

The State of the Sioux Falls & South Dakota economies

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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

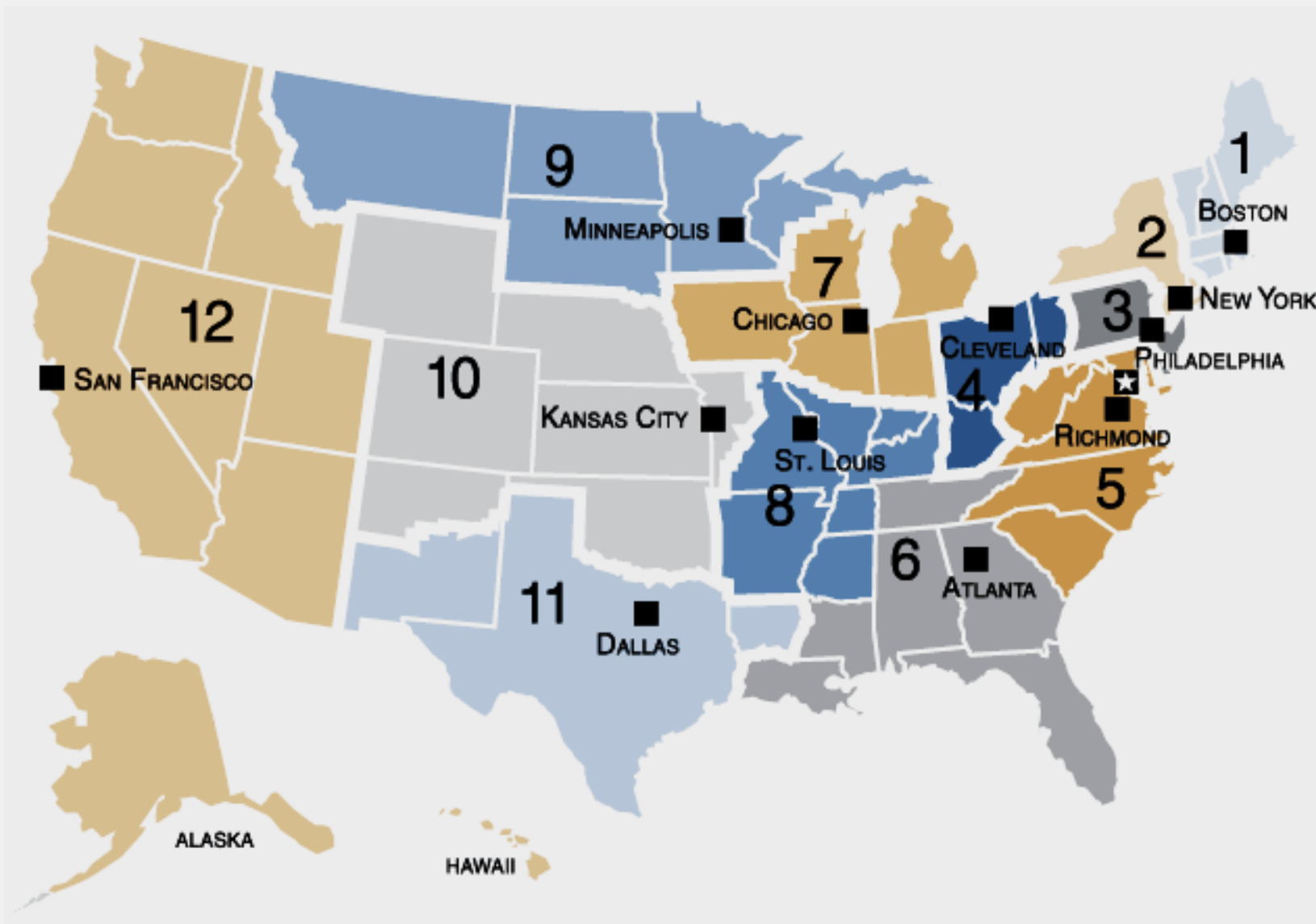
- **Six-year recession, high inflation and bank failures; NYSE closed for 10 days; 18,000 businesses failed, incl. 100+ railroads**

➤ 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

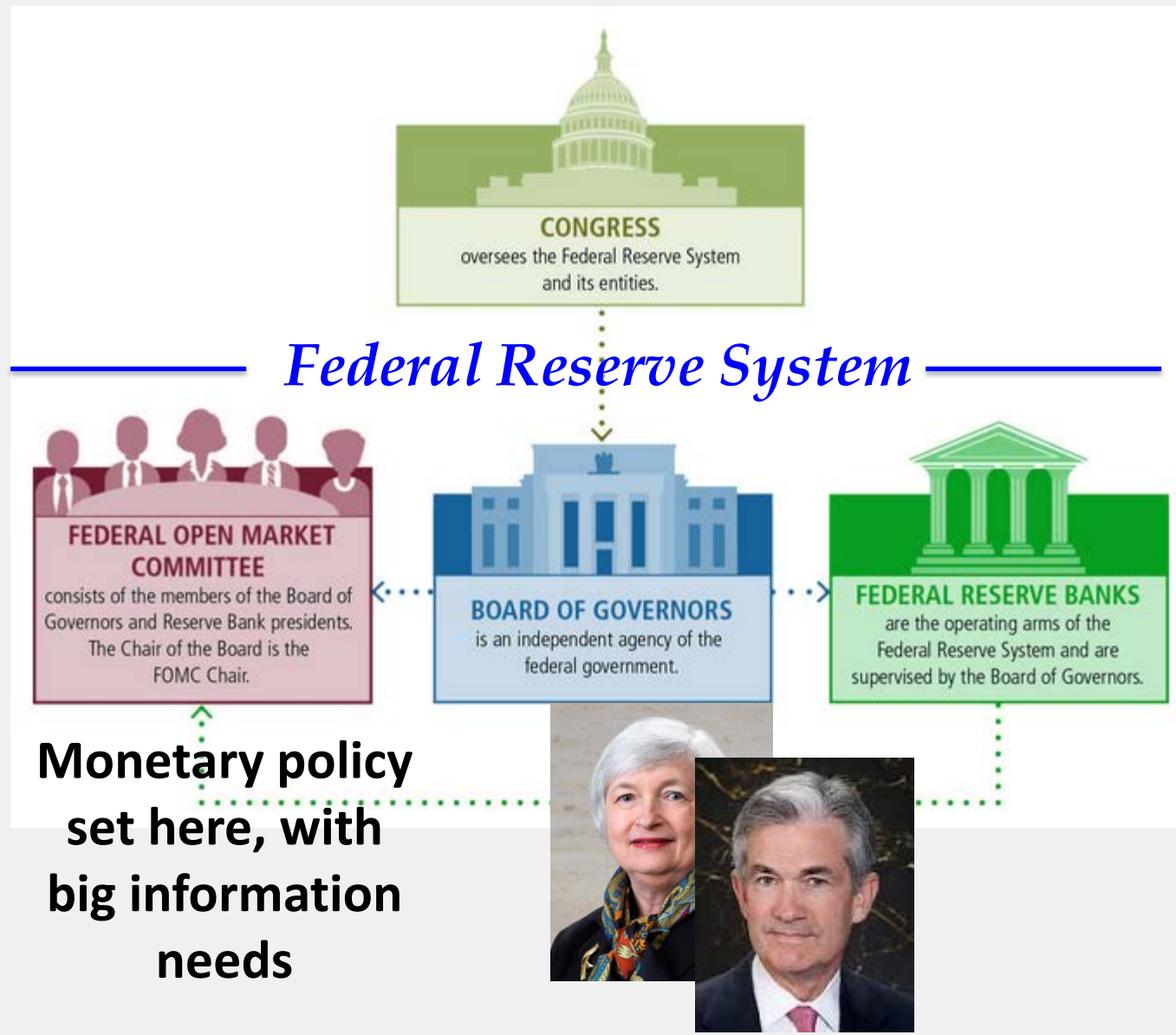
- Manage ('clear') financial payments between parties
- "Lender of last resort"

➤ 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



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

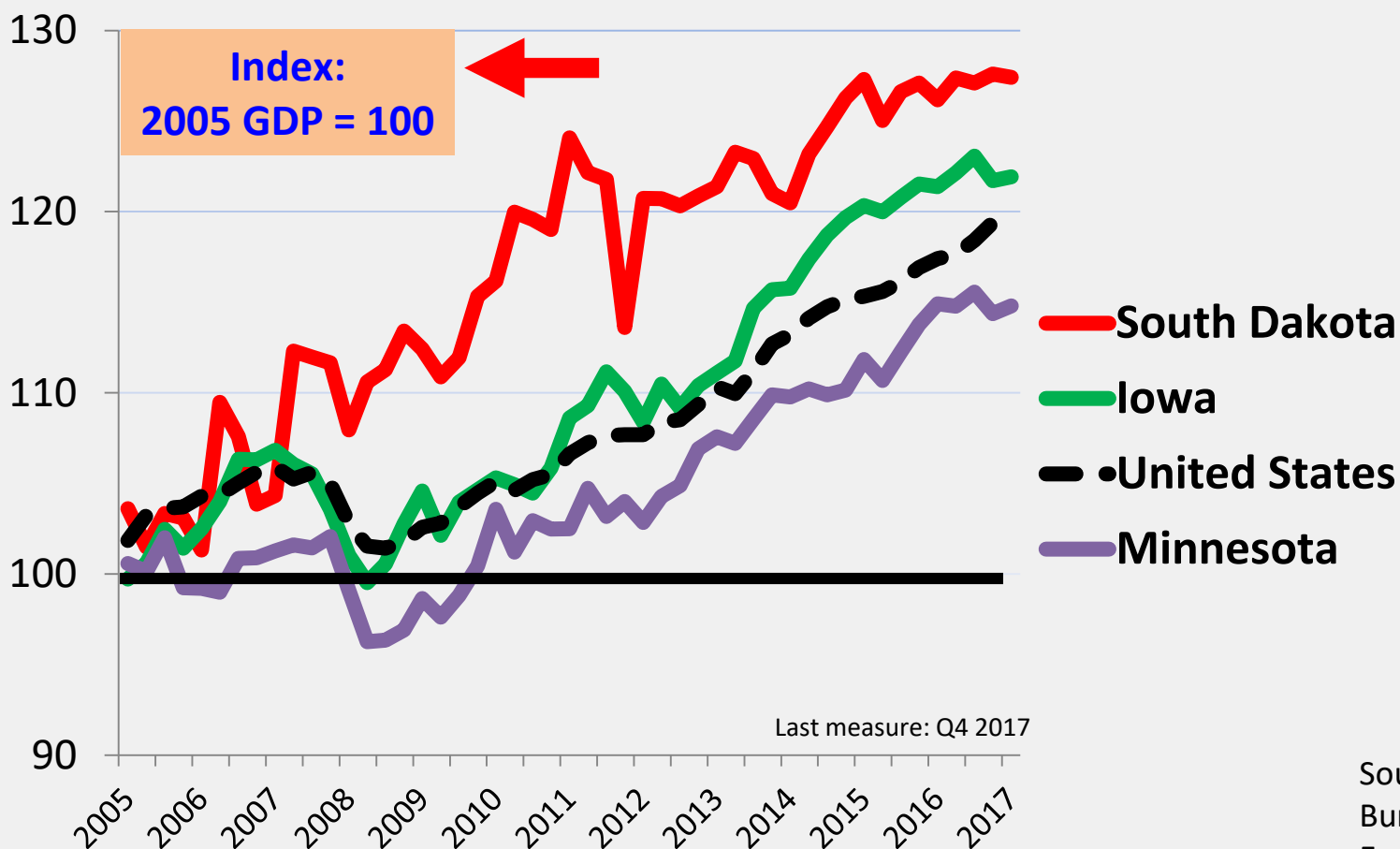
- Minneapolis-St. Paul
- Mankato, MN
- Sioux Falls, SD
- Sioux City, IA-NE-SD



Gross domestic product

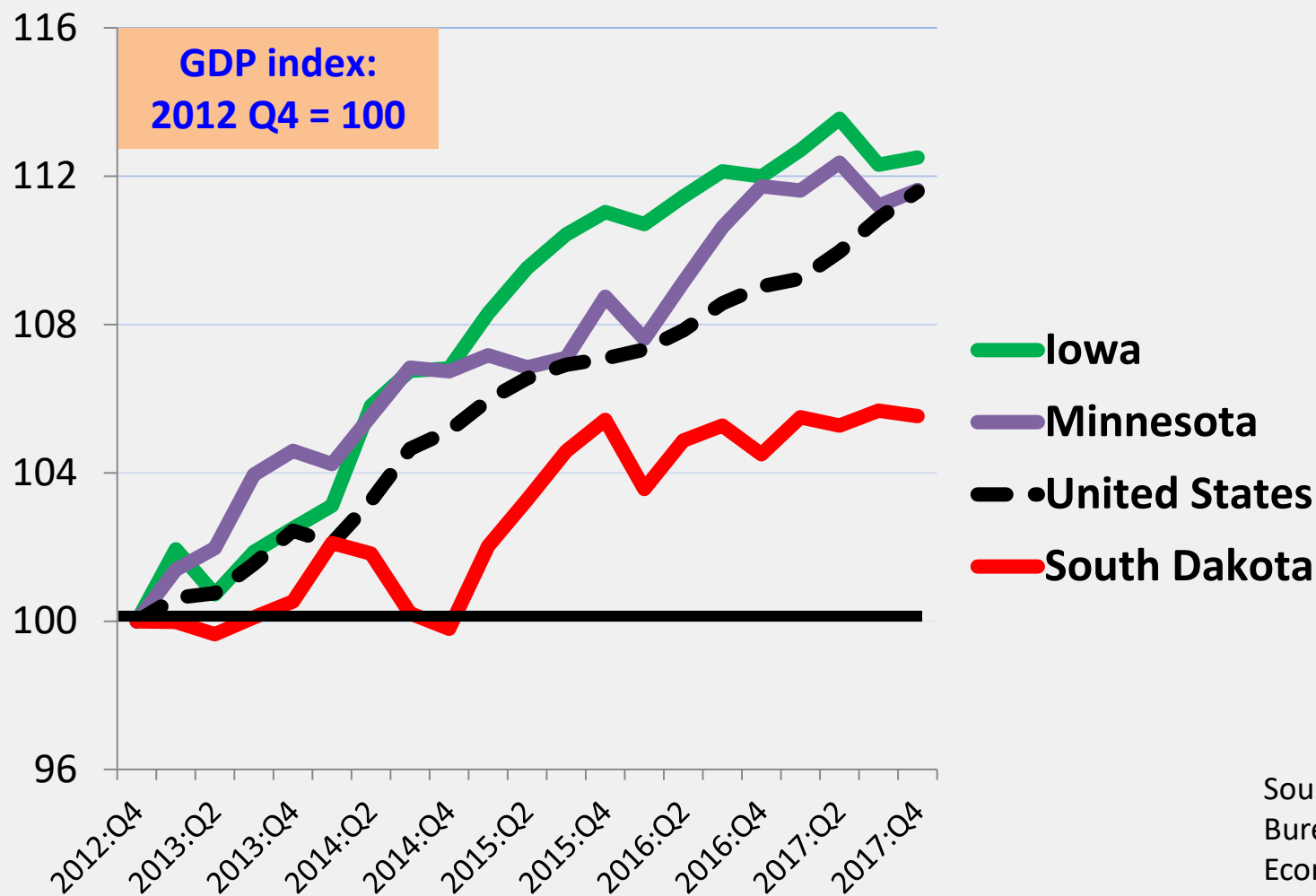
Since 2005, SD output best-in-class

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





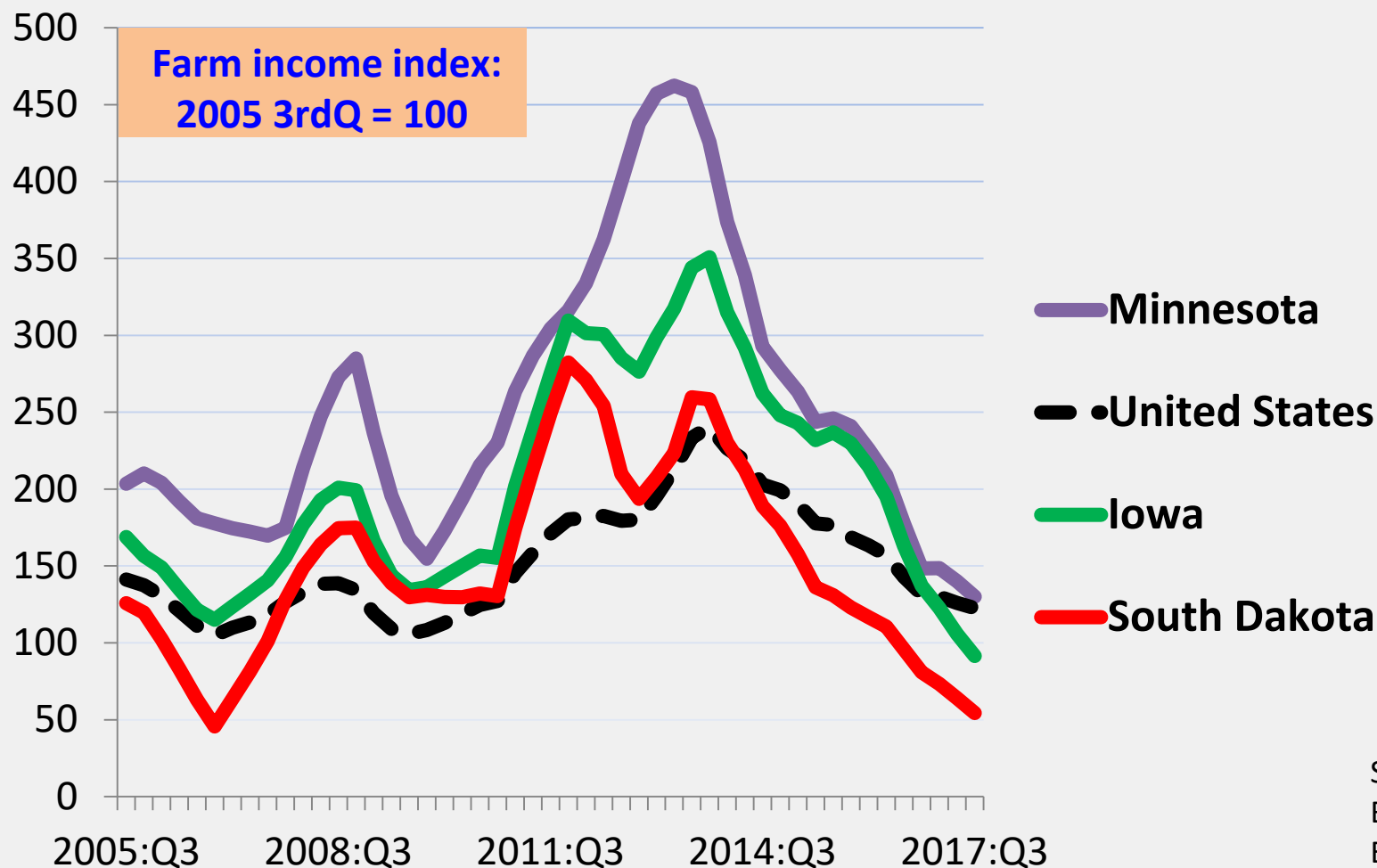
But over last five years, South Dakota has slowed to worst in class





Farm income remains dour

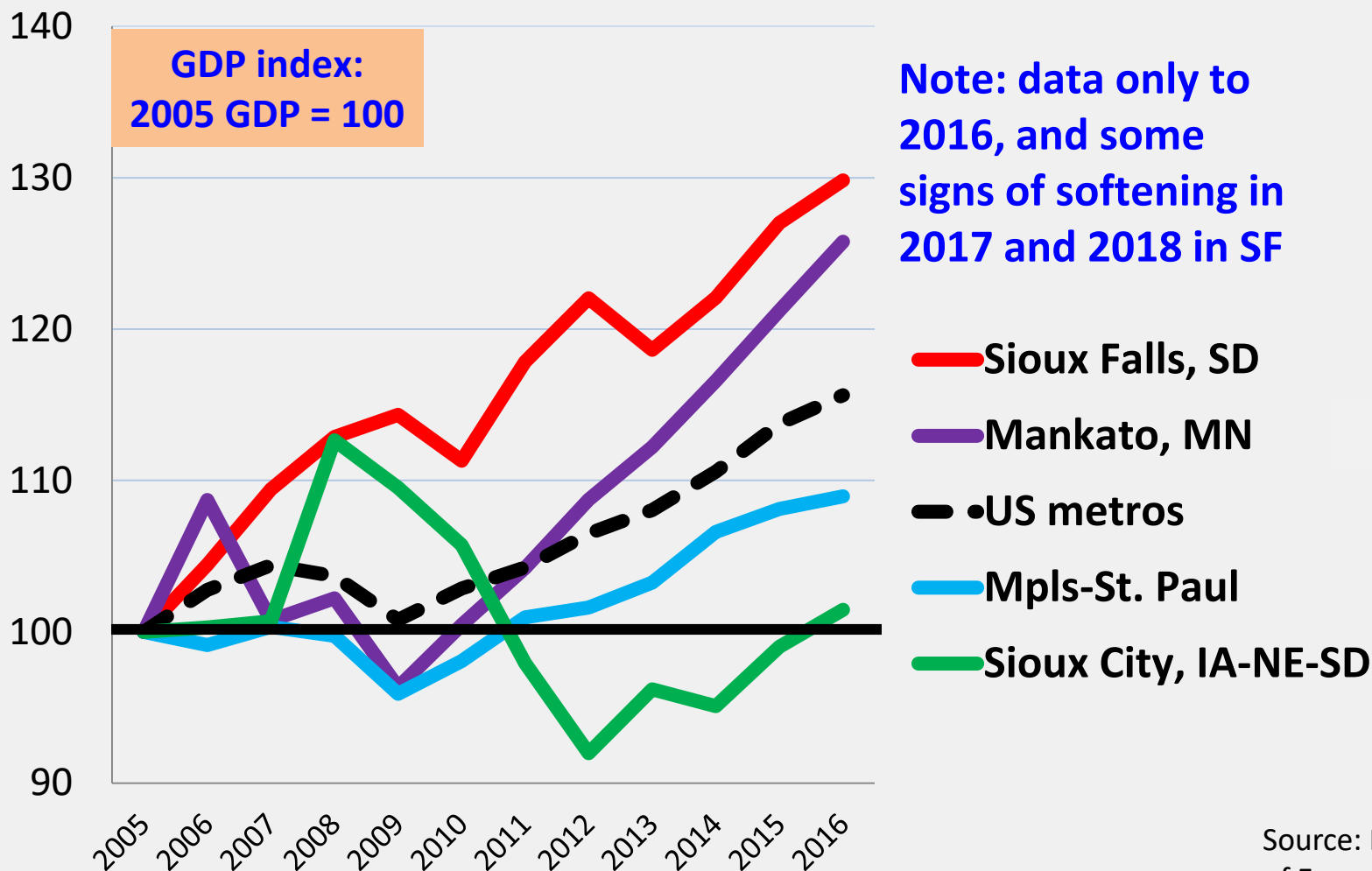
Rolling four-quarter average





Metros: Real GDP index

Sioux Falls leading pack

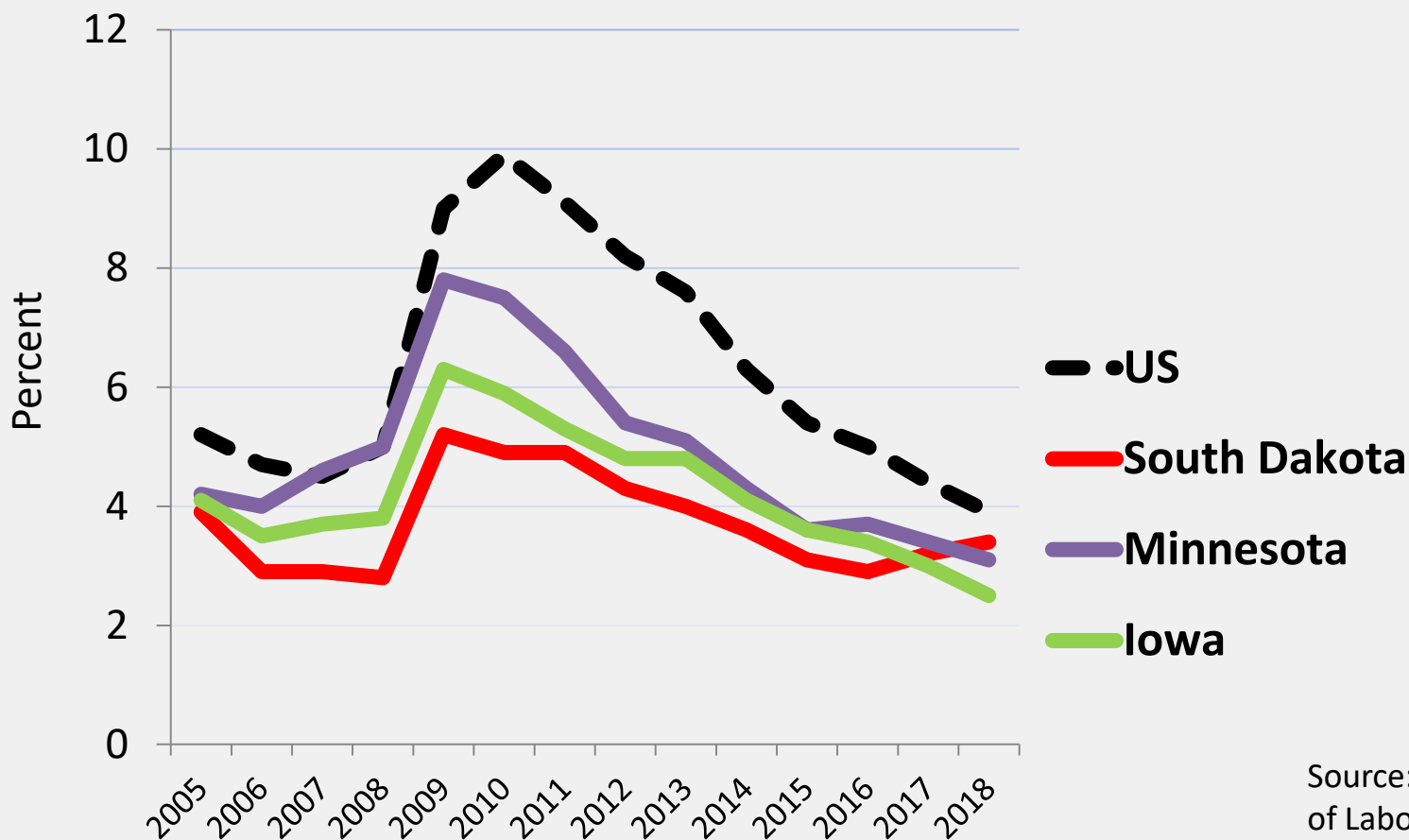




Unemployment

Very low in South Dakota, but rising

April of each year, seasonally unadjusted



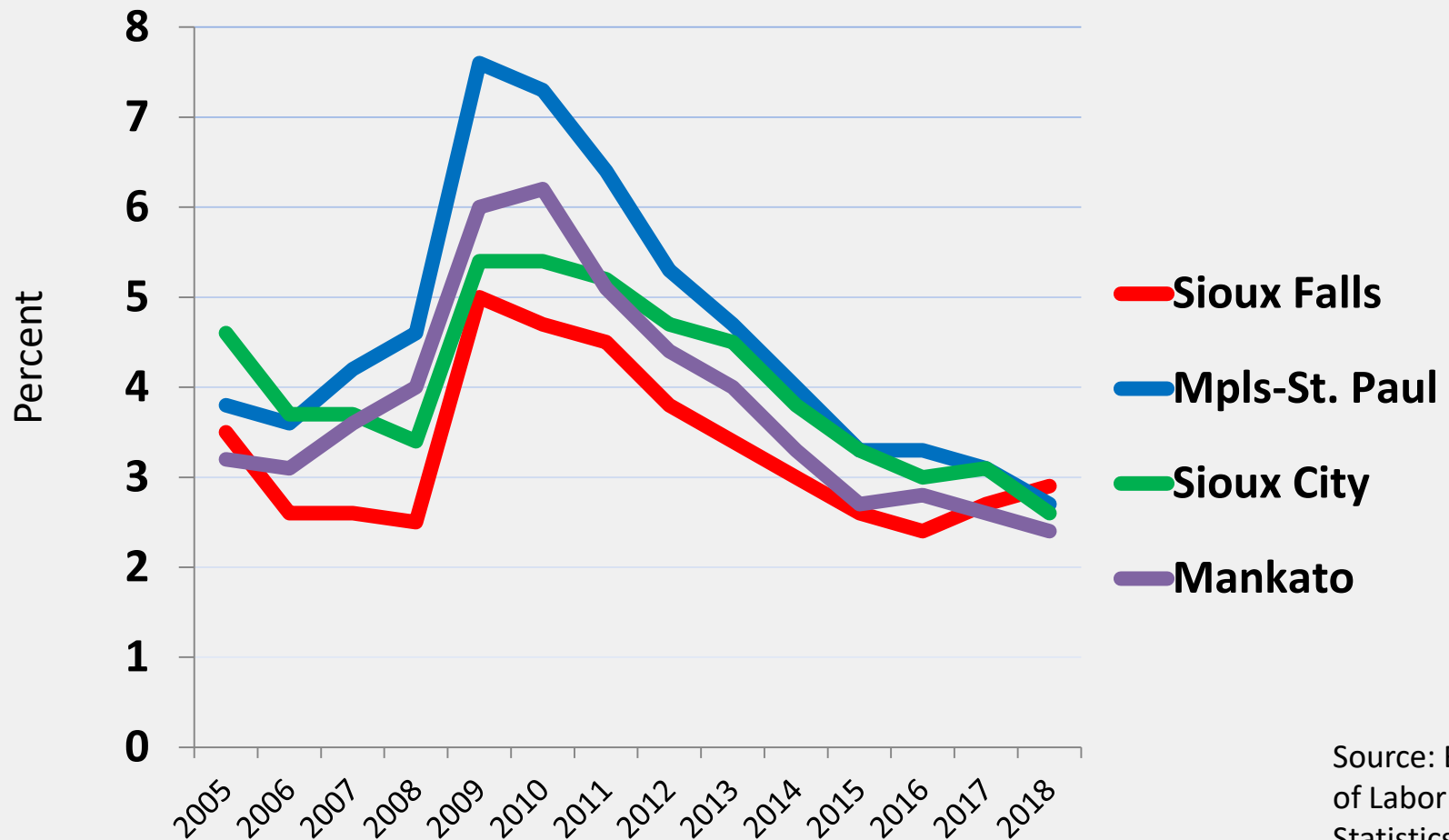
Source: Bureau
of Labor
Statistics



Metro unemployment

Low in Sioux Falls, but also rising

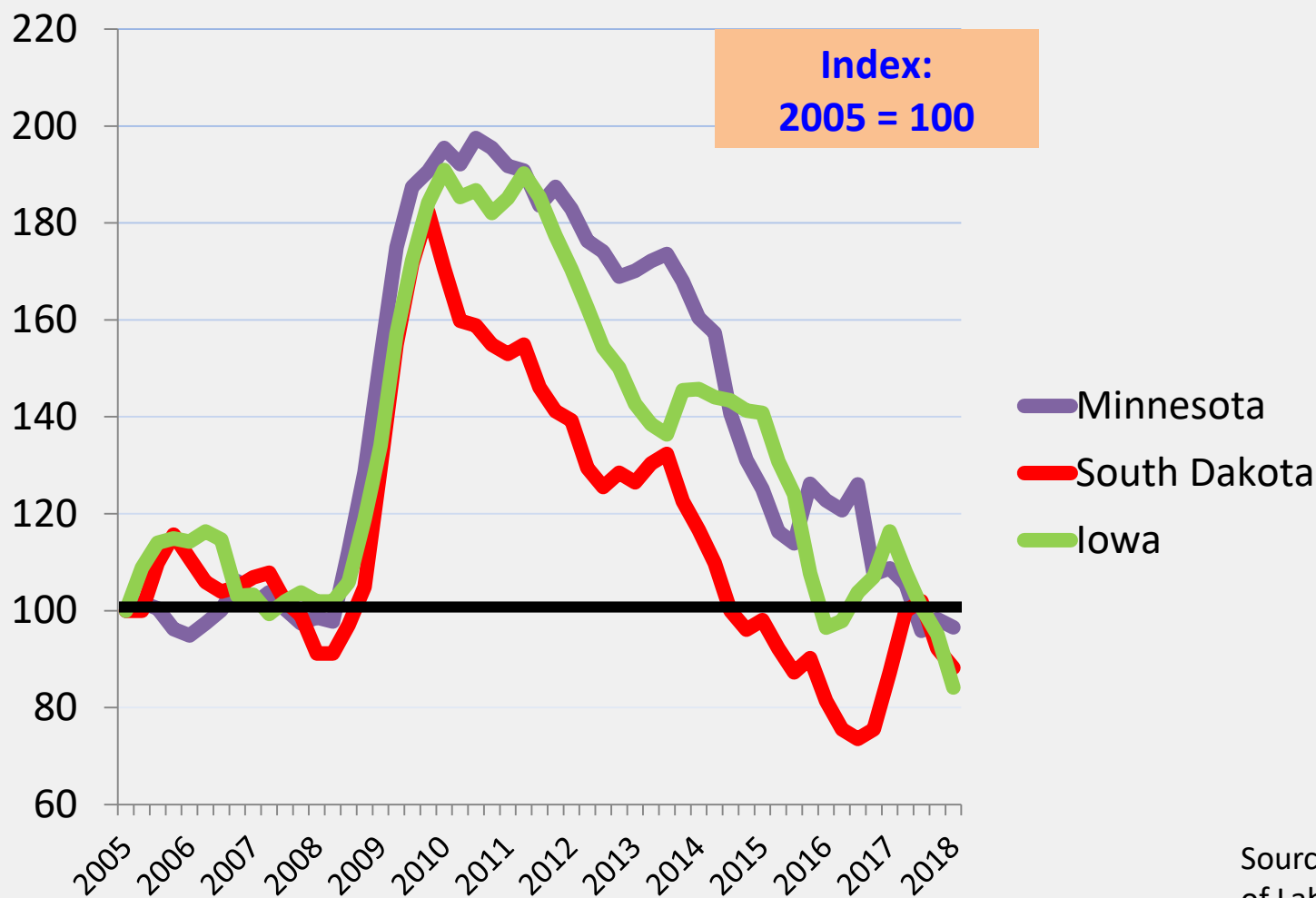
April of each year, seasonally unadjusted



Source: Bureau
of Labor
Statistics



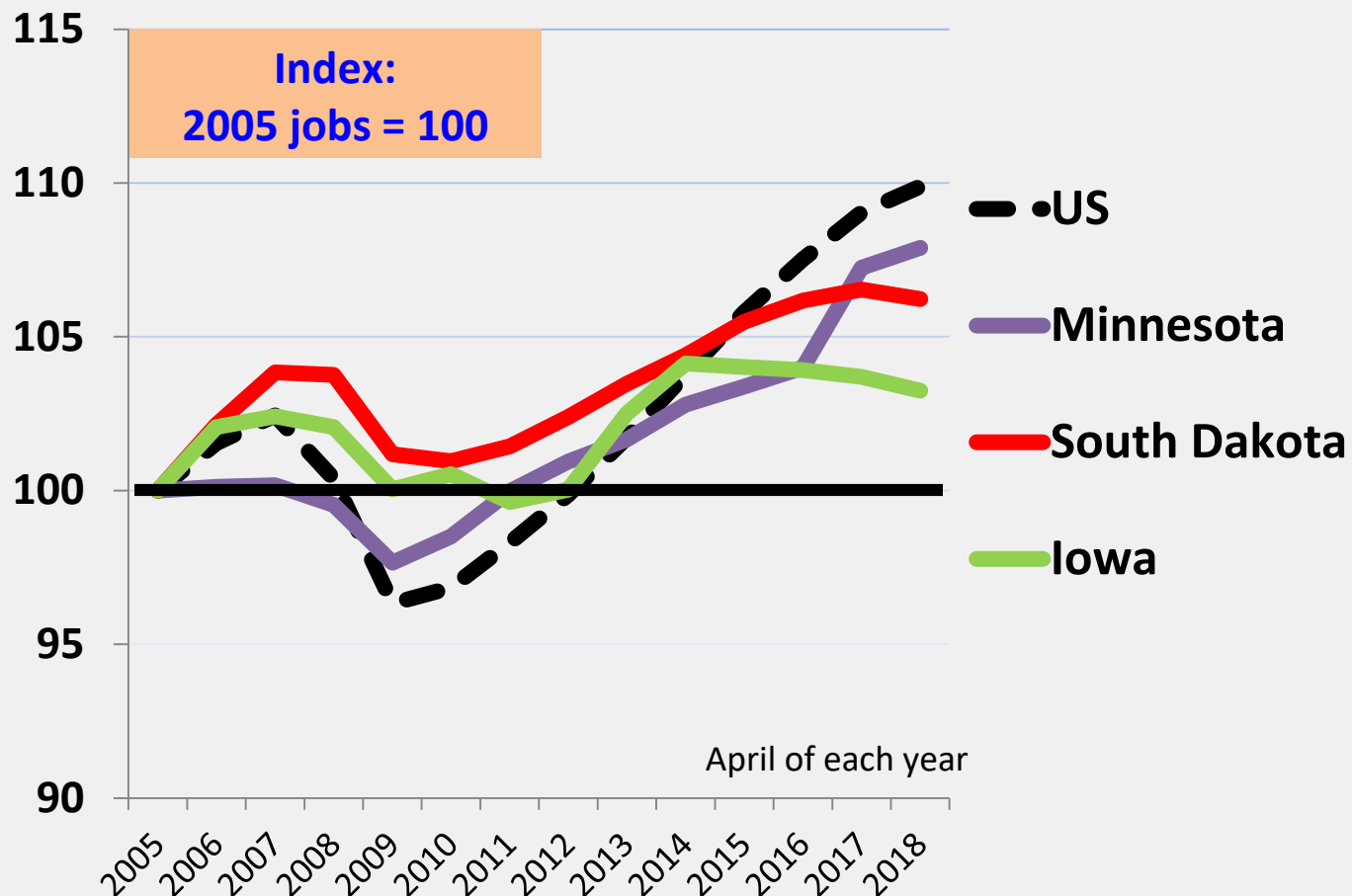
Involuntary part-time: Also drastically improved, but with recent volatility





Total employment

South Dakota job growth modest, slowing

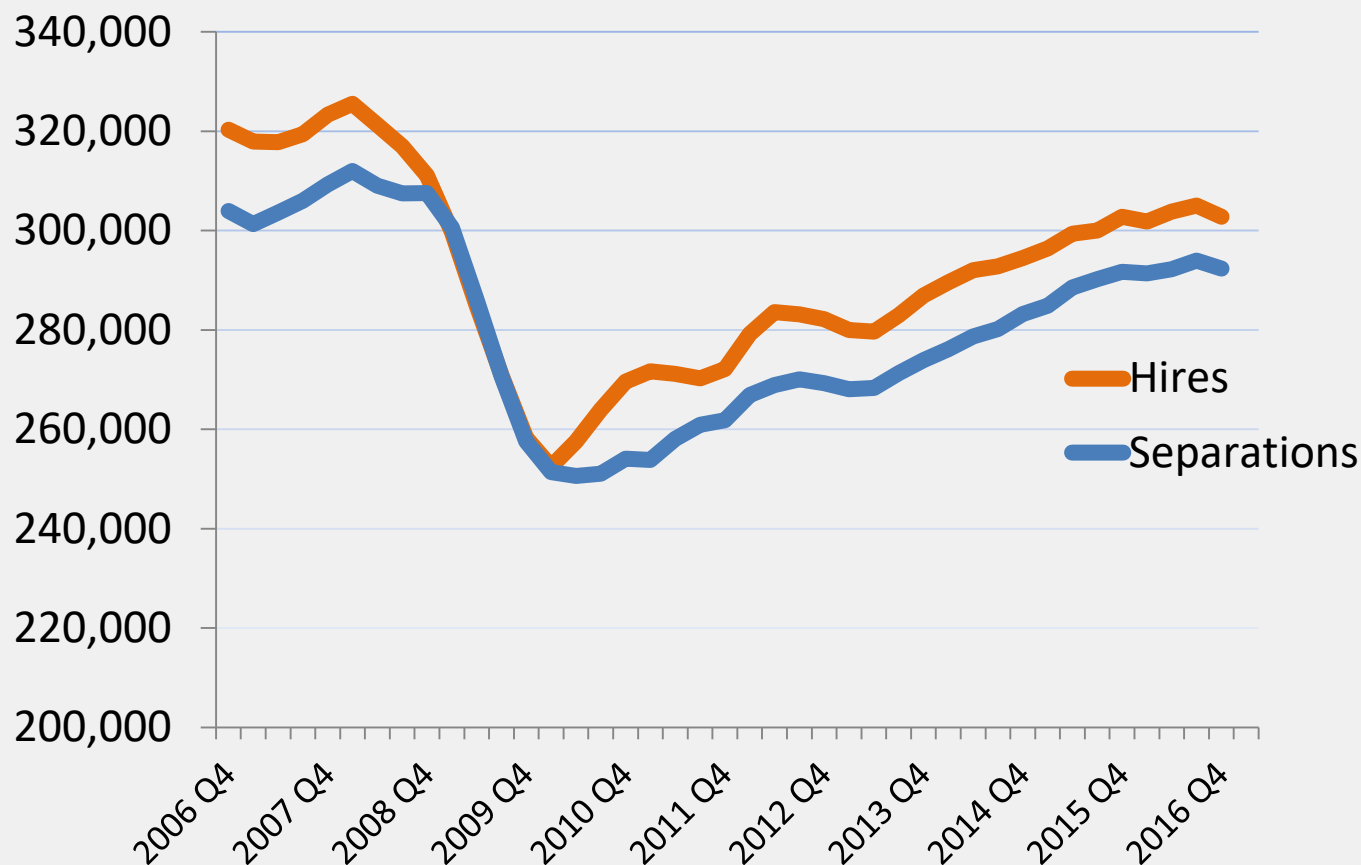




South Dakota hires & separations

**Consistent margin of hiring during recovery,
but slowing also evident**

Rolling 4-quarter annual counts

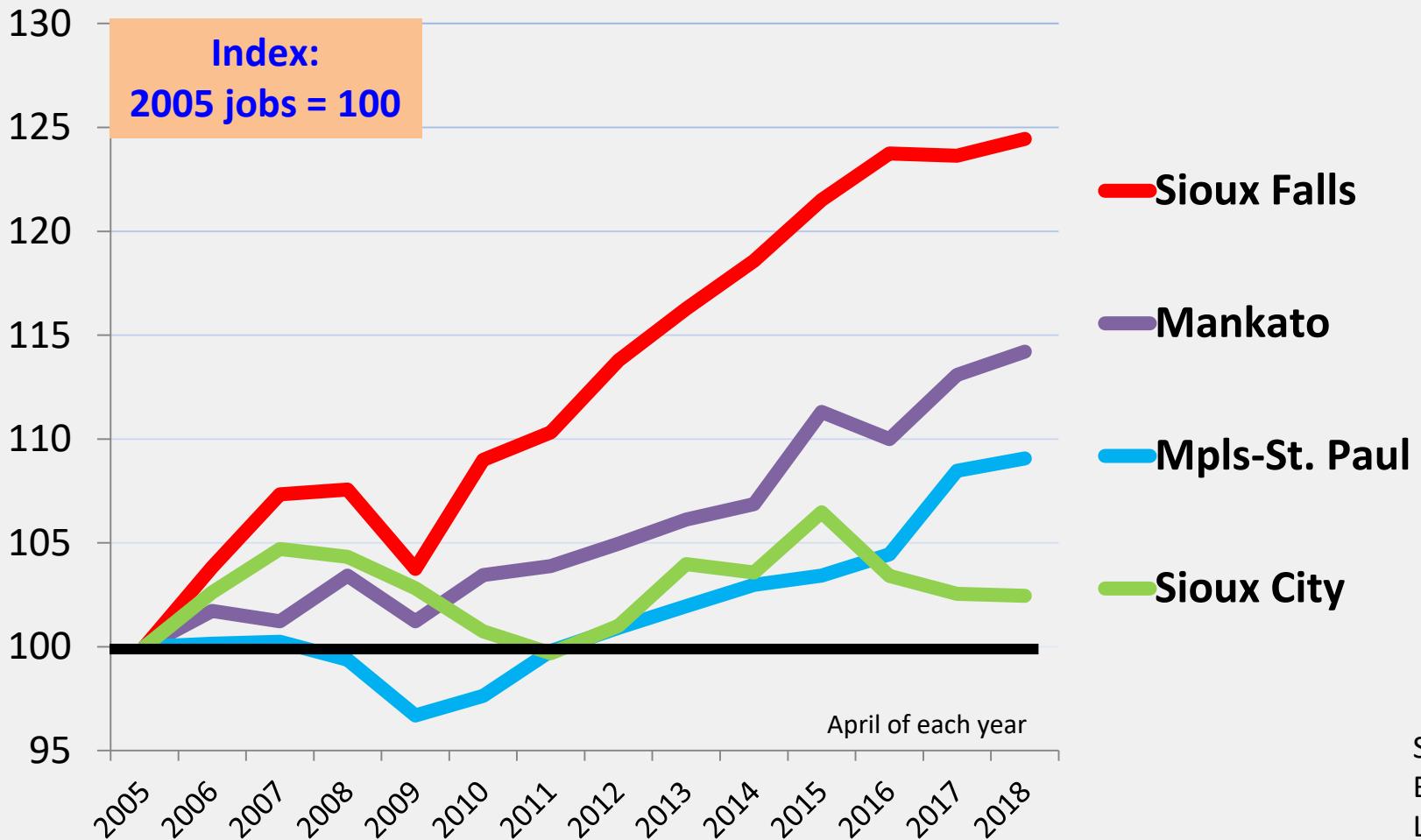


Source: QWI
Explorer, U.S.
Census



Metro employment index

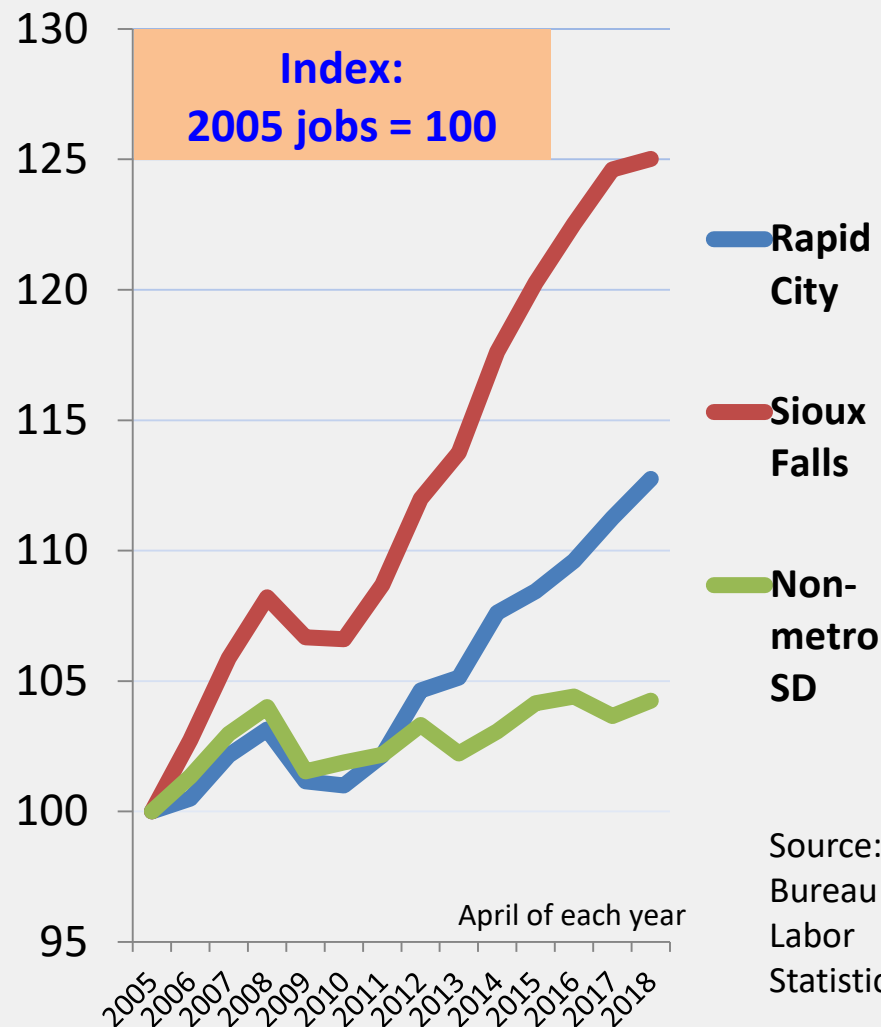
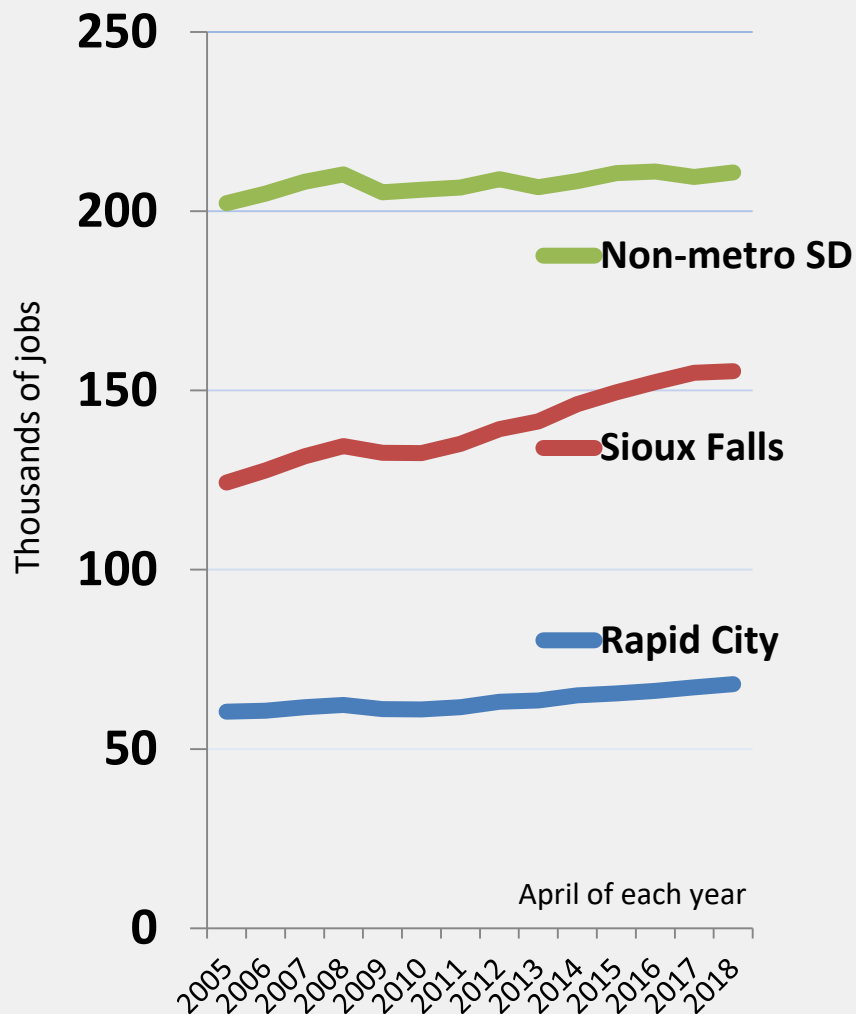
Sioux Falls way ahead, but flattening



Source:
Bureau of
Labor
Statistics



Sioux Falls dominating job growth in the state



Source:
Bureau of
Labor
Statistics



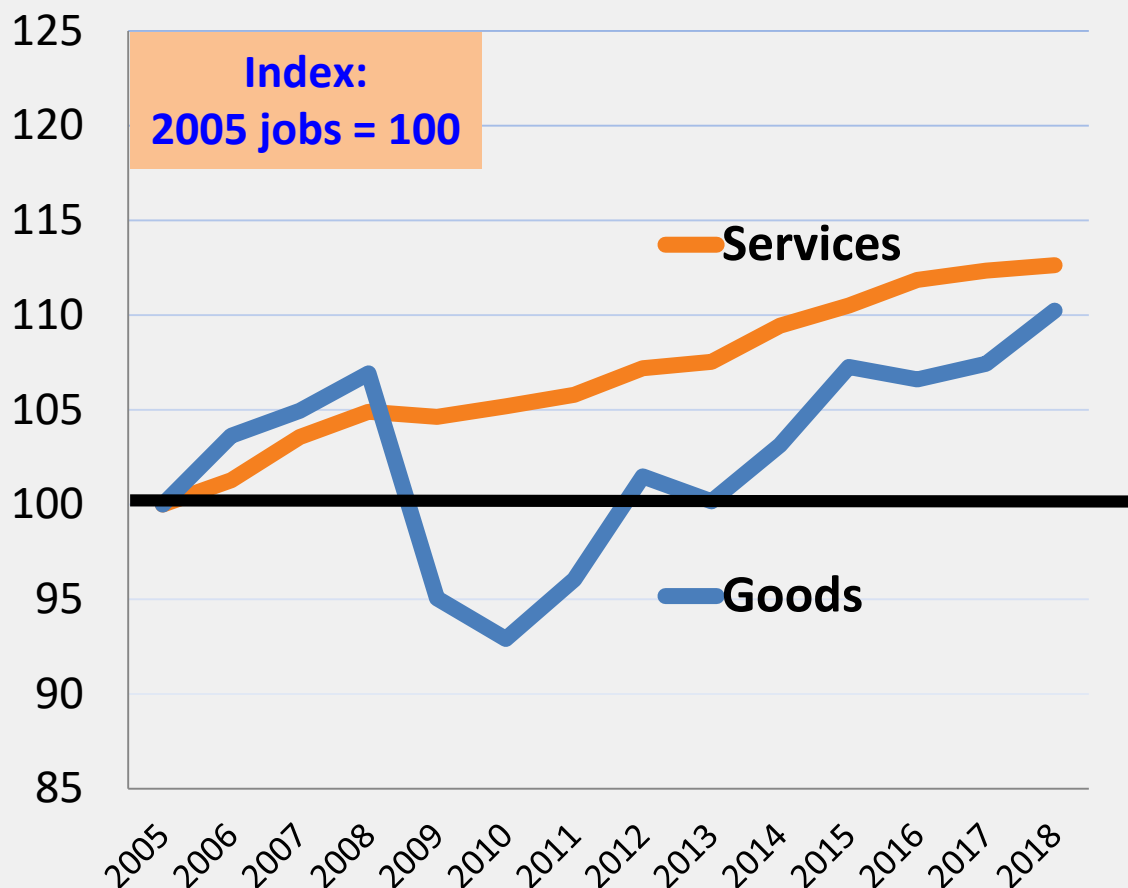
Job growth: Goods vs services

- **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



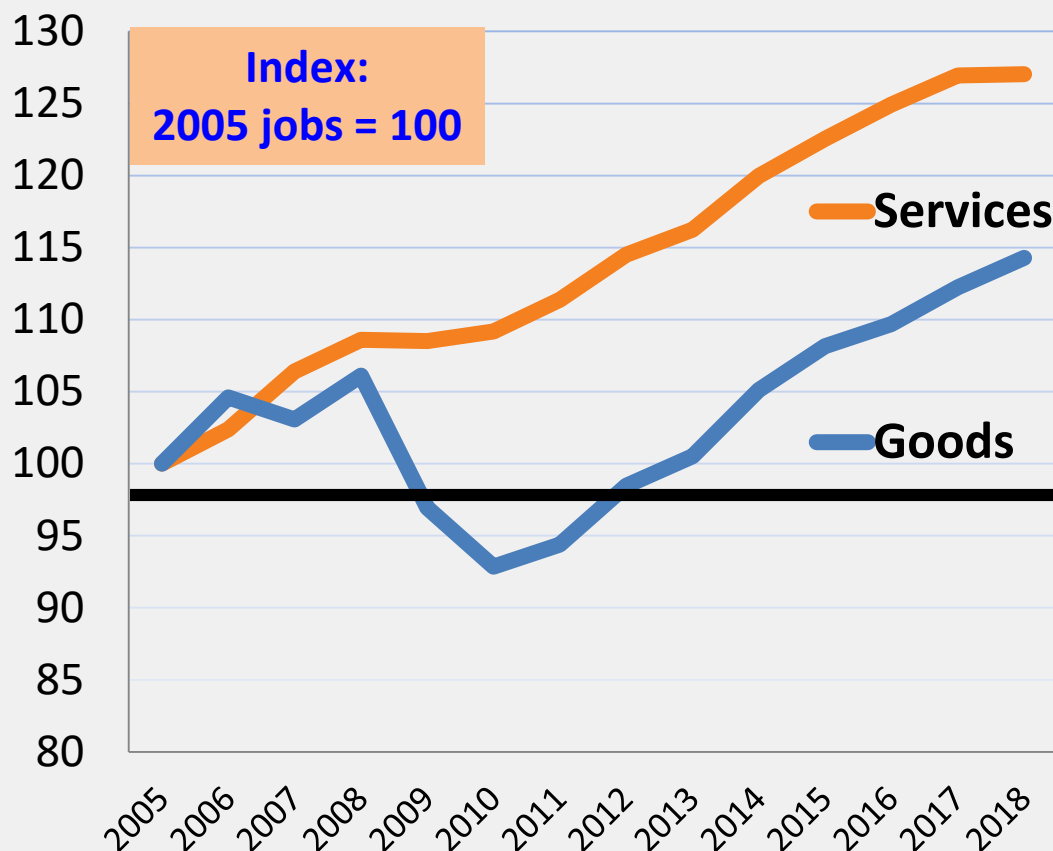
**“Goods” jobs
= 15 percent
in SD**



Sioux Falls

Similar growth pattern in recovery

Private sector jobs only



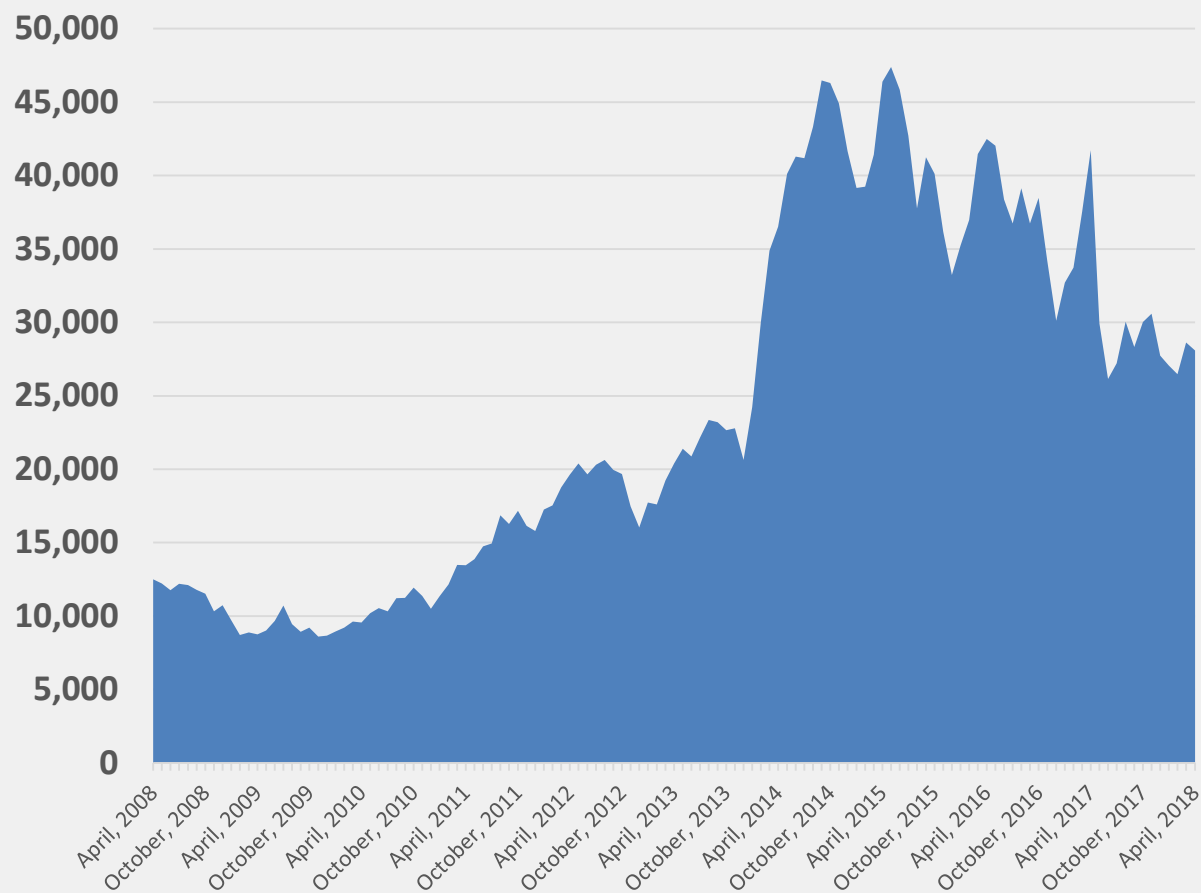
**“Goods” jobs
= 15 percent
in Sioux Falls**



Hiring demand

Strong job demand, but trending lower

Advertised job openings in South Dakota



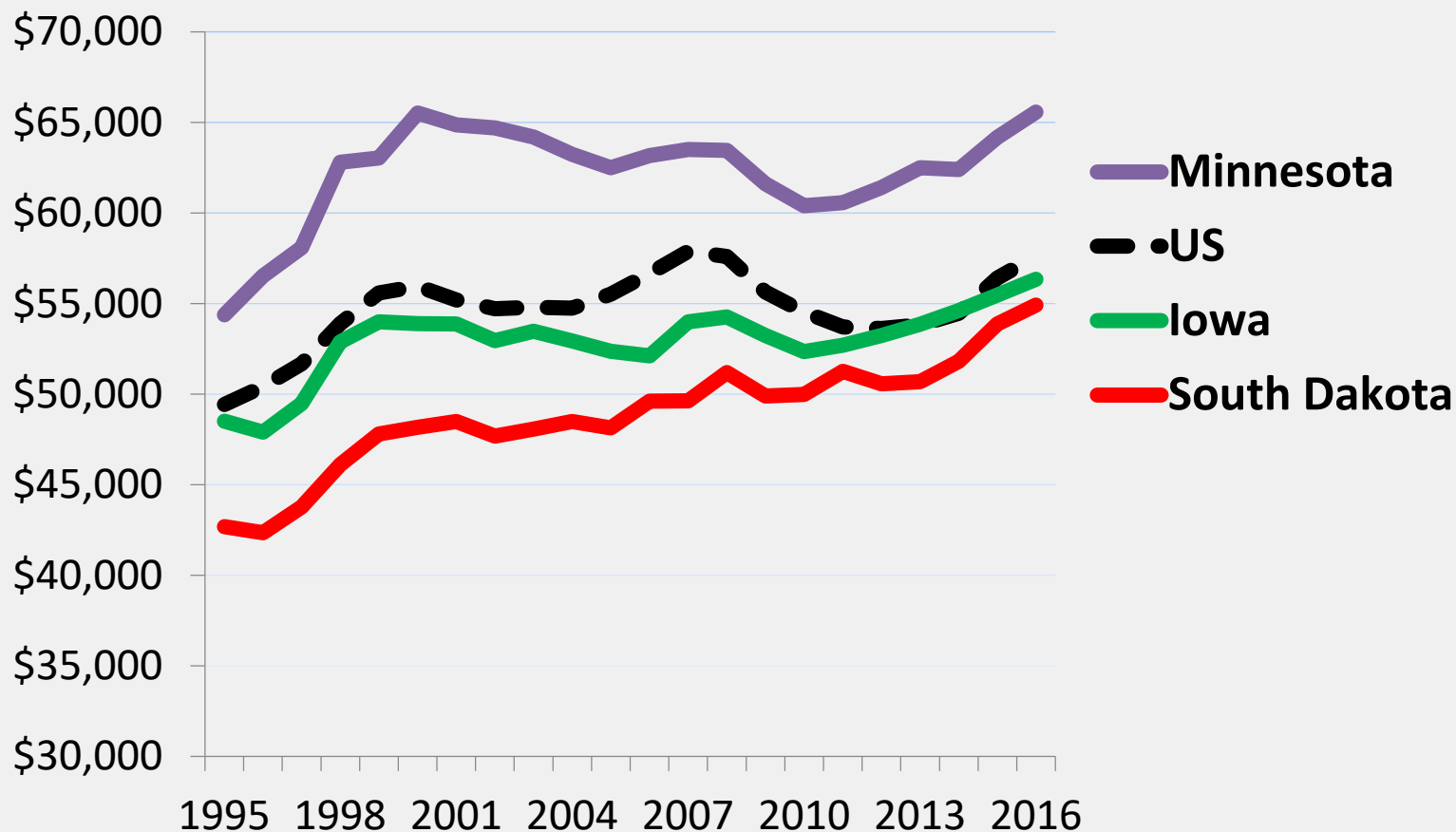
Source: South
Dakota Labor
Market office



Median wages

South Dakota lower, but gaining

Real (PCE-adjusted) median household wages





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**

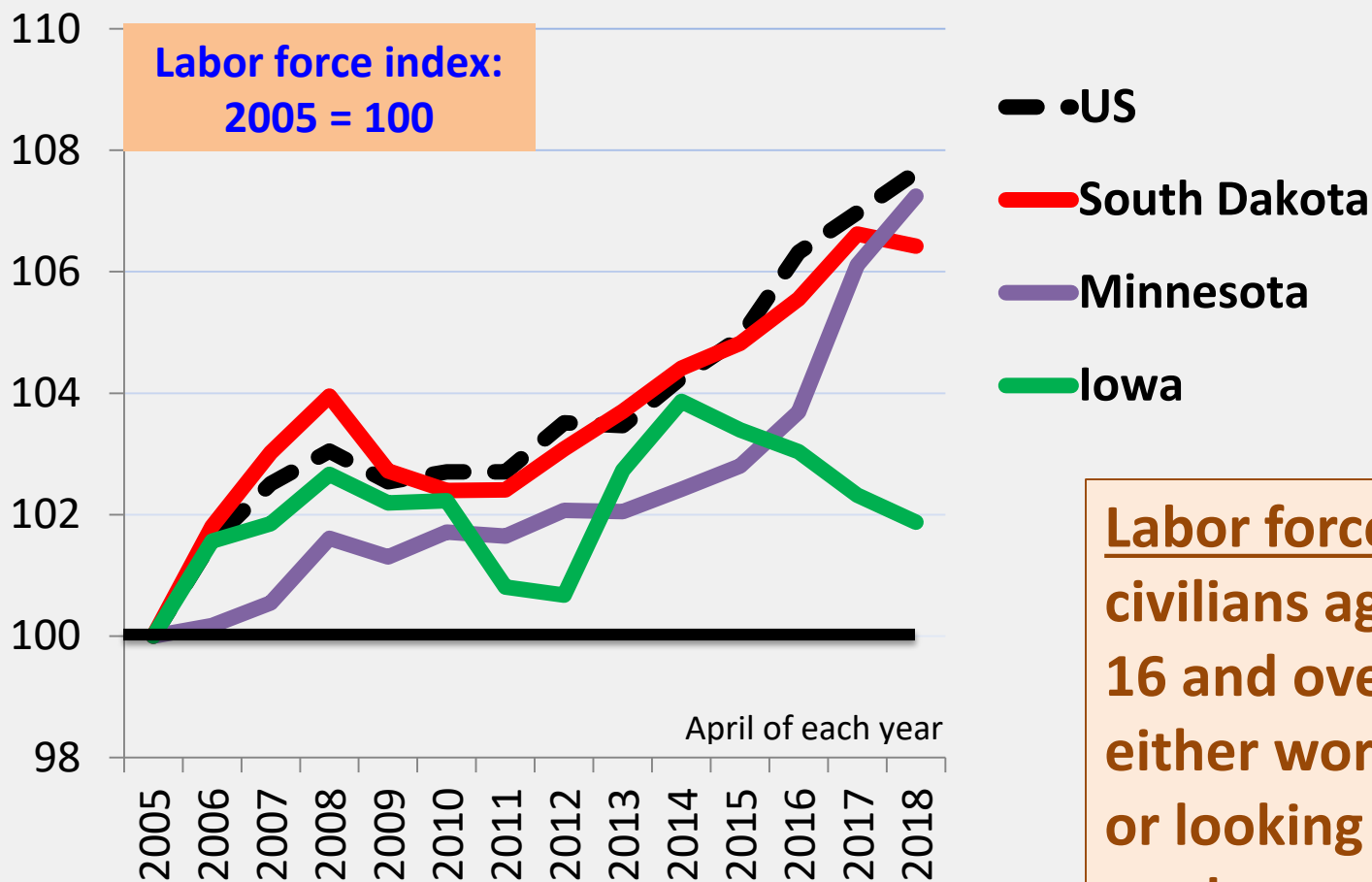


Summary cont.

- **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*



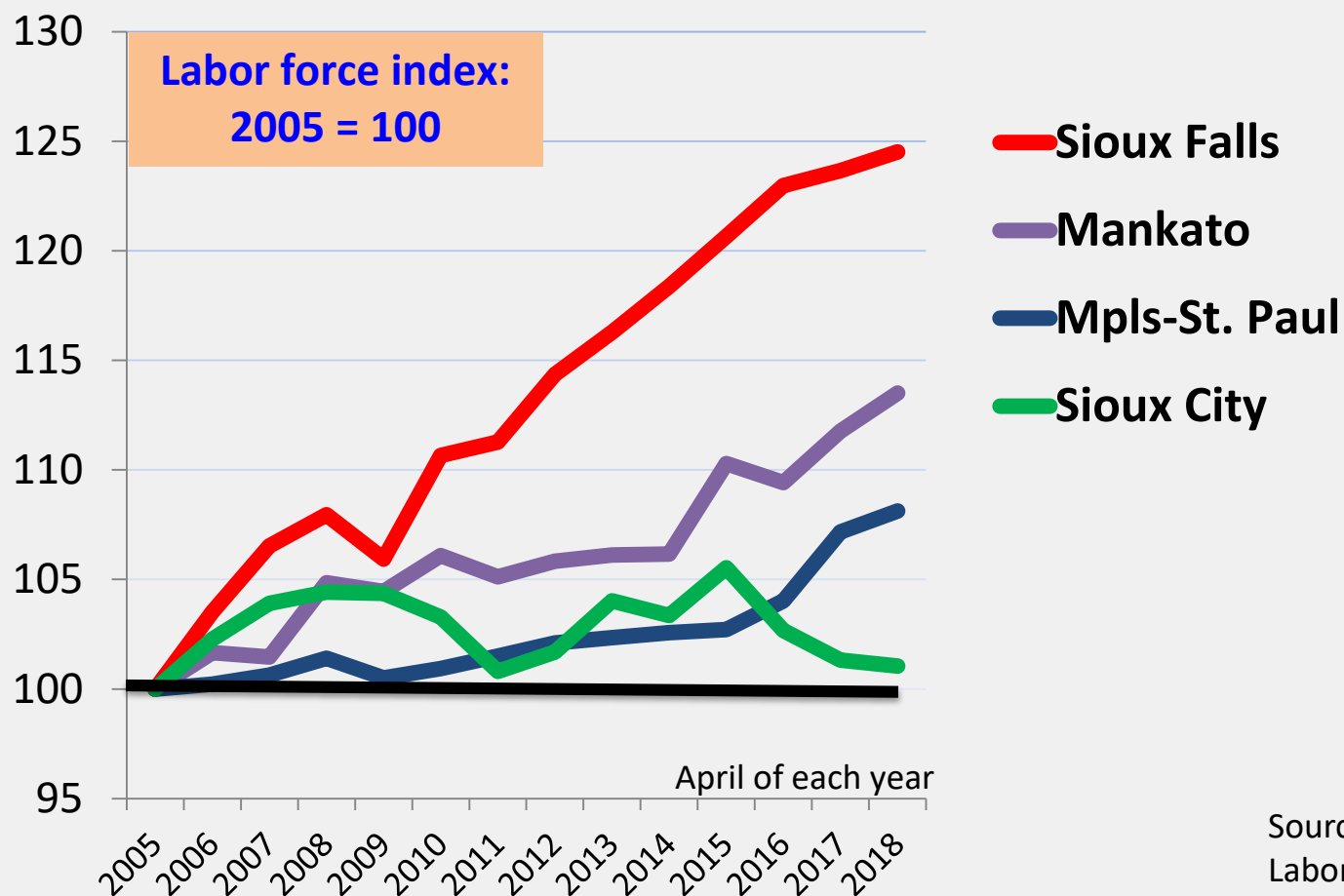
SD labor force growth keeping up with US, but with recent dip



Labor force =
civilians aged
16 and over,
either working
or looking for
work



Sioux Falls labor force growth fueling state growth, but also slowing



Source: Bureau of
Labor Statistics



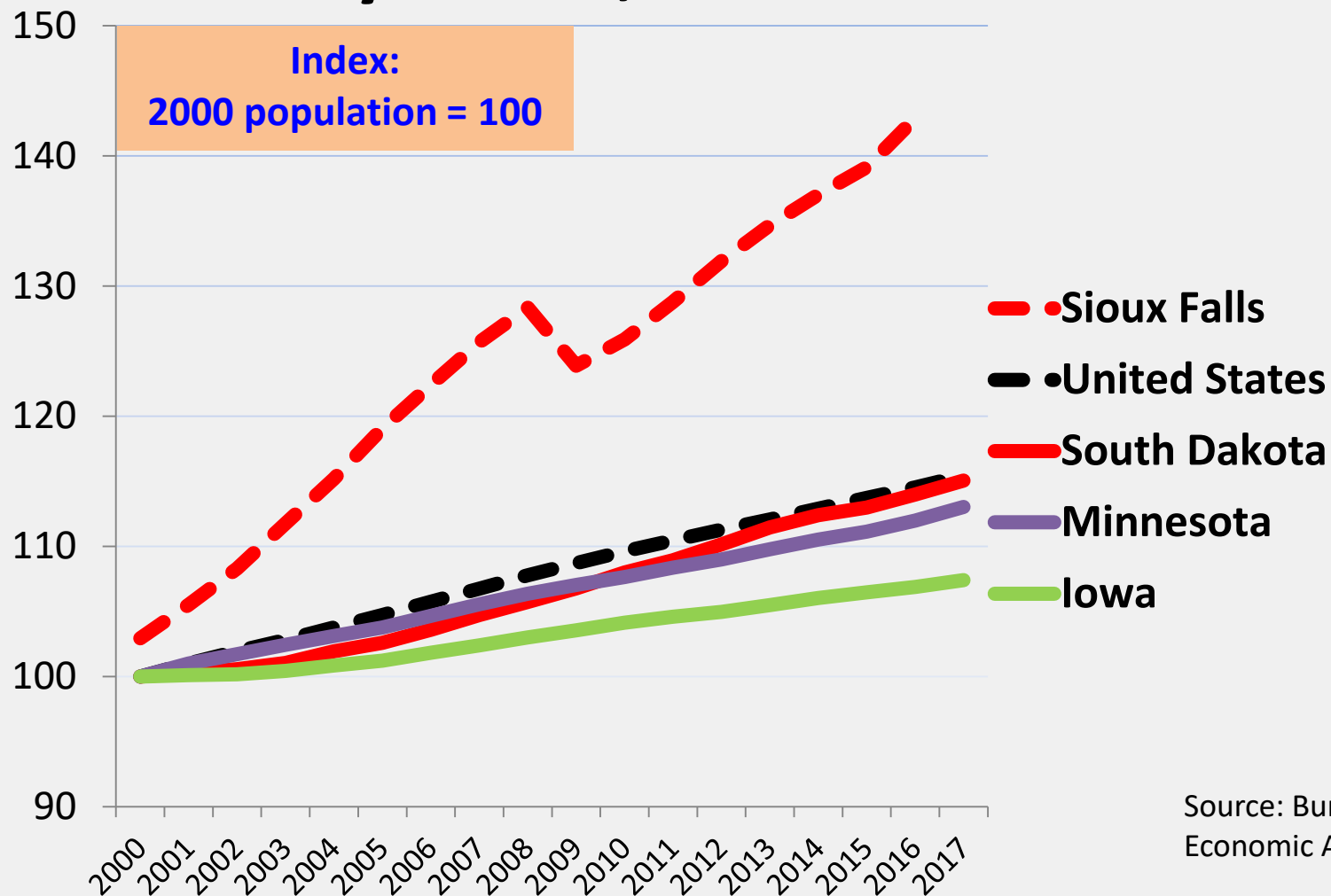
Factors in labor force growth

- **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

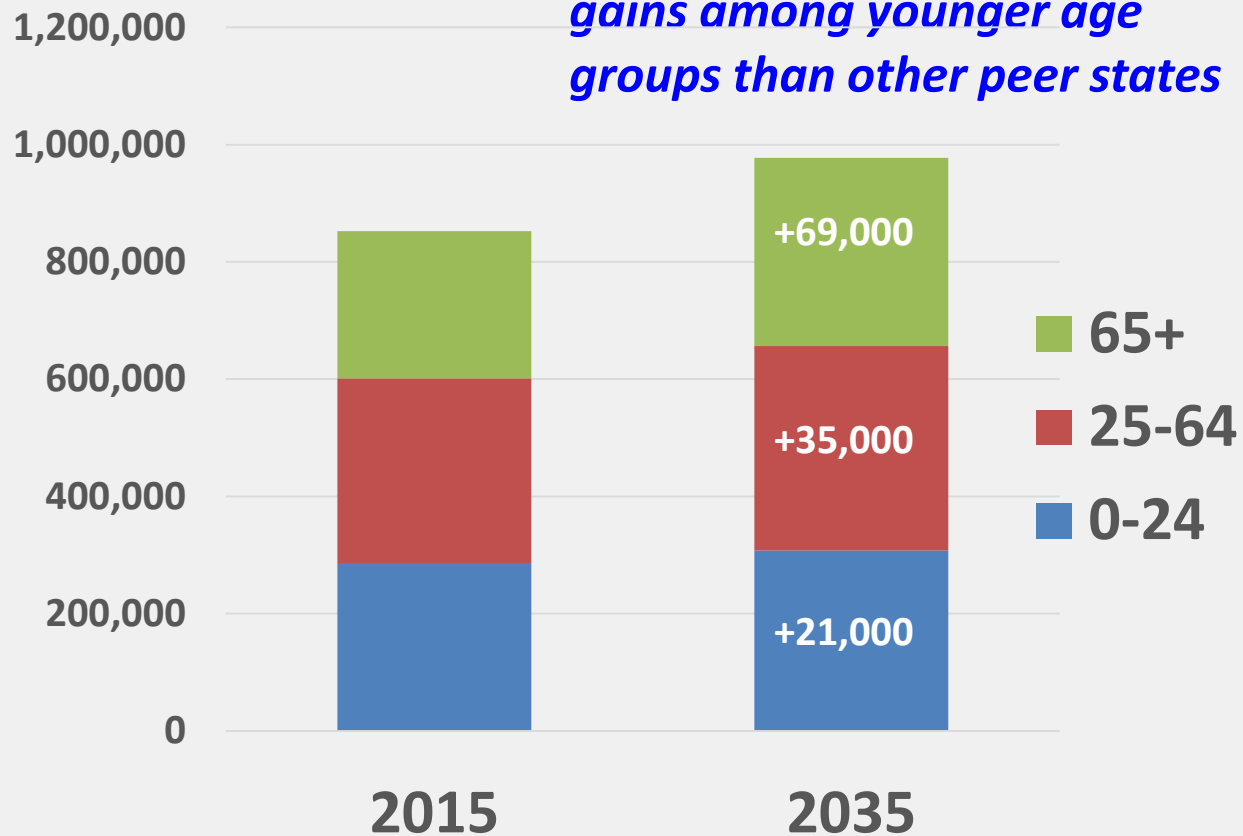


Source: Bureau of
Economic Analysis



Aging population means more labor growth from older workers

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

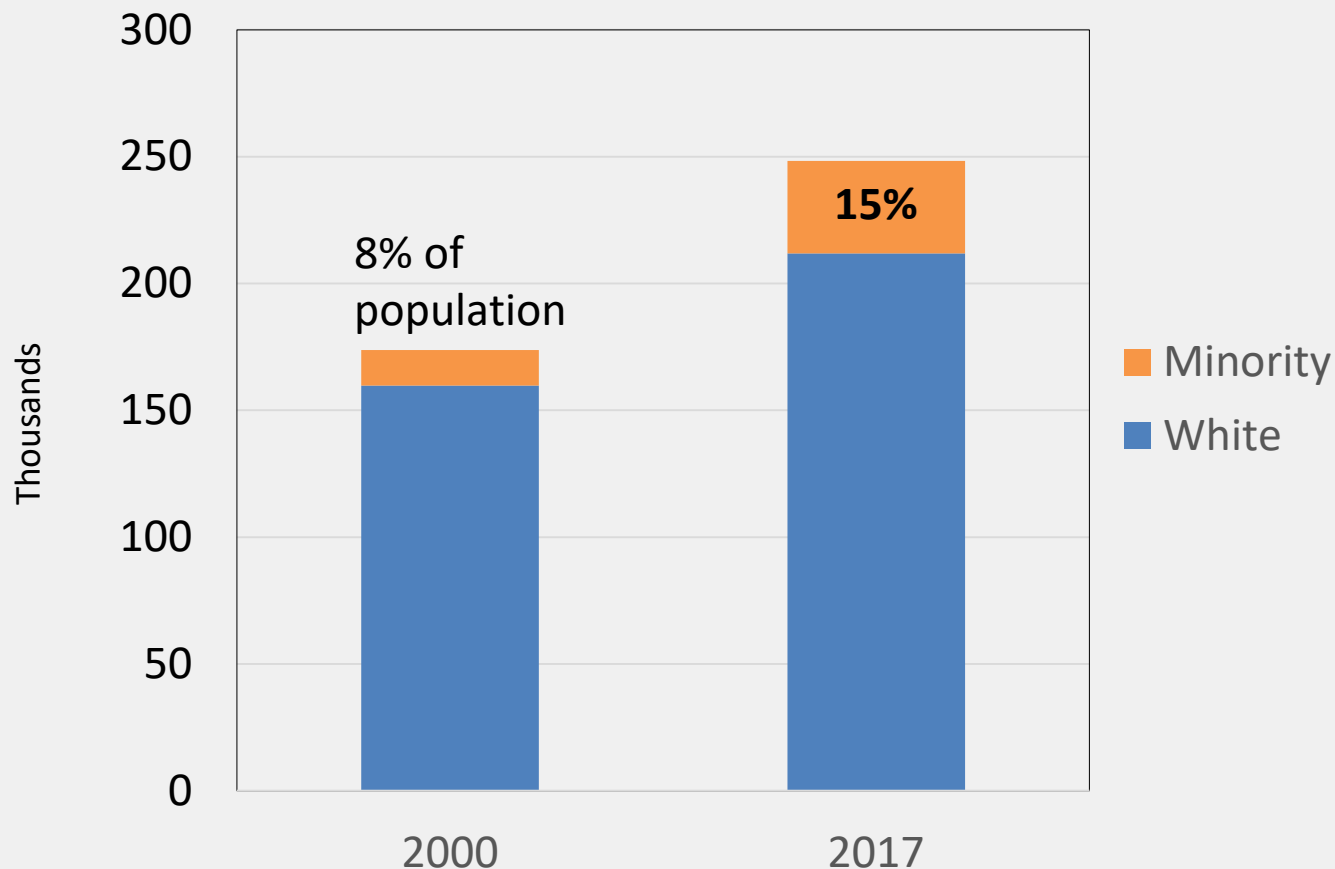


Source: South
Dakota State
University



Population growth coming increasingly from minority groups

Sioux Falls population

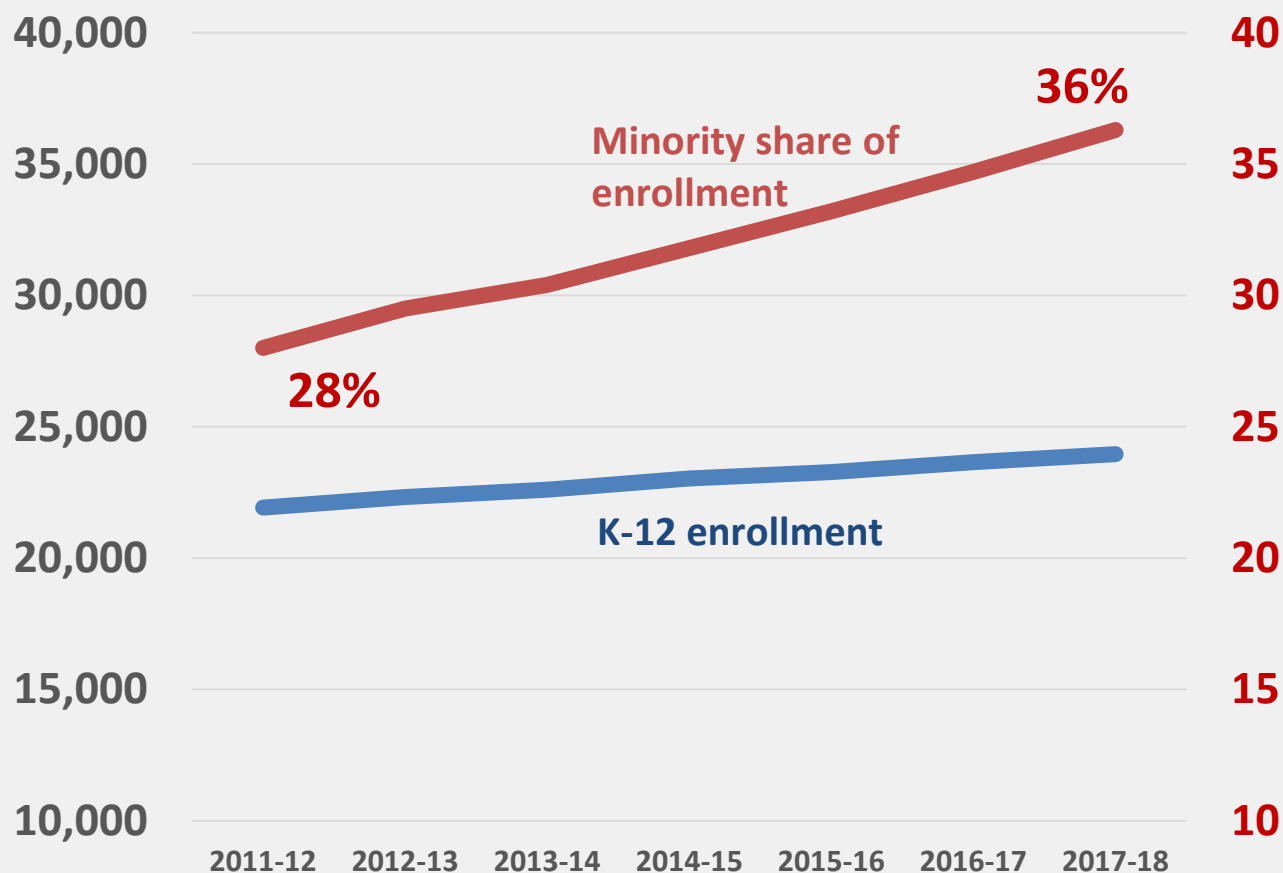


Source: U.S.
Census



Minority populations will increasingly feed future labor force

Sioux Falls K-12 enrollment



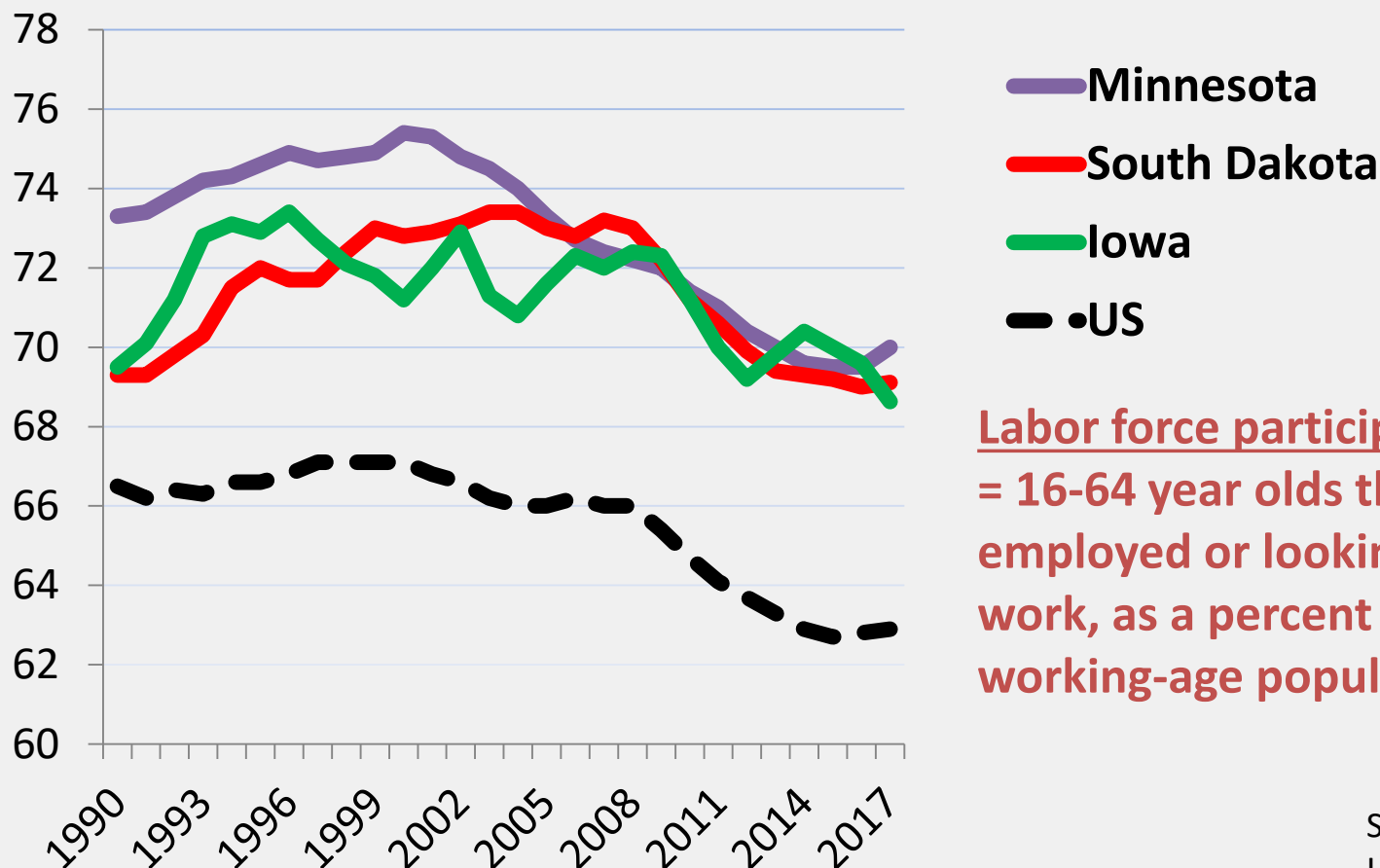
Source: Sioux Falls School District



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



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?

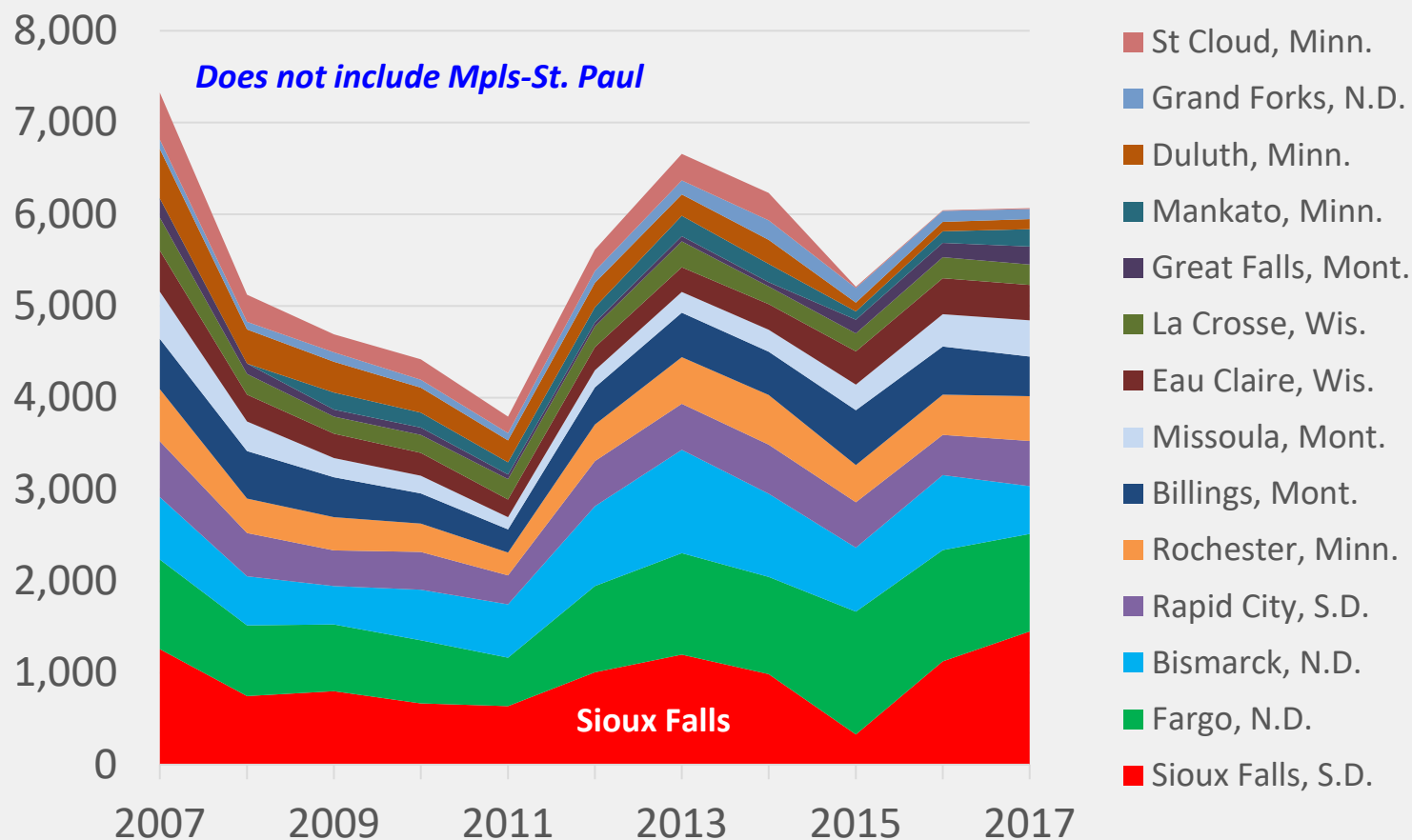
Every Ninth District metro

- 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

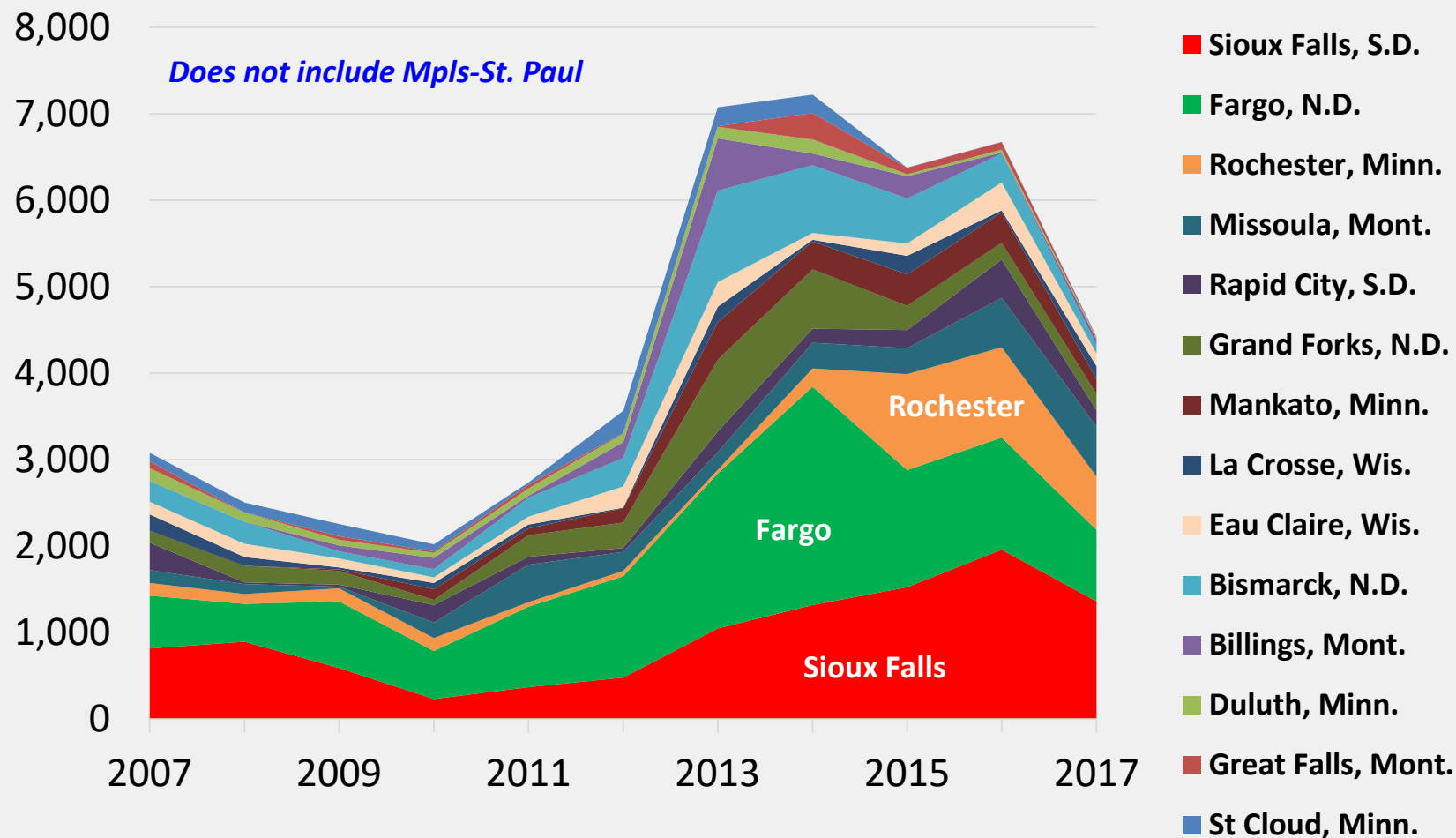
Single-family permitting has rebounded, but not over pre-recession levels





Housing growth: Chicken or egg?

Fast-growing areas: More multi-family





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



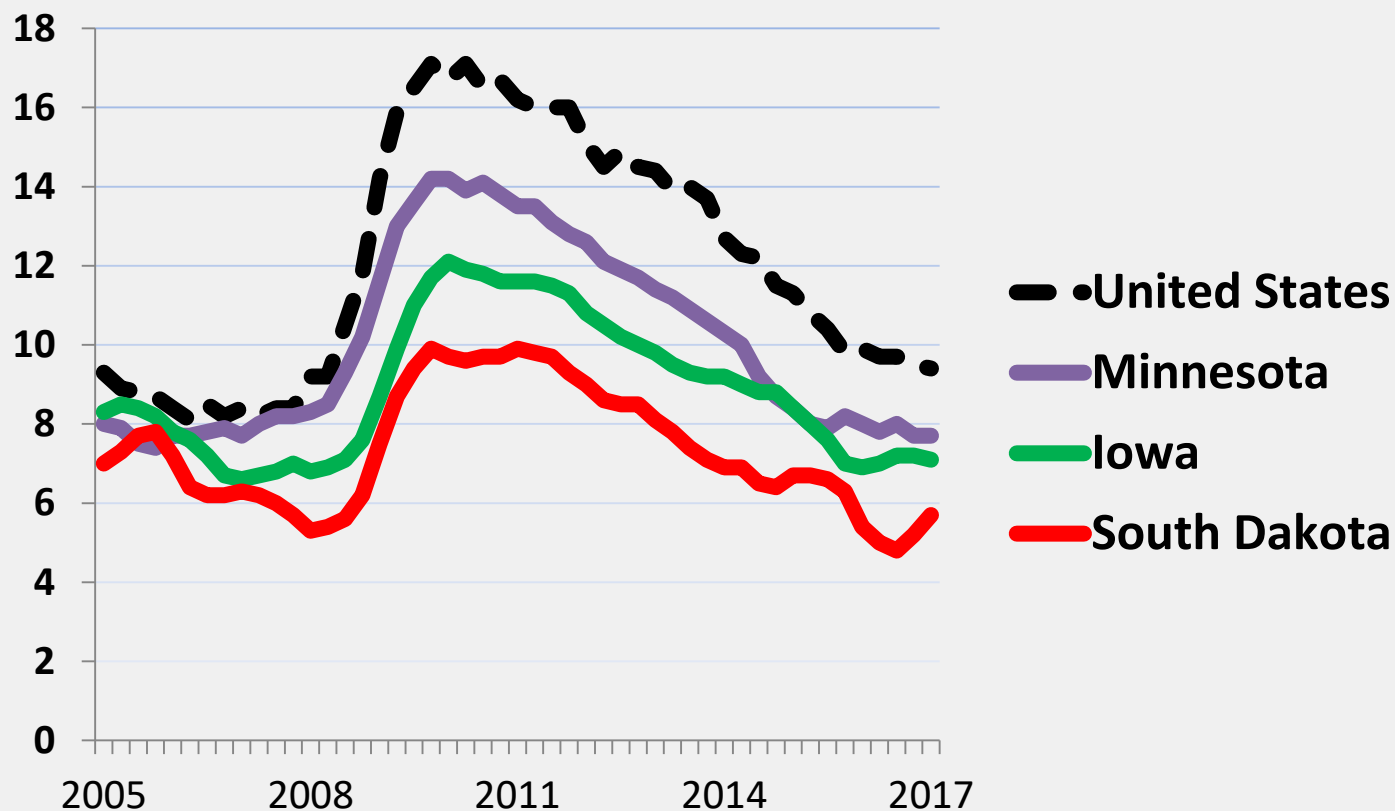
Labor force math: Long-term options

- **Do nothing, and expect 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

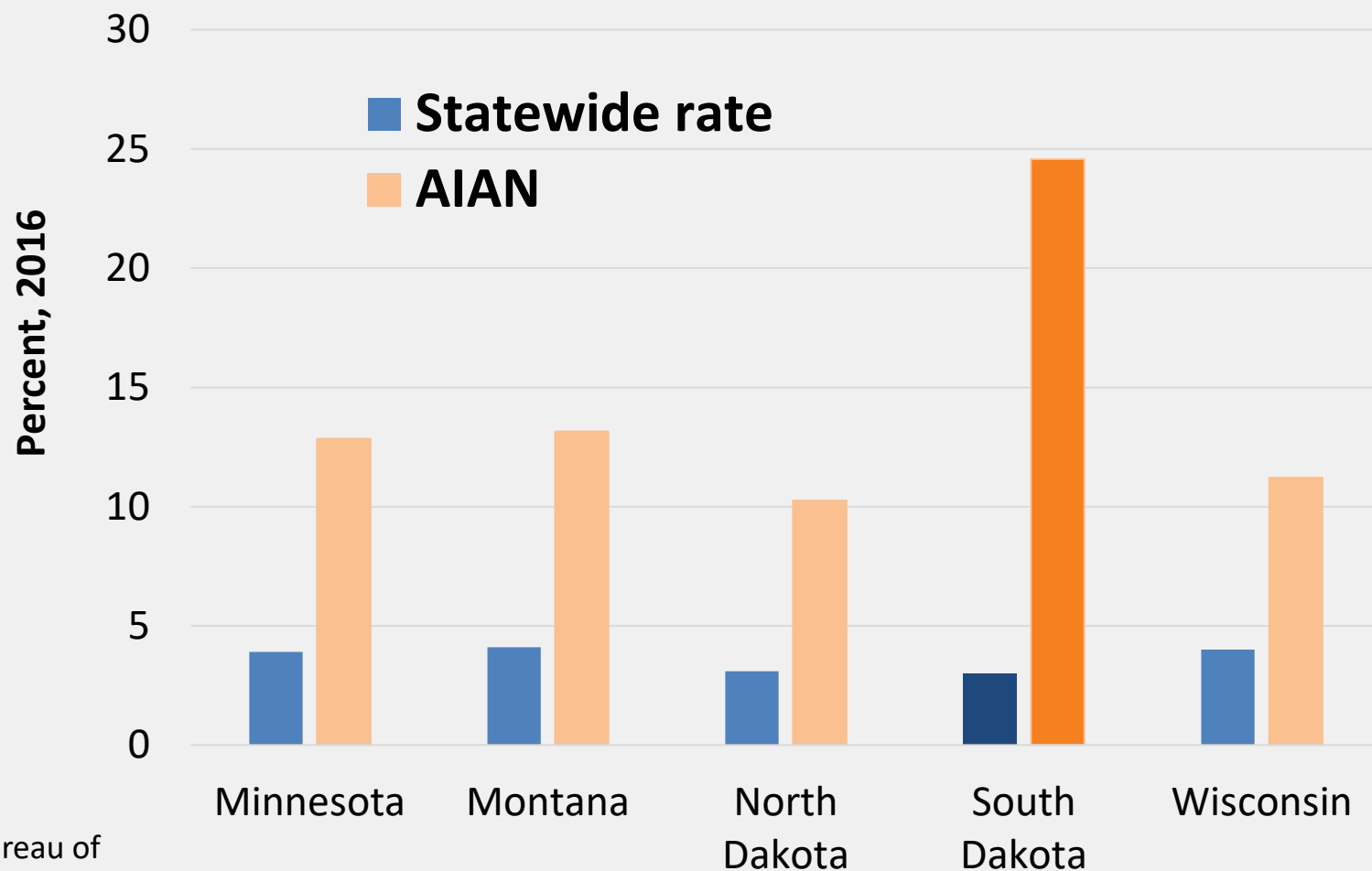
Total labor 'slack' lowest in South Dakota



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.



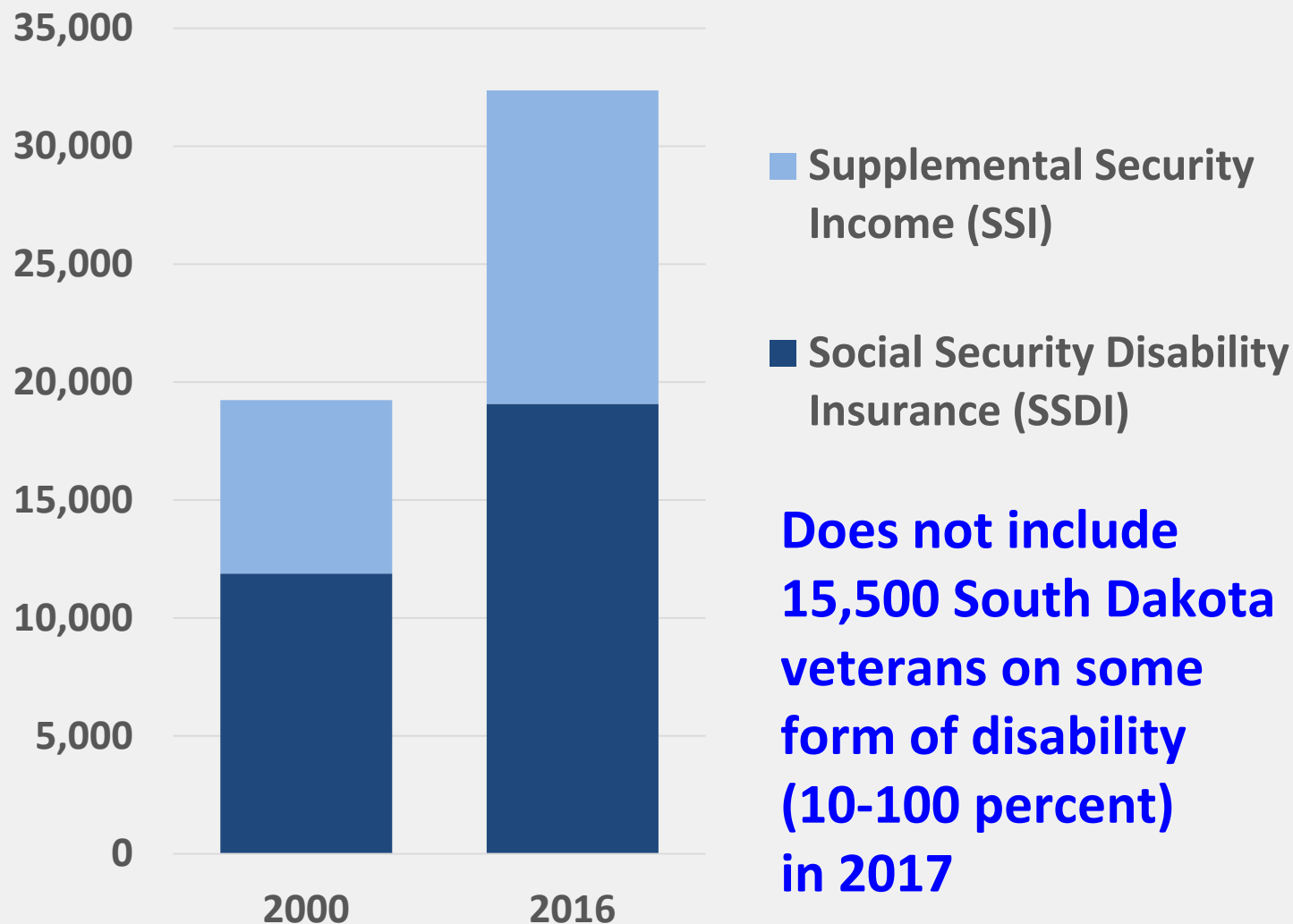
Native American unemployment still terribly high



Source: Bureau of
Labor Statistics



SD working-age disability on rise





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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