The State of the South Dakota Economy

Ron Wirtz
Regional Outreach Director
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

12 “District” banks carry out operations of Federal Reserve System

FOMC = Monetary policy

Neel Kashkari
Minneapolis
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

GDP index: 2005 Q2 = 100

Source: Bureau of Economic Analysis
Post-recession GDP

South Dakota losing pace in recovery

Annualized quarterly output, inflation adjusted

GDP index: 2009 Q2 = 100

Source: Bureau of Economic Analysis

---

United States

Minnesota

Montana

South Dakota

Source: Bureau of Economic Analysis
12-month real GDP growth
Q2 2017 to 2Q 2018

United States: 2.9%
Montana: 2.1%
Minnesota: 1.1%
South Dakota: 0.8%

Source: Bureau of Economic Analysis
12-month GDP growth, by sector
2017:Q2 to 2018:Q2

Information
Manufacturing
Professional, scientific, and technical...
Other services (except government...
Health care and social assistance
Real estate and rental and leasing
Retail trade
Construction
Wholesale trade
Transportation and warehousing
Accommodation and food services
Agriculture and forestry
Finance and insurance

Source: Bureau of Economic Analysis
South Dakota metros: Good/bad news
SF & RC similar to US, but below neighbors

Source: Bureau of Economic Analysis

GDP index:
2009 output = 100
GDP: Metros vs. rest of state

Opposite directions since 2015

GDP index:
2009 output = 100

Rapid City
Sioux Falls
Rest of SD
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?

H & P index: 1990 = 100

*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.

Capital ratios have increased nearly 100 bps since 2014.
Earnings steadily improving at median SD bank

Pretax ROAA is back to pre-crisis levels at SD banks
Loan growth has stabilized over the past year at the median SD bank.

Loan growth remains at the lower end of the historical range.
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

Percent

September of each year


Billings, MT
Rapid City, SD
Bismarck, ND
Sioux Falls, SD
Mankato, MN

Billings, MT
Rapid City, SD
Bismarck, ND
Sioux Falls, SD
Mankato, MN

Source: Bureau of Labor Statistics
Job growth
South Dakota trailing nation; uptick?

Source: Bureau of Labor Statistics

Jobs index: 2006 = 100

September of each year, seasonally unadjusted

US
Minnesota
Montana
South Dakota

Source: Bureau of Labor Statistics
SD metro jobs

Sioux Falls out front, Rapid City accelerating

Source: Bureau of Labor Statistics
Job growth: Concentrated in Sioux Falls and Rapid City

Jobs index: 2009 = 100

Source: Bureau of Labor Statistics
Jobs index: Goods vs. services

Rural service jobs are lagging

Goods jobs (16% of total)

- Sioux Falls
- Rest of SD
- Rapid City

Services jobs (84% of total)

Source: Bureau of Labor Statistics
Hiring demand

South Dakota job postings down, pivoting?

Online job postings tracked by state, September of each year

Source: South Dakota Dept. of Labor & Regulation
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

Source: Bureau of Labor Statistics, LAUS
Sioux Falls labor force sprinting ahead of peers

Labor force index
1990 = 100
Labor force trends are tied to:

- Population growth
- Demographics
- Labor force participation
Population growth
South Dakota lagging, but gap is holding

Population index 1990 = 100

Source: U.S. Census, via FRED
SD population projection remains pretty steady
Shifting demographics
More people, but not more ‘core’ workers

Minnesota State Demographic Center
Labor force participation rates
Long, slow decline; hitting plateau?

Labor force participation rate = 16 yrs old and over, employed or looking for work

Source: Bureau of Labor Statistics
Disability finally seeing change in trend

SSI & SSDI enrollment trends

Disability enrollment as a share of labor force

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 except 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

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

Statewide rate

AIAN

Percent, 2016

Minnesota  Montana  North Dakota  South Dakota  Wisconsin

Source: Bureau of Labor Statistics
Why does high minority unemployment matter? They are the future workforce

**South Dakota workers**

- **White**
- **Other minority groups**
- **American Indian**

**SD worker GROWTH**

- **Other minority groups**
- **American Indian**
- **White**

- **Change since 2000**
  - 3 of 8 new workers is nonwhite, and the rate is accelerating

Source: U.S. Census
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
Thank you!

Questions for me?
Comments for the Bank?

Twitter: @RonWirtz
@MinneapolisFed
ron.wirtz@mpls.frb.org