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Spurring Nebraska's Economy

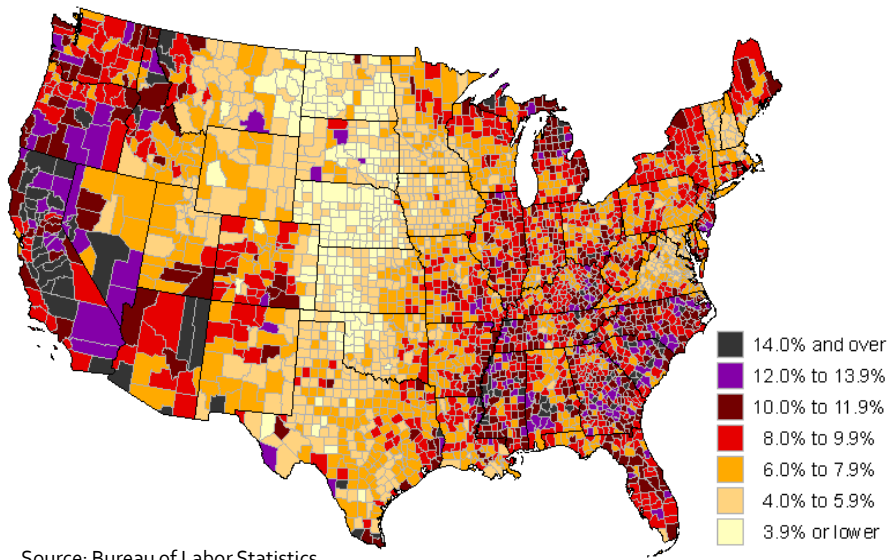


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Nebraska: A Top Ten Economy

Second Lowest Unemployment Rate
4.0%

Unemployment Rates by County
(August 2011 – July 2012 Average)



Source: Bureau of Labor Statistics

State Personal Income Growth
(Percent change 2011:Q1 to 2012:Q1)

Rank	State	Growth
1	North Dakota	9.64
2	Montana	4.79
3	Washington	4.36
4	Utah	4.35
5	Alaska	4.34
6	Oklahoma	4.31
7	Nebraska	4.30
8	Texas	4.29
9	Indiana	4.22
10	Michigan	4.09
United States		3.29

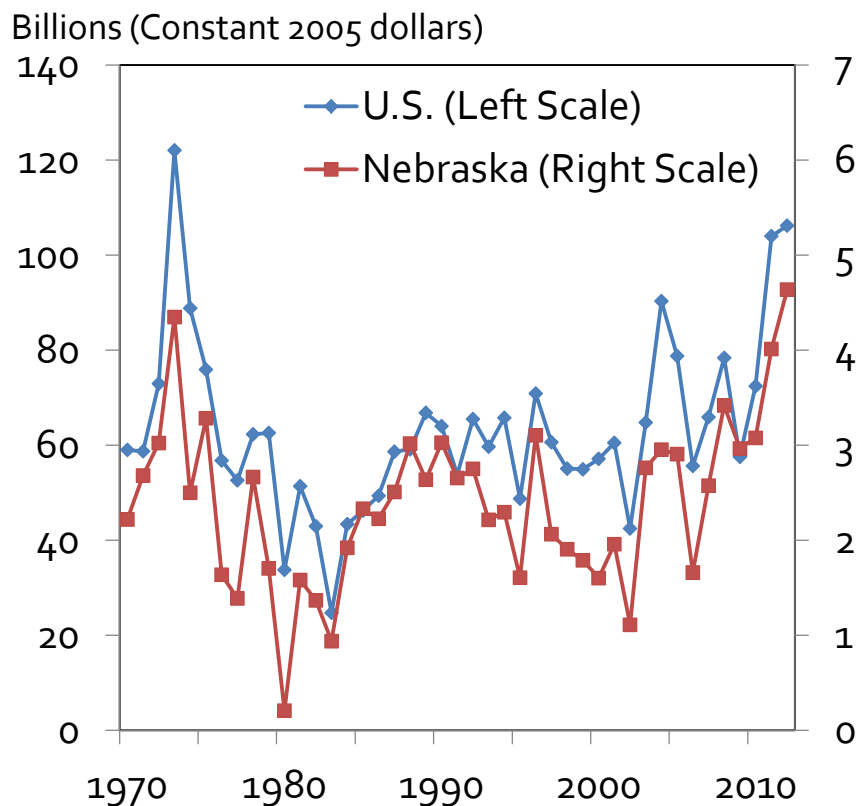
Source: Bureau of Economic Analysis

Second Fastest Income Growth from
2011:Q4 to 2012:Q2 at 3.61%



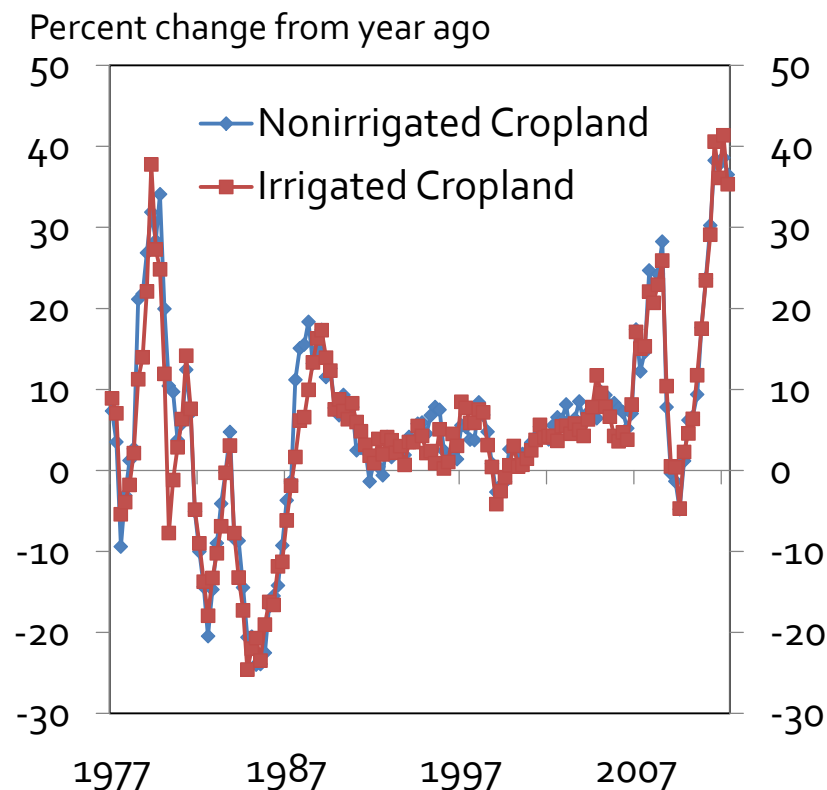
Real farm incomes and land value gains are on par with the last farm boom.

U.S. and Nebraska Farm Incomes



Calculations based on USDA and BEA data

Nebraska Farmland Value Gains



Source: Federal Reserve Bank of Kansas City



Manufacturers tap global markets.



*Fueled by durable goods,
primarily machinery.*

Nebraska Manufacturing Growth

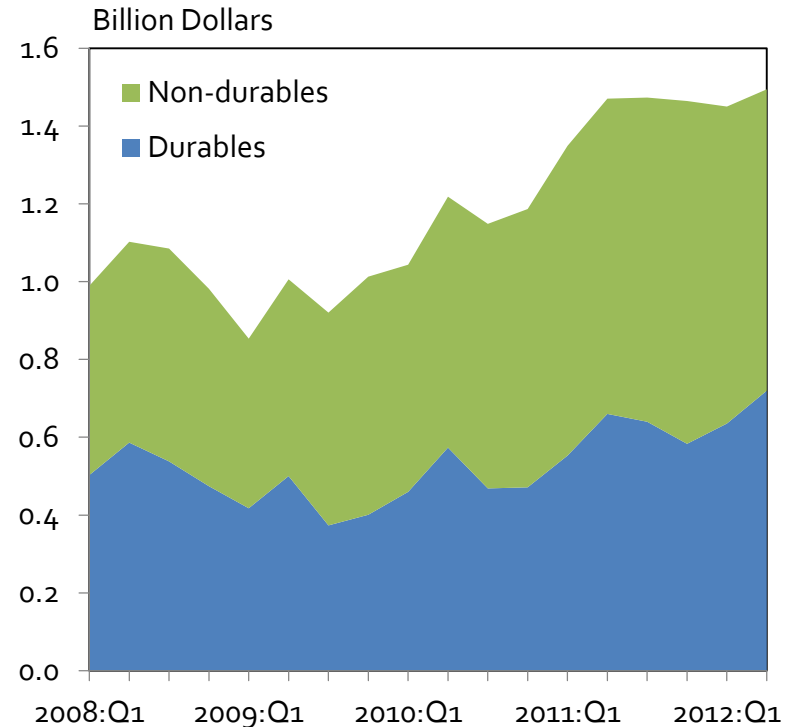
Annual job growth
2011: 1.4 percent
2012 YTD: 0.8 percent

Annual wage growth
2011: 3.9 percent
2012 YTD: 0.2 percent

Source: BEA and BLS

Nebraska's Manufacturers Tap Global Markets.

Nebraska Manufactured Exports



Source: WISERTrade



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: 6.4 percent

Annual job growth

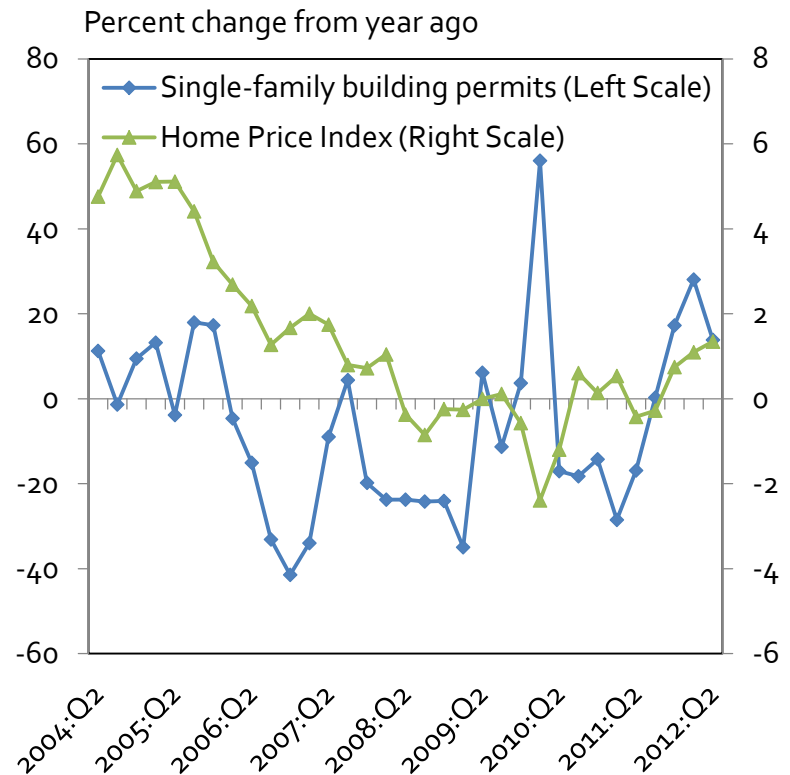
Q2: 7.7 percent

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.

Nebraska Residential Real Estate



Source: Census Bureau and FHFA



The service sector forges solid job and income gains.

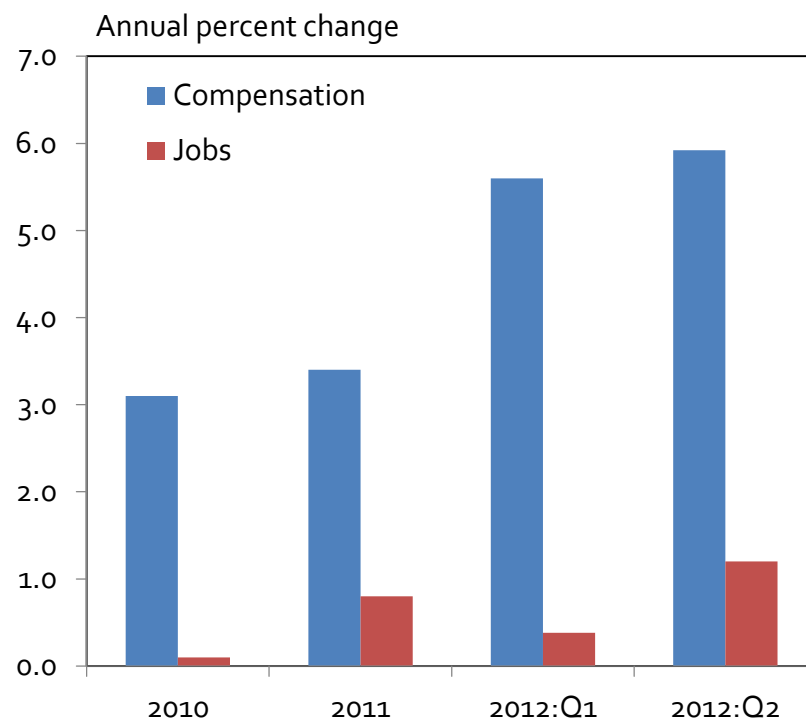
Solid job and income gains in ...

- Retail trade
- Leisure and hospitality services
- Health services
- Education services
- Personal services
- Professional and business services
- Wholesale trade

After a strong 2011, job contractions in ...

- Information and financial services
- Transportation and warehousing

Nebraska Private Service-Producing Growth



Source: Bureau of Economic Analysis and Bureau of Labor Statistics



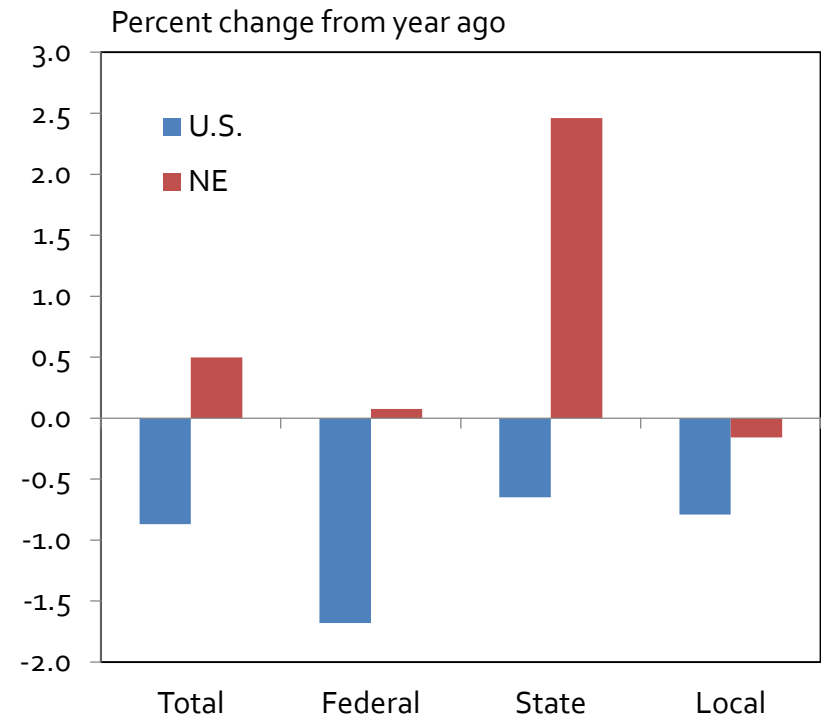
The largest contrast is state government jobs.



Government:
20% of Nebraska's
total compensation

17% of Nebraska's
nonfarm jobs.

Government Job Growth, 2012



Source: Bureau of Labor Statistics
Note: Year-to-Date data through August



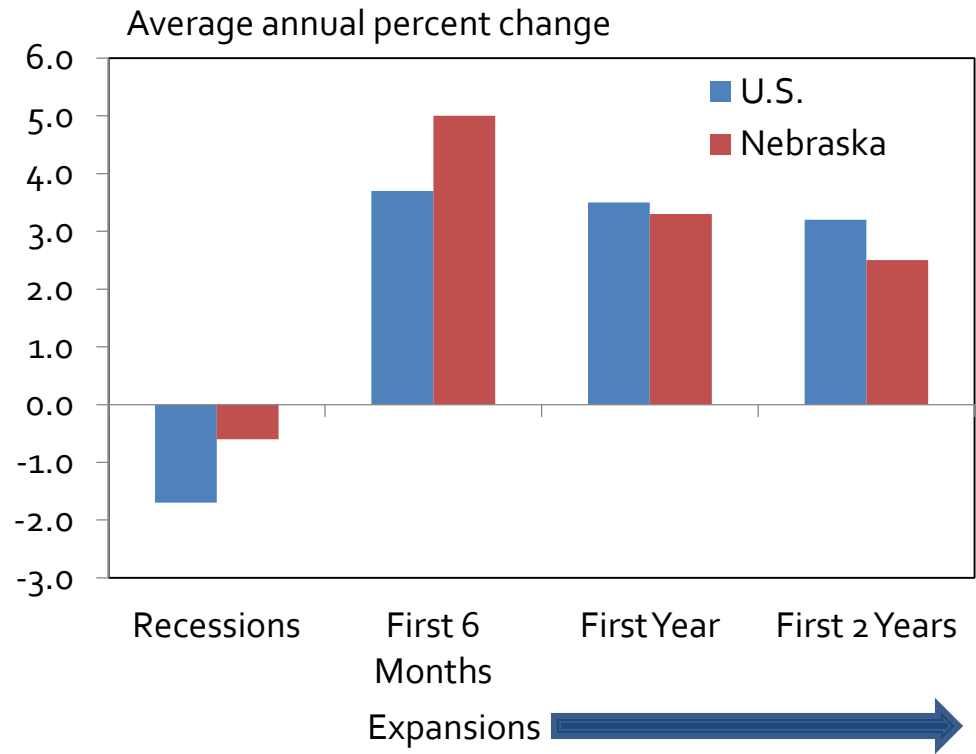
Nebraska's economic performance varies with the business cycle.

Since World War II,
Nebraska's economy ...

- 1) Holds up better during recessions
- 2) Expands quicker in the recovery
- 3) Lags as the expansion matures

Since the 1970s
Lincoln's economy held up better
during recessions than other
U.S. metro areas.

U.S. and Nebraska Real Per Capita Income Growth
(1949 to 2012)



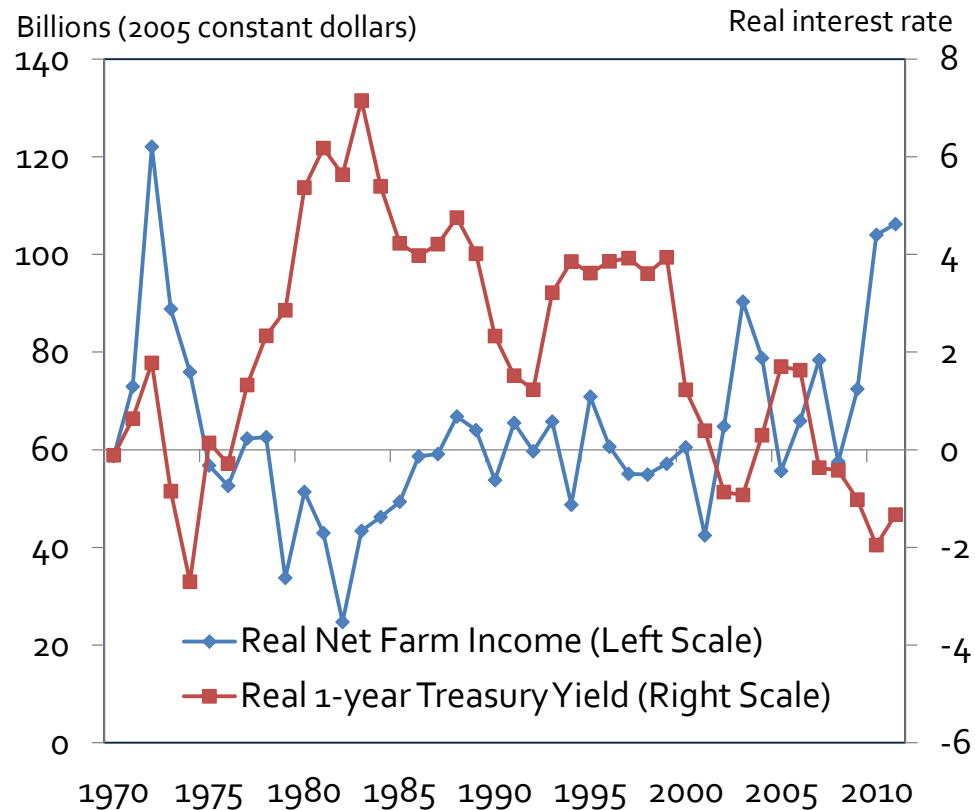
Calculations based on quarterly BEA data



Agriculture responds quicker to economic stimulus.

- Commodity prices are not as sticky and monetary policy has quicker impacts. (Source: Saghaian et. al 2002)
- Lower interest rates are correlated with higher farm incomes.
 - Lower interest rates place downward pressure on the dollar.
 - A weaker dollar stimulates exports.
 - Strong exports boost farm incomes. (Source: Chambers and Just, 1982)
- Rising farmland values create a major wealth effect in Nebraska.

Real Net Farm Income and Interest Rates



Source: USDA and Federal Reserve



How Sustainable is the Farm Boom?

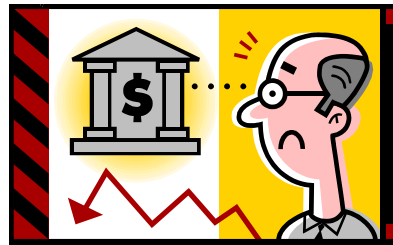
How Sustainable is the Farm Boom?



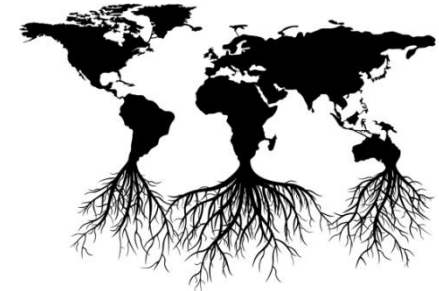
Farm incomes and land values depend on expectations.



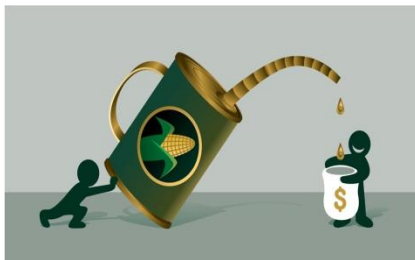
Will world populations and income rise as expected?



What is the future path of interest rates and cap rates?



Will global farm demand create its own supply?



Can Agriculture Feed and Fuel the World?



Are the necessary resources available?



How high will production costs rise?



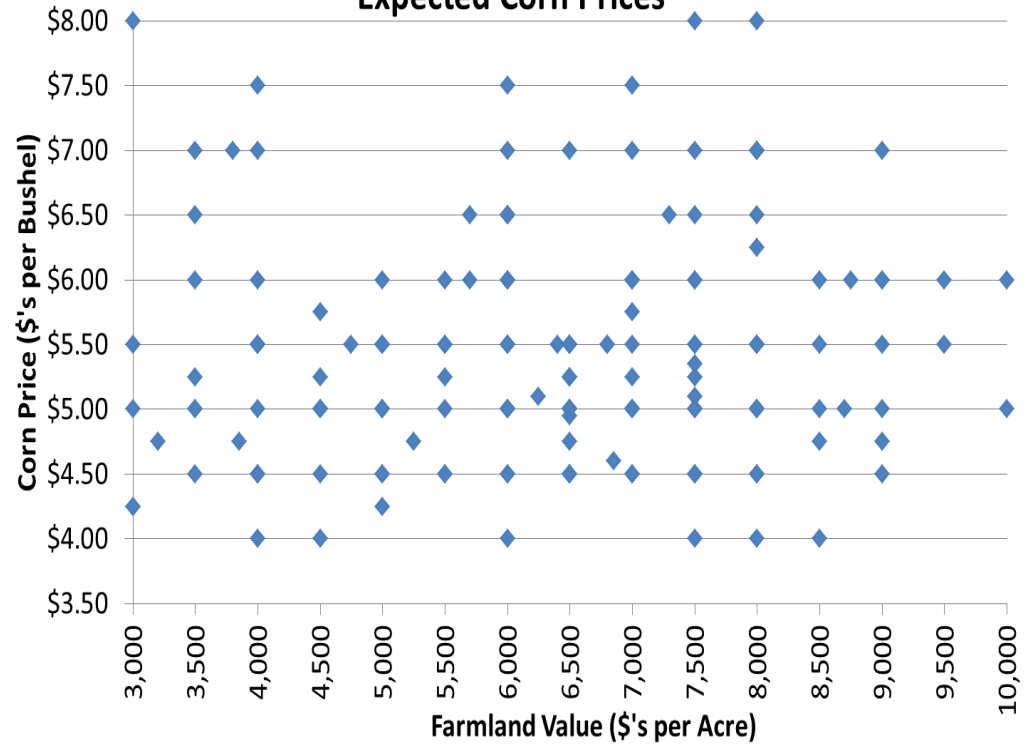
Are farmland values consistent with expectations?

Definition of a “Bubble”

“If the reason that the price is high today is only because investors believe that the selling price will be high tomorrow – when “fundamental” factors do not seem to justify such a price – then a bubble exists.”

(Stiglitz)

Relationship Between Current Farmland Values and Expected Corn Prices



Source: Gloy (2012)



What prices are needed to create a 1980's scenario in agriculture?



*A 1980s scenario:
a low probability event that has a really bad outcome*



A 1980s income shock would require

- Crop revenue to fall by 21.4%
- Value of farm production to fall 15.7%

Prices would need to drop to ...

- Corn - \$3.49 per bushel
- Wheat – \$3.96 per bushel
- Soybeans - \$9.00 per bushel

Source: Featherstone (2012)



Farm debt: the risk is in the tails.

■ KS Farm Management Farms:

Average Debt-to-Asset Ratio

- 1979 – 24.6%
- 2010 – 26.8%

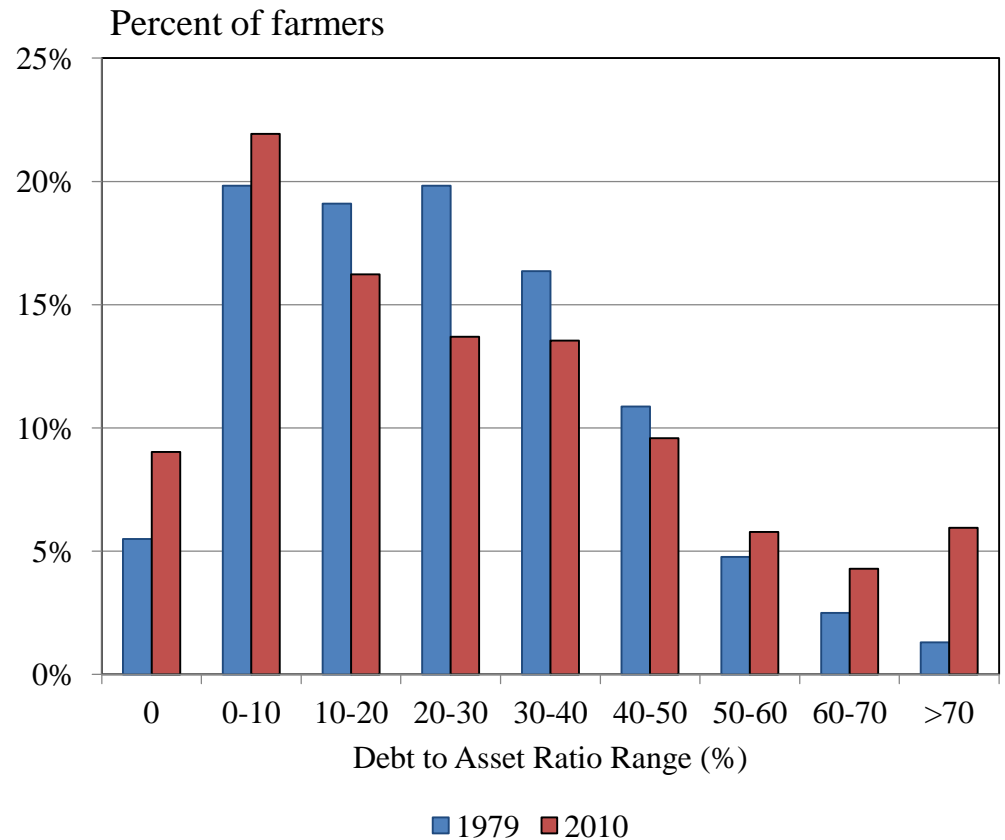
Debt-to-Asset Ratio >40%

- 1979 – 19.4%
- 2010 – 25.6%

Debt-to-Asset Ratio >70%

- 1979 – 1.3%
- 2010 – 5.9%

Kansas Farmer Debt Levels



Source: Featherstone (2012)



Can rural Nebraska build new sources of growth?

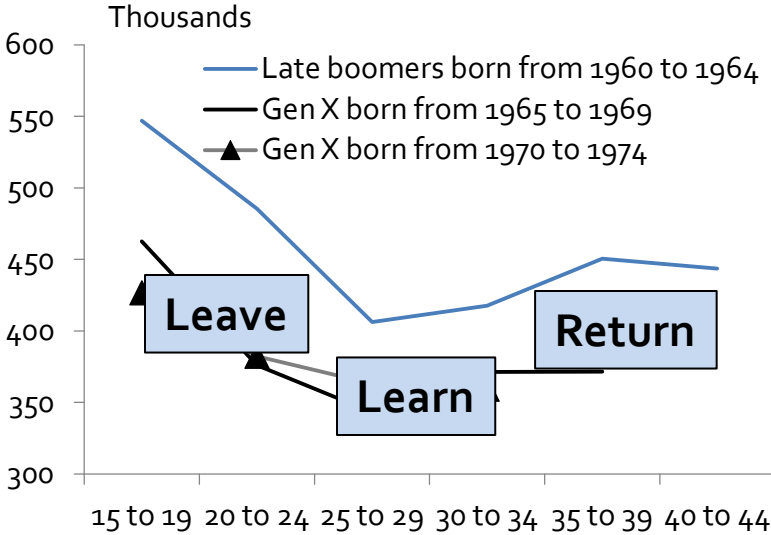
sources of growth?



How does Nebraska and Lincoln attract and retain people?

How do rural communities get their kids to come home?

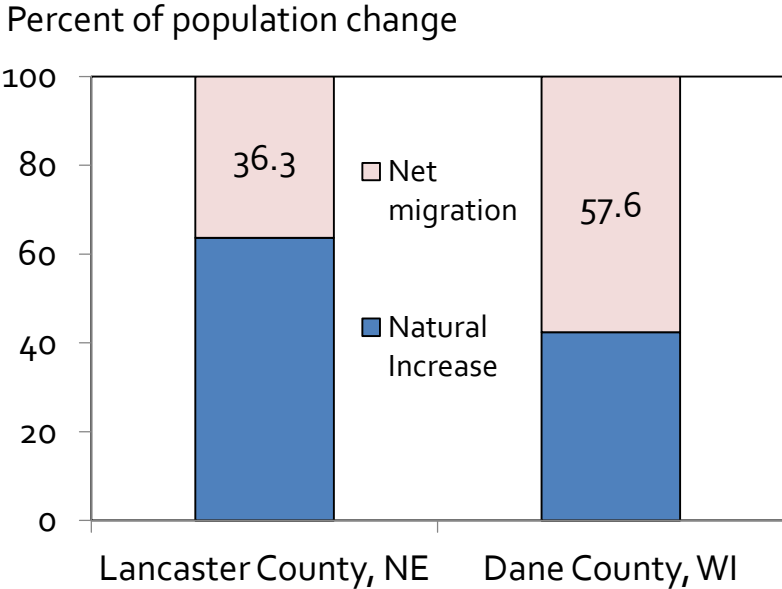
Population in Rural Counties of Tenth Federal Reserve District



Source: Henderson (2009)

How does Lincoln get college students to stay after graduation?

Components of Population Change 2000 to 2009



Source: Census Bureau

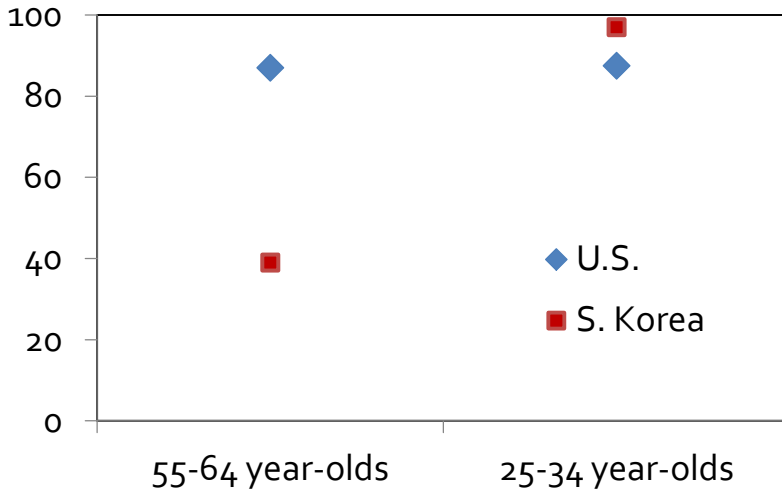


A high-quality workforce is essential in a global market.

The educational advantage over global competition has disappeared.

Educational Attainment by Age Group
Secondary Education

Percent of population in 2007



Source: OECD, Brookings Institution

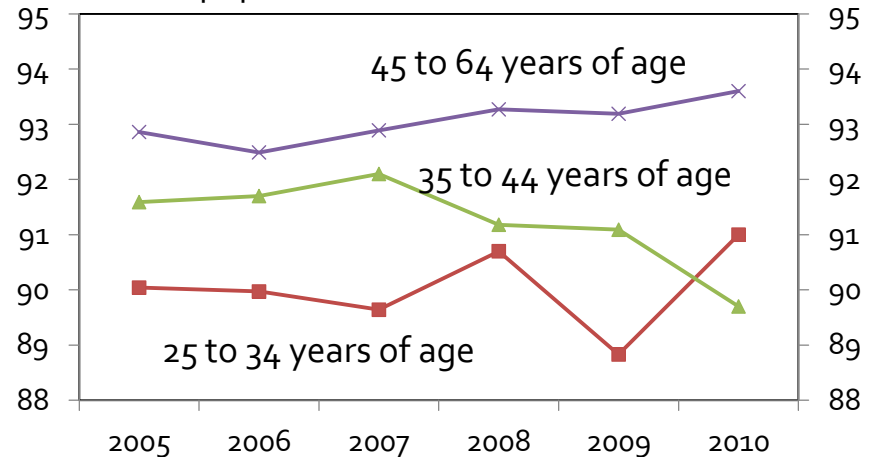


Nebraska has stronger educational attainment of AA degrees or higher.



Nebraska High School Educational Attainment

Percent of population



Source: Census Bureau



Why are Nebraska's children struggling to graduate?

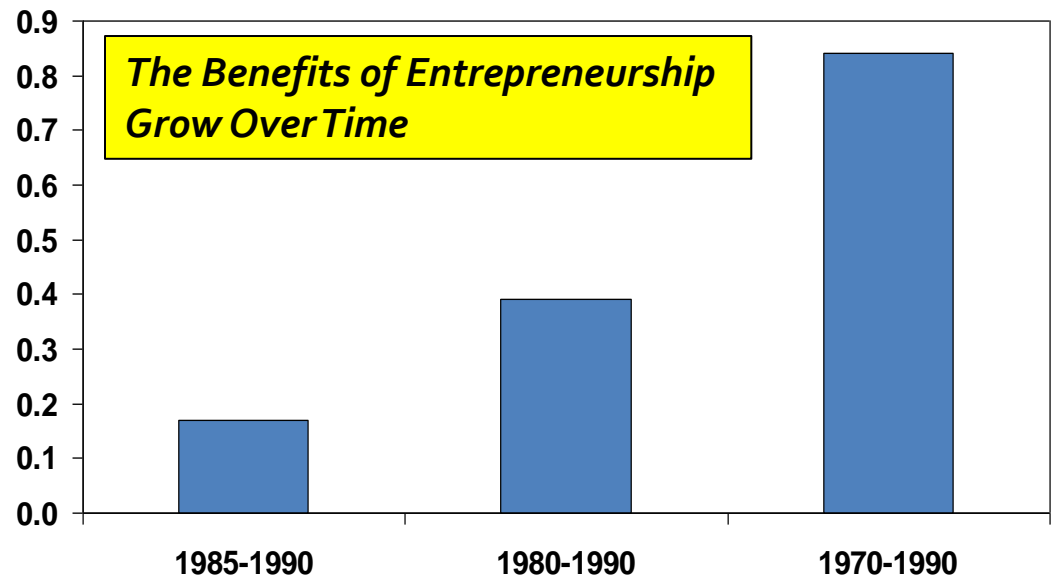


Entrepreneurs are the driving force behind economic growth.

- Communities, states, and nations with more entrepreneurial activity have stronger economic growth.
- The benefits of entrepreneurship grow over time.
- Entrepreneurship is creative destruction – the reallocation of resources to their highest and best use.

Impacts of Proprietor Growth on Employment Growth

Marginal impacts on employment growth 1991 to 2001



Calculations based on Henderson and Weiler (2010), "Entrepreneurs and Job Growth: Probing the Boundaries of Time and Space," *Economic Development Quarterly*



Ultimately, Community Leadership Shapes Economic Success



Economic development strategies are shifting in the 21st century.



Rural Development Strategy Typologies	
<u>Traditional</u>	<u>Nontraditional</u>
Industrial recruitment	Small Business Entrepreneurship
Regional Center	Cluster-based
Bedroom Community	Innovation and Knowledge
Amenity-based	Creative Class

Source: Pender, Marre, and Reeder. (2012) "Rural Wealth Creation: Concepts, Strategies, and Measures. Economic Research Service, USDA. <http://www.ers.usda.gov/Publications/ERR131/ERR131.pdf>

Fundamental Questions

Who will be the champions for change?
Who will facilitate innovation in key institutions?
What constituencies will support innovative leaders and institutions?



Conclusions

- Agriculture, manufacturing, and construction are leading stronger economic gains in Nebraska.
- Historically, as economic recoveries strengthen, Nebraska's economy loses some steam.
- How sustainable is the farm boom?
- If farm fortunes turn, what are the engines of growth?

How will Nebraska attract and retain the people needed to start new businesses, fill new jobs, and create a new vision for the Nebraska economy?

