



# **The State of the SD Economy**

**Presentation to the Governor's  
Council of Economic Advisors  
October 23, 2019**

**Ralph J. Brown  
Professor Emeritus of Economics  
University of South Dakota**



# **Outline of Presentation**


**Overview of US economy**

**US economy forecast - Macroeconomic  
Advisors by IHS Markit 10/7/2019**

**SD economy**

**Summary & Conclusions**

# US Forecast



Macroeconomic Advisors, By IHS MARKIT  
Forecast – October 7, 2019

*Real GDP*

*Consumption*

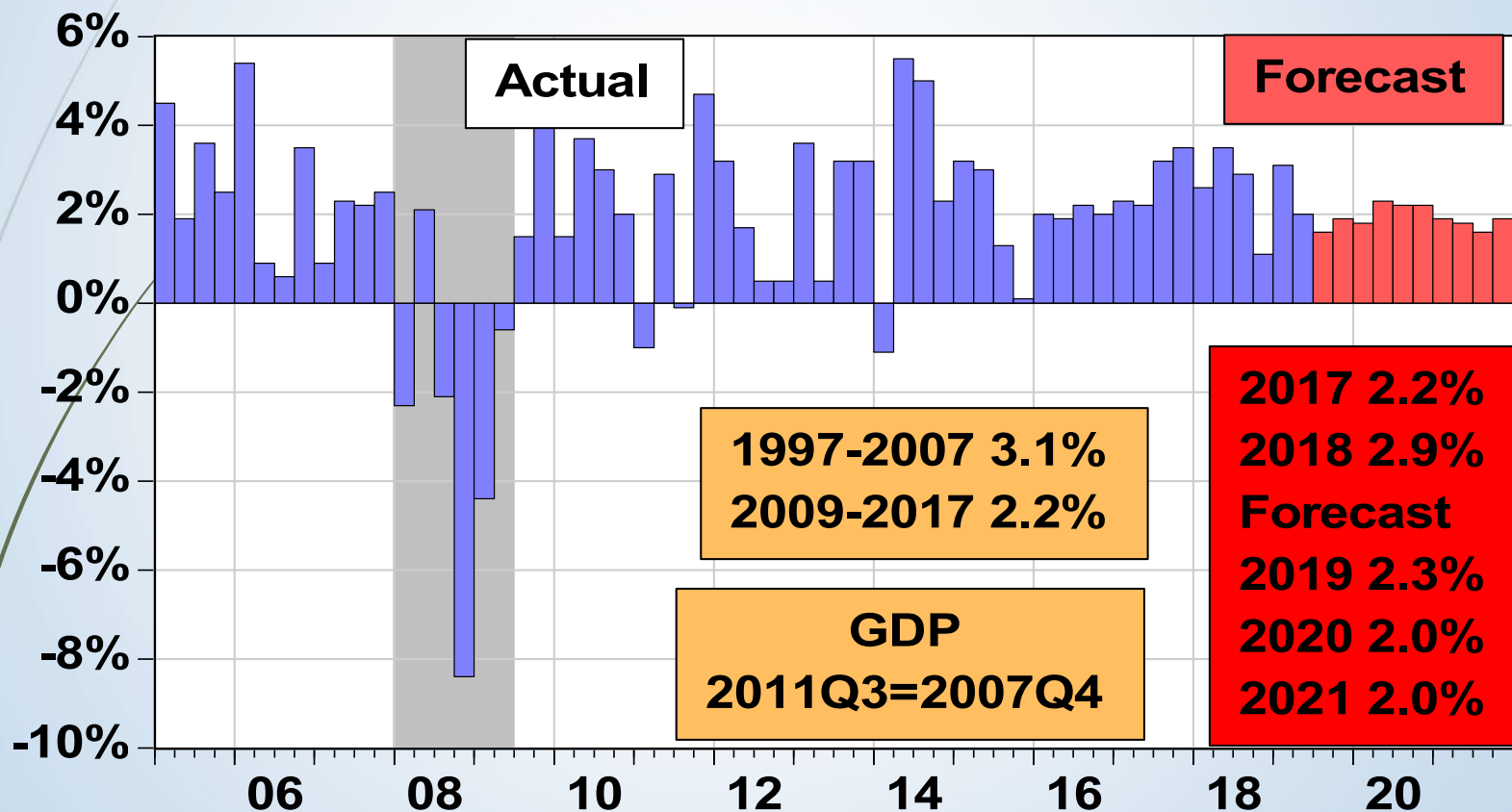
*Housing Starts*

*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 2.0% 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 2.6% growth.**

**Chance of recession remains at 35%.  
Chance of recession next 12 months 20%.**



## **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.**

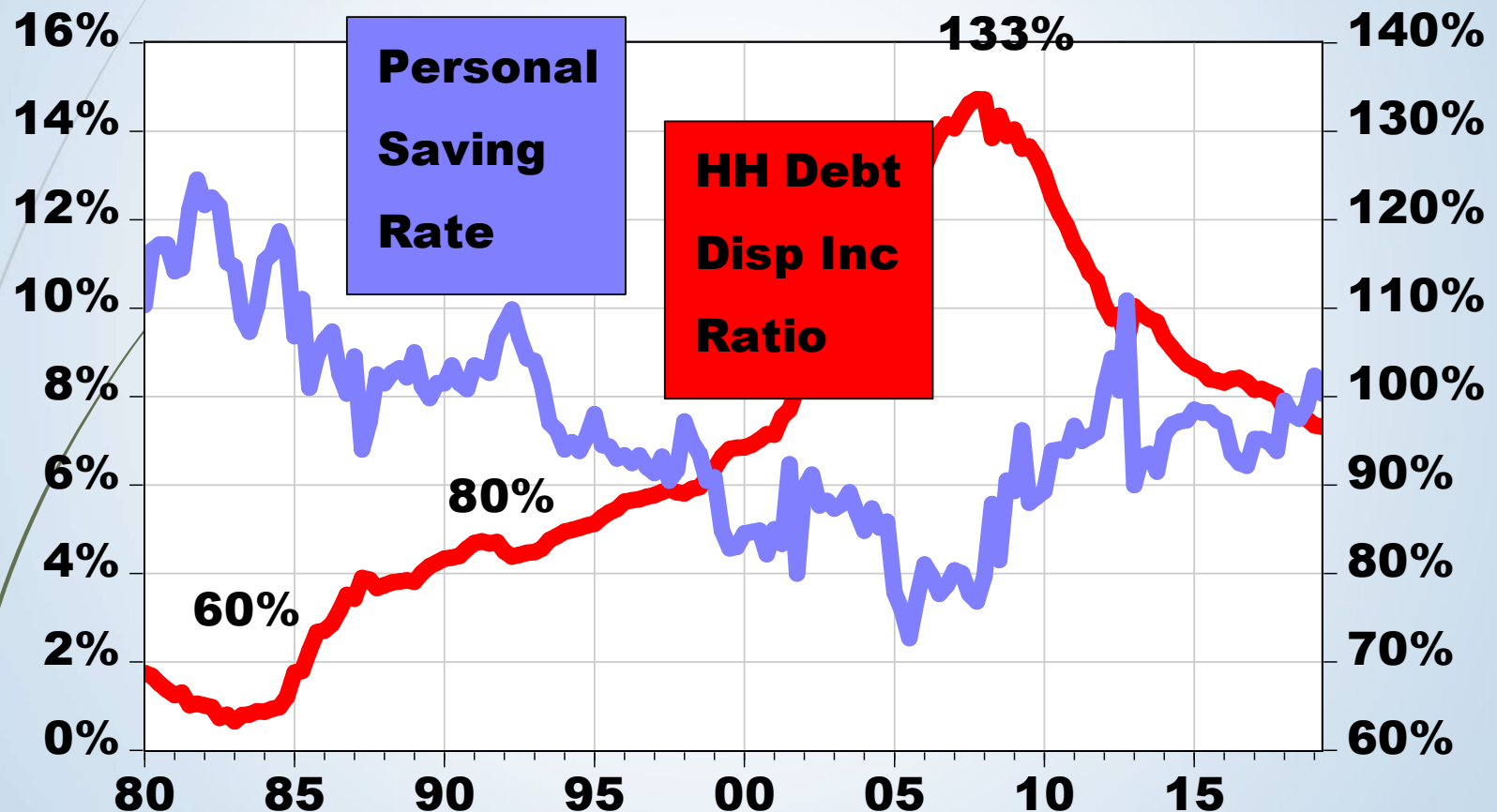
**Projected growth is at 2.6% in 2019, 2.7% in 2020, and 2.6% in 2021.**

**Even with the new round of tariffs in August consumer spending remains strong.**

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

# Low Leverage

## HOUSEHOLD DEBT AND SAVING RATE

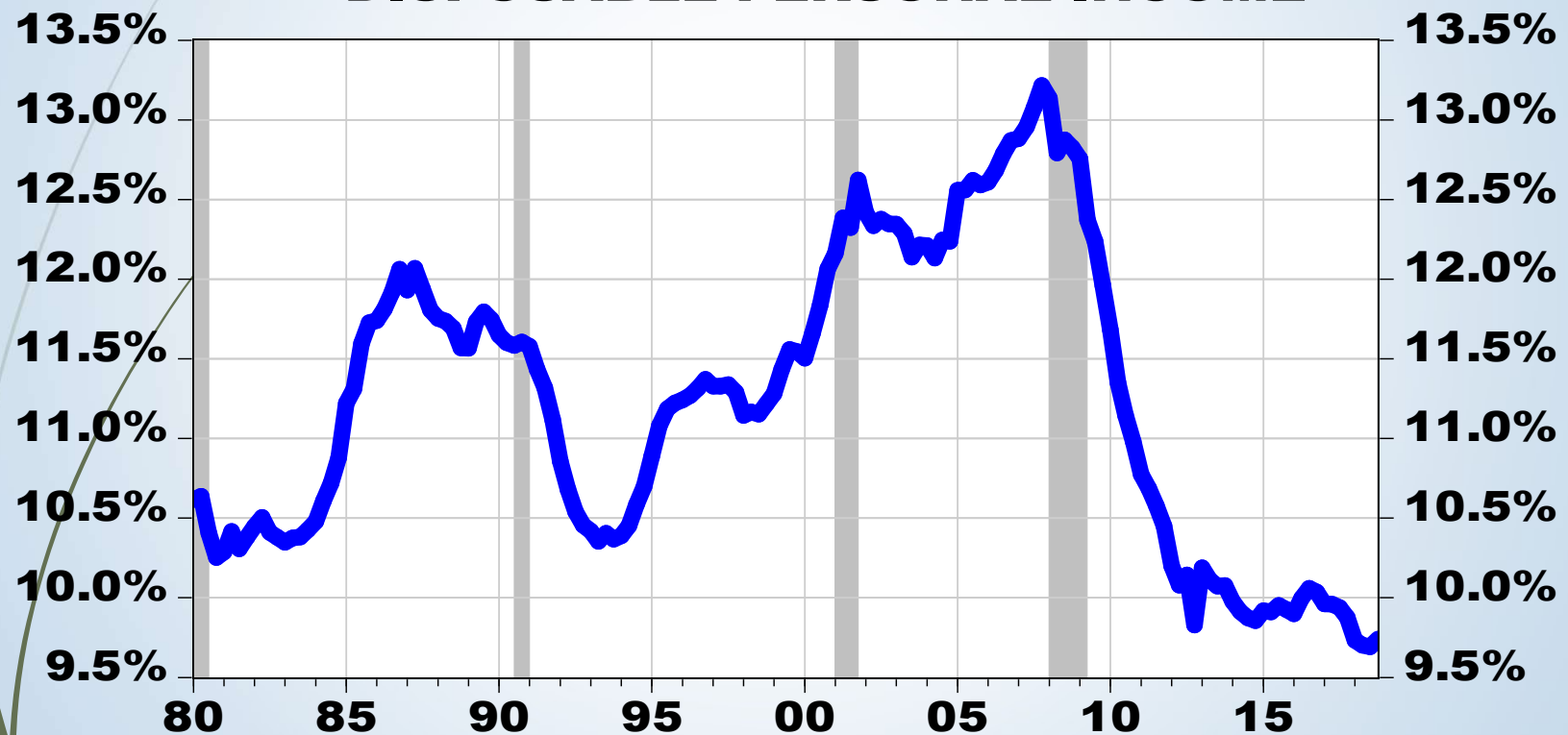


Source: BEA and FED



# Record Low Debt Service

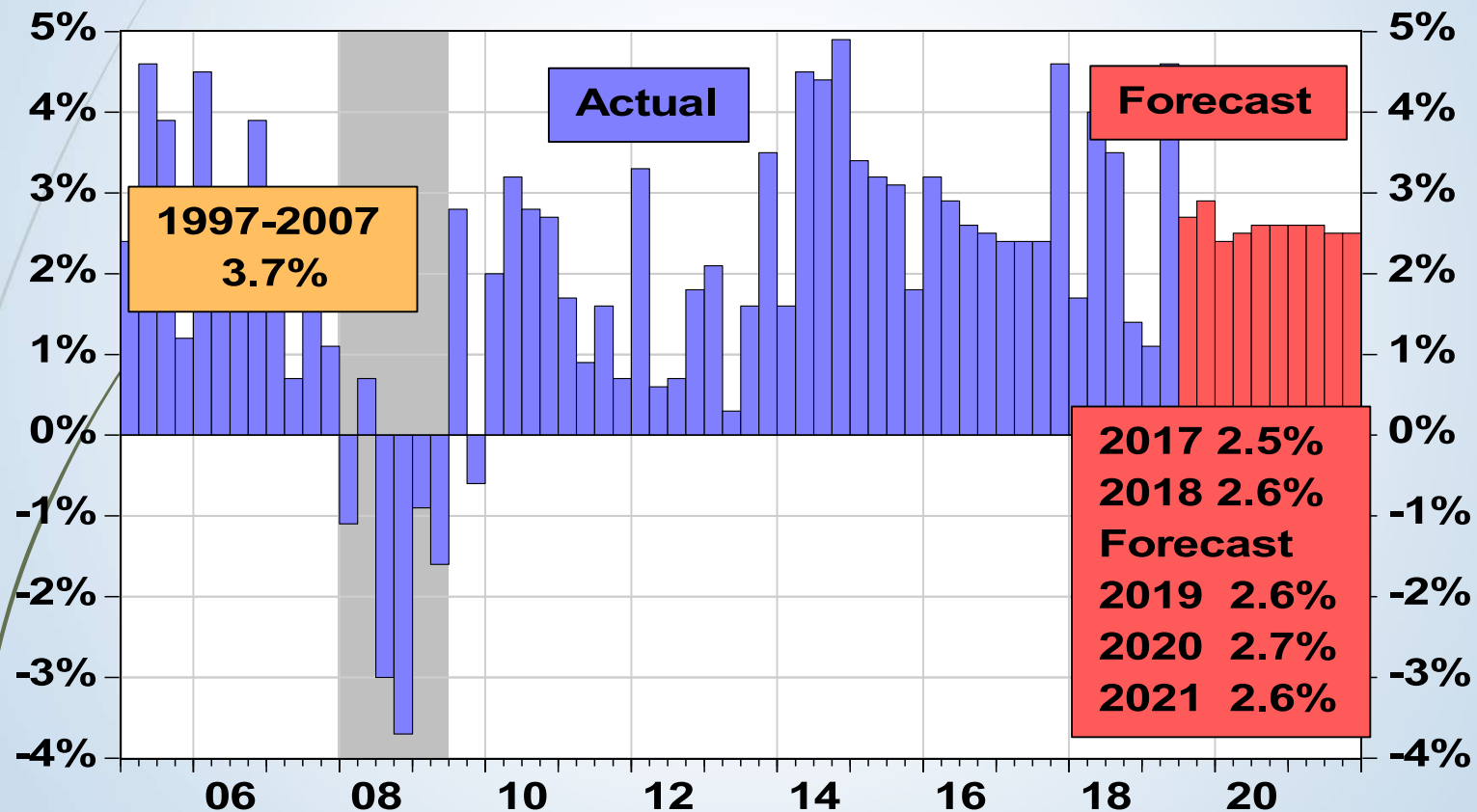
## HH DEBT SERVICE PAYMENTS AS % OF DISPOSABLE PERSONAL INCOME



Source: BEA and Federal Reserve System

# Steady Growth Ahead

## REAL CONSUMPTION



Source: BEA and IHS



# Investment Sector

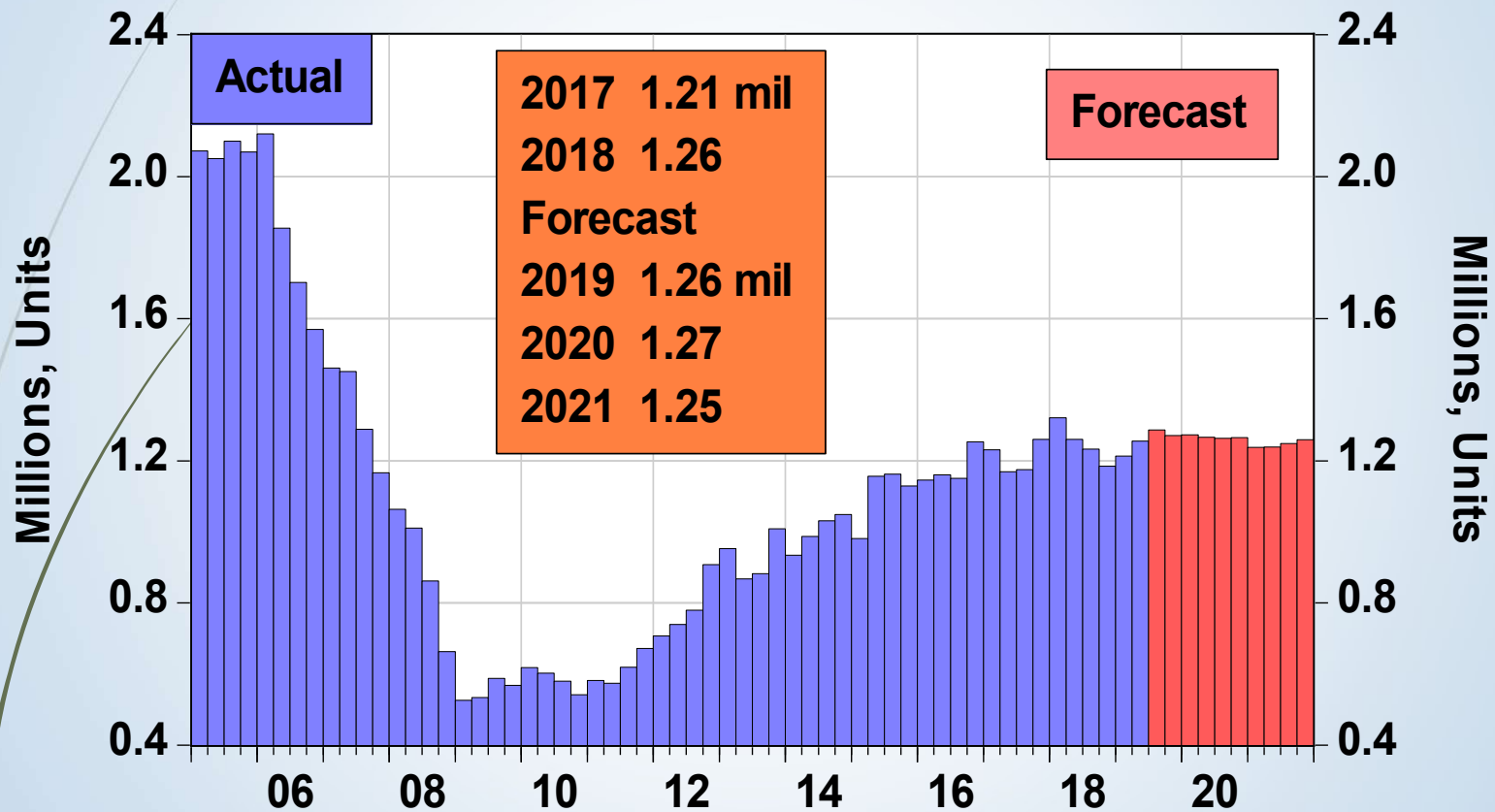
**Business fixed investment is projected to slow from 6.4% last year to 2.3% in 2019 and average about 2.4% over the 2020 – 2023 period. This reflects a slowdown in nonfarm business sector output and uncertainty about trade.**

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

**Businesses will trim inventories in coming months which will be rebuilt after strike.**

# Recovery Flattens

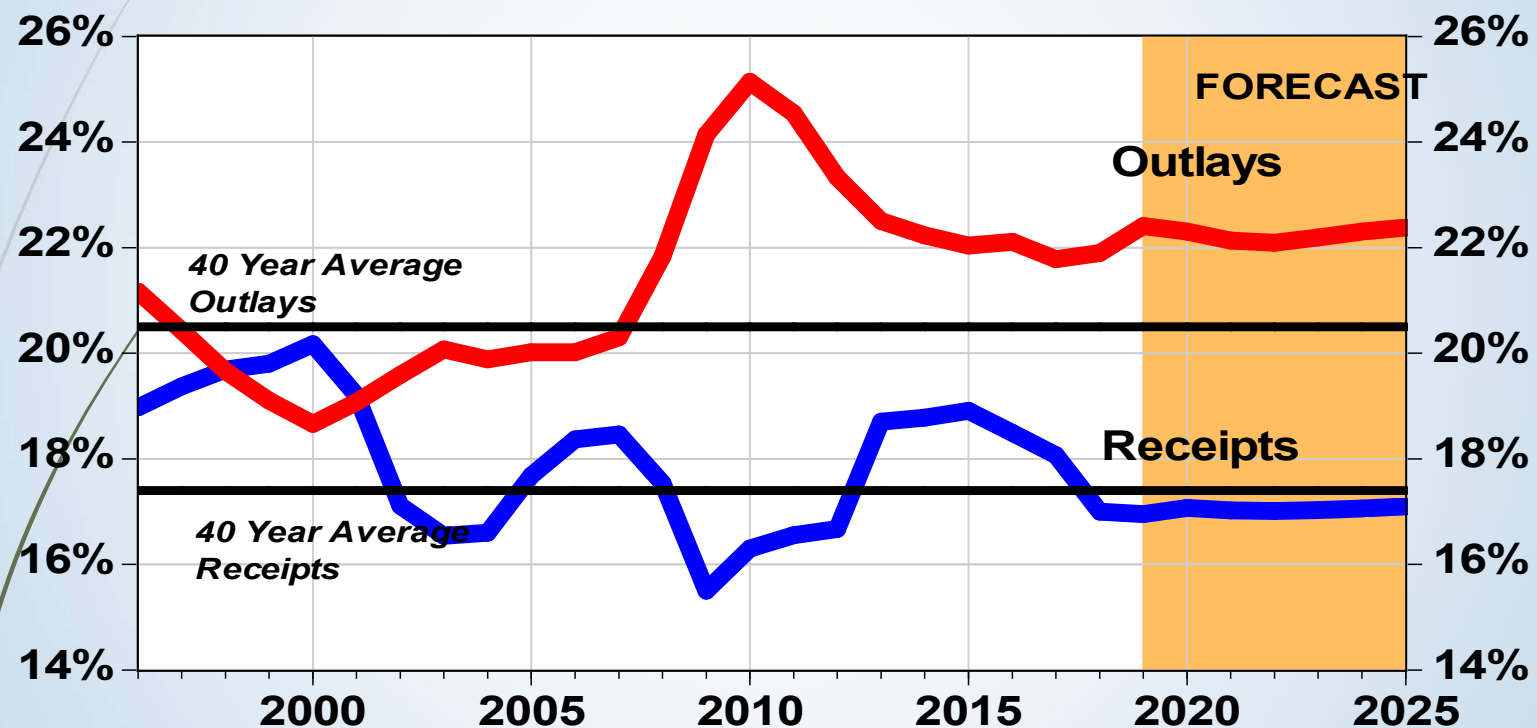
## HOUSING STARTS



Source: US Census and IHS

# Government Sector

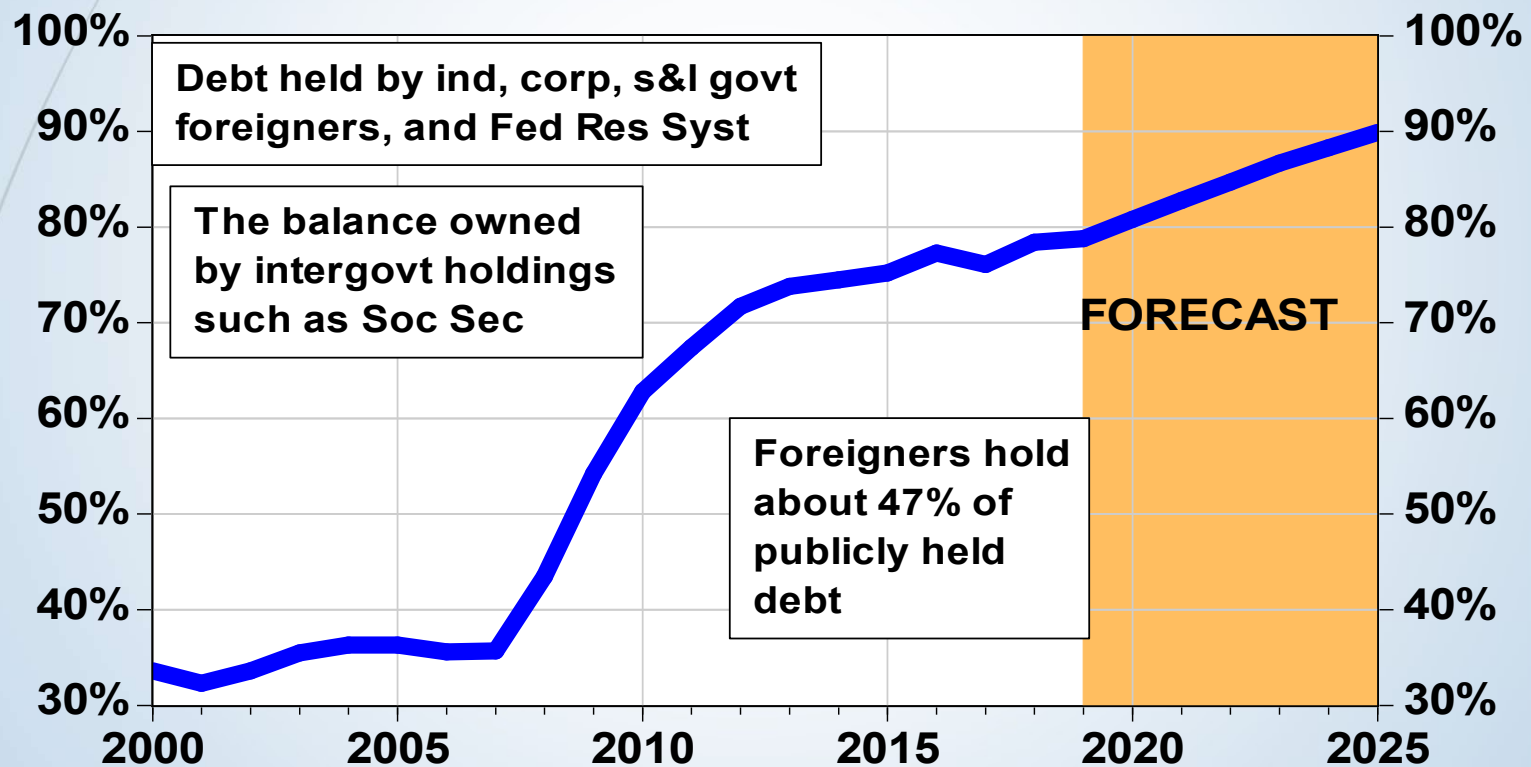
## FEDERAL GOVERNMENT AS % OF GDP



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 implies more 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 both by US and retaliatory tariffs by China.**





# **Employment & Unemployment**

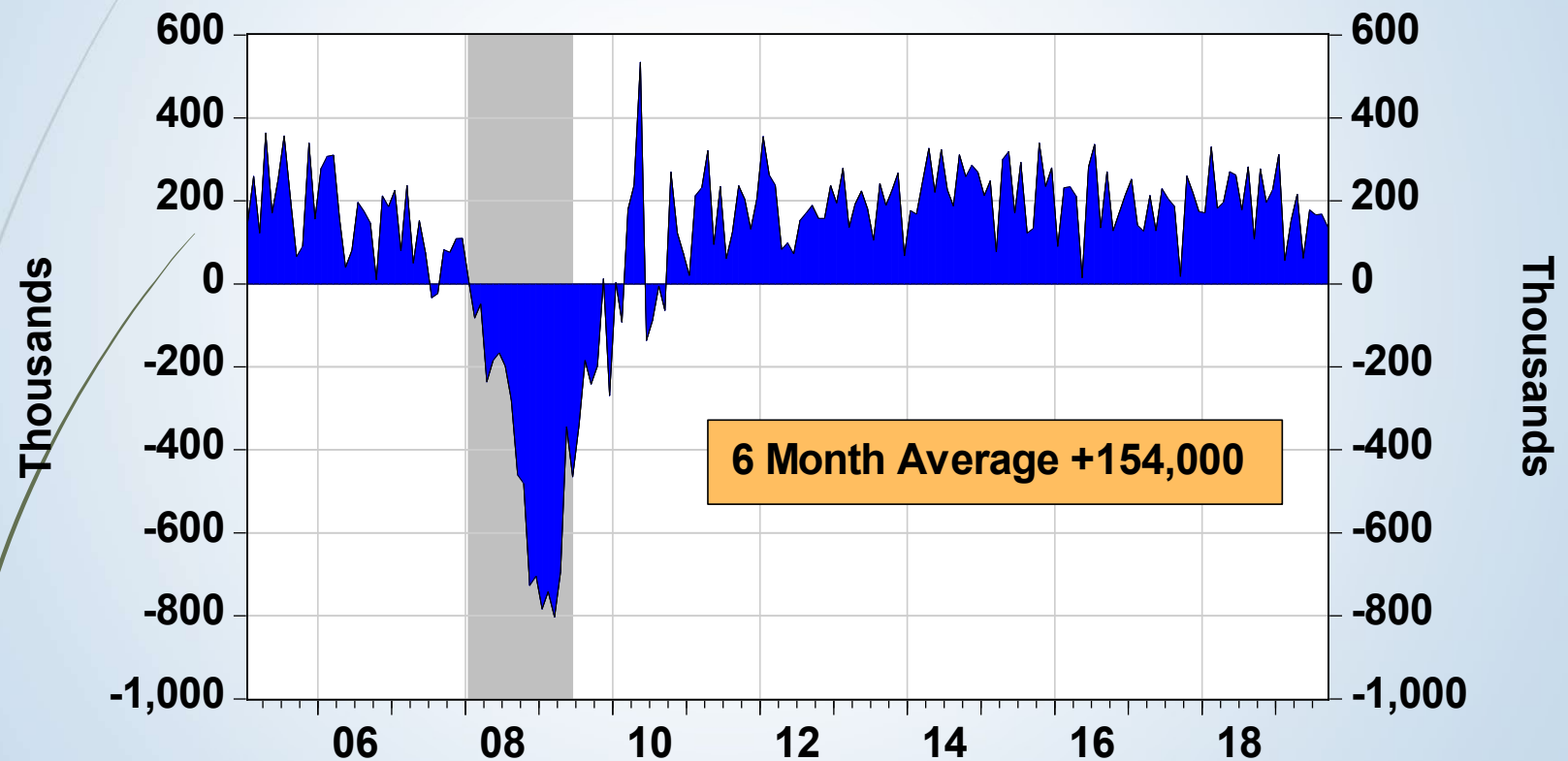
**Employment growth is slowing from 1.5% in 2019 to 1.0% in 2020 and 0.7% in 2021.**

**At our last meeting, six-month average monthly change was 220,000 per month and is now 154,000 per month. September was 136,000. The unemployment rate will bottom at 3.5%.**

**The labor force participation rate will peak at 63.1% in mid-2021. 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

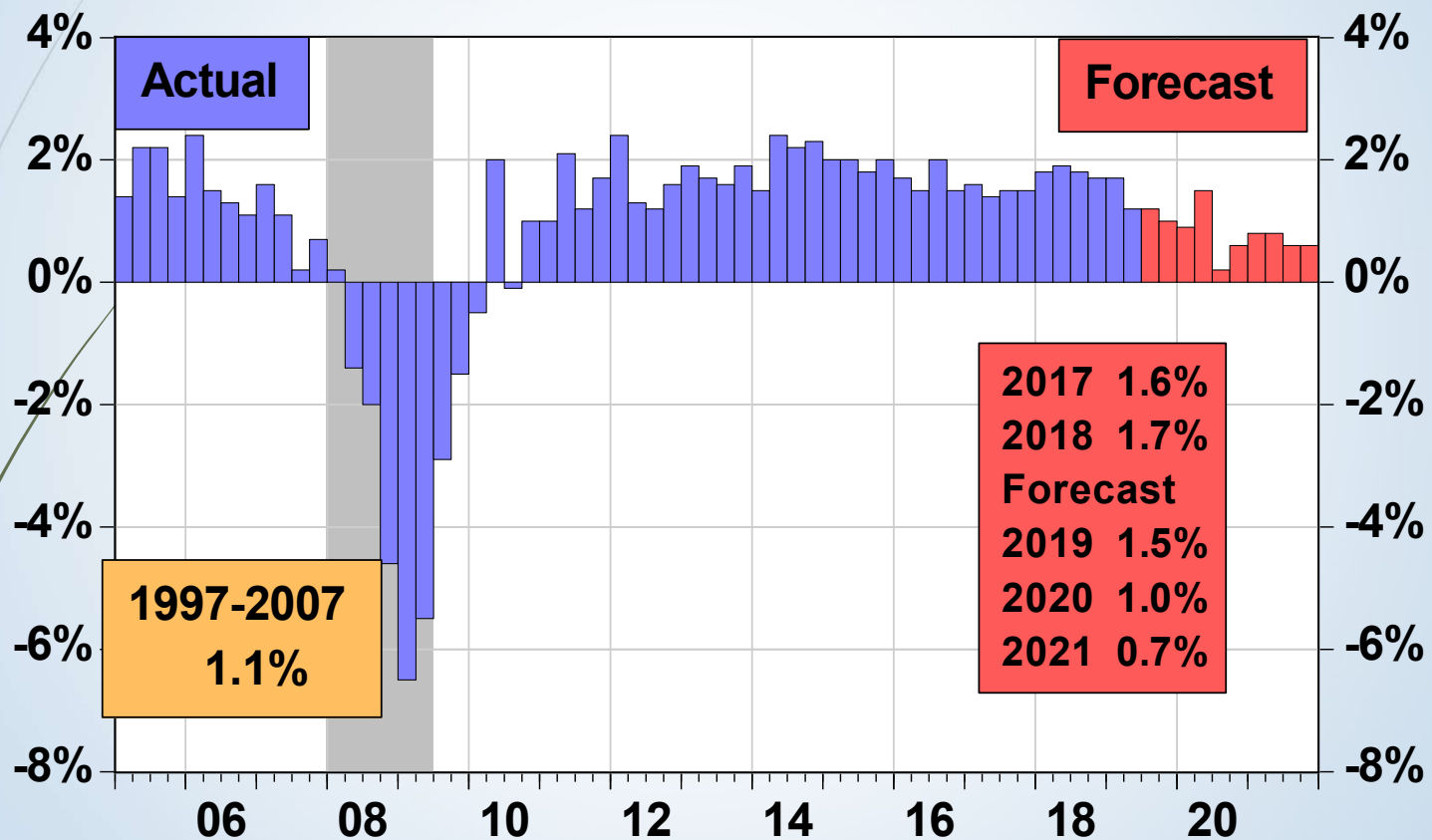
## CHANGE IN NONFARM EMPLOYMENT



Source: BLS

# Future Job Growth Slowing

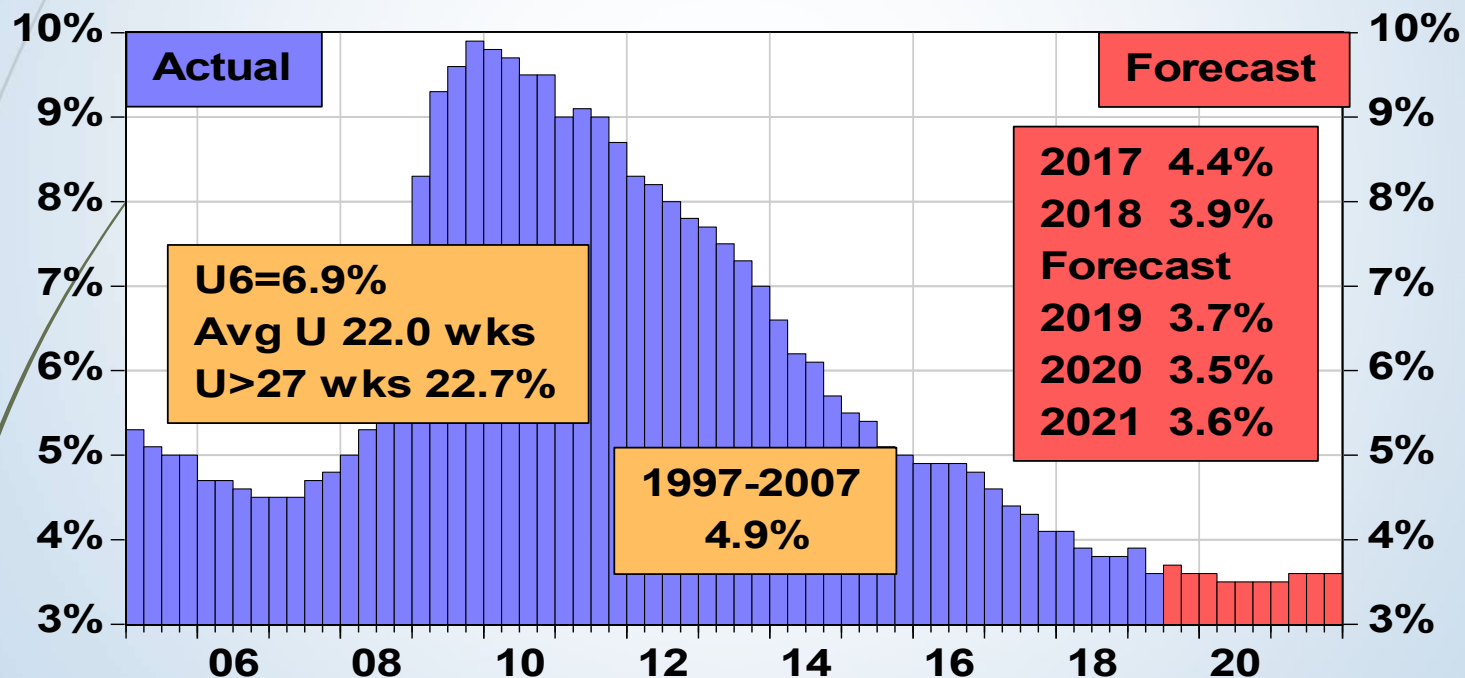
## NONFARM EMPLOYMENT



Source: BLS and IHS

# Low U3 Unemployment Rate Still Falling

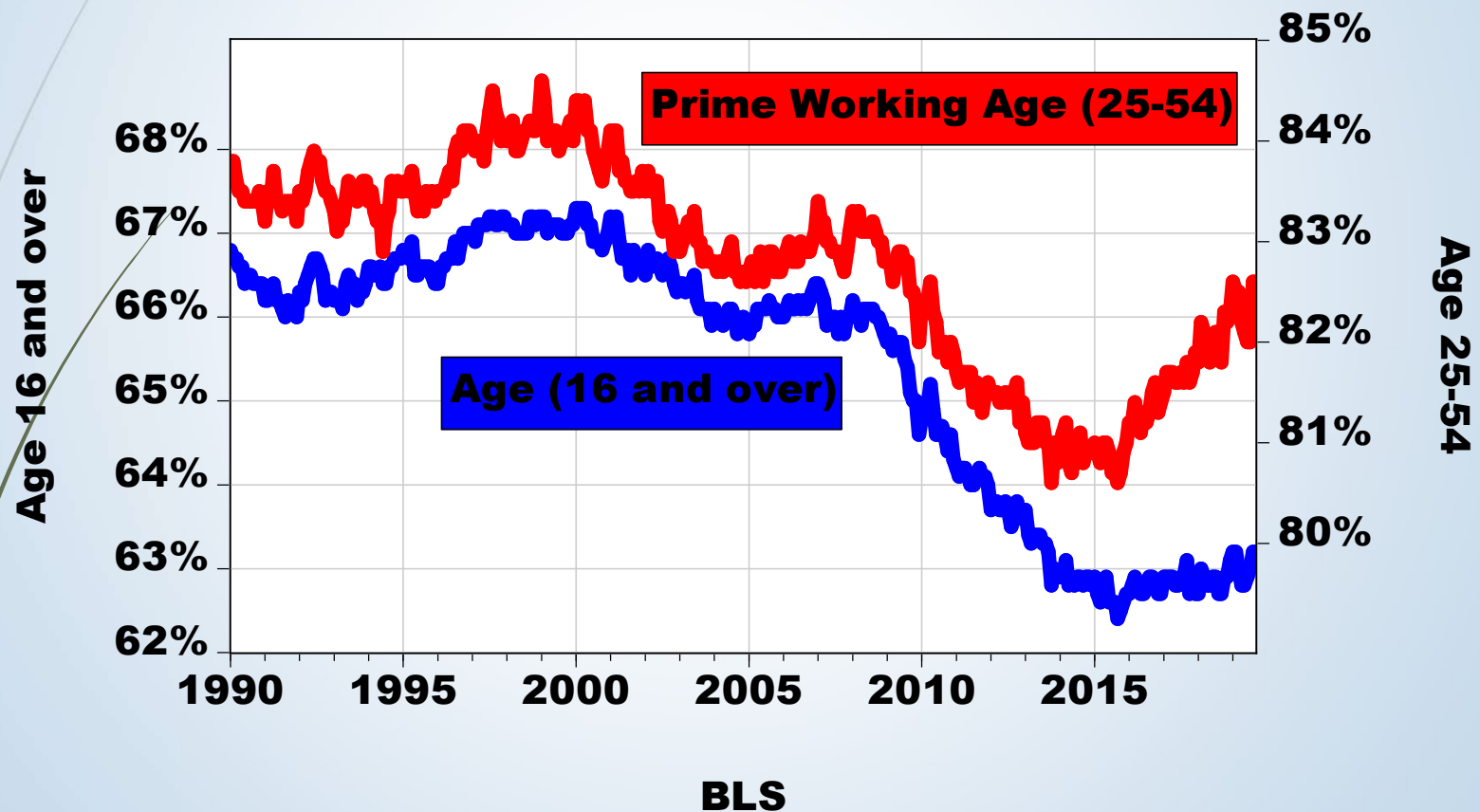
## UNEMPLOYMENT RATE



Source: BLS and IHS

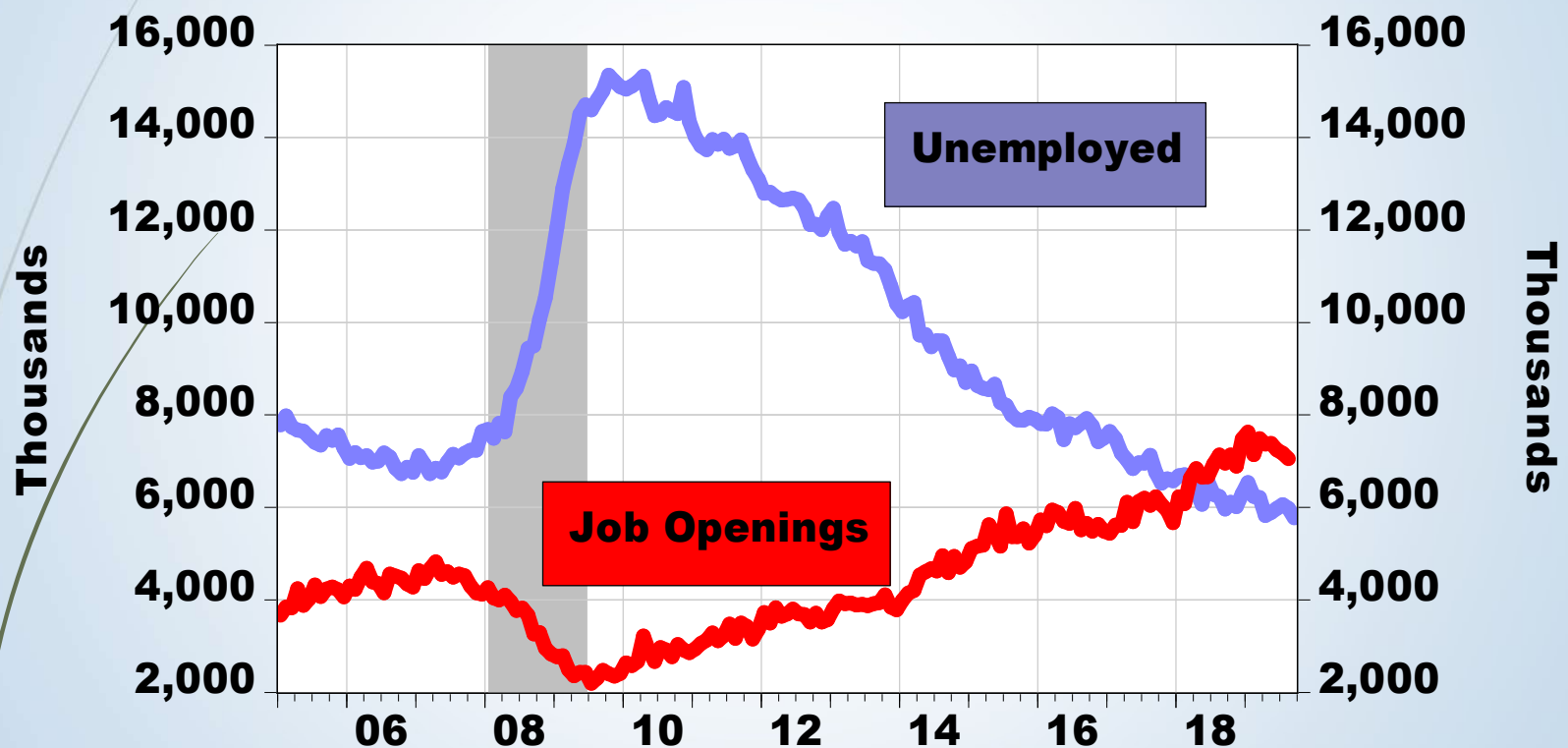
# Increase Prime Working Age

## 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.

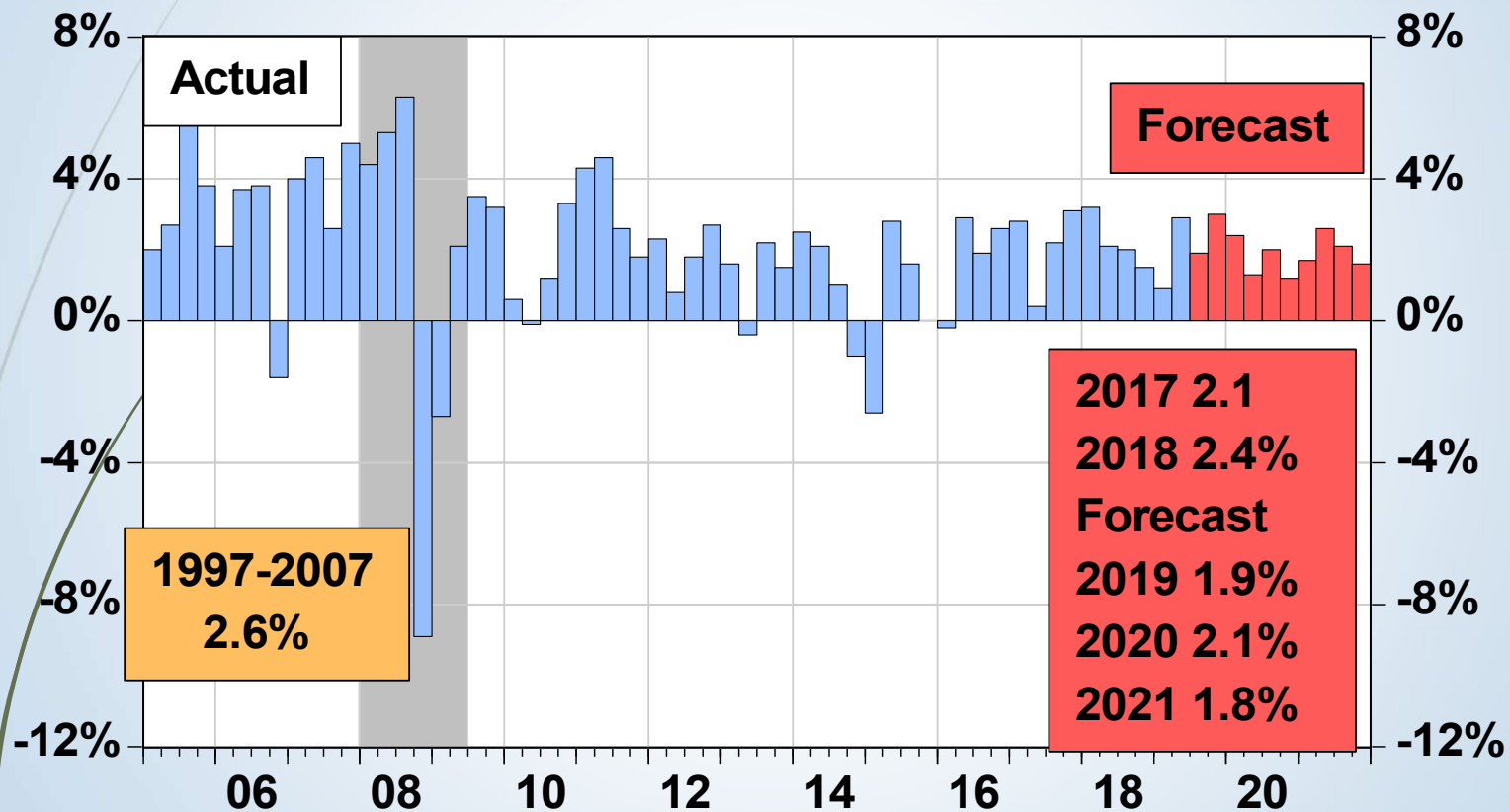
Additional rate cuts were not ruled out by Chairman Powell. There is significant dissent on policy within the FOMC. Some are concerned with overheating. IHS expects one more rate cut in 2019 as insurance against downside risks. IHS expects reversal of the rate cuts by late 2020 into 2021.

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 2021 to early 2022.

Inflation is projected to remain low, at around 2% on a sustained basis.

# Still Very Low

## INFLATION: CPI



Source: BLS



# Rising Interest Rates

## 10 YEAR TREASURY NOTE



Actual

Forecast

Source:FED

# IHS MARKIT FORECAST

## OCTOBER 2019

<b>Variable</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>GDP</b>	2.2%	2.9%	2.3%	2.0%	2.0%
<b>Recession Probability 35% in next 12 months 20%</b>					
<b>NA Emp</b>	1.6%	1.7%	1.5%	1.0%	0.7%
<b>Oil(Brent)</b>	\$55	\$71	\$66	\$64	\$60
<b>Housing</b>	1.21	1.25	1.25	1.27	1.25
<b>CPI</b>	2.1%	2.4%	1.9%	2.1%	1.8%
<b>Un Rate</b>	4.4%	3.9%	3.7%	3.5%	3.6%



# Wells Fargo Forecast October 2019

	2019	2020	2021	
<b>GDP</b>	2.2%	1.7%	2.1%	
<b>UNEMP. RATE</b>	3.7%	3.6%	3.7%	
<b>CPI</b>	1.8%	2.2%	1.9%	
<b>10-YR T Note</b>	1.95%	1.90%	2.21%	



# **IHS Pessimistic Outlook Recession 35% Probability Next 12 Months 20%**

**Broad-based loss of confidence and growing risk aversion leading to drop in investment and consumer spending ends expansion in 135<sup>th</sup> month starting 2020Q3 and ending 201Q1.**

**3 quarter recession GDP drops a modest 1.3% in 2020 and unemployment peaking at 5.8% in 2021Q3.**

**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%**



# **Recession Probabilities**

## **IHS Markit**

**Recession Chance 35%**

**Recession one year 20%**

## **National Association of Business Economists**

**NABE 7% Recession this year**

**24% Recession by mid-2020**

**69% Recession by mid-2021**

## **Bloomberg Recession Tracker**

**Recession one year 27%**



# **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**

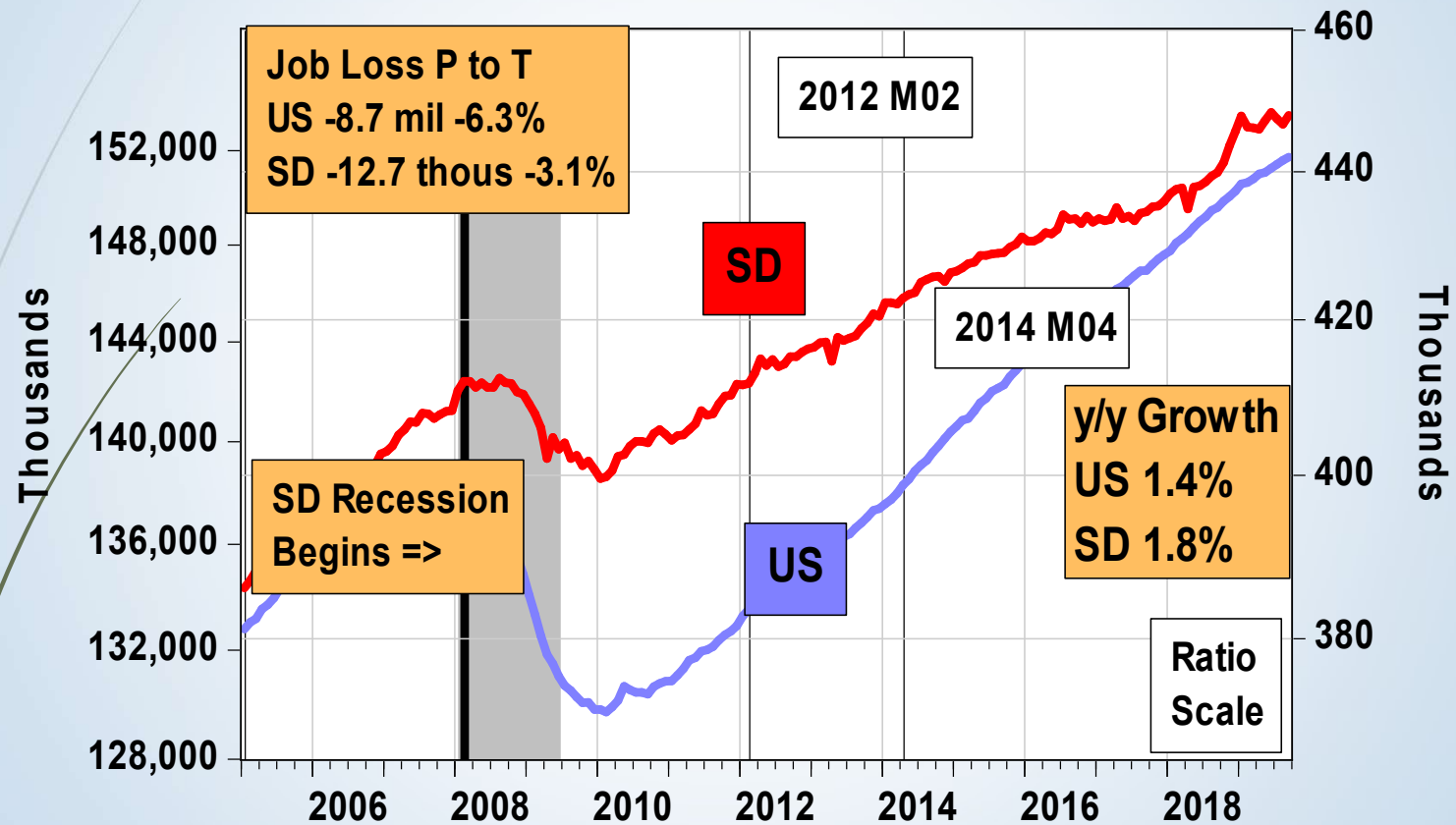
**Taxable sales**

**Leading indicator**



# Recent Pickup?

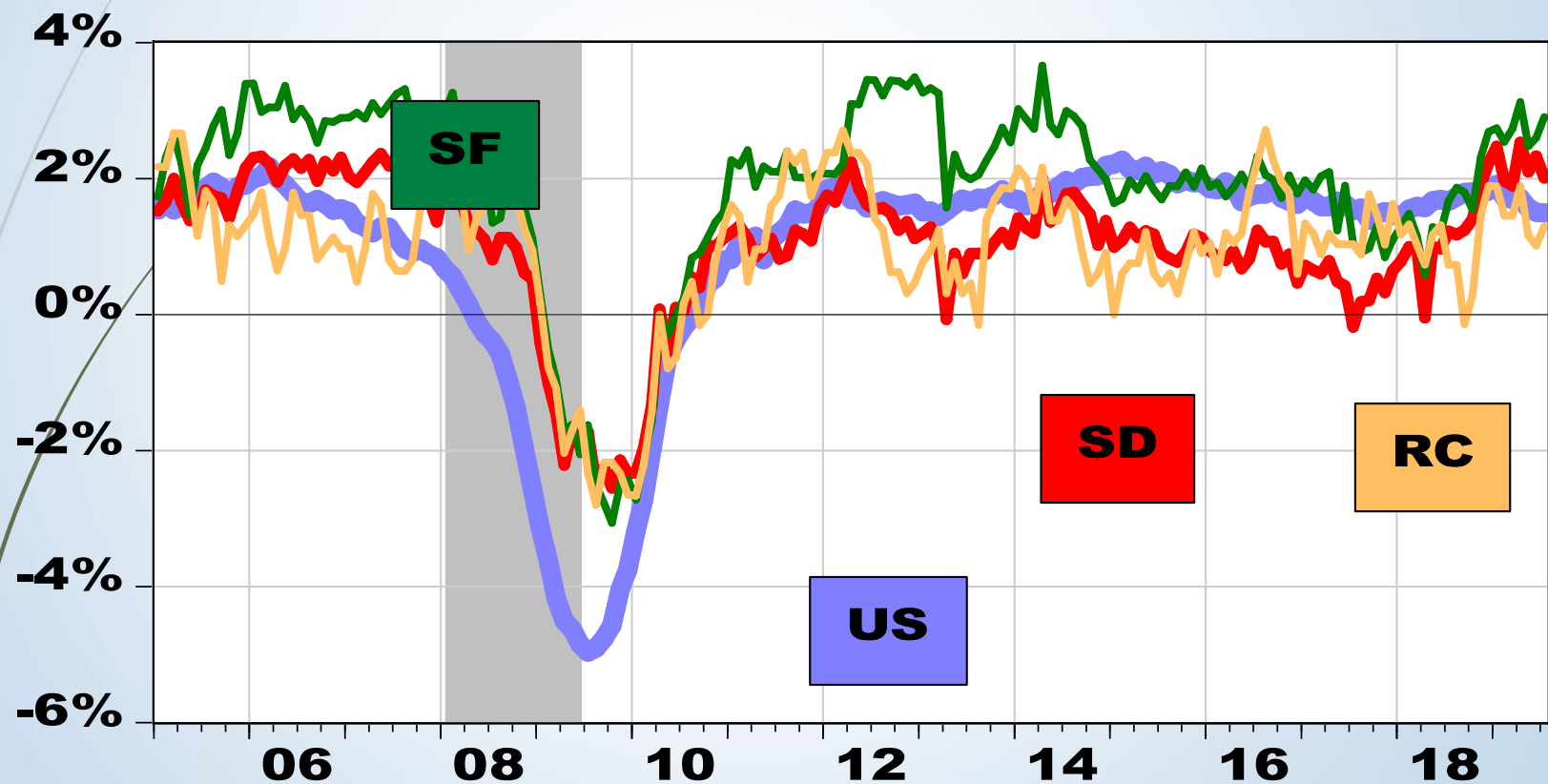
## NONFARM EMPLOYMENT



Source: BLS

# Divergence

## NONFARM EMPLOYMENT



Source: BLS

# **ECONOMY AT A GLANCE**

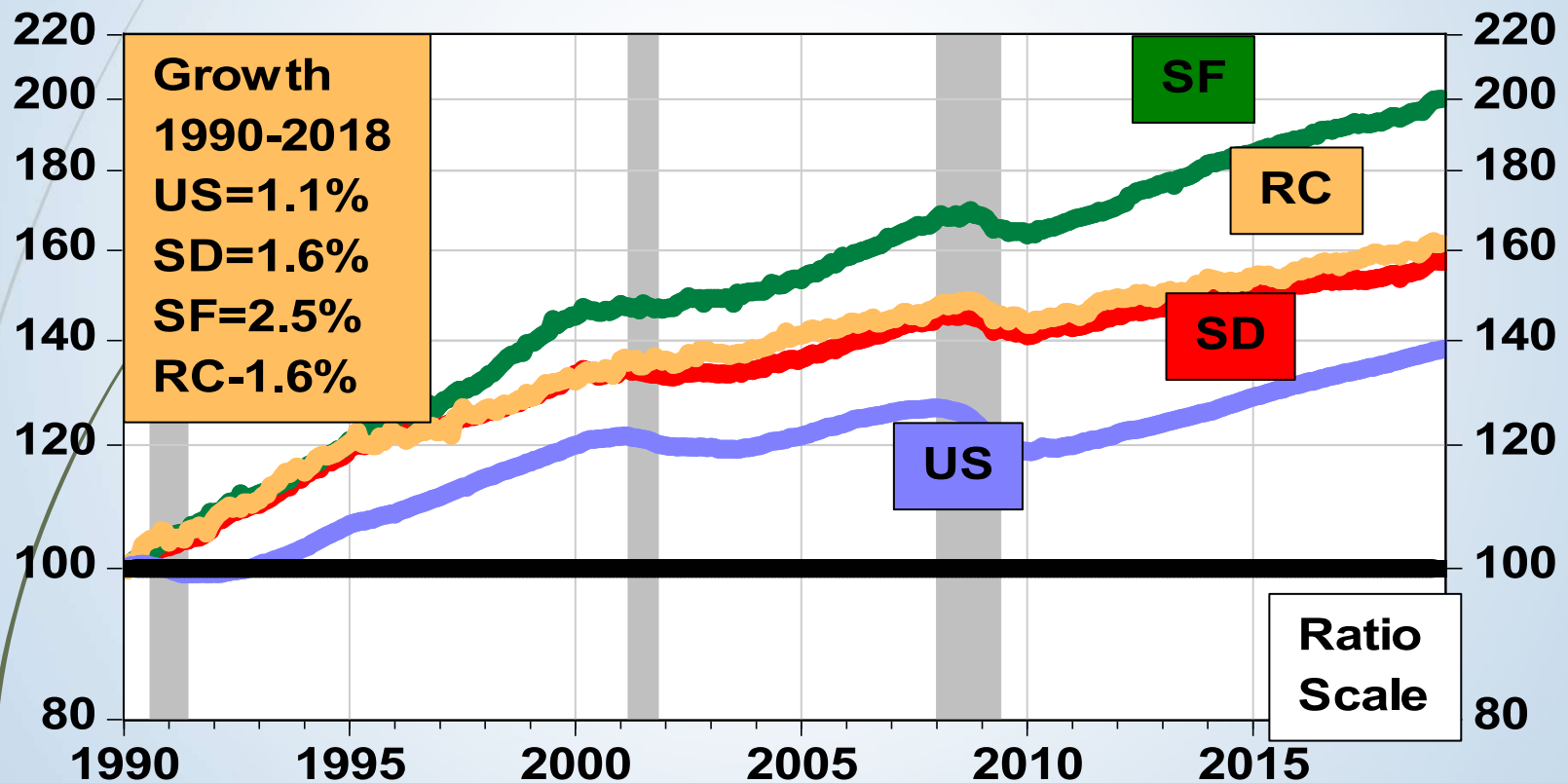
## **(Nonfarm Employment Y/Y)**

### **AUGUST 2019**

<b>INDUSTRY</b>	<b>SD</b>	<b>SF</b>	<b>RC</b>
<b>Total NonFarm</b>	<b>1.6%</b>	<b>3.5%</b>	<b>0.1%</b>
<b>Min,log,const</b>	<b>3.3%</b>	<b>11.6%</b>	<b>1.8%</b>
<b>Manufacturing</b>	<b>3.1%</b>	<b>1.4%</b>	<b>0.0%</b>
<b>Trade,tran,util</b>	<b>2.8%</b>	<b>0.9%</b>	<b>2.8%</b>
<b>Information</b>	<b>-1.8%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Finance</b>	<b>-0.3%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Prof,business</b>	<b>2.8%</b>	<b>6.4%</b>	<b>1.7%</b>
<b>Educ,health</b>	<b>2.1%</b>	<b>7.1%</b>	<b>2.5%</b>
<b>Leisure,hosp</b>	<b>-0.4%</b>	<b>1.8%</b>	<b>-5.7%</b>
<b>Other services</b>	<b>1.2%</b>	<b>1.6%</b>	<b>2.9%</b>
<b>Government</b>	<b>0.5%</b>	<b>2.1%</b>	<b>0.9%</b>

# SF Outpaces the Rest

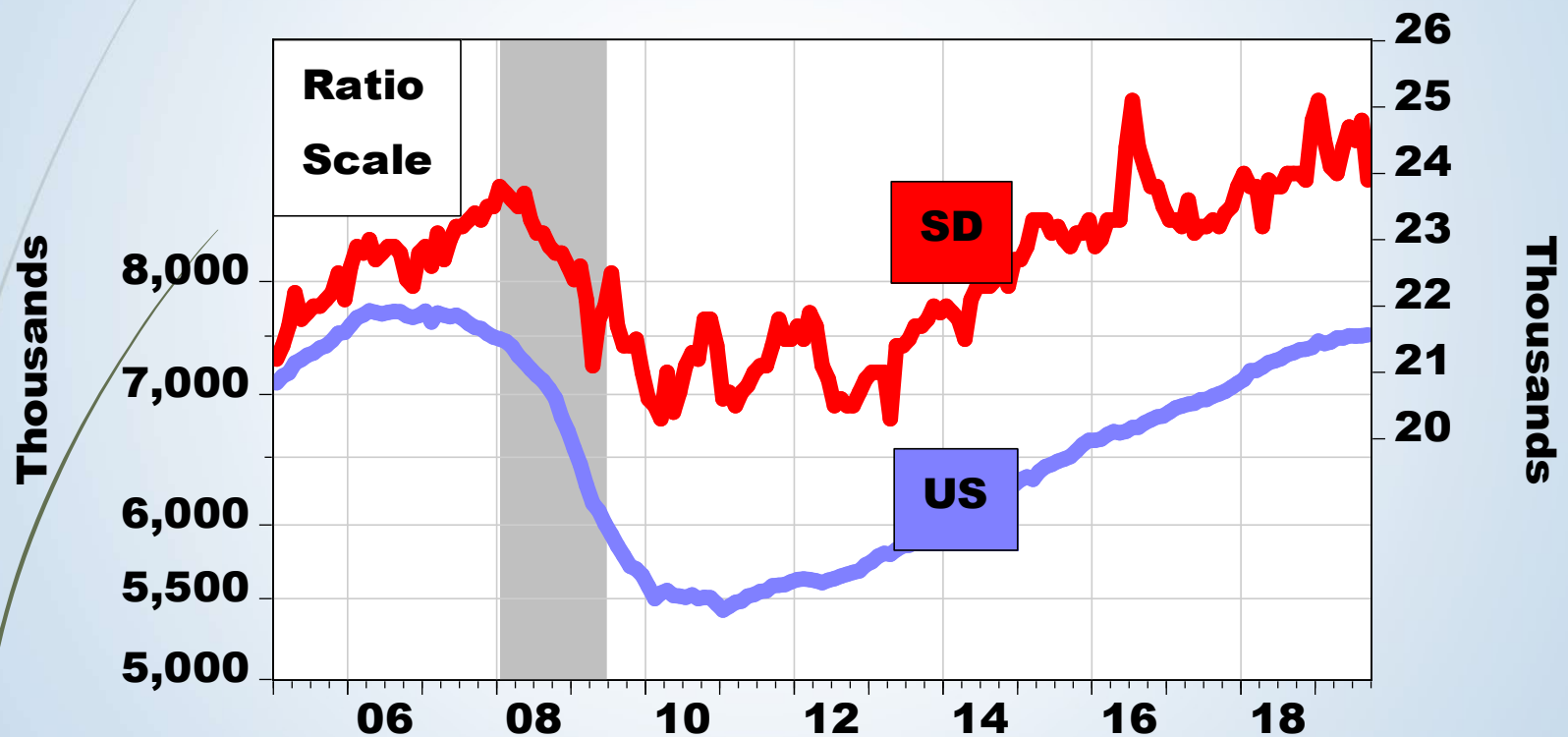
## NONFARM EMPLOYMENT



Source: BLS

# Growth

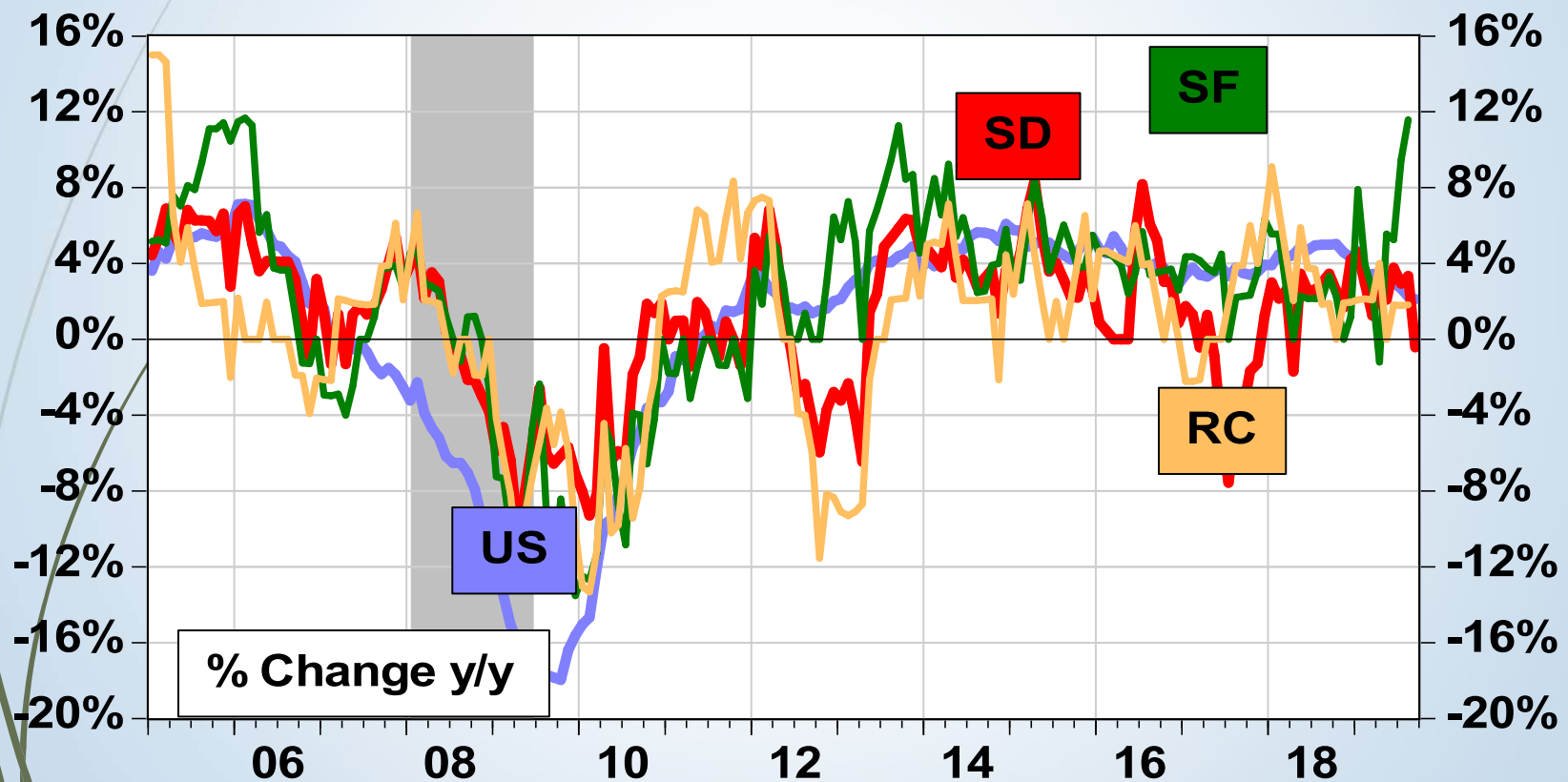
## CONSTRUCTION EMPLOYMENT



Source: BLS

# SF Growth

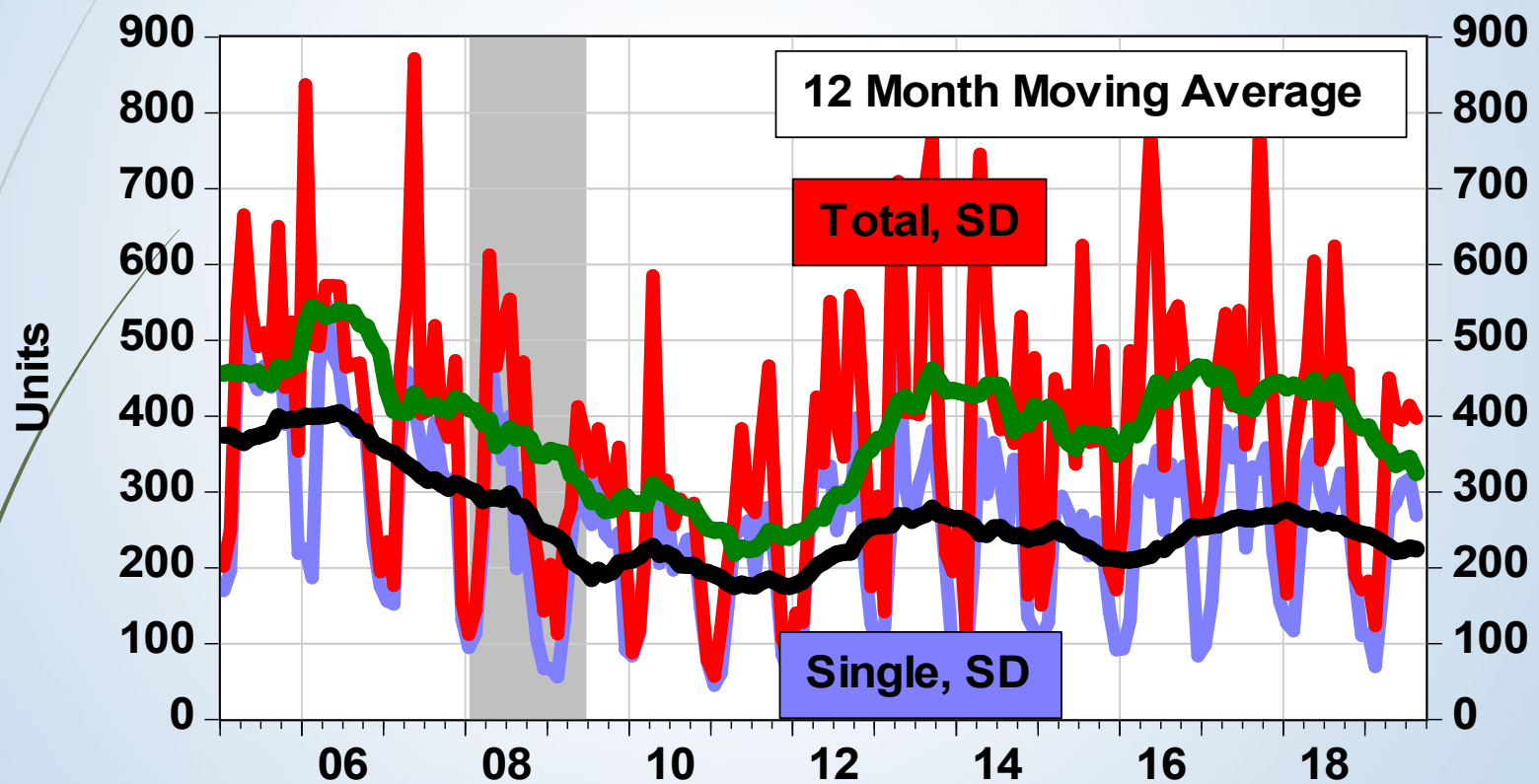
## CONSTRUCTION EMPLOYMENT



Source: BLS

# Small Decline

## SD Building Permits, Total & Single

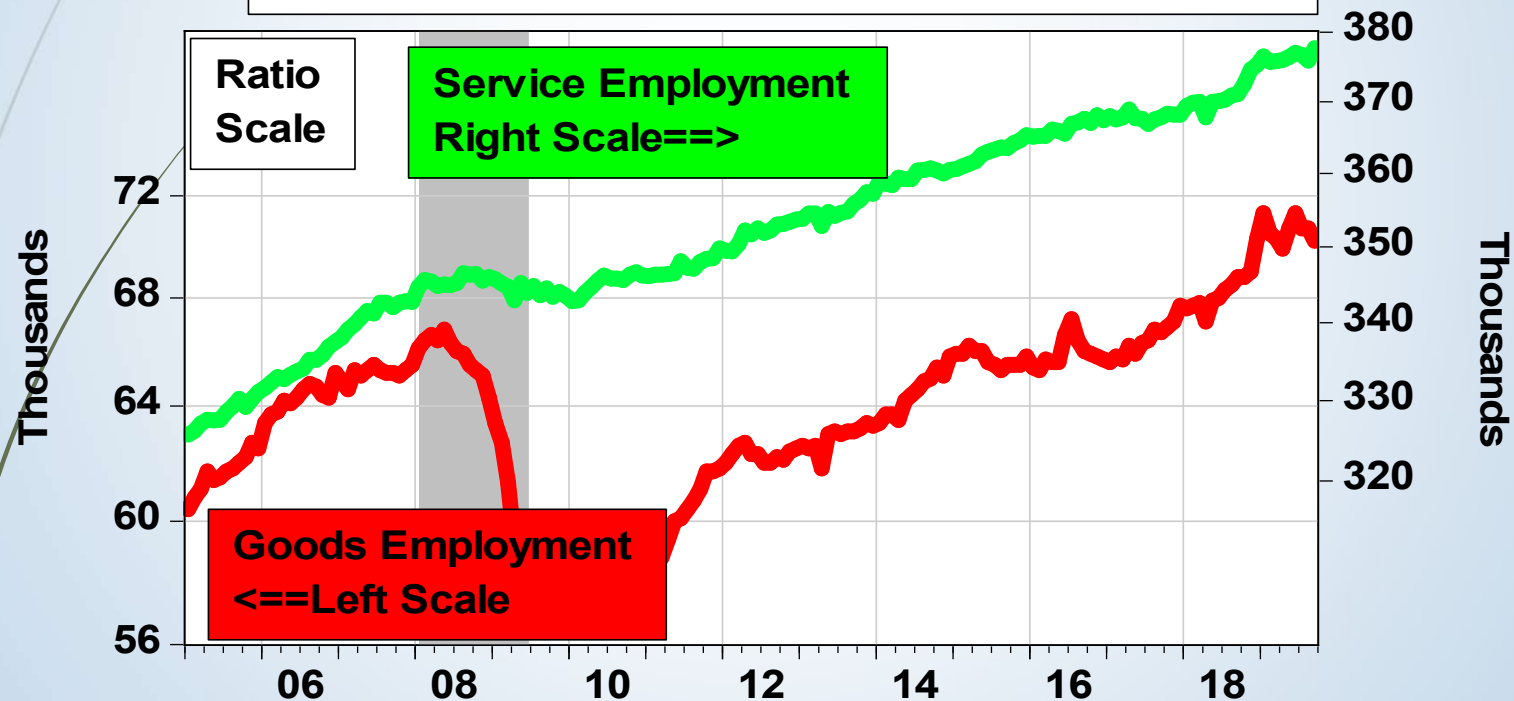


Source: Census Bureau

# Which is More Cyclical?

## SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

Goods-Producing = Manufacturing+Construction

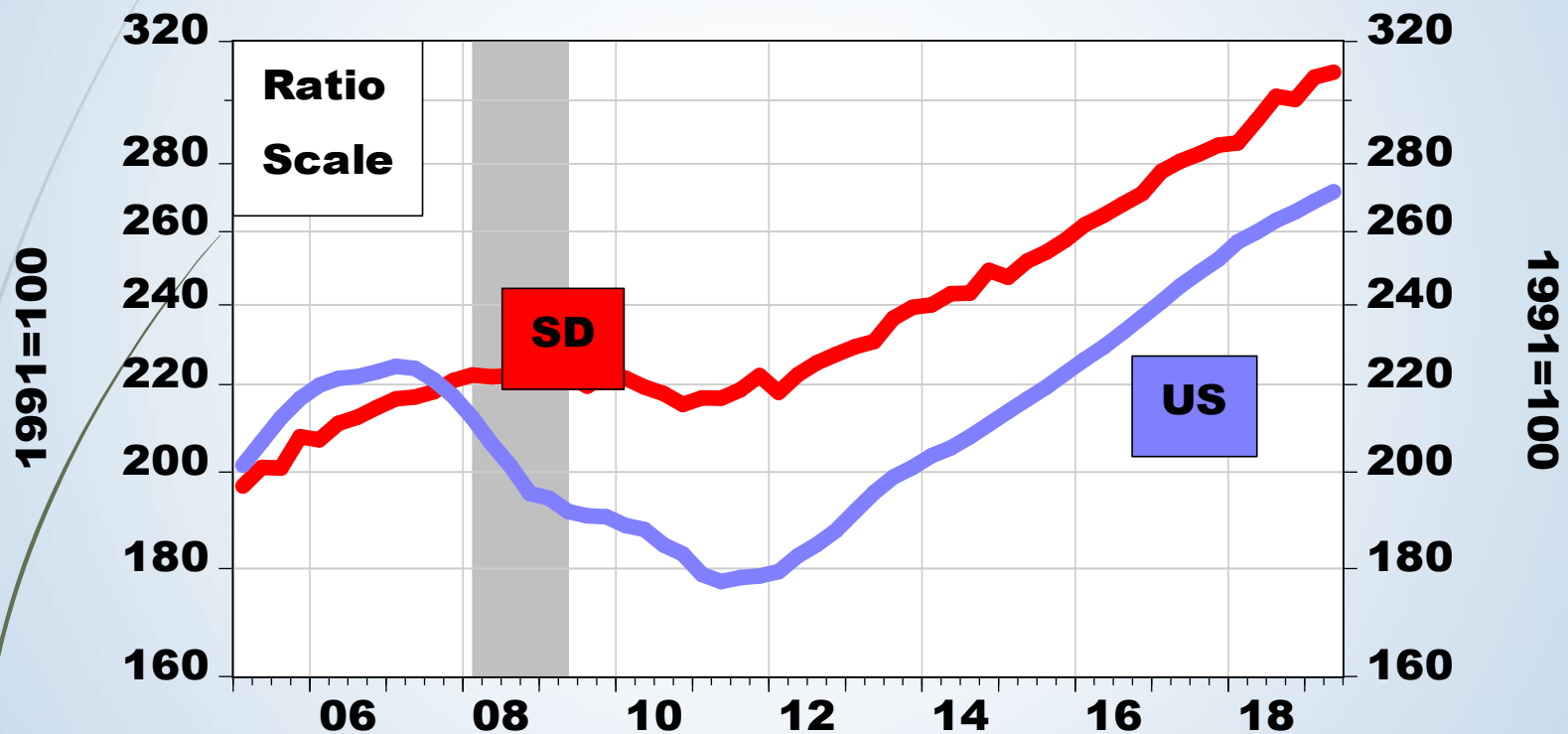


Source: BLS



# SD Peaked Later and Decline Less Severe

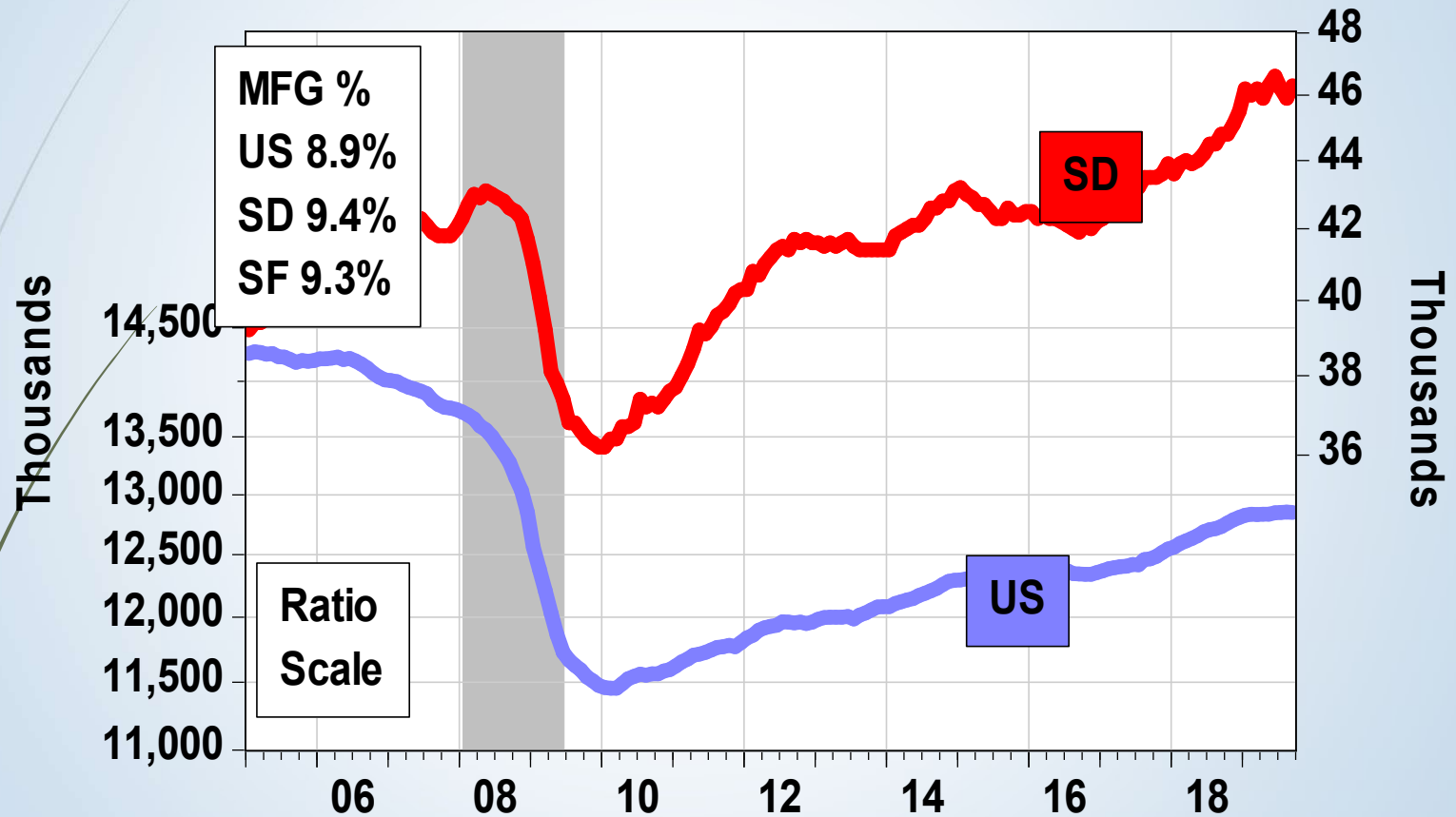
## House Price Index



Source: FHLB

# Little Slowdown

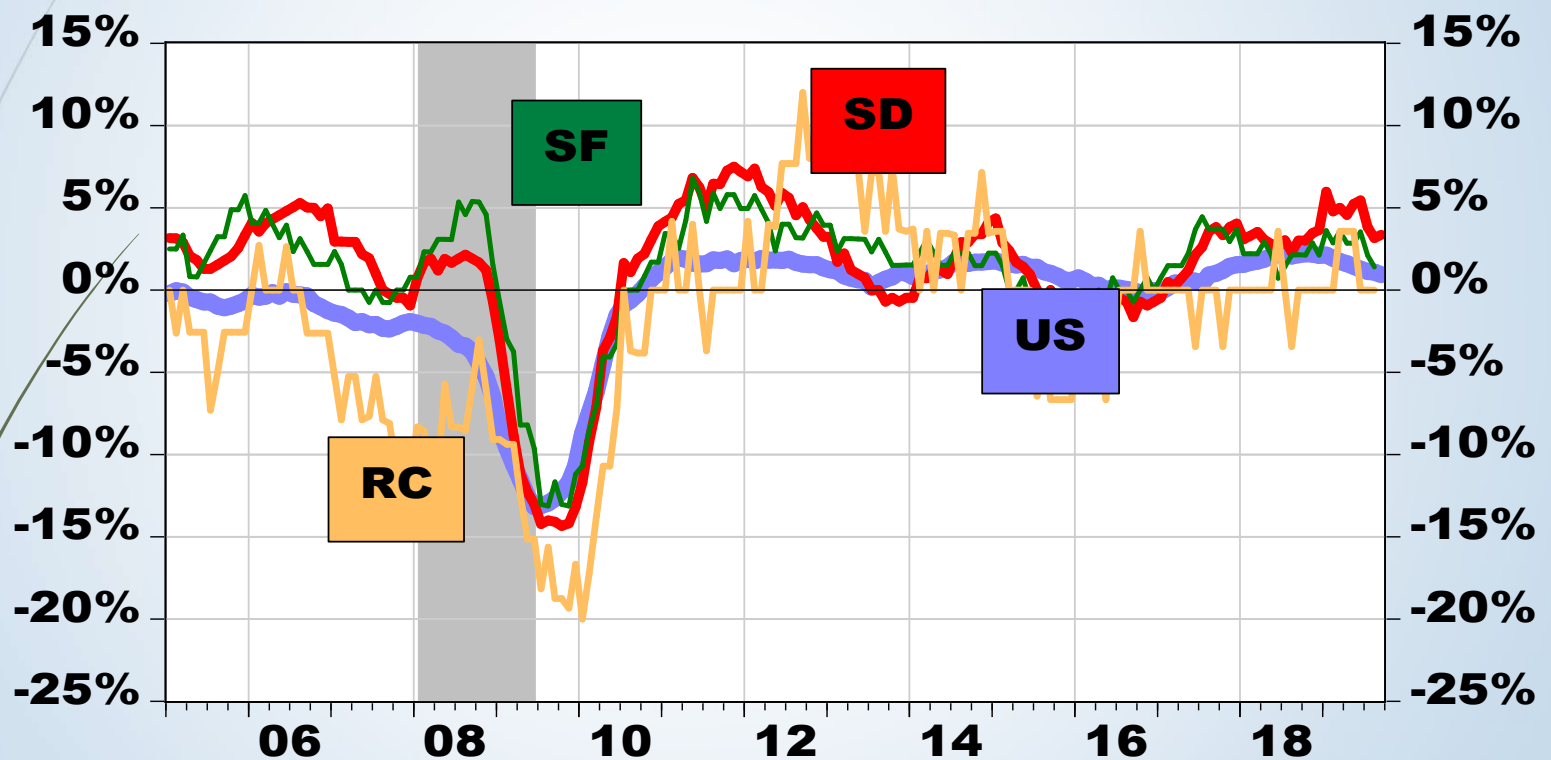
## MANUFACTURING EMPLOYMENT



Source: BLS

# Divergent Growth

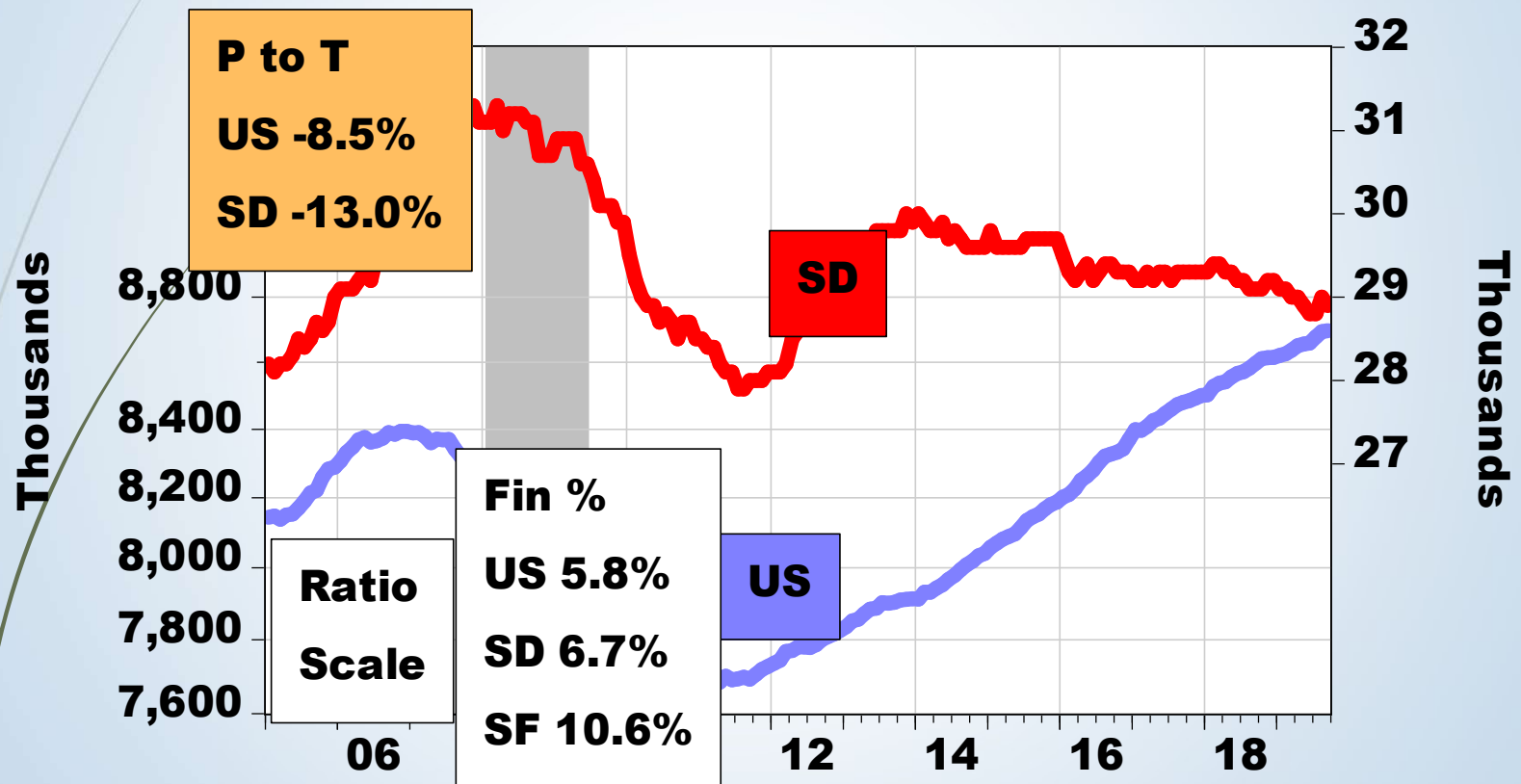
## MANUFACTURING EMPLOYMENT



Source: BLS

# SD Slight Decline

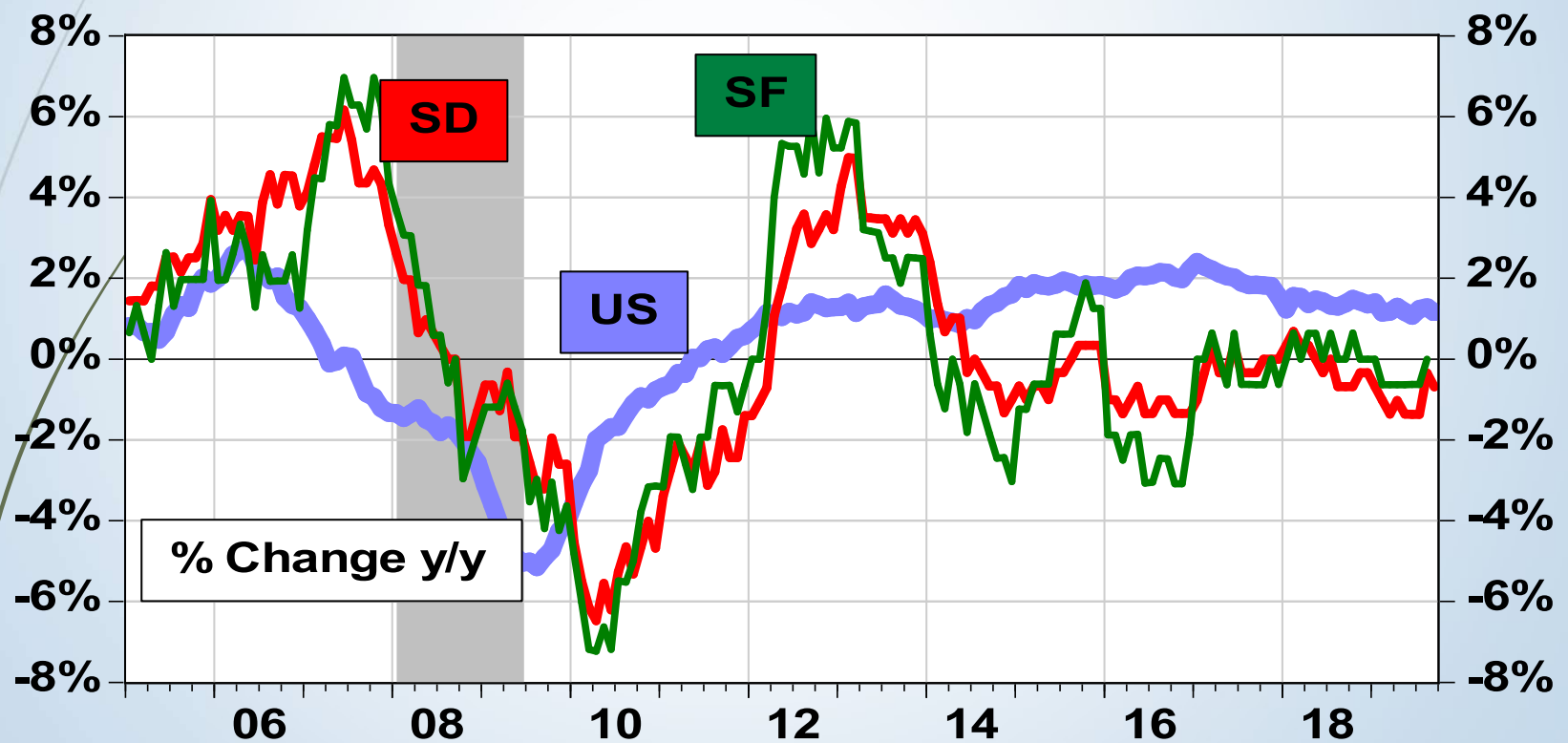
## FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

# Note SD and SF Different Than US

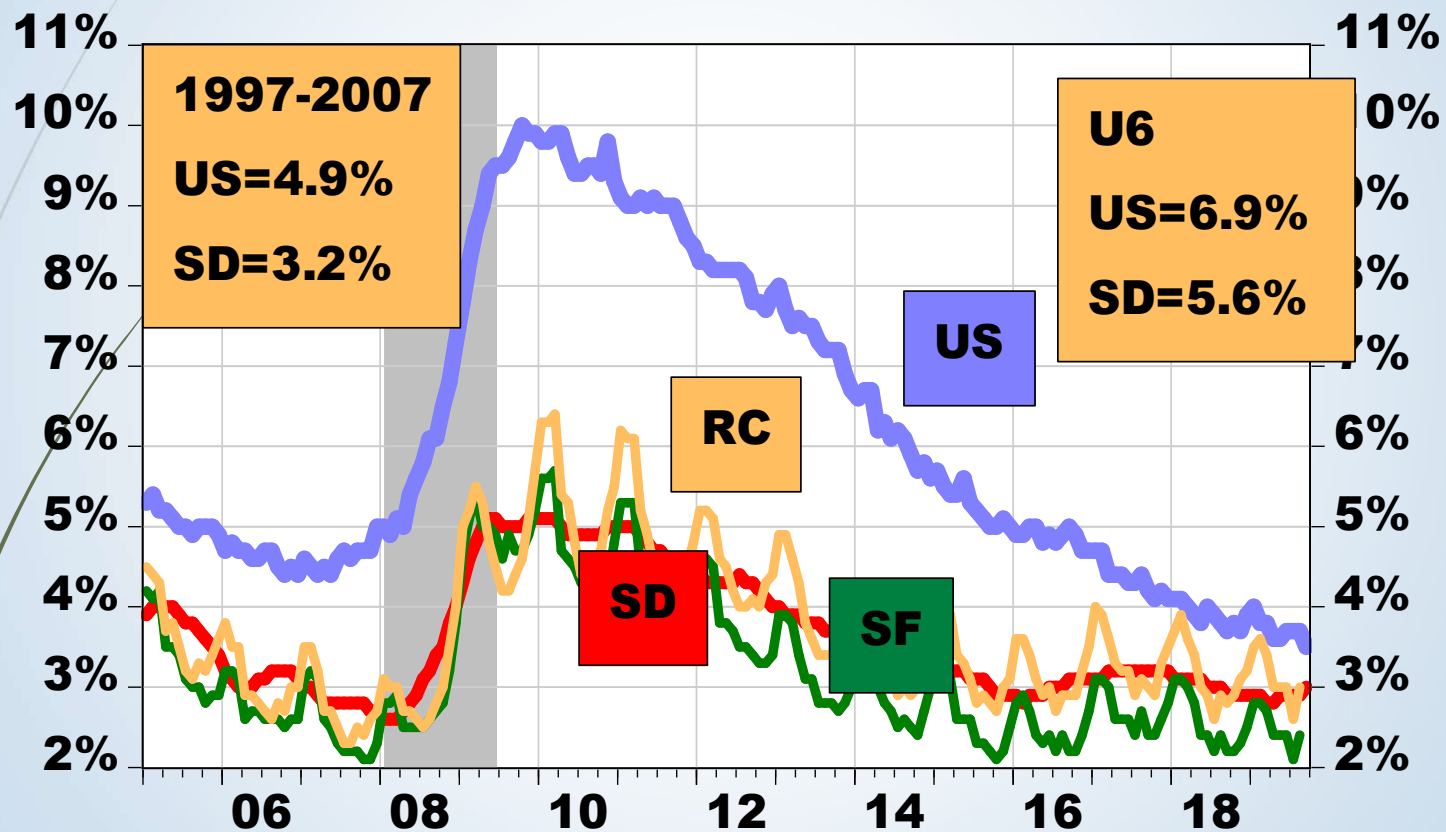
## FINANCIAL ACTIVITY EMPLOYMENT



Source: BLS

**US 3.5% SD 3.0% SF 2.4% RC 3.0%**

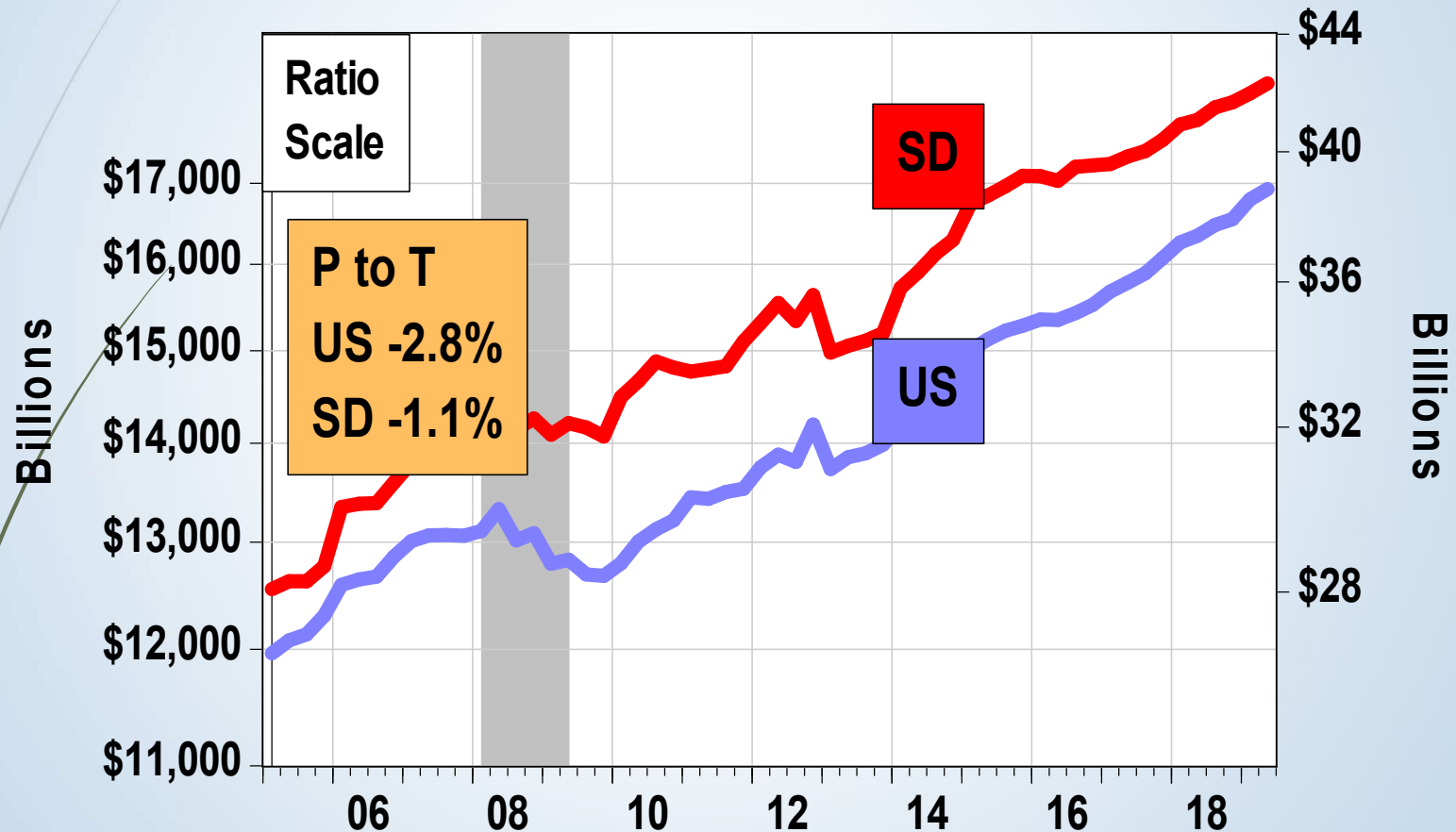
## UNEMPLOYMENT RATES



Source: BLS

# SD & US Growth

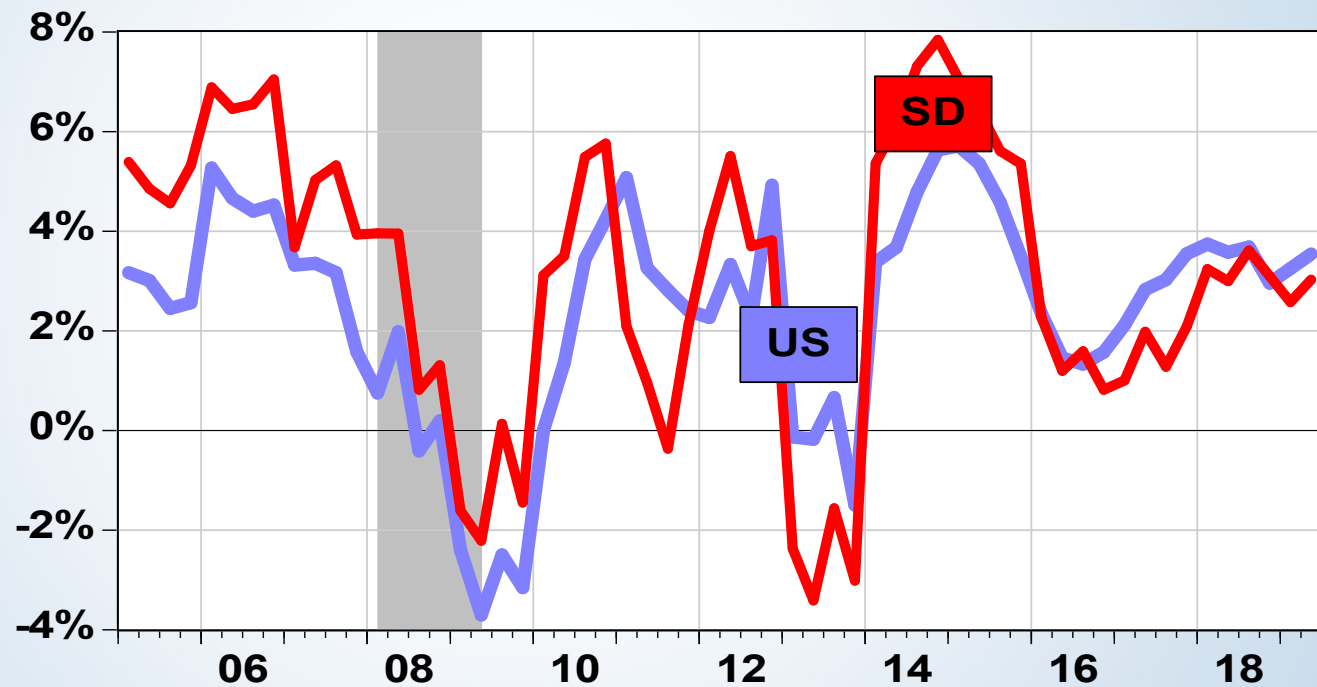
## NONFARM PERSONAL INCOME (2012 \$S)



Source: BLS

# US and SD Track

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

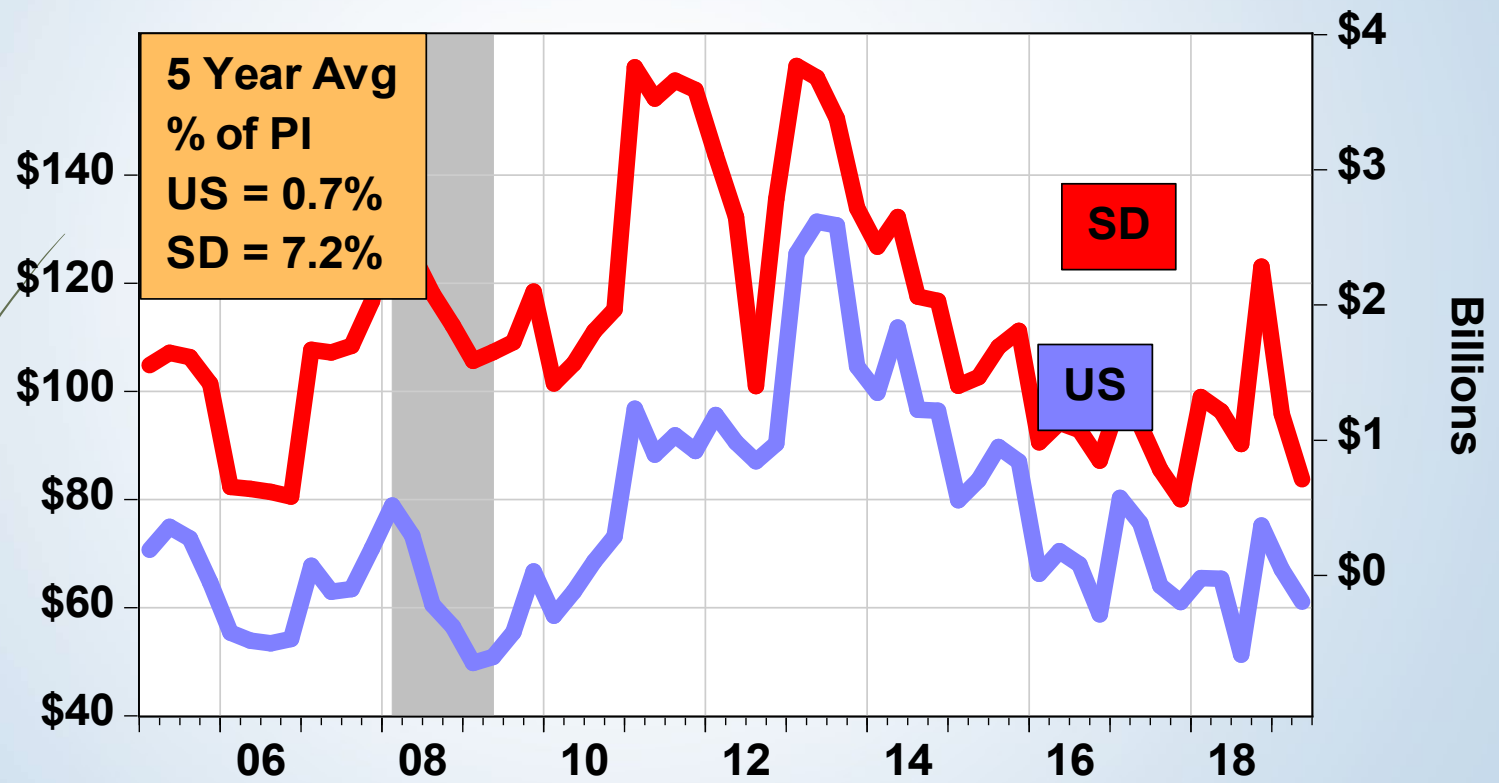


Source: BEA



# Farm Income Down

## FARM INCOME



Source: BEA

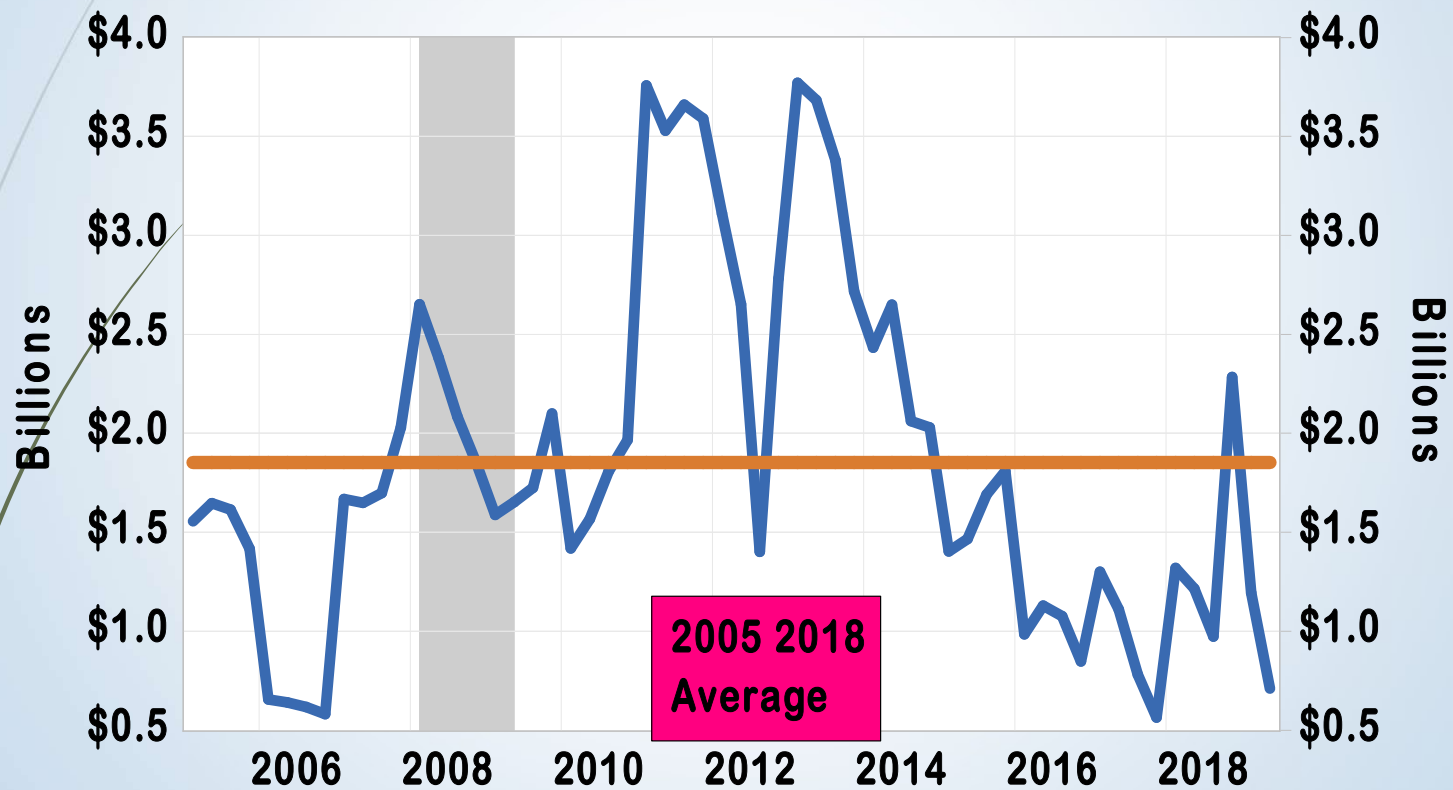
### US and SD Track

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



# Way Below Average

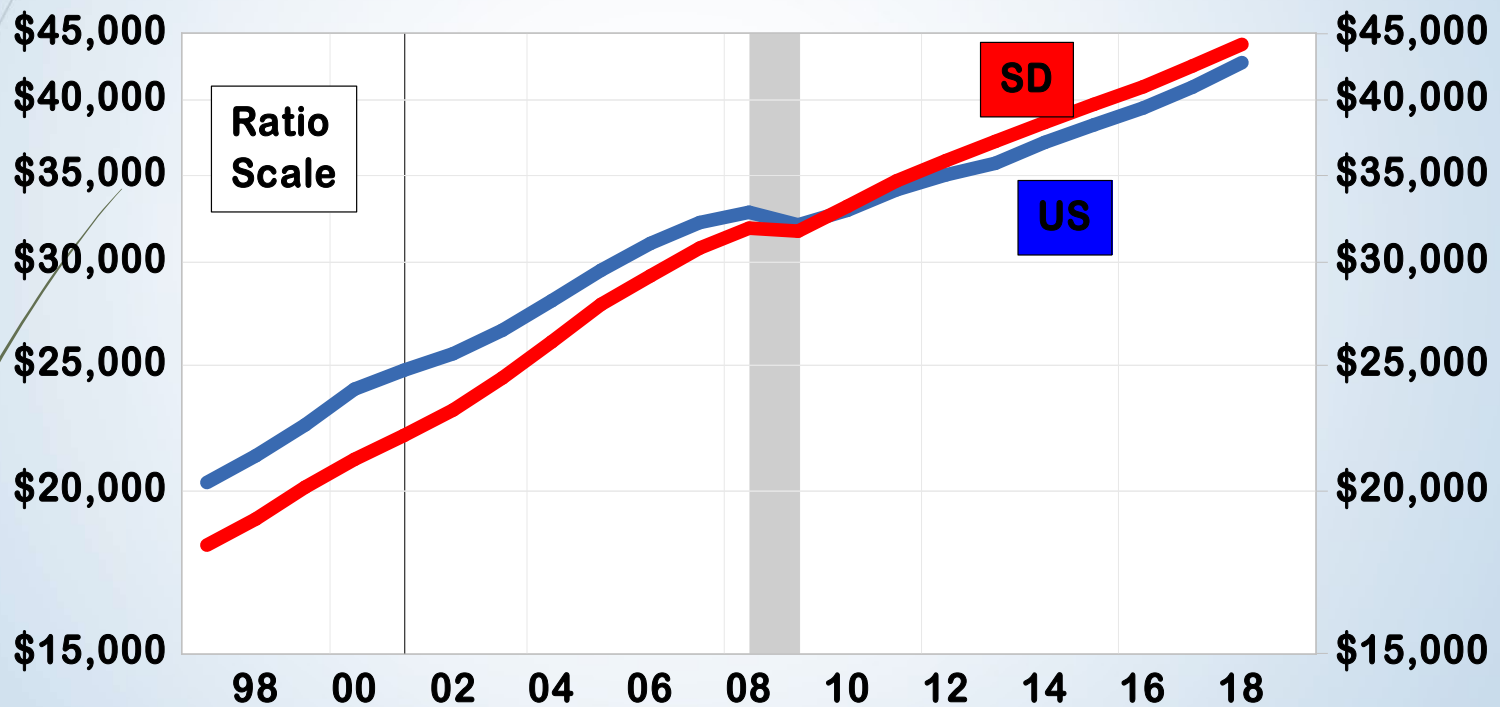
## SD FARM INCOME



Source: BEA

# SD and US Track

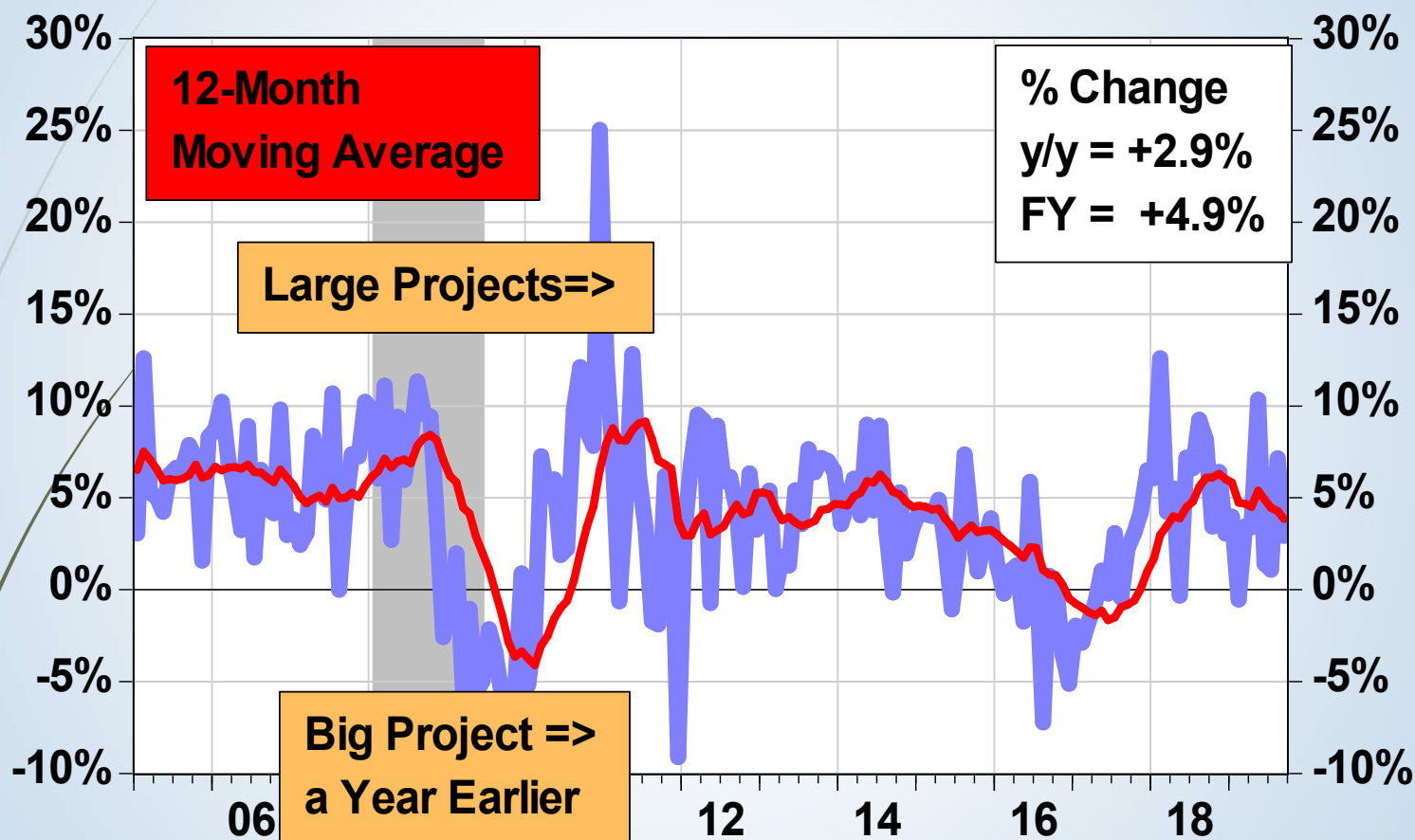
## PERSONAL CONSUMPTION PER CAPITA



Source: BEA

# Steady Growth

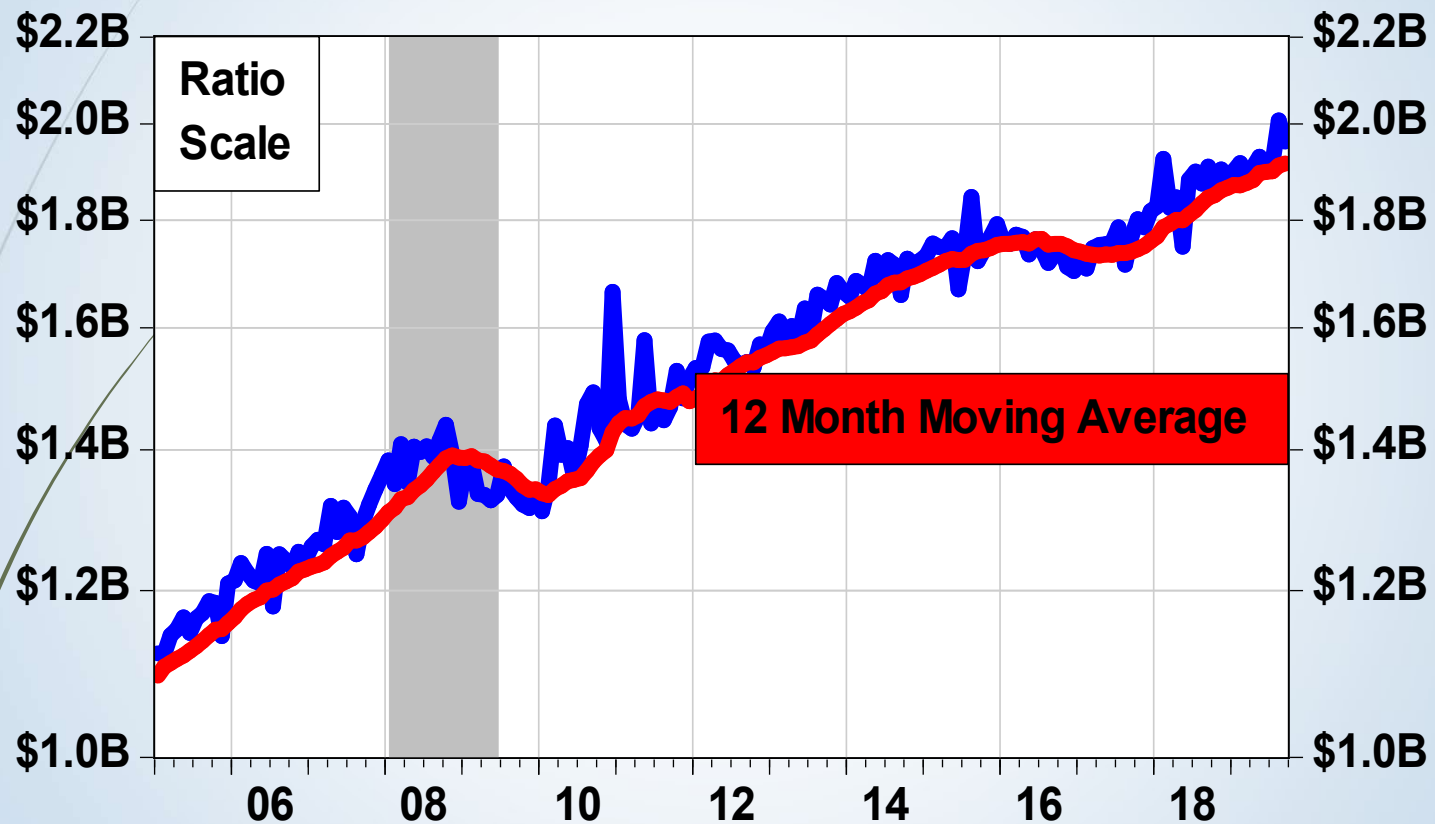
## SD TAXABLE SALES



Source: SD Department of Revenue

# Growth

## SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue

# 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%



# **Mid-American States Leading Indicators - GOSS**

**2019 Index > 50 Growth – September**

**Down from August report - mostly in 50s.**

**Overall 47.8**

**New Orders 42.6**

**Sales 49.5**

**Delivery lead time 56.5**

**Inventories 47.2**

**Employment 43.2**



## Goss Comments

- **“South Dakota's construction activity continues to improve. Manufacturers, on the other hand, are experiencing almost flat growth with new orders and other indicators pointing to slow to no growth in the months ahead,” Goss said.**

# **Conclusions**

**SD economic growth is slowing**

**SF economy growing at faster rate**

**US economy growing nicely**

**35% chance of recession**

**Impact of Trade War???**

**The End**

