The Nebraska Economy Gains Steam

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Executive Summary

Robust sales and stronger hiring provided an extra spark to the Nebraska economy at the end of 2010. Amid strong holiday shopping and rising automobile sales, jobs at retail stores spiked in December. In addition, the number of service positions climbed higher with professional, business, education and health care firms adding jobs at a solid clip. After struggling for most of the year, information and financial service firms also added jobs in December. With additional hiring, Nebraska’s unemployment rate fell further, remaining one of the lowest in the nation.

Rural Nebraska led the recovery as a robust farm economy spurred business activity. Strong demand, tight supplies and ominous global weather patterns triggered sharp increases in grain prices and crop incomes, while livestock producers strove to preserve profits amid high feed costs. Larger farm incomes translated to sales on rural Main Streets as farmers bought trucks, tractors and holiday gifts. In addition to rising farm equipment sales, strong farm income propelled Nebraska farmland values to record highs.

Strengthening global food demand fueled job gains at Nebraska factories. Nebraska’s manufactured exports rebounded sharply in 2010, led by food and machinery exports. To meet rising labor needs, factories boosted overtime, raised wages and increased employment. With more shipments of manufactured and agricultural goods, semi-truck drivers were in demand, and warehouse activity picked up.

Construction activity remained Nebraska’s biggest economic headwind. With major public projects winding down, the commercial construction sector was faced with a thin pipeline of new projects. Residential homes sales, home prices and building activity fell at the end of the year without the support of the homebuyer tax credits. Yet, stronger labor markets and shrinking home inventories could support the construction sector in coming months.

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Employment

Nebraska’s job growth strengthened at the end of 2010 as the national economic recovery gained steam. Building on the third quarter’s modest job gains, Nebraska’s fourth quarter employment was 0.8 percent higher than the previous year (Chart 1). Job growth in rural Nebraska continued to drive employment gains, particularly in micropolitan counties that serve as regional economic hubs outside of metropolitan areas. Additional hiring pushed the state’s unemployment rate to its lowest level in two years, falling to 4.3 percent in December. In addition, Nebraska’s earnings bumped up in the fourth quarter with a slight rise in the average number of hours worked and a 2.4 percent increase in average hourly wages.

Nebraska’s employment growth was paced by the service sector (Chart 2). Service sector jobs reached 1.1 percent above year-ago levels with stronger hiring by professional and business firms as well as more jobs in the education and health care fields. Despite an uptick in manufacturing payrolls, further declines in construction jobs weighed on employment in the goods-producing sector. A rise in state and local government jobs more than offset a slight dip in federal government positions, bringing total government employment in Nebraska on par with year-ago levels.

Retail and leisure and hospitality jobs spiked during the holiday season with reports of robust retail sales. Compared to last year, retailers staffed up by 8.4 percent in December, while leisure and hospitality firms hired 4.0 percent more workers. Consumer spending in Nebraska exceeded year-ago levels for most of 2010 (Chart 3). Shoppers turned out in force across the state at the beginning of the holiday shopping season, especially in rural areas where farm income climbed. Automobile sales also surged near year-end, eclipsing 2009 levels by more than 30 percent in November.
Manufacturing, Construction and Real Estate

Nebraska’s manufacturing activity and exports remained brisk in the fourth quarter. As the largest component of Nebraska’s export volume, food and kindred products propelled the value of Nebraska’s nondurable exports more than 20 percent higher than 2009 levels (Chart 4). Exports of durable goods also strengthened during the year, in large part due to machinery and heavy equipment sales. Manufacturing employment edged up again in the fourth quarter, remaining 0.2 percent above 2009 levels. Plant managers continued to use overtime to meet production needs as the average work week held at 41 hours.

Commercial construction activity slowed in the fourth quarter with fewer projects coming on-line. Despite a third quarter spike, the annual value of commercial construction contracts in Nebraska plunged from 2009 levels and was 38 percent below the 10-year average (Chart 5). Office and industrial vacancy and rental rates firmed in Lincoln, but fluctuated in Omaha. Omaha office vacancy rates rose and rents edged down, while industrial vacancy rates fell and rents stabilized.

Nebraska’s residential real estate activity remained weak in the fourth quarter. Single-family building permits and existing home sales were down 10 and 30 percent, respectively, compared to the fourth quarter of last year when builders and buyers were motivated by the federal tax credit program. Less building activity contributed to smaller home inventories and led to further declines in the average month’s supply of homes for sale in both the Omaha and Lincoln markets (Chart 6). After the end of the homebuyer tax credit, home prices slid with softer sales and longer marketing times.
Agriculture

Nebraska’s agricultural economy profited from rising commodity prices at the end of 2010. Sparked by tight supplies, the summer rally in crop prices gained momentum after fall harvest when Nebraska farmers were selling bumper crops (Chart 7). Cattle prices also strengthened as the year progressed, though livestock profit margins narrowed with higher feed costs. Hog prices weakened amid larger supplies and softer demand for pork. Higher farm incomes and a change in tax depreciation rules prompted a flurry of capital spending in the fourth quarter, especially for equipment upgrades. Farmers also used elevated incomes to pre-pay for crop inputs and reduce debt.

Rising farm incomes, a limited number of farms for sale, and strong demand for farmland spurred a dramatic jump in farmland values across the state. Compared to the fourth quarter of last year, Nebraska cropland values shot up more than 17 percent and ranchland values climbed 13 percent (Chart 8). Record sales prices were reported in many counties as farmers and nonfarm investors competed for choice properties. Cash rental rates also rose in the fourth quarter, but not as rapidly as farmland values, increasing around 6 percent.

Chart 7: U.S. Crop Prices

Chart 8: Nebraska Farmland Value Gains

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