The State of the SD Economy

Presentation to the Governor’s Council of Economic Advisors

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University of South Dakota
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

GROSS DOMESTIC PRODUCT

<table>
<thead>
<tr>
<th>Actual</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>-10%</td>
<td>2012 2.3%</td>
</tr>
<tr>
<td>-8%</td>
<td>2013 2.2%</td>
</tr>
<tr>
<td>-6%</td>
<td>2014 2.3%</td>
</tr>
<tr>
<td>-4%</td>
<td>2015 2.7%</td>
</tr>
<tr>
<td>-2%</td>
<td>2016 2.9%</td>
</tr>
<tr>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

Source: BEA and IHS
Components of GDP are:

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

Source: BEA
<table>
<thead>
<tr>
<th>Sector</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>+11.9%</td>
<td>+3.1%</td>
<td>+11.6%</td>
<td>+10.3%</td>
</tr>
<tr>
<td>Business investment</td>
<td>+4.6%</td>
<td>+6.7%</td>
<td>+7.1%</td>
<td>+6.2%</td>
</tr>
<tr>
<td>Consumption</td>
<td>+2.4%</td>
<td>+2.3%</td>
<td>+2.8%</td>
<td>+3.1%</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td><strong>+2.2%</strong></td>
<td><strong>+2.3%</strong></td>
<td><strong>+2.7%</strong></td>
<td><strong>+2.9%</strong></td>
</tr>
<tr>
<td>Net exports</td>
<td>+1.9%</td>
<td>-0.3%</td>
<td>-0.6%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Fed Government</td>
<td>-5.7%</td>
<td>-2.5%</td>
<td>-0.7%</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

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!

REAL CONSUMPTION

Source: BEA and IHS

1997-2007
3.6%


ACTUAL

FORECAST

2012 1.8%
2013 2.4%
Forecast
2014 2.3%
2015 2.8%
2016 3.1%

Source: BEA and IHS
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

HOUSING STARTS

Source: US Census and IHS

- Actual:
  - 2012: 0.78 Mil
  - 2013: 0.93

- Forecast:
  - 2014: 0.99
  - 2015: 1.19
  - 2016: 1.36
Government Sector

Fiscal Impact Measure
The Contribution of Fiscal Policy to Real GDP Growth

Source: Hutchins Center calculations based on BEA data; four-quarter moving average; shaded areas indicate recessions

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

Federal Revenues & Outlays
As a Percent of GDP

Source: CBO & Brookings Institution
Debt Held by Public

Debt Held by the Public
As a Percent of GDP

Source: CBO; dotted line indicates projected values

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 (2\textsuperscript{nd} 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.”

Source: IHS Economics
Modest Growth

NONFARM EMPLOYMENT

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

Actual
Forecast

1997-2007 1.1%

2012 1.7%
2013 1.7%
Forecast
2014 1.8%
2015 1.8%
2016 1.5%
Lower Than Expected

UNEMPLOYMENT RATE

Source: BLS and IHS

U6=11.8%
Avg U 31.5 wks
U>27 wks 31.9%

1997-2007
4.9%

2012 8.1%
2013 7.4%
Forecast
2014 6.2%
2015 5.7%
2016 5.5%

Actual
Forecast

EMP/POP ↓ Sharply

U3 & U6 Unemployment Rates

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

Forecast
2012 2.1%
2013 1.5%
Forecast
2014 1.8%
2015 1.9%
2016 1.9

Actual

1997-2007 2.6%

-12% -8% 0% 4% 8%
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>2.2%</td>
<td>2.3%</td>
<td>2.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>NA Emp</td>
<td>1.7%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Oil(Brent)</td>
<td>$109</td>
<td>$105</td>
<td>$104</td>
<td>$102</td>
</tr>
<tr>
<td>Housing</td>
<td>0.93</td>
<td>0.99</td>
<td>1.19</td>
<td>1.36</td>
</tr>
<tr>
<td>CPI</td>
<td>1.5%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Un Rate</td>
<td>7.4%</td>
<td>6.2%</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

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

Job Loss P to T
US -8.7 mil -6.3%
SD -12.9 thou -3.1%

SD Recession Begins =>

Ratio Scale

Thousands

05 06 07 08 09 10 11 12 13 14

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

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

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

Source: BLS
SD Almost Full Recovery?

FINANCIAL ACTIVITY EMPLOYMENT

P to T
US -8.5%
SD -13.0%

Fin %
US 5.8%
SD 6.7%
SF 10.6%

Source: BLS
SD Below 4% SF 2.9%

UNEMPLOYMENT RATE

U6 (US) = 12.5%
U6 (SD) = 6.5%

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

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NORTH DAKOTA</td>
<td>2.8</td>
</tr>
<tr>
<td>2</td>
<td>SOUTH DAKOTA</td>
<td>3.4</td>
</tr>
<tr>
<td>3</td>
<td>UTAH</td>
<td>3.5</td>
</tr>
<tr>
<td>4</td>
<td>NEBRASKA</td>
<td>3.6</td>
</tr>
<tr>
<td>5</td>
<td>MINNESOTA</td>
<td>4.1</td>
</tr>
<tr>
<td>6</td>
<td>HAWAII</td>
<td>4.2</td>
</tr>
<tr>
<td>7</td>
<td>NEW HAMPSHIRE</td>
<td>4.3</td>
</tr>
<tr>
<td>8</td>
<td>VERMONT</td>
<td>4.4</td>
</tr>
<tr>
<td>9</td>
<td>IDAHO</td>
<td>4.5</td>
</tr>
<tr>
<td>10</td>
<td>IOWA</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
### MSA Unemployment Rates
(not seasonally adjusted)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Location</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bismarck, ND Metropolitan Statistical Area</td>
<td>2.2</td>
</tr>
<tr>
<td>2</td>
<td>Fargo, ND-MN Metropolitan Statistical Area</td>
<td>2.4</td>
</tr>
<tr>
<td>3</td>
<td>Midland, TX Metropolitan Statistical Area</td>
<td>2.8</td>
</tr>
<tr>
<td>4</td>
<td>Sioux Falls, SD Metropolitan Statistical Area</td>
<td>2.9</td>
</tr>
<tr>
<td>5</td>
<td>Lincoln, NE Metropolitan Statistical Area</td>
<td>3.0</td>
</tr>
<tr>
<td>6</td>
<td>Iowa City, IA Metropolitan Statistical Area</td>
<td>3.1</td>
</tr>
<tr>
<td>6</td>
<td>Logan, UT-ID Metropolitan Statistical Area</td>
<td>3.1</td>
</tr>
<tr>
<td>6</td>
<td>Rapid City, SD Metropolitan Statistical Area</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
## Nonfarm Employment (SEP Year-Over-Year Growth)

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

Source: Bureau of Labor Statistics
SD Smaller Decline – Way Above Previous Peak

NONFARM PERSONAL INCOME (2009 $S)

Source: BLS
REAL NONFARM PERSONAL INCOME
(Year-Over-Year Percent Change)

Source: BEA
Still Pretty High

FARM INCOME

Source: BEA
<table>
<thead>
<tr>
<th>2013</th>
<th>US</th>
<th>SD</th>
<th>SD % of US</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita Pers Income</td>
<td>$44,543</td>
<td>$45,558</td>
<td>102%</td>
<td>21</td>
</tr>
<tr>
<td>Regional Price Parity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per Capita Pers Income</td>
<td>$44,543</td>
<td>$51,653</td>
<td>116%</td>
<td>5</td>
</tr>
<tr>
<td>Per Capita Disp Pers Income</td>
<td>$39,299</td>
<td>$41,815</td>
<td>106%</td>
<td>12</td>
</tr>
<tr>
<td>Regional Price Parity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per Capita Disp Pers Income</td>
<td>$39,299</td>
<td>$47,409</td>
<td>121%</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
Growth?

SD TAXABLE SALES

12-Month Moving Average

Large Projects =>

% 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

Ratio Scale

Sept 2013 to Sept 2014 -0.2%

12 Month Moving Average
Forecasting Growth

LEADING INDICATOR: US & SD

Six-Month Forecast of Coincident Indicator

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