



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

February 18, 2015

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Outline of Presentation



Overview of US economy

US economy forecast

SD economy

Summary & Conclusions



US Forecast

Global Insight Forecast –February

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation



IHS Global Insight Overview

This month, IHS emphasizes two profound transformative events that are affecting the US economy.

1. Low oil prices
2. Rising value of the \$

Both will produce winners and losers.

While low oil prices will negatively affect oil producers, etc. The positive impact on consumers will result in a net gain of 0.5 to 0.6 in real GDP growth

Higher \$ will reduce inflation as imported goods are cheaper . Higher \$ will increase imports and decrease exports.

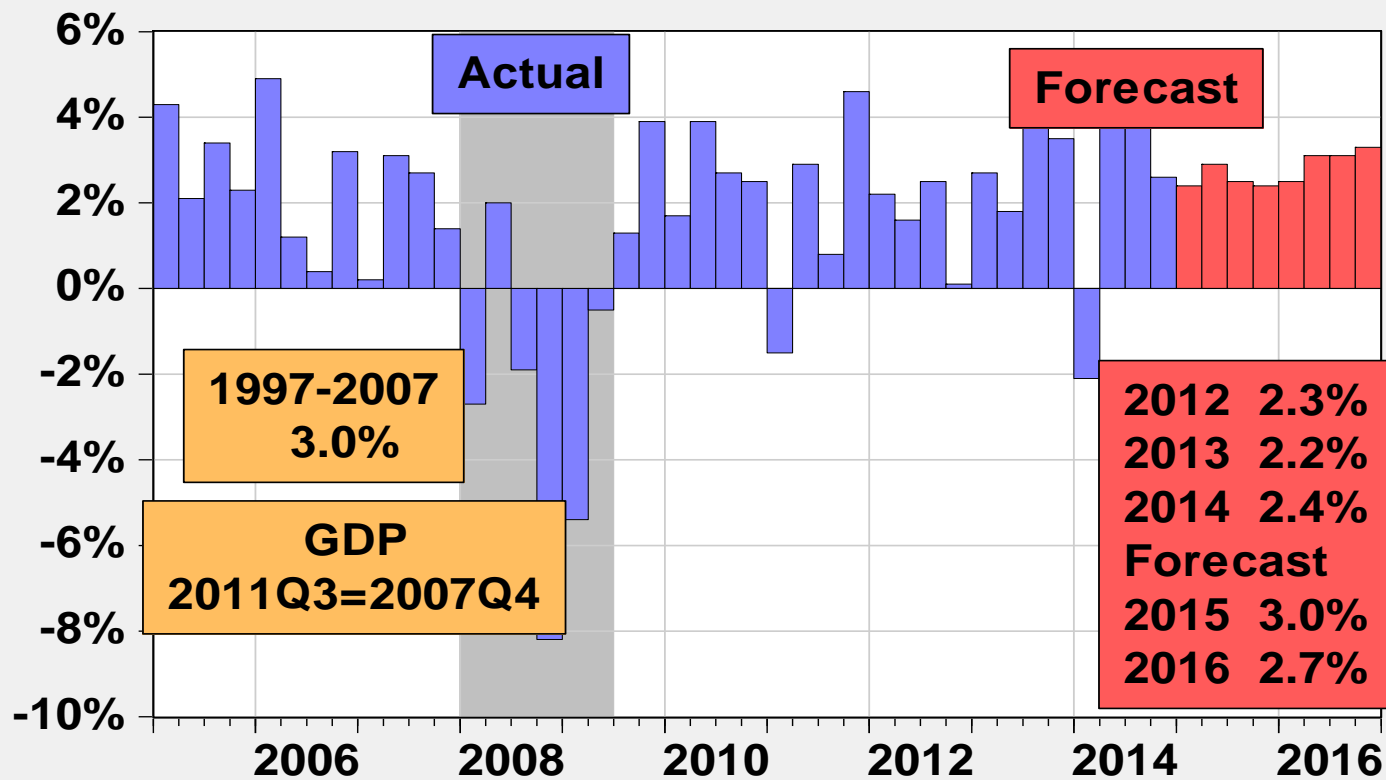


IHS Top-10 Economic Predictions for 2015

- 1. US growth will be solid, in the 2.5–3.0% range.**
- 2. The Eurozone recovery will proceed at a sluggish pace, but UK growth will be robust.**
- 3. Japan's economy will regain weak growth momentum.**
- 4. China's growth rate will decelerate more, but remain stronger than most.**
- 5. A few emerging markets will struggle, while many will see above-average growth.**
- 6. Commodity prices will slide further.**
- 7. Inflation will be a distant threat, while deflationary worries persist.**
- 8. The Federal Reserve, Bank of Canada, and Bank of England will likely start raising interest rates, while most other central banks will be on hold or provide more stimulus.**
- 9. The US dollar will rise against most currencies, while the euro and yen will fall.**
- 10. Perennial downside risks will be balanced by some upside risks.**

Growth to Pickup

GROSS DOMESTIC PRODUCT



Source: BEA and IHS



Components of GDP are:

**GDP = Consumption (69%)
Investment (17%)
Government (18%)
Net Export (-4%)**



Consumption

Outlook brighter for 2015 and 2016.

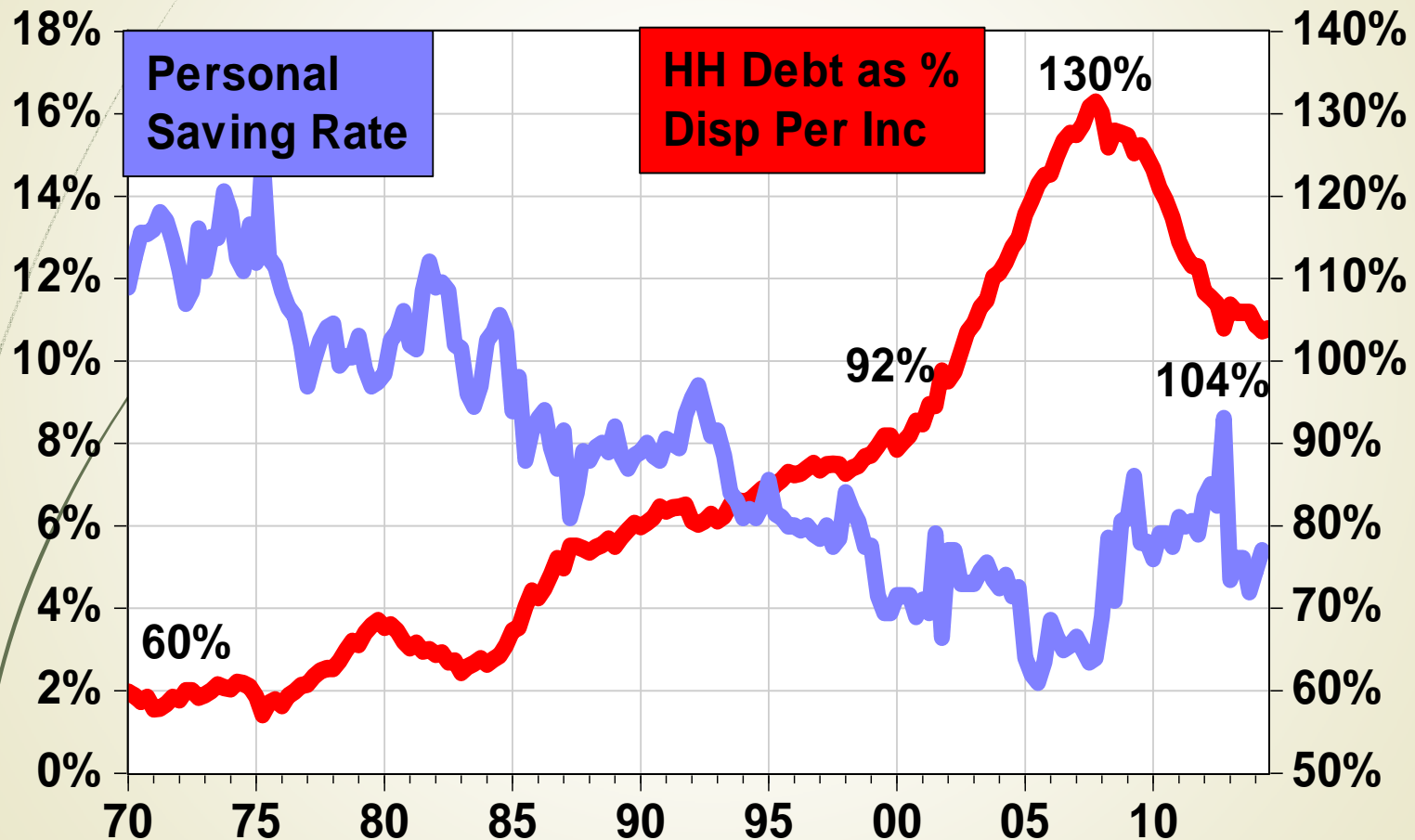
Good growth expected, 3.6% in 2015 and 3.3% in 2016.

Better prospects due to: Brighter jobs prospects, increased consumer confidence, improvement in housing, and falling gasoline prices are major drivers of better growth.

Auto sales are forecasted to increase at modest pace.

Deleveraging is Nearly Over

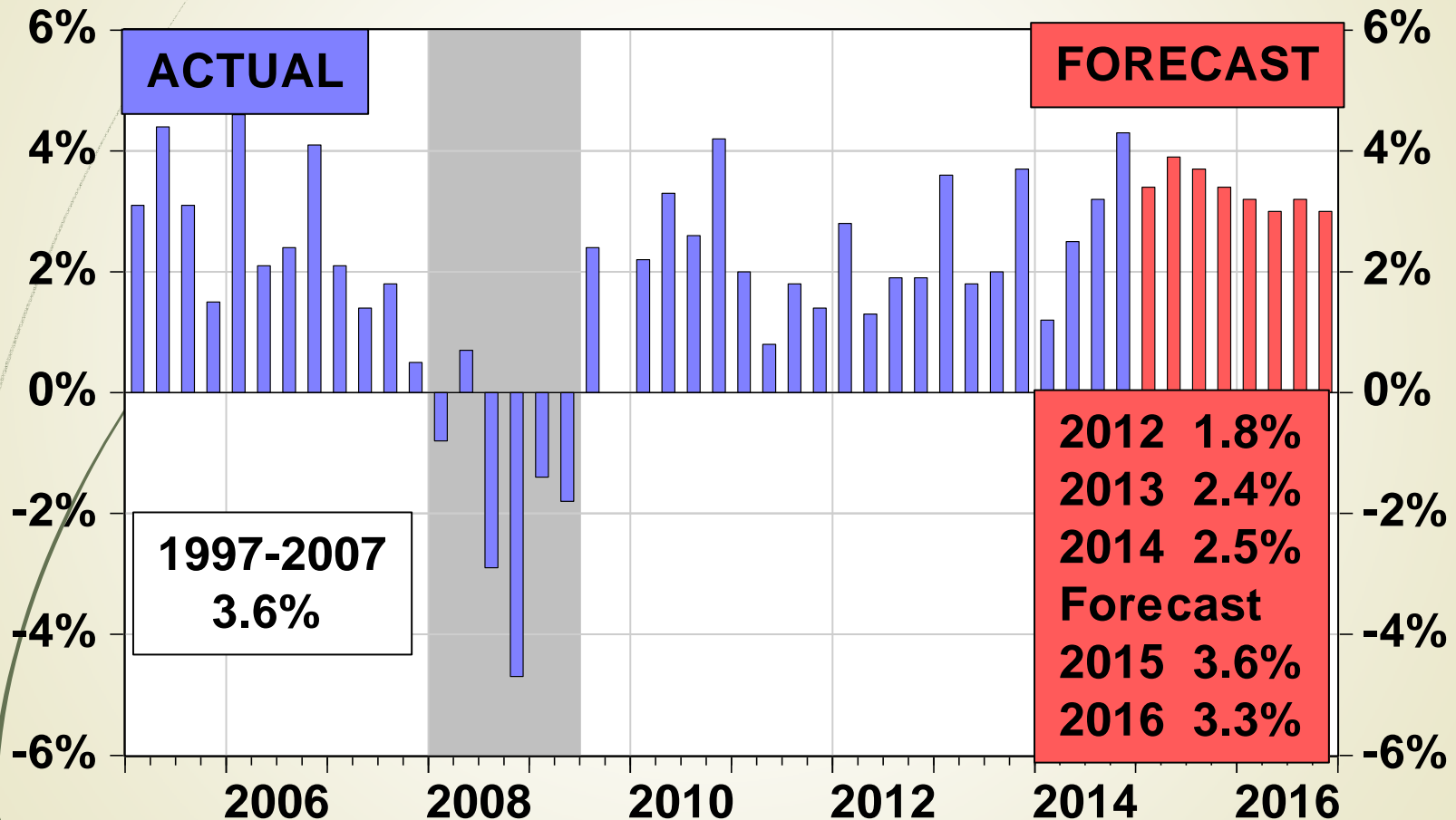
HOUSEHOLD DEBT & SAVING RATE



Source: BEA and FED

Growth Rates UP!

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

Housing sector will continue rebound.

But IHS has concerns:

- Higher mortgage rates beginning in mid-2015**

- Low rates of household formation**

Housing market positives:

- FHA and FHFA lowered underwriting standards**

- Higher inventories puts pressure on house prices**

- Lower bldg. costs as energy sector no longer poaching workers**

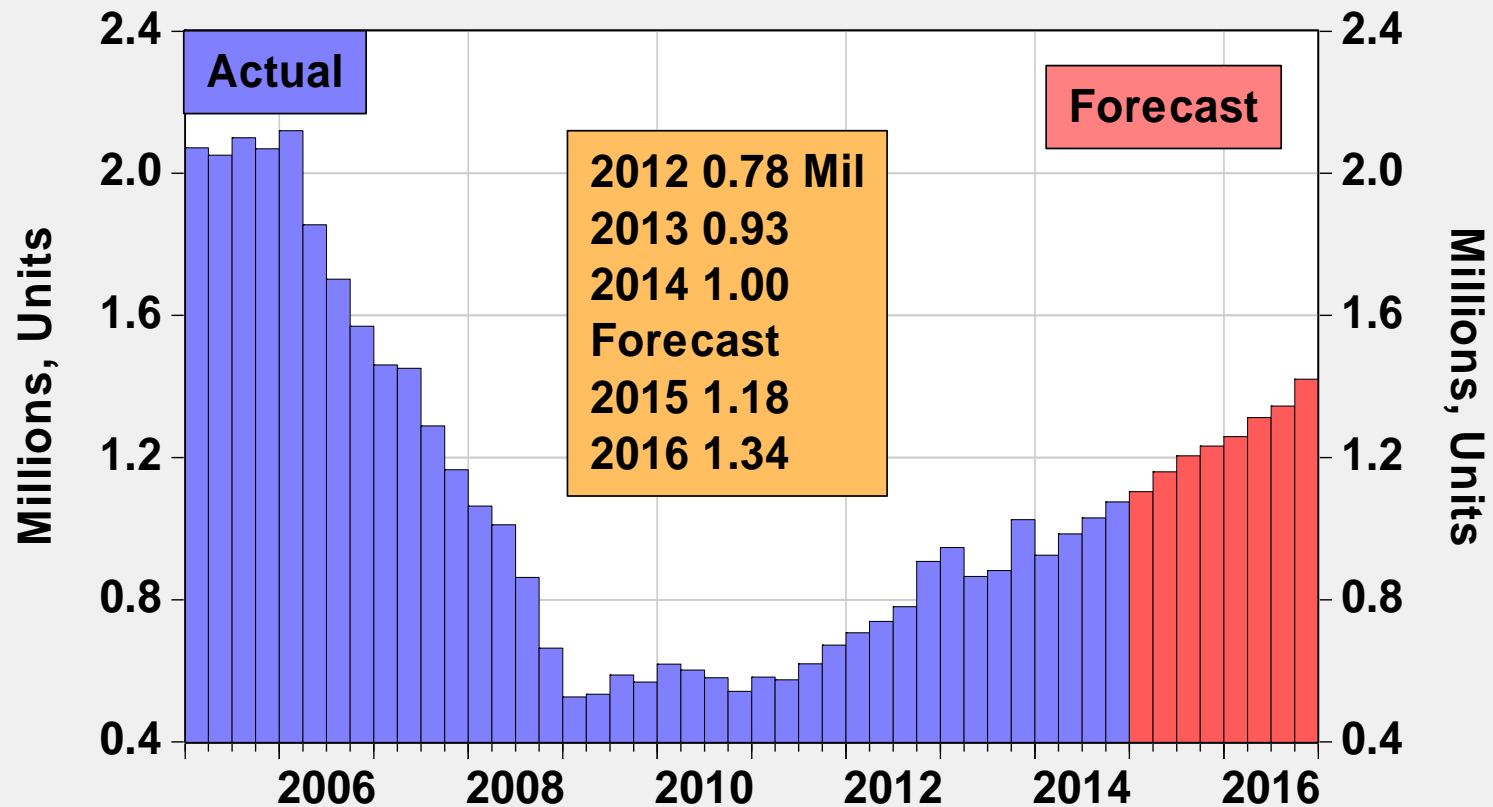
Equipment spending will rise 8.4% in 2015 and 7.4% in n 2016.

Business structures spending will rise 10.1% in 2015 and 14.7% in 2016.

Energy sector spending down 24.4% in 2015 and down 3.6 in 2016.

Recovery Proceeds

HOUSING STARTS

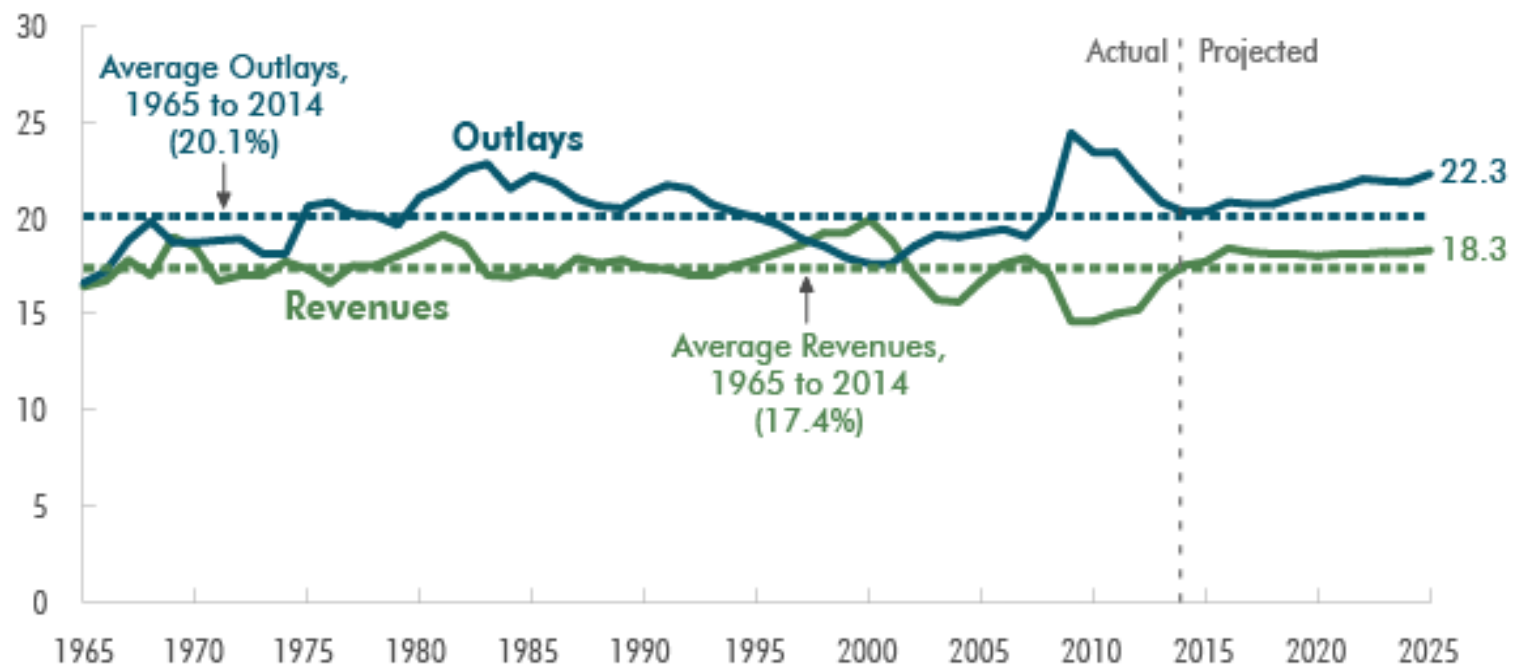


Source: US Census and IHS

Government Sector

Total Revenues and Outlays

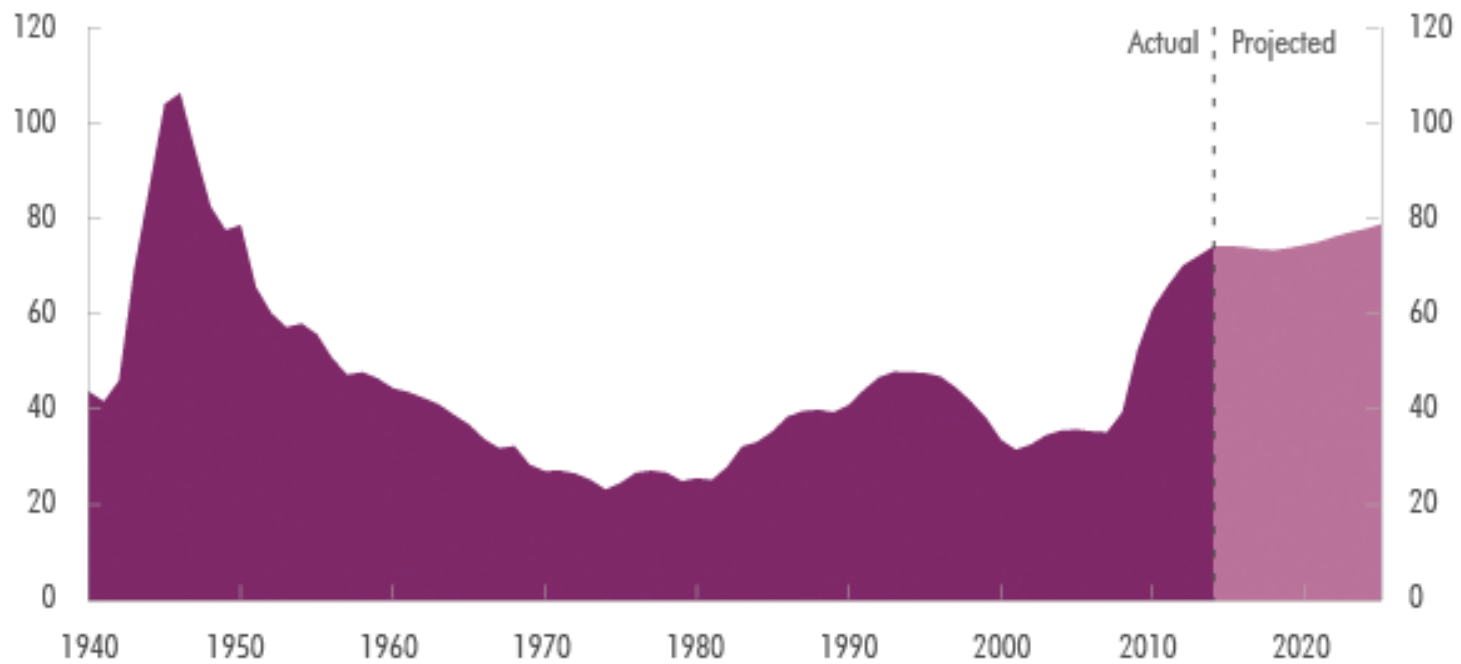
Percentage of GDP



Debt Held by Public

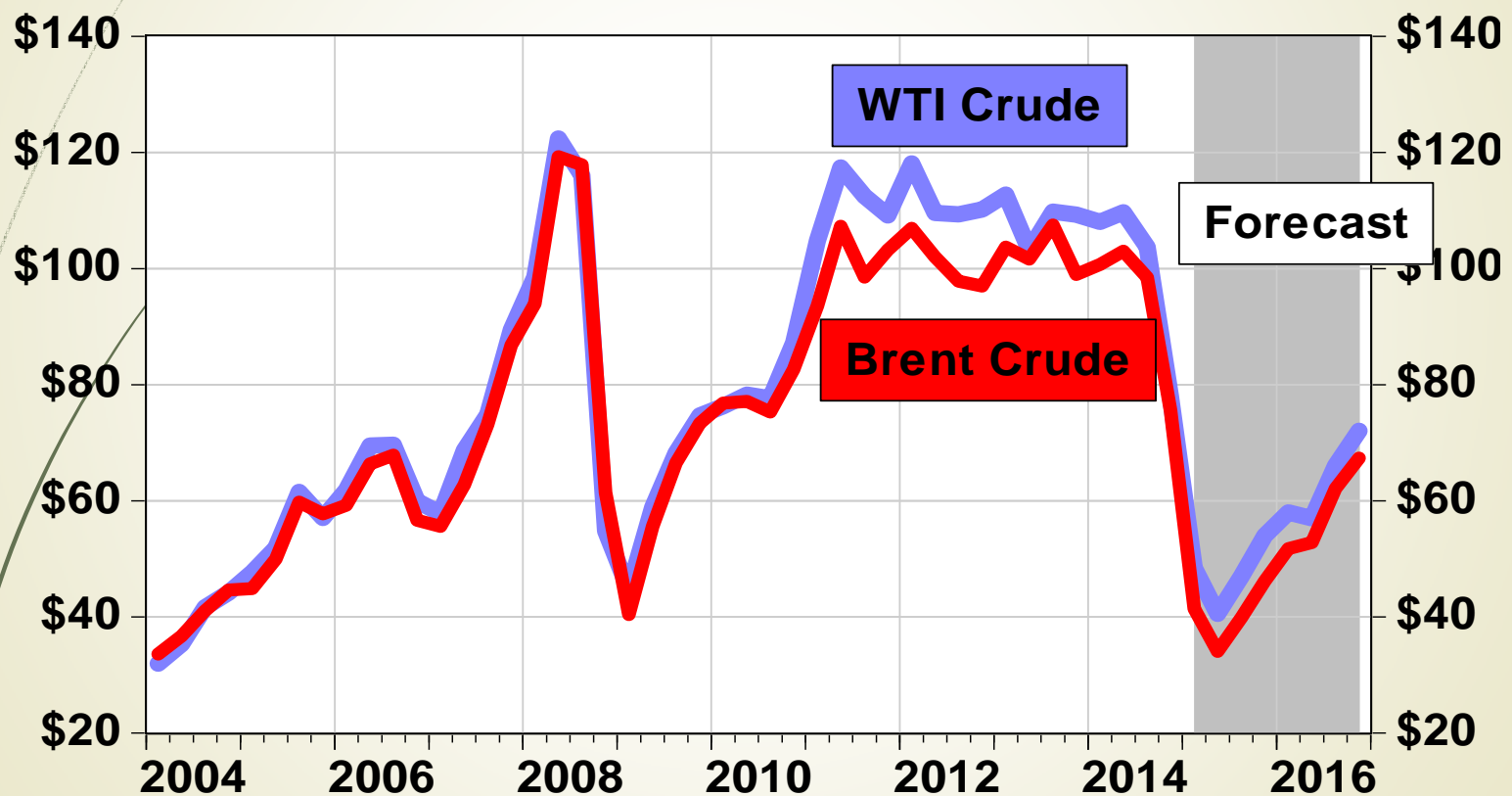
Federal Debt Held by the Public

Percentage of GDP



Oil Prices Forecast

OIL PRICES: BRENT & WTI



Source: IHS

Foreign Sector

Eurozone is in slow recovery. Only UK is doing well.

BRICS are suffering stagflation. Argentina, Venezuela, Russia, and Ukraine are basket cases.

China is slowing due to real estate crash and weaker exports.

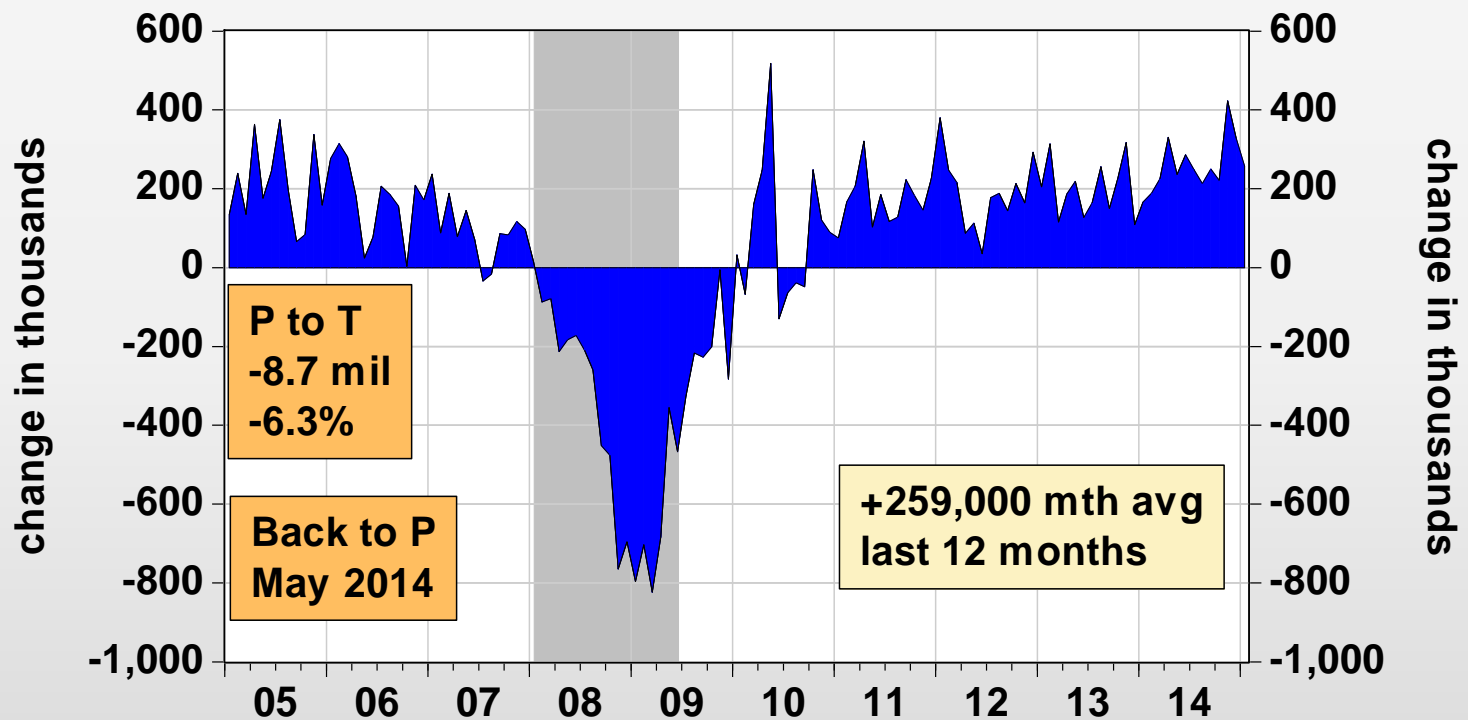
ECB has launched long-awaited QE program.

Strong \$ will reduce exports and increase imports.

“Great Divergence” related to oil prices, multiple speeds in global economy, different paths taken by major central banks.

Modest Growth

NONFARM EMPLOYMENT



Source: BLS

Employment & Unemployment

Job-Growth Recovery showing solid broad-based gains. 2.2% growth in 2015 and 1.9% growth in 2016.

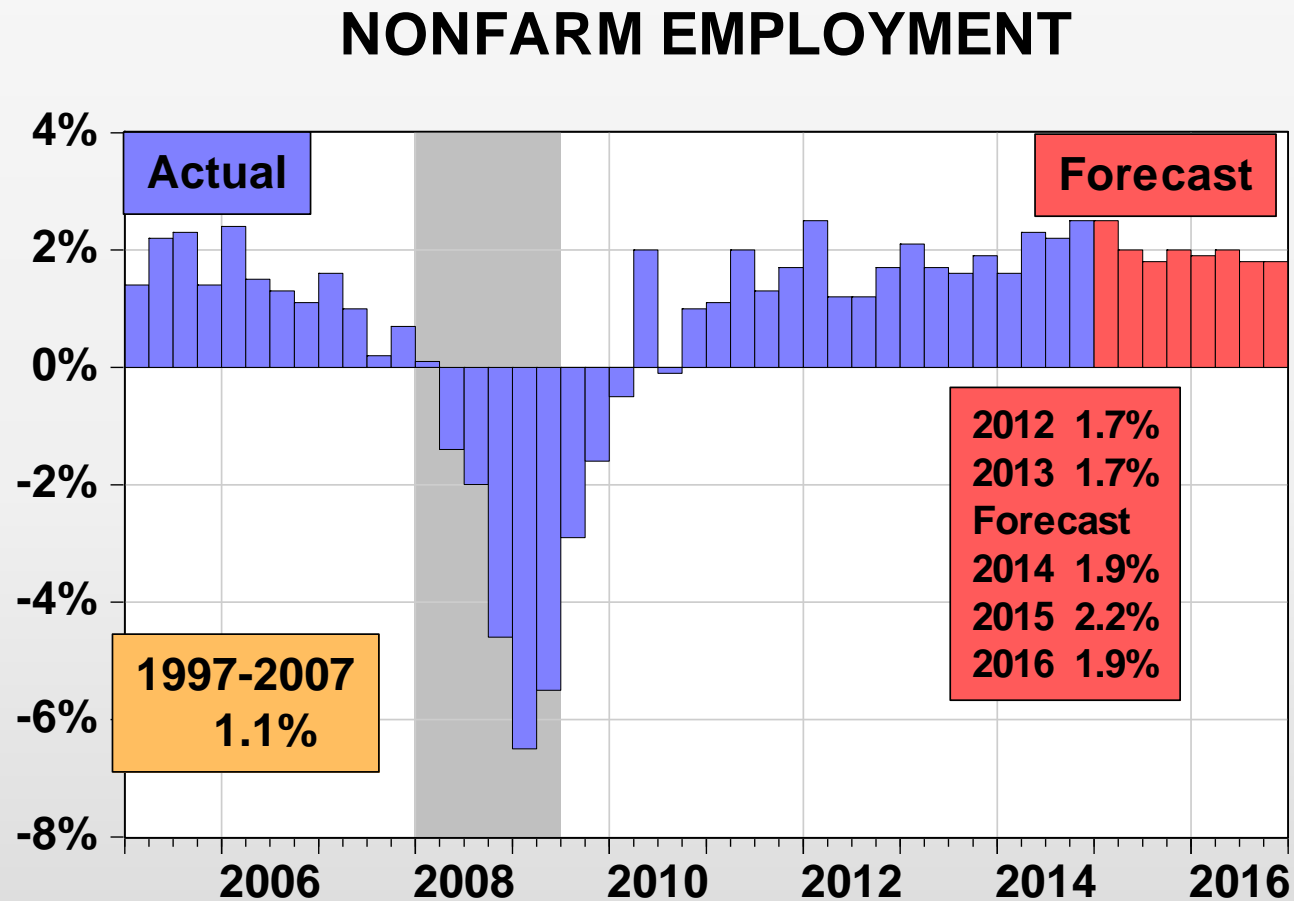
Even with gains labor market still not “tight” with only modest improvements in wage growth.

Unemployment rate will average 5.5% in 2015 and 5.3%.

We still have the issue of low labor force participation rates contributing to the drop in unemployment

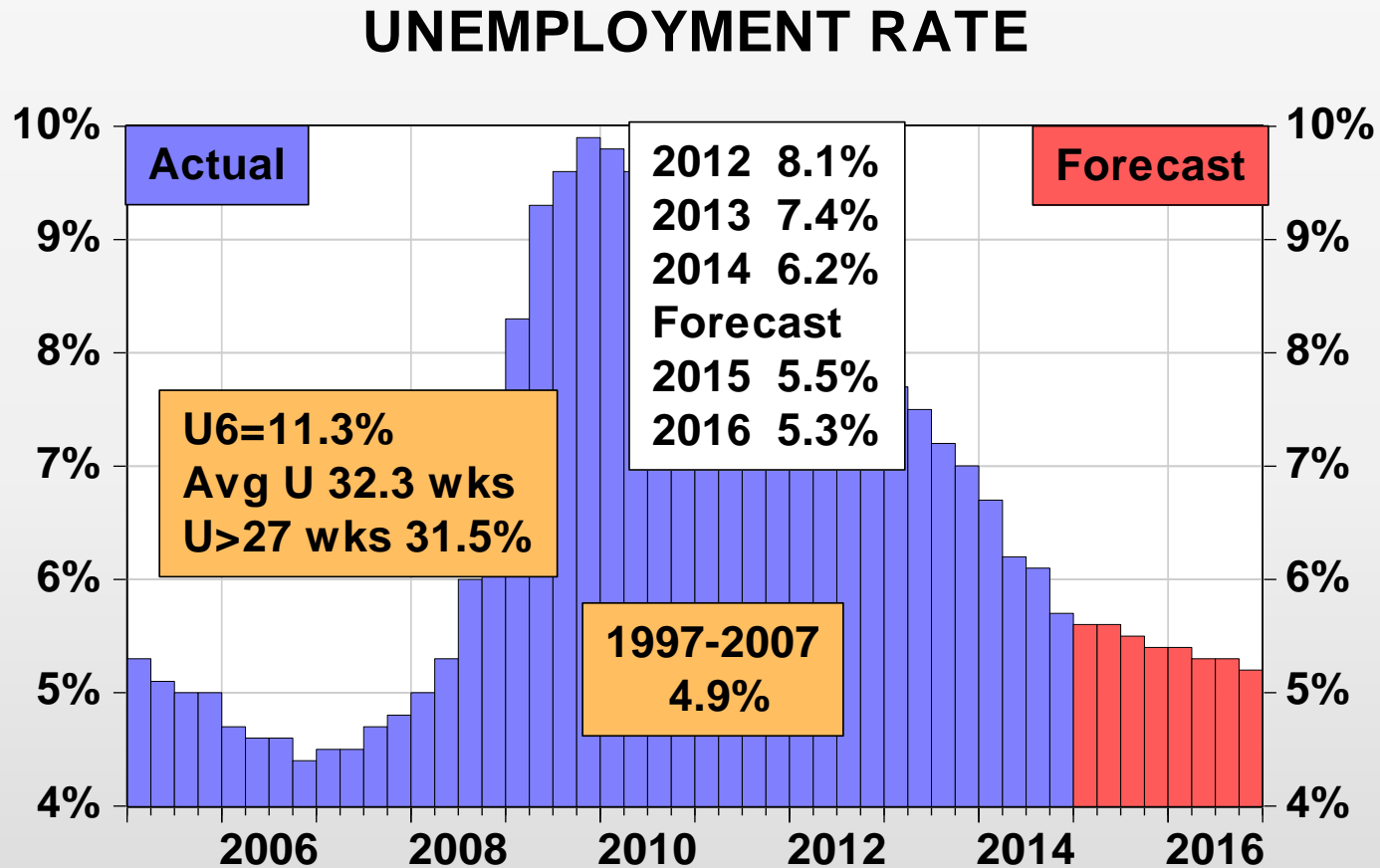
As mentioned in the past, the unemployment rate is not that good of a measure of the job market.

Job Growth - Good



Source: BLS and IHS

Lower Than Expected

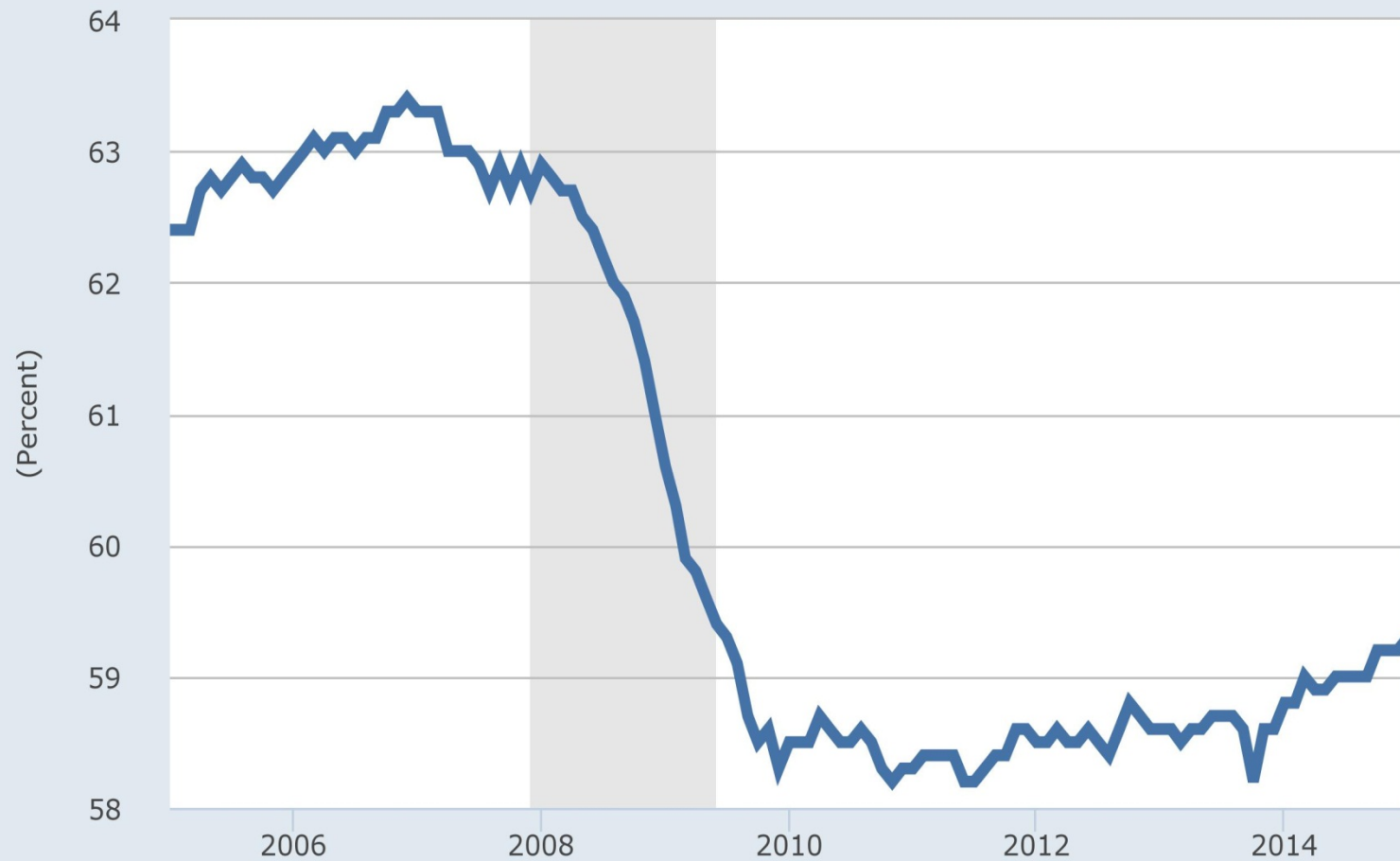


Source: BLS and IHS

EMP/POP ↓ Sharply

FRED 

— Civilian Employment-Population Ratio

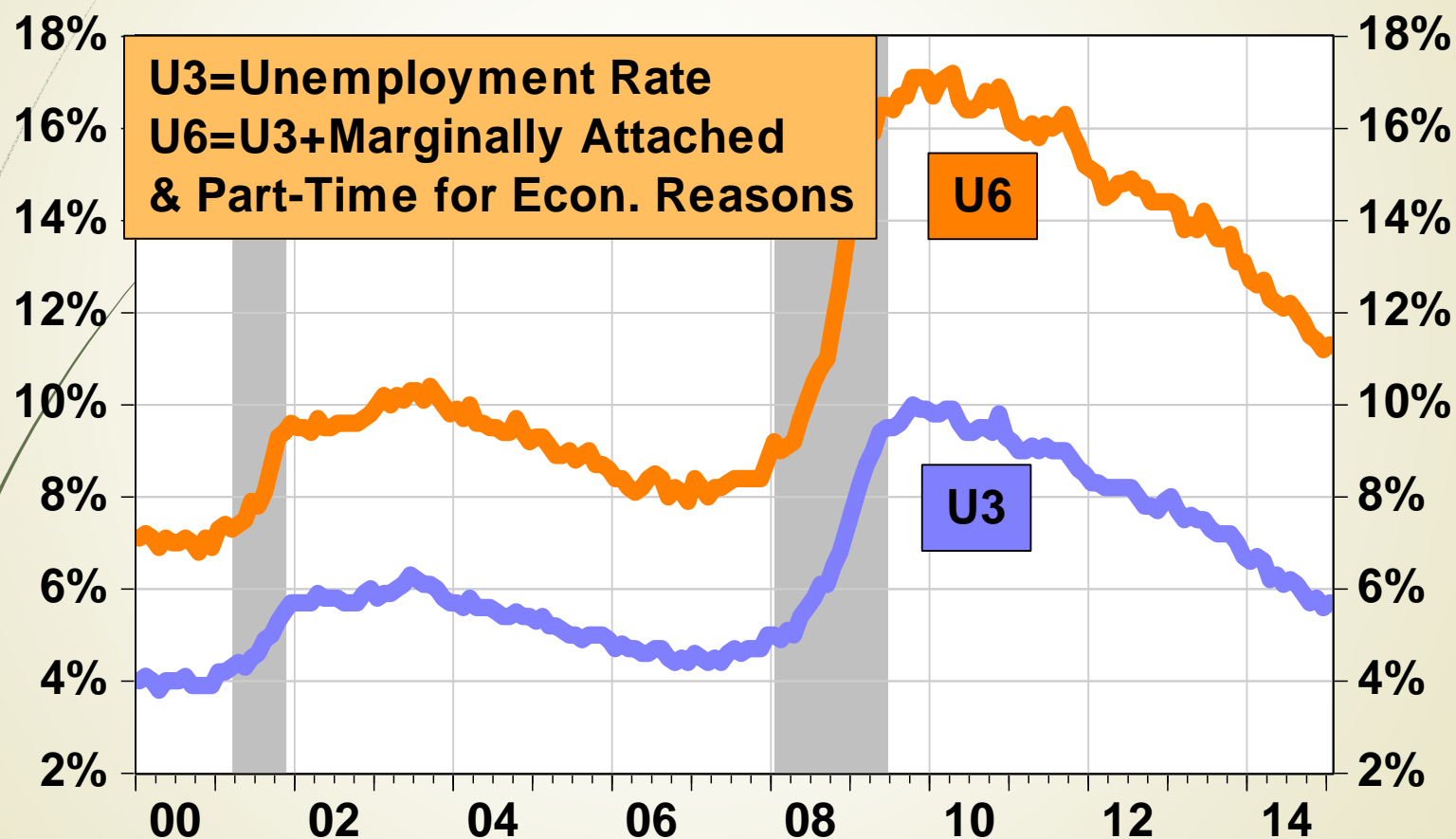


Source: US. Bureau of Labor Statistics

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

U3 & U6 Unemployment Rates

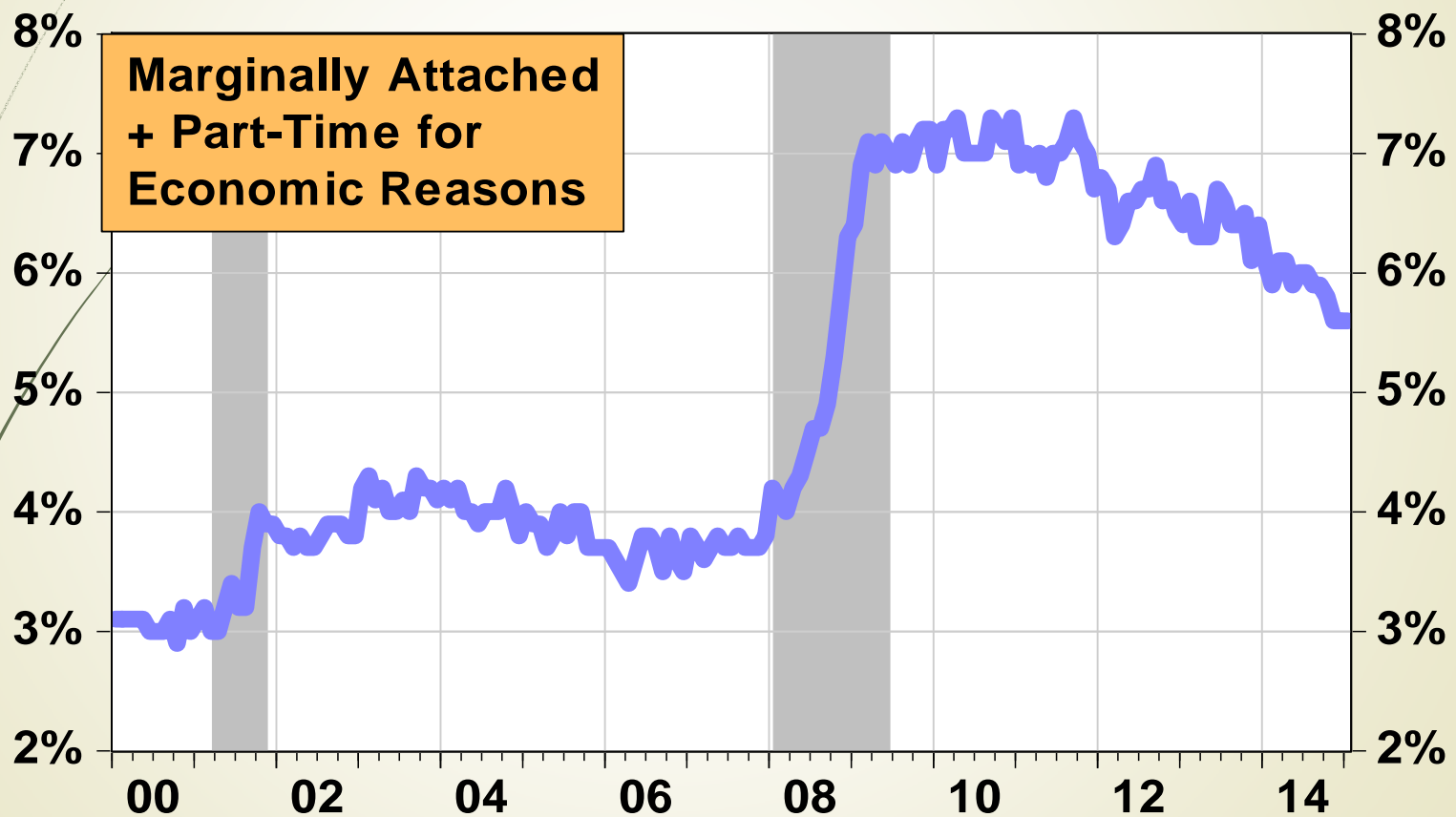
Unemployment Rates



Source: BLS

Marginally Attached & Part-Time

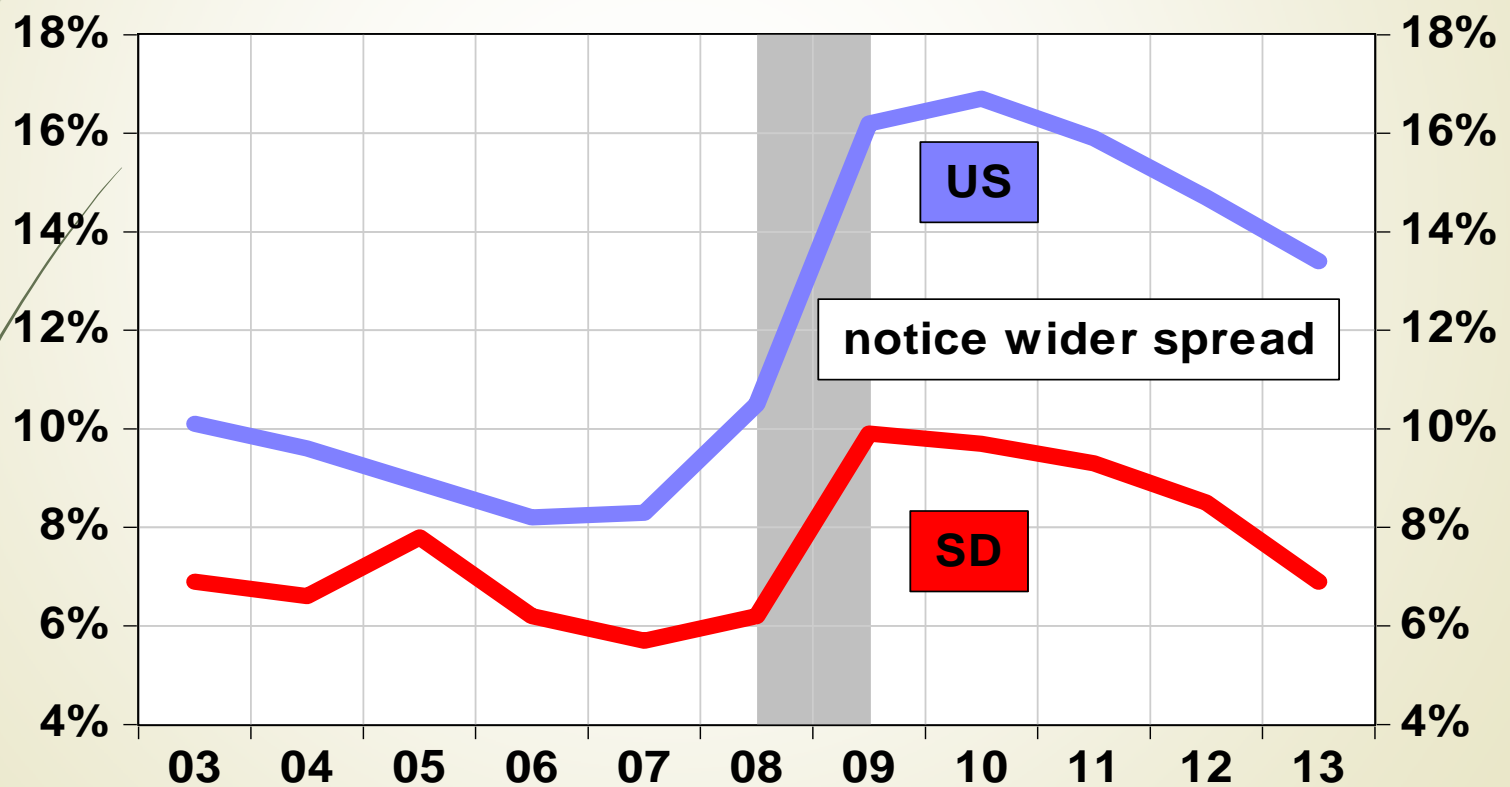
U6-U3



Source: BLS

US & SD U6 Unemployment Rate

U6 UNEMPLOYMENT RATE

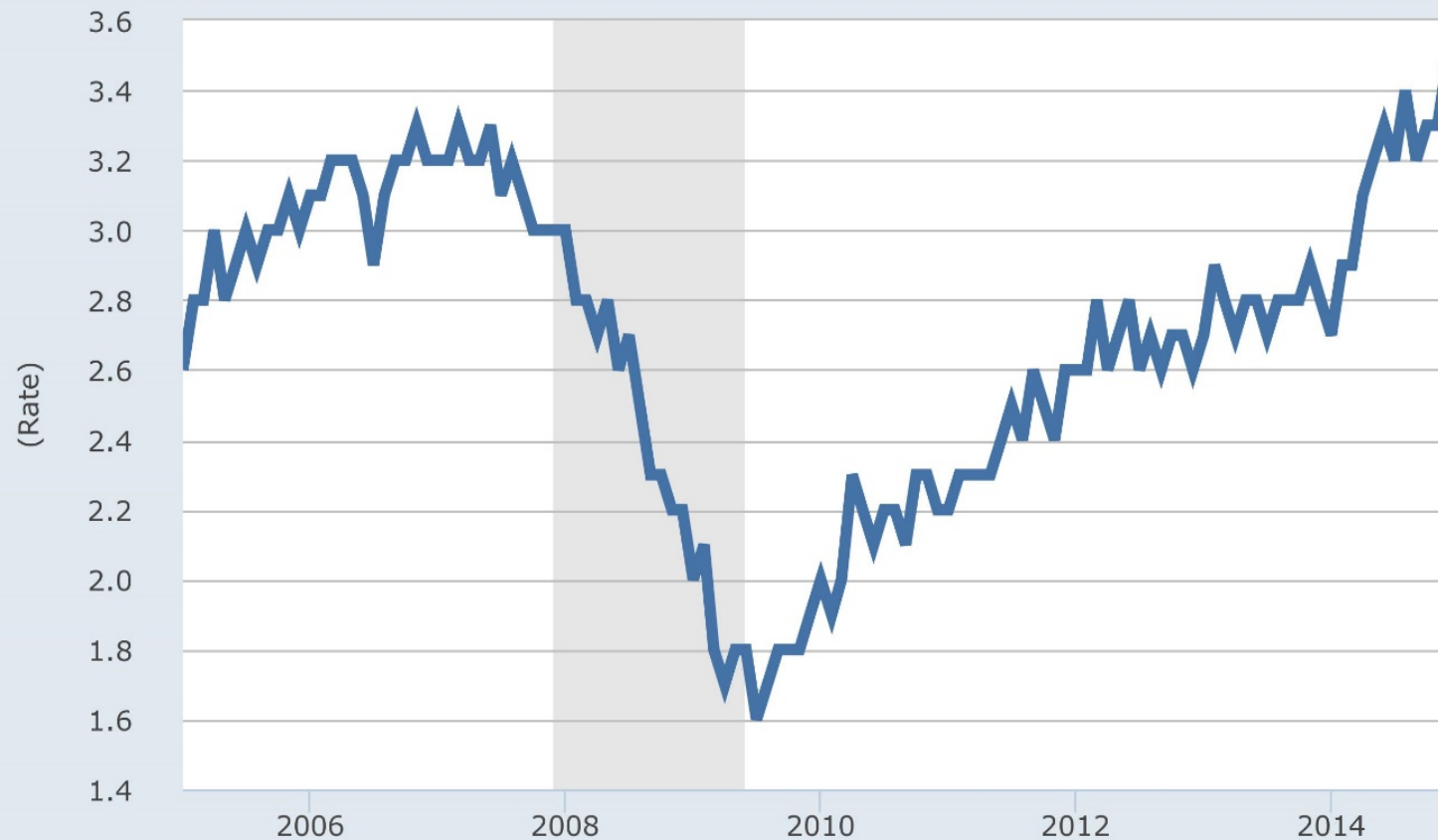


Source: BLS

This Looks Pretty Good

FRED 

— Job Openings: Total Nonfarm



Source: US. Bureau of Labor Statistics

Shaded areas indicate US recessions - 2015 research.stlouisfed.org



Inflation & Interest Rates

Inflation remains under control and well below FED's 2% target. Negative in 2015.

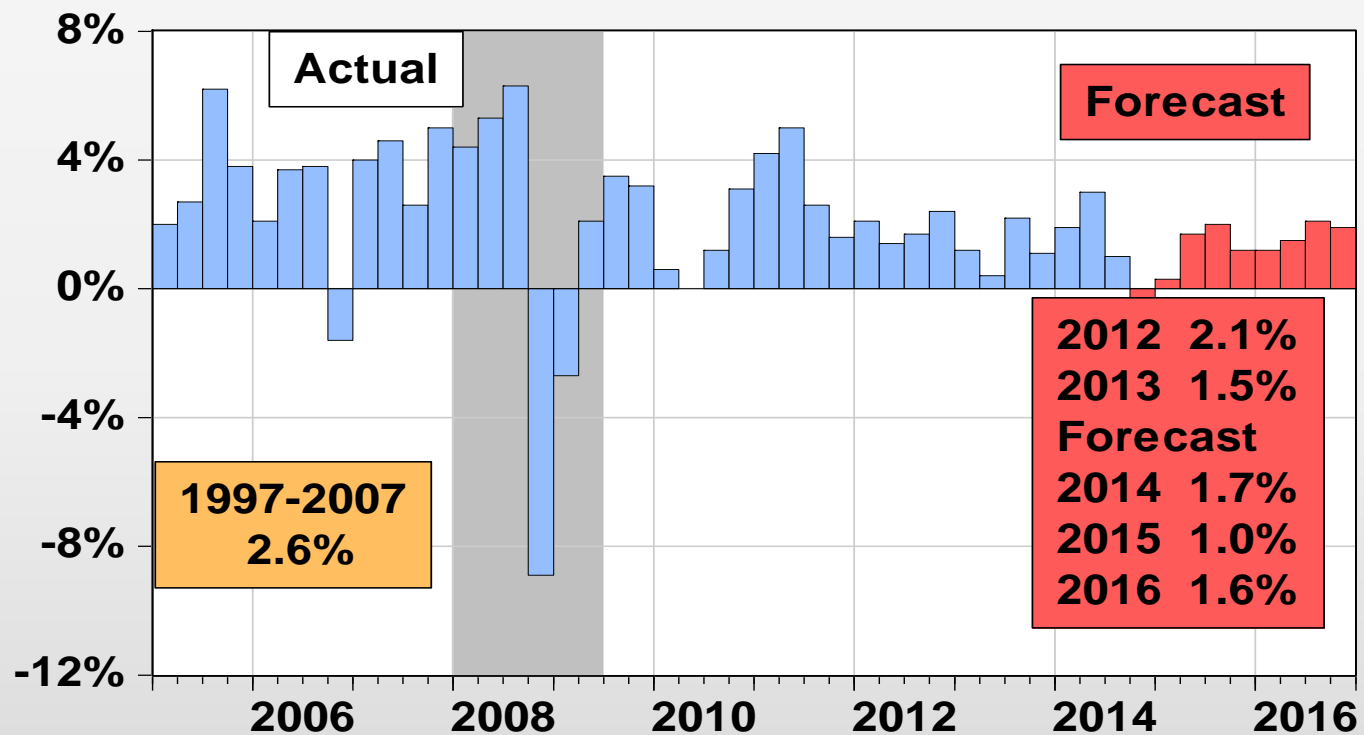
FED ended bond buying (QE) in October and will begin raising rates in June 2015.

Federal funds rate will rise to 1.0% by end of 2016 and 3.75% by end of 2017.

10-year Treasury note will rise to 2.3% in 2015 and 4% in outer years.

Under Control

INFLATION: CPI



Source: BLS and IHS



IHS GLOBAL INSIGHT FORECAST February

<u>Variable</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
GDP	2.2%	2.4%	3.0%	2.7%
NA Emp	1.7%	1.9%	2.2%	1.9%
Oil(Brent)	\$109	\$100	\$47	\$63
Housing	0.93	1.00	1.18	1.34
CPI	1.5%	1.6%	-0.7%	2.3%
Un Rate	7.4%	6.2%	5.5%	5.3%



Risks to Forecast

15% chance of recession.

Risks are:

Weak foreign economies

**IHS still worried about HH formation
rising above recession levels.**



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

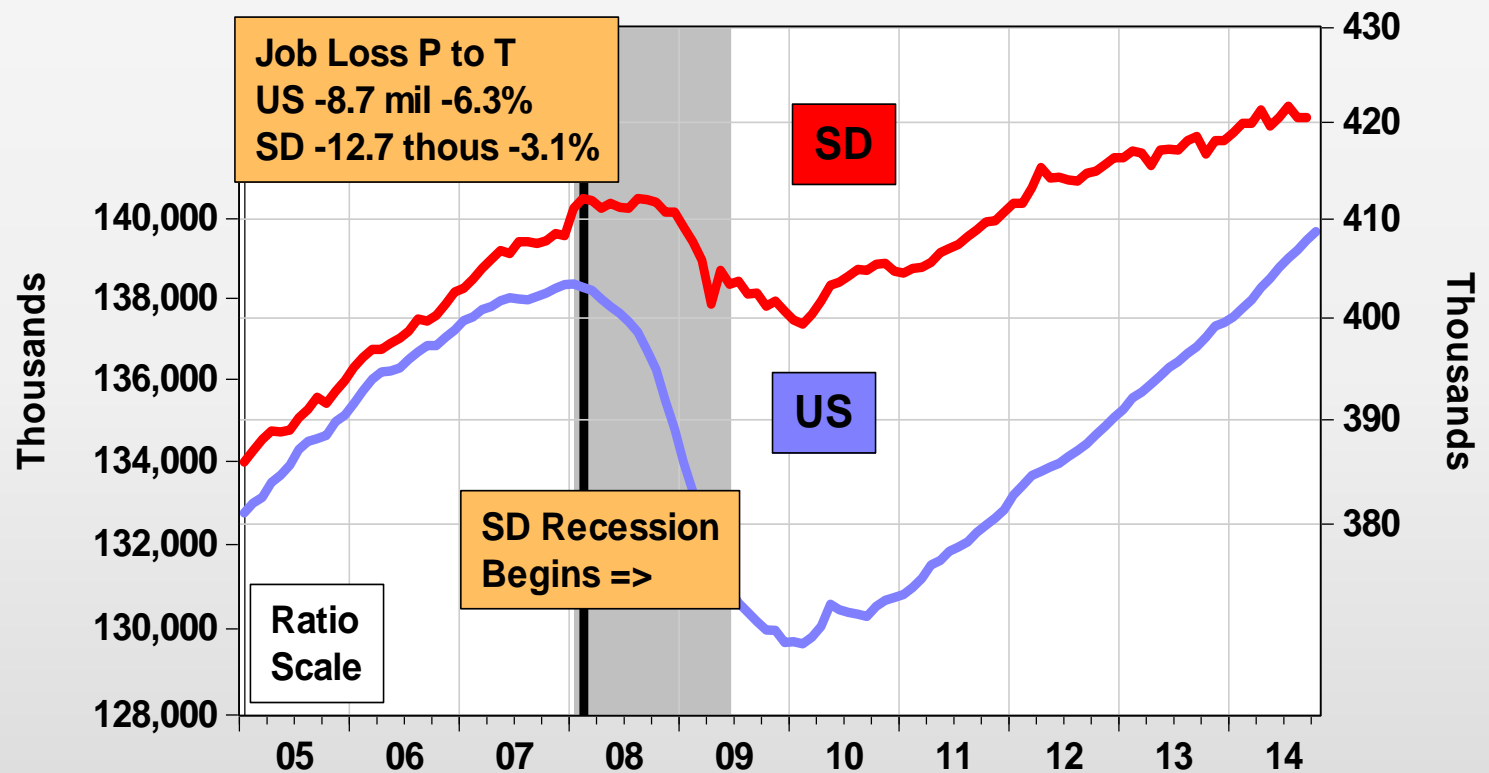
Real nonfarm personal income

Taxable sales

Leading indicator

Steady Growth

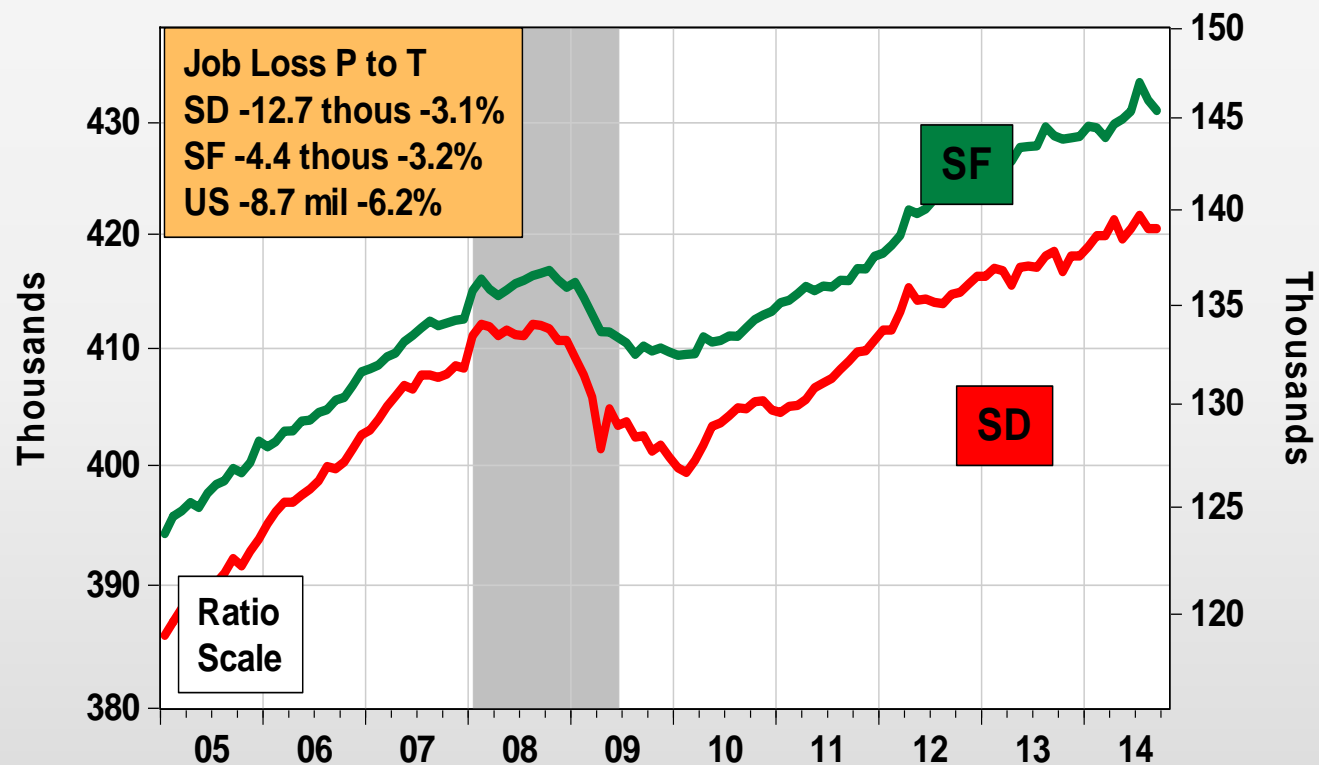
NONFARM EMPLOYMENT



Source: BLS

SD & SF Very Similar

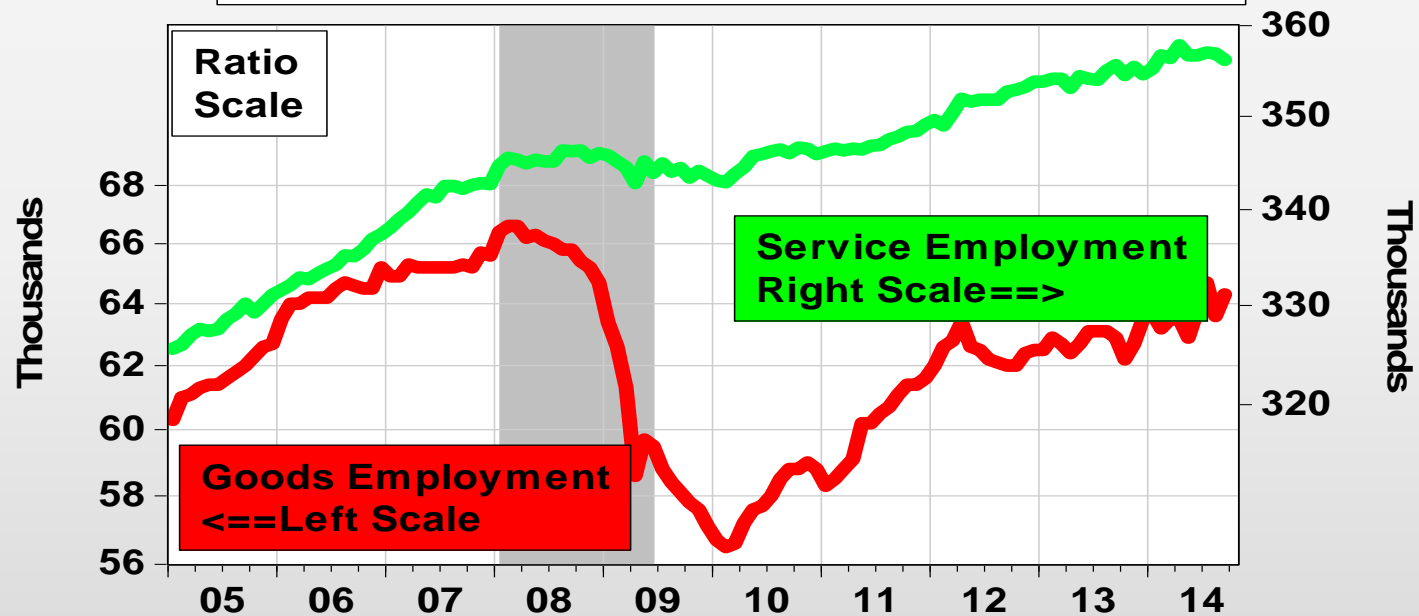
NONFARM EMPLOYMENT - SD & SF



Service & Goods-Producing Employment

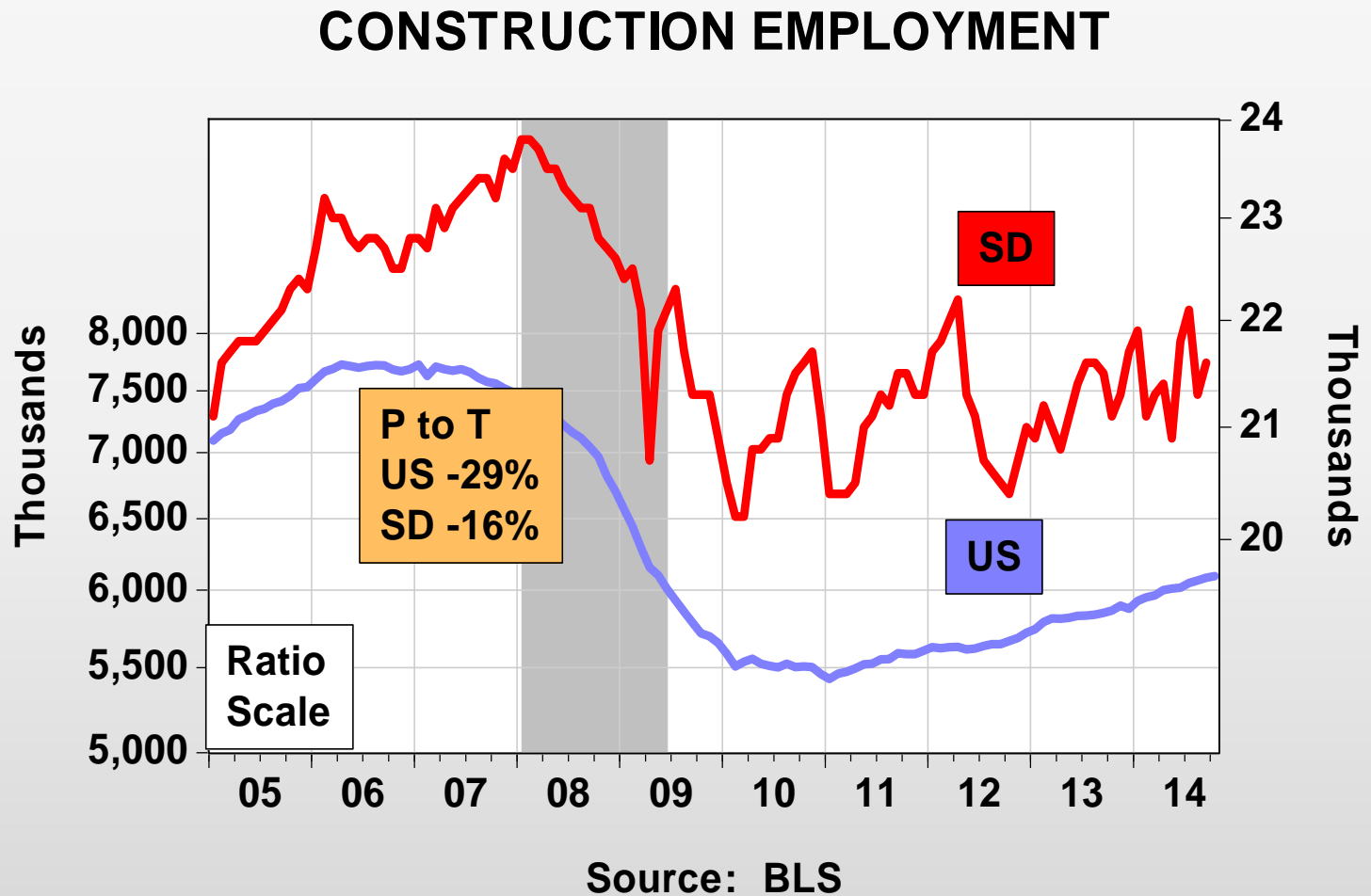
SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

Goods-Producing = Manufacturing+Construction



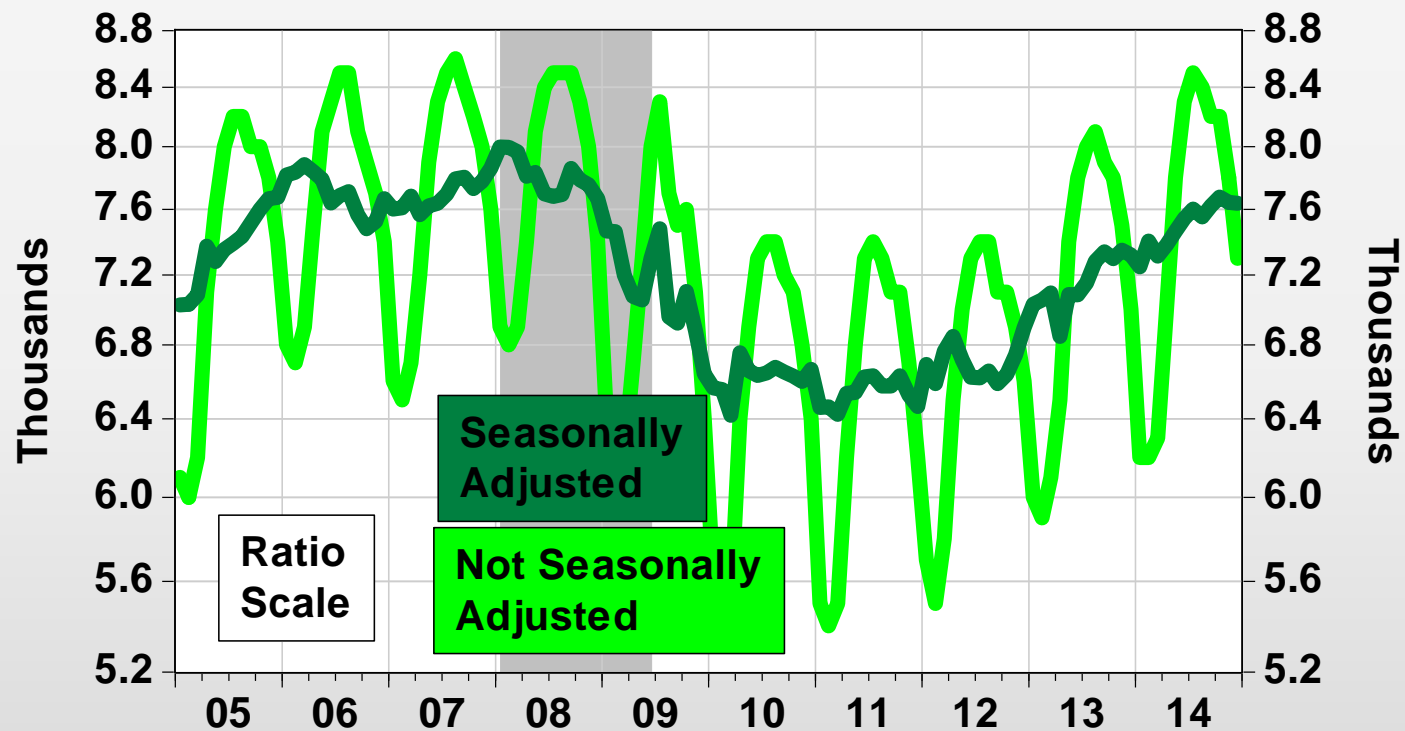
Source: BLS

Recovery – A Way to Go



Not Back to Peak

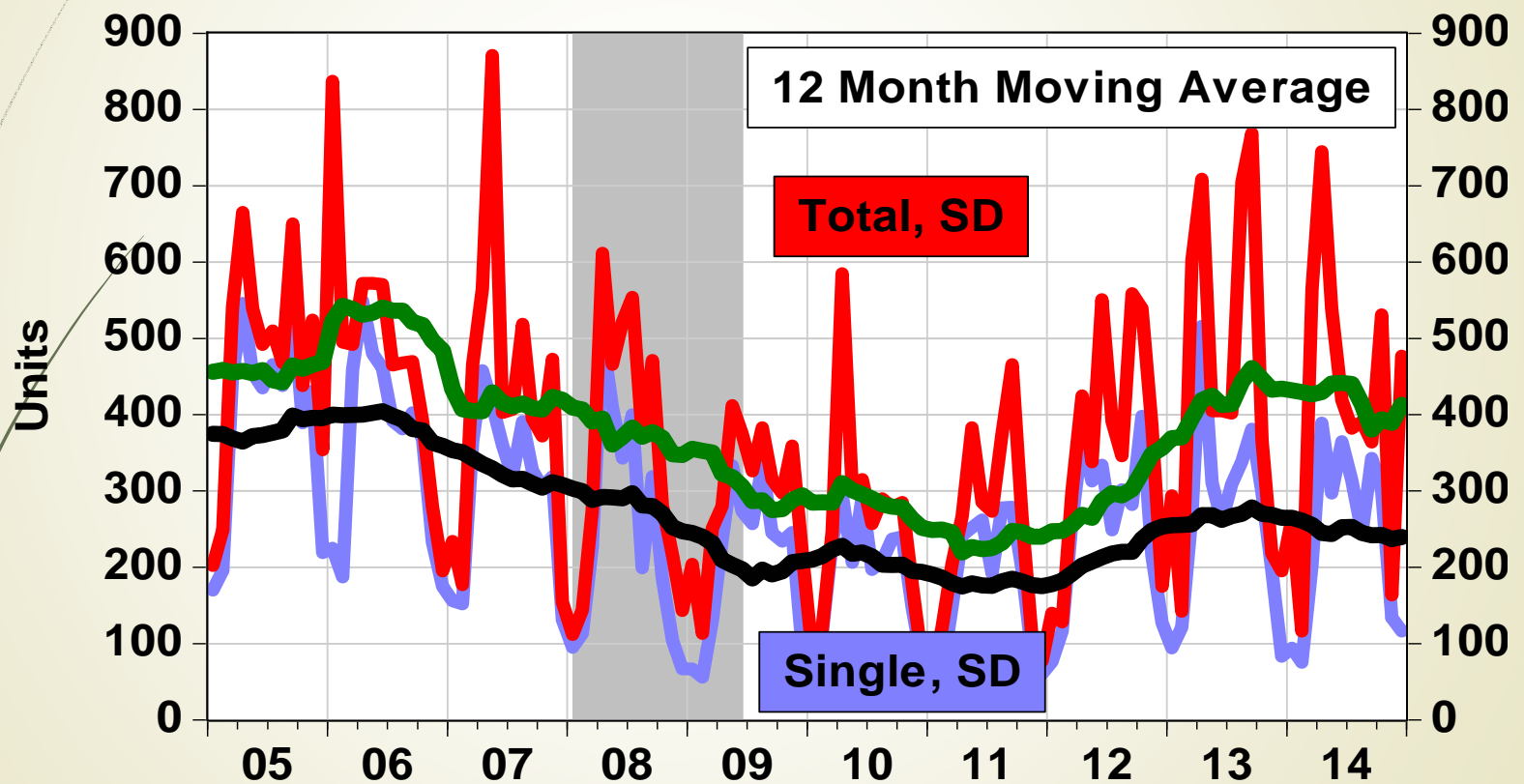
SF CONSTRUCTION EMPLOYMENT



Source: BLS

Not Quite Back to Peak

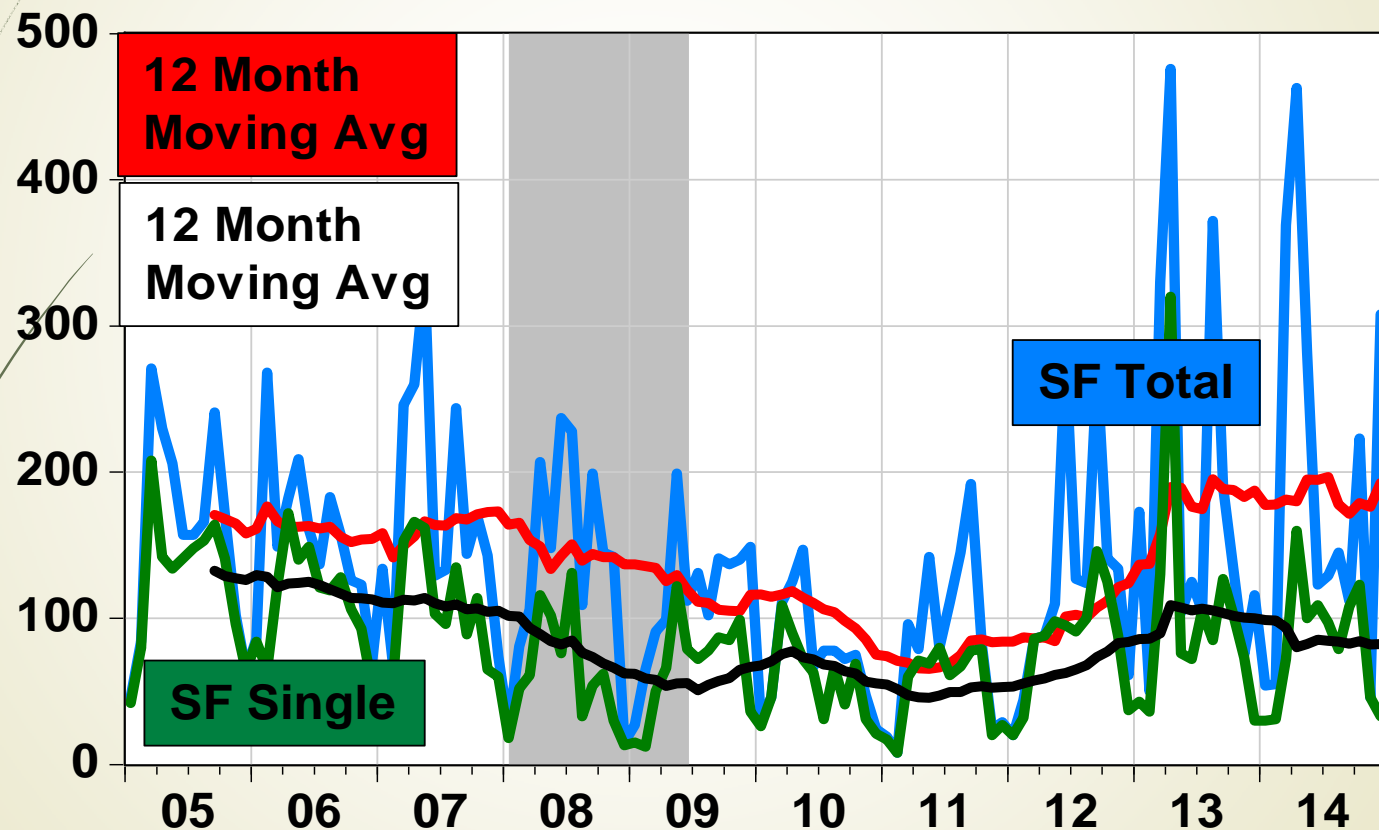
SD Building Permits, Total & Single



Source: Census Bureau

Good Performance

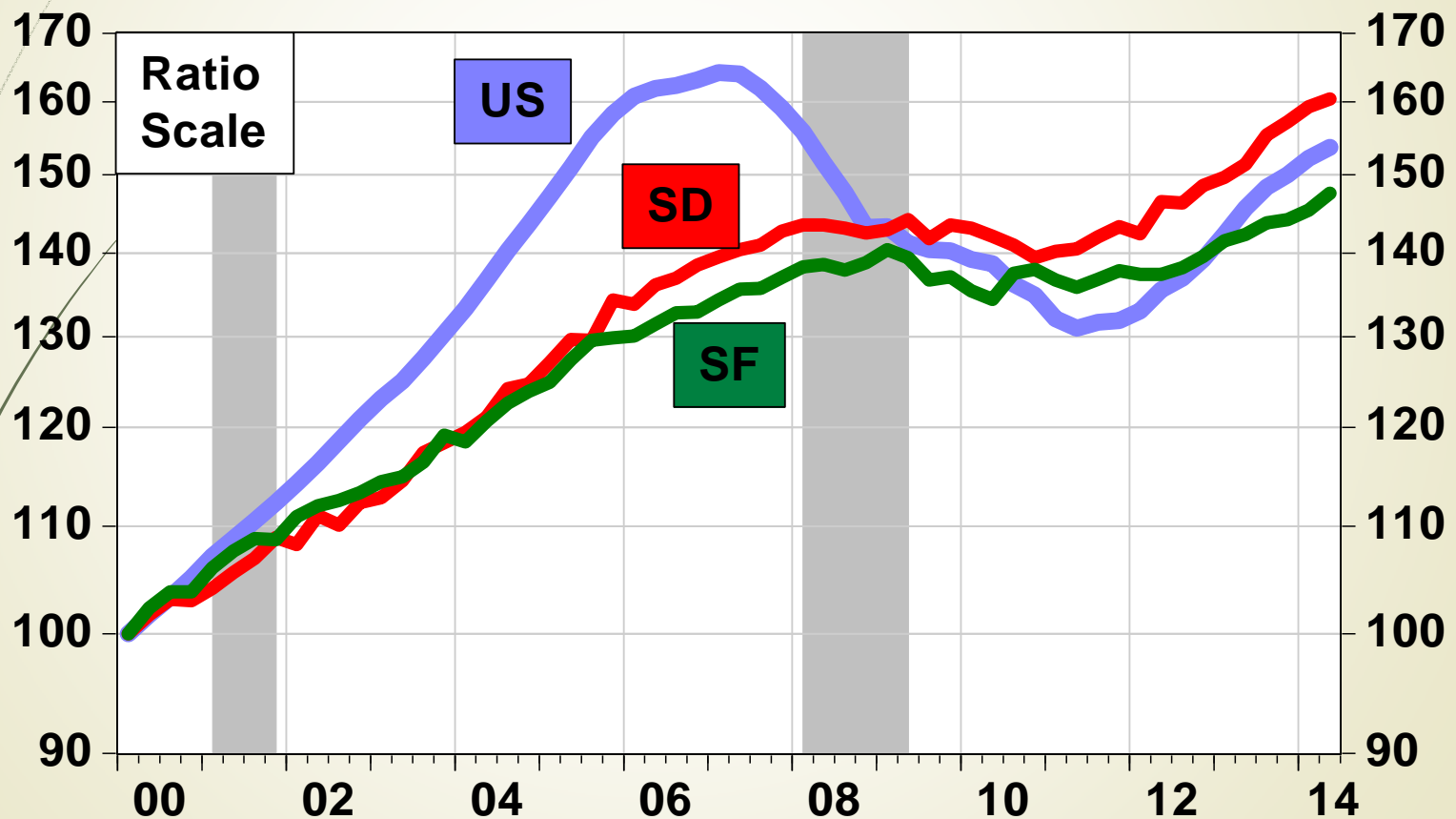
Sioux Falls Building Permits



Source: US Census Bureau

SD & SF Peaked Later and Decline Less Severe

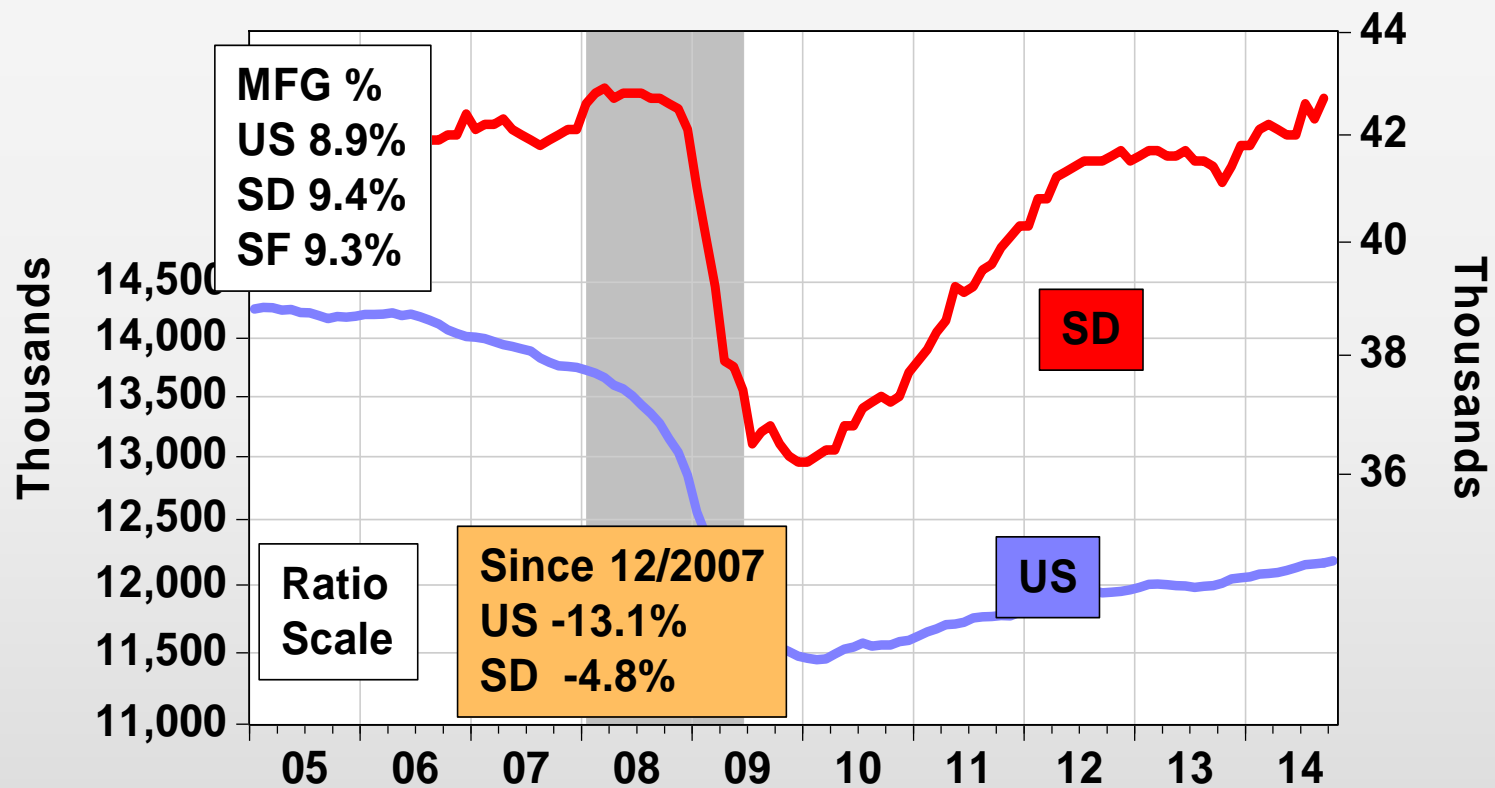
HOUSE PRICE INDEX: PURCHASE PRICE ONLY



Source: FHFA.GOV

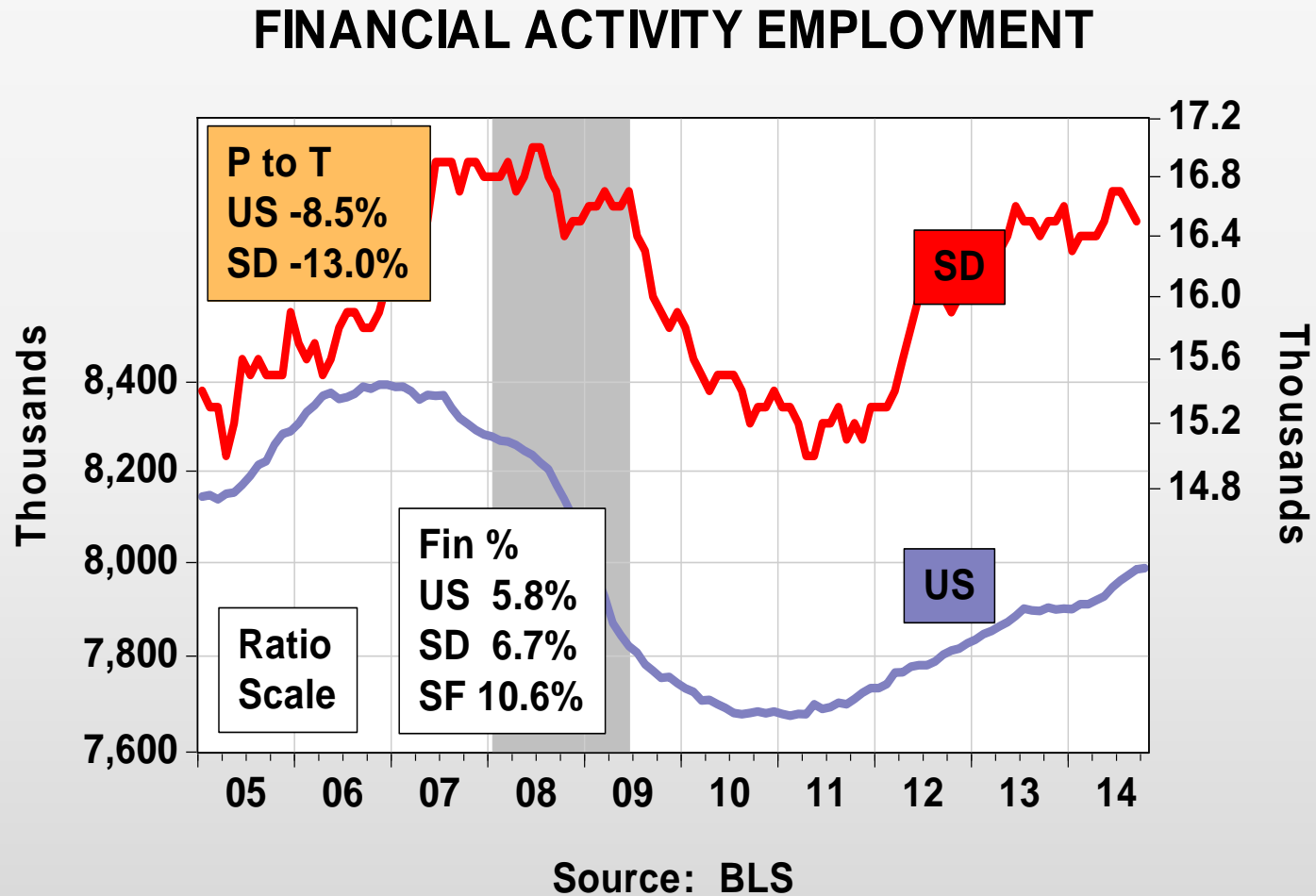
SD & US – Recovery

MANUFACTURING EMPLOYMENT



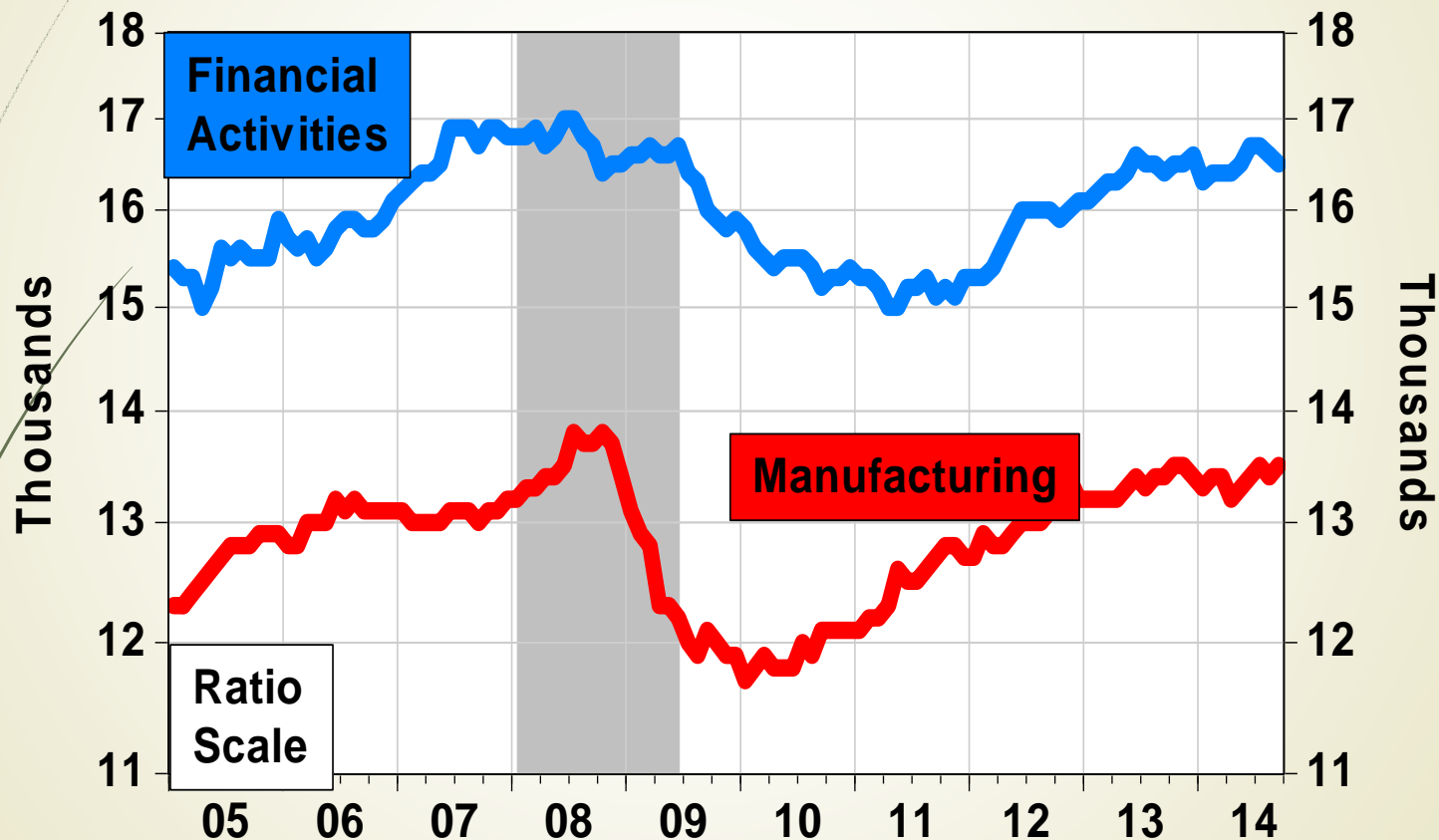
Source: BLS

SD Almost Full Recovery?



Almost Back to Peak

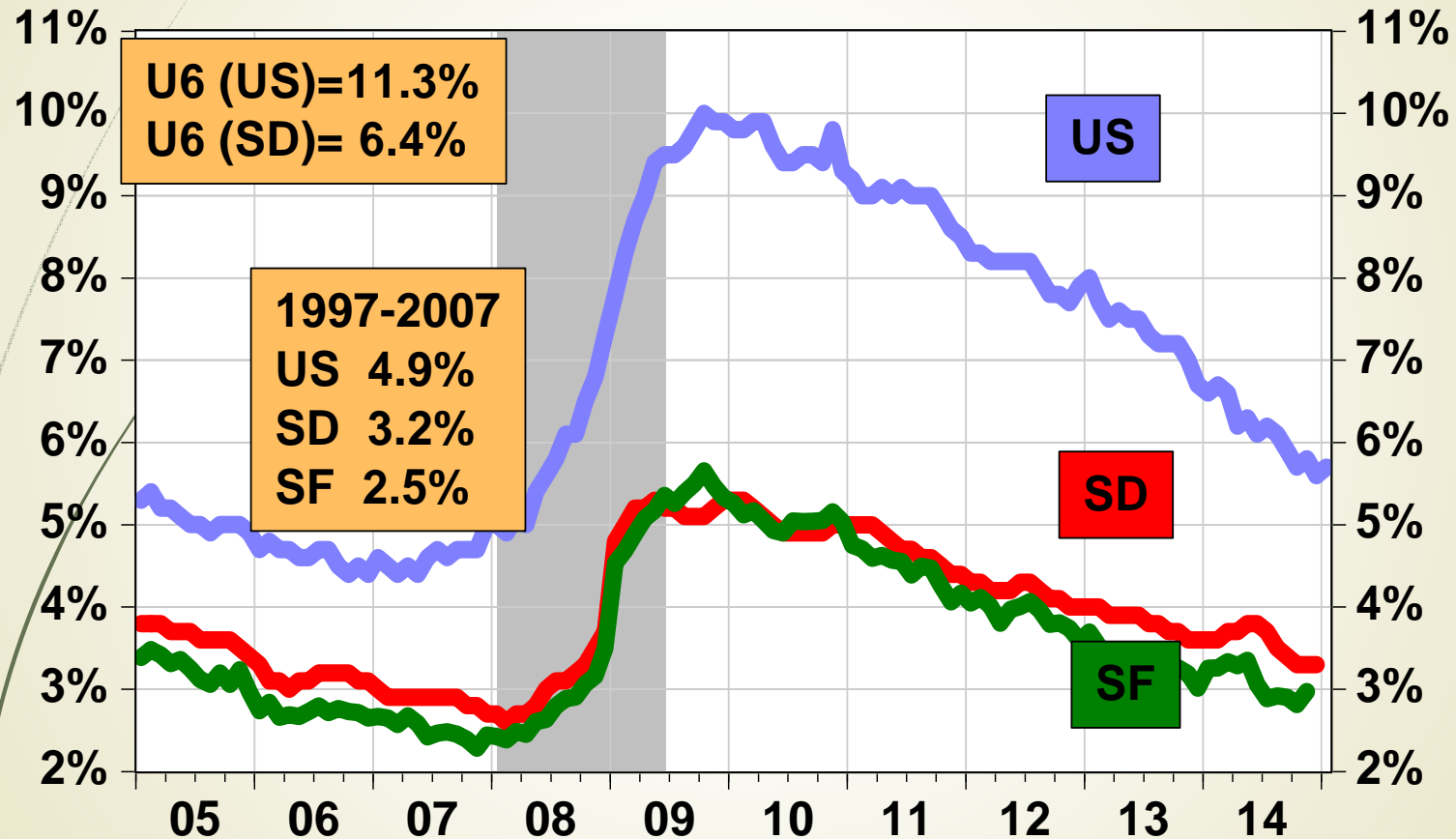
Sioux Falls Employment - Finance & Manufacturing



Source: BLS

SD 3.3% SF(SA) 3.0%

UNEMPLOYMENT RATE



Source: BLS



State Unemployment Rates December 2014

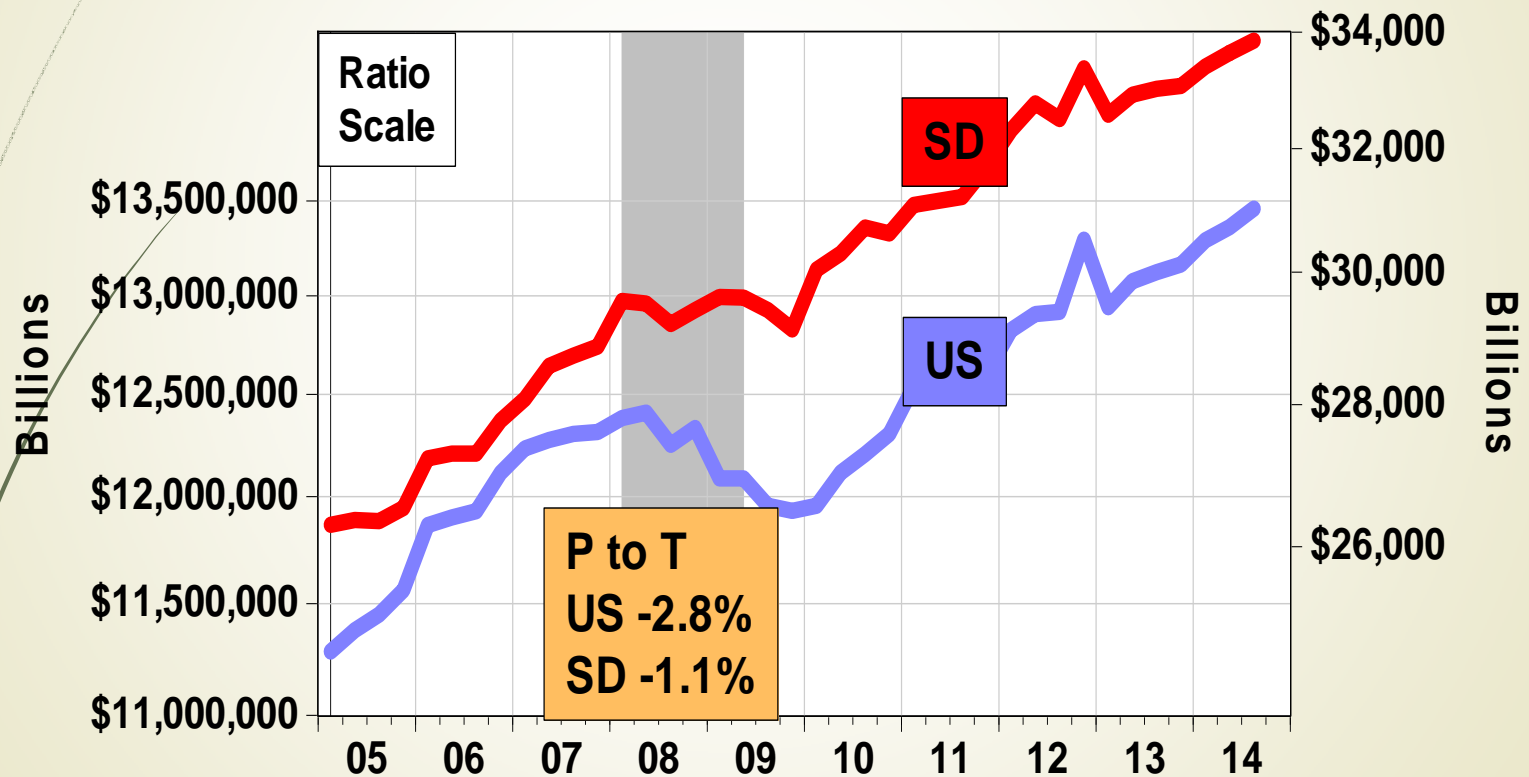
Rank	State	Rate
1	NORTH DAKOTA	2.8
2	NEBRASKA	2.9
3	SOUTH DAKOTA	3.3
4	UTAH	3.5
5	MINNESOTA	3.6
6	IDAHO	3.7
7	COLORADO	4.0
8	HAWAII	4.0
9	NEW HAMPSHIRE	4.0
10	IOWA	4.1

Nonfarm Employment (DEC Year-Over-Year Growth)

Industry	SD	SF	RC
Total	0.8%	1.2%	1.9%
Construction	5.0%	4.3%	14.6%
Manufacturing	3.8%	1.5%	6.9%
Retail Trade	-1.0%	2.8%	-1.1%
Information	3.2%	3.7%	12.5%
Financial Act.	-1.0%	0.0%	0.0%
Leisure/Hosp	-4.3%	1.6%	1.9%
Government	1.3%	5.2%	0.0%

SD Smaller Decline – Way Above Previous Peak

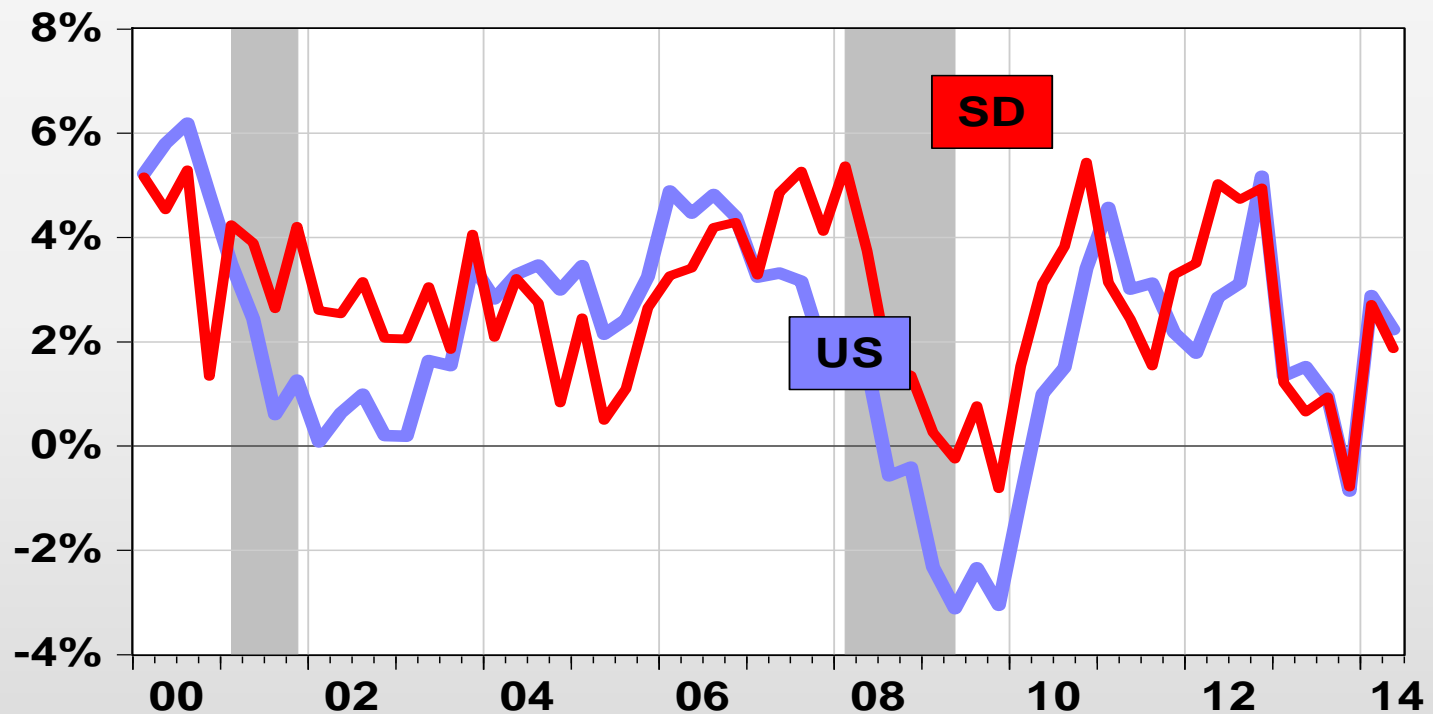
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

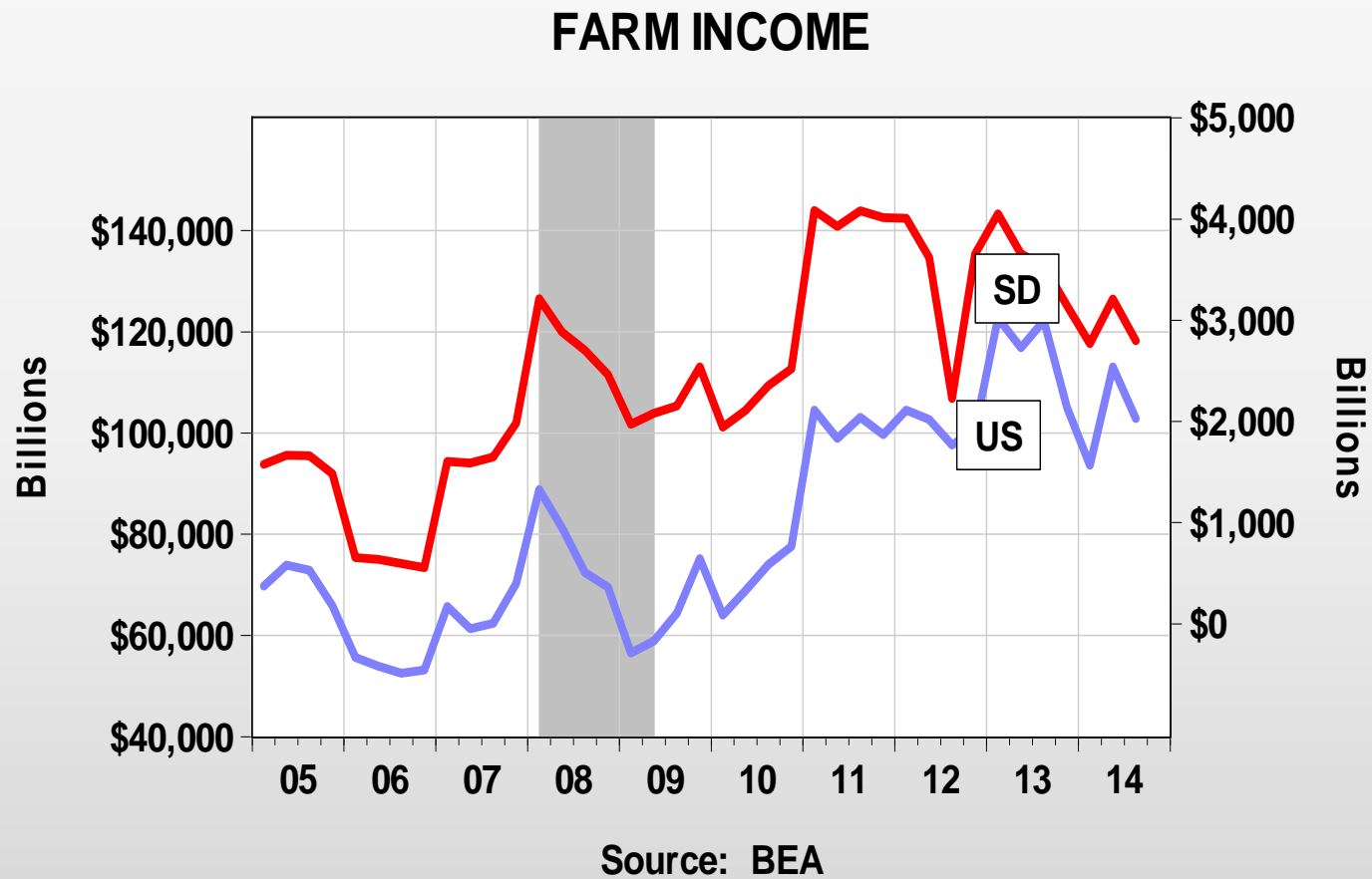
US and SD Track

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



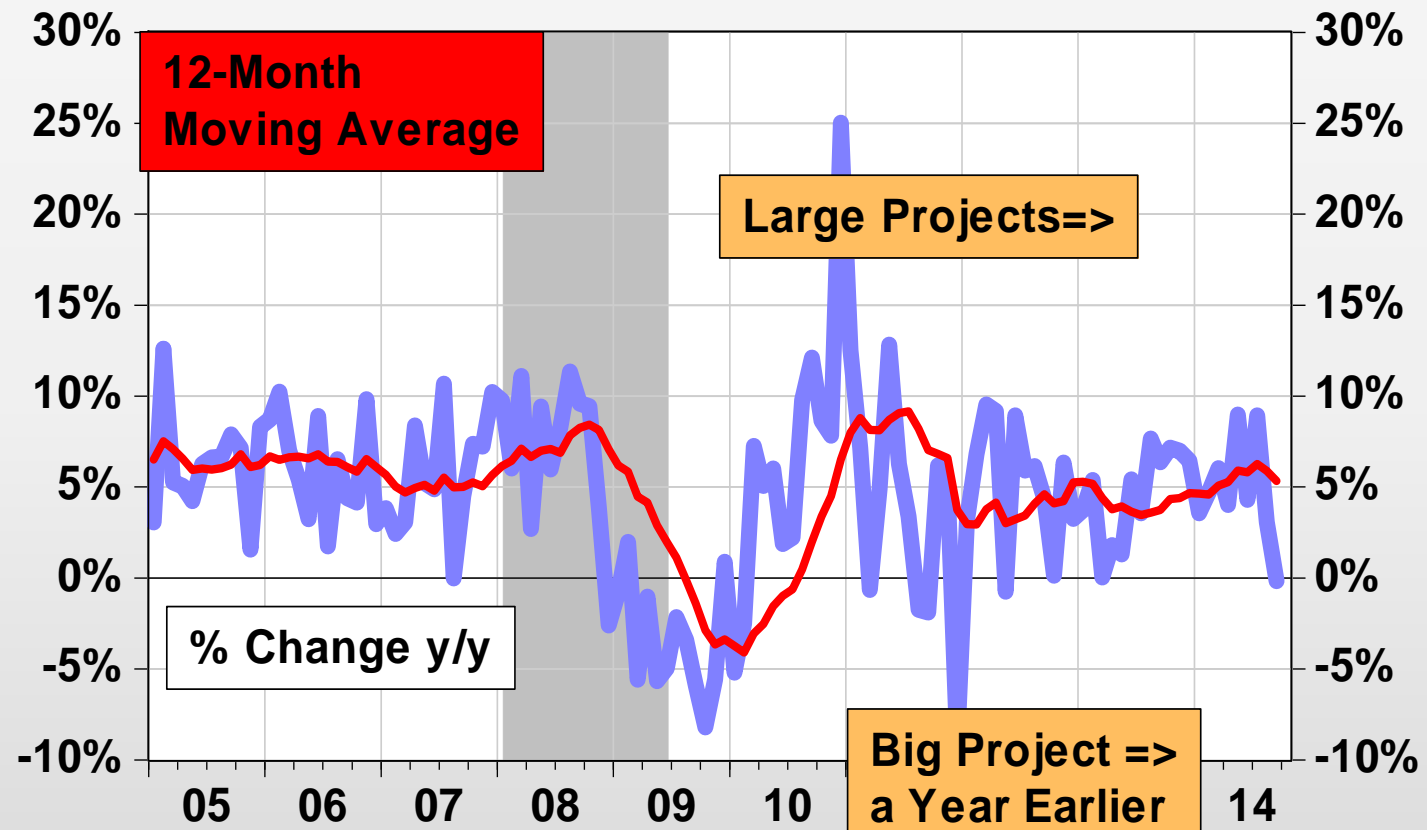
Source: BEA

Still Pretty High



Growth?

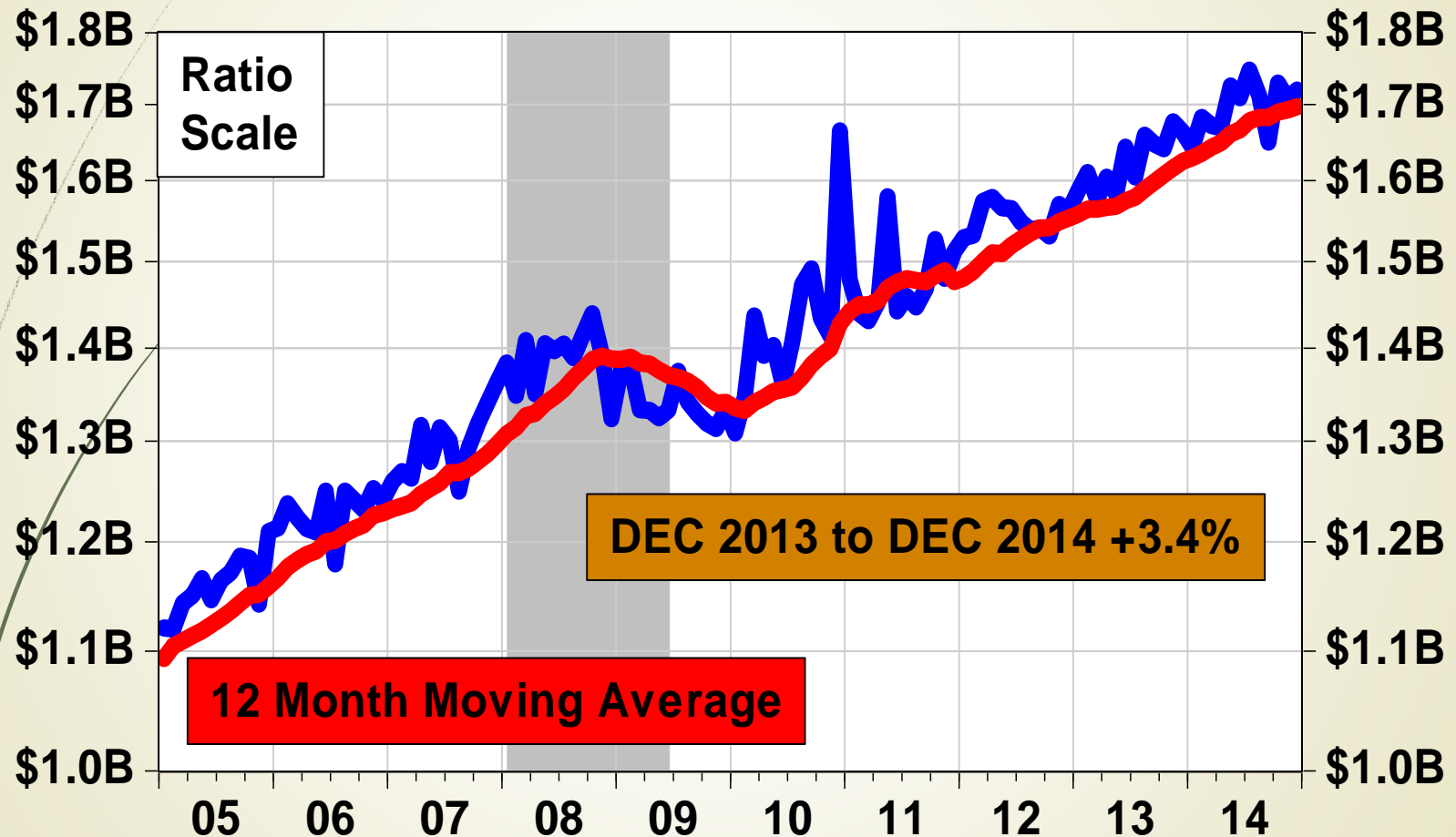
SD TAXABLE SALES



Source: SD Department of Revenue

What's Going On?

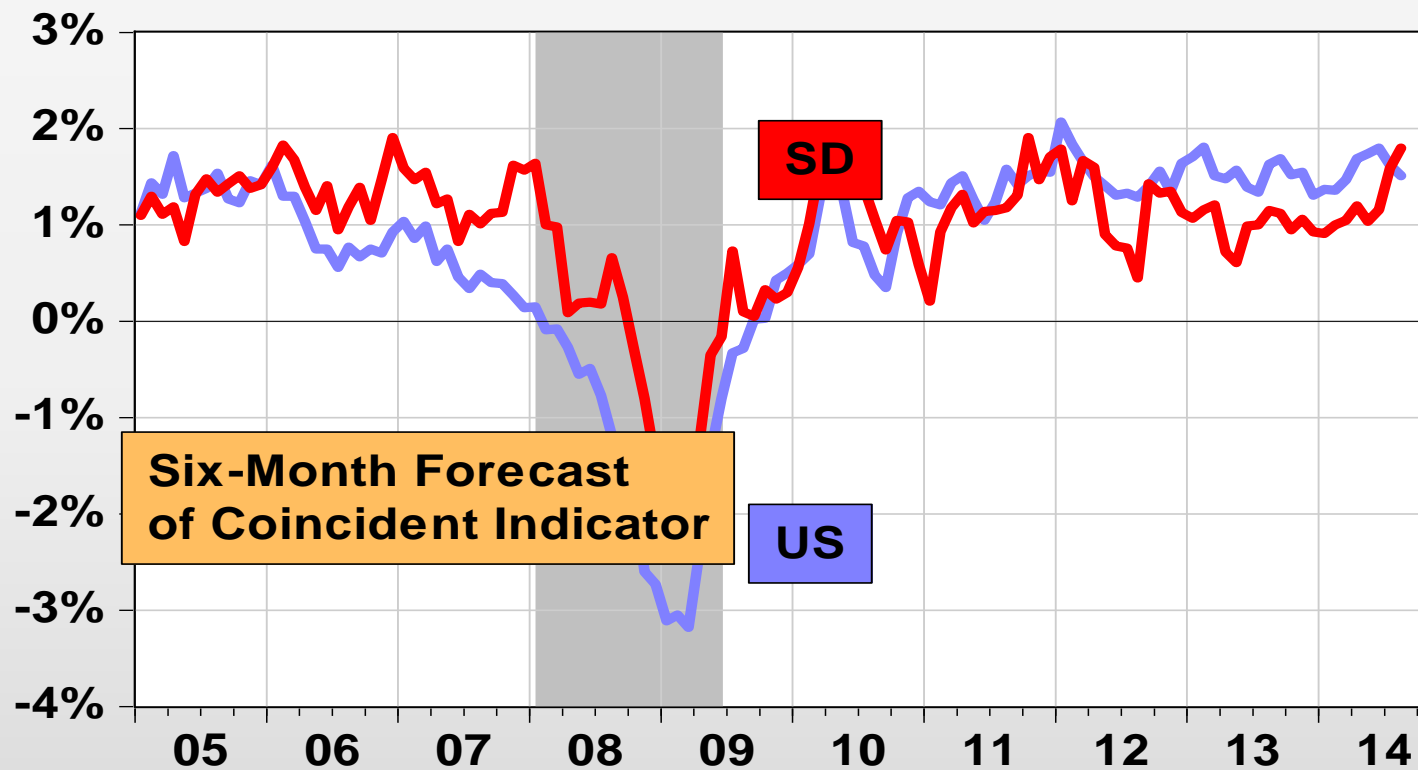
SD Taxable Sales - Seasonally Adjusted




Source: SD Department of Revenue

Forecasting Growth

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

January 2015 Index > 50 Growth

Overall 61.2

New Orders 56.9

Sales 74.0

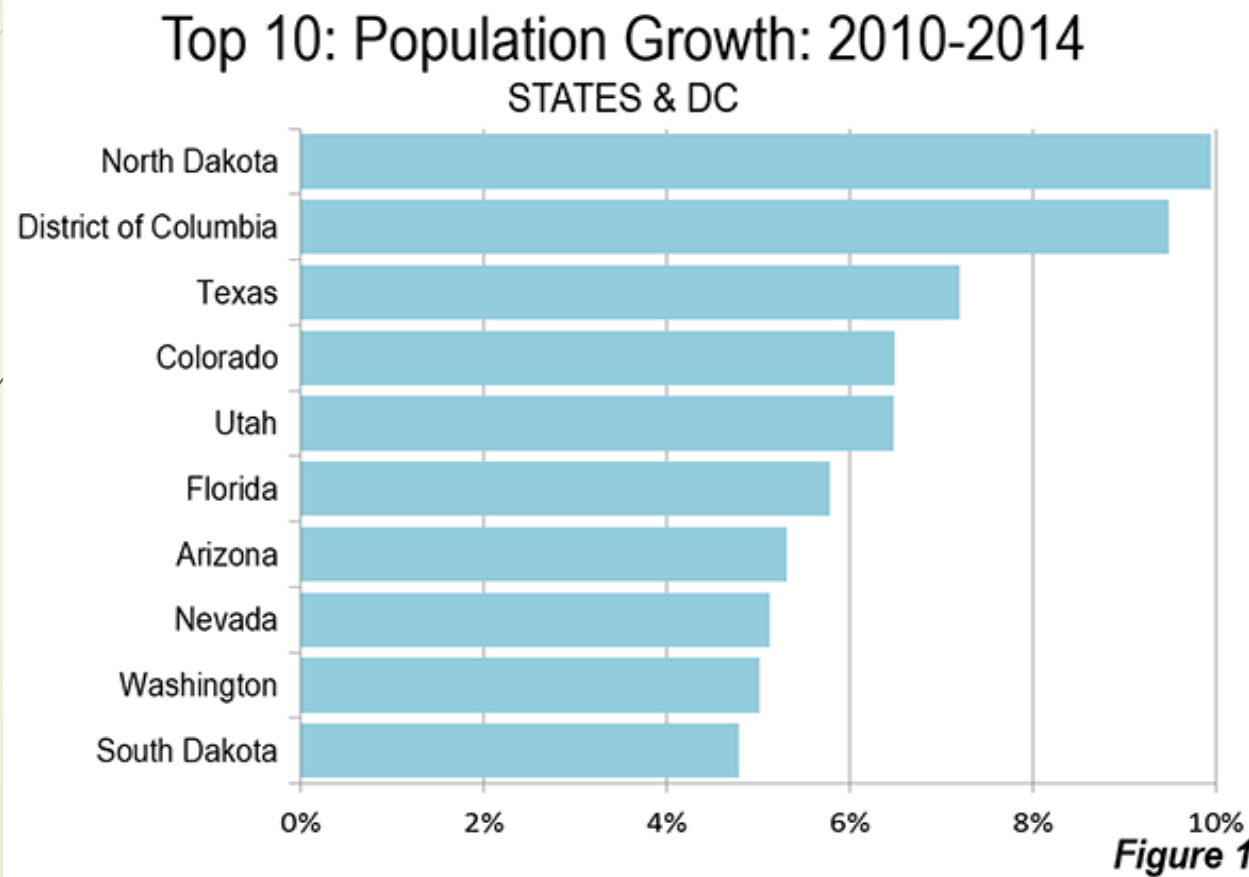
Delivery lead time 69.7

Inventories 54.9

Employment 50.7

“Durable and nondurables in the state are experiencing slow, but positive growth. At the same time, plunging oil prices have yet to have significant and negative impact on South Dakota’s energy sector.”

SD Ranks 10th





POPULATION GROWTH 2010-14

<u>STATE</u>	<u>GRTH</u>	<u>POPULATION</u>
North Dakota	9.9%	739,482
South Dakota	4.8%	853,175
Wyoming	3.6%	584,153
Nebraska	3.0%	1,881,503
Minnesota	2.9%	5,457,173
Iowa	2.0%	3,107,126
US	3.3%	318,857,056

Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing and at faster rate than before

The End

