The State of the Sioux Falls & South Dakota economies

June 15, 2018

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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.

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Today’s talk: Two sections

• Light primer on Federal Reserve System

• A look at economic conditions in Sioux Falls and South Dakota
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
  - BUT WHY?!? What’s the goal or rationale?
Federal Reserve goal #1: Stability and uniformity of money supply

No central bank from 1837 to 1912 = currency explosion
Federal Reserve goal #2: Safety and soundness of financial system

No central bank = little ability to react to crises

- Panic of 1873
  - Six-year recession, high inflation and bank failures; NYSE closed for 10 days; 18,000 businesses failed, incl. 100+ railroads

- 1907 banking crisis
  - J.P. Morgan – the individual – saved financial system from full collapse
The Federal Reserve Act of 1913 = distributed power
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
Federal Reserve Structure

Monetary policy set here, with big information needs

12 “District” banks carry out operations of Federal Reserve

Neel Kashkari
Minneapolis
Part 2: “The state of the Sioux Falls and South Dakota economy”

Implied question: Are these economies doing well, or poorly?

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 these economies, via:

- a variety of performance metrics
- tabulated over various timeframes
- using different/peer comparisons

On to the charts ... almost
State comparison

- Minnesota
- Iowa
- South Dakota
- US average benchmark

Metro comparisons

- Minneapolis-St. Paul
- Mankato, MN
- Sioux Falls, SD
- Sioux City, IA-NE-SD
Gross domestic product

Since 2005, SD output best-in-class

Quarterly annualized and chained GDP, 2005 1stQ through 3rdQ 2017

Index:
2005 GDP = 100

Last measure: Q4 2017

Source: Bureau of Economic Analysis
But over last five years, South Dakota has slowed to worst in class

GDP index:
2012 Q4 = 100

Source: Bureau of Economic Analysis
Farm income remains dour

Rolling four-quarter average

Farm income index:
2005 3rdQ = 100

Source: Bureau of Economic Analysis
Metros: Real GDP index

Sioux Falls leading pack

GDP index: 2005 GDP = 100

Note: data only to 2016, and some signs of softening in 2017 and 2018 in SF

Source: Bureau of Economic Analysis
Unemployment

Very low in South Dakota, but rising

April of each year, seasonally unadjusted

Source: Bureau of Labor Statistics
Metro unemployment

Low in Sioux Falls, but also rising

April of each year, seasonally unadjusted

Source: Bureau of Labor Statistics
Involuntary part-time: Also drastically improved, but with recent volatility

Source: Bureau of Labor Statistics
South Dakota job growth modest, slowing

Source: Bureau of Labor Statistics
South Dakota hires & separations

Consistent margin of hiring during recovery, but slowing also evident

Rolling 4-quarter annual counts

Hires
Separations

Source: QWI Explorer, U.S. Census
Metro employment index

Sioux Falls way ahead, but flattening

Index: 2005 jobs = 100

Source: Bureau of Labor Statistics
Sioux Falls dominating job growth in the state

Index:
2005 jobs = 100

Source: Bureau of Labor Statistics
Job growth: Goods vs services

- **Goods producing**
  - Natural resources & mining
  - Construction
  - Manufacturing

- **Service providing**
  - Retail & wholesale trade
  - Utilities
  - Information
  - Financial activities
  - Professional & business services
  - Health care & education
  - Leisure & hospitality
South Dakota: “Goods” jobs seeing big rebound; services see slow, steady uptick

Private sector jobs only

Index: 2005 jobs = 100

“Goods” jobs = 15 percent in SD

Source: Bureau of Labor Statistics
Sioux Falls

Similar growth pattern in recovery

Private sector jobs only

Index: 2005 jobs = 100

“Goods” jobs = 15 percent in Sioux Falls

Source: Bureau of Labor Statistics
Hiring demand
Strong job demand, but trending lower

Advertised job openings in South Dakota

Source: South Dakota Labor Market office
Median wages

South Dakota lower, but gaining

Real (PCE-adjusted) median household wages

Source: Minnesota Dept. of Employment and Economic Development
Quick summary so far:

• Strong growth in Sioux Falls is leading to positive state growth, but also covering for slowness elsewhere

• Strong statewide hiring demand among employers

• Rising wages
Summary cont.

- **But:** Recent employment softness for both Sioux Falls and state

- Why has *long-term* growth been better in Sioux Falls and South Dakota? Why has it hiccuped?

- Look for tell-tale growth clues in labor supply trends – *growing labor force means growing economy & employment*
SD labor force growth keeping up with US, but with recent dip

Labor force index: 2005 = 100

April of each year

Source: Bureau of Labor Statistics
Sioux Falls labor force growth fueling state growth, but also slowing

Source: Bureau of Labor Statistics
Factors in labor force growth

- Population growth
- Population demographics (aging)
- Labor force participation rate

South Dakota is performing better on most of these measures compared with other states, largely due to Sioux Falls
SD population growth exceeding nearby states, thx to Sioux Falls

Index:
2000 population = 100

Source: Bureau of Economic Analysis
Aging population means more labor growth from older workers

South Dakota seeing larger gains among younger age groups than other peer states

Source: South Dakota State University
Population growth coming increasingly from minority groups
Sioux Falls population

Source: U.S. Census
Minority populations will increasingly feed future labor force

**Sioux Falls K-12 enrollment**

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<td>Enrollment (28%)</td>
<td>10,000</td>
<td>15,000</td>
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<td>25,000</td>
<td>30,000</td>
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<td>Minority share (36%)</td>
<td>10,000</td>
<td>15,000</td>
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Source: Sioux Falls School District
Labor force participation rate

Flattening, finally

Seasonally adjusted annual rate (2017 is estimate)

Labor force participation rate = 16-64 year olds that are employed or looking for work, as a percent of total working-age population

Source: Bureau of Labor Statistics
Take aways

• Statewide economy is healthy, thanks to Sioux Falls (& Rapid City, recently)
• But seeing some weakness
  • Unemployment uptick
  • Ag downturn a much bigger deal in rural areas

• Sioux Falls economy: You’re spoiled 😊
  • e.g., closest neighbor, Sioux City, experiencing very different economy
Why is Sioux Falls winning?

*Every Ninth District metro*

- low unemployment and
- high job demand relative to workers – *everyone is looking for workers*

- So why are some metros seeing population growth, and others not so much?

- *Competitive places have more than just jobs available*
Housing growth

Single-family permitting has rebounded, but not over pre-recession levels

Source: U.S. Census Bureau

Does not include Mpls-St. Paul

Source: U.S. Census Bureau
What can we expect going forward?

Labor force math: **Short-term**
- Hiring demand can change *quickly* (+/-)
- Labor supply changes very *slowly*

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

Sioux Falls faces some risk that population and labor force growth will slow
Labor force math: Long-term options

- Do nothing, and except slower growth
- Increase productivity above current trend
- Subsidize fertility
- Attract more people from elsewhere
  - Migration/immigration
- Convince more people to work, including (esp?) under-utilized populations, and help them into higher-productivity jobs
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 still terribly high

Source: Bureau of Labor Statistics
SD working-age disability on rise

Does not include 15,500 South Dakota veterans on some form of disability (10-100 percent) in 2017
The future winners will be places that grow in a labor-shortage environment

Places that:

• Attract workers from elsewhere
• Find ways of bringing local, marginalized workers into the workforce
• Have jobs that offer sustainable, good-paying careers
• Understand that more than just jobs are necessary for people to work more
Thank you!

Questions?
(Spoiler: I cannot answer questions on interest rates and other monetary policy. Sorry!)

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