

South Dakota Chamber of Commerce 2016 Economic Outlook Seminar

State of the Economy

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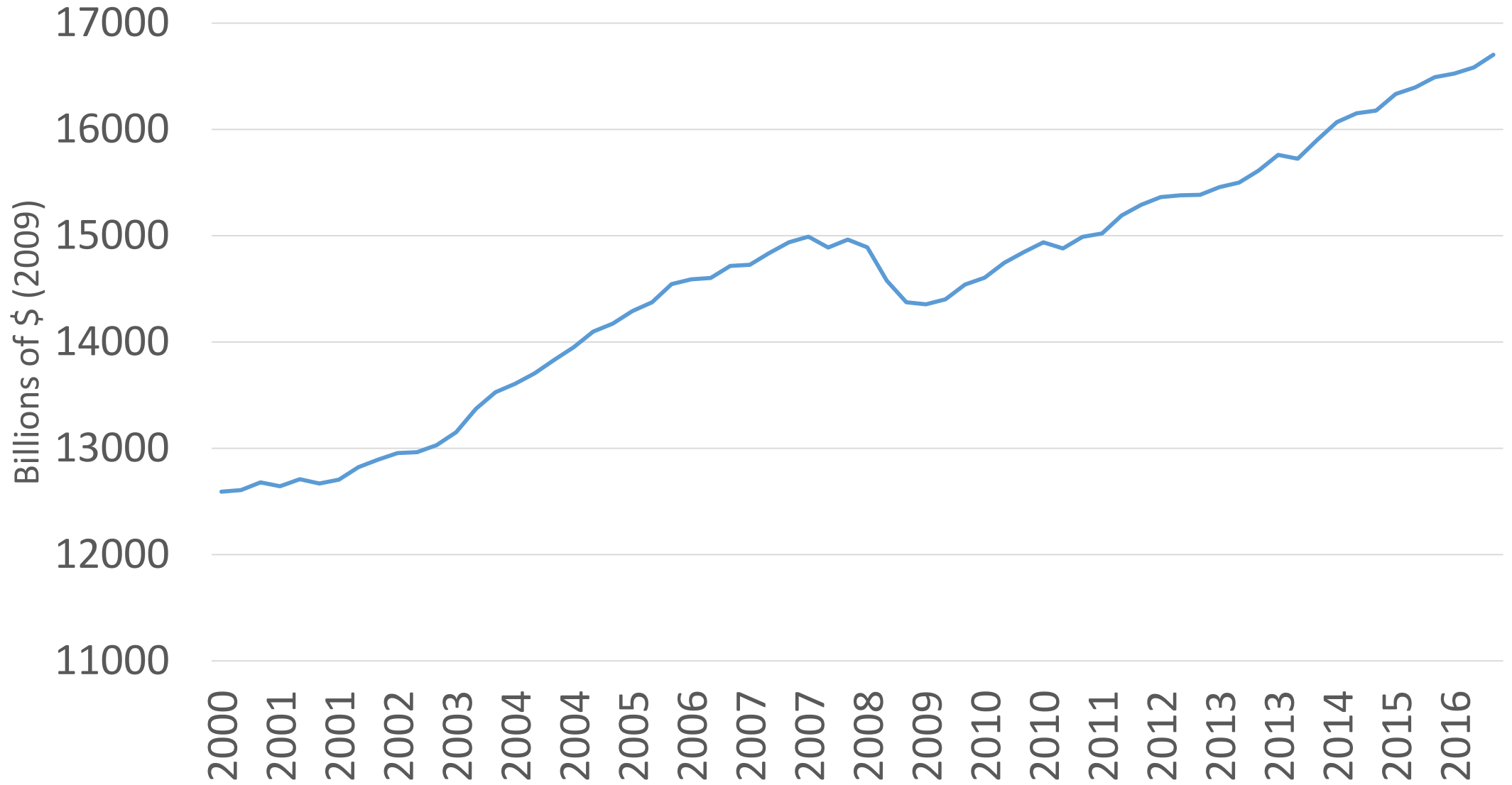
Outline

- ▶ U.S. Economy
 - ▶ GDP
 - ▶ Labor Market
- ▶ S.D. Economy
 - ▶ GDP
 - ▶ Labor Market
- ▶ Summary

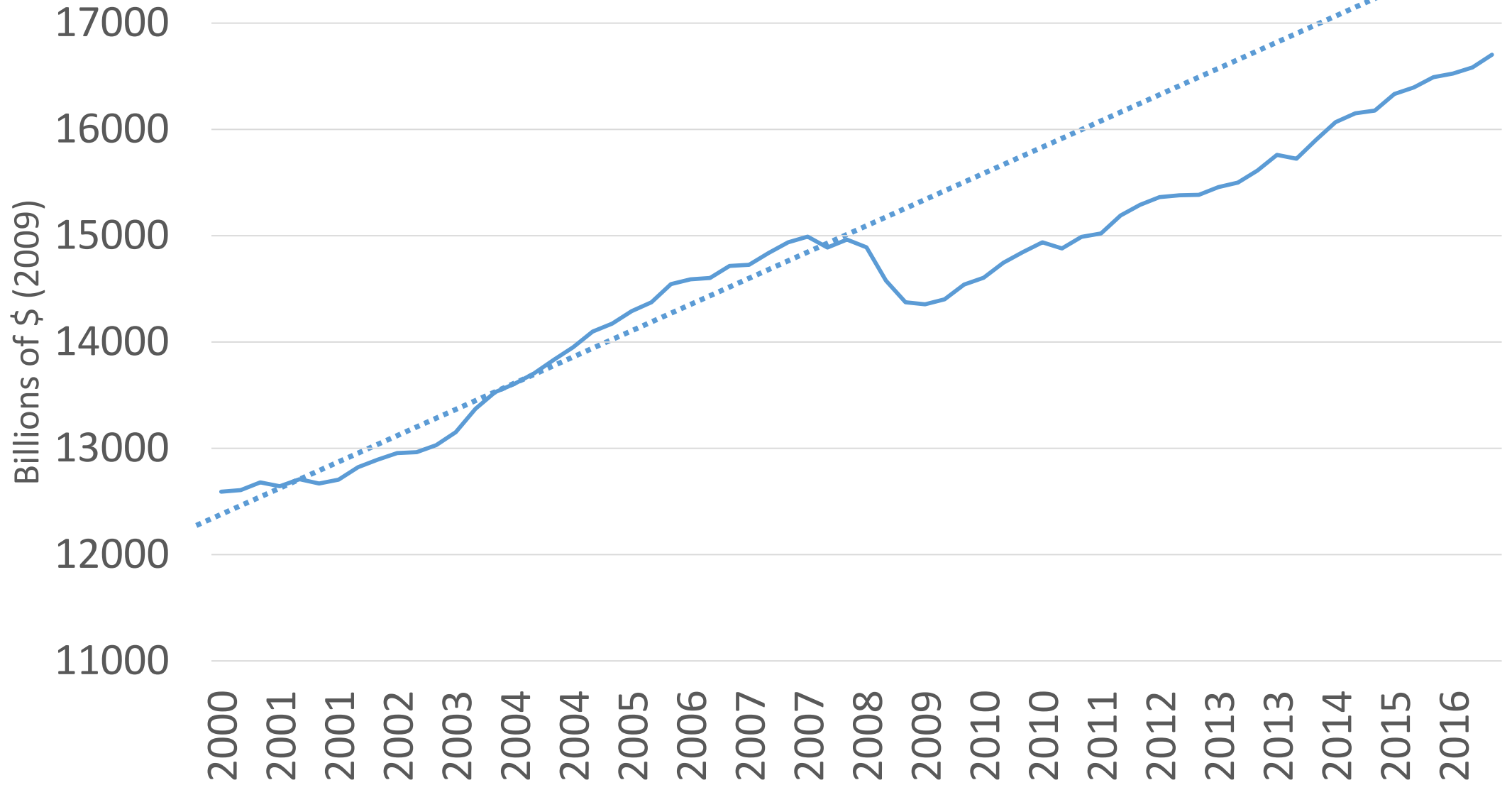
U.S. Economy

- ▶ Great Recession
 - ▶ Financial crisis
 - ▶ Slow recovery
- ▶ Current performance
 - ▶ Slow GDP growth in early 2016 (1.1%), 2.9% in 3rd quarter. 1.7% on the year.
 - ▶ 10% growth in exports in 3rd quarter (soybeans in particular)
 - ▶ Steady consumption growth
- ▶ Global and domestic concerns

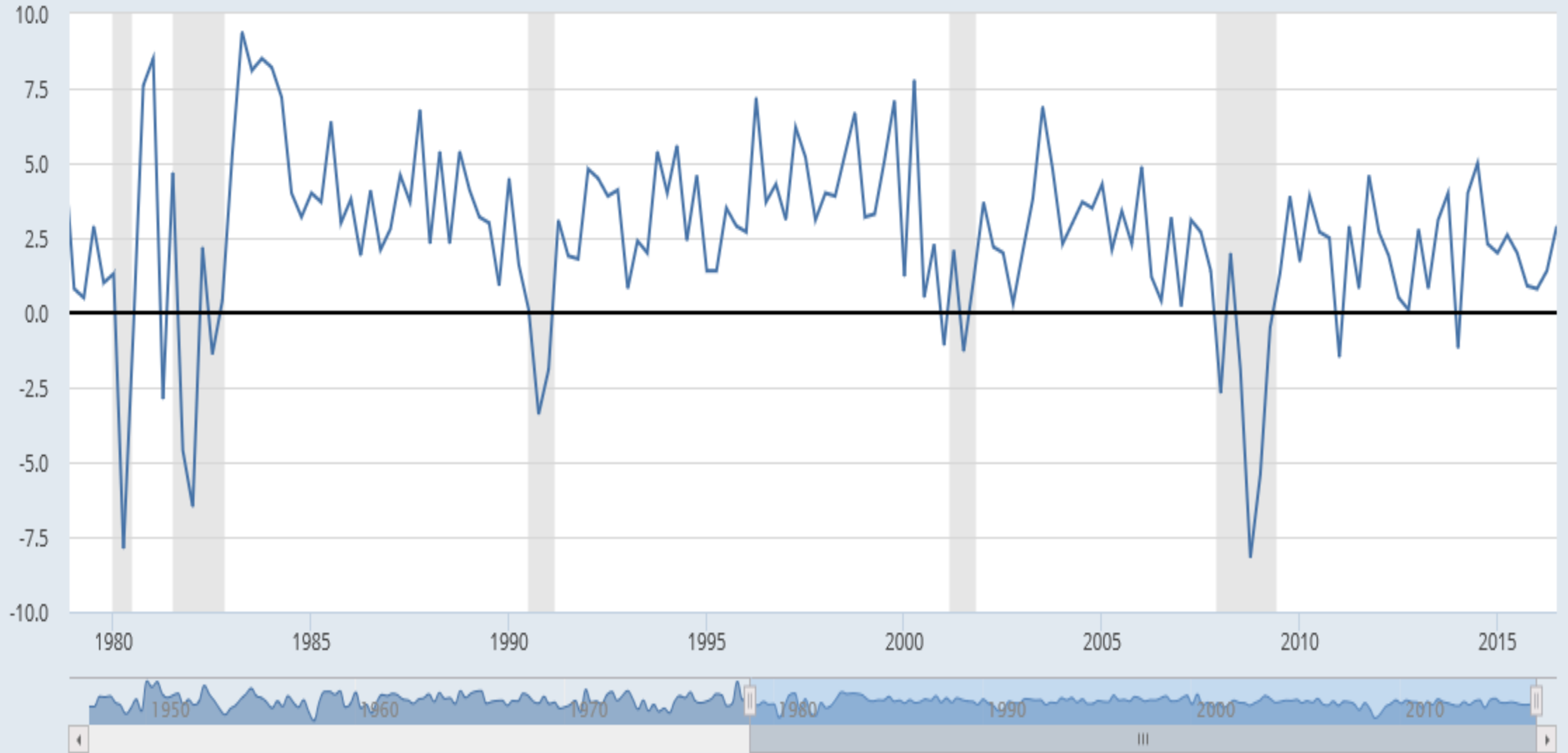
Real Gross Domestic Product - U.S.



Real Gross Domestic Product - U.S.



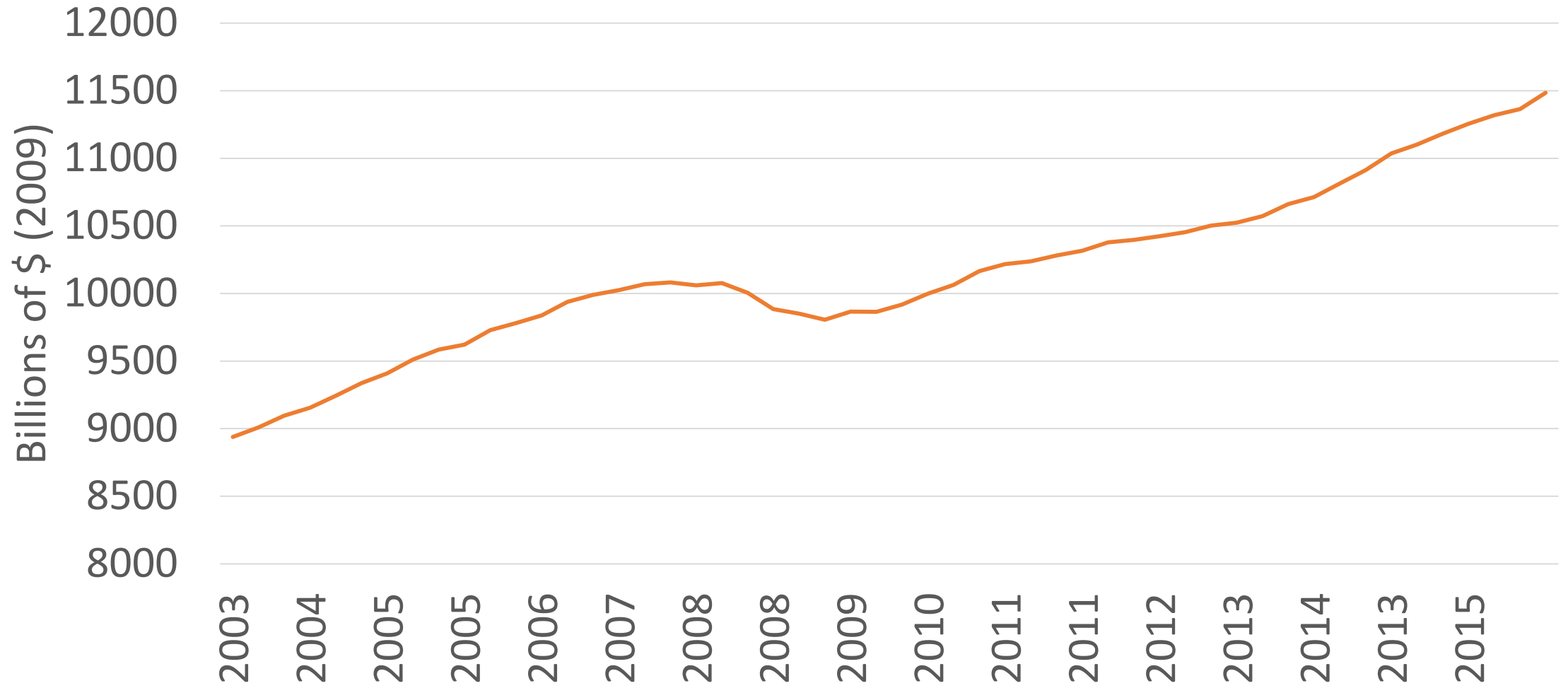
Change in Real GDP



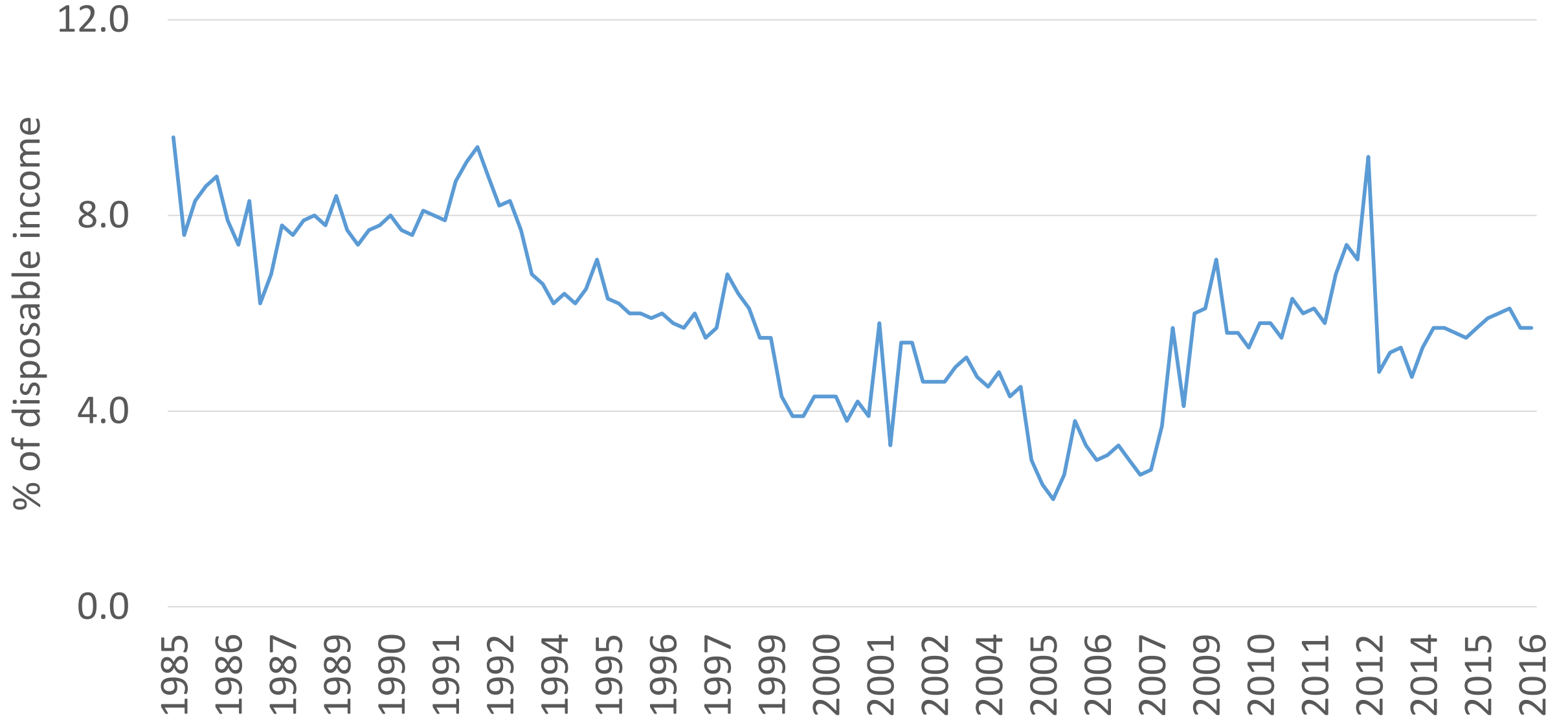
Components of GDP

- ▶ $GDP = C + I + G + NX$
- ▶ \$18.7 Trillion 68.1% 16.2% 17.6% 12.2%-14.7%
- ▶ 46% of C is services, 22% is goods

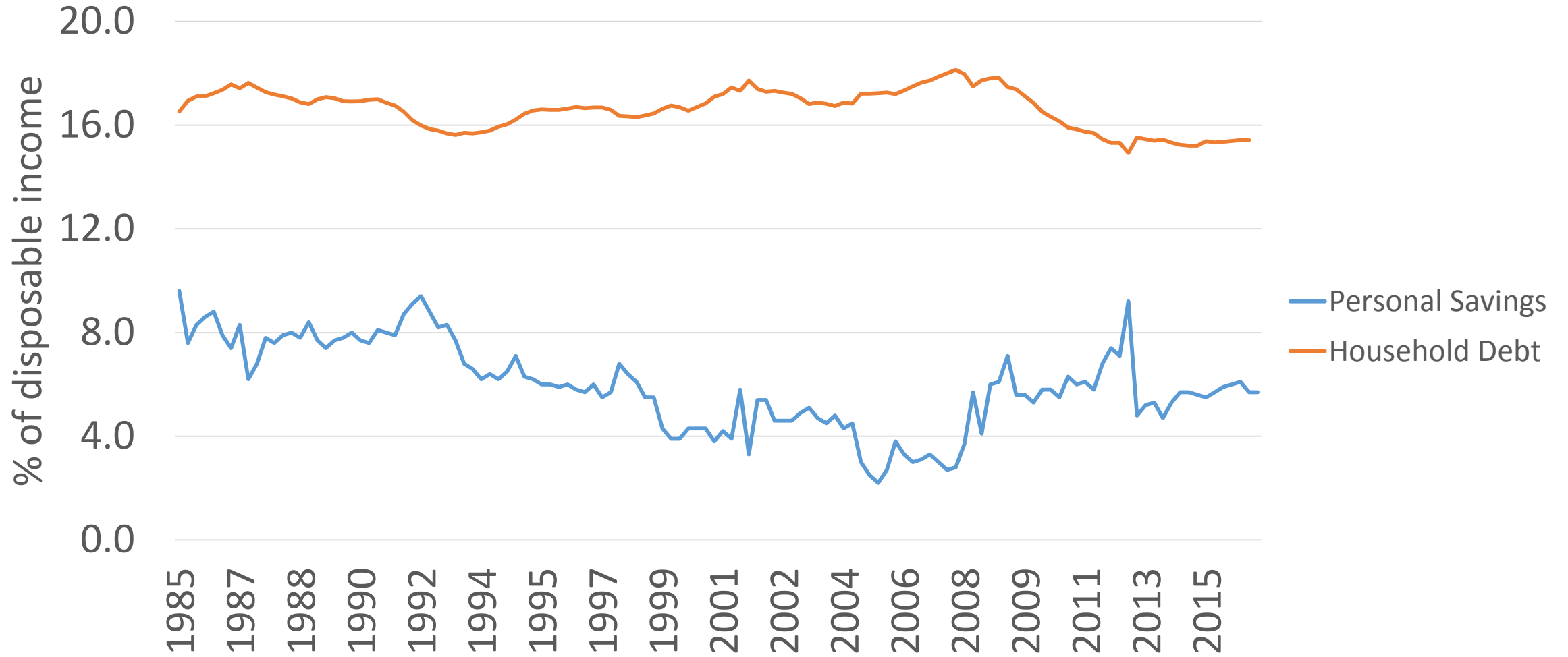
Personal Consumption - U.S.



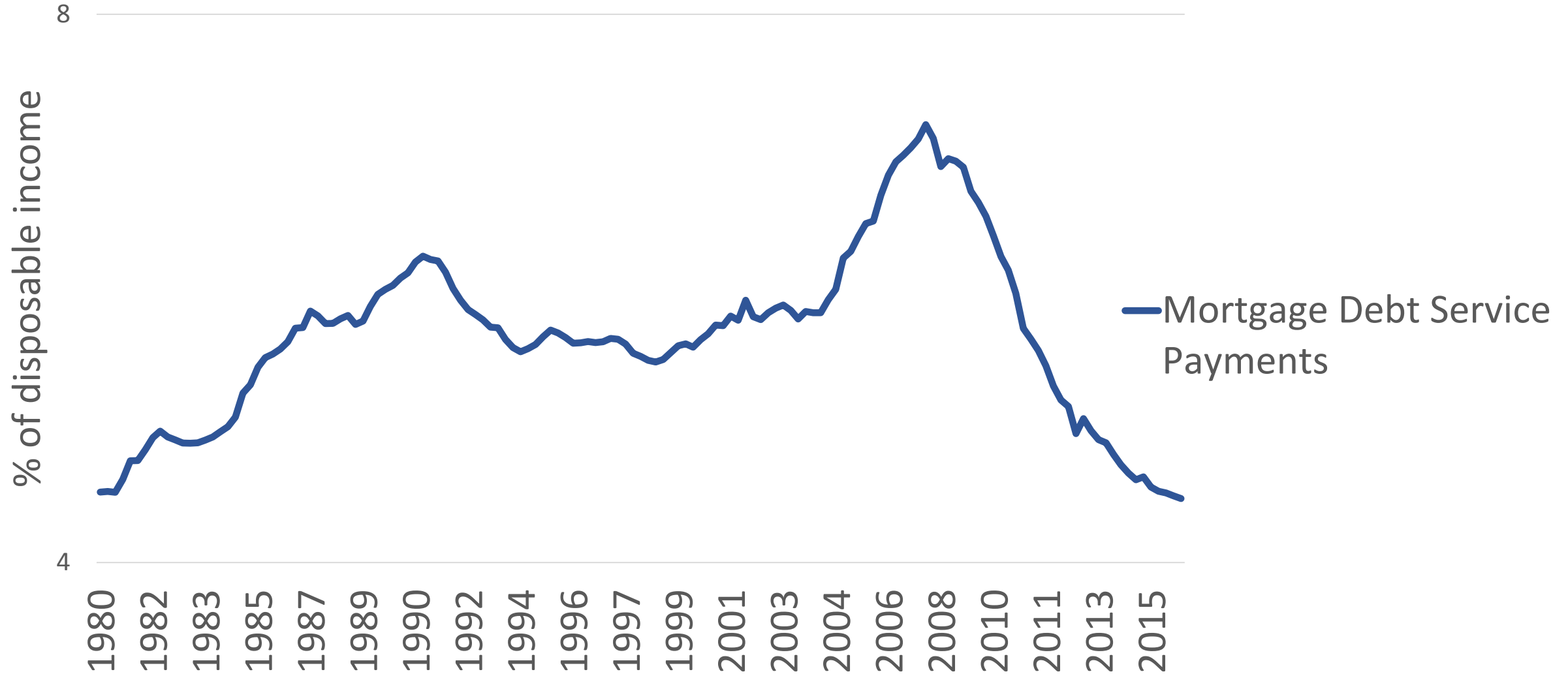
Personal Savings



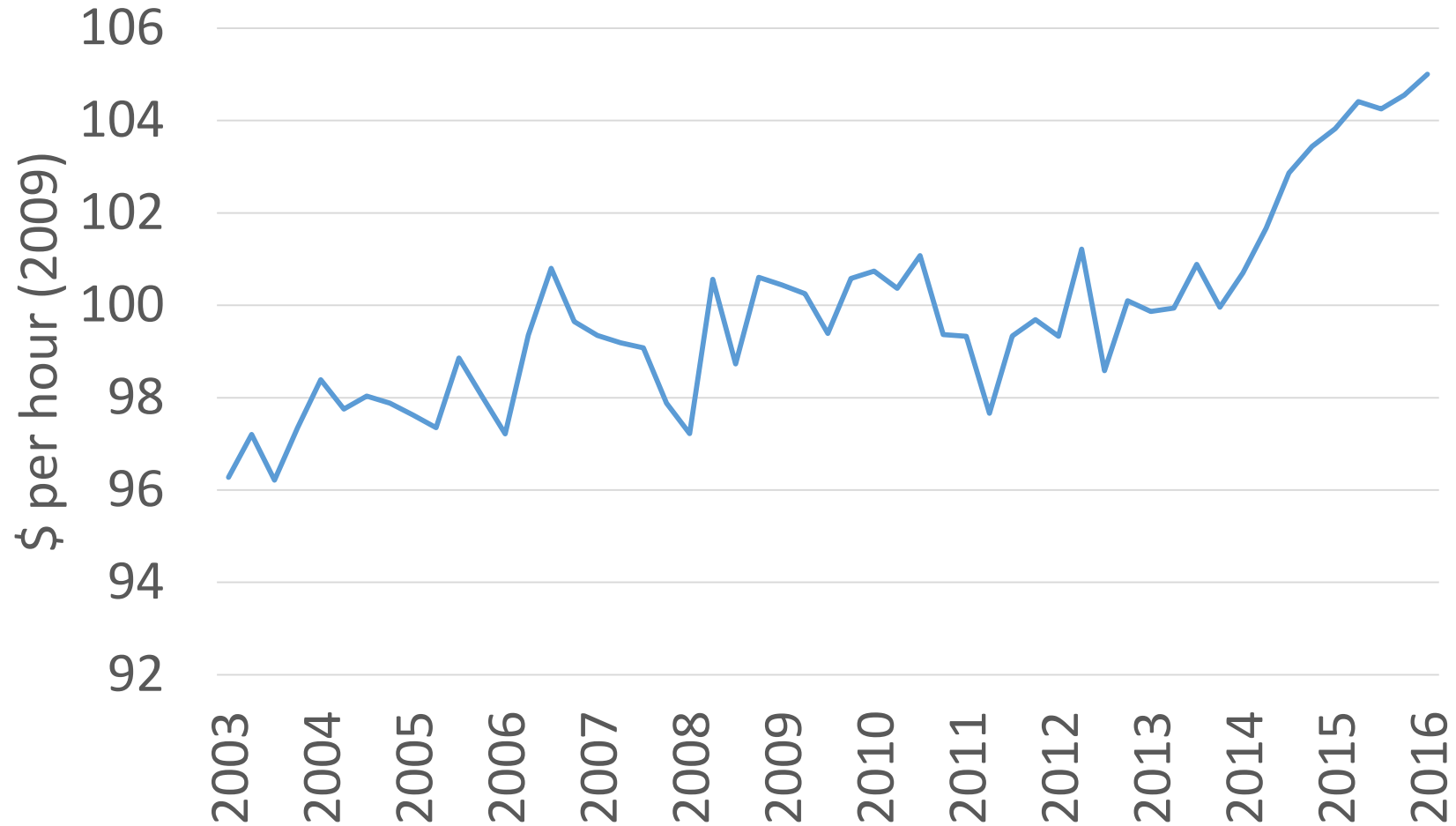
Household Debt



Mortgage Debt



Real Compensation non-farm business

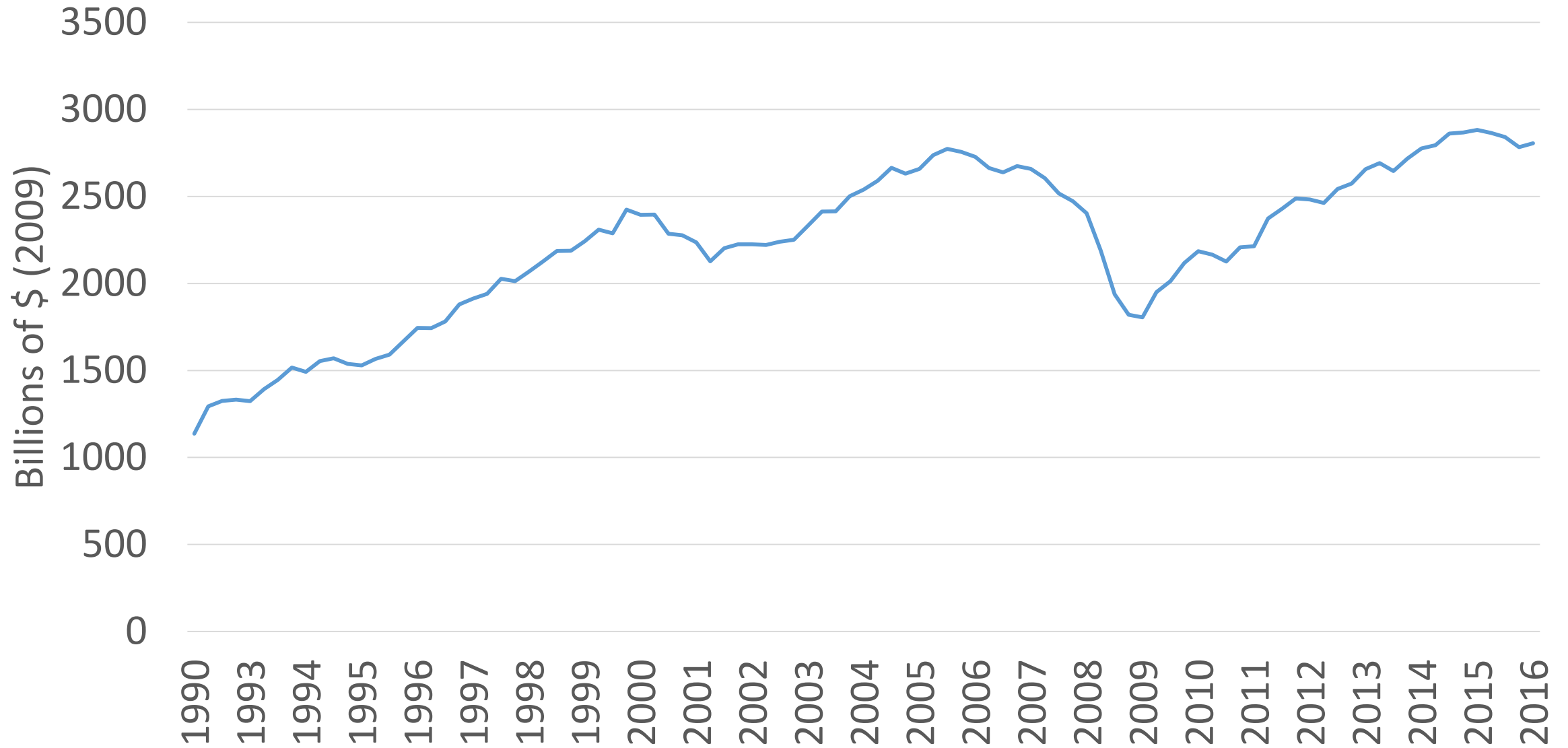


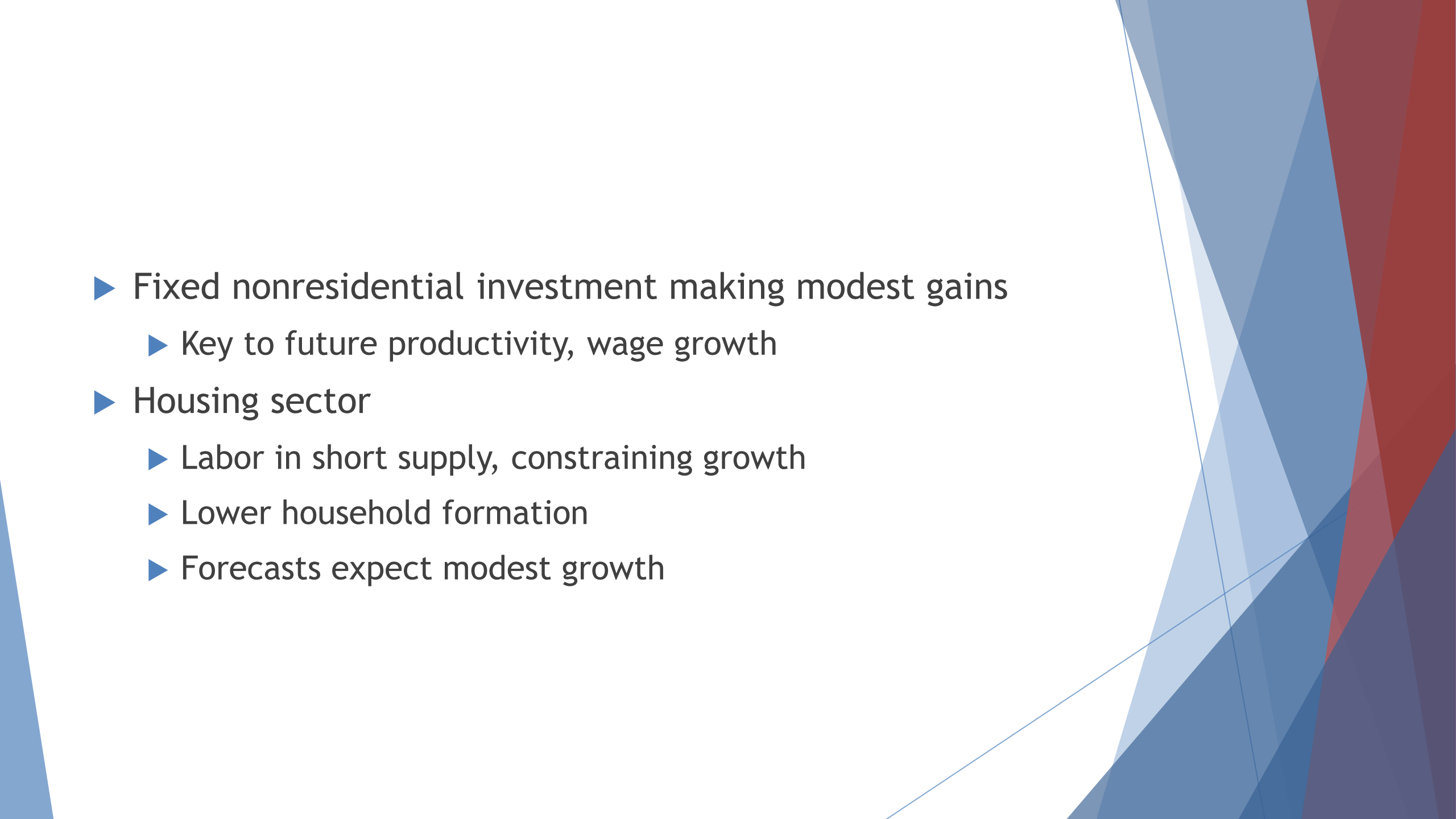
Consumption recap

- ▶ Consumption is relatively strong
- ▶ Household debt is low
 - ▶ Mortgage payments continue to fall (%)
- ▶ Personal savings slightly above pre-recession levels
- ▶ Compensation growth slowing again (1.1% y-2-y growth)
 - ▶ Productivity grew at 3.1% annual rate in 3rd quarter after 3 quarters of decline.

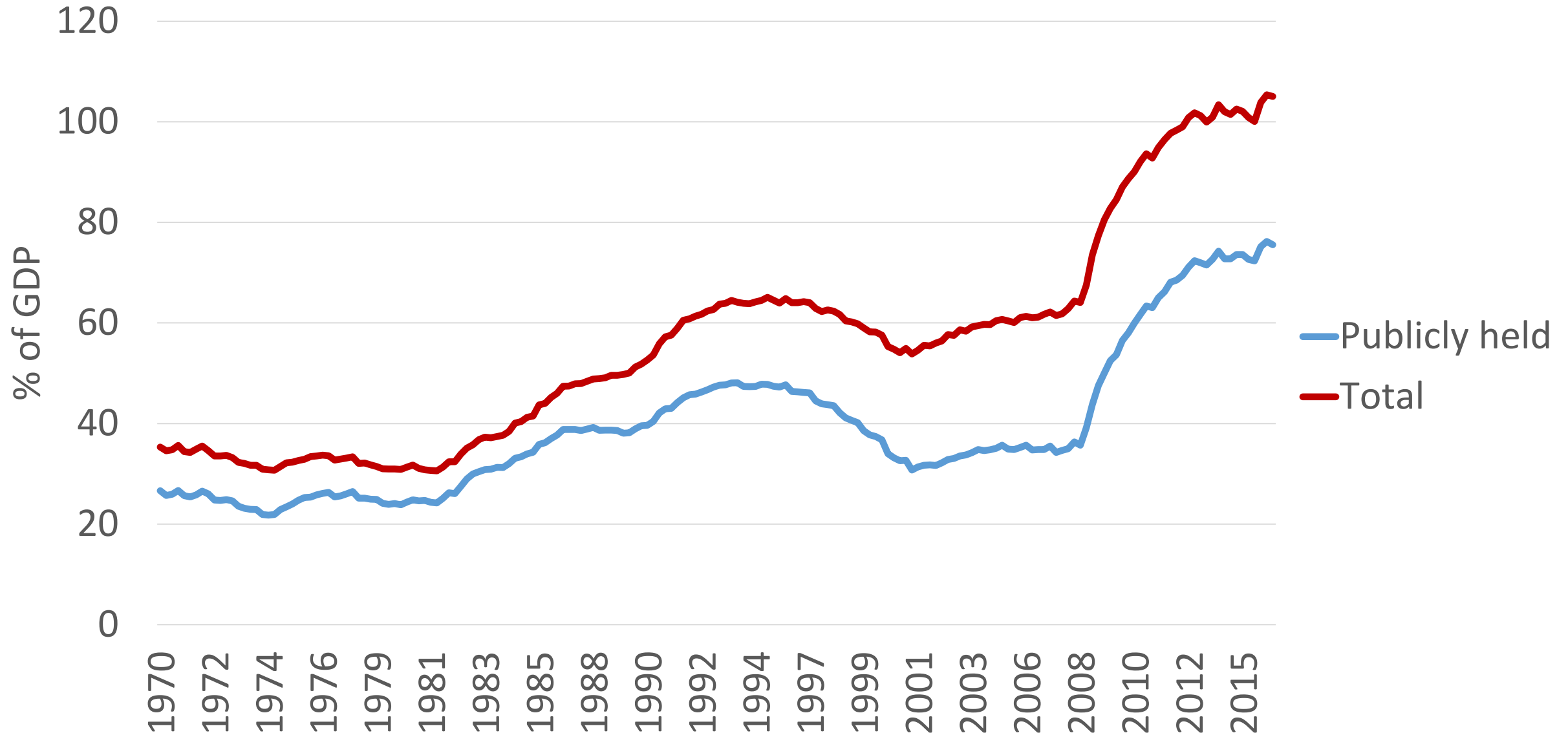
- ▶ Investment...

Investment



- 
- ▶ Fixed nonresidential investment making modest gains
 - ▶ Key to future productivity, wage growth
 - ▶ Housing sector
 - ▶ Labor in short supply, constraining growth
 - ▶ Lower household formation
 - ▶ Forecasts expect modest growth

Federal Debt to GDP



- ▶ High levels of Government Debt
- ▶ Low interest

Net Exports of Goods and Services



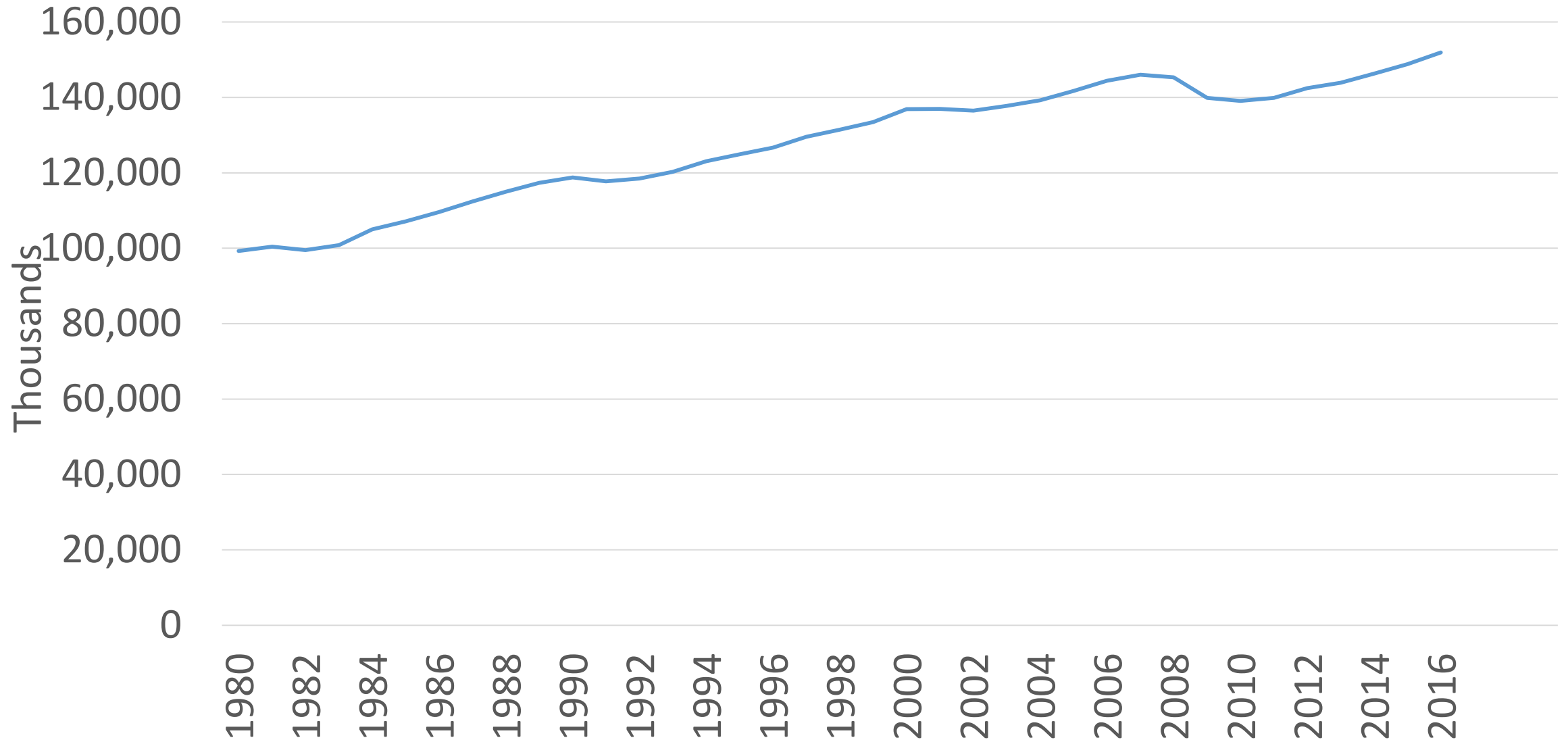
Import Export conditions

- ▶ U.S. Dollar at very strong
 - ▶ Highest level since 2003
 - ▶ Expected to stay
 - ▶ Higher interest rates, international concerns
- ▶ Trading partners expected to have 3.5% growth in coming years

Labor Market conditions

- ▶ Labor market recovery has been slow
- ▶ Still short of pre-recession peak in key indicators
- ▶ Recent signs of renewed strength

Employment - U.S.

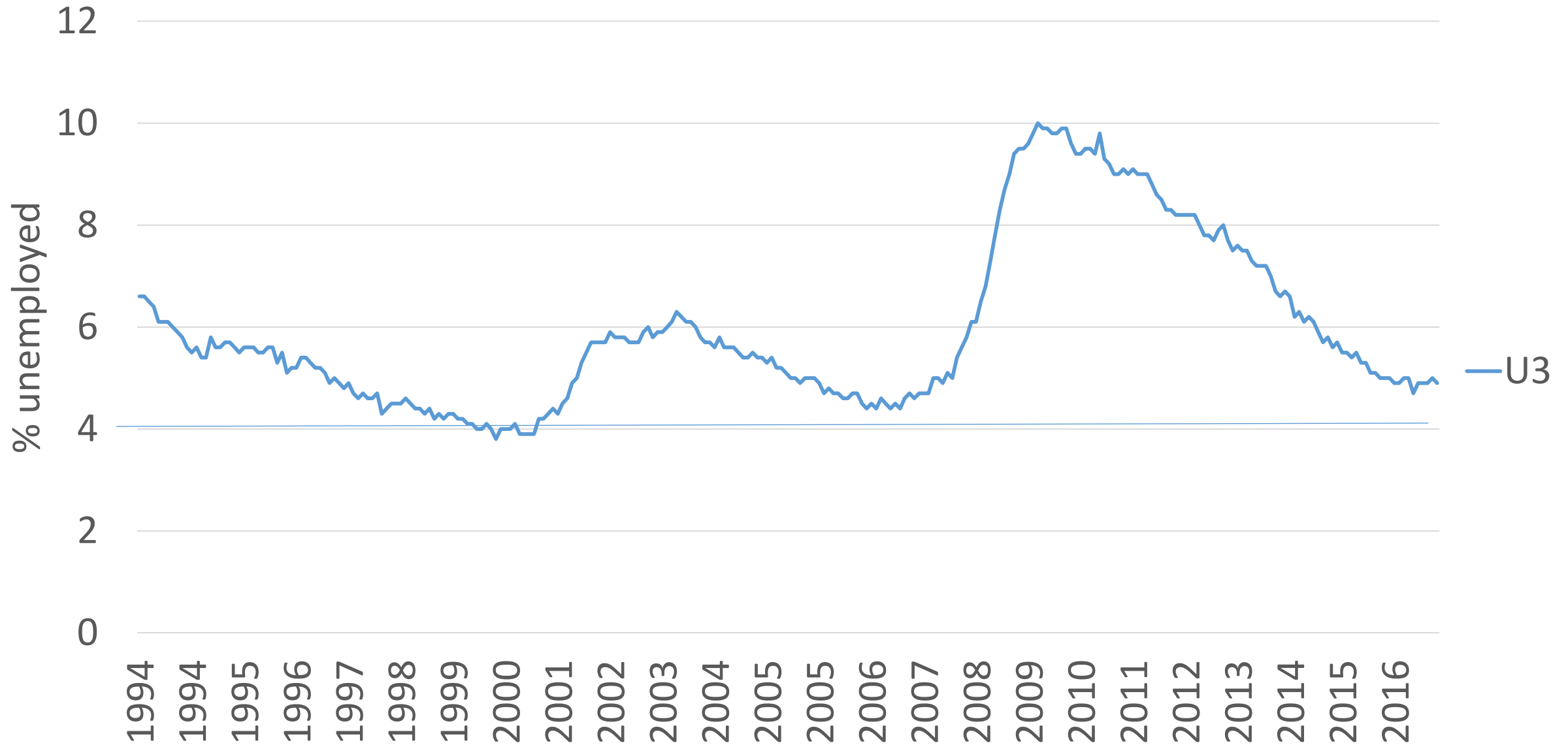


Employment and Unemployment

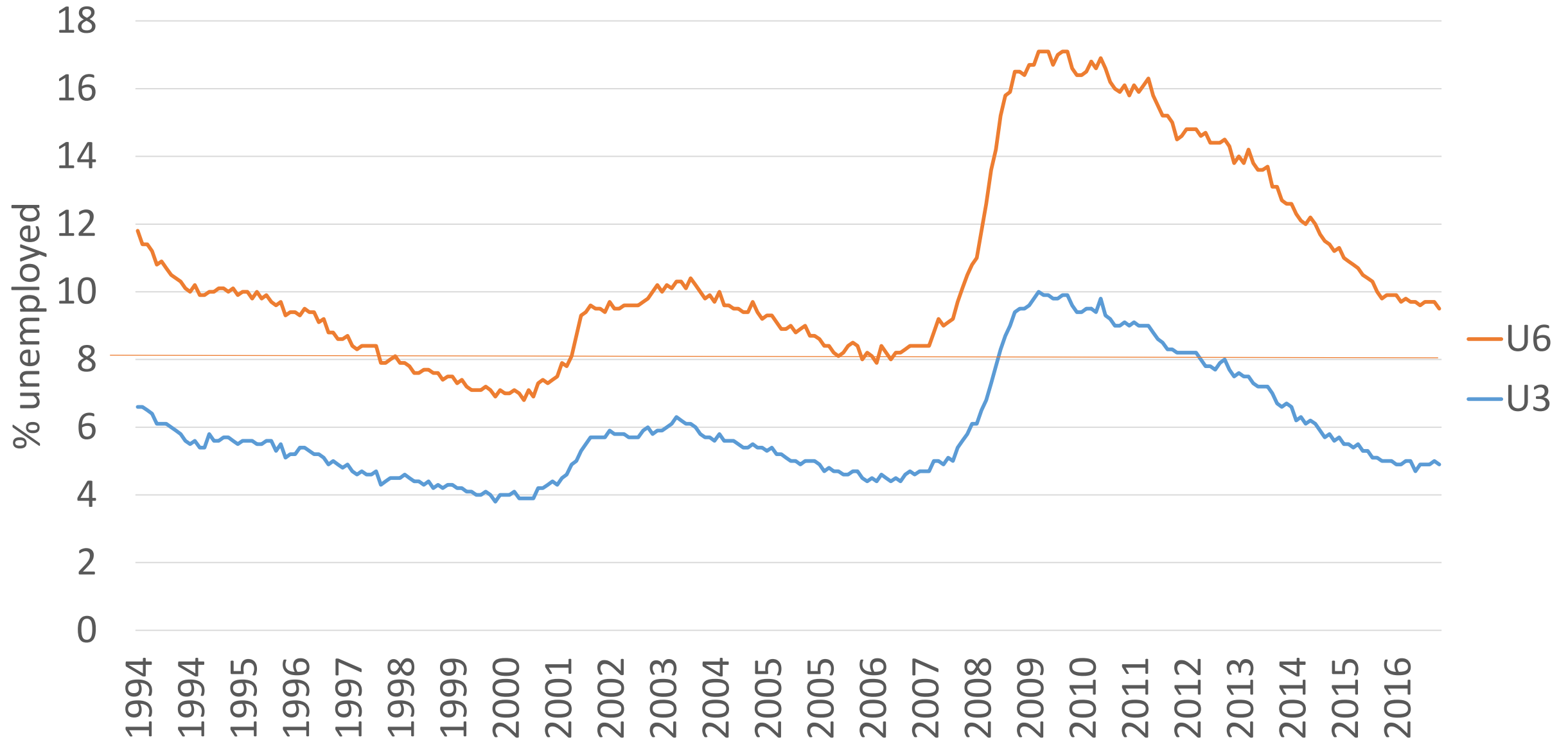
- ▶ Employed : number of people with jobs
- ▶ Unemployed : looking for work
- ▶ Labor Force = Employed + Unemployed

- ▶ If you're not looking, you're not in the labor force.
- ▶ Falling unemployment rate can be misleading...

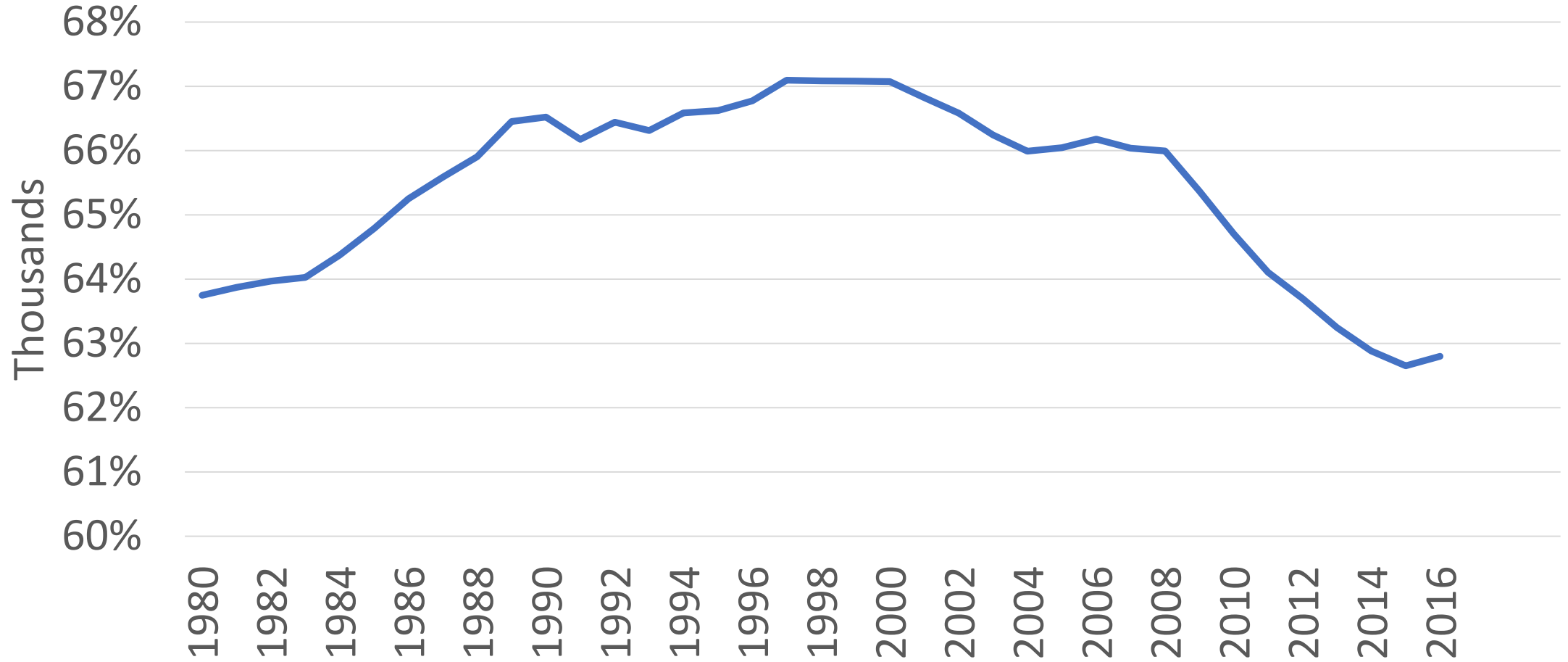
Unemployment rate (U3)



Unemployment rate (U6)



Labor Force Participation - U.S.



U.S Forecasts

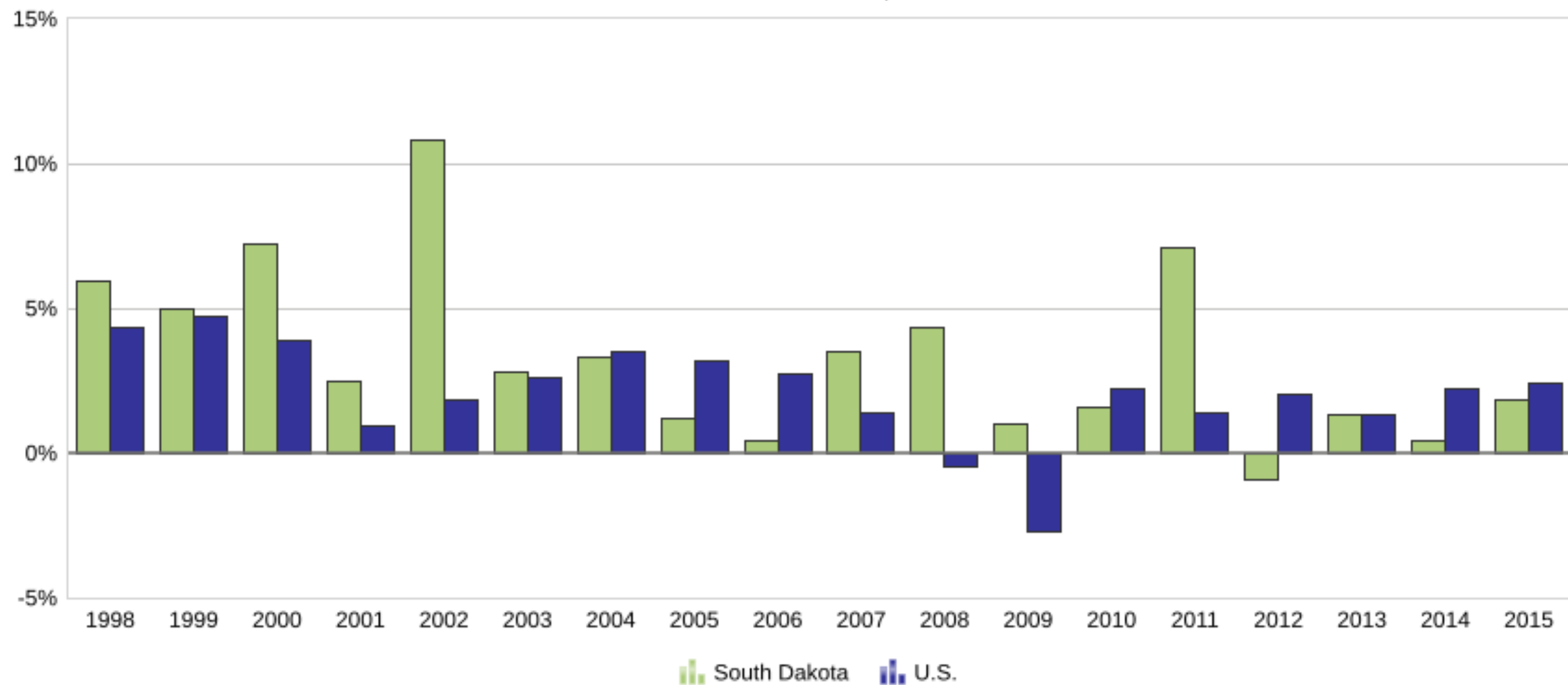
- ▶ Most forecast GDP growth to continue at around 2%
- ▶ Higher growth rate in Q3 and Q4
- ▶ Fed rate hikes in December and 2-3 more in 2017 and 2018
- ▶ Low inflation expected to increase slightly
- ▶ Slower growth in consumption
- ▶ Recovery of commodity prices
- ▶ Growth in fixed nonresidential investment

South Dakota Economy

- ▶ Employment growth (2% last year)
 - ▶ Sioux Falls (4% growth)
- ▶ Low unemployment (3.5% in September)
- ▶ Sioux Falls 2.5%
- ▶ Steady GDP growth
 - ▶ Took less of a hit in the recession; slower growth after

Annual change in real Gross Domestic Product

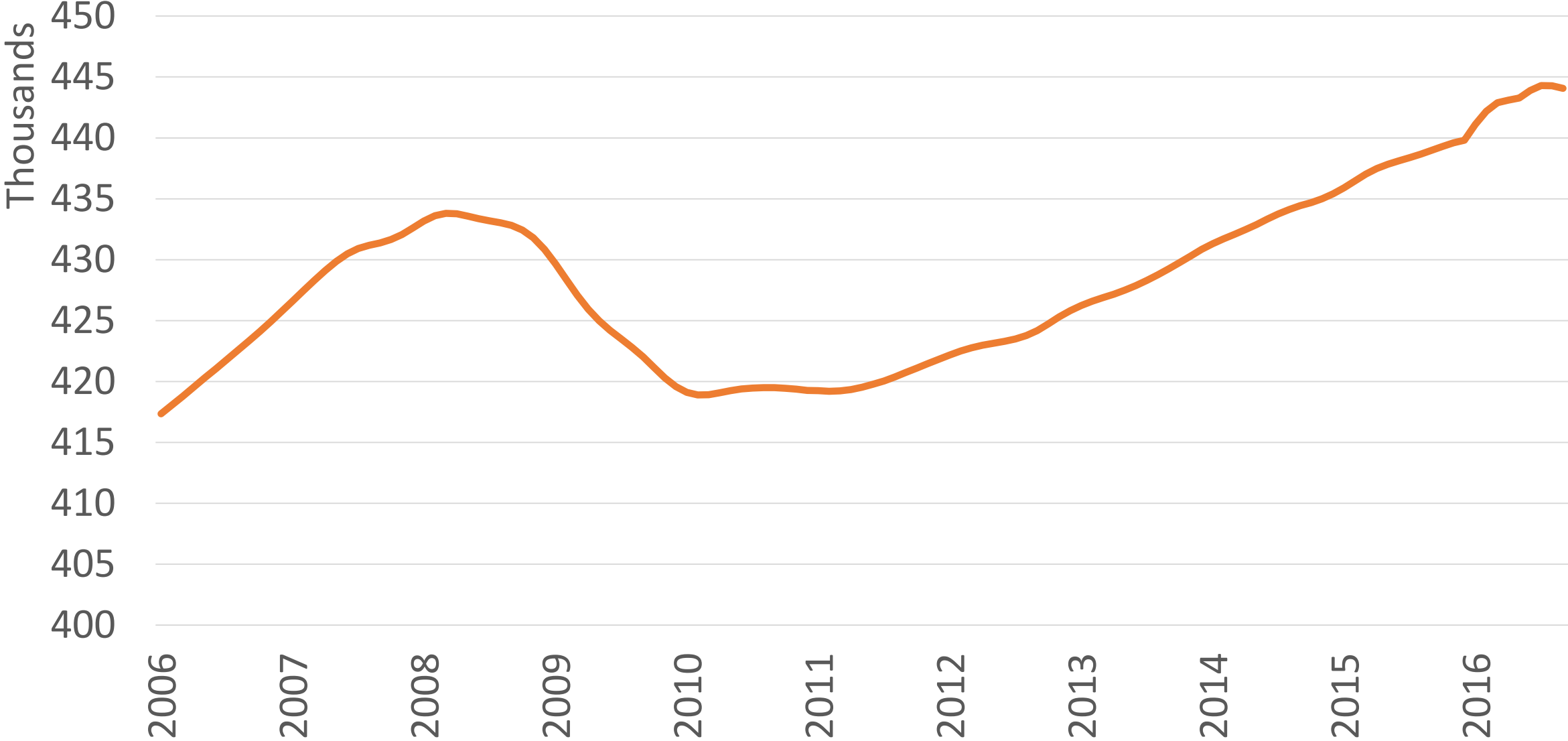
South Dakota and U.S., 1998-2015



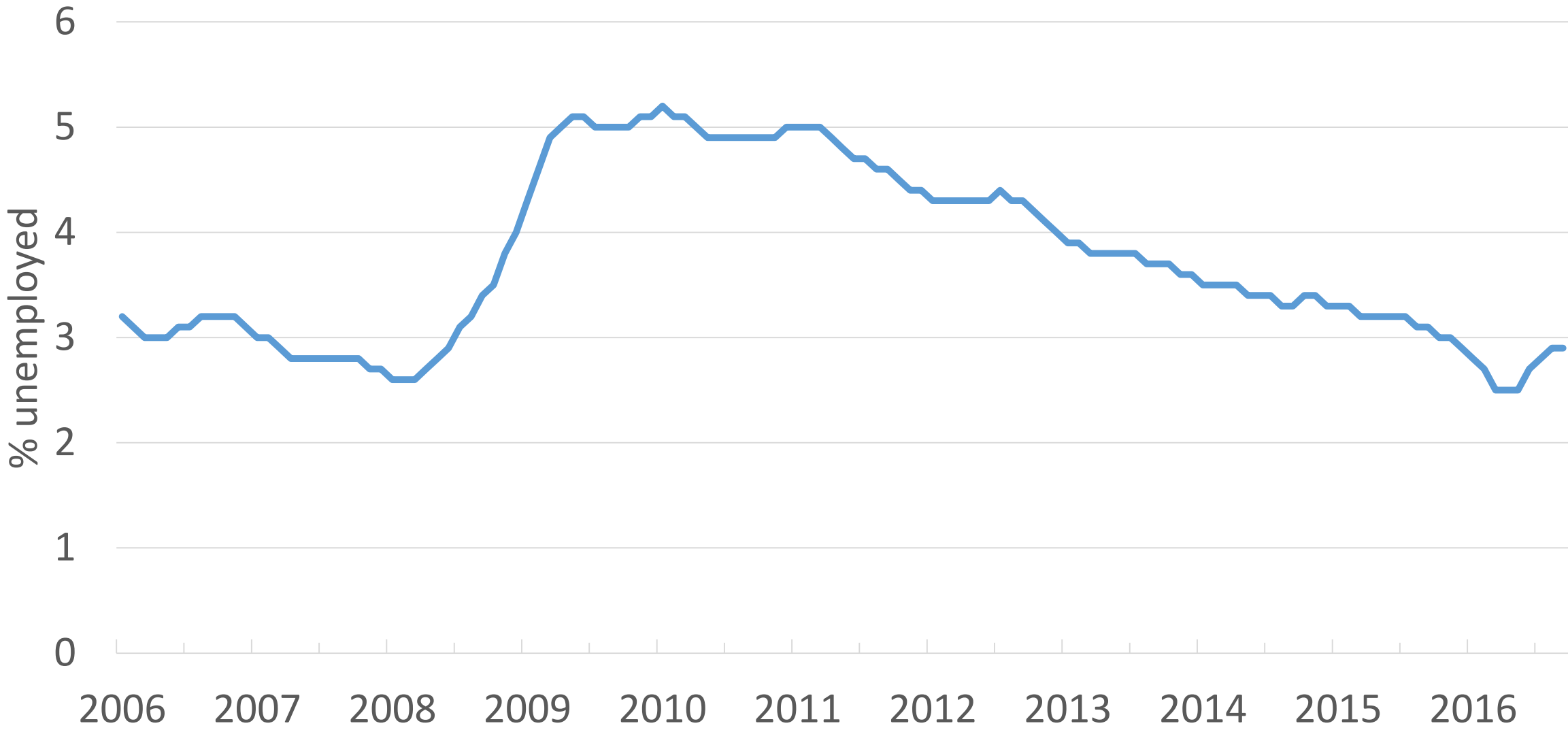
South Dakota Labor Market

| EDUCATION ATTAINED | 2006 | 2014 |
|-------------------------------|-------------|-------------|
| Less than high school diploma | 11.7% | 8.3% |
| High school diploma or GED | 33.9% | 30.6% |
| Associate's degree | 9.2% | 11.3% |
| Some college, no degree | 20.3% | 22% |
| Bachelor's degree | 17.6% | 20% |
| Professional/g raduate degree | 7.2% | 7.8% |

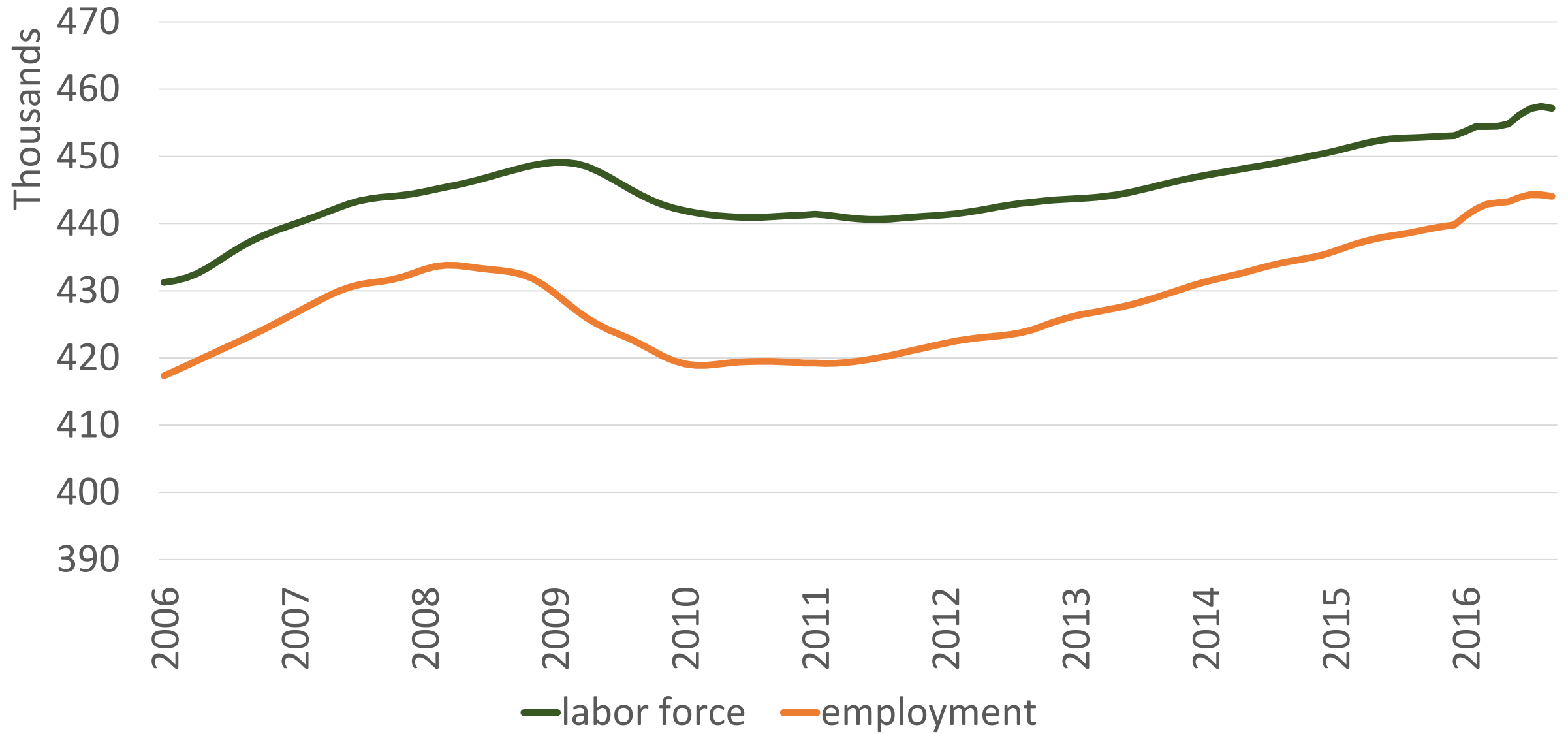
Employment -South Dakota



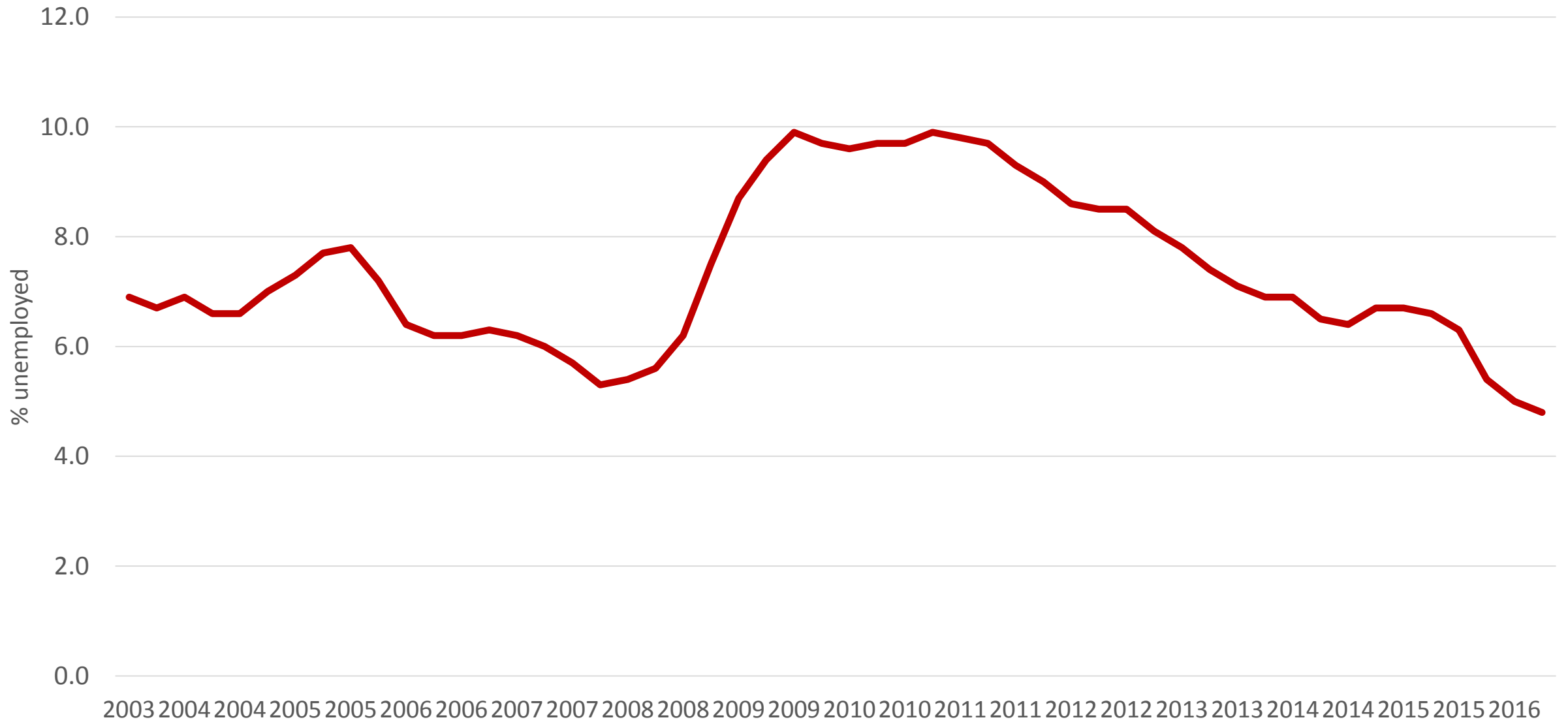
Unemployment rate (U3) -South Dakota



Labor Force - South Dakota



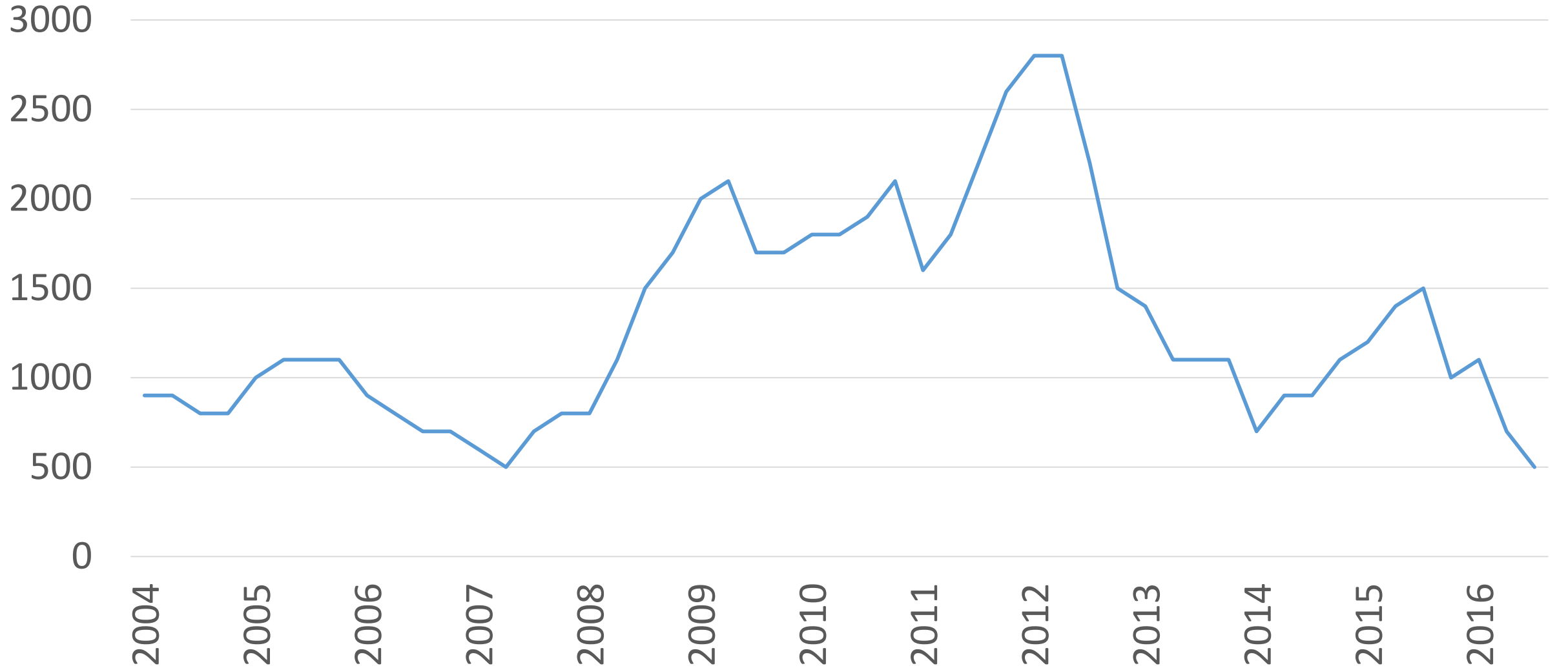
Unemployment rate (U6) - South Dakota



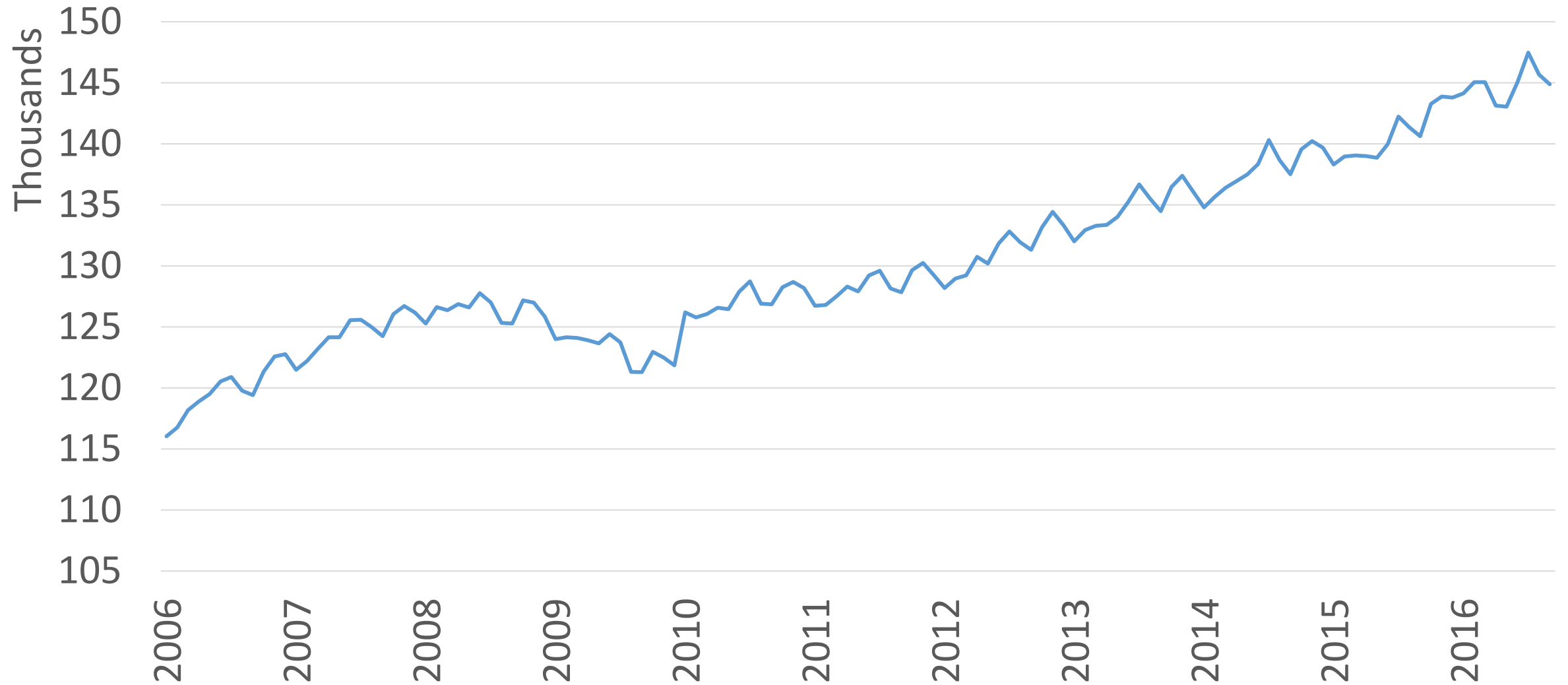
Part-time "involuntary" - South Dakota



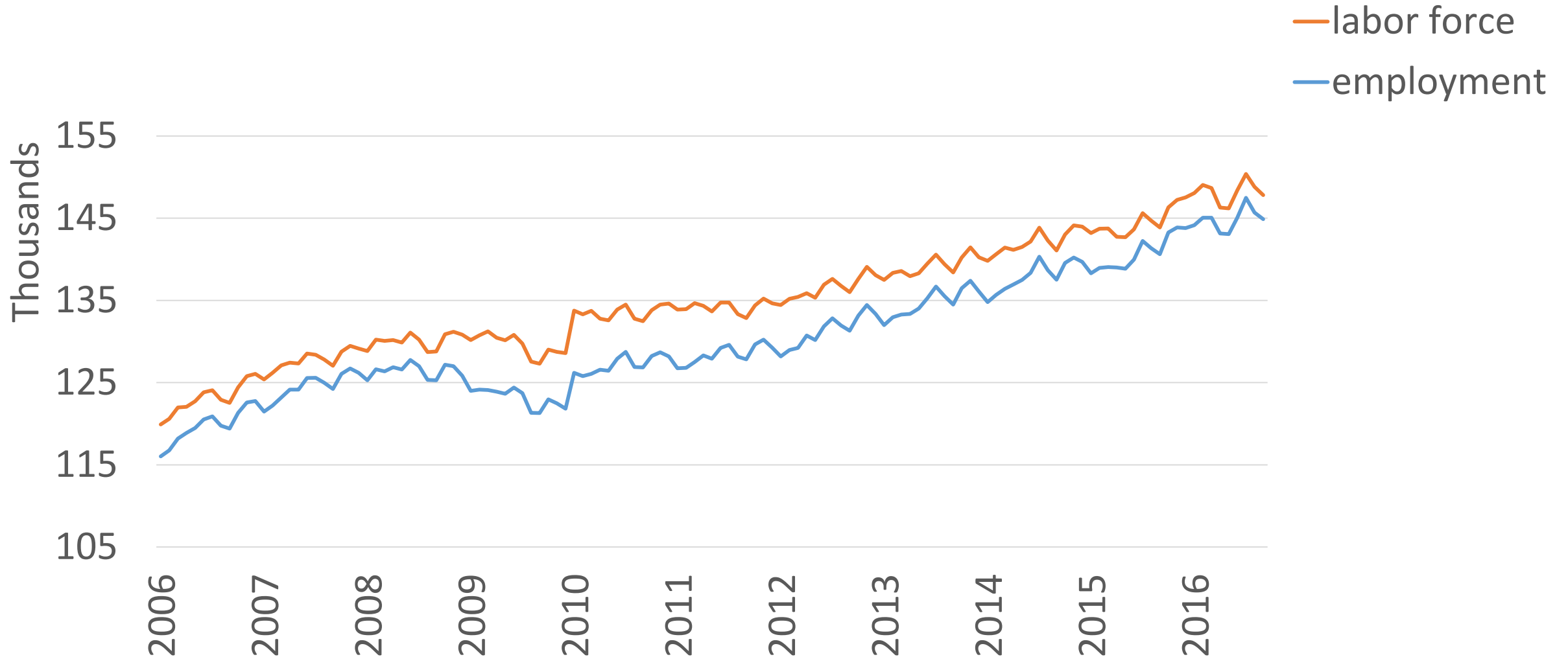
Discouraged workers - South Dakota



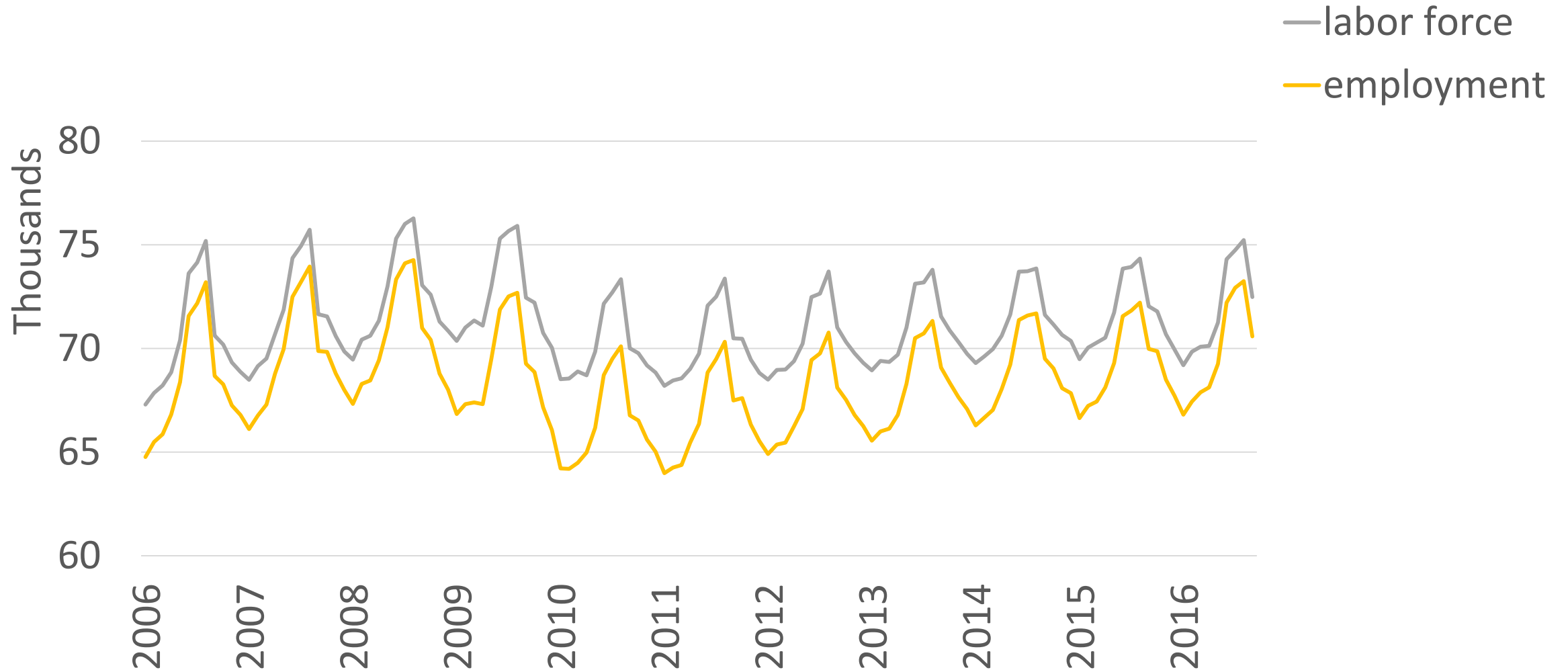
Employment -Sioux Falls



Labor Force -Sioux Falls

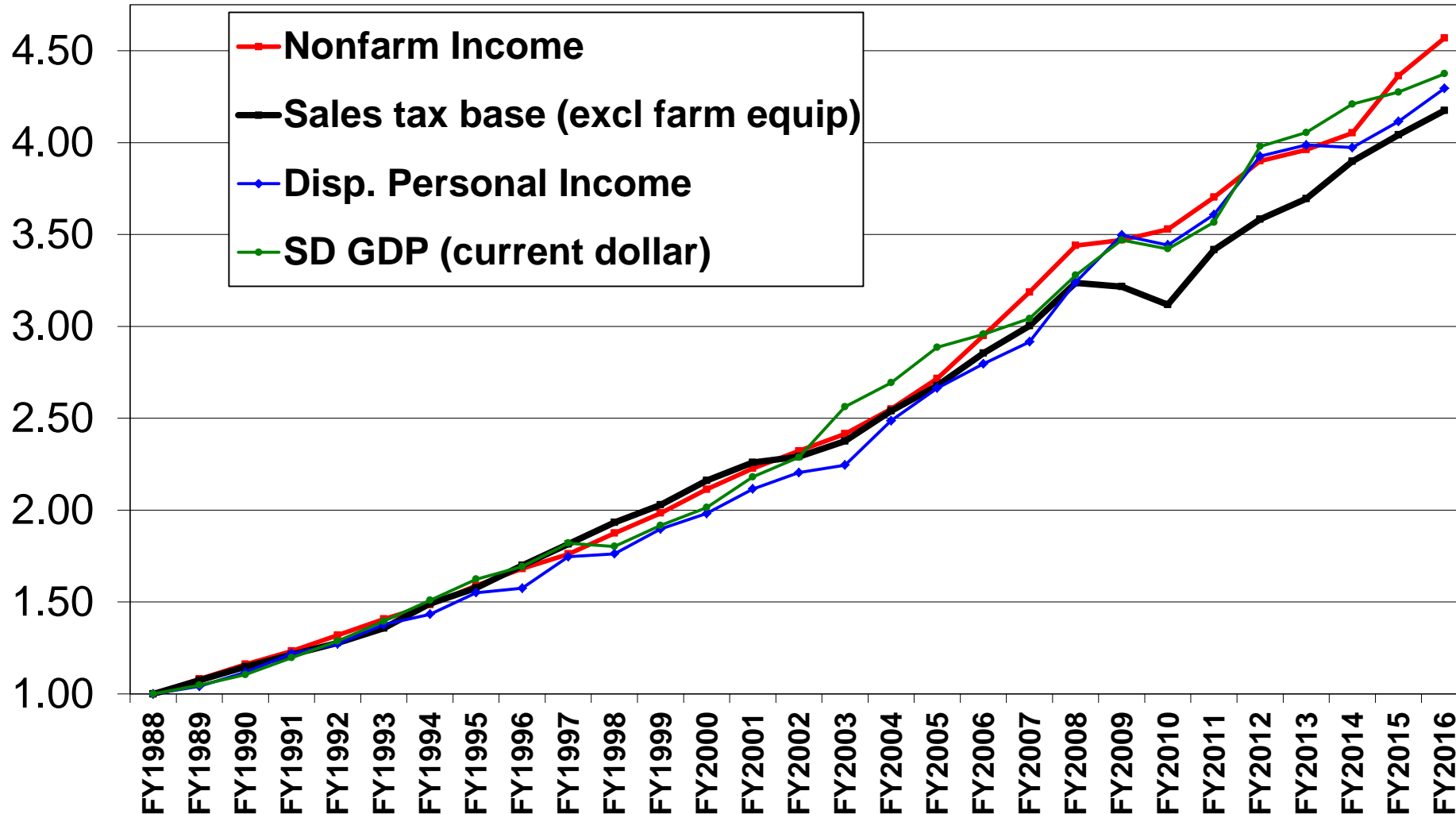


Labor Force - Rapid City



Sales Tax Erosion: Adjusted Sales Tax Base vs. Economic Growth Measures

FY1988 = 1.0



South Dakota Summary

- ▶ Continued positive growth
- ▶ Tight labor markets
- ▶ Discouraged workers decreasing
- ▶ Forecasts
 - ▶ GDP growth expected to be 1.9% in 2016, 2.4 in 2017 and 2018 (IHS)
 - ▶ Employment growth to slow to 1.2% in 2017
 - ▶ Income growth at only 3.7% to end 2016, back to 4.6% in 2017
 - ▶ Housing starts expected to stay strong
 - ▶ Unemployment rate to stay around 2.9% for coming years

Outlook considerations

- ▶ China lowering growth targets (5-year target down to 6.5%)
- ▶ Weak demand overseas for oil and commodities
- ▶ Strong dollar will likely continue
- ▶ Federal Reserve signaling more strongly for rate hike in December
- ▶ Markets seem to anticipate a hike
- ▶ October jobs report well above expectations (+271,000)
- ▶ Forecasts for GDP growth generally optimistic: 2.5 to 3% growth