Transforming Nebraska’s Economy: Building on the Recovery

The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Today’s Roadmap

- Nebraska’s economy shakes off the summer lull.
- Agriculture rebounds with strong demand and lean supplies.
- Seizing opportunities in the recovery.
Nebraska continues to enjoy stronger job growth than the nation.

U.S. and Nebraska Job Growth

Percent change from year ago

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

Source: Bureau of Labor Statistics
What happens to housing after the end of the tax credit?

Nebraska Existing Home Sales

Percent change from year ago

Source: National Association of Realtors
Manufactured exports rise, led by ag-related firms.

Nebraska Manufactured Export Growth

Percent change from year ago

- 2008
- 2009
- 2010 YTD

Source: WISERtrade
2010 data are through June
Today’s Roadmap

- Nebraska’s economy shakes off the summer lull.
- Agriculture rebounds with strong demand and lean supplies.
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
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

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
Today’s Roadmap

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- Seizing opportunities in the recovery.
1) Recognize that the global 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.

<table>
<thead>
<tr>
<th>Household Amenities</th>
<th>2002</th>
<th>2005</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>90%</td>
<td>92%</td>
<td>94%</td>
</tr>
<tr>
<td>Russia</td>
<td>30%</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Brazil</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>China</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>India</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

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>
</tr>
</thead>
<tbody>
<tr>
<td>Wyoming</td>
<td>7</td>
</tr>
<tr>
<td>Kansas</td>
<td>17</td>
</tr>
<tr>
<td>Colorado</td>
<td>18</td>
</tr>
<tr>
<td>Minnesota</td>
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<tr>
<td>Nebraska</td>
<td>24</td>
</tr>
<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?

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

- 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?

U.S. and Nebraska Educational Attainment

Educational Attainment by Age Group

Secondary Education

4-year College Degree

Source: OECD, Brookings Institution

Source: Census Bureau
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