

9-17-2007

Bureau of Business Research 2006-07 Annual Report

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Bureau of Business Research

DEPARTMENT OF ECONOMICS COLLEGE OF BUSINESS ADMINISTRATION UNIVERSITY OF NEBRASKA-LINCOLN

2006-07 Annual Report



**Economic and Business
Research That's Relevant,
Informative, Insightful, Timely**

UNIVERSITY OF
Nebraska
Lincoln

A Letter from the Director

The Bureau of Business Research (BBR) is pleased to publish its second annual report. The annual report is one of the important ways in which the Bureau fulfills its mission to monitor and analyze the Nebraska economy. *The 2006-07 Annual Report* contains articles that address many of the major economic trends and policy issues facing the state.

In publishing this report, we draw on expertise from the College of Business Administration at the University of Nebraska–Lincoln, the University of Nebraska Rural Initiative, Creighton University, the University of Nebraska at Omaha, the UNL Panhandle Research and Extension Center, and the Nebraska Business Forecast Council. Our authors include faculty members and graduate students from the Department of Economics, plus many others. One of the strengths of the BBR is that we are able to bring together some of the best economists in the state to work on our projects.

The first article looks at an issue that has received widespread attention in Nebraska in recent years. Eric C. Thompson, Mary McGarvey, Matthew Cushing, Randy Cantrell, Seth Freudenburg, and Travis Heller examine the impact of early childhood education and programs on the state. Although this field has a large influence on the children involved, the industry also provides the

infrastructure that allows many parents to work and has a large impact on the economy of the state.

In the second article, Eric C. Thompson and Mary McGarvey pair with Bree Dority and Jyothsna Sainath to study the effects of the recently enacted smoking ban on the City of Lincoln. The researchers caution that early trends may change over time. Initially, the legislation may have had a slight to moderately negative impact on employment. Gross keno revenues also may have been negatively affected by the smoking ban.

The third article provides the University of Nebraska Rural Initiative’s broad look at the greater Nebraska non-metropolitan economy. Researchers Eric C. Thompson, Ernie Goss, Chris Decker, Cheryl Burkhart-Kriesel, Bruce A. Johnson, Mariana Saenz, Ben Schmitz, Julian Neira, and Pavel Jeutang team to take a broad comprehensive look at five key industries in the area: manufacturing, tourism, trucking, professional and technical services, and information. These pillars form an export base that can complement agriculture as a driving force in the economy. The researchers discover that the non-metropolitan Nebraska economy is adept at seizing new opportunities in a variety of non-agricultural industries. They also find substantial potential for future growth in at least five of these areas.

When Wal-Mart comes to town, is it good news or bad news? The Nebraska Rural Initiative corralled Eric C. Thompson, David Rosenbaum, and UNL research assistants Sean Golden, Noel Jeutang, and Ratikanta Pattaik to study this phenomenon. The group found both positive and negative impacts when a big box store enters the local economy. Such stores can increase productivity and lower consumer prices. The stores generally had little effect on retail employment, but did tend to decrease the number of retail establishments. The researchers derived four strategies to help existing retailers compete with big box stores: improve service quality, improve merchandising, improve marketing, and improve management of marketing information.

In the fifth article, Eric C. Thompson looks at the economic impact of a new entertainment arena for the Lincoln area. The construction of a new arena will have large positive effects on the area during the building phase. Economic gains will outweigh losses as the arena opens, attracts tourists, and the city pays bond debts. Attendance and government funding could lead to widely varying impacts of the arena on the economy. Possible losses could result if negative scenarios of attendance were to prevail. The study is an economic impact analysis, not a fiscal analysis or cost-benefit analysis.

Our final special report examines the impact of teen childbearing in Lancaster County. Estimates of lost local property and sales taxes, increased public costs due to WIC program participation and enforcement of child support combine for an estimated cost of \$6.2 million in Lancaster County in 2004. Most of these costs are due to births to teen mothers age 17 and under.

The past year was again very successful for the Bureau of Business Research. We conducted numerous research projects for state and local government and private industry. We examined the labor force implications of population decline in non-metropolitan Nebraska, we teamed with the Nebraska Business Forecast Council to make projections for the state economy, and we studied the state's micropolitan statistical areas. We anticipate maintaining an active research program in the coming year and look forward to challenging new projects.

Dr. Eric C. Thompson,
Associate Professor of Economics
and Director
Bureau of Business Research

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About the BBR

Economic and Business Research That's Relevant, Informative, Insightful, Timely

About the Bureau

The Bureau of Business Research (BBR) is an applied economic and business research entity of the College of Business Administration at the University of Nebraska–Lincoln. Located in the Department of Economics, the BBR exists to accomplish two primary purposes. First, it provides relevant information and insightful data on economic conditions, in Nebraska, the Great Plains, and the nation as a general service to individuals and businesses in the state. Second, the BBR provides economists with practical opportunities to conduct applied economic research and trains students of economics and business in the conduct of applied research on timely economic and business topics. The BBR regularly publishes reports summarizing its sponsored research studies and also publishes outlooks and analyses in the newsletter *Business in Nebraska*.

Research Areas

The BBR conducts both contract and sponsored research on the economy of Nebraska and its communities including:

- Studies of economic competitiveness

- Economic modeling and forecasting
- Labor market analysis
- Fiscal analysis
- Policy analysis

In addition, the BBR also competes for research funding from federal government agencies and private foundations from around the nation. The BBR further contributes to the academic mission of the University of Nebraska–Lincoln through scholarly publication and the education of students.

Publications

The Bureau of Business Research regularly produces reports summarizing our sponsored research on the Nebraska and U.S. economy. These reports are posted on our website:
<http://www.bbr.unl.edu>.

BBR also produces the quarterly publication *Business in Nebraska*. Two editions each year report outlooks for Nebraska employment, income, and state government revenue that are developed by the Nebraska Business Forecast Council. Two other editions report special topics research on the Nebraska

economy. Continuously published since 1949, *Business in Nebraska* is now principally distributed via email. Interested parties should contact the BBR to be added to the email list. This publication is available at the Bureau website.

Competitiveness of the Nebraska Economy

Nebraska and its local economies compete with areas in surrounding states, the nation, and globally for industries and workers. The BBR is committed to studying factors that affect competitiveness including taxation, business conditions, labor force, and infrastructure.

Outlooks on the Nebraska Economy

One of the BBR's primary functions is to provide outlooks for the Nebraska economy. Bureau faculty has substantial experience in developing outlook models for state, metropolitan area, and local economies. The Bureau also produces semi-annual outlooks for Nebraska employment, income, and state tax revenue by taking a leadership role in the Nebraska Business Forecast Council.

Labor Market, Policy, and Fiscal Analysis

The BBR studies key topic areas facing the Nebraska economy. Labor market analysis examines factors that influence earnings and effort of the workforce. Policy analysis studies the effectiveness

and economic consequences of existing or proposed policies. Fiscal analysis considers the implication of particular policies and programs on government revenue.

Sources of Funding

The BBR is supported by the University of Nebraska and sponsored research projects funded by business and industry, non-profit organizations and foundations, and government agencies. Recent Bureau sponsors have included:

- Early Childhood Interagency Coordinating Council
- Nebraska Health and Human Services System
- University of Nebraska Rural Initiative
- Lincoln Chamber of Commerce
- Lincoln Partnership for Economic Development
- City of Omaha
- Greater Omaha Chamber of Commerce

Personnel

Director: Dr. Eric C. Thompson
Dr. Thompson has 15 years experience conducting research on local, state, and national economies. His research fields include regional economics, economic forecasting, and state and local economic development. Dr. Thompson received his Ph.D. in agricultural economics from the University of Wisconsin–Madison in 1992. His research has been published in *Regional Science and Urban Economics*, the *Journal of Regional Science*, *Regional Studies*, and the *Journal of Cultural Economics*.

Project Assistant: Barbara Keating
Barbara Keating serves as a project assistant and divides her time between the Bureau of Business Research and the economics department at UNL. Barbara received her Masters Degree in Adult and Higher Education from Montana State University, where she also received her Bachelor of Arts Degree in Theatre Arts. Barbara previously worked in Public Television as an outreach specialist at Reading Rainbow and was the Outreach Director for Montana Public Television.

The Bureau contributes to student education by employing both graduate and undergraduate research assistants. The BBR also draws upon the expertise of the entire faculty of the Department of Economics in the College of Business Administration. During the current year, the BBR worked with the following faculty:

Mary McGarvey — Applied
Econometrics
Matt Cushing — CGE Modeling,
Business Cycles
David Rosenbaum — Regulation, Market
Competition

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Research Report Summaries

BBR Research Report

The Economic Impact of the Nebraska Early Care and Education Industry

A Research Study Sponsored by the
Early Childhood Interagency Coordinating Council (ECICC) with support from
the Nebraska Health and Human Services System,
the Nebraska Department of Education,
the Nebraska Children and Families Foundation, the Nebraska Association for
the Education of Young Children, and the United Way of the Midlands

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Executive Summary

The early care and education industry has both current and long-term economic consequences for the Nebraska economy. The long-term impact is to help to educate and develop children into productive and higher earning adults. This impact is well understood. As stated by Nobel Prize winning economist James Heckman, “Early advantages

accumulate; so do early disadvantages... redirecting additional funds toward the early years, before the start of traditional schooling, is a sound investment in the productivity and safety of our society” (Heckman and Masterov, 2005).

In addition to these long-term impacts, the early care and education industry also has current impacts on the economy.

These are less well understood, but also are significant. What are these current impacts? First, each year the early care and education industry brings additional jobs and earnings into the state economy as it draws external funds to the state, in the form of federal dollars to support early care. This represents a substantial economic impact on the state economy. Second, and more fundamentally, the early care and education industry provides more parents with an opportunity to work. This increases the workforce available to the Nebraska economy, a critical issue in a state where an aging population may limit future growth in the work force and where labor force participation rates are already among the highest in the nation.¹ This study focuses on these current impacts that early care and education has on the Nebraska economy. Throughout, estimates are based on what was measurable in the available data, and may be underestimates to the extent that data are unavailable. The following key conclusions were reached:

- The early care and education industry statewide provides services to 100,000 Nebraska children, employs over 12,000 Nebraska workers (including the self-employed), and generates hundreds of millions of dollars of revenue.

¹ Nebraska has the third highest female labor force participation rate of any state and the highest male labor force participation rate.

- The industry is not only large; it also has a substantial impact on the economy of Nebraska. The federal funds that Nebraska receives to support the early care and education industry has a statewide economic impact of \$241 million, including \$87 million in annual earnings by approximately 6,100 workers.
- The early care and education industry expands the size of the Nebraska labor force. For example, consider two government programs that provide resources to parents for early care. The Federal Child and Dependent Care Tax Credit program allows an additional 1,400 mostly middle income married women in Nebraska to hold full-time jobs. The Child Care and Development Fund (CCDF) allows an additional 2,500 lower income single mothers to hold either part-time or full-time jobs in Nebraska. These programs also allow additional lower income married parents or middle income single parents to work. However, existing economic research does not permit us to estimate these effects.
- Research indicates that early care and education providers, particularly non-profit providers, also receive significant private in-kind donations to support their services. Research further indicates that non-profit early care and education providers have used these donations to lower the

cost of early care services to parents or to increase the quality of care.

- Programs that support early care generate new tax revenues. The economic and labor market impact of the CCDF program generates additional income, sales, and property tax revenue for the State of Nebraska. The additional revenue amounts to \$16 to \$18 million per year. This is equivalent to two-thirds to three-quarters of the \$24.1 million annual allocation by the State of Nebraska to the CCDF. This implies that the cost to the people of Nebraska to 1) help lower income parents obtain early care and education for their children, and 2) allow lower income parents to build their skills and earnings capacity through work is one-third as large as it would appear when simply looking at the state outlay for the CCDF program.

The implications of the report, however, are broader than simply the merits and costs of the Child Care and Development Fund or other programs that receive the support of state government. The broader implication is that the early care and education industry is a significant infrastructure industry for the Nebraska economy. It should remain an important focus for monitoring and input not just by government, but also by volunteer organizations, foundations, and private business.

BBR Research Report

The Effect of a Smoke-Free Ordinance on the Food Services and Drinking Places Industry in Lincoln, Nebraska

Prepared for
The Nebraska Health and Human Services System,
Office of Disease Prevention and Health Promotion, Tobacco Free Nebraska

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Executive Summary

The Lincoln Smoking Regulation Act which prohibited smoking in most public places and places of employment in Lincoln, Nebraska, including restaurants and bars, was implemented in January 2005. This report examines the impact of the ordinance on the following measures of business activity in Lincoln:

- Sales revenue of eating and drinking places
- Employment of eating and drinking places
- Gross revenues from keno.

We examine the impact of the ordinance during the year 2005, the first year that

the ordinance was in effect. While restaurant and bar activity in Lincoln rose during 2005 by some measures, we focus on performance relative to Omaha in order to isolate the impact of Lincoln's ordinance. The estimated first-year impacts of the ordinance were as follows.

Sales Revenue

- Total restaurant sales (full-service and limited-service restaurants combined). Restaurant (eating places) sales account for approximately four-fifths of total sales in the food and drinking places industry. We cannot conclude that the smoking ordinance had any

effect on sales revenue in Lincoln's restaurant industry.¹

- Drinking places sales: We identified a statistically significant 6.0% decline in sales in Lincoln's drinking places, which is equivalent to a \$169,800 per month sales decline. This translates to a fall of \$2,500 per month in sales tax revenue for the City of Lincoln. We did not have sufficient data to estimate what portion of this sales decline was lost to drinking places in other communities, and what portion was spent in other types of Lincoln businesses (see results for Keno below).²

Employment

- Total restaurant employment (full-service and limited service restaurants combined): We identified a statistically significant 8.0% decline in restaurant employment, which represents a decline of 600 jobs. This decline, however, appeared to be isolated in full-service restaurants, where employment declined 13.5%. We identified no decline in employment in limited-service restaurants.
- Drinking places employment: We cannot conclude that the smoking ordinance had any effect on employment in Lincoln's drinking places industry.

¹ There were approximately 340 restaurants in our sales database in any given month.

² There were approximately 65 drinking places in our sales database in any given month.

Gross Keno Revenues

- City of Lincoln: The estimated drop in monthly gross keno revenue (total wagers) in the City of Lincoln was \$376,000.
- Denton and Waverly: The estimated gain in monthly gross keno revenue was between \$70,000 and \$80,000 in each community. The decline in Lincoln is much greater than the gain identified in adjacent towns, which suggests that some former keno activity in Lincoln is not simply moving to adjacent jurisdictions, but is being shifted toward other types of spending.

Several caveats must be considered when examining these results. First, we have only estimated the impacts of the ordinance for the year 2005, the first year the ordinance was in effect. It is possible that long-term impacts two to three years after the ordinance is in effect could differ from these impacts in the initial year. Further, over the longer term results for employment and sales should converge.

Second, one must keep in mind that the aggregate results for the industry or its segments do not necessarily reflect the experience of every business. Individual businesses or groups of businesses within each segment may have gained or lost as a result of the ordinance, regardless of the aggregate results presented above. Results of this study, therefore, should not be seen as contrary to the testimonials of individual

proprietors or industry employees as such individuals explain how the ordinance has affected them.

Third, it is important to remember that this analysis did not consider all of the economic costs imposed on the consumers as well as on business owners and employees in Lincoln. In particular, some consumers of Lincoln restaurants, bars, and keno gaming have lost an option available to them—smoking in the midst of their chosen activity. Further, businesses may experience reduced profits or increased expenditures in making changes to accommodate patrons. Persons considering the efficacy of the Lincoln smoking ordinance may wish to consider these costs, along with the results of our study, as well as any operating savings for restaurants and bars and the public health benefits in terms of reduced second-hand smoke when evaluating the policy.

BBR Research Report

Pillars of Growth in Nebraska's Non-Metropolitan Economy

A Research Study Sponsored by the
University of Nebraska Rural Initiative

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Dr. Ernie Goss
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Executive Summary

Agriculture is a critical part of Nebraska's economy, and changes in the fortunes of agriculture play an important role in the success of the state's non-metropolitan regions. Trends toward consolidation and rising productivity in

agriculture, however, have raised concerns about the future of non-metropolitan Nebraska. Some citizens and policymakers have begun to wonder if the economy can create sufficient job opportunities for non-metropolitan residents. The answer to this question

depends not only upon the relative strength of the agricultural sector, but also upon the presence of other industries that can join agriculture as pillars for employment growth in non-metropolitan Nebraska.¹

This study, sponsored by the University of Nebraska Rural Initiative, brings together researchers from the University of Nebraska–Lincoln, the University of Nebraska at Omaha, and Creighton University to examine multiple dimensions of Nebraska’s non-metropolitan economy. In addition to agriculture, we will examine the fortunes of five other key industries: 1) manufacturing, 2) tourism, 3) trucking, 4) professional and technical services, and 5) information. This list contains industries that are traditional areas of rural economic development such as manufacturing and tourism, but also includes rapidly expanding industries in our state (trucking) or industries within a rapidly changing national economy (professional and technical services and

¹ Non-metropolitan refers to those Nebraska counties located outside the Omaha and Lincoln metropolitan areas. Metropolitan areas such as Omaha and Lincoln have at least one core urbanized area of 50,000 or more population, together with adjacent cities having a high degree of social and economic integration with that core (Office of Management and Budget, 2005). Non-metropolitan Nebraska contains several micropolitan statistical areas which have a core urbanized area of at least 10,000 but less than 50,000, together with adjacent areas having a high degree of social and economic integration with that core (OMB, 2005). For example, there is the Grand Island micropolitan statistical area, which contains the counties of Hall, Merrick, and Howard.

information). National economic forecasts suggest that industries such as trucking, tourism, professional and technical services, and information will continue to add employment at a moderate to rapid pace over the next decade.

In this study, we examine the extent to which each of these industries can complement agriculture as a pillar of economic growth in non-metropolitan Nebraska. Like agriculture, these industries have potential to help provide a base for the non-metropolitan economy. More specifically, each industry is part of an area’s export base; that is, the industries sell goods and services to customers throughout the Midwest, the nation, and the world. Basic industries bring money into the non-metropolitan Nebraska economy, supporting other industries that serve local customers. Collectively, the industries also account for roughly 25% of non-agricultural employment.

The report will identify the potential for non-metropolitan Nebraska to expand its export base in these key industries, both inside and outside agriculture. But, more generally, the report will examine the degree to which entrepreneurs in non-metropolitan Nebraska have been able to take advantage of emerging opportunities in key industries in a changing national economy. Evidence of success would indicate that non-metropolitan Nebraskans already are succeeding under the current

population, infrastructure, workforce skills, markets, and other prevailing conditions in these regions. Such a finding should give these areas confidence about the future, even as the state continues to improve economic development initiatives for the state.

Non-metropolitan Nebraska, of course, is not homogenous, and a different set of industries may prosper in one area of the state than in another. This report utilizes a group of nine multi-county economic regions of Nebraska, which are illustrated in Map ES.1. This report focuses on the seven regions that are primarily non-metropolitan. Region 1, which includes Omaha, and Region 2, which includes Lincoln, are not a focus of the study. The regions represent recognizable areas of the Nebraska economy and include the principle cities and counties in each of these economic areas. The non-metropolitan regions were defined based on clusters of mid-

sized cities (and adjacent rural areas), by the type of agricultural production, and proximity to key economic features, such as Interstate 80 or cities in adjacent states (such as Sioux City, Iowa).

Table ES.1 illustrates the performance of each of the non-agricultural industries in the seven non-metropolitan regions. We utilize data for the 1998 to 2004 period, the most recent period for which data are available (for both small and large counties) utilizing the new North American Industrial Classification System. This six-year period represents a period of change in the national economy, including a recession, the bursting of the dot-com bubble, and the resultant recovery in the economy. Data on lodging sales, which is the key indicator for the tourism industry, are available through 2005.

The figures show growth in many of these key potential pillar industries

Map ES.1. Nebraska's Economic Regions

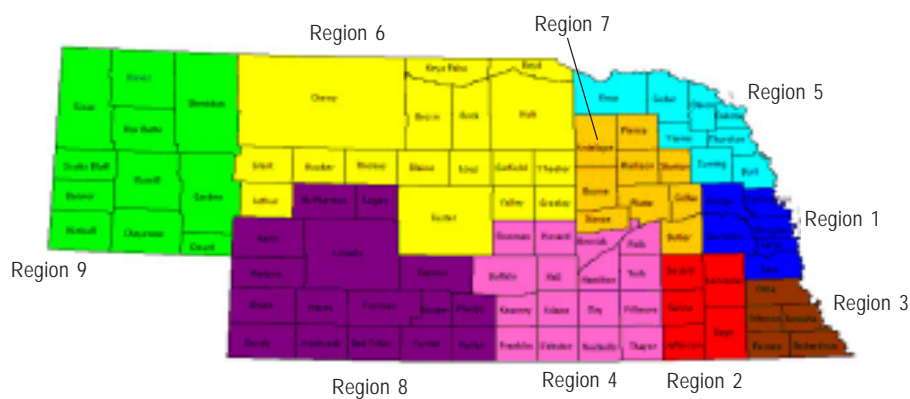


Table ES.1. Annual Growth in Non-Agriculture Pillar Industries in Each Region

Pillar Industry	Manufacturing (including Food Processing)	Tourism	Trucking	Professional Services	Information
	Jobs 1998 to 2004	Real Per Person Lodging Sales 1998-2005	Jobs 1998 to 2004	Jobs 1998 to 2004	Jobs 1998 to 2004
Annual Growth Measure					
Southeast	4.2%	3.5%	-1.0%	3.2%	4.8%
South Central	-1.4%	-0.9%	2.4%	2.5%	-0.9%
Northeast	0.4%	-1.4%	4.1%	-2.5%	-0.1%
Sandhills	0.6%	1.2%	-1.5%	-0.2%	1.4%
Norfolk/Columbus	-0.1%	1.3%	2.1%	4.4%	0.3%
Southwest	-0.5%	1.4%	0.4%	2.8%	-0.8%
Western Panhandle	-2.8%	0.8%	3.9%	1.0%	-3.7%

throughout the state. Similarly, the figures show that multiple industries were growing in each region.

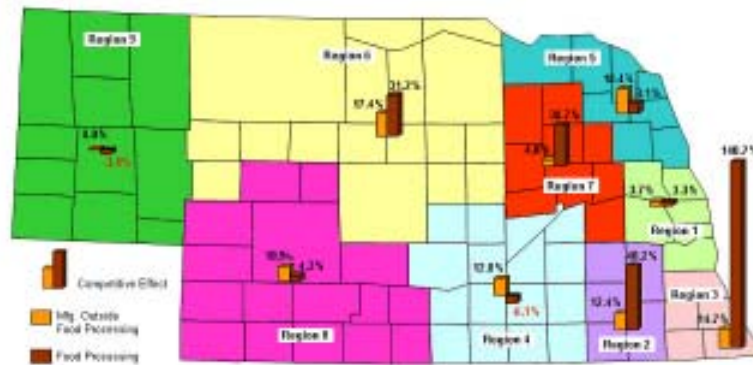
The manufacturing industry (which includes food processing) grew in three of the seven regions. This, however, is a remarkable record, given the performance of the manufacturing industry in many parts of the country during this period. Nationally, the industry lost nearly 15% of its employment during the 1998-2004 period. In other words, manufacturing employment declined 3% per year. The industry grew in three Nebraska regions and held mostly unchanged in two. Only in the Western Panhandle did declines in manufacturing employment match those found nationwide.

These results suggest that the manufacturing industry remains very competitive in non-metropolitan Nebraska. This is also evident in Figure ES.1, which shows the estimated competitiveness of the food processing and other portions of manufacturing in each region of the state.

Competitiveness is positive in nearly every region. Ongoing efforts to improve the business climate in Nebraska and existing economic development and trade promotion programs should continue to aid the competitiveness of this industry.

The tourism industry also grew in selected parts of non-metropolitan Nebraska. Of particular interest was the expansion of the tourism industry in the Western Panhandle, the Sandhills, and Southeast Nebraska regions. Southeast Nebraska benefits from the continued expansion of attractions around Nebraska City. The Panhandle and Sandhills benefit from a growing interest in nature-based tourism, historic tourism, recreation such as canoeing and lodging, and visits to state and national parks. Continued efforts to promote these types of activities in Nebraska should underpin future growth. As Table ES.2 shows, six of the ten most tourism-dependent counties in Nebraska are in the Sandhills (Region 6), the Panhandle (Region 9), or Southeast Nebraska (Region 3).

Figure ES.1. Competitive Effect for Nebraska by Nebraska Region, 1998-2004



Agricultural production continues to rise in Nebraska and the industry makes a substantial contribution to incomes in non-metropolitan areas. Table ES.3 shows the range of that income contribution between relatively poor years for agriculture income (such as 2000) and strong years (such as 2004). Agricultural incomes in corn-belt regions of Nebraska are expected to benefit from the continued expansion of the state’s ethanol industry.

As was evident in Table ES.1, the trucking industry is generating job growth in most areas of non-metropolitan Nebraska. The industry provides an opportunity to generate well-paid job opportunities for residents who wish to remain in the non-metropolitan areas of the state. Efforts to expand the state’s logistics industry should stimulate further growth in trucking employment.

Table ES.1 also demonstrates there is broad-based growth in the professional and technical services industry in non-

metropolitan Nebraska. This is one of the most rapidly growing, high wage portions of the national economy, and a key sector as the national economy moves toward a service economy. The industry includes accounting, advertising, management consulting, veterinary services, engineering and architecture, and computer services.

While these industries are often thought of as locally-oriented, many firms in these industries also have clients over a broad geographic area. The *Survey of Non-Metropolitan Nebraska Service Businesses*, which was conducted for this report, found that a significant share of industry customers is located outside non-metropolitan Nebraska. Figure ES.2 below shows the share of customers located in Omaha, Lincoln, or out of state. Most of these customers were located out of state rather than in Lincoln or Omaha. Figure ES.2 indicates that the professional and technical services industry, in addition to being a high-wage, growing industry, is part of the economic base for the non-

metropolitan Nebraska economy because the industry brings in revenue from customers from outside non-metropolitan Nebraska.

The *Survey of Non-Metropolitan Nebraska Service Businesses* also queried professional and technical services business about what factors were most important to the success of their business. As is evident in Figure ES.3, professional and technical services business most often listed 1) the size of the state and local tax burden, 2) having customers nearby, and 3) availability of broadband internet access as important or very important to the success of their business. These two factors (lower taxes are often a priority of business and the importance of nearby customers) indicate that local business is still important for professional service firms, despite their out-of-state sales. The importance of broadband availability raises the critical question of increasing access to this basic infrastructure in non-metropolitan Nebraska. These

professional service businesses rated these types of infrastructure as a much higher priority than four-lane highway access, which further demonstrates the importance of developing the best possible policies and strategies for broadband infrastructure in Nebraska.

The *Survey of Non-Metropolitan Nebraska Service Businesses* also was sent to businesses in the information sector, which includes publishing, broadcasting, telecommunications, internet services and portals, and internet publishing and broadcasting. The same three factors as in Figure ES.3 were the top responses for information industry firms as well. While the information industry was not found to be growing in most parts of non-metropolitan Nebraska, it is worth pointing out that this industry also has a substantial share of out-of-state customers, just as was found for professional and technical services businesses. This is evident in Figure ES.4 below. Note that again, most of the sales pictured in Figure ES.4 were

Table ES.2. County Tourism Dependency Index: Top Ten Ranked Nebraska Counties

		2005			1990-2005
	Region	Real Taxable Lodging Sales	Population	Sales per Person	Annual Growth
Keith	8	\$3,015,685	8,330	\$362.03	0.7%
Thomas	6	\$197,676	623	\$317.30	¹
Cheyenne	9	\$2,815,044	9,993	\$281.70	7.5%
Cherry	6	\$1,542,197	6,098	\$252.90	4.4%
Lincoln	8	\$7,573,248	35,636	\$212.52	1.2%
York	4	\$2,606,695	14,397	\$181.06	2.4%
Buffalo	4	\$7,771,842	43,572	\$178.37	1.0%
Dawes	9	\$1,432,651	8,636	\$165.89	2.7%
Otoe	3	\$2,072,162	15,509	\$133.61	9.8%
Brown	6	\$450,723	3,328	\$135.43	4.8%

Source: US Census Bureau and Nebraska Department of Economic Development.

¹ Taxable sales data not available for 1990.

Table ES.3. Total Farm Labor, Proprietor Income, and Corporate Farm Income by Sub-State Economic Regions, 2000 and 2004

		Farm Labor and Proprietors'/Corporate Farm Income		
Economic Region and Year		Total Dollar Volume ^a (million dollars)	Average Income per Farm Unit ^a (dollars)	Percentage Total Regional Personal Income
3. Southeast Nebraska	2000	53.0	17,500	5.6
	2004	150.1	47,000	12.9
4. South Central Nebraska	2000	299.2	32,600	5.9
	2004	680.0	82,000	11.1
5. Northeast Nebraska	2000	233.5	42,600	13.0
	2004	545.1	98,600	25.1
6. Sandhills	2000	81.4	13,600	7.6
	2004	312.6	59,000	23.0
7. Norfolk/Columbus	2000	188.2	29,100	6.8
	2004	472.1	74,100	14.3
8. Southwest Nebraska	2000	241.0	37,900	8.9
	2004	572.6	100,100	18.0
9. Panhandle	2000	89.7	18,400	4.4
	2004	147.1	31,800	6.2
TOTAL	2000	1379.4	27,400	2.9
	2004	3368.1	69,700	6.0

^a Source: Estimates derived from county-level estimates by Bureau of Economic Analysis US Department of Commerce.

^b Derived by dividing total earnings from total farm unit numbers interpreted from 1997 and 2002 census reports.

to out-of-state customers rather than to customers in Omaha and Lincoln.

In summary, the research indicates that a majority of the six pillar industries have been expanding in non-metropolitan Nebraska. These findings indicate that the non-metropolitan Nebraska economy is adept at seizing new opportunities in a variety of non-agricultural industries. This finding provides a reason for optimism that the non-metropolitan Nebraska economy will perform well as the national economy continues to change in the future, whatever direction that national economy takes. Areas of non-metropolitan Nebraska have shown an ability to adapt to such changes. This said, projections about the national

economy indicate that these same six pillar industries will continue to offer economic opportunities around the country in the future. Further, this study has provided evidence that there is substantial potential for future growth in at least five of these six pillar industries in non-metropolitan Nebraska (with the information industry being the potential exception). Most individual regions within non-metropolitan Nebraska also have demonstrated success in a wide variety of both traditional and emerging targets of economic development.

Figure ES.2. Share of Professional and Technical Industry Sales Exported to Omaha, Lincoln, or out of Nebraska, 2005

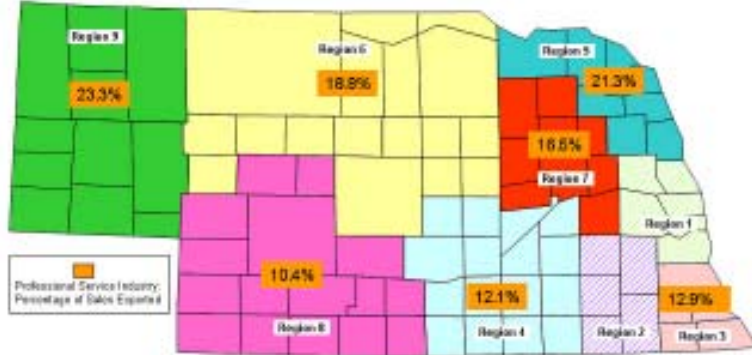
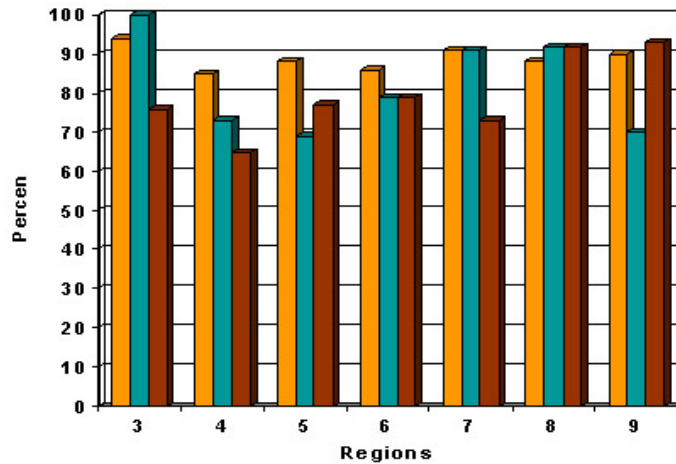


Figure ES.3. Share of Surveyed Professional and Technical Services Businesses Reporting that an Issue was Important or Very Important



Left bar = size of state and local tax burden; center bar = having customers nearby, right bar = availability of broadband internet access

Figure ES.4. Share of Information Industry Sales Exported to Omaha, Lincoln, and out of Nebraska, 2005



BBR Research Report

Big Box Stores in Nebraska: Their Impacts on the Economy and Tips for Competing

Prepared for
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Executive Summary

This is a study in three parts: the general impact of Wal-Mart and big box stores on the economy; an empirical look at Wal-Mart's impacts on 15 Nebraska communities; and a review of research on ways that local retailers can compete against big box stores.

Part one suggests that Wal-Mart has both positive and negative impacts on the economy. Wal-Mart helps increase productivity and causes consumer prices to fall. Further, a number of studies found that employment increased in communities that received a new

Wal-Mart store. Other studies, however, found that entry of a Wal-Mart failed to lead to net increases in local employment, and one study found a correlation between Wal-Mart locations and rising local poverty rates. More generally, Wal-Mart entry increased concerns in many communities about the changes it may cause to the size and structure of the retail industry.

Part two shows that entry of a Wal-Mart does not seem to have a significant effect on retail employment, but can impact the number of retail establishments in rural Nebraska communities.

Wal-Mart's effect is also visible in general merchandising, particularly with respect to the level of employment.

Four strategies are suggested for competing against Wal-Mart and other big box stores:

- Improving service quality,
- Improving merchandising,
- Improving marketing, and
- Improving management of marketing information.

BBR Research Report

Preliminary Economic Impact Analysis for the Lincoln Arena Task Force

Prepared for the Lincoln Arena Task Force

Dr. Eric C. Thompson
University of Nebraska–Lincoln

Introduction

The entertainment industry is part of the growing service sector in the state and national economy. The industry creates employment opportunities and contributes to the quality of life within communities. To fully grow the entertainment industry, however, a city requires appropriate venues to host entertainment events. In the City of Lincoln, Nebraska, there has been a recent proposal to develop a new arena facility for this growing city. The following report estimates the potential economic impact of the proposed project; that is, the net increase in business receipts, employment, and income the project can bring to Lincoln. Analysis is conducted both for the construction phase of the project as well as the annual impact when the proposed arena is in operation.

This preliminary study, however, does not address some of the other economic consequences of the proposed arena. First, the current study is not a fiscal analysis. There is no attempt to estimate the changes in revenues and expenses to the City of Lincoln due to the arena

project. These issues are only discussed as they pertain to the economic impact. Second, the current study also is not a benefit-cost analysis. The study does not consider the economic consequences of the arena's contribution to the city's quality of life.

Net Economic Impact

Estimating net economic impact involves two steps. First, it is necessary to measure the gross increase in economic activity due to the project. Second, any decline in economic activity due to the project must be estimated and subtracted from the gross increase, yielding the net impact. This study measures both the gross gain and gross loss in economic activity in Lincoln due to the arena project and then calculates the net gain or net economic impact

There are two types of gross increases in activity. The first is the construction impact. This is the jobs and income created during the construction phase of the project. The second impact is the annual impact once the venue is completed and in operation. This includes

the jobs and income due to employment at the arena during events and the off-site spending of audiences attending arena events.

infrastructure. This economic impact will occur over a period of several years. We present impacts for the entire construction period.

The gross loss in economic activity refers to any decline in economic activity elsewhere in Lincoln. For example, building and opening the proposed arena could spell the end of events at the Pershing Center. Another key loss ties into the funding for the proposed project. Some of the revenue earmarked for the project would have otherwise become general revenue for local government. At the same time, any general revenue increases (adding a city lodging tax) would retard existing activity among the taxed good or service by a modest amount, again retarding general revenue. The loss of this general revenue means slower growth in revenue available for other local government projects. These reductions must be considered part of the gross loss.

The largest portion of the construction impact is from the direct employment, worker earnings, and total output from building the facilities. There is also an additional multiplier effect that occurs throughout the economy. This multiplier effect occurs as businesses working on the project purchase supplies and services from local firms such as building supplies and legal and accounting services. The multiplier effect also occurs as project workers spend their income on normal items of household consumption such as housing, food, retail, and health care. Such expenses are larger for construction workers from Nebraska than workers who travel from out of state.

Gross Gain Construction Period

The construction impact occurs as the arena, hotel, convention center, and parking are built and as the site is purchased and provided with

The total estimated direct cost for the project is \$330.7 million dollars. This figure includes \$95.0 in private investment for a hotel and convention center. The project includes \$150.0 million in spending on arena and garage. There is an additional \$85.7 million in costs for land acquisition, road construction, and other expenses.

Table 1. Gross Economic Impact During Construction Period

	Spending	Business Receipts	Total Impact Worker Income	FTE Jobs
Private (Hotel & Convention)	\$95,000,000	\$124,393,380	\$55,209,345	1,672
Public Buildings	\$157,500,000	\$209,703,975	\$92,659,785	2,816
Road Network, Land Acquisition, Other	\$78,200,000	\$82,280,159	\$33,267,187	1,014
Total	\$330,700,000	\$416,377,514	\$181,136,317	5,501

The total gross economic impact during the construction period also includes the multiplier effect, using multipliers from the IMPLAN model.¹ The gross construction impact is \$416.4 million in business receipts. This includes \$181.1 million in employee compensation. This compensation is earned by 5,500 job-years. A job-year is a job created for a period of one year.

Annual Impact

The proposed arena would likely host around 100 event-days over the course of a year. These include family shows such as the circus, sporting events such as pro wrestling or college tournaments, rock and country concerts, some conventions, and meetings and seminars. Altogether, it is estimated that these events would draw nearly 600,000 in attendance in a typical year just in the arena alone. This study considers the impact of such arena events and does not consider the impact from a new convention center.

The annual economic impact stems from the spending at the arena for operating the facility and hosting these events plus the off-site spending of persons attending shows in community restaurants, entertainment venues, retail stores, gasoline stations, and hotels. The main impact stems from visitors to Lincoln from outside areas that spend

money at arena events both on-site and off-site. The spending of Lincoln residents on-site and off-site typically does not contribute to the economic impact of the arena. There is no impact because these residents in most cases would spend the money on other entertainment in Lincoln (movies, festivals, etc.) if not attending arena events. The one exception is Lincoln residents who otherwise would travel to Omaha or elsewhere to attend arena events if these were not held in Lincoln. Their spending in Lincoln would represent retained spending.

Table 2 shows the level of expenditure by both out-of-town and retained visitors by category of spending. The first category is spending at the event. This does not include spending on tickets, which typically accrues to performers, but does include payments to use the facility, spending on food and beverages, novelties, as well as suite rental, premium seats, and advertising. Total expenditure for operating the center would be approximately \$5 million per year, with 35 full-time employees. Table 2 shows the portion of this expenditure and employment that would be supported by either out-of-state visitors or retained spending.

The remaining expenditure categories in Table 2 are off-site spending such as restaurants, other entertainment venues, retail stores, gasoline stations, and hotels. In this study, we assume (based

¹ This report uses Type I economic multipliers for construction spending. Use of Type I multipliers accounts for the possibility that some arena works may reside outside of the Lincoln Metropolitan Area

Table 2. Gross Annual Impact from On-Site Revenue and Off-Site Spending

	Spending	Business Receipts	Total Impact Worker Income	FTE Jobs
Arena	\$3,224,325	\$5,572,175	\$2,950,204	100
Restaurants	\$6,101,960	\$10,176,953	\$3,330,023	110
Entertainment	\$2,808,011	\$4,895,795	\$1,634,611	63
Retail	\$3,682,318	\$1,984,784	\$840,868	22
Service Stations	\$2,282,650	\$756,048	\$299,326	7
Lodging	\$3,671,016	\$5,312,987	\$1,988,692	52
Total	\$21,770,279	\$28,698,742	\$11,043,732	354

on a review of those in attendance at recent Pershing Center events) that 55 percent of those in attendance at the new arena would be out-of-town visitors and another 10 percent would be retained Lincoln residents. The estimate of 116 event-days would yield 598,500 in attendance at arena events in a typical year; 55% of these, or 329,000, would be from out of town. Previous BBR research estimated that the average out-of-town visitor spends \$52 per day, so total visitor spending would be \$17.1 million. Retained visitors were assumed to spend \$23 per day. The total retained spending would be \$1.4 million. These two figures combine to yield a direct economic impact from off-site spending of \$18.5 million per year. The total is \$21.8 million when combined with on-site spending. This total is listed in Table 2.

The total gross economic impact also includes the multiplier effect. The gross annual economic impact in Lincoln from on-site or off-site revenue is \$28.7 million in business receipts. This includes \$11.0 million in employee compensation. This compensation is earned in 354 full-time equivalent (FTE) jobs in these industries.

Impact Scenarios

The level of attendance of the proposed arena is subject to some uncertainty. There is also uncertainty about the share of those in attendance who will come from outside Lincoln. The figures represent the baseline, or expected, scenario for the arena and the associated gross increase in economic activity. It is also useful to consider the economic impact under pessimistic and optimistic scenarios for the arena project.

The optimistic scenario considers the case where attendance at arena events is 20% higher than under the baseline scenario, and where 60% of those in attendance will come from outside Lincoln. Both factors would increase the gross economic impact from the operation of the arena. In the pessimistic scenario, attendance at arena events is 20% lower than under the baseline scenario, and only 50% of those attending will come from outside Lincoln.

Tables 3 through 5 show the gross construction period (unchanged) and gross annual operating economic impact from on-site revenue and off-site

Table 3. Gross Construction Period and Annual Operating Impacts Under Alternative Scenarios: Business Receipts

Impact Type	Pessimistic	Baseline	Optimistic
Gross Construction Period	\$416,377,514	\$416,377,514	\$416,377,514
Gross Annual Operating	\$22,090,793	\$28,698,742	\$36,083,695

Table 4. Gross Construction Period and Annual Operating Impacts Under Alternative Scenarios Worker Income

Impact Type	Pessimistic	Baseline	Optimistic
Gross Construction Period	\$181,136,317	\$181,136,317	\$181,136,317
Gross Annual Operating	\$8,653,079	\$11,043,732	\$13,706,890

Table 5. Gross Construction Period and Annual Operating Impacts Under Alternative Scenarios FTE-Jobs

Impact Type	Pessimistic	Baseline	Optimistic
Gross Construction Period	5,501	5,501	5,501
Gross Annual Operating	278	354	437

spending under the alternative scenarios. The baseline scenario is the same as in Tables 1 and 2.

Gross Loss Annual Operating Period

The gross loss in economic activity refers to any decline in economic activity elsewhere in Lincoln as a result of the project. There are two components. The first is losses in competing Lincoln businesses. The second is the more general losses in economic activity associated with local government revenue used to help fund the project.

The loss in competing local businesses refers to businesses or existing facilities in competition with the proposed arena. The most obvious example is the loss of activity at the existing local venue, the Pershing Center.²

² The economic gain estimates in the current study do not include any events diverted from the Devaney Center, so there is no need to consider losses at this facility.

Any new private investment will lead to competition with other businesses. When a new investment is paid for in part with local tax dollars, however, there is an additional potential economic impact. This is true whether the revenue source for the government portion of the investment is existing revenue earmarked for the project or new revenue raised by new tax sources.

The baseline scenario for government contributions to the project (i.e., the moderate government contribution scenario) assumes that a significant share of revenue for the construction project will come from project driven revenue and non-local funding sources. During the construction period, a significant amount of special one-time revenue is generated from private and state and federal government sources to support construction. Remaining construction costs will need to be paid through annual revenues to meet annual payments on the bonds sold in order to build the arena. In the moderate scenario,

a significant portion of these will be paid through revenue generated by the arena, taxes paid by visitors (such as lodging taxes) or through special taxes designed to capture incremental sales and property tax revenue generated by arena visitors in the area surrounding the proposed arena.

Any money not covered by these sources will place an additional burden on general revenues, effectively reducing the revenue available for government spending on other projects. This reduced spending would be an economic loss. Similarly, taxes on visitors (such as lodging taxes) would tend to modestly reduce visits to Lincoln (outside those associated with the arena). This reduced visitor spending also would be part of the economic loss.³ Finally, any effort to earmark existing local government revenue to the project would provide more revenue for the project, but also would reduce spending in local government.

Table 6 shows the annual revenue requirements based on the baseline scenario, and the share of those revenues that can be paid by 1) revenue directly generated by the arena, 2) new taxes on visitors, and 3) incremental off-

³ Any general tax increases on Lincoln residents would take disposable income from consumers' hands, also creating an economic loss. This type of funding is not part of the baseline, moderate government contribution scenario.

Table 6. Revenue Requirements and Gross Loss in Economic Activity

Construction Cost	\$223,200,000
One-Time Contributions	-15,750,000
Remaining Cost	\$207,450,000
Annual Cost	\$15,500,000
Earned Income ¹	\$3,250,000
Taxes on Visitors ²	\$1,982,115
Tax Incr. Finance	\$1,863,000
Remaining Requirement	\$8,404,885
Loss in Industry ³	\$500,000
Total Annual Loss	\$8,904,885

1. Arena Parking, cell tower revenues, naming rights, club premiums, suite premiums, retail rent, ticket fee.
2. City tax on lodging and auto rental; incremental county lodging tax.
3. Loss in hotel and auto rental activity due to new tax.

site revenue captured through TIF districts. The remaining revenue requirement would represent a decline in other government activity. There also would be a slight decline in activity among tourists industries facing a new tax. The total decline in activity is the bottom line in Table 6.

Table 7 shows the gross loss in terms of our set of economic impact measures. Standard ratios of spending to employment (worker compensation) for government, lodging, and auto rental are applied to the estimated gross loss in employment (worker compensation) The gross loss of activity at the existing Pershing Center also is included in Table 7. The loss at the Pershing Center is based on the assumption that half of the current 260,000 annual visitors to the Pershing Center are from outside of Lincoln, and 10% represent retained visitors.

Table 8 shows the gross economic loss under three alternative scenarios: low government involvement, the moderate involvement (i.e., baseline), and high government involvement scenarios.

Summary Net Economic Impact

The net economic impact estimate is the difference between the gross economic impact (gain) and the gross economic loss. Table 9 shows how the net economic impact was calculated for the baseline scenarios for gross economic impact (moderate attendance), and gross economic loss (moderate government involvement). There is a large positive economic impact during the construction period. Economic gains outweigh losses in the years after the arena opens when

tourists are coming to Lincoln but bond debts are being paid. There is a positive net economic impact each year that the arena is completed and in operation.

While the construction impact estimate is fixed, the annual impact varies depending with the scenario for attendance and government involvement in funding. Table 10 is a matrix showing the net impact on business receipts under all possible scenario combinations. The impact is positive under baseline scenarios, and most other combinations of scenarios, but would turn negative under two pessimistic attendance scenarios.

Tables 11 and 12 show the same scenario combinations for the impact in terms of worker income and employment.

Table 7. Gross Loss in Economic Activity

Gross Loss	Receipts	Total Impact	
		Labor Income	FTE Jobs
Remaining Revenue	\$8,404,885	\$3,052,764	80
Loss in Lodging and Auto Rental	\$500,000	\$270,864	14
Loss at Pershing Center	\$14,478,938	\$5,989,7041	95
Total Gross Loss	\$23,383,823	\$9,313,3322	89

Table 8. Gross Loss in Economic Activity Under Alternative Scenarios

Measure	Receipts	Total Impact	
		Labor Income	FTE Jobs
Low Government Involvement	\$20,784,323	\$8,391,474	267
Moderate Government Involvement	\$23,383,823	\$9,313,332	289
High Government Involvement	\$27,595,938	\$10,753,970	320

Table 9. Net Annual and Construction Period Impact

	Receipts	Total Impact	
		Labor Income	FTE Jobs
Baseline Gross Impact	\$28,698,742	\$11,043,732	354
Baseline Net Loss	\$23,383,823	\$9,313,332	289
Net Annual Economic Impact	\$5,314,919	\$1,730,400	64
Construction Period Impact	\$416,377,514	\$181,136,317	5,501

Table 10. Net Economic Impact Business Receipts

	Pessimistic	Total Impact Baseline	Optimistic
Low Government Involvement	\$1,306,470	\$7,914,419	\$15,299,372
Moderate Government Involvement	-\$1,293,030	\$5,314,919	\$12,699,872
High Government Involvement	-\$5,505,145	\$1,102,804	\$8,487,757

Table 11. Net Economic Impact Labor Income

	Pessimistic	Total Impact Baseline	Optimistic
Low Government Involvement	\$261,605	\$2,652,258	\$5,315,416
Moderate Government Involvement	-\$660,253	\$1,730,400	\$4,393,558
High Government Involvement	-\$2,100,891	\$289,763	\$2,952,920

Table 12. Net Economic Impact FTE Jobs

	Pessimistic	Total Impact Baseline	Optimistic
Low Government Involvement	11	87	170
Moderate Government Involvement	-11	64	148
High Government Involvement	-42	33	117

BBR Research Report

The Public Costs of Teen Childbearing in Lancaster County, Nebraska

Prepared for the Lincoln-Lancaster Teenage Pregnancy Prevention Coalition

Dr. Eric C. Thompson
University of Nebraska–Lincoln

Introduction

Young children, their welfare, and future prospects are central to the renewal of our community and society. Parents bear the private costs, and many citizens gladly bear any necessary public costs of caring for young children. However, these public costs are typically much lower when children are born to mature parents who are able to pay more of the health and nutrition costs of children. A strong family environment at a young age also may be critical to the future labor market success of children.

These conditions suggest that public costs of childbearing may be lower when children are born to parents over the age of 20 or at least over the age of 18. This report examines the public costs of teen childbearing in Lancaster County, Nebraska. The purpose of the project is to examine the **difference** in public costs when children are born to teen parents age 17 or younger versus parents over the age of 20. While the differences are smaller, we also examine the difference in public costs when children are born to

teen parents age 18 or 19 versus parents over the age of 20.

The study utilizes the estimates from the report *By the Numbers: The Public Costs of Teen Childbearing*,¹ which developed cost estimates for the nation and for each individual state. That report examined the public costs for childbearing related to: 1) lost earnings power and state and local tax payments; and 2) additional costs for federal and state government programs. We adjust these national and state estimates for Lancaster County based on the number of teen parents and different wage rates in the county. We also add to the results of the national study by including several additional public cost categories: 1) costs for the WIC program, 2) costs for enforcing child support, and 3) lost local tax revenue due to the lower lifetime earnings of teen mothers and their

¹Hoffman, Saul D., 2006. *By The Numbers: The Public Costs of Teen Childbearing*. The National Campaign to Prevent Teen Pregnancy (October).

children, as well as the fathers. Our finding is that the public cost of teen childbearing was \$6.2 million for births in Lancaster County in 2004.

The next section includes estimates of lost tax revenue due to teen births in Lancaster County in 2004. The third section includes estimates of additional program costs. Section 4 is a summary and conclusion.

Lost Tax Revenue

The report *By the Numbers: The Public Cost of Teen Childbearing* estimated the lost lifetime federal and state tax payments by teens who become mothers at the age of 17 and under, or 18 and 19, relative to having their first child at age 20 or over. These lower tax payments are due to lower lifetime income resulting from lower educational attainment, given the responsibilities of raising a child. The report also estimated a loss in lifetime revenue for the fathers, as well as for the children themselves. The national report further provides an estimate of lost federal and state tax payments for teen parents and their children by individual state.² The state numbers that were produced were adjusted for the differences between the tax rates in Nebraska and national averages.

To adjust Nebraska estimates from this national report for Lancaster County, the

² The implicit assumption in the case of tax revenue is that the teen mother, her child, and the father will all remain in the state throughout their lifetime.

first step is to determine what share of children born to teen mothers in Nebraska were born in Lancaster County. As the national report was based on 2004 data, Table 1 shows estimates for both Lancaster County and the State of Nebraska in 2004. Between 11% and 13% of children born to teen mothers in Nebraska are born in Lancaster County, which is below the county's share of Nebraska population.

Table 1. Number of Births to Teen Mothers in Lancaster County and Nebraska 2004

Age of Mother	Number of		Share Born in Lancaster County
	Children Born in Lancaster County	Nebr.	
17 or Younger	80	694	11.5%
18 or 19	206	1,595	12.9%

The shares in Table 1 were used to adjust estimates of lost tax revenue statewide into estimates of lost state and federal taxes for Lancaster County. One other adjustment also needed to be made. Because lost tax revenue results from lost income, we needed to adjust for the relative earnings in Lancaster County versus the State of Nebraska. In Table 2, we report the 25th percentile wage in 2004 for the Lincoln metropolitan statistical area (Lancaster and Seward Counties), the State of Nebraska, and the United States. This is the wage earned by workers in each area who earn more than 25% of all workers, but less than 75% of workers. The 25th percentile wage is slightly lower in Lancaster County than nationwide and is higher than statewide in Nebraska. For

comparison purposes, we also show the median wage (the 50th percentile wage). Differences are even larger for the median wage.

Table 2. 25th Percentile Hourly Wage in Lancaster County, Nebraska, and the U.S., 2004

Location	25th Percentile	Median
	Wage	Wage
Lincoln MSA	\$9.38	\$13.45
Nebraska	\$9.20	\$12.88
United States	\$9.46	\$14.15

Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Survey

Table 3 shows the estimate of lost state and federal tax revenue due to teen childbearing in Lancaster County, Nebraska in 2004, after making adjustments using the data in Tables 1 and 2. The loss in state and federal tax revenue is presented for both children born to mothers age 17 or under, and age 18 and 19, and overall for all teenage mothers. Note that the costs are higher for mothers age 17 and under even though there were 80 of these in 2004 in Lancaster County compared to 206 born to mothers age 18 and 19. The total lost state and federal revenue due to teen childbearing in Lancaster County was \$3.9 million in 2004.

Table 3. Lost State and Federal Tax Revenue Due to Teen Childbearing in Lancaster County 2004

Age of Mother	Lost Revenue		
	Federal	State	Total
17 or Younger	\$1.8M	\$1.1M	\$2.8M
18 or 19	\$0.7M	\$0.4M	\$1.1M
Total 19 or Younger	\$2.4M	\$1.5M	\$3.9M

Source: BBR calculations based on *By The Numbers: The Public Costs of Teen Childbearing*
 Note: Rows and columns may not sum due to rounding

The national study, due to data constraints, was not able to estimate lost *local* tax revenue, even though local tax revenue also is lost when teen childbearing lowers the income of teen mothers, their children, and the fathers. The clearest example is that lost income leads on average to fewer purchases and a smaller home or apartment, which in turn lead to lower sales tax and property tax revenue for local government. The *By the Numbers* report included estimates of lost income for teen mothers, their children, and the fathers. For teen mothers under age 17, each mother, father, or child had lower lifetime income of \$20,000 to \$35,000 according to the estimates. Impacts were much lower for teen childbearing among 18 and 19 year olds. We multiplied these figures by the 80 children born to mothers age 17 and under in Lancaster County in 2004 and the 206 born to mothers age 18 and 19. Based on Nebraska sales tax and income data we estimate that approximately 50% of income is spent on goods or services subject to the sales tax and 25% of income is spent on housing. Given the 1.5% local sales tax rate in the City of Lincoln and a 2% annual property tax rate for city, county, school district, and other property taxes in Lancaster County, we estimate lost local tax revenue in 2004. As is evident in Table 4, teen childbearing each year costs Lincoln, Lancaster County, local school districts, and other taxing jurisdictions \$0.5 million in revenue. The total lot tax revenue for all levels of government is

\$4.4 million from teen childbearing each year.

Table 4. Lost Federal, State, and Local Tax Revenue Due to Teen Childbearing in Lancaster County 2004

Age of Mother	Lost Revenue		
	State & Federal	Local	Total
17 or Younger	\$2.8M	\$0.4M	\$3.2M
18 or 19	\$1.1M	\$0.1M	\$1.2M
Total 19 or Younger	\$3.9M	\$0.5M	\$4.4M

Source: BBR calculations based on *By The Numbers: The Public Costs of Teen Childbearing*
 Note: Rows and columns may not sum due to rounding

Program Costs

The report *By the Numbers: The Public Costs of Teen Childbearing* estimated additional costs in a number of program areas when children are born to teen parents rather than parents age 20 or 21. The programs examined included public assistance to mothers (TANF, food stamps, and housing), health care costs for children, child welfare costs (such as foster services), and higher incarceration costs. The report also estimated these costs for the State of Nebraska. We utilize the costs estimates per child for the State of Nebraska and apply these to Lancaster County.³ Recall that in 2004 there were 80 children born to mothers age 17 or less and 206 born to mothers age 18 or 19. The estimated program costs for teen childbearing in Lancaster County are reported in Table 5 below. Program costs include TANF, food stamps, and housing. These costs are

³ Our analysis of several program areas such as TANF indicated costs per case did not differ between Lancaster County and the rest of the state.

lower when children are born to teen mothers than if born to 20 or 21 year olds. Incremental health care costs (Medicaid) are higher for children born to teen mothers. Health costs are \$1.4 million more for the 286 children born to teen mothers in Lancaster County, while foster care costs were \$1.9 million more. Incarceration costs, due to the higher likelihood of incarceration among the children of teen parents, also are higher. Over their lifetime additional incarceration costs would be \$1.0 million for the 286 children born in 2004.

We estimated several additional program costs besides those included in the *By the Numbers* report. These were program costs for the Women Infants and Children (WIC) program and the public costs for establishing paternity and enforcing child support. Average costs in both cases are higher for teen childbearing relative to births to 20 or 21 year old women.

In the case of the WIC program, our estimate is that the likelihood of participating in the WIC program is about 10% higher for teen mothers than for mothers age 20 to 21. Given that annual costs for participating mother and child run around \$720 per year (many mothers only participate for part of a given year), costs per teen mother on average are \$72 higher than for 20 or 21 year old mothers. Recall that there were 80 births to women age 17 and under in Lancaster County in 2004, and 206 births

to women age 18 or 19. Applying the \$72 figure indicates an additional cost to the WIC program of \$21,000 due to teen childbearing in Lancaster County.

In the case of child support enforcement, these costs also are higher for teen mothers because a larger percentage of children born to teen mothers are born out of wedlock, so that it is necessary to enforce child support. Data from Lancaster County indicate that in 2004 99% of mothers age 17 and under had their child out of wedlock, versus 84% of women age 18 and 19, and 64% of women age 20 and 21. Data further suggest that paternity is established for approximately 90% of children born out of wedlock. Given typical program costs of \$125 to pay for each paternity test, the average cost for establishing paternity is \$40 higher for mothers age 17 and under and \$25 higher for mothers age 18 and 19. Applying these figures indicates an additional cost of \$3,000 for the 80 mothers age 17 and under in Lancaster County in 2004. The figure for the 206 mothers age 18 and 19 is \$5,000. The

total public support enforcement cost due to teen childbearing in Lancaster County was \$8,000 in 2004.

The overall additional costs for both the WIC program and child support enforcement was approximately \$30,000 for teen childbearing in Lancaster County in 2004. As seen in Table 5, the overall cost for all public program areas was \$2.4 million for children born to mothers age 17 or under versus the cost if the mothers had waited to age 20 or 21 to have their first child.

Conclusion

Table 6 summarizes estimates of the annual public costs at the federal, state, or local level from teen childbearing in Lancaster County. Most of these estimates are taken directly, or with minor modification, from the report *By The Numbers: the Public Costs of Teen Childbearing*. We simply adjusted for the number of teen mothers age 17 or less or age 18 through 19 in Lancaster County. We also developed additional estimates not included in the *By The*

Table 5. Program Costs Due to Teen Childbearing in Lancaster County 2004

Age of Mother	17 or Younger	Lost Revenue	
		18 or 19	Total
TANF Basic Assistance	-\$0.5M	-\$1.0M	-\$1.5M
Food Stamps	-\$0.3M	-\$0.6M	-\$0.9M
Housing	\$0.1M	-\$0.2M	-\$0.1M
Health Care Costs (Children)	\$0.6M	\$0.7M	\$1.4M
Child Welfare- Foster Care and Other	\$1.5M	\$0.4M	\$1.9M
Incarceration (Sons of Teen Mothers)	\$0.9M	\$0.1M	\$1.0M
WIC and Other Child Support	\$0.0M	\$0.0M	\$0.0M
Total Program Costs	\$2.4M	-\$0.6M	\$1.8M

Source: BBR calculations based on *By The Numbers: The Public Costs of Teen Childbearing*

Note: Rows and columns may not sum due to rounding

Table 6. Public Costs of Teen Childbearing in Lancaster County 2004

Age of Mother	Lost Revenue		Total
	17 or Younger	18 or 19	
Lost Tax Revenue	\$3.2M	\$1.2M	\$4.4M
Total Program Costs	\$2.4M	-\$0.6M	\$1.8M
Total Public Costs	\$5.6M	\$0.6M	\$6.2M

Source: BBR calculations based on *By The Numbers: The Public Costs of Teen Childbearing*

Note: Rows and columns may not sum due to rounding

Numbers report, including an estimate of lost local property and sales taxes, and increased public costs due to WIC program participation and enforcement of child support. Our analysis indicates that the public cost of teen childbearing was \$6.2 million in Lancaster County in the year 2004. Most of these costs are due to births to teen mothers age 17 or less.

Business in Nebraska Reprints

Business in Nebraska October 2006

Labor Force Implications of Population Decline in Non-Metropolitan Nebraska

Dr. Randy Cantrell, University of Nebraska Rural Initiative

The most recent release of population estimates from the Census Bureau indicates that 70 Nebraska counties lost population between 2000 and 2005. These counties included 52 of the 53 that recorded population losses between 1990 and 2000, joined by 18 counties that had grown through the 1990s.

While those counties estimated to have lost population over the last five years included three of 11 micropolitan core counties, eight of ten outlying micropolitan counties, and even one of seven outlying metropolitan counties, the great majority were non-metropolitan. Of the 43 Nebraska counties containing no community of 2,500 or more residents, 42 are estimated to have declined in total population since the 2000 Census. These numbers clearly indicate a continuing concentration of Nebraskans in metropolitan centers and their suburbs. Even allowing for the possibility that inter-Census estimates for small counties may be something less than perfect, the continuing loss of population in rural portions of our state, which in some counties has continued for more than 100 years, does not inspire much optimism for their economic and social future.

As is often the case with things statistical, these aggregate data tell a story that is incomplete. Depopulation is certainly occurring, but not in the uniform way that one might imagine. In order to fully understand the likely impact of population change, one must ask not only how many people are involved, but who those people are. The answers sometimes can be counterintuitive and surprising, as is the case of changes in Nebraska's non-metropolitan labor force.

Of the 53 Nebraska counties that lost population between 1990 and 2000, Census results show that 31 saw actual increases in the size of their labor force and 43 saw an increase in their labor force participation rate¹ and 45 experienced an increase in the proportion of the labor force with full-time work.²

Disaggregating Population Change

The explanation for this seeming anomaly (population loss and labor force

¹ The proportion of the population over the age of 16 years that was either employed or unemployed and looking for work.

² Full-time is defined here as working for an average of 35 or more hours per week for at least 50 weeks of the year preceding the Census.

Table 1. Estimated Population Change in Nebraska Counties Classified by Modified Urban Influence Case: 2000-2005

Area	Estimated Population July 1, 2005	Census Population April 1, 2000	Estimated Change	Estimated Percent Change
Nebraska	1,758,787	1,711,265	47,522	2.8
2 Metropolitan Core Counties	751,787	713,876	37,867	5.3
7 Metropolitan Outlying Counties	248,578	228,627	19,951	8.7
10 Micropolitan Core Counties	354,885	348,839	6,046	1.7
10 Micropolitan Outlying Counties	46,415	47,273	-858	-1.8
21 Counties with Towns of 2,500 to 9,999 Residents	210,661	217,384	-6,723	-3.1
43 Counties without Towns of 2,500 Residents	146,505	155,266	-8,761	-5.6

Source: Bureau of the Census

growth) is found in the four components of population change: birth, death, in-migration, and out-migration. If a population grows, it is because more people are born than die and/or because more people move to the area than out of the area. If a population declines, the reverse must be true.

In general, non-metropolitan Nebraska is losing population due to declining birth rates and high death rates resulting from a disproportionately large population of elderly residents. While 43% of the state's population resides in a non-metropolitan county, 55% of the population over 65 years of age does so, as does 61% of the population age 85 years and over. In part as the result of this skewed age distribution, deaths exceeded births in 41 Nebraska counties between 1990 and 2000. It is estimated that 46 Nebraska counties experienced such natural population losses over the last five years.

In addition, 50 Nebraska counties experienced net migration losses during the 1990s. It is estimated that 77 counties

have seen net out-migration since 1990. In terms of total population change, out-migration is a two-edged sword.

Migration for work or education is significantly more likely to be attractive to the young, because they stand to benefit more from improved earnings over time. If residents of childbearing age leave a community, they not only leave older residents to age in place, but they also reduce the number of children born into their community of origin. Coupled with a nationwide (in fact global among industrialized nations) trend of declining fertility rates, this phenomenon tends to result in a rapid reduction in the number of children born in the community.

Ultimately, one would expect the two trends to be mutually reinforcing. This has indeed been the case in much of Nebraska, where it is estimated that 42 counties experienced both net out-migration and natural population decreases between 2000 and 2005.³

³An excellent report on Nebraska population estimates for 2005 can be found at the University of Nebraska Omaha Center for Public Affairs Web site: <http://www.unomaha.edu/~cpar/>:

Figure 1. Estimated Change in Population in Nebraska Counties 2000-2005

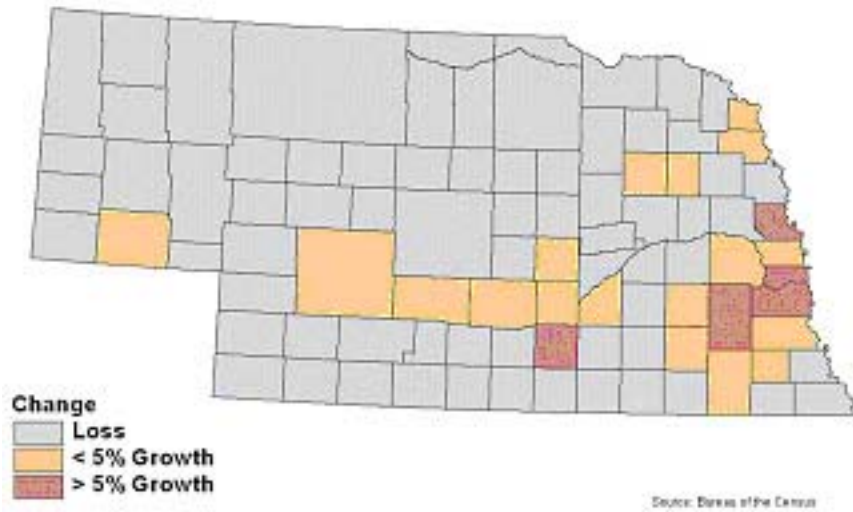
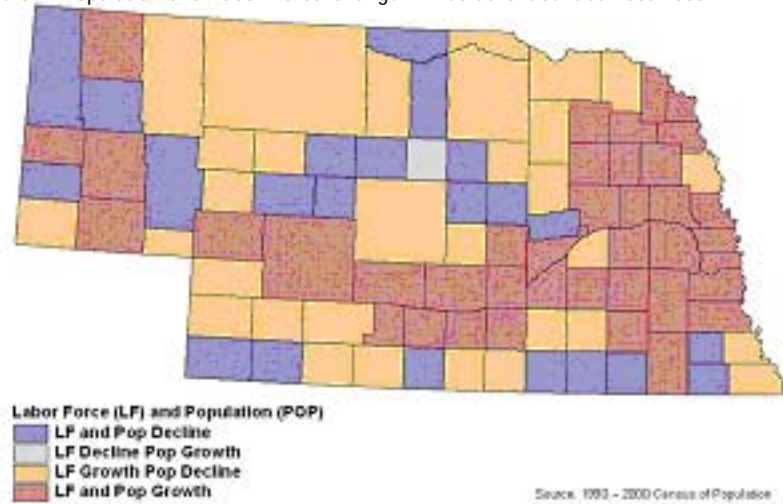


Figure 2. Population and Labor Force Change in Nebraska Counties 2000-2005



Comparing Rural and Urban Counties

The result of these changes is readily apparent when comparing the population pyramid depicted in Figure 5 for Nebraska's 71 most rural counties with that depicted for metropolitan and large

trade center counties.⁴ The population distribution for the state's rural counties

⁴These counties contain a community with a population larger than 7,500. Note that excluding them from the definition of rural eliminates most of migration destinations for Nebraska's growing Latino population and thus provides a conservative estimate of both the birth rate and in-migration rate for non-metropolitan Nebraska.

Figure 3. Change in Labor Force Participation Rate in Nebraska Counties 2000-2005

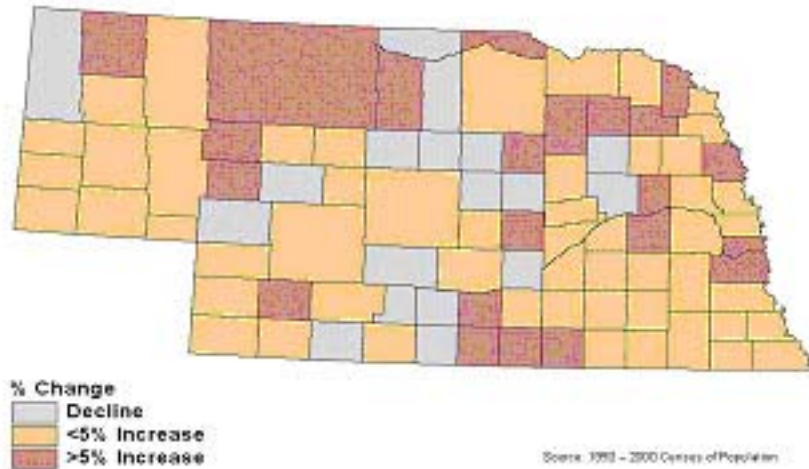
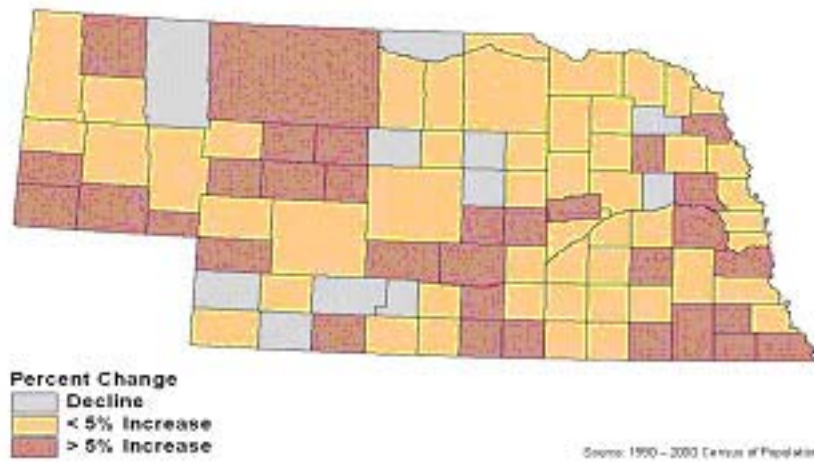


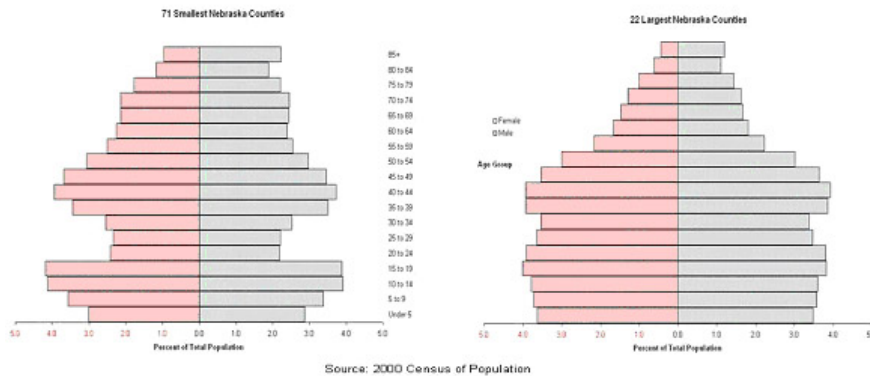
Figure 4. Change in Percentage of Workers with Full-Time Work in Nebraska Counties 2000-2005



demonstrates declining birth numbers, out-migration of young residents (age 20 to 29), and the presence of a proportionally large senior population. For the 22 metropolitan and large trade center counties, the ability to attract

young people is enhanced by the presence of both institutions of higher education and jobs. In those counties, the concentration of young adults contributes to larger birth numbers and a relatively stable birth rate.

Figure 5. Age and Gender Comparison of Nebraska Counties 2000



Residents in their prime earning years (35 to 54) account for approximately 28% of the population for both county types. It is the ability of more rural counties to attract in-migrants in this age group along with increases in labor force participation that explains growth in the rural labor force.

Rural Areas Saw In-Migration of Working Age People

Evidence of the in-migration of working age people is found in Figure 6, which represents the difference between the expected and observed populations in various age groups in the year 2000. In this graph, we have started with the assumption that nobody either moved or died over the ten years between the last two Censuses and that births would occur at the average Nebraska rate.⁵ If that were in fact true, we would expect

⁵Nebraska Health and Human Services reports an annual rate of 72.6 births per 1,000 women age 15 to 44 years.

the population age 30 to 40 years in the year 2000 to be identical to the population age 20 to 30 years in 1990. Before ten years of age, discrepancies from expectation can be explained as migration, declining fertility, or an error in our birth rate assumption. From the age of ten years on, however, any observed change must be the result of either migration or death.

Figure 6 demonstrates significant out-migration of young people, amounting to a nearly 50% loss in the 20 to 24 year age group. The data also demonstrate substantial population losses among persons age 70 years and over, primarily as the result of death. Surprisingly, the data also demonstrate in-migration for the population age 30 to 49 during the decade of the 1990s. Associated with that movement was an in-migration of school age children (ten to 14 years), who accompanied working age parents.

For these counties, the net result of demographic change was a 1.5% decline in the total population and a 7.7% increase in the economically important group age 30 to 54 years. Coupled with an increase in labor force participation, this resulted in labor force growth of 6.6%.⁶

While labor force growth in this group of counties is encouraging, one cannot be being overly optimistic, because the total Nebraska labor force grew at slightly more than twice that rate (13.6%). Still, it appears from these data that labor force growth in rural portions of Nebraska is possible even in the face of continuing population decline.

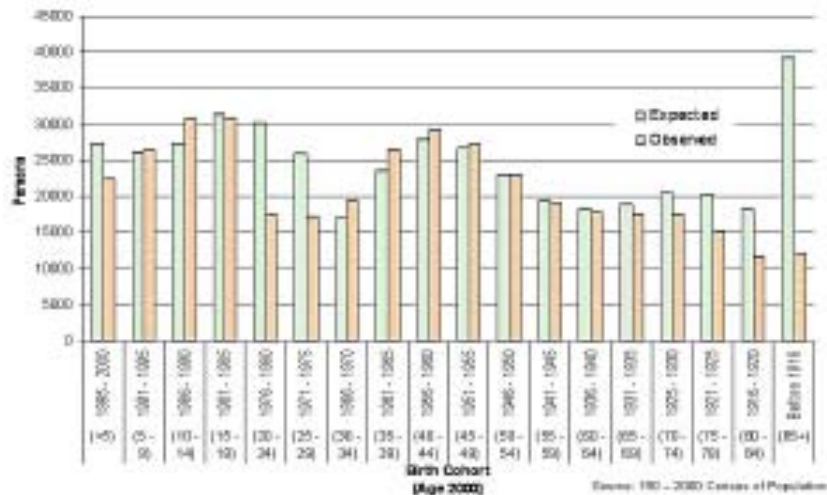
⁶It is important to note that labor force participation rates are also influenced by deaths or out-migration among older, retired residents.

Can We Expect More of the Same?

Because Nebraska's institutions of higher education are in the majority located in larger communities, young people can be expected to continue leaving rural areas in large numbers upon completion of high school. Because the senior and near senior population is relatively large, we can expect to see substantial rural population losses resulting from death. In some localities this will no doubt exceed the birth rate. Thus, depopulation is likely to be a continuing theme in many non-metropolitan counties and communities.

Whether or not we can expect to see a continuation of in-migration by persons of working age is question of critical economic importance. The movement that we saw during the 1990s may reflect

Figure 6. Expected and Observed Population of Nebraska's 71 Most Rural Counties 2000



lifestyle preferences as much as economic opportunity, but it is certain that such a movement of population to rural areas can not develop in the absence of available employment. Fortunately, non-metropolitan Nebraska has been able to add jobs over time.

Certainly, the odds of economic growth will be improved if the general population of a rural area is growing. The conclusion to be drawn from this examination of the demographics of the last decade is that population change does not necessarily occur in a uniform way. Aggregate population losses do not define an hourglass in which all grains of sand, or in this case people, are the same. At least as far as the labor force is concerned, much of rural Nebraska remains capable of growth, even if that growth falls short of generating a new settlement boom.

Business in Nebraska December 2006

A Soft Landing, Steady Growth, and Accelerating Farm Income

The Nebraska Business Forecast Council

U.S. Macroeconomic Outlook

After years of accelerating growth, the U.S. economy achieved a soft landing in 2006. The rate of economic growth remained positive but slowed sufficiently to reduce inflation pressures and the need for further interest rate increases. At the same time the economy remained strong enough to continue the current expansion which has been in place since late 2001. Such a soft landing is vital because it should allow the economy to continue to expand for years to come, but with moderate inflation.

The housing sector played an important role in the U.S. economy's recent slowdown. Housing prices and construction activity have fallen significantly in 2006. The decline is expected to continue into early 2007 before housing prices stabilize and construction activity and employment begin to grow again. Other sectors of the economy (manufacturing, retail, and services) should continue to grow throughout the period.

A recovering housing sector in 2007 should lead to a reacceleration of the economy in the second half of the year.

Overall, the slow growth seen in late 2006 is expected to continue through early 2007. As a result, growth in real GDP will reach only 2.5% in 2006 and 2007. Real GDP growth will reach 3.0% in 2008 and 3.5% in 2009.

The rate of inflation also began to slow in late 2006 due to falling energy prices. Gasoline prices have stabilized at historically higher levels. Stable prices, however, will not fuel inflation in the years to come. Less risk to inflation has allowed the Federal Reserve Bank to end its string of interest rate increases.

Employment is expected to expand in all major industry groupings throughout the 2007 to 2009 period. The fastest rate of growth is anticipated in the services sector. Manufacturing employment also is expected to grow. Solid job growth will keep national unemployment rates well below 5% throughout the period.

Nebraska Outlook

The panel remains optimistic about the outlook for the Nebraska economy.

Employment will continue to expand in Nebraska. Aggregate farm income is expected to grow rapidly in 2007, and it will remain high in 2008 and 2009.

Table 1. Key Economic Growth Rates

	Non-farm Employment	Non-farm Personal Income	Net Taxable Sales
2005	1.5%	4.5%	3.5%
2006	1.5%	6.2%	1.8%
2007	1.8%	5.9%	3.2%
2008	1.9%	5.9%	4.3%
2009	1.9%	5.9%	5.1%

Manufacturing employment also is expected to grow robustly. Employment growth will help generate growth in both income and taxable sales in Nebraska.

Total nominal income growth, including farm income, is expected to average 5.9% per year over the outlook period.

Adjusting for an average inflation rate of 2.5%, income growth will average 3.4% in real terms. Growth in net taxable sales will average just over 4% per year from 2007 through 2009. A summary of the Nebraska outlook is reported in Table 1.

Employment

Nebraska will experience broad-based employment growth over the next three years, with consistent growth in all sectors. Even construction employment is expected to expand beginning in 2007 as the sector begins to recover, after declining in both 2005 and 2006.

Manufacturing employment also will grow during the outlook period, but the faster rates of growth are expected in the services, financial, and transportation industries. Job growth is expected to be tepid in the wholesale and retail trade industry, reflecting a pattern exhibited since 2000. With solid growth in sales

over the period, these results suggest that strong labor productivity growth has taken place in these industries.

Construction and Mining

Construction employment decreased in Nebraska in 2005 and 2006, as decades of rapid growth in residential construction came to an end. Looking forward, employment in both segments of the construction industry is expected to stabilize and begin to expand in 2007, with solid growth in 2008 and 2009.

Commercial construction opportunities in Omaha have slowed from their previous blistering pace. Growth will slow in 2007, with a gradual improvement envisioned for the next several years. Throughout the forecast period, demands for new ethanol plants, expanded hospital and nursing home facilities, and schools continue to provide a firm floor for commercial construction activity across the state.

Residential construction is expected to reach bottom in the winter months of 2006/2007. While the market is affected somewhat by past overbuilding, income growth and mortgage interest rates continue to be favorable. Housing activity will rebound in the out-years of the forecast.

Spending on road construction will continue to expand during the outlook period and will continue to generate employment in heavy construction.

Overall construction employment will decline 4% in 2006. Construction employment will rise 1% in 2007, followed by moderate increases of 2.0% and 2.3% in 2008 and 2009.

Manufacturing

Recent data indicate an upturn in employment in both the durable and nondurable goods manufacturing sectors. Employment in the durable goods sector is forecast to increase 2.5% in 2006 with the growth rate slowing to 1.6% in 2007 and 1.4% in 2008 and 2009. Nebraska's durable goods manufacturers have benefited from an improved national economy with employment showing signs of growth in metals manufacturing, motor vehicle parts, and miscellaneous manufacturing, including surgical and medical instruments manufacturing. The strong ag economy is supporting employment growth in the farm machinery and equipment sector.

Employment in nondurable goods is expected to grow 1.5% in 2006 and 2007 before slowing slightly to 1.2% and 1.0% in 2008 and 2009. Employment growth in Nebraska's food processing manufacturing sector will be the major contributor to the employment turnaround in nondurable goods manufacturing employment.

Transportation and Warehousing

A growing national economy and goods-producing sector provide a favorable

setting for increasing employment and business activity in the transportation sector. In Nebraska, favorable demographics and infrastructure, low entry cost, and state government's interest in promoting trucking and warehousing suggest continued employment growth. The construction of ethanol plants in the state may stimulate additional freighting demand in shipping corn to new plants. The rail industry, with its significant presence in Nebraska, also will generate new employment in response to growing national demand. There are even concerns now that the increased freight demand could stress the existing rail network.

Strong growth in trucking and rail and moderate growth in warehousing implies that the transportation and warehousing industry will continue to be an engine of job growth in Nebraska during the forecast period. Employment growth will reach 3.5% for 2006. The rate of growth will decelerate slightly in 2007 through 2009. The outlook is for 3.3% job growth in 2007 and 3.0% growth in both 2008 and 2009.

Wholesale Trade

Wholesale trade employment in Nebraska has grown little over the last decade, despite a growing economy in the state. Such a pattern is characteristic of industries with rising labor productivity, where rising productivity causes employment to remain steady even as total industry activity increases. Our

forecast expects this trend to continue and calls for wholesale trade employment to rise only modestly even as the Nebraska economy expands. Employment is expected to be flat in 2006 and grow between 0.2% and 0.3% in 2007 through 2009.

Retail Trade

Solid growth is anticipated for Nebraska retail sales over the next three years. This will support job growth in the retail trade industry over the period. Retail job growth is expected to average around 0.5% to 0.6% per year from 2007 through 2009, as seen in Table 2. This is roughly in line with anticipated population growth in the state. This rate of growth

contrasts with the rapid 1.5% annual growth the retail industry experienced during the 1990s. The difference may be rising productivity growth in the retail industry.

There are several reasons to expect rising productivity in the retail industry. Growth in the number of big box retailers in Nebraska will allow sales per employee to rise. Growth of internet-based sales also will curb employment growth at store sites.

Information

There was substantial job loss in the information sector during and after the last recession. Industry employment

Table 2. Number of Non-farm Jobs and Percent Changes by Industry Annual Averages (thousands of jobs)

	Non-farm Total	Construction Mining & Natural Resources	Dur- ables	Non- dur- ables	Whole- sale Trade	Retail Trade	Trans- portation and Util.	Info	Finan- cial	All Serv- ices	Federal Gov't	Local Gov't
1996	836.8	38.2	55.6	55.7	40.4	104.6	38.6	23.5	54	275	16	135.4
1997	857.1	40	57.3	55.4	41.2	105.3	41.6	25.1	55.7	283.5	16.1	136.1
1998	879.9	42.4	58.5	55.9	42.2	107.5	43.3	26.3	58.8	294.2	16	134.9
1999	897.4	44.3	57.7	55.7	42.5	110.2	44.5	27.1	60.9	303.1	15.9	135.6
2000	914	45.2	58.9	55.4	41.9	111.3	45.1	26.9	60.5	314.3	16.6	137.9
2001	919.7	45.3	54.6	56.2	42.5	110	45.2	25.8	60.2	323	16	140.8
2002	911.5	46.1	50.6	55.4	41.5	108.5	44.9	23.2	61.4	321.2	16.3	142.6
2003	914.2	47.4	47.3	55.1	41	106.7	46.4	21.5	62.4	327.3	16.7	143.1
2004	922.3	48.4	47	54	40.8	106.5	48.9	21.1	63.2	332.2	16.5	143.6
2005	935.8	47.5	48.3	53.2	40.6	107.1	52.3	20.4	64.5	340.7	16.3	145
Forecast Number												
2006	949.9	45.6	49.5	54.0	40.6	107.1	54.1	20.0	65.9	349.6	16.3	147.2
2007	966.8	46.1	50.3	54.8	40.7	107.6	55.9	20.1	67.5	359.0	16.3	148.5
2008	984.8	47.0	51.0	55.5	40.8	108.3	57.6	20.2	69.3	369.0	16.3	149.8
2009	1003.6	48.1	51.7	56.0	40.9	108.9	59.3	20.4	71.1	379.8	16.3	151.2
Forecast Percent												
2006	1.5%	-4.0%	2.5%	1.5%	0.0%	0.0%	3.5%	-1.8%	2.1%	2.6%	0.0%	1.5%
2007	1.8%	1.0%	1.6%	1.5%	0.2%	0.5%	3.3%	0.5%	2.5%	2.7%	0.0%	0.9%
2008	1.9%	2.0%	1.4%	1.2%	0.3%	0.6%	3.0%	0.5%	2.6%	2.8%	0.0%	0.9%
2009	1.9%	2.3%	1.4%	1.0%	0.3%	0.6%	3.0%	0.6%	2.6%	2.9%	0.0%	0.9%

declined 5,600 jobs, or 20%, between 2000 and 2003. The rate of job loss steadied to just 400 to 600 jobs per year from 2004 through 2006. Such losses have been possible because the information sector includes many business in areas such as telecommunications, data processing, web site development, and web publishing, which have gone through substantial consolidation and downsizing since the late 1990s. Industry employment is expected to stabilize and grow modestly over the next three years.

Financial

The finance industry comprises finance, insurance, and real estate. Like the services sector, this industry has expanded at more than 2% per year since 1990 with all areas of the industry contributing to growth. Conditions are favorable for continued growth throughout the industry. We anticipate job growth at around 2.5% per year through the outlook period with employment reaching 71,000 by 2009, as seen in Table 2. Growth is expected to be broad-based, with employment expanding in the state's banks and insurers. Real estate employment growth depends on continued low mortgage rates and steady improvement in total employment.

Services

The rapidly growing services sector now accounts for more than one-third of employment in the economy. This share

will grow over time, as services sector employment typically grows faster than total employment. Overall services employment is forecast to grow 2.6% in 2006, 2.7% in 2007, 2.8% in 2008, and 2.9% in 2009. Below, we consider job growth in several key sub-sectors of the services industry.

Professional, scientific, and technical services is the most pro-cyclical portion of the services sector and grows most quickly when the economy is expanding. Employment is expected to grow 4.6% in 2006 and at a similar strong pace in 2007 through 2009, as the economy expands solidly. The sector will add approximately 2,000 jobs per year and will employ 44,000 Nebraskans by 2009. Professional, scientific, and technical services includes many high wage occupations in areas such as legal, accounting, and bookkeeping, architectural and engineering, computer, consulting, and research services as well as advertising, veterinary services, and photographic services. This sector will bring high wage job growth during the forecast period.

Health care and social assistance is the largest part of the services sector and grows steadily as Nebraska's population grows and ages. Ambulatory health care services such as home health care services, ambulance services, blood donor stations, and health screening services are the fast growing portion of health care. Health care and social assistance employment will grow roughly

3.5% throughout the 2007 to 2009 period. By 2009, the health services and social assistance sub-sector will employ nearly 125,000 Nebraskans.

Growth will be solid to strong in the leisure sector of the services industry (areas such as food services, lodging, and recreation). Lodging employment is expected to grow more than 3.5% per year through 2009 and return to pre-recession levels of around 9,000 employees. Arts, entertainment, and recreation also will add employment at 4.0% per year, reaching employment of nearly 14,000 by 2009. Growth in food

services and drinking places will be steady at just over 1.5% or roughly 1,000 jobs per year. By 2009, there will be nearly 65,000 Nebraska jobs in food services and drinking places.

Government

Despite growing federal programs and expenditure, federal employment has been stagnant or in decline in Nebraska for the last decade. As seen in Table 2, our outlook calls for no change in federal government employment through 2009. Growth, however, is anticipated for state and local government. Growth in state and local government employment has

Table 3. Non-farm Personal Income and Selected Components and Net Farm Income (USDA) (\$ millions)

	Non-farm Personal Income	Dividends, Interest, & Rent	Total Personal Current Transfer Receipts	Non-farm Wages & Salaries (Wages & Salaries - Farm Wages)	Other Labor Income	Contributions to Social Insurance	Resi- dential Adjustment	Non-farm Proprietors' Income	Net Farm Income (USDA)
1996	\$36,828	\$7,823	\$4,961	\$20,523	\$4,343	\$3,264	-\$579	\$3,022	\$3,466
1997	\$38,754	\$8,272	\$5,132	\$21,936	\$4,456	\$3,462	-\$653	\$3,073	\$2,023
1998	\$41,591	\$9,096	\$5,477	\$23,343	\$4,744	\$3,686	-\$684	\$3,300	\$1,816
1999	\$43,644	\$9,148	\$5,822	\$24,796	\$4,999	\$3,874	-\$762	\$3,517	\$1,707
2000	\$46,366	\$9,991	\$6,075	\$26,186	\$5,317	\$4,032	-\$825	\$3,654	\$1,440
2001	\$48,103	\$9,998	\$6,667	\$26,908	\$5,612	\$4,200	-\$833	\$3,952	\$1,893
2002	\$49,731	\$10,023	\$7,069	\$27,713	\$6,363	\$4,350	-\$869	\$3,782	\$857
2003	\$51,409	\$10,002	\$7,424	\$28,689	\$6,753	\$4,541	-\$920	\$4,003	\$2,787
2004	\$53,896	\$10,188	\$7,724	\$30,052	\$7,173	\$4,704	-\$952	\$4,415	\$3,568
2005	\$56,325	\$10,603	\$8,111	\$31,214	\$7,664	\$5,025	-\$986	\$4,744	\$2,700
Forecast Number									
2006	\$59,817	\$11,292	\$8,598	\$32,931	\$8,201	\$5,301	-\$1,050	\$5,147	\$2,800
2007	\$63,371	\$11,969	\$9,122	\$34,672	\$8,757	\$5,581	-\$1,116	\$5,548	\$3,500
2008	\$67,111	\$12,628	\$9,679	\$36,530	\$9,358	\$5,881	-\$1,187	\$5,984	\$3,600
2009	\$71,068	\$13,322	\$10,269	\$38,507	\$10,005	\$6,199	-\$1,263	\$6,427	\$3,700
Forecast Percent									
2006	6.2%	6.5%	6.0%	5.5%	7.0%	5.5%	6.5%	8.5%	3.7%
2007	5.9%	6.0%	6.1%	5.3%	6.8%	5.3%	6.3%	7.8%	25.0%
2008	5.9%	5.5%	6.1%	5.4%	6.9%	5.4%	6.4%	7.9%	2.9%
2009	5.9%	5.5%	6.1%	5.4%	6.9%	5.4%	6.4%	7.4%	2.8%

Note: Net Farm Income (USDA Basis) is not added into the Non-farm Personal Income total.

tended to exceed, though only slightly, the rate of population growth in Nebraska. State and local government employment historically has grown 1% per year on average. This makes sense, as the need for teachers, police, fire, and other state and local employees who work directly with the public rises with population. As the economy expands, the state tax revenue base should be growing over the next few years, which also will encourage new employment.

Our expectation is that state and local government employment will grow 0.9% per year from 2007 through 2009, which is just below historical averages.

Government employment will be somewhat lower because the rate of population growth has declined in

Nebraska in the current decade relative to the 1990s.

Non-Farm Personal Income

As the current economic expansion continues and unemployment rates decrease, strong job growth is expected to create growing pressures on growth in wage and salary income. Even with expected moderate inflation, we expect non-farm wages and salaries to grow at about 5.4% per year from 2007 through 2009, as seen in Table 3. Employee benefits (other labor income) are expected to grow nearly 7% per year, driven by increasing health care costs.

Non-farm proprietor income is another income component that gains strength as economic expansion continues. Non-farm

Table 4. Net Taxable Retail Sales, Annual Totals (\$ millions)

Year	Total Sales	Motor Vehicle Net Taxable Sales	Nonmotor Vehicle Net Taxable Retail Sales
1996	\$16,853,403,165	2,068,252,474	14,785,150,691
1997	\$17,815,213,048	2,204,779,981	15,610,433,067
1998	\$19,005,203,351	2,416,875,627	16,588,327,724
1999	\$19,806,203,447	2,519,969,289	17,286,234,158
2000	\$20,443,147,008	2,605,040,740	17,838,106,268
2001	\$21,056,748,756	2,896,708,697	18,160,040,059
2002	\$21,426,001,233	2,926,105,837	18,499,895,396
2003	\$22,092,175,638	2,893,503,697	19,198,671,941
2004	\$23,618,358,536	2,885,018,183	20,733,340,353
2005	\$24,442,519,011	2,751,314,526	21,691,204,485
Forecast Numbers			
2006	\$24,887,786,590	\$2,628,055,635	\$22,259,730,955
2007	\$25,689,136,904	\$2,628,055,635	\$23,061,081,269
2008	\$26,794,361,210	\$2,764,714,528	\$24,029,646,682
2009	\$28,168,314,992	\$2,889,126,682	\$25,279,188,310
Forecast Percent			
2006	1.8%	-4.5%	2.6%
2007	3.2%	0.0%	3.6%
2008	4.3%	5.2%	4.2%
2009	5.1%	4.5%	5.2%

proprietor income is expected to increase nearly 8% per year during the period. Dividend, interest, and rent income will grow at a moderate 5.5% rate during the expansion period. Interest rates are expected to stabilize over the next three years. Dividend income also is expected to grow at a moderate rate. Healthy growth in corporate profits should allow firms to continue to grow dividends.

Transfer income growth is expected to be steady, as no major change in transfer policy is anticipated during the forecast period. Any tinkering with the Social Security system would not be expected to take effect for several years. With no major changes transfer payments should grow at around the 6% rate, Nebraska's historical average since 1990.

Farm Income

The net income forecast for the state's agricultural economy has taken a strong upward turn in a relatively short period of time. Fueled by rapidly rising grain prices over the last part of the year and good crop yield levels, the Nebraska net farm income is forecast to be \$2.8 billion in 2006. The 2006 forecast is about 4% above the 2005 level and well above the 1996-2005 annual average. As seen in Table 3, farm incomes are expected to rise even faster in 2007 and stay high in 2008 and 2009.

The main contributing factor has been sharply higher corn prices due to growth in the state's ethanol industry. Given

projections of new plants and expansion of present plants over the next three years, a vibrant cattle industry which utilizes the distillers' grain by-products; and ideal transportation location for West Coast exports, it is possible Nebraska is likely to become a dominant state in ethanol production.

During 2006 the livestock industry has been a relatively strong market as prices remained in the profitable range. Stronger corn prices in the last part of the year however, have cut into producer profits; though the upward price effect on corn for cattle feeders has been buffered due to the availability of the high quality distillers' grains from ethanol plants.

Higher grain prices have been more of a burden for other parts of the agricultural production sector such as hog and poultry producers, who currently do not benefit from the use of distillers' grain. This may create new challenges for many in the industry, unless higher feed-grain prices can be passed to end-consumers. The drought also played a role. In some state regions, 2006 production levels were significantly below normal and are not likely to rebound in the next year. The state's agricultural sector will experience for 2006 and the near future a wide range of economic conditions from one region to the next.

Looking forward, risks facing the industry include continuing dynamic patterns in the ethanol industry, the

uncertainty of a new farm program in 2008, and the ongoing drought. In the next two-to-three year window of time, however, we expect relatively favorable earnings for the state's agricultural production sector as a whole, with particularly strong expectations for feed/fuel grain producers. For 2007, farm income is expected to rise to a near record \$3.5 billion and then increase slightly to \$3.6 billion in 2008 and \$3.7 billion in 2009. These strong income forecasts are being made despite an expected decline in farm program payments.

Net Taxable Retail Sales

In Table 4, data on net taxable retail sales are divided into motor vehicle sales and non-motor vehicle net taxable retail sales. The distinction is important. Motor vehicle net taxable sales are growing over time, but from year to year are affected by cyclical sales. Non-motor vehicle taxable sales rise steadily, but are affected by periodic changes to Nebraska's sales tax base.

Table 4 shows a steady increase in non-motor vehicle taxable sales over the 2007 to 2009 period. Growth is muted in 2007 because in late 2006 Nebraska exempted from taxation sales of contract labor. As a result, comparisons between the year 2007 and 2006 reflect a smaller tax base in 2007 relative to the first half of 2006. This reduction in the sales tax base does not affect growth rates for 2008 and 2009. Non-motor vehicle taxable sales are

expected to rise 4% to 5% during those two years.

Growth in motor vehicle net taxable sales is much more variable. Sales grew rapidly in 2002, but have fallen since then. This pattern is familiar in Nebraska: motor vehicle sales periodically grow rapidly one year and then growth slows or sales decline in the years that follow. Vehicles purchased during the sales peak years of 2001 and 2002 will have reached six years of age by 2008, and we anticipate strong sales growth in 2008 due to replacement of older vehicles. The increasing importance of automobile leasing, not included in taxable purchases, will limit motor vehicle taxable sales throughout.

Overall growth in net taxable sales is expected to reach 3.2% in 2007. Growth is expected to increase to 4.3% in 2008, as the rate of growth in non-motor vehicle taxable sales increases. By 2009, growth in overall net taxable sales is expected to reach nearly 5.1%.

Business in Nebraska April 2007

Nebraska's Micropolitan Statistical Areas: A Growing Piece of a Shrinking Pie,

Dr. Randy Cantrell, University of Nebraska Rural Initiative

They have been called “urban islands in a shortgrass sea” (Popper and Popper, 1986) and “middle places” (Swanson, 2007). They are the small urban centers that dot the Great Plains and are home to an important share of the region’s non-metropolitan population and economic activity. Compared to the much larger metropolitan centers such as Omaha and Lincoln, they may appear to be minor players in the state’s social and economic landscape—but that would underestimate their role. Individually they anchor the regional “pillars of growth” identified by Thompson (Thompson et al., 2007), and collectively they play a determining role in the trends that are shaping the future of the state. They are economic centers worthy of examination in their own right.

In this analysis, we will look at recent and long-term trends found in those small Nebraska cities that have been identified by the federal government as micropolitan statistical areas and compare their demographic and economic performance to their metropolitan counterparts.

Metropolitan and Micropolitan Regions

Since they first appeared in the U.S. Census of 1950, metropolitan statistical areas (MSAs) have become familiar to consumers of federal statistics. The general concept behind the creation of the MSA is that of an area containing a recognized population nucleus and adjacent communities that have a high degree of integration with that nucleus. The purpose of defining such areas is to provide nationally consistent definitions for collecting, tabulating, and publishing federal statistics. Beyond that purpose, the MSA has found favor among policy makers for the implementation and administration of a variety of non-statistical federal programs.

While MSAs are best known for their role in the tabulation of Census data, they are actually defined by the Federal Office of Management and Budget (OMB). While OMB expresses concern over (and cautions against) the use of MSAs for any purpose other than statistical tabulation, they also recognize how valuable the concept has been for

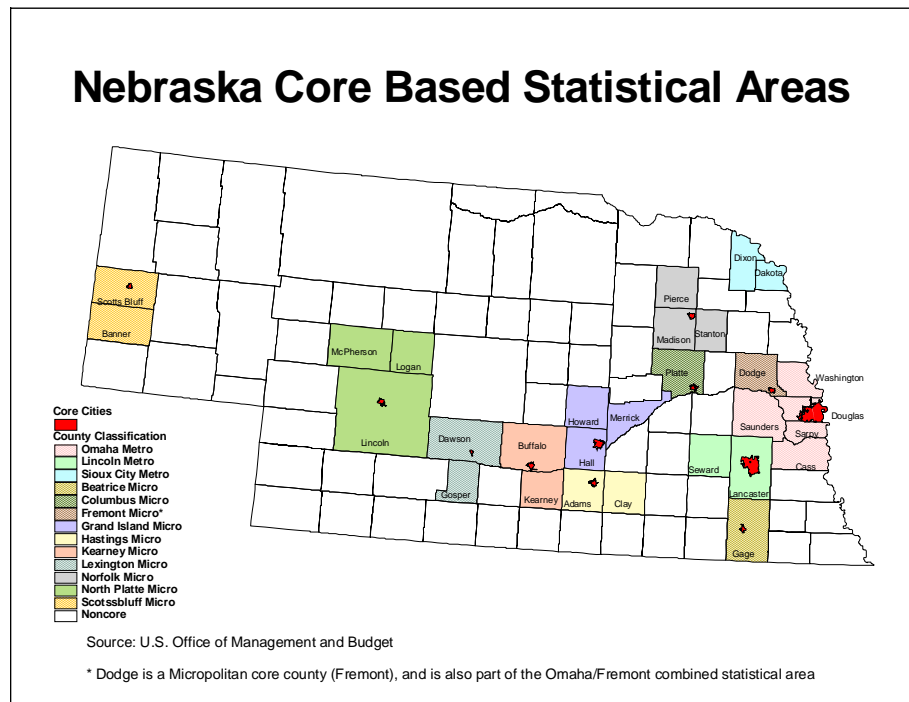
its intended function. With that in mind, the concept was expanded in 2003 to include smaller urban concentrations and their closely integrated neighbors. These newly defined areas are generically known as “micropolitan areas.”

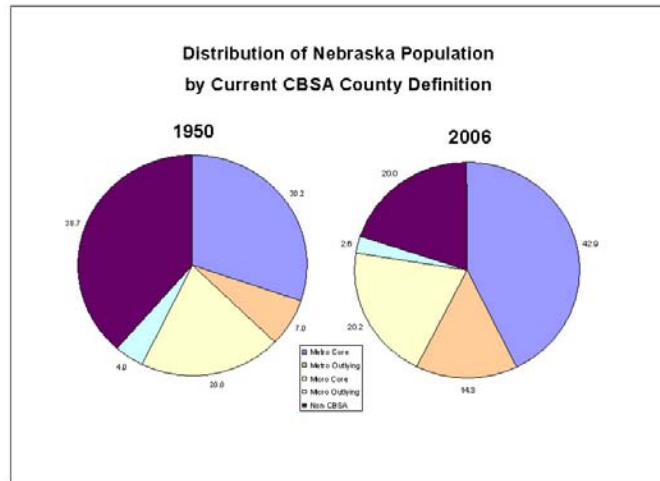
Collectively titled “core-based statistical areas” (CBSA), metropolitan and micropolitan areas essentially differ only in the size of the core city or urban area that anchors them. Where metropolitan areas have a core area of 50,000 or more residents, micropolitan areas are required to have a core of only 10,000.

The current definition of a CBSA includes a central county (or counties) and one or more outlying counties. Specifically, the central county or

counties of a micropolitan CBSA are those counties that: (a) have at least 50 percent of their population in urban areas of at least 10,000 population; or (b) have within their boundaries a population of at least 5,000 located in a single urban area of at least 10,000 population (OMB, 2000).

A county qualifies as an outlying county of a CBSA if it meets the following commuting requirements: (a) at least 25 percent of the employed residents of the county work in the central county or counties of the CBSA; or (b) at least 25 percent of the employment in the county is accounted for by workers who reside in the central county or counties of the CBSA (OMB, 2000).





CBSA Counties in Nebraska

Nebraska is currently home to three metropolitan areas based around the core cities of Omaha, Lincoln, and Sioux City, Iowa. (CBSAs can cross state lines if commuting patterns so define them.) The degree to which these counties dominate the demographic and economic landscape of Nebraska is well known and reflects metropolitan dominance nationally. Less well understood is the importance of the role played by Nebraska’s ten micropolitan areas and the 20 counties with which they are associated.

As currently defined, micropolitan areas in Nebraska are based around the core cities of Beatrice, Columbus, Fremont, Grand Island, Hastings, Kearney, Lexington, Norfolk, North Platte, and Scottsbluff. Together, these ten CBSAs are home to approximately 23% of all

Nebraskans and 53% of all non-metropolitan Nebraskans.

Population

Since 1950, the proportion of the Nebraska population residing in the state’s current nine metropolitan counties has increased 20% (from 37.2% to 57.2%). During the same period, the proportion of the population residing in the current 20 micropolitan counties has declined 1% (from 24% to 23%). This decline has resulted primarily from population losses in the micropolitan outlying counties.

For the ten micropolitan core counties the total proportion of the state population has seen a slight increase (0.2%) to 20.2%. This is slightly below the 21.1% of the state population that resided in the micropolitan core counties at their proportional height in 1980.

Still the micropolitan counties have fared much better than the state's 64 non-CBSA counties, which have seen their proportion of the total state population decline nearly 19% in the last 55 years (from 39% to 20%).

In terms of total population, between 1950 and 2006, the ten micropolitan core counties grew 34.4%, slightly faster than the overall growth of the state (33.4%). During the same period, the much smaller micropolitan outlying counties lost 13.3% of their population, a much smaller decline than that seen in the 64 non-CBSA counties (-31.1%).

Table 1. Change in Total Population 1950–2006

Area (# Counties)	Population 2006	% Change 1950-2006
Nebraska (93)	1,768,331	33.4
Metro Core (2)	759,138	89.4
Metro Outlying (7)	252,580	171.1
Micro Core (10)	356,900	34.4
Micro Outlying (10)	46,096	-13.3
Non-CBSA (64)	353,617	-31.1

Source: Bureau of the Census

Micropolitan Economies

While more or less holding their own in terms of the relative size of their populations, micropolitan counties are of increasing importance with regard to their position in non-metropolitan regions of Nebraska. By 2004 - 2005 (the last years for which economic data are available), the 20 counties currently defined as micropolitan represented not only 53% of Nebraska's non-metropolitan population, but also 53% of non-metropolitan total personal income, 58% of all non-metropolitan wage and

salary jobs, and 60% of all non-metropolitan wage and salary income.

Since the year 2000, despite uneven performance among the ten micropolitan regions, micropolitan counties have demonstrated the ability to outperform Nebraska's nine metropolitan counties in terms of growth in wage and salary jobs, wage and salary disbursements, total personal income, and average income per wage and salary job.

In fact, only the Lexington micropolitan area failed to outperform the metropolitan average on at least one of these indicators.

To be sure, a large part of non-metropolitan Nebraska's economic success during this time period is attributable to an exceptional year for agriculture in 2004. Relatively robust economic activity in micropolitan areas, and especially in the micropolitan core counties, however, also has been an important contributing factor

Regional Importance

Because micropolitan core counties account for only ten of Nebraska's 84 non-metropolitan counties, one might tend to see them as more or less freestanding centers of urban activity, surrounded by an expansive sea of farms.

In reality, these centers anchor a diverse set of regional economies. In that role,

Table 2. Percentage Change in Growth in Economic Indicators 2000 - 2004/2005

Metro/Micro Area	Wage & Salary Jobs (2004)	Total Wage & Salary Income (2005)	Average Wage & Salary Income (2005)	Total Personal Income (2005)
Nebraska	0.7	19.6	13.9	19.4
Metropolitan Total	0.6	18.5	13.1	18.9
Non-Metropolitan Total	0.8	22.0	15.8	20.3
Micropolitan Total	1.0	20.5	14.1	18.8
Beatrice Micro	1.5	22.3	14.7	22.3
Columbus Micro	-4.5	13.2	14.0	14.3
Fremont Micro	-1.5	12.5	16.9	13.6
Grand Island Micro	-1.2	19.5	13.4	20.9
Hastings Micro	-3.6	13.4	15.7	14.2
Kearney Micro	4.7	30.4	14.9	23.3
Lexington Micro	-3.3	13.0	9.9	13.8
Norfolk Micro	6.6	25.7	11.6	23.1
North Platte Micro	5.7	25.1	16.9	20.6
Scottsbluff Micro	3.0	23.3	10.4	16.6

Outperformed metropolitan average

Source: Bureau of Economic Analysis

the businesses in Nebraska’s micropolitan core counties provide a significant income source for many of their neighbors.

Economic activity in the micropolitan core counties is of special importance to their outlying micropolitan neighbors. As a result of the commuting labor force that defines the outlying counties, they are able to capture wage and salary income dollars far in excess of what their own county economies generate.

According to the Bureau of Economic Analysis (2004), micropolitan core counties export between 2% and 16% of the wage and salary dollars that they produce in the form of money paid to commuters (or remote location employees) residing in other counties. Micropolitan outlying counties, on the other hand, import wage and salary dollars from 9% to as much as 66% in

excess of what their own economies produce.

This transfer of wage and salary income through commuting is extremely important for both micropolitan and metropolitan outlying counties and indicates a two-way relationship in which commuters provide vital additions to the labor force of core counties in return for that additional income. These may not be the booming suburbs of Omaha, but micropolitan commuters make an undeniably important contribution to the economic vitality of non-metropolitan Nebraska.

Another 26 counties are adjacent to the micropolitan core county (and not adjacent to a metropolitan core county), but do not achieve the 25% commuting rate required to be included in the CBSA. These counties also benefit from the capture of wage and salary dollars

through commuting. Two of those counties (Box Butte and Phelps) were themselves exporters of wage and salary dollars. The remaining 24 captured wage and salary dollars 16% in excess of what their local economies produced (up from 13% in 1995). Eleven of those counties saw benefits of 20% or more.

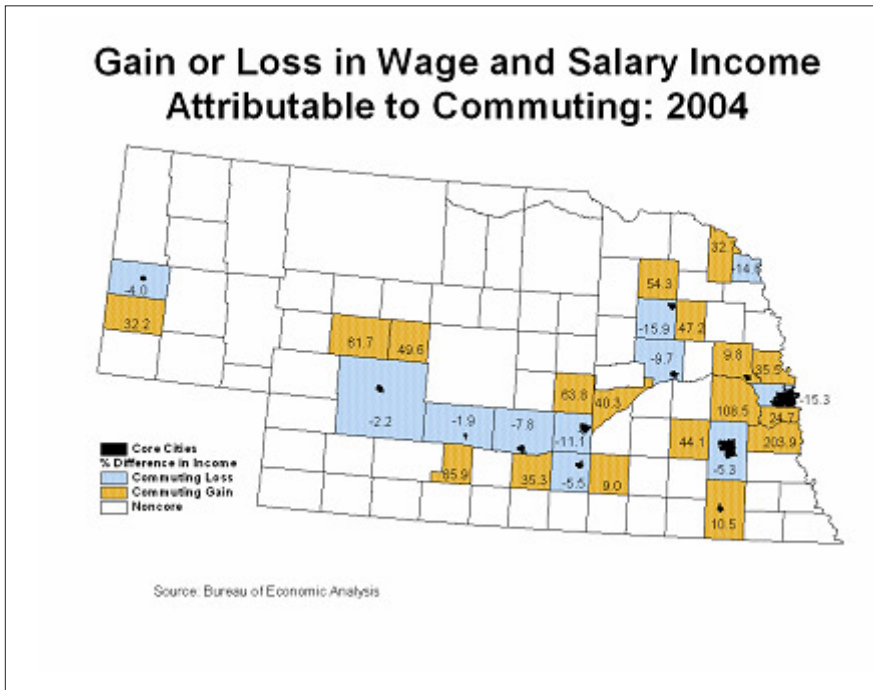
The benefits of proximity to micropolitan core cities have not been sufficient to stem population decline. The 26 non-micropolitan adjacent counties saw their total population decline 31.1% between 1950 and 2004; only four of those counties (Colfax, Hamilton, Keith, and Phelps) actually grew during that period. These losses were only marginally better than the 36.5% population decline seen in the 35 Nebraska counties that were

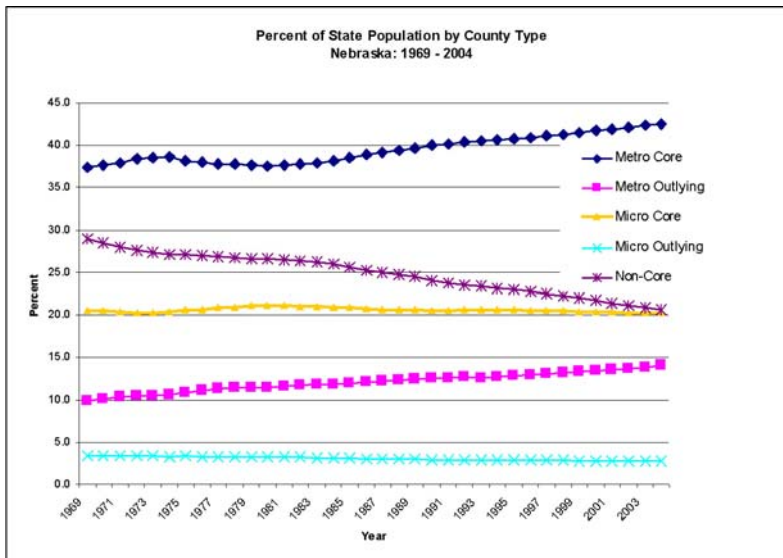
adjacent to neither a micropolitan nor a metropolitan core county.

Conclusion

Nebraska's economy has been dominated by Omaha and, to a lesser degree, Lincoln for decades. There is no doubt that the metro share of the economy is growing, driven in large part by suburban growth. Meanwhile the non-metropolitan areas are declining. The only real exception to this pattern is found in the ten micropolitan core counties. From a rural development perspective, that exception is encouraging but also tenuous.

If one thinks of the state as a market, the ten micropolitan core counties have more or less held their market share of





population, earnings, and total income over the last fifty years. At the same time the metropolitan core and suburbs have been gaining share essentially at the expense of the most rural portions of the state. As the total non-metropolitan pie shrinks, the portion of that pie belonging to the micropolitan core counties grows by default.

Today, Nebraska's micropolitan core counties play a role in the non-metropolitan economy that is analogous to that played by metropolitan core cities for the state as a whole. Individually, or even collectively, none demonstrate the near hegemony of Omaha. Still, their distribution across Nebraska makes them critical players in the social and economic future of the state. These core counties provide the focus for many of the growth industries identified as economic pillars for rural Nebraska, including manufacturing, trucking,

professional services, information, and tourism (Thompson, et al., 2006).

Statistical monitoring of micropolitan influence and change is worthy of similar attention to that given Nebraska's metropolitan centers, but it is also important to recall that these micropolitan areas are in many ways unique regions. These micropolitan areas often follow very specialized developmental paths. It may prove tempting to consider them as a class for programmatic or administrative purposes. Policymakers would be well advised to heed the advice of the Office of Management and Budget that created them and avoid that temptation and instead tailor programs and investments to fit a specific regional context.

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Business in Nebraska July 2007

A Soft Landing and a Long Layover

Nebraska Business Forecast Council

U.S. Macroeconomic Outlook

The U.S. economy achieved a soft landing in 2006. This was a desirable outcome. The economy needed a break from its rapid, and potentially inflationary, growth in 2004 and 2005, before taking off again. But that new flight has been delayed. The aggregate economy has remained mired in slow growth in the first half of 2007. Pockets of the economy, such as the labor market, have been strong, but a weak housing sector has limited overall growth. Further, signs point to one or two more quarters of weaker growth before the economy is able to take off.

This outcome is disappointing and has been difficult for many individuals and businesses in the construction industry and related sectors. There was a 25% decline in the number of building permits nationwide between June 2006 and June 2007, a nearly 20% decline in housing starts. This decline had a ripple effect not only in construction but in related industries such as real estate, and segments of manufacturing and finance.

Many workers, however, have been unaffected by the decline. The overall labor market in fact has been quite

strong. Total employment increased by 1.4% nationwide between June 2006 and June 2007, and the unemployment rate currently sits at 4.5%. This pattern of solid employment growth despite weak growth in gross domestic product is typical of the later stages of the business cycle. In many ways, it is the minor image of the "jobless recovery" that occurred in 2002 and 2003 when the national economy pulled out of the 2001 recession. At that time, firms squeezed productivity out of the economy, expanding output rapidly without increasing employment. Expenses were cut and employees worked long hours. By now, many of these opportunities have been exhausted and firms must expand employment to increase output. Thus, there is solid employment and earnings growth even when economic growth is tepid. Nationwide, 1.2% job growth is expected for 2007. But, job growth will need to accelerate as the economy returns to trend growth in 2008 and 2009. Job growth of 1.4% is expected for 2008 and 1.7% for 2009. Growth in real (inflation adjusted) gross domestic product will reach only 1.9% in 2007 before rising to 2.8% in 2008 and 3.1% in 2009. We see only a small chance of a recession in the next four quarters.

Given expectations that the economy will return to trend growth next year, the Federal Reserve will have little incentive to lower interest rates. But, there also will be no need to increase rates as inflationary pressures recede. The consumer price index was up 2.5% in the first half of 2007 versus 3.8% in the first half of 2006. Inflation rates should stabilize at this level. For all of 2007, we expect inflation of 2.3%. Inflation is expected at 2.5% in both 2008 and 2009.

Gasoline prices are expected to remain steady over the next few years. To be sure, prices will continue to fluctuate seasonally, spiking in the summer and declining in the spring and fall. But, a permanent decline is not expected. Unfortunately, we are currently experiencing the “new normal” price for gasoline in the summer. Commodity prices in general are expected to stay strong. In many ways this will benefit states such as Nebraska where commodity production is an important part of the economy.

Nebraska Outlook

Given strength in the commodity sector, and related industries such as manufacturing and transportation, the panel remains optimistic about the outlook for the Nebraska economy. Employment will continue to expand in Nebraska. Aggregate farm income is expected to grow rapidly in 2007 and remain high in 2008 and 2009.

Table 1. Key Economic Growth Rates

	Non-farm Employment	Non-farm Personal Income (nominal)	Net Farm Income (nominal)
2005	1.4%	4.3%	-24.7%
2006	1.3%	5.6%	1.2%
2007	1.4%	5.8%	27.8%
2008	1.8%	6.3%	2.9%
2009	1.9%	6.5%	4.2%

Note: nominal income growth is the sum of real income growth and the inflation rate.

Solid employment growth, rising proprietor incomes, and strong growth in dividend and interest incomes will lead to strong overall growth in non-farm personal income in Nebraska. In nominal terms, non-farm income is expected to grow by an average of 6.2% per year over the outlook period. Adjusting for an average inflation rate of 2.5%, income growth will average 3.7% in real terms. A summary of the Nebraska outlook is reported in Table 1.

Employment

Nebraska will experience broad-based employment growth over the next three years. Construction employment will decline in 2007, but should grow in both 2008 and 2009. Sectors such as manufacturing and transportation will benefit from nationwide strength in the commodity sectors such as agriculture and mining. Employment will grow rapidly in cyclically sensitive sectors such as business and professional services. As is seen in Table 2, this outlook is similar to our previous outlook from December 2006, except that lower growth is expected in 2007, due to weakness in construction.

Table 2. Comparison of Non-Farm Employment Forecasts

	December 2006 Forecast	Current Forecast
2007	1.8%	1.4%
2008	1.9%	1.8%
2009	1.9%	1.9%

Construction and Mining

There are three components of the Nebraska construction industry: residential, commercial, and infrastructure (mostly roads). The performance of the construction sector reflects all three components. The first component, the residential sector, is weak at the moment, and continues to decline in Nebraska. According to the National Association of Home Builders, building permits were down 15% in Nebraska in the first 5 months of 2007 relative to the first 5 months of 2006. While income growth is solid and interest rates are low, the market continues to be affected by past overbuilding. Housing construction activity will decline in 2007 and is not expected to recover until 2008 and 2009

The two other components of the industry are fairing better. Construction activity is strong for hospitals and other health care, and for hospitality buildings, such as hotels and restaurants. Retail space is expanding steadily, and new ethanol plants continue to be built. These commercial activities should grow steadily throughout 2007 to 2009.

High gasoline prices have led to a small reduction in gasoline consumption,

which implies weaker gas tax revenues.

This may limit growth in road construction activity going forward.

However, gasoline consumption should expand during the period as fuel prices are not expected to increase. State government (LB30S) also recently reallocated some state funds to road building.

As seen in Table 3, overall construction employment will decline 2% in 2007, but then recover as residential construction recovers. Construction employment will rise 2% in 2008 and 4% in 2009.

Manufacturing

Recent data indicate an upturn in employment in the manufacturing sector. Total manufacturing employment (durable plus nondurable) was steady in 2005 and grew modestly in 2006. There are several reasons this trend should accelerate over the next few years. First, Nebraska should continue to benefit from further decentralization of manufacturing activity away from the industrial mid-West towards smaller cities and non- metropolitan areas, such as those found in Nebraska

Second, opportunities should continue to improve in the food processing sector. Capacity and production in the ethanol sector will continue to expand. Asian markets for Nebraska beef also should slowly continue to open. As a consequence, non-durable manufacturing employment is expected

Table 3. Number of Non-farm Jobs and Percent Changes by Industry Annual Averages (thousands of jobs)

	Non-farm Total	Construction Mining & Natural Resources	Dur- ables	Non- dur- ables	Whole- sale Trade	Retail Trade	Trans- portation and Util.	Info	Finan- cial	Serv- ices	Federal Gov't	Local Gov't
1997	857.1	40	57.3	55.4	41.2	105.3	41.6	25.1	55.7	283.5	16.1	136.1
1998	879.9	42.4	58.5	55.9	42.2	107.5	43.3	26.3	58.8	294.2	16	134.9
1999	897.4	44.3	57.7	55.7	42.5	110.2	44.5	27.1	60.9	303.1	15.9	135.6
2000	914	45.2	58.9	55.4	41.9	111.3	45.1	26.9	60.5	314.3	16.6	137.9
2001	919.7	45.3	54.6	56.2	42.5	110	45.2	25.8	60.2	323	16	140.8
2002	911.5	46.1	50.6	55.4	41.5	108.5	44.9	23.2	61.4	321.2	16.3	142.6
2003	914.2	47.4	47.3	55.1	41	106.7	46.4	21.5	62.4	327.3	16.7	143.1
2004	922.3	48.4	47	54	40.8	106.5	48.9	21.1	63.2	332.2	16.5	143.6
2005	935	47.8	48.4	52.9	40.6	107	52.3	20.2	64.5	340.1	16.3	144.9
2006	946.9	48.4	49.5	52.2	40.8	106.5	53.4	19.5	65.7	348.5	16.2	146.2
Forecast Number												
2007	960.3	47.4	50.2	52.4	40.6	106.7	55.4	19.1	66.7	357.9	16.2	147.7
2008	977.6	48.4	50.8	53.0	41.0	107.5	57.1	19.1	67.9	367.9	16.1	148.8
2009	996.2	50.3	51.3	53.7	41.3	108.2	58.8	19.1	69.1	378.2	16.1	150.0
Forecast Percent												
2007	1.4%	-2.0%	1.4%	0.4%	-0.6%	0.2%	3.8%	-2.0%	1.5%	2.7%	-0.2%	1.0%
2008	1.8%	2.0%	1.2%	1.2%	1.0%	0.7%	3.0%	0.0%	1.8%	2.8%	-0.2%	0.8%
2009	1.9%	4.0%	1.0%	1.2%	0.8%	0.7%	3.0%	0.0%	1.8%	2.8%	-0.2%	0.8%

Source: <http://data.bls.gov/cgi-bin/dsrv>, 2007

to increase in 2007, by 0.4%. Job growth should top 1% in both 2008 and 2009. Third, the strong farm economy should provide opportunity for growth in farm machinery and equipment production. This is a large component of Nebraska's durable goods sector. Durable goods employment is expected to grow 1.4% in 2007, 1.2% in 2008, and 1.0% in 2009.

Transportation and Warehousing

Strength in the commodity sector continues to favor expansion of the transportation industry in Nebraska. Strong demand for coal continues to support growth in the rail industry. A strong farm economy and construction of more ethanol plants in the state

stimulates additional freighting demand in shipping corn to new plants. More generally, solid growth in the goods-producing industry in the national economy continues to provide a favorable setting for increasing employment and business activity in the transportation sector. Aside from strong demand, Nebraska firms are also competitive suppliers of transportation services. The state hosts the headquarters for Union Pacific and large facilities of BNSF Railway. Nebraska is home to several rapidly growing national trucking firms, including two of the largest firms in the U.S. Favorable demographics and infrastructure and low entry cost favor continued growth by small trucking firms. State government

promotes trucking and warehousing as targets industry. These factors suggest that the Nebraska transportation and warehousing industry can continue to expand rapidly. Employment growth will reach 3.8% for 2007, and 3.0% in both 2008 and 2009.

Wholesale Trade

Wholesale trade employment in Nebraska has grown little over the last decade, despite a growing economy in the state. Such a pattern is characteristic of industries with rising labor productivity, where rising productivity causes employment to remain steady even as total industry activity increases. The industry is expected to lose employment in 2007 as well but will be able to add a few hundred jobs per year as employment expands rapidly in 2008 and 2009. The forecast calls for wholesale trade employment to drop by 0.6% in 2007, but grow by 1.0% in 2008 and 0.8% in 2009.

Retail Trade

As with wholesale trade, retail trade employment also has not grown in recent years, despite steady increases in retail sales. The reason again is rising productivity in the industry, as growth in the number of big box retailers, and internet sales reduce the labor requirements of retailers. These trends are expected to continue into the near future, though the industry should see modest employment growth, in line with state population growth, as the economy

accelerates in 2008 and 2009.

Employment is expected to be flat in 2007, but then job growth will be modest in 2008 and 2009. Retail job growth is expected to average around 0.2% in 2007, and 0.7% in 2008 and 2009.

Information

The information industry contains a diverse group of industries included newspapers, movie theatres and sound studios. These locally-oriented portions of the industry are stable. The industry also contains high technology or information processing industries such as telecommunications, data processing, web site development, and web publishing. These industries have consolidated and downsized in recent years, losing 6,000 jobs since 2001. We anticipate the loss of a few hundred additional jobs in 2007 before employment stabilizes in 2008 and 2009.

Financial Services

The financial services industry comprises finance, insurance, and real estate. The industry has grown consistently over the last 10 years, as Nebraska banks and other loan providers have expanded, along with the ranks of insurance agents, Realtors, and financial advisors. However, several factors are expected to limit growth over the next few years. Slow job growth is expected for insurance carriers and businesses involved in home finance and real estate. But, overall industry job growth will reach 1.5% in 2007, and 1.8% in 2008 and 2009.

Services

Accounting for one-third of employment in the economy, the diverse and rapidly growing service industry is a key to our employment forecast. As is evident in Table 3, 65,000 of the approximately 90,000 jobs added to the Nebraska economy from 1997 to 2006 were added in the services sector. When service sector employment grows by more than 2%, as it has in the last few years, total Nebraska employment growth handily exceeds 1%.

Over the next three years, we expect strong growth in services employment. Overall services employment is forecast to grow by 2.7% in 2007, and 2.8% in 2008, and 2009. Strong employment growth is possible since the services industry contains two of the largest and most rapidly growing portions of the economy: health services, and business and professional services. Other portions of the services industry include education services, personal services, accommodations, food and drinking places, and arts, entertainment, and recreation.

Health care and social assistance is the largest part of the services industry and expands steadily as Nebraska's population grows and ages. Ambulatory health care services such as home health care services, ambulance services, blood donor stations, and health screening services are the fast growing portion of health care. Health care and social

assistance employment will grow from 2.5% to 3.0% annually over the next three years, employing 120,000 Nebraskans by 2009. Food services and drinking places is another industry that consistently generates job growth as population grows, and households spend more of their rising disposable income on dining out. Employment will grow by between 1.5% and 2.0% per year in this segment of the industry from 2007 through 2009.

Business and professional services is the pro-cyclical portion of the services industry, and it is expected to grow very rapidly over the next three years. From 2007 to 2009, annual employment growth in business and professional services will reach 3.5% to 4.0%. Many of these new jobs will be in high wage occupations such as management, legal services, accounting and bookkeeping, architecture and engineering, computer systems design, management consulting, research services, advertising, market research, and veterinary services.

Government

Our outlook calls for a modest decline in federal government employment through 2009. This is a familiar pattern. Federal employment has been stagnant or in decline in Nebraska for the last decade. A slight decline is expected since the U.S. Department of Agriculture plans to consolidate offices in rural Nebraska for administering farm programs. Growth in state and local government

employment has tended to exceed, though only slightly, the rate of population growth in Nebraska. State and local government employment historically has grown 1% per year on average. This makes sense, as the need for teachers, police, fire, and other state and local employees who work directly with the public rises with population. As the economy expands, the state tax revenue base should be growing strongly over the next few years, which also will encourage new employment. However, a major tax cut package passed by state government in 2007 may modestly reduce available revenue in the out years of 2008 and 2009. Our expectation is that state and local government employment will grow 1.0% in 2007, and the rate of growth will fall slightly to 0.8% in 2008 and 2009.

Personal Income

Personal income growth will be strong in Nebraska over the outlook period from 2007 through 2009. Both non-farm and farm income will grow rapidly. Table 4

Table 4. Comparison of Forecasts for Nominal Personal Income

Non-Farm Personal Income		
	December 2006 Forecast	Current Forecast
2007	5.9%	5.8%
2008	5.9%	6.3%
2009	5.9%	6.5%
Farm Income		
	December 2006 Forecast	Current Forecast
2007	25.0%	27.8%
2008	2.9%	2.9%
2009	2.8%	2.8%

below compares the current forecast for the two major components of personal income to our last forecast, which was made in December 2006.

There are some differences. Our current outlook for non-farm personal income calls for slower growth in 2007 than our last forecast. This is due to our lowered expectation for employment growth this year. Our outlook for non-farm personal income growth is higher in the later years. This is because we have raised our estimate of growth in income from dividends, interest, and rent throughout the 2007 to 2009 period. The outlook for farm income is quite similar in the current forecast and the last forecast.

Non-Farm Personal Income

Non-farm personal income is expected to grow rapidly over the forecast period, as it did in 2006. The keys to growth will be solid increases in wage and salary income as well as strong growth in both proprietor's income and income from dividends, interest, and rent. Strong job growth expected for the outlook period will underpin solid growth in aggregate wage and salary income. More jobs mean more wage earners. Wages and salaries per job also are expected to grow solidly, given the strong labor market.

As seen in Table 5, we expect non-farm wages and salaries to grow by 4.9% in 2007, 5.3% in 2008 and 5.4% in 2009. This is forecasted despite an expectation of moderate inflation, between 2.3% to 2.5%

per year. Employee benefits (other labor income) are expected to grow by 6.4% to 6.9% per year, driven by increasing health care costs.

Non-farm proprietor income is an income component that gains strength as the economic expansion continues. Non-farm proprietor income is expected to increase by more than 7% per year.

Dividend, interest, and rent income will grow rapidly during the forecast period. Growth will be solid at 6.5% in 2007. But, the largest increases are expected for 2008 and 2009. Long-run interest rates on

bonds and certificates of deposit are expected to rise in 2008 and 2009 from current low levels. This will raise interest income. Dividend income also is expected to rise. The capital gains tax cuts of 2001 are slated to expire at the end of 2009. Unless these are extended, this will create great incentive to take dividend income as the deadline approaches in 2008, and especially 2009.

Farm Income

Rising grain prices over the past year and good crop yield levels are expected to lead to a sharp increase in farm income in 2007. These price increases have been

Table 5. Non-farm Personal Income and Selected Components and Net Farm Income (USDA) (\$ millions)

	CPI	Non-farm Personal Income	Dividends, Interest, & Rent	Total Personal Current Transfer Receipts	Non-farm Wages & Salaries (Wages & Salaries - Farm Wages)	Other Labor Income	Contri- butions to Social Insurance	Resi- dential Adjust- ment	Net Non-farm Proprietors' Income	Farm Income (USDA)
Millions of Dollars										
'97	160.5	\$38,754	\$8,272	\$5,132	\$21,936	\$4,456	\$3,462	-\$653	\$3,073	\$2,023
'98	163.0	\$41,591	\$9,096	\$5,477	\$23,343	\$4,744	\$3,686	-\$684	\$3,300	\$1,816
'99	166.6	\$43,644	\$9,148	\$5,822	\$24,796	\$4,999	\$3,874	-\$762	\$3,517	\$1,707
'00	172.2	\$46,366	\$9,991	\$6,075	\$26,186	\$5,317	\$4,032	-\$825	\$3,654	\$1,440
'01	177.0	\$48,103	\$9,998	\$6,667	\$26,908	\$5,612	\$4,200	-\$833	\$3,952	\$1,894
'02	179.9	\$49,731	\$10,023	\$7,069	\$27,713	\$6,363	\$4,350	-\$869	\$3,782	\$857
'03	184.0	\$51,414	\$10,002	\$7,427	\$28,660	\$6,753	\$4,520	-\$911	\$4,003	\$2,785
'04	188.9	\$53,869	\$10,188	\$7,728	\$30,014	\$7,172	\$4,720	-\$928	\$4,415	\$3,542
'05	195.3	\$56,191	\$10,603	\$8,118	\$31,016	\$7,664	\$5,018	-\$936	\$4,744	\$2,667
'06	201.6	\$59,316	\$11,497	\$8,540	\$32,574	\$8,075	\$5,328	-\$996	\$4,954	\$2,700
Forecast Number										
'07	206.2	\$62,783	\$12,224	\$9,095	\$34,174	\$8,593	\$5,590	-\$1,005	\$5,321	\$3,450
'08	211.4	\$66,744	\$13,199	\$9,650	\$35,988	\$9,178	\$5,886	-\$1,121	\$5,737	\$3,550
'09	216.7	\$71,082	\$14,348	\$10,229	\$37,931	\$9,811	\$6,204	-\$1,193	\$6,161	\$3,700
Forecast % (nominal growth)										
'07	2.3%	5.8%	6.5%	6.5%	4.9%	6.4%	4.9%	5.9%	7.4%	27.8%
'08	2.5%	6.3%	7.8%	6.1%	5.3%	6.8%	5.3%	6.3%	7.8%	2.9%
'09	2.5%	6.5%	8.7%	6.0%	5.4%	6.9%	5.4%	6.4%	7.4%	4.2%

Source: <http://www.bea.gov>, 2007

Note: nominal income growth is the sum of real income growth and the inflation rate.

driven by the dramatic expansion of ethanol production in America's heartland. This has led directly to rapid increases in corn prices, and corn acreage. Further, ethanol production and higher corn prices are expected to be maintained throughout the outlook period. Nebraska's prominence in corn production (rank 31 in the nation) combined with the complement of being a major cattle feeding state (rank 2 in nation) makes the state well situated to capture economic opportunities in ethanol production. This is because distiller's grain, a cattle feed, is a by-product of ethanol production. Areas with both corn and feeder cattle production have a competitive advantage as a location for ethanol plants.

While income from crop production will increase, income from livestock production is expected to remain steady. Higher production costs for livestock producers will in part be passed on to final consumers.

Further, the cattle industry is going through a transition as cattle feeders adjust to greater reliance on distiller's grain in their rations. As a result, Nebraska producers have a distinct advantage over other major cattle feeding states. The state's cattle industry could even experience some future production expansion given the synergy between corn-based ethanol production and feedlots. The full effect

of the ethanol boom and corn price increases will be realized in 2007.

Nebraska farm income is expected to jump by nearly 28% in 2007, from \$2.7 billion in 2006 to \$3.45 billion in 2007. This increase will be maintained in 2008 and 2009. Nebraska farm income is expected to grow further in those years, by 2.9% in 2008 and 4.2% in 2009. By 2009, farm income will be 70% above its 10-year average for the 1997 to 2006 period (\$2.14 billion).

This will all occur despite a substantial drop in direct government payments. These stood at \$1.5 billion in 2005, and are expected to fall to \$300 million by 2008 and 2009, with the new farm bill.

Net Taxable Retail Sales

In Table 6, data on net taxable retail sales are divided into motor vehicle sales and non-motor vehicle net tax able retail sales. The distinction is important. Motor vehicle net taxable sales are growing over time, but from year to year are affected by cyclical sales. Non-motor vehicle taxable sales rise steadily, but are affected by periodic changes to Nebraska's sales tax base.

Table 6 shows a steady increase in non-motor vehicle taxable sales over the 2007 to 2009 period. Growth is muted in 2007 because in late 2006 Nebraska exempted from taxation sales of contract labor. As a result, comparisons between the year 2007 and 2006 reflect a smaller tax base in 2007 relative to the first half of 2006. This

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				
1997	160.5	\$17,815	\$2,205	\$15,610
1998	163.0	\$19,005	\$2,417	\$16,588
1999	166.6	\$19,806	\$2,520	\$17,286
2000	172.2	\$20,443	\$2,605	\$17,838
2001	177.0	\$21,057	\$2,897	\$18,160
2002	179.9	\$21,426	\$2,926	\$18,500
2003	184.0	\$22,092	\$2,894	\$19,199
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
Forecast Number				
2007	206.2	\$25,760	\$2,661	\$23,099
2008	211.4	\$26,822	\$2,799	\$24,022
2009	216.7	\$28,101	\$2,925	\$25,176
Forecast % (nominal growth)				
2007	2.3%	3.1%	0.0%	3.5%
2008	2.5%	4.1%	5.2%	4.0%
2009	2.5%	4.8%	4.5%	4.8%

Source: Nebraska Department of Revenue

Note: nominal taxable sales growth is the sum of real growth and the inflation rate.

reduction in the sales tax base does not affect growth rates for 2008 and 2009.

Non-motor vehicle taxable sales are expected to rise 4% to 5% during those two years.

Growth in motor vehicle net taxable sales is much more variable. Sales grew rapidly from 2001 to 2003, but have fallen since then. This pattern is familiar in Nebraska: motor vehicle sales periodically grow rapidly one year and then growth slows or sales decline in the years that follow. Vehicles purchased during the sales peak years of 2001 through 2003 will have

reached six years of age by 2008, and we anticipate strong sales growth in 2008 due to replacement of older vehicles. The increasing importance of automobile will limit motor vehicle taxable sales throughout.

Overall growth in net taxable sales is expected to reach 3.1% in 2007. This is only slightly above the expected inflation rate of 2.3%. Growth is expected to increase to 4.1% in 2008, as the rate of growth in non-motor vehicle taxable sales increases. By 2009, growth in overall net taxable sales is expected to reach nearly 4.8%.

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