

IS THE WORST OVER?

Appropriations Committee

South Dakota Legislature

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University of South Dakota

Outline of Presentation

1. Overview of US economy
 2. Overview of SD economy
 3. Recessions-Past & Present
 4. Forecasts – Models, etc
 5. Summary & Conclusions
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Key US Economic Indicators

Real GDP

Nonfarm Employment

Retail Sales

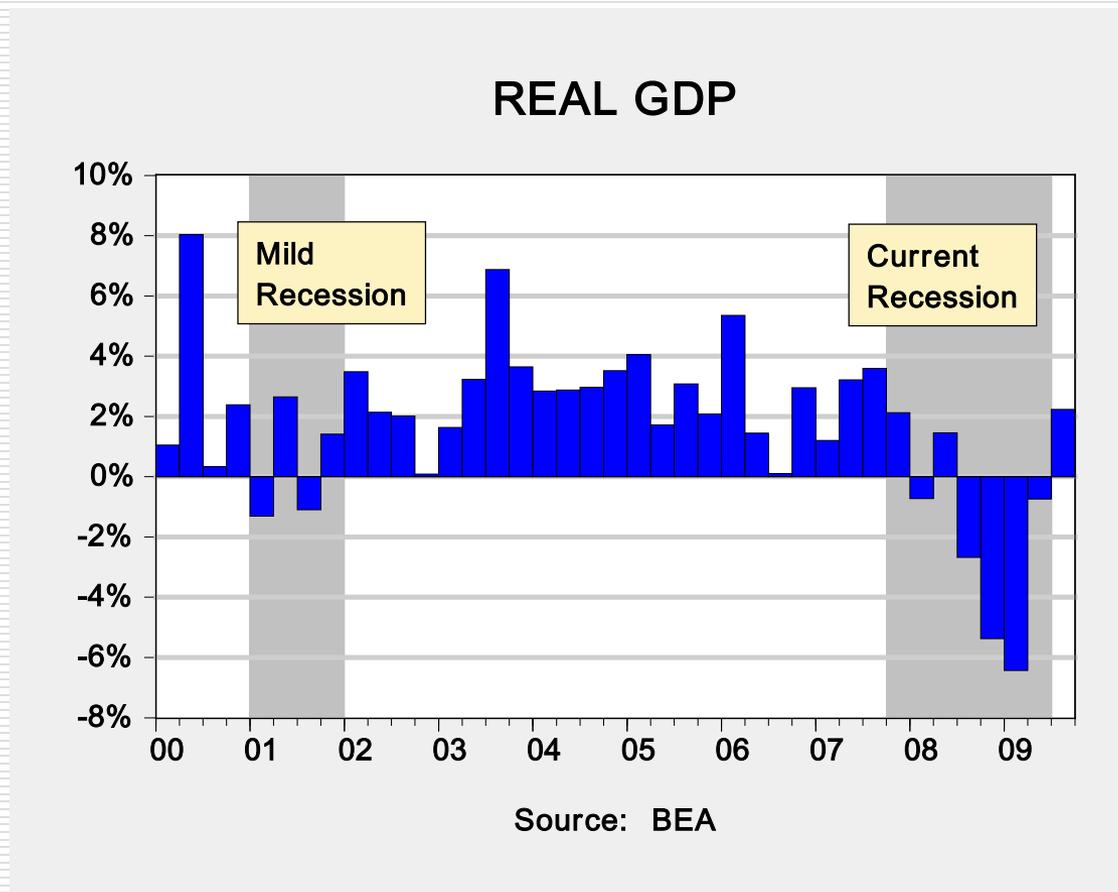
Housing Starts

Industrial Production

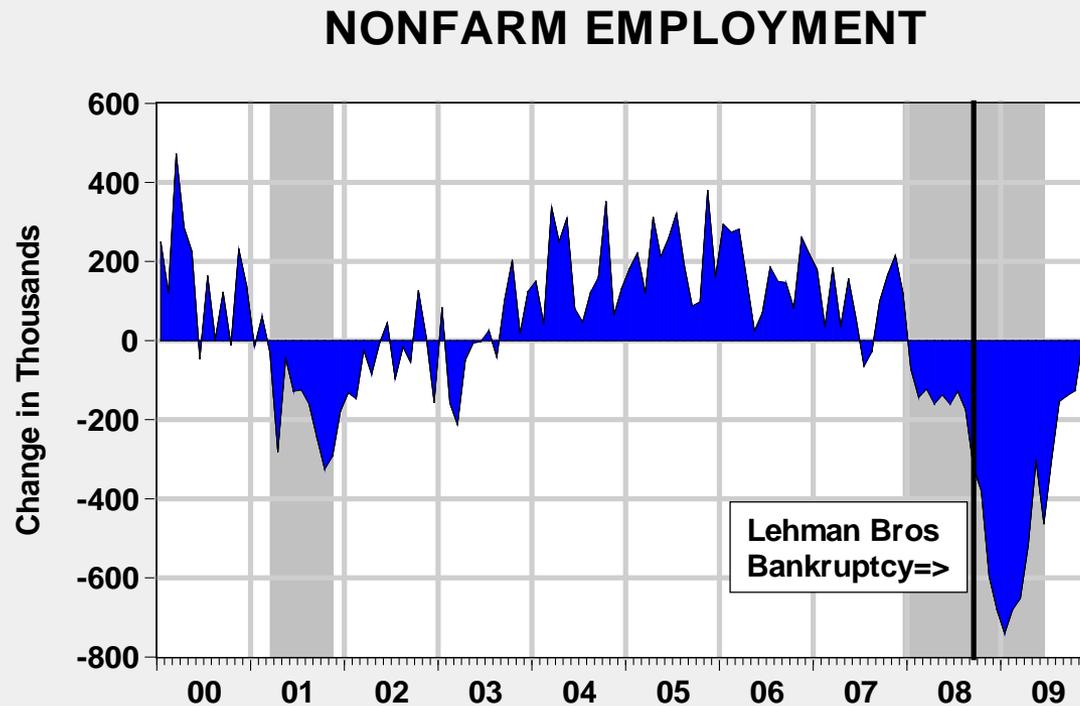
Is the Recession Over?



Positive Growth in Q3

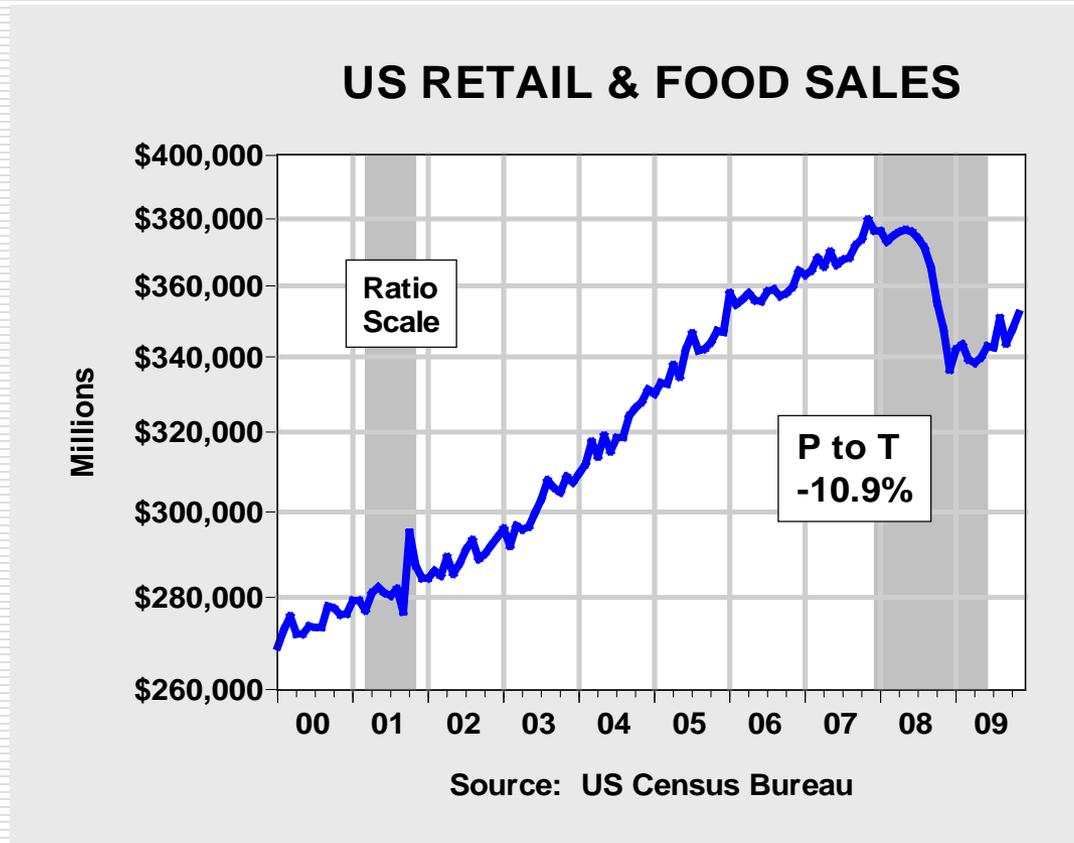


7.2 Million Since 12/2007

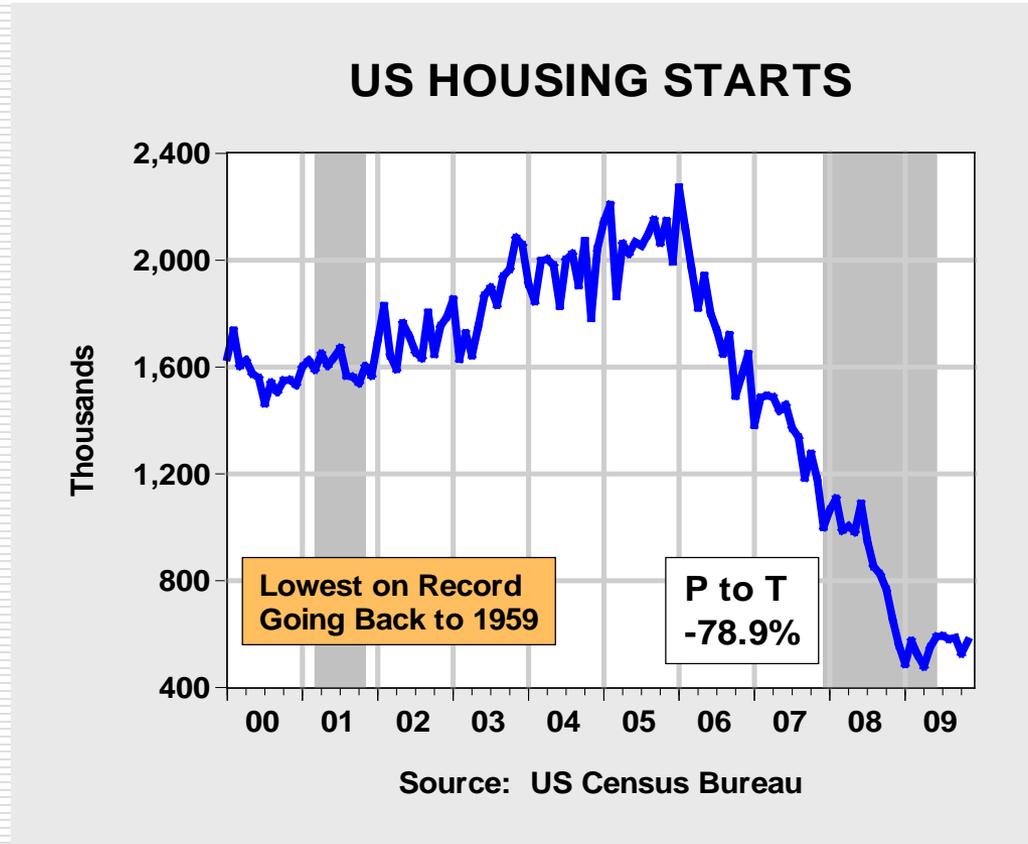


Source: BLS

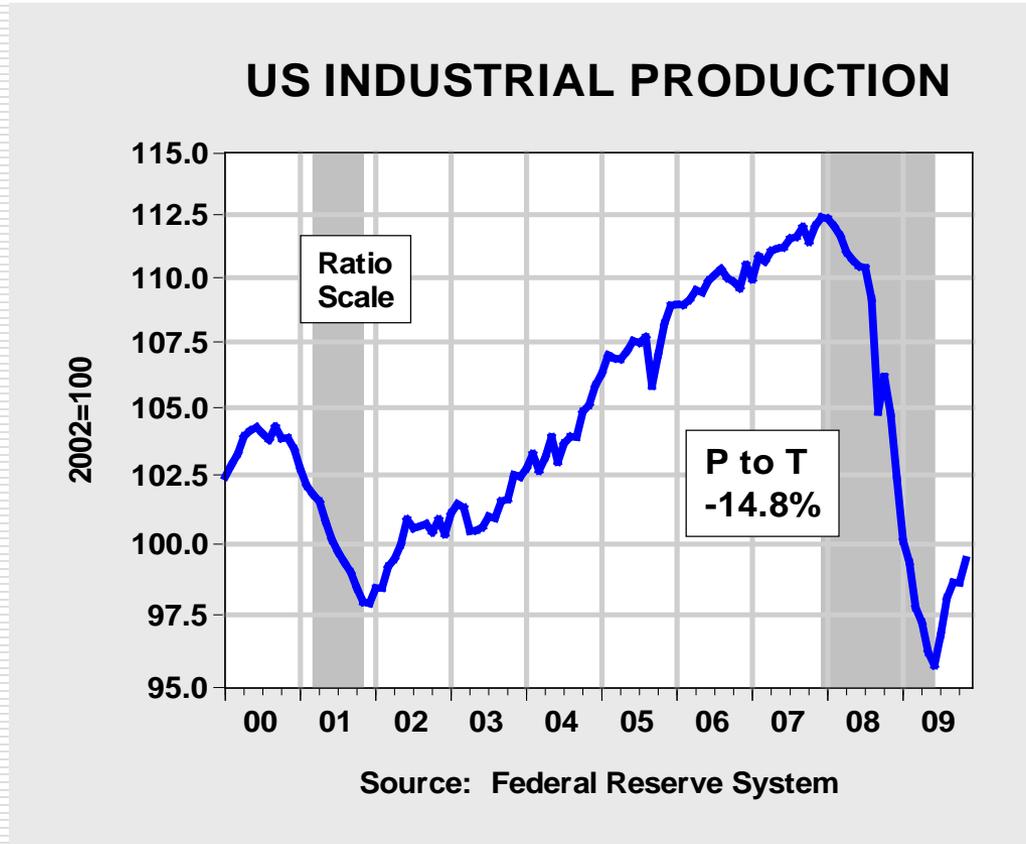
Beginnings of Recovery



Leveling Out?



Turnaround?



Key Variables Tracking SD Economy

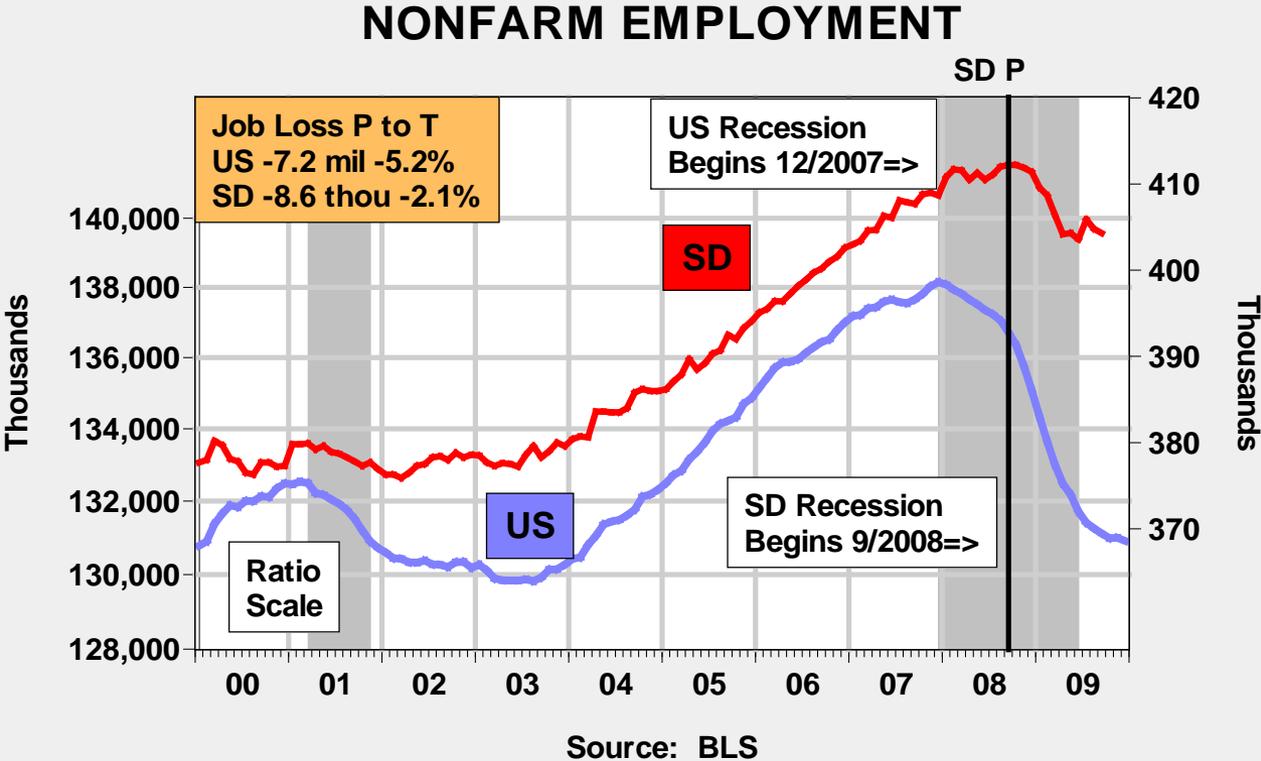
Nonfarm employment

Real nonfarm personal income

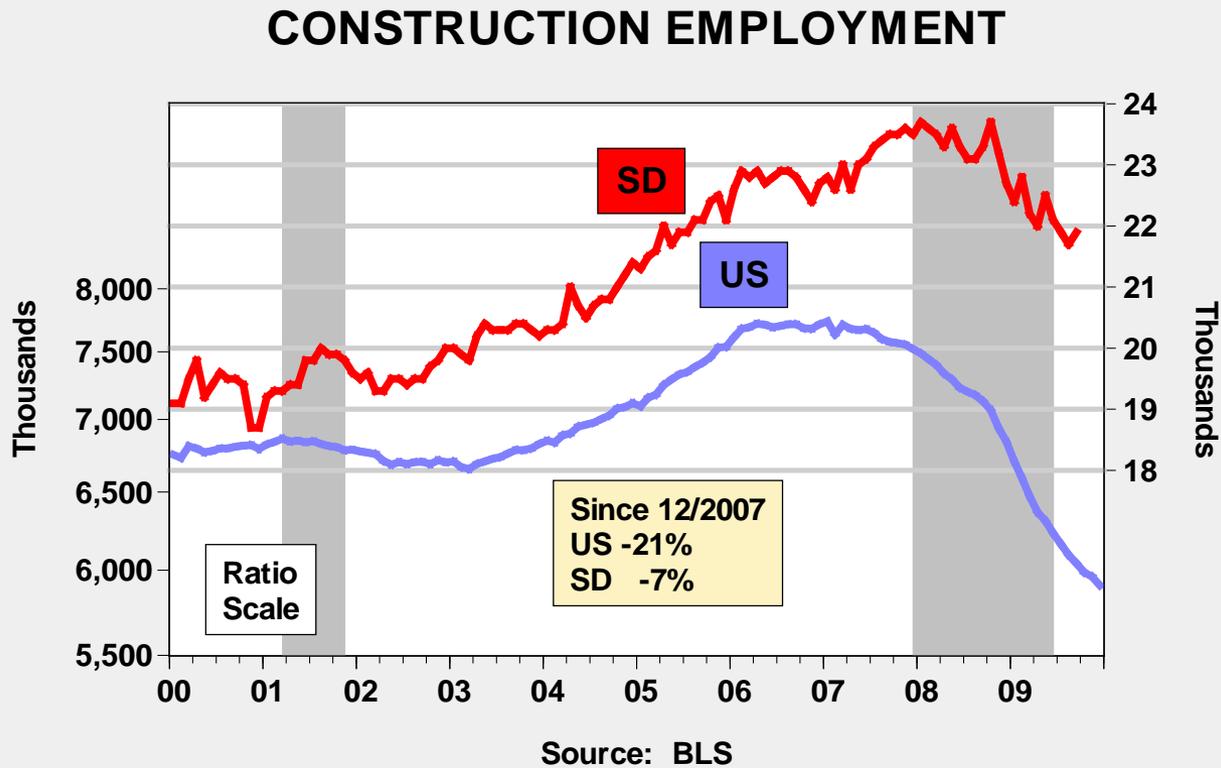
Taxable sales

Coincident Indicator

Loss of 7.2 Million Jobs

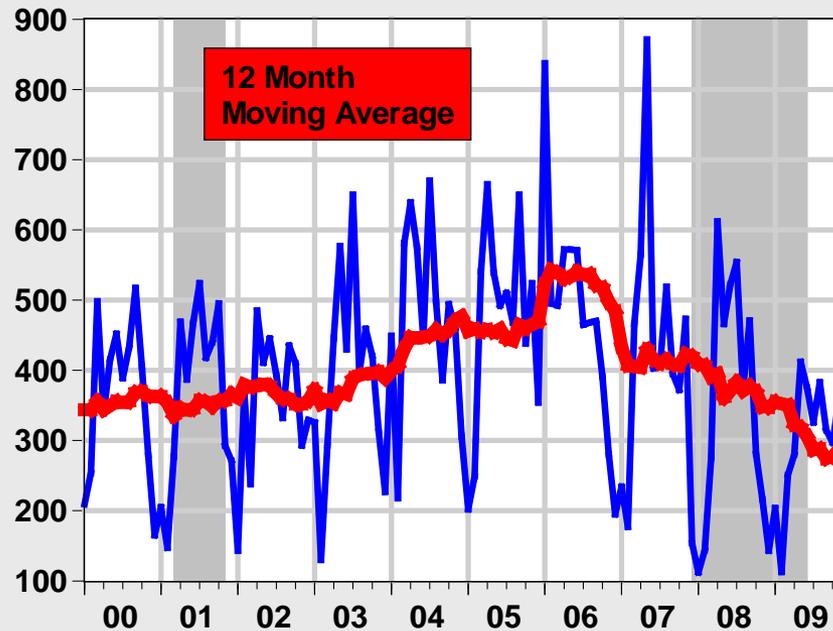


SD Doing Much Better



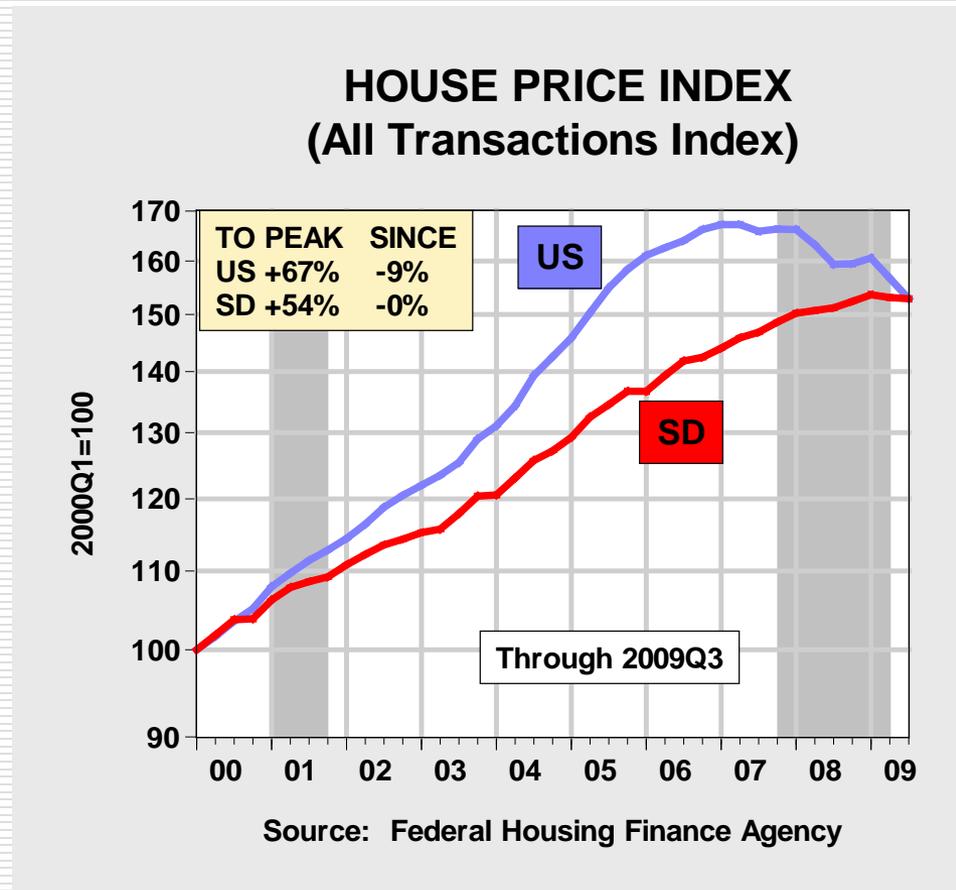
Definitely Slowing

SD BUILDING PERMITS, TOTAL

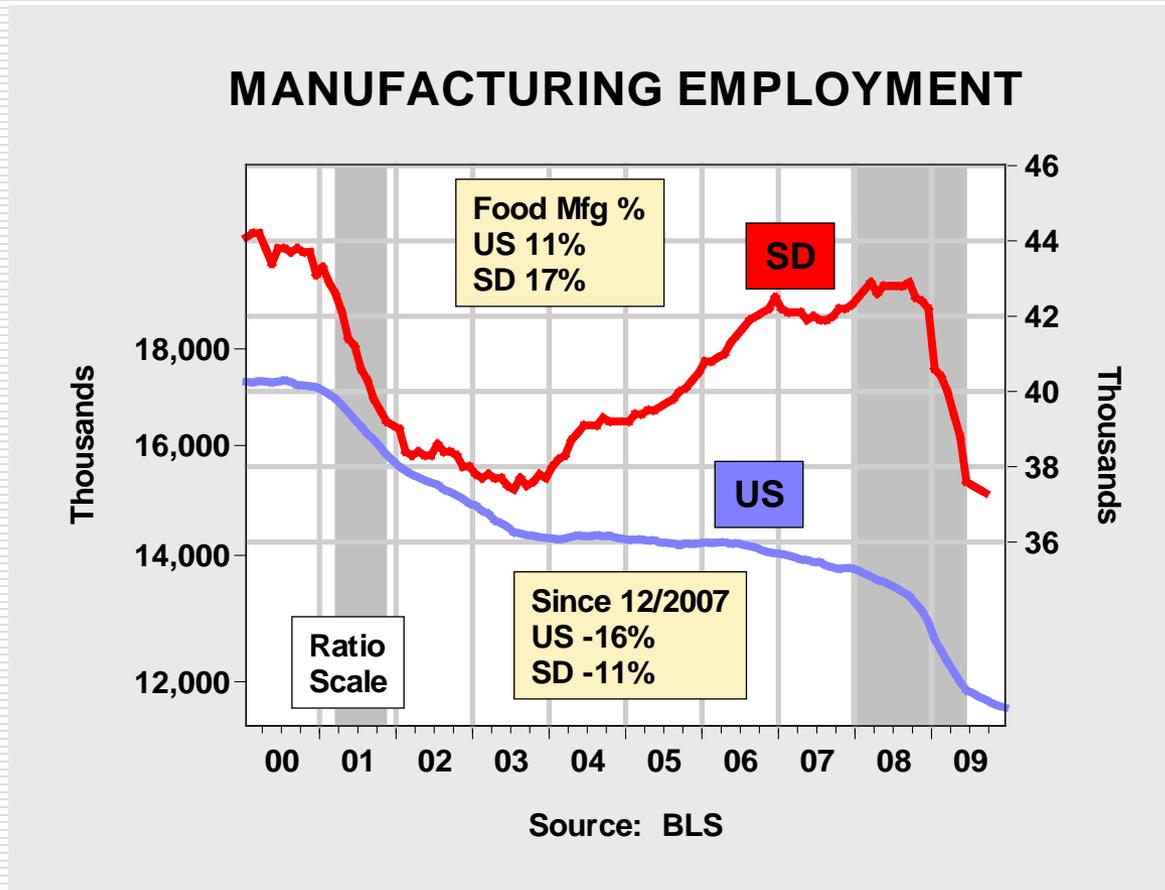


Source: US Bureau of Census

SD Home Prices-Small Decline

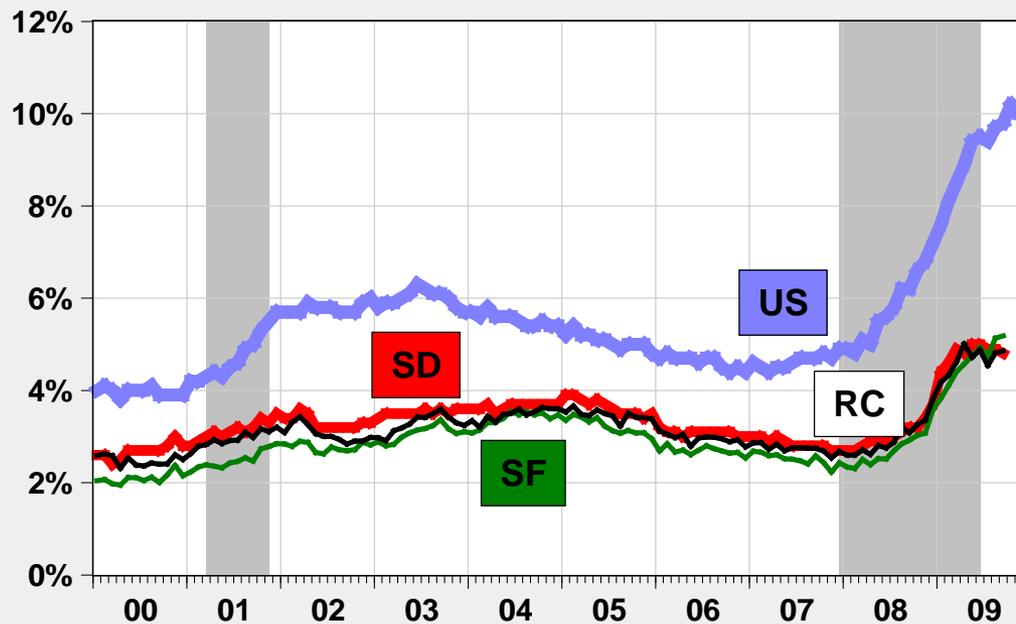


SD & US Lose Mfg Jobs



Up Sharply-Everywhere

UNEMPLOYMENT RATE

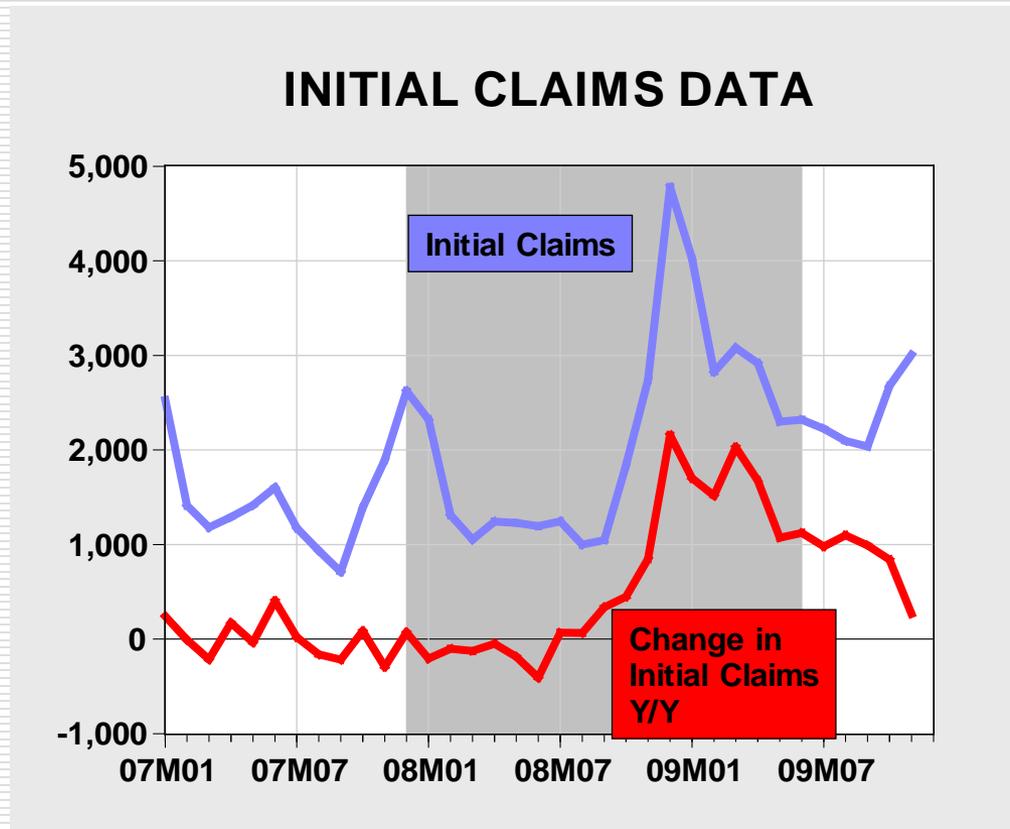


Source: BLS

Just In: SD UI Claims

UI Claimants	7,992	4,902	2,637
Amount of Benefits Paid	\$2,218,669	\$1,211,263	\$622,275
Job Openings	5,572	9,016	14,989
Unemployed	22,165	15,240	12,160
	November 2009	November 2008	November 2007

Getting Better?



Jobless Recovery

1. GDP and production grows but employment does not grow as fast.
 2. Until the 1990s, output and employment tend to grow together during recoveries.
 3. However, the recoveries from the 1990-91 and 2001 recessions were jobless recoveries.
 4. It looks like we can expect the same for the 2007-09 recession.
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Jobless Recoveries - Continued

The number of unemployed reflects the pace of hirings and layoffs.

If $\text{hiring} > \text{layoffs}$ unemployment falls.

If $\text{hiring} < \text{layoffs}$ unemployment rises.

If $\text{hiring} = \text{layoffs}$ unemployment stable.

Currently, layoffs have slowed but hiring has not picked up.

Therefore, unemployment is stable or rising.

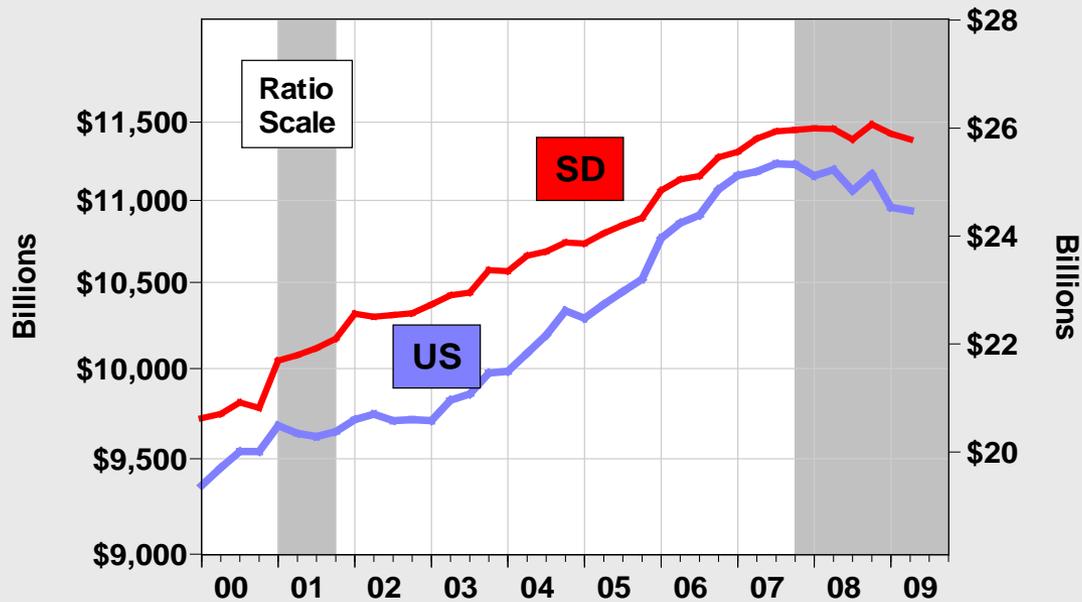
Jobless Recoveries - Continued

Variety of theories of jobless recoveries

1. Lean staffing---increase hours, more overtime, part-time workers, temporary help. Make do with current workforce.
 2. Even after layoffs, payrolls may be higher than desired. No need to hire at this time.
 3. Restructuring of labor force and use of technology means fewer hires.
 4. When Q rises and employment does not productivity rises. Up 6.9% 2nd QTR and 8.1% in 3rd QTR 2009. MFG +14.4%.
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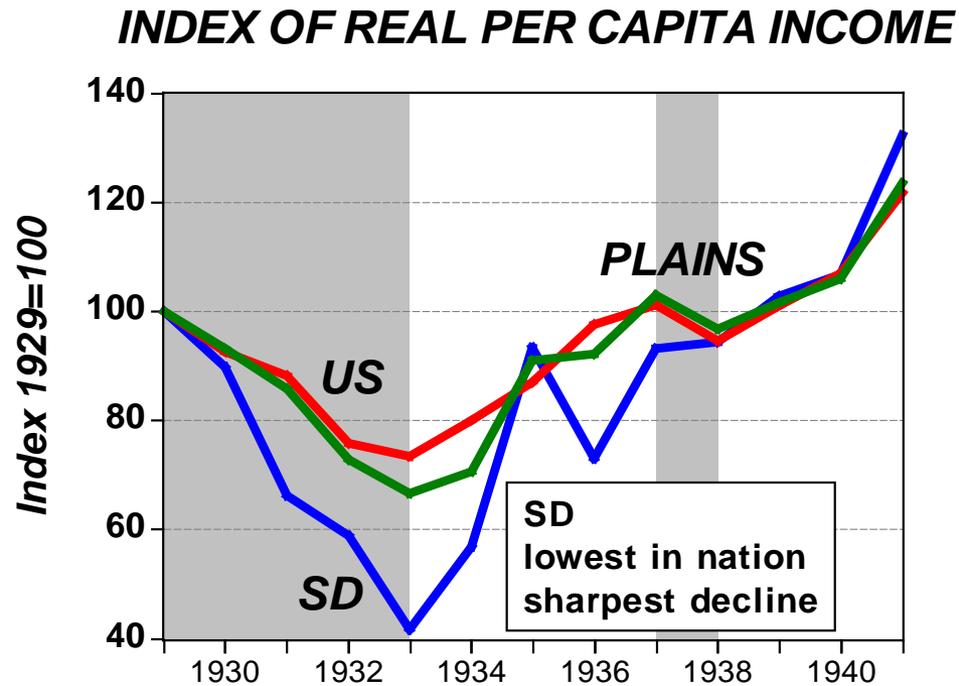
SD Outpaces US

NONFARM PERSONAL INCOME (2000 \$)



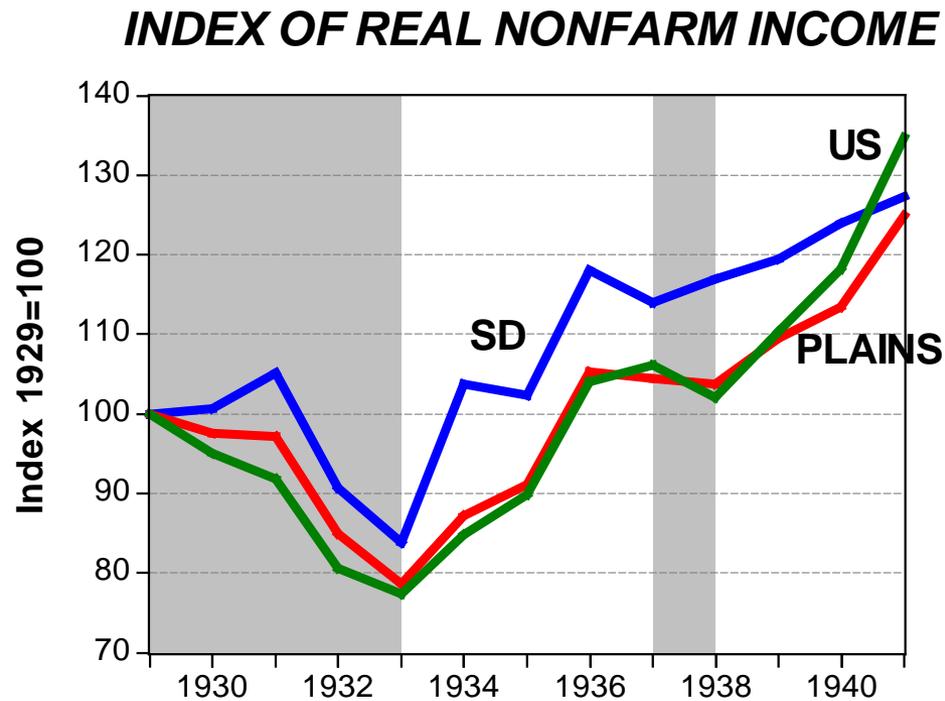
Source: BEA

Great Depression



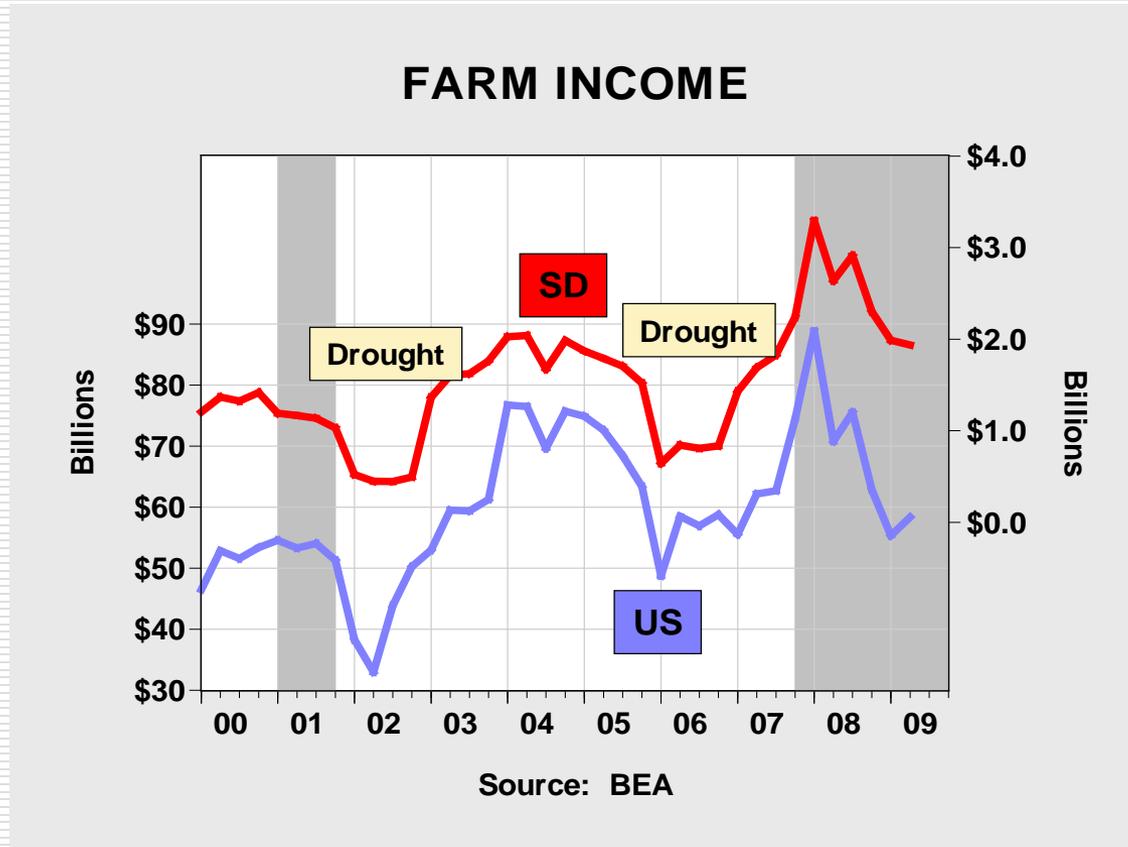
Source: Bureau of Economic Analysis

Great Depression

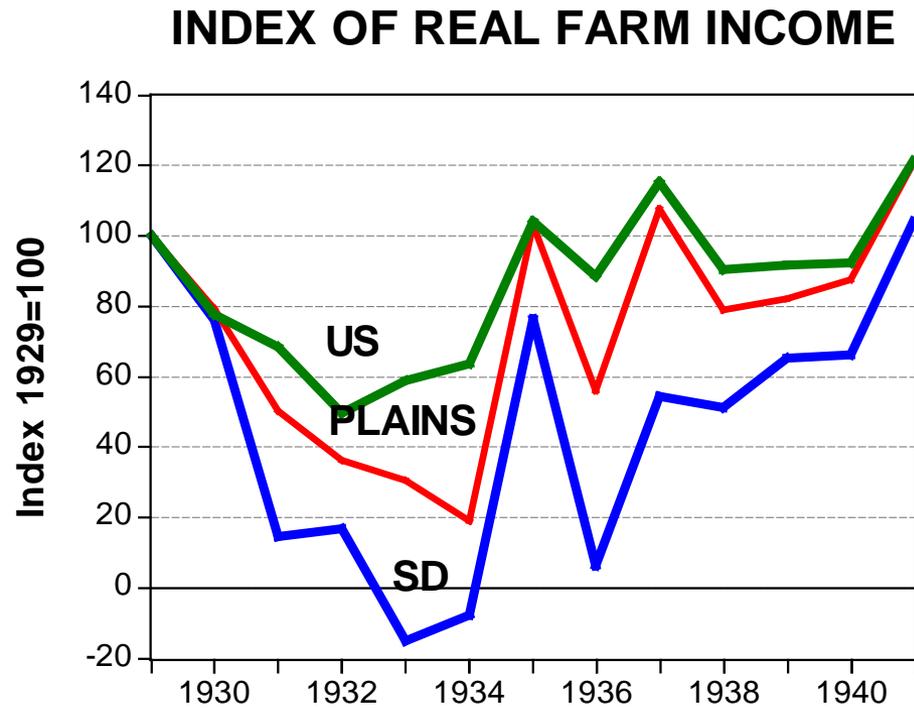


Source: Bureau of Economic Analysis

Not Peak But Still High

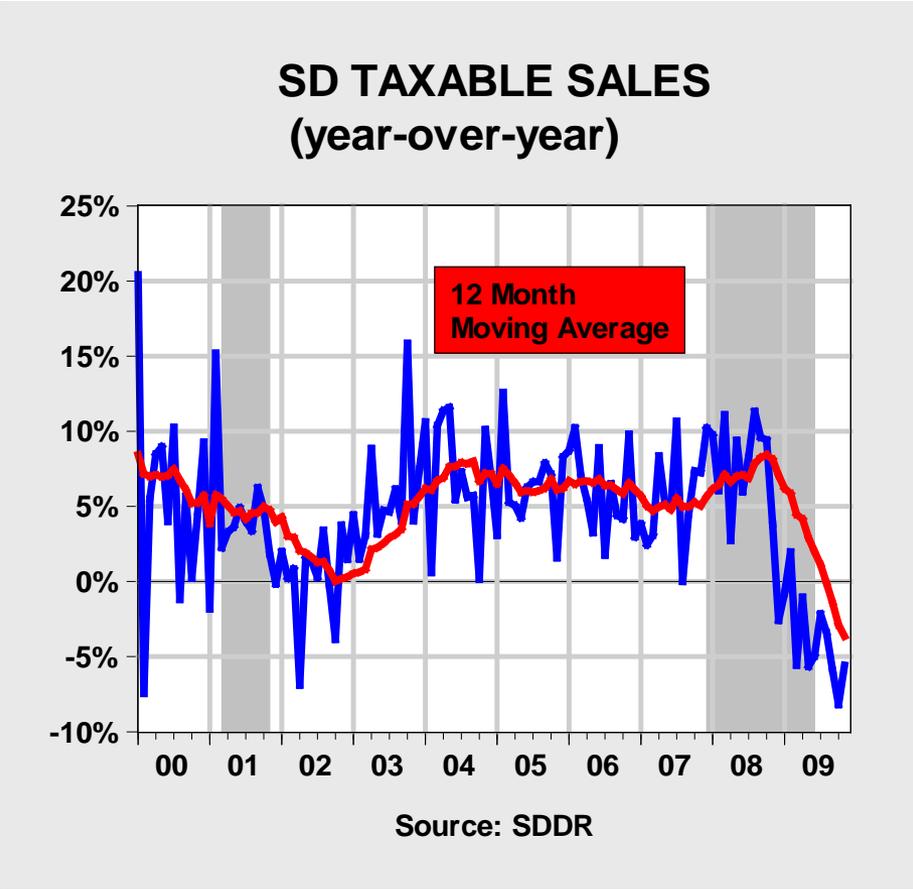


Great Depression

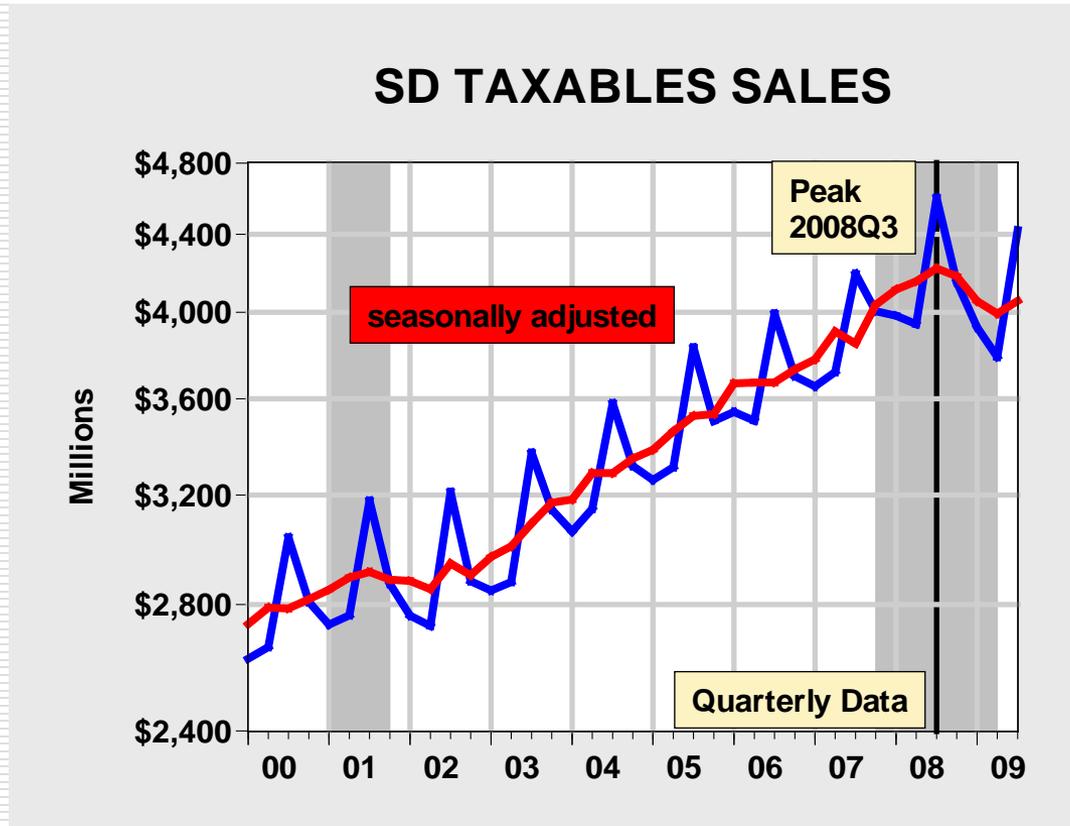


Source: Bureau of Economic Analysis

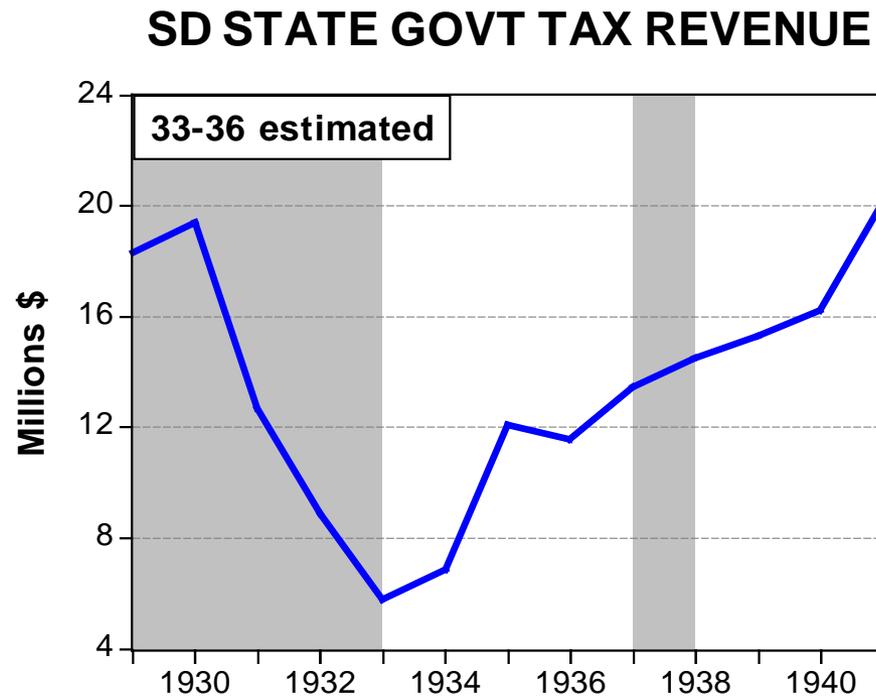
Bad News



Beginnings of Recovery??

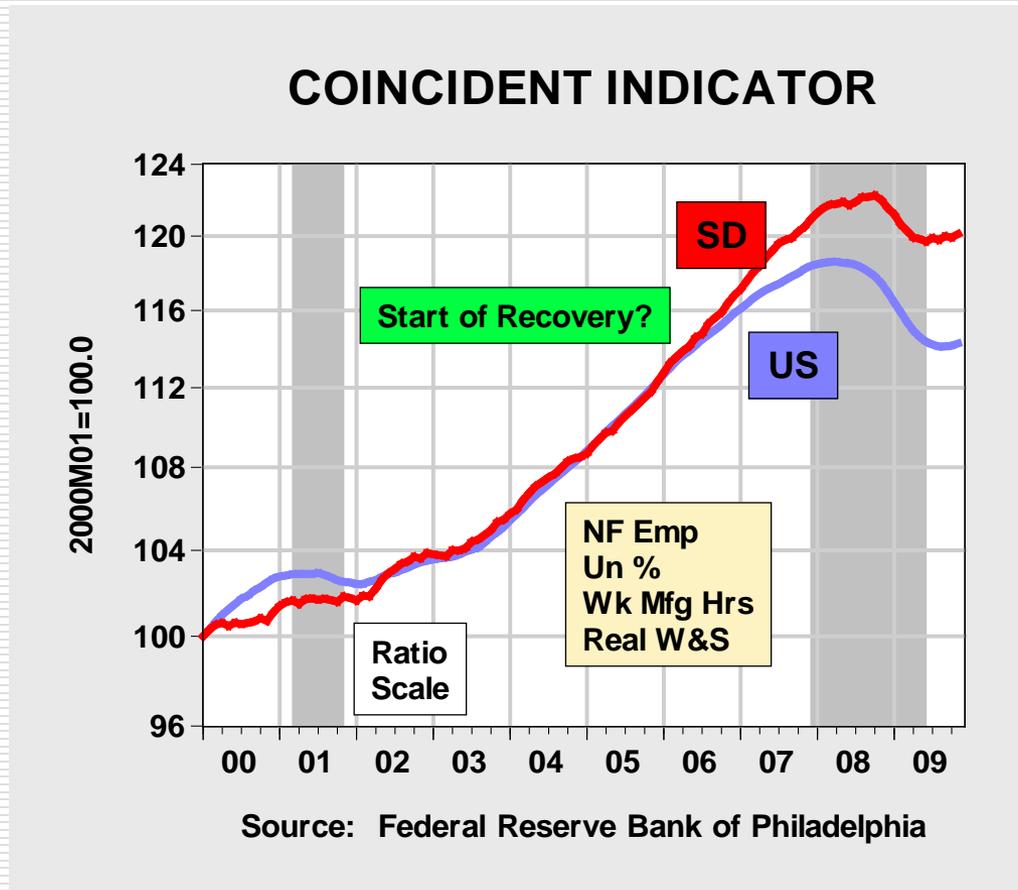


Great Depression



Source: Statistical Abstract of U.S. and Estimates

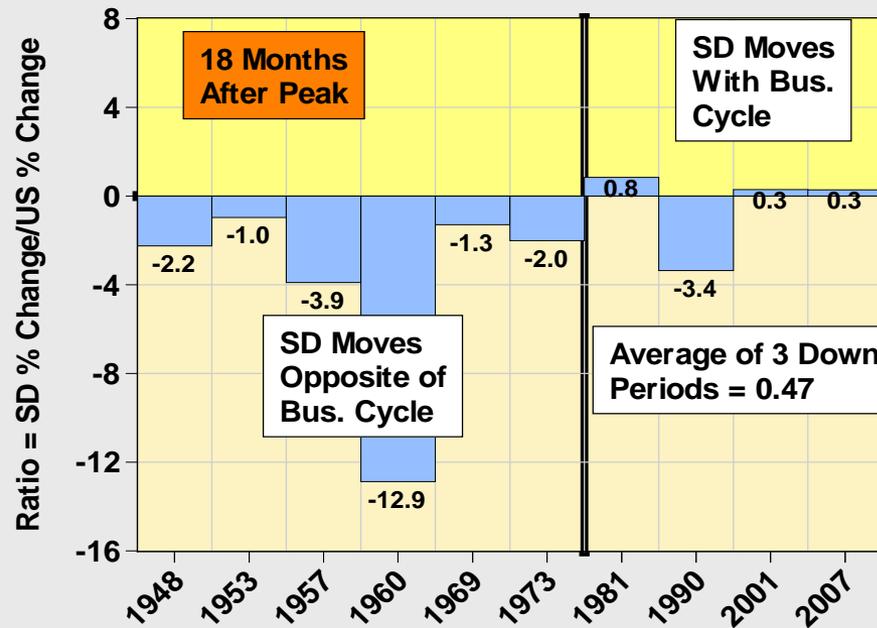
Have We Hit Bottom?



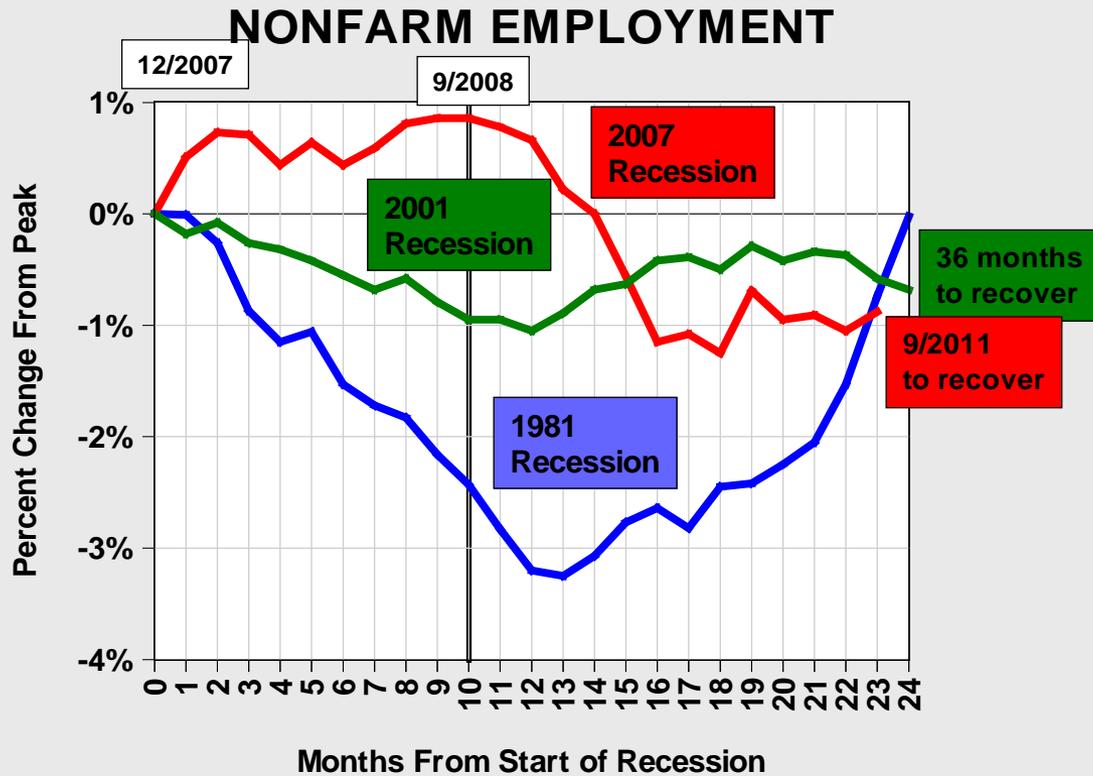
Recessions: Past & Present

Historical Sensitivity

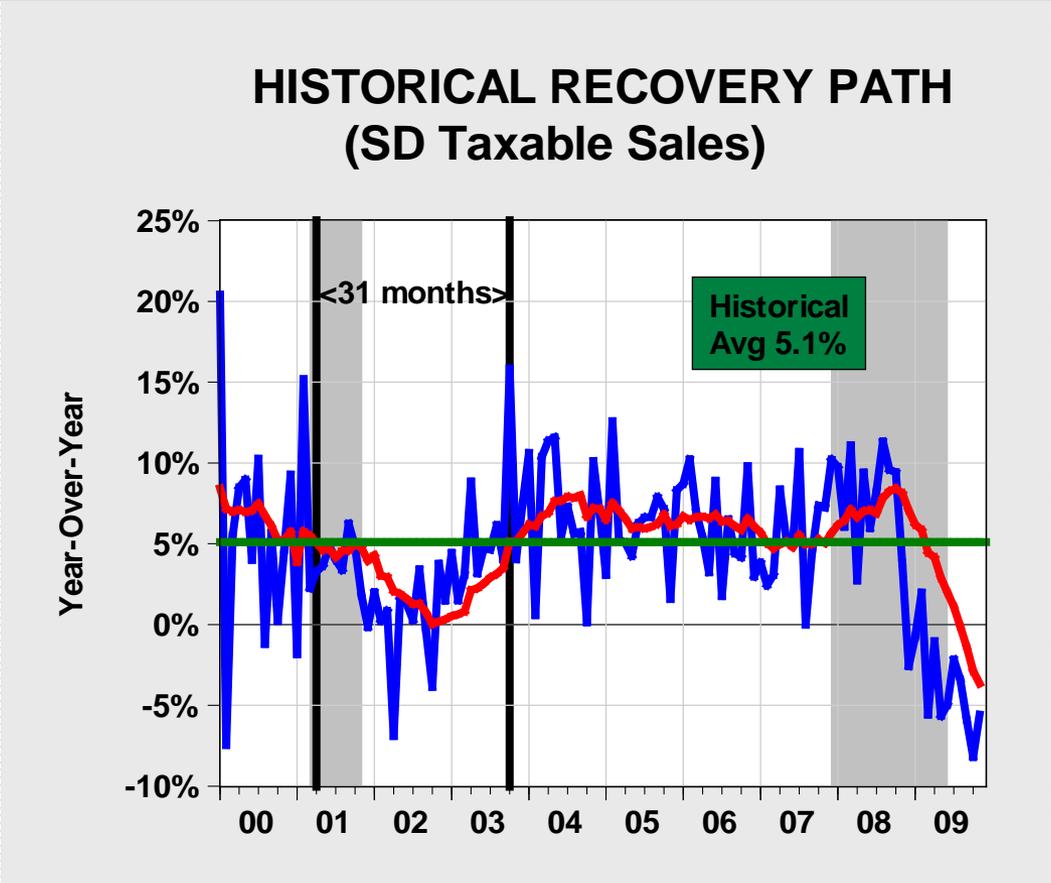
**SENSITIVITY OF SD TO US RECESSIONS
(Nonfarm Employment)**



Long Lags to Get Back to Peak



Reversion to the Mean Lags



The US Forecast

STATE OF CURRENT ECONOMY US VS SD (2007-2010)

Peak to Trough	US	SD	Ratio SD/US
Real NF Pers Inc	-2.6%	-0.8%	0.31
NF Employment	-5.2%	-2.0%	0.38
Mfg. Emp.	-14.9%	-11.8%	0.79
Con. Emp.	-19.7%	-6.8%	0.35
Retail Sales	-7.9%	-5.4%	0.68
Building Permits	-54.4%	-20.2%	0.37
Unemp. Rate	10.2%	5.0%	0.49
Average			0.46

IHS GI Forecast 1/04/10

1. Recovery began in June, with a modest rebound in 3rd QTR 2009, 2.2%, and rebound of 5.1% in 4th QTR 2009.
 2. Employment declines are just about over, but unemployment will remain high averaging 10.1% in 2010, 9.5% in 2011, and 8.4% in 2012.
 3. Inflation is a future risk, but not at the moment. Headline CPI inflation has turned positive and will average 1.7% in 2010.
 4. Consumer sector remains weak due to high debt burdens, losses in wealth, and tight credit. Improvements in labor market will help in 2010.
 5. Single family is improving due to better affordability.
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6. Business investment, particularly equipment, is stabilizing. Business structure spending remains weak and commercial real estate market is very weak.
 7. GI estimates federal stimulus adds about 0.9 percentage points to 2009 GDP growth and 1.3 percentage points to 2010 growth and creates/saves 2.5 million jobs.
 8. Exports have improved with renewed growth of Asia (China) and pickup in Europe. \$ has recently strengthened but long-run trend is down.
 9. Budget deficits were \$1.4 trillion in 2009 and about the same in 2010. Obama faces tough choices concerning spending and eventually require tax increases.
 10. Fed will begin to raise interest rates by 2010 QTR3.
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IHS GLOBAL INSIGHT FORECAST

January 2010

Variable	2009	2010	2011
GDP	-2.5%	2.6%	2.7%
NA Emp	-3.7%	-0.5%	1.5%
Oil	\$62	\$68	\$77
Housing	0.56	0.79	1.24
CPI	-0.3%	1.7%	2.0%
Un Rate	9.3%	10.1%	9.5%

As of 1/04/10

SD Forecast: SD Taxable Sales

POTENTIAL RISKS NOT IN MODELS

Employment impact of new credit card regulations in SD

Employment impact of Federal government takeover of student loan activity in SD

Reset or new normal impact on consumer spending

Mini-Models for Comparison With BFM Large Model

**FORECASTED VARIABLE:
SD Taxable Sales**

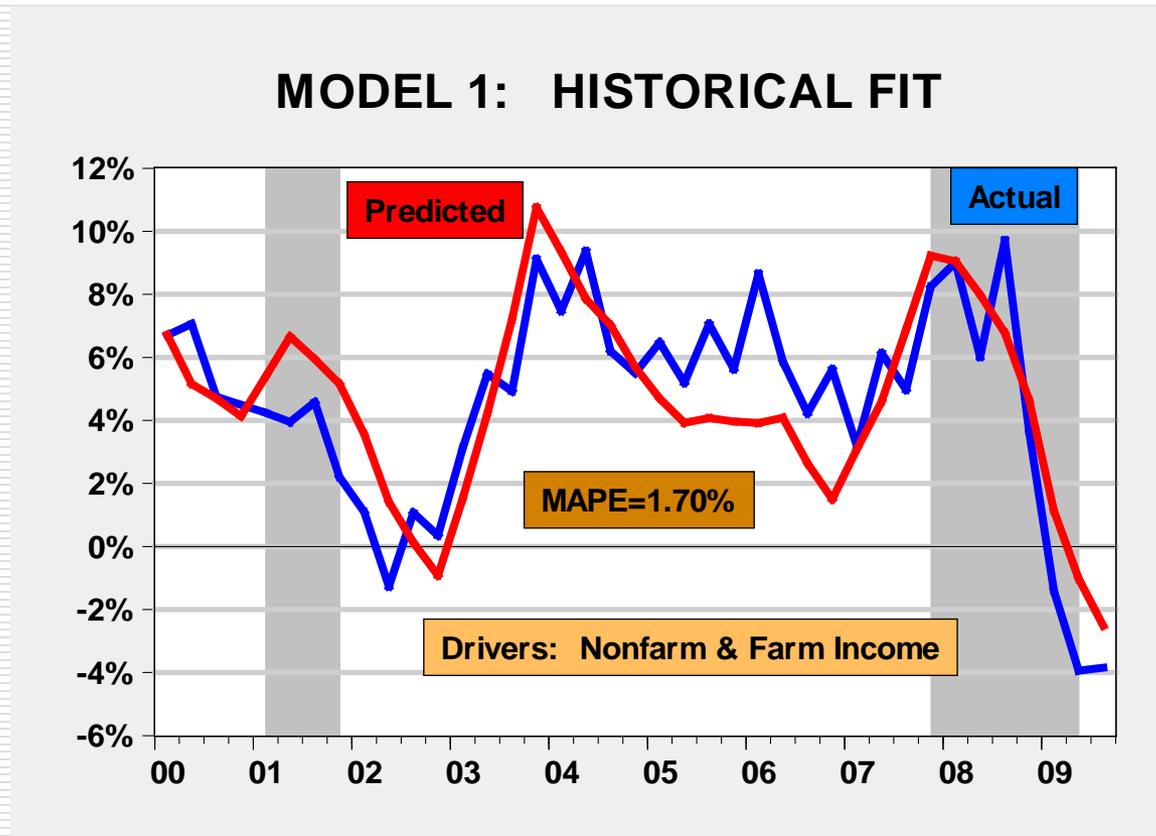
DRIVERS:

1. Nonfarm and farm income.
2. Nonfarm employment, consumer prices, and farm income.
3. Growth in nonfarm employment, consumer prices, and farm income.

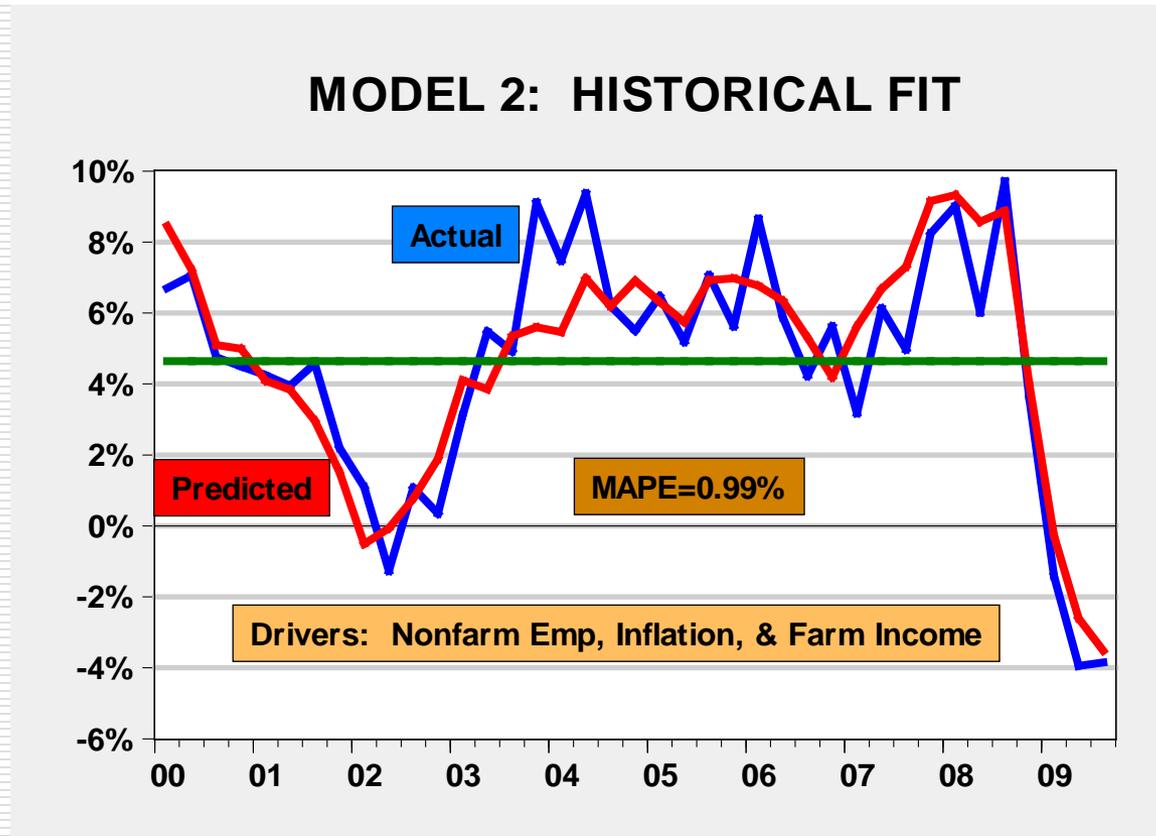
4. "Rule of Thumb":

$$\%ch(\text{taxable sales}) = \%ch(\text{nonfarm emp}) + \%ch(\text{CPI}) + 1.1\%$$

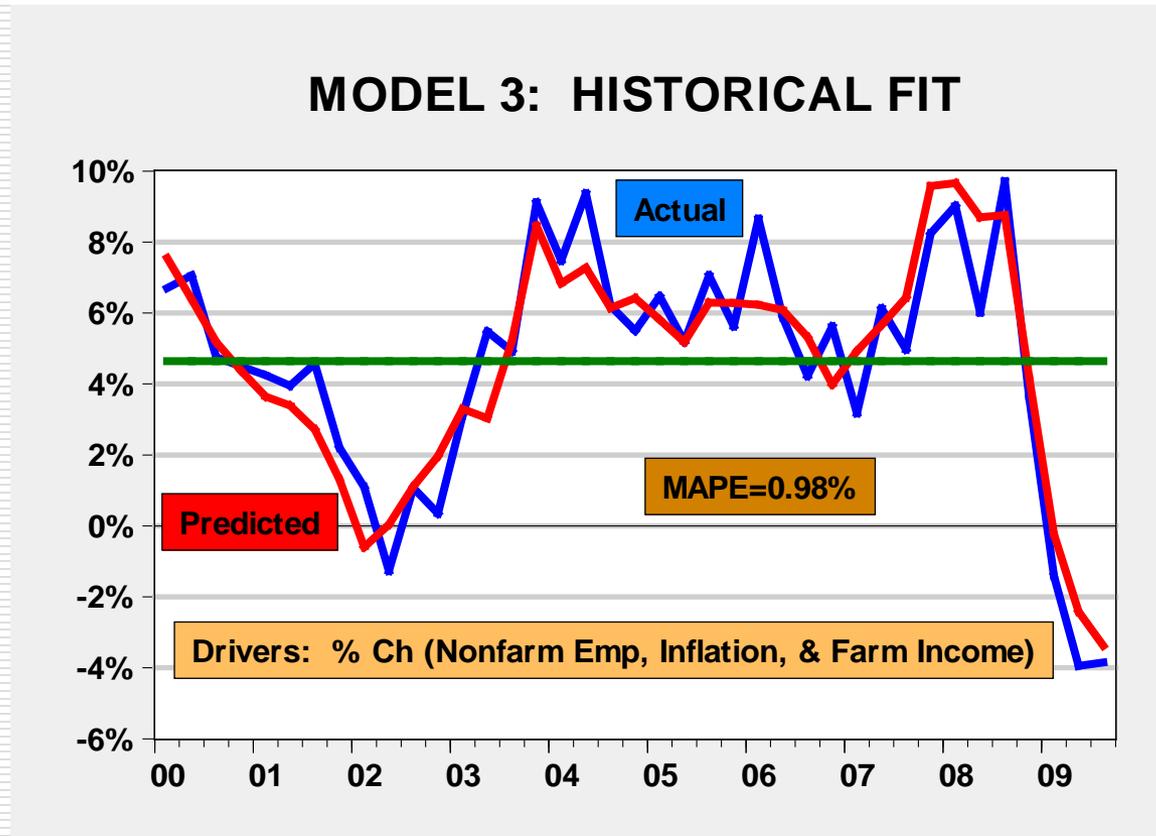
Model 1: Actual vs Predicted



Model 2: Actual vs Predicted

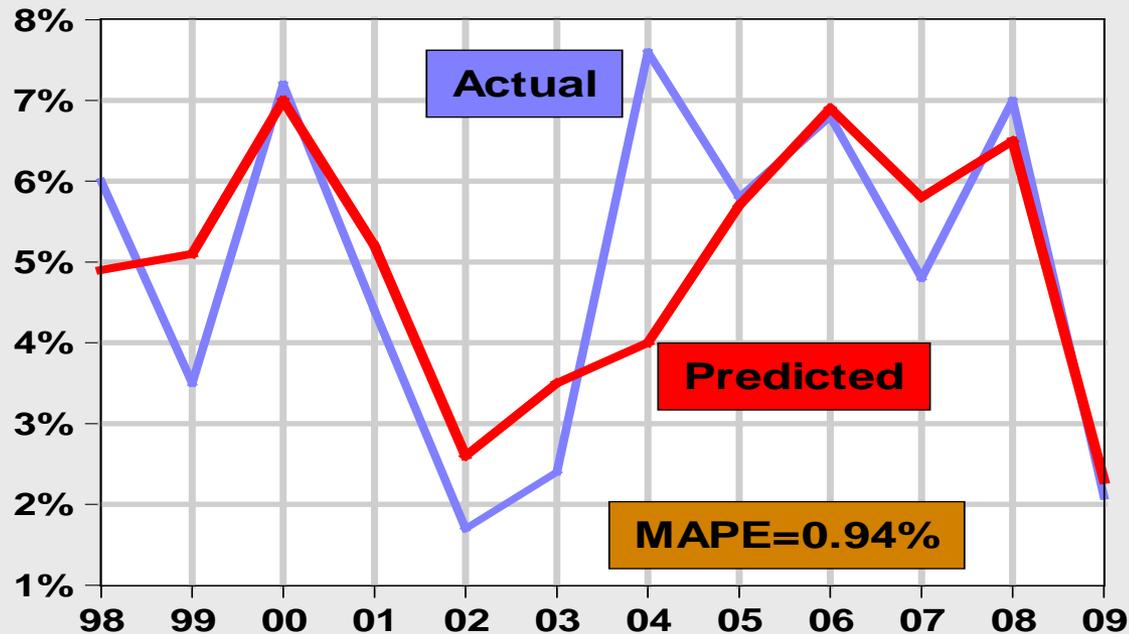


Model 3: Actual vs Predicted



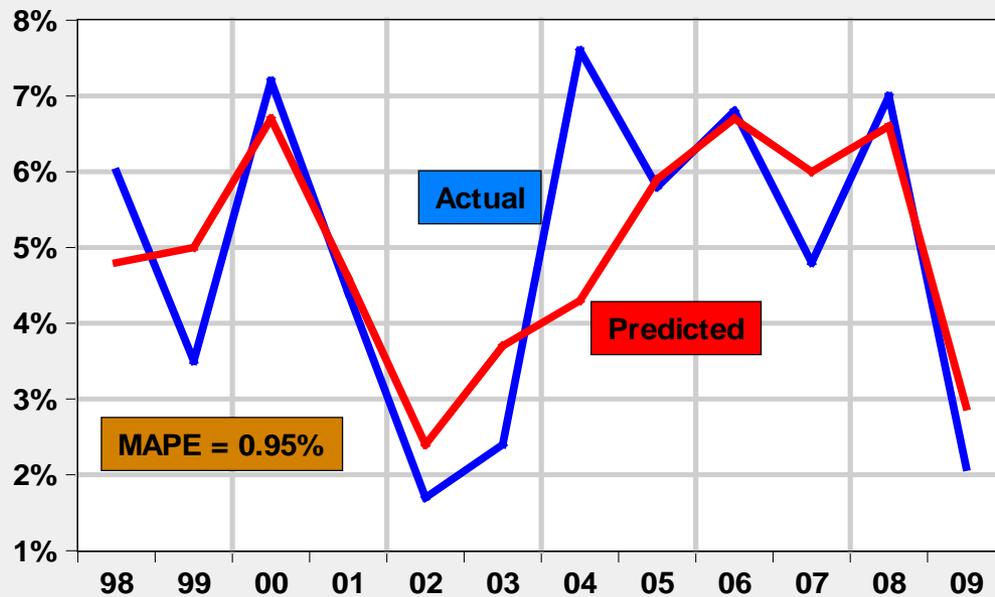
Model 4: "Rule of Thumb" Model

"RULE OF THUMB" FORECAST
 $\% \text{ Ch(Nonfarm Emp)} + \% \text{ ch(CPI)} + 1.1\%$



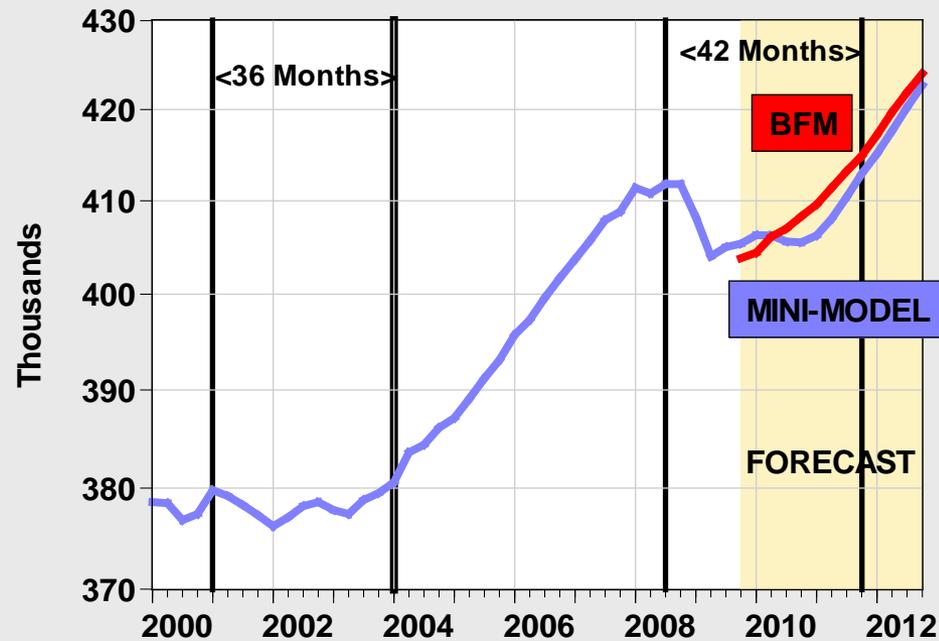
RULE OF THUMB FORECAST

$\% \text{ Ch}(\text{nonfarm emp}) + \% \text{ Ch}(\text{price def}) + 1.5\%$



Recovery to Previous Peak After Recession

SD NONFARM EMPLOYMENT FORECASTS



BASELINE FORECASTS

FORECAST Model	FY2010	FY2011
Model 1 (NF & Farm INC)	-1.6%	3.7%
Model 2 (NFEmp, Inf, F INC)	-1.6%	3.0%
Model 3 (G NFEmp,Inf,F INC)	-2.0%	2.0%
Model 4 “Rule of Thumb”	1.7%	3.1%
SDBFM	-2.0%	3.0%
Average	-1.1%	3.0%

Summary and Conclusions

1. "The Great Recession"
 2. National recession began 12/2007 and the SD recession began 9/2008.
 3. National & SD recovery began 6/2009.
 4. Peak to trough decline in Non Ag employment.
 - a. US -5.2%
 - b. SD -2.0%
 5. SD sensitivity to US recessions about 0.4.
 6. Major declines in MFG, CONST, & BUS & PROF SERVICES.
 7. Recovery appears to be long and protracted with employment and taxable sales not recovering to previous levels until 2011 or so.
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The End
