Transforming Nebraska’s Economy: Building on the Recovery
Today’s Roadmap

- Nebraska’s economy shakes off the summer lull.
- Agriculture rebounds with strong demand and lean supplies.
- Seizing opportunities in the recovery.
The Great Plains has withstood the recession better than the rest of the nation.

Unemployment Rates
(Sept. 2009 – Aug. 2010 averages)

Source: BLS
Job losses have not been as sharp as the nation as a whole.

U.S. and Nebraska Unemployment Rates

Source: Bureau of Labor Statistics
Private-sector service jobs pace the recovery with stabilizing goods-producing sectors.

Nebraska Job Growth by Sector

Percent change from year ago

-8 -6 -4 -2 0 2 4 6

Jan-07 Jul-07 Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

Goods-Producing
Service-Producing
Government

Source: Bureau of Labor Statistics
Home sales plummet after the end of the tax credit.

Nebraska Home Sales

Source: National Association of Realtors and local realtors association

Index (2002:Q2 = 100)
Has housing construction activity hit bottom?

Nebraska Housing Permits and Value of Residential Construction

Number of permits

<table>
<thead>
<tr>
<th>Month</th>
<th>Number of Permits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-10</td>
<td>400</td>
</tr>
<tr>
<td>Feb-10</td>
<td>500</td>
</tr>
<tr>
<td>Mar-10</td>
<td>450</td>
</tr>
<tr>
<td>Apr-10</td>
<td>420</td>
</tr>
<tr>
<td>May-10</td>
<td>150</td>
</tr>
<tr>
<td>Jun-10</td>
<td>300</td>
</tr>
<tr>
<td>Jul-10</td>
<td>200</td>
</tr>
<tr>
<td>Aug-10</td>
<td>600</td>
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</table>

Source: National Association of Realtors and local realtors association

Value of Residential Construction

- Million dollars
- Single-Family Housing Permits (Left Scale)
- Value of Residential Construction (Right Scale)
Is the uptick in commercial construction sustainable?

U.S. and Nebraska Non-residential Construction

Index (2002=100)

Source: Bureau of Labor Statistics
Manufactured exports rebound led by ag-related firms.

Nebraska Manufactured Export Growth

Source: WISERtrade
2010 data are through June
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U.S. agricultural exports have rebounded.

Real U.S. Agricultural Exports

Billion dollars (constant 2010=100 dollars)

Source: USDA
* 2010 projection based on export growth through July 2010
Robust demand and short supplies lead to higher crop prices.

U.S. Crop Prices

Source: Bureau of Labor Statistics
A demand shock has turning into a supply shock.

World Corn Inventories and U.S. Corn Price

World stocks as a percent of use

Dollars per bushel

Source: USDA
Stronger farm incomes boost agricultural equipment sales.

U.S. Real Net Farm Income and Agricultural Equipment Sales

Percent change from previous year

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Net Farm Income</th>
<th>4-Wheel Drive Tractor Sales</th>
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<tbody>
<tr>
<td>2006</td>
<td>-20.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2007</td>
<td>0.0</td>
<td>20.0</td>
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<tr>
<td>2008</td>
<td>20.0</td>
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<tr>
<td>2009</td>
<td>-30.0</td>
<td>-10.0</td>
</tr>
<tr>
<td>2010*</td>
<td>20.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Source: Association of Equipment Manufacturers and USDA

* Tractor Sales data are year-to-date through July and Net Farm Income forecast for 2010 dated August 31, 2010.
Is a farmland bubble brewing? Are farmland values too high or rents too low?

Farmland Values to Rent Ratio

- Iowa Farmland Value to Rent
- East NE Irrigated Cropland Value to Rent
- S&P PE Ratio (Average since 1945)

Calculations based on Iowa State University and University of Nebraska data
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1) **Recognize that the Consumer is King.**

Rising demand lifts all boats.

From where will demand emerge?

What types of products do they want?

**The Example of Food**

- In 2008, almost half of the world’s population earns less than $2.50 per day.
- At $2.50 per day, most hunger problems are solved and people start incorporating proteins into their diet.
- Household amenities, such as microwave ovens, also shift food demand.

![Households Owning a Microwave Oven](chart)

**Source:** USDA
2) Infrastructure investments are needed to connect Nebraska to the global economy.

Railroad Capacity

2007

2035 – without improvements

Source: U.S. Dept. of Transportation
3) **Entrepreneurs are the foundations for revitalization.**

- Communities with stronger entrepreneurial activity have stronger economic growth.
- The benefits of entrepreneurship spill over to neighboring communities.
- The benefits of entrepreneurship build over time.
- Entrepreneurship is “creative destruction”. A business closing is not a failure, if it is replaced by a new business.

### Entrepreneurship Index – 2008

<table>
<thead>
<tr>
<th>State</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Wyoming</td>
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</tr>
<tr>
<td>Kansas</td>
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<tr>
<td>Colorado</td>
<td>18</td>
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<tr>
<td>Minnesota</td>
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<td>Nebraska</td>
<td>24</td>
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<tr>
<td>South Dakota</td>
<td>36</td>
</tr>
<tr>
<td>Iowa</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: Bureau of Business Research, U. of Nebraska-Lincoln

Index is composed of employer establishment growth, business formation rate, patents, and gross receipts of sole proprietorships and partnerships.
Entrepreneurship is often a mindset of seeing opportunities differently.

Ski Nebraska
4) Attracting and retaining labor is key.

- Many Nebraska counties struggle to maintain population levels, which limits labor availability and local demand.

- The quality of local labor pools is also a concern.

- How do Nebraska’s communities attract and retain the best and brightest?


Annualized percent change 2000 to 2009

NE Population Growth by County Type

Calculations based on U.S. Census data
5) **High-quality labor is imperative for global competitiveness**

**U.S. and Nebraska Educational Attainment**

- The rest of the world is closing the education gap – in secondary and college education.
- As the quantity gap closes, we need to focus on quality.
- But what does quality mean?

**Educational Attainment by Age Group**

**Secondary Education**

Source: OECD, Brookings Institution

**4-year College Degree**

Source: OECD, Brookings Institution
Conclusions

- The recovery is underway in Nebraska, led by agriculture.
  - Modest job gains and low unemployment.
  - Stronger export activity offers opportunities in a global market.

- To compete globally, Nebraska must ...
  - Be entrepreneurial and innovative,
  - Provide the infrastructure for businesses to thrive, and
  - Contain great communities where people want to live, work, and play.

“It is not the strongest of the species that will survive, nor the most intelligent, but the most responsive to change.”

Charles Darwin
Federal Reserve Bank of Kansas City
Omaha Branch

For additional information on the Nebraska economy

www.kansascityfed.org/omaha