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Commodity Prices Limit Nebraska Growth

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U.S. Macroeconomic Outlook

Over the last few years the service sector has been the primary engine of economic growth in the United States. Supported by growth in employment and real wages, the service sector has grown steadily with increases in retail trade, business services, personal services and construction activity. Growth has been limited, however, in the industrial sector, given weakness in the energy industry, poor demand for business investment and weak overseas economies. The net result has been moderate economic growth.

Several fundamental issues continue to support an outlook for moderate economic growth. First, the pace of job growth will slow given the ongoing retirement of "baby boom" generation workers, and as the reserve of underutilized workers continues to shrink. Slower job growth will limit growth in consumer income and spending. Second, there will be slow growth in demand from overseas. Most developed economies face the same demographic challenges as the United States, while many developing countries face a need for structural reforms. China, for example, must continue to reign in its excess spending on infrastructure and housing.

Domestic public policy, however, may provide a change to the outlook. The incoming Trump Administration has shown an interest in tax reform and in reducing environmental, labor market and financial regulations. These policies are positives for economic growth. For example, tax reform and deregulation can stimulate business investment. At the same time, plans to cut taxes do not appear to be matched with plans for significant spending reductions, which can limit the effectiveness of the tax cuts. Plans to increase spending on infrastructure and the military, in particular, have an unknown influence on growth. Finally, policies to limit international trade and legal immigration, if implemented on a large scale, would be negative for economic growth. Overall, the planned policies are a mixed bag for the economy and the extent and manner with which each of these policies will be implemented is not yet known.

The current outlook therefore, is for continued moderate economic growth from 2017 through 2019. Real GDP is expected to grow by 2.5% in 2017, and 2.6% in 2018 and 2019. Job growth will follow a different pattern. The rate of job growth is expected to fall as the reserve of discouraged workers dwindles in the United States. The rate job growth will fall to 1.4% in 2017, 1.3% in 2018 and 1.2% in 2019. Growth in real wages, which began in 2014, will continue throughout the forecast period.

Moderate economic growth will help keep price pressures in check. The inflation rate will be 2.2% in 2017, somewhat above the U.S. Federal Reserve Bank's target rate of 2%. Inflation will be higher in 2017 as energy prices rebound from very low levels in 2016. Inflation will move back to 2.0% in 2018 and 2019. The Federal Reserve will periodically raise short-term interest rates but long-term rates will remain low.

Nebraska Outlook

Low commodity prices, and resulting weak farm incomes, will limit growth in the Nebraska economy in the coming years. In particular, a sharp drop in cattle prices and another decline in crop prices have driven farm incomes down further during 2016, and prices and farm incomes are expected to remain at low levels over the next three years, Weakness in its largest sector will cap growth in the Nebraska economy, despite strong growth in select sectors such as construction and business services. Slow growth in the labor force will be another factor limiting growth. Projected growth rates for 2017 to 2019 are presented in Table 1.

Employment will grow by 1.0% to 1.1% per year, below national job growth rates discussed earlier. Nonfarm income will grow between 4.3% and 4.4% each year. This growth is sufficient to exceed inflation and population growth, implying growth in real per capita income. There will be little improvement in farm income after the 2016 decline.

Table 1— Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income (nominal)	Net Farm Income (nominal)
2016	1.0%	3.8%	-16.8%
2017	1.1%	4.4%	3.8%
2018	1.1%	4.3%	-2.4%
2019	1.0%	4.3%	4.9%

Note: Nominal income growth includes inflation.

Employment

Table 2 compares the current forecast for nonfarm employment with our previous forecast from June 2016. The new forecast calls for slightly lower growth in employment, given weakness in agriculture and related sectors such as agricultural suppliers. Public sector employment also is impacted by slower growth in tax revenue.

Table 2— Comparison of Non-Farm Employment Forecasts

	June 2016 Forecast	Current Forecast
2015	1.2%	1.0%
2016	1.3%	1.1%
2017	1.2%	1.1%
2018	N/A	1.0%

Construction and Mining

Construction employment has grown rapidly in Nebraska since 2011. Rapid growth will continue through 2019 due to rising real incomes and a significant expansion in public spending.

Residential construction will continue to improve, given employment growth, rising real incomes, faster household formation, and low interest rates. Residential construction will be strongest in the Omaha and Lincoln areas, as poor farm incomes limit demand in rural Nebraska. Commercial development such as new restaurant and office space will proceed given growth in service employment. State and local governments also will expand road construction thanks to an increase in the state gasoline tax and the increase or reallocation of sales tax and other general revenue to road building. There also may be new federal dollars poured into road spending.

The construction sector is expected to add 5,100 jobs over the next three years, with job growth of 3.5% in 2017 and 3.0% in 2018 and 2019.

Manufacturing

The biggest determinants of manufacturing growth in Nebraska from 2017 to 2019 will be low farm incomes, persistent labor shortages, and the outcome of the recent Presidential election. Of these three, the first two factors are relatively straightforward to evaluate. Low farm incomes and skilled labor shortages will limit growth of major portions of the Nebraska manufacturing sector. The primary opportunities will be in processing of agricultural commodities, such as significant planned expansion in the poultry industry.

The impact of the Presidential election is more difficult to evaluate. The return of one-party rule in Washington is likely to increase in federal spending on favored programs, in particular infrastructure and the military. Further, plans to reduce regulation and reform corporate and income taxes should increase capital investment. However, the Nebraska manufacturing industry is not particularly specialized in these sectors. For example, machinery manufacturing in Nebraska is focused on agricultural machinery and equipment.

Table 3—Number of Nonfarm Jobs and Percent Changes by Industry Annual Averages (in thousands of jobs)

	Nonfarm Total	Construction, Mining & Natural Resources	Durables	Non-durables	Wholesale Trade	Retail Trade	Trans-portation and Utilities	Inform-ation	Financial	All Services	Federal Gov't	Local Gov't
2004	921.3	48.4	47.0	54.0	40.8	106.9	48.9	21.1	63.2	330.9	16.5	143.4
2005	934.0	47.8	48.4	52.9	40.6	107.2	52.3	20.2	64.5	339	16.3	144.7
2006	945.5	48.4	49.7	51.8	40.8	106.4	53.4	19.5	66.7	346.9	16.2	145.9
2007	961.7	50.5	50.0	51.4	41.1	107.5	56.2	19.4	68.7	354.6	15.9	146.5
2008	969.5	50.1	49.3	52.1	42	107	56.1	18.7	69.2	361.2	16.1	147.8
2009	949.3	47.1	42.6	50.6	41.2	104.4	52.6	17.5	68.4	356.5	16.5	152
2010	945.1	42.6	41.4	50.3	40.6	103.9	51.3	17.0	68.9	359.4	17.3	152.3
2011	952.6	41.5	42.5	50.9	40.8	104.8	52.2	17.0	70.1	364.7	16.6	151.5
2012	968.8	43.3	44.0	51.0	41.3	105.4	53.0	17.2	71.0	374.2	16.7	151.7
2013	980.4	45.3	45.0	51.5	42	106.3	53.0	17.1	71.7	379.8	16.5	152.4
2014	992.9	47.4	45.9	51.6	42.9	108.2	53.2	17.1	71.9	385.1	16.6	153.0
2015	1,006.3	49.9	45.4	51.9	42.2	109.9	54.6	17.2	71.8	391.9	16.7	154.4
2016	1,016.7	51.7	45.4	52.1	42.1	110.2	55.4	17.0	72.2	398.5	16.7	155.4
Forecast Number												
2017	1,027.8	53.5	45.4	53.1	42.1	110.3	56.1	17.0	72.9	405.2	16.7	155.4
2018	1,039.1	55.1	45.5	53.3	42.1	110.5	57.0	17.1	73.7	412.0	16.7	156.0
2019	1,050.0	56.8	45.5	53.4	42.3	110.6	57.8	17.1	74.3	418.9	16.7	156.7
Forecast Number												
2017	1.1%	3.5%	0.0%	2.0%	0.0%	0.1%	1.3%	0.2%	1.0%	1.7%	0.0%	0.0%
2018	1.1%	3.0%	0.2%	0.3%	0.2%	0.2%	1.5%	0.2%	1.0%	1.7%	0.0%	0.4%
2019	1.0%	3.0%	0.0%	0.1%	0.2%	0.1%	1.5%	0.0%	0.9%	1.7%	0.0%	0.4%

Source: http://data.bls.gov/cgi-bin/dsrv, 2016

The President-Elect's positions on trade and in-migration could have a negative influence on the Nebraska manufacturing sector, given the importance of exporting to the Nebraska manufacturing industry, and the aforementioned labor shortages.

Continued growth in the U.S. economy, however, should be positive for Nebraska manufacturing in general. Further, while recent increases in the value of the dollar and interest rates are concerns for Nebraska's agriculture-based manufacturing businesses, these increases may be short-lived.

There also will be opportunities to grow commodity processing industries in Nebraska, given the state's large and growing agricultural output. Those opportunities may focus on the poultry sector in the coming years, especially given plans for a new poultry processing facility in the state.

Due to the planned plant, non-durable goods manufacturing is projected to add 1,300 jobs during the 2017 to 2019 period. Durable goods manufacturing, however, is expected to add just 300 jobs.

Transportation

After significant job losses during the Great Recession, the Nebraska transportation industry has begun to add employment as the national economy recovers. Job growth is expected to continue in the coming years, particularly in the trucking industry, which is benefiting from lower diesel fuel prices. Nebraska also benefits from the location of Interstate 80 within the state. Challenges in attracting and retaining long-haul truckers, however, will limit job growth in trucking. Further, employment in the rail industry will be under pressure due to the continued decline in coal hauling.

Changes in regulatory policy should be positive for the trucking sector but mixed for rail. Gentler regulation of vehicle pollution and driver schedules should encourage the trucking sector. For rail, reduced regulation on greenhouse gases may slow the decline in coal hauling but approval of new pipeline projects may reduce shipments of oil by rail. Overall, transportation employment will grow by 1.3% to 1.5% per year during the forecast period, the equivalent of 2,400 jobs.

Wholesale Trade

The long-term trend in wholesale trade employment has been flat, as moderate growth in demand has been countered by growth in labor productivity. This trend is expected to continue. Economic growth will not be fast enough in Nebraska to significantly raise wholesale employment, especially with weakness in the agriculture sector. Industry employment will rise by just 200 jobs from 2017 through 2019.

Retail Trade

Given rapidly growing on-line sales and rising labor productivity, strong retail sales growth is required to increase retail employment. Growth in retail sales, as a result, is expected to be limited in Nebraska over the next three years. The issue is weak retail sales in rural Nebraska. Declining income for farmers and individuals who supply the farm sector has limited household purchases in rural areas. The result will be modest growth in retail employment statewide.

Retail employment is expected to grow by just 400 jobs between 2007 and 2009. The growth rate will be 0.1% to 0.2%, depending on the year. These growth rates are consistent with the outlook for retail sales, which is discussed at the end of this report.

Information

The information industry contains a diverse group of businesses including print publishing, broadcast media, data processors, web site designers and telecommunications. There has been substantial labor productivity growth in these industries. Such rising productivity is a positive for the economy but a negative for job growth.

Overall employment is expected to change little in the information industry over the next three years, as employment declines in publishing and legacy telecommunications companies. However, there will be pockets of growth within the industry. The introduction of Allo in Lincoln brings one source of new jobs. More generally, there has been significant growth in access to high-speed internet throughout Nebraska in recent years as the state anticipates growth in occupations such as computer user support specialists, telemarketers and customer service representatives. Overall information industry employment is expected to rise by just 100 jobs cumulatively from 2017 through 2019.

Financial Services

The financial services industry includes finance, insurance, and real estate. While all segments of the industry have experienced slow job growth in the last few years, a rebound is expected for the finance and real estate segments of the industry. Both segments will benefit as the residential and commercial real estate sectors continue to expand. Such growth would be consistent with the expected expansion of construction employment. The financial services industry, which the exception of insurance, also should benefit from a continued low interest rate environment. Overall job growth in the financial services industry will reach 1.0% or 700 jobs in 2017. The rate of employment growth will be 1.0% in 2018 and 0.9% in 2019.

Services

The services industry accounted for an estimated 39% of Nebraska employment in 2016. The large industry contains a diverse group of businesses, including some of the fastest growing parts of the economy such as professional, scientific and technical services. The industry also contains health care, the largest sector in the Nebraska economy as measured by employment, as well as hospitality businesses, encompassing lodging, food services, arts, entertainment, and recreation.

The services industry is also among the fastest growing part of the economy. The largest component of the services industry, health care, is expected to grow solidly from 2017 through 2019, by 1.6% per year.

Aggregate health care employment will benefit from population and income growth and the general aging of the population. Professional and business services will benefit from the steady expansion of commercial activity and from recent growth in Nebraska technology companies. The professional and business services segment is expected to grow by 1.9% per year. A similar rate of job growth is expected for the hospitality segment. Real income growth and lower fuel prices are supporting leisure spending and also driving growth in travel, including along Interstate 80. Overall, services employment will grow by 1.7% per year. This translates into 6,700 net new jobs in 2017, 6,800 in 2018 and 6,900 in 2019. Service sector job growth therefore is expected to account for more than half of overall Nebraska job growth during the forecast period.

Government

The Federal government is expected to avoid significant job cuts over the next few years. Federal employment will be flat from 2017 through 2019.

Job growth also will be limited in state and local government. State government employment will be pressured in Nebraska over the next few years given a large current budget deficit and a preference for tax cuts in the state. These same forces will pressure employment in metropolitan public school districts, a key segment of local government sector which relies on revenue from state government. Rural local governments also will be pressured by weak growth in sales tax revenue and declining values for agricultural land. Shuttering of the Fort Calhoun nuclear power plant also will reduce public power employment. Government employment growth may be further slowed by retirements. There was a significant expansion of government employment in the late 1960s and early 1970s and many of those hired are now reaching retirement age. With improvements in productivity, some retired workers will not be replaced.

State and local government employment will be flat during 2017, as the state begins to address its budget deficit. Growth will be limited in later years as well, with employment growing by just 0.4%, or about 600 to 700 jobs, in 2018 and 2019.

Personal Income

As seen in Table 4, nominal nonfarm income grew by an estimated 3.8% in 2016. This is a solid rate of real growth given 1.2% inflation during the year. Strong growth in real hourly wages was the primary reason for the increase. Real hourly wages will continue to grow from 2017 through 2019, at an estimated 1% per year. Given job growth, inflation and real wage growth, nominal nonfarm income will grow by 4.3% to 4.4% during the forecast period. Forecast growth is slightly higher than in the June 2016 forecast.

Nebraska farm income reached near record levels in 2013 but then dropped sharply in 2014 and 2015 along with crop prices. In 2016, farm income again dropped as crop prices declined further and there was a rapid decline in cattle prices. Commodity prices and farm income are expected to stabilize at current low levels during the forecast period.

Table 4— Comparison of Forecasts for Nominal Income

Nonfarm Income

	June 2016 Forecast	Current Forecast
2016	4.0%	3.8%
2017	4.3%	4.4%
2018	4.2%	4.3%
2019	N/A	4.3%

Farm Income

	June 2016 Forecast	Current Forecast
2016	-8.4%	-16.8%
2017	14.6%	3.8%
2018	-2.6%	-2.4%
2019	N/A	4.9%

Note: Nominal income growth includes inflation.

Nonfarm Personal Income

Table 5 shows forecasts for the major sources of nonfarm income. Annual growth in wage and salary income will range between 4.0% and 4.3%. The increase reflects job growth, inflation, and annual growth in real hourly wages. Recall that expected inflation will range from 2.0% to 2.2% during the forecast period. Real hourly wages will grow due to a tight labor market and job growth in higher wage industries such as construction and transportation. Other labor income (i.e., benefits) will grow somewhat more rapidly given inflation in health care costs.

Table 5—Nonfarm Personal Income and Selected Components and Net Farm Income (USDA) ($ millions)

	Consumer Price Index	Nonfarm Personal Income	Dividends, Interest, & Rent	Total Personal Current Transfer Receipts	Nonfarm Wages & Salaries (Wages & Salaries — Farm Wages)	Other Labor Income	Contributions to Social Insurance	Residential Adjustment	Nonfarm Proprietor Income	Net Farm Income (USDA)
Millions of Dollars										
2004	188.9	$56,198	$10,982	$7,809	$30,841	$7,699	$4,959	-$976	$4,802	$3,584
2005	195.3	$58,374	$11,253	$8,269	$32,064	$8,195	$5,222	-$989	$4,804	$2,972
2006	201.6	$62,133	$12,276	$8,933	$33,864	$8,418	$5,617	-$1,008	$5,266	$2,008
2007	207.3	$65,923	$13,884	$9,424	$35,750	$8,777	$5,843	-$990	$4,921	$2,945
2008	215.3	$69,802	$14,759	$10,591	$37,052	$9,098	$6,029	-$968	$5,300	$3,475
2009	214.5	$68,388	$13,062	$11,057	$36,521	$9,306	$6,045	-$955	$5,442	$2,743
2010	218.1	$70,016	$13,053	$11,866	$37,024	$9,145	$6,220	-$883	$6,032	$3,670
2011	224.9	$74,307	$14,301	$12,102	$38,081	$9,410	$5,695	-$938	$7,046	$7,513
2012	229.6	$79,926	$16,344	$12,205	$39,914	$10,187	$5,861	-$954	$8,092	$4,859
2013	233.0	$79,566	$15,886	$12,359	$40,974	$10,106	$6,735	-$924	$7,899	$7,487
2014	236.7	$83,152	$16,457	$12,800	$42,813	$10,638	$7,108	-$941	$8,493	$6,059
2015	237.0	$87,002	$17,126	$13,236	$44,933	$11,149	$7,421	-$1,001	$8,980	$4,547
2016	239.8	$90,303	$17,298	$13,792	$46,506	$11,551	$7,677	-$1,021	$9,455	$4,052
Forecast Number										
2017	245.0	$94,271	$18,041	$14,330	$48,919	$12,058	$7,976	-$1,049	$9,947	$4,204
2018	249.9	$98,357	$18,853	$14,946	$50,925	$12,565	$8,271	-$1,075	$10,415	$4,104
2019	254.9	$102,586	$19,702	$15,604	$52,986	$13,086	$8,573	-$1,101	$10,883	$4,304
Forecast % (nominal growth)										
2017	2.2%	4.4%	4.3%	3.9%	4.3%	4.4%	3.9%	2.7%	5.2%	3.8%
2018	2.0%	4.3%	4.5%	4.3%	4.1%	4.2%	3.7%	2.5%	4.7%	-2.4%
2019	2.0%	4.3%	4.5%	4.4%	4.0%	4.1%	3.6%	2.4%	4.5%	4.9%

Source: http://www.bea.gov, 2016. Note: Nominal income growth includes inflation.

Proprietor income will grow rapidly during 2017, as is typical during an economic recovery, but the rate of growth will decline as the recovery enters its ninth year in 2018. Dividend, interest, and rent income and transfer payments will rise moderately during the period, given moderate inflation, a healthy economy, and a growing number of "baby-boom" generation workers beginning to receive social security payments.

Farm Income

After reaching near record levels in 2013, farm income dropped sharply in Nebraska in 2014 and 2015. The drop resulted from a steep decline in crop prices. Crop prices dropped further in 2016 and there also was a steep drop in cattle prices during the year. The result was another decline in farm income during 2016, by 16.8%. As of 2016, however, Nebraska farm income will have fully adjusted to the "normalization" of commodity prices.

Commodity prices, and farm income, should stabilize at current low levels during the 2017 to 2019 period. There will be a decline in government payments during the period. In particular, federal agricultural risk coverage program protection levels for revenue are tied to multiple year average yields and prices and will continue to decline through 2018 in response to lower crop prices in recent years. The decline is expected to reduce annual government payments by approximately $500 million between 2016 and 2018. At the same time, in a more stable price environment, agricultural producers will be able to improve operating profits by increasing efficiency.

The net result will be relatively stable farm incomes. The forecast calls for Nebraska farm income to rise by 3.8% in 2016. Farm income will fall by 2.4% in 2018, the year with the sharpest drop in government payments. Annual farm income will then rise by 4.9% in 2019, to $4.3 billion.

Net Taxable Retail Sales

In Table 6, data on net taxable retail sales are divided into motor vehicle sales and non-motor vehicle sales. The distinction is important. Motor vehicle net taxable sales grow over time, but at an uneven rate. Non-motor vehicle taxable sales rise steadily, but are affected by periodic changes to Nebraska's sales tax base. Changes to the base are not anticipated during the forecast period.

From 2017 to 2019, non-motor vehicle taxable sales will growth at a moderate rate. In particular, the rate of growth will be lower than the growth rate of personal income. This will occur due to increased internet sales and as a larger share of income is spent on services which are not subject to the sales tax. Year over year taxable sales will be especially slow between 2016 and 2017, given stagnant growth during 2016. Growth will reach 3.7% in 2018 and 3.8% in 2019.

Steady growth is expected for motor vehicle net taxable sales. Growth in motor vehicle sales will rise with personal income, as relatively low interest rates support durable goods purchases and lower gasoline prices support purchases of larger, more expensive vehicles. Motor vehicle taxable sales are expected to grow by 3.0% in 2017, 4.1% in 2018 and 3.5% in 2019.

Growth in Nebraska vehicle sales and non-motor vehicle taxable sales will combine to produce growth in overall net taxable sales from 2017 to 2019. Overall net taxable sales will grow by 2.9% in 2017. Growth will then rise to 3.8% in 2018 and 2019. All growth rates will exceed the rate of inflation, which will be 2.2% in 2017 before falling back to the Federal Reserve Bank target rate of 2.0% in 2018 and 2019.

Table 6—Net Taxable Retail Sales, Annual Totals ($ millions)

	Consumer Price Index	Total Net Taxable Sales	Motor Vehicle Net Taxable Sales	Non Motor Vehicle Net Taxable Retail Sales
Millions of Dollars				
2004	188.9	$23,618	$2,885	$20,733
2005	195.3	$24,443	$2,751	$21,691
2006	201.6	$24,978	$2,661	$22,317
2007	207.3	$26,237	$2,902	$23,335
2008	215.3	$26,664	$2,943	$23,721
2009	214.5	$25,709	$2,798	$22,911
2010	218.1	$26,683	$3,021	$23,662
2011	224.9	$28,206	$3,287	$24,919
2012	229.6	$29,546	$3.575	$25,970
2013	233.0	$31,064	$3.720	$27,344
2014	236.7	$32,068	$3.894	$28,174
2015	237.0	$32,494	$4.043	$28,450
2016	239.8	$33,021	$4.286	$28,735
Forecast Number				
2017	245.0	$33,983	$4,415	$29,568
2018	249.9	$35,258	$4,596	$30,662
2019	254.9	$36,584	$4,756	$31,827
Forecast % (nominal growth)				
2017	2.2%	2.9%	3.0%	2.9%
2018	2.0%	3.8%	4.1%	3.7%
2019	2.0%	3.8%	3.5%	3.8%

Source: Nebraska Department of Revenue, 2016. Note: Nominal taxable sales growth includes inflation.

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