


Spring 2-2019

Trends and Tariffs: Nebraska in an Aging Recovery

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Thompson, Eric, "Trends and Tariffs: Nebraska in an Aging Recovery" (2019). *Business in Nebraska*. 171.
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Business in Nebraska

VOLUME 73, NO. 723

PRESENTED BY THE UNL BUREAU OF BUSINESS RESEARCH (BBR)

FEBRUARY 2019

TRENDS AND TARIFFS: NEBRASKA IN AN AGING RECOVERY

By the Bureau of Business Research and the Nebraska Business Forecast Council

U.S. Macroeconomic Outlook

Real economic growth has accelerated in the United States in 2018. The economy benefited from improved business investment, as a result of reduced regulation and the 2017 tax reform. The tax reform also contributed to strong growth in consumer spending. Both developments benefited the industrial sector, with resulting increases in manufacturing employment. Economic growth also benefited from both low energy prices and low interest rates.

A key question is whether strong growth will continue during 2019. Tax reform and deregulation should continue to benefit the economy, and energy prices and interest rates will remain low. There are, however, signs of moderation in some corners of the economy. Consumer spending may be impacted by slower growth, or even decline, in household asset prices. Both stock prices and housing prices grew rapidly in early 2018, but eroded towards the end of 2018.

Other factors may limit growth in business investment. First, a stronger U.S. dollar increases competitive pressure on U.S. business which export, including agricultural and manufacturing businesses. Second, slower growth in China and Europe may limit growth in U.S. exports. If business activity is expected to slow, investment will slow along with it. Lastly, uncertainty regarding trade policy could limit investment until trade frictions are resolved, and perhaps beyond.

The U.S. economy also faces a number of long-term challenges which limit economic growth. First, labor force growth has been slowed by the ongoing retirement of “baby boom” age workers and challenges with labor force quality, including a skills mismatch. Second, sharp increases in federal government spending last year could limit confidence in the economy, especially given the unmet need to reform social programs such as Social Security and Medicare. These fiscal concerns could limit the ability to sustain recent tax cuts.

These challenges suggest that the pace of economic growth may slow, from its recent torrid pace, in 2019 and beyond. Real GDP is expected to grow by 2.7% in 2019, 2.2% in 2020 and 2.2% in 2021. While economic growth is expected to slow during 2020, the economy is unlikely to fall into recession.

National job growth will reach 1.4% in 2019, 1.0% in 2020 and 1.0% in 2021. The pattern of growth follows expectations for growth in GDP. During the period, stronger wage growth and additional opportunities in manufacturing should draw some workers back into the labor force.

The inflation rate will remain subdued at or below the Federal Reserve Bank’s target rate of 2.0%. The specific expectation is that the inflation rate will reach 2.0% in 2019, 1.8% in 2020 and 1.8% in 2021. The Federal Reserve Bank will raise interest rates further during 2019 but increases may not resume until the second half of the year

Nebraska Outlook

Nebraska will record solid economic growth during the forecast period but will lag U.S. growth. Nebraska's large farming sector is struggling and will not contribute much to economic growth during the forecast period. Job growth also will be sluggish in transportation and retail trade. Job growth, however, will be stronger in the services, finance, manufacturing and construction. Projected growth rates for 2019 to 2021 are presented in Table 1.

Employment will grow by 0.7% to 0.9% per year, below the national rate. Nonfarm income will grow between 4.4% and 4.5% each year. This growth readily exceeds inflation and population growth, implying growth in real per capita income in Nebraska from 2019 through 2021. Improved income growth reflects expectations for faster hourly wage growth.

Table 1— Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income (nominal)	Net Farm Income (nominal)
2018	0.6%	3.9%	-27.3%
2019	0.9%	4.5%	25.0%
2020	0.8%	4.4%	4.3%
2021	0.7%	4.4%	1.2%

Note: Nominal income growth includes inflation.

Employment

Table 2 compares the current forecast for nonfarm employment with our previous forecast from June 2018. Forecast job growth is weaker than in the previous forecast, primarily due to anticipated job losses in both the transportation and retail trade industries. Growth in transportation employment will be limited by labor shortages in the long haul trucking industry. The retail trade industry continues to restructure given increased on-line competition.

Table 2— Comparison of Non-Farm Employment Forecasts

	June 2018 Forecast	Current Forecast
2018	0.8%	0.6%
2019	1.0%	0.9%
2020	1.0%	0.8%
2021	N/A	0.7%

Construction and Mining

Over the next three years the Nebraska construction industry will benefit from population and household growth, rising real income, low interest rates and a growing business sector. Growth will be sustained in the services and financial sector throughout the three year period but will slow in the industrial sector. Residential construction will be strongest in the Omaha and Lincoln areas, and in more rapidly growing micropolitan areas such as Kearney, Grand Island, Columbus and Fremont. Workforce housing initiatives by local governments and the state of Nebraska also will spur residential construction in micropolitan areas. Commercial activity will include new office space for service and financial sector employees and space to accompany new residential developments. Industrial activity will include new factories, fulfillment centers and specialized buildings such as data centers. State and local governments also will expand road construction thanks to recent increases in the state gasoline tax, local taxes devoted to road building and the reallocation of sales tax revenue to roads. The construction sector is expected to add 3,600 jobs over the next three years, with job growth at 2.5% in 2019, 2.2% in 2020 and 2.0% in 2021.

Manufacturing

Preliminary numbers indicate strong manufacturing employment growth in Nebraska during 2018 and a return to near pre-recession levels. This growth is expected to continue into 2019 as investment decisions made in 2017 and 2018 come online.

However, there are several headwinds that will slow growth later in 2019 and into 2020. Globally, uncertainty related to trade negotiations, the outcome of Brexit, a strong dollar, and a general overall slowing of major economies will be a drag on the US and Nebraska economies. Nationally, high levels of business investment is starting to slow and the agricultural sector has been hard hit by the strong dollar and tariffs. In Nebraska, weak commodity prices, lower than expected farm incomes, and a glut of ethanol are major concerns. Each of these factors will contribute to the decline in manufacturing growth in late 2019 and 2020. The pace of growth, however, should improve in 2021.

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
2006	945.5	48.4	49.7	51.8	40.8	106.4	53.4	19.9	66.7	346.5	16.2	145.9
2007	961.6	50.5	50	51.4	41.1	107.5	56.2	19.8	68.7	354.1	15.9	146.5
2008	969.4	50.1	49.3	52.1	42.0	107.0	56.1	19.1	69.2	360.7	16.1	147.8
2009	949.7	47.6	42.6	50.6	41.2	104.4	52.6	17.9	68.4	355.9	16.5	152
2010	945.0	42.6	41.4	50.3	40.6	103.9	51.3	17.5	68.9	358.8	17.3	152.3
2011	952.6	41.5	42.5	50.9	40.8	104.8	52.2	17.6	70.1	364.1	16.6	151.5
2012	968.7	43.3	44.0	51.0	41.3	105.4	53.0	17.8	71.0	373.5	16.7	151.7
2013	980.3	45.3	45.0	51.5	42.0	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
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	1,015.1	51.6	44.0	52.9	41.7	110.3	52.2	18.5	73.2	397.6	16.7	156.2
2017	1,017.6	51.8	43.9	54.2	40.9	109.2	52.7	18.2	74.0	400.1	16.8	155.9
2018	1,023.4	52.8	44.8	55.2	40.4	108.2	53.3	17.7	74.0	404.4	16.8	155.8
Forecast Number												
2019	1,033.0	54.1	45.0	56.3	40.2	107.9	53.0	17.6	74.7	410.5	16.8	156.8
2020	1,040.8	55.3	45.1	56.4	40.0	107.7	52.0	17.7	75.8	416.2	17.3	157.3
2021	1,048.3	56.4	45.3	57.0	39.8	107.3	52.1	17.6	76.9	421.6	16.5	157.8
Forecast Number												
2019	0.9%	2.5%	0.5%	2.0%	-0.5%	-0.3%	-0.6%	-0.5%	0.9%	1.5%	0.0%	0.7%
2020	0.8%	2.2%	0.1%	0.2%	-0.5%	-0.2%	-1.8%	0.5%	1.5%	1.4%	2.5%	0.3%
2021	0.7%	2.0%	0.5%	1.0%	-0.5%	-0.3%	0.1%	-0.5%	1.4%	1.3%	-4.5%	0.3%

Source: <http://data.bls.gov/cgi-bin/dsrv>, 2019

Throughout the forecast period, workforce skill shortages will continue to be a major impediments to faster growth in Nebraska’s manufacturing sector. Skill shortages in part reflect continuous pressure to upgrade worker skill in manufacturing. Poor work history can be another concern with employers reluctant to hire and invest in workers who frequently change jobs. Another issue is applicants who cannot pass all relevant background checks. Some manufacturing businesses curtail hiring and investment due to these skills gaps. 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 1,800 jobs between 2019 and 2021. Non-durable manufacturing employment is expected to grow by 2.0% in 2019 with the opening of the Lincoln Poultry (Costco) facility in Fremont,

Nebraska). Durable goods manufacturing will add 500 jobs during the three years, with most job growth occurring in 2019 and 2021.

Transportation and Warehousing

The Nebraska transportation and warehousing industry is expected to shed jobs during the forecast period. The industry added a few hundred jobs during 2018, given a strong industrial sector. However, job loss will return as the manufacturing sector slows in late 2019 and 2020. The industry also faces several long-term challenges. The rail sector is impacted by the shift away from coal in electric power generation. At the same time, the long haul trucking industry faces on going challenges with recruiting new drivers. Transportation and warehousing employment is expected to lose 300 jobs during 2019, and losses will accelerate to 1,000 jobs in 2020 as the manufacturing sector slows in Nebraska and around the nation. Employment will stabilize in 2021.

Wholesale Trade

Wholesale trade employment has trended down in recent years in Nebraska as rising labor productivity has outpaced demand growth. Another factor has been commodity prices and other challenges for Nebraska's agricultural sector. Agriculture is an important customer for our state's wholesale trade industry. These trends are expected to continue throughout the forecast period. Industry employment will fall by 200 jobs per year for an annual job loss of 0.5%.

Retail Trade

Given rapidly growing on-line sales and rising labor productivity, strong growth in retail sales is required to increase retail employment. Retail sales will rise in Nebraska during the forecast period given rising population, employment and household income. However, the rate of growth will not be sufficient to significantly increase retail employment. Growth will be especially challenged with the closure of department stores in Nebraska. Further, scarce labor in the state will further encourage stores to adopt labor saving technologies.

Retail employment is expected to fall by 900 jobs cumulatively between 2019 and 2021. Employment will be drop by 0.3% in 2019, 0.2% during 2020 and by 0.3% during 2021. 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 and industry wages but is negative for information industry job growth.

Employment dropped in the high-wage information industry by 300 in 2017 and by 500 jobs in 2018. However, industry employment is expected to be steady during the forecast period. In particular, employment growth is anticipated for the information technology-oriented segments of the industry. Employment will drop by just 100 cumulatively between 2019 and 2021.

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, with 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 700 to 1,100 jobs per year. The rate of growth will be 0.9% in 2019, 1.5% in 2020 and 1.4% in 2021.

Services

The services industry accounted for 40% of Nebraska employment in 2018. The large industry contains a diverse group of businesses, including the fast growing professional, scientific and technical services sector. 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 also includes personal services, such as barbers, carwashes and repair.

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 1.0% to 1.1% per year. Aggregate health care employment will benefit from population and income growth and the general aging of the population. However, restructuring in the hospital sector will limit overall growth in health care employment.

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 1.7% to 1.9% per year. A similar rate of job growth is expected for the hospitality segment as real income growth supports restaurant and other leisure spending. Overall, services employment will grow by 1.3% to 1.5% per year. The pace of growth, however, will slow somewhat over the forecast period, as aggregate economic growth tapers. The services sector will add between 5,400 and 6,100 net new jobs each year and will account for more than half of overall Nebraska job growth.

Government

No growth is expected in Federal government employment in Nebraska during 2019. However, Federal employment will rise during 2020 due to the decennial census. Employment will drop in 2021 after the census is complete.

A need to hire in some agencies will allow 0.7% growth in state and local government jobs in Nebraska during 2019. However, growth is expected to fall below the rate of population growth in (0.7% per year) during 2020 and 2021. State government employment will continue to be pressured by tight budgets. Further, rising retirements among state government employees create an opportunity to restrain employment. 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.

These same forces also pressure employment in local government. However, there will be pressure to hire teachers in metropolitan school districts, given growth in the school-age population. Rural local governments will continue to be challenged by weak growth in sales tax revenue and declining values for agricultural land. State and local government employment will grow by 0.7% during 2019 and by 0.3% in 2020 and 2021. There will be a cumulative increase of 2,000 jobs during the forecast period.

Personal Income

As seen in Table 4, nominal nonfarm income grew by an estimated 3.9% in 2018. Employment growth was modest during the year but there was solid growth in hourly wages. Looking forward, employment growth is expected to improve during the forecast period to 0.7% – 0.9% while hourly wage growth is expected to remain solid. Nominal nonfarm income will grow by 4.4% per year from 2019 to 2021. Forecast growth is stronger than in the last forecast, from June 2018, due to improved expectations for hourly wage growth.

Nebraska farm income reached near record levels in 2013 but dropped sharply from 2014 to 2017 along with commodity prices. Farm income declined further in 2018 as trade frictions led to a further drop in select agricultural commodity prices. However, farm income will bounce back in 2019 as trade frictions are resolved. There also will be increased government payments under the new farm bill. After the improvement in 2019, further growth in farm income will be limited since crop prices are not expected to rise. Farm income is expected to grow modestly in 2020 and 2021.

Table 4— Comparison of Forecasts for Nominal Income

Nonfarm Income			
	June 2018 Forecast	Current Forecast	
2018	3.8%	3.9%	
2019	3.6%	4.5%	
2020	3.7%	4.4%	
2021	N/A	4.4%	
Farm Income			
	June 2018 Forecast	Current Forecast	
2018	-6.7%	-27.3%	
2019	5.5%	25.0%	
2020	5.7%	4.3%	
2021	N/A	1.2%	

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 be 3.9% to 4.3% given moderate inflation and job growth and solid wage growth. Wage growth will peak in 2020. Following the recent pattern, other labor income (i.e., benefits) will grow at similar rate as wage income.

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

				Total						
	Consumer	Nonfarm	Dividends,	Personal	Nonfarm	Other	Contributions		Nonfarm	Net Farm
	Price	Personal	Interest,	Current	Wages & Salaries	Labor	to Social	Residential	Proprietor	Income
	Index	Income	& Rent	Transfer	(Wages & Salaries	Income	Insurance	Adjustment	Income	(USDA)
				Receipts	— Farm Wages)					
Millions of Dollars										
2006	201.6	\$61,957	\$12,785	\$8,933	\$33,864	\$8,391	\$5,617	-\$856	\$4,458	\$2,008
2007	207.3	\$65,776	\$14,404	\$9,421	\$35,750	\$8,757	\$5,847	-\$947	\$4,238	\$2,945
2008	215.3	\$69,377	\$15,337	\$10,582	\$37,057	\$9,063	\$6,044	-\$979	\$4,362	\$3,485
2009	214.5	\$68,515	\$13,601	\$11,053	\$36,495	\$9,256	\$6,055	-\$957	\$5,121	\$2,752
2010	218.1	\$71,672	\$13,667	\$11,868	\$36,991	\$9,122	\$6,269	-\$898	\$7,190	\$3,682
2011	224.9	\$77,073	\$14,951	\$12,092	\$38,043	\$9,374	\$5,733	-\$963	\$9,308	\$7,492
2012	229.6	\$81,556	\$16,754	\$12,184	\$39,902	\$10,140	\$5,899	-\$999	\$9,473	\$4,898
2013	233.0	\$79,936	\$15,823	\$12,334	\$40,964	\$10,205	\$6,761	-\$969	\$8,339	\$7,456
2014	236.7	\$86,097	\$17,230	\$12,825	\$42,843	\$10,872	\$7,099	-\$937	\$10,364	\$5,813
2015	237.0	\$90,247	\$18,463	\$13,458	\$45,108	\$10,855	\$7,389	-\$1,008	\$10,759	\$4,758
2016	240.0	\$90,844	\$18,969	\$14,002	\$46,227	\$11,331	\$7,510	-\$1,062	\$8,887	\$3,836
2017	245.1	\$94,039	\$19,771	\$14,550	\$47,765	\$11,820	\$7,865	-\$1,145	\$9,144	\$2,686
2018	251.1	\$97,702	\$20,624	\$15,214	\$49,378	\$12,144	\$8,191	-\$1,182	\$9,715	\$1,954
Forecast Number										
2019	256.1	\$102,090	\$21,759	\$16,005	\$51,369	\$12,629	\$8,499	-\$1,227	\$10,055	\$2,442
2020	260.7	\$106,627	\$22,912	\$16,805	\$53,556	\$13,162	\$8,837	-\$1,277	\$10,306	\$2,547
2021	265.4	\$111,272	\$24,149	\$17,662	\$55,656	\$13,674	\$9,159	-\$1,325	\$10,616	\$2,577
Forecast % (nominal growth)										
2019	2.0%	4.5%	5.5%	5.2%	4.0%	4.0%	3.8%	3.8%	3.5%	25.0%
2020	1.8%	4.4%	5.3%	5.0%	4.3%	4.2%	4.0%	4.1%	2.5%	4.3%
2021	1.8%	4.4%	5.4%	5.1%	3.9%	3.9%	3.6%	3.7%	3.0%	1.2%

Source: <http://www.bea.gov>, 2019. Note: Nominal income growth includes inflation.

Solid growth is expected in dividend, interest, and rent income as stock dividends trend up. There will be even faster growth in transfer payments as an increasing number of “baby-boomers” begin to receive social security payments. Proprietor income will grow at a slower rate since business profits typically grow at a slower pace in the late business cycle.

Farm Income

After reaching near record levels in 2013, farm income dropped sharply in Nebraska through 2017. The drop resulted from a steep decline in crop prices, and in 2016, a steep drop in cattle prices. There was a further decline in agricultural commodity prices and farm income in 2018 as a result of both large supplies and continuing trade conflict. Farm income in 2018 is expected to fall below \$2 billion for the first time since 2002, far below the peak of \$7.5 billion achieved in 2011 and 2013.

However, farm income will bounce-back in 2019 due to a drop in fuel costs and a modest increase in crop and livestock revenue. Further, ad hoc soybean relief payments will contribute to farm income during 2019. Nebraska farm income is projected to reach \$2.4 billion.

Most soybean relief payments will be received in 2019 but government payments will remain 70% as large in 2020 and 2021 due to support from the new farm bill. Support payments on the 2019 crop will be received in 2020. Further, crop and livestock prices will continue to improve in 2020 and 2021 and property tax payments will decline throughout the period as land values moderate and other classes of property increase in value. Increases in farm income also will rely on the skill of farmers and ranchers to lower costs and find new revenue. Farm income will reach \$2.5 billion in 2020 and \$2.6 billion in 2021. Throughout the period, farmers will face risks due to uncertain trade policies.

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.

Non-motor vehicle taxable sales will grow at a moderate rate throughout the forecast period. Personal income growth will underpin growth in taxable sales. However, sales tax revenue will grow less rapidly than personal income. This is the typical annual pattern as an ever larger share of household income is spent on services not subject to the sales tax, and due to tax incentive programs. Non-motor vehicle sales tax collections will rise by 3.1% in 2018 in 2019, 3.3% in 2020 and 2.7% in 2021.

Similar rates of growth are 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, including motor vehicles. However, the growth of vehicle purchases is slowing across the country as many older vehicles have been replaced in recent years. Motor vehicle net taxable sales will rise by 3.0% in 2019 and 2.7% in 2020 and 2021.

Growth in Nebraska vehicle sales and non-motor vehicle taxable sales will combine to produce growth in overall net taxable sales from 2019 to 2021. Overall net taxable sales will grow by 3.1% in 2019. Growth will then rise to 3.2% in 2020 and dip to 2.7% in 2021. All growth rates will exceed the rate of inflation, which will be 2.0% in 2019 and 1.8% in 2020 and 2021. This increase in real, inflation-adjusted taxable sales is consistent with, but below, the rise in real income in Nebraska.

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				
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	\$33,937	\$4,159	\$29,778
2018	251.1	\$35,347	\$4,316	\$31,031
Forecast Number				
2019	256.1	\$36,439	\$4,445	\$31,993
2020	260.7	\$37,614	\$4,566	\$33,049
2021	265.4	\$38,630	\$4,689	\$33,941
Forecast % (nominal growth)				
2019	2.0%	3.1%	3.0%	3.1%
2020	1.8%	3.2%	2.7%	3.3%
2021	1.8%	2.7%	2.7%	2.7%

Source: Nebraska Department of Revenue, 2019. Note: Nominal taxable sales growth includes inflation.

Our Thanks ...

The Bureau of Business Research is grateful for the help of the Nebraska Business Forecast Council.

Serving this session were:

- Phil Baker; Nebraska Department of Labor;
- David Dearmont, Nebraska Department of Economic Development;
- Ken Lemke, Nebraska Public Power District;
- Scott Loseke, Nebraska Public Power District;
- Brad Lubben, Department of Agricultural Economics, UNL;
- David Rosenbaum, Department of Economics and Bureau of Business Research, UNL;
- Jim Schmidt, Department of Economics, UNL;
- Eric Thompson, Department of Economics and Bureau of Business Research, UNL;
- HoaPhu Tran, Nebraska Department of Revenue;
- Brian Williams, Nebraska Public Power District

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