



**SOUTH DAKOTA
SECRETARY OF STATE
SHANTEL KREBS**

In partnership with



Second Quarter 2017

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



Q3 2017 vs. Q2 2017



Q3 2017 vs. Q3 2016



Q4 2017 vs. Q3 2017

Shantel Krebs
South Dakota Secretary of State
State Capitol
500 East Capitol Avenue
Pierre, SD 57501-5070

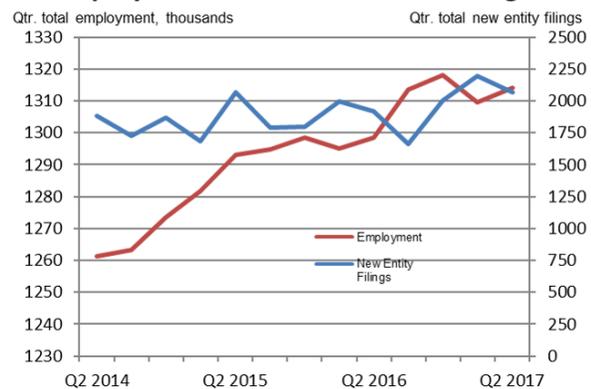
South Dakota's growth is slowing...

South Dakota's economy continues to maintain its health, although some of the economic indicators showed decline in the second quarter. While business filings and total jobs increased versus the prior year, both fell versus the prior quarter. Additionally, the state's unemployment grew to 3.0%. The state ended the year short of projected revenues, however, due to spending adjustments ended the fiscal year end June 30 in the black. Recent crop price volatility suggests crop prices may rebound in 2018.

Nationally, markets continue to search for firm footing under the new Trump administration. As noted in the previous quarter's report, markets responded very favorably to Trump's plans on taxes and repealing/replacing the Affordable Care Act. The second quarter saw a pullback from that enthusiasm, however, as GOP leaders failed to pass significant reforms to either of the measures. Instead, the political headlines of Russian involvement with the Trump family and the Trump election served to sour markets. While markets pulled back slightly, national economic indicators continued to improve. The lack of discernible inflation targets, however, led the Federal Reserve to increase its benchmark interest rate by only .25%.

Internationally, global GDP targets seem to be holding constant, in what could be a sign of an extended global recovery. The OPEC production targets seemed to have stabilized the price of oil world-wide, but did not yield the targeted forecasts that top industry analysts predicted. New and/or expanded supply that is either outside or exempted from OPEC production targets consistently meet or exceed growing world-wide demand. Although certain parts of South Dakota are experiencing a drought, the world-wide agriculture acreage and production, at present, seem to be adequately meeting the global demand. As a result, crop prices that directly impact our state's revenue base have failed to move in a positive way in the second quarter but should increase as we move into 2018.

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.

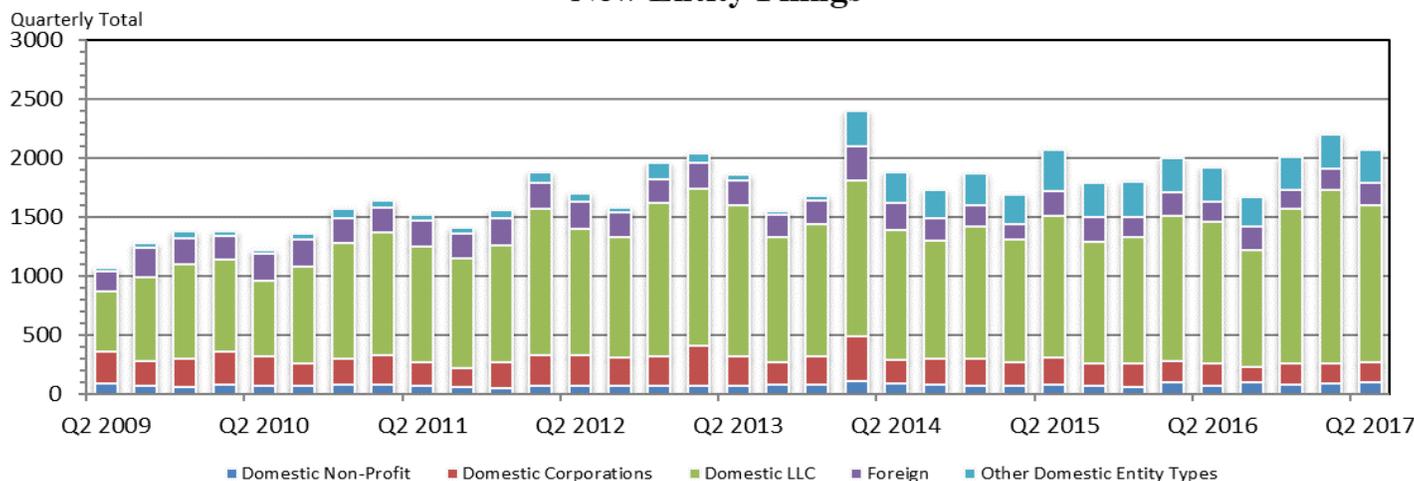
Secretary's Minute



As a new State fiscal year began July 1st, our office is focused on making continued improvements to our online business filing systems for our customers. We have been live with our new online business filing system for six months and have seen our online filing numbers dramatically increase. During the 2nd quarter, almost a hundred more LLCs were formed than during the 2nd quarter of 2016. Of those LLCs, over 1,200 were filed online by customers using our new system. Scheduled rollouts for the new fiscal year are updated systems for DBA - Business Name Registrations, Notary Publics, Lobbyists and Campaign Finance, and additional improvements for the Business Filing and UCC Filing systems. Please check out our new online business and UCC systems at www.sdsos.gov.

Shantel Krebs

New Entity Filings



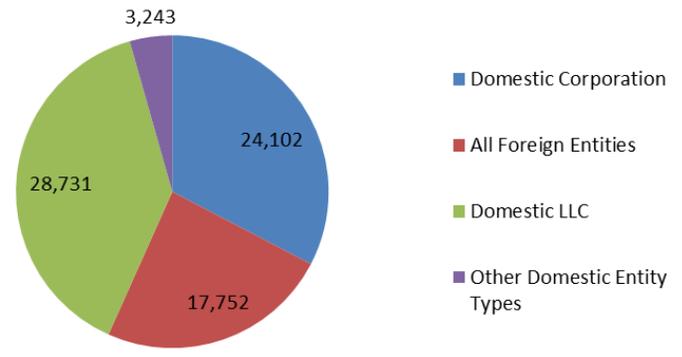
| | Current Period | 3 months Prior | Prior Year | Percent Change over Prior Year | 5 Year CAGR* |
|---|----------------|----------------|--------------|--------------------------------|--------------|
| New Entity Filings | | | | | |
| Domestic Limited Liability Company | 1,334 | 1,475 | 1,202 | 11.0% | 4.5% |
| Domestic Nonprofit Corporation | 93 | 88 | 69 | 34.8% | 5.8% |
| Domestic Business Corporation | 175 | 166 | 185 | -5.4% | -7.5% |
| Foreign Entity Types | 188 | 181 | 173 | 8.7% | -3.8% |
| Other Domestic Entity Types | 279 | 289 | 292 | -4.5% | 31.9% |
| Total New Entity Filings | 2,069 | 2,199 | 1,921 | 7.7% | 4.0% |
| Total New Entity Filings-12 mo. trailing | 7,939 | 7,791 | 7,511 | 5.7% | -7.4% |
| Other Business Filings | | | | | |
| Trademarks | 68 | 126 | 78 | -12.8% | 4.7% |
| Trademarks-12 mo. trailing | 394 | 404 | 403 | -2.2% | 3.6% |
| Fictitious Business Names (DBA) | 1,098 | 1,131 | 984 | 11.6% | 4.7% |
| Fictitious Business Names (DBA)-12 mo. trailing | 4,264 | 4,150 | 3,818 | 11.7% | 5.9% |

* Compound Annual Growth Rate

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

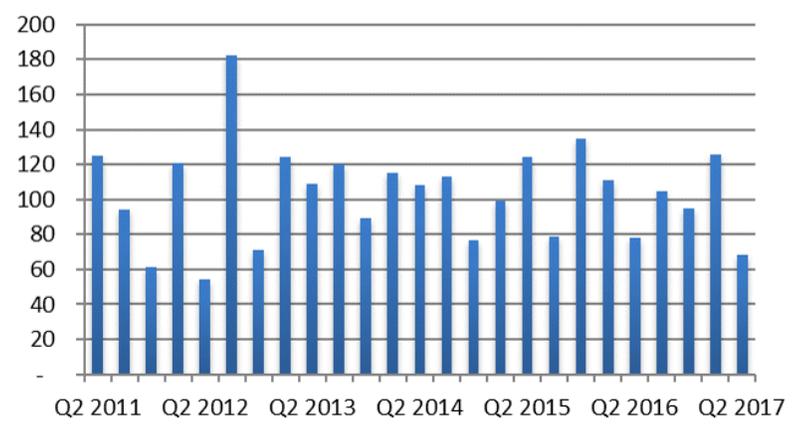
Limited Liability Companies make up 39% of entities in Good Standing. An entity must file paperwork each year to ensure they remain in Good Standing. At the end of Q2 2017, 73,828 entities were in Good Standing with the Secretary of State's office.

Entities in Good Standing



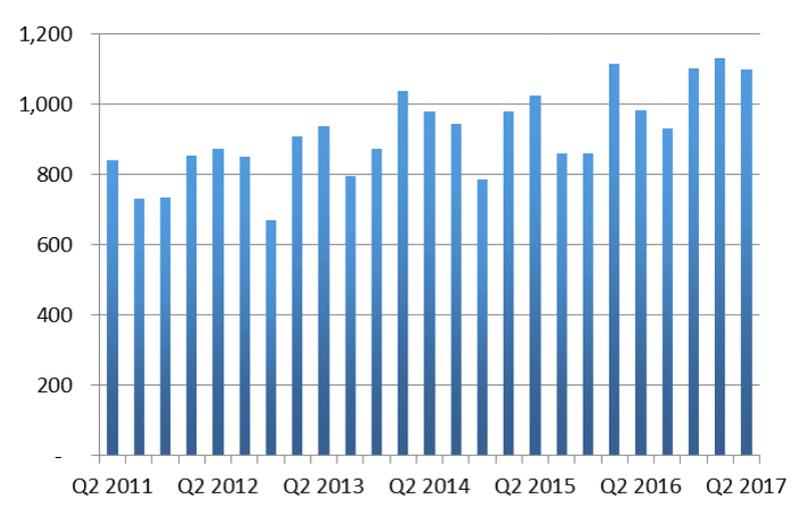
Trademark filings decreased in Q2 2017. Safeguarding the symbols and words that an entity utilizes in commerce, trademark filings numbered 68 in Q2 2017, a 46% decrease over the prior quarter. Trademark filings for the 12 months ending Q2 2017 totaled 394, which was a decrease of 2.2% from the previous year's number.

Trademark Filings



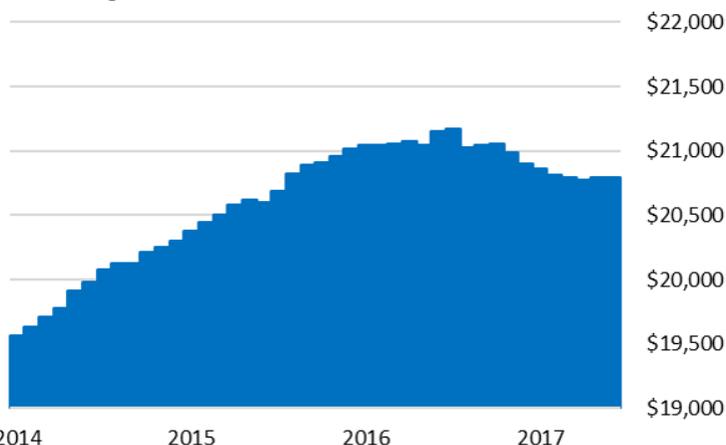
Fictitious Business Name (DBA) filings decreased in Q2 2017. Entities must file a fictitious name statement when operating under any name other than their true name. The South Dakota Secretary of State received 1,098 fictitious business name filings in Q2 2017, a decrease of 2.9% over the prior quarter. Fictitious business name filings for the 12 months ending Q2 2017 totaled 4,264 which was 11.7% higher than the previous year's number.

Fictitious Business Name (DBA) Filings



South Dakota Taxable Sales

12-Month Rolling Sum, in millions



Source: South Dakota Department of Revenue

South Dakota Economic Indicators

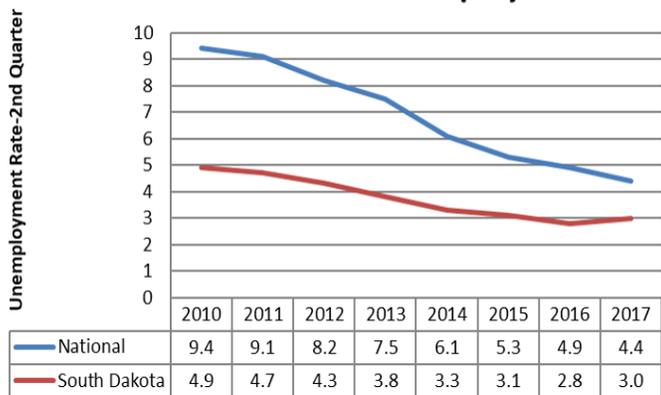
As of June, South Dakota's unemployment rate was 3.0%, ranking it tied for 6th nationally. While still a relatively low rate and among the top ten in the nation, the trend may be telling a different story. Nationally, the unemployment rates for Quarter 2 of 2014 to 2017 trended 6.1, 5.3, 4.9, and 4.4 respectively. The unemployment rates for South Dakota trended 3.3, 3.1, 2.8, and 3.0 for the same time period respectively. While unemployment and unemployment rates are a fickle statistic to decipher, what one can discern from the measure is that the state hasn't been keeping pace with the nation, and is now losing ground in this key area. Many factors, including immigration from foreign countries or neighboring states could play a part in the declines in percentage. The state did add jobs versus the prior year. Conflicting statistics, such as simultaneous increases in unemployment rate and the number of jobs, can serve to confound meaningful

projections. What is likely safe to conclude is that the number of jobs being created in the state are not keeping pace with the number of adults entering the workforce in the state, or employers are displacing already-existing workers in the work force.

| SOUTH DAKOTA | Current Period | 3 Months Prior | Percent Change over Prior Period | Annual Percent Change | 5 Year CAGR* |
|--|----------------|----------------|----------------------------------|-----------------------|--------------|
| Wealth | | | | | |
| Personal Income (millions of dollars) | 41,971 | 42,088 | -0.3% | 2.5% | 2.2% |
| Total Sales, 12 mo. trailing (millions of dollars) | 66,850 | 67,191 | -0.5% | -1.3% | -0.1% |
| Taxable Sales, 12 mo. trailing (millions of dollars) | 20,818 | 20,792 | 0.1% | -1.6% | 2.7% |
| Business Outlays | | | | | |
| Average Weekly Wage per Employee | 828 | 809 | 2.3% | -0.5% | 2.7% |
| Retail Gasoline Price (dollars per gallon) | 2.27 | 2.28 | -0.4% | -4.6% | -8.1% |
| Economic Overview | | | | | |
| Employment | 437,100 | 438,000 | -0.2% | 1.3% | 1.1% |
| Unemployment Rate | 3.0% | 2.8% | 7.1% | 7.1% | -6.9% |
| Initial Jobless Claims | 167 | 180 | -7.2% | -24.1% | -10.3% |
| Continuing Jobless Claims | 1,262 | 3,273 | -61.4% | -12.7% | -9.5% |
| Building Permits, Number of Units, 12 mo. trailing | 5,051 | 5,383 | -6.2% | 0.0% | 9.7% |
| Valuation (thousands of dollars), 12 mo. trailing | 807,008 | 825,948 | -2.3% | 5.4% | 10.3% |
| FHFA Purchase-Only Home Price Index | 277 | 271 | 2.2% | 5.7% | 4.8% |
| Total Business Bankruptcy Filings | 7 | 10 | -30.0% | 75.0% | -14.1% |
| Chapter 7 | 3 | 4 | -25.0% | 50.0% | -26.5% |
| Chapter 11 | 1 | - | - | - | - |
| Chapter 13 | 2 | 2 | 0.0% | - | 14.9% |

Sources: Bureau of Economic Analysis, Quarterly Personal Income (SA)(Q1/17); South Dakota Department of Revenue (NSA) (6/17); South Dakota Department of Labor and Regulation (SA) (Q4/16); US Energy Information Administration, Weekly Retail Gasoline and Diesel Prices, Midwest (6/26/17); Bureau of Labor Statistics, CES (SA) (6/17); US Department of Labor, Employment and Training Administration (NSA) (6/24/17); Census Bureau, New Privately Owned Housing Units Authorized (NSA) (5/17); FHFA Purchase-Only Home Price Index (SA) (Q1/17); Administrative Office of the US Courts (Q1/17). *Compound Annual Growth Rate.

U.S. vs South Dakota Unemployment



Source: Bureau of Labor Statistics

National Economic Indicators

Nationally, many economists had been forecasting at least a .5% increase in the Federal Reserve’s benchmark rate by June. However, the Fed opted to raise rates only by .25%. The Federal Reserve has a two-fold role in monetary policy to keep “full” employment, and, to keep prices stable. At 4.4% for June, the Fed’s full-employment target of 4.7% to 5.8% was met. However, the Fed’s target inflation rate of 2% was not met and is why the rate was only increased by .25%. Simply put, if interest rates increase too much, the economy will slow down. When prices don’t continually rise at a rate of 2%, the economy faces what Europe has been dealing with the past two years: deflation. Deflation itself is not destructive in the short-term, however, it is an indication that the demand for goods and services is being out-paced by the supply of the same, in other words, over production or decreasing

demand. Typically, deflation is followed by reductions in production and as a byproduct, unemployment increases. Further, deflation reduces demand for goods and services, which reduces production even more, begetting a cycle of continuing destructive deflationary forces to an economy. While lack of inflation doesn’t necessarily mean deflation, if the 3rd quarter’s inflation targets are not met, it will likely mean that rates will hold the same until the 4th quarter.

| NATIONAL | Current Period | 3 Months Prior | Percent Change over Prior Period | Annual Percent Change | 5 Year CAGR* |
|---|----------------|----------------|----------------------------------|-----------------------|--------------|
| Wealth | | | | | |
| Personal Income (billions of dollars) | 16,329 | 16,266 | 0.4% | 3.7% | 3.6% |
| Retail Sales, 12 mo. trailing (billions of dollars) | 5,585.5 | 5,525.6 | 1.1% | 3.2% | 3.5% |
| S&P 500 | 2,429.0 | 2,358.8 | 3.0% | 15.7% | 12.2% |
| Business Outlays | | | | | |
| Average Weekly Wage per Employee | 1,067 | 1,027 | 3.9% | -1.5% | 1.3% |
| Consumer Price Index | 243.8 | 244.5 | -0.3% | 1.9% | 1.3% |
| Energy | 194.2 | 207.1 | -6.2% | 2.4% | -3.8% |
| Transportation Services | 309.2 | 307.0 | 0.7% | 3.1% | 2.7% |
| Retail Gasoline Price (dollars per gallon) | 2.38 | 2.47 | -3.6% | -0.8% | -7.0% |
| Economic Overview | | | | | |
| Real Gross Domestic Output (billions of chained 2009 dollars) | 16,873 | 16,813 | 0.4% | 2.0% | 2.0% |
| Employment (in thousands) | 146,135 | 145,798 | 0.2% | 1.6% | 1.8% |
| Unemployment Rate | 4.4% | 4.5% | -2.2% | -0.5% | -3.8% |
| Initial Jobless Claims | 238,000 | 252,000 | -5.6% | -12.8% | -9.1% |
| Continuing Jobless Claims | 1,942,000 | 2,025,000 | -4.1% | -9.4% | -10.3% |
| Building Permits, Number of Units, 12 mo. trailing | 1,220,878 | 1,202,474 | 1.5% | 250.0% | 12.2% |
| Valuation (millions of dollars), 12 mo. trailing | 242,480 | 235,735 | 2.9% | 7.1% | 16.0% |
| FHFA Home Price Index | 241.2 | 238.1 | 1.3% | 6.0% | 6.1% |
| Total Business Bankruptcy Filings | 5,715 | 5,666 | 0.9% | -8.2% | -12.3% |
| Chapter 7 | 3,604 | 3,697 | -2.5% | -7.2% | -13.4% |
| Chapter 11 | 1,435 | 1,287 | 11.5% | -10.1% | -10.2% |
| Chapter 13 | 539 | 519 | 3.9% | -6.7% | -9.9% |

Sources: Bureau of Economic Analysis, Quarterly Personal Income (SA)(Q1/17); US Census Bureau (NSA) (5/17); Yahoo Finance (7/3/17); Bureau of Labor Statistics, QCEW (NSA) (Q4/16); Bureau of Labor Statistics, All Urban Consumers, US City Average (SA) (5/17); US Energy Information Administration, Weekly Retail Gasoline and Diesel Prices (7/3/17); Bureau of Economic Analysis (SA) (Q1/17); Bureau of Labor Statistics, CES (SA) (5/17); US Department of Labor, Employment and Training Administration (SA) (6/10/17); Census Bureau, New Privately Owned Housing Units Authorized (NSA) (5/17); FHFA Purchase-Only Home Price Index (SA) (Q1/17); Administrative Office of the US Courts (Q1/17). *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 MacKenzie Madison Analytics, 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.