



Q3 BUSINESS & ECONOMIC DATA ANALYSIS SUMMARY

SOUTH DAKOTA
SECRETARY OF STATE
SHANTEL KREBS

In partnership with



Third Quarter 2018

PUBLISHED BY NORTHERN STATE UNIVERSITY SCHOOL OF BUSINESS

INDICATORS

Employment (SA)



vs. prior qtr.



vs. prior year

New Entity Filings (Qrt)



vs. prior qtr.



vs. prior year

Personal Income



vs. prior qtr.



vs. prior year

Unemployment



vs. prior qtr.



vs. prior year

EMPLOYMENT FORECASTS



Q4 2018 vs. Q3 2018



Q4 2018 vs. Q4 2017



Q1 2019 vs. Q4 2018

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South Dakota Secretary of State
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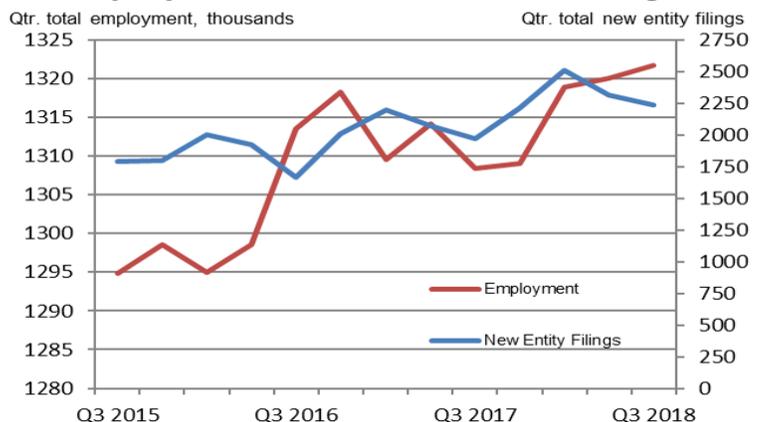
South Dakota's economy has improved...

South Dakota continues its multi-year streak of positive performance. The low unemployment rate headlined the state's current quarter, dropping to 3.0%, marking the second consecutive month of improvement after having experienced five consecutive quarters of declines. Business bankruptcies tipped lower in the quarter after experiencing a 66% increase in the second quarter.

Nationally, the unemployment rate fell to a 49-year low of 3.7%. The economic stories of the quarter continued to intersect politics, with continuing trade conversations with China deteriorating and new adjustments being proposed for the North American Free Trade Agreement (NAFTA)/US-Mexico-Canada Agreement (USMCA). With increasing worries of inflation, the stock market did not know how to react, with some viewing the overheating to be cause for concern. As discussed in prior issues, the wage push seems to be driving inflation – personal income grew by almost 4% versus the prior quarter, and both the core inflation and the CPI increased by .5%.

In response, the Federal Reserve Bank again raised its federal funds rate by 25 basis points to a range of 2 to 2.25%. We had stated an expectation of four rate increases during 2018; the September move marked the 3rd raise in 2018 alone, and the 8th since 2015. Despite the complaints of President Trump, the Federal Open Market Committee notes seemed to indicate the move to be simply "accommodative," which leads many economists to expect the fourth, and potentially a fifth, before the end of 2018. The effects of the mid-term elections in November could prove to be a volatile time for stock market investors. Inflation will be the primary driver of further rate increases. At some point, the "hidden" job market will run out of workers to supply growing demand, and the result will be dramatic labor shortages.

Employment and New Business Filings



Note: Red line displays actual seasonally adjusted employment numbers. Source: Seasonally adjusted South Dakota total nonfarm employees from the Bureau of Labor Statistics and the Labor Market Information Center, SD Department of Labor.

Secretary's Minute



When I took the oath of office in January 2015, I was taking on an office that was a failing bureaucracy with no accountability. Business filings were over 6 weeks behind and UCC filings were over 80 days behind, among other areas in disarray. I had to put an action plan together quickly to turn the office around and regain the trust that the Secretary of State's office demands.

As my term ends this year, I wanted to share with you the long list of projects that were completed and how we turned the office around in the short time I was here. I think the best way to recap is to highlight just a few areas:

- My priority was to upgrade the business and Uniform Commercial Code online filing systems so that customers can file documents instantaneously. We have filed over 79,000 active businesses in FY2018, which is an all-time high, compared to FY2012 in which the office filed 49,660 active businesses. The ease of our new online business filing system hit another filing record in new businesses formed in FY2018, totaling 8,864, compared to 6,415 new businesses formed in FY2012. UCC filings totaled 55,646 for FY18 in the new system.

- I have made a concerted effort to make sure that more information is easily accessible on the website. For example, Executive Proclamations are now available to the public dating back to 1903. For those of you utilizing the new online business filing system, you may have noticed that there are more documents readily available going back over 25 years. Over 5.3 million documents have been uploaded and are now available on the business/UCC filing sites.

- I upgraded the concealed carry permit that our office issues to a more official looking permit. South Dakota now has over 100,000 active concealed carry permit holders in the state compared to 87,655 active permit holders in 2016.

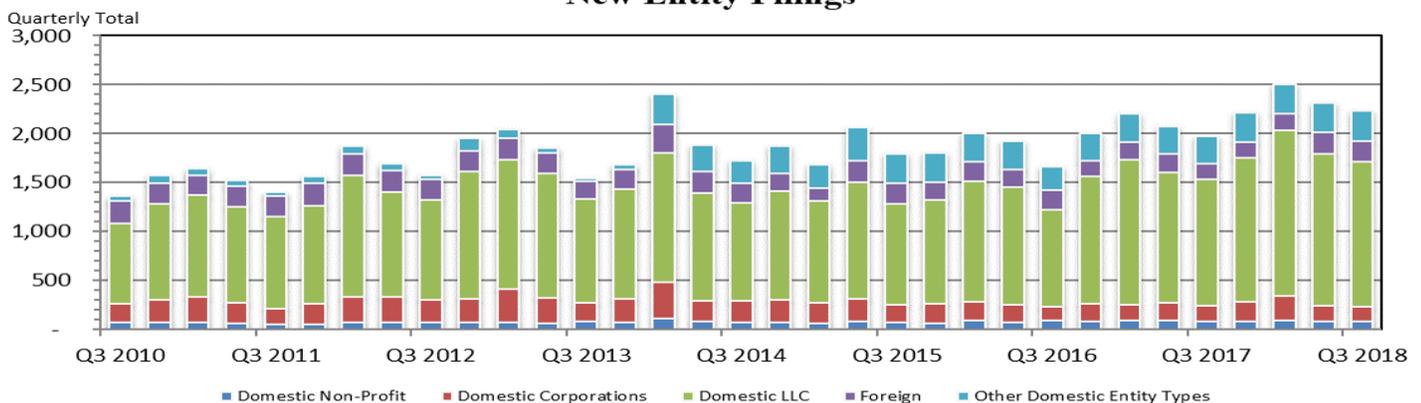
- I focused on registering more voters. My Value the Vote tour has led me to high schools, universities and service organizations across the state. Since taking office, voter registration numbers have grown by almost 20,000 new registered voters to a total of nearly 540,000 registered voters in the state of South Dakota.

- I implemented a Zero-Based budgeting operation to run at the speed of business, not at the speed of government. This format allowed me to revert (money not spent) \$69,000 back to the state general fund. In the last two fiscal years, I have requested budget cuts of over \$174,000. All while growing revenue by nearly \$2 million more to the state's general fund to the tune of \$7.5 million in FY2017.

I have always said that a good leader surrounds herself with even better people and that is what I have in my team. Thank you for giving me this opportunity to serve you.

Shantal Krebs

New Entity Filings



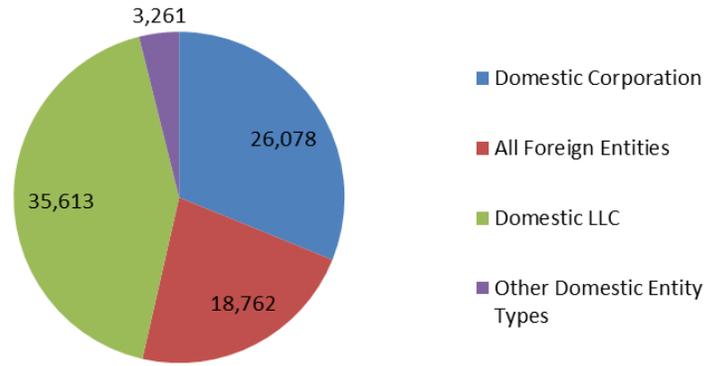
	Current Period	3 months Prior	Prior Year	Percent Change over Prior Year	5 Year CAGR*
New Entity Filings					
Domestic Limited Liability Company	1,482	1,543	1,295	14.4%	6.9%
Domestic Nonprofit Corporation	77	85	85	-9.4%	0.0%
Domestic Business Corporation	159	161	155	2.6%	-3.6%
Foreign Entity Types	209	228	158	32.3%	2.9%
Other Domestic Entity Types	306	295	278	10.1%	54.3%
Total New Entity Filings	2,233	2,312	1,971	13.3%	7.6%
Total New Entity Filings-12 mo. trailing	9,265	9,003	8,245	12.4%	4.6%
Other Business Filings					
New Trademarks	34	22	23	47.8%	-4.6%
Renewal Trademarks	46	58	79	-41.8%	-9.8%
Total Trademarks	80	80	102	-21.6%	-7.8%
Trademarks-12 mo. trailing	338	360	391	-13.6%	-4.4%
Fictitious Business Names (DBA)	1,108	1,301	854	29.7%	6.8%
Fictitious Business Names (DBA)-12 mo. trailing	4,780	4,532	4,186	14.2%	7.6%

* Compound Annual Growth Rate

Entities in Good Standing, Trademark & Fictitious Business Name (DBA) Filings

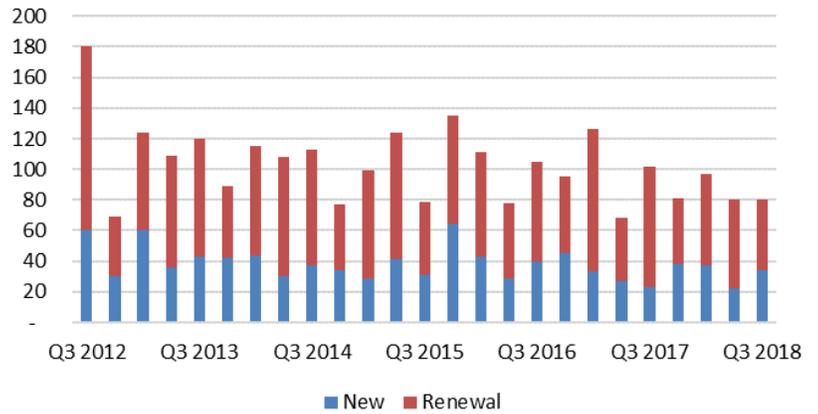
Limited Liability Companies make up 43% of entities in Good Standing. An entity must file paperwork each year to ensure they remain in Good Standing. At the end of Q3 2018, 83,714 entities were in Good Standing with the Secretary of State's office.

Entities in Good Standing



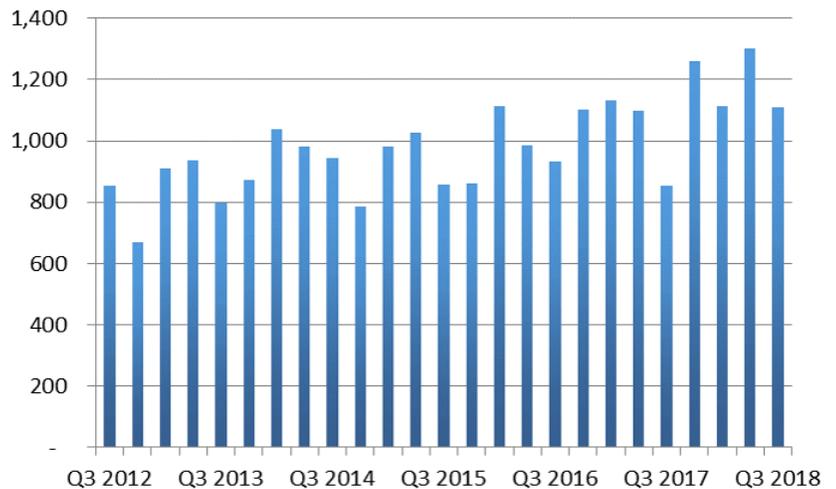
Trademark filings were flat in Q3 2018. Safeguarding the symbols and words that an entity utilizes in commerce, trademark filings numbered 80 in Q3 2018, which is the same as the prior quarter. Trademark filings for the 12 months ending Q3 2018 totaled 338, which was a decrease of 4.4% from the previous year's number.

Trademark Filings



Fictitious Business Name (DBA) filings decreased in Q3 2018. Entities must file a fictitious name statement when operating under any name other than their true name. The South Dakota Secretary of State received 1,108 fictitious business name filings in Q3 2018, a decrease of 29.7% over the prior quarter. Fictitious business name filings for the 12 months ending Q3 2018 totaled 4,780 which was 14.2% higher than the previous year's number.

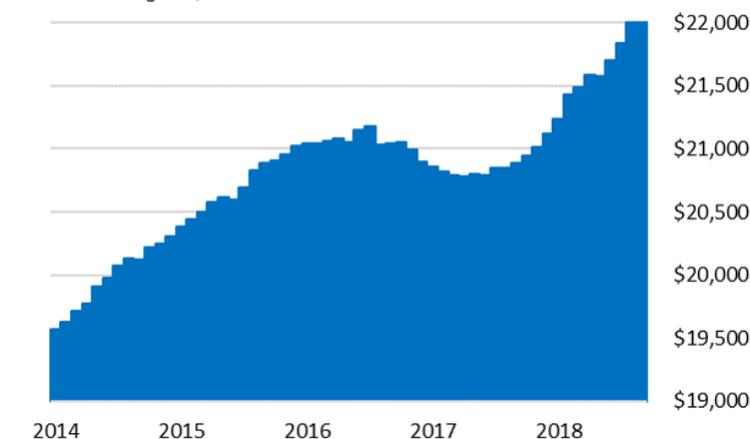
Fictitious Business Name (DBA) Filings



South Dakota Economic Indicators

South Dakota Taxable Sales

12-Month Rolling Sum, in millions



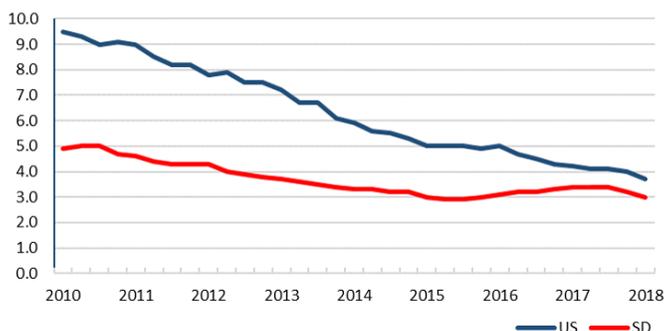
Source: South Dakota Department of Revenue

As anyone familiar with South Dakota is aware, crop prices have a large impact on the overall health of the South Dakota economy. For the 3rd quarter, corn ranged roughly between \$3.40 and \$3.70 per bushel. Soybeans ranged roughly between \$8.10 and \$9.00 per bushel, and cattle ranged between \$102 and \$112. Unfortunately for the state, the effect of the trade wars could have substantial effects on the primary driver of our economy. According to most recent statistics compiled by the USDA, South Dakota ranks 6th nationally in corn exports, exporting roughly \$503 million. It also ranks 7th nationally in Soybean exports, exporting roughly \$1.3 billion. Both values place it at about 1/3 the size of the exports of the state of Iowa. According to a recent study by Iowa State University, the trade wars could cost the state of Iowa up to \$2.2 billion. Although not a scientific study, using the same math and application, the trade war could potentially cost the state of South Dakota roughly \$700 million.

SOUTH DAKOTA	Current Period	3 Months Prior	Percent Change over Prior Period	Annual Percent Change	5 Year CAGR*
Wealth					
Personal Income (millions of dollars)	43,511	42,595	2.2%	2.7%	2.7%
Total Sales, 12 mo. trailing (millions of dollars)	75,447	72,474	4.1%	14.0%	2.6%
Taxable Sales, 12 mo. trailing (millions of dollars)	22,159	21,702	2.1%	6.1%	2.9%
Business Outlays					
Average Weekly Wage per Employee	842	856	-1.6%	2.8%	3.5%
Retail Gasoline Price (dollars per gallon)	2.84	2.77	2.5%	13.6%	-3.5%
Economic Overview					
Employment	441,400	440,700	0.2%	1.4%	1.1%
Unemployment Rate	3.0%	3.2%	-6.3%	-11.8%	-4.1%
Initial Jobless Claims	144	158	-8.9%	-22.2%	-9.3%
Continuing Jobless Claims	772	1,132	-31.8%	-15.2%	-10.2%
Building Permits, Number of Units, 12 mo. trailing	5,364	5,369	-0.1%	9.4%	0.2%
Valuation (thousands of dollars), 12 mo. trailing	872,158	870,783	0.2%	9.6%	4.0%
FHFA Purchase-Only Home Price Index	293	286	2.4%	4.6%	5.0%
Total Business Bankruptcy Filings	10	15	-33.3%	-23.1%	-5.1%
Chapter 7	4	6	-33.3%	-50.0%	-12.9%
Chapter 11	1	1	0.0%	-	-
Chapter 13	3	4	-25.0%	-25.0%	8.4%

Sources: Bureau of Economic Analysis, Quarterly Personal Income (SA)(Q2/18); South Dakota Department of Revenue (NSA) (9/18); South Dakota Department of Labor and Regulation (SA) (Q1/18); US Energy Information Administration, Weekly Retail Gasoline and Diesel Prices, Midwest (10/1/18); Bureau of Labor Statistics, CES (SA) (9/18); US Department of Labor, Employment and Training Administration (NSA) (9/29/18); Census Bureau, New Privately Owned Housing Units Authorized (NSA) (8/18); FHFA Purchase-Only Home Price Index (SA) (Q2/18); Administrative Office of the US Courts (Q2/18). *Compound Annual Growth Rate.

US vs. SD Unemployment Rate



Source: US Department of Labor and SD Department of Labor

National Economic Indicators

Nationally, the economy continues to move into the green in every category. Although things are hitting on all cylinders, there seems to be a continuing guard in everyone’s psyche that is causing large movements in the stock market. As Warren Buffet has long proclaimed, “The times to be worried are when everyone is euphoric. The times to invest are when everyone is brow beaten.” It seems we are in a state of flux, where genuinely good economic news is followed by at least one prognosticator, stating that the sky as we see it is actually falling. The genuinely positive news is that all indicators say things are good. The one bad piece of news is that personal income is showing signs of wanting to jump, which may cause high rates of wage-driven inflation. The 3rd quarter showed close to 100% increase in GDP, further supporting the idea that the economy is beginning to

heat up too fast, and indicating the potential end to the upward trend we have experienced now for at least the last 10 quarters. The 4th quarter reporting on GDP will confirm either the trend of growth, or the speculation that the 3rd quarter spike in GDP was largely the result of exporters pushing to dump their inventories in front of the full effect of the coming tariffs. As mentioned in prior reports, one of the bigger issues, that does not receive a lot of reporting, is the level of debt compared to the GDP. The effect of debt is to inject a steroidal effect to the upward direction of the economy. When businesses are using bank capital to finance growth and create jobs and the economy takes a turn, the immediate impact resulting from the pull back of debt or increases in interest rates, will exasperate the speed of correction.

NATIONAL	Current Period	3 Months Prior	Percent Change over Prior Period	Annual Percent Change	5 Year CAGR*
Wealth					
Personal Income (billions of dollars)	17,500	17,319	1.0%	4.7%	4.4%
Retail Sales, 12 mo. trailing (billions of dollars)	5,931.1	5,836.5	1.6%	5.3%	3.8%
S&P 500	2,924.6	2,726.7	7.3%	16.1%	11.7%
Business Outlays					
Average Weekly Wage per Employee	1,152	1,109	3.9%	3.7%	3.1%
Consumer Price Index	251.8	250.5	0.5%	2.7%	1.5%
Core Inflation (All Items Less Food & Energy)	258.1	256.9	0.5%	2.2%	2.0%
Shelter	309.1	306.8	0.7%	3.4%	3.2%
Retail Gasoline Price (dollars per gallon)	2.87	2.92	-1.7%	6.9%	-3.6%
Economic Overview					
Real Gross Domestic Output (billions of chained 2009 dollars)	18,512	18,324	1.0%	2.6%	2.4%
Employment (in thousands)	149,500	148,931	0.4%	1.7%	1.8%
Unemployment Rate	3.7%	4.0%	-7.5%	-50.0%	-3.5%
Initial Jobless Claims	204,000	221,000	-7.7%	-23.6%	-7.4%
Continuing Jobless Claims	1,645,000	1,726,000	-4.7%	-16.3%	-10.2%
Building Permits, Number of Units, 12 mo. trailing	1,314,062	1,313,227	0.1%	5.0%	7.1%
Valuation (millions of dollars), 12 mo. trailing	267,684	265,488	0.8%	7.1%	10.1%
FHFA Home Price Index	259.9	257.1	1.1%	6.5%	5.9%
Rotary Rig Count	1,054.0	1,047.0	0.7%	12.1%	-9.6%
Total Business Bankruptcy Filings	5,479	5,669	-3.4%	-13.9%	-9.2%
Chapter 7	6,514	3,355	94.2%	-6.5%	-10.1%
Chapter 11	1,318	1,718	-23.3%	-30.0%	-8.3%
Chapter 13	501	460	8.9%	-5.1%	-7.2%

Sources: Bureau of Economic Analysis, Quarterly Personal Income (SA)(Q2/18); US Census Bureau (NSA) (7/18); Yahoo Finance (10/18); Bureau of Labor Statistics, QCEW (NSA) (Q1/18); Bureau of Labor Statistics, All Urban Consumers, US City Average (SA) (8/18); US Energy Information Administration, Weekly Retail Gasoline and Diesel Prices (10/18); Bureau of Economic Analysis (SA) (Q2/18); Bureau of Labor Statistics, CES (SA) (9/18); US Department of Labor, Employment and Training Administration (SA) (9/8/18); Census Bureau, New Privately Owned Housing Units Authorized (NSA) (8/18); FHFA Purchase-Only Home Price Index (SA) (Q2/18); Baker-Hughes (9/28/18), Administrative Office of the US Courts (Q2/18). *Compound Annual Growth Rate.



The *Quarterly Business & Economic Indicators*, produced by Northern State University on behalf of the South Dakota Secretary of State, in conjunction with Rainbox, reports on the correlations between various business filing data and economic metrics. The Labor Market Information Center of the South Dakota Department of Labor and Regulation is a contributing partner of the *Quarterly Business & Economic Indicators* report.