2010

2009-2010 Annual Report, Bureau of Business Research

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DEPARTMENT OF ECONOMICS - COLLEGE OF BUSINESS ADMINISTRATION - UNIVERSITY OF NEBRASKA-LINCOLN

Bureau of Business Research

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2009-2010 Annual Report

Economic and Business Research That's Relevant, Informative, Insightful, Timely

University of Nebraska Lincoln

A Letter from the Director

At the Bureau of Business Research, our goal is to conduct research on factors influencing the growth and prosperity of the Nebraska economy and to do so in a way that enhances research and education opportunities for UNL students and research opportunities for University faculty. We provide these services to businesses, non-profit organizations, and government at the local, state, and national levels.

The Bureau met these goals over the past year through a series of projects and publications described in this Annual Report. Among these the report , "An Action Plan for Growing Nebraska," encapsulated much of the research that the Bureau of Business Research has done over the last decade on the pathways to growth in the Nebraska economy. The report for the Nebraska Renaissance Group, co-authored with Ernie Goss of Creighton University and Nick Niemann of McGrath North, Mullin & Kratz Law Firm, examined the potential for growth led by a more competitive climate to attract business and households. The report developed several dozen recommendations for promoting growth through lower taxes on households and business, strategic expansion of state incentive programs, and a shift towards the private provisions of amenities and services that contribute to the quality of life in our state. The results of the report were widely discussed by the Nebraska media and should serve as a basis for research and thinking regarding demographic and economic growth in our state over the next decade. The report and its recommendations are presented here in our Annual Report.

In line with the, "Action Plan" last year, the Bureau conducted a series of economic studies of private organizations which contribute to the quality of life in Nebraska. The first of these was the economic impact of two non-profit research and education centers in the area of the annual crane migration through central Nebraska. The report entitled, "The Economic Impact of Rowe Sanctuary and Sandhill Migration on the Central Nebraska Region", is a continuation of Bureau analysis of research and education centers in Great Plains regions around the world. The report reiterated the important economic impact of tourism in Central Nebraska resulting from the crane migration and also demonstrated the critical role that research and education centers play in ecotourism and eco-engagement. The results of the study were featured in leading Nebraska newspapers, University of Nebraska publications, and in *Audubon* magazine.

The Bureau also developed studies on the economic impact of the emerging winery and grape growing industries in Nebraska. This private industry not only creates job and income opportunities but offers a critical new type of recreation activity for Nebraska residents. It is an excellent example of the critical role of private business in creating quality of life amenities in Nebraska, the leading example of this is the non-profit Omaha's Henry Doorly Zoo. This organization through the decades has created one of the finest Zoos in the world, yielding both a substantial enhancement to the quality of life of Nebraska residents and to the Nebraska tourism industry. The findings of these two studies are summarized in this annual report.

This report also contains reprints of the Bureau of Business Research publication *Business in Nebraska.* During this year, the Bureau continued its efforts to forecast an outlook for the Nebraska economy through its leadership in the Nebraska Business Forecast Council. The Council was able to correctly predict that the U.S. and Nebraska economy would begin to recover from the "Great Recession" during 2010. In the March 2010 *Business in Nebraska,* the Bureau also initiated the first year of its planned annual release of the, "State Entrepreneurship Index". This entrepreneurship index, based on the index in the 2008 book *Entrepreneurship in Nebraska: Conditions, Attitudes, and Actions*, will be released each year in the spring edition of Business in Nebraska.

Many of these studies were co-authored with graduate and undergraduate students who work at the Bureau of Business Research, and a list of these students is presented on page 4. We also note that 2 current or former Bureau of Business Research projects were developed in published journal articles.

We look forward to working with many other groups as Nebraskans strive to improve the good life here in the state.

Dr. Eric C. Thompson
Associate Professor of Economics and
Director, Bureau of Business Research

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About the BBR

Economic and Business Research That's Relevant, Informative, Insightful, Timely

About the Bureau

The Bureau of Business Research (BBR) is an applied economic and business research entity of the College of Business Administration at the University of Nebraska–Lincoln. Located in the Department of Economics, the BBR exists to accomplish two primary purposes. First, it provides relevant information and insightful data on economic conditions in Nebraska, the Great Plains, and the nation as a general service to individuals and businesses in the state. Second, the BBR provides economists with practical opportunities to conduct applied economic research and trains students of economics and business in the conduct of applied research on timely economic and business topics. The BBR regularly publishes reports summarizing its sponsored research studies and also publishes outlooks and analyses in the newsletter, *Business in Nebraska.*

Research Areas

The BBR conducts contract and sponsored research on the economy of Nebraska and its communities including:

- Studies of economic competitiveness
- Economic modeling and forecasting
- Labor market analysis
- Fiscal analysis
- Policy analysis
- Tourism analysis

In addition, the BBR also competes for research funding from federal government agencies and private foundations from around the nation. The BBR further contributes to the academic mission of the University of Nebraska–Lincoln through scholarly publication and the education of students.

Publications

The Bureau of Business Research regularly produces reports summarizing our sponsored research on the Nebraska and U.S. economy. These reports are posted on our website: http://www.bbr.unl.edu.

BBR also produces the quarterly publication *Business in Nebraska*. Two editions each year report outlooks for Nebraska employment, income, and state government revenue that are developed by the Nebraska Business Forecast Council. Two other editions report special topics research on the Nebraska economy. Continuously published since 1949, *Business in Nebraska* is now principally distributed via email. Interested parties should contact the BBR to be added to the email list. This publication is available at the Bureau website.

Competitiveness of the Nebraska Economy

Nebraska and its local economies compete with areas in surrounding states, the nation, and globally for industries and workers. The BBR is committed to studying factors that affect competitiveness including taxation, business conditions, labor force, and infrastructure. The Bureau also is currently developing indicators to compare competitiveness in Nebraska regions and peers in surrounding states.

Outlooks on the Nebraska Economy

One of the BBR's primary functions is to provide outlooks for the Nebraska economy. Bureau faculty has substantial experience in developing outlook models for state, metropolitan area, and local economies. The Bureau also produces semi-annual outlooks for Nebraska employment, income, and state tax revenue by taking a leadership role in the Nebraska Business Forecasting Council.

Labor Market, Policy, and Fiscal Analysis

The BBR studies key topic areas facing the Nebraska economy. Labor market analysis examines factors that influence earnings and effort of the workforce. Policy analysis studies the effectiveness and economic consequences of existing or proposed policies. Fiscal analysis considers the implication of particular policies and programs on government revenue.

Tourism

The BBR conducts studies of tourism's economic and fiscal impact on the economy. The studies have examined a variety of attractions including Omaha's Henry Doorly Zoo, the University of Nebraska Athletic Department, the Rowe Bird Sanctuary, heritage tourism sites, and the 2008 Olympic Swim Trials.

Personnel

Director: Dr. Eric C. Thompson

Dr. Thompson has 18 years experience conducting research on local, state, and national economies. His research fields include regional economics, economic forecasting, and state and local economic development. Dr. Thompson received his Ph.D. in agricultural economics from the University of Wisconsin–Madison in 1992. His research has been published in *Regional Science and Urban Economics,* the *Journal of Regional Science, Regional Studies*, and the *American Journal* *of Agricultural Economics.*

The Bureau contributes to student education by employing both graduate and undergraduate research assistants. The BBR also draws upon the expertise of the entire faculty of the Department of Economics in the College of Business Administration.

Contributing Faculty

- Dr. Christopher Decker
  - University of Nebraska-Omaha
- Dr. Richard Edwards
  - University of Nebraska-Lincoln
- Dr. Ernie Goss
  - Creighton University
- Dr. Mary McGarvey
  - University of Nebraska-Lincoln
- Dr. David Rosenbaum
  - University of Nebraska-Lincoln
- Dr. William Walstad
  - University of Nebraska-Lincoln

Bureau Interns

Undergraduate Students

- Foong Ye Cheng
- John DeVol
- Nicole Hutsell
- Miles Krumbach
- Ben Sun
- Jaijun Xu

Graduate Students

- Steve Carlson
- Ryan Gorka
- Hanna Hartman
- Pavel Jeutang
- Comlavni Konou
- Andrew Perumal
- Wanasin Sattayanuwat
- Van Tran

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Research Report Summaries

An Action Plan for Growing Nebraska

Prepared for
The Nebraska Renaissance Group

Dr. Eric C. Thompson
University of Nebraska-Lincoln

Dr. Ernie Goss
Goss and Associates

Nick Niemann
McGrath, North, Mullin, & Kratz, PC LLO

Executive Summary

In the competition between states for population, a state must create a climate that is attractive to households. Both the rural and urban areas must develop a set of "man-made" amenities such as strong job opportunities, a favorable tax climate, a low cost of living, good schools, flexible health care options, and high quality recreation and entertainment options. The list is long but the goal is clear: to create a climate where households have a comprehensive set of incentives drawing them to live in both the rural and urban areas of the state.

This report presents incentive-based approaches that we believe will significantly increase population growth in Nebraska both by generating new growth in a wide area of non-metropolitan Nebraska and by accelerating growth in and around current metropolitan areas. In a series of recommendations, we outline steps that can be taken to increase earnings opportunities, lower the tax burden, and help Nebraskans get more from their income. In short, we present a set of steps to help households make more income, keep more of that income, and enjoy that income more. Our approach is a market-oriented one. We examine whether lower taxes on families at all income levels can do more to promote growth and prosperity than government services. We rely on the notion that government should focus on providing those goods and services that the private sector cannot provide. Our approach is also community-oriented because we expect that local households and businesses can come together and direct resources in ways that best promote growth.

Accelerated population growth is necessary in Nebraska to ensure that the state can meet the goals, set out by the Nebraska Renaissance group, to maintain a set of vibrant communities throughout the State of Nebraska, and reach a population of 2 million persons in the state. Thus, part of our interest is in creating an environment for balanced population growth in Nebraska, where more non-metropolitan areas gain population even as growth accelerates in regions such as Lincoln, Omaha, and other areas along the Interstate 80 corridor. This goal can best be served by pursuing a general set of policies to improve economic conditions throughout the state. However, there are pro-growth solutions that can be especially helpful for non-metropolitan areas. We propose options to promote entrepreneurship, small business, energy businesses, and community marketing that will be particularly helpful in non-metropolitan counties.

Our forty-seven recommendations for action are listed below. We examine recommendations related to: 1) government structure and organization, 2) job creation incentives and tax reductions, and 3) other enhancements to keep Nebraskans in Nebraska. In the balance of the report we provide more detailed background information and explanations for each of our recommendations. Thus, after each recommendation we provide the page number in the report where the reader can go to find more detailed information about that recommendation.

Section One: Government Structure and Organization

Key to the effective and efficient operation of any organization is an underlying governance structure which enables the constituent parts of that organization to function in an organized, authorized and known manner. This includes the manner in which it will raise revenue to fund its operations, as well as the methods and means by which it will authorize and manage the expenditure of its funds. We recommend a set of general improvements in Nebraska's governance structure which we believe will help limit the growth in public spending in the state, creating an opportunity to cut taxes and allow Nebraska households to keep more of what they earn.

Main Priority

(1.1) Government Business Model Task Force. That the Governor's Office or business community (with the Governor's cooperation) engage an outside consultant team to undertake a business model review of our government operations with the intention of undertaking a comprehensive review of the complete business logic of how the state functions, from its purposes and objectives, to the way state employees are hired, paid, promoted and retained, the various political subdivisions and structure, to revenue modeling, cost and spending models, privatization and state service priorities. This review would impact many of the other recommendations throughout this Report.

Other Top Priorities

(1.2) Constitutional Convention. That a Constitutional Convention be called and convened in order to bring to Nebraska's Constitution and government structure the capabilities which would allow Nebraska's elected officials to prudently move forward and adapt to rapidly changing times. - If a Constitutional Convention is not called and convened by the State, that the business community engage a study of our Constitution in order to develop a more detailed review and analysis of the improvements which should be made to our governance structure.

(1.3) Tax Revenue Policy. The State should adopt a well-defined tax revenue policy to which long term legislative actions will adhere that aims at specific objectives, is long lasting, and is well-known. These objectives should be targeted at growing Nebraska's population.

(1.4) Budget Process Reform. The State and local government budget process should be reformed to require justification at each level on a zero-based format. The Governor should have overall CEO budget approval responsibility for all government departments, agencies, subdivisions to which State tax revenue dollars are directed.

(1.5) Nebraska Government Report Card. Adopt a "Report Card" reporting method which will be required of our State Legislature as well as County Boards and City Councils which will provide a very user friendly presentation so that our citizens can easily discern the performance of our elected officials as to their spending and taxation obligations as well as our rankings nationally in key performance metrics. This should be produced on at least an annual basis for publication in Nebraska's print media and its availability should be made known through Nebraska's broadcast media with the Report Card maintained on one statewide website devoted to this purpose (www.NebraskaReportCard.gov). This Report Card should also be mailed annually to all registered voters, and mailed again shortly before each election.

Other Recommendations

(1.6) Keep Local vs. State Tax Levy and Spending Responsibilities Local Where Possible. To the extent possible, taxes in Nebraska should be levied, administered and debated at the lowest level of government (e.g. city rather than state).

(1.7) Index Tax Brackets. The State of Nebraska should automatically increase the boundaries for state income tax brackets each year based on the percentage increase in the consumer price index.

(1.8) Eliminate Income Based Tax Deduction Phase-Outs. The State of Nebraska should eliminate the phase-out of itemized deductions for all Nebraskans on their state income taxes.

(1.9) Individual Income Tax Rate. Eliminate Nebraska's "Additional Tax Rate Schedule".

(1.10) Regulatory Flexibility. Adopt the Nebraska version of the Federal Regulatory Flexibility Act.

(1.11) Tax Appeal Fairness. Legislatively provide for the adoption of an independent, non-judicial dispute tax forum with the ability to issue binding decisions (subject to the rights of either the Tax Commissioner or the taxpayer to appeal to District Court) and provide that the burden of proof at the District Court and appellate court level is on the party who lost at the Tax Hearing level.

(1.12) Tax Expenditure Limitation. Adopt a Legislative TEL by the Nebraska Legislature with the following features:

- Limit State tax expenditures to a rate of increase equal to the combined rate of population growth and inflation.
- The State Legislature could override the TEL for either one or both years in a Nebraska biennial through the vote of two-thirds of the members of the Nebraska Legislature.
- Excess revenue collected would be returned to Nebraska taxpayers in a manner proportionate to such taxpayers preceding year State income tax liability.
- Sales and income tax rates would be reduced pursuant to a legislative formula to be determined, to the extent that the revenue system is producing more revenue than that permitted by the TEL

(1.13) Limit Student State Aid Growth. The State of Nebraska should limit the growth in state aid per student for K-12 education to the rate of inflation.

(1.14) Tax Administration. Address the remaining Nebraska tax administration deficiency evaluated by the Council On State Taxation by modifying the corporate income tax due date return to be the 15th day of the 4th month following the close of the tax year (i.e. one month longer than the due date for the federal income tax return).

Section Two: Job Creation Incentives and Tax Reductions

Good jobs and earnings opportunities remain a key feature that attracts households to a town or a city. As a result, to increase population growth in Nebraska, there is a need to create additional job opportunities throughout the State of Nebraska, and especially in the nonmetropolitan areas of the state. To help with this, the State of Nebraska has recently enhanced its business incentive program through the passage of the Nebraska Advantage Act, and through tax cuts. We propose complementary efforts to further improve the climate for businesses and entrepreneurs. This will not only create more job opportunities but also will help more Nebraskan's find a way to pursue their own careers within Nebraska through entrepreneurship rather than looking to other states for job opportunities. We further make recommendations to enhance growth in Nebraska's energy and transportation industries.

Top Priorities

(2.1) Entrepreneurship Education Program. All public universities, colleges, and community colleges in Nebraska should adopt a comprehensive entrepreneurship education program (defined by offering degree programs in entrepreneurship across the institution). All school districts in Nebraska should provide high school students with the opportunity to take coursework with a focus on entrepreneurship.

(2.2) Reduce Income and Sales Tax Rates. To lower tax revenue as a percentage of state personal income, the State of Nebraska should make across-the-board cuts in major state tax rates. We propose a 0.5% reduction in the state sales tax rate (from 5.5% to 5.0%), and a 1.0% reduction in the personal and corporate income tax rate for each tax bracket.

(2.3) Enhance The Nebraska Advantage Act. Enact needed enhancements to the Nebraska Advantage Act.

1. Nebraska Advantage Tier 6. Adopt the following enhancements:
   - Revise the required wage to be the greater of 150% of the Metro wage or 150% of the rural wage.
   - Allow the wage levels of multiple counties to be used for multiple location projects (not just the highest wage level).

LB312 Export Services Exclusion. Expand the Nebraska Advantage Act to consider all Export Services as qualified business activities.

LB312 Tier 1 Business Activities. Allow all qualified business activities to qualify at the Tier 1: $1 million new investment and 10 new jobs.

LB312 Tier 5 Job Maintenance. Remove the -0- job maintenance requirement of Tier 5 investment-only projects.

- Upgrade The Nebraska Advantage Act New Job Standard. To meet the new flexible and alternative work-force arrangements phenomena impacting today's work-force, upgrade the Nebraska Advantage Act's new employee standards to allow job count and job credits for all leased employees and contract workers for Nebraska taxable employment occurring in Nebraska at or for the Nebraska project.

Improvements To Nebraska Advantage Act. Enhance the Nebraska Advantage Act with the following improvements.

- Remove the project multiple location "interdependence" requirement, which has been a source of tortured interpretation.
- Confirm that a project location does not need to be owned or rented by the company.
- Allow companies to amend down to Tier 1 - $1 million investment/10 jobs.
- Change the inflation adjustment for qualified investment from the All Commodities Producer Price Index to an index appropriate to investment prices.
- Allow the investment credit for custom software (not just packaged software).
- Remove the provision which delays the sales tax refunds for claims over $25,000.
- Allow the contractors tax calculation for all items annexed by Option 2 and 3 contractors (not just materials incorporated into real property).
- If a business is sold and the buyer keeps the employees employed, all these employees to remain in the seller's employment count as long as the positions are retained by the buyer in Nebraska.
- If a project employee is moved to an affiliate that does not have a project but is in a qualified business, allow this employee to remain in the headcount while employed by the affiliate.
- Exempt all equipment and personal property from the property tax for the $10 million new investment/100 new job tier.
- Home-Based Worker Initiative. Expand to LB312 teleworker provision to allow the incentives for all types of off-site employees working for an LB312 company.

2. Home-Based Worker Initiative. Expand to LB312 teleworker provision to allow the incentives for all types of off-site employees working for an LB312 company.

(2.4) Transmission Cost Allocation. Allocate transmission costs for new wind plants to all electric customers in the state. This would reduce the effective capital cost of wind plants compared with conventional alternatives – perhaps by about 5 percent – and is similar to a provision in Texas, the country's leading producer of wind energy. On a national level, Nebraska should advocate for a "national grid" policy, whereby transmission investment needed to support a national renewable portfolio standard is funded in a similar manner to how the interstate highway system was funded. Nebraska, along with other Midwest states, have the highest wind generation potential and it will require vast amount of investment in transmission to deliver this energy to eastern states.

(2.5) Corporate Income Tax Apportionment. Convert Nebraska's corporate income tax apportionment method for service companies to the market-based sourcing method.

Other Recommendations

(2.6) Nebraska Discretionary Fund. Enact a discretionary fund to assist with economic development.

1. Nebraska Enterprise Fund. Enact and fund an enterprise fund (similar to the Texas Enterprise Fund) which could be utilized by the Governor as a discretionary deal-closing fund to help bring better paying jobs to our State. Based on a population comparison to Texas, the recommendation is a $25,000,000 start-up fund for Nebraska.
2. Governor Opportunity Fund. Establish a Governor's Opportunity Fund with $25 million initial funding (patterned after Virginia) which provides state grants and loans to counties and municipalities to use for infrastructure improvements and customized job training to attract projects having at least $10 million new investment and 100 new jobs (or $3 million and 30 new jobs for cities under 50,000 population).

(2.7) I-80 Industrial Airport. An industrial airport should be located along the I-80 Corridor between Lincoln and Omaha. This would offer the potential to greatly enhance the economic outlook for all Nebraskans, both urban and rural. The proposed Corridor facility would be owned jointly by the cities of Omaha and Lincoln but managed by a private quasi-government organization such as currently manages Eppley Airfield in Omaha.

(2.8) State Zoning. Enhance rural development of agribusiness opportunities by adopting a statewide zoning program, to provide predictability and consistency in zoning for business operations.

(2.9) Capital Savings Accounts. The State of Nebraska should allow small and mid-size manufacturing firms (defined as firms with fewer than 100 employees) to set aside up $100,000 of taxable income per year into a tax free account to be used for future capital investments. Funds would need to be invested within 7 years of being set aside into the account, or be taxed at the initial rate plus interest.

(2.10) Capital Gain Exclusion. Enact the following updates:

- Update Nebraska's targeted capital gain exclusion on the sale of companies to now include the sale of LLC's and partnerships.
- Update this exclusion to also cover the sale of a business through an asset sale rather than simply a stock sale.
- Allow commonly owned brother-sister companies to be treated as one company (like parent- subsidiary groups) for purposes of the one company rule.

(2.11) Venture Capital Initiative. Enhance Nebraska's venture capital possibilities by enacting key tax initiatives: (1) Exempt the capital gain when the venture capital investor sells the investment, and (2) Exempt from income, sales taxes and personal property taxes for 5 years a new or expanding business in which at least 51% of the equity capital is provided by venture capital investors.

(2.12) Star Bond Program. Nebraska should adopt a STAR bond program patterned after the Kansas program targeted at major retail anchor projects which have attractive tourism features.

(2.13) Exempt Renewable Generation From Sales Tax. Enact a sales tax exemption for renewable generation for public power. This also would reduce the effective capital cost of a wind plant by about 5% and ease the least-cost burden.

(2.14) Wind Power Incentive. Institute a state production incentive for wind power at a level of 1¢/kWh over a 30-year plant life.

(2.15) Generalize The Least-Cost Statute. Generalize the least-cost statute that governs the Power Review Board's decision process. This would allow consideration of currently non-monetized benefits of clean renewables like wind power, including, for example, cleaner air and water resulting from emissions reductions, reduced health risks and costs, fuel diversity and energy security, and economic benefits from utilizing an indigenous resource.

(2.16) Recruit Cattle Operations. To take advantage of short-term to intermediate term ethanol production in the state, Nebraska should increase its active recruitment of cattle and other related operations to locate close to ethanol plants and adopt legal and regulatory policies to accommodate this.

(2.17) County TIF. Extend Nebraska's Tax Increment Financing Program to Nebraska's counties through a constitutional amendment.

(2.18) Clarify The Manufacturing Sales Tax Exemption. Either through a revised ruling or legislation, (i) clarify that purchases made through Options 2 and 3 contractors also qualify; and (ii) clarify that the definition of manufacturer is made at the project or site, not based 51% of a company's national revenue.

(2.19) Nebraska's Job Training Program. Simplify the process and conditions for the Nebraska Advantage DED Job Training program to enhance the programs usefulness and attractiveness for both new jobs and re-training for existing jobs.

Section Three: Other Enhancements to Keep Nebraskans in Nebraska

More households will choose to remain in or move to a community with a full complement of well run amenities and services providers. And, while both government and the private sector have a role to play in providing amenities and services for households, steps can be taken to raise the level of private sector involvement, through both non-profit and for-profit businesses. Local non-profit organizations can play an active role in providing amenities and services, while other services and amenities can be "privatized" and provided by private businesses. More generally, there are opportunities to promote community initiatives for economic development that will build community capacity and attract and retain population. We provide recommendations on each of these points.

Top Priorities

(3.1) Local Community Capacity Building and Recruiting Efforts. Locally organized and run community capacity building or community marketing efforts should be established in communities throughout the state. These efforts should be as widespread as existing local economic development programs.

(3.2) Retirement Distributions: Exempt retirement distributions from state income tax. This would particularly exempt military retirement income like most other States. In addition to being the right treatment for our veterans, this will incent them to staff military contractor projects which Nebraska is trying to attract.

(3.3) Strengthen Charitable Giving to Encouarge the Private Provision of Amenities and Services. The following 3 recommendations are made.

- Endowment Tax Credit. In non-metropolitan Nebraska, local leaders should make a sustained effort to raise funds to build the endowment in community foundations. To help facilitate this, leaders in Nebraska should pursue legislation to substantially increase the allowable credits under the Nebraska Charitable Tax Credit (Endow Nebraska program) above their current 10% credit for corporations, 15% for individuals, and $5,000 maximum annual credit.

- Charitable Tax Credit. The Nebraska Charitable Tax Credit should make the credits for donations to the unrestricted endowments of community foundations 10% higher than donations to other types of endowments.
- Nebraska Targeted Charitable Giving Tax Credit Program. Legislatively adopt a tax credit for charitable contributions made by individuals, estates, trusts, and business entities. The tax credit would be 25% of the charitable contribution for contributions which over a four-year (or less) period total at least $100,000. The maximum amount of contribution over this four-year period which can earn this credit would be $500,000 for the particular donor.

(3.4) Reduce Property Tax Mill Without Increasing The Sales Tax Rate. Political subdivisions and school districts should reduce the property tax mill rates by 20% by the year 2020 compared to the average mill rate that prevailed during the 2003 to 2007 period. Cities also should not raise the local option sales tax rates.

(3.5) Automobile Property Tax. Revise the Nebraska automobile tax system so that the rate is no more than the rate which would place Nebraska in the best (lowest) 20 States for this tax.

Other Recommendations

(3.6) BECA Funding. The State of Nebraska should substantially increase funding for the Build Entrepreneurial Communities Act (BECA). We propose an annual funding level of $5,000,000 and a change in rules so that a single municipality or county can receive funding for more than one project, or can apply for funding for up to a five year period.

(3.7) Permit Private Residential Development On State Lakes. Enact legislation which permits private residential development on our State Lakes like that allowed in other States.

(3.8) Inheritance Tax. Repeal Nebraska's other death tax, the Inheritance Tax.

(3.9) Homestead Exemption. To help retain in Nebraska our retired seasoned citizens (and their families), and to bring back "boomerang" children and grandchildren, allow a homestead exemption for homeowners over age 65 of $100,000 (regardless of home value or income level).

(3.10) Privatize Public Amenities. State and local government at all levels should establish a task force for their jurisdiction to review opportunities to privatize publically provided recreation and entertainment amenities including recreation facilities and youth recreation leagues; music, theatre, and sports venues; and park lodges and recreation facilities.

(3.11) Critical Skill Scholarships. The State of Nebraska should begin a program to pay the tuition of students to pursue a degree in a critical skill occupation at a Nebraska college or university. Participating students must agree to work in a non-metropolitan county in Nebraska for a period of at least 5 years after college. The number of participating students would be limited by the amount of funds raised by private sources, and for students willing to study for a set of designated critical occupations.

(3.12) Property Tax For Roads. With the exception of Sanitary Improvement Districts, municipalities should utilize a portion of annual property tax revenue to ensure that there is sufficient funding available for road improvements to accompany new residential and commercial development. Municipalities should adopt a policy of utilizing 25% of property tax revenue from all new construction for this purpose for a period of 10 years.

(3.13) Reduce Health Mandates. The State of Nebraska should provide a periodic review of all benefit and provider mandates to determine what each mandate adds to the cost of health insurance. The state should set a goal of reducing total mandate costs by 20% below their current level in real (inflation adjusted) cost.

(3.14) Health Savings Accounts. The State of Nebraska should allow residents with a health savings account to deduct premium payments from their income tax when purchasing high-deductable health insurance policy in the individual health insurance market.

The Economic Impact of the Rowe Sanctuary and Sandhill Crane Migration on the Central Nebraska Region

Prepared for
The Rowe Sanctuary

Dr. Eric C. Thompson
University of Nebraska-Lincoln

Dr. Richard Edwards
University of Nebraska-LIncoln

Executive Summary

Thousands of visitors travel to central Nebraska each year to view one of nature's most spectacular sights – the gathering of hundreds of thousands of sandhill cranes (Grus canadensis) along the Platte River. As well as experiencing nature, the crane-watchers bring new spending to the economy of central Nebraska. In addition, crane-related conservation research and education centers obtain grants and other funds to finance their operations, also bringing new spending to the area.

This study collected financial data and conducted surveys to assess the impact of the Audubon Rowe Bird Sanctuary on the central Nebraska economy in 2009. We use the IMPLAN software to calculate the relevant economic multipliers. We considered both the operational expenditures and spending by tourists attracted to the Rowe Sanctuary. We find that the total economic impact of Rowe's operations to be $0.69 million, and the total economic impact of spending by Rowe's visitors to be $1.39 million. Thus the overall impact of Rowe Sanctuary on the central Nebraska economy is $2.08 million in 2009.

We repeat this analysis, using additional financial data we collected and additional survey data, to assess the combined impact of the principal crane-related conservation research and education centers (including Rowe) on the economy of central Nebraska. We use the IMPLAN software to calculate the relevant economic multipliers. We considered both the operational expenditures and spending by tourists attracted to these centers. We find that the total economic impact of the combined centers' operations to be $2.25 million, and the total economic impact of spending by the centers' visitors to be $2.90 million. Thus the overall impact of the centers on the central Nebraska economy is $5.15 million in 2009.

Finally, using data we collected or generated combined with other data from other studies, we provide an estimate of the overall or "global" impact of the sandhill crane migration on the central Nebraska economy. Because the validity of this estimate necessarily relies on data obtained from other studies and on certain plausible though speculative assumptions, we necessarily have somewhat less confidence in this estimate. Given this caveat, our estimate of the global impact of the sandhill crane migration on the central Nebraska economy is $10.33 million per year.

Table 5.1
Summary of 2009 Total Economic Impact of the Crane Migration on Central Nebraska

		Economic Impact From (Millions of $)		
	Expenditures	Visitors	Total	Total Jobs
Rowe	$0.69	$1.39	$2.08	36
4 Principle Centers	$2.25	$2.90	$5.15	90
All Crane Related Activites	$2.25	$8.08	$10.33	184

Note: Results vary by level of aggregation and should not be added together.

The 2008 Economic Impact of the Nebraska Wine and Grape Growing Industry

Prepared for
The Nebraska Wine and Grape Growers Association

Dr. Eric C. Thompson
University of Nebraska-Lincoln

Executive Summary

The Nebraska wine and grape growing industry makes a contribution to the Nebraska economy by producing grapes and wine, making new investments in facilities and vineyard acreage, and operating tasting rooms that attract tourism spending. In doing so, the industry also creates employment and earnings opportunities for Nebraskans and improves the quality of life in the state by providing new entertainment and cultural options for Nebraska residents. As seen in Table ES.1, the estimated 2008 economic impact of the industry was $12.0 million, including $3.8 million in worker wages spread over an estimated 178 paid wage and salary jobs. There are another 259 job opportunities for proprietor's in the industry. These jobs include both full- and part-time employment.

These substantial impacts will only grow in future years. First, the Nebraska wine and grape growing industry is on a long-run path of rapid growth. Sales of Nebraska wine grew six-fold from 2000 to 2008. This rapid growth occurs as sales of Nebraska wine replace sales of wine imported from other states or from other nations. Second, sales and impact were suppressed in 2008 for several reasons. First, the economy was in recession in 2008, which restricted growth in demand. Second, there was poor grape production in Nebraska in 2007 due to freezes in the spring of that year. This limited wine sales in 2008 since most of the wine sold in 2008 would have been produced with 2007 grapes. The industry and its economic impact should grow substantially in future years as the industry snaps back from recession and poor weather, and due to the industry's long-run path of rapid growth.

Table ES.1
Overall 2008 Economic Impact of the Nebraska Wine and Grape Growing Industry

	Economic Impact			
Other Travel	Total Economic Activity (Millions $)	Winery & Vineyard Proprietor Employment	Wage and Salary Employment	Wages (Millions $)
Winemaking and Grape Growing Sales	$7.3	259	112	$2.1
Winery and Vineyard Investments	$2.3	0	32	$1.0
Tourism	$2.3	0	34	$0.7
Total	$12.0	259	178	$3.8

The Economic Impact of Omaha's Henry Doorly Zoo on Omaha and Nebraska, the 2009 Update

Prepared for
The Omaha Zoo Foundation

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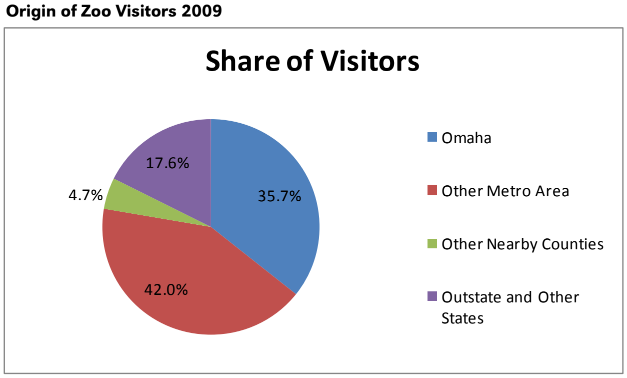
Executive Summary

Omaha's Henry Doorly Zoo is among the largest and most affordable zoos to visit in North America. The nationally-known Zoo further makes a significant contribution to the economy of the City of Omaha and the State of Nebraska. The Zoo attracted 1.56 million visitors, and their spending, in 2009 including many visitors from outside of Omaha and outside of the State of Nebraska.

This study estimates the economic impact of Omaha's Henry Doorly Zoo during 2009. The Zoo generated an economic impact on the city and state economy by 1) attracting new visitors to Omaha and Nebraska, 2) encouraging existing visitors to spend more, and 3) retaining spending by city and state residents in Nebraska. The economic impact of the Zoo is large in part because a significant share of visitors to Omaha's Henry Doorly Zoo come from outside of the Omaha Metropolitan Area. Figure ES.1 shows the origin of the Henry Doorly Zoo's 1.56 million visitors during calendar year 2009. Around one-sixth of visitors come from other states such as Kansas or South Dakota, or from "outstate" Nebraska and Iowa, that is, counties that are not adjacent to the Omaha Metropolitan Area.

Figure ES.1
Origin of Zoo Visitors 2009



Source: Omaha's Henry Doorly Zoo.

Omaha's Henry Doorly Zoo had a substantial economic impact on Omaha during 2009, as is shown in Table ES.1. The 2009 overall economic impact on the City of Omaha was $101.22 million. This impact included $36.30 million in labor income paid to an estimated 1,418 workers employed either at the Zoo or at businesses throughout the Omaha economy. There also was $1.65 million in local sales, use, and lodging taxes generated.

These 2009 impact figures are 15% to 20% greater than the 2008 impacts identified in last year's report. This follows from the substantial increase in attendance at Omaha's Henry Doorly Zoo from 1.39 million in 2008 to 1.56 million in 2009. The other major findings of the report were:

- The 2009 overall economic impact of the Zoo on the State of Nebraska was $83.14 million, including $27.35 million in labor income. There was also $4.10 million in state sales, use, and lodging taxes generated.[1]

- The 2009 economic impact estimates are towards the high end of the annual economic impact of the Zoo throughout the 1998 to 2009 period, and just below the impact during the "peak" years of 2002 and 2004.

Table ES.1
Overall Economic Impact and Labor Market Impact of Omaha's Henry Doorly Zoo 2009
City of Omaha

Economic Impact (Millions of $)	Labor Income Component (Millions of $)	Employment Impact (Jobs)	Local Sales, Use and Lodging Tax (Millions of $)
$101.22	$36.30	1,418	$1.65

Source: Bureau of Business Research Estimates

1 Zoo visitors from communities such as Grand Island or North Platte bring new spending to the City of Omaha but do not bring new spending to the State of Nebraska. This is why it is not surprising that the economic impact of the Zoo on the State of Nebraska is slightly less than its impact on the City of Omaha.

Business in Nebraska Reprints

Return to Growth

By The Nebraska Business Forescast Council

U.S. Macroeconomic Outlook

After 18 months of decline, the United States economy returned to growth in mid-2009. Growth was tepid at first, with U.S. gross domestic product rising by just 2.2% in the 3rd quarter. But, growth was much more rapid in the 4th quarter, portending a solid recovery in 2010 and 2011. Economic expansion will be broad-based, with both household consumption and business investment rising, and employment increasing in most industries. The reasons for recovery are typical of other recoveries. Initially, the recovery is powered pent-up consumer demand among households who have retained spending power. Later, there is a rebound in business investment and hiring. This leads to rising employment and income which underpins sustained growth in consumption.

But, this recovery, like the recession which proceeded it, will not be entirely typical. Gross domestic product and employment will not be able to quickly rebound to pre-recession levels. Specifically, several factors will limit the recovery. First, weakness will persist in key sectors such as construction, housing, commercial real estate and banking. In many parts of the United States, the housing sector will be hit by another wave of foreclosures in 2010, which will limit price growth and new construction. An excess supply of commercial real estate will also impact the banking industry and limit construction employment. Recovery in these sectors will be halting during 2010.

Second, pre-recession levels of economic activity, fueled in part by cheap credit and a negative savings rate, were not sustainable. The economy will need time for the underlying productive capacity of labor, capital and technology to expand to support these higher levels of spending. In 2010 then, there can only be a partial recovery to pre-recession levels of gross domestic product and employment.

We expect the U.S. GDP will grow by 3.5% year-over-year in 2010 and by 4.0% in 2011. As indicated above, these rates exceed trend growth rates, as is expected in recovery. But, the rate of growth will not be high enough to snap back to pre-recession levels in 2010. U.S. gross domestic product may only reach pre-recession levels during 2011, and employment may not fully recover until at least 2012. The consumer price index is expected to rise by 2% in 2010 and to 2.5% by 2011. The Federal Reserve will begin raising interest rates later in 2010 and in 2011 in order to combat future increases in inflation rates. The Fed has already begun to phase out emergency measures taken to aid the economy during the financial crisis. The unemployment rate will fall below 9% by late 2010, and to 7% by late 2011.

As in recent years, economic conditions will be relatively strong in Nebraska, since the state begins the year in better shape. Unemployment rates will remain about half the national average, and fall in step with national rates. Nebraska will experience solid job and income growth in 2010, and strong growth in 2011.

Nebraska Outlook

Table 1 provides a summary of the Nebraska economic outlook. The Table shows that a sharp decline in employment in 2009 will be followed by moderate employment and income growth in 2010. Strong employment and income growth are forecast for 2011. Farm incomes fell sharply during 2009, but fell from record highs in 2008. Farm income in 2009 was still above its 10-year average in Nebraska, and is forecast to rise in 2010 and 2011.

This outlook was prepared in two phases. First, the UNL Bureau of Business Research and UNO economics faculty member Christopher Decker produced a preliminary economic outlook. Second, the Nebraska Business Forecast Council met to produce a final outlook based on the preliminary outlook, each Council member's research on a key sector of the economy, and the group's overall expertise about the Nebraska economy. A detailed description of the resulting Nebraska outlook is provided below.

Table 1
Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income (nominal)	Net Farm Income (nominal)
2008	0.8%	3.3%	34.5%
2009	-1.6%	1.5%	-33.4%
2010	1.0%	3.9%	8.2%
2011	1.8%	5.0%	3.4%

Note: Nominal income growth includes inflation.

Employment

As seen in Table 2, job growth will rebound in Nebraska in 2010, erasing most of the job losses that occurred in 2009. Further, rapid job growth in 2011 implies that Nebraska employment will reach pre-recession levels by mid-2011. Job growth will be broad-based, returning to most sectors in

2010 and others in 2011. Note also that our current forecast is consistent with our last forecast in June 2009.

Table 2
Comparison of Non-Farm Employment Forecasts

	June 2009 Forecast	Current Forecast
2008	0.8%	0.8%
2009	-1.3%	-1.6%
2010	0.9%	1.0%
2011	1.9%	1.8%

Construction and Mining

Nebraska construction activity bottomed in 2009, as an anemic housing market generated few housing starts. A slow recovery is set to begin in 2010 as the economy recovers, credit conditions slowly improve, and pent up demand for new housing leads to an improvement in new home construction. Road construction and other infrastructure projects also should show modest growth in 2010 as Federal stimulus spending supports new projects. But, non-residential construction will weaken in 2010. Several major construction projects in Nebraska wound down in 2009, and a surplus of commercial buildings will limit new construction even as the economy recovers. As a result, there will be no recovery in non-residential activity until 2011.

Overall, in 2010, two segments of the construction sector – residential construction and road building – will experience a modest recovery. By 2011, all three segments of the construction industry will be expanding, and a solid recovery should be underway in new home construction. As a result, we anticipate modest growth in construction employment in 2010, and rapid growth in 2011. As seen in Table 3 on the next page, construction employment fell by 3.0% in 2009, but will grow by 1.0% in 2010 and 4.0% in 2011.

Manufacturing

Total manufacturing activity is beginning to expand again. But, rising industry productivity and related human resources practices suggest that employment growth will return to the industry slowly over time. Specifically, during the early stages of a recession, manufacturers adjust to declining demand by first reducing overtime hours, then cutting back on normal work hours, and lastly by laying off workers. This pattern allows employers to retain highly skilled workers through the early stages of an economic downturn and can reduce the need for time consuming and costly searches to find skilled workers later. When demand does pick up after a long economic downturn, employers first return to normal work hours and then begin offering overtime work. Given current idle capacity, estimates are that manufacturing output could increase about 5% before there is a need to hire new workers.

When manufacturers do begin adding new workers, many firms will use temporary workers from employment agencies. These new temporary workers will be counted as employees of the employment agencies (a service sector), not the manufacturing establishments. If demand continues to grow, these temporary workers will eventually become employees of the manufacturing firms and overall manufacturing employment will begin to grow.

Preliminary (partial) data for 2009 suggest a 12.1% decline in the durable goods manufacturing jobs. In 2009, lower farm incomes reduced demand for the farm machinery, equipment manufacturing, and the fabricated metal products manufacturing industries. Nationally, the recession and credit conditions reduced employment in other durable goods sectors and these reductions will continue through much of 2010. Durable goods employment is expected to fall another 3.0% in 2010 before an increase of 2.4% in 2011. The outlook for farm equipment is beginning to brighten as some agricultural commodity prices, especially corn and soybeans have shown signs of strength.

In the case of nondurable manufacturing, preliminary data for 2009 suggest a 4.8% decline in employment. Employment is forecast to decline through 2010, with a loss of 1.4%. During 2010, increases in international demand for meat products are expected to have a positive impact on food processing, the key nondurable goods sector in Nebraska. In 2011, employment growth will return with job growth up 0.2%.

Transportation and Utilities

The national recession slowed Nebraska's rapidly growing transportation sector in 2009. Trucking, rail, and warehousing experienced a 2.0% job loss in 2009, continuing a decline that began in 2008.

National economic recovery will mean a recovery in the Nebraska transportation sector. Net hiring should begin by mid-2010, and perhaps earlier in both the trucking and rail sectors in response to the cyclical upturn. Further, long-term trends continue to favor Nebraska's transportation sector. Nebraska's central location, advantages of the I-80 corridor, low entry costs, educational training programs, and favorable demographics all underpin above average growth in the industry in the long-run.

With normal growth rates returning during 2010, transportation and utility employment will grow by 1.3% this year. Growth will accelerate to 3.6% in 2011 as all segments of the industry expand.

Wholesale Trade

Wholesale trade employment has changed little over the last decade. Employment drifted both up and down during the period but never by more than a few hundred jobs from year to year. Trends also have not always followed the overall Nebraska economy. Trends in the industry may be hard to identify because many wholesale businesses are tied to wider regional markets as well as the local markets within the state. In particular, many wholesale operations serve multi-state markets and compete with businesses based in other states. This means growth in industry activity from year to year will depend on the ability of Nebraska businesses to maintain and gain customers from their competitors. At the same time, rising productivity keeps a cap on total industry employment, so there is no long-term trend of job growth.

But, the industry does respond to strong economic trends as is evident by the 1.5% decline in wholesale trade employment in 2009. The industry is expected to experience very modest growth as the economy recovers. Wholesale trade employment is expected to grow by 0.2% in 2010 and 0.6% in 2011.

Retail Trade

The year 2009 was difficult for the retail trade industry. With weak consumer demand, retail employment fell by 1.8% in 2009. Industry sales will recover as the economy recovers in 2010 and 2011. But, employment growth will be modest in both years. Several factors will account for this modest employment growth. As with wholesale trade, productivity is rising in retail trade businesses, particularly as larger 'big box" stores gain a larger share of the sector. Slow growth of the labor force due to an aging baby boom population also encourages more efficient use of labor in retail businesses. Finally, there are increased sales by on-line and other nontraditional retailers, many of which are located in other states. Retail employment is expected to grow by 0.1% in 2010 and 0.6% in 2011.

Information

The information industry contains a diverse group of industries including newspapers, media outlets, sound studios, and technology-oriented industries such as telecommunications, data processing, web site devel¬opment, and web publishing. Most of these industries are cyclically sensitive, and portions of the industry such as media are under substantial long-term pressure as advertising revenues have dropped both due to the recession and due to a shift of advertising to on-line and wireless platforms. There also have been very substantial increases in labor productivity in areas such as telecommunications and publishing. These factors point to both a long-term decline in employment and sharp declines in the current recession. Preliminary data suggest a 5.5% decline (1,000 jobs) in 2009. A further decline of 1.7% is expected in 2010 and employment will be flat in 2011.

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

	Nonfarm Total	Construction Mining & Natural Resources	Durables	Non-durables	Wholesale Trade	Retail Trade	Trans-portation and Utilities	Inform-ation	Financial	All Services	Federal Gov't	Local Gov't
1999	893.9	44.1	57.5	55.4	42.3	110.1	44.3	27	60.7	301.1	15.9	135.6
2000	910.7	45	58.7	55.2	41.7	111.2	44.9	26.8	60.3	312.5	16.6	137.9
2001	916.8	45.3	54.7	56.3	42.5	110.5	45.2	25.8	60.2	319.5	16	140.8
2002	908.1	46.1	50.6	55.5	41.5	108.9	44.9	23.2	61.4	317.1	16.3	142.6
2003	910.5	47.4	47.3	55.1	41	107.2	46.4	21.5	62.4	322.6	16.7	142.9
2004	917.7	48.4	47	54	40.8	106.9	48.9	21.1	63.2	327.4	16.5	143.4
2005	930.2	47.8	48.4	52.9	40.6	107.2	52.3	20.2	64.5	335.2	16.3	144.7
2006	941.5	48.4	49.7	51.8	40.8	106.4	53.4	19.5	66.7	342.9	16.2	145.9
2007	957.4	50.5	50	51.4	41.1	107.5	56.2	19.4	68.7	350.3	15.9	146.5
2008	964.7	50	49.5	52.1	41.9	107.5	55.3	18.8	69.1	356.5	16.1	147.8
Forecast Number												
2009	949.7	48.5	43.5	49.6	41.3	105.6	54.2	17.8	69.0	352.3	16.5	151.5
2010	959.1	49.0	42.2	48.9	41.4	105.7	54.9	17.5	69.9	360.1	16.9	152.7
2011	976.4	51.0	43.2	49.0	41.6	106.3	56.9	17.5	71.3	369.8	15.9	153.9
Forecast Number												
2009	-1.6%	-3.0%	-12.1%	-4.8%	-1.5%	-1.8%	-2.0%	-5.5%	-0.2%	-1.2%	2.5%	2.5%
2010	1.0%	1.0%	-3.0%	-1.4%	0.2%	0.1%	1.3%	-1.7%	1.3%	2.2%	2.4%	0.8%
2011	1.8%	4.0%	2.4%	0.2%	0.6%	1.6%	3.6%	0.0%	2.0%	2.7%	-5.9%	0.8%

Source: http://data.bls.gov/cgi-bin/dsrv,2009

Financial Services

The financial services industry comprises a diverse group of related industries including finance, insurance, and real estate. The trend in these industries is for strong, stable growth as the need for financial and insurance services grows in our increasingly complex, service-oriented economy. Nebraska is also a national leader in the insurance industry, and has a number of strong, growing regional banks.

The industry, however, has been impacted by current weakness in the housing sector. Housing related industry segments such as real estate, loan activity, and mortgage brokers were weak in 2009 and may only begin to recover with the housing market in 2010. Preliminary data suggest that industry employment was down by -0.2% in 2009. Employment growth will return as the economy and housing sector recover. Employment growth of 1.3% is anticipated for 2010, with job growth accelerating to 2.0% in 2011.

Services

The services sector accounts for 37% of employment in the Nebraska economy and contains a diverse group of industries. Services includes some of the fastest growing parts of the economy such as professional, scientific and technical services and other types of business services, as well as the largest industries in the economy such as health care. Services also includes the hospitality industry, encompassing lodging, food services, drinking places, and arts, entertainment, and recreation businesses.

During an economic expansion, service sector employment expands at a healthy pace. Demand for services from both people and business grow quickly. In a typical year, service sector employment will grow by 2% to 2.5%.

Portions of the industry such as health care also grow steadily, largely avoiding cyclical patterns. However, portions of the industry closely follow the business cycle, expanding rapidly when the economy expands and declining when the economy is in recession. These cyclical portions of the industry such as business services shed employment during 2009. Preliminary data indicate a 1.2% decline in services industry employment in 2009.

Job growth will return to the industry as the economy recovers in 2010 and 2011. Growth will be broad-based including the hospitality industry and education services. Very rapid job growth is expected for business services industries such as professional, scientific, and technical services, administrative and support services, and management of companies, especially in 2011. Overall service sector job growth will reach 2.2% in 2010 and 2.7% in 2011.

Government

Federal government employment grew in 2009 and is expected to grow in 2010 due to the decennial Census. Workers were hired in 2009 in preparation for the Census and will be hired in 2010 to carry-out the Census. In the past the cumulative impact of the Census was to increase Federal employment in Nebraska by approximately 5%. We anticipate a roughly 2.5% increase in employment in both 2009 and 2010. Those jobs will be shed by 2011.

Stimulus funding and an expansion of state funding for local schools helped underpin strong job growth in state and local government employment during 2009. Preliminary data suggest a 2.5% increase in state and local government employment in Nebraska in 2009. Most of that increase was in local government employment, which includes schools. Growth will return to the trend rate of 0.8% in both 2010 and 2011.

Personal Income

Declining employment in 2009 led to slow growth in nominal income (income growth which includes inflation) during the year. As seen in Table 4, nonfarm income grew by just 1.5% in 2009. Income growth, however, will reach normal levels as employment growth returns to Nebraska in 2010, and accelerate to strong growth in 2011. Farm income declined in 2009 compared to record breaking levels in 2008. However, 2009 farm income is above its 10-year average and there will be modest growth in farm incomes in 2010 and 2011.

Nonfarm Personal Income

Nonfarm personal income growth slowed to just 1.5% in 2009 with recession conditions hurting wage and salary income, and especially proprietor and dividend, interest, and rent income. As seen in Table 4, nonfarm personal income growth will improve to 3.9% as employment growth returns in 2010, and grow by 5.0% in 2011.

Table 4
Comparison of Forecasts for Nominal Income

Nonfarm Income

	June 2009 Forecast	Current Forecast
2008	4.4%	3.3%
2009	2.5%	1.5%
2010	4.8%	3.9%
2011	5.1%	5.0%

Farm Income

	June 2009 Forecast	Current Forecast
2008	19.0%	34.5%
2009	-24.5%	-33.4%
2010	1.6%	8.2%
2011	9.7%	3.4%

Note: Nominal income growth includes inflation.

As seen in Table 5, nonfarm wage and salary income will grow by 4.4% in 2010 and 5.1% in 2011. Growth in employee benefits (other labor income) will match growth rates in wage and salary income. Thus, employer contributions to

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)
Millions of Dollars										
1999	166.6	$44,484	$9,288	$5,802	$25,144	$5,179	$4,043	-$783	$3,896	$1,707
2000	172.2	$47,557	$10,108	$6,088	$26,649	$5,546	$4,225	-$854	$4,243	$1,453
2001	177.1	$49,569	$10,086	$6,693	$27,573	$5,981	$4,411	-$871	$4,518	$1,914
2002	179.9	$51,247	$10,095	$7,127	$28,474	$6,538	$4,553	-$902	$4,468	$867
2003	184.0	$53,071	$10,101	$7,424	$29,458	$7,136	$4,716	-$956	$4,624	$2,762
2004	188.9	$55,068	$9,926	$7,783	$30,857	$7,399	$4,924	-$971	$4,998	$3,587
2005	195.3	$57,190	$10,177	$8,210	$32,095	$7,836	$5,187	-$991	$5,051	$2,973
2006	201.6	$61,125	$11,471	$8,833	$33,905	$8,144	$5,595	-$960	$5,327	$2,020
2007	207.3	$64,289	$12,354	$9,982	$35,817	$8,383	$5,793	-$1,064	$5,209	$2,994
2008	215.3	$66,383	$12,426	$10,076	$37,010	$8,654	$5,984	-$1,081	$5,283	$4,026
Forecast Number										
2009	214.6	$67,390	$11,950	$10,650	$37,935	$8,897	$6,194	-$1,105	$5,257	$2,680
2010	218.9	$70,051	$12,129	$11,179	$39,601	$9,297	$6,536	-$1,131	$5,510	$2,900
2011	224.4	$73,532	$12,479	$11,762	$41,632	$9,715	$6,849	-$1,157	$5,951	$3,000
Forecast % (nominal growth)										
2009	-0.3%	1.5%	-3.8%	5.7%	2.5%	2.8%	3.5%	2.1%	-0.5%	-33.4%
2010	2.0%	3.9%	1.5%	5.0%	4.4%	4.5%	5.5%	2.4%	4.8%	8.2%
2011	2.5%	5.0%	2.9%	5.2%	5.1%	4.5%	4.8%	2.3%	8.0%	3.4%

Source: http://www.bea.gov, 2009
Note: Nominal income growth includes inflation.

worker benefits, including health insurance, will rise at a moderate rate throughout the period. As a result, workers will be responsible for paying a significant share of the increase in health care costs. Non-farm proprietor income will contract in 2009, but snap back sharply as the economy improves in 2010 and 2011. Proprietor income is typically very pro-cyclical.

As is often the case, transfer income will grow fastest during recession. Transfer income will grow by 5.7% in 2009, before falling back to 5.0% growth in 2010 and 5.2% growth in 2011. All of these growth rates in 2010 and 2011 are above the expected rate of inflation.

Farm Income

As is evident in Table 5, there has been substantial volatility in farm incomes in recent years. These fluctuations have been due to external factors beyond the producers' control – the dollar exchange rate, the price of oil on world markets, consumer shifts in diet under financial constraints, and global agricultural production levels. The sharp decline in Nebraska farm incomes in 2009 (after hitting record levels in 2008) align with USDA forecasts for the entire U.S. farm sector. In 2009, crop commodity prices fell from their high levels in 2008, while both crop and livestock producers faced higher input costs going into 2009.

Income conditions are highly diverse in agriculture. While crop producers have experienced a generally favorable year in 2009 despite high fertilizer input costs and lower crop prices, livestock producers have struggled to break even. In fact, with weak meat and dairy prices, many livestock producers have seen continued losses in 2009, and in some cases, financial stress threatening their long-term economic survival. Looking forward to 2010 and beyond, there are forces in place which suggest some optimism for future farm income levels. Fertilizer prices have fallen by more than 50% from a year earlier. The dollar decline against other currencies, if it holds, will encourage more agricultural exports of both crops and livestock/meat. Further, the population base of global demand continues to grow at a rate of 78 million additional persons per year, which also will encourage exports. Finally, the falling dollar, by increasing the price of oil, also lifts ethanol prices. Ethanol plants that were shut down or

Table 6
Net Taxable Retail Sales
Annual Totals ($ millions)

	Consumer Price Index	Total Net Taxable Sales	Motor Vehicle Net Taxable Sales	Non Motor Vehicle Net Taxable Retail Sales
Millions of Dollars				
1999	166.6	$19,806	$2,520	$17,286
2000	172.2	$20,443	$2,605	$17,838
2001	177.1	$21,057	$2,897	$18,160
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
Forecast Number				
2009	214.6	$25,823	$2,767	$23,057
2010	218.9	$26,719	$2,924	$24,795
2011	224.4	$28,028	$3,258	$24,770
Forecast % (nominal growth)				
2009	-0.3%	-3.2%	-6.0%	-2.8%
2010	2.0%	3.5%	5.7%	3.2%
2011	2.5%	4.9%	11.4%	4.1%

Source: Nebraska Department of Revenue, 2009
Note: Nominal taxable sales growth includes inflation.

running at less than full capacity have now come back on line, which should help support corn prices. We anticipate that farm income will rise to $2.9 billion in 2010, or an 8.2% increase. Farm income will rise another 3.4% to $3.0 billion in 2011.

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 are growing over time, but from year to year follow a cyclical pattern. Non-motor vehicle taxable sales rise steadily, but are affected by business cycles and periodic changes to Nebraska's sales tax base. During the outlook period, we do not anticipate changes in the sales tax base, but the economic recession and recovery will influence taxable sales.

With a weak economy in 2009, non-motor vehicle taxable sales declined by 2.8%. This decline was reinforced by a small decline in the consumer price index in 2009. With the economy recovering, non-motor vehicle taxable sales growth will increase to 3.2% in 2010 and 4.1% in 2011. Both growth rates will exceed inflation rates, and are consistent with growth in retail sector employment, and with improved growth in hospitality industry activity, much of which is subject to state sales tax.

Motor vehicle net taxable sales, always very cyclical, began a sharp turn-around in 2007, growing by 9% and by 1.4% in 2008 after years of decline. Given the often discussed collapse of auto sales in the United States in 2009, there was a 6.0% decline in Nebraska motor vehicle sales in that year.

Motor vehicle sales in Nebraska will improve in 2010, and especially 2011, as the economy and automobile sales improve across the nation. An increase of 5.7% is anticipated for 2010, and growth of 11.4% is expected in 2011.

Overall net taxable sales (from both sources) declined by 3.2% in 2009. This substantial decline is consistent with downward revisions in overall Nebraska state tax revenue during the year. Growth will return during 2010, with growth in total taxable sales of 3.5% as the Nebraska economy rebounds. Growth will be strong in 2011, due to improving non-motor vehicle taxable sales and a sharp increase in motor vehicle sales. Growth will reach 4.9% in 2011. Both growth rates will exceed the rate of inflation.

The Bureau of Business Research is grateful for the help of the Nebraska Business Forecast Council, Serving this session were:

- Dr. John Austin
  -Department of Economics, UNL
- Dr. Chris Decker
  -Department of Economics UNO
- Tom Doering
  -Nebraska Department of Economic Development
- Dr. Ernie Goss
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- Dr. Bruce Johnson
  -Department of Agricultural Economics, UNL
- Ken Lemke
  -Nebraska Public Power District
- Bill Locke
  -Nebraska Legislative Council
- Shannon Raemaker
  -Nebraska Department of Labor
- Franz Schwarz
  -Nebraska Department of Revenue
- Scott Strain
  -Greater Omaha Chamber of Commerce
- Dr. Eric Thompson
  -Bureau of Business Research, UNL
- Dr. Keith Turner
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Entrepreneurship in Nebraska

By Steve Carlson, Hanna Hartman,
Dr. Eric Thompson and Dr. William Walstad

Introduction

Entrepreneurship can be an important process in stimulating economic growth. While it is not the sole determinant of economic prosperity, it can be a way for a state such as Nebraska to outperform other states. In Entrepreneurship in Nebraska: Conditions, Attitudes, and Actions, Eric C. Thompson and William B. Walstad developed an entrepreneurship index that acts as a benchmark to compare Nebraska with the other forty-nine states. The index in their publication was constructed using 2005 data. The latest data available needed to calculate this index now exists for 2008. In this report, we use the method developed by Thompson and Walstad to calculate a 2008 index and compare it to the 2005 index. This comparison will allow us to see how states fluctuate in entrepreneurship rankings in a recession year versus a year like 2005 when the economy was strong.

We discuss further the components of the index and substitute a newly available component that we feel may better capture entrepreneurship in states. In particular, we create an enhanced index that substitutes gross receipts of proprietors and partnerships for the personal income of proprietors, a component in the original index. This new component may lead to a more accurate assessment of entrepreneurship because it avoids an upward bias of income in high cost-of-living states. Lastly, we will compare the index created with new components to the index created with the original components.

Index Components

We begin by discussing the original entrepreneurship index. Five components play a role in determining this index:

- Percent growth in employer establishments
- Percent growth in non-farm proprietorships per capita
- The business formation rate
- Patents per thousand residents
- Real income per non-farm proprietorship

An index for each component consists of calculating how much each state's performance deviates from the median state. The state at the median gets a value of 1.0. A state one standard deviation above the median gets a 2.0, while a state one standard deviation below the median gets a 0.0[1]. The overall entrepreneurship index is calculated by taking a simple average of the five index values for each state. Table 1 on the following page compares the 2005 entrepreneurship index from Thompson and Walstad and the updated index using 2008 data.

Some states have moved up or down significantly since 2005, while others have stayed about the same. This suggests that some states were able to maintain entrepreneurship in a recession better than others. Nebraska held its ground, making only a small move from thirty-fifth to thirty-sixth. In regards to neighboring states, Colorado dropped nine spots, Wyoming moved up two spots, South Dakota remained unchanged, Iowa moved up four spots, Missouri dropped one spot, and Kansas jumped twelve spots. Nebraska still trails Colorado, Wyoming, and Kansas, while leading South Dakota, Iowa, and Missouri. The drop in rank for Colorado was due to a much slower growth in employer establishments in 2008 than in 2005. The jump in rank for Kansas was due to significant improvements in growth in employer establishments, firm births per person, and growth in non-farm proprietorships per person. Another big mover was Delaware, dropping twenty-four spots due to negative growth in employer establishments in 2008. South Carolina dropped twenty-two spots largely due to slower growth in establishments and fewer patents per thousand residents in 2008. Washington moved up twenty-two places due to increased growth in establishments per person.

Index Revision

Five components play a role in determining the new Entrepreneurship Index:

- Percent growth in employer establishments
- Percent growth in employer establishments per capita
- The business formation rate
- Patents per thousand residents
- Gross receipts of sole proprietorships and partnerships per capita.

The current index substitutes gross receipts of sole proprietorships and partnerships for income per non-farm proprietorship. We felt that gross receipts of sole

1 Standard Deviation: The square root of the variance, tells how much variation there is from the mean.

Table 1
State Entrepreneurship Index, 2005 and 2008

State	2005 Rank	Index Value	2008 Rank	Index Value
AL	36	0.80	48	0.48
AK	43	0.56	30	0.90
AZ	26	1.11	40	0.74
AR	41	0.67	23	1.08
CA	6	1.74	3	2.01
CO	2	2.17	11	1.52
CT	4	1.87	4	1.96
DE	10	1.53	34	0.84
FL	14	1.36	16	1.41
GA	33	0.90	41	0.72
HI	39	0.75	43	0.68
ID	1	2.44	13	1.48
IL	15	1.35	8	1.61
IN	40	0.74	38	0.80
IA	49	0.46	45	0.59
KS	31	0.92	19	1.27
KY	45	0.53	50	-0.05
LA	44	0.54	24	1.08
ME	50	0.32	35	0.84
MD	12	1.42	27	1.04
MA	5	1.84	5	1.95
MI	22	1.24	17	1.33
MN	16	1.32	21	1.13
MS	48	0.47	47	0.51
MO	38	0.77	39	0.78
MT	46	0.53	26	1.06
NE	**35**	**0.85**	**36**	**0.83**
NV	29	1.03	10	1.56
NH	13	1.37	12	1.51
NJ	3	2.08	6	1.89
NM	25	1.11	28	0.99
NY	7	1.74	1	2.08
NC	37	0.77	46	0.59
ND	32	0.90	25	1.07
OH	34	0.90	31	0.89
OK	20	1.25	15	1.44
OR	11	1.49	32	0.87
PA	17	1.31	14	1.47
RI	8	1.58	18	1.32
SC	27	1.11	49	0.18
SD	42	0.63	42	0.70
TN	28	1.04	22	1.10
TX	21	1.25	29	0.94
UT	18	1.29	33	0.84
VT	19	1.29	9	1.58
VA	23	1.22	20	1.20
WA	24	1.18	2	2.03
WV	47	0.51	44	0.61
WI	30	1.00	37	0.82
WY	9	1.54	7	1.69

Sources: Table 3.7 from "Entrepreneurship in Nebraska," Bureau of Labor Statistics, Bureau of Economic Analysis, U.S. Census Bureau, U.S. Statistical Abstract, and Author's calculations

Table 2
Revised Entrepreneurship Index, 2008

State	2008 Rank	Index Value
AL	44	0.58
AK	31	0.98
AZ	35	0.8
AR	10	1.46
CA	4	1.81
CO	18	1.23
CT	13	1.38
DE	42	0.61
FL	5	1.7
GA	22	1.15
HI	37	0.79
ID	2	1.93
IL	11	1.42
IN	39	0.73
IA	46	0.57
KS	17	1.27
KY	50	-0.51
LA	16	1.29
ME	30	1.03
MD	41	0.66
MA	9	1.54
MI	33	0.93
MN	23	1.14
MS	47	0.56
MO	40	0.73
MT	19	1.23
NE	**24**	**1.13**
NV	7	1.63
NH	14	1.32
NJ	12	1.4
NM	32	0.95
NY	1	2.04
NC	29	1.03
ND	21	1.18
OH	27	1.06
OK	15	1.3
OR	45	0.57
PA	28	1.06
RI	48	0.56
SC	43	0.6
SD	36	0.8
TN	20	1.19
TX	34	0.82
UT	26	1.07
VT	8	1.58
VA	25	1.11
WA	3	1.88
WV	49	0.07
WI	38	0.73
WY	6	1.64

Sources: Bureau of Labor Statistics, IRS Statistics of Income Bulletin, U.S. Census Bureau, U.S. Statistical Abstract, and Author's calculations

proprietorships and partnerships would be more descriptive of the entrepreneurship environment due to the fact it accounts only for sole proprietorships and partnerships. Real income per non-farm proprietorship includes all non-farm proprietorships, and this may have a higher probability of including those who are not truly entrepreneurs, such as contractors. The gross receipts measure is also a more complete measure of business activities relative to proprietorship income. A proprietor income measure also may be more susceptible to differences in cost of living (and therefore, income) among states.

With the change in the income component of the index, the percent growth in non-farm proprietorships per capita component was changed to percent growth in employer establishments per capita. Again, this change was made out of the concern that the proprietor measure included too many individuals who were contractors rather than entrepreneurs. For example, the number of proprietorships could grow simply because some firms reclassified some of their employees as contractors and removed their benefits. Table 2 shows the 2008 entrepreneurship index with the new components using the latest data available.

Table 3 shows a comparison of the 2008 index using the old components and the 2008 index using the new components[2]. Nebraska fairs better using the new components, ranking twenty-fourth instead of thirty-sixth. Nebraska's improvement in the new index can be attributed to a ninth place ranking in the gross receipts per capita component, compared to a twenty-sixth place ranking in the income per non-farm proprietorship component used in the old index.

Using the new components, Colorado drops seven spots, Wyoming moves up one spot, South Dakota jumps six spots, Iowa falls one spot, Missouri drops one spot, and Kansas moves up two spots. Nebraska still ranks ahead of South Dakota, Iowa, and Missouri, while trailing Colorado, Wyoming, and Kansas. Colorado's drop in the rankings was due to a greater emphasis on growth in establishments in the new index. South Dakota's jump in the new index was due to the removal of the growth in non-farm proprietorships component, in which the state was ranked thirty-ninth. As noted earlier, the goal of the new index is to give more weight to high innovation states than to high income states.

Using gross receipts of sole proprietorships and partnerships per capita is one way to do this. An example of this case may be Rhode Island, which dropped thirty spots in the new index due to a rank of forty-third in the gross receipts per capita component. Rhode Island was ranked fifteenth in the income per non-farm proprietorship component of the old index. Another big mover was Georgia, which jumped nineteen spots due to a greater emphasis on growth in establishments, as well as a higher ranking in gross receipts per capita than in income per non-farm proprietorship. Michigan dropped

Table 3
Entrepreneurship Index: Old components vs. New components, 2008

State	Old Rank	Old Index Value	New Rank	New Index Value
AL	48	0.48	44	0.58
AK	30	0.90	31	0.98
AZ	40	0.74	35	0.80
AR	23	1.08	10	1.46
CA	3	2.01	4	1.81
CO	11	1.52	18	1.23
CT	4	1.96	13	1.38
DE	34	0.84	42	0.61
FL	16	1.41	5	1.70
GA	41	0.72	22	1.15
HI	43	0.68	37	0.79
ID	13	1.48	2	1.93
IL	8	1.61	11	1.42
IN	38	0.80	39	0.73
IA	45	0.59	46	0.57
KS	19	1.27	17	1.27
KY	50	-0.05	50	-0.51
LA	24	1.08	16	1.29
ME	35	0.84	30	1.03
MD	27	1.04	41	0.66
MA	5	1.95	9	1.54
MI	17	1.33	33	0.93
MN	21	1.13	23	1.14
MS	47	0.51	47	0.56
MO	39	0.78	40	0.73
MT	26	1.06	19	1.23
NE	**36**	**0.83**	**24**	**1.13**
NV	10	1.56	7	1.63
NH	12	1.51	14	1.32
NJ	6	1.89	12	1.40
NM	28	0.99	32	0.95
NY	1	2.08	1	2.04
NC	46	0.59	29	1.03
ND	25	1.07	21	1.18
OH	31	0.89	27	1.06
OK	15	1.44	15	1.30
OR	32	0.87	45	0.57
PA	14	1.47	28	1.06
RI	18	1.32	48	0.56
SC	49	0.18	43	0.60
SD	42	0.70	36	0.80
TN	22	1.10	20	1.19
TX	29	0.94	34	0.82
UT	33	0.84	26	1.07
VT	9	1.58	8	1.58
VA	20	1.20	25	1.11
WA	2	2.03	3	1.88
WV	44	0.61	49	0.07
WI	37	0.82	38	0.73
WY	7	1.69	6	1.64

Sources: **Bureau of Labor Statistics, Bureau of Economic Analysis, U.S. Census Bureau, U.S. Statistical Abstract, IRS Statistics of Income Bulletin, and Author's calculations**

2 We are unable to do a comparison between the index composed of the old versus the new components using 2005 data because gross receipts data for sole proprietorships and partnerships is unavailable at a state level for this time period.

sixteen spots because of ranking thirty-ninth in the gross receipts per capita component.

Conclusion

We compared entrepreneurship indexes for 2005 and 2008 and found that some states handled the recession better than others, while some states maintained a similar ranking. Nebraska is one state that kept a steady ranking, while remaining in the middle of the pack with its border states. We also proposed improvements to the entrepreneurship index and compared a new index to the old one. We look forward to tracking the new index in the future, and plan to release the index on an annual basis each spring. The BBR will continue to look for alternative components for the index in an attempt to further its development.

Nebraska Outlook Update: Continued Optimism

By Steve Carlson and Dr. Eric Thompson

This supplement to the March 2010 Business in Nebraska updates the Nebraska economic outlook provided in the January 2010 issue of Business in Nebraska. This update continues to encapsulate the judgments of the Nebraska Business Forecast Council during its December 2009 meeting but also reflects new information about the national economic outlook and about recent economic growth in Nebraska. This update is the spring 2010 Nebraska economic outlook and is summarized in Table 1 below.

Table 1
Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income (nominal)
2008	0.8%	3.3%
2009	-2.1%	1.9%
2010	0.8%	4.2%
2011	1.5%	5.0%

Note: Nominal income growth includes inflation

The 2009 employment growth data now fully reflect Bureau of Labor Statistics estimates, rather than a forecast. There was significant job loss in 2009 but employment growth will improve in 2010 and 2011. Income data for 2009 still reflect forecasts, since this data is released later. Our forecast for nonfarm personal income suggests slow growth in 2009, but solid growth in 2010 and 2011.

Table 2 compares the current Nebraska employment forecast with two previous forecasts.

Table 2
Comparison of Non-Farm Employment Forecasts

	June 2009 Forecast	January 2010 Forecast	Current Forecast
2008	0.8%	0.8%	0.8%
2009	-1.3%	-1.6%	-2.1%
2010	0.9%	1.0%	0.8%
2011	1.9%	1.8%	1.5%

Job losses in 2009 were more severe than originally forecast and we are slightly less optimistic about employment growth in 2010 and 2011. This reflects lower expectations for future job growth in the national forecast.

Table 3 compares the current Nebraska income forecast with two previous forecasts. We continue to anticipate a substantial improvement in nonfarm income growth in 2010 and 2011 compared to 2009. The forecast growth rate for 2010 has risen slightly since the previous forecast.

Table 3
Comparison of Forecasts for Nominal Nonfarm Income

	June 2009 Forecast	January 2010 Forecast	Current Forecast
2008	4.4%	3.3%	3.3%
2009	2.5%	1.5%	1.9%
2010	4.8%	3.9%	4.2%
2011	5.1%	5.0%	5.0%

Note: Nominal income growth includes inflation

A Tentative Recovery

By The Nebraska Business Forecast Council

U.S. Macroeconomic Outlook

The U.S. economy is persevering in its transition to a self-sustaining recovery fueled by private consumer spending and business investment. But, that transition is tenuous, with factors both encouraging and discouraging growth. Among factors encouraging growth, consumer spending and business investment continue to expand, supported by rising wage income and profits. As is typical in an economic recovery, profits have rebounded as businesses which cut costs during the recession are benefiting from rising revenue. The labor market also has begun to recover. While gains have been limited, the U.S. economy has added private sector jobs over the first six months of 2010. Further, the average hours worked per week has grown modestly, buttressing these modest employment gains. The net impact has been growth in total hours worked in the private sector. This underpins growth in income, and ultimately, consumption. These positive trends in profits and wage income should be enough to sustain the economic recovery, especially as Federal Reserve policy continues to accommodate economic growth.

But, the U.S. economy also faces many challenges. These challenges imply that the recovery will be moderate rather than sharp and that the potential exists for a second recession. To begin with, the economy continues to face challenges from the housing and commercial real estate markets. Continued foreclosures and a large inventory of unsold homes and unused commercial properties continue to limit new construction and price growth. As a result, the construction industry, which typically fuels growth during an economic recovery, is continuing to shed jobs.

The U.S. economy also faces the effects of debt contagion in Europe. Heightened risk of sovereign and bank default will slow European growth, and lower corporate earnings and the appetite for risky investment worldwide. All three factors have limited growth in the U.S. over the last few months and will continue to do so. Finally, the U.S. economy continues to face headwinds due to public policy. Many new regulations have been introduced into the economy during the last two years. Further, over the past decade, the federal government has rapidly increased spending, and significantly expanded health care entitlements. These trends have continued in the last two years. Such spending increases imply higher future tax rates, which discourage investment, work and economic growth. The first such tax increases are likely to occur in the next year. As noted earlier, these challenges imply a modest expansion, and potential for a second recession.

Facing these headwinds we expect modest growth in the U.S. economy over the next 3 years. Real GDP will grow by 3.0% in 2010, by 2.8% in 2011, and by 2.5% in 2012. Employment growth will be tepid and unemployment rates will drop slowly. The consumer price index is expected to rise by 1.5% in 2010, 1.7% in 2011, and 2.5% by 2012. As in recent years, economic conditions will be relatively strong in Nebraska. Nebraska continues to have a favorable industry mix, with strength in agriculture and insurance. Nebraska consumers also face fewer problems from unemployment and falling home prices.

Nebraska Outlook

Table 1 summarizes the Nebraska economic outlook. The outlook is that the sharp job losses of 2009 will be followed by moderate employment and income growth in 2010. Trend employment and income growth are forecast for 2011 and 2012. Farm incomes, which were at record levels in 2008, fell sharply during 2009. But, Nebraska farm income remained above its 10-year average in 2009, and is forecast to rise in 2010, 2011, and 2012.

This outlook was prepared in two phases. First, the UNL Bureau of Business Research produced a preliminary economic outlook, using a model developed with UNO economics faculty member Christopher Decker. Second, the Nebraska Business Forecast Council met to produce a final outlook based on the preliminary outlook, each Council member's research on a key sector of the economy, and the group's overall expertise about the Nebraska economy. The resulting Nebraska outlook is detailed below.

Table 1
Key Economic Growth Rates

	Nonfarm Employment	Nonfarm Personal Income (nominal)	Net Farm Income (nominal)
2009	-2.1%	-0.2%	-33.4%
2010	0.3%	2.7%	11.9%
2011	1.5%	3.8%	3.3%
2012	1.6%	3.8%	1.6%

Note: Nominal income rate includes inflation

Employment

As seen in Table 2, job growth will return to Nebraska in 2010, and should reach trend growth rates by 2011. Employment will reach pre-recession levels by late-2011. Job growth will be broad-based, returning to most sectors in 2010 and others in 2011. Note also that our current job outlook is less optimistic than our last forecast in January

2010. This is due to concerns about Europe and because final employment data for 2009 indicated heavier job losses than initially estimated.

Table 2
Comparison of Non-Farm Employment Forecasts

	Jan 2010 Forecast	Current Forecast
2009	-1.3%	-2.1%
2009	0.9%	0.3%
2011	1.9%	1.5%
2012	N/A	1.6%

Construction and Mining

Nebraska construction activity bottomed in 2009, and is recovering slowly. The non-residential construction sector has been a continuing source of weakness. Several major construction projects in Nebraska wound down in 2009, and a surplus of commercial buildings has limited new construction activity. Public projects, however, have aided growth. There has been a modest improvement in housing starts in 2010 as the economy has recovered but not a strong recovery. Infrastructure spending has been one bright spot for the construction sector. Road construction and other infrastructure projects should show modest growth in 2010 as Federal stimulus spending supports new projects.

Overall, in 2010, two segments of the construction sector – residential construction and road building – will grow. By 2011, all three segments of the construction industry will be expanding, and a solid recovery should be underway in new home construction. This will continue in 2012, though road construction activity will fall that year. As a result, we anticipate 1.0% growth in construction jobs in 2010, and solid growth in 2011 and 2012. As seen in Table 3, construction employment fell by 2,500 jobs (or 5%) in 2009. Job growth of 1.0% is expected in 2010, with growth of 2.0% for 2011 and 2.5% for 2012.

Manufacturing

The manufacturing industry began to grow again in 2009, but the recovery was too slow to prevent substantial job losses, as the industry cut cost in a bid to survive a severe global recession. As a result, there were steep job losses in the Nebraska manufacturing industry in 2009. For example, employment in the Nebraska durable goods industry declined by 13% during the year. Continued growth in manufacturing activity has begun to generate new manufacturing employment in Nebraska. Preliminary estimates suggest that manufacturing employment grew during March and April of 2010. But, employment growth will be modest over the year, given that manufacturers

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

	Nonfarm Total	Construction, Mining & Natural Resources	Durables	Non-durables	Wholesale Trade	Retail Trade	Trans-portation and Utilities	Inform-ation	Financial	All Services	Federal Gov't	Local Gov't
2000	910.7	45	58.7	55.2	41.7	111.2	44.9	26.8	60.3	312.5	16.6	137.9
2001	916.8	45.3	54.7	56.3	42.5	110.5	45.2	25.8	60.2	319.5	16	140.8
2002	908.1	46.1	50.6	55.5	41.5	108.9	44.9	23.2	61.4	317.1	16.3	142.6
2003	910.5	47.4	47.3	55.1	41	107.2	46.4	21.5	62.4	322.6	16.7	142.9
2004	917.7	48.4	47	54	40.8	106.9	48.9	21.1	63.2	327.4	16.5	143.4
2005	930.2	47.8	48.4	52.9	40.6	107.2	52.3	20.2	64.5	335.2	16.3	144.7
2006	941.5	48.4	49.7	51.8	40.8	106.4	53.4	19.5	66.7	342.9	16.2	145.9
2007	957.4	50.5	50	51.4	41.1	107.5	56.2	19.4	68.7	350.3	15.9	146.5
2008	965.0	50.1	49.3	52.1	42.0	107.0	56.1	18.7	69.2	356.5	16.1	147.8
2009	944.4	47.6	42.7	50.7	41.0	104.3	52.4	17.5	68.2	351.6	16.5	152.1
Forecast Number												
2010	946.8	48.1	42.4	51.0	40.8	104.0	51.4	16.8	67.6	355.1	16.5	153.0
2011	961.3	49.0	44.4	51.5	41.2	104.3	53.7	16.8	67.8	362.2	16.0	154.4
2012	976.7	50.3	46.0	51.7	41.6	104.8	56.1	17.0	68.5	369.5	15.8	155.5
Forecast Number												
2010	0.3%	1.0%	-0.6%	0.5%	-0.6%	-0.3%	-1.9%	-3.8%	-0.8%	1.0%	0.5%	0.6%
2011	1.5%	2.0%	4.7%	1.1%	1.0%	0.3%	4.5%	0.0%	0.2%	2.0%	-3.5%	0.9%
2012	1.6%	2.5%	3.5%	0.4%	1.0%	0.5%	4.5%	1.0%	1.0%	2.0%	-1.1%	0.7%

Source: http://data.bls.gov/cgi-bin/dsrv, 2010 still have room to grow employment by expanding weekly hours, and using temporary worker agencies. Year-over-year, manufacturing employment will be flat in 2010, with modest increases in non-durable goods offsetting modest job losses in the durable goods sector.

Recent increases in the value of the dollar will reduce recent growth in the U.S. manufacturing industry. However, the outlook for manufacturing job growth in Nebraska is shaped to a large extent by the state's large agricultural sector. Food processing firms typically use local agricultural products as inputs and many of Nebraska's machinery manufacturing firms produce agricultural machinery. Both of these manufacturing sectors will benefit from the long-term, positive outlook for food consumption as the world's population and income levels continue to increase. Further, Nebraska's large cattle and crop sectors have made it a preferred location for firms seeking to be part of the renewable energy industry. Finally, Nebraska's potential for wind power production and location among major wind power production states makes it an attractive location for the manufacture of wind tower components.

These conditions point towards a partial recovery of lost manufacturing jobs in the years to come, with strong growth in manufacturing employment in 2011 and 2012. Durable goods employment is expected to fall -0.6% year-over-year from 2009 to 2010. Durable goods employment is expected to rise by 4.7% in 2011 and 3.5% in 2012, recovering about half of the 6,600 jobs lost during 2009. Non-durable goods employment will grow steadily, rising by 0.5% in 2010, 1.1% in 2011, and 0.4% in 2012. Job losses in the non-durable goods industry were modest in 2009, so the rate of recovery also will be more modest.

Transportation and Utilities

The national recession has impacted Nebraska's rapidly growing transportation sector. Trucking, rail, and warehousing lost 3,700 jobs during 2009. Declining industrial production resulting from the recession led to a decline in the need for transportation services. The need for transportation services is now recovering as industrial production and rest of the national economy grows. This will ultimately lead to growth in transportation employment. Employment will decline again in 2010 but employment is expected to grow by 4.5% from 2010 to 2011 and by another 4.5% in 2012. By 2012, employment will fully recover to pre-recession levels. And, over the long-run, the Nebraska transportation sector will continue to grow.

In the long-run, Nebraska's central location, advantages of the I-80 corridor, low entry costs, educational training programs, and favorable demographics all will support average growth in the industry in the long-run. Nebraska also benefits from an established and still growing cluster of both major firms and small entrepreneurial firms in the transportation sector.

Wholesale Trade

Wholesale trade employment has changed little over the last decade. Employment drifted both up and down during the period but never by more than a few hundred jobs from year to year. Trends also have not always followed the overall Nebraska economy. Trends in the industry may be hard to identify because many wholesale businesses are tied to wider regional markets as well as the local markets within the state. This means growth in industry activity from year to year will depend on the ability of Nebraska businesses to maintain and gain customers from their competitors. At the same time, rising productivity keeps a cap on total industry employment, so there is no long-term trend of job growth.

Industry employment will change little over the 2010 to 2012 period. Wholesale trade employment is expected to decline by 0.6%, or about 200 jobs, during 2010. Modest growth will return in both 2011 and 2012. Wholesale trade employment is expected to grow by 1.0% in both years. Employment will nearly recover to its pre-recession peak by 2012

Retail Trade

The year 2009 was difficult for the retail trade industry. Facing declining retail sales, retail trade employment fell by 2.5% during 2009. Retail sales are expected to grow modestly during the slow, steady economic recovery. However, such modest sales growth will not support much growth in retail trade employment. This is because productivity continues to rise rapidly in the industry as larger retailers, which utilize fewer employees per dollar of sales, continue to capture a growing share of the market. Increased on-line sales also limit future growth in retail trade employment. Retail employment is expected to decline by 0.3% during 2010. Modest employment growth will return in 2011 and 2012. Job growth of 0.3% is expected in 2011 and growth of 0.5% will occur in 2012. Employment is not expected to return to pre-recession levels.

Information

The information industry contains a diverse group of industries including newspapers, media outlets, sound studios, and technology-oriented industries such as telecommunications, data processing, web site devel-opment, and web publishing. Most of these industries are cyclically sensitive, and portions of the industry such as media are under substantial long-term pressure as advertising revenues have dropped both due to the recession and due to a shift of advertising to on-line and wireless platforms. There also have been very substantial increases in labor productivity in areas such as telecommunications and publishing. These factors point to both a long-term decline in employment and sharp declines in the current recession. A 3.8% decline is expected in 2010. Employment will be flat in 2011, and employment is expected to grow by 200 jobs, or 1.0%, in 2012.

Financial Services

The financial services industry comprises a diverse group of related industries including finance, insurance, and real estate. The long-term trend in these industries is for strong, stable growth as the need for financial and insurance services grows in our increasingly complex, service-oriented economy. Nebraska is also a national leader in the insurance industry, and has a number of strong, growing regional banks.

The industry, however, has been impacted by current weakness in the housing sector. Housing related industry segments such as real estate, loan activity, and mortgage brokers were weak in 2009 and will only begin to recover as the housing industry accelerates, most likely in 2011. Even with recovery, employment growth may lag due to rapid increases in productivity. Industry employment is expected to decline by -0.8% in 2010, grow by just 0.2% in 2011, and then recover to 1.0% growth in 2012.

Services

The services sector accounts for 37% of employment in the Nebraska economy and contains a diverse group of industries. Services includes some of the fastest growing parts of the economy such as professional, scientific and technical services and other types of business services, as well as the largest industries in the economy such as health care. Services also includes the hospitality industry, encompassing lodging, food services, drinking places, and arts, entertainment, and recreation businesses.

Some segments of the services industry such as health care grow steadily, largely avoiding cyclical patterns. However, portions of the industry closely follow the business cycle, expanding rapidly when the economy expands and declining when the economy is in recession. These cyclical segments of the industry such as business services shed employment during 2009. As a result, total services industry employment declined in 2009 for the first time since 2002.

But, these same cyclical segments of the industry, including business services and hospitality, have begun to recover in 2010. These segments of the industry rely on improvements in business spending and consumer discretionary income. Services industry employment will increase by 1.0% in 2010 compared to 2009, for a gain of 3,500 jobs. Growth will accelerate in 2011 and 2012 due to faster growth in the business services and the hospitality segments, and continued strength in the health care segment. Services sector employment growth is expected to reach 2.0% in each year.

Government

Federal government employment will be elevated in 2010 due to the decennial Census. Workers hired in 2009 and 2010 will work through the late summer and fall of 2010. But, job gains in 2009 and 2010 will be reversed during 2011. Further, the long-term trend for federal government employment will remain flat, with limited increases in some years offset by modest losses in other years. Federal government employment will rise by 0.5% in Nebraska in 2010, and then decline by 3.5% in 2011. Federal employment is expected to decline by another 1.1% in 2012.

Stimulus funding and an expansion of state funding for local schools helped underpin strong job growth in state and local government employment during 2009. State and local government employment grew by 2.5% in that year. In the coming years, local government employment will continue to expand as the state population grows However, with stimulus funding ending, and public budgets under stress, employment growth will moderate over the next three years. State and local government employment is expected to grow by 0.6% in 2010, 0.9% in 2011, and 0.7% in 2012.

Personal Income

Sharply declining employment and proprietor profits led to declining nominal income (income growth which includes inflation) in 2009. Income growth, however, will return in 2010 as employment and weekly hours begin to recover. Income growth will reach trend levels in 2011 and 2012 as employment growth accelerates Farm income also will begin to recover in 2010, though farm income will not return to record 2008 levels. As seen in Table 4, our outlook for income growth is below the outlook in our previous forecast. A weaker jobs outlook has diminished our income outlook.

Table 4
Comparison of Forecasts for Nominal Income

Nonfarm Income

	Jan 2010 Forecast	Current Forecast
2009	1.5%	-0.2%
2010	3.9%	2.7%
2011	5.0%	3.8%
2012	N/A	3.8%

Farm Income

	Jan 2010 Forecast	Current Forecast
2009	-33.4%	-33.4%
2010	8.2%	11.9%
2011	3.4%	3.3%
2012	N/A	1.6%

Note: Nominal income growth includes inflation.

Nonfarm Personal Income

Recession conditions led to declining wage and salary income, proprietor income, and dividend, interest, and rent income in 2009. All three sources of income are expected to grow in 2010 as the economy recovers.

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)
Millions of Dollars										
2000	172.2	$47,557	$10,108	$6,088	$26,649	$5,546	$4,225	-$854	$4,243	$1,453
2001	177.1	$49,569	$10,086	$6,693	$27,573	$5,981	$4,411	-$871	$4,518	$1,914
2002	179.9	$51,247	$10,095	$7,127	$28,474	$6,538	$4,553	-$902	$4,468	$867
2003	184.0	$53,071	$10,101	$7,424	$29,458	$7,136	$4,716	-$956	$4,624	$2,762
2004	188.9	$55,068	$9,926	$7,783	$30,857	$7,399	$4,924	-$971	$4,998	$3,587
2005	195.3	$57,190	$10,177	$8,210	$32,095	$7,836	$5,187	-$991	$5,051	$2,973
2006	201.6	$61,125	$11,471	$8,833	$33,905	$8,144	$5,595	-$960	$5,327	$2,020
2007	207.3	$64,289	$12,354	$9,382	$35,817	$8,383	$5,793	-$1,064	$5,209	$2,994
2008	215.3	$66,383	$12,426	$10,076	$37,010	$8,654	$5,984	-$1,081	$5,283	$4,026
2009	214.5	$66,220	$11,691	$10,940	$36,728	$8,858	$5,988	-$1,090	$5,091	$2,680
Forecast Number										
2010	217.7	$68,005	$11,967	$11,366	$37,408	$9,115	$6,052	-$1,097	$5,299	$3,000
2011	221.4	$70,569	$12,389	$11,553	$38,976	$9,602	$6,367	-$1,132	$5,548	$3,100
2012	227.0	$73,260	$12,869	$11,812	$40,648	$9,990	$6,634	-$1,167	$5,742	$3,150
Forecast % (nominal growth)										
2010	1.5%	2.7%	2.4%	3.9%	1.9%	2.9%	0.9%	0.6%	4.1%	11.9%
2011	1.7%	3.8%	3.5%	1.7%	4.2%	5.4%	5.2%	3.2%	4.7%	3.3%
2012	2.5%	3.8%	3.9%	2.2%	4.3%	4.0%	4.2%	3.1%	3.5%	1.6%

Source: http://www.bea.gov, 2010
Note: Nominal income growth includes inflation

As seen in Table 5, nonfarm wage and salary income will grow by .9% in 2010. The slow recovery in the labor market will not be enough to push wages higher during the year. Wage growth will accelerate in 2011 and 2012, as job growth accelerates. Nonfarm wage and salary income is expected to grow by 4.2% in 2011 and 4.3% in 2012. Growth in employee benefits (other labor income) will match the pattern of wage and salary income. Other labor income, which includes employer contributions to health insurance, will grow by 2.9% in 2010 before growth accelerates to 5.4% in 2011 and 4.0% in 2012. This implies workers will be responsible for paying a significant share of the increase in health care costs. Non-farm proprietor income will snap back in 2010.

Growth in transfer income is expected to sharply decelerate during the forecast period. With the nation posting record budget deficits, some measure of entitlement reform is expected. Transfer income is expected to grow by 3.9% in 2010, before falling back to 1.7% in 2011 and 2.2% in 2012.

Farm Income

As is evident in Table 5, there has been substantial volatility in farm incomes in recent years. These fluctuations have been due to external factors beyond the producers' control – the dollar exchange rate, the price of oil on world markets, consumer shifts in diet under financial constraints, and global agricultural production levels. The sharp decline in Nebraska farm incomes in 2009 (after hitting record levels in 2008) are a case in point. In 2009, crop commodity prices fell from their high levels in 2008, while both crop and livestock producers faced higher input costs.

Macroeconomic conditions for agriculture are both better and worse in 2010. The global economic recovery, especially in Asia, should aid agricultural exports. At the same time, financial contagion in Europe has caused a significant appreciation in the U.S. dollar, which hurts agricultural exports.

The net impact of these macroeconomic conditions is at a minimum to stabilize farm incomes and mostly likely to

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

	Consumer Price Index	Total Net Taxable Sales	Motor Vehicle Net Taxable Sales	Non Motor Vehicle Net Taxable Retail Sales
Millions of Dollars				
2000	172.2	$20,443	$2,605	$17,838
2001	177.1	$21,057	$2,897	$18,160
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
Forecast Number				
2010	217.7	$26,794	$2,966	$23,828
2011	221.4	$27,901	$3,144	$24,757
2012	227.0	$29,058	$3,311	$25,747
Forecast % (nominal growth)				
2010	1.5%	4.2%	6.0%	4.0%
2011	1.7%	4.1%	6.0%	3.9%
2012	2.5%	4.1%	5.3%	4.0%

Source: Nebraska Department of Revenue, 2010
Note: Nominal taxable sales growth includes inflation

encourage modest growth. We anticipate that farm income will rise to $3.0 billion in 2010, or an 11.9% increase. Farm income is expected to rise to $3.1 billion in 2011 and $3.15 billion in 2012.

At the same time, we anticipate a rebalancing of farm income between the crop and livestock sectors. The year 2010 is evolving to be a year of stronger livestock commodity prices while crop prices are more muted. As a result, livestock producers are returning to income profitability after losses for the past two years. But, the incomes of crop producers will not be as strong. Crop producers should experience solid incomes in 2010 and beyond rather than the high income levels of recent years.

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 are growing over time, but at an uneven rate from year to year. Non-motor vehicle taxable sales rise steadily, but are affected by business cycles and periodic changes to Nebraska's sales tax base. During the outlook period, we do not anticipate changes in the sales tax base, but the economic recession and recovery will influence taxable sales.

Non-motor vehicle taxable sales declined in Nebraska in 2009 as the state was gripped by recession and falling incomes. Taxable sales should rebound this year as income and the overall economy recover. However, like income growth, growth in non-motor vehicle taxable sales will be steady and solid, but not rapid. A growth rate of 4.0% is expected in 2010. Growth of 3.9% is anticipated for in 2011, with 4.0% growth in 2012. All three growth rates will exceed inflation rates.

Motor vehicle net taxable sales also will stage a recovery in 2010. The year 2009, as is well known, was a very difficult year for vehicle sales across the United States. Vehicle sales held up better in Nebraska but the value of net taxable sales still declined by 5.0%. Motor vehicle net taxable sales are expected to bounce back in 2010, growing by 6.0%. The sales recovery is expected to continue in 2011 and 2012, given that interest rates should remain low in the United States over the next three years. Motor vehicle net taxable sales are expected to grow by 6.0% in 2011 and by 5.3% in 2012.

Like income, growth in overall net taxable sales (from both sources) will rise at a solid pace over the next three years. Growth in overall net taxable sales will reach 4.2% in 2010, and sales tax revenue will more than recover all of the revenue lost in 2009. Growth in net taxable sales will reach 4.1% in both 2011 and in 2012.

The Bureau of Business Research is grateful for the help of the Nebraska Business Forecast Council. Serving this session were

- Dr. John Austin
 -Department of Economics, UNL
- Dr. Chris Decker
 -Department of Economics, UNO
- Tom Doering
 -Nebraska Department of Economic Development
- Dr. Ernie Goss
 Department of Economics, Creighton University
- Dr. Bruce Johnson
 Department of Agricultural Economics, UNL
- Ken Lemke
 -Nebraska Public Power District
- Phil Baker
 -Nebraska Department of Labor
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