

The State of the South Dakota Economy

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FEDERAL RESERVE BANK *of* MINNEAPOLIS



Disclaimer

The views expressed here are the presenter's and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

minneapolisfed.org



Part 1: The Federal Reserve System

- **Central bank of the U.S.**
- **Established by act of Congress in 1913**

What exactly is a central bank?

- **Provides financial & banking services for country's government and commercial banking system, with the broad goals of:**
 - **Stability and uniformity of money supply**
 - **Safety and soundness of financial system**



Main responsibilities of the Fed

➤ Supervise and regulate banks

- Mainly bank holding companies (who own lots of banks)
 - JPMorgan, Wells Fargo, Goldman Sachs, Citigroup

➤ Offer financial services

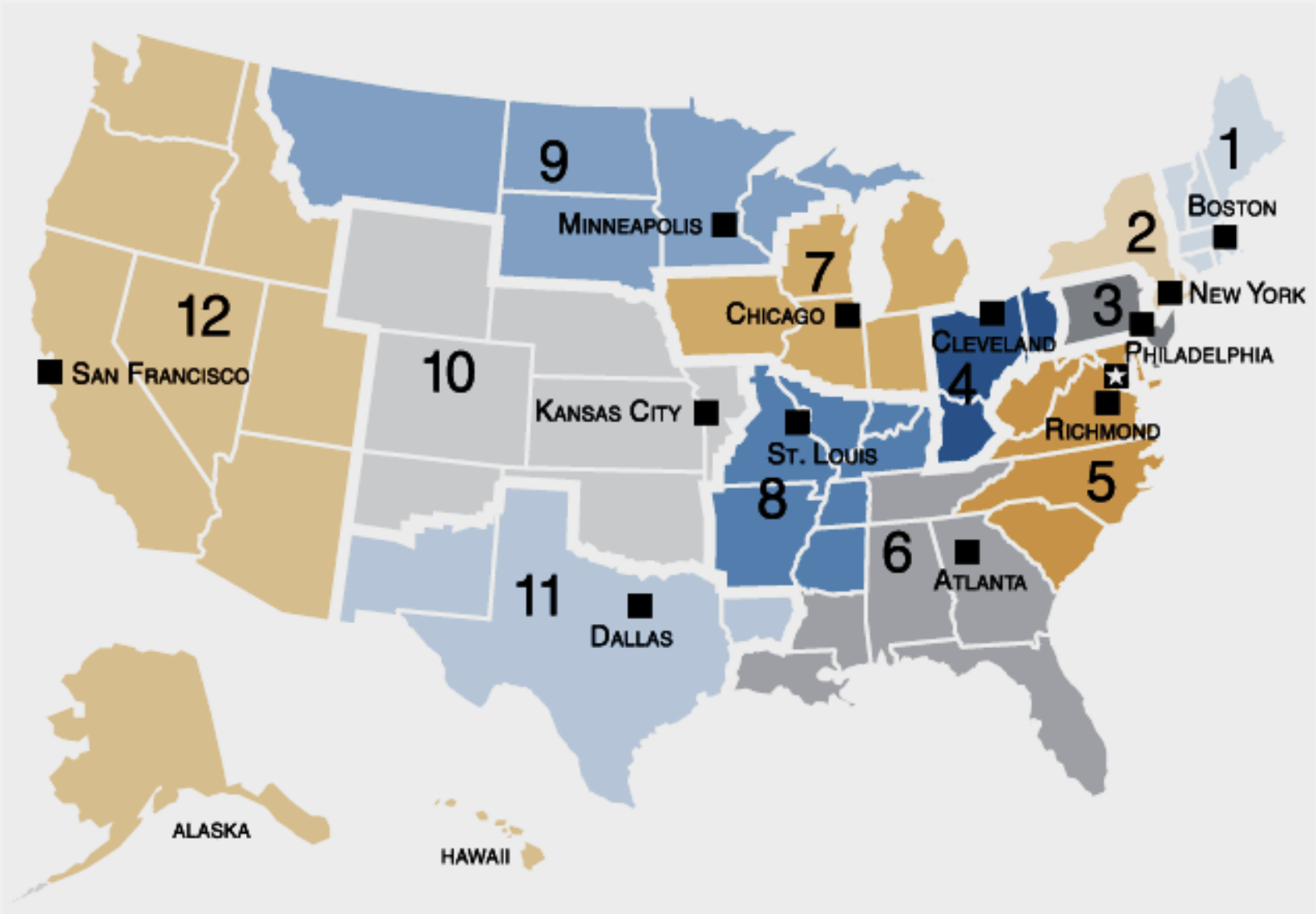
- Manage ('clear') financial payments between parties
- Lender of last resort

➤ Set monetary policy

- Most familiar tool is interest rates (via FOMC)
- Monetary policy guided by "dual mandate"
 - 1) stable prices
 - 2) maximum employment



The Federal Reserve System = distributed power





Federal Reserve Structure



**FOMC =
Monetary
policy**



Neel Kashkari
Minneapolis

**12 "District"
banks carry out
operations of
Federal Reserve
System**



FOMC voting: Monetary policy in action

FOMC voting = 7 + 1 + 4

- **7 = Board of Governors (BOG)**
- **1 = New York Fed president**
 - **Executes monetary policy in financial markets**
- **4 = rotating votes of 11 other presidents**
 - **Neel Kashkari (Mpls): 2017 voter, again in 2020**

Currently: 4 + 1 + 4 (three BOG vacancies)



Part 2: “The state of the South Dakota economy”

Implied question:

*Is the state economy
good or bad?*

Answer: “Yes”



Lies, damned lies & statistics



“Now, keep in mind that these numbers are only as accurate as the fictitious data, ludicrous assumptions and wishful thinking they're based upon.”



My goal: Help inform *your* opinion of the South Dakota economy, via:

- a variety of performance metrics
- tabulated over long(ish) timeframes
- using different/peer comparisons



State comparisons

- South Dakota
- Minnesota
- Montana
- US average
- *What about North Dakota?*

Metro comparisons

- Rapid City
- Sioux Falls
- Peer metros

Today's economic themes

- SD economy slowing, but not everywhere
- Ag is dragging, not pulling, state economy
- Bi/tri-furcation of state economy
 - Sioux Falls \neq Rapid City \neq rest of SD
- *Trajectory* matters as much/more than current measures
- Tight labor means future growth depends on workforce, workforce, workforce

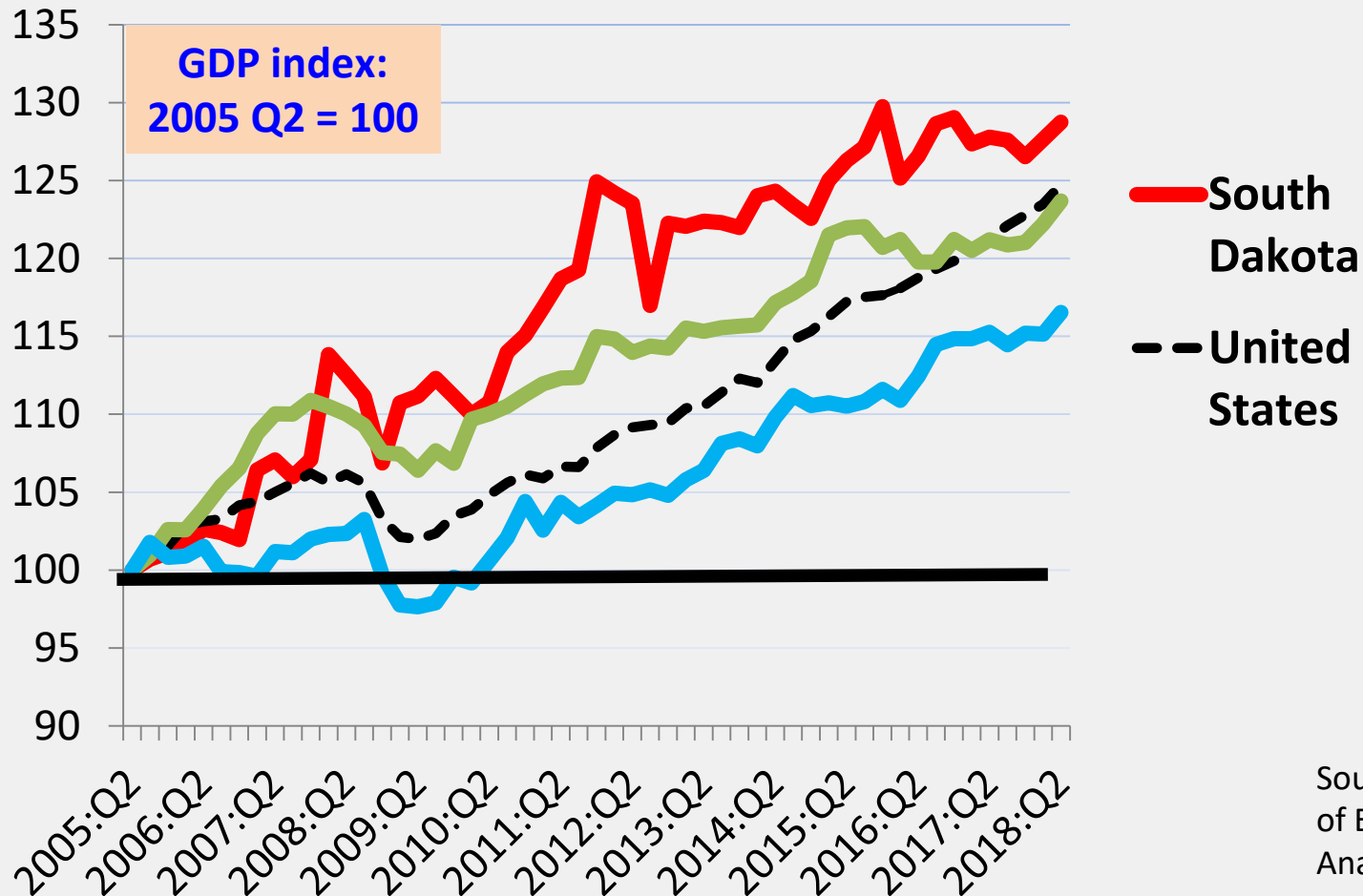
On to the charts!



Timeframe matters: Pre-recession GDP

South Dakota on top of the pile

Annualized quarterly output, inflation adjusted



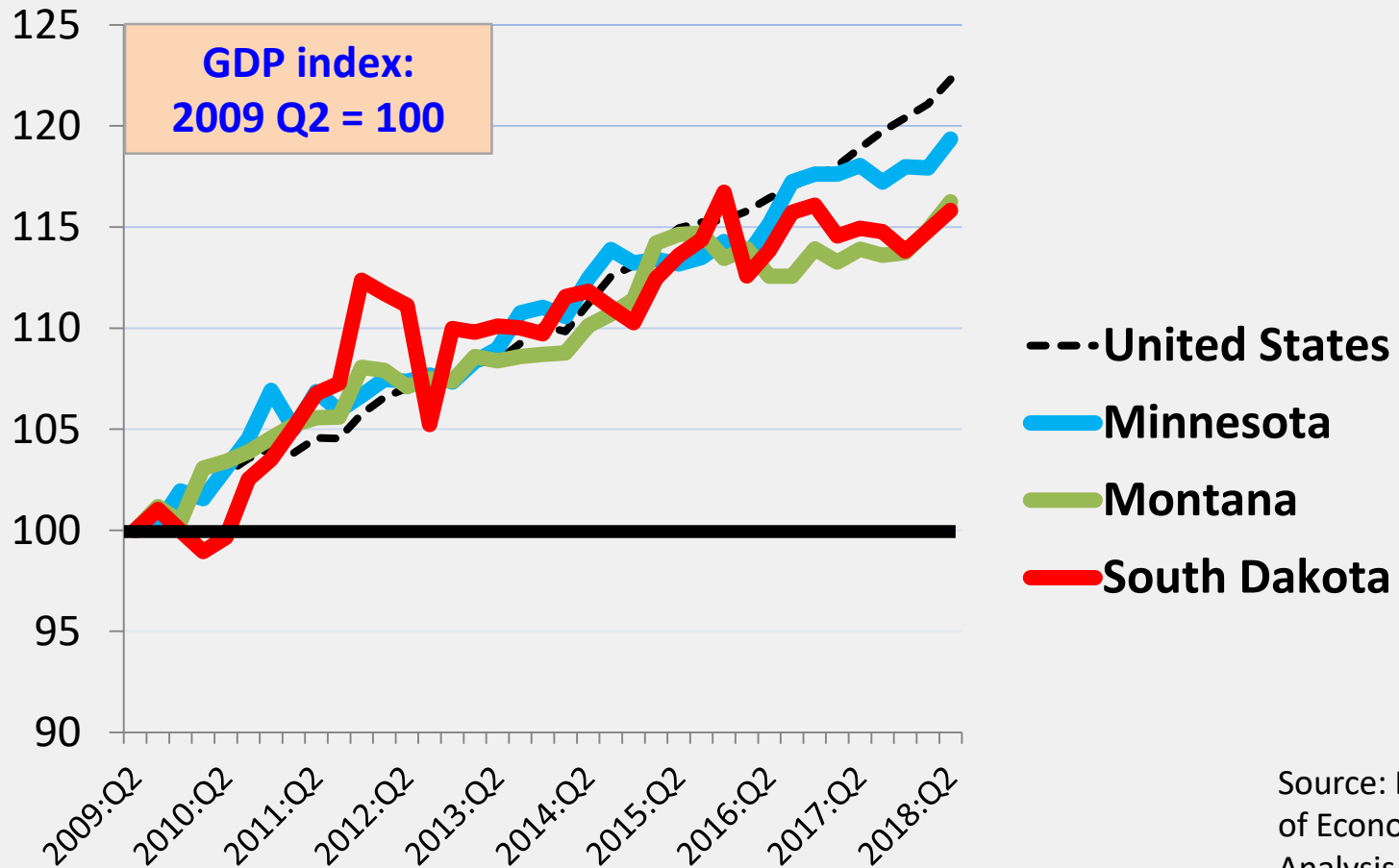
Source: Bureau of Economic Analysis



Post-recession GDP

South Dakota losing pace in recovery

Annualized quarterly output, inflation adjusted

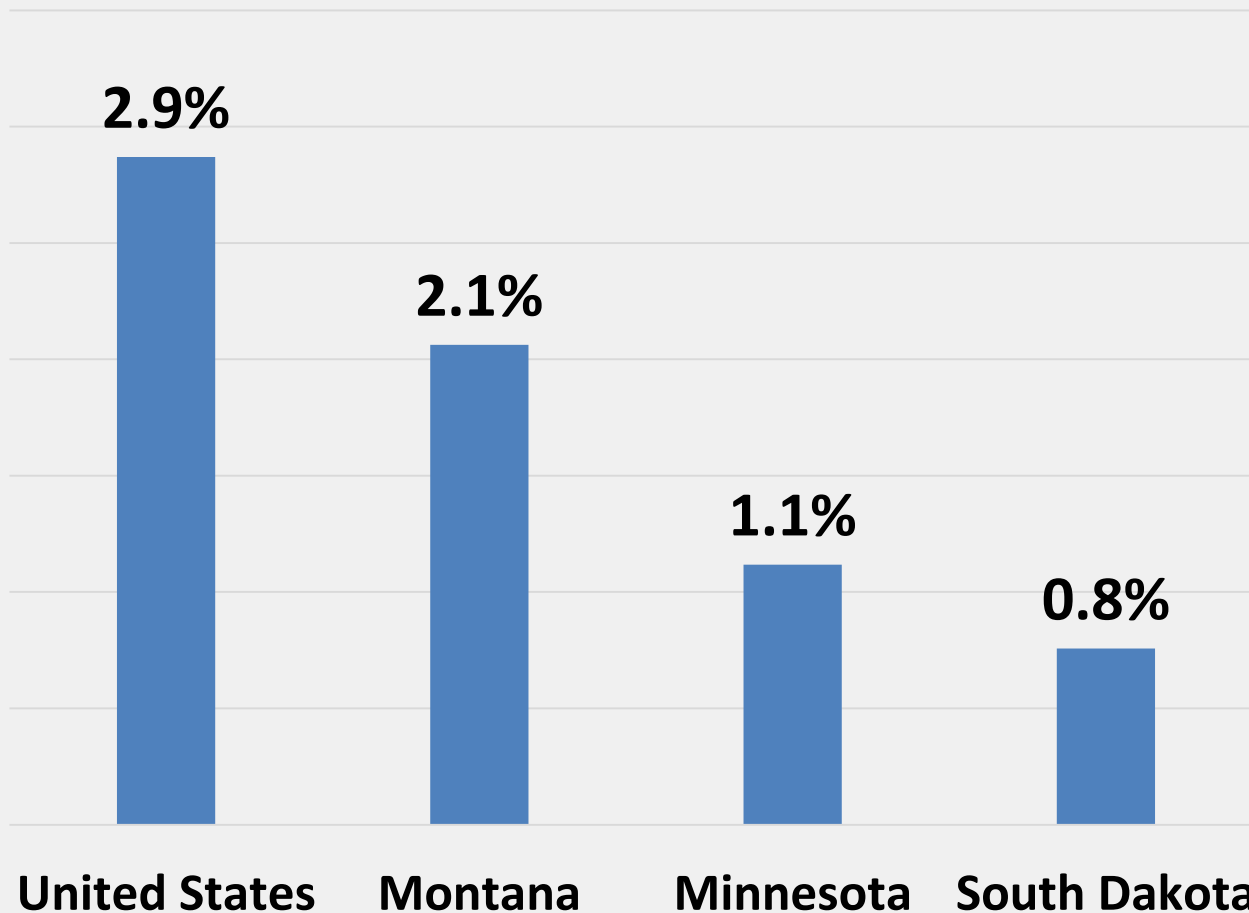


Source: Bureau of Economic Analysis



12-month real GDP growth

Q2 2017 to 2Q 2018

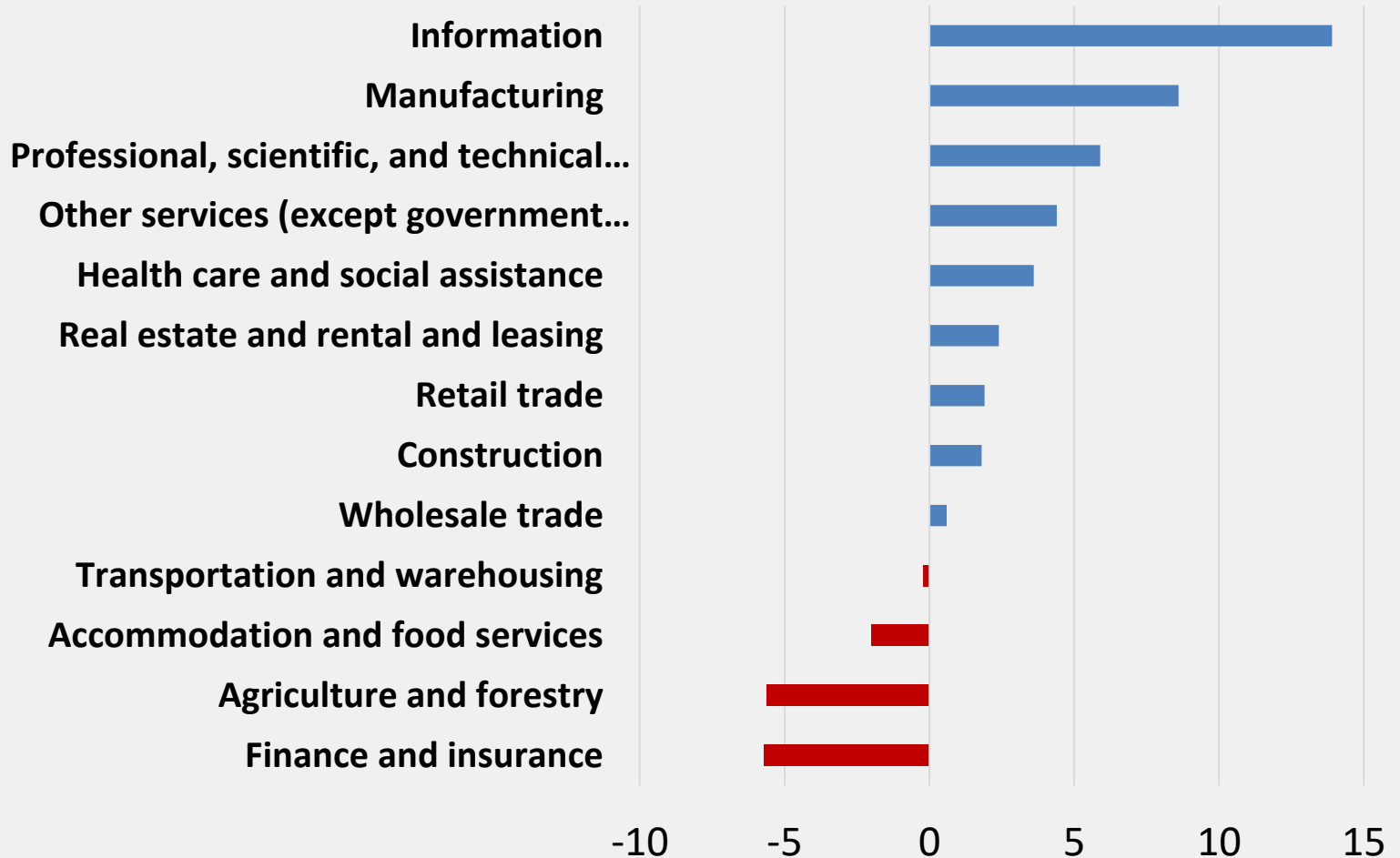


Source: Bureau of Economic Analysis



12-month GDP growth, by sector

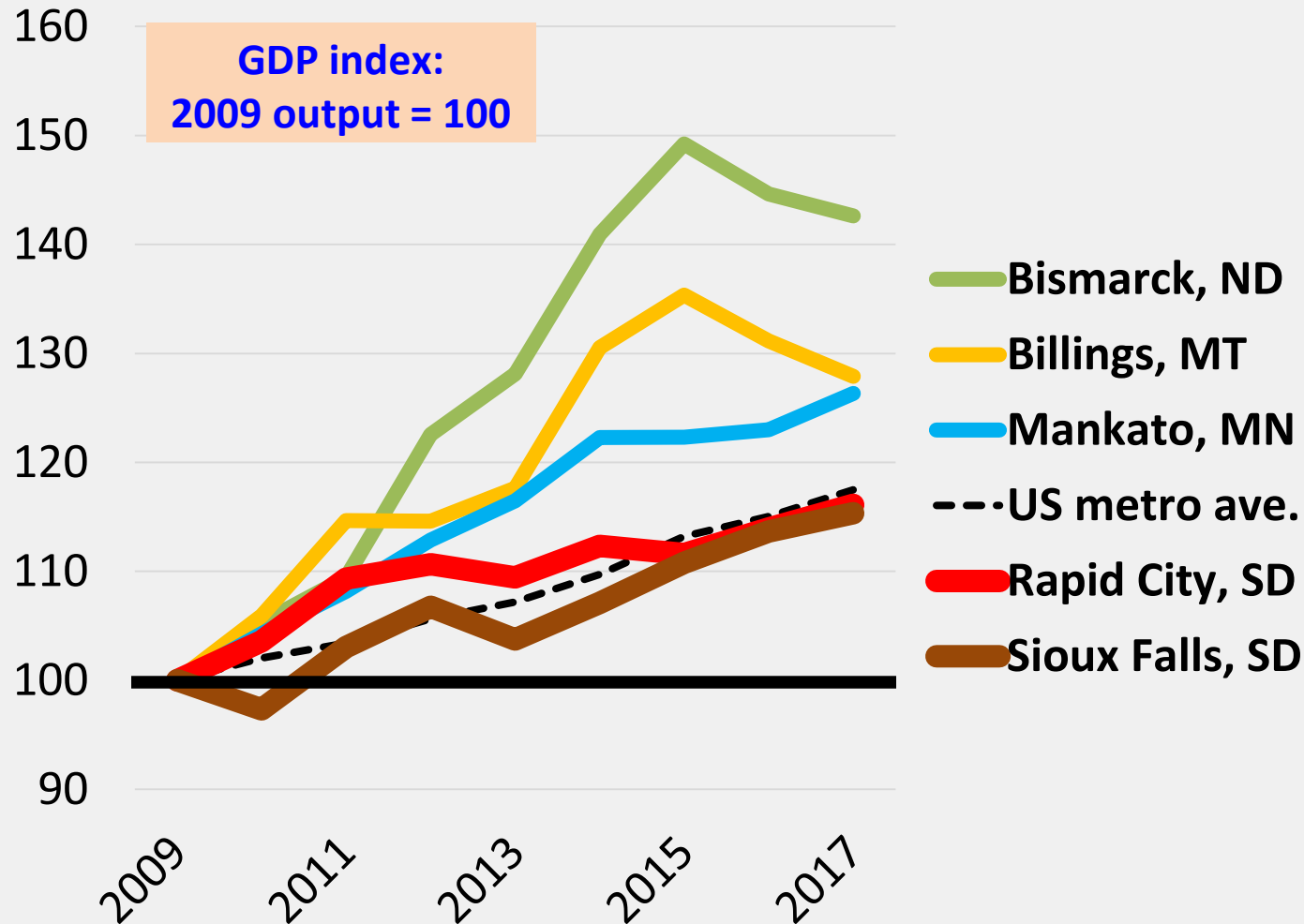
2017:Q2 to 2018:Q2





South Dakota metros: Good/bad news

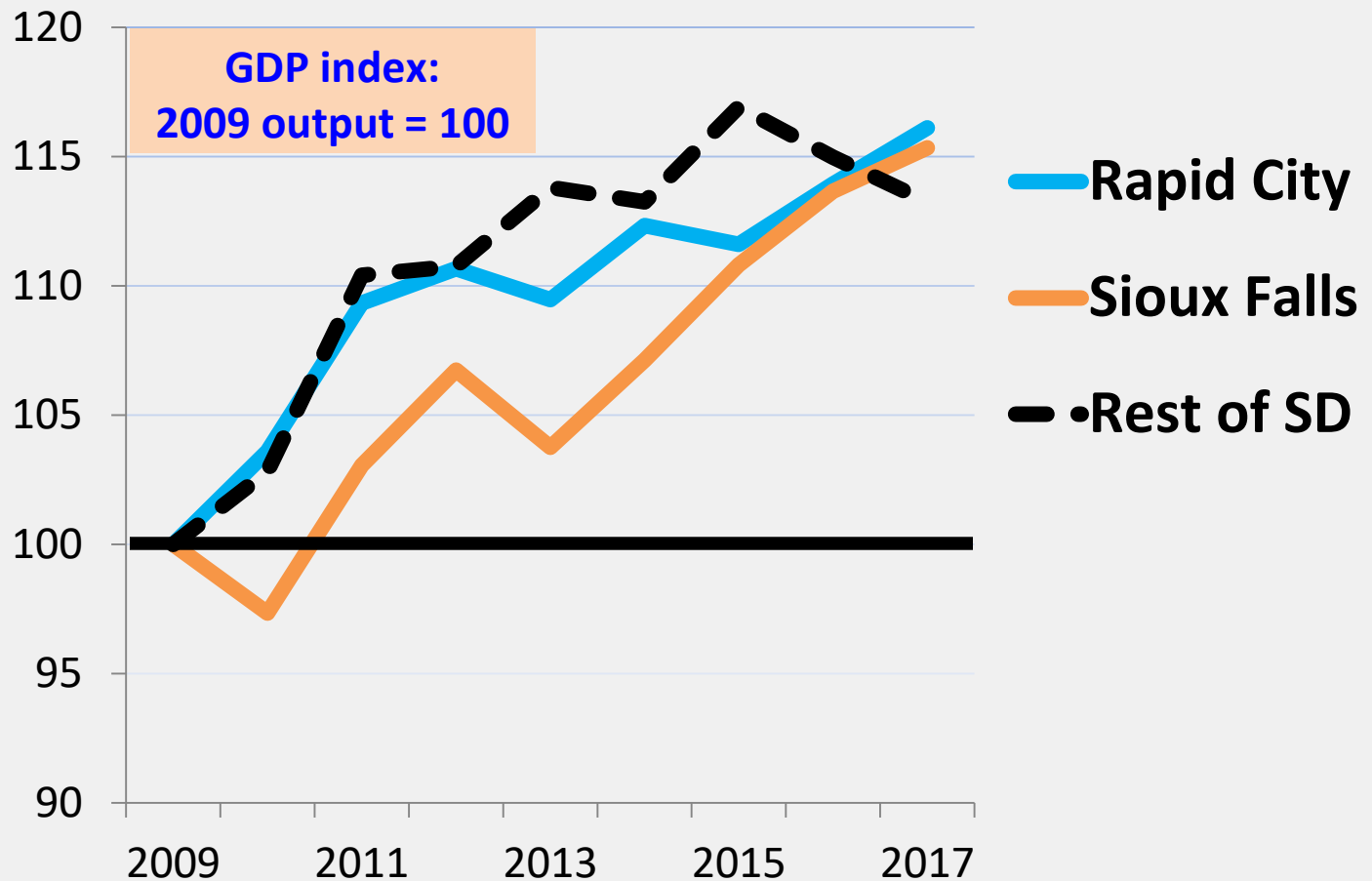
SF & RC similar to US, but below neighbors





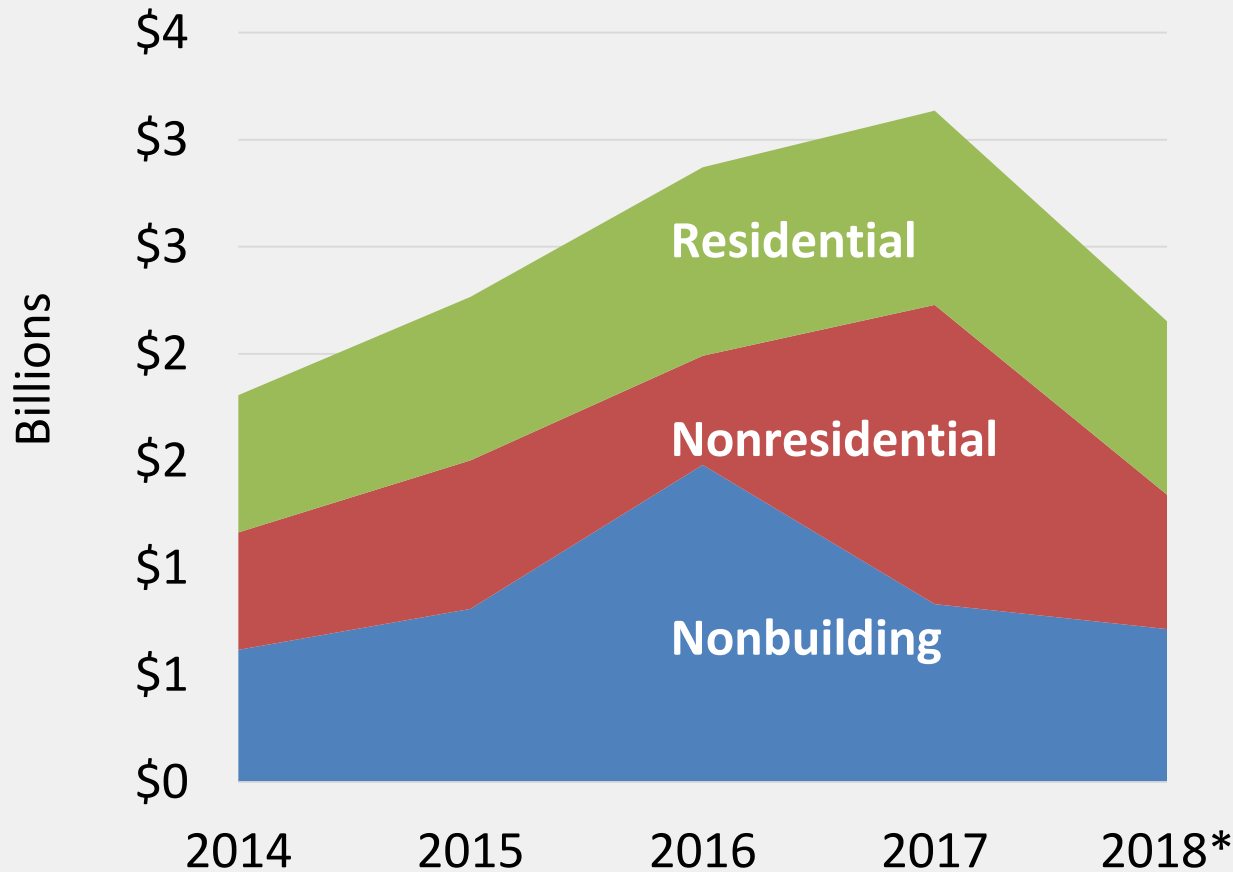
GDP: Metros vs. rest of state

Opposite directions since 2015





South Dakota annual construction spending strong, but cooling in 2018*



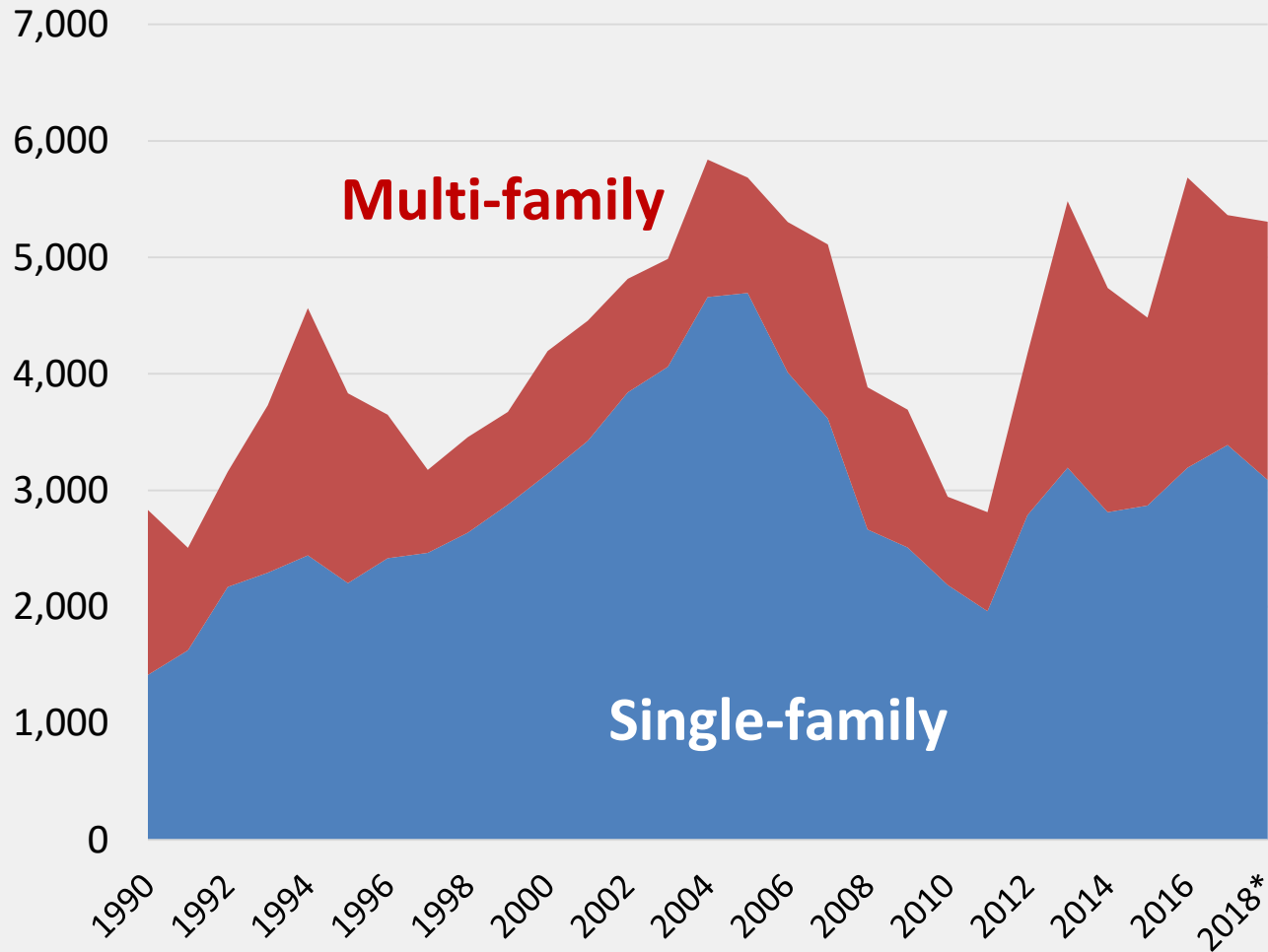
*Projected annual figure based on the first eight months of 2018

Source:
Dodge Analytics



Residential shifting toward more multi-family

Annual permitted units

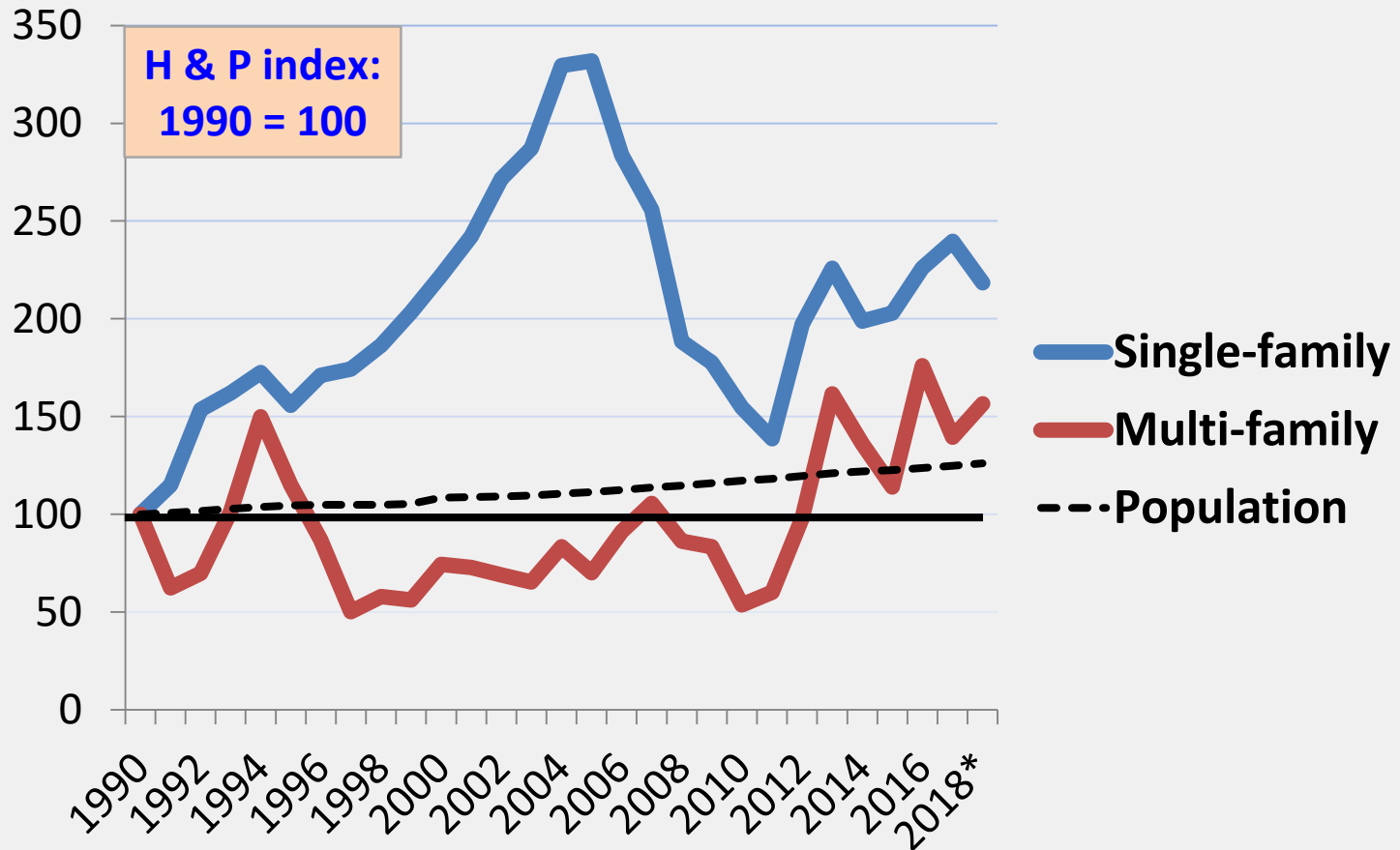


Source:
U.S. Census

*Projected annual figure based on the first eight months of 2018



Housing & population growth: What's the relationship?



*Projected annual figure based on the first eight months of 2018

Source:
U.S. Census

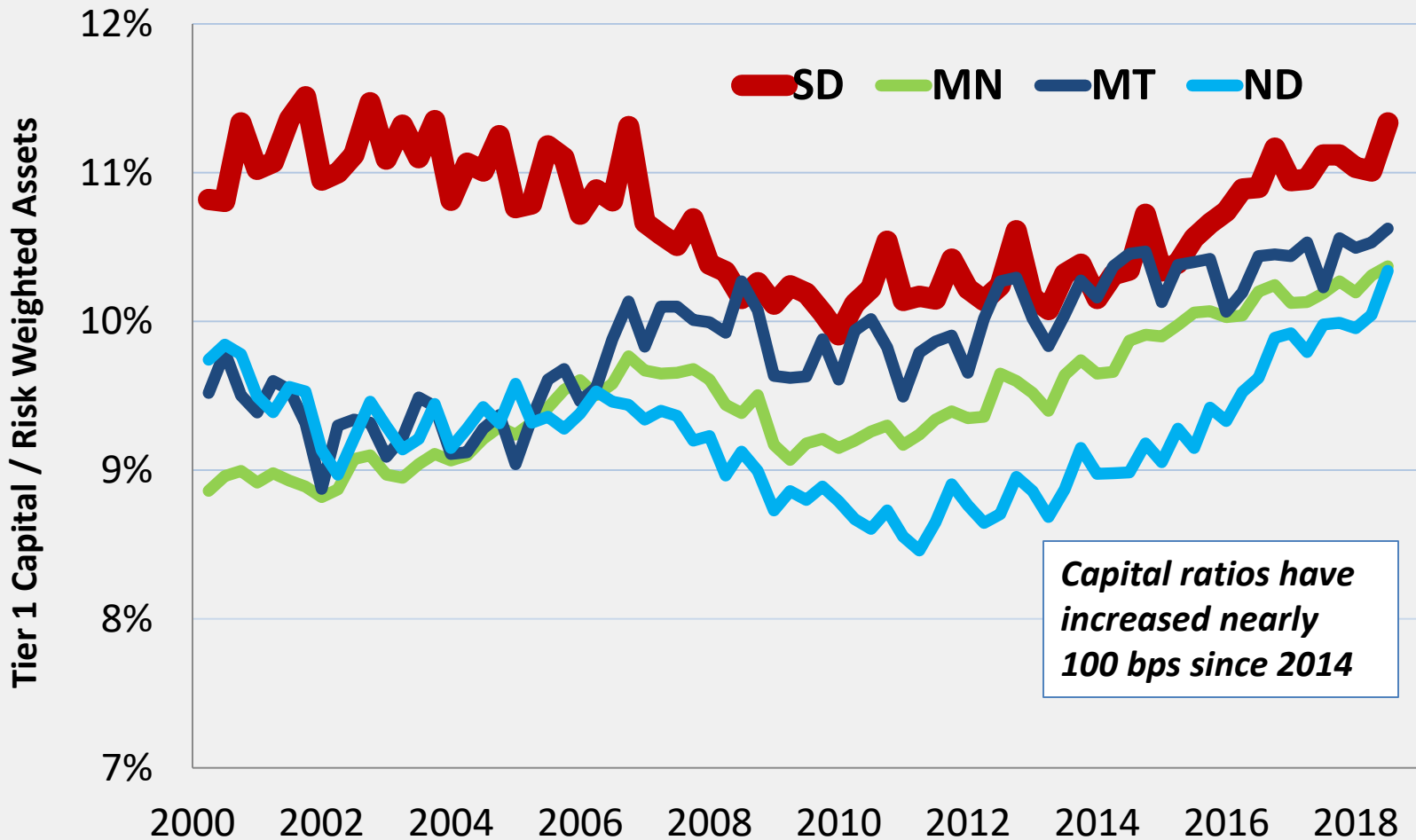


Overview of the South Dakota banking

- **64 commercial banks chartered in South Dakota**
 - Down 25% from 10 years ago
 - Less consolidation than nationwide (32% over same period)
- **Profile of typical South Dakota bank hasn't changed much over the last decade**
 - Ag production loans & loans secured by farmland make up 50% of the average SD bank
- **SD banks among strongest performers in the 9th District**

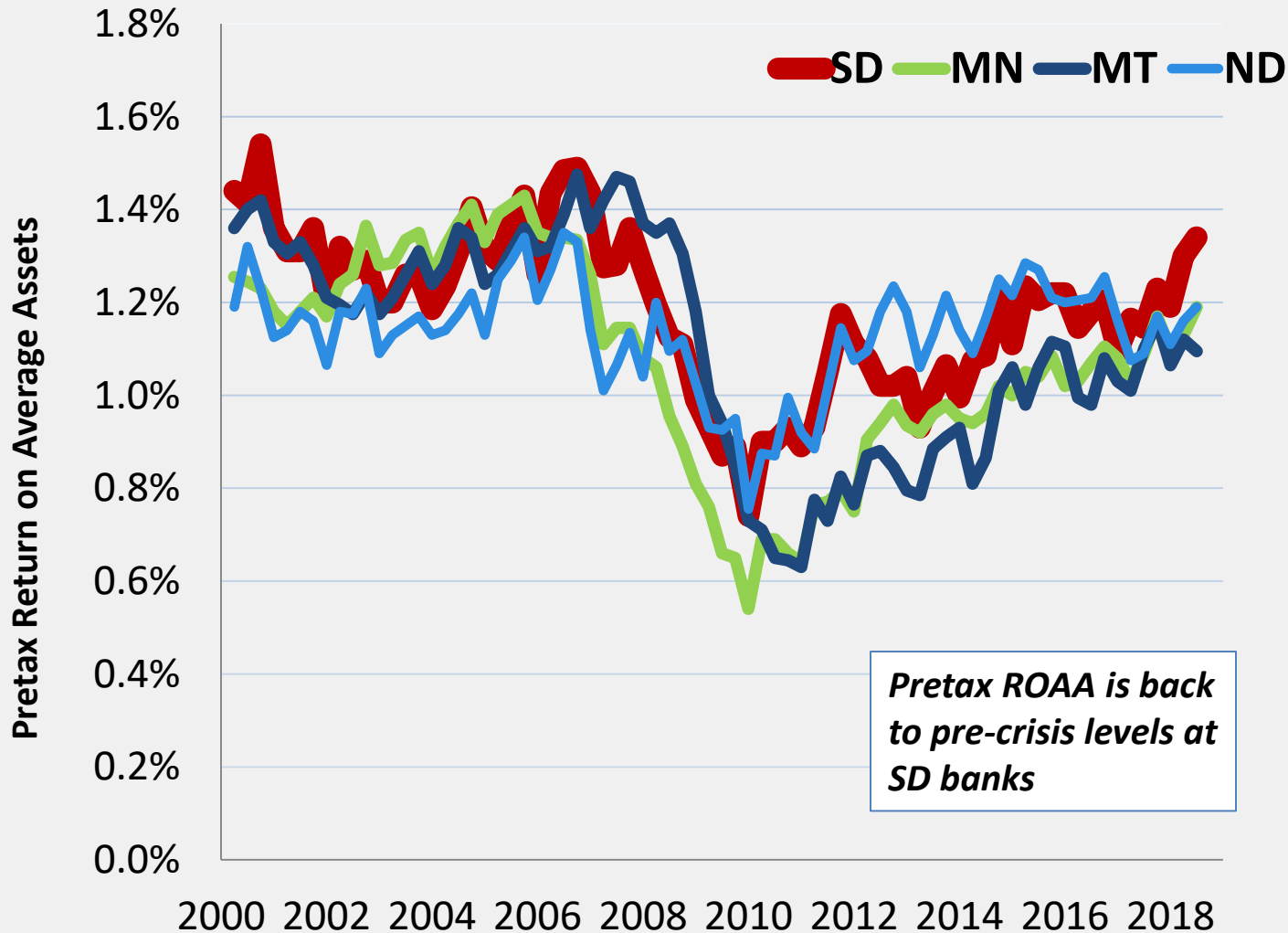


Median SD bank has the highest capital ratio among 9th District States



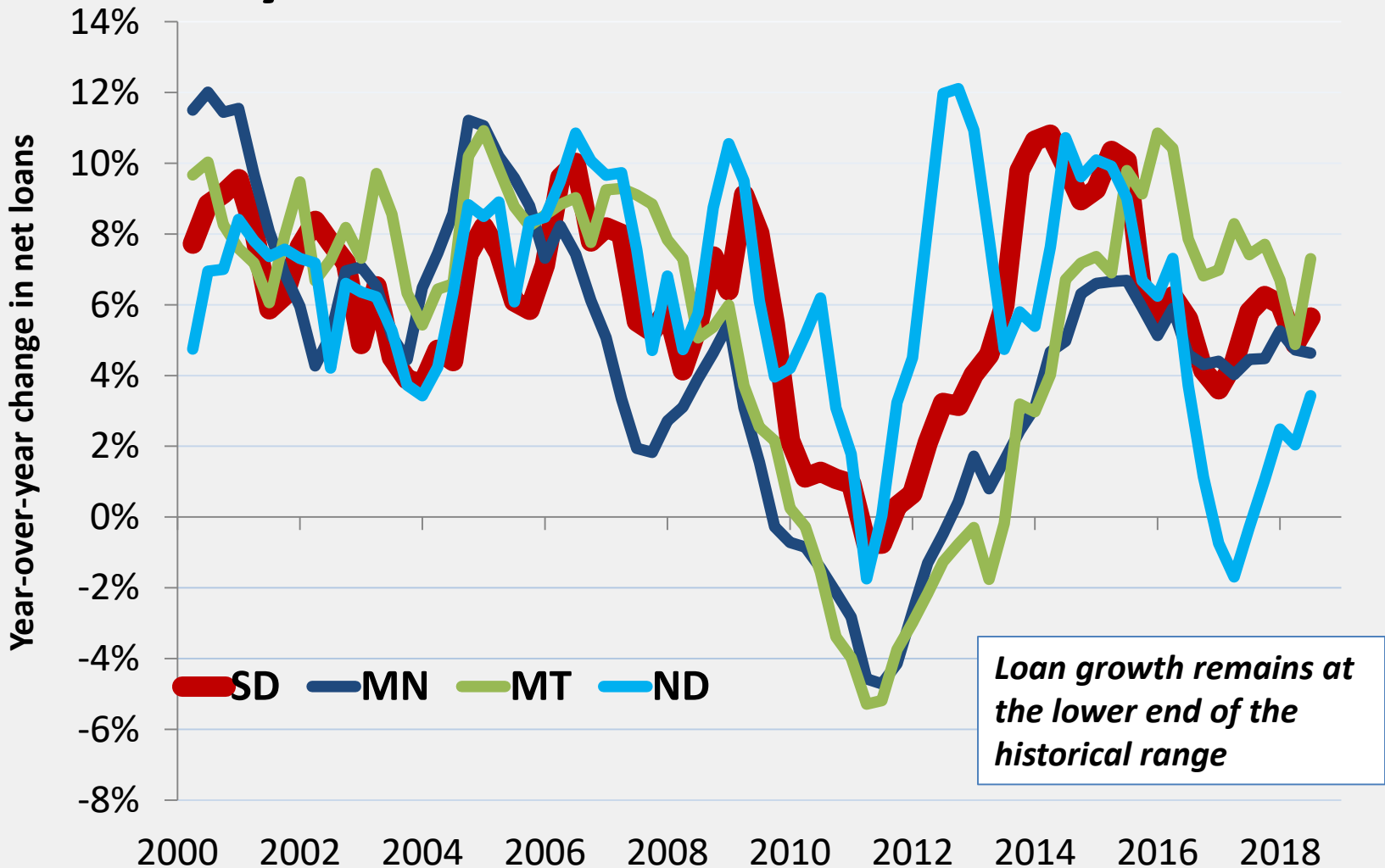


Earnings steadily improving at median SD bank





Loan growth has stabilized over the past year at the median SD bank





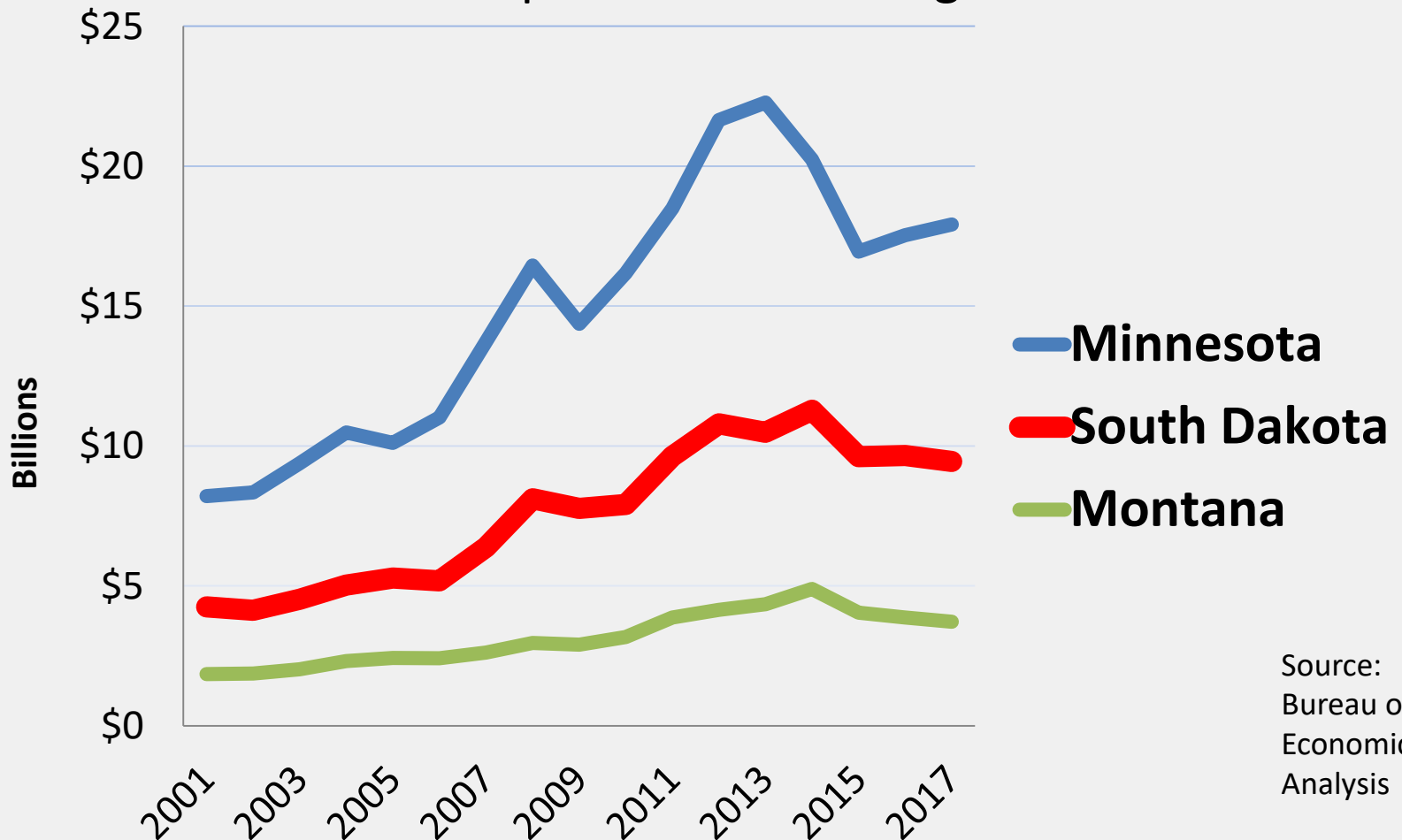
Continued weakness in ag is a primary concern to bank health

- **Tariffs and ongoing trade disputes are likely to persist in the near future**
- **USDA forecast for net farm income in 2018 is the lowest in 15 years**
- **Debt repayment capacity is nearing its maximum level for the average farm**
- **Cropland values fell in SD from 2017q1 to 2018q1 (most recent data)**



Farm revenue down, but still well above earlier levels in 2000s

Cash receipts from marketings

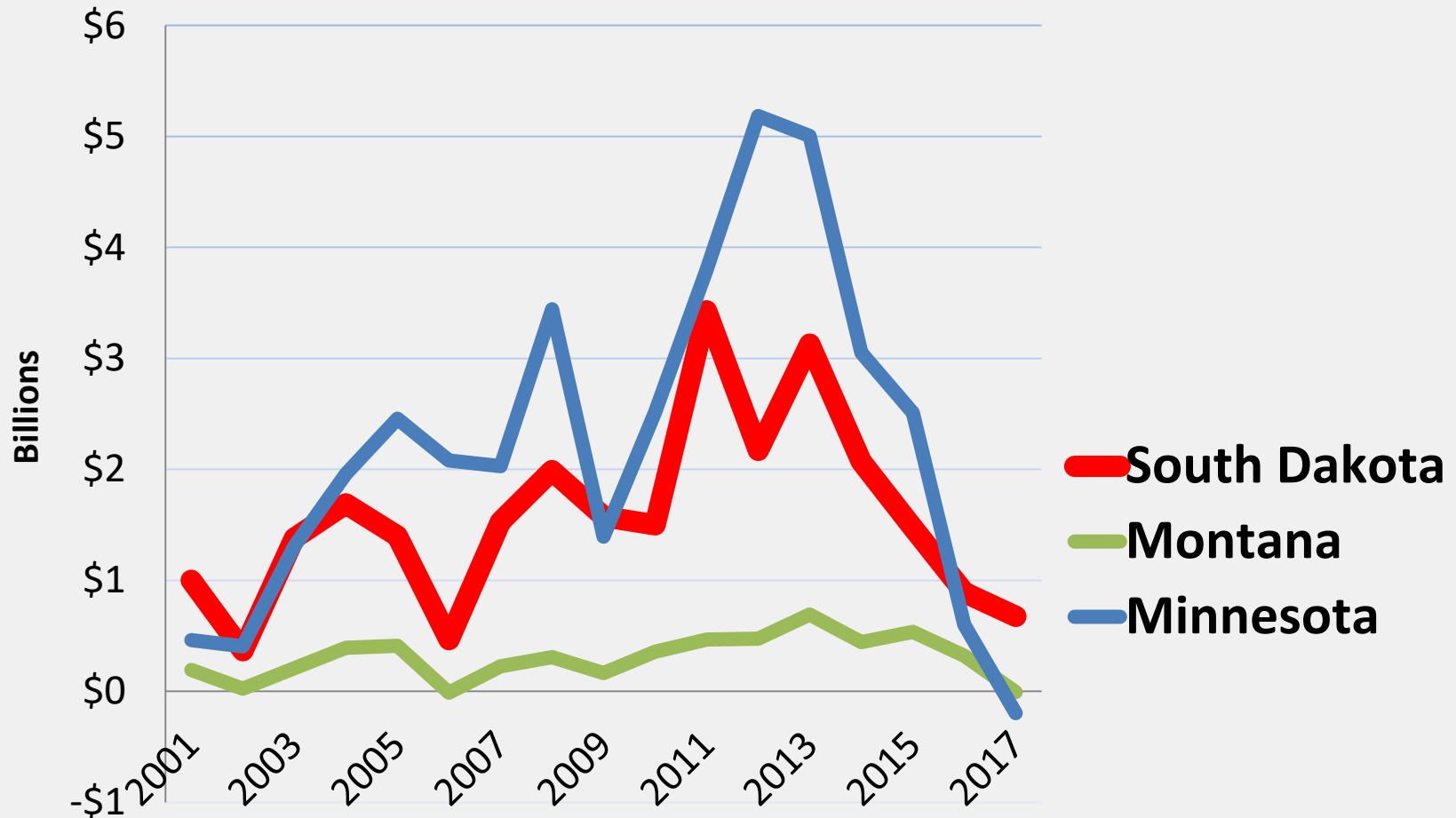


Source:
Bureau of
Economic
Analysis



Farm income has plunged

Total farm proprietors' income

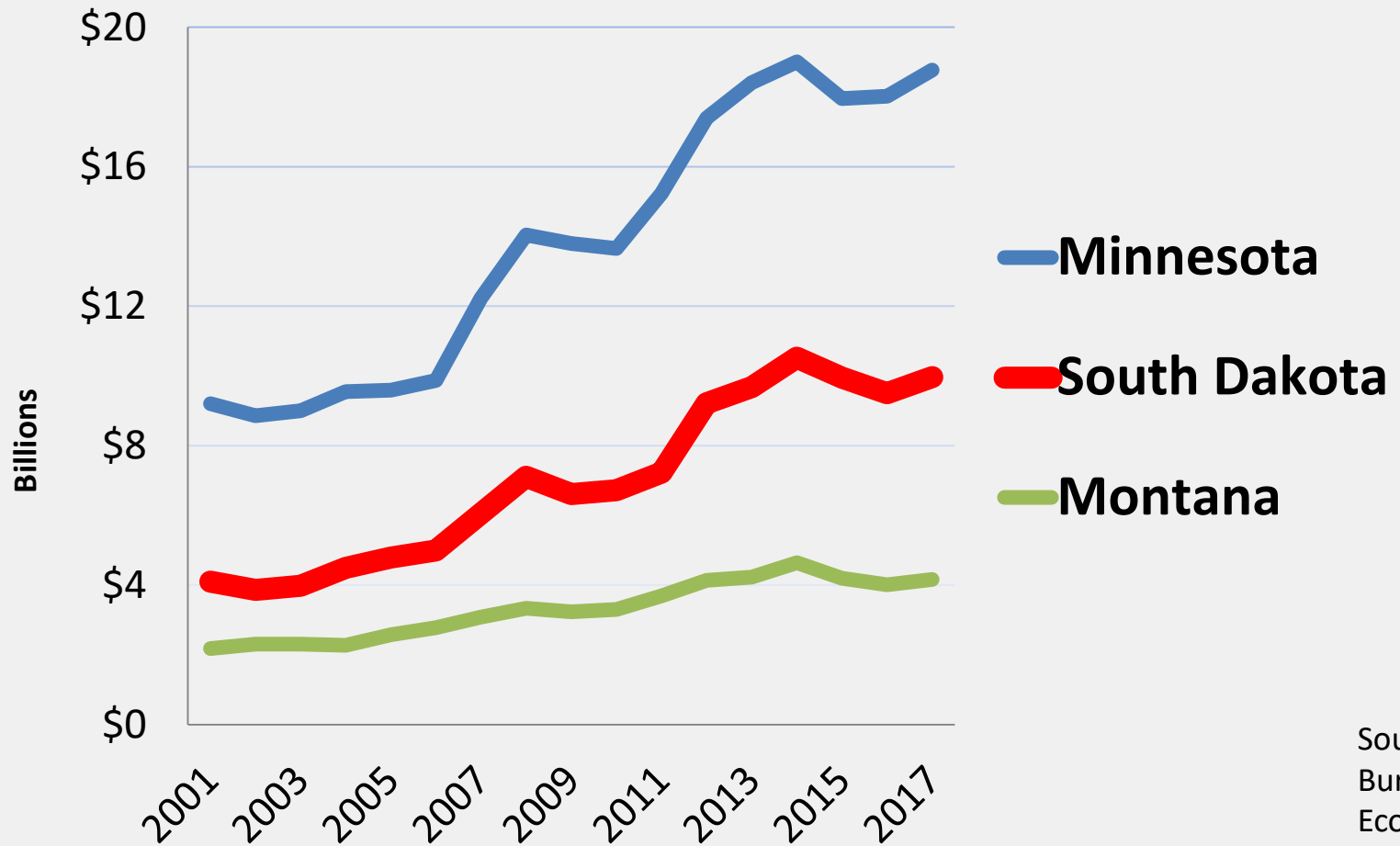


Source:
Bureau of
Economic
Analysis



Production expenses swamping lower prices

Total farm production expenses

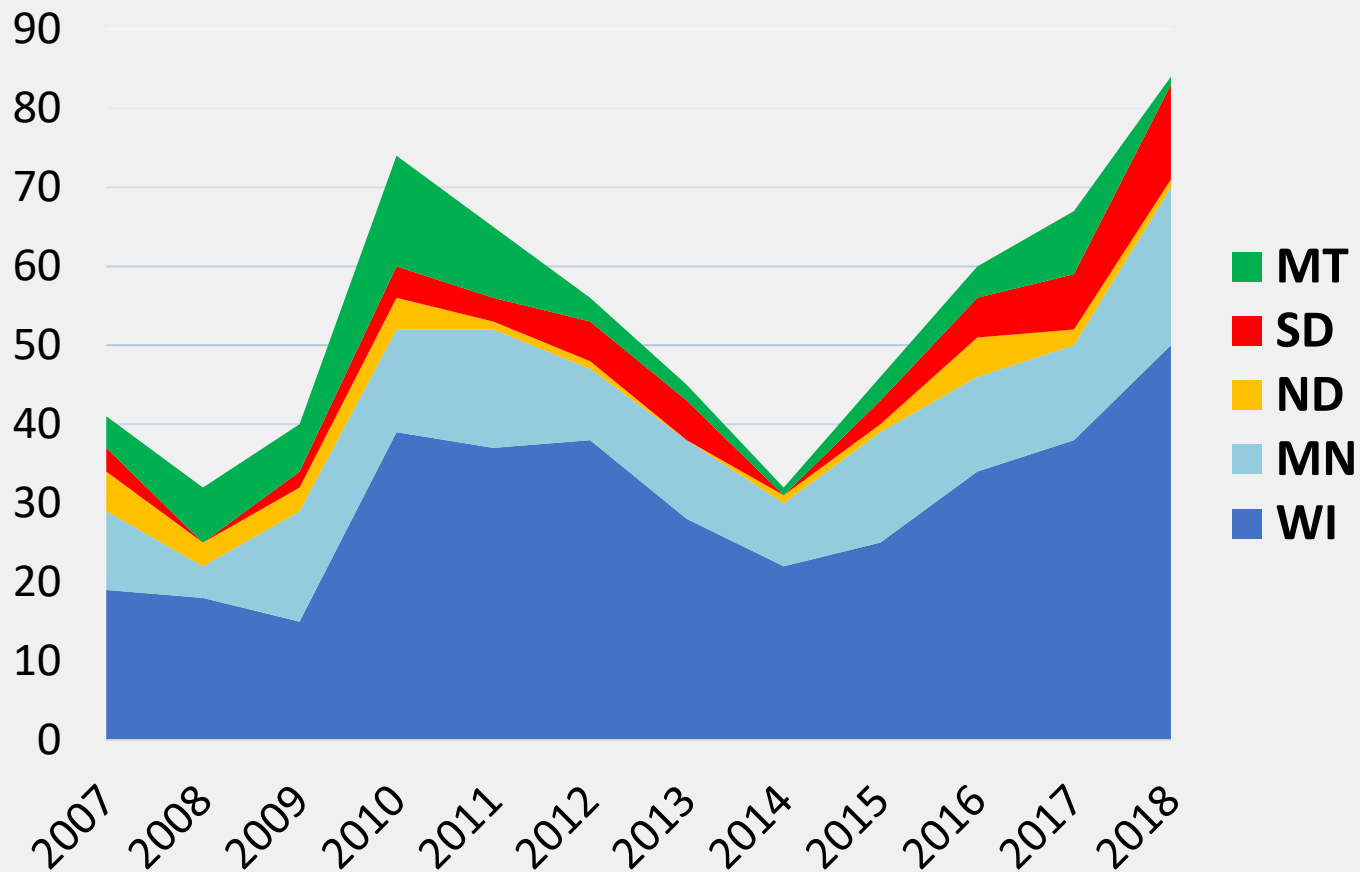


Source:
Bureau of
Economic
Analysis



Chapter 12 bankruptcies rising, still modest in South Dakota

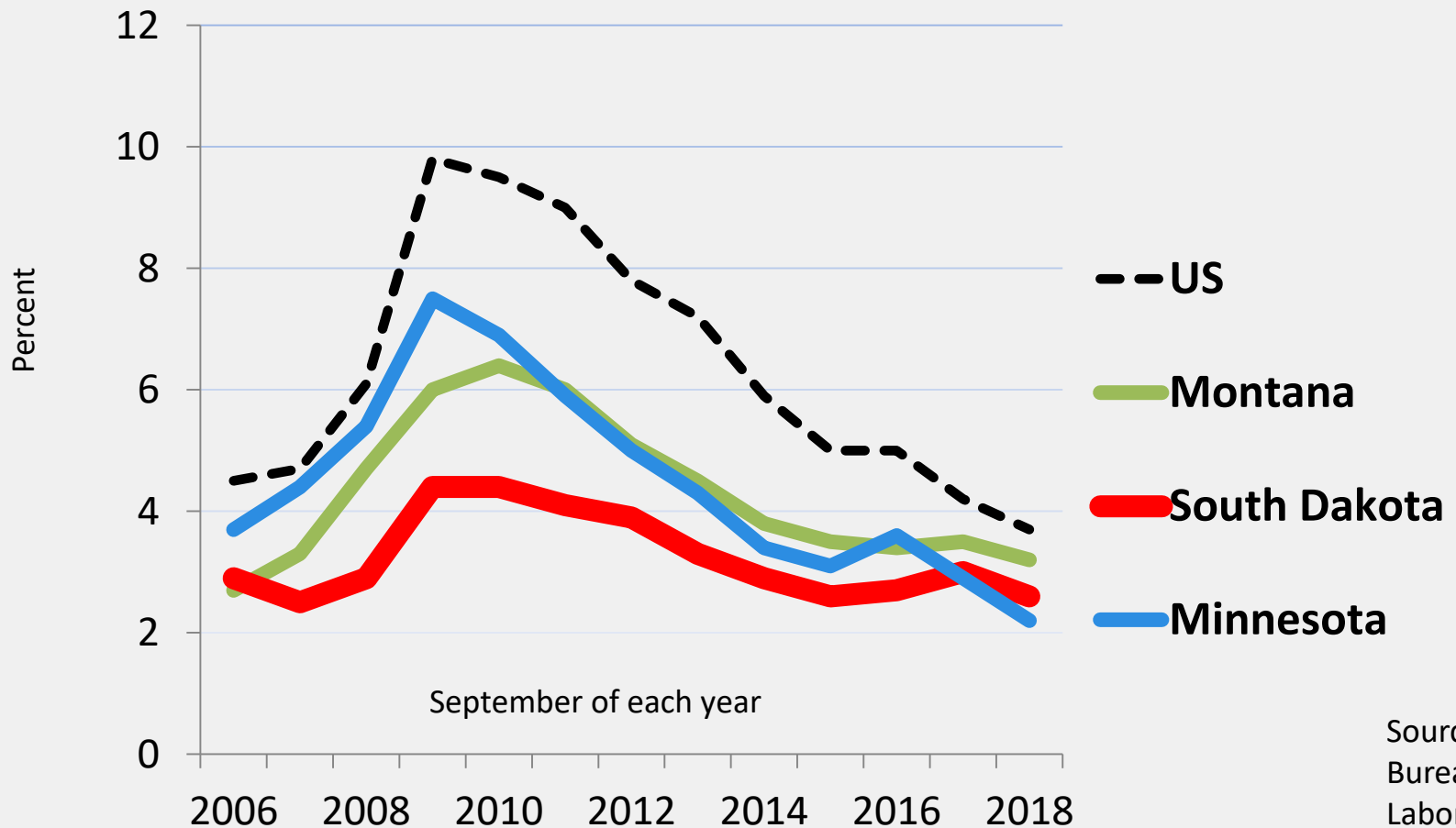
(previous 12 months, from June of each year)



Source: United States Courts



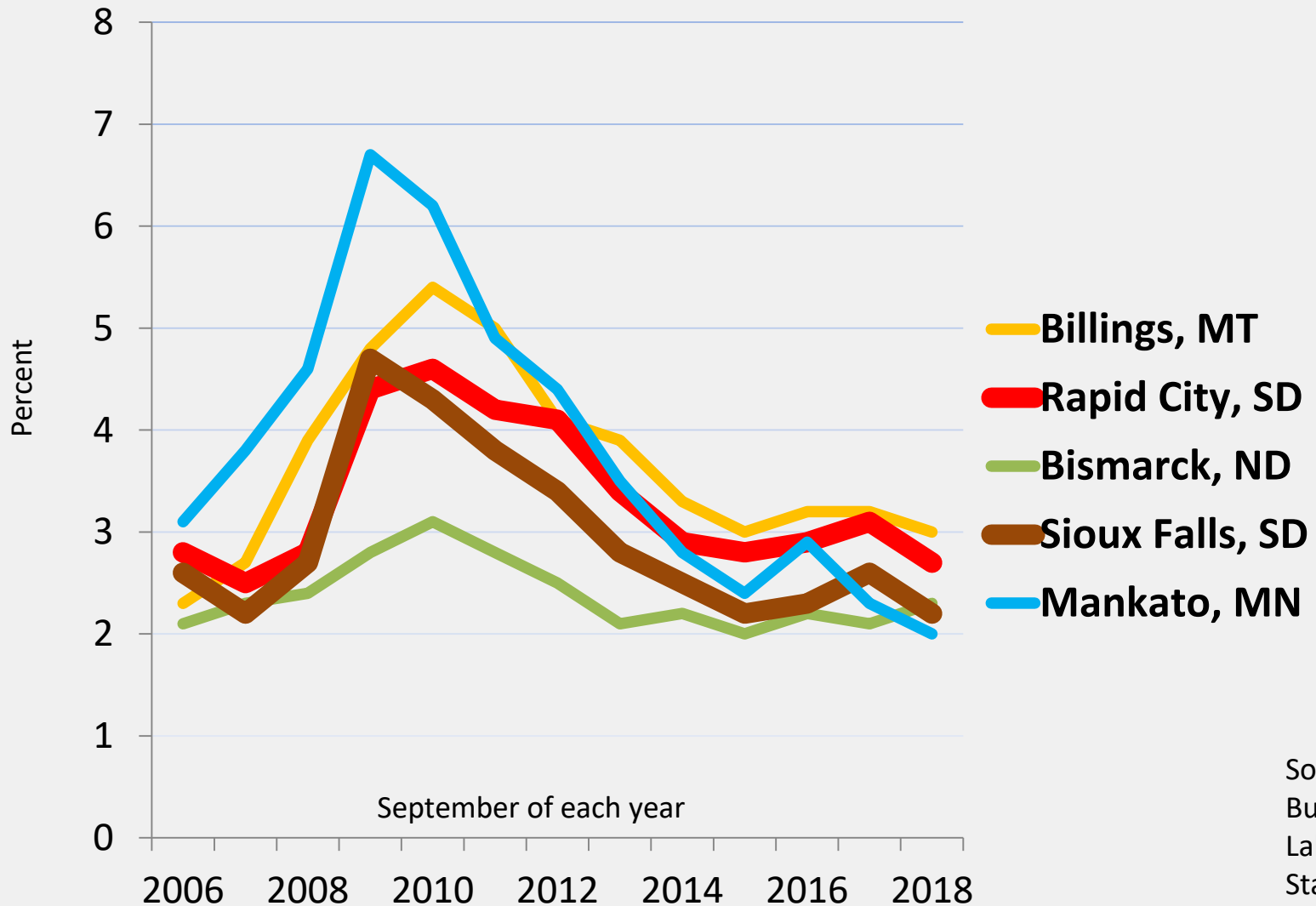
Unemployment: South Dakota well below traditional definition of “full” employment



Source:
Bureau of
Labor
Statistics



Metro unemployment: Ultra low

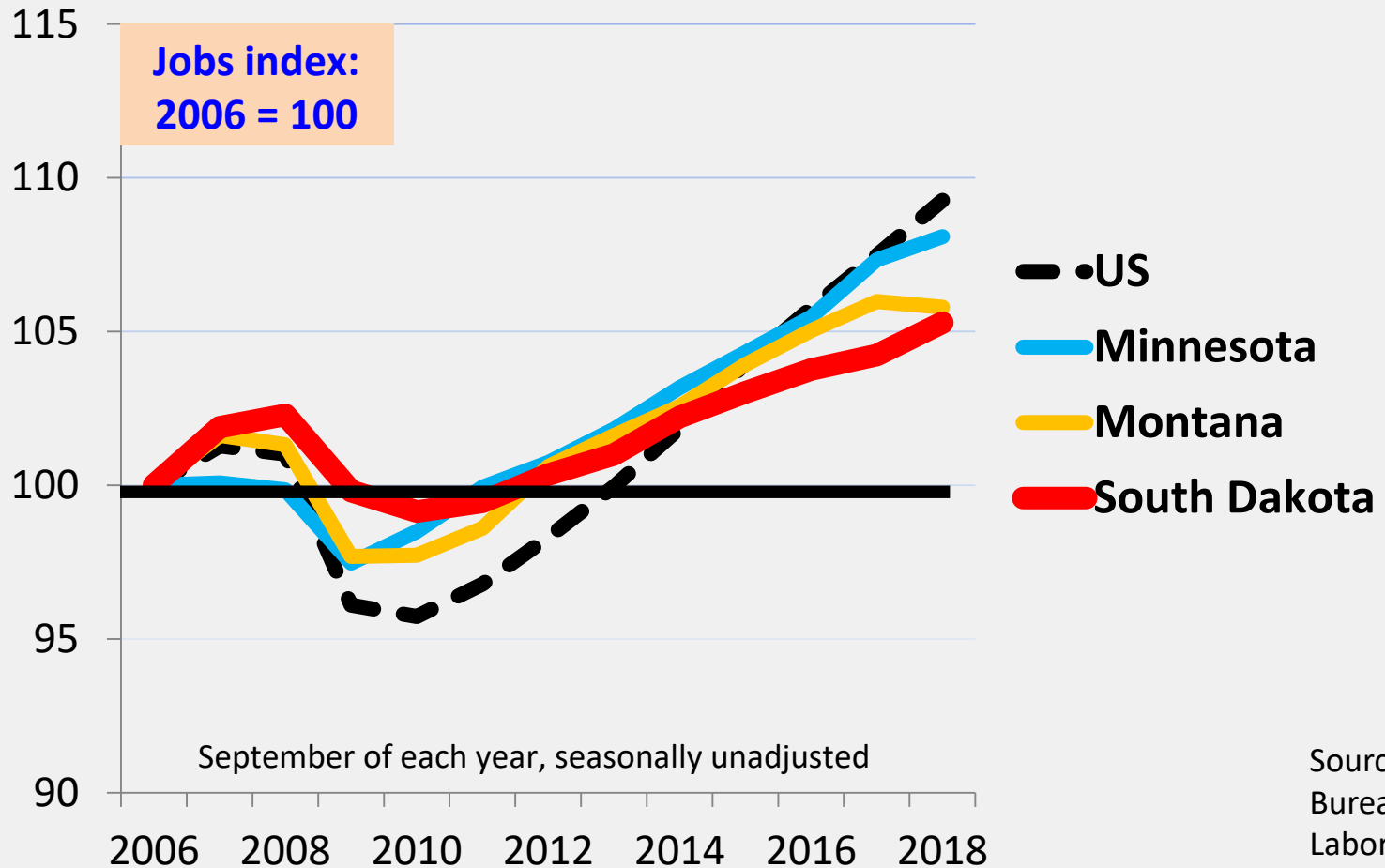


Source:
Bureau of
Labor
Statistics



Job growth

South Dakota trailing nation; uptick?

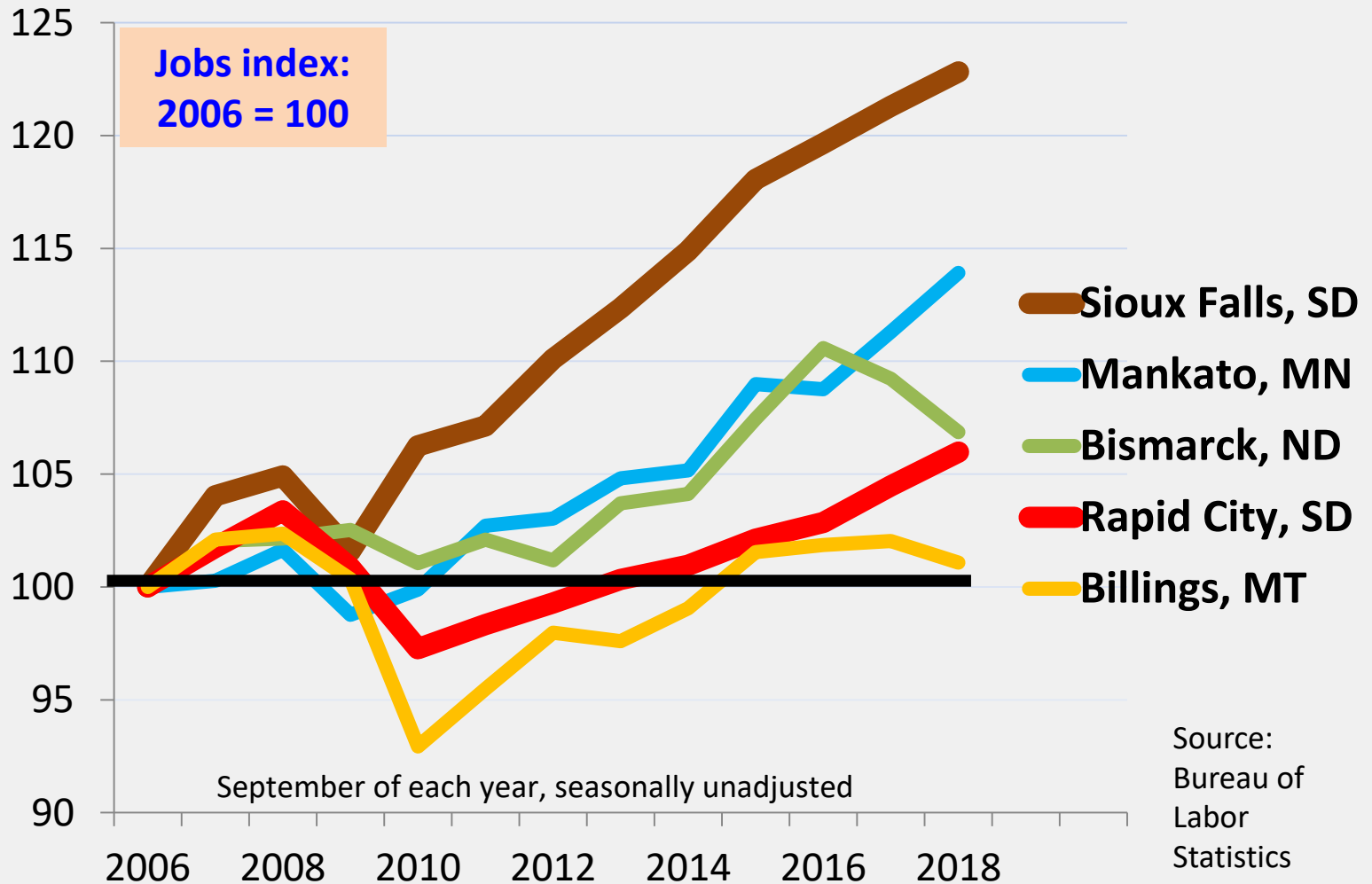


Source:
Bureau of
Labor
Statistics



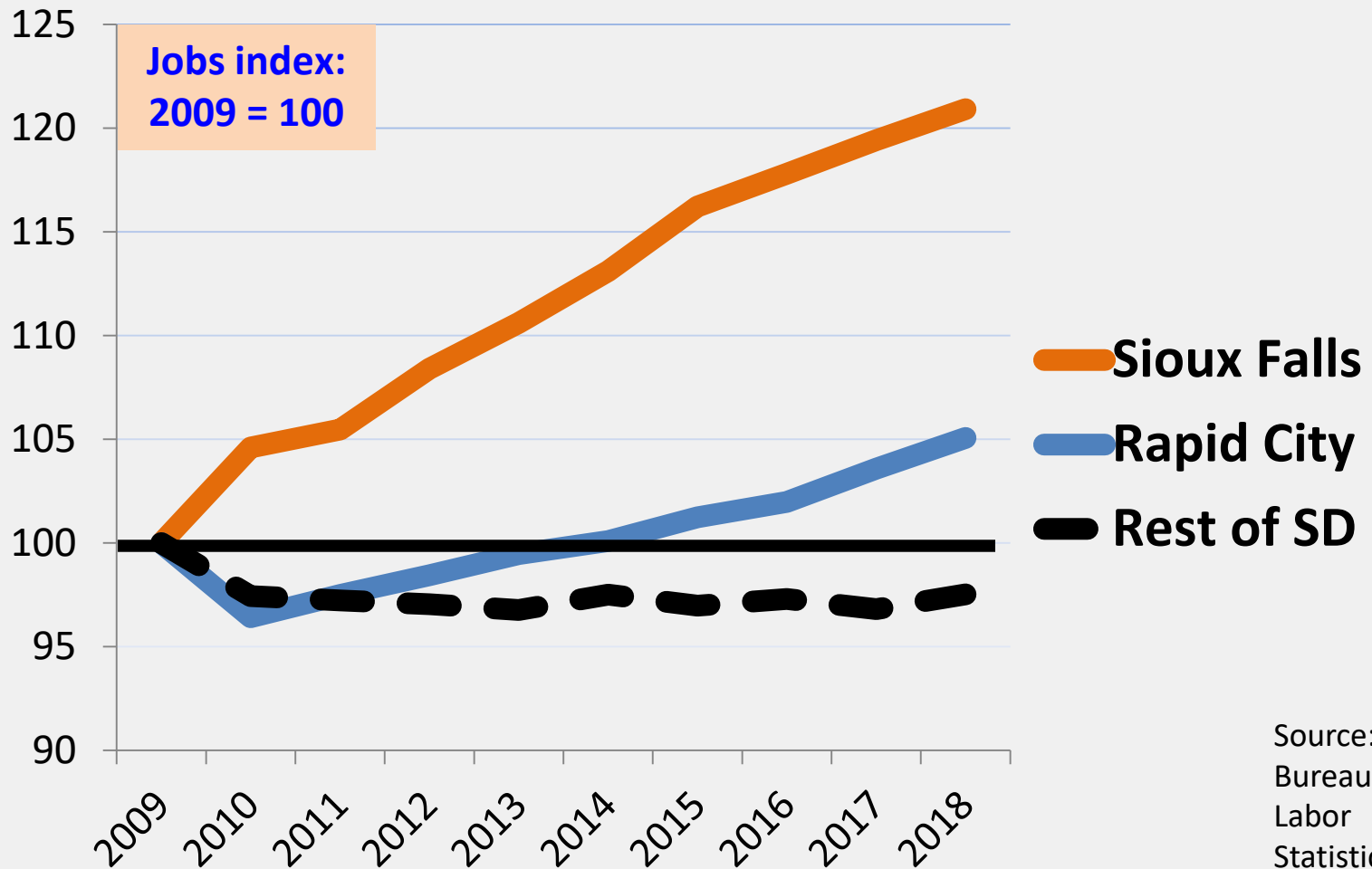
SD metro jobs

Sioux Falls out front, Rapid City accelerating





Job growth: Concentrated in Sioux Falls and Rapid City



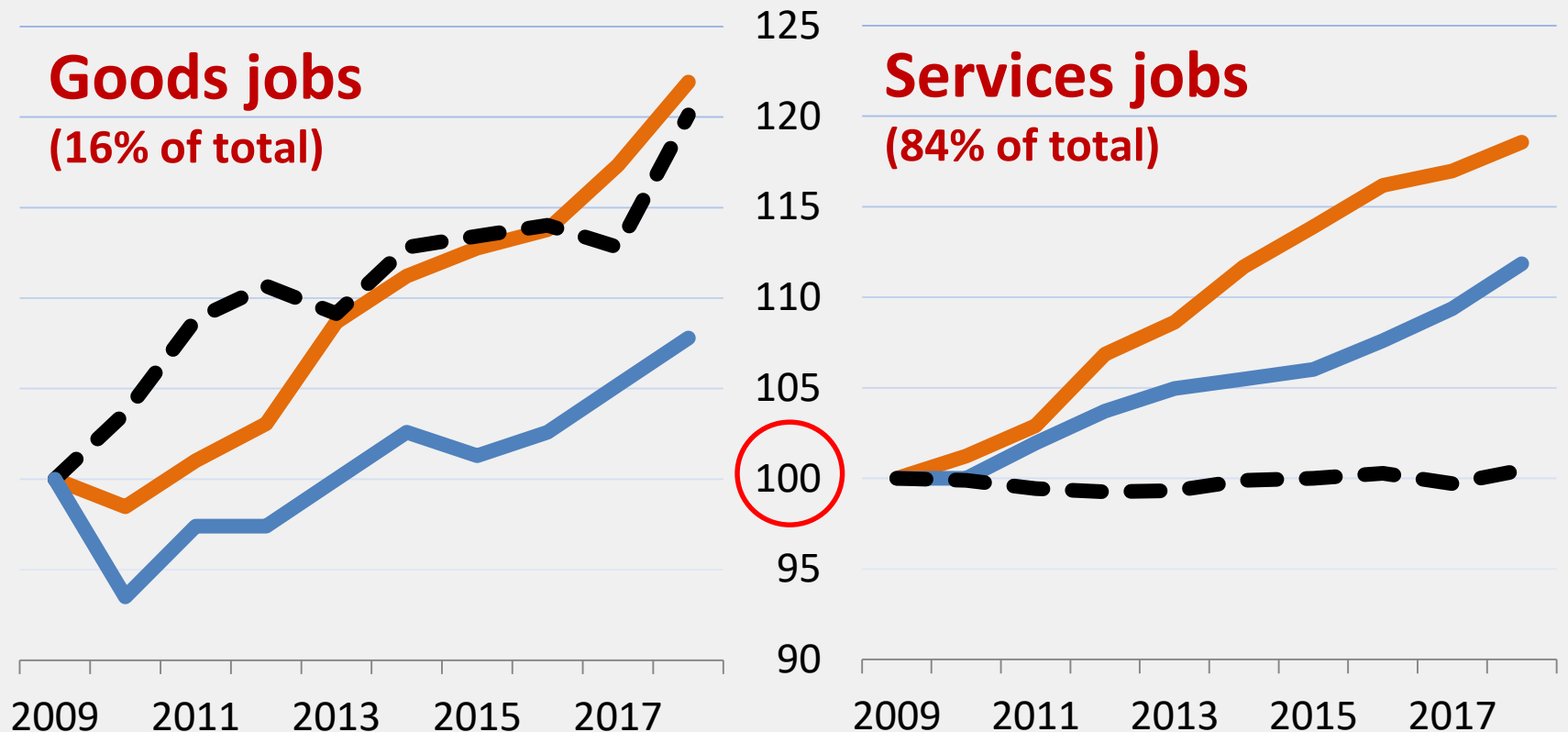
Source:
Bureau of
Labor
Statistics



Jobs index: Goods vs. services

Rural service jobs are lagging

— Sioux Falls - Rest of SD — Rapid City

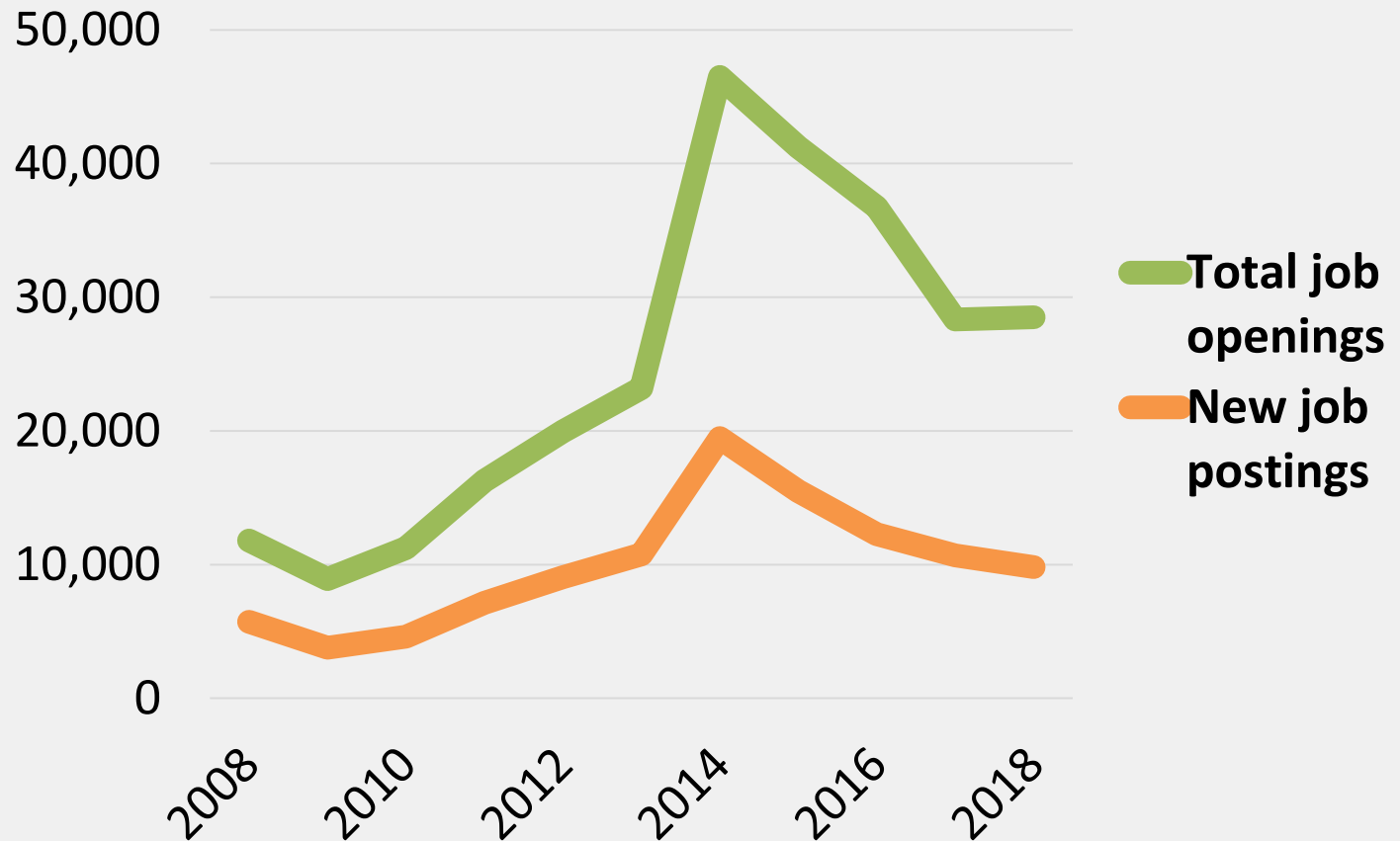




Hiring demand

South Dakota job postings down, pivoting?

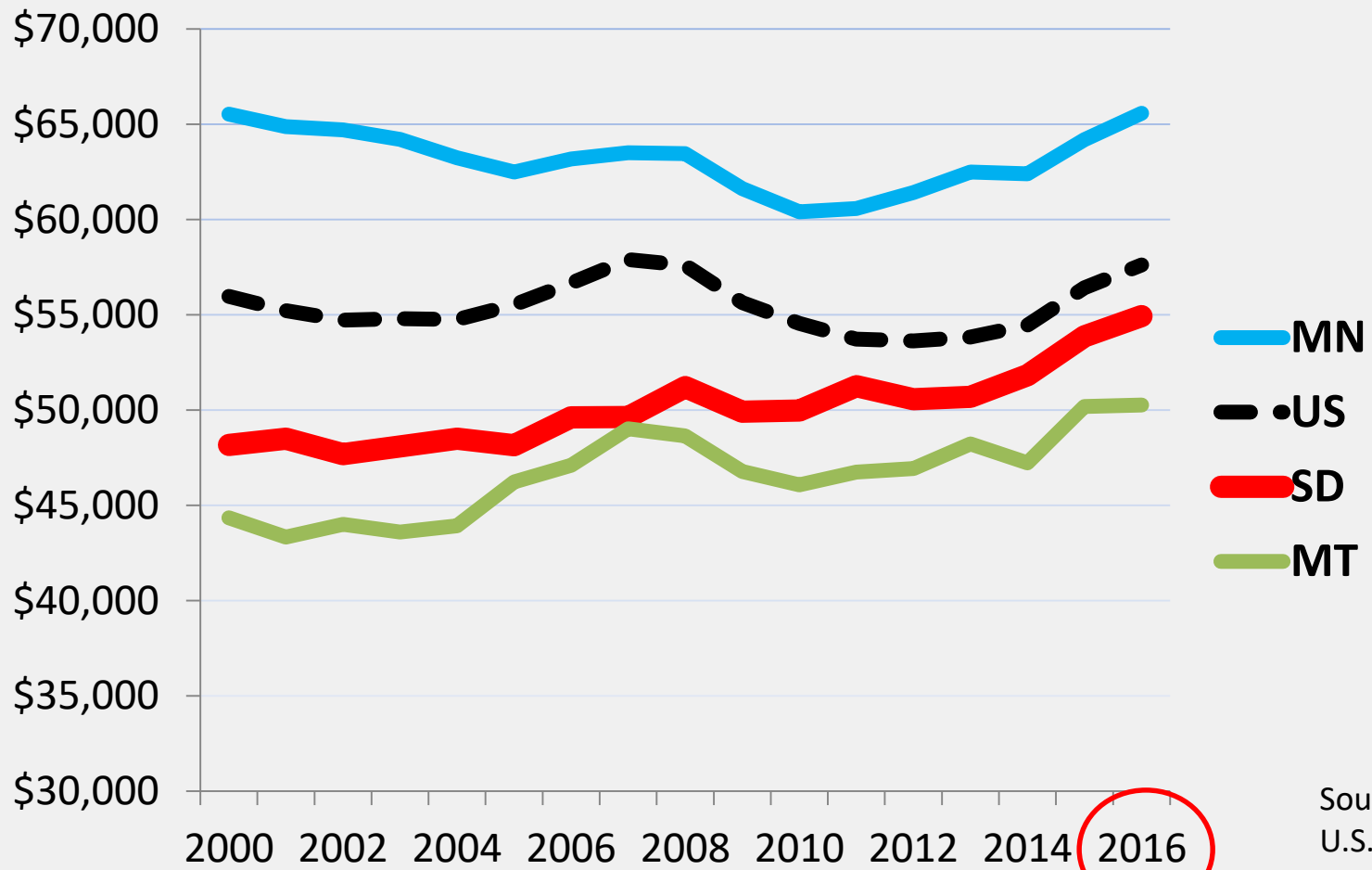
Online job postings tracked by state, September of each year





Real median household income

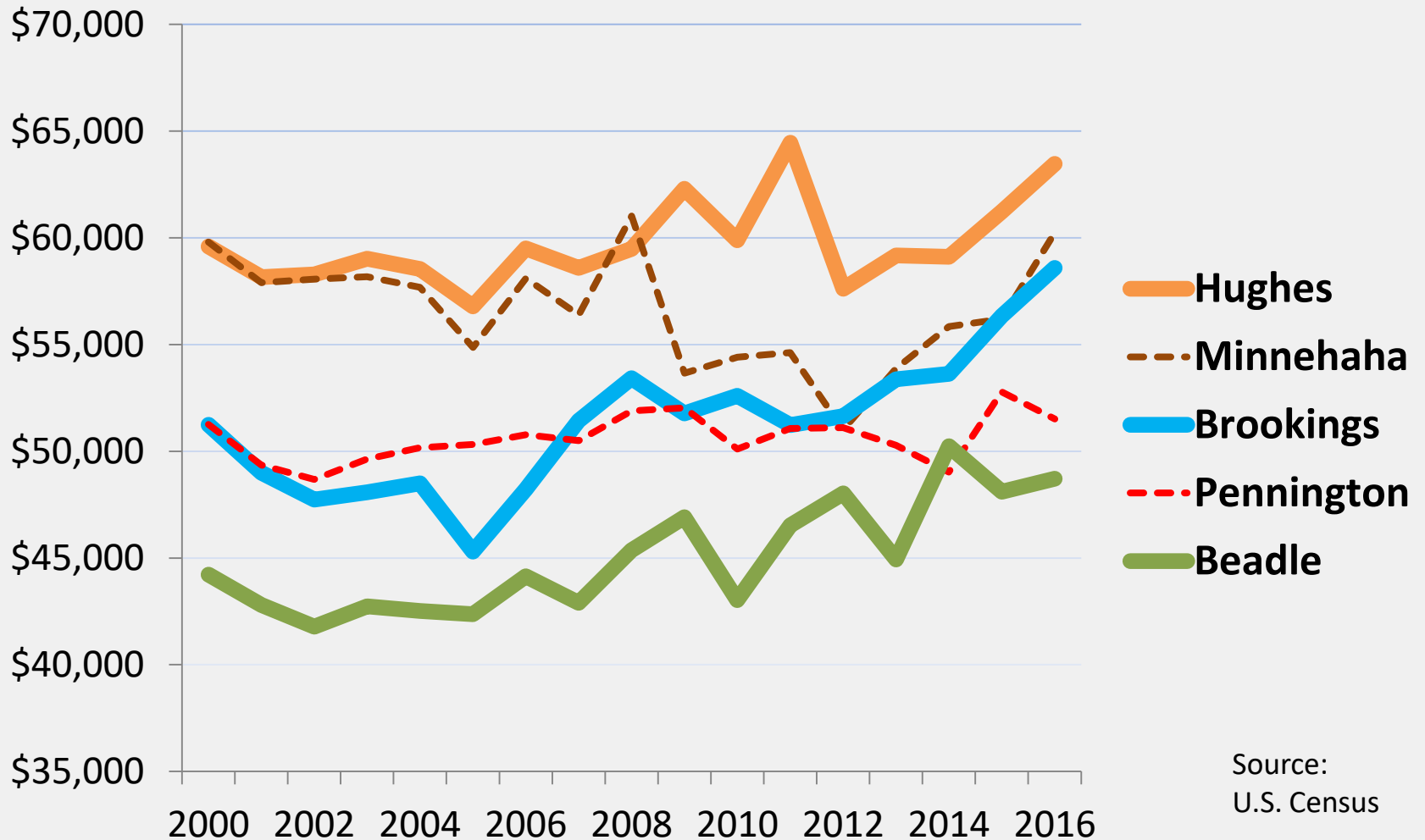
Lower, but rising steadily in South Dakota



Source:
U.S. Census



Real median HH incomes flat in metros, and growing *faster* in rural counties



Source:
U.S. Census



A quick recap

- **GDP sluggish; tri/bi-furcation in the state**
 - **Slow ag economy**
 - **SD metros doing better, esp. Sioux Falls**
- **Very low unemployment**
- **Solid hiring demand**
- **Modest (but decelerating) job growth**
 - **Slow *service* job growth in rural SD**
- **Accelerating wage growth**

So where is this all headed? And why?

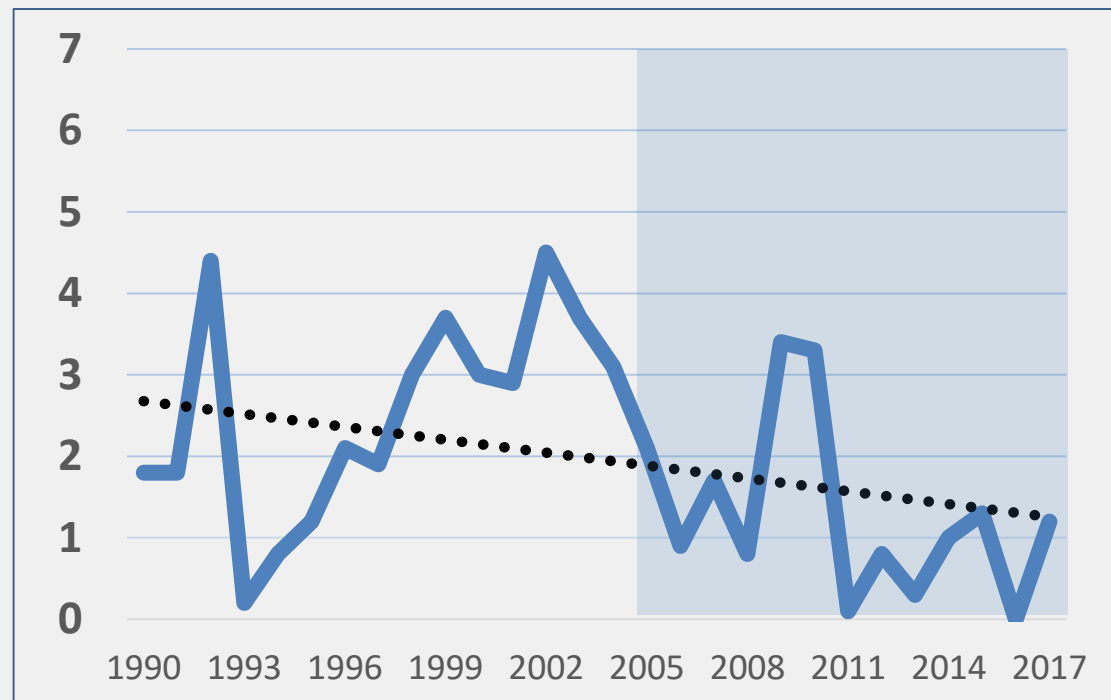


Workforce, workforce, workforce

Job growth and GDP/output are very connected to labor force growth, esp. when productivity is unchanged

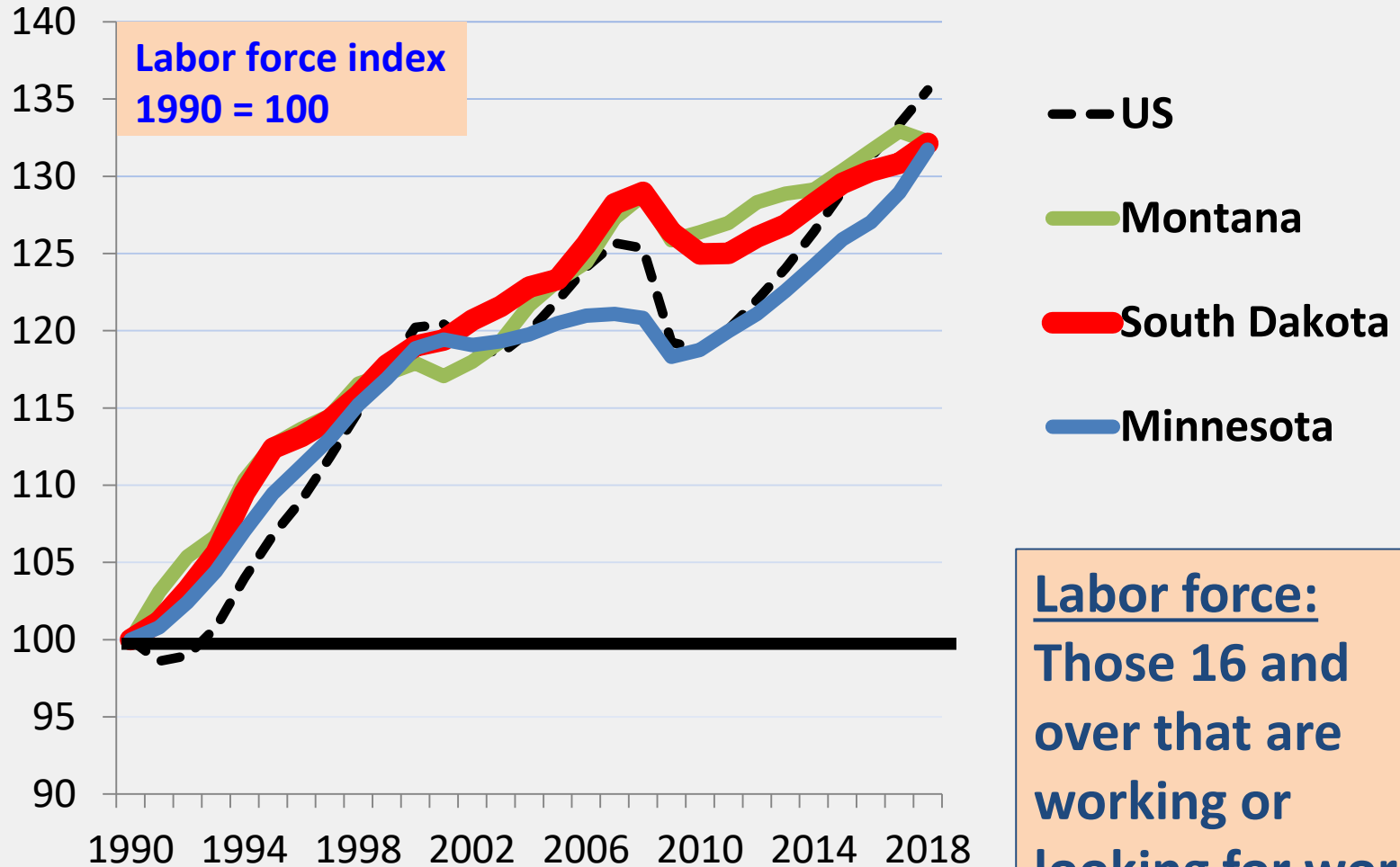
Nonfarm labor productivity

(Annual percent change, seasonally adjusted)





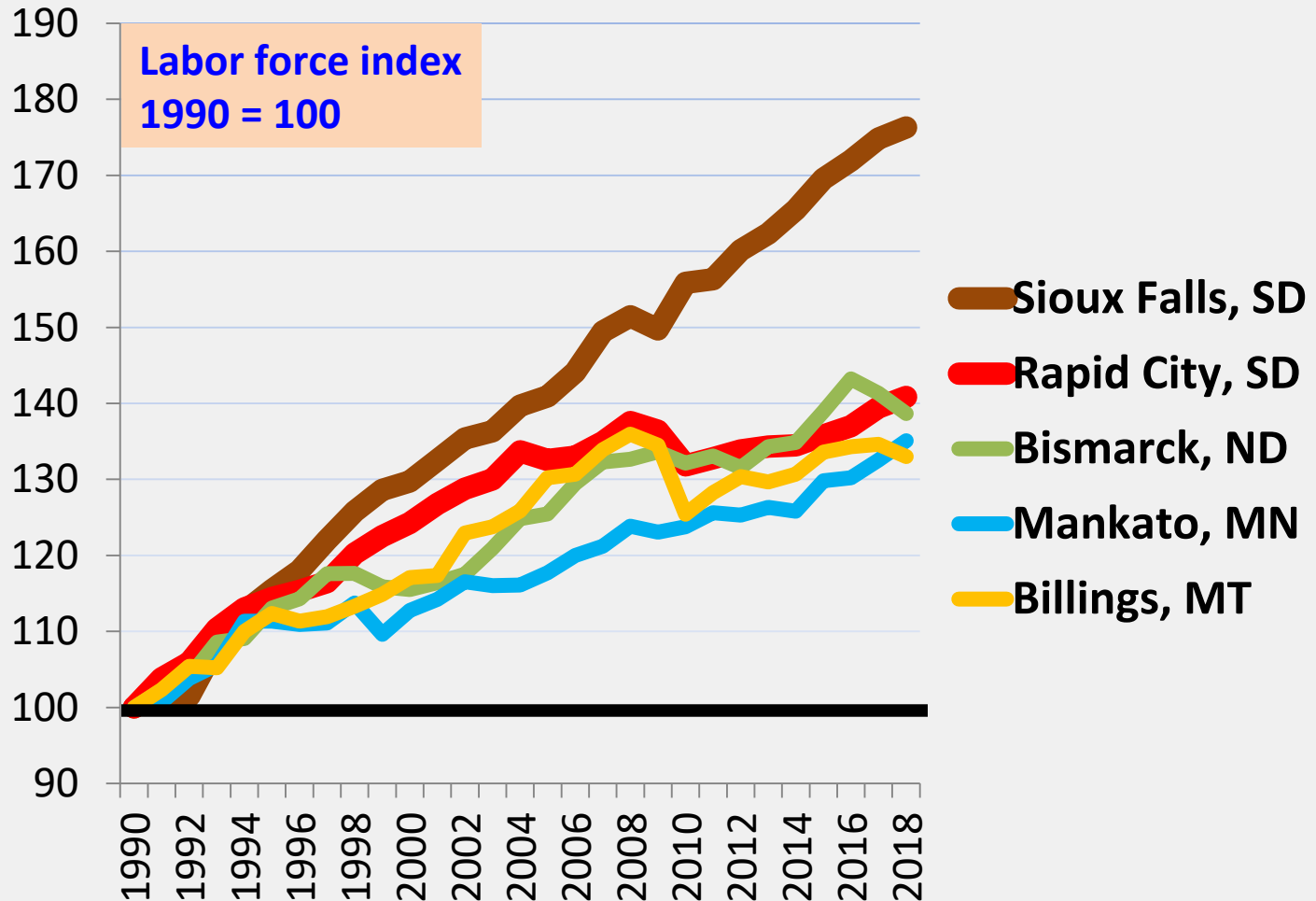
Labor force growth: Flat in SD



Labor force:
Those 16 and
over that are
working or
looking for work



Sioux Falls labor force sprinting ahead of peers





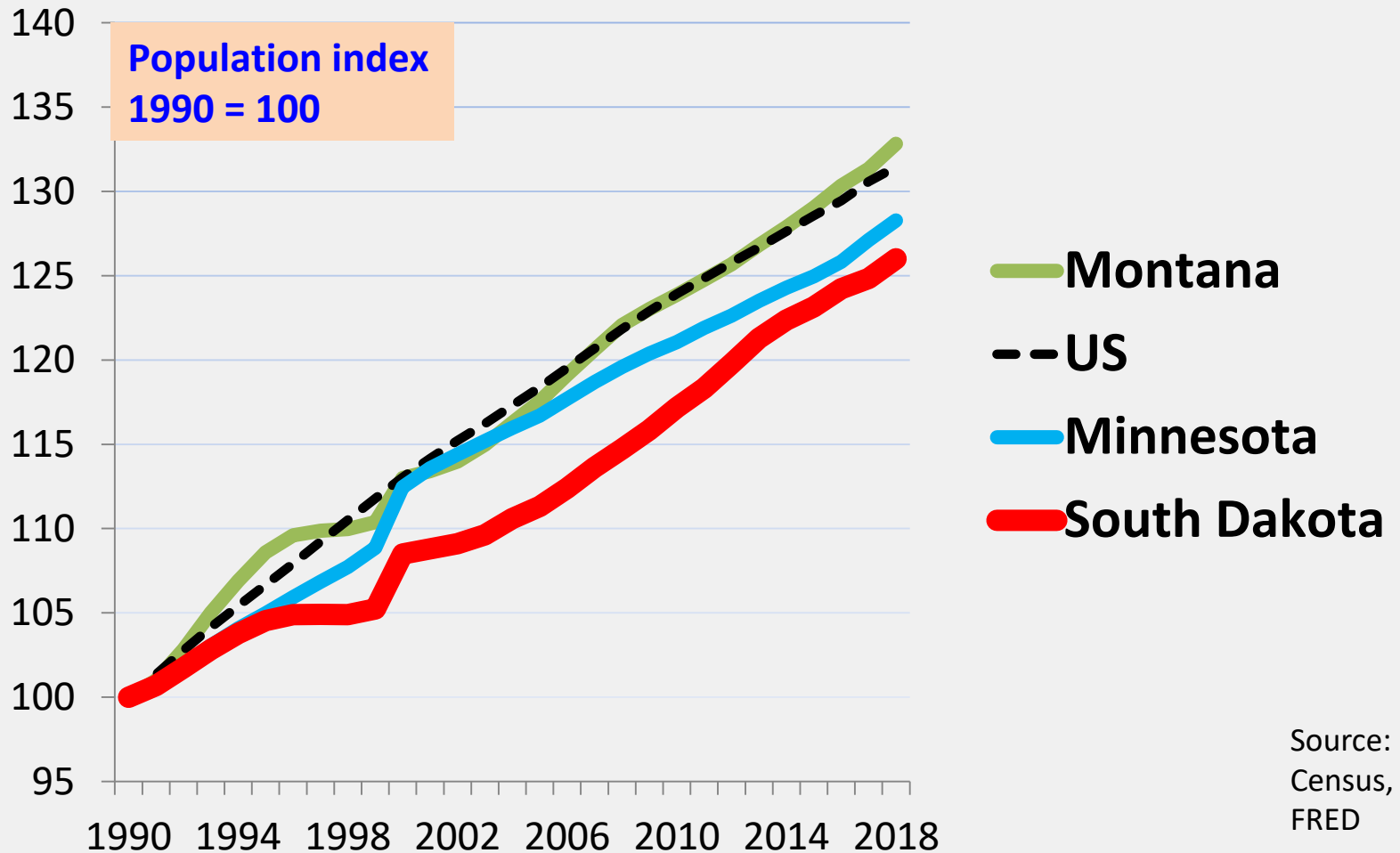
Labor force trends are tied to:

- **Population growth**
- **Demographics**
- **Labor force participation**



Population growth

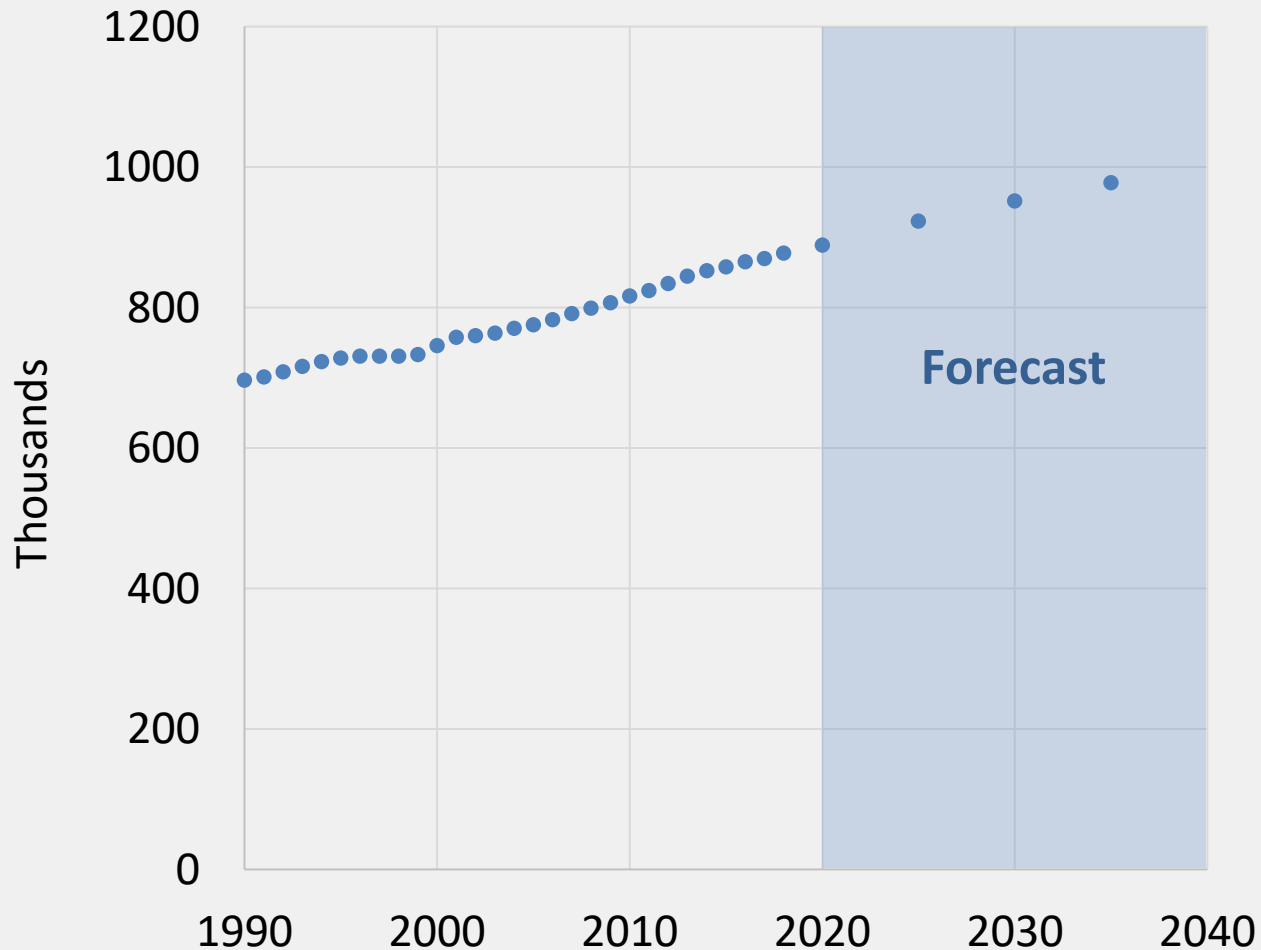
South Dakota lagging, but gap is holding



Source: U.S. Census, via FRED



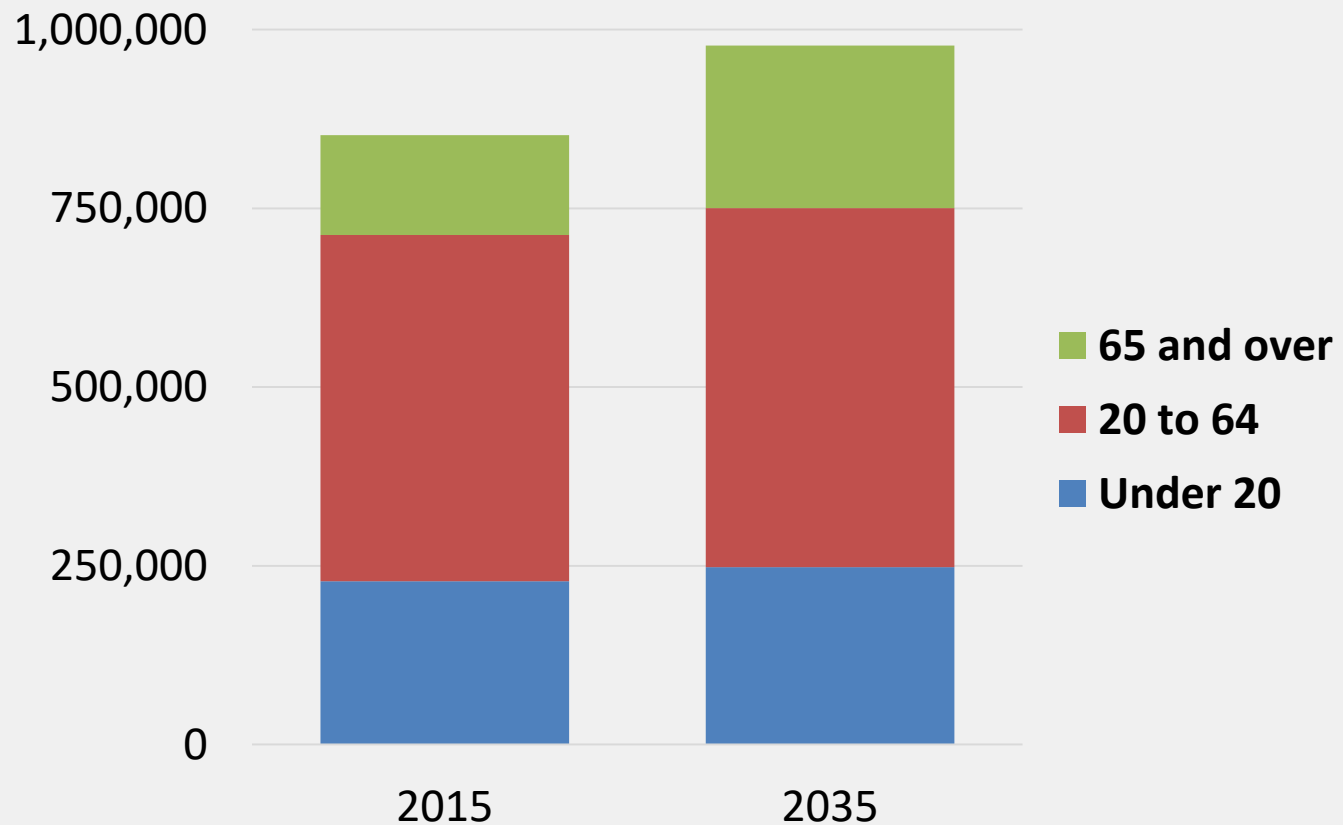
SD population projection remains pretty steady





Shifting demographics

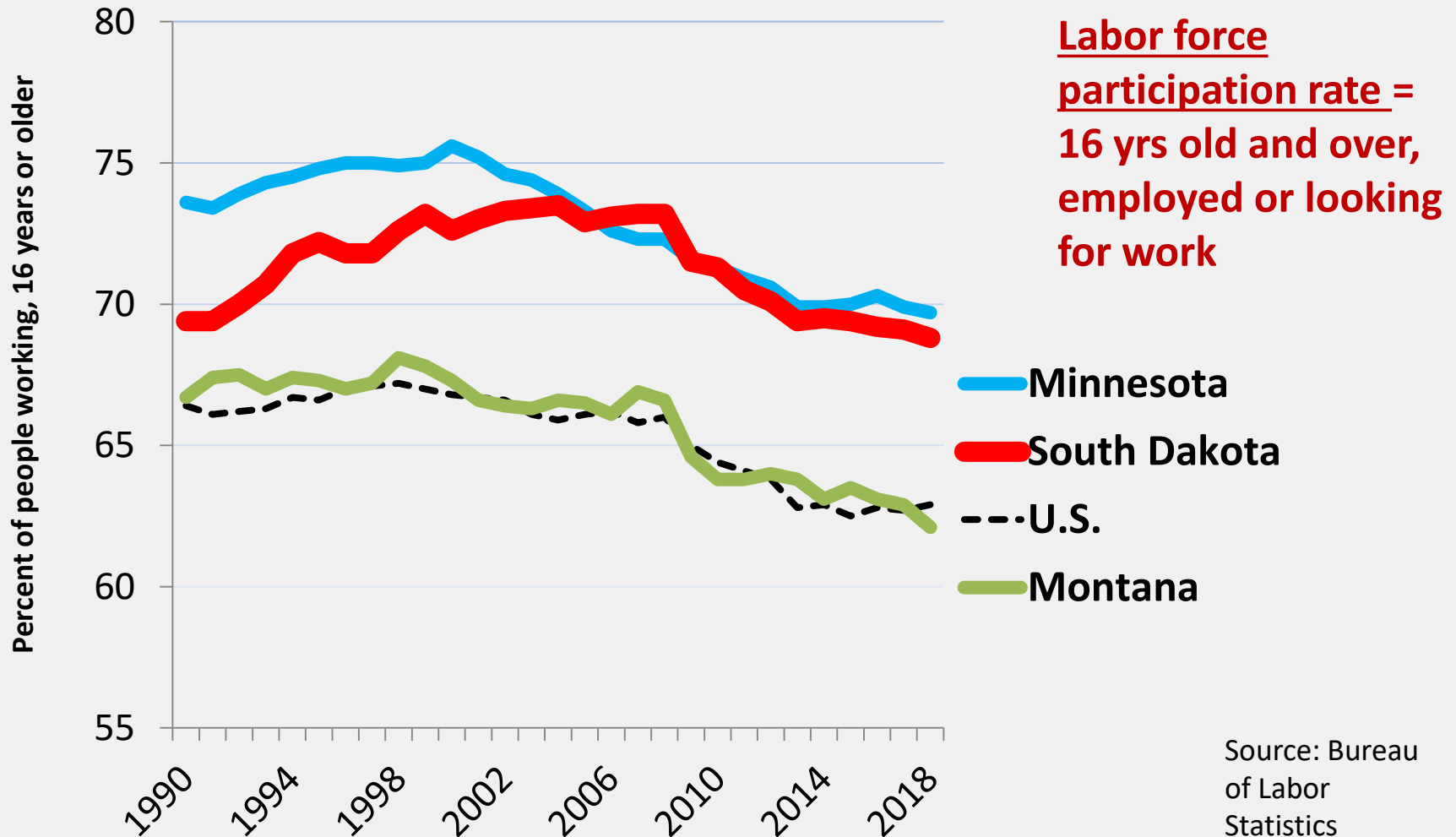
More people, but not more 'core' workers





Labor force participation rates

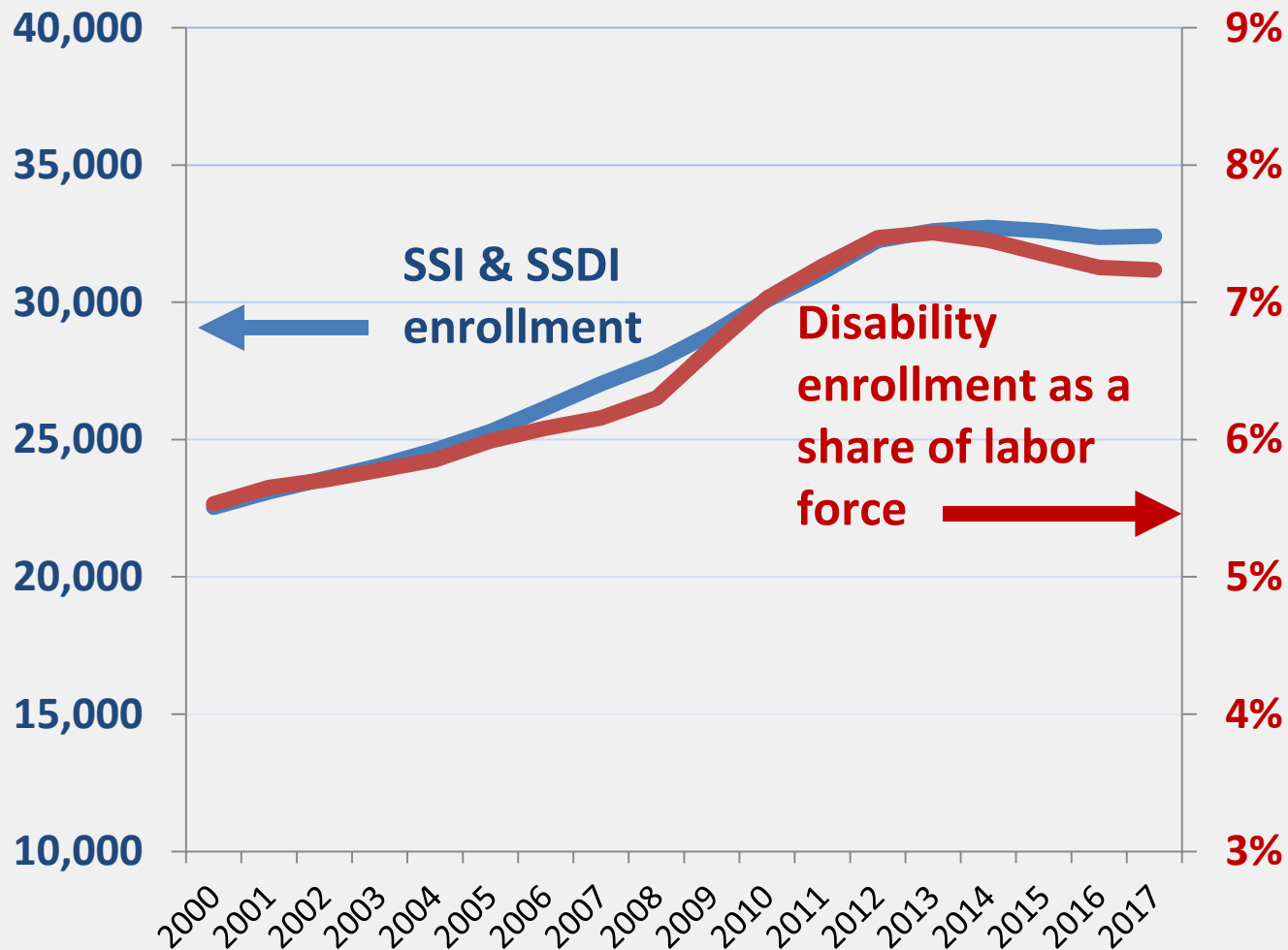
Long, slow decline; hitting plateau?





Disability finally seeing change in trend

SSI & SSDI enrollment trends



Source:
Social Security
Administration



Tight labor math: Short-term

- **Hiring demand** can change quickly (+/-)
- **Labor supply** changes very slowly (+/-)

The only realistic *short-term* relief to tight labor is for *hiring demand to decrease* (aka economic slowdown/recession)



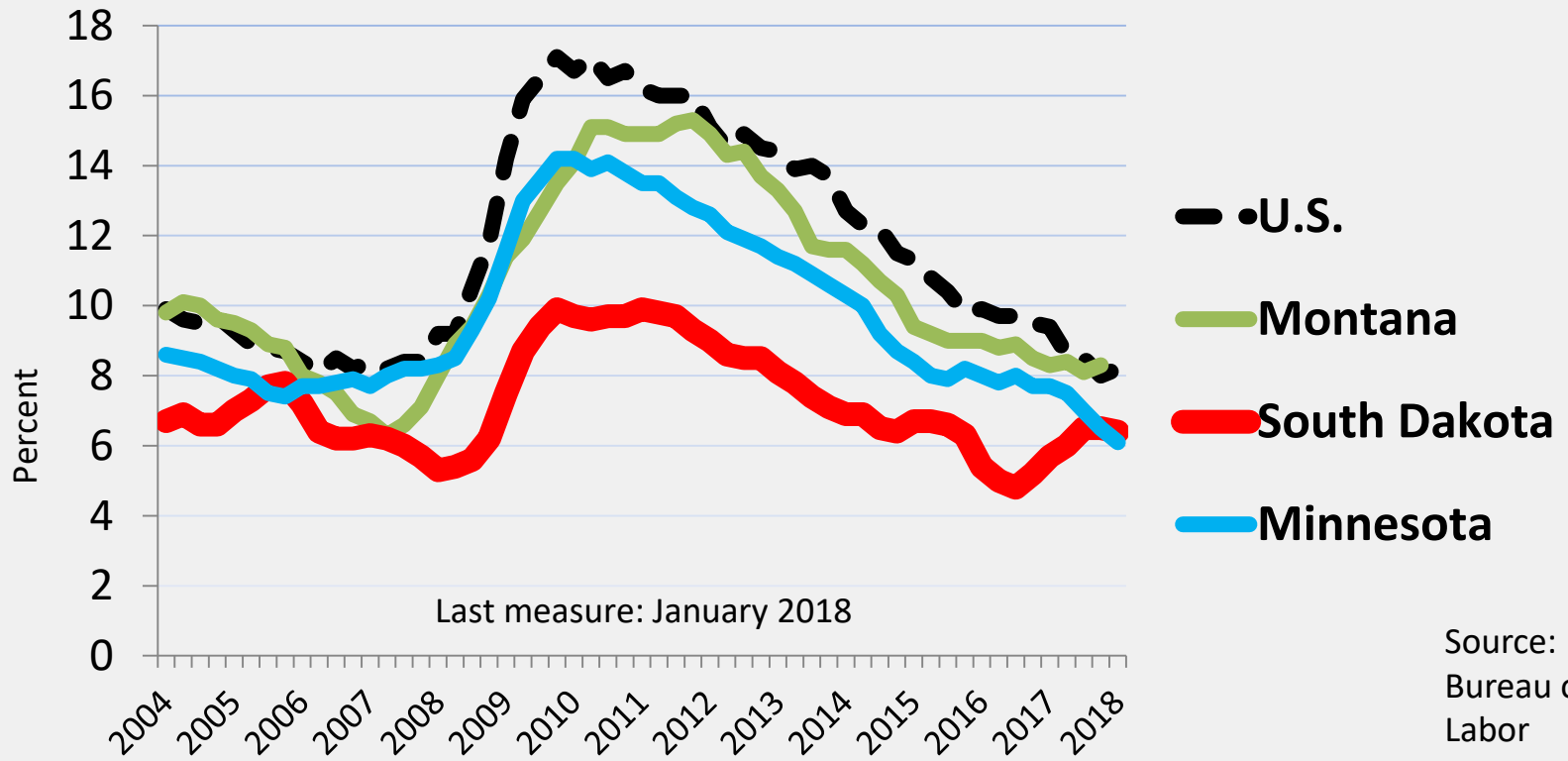
Tight labor math: Long-term

- Do nothing, and expect slower growth
- Increase productivity above trend (hard)
- Subsidize fertility (\$\$)
- Allow/encourage immigration/migration
- Embrace approaches that convince more people to work, esp. under-utilized groups
 - *Labor force participation is critical*



U6 unemployment

A better picture of “full” labor slack

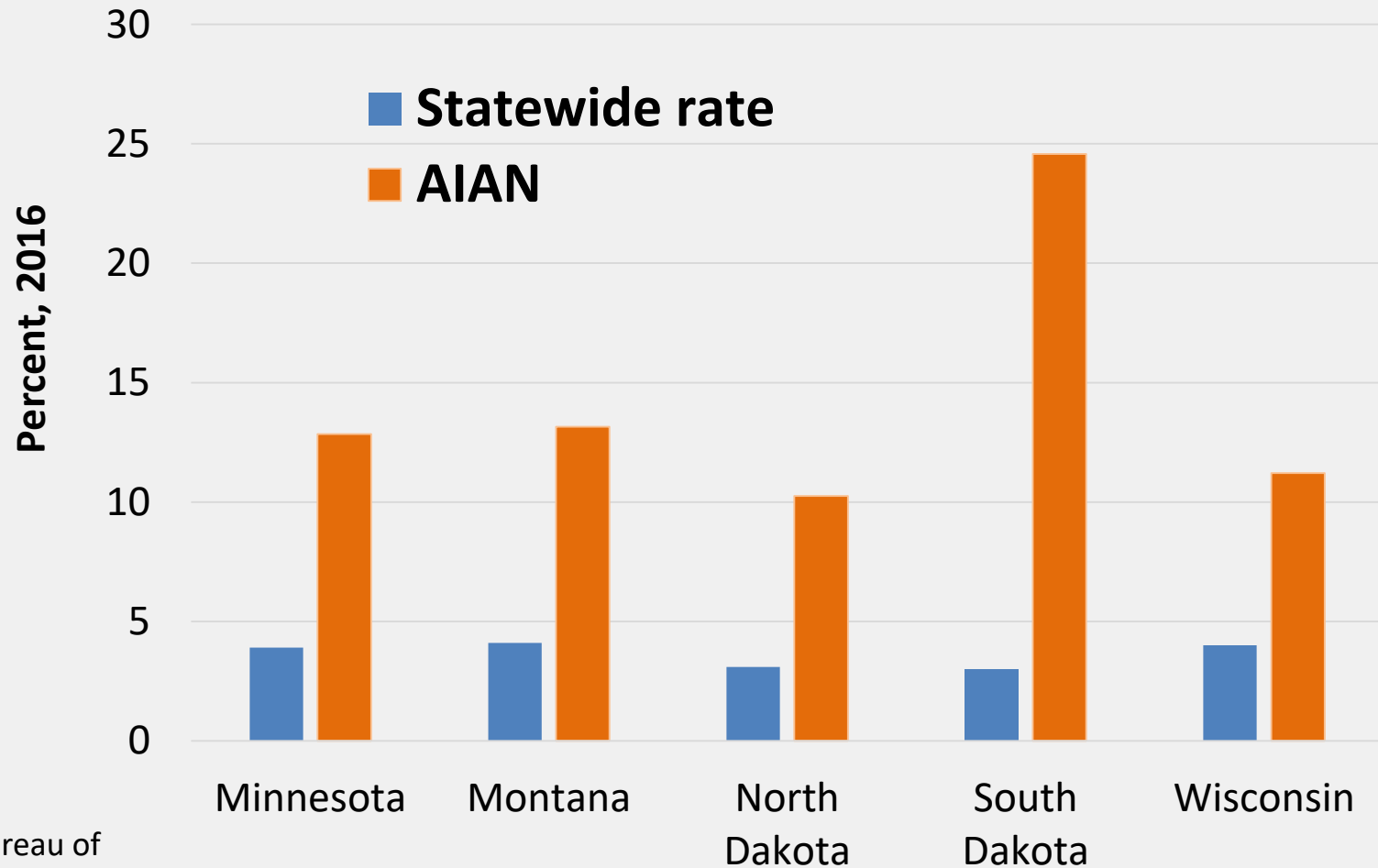


Source:
Bureau of
Labor
Statistics

U-6 unemployment rate = Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers, percent, 4-quarter moving average, not seasonally adjusted.



Native American unemployment incredibly high

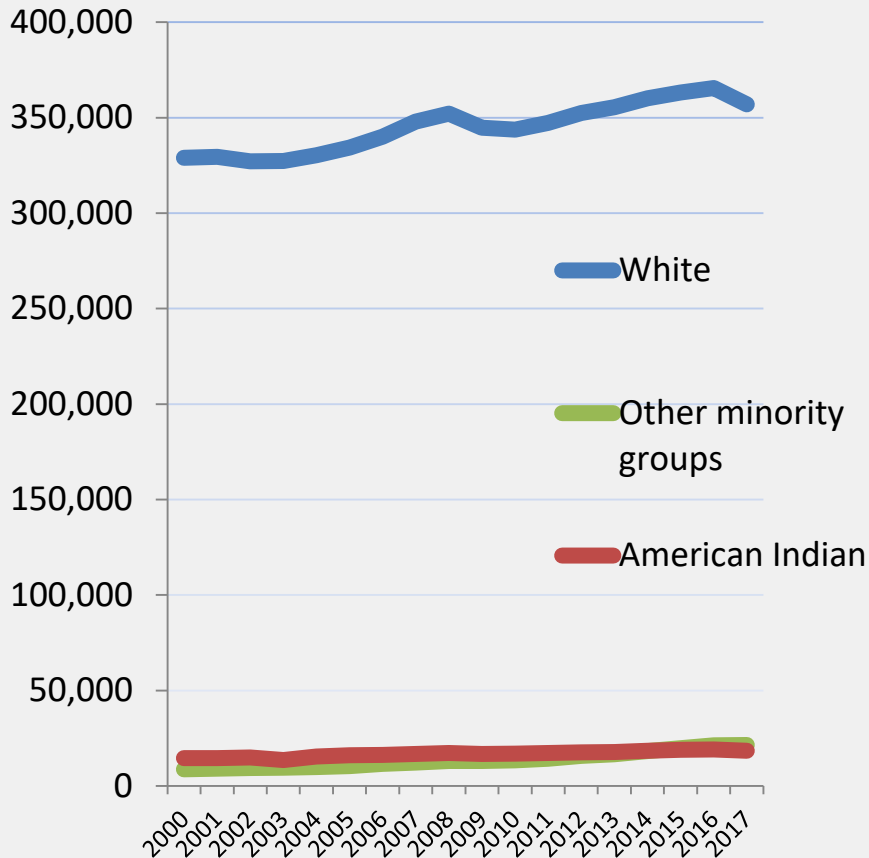


Source: Bureau of
Labor Statistics

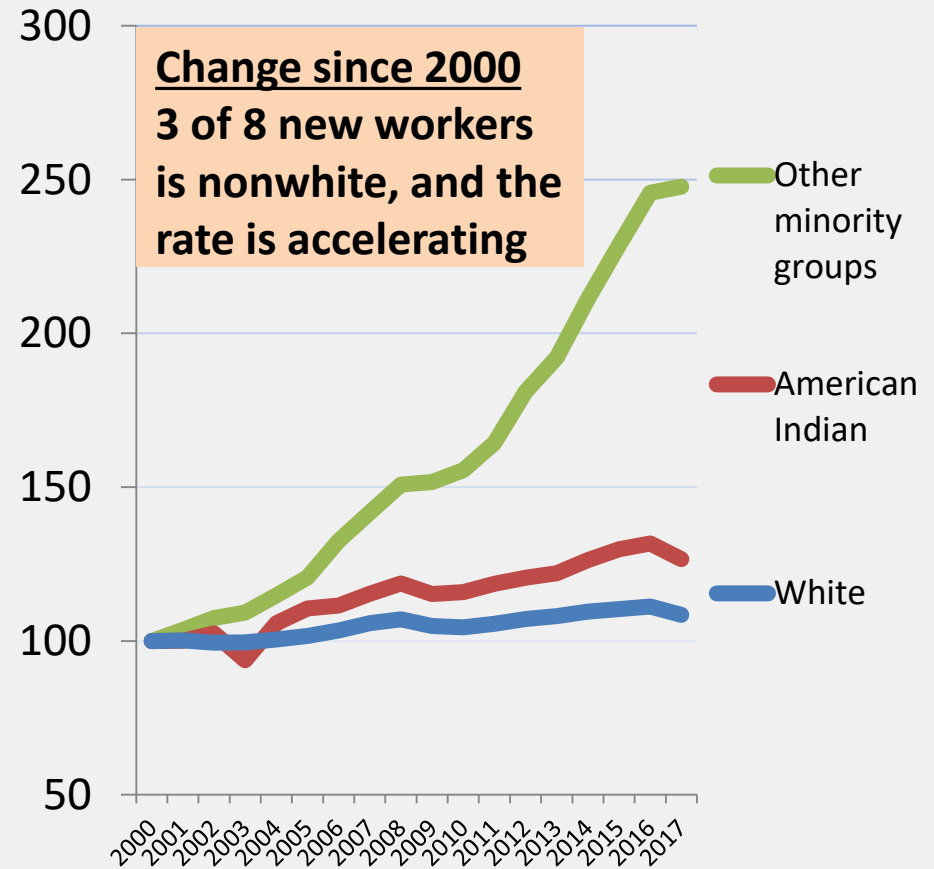


Why does high minority unemployment matter? They are the future workforce

South Dakota workers



SD worker GROWTH





**In a tight-labor environment,
future winners will be places that:**

- **Attract workers from elsewhere**
- **Enhance human capital at all levels**
- **Increase work participation within existing labor force**



Increasing labor force/participation

- **Wages, wages, wages**
- **Jobs with career opportunities**
- **Find ways to bring more workers into the labor force**
 - **Available jobs – alone – not enough for some people to work more**
 - **Housing, transportation, day care, healthcare**



Part 3: Tell the Fed ...

**What's happening at
your firm?**

The Minneapolis Fed wants to know!

Step 1: Send text to 22333

Step 2: Text the word: minneapolisfed

minneapolisfed.org

About the Fed

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FEDGAZETTE

October 10, 2018

The jobs motel has a lot of vacancies

RONALD A. WIRTZ | Director, Regional Outreach | @RonWirtz

All those "Help Wanted" signs say something about employers' ability to fill jobs

THE REGION

October 5, 2018

Killer robots? Not so much

DOUGLAS CLEMENT | Editor, The Region



The death of jobs has been grossly exaggerated, at least in Germany, where robots are plentiful. The story on wages, however, is less promising

NEWS RELEASES

October 9, 2018

Crain and Walsh Elected to Minneapolis Fed Board of Directors

ALYSSA AUGUSTINE | Media Representative



Leaders will serve three-year terms beginning January 1 representing a cross section of the Ninth District's economy

Federal Reserve Bank of Minneapolis



The Federal Reserve System is the central bank of the United States. Congress created the Federal Reserve through a law passed in 1913, charging it with a responsibility to foster a sound banking system and a healthy economy. This broad mission remains today for the Federal Reserve Bank of Minneapolis and the 11 other Federal Reserve Banks, each serving a specific region of the

Center for Indian Country Development Features



- › Indigenous Arts Ecology – A New Investment Model for Indian Country
- › Center for Indian Country Development Welcomes Research Economist Donna Feir
- › Evidence of Lower Credit Card Limits in American Indian Neighborhoods, and Hope for Building Credit Capacity

Opportunity & Inclusive Growth Institute Features



- › Which Leader to Climb? Wages of

MINNEAPOLIS FED

October 9, 2018

There's more to the story

Learn how Alexander Hamilton's vision paved the foundation for the Minneapolis Fed



BANK UPDATES

October 1, 2018

Henry Long from Eden Prairie took his shot in true "Hamilton" style

ALYSSA AUGUSTINE | Media Representative

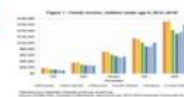


CD360 NOTEBOOK

September 21, 2018

Among young children, wide disparities in family income

ROB GRUNEWALD | Economist



What is a dollar worth?

\$ 1 in 1913

is worth

\$

in 2018

Calculate

From the President

- › Star Tribune Op-Ed: There's more to the Hamilton story than the musical



Thank you!

Questions for me?

Comments for the Bank?

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