



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

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Outline of Presentation



Overview of US economy

US economy forecast

SD economy

Summary & Conclusions



US Forecast

IHS Economics Forecast 10/6/14

Real GDP

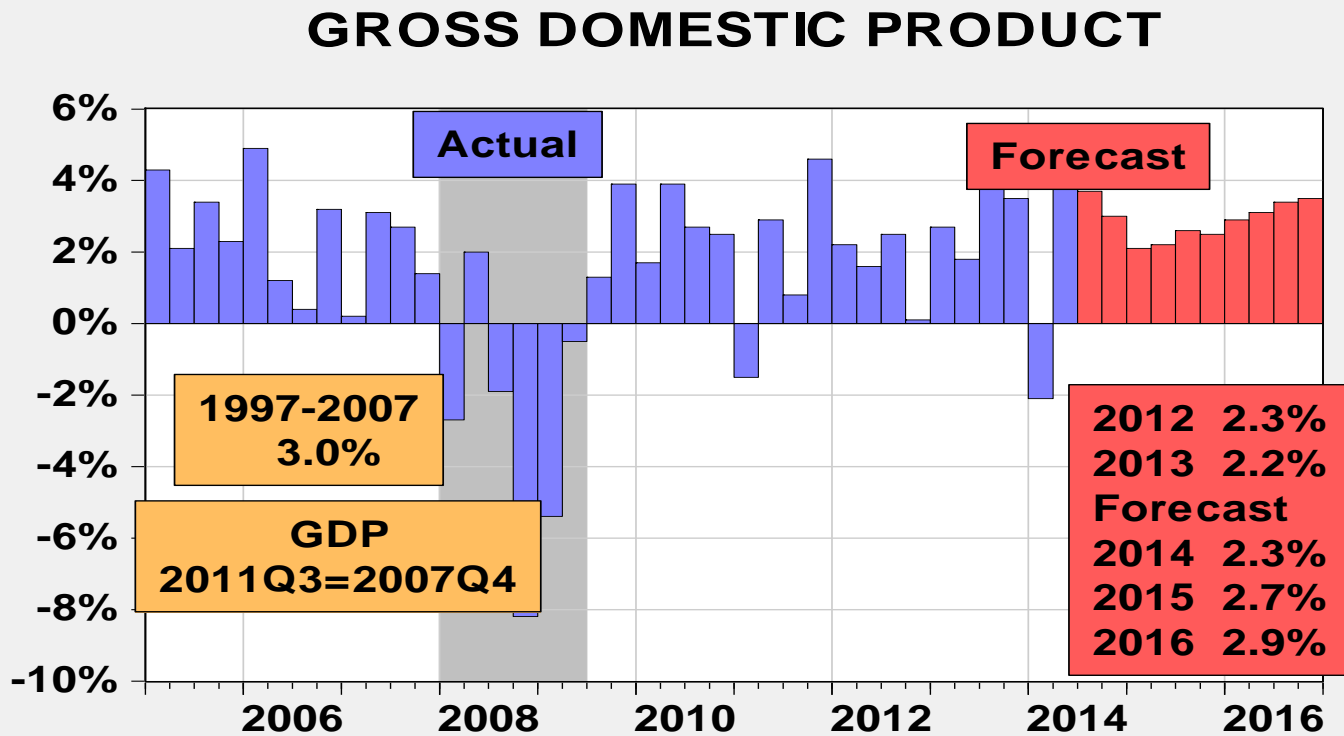
Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation

Growth to Pickup



Source: BEA and IHS



Components of GDP are:

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

Source: BEA

Sector Growth

<u>Sector</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Housing	+11.9%	+3.1%	+11.6%	+10.3%
Business investment	+4.6%	+6.7%	+7.1%	+6.2%
Consumption	+2.4%	+2.3%	+2.8%	+3.1%
GDP	+2.2%	+2.3%	+2.7%	+2.9%
Net exports	+1.9%	-0.3%	-0.6%	-1.4%
Fed Government	-5.7%	-2.5%	-0.7%	-0.9%

Source: IHS Economics

Consumption

About 70% of total demand

Modest growth expected 2.3% in 2014, 2.8% in 2015, and 3.1% in 2016.

Brighter jobs prospects, increased consumer confidence, and falling gasoline prices are major drivers of better growth.

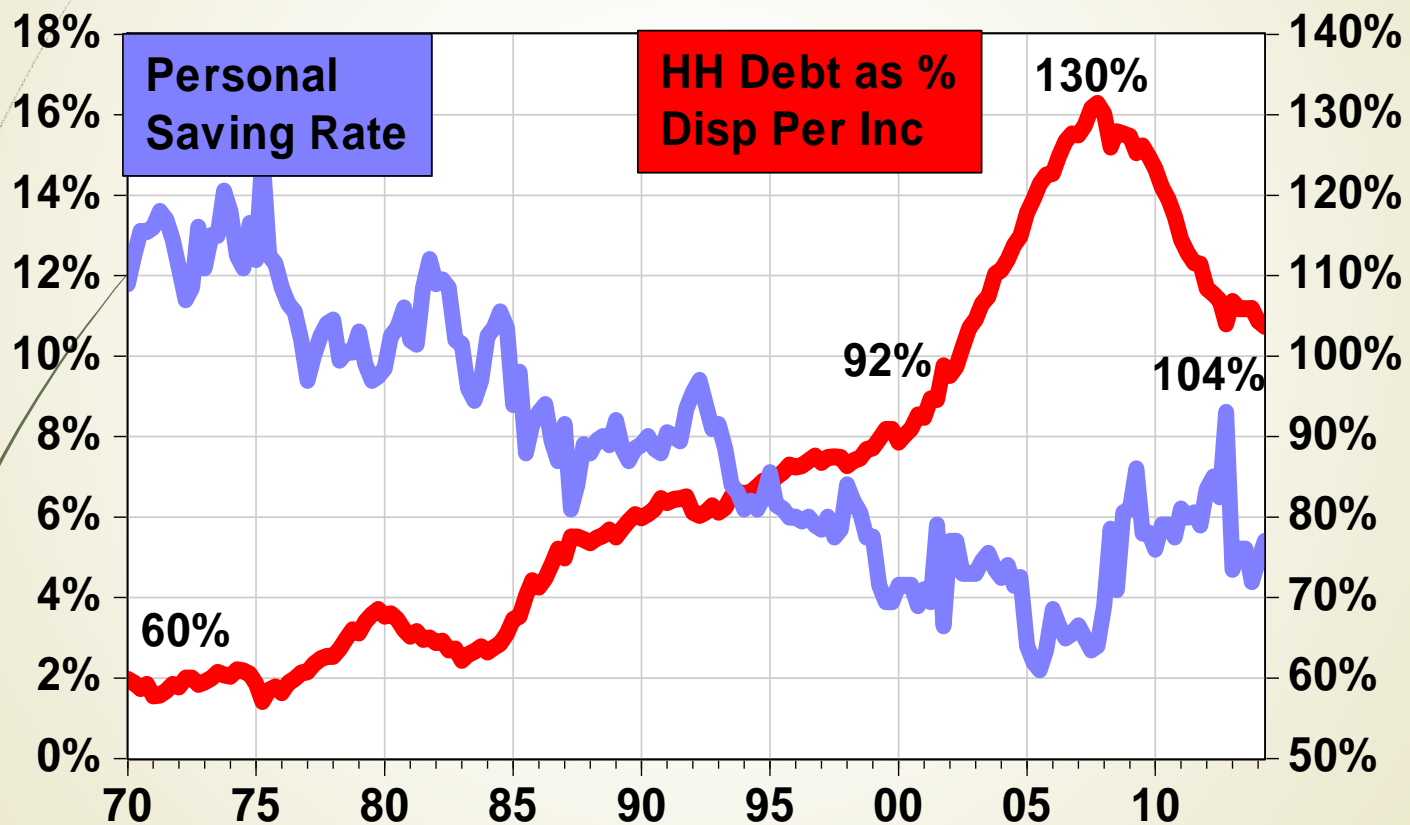
Holiday retail sales are expected to be better than 2012 and 2013.

Auto sales are forecasted to increase 5.5% in 2014, 1.9% in 2015, and 2.1% in 2016.

Source: IHS Economics

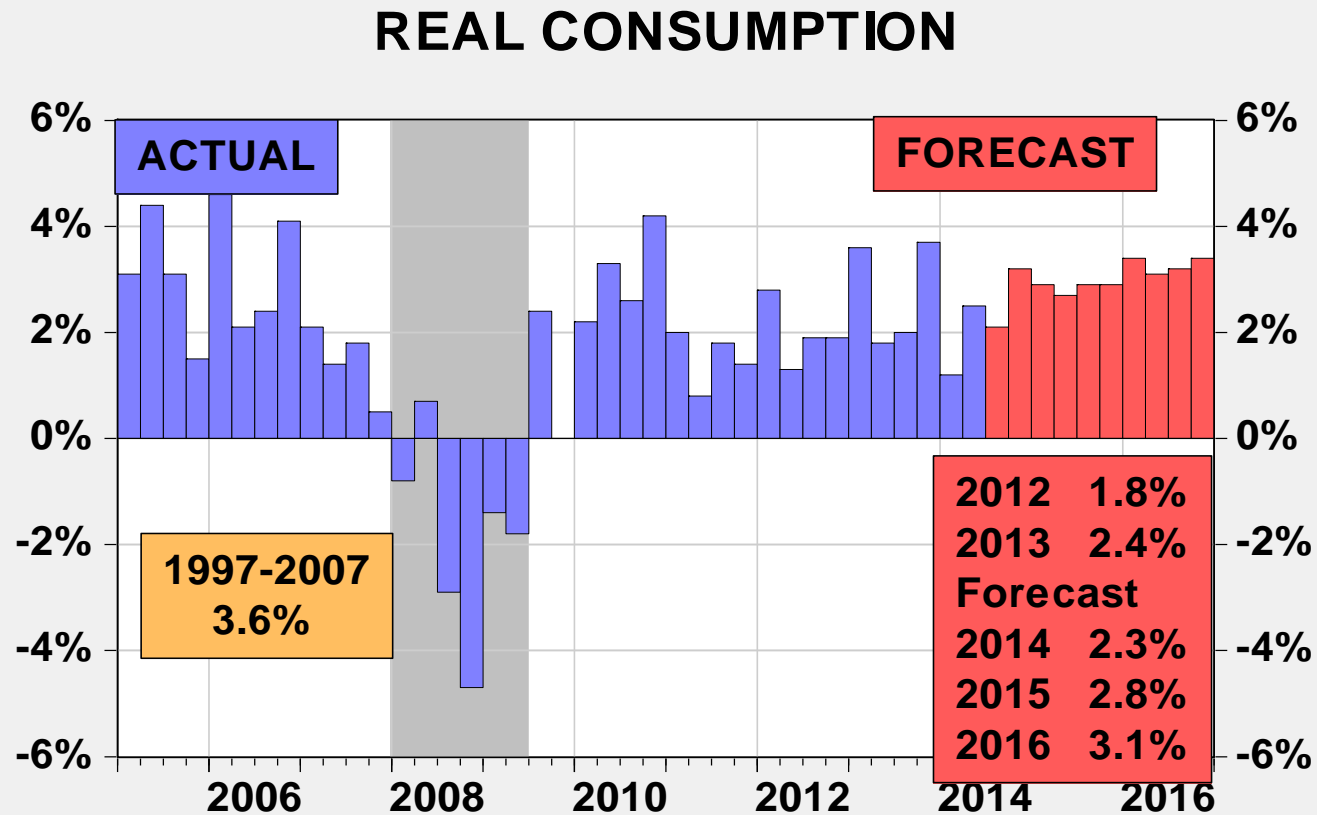
Deleveraging is Nearly Over

HOUSEHOLD DEBT & SAVING RATE



Source: BEA and FED

Growth Rates UP!



Investment Sector

IHS has reduced its housing forecasts.

Their concern is the slow rate of HH formation.

They have reduced their 2015 and 2016 housing start forecasts which will reduce GDP forecasts.

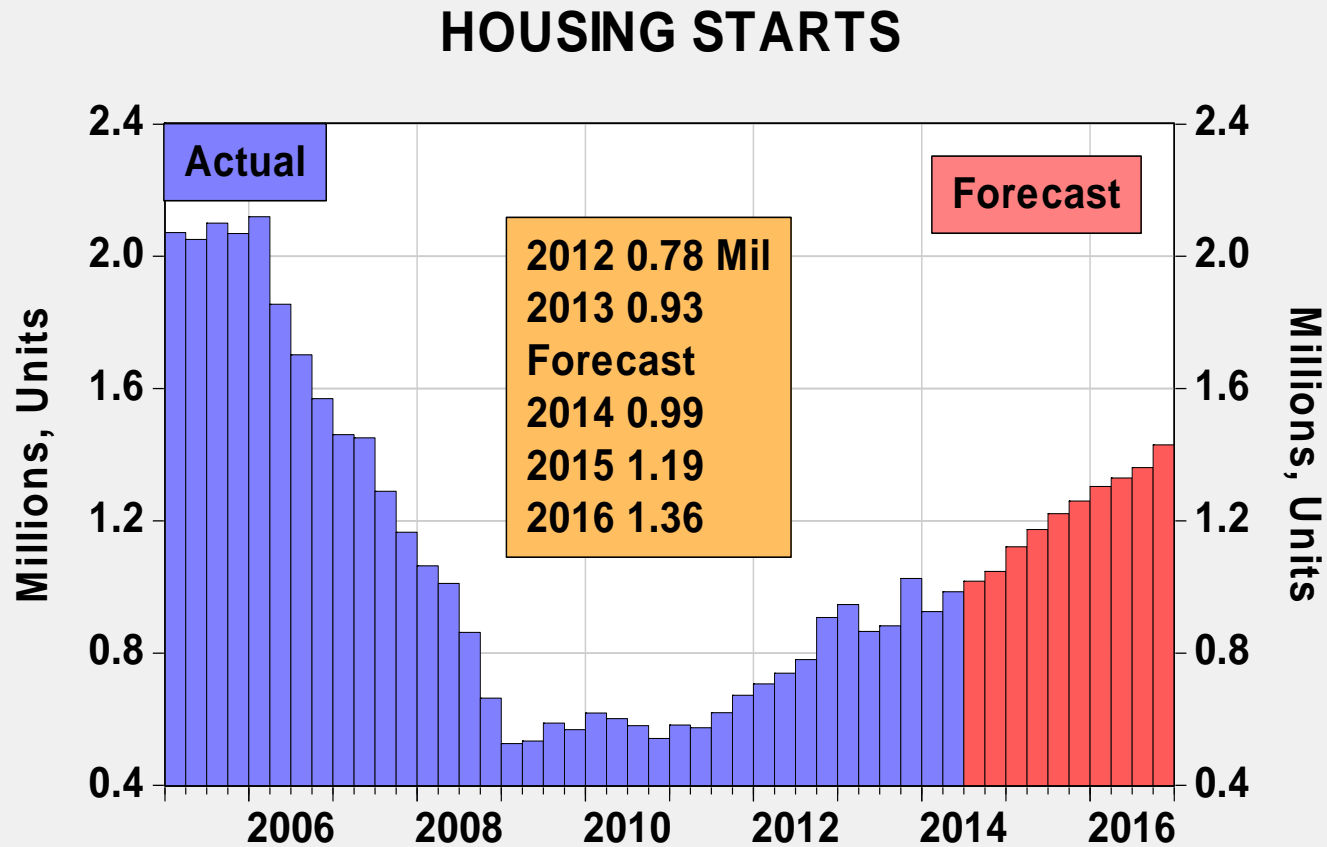
They forecast growth of 6.9% in 2014, 20.1% in 2015, and 13.6% in 2016.

Equipment spending rose 4.6% in 2013 and will rise 6.7% in 2014, 7.1% in 2015, and 6.2% in 2016.

Business structures spending is expected to rise 7.8% in 2014, 3.0% in 2015, and 3.6% in 2016.

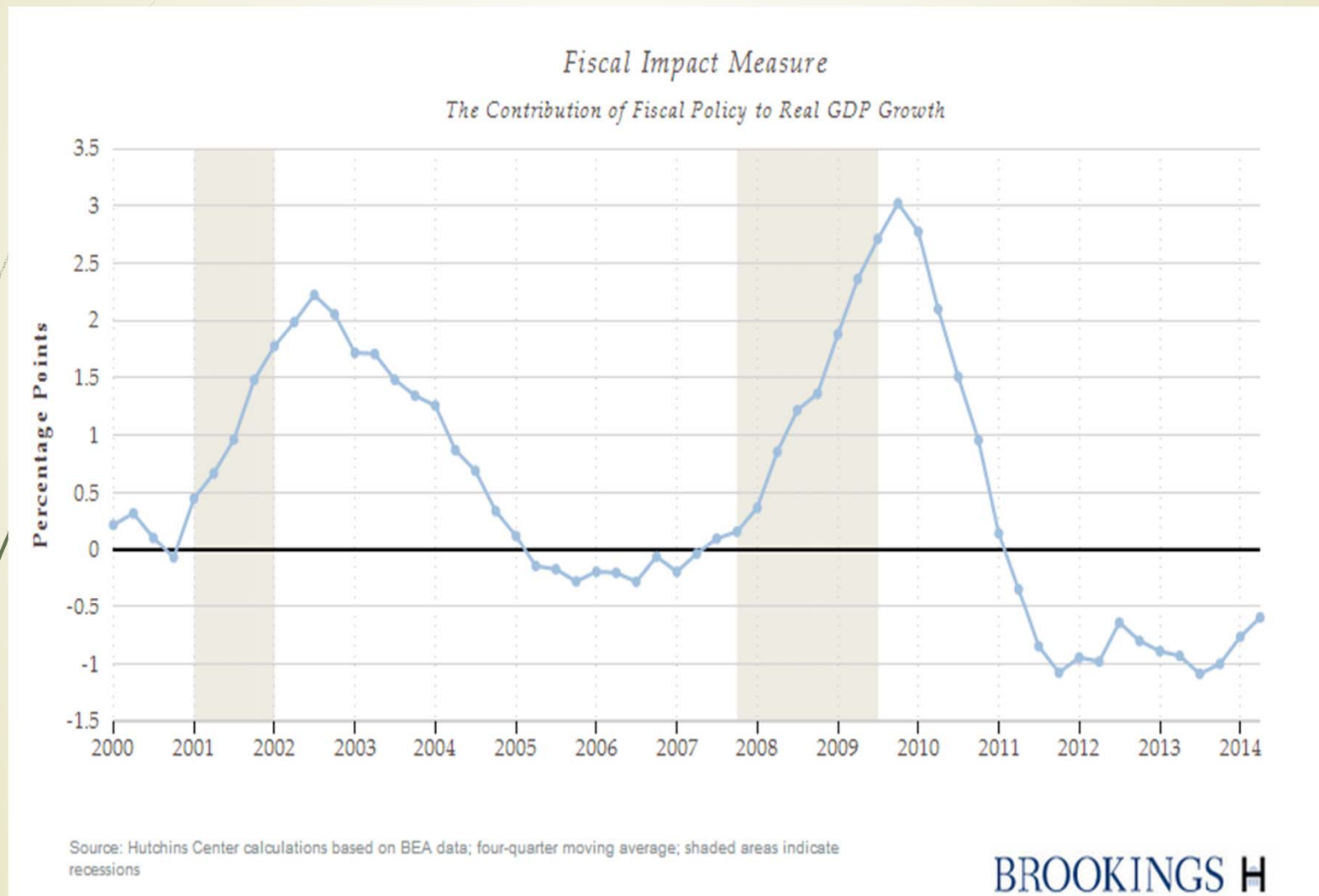
Source: IHS Economics

Recovery Proceeds



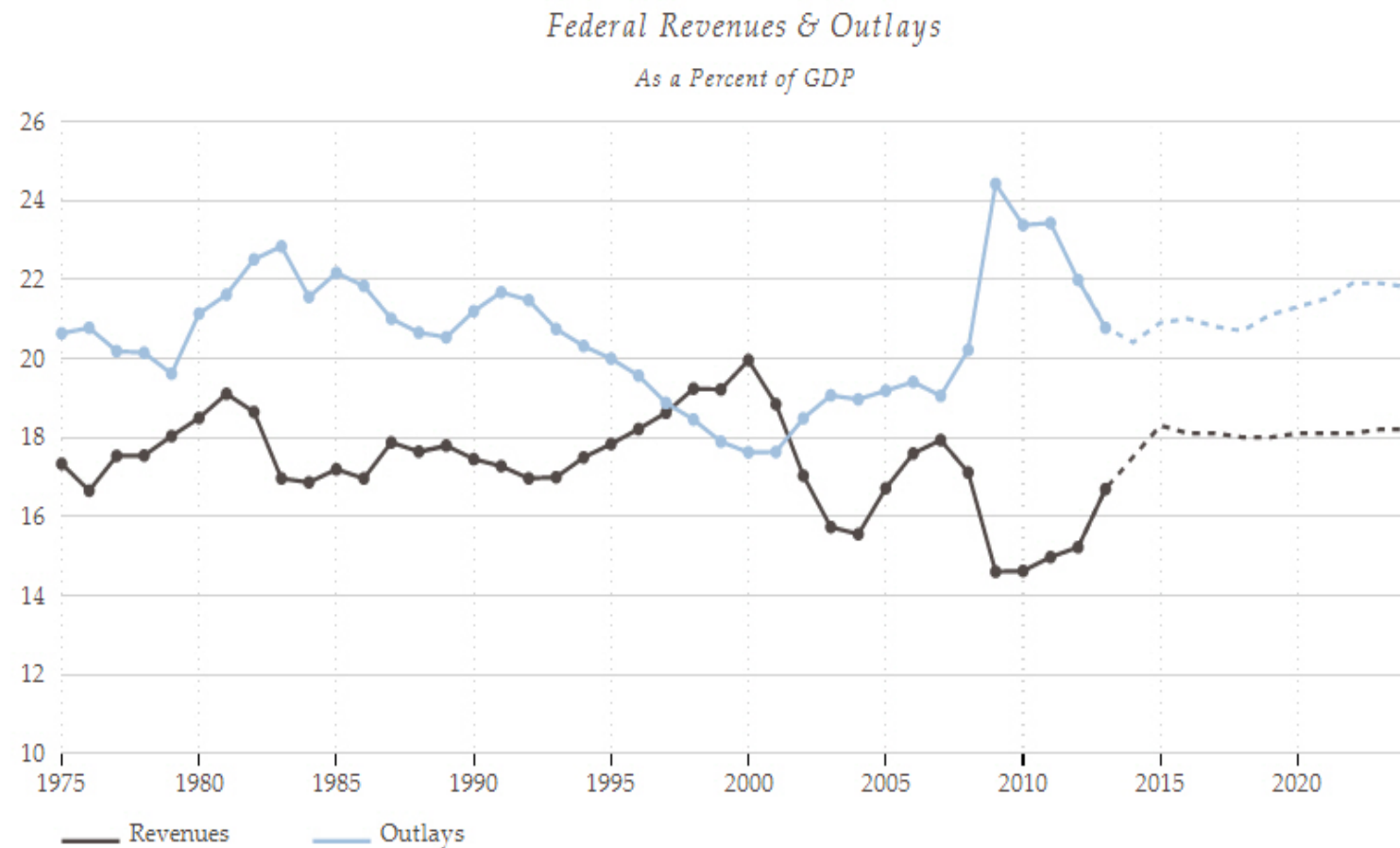
Source: US Census and IHS

Government Sector



Source: Hutchins Center on Fiscal & Monetary Policy/Brookings Institution

Federal Revenues & Outlays

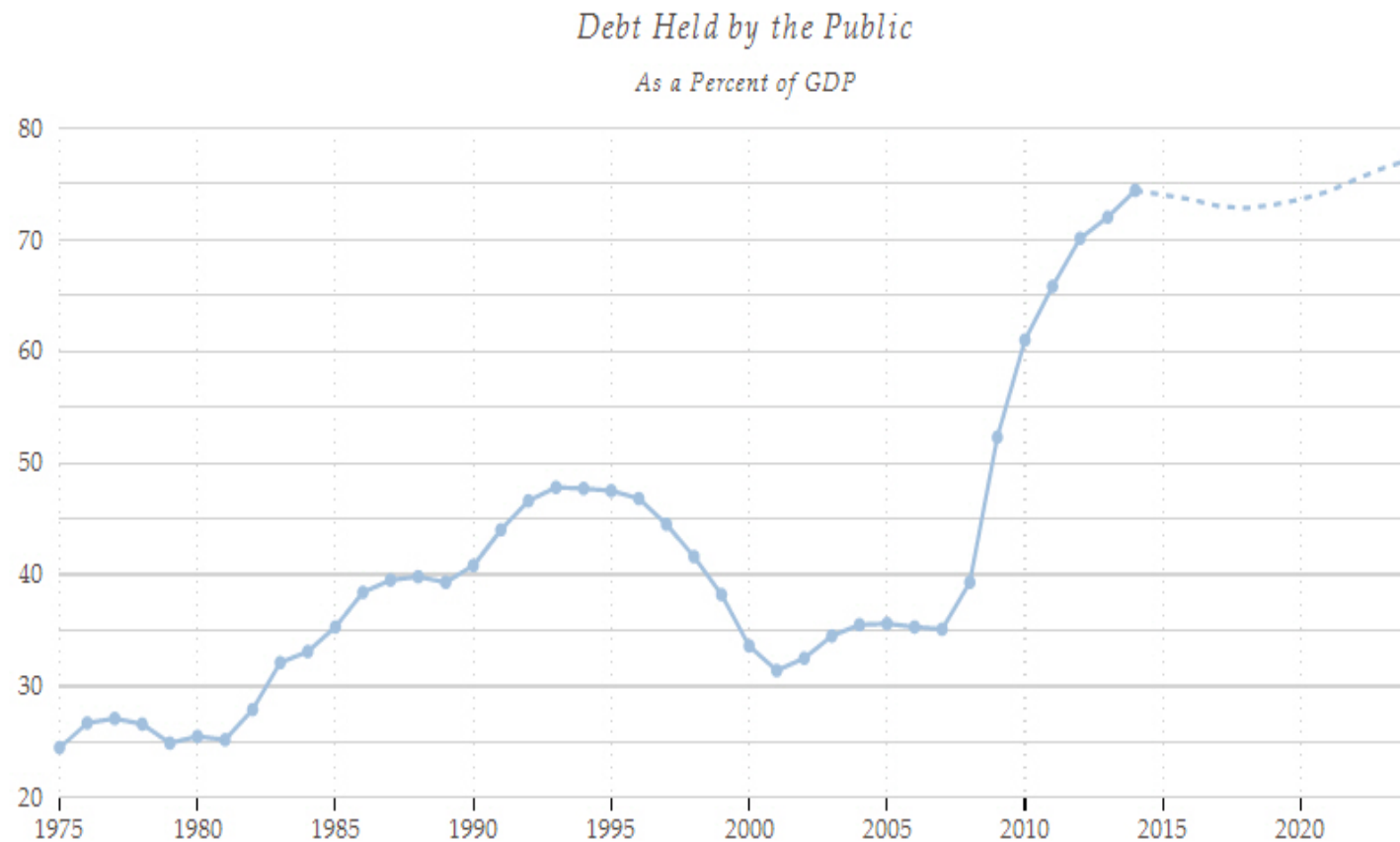


Source: CBO; dotted line indicates projected values

BROOKINGS H

Source: CBO & Brookings Institution

Debt Held by Public



Source: CBO; dotted line indicates projected values

BROOKINGS H

Source: CBO & Brookings Institution

Foreign Sector

Eurozone is in recession. Only UK is doing well.

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

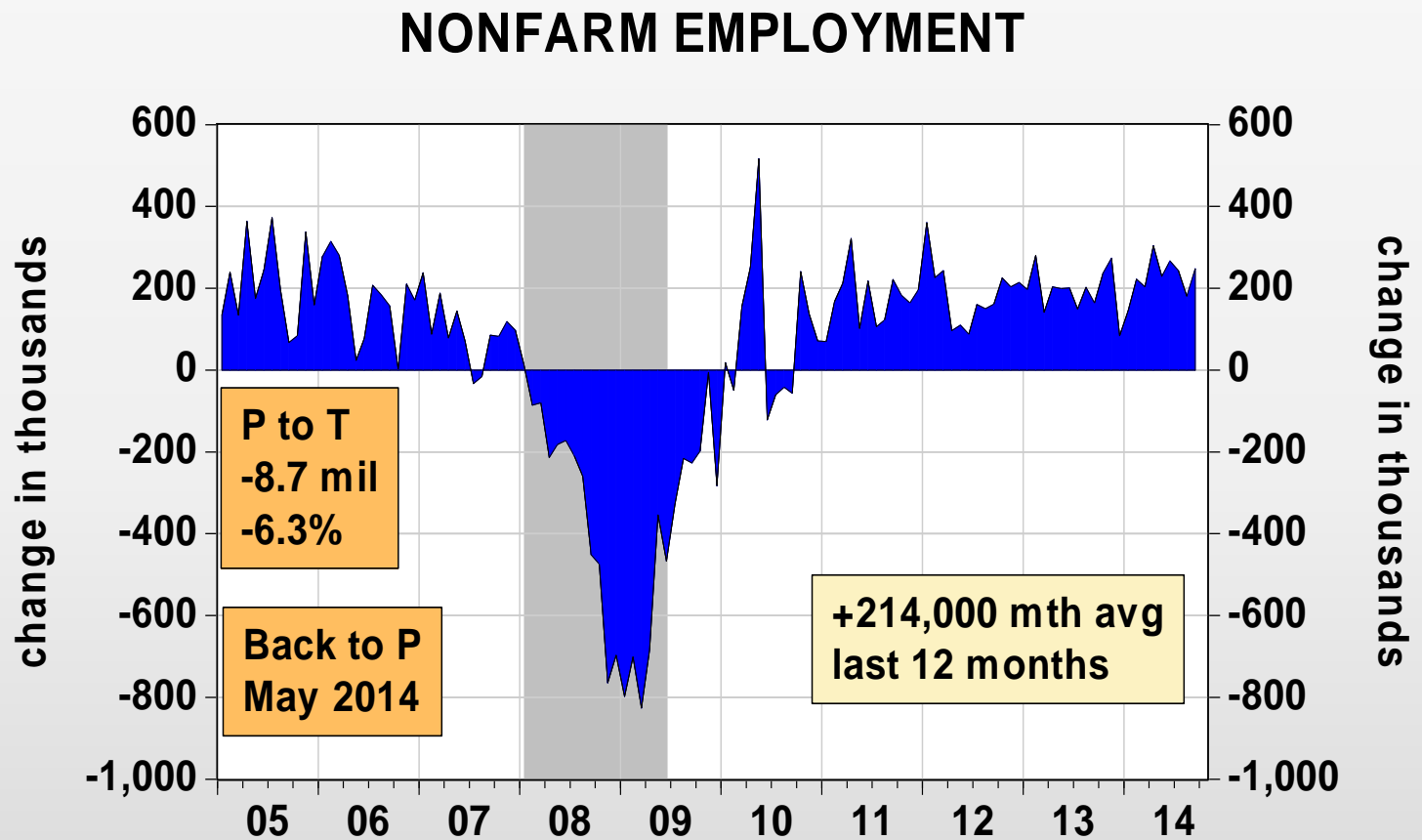
China (2nd largest economy) is slowing due to real estate crash and weaker exports.

US has taken on the role of the locomotive of global growth. Weaker than 1990s when growth was stronger and US was larger share of the global economy.

Strong \$ will reduce exports and increase imports.

When FED starts raising interest rates next year we may get “taper panic.”

Modest Growth



Source: BLS



Employment & Unemployment

Still Slow Job-Growth Recovery

Unemployment forecast dramatically lower than previous forecasts

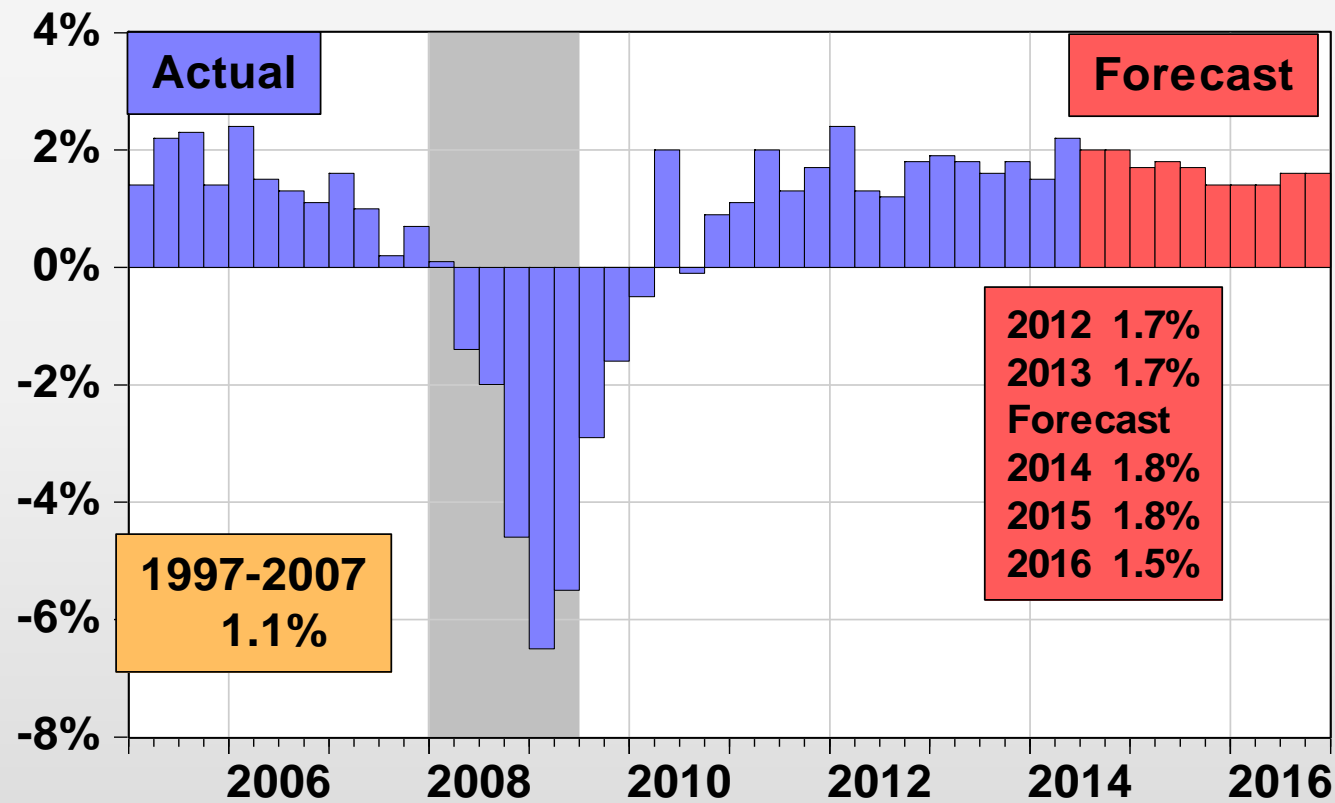
Unemployment rate will average 7.4% in 2013, 6.2% in 2014, 5.7% in 2015, and 5.5% in 2016.

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

Source: IHS Economics

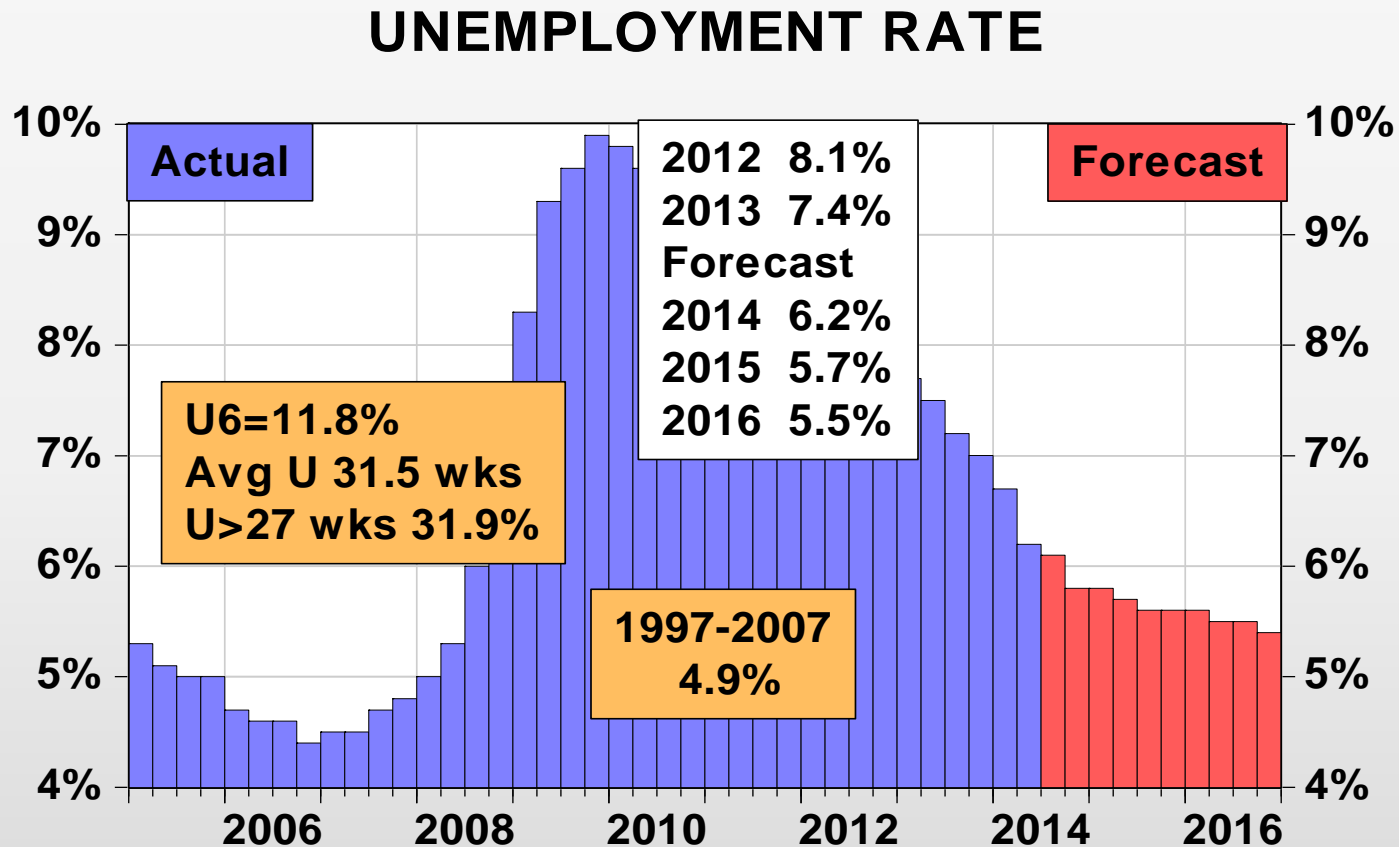
Job Growth Slows

NONFARM EMPLOYMENT



Source: BLS and IHS

Lower Than Expected

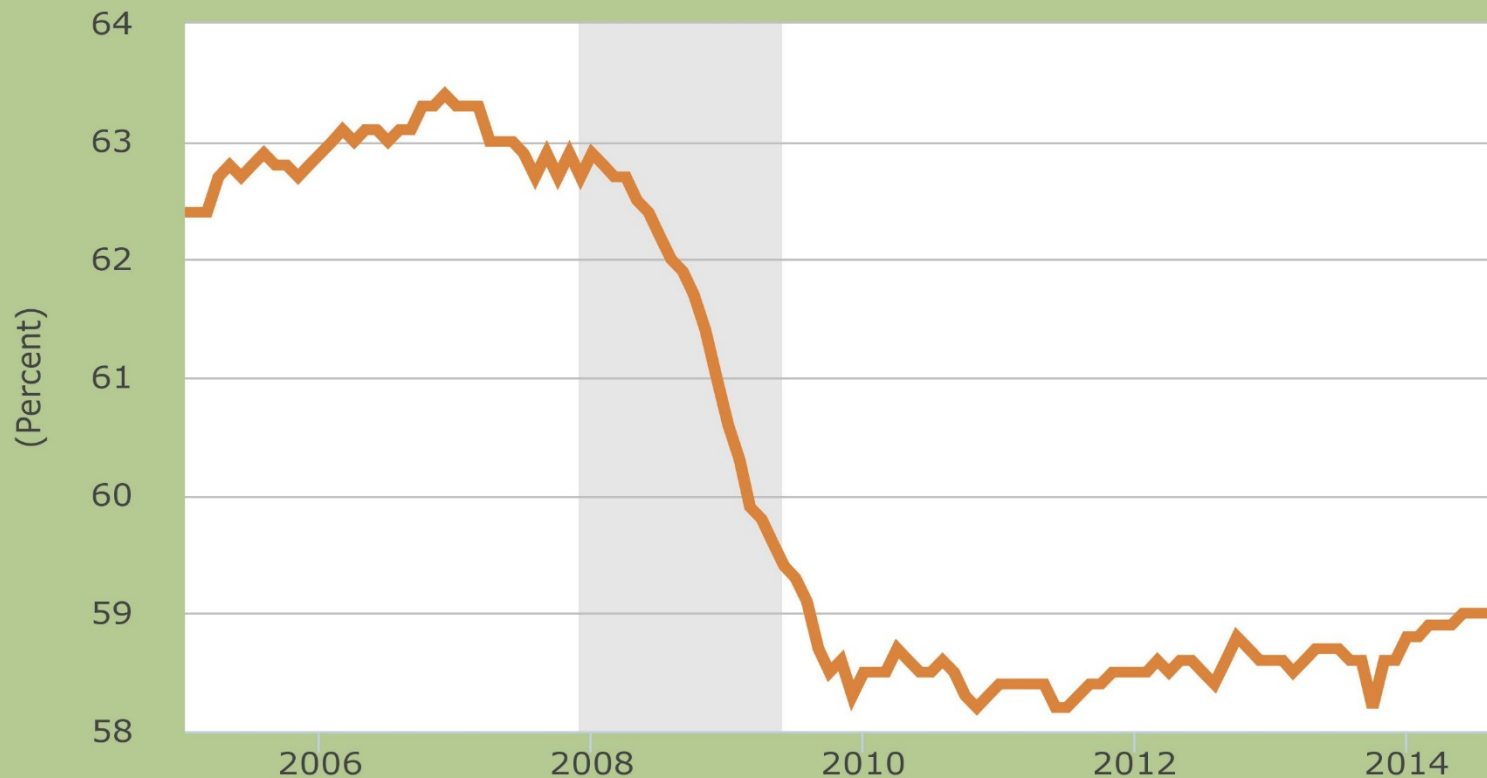


Source: BLS and IHS

EMP/POP ↓ Sharply

FRED

Civilian Employment-Population Ratio

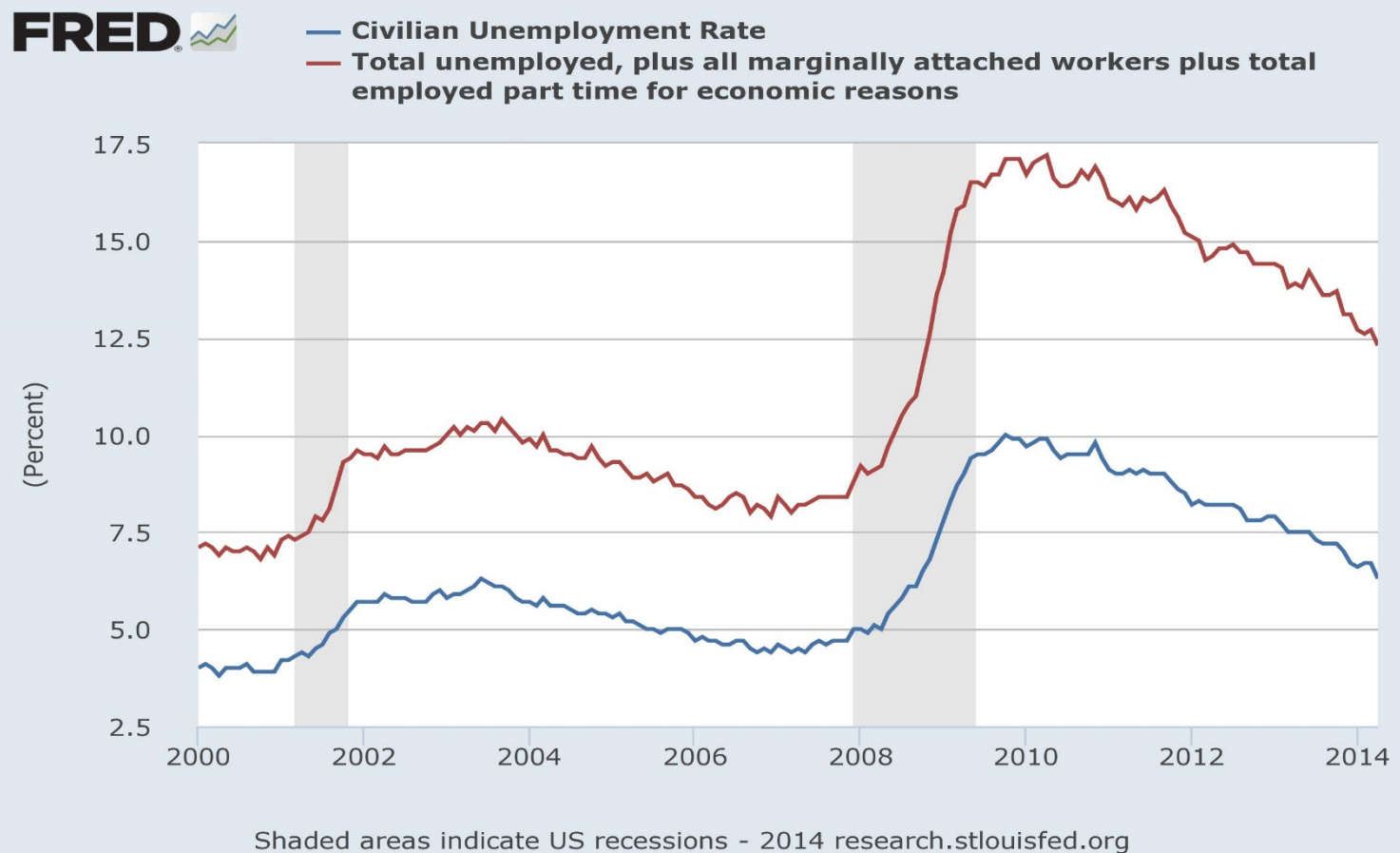


Source: U.S. Department of Labor: Bureau of Labor Statistics

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Source: Bureau of Labor Statistics & Fed. Res. Bank of St. Louis

U3 & U6 Unemployment Rates



Source: Bureau of Labor Statistics & Fed. Res. Bank of St. Louis



Inflation & Interest Rates

**Inflation remains under control and well below
FED's 2% target.**

**FED will end bond buying in October and 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.**

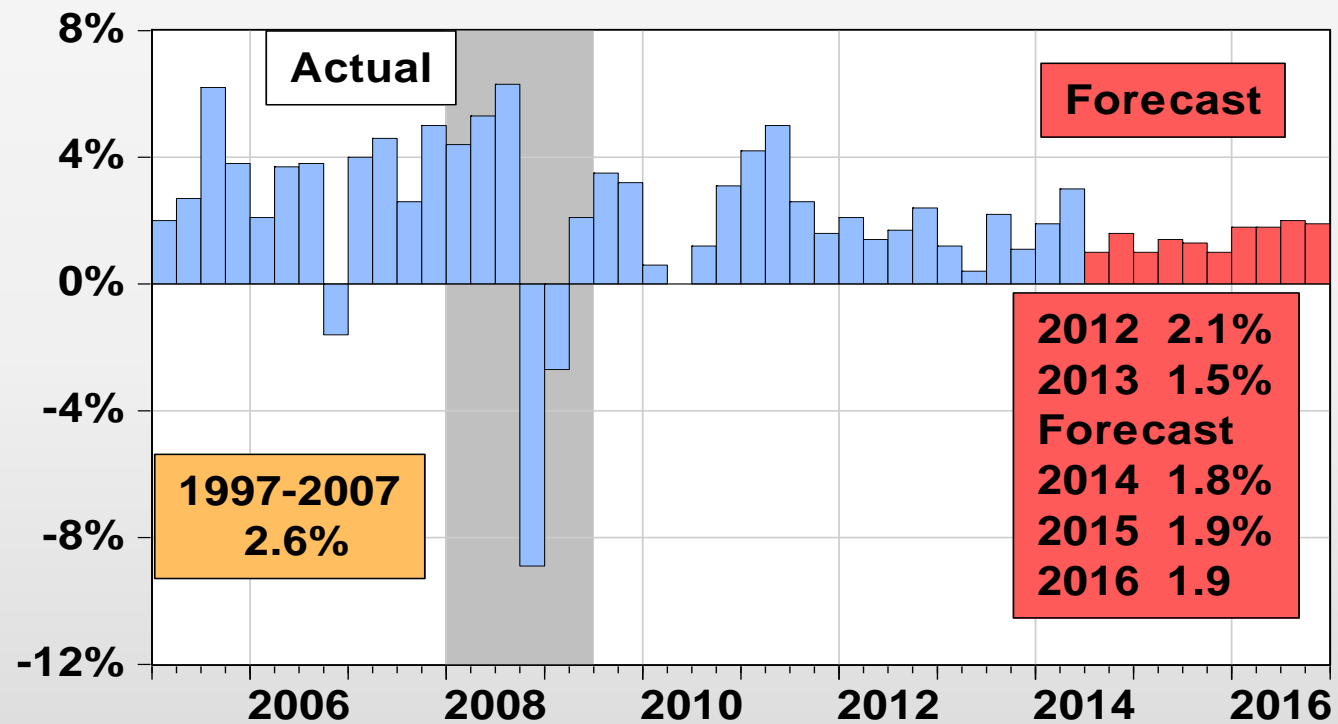
Future FED policy will be data-dependent

**FOMC meeting minutes show much disagreement
among members on future policy.**

Source: IHS Economics

Under Control

INFLATION: CPI



Source: BLS and IHS



IHS ECONOMICS FORECAST 10/6/14

Variable	2013	2014	2015	2016
GDP	2.2%	2.3%	2.7%	2.9%
NA Emp	1.7%	1.8%	1.8%	1.5%
Oil(Brent)	\$109	\$105	\$104	\$102
Housing	0.93	0.99	1.19	1.36
CPI	1.5%	1.8%	1.9%	1.9%
Un Rate	7.4%	6.2%	5.7%	5.5%

Source: IHS Economics



Risks to Forecast

15% chance of recession.

Risks are:

Weak foreign economies

**Poor stock market could impact
confidence depressing consumption**

Source: IHS Economics



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

Real nonfarm personal income

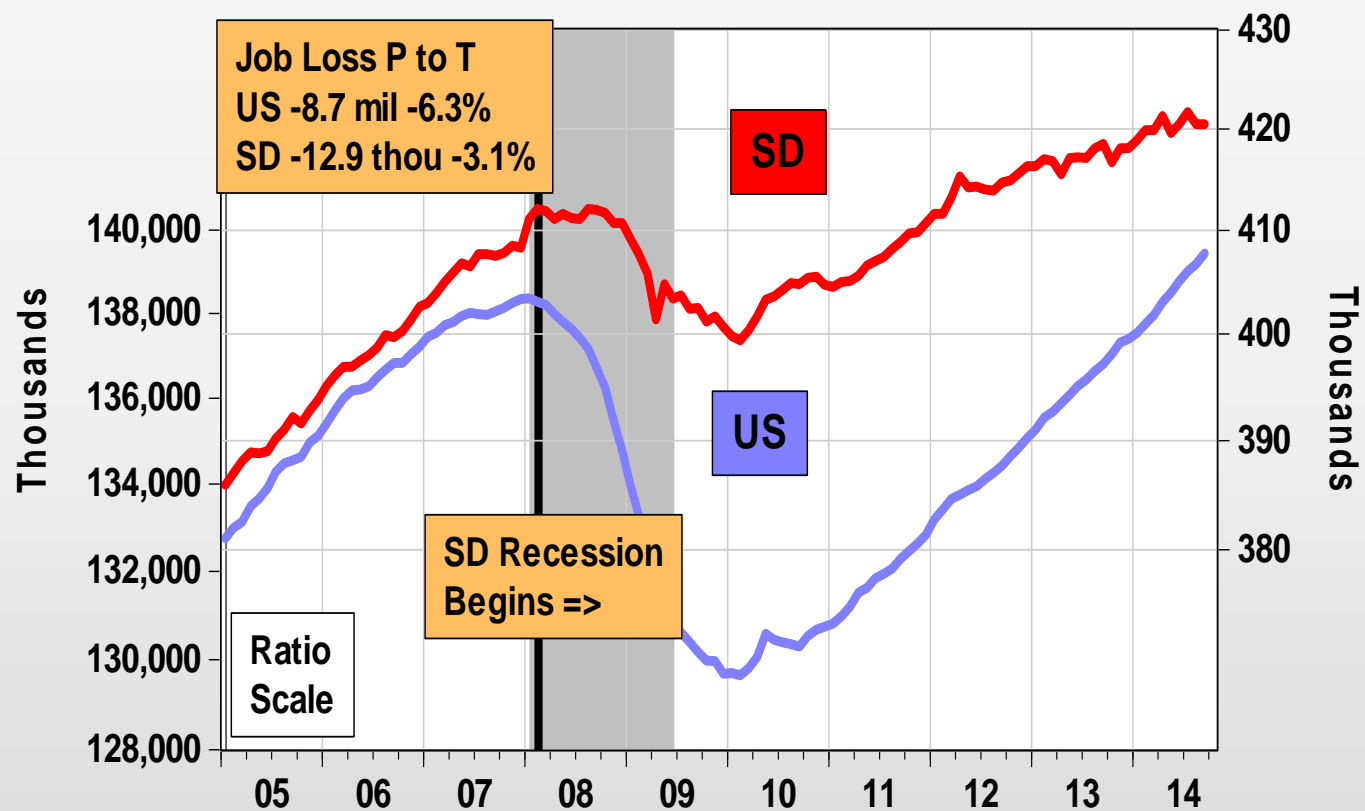
Taxable sales

Leading indicator



Steady Growth

NONFARM EMPLOYMENT

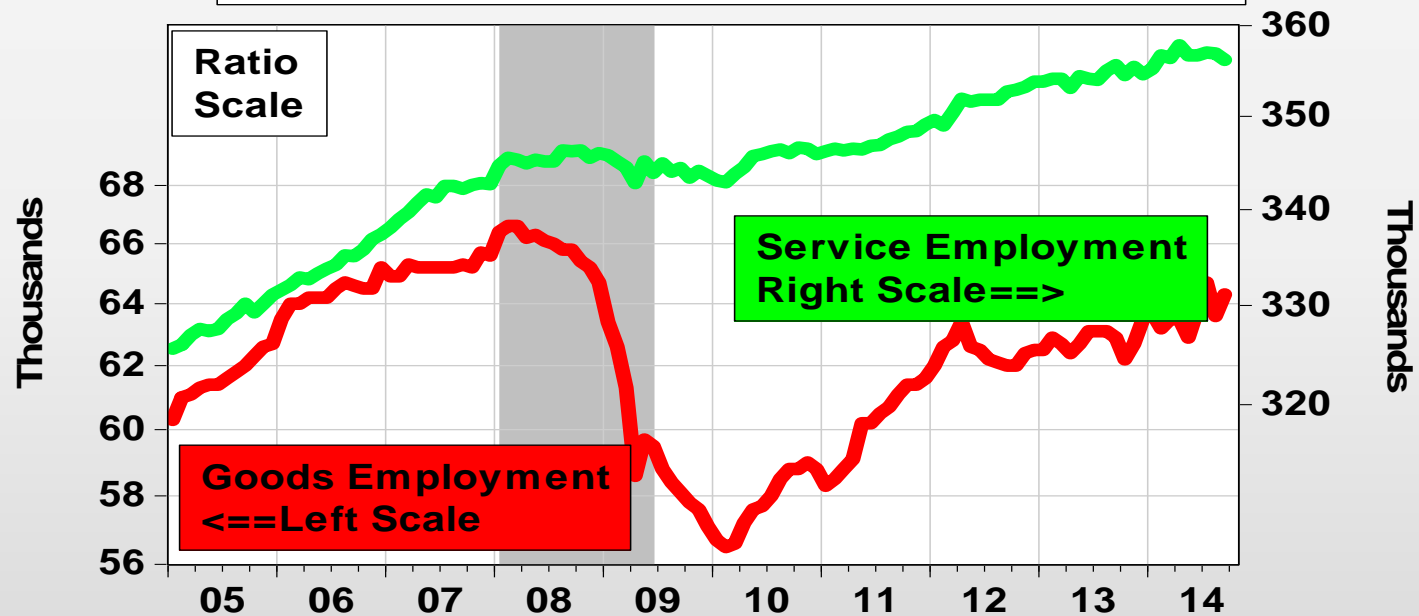


Source: BLS

Service & Goods-Producing Employment

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

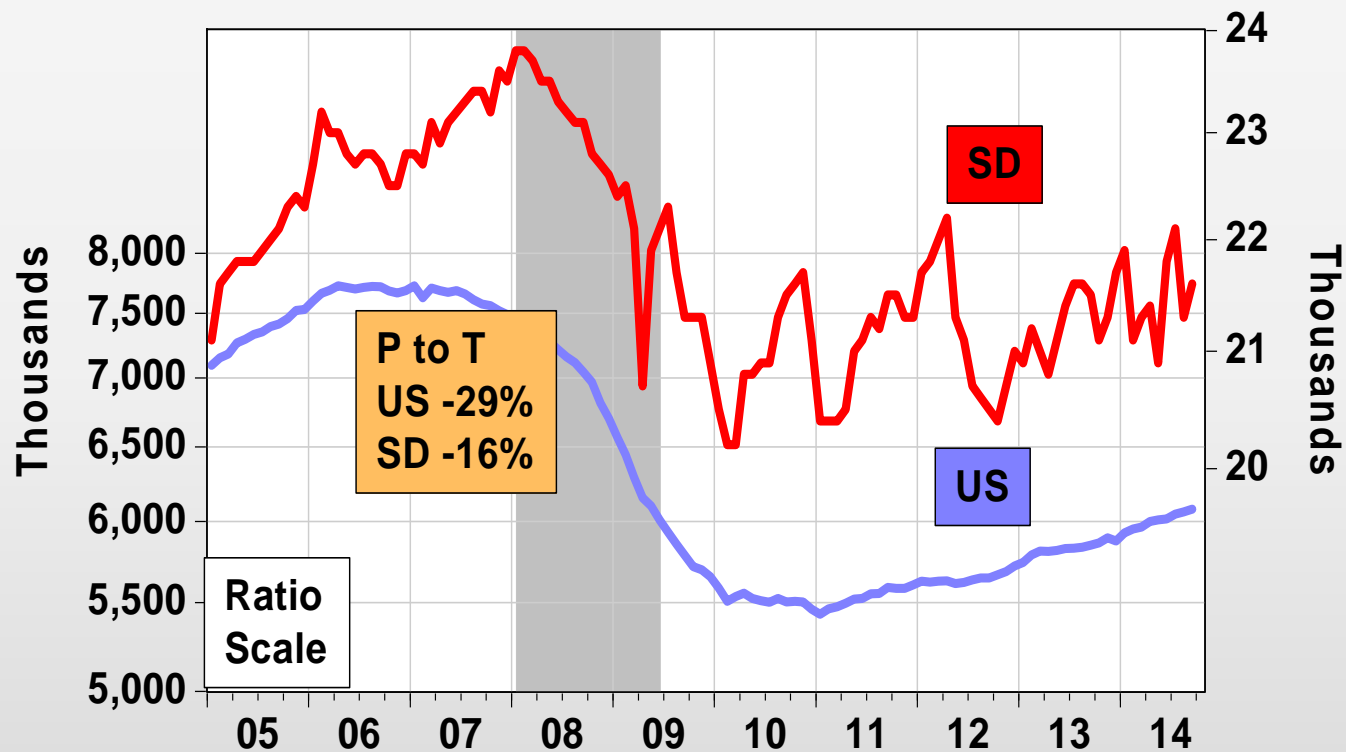
Goods-Producing = Manufacturing+Construction



Source: BLS

Recovery – A Way to Go

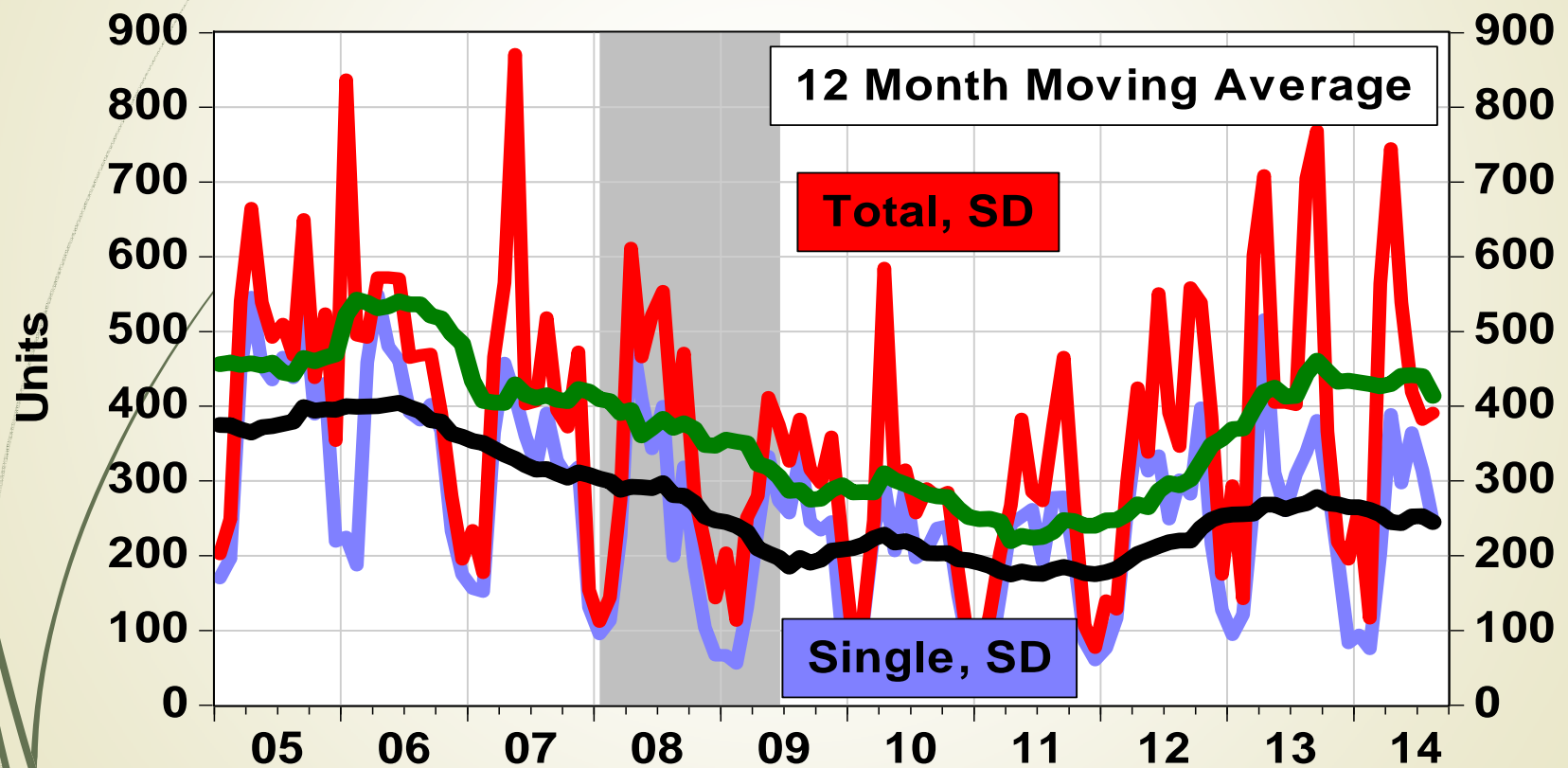
CONSTRUCTION EMPLOYMENT



Source: BLS

Not Quite Back to Peak

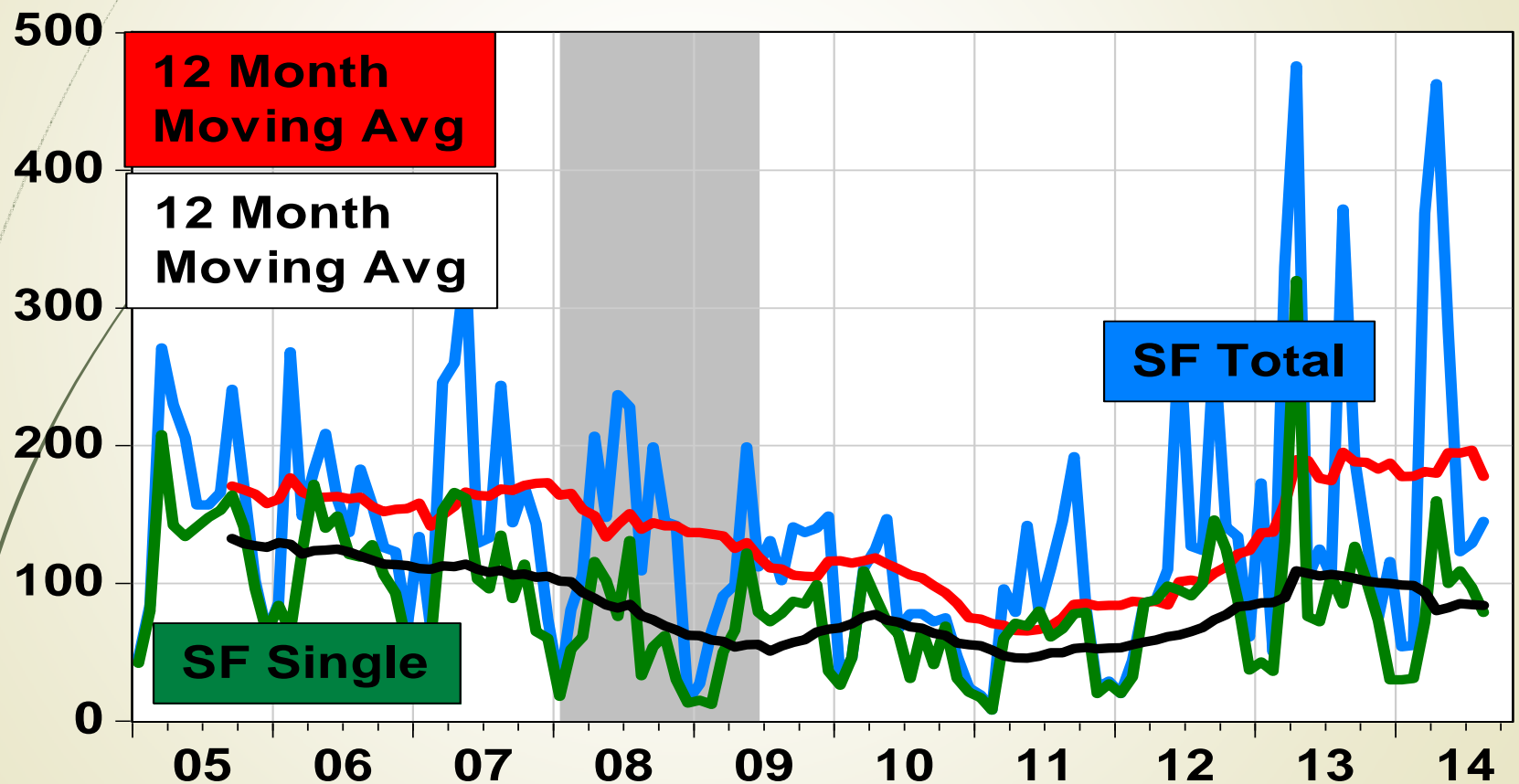
SD Building Permits, Total & Single



Source: Census Bureau

Good Performance

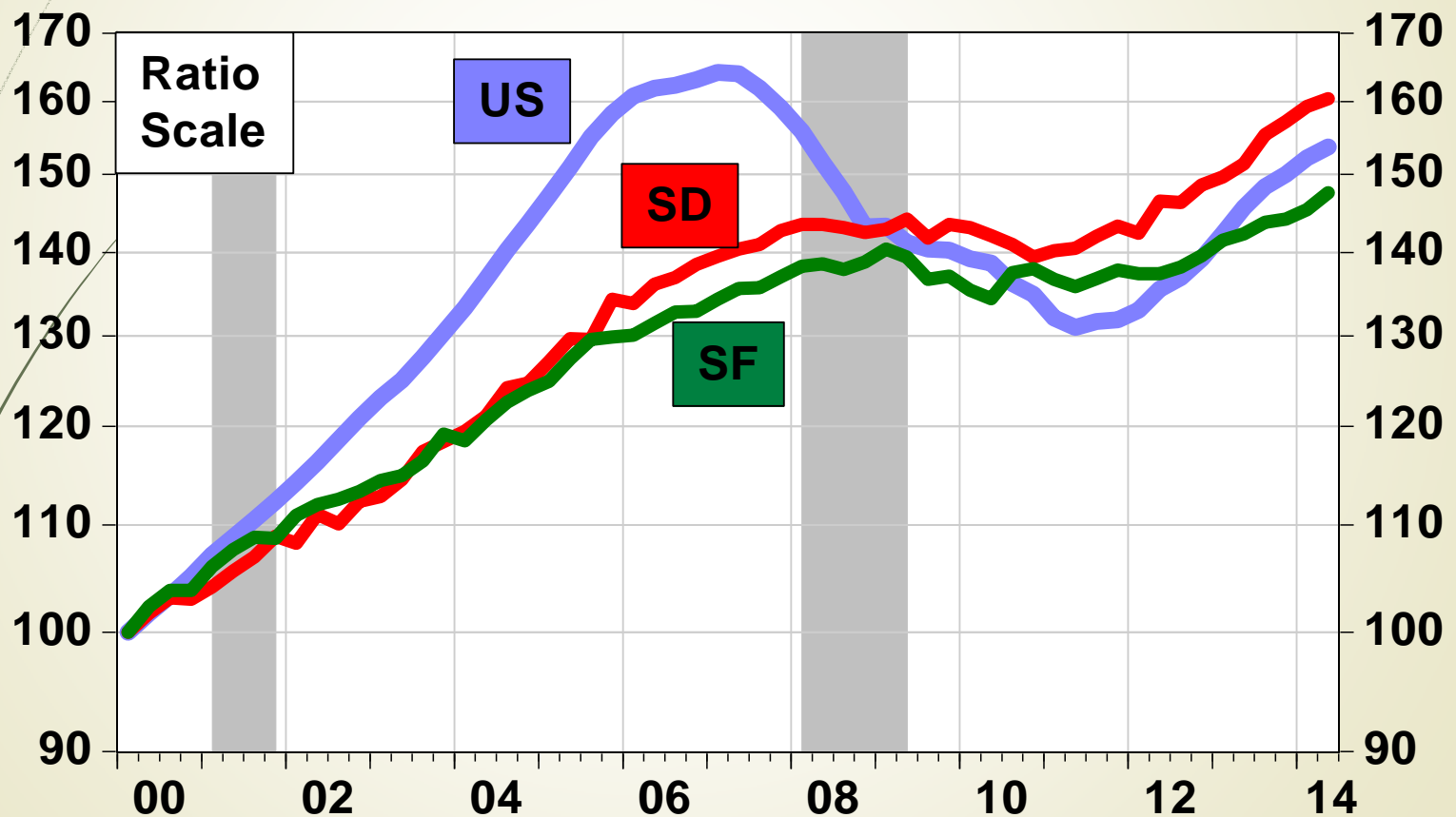
Sioux Falls Building Permits



Source: US Census Bureau

SD & SF Peaked Later and Decline Less Severe

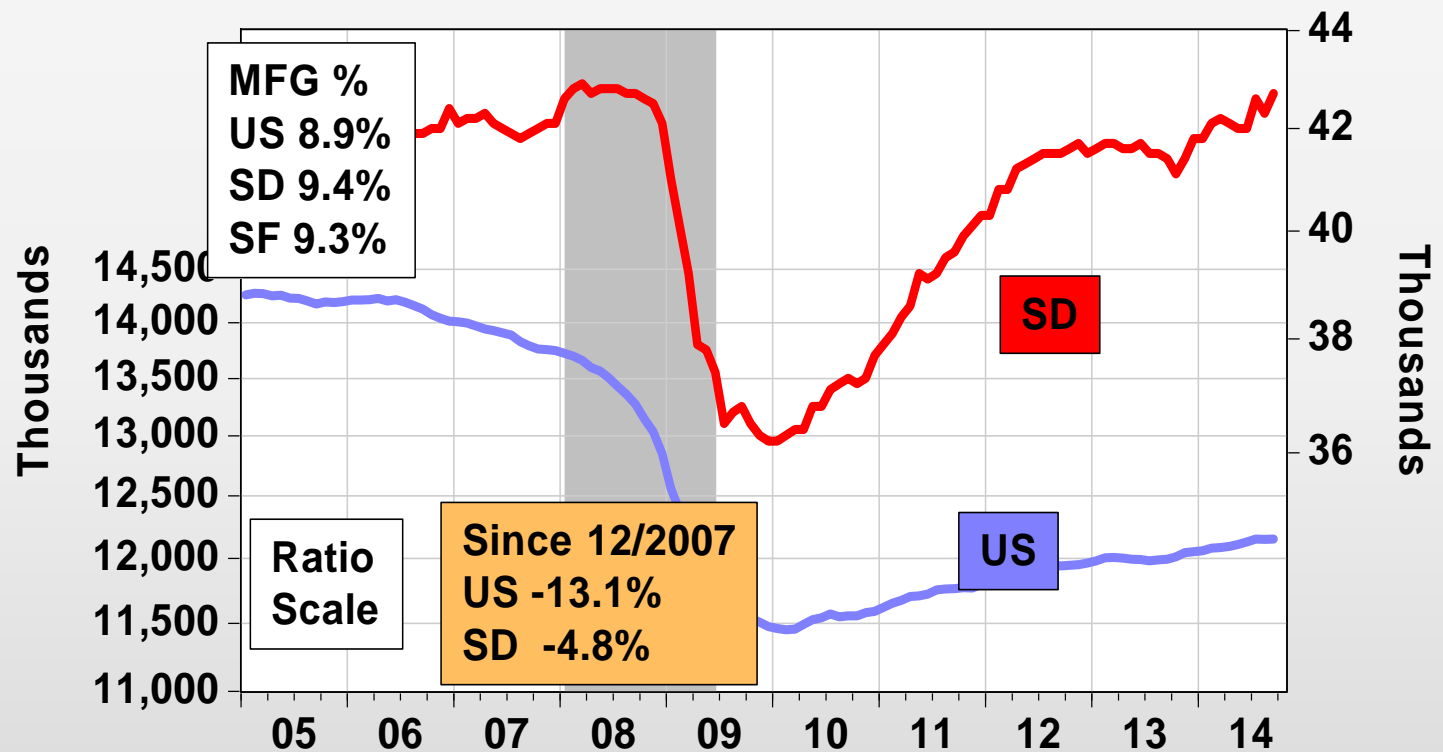
HOUSE PRICE INDEX: PURCHASE PRICE ONLY



Source: FHFA.GOV

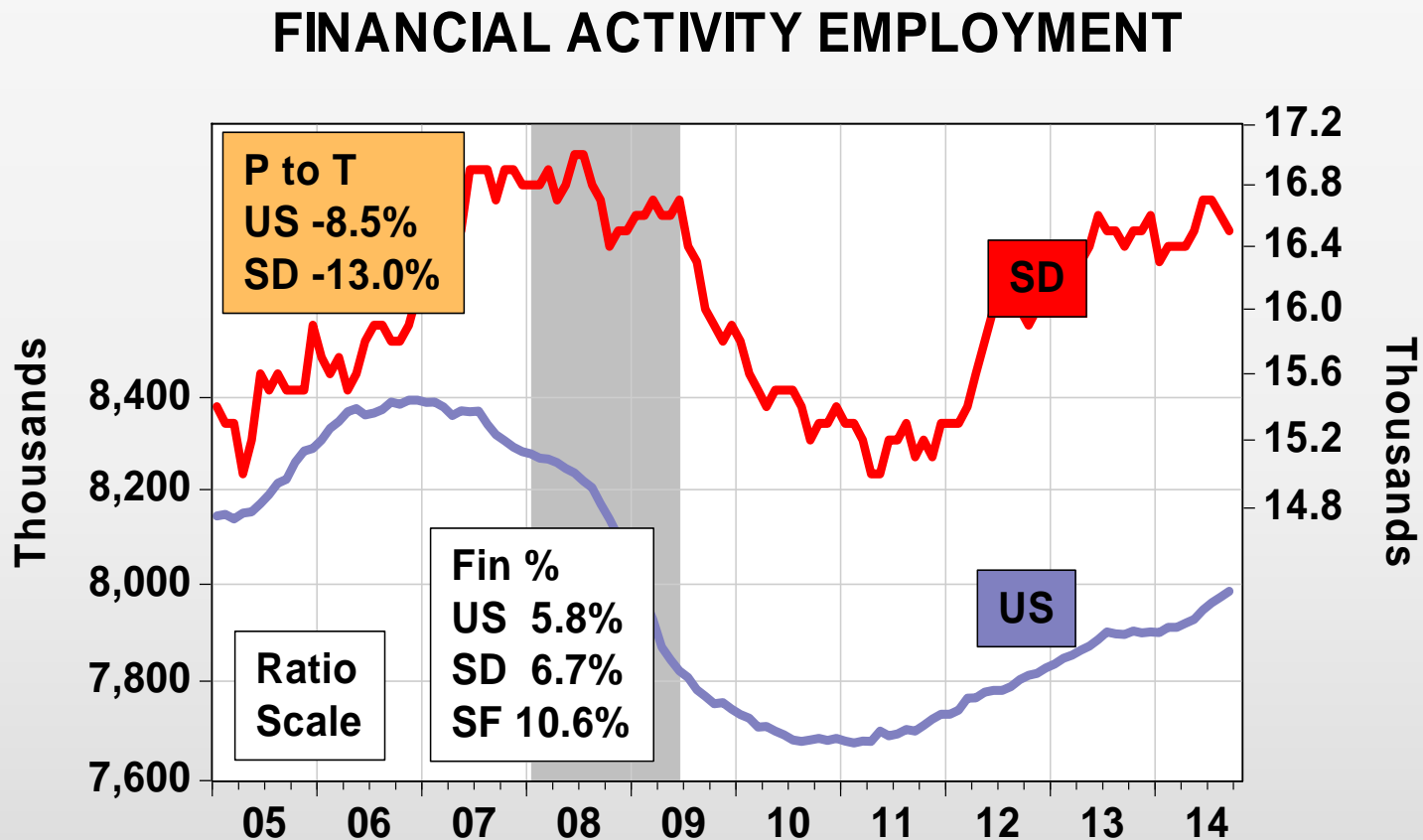
SD & US – Recovery

MANUFACTURING EMPLOYMENT



Source: BLS

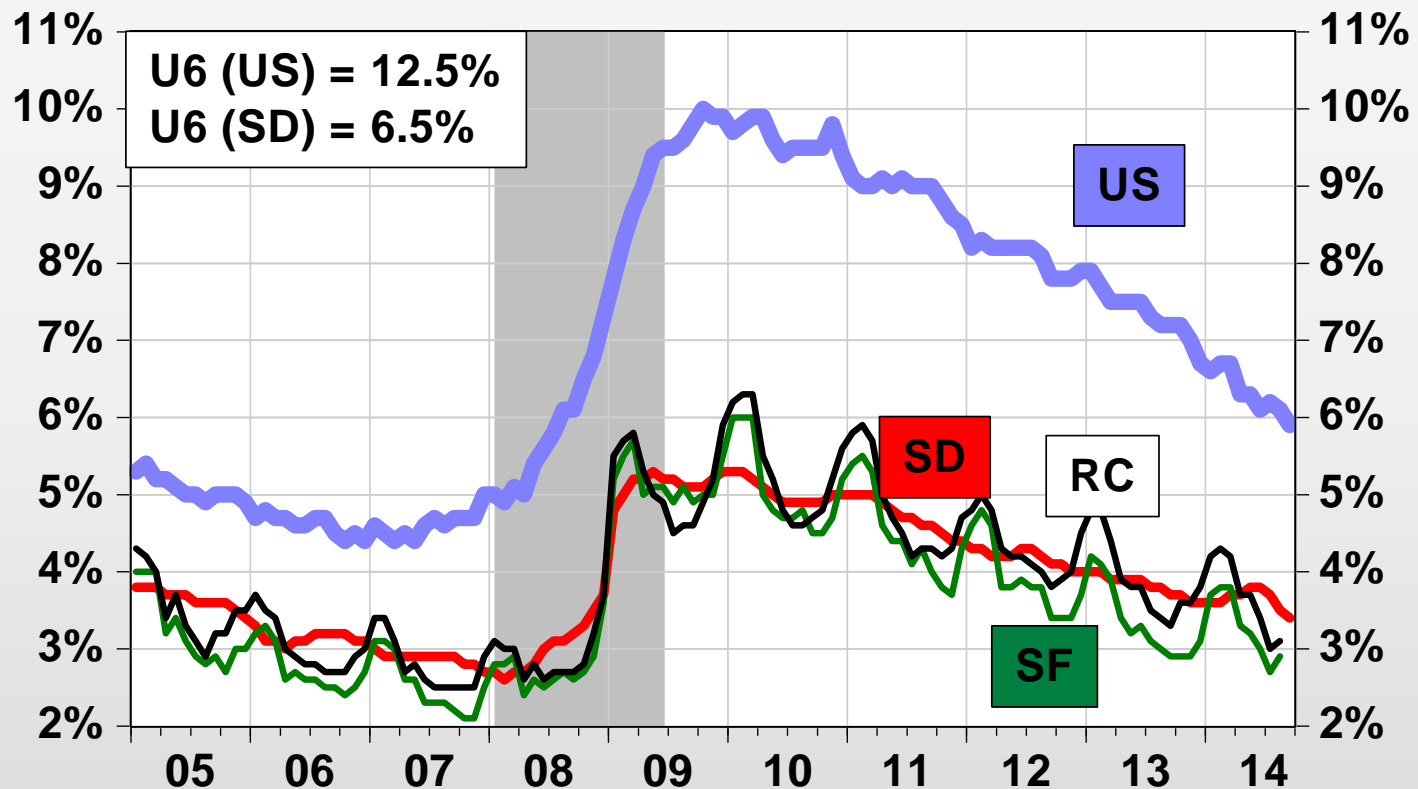
SD Almost Full Recovery?



Source: BLS

SD Below 4% SF 2.9%

UNEMPLOYMENT RATE




Source: BLS



State Unemployment Rates September 2014

Rank	State	Rate
1	NORTH DAKOTA	2.8
2	SOUTH DAKOTA	3.4
3	UTAH	3.5
4	NEBRASKA	3.6
5	MINNESOTA	4.1
6	HAWAII	4.2
7	NEW HAMPSHIRE	4.3
8	VERMONT	4.4
9	IDAHO	4.5
10	IOWA	4.6

Source: Bureau of Labor Statistics



MSA Unemployment Rates

(not seasonally adjusted)

1	Bismarck, ND Metropolitan Statistical Area	2.2
2	Fargo, ND-MN Metropolitan Statistical Area	2.4
3	Midland, TX Metropolitan Statistical Area	2.8
4	Sioux Falls, SD Metropolitan Statistical Area	2.9
5	Lincoln, NE Metropolitan Statistical Area	3.0
6	Iowa City, IA Metropolitan Statistical Area	3.1
6	Logan, UT-ID Metropolitan Statistical Area	3.1
6	Rapid City, SD Metropolitan Statistical Area	3.1

Source: Bureau of Labor Statistics

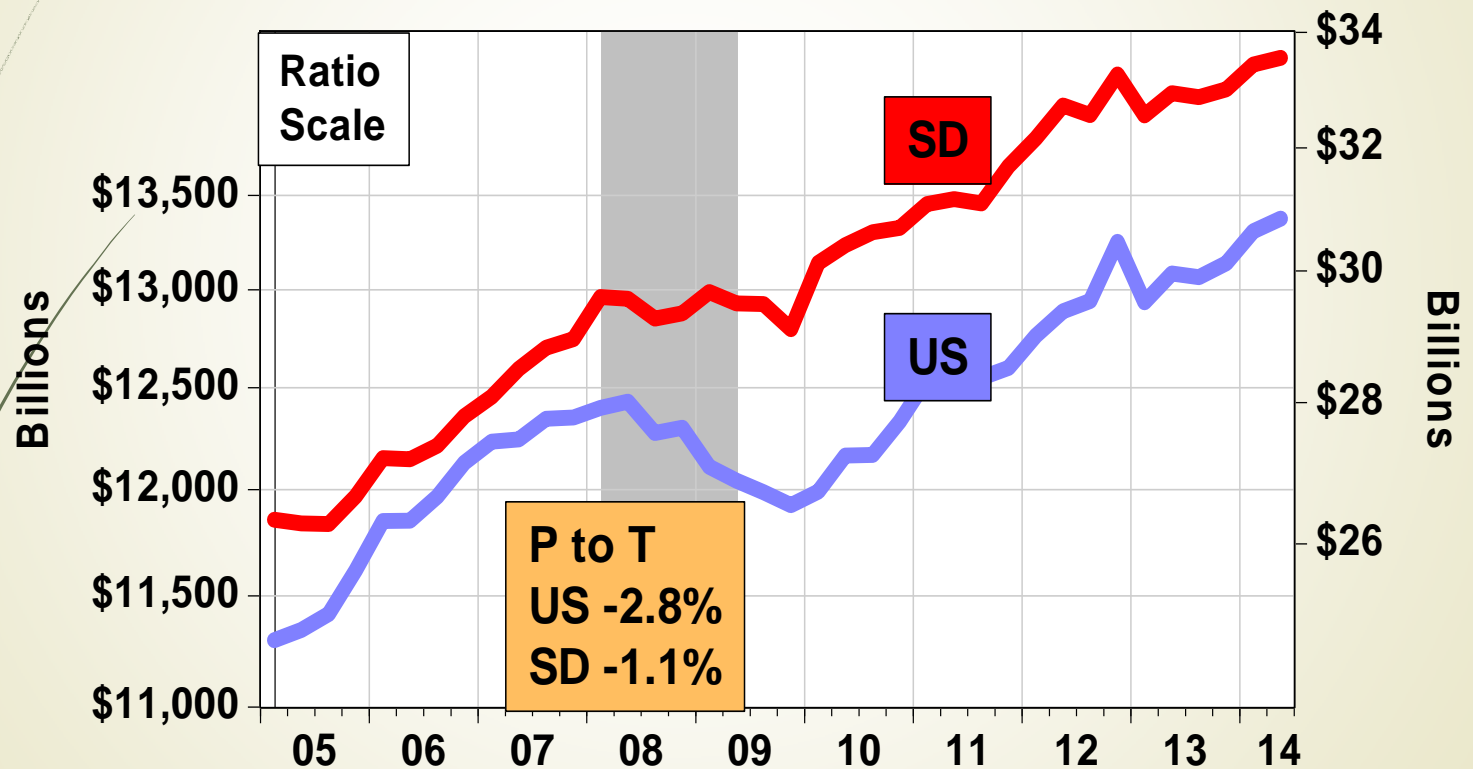
Nonfarm Employment (SEP Year-Over-Year Growth)

Industry	SD	SF	RC
Total	0.5%	1.0%	-0.5%
Construction	0.5%	3.8%	6.5%
Manufacturing	3.1%	0.7%	0.0%
Retail Trade	-2.3%	2.3%	-5.5%
Information	3.3%	0.0%	-11.1%
Financial Act.	0.7%	0.6%	0.0%
Leisure/Hosp	-3.1%	0.7%	-1.0%
Government	0.8%	1.5%	1.0%

Source: Bureau of Labor Statistics

SD Smaller Decline – Way Above Previous Peak

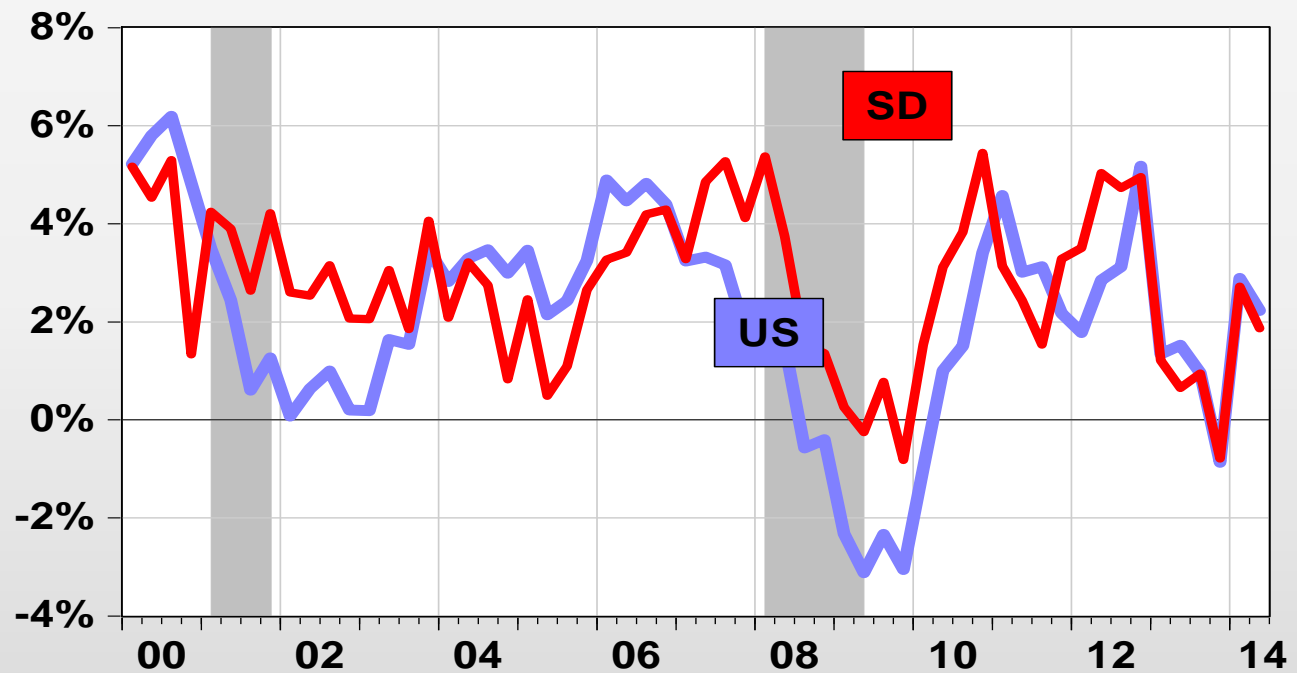
NONFARM PERSONAL INCOME (2009 \$)



Source: BLS

US and SD Track

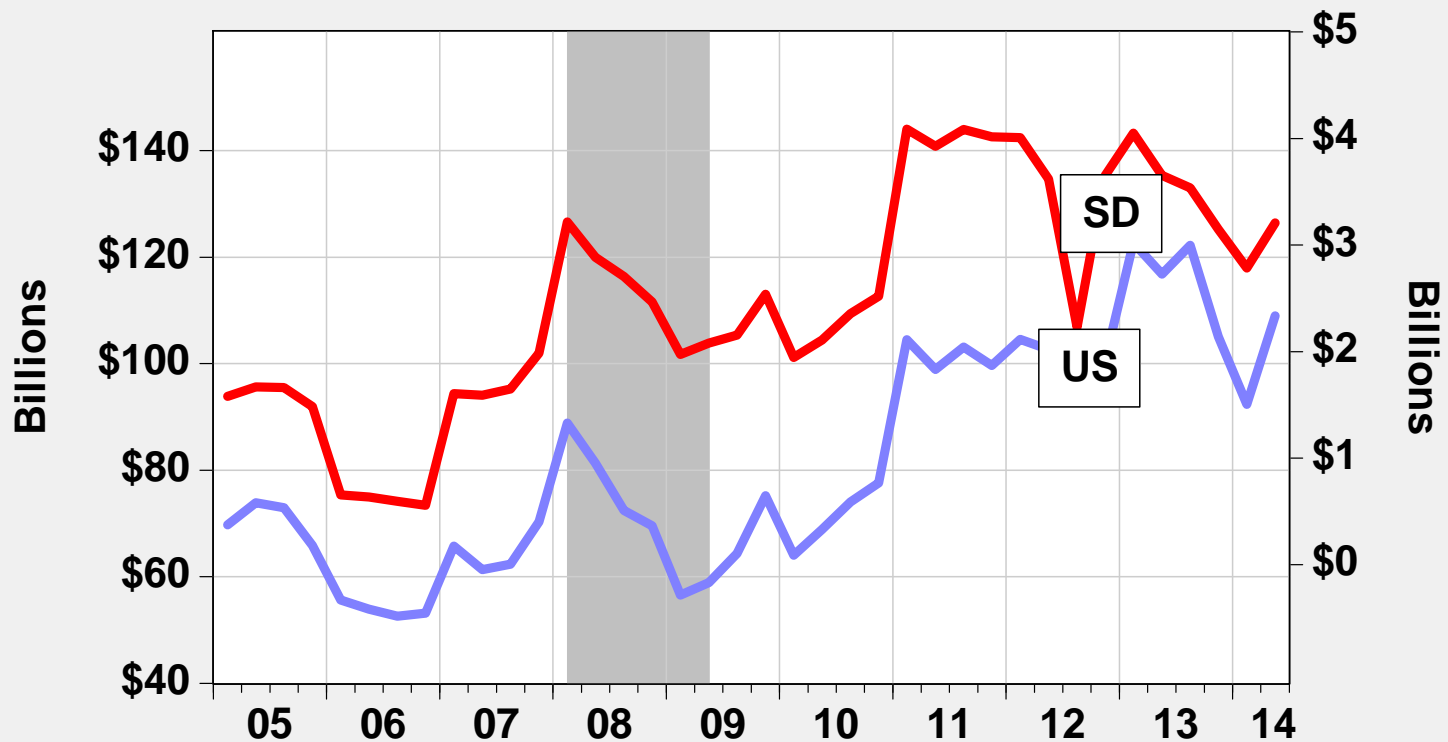
REAL NONFARM PERSONAL INCOME (Year-Over-Year Percent Change)



Source: BEA

Still Pretty High

FARM INCOME



Source: BEA

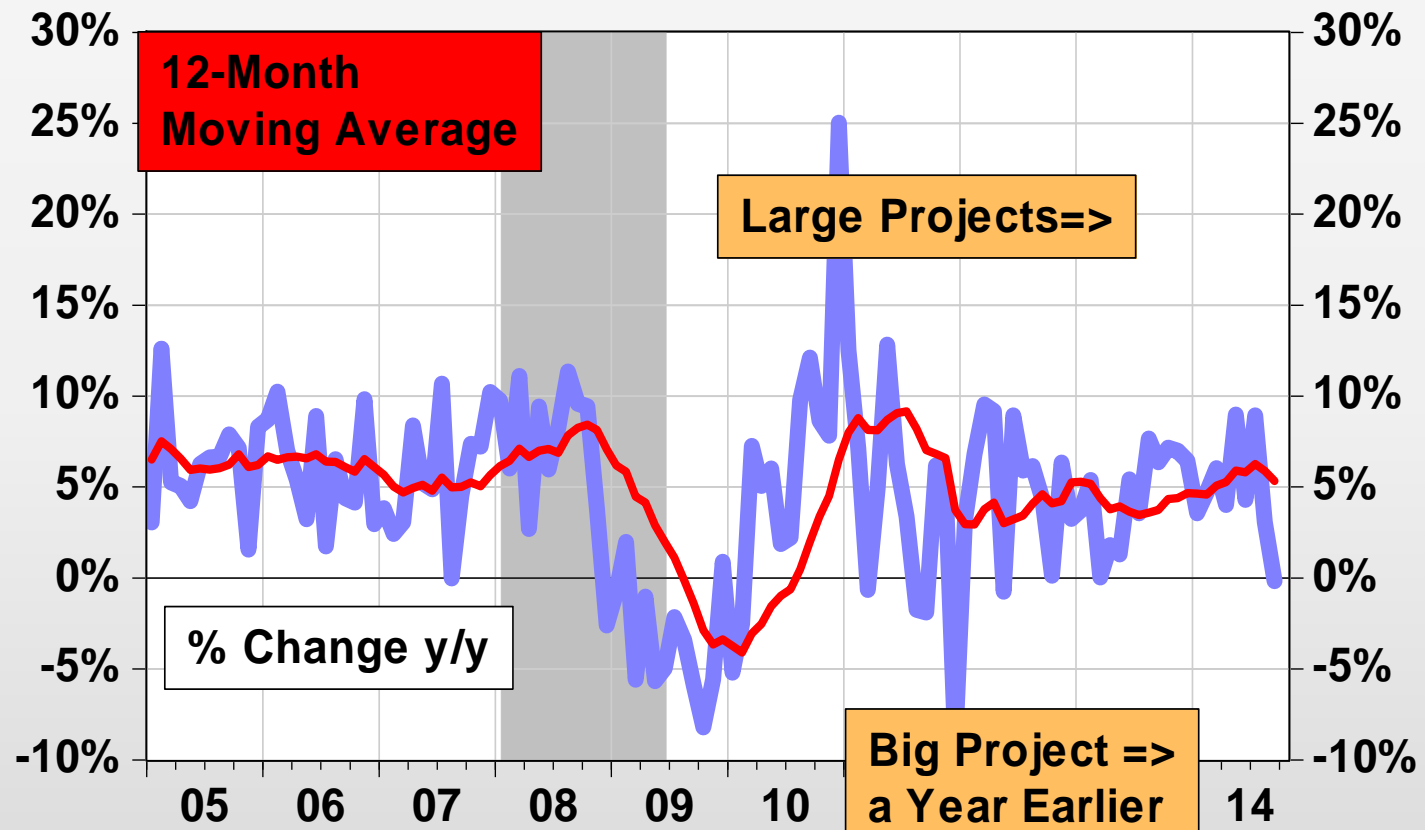
SD Per Capita Personal Income (various measures)

2013	US	SD	SD % of US	Rank
Per Capita				
Pers Income	\$44,543	\$45,558	102%	21
Regional Price Parity				
Per Capita				
Pers Income	\$44,543	\$51,653	116%	5
Per Capita				
Disp Pers Income	\$39,299	\$41,815	106%	12
Regional Price Parity				
Per Capita				
Disp Pers Income	\$39,299	\$47,409	121%	3

Source: Bureau of Economic Analysis

Growth?

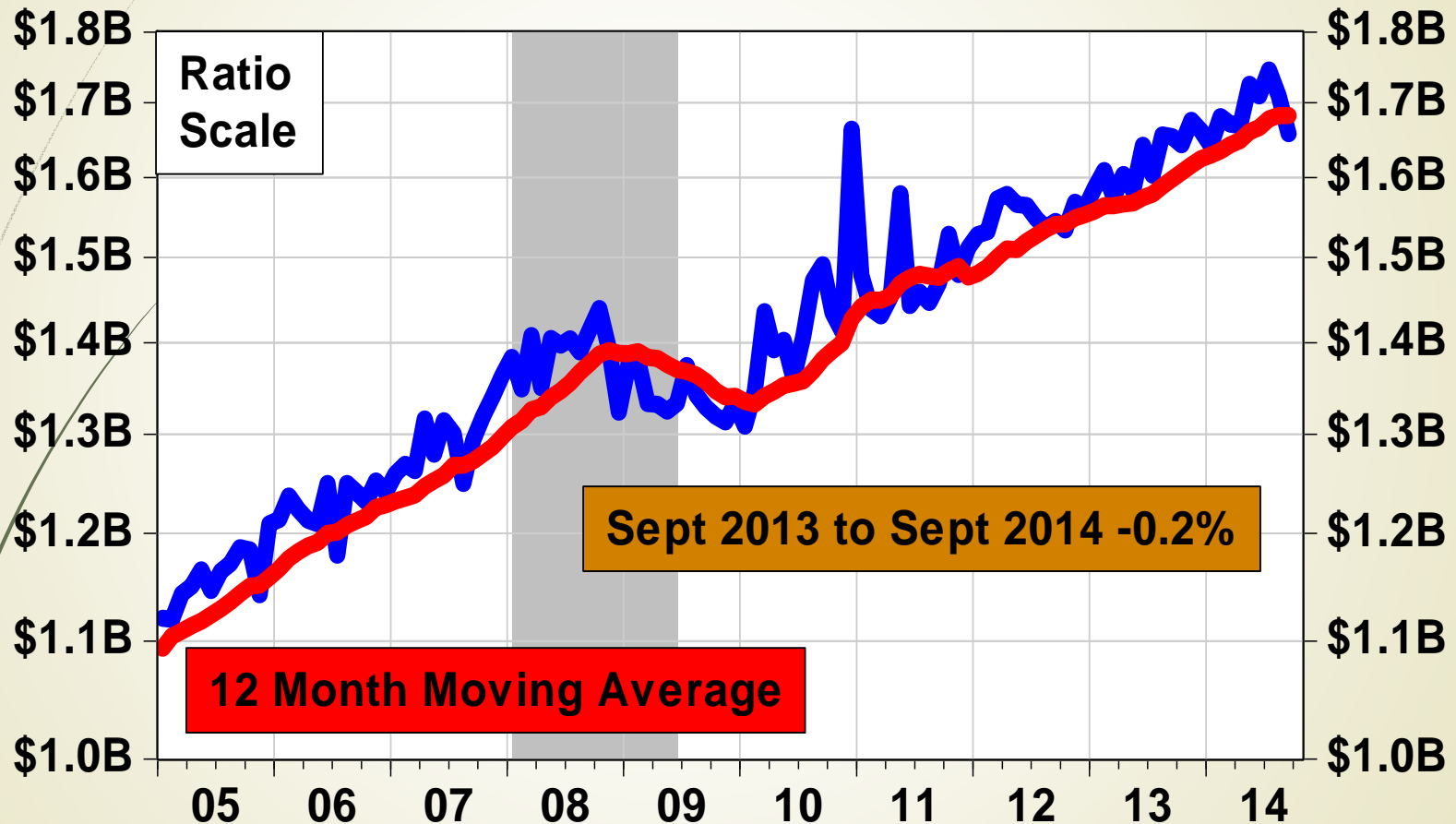
SD TAXABLE SALES



Source: SD Department of Revenue

What's Going On?

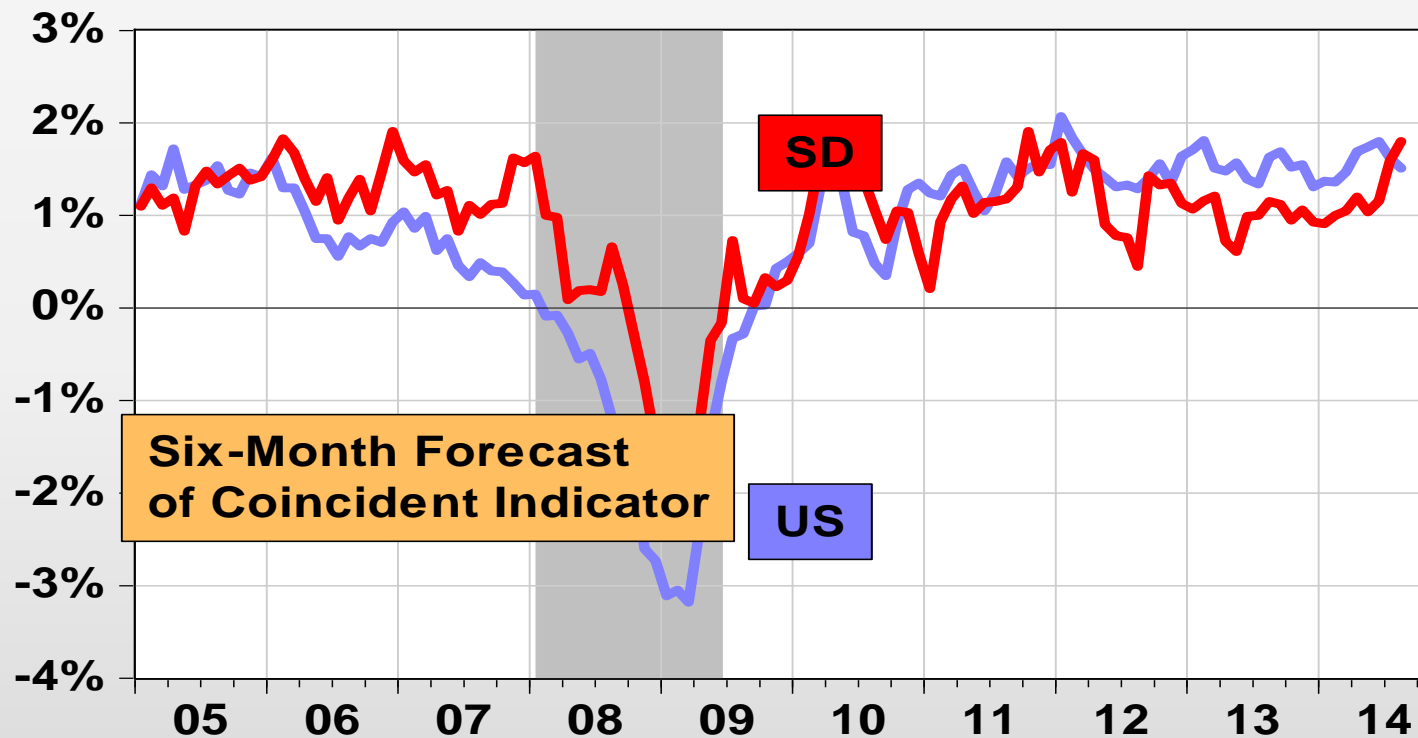
SD Taxable Sales - Seasonally Adjusted




Source: SD Department of Revenue

Forecasting Growth

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

September 2014 Index > 50 Growth

Overall 55

New Orders 56.7

Sales 63.8

Delivery lead time 53.5

Inventories 47.3

Employment 53.5

“Economic growth remains healthy for the second half of 2014.”

Source: Creighton Economic Forecasting Group & Ernie Goss

Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing and at faster rate than before

Concerns about impact of:
Eurozone crisis

The End

