



The State of the SD Economy

**Presentation to the Governor's
Council of Economic Advisors
January 29, 2020**

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University of South Dakota**



Outline of Presentation


Overview of US economy

**US economy forecast - Macroeconomic
Advisors by IHS Markit 1/2/2020**

SD economy

Summary & Conclusions

US Forecast



Macroeconomic Advisors, By IHS MARKIT
Forecast – JANUARY 2, 2020

Real GDP

Consumption

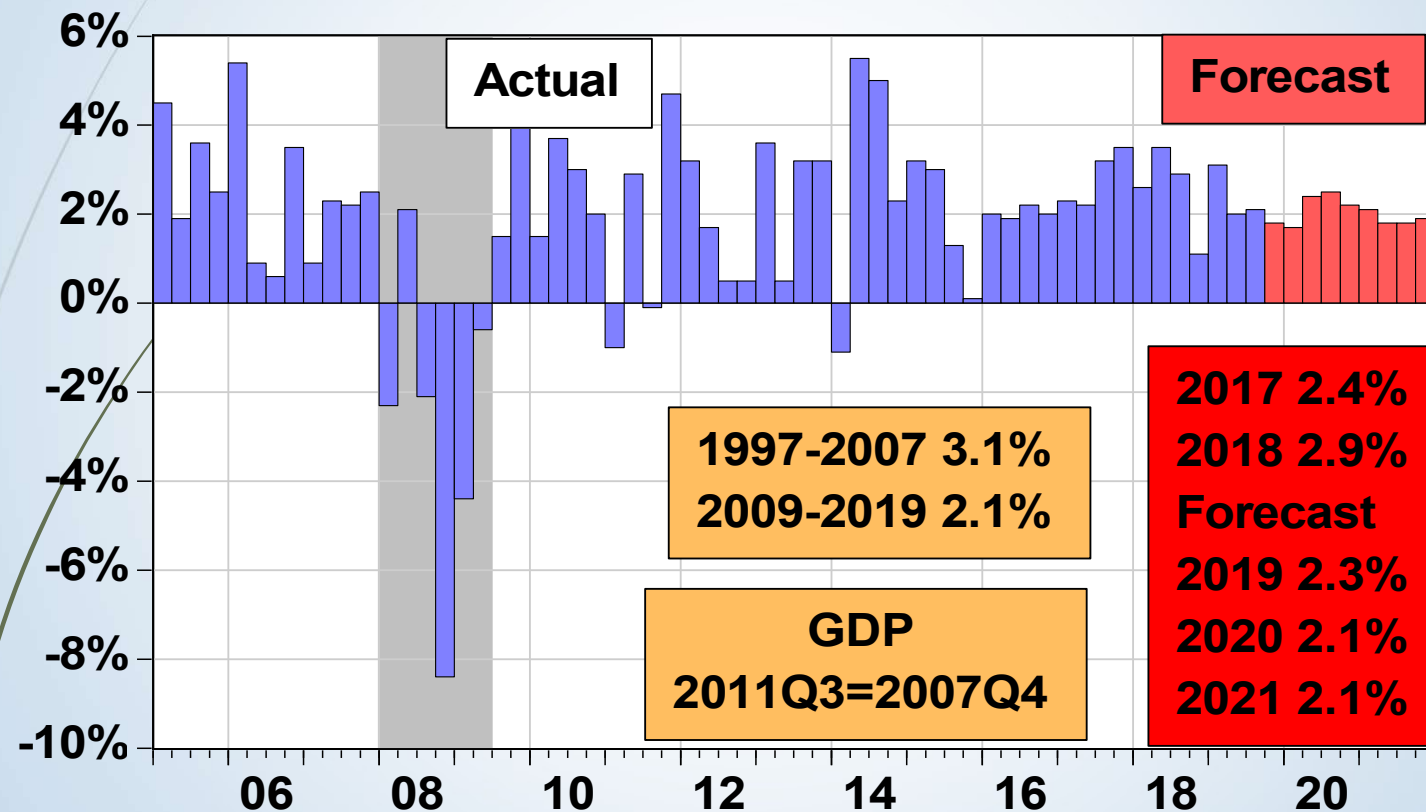
Housing Starts

Federal Budget

Interest Rates and Inflation

Growth is Slowing

GROSS DOMESTIC PRODUCT



Source: BEA and IHS



GDP

GDP growth for 2019 is projected at 2.3% and 2.1% in 2020 and 2021.

The fiscal stimulus in the Bipartisan Budget Act 2019 extends above-trend growth to 2020.

Consumption spending remains the driver of growth in the economy with 2.8% growth in 2020 and 2.7% in 2021.

Chance of recession now at 25% not 35%. Chance of recession next 12 months <10%.



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. Consumer sentiment, labor market, and stock market all strong.

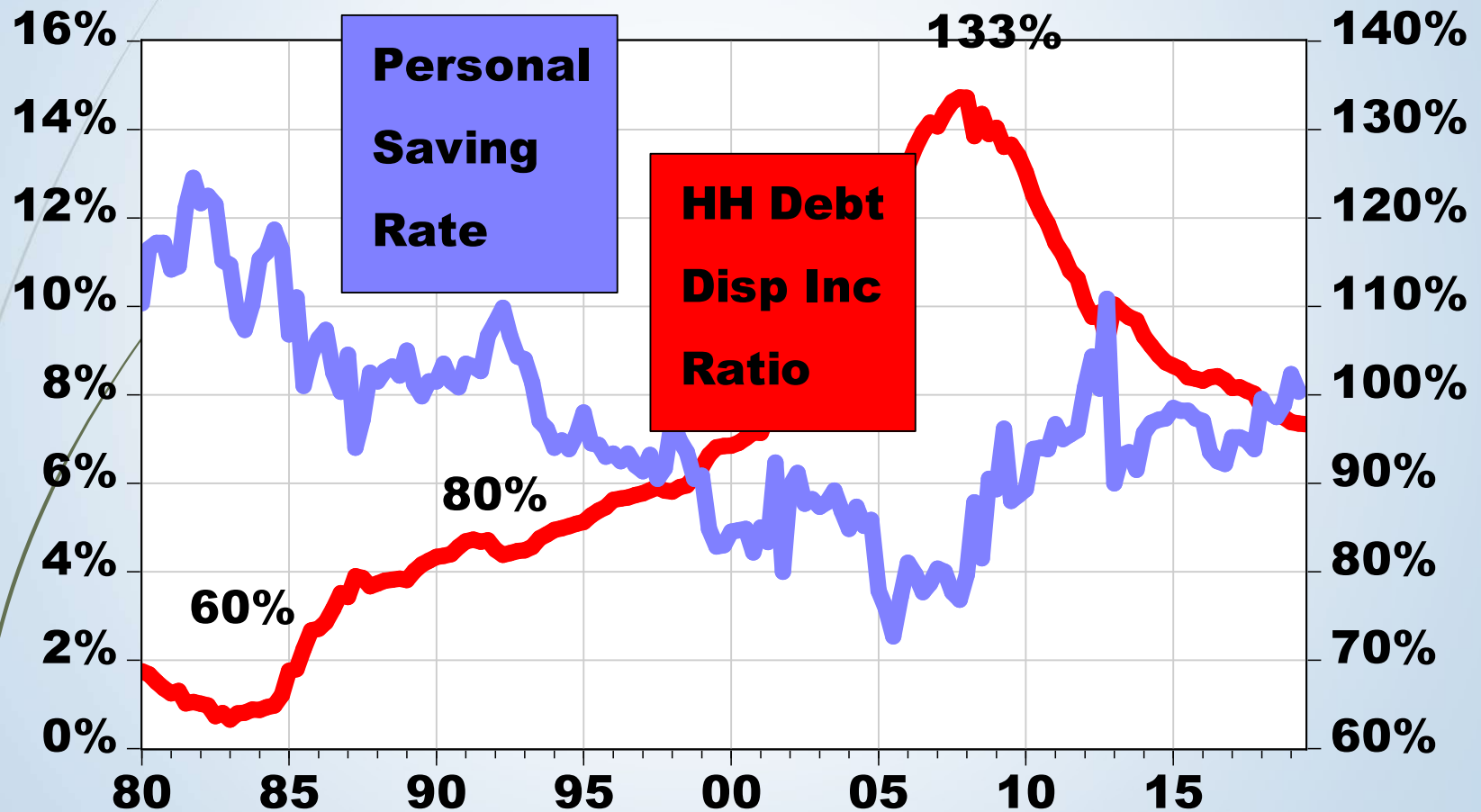
Projected growth is at 2.6% in 2019, 2.8% in 2020, and 2.7% in 2021.

Even with ongoing trade issues consumer spending remains strong.

Spending on durable goods remains robust, around 5%, particularly on motor vehicles, indicating consumers may not see hard times ahead.

Low Leverage

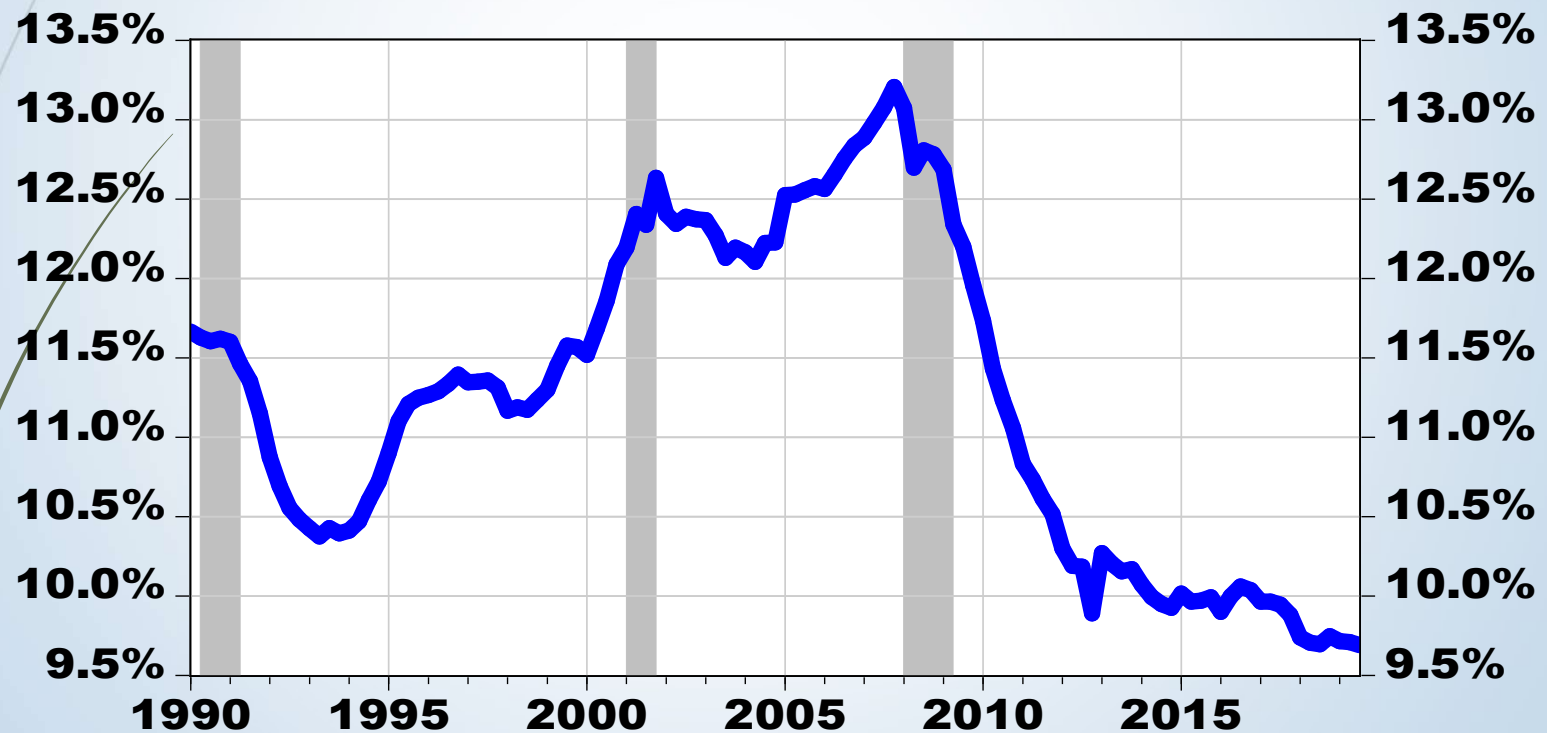
HOUSEHOLD DEBT AND SAVING RATE



Source: BEA and FED

Record Low Debt Service

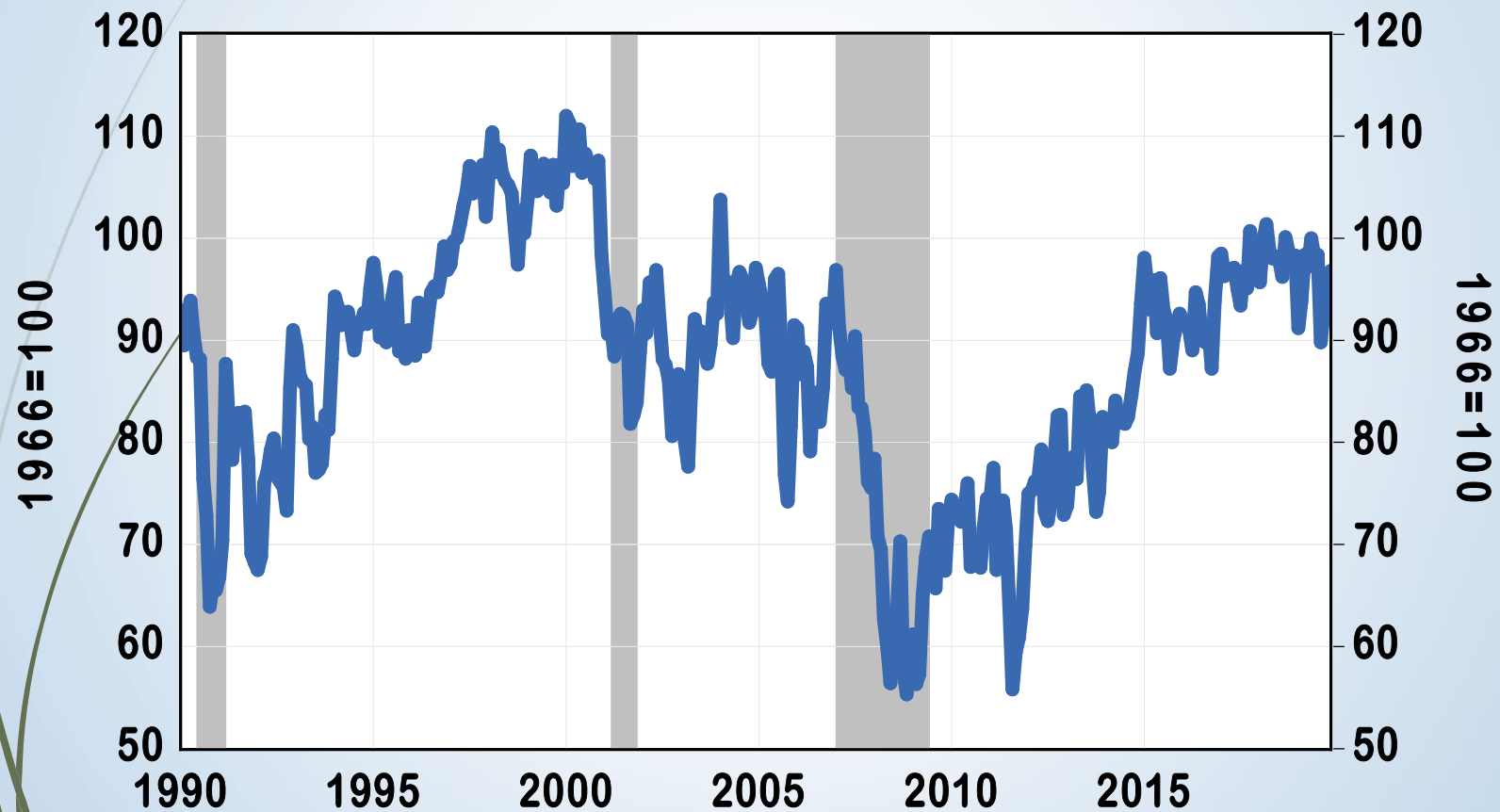
HOUSEHOLD DEBT SERVICE AS % OF DISP. PERS. INC.



Source: BEA

Consumer is Optimistic

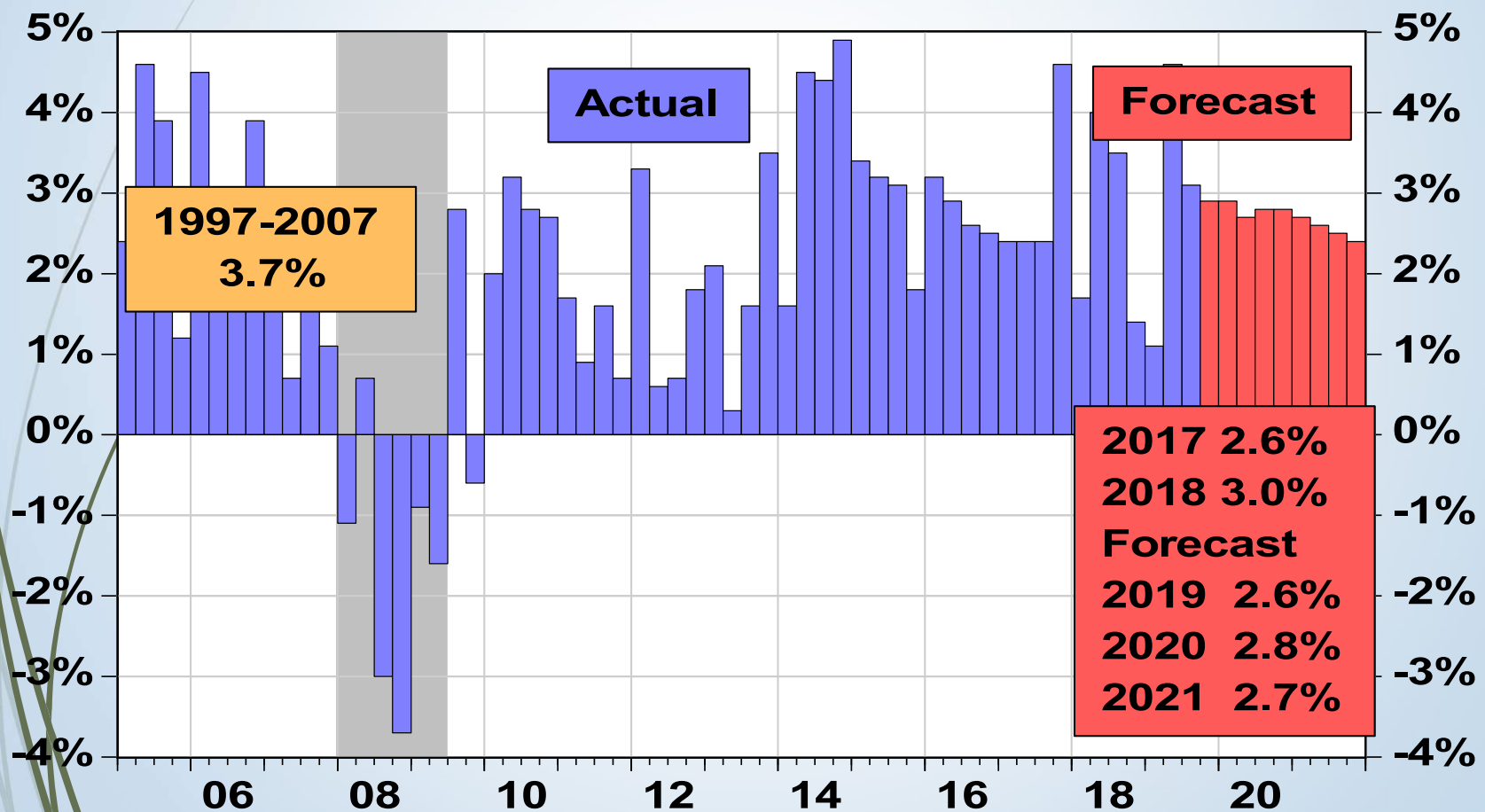
CONSUMER SENTIMENT (University of Michigan)



Sourcen: Federal Reserve Bank of St. Louis

Steady Growth Ahead

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

Business fixed investment is projected to slow from 6.4% in 2018 to 2.3% in 2019, 1.6% in 2020, but rising to 3.5% in 2021.

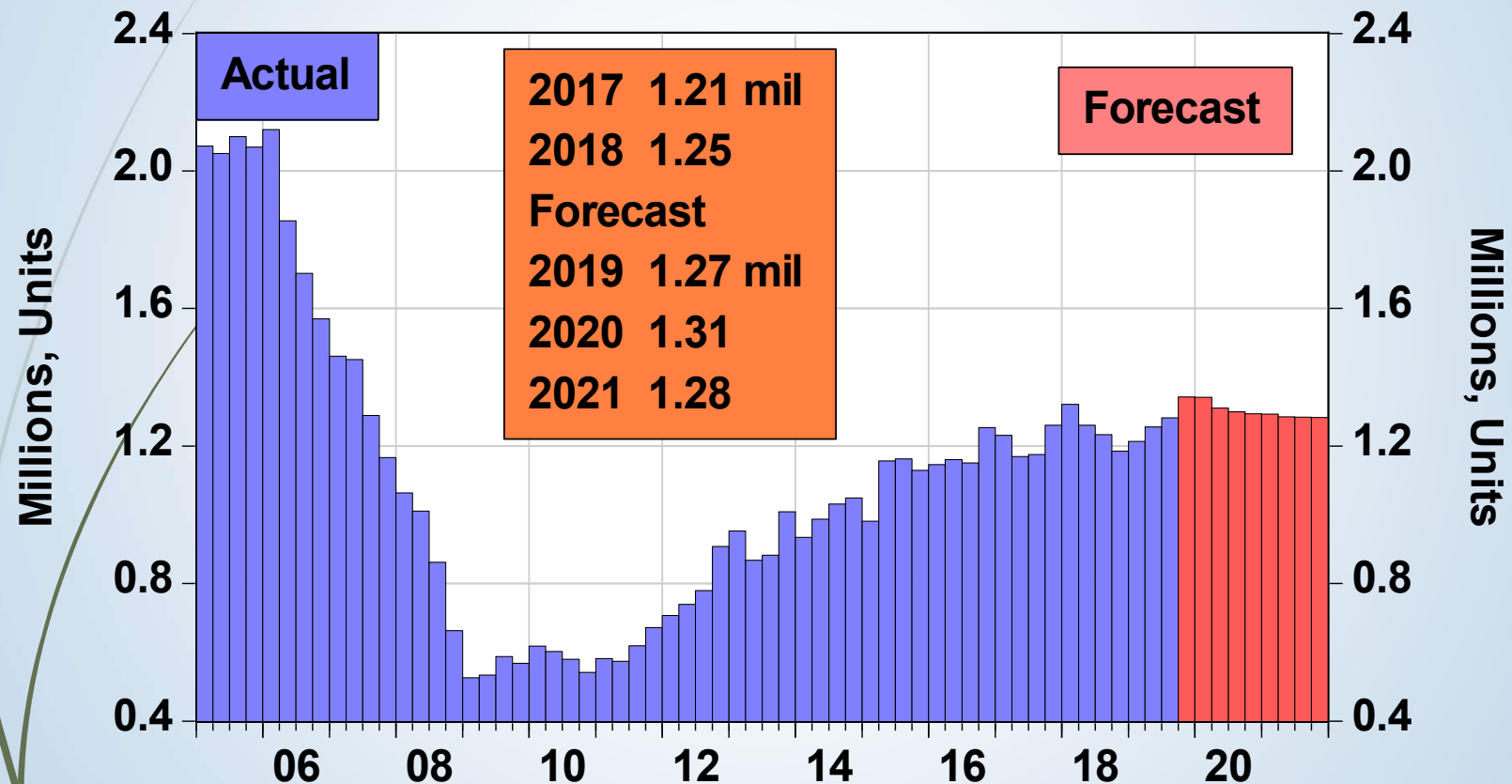
After a slowdown in housing starts they are expected to pickup primarily due to lower interest rates.

A long-term concern is the recent report indicating a very slow growth in US population. Slowest growth since the 1930s. All three components – births, deaths, immigration all contributed to slowdown.

Businesses will trim inventories in coming months after a peak in inventory investment in early 2019. Boeing's troubles factor in with the ongoing halt in deliveries.

Recovery Flattens

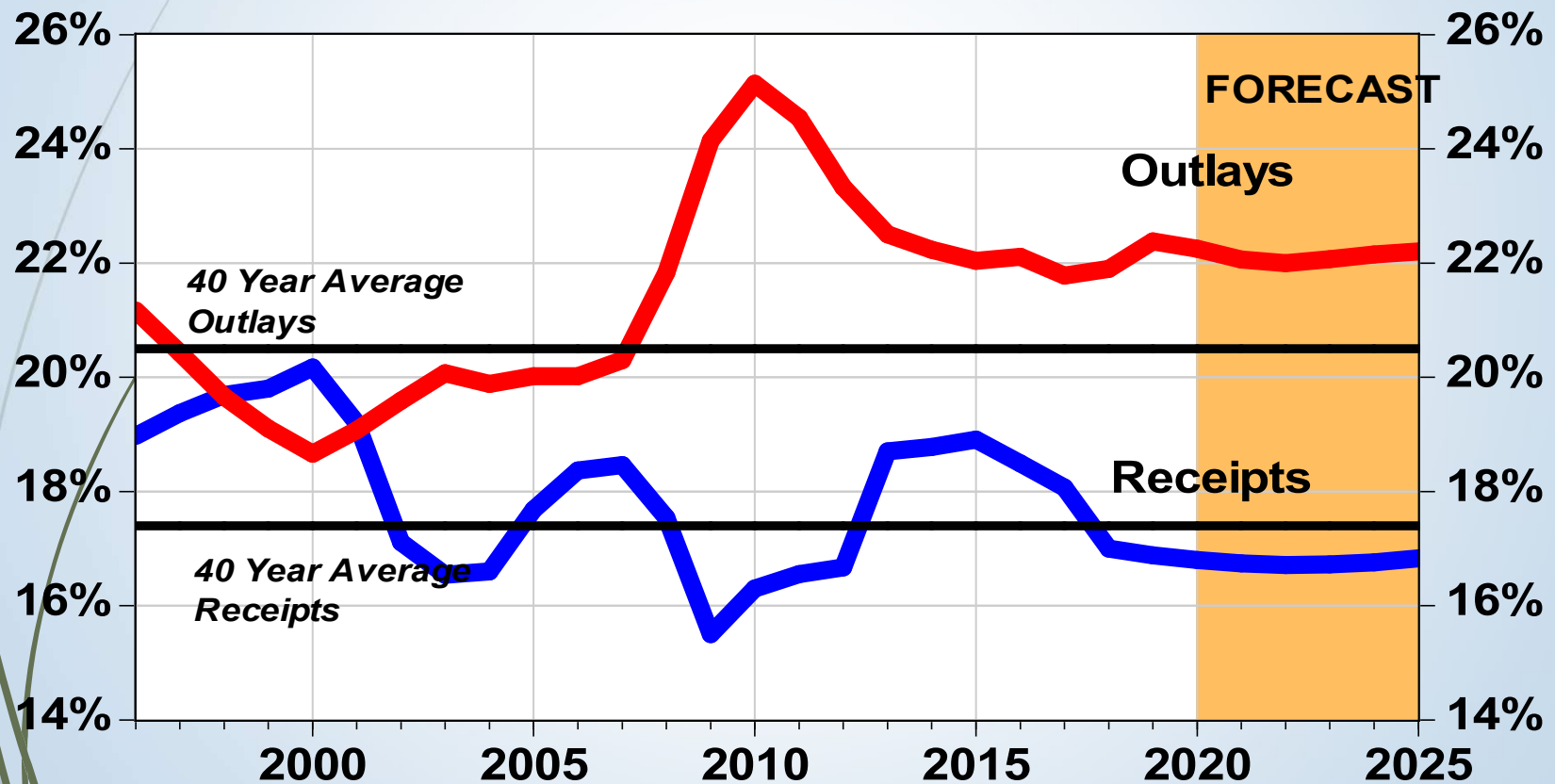
HOUSING STARTS



Source: US Census and IHS

Government Sector

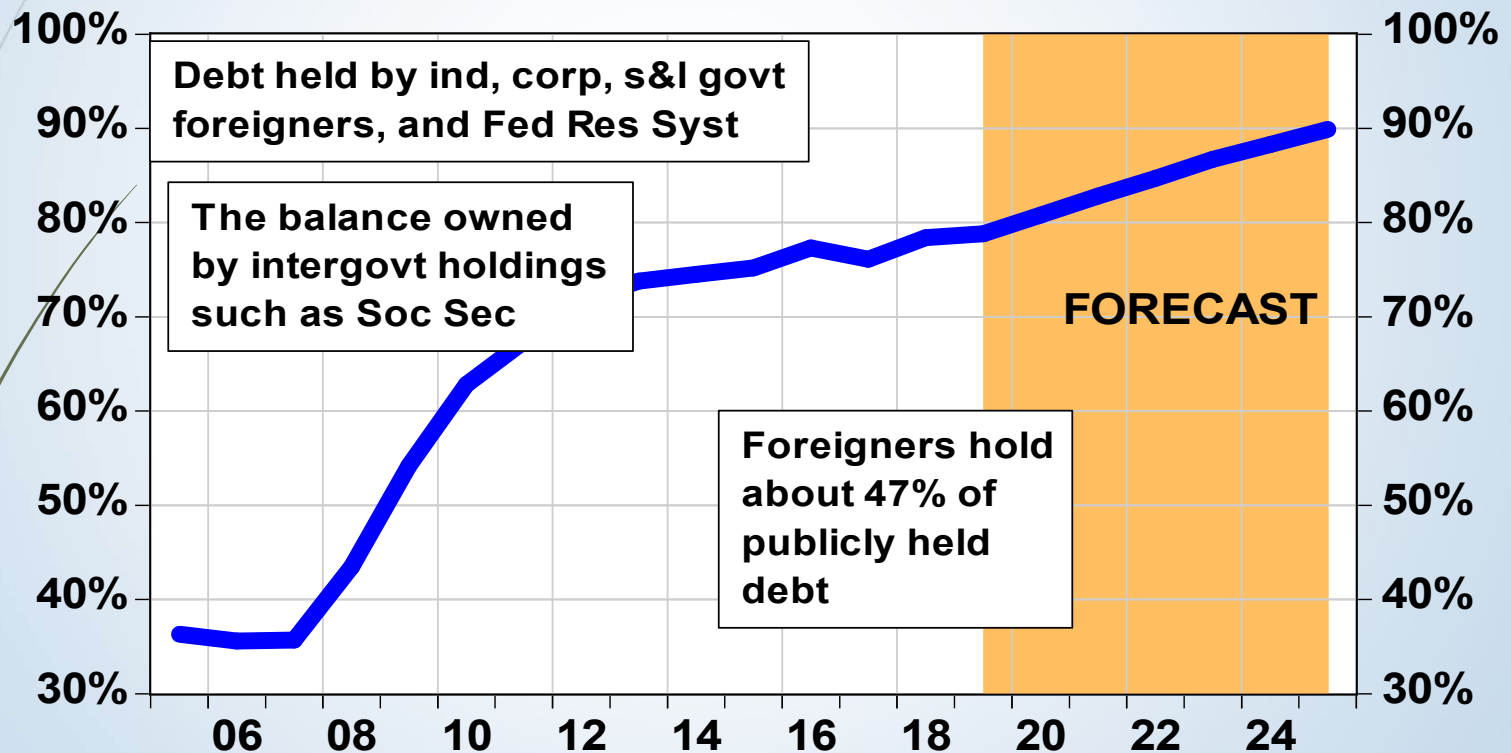
FEDERAL GOVERNMENT AS % OF GDP



BEA AND IHS

Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC AS % OF GDP



Source: IHS



The Fiscal Picture

Passage of the Bipartisan Budget Act of 2019 enacted in July implies continuing fiscal stimulus.

Tax cuts and government spending under the BA19 will add to the growth rate in 2020 but impact will fade in the later years.

Nevertheless, the federal deficit is growing both in \$s and % of GDP. The deficit was 3.7% of GDP in 2017, rising to 4.9% in 2018 and 5.5% in 2019. It will remain above 5% through 2029.

In dollars, the deficit will rise to more than a trillion in 2020 and to \$1.5 trillion by 2025.

The publicly-held debt now about 80% of GDP will rise to more than 90% by 2025.



Foreign Sector

The strong \$, weak global growth, and the trade war have all put downward pressure on net exports.

Looking ahead, the \$ is expected to rise 5-6% by end of 2023.

Slow global growth in China, Germany, the UK and others is drag.

This forecast includes all scheduled tariffs but not the recent phase 1 agreement with China.



Employment & Unemployment

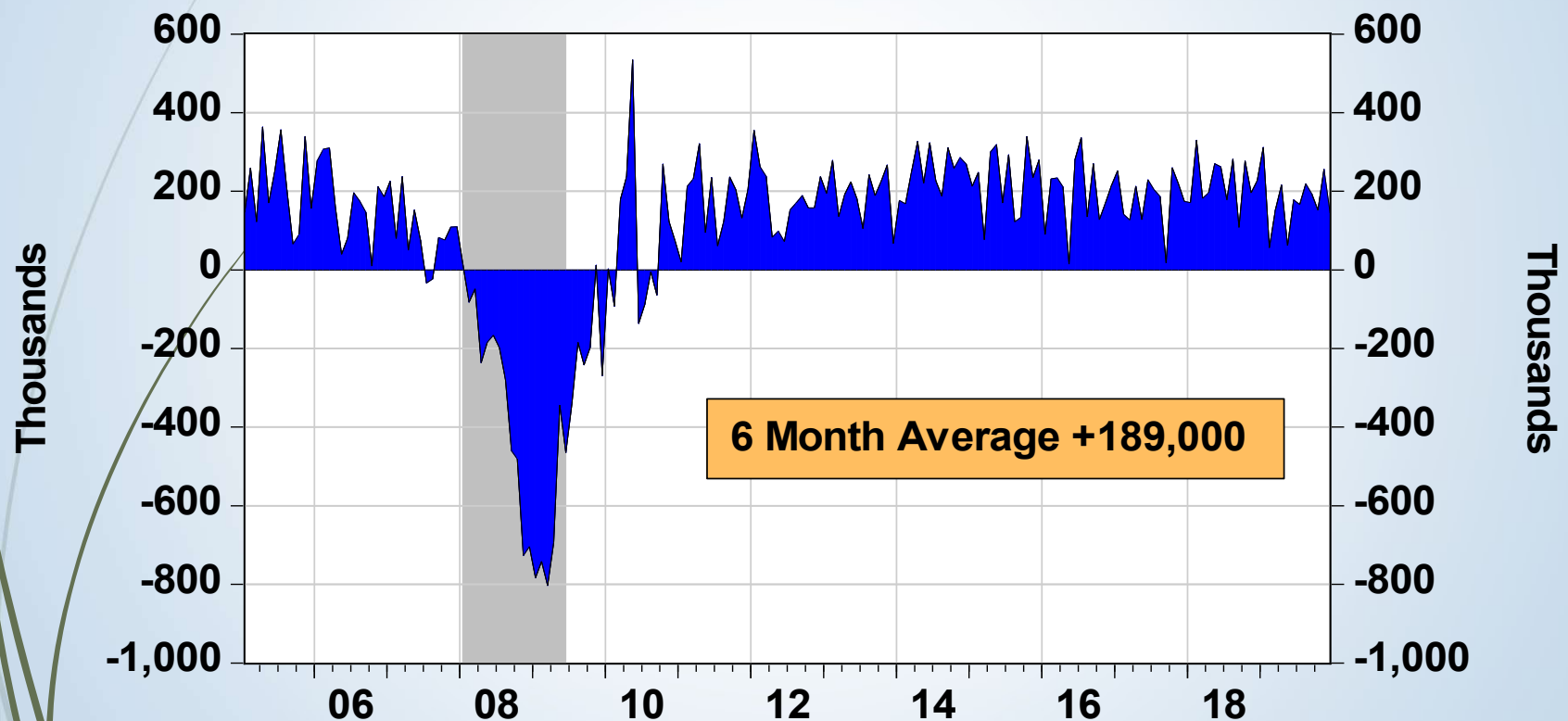
Employment growth is slowing from 1.6% in 2019 to 1.2% in 2020 and 0.8% in 2021.

At our last meeting, six-month average monthly change was 220,000 per month and is now 189,000 per month. December was 145,000. The unemployment rate will bottom out at 3.5%.

The labor force participation rate will peak at 63.3% in mid-2020. As “discouraged worker” effects fade after mid-2020, they project a return to a trend decline in labor force participation rate driven primarily by population aging.

Employment Growth

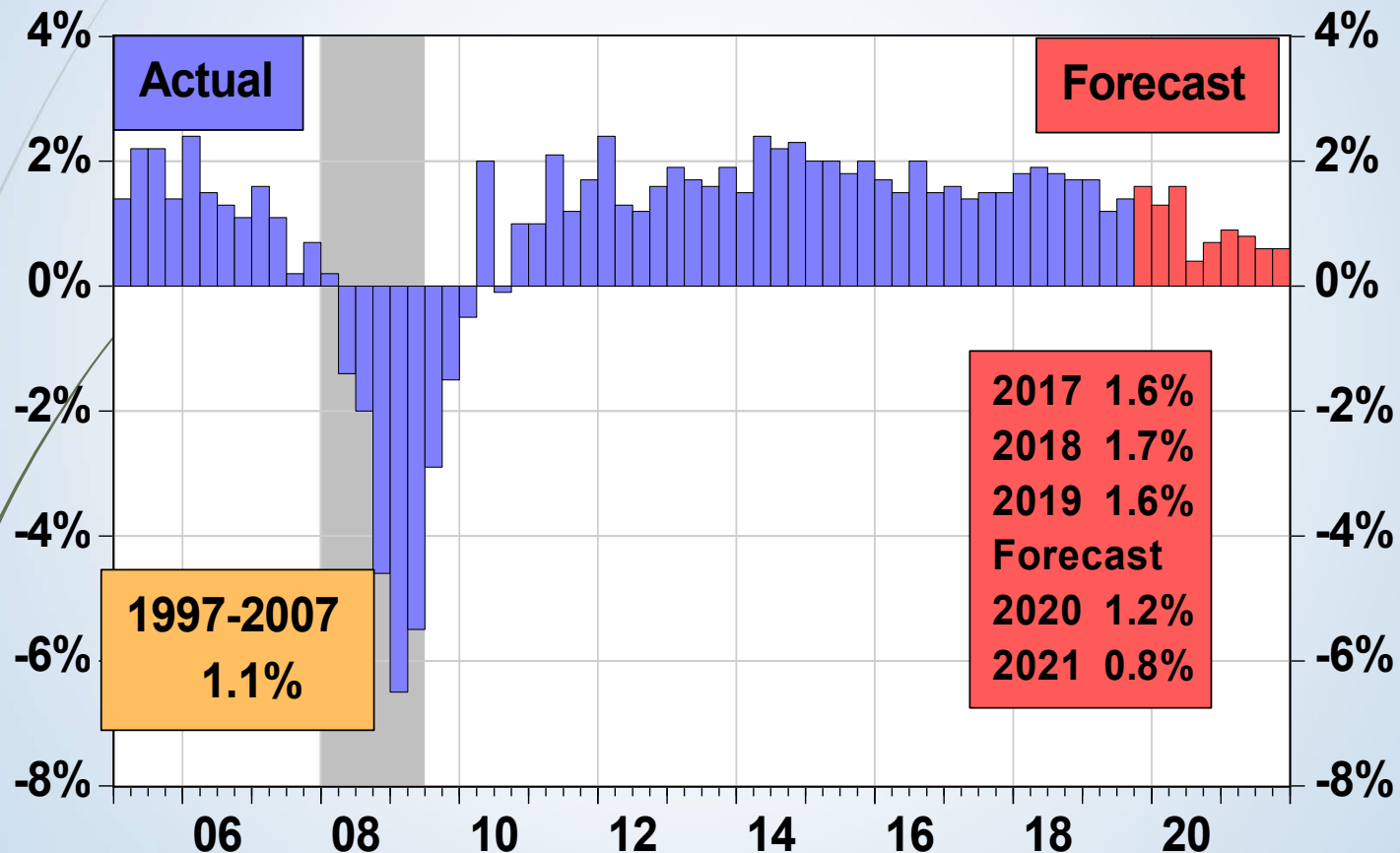
CHANGE IN NONFARM EMPLOYMENT



Source: BLS

Future Job Growth Slowing

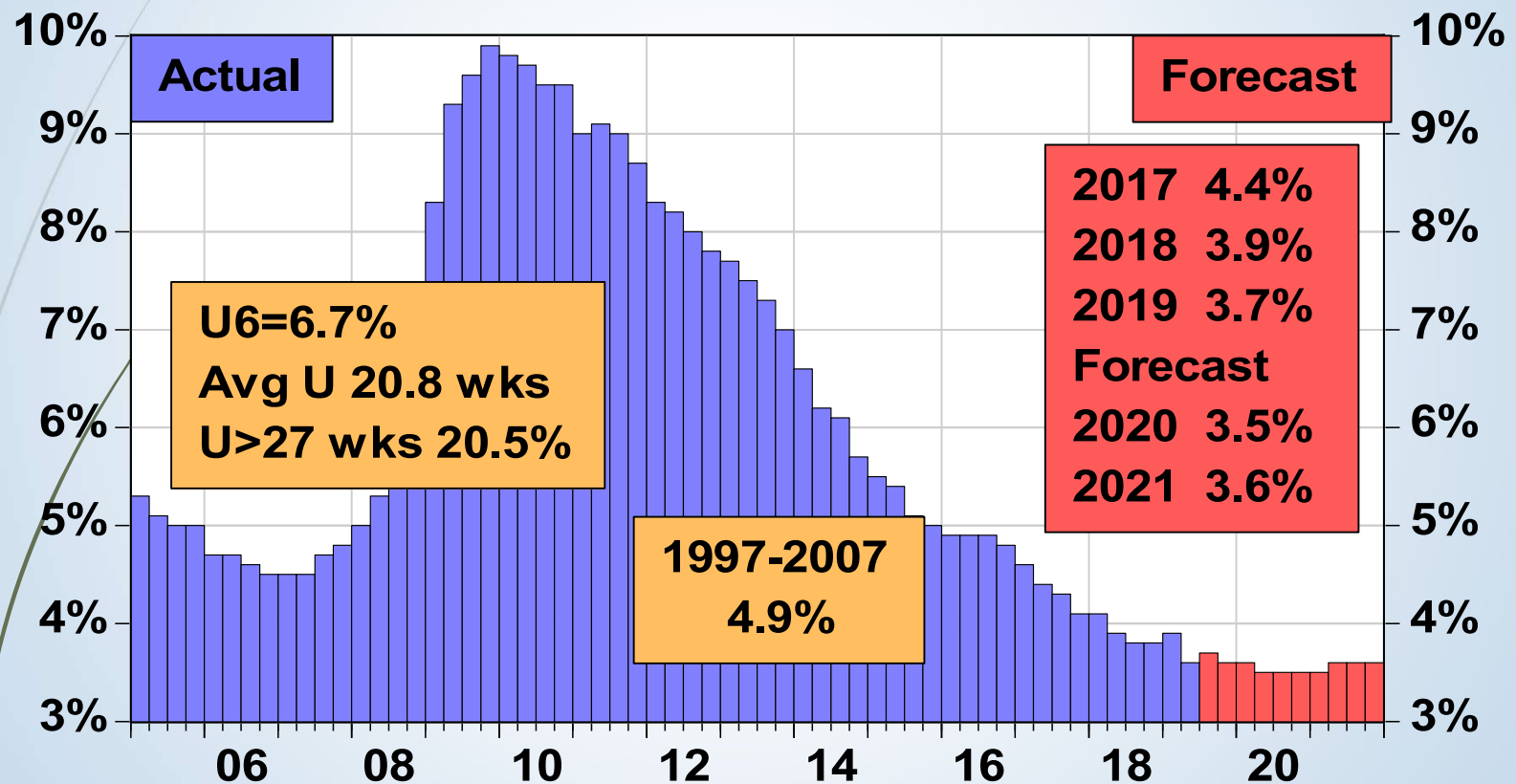
NONFARM EMPLOYMENT



Source: BLS and IHS

Low U3 Unemployment

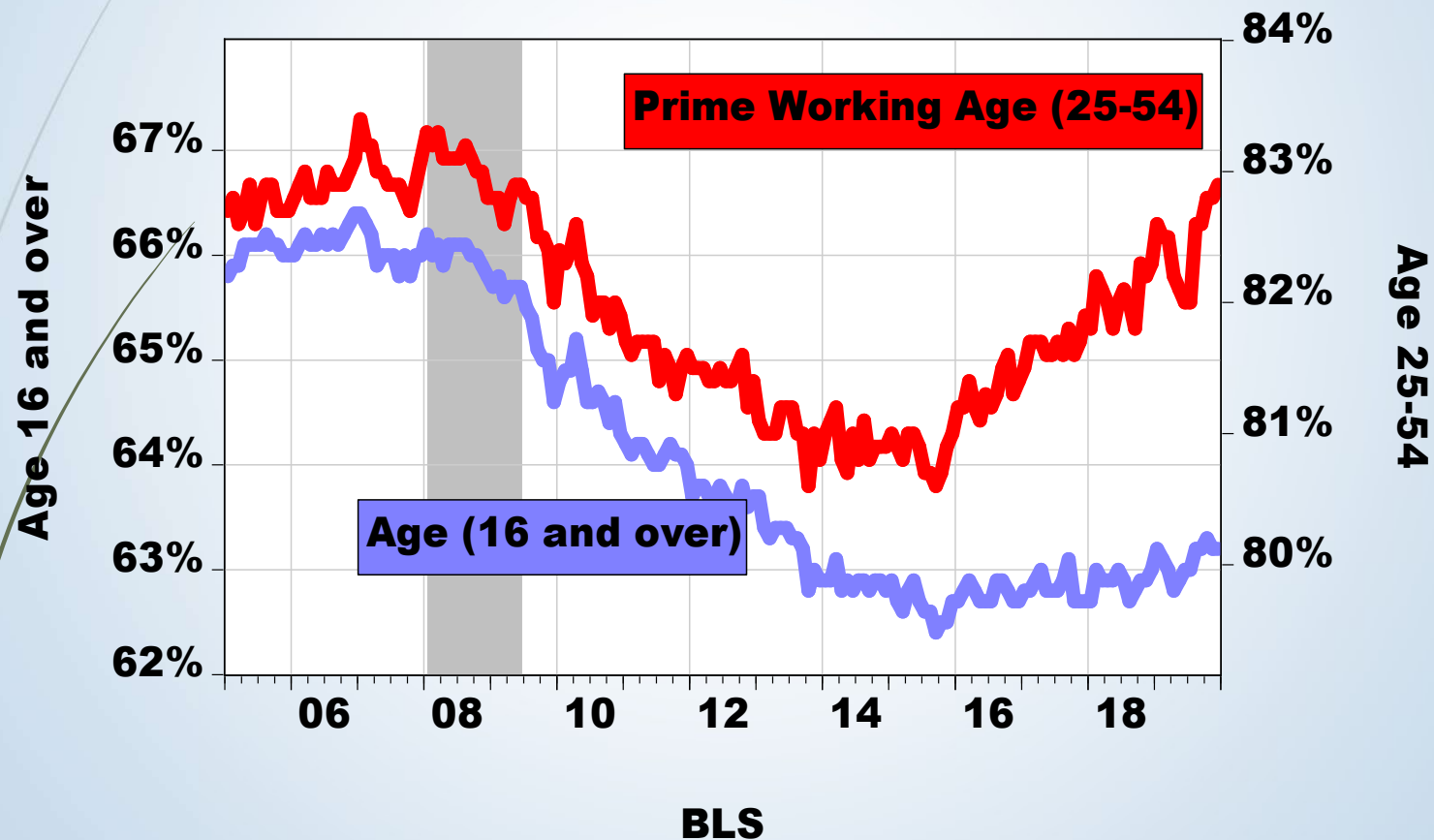
UNEMPLOYMENT RATE



Source: BLS and IHS

Increase Prime Working Age

LABOR FORCE PARTICIPATION



Job Openings > Unemployed

LABOR MARKET CONDITIONS



Source: BLS



Inflation & Interest Rates

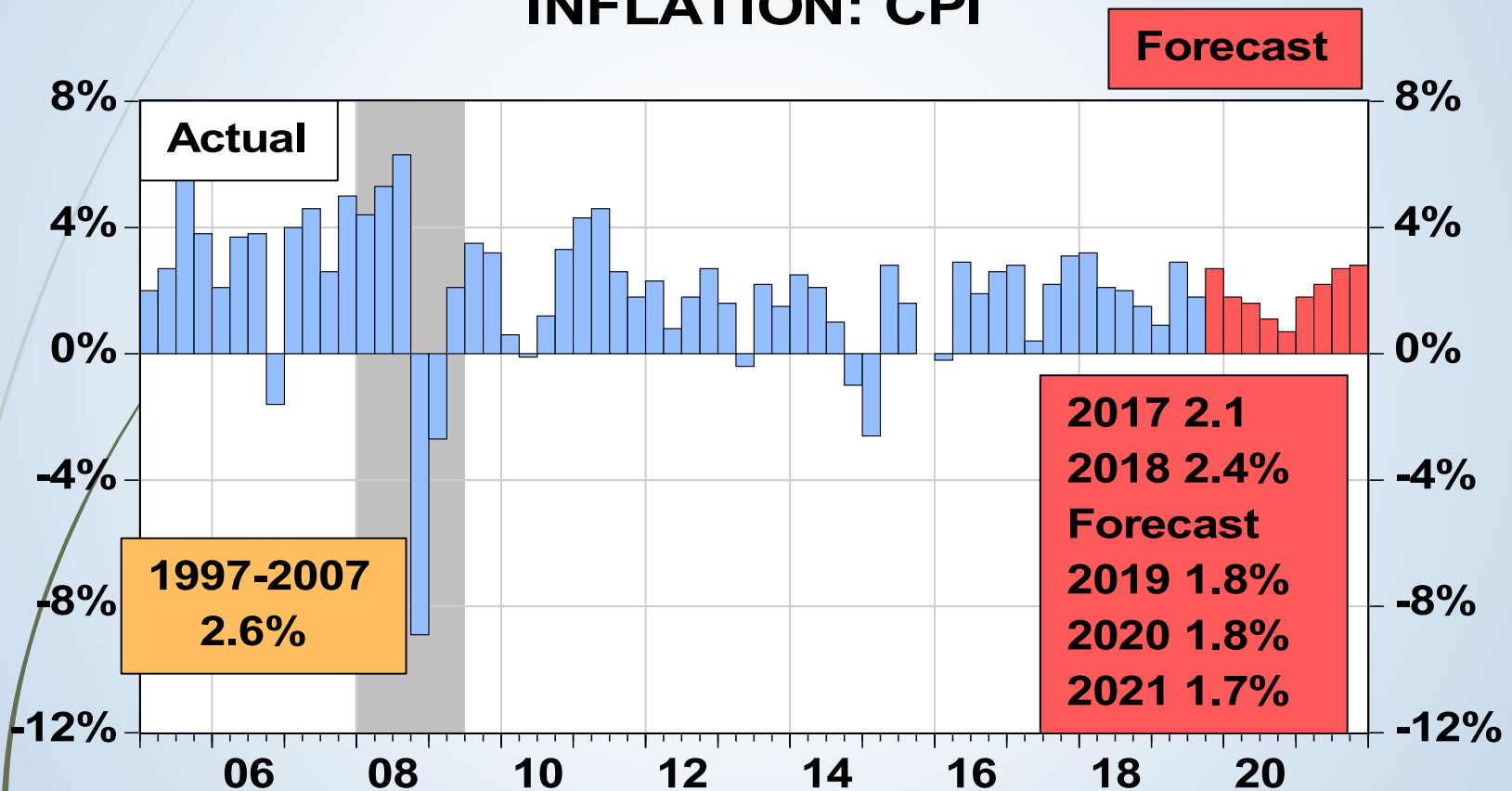
The Fed, as expected, cut the federal funds rate by a quarter point to a range of 1.75% to 2% in September.

IHS expects that the FED rate cuts are on hold. They expect a quarter-point rate HIKE in June of 2021. This will begin the reversal of the 2019 rate cuts as the FOMC sees a strong economy with inflation rising to 2% on a sustained basis.

The 10-year T note has been trading below 2% as of late. IHS expects Treasury yields to firm. They expect the 10-year Treasury rate to return to 3% by late 2022.

Still Very Low

INFLATION: CPI



Source: BLS

Rising Interest Rates

10 YEAR TREASURY NOTE



Source: FED

IHS MARKIT FORECAST

JANUARY 2020

Variable	2017	2018	2019	2020	2021
GDP	2.2%	2.9%	2.3%	2.1%	2.1%
Recession Probability 25% in next 12 months <10%					
NA Emp	1.6%	1.7%	1.6%	1.2%	0.8%
Oil(Brent)	\$55	\$71	\$64	\$58	\$52
Housing	1.21	1.25	1.27	1.31	1.28
CPI	2.1%	2.4%	1.8%	1.8%	1.7%
Un Rate	4.4%	3.9%	3.7%	3.5%	3.6%



Wells Fargo Forecast January 2020

	2019	2020	2021	
GDP	2.3%	1.9%	2.2%	
UNEMP. RATE	3.7%	3.6%	3.7%	
CPI	1.4%	1.9%	1.9%	
10-YR T Note	2.0%	2.15%	2.33%	



IHS Pessimistic Outlook Recession 25% Probability Next 12 Months <10%

Broad-based loss of confidence and growing risk aversion leading to drop in investment and consumer spending ends expansion in 135th month starting 2020Q4 and ending 2021Q2.

3 quarter recession GDP drops a modest 1.0% in 2021 and unemployment peaking at 5.6% in 2022.

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



RECESSION PROBABILITIES

- **2008 JANUARY 40% First month of R**
- **2009 JUNE 20% Last month of R**
- **2018 JANUARY 25%**
- **2019 MARCH 30%**
- **2019 JUNE 35%**
- **2020 JANUARY 25% Note Downgrade**



Causes of Recessions

Demand Side or Supply Side

- 1. FED tightens to restrain inflation 1950s, 1960s, 1980-84**
- 2. Bubble bursts (Dot-com & Housing) 2001 and 2008-2009**
- 3. Supply shock (oil prices) 1974**
- 4. Loss of business and consumer confidence 2020???**



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

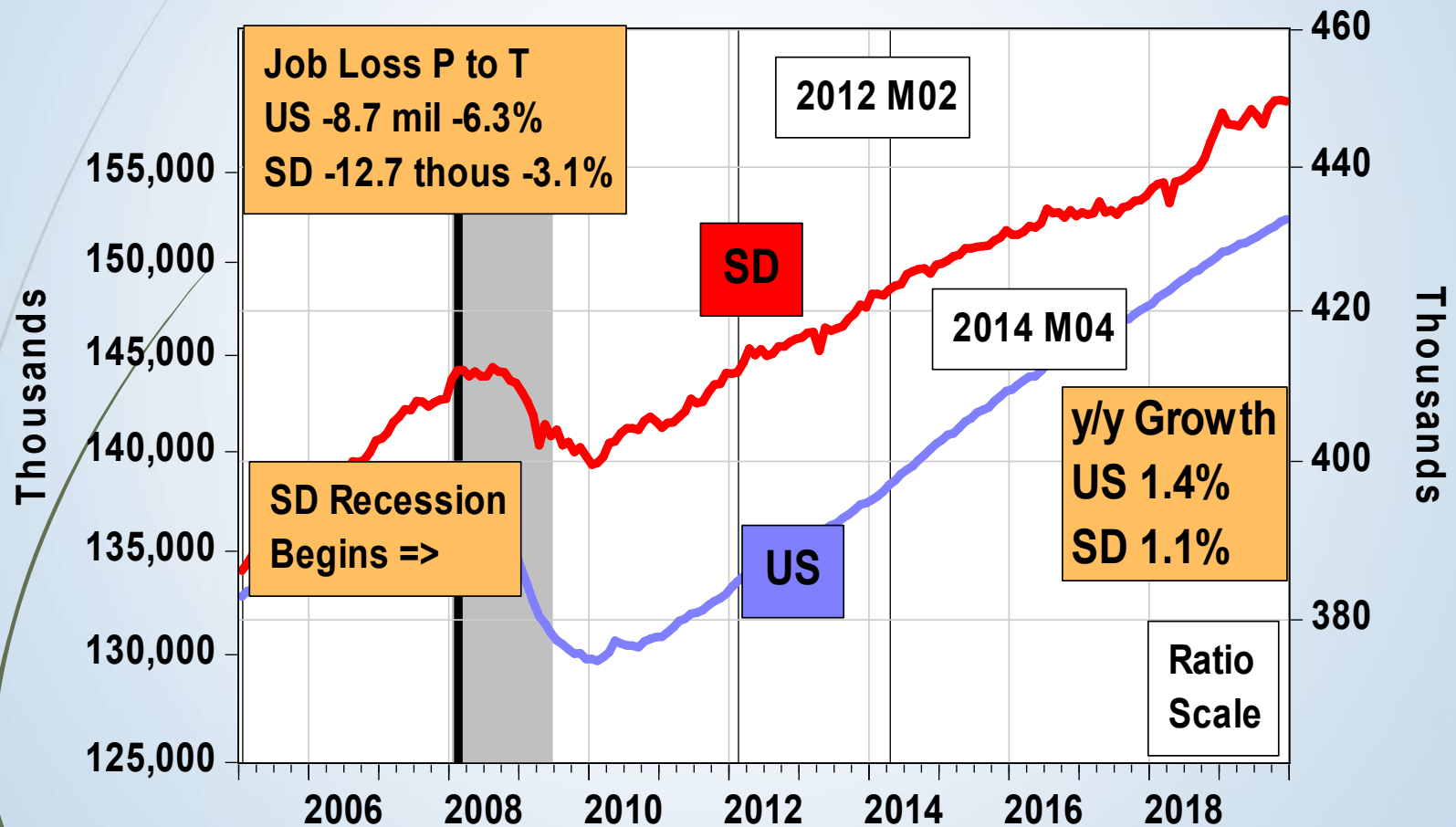
Real nonfarm personal income

Taxable sales

Leading indicator

Pretty Good Growth

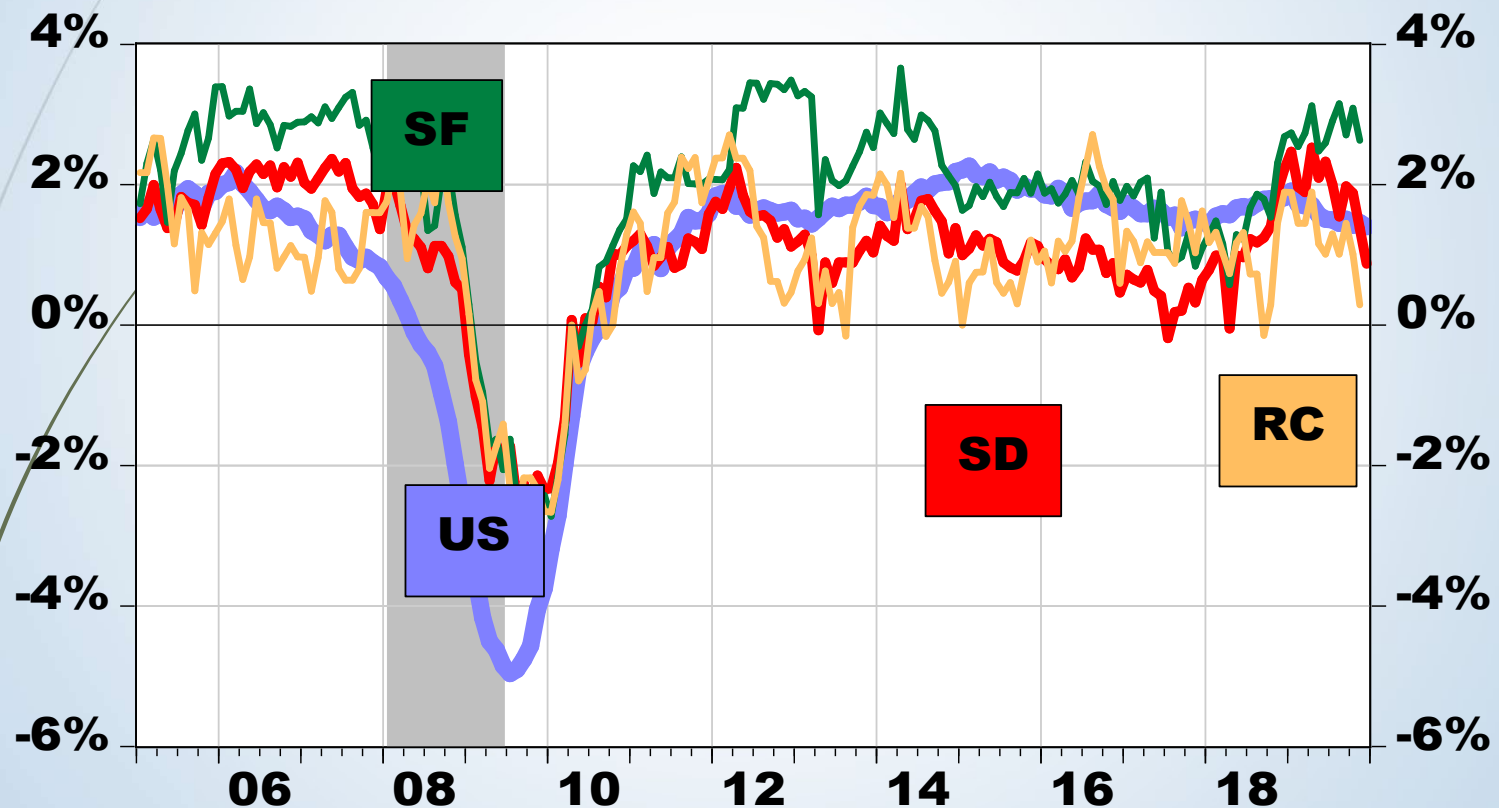
NONFARM EMPLOYMENT



Source: BLS

Divergence SF+

NONFARM EMPLOYMENT



Source: BLS

ECONOMY AT A GLANCE

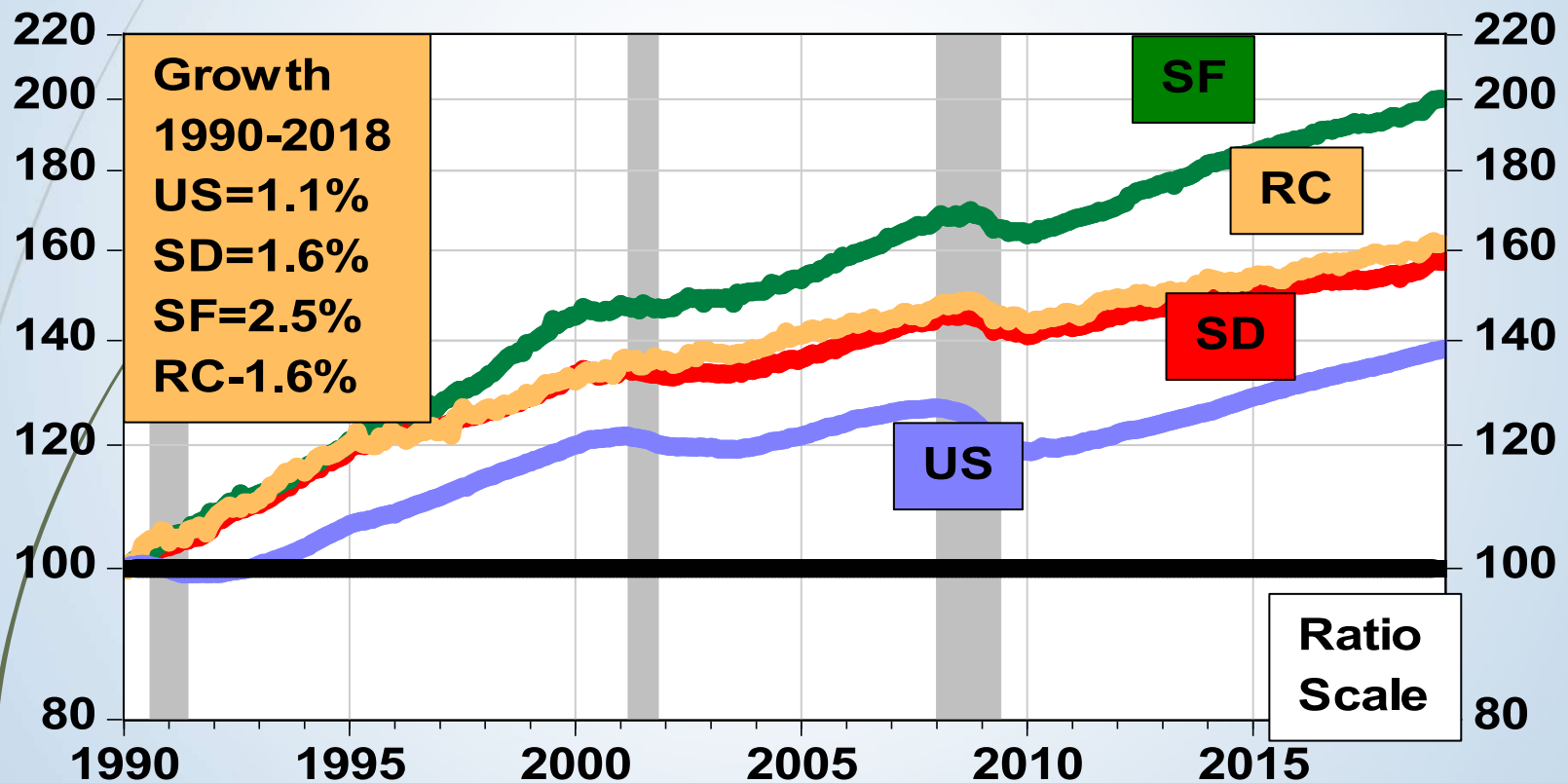
(Nonfarm Employment Y/Y)

November 2019

INDUSTRY	SD	SF	RC
Total NonFarm	1.4%	2.6%	0.3%
Min,log,const	3.8%	14.9%	0.0%
Manufacturing	0.4%	0.0%	3.6%
Trade,tran,util	1.7%	-0.9%	4.3%
Information	-1.8%	0.0%	-12.5%
Finance	0.0%	0.0%	0.0%
Prof,business	1.8%	1.9%	3.5%
Educ,health	1.8%	7.3%	2.5%
Leisure,hosp	1.0%	1.3%	-11.5%
Other services	4.2%	1.7%	2.9%
Government	0.4%	1.4%	0.9%

SF Outpaces the Rest

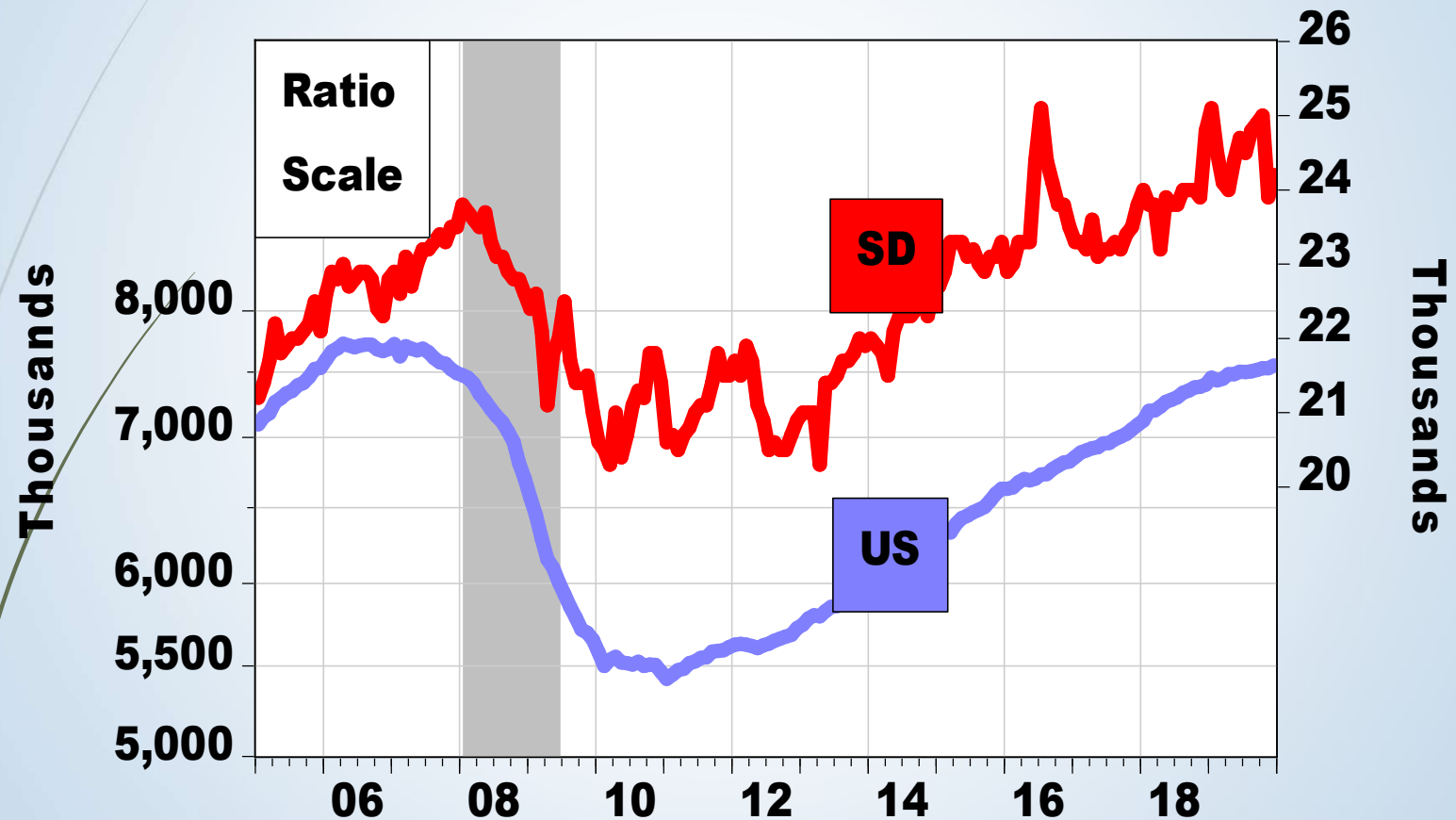
NONFARM EMPLOYMENT



Source: BLS

Volatile

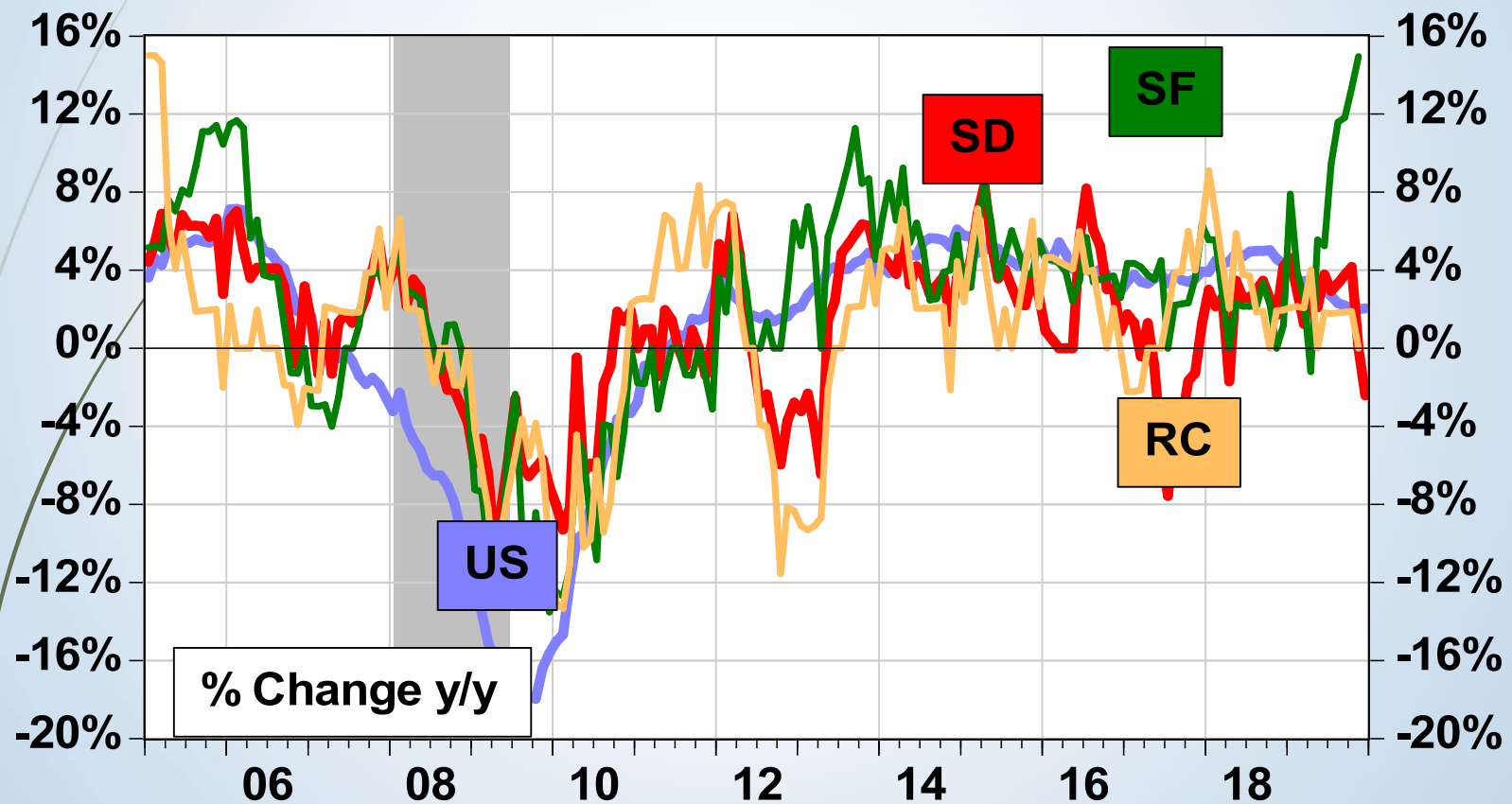
CONSTRUCTION EMPLOYMENT



Source: BLS

SF Growth!!!

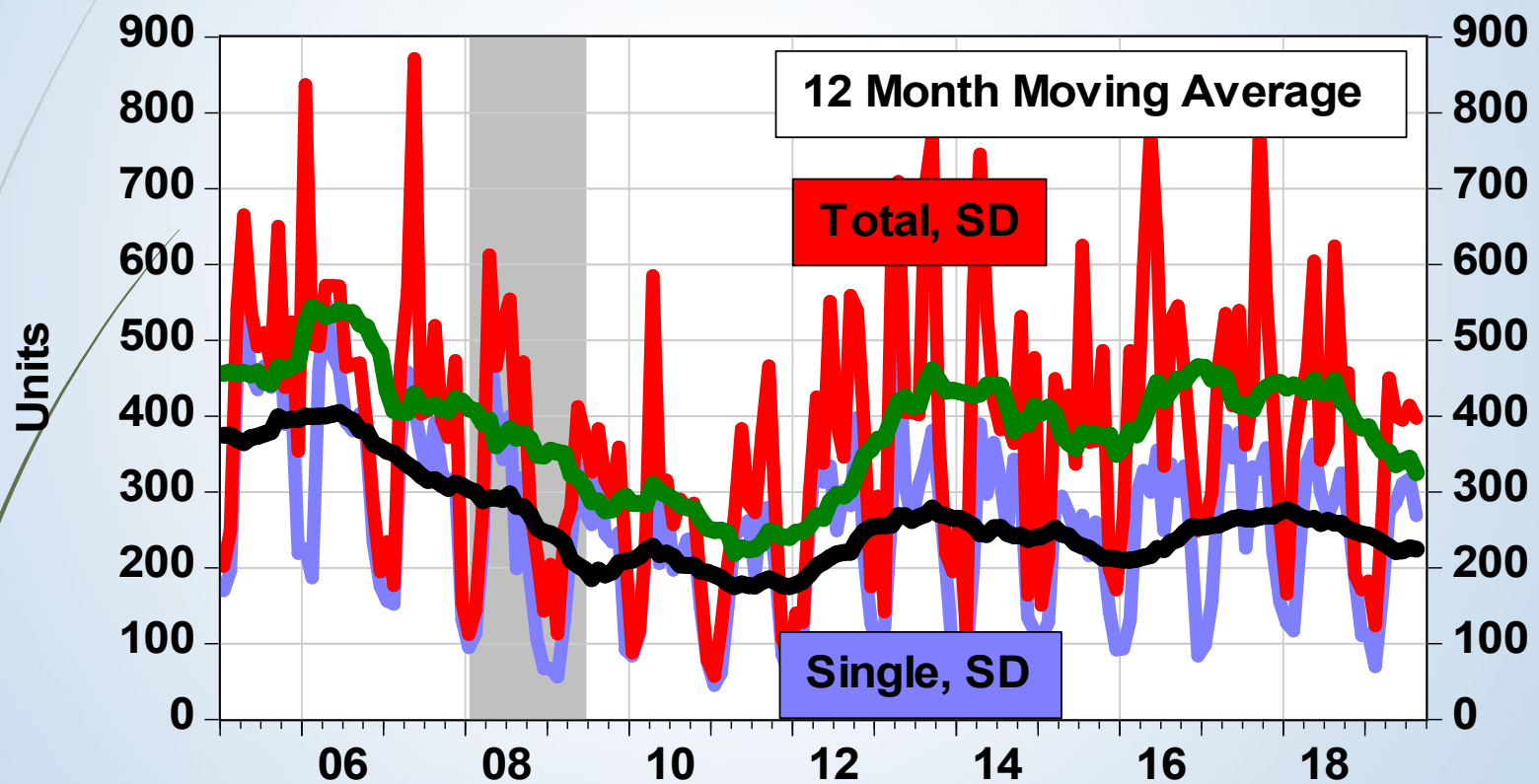
CONSTRUCTION EMPLOYMENT



Source: BLS

Small Decline

SD Building Permits, Total & Single

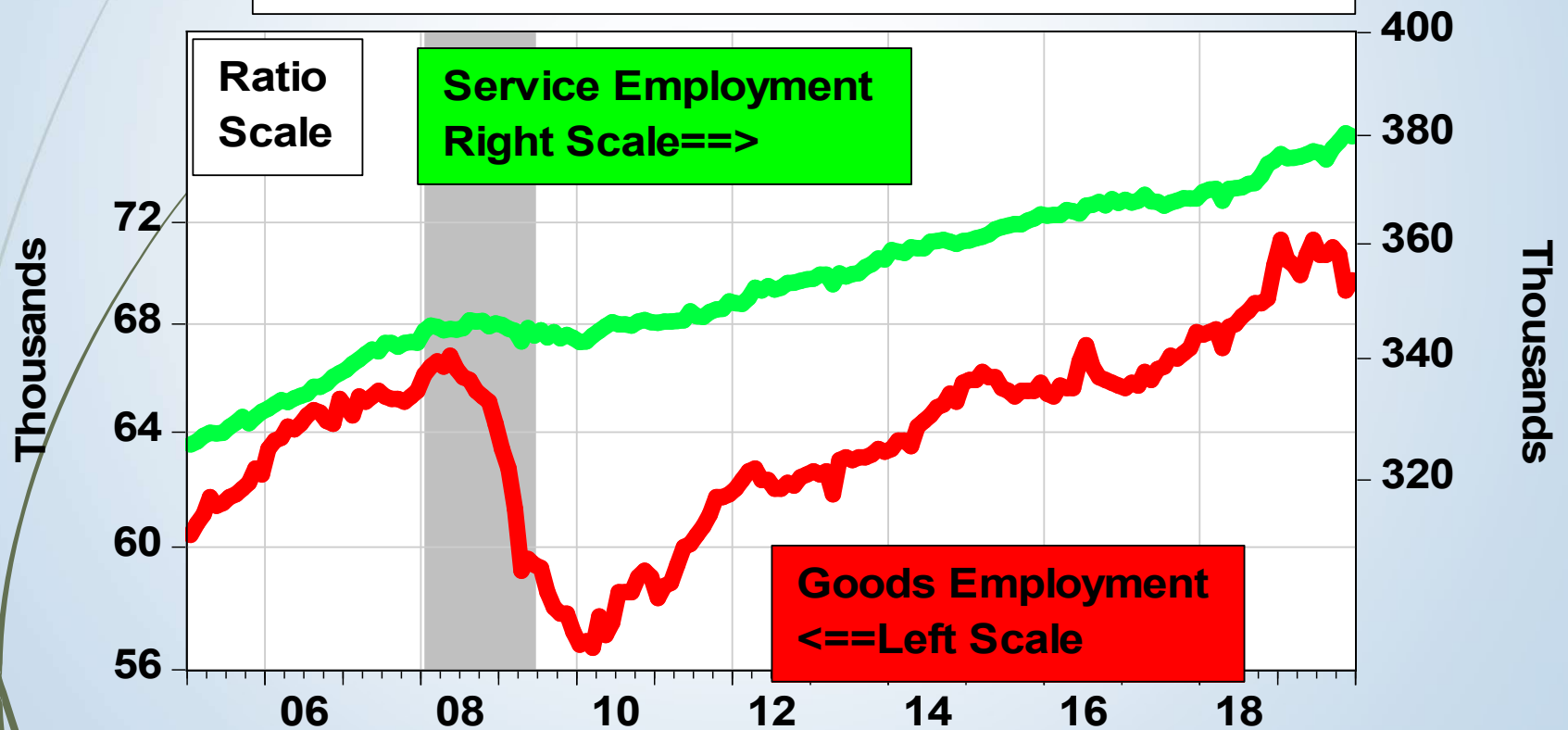


Source: Census Bureau

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

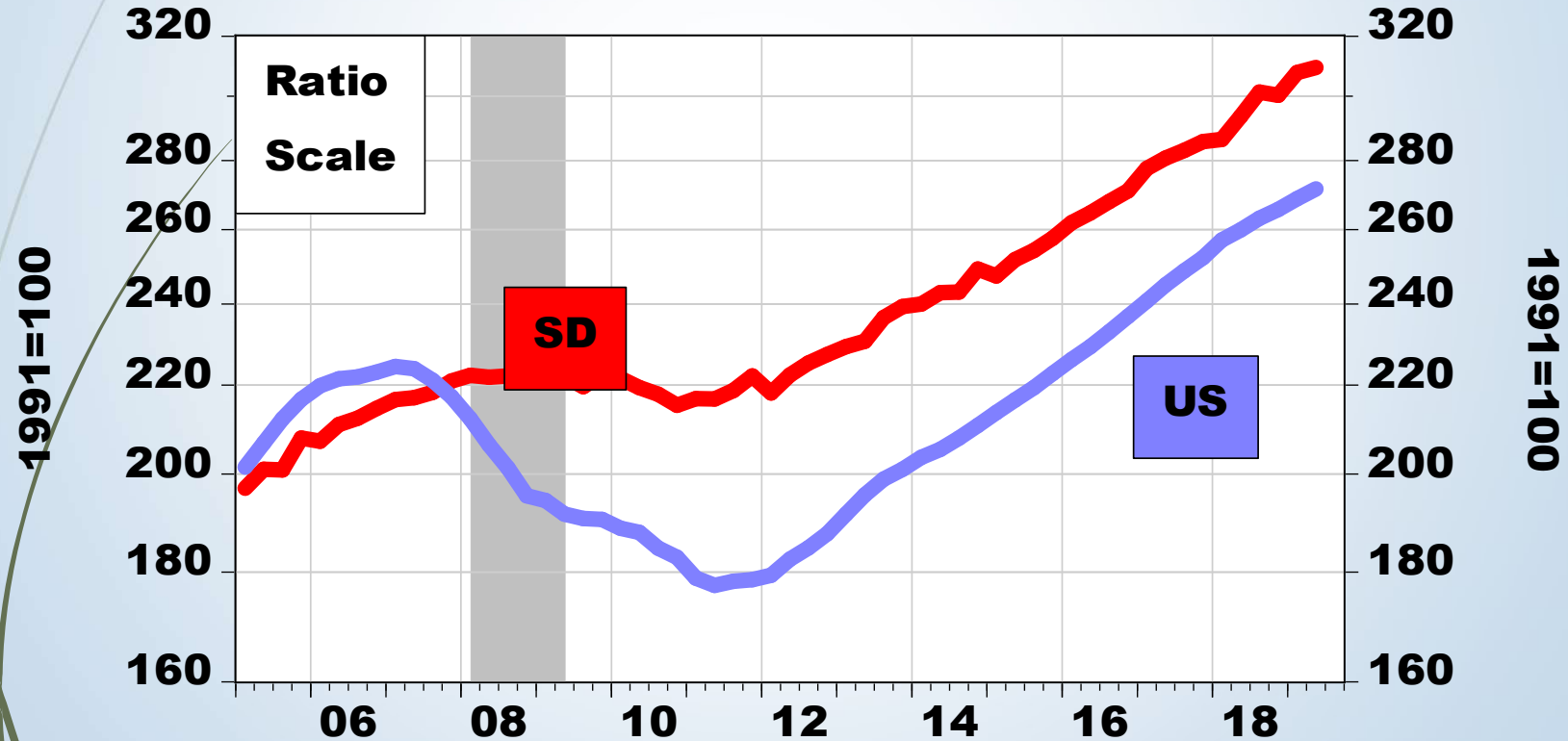
Goods-Producing = Manufacturing+Construction



Source: BLS

SD Peaked Later and Decline Less Severe

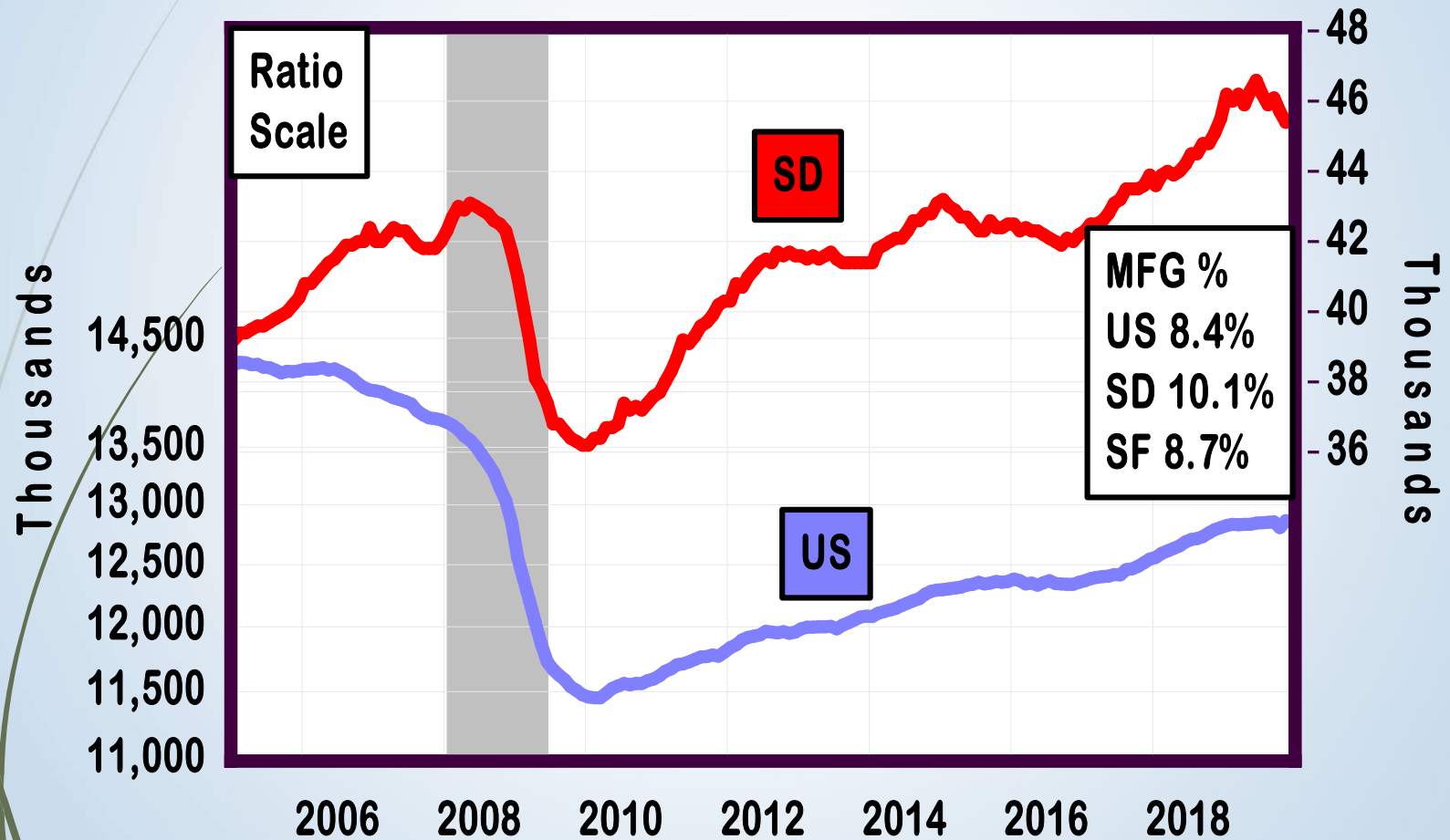
House Price Index



Source: FHLB

A Little Decline

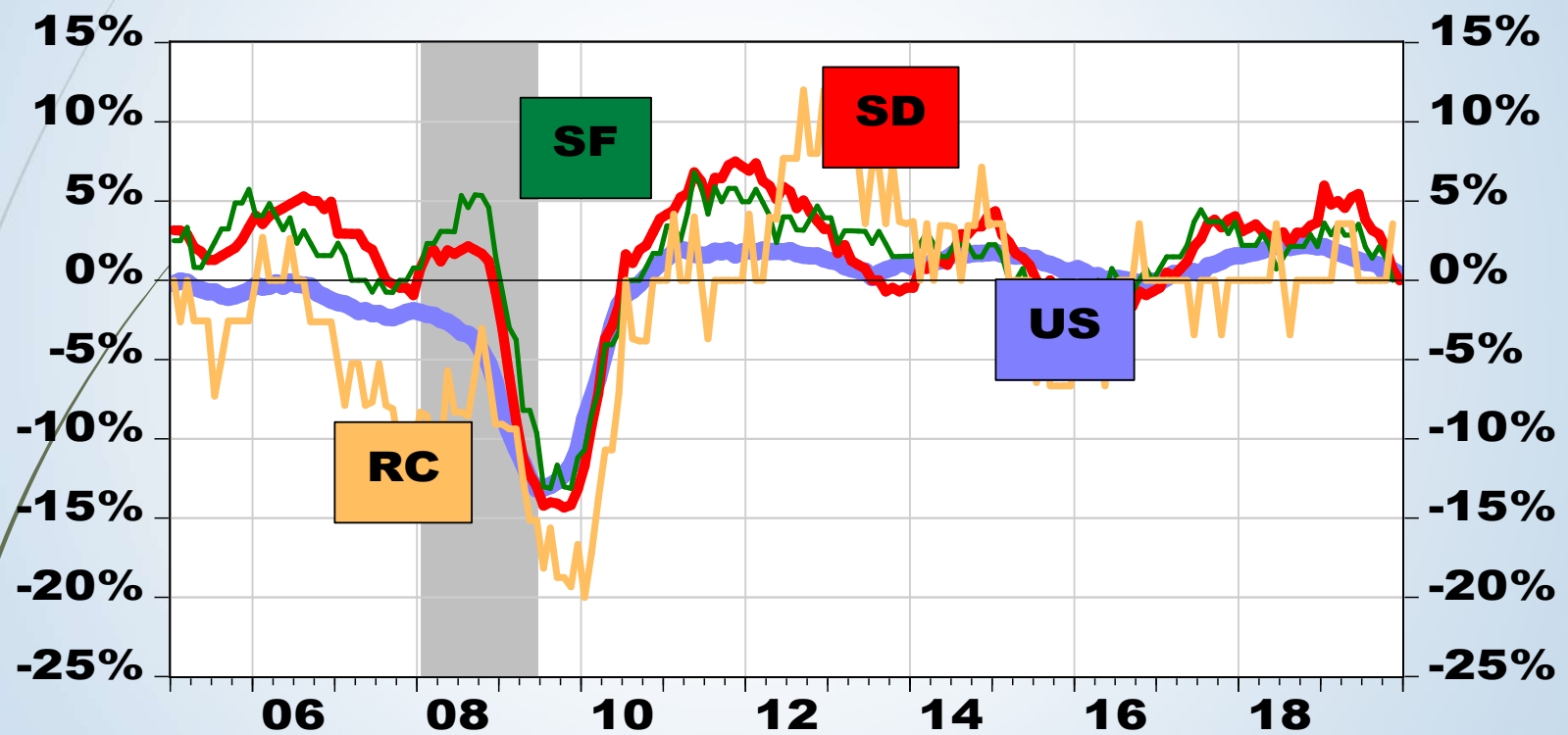
MANUFACTURING EMPLOYMENT



Source: BLS

All Slowing

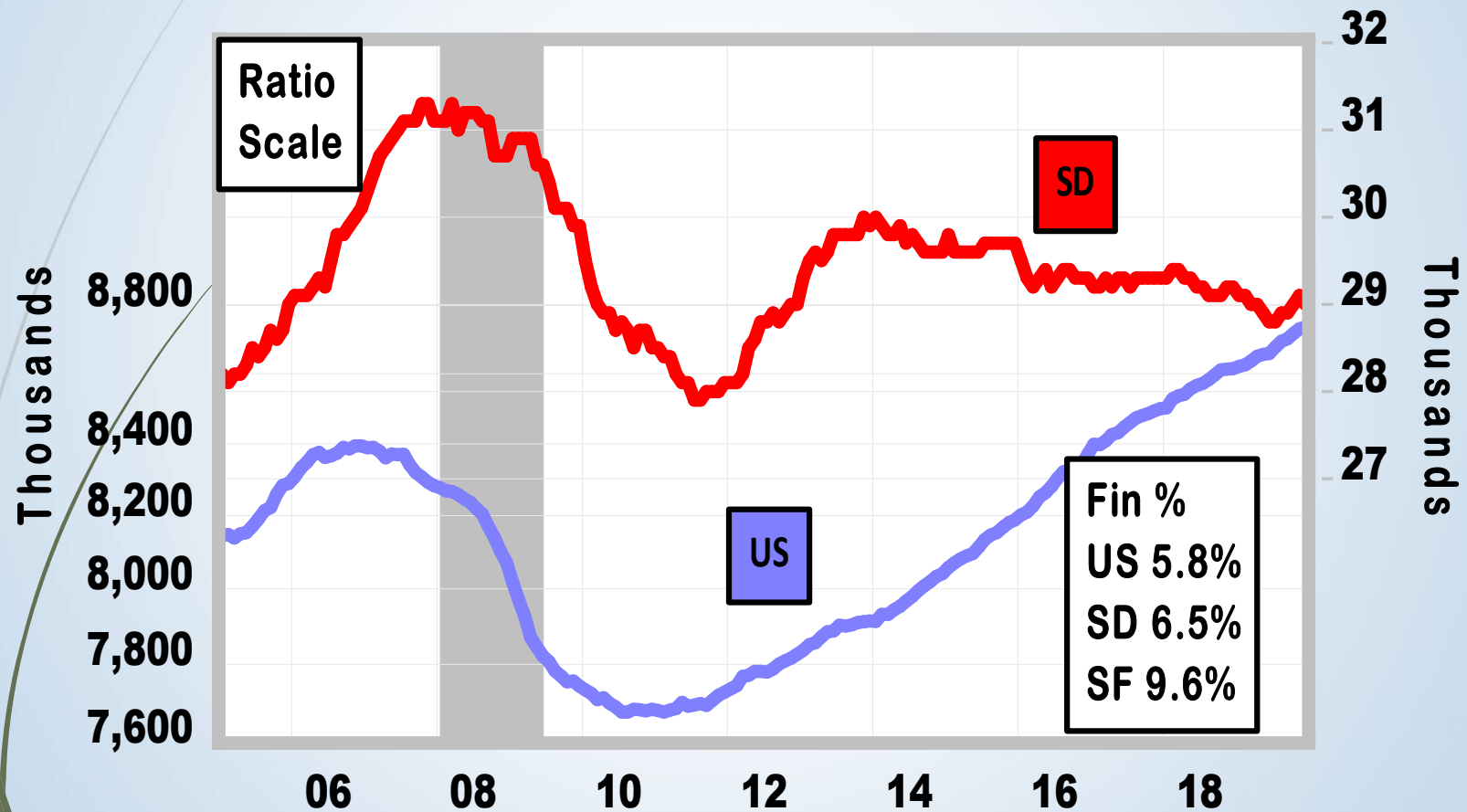
MANUFACTURING EMPLOYMENT



Source: BLS

SD Down Trend

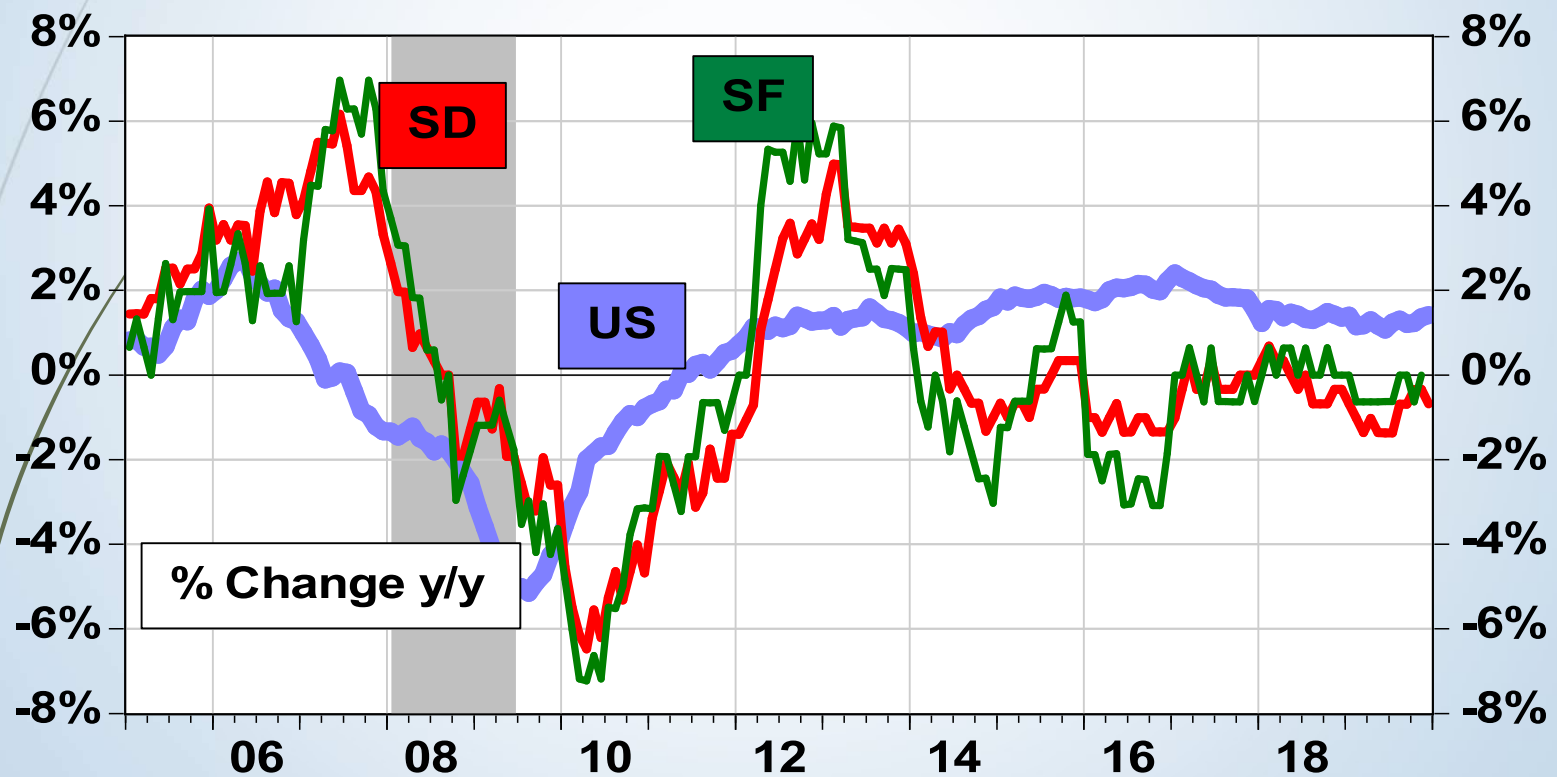
FINANCE EMPLOYMENT



Source: BLS

Note SD & SF Different Than US

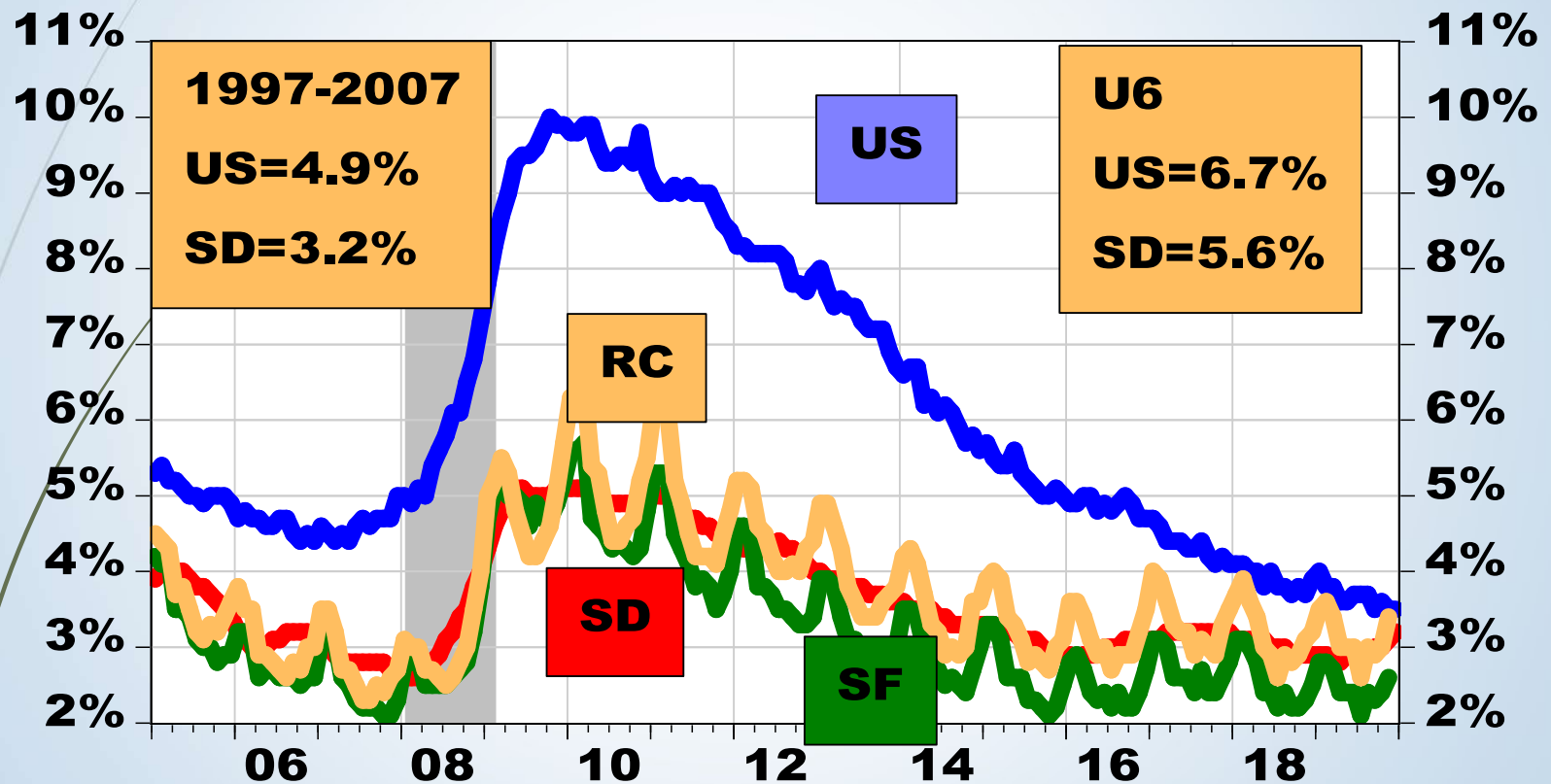
FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

US 3.5% SD 3.2% SF 2.6% RC 3.4%

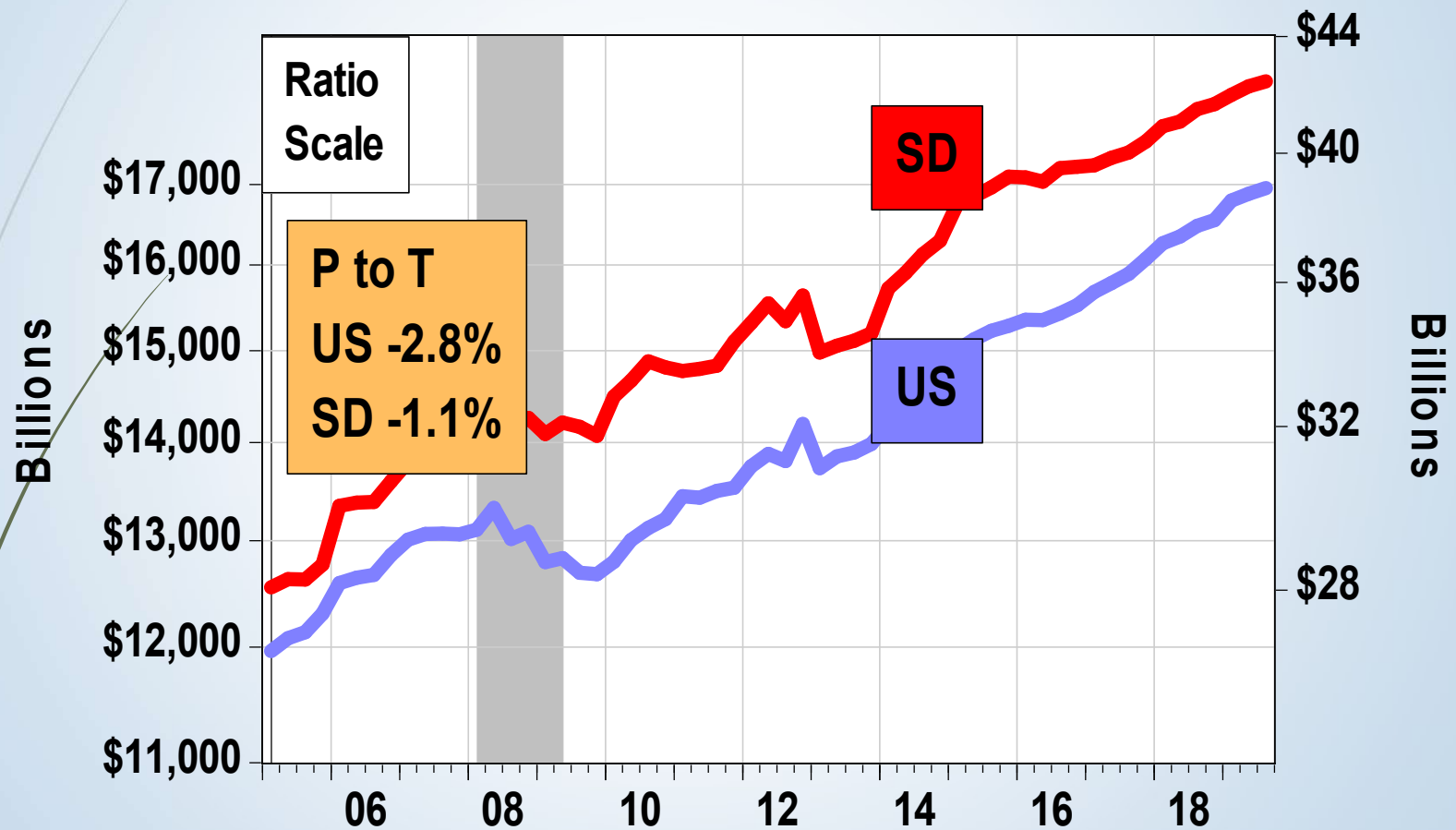
UNEMPLOYMENT RATES



Source: BLS

SD & US Growth

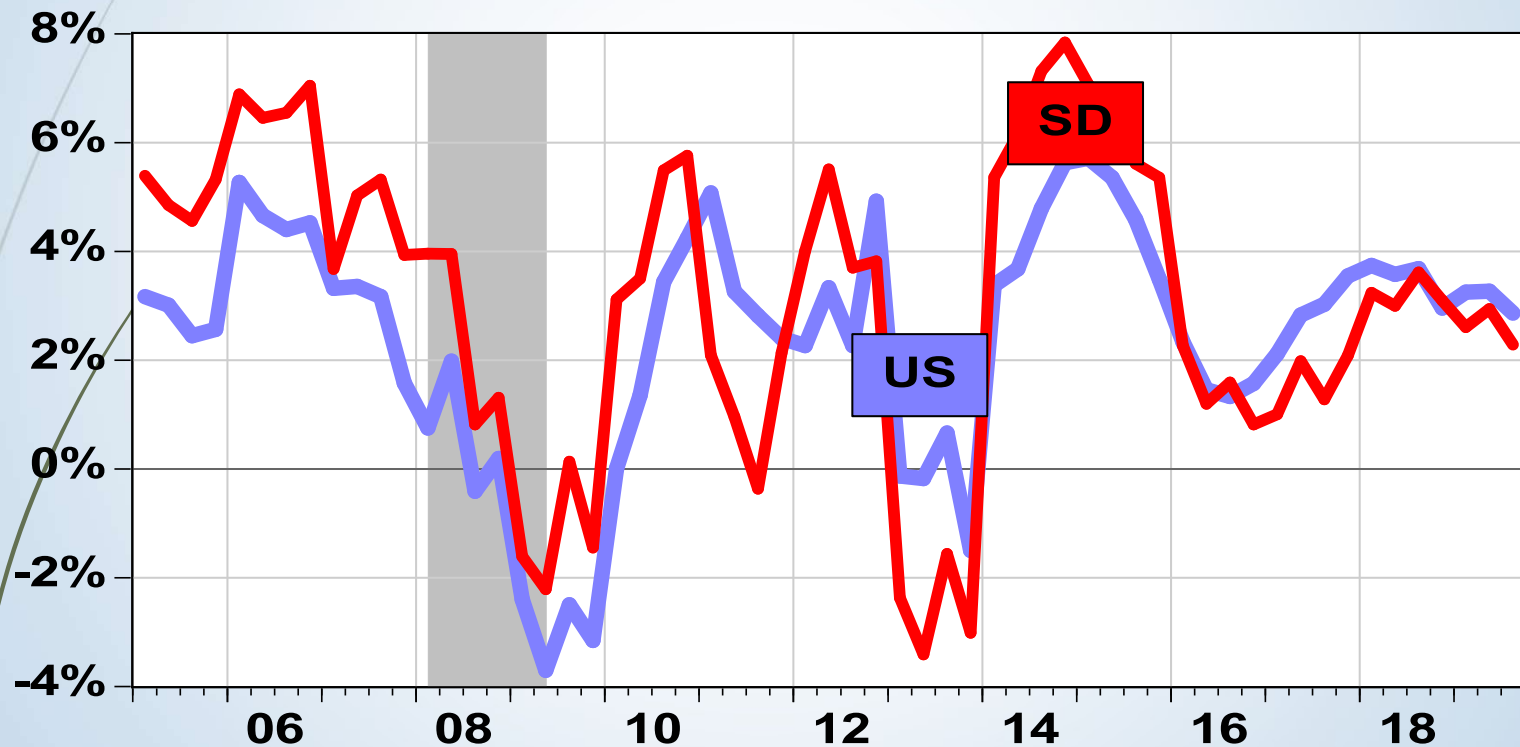
NONFARM PERSONAL INCOME (2012 \$S)



Source: BLS

US and SD Track

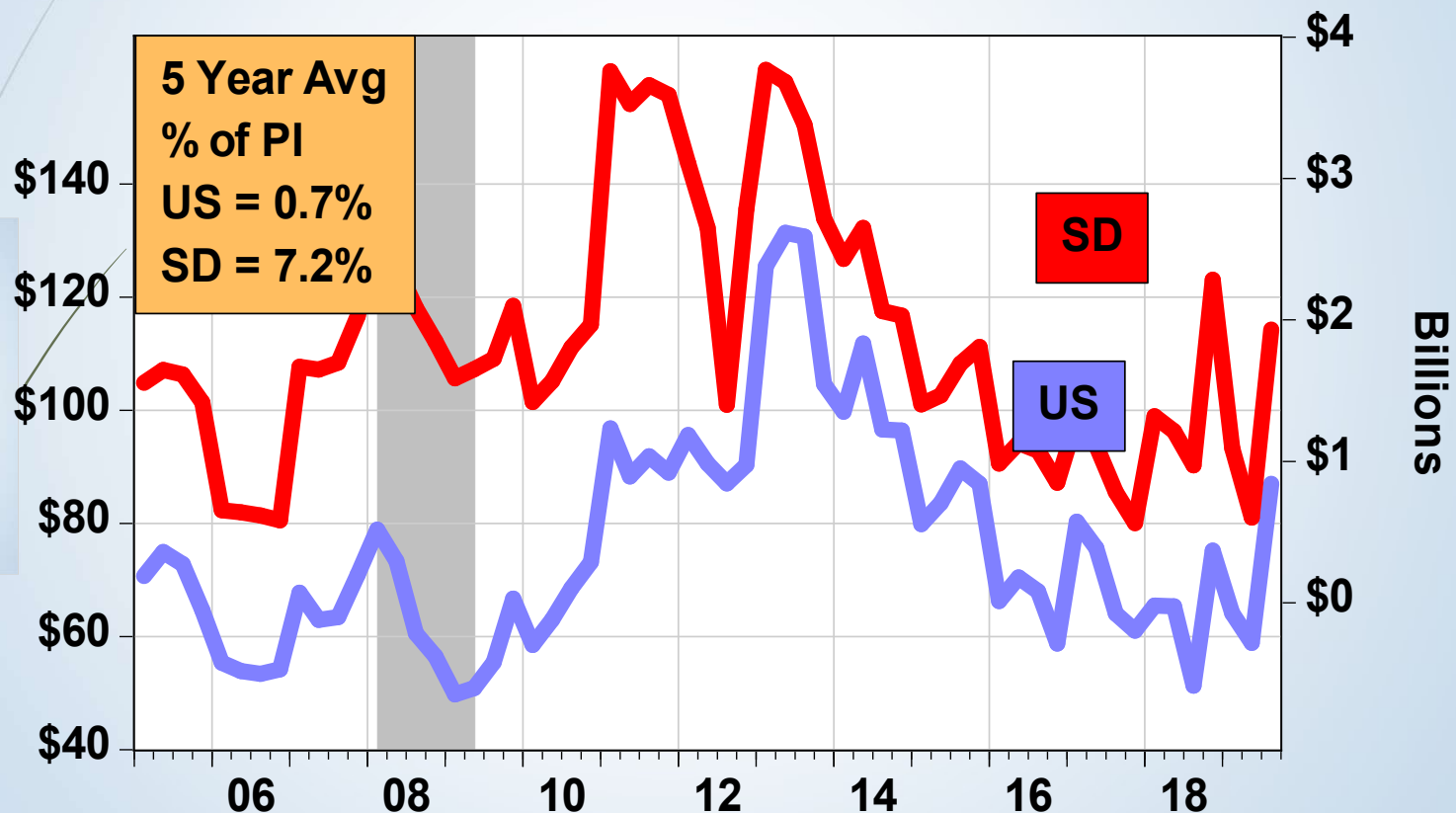
**REAL NONFARM PERSONAL INCOME
(Year-Over-Year Percent Change)**



Source: BEA

Farm Income Volatile

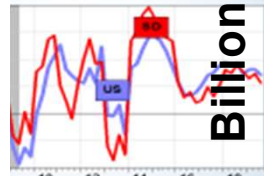
FARM INCOME



Source: BEA

US and SD Track

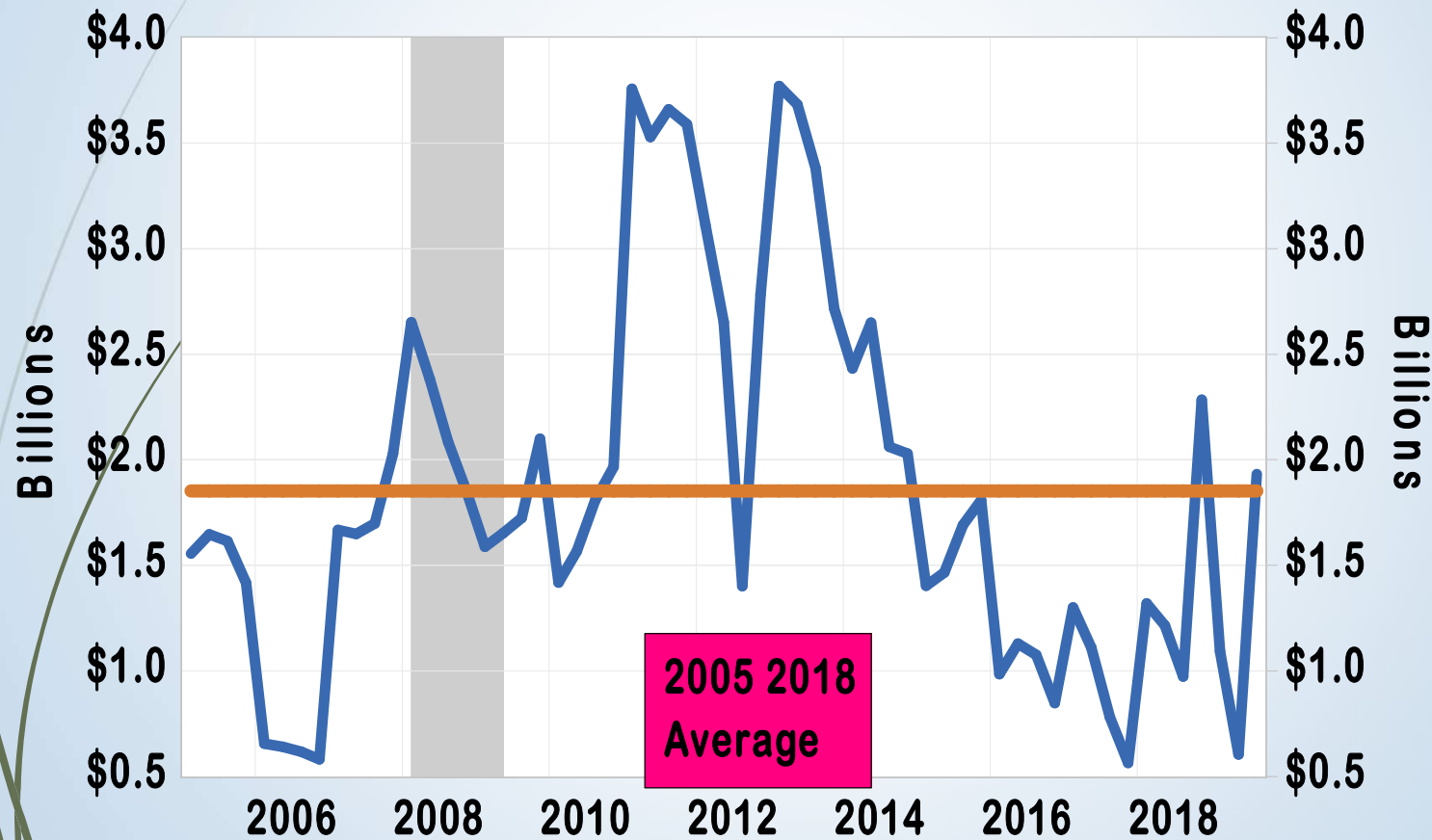
NFARM PERSONAL INCOME
(r-Year Percent Change)



Source: BEA

Recent Years Down

SD FARM INCOME

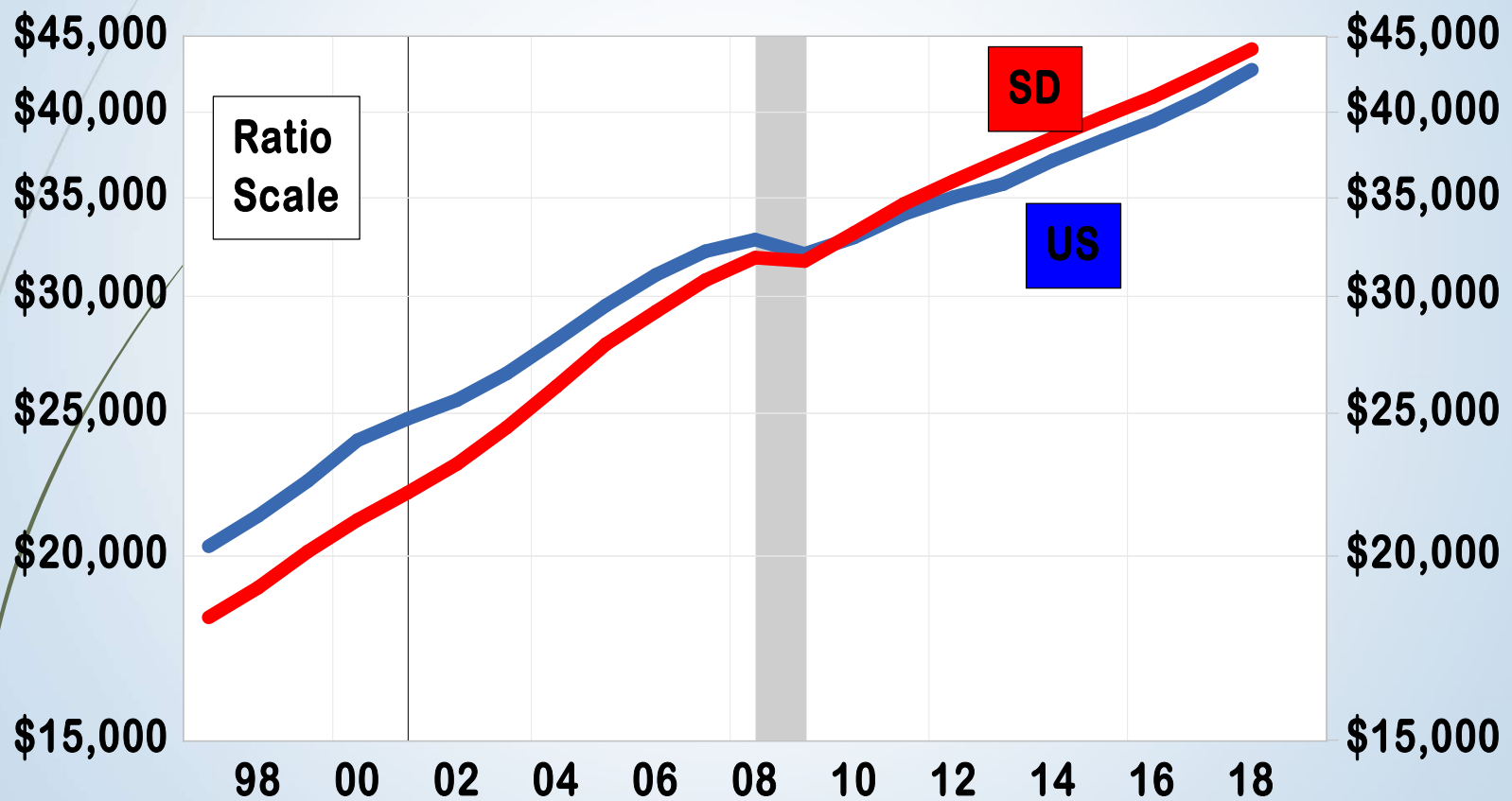


2005 2018
Average

Source: BEA

SD and US Track

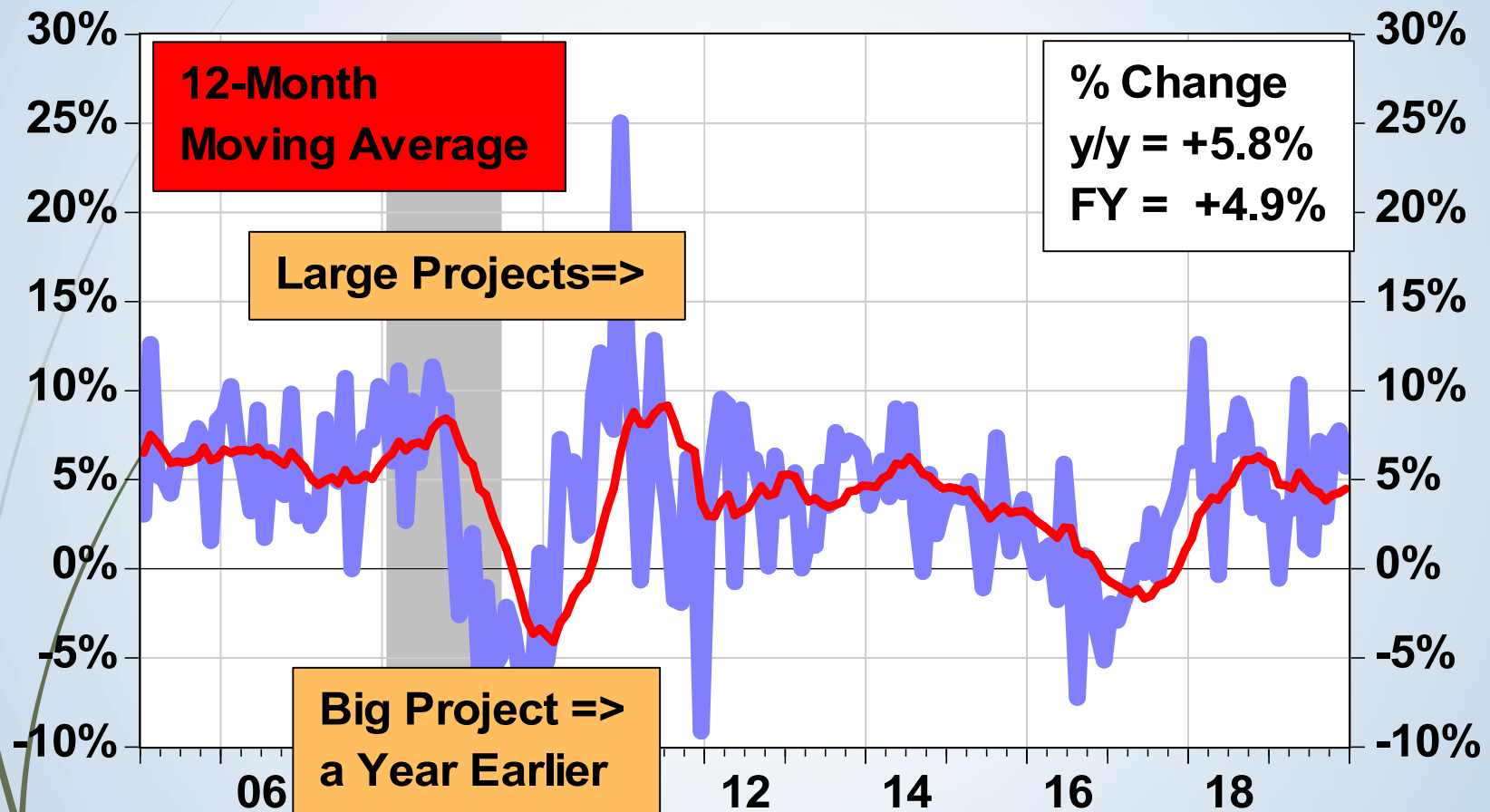
PERSONAL CONSUMPTION PER CAPITA



Source: BEA

Steady Growth

SD TAXABLE SALES



Source: SD Department of Revenue

Growth

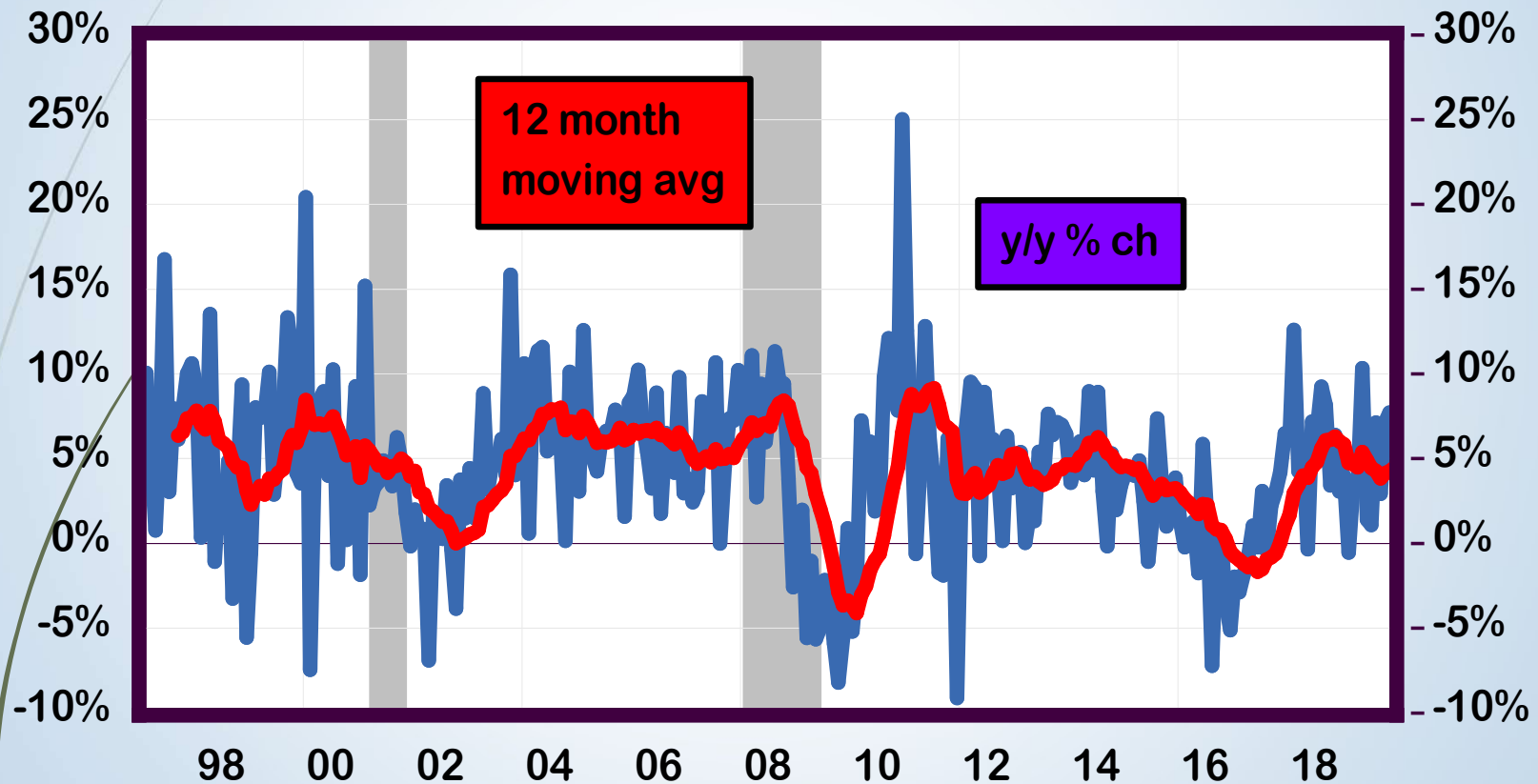
SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue

QUITE VOLATILE

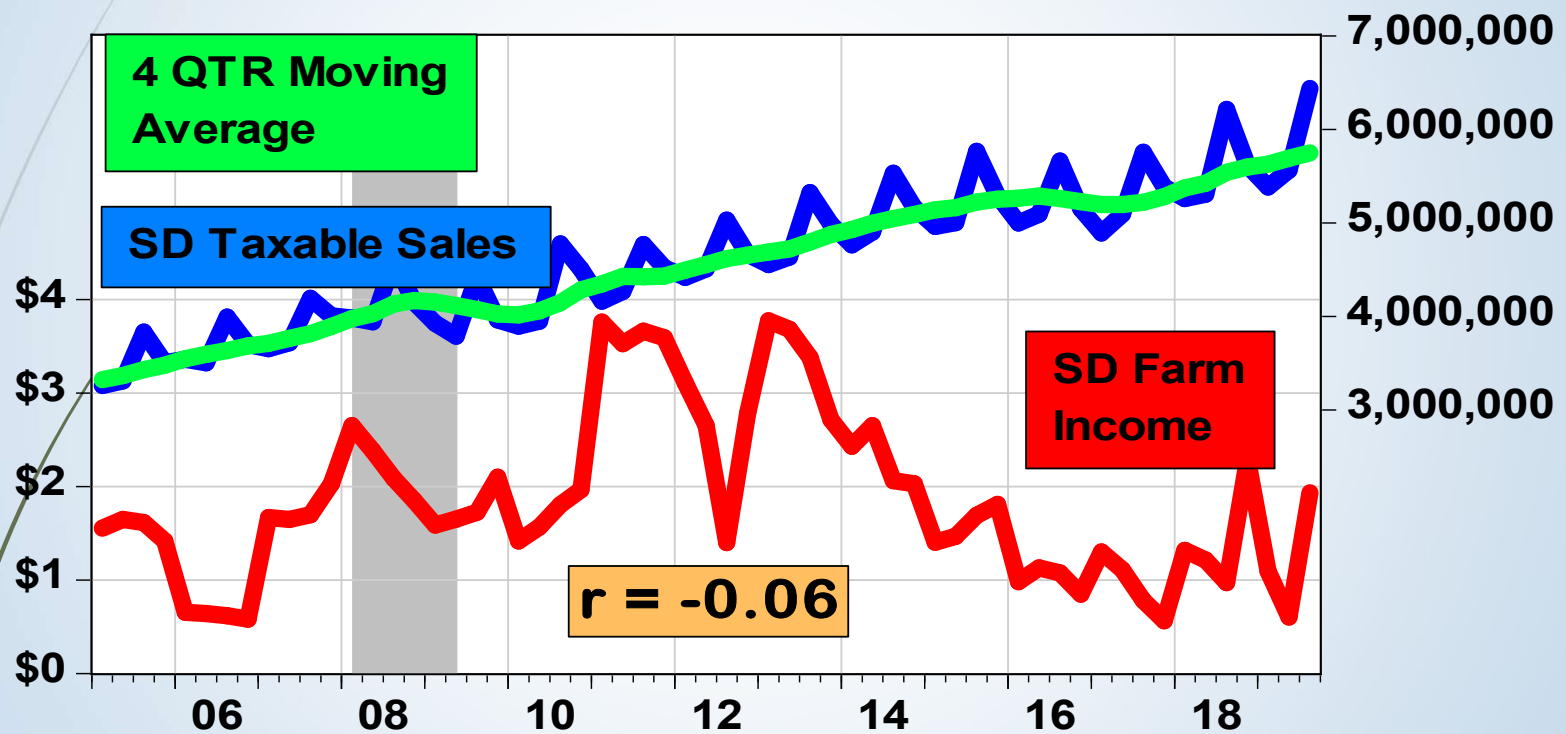
SD TAXABLE SALES



Source: SDOR

NO Correlation

SD TAXABLE SALES AND FARM INCOME



Source: BEA & SD Dept of Revenue



Regression Equation

(gives separate effect of each variable)

SD Taxable Sales = f(SD nonfarm income, SD farm income, seasonals)

Adj RSQ = 0.996 % explained by eqn

Elasticity coefficients

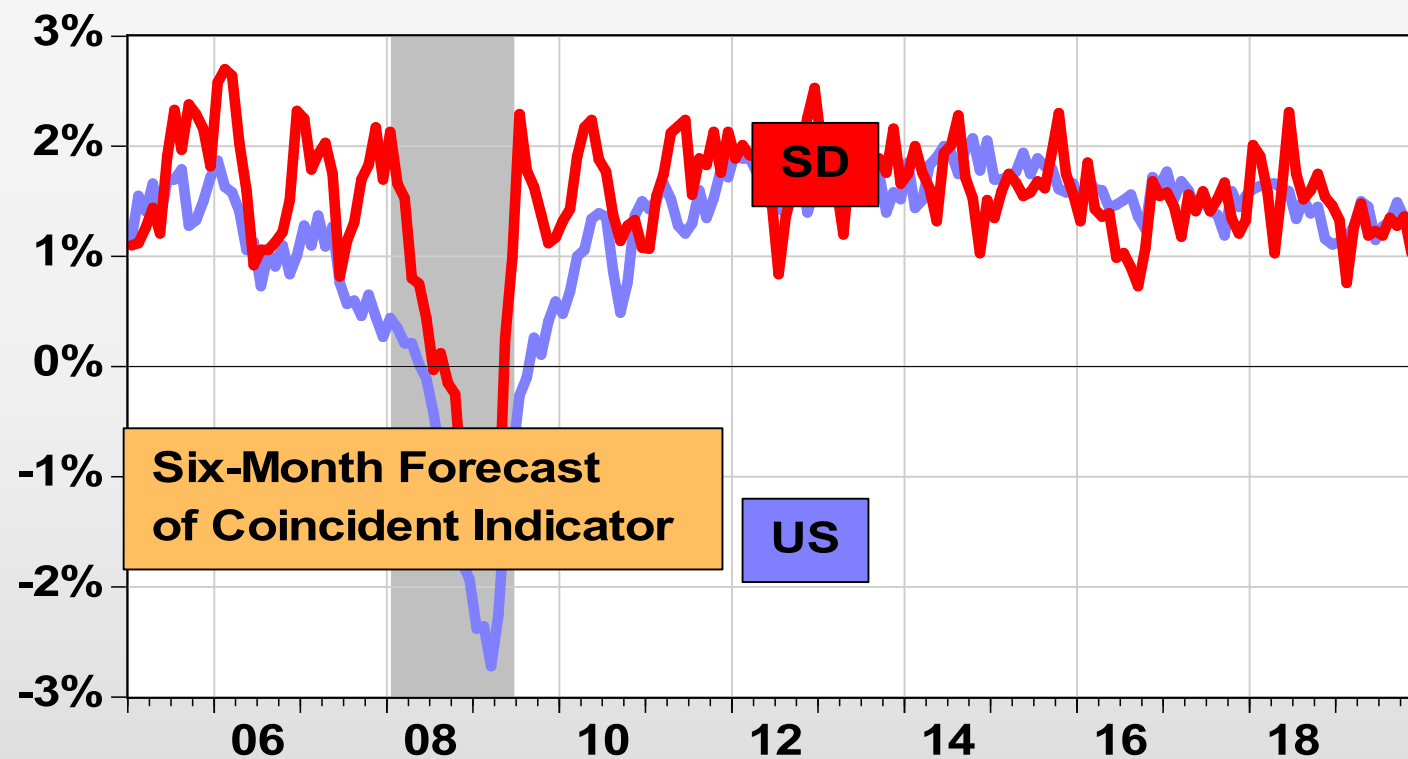
SD nonfarm income = 0.828

SD farm income = 0.037


Both statistically significant

US and SD Positive

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

2019 Index > 50 Growth – December

Up at year-end- mostly in 50s.

Overall 52.3

New Orders 54.5

Sales 47.2

Delivery lead time 55.4

Inventories 57.5

Employment 46.8



Goss Comments

- **Based on recent surveys, I expect the South Dakota economy, for the first half of 2020, to rank first in the region in terms of economic performance with overall annualized inflation-adjusted GDP growth at 3.0%," said Goss.**

Conclusions

SD economic growth is slowing

SF economy growing at faster rate

US economy growing nicely

25% chance of recession

Impact of Trade War???

The End



Per Capita Personal Income 2018

➤ PER CAPITA PERSONAL INCOME

➤ SD	\$52,216	22 rank	96% of US
US	\$54,446	-	100% of US

➤ PER CAPITA PERSONAL INCOME COST OF LIVING-ADJUSTED

➤ SD	\$59,607	6 rank	109% of US
➤ US	\$54,446	-	100% of US


Per Capita Disposable Personal Income 2018

PER CAPITA DISP. PERSONAL INCOME

➤ SD	\$47,755	21 rank	98% of US
US	\$48,801	-	100% of US

➤ PER CAPITA DISP. PERSONAL INCOME COST OF LIVING-ADJUSTED

➤ SD	\$54,515	5 rank	112% of US
➤ US	\$48,801	-	100% of US



Top Ranked States Cost of Living & Tax Adjusted

1. Connecticut 123%
2. Wyoming 118%
3. Massachusetts 116%
4. North Dakota 114%
5. South Dakota 112%
6. Washington 110%
7. Nebraska 107%
8. New Hampshire 107%
9. New Jersey 107%
10. Alaska 107%
11. Minnesota 105%