U.S. & Nebraska Economic Update

Nate Kauffman, Federal Reserve Bank of Kansas City
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Outlook Themes

• Nebraska’s economy has generally remained strong despite:
  • Slower job growth
  • Ongoing challenges in agriculture
  • Some signs of slower growth globally.

• Impacts from recent flooding may be significant, but are still uncertain.
Unemployment in Nebraska was historically low through 2018.

Source: BLS, Haver Analytics.
Employment growth remained steady, but modest toward the end of the year.

Source: BLS, Haver Analytics.
Several key industries have increased the pace of hiring compared with a year ago.

Employment Growth by Industry, January & February

<table>
<thead>
<tr>
<th>Industry</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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</thead>
<tbody>
<tr>
<td>Const. (5.3%)</td>
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<tr>
<td>Fin. Act. (7.3%)</td>
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<td>Leisure &amp; Hosp. (9.2%)</td>
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<td>Gov. (17.0%)</td>
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<td>Edu. &amp; Health (15.2%)</td>
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<tr>
<td>Prof. &amp; Bus. (11.6%)</td>
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<tr>
<td>Manuf. (9.6%)</td>
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<tr>
<td>Trade, Transp., Util (19.5%)</td>
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<td>Info. (1.7%)</td>
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Source: BLS, Haver Analytics.
Note: Percentages refer to share of total employment in Nebraska attributed to each industry.
Wage growth softened slightly in the fourth quarter, but remains near the pace of the U.S.

Source: BLS, Haver Analytics.
In addition to ongoing strength in labor markets, residential real estate markets still appear to be quite strong.

Source: National Association of Realtors, Zillow, Haver Analytics.
Note: 6 months of supply is considered a “neutral” market by realtors.
Commercial real estate markets in Omaha and Lincoln have also remained firm as vacancy rates edged lower.

Office Vacancy Rate

Industrial Vacancy Rate

Source: Torto-Wheaton Research.
Airport passenger traffic in Omaha continued to increase, but at a slightly slower pace in recent months.

Source: Omaha Airport Authority.
Consumer spending increased modestly in 2018 alongside a strong labor market.

Nebraska Net Taxable Retail Sales

Source: Nebraska Department of Revenue.
Despite the number of indicators pointing to ongoing strength, economic output in Nebraska slowed in 2018.

Source: BEA, Haver Analytics.
Ongoing challenges in the farm sector have weighed on economic growth each of the past two years.

Nebraska Real GDP by Major Industry, Q3

Source: BEA, Haver Analytics.
Note: Percentages refer to share of total GDP in Nebraska attributed to each industry.
Incomes in the farm sector have continued to decline.

Nebraska Farm Income

Diffusion Index

Source: Federal Reserve Bank of Kansas City.
Farm bankruptcies have also increased slightly over the past few years.

Most Farm Bankruptcies in 2018 by State

* Includes all chapter 12 filings which are defined as “family farmers” and “family fishermen” with “regular annual income”.

Source: United States Courts
Farmland values have remained relatively stable, despite modest declines in some states.

U.S. Farmland Values
Change from 2000 to 2013

U.S. Farmland Values
Change from 2013 to 2018

Source: USDA.
The effects of recent flooding could be significant, but may take time to fully assess.

Sources: NOAA’s National Weather Service, USDA, and staff calculations.
Global Economics, Trade and Monetary Policy
In 2017 and early 2018, a relatively strong global economy supported robust demand for food and ag products.

Source: Wolters Kluwer (Blue Chip Forecasts) and Haver Analytics.
Over the past year, however, growth projections have been revised lower.

Source: Wolters Kluwer (Blue Chip Forecasts) and Haver Analytics.
Business optimism has slowed recently and the pace of manufacturing activity has also softened.

Source: National Federation of Independent Businesses, ISM, China Federation of Logistics & Purchasing, CNBS, Haver Analytics.
Export growth also slowed as trade disputes intensified through 2018 and lingered toward the end of the year.

Source: Wiser Trade.
Ag exports to other regions have increased despite a sharp drop in exports to China.
Benchmark interest rates increased modestly in 2018.

Effective Federal Funds Rate

Source: Federal Reserve Board of Governors, Haver Analytics.
Concluding Thoughts

- Challenges in agriculture appear likely to persist in 2019 alongside low commodity prices and concerns about recent flooding.

- Despite the challenges in rural areas of the state, growth in metro areas seems likely to continue, albeit modestly, alongside strong labor markets.
Questions?

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