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The Outlook for the Nebraska Economy

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The Outlook for the Nebraska Economy

2013 REGIONAL ROUNDTABLE OF THE FEDERAL RESERVE BANK OF KANSAS CITY
DENVER, COLORADO
NOVEMBER 4-5, 2013

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Outline

• Macroeconomic outlook
  ▪ The Promise
  ▪ The Problems
  ▪ The Bottom Line

• Nebraska Economic Outlook

• Regions of Nebraska
UNL Bureau of Business Research develops a preliminary 3-year economic forecast from a statistical model.

Nebraska Business Forecast Council meets to review the preliminary forecast based on:
- Industry contacts
- Council member research

Final report developed
The Macroeconomic Outlook – the Promise

- The housing recovery is underway
- Automobile purchases have recovered
- Real wage growth has returned
- Geo-political factors may wane over the next few years (think oil prices)
• Europe is growing again

• Growth in China is re-accelerating

• The Federal Reserve Bank is remaining patient

• Progress on discretionary spending cuts
The Macroeconomic Outlook – the Problems

- New regulations are impacting growth
  - Affordable Care Act
  - Dodd-Frank
  - Regulation of greenhouse gases

- Failure to address fiscal problems
  - Simplify the federal tax code by eliminating loopholes – and lower rates
  - Entitlement programs
• Failure to Expand Legal Immigration

• ‘Manufactured’ crises
Macroeconomic Outlook – The Bottom Line

- **Slow Growth**
  - Continued under-utilization of resources
  - Slow growth in revenues to meet goals of lowering taxes and/or strategically expanding services

- Some risk of a “mistake” in a future “manufactured crisis”
The Nebraska Outlook

- Nebraska faces the risks faced by the U.S. economy
- Like the national economy, the Nebraska economy is expected to grow at a slow to moderate rate
- Growth will be broad-based, including:
  - Finance
  - Construction
  - Manufacturing
  - Retail
  - Services
# Nebraska Employment Growth
## 2013 through 2015

<table>
<thead>
<tr>
<th>Industry</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-farm total</td>
<td>1.3%</td>
<td>1.5%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Construction</td>
<td>3.5%</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durable Goods</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Non-Durable Goods</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Industry</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>2.0%</td>
<td>2.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>0.3%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>1.3%</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Services</td>
<td>2.0%</td>
<td>2.3%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>-1.0%</td>
<td>-1.0%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>State &amp; Local Gov’t</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
## Other Measures of Growth for Nebraska
### 2013 through 2015

<table>
<thead>
<tr>
<th>Measure</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Nonfarm Income</td>
<td>2.2%</td>
<td>4.4%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Taxable Sales</td>
<td>3.4%</td>
<td>3.9%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.6%</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Population</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
Figure 1: Change in LEI-N September 2013

- Rapid Growth: 0.95%
- Moderate Growth: 1.24%
- Moderate Decline: -1.24%
- Rapid Decline: -2.48%
Leading Economic Indicator-Nebraska Indicator Components

Figure 3: LEI-N Components of Change September 2013

- Building Permits: 0.15%
- Airline Passengers: 0.03%
- Dollar Exchange Rate: 0.07%
- Initial UI Claims: 0.90%
- Manufacturing Hours: -0.13%
- Business Expectations: -0.20%
- Trend Adjustment: 0.12%
Omaha is the part of the economy most closely aligned with the national economy
- Therefore Omaha is the fastest growing part of NE economy
- Rural to urban migration, as always, is an engine of growth

Omaha is experiencing a turnaround in housing and construction activity

The turnaround in transportation and finance is also beneficial to Omaha
Lincoln is growing at around the average state rate
  - Rural to urban migration, as always, is an engine of growth

Lincoln is experiencing a turnaround in housing and construction activity – back to 2007

The turnaround in finance is also benefitting Lincoln

Three concerning trends
  - Sustained weakness in manufacturing
  - Professional, scientific & technical – weakness has returned
  - Government employment is a drag on the economy
Regions of Nebraska
Grand Island MSA & Tri-Cities Region

- Growth is slightly below the state average
  - Rural to urban migration is net drain on growth
- This is the MSA/region most closely aligned with agriculture
- Manufacturing and agricultural processing continue to be a source of growth
  - There has been a massive expansion of crop production in Nebraska and the capacity to process it is catching up
- There is also steady development of housing stock and related commercial development
• Rural Nebraska is growing more slowly than the rest of the state
  ○ Rural to urban migration, as always, is a major drag on growth
• There are also opportunities in crop processing
• Construction activity related to the agricultural boom is abating
  ○ This is not necessarily a concern, but a return to normal
• Two areas of concern
  ○ Permitting issues
  ○ Irrigation policy