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GROWTH LIKELY IN A TIME OF UNCERTAINTY

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GROWTH LIKELY IN A TIME OF UNCERTAINTY

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

U.S. Macroeconomic Outlook

The U.S. economy continues to recover from the recession which occurred during March and April of 2020. Demand has been strong for both goods and services. At the same time, supply constraints are a concern in the economy, contributing to both higher prices and in some cases lost production within industries. Supply constraints are evident in both inputs (supplies) and labor. Labor force growth has been anemic in the last two years given slow population growth and a roughly 2 percent decline in the labor force participation rate.

Looking forward, the baseline outlook is for the U.S. economic recovery to continue. The pace of recovery, however, is expected to slow in the coming years. As was expected, U.S. real GDP growth has been robust in 2021, the first full year of recovery. Real GDP growth may be as high as 6.0 percent. U.S. GDP growth is expected to slow to 4.0 percent in 2022, 2.5 percent in 2023, and 2.5 percent in 2024. Employment growth also will slow over the outlook period. U.S. employment growth may be as high as 2.7 percent in 2021 but will slow to 2.0 percent in 2022, before falling back to trend growth at 1.3 percent in 2023 and 2024.

U.S. population growth is expected to increase in the coming years but a significant portion of the decline in labor force participation will be permanent. Permanently lower labor force participation may continue to put upward pressure on wages.

Upward pressure on wages could support higher inflation even after pressure from higher gasoline prices and supply-chain disruptions begin to ease. Inflation reached an annualized rate of over 6 percent in late 2021 and will be up by over 4.5 percent for the year as a whole.

The Federal Reserve Bank will need to take action in the coming year to reduce inflation by decreasing bond purchases and initiating a round of short-term interest rate increases. Even with such actions, consumer prices are expected to rise by 3.5 to 4.5 percent in 2022. At the present time, there is too much uncertainty to make a more precise estimate.

Consumer price inflation should moderate in 2023 and 2024. However, inflation will remain above 2.0 percent during much of that period.

More generally, the higher pace of inflation poses risks to the economy, particularly in light of recent price increases for novel assets such as Cryptocurrencies and non-fungible tokens. The value of more established assets such as the stock market and property are also elevated.

The Federal Reserve Board may need to take more drastic action in the coming year to reduce inflation. Under this alternative scenario, sharp increases in the short-term interest rates will slow economic growth and have the potential to tip the economy into recession.

Nebraska Outlook



The Nebraska economy will continue to recover in 2022. Leisure and hospitality will complete their recovery while the local government will add back lost jobs. Other sectors

return to long-term patterns. Employment in retail trade and durable goods manufacturing will fall. Non-durable goods manufacturing, construction, health care, and business services will add jobs.

Employment rose by 2.5% in Nebraska in 2021, reversing most of the 2020 job losses. Employment will continue to rebound in 2022, with growth at 1.4 percent, before settling into longer-term patterns at 0.9 percent in 2023 and 0.8 percent in 2024. Nonfarm income will grow slowly in 2022 as economic stimulus is withdrawn. Farm income will fall from record 2021 levels but remain elevated from 2022 through 2024.

Table 1— Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income (nominal)	Net Farm Income (nominal)
2021	2.5%	5.9%	52.4%
2022	1.4%	0.3%	-28.7%
2023	0.9%	3.6%	1.4%
2024	0.8%	3.1%	2.9%

Note: Nominal income growth includes inflation.

Employment

Table 2 compares the current forecast for nonfarm employment with our previous forecast from April 2021. The employment recovery has unfolded largely as anticipated. Job growth in 2021 was just shy of the expected 2.6 percent. The outlook for 2022 is also down by 0.1 percent. These revisions reflect a slower than anticipated recovery in labor force participation. The outlook for 2023 remains steady at 0.9 percent. Employment growth in 2024 is expected to reach 0.8 percent.

Table 2— Comparison of Non-Farm Employment Forecasts

	April 2021 Forecast	Current Forecast
2021	2.6%	2.5%
2022	1.5%	1.4%
2023	0.9%	0.9%
2024	N/A	0.8%

Construction and Mining

Nebraska construction employment grew in both 2020 and 2021, making it the industry with the strongest performance during the Covid-19 pandemic and its aftermath. The industry has benefited from very low interest rates and other factors increasing the demand for single-family homes such as a rebound in employment, more opportunities to work from home, the greater wealth generated by a rising stock market, and unspent stimulus checks that some households may spend on housing. While interest rates may rise in the coming year due to Federal Reserve Bank actions, the increase will be capped by global demand for safe investments. As a result, demand for single-family homes should remain strong through 2024.

Demand for commercial space will benefit as workers return to the office and business investment grows along with a recovering economy. Infrastructure investment will also be strong in the coming years given federal infrastructure spending and similar state initiatives.

Construction employment is expected to grow by 2.3 percent, or 1,300 jobs, during 2022. Employment will decelerate in 2022 and 2023 as the overall pace of economic growth cools. The construction sector will grow by 1.5 percent, adding 900 jobs each year.

Manufacturing

Employment in Nebraska's non-durable goods manufacturing sector has returned to pre-pandemic levels in 2021. Food processing is the major non-durable sector and has benefited from growing domestic and overseas demand. Ethanol production is another sector that has bounced back strongly given rising prices for gasoline.

Strong growth in non-durable goods manufacturing during 2021 is expected to continue into 2022 but by 2023 labor availability will become a constraint. The pace of growth is expected to slow in the last two years of the forecast

Durable goods manufacturing continues to be negatively impacted by a combination of supply chain and labor supply challenges.

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

	Nonfarm Total	Construction, Mining & Natural Resources		Non- durables	Wholesale Trade	Retail Trade	Trans- portation and Inform- ation		Financial	All Services	Federal	
		Durables					Utilities				Gov't	Local Gov't
2009	949.7	47.6	42.6	50.6	41	104.4	52.6	17.9	68.4	356.2	16.5	152
2010	945	42.6	41.4	50.4	40.4	103.9	51.3	17.5	68.7	359.3	17.3	152.3
2011	952.6	41.5	42.5	50.9	40.6	104.8	52.2	17.6	69.7	364.8	16.6	151.5
2012	968.7	43.3	44	51	41.1	105.4	53	17.8	70.4	374.3	16.7	151.7
2013	980.3	45.3	45	51.5	41.7	106.3	53	17.7	70.9	380.1	16.5	152.4
2014	992.8	47.4	45.9	51.6	42.5	108.2	53.2	17.8	70.9	385.6	16.6	153
2015	1,006.5	50	45.4	52	42	109.8	54.6	18.3	70.7	392.7	16.6	154.4
2016	1,015.1	51.6	44.1	52.9	41.4	110.3	52.2	18.5	71.9	399.3	16.7	156.3
2017	1,018.8	52.2	44	54.3	40.7	109.3	52.5	18.2	72.7	402.1	16.8	156.3
2018	1,023.8	53.4	44.8	54.9	40.3	107.9	53.2	17.6	74.1	404.5	16.8	156.4
2019	1,026.9	54.9	45.2	54.6	40.2	105.3	52.7	17.3	75.0	407.9	17.0	156.8
2020	989.3	56.0	43.2	54.4	40.1	101.3	50.4	16.2	74.6	384.9	17.4	151.0
2021	1,013.7	57.4	44.4	56.1	41.1	103.1	52.2	16.0	74.1	400.1	16.9	152.3
Forecast Number												
2022	1,027.6	58.7	44.3	56.7	41.3	102.7	52.7	16.2	75.6	408.6	16.8	154.1
2023	1,036.6	59.6	44.1	57.0	41.1	102.2	52.7	16.0	76.0	416.1	16.9	155.0
2024	1,044.5	60.5	44.0	57.2	40.8	101.7	52.7	16.2	76.3	422.3	17.2	155.7
Forecast Number												
2022	1.4%	2.3%	-0.3%	1.0%	0.5%	-0.4%	1.0%	1.0%	2.0%	2.1%	-0.5%	1.2%
2023	0.9%	1.5%	-0.3%	0.6%	-0.5%	-0.5%	0.0%	-1.0%	0.5%	1.8%	0.5%	0.6%
2024	0.8%	1.5%	-0.3%	0.3%	-0.8%	-0.5%	0.0%	1.0%	0.5%	1.5%	1.5%	0.5%

Source: <http://data.bls.gov/cgi-bin/dsrv>, 2021

Most supply chain challenges should be sorted out by spring or early summer of 2022. However, bottlenecks may persist even longer if there are additional shocks from a new Covid-19 variant or new bottlenecks at ports or other trans-shipment points.

Further, some key supply chain shortages are likely to linger past the summer. Shortages of microprocessors and computer chips will continue to negatively impact durable goods manufacturing throughout 2022 and perhaps in 2023.

Skilled labor shortages are another long-term challenge for the industry. The skilled blue-collar workforce continues to age, and it is often challenging to train new workers. Manufacturing is also one of the industries that has trouble attracting new workers amidst slower growth in the U.S. labor force. Relative wages are no longer a significant advantage for the industry.

Durable goods manufacturing will decline by 0.3 percent per year. Employment in non-durable goods manufacturing will grow by 1.0 percent in 2022, but just 0.6 percent in 2023 and 0.3 percent in 2024.

Transportation and Warehousing

The transportation and warehousing industry will benefit from the continued recovery of manufacturing activity in 2021. The industry is also impacted by long-term trends. The shift toward online sales creates new work for businesses that deliver packages to homes. However, the trucking sector continues to face driver shortages. The rail sector faces falling demand for coal.

Transportation and warehousing employment will grow by 1.0 percent, or 500 jobs, in 2022. Industry employment will be flat in 2023 and 2024. New opportunities related to online sales will match long-run trends towards job loss in the industry.

Wholesale Trade

Wholesale trade in Nebraska is impacted by trends in the state's agriculture industries. A strong agricultural sector led to a jump in sales and employment in 2021. Modest job growth of 0.5 percent is expected in 2022 before long-term trends return. Wholesale trade employment falls in most years given that labor productivity is rising rapidly. Wholesale trade employment is expected to drop by 0.5 percent in 2023 and 0.8 percent in 2024.

Retail Trade

Retail trade employment fell by 3.8 percent, or 4,000 jobs, in 2020 with the onset of the Covid-19 pandemic. The industry recovered 1,800 of those jobs in 2021 as the economy recovered and more shoppers grew comfortable with shopping in person. Recent job gains, however, are unlikely to continue over the next three years given long-term trends in technology and the labor market. Industry employment falls most years given the rise of online shopping and the introduction of labor-saving technologies such as self-checkout.

New labor-saving technology is required for the retail industry given long-term trends towards slower growth in the labor force. In this environment, lower-wage industries such as retail trade will lose workers to more rapidly growing sectors of the economy, such as finance and insurance. Retail trade employment will fall by 400 to 500 jobs per year over the 2022 to 2024 period, an annual decline of 0.4 percent to 0.5 percent.

Information

The information industry contains a diverse group of businesses including print publishing, broadcast media, movie theatres, data processing, website design, and telecommunications. Employment tends to decline in this industry given the rapid growth in labor productivity. However, special factors may allow for the growth of about 200 jobs in 2022 and 2024. Movie theatres and broadcast media should continue to expand employment next year. In 2024, new workers will be needed to service expanded broadband infrastructure. Employment will drop slightly in 2023, consistent with long-term industry trends.

Financial Services

The financial services industry includes banking, other finance, insurance, and real estate. The Covid-19 pandemic had a more modest impact on each of these sectors, and the industry lost just 900 jobs in Nebraska between 2019 and 2021. The industry is poised to recover in 2022.

The real estate industry has been mixed. New housing has been limited due to supply shortages, but sales prices have risen in a tight housing market. Real estate should expand robustly in 2022 as sales of new and existing houses grow.

The banking sector also will grow with the economy in 2022. Both the insurance sector and banking should benefit from rising interest rates. Finally, banking employment, in particular, should expand as more workers return to branch bank locations. Strong growth in employment during 2022 should moderate in 2023 and 2024.

Financial services employment should grow by 2.0 percent in 2022, adding 1,500 jobs. Employment will rise by 300 to 400 jobs per year in 2023 and 2024, for a 0.5 percent growth rate.

Services

The services industry accounted for 39 percent of Nebraska employment in 2021. The large industry contains a diverse group of businesses, including the large business and professional services industry, and the large and steadily growing health care industry. Health care is the largest sector in the Nebraska economy as measured by employment. Other segments include leisure and hospitality businesses, such as lodging, food services, arts, entertainment, and recreation. The last sector is personal services, such as barbers, carwashes, repair services as well as clubs and associations.

The services industry also is among the fastest-growing parts of the economy. In particular, job growth is typically rapid in the business and professional services industry. Leisure and hospitality also should grow rapidly in 2022. The industry contracted sharply in 2020 and only partially recovered in 2021.

The leisure and hospitality industry is expected to grow by nearly 4,000 jobs in 2022, or 4.5 percent. Growth will stay strong in 2023 as business travel and entertainment spending continue to rebound. Leisure and hospitality employment is projected to grow by 3.5 percent in 2023 and 3.0 percent in 2024.

Professional and business services employment is expected to grow by 2.4 percent in 2022, or nearly 3,000 jobs. Business services provided by the industry remain key to improving efficiency throughout the economy. Growth will remain strong at 1.9 percent in 2023 and 1.8 percent in 2024.

Employment growth also will be steady in the large health care sector. The need for health services continues to grow as the population grows and ages. Health care employment is expected to grow by 1.3 percent in 2022 and by 0.9 percent in 2023 and 2024.

Job growth will be strong in the overall services industry in 2022, at 2.1 percent or approximately 8,500 jobs. The sector will account for about 60 percent of all employment growth in the Nebraska economy. The rate of growth will moderate over time but the sector will continue to add 6,000 to 7,000 jobs per year. Services industry employment will grow 1.8 percent in 2023 and by 1.5 percent in 2024.

Government

Federal government employment will show modest growth over the full forecast period. Employment is expected to decline by 100 jobs in 2022 but grow modestly in both 2023 and 2024.

State and local government employment will expand rapidly in 2022, as the local government continues to add back jobs lost during 2020. State and local government employment will grow by 1.2 percent in 2022, or 1,800 jobs.

State and local government employment will then return to its long-run growth rate, at just below the rate of population growth. Expansion is necessary to provide local government services to a growing population. State and local government jobs will grow by 0.6 percent in 2023 and 0.5 percent in 2024.

Personal Income

As seen in Table 4, nonfarm income grew rapidly in 2021. Both stimulus payments and wages and salaries grew more rapidly than anticipated. Stimulus payments grew as both the Trump and Biden Administrations adopted an additional round of stimulus. Wage and salary income also grew rapidly amidst faster than expected inflation. The rate of non-farm income growth, however, is still expected to slow sharply in 2022 as transfer payments end. Nonfarm income will grow by 0.3 percent during 2022, 3.6 percent during 2023, and 3.1 percent in 2024.

Nebraska farm income was unexpectedly strong in 2021, growing by more than 50 percent to reach \$8.1 billion. A sharp improvement in agricultural commodity prices that begin in late 2020 persisted throughout 2021, even as stimulus payments to agricultural producers continued, albeit at a reduced level. Beginning in 2022, farm income is expected to fall from record levels but remain elevated. Farm income will fall by an estimated 28.7 percent in 2022, back to \$5.8 billion. Nebraska farm income will rise to a historically high \$6.0 billion in 2024.

Table 4— Comparison of Forecasts for Nominal Income

Nonfarm Income		
	April 2021 Forecast	Current Forecast
2021	3.7%	5.9%
2022	0.6%	0.3%
2023	3.2%	3.6%
2024	N/A	3.1%
Farm Income		
	April 2021 Forecast	Current Forecast
2021	1.1%	52.4%
2022	-13.7%	-28.7%
2023	-1.4%	1.4%
2024	N/A	2.9%

Note: Nominal income growth includes inflation.

Nonfarm Personal Income

Table 5 shows forecasts for nonfarm income by major sources. Wage and salary income are expected to rise by 6.4 percent in 2022 but moderate to 4.1 percent growth in 2023 and 3.2 percent in 2024 as inflation and job growth cool. Other labor income (i.e., benefits) will grow slightly less quickly than wage and salary 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										
2009	214.5	\$68,957	\$14,044	\$11,053	\$36,495	\$9,256	\$6,055	-\$957	\$5,121	\$2,752
2010	218.1	\$72,339	\$14,334	\$11,868	\$36,991	\$9,122	\$6,269	-\$898	\$7,190	\$3,682
2011	224.9	\$77,764	\$15,643	\$12,092	\$38,043	\$9,374	\$5,733	-\$963	\$9,308	\$7,492
2012	229.6	\$82,161	\$17,360	\$12,184	\$39,902	\$10,140	\$5,899	-\$999	\$9,473	\$4,892
2013	233.0	\$80,617	\$16,504	\$12,334	\$40,964	\$10,205	\$6,761	-\$969	\$8,339	\$7,429
2014	236.7	\$86,831	\$17,830	\$12,909	\$42,843	\$10,867	\$7,098	-\$936	\$10,415	\$5,744
2015	237.0	\$91,067	\$18,940	\$13,561	\$45,135	\$11,066	\$7,387	-\$1,020	\$10,772	\$4,830
2016	240.0	\$90,972	\$19,051	\$14,060	\$46,282	\$11,315	\$7,589	-\$1,067	\$8,920	\$3,863
2017	245.1	\$94,955	\$19,827	\$14,751	\$47,910	\$12,004	\$7,943	-\$1,169	\$9,574	\$2,185
2018	251.1	\$99,261	\$20,783	\$15,609	\$49,751	\$12,928	\$8,215	-\$1,122	\$9,527	\$2,570
2019	255.7	\$101,630	\$21,462	\$16,470	\$51,731	\$13,261	\$8,518	-\$1,171	\$8,395	\$3,927
2020	258.8	\$107,047	\$21,188	\$20,904	\$53,504	\$13,137	\$9,013	-\$1,184	\$8,511	\$5,305
2021	270.7	\$113,376	\$21,271	\$24,143	\$56,401	\$13,483	\$9,539	-\$1,229	\$8,846	\$8,087
Forecast Number										
2022	281.5	\$113,714	\$21,846	\$20,039	\$59,996	\$14,336	\$10,141	-\$1,296	\$8,935	\$5,764
2023	288.5	\$117,827	\$22,283	\$20,840	\$62,471	\$14,921	\$10,553	-\$1,337	\$9,203	\$5,845
2024	294.3	\$121,426	\$22,728	\$21,570	\$64,506	\$15,401	\$10,890	-\$1,368	\$9,479	\$6,014
Forecast % (nominal growth)										
2022	4.0%	0.3%	2.7%	-17.0%	6.4%	6.3%	6.3%	5.4%	1.0%	-28.7%
2023	2.5%	3.6%	2.0%	4.0%	4.1%	4.1%	4.1%	3.2%	3.0%	1.4%
2024	2.0%	3.1%	2.0%	3.5%	3.3%	3.2%	3.2%	2.3%	3.0%	2.9%

Source: <http://www.bea.gov>, 2021. Note: Nominal income growth includes inflation.

Large increases in transfer payments in 2021 will be reversed in 2022. Transfer payments, however, will stay above levels seen prior to the Pandemic in 2019. Proprietor income will grow at a modest pace, particularly in 2022, as the rate of economic growth normalizes during the forecast period. Dividend, interest, and rental income also will expand from 2022 to 2024. Growth will be strongest in 2022 as interest rates rise during that year.

Farm Income

Nebraska net farm income hit a record level of \$8.1 billion in 2021 due to a combination of higher commodity prices and continued government assistance. Crop commodity prices rose sharply in late 2020 and remained at high levels throughout 2021. This factor allowed earned income from commodity sales to rise even as input costs increased during the year. Agricultural producers also benefited from federal government payments.

Farm income will drop from record levels in 2022 as government payments fade and input costs rise, including costs for energy and fertilizer. Income, however, will remain at high levels. Earned income due to commodity sales will drive farm income. Income may be even higher than projected if the policy is changed. Conservation program payments may be increased as part of climate initiatives in the Biden Administration’s Build Back Better agenda.

Farm income is expected to fall in 2022, from \$8.1 billion to \$5.8 billion. It is worth noting, however, that \$5.8 billion would be the fourth highest annual income on record. In other words, the prospects for Nebraska agriculture remain positive despite the expected decline. Solid commodity prices also are expected to keep farm income at historically high levels in 2023 and 2024. Farm income is expected to grow by 1.4 percent in 2023 and 2.9 percent in 2024, ultimately reaching \$6.0 billion that year.

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.

Like household income, non-motor vehicle taxable sales rose rapidly in 2021. Strong growth is expected to continue in 2022. Non-motor vehicle taxable sales will rise by 5.5 percent next year as employment growth and inflation remain elevated. This will occur despite very slow growth in total nonfarm income in 2022 as the stimulus is withdrawn from the economy. Households have saved a significant portion of stimulus payments, which will support purchases next year. However, the pace of growth will moderate in 2023 and 2024 as the rates of job growth and inflation normalize. Nonfarm taxable sales will grow by 4.2 percent in 2023 and 4.7 percent in 2024.

Motor vehicle taxable sales also rose sharply in 2021 with increasing vehicle prices. Growth also is expected to be strong in 2022 as vehicle availability improves. However, taxable sales of motor vehicles will grow little and 2023 and 2024. Little additional growth is feasible after a tumultuous few years for prices, production and sales. The rate of growth will be 1.8 percent in 2023 and 0.9 percent in 2024.

Growth in motor vehicle sales and non-motor vehicle taxable sales will be combined to produce a 5.8 percent increase in overall taxable sales in 2022. That rate of growth will be sufficient to outpace inflation during the year. Taxable sales and inflation are expected to moderate in 2023 and 2024. Overall taxable sales will grow by 3.9 percent in 2023 even as the rate of inflation falls to 2.5 percent. Taxable sales will grow by 4.2 percent in 2024 with an inflation rate of 2.0 percent. Growth in real, inflation-adjusted taxable sales will be between 1.4 percent and 2.2 percent over the next three years.

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				
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	\$33,315	\$4,048	\$29,267
2017	245.1	\$33,937	\$4,159	\$29,778
2018	251.1	\$35,262	\$4,300	\$30,961
2019	255.7	\$38,109	\$4,632	\$33,477
2020	258.8	\$40,086	\$4,852	\$35,234
2021	270.7	\$44,177	\$5,904	\$38,273
Forecast Number				
2022	281.5	\$46,750	\$6,372	\$40,378
2023	288.5	\$48,561	\$6,487	\$42,074
2024	294.3	\$50,578	\$6,527	\$44,052
Forecast % (nominal growth)				
2022	4.0%	5.8%	7.9%	5.5%
2023	2.5%	3.9%	1.8%	4.2%
2024	2.0%	4.2%	0.6%	4.7%

Source: Nebraska Department of Revenue, 2021. Note: Nominal taxable sales growth includes inflation.

Our Thanks ...

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Serving this session were:

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