Economic Update

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Economic Update

• A Turning Point in the U.S. Economy.
• Nebraska Enjoys a Farm Boom.
• Risks to the U.S. and Nebraska Economy.
The U.S. economy rebounds after a summer lull.

U.S. Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Consumer spending rises.
Net exports are expected to hold steady

U.S. Real Net Exports

Billion dollars

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Business investment strengthens.

Nonresidential Fixed Investment

Year-over-year percent change

Source: Bureau of Economic Analysis
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Tight labor markets in Nebraska.

Nebraska’s Job Growth and Unemployment Rate

Percent change from year ago

Nonfarm Job Growth (Left Scale)

Unemployment Rate (Right Scale)

Source: BLS
Stronger retail activity in Nebraska.

Nebraska’s Retail Jobs and Sales Growth

Percent change from year ago

- Retail Jobs
- Net Taxable Retail Sales

Source: BLS and Nebraska Dept. of Revenue
Stronger farm incomes boost agricultural equipment sales.

Source: Association of Equipment Manufacturers and USDA
* Net farm income forecast for 2011 dated February 2011, Tractor sales YTD through February 2011
Farmland values surge.

Non-irrigated Cropland Values
(Percent change from 2009:Q4 to 2010:Q4)

Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)
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Risk #1: Construction Activity

Nebraska’s Value of Residential and Non-residential Construction

Percent change from year ago*

Source: F.W. Dodge

* Data based on 3-month moving average
Risk #2: High Food and Gas Prices

World Food Prices and U.S. Gasoline Prices

Index (2002 to 2004 average = 100)

- World Food Price
- U.S. Retail Gasoline Price

Source: International Monetary Fund and U.S. Department of Energy
Risk #3: China and Export Demand

China’s Inflation and Interest Rates

Percent change from year ago

- Interest Rate on One Year Deposits (Left Scale)
- Consumer Price Inflation: 12-month (Right Scale)
Risk #4: Higher Interest Rates and Farmland Values

The Net Present Value of Farmland

Land Values = Expected Revenues / Capitalization Rate

High Interest Rates Lead to Lower Farm Revenues

High Interest Rates Lead to Higher Capitalization Rates

What happens to farmland values under high interest rates?
Risk #5: Leveraging/De-leveraging Cycle

U.S. Debt Outstanding by Sector

Percent of U.S. GDP

- Nonfinancial Businesses
- Financial Businesses
- Households
- Federal Government

Source: Federal Reserve Board of Governors
Conclusions

• The U.S. economy is strengthening.
• Strong commodity markets boost the Nebraska economy.
• Still, risks remain.
• With uncertainty still in the air, cash is king.