The State of the SD Economy

Presentation to the Governor’s Council of Economic Advisors

February 18, 2015

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University of South Dakota
Outline of Presentation

Overview of US economy

US economy forecast

SD economy

Summary & Conclusions
US Forecast

Global Insight Forecast – February

Real GDP
Consumption
Housing Starts
Federal Budget
Interest Rates and Inflation
IHS Global Insight Overview

This month, IHS emphasizes two profound transformative events that are affecting the US economy.

1. Low oil prices
2. Rising value of the $

Both will produce winners and losers.

While low oil prices will negatively affect oil producers, etc. The positive impact on consumers will result in a net gain of 0.5 to 0.6 in real GDP growth.

Higher $ will reduce inflation as imported goods are cheaper. Higher $ will increase imports and decrease exports.
1. US growth will be solid, in the 2.5–3.0% range.
2. The Eurozone recovery will proceed at a sluggish pace, but UK growth will be robust.
3. Japan’s economy will regain weak growth momentum.
4. China’s growth rate will decelerate more, but remain stronger than most.
5. A few emerging markets will struggle, while many will see above-average growth.
6. Commodity prices will slide further.
7. Inflation will be a distant threat, while deflationary worries persist.
8. The Federal Reserve, Bank of Canada, and Bank of England will likely start raising interest rates, while most other central banks will be on hold or provide more stimulus.
9. The US dollar will rise against most currencies, while the euro and yen will fall.
10. Perennial downside risks will be balanced by some upside risks.
Components of GDP are:

GDP = Consumption (69%)
    Investment (17%)
    Government (18%)
    Net Export (-4%)
Consumption

Outlook brighter for 2015 and 2016. Good growth expected, 3.6% in 2015 and 3.3% in 2016.

Better prospects due to: Brighter jobs prospects, increased consumer confidence, improvement in housing, and falling gasoline prices are major drivers of better growth.

Auto sales are forecasted to increase at modest pace.
Deleveraging is Nearly Over

HOUSEHOLD DEBT & SAVING RATE

Source: BEA and FED
Growth Rates UP!

REAL CONSUMPTION

Source: BEA and IHS

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4.3%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2008</td>
<td>-2.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2009</td>
<td>-1.8%</td>
<td>1.5%</td>
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<tr>
<td>2010</td>
<td>2.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td>2011</td>
<td>2.6%</td>
<td>2.7%</td>
</tr>
<tr>
<td>2012</td>
<td>2.5%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2013</td>
<td>1.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2014</td>
<td>2.2%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2015</td>
<td>2.5%</td>
<td>3.6%</td>
</tr>
<tr>
<td>2016</td>
<td>3.3%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>
Investment Sector

Housing sector will continue rebound.  
But IHS has concerns: 
  Higher mortgage rates beginning in mid-2015  
  Low rates of household formation  
Housing market positives:  
  FHA and FHFA lowered underwriting standards  
  Higher inventories puts pressure on house prices  
  Lower bldg. costs as energy sector no longer poaching workers  
Equipment spending will rise 8.4% in 2015 and 7.4% in n 2016.  
Business structures spending will rise 10.1% in 2015 and 14.7% in 2016.  
Energy sector spending down 24.4% in 2015 and down 3.6 in 2016.
Recovery Proceeds

HOUSING STARTS

Source: US Census and IHS

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<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Forecast</th>
</tr>
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<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
</tr>
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<td>2008</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 2012: 0.78 Mil
- 2013: 0.93
- 2014: 1.00
- 2015: 1.18
- 2016: 1.34
Debt Held by Public

Federal Debt Held by the Public

Percentage of GDP


Actual  Projected

CONGRESSIONAL BUDGET OFFICE
JANUARY 2015
Oil Prices Forecast

OIL PRICES: BRENT & WTI

Source: IHS
Foreign Sector

Eurozone is in slow recovery. Only UK is doing well.

BRICS are suffering stagflation. Argentina, Venezuela, Russia, and Ukraine are basket cases.

China is slowing due to real estate crash and weaker exports.

ECB has launched long-awaited QE program. Strong $ will reduce exports and increase imports.

“Great Divergence” related to oil prices, multiple speeds in global economy, different paths taken by major central banks.
Modest Growth

NONFARM EMPLOYMENT

change in thousands

change in thousands

Source: BLS

P to T
-8.7 mil
-6.3%

Back to P
May 2014

+259,000 mth avg
last 12 months
Employment & Unemployment

Job-Growth Recovery showing solid broad-based gains. 2.2% growth in 2015 and 1.9% growth in 2016.

Even with gains labor market still not “tight” with only modest improvements in wage growth.

Unemployment rate will average 5.5% in 2015 and 5.3%.

We still have the issue of low labor force participation rates contributing to the drop in unemployment.

As mentioned in the past, the unemployment rate is not that good of a measure of the job market.
Lower Than Expected

UNEMPLOYMENT RATE

Source: BLS and IHS

1997-2007
4.9%

U6=11.3%
Avg U 32.3 wks
U>27 wks 31.5%
EMP/POP ↓ Sharply

Source: US. Bureau of Labor Statistics
Shaded areas indicate US recessions - 2015 research.stlouisfed.org
U3 & U6 Unemployment Rates

Unemployment Rates

U3=Unemployment Rate
U6=U3+Marginally Attached & Part-Time for Econ. Reasons

Source: BLS
Marginally Attached & Part-Time

U6-U3

Source: BLS

Marginally Attached + Part-Time for Economic Reasons
US & SD U6
Unemployment Rate

U6 UNEMPLOYMENT RATE

Source: BLS

notice wider spread
This Looks Pretty Good

Source: US. Bureau of Labor Statistics
Shaded areas indicate US recessions - 2015 research.stlouisfed.org
Inflation & Interest Rates

Inflation remains under control and well below FED’s 2% target. Negative in 2015.

FED ended bond buying (QE) in October and will begin raising rates in June 2015.

Federal funds rate will rise to 1.0% by end of 2016 and 3.75% by end of 2017.

10-year Treasury note will rise to 2.3% in 2015 and 4% in outer years.
Under Control

INFLATION: CPI

Source: BLS and IHS
### IHS GLOBAL INSIGHT

#### FORECAST February

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>GDP</td>
<td>2.2%</td>
<td>2.4%</td>
<td>3.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>NA Emp</td>
<td>1.7%</td>
<td>1.9%</td>
<td>2.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Oil(Brent)</td>
<td>$109</td>
<td>$100</td>
<td>$47</td>
<td>$63</td>
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<tr>
<td>Housing</td>
<td>0.93</td>
<td>1.00</td>
<td>1.18</td>
<td>1.34</td>
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<tr>
<td>CPI</td>
<td>1.5%</td>
<td>1.6%</td>
<td>-0.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Un Rate</td>
<td>7.4%</td>
<td>6.2%</td>
<td>5.5%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>
Risks to Forecast

15% chance of recession.

Risks are:

Weak foreign economies

IHS still worried about HH formation rising above recession levels.
Key Variables Tracking
SD Economy

Nonfarm employment
Housing starts
Real nonfarm personal income
Taxable sales
Leading indicator
Steady Growth

NONFARM EMPLOYMENT

Source: BLS

Job Loss P to T
US -8.7 mil -6.3%
SD -12.7 thous -3.1%

SD Recession Begins =>
SD & SF Very Similar

NONFARM EMPLOYMENT - SD & SF

Job Loss P to T
SD -12.7 thous -3.1%
SF -4.4 thous -3.2%
US -8.7 mil -6.2%

Source: BLS
Service & Goods-Producing Employment

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

Goods-Producing = Manufacturing + Construction

Source: BLS

Ratio Scale

Goods Employment <= Left Scale

Service Employment Right Scale =>

Thousands

Thousands

Source: BLS
Recovery – A Way to Go

CONSTRUCTION EMPLOYMENT

Source: BLS

Ratio Scale

Thousands

05 06 07 08 09 10 11 12 13 14

Thousands

0 5,000 5,500 6,000 6,500 7,000 7,500 8,000 8,500 9,000

P to T
US -29%
SD -16%

SD

US
Not Back to Peak

SF CONSTRUCTION EMPLOYMENT

Source: BLS
Not Quite Back to Peak

SD Building Permits, Total & Single

12 Month Moving Average

Source: Census Bureau
Good Performance

Sioux Falls Building Permits

Source: US Census Bureau
SD & SF Peaked Later and Decline Less Severe

HOUSE PRICE INDEX: PURCHASE PRICE ONLY

Source: FHFA.GOV
MANUFACTURING EMPLOYMENT

Source: BLS

Since 12/2007
US -13.1%
SD -4.8%

SD & US – Recovery

MFG %
US 8.9%
SD 9.4%
SF 9.3%

Ratio Scale

Thousands

05 06 07 08 09 10 11 12 13 14

Thousands

11,000 11,500 12,000 12,500 13,000 13,500 14,000 14,500
FINANCIAL ACTIVITY EMPLOYMENT

Source: BLS

Thousands of Dollars

- US: -8.5%
- SD: -13.0%

Ratio Scale
- US: 5.8%
- SD: 6.7%
- SF: 10.6%

SD Almost Full Recovery?
Almost Back to Peak

Sioux Falls Employment - Finance & Manufacturing

Source: BLS
SD 3.3% SF(SA) 3.0%

UNEMPLOYMENT RATE

U6 (US)=11.3%
U6 (SD)= 6.4%

1997-2007
US 4.9%
SD 3.2%
SF 2.5%

Source: BLS
## State Unemployment Rates
### December 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Rate</th>
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<tbody>
<tr>
<td>1</td>
<td>NORTH DAKOTA</td>
<td>2.8</td>
</tr>
<tr>
<td>2</td>
<td>NEBRASKA</td>
<td>2.9</td>
</tr>
<tr>
<td>3</td>
<td>SOUTH DAKOTA</td>
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</tr>
<tr>
<td>4</td>
<td>UTAH</td>
<td>3.5</td>
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<tr>
<td>5</td>
<td>MINNESOTA</td>
<td>3.6</td>
</tr>
<tr>
<td>6</td>
<td>IDAHO</td>
<td>3.7</td>
</tr>
<tr>
<td>7</td>
<td>COLORADO</td>
<td>4.0</td>
</tr>
<tr>
<td>8</td>
<td>HAWAII</td>
<td>4.0</td>
</tr>
<tr>
<td>9</td>
<td>NEW HAMPSHIRE</td>
<td>4.0</td>
</tr>
<tr>
<td>10</td>
<td>IOWA</td>
<td>4.1</td>
</tr>
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</table>
Nonfarm Employment (DEC Year-Over-Year Growth)

<table>
<thead>
<tr>
<th>Industry</th>
<th>SD</th>
<th>SF</th>
<th>RC</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
<td>0.8%</td>
<td>1.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Construction</td>
<td>5.0%</td>
<td>4.3%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.8%</td>
<td>1.5%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>-1.0%</td>
<td>2.8%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Information</td>
<td>3.2%</td>
<td>3.7%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Financial Act.</td>
<td>-1.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Leisure/Hosp</td>
<td>-4.3%</td>
<td>1.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Government</td>
<td>1.3%</td>
<td>5.2%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
SD Smaller Decline – Way Above Previous Peak

NONFARM PERSONAL INCOME (2009 $S)

Source: BLS

P to T
US -2.8%
SD -1.1%
US and SD Track

REAL NONFARM PERSONAL INCOME
(Year-Over-Year Percent Change)

Source: BEA
Still Pretty High

FARM INCOME

Source: BEA
Growth?

SD TAXABLE SALES

12-Month Moving Average

% Change y/y

Big Project => a Year Earlier

Source: SD Department of Revenue
What’s Going On?

SD Taxable Sales - Seasonally Adjusted

Source: SD Department of Revenue

DEC 2013 to DEC 2014 +3.4%

12 Month Moving Average
Forecasting Growth

LEADING INDICATOR: US & SD

Mid-American States
Leading Indicators - GOSS

January 2015 Index > 50 Growth
Overall 61.2
New Orders 56.9
Sales 74.0
Delivery lead time 69.7
Inventories 54.9
Employment 50.7

“Durable and nondurables in the state are experiencing slow, but positive growth. At the same time, plunging oil prices have yet to have significant and negative impact on South Dakota’s energy sector.”
SD Ranks 10th


1. North Dakota
2. District of Columbia
3. Texas
4. Colorado
5. Utah
6. Florida
7. Arizona
8. Nevada
9. Washington
10. South Dakota
## POPULATION GROWTH 2010-14

<table>
<thead>
<tr>
<th>STATE</th>
<th>GRTH</th>
<th>POPULATION</th>
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</thead>
<tbody>
<tr>
<td>North Dakota</td>
<td>9.9%</td>
<td>739,482</td>
</tr>
<tr>
<td>South Dakota</td>
<td>4.8%</td>
<td>853,175</td>
</tr>
<tr>
<td>Wyoming</td>
<td>3.6%</td>
<td>584,153</td>
</tr>
<tr>
<td>Nebraska</td>
<td>3.0%</td>
<td>1,881,503</td>
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<tr>
<td>Minnesota</td>
<td>2.9%</td>
<td>5,457,173</td>
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<tr>
<td>Iowa</td>
<td>2.0%</td>
<td>3,107,126</td>
</tr>
<tr>
<td>US</td>
<td>3.3%</td>
<td>318,857,056</td>
</tr>
</tbody>
</table>
Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing and at faster rate than before
The End