

South Dakota State University
**Open PRAIRIE: Open Public Research Access Institutional
Repository and Information Exchange**

Economics Commentator

Economics


12-15-2011

Economic Outlook Heading into 2012

Emmanuel Opoku
South Dakota State University

Scott W. Fausti
South Dakota State University

Follow this and additional works at: http://openprairie.sdstate.edu/econ_comm

 Part of the [Agricultural and Resource Economics Commons](#), and the [Regional Economics Commons](#)

Recommended Citation

Opoku, Emmanuel and Fausti, Scott W., "Economic Outlook Heading into 2012" (2011). *Economics Commentator*. Paper 527.
http://openprairie.sdstate.edu/econ_comm/527

This Newsletter is brought to you for free and open access by the Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Economics Commentator by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.



ECONOMICS COMMENTATOR

South Dakota State University

No. 536

December 15, 2011



Economic Outlook Heading into 2012

by
Emmanuel Opoku*
Research Associate
Scott W. Fausti*
Professor of Economics

Introduction

The recent release of the updated forecast for the economy by Federal Reserve policymakers indicates a lower forecast for economic growth. The change implies that the Federal Reserve expects growth to be sluggish and unemployment high through at least 2013.

Employment

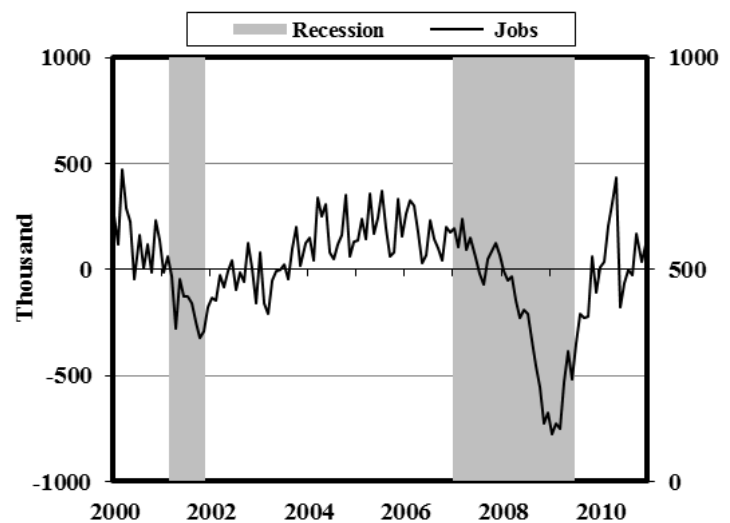
According to the Bureau of Labor Statistics (BLS), the return of 45,000 striking telecommunications workers in August partially contributed to the September employment gains. Payroll employment has risen by an average of 72,000 per month, compared with an average of 161,000 for the prior six months. The nonfarm payroll employment estimates indicate that 1,490,000 jobs were added from September 2010 to September 2011, an increase of 1.15%. The September job gains represented sluggish job growth, which will require an increase in the rate of expansion in the private sector to lower unemployment.

For the month of October, the largest over-the-month increase in employment occurred in Illinois (+30,000), followed by Texas (+25,700). The largest over-the-month declines in employment occurred in Wisconsin (-9,700), New York (-8,300), and Minnesota (-6,100)¹. Professional and business

services, health care, retail trade, leisure and hospitality added more jobs than other sectors, but government employment continued to decrease. Government employment declined by 20,000 in November 2011 compared to a decline of 138,000 for November of last year.

The December Non-Farm Payroll report released by the BLS estimated an increase of 120,000 nonfarm jobs in November as compared to a nonfarm employment job gain of 93,000 in November 2010² (See Fig.1).

Fig.1. U.S. Change in Nonfarm Employment Level



Source : Bureau of Labor Statistics

Unemployment

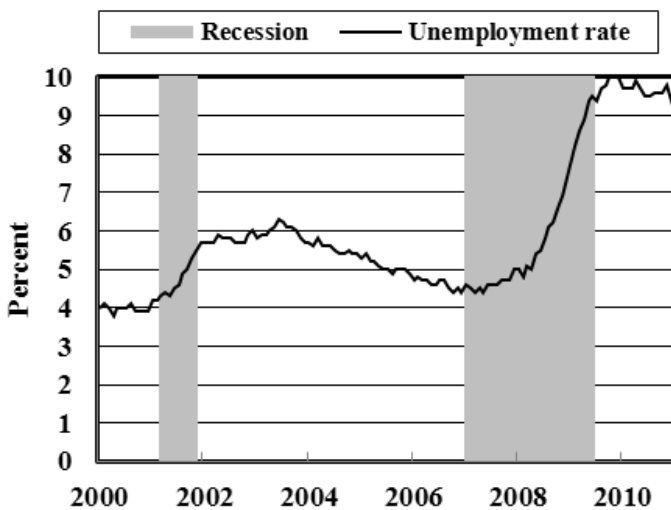
The BLS reported that the unemployment rate dropped by 0.4% to 8.6% in November after remaining at 9.1% for three consecutive months. This indicates a fall of 0.7% from the November 2010 estimate of 9.3%. This reduces the total number of unemployed by 1.7 million, from

*Contact the authors at Emmanuel.Opoku@sdstate.edu or Scott.Fausti@sdstate.edu or 605-688-4141.

14.3 million in November 2010 to 12.6 million in November 2011³ (Fig.2). Nevada recorded the highest unemployment rate (13.4%) whereas North Dakota recorded the lowest unemployment rate (3.5%), followed by Nebraska (4.2%) and South Dakota (4.6%).

There are 2.6 million persons who were marginally attached to the labor force; about 1.1 million of these marginally attached were discouraged workers. Discouraged workers are persons not currently looking for work because they believe no jobs are available for them. According to the BLS, the remaining 1.5 million persons marginally attached to the labor force in November have not searched for work in the 4 weeks preceding the survey because they had family responsibilities or were enrolling in school. A measure of unemployment (U-6) that includes workers who are underemployed and those who are marginally attached to the labor force increased from 16.2% in September 2010 to 16.5% in September 2011.

Fig.2. U.S. Unemployment Rate



Source : Bureau of Labor Statistics

Industrial Production

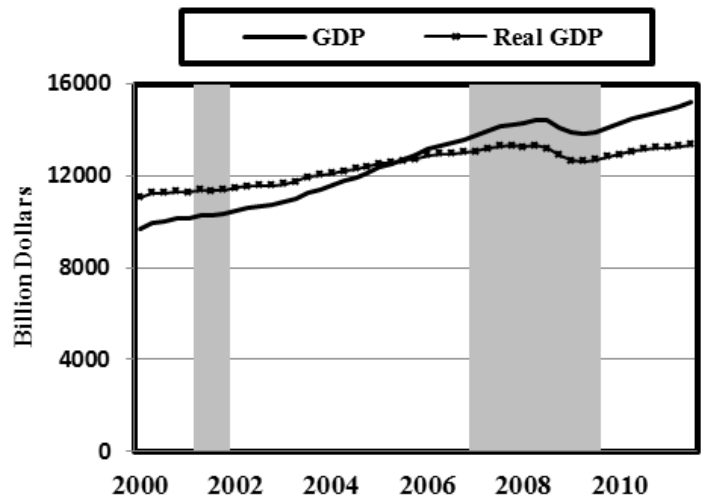
According to the Federal Reserve, industrial production was unchanged in August and increased 0.2% in September⁴. Industrial production increased at an annual rate of 5.1%. The percentage change in industrial production for the third quarter of 2011 was 5.2% as compared to 0.6% in the second quarter.

Manufacturing output moved up 0.4% in September and is 3.9% higher than in September 2010. Production at mines advanced 0.8% in September, while the output of utilities decreased 1.8%. Total industrial production for September was 3.2% above its year-earlier level. Capacity utilization for total industry increased to 77.4 %, a rate 1.7% above its level from a year earlier, but 3.0% below the average of 1972-2010.

Economic Growth

The Real Gross Domestic Product (GDP) is the broad measure of total output in the United States. Real GDP increased at an annual rate of 2.5% in the third quarter of 2011, an increase of 1.2% over the previous quarter⁵(Fig.3). The increase in real GDP reflected positive contributions from nonresidential fixed investment, exports, personal consumption expenditures and a small decrease in federal government spending that was partly offset by negative contributions from private inventory investment and state and local government spending.

Fig.3. U.S. Gross Domestic Product

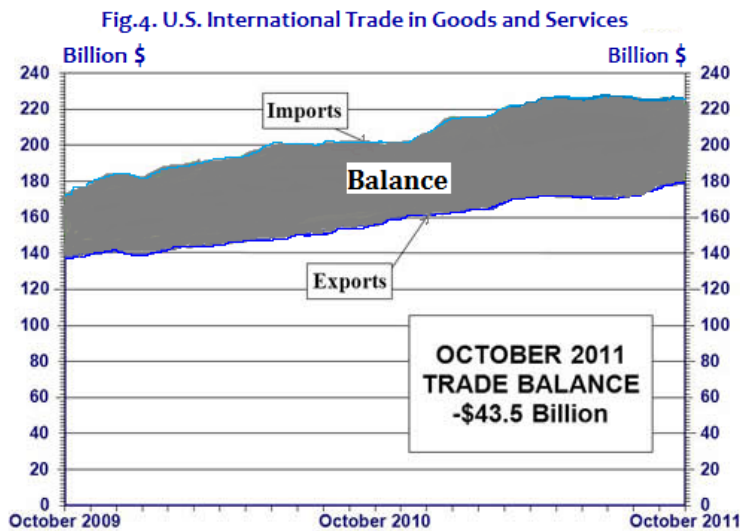


Source : Bureau of Economic Analysis

International Trade

According to the Bureau of Economic Analysis, the U.S. balance of trade deficit declined \$0.7 billion from \$44.2 billion in September to \$43.5 billion in October 2011 (Fig.4). The level of exports in October was \$179.2 billion and imports were \$222.6 billion⁶. This indicates a decline in exports and imports by \$1.5 billion and \$2.2 billion in October 2011, respectively.

From October 2010 to October 2011, the goods and services deficit increased \$4.0 billion. Exports were up \$19.7 billion (12.3%), and imports were up \$23.7 billion (11.9%). The decline in exports and imports of goods and services from September to October 2011 was mainly due to decreases in industrial supplies and materials; automotive vehicles, parts and engines; and foods, feeds and beverages. Increases in imports also occurred in other goods, capital goods, and consumer goods. A declining trade deficit, though minimal, has a positive effect on the level of U.S. economic activity.



Source: U.S. Census of Economic Analysis

South Dakota Economy

South Dakota (SD) recorded a decline in the unemployment rate in September 2011 to 4.6%, having remained at 4.7% for three consecutive months in June, July and August 2011⁷. In August 2011, SD nonfarm employment was estimated at 403,800, whereas total nonfarm employment in September 2011 was 406,900 (preliminary estimate). This reflects a slight increase in SD employment. South Dakota gained 3,100 jobs (0.8%) between September 2010 and 2011.

The Rapid City Metropolitan Statistical Area (MSA) recorded a decline of 0.3% in unemployment to 4.2% between August and September 2011. Out of a total labor force of 66,201 workers in the Rapid City

MSA, 63,391 were employed and 2,810 (not seasonally adjusted) were unemployed.

The Sioux Falls MSA recorded a decline of 0.4% in unemployment to 4.2% between August and September 2011. Out of a total labor force of 128,665 workers in Sioux Falls' MSA, 123,441 were employed and 5,224 (not seasonally adjusted) were unemployed.

South Dakota's leading economic indicators point to slow growth through the fourth quarter of this year. A monthly survey conducted by Ernie Goss from Creighton University reported a decline in the South Dakota Business Conditions Index in November with respect to October 2011 (based on supply managers). The Index declined from 52.6 in October to 50.3 in November 2011⁸. Components of the index were inventories (45.9), delivery time (47.5), production (49.0), new orders (52.6), and employment (56.5). However, according to Prof. Goss, manufacturers tied to international markets, agriculture, and energy continue to experience very positive growth. Over the past year, the growth in manufacturing jobs has exceeded 4.0%, well above the national and the regional averages. Prof. Goss predicts a positive but slow growth for the next six months.

Outlook for 2012

The economic outlook for the U.S in 2012 is weak despite a decline in the unemployment level for the second time in eight months. The significant decline in the trade deficit in September, coupled with the positive percentage change in industrial production in the third quarter, indicates that the economy is improving at a slow pace. The fiscal and monetary policies initiated at the Federal level should continue to stimulate economic activity and mitigate some of the difficulties that Americans continue to face in this slowly improving economy.

The Federal Reserve provides forecasts for the economy for the final quarters of the next three years. The unemployment forecast for the final quarters of 2011, 2012, 2013 and 2014 were 9.1%, 8.7%, 8.2%, and 7.75%, respectively. The annual economic growth forecast for years 2011-2014 were

1.7%, 2.9%, 3.5%, and 3.9%, respectively. The annual rates of inflation forecast from 2011 to 2014 were 2.9%, 2.0%, 2.0%, and 2.0%, respectively. These indicate that the projection in the economy doesn't portray positive growth but rather sluggish growth.

ECONOMICS COMMENTATOR

Department of Economics
South Dakota State University
Box 504 124 Scobey Hall
Brookings, SD 57007-0895
Phone: 605-688-4141
Fax: 605-688-6386
E-Mail: Penny.Stover@sdstate.edu
75 copies of this newsletter were produced at a cost of less than \$100.

¹ <http://bls.gov/news.release/laus.nr0.htm>

² <http://bls.gov/news.release/empsit.b.htm>

³ <http://bls.gov/news.release/empsit.t01.htm>

⁴ <http://www.federalreserve.gov/releases/g17/current/>

⁵ <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

⁶ http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf

⁷ <http://bls.gov/eag/eag.sd.htm>

⁸ <http://web.creighton.edu/business/centers-programs/economic-outlook/mid-american-states/south-dakota/2011>

Change Service Requested

Brookings, SD 57007-0895
Box 504
Economics Department

SOUTH DAKOTA STATE UNIVERSITY

