Lincoln's economy stays on strong course

Star City avoids fallout from trends, higher interest rates

By Neil Feldman
Staff Reporter

Amid forecasts of a national economic slowdown, Lincoln investment brokers show little concern that a decline would penetrate Nebraska's capital.

Brokers point to a steady local economy as a sign of strength amid several interest rate increases. Lincoln's economy was able to dodge a heavy economic toll from the recession in the early '90s.

"It seems like the Lincoln economy should begin to recede," said Lynn Zabel, a broker with Kirkpatrick Pettis, "but in fact it's remained fairly steady over the last several years."

Lincoln also has many characteristics that could lead to a consistent economy, brokers said, including:

- The lowest unemployment rate of any U.S. city, 2.4 percent.
- Being the home of the state government.
- Being the location of the University of Nebraska-Lincoln.
- A mixture of large and small industrial companies.
- A high number of real estate projects in the works.

Zabel said investments in bonds, CD's, and the stock market — measuring devices for local economies — haven't declined either.

Jim Blumer, a broker with A G Edwards and Sons Inc., said, "Lincoln's economic base has remained strong and virtually unscathed through (the first) six hikes, so there is reason to be optimistic."

Though returns on the broad markets were poor last year, Blumer said, "the very fact that calls (from investors) kept coming in indicates things are pretty strong here."

Mick McConkey, a broker with Smith Barney Shearson, said Lincoln residents hadn't pulled back their investing. But, he said, that may not be the case on Wall Street if the interest rate increases once again.

"If rates are pushed up further," he said, "then I'd be surprised if there's not at least a slight pullback among investors."

McConkey said he would keep a close eye on economic data to see what effect the Feb. 1 increase would have on the market.

Broker said investments in high-risk areas like commodities and public research-based corporations had lost local appeal in the last several years. A more conservative approach could result in fewer returns per dollar invested, while greatly lessening the risk of loss.

"In times of a volatile market," Blumer said, "we advise investors to stick with consistent companies with a proven track record."

He said some clients, particularly those investing for a pension fund, held much of their money in utility stocks, which rarely fluctuate but offer high yields.

Zabel, who steers clear of high-risk investments, said the large number of overqualified Lincoln employees explained why some locals invested conservatively.

Many Lincoln residents are well-educated but underemployed, Zabel said. This means many intelligent investors can't delve into volatile sectors of the market because they don't have the money.

Though confident that Lincoln's economy would remain steady in the short term, McConkey said there were reasons to act cautiously with the market.

"If the Fed continues to act aggressively," McConkey said, "I think we will see at least a mild market correction. We have already seen a slowdown in some sectors of the market."

The drop would be at least 5 percent, but no more than 10 percent, he said. McConkey said that if the Dow Jones Industrial Average hit 4,000 and interest rates were still rising, the probability of a drop would increase.

Kai Wilken/DN

Real estate projects could boost city's economy in short term

By Neil Feldman
Staff Reporter

Dozens of real estate projects around Lincoln could help buffer the city from a national economic slump, say local bank representatives.

Anticipation of an economic slide that could impact banks does not stem just from concern that the Federal Reserve's seven recent interest-rate hikes will soon take their toll on consumers. As well, the prime rate — the cheapest rate of interest on bank loans at a given time, offered to preferred borrowers — could increase several more times this year.

The prime rate stands at 9 percent, and experts suggest a possible increase of at least 1 percent by year's end.

Gene Suhr, an executive at Martell State Bank, said it would be reasonable to see a double-digit prime rate by the fourth quarter of 1995.

"If the prime rate continues to go up," Suhr said, "we will probably see a slowdown in new real estate projects."

But Bill Waddell, managing agent with Broe Real Estate Services of Nebraska, said enough projects were in the works.

Those projects include Gateway Mall, strip malls near 27th and Superior streets with chain stores like Service Merchandise and Wal-Mart, and stores that are popping up near 40th Street and Old Cheney Road. In addition, he said, small businesses are being built around the city.

Lynette Nelson, loan officer at Havelock Bank, said Lincoln's real estate market was proof that interest-rate hikes and market swings hardly touched the city.

"As more people with small business ambitions settle in Lincoln," Nelson said, "the need for housing increases."

She said real estate had been so strong in the past few years that the market had trouble keeping pace with demand.

Nelson said she expected to see a pullback soon, but remains optimistic in the short term because of the work in progress.

But a rise in the prime interest rate likely would have a ripple effect, causing increases in bank and bond rates and making it difficult to start new businesses.

Because of that, a rise in interest rates in the short term could lead to a rise in unemployment in Lincoln, said Roger Lewis, spokesman for Commercial Federal Bank. The rise could hit Omaha and other cities too, he said.

Some economists and business representatives suggest a slowdown has begun. If that is true, Lewis said, additional hikes could hit Lincoln. He said it would take several quarters to tell if that was true.

Some bank representatives say Lincoln's economy is difficult to measure because of widespread underemployment, meaning overqualified people work below their capacity.

Vern Spencer of FirsTier Bank said the state government was notorious for underemploying, but that some in business and education did it as well.

Roy Odle, investment manager at National Bank of Commerce, said Lincoln had one of the highest underemployment rates in the country. He said the city had too many minimum-wage positions, which was why many well-educated people moved elsewhere.