



## South Dakota Economic and Revenue Update

### September 2016

#### Recent Economic Indicators

- SD's most recent total nonfarm employment as of August 2016 is up 10,200 jobs or 2.4%, compared to the same month a year ago.
- The unemployment rate in SD for August 2016 was 2.9%, the lowest in the nation.
- Nonfarm income in South Dakota for the first quarter of 2016 grew 3.7% compared to the national growth rate of 4.5% over the same time period.
- Farm income in South Dakota for 2015 totaled \$1.1 billion, which was down from \$2.6 billion in 2014, a decrease of 56.7%.
- South Dakota's real Gross Domestic Product for 2015 increased 1.8% over 2014, which ranked 22<sup>nd</sup> among all states.

#### Recent General Fund Revenue Activity

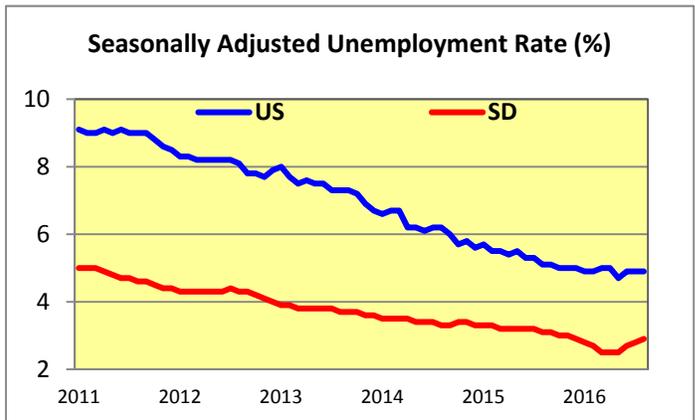
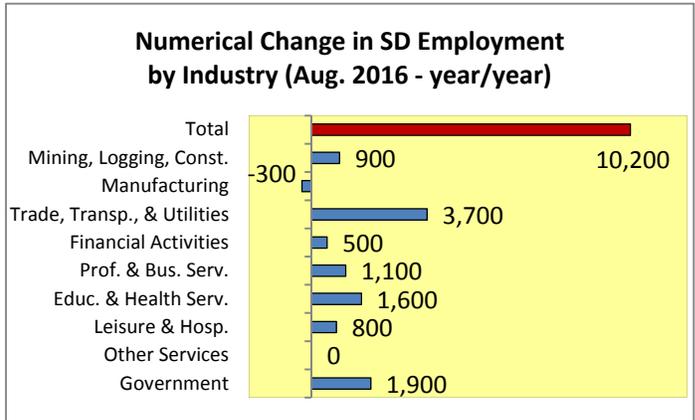
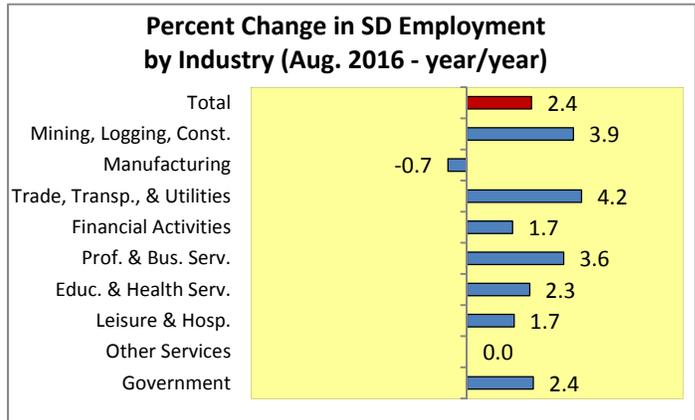
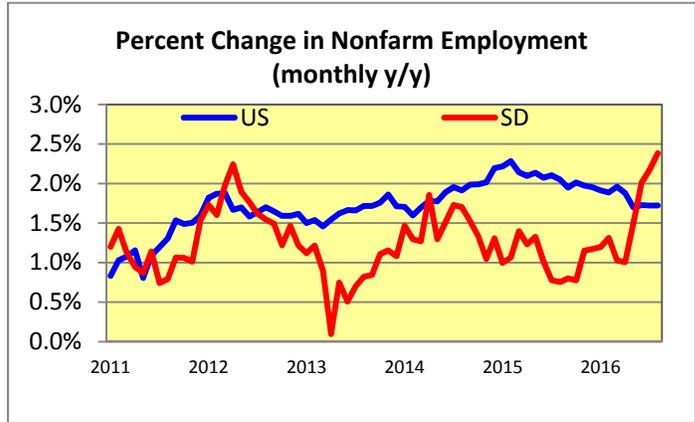
- State general fund revenue collections in August were \$13.2 million higher than a year ago, but \$3.8 million less than the adopted estimate.
- Through the first two months of FY2017, actual cumulative general fund collections are \$5.5 million less than the adopted revenue estimate on an ongoing basis.

### Employment/Labor Force

South Dakota’s economy has been expanding since early 2010, primarily due to a robust agriculture sector in the early part of the decade, a steadily growing national economy and the state’s business friendly environment. The state’s employment growth exceeded the national growth before and during the 2007-2009 national recession. The growth in US employment has exceeded that of South Dakota for the past few years, until recently. In August 2016, the most recent data that is available, South Dakota’s year-over-year nonfarm employment increased to 2.4% growth, which exceeded the US nonfarm employment growth of 1.7%. August 2016 is the third month in a row that year-over-year employment growth in South Dakota has exceeded the US.

On an annual basis during 2015, South Dakota nonfarm employment levels were 4,400 jobs higher than 2014, or an increase of 1.0% after benchmark revisions. Employment growth in 2015 marks the fifth year consecutive year of annual employment gains in South Dakota, indicating continued economic growth for the state. As of August 2016, South Dakota’s nonfarm employment has grown on a year-over-year basis for 75 consecutive months. In August, total SD nonfarm employment was up 10,200 jobs or 2.4%, compared to August 2015. Sectors that have contributed to employment growth over the past several months include: mining, logging, and construction; trade, transportation, and utilities; financial activities; professional and business services; education and health services; leisure and hospitality; and government. Employment sectors that are flat or lagging include manufacturing and other services.

In August 2016, the unemployment rate in South Dakota was 2.9%, while the national unemployment rate stood at 4.9%. South Dakota’s unemployment rate for the month of August was the lowest in the nation. The unemployment rate in August of 2016 was 0.1% higher than the previous month, but 0.2% lower than a year ago, a sign of a very tight labor market that will continue to put pressure on wages.



### Employment/Labor Force continued

The labor force participation rate is the percentage of people who are working or actively looking for work compared to the civilian population over 16 years old, a measure of the active portion of an economy's labor force. The US labor force participation rate peaked at slightly more than 67% in the late 1990's and has declined since, particularly during the '07-'09 recession. The US rate has remained steady in recent years, currently at 62.8%. South Dakota and many surrounding states have a significantly higher participation rate, meaning a more actively engaged labor force compared to the national average. South Dakota's participation rate has declined from a peak of over 73% in the early 2000's to holding steady around 69.5% the past few years.

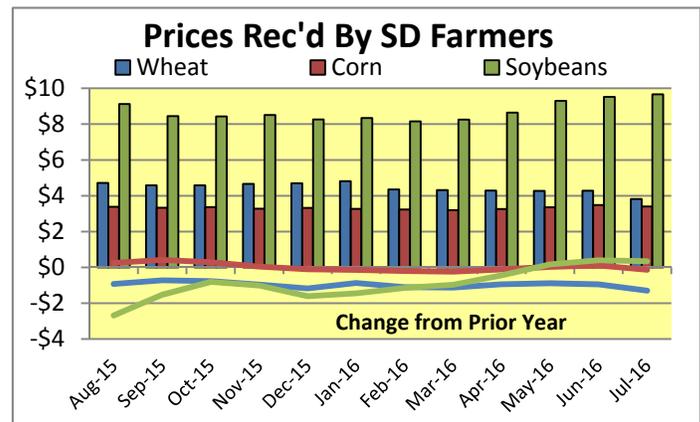
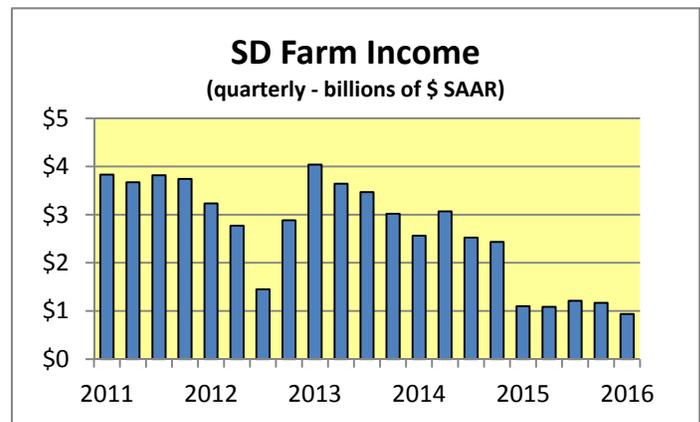
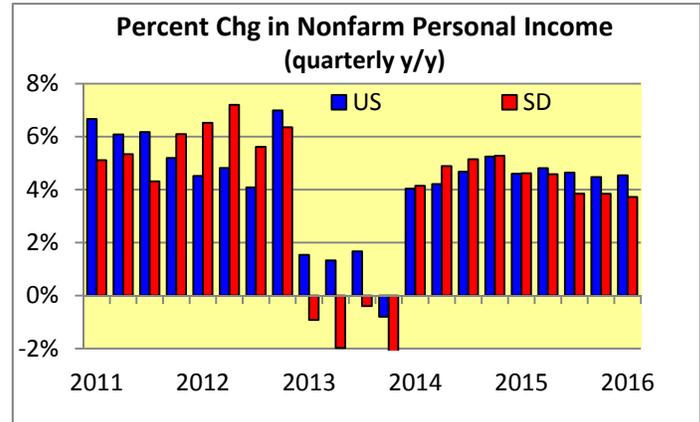
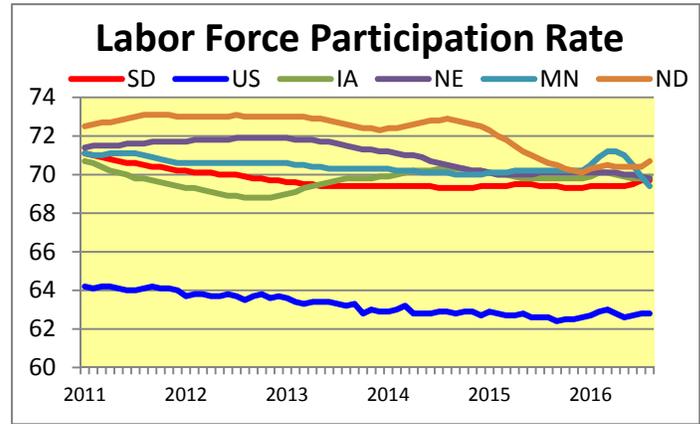
### Nonfarm Personal Income

Nonfarm personal income growth in South Dakota has performed similar to the US average over the past several years. The chart at the right shows the year over year percent change in nonfarm personal income for South Dakota and the United States on a quarterly basis from 2011 through the first quarter of 2016, which is the most recent data that is available. On an annual basis, SD nonfarm personal income increased 4.9% in 2014 and 4.2% in 2015. In comparison, the US nonfarm personal income growth was 4.6% in both 2014 and 2015.

### Farm Income/Crop Prices

South Dakota farm income realized strong earnings from the late 2000's through 2013, before declining in 2014 and 2015. The recent declines are primarily due to lower crop prices from a strong US dollar and weak foreign economic growth. SD farm income peaked in 2011 at \$3.8 billion and registered \$1.1 billion in 2015 on an annual basis. In the first quarter of 2016 SD farm income was \$0.9 billion.

Crop prices received by SD farmers for soybeans were slightly higher than a year ago, while corn and wheat were lower as of July 2016. Soybean prices were \$9.66 or \$0.34 higher compared to a year ago. Corn prices were \$3.40 or \$0.13 lower, while wheat prices received were \$3.82 or \$1.30 lower than the same month a year ago.



### Housing/Auto Indicators

Housing activity has improved in South Dakota during the most recent 12 month period. Over the past 12 months (Aug. 2015 through July 2016), the total number of housing units authorized by building permits were 4,461 or up by 505 units from the prior 12 month period, driven by increases in multi-family units. Single family units totaled 2,263 in the past 12 months, which was up 33 units compared to the prior 12 month period. The value of housing units authorized by permits continues to be higher. Over the past 12 months, the total valuation of housing permits is \$39.46 million higher than the prior 12 month period.

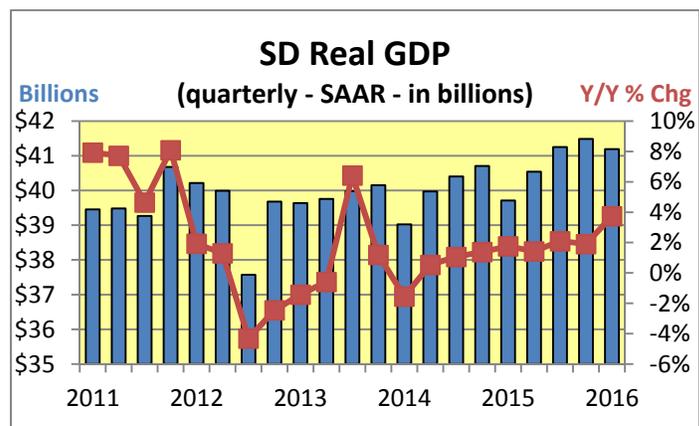
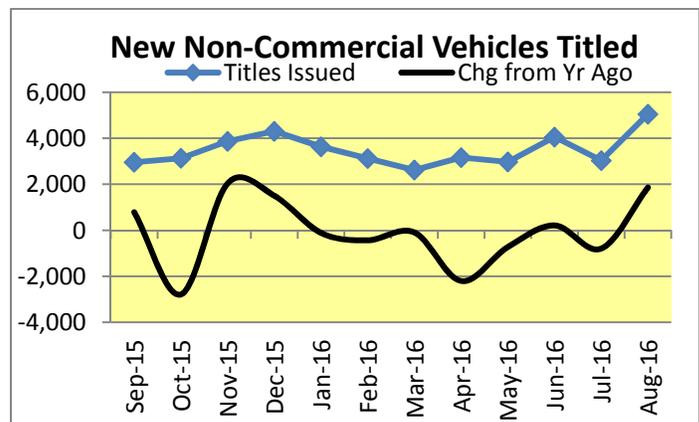
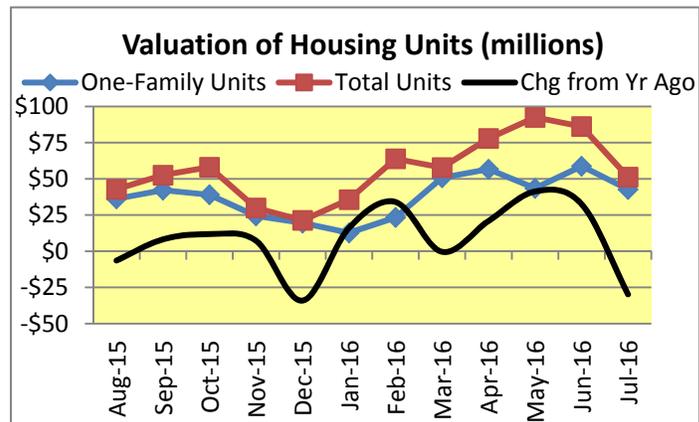
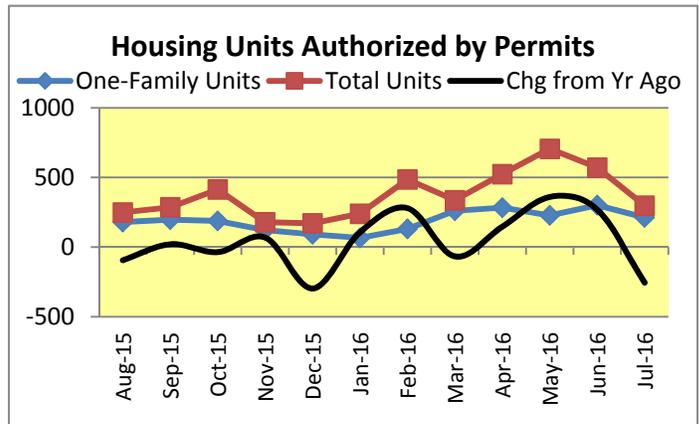
The total of new non-commercial vehicles titled in South Dakota is lower over the past 12 months, totaling 41,907 titles or a decrease of 772 over the prior 12 month period. In August 2016 there were 5,052 titles issued in South Dakota, up 1,860 from a year ago.

### South Dakota real GDP

The Bureau of Economic Analysis (BEA) recently began publishing quarterly Gross Domestic Product (GDP) by state data for all 50 states. Quarterly data can be volatile due to preliminary figures being revised in later periods as is common with national GDP estimates from the BEA. The most recent quarterly data is through the first quarter of 2016.

South Dakota's real GDP estimates can be seen at the bottom chart on this page. Over the past five years, SD's real GDP has been volatile with strong year-over-year increases realized in 2011, followed by declines in 2012 and early 2013, partially due to the extreme drought's impact on agriculture production experienced during 2012. Slow and steady growth with weak first quarter numbers were experienced from 2014-2016. SD's real GDP improved over the course of 2015, with a slight decrease in the first quarter of 2016 to \$41.2 billion. However, the first quarter 2016 GDP registered a positive 3.7% year-over-year growth rate compared to the previous year.

On an annual basis in 2015, South Dakota's real GDP increased 1.8% over 2014, which ranked 22<sup>nd</sup> among all states.



### Recent State General Fund Collections

Overall ongoing state general fund collections (excludes one-time receipts) for the first two months of the fiscal year are higher than a year ago, primarily due to the increase in the sales tax rate by 0.5%. Collections in August totaled \$123.5 million and total growth of FY2017 ongoing general fund receipts is 7.7% higher than FY2016 through the first two months of the fiscal year.

As compared to the legislative adopted FY2017 estimate, collections have been lower through the first two months of the fiscal year. Most recently in August, actual collections were \$3.8 million lower than the adopted estimate. Cumulatively through two months, ongoing collections were \$5.5 million lower than adopted levels. More detail regarding general fund revenue collections can be found at the BFM’s financial metrics/dashboards website at [bfm.sd.gov/dashboards](http://bfm.sd.gov/dashboards).

Sales and Use tax is the largest component of the state general fund revenue stream, accounting for 63% of general fund revenue that pay for essential state services. Due to South Dakota’s broad based sales tax, it is also a useful economic indicator to gauge how well South Dakota’s economy is performing. In FY2017, the state sales tax rate was increased from 4.0% to 4.5%. Thus, growth rates will be higher than historical growth rates due to the tax increase. As a gauge to compare, the tax increase would contribute 12.5% to growth if taxable sales are the same as a year ago. July and August collections grew 10.1% and 3.4% year-over-year, respectively, indicating lower taxable sales compared to a year ago. Lower spending in the agriculture sector, low inflation and growth in e-commerce sales are all contributing to the weakness in taxable sales. Through two months, sales tax is up 6.7% compared to the same time period in FY2016.

Contractor’s Excise tax collections are another important source of revenue, contributing about 7% of total ongoing general fund revenue and offers an indicator on the health of construction activity across the state. The first two months have registered strong year-over-year growth rates in excess of 15%, indicating healthy construction activity. Through two months of FY2017, collections are up 16.3% over the same time period a year ago.

