BUREAU OF FINANCE & MANAGEMENT SouthDakota

South Dakota Economic and Revenue Update

December 2018

Recent Economic Indicators

- South Dakota's total nonfarm employment for 2017 grew 0.5% or 2,000 jobs. In November 2018, employment was up 2.1% over the same month a year ago.
- The unemployment rate in South Dakota for November of 2018 was 3.0%.
- South Dakota's real GDP for 2017 was flat compared to 2016, but quarterly data for the first two quarters of 2018 indicate modest GDP growth in 2018.
- Nonfarm income in South Dakota grew 2.1% on an annual basis in 2017 compared to the national growth rate of 4.4% over the same time period.
- Farm income in South Dakota for 2017 totaled $0.9 billion, which was down from $1.1 billion in 2016, a decrease of 18.8%.

Recent General Fund Revenue Activity

- General fund revenue collections in November totaled $182.5 million, which was $18.5 million higher than a year ago. In November, collections were $2.0 million higher than the Governor's revised FY2019 estimate.
- Through the first five months of FY2019, cumulative general fund collections are $1.0 million lower than the Legislative adopted FY2019 estimate.
- Sales tax activity has been strong thus far in FY2019, growing 6.0% over FY2018.

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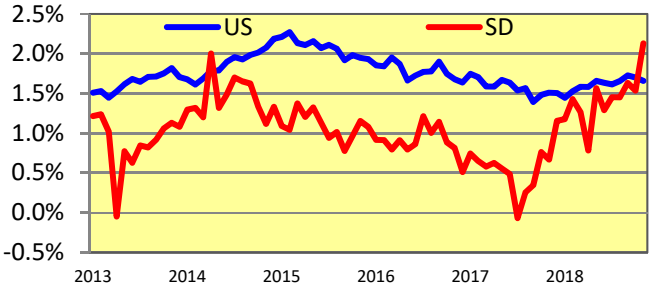
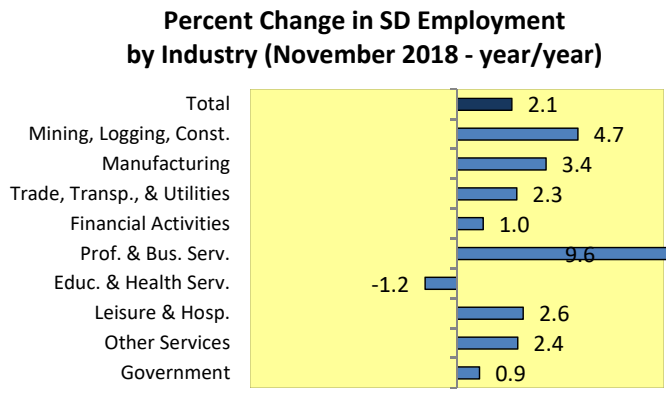
Employment/Labor Force

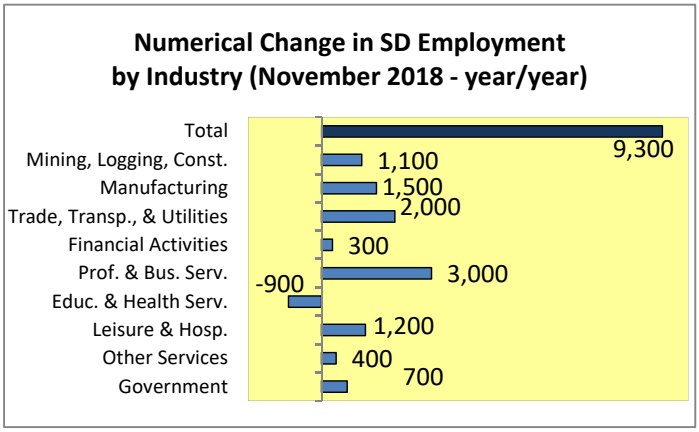
South Dakota's economy has been expanding since early 2010, primarily due to a robust agriculture sector in the early part of the decade, a steadily growing national economy, and the state's business friendly environment. The growth in US employment has exceeded that of South Dakota for the past few 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 November 2018, the most recent data available, South Dakota's year-over-year nonfarm employment growth was up 2.1%, indicating moderate employment growth throughout 2018.

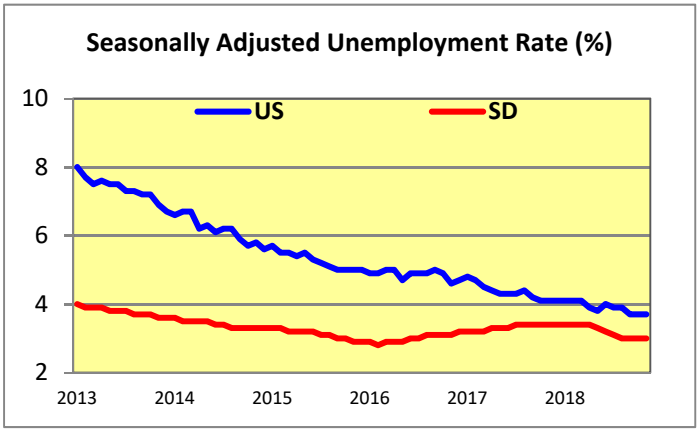
On an annual basis during 2017, South Dakota nonfarm employment levels were 2,000 jobs higher than 2016, or an increase of 0.5% after annual benchmark revisions. Employment growth in 2017 marks the seventh consecutive year of annual employment gains in South Dakota, indicating continued economic growth for the state. In November of 2018, total SD nonfarm employment was up 9,300 jobs or 2.1%, compared to November 2017. Sectors that have contributed to employment growth over the past several months include: manufacturing; financial activities; professional and business services; leisure and hospitality; other services; and government. The employment sectors that have been flat or lagging were: trade, transportation and utilities; and education/health services.

In November 2018, the unemployment rate in South Dakota was 3.0%, while the national unemployment rate stood at 3.7%. The SD unemployment rate in November was the same as the previous month and 0.4% lower than a year ago. Through mid-2018, 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. The unemployment rate in South Dakota has remained steady at 3.0% for the past four months.









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.

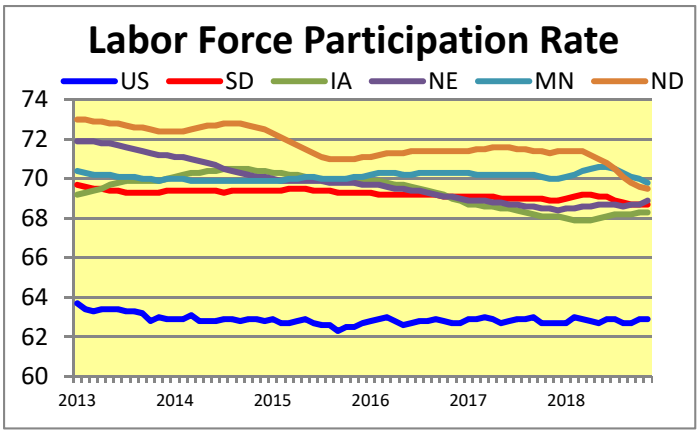
Nonfarm Personal Income

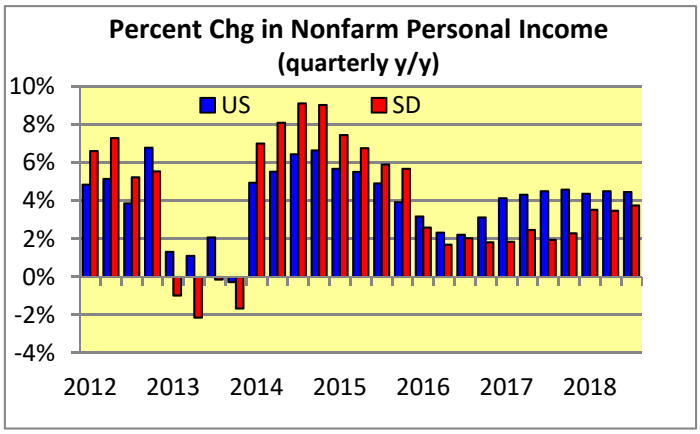
Nonfarm personal income growth in South Dakota has performed better than the US average in 2014 and 2015 but has been slightly lower compared to the US the past several years. The chart at the right shows the year-over-year percent change in nonfarm personal income for South Dakota and the United States on a quarterly basis from 2012 through the third quarter of 2018. On an annual basis, SD nonfarm personal income increased 6.4% in 2015, 2.0% in 2016, and 2.1% in 2017. In comparison, the US growth was 5.0% in 2015, 2.7% in 2016, and 4.4% in 2017.

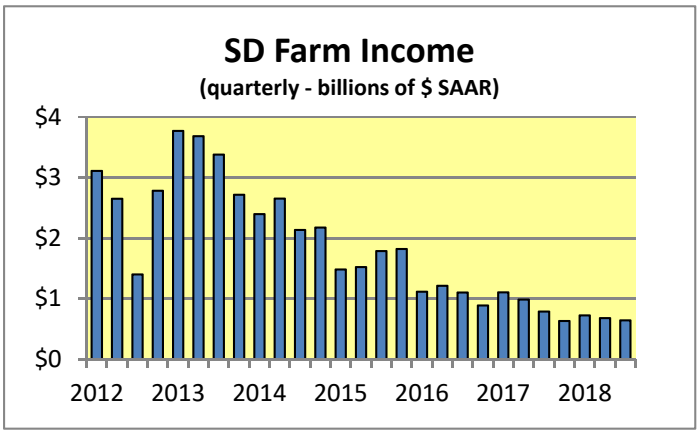
Farm Income/Crop Prices

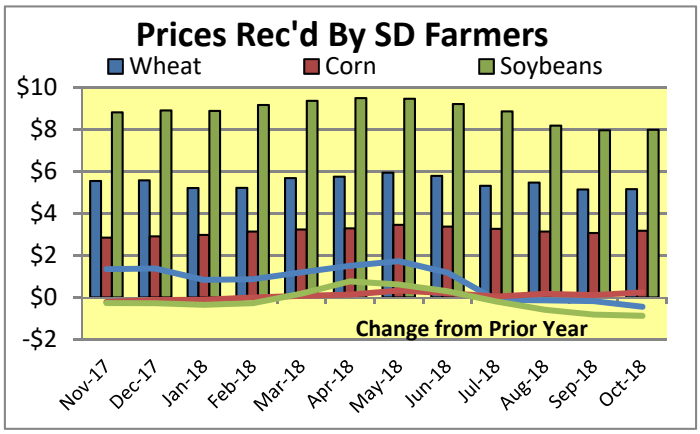
South Dakota farm income realized strong earnings from the late 2000's through 2013, before declining from 2014 through 2017. SD farm income peaked in 2011 at $3.6 billion and registered $0.9 billion in 2017 on an annual basis. Lower crop production due to dry conditions and low crop prices in 2017 was partially offset by higher livestock prices. So far in 2018, income has been steady reflecting strong crop production that is being offset by lower prices.

Crop prices received by SD farmers have been slightly higher for corn, but lower for soybeans and wheat compared to a year ago for the past few months. Ongoing trade disputes continue to be a concern in the Agriculture sector heading in to 2019.









Housing/Auto Indicators

Housing activity has been slightly lower in South Dakota during the most recent 12-month period. Over the past 12 months (November 2017 through October 2018), the total number of housing units authorized by building permits were 4,927 or down by 325 units compared to the prior 12 months. Single family units totaled 3,010 in the past 12 months, which was down 213 units compared to the previous year. The value of housing units authorized by permits is slightly lower over the past 12 months. The total valuation of authorized housing permits was $838.9 million or $3.4 million lower than the prior 12-month period.

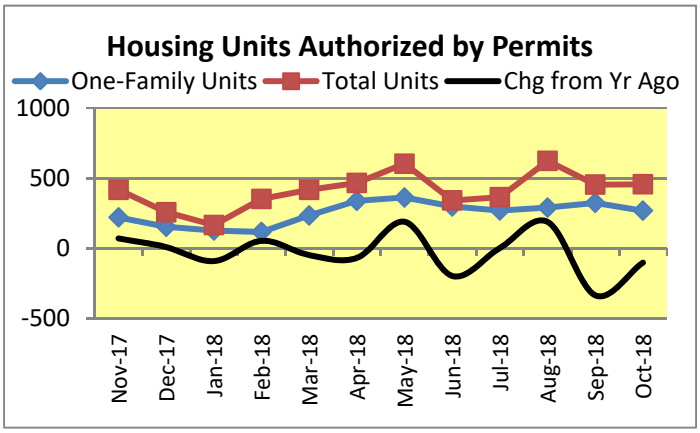
The total of new non-commercial vehicles titled in South Dakota has been steady over the past 12 months, totaling 41,600 titles or a decrease of 76 over the prior year. In November 2018 there were 3,223 titles issued in South Dakota, down 374 from a year ago.

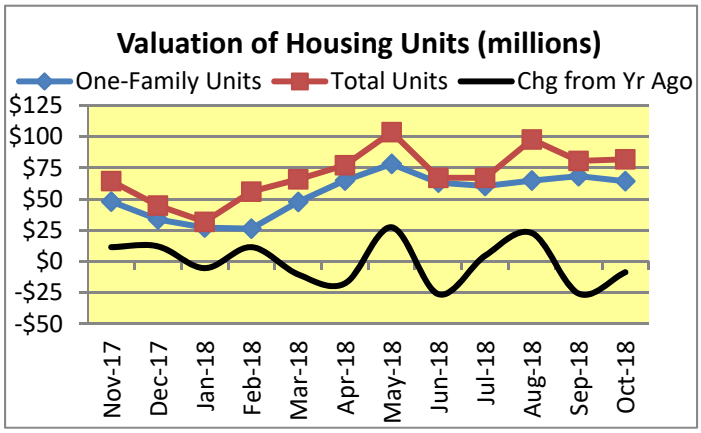
South Dakota Real GDP

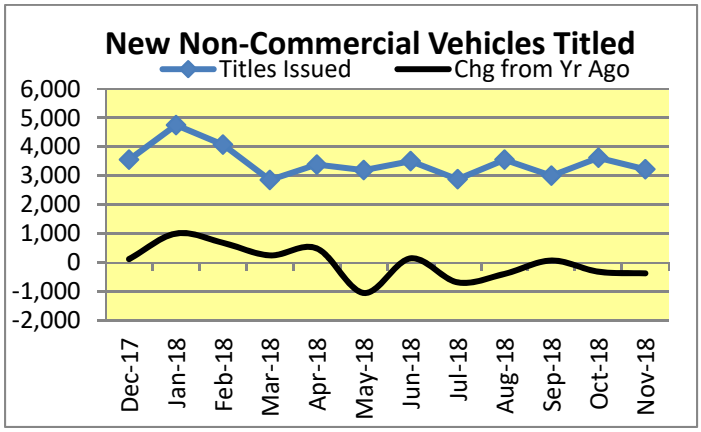
The Bureau of Economic Analysis (BEA) publishes quarterly Gross Domestic Product (GDP) data for all 50 states. Recent quarterly data is preliminary and can be subject to revisions by the BEA in later periods. The most recent quarterly data is through the second quarter of 2018.

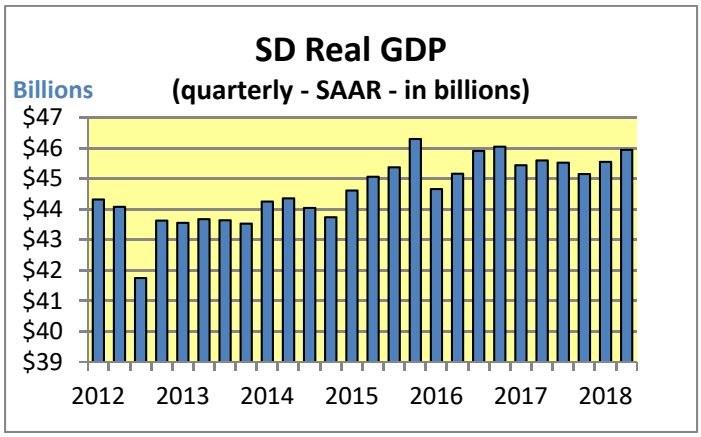
South Dakota's real GDP estimates can be seen in the bottom chart on this page. Over the past five years, SD's real GDP was soft in 2012 and 2013, partially due to the impact of the extreme drought on agriculture production during 2012. Real growth was experienced in early 2014 and decreased slightly 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 two quarters of 2018 indicates modest gains across most industries.

In 2017, which is the most recent annual data that is available, South Dakota's real GDP was flat compared to 2016, reflecting declines in agriculture, construction, and finance, which was offset by gains in manufacturing, trade and professional/business services.





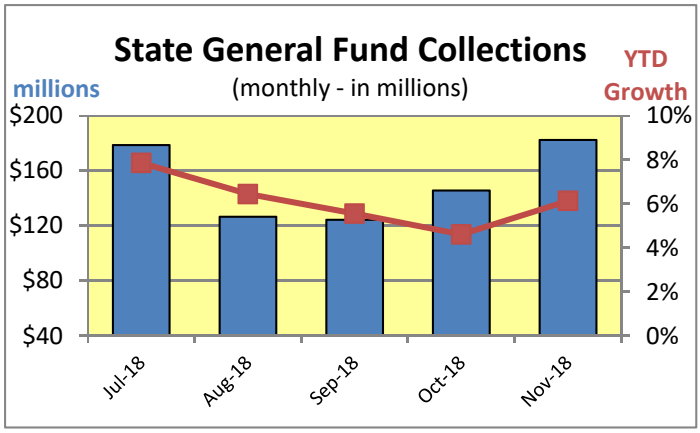
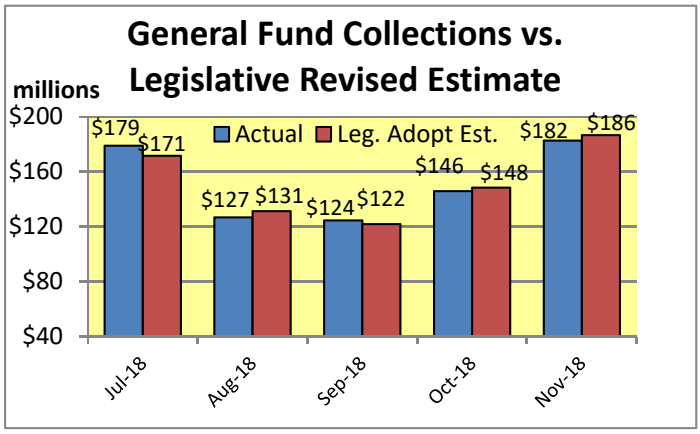
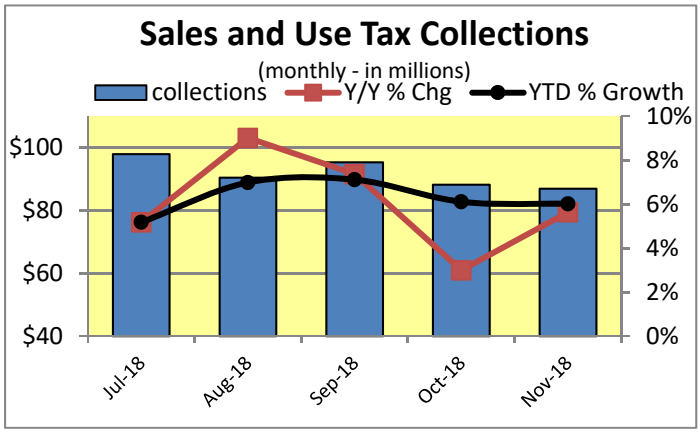
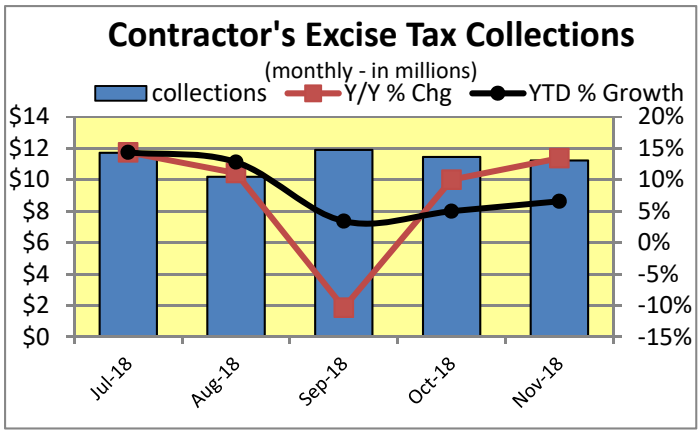




Recent State General Fund Collections

Overall ongoing state general fund collections for FY2019 for the first five months are higher than a year ago, primarily due to growth in sales & use tax, contractor's excise tax, lottery receipts and unclaimed property receipts. Collections in November totaled $182.4 million. Through the first five months of the fiscal year, ongoing general fund receipts were 6.1% higher than FY2018.

As compared to the legislative adopted FY2019 estimate, collections have been just slightly lower through the first five months of the fiscal year. Most recently in November, actual collections were $4.0 million lower than the adopted estimate. Cumulatively through five months, ongoing collections were $1.0 million lower than adopted levels. As measured against the Governor's revised FY2019 estimate, November collections were $2.0 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 FY2018, the sales tax grew 4.0% for the full fiscal year due to firming inflation, stronger consumer spending and higher spending in the agriculture sector. The past three months, sales tax has indicated continued growth due to increases in employment and an overall growing economy. In September, October, and November, collections grew 7.4%, 3.0%, and 5.6% year-over-year, respectively. Through the first five months of FY2019, sales tax is up 6.0% compared to the same period a year ago.

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 five months have indicated strong activity with four months registering y/y growth rates in excess of 10%. Through five months of FY2019, collections are up 6.6% compared to the same period a year ago.