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## A STURDY ECONOMIC EXPANSION

*By the Bureau of Business Research and the Nebraska Business Forecast Council*

### U.S. Macroeconomic Outlook

**T**he U.S. economy has been impacted in early 2015 by two significant shocks: 1) a sharp increase in the value of the U.S. dollar and 2) a drop in new development in the oil and gas industry, which has led to a drop in mining and related employment. These shocks have restricted economic growth in early 2015, in spite of the ongoing, self-sustaining U.S. economic recovery.

This economic recovery, however, will ultimately absorb these shocks and continue, gaining pace in the second half of 2015. The recovery is fueled by steadily improving consumer spending, business investment and housing activity. The decline in gasoline prices over the last year is one factor which will support faster growth in consumer spending. The recovery also should benefit from stabilization in the value of the U.S. dollar, after a significant increase in late 2014 and early 2015. Modest improvement in the European economy, particularly in Germany and other northern European countries, also should support the reacceleration of the U.S. economy. Finally, economic growth may be aided in 2016, the next Presidential election year, due to growth in federal government spending.

The U.S. economy, however, also will continue to face some headwinds. China is facing a period of reckoning after propping up economic growth for decades with government “investment” in infrastructure and real estate. The result will be

lower Chinese economic growth in 2015 and 2016, slowing demand for imports.

Monetary policy also will produce modest headwinds for U.S. economic growth in 2015 and early 2016 as the Federal Reserve Bank begins to slowly raise short-term interest rates. Further, continued increases in long-term interest rates may influence investor decisions. Lastly, over the next three years, secular demographic trends will limit growth, as an aging population contributes to declining labor force participation rates.

Real GDP growth is expected to reach 2.2% for 2015 overall, despite a lack of growth during the first quarter of the year. Growth will then accelerate to 2.8% during 2016 before decelerating in 2017. Real GDP is expected to grow at 2.5% in 2017.

Job growth will follow a slightly different pattern with stronger growth of 1.7% in 2015. Rapid job growth will be possible, despite modest overall economic growth, as the economy continues to absorb unemployed workers and workers who have withdrawn from the labor force. Job growth will also reach 1.7% in 2016 as economic growth accelerates. Job growth will then fall back to 1.5% in 2017 as economic growth moderates and unemployment falls back to its natural rate.

The recent drop in oil prices will curtail top-line inflation in 2015, and raise it modestly in 2016 as prices rebound. The inflation rate will be 1.0% in 2015, 2.2% in 2016 and 2.0% in 2017.

## Nebraska Outlook

**S**everal factors will limit the pace of economic recovery in Nebraska over the next few years. First, there will be a decline in farm incomes as crop and livestock prices moderate from recent record levels. Second, population growth remains modest in Nebraska, at around 0.6% to 0.7% per year, which restrains growth in the work force. Further, with its low unemployment rate, Nebraska has fewer workers available to absorb back into the work force. As seen in Table 1, the rate of job growth in Nebraska, at 1.3% in 2015 and 1.2% in 2016 and 2017, will be solid but also below the national growth rate discussed earlier.

Nonfarm income also will grow at a solid rate between 3.6% and 4.0% per year. These rates exceed expected inflation and population growth, and therefore, suggest moderate growth in real per capita income in Nebraska. Table 1 also shows the decline in farm income from peak levels in 2013. Incomes will decline sharply in 2014 and 2015 as crop and livestock prices moderate. Farm incomes then will stabilize in 2016 and 2017.

**Table 1— Key Economic Growth Rates**

|      | Nonfarm<br>Employment | Nonfarm<br>Personal Income<br>(nominal) | Net Farm<br>Income<br>(nominal) |
|------|-----------------------|---|---------------------------------|
| 2014 | 1.3%                  | 3.5%                                    | -24.1%                          |
| 2015 | 1.3%                  | 3.6%                                    | -44.6%                          |
| 2016 | 1.2%                  | 4.0%                                    | 16.4%                           |
| 2017 | 1.2%                  | 3.9%                                    | -2.4%                           |

Note: Nominal income growth includes inflation.

## Employment

Table 2 compares the current forecast for nonfarm employment with our previous forecast from January 2015. The new forecast reflects that the pace of employment growth has remained stronger than expected in Nebraska in the last year. The result is a slightly more optimistic forecast for state employment growth.

**Table 2— Comparison of Non-Farm Employment Forecasts**

|      | Jan 2015 Forecast | Current Forecast |
|------|-------------------|------------------|
| 2014 | 0.9%              | 1.3%             |
| 2015 | 1.1%              | 1.3%             |
| 2016 | 1.1%              | 1.2%             |
| 2017 | 1.1%              | 1.2%             |

## Construction and Mining

With housing, commercial and public construction activity all improving, strong job growth has returned for the Nebraska construction sector. Construction employment grew by nearly 4% in 2014, and such rapid growth is expected to continue from 2015 through 2017.

Job growth will be supported by strength in all key components of the construction sector. Residential construction will continue to improve in 2015, given good job prospects, rising incomes and low interest rates. New residential neighborhoods and an improving economy also will support solid growth in private, commercial construction activity. New service businesses will need to be built adjacent to new neighborhoods. Strong growth in service employment also will drive a need for new office space as well as hospitality businesses such as hotels and restaurants.

Heavy construction activity also should grow solidly, in large part due to road construction. State government recently raised the gasoline tax and within the last few years has earmarked general revenue for road construction. Whatever the merits of this new spending there will be a benefit for construction employment over the next few years. The construction sector is expected to add 2,000 jobs in each of the next three years, with job growth of 5.0% in 2015 and 4.5% in 2016 and 2017.

## Manufacturing

Over the next few years, the Nebraska manufacturing industry will benefit from the continued recovery of the U.S. economy. Growing domestic demand will fuel sales growth and modest job gains across the industry. Further, Nebraska manufacturers as a group will not be heavily impacted by slower growth in the U.S. oil and gas industry. This has impacted manufacturing in states which produce equipment for the oil and gas industry.

Nebraska manufacturers, however, also face several headwinds which will limit growth. The first issue is the recent sharp increase in the value of the U.S. dollar. That increase has reduced the competitiveness of U.S. manufacturers relative to international competitors. While the dollar may stabilize near current levels, recent increases are not expected to be reversed.

**Table 3—Number of Nonfarm Jobs and Percent Changes by Industry Annual Averages (in thousands of jobs)**

|                        | Nonfarm<br>Total | Construction,<br>Mining &<br>Natural<br>Resources | Durables | Non-<br>durables | Wholesale<br>Trade | Retail<br>Trade | Trans-<br>portation<br>and<br>Utilities | Inform-<br>ation | Financial | All<br>Services | Federal<br>Gov't | Local<br>Gov't |
|------------------------|------------------|---|----------|------------------|--------------------|-----------------|---|------------------|-----------|-----------------|------------------|----------------|
| 2002                   | 911.0            | 46.1  | 50.6     | 55.5             | 41.5               | 108.9           | 44.9                                    | 23.2             | 61.4      | 320             | 16.3             | 142.6          |
| 2003                   | 913.7            | 47.4  | 47.3     | 55.1             | 41.0               | 107.2           | 46.4                                    | 21.5             | 62.4      | 325.8           | 16.7             | 142.9          |
| 2004                   | 921.3            | 48.4  | 47.0     | 54               | 40.8               | 106.9           | 48.9                                    | 21.1             | 63.2      | 330.9           | 16.5             | 143.4          |
| 2005                   | 934.0            | 47.8  | 48.4     | 52.9             | 40.6               | 107.2           | 52.3                                    | 20.2             | 64.5      | 339             | 16.3             | 144.7          |
| 2006                   | 945.5            | 48.4  | 49.7     | 51.8             | 40.8               | 106.4           | 53.4                                    | 19.5             | 66.7      | 346.9           | 16.2             | 145.9          |
| 2007                   | 961.7            | 50.5  | 50.0     | 51.4             | 41.1               | 107.5           | 56.2                                    | 19.4             | 68.7      | 354.6           | 15.9             | 146.5          |
| 2008                   | 969.5            | 50.1  | 49.3     | 52.1             | 42.0               | 107.0           | 56.1                                    | 18.7             | 69.2      | 361.2           | 16.1             | 147.8          |
| 2009                   | 949.3            | 47.1  | 42.6     | 50.6             | 41.2               | 104.4           | 52.6                                    | 17.5             | 68.4      | 356.5           | 16.5             | 152.0          |
| 2010                   | 945.1            | 42.6  | 41.4     | 50.3             | 40.6               | 103.9           | 51.3                                    | 17.0             | 68.9      | 359.4           | 17.3             | 152.3          |
| 2011                   | 952.6            | 41.5  | 42.5     | 50.9             | 40.8               | 104.8           | 52.2                                    | 17.0             | 70.1      | 364.7           | 16.6             | 151.5          |
| 2012                   | 968.8            | 43.3  | 44.0     | 51.0             | 41.3               | 105.4           | 53.0                                    | 17.2             | 71.0      | 374.2           | 16.7             | 151.7          |
| 2013                   | 980.4            | 45.3  | 45.0     | 51.5             | 42.0               | 106.3           | 53.0                                    | 17.1             | 71.7      | 379.8           | 16.5             | 152.4          |
| 2014                   | 993.3            | 47.0  | 45.8     | 51.5             | 42.7               | 107.9           | 53.3                                    | 17.1             | 72.5      | 385.2           | 16.7             | 153.8          |
| <b>Forecast Number</b> |                  |   |          |                  |                    |                 |   |                  |           |                 |                  |                |
| 2015                   | 1005.9           | 49.4  | 45.8     | 51.7             | 42.8               | 108.8           | 53.8                                    | 17.1             | 73.2      | 391.4           | 16.8             | 155.2          |
| 2016                   | 1018.0           | 51.6  | 45.9     | 51.9             | 42.9               | 109.4           | 54.6                                    | 17.1             | 74.0      | 397.2           | 16.8             | 156.4          |
| 2017                   | 1030.2           | 53.9  | 46.1     | 52.1             | 43.0               | 109.9           | 55.7                                    | 17.1             | 74.8      | 403.2           | 16.8             | 157.5          |
| <b>Forecast Number</b> |                  |   |          |                  |                    |                 |   |                  |           |                 |                  |                |
| 2015                   | 1.3%             | 5.0%  | 0.0%     | 0.4%             | 0.2%               | 0.8%            | 1.0%                                    | 0.2%             | 1.0%      | 1.6%            | 0.6%             | 0.9%           |
| 2016                   | 1.2%             | 4.5%  | 0.3%     | 0.4%             | 0.3%               | 0.6%            | 1.5%                                    | 0.0%             | 1.1%      | 1.5%            | 0.0%             | 0.8%           |
| 2017                   | 1.2%             | 4.5%  | 0.4%     | 0.3%             | 0.2%               | 0.4%            | 2.0%                                    | 0.0%             | 1.1%      | 1.5%            | 0.0%             | 0.7%           |

Source: <http://data.bls.gov/cgi-bin/dsrv>, 2015

Nebraska manufacturers, like manufacturers in many parts of the country, also are constrained by a lack of qualified workers. Specifically, manufacturers face a limited supply of skilled workers at prevailing competitive wages. This situation can in some cases slow output and employment growth.

Nebraska manufacturers also are impacted by falling farm incomes. Reduced profitability for farmers throughout the Midwest has cooled demand for farm equipment, which is a major component of the Nebraska manufacturing industry. The ethanol industry also is under pressure due to uncertainty surrounding Environmental Protection Agency's proposal to adjust the renewable fuel standard downward.

Overall, Nebraska's manufacturing sector is expected to add just a few hundred jobs annually from 2015 through 2017. Durable goods

employment, which includes farm equipment manufacturers, is expected to remain unchanged in 2015, before rising by around 150 jobs during 2016 and 2017. Non-durable goods manufacturers are expected to add 200 jobs per year from 2015 through 2017. Job growth will reach 0.4% in 2015 and 2016 and 0.3% in 2017. Overall, manufacturing will add between 200 and 400 new jobs per year.

### *Transportation and Utilities*

After significant job losses during the Great Recession, the Nebraska transportation industry has begun to add employment. Job growth is expected to improve further over the forecast period. Employment in the trucking sector, in particular, is expected to improve as the U.S. economy continues to grow. Lower diesel prices also may benefit the industry. Like manufacturing, however, the trucking sector is impacted by work force constraints. The sector has consistently faced

challenges in recruiting a sufficient number of workers into long-haul trucking occupations.

Transportation employment will grow by 1.0% to 2.0% during the forecast period, once again making it one of the faster growing Nebraska industries. The transportation industry is expected to grow by 1.0%, or 500 jobs, during 2015. Job growth will rise to 1.5%, or 800 jobs, in 2016 and 2.0%, or 1,100 jobs, in 2017.

### ***Wholesale Trade***

Wholesale trade employment has followed a unique pattern over much of the last decade. Given the industry's rising labor productivity, the long-term trend in employment had been flat. However, job growth has returned in recent years, with the industry adding 700 jobs in 2013 and 2014. Recent improvement may be temporary, a result of the strength in Nebraska's agriculture and manufacturing sectors. Growth in wholesale trade employment should moderate along with these sectors. Wholesale trade employment is forecast to grow by 0.2% in 2015, 0.3% in 2016, and 0.2% in 2017.

### ***Retail Trade***

The retail trade industry is becoming an ever more efficient user of labor. Retail trade increasingly takes advantage of new technologies and business practices to substitute capital for labor and to raise labor productivity. Steady movement towards on-line sales, larger stores, self-checkout, automated inventory and customized marketing are prominent examples. Slow growth in the labor supply is further encouraging these trends, as is the recent increase in the minimum wage in Nebraska. The implication is slow growth in retail trade employment even when retail sales are growing.

As is reported later in Table 6, taxable sales, which are primarily composed of retail sales, will grow solidly in Nebraska during the 2015 to 2017 period. In particular, retail sales in 2015 and early 2016 should benefit from the recent declines in gasoline prices. Retail sales employment is expected to grow by 0.8% in 2015, but the rate of job growth will fall afterwards. Retail trade job growth is forecast to be 0.6% in 2016 and 0.4% in 2017.

### ***Information***

The information industry contains a diverse group of businesses including newspapers, media outlets, sound studios, and technology-oriented businesses such as telecommunications, data processing, and web site development. There has been substantial productivity growth in nearly all of these types of businesses. Such rising labor productivity is a positive for the economy but a negative for job growth within the industry. Employment in the industry, however, has stabilized during recent years as the economy has recovered and this trend is expected to continue. Employment in the Nebraska information industry is expected to remain unchanged at around seventeen thousand jobs over the next three years. Employment will rise just slight in 2015 and remain unchanged in both 2016 and 2017.

### ***Financial Services***

The financial services industry includes finance, insurance, and real estate. While the insurance industry has been flat in Nebraska in recent years, the banking and real estate components of the industry have benefited from normalization in housing sector and commercial construction activity, and the continued expansion of bank branch locations. Continued growth in residential and commercial borrowing will support further expansion of Nebraska's financial services industry. Job growth will be steady, much like the steady growth expected for the aggregate Nebraska economy. Employment will grow by 700 jobs or 1.0% in 2015. Financial services employment is then expected to grow by 1.1% in 2016 and 2017 leading to 800 net new jobs each year.

### ***Services***

The services industry accounted for an estimated 39% of Nebraska employment in 2014. The large services industry contains a diverse group of businesses, including some of the fastest growing parts of the economy such as professional, scientific and technical services. The services industry also contains health care, the largest sector in the Nebraska economy as measured by employment, as well as hospitality businesses, encompassing lodging, food services, drinking places, and arts, entertainment, and recreation.

The services industry is also among the fastest growing part of the economy. The largest components of the services industry, health care and business and professional services, are both expected to grow solidly from 2015 through 2017, in the range of 1.3% to 2.0% each year. Professional and business services will benefit from the steady expansion of commercial activity. Further, while hospital employment will remain under pressure due to consolidation, aggregate health care employment will benefit from population and income growth. In addition, steady population and income growth, along with lower gasoline prices and a growing entertainment sector in Nebraska's cities will contribute to growth in the hospitality sector. However, there will be little growth in the 'other services' sector, which includes repair services, personal services and associations. Overall, services employment will grow by 1.6% in 2015 and 1.5% in 2016 and 2017, which translates to 6,000 net new jobs each year.

### Government

Growing tax revenue and falling budget deficits will support modest growth in Federal government spending over the next few years. Federal employment will grow by 100 jobs in Nebraska this year and remain flat in 2016 and 2017.

At the same time, a strong fiscal situation in Nebraska will support moderate spending growth for state government and solid spending growth by local government. Local governments in particular will benefit from rising property values and recent expansion of Nebraska's Real Property Tax Credit.

As a result, state and local government spending and employment should rise during the period. In the long-run, state and local government job growth should track population growth in Nebraska, which typically ranges from 0.6% to 0.7%. This is because the need for local government services to households typically rises along with population. However, faster job growth is expected over the next few years as state and local government employment "bounces back" given an improving fiscal situation. Specifically, state and local government job growth should reach 0.9% in 2015, 0.8% in 2016 and 0.7% in 2017.

### Personal Income

As seen in Table 4, nominal nonfarm income (including inflation) grew by 3.5% in 2014. This is a solid rate of growth given low inflation. Solid growth of 3.6% is also expected in 2015. This is well above the expected inflation rate of 1.0%, which is low because of the recent sharp drop in oil prices. In 2016 and 2017, inflation will rebound and nonfarm income is expected to grow by 4.1%. Nonfarm income growth for 2015 is lower than in the previous forecast due to lower inflation but higher in 2016 and 2017 due to stronger job growth.

Nebraska farm income reached record levels in 2013, according to data from the United States Department of Agriculture. Farm income dropped significantly in 2014 from these elevated levels and is expected to drop further in 2015, as crop and livestock prices have fallen. The drop in 2015 is more severe than in the previous forecast because crop prices have fallen further than expected. Farm income also is down in 2015 due to an inventory adjustment, with modest recovery expected in 2016.

**Table 4— Comparison of Forecasts for Nominal Income**

| Nonfarm Income |                   |                  |
|----------------|-------------------|------------------|
|                | Jan 2015 Forecast | Current Forecast |
| 2014           | 3.7%              | 3.5%             |
| 2015           | 3.7%              | 3.6%             |
| 2016           | 4.0%              | 4.1%             |
| 2017           | 3.9%              | 4.1%             |
| Farm Income    |                   |                  |
|                | Jan 2015 Forecast | Current Forecast |
| 2014           | -36.7%            | -24.1%           |
| 2015           | -7.0%             | -44.6%           |
| 2016           | 0.3%              | 16.4%            |
| 2017           | -2.0%             | -2.4%            |

Note: Nominal income growth includes inflation.

### Nonfarm Personal Income

Table 5 shows forecasts for the major sources of nonfarm income. Wage and salary income growth will accelerate between 2015 and 2016 as inflation rises. Further as the job market improves, there will be real hourly wage growth of 0.4% in 2016, and 0.6% in 2017. Other labor income (i.e., benefits) will grow somewhat more slowly during the period as employers shift more health care costs onto their employees.

**Table 5—Nonfarm Personal Income and Selected Components and Net Farm Income (USDA) (\$ millions)**

|                                    | Consumer Price Index | Nonfarm Personal Income | Dividends, Interest, & Rent | Total Personal Current Transfer Receipts | Nonfarm Wages & Salaries (Wages & Salaries — Farm Wages) | Other Labor Income | Contributions to Social Insurance | Residential Adjustment | Nonfarm Proprietor Income | Net Farm Income (USDA) |
|------------------------------------|----------------------|-------------------------|-----------------------------|--|--|--------------------|-----------------------------------|------------------------|---------------------------|------------------------|
| <b>Millions of Dollars</b>         |                      |                         |                             |  |  |                    |                                   |                        |                           |                        |
| 2002                               | 179.9                | \$51,910                | \$10,773                    | \$7,123                                  | \$28,470   | \$6,828            | \$4,576                           | -\$943                 | \$4,236                   | \$867                  |
| 2003                               | 184.0                | \$53,911                | \$11,109                    | \$7,432                                  | \$29,456   | \$7,256            | \$4,744                           | -\$997                 | \$4,400                   | \$2,758                |
| 2004                               | 188.9                | \$56,060                | \$10,908                    | \$7,788                                  | \$30,841   | \$7,699            | \$4,959                           | -\$1,018               | \$4,802                   | \$3,584                |
| 2005                               | 195.3                | \$58,240                | \$11,195                    | \$8,248                                  | \$32,064   | \$8,195            | \$5,222                           | -\$1,044               | \$4,804                   | \$2,972                |
| 2006                               | 201.6                | \$62,170                | \$12,338                    | \$8,911                                  | \$33,864   | \$8,418            | \$5,617                           | -\$1,010               | \$5,266                   | \$2,008                |
| 2007                               | 207.3                | \$65,875                | \$13,977                    | \$9,402                                  | \$35,750   | \$8,777            | \$5,843                           | -\$1,108               | \$4,921                   | \$2,945                |
| 2008                               | 215.3                | \$69,188                | \$14,864                    | \$10,061                                 | \$37,053   | \$9,097            | \$6,029                           | -\$1,157               | \$5,300                   | \$3,881                |
| 2009                               | 214.5                | \$68,329                | \$13,200                    | \$11,023                                 | \$36,521   | \$9,306            | \$6,045                           | -\$1,118               | \$5,442                   | \$3,192                |
| 2010                               | 218.1                | \$69,703                | \$13,198                    | \$11,550                                 | \$37,028   | \$9,180            | \$6,253                           | -\$1,030               | \$6,032                   | \$3,862                |
| 2011                               | 224.9                | \$74,062                | \$14,472                    | \$11,830                                 | \$38,071   | \$9,456            | \$5,739                           | -\$1,074               | \$7,046                   | \$7,280                |
| 2012                               | 229.6                | \$79,896                | \$16,517                    | \$12,114                                 | \$39,936   | \$10,182           | \$5,893                           | -\$1,106               | \$8,147                   | \$5,249                |
| 2013                               | 233.0                | \$81,301                | \$16,805                    | \$12,277                                 | \$41,153   | \$10,342           | \$6,787                           | -\$1,084               | \$8,595                   | \$8,366                |
| 2014                               | 236.7                | \$84,114                | \$17,302                    | \$12,714                                 | \$42,603   | \$10,554           | \$7,048                           | -\$1,131               | \$9,120                   | \$6,351                |
| <b>Forecast Number</b>             |                      |                         |                             |  |  |                    |                                   |                        |                           |                        |
| 2015                               | 239.1                | \$87,116                | \$17,873                    | \$13,095                                 | \$43,997   | \$10,889           | \$7,243                           | -\$1,162               | \$9,667                   | \$3,521                |
| 2016                               | 244.4                | \$90,618                | \$18,588                    | \$13,554                                 | \$45,669   | \$11,292           | \$7,482                           | -\$1,201               | \$10,199                  | \$4,100                |
| 2017                               | 249.3                | \$94,186                | \$19,294                    | \$14,042                                 | \$47,401   | \$11,709           | \$7,729                           | -\$1,240               | \$10,709                  | \$4,000                |
| <b>Forecast % (nominal growth)</b> |                      |                         |                             |  |  |                    |                                   |                        |                           |                        |
| 2015                               | 1.0%                 | 3.6%                    | 3.3%                        | 3.0%                                     | 3.3%   | 3.2%               | 2.8%                              | 2.8%                   | 6.0%                      | -44.6%                 |
| 2016                               | 2.2%                 | 4.0%                    | 4.0%                        | 3.5%                                     | 3.8%   | 3.7%               | 3.3%                              | 3.3%                   | 5.5%                      | 16.4%                  |
| 2017                               | 2.0%                 | 3.9%                    | 3.8%                        | 3.6%                                     | 3.8%   | 3.7%               | 3.3%                              | 3.3%                   | 5.0%                      | -2.4%                  |

Source: <http://www.bea.gov>, 2015. Note: Nominal income growth includes inflation.

Proprietor income growth will be strong but slow from 6.0% to 5.0% during the forecast period as the recovery matures. Dividend, interest, and rent income and transfer income will increase by 3% to 4% each year, in line with income growth. Low inflation, however, implies slower growth in transfer payments like social security during 2015.

### *Farm Income*

After reaching record levels in 2013, farm income dropped along with crop prices in 2014. The decline in 2014 farm income, however, was limited by several factors. First, there was a strong increase in beef prices and revenue in 2014. Second, there was a significant and positive inventory adjustment during 2014 as crop stocks were rebuilt.

Farm income will decline further in 2015 for a number of reasons. First, crop prices have declined further in 2015 while beef prices and revenue have stabilized. Second, there has been a drop in

government payments in 2015 as a result of the 2014 Farm Bill. Third, destruction of livestock to stem the spread of the Bird Flu also will impact 2015 revenues. Fourth, inventory adjustments will be negative in 2015 rather than large and positive as in the previous year.

Looking further ahead, the underlying conditions in Nebraska agriculture should remain stable in 2016. Strong livestock revenue will be maintained. Further, farm income also will “bounce back” modestly as inventory adjustments turn from negative in 2015 to neutral in 2016. Farm income will drop modestly in 2017 as livestock revenue moderates.

The forecast calls for Nebraska farm income to drop by 44.6% in 2015 to \$3.5 billion before rebounding by 16.4% to \$4.1 billion in 2016. Farm income will then drop slightly to \$4.0 billion in 2017, a 2.4% decline.

## Net Taxable Retail Sales

In Table 6, data on net taxable retail sales are divided into motor vehicle sales and non-motor vehicle sales. The distinction is important. Motor vehicle net taxable sales grow over time, but at an uneven rate. Non-motor vehicle taxable sales rise steadily, but are affected by periodic changes to Nebraska's sales tax base. Changes to the base are not anticipated during the forecast period.

From 2015 through 2017, non-motor vehicle taxable sales should grow roughly in-line with personal income. The growth rate will be lower in 2015, given low inflation and a drop in farm income during the year. Non-motor vehicle taxable sales are expected to grow by 3.0% in 2015. Growth will bounce back to 4% in 2016 and 2017 as inflation rises back to the Federal Reserve Bank target of 2 percent and as farm income stabilizes.

Growth in motor vehicle net taxable sales expanded rapidly from 2009 through 2013 with recovery in the auto sector and strength in Nebraska agriculture. The sector will continue to expand at a faster pace than income as relatively low interest rates support durable goods purchases. Lower gasoline prices also support purchases of larger vehicles. Motor vehicle taxable sales are expected to grow by 4.0% 2015, 4.5% in 2016 and 4.6% in 2017.

Growth in Nebraska vehicle sales and non-motor vehicle taxable sales will combine to produce solid growth in overall net taxable sales from 2015 to 2017. Overall net taxable sales will grow by 3.1% in 2015, consistent with low inflation during the year. Growth will then rise to 4.1% in 2016 and 2017. All growth rates will easily exceed the rate of inflation, which will be 1.0% in 2015 before rising to between 2.0% to 2.2% in 2016 and 2017.

**Table 6—Net Taxable Retail Sales, Annual Totals (\$ millions)**

|                                    | Consumer<br>Price Index | Total<br>Net Taxable Sales | Motor Vehicle<br>Net Taxable Sales | Non Motor Vehicle<br>Net Taxable Retail Sales |
|------------------------------------|-------------------------|----------------------------|------------------------------------|---|
| <b>Millions of Dollars</b>         |                         |                            |                                    |   |
| 2002                               | 179.9                   | \$21,426                   | \$2,926                            | \$18,500                                      |
| 2003                               | 184.0                   | \$22,092                   | \$2,894                            | \$19,199                                      |
| 2004                               | 188.9                   | \$23,618                   | \$2,885                            | \$20,733                                      |
| 2005                               | 195.3                   | \$24,443                   | \$2,751                            | \$21,691                                      |
| 2006                               | 201.6                   | \$24,978                   | \$2,661                            | \$22,317                                      |
| 2007                               | 207.3                   | \$26,237                   | \$2,902                            | \$23,335                                      |
| 2008                               | 215.3                   | \$26,664                   | \$2,943                            | \$23,721                                      |
| 2009                               | 214.5                   | \$25,709                   | \$2,798                            | \$22,911                                      |
| 2010                               | 218.1                   | \$26,683                   | \$3,021                            | \$23,662                                      |
| 2011                               | 224.9                   | \$28,206                   | \$3,287                            | \$24,919                                      |
| 2012                               | 229.6                   | \$29,546                   | \$3,575                            | \$25,970                                      |
| 2013                               | 233.0                   | \$31,064                   | \$3,720                            | \$27,344                                      |
| 2014                               | 236.7                   | \$32,068                   | \$3,894                            | \$28,174                                      |
| <b>Forecast Number</b>             |                         |                            |                                    |   |
| 2015                               | 239.1                   | \$33,069                   | \$4,050                            | \$29,019                                      |
| 2016                               | 244.4                   | \$34,412                   | \$4,233                            | \$30,180                                      |
| 2017                               | 249.3                   | \$35,814                   | \$4,427                            | \$31,387                                      |
| <b>Forecast % (nominal growth)</b> |                         |                            |                                    |   |
| 2015                               | 1.0%                    | 3.1%                       | 4.0%                               | 3.0%  |
| 2016                               | 2.2%                    | 4.1%                       | 4.5%                               | 4.0%  |
| 2017                               | 2.0%                    | 4.1%                       | 4.6%                               | 4.0%  |

Source: Nebraska Department of Revenue, 2015. Note: Nominal taxable sales growth includes inflation.

# Our Thanks ...

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Serving this session were:

- John Austin, Bureau of Business Research, UNL (retired);
- David Dearmont, Nebraska Department of Economic Development;
- Chris Decker, Department of Economics, UNO;
- Tom Doering, Nebraska Department of Economic Development (retired)
- Ernie Goss, Department of Economics, Creighton University
- Phil Baker; Nebraska Department of Labor;
- Ken Lemke, Nebraska Public Power District;
- Scott Loseke, Nebraska Public Power District;
- Brad Lubben, Department of Agricultural Economics, UNL;
- HoaPhu Tran, Nebraska Department of Revenue
- Eric Thompson, Department of Economics and Bureau of Business Research, UNL

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BUREAU OF BUSINESS RESEARCH  
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