



## South Dakota Economic and Revenue Update

### July 2017

#### Recent Economic Indicators

- South Dakota's total nonfarm employment on an annual basis in 2016 grew 1.1%. In June, employment was up 0.6% over the same month a year ago.
- The unemployment rate in South Dakota for June 2017 was 3.0%.
- South Dakota's real Gross Domestic Product for 2016 increased 1.7% over 2015, which ranked 18th among all states.
- 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%.
- Drought conditions are impacting 2017 crop production, with both topsoil and subsoil moisture conditions rated 82% short to very short across the state.

#### Recent General Fund Revenue Activity

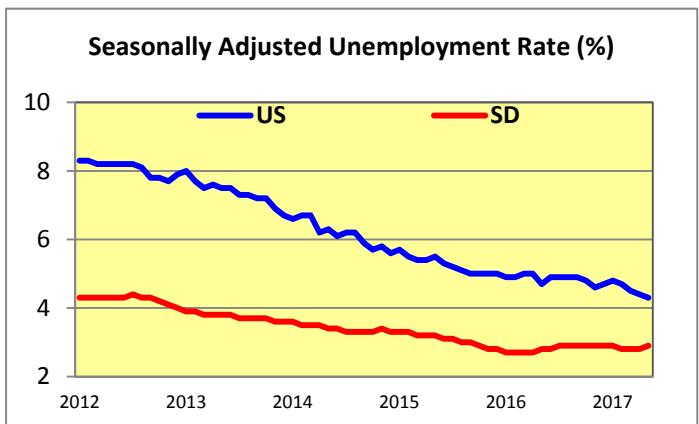
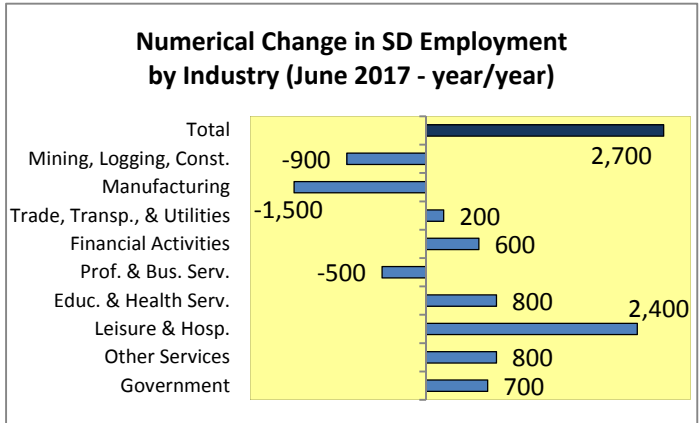
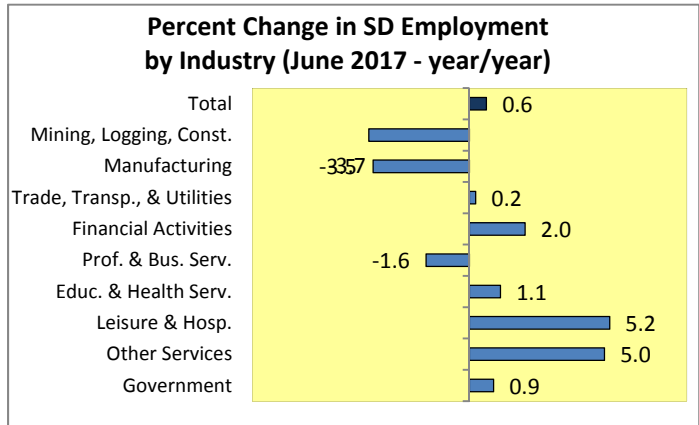
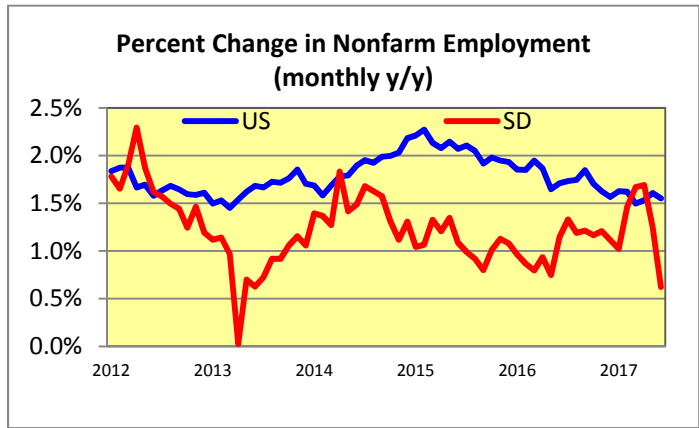
- State general fund revenue collections for June were \$15.6 million higher than a year ago, and \$5.4 million higher than the most recent adopted estimate.
- Through five months since the most recent adopted estimate for FY2017, total ongoing general fund collections were \$6.0 million less than estimated 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 June 2017, the most recent data available, South Dakota’s year-over-year nonfarm employment was 0.6%.

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 June 2017, South Dakota’s nonfarm employment has grown on a year-over-year basis for 85 consecutive months. In June, total SD nonfarm employment was up 2,700 jobs or 0.6%, compared to June 2016. Sectors that have contributed to employment growth over the past several months include: trade, transportation, and utilities; financial activities; education and health services; leisure and hospitality; and government. Employment sectors that are flat or lagging include mining, logging, construction, manufacturing and professional and business services.

In June 2017, the unemployment rate in South Dakota was 3.0%, while the national unemployment rate stood at 4.4%. South Dakota’s unemployment rate for the month of June was among the lowest in the nation. The unemployment rate in June was 0.1% higher than the previous month, and 0.2% higher than a year ago, a sign of a continued 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 69.0% in recent years.

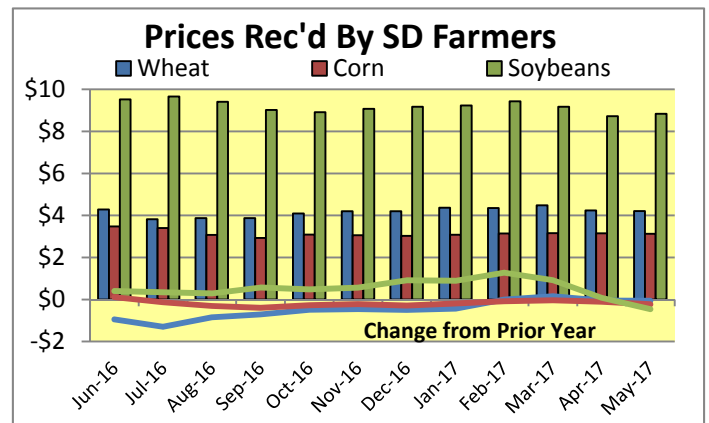
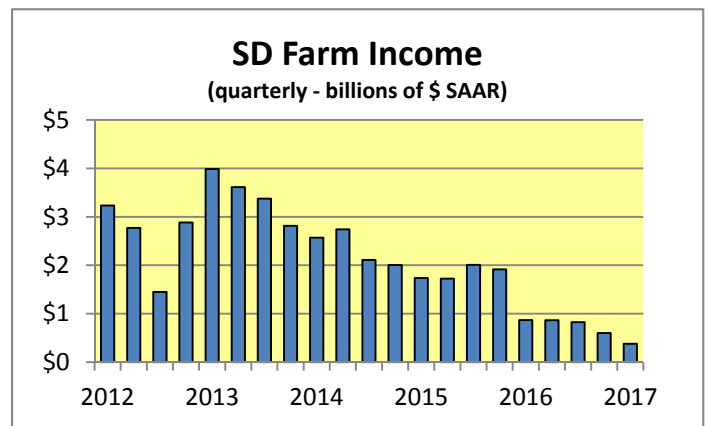
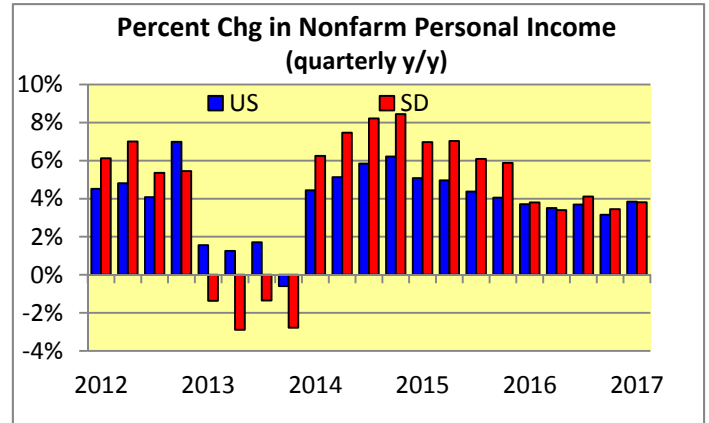
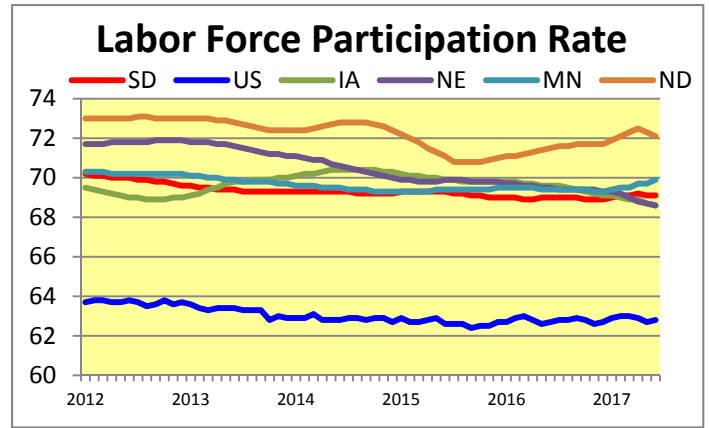
### Nonfarm Personal Income

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 first quarter of 2017. On an annual basis, SD nonfarm personal income increased 6.5% in 2015 and 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, large supplies, coupled with weaker demand. SD farm income peaked in 2011 at \$3.8 billion and registered \$0.8 billion in 2016 on an annual basis.

Drought conditions over much of the state are expected to have negative impacts on crop production and overall farm income in 2017. As of July 23<sup>rd</sup>, both topsoil and subsoil moisture supplies were rated 82% short to very short. Pasture and range conditions were rated 73% poor to very poor. Crop prices received by SD producers in May 2017 were similar to a year ago.



### Housing/Auto Indicators

Housing activity has been stable in South Dakota during the most recent 12 month period. Over the past 12 months (July 2016 through June 2017), the total number of housing units authorized by building permits were 4,965 or down by 372 units from the prior 12 month period. Single family units totaled 3,197 in the past 12 months, which was up 491 units compared to the prior 12 month period. The value of housing units authorized by permits continues to be healthy. Over the past 12 months, the total valuation of housing permits was \$805.0 million or \$3.4 million higher than the prior 12 month period.

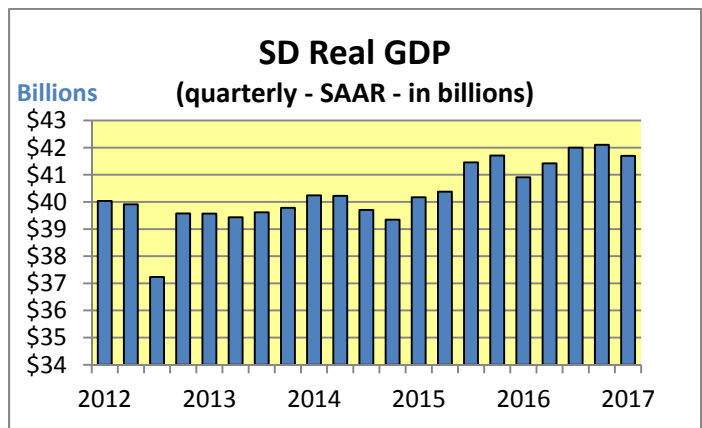
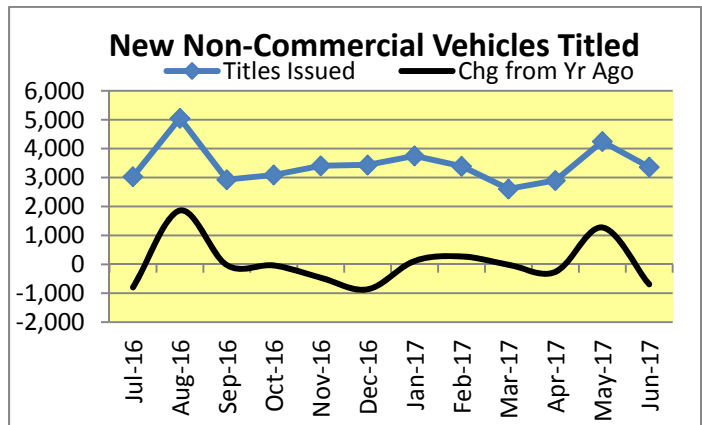
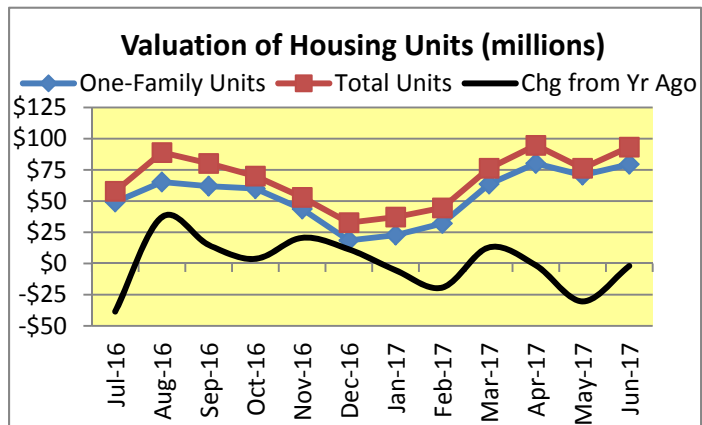
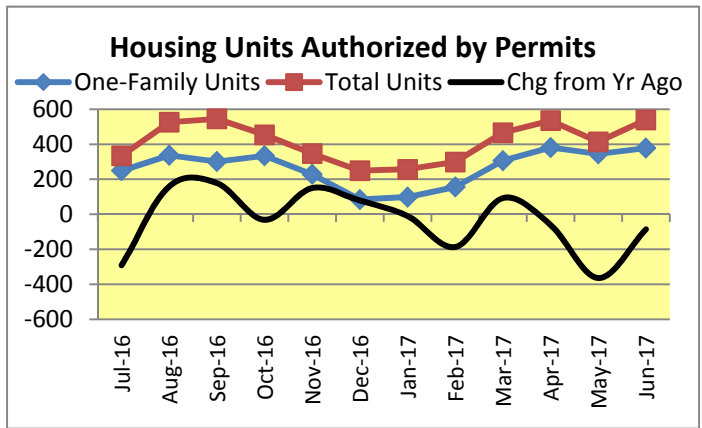
The total of new non-commercial vehicles titled in South Dakota is up slightly over the past 12 months, totaling 41,205 titles or an increase of 361 over the prior 12 month period. In June 2017 there were 3,361 titles issued in South Dakota, down 693 from a year ago.

### South Dakota real GDP

The Bureau of Economic Analysis (BEA) publishes 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 first quarter of 2017.

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 soft in 2012 and 2013, partially due to the extreme drought’s impact on agriculture production experienced during 2012. Real growth was experienced in early 2014 and decreased slightly in the second half of the year. Growth improved in 2015 and 2016, indicating a steady growing economy. In the first quarter of 2017, overall growth declined due to a decrease in the agriculture sector to start the year, which is anticipated to continue throughout 2017 as drought conditions continue to impact a large portion of the state.

In 2016, which is the most recent annual data that is available, South Dakota’s real GDP 1.7% over 2015, which ranked 18th among all states.



### Recent State General Fund Collections

Overall ongoing state general fund collections (excludes one-time receipts) for fiscal year 2017 were higher than a year ago, primarily due to the increase in the sales tax rate by 0.5%. Collections in June totaled \$134.3 million. For the full fiscal year, total growth of FY2017 ongoing general fund receipts was 7.1% higher than FY2016.

As compared to the most recent legislative adopted FY2017 estimate, which was recently revised in February of 2017, there have been five months of actual collections to compare to estimated levels. Most recently in June, actual collections were \$5.4 million higher than the adopted estimate. Cumulatively through five months and after year-end adjustments, ongoing collections were \$6.0 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. 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. In April, May, and June, collections grew 12.6%, 13.4%, and 14.5% 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 growth rates improved the past three months. Through twelve months, sales tax grew 10.5% 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 twelve months of FY2017, collections grew 5.3% over the same time period a year ago.

