

3RD QUARTER 2010

FEDERAL RESERVE BANK OF KANSAS CITY - OMAHA BRANCH



Economic conditions stabilize in Nebraska

by Jason Henderson, Omaha Branch Executive and Vice President

EXECUTIVE SUMMARY

Nebraska's economy continues to expand, shaking off the summer lull in national economic conditions. Stronger activity in the housing, retail, manufacturing and farming sectors provided a foundation for Nebraska's economy. Some tentative signs of improvement emerged in Nebraska's commercial real estate markets. In contrast to national trends, a broad swath of Nebraska's industries continued to add jobs in both metro and rural communities.

Despite strong headwinds, Nebraska's real estate market showed a few signs of strength. Stronger home sales and stabilizing prices sparked some new home construction. The end of the homebuyer tax credit, however, raised concerns about further growth in the housing sector. While weak, the commercial real estate sector

saw a decline in commercial vacancy rates during the second quarter.

Similar to the nation, manufacturing activity rose further with

stronger export activity. Nebraska's manufactured exports bounced back with strong agriculture-related activity. Renewed strength in manufacturing activity helped stabilize employment in transportation and wholesale firms. Still, stronger activity has yet to translate into new jobs as manufacturers expanded the average workweek to meet labor needs.

Nebraska's retailers saw a slight pickup in retail sales during the spring. By the second quarter, taxable retail sales had risen above year-

ago levels, leading some retailers to boost summer payrolls. Automobile sales remained strong heading into the summer, and agricultural retail-

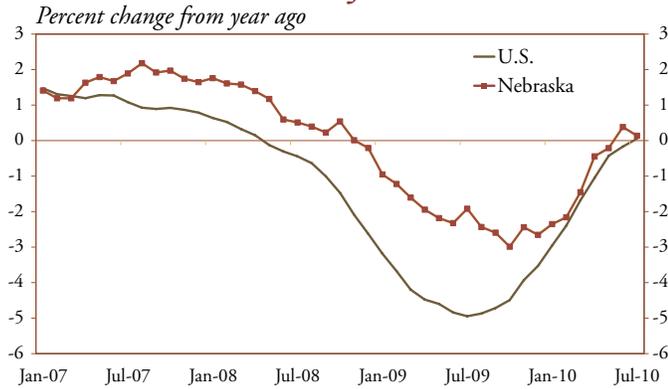
ers noted stronger farm equipment sales. Yet, consumer spending activity waned with the national economic slowdown.

The farm economy strengthened over the summer. Stronger global protein demand amid lean livestock and crop supplies have boosted farm profits. Nebraska's farmers are harvesting bumper crops with strong wheat yields and a promising fall harvest. Farmers and nonfarm investors continued to pay higher prices for Nebraska's farmland.

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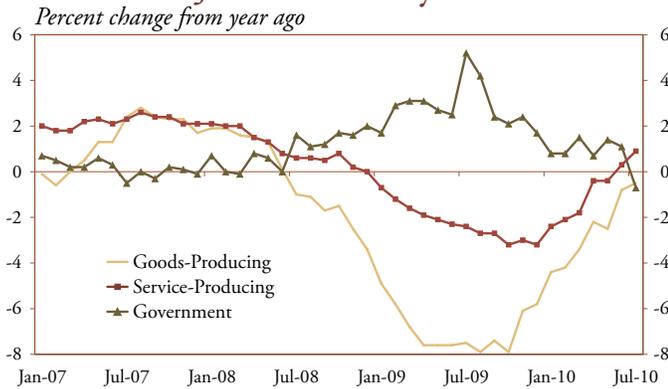


Chart 1:
U.S. and Nebraska Job Growth



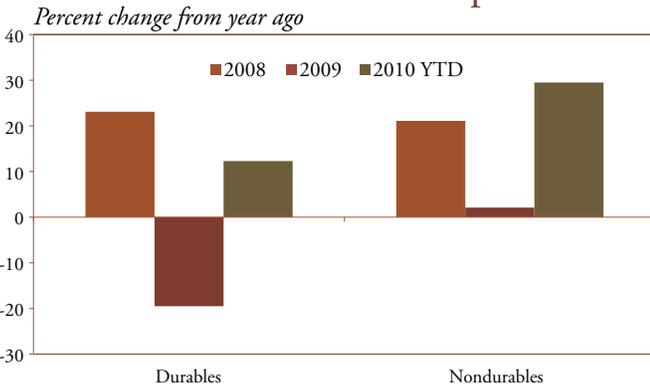
Source: Bureau of Labor Statistics

Chart 2:
Nebraska Job Growth by Sector



Source: Bureau of Labor Statistics

Chart 3:
Nebraska Manufactured Export Growth



Source: WISERtrade
2010 data are through June

LABOR MARKET AND MANUFACTURING

After strengthening at the beginning of the summer, Nebraska's firms added jobs at a slower pace heading into the third quarter. The summer lull in national economic conditions, which led to national job losses, slowed Nebraska's job growth to less than 1 percent annually by July (Chart 1). Still, nonfarm employment remains above 2009 levels, and unemployment rates remained just above 5.0 percent. In fact, most Nebraska counties have higher employment than a year ago, with stronger gains posted in rural Nebraska.

Nebraska's job gains were led by the broad service sector. Employment in service-producing firms strengthened heading into the third quarter (Chart 2). Finance and insurance firms, education and health services, and professional and business services continued to pace Nebraska's job market.

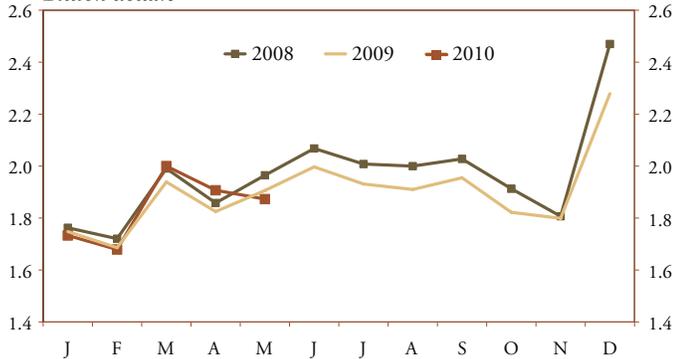
Retail trade jobs expanded further, and Nebraska also enjoyed strong gains in federal employment. State and local government employment declined with challenges in state and local government finances. Employment in goods-producing sectors (construction, manufacturing and mining) stabilized with employment near year-ago levels.

Nebraska manufacturing activity and exports held steady in the second quarter, led by agricultural-based products. Stronger exports for processed foods and machinery have supported both durable and nondurable production activity throughout the state (Chart 3). Solid sales and production activity, however, were not strong enough to boost employment as factories used overtime to meet labor needs. Export activity and employment gains were led by machinery equipment factories enjoying a rebound in farm sales.



Chart 4:
Nebraska Net Taxable Retail Sales

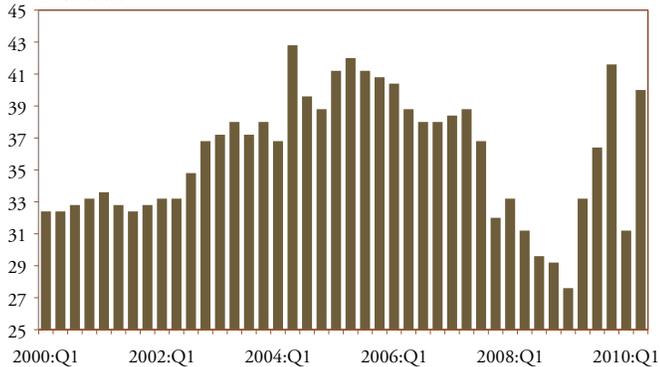
Billion dollars



Source: Nebraska Department of Revenue

Chart 5:
Nebraska Existing Home Sales

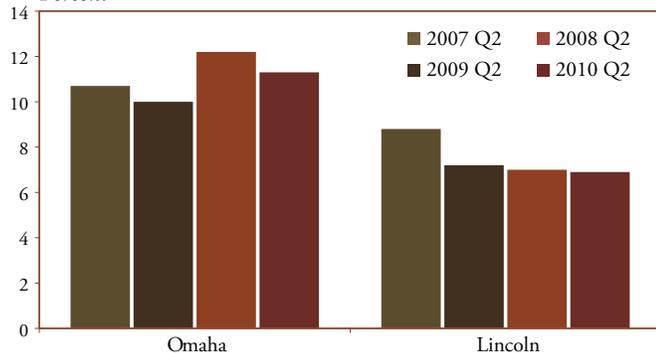
Thousands



Source: National Association of Realtors

Chart 6:
Commercial Real Estate – Office Vacancy Rates

Percent



Source: CBRE Econometric Advisors

RETAIL AND REAL ESTATE

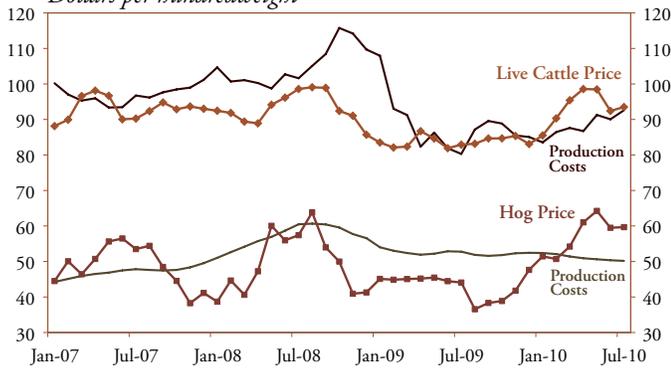
After a first quarter rebound, Nebraska retail sales activity slowed heading into summer. In May, taxable retail sales fell below year-ago levels (Chart 4). In contrast, automobile sales showed stronger gains in the second quarter. Total year-to-date retail sales in Nebraska remained slightly above year-ago levels, with more sluggish activity in Omaha and Lincoln. Compared to a year ago, recreation-based firms reported stronger job gains as more people vacationed closer to home.

Nebraska's housing sector improved in the second quarter. The homebuyers tax credit sparked a sharp rise in existing home sales, which reduced home inventories (Chart 5). Construction employment rose through the summer after a spring rebound in Nebraska's housing permit activity. Nebraska home prices strengthened in the second quarter with the strongest gains emerging in rural Nebraska. However, the end of the homebuyers tax credit has severely limited home sales and building permit activity at the end of the summer, raising concerns about the sustainability of the housing rebound.

While Nebraska's commercial real estate activity remains weak, a few signs of improvement have emerged. Office and industrial vacancy rates have edged down but remained elevated in both the Omaha and Lincoln metro areas (Chart 6). Rents appear to be firming with an uptick in industrial rents in Omaha and office rents in Lincoln. A few anecdotal comments indicate solid owner-occupied commercial activity in rural areas. Still, the value of nonresidential construction plummeted, and sluggish sales activity contributed to lower prices on commercial real estate, boosting the capitalization rate on commercial properties.

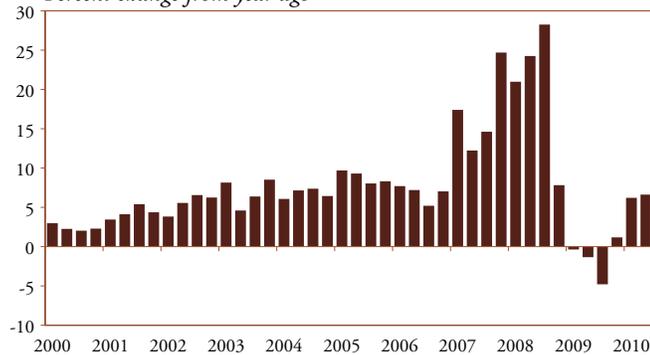


Chart 7:
Livestock Prices and Production Costs
Dollars per hundredweight



Source: USDA and Iowa State University

Chart 8:
Nebraska Non-irrigated Cropland Values
Percent change from year ago



Source: Federal Reserve Bank of Kansas City

AGRICULTURE

Nebraska's agricultural economy strengthened in the second quarter due to higher commodity prices and the prospects of bumper crops. Farmers harvested a bumper wheat crop with above average yields. Plentiful precipitation is expected to yield another bin-busting fall harvest. Yet, concerns about global crop production have lifted crop prices and raised crop income projections. While higher crop prices have raised feed costs, stronger global demand for proteins and limited supplies kept livestock prices above production costs (Chart 7). U.S. agricultural exports have risen 18 percent in the first half of 2010 with stronger export growth to Asian countries.

Stronger farm income prospects have led to rising Nebraska farmland values through the first half of the year. Both non-irrigated and irrigated cropland values have risen 6 percent over the past year with slight declines in ranchland values (Chart 8). Stronger farm and nonfarm investor demand and fewer land parcels for sale are driving robust farmland value gains. ■

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