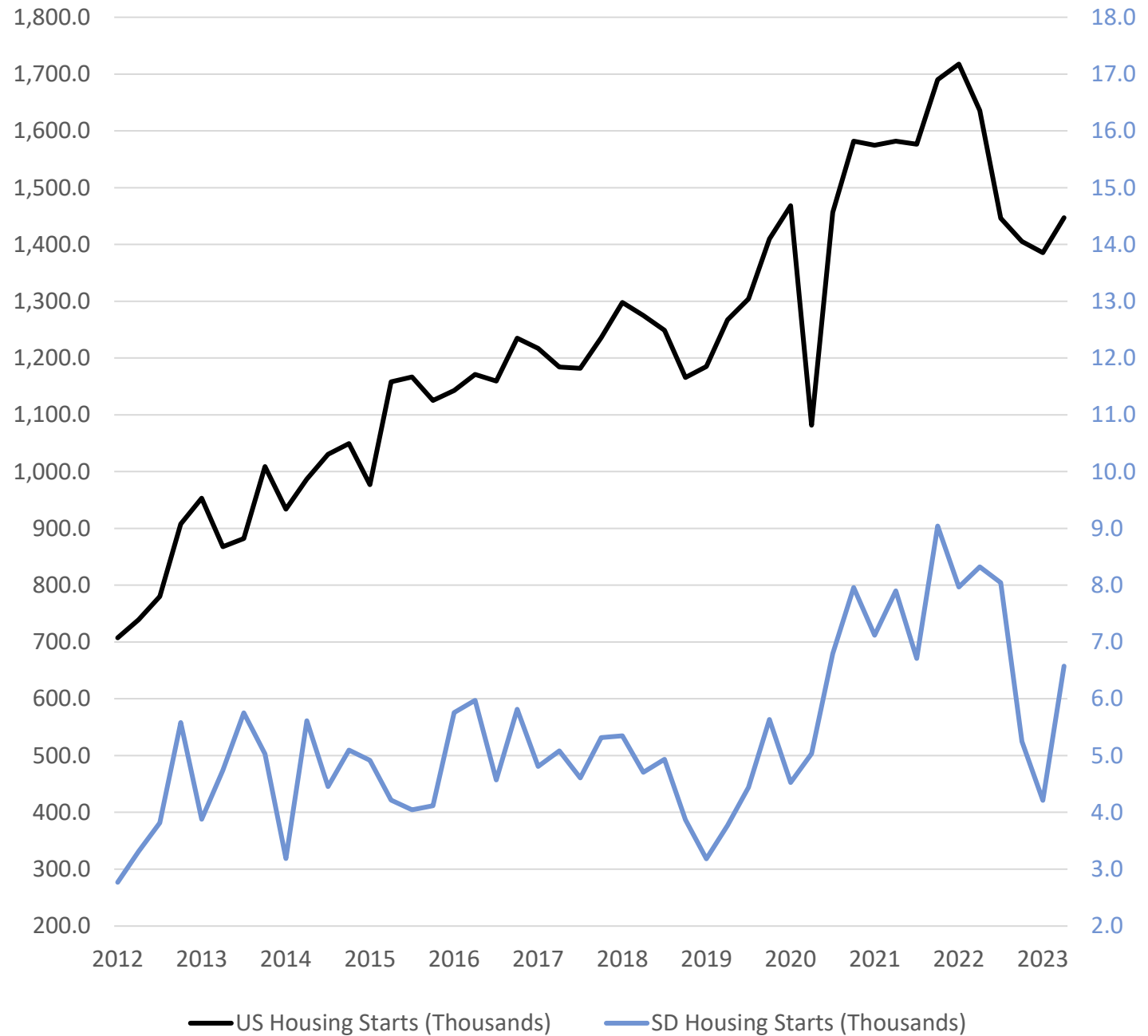
# Home Price





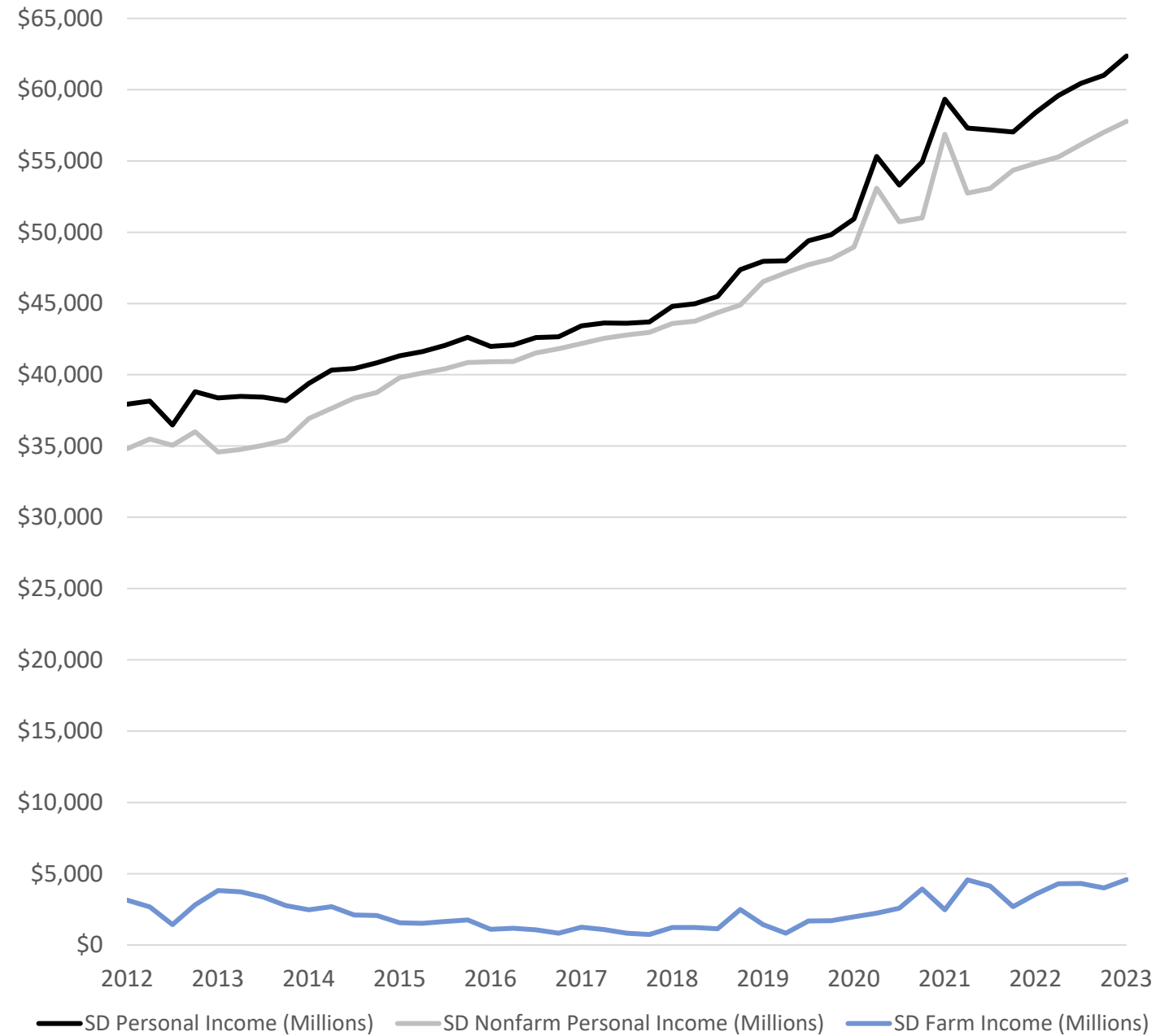


# Housing Starts



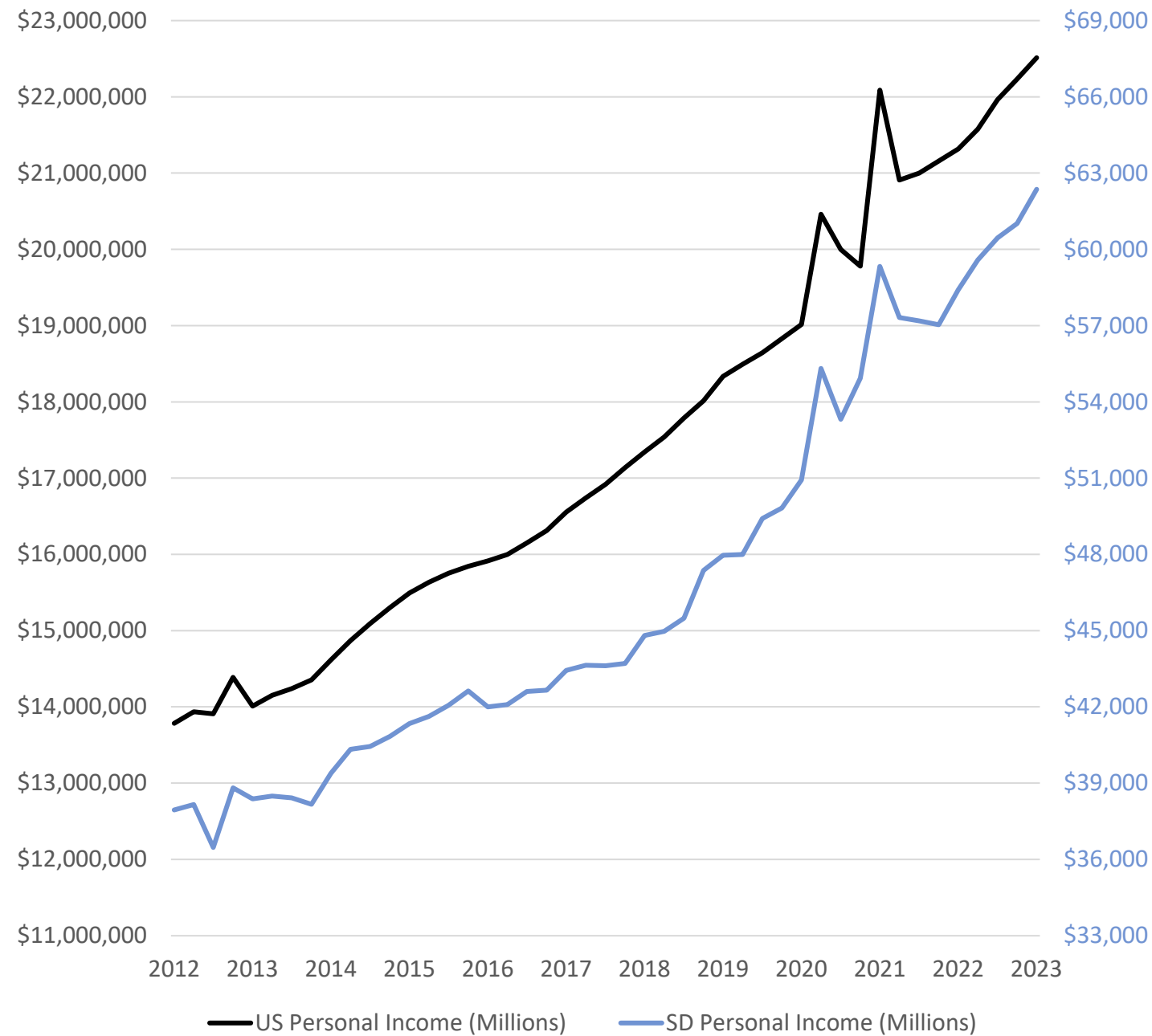


# Personal Income



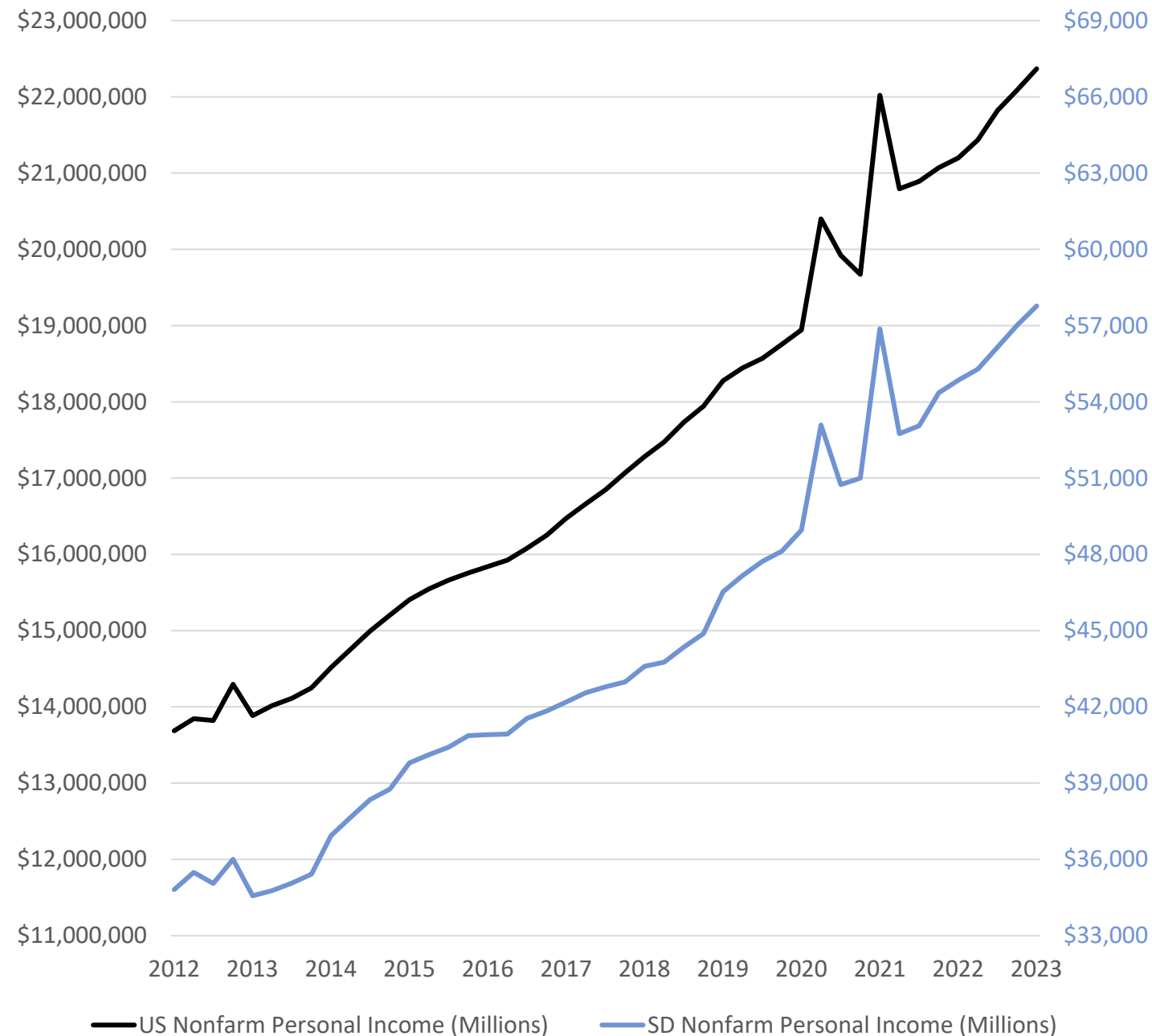


# Personal Income



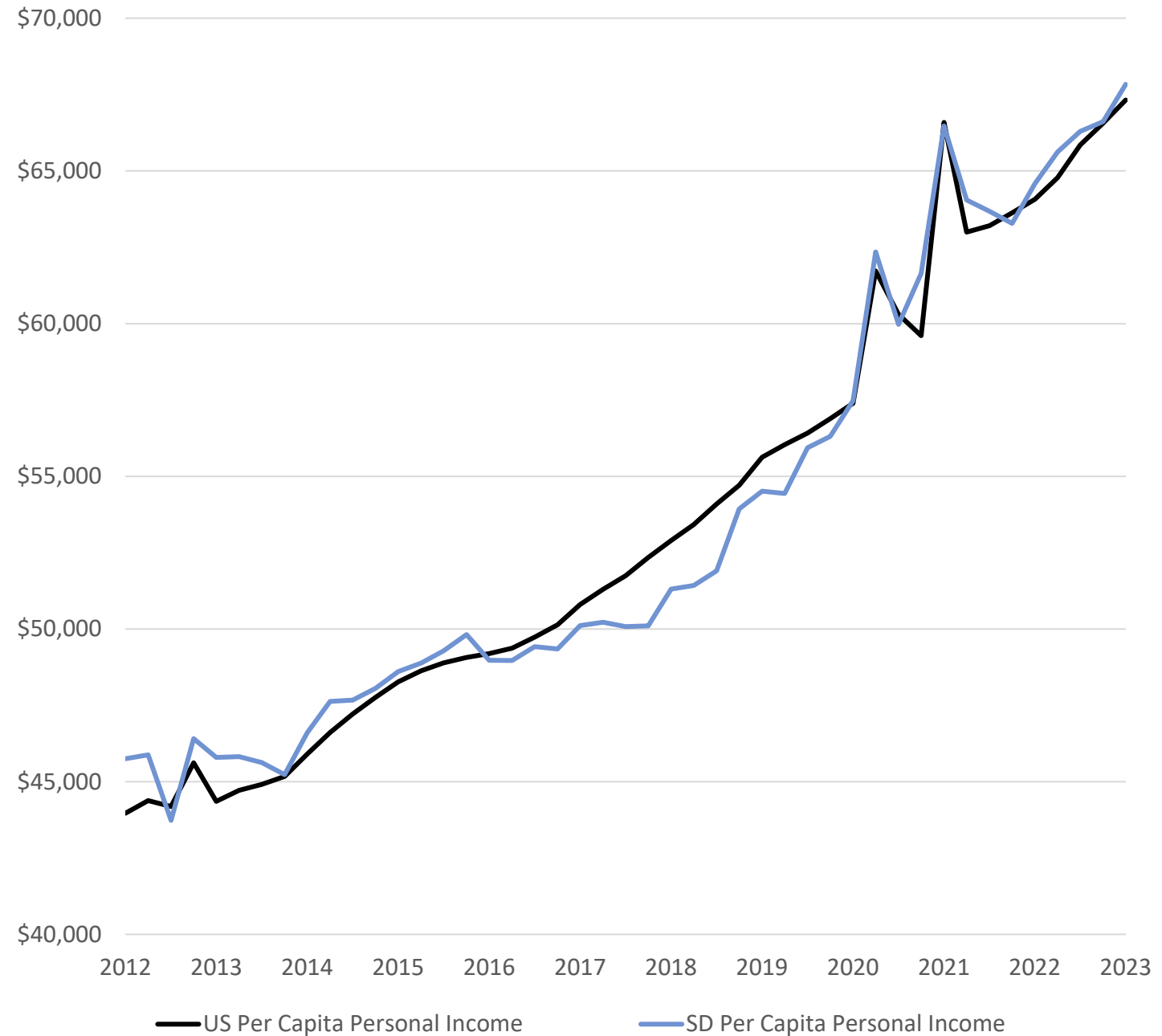


# Nonfarm Personal Income



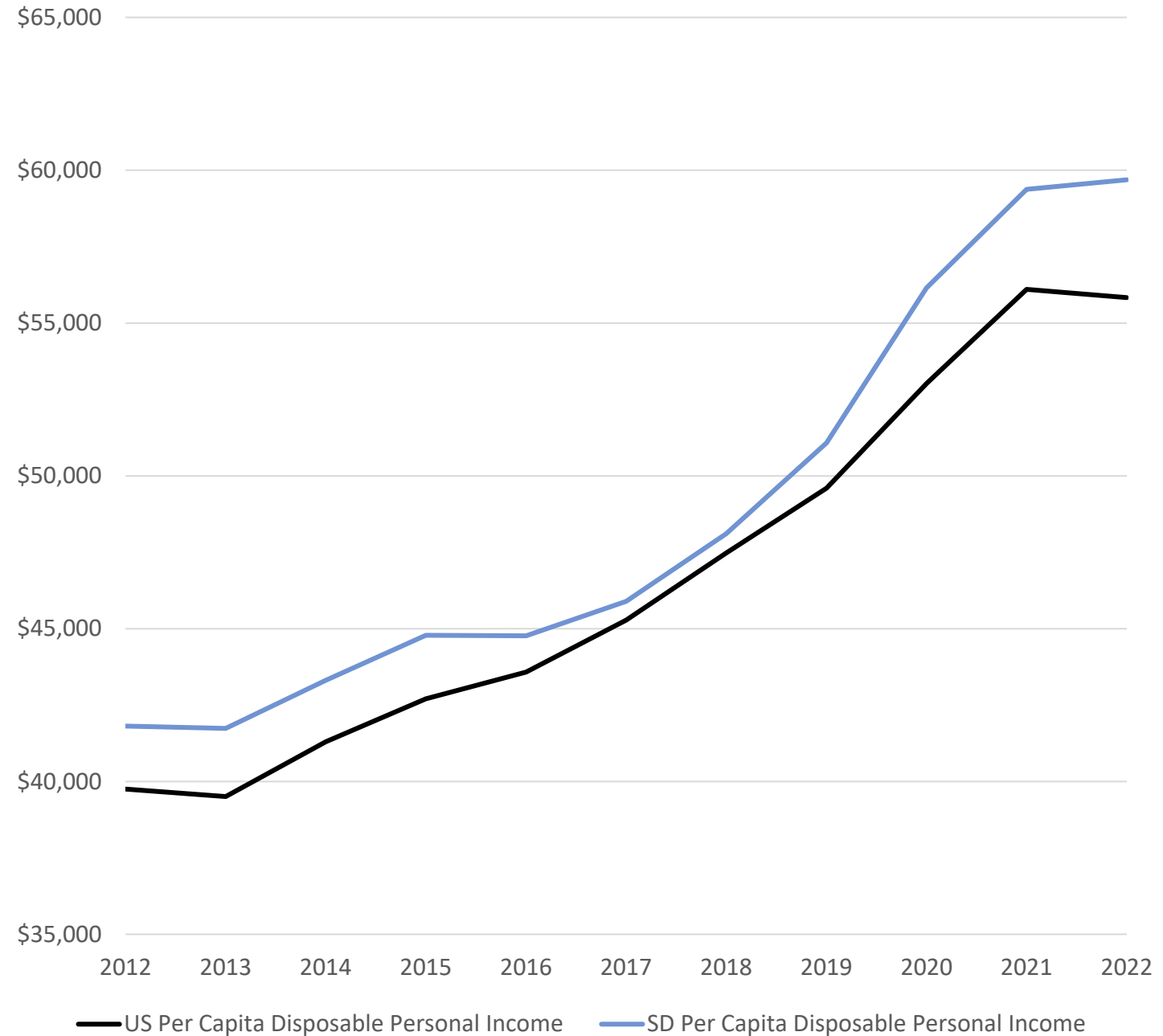


# Per Capita Personal Income



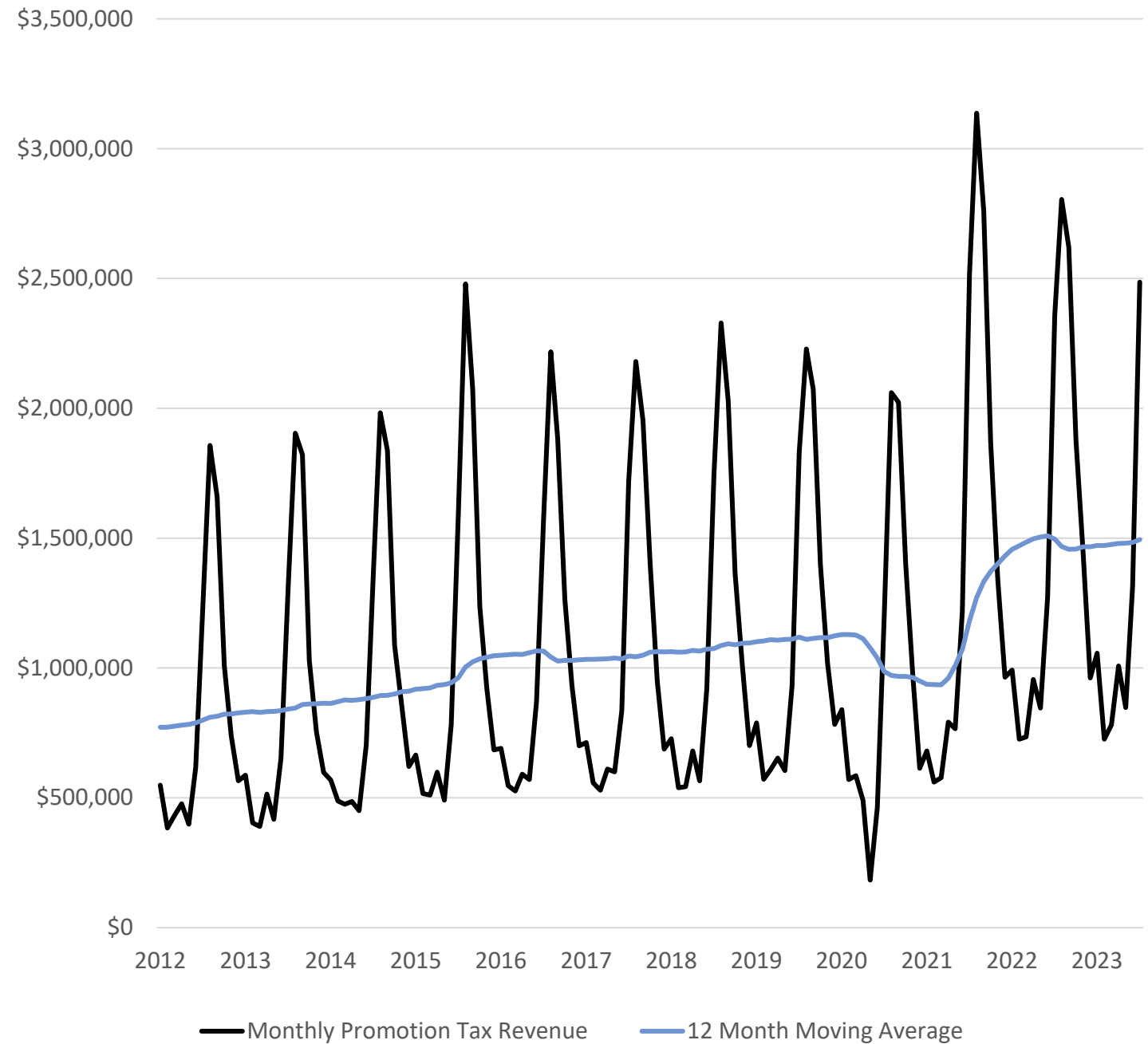


# Per Capita Disposable Personal Income





# SD Tourism Promotion Tax Collections



# *S&P Global Forecast - SD*

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
<b>Real GDP Growth</b>	-0.7%	1.1%	0.8%	1.6%	4.5%	0.5%	2.1%	1.3%	1.3%
<b>Nonfarm Employment</b>	0.4%	0.8%	0.6%	-3.3%	3.4%	2.8%	1.8%	0.2%	1.0%
<b>Nonfarm Income</b>	3.2%	3.6%	7.3%	7.5%	6.5%	2.9%	5.3%	5.1%	4.9%
<b>Housing Starts</b>	4,954	4,714	4,256	6,078	7,693	7,396	5,264	4,808	5,296
<b>Unemployment Rate</b>	3.1%	2.8%	2.8%	4.2%	2.6%	2.1%	2.0%	2.6%	3.2%



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

**General Fund  
Receipts**

*Legislative Revised  
Adopted FY2023  
vs.  
FY2023 Actuals*

	<b>Leg. Rev. Adopted JUNE YTD FY2023</b>	<b>Actual JUNE YTD FY2023</b>	<b>DOLLAR CHANGE</b>	<b>YTD % Chg. Actual/Adopt Comparison</b>
<b>ONGOING RECEIPTS</b>				
Net Sales and Use Tax*	1,487,500,000	1,480,572,850	(6,927,150)	-0.5%
Lottery	179,396,470	176,663,767	(2,732,703)	-1.5%
Net Contractor's Excise Tax	188,220,515	189,407,586	1,187,071	0.6%
Insurance Company Tax	109,756,754	112,141,293	2,384,539	2.2%
Unclaimed Property Receipts	71,281,179	74,981,213	3,700,034	5.2%
Licenses, Permits, and Fees	76,820,106	77,636,494	816,388	1.1%
Tobacco Taxes	48,043,012	47,074,649	(968,363)	-2.0%
Trust Funds	46,540,322	46,259,458	(280,864)	-0.6%
Net Transfers In (excluding one-time)	24,354,780	25,652,534	1,297,754	5.3%
Alcohol Beverage Tax	8,875,647	8,939,732	64,085	0.7%
Bank Franchise Tax	19,110,103	20,425,082	1,314,979	6.9%
Charges for Goods and Services	14,866,510	13,473,405	(1,393,105)	-9.4%
Telecommunications Tax	2,363,947	2,466,873	102,926	4.4%
Severance Taxes	6,939,293	5,657,605	(1,281,688)	-18.5%
Investment Income and Interest	13,970,769	14,000,549	29,780	0.2%
Alcohol Beverage 2% Wholesale Tax	3,089,592	2,936,973	(152,619)	-4.9%
<b>SUBTOTAL (ONGOING RECEIPTS)</b>	<b>\$ 2,301,128,999</b>	<b>2,298,290,062</b>	<b>\$ (2,838,937)</b>	<b>-0.1%</b>
<b>ONE-TIME RECEIPTS</b>				
Bank Franchise Tax Prior Year Revenue	692,349	699,173	6,824	1.0%
One-Time Unclaimed Property	-	10,554,826	10,554,826	N/A
Unexpended Carryovers and Specials	8,364,225	17,709,410	9,345,185	111.7%
Obligated Cash Carried Forward	115,478,433	115,478,433	0	0.0%
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 124,535,007</b>	<b>\$ 144,441,842</b>	<b>\$ 19,906,835</b>	<b>16.0%</b>
<b>GRAND TOTAL</b>	<b>\$ 2,425,664,006</b>	<b>\$ 2,442,731,904</b>	<b>\$ 17,067,898</b>	<b>0.7%</b>

**NOTES**

\*Includes cost of administration.  
Totals may not add due to rounding.

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

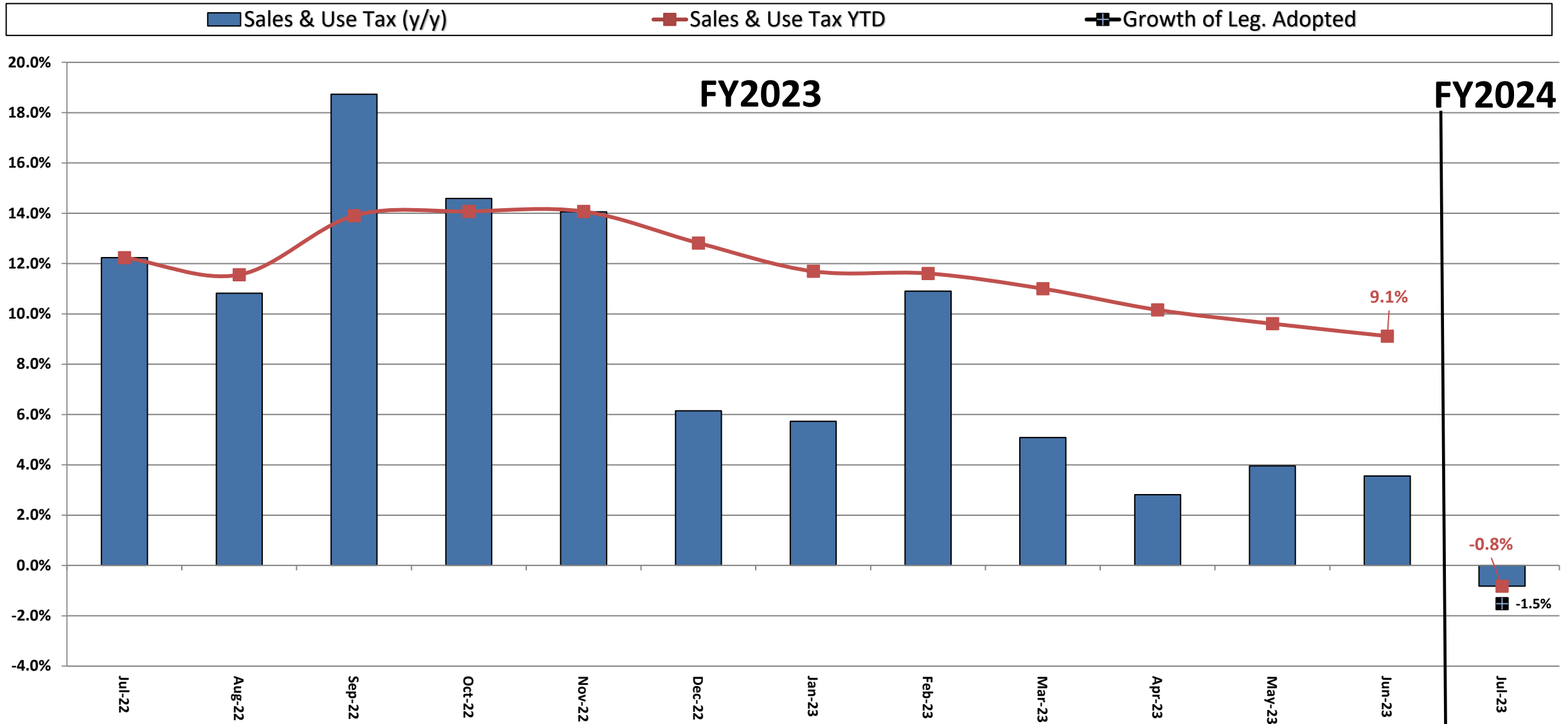


	Leg. Adopted JULY YTD FY2024	Actual JULY YTD FY2024	DOLLAR CHANGE	YTD % Chg. Actual/Adopt Comparison
<b>ONGOING RECEIPTS</b>				
Net Sales and Use Tax (excl. cost of admin)	133,007,947	138,664,887	5,656,939	4.3%
Lottery	13,623,966	13,515,546	(108,420)	-0.8%
Net Contractor's Excise Tax	18,808,164	21,753,202	2,945,038	15.7%
Insurance Company Tax	19,526,061	13,981,094	(5,544,967)	-28.4%
Unclaimed Property Receipts	(1,631,070)	(2,317,414)	(686,344)	N/A
Licenses, Permits, and Fees	887,811	850,767	(37,044)	-4.2%
Tobacco Taxes	5,109,269	4,296,010	(813,259)	-15.9%
Trust Funds	33,665,904	33,665,904	0	0.0%
Net Transfers In (excluding one-time)	8,115,671	7,890,626	(225,045)	-2.8%
Alcohol Beverage Tax	18,024	19,131	1,106	6.1%
Bank Franchise Tax	81,905	91,218	9,312	11.4%
Charges for Goods and Services	1,193,926	833,743	(360,184)	-30.2%
Telecommunications Tax	-	-	0	N/A
Severance Taxes	1,401,523	-	(1,401,523)	-100.0%
Investment Income and Interest	6,668	2,549	(4,120)	-61.8%
Alcohol Beverage 2% Wholesale Tax	271,451	-	(271,451)	-100.0%
<b>SUBTOTAL (ONGOING RECEIPTS)</b>	<b>\$ 234,087,221</b>	<b>233,247,263</b>	<b>\$ (839,958)</b>	<b>-0.4%</b>
<b>ONE-TIME RECEIPTS</b>				
One-Time Sales and Use Tax*	-	9,726,426	9,726,426	N/A
Bank Franchise Tax Prior Year Revenue	-	135,680	135,680	N/A
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 0</b>	<b>\$ 9,862,106</b>	<b>\$ 9,862,106</b>	<b>N/A</b>
<b>GRAND TOTAL</b>	<b>\$ 234,087,221</b>	<b>\$ 243,109,369</b>	<b>\$ 9,022,147</b>	<b>3.9%</b>

**NOTES**

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

# *Sales & Use Tax Growth*





# Council Discussion

# *S&P Global Forecast - US*

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
<b>Real GDP Growth</b>	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%	2.2%	1.4%	2.1%
<b>Nonfarm Employment</b>	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.3%	0.4%	1.4%
<b>Personal Income</b>	4.6%	5.0%	5.1%	6.7%	7.4%	2.3%	5.1%	4.7%	4.6%
<b>Unemployment Rate</b>	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.5%	3.9%	5.5%
<b>CPI-U</b>	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%	4.1%	2.5%	2.4%

# *S&P Global Forecast - SD*

	2017	2018	2019	2020	2021	2022	2023 f	2024 f	'12-'22 avg.
<b>Real GDP Growth</b>	-0.7%	1.1%	0.8%	1.6%	4.5%	0.5%	2.1%	1.3%	1.3%
<b>Nonfarm Employment</b>	0.4%	0.8%	0.6%	-3.3%	3.4%	2.8%	1.8%	0.2%	1.0%
<b>Nonfarm Income</b>	3.2%	3.6%	7.3%	7.5%	6.5%	2.9%	5.3%	5.1%	4.9%
<b>Housing Starts</b>	4,954	4,714	4,256	6,078	7,693	7,396	5,264	4,808	5,296
<b>Unemployment Rate</b>	3.1%	2.8%	2.8%	4.2%	2.6%	2.1%	2.0%	2.6%	3.2%

## *Other Discussion Items*

- Next Meeting Date - October
- Other Comments
- Public Comments