

# *Economic Update*

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*2012*  
*Regulatory Update*  
— SEMINAR —

*Federal Reserve Bank of Kansas City*

# The Goal: Foster Maximum Employment and Stable Prices

## Economic Projections of Federal Open Market Committee Members, Central Tendency, January 2012

	Longer Run	2012	2013	2014
Real GDP Growth	2.3 to 2.6	2.2 to 2.7	2.8 to 3.2	3.3 to 4.0
Nov. 2011 proj.	2.4 to 2.7	2.5 to 2.9	3.0 to 3.5	3.0 to 3.9
Unemployment Rate	5.2 to 6.0	8.2 to 8.5	7.4 to 8.1	6.7 to 7.6
Nov. 2011 proj.	5.2 to 6.0	8.5 to 8.7	7.8 to 8.2	6.8 to 7.7
PCE Inflation	2.0	1.4 to 1.8	1.4 to 2.0	1.6 to 2.0
Nov. 2011 proj.	1.7 to 2.0	1.4 to 2.0	1.5 to 2.0	1.5 to 2.0

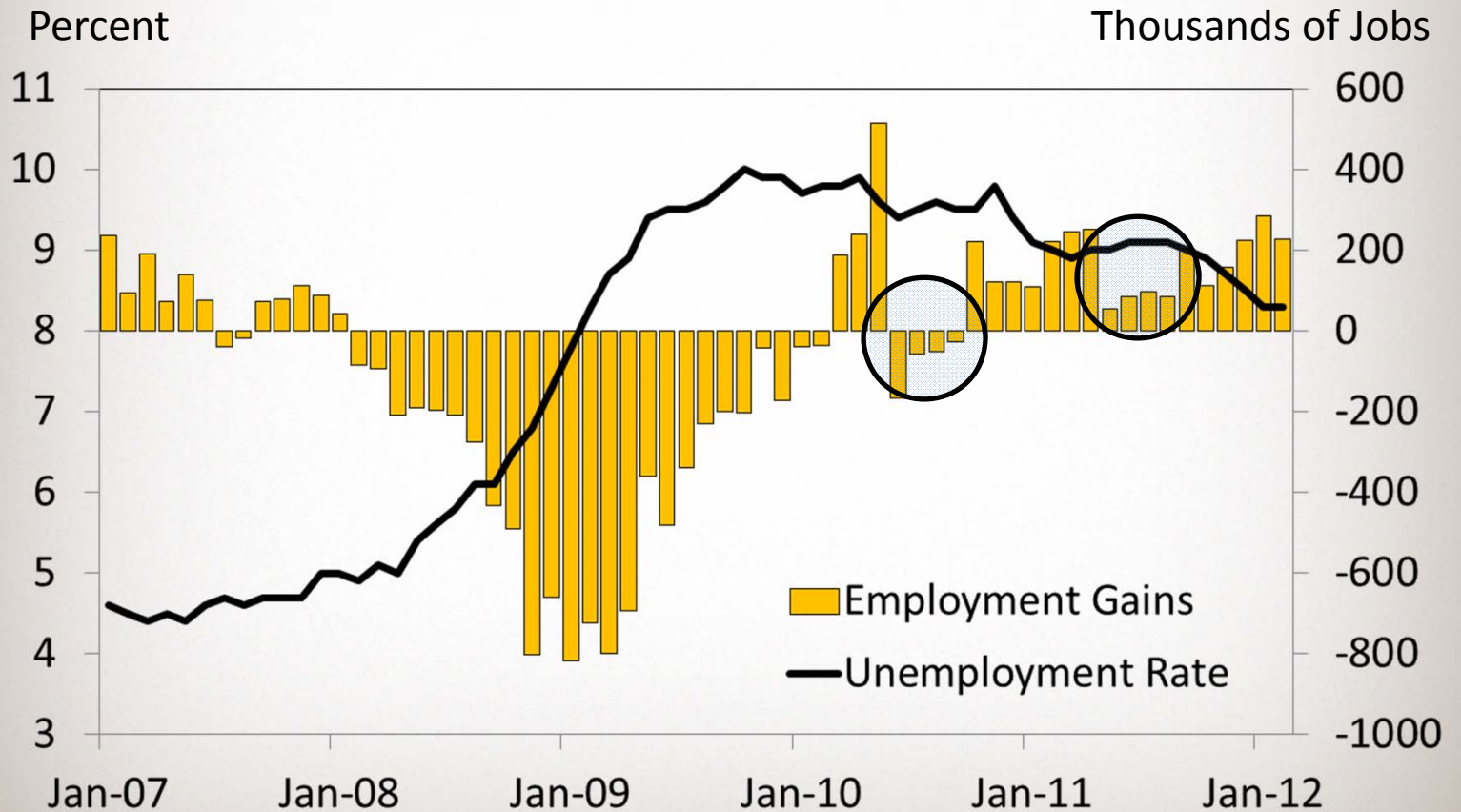
Source: Federal Reserve Board of Governors

*What does this table suggest?*

*Depends on your perspective*

# It is all about jobs. Are the recent job gains sustainable?

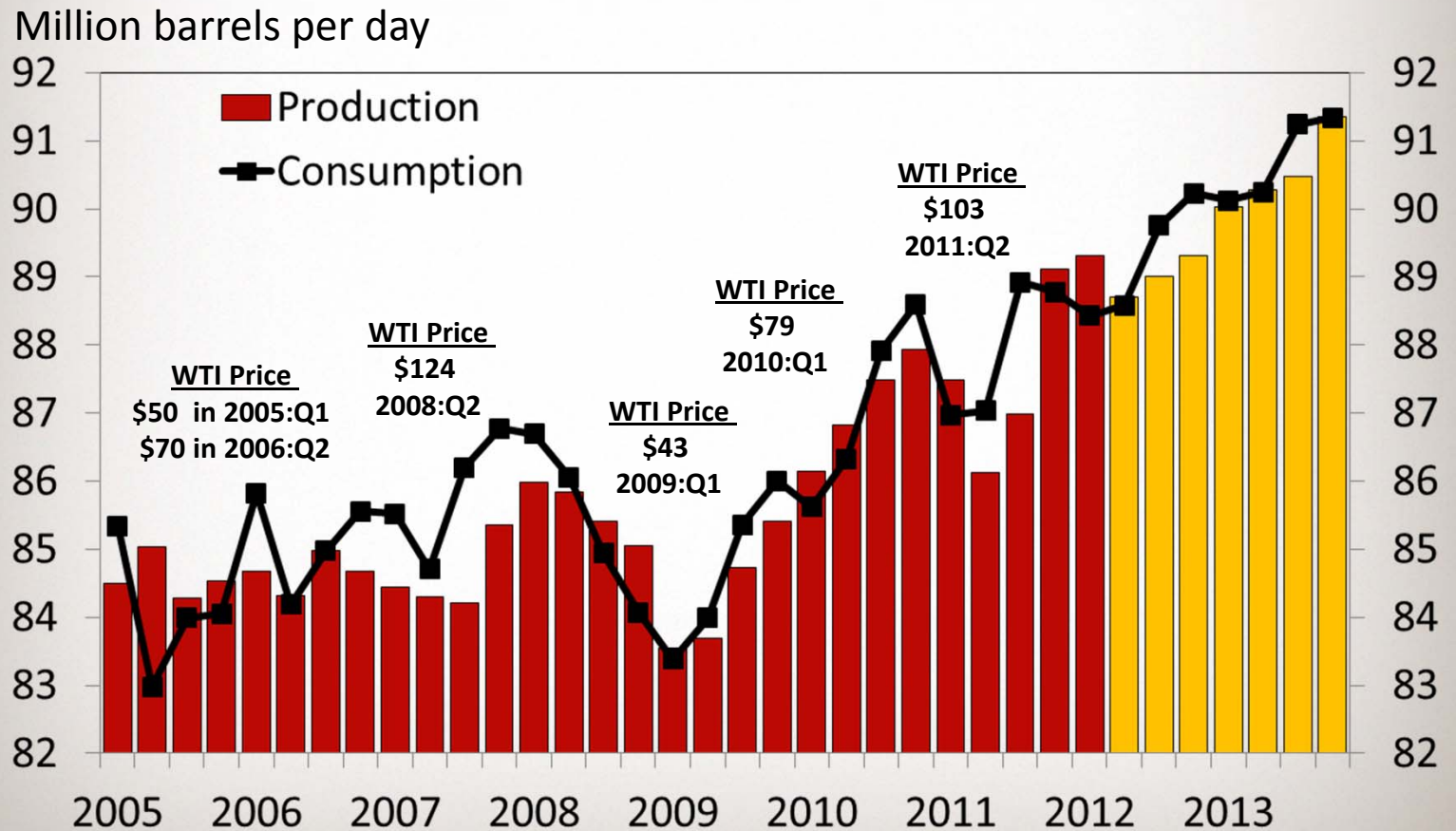
## U.S. Unemployment Rate and Job Gains



Source: Bureau of labor Statistics

# How high will energy prices rise?

## World Crude Oil Production and Consumption



Source: Energy Information Administration  
EIA Forecasts for 2012 and 2013 data.

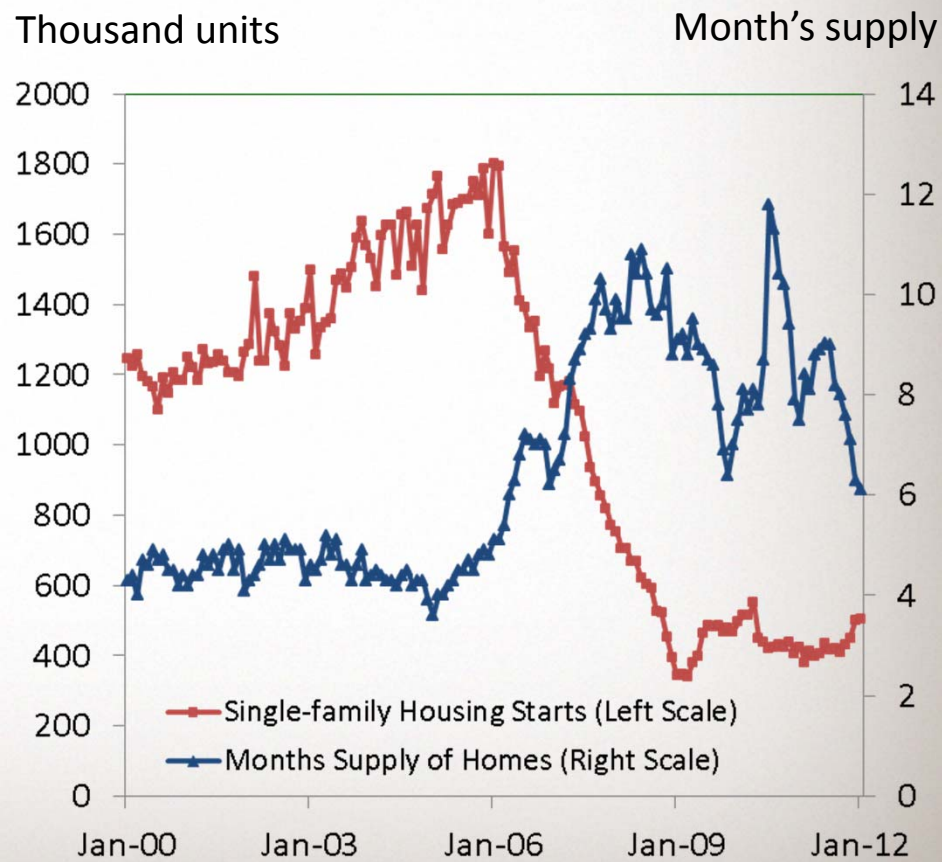
# What will housing markets do this spring?



## Has Housing Hit the Bottom?

- Will lower supplies support prices?
- Will foreclosure rates moderate?
- How big is the “shadow” market?
- Can people qualify for a home loan?

## U.S. Single-Family Housing Starts and Supply of Single-Family Homes



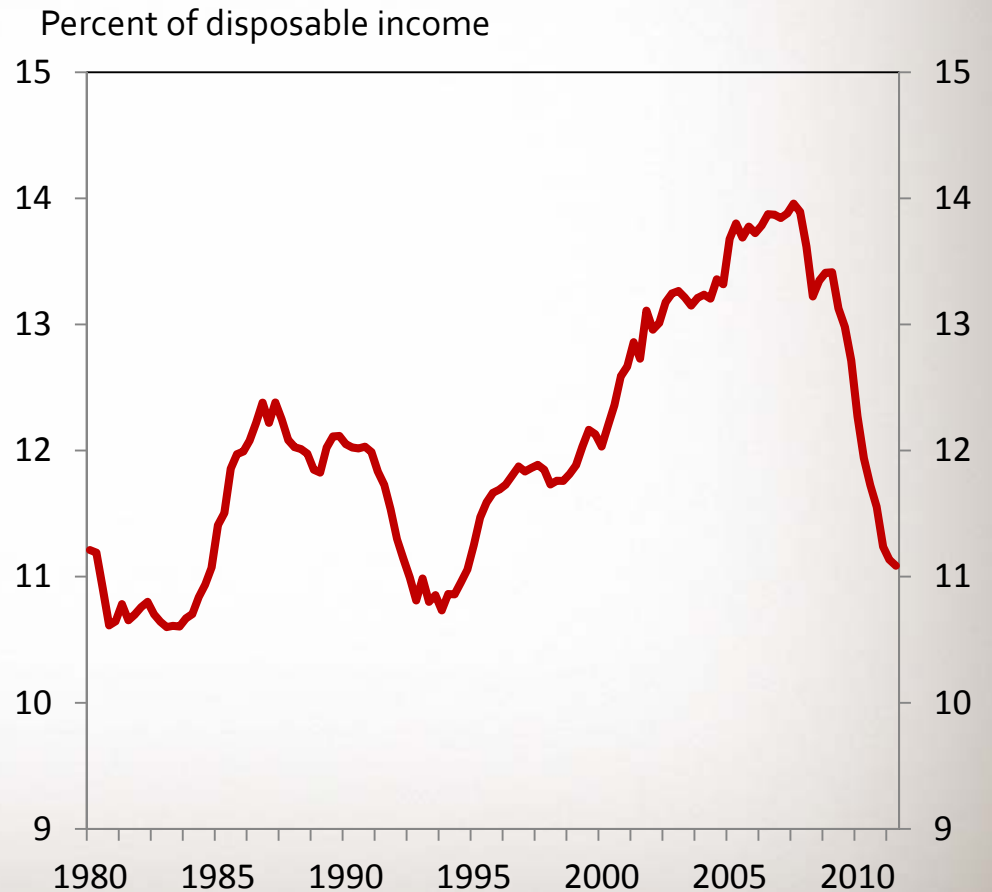
Source: Census Bureau and National Association of Realtors

# Is deleveraging about to end?



Savings Increase  
Spending Slows  
Deposits Rise  
Lending Softens  
Low inflation

## U.S. Household Debt Service Ratio (seasonally adjusted)

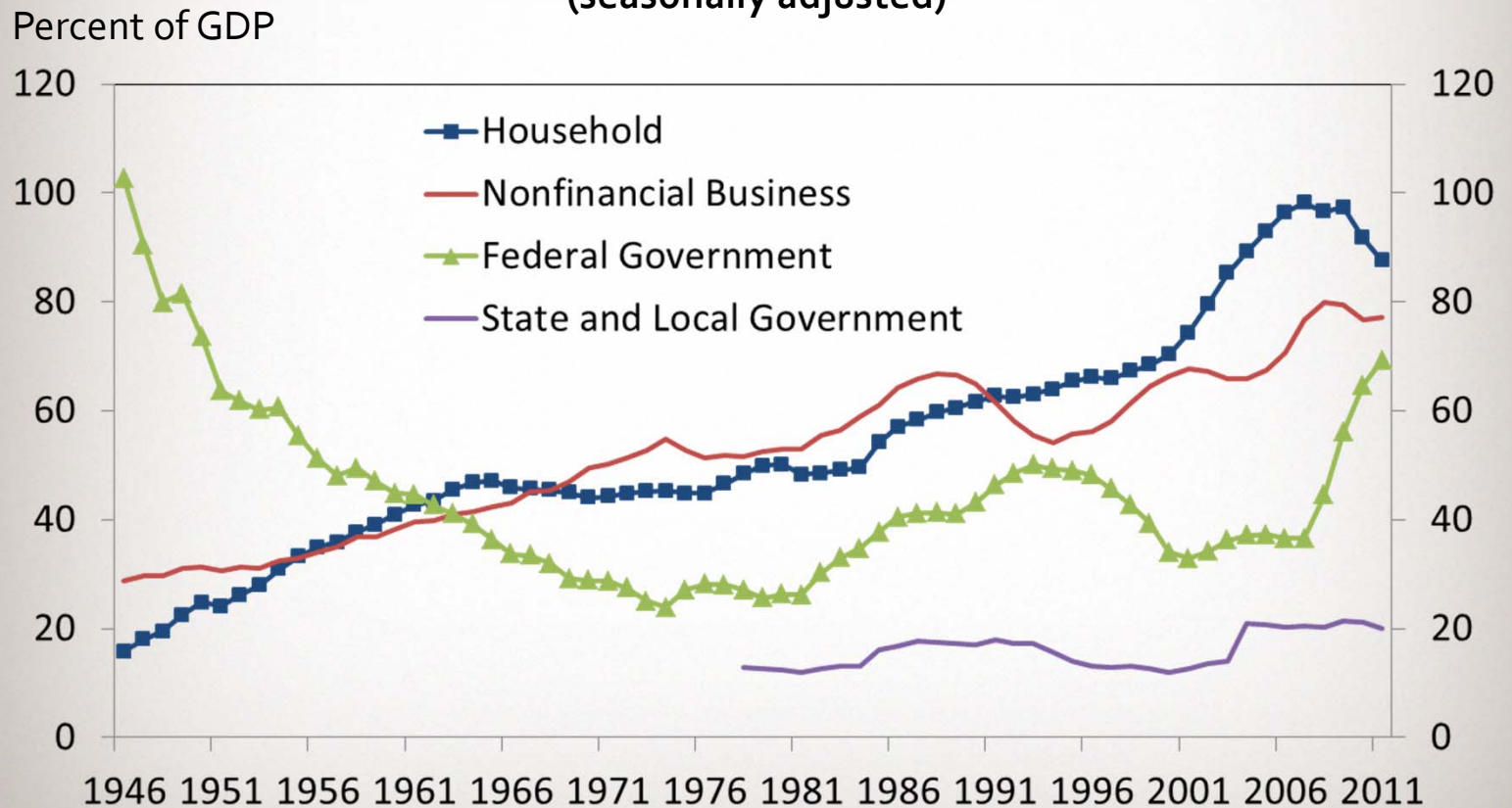


Source: Federal Reserve Board of Governors

Note: includes outstanding mortgage and consumer debt

# What are the consequences if the public sector begins to deleverage or if it does not?

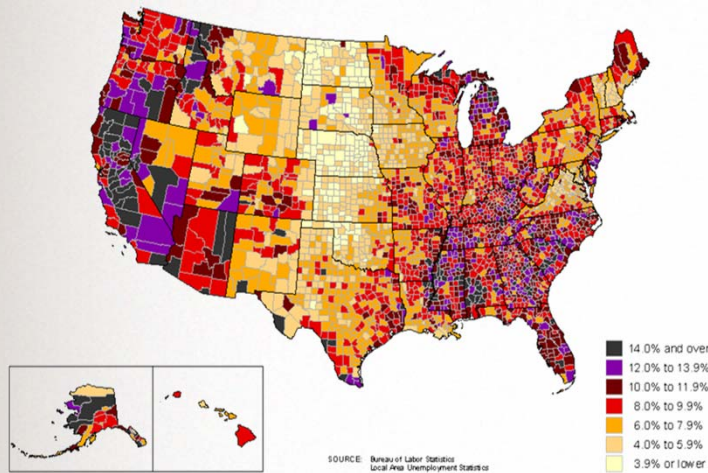
## U.S. Debt Outstanding (seasonally adjusted)



Source: Federal Reserve Board of Governors

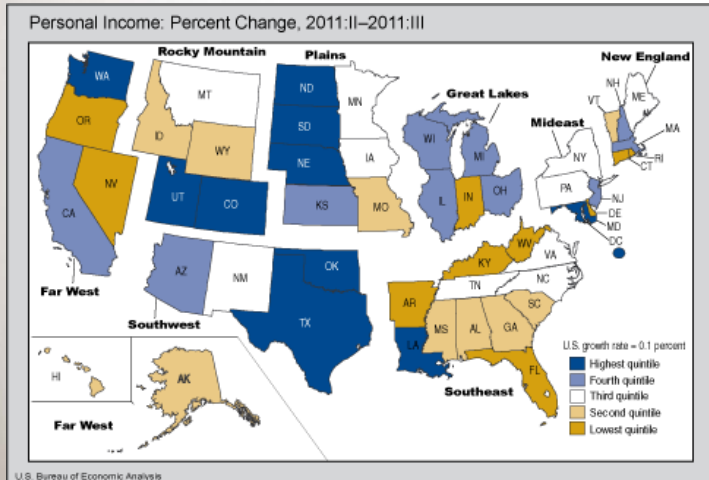
# Booming commodity markets are driving economic gains in the Great Plains.

Unemployment Rate  
2011



Top 10 State in  
Personal Income Growth

State	Personal Income Growth 2010:YTD to 2011:YTD
(1) North Dakota	10.5
(2) Texas	6.8
(3) Oklahoma	6.5
(4) South Dakota	6.4
(5) Minnesota	6.1
(5) Nebraska	6.1
(7) Iowa	5.8
(7) California	5.8
(9) Colorado	5.7
(9) Idaho	5.7
U.S. Average	5.0



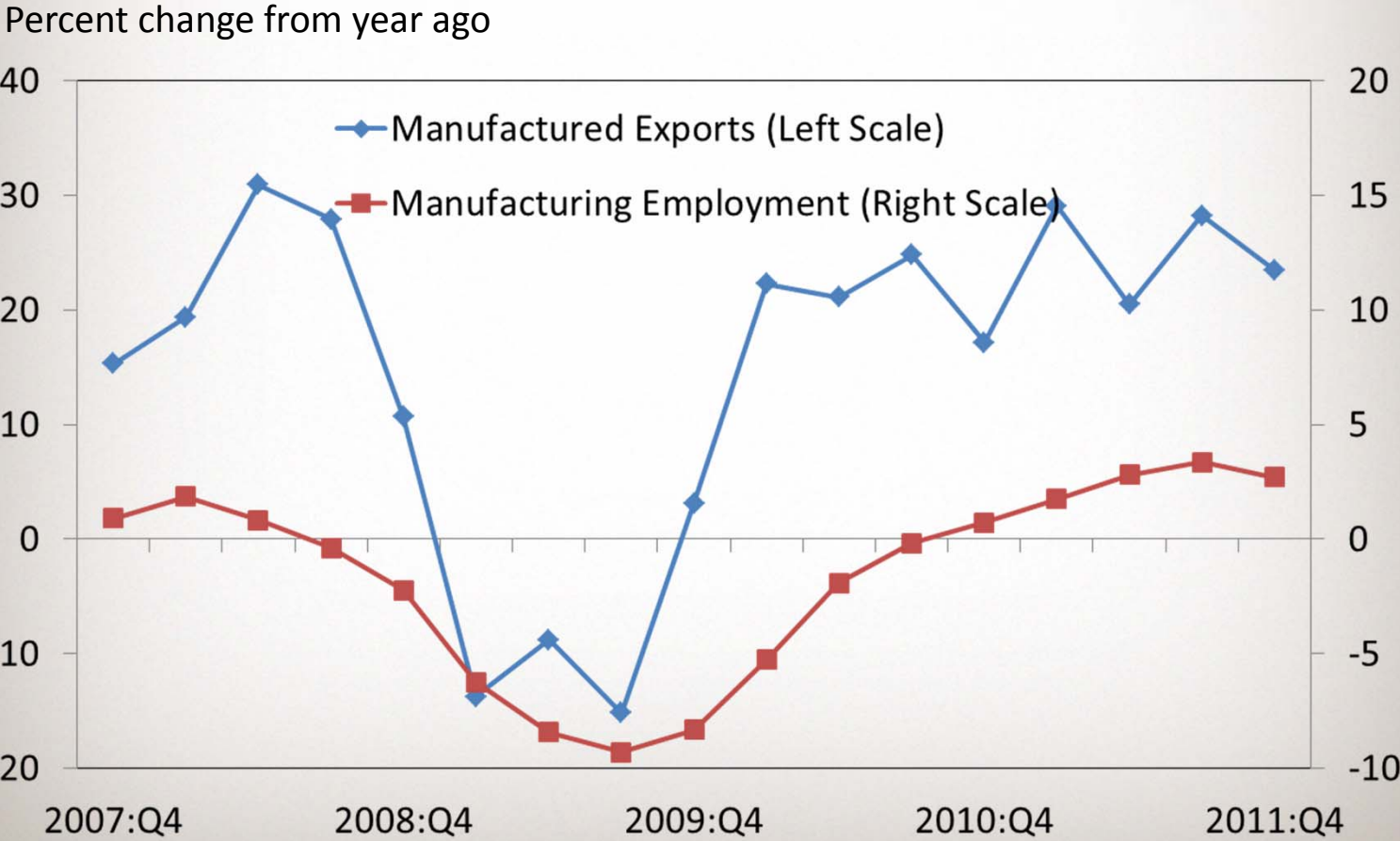
Source: Bureau of Economic Analysis

Note: Year -to-Date information through third quarter



# Nebraska's manufacturers are tapping export markets.

## Nebraska Manufacturing Employment and Export Growth

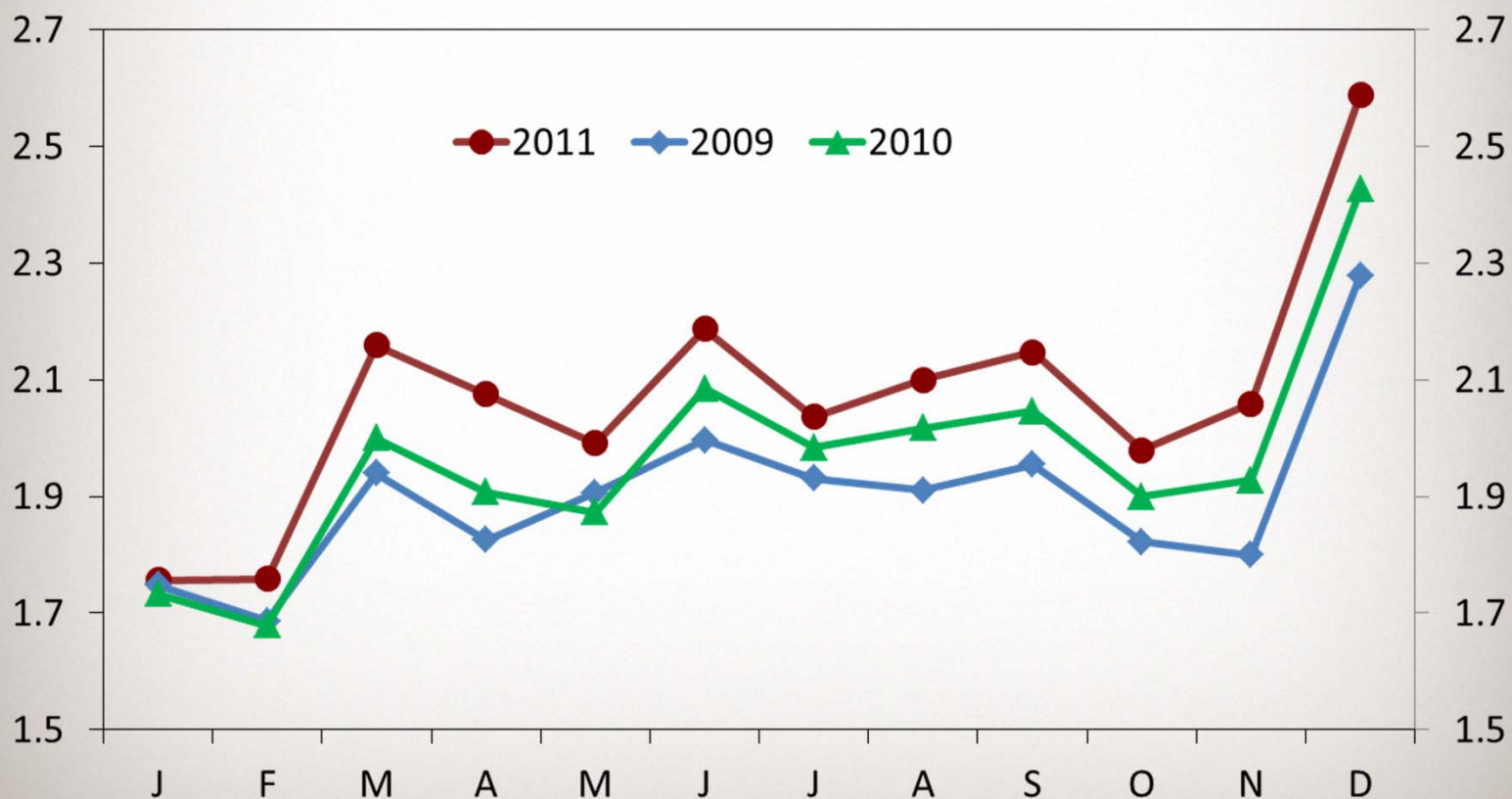


Source: Bureau of Labor Statistics and WISERTrade

# Consumer spending rebounds.

## Nebraska Net Taxable Retail Sales

Billion dollars



Source: Nebraska Department of Revenue

# Farm incomes are projected to retreat to historical norms.



## U.S. Real Net Farm Income (Annual Average)

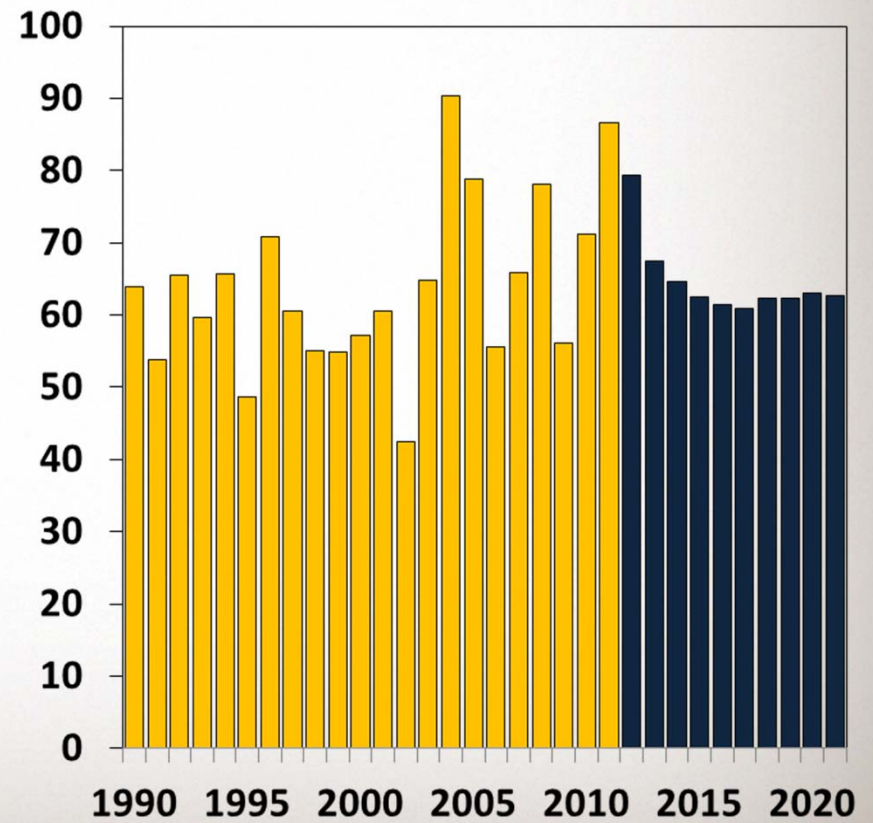
1990 to 2003: \$59 billion

2004 to 2011: \$73 billion

2012 to 2020: \$64.7 billion

## U.S. Real Net Farm Income

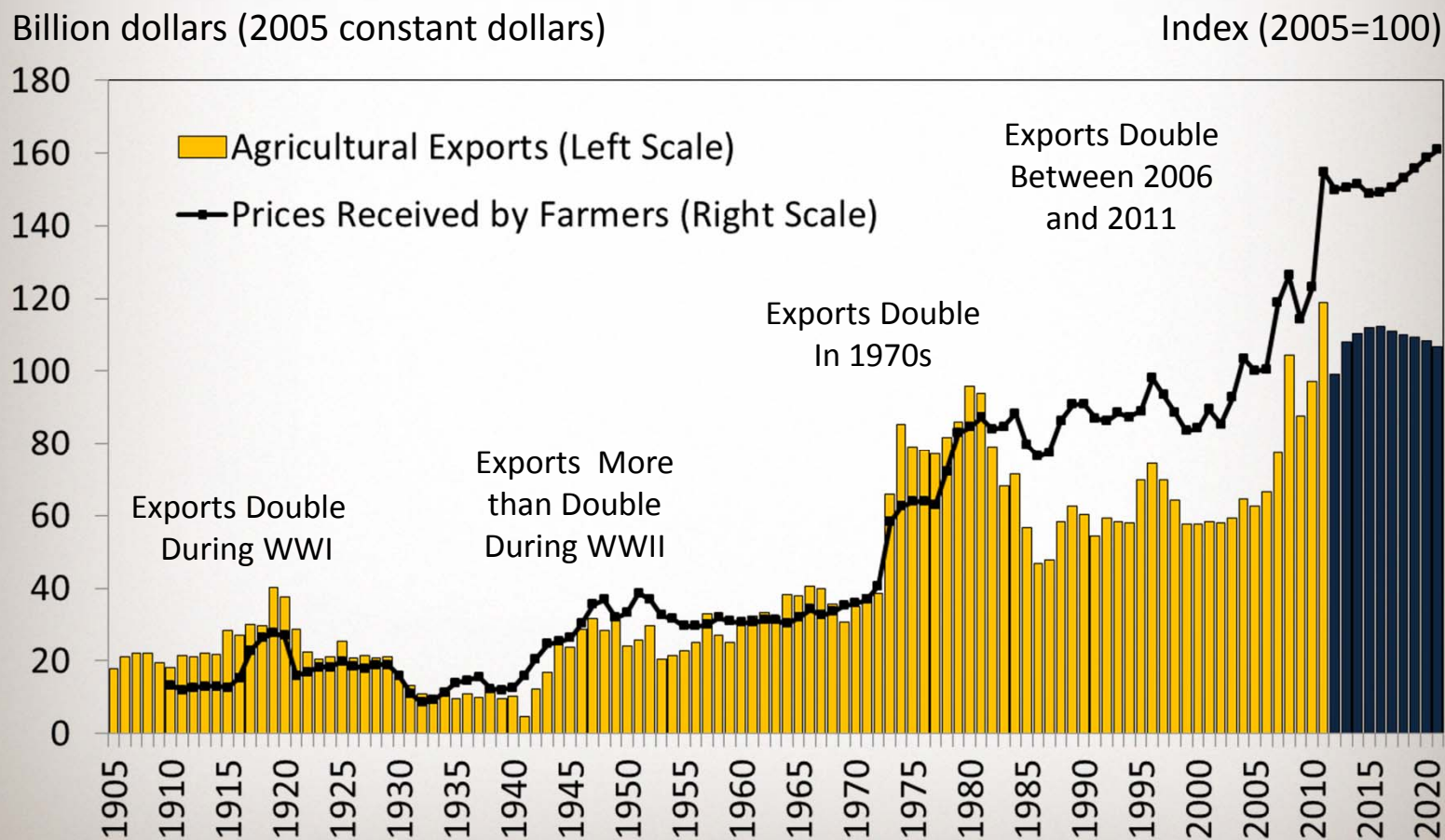
Billions (2005 constant dollars)



Source: USDA

Elevated export trends similar to the 1950s could keep farm prices high.

### U.S. Agricultural Exports and Farm Prices



Calculations based on U.S. Census Bureau and U.S. Department of Agriculture data deflated with consumer price index from the Federal Reserve Bank of Minneapolis and USDA inflation expectations.

# Ethanol hits the “Blend Wall”

## U.S. Motor Gasoline Use

Fell 2.6% in 2011

2015 forecast down 5%



U.S. Ethanol Standard is a 10% blend.

## 2015 Ethanol Consumption Projections

In 2007, 15 billion gallons

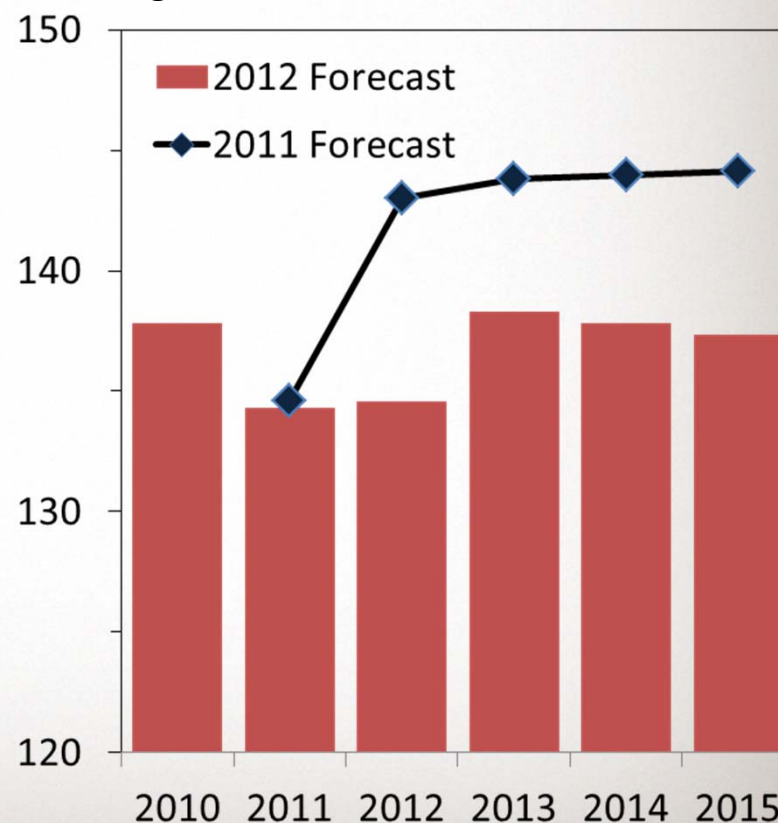
Today, 13.7 billion gallons

## Current Ethanol Production Capacity

13.5 billion gallons with  
522 million gallons under construction

## U.S. Motor Gasoline Consumption

Billions gallons

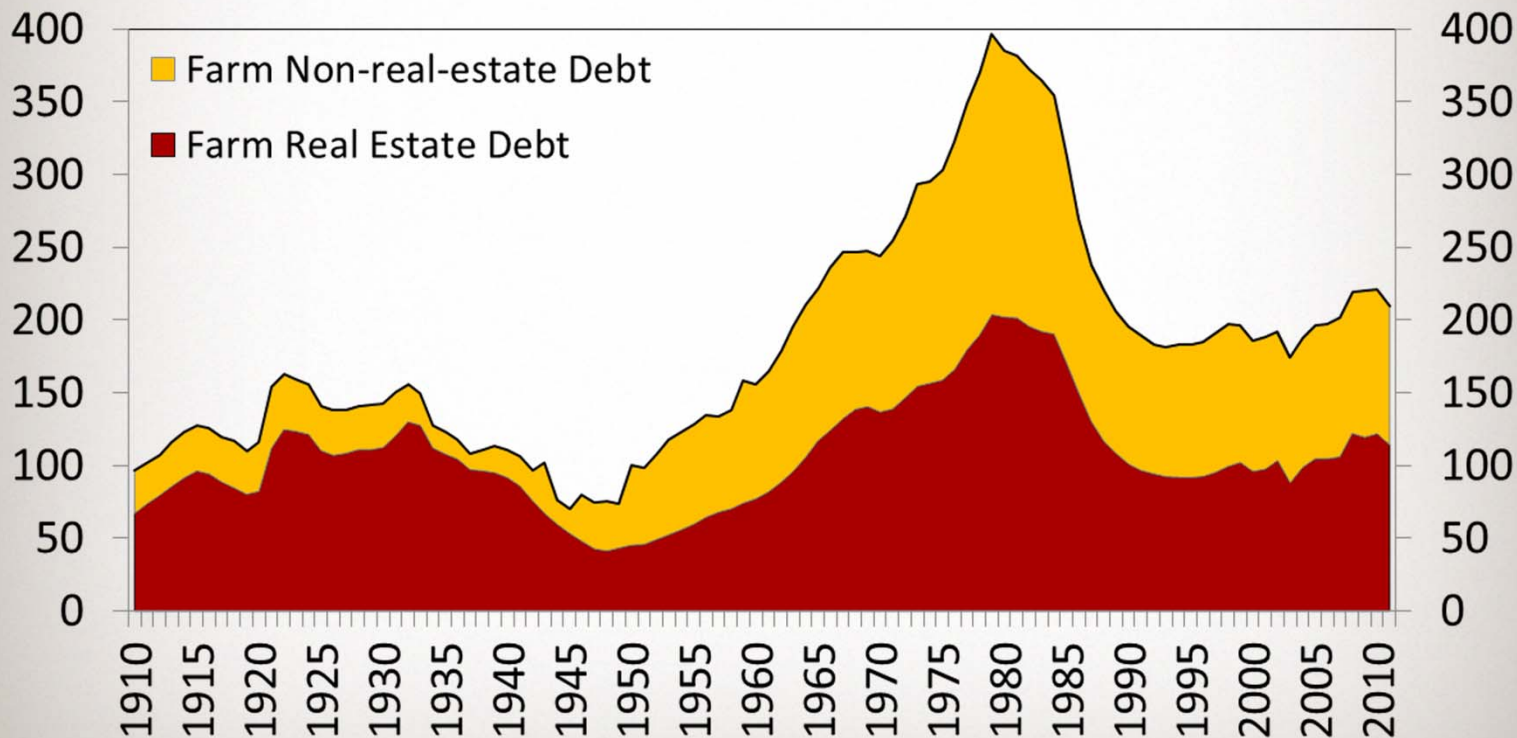


Source: EIA

# Is this farm boom different? It depends on debt and leverage.

## U.S. Farm Debt

Billion dollars (2005 constant dollars)



Calculations based on U.S. Census Bureau and U.S. Department of Agriculture data deflated with consumer price index from the Federal Reserve Bank of Minneapolis.

# Conclusions

- National economic conditions improve.
- Economic headwinds remain.
- Commodity markets and exports spur the Nebraska economy.
- The farm boom is expected to slow.
- Leverage is the key driver for the economic fortunes of both Main Street and the Farm Gate.