Economic Update

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Vice President and Omaha Branch Executive
The Goal: Foster Maximum Employment and Stable Prices

Economic Projections of Federal Open Market Committee Members, Central Tendency, January 2012

<table>
<thead>
<tr>
<th></th>
<th>Longer Run</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>2.3 to 2.6</td>
<td>2.2 to 2.7</td>
<td>2.8 to 3.2</td>
<td>3.3 to 4.0</td>
</tr>
<tr>
<td>Nov. 2011 proj.</td>
<td>2.4 to 2.7</td>
<td>2.5 to 2.9</td>
<td>3.0 to 3.5</td>
<td>3.0 to 3.9</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5.2 to 6.0</td>
<td>8.2 to 8.5</td>
<td>7.4 to 8.1</td>
<td>6.7 to 7.6</td>
</tr>
<tr>
<td>Nov. 2011 proj.</td>
<td>5.2 to 6.0</td>
<td>8.5 to 8.7</td>
<td>7.8 to 8.2</td>
<td>6.8 to 7.7</td>
</tr>
<tr>
<td>PCE Inflation</td>
<td>2.0</td>
<td>1.4 to 1.8</td>
<td>1.4 to 2.0</td>
<td>1.6 to 2.0</td>
</tr>
<tr>
<td>Nov. 2011 proj.</td>
<td>1.7 to 2.0</td>
<td>1.4 to 2.0</td>
<td>1.5 to 2.0</td>
<td>1.5 to 2.0</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board of Governors

What does this table suggest?
Depends on your perspective
It is all about jobs. Are the recent job gains sustainable?

**U.S. Unemployment Rate and Job Gains**

<table>
<thead>
<tr>
<th>Percent</th>
<th>Jan-07</th>
<th>Jan-08</th>
<th>Jan-09</th>
<th>Jan-10</th>
<th>Jan-11</th>
<th>Jan-12</th>
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<tbody>
<tr>
<td>11</td>
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<td>10</td>
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<td>3</td>
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</tr>
</tbody>
</table>

**Thousands of Jobs**

- Employment Gains
- Unemployment Rate

Source: Bureau of labor Statistics
How high will energy prices rise?

World Crude Oil Production and Consumption

Million barrels per day

Source: Energy Information Administration
EIA Forecasts for 2012 and 2013 data.
What will housing markets do this spring?

Has Housing Hit the Bottom?
Will lower supplies support prices?
Will foreclosure rates moderate?
How big is the “shadow” market?
Can people qualify for a home loan?

U.S. Single-Family Housing Starts and Supply of Single-Family Homes

Source: Census Bureau and National Association of Realtors
Is deleveraging about to end?

Savings Increase
Spending Slows
Deposits Rise
Lending Softens
Low inflation

U.S. Household Debt Service Ratio
(seasonally adjusted)

Source: Federal Reserve Board of Governors
Note: includes outstanding mortgage and consumer debt
What are the consequences if the public sector begins to deleverage or if it does not?

U.S. Debt Outstanding
(seasonally adjusted)

Percent of GDP

Source: Federal Reserve Board of Governors
Booming commodity markets are driving economic gains in the Great Plains.

**Top 10 State in Personal Income Growth**

<table>
<thead>
<tr>
<th>State</th>
<th>Personal Income Growth 2010:YTD to 2011:YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) North Dakota</td>
<td>10.5</td>
</tr>
<tr>
<td>(2) Texas</td>
<td>6.8</td>
</tr>
<tr>
<td>(3) Oklahoma</td>
<td>6.5</td>
</tr>
<tr>
<td>(4) South Dakota</td>
<td>6.4</td>
</tr>
<tr>
<td>(5) Minnesota</td>
<td>6.1</td>
</tr>
<tr>
<td>(5) Nebraska</td>
<td>6.1</td>
</tr>
<tr>
<td>(7) Iowa</td>
<td>5.8</td>
</tr>
<tr>
<td>(7) California</td>
<td>5.8</td>
</tr>
<tr>
<td>(9) Colorado</td>
<td>5.7</td>
</tr>
<tr>
<td>(9) Idaho</td>
<td>5.7</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis

Note: Year–to-Date information through third quarter
Nebraska’s manufacturers are tapping export markets.

Nebraska Manufacturing Employment and Export Growth

Manufactured Exports (Left Scale)

Manufacturing Employment (Right Scale)

Percent change from year ago

Source: Bureau of Labor Statistics and WISERTrade
Consumer spending rebounds.

Nebraska Net Taxable Retail Sales

Billion dollars

Source: Nebraska Department of Revenue
Farm incomes are projected to retreat to historical norms.

**U.S. Real Net Farm Income (Annual Average)**
- 1990 to 2003: $59 billion
- 2004 to 2011: $73 billion
- 2012 to 2020: $64.7 billion

**Source:** USDA
Elevated export trends similar to the 1950s could keep farm prices high.

U.S. Agricultural Exports and Farm Prices

Billion dollars (2005 constant dollars)  Index (2005=100)

Agricultural Exports (Left Scale)
Prices Received by Farmers (Right Scale)

Exports Double Between 2006 and 2011
Exports Double In 1970s
Exports Double During WWI
Exports More than Double During WWII

Calculations based on U.S. Census Bureau and U.S. Department of Agriculture data deflated with consumer price index from the Federal Reserve Bank of Minneapolis and USDA inflation expectations.
Ethanol hits the “Blend Wall”

**U.S. Motor Gasoline Use**
- Fell 2.6% in 2011
- 2015 forecast down 5%

**U.S. Ethanol Standard is a 10% blend.**

**2015 Ethanol Consumption Projections**
- In 2007, 15 billion gallons
- Today, 13.7 billion gallons

**Current Ethanol Production Capacity**
- 13.5 billion gallons with
- 522 million gallons under construction

**U.S. Motor Gasoline Consumption**

Source: EIA
Is this farm boom different?
It depends on debt and leverage.

U.S. Farm Debt

Billion dollars (2005 constant dollars)

Calculations based on U.S. Census Bureau and U.S. Department of Agriculture data deflated with consumer price index from the Federal Reserve Bank of Minneapolis.
Conclusions

• National economic conditions improve.
• Economic headwinds remain.
• Commodity markets and exports spur the Nebraska economy.
• The farm boom is expected to slow.
• Leverage is the key driver for the economic fortunes of both Main Street and the Farm Gate.