The Economic Outlook
Nebraska’s economy continues to perform better than the nation as a whole.

**Real Personal Income Growth**

(Percent change year ago – 2012:Q2)

7th highest - 2.6%

Nebraska’s total income held up better during the recession and expanded faster in the recovery.
Employment in Nebraska remains strong.

**Unemployment Rates**
Nebraska: 3.9%
U.S.: 7.8%

**Peak Unemployment in Crisis**
Nebraska: 4.9%
U.S.: 10.0%

Calculations based on BLS data
Population growth in Nebraska picks up.

**Persons Under 5 Years**
- Nebraska: 7.1%
- U.S.: 6.5%

**Persons Under 18 Years**
- Nebraska: 25.0%
- U.S.: 23.7%

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

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

2012 Construction Growth
Annual earnings growth
Q2: 4.4 percent

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.
Renewed strength in manufacturing.

**Fueled by durable goods:**
- Fabricated metals
- Machinery
- Transportation equip.
- Computers and electronics

The rebound was shaped by ag-related manufacturing.

In 2012, Nebraska’s manufacturing jobs and earnings growth slowed heading into third quarter.

Source: Bureau of Labor Statistics
After weakening in 2011, private service sectors are rising faster.

- In Nebraska, private service earnings also rose 3.6% from 2011:Q2 to 2012:Q2

- Personal services held up better during the recession and are rebounding faster.
  - Leisure and hospitality
  - Health services
  - Education services
  - Retail trade

- Solid gains in business-related services
  - Wholesale trade
  - Professional and business services

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

Source: Bureau of Labor Statistics
With stronger incomes, Nebraska consumers are increasing their spending.

Automobile sales rise faster than total retail sales.

In 2012, Retail sales rising faster outside of Douglas County
Agriculture is a Bright Spot
Farm income and equity levels are at record highs.

U.S. Farm Debt and Income

- Debt-to-Equity Ratio: Left Scale
- Real Net Income: Right Scale (Billion 2005 Dollars)

Source: USDA
Delinquency rates remain low.

Delinquency Rates at Commercial Banks

Source: Federal Reserve Board of Governors
But there are some similarities to 1979.

- 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%

There are underlying risks to U.S. agriculture.

- Higher Interest Rates
- Stronger Dollar
- Leverage and Debt
- International Competition
- Persistent Drought
The Macro Economy is the Main Risk
The fiscal cliff would trigger a recession.

The Fiscal Cliff
- Expiring tax provisions $399 billion
- Sequestration: $103 billion
- Other: $100 billion

U.S. Real GDP Growth

Sources: CBO and Blue Chip
The fiscal cliff represents a trade-off.

U.S. Debt as a Percent of GDP

- CBO Projection - Avoid Fiscal Cliff
- CBO Projections - Baseline

Source: CBO
Potential changes in tax law sparked an increase in business investment at the end of 2011.

Businesses report that increased economic, fiscal policy, and regulatory uncertainty are weighing on investments.

Source: Bureau of Economic Analysis
Although jobs openings increase, hiring advances more slowly.

Why are business not hiring people?

Source: BLS
Implications of European Crisis: A Slower Global Economy

-A Sovereign Debt Crisis
-A Banking Crisis
-An Economic Recession

- Direct trade implications are small
- Challenges are ...
  - Contagion in financial markets
  - Slower Chinese economy

Trade Flows of Goods as a Share of US GDP

Source: Davig (2012)
After rebounding in 2010, U.S. trade growth has slowed.

- Stronger value of the dollar
- Weaker global economies
Caution signs for U.S. manufacturing

- Public and private sector manufacturing surveys indicate slowing activity.
- Manufacturing employment contracted in August.
- The slowdown occurred at durable goods factories.

Source: Census Bureau
Note: Nondefense goods excluding aircraft and parts.
The Goal: Foster Maximum Employment and Stable Prices

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

<table>
<thead>
<tr>
<th></th>
<th>Longer Run</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Real GDP Growth</td>
<td>2.3 to 2.5</td>
<td>1.7 to 2.0</td>
<td>2.5 to 3.0</td>
<td>3.0 to 3.8</td>
<td>3.0 to 3.8</td>
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<tr>
<td>June 2011 proj.</td>
<td>1.9 to 2.4</td>
<td>2.2 to 2.8</td>
<td>3.0 to 3.5</td>
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<tr>
<td>Unemployment Rate</td>
<td>5.2 to 6.0</td>
<td>8.0 to 8.2</td>
<td>7.6 to 7.9</td>
<td>6.7 to 7.3</td>
<td>6.0 to 6.8</td>
</tr>
<tr>
<td>June 2011 proj.</td>
<td>8.0 to 8.2</td>
<td>7.5 to 8.0</td>
<td>7.0 to 7.7</td>
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<tr>
<td>PCE Inflation</td>
<td>2.0</td>
<td>1.7 to 1.8</td>
<td>1.6 to 2.0</td>
<td>1.6 to 2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>June 2011 proj.</td>
<td>1.2 to 1.7</td>
<td>1.5 to 2.0</td>
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Source: Federal Reserve Board of Governors

Which part of the mandate is not being met?
QE3 will expand the balance sheet by $40 billion per month.
Is Monetary Policy Working?
The housing bust spurred housing rentals and multi-family construction.

Household formations are rising as economic conditions improve.

Will household incomes strengthen?
But housing has a long way to go.

Housing formations are rising, but the pre-recession peak is distant.

U.S. Single-Family Housing Starts

Source: Census Bureau
Capital spending on large ticket items is rising.

Auto sales, furniture, appliances, and electronics are propping up retail sales.
What are the Side Effects of Monetary Policy?
Inflation: what are the expectations?

Five year, Five year Ahead Breakeven Inflation Rate

Percent

0.00 0.50 1.00 1.50 2.00 2.50 3.00 3.50

0.00 0.50 1.00 1.50 2.00 2.50 3.00 3.50

The Monetary Base is not Money Supply.

**Quantity Theory of Money**

\[
\text{Price} = \frac{\text{Money} \times \text{Velocity}}{\text{Quantity}}
\]

**Definition of Inflation:**

Too much money \( M \uparrow \) 
chasing \( V \uparrow \) 
too few goods \( Q \downarrow \)

Source: Federal Reserve Board of Governors
Banks are holding monetary base in excess reserves.

Excess Reserves in Depository Institutions

What is the trigger to growth and inflation?
- Banks start lending
- Consumers start spending
- Businesses start investing

Source: Federal Reserve Board of Governors
Nebraska is enjoying a Top Ten economy, spurred by agriculture.
The U.S. economy is out of balance.
Monetary policy is boosting interest rate sensitive consumer spending.
Headwinds remain leading to uncertain business outlook.
Views on monetary policy depend on your perspective and trade-offs.