Spurring Nebraska’s Economy
Nebraska: A Top Ten Economy

Second Lowest Unemployment Rate  
4.0%

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

Source: Bureau of Labor Statistics

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>
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<tr>
<td>8</td>
<td>Utah</td>
<td>3.92</td>
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<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

Second Fastest Income Growth from 2011:Q4 to 2012:Q1 at 7.2%
Real farm incomes and land value gains are on par with the last farm boom.

U.S. and Nebraska Farm Incomes

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

Nebraska Farmland Value Gains

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

Calculations based on USDA and BEA data

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

Fueled by durable goods, primarily machinery.

Nebraska’s Manufacturers Tap Global Markets.

2012 Manufacturing Growth
2012:Q1, annual earnings growth 5.1 percent
2012 annual job growth
Q1: 1.3 percent
Q2: 0.2 percent
Q1: 1.0 percent

Source: BEA and BLS
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: annual job growth
Q2: 7.7 percent
Q3: 10.8 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 …
• Retail trade
• Leisure and hospitality services
• Health services
• Education services
• Professional and business services
• Wholesale trade

After a strong 2011, contractions in …
• Information and financial services
• Transportation and warehousing

Source: Bureau of Economic Analysis and Bureau of Labor Statistics
The largest contrast is state government jobs.

**Government:**
- 20% of Nebraska’s total compensation
- 17% of Nebraska’s nonfarm jobs.

**Government Job Growth, 2012**

Source: Bureau of Labor Statistics
Note: Year-to-Date data through August
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

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](image_url)

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?

Will global farm demand create its own supply?

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

Are the necessary resources available?

Can Agriculture Feed and Fuel the World?

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 scenario:**
*a low probability event that has a really bad outcome*

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

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

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

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

- **Leave**: Late boomers born from 1960 to 1964
- **Learn**: Gen X born from 1965 to 1969
- **Return**: Gen X born from 1970 to 1974

Source: Henderson (2009)

**How do rural communities build a 21st century workforce?**

Educational Attainment by Age Group

- Secondary Education

Percent of population in 2007

- U.S.
- S. Korea

Source: OECD, Brookings Institution
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.

**Impacts of Proprietor Growth on Employment Growth**

**Marginal impacts on employment growth 1991 to 2001**

*The Benefits of Entrepreneurship Grow Over Time*

Economic development strategies are shifting in the 21st century.

### Rural Development Strategy Typologies

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Nontraditional</th>
</tr>
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<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>
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### Fundamental Questions

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