

Economic Update

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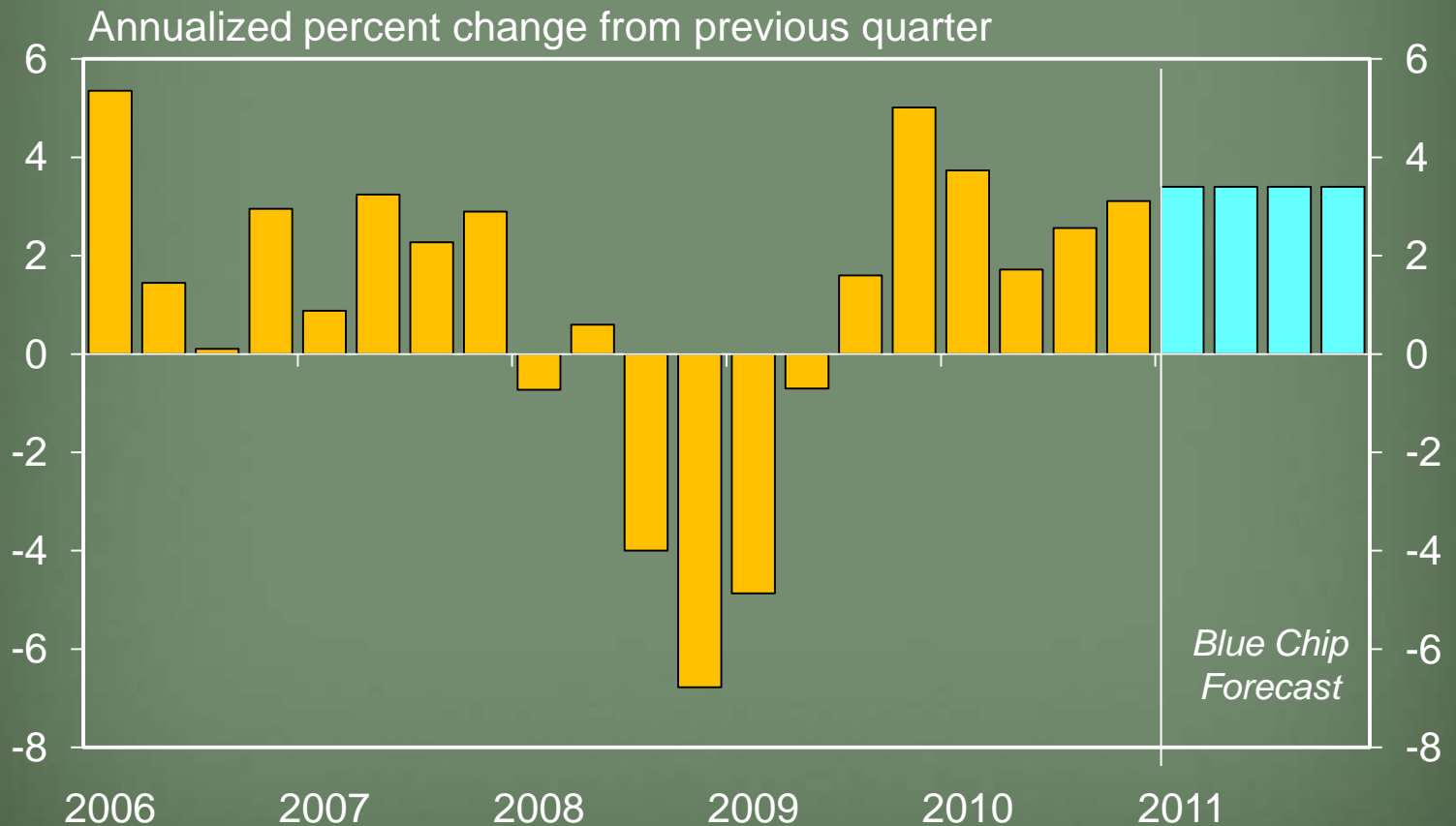
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Regulatory Update
— SEMINAR —
Federal Reserve Bank of Kansas City

Economic Update

- A Turning Point in the U.S. Economy.
- Nebraska Enjoys a Farm Boom.
- Risks to the U.S. and Nebraska Economy.

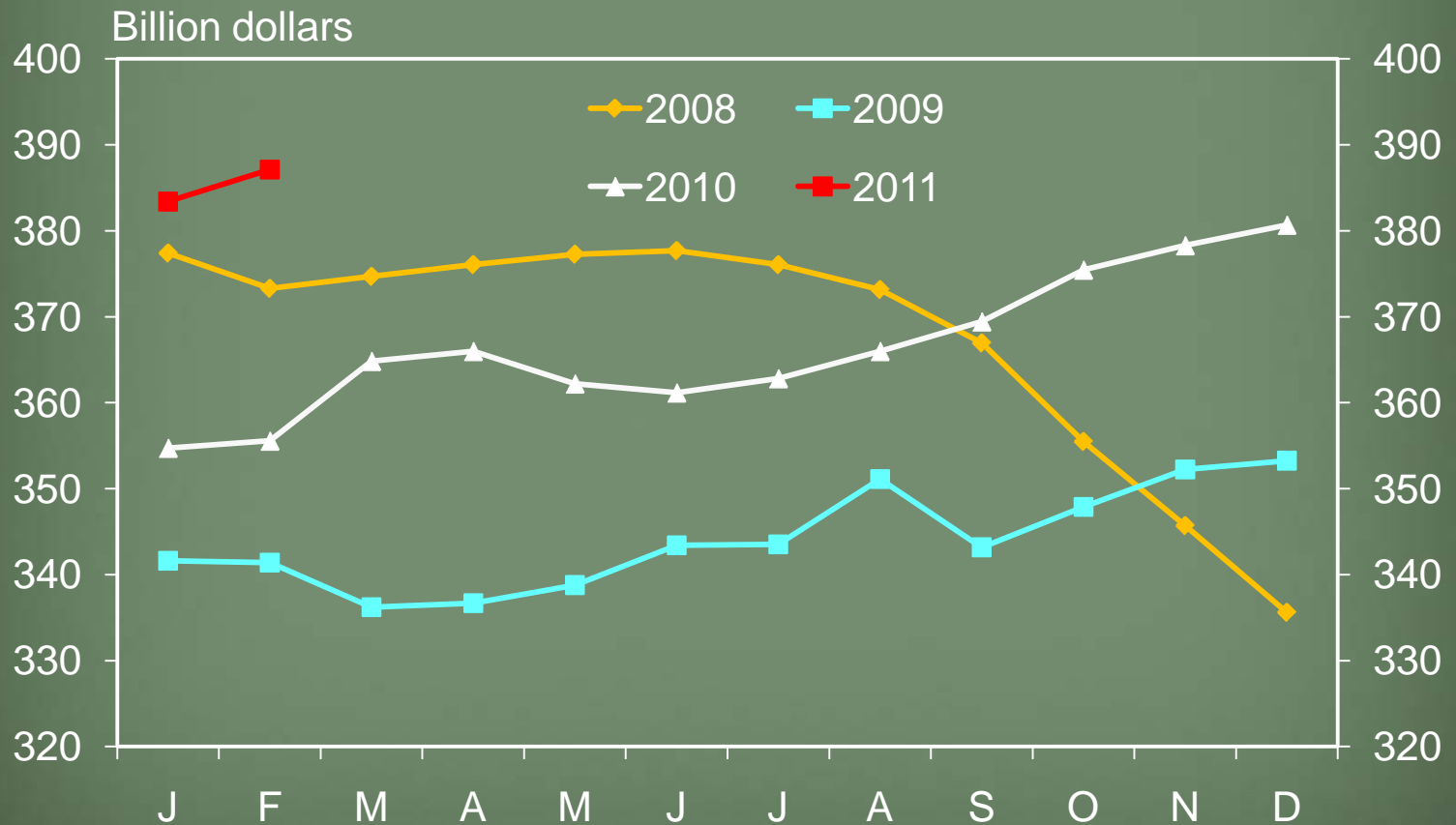
The U.S. economy rebounds after a summer lull.

U.S. Real GDP Growth



Consumer spending rises.

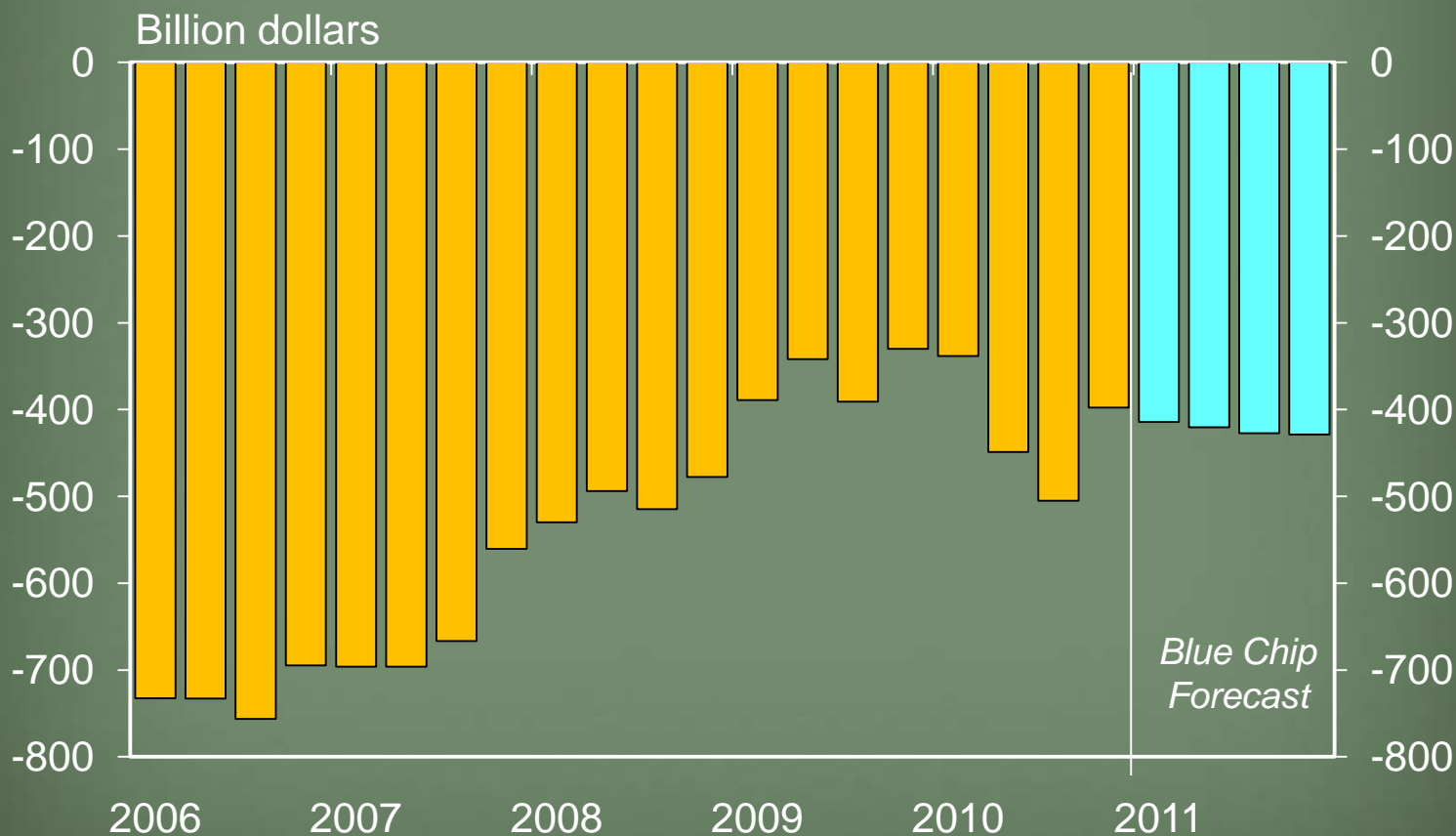
Monthly Retail and Food Sales



Source: U.S. Census Bureau

Net exports are expected to hold steady

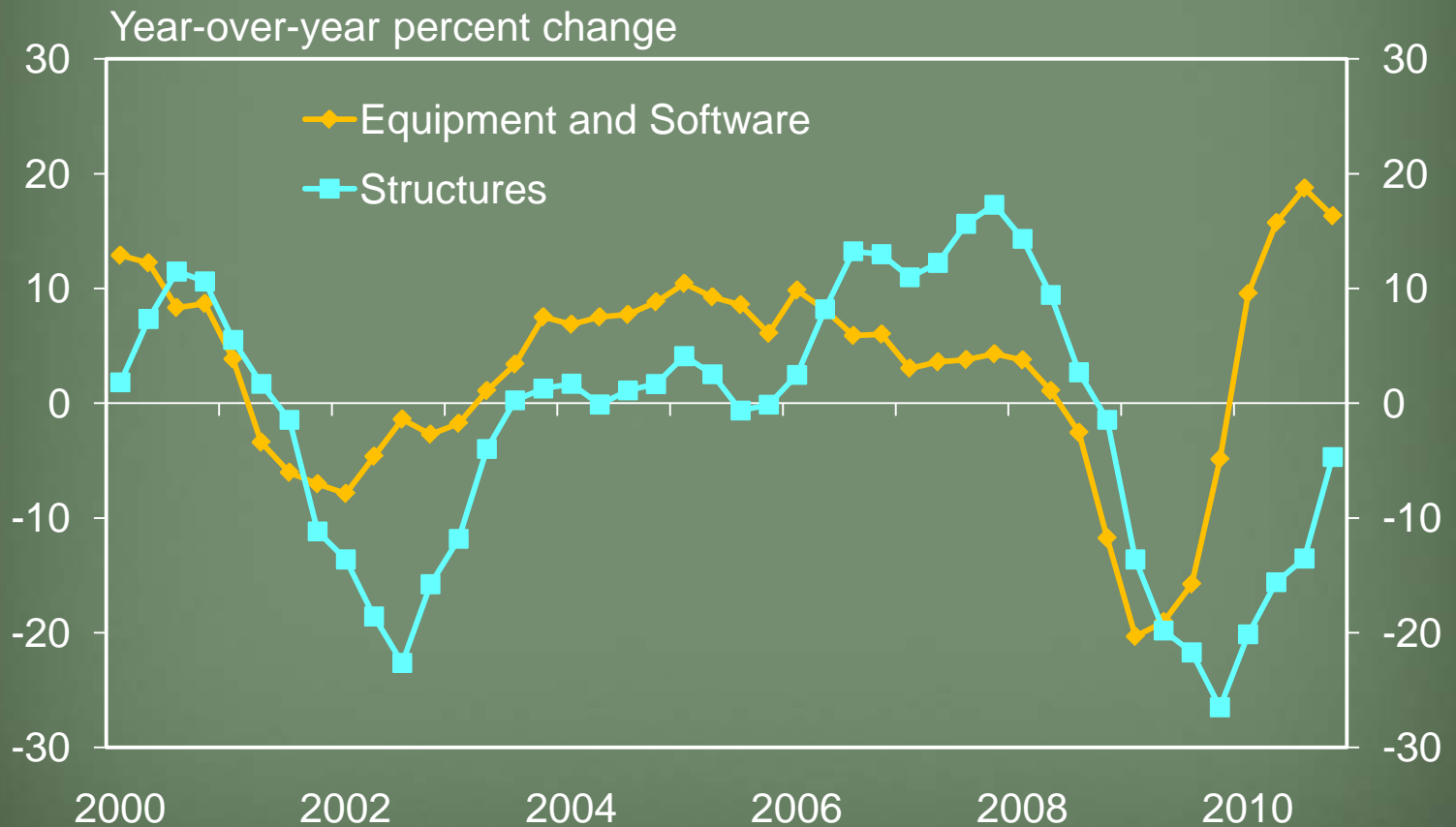
U.S. Real Net Exports



Source: Bureau of Economic Analysis and Blue Chip Economic Indicators

Business investment strengthens.

Nonresidential Fixed Investment



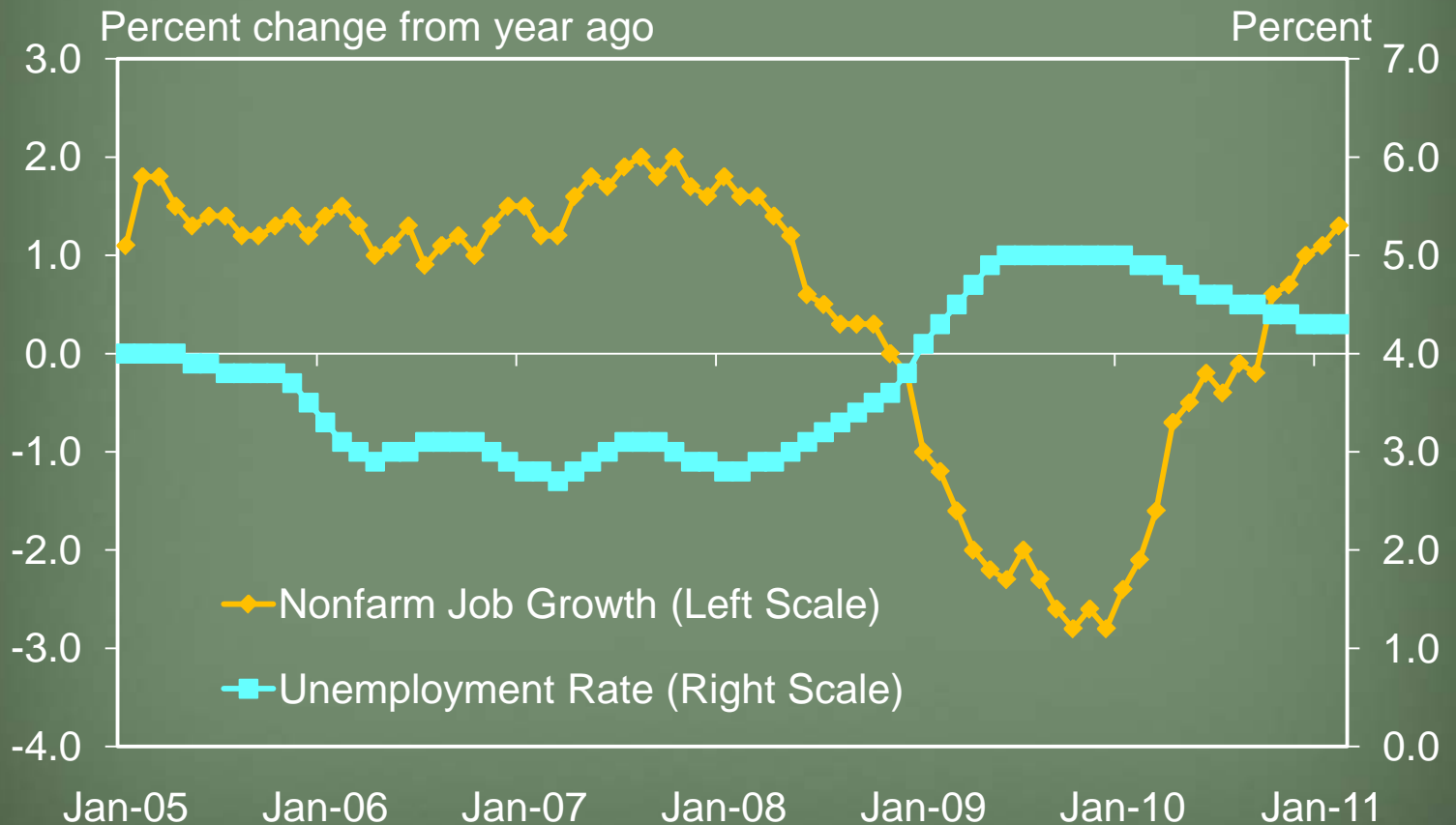
Source: Bureau of Economic Analysis

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Tight labor markets in Nebraska.

Nebraska's Job Growth and Unemployment Rate



Source: BLS

Stronger retail activity in Nebraska.

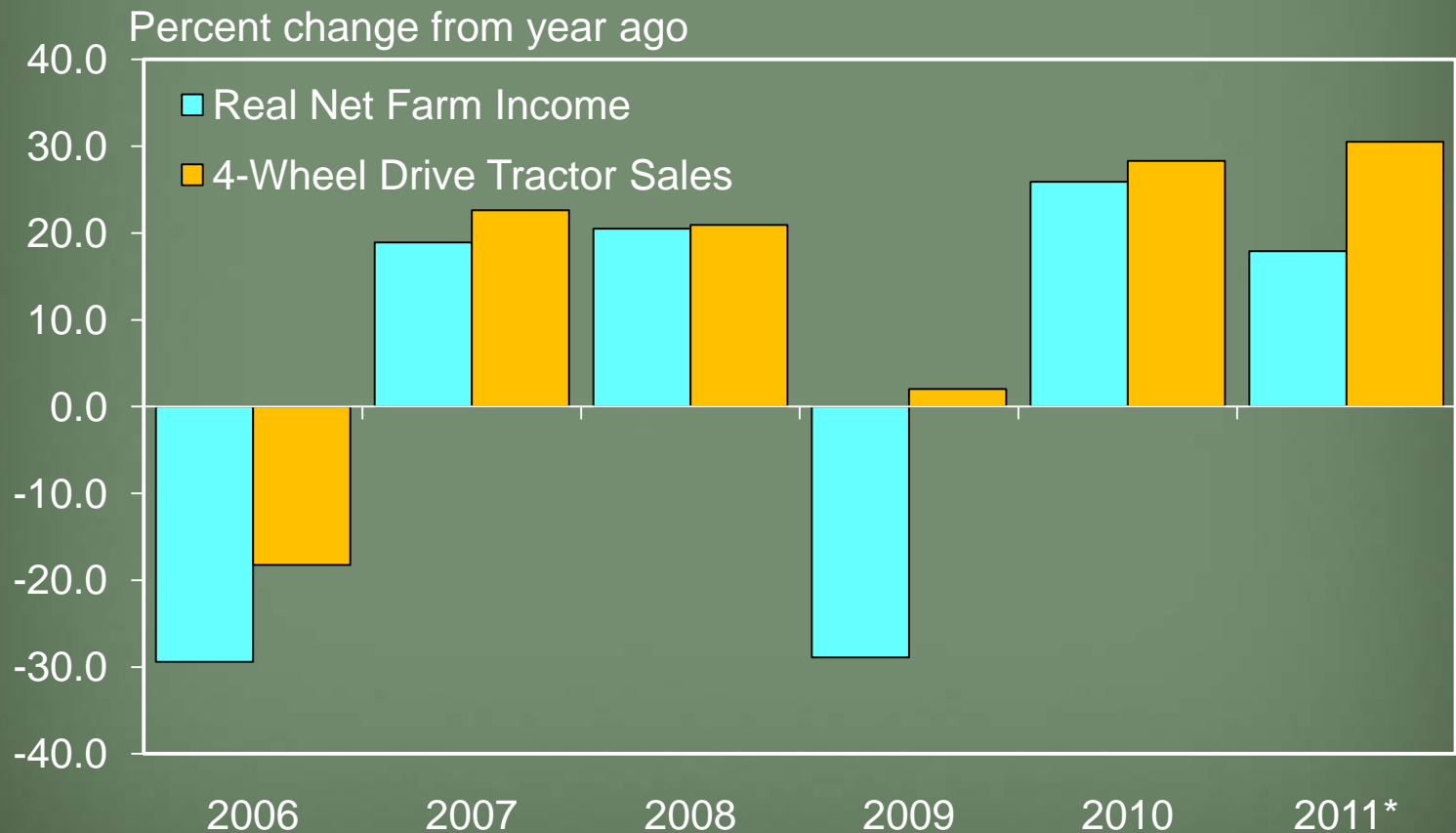
Nebraska's Retail Jobs and Sales Growth



Source: BLS and Nebraska Dept. of Revenue

Stronger farm incomes boost agricultural equipment sales.

U.S. Net Farm Incomes and Tractor Sales

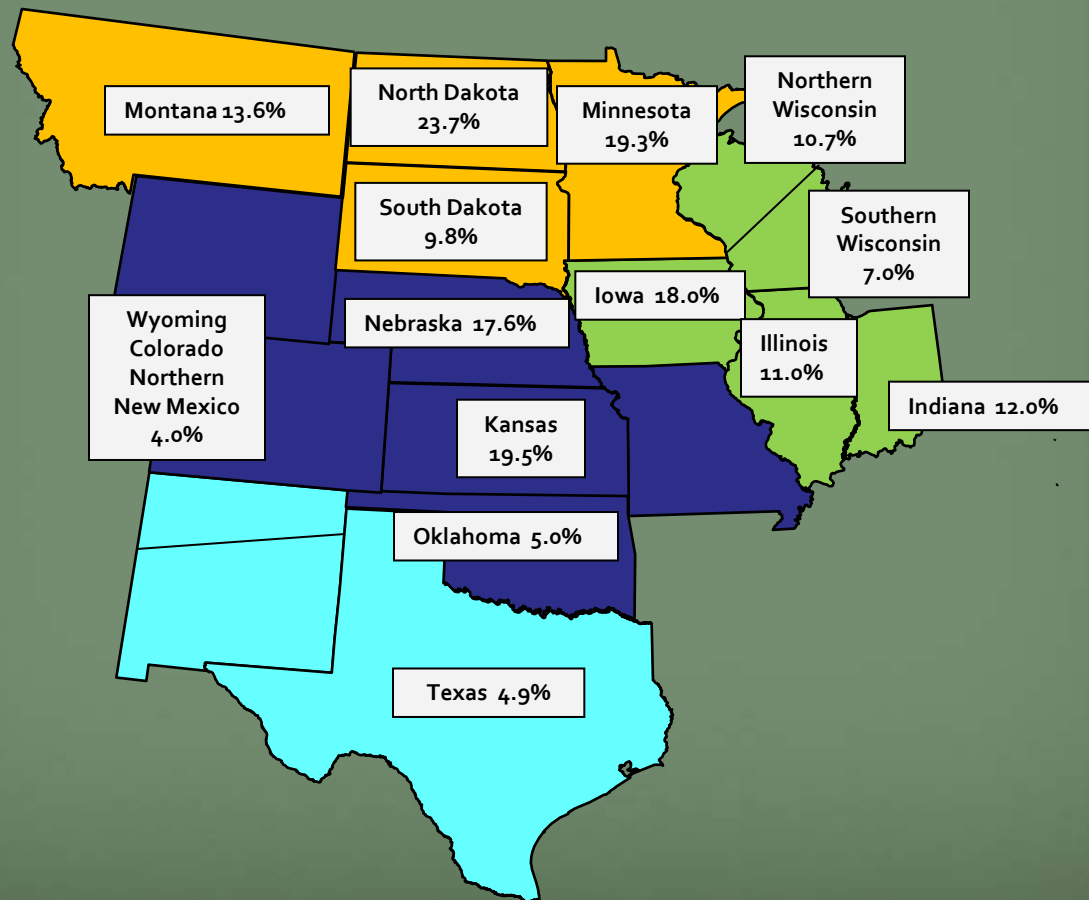


Source: Association of Equipment Manufacturers and USDA

* Net farm income forecast for 2011 dated February 2011, Tractor sales YTD through February 2011

Farmland values surge.

Non-irrigated Cropland Values (Percent change from 2009:Q4 to 2010:Q4)

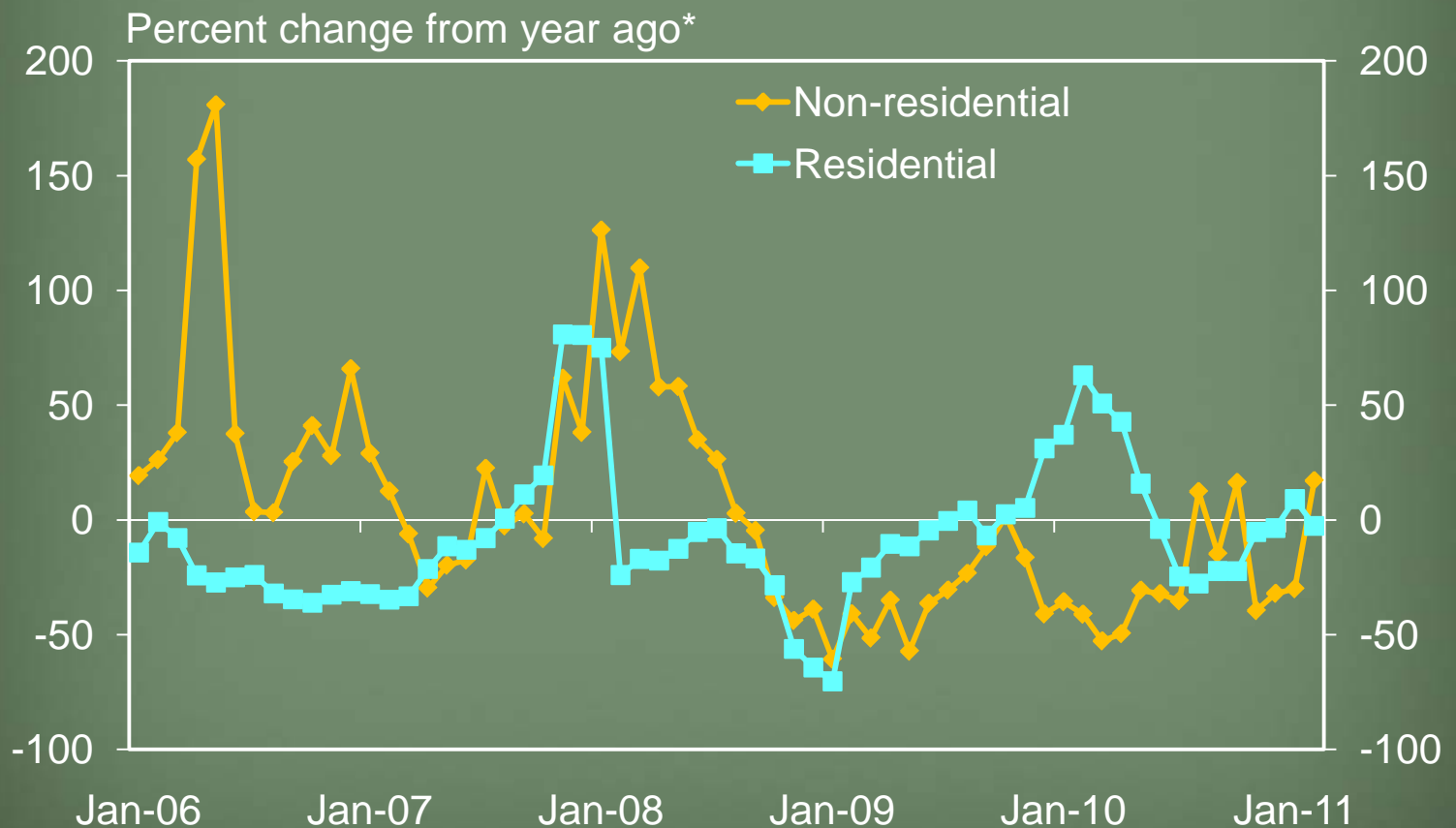


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Risk #1: Construction Activity

Nebraska's Value of Residential and Non-residential Construction

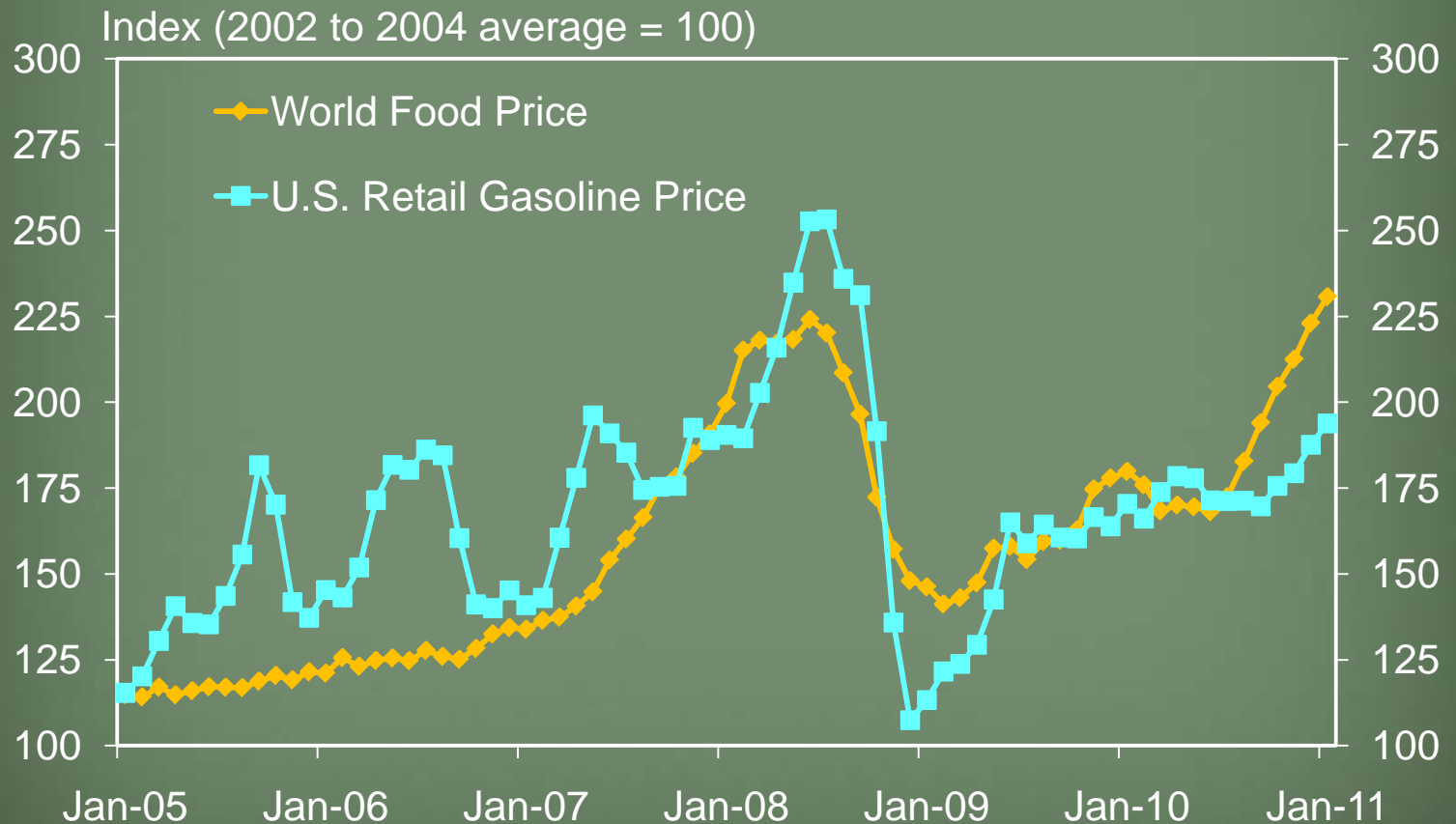


Source: F.W. Dodge

* Data based on 3-month moving average

Risk #2: High Food and Gas Prices

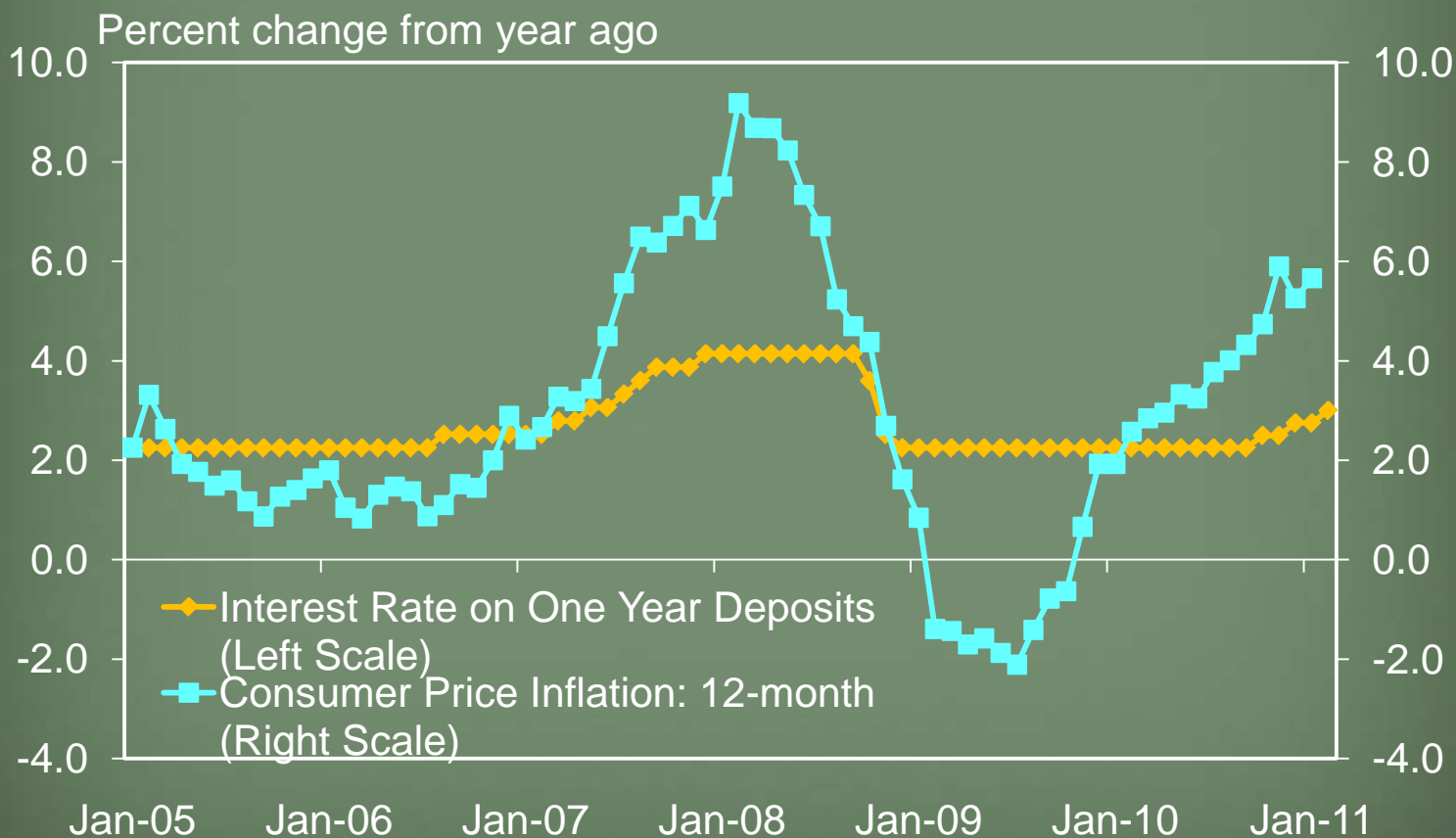
World Food Prices and U.S. Gasoline Prices



Source: International Monetary Fund and U.S. Department of Energy

Risk #3: China and Export Demand

China's Inflation and Interest Rates



Risk #4: Higher Interest Rates and Farmland Values

The Net Present Value of Farmland

$$\text{Land Values} = \frac{\text{Expected Revenues}}{\text{Capitalization Rate}}$$

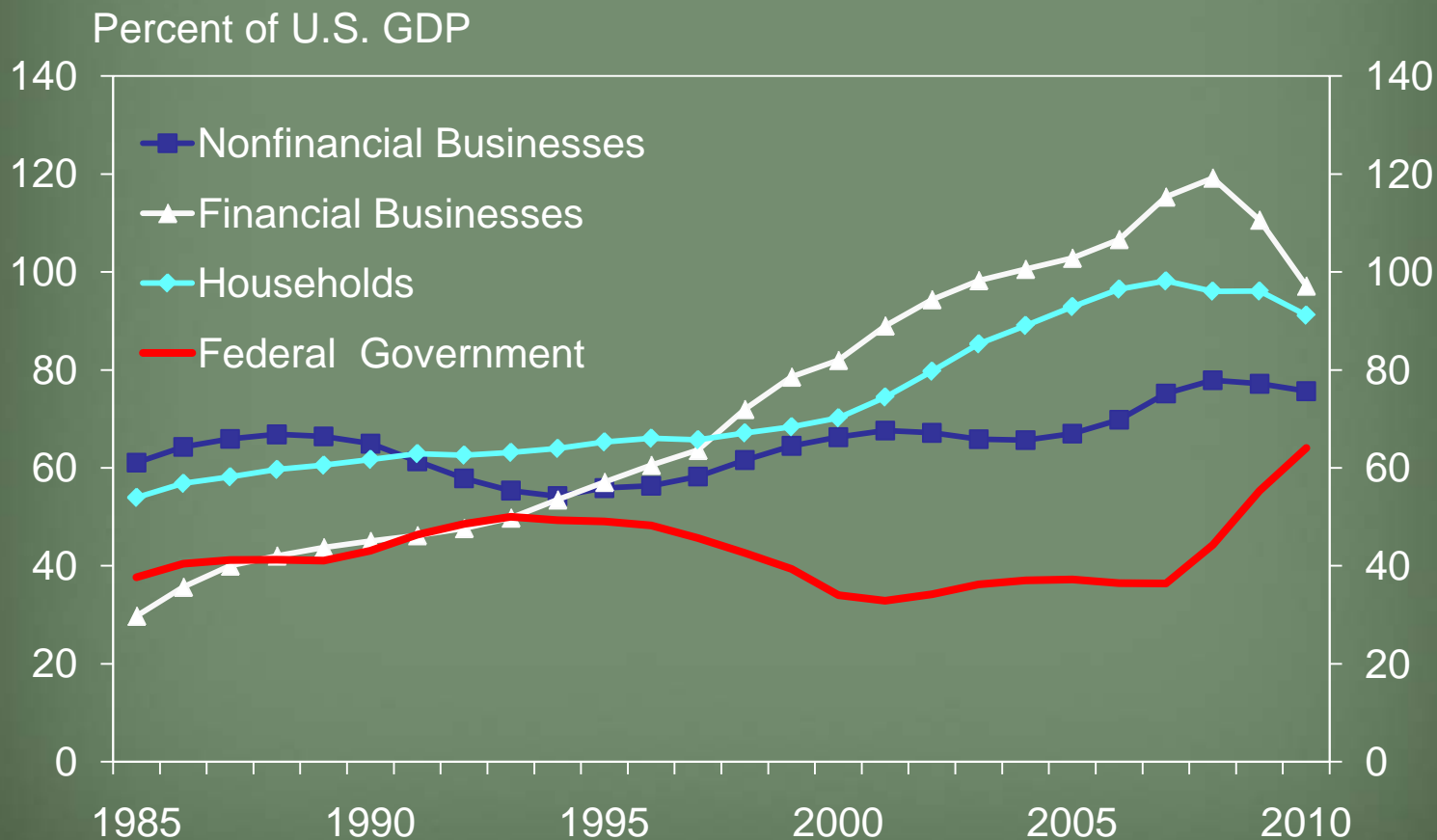
High Interest Rates
Lead to
Lower Farm Revenues

High Interest Rates
Lead to
Higher Capitalization Rates

What happens to farmland values under high interest rates?

Risk #5: Leveraging/De-leveraging Cycle

U.S. Debt Outstanding by Sector



Source: Federal Reserve Board of Governors

Conclusions

- The U.S. economy is strengthening.
- Strong commodity markets boost the Nebraska economy.
- Still, risks remain.
- With uncertainty still in the air, cash is king.