



South Dakota Economic and Revenue Update

April 2018

Recent Economic Indicators

- South Dakota's total nonfarm employment for 2017 grew 0.5% or 2,000 jobs after recent revisions, the seventh straight year of annual employment gains.
- The unemployment rate in South Dakota for March of 2018 was 3.4%.
- Nonfarm income in South Dakota grew 2.6% on an annual basis in 2017 compared to the national growth rate of 3.2% over the same time period.
- Farm income in South Dakota for 2017 totaled \$0.6 billion, which was down from \$1.1 billion in 2016, a decrease of 41.8%.
- Topsoil moisture conditions are rated 13% short to very short across the state.

Recent General Fund Revenue Activity

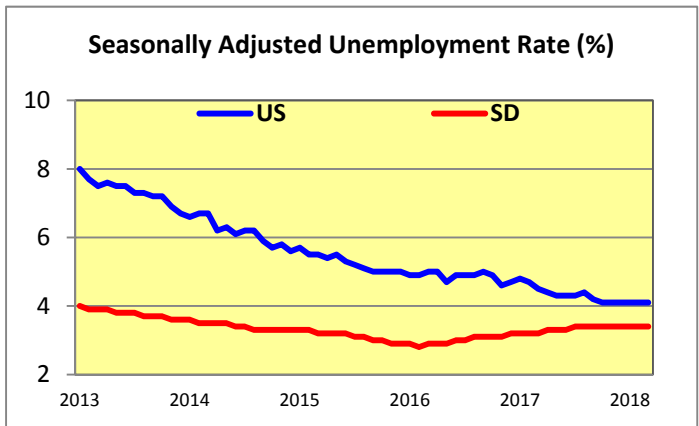
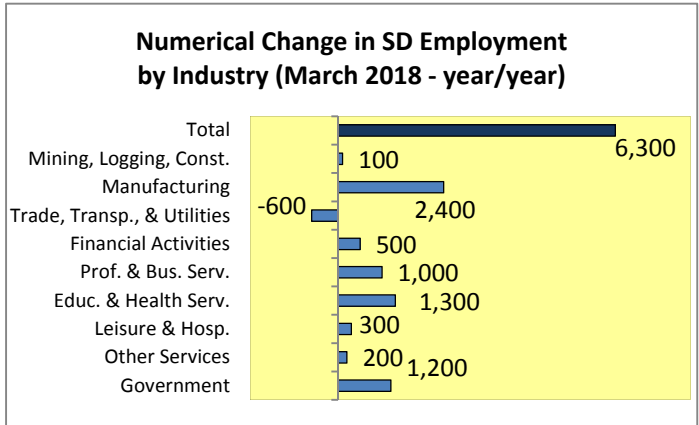
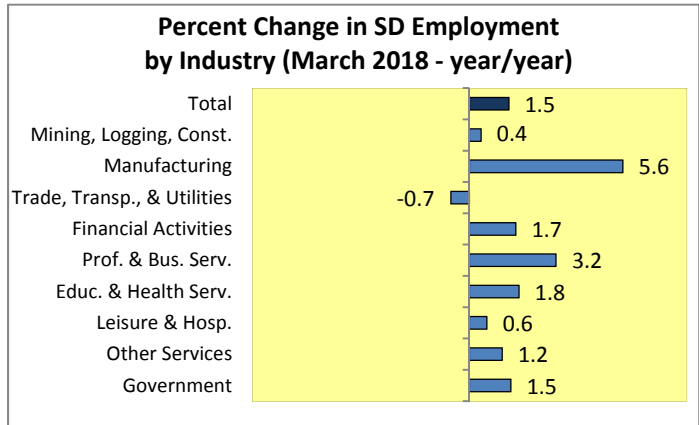
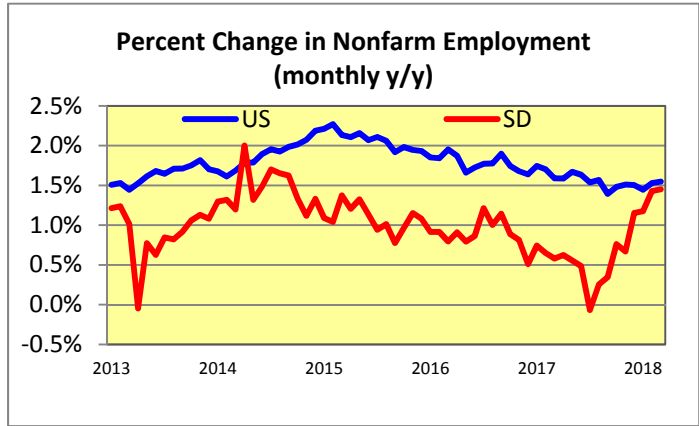
- General fund revenue collections in March were \$4.4 million higher than a year ago, but were \$2.0 million lower than the most recent revised estimate. Through two months since the most recently adopted estimate for FY2018, actual collections are \$0.1 million higher than estimated levels.
- Sales tax activity has improved in recent months as January, February, and March registered year-over-year growth rates of 5.5%, 11.3%, and 4.1%, respectively. Through nine months of the fiscal year, sales tax is up 4.6%.

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 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 and the fact that South Dakota’s employment was impacted to a lesser extent during the 2007-2009 economic recession. In recent months, employment growth in South Dakota has improved after experiencing softer growth during 2017. In March 2018, the most recent data available, South Dakota’s year-over-year nonfarm employment growth was up 1.5%, which is the strongest reading since 2014.

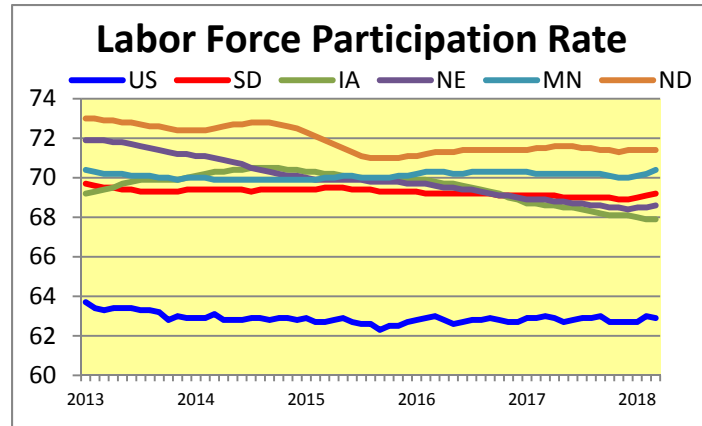
On an annual basis during 2017, South Dakota nonfarm employment levels were 2,000 jobs higher than 2016, or an increase of 0.5% after recent benchmark revisions. Employment growth in 2017 marks the seventh consecutive year of annual employment gains in South Dakota, indicating continued economic growth for the state. In March of 2018, total SD nonfarm employment was up 6,300 jobs or 1.5%, compared to March 2017. Sectors that have contributed to employment growth over the past several months include: manufacturing; financial activities; professional and business services; education and health services; leisure and hospitality; other services; and government. Employment sectors that are flat or lagging include: mining, logging, construction and trade, transportation, and utilities.

In March 2018, the unemployment rate in South Dakota was 3.4%, while the national unemployment rate stood at 4.1%. The unemployment rate in March was the same as the previous month, and 0.2% higher than a year ago. Over the past year, the labor force in South Dakota has grown at a faster pace than employment, causing a slight increase in the state’s unemployment rate.



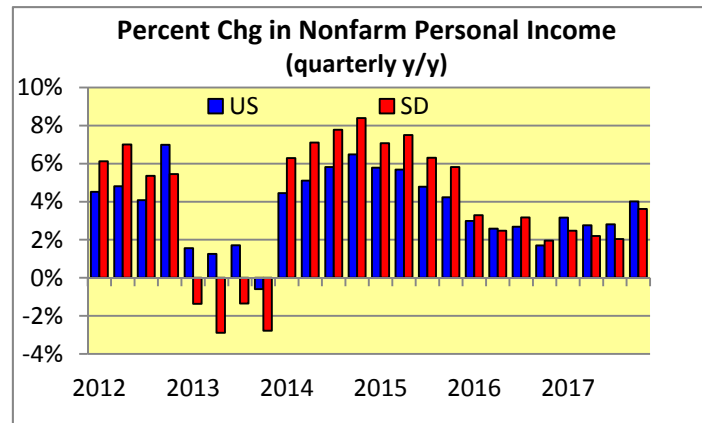
Employment/Labor Force continued

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 62.9%. 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% in recent years.



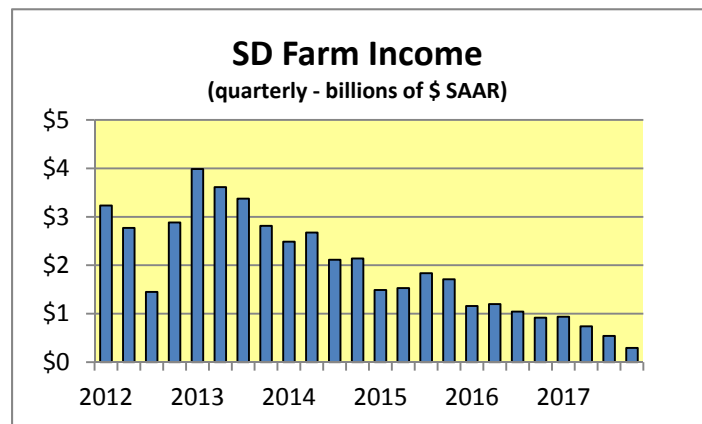
Nonfarm Personal Income

Nonfarm personal income growth in South Dakota has performed better than the US average over the past several years, but was slightly lower during 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 fourth quarter of 2017. On an annual basis, SD nonfarm personal income increased 6.7% in 2015, 2.7% in 2016, and 2.6% in 2017. In comparison, the US growth was 5.1% in 2015, 2.5% in 2016, and 3.7% in 2017.

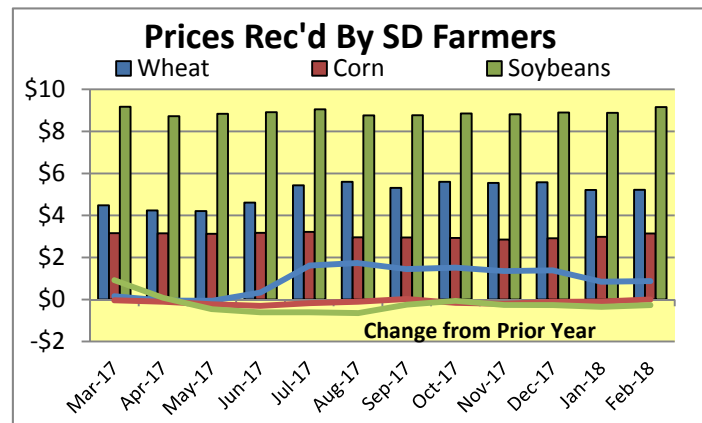


Farm Income/Crop Prices

South Dakota farm income realized strong earnings from the late 2000’s through 2013, before declining from 2014 through 2017. SD farm income peaked in 2011 at \$3.8 billion and registered \$0.6 billion in 2017 on an annual basis. Lower crop production due to dry conditions and low crop prices in 2017 was partially 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 April 22nd, topsoil moisture supplies were rated just 13% short to very short across the state.



Housing/Auto Indicators

Housing activity has been steady in South Dakota during the most recent 12 month period. Over the past 12 months (Apr. 2017 through Mar. 2018), the total number of housing units authorized by building permits were 5,247 or down by 229 units compared to the prior 12 months. Single family units totaled 3,205 in the past 12 months, which was up 129 units compared to the previous year. The value of housing units authorized by permits continues to be at healthy levels. Over the past 12 months, the total valuation of authorized housing permits was \$861.9 million or \$23.0 million higher than the prior 12 month period.

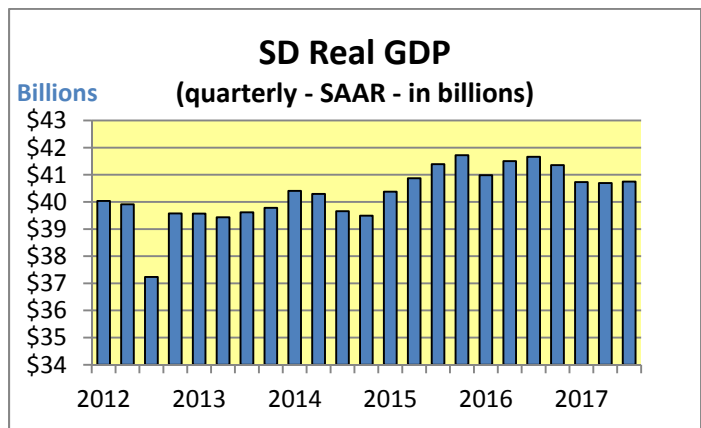
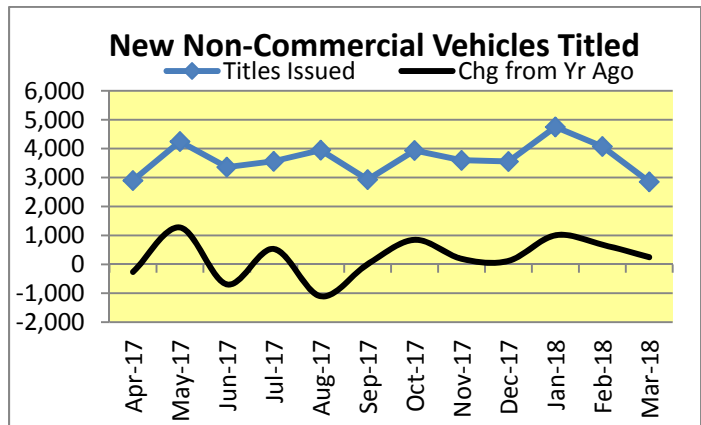
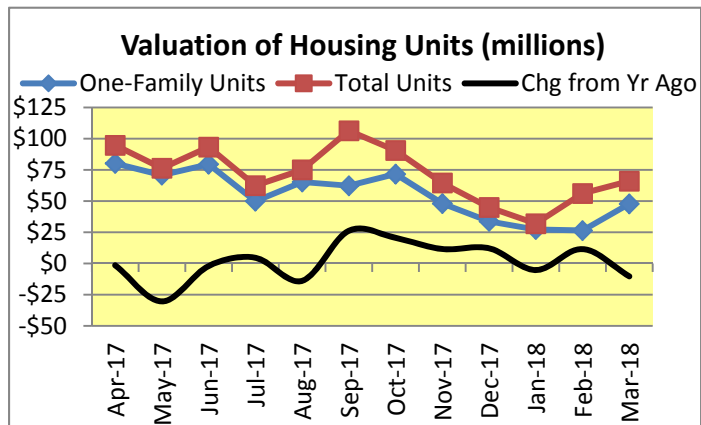
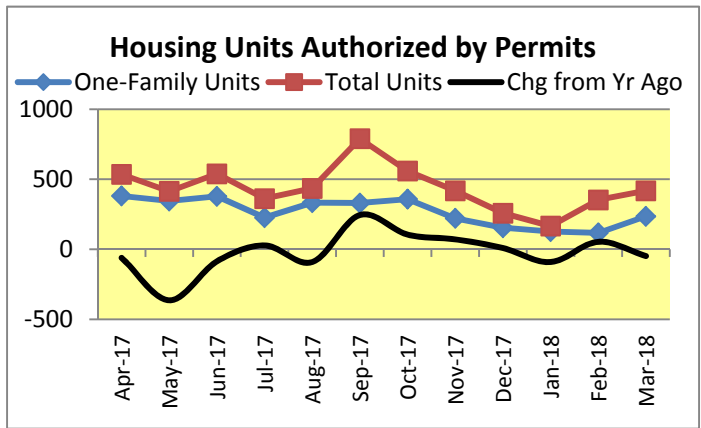
The total of new non-commercial vehicles titled in South Dakota has increased over the past 12 months, totaling 43,723 titles or an increase of 2,835 over the prior year. In March 2018 there were 2,854 titles issued in South Dakota, up 246 from a year ago.

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 third 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. Through the first three 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) through nine months of the fiscal year are higher than a year ago, primarily due to recent improvements in sales tax collections. Collections in March totaled \$97.6 million. Through the first nine months of the fiscal year, total ongoing general fund receipts were 3.0% higher than the same time period in FY2017.

As compared to the most recent legislative adopted FY2018 estimate, which was revised in February of 2018, there have been two months of actual collections to compare to estimated levels. Most recently in March, actual collections were \$2.0 million lower than the adopted estimate. Cumulatively through two months, ongoing collections were \$0.1 million higher 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%. The growth rate in FY2017 of 10.5% was higher due to the tax rate increase. The past several months during FY2018, sales tax collections have improved due to firming inflation, strong holiday spending, and higher spending in the agriculture sector. In January, February, and March, collections grew 5.5%, 11.3%, and 4.1% year-over-year, respectively. Through the first nine months of the fiscal year, sales tax is up 4.6% compared to the same time period in FY2017.

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. However, the past three months have indicated strong activity with y/y growth rates in excess of 10%. Through nine months of FY2018, collections are down 1.0% compared to the same time period a year ago.

