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# Spurring Nebraska's Economy



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.

# Nebraska's economy continues to perform better than the nation as a whole.

## Real Personal Income Growth

(Percent change year ago – 2012:Q2)

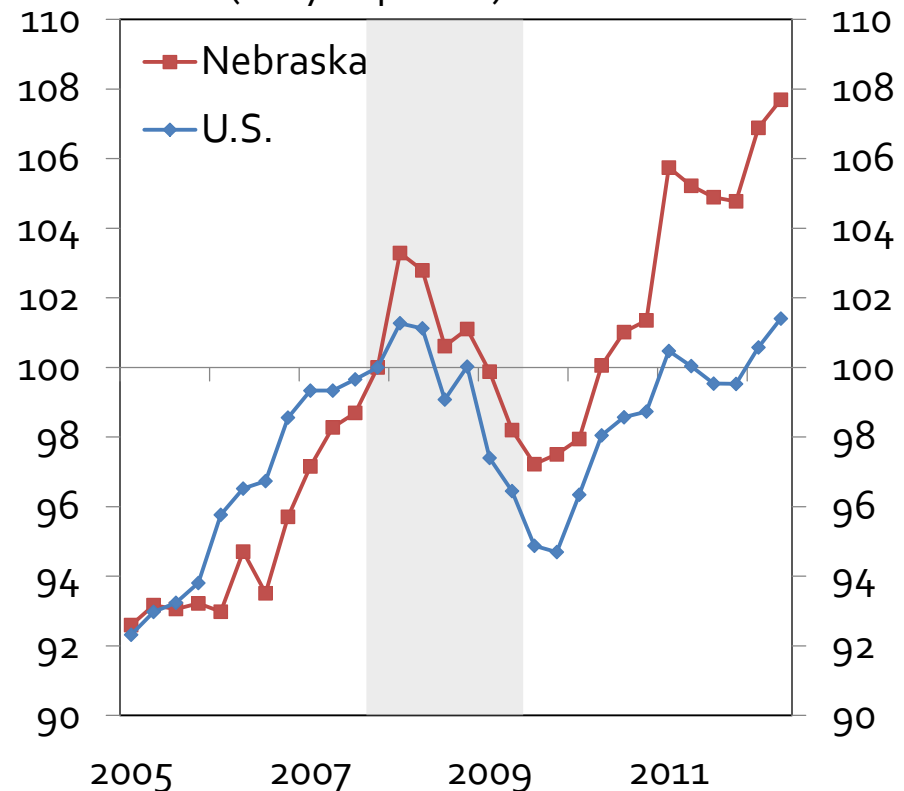
7<sup>th</sup> highest- 2.3%



Nebraska's total income held up better during the recession and expanded faster in the recovery.

## Real Personal Income

Index (2007:Q4 = 100)



Calculations based on BEA and BLS data



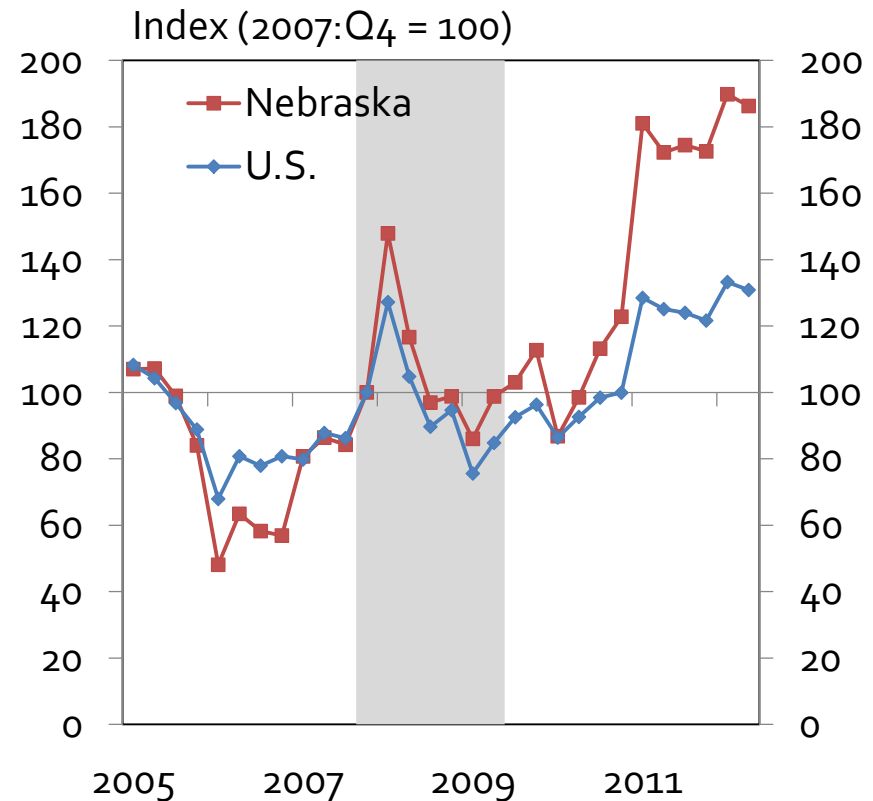
# Agriculture is a driving factor.

Nebraska farm incomes are almost 90 percent higher than 2009/2010

Nebraska's crop revenues rose twice as fast as U.S. revenues

Nebraska's livestock sector has more exposure to ranching and less exposure to dairy and poultry

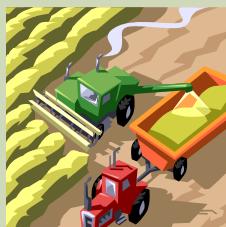
U.S. and Nebraska Farm Income



Calculations based on BEA and BLS data



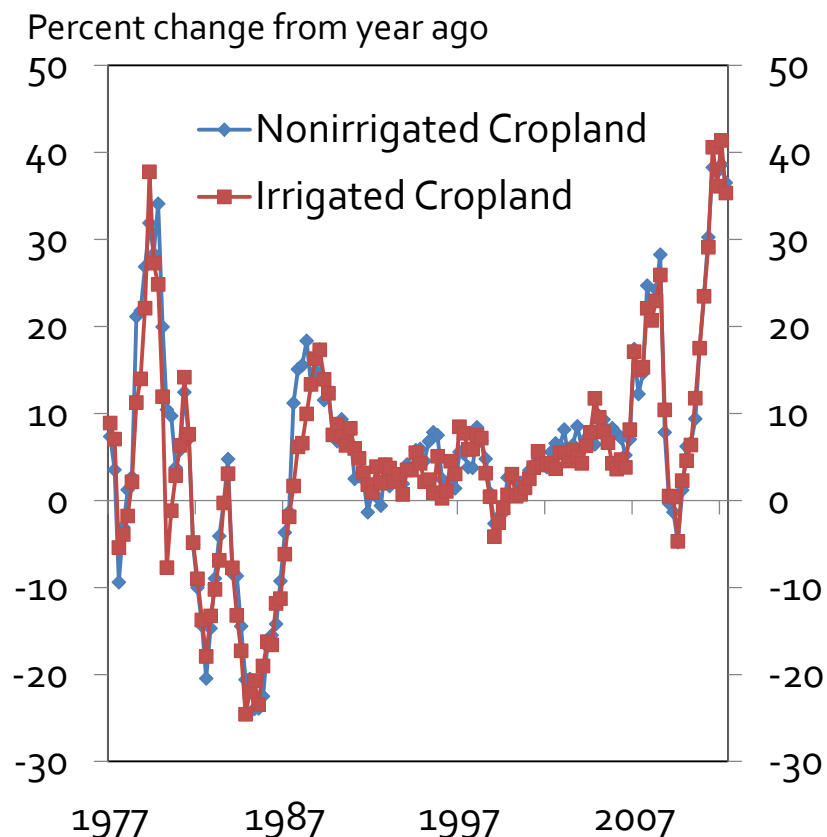
# Farmland value gains are on par with the 1970s farm boom.



Nebraska farmland value gains  
2011:Q2 to 2012:Q2

Irrigated cropland: 35.3%  
Nonirrigated cropland: 36.5%  
Ranchland: 26.7%

## Nebraska Farmland Value Gains



Source: Federal Reserve Bank of Kansas City

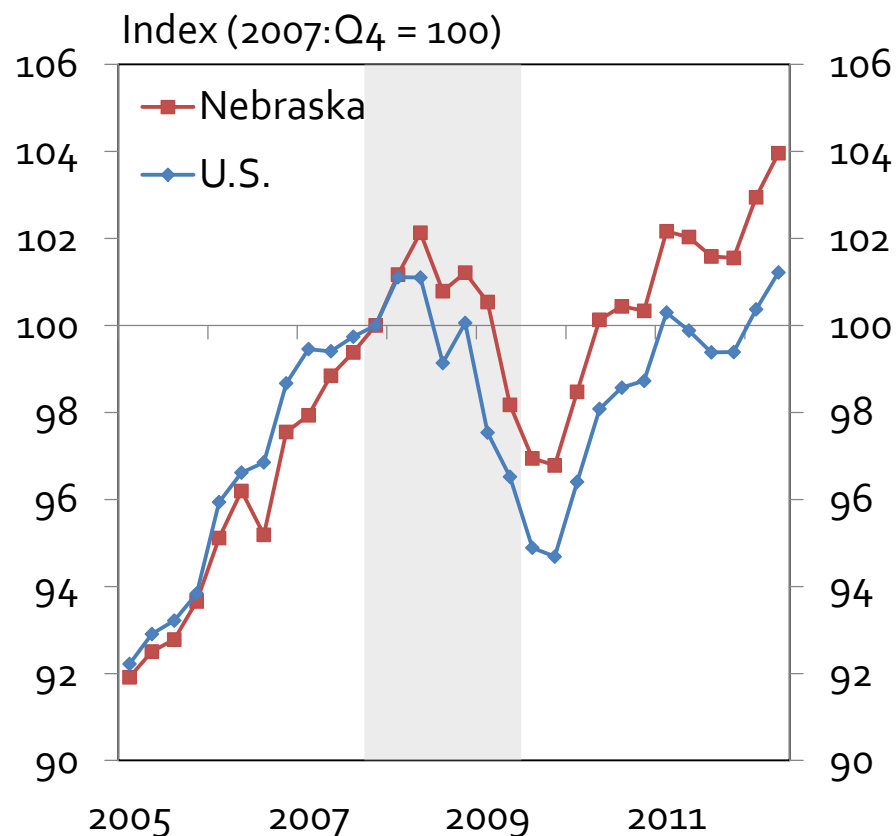


# Nebraska's nonfarm economy is also generating stronger incomes.

Nebraska's stronger nonfarm incomes are being driven by ...

- 1) Wage and salaries
- 2) Employer contributions to pensions, insurance, & government social insurance
- 3) Proprietors' incomes

Real Nonfarm Personal Income

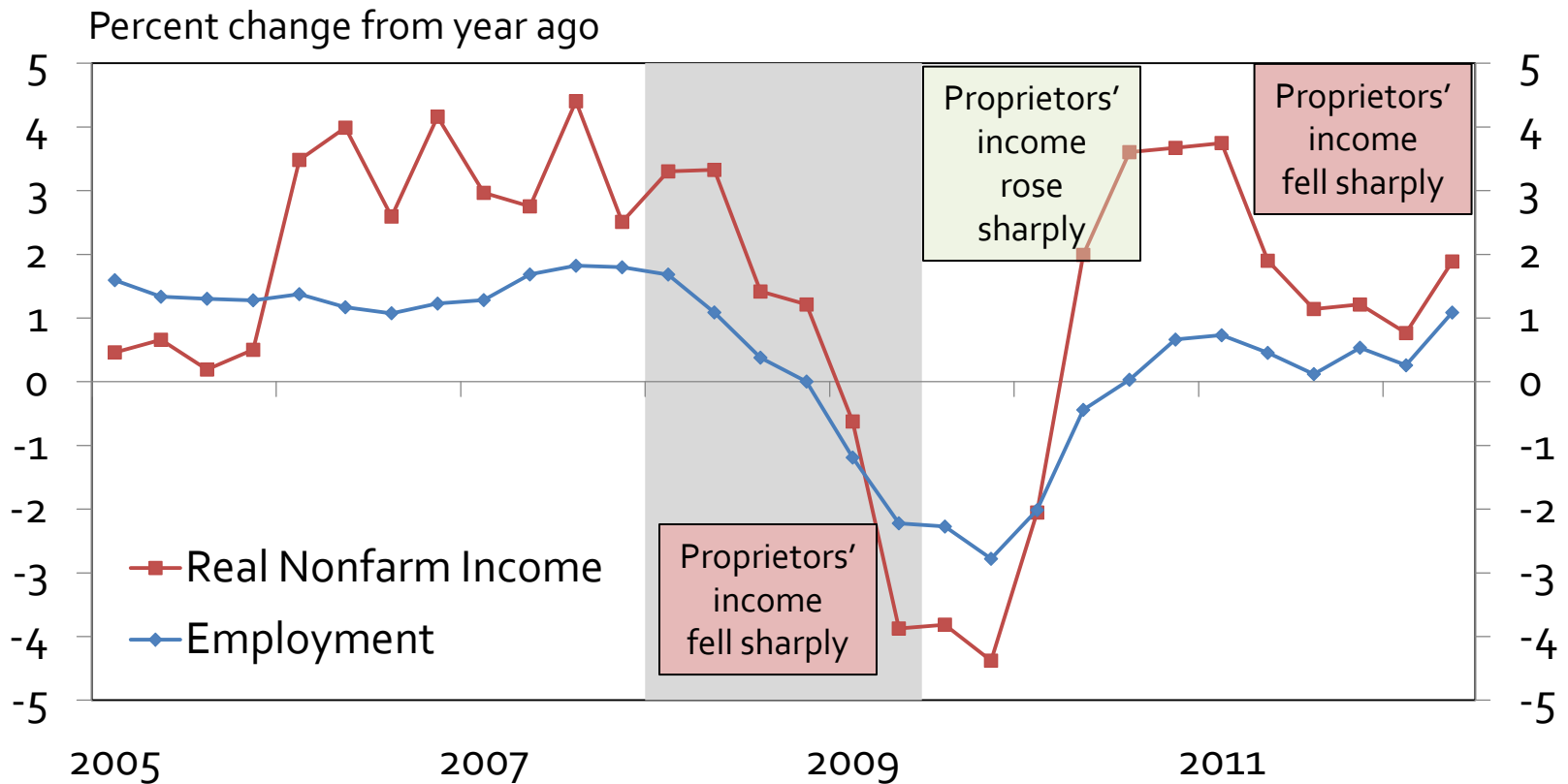


Calculations based on BEA and BLS data



# Incomes are rising faster than employment.

## Nebraska Nonfarm Income and Employment Gains



Calculations based on BEA and BLS data



# Are Nebraska's employment numbers stronger than surveys indicate?

•CES is a monthly survey of businesses to estimate employment. The survey is based on the QCEW.

**2012:Q1 0.3% growth**

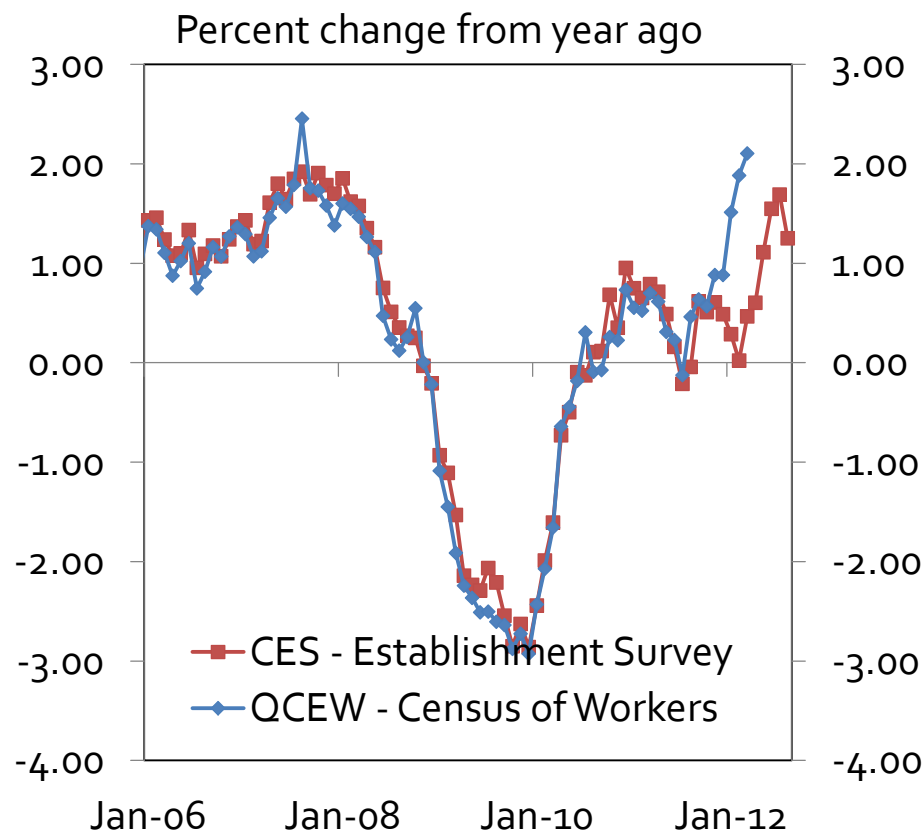
•QCEW is the quarterly census of workers based on unemployment insurance claims.

**2012:Q1 1.8% growth**

•Annually the CES is benchmarked to match the QCEW.

•In short, the CES will be adjusted to match the QCEW.

Nebraska Employment Growth



Calculations based on BEA and BLS data



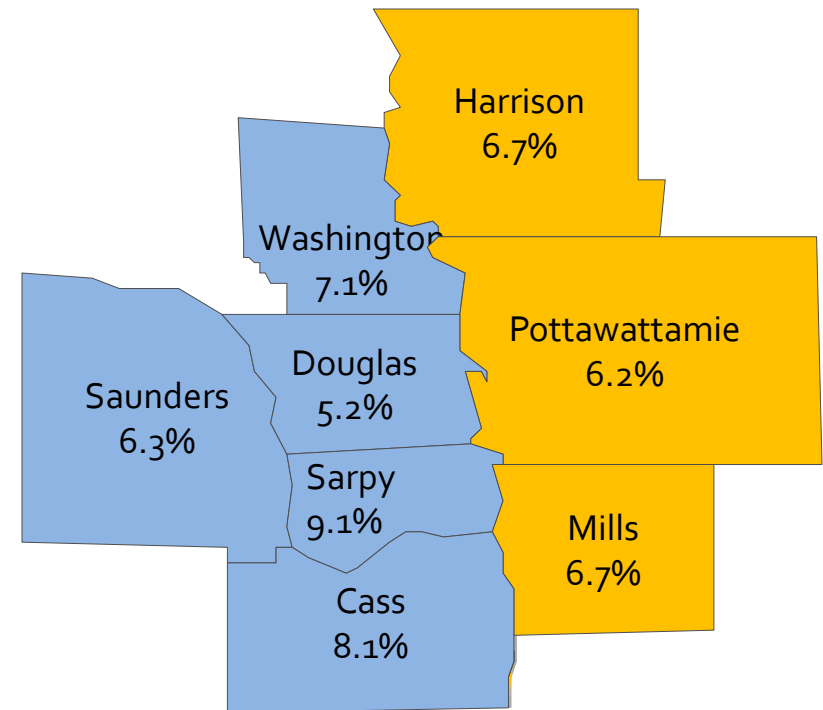
# Omaha is enjoying strong economic gains.

Employment Growth  
(Percent change from year ago)

	2011	2012:Q1
Nebraska	0.5%	1.8%
Cass County	0.3%	3.3%
Douglas County	0.3%	1.0%
Sarpy County	1.2%	2.9%
Saunders County	-1.9%	4.0%
Washington County	-0.4%	4.7%
Iowa	1.1%	1.7%
Harrison County	1.8%	5.1%
Mills County	-0.6%	1.8%
Pottawattamie County	-0.2%	-0.8%

Source: BLS, QCEW

Average Weekly Wages, 2012:Q1  
(Percent change from year ago)



Source: BLS, QCEW





# 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: 4.4 percent

Annual job growth

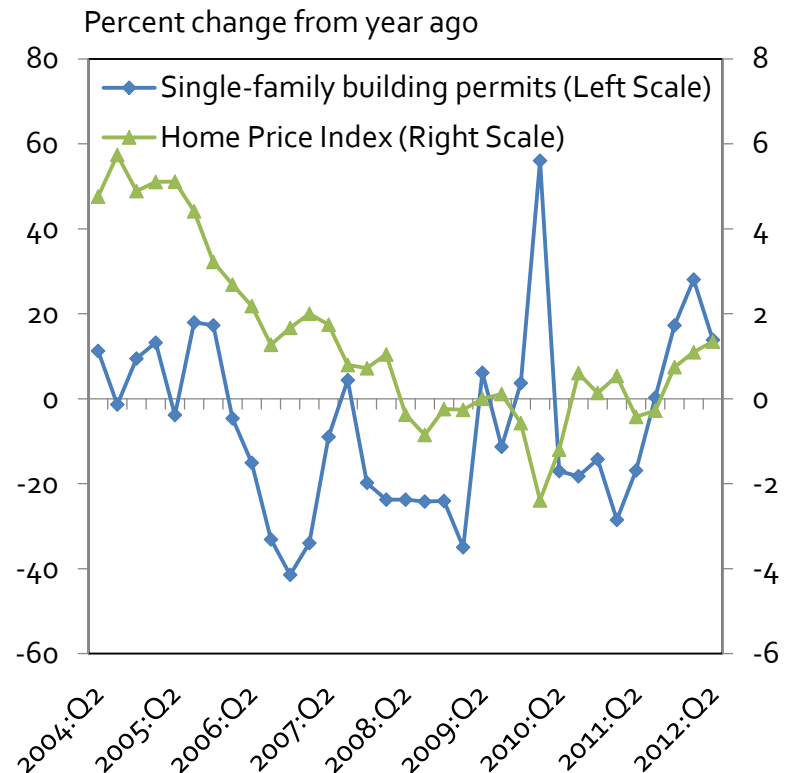
Q2: 7.7 percent

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

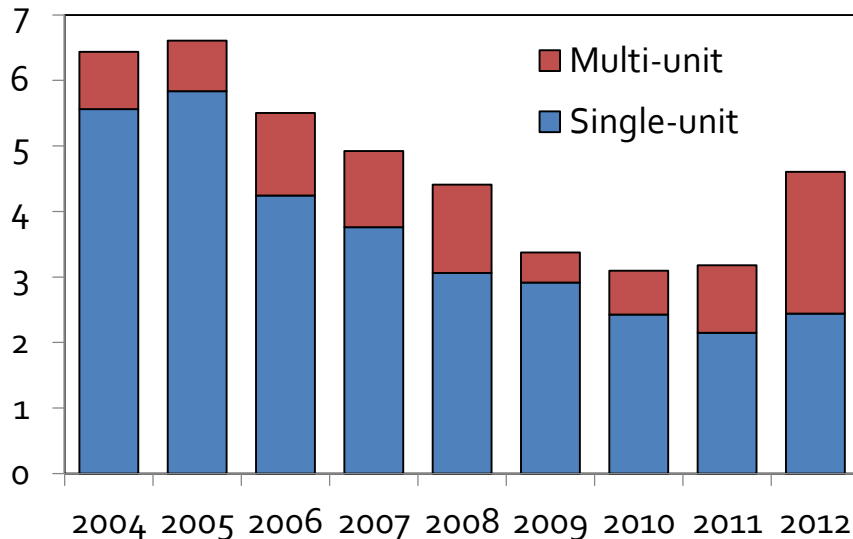


# Omaha's construction market is on the mend.

Multi-family construction is strong.  
Single-family construction edged up.  
Home prices have climbed above year ago levels.

## Omaha Housing Units Authorized

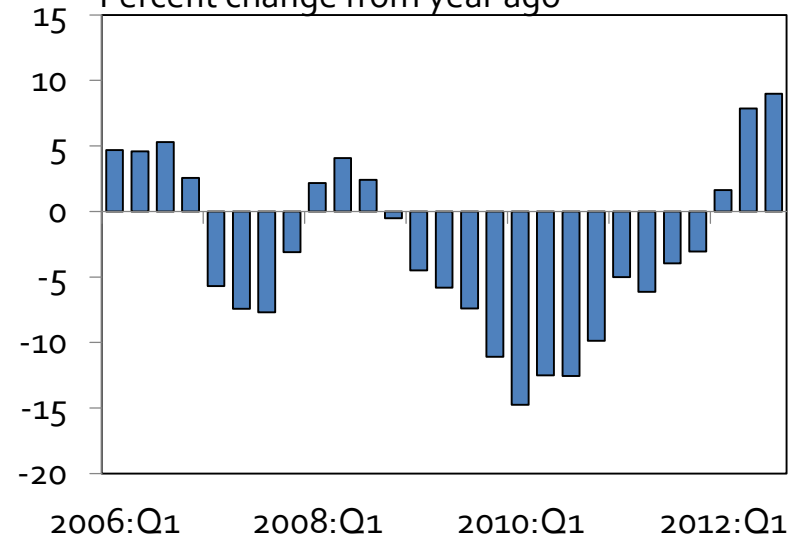
Thousand units



Source: Census Bureau

## Omaha Construction Employment

Percent change from year ago



Source: Bureau of Labor Statistics



# Renewed strength in manufacturing.

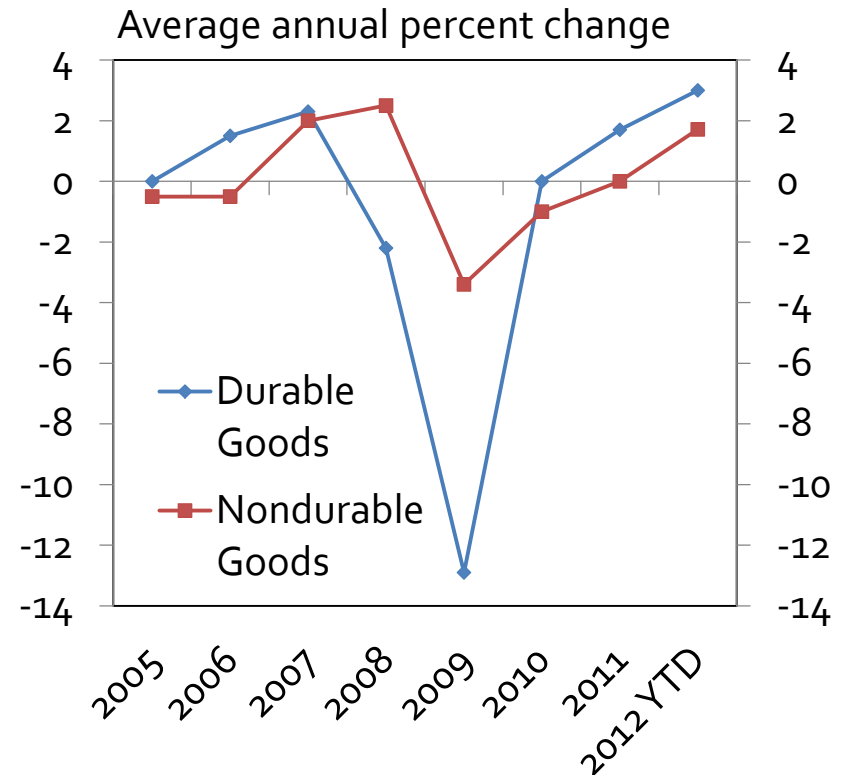


**Fueled by durable goods:**  
**Fabricated metals**  
**Machinery**  
**Transportation equip.**  
**Computers and electronics**

The rebound was shaped by ag-related manufacturing.

In 2012, Nebraska's manufacturing jobs and earnings growth slowed heading into third quarter

## Omaha Manufacturing Employment Growth



Source: Bureau of Labor Statistics



# Nebraska's manufacturers tap global markets.



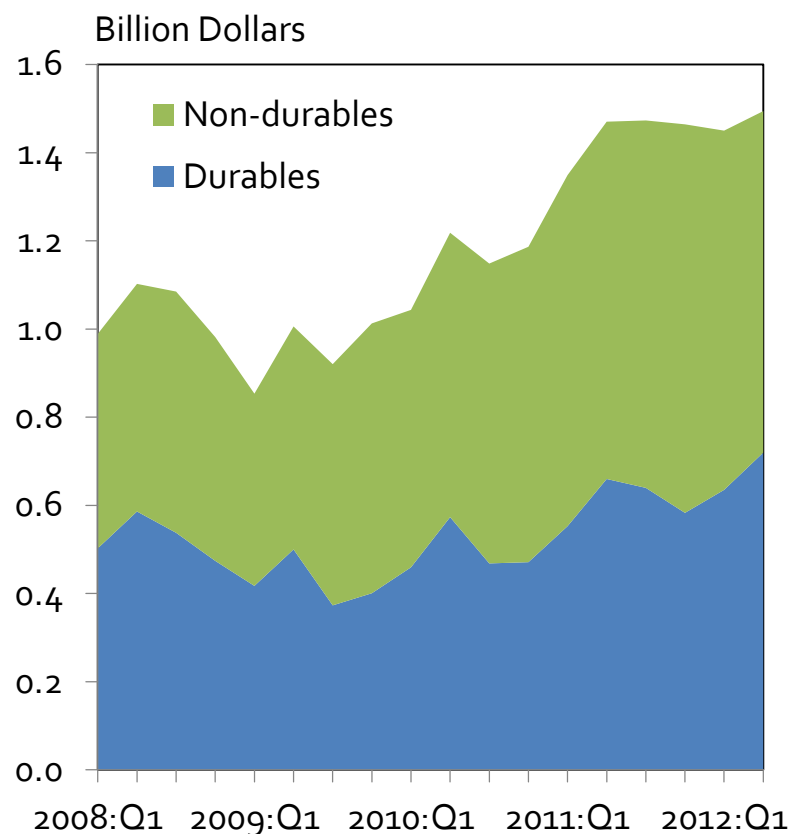
After falling sharply during the recession, Nebraska's manufactured exports rise 50%

Top 5 Destinations of NE exports  
(2012, year-to-date)

Nation	Million dollars	Percent change
Canada	\$935.5	3.4%
EU-27	\$447.4	-7.3%
Mexico	\$369.5	-2.7%
Japan	\$274.3	-10.5%
China	\$251.7	28.4%

Source: WISERTrade  
Note: Data through July 2012

## Nebraska Manufactured Exports



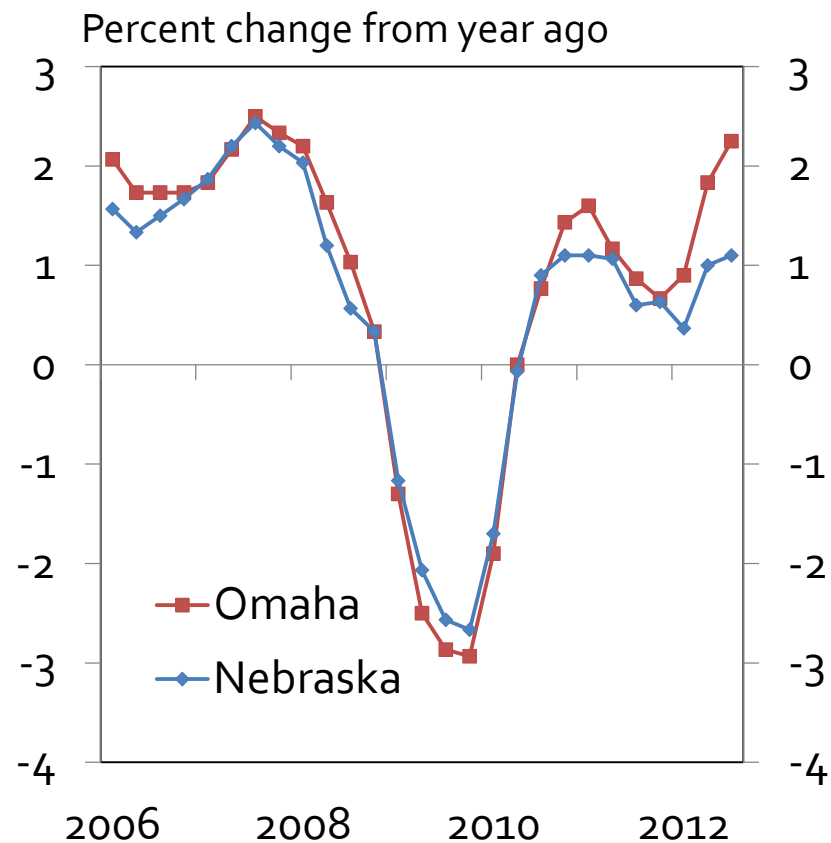
Source: WISERTrade



# After weakening in 2011, private service sectors are rising faster.

- In Nebraska, private service earnings also rose 3.6% from 2011:Q2 to 2012:Q2
- Solid gains in business-related services
  - Wholesale trade
  - Professional and business services
- After a strong 2011, job contractions in ...
  - Information and financial services
  - Transportation and warehousing

Service-producing Sector Job Growth



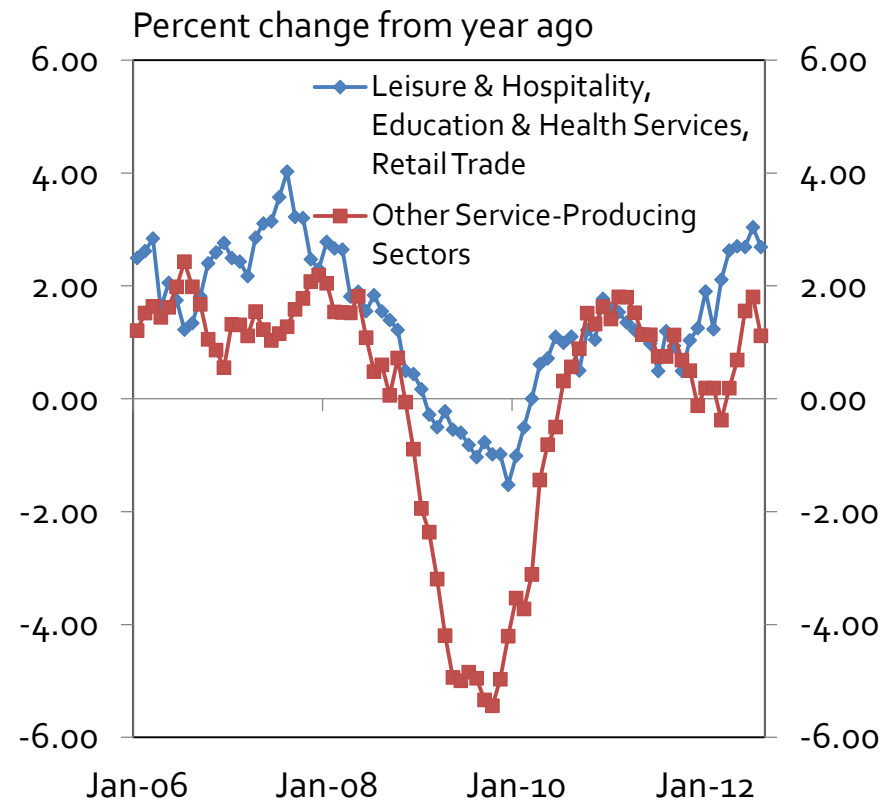
Source: Bureau of Labor Statistics



# Personal services are driving the gains.

- Personal services held up better during the recession and are rebounding faster.
  - Leisure and hospitality
  - Health services
  - Education services
  - Retail trade
- Wages and earnings are rising in both Nebraska and Omaha

Omaha Service-producing Sector Job Growth



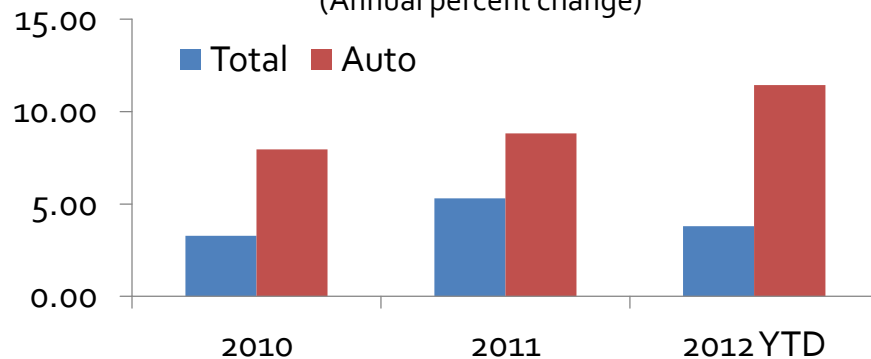
Source: Bureau of Labor Statistics



# With stronger incomes, Nebraska consumers are increasing their spending.

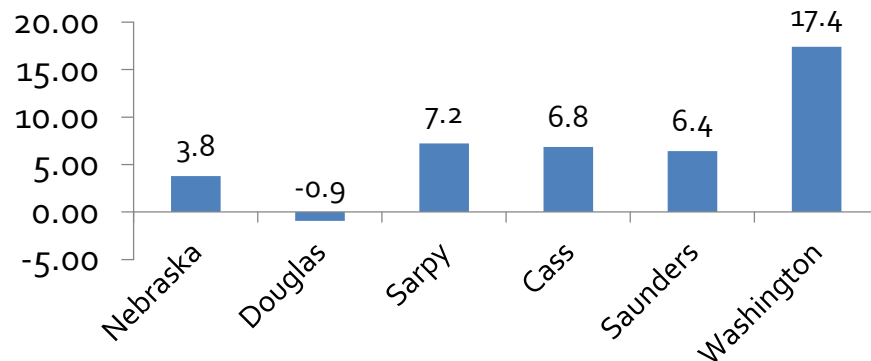
**Automobile sales rise faster than total retail sales.**

Nebraska Retail Sales and Auto Sales  
(Annual percent change)



**In 2012, Retail sales rising faster outside of Douglas County**

Nebraska Retail Sales and Auto Sales  
(2012 YTD, Annual percent change)



# The largest contrast with the national economy is government jobs.



Government:  
20% of Nebraska's  
total compensation

17% of Nebraska's  
nonfarm jobs.

Source: Bureau of Labor Statistics

- Nebraska's government jobs are up 0.5%, led by state employment gains.
- State governments - rising incomes
- Local governments – retail sales vs real estate prices
- Federal spending?



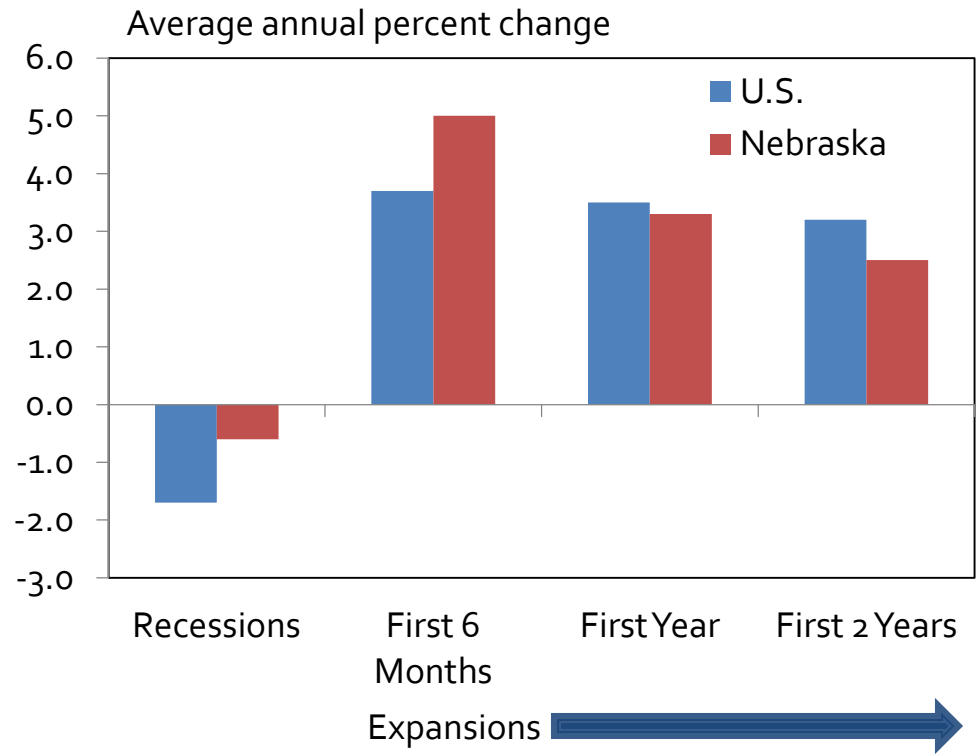


# Nebraska's economic performance varies with the business cycle.

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

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



Calculations based on quarterly BEA data



# How can Nebraska build new sources of growth?

sources of growth?



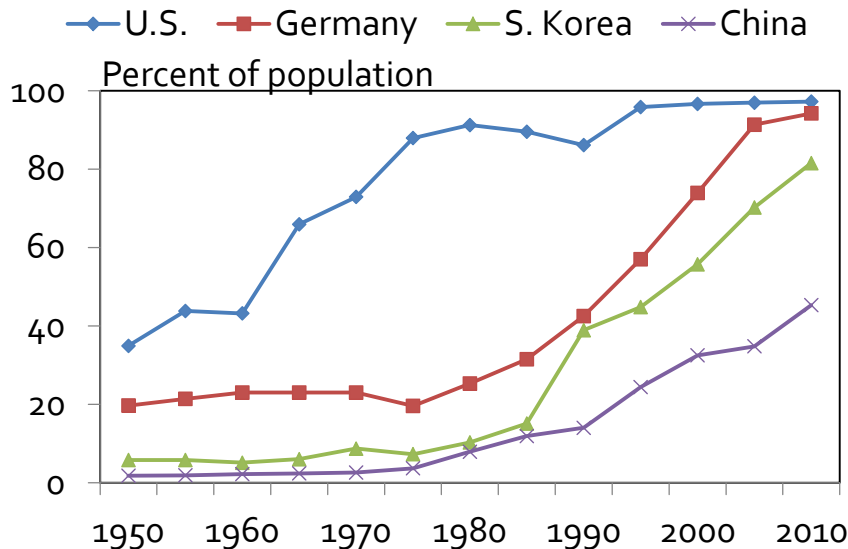
# How does Nebraska and Omaha attract and retain, high-skilled people?

- In advanced nations, the returns to an additional year of schooling is 12%.

Barro and Jong-Wha (2010)

- Does the U.S. have a competitive advantage in high-skilled people?

Educational Attainment: Secondary Education  
(55-59 Year olds)



Source (Barro-JongWha)

H.S. Educational Attainment  
(Population 25 and older)

Douglas County 90%

5% of the Douglas County population lives in a Census Tract with H.S. educational attainment below 60%



# Entrepreneurs are a driving force behind economic growth.

- Communities, states, and nations with more entrepreneurial activity have stronger economic growth.

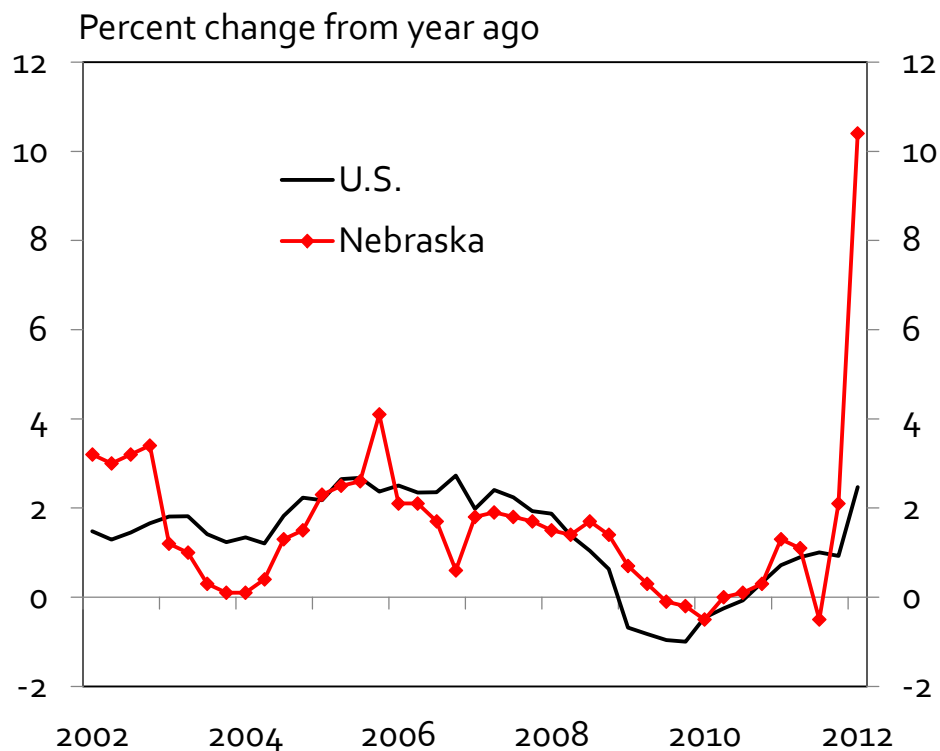
(Henderson 2002)

- The benefits of entrepreneurship grow over time.

(Henderson and Weiler, 2010)

- Entrepreneurship is creative destruction – the reallocation of resources to their highest and best use.

## U.S. and Nebraska Private Establishment Growth



Source: Bureau of Labor Statistics



# Ultimately, community leadership shapes economic success.



Economic development strategies are shifting in the 21<sup>st</sup> century.



<b>Rural Development Strategy Typologies</b>	
<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.
- Omaha is enjoying strong job and income gains.
- Historically, as economic recoveries strengthen, Nebraska's economy loses some steam.

***If Omaha wants to reach the next tier of great American cities, how will it attract and retain, the people needed to start new businesses, fill new jobs, and create a new economic vision?***

