



South Dakota Economic and Revenue Update

July 2018

Recent Economic Indicators

- South Dakota's total nonfarm employment for 2017 grew 0.5% or 2,000 jobs. In June 2018, employment was up 1.5% over the same month a year ago.
- The unemployment rate in South Dakota for June of 2018 was 3.2%.
- South Dakota's real GDP for 2017 grew 0.3% over 2016.
- 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%.
- Recent moisture conditions are rated just 16% short to very short statewide.

Recent General Fund Revenue Activity

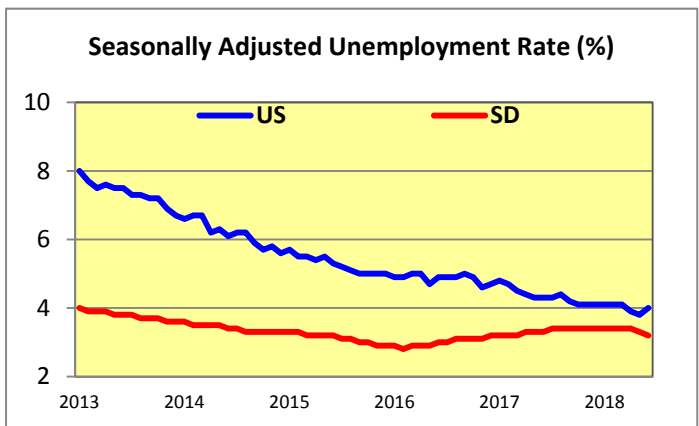
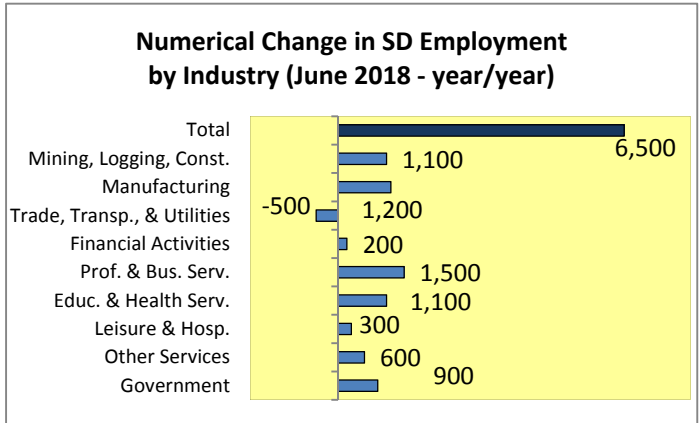
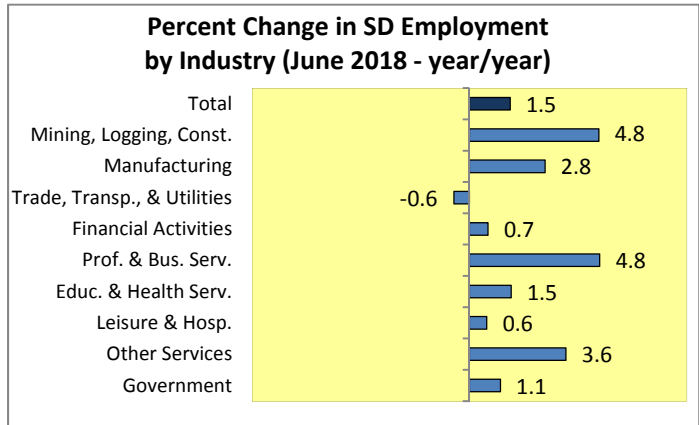
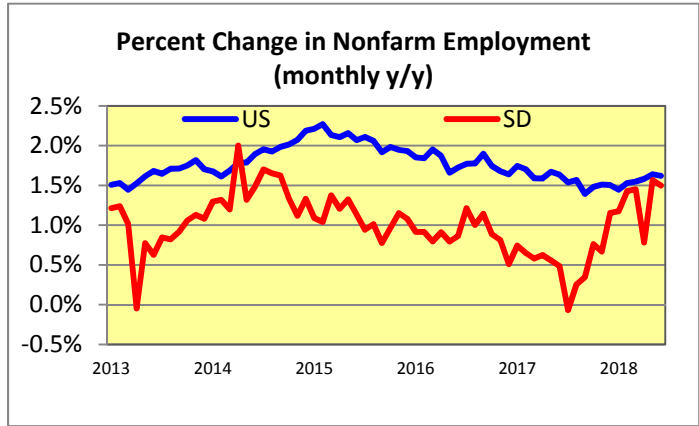
- General fund revenue collections in June were \$23.9 million higher than a year ago, and were \$1.5 million higher than the most recent revised estimate. Through five months since the most recently adopted estimate for FY2018, total ongoing collections were are \$7.3 million higher than estimated levels.
- Sales tax activity improved in FY2018, growing 4.0% over FY2017, reflecting the largest increase in taxable sales since FY2014.

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 June 2018, the most recent data available, South Dakota’s year-over-year nonfarm employment growth was up 1.5%, indicating positive momentum so far in 2018.

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 annual 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 June of 2018, total SD nonfarm employment was up 6,500 jobs or 1.5%, compared to June 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; other services; and government. Employment sectors that are flat or lagging include: leisure and hospitality; and trade, transportation and utilities.

In June 2018, the unemployment rate in South Dakota was 3.2%, while the national unemployment rate stood at 4.0%. The SD unemployment rate in June was 0.1% lower than the previous month and 0.1% lower than a year ago. In recent months, the labor force in South Dakota has remained steady, while the number of unemployed persons has decreased, causing a decrease in the state’s unemployment rate on a seasonally adjusted basis.



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.

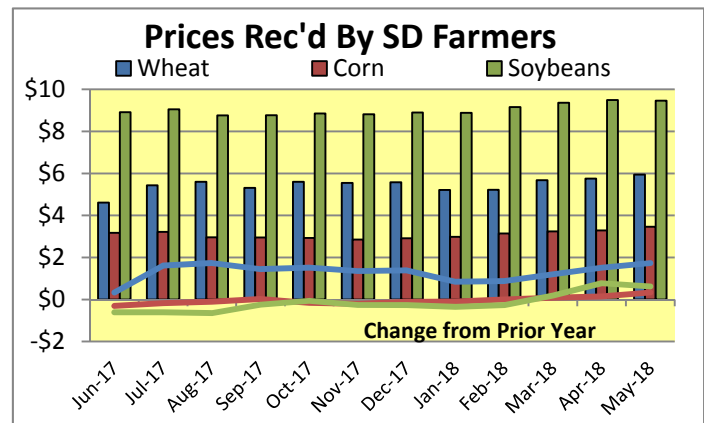
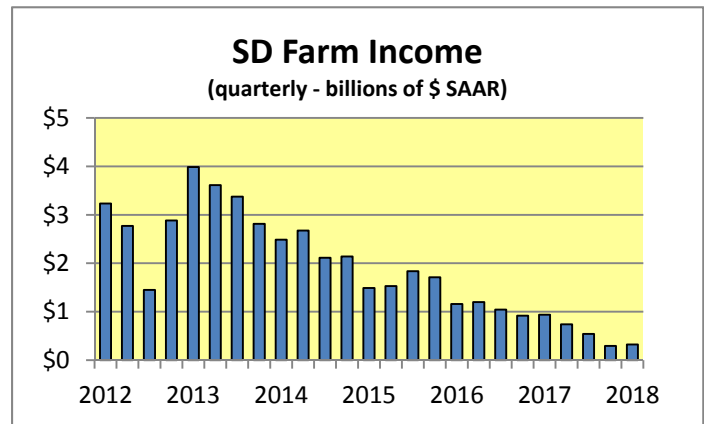
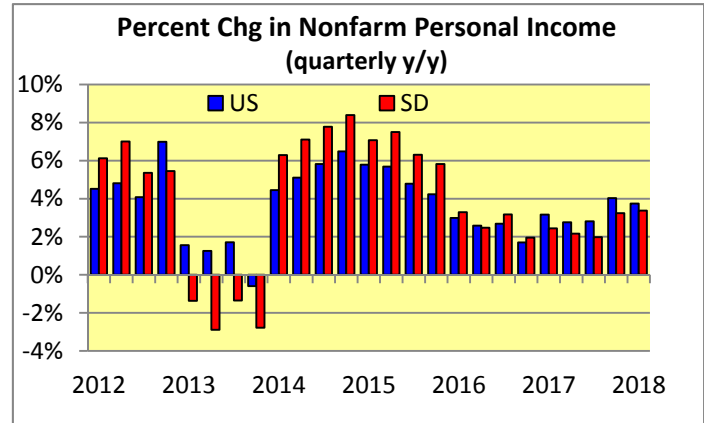
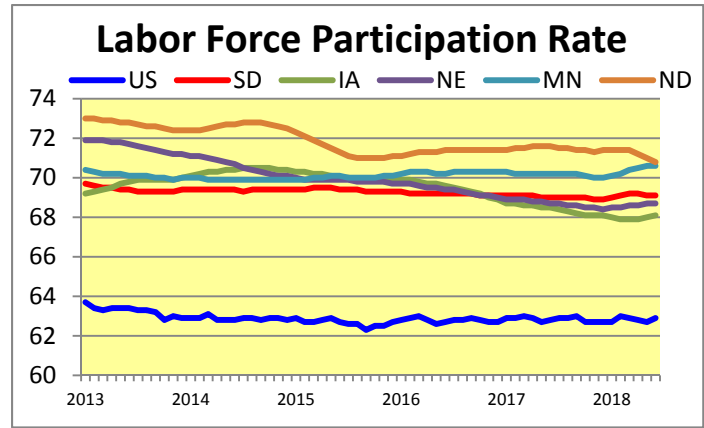
Nonfarm Personal Income

Nonfarm personal income growth in South Dakota has performed better than the US average from 2014 through 2016, but has been slightly lower during the past several quarters. 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 2018. 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 3.2% 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.

Crop prices received by SD farmers have been slightly higher for wheat, but little to no change for corn and soybeans compared to a year ago. Recent decreases in crops prices may put downward pressure on farm income in 2018. Moisture conditions continue to be favorable, with topsoil conditions just 16% short to very short statewide.



Housing/Auto Indicators

Housing activity has increased in South Dakota during the most recent 12 month period. Over the past 12 months (June 2017 through May 2018), the total number of housing units authorized by building permits were 5,369 or up by 318 units compared to the prior 12 months. Single family units totaled 3,181 in the past 12 months, which was up 7 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 \$871.8 million or \$64.8 million higher than the prior 12 month period.

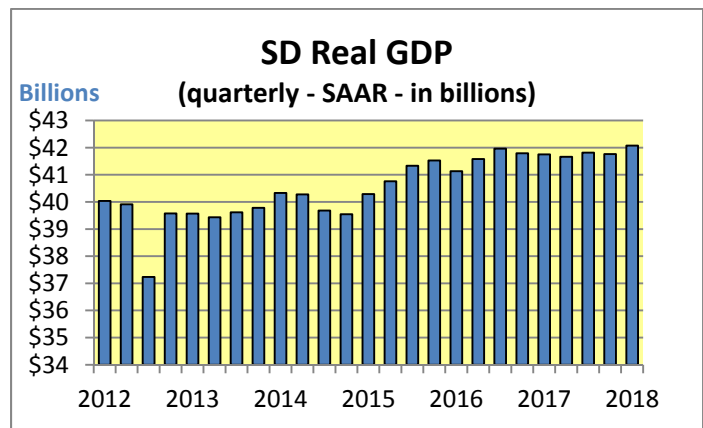
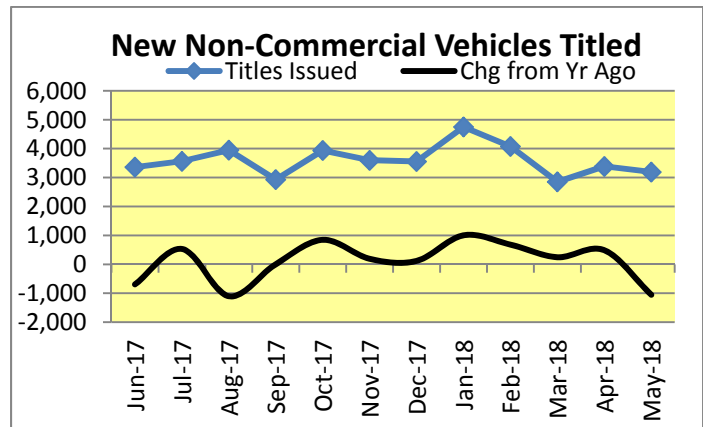
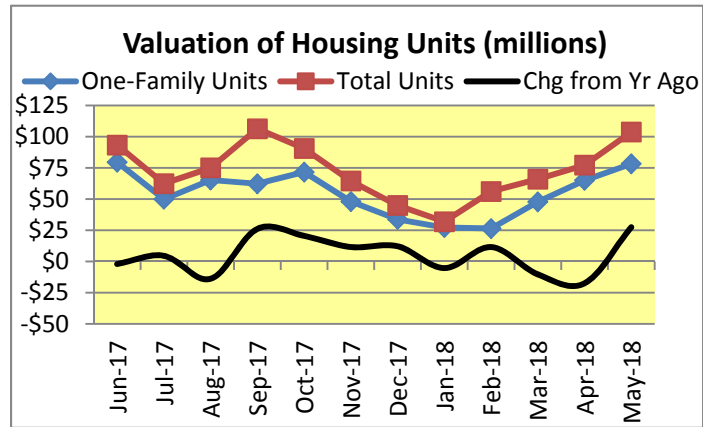
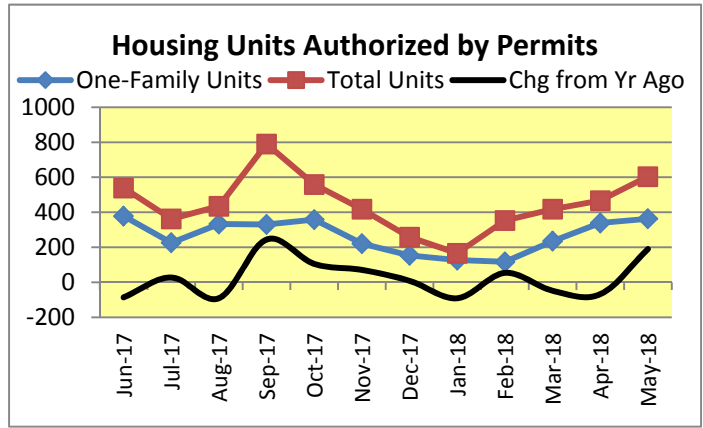
The total of new non-commercial vehicles titled in South Dakota has increased over the past 12 months, totaling 43,158 titles or an increase of 1,260 over the prior year. In May 2018 there were 3,194 titles issued in South Dakota, down 1,053 from a year ago.

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 first quarter of 2018.

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. During 2017, growth was flat as a decline in the agriculture industry was offset by gains in manufacturing. The first quarter of 2018 indicates modest gains across all industries.

In 2017, which is the most recent annual data that is available, South Dakota’s real GDP grew 0.3% over 2016, reflecting declines in agriculture, construction, and finance, which was offset by gains in manufacturing and professional/business services.



Recent State General Fund Collections

Overall ongoing state general fund collections (excludes one-time receipts) for FY2018 were higher than a year ago, primarily due to recent improvements in sales & use tax collections, higher lottery receipts and robust insurance company tax collections. Collections in June totaled \$158.2 million. For the full fiscal year, total growth of FY2018 ongoing general fund receipts were 3.4% than FY2017.

As compared to the most recent legislative adopted FY2018 estimate, which was revised in February of 2018, there have been five months of actual collections to compare to estimated levels. Most recently in June, actual collections were \$1.5 million higher than the adopted estimate. Cumulatively through five months and after year-end adjustments, ongoing collections were \$7.3 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%, leading to a higher growth rate of 10.5% during the fiscal year. In FY2018, sales tax collections have improved due to firming inflation, strong holiday spending, and higher spending in the agriculture sector throughout the fiscal year. In April, May, and June, collections grew 3.7%, decreased 1.2%, and grew 2.9% year-over-year, respectively. Through the full twelve months of the fiscal year, sales tax grew 4.0% 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. The past six months have indicated strong activity with several months registering y/y growth rates in excess of 10%. Through twelve months of FY2018, collections grew 0.7% compared to the same time period a year ago.

