

U.S. and Nebraska Economic Outlook



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The views expressed are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



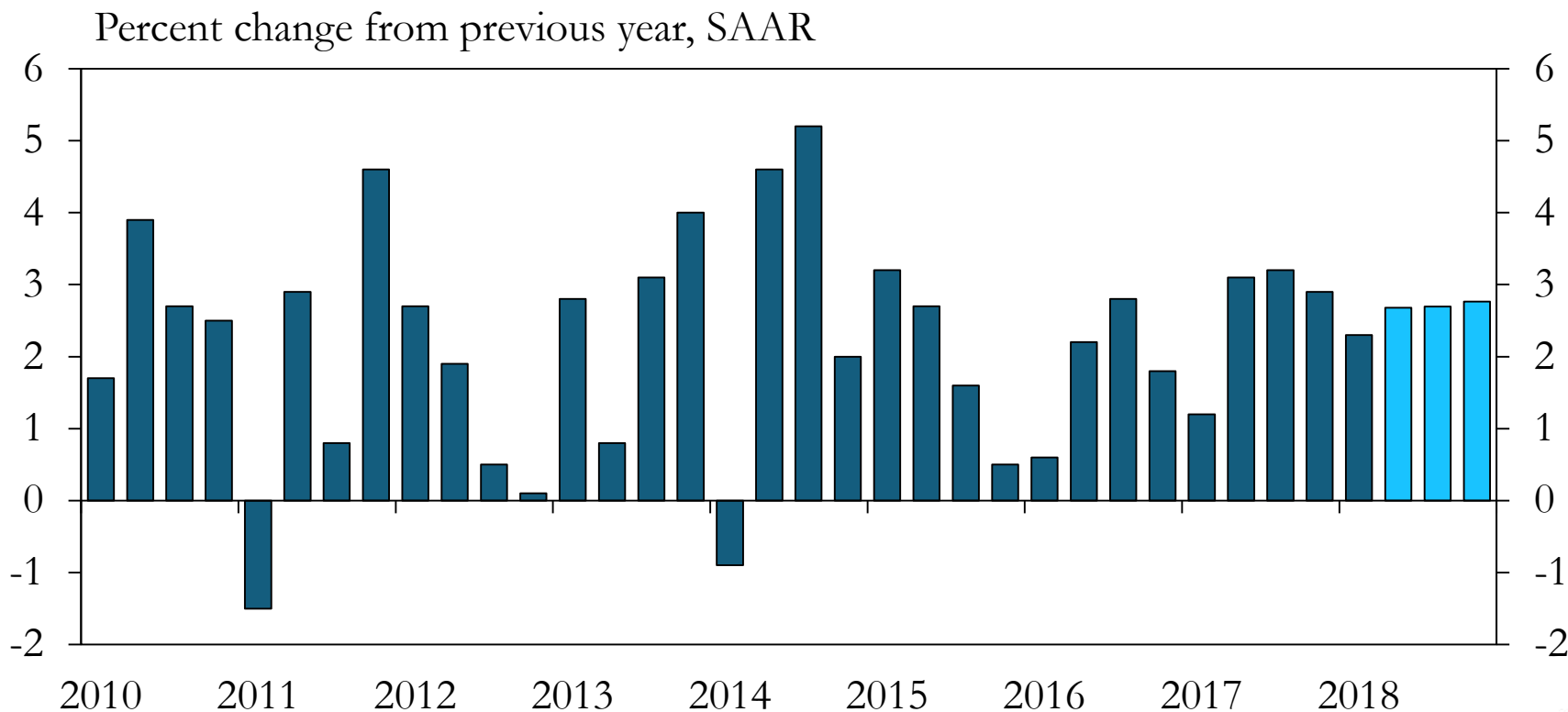
Outlook Themes

- The U.S. economy has picked up slightly with modest signs of increasing wage pressure and inflationary pressure.
- Labor market tightness is a common theme, particularly in Nebraska.
- Limited availability of labor has likely contributed to a recent slowdown in employment growth and economic activity in Nebraska.
- Agricultural conditions have generally remained weak alongside low commodity prices, with heightened concern about the outlook for trade.



The U.S. economy has continued to expand,
and at a slightly faster pace than a year ago.

U.S. Real GDP Growth



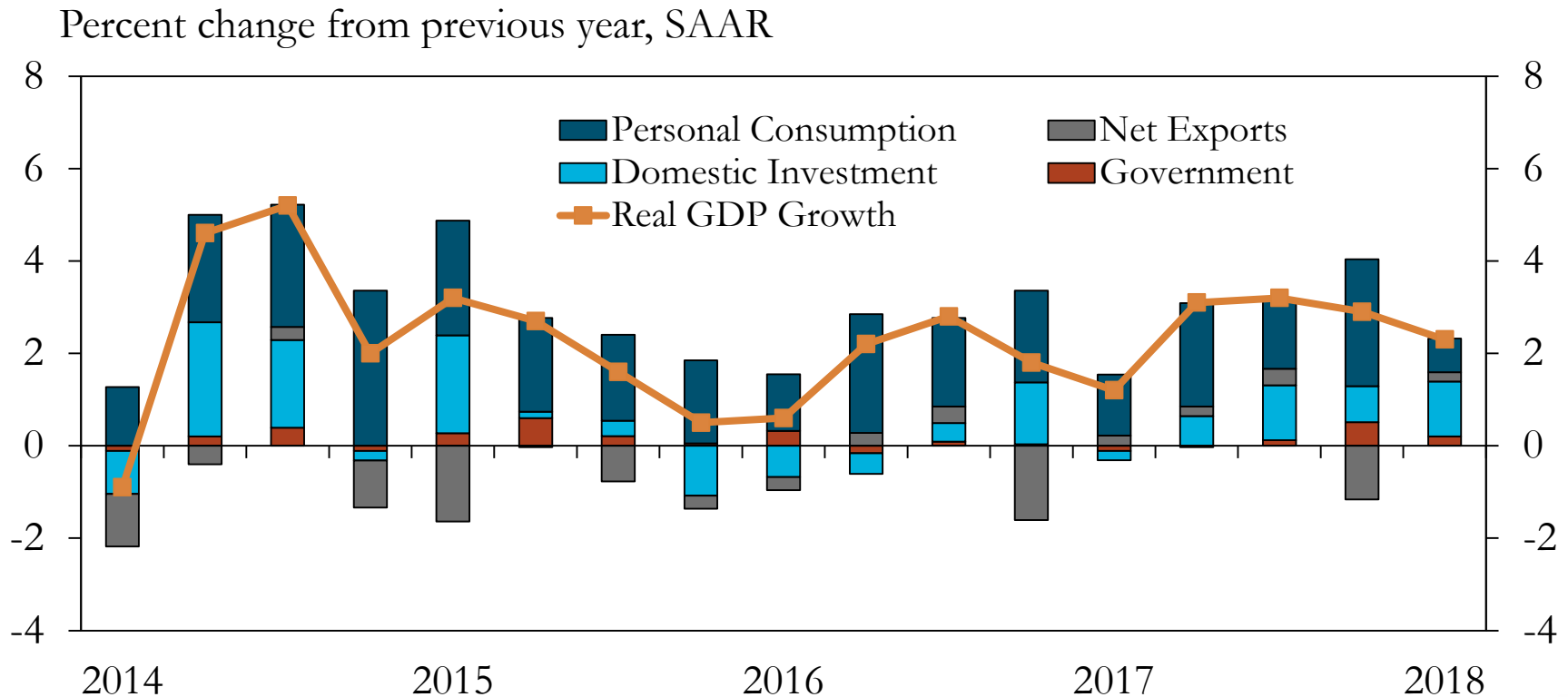
Note: 2018 Q2-4 are forecasts from Macroeconomic Advisors as of May 3.
Sources: Bureau of Economic Analysis, Macroeconomic Advisors and Haver Analytics.

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Personal consumption has remained the primary driver of growth.

U.S. Real GDP Growth by Component



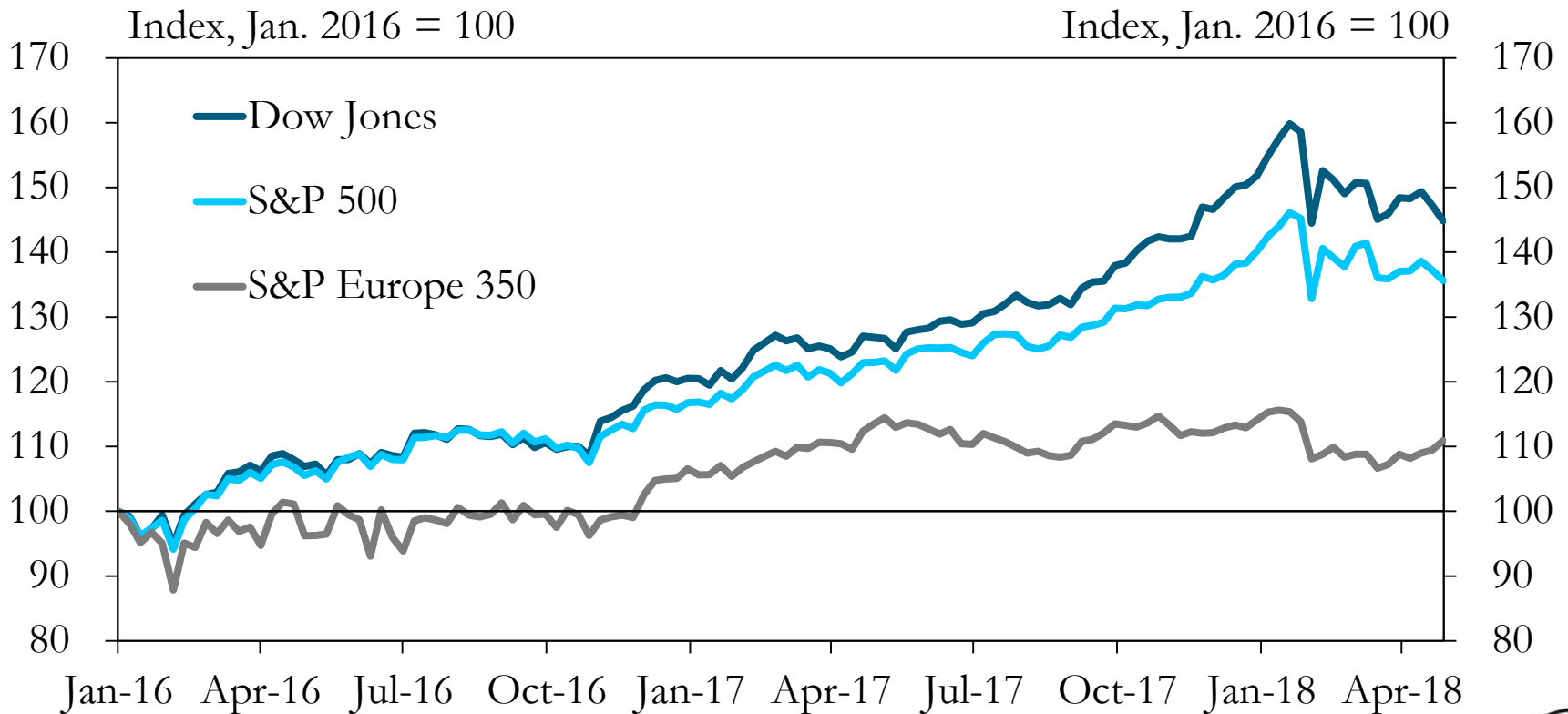
Sources: Bureau of Economic Analysis and Haver Analytics.

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The first quarter of 2018, however,
has been marked by uncertainty.

Weekly Equity Market Indexes



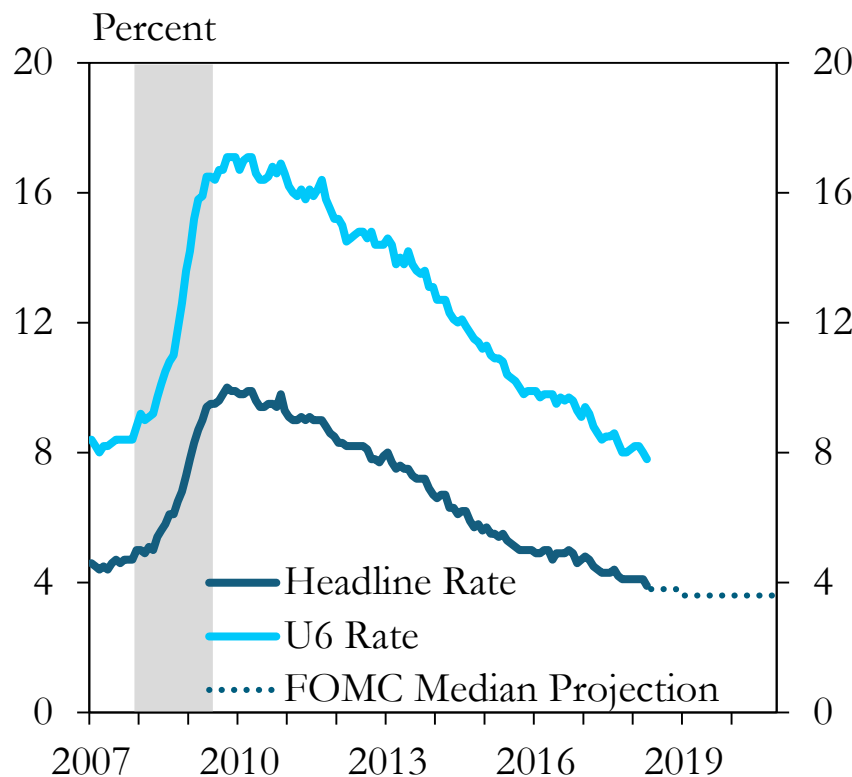
Source: Yahoo Finance.

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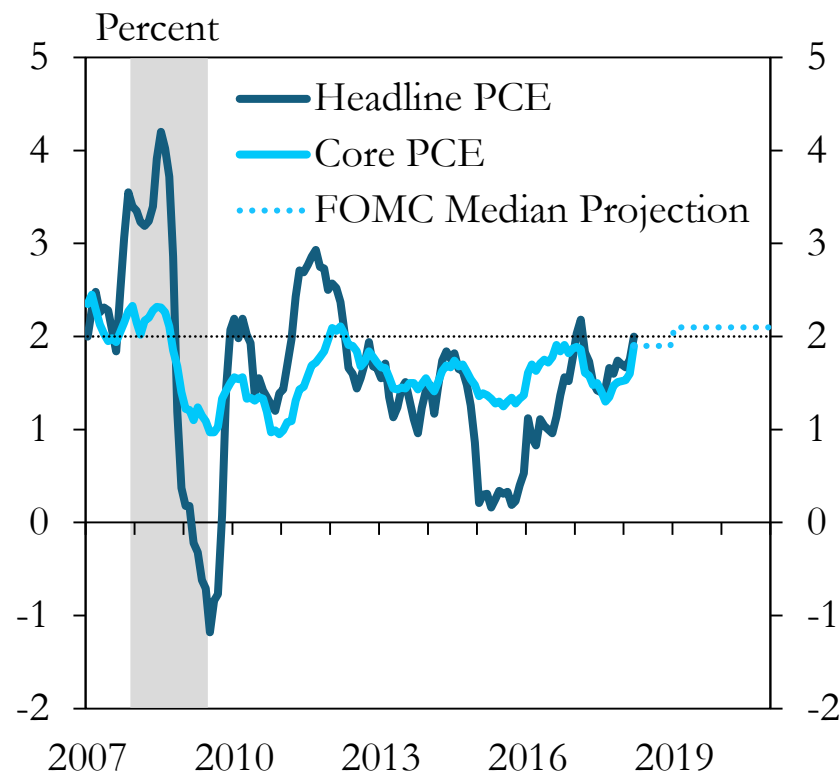


The national unemployment rate continues to edge lower and inflation has picked up slightly.

U.S. Unemployment Rate



U.S. Inflation



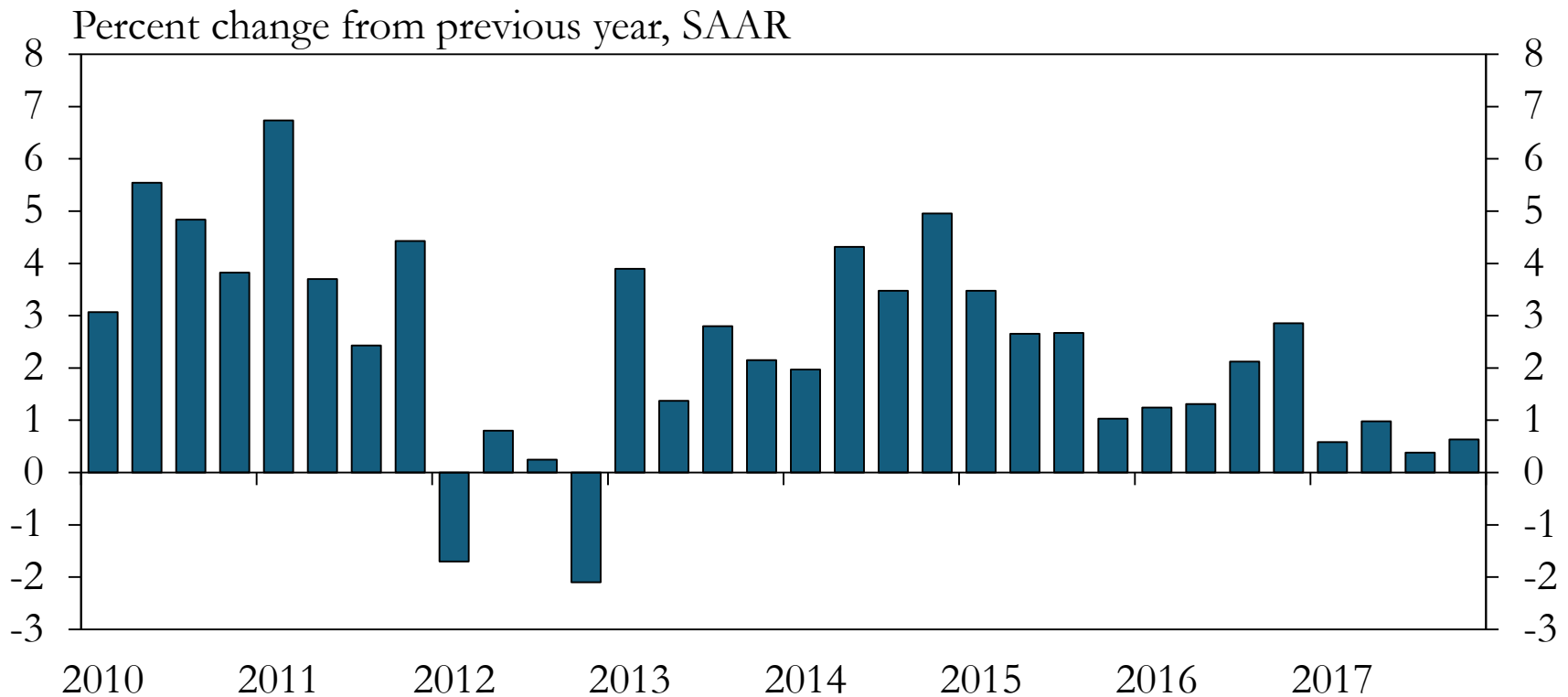
Sources: BLS, Federal Reserve Bank of San Francisco, Board of Governors, and Haver Analytics.

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In Nebraska, economic growth slowed in 2017.

Nebraska GDP Growth



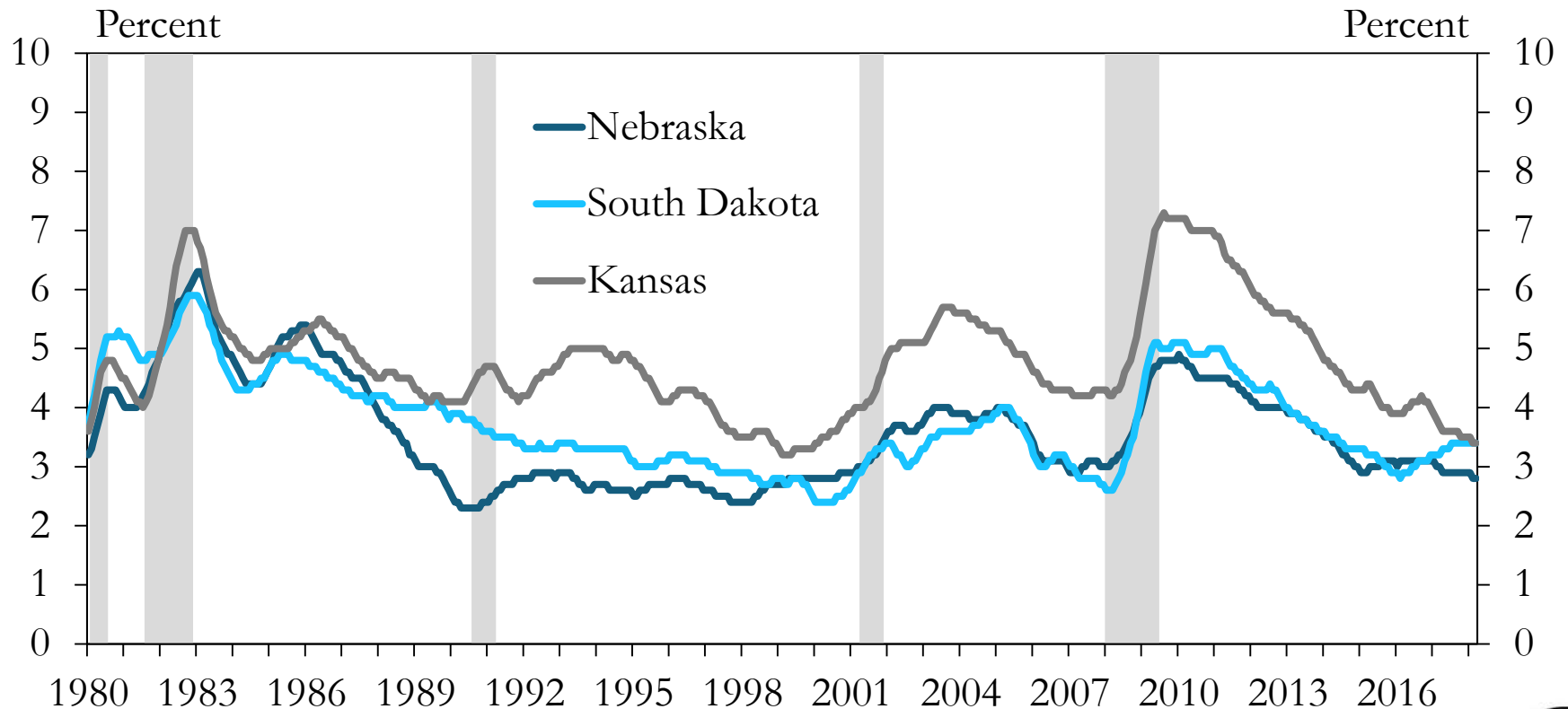
Source: BEA, Haver Analytics.

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However, labor markets in Nebraska, and throughout the region, are extremely tight.

State Unemployment Rates



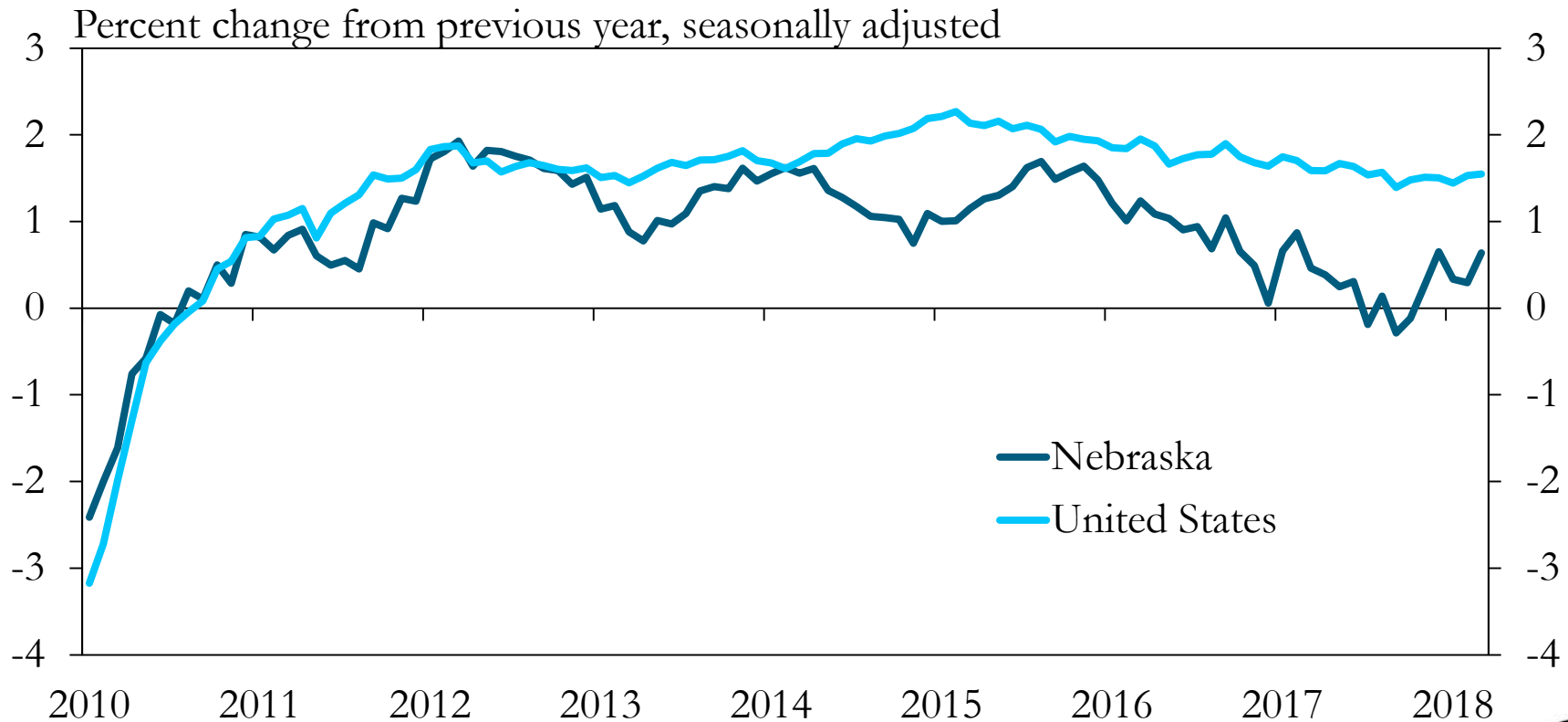
Source: BLS, Haver Analytics.

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Tight labor markets appear to be contributing to sluggish employment growth in the state.

Employment Growth



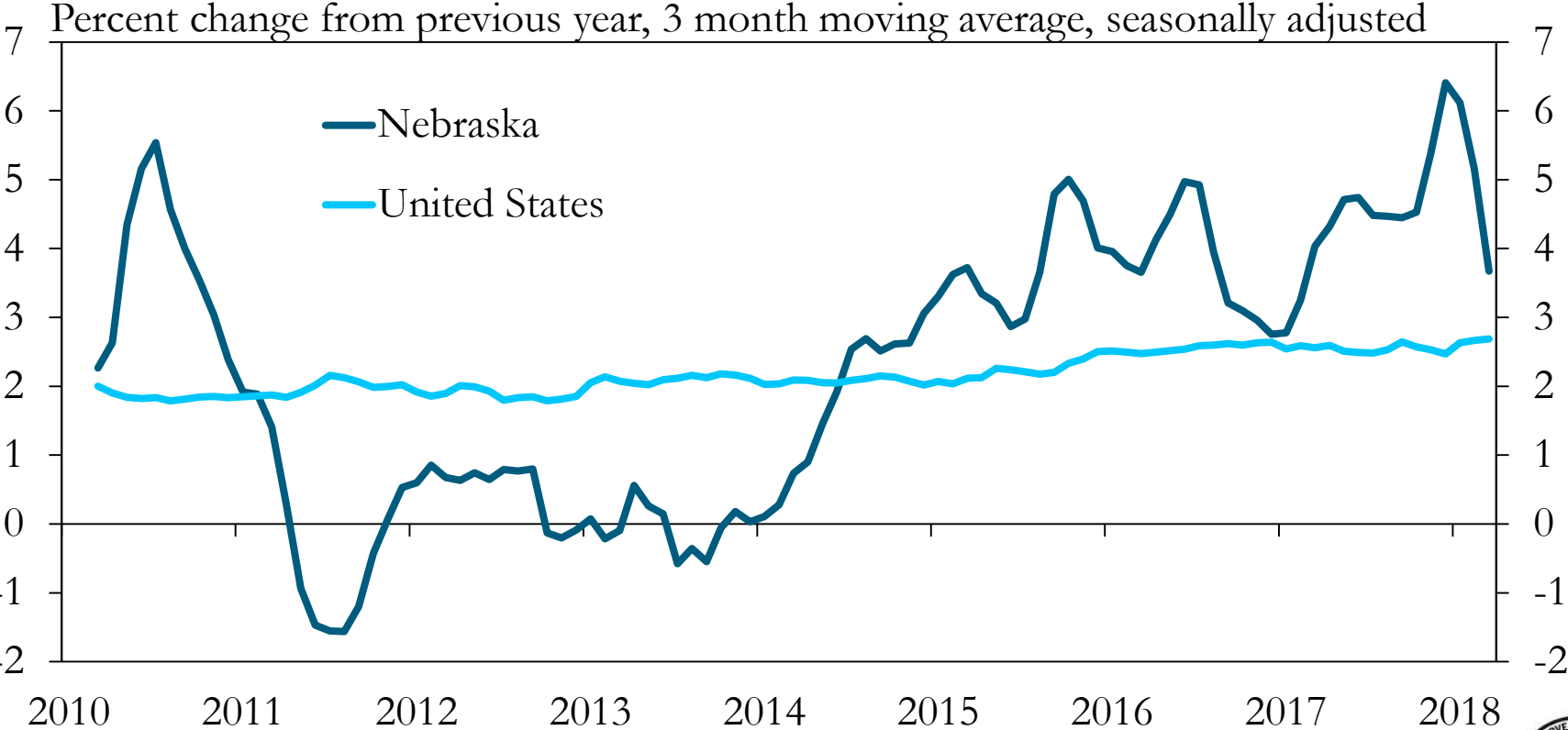
Source: BLS, Haver Analytics.

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And Nebraska wages have continued to accelerate a bit more quickly than the nation.

Average Hourly Earnings

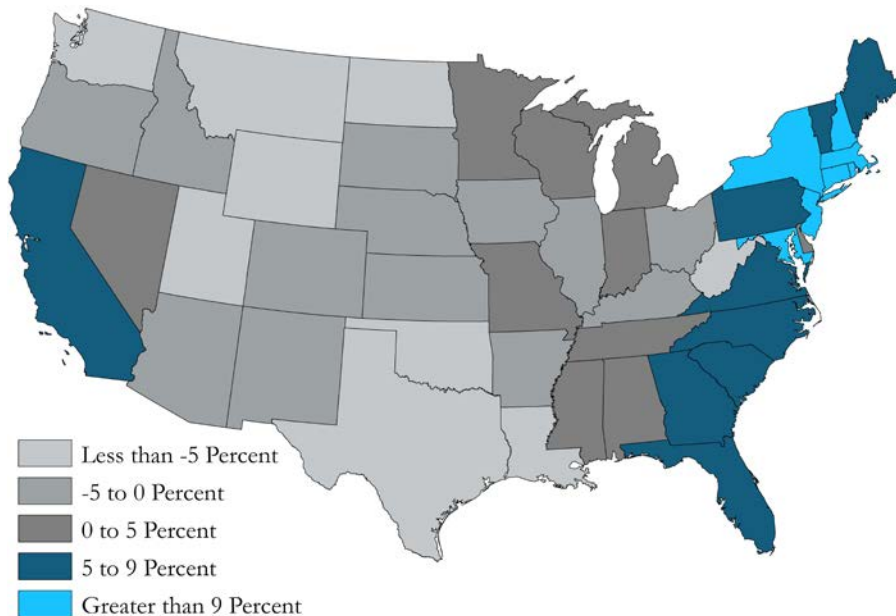


Source: BLS, Haver Analytics.

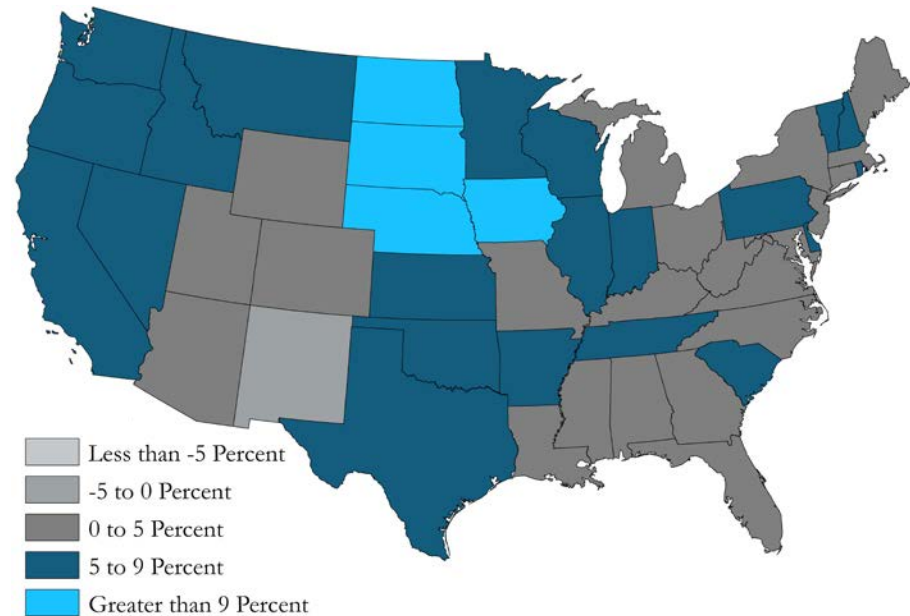


In contrast to previous expansions, wage pressures are more pronounced in the central U.S.

**Wage Growth by State:
1982-1990**



**Wage Growth by State:
2009-2017**



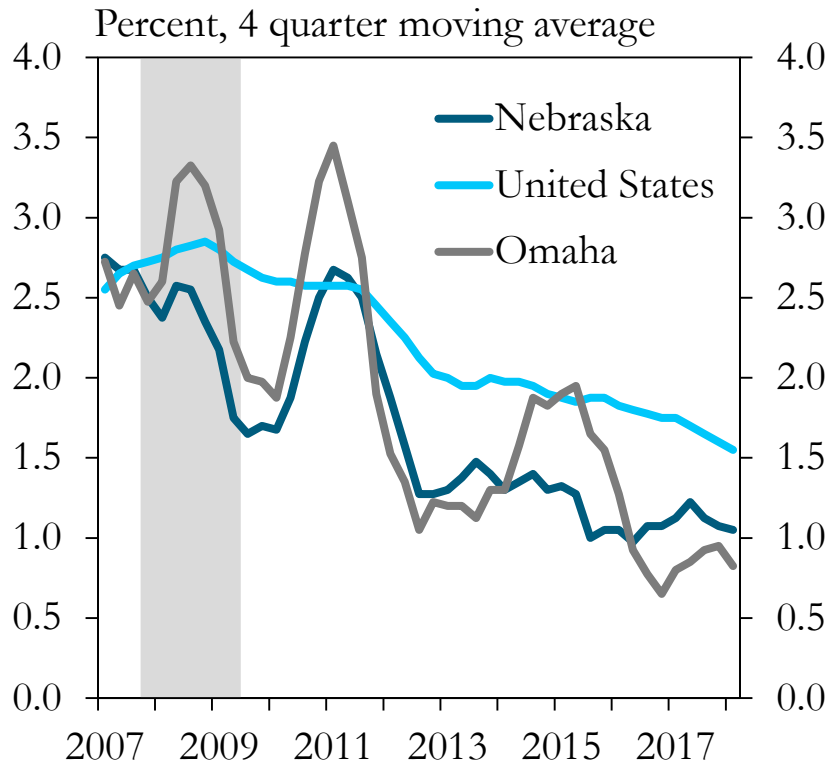
Source: BLS, Staff Calculations.

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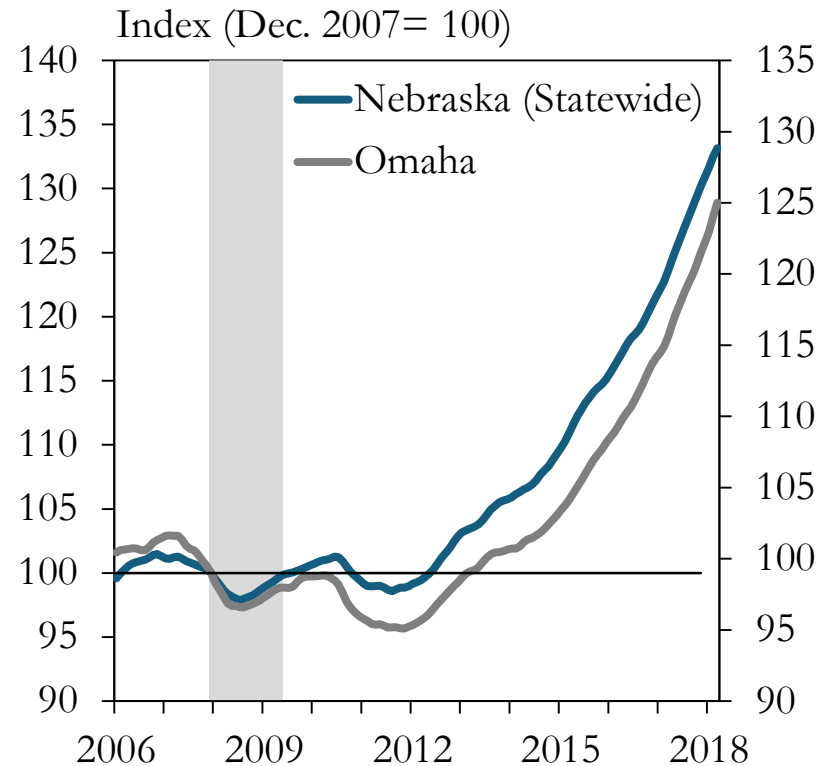


Nebraska households have also benefited from a very strong real estate market.

Home Ownership Vacancy Rate



House Prices



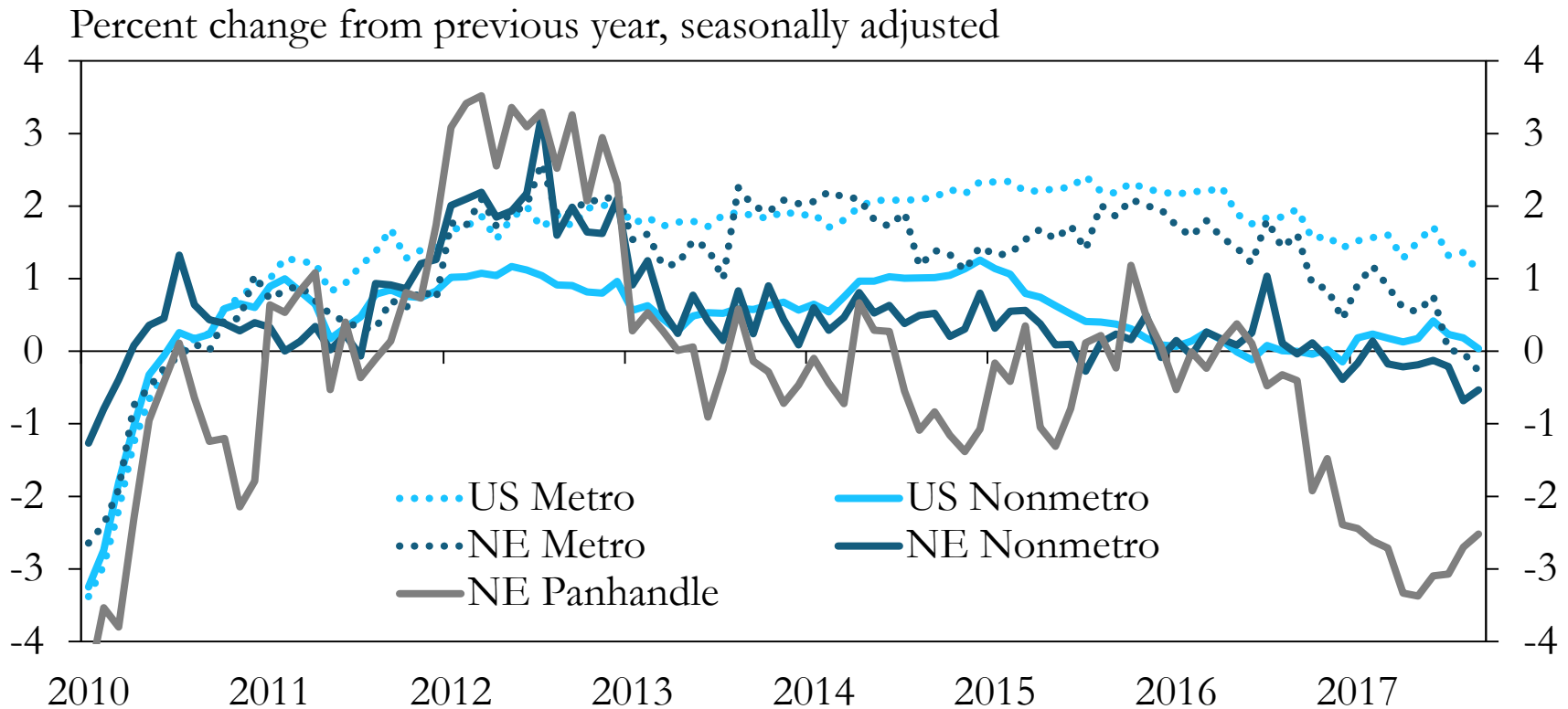
Source: Census Bureau, Zillow, Haver Analytics.
Note: Gray bars indicate NBER-defined recessions.

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Conditions in rural Nebraska, however, have been notably weaker.

Job Growth by Area



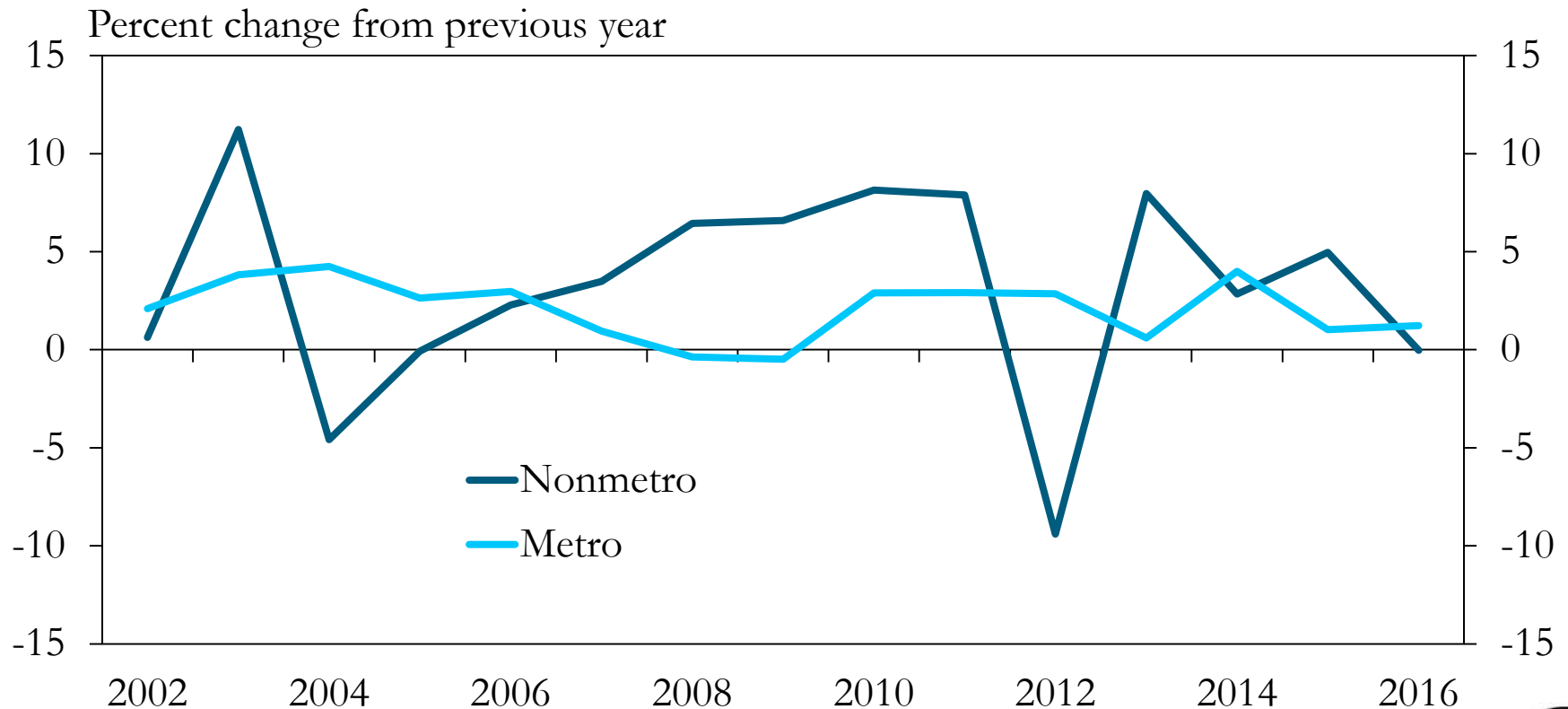
Source: BLS, staff calculations.

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Weakness in rural areas has weighed on Nebraska's overall economic activity.

Nebraska Metro and Nonmetro GDP Growth



*Note: The Omaha MSA includes Council Bluffs, IA. Nebraska portions of the Sioux City, IA MSA are not included here.

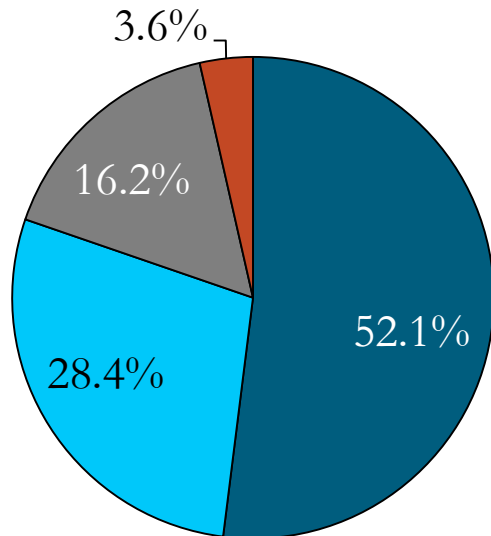
Source: BEA, Haver Analytics.

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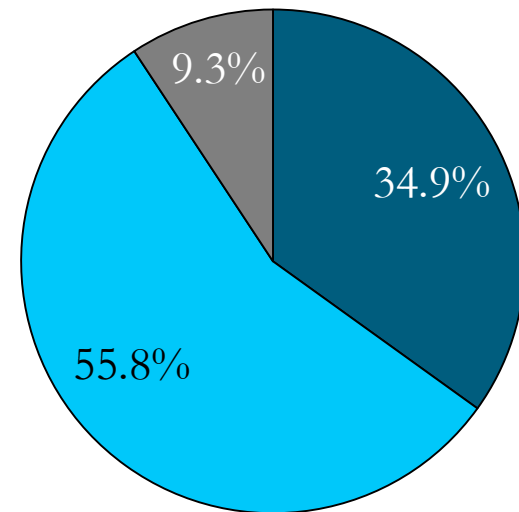
In Nebraska, nonmetro regions account for a relatively large share of GDP.

Nebraska GDP by MSA



- Omaha Metro*
- Nonmetro*
- Lincoln Metro
- Grand Island Metro

United States GDP by MSA



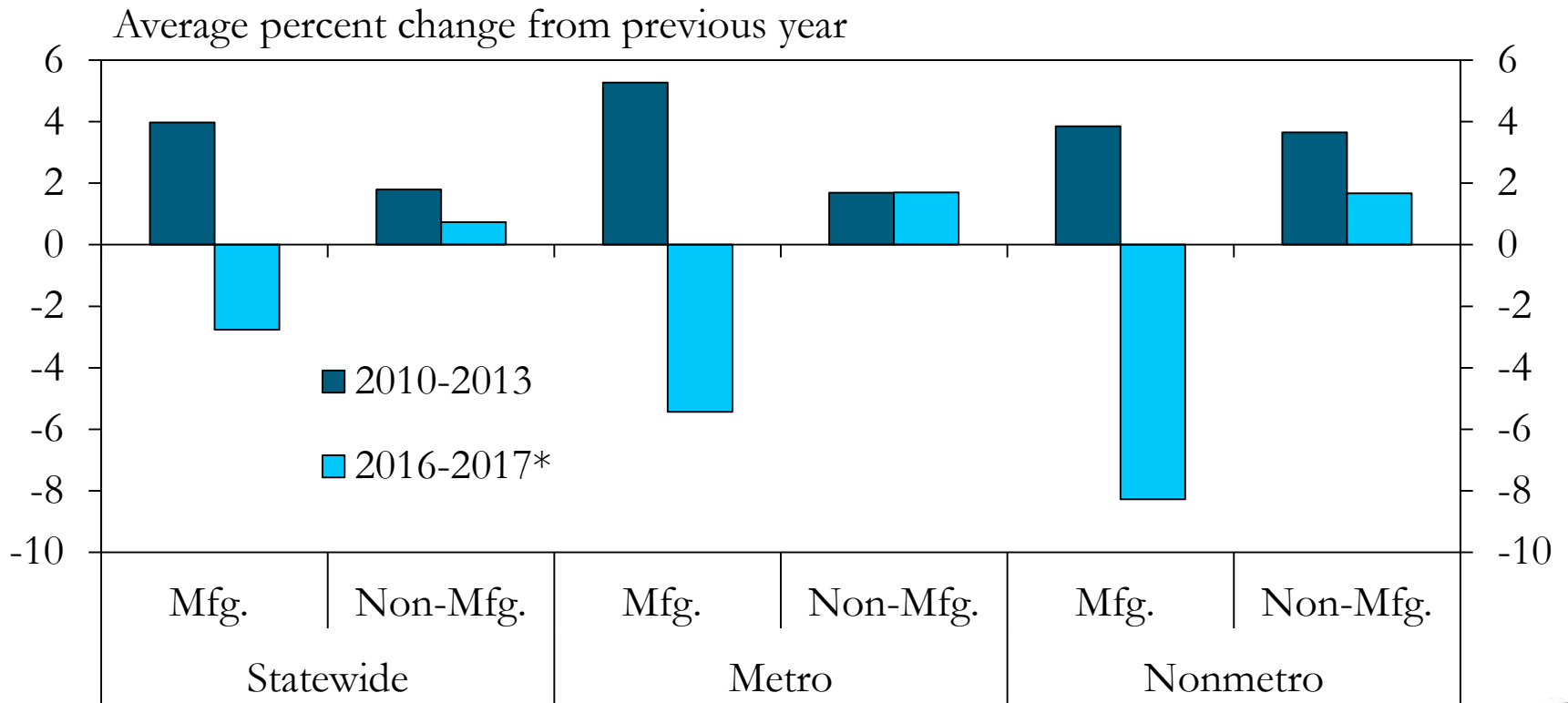
- Largest 10 Metros
- All Other Metros
- Nonmetro

*Note: The Omaha MSA includes Council Bluffs, IA. Nebraska portions of the Sioux City, IA MSA are not included here.
Source: BEA, Haver Analytics.



A pullback in manufacturing activity has been a primary driver of weakness in Nebraska GDP.

Nebraska GDP Growth by Industry

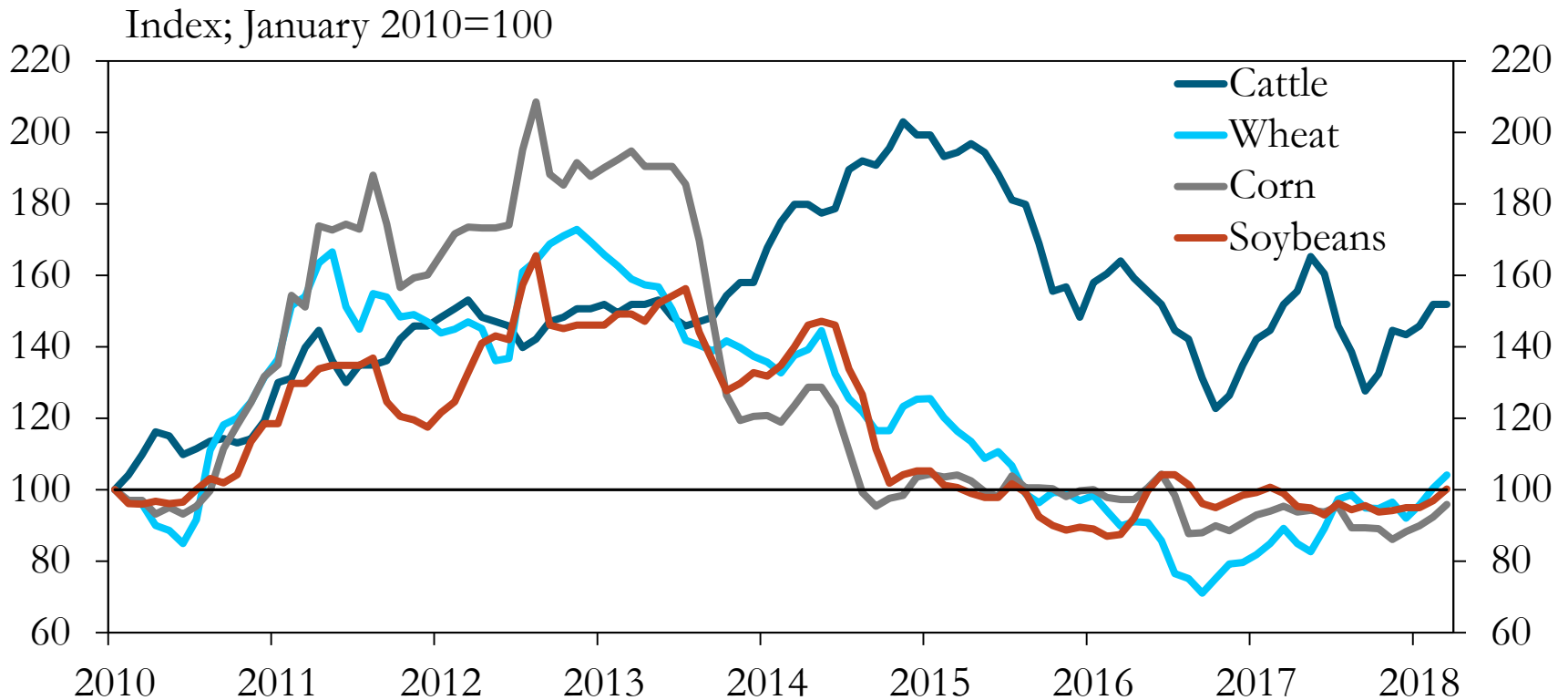


*Metro and Nonmetro GDP figures are only available through 2016.
Source: BEA, Haver Analytics.



The weakness in manufacturing has occurred alongside persistently low ag commodity prices.

Agricultural Commodity Prices



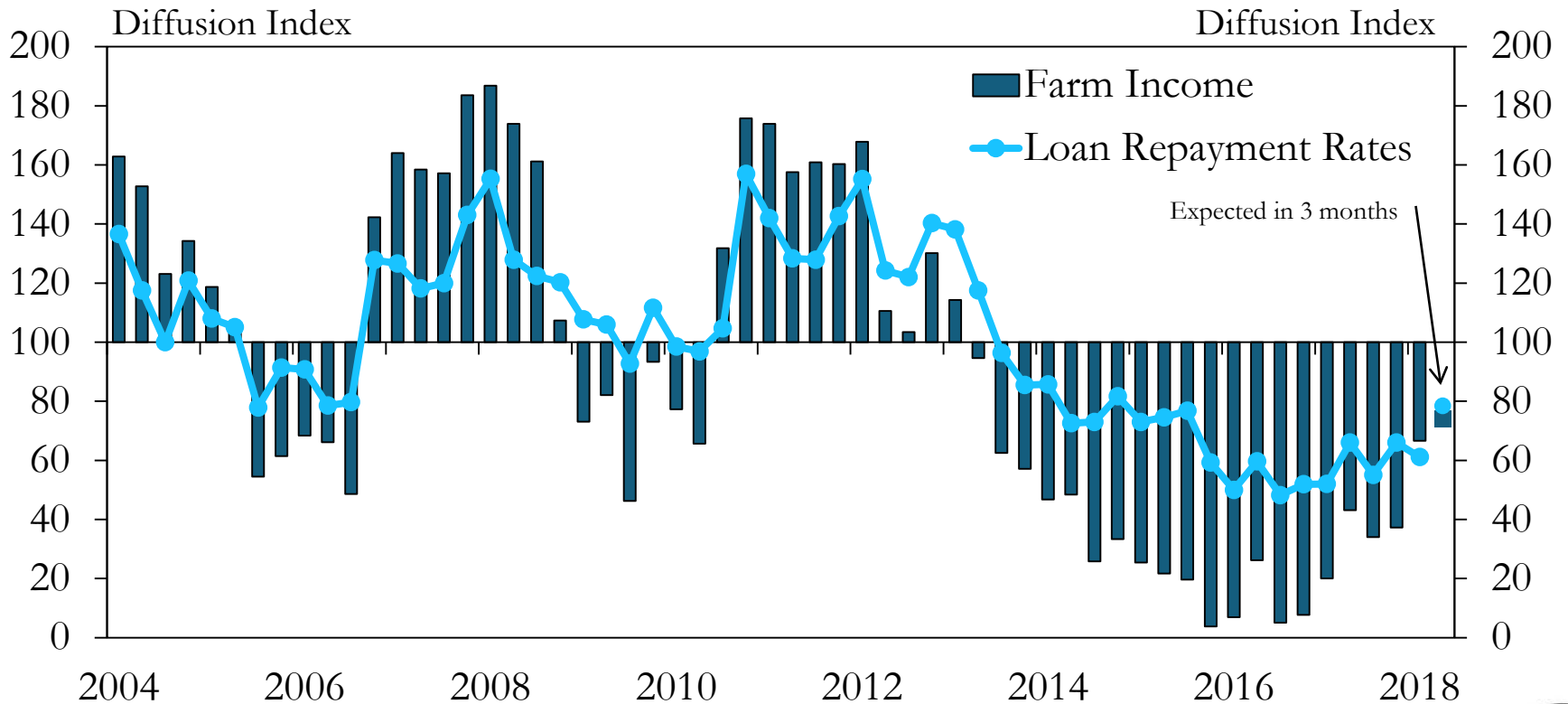
Source: USDA, Haver Analytics.

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Farm income has continued to decline and financial stress in agriculture has risen gradually.

Nebraska Farm Income



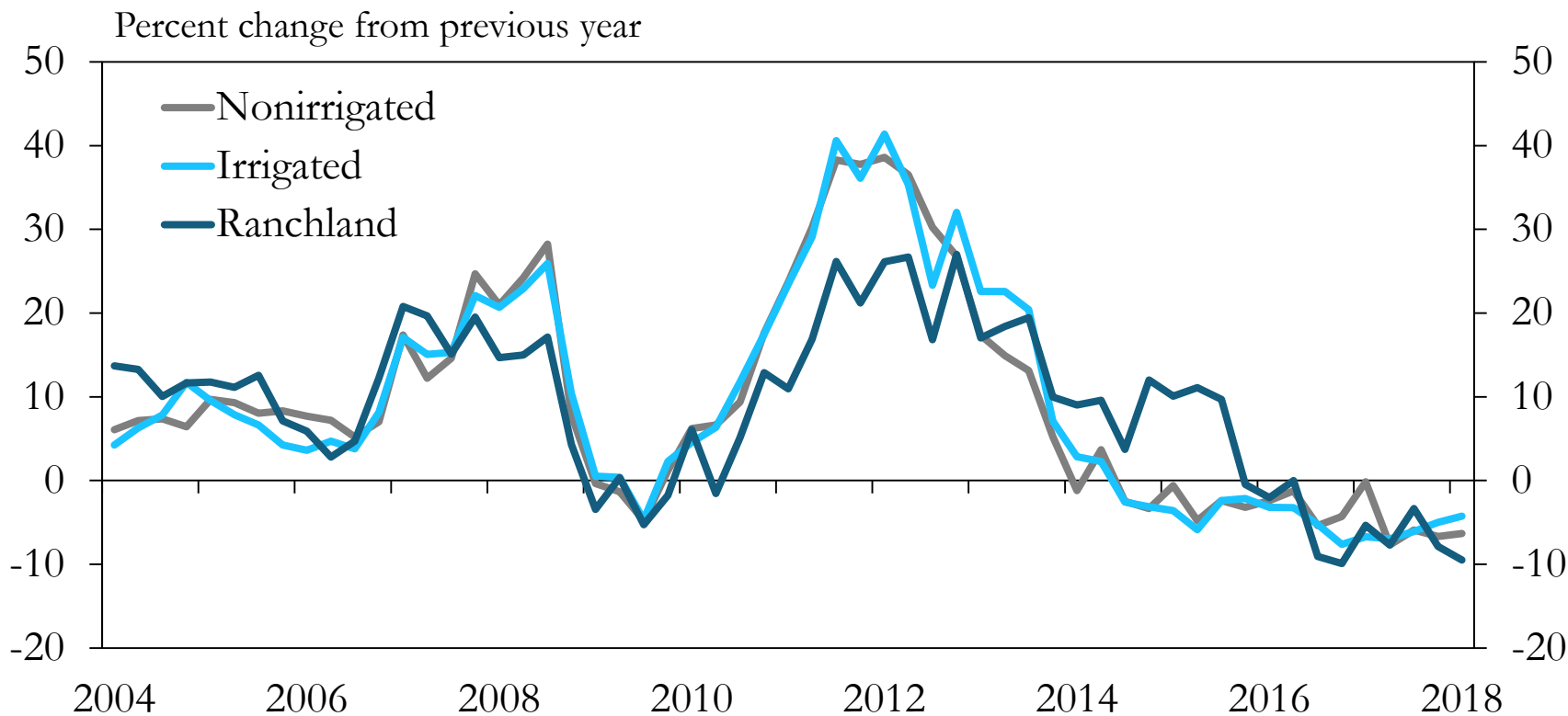
Source: Federal Reserve Bank of Kansas City.

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Farmland values have declined slightly but, overall, have been a bright spot for the farm sector.

Nebraska Farmland Values



Source: Federal Reserve Bank of Kansas City

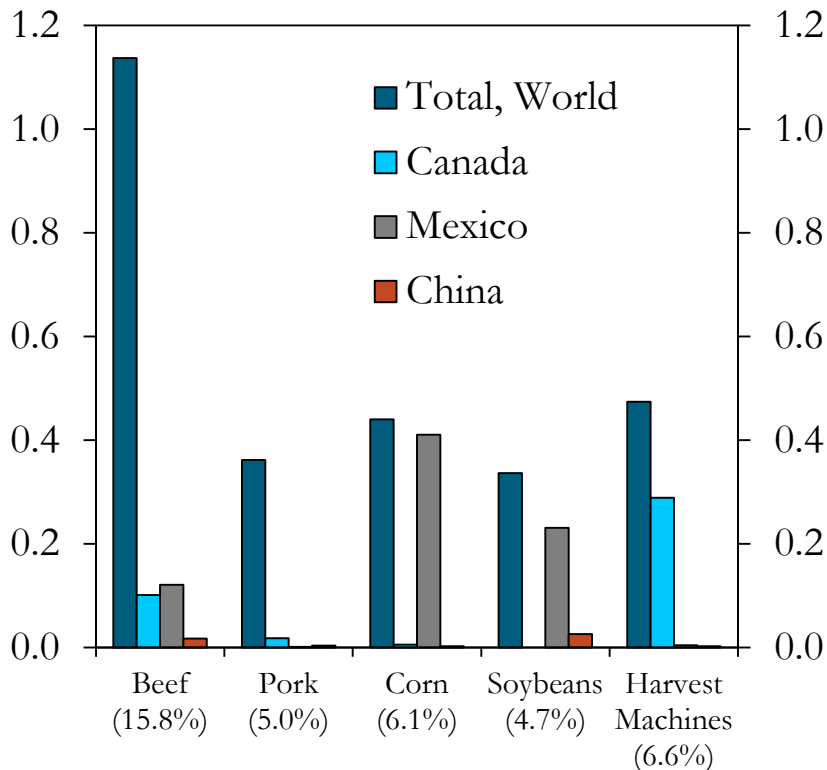
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Recent developments connected to trade have been a primary concern for the region and in ag.

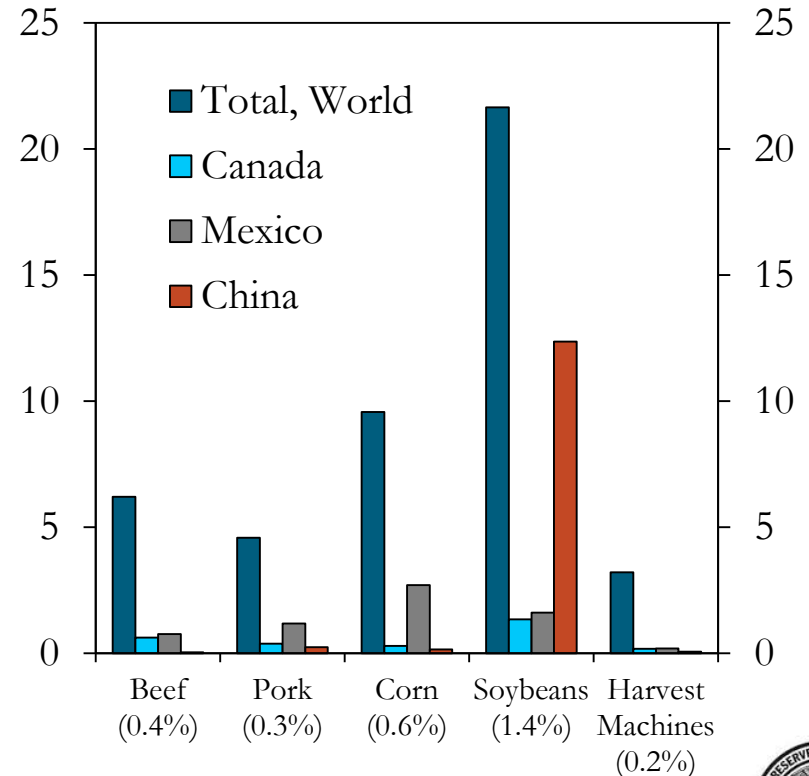
2017 Nebraska Exports

\$, Billions



2017 U.S. Exports

\$, Billions



Note: Percentages indicate share of total Nebraska exports to the world.
Source: Wisser Trade.

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Potential effects of changes to trade policy, however, are complicated.

For example – Increased tariffs on agricultural products (i.e., soybeans) to China:

- Short-term
 - Likely will be a quick, initial market reaction.
 - Volatility in soybean futures markets has increased from 15% to 20% since beginning of year.
- Medium-term
 - Supply and demand will prevail. China cannot become self-sufficient in soybeans. Brazil cannot supply the entire world.
- Long-term
 - More significant concerns about U.S. competitiveness in global markets. A 25% increase in U.S. soybean prices to China, relative to Brazil, could cause Brazil to be the low-cost producer (even accounting for transportation).
 - Also significant concerns about supply chain disruptions.



Concluding Thoughts

- Economic growth in the U.S. is expected to remain steady in the near-term with further declines in unemployment and inflation returning to the Fed's 2 percent goal.
- Unemployment in Nebraska is also likely to remain low driven by growth in metro areas. Labor markets are likely to remain tight throughout the state.
- The agricultural sector remains a notably weak exception throughout the region alongside low commodity prices and increased uncertainty.
 - Trade Policy?
 - Farm Bill?



Questions?

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