

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

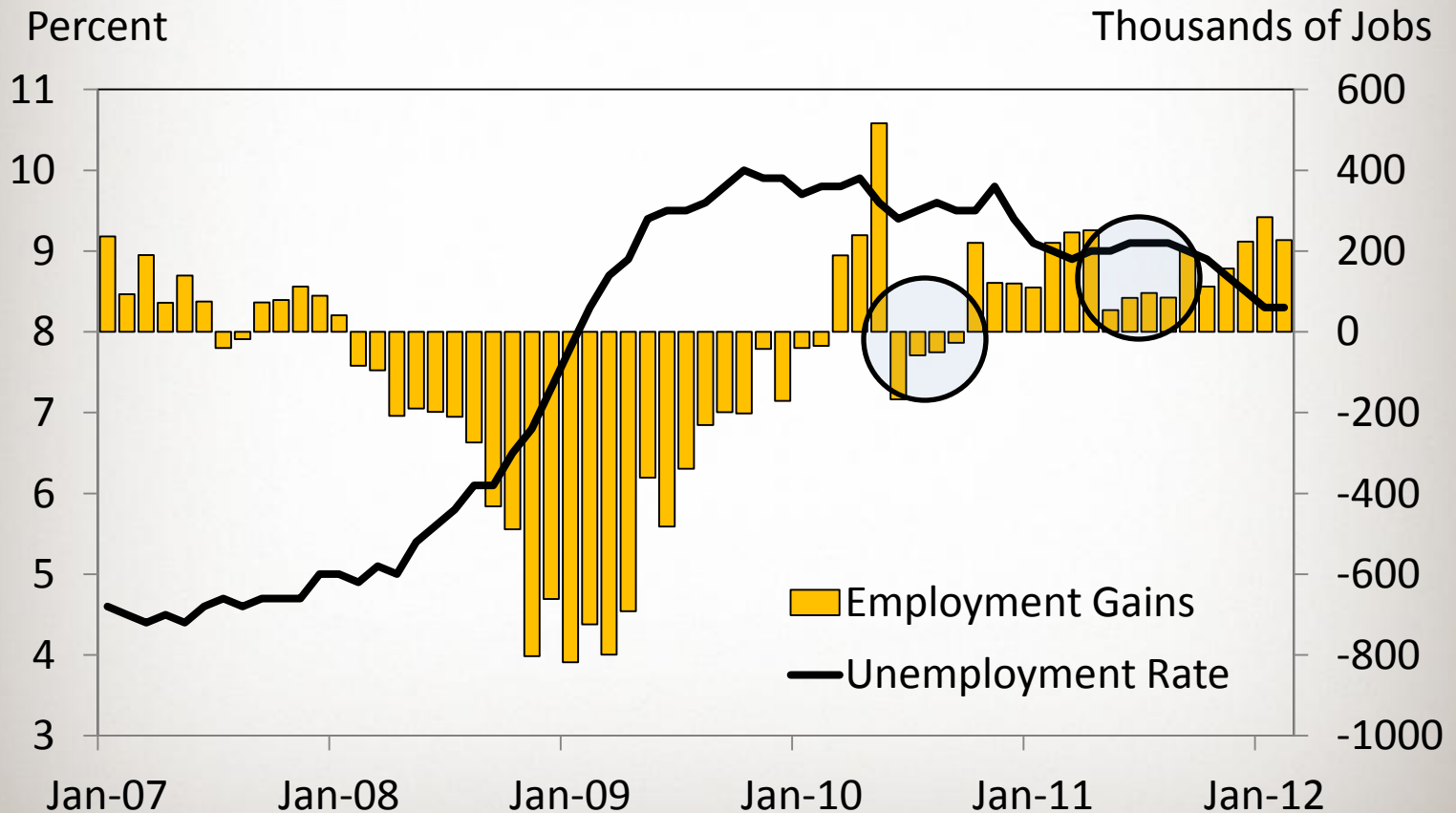
Source: Federal Reserve Board of Governors

What does this table suggest?

Depends on your perspective

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

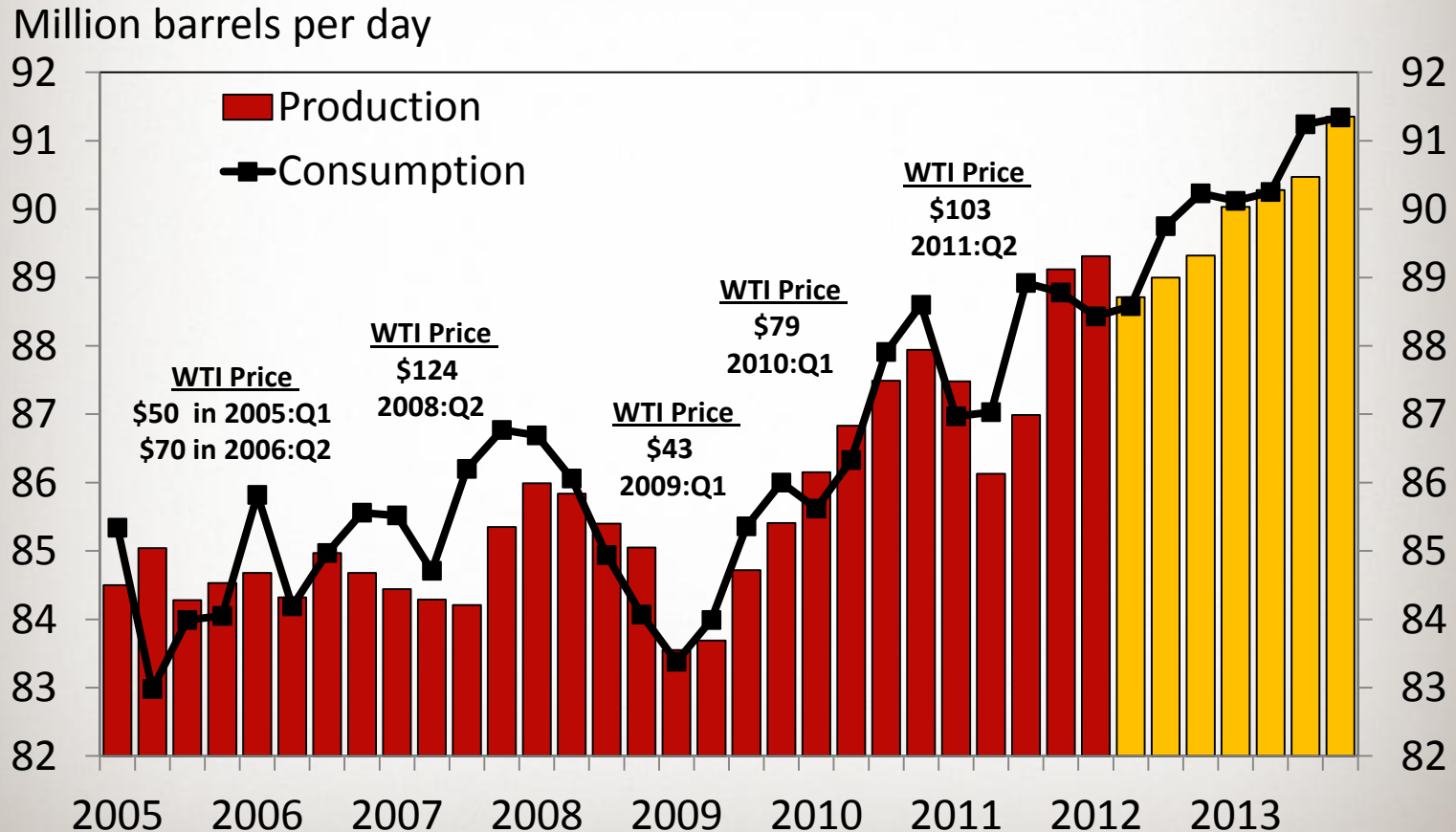
U.S. Unemployment Rate and Job Gains



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.

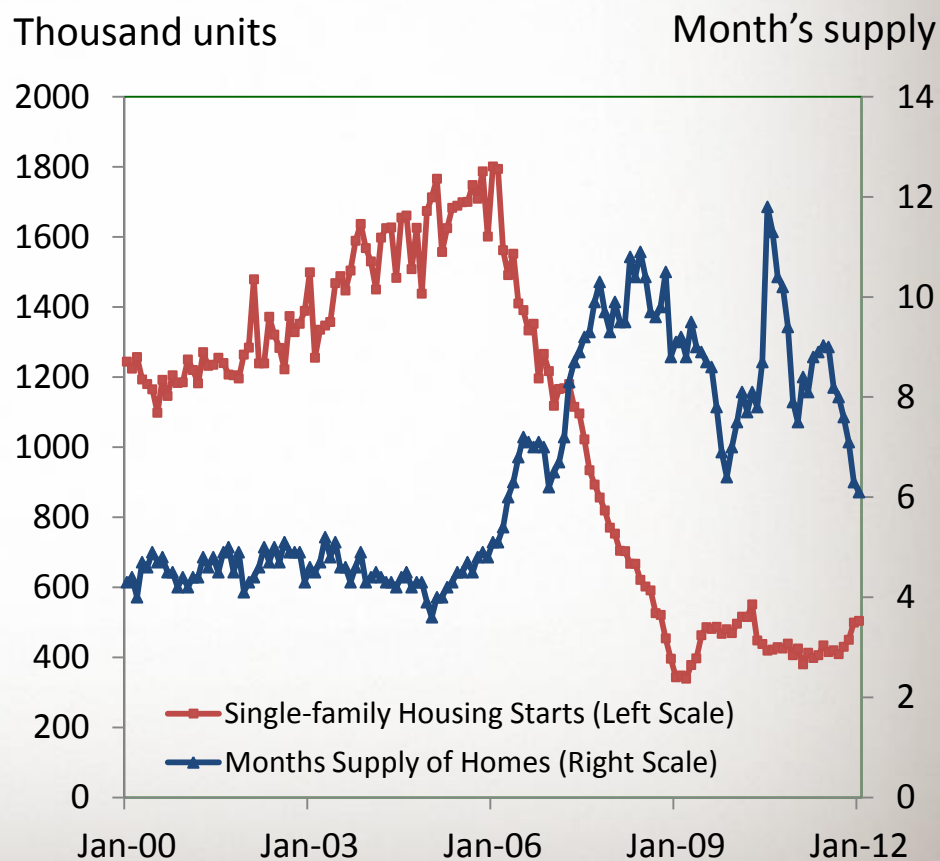
What will housing markets do this spring?



Has Housing Hit the Bottom?

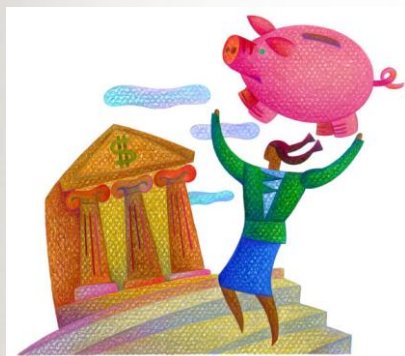
- Will lower supplies support prices?
- Will foreclosure rates moderate?
- How big is the “shadow” market?
- Can people qualify for a home loan?

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



Source: Census Bureau and National Association of Realtors

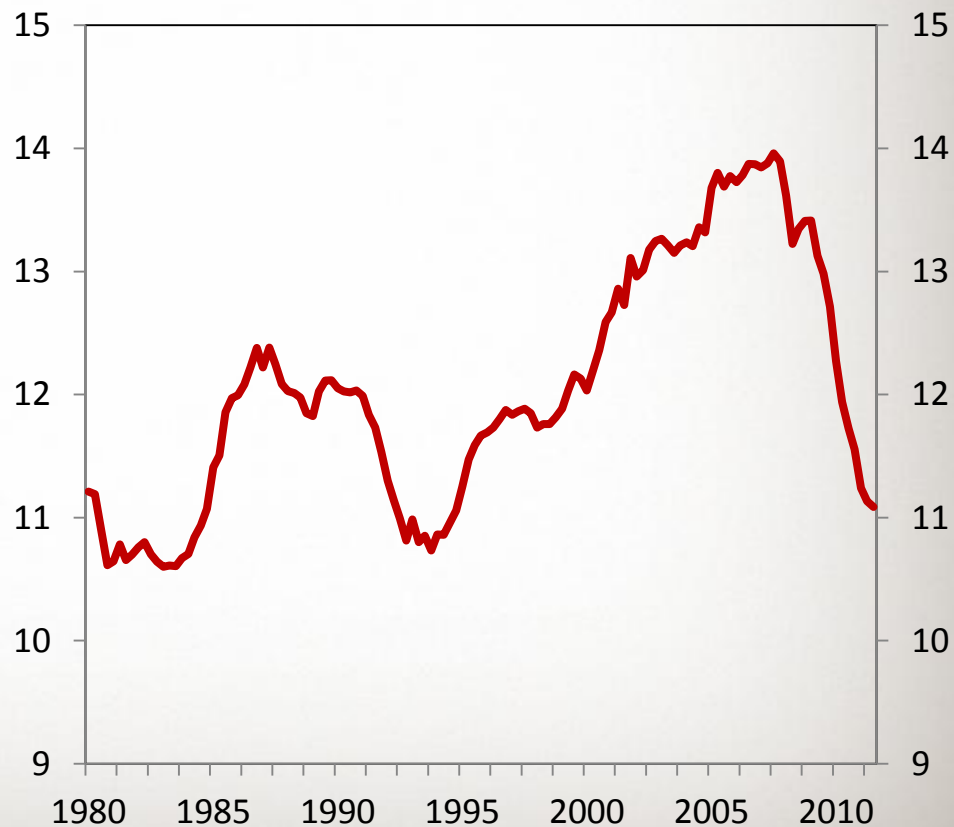
Is deleveraging about to end?



Savings Increase
Spending Slows
Deposits Rise
Lending Softens
Low inflation

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

Percent of disposable income

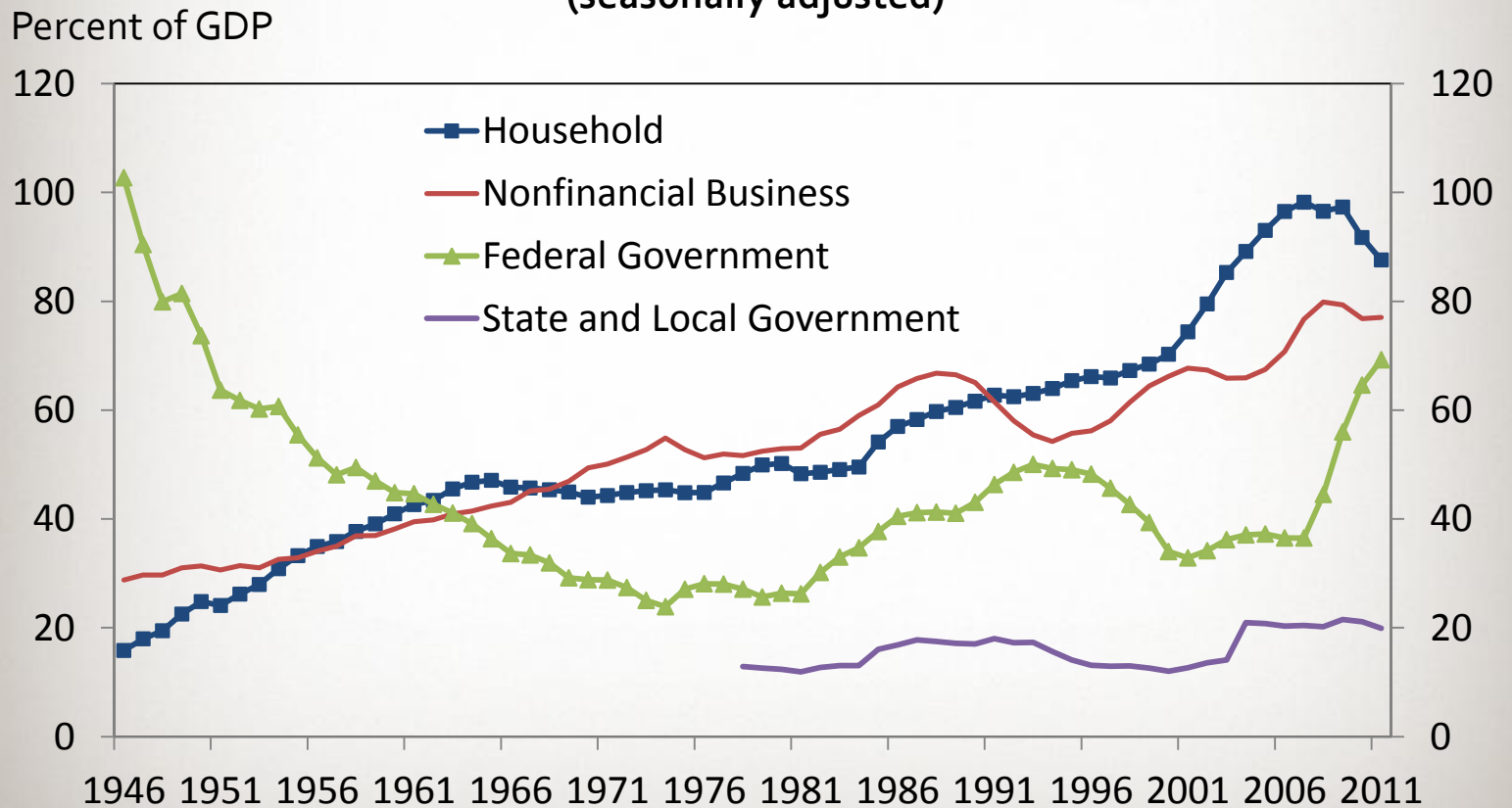


Source: Federal Reserve Board of Governors

Note: includes outstanding mortgage and consumer debt

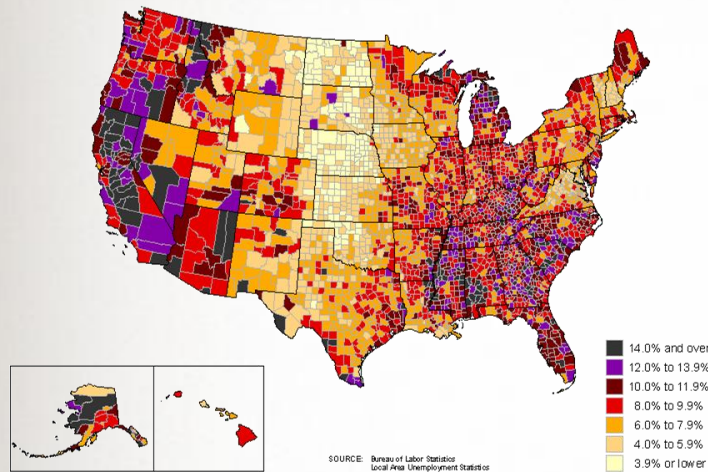
What are the consequences if the public sector begins to deleverage or if it does not?

U.S. Debt Outstanding (seasonally adjusted)



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

**Unemployment Rate
 2011**

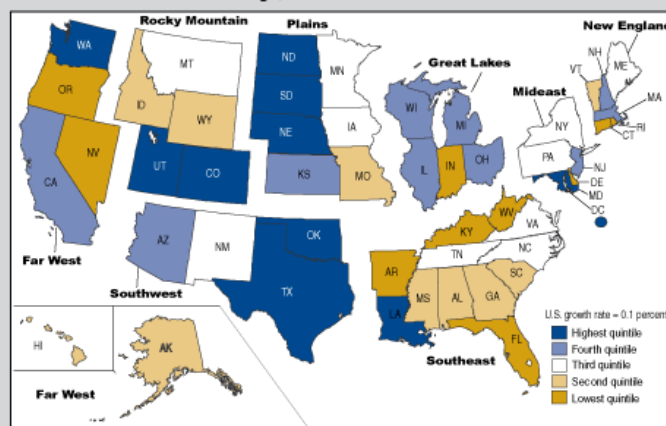


SOURCE: Bureau of Labor Statistics
 Local Area Unemployment Statistics

**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

Personal Income: Percent Change, 2011:II–2011:III



U.S. Bureau of Economic Analysis

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

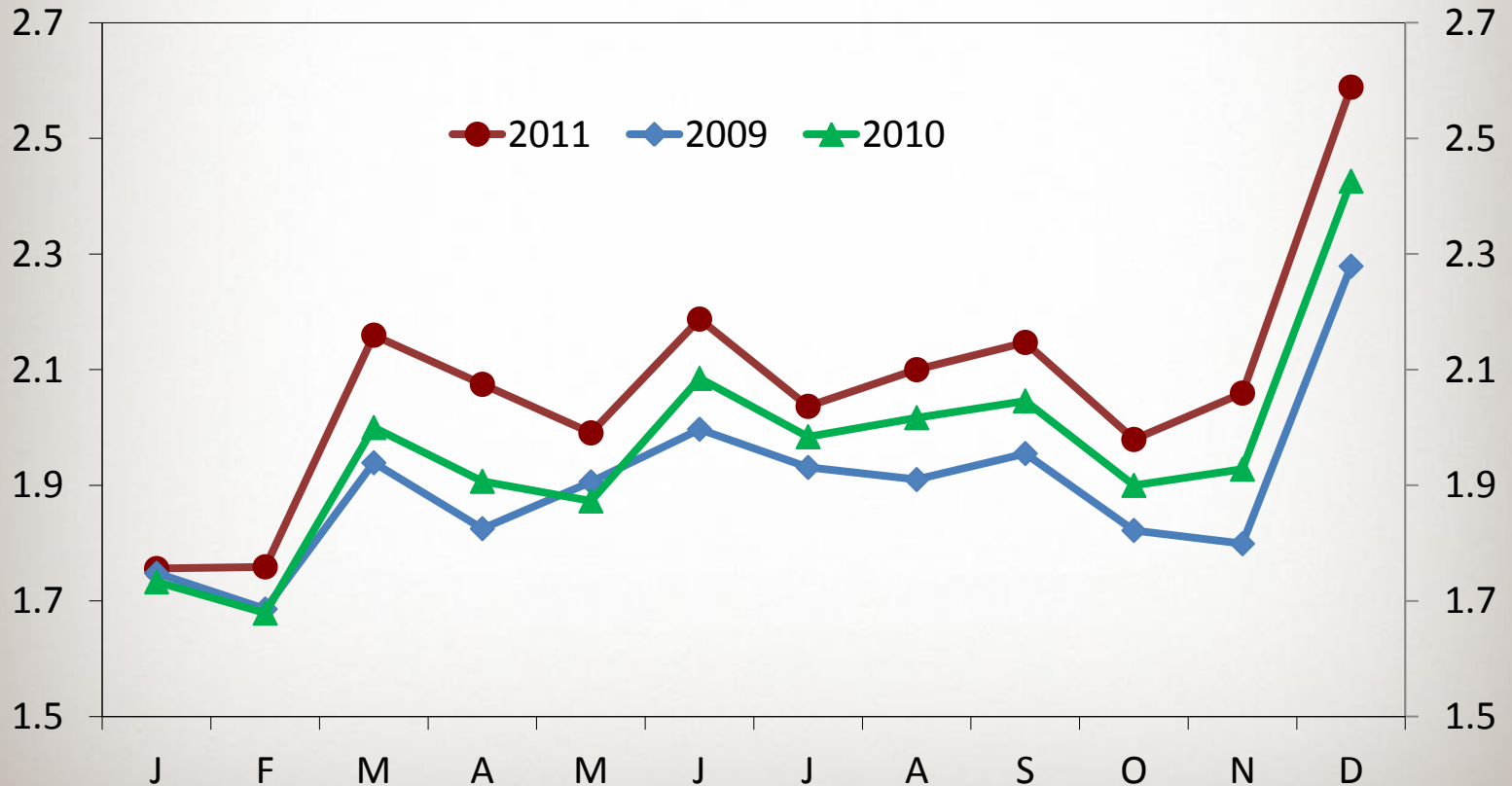


Source: Bureau of Labor Statistics and WISERTrade

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)

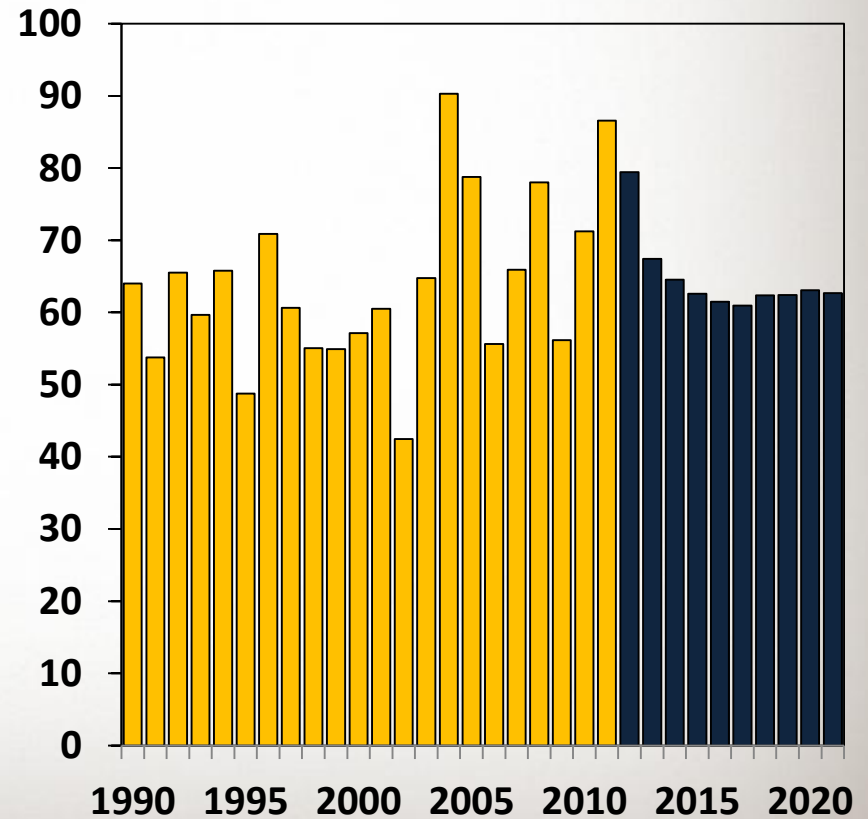
1990 to 2003: \$59 billion

2004 to 2011: \$73 billion

2012 to 2020: \$64.7 billion

U.S. Real Net Farm Income

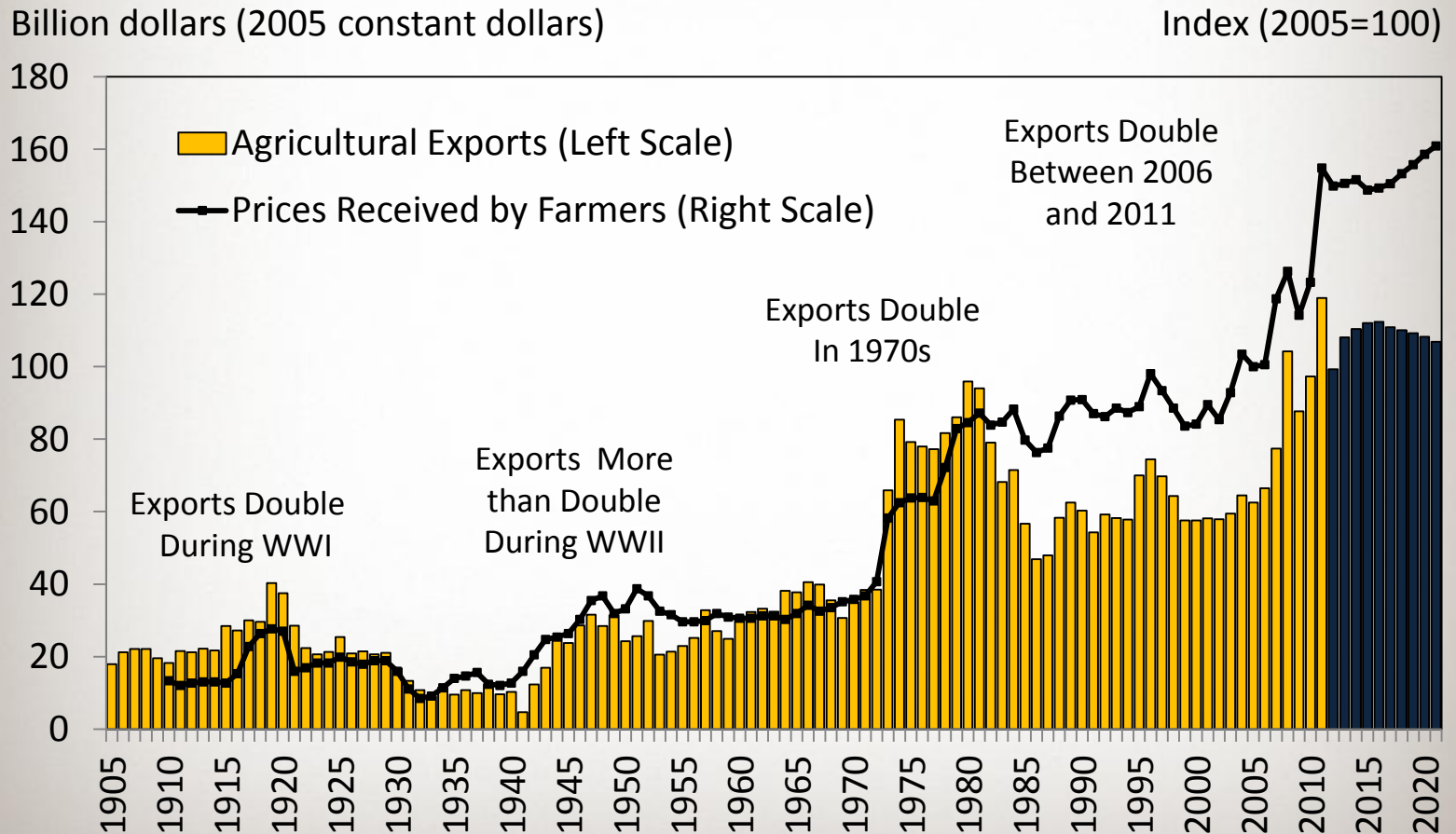
Billions (2005 constant dollars)



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

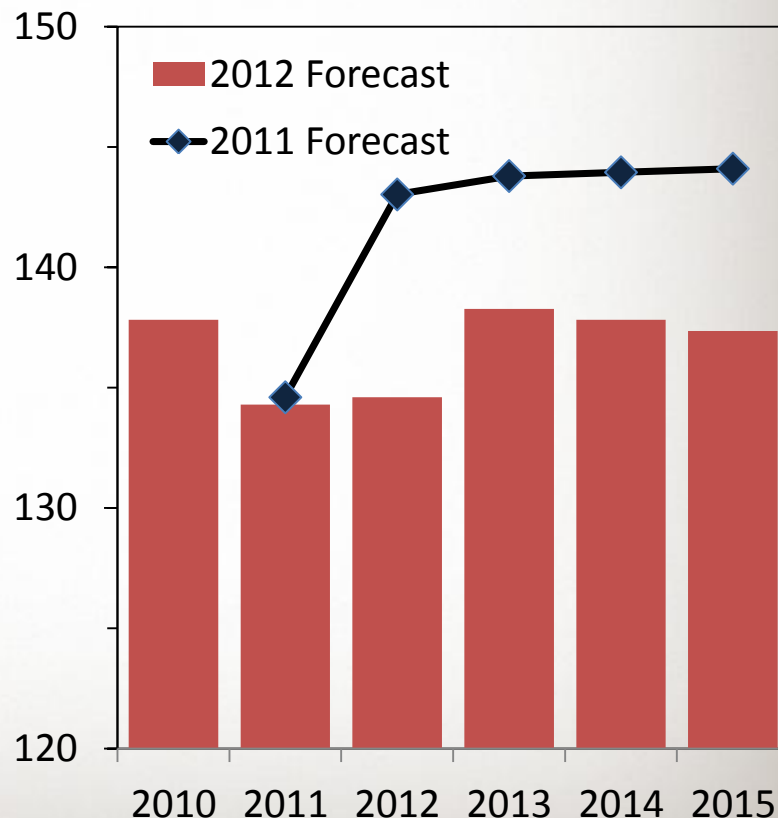
Today, 13.7 billion gallons

Current Ethanol Production Capacity

13.5 billion gallons with
522 million gallons under construction

U.S. Motor Gasoline Consumption

Billions gallons

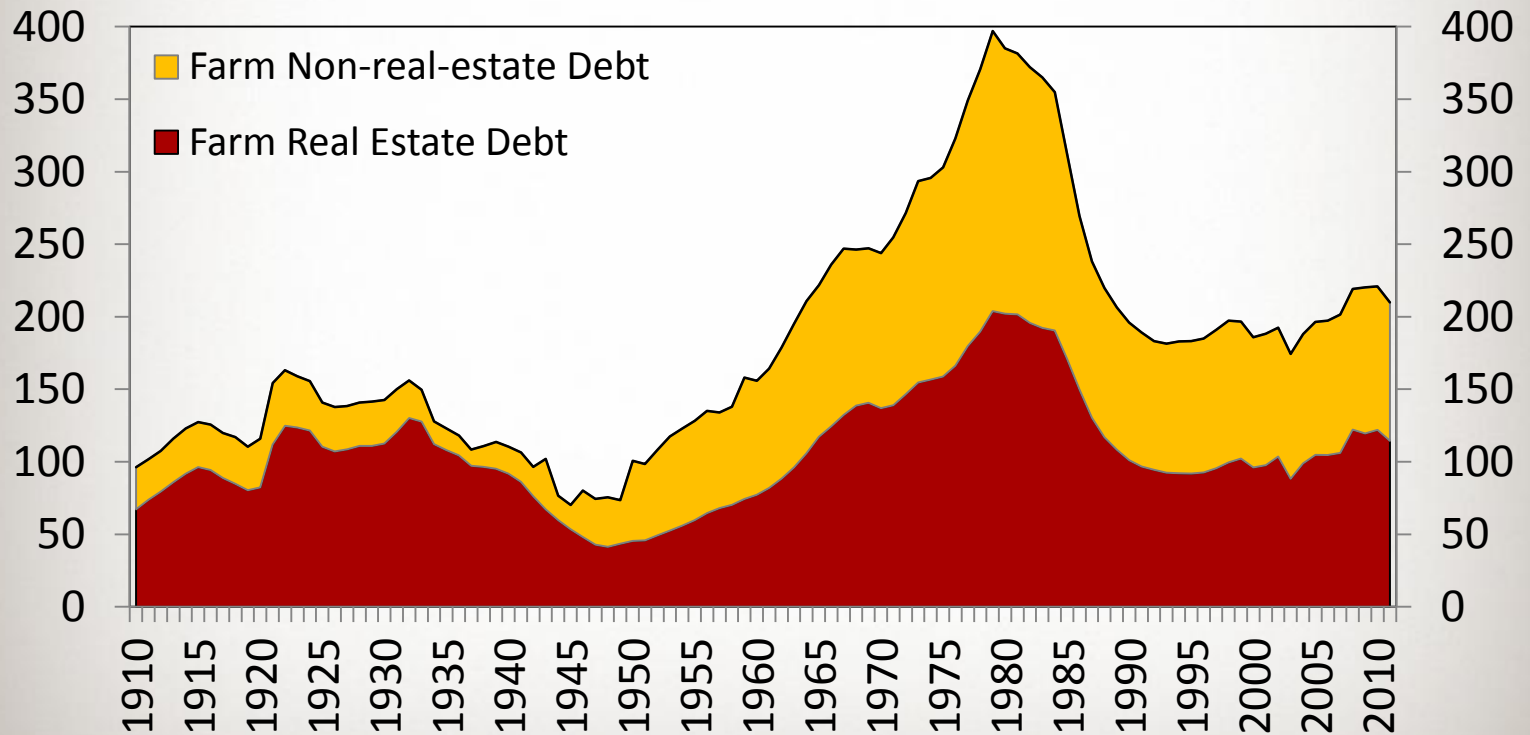


Source: EIA

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.