



JCA Revenue Update – July 2022

Inflation

Economic Outlook

Sales Tax Growth

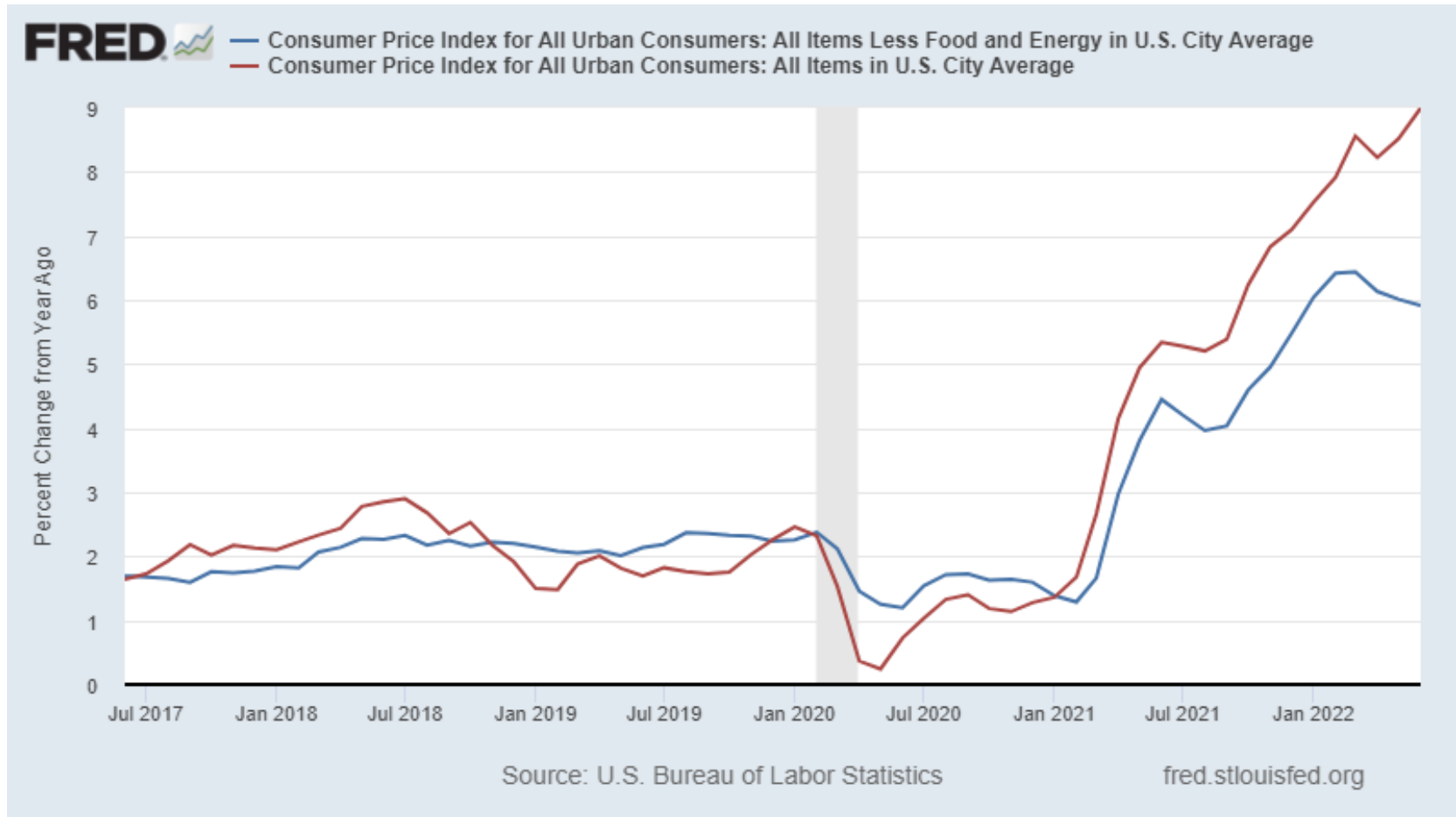
Revenue Outlook for FY2023



Inflation: Remains High



- Overall CPI at 8.9% Y/Y
 - Driven mainly by food and energy costs
 - The 12-month change in food inflation is 10.4%
 - The 12-month change in energy inflation is 41.6%
- Core Inflation at 6.0% Y/Y
- CPI is based on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living.



Inflation: Going to be Sticky

- The Sticky Price Consumer Price Index (CPI) is calculated from a subset of goods and services included in the CPI that change price relatively infrequently. Because these goods and services change price relatively infrequently, they are thought to incorporate expectations about future inflation to a greater degree than prices that change on a more frequent basis.
- One possible explanation for sticky prices could be the costs firms incur when changing price.
- Examples of sticky-price goods and services includes household furnishings, restaurant/fast food, communication (cell phone plans, internet plans), trash service, public transportation, and alcoholic beverages

FRED — Sticky Price Consumer Price Index less Food and Energy



Source: Federal Reserve Bank of Atlanta

fred.stlouisfed.org

FRED — Consumer Price Index for All Urban Consumers: Alcoholic Beverages in U.S. City Average



Source: U.S. Bureau of Labor Statistics

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Inflation: Farm Products

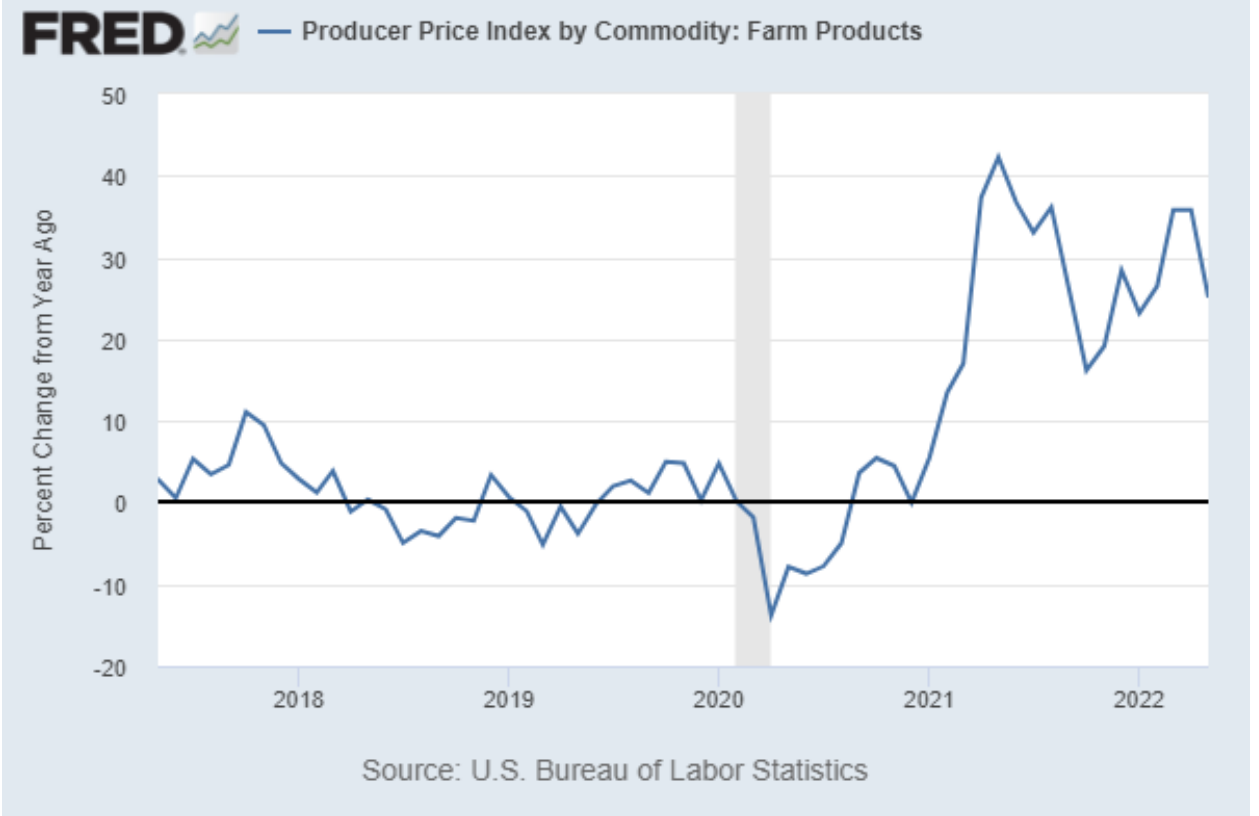
- Farm products include anything produced on a farm like chicken, hogs, beef, corn, oats, milk, eggs, hay, grapes, oranges, potatoes, etc....
- Prices Paid by Farmers (Yearly Change)
 - Feed up 19%
 - Fertilizer up 71%
 - Fuels up 62%
 - Machinery up 21%

- Expect continued food inflation in end products (chicken, beef, eggs, milk, etc...) for Fall 2022 due to increased input costs from farming, mainly driven by fertilizer and fuel costs.

Prices Received by South Dakota Farmers

	Apr-20	Apr-21	Apr-22	1 YR % Change	2 YR % Change
All Wheat	\$ 4.78	\$ 5.97	\$ 10.40	74.2%	118%
Oats	\$ 3.12	\$ 3.28	\$ 7.03	114.3%	125%
Corn	\$ 3.00	\$ 5.34	\$ 7.17	34.3%	139%
Soybeans	\$ 7.90	\$ 13.80	\$ 15.50	12.3%	96%
Sunflower	\$ 19.50	\$ 23.90	\$ 38.20	59.8%	96%
All Hay	\$ 97.00	\$120.00	\$175.00	45.8%	80%
Milk	\$ 15.30	\$ 20.70	\$ 27.20	31.4%	78%
Milk Cows	\$ 1,230	\$ 1,300	\$ 1,450	11.5%	18%

Source: USDA Agricultural Prices Reports: May 31, 2022 and May 28, 2021.



Inflation: Where are Wages?

- Wage growth has seen significant increases compared to pre-covid.

- Reasons for substantial increases in wages
 - Workers demanding more wages because of inflation
 - Employers needing to attract workers back to the labor market due to COVID

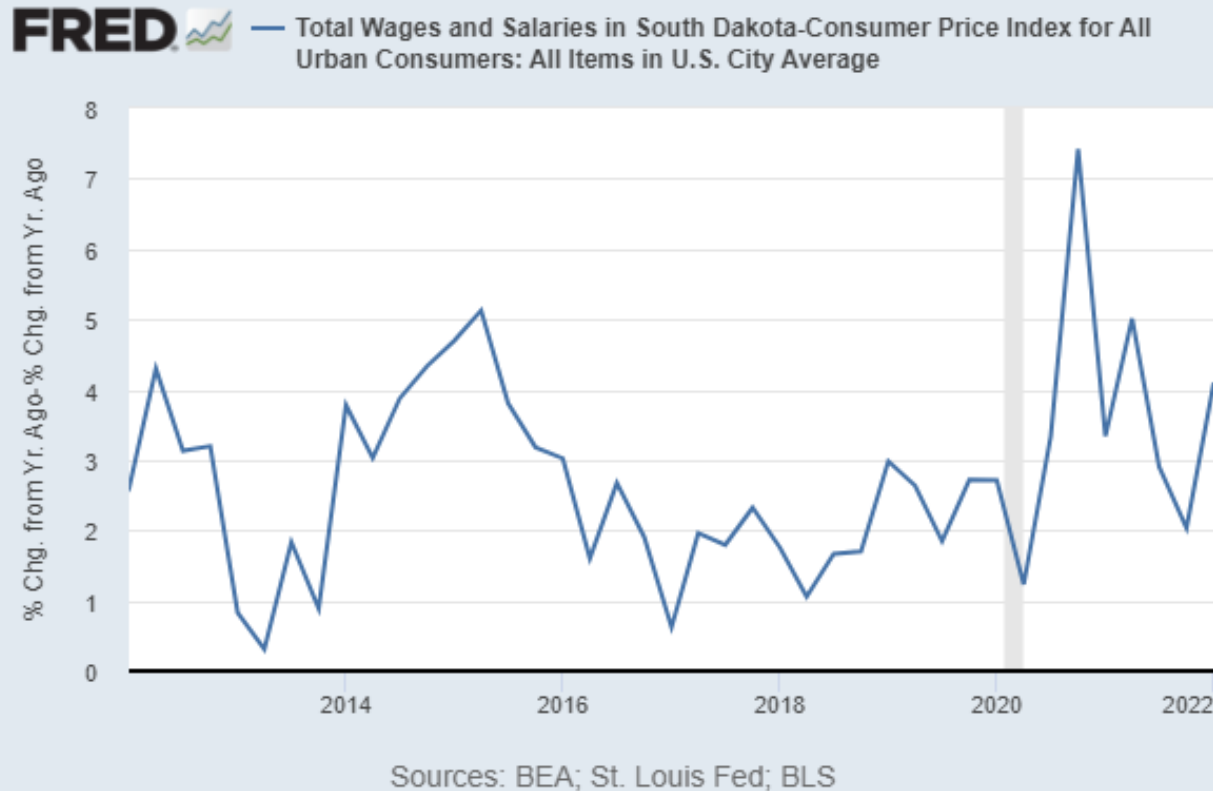
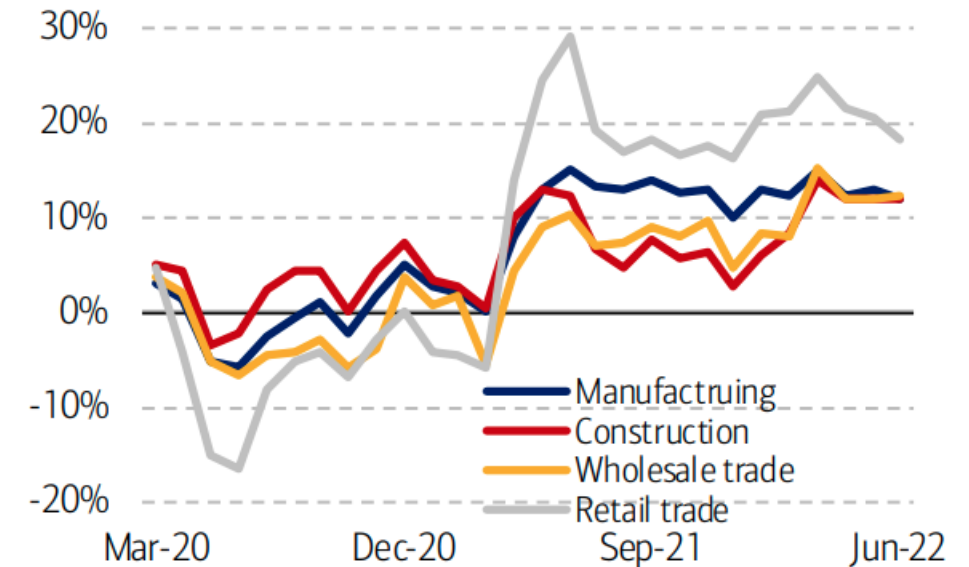


Exhibit 6: Growth in payroll payment for select industries (% YoY)

We see positive payroll spend growth across major industries with retail trade leading the gain at 18% YoY



Source: Bank of America internal data

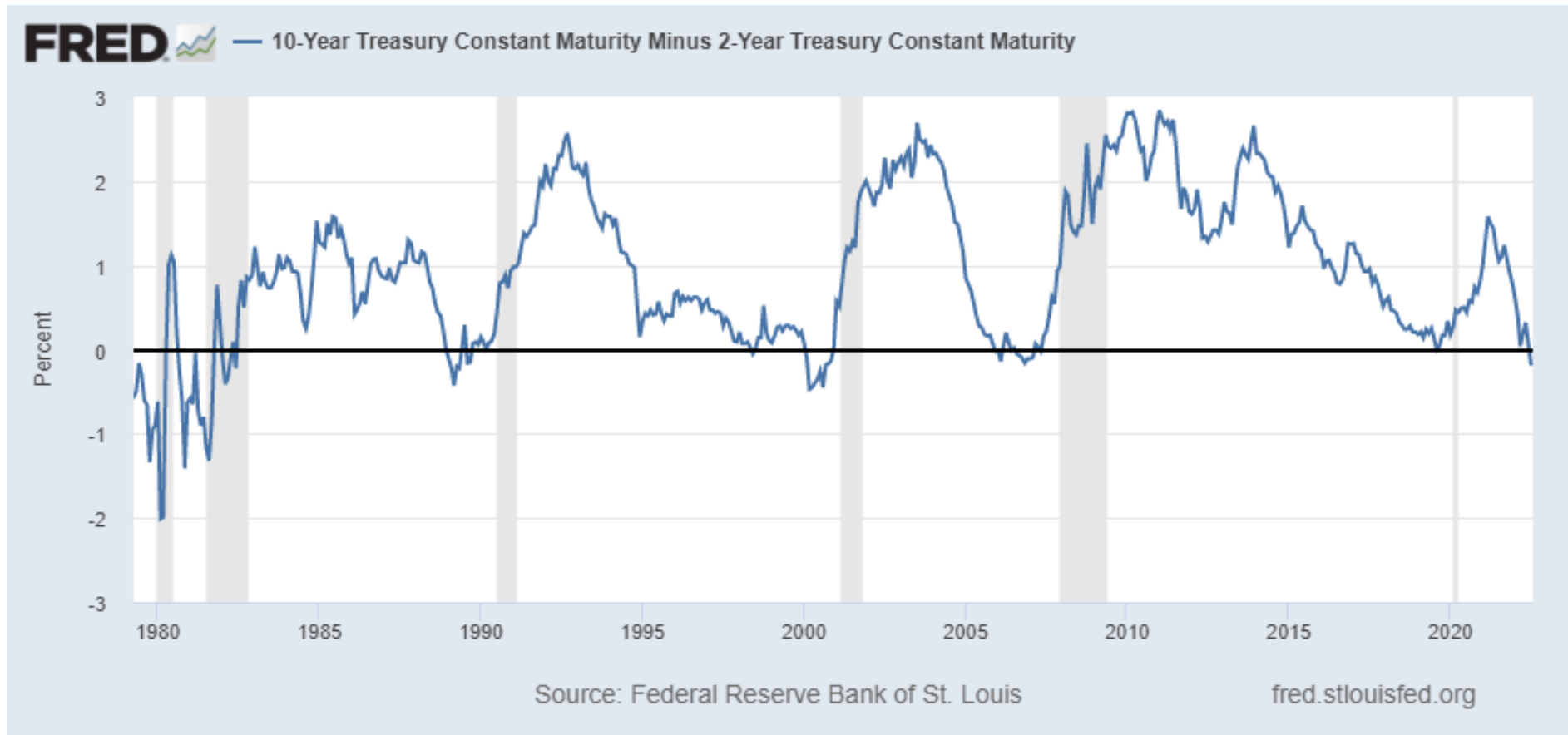
- Current Fed Tightening
 - First Action: March 2022 increase to 0.25-0.50
 - Current Total Tightening: 1.50
 - Fed expected to raise rates 0.75-1.00 at July 26-27 meeting.
 - Total increases as of July would be 2.25, matching the amount raised during the last tightening.

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Economic Outlook: Recession Risk

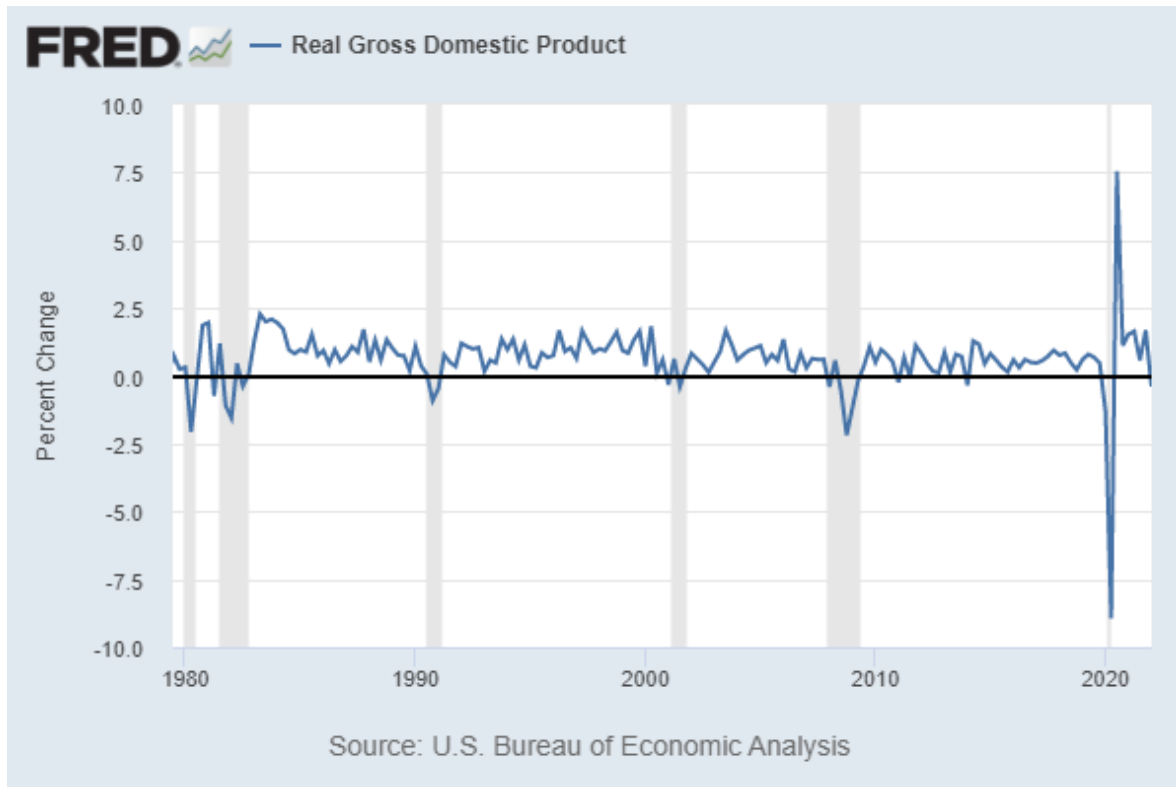


- The risk of a monetary policy-induced recession in the US over the next 1-2 years has risen.
- The yield curve has inverted, which is typically a leading indicator of a recession.
- Recession risk is driven by the Fed policy mistake of not acting earlier to address inflation, the economic shocks of the Russia-Ukraine conflict, and the Fed's moving faster increasing the likelihood the action causes a recession.



Economic Outlook: Recession Risk

- Real GDP growth for Q1 was negative (0.4%) and Q2 is tracking negatively.
- ARPA Stimulus in South Dakota has been allocated but many of the dollars have not gone out the door.
- Unemployment remains low, but typically starts increasing rapidly during a recession.
- Job Cut announcement report remains below average.



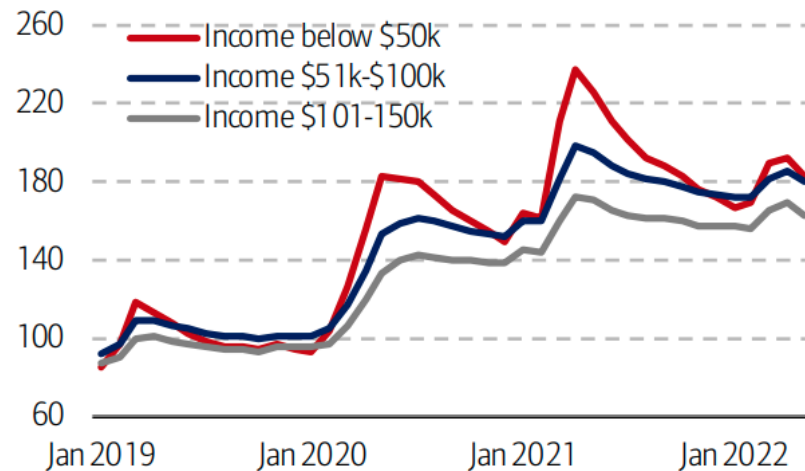
Economic Outlook: Recession Risk

- Household savings and checking balances remain well above pre-pandemic levels.
- Card spending per household while slowing remains above 2021 levels.

- Card spending from stimulus effects is over.
- Lower-income household spending trending into negative territory mainly driven by the effects of inflation and higher gas prices, which is resulting in the pulling back of spending elsewhere.

Exhibit 2: Median household savings and checking balances (index, 2019 average =100 for each group) for a fixed group of households (HH)¹ between January 2019 and May 2022

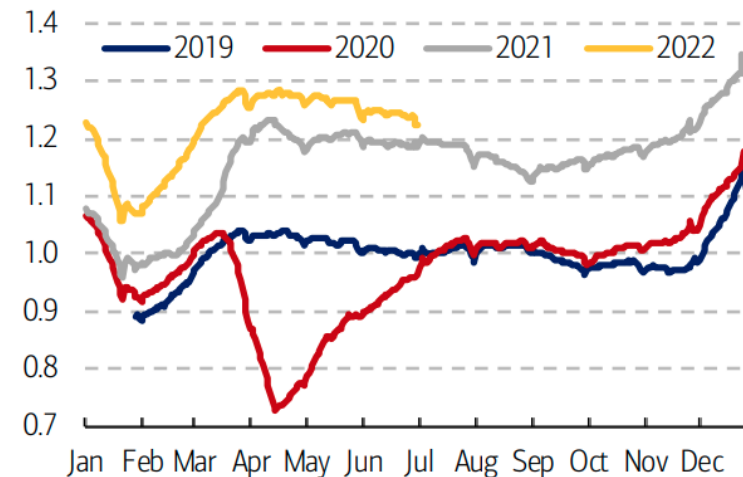
Savings remain well above pre-pandemic levels



Source: Bank of America internal data. Data as of May 2022.

Exhibit 5: Average daily total card spending per household, based on aggregate Bank of America cards (index, 2019=1, 28-day moving average (ma))

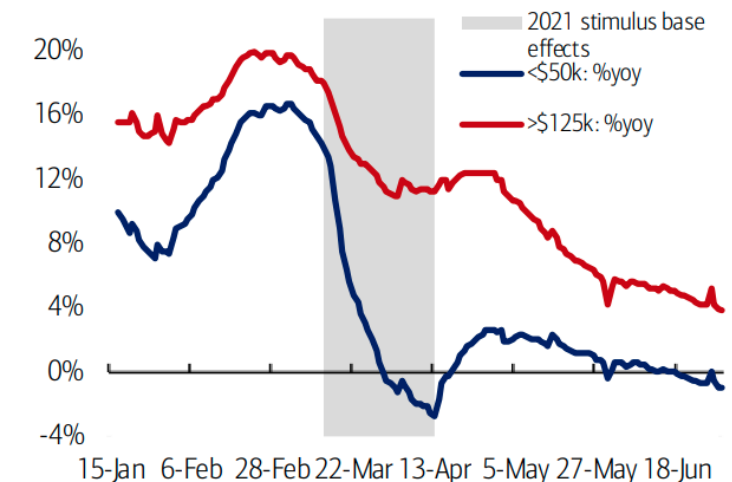
The level of card spending usually slows over the April-June period. It is not clear whether this year's slowdown is larger than normal



Source: Bank of America internal data. Data until June 30 2022.

Exhibit 8: Total card spending excluding gas and grocery (%YoY, 28-day ma)

For lower-income households spending is falling except for gas and grocery spending



Source: Bank of America internal data. Data as of June 30 2022.

Sales Tax Growth: Industry



Taxable Dollars Year-over-Year by SIC Code by Industry							
12 Months	2019	2020	2021	\$ Change	\$ Change	% Change	% Change
Agriculture, Forestry & Fishing	413.2	440.7	498.2	27.5	57.46	6.7%	13.0%
Mining	69.7	69.7	80.1	0.1	10.36	0.1%	14.9%
Construction	29.5	30.8	36.1	1.3	5.27	4.5%	17.1%
Manufacturing	1,188.8	1,756.2	1,395.3	567.4	(360.92)	47.7%	-20.6%
Transportation & Public Utilities	3,019.1	2,863.4	2,977.0	(155.7)	113.65	-5.2%	4.0%
Wholesale Trade	1,764.7	2,222.4	2,391.9	457.7	169.49	25.9%	7.6%
Retail Trade	12,162.0	13,278.0	15,618.2	1,116.0	2,340.17	9.2%	17.6%
Finance, Insurance, & Real Estate	523.2	572.1	673.8	48.9	101.64	9.3%	17.8%
Services	4,402.7	4,384.5	5,205.7	(18.2)	821.26	-0.4%	18.7%
Public Administration	2.9	3.5	9.6	0.6	6.17	19.9%	177.6%
Total	23,575.8	25,621.3	28,885.8	2,045.47	3,264.5	8.7%	12.7%

*Millions of dollars

Source: DOR SIC Code Data

Retail Trade – means establishments engaged in selling merchandise for personal or household consumption and rendering services incidental to the sale of the goods.

Wholesales Trade – means establishments selling goods to trading establishments, or to industrial, commercial, institutional, farm, construction contractors, or professional business users.

Manufacturing – means establishments engaged in the mechanical or chemical transformation of materials or substances into new products. These establishments are usually described as plants, factories, or mills and characteristically use power driven machines and materials handling equipment. Establishments engaged in assembling component parts of manufactured products are also considered manufacturing if the new product is neither a structure nor other fixed improvement.

Sales Tax Growth: Retail Trade



Taxable Dollars Year-over-Year by SIC Code for Retail Trade							
	2019	2020	2021	\$ Change	\$ Change	% Change	% Change
Apparel & Accessory Stores	438.5	391.9	521.7	(46.6)	129.7	-10.6%	33.1%
Automotive Dealers & Service Stations	1,057.7	1,104.6	1,307.9	46.9	203.3	4.4%	18.4%
Food Stores	1,587.1	1,761.6	1,786.5	174.5	24.9	11.0%	1.4%
Building Materials & Garden Supplies	1,418.4	1,713.3	2,021.1	294.9	307.9	20.8%	18.0%
General Merch. Stores	2,363.7	2,523.5	2,828.0	159.8	304.4	6.8%	12.1%
Furniture & Homefurnish Stores	639.4	668.1	809.8	28.7	141.6	4.5%	21.2%
Eating & Drinking Places	1,538.4	1,413.0	1,823.4	(125.4)	410.4	-8.2%	29.0%
Misc. Retail	3,118.8	3,701.9	4,566.9	583.0	865.0	18.7%	23.4%
Total	12,162	13,278	15,665	1,116	2,387	9.2%	18.0%

*Millions of Dollars

Source: DOR SIC Code Data adjusted for timing of receipts

Building Materials & Garden Supplies— means establishments primarily engaged in selling lumber and other building materials; paint, glass, and wallpaper; hardware; nursery stock; lawn and garden supplies.

Misc. Retail – means retail establishments not elsewhere classified. This includes implement dealers jewelry, sporting goods, online retailers, etc stores.

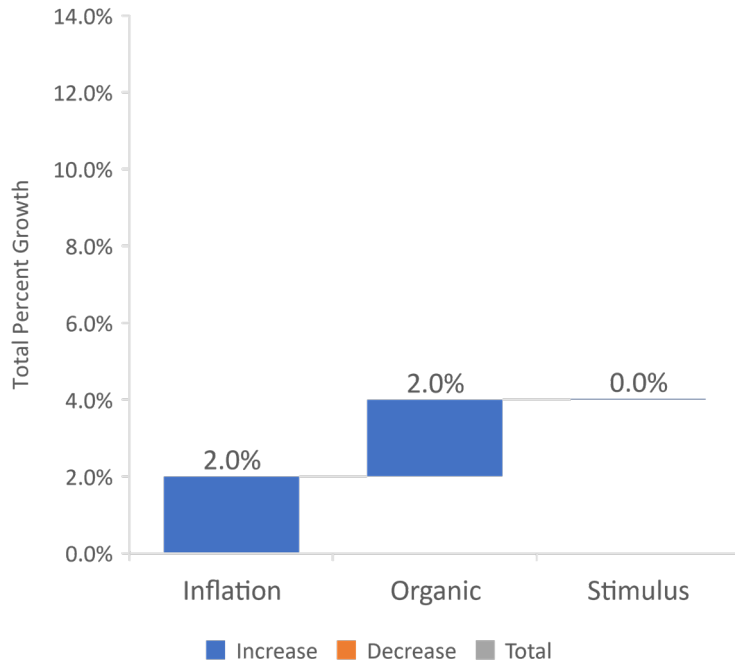
Sales Tax Growth: Components

- Sales tax growth is represented by three components:

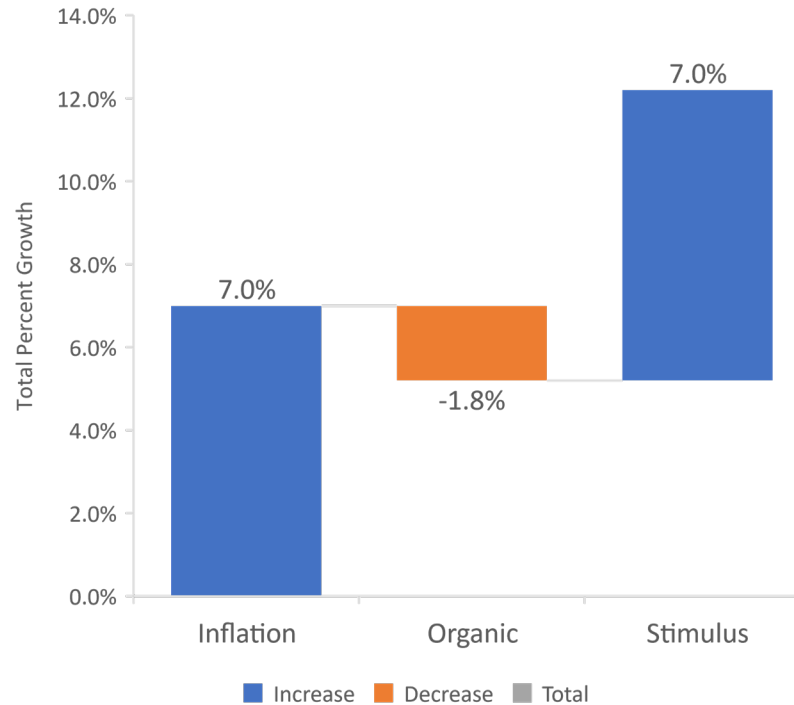
1. Inflation: growth in the cost of goods and services.
2. Organic: growth in consumer spending.
3. Stimulus: growth in consumer spending because of fiscal policy.

- Higher inflation can lead to growth in sales tax even when organic growth is negative
- Tables represent examples of what the growth components could look like.

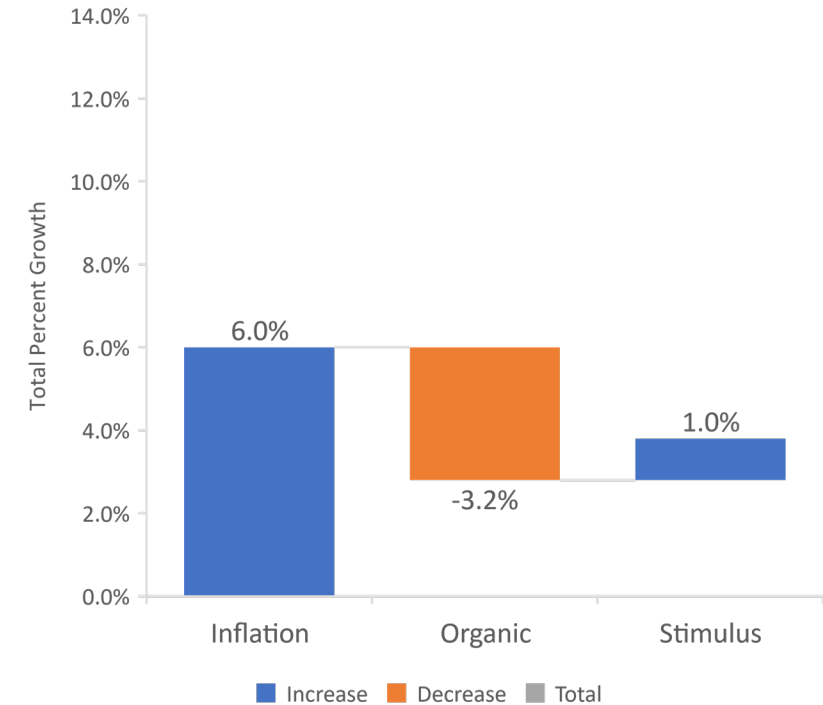
Sales Tax Growth Normal Year by Component



Sales Tax Growth FY2022 by Component



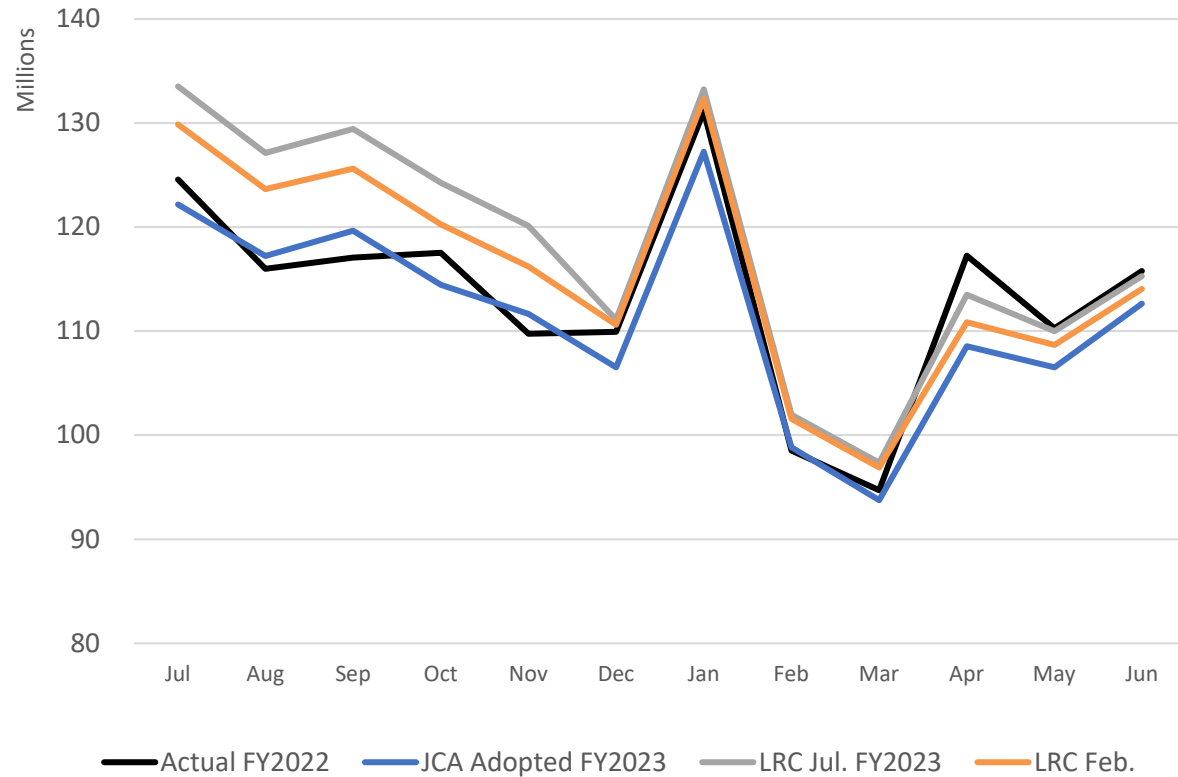
Sales Tax Growth FY2023 by Component



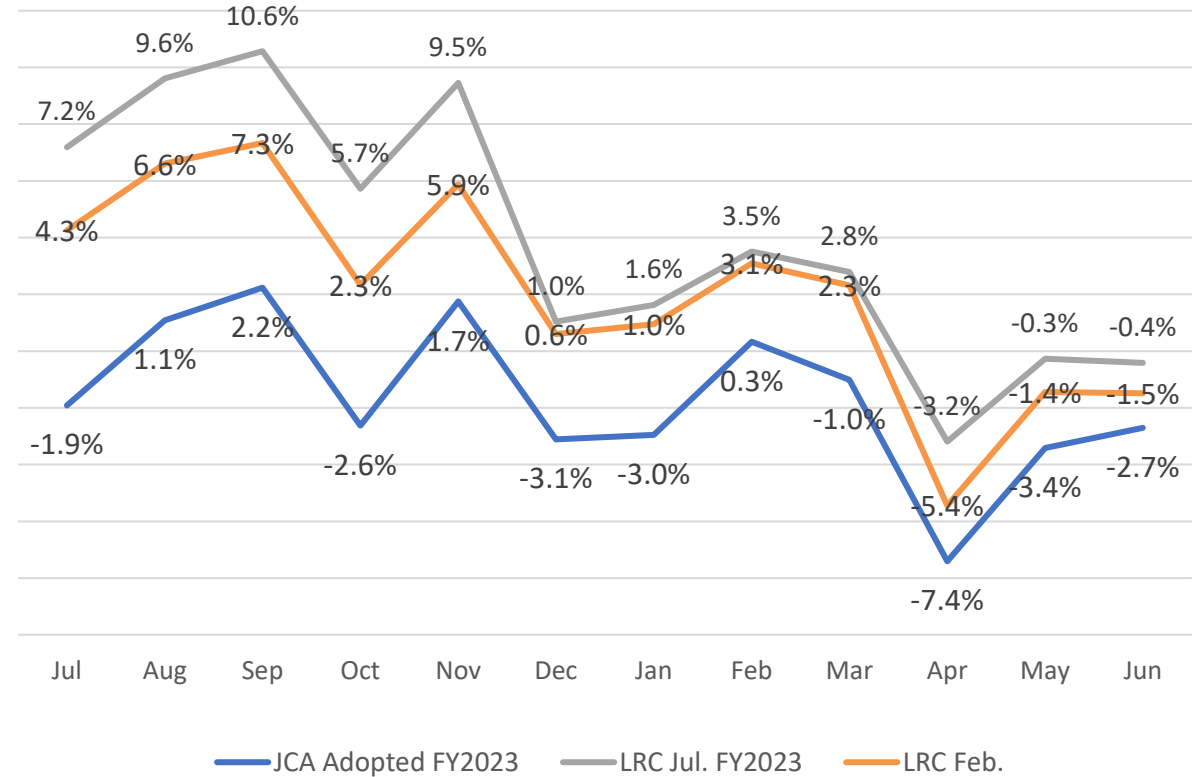
Sales Tax Growth: FY2023



Forecasted Monthly Sales Tax Receipts for FY2023



Forecasted Year-over-Year Growth of Sales Tax for FY2023



Revenue Outlook for FY2023



- Sales tax: Consumer demand remains strong, inflation remains high
 - LRC July Forecast: \$1,408.2 million; 3.9% growth
- Contractor's excise tax to remain strong due to demand, inflation, and state stimulus dollars.
 - LRC July Forecast: \$162.7 million; 4.4% growth
- Lottery revenues could see a small increase or a reduction if consumers cut back on spending because of recession fears.
 - LRC July Forecast: \$175.9 million; 2.5% growth
- Insurance company tax receipts to remain elevated mainly because of inflationary pressures.
 - LRC July Forecast: \$104.9 million; 0.9% growth
- Tobacco revenues expected to continue to remain flat or decline unless a recession materializes, which tends to drive an increase in tobacco revenues.
 - LRC July Forecast: \$49.5 million; 0.3% growth
- LRC July on-going general fund revenue forecast of **\$2,180.5 million**.
- **2.5%** growth over actual FY2022, which is below average growth.
- Based on the updated revenue forecast, there is estimated to be **\$112.5 million** more dollars available to spend during the 2023 legislative session.

Revenue Outlook for FY2023

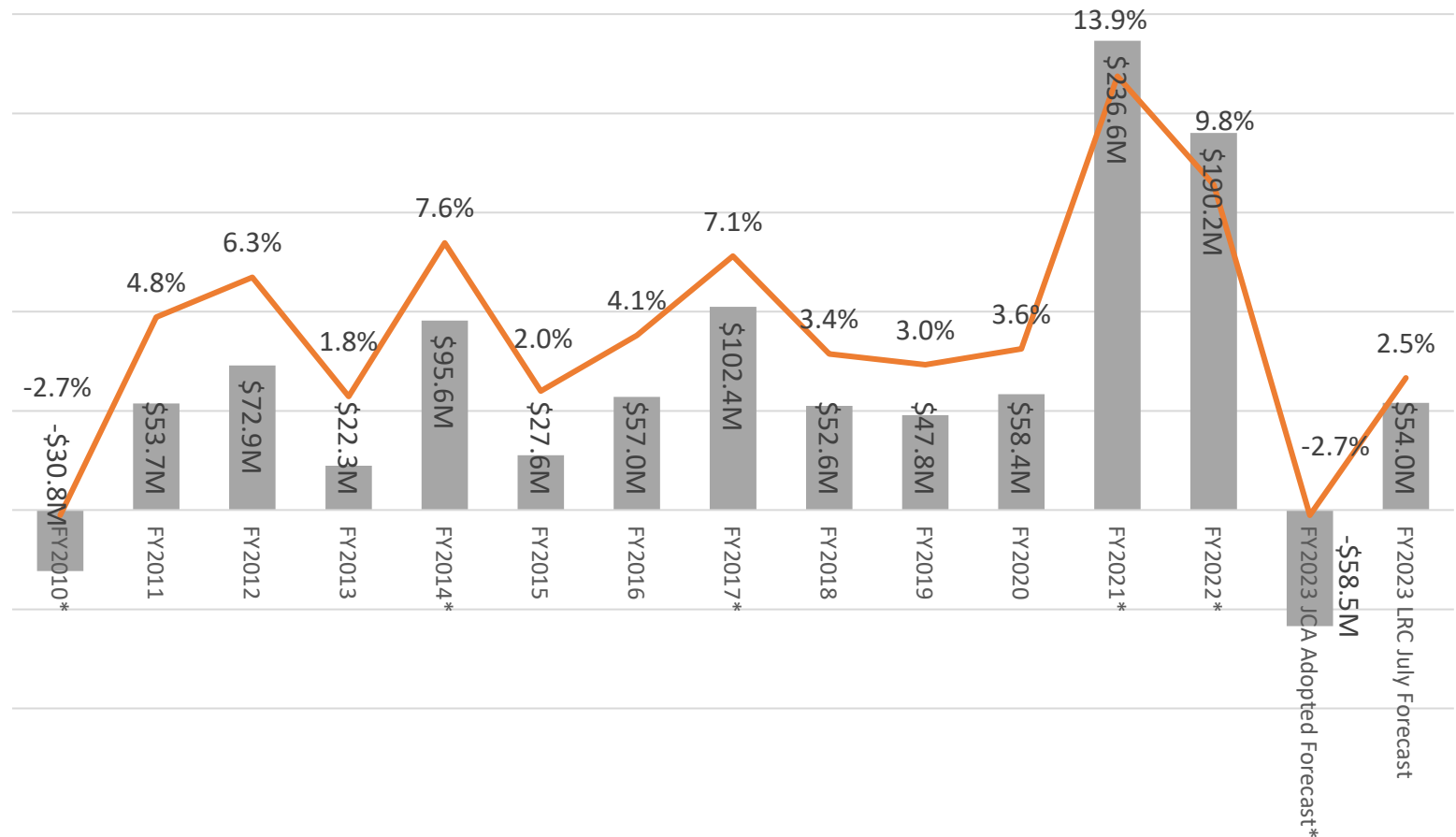


History of Actual On-going General Fund Receipts	\$ Y/Y Growth	% Y/Y Growth
FY2010*	(30.8)	-2.7%
FY2011	53.7	4.8%
FY2012	72.9	6.3%
FY2013	22.3	1.8%
FY2014*	95.6	7.6%
FY2015	27.6	2.0%
FY2016	57.0	4.1%
FY2017*	102.4	7.1%
FY2018	52.6	3.4%
FY2019	47.8	3.0%
FY2020	58.4	3.6%
FY2021*	236.6	13.9%
FY2022*	190.2	9.8%
10-year avg.	89.1	5.6%
Average w/o Outliers	49.0	3.7%
FY2023 JCA Adopted Forecast*	(58.5)	-2.7%
FY2023 LRC July Forecast	54.0	2.5%

*Outlier year

Amounts not adjusted for inflation

Yearly Growth of On-going General Fund Receipts



FY21 & FY22 Actuals and FY22 Estimate								FY23 Estimate				
Ongoing Receipts	FY21 Actual	Legislative Revised Adopted FY22 Estimate	FY22 Actual	FY22 Actual Over / (Under) Estimate	FY22 Actual % Over / (Under) Estimate	Adopted Growth over FY21	Actual Growth over FY21	Legislative Adopted (02/2022)	LRC Interim Revenue Estimate	LRC % Difference from Adopted	Legislative Adopted Growth % over FY22 Actual	LRC July Updated Revenue Growth % over FY22 Actual
Sales and Use Tax	1,209,342,342	1,320,225,405	1,356,844,793	36,619,388	2.8%	9.2%	12.2%	1,330,532,935	1,408,168,687	5.8%	(1.9%)	3.8%
Lottery	155,527,049	167,014,996	171,609,682	4,594,686	2.8%	7.4%	10.3%	170,540,000	175,951,443	3.2%	(0.6%)	2.5%
Contractor's Excise Tax	144,448,267	148,509,836	155,823,772	7,313,936	4.9%	2.8%	7.9%	152,237,105	162,732,483	6.9%	(2.3%)	4.4%
Insurance Company Tax	97,010,439	98,180,960	103,995,420	5,814,460	5.9%	1.2%	7.2%	103,185,257	104,902,861	1.7%	(0.8%)	0.9%
Unclaimed Property	62,809,930	63,732,056	65,097,628	1,365,572	2.1%	1.5%	3.6%	47,049,387	55,619,750	18.2%	(27.7%)	(14.6%)
Licenses, Permits & Fees	71,212,896	71,531,222	75,077,171	3,545,949	5.0%	0.4%	5.4%	72,886,484	76,184,593	4.5%	(2.9%)	1.5%
Tobacco Taxes	52,314,193	51,411,340	49,385,379	(2,025,961)	(3.9%)	(1.7%)	(5.6%)	50,781,051	49,547,279	(2.4%)	2.8%	0.3%
Trust Funds	41,628,039	43,495,271	43,495,271	0	0.0%	4.5%	4.5%	46,397,822	46,397,822	0.0%	6.7%	6.7%
Net Transfers In	23,471,494	23,130,804	25,279,507	2,148,703	9.3%	(1.5%)	7.7%	23,827,364	23,827,364	0.0%	(5.7%)	(5.7%)
Alcohol Beverage Tax	8,767,726	8,970,828	9,203,968	233,140	2.6%	2.3%	5.0%	9,013,182	9,068,519	0.6%	(2.1%)	(1.5%)
Bank Franchise Tax	18,702,022	16,753,147	22,511,850	5,758,703	34.4%	(10.4%)	20.4%	17,007,625	23,102,308	35.8%	(24.5%)	2.6%
Charges for Goods and Services	16,444,429	15,140,266	14,804,251	(336,015)	(2.2%)	(7.9%)	(10.0%)	15,473,333	15,217,056	(1.7%)	4.5%	2.8%
Telecommunications Tax	3,520,578	2,900,871	2,688,458	(212,413)	(7.3%)	(17.6%)	(23.6%)	2,601,188	2,026,957	(22.1%)	(3.2%)	(24.6%)
Severance Taxes	9,810,601	7,789,765	8,033,942	244,177	3.1%	(20.6%)	(18.1%)	7,625,358	8,511,778	11.6%	(5.1%)	5.9%
Investment Income and Interest	18,592,297	19,701,217	19,648,565	(52,652)	(0.3%)	6.0%	5.7%	15,967,250	15,951,590	(0.1%)	(18.7%)	(18.8%)
Alcohol Beverage 2% Wholesale Tax	2,596,157	2,764,158	2,909,710	145,552	5.3%	6.5%	12.1%	2,816,541	3,248,702	15.3%	(3.2%)	11.7%
Total Ongoing Receipts	1,936,198,459	2,061,252,142	2,126,409,366	65,157,224	3.2%	6.5%	9.8%	2,067,941,882	2,180,459,192	5.4%	(2.7%)	2.5%

4-8A-16. Submission of independent projections by Bureau of Finance and Management and Legislative Research Council--Proposals for eliminating shortfall. The Bureau of Finance and Management and the Legislative Research Council shall prepare and submit, no later than July thirtieth of each year, independent projections that conform with the provisions of subdivisions 4-7-10(2) and (5) to the Governor or the Governor's designee and the committee created by this chapter. Notwithstanding the provisions of subdivisions 4-7-10(2) and (5), the projections shall contain information of actual revenue for each of the two fiscal years last concluded and the estimated revenue of the current fiscal year.