Spurring Nebraska’s Economy
### State Personal Income Growth
(Percent change 2011:Q1 to 2012:Q1)

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>North Dakota</td>
<td>9.83</td>
</tr>
<tr>
<td>2</td>
<td>Wyoming</td>
<td>4.99</td>
</tr>
<tr>
<td>3</td>
<td>Montana</td>
<td>4.96</td>
</tr>
<tr>
<td>4</td>
<td>Oklahoma</td>
<td>4.82</td>
</tr>
<tr>
<td>5</td>
<td>South Dakota</td>
<td>4.66</td>
</tr>
<tr>
<td>6</td>
<td>Washington</td>
<td>4.48</td>
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<tr>
<td>7</td>
<td>Alaska</td>
<td>4.09</td>
</tr>
<tr>
<td>8</td>
<td>Utah</td>
<td>3.92</td>
</tr>
<tr>
<td>9</td>
<td>Nebraska</td>
<td>3.91</td>
</tr>
<tr>
<td>10</td>
<td>West Virginia</td>
<td>3.89</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>2.89</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis

### Unemployment Rates by County
(August 2011 – July 2012 Average)

- **Second Lowest Unemployment Rate**
  - 4.0%

Source: Bureau of Labor Statistics
Real farm incomes and land value gains are on par with the last farm boom.

**U.S. and Nebraska Farm Incomes**

- **Billions (Constant 2005 dollars)**

  - **U.S. (Left Scale)**
  - **Nebraska (Right Scale)**

  Calculations based on USDA and BEA data

**Nebraska Farmland Value Gains**

- **Percent change from year ago**

  - **Nonirrigated Cropland**
  - **Irrigated Cropland**

Source: Federal Reserve Bank of Kansas City
Manufacturers tap global markets.

Fueled by durable goods, primarily machinery.

2012 Manufacturing Growth
2012:Q1, annual earnings growth 5.1 percent
July 2012, annual job growth 1.5 percent

Source: BEA and BLS

Nebraska’s Manufacturers Tap Global Markets.

Nebraska Manufactured Exports

Billion Dollars

Source: WISERTrade
Real estate and construction markets appear to have hit bottom.

*During 2012:Q1, mild winter weather sparked a construction rebound.*

2012 Construction Growth

- 2012:Q1, annual earnings growth 6.5 percent
- 2012:Q2, annual job growth 9 percent

Source: BEA and BLS
Note: Industry employment data from BLS based on mining and construction, where construction jobs account for most of the sectors jobs.
The service sector forges solid job and income gains.

Solid job and income gains in ...  
- Professional and business services  
- Leisure and hospitality services  
- Wholesale trade  
- Education services  
- Health services  
- Retail trade

After a strong 2011, contractions in ...  
- Information and financial services  
- Transportation and warehousing

Source: Bureau of Economic Analysis and Bureau of Labor Statistics
Government: 20% of Nebraska’s total compensation

17% of Nebraska’s nonfarm jobs.
Nebraska’s economic performance varies with the business cycle.

Since World War II, Nebraska’s economy ...

1) Holds up better during recessions
2) Expands quicker in the recovery
3) Lags as the expansion matures

U.S. and Nebraska Real Per Capita Income Growth (1949 to 2012)

Average annual percent change

- Recessions
- First 6 Months Expansions
- First Year
- First 2 Years

Calculations based on BEA data
Agriculture responds quicker to economic stimulus.

- Commodity prices are not as sticky and monetary policy has quicker impacts. (Source: Saghaian et. al 2002)

- Lower interest rates are correlated with higher farm incomes.
  - Lower interest rates place downward pressure on the dollar.
  - A weaker dollar stimulates exports.
  - Strong exports boost farm incomes. (Source: Chambers and Just, 1982)

- Rising farmland values create a major wealth effect in Nebraska.

Real Net Farm Income and Interest Rates

- Source: USDA and Federal Reserve
How Sustainable is the Farm Boom?
Farm incomes and land values depend on expectations.

Will world populations and income rise as expected?

Can Agriculture Feed and Fuel the World?

What is the future path of interest rates and cap rates?

Will global farm demand create its own supply?

Are the necessary resources available?

How high will production costs rise?
Are farmland values consistent with expectations?

**Definition of a “Bubble”**

“If the reason that the price is high today is only because investors believe that the selling price will be high tomorrow – when “fundamental” factors do not seem to justify such a price – then a bubble exists.”

(Stiglitz)

Source: Gloy (2012)
What prices are needed to create a 1980’s scenario in agriculture?

A 1980s income shock would require

- Crop revenue to fall by 21.4%
- Value of farm production to fall 15.7%

Prices would need to drop to ...

- Corn - $3.49 per bushel
- Wheat – $3.96 per bushel
- Soybeans - $9.00 per bushel

Source: Featherstone (2012)
How much debt is being used to finance land purchases?

Financing Farmland Purchases in the Tenth District

Percent of total financing

- New Debt Financed
- Pledged Existing Equity
- Cash Down Payment

2011 First Quarter | 2011 Third Quarter | 2012 First Quarter
--- | --- | ---
51.1 | 47.2 | 47.5
29.1 | 31.6 | 30.4
19.8 | 21.2 | 22.0

Source: Federal Reserve Bank of Kansas City

- Farm buyers are using more cash to buy farms.
- Farm Credit institutions increased their real estate loans more than commercial banks.

According to USDA, farm real estate debt is expected to rise 3.9% in 2012

- Who is adding debt to their farm operations – young & beginning, rapidly expanding operations?
- Does agricultural concentration pose different risks than in the 1970s?
Farm debt: the risk is in the tails.

- KS Farm Management Farms:
  - Average Debt-to-Asset Ratio
    - 1979 – 24.6%
    - 2010 – 26.8%
  - Debt-to-Asset Ratio >40%
    - 1979 – 19.4%
    - 2010 – 25.6%
  - Debt-to-Asset Ratio >70%
    - 1979 – 1.3%
    - 2010 – 5.9%

Source: Featherstone (2012)
Can rural Nebraska build new sources of growth?
Demographics and creating a high-quality workforce is essential.

How do rural communities get their kids to come home?

Population in Rural Counties of Tenth Federal Reserve District

Educational Attainment by Age Group
Secondary Education

Percent of population in 2007

55-64 year-olds

25-34 year-olds

Source: Henderson (2009)

Source: OECD, Brookings Institution

How do rural communities build a 21st century workforce?

Thousands

Late boomers born from 1960 to 1964
Gen X born from 1965 to 1969
Gen X born from 1970 to 1974
Entrepreneurs are the driving force behind economic growth.

• Communities, states, and nations with more entrepreneurial activity have stronger economic growth.

• The benefits of entrepreneurship grow over time.

• Entrepreneurship is creative destruction – the reallocation of resources to their highest and best use.

Economic development strategies are shifting in the 21st century.

### Fundamental Questions
- Who will be the champions for change?
- Who will facilitate innovation in key institutions?
- What constituencies will support innovative leaders and institutions?

### Rural Development Strategy Typologies

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Nontraditional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial recruitment</td>
<td>Small Business Entrepreneurship</td>
</tr>
<tr>
<td>Regional Center</td>
<td>Cluster-based</td>
</tr>
<tr>
<td>Bedroom Community</td>
<td>Innovation and Knowledge</td>
</tr>
<tr>
<td>Amenity-based</td>
<td>Creative Class</td>
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</tbody>
</table>

Conclusions

- Agriculture, manufacturing, and construction are leading stronger economic gains in Nebraska.
- Historically, as economic recoveries strengthen, Nebraska’s economy losses some steam.
- How sustainable is the farm boom?
- If farm fortunes turn, what are the engines of growth?

*How will Nebraska attract and retain the people needed to start new businesses, fill new jobs, and create a new vision for the Nebraska economy?*