Nebraska Economist

Uncertainty Clouding a Conclusive Assessment of Nebraska’s Economy

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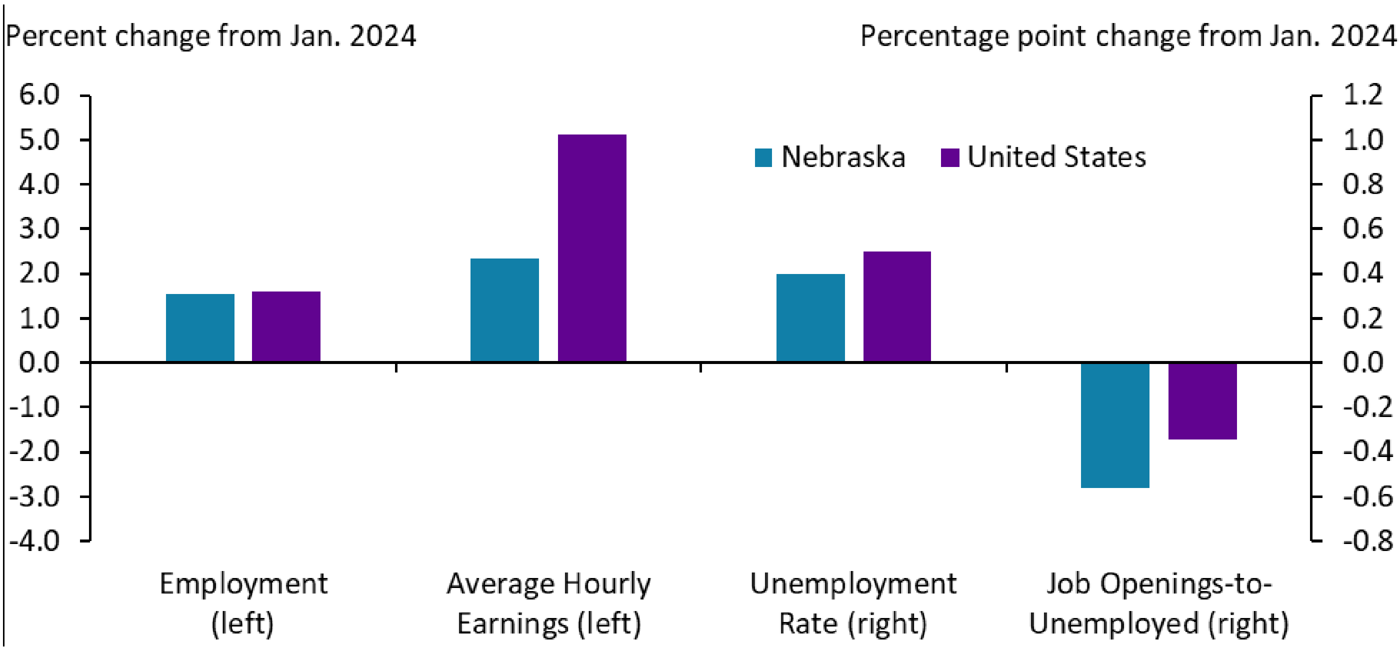
Some economic data suggest that labor markets in Nebraska have remained solid, though perhaps somewhat cooler than a year or two ago. Other data indicate that conditions appear to be weakening or could deteriorate more substantially in the months ahead. Heightened levels of uncertainty may be one explanation behind this divergence, where empirical data have generally pointed to stronger conditions than some forward-looking sentiment-based measures. While it is possible that labor market conditions may deteriorate in the months ahead alongside the significant uncertainty, it is also possible that uncertainty has been affecting sentiment negatively. In either case, history suggests that adverse effects of uncertainty on the labor market have been less pronounced in Nebraska than other parts of the country.

Since early 2024, the economy in both Nebraska and the United States has remained solid, despite moderating somewhat. At the state level, and nationally, employment has expanded by approximately 1.5 percent from a year ago alongside sustained wage increases (Chart 1). At the same time, the unemployment rate has ticked up only slightly and the job openings-to-unemployed ratio – an additional measure of labor market strength – has softened modestly. Although businesses have faced fewer difficulties hiring workers in recent months, job and wage growth have remained steady, suggesting that the labor market appears relatively balanced.

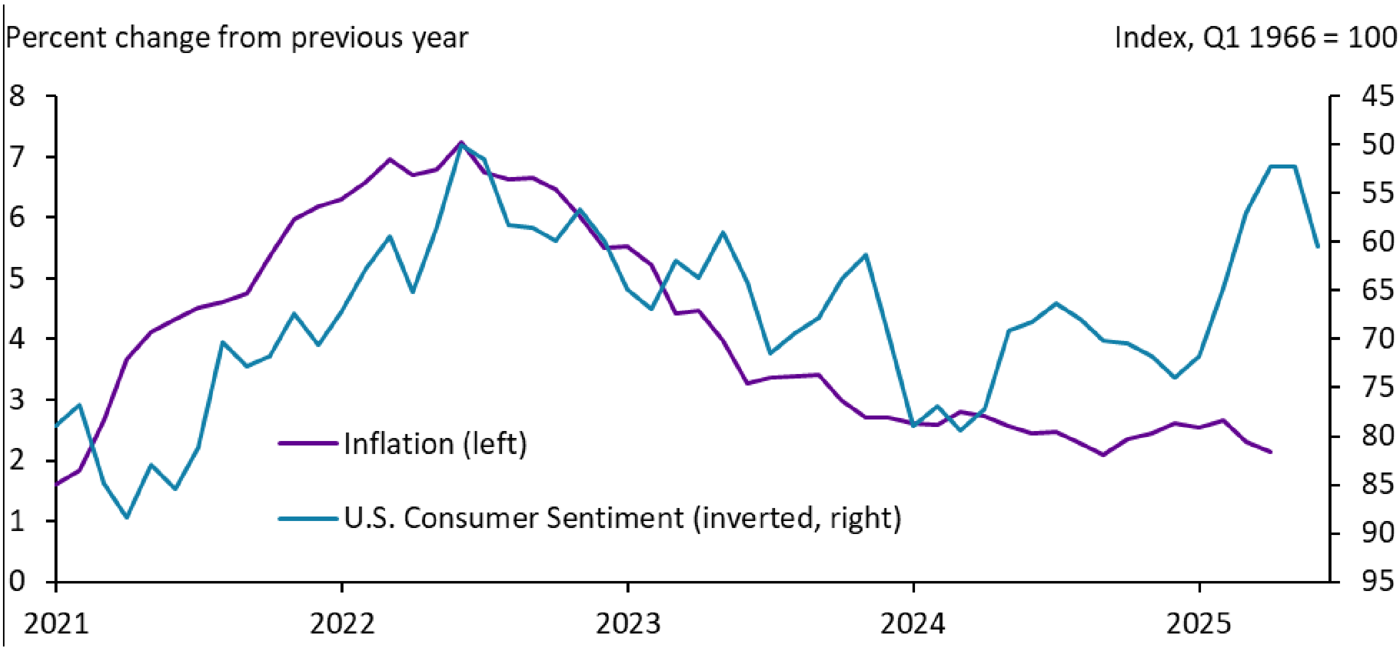
Chart 1. Labor Market Indicators for Nebraska and the United States



Note: employment, average hourly earnings, and unemployment rate reflect May 2025 data. Job openings-to-unemployed reflect April 2025 data.
Sources: BLS (Haver Analytics).

Despite solid labor market data in recent months, many consumers have viewed the economy negatively since the beginning of the year. As measured by a nationwide survey of consumers, sentiment decreased by nearly 20 percentage points between January and May this year (Chart 2). The sentiment index of 52.5 in April and May of 2025 was the lowest since June 2022 when inflation had surged to more than 7 percent. In contrast to 2022, inflation has been more subdued and employment data have generally remained strong so far this year perhaps raising questions about why consumer sentiment about the economy has been so negative.

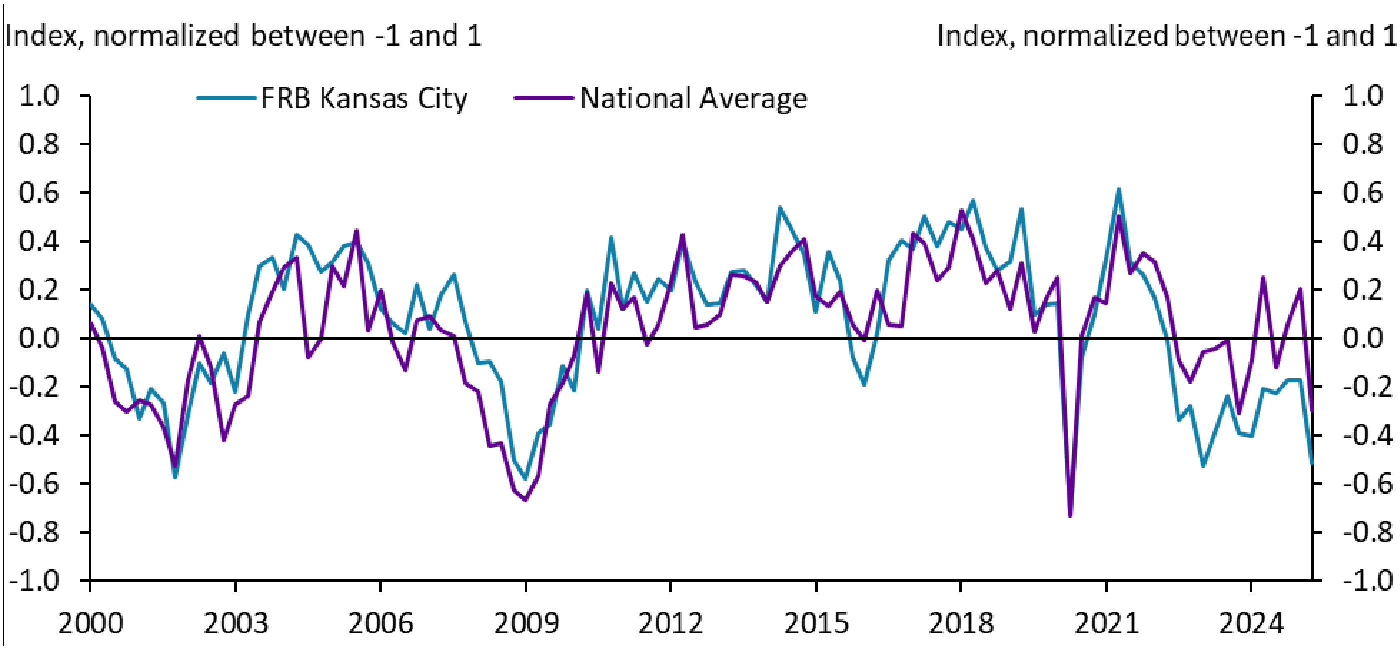
Chart 2. Inflation and Consumer Sentiment



Sources: BEA (Haver Analytics) and University of Michigan (Haver Analytics).

Other anecdotal information has also been negative, both nationally and within the region. Recent efforts at quantifying the Federal Reserve's Beige Book – a compilation of anecdotes from businesses collected by each Federal Reserve Bank and released regularly – show that business sentiment in the Kansas City Fed's region has been negative for some time (Chart 3). While not as persistent as the sentiment in the region, the average sentiment across the nation has also been negative more often in recent Beige Book releases.

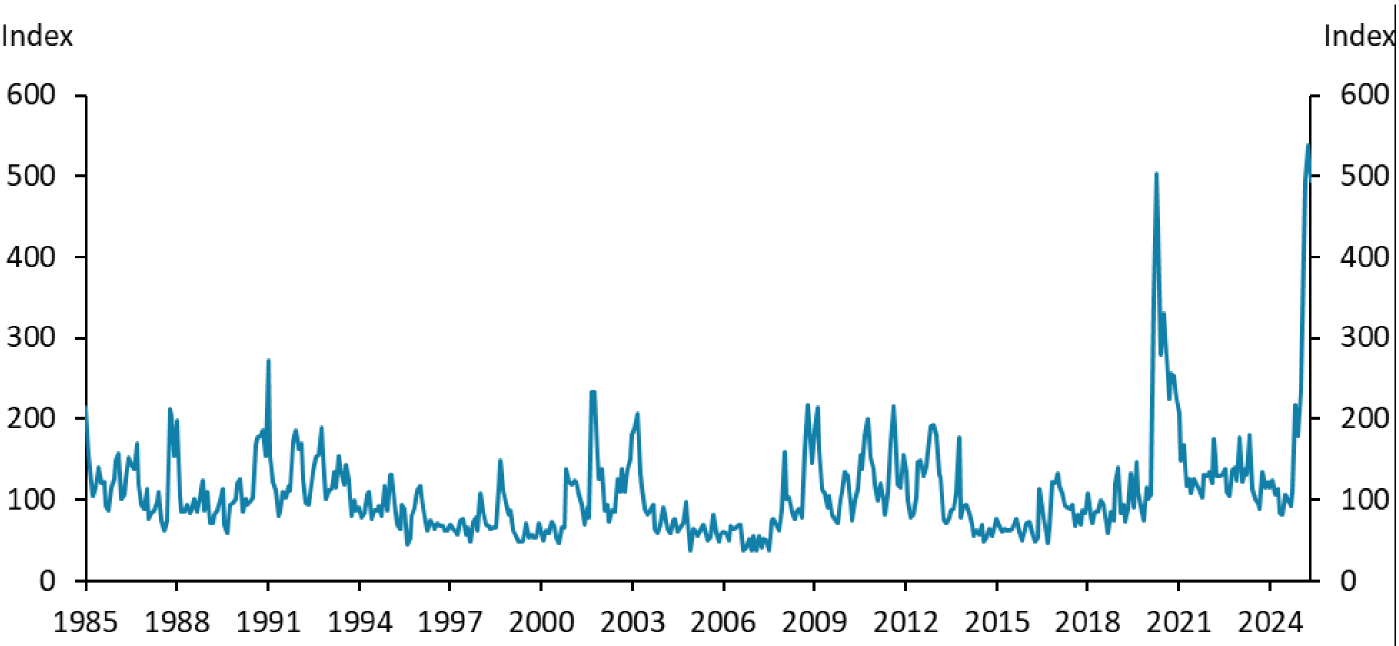
Chart 3. Beige Book Sentiment Index



Sources: Filippou, Ilias, Christian Garciga, James Mitchell and My T. Nguyen (2024).

Uncertainty has risen dramatically in recent months, however, and may be one factor that potentially explains some of the weaker, sentiment-based or anecdotal data. Uncertainty pertaining to economic policy specifically, captured by measuring sentiment expressed by newspapers from across the country, reached a 40 year high in April 2025 (Chart 4). Notably, the measure in April even exceeded levels observed in the early months of the pandemic.

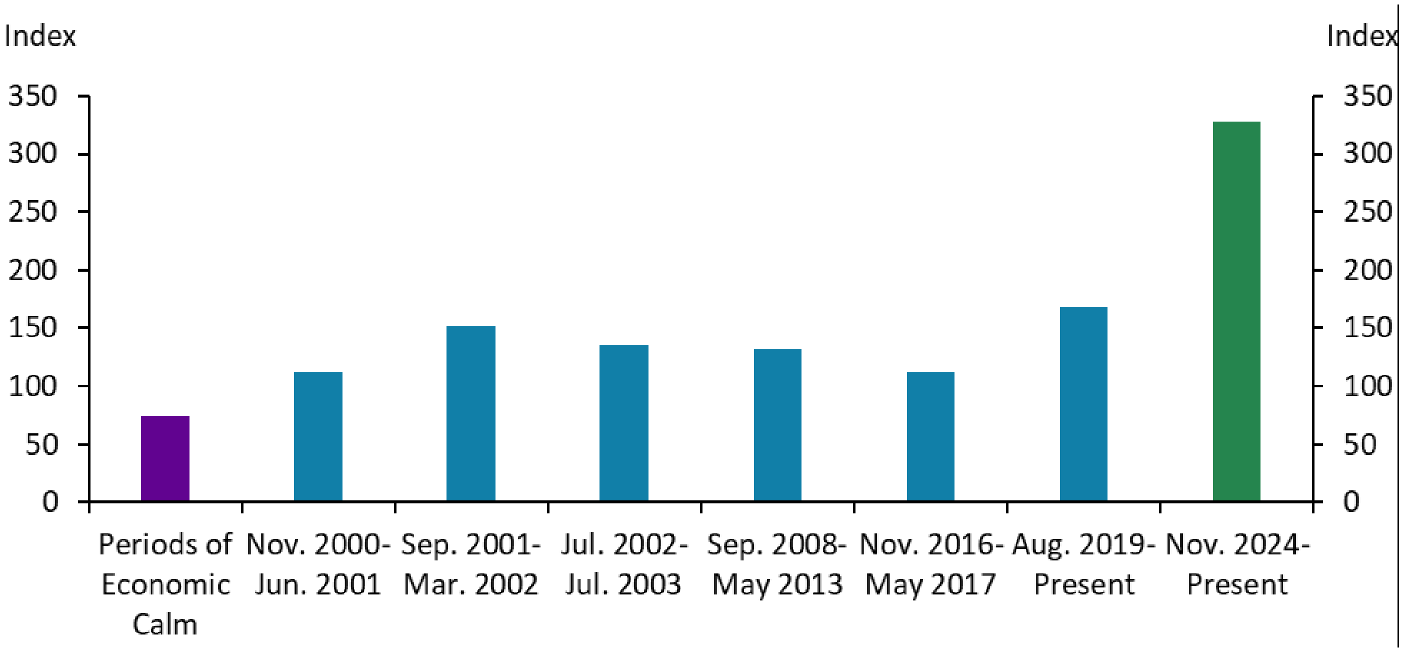
Chart 4. Economic Policy Uncertainty Index



Source: PolicyUncertainty.com

While uncertainty in recent months or early in the pandemic may be more easily apparent when visualized, periods of elevated economic uncertainty have occurred with some regularity over time. Since 2000, there have been six periods of time when economic policy uncertainty has exceeded levels that might be considered relatively normal (Chart 5). Until recent months, periods of heightened uncertainty typically exceeded those that persisted during periods of "economic calm" by about 50 index points. Between November 2024 and May 2025, however, economic policy uncertainty increased dramatically, exceeding periods of economic calm by more than 250 index points. (See note below the chart for a description of how this index was calculated.)

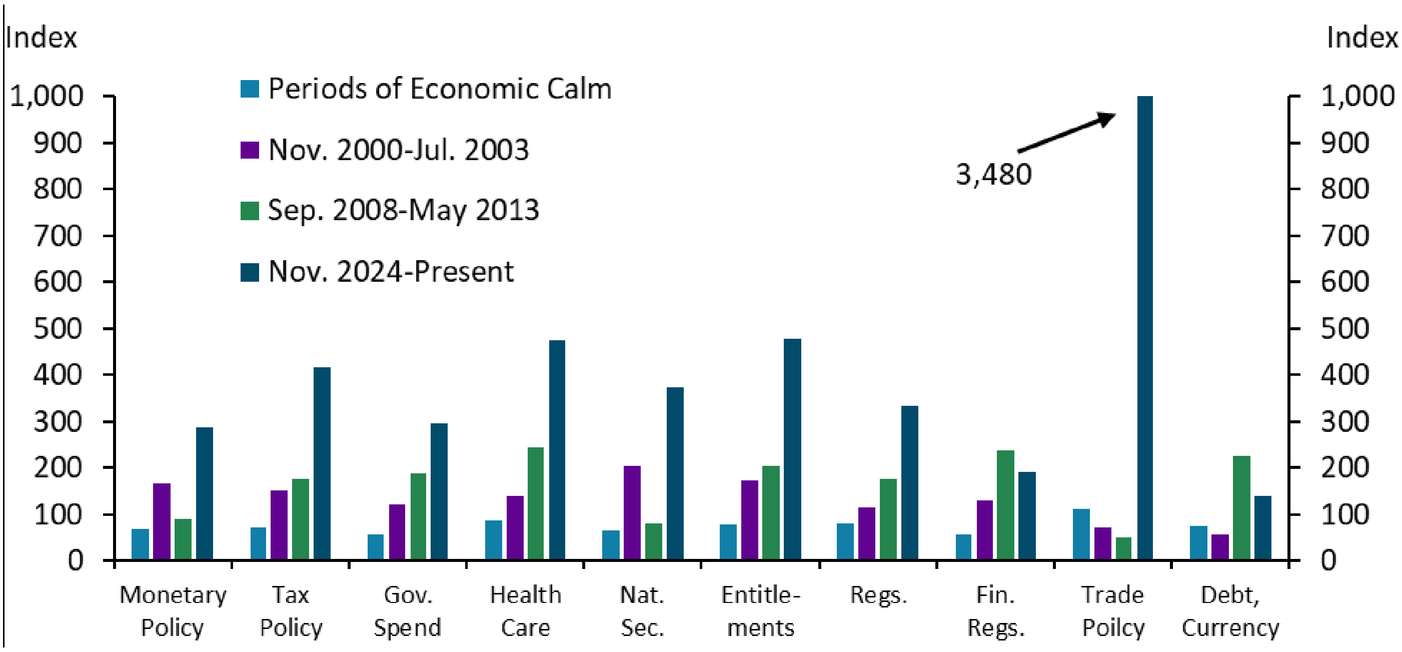
Chart 5. Average Economic Policy Uncertainty



Note: Periods of heightened uncertainty are those where, on a rolling basis, the economic policy uncertainty index in 4 of the 6 previous months exceeds the 1985—2019 average index value. Periods of economic calm, in contrast, are periods where the economic policy uncertainty index is less than the1985—2019 average value.
Sources: PolicyUncertainty.com, authors' calculations.

A large portion of the recent uncertainty has been driven by trade policy, but other areas have also contributed significantly to economic policy uncertainty in 2025. Since November 2024 uncertainty has been higher in nearly every policy area when compared to other periods of heightened uncertainty so far this century (Chart 6). In contrast, prior periods of uncertainty tended to be centered around one or two primary causes. For example, between 2000 and 2003, uncertainty arising from national security policy spiked in the wake of the September 11th attacks and the invasion of Iraq. Between 2008 and 2013, government negotiations surrounding the response to the financial crisis, the passage of the Affordable Care Act, and debates around raising the debt ceiling in 2013 contributed to elevated uncertainty. In these past instances, the primary factors driving heightened uncertainty usually increased over calmer periods by a factor of three or four. In contrast, the trade policy uncertainty index since November has been nearly 35 times higher than in periods of economic calm.

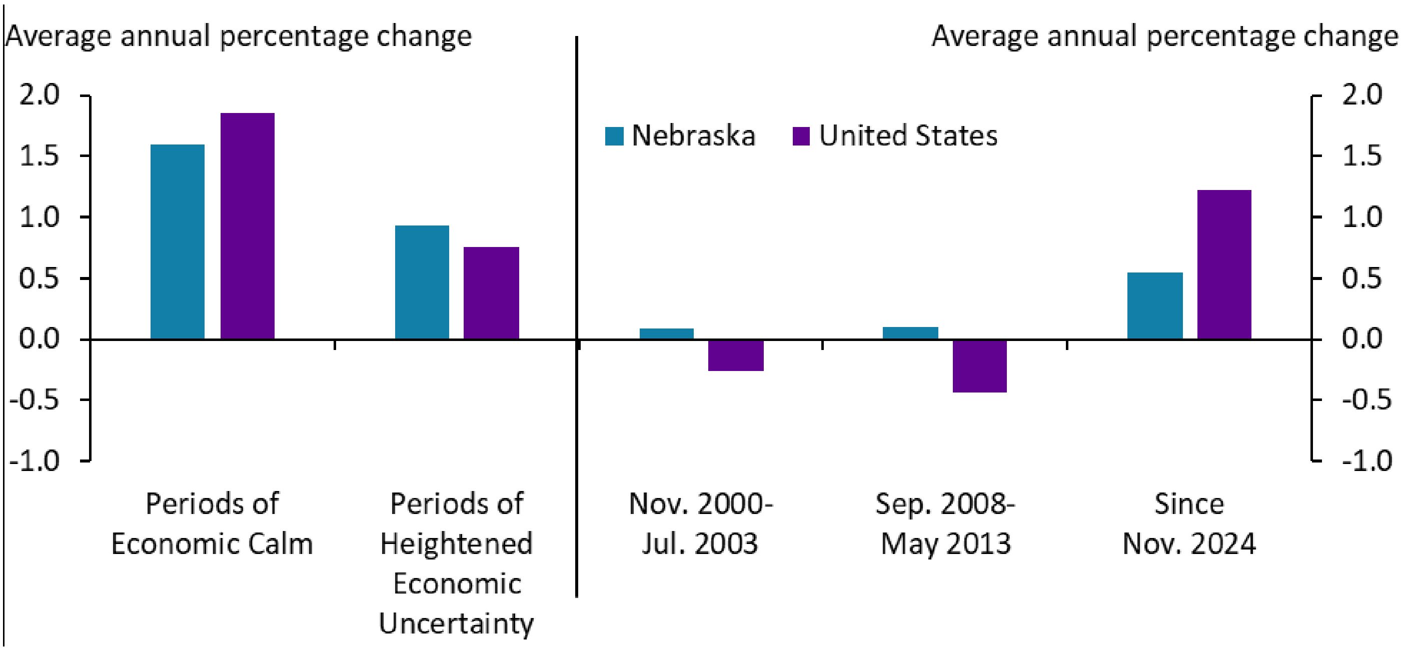
Chart 6. Drivers of Economic Policy Uncertainty



Sources: PolicyUncertainty.com, authors' calculations.

Historically, periods of economic uncertainty have tended to coincide with reduced employment growth. In Nebraska, employment has expanded by an average of 1.5 percent per year in periods of economic calm, compared to growth of just 0.9 percent during periods of heightened economic uncertainty (Chart 7). The pattern has been similar for the country as a whole. While recent employment growth in the current period of heightened uncertainty has been stronger than in the past, job growth has still been weaker than during periods of economic calm.

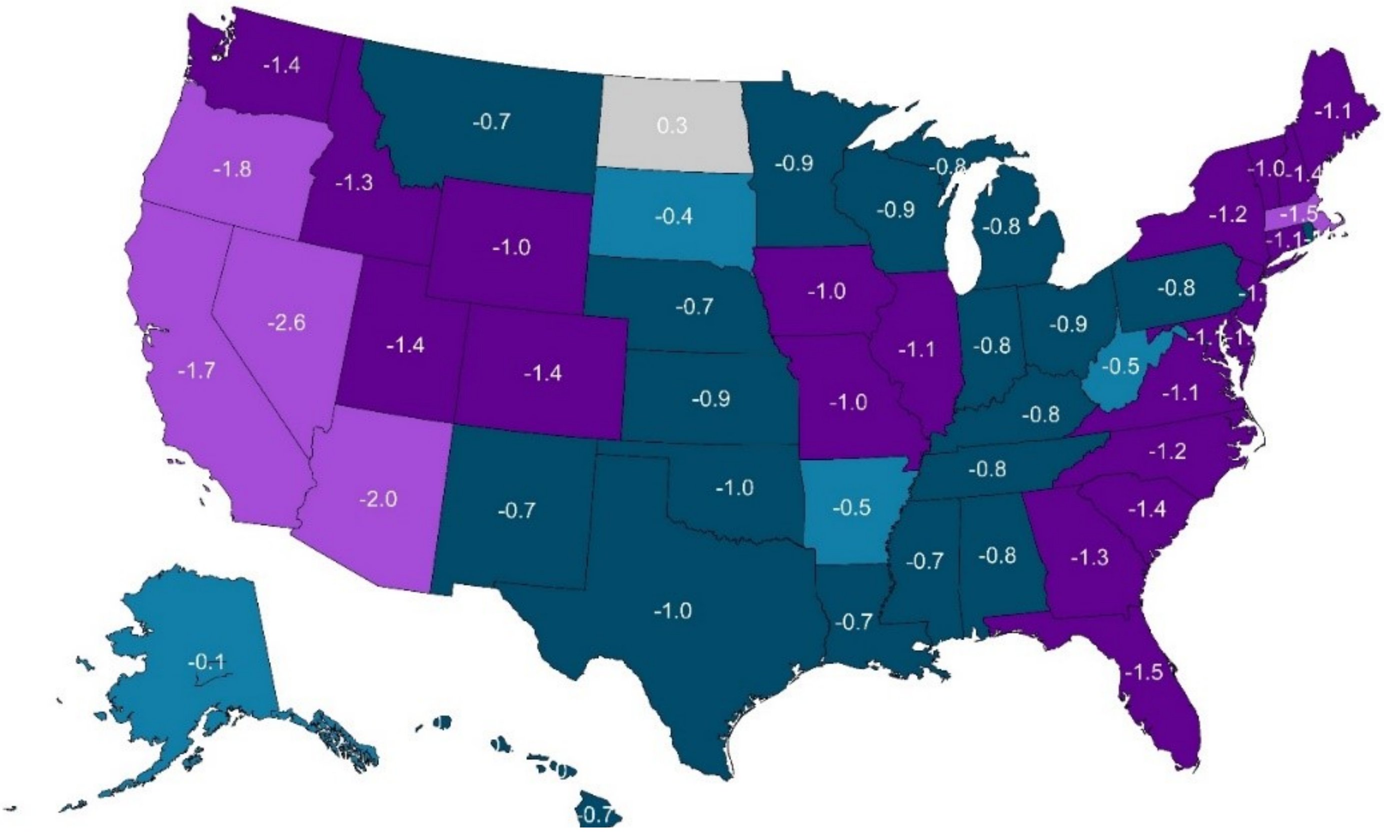
Chart 7. Employment Growth in Periods of Uncertainty



Sources: BLS (Haver Analytics), PolicyUncertainty.com, authors' calculations.

Though prolonged uncertainty may be a risk to labor markets in Nebraska, slower job growth has been less pronounced in the state during periods of significant economic uncertainty than elsewhere. Employment growth during periods of economic uncertainty in Nebraska has been 0.7 percentage points lower than during periods of economic calm, a smaller impact than all of the state's neighbors other than South Dakota (Map 1). Slower growth during times of economic uncertainty has been particularly pronounced in the southwest and along the coasts. Should economic uncertainty remain at record levels, we might expect labor markets to weaken in Nebraska but likely not as much as in other states.

Map 1. Difference in employment growth during periods of economic uncertainty than in periods of economic calm



Elevated economic policy uncertainty, and the negative sentiment it has generated, has the potential to result in weaker labor market conditions looking ahead. However, this outcome is not guaranteed, and other economic data have suggested that Nebraska's economy has remained resilient. Moreover, history has suggested that, although job growth may be slower in a highly uncertain economic environment, growth in Nebraska has tended to be more stable than most other states.

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Media

Sources: BLS (Haver Analytics), PolicyUncertainty.com, authors' calculations.