

U.S. and Nebraska Economic Outlook



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Nate Kauffman

Omaha Branch Executive and Economist
Federal Reserve Bank of Kansas City

The views expressed are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



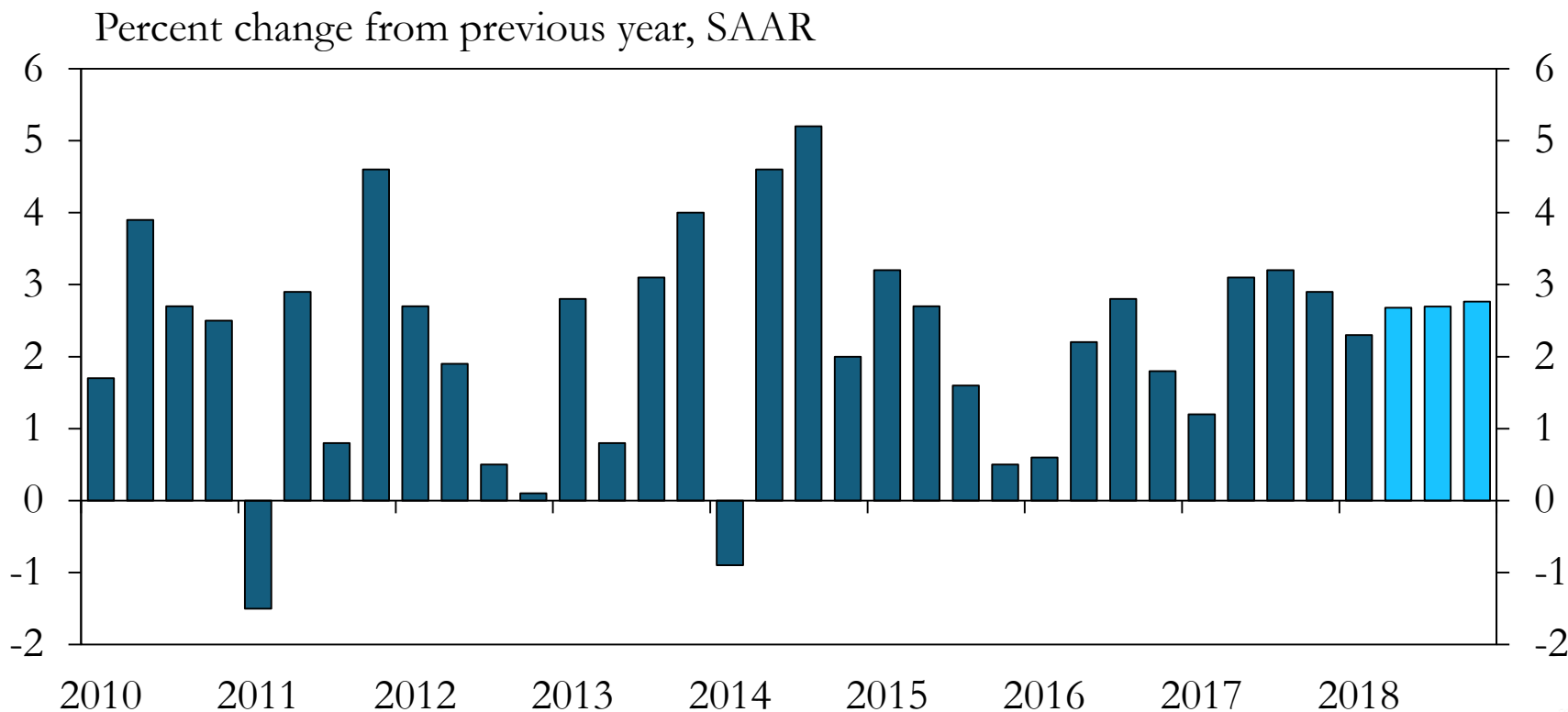
Outlook Themes

- The U.S. economy has picked up slightly with modest signs of increasing wage pressure and inflationary pressure.
- Labor market tightness is a common theme, particularly in Nebraska.
- Limited availability of labor has likely contributed to a recent slowdown in employment growth and economic activity in Nebraska.
- Agricultural conditions have generally remained weak alongside low commodity prices, with heightened concern about the outlook for trade.



The U.S. economy has continued to expand,
and at a slightly faster pace than a year ago.

U.S. Real GDP Growth



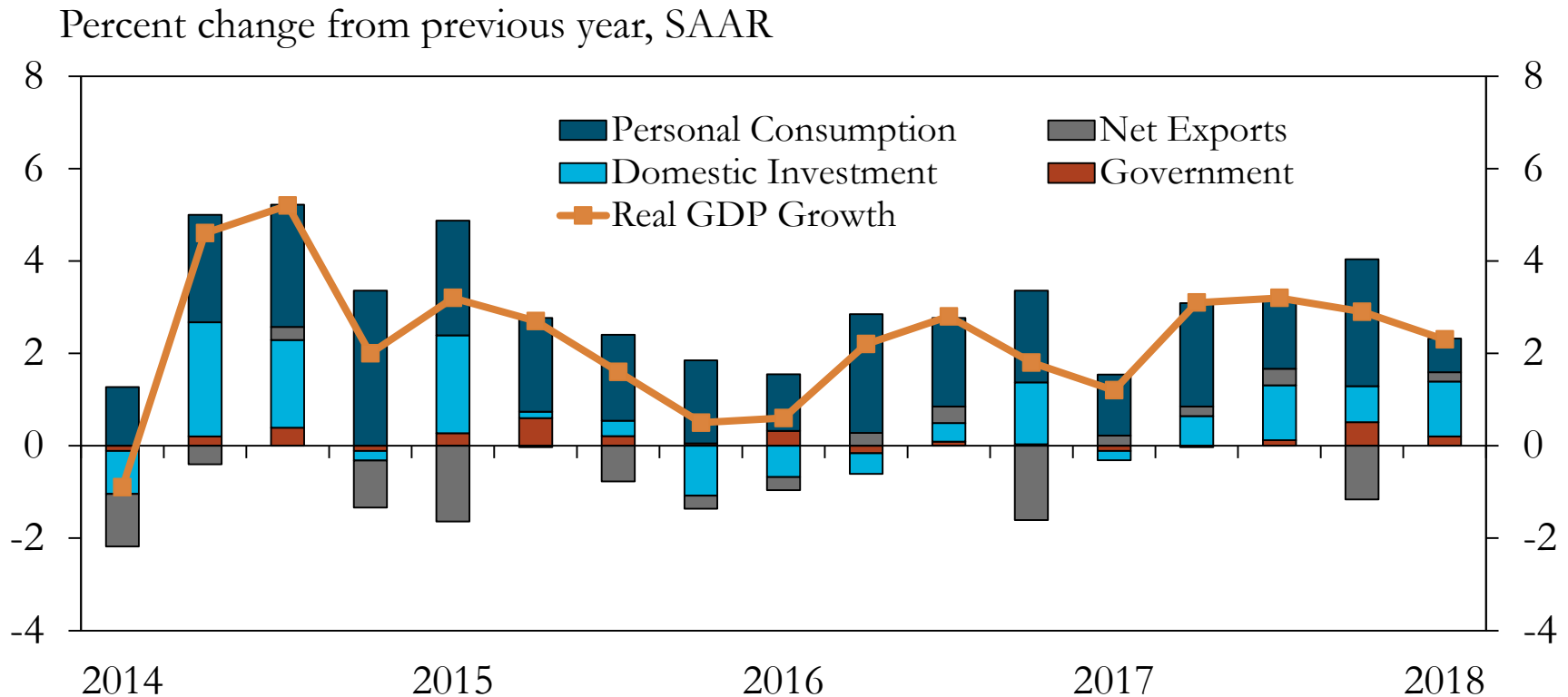
Note: 2018 Q2-4 are forecasts from Macroeconomic Advisors as of May 3.
Sources: Bureau of Economic Analysis, Macroeconomic Advisors and Haver Analytics.

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Personal consumption has remained the primary driver of growth.

U.S. Real GDP Growth by Component



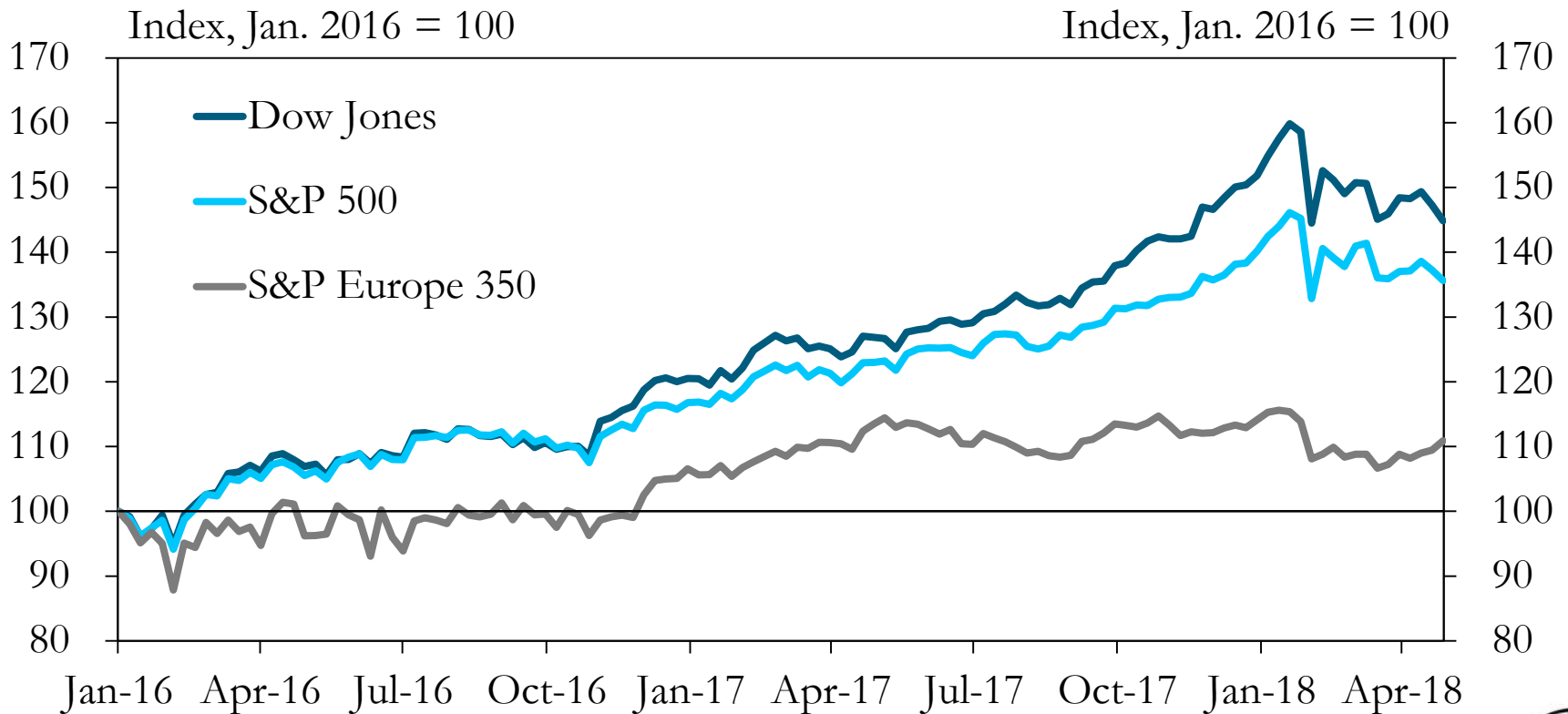
Sources: Bureau of Economic Analysis and Haver Analytics.

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The first quarter of 2018, however,
has been marked by uncertainty.

Weekly Equity Market Indexes



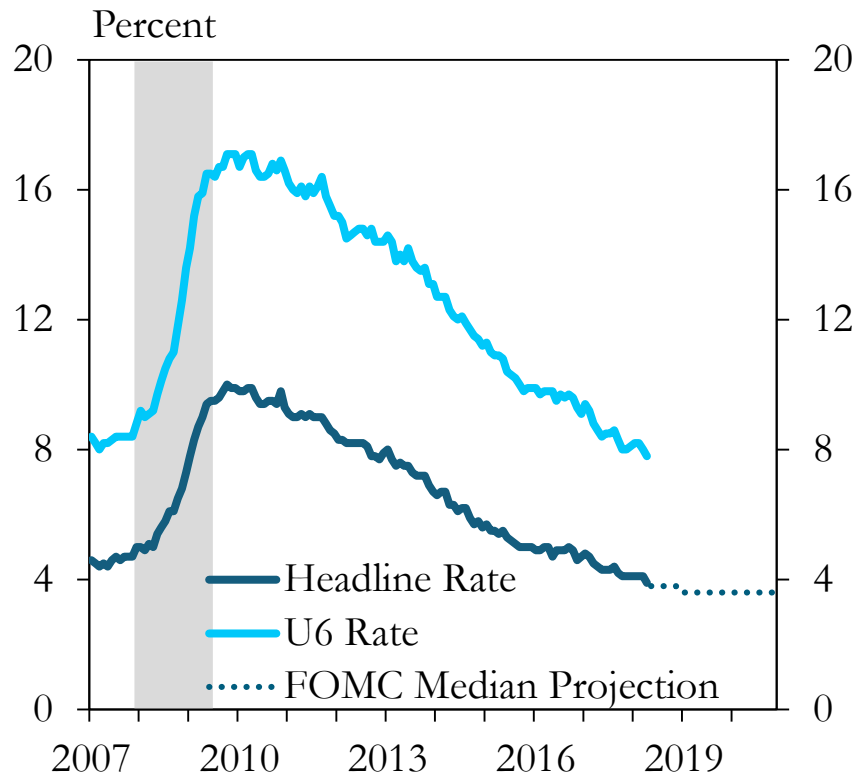
Source: Yahoo Finance.

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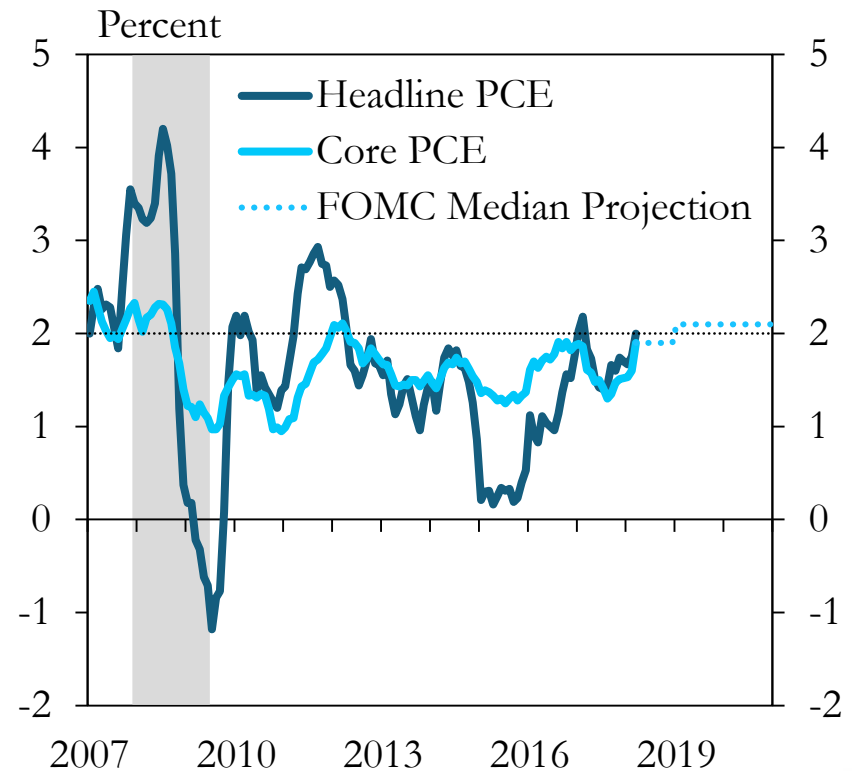


The national unemployment rate continues to edge lower and inflation has picked up slightly.

U.S. Unemployment Rate



U.S. Inflation



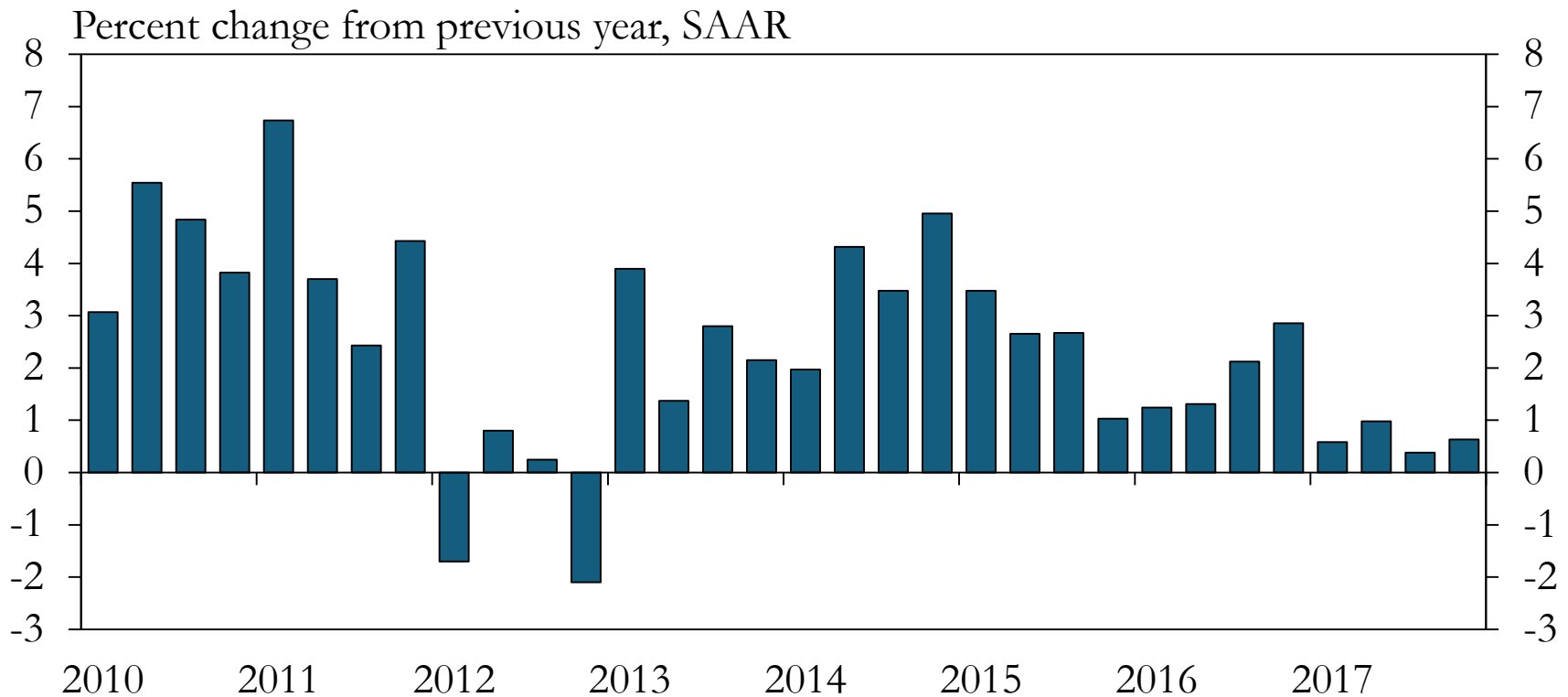
Sources: BLS, Federal Reserve Bank of San Francisco, Board of Governors, and Haver Analytics.

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In Nebraska, economic growth slowed in 2017.

Nebraska GDP Growth



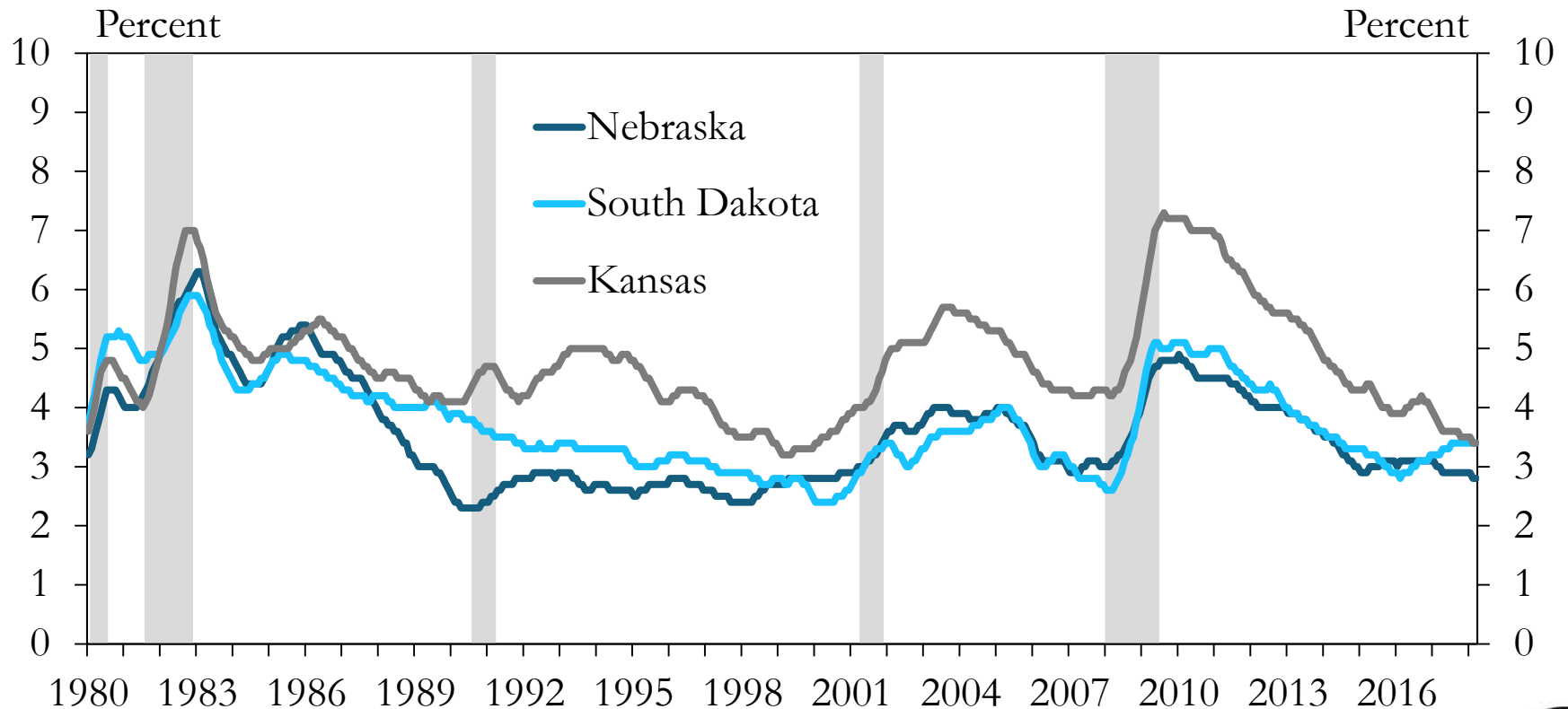
Source: BEA, Haver Analytics.

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However, labor markets in Nebraska, and throughout the region, are extremely tight.

State Unemployment Rates



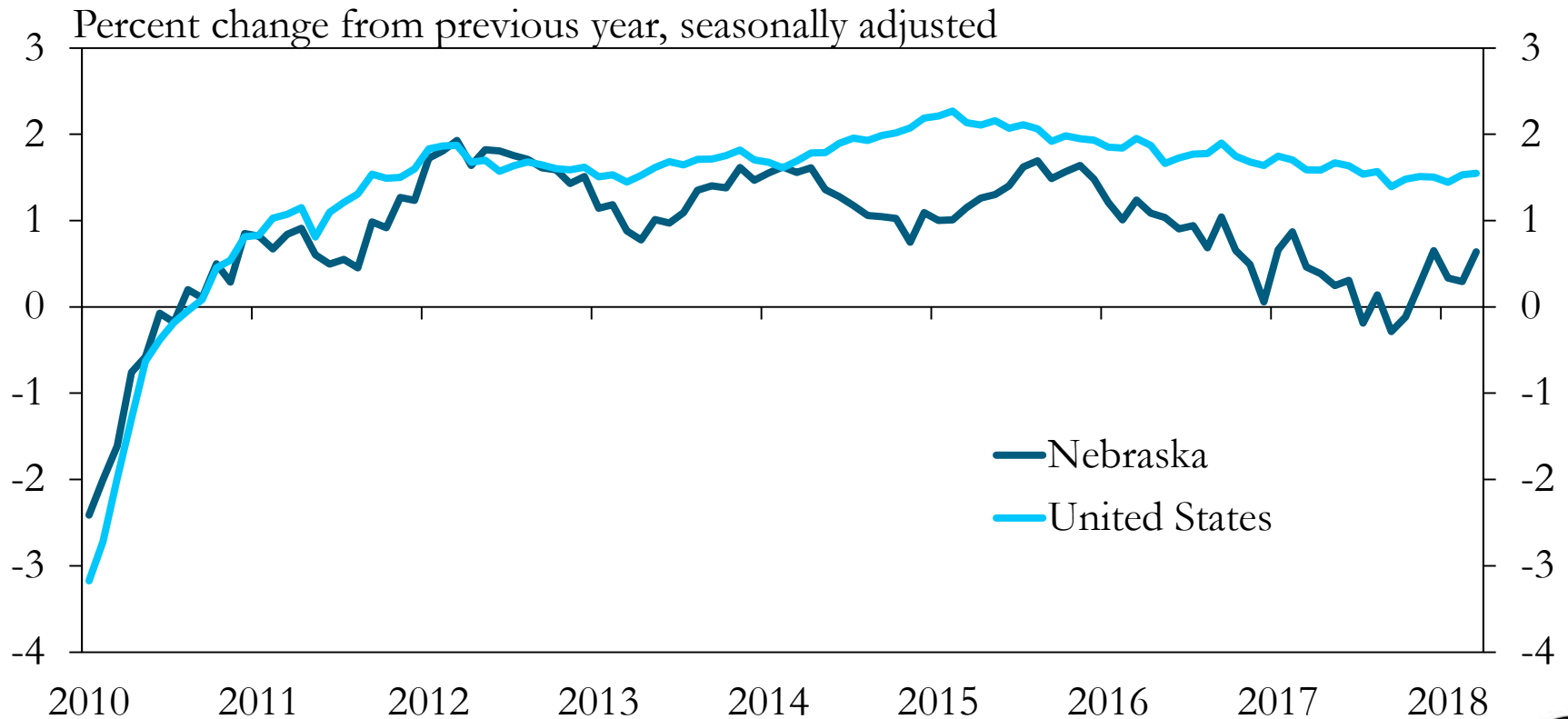
Source: BLS, Haver Analytics.

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Tight labor markets appear to be contributing to sluggish employment growth in the state.

Employment Growth



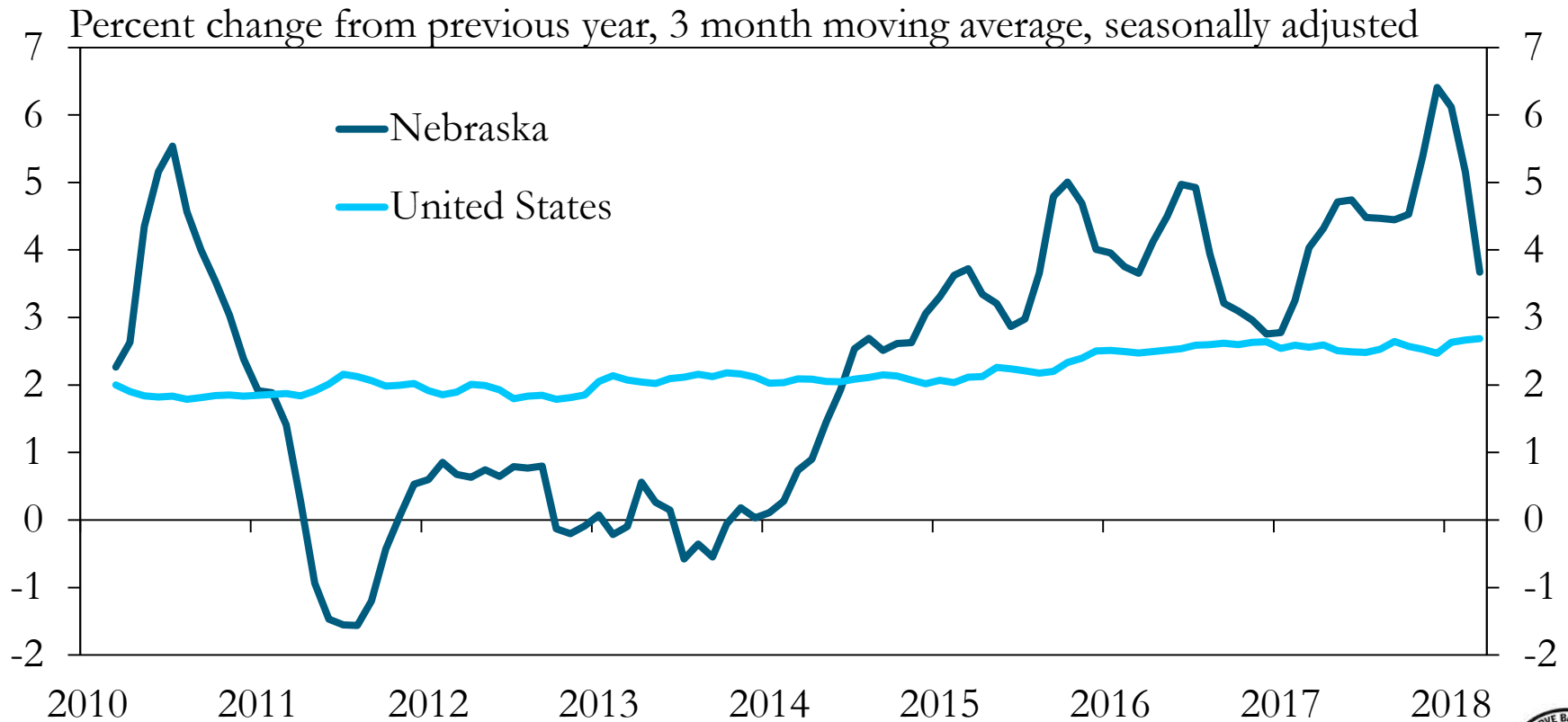
Source: BLS, Haver Analytics.

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And Nebraska wages have continued to accelerate a bit more quickly than the nation.

Average Hourly Earnings



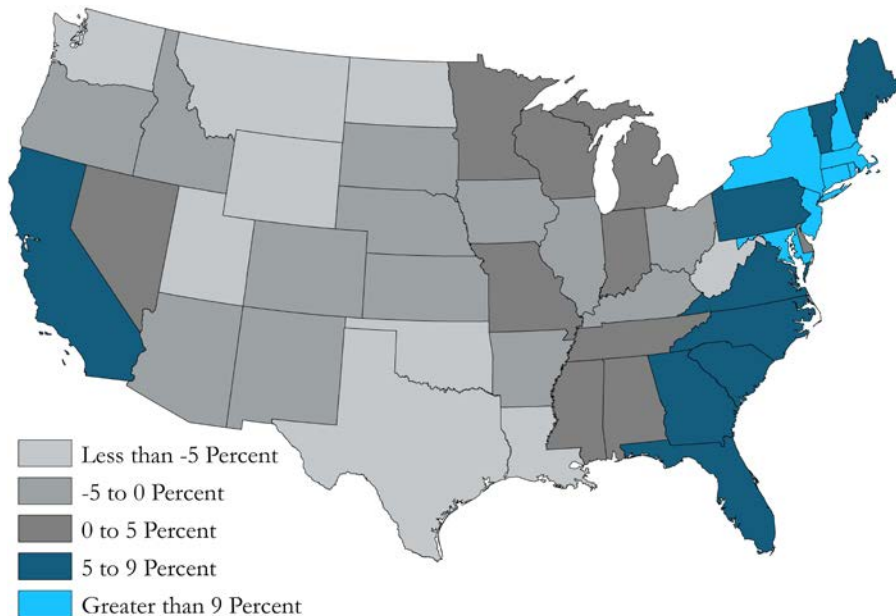
Source: BLS, Haver Analytics.

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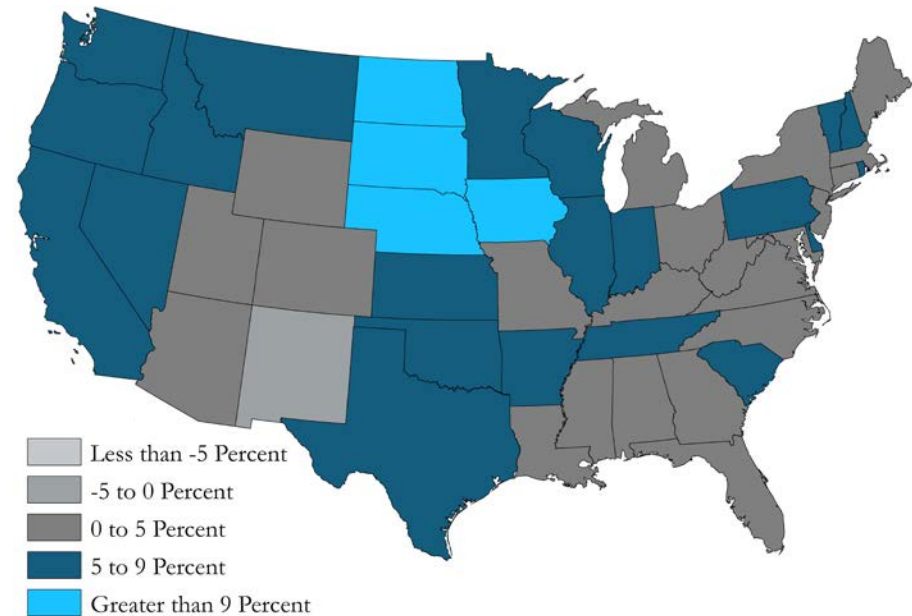


In contrast to previous expansions, wage pressures are more pronounced in the central U.S.

**Wage Growth by State:
1982-1990**



**Wage Growth by State:
2009-2017**



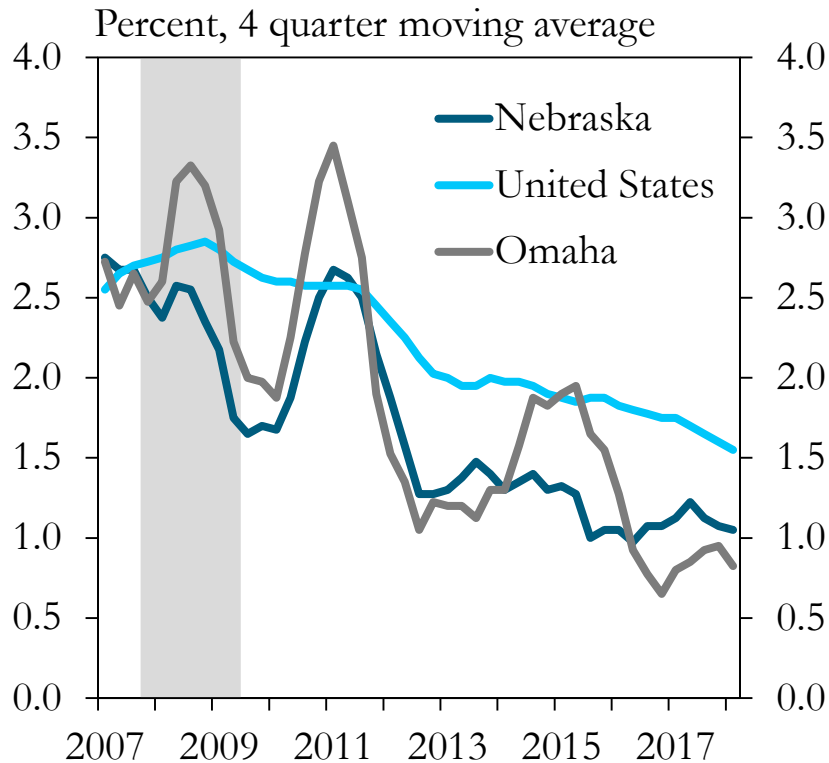
Source: BLS, Staff Calculations.

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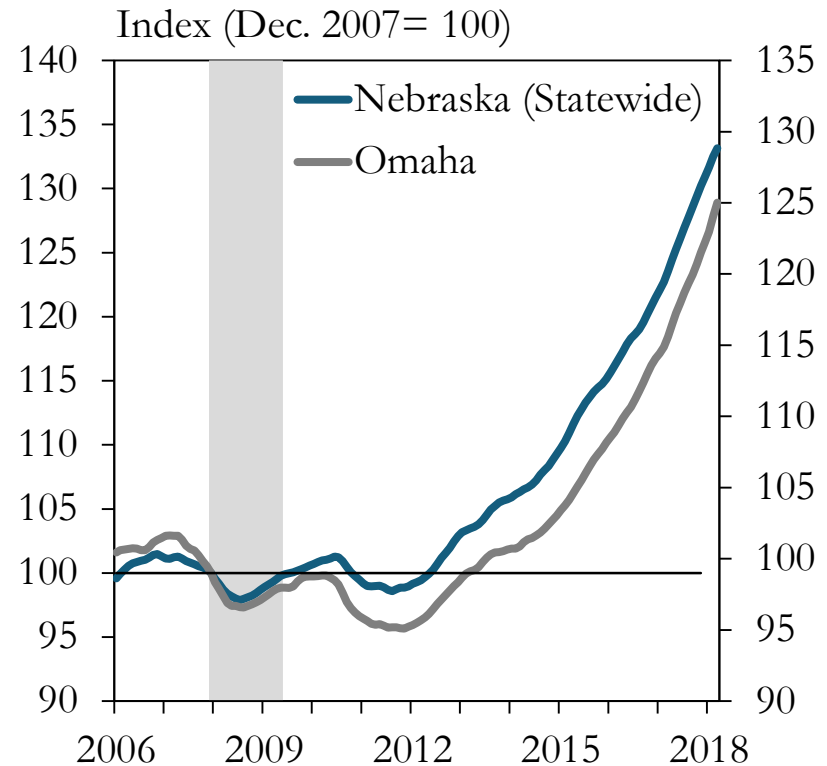


Nebraska households have also benefited from a very strong real estate market.

Home Ownership Vacancy Rate



House Prices



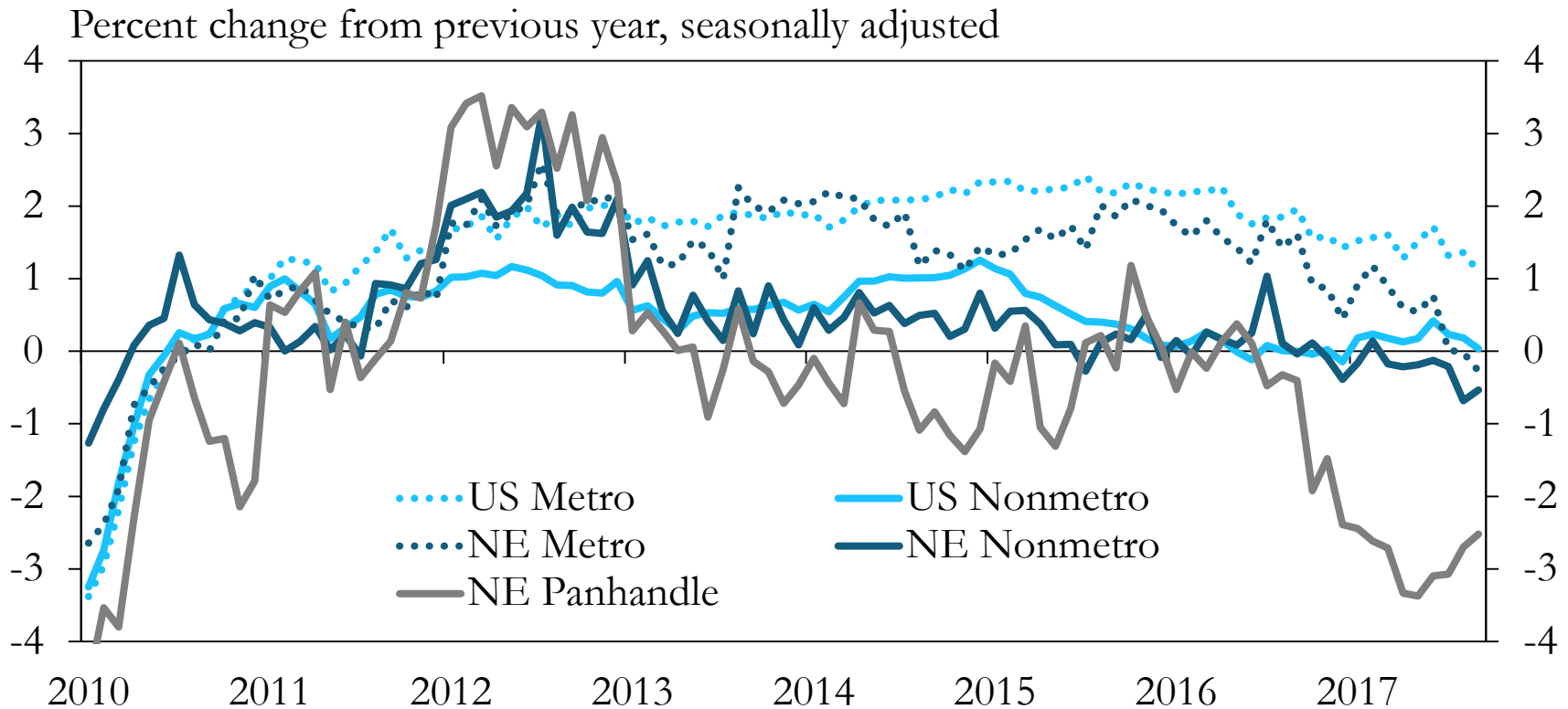
Source: Census Bureau, Zillow, Haver Analytics.
Note: Gray bars indicate NBER-defined recessions.

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Conditions in rural Nebraska, however, have been notably weaker.

Job Growth by Area



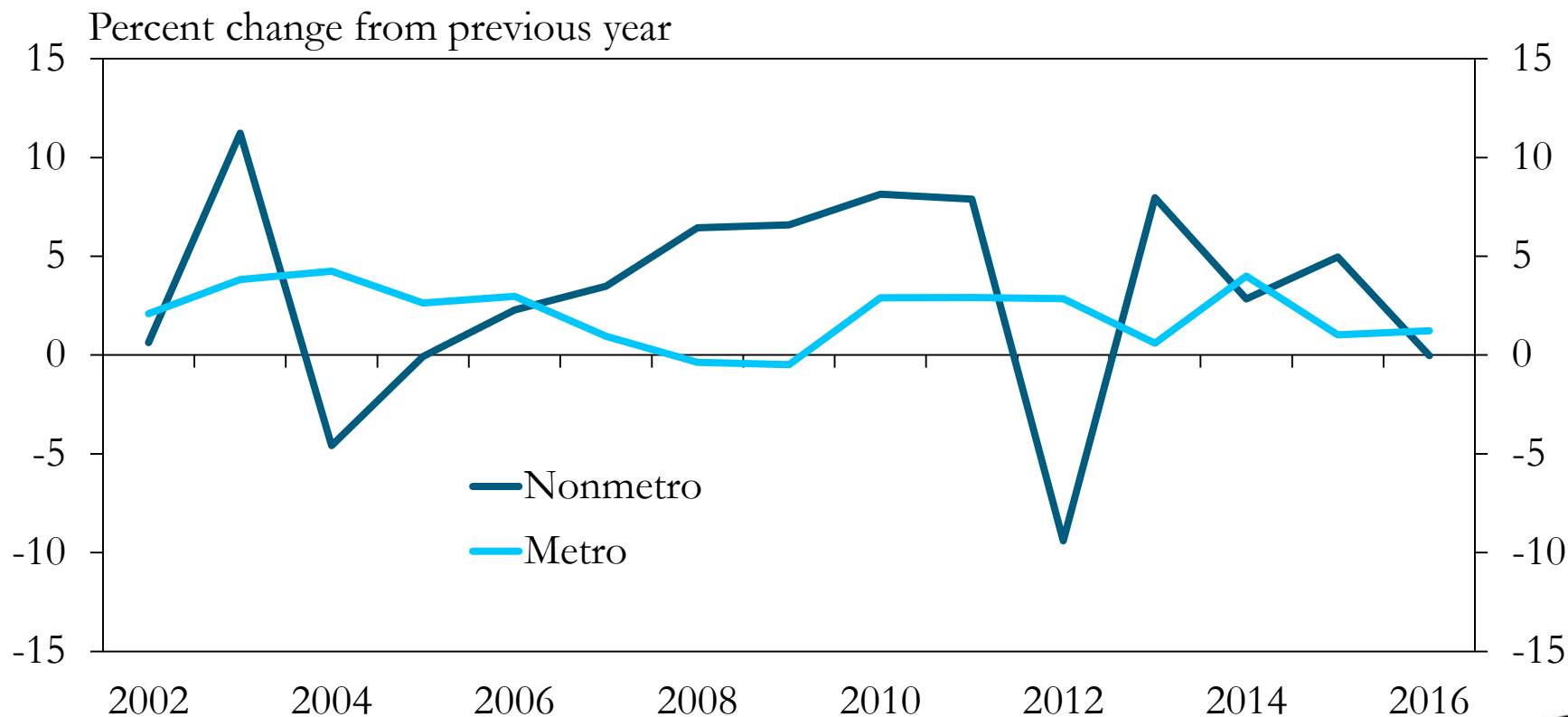
Source: BLS, staff calculations.

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Weakness in rural areas has weighed on Nebraska's overall economic activity.

Nebraska Metro and Nonmetro GDP Growth



*Note: The Omaha MSA includes Council Bluffs, IA. Nebraska portions of the Sioux City, IA MSA are not included here.

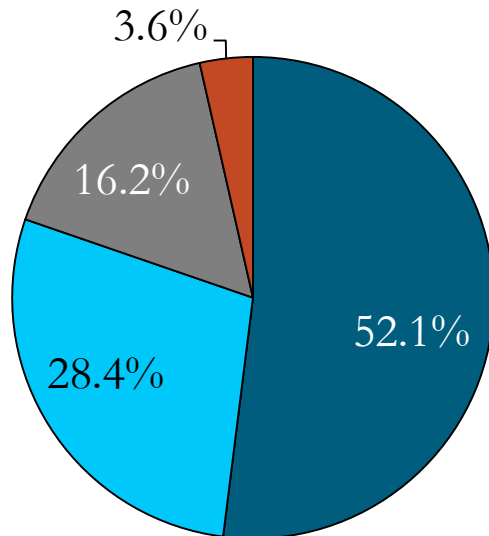
Source: BEA, Haver Analytics.

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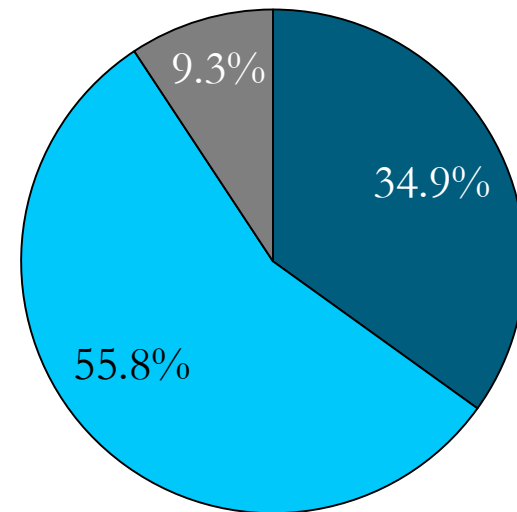
In Nebraska, nonmetro regions account for a relatively large share of GDP.

Nebraska GDP by MSA



- Omaha Metro*
- Nonmetro*
- Lincoln Metro
- Grand Island Metro

United States GDP by MSA



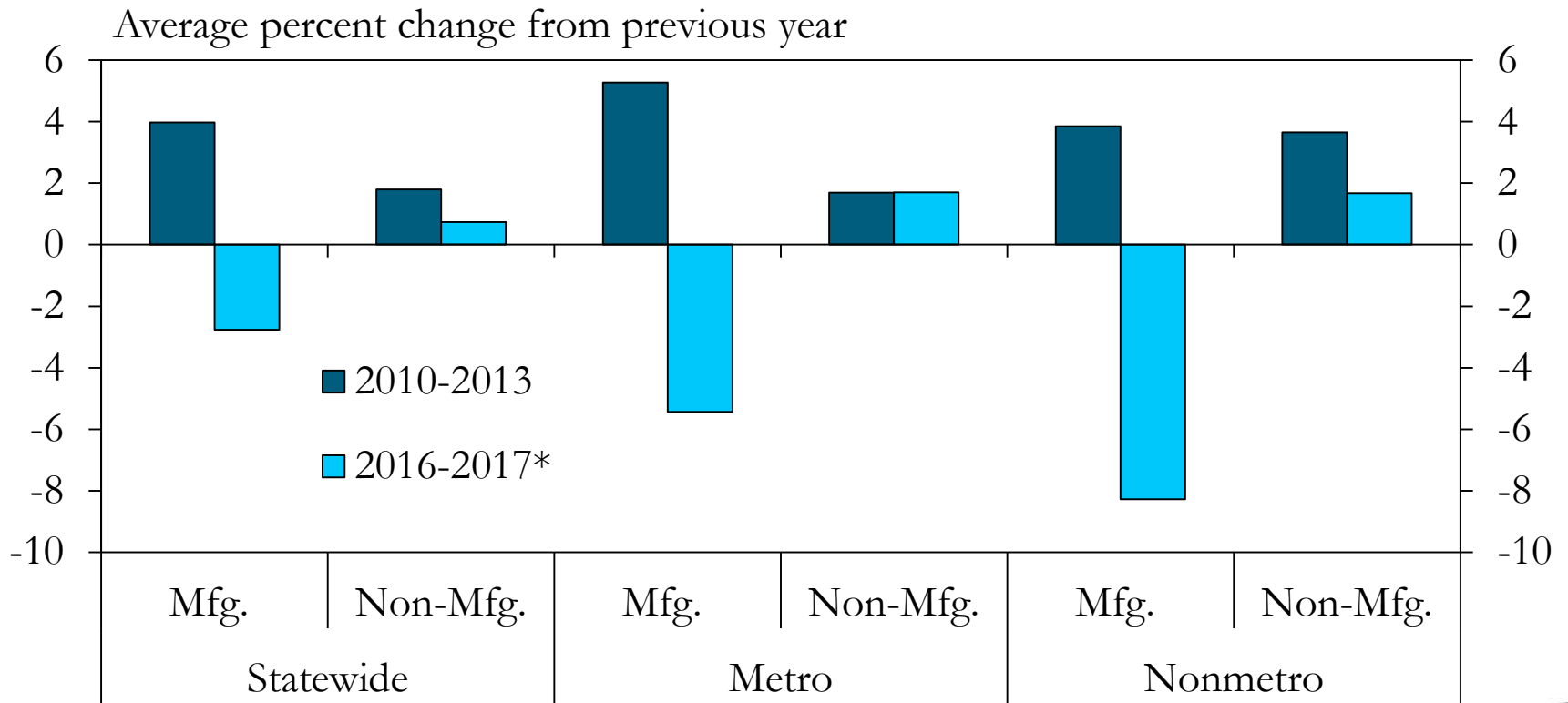
- Largest 10 Metros
- All Other Metros
- Nonmetro

*Note: The Omaha MSA includes Council Bluffs, IA. Nebraska portions of the Sioux City, IA MSA are not included here.
Source: BEA, Haver Analytics.



A pullback in manufacturing activity has been a primary driver of weakness in Nebraska GDP.

Nebraska GDP Growth by Industry

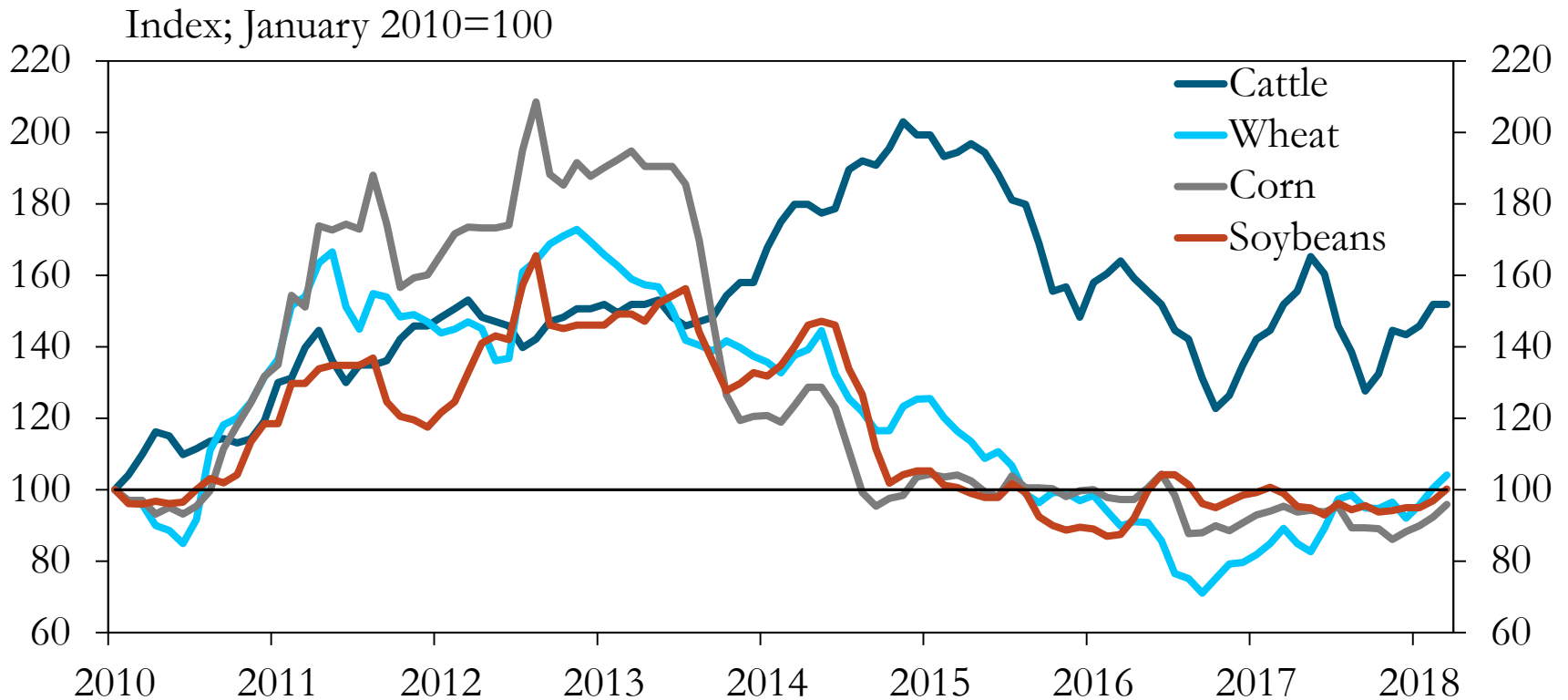


*Metro and Nonmetro GDP figures are only available through 2016.
Source: BEA, Haver Analytics.



The weakness in manufacturing has occurred alongside persistently low ag commodity prices.

Agricultural Commodity Prices



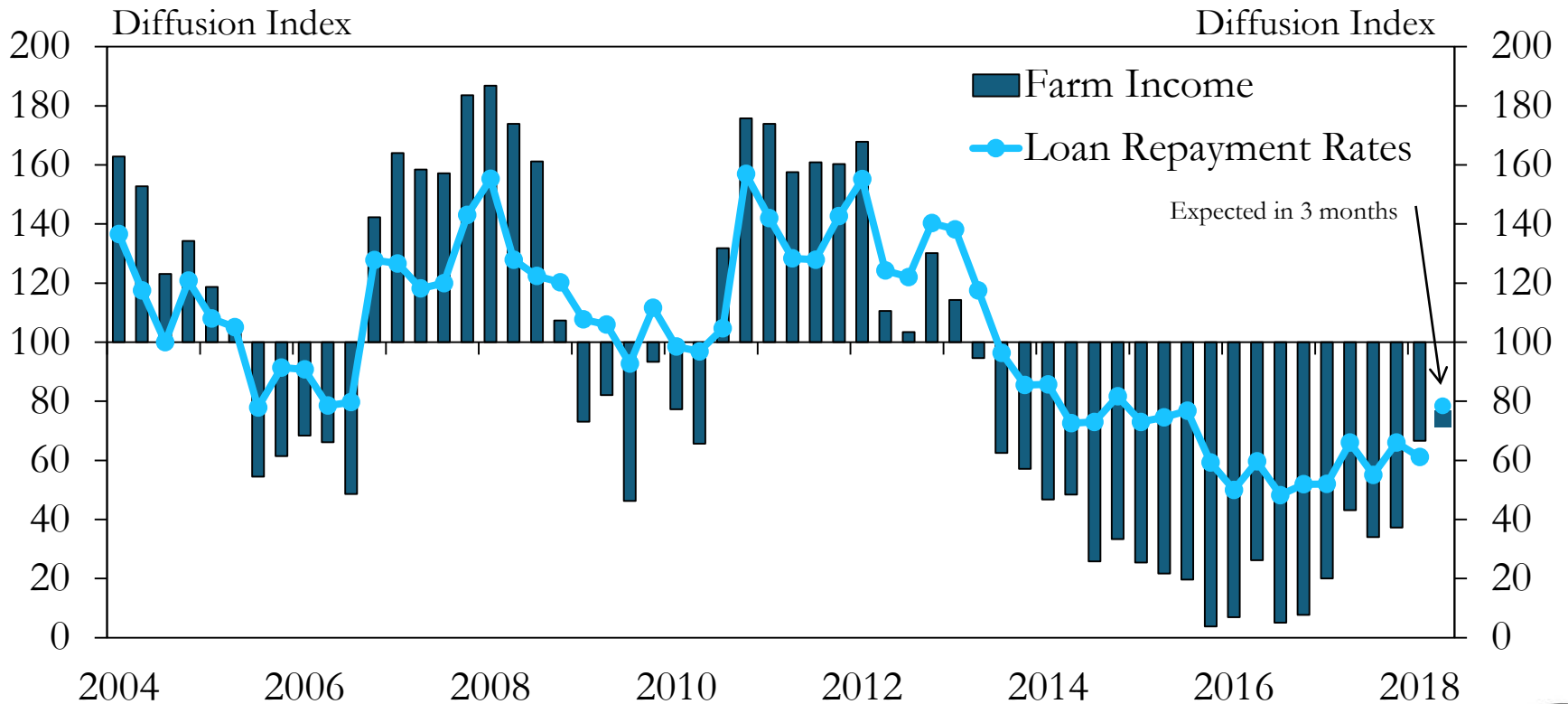
Source: USDA, Haver Analytics.

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Farm income has continued to decline and financial stress in agriculture has risen gradually.

Nebraska Farm Income



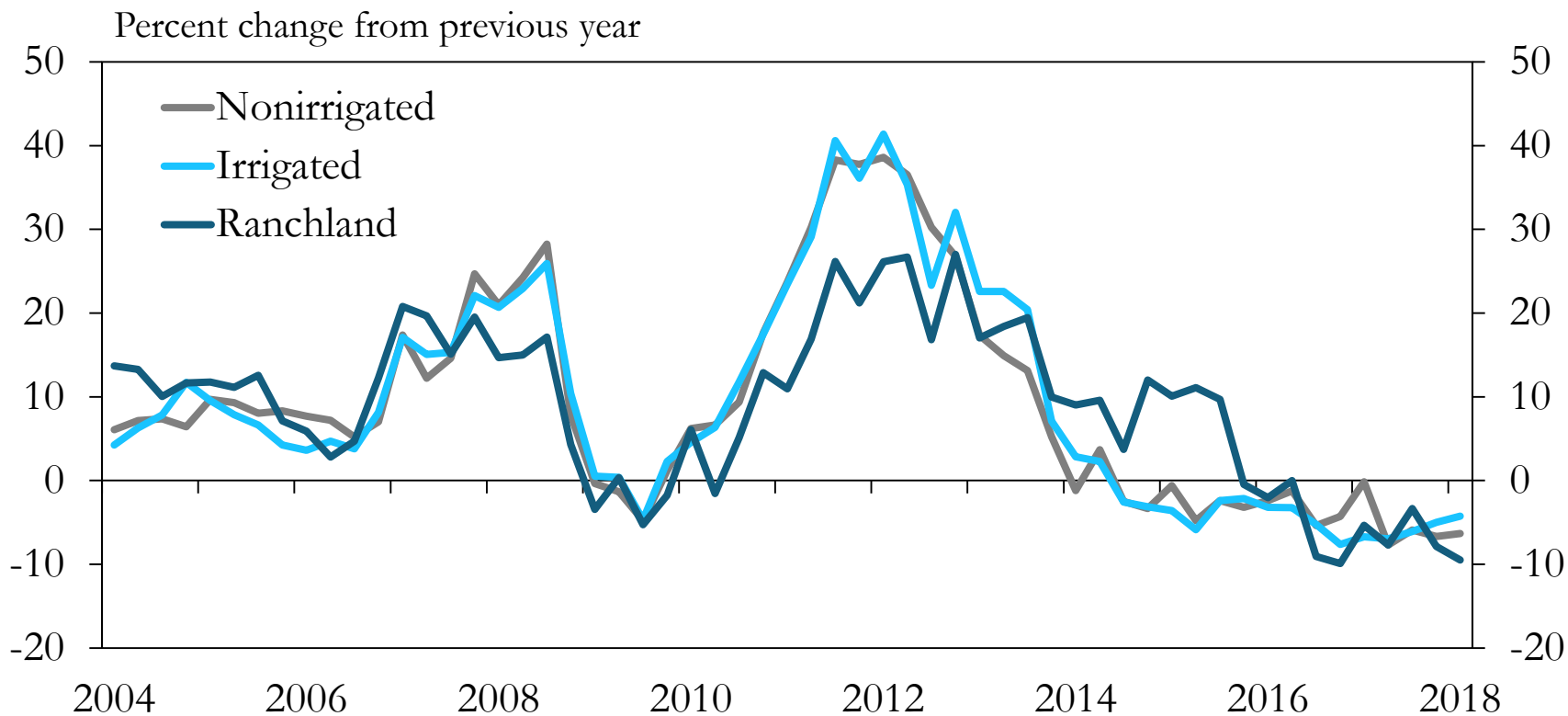
Source: Federal Reserve Bank of Kansas City.

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Farmland values have declined slightly but, overall, have been a bright spot for the farm sector.

Nebraska Farmland Values



Source: Federal Reserve Bank of Kansas City

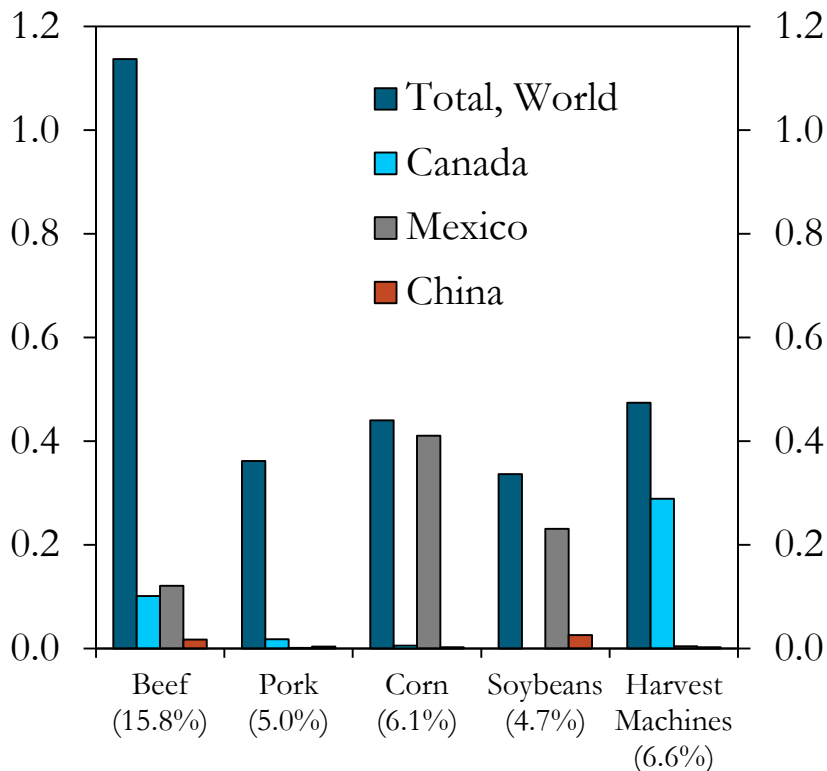
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Recent developments connected to trade have been a primary concern for the region and in ag.

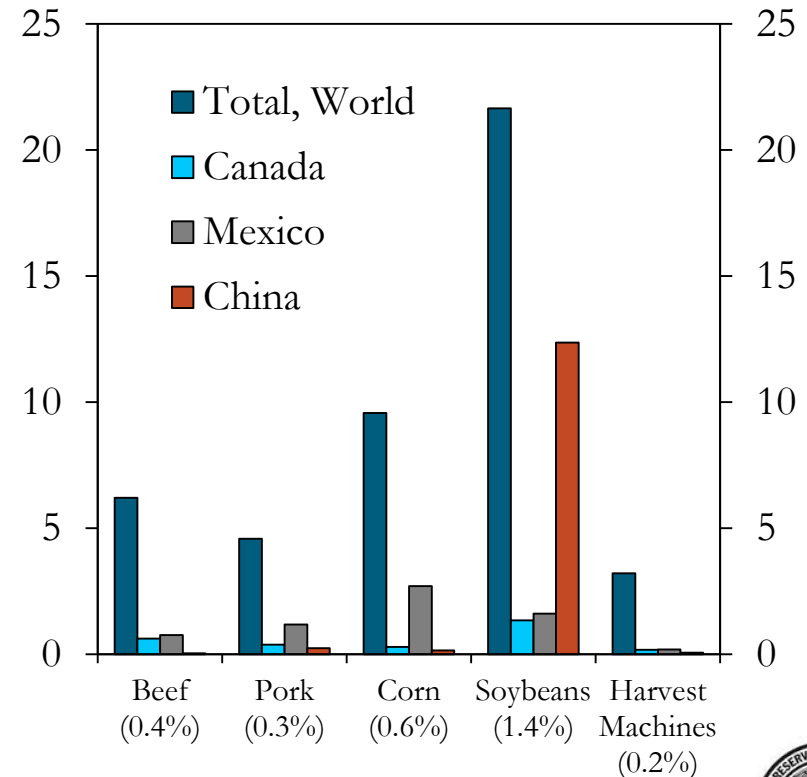
2017 Nebraska Exports

\$, Billions



2017 U.S. Exports

\$, Billions



Note: Percentages indicate share of total Nebraska exports to the world.
Source: Wisser Trade.

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Potential effects of changes to trade policy, however, are complicated.

For example – Increased tariffs on agricultural products (i.e., soybeans) to China:

- Short-term
 - Likely will be a quick, initial market reaction.
 - Volatility in soybean futures markets has increased from 15% to 20% since beginning of year.
- Medium-term
 - Supply and demand will prevail. China cannot become self-sufficient in soybeans. Brazil cannot supply the entire world.
- Long-term
 - More significant concerns about U.S. competitiveness in global markets. A 25% increase in U.S. soybean prices to China, relative to Brazil, could cause Brazil to be the low-cost producer (even accounting for transportation).
 - Also significant concerns about supply chain disruptions.



Concluding Thoughts

- Economic growth in the U.S. is expected to remain steady in the near-term with further declines in unemployment and inflation returning to the Fed's 2 percent goal.
- Unemployment in Nebraska is also likely to remain low driven by growth in metro areas. Labor markets are likely to remain tight throughout the state.
- The agricultural sector remains a notably weak exception throughout the region alongside low commodity prices and increased uncertainty.
 - Trade Policy?
 - Farm Bill?



Questions?

Nate Kauffman

Economist and Omaha Branch Executive
Federal Reserve Bank of Kansas City
Email: Nathan.Kauffman@kc.frb.org
Website: <http://www.kansascityfed.org/omaha/>

