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Nebraska Snaps Back

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U.S. Macroeconomic Outlook

Real economic growth has improved in the United States during 2017. Business investment has grown with prospects for deregulation and tax reform. The U.S. economy also has benefited from faster economic growth in both Europe and Asia. At the same time, consumer spending has continued to grow at a consistent, moderate pace. The result has been faster, and more balanced, national economic growth.

The pace of economic growth, however, continues to be slowed by weak growth in the labor force. At least four factors are contributing. First, the pace of job growth has been slowed by the ongoing retirement of "baby boom" age workers. Second, the reserve of underutilized workers in the United States economy continues to shrink. Third, there are pockets of skills mismatch in precision production and STEM occupations which limit the ability of employers to fill open positions. Fourth, employers hiring in many occupations face issues with applicant quality which limit hiring, including applicants who frequently change jobs or struggle to pass relevant background checks.

Slow growth in the domestic labor force reinforces the importance of maintaining or even increasing the pace of legal international immigration into the United States. Immigrants can replace retiring baby boom generation worker. Further, immigrants sometimes have training and experience in precision production or STEM occupations.

The maintenance and expansion of trade agreements also would be helpful to lock in recent improvements in manufacturing activity. The competitiveness of U.S. manufacturing will further improve as a result of deregulation and tax reform. Competitive U.S. firms in many cases will thrive in global markets, especially if firms are able to maintain their international supply chain. Free trade also will continue to raise the standard of living.

Entitlement reform is another policy which could enhance growth in the U.S. economy. Economic confidence would benefit from reform of the federal government's two main entitlement programs, social security and Medicare. Economic growth also will be influenced by other decisions on how to allocate federal spending.

The outlook calls for improved GDP growth, continued employment growth and moderate inflation. Real GDP is expected to grow by 2.8% in 2018 and 2.7% in 2019 and 2020. U.S. job growth will follow a different pattern, falling as the reserve of discouraged workers dwindles, and as issues with skills mismatch and worker quality persist. Job growth will hit 1.3% in 2018, before decelerating to 1.2% in 2019 and 1.1% in 2020. Improvements in employment will keep the unemployment rate low but will spark only a moderate increases in real wages. Limited wage inflation, high global capacity in commodity industries, and new technologies will ensure that the rate of inflation remains below the Federal Reserve Bank's target rate of 2.0%. The inflation rate will reach 1.8% in 2018, 1.7% in 2019 and 1.6% in 2020.

Nebraska Outlook

Nebraska will fully participate in stronger U.S. economic growth. While the farming sector will continue to face challenges, farm income will rise slightly during the forecast period, and consequently, will no longer detract from Nebraska economic growth. Nebraska will match U.S. job growth, with job growth particularly strong in services, construction, and retail trade. The agricultural processing sector also will expand employment. Projected growth rates for 2018 through 2020 are presented in Table 1.

Employment will grow by 1.1% to 1.2% per year, matching the national job growth rate in 2019 and 2020. Nonfarm income will grow between 3.9% and 4.0% each year. This growth is sufficient to exceed inflation and population growth, implying growth in real per capita income from 2018 through 2020.

Table 1— Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income (nominal)	Net Farm Income (nominal)
2017	1.0%	2.6%	5.5%
2018	1.1%	3.9%	5.9%
2019	1.2%	4.0%	0.6%
2020	1.1%	3.9%	0.0%

Note: Nominal income growth includes inflation.

Employment

Table 2 compares the current forecast for nonfarm employment with our previous forecast from June 2017. The new forecast is very similar to the previous forecast, with both projecting steady and moderate growth in employment. The only notable difference is that the new forecast calls for even faster employment growth in 2019, due to an improved outlook for the services sector. The new forecast also projects that employment growth will remain solid during the year 2020.

Table 2— Comparison of Non-Farm Employment Forecasts

	June 2017 Forecast	Current Forecast
2017	1.1%	1.0%
2018	1.1%	1.1%
2019	1.0%	1.2%
2020	N/A	1.1%

Construction and Mining

Over the next three years the Nebraska construction sector will benefit from population and household growth, rising real income, low interest rates and a growing services, finance and retail sector. These factors will combine to support the simultaneous expansion of residential and construction activity. Residential construction will be strongest in the Omaha and Lincoln areas, although residential construction activity may grow in select rural communities which actively promote housing development. New commercial development will accompany residential growth. State and local governments also will expand road construction thanks to an increase in the state gasoline tax and the reallocation of sales tax and other general revenue to road building. The construction sector is expected to add 4,000 jobs over the next three years, with job growth of 3.0% in 2018, 2.5% in 2019 and 2.0% in 2020.

Manufacturing

In the Nebraska manufacturing sector, job growth has diverged over the last 5 years between the durable goods and non-durable segments. Employment has declined in the durable goods sector, which includes agricultural equipment and machinery, transportation equipment and parts, primary metals manufacturing and machine shops. The decline has been led by falling demand from agricultural producers, restructuring in the transportation sector, and rapid growth in labor productivity. The non-durable goods sector, by contrast, has added employment, largely due to the expansion of agricultural processing businesses.

These trends are expected to continue. Nebraska's durable goods sector will continue to face weak demand as a result of moderate farm income. Demand is expected to improve only modestly, as farmers and ranchers need to replace aging equipment. Importantly, Nebraska manufacturers are not expected to benefit much from the improvement in business investment, since the state's sector specializes in producing agricultural machines 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
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	961.6	50.5	50.0	51.4	41.1	107.5	56.2	19.8	68.7	354.6	15.9	146.5
2008	969.4	50.1	49.3	52.1	42	107	56.1	19.1	69.2	361.2	16.1	147.8
2009	949.7	47.6	42.6	50.6	41.2	104.4	52.6	17.9	68.4	356.5	16.5	152
2010	945.0	42.6	41.4	50.3	40.6	103.9	51.3	17.5	68.9	359.4	17.3	152.3
2011	952.6	41.5	42.5	50.9	40.8	104.8	52.2	17.6	70.1	364.7	16.6	151.5
2012	968.7	43.3	44.0	51.0	41.3	105.4	53.0	17.8	71.0	374.2	16.7	151.7
2013	980.3	45.3	45.0	51.5	42	106.3	53.0	17.7	71.7	379.1	16.5	152.4
2014	992.8	47.4	45.9	51.6	42.9	108.2	53.2	17.8	71.9	384.3	16.6	153.0
2015	1,006.5	50.0	45.4	52.0	42.4	109.7	54.6	18.3	71.9	391.2	16.6	154.4
2016	1,015.0	51.6	44.0	52.8	42.0	110.8	52.2	18.5	73.4	397.6	16.7	155.4
2017	1,025.0	52.1	42.7	54.8	41.9	111.9	51.9	18.8	74.6	404.4	16.8	155.1
Forecast Number												
2018	1,036.6	53.7	42.5	55.0	42.0	112.7	51.9	19.0	75.5	412.0	16.9	155.5
2019	1,048.8	55.0	42.5	56.1	42.1	113.4	52.2	19.1	76.1	419.0	17.0	156.5
2020	1,059.9	56.1	42.3	56.3	42.1	114.0	52.4	19.1	76.7	425.8	17.7	157.4
Forecast Number												
2018	1.1%	3.0%	-0.5%	0.3%	0.2%	0.7%	0.0%	1.0%	1.2%	1.9%	0.5%	0.1%
2019	1.2%	2.5%	0.0%	2.0%	0.2%	0.6%	0.5%	0.5%	0.8%	1.7%	0.5%	0.4%
2020	1.1%	3.0%	-0.5%	0.5%	0.0%	0.6%	0.5%	0.0%	0.8%	1.6%	4.5%	0.4%

Source: http://data.bls.gov/cgi-bin/dsrv, 2017

At the same time, new investments are anticipated in agricultural processing business. For example, the poultry industry is expanding in Nebraska. Industry growth, however, will lead to limited employment increases, due to continuous growth in labor productivity manufacturing.

Further, given continuous pressure to upgrade worker skill, the manufacturing sector faces ongoing challenges from a lack of skilled workers. Some manufacturing businesses curtail hiring and investment due to this skills gap. For facilities located in rural areas, limited housing availability also is impacting the ability to recruit professionals needed to operate manufacturing plants.

Non-durable goods manufacturing is expected to add 1,500 jobs between 2018 and 2020. Non-durable manufacturing employment is expected to grow by 0.3% in 2018, 2.0% in 2019 (with the opening of the Lincoln Poultry (Costco) facility in Fremont, Nebraska), and 0.5% in 2020. Durable goods manufacturing will shed 400 jobs, with a job loss of 0.5% in 2018, no change in employment in 2019 and another 0.5% loss in 2020.

Transportation and Warehousing

Little employment growth is expected in the Nebraska transportation and warehousing industry. A growing national economy should benefit the industry; however, transportation also faces several challenges. The rail sector is under pressure due to weak demand for coal hauling as the electric utility industry shifts away from coal-fired power plants. The trucking sector faces labor shortages. In particular, the long haul trucking sector has had difficulty recruiting new drivers. Transportation and warehousing employment is expected to remain unchanged in the 2018. Employment growth will hit 0.5% in 2019 and 2020. Cumutively, the industry will add just 500 jobs over the forecast period.

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 limited growth in the agriculture sector. Industry employment will rise by just 200 jobs from 2018 through 2020.

Retail Trade

Given rapidly growing on-line sales and rising labor productivity, strong retail sales growth is required to increase retail employment. Fortunately, retail sales are expected to rise in Nebraska over the next three years. Retail sales will rise given rising population, employment and household income. However, growth in sales will be limited in rural areas due to slow growth in agricultural income.

Retail employment is expected to grow by 2,100 jobs cumulatively between 2018 and 2020. Job growth rate will roughly mirror the population growth rate for the state. Retail employment will grow by 0.7% in 2018 and 0.6% during 2019 and 2020. The outlook for retail sales is discussed at the end of this report.

Information

The information industry contains a diverse group of businesses including print publishing, broadcast media, data processing, web site design and telecommunications. There has been substantial labor productivity growth in all of these industries. Such rising productivity is a positive for the economy but a negative for job growth. High productivity also makes information a relatively high wage industry.

The high-wage information industry has added jobs over the last three years, and there will continue to 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 add 100 jobs per year on average from 2018 through 2020.

Financial Services

The financial services industry includes finance, insurance, and real estate. The finance and real estate segments have expanded with the economy over the last few years. These patterns are expected to continue as a growing Nebraska population and business community demands more financial services. Further, the financial services industry, which the exception of insurance, also should benefit from continued low interest rates. Finally, deregulation of the financial sector should help the industry expand in the coming years.

Growth will be more limited in the insurance sector. Insurance carriers are a major employer in Nebraska, and benefit from the state’s skilled labor force. Insurance carrier employment, however, is expected to be flat due to competitive pressures facing the industry. Insurance offices, however, should add employment like their counterparts in finance and real estate. Overall, the financial services industry will add between 600 to 900 jobs per year. The rate of growth will be 1.2% in 2018 and fall to 0.8% in 2019 and 2020.

Services

The services industry accounted for an estimated 39% of Nebraska employment in 2017. 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, which encompasses 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 by 1.3% to 1.5% per year. Aggregate health care employment will benefit from population and income growth and the general aging of the population, but restructuring in the hospital sector will limit overall growth.

Professional and business services will benefit from the steady expansion of commercial activity and the expansion of Nebraska technology companies. The professional and business services segment is expected to grow by nearly 2.0% 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. For the same reasons, the personal services sector will also add employment. Overall, services employment will grow by 1.6% to 1.9% per year. Growth will be slightly faster in 2018 due to rising farm and non-farm incomes. This translates into between 6,800 and 7,600 net new jobs per year. Service sector job growth therefore will account for more than half of overall Nebraska job growth.

Government

Little change is expected in Federal government employment through 2019. In 2020, however, Federal employment will rise by 700 jobs due to the decennial census.

State and local government job growth is expected to return to long-term trends during the forecast period. State government employment has been pressured in recent years due to a large state budget deficit. These same forces also pressure employment in metropolitan public school districts, a key segment of local government employment which relies on revenue from state government. Rural local governments also have been challenged by weak growth in sales tax revenue and declining values for agricultural land.

Conditions should begin to improve in 2018, as farm income improves. State and local government employment will grow by 0.3% during 2018. Growth will improve to 0.6% in 2019 and 2020, which is close to the annual rate of population growth. However, stronger growth is not expected even as state budget conditions improve in 2019 and 2020. This is due to rising retirements among government employees. 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.

Personal Income

As seen in Table 4, nominal nonfarm income grew by an estimated 2.6% in 2017. Slow growth in real hourly wages was the primary reason for the weak increase. Real hourly wages are expected to grow somewhat more rapidly, by 0.7%, during the forecast period. Growing real wages, modest inflation and job growth will push nominal nonfarm income up by 3.9% to 4.0% per year from 2018 to 2020. Forecasts for 2018 and 2019 are somewhat below those made during the last forecast, in June 2017, due to lower inflation expectations.

Nebraska farm income reached near record levels in 2013 but dropped sharply from 2014 to 2016 along with commodity prices. Farm income began to recover in 2017 as commodity prices stabilized. Growth in farm income will be modest, however, as crop prices are not expected to rise and farm income is expected to be essentially flat in 2019 and 2020. Relative to the last forecast in June 2017, the current forecast reflects a somewhat earlier recovery in farm income.

Table 4— Comparison of Forecasts for Nominal Income

Nonfarm Income	June 2017 Forecast	Current Forecast
2017	3.8%	2.6%
2018	4.1%	3.9%
2019	4.2%	4.0%
2020	N/A	3.9%

Farm Income	June 2017 Forecast	Current Forecast
2017	-15.8%	5.5%
2018	3.9%	5.9%
2019	7.1%	0.6%
2020	N/A	0.0%

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 3.6% and 3.7%, given moderate inflation, job growth and real wage growth. Despite low unemployment, growth in real hourly wages will be modest due to a highly competitive business environment. Following the recent pattern, other labor income (i.e., benefits) will grow at the same rate as wage income.

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										
2005	195.3	$57,244	$11,261	$8,269	$32,064	$8,195	$5,222	-$989	$3,666	$2,972
2006	201.6	$61,300	$12,287	$8,933	$33,864	$8,418	$5,617	-$1,008	$4,422	$2,008
2007	207.3	$65,241	$13,898	$9,424	$35,786	$8,777	$5,843	-$990	$4,189	$2,945
2008	215.3	$69,161	$14,781	$10,591	$37,091	$9,098	$6,029	-$968	$4,597	$3,485
2009	214.5	$68,421	$13,083	$11,057	$36,554	$9,306	$6,045	-$955	$5,420	$2,752
2010	218.1	$70,957	$13,078	$11,866	$37,052	$9,186	$6,262	-$883	$6,920	$3,683
2011	224.9	$76,259	$14,309	$12,102	$38,103	$9,441	$5,727	-$938	$8,968	$7,492
2012	229.6	$80,872	$16,366	$12,205	$39,943	$10,217	$5,891	-$954	$8,985	$4,898
2013	233.0	$79,052	$15,237	$12,363	$41,020	$10,137	$6,754	-$922	$7,972	$7,456
2014	236.7	$85,331	$16,636	$12,851	$42,894	$10,809	$7,093	-$898	$10,132	$5,813
2015	237.0	$88,674	$17,598	$13,482	$45,168	$10,795	$7,381	-$974	$9,987	$4,777
2016	240.0	$90,874	$17,729	$13,932	$46,384	$11,320	$7,590	-$1,015	$10,113	$3,780
2017	245.1	$93,205	$18,108	$14,384	$47,312	$11,740	$7,832	-$1,039	$10,533	$3,989
Forecast Number										
2018	249.5	$96,846	$18,832	$14,930	$49,034	$12,169	$8,094	-$1,064	$11,038	$4,225
2019	253.7	$100,738	$19,623	$15,527	$50,836	$12,618	$8,366	-$1,090	$11,590	$4,252
2020	257.8	$104,678	$20,369	$16,179	$52,646	$13,069	$8,639	-$1,116	$12,170	$4,253
Forecast % (nominal growth)										
2018	1.8%	3.9%	4.0%	3.8%	3.6%	3.7%	3.3%	2.4%	4.8%	5.9%
2019	1.7%	4.0%	4.2%	4.0%	3.7%	3.7%	3.4%	2.5%	5.0%	0.6%
2020	1.6%	3.9%	3.8%	4.2%	3.6%	3.6%	3.3%	2.4%	5.0%	0.0%

Source: http://www.bea.gov, 2017. Note: Nominal income growth includes inflation.

Modest growth is expected in dividend, interest, and rent income as interest rates rise slowly and dividends trend up. There will be similar growth in transfer payments as a growing number of "baby-boom" generation workers begin to receive social security payments. Proprietor income will grow at a solid, but not spectacular pace, as the economic recovery stretches into its ninth year in 2018.

Farm Income

After reaching near record levels in 2013, farm income dropped sharply in Nebraska through 2016. The drop resulted from a steep decline in crop prices, and in 2016, a steep drop in cattle prices.

Farm income begin to stabilize in 2017. Crop and livestock prices ended their sharp decline. In addition, 2017 was another year for strong yields. More generally, entrepreneurial Nebraska farmers found ways to reduce costs and expand revenue. The 5.5% increase in farm income added $209 million to the Nebraska economy.

Farm income is expected to rise modestly during the 2018 to 2020 period. Once again, improvements in farm income will depend on the skill of farmers and ranchers to lower costs and find new revenue. Crop and livestock prices are not expected to rise substantially during the period. Farmers also will need to contend with a drop in federal price supports from the Agricultural Risk Coverage and Price Loss Coverage programs. Revenue and price support levels in these programs are based on a rolling average of past prices and yields, and therefore will decline over time as the industry moves further from the peak prices of 2011 through 2013.

Farm income is expected to rise by 5.9% in 2018 before stabilizing. Farm income will rise by 0.6% in 2019, with no change anticipated for 2020.

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 in step with Nebraska income, but are affected by periodic changes to Nebraska's sales tax base. Changes to the base are not anticipated during the forecast period.

In 2018, there will be stronger growth in non-motor vehicle taxable sales. With farm incomes rising in 2018, combined farm and non-farm income growth will be stronger. Non-motor vehicle sales tax collections will rise by 4.3% in 2018. In 2019 and 2020, sales tax revenue will grow less rapidly than income. This has been the typical pattern given that an ever larger share of income is being spent on services not subject to the sales tax.

Somewhat slower 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. However, the growth of vehicle purchases is slowing across the country as many older vehicles have been replaced in recent years.

Growth in Nebraska vehicle sales and non-motor vehicle taxable sales will combine to produce growth in overall net taxable sales from 2018 to 2020. Overall net taxable sales will grow by 4.2% in 2018. Growth will then fall to 3.2% in 2019 and 3.5% in 2020. All growth rates will exceed the rate of inflation, which will be 1.8% in 2018, 1.7% in 2019, and 1.6% in 2020. All rates are below the Federal Reserve Bank target rate of 2.0%.

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				
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	240.0	$33,218	$4,048	$29,170
2017	245.1	$33,894	$4,170	$29,724
Forecast Number				
2018	249.5	$35,305	$4,303	$31,002
2019	253.7	$36,448	$4,454	$31,994
2020	257.8	$37,733	$4,619	$33,114
Forecast % (nominal growth)				
2018	1.8%	4.2%	3.2%	4.3%
2019	1.7%	3.2%	3.5%	3.2%
2020	1.6%	3.5%	3.7%	3.5%

Source: Nebraska Department of Revenue, 2017. Note: Nominal taxable sales growth includes inflation.

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