

# Outlook for North Dakota

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# My affiliations



# Disclaimers

- ▶ These are the standard ones economists tell you.
- ▶ The analysis you see here is my own and does not necessarily reflect the opinion of any organization with which I am affiliated.
- ▶ Just the usual caveat & formality before we get going.
- ▶ Necessary to make sure I am able to speak my mind.
- ▶ It is a pleasure to be here, and I will start now.

# US Outlook - Growth

- ▶ Preliminary growth for Q3 is 3.5%.
- ▶ A look below the surface suggests all is not as rosy as our baseline number indicates.
- ▶ **Autos output added 1.66% to Q3 real GDP.**
- ▶ Few will look at this and suggest that is a keystone to sustained growth.
- ▶ There is some good news in the US data for North Dakota though.

# US growth & North Dakota

- ▶ Real exports are up nearly 15%.
- ▶ North Dakota, the agriculture sector in particular, is a good exporter.
- ▶ There is an uncertain dynamic facing us as far as international value of the dollar.
- ▶ However, our analysis indicates some positive offsets from a weakening dollar for local economies in ND.
- ▶ Local area tax revenues, particularly on the East side of the state, seem to benefit.

# Alternative Energy

- ▶ US alternative energy is a bright spot for North Dakota.
- ▶ Research & development dollars, as well as transmission infrastructure funding.
- ▶ Well-positioned to exploit such programs in this state.
- ▶ These can have significant, lasting impacts in jobs and output increases.
- ▶ They do not immediately translate into other industries, but over the long-run, they can be a keystone bringing in significant other support industries.

# Housing

- ▶ Housing markets are still out of sorts with a second set of foreclosure clusters.
- ▶ The worst is likely over, but we are a long way from a strong recovery.
- ▶ Endogenous strength of the national market still in doubt.
- ▶ Recent performance is largely due to the first-time buyer tax credit.
- ▶ Builders and realtors in ND are supportive of this to maintain local market strength.

# Unemployment

- ▶ Likely set to get worse before it gets better.
- ▶ Strong productivity (5% and better) reduce need for workers.
- ▶ Uncertain consumer demand giving businesses pause about further hiring.
- ▶ Holding down wage demands due to large surplus labor pool.
- ▶ Improvements delayed until Summer 2010 in our models.

# Current policy discussions

- ▶ Second round of stimulus will be more targeted to specific industries.
- ▶ Will be disaggregated too, so it really is not a “stimulus bill” .
- ▶ Continued & expanded housing support likely.
- ▶ Health insurance, financial reform legislation may completely remake these industries.

# Financial market volatility

- ▶ Shadow bank run has almost run its course.
- ▶ Most of the fallout is due to markets revisiting “too big to fail” in the wake of Lehman Bros. collapse.
- ▶ US government demonstrated a willingness to salvage credit markets no matter the cost.
- ▶ Further volatility likely with attempts to reduce governments role in the economy.
- ▶ A crucial situation is with the Fed withdrawing from mortgage markets.
- ▶ This creates an uncertain outlook for interest rates.

## Now for something completely different...

- ▶ The North Dakota experience has been completely different than the US in almost every way.
- ▶ Unemployment has increased, but is well below national averages.
- ▶ Output growth accelerated.
- ▶ The state leveraged a commodity price boom into extensive & intensive growth.
- ▶ Economic development professionals around the state deserve all the credit in the world for this.
- ▶ Legislature & executive branch deserve credit as well.

# North Dakota Outlook

- ▶ There are two key variables to look at: unemployment and income.
- ▶ Unemployment is a key concern nationally and is occupying many individuals locally right now.
- ▶ This is where economic development has been so successful lately.
- ▶ Job opportunities abound in ND.

# Unemployment outlook

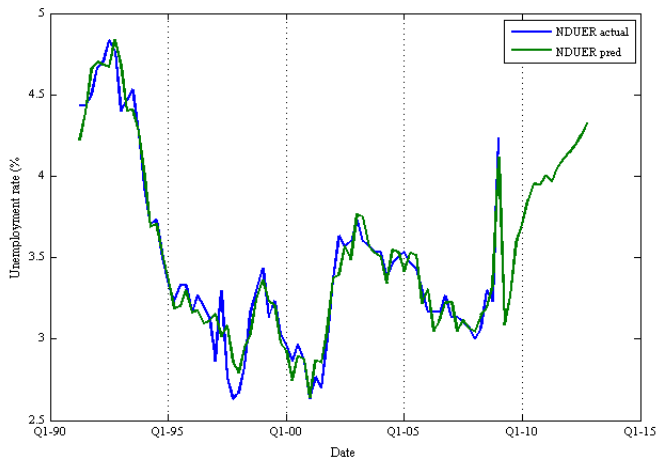


Figure: ND UER, actual & predicted

# Unemployment numbers

- ▶ Recent declines were not unexpected.
- ▶ Growth fundamentals in ND are good and continue to attract workers.
- ▶ However, notice we forecast an increase in 2010.
- ▶ Unemployment in ND has been so low it makes attracting new businesses difficult.
- ▶ I want to be clear though: I am **not** encouraging a policy of increasing unemployment.

# ND Growth

- ▶ North Dakota has had a phenomenal growth performance in the last 3 years.
- ▶ Growth has been at the top of the list in that time.
- ▶ This has been at or above 7% for these three years.
- ▶ Real performance is slightly different, but no less impressive.
- ▶ During this downturn North Dakota is catching up to the rest of the country.
- ▶ The question: Can this be leveraged into continued and more labor in-migration?

# Income growth outlook

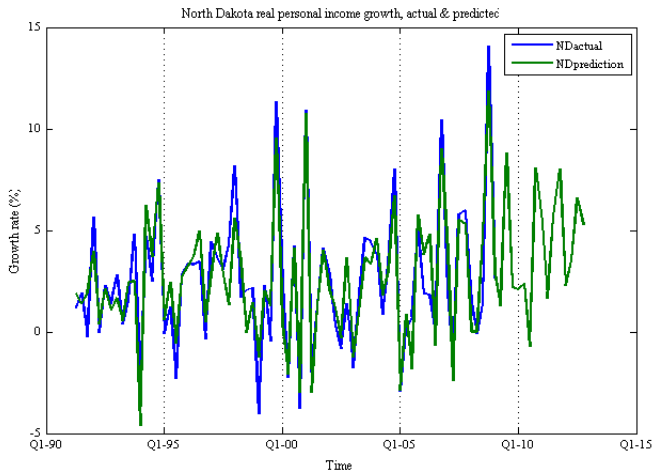


Figure: ND income growth, actual & predicted

# Earnings growth outlook

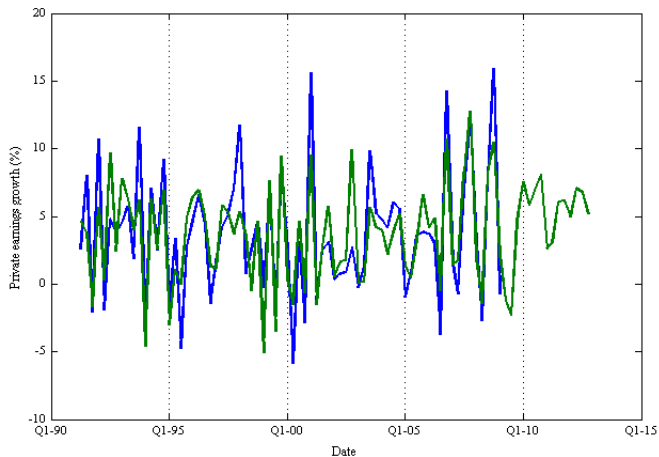


Figure: ND earnings growth, actual & predicted

# Earnings & Income Growth

- ▶ Income includes all revenues: wage, dividends, interests, rents, etc.
- ▶ Earnings is compensation from labor.
- ▶ The forecast indicates low wage growth into early next year which will drive down nominal earnings and real income growth.
- ▶ Inflation is not a factor at this point.
- ▶ After this, the picture for North Dakota shows a sharp upturn for both real income & earnings.

## Forecast by the numbers

- ▶ The outlook is for strong growth in income of around 4% per quarter.
- ▶ The growth next year slows to an average of 3% per year.
- ▶ Q3 growth dips negative in 2010, though within the margin of error.
- ▶ Earnings growth stagnates, though does not go negative.
- ▶ Compared to the outlook for the country and other states, this is phenomenal performance.

## North Dakota & bias

- ▶ There is minimal downward bias in the forecast.
- ▶ A commodity price collapse would be a significant negative event.
- ▶ Weaker dollar drives up price and encourages tourism.
- ▶ State policies have reduced tax burdens and encouraged growth in other industries.
- ▶ Overall this created a very positive outlook for the business climate in North Dakota.

# Factors to leverage

- ▶ Continued leveraging of commodity sector is a must.
- ▶ Education sector and its research & development output.
- ▶ Improving manufacturing base, extensively and intensively.
- ▶ Small business sector as a support/supplier for other businesses.
- ▶ Example: Keep more dollars from federal contract opportunities in state.

## Other risks to the outlook

- ▶ As always, there are threats to the forecast.
- ▶ In this situation, the major culprit is government policies.
- ▶ Government policies are mucking up the analysis and clouding the picture of the overall economy.
- ▶ Clearly involvement was necessary, but it is equally necessary to extract involvement in a timely manner.
- ▶ The risk of a delay of needed adjustments in industries.

# Policy issues

- ▶ A second stimulus plan? Is this really necessary?
- ▶ Helpful for certain sectors, such as energy & construction.
- ▶ Certainly North Dakota is getting a share of the dollars and we are leveraging them the right way.
- ▶ However, there will be issues when it comes time to repay the dollars.
- ▶ Current “leadership” at the Treasury Department is lacking and failing to provide the needed counterweight to White House demands.
- ▶ Look at the declaration that China is not manipulating its currency values and the lack of clear direction in most other areas of policy.

# Conclusions

- ▶ North Dakota will continue as a national leader in income growth.
- ▶ There will be increased volatility in the North Dakota economy in the next year.
- ▶ Productivity growth remains the most important factor for growth prospects 3 years out and beyond.
- ▶ Further government spending will likely only be temporary palliatives and may arrest industrial corrections.

Questions?



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