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## Continued Growth in Nebraska

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# *Business in Nebraska*

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## **Continued Growth in Nebraska**

By The Nebraska Business Forecast Council

### **U. S. Economic Outlook**

National economic conditions will continue to favor growth over the next three years. Increased business investment will combine with rising industrial production, expanding exports, and moderate increases in consumer spending to grow the economy. The rate of inflation is expected to increase as well.

The rate of real (inflation-adjusted) growth will moderate compared to strong economic growth during 2004. Real gross domestic product will grow 3 percent to 3.5 percent over the next three years. High oil prices will remain a drain on the economy, siphoning spending from domestically produced goods and services. Fuel prices are expected to remain at recent high levels throughout 2005 and 2006. Export growth also will remain moderate despite depreciation of the dollar.

The Federal Reserve will continue its shift from a pro-growth to a neutral monetary policy. The federal funds rate should rise another 0.5 to 1.0 basis points over the next year. Growth in federal spending should moderate from near double-digit growth in 2002 through 2004. Federal spending is expected to continue to expand rapidly, however, and deficits should remain near current levels.

Recent increases in the core inflation rate (excluding food and energy prices) are expected to hold over the

forecast period. The inflation rate is expected to average 3 percent per year. Rising inflation will lead to a greater divergence between real and nominal growth rates. Nominal income and sales will grow quickly relative to recent years even as real (inflation-adjusted) growth rates moderate. For example, with inflation running 3 percent per year, nominal income will grow between 6.0 percent and 6.5 percent during the forecast period.

### **Nebraska Outlook**

#### **Overview**

The panel is optimistic about the outlook for the Nebraska economy throughout the next three years. The Nebraska economy should expand steadily in 2005, with moderate job growth and high farm income. Moderate job growth should continue in both 2006 and 2007. The picture for manufacturing employment will improve steadily. After four years of decline, manufacturing employment is expected to reach 1 percent growth by 2007.

Moderate employment growth will help ensure growth in both income and taxable sales in Nebraska. Growth in nominal income and taxable sales should be strong as inflation increases. Rising prices also mean rising costs, however, so rapid income and taxable sales growth may not necessarily translate into large

improvements in the standard of living or in state and local government budgets.

**Table 1**  
**Key Economic Growth Rates**

	Nonfarm Employment	Nonfarm Personal Income	Net Taxable Retail Sales
2004	0.9%	5.3%	6.9%
2005	1.4%	6.1%	4.6%
2006	1.5%	6.0%	4.1%
2007	1.6%	5.9%	4.1%

## Employment

Employment in Nebraska expanded at a 0.9 percent rate in both 2003 and 2004. Continued declines in manufacturing employment held job growth below 1 percent. The pace of growth is expected to improve over the next three years but only to a more moderate growth rate of 1.4 percent to 1.6 percent, as indicated in Table 1. These growth rates are below the pace of the 1990s, where annual job growth exceeded 2.2 percent. The decline in the rate of growth will result from factors that are slowing the rate of job growth nationally such as slower expansion of the labor force and a movement toward self-employment. Details about the outlook for individual industries are provided below.

## Construction and Mining

Low long-term interest rates in recent years have resulted in a housing boom in Nebraska and nationally. Omaha's growth has been especially high. The housing stock has been built up as a consequence of all this construction. This stock coupled with rising long-term interest rates suggests the industry cannot maintain its previous rate of growth. The industry will continue to expand, but growth will moderate in the housing construction industry. Similarly, the rate of commercial construction will moderate statewide and in key markets such as Omaha and Lincoln. But contractors will remain busy, and demand will remain high for experienced workers and graduates of the state's construction schools. Major state and federal road building projects are expected to fuel continued strong growth in heavy construction activity. Higher fuel prices are not expected to significantly reduce fuel consumption and gasoline tax revenue.

The net result is that construction employment will continue to grow, but at a slightly slower pace than from 2000 to 2004 and much slower than the 4 percent growth rates in the 1990s. Construction employment is expected to grow 1.7 percent in 2005 and 1.0 percent in both 2006 and 2007.

## Manufacturing

Manufacturing employment is expected to slowly improve through the forecast period. Manufacturing employment declined from 2000 through 2004, but employment may have reached a bottom, particularly in the durable goods sector. Farm machinery and equipment are an important part of Nebraska's durable goods industry. With significant improvement in farm income, the farm machinery and equipment manufacturing sector appears to have stabilized and started to grow. The nondurable goods manufacturing industry also is expected to stabilize in Nebraska beginning in 2005. Food processing is the major component of the non-durable goods industry in Nebraska. This industry is less susceptible to cyclical fluctuations and therefore may not benefit as much from the current economic recovery.

Employment in the durable goods sector is forecast to increase 0.2 percent for 2005, with growth accelerating in subsequent years to 0.9 percent in 2006 and 1.3 percent for 2007. Non-durable goods employment is expected to remain steady in 2005 and grow 0.4 percent in 2006 before accelerating to 1.1 percent growth in 2007.

## Transportation

The trucking industry in Nebraska will continue to grow at a strong and steady pace. An expanding national economy will provide strong demand for the industry. Nebraska trucking firms will gain a growing share of the industry due to its central location and efficient firms. The industry nationally will face challenges from higher fuel prices and limited growth in the supply of long-haul truckers, but these factors will reduce growth only modestly. Nebraska employment in the rail portion of the industry continues to sustain or increase modestly, and the industry overall will benefit from increases in industrial production. Employment is expected to grow between 2.5 percent and 3.0 percent each of the next three years.

**Table 2**

**Number of Nonfarm Jobs and Percent Changes by Industry Annual Averages (numbers in 000s)**

	Construction Minerals & Nonfarm Total	Natural Resources	Durables	Non- durables	Wholesale Trade	Retail Trade	Transportation & Utilities	Info	FIRE	Services	Federal Gov't	Local Gov't
2000	908.4	45.2	58.9	55.4	41.9	111.3	45.1	26.9	60.5	308.7	16.6	137.9
2001	913.2	45.3	54.6	56.2	42.5	110.0	45.2	25.8	60.2	316.6	16.0	140.8
2002	905.7	46.1	50.6	55.4	41.5	108.5	44.9	24.7	61.4	313.8	16.3	142.6
2003	914.3	47.3	47.3	55.1	41.0	106.7	46.4	21.5	61.9	317.1	16.7	143.3
2004	922.9	48.2	46.9	53.8	40.9	106.7	48.7	21.5	63.0	333.2	16.6	143.5
2005	935.9	49.0	47.0	53.8	41.1	107.4	50.2	21.6	64.4	339.9	16.6	144.9
2006	949.9	49.5	47.4	54.0	41.4	108.1	51.7	21.7	65.8	347.3	16.6	146.4
2007	964.8	50.0	48.0	54.6	41.8	108.6	53.0	21.8	67.3	355.3	16.6	147.8

**Recent Annual Percent Changes**

2000	1.8%	2.0%	2.1%	-0.5%	-1.4%	1.0%	1.3%	-0.7%	-0.7%	3.5%	4.4%	1.7%
2001	0.5%	0.2%	-7.3%	1.4%	1.4%	-1.2%	0.2%	-4.1%	-0.5%	2.6%	-3.6%	2.1%
2002	-0.8%	1.8%	-7.3%	-1.4%	-2.4%	-1.4%	-0.7%	-4.3%	2.0%	-0.9%	1.9%	1.3%
2003	0.9%	2.6%	-6.5%	-0.5%	-1.2%	-1.7%	3.3%	-13.0%	0.8%	1.1%	2.5%	0.5%
2004	0.9%	1.9%	-0.8%	-2.4%	-0.2%	0.0%	5.0%	0.0%	1.8%	5.1%	-0.6%	0.1%
2005	1.4%	1.7%	0.2%	0.0%	0.5%	0.7%	3.0%	0.6%	2.2%	2.0%	0.0%	1.0%
2006	1.5%	1.0%	0.9%	0.4%	0.7%	0.6%	3.0%	0.5%	2.2%	2.2%	0.0%	1.0%
2007	1.6%	1.0%	1.3%	1.1%	0.9%	0.5%	2.5%	0.5%	2.2%	2.3%	0.0%	1.0%

**Various Percent Changes at Annual Rates**

1990-1995	2.3%	4.7%	2.8%	2.0%	0.2%	1.4%	2.1%	0.7%	1.8%	3.6%	-2.0%	1.4%
1995-2000	2.2%	4.2%	1.2%	0.3%	1.1%	1.7%	3.3%	3.3%	2.5%	3.3%	0.2%	0.5%
1990-2000	2.2%	4.5%	2.0%	1.2%	0.7%	1.6%	2.7%	2.0%	2.2%	3.5%	-0.9%	1.0%
2000-2004	0.4%	1.6%	-5.5%	-0.7%	-0.6%	-1.0%	1.9%	-5.4%	1.0%	1.9%	0.0%	1.0%

**Retail Trade**

After sustained growth for decades, retail employment declined in recent years. Retail employment declined 1.2 percent, 1.4 percent, and 1.3 percent, respectively, for the years 2001 through 2003 and did not change in 2004. Poor performance is in part due to the reclassification of eating and drinking places (the fastest growing segment of the retail industry) to the services industry. But the slowdown represents long-term industry trends, in particular the tendency of larger retailers that employ fewer workers per dollar of sales to capture more and more of total sales. Another factor has been the increase of sales of non-traditional retailers (on-line sales).

All of these factors will continue to dampen growth in the retail sector. Continued improvement in the economy and retail sales, however, will allow the industry to add employment over the next three years. For the

current year 2005, employment is expected to increase at a 0.7 percent rate. Employment growth is expected to reach 0.6 percent for 2006 and 0.5 percent for 2007.

**Wholesale Trade**

Wholesale trade employment stabilized in 2004 and is expected to return toward growth as the economy continues to expand. As with retail trade, however, only a modest rate of growth is expected. Wholesale trade employment is expected to increase between 0.5 percent and 0.9 percent per year.

**Information**

Employment in the information industry stabilized in 2004 after employment declined 20 percent from 2000 to 2003. Much of this large decline occurred in the telecommunications and data processing portions of the industry. Losses in these sectors will moderate

over the next few years, while locally-oriented portions of the industry (such as newspapers and publishing, radio and television broadcasting) expand slowly. The net result is a modest expansion of industry employment between 0.5 percent to 1.0 percent per year.

## **Financial**

The financial industry comprises finance, insurance, and real estate activities. The sector has been an engine of growth in the Nebraska economy for decades, averaging 1.8 percent annual growth from 1990 to 2003. Conditions are favorable for continuing improvement. In recent years, real estate activity has been robust, and banking and finance management has diversified and branched out considerably. Continued improvements in the housing market and a steady stock market are favorable for the industry. The insurance industry continues to be a regional and national leader.

The industry is expected to expand at more than 2 percent per year during the forecast period. This would allow the industry to reach approximately 67,700 workers in 2007.

## **Services**

Services is the largest and most diverse industry in the Nebraska economy. The industry includes health care, legal, accounting, engineering, management of companies, administrative support, accommodations, arts and recreation, and food services. The services industry grew slowly from 2001 to 2003, but robust job growth returned in 2004. Growth in the industry is not expected to match the rapid growth of the 1990s, but annual growth will average around 2.0 percent from 2005 to 2007.

The health care industry and the food services industry are expected to contribute the most to job growth. Health care is the largest segment of the Nebraska services sector. The industry will continue to steadily expand as Nebraska's population grows and ages. Food services will continue its long history of employment growth, boosted by growing population and a rising proportion of meals eaten by persons outside the home.

The professional, scientific, and technical services portion of the industry is more sensitive to the business cycle and is expected to do well as the economy continues to recover. Growth in these engineering, legal, accounting, advertising, research, and consulting services is critical because these are high-wage jobs. Annual growth rates are expected to average 2.0 percent. The arts, entertainment, and recreation industry, which includes performing arts, museums, golf courses, fitness centers, and other recreation, will continue to enjoy steady growth with increases in leisure time and disposable income, particularly as the population ages.

## **Government**

Total federal government employment in Nebraska has changed little over the last decade. No change is expected in the future. With large federal deficits, there is little room to expand employment outside of the homeland security arena. Any growth is expected to be offset by consolidation of agricultural offices and other adjustments. This outlook, however, is made with significant uncertainty. Federal government employment at the state level is subject to the whims of relocation of federal activity, as illustrated by the recent recommendations by the U.S. Department of Defense to close several military reserve bases in Nebraska. The potential closures are not reflected in this forecast, however, as the base closure process is ongoing. The timing of any future closures is uncertain.

Growth in state and local government employment is more predictable. Employment in education, parks, fire and police protection, and general services tends to expand steadily with population. No major efforts to shrink government growth are expected, given that government revenue sources such as income, taxable sales, and property values are expected to grow. State and local government employment is expected to grow 1.0 percent per year.

## **Nonfarm Personal Income**

Robust income growth returned to the Nebraska economy during the year 2004. Non-farm personal income grew at a 5.3 percent rate in 2004 after 3.4 percent growth in 2003 and 1.5 percent growth in 2002. Improved income growth is consistent with the



continued recovery in the nation and state economy. Growth in 2004 was broad-based. The most rapid growth was in proprietors' income, which again is expected as the economy recovers. There also was rapid growth in other labor income, which includes health care benefit costs.

Income growth will remain solid from 2005 through 2007. The rate of growth in fact will accelerate over the forecast period due to a higher rate of inflation. Recall that the rate of inflation is expected to reach 3 percent over the forecast compared to 1.5 percent to

2.5 percent growth in recent years. Table 2 reports nominal income growth, which includes both inflation and real increases in income. Nominal income growth is expected to reach 6.1 percent in 2005, 6.0 percent in 2006, and 5.9 percent in 2007.

Growth in nonfarm wages and salaries, the largest component of income, will average 5.5 percent per year. Growth in proprietors' income will exceed wage and salary growth, as is expected during the expansion phase of the economy. Proprietors' income will grow more than 7 percent per year. Growth in transfer income will match total nonfarm income growth.

**Table 3**  
**Nonfarm Personal Income and Selected Components and Net Farm Income (USDA)**  
**(\$ millions)**

	Nonfarm Personal Income	Nonfarm Wages & Salaries (Wages & Salaries—Farm Wages)	Other Labor Income*	Dividends, Interest, & Rent	Total Personal Current Transfer Receipts	Nonfarm Proprietors' Income	Contributions to Social Insurance	Net Farm Income (USDA)
2000	46,366	26,186	5,317	9,991	6,075	3,654	4,031	1,374
2001	48,102	26,908	5,612	9,998	6,666	3,951	4,200	1,827
2002	48,844	27,631	6,233	9,397	7,042	3,768	4,371	822
2003	50,493	28,622	6,738	9,204	7,319	4,042	4,543	3,228
2004	53,153	29,903	7,245	9,606	7,754	4,386	4,797	3,976
2005	56,383	31,521	7,710	10,278	8,212	4,706	5,027	3,600
2006	59,760	33,254	8,172	10,947	8,705	5,054	5,273	2,800
2007	63,282	35,106	8,627	11,603	9,233	5,432	5,535	2,900

**Recent Percentage Changes**

2000	6.2%	5.6%	6.4%	9.2%	4.3%	3.9%	4.1%	-18.3%
2001	3.7%	2.8%	5.6%	0.1%	9.7%	8.1%	4.2%	33.0%
2002	1.5%	2.7%	11.1%	-6.0%	5.6%	-4.6%	4.1%	-55.0%
2003	3.4%	3.6%	8.1%	-2.1%	3.9%	7.3%	3.9%	292.7%
2004	5.3%	4.5%	7.5%	4.4%	5.9%	8.5%	5.6%	23.2%
2005	6.1%	5.4%	6.4%	7.0%	5.9%	7.3%	4.8%	-9.5%
2006	6.0%	5.5%	6.0%	6.5%	6.0%	7.4%	4.9%	-22.2%
2007	5.9%	5.6%	5.6%	6.0%	6.1%	7.5%	5.0%	3.6%

**Various Percentage Changes - At Annual Rates**

1990-1995	5.7%	5.5%	6.2%	4.5%	6.7%	8.1%	5.5%	-8.1%
1995-2000	6.0%	6.3%	4.7%	6.3%	5.5%	5.6%	5.4%	-3.5%
1990-2000	5.9%	6.0%	5.2%	5.4%	6.0%	7.9%	5.4%	-5.5%
2000-2004	2.5%	2.7%	6.6%	-1.0%	3.9%	2.6%	3.4%	21.5%

Note: Net Farm Income (USDA Basis) is not added into the Nonfarm Personal Income total.

Dividend, interest, and rent income will grow quickly, especially in 2005. Interest income is the largest component. Interest income should improve in 2005 as the Federal Reserve continues to increase short-term interest rates. This will raise interest earnings on short-term financial instruments of all kinds. Recent reductions in capital gains tax rates should lead to increased dividend earnings as companies continue to raise dividends rather than holding income as undistributed corporate profits. Both factors will raise growth in 2005, but growth will moderate in 2006 and 2007. Dividend, interest, and rent income is expected to increase 7.0 percent in 2005, 6.5 percent in 2006, and 6.0 percent in 2007.

## Farm Income <sup>1</sup>

Nebraska farm income reached record levels in 2003 and 2004 due to a robust livestock industry, record-yield levels, high early-year prices for crops, and high levels of direct government payments. Current estimates are that Nebraska farm income reached \$4 billion in 2004, after \$3.3 billion in 2003. Increases in 2003 and 2004 suggest that farm income in Nebraska may have reached a new plateau well above the \$1.5 billion to \$2.0 billion level common in the 1990s. The highly favorable conditions that have prevailed over the last two years will not persist indefinitely. Farm incomes are likely to drop over the forecast period relative to recent high levels.

Farm income in 2005, however, likely will remain near record levels. Direct government payments are expected to rise relative to 2004. Cattle prices are expected to remain at current high levels through 2005, benefiting livestock producers. Livestock producers also will benefit from falling prices for feed inputs. Income may drop for crop producers relative to 2004 due to lower corn and soybean prices and higher fuel prices. The net result is that farm income is expected to fall about 10 percent in 2005 to \$3.6 billion. This would still be the second highest annual farm income on record.

Farm income is expected to moderate further in 2006 and 2007, though it will remain high relative to the 1990s. The forecast is for annual farm income of \$2.8

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<sup>1</sup> Source: Bruce Johnson, Nebraska Agricultural Sector Income Trends and Forecasts (April).

billion in 2006 and \$2.9 billion in 2007. Growth in foreign exports of beef, profitable and expanding ethanol production for corn, and continued drought recovery are all expected to enhance farm income over the period. Some decline in livestock prices and reductions in crop subsidies over the next two to three years are expected to suppress farm income in the future.

## Net Taxable Retail Sales

Net taxable sales continue to improve from anemic growth rates of 1.8 percent and 1.9 percent in 2001 and 2002.<sup>2</sup> Non-motor vehicle net taxable sales growth improved to 3.8 percent in 2003 and showed continued improvement in 2004. Part of the growth was due to an adjustment in the tax base on October 1, 2003. The tax base was expanded to include some additional services, the largest categories being construction services and repair labor to personal property. It is estimated that those services expand the existing tax base about 3.9 percent. Unadjusted non-motor vehicle taxable sales grew 8.0 percent in 2004, but growth was 4.9 percent adjusted for the tax base change that occurred on October 1, 2003.

Current year to date (January 2005) non-motor vehicle net taxable sales continued on the improved path with a nominal growth rate of 6.4 percent. The growth rate for all of 2005 is expected to be 5.2 percent, as growth moderates throughout the year. The outlook for 2006 and 2007 is 4.1 percent and 4.0 percent, respectively. These higher estimated growth rates will be supported by some improvements in employment and an increase in non-wage income. There are also efforts underway to improve compliance of the so-called non-traditional retailers.

Motor vehicle net taxable sales improved from a minus 1.2 percent in 2003 to a minus 0.3 percent in 2004. Current year to date (January 2005) motor vehicle net taxable sales grew at a 0.8 percent rate and are estimated to grow at 0.5 percent for 2005 overall. Improvements are expected for the next two years, with a growth rate of 4.5 percent in 2006 and 5.2 percent in 2007.

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<sup>2</sup> Growth rates of 1.8% and 1.9% in non-motor vehicle taxable sales in calendar years 2001 and 2002 were the lowest growth rates since 1984.

Total net-taxable sales is the sum of motor vehicle and non-motor vehicle net taxable sales. Total net taxable sales in Nebraska is expected to grow 4.6 percent for 2005 and 4.1 percent in 2006 and 2007. These solid growth rates, however, are lower than those that occurred during the 1990s. There are several reasons. Nebraska's population growth is estimated to be lower

than in the 1990s. Further, a shift in consumption pattern away from taxable goods to less broadly taxed services and to purchases from non-traditional retailers are on the increase. Although, there are some administrative efforts underway to stem the leakages due to on-line sales that will help to keep the growth rate more in line with economic activity.

**Table 4**  
**Net Taxable Retail Sales, Annual Totals**

	Total Sales	Motor Vehicle Retail Sales	Other Retail Sales
2000	\$20,443,147,008	\$2,605,040,740	\$17,838,106,268
2001	\$21,056,748,756	\$2,896,708,697	\$18,160,040,059
2002	\$21,426,001,233	\$2,926,105,837	\$18,499,895,396
2003	\$22,092,175,638	\$2,893,503,697	\$19,198,671,941
2004	\$23,618,358,536	\$2,885,018,183	\$20,733,340,353
2005	\$24,710,917,325	\$2,899,443,274	\$21,811,474,051
2006	\$25,735,662,709	\$3,029,918,221	\$22,705,744,487
2007	\$26,801,448,236	\$3,187,473,969	\$23,613,974,267

**Annual Percent Changes**

2000	3.2%	3.4%	3.2%
2001	3.0%	11.2%	1.8%
2002	1.8%	1.0%	1.9%
2003	3.1%	-1.1%	3.8%
2004	6.9%	-0.3%	8.0%
2005	4.6%	0.5%	5.2%
2006	4.1%	4.5%	4.1%
2007	4.1%	5.2%	4.0%

**Average Annual Growth Rates**

1991-1995	5.6%	7.0%	5.4%
1995-2000	5.2%	6.7%	5.0%
1990-2000	5.4%	6.8%	5.2%
2000-2004	2.9%	-0.1%	0.4%

*BBR is grateful for the help of the Nebraska Business Forecast Council. Serving this session were*

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