



South Dakota Economic and Revenue Update

April 2017

Recent Economic Indicators

- South Dakota's total nonfarm employment for 2016 grew 1.1% after recent benchmark revisions, marking the sixth straight year of annual employment gains.
- The unemployment rate in South Dakota for February 2017 was 2.8%, the second lowest in the nation.
- Nonfarm income in South Dakota grew 3.9% on an annual basis in 2016 compared to the national growth rate of 3.7% over the same time period.
- Farm income in South Dakota for 2016 totaled \$0.8 billion, which was down from \$1.8 billion in 2015, a decrease of 57.2%.
- South Dakota's real Gross Domestic Product for 2015 increased 2.6% over 2014, which ranked 14th among all states.

Recent General Fund Revenue Activity

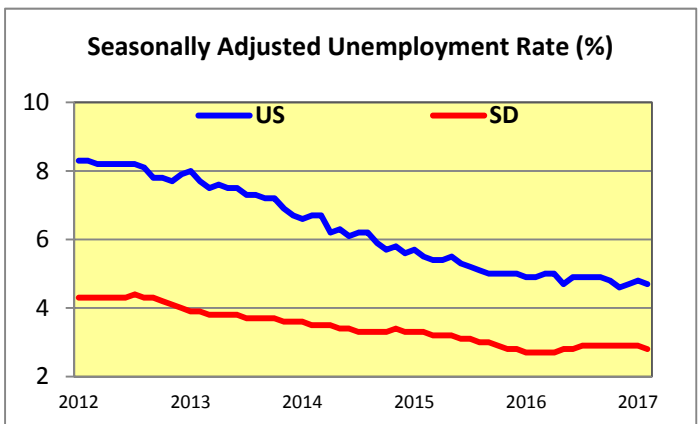
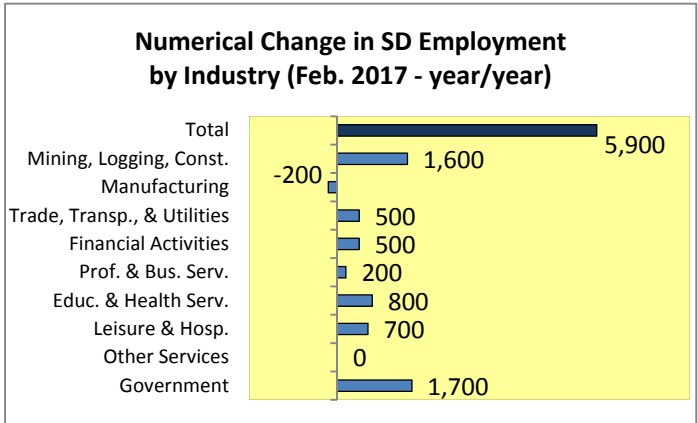
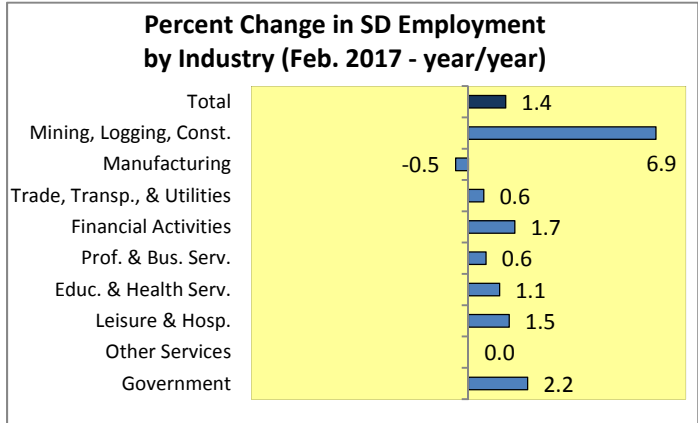
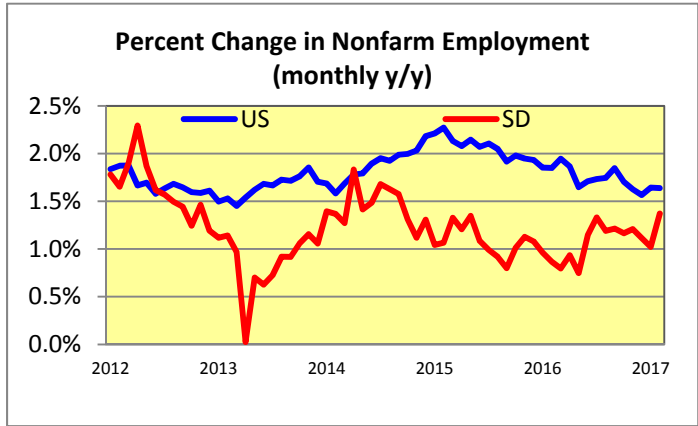
- State general fund revenue collections in March were \$1.4 million higher than a year ago, but \$3.9 million lower than the most recent adopted estimate.
- Through two months since the most recent adopted estimate for FY2017, actual cumulative general fund collections are \$13.7 million less than estimated levels.

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 in part due to a relatively smaller labor force in South Dakota compared to the United States. In February 2017, the most recent data available, South Dakota’s year-over-year nonfarm employment increased to 1.4% growth.

On an annual basis during 2016, South Dakota nonfarm employment levels were 4,500 jobs higher than 2015, or an increase of 1.1% after benchmark revisions. Employment growth in 2016 marks the sixth consecutive year of annual employment gains in South Dakota, indicating continued economic growth for the state. As of February 2017, South Dakota’s nonfarm employment has grown on a year-over-year basis for 81 consecutive months. In February, total SD nonfarm employment was up 5,900 jobs or 1.4%, compared to February 2016. 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 February 2017, the unemployment rate in South Dakota was 2.8%, while the national unemployment rate stood at 4.7%. South Dakota’s unemployment rate for the month of February was the second lowest in the nation. The unemployment rate in February was 0.1% lower than the previous month, but 0.1% 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 63.0%. 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 69.0% in recent years.

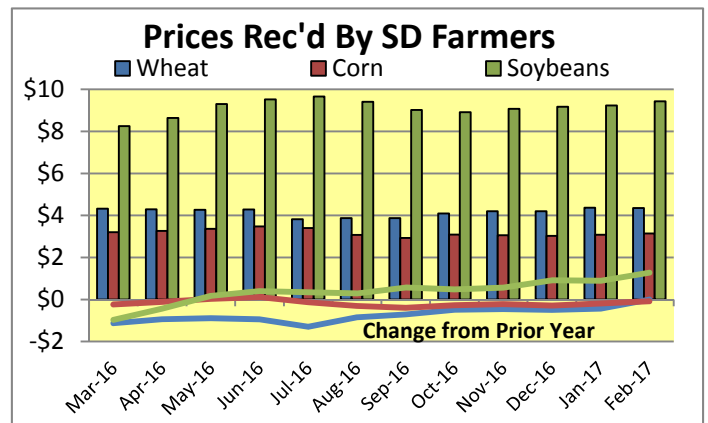
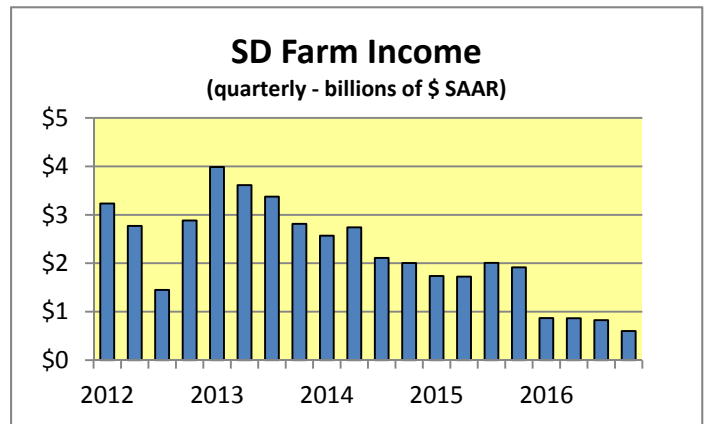
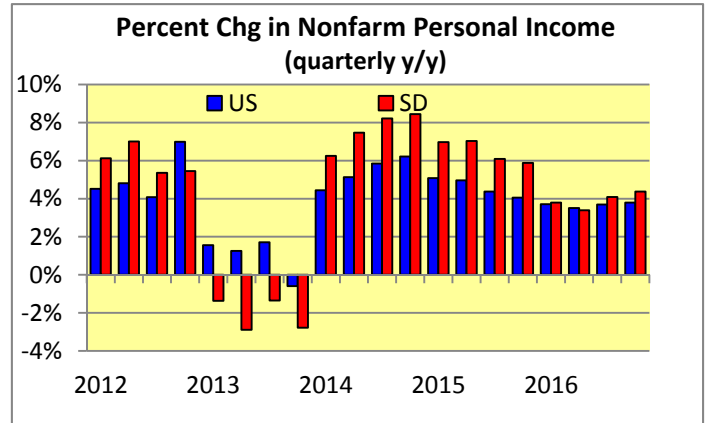
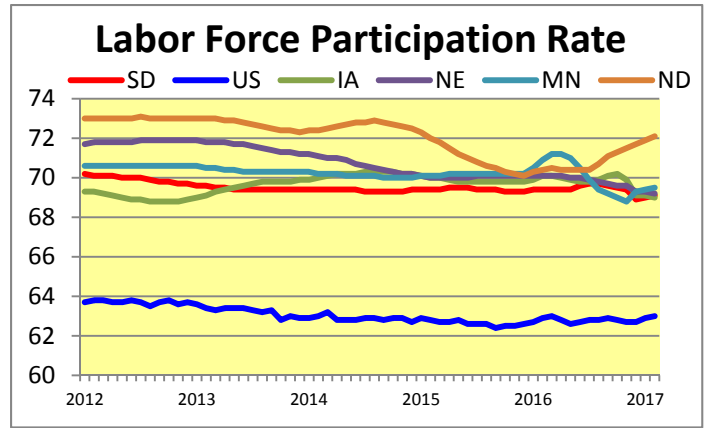
Nonfarm Personal Income

Nonfarm personal income growth in South Dakota has performed better than 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 2012 through the fourth quarter of 2016. On an annual basis, SD nonfarm personal income increased 6.5% in 2015 3.9% in 2016. In comparison, the US nonfarm personal income growth was 4.6% in 2015 and 3.7% in 2016.

Farm Income/Crop Prices

South Dakota farm income realized strong earnings from the late 2000’s through 2013, before declining from 2014 through 2016. 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 \$0.8 billion in 2016 on an annual basis. Farm income data for 2016 that was recently released by the Bureau of Economic Analysis is preliminary.

Crop prices received by SD farmers for soybeans were higher than a year ago, while corn and wheat were at similar levels. Soybean prices were \$9.43 or \$1.28 higher compared to a year ago. Corn prices were \$3.14 or \$0.09 lower, while wheat prices received were \$4.35, the same level compared to a year ago.



Housing/Auto Indicators

Housing activity has been increasing in South Dakota during the most recent 12 month period. Over the past 12 months (Mar. 2016 through Feb. 2017), the total number of housing units authorized by building permits were 5,383 or up by 803 units from the prior 12 month period. Single family units totaled 3,067 in the past 12 months, which was up 546 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 135.7 million higher than the prior 12 month period.

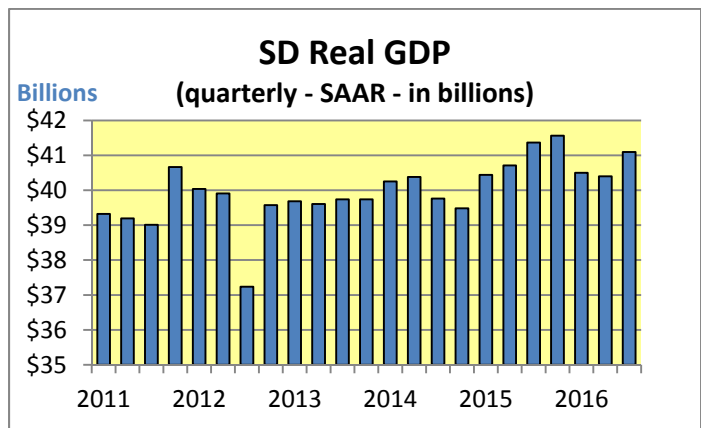
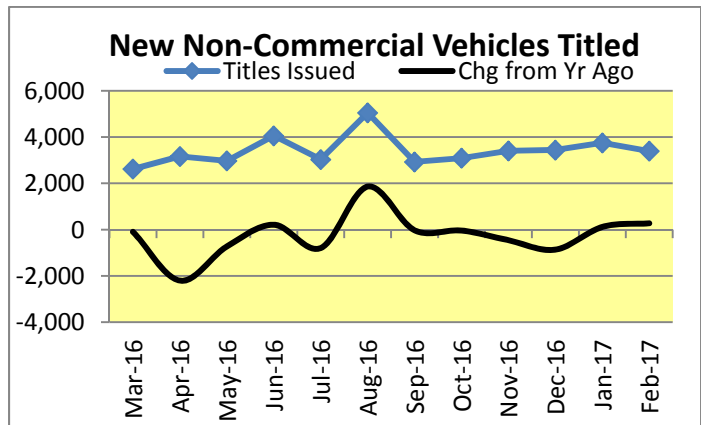
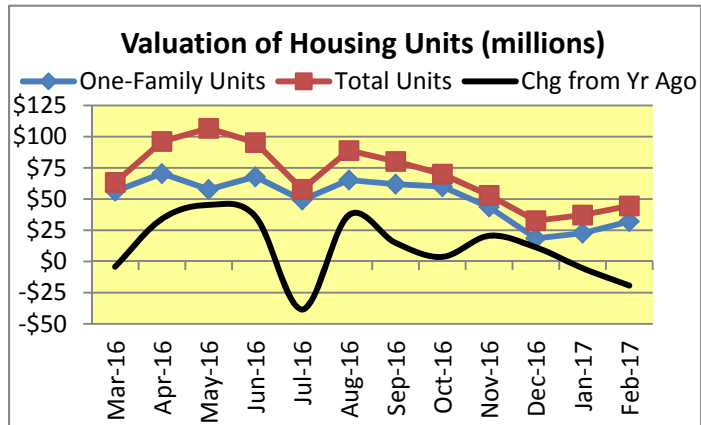
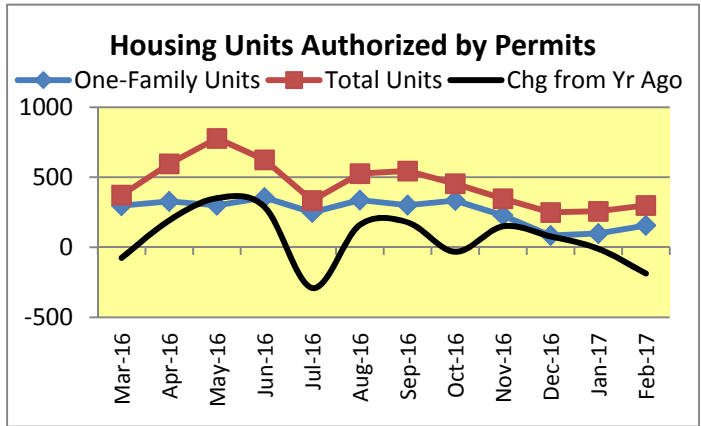
The total of new non-commercial vehicles titled in South Dakota is lower over the past 12 months, totaling 40,901 titles or a decrease of 2,761 over the prior 12 month period. In February 2017 there were 3,394 titles issued in South Dakota, up 274 from a year ago.

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. Recent quarterly data are preliminary and can be subject to revisions by the BEA in later periods. The most recent quarterly data is through the third quarter of 2016.

South Dakota's real GDP estimates can be seen in the bottom chart on this page. Over the past five years, SD's real GDP was strong in 2011, followed by slight declines in 2012 and early 2013, partially due to the extreme drought's impact on agriculture production experienced during 2012. Slow growth was experienced in 2014 through mid-2015, with growth accelerating in the second half of 2015. In the first two quarters of 2016, growth slowed due to decreases in the agriculture and mining sectors before picking up slightly in the third quarter.

In 2015, which is the most recent annual data that is available, South Dakota's real GDP increased 2.6% over 2014, which ranked 14th among all states.



Recent State General Fund Collections

Overall ongoing state general fund collections (excludes one-time receipts) for the first nine 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 March totaled \$93.2 million and total growth of FY2017 ongoing general fund receipts is 5.3% higher than FY2016 through the first nine months of the fiscal year.

As compared to the most recent legislative adopted FY2017 estimate, which was recently revised in February of 2017, there have been two months of actual collections to compare to estimated levels. Most recently in March, actual collections were \$3.9 million lower than the adopted estimate. Cumulatively through two months, ongoing collections were \$13.7 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.

Sales and Use tax is the largest component of the state general fund revenue stream, accounting for 63% of general fund revenue. 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. February and March collections grew 9.4% and 8.2% year-over-year, respectively. Lower spending on farm equipment, low inflation, and growth in e-commerce sales are all contributing to the weakness in taxable sales. Although farm income is lower, agriculture represents a small portion of the overall sales tax collections of the state. Through nine months, sales tax is up 9.6% 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 five months registered strong year-over-year growth rates, followed by several months of weaker growth. Through nine months of FY2017, collections are up 7.7% over the same time period a year ago.

