

# Economic Outlook for Nebraska (and Lincoln)



**PRESENTED TO  
THE LINCOLN CHAMBER OF COMMERCE  
PUBLIC POLICY FORUM  
JUNE 23, 2010**

**ERIC THOMPSON, DIRECTOR  
UNL BUREAU OF BUSINESS RESEARCH &  
NEBRASKA BUSINESS FORECAST COUNCIL  
ETHOMPSON2@UNL.EDU**

# Outline

2

- Macroeconomic outlook
- Nebraska employment outlook for 2010 and 2011
- Nebraska income and population outlook
- Situation in Lincoln

# Forecast Process

3

- UNL Bureau of Business Research develops a preliminary 3-year economic forecast from a statistical model
- Nebraska Business Forecast Council meets to review the preliminary forecast based on:
  - Industry contacts
  - Council member research
- Final forecast report is developed

# Macroeconomic Outlook

4

- On balance, the recovery should continue, though the pace of recovery will be modest and there is meaningful risk of a “double dip” recession
- Positives
  - Homes are less overpriced and consumer spending is more inline with income.
  - Income growth supports consumption growth - some job growth and growing weekly hours mean rising wage income
  - Improvements in corporate profits encourage business investment
  - The Federal Reserve will remain very accommodative
  - Strength in Asia, especially China

# Macroeconomic Outlook

5

- **Negatives**
  - Construction sector – hurting rather than helping, double-dip in home prices
  - Policy environment
    - ✦ New regulations – health care, finance, energy, etc...
    - ✦ Continued expansion of federal spending, including health care entitlements
  - European Contagion

# Reasons for Better Performance in Nebraska

## Relative Strength of Key Industries

6

### Major Nebraska Industries

Agriculture

Insurance

Manufacturing Related To Agriculture

Transportation

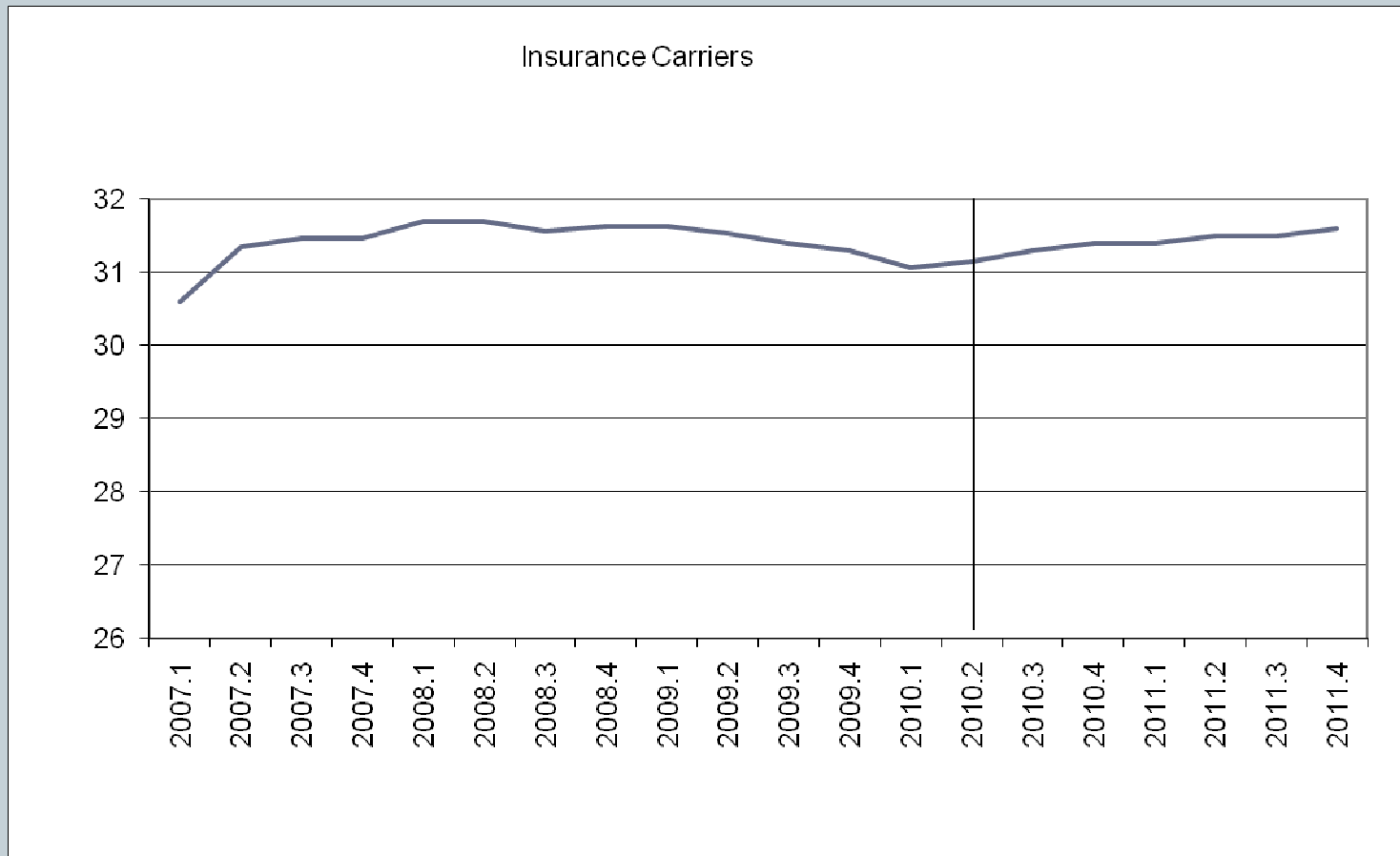
The first two are performing relatively well in current recession

# Reasons for Better Performance in Nebraska Agriculture

7

- **Farm Income**
  - There was a big drop in farm income in 2009 from record levels in 2008.
  - But, 2009 incomes were above the 10-year average, and growth is expected in 2010 and 2011
- **Therefore, 2010 will be a good year for agriculture and a source of growth**
  - Rebalancing of the industry – improvement in conditions for livestock producers

# Reasons for Better Performance in Nebraska Strength of Insurance Carriers Industry



# Reasons for Better Performance in Nebraska

## Fewer Problems with Property Values and Unemployment



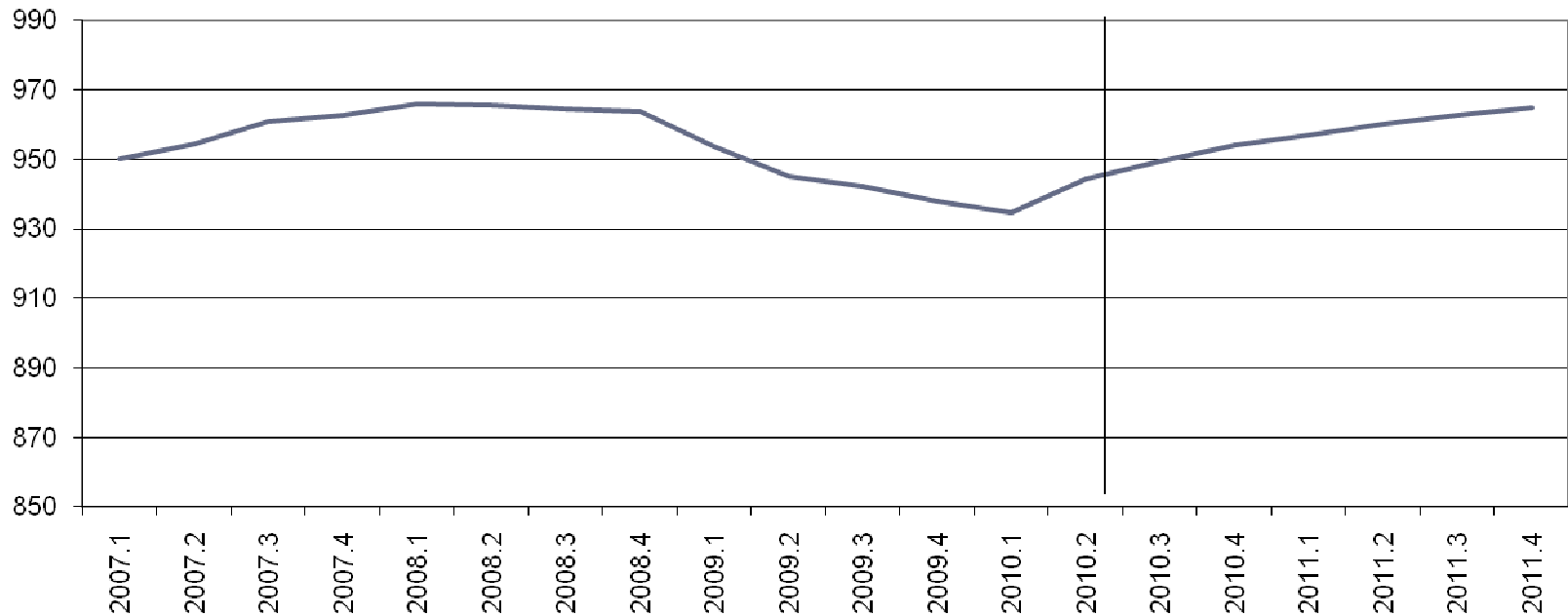
- Nebraska never had a significant bubble in housing prices, so it also never had a drastic decline
- Nebraska has maintained one of the lowest unemployment rates in the country
  - This is due to the quality of the labor force
- Nebraska consumer is in better shape, in terms of changes to wealth and income

# Employment Trends and Outlook

## Non-Farm Employment

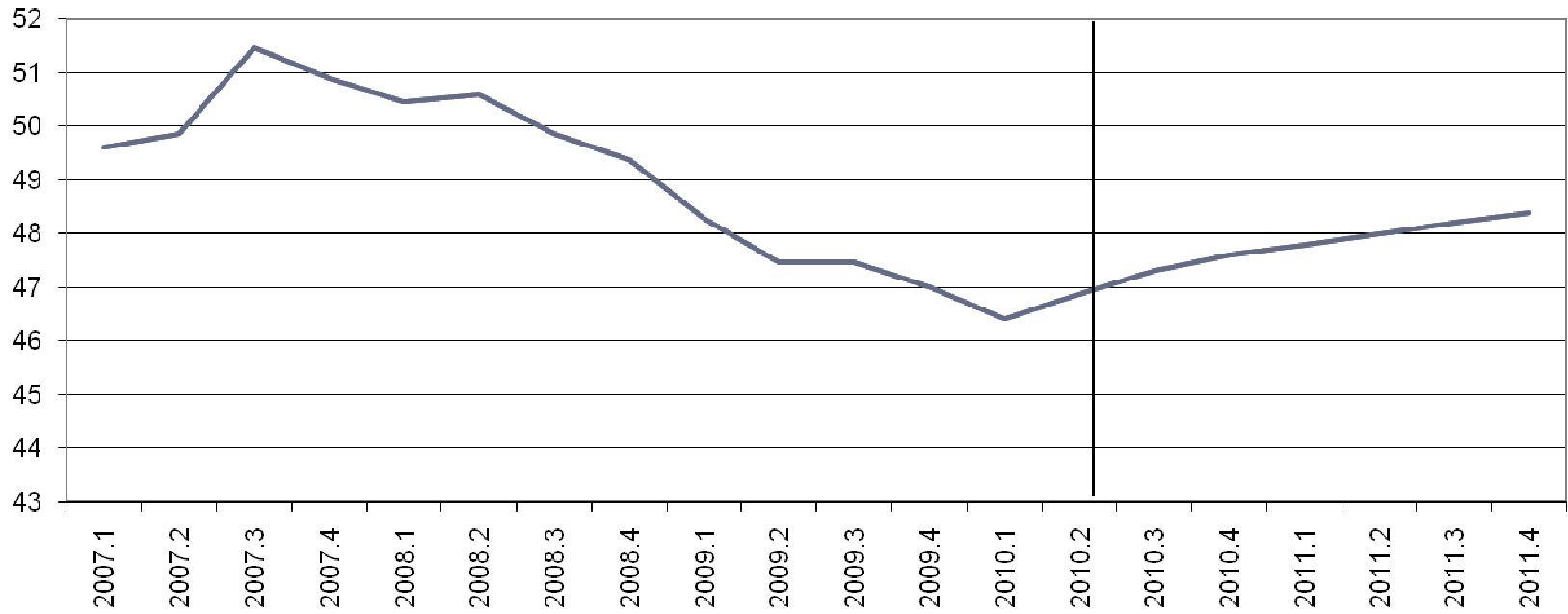
10

Non-Farm Employment



# Employment Outlook (pro-cyclical sectors) Construction Employment

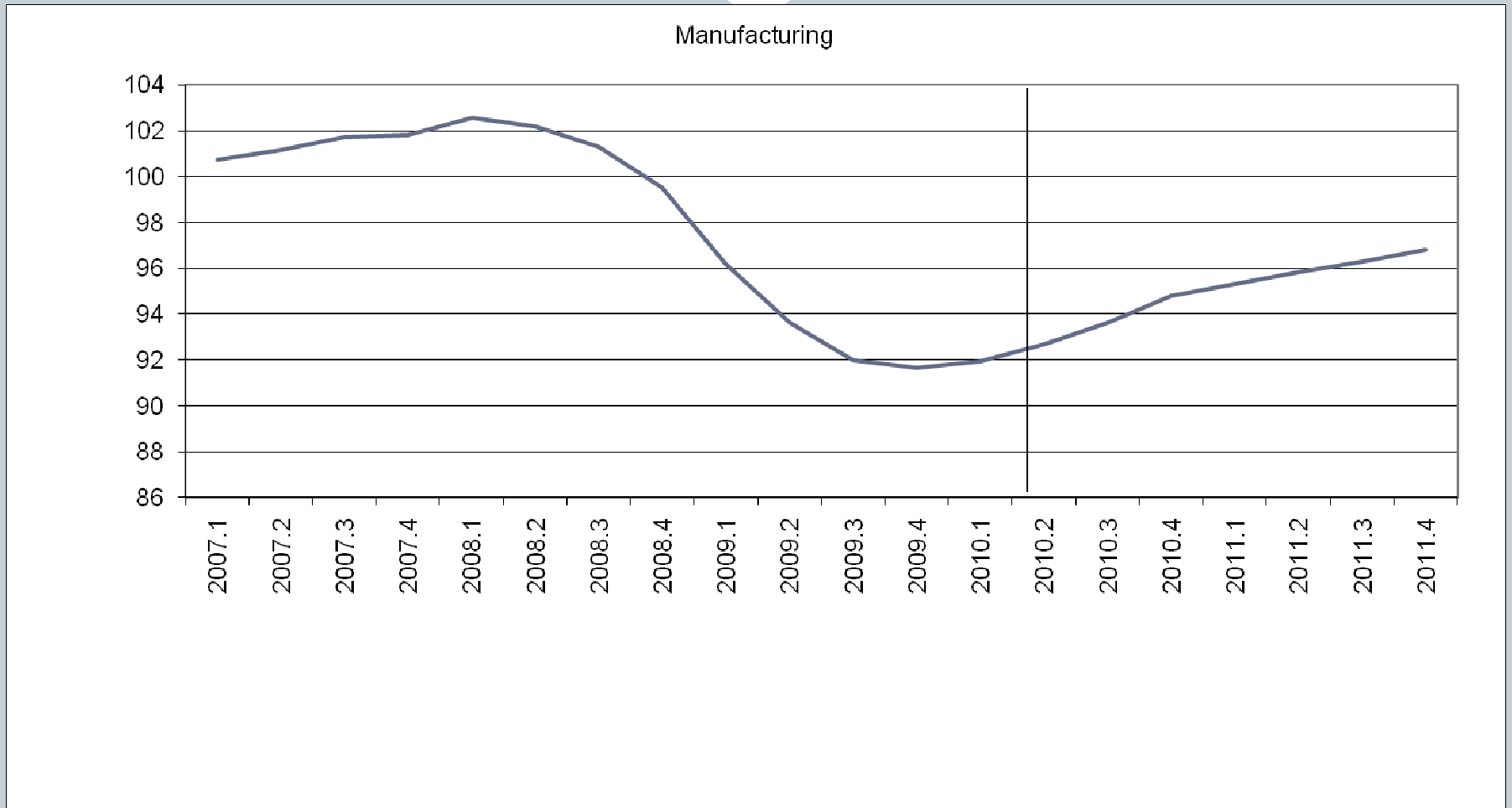
Chart Title



# Employment Outlook (pro-cyclical sectors)

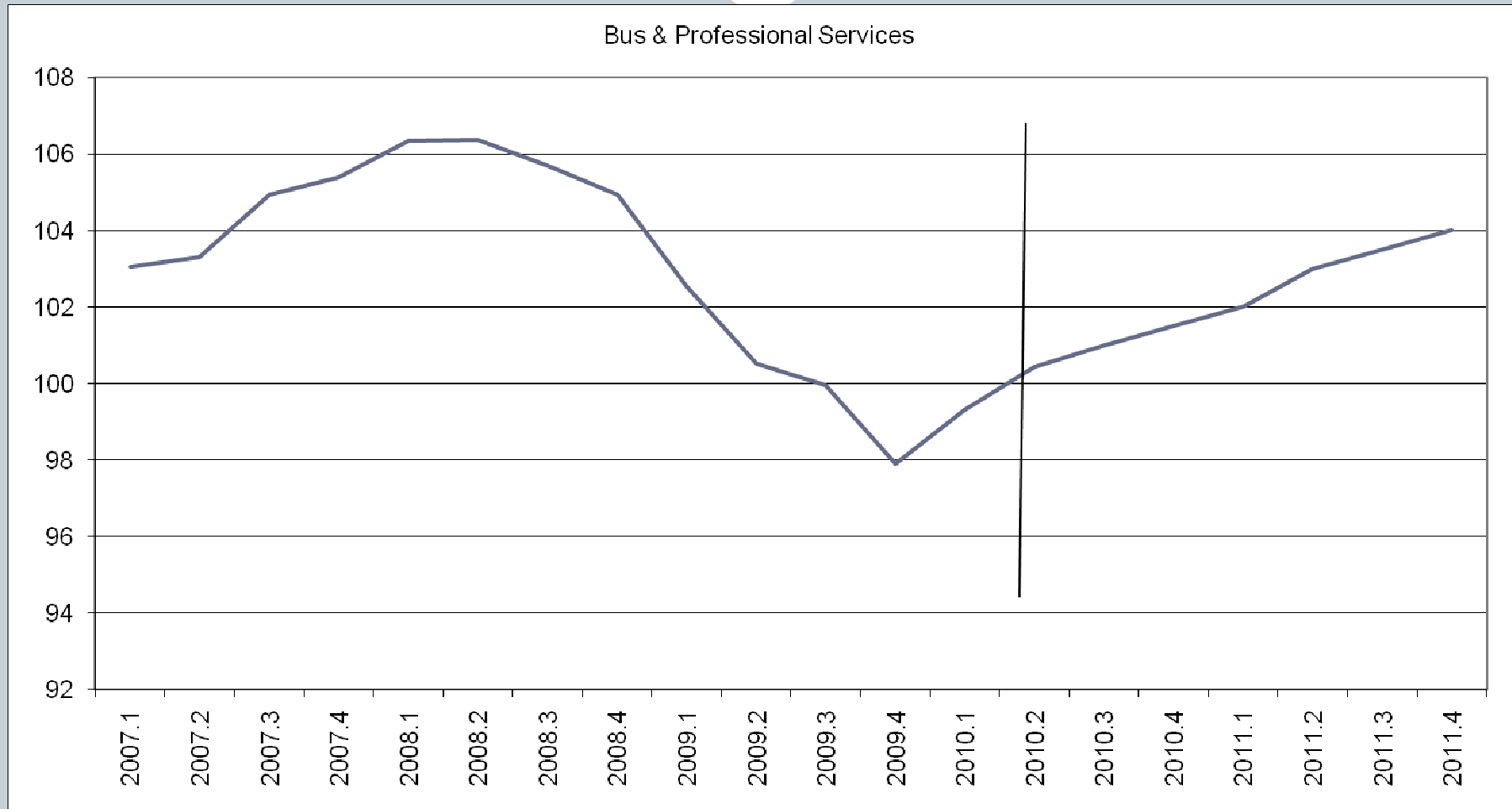
## Manufacturing Employment

12



# Employment Outlook (pro-cyclical sectors) Business and Professional Services

13



# Employment Growth 2009, 2010 and 2011

14

<b>Industry</b>	<b>Growth 2009</b>	<b>2010</b>	<b>2011</b>
Non-farm total	-2.1%	0.2%	1.5%
Construction	-5.0%	0.0%	2.0%
Manufacturing	-7.9%	0.0%	2.9%

# Employment Growth Other Industries 2009, 2010 and 2011

15

<b>Industry</b>	<b>Growth 2009</b>	<b>2010</b>	<b>2011</b>
Transportation	-6.6%	-1.9%	4.5%
Wholesale Trade	-2.4%	-0.6%	1.0%
Retail Trade	-2.5%	-0.3%	0.3%
Information	-4.0%	-3.8%	0.0%
Financial Activities	-1.4%	-0.8%	0.2%
Services	-1.1%	+1.0%	2.0%
Federal Government	+2.5%	+0.0%	-3.5%
State & Local Gov't	+2.9%	+0.6%	0.9%

# Other Measures of Growth 2009, 2010 and 2011

16

<b>Measure</b>	<b>Growth 2009</b>	<b>2010</b>	<b>2011</b>
Nominal Income	-2.1%	2.9%	3.9%
Taxable Sales	-3.7%	4.2%	4.1%
Population	0.8%	0.8%	0.8%

# Risks For Nebraska Economy

## A Lost Cost Advantage

17

- In the latter half of this decade, an exaggerated cost of living made many areas on the West and East Coasts less competitive.
  - Climate, access to oceans have amenity value, but property prices had risen far in excess of those amenity values on the East and West Coasts
- This problem has now been addressed
  - Property prices have declined, more in line with the real value of amenities
- As a result, Nebraska has lost a competitive advantage that it held in the 2005-2008 period

# Opportunities For Nebraska Economy Temporary Spike in Population Growth?

18

## Nebraska Population

Year	Growth Rate
2005	0.6%
2006	0.5%
2007	0.6%
2008	0.8%
2009	0.8%
2010	0.8%
2011	0.8%

# Opportunities for Nebraska Economy Strength and Decentralization of Manufacturing

19

## Average Annual Growth Rate Manufacturing Value-Added 1972 to 2002

United States:	3.1%
Metropolitan Areas:	3.0%
Non-Metropolitan Areas:	3.9%

Source: Hammond and Thompson (2009)

# Lincoln

20

- Growth in 2010 and 2011 at state averages
- Positives
  - Benefits from strength in insurance
  - New initiatives
- Negatives
  - State government employment could decline
  - Business and Professional Services remain a concern

# Final Forecast

21

**USA: 2**  
**Algeria: 0**