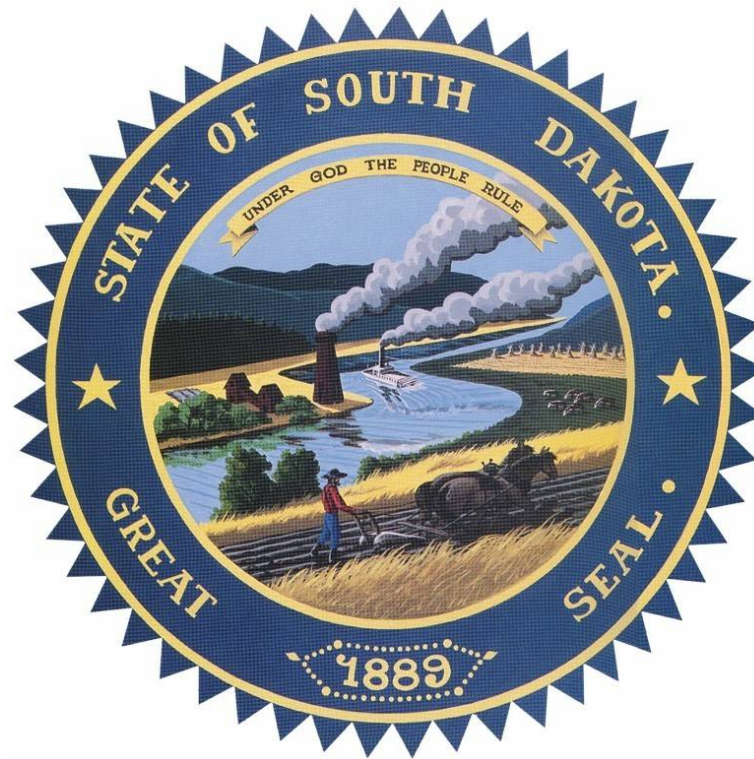


South Dakota Economic Outlook & Budget Update



Presentation to SD Banking Commission
May 18, 2017

Jim Terwilliger – SD Bureau of Finance and Management

Outline of Presentation

- US Economic Forecast Overview
- SD & US Economic Indicators & Trends
 - Nonfarm Employment
 - Nonfarm Income
 - Unemployment Rate
 - Agriculture Sector
- Most Recent SD forecast
- Overview of Recent Revenue Trends & Sales Tax Activity
- Improving Financial Practices
- Summary

IHS Markit - Most Recent US Forecast

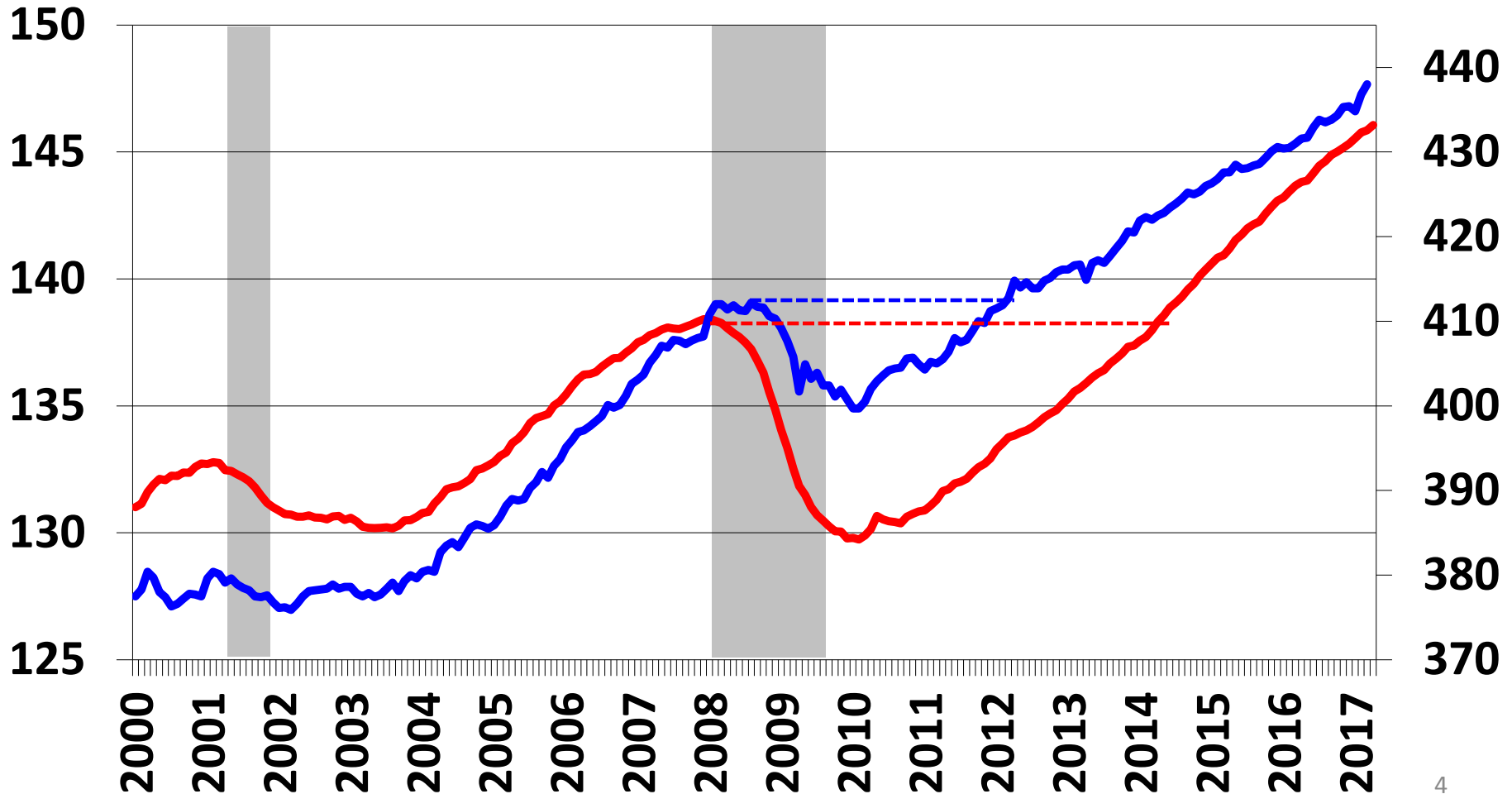
(May 2017)

	2015	2016	2017f	2018f
Real GDP	2.6%	1.6%	2.2%	2.7%
Nonfarm Employment	2.1%	1.8%	1.5%	1.1%
Inflation	0.1%	1.3%	2.3%	1.8%
Housing Starts	1.11	1.17	1.27	1.35
Unemployment Rate	5.3%	4.9%	4.5%	4.2%

Monthly Nonfarm Employment Levels: Steady Increases since 2010

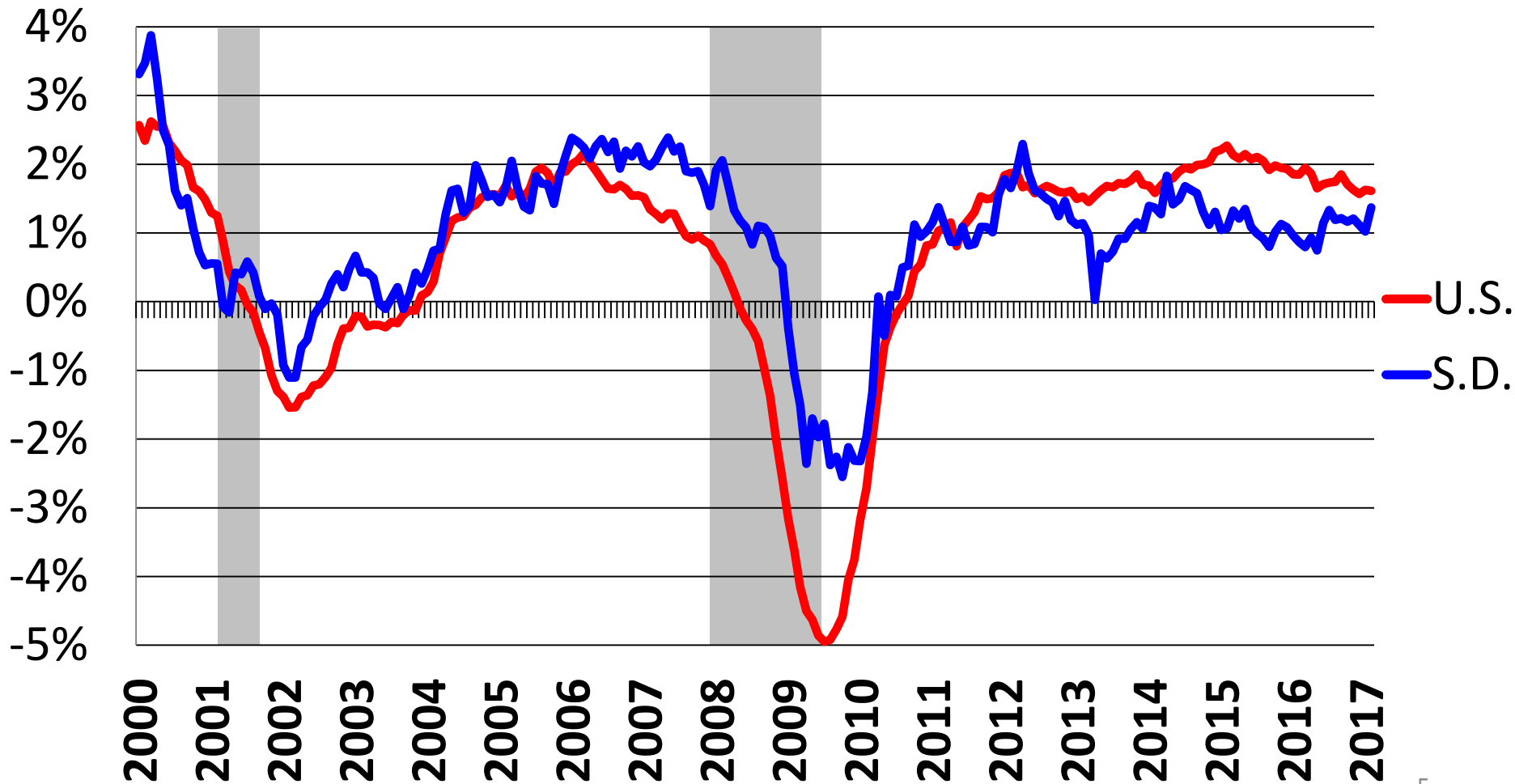
Millions of Jobs (U.S.)

Thousands of Jobs (S.D.)



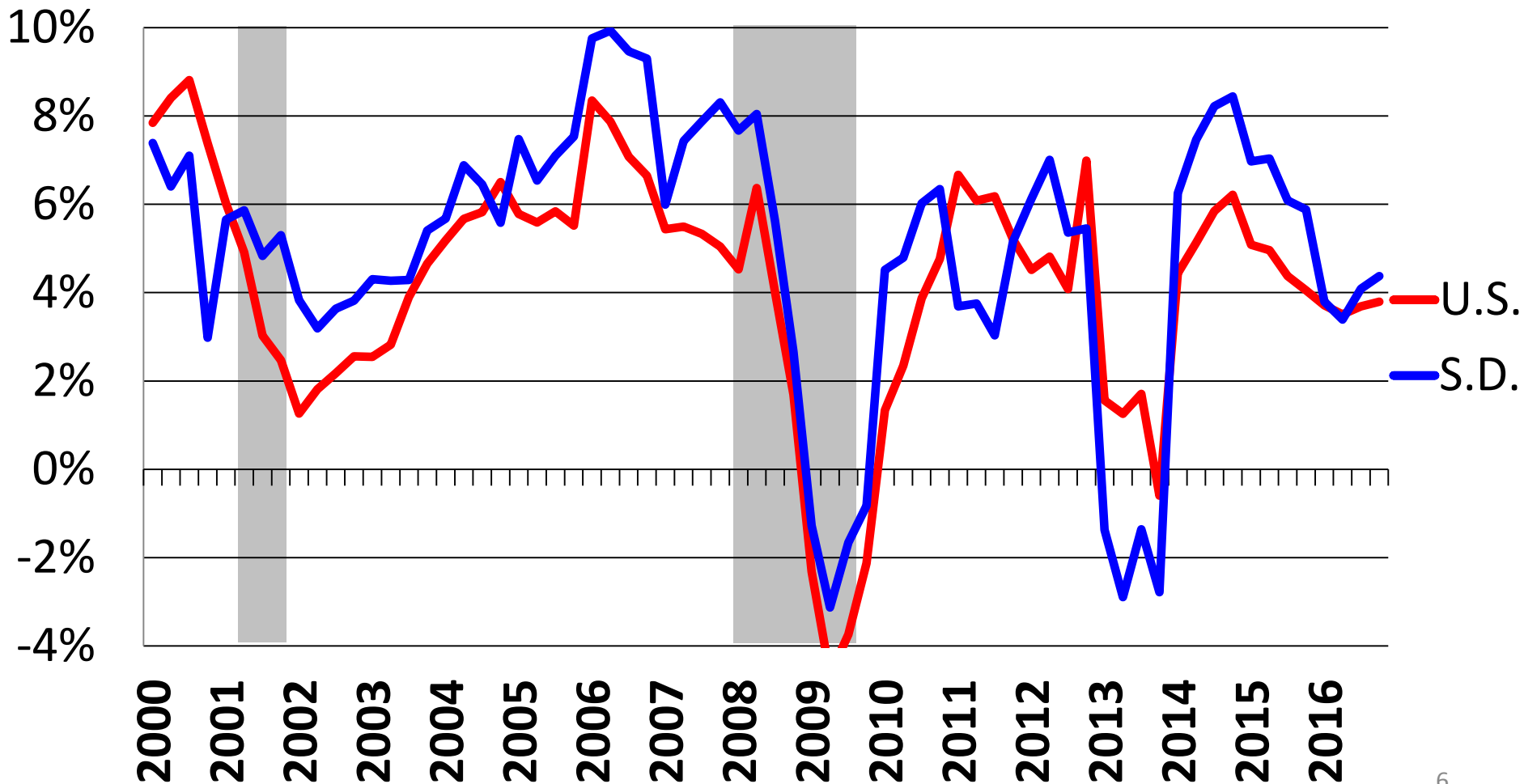
Nonfarm Employment Growth

(monthly Y/Y % chg.)

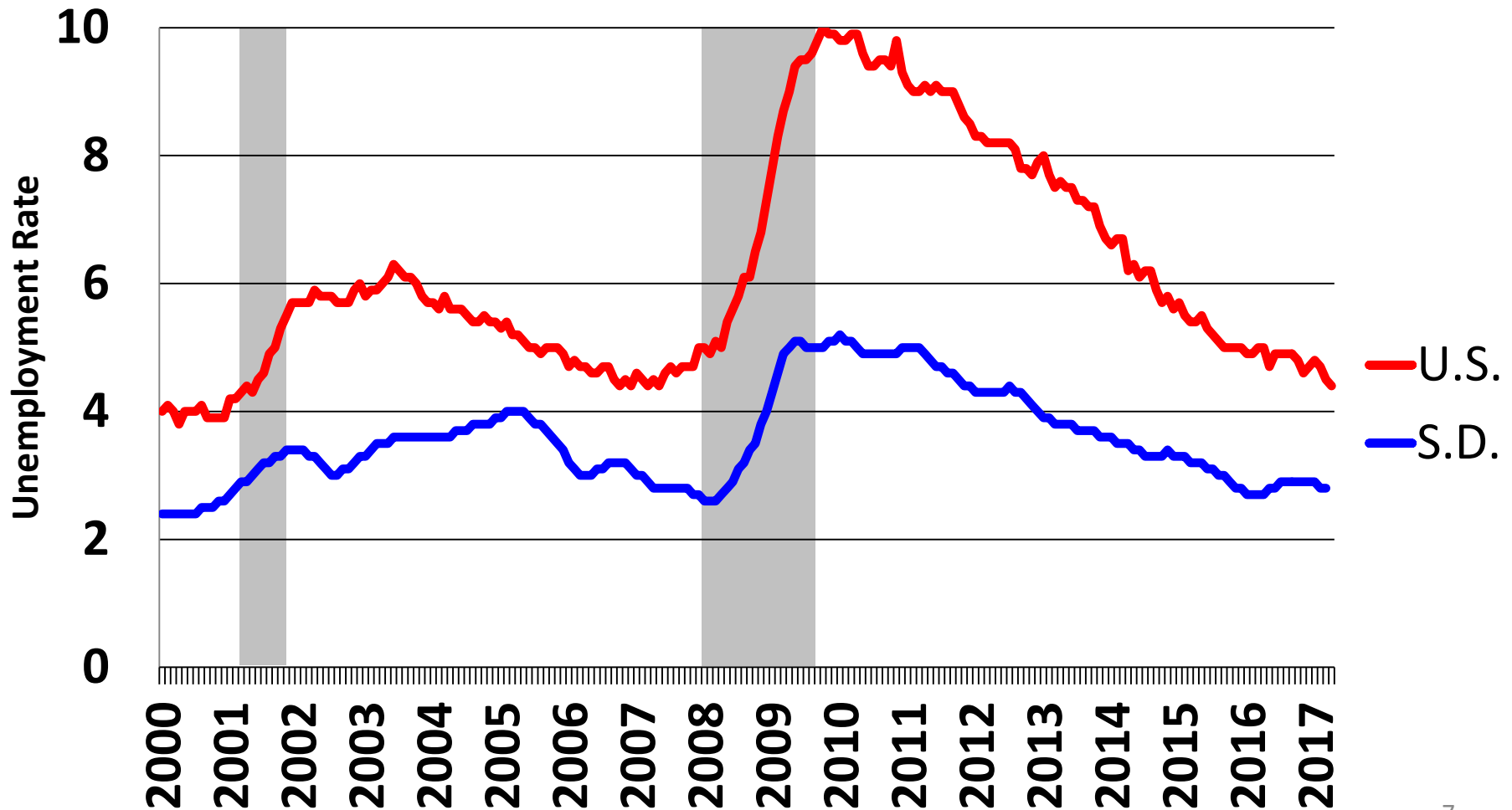


Growth Rates of Nonfarm Income

(quarterly Y/Y % chg.)



Unemployment Rates Trending Lower



South Dakota Employment Changes

(March 2016 - March 2017 seasonally adjusted)

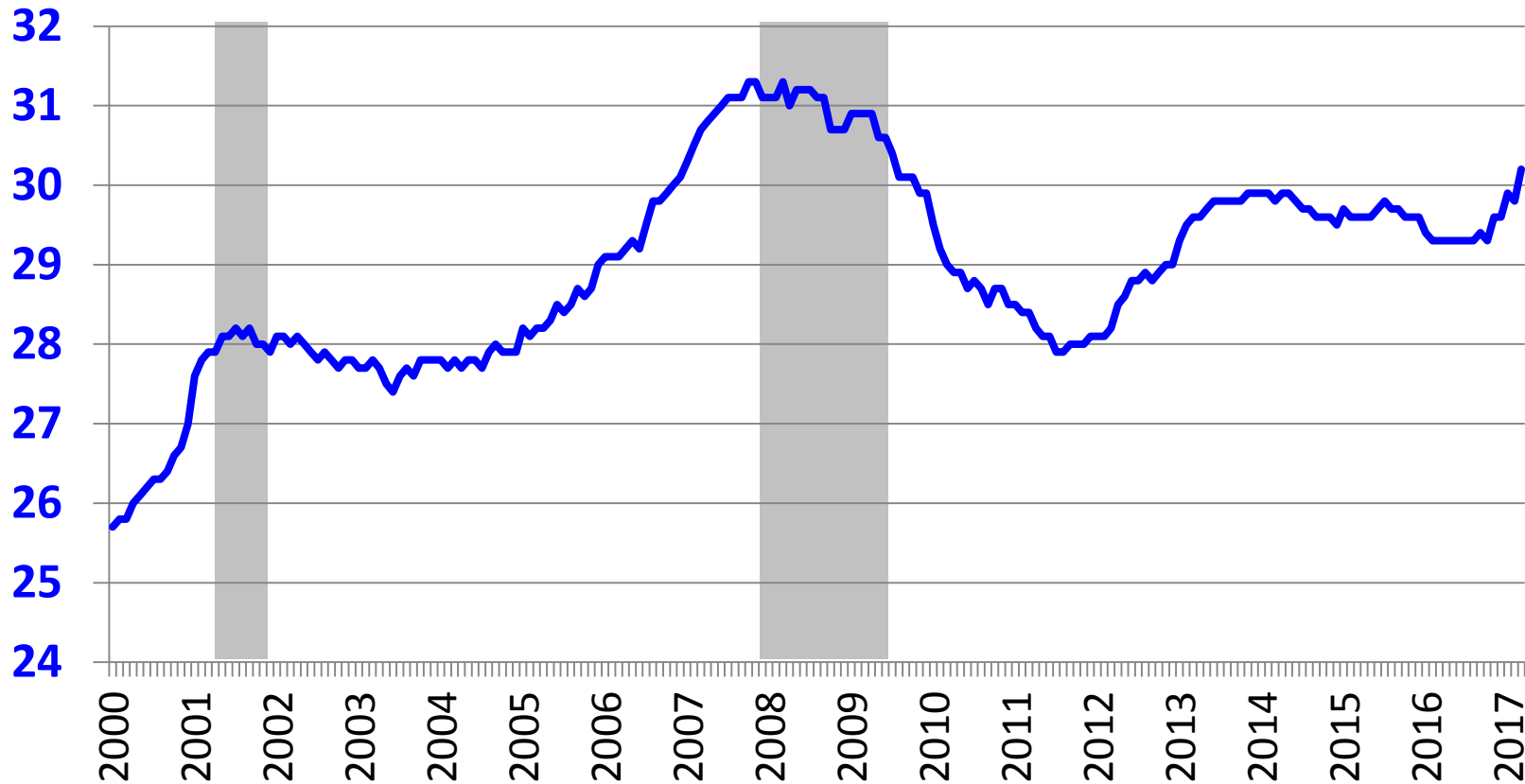
	Y/Y % Chg.	Y/Y Gain (Loss)
Total Nonfarm (seasonally adj.)	1.6%	7,000
Mining, Logging & Construction	5.1%	1,200
Manufacturing	(1.9%)	(800)
Wholesale Trade	0.0%	0
Retail Trade	1.1%	600
Transportation & Utilities	2.2%	300
Information	0.0%	0
Financial Activities	3.1%	900
Prof. and Business Services	1.9%	600
Ed & Health Services	1.4%	1,000
Leisure and Hospitality	2.6%	1,200
Other Services	1.3%	200
Government	2.3%	1,800

South Dakota

Financial Activities Employment

Thousands of Jobs

SD Financial Activities Employment



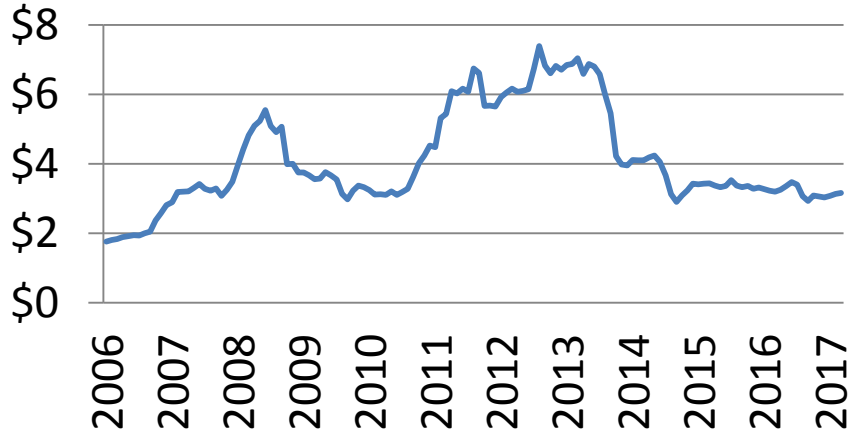
IHS Markit Baseline Economic Forecast for South Dakota Key Indicators

(April '17)

	2015	2016	2017 f	2018 f	'07-'16 avg.
SD Real GDP Growth	2.6%	1.7%	3.5%	3.6%	2.2%
SD Nonfarm Employment	1.1%	1.1%	1.3%	1.2%	0.8%
SD Nonfarm Income	6.5%	3.9%	4.8%	5.1%	4.8%
SD Housing Starts	4,110	5,340	4,950	4,560	4,190
SD Unempl. Rate	3.1%	2.8%	2.9%	2.9%	3.7%

Agriculture Economy/Prices

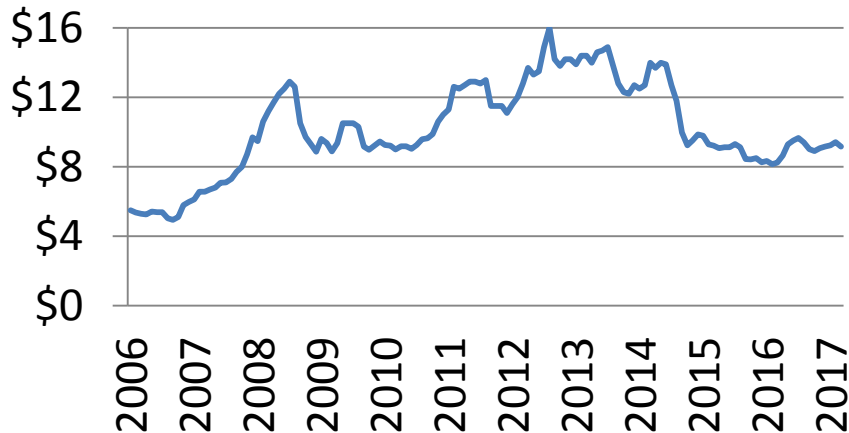
SD Corn Prices



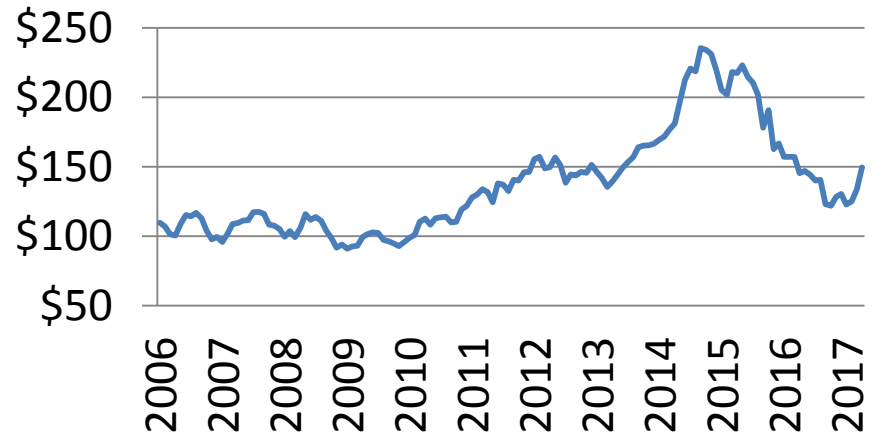
SD Wheat Prices



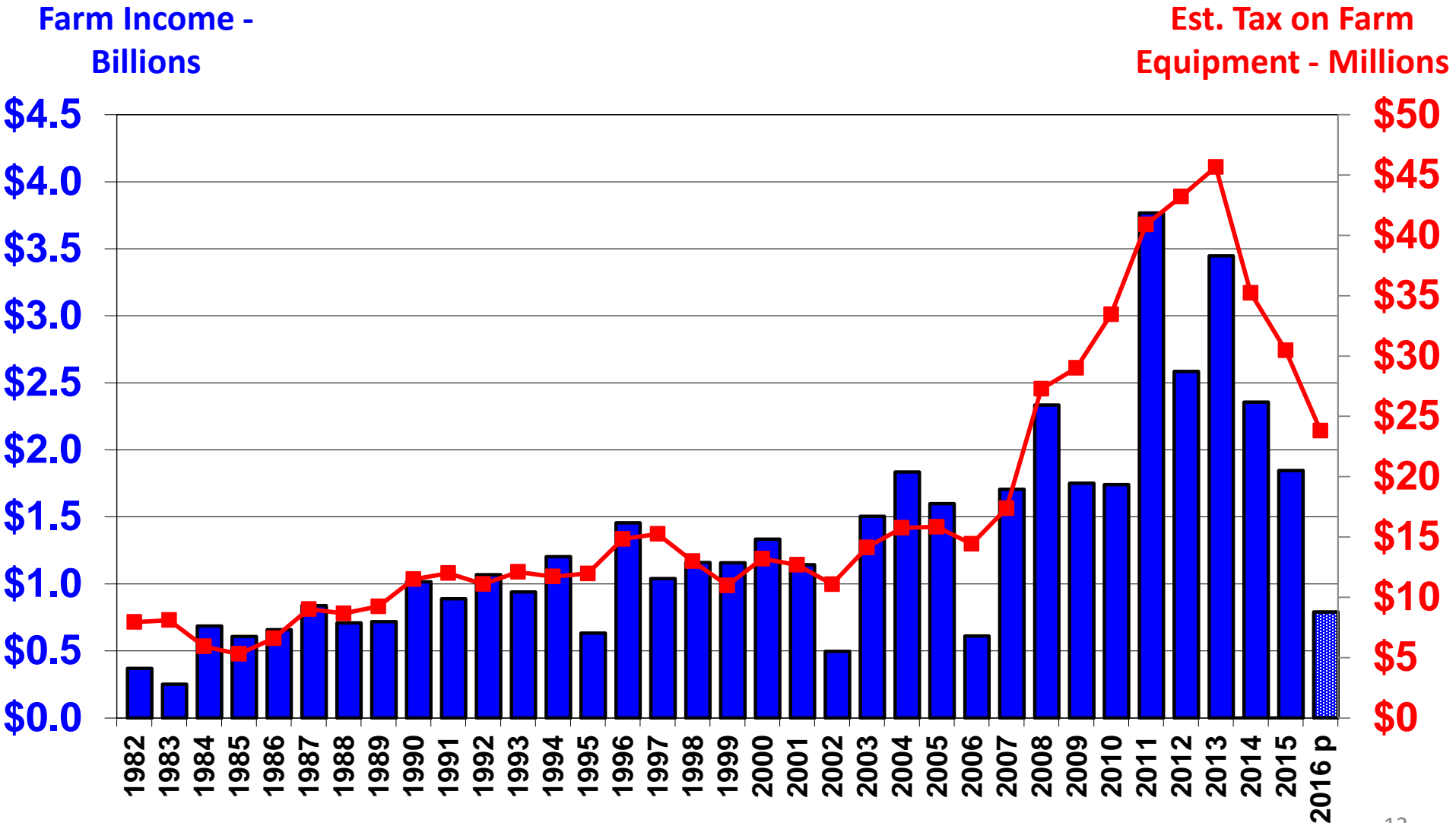
SD Soybean Prices



Feeder Cattle Prices \$/cwt



Sharp Decline in Farm Income – Leading to Less Spending



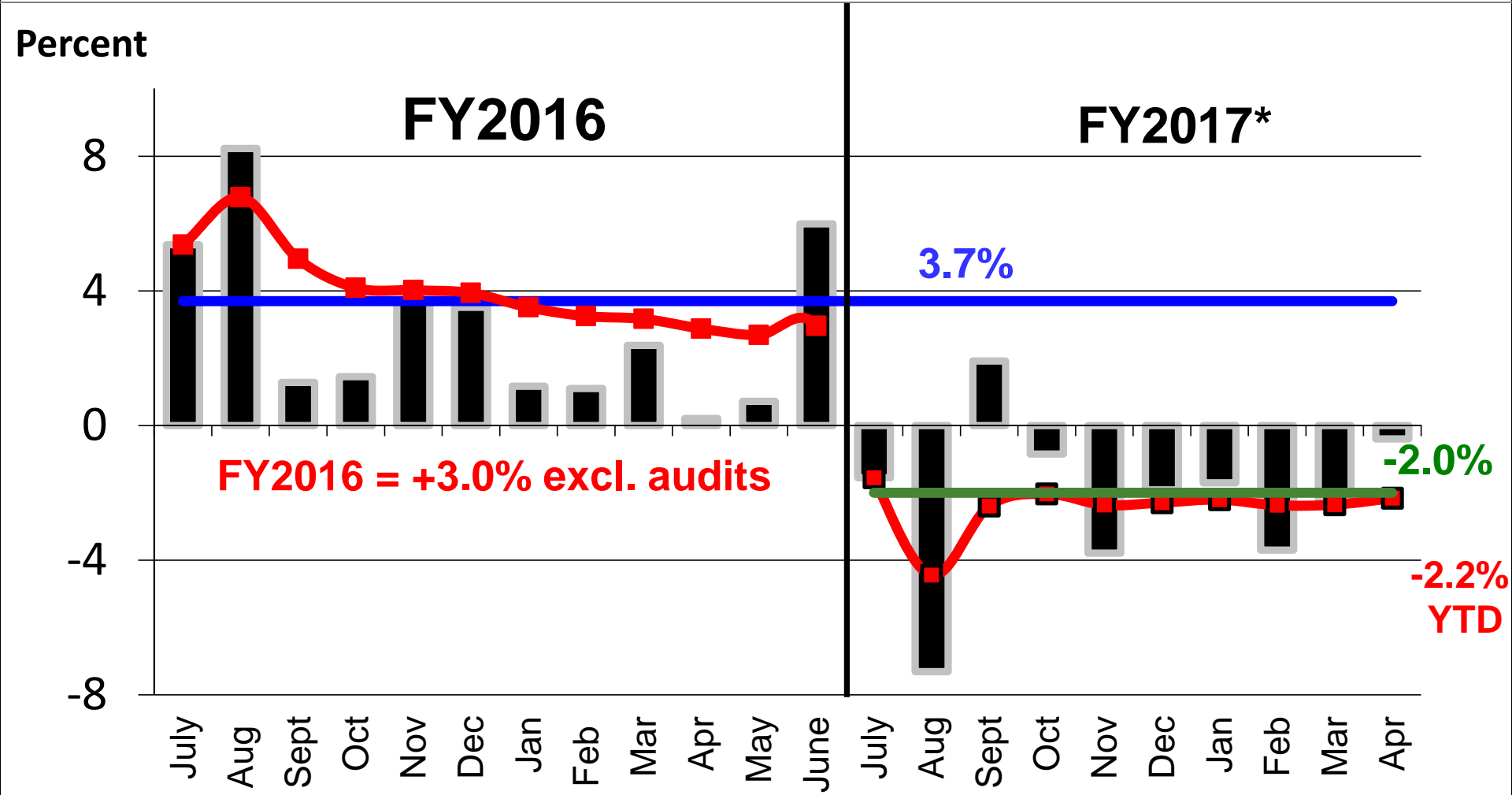
Source: BEA and SD Dept. of Revenue

Recent State General Fund Revenue Trends

Tax Source	FY2017 YTD Growth	Growth Rate Needed for Most Recent FY2017 Estimates
Sales and Use Tax	9.8%	10.5%
Contractor's Excise Tax	6.8%	7.6%
Lottery	1.6%	1.8%
Insurance Premium Tax	(1.0%)	6.9%
Unclaimed Property Receipts	(19.2%)	(11.4%)

Growth Rates for Sales Tax Collections

Blue = FY08-FY16 Average Red = Running YTD FY16/FY17 Growth
 Black = Monthly Growth Rates Green = Revised Base FY17 (w/o rate inc)



Source: SD Bureau of Finance and Management

*Excludes Rate Increase

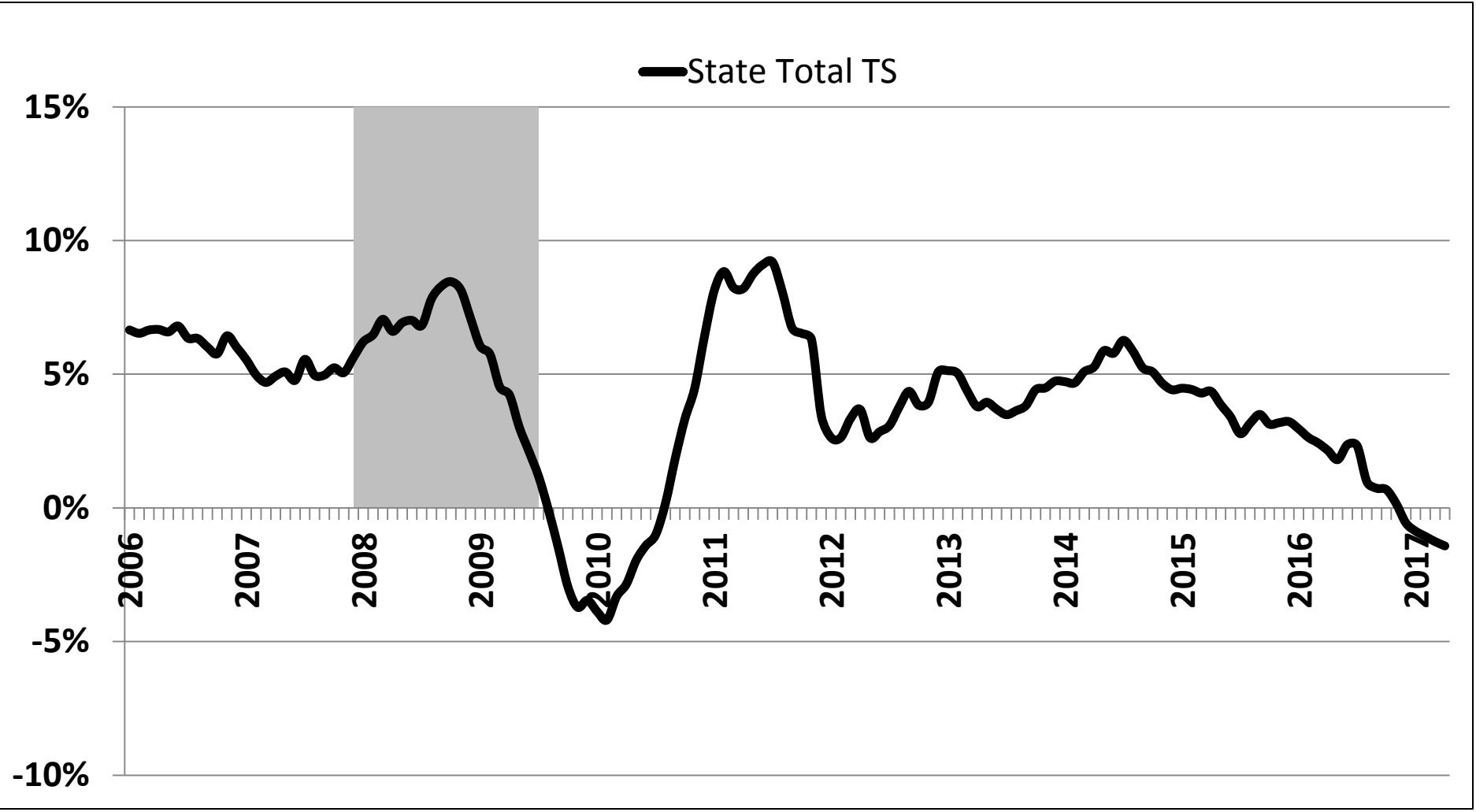
FY2017 YTD Taxable Sales Growth through April

Taxable Sales by Major Group Comparison				Average Growth from FY09-FY16
<u>Top 15 Major Groups (82% of total)</u>	<u>FY16</u>	<u>FY17</u>	<u>% Chg</u>	<u>FY09-FY16</u>
Misc. Retail *	1,910,728,382	1,744,580,063	-8.7%	2.9%
General Merchandise Stores	1,910,031,958	1,920,067,407	0.5%	3.7%
Food Stores	1,314,080,338	1,284,830,202	-2.2%	2.7%
Building Materials & Garden Supplies	1,317,143,535	1,167,125,591	-11.4%	4.9%
Eating & Drinking Places	1,192,626,280	1,202,647,824	0.8%	4.0%
Electric, Gas, & Sanitary Services	1,164,256,317	1,210,554,054	4.0%	0.9%
Wholesale Trade - Durable Goods	1,103,913,249	938,332,599	-15.0%	2.8%
Auto Dealers/Service Stations	847,115,098	807,269,555	-4.7%	4.5%
Communications	1,012,579,119	1,002,308,729	-1.0%	3.9%
Business Services	832,222,274	835,510,903	0.4%	4.5%
Furniture & Homefurnishing Stores	515,722,862	529,072,413	2.6%	-1.1%
Auto Repair, Services, & Parking	432,606,666	428,870,136	-0.9%	5.1%
Engineering & Management Services	394,532,792	448,269,284	13.6%	3.9%
Apparel & Accessory Stores	324,675,117	338,285,809	4.2%	3.6%
Hotels & Other Lodging Places	520,542,125	514,788,926	-1.1%	5.6%
Total of Top 15 Major Groups	14,792,776,112	14,372,513,495	-2.8%	3.3%
Remaining Groups	2,947,065,078	2,998,778,610	1.8%	3.9%
Total Taxable Sales	17,739,841,190	17,371,292,105	-2.1%	3.4%

Taxable Sales Growth Analysis

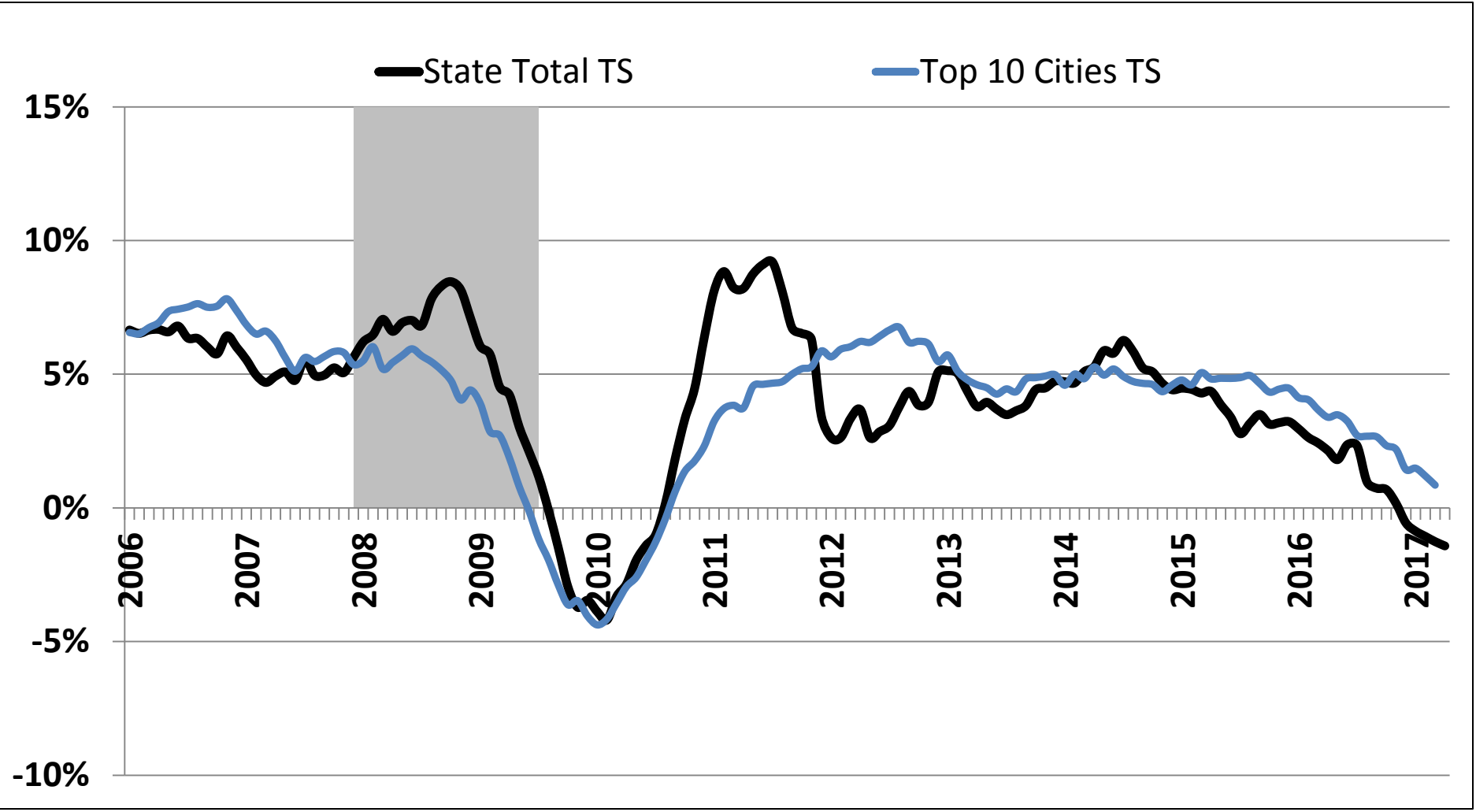
- Split State Taxable Sales into 3 sub-groups
 - Largest 10 Cities Taxable Sales (up to 2% rate applies)
 - Approximately 60% of total
 - All other Cities (excludes top 10) Taxable Sales
 - Approximately 20% of total
 - Rest of Taxable Sales (only 4.5% state rate applies)
 - Approximately 20% of total
- All data is smoothed by using a 12 month moving average of the most recent year of taxable sales.

Taxable Sales Historical Growth



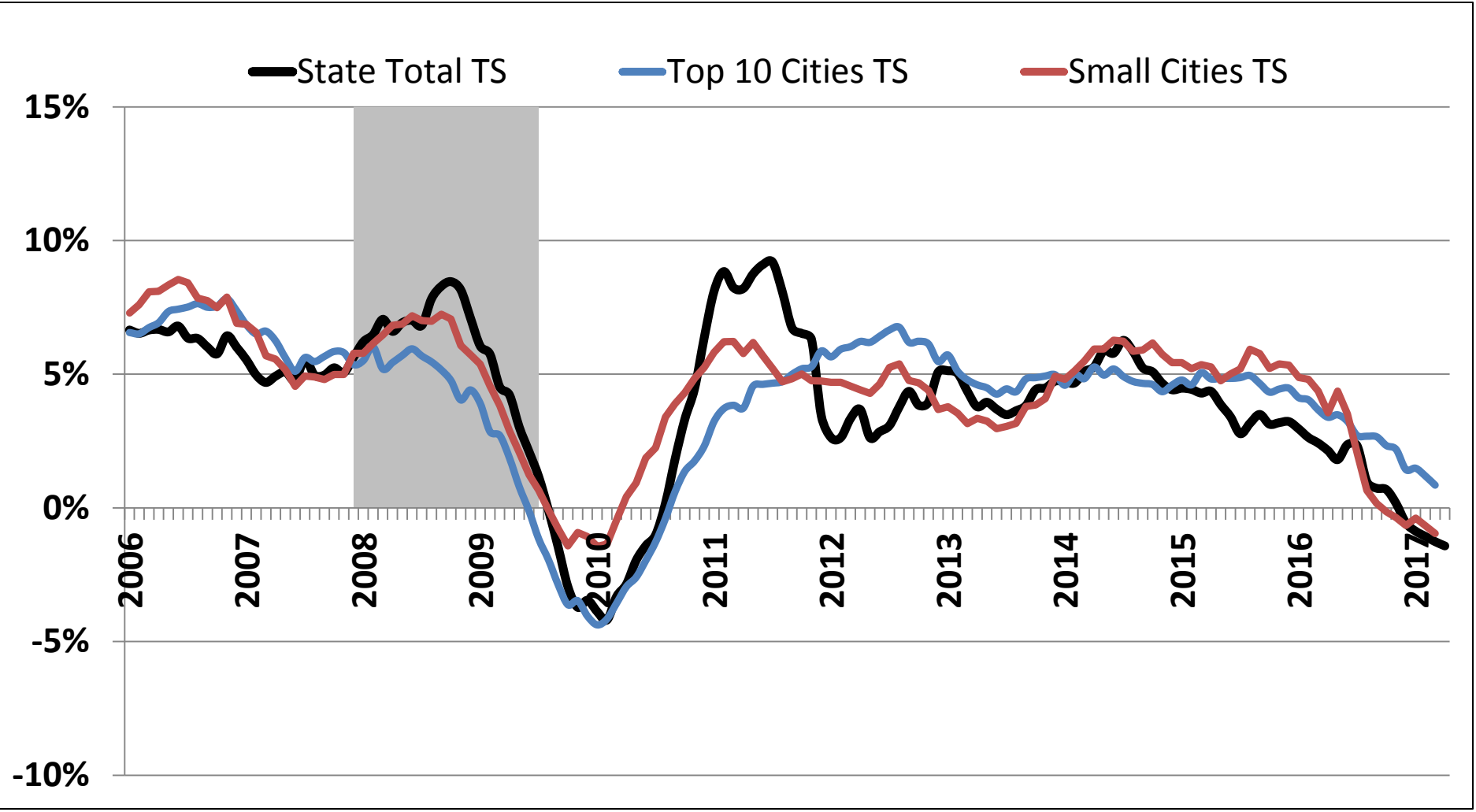
Source: SD Dept. of Revenue & BFM

Taxable Sales Historical Growth



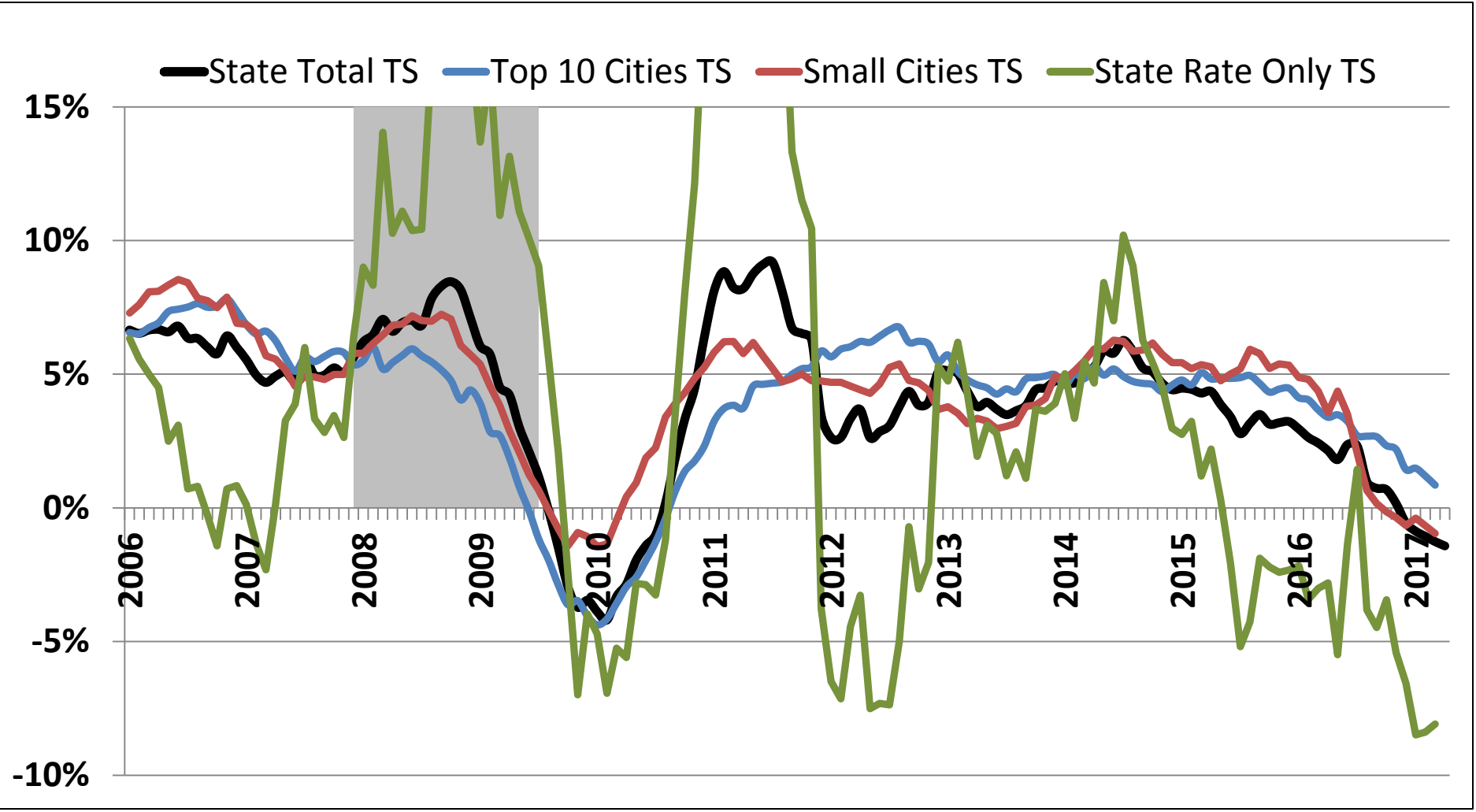
Source: SD Dept. of Revenue & BFM

Taxable Sales Historical Growth



Source: SD Dept. of Revenue & BFM

Taxable Sales Historical Growth



Source: SD Dept. of Revenue & BFM

Contributing Factors to Recent Sales Tax Weakness

- Lack of Inflation providing little to no price increase in taxable sales base. In some cases we are seeing price decreases (food).
- Drastic reduction in farm income causing decline in capital spending in the Agriculture sector.
- Although progress has been made, still seeing leakage from E-commerce activity.

Summary

- US Economy expected to grow moderately in 2017 & 2018
- SD Economy anticipated to grow moderately, with continued challenges in Agriculture sector in 2017
- Economic indicators suggest improvement in state revenue, but still could be a challenging year in the next budget cycle
- Steps to improve financial practices have paid dividends with AAA credit rating from all three major rating agencies

Improving Financial Practices

- Dashboard Metrics – bfm.sd.gov
- Long-term Financial Planning
 - Long-Term Financial Plan
 - 5 Year Capital Expenditure Plan
 - Debt Limitation and Management Policy
- Faster CAFR Initiative
- Risk Management
- Internal Controls

Further Information

Bureau of Finance and Management

bfm.sd.gov

773-3411

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