Transitions in the U.S. Economy and U.S. Agriculture
The U.S. economy continues to advance slowly.

U.S. Real GDP Growth

Percent change from year ago

-10 -8 -6 -4 -2 0 2 4 6
2007 2008 2009 2010 2011 2012 2013 2014

Change from previous quarter
Change from year ago

Blue Chip Forecast

Calculations based on BEA and Blue Chip Forecast July 2013
Unemployment rates trend down.

Unemployment Rate

Source: Bureau of Labor Statistics
Underlying the modest growth is a shift in market performance.

**Booming sectors plateau in 2012**
- Commodities
- Exports
- Manufacturing

**The Wildcards**
- Investment
- Government

**A Rebound in Household Spending**
- Housing
- Consumer Spending
Consumer spending and housing drive growth.

Consumer Spending and Housing

Percent change from a year ago

- Personal Consumption Expenditures (left scale)
- Existing Home Sales (right scale)

Source: Bureau of Economic Analysis and National Association of Realtors
Long-term fiscal policy remains uncertain.

Federal Government Debt as a Percent of GDP

Source: Congressional Budget Office
Potential changes in tax law sparked an increase in business investment at the end of 2012.

Businesses report that increased economic, fiscal policy, and regulatory uncertainty are weighing on investments.
Export growth has slowed and manufacturing has weakened.

Real U.S. Net Exports and Tenth District Manufacturing

Source: Bureau of Economic Analysis and Federal Reserve Bank of Kansas City
Compared with equities, commodity markets are no longer booming.

Commodity Prices and Performance vs. Equities

- CRB Commodity Index (Left Scale)
- Performance of Commodities vs. Equities* (Right Scale)

Source: Commodity Research Bureau, Yahoo! Finance, and author’s calculations

* Commodities include: natural gas, gasoline, WTI crude oil, copper, gold, platinum, corn, wheat, live cattle, cocoa, coffee, and sugar. Equities include the S&P 500 index.
Nebraska’s economy is also growing slowly, but faces a possible transition.
Unemployment remains low in Nebraska.

Unemployment Rate by State

Source: Bureau of Labor Statistics
But employment growth has been slowing.

Employment Growth by State

Percent change from year ago

Source: Bureau of Labor Statistics
Goods-producing industries have been driving Nebraska’s employment growth.

Nebraska Job Growth by Sector

Percent change from year ago

Source: Bureau of Labor Statistics
Manufacturing employment has strengthened.

Nebraska Private Industry Employment Growth

Percent change from year ago

Source: Bureau of Labor Statistics
Note: Number in parentheses is the industry percentage of total non-farm employment as of May 2013
Nebraska manufacturing employment growth has outpaced the District.

Manufactured Exports and Employment Growth

- Billion Dollars
- Percent change from year ago

Source: Bureau of Labor Statistics and WISERTrade
Real estate markets have improved significantly.

Value of Nebraska Construction Contracts

Million Dollars (seasonally adjusted)

Source: FW Dodge
Personal income growth slowed with the expiration of the payroll tax holiday.

Real Personal Income

Source: BEA
But income growth in this region is heavily reliant on commodity markets.

Difference between Per Capita Income Growth in Tenth Federal Reserve District and U.S.

Calculations based on BEA data
Will commodities drive a transition in the regional economy?
Awash in corn and crude oil?

U.S. Corn Inventories and Crude Oil Production

Source: USDA, EIA Short-Term Energy Outlook, and EIA Annual Energy Outlook 2013
Corn and crude oil prices are expected to fall.

Source: CBOT data as of July 17, 2013
Farmland values set new records, but growth may be moderating.

Federal Reserve 10th District Farmland Value Gains

Percent change from a year ago

Source: FRB KC, Survey of Agricultural Credit Conditions
Is farmland overvalued?

Cropland Value-to-Cash Rent Ratios

Percent change from previous year

Investors will spend $32 for every dollar of revenue. Implies a capitalization rate of 3.1%

Source: NASS, USDA and Iowa State University
Farm incomes are projected to drop sharply in 2014.
Monetary Policy
Low inflation leads to accommodative monetary policy.

**Personal Consumption Expenditures Price Index**

Percent change from previous year

Source: Bureau of Economic Analysis
What is the exit strategy?

Federal Reserve Balance Sheet: Assets

Billion Dollars

- Fed Agency Debt MBS Purchases
- Liquidity to Key Credit Markets
- Lending to Financial Institutions
- Long Term Treasury Purchases
- Traditional Security Holdings

Source: Federal Reserve Board of Governors
Conclusions

- Modest economic recovery continues, but in transition.
  - Housing has provided strength.
  - But there is a “fiscal drag.”

- Stronger manufacturing in Nebraska has boosted employment growth.

- But, in addition to other risks, commodities could drive a transition in the regional economy.
For More Information on The Midwestern Economy and Rural America

www.kansascityfed.org/omaha