



South Dakota Economic and Revenue Update

December 2017

Recent Economic Indicators

- South Dakota's most recent total nonfarm employment as of November 2017 is up 1,000 jobs or 0.2% compared to the same month a year ago.
- The unemployment rate in South Dakota for November 2017 was 3.5%.
- South Dakota's real Gross Domestic Product for 2016 increased 0.7% over 2015.
- Nonfarm income in South Dakota grew 2.7% on an annual basis in 2016 compared to the national growth rate of 2.5% over the same time period.
- Farm income in South Dakota for 2016 totaled \$1.1 billion, which was down from \$1.6 billion in 2015, a decrease of 34.2%.
- Topsoil moisture conditions are rated 44% short to very short across the state.

Recent General Fund Revenue Activity

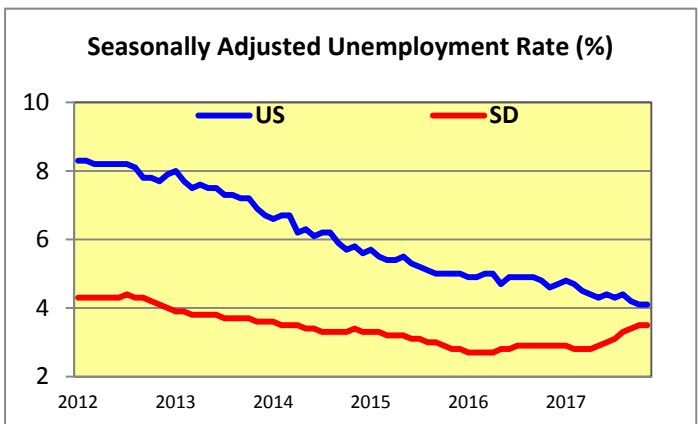
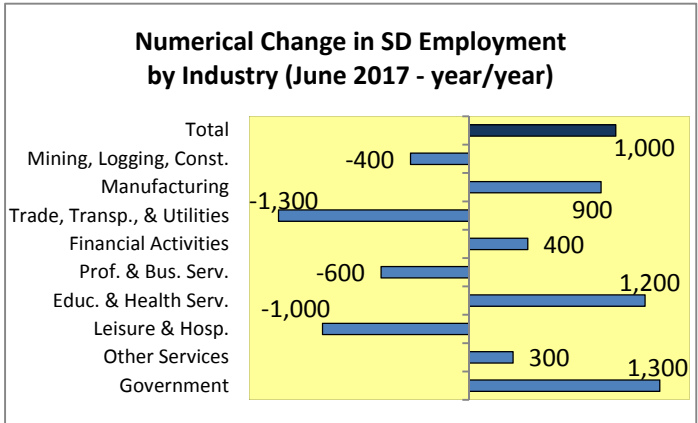
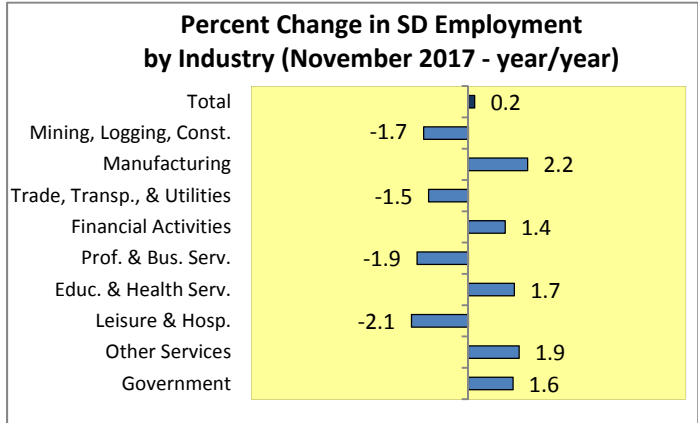
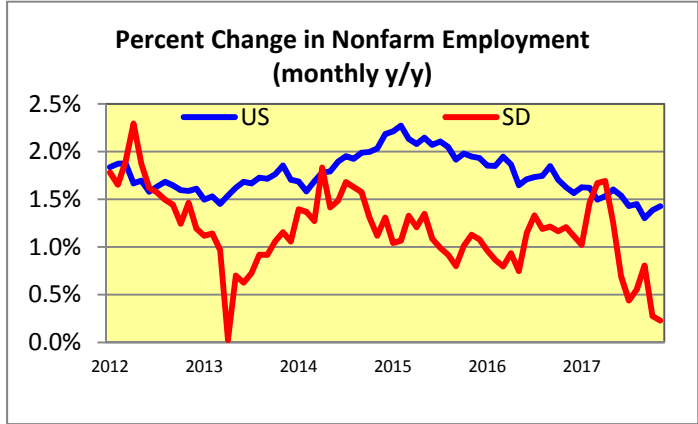
- General fund revenue collections in November were \$20.0 million lower than a year ago, primarily due to timing of unclaimed property receipts, but were \$0.7 million higher than the most recent revised estimate as of December 2017.
- Sales tax activity has improved in recent months as September, October, and November registered year-over-year growth rates of 1.6%, 3.1%, and 4.0%, respectively. Through five months of the fiscal year, sales tax is up 2.6%.

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 November 2017, the most recent data available, South Dakota’s year-over-year nonfarm employment growth was up 0.2%.

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 November 2017, South Dakota’s nonfarm employment has grown on a year-over-year basis for 90 consecutive months. In November, total SD nonfarm employment was up 1,000 jobs or 0.2%, compared to November 2016. Sectors that have contributed to employment growth over the past several months include: manufacturing; financial activities; education and health services; other services; and government. Employment sectors that are flat or lagging include: mining, logging, construction; trade, transportation, and utilities; professional and business services; and leisure and hospitality.

In November 2017, the unemployment rate in South Dakota was 3.5%, while the national unemployment rate stood at 4.4%. South Dakota’s unemployment rate for the month of November was among the lowest in the nation. The unemployment rate in November was the same as the previous month, and 0.6% higher than a year ago. In recent months, the labor force in South Dakota has grown at a faster pace than employment, which increased the unemployment rate.



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 62.7%. 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.

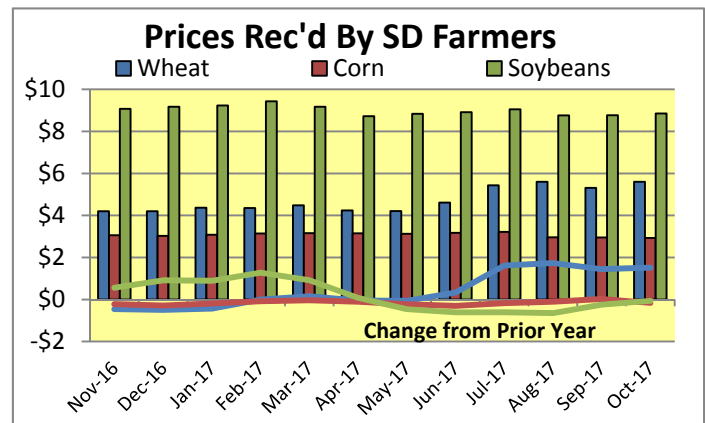
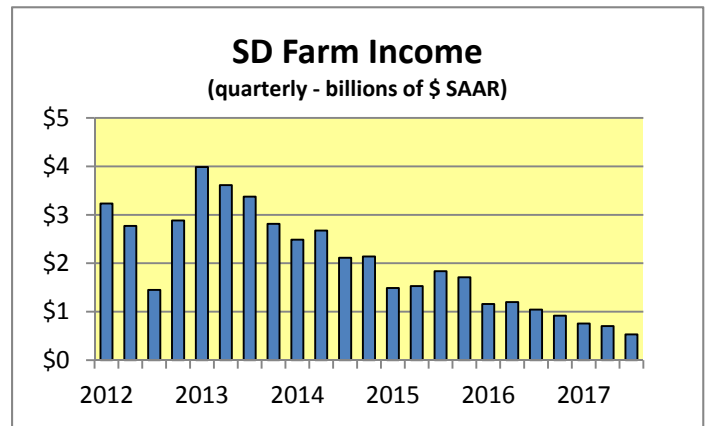
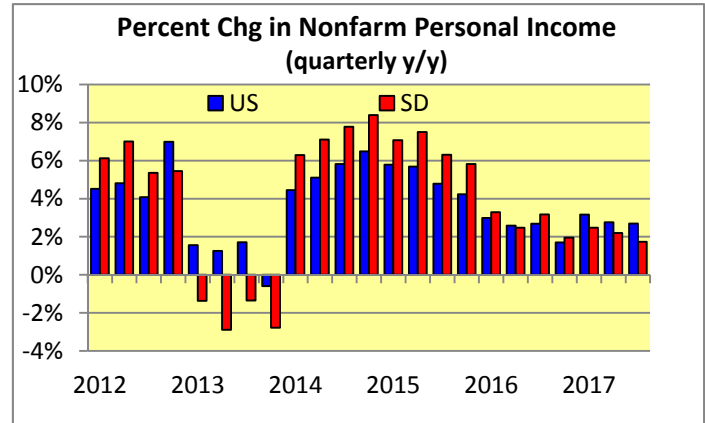
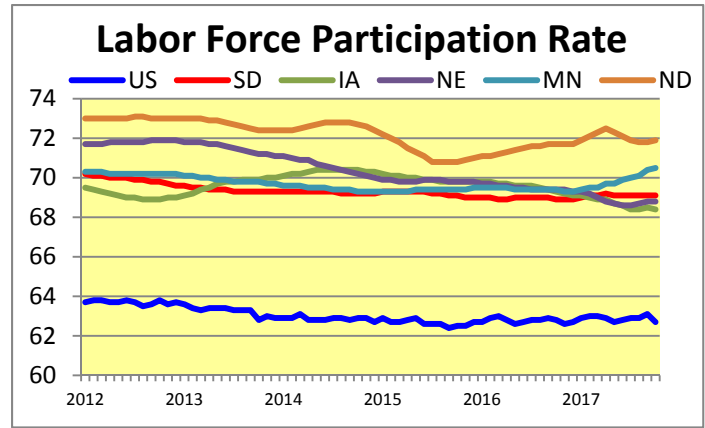
Nonfarm Personal Income

Nonfarm personal income growth in South Dakota has performed better than the US average over the past several years, but has been slightly slower in the first three quarters of 2017. 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 third quarter of 2017. On an annual basis, SD nonfarm personal income increased 6.7% in 2015 and 2.7% in 2016. In comparison, the US growth was 5.1% in 2015 and 2.5% 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. SD farm income peaked in 2011 at \$3.8 billion and registered \$1.1 billion in 2016 on an annual basis. Lower crop production due to dry conditions and low crop prices in 2017 is partially being offset by higher livestock prices. Overall, farm income in 2017 is anticipated to be at or near a low in the current cycle, with marginal improvement anticipated in 2018.

Crop prices received by SD farmers have been higher for wheat, but slightly lower for corn and soybeans compared to a year ago. As of November 27th, topsoil moisture supplies were rated 44% short to very short.



Housing/Auto Indicators

Housing activity has been steady in South Dakota during the most recent 12 month period. Over the past 12 months (Dec. 2016 through Nov. 2017), the total number of housing units authorized by building permits were 5,323 or down by 179 units from the prior 12 months. Single family units totaled 3,216 in the past 12 months, which was up 171 units compared to the prior 12 month period. The value of housing units authorized by permits continues to be at healthy levels. Over the past 12 months, the total valuation of housing permits was \$853.8 million or \$14.5 million higher than the prior 12 month period.

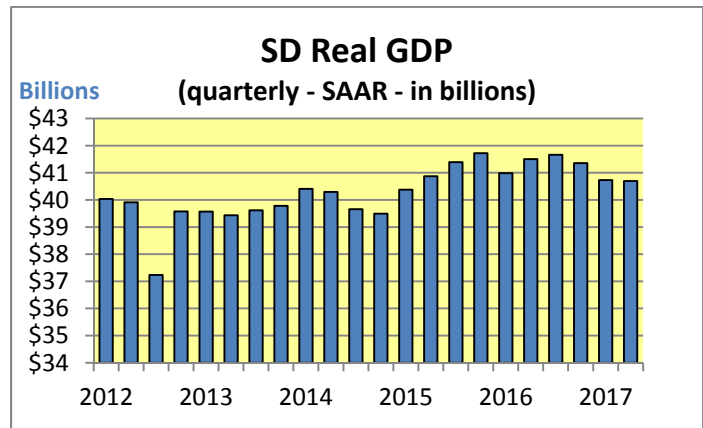
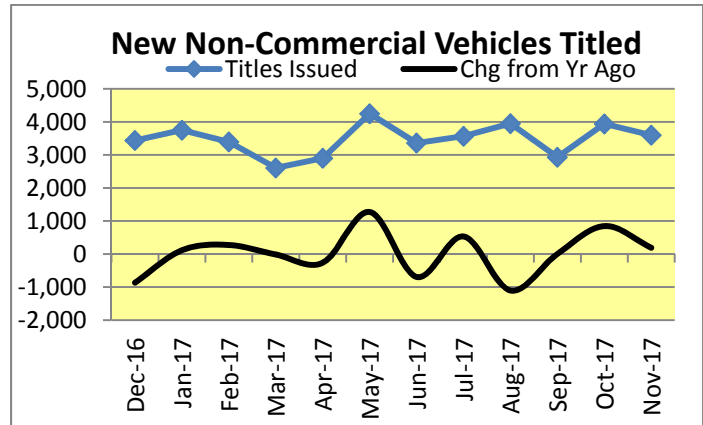
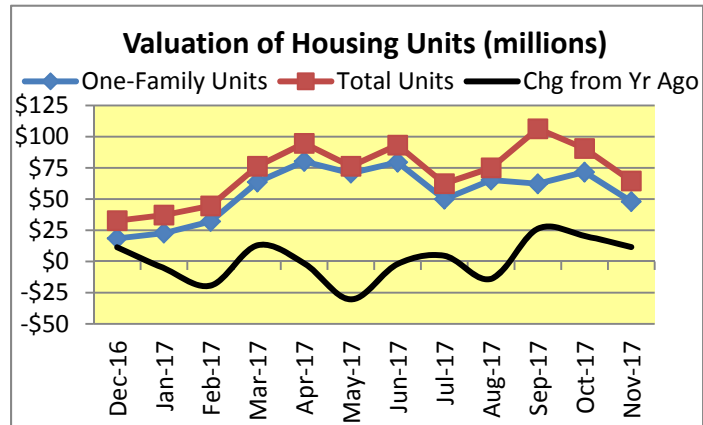
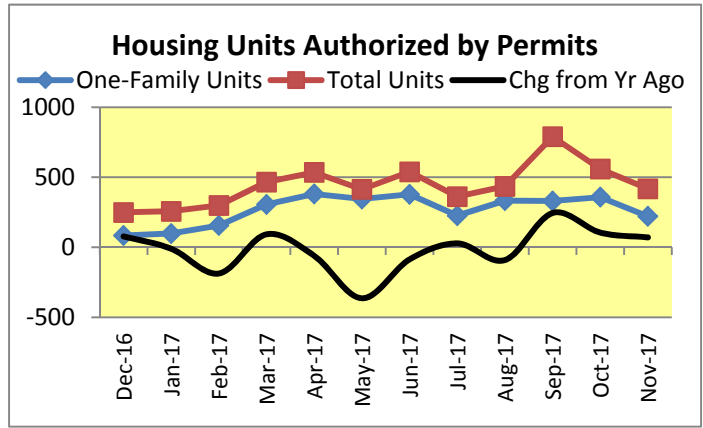
The total of new non-commercial vehicles titled in South Dakota is up slightly over the past 12 months, totaling 41,676 titles or an increase of 299 over the prior 12 month period. In November 2017 there were 3,597 titles issued in South Dakota, up 191 from a year ago.

South Dakota Real GDP

The Bureau of Economic Analysis (BEA) publishes quarterly Gross Domestic Product (GDP) data for all 50 states. Recent quarterly data is preliminary and can be subject to revisions by the BEA in later periods. The most recent quarterly data is through the second 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 impact of the extreme drought on agriculture production during 2012. Real growth was experienced in early 2014 and decreased slightly in the second half of the year. Growth improved in 2015, indicating a steady growing economy. In 2016, growth was soft due to slower growth in the manufacturing and finance/insurance industries. In the first two quarters of 2017, overall growth declined slightly, primarily due to decreases in the agriculture industry.

In 2016, which is the most recent annual data that is available, South Dakota’s real GDP grew 0.7% over 2015. This was equal to the growth of the seven state Plains region (SD, ND, MN, IA, NE, KS, MO), but less than the national growth of 1.5% over the same time period.



Recent State General Fund Collections

Overall ongoing state general fund collections (excludes one-time receipts) for the first five months of the fiscal year were slightly lower than a year ago, primarily due to the timing of collections. Collections in November totaled \$164.0 million. Through the first five months of the fiscal year, total ongoing general fund receipts were 0.7% lower than FY2017.

As compared to the legislative adopted FY2018 estimate, collections have been lower through the first five months of the fiscal year. Most recently in November, actual collections were \$16.8 million lower than the adopted estimate, which is primarily due to the timing of receipts related to unclaimed property. As measured against the Governor’s revised FY2018 estimate, November collections were \$0.7 million higher than projected. 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%. The growth rate in FY2017 of 10.5% was higher due to the tax rate increase. The past three months, sales tax collections have improved due to firming inflation and additional e-commerce taxpayers licensed in South Dakota. In September, October, and November, collections grew 1.7%, 2.7%, and 3.8% year-over-year, respectively. Through the first five months of the fiscal year, sales tax is up 2.6% 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. Four of the first five months of FY2018 registered year-over-year decreases, but compares to record high tax collections from a year ago. Through five months of FY2018, collections are down 7.2% compared to the same time period a year ago.

