

11-2004

Sustained Growth in Nebraska

Saeed Ahmad
Nebraska Department of Labor

John Austin
University of Nebraska - Lincoln

Tom Doering
Nebraska Department of Economic Development

Ernie Goss
Creighton University

Bruce Johnson
University of Nebraska - Lincoln, bjohnson2@unl.edu

See next page for additional authors

Follow this and additional works at: <http://digitalcommons.unl.edu/bbrbin>



Part of the [Entrepreneurial and Small Business Operations Commons](#)

Ahmad, Saeed; Austin, John; Doering, Tom; Goss, Ernie; Johnson, Bruce; Lundeen, Mike; Petersan, Donis; Schwarz, Franz; Thompson, Eric; and Turner, Keith, "Sustained Growth in Nebraska" (2004). *Business in Nebraska*. 6.
<http://digitalcommons.unl.edu/bbrbin/6>

This Article is brought to you for free and open access by the Bureau of Business Research at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Business in Nebraska by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

Authors

Saeed Ahmad, John Austin, Tom Doering, Ernie Goss, Bruce Johnson, Mike Lundeen, Donis Petersan, Franz Schwarz, Eric Thompson, and Keith Turner

Business in Nebraska

Volume 60, No.678

presented by Bureau of Business Research (BBR)

November 2004

Sustained Growth in Nebraska

By The Nebraska Business Forecast Council

U. S. Economic Outlook

National Macroeconomic conditions are favorable for future expansion of income, employment, and revenue in Nebraska. In particular, the U.S. economy is now in the heart of an expansion expected to persist over the three year forecast period. The principal engine of growth will be a sustained expansion in private sector investment and consumption demand.

However, the rate of growth in the national economy likely will be moderate rather than rapid. At least three factors will act to moderate growth. The first is higher energy prices. Rapid growth in global demand is expected to keep prices for oil and natural gas high at least into 2005. These higher energy prices will reduce the rate of growth in gross domestic product, and create a higher than normal risk that the economy could fall back into recession. However, the most likely outcome is that the economy will continue to expand at a moderate rate in 2005, and beyond.

Federal policy trends also will moderate growth. Over the outlook period, Federal Reserve interest rate policy will gradually shift from pro-growth to neutral as the Fed raises interest rates over the next two years. The Federal Funds rate currently stands at 1.75 basis points and a neutral rate is typically in the range of 3 to 4 basis points.

The third factor will be a marked decline in the rate of growth in federal spending. Federal spending growth averaged 9 percent annually from 2002 through 2004. Spending growth should decline substantially beginning in 2005 as part of efforts to reduce large annual federal budget deficits.

Nebraska Outlook

Overview

The Nebraska economy returned to steady growth in 2004. Growth was solid, whether the measure is jobs, income, or revenue. The change was most dramatic in the case of employment, which grew again after several years of decline. There was also a substantial up tick in growth of both non-farm income and net taxable sales tax revenue. Farm income also had another strong year, as in 2003.

The panel is optimistic about the outlook for the Nebraska economy over the next three years. Income and sales growth will remain strong throughout the period. Employment growth will remain moderate. One bright spot is that manufacturing employment growth should improve steadily through 2007. Although the state will face the same risk as the nation that energy prices, should they remain high, could derail the expansion.

...

Employment

Job growth returned to Nebraska in 2004. Total employment grew in Nebraska as it did nationally. However, the pace of growth varied by industry. The rapidly growing sectors have included Services, Finance and Insurance, Transportation and Utilities, and Construction, Mining and Natural Resources. Growth was modest in Wholesale Trade, Information, and Government. Retail Trade and Manufacturing experienced no growth or a decline.

Table 1
Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income	Net Taxable Retail Sales
2005	1.5	4.7	4.8
2006	1.7	4.8	3.8
2007	1.7	4.8	3.5

Looking forward, total employment is expected to grow at a modest 1.5 to 1.7 percent annual rate during the forecast period. This represents a slowdown from average growth exceeding 2 percent annually during the 1990s. The slowdown is due to many of the same factors anticipated to limit job growth throughout the nation including: 1) slower growth in the supply of labor, 2) rising costs for providing employee benefits such as health care, and 3) a shift towards self-employment. Details about the outlook for individual industries are provided below.

Construction and Mining

New house construction is booming in Nebraska. Low interest rates and the continuing expansion of families have supported the activity. An increase in long-term rates is likely over the forecast period, but we do not foresee a major increase in rates. A slow but steady increase in Nebraska's population will result in continuing increases in households.

Since the state's road programs are primarily funded by the gasoline tax, increases in highway construction activity are likely to continue. Nebraskans continue to follow their established driving patterns despite rising fuel prices.

Building construction has eased from the super boom in Omaha in the late 1990's and early 2000's. Many major projects have been completed or have entered the finishing stages. Fill in projects spawned by the boom should continue, but a slight slowdown in the sub-sector

is expected as the industry regroups and awaits new projects. The slack in Omaha projects may have freed up resources for expansion outside the city. Activities include UNL projects in Lincoln, a power plant project in Beatrice and expansions in other non-metro cities.

Manufacturing

The outlook for manufacturing is positive. Benefiting from an improving national economy, the Nebraska manufacturing industry will rebound during the forecast period. The durable goods sector in particular will grow due to strength among agricultural machinery manufacturers. With significant improvement in farm income, the farm machinery and equipment sector is expected to increase output and employment. The durable goods manufacturing forecast calls for employment stabilizing in 2004 and improving during the 2005-2007 period. Job growth also will return to non-durable goods, although at a somewhat slower rate.

Transportation

Further growth is anticipated in Nebraska's thriving transportation sector. The industry has grown rapidly throughout the last decade as nationally-oriented rail and long-haul trucking firms have gained market share. Strong growth should continue during the outlook period as the national economy expands, though growth will be somewhat tempered by higher diesel prices and limited growth in the supply of long-haul truckers.

Retail Trade

The outlook for retail trade reflects recent changes in the fortunes of job growth in this industry. Retail employment grew steadily throughout the 1980s and 1990s but has declined during the period 2001 through 2003. Employment in this industry is very sensitive to total sales and employment growth and will follow the pattern of net taxable sales conditioned by the availability of workers. Further dampening the job growth is the tendency of the larger retailers (with more sales per employee) to capture more and more of the total sales and the increase of sales of the non-traditional retailers (on-line sales). This creates the possibility of weak retail job growth even as the economy expands. For the current year 2004, employment is expected to remain steady at 107,100. For the years 2005 through 2007 employment growth is expected to remain below the historic rate of 1.0 percent a year at an estimated rate of 0.4 percent for 2005 and 0.5 percent for 2006 and 2007.

Wholesale Trade

Wholesale trade employment, on the other hand, is expected to rebound to historical growth rates as the

overall economy expands. Wholesale trade employment is expected to rise by 1 percent per year.

Information

The Information sector in Nebraska is largely locally-oriented with the most employment in broadcasters and other media firms, printing and publishing companies, and communications firms. As such, the industry is expected to expand modestly with the Nebraska economy, especially since no major changes are anticipated in the few larger, nationally-oriented communication and data processing firms.

Financial

The Financial Activities sector includes businesses in finance, insurance, and real estate. The somewhat disparate group of businesses formed a sector of 48,000 workers as of 1990 that grew to 61,900 by 2003. This represents a long term annual growth rate of 1.8 percent per year, with the standout among sub-sectors being the 4.9 percent growth in the Securities & Commodity Contracts industry. The sector overall hit its low point in 2001 dropping from 60,500 in 2000 to 60,200 in 2001 before rebounding in subsequent years. Overall signs of modest growth are reappearing in the Financial Activities sector. The forecast calls for a growth rate at 1.3 percent, just below the long-run trend. The estimate is for total employment to grow to 65,200 in 2007.

Services

The Services sector will continue to be the principal engine of job growth in Nebraska. The Services sector is both the largest sector in the economy and consistently among the fastest growing sectors. While concerns such as outsourcing could affect professional, scientific and technical services firms, the sector overall is expected to grow strongly during the outlook period.

Nonfarm Personal Income

While Nebraska's linkage to the national economy and national recessions has been tenuous in the past, the state joined the 2001 national downturn with substantially reduced growth rates. Growth in nonfarm personal income barely exceeded inflation from 2001 to 2003. Beginning in 2004, however, income growth accelerated in all major components including growth in wage and salary incomes, benefits, proprietor's income, interest earnings, and transfer payments. This trend is expected to continue.

Growth in nonfarm wages and salaries, the largest component of income, will be solid at nearly 5 percent per year. This growth, however, does represent

Health care employment is expected to approach 5 percent annual growth during the forecast period as Nebraska's population grows and ages. More moderate growth of around 2.0 percent is anticipated in personal services such as entertainment and recreation, accommodations, and food services. But, steady growth will continue as there are fewer opportunities to meet demand while limiting job growth in services industries than is the case for retail trade.

Federal Government

The year 2003 showed a reversal of the long-term decline in federal government employment. The increase was likely due to staffing up for homeland security. The increase will be a temporary interruption and it is likely that Nebraska's federal employment will return to a moderate downward trend. Some of the long-term slippage in federal employment has been due to consolidations of USDA's county offices. Those consolidations have likely settled to a new long-term level. Any prediction of federal employment can be reversed easily by Washington decisions to reallocate locations of offices.

State and Local Government

Despite several attempts to curb the expansion of local government employment in Nebraska, growth has continued. The expansion of local government jobs roughly mirrors population growth. It is likely that this relation will continue in the long-term.

The State government has had to respond to growing demands in programs mandated to the states by the federal government. For example, the rising cost of health care is reflected in the rising state budgets for Medicare and Medicaid. Demands for state support of its university system will continue to rise as the cost of education continues to mount.

■ ■ ■

somewhat of a slowdown from the rapid growth rates achieved in the 1990's. That forecast rests on the expectation of relatively low inflation rates and the availability of labor to fill moderate advances in employment growth.

Annual growth is expected to be a more robust 6 percent in the other labor income category, which consists mostly of job benefits. Despite the recession, benefits costs jumped in 2002 and 2003. These increases were largely the result of cost increases in medical benefits and are expected to continue. Even this forecast may prove conservative if employers show a continued willingness to participate in sharing the increases in medical costs.

Table 2
Number of Nonfarm Jobs and Percent Changes by Industry Annual Averages
(numbers in '000s)

	Non farm Total	Cons't, Mines & Natl Res	Dura- bles	Non- dura- bles	Whol- esale Trade	Retail Trade	Tran & Util	Info	FIRE	Ser- vices	Fed Gov't	Local Gov't
1990	730.1	29.2	48.3	49.4	39.2	95.1	34.5	22.1	48.9	219.9	18.1	125.4
1991	739.2	29.7	47.7	49.6	38.7	95.8	35.0	21.8	49.2	226.3	17.4	128.2
1992	750.1	30.5	47.8	50.1	38.5	95.7	35.9	21.5	49.6	232.9	17.1	130.5
1993	767.2	32.1	49.6	50.9	38.6	97.7	36.3	21.9	50.3	240.9	17.3	131.7
1994	796.1	35.4	53.3	52.3	39.3	100.7	37.4	22.3	51.8	252.0	17.2	134.4
1995	816.3	36.8	55.5	54.5	39.6	102.1	38.3	22.9	53.4	262.6	16.4	134.3
1996	834.8	38.2	55.6	55.7	40.4	104.6	38.6	23.5	54.0	273.0	16.0	135.4
1997	854.2	39.9	57.3	55.4	41.2	105.3	41.6	25.1	55.7	280.6	16.1	136.1
1998	876.1	42.4	58.5	55.9	42.2	107.5	43.3	26.3	58.8	290.4	16.0	134.9
1999	892.7	44.3	57.7	55.7	42.5	110.2	44.5	27.1	60.9	298.4	15.9	135.6
2000	908.4	45.2	58.9	55.4	41.9	111.3	45.1	26.9	60.5	308.7	16.6	137.9
2001	913.2	45.3	54.6	56.2	42.5	110.0	45.2	25.8	60.2	316.6	16.0	140.8
2002	905.7	46.1	50.6	55.4	41.5	108.5	44.9	24.7	61.4	313.8	16.3	142.6
2003	903.8	47.3	47.1	54.9	40.7	107.1	46.4	21.5	61.9	317.1	16.7	143.3
2004	916.0	48.6	47.0	54.7	41.1	107.1	47.6	21.7	62.7	324.7	16.9	144.0
2005	929.8	50.1	47.2	54.8	41.5	107.5	48.7	21.8	63.5	332.8	17.0	144.7
2006	945.3	51.6	47.7	55.2	41.9	108.1	50.0	22.0	64.3	341.8	17.2	145.5
2007	961.5	53.1	48.4	55.9	42.4	108.6	51.2	22.1	65.2	351.0	17.4	146.2
Recent Percentage Changes												
2000	1.8	2.0	2.1	-0.5	-1.4	1.0	1.3	-0.7	-0.7	3.5	4.4	1.7
2001	0.5	0.2	-7.3	1.4	1.4	-1.2	0.2	-4.1	-0.5	2.6	-3.6	2.1
2002	-0.8	1.8	-7.3	-1.4	-2.4	-1.4	-0.7	-4.3	2.0	-0.9	1.9	1.3
2003	-0.2	2.6	-6.9	-0.9	-1.9	-1.3	3.3	-13.0	0.8	1.1	2.5	0.5
2004	1.4	2.8	-0.2	-0.4	1.0	0.0	2.5	0.7	1.3	2.4	1.0	0.5
2005	1.5	3.0	0.5	0.2	1.0	0.4	2.5	0.7	1.3	2.5	1.0	0.5
2006	1.7	3.0	1.0	0.8	1.0	0.5	2.5	0.7	1.3	2.7	1.0	0.5
2007	1.7	3.0	1.5	1.2	1.0	0.5	2.5	0.7	1.3	2.7	1.0	0.5
Various Percentage Changes - At Annual Rates												
1990-2003	1.7	3.8	-0.2	0.8	0.3	0.9	2.3	-0.2	1.8	2.9	-0.6	1.0
1990-2000	2.2	4.5	2.0	1.2	0.7	1.6	2.7	2.0	2.2	3.5	-0.9	1.0
1991-2001	2.1	4.3	1.4	1.3	0.9	1.4	2.6	1.7	2.0	3.4	-0.8	0.9
2001-2003	-0.5	2.2	-7.1	-1.2	-2.1	-1.3	1.3	-8.7	1.4	0.1	2.2	0.9

Dividends, interest and rents will recover from the downturns of the last three years but the recovery will be far from robust. Only moderate increases in long-term interest rates are expected over the forecast period, which will limit growth in this category.

Transfer payments leapt up in the recession year 2001. A large part of the increase was likely in unemployment compensation. In normal times, transfer payments are dominated by increases in social security payments. Our

forecast calls for a return to that pattern. Increases of 5 percent per year are expected. That results from a combination of a mild inflation and small net increases in the number of social security recipients.

Nonfarm proprietors' income is primarily the income of small nonfarm businesses. Growth in this category is closely tied to the business cycle. Robust growth is expected over the forecast period with growth expected to hit 7 percent in 2007.

Table 3
Nonfarm Personal Income and Selected Components and Net Farm Income (USDA)
(\$ millions)

	Non farm personal Income	Non farm wages and salaries (Wages and salaries- farm wages)	Other labour income*	Dividend Interest and Rent	Tran- sfers	Resi- dential Adjust- ment	Non farm prop's income	Contrib- utions for Social Ins	Net farm income (USDA)
1990	26275	14743	3125	5915	3365	-382	1881	2372	2512
1991	27595	15473	3377	6226	3608	-420	1840	2508	2279
1992	29109	16396	3642	6313	3924	-458	1921	2630	2475
1993	30385	17038	3885	6341	4187	-472	2175	2769	1995
1994	32242	18087	4078	6779	4367	-479	2372	2961	2156
1995	34711	19313	4219	7377	4647	-524	2780	3101	1646
1996	36843	20538	4342	7822	4961	-579	3022	3264	3388
1997	38770	21952	4456	8272	5131	-653	3073	3462	2019
1998	41611	23362	4744	9096	5477	-684	3300	3686	1791
1999	43664	24815	4999	9148	5822	-762	3517	3874	1681
2000	46386	26206	5317	9991	6075	-825	3654	4031	1374
2001	47979	26937	5612	9871	6667	-861	3951	4198	1827
2002	49033	27679	6230	9581	7041	-899	3768	4368	822
2003	50615	28609	6716	9413	7306	-935	4042	4536	3228
2004	52977	30039	7119	9602	7671	-976	4285	4763	3600
2005	55474	31481	7546	9842	8054	-1022	4564	4992	3697
2006	58118	32929	7999	10137	8457	-1067	4883	5221	3797
2007	60919	34411	8479	10492	8880	-1112	5225	5456	3900
Recent Percentage Changes									
2000	6.2	5.6	6.4	9.2	4.3	8.3	3.9	4.1	-18.3
2001	3.4	2.8	5.6	-1.2	9.7	4.3	8.1	4.1	33.0
2002	2.2	2.8	11.0	-2.9	5.6	4.4	-4.6	4.1	-55.0
2003	3.2	3.4	7.8	-1.8	3.8	4.0	7.3	3.9	292.7
2004	4.7	5.0	6.0	2.0	5.0	4.4	6.0	5.0	11.5
2005	4.7	4.8	6.0	2.5	5.0	4.6	6.5	4.8	2.7
2006	4.8	4.6	6.0	3.0	5.0	4.4	7.0	4.6	2.7
2007	4.8	4.5	6.0	3.5	5.0	4.2	7.0	4.5	2.7
Various Percentage Changes--At Annual Rates									
1990-2003	5.2	5.2	6.1	3.6	6.1	7.1	6.1	5.1	1.9
1990-2000	5.8	5.9	5.5	5.4	6.1	8.0	6.9	5.4	-5.9
1991-2001	5.7	5.7	5.2	4.7	6.3	7.4	7.9	5.3	-2.2
2001-2003	2.7	3.1	9.4	-2.3	4.7	4.2	1.1	4.0	32.9

Note: Net Farm Income (USDA Basis) is not added into the Nonfarm Personal Income total.

■ ■ ■

Farm Income

Following a near-record high year for Nebraska net farm income in 2003, the initial forecast for 2004 is even higher. The forecast 2004 level is \$3.60 billion, nearly 12 percent above the \$3.23 billion level in 2003. Compared with the previous 10-year period of very volatile farm income conditions, this 2004 forecast level is about 80 percent higher than the annual average of the previous decade.

In short, one could say the farm sector is currently “running on all cylinders” with both the crop and the livestock sectors experiencing strong economic times. No one single element is responsible for the record income level for this year, but rather a whole set of conditions. Key factors contributing to a robust farm income year for 2004 are: favorable crop yields for much of the state; a significant portion of this year’s production was forward contracted at much more favorable price levels; a very strong livestock income; a strong hog industry in the state; essentially stable input costs in 2004; some recovery from multi-year drought conditions in the western half of the state; continued

expansion of the ethanol industry; and continued flow of farm commodity program payments into the state.

There is some evidence to suggest that Nebraska’s farm sector may be moving to a higher aggregate income plateau with annual net farm income averaging in the \$2.5 to \$3.0 billion range. That range is 25 to 50 percent higher than the pattern of the past 10 years. Some factors that could contribute to this are: strong cattle economy; profitable and expanding ethanol production; increased efficiency of crop production; an improved global economy and expanded demand for U.S. and Nebraska agricultural commodities and food products; and continued recovery from drought conditions in the western half of the state.

Offsetting factors are: continued water shortfalls for large areas of the state’s irrigated land base; global over-production of major commodities; the continued phasing down of federal farm program payments; and a surge in oil prices which could raise farm input costs.



Net Taxable Retail Sales

Growth in non-motor vehicle net taxable sales improved to 3.8 percent in 2003 after two years of weak growth. Growth was 1.8 percent in both calendar years 2001 and 2002, the lowest growth rates since 1984.

Current year-to-date data through July 2004 suggests a nominal growth rate of 8.4 percent and a base adjusted growth rate of 4.6 percent. The base adjusted growth rate is the most relevant since it accounts for the expansion in the Nebraska sales tax base that occurred on October 1, 2003. The base was expanded to include some additional services, the largest of which were construction services and repair labor to personal property. It is estimated that those services expand the existing tax base by about 3.9 percent.

The improvement in sales growth in 2004 is expected to continue during the rest of 2004 and for 2005, though growth is expected to slow somewhat in 2006 and 2007. These higher estimated growth rates would be supported by some improvements in employment and an increase in non-wage income with an accompanying substantial increase in business investments. There are

also efforts underway to improve compliance of the so-called non-traditional retailers.

Growth in the forecast period, however, is lower when compared to the growth rates during the 1990's. There are several reasons for this. Firstly, Nebraska’s population growth is estimated to be lower after 2000 than in the 1990's. Secondly, inflation is expected to remain moderate at around 2 percent. A shift in consumption pattern away from taxable goods to less broadly taxed services also contributes to moderate revenue growth forecasts.

Based upon current year-to-date data through July 2004, motor vehicle net taxable sales are expected to increase 2.4 percent in 2004 over a disastrous 2003 sales level. Improvements are expected for the next two years with a growth rate of 5.5 percent in 2005 and 3.7 percent in 2006. A slowdown is estimated for 2007 with growth at 1.6 percent.

Table 4
Net Taxable Retail Sales, Annual Totals
(\$ millions)

	Total Sales	Motor Vehicle Retail Sales	Other Retail Sales
1991	12,788	1,438	11,350
1992	13,389	1,488	11,901
1993	14,173	1,699	12,474
1994	15,229	1,813	13,416
1995	15,873	1,883	13,990
1996	16,853	2,068	14,785
1997	17,815	2,205	15,610
1998	19,005	2,417	16,588
1999	19,806	2,520	17,286
2000	20,443	2,605	17,838
2001	21,057	2,897	18,160
2002	21,426	2,926	18,500
2003	22,092	2,894	19,199
2004	23,540	2,962	20,577
2005	24,667	3,127	21,540
2006	25,606	3,243	22,363
2007	26,514	3,296	23,217
Recent Percentage Changes			
2000	3.2	3.4	3.2
2001	3.0	11.2	1.8
2002	1.8	1.0	1.9
2003	3.1	-1.1	3.8
2004	6.6	2.4	7.2
2005	4.8	5.6	4.7
2006	3.8	3.7	3.8
2007	3.5	1.6	3.8
Various Percentage Changes -- At Annual Rates			
1991-2003	4.7	6.0	4.5
1991-2000	5.4	6.8	5.2
1991-2001	5.1	7.3	4.8
2001-2003	2.4	-0.1	2.8

Nebraska Business Forecast Council members serving this session were: Saeed Ahmad, Nebraska Department of Labor; John Austin, Department of Economics, UNL; Tom Doering, Nebraska Department of Economic Development; Ernie Goss, Department of Economics, Creighton University; Bruce Johnson, Department of Agricultural Economics, UNL; Mike Lundeen, Nebraska Department of Economic Development; Donis Petersan, Nebraska Public Power District; Franz Schwarz, Nebraska Department of Revenue; Eric Thompson, Bureau of Business Research, UNL; Keith Turner, Department of Economics, UNO (emeritus).

bulletin board



**Business in Nebraska will
continue this analysis in
its fall and spring issues.**

Copyright 2004 by Bureau of Business Research, University of Nebraska - Lincoln. Business in Nebraska is published in four issues per year by the Bureau of Business Research. Inquiries should be directed to Bureau of Business Research, 347 CBA, University of Nebraska -Lincoln 68588-0406.

Bureau of Business Research [BBR]

Specializes in ...

- ➔ Studies of economic competitiveness
- ➔ Economic modeling and forecasting
- ➔ Labor market analysis
- ➔ Fiscal analysis
- ➔ Policy analysis

For more information on how BBR can assist you or your organization, contact us (402) 472 3188; send email to: ethompson2@unl.edu; or visit the website at: <http://www.bbr.unl.edu>