THORBERG
COLLECTORATE

ECONOMIC OUTLOOK AND COMMENTARY 2024
HOW HARD IS A SOFT LANDING?

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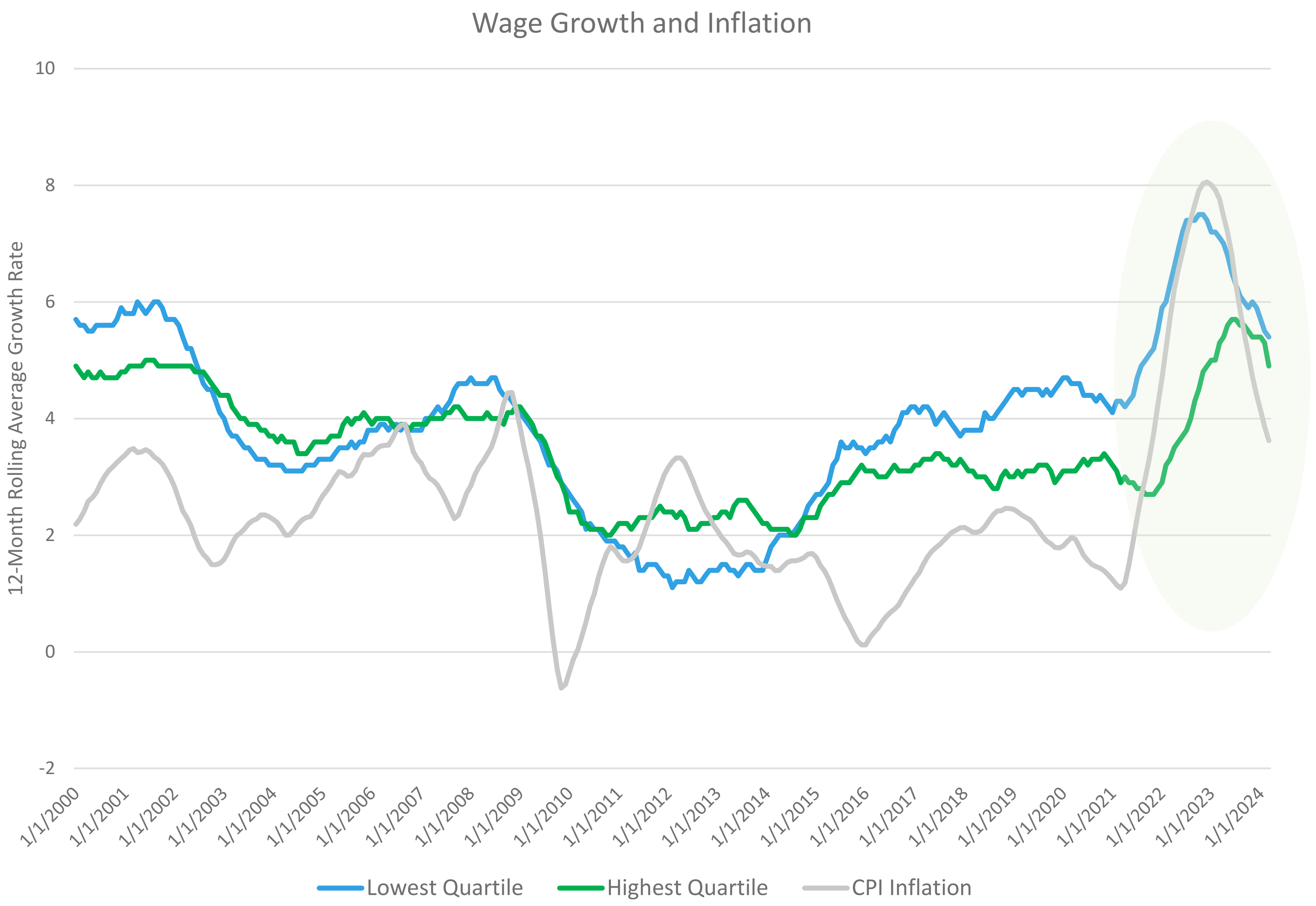
ELEMENTS OF A SOFT LANDING

A soft landing must be hard enough to

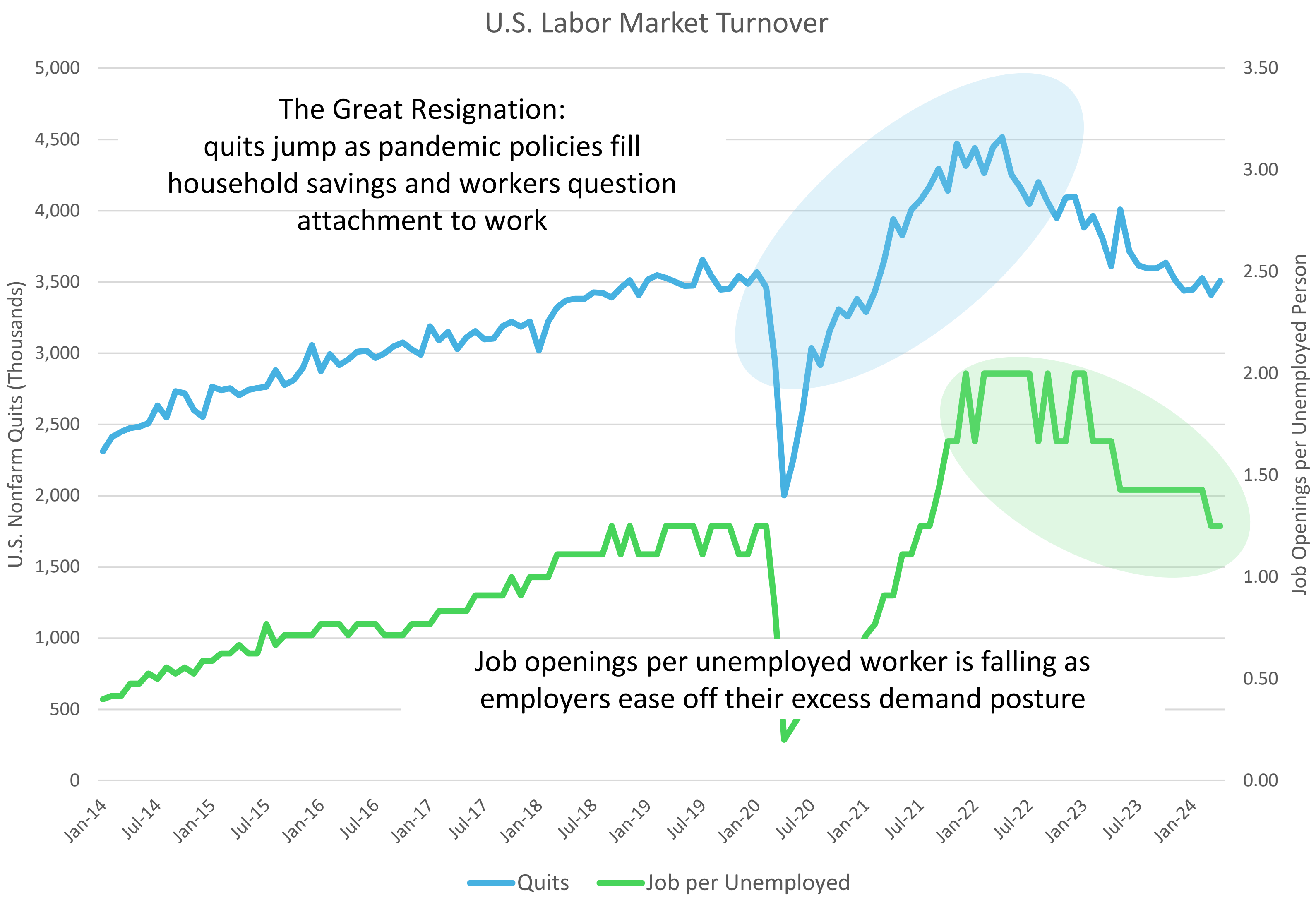
- Stress household balance sheets to the point of bending without breaking in order to rein in excess demand without crashing consumer spending
- Create enough need to encourage full labor participation without causing discouragement from a lack of employment opportunities

Without being so hard that it

- Causes a recession



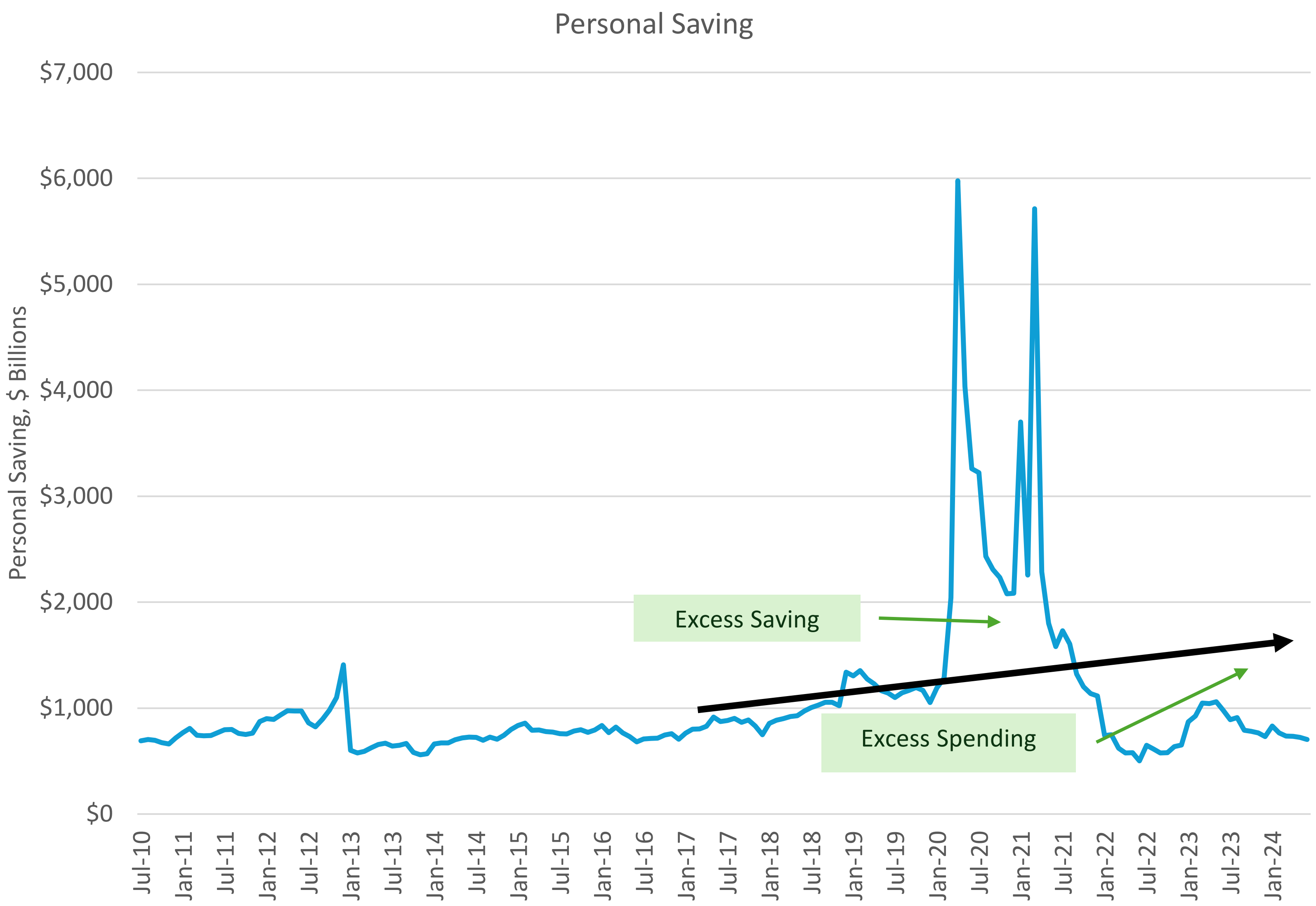
- The lowest quartile of wage earners kept up with inflation through the post-pandemic economy
- But the highest wage earners did not
- Real wage growth is modest with both groups at 1.5% to 2.0%



- The labor market is cooling slowly even as the pace of monthly job creation exceeds the break-even pace

- The Great Resignation is behind us as the pace of job quits is falling sharply

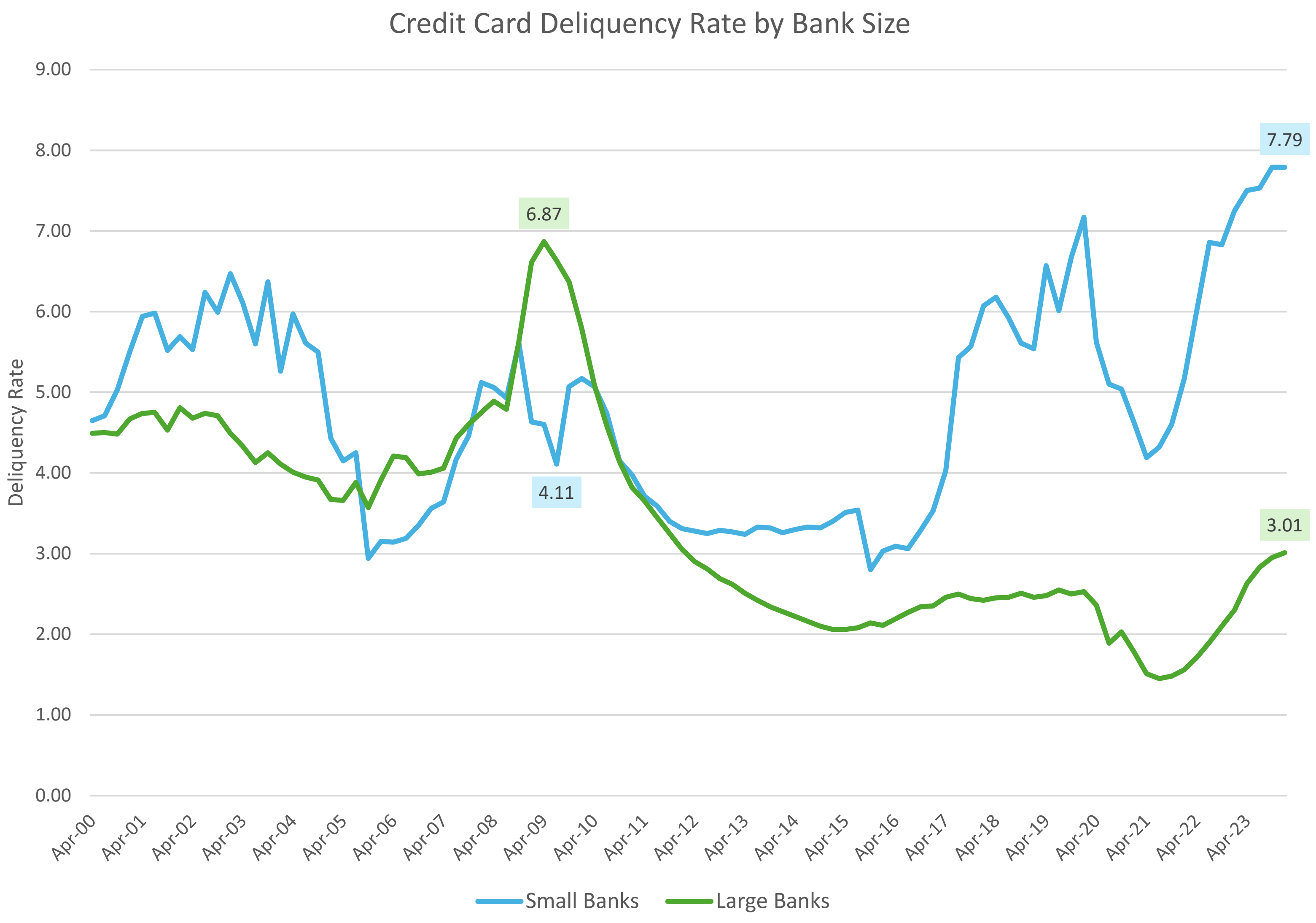
- The excess demand for workers is easing as the number of posted job openings per unemployed worker falls to 1.5



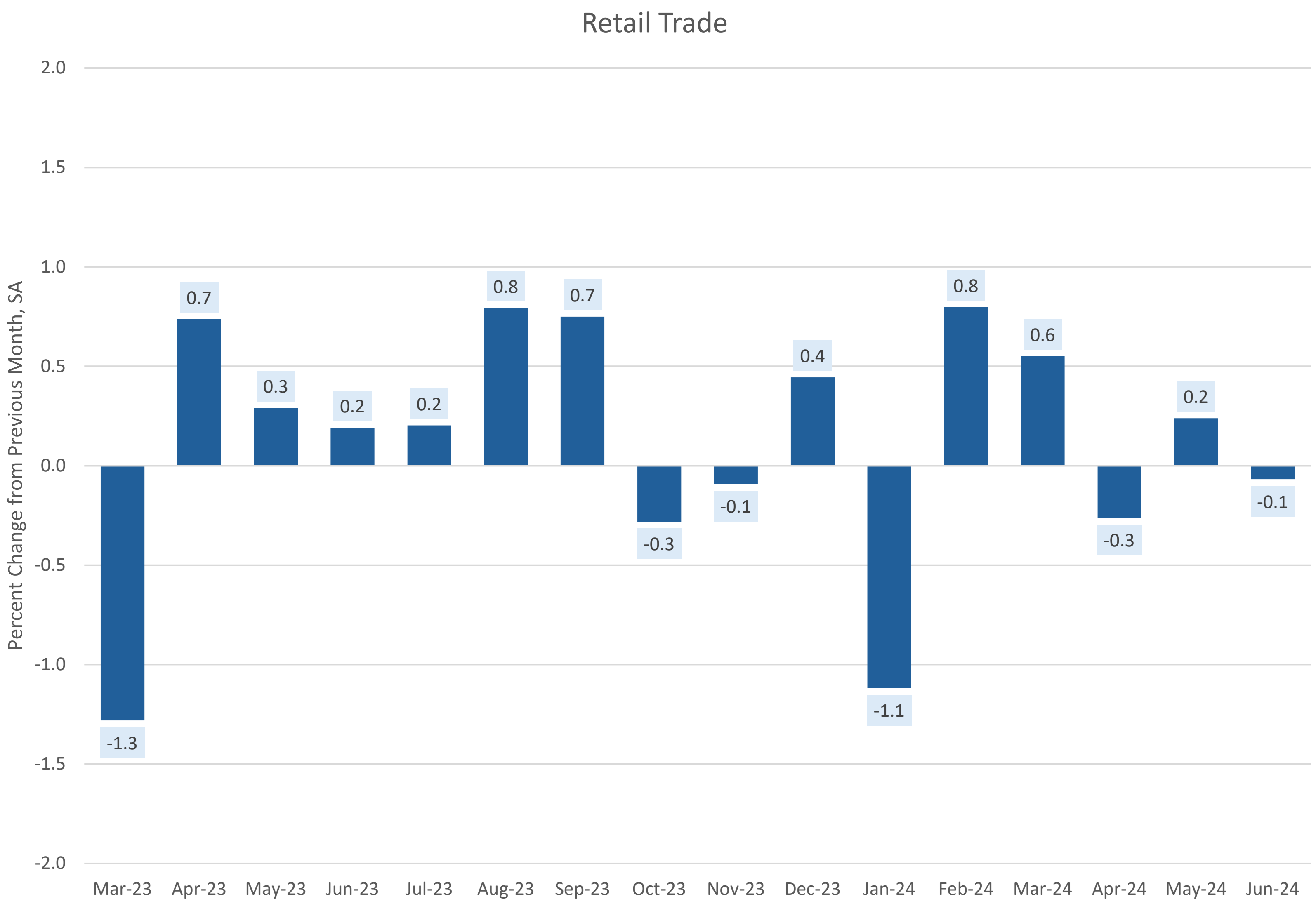
- Health policies intended to curb the pace of the spread of the pandemic imposed economic losses

- So economic stimulus programs were implemented to offset these losses

- Economic programs were probably bigger than needed and resulted in a period of exaggerated excess saving



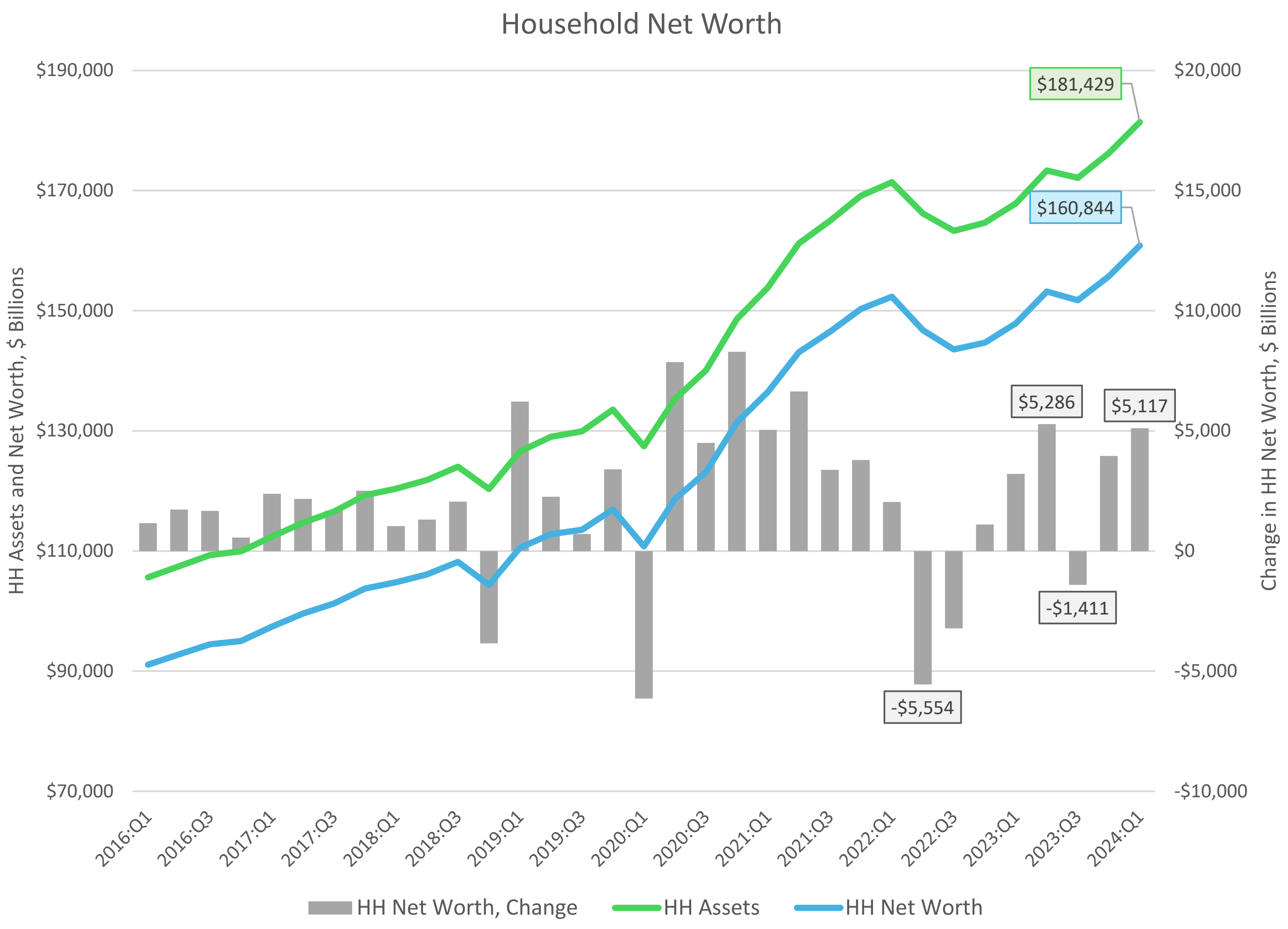
- Credit Card delinquency varies significantly by bank size
- Delinquent accounts represent 3.01% of all accounts at the largest 100 banks by asset size but
- 7.79% of all accounts at all other banks



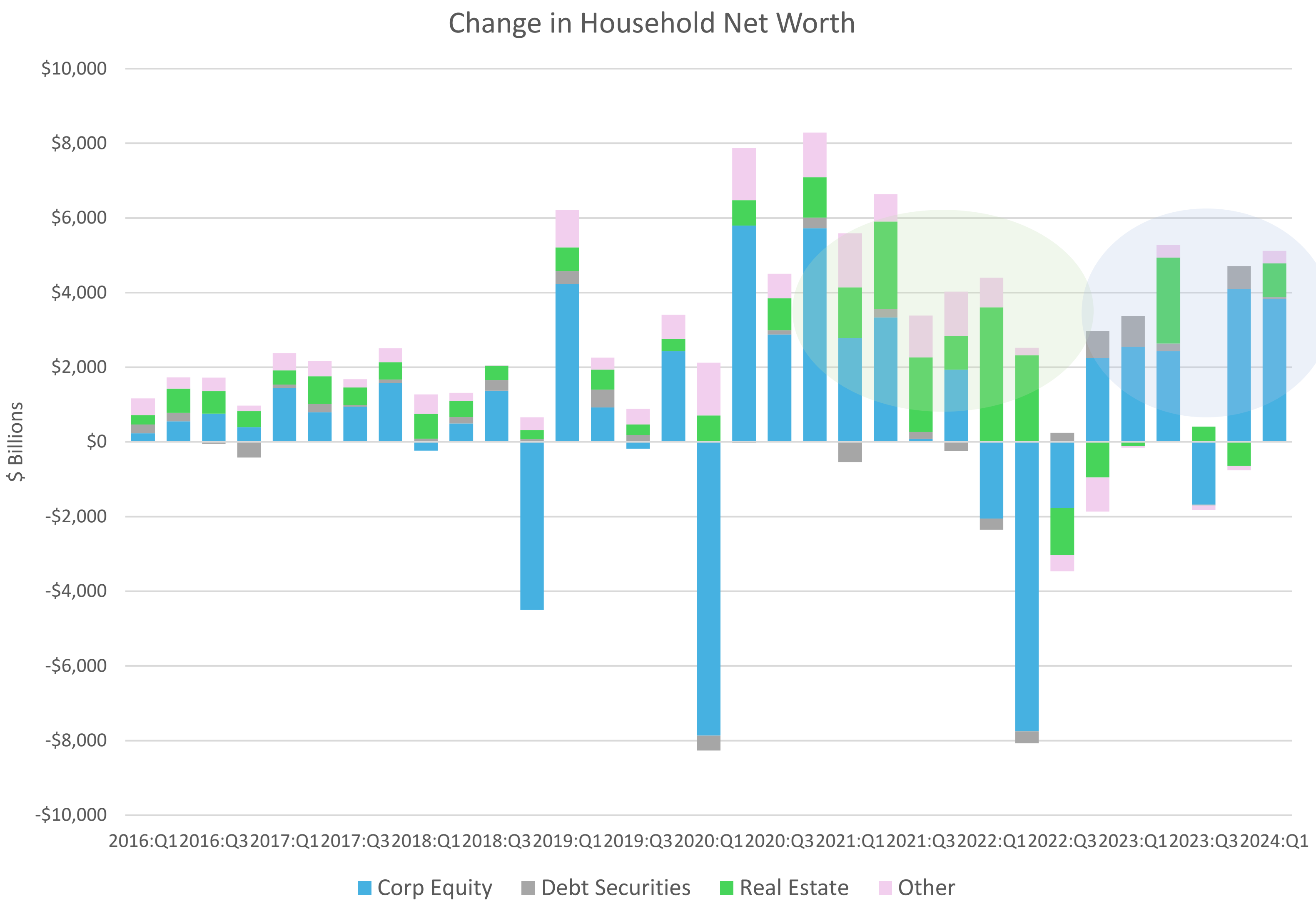
- Growth of U.S. retail and food service sales has slowed to pre-pandemic levels

- Facing higher interest rates (the cost of current consumption) and without policy induced savings, it is unclear if households can sustain spending habits

- Slower consumer spending is already apparent in many state and municipal sales tax collections

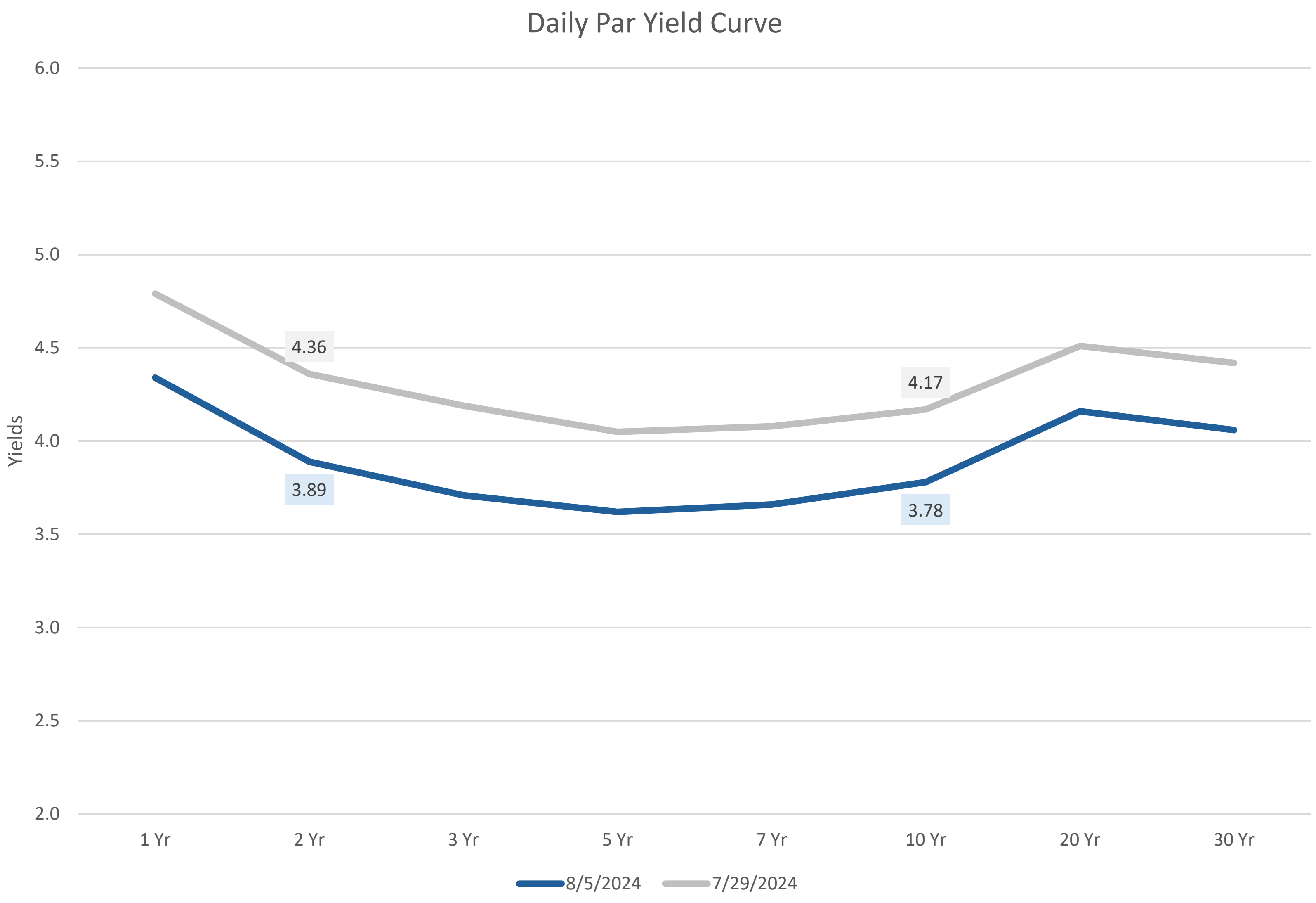


- Household net worth surged in the period immediately following the pandemic
- Household balance sheets hold $181.4T in assets in 2024 Q1 with a net worth of $160.8T
- Balance sheets gave a false recession signal in early 2022 and again in fall of 2023

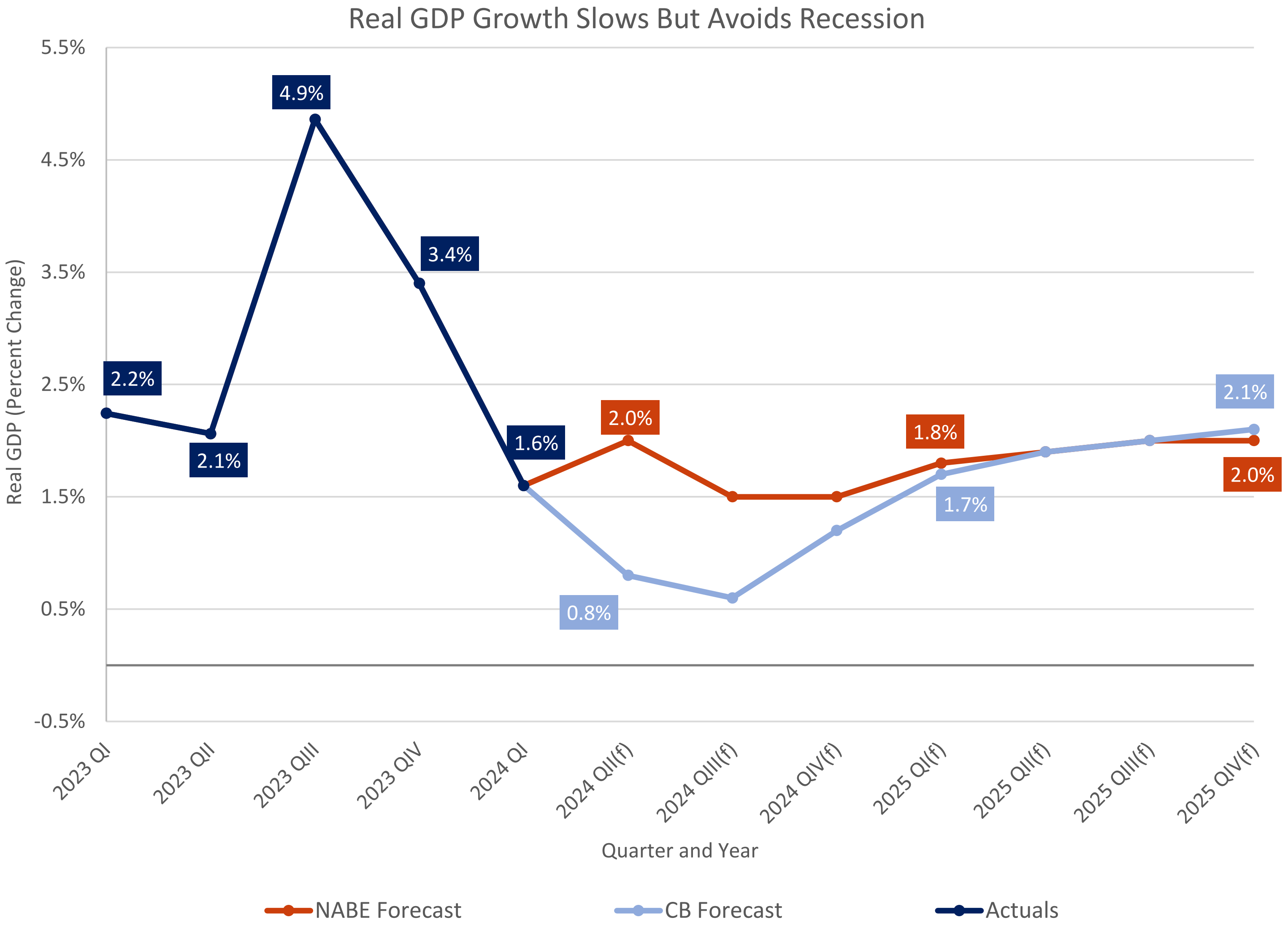


- Initially real estate appreciation drove gains in household net worth
- But household net worth gains have been led by corporate equity for the last six quarters
- Household balance sheets are stressed and <u>exposed to any policy or structural shock to these drivers of net worth</u>

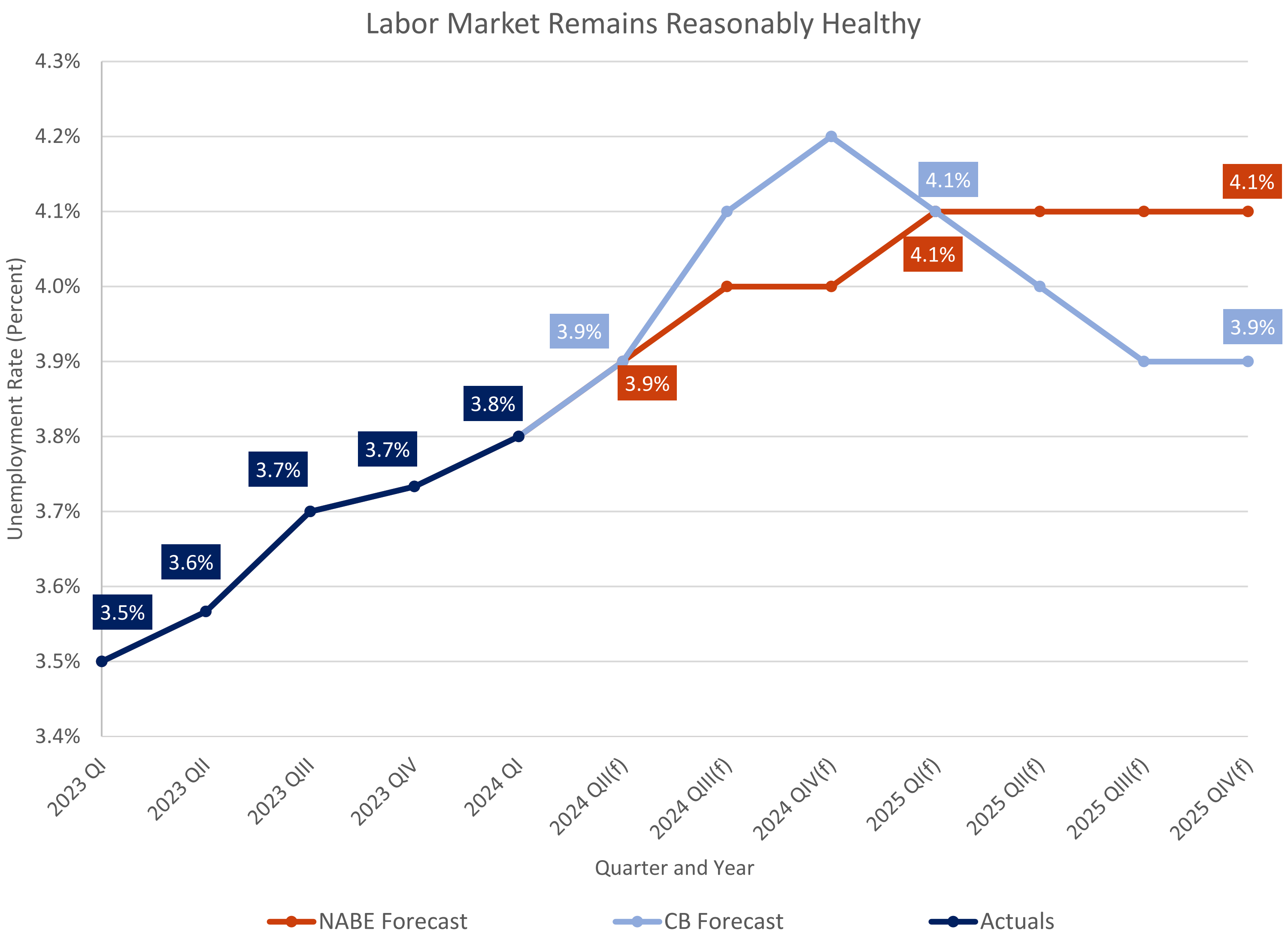
- A soft July jobs report prompted markets to reconsider whether capital markets and economic realities were misaligned
- The immediate concern seems to have yielded to an expectation that the Fed will cut rates more aggressively and strengthen the economic reality in support of equity market strength
- This expectation may be correct, but only if inflation data give policymakers the latitude to do so



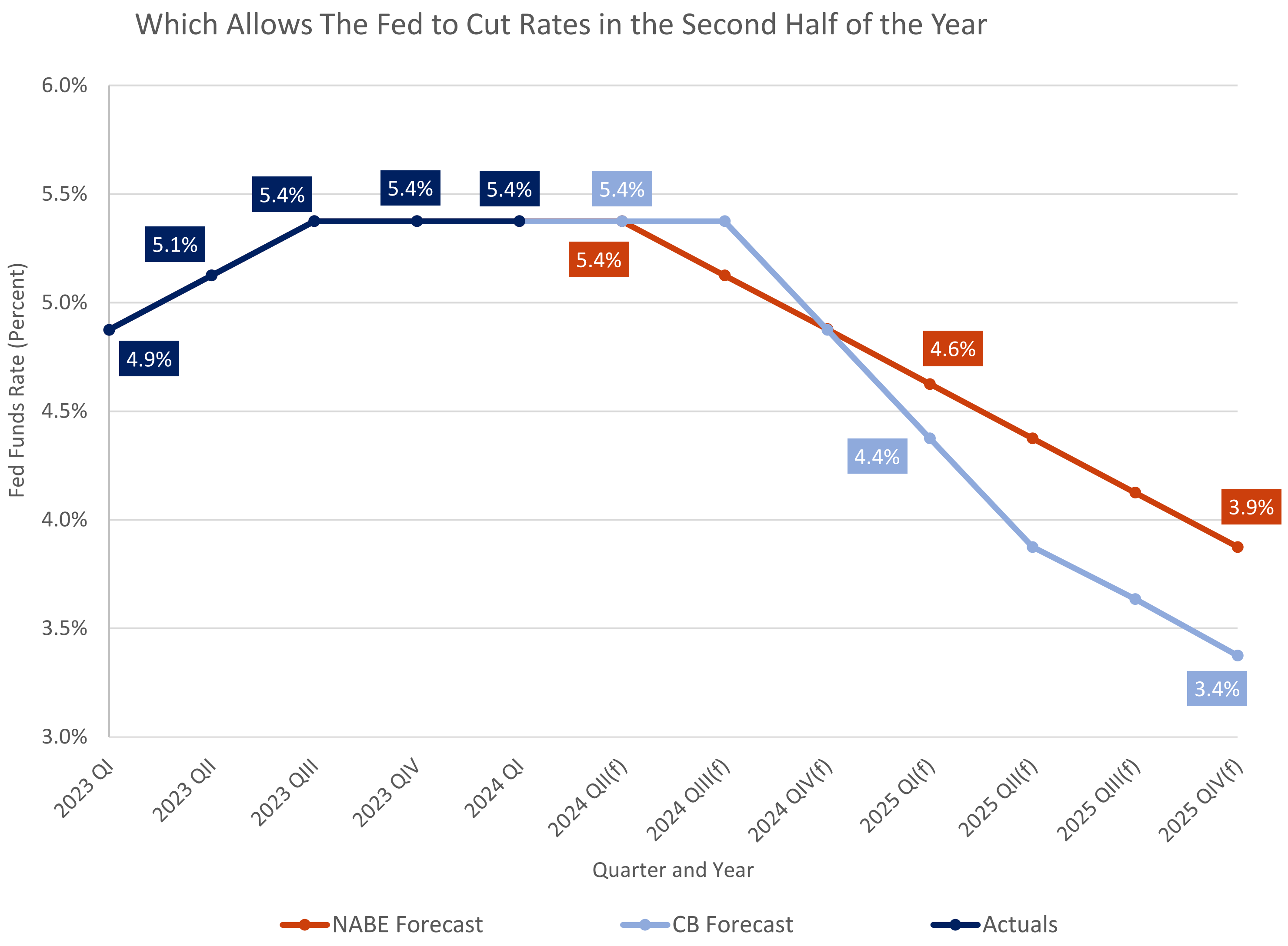
- The resulting flight to safety has shifted the yield curve down across all durations but
- The curve is un-inverting at the short end which is the historical signal of the onset of a recession
- The macro data is softening, and revisions of previously published data are generally to the downside, but it’s too early to declare a start to a U.S. recession
- Not too early to be a little worried though!



- Growth is expected to slow to about half the rate of 2023
- The Conference Board has a short and shallow recession in their base case (Q2 and Q3); note that they recently walked back this recession prediction
- The case for a soft landing is increasing, but expect a prolonged landing with economic distortions in areas like commercial real estate, the housing market, and household balance sheets to be a bumpy fix



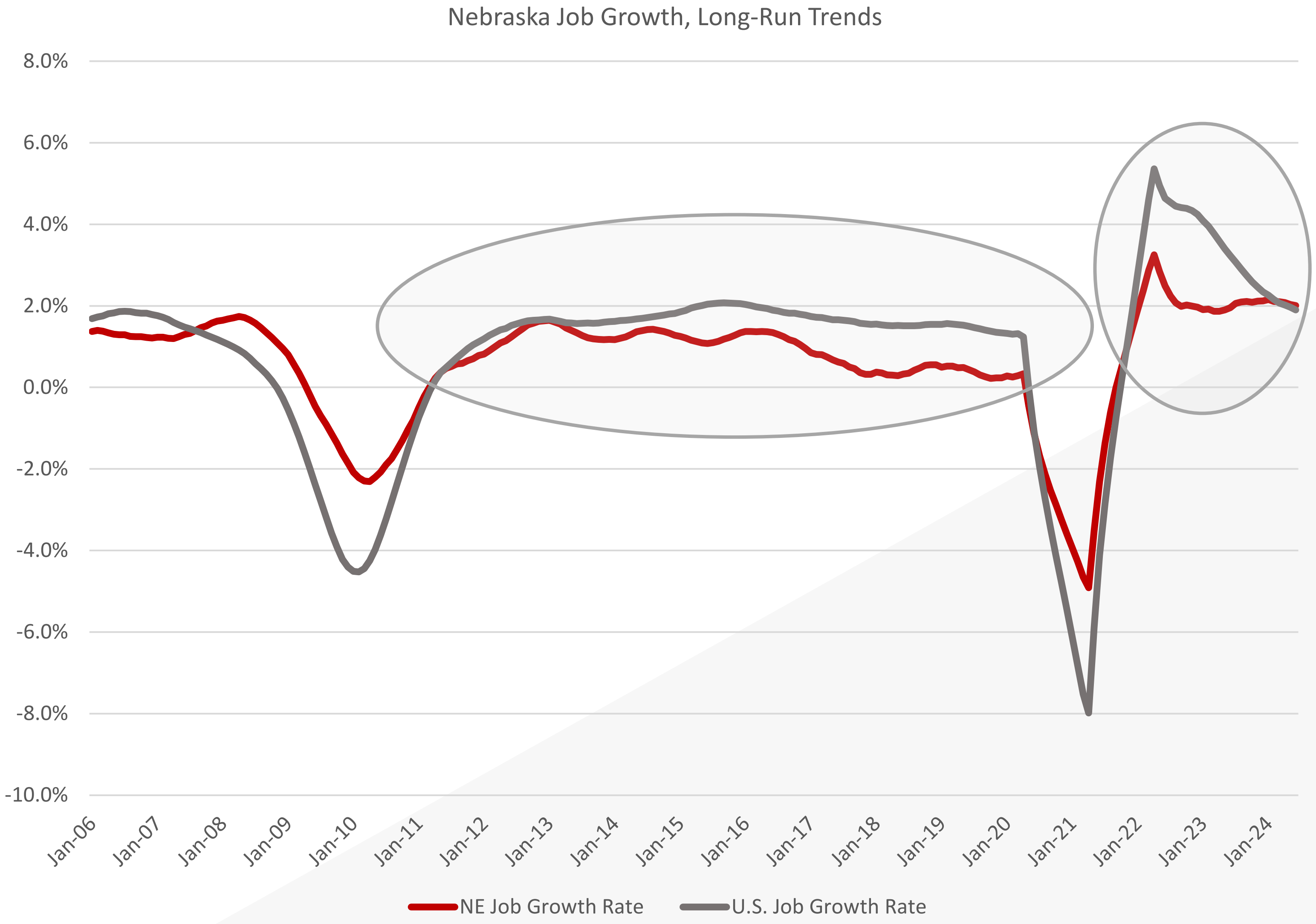
- In 2023, labor market tightening took the form of reducing excess demand for labor
- In 2024, we expect labor market tightening to take the form of modest job destruction, slowing job gains, with the unemployment rate moving towards 4.5%
- August jobs report showed 114,000 jobs added in July, unemployment rising to 4.3%, and May and June job gains revised lower by -29,000 jobs



- Rate cuts in 2024…
  - Recent data have been strong enough to discourage any immediate rate cuts
  - But inflation has eased enough to almost be convincingly on a sustainable path to the 2% target
  - And Fed officials sound increasingly like they want to cut
  - Expect 75 bps to 100 bps of cuts to end the year with the path through 2026 to come into focus a bit
  - The unanswered question is will this Fed move down a gradual path or more quickly to a policy shift

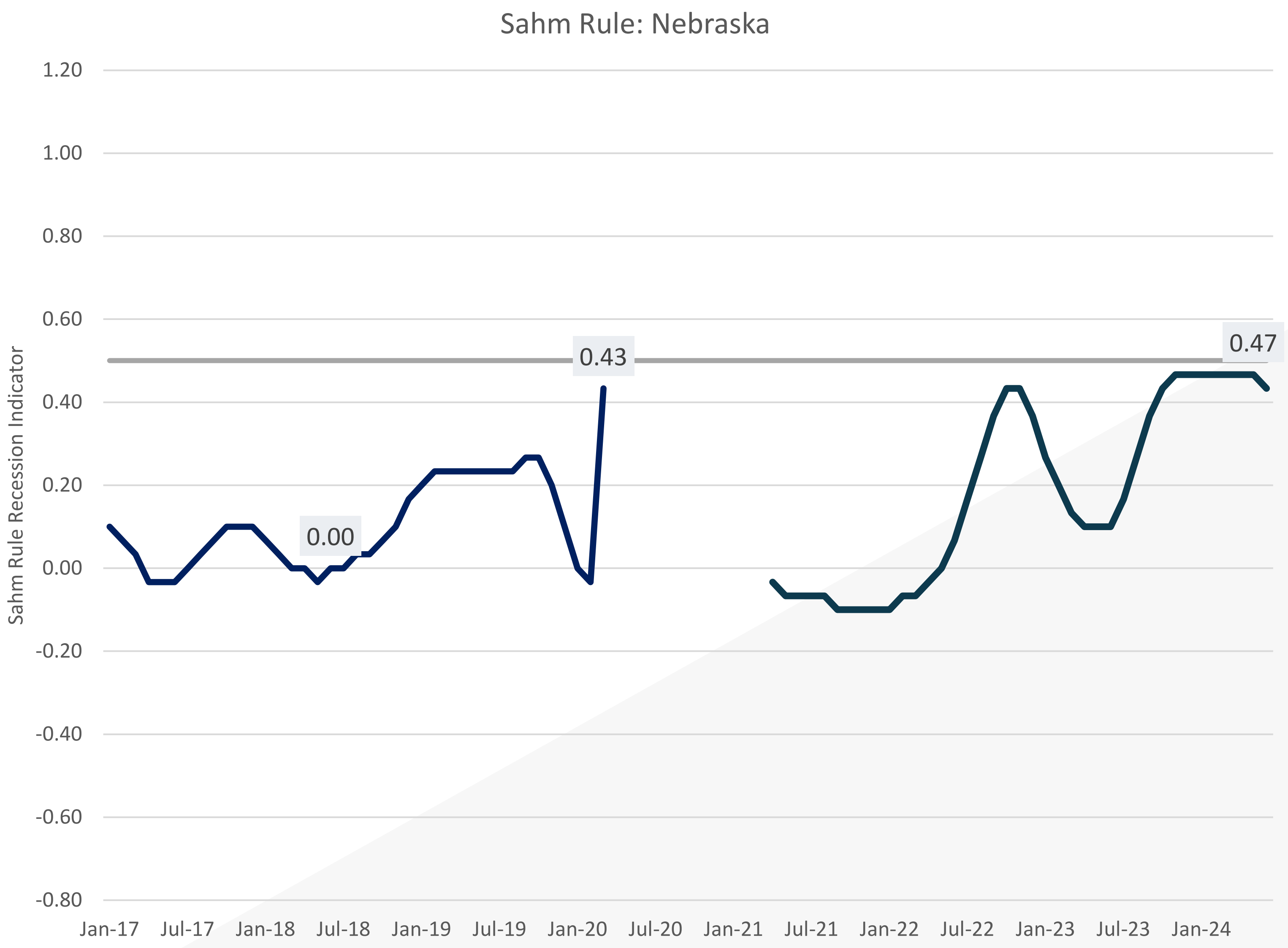
FROM U.S. TO REGIONAL ECONOMIC OUTLOOK

- We are still, and in some cases just now, feeling the lagged effects of policy; a soft landing may yet be a little bumpy and may not feel soft to everyone
- If households have largely spent through their excess savings, the public sector has not; the effects of government spending and capital projects will be felt for several more years
- Household balance sheets are stressed, and the consumer will need a mix of policy relief and a strong labor market to maintain spending
- The pandemic exposed the risks of a just-in-time and globally distributed supply chain strategy; expect a persistent trend of reshoring and with a manufacturing resurgence to follow
- The forces of geography will continue to favor regions south and west across the U.S.



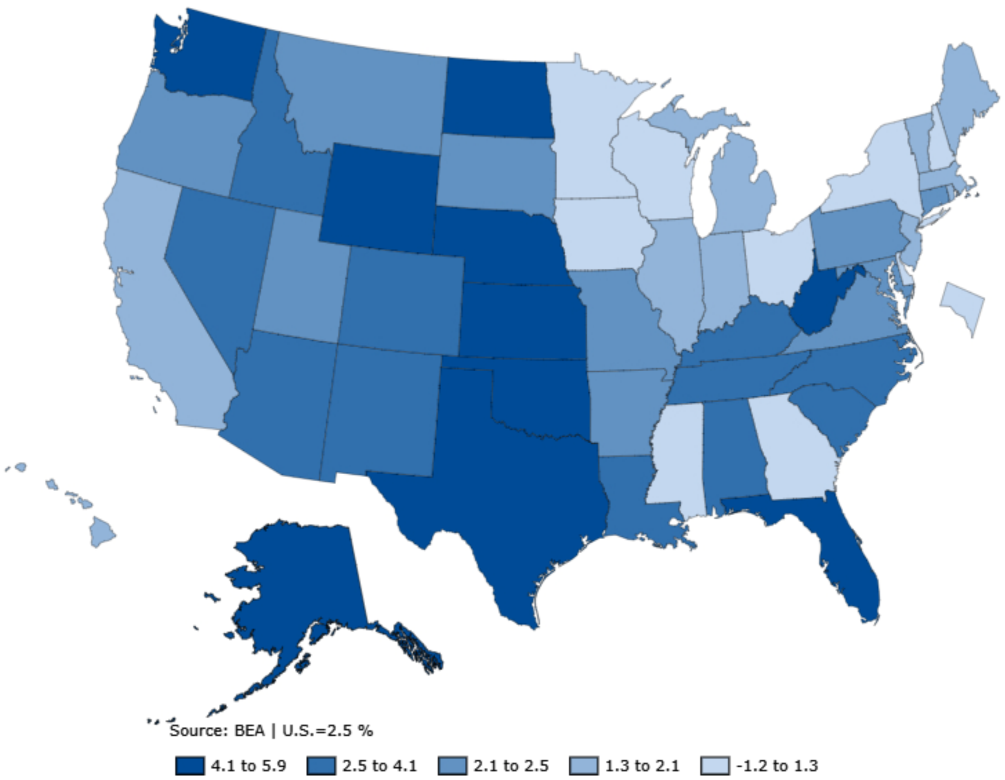
- Throughout the previous decade Nebraska job growth consistently lagged U.S. job growth

- But Nebraska's pandemic recession experience was muted compared to U.S. swings



- The Sahm Rule was triggered in the U.S. labor market with the August jobs report
- The Sahm Rule compares the current 3-month average unemployment rate to the low of the previous 12 months; if it is greater than 50bps higher the economy is likely in a recession
- The Sahm Rule can be applied to state economies and the recessionary breach is approaching in Nebraska
- *Stop Applying My Recession Rule to State Data: Claudia Sahm;* Bloomberg Opinion 3/27/2024

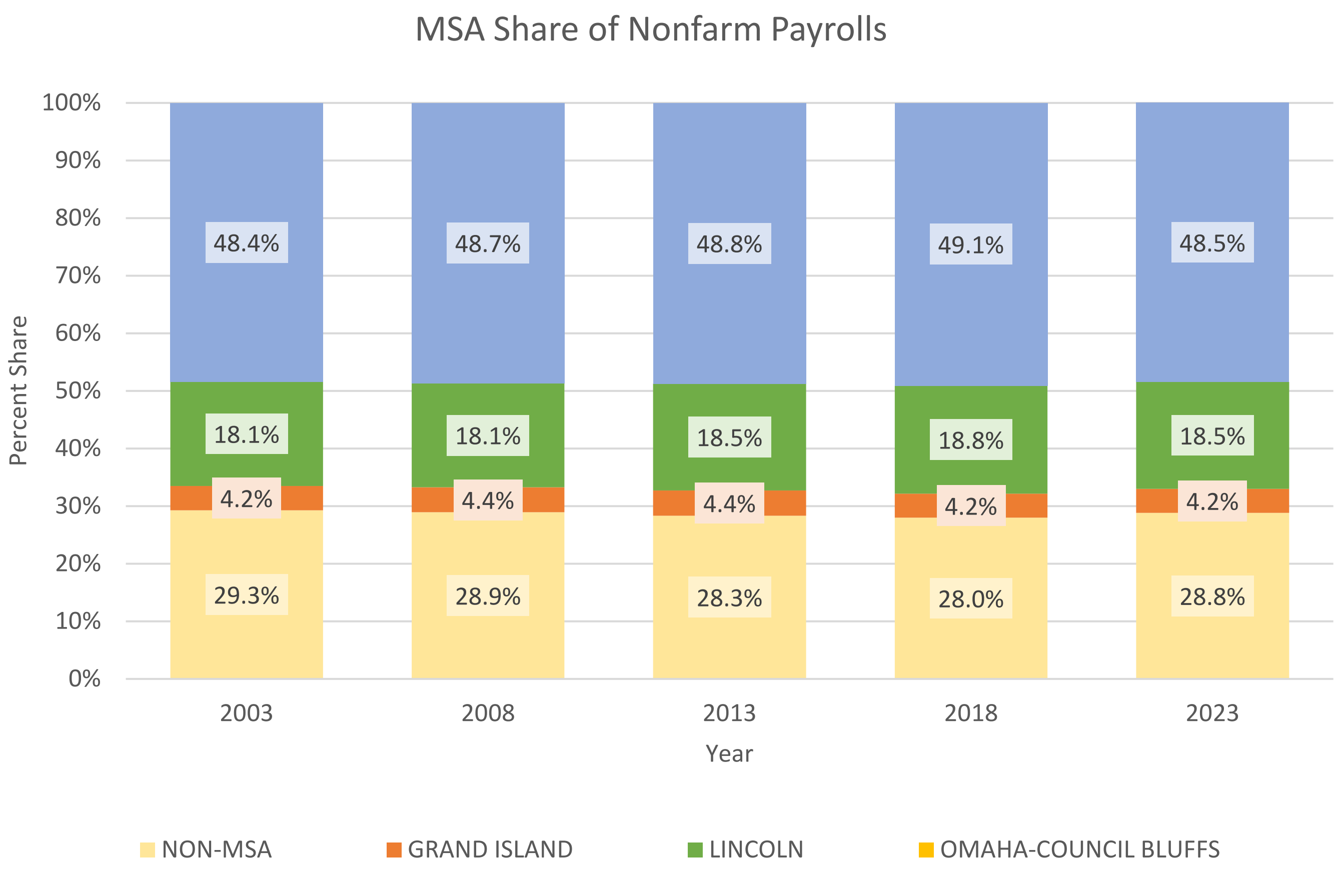
United States, Real GDP by state: All industry total, 2022 - 2023 Percent change from preceding period



- Nebraska was in the top tier of GDP growth in 2023 – joined by other commodity states

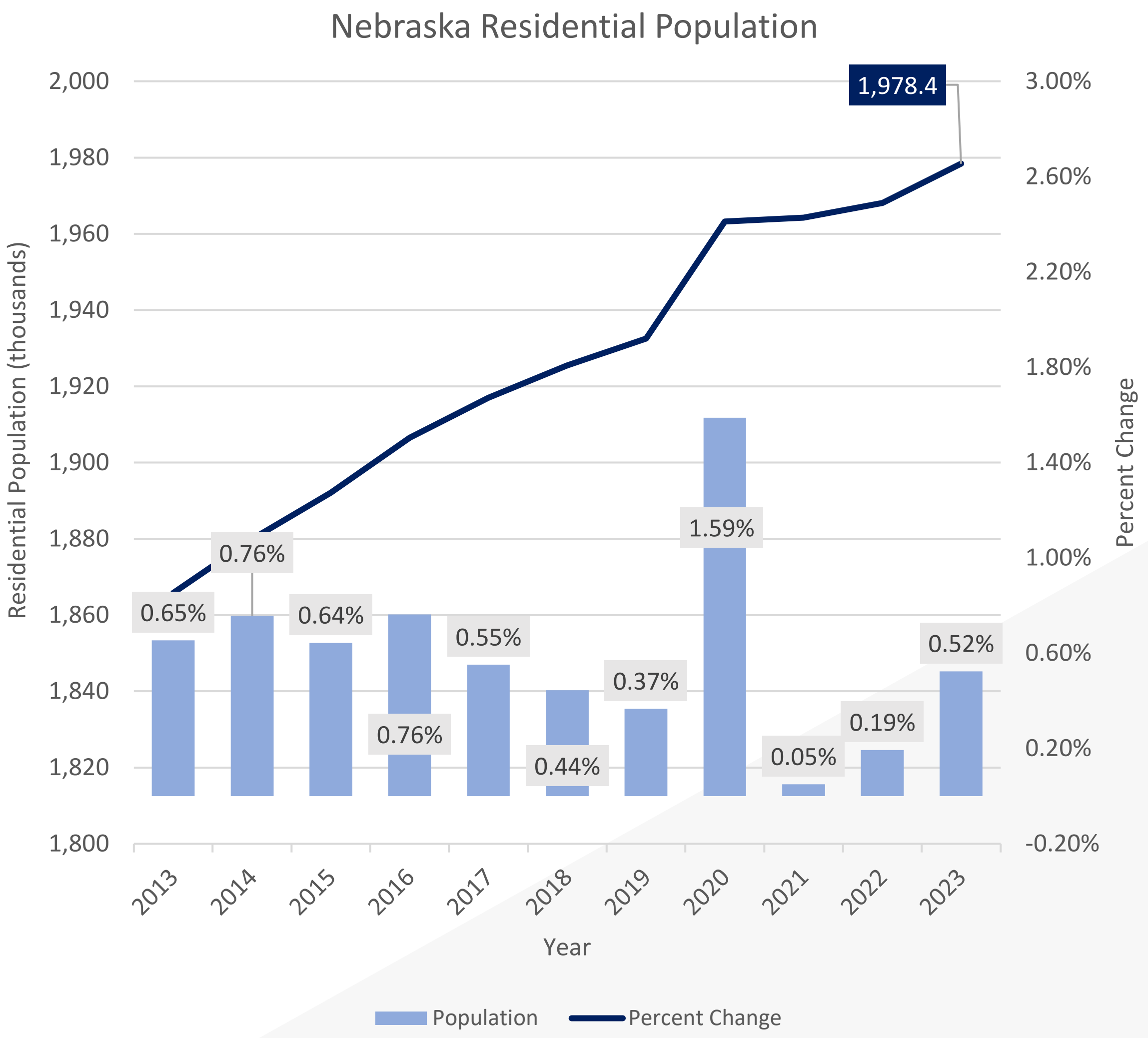
2023 Top Tier RGDP Growth

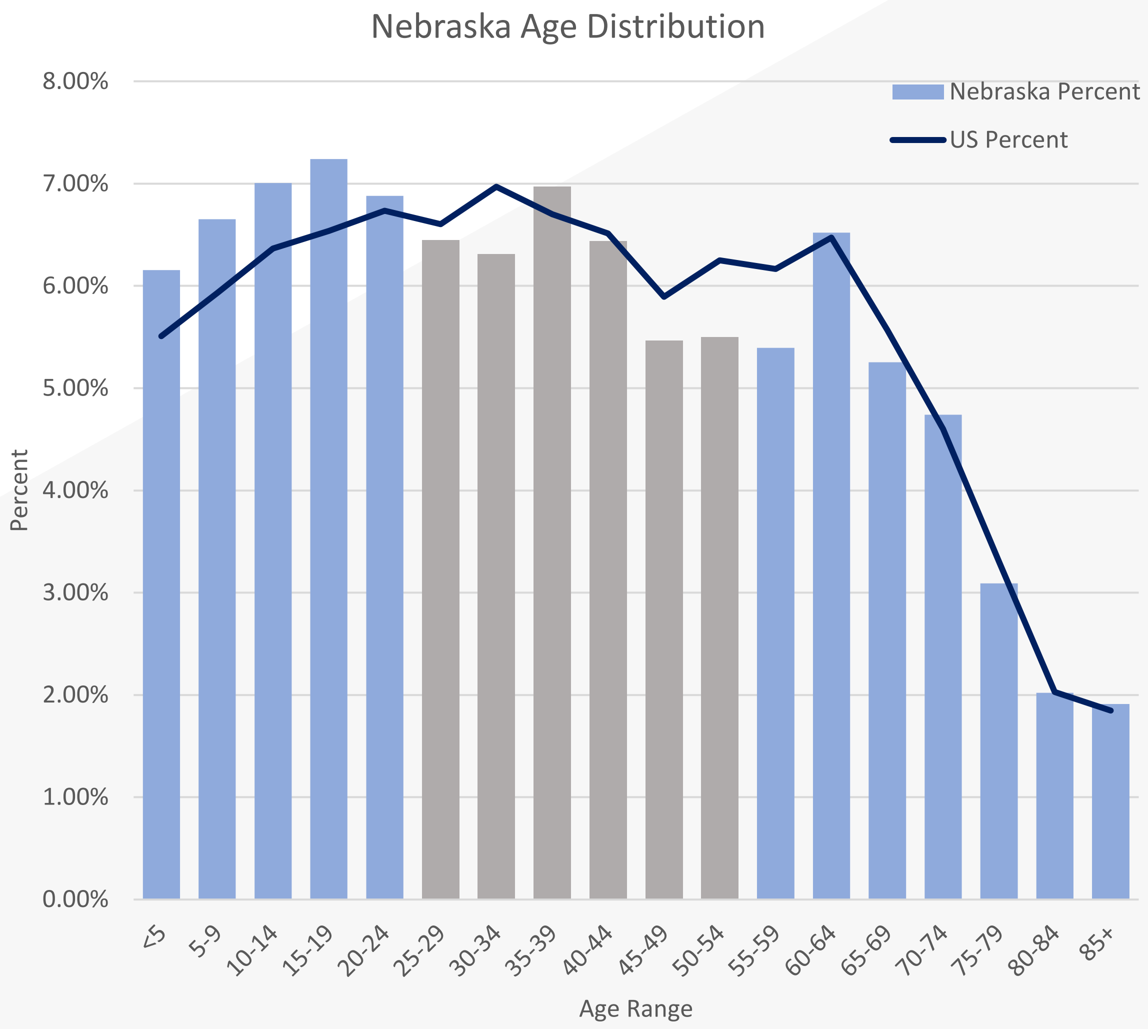
State	Growth
ND	5.9
TX	5.7
WY	5.4
OK	5.3
NE	**5.2**
FL	5.0
WA	4.8
WV	4.7
KS	4.3



NEBRASKA MSA	10-yr Change
NON-MSA	-0.46%
GRAND ISLAND	-0.05%
LINCOLN	0.47%
OMAHA-COUNCIL BLUFFS	0.05%

- There has been a modest shift in the share of total employment towards Lincoln, but the distribution of employment across the state is quite stable
- What is remarkable is the non-msa share of total employment; Nebraska remains among the least urbanized state in the U.S.


Nebraska Residential Population
Residential Population (thousands)
Percent Change
1,978.4
0.65%
0.76%
0.64%
0.76%
0.55%
0.44%
0.37%
1.59%
0.05%
0.19%
0.52%
2,000
1,980
1,960
1,940
1,920
1,900
1,880
1,860
1,840
1,820
1,800
3.00%
2.60%
2.20%
1.80%
1.40%
1.00%
0.60%
0.20%
-0.20%
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Year
Population
Percent Change


Nebraska Age Distribution
Nebraska Percent
US Percent
Percent
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
<5
5-9
10-14
15-19
20-24
25-29
30-34
35-39
40-44
45-49
50-54
55-59
60-64
65-69
70-74
75-79
80-84
85+
Age Range

KEY QUESTIONS

- How soft will our soft landing be?
  - I expect some bumps along the way and can't rule out an end-of-the-year recession if consumer spending breaks. The economy is not in a recession currently but is teetering with little support to offset any negative shock. Will 75bps of cuts to end the year be enough support?

- Will the Nebraska economy be able to withstand any bumpiness along the way?
  - Not completely. But Nebraska does approach a coming period of U.S. economic uncertainty from a position of strength to push back against any U.S. slowdown. There is some evidence of a slowing state economy, but that may be more of a normalization than a slowdown.

- What does the long-run outlook suggest for Nebraska?
  - Forces of geography won't reshape Nebraska and it's difficult to see internal forces doing it either; Nebraska may be among the most identity entrenched state in the U.S.

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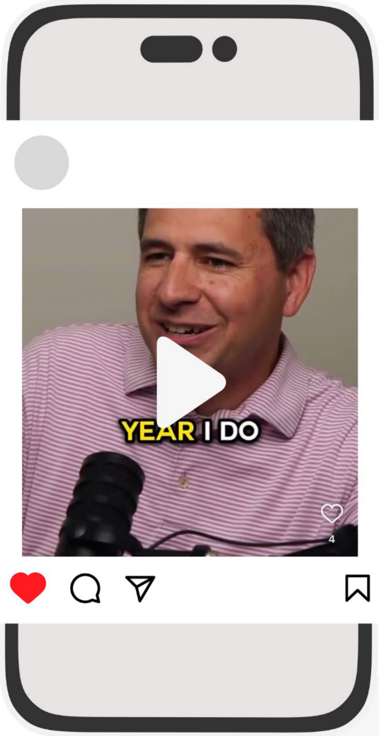

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