The Nebraska economy ended 2011 on a high note with strong retail sales and manufacturing shipments boosting employment. Holiday shoppers kept cash registers ringing, contributing to annual retail sales that were 6 percent higher than 2010 levels. Nurtured by strong farm income, retail sales continued to be particularly healthy in rural Nebraska. The state’s manufacturers also kept busy at year-end filling export orders for shipments headed primarily to Canada, Mexico and East Asia. In fact, Nebraska manufactured exports rose 23 percent above year-ago levels in the fourth quarter.

Strong sales activity translated to private-sector job gains across the state. In the fourth quarter, Nebraska’s non-farm employment rose 1.6 percent compared to last year, and the unemployment rate dipped to 4.2 percent. Goods-producing firms led the way in job gains as factory payrolls reached their highest level in two years. Hiring also took place at many service sector companies. Retail store managers added staff at year-end and professional and business services firms continued to recruit workers. Meanwhile, the government sector shed jobs at a slightly slower pace in the fourth quarter with fewer job losses at the federal level.

Residential real estate activity improved at year-end, though commercial construction waned. Following a fall rebound in home sales, Nebraska posted the strongest year-over-year increase in building permit activity since the 2009-2010 federal homebuyer tax-credit program. Existing home inventories in Omaha and Lincoln dropped below a six-month supply, and home prices stabilized just above year-ago levels. Commercial construction, however, slowed further, but business contacts indicated more public projects would be up for bid in the spring. In rural areas, strong demand for farm real estate kept prices at record highs even as more landowners placed farms on the market.

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Employment and Retail

Nebraska posted solid job gains at the end of 2011. Fourth quarter employment was 1.6 percent higher than the previous year and the unemployment rate trended down, hitting 4.2 percent in December (Chart 1). In fact, many communities in rural Nebraska reported tight labor markets and unemployment rates closer to 3 percent with some shortages of skilled workers such as mechanics, welders and engineers.

In addition, Nebraska’s average weekly earnings edged up 1 percent in the fourth quarter with a steady number of hours worked and a slight rise in hourly wages.

Private sector hiring drove Nebraska’s employment gains. Robust growth in factory jobs propelled employment in the goods-producing sector 1.7 percent higher than 2010 levels as construction employment held steady (Chart 2). Service sector job growth followed closely at 1.6 percent above year-ago levels with strong hiring by professional and business services firms as well as an upswing in positions at health care companies. In contrast, the government sector posted modest job losses in the fourth quarter. Fewer cuts in federal, state and local positions reduced government payrolls by 0.5 percent compared to last year.

Strong holiday sales capped off a banner year for Nebraska’s retailers. Retail sales remained 6 percent above year-ago levels (Chart 3). Consumer spending was especially strong in rural areas of Nebraska where farm income rose for the second straight year. Brisk sales fueled employment gains across the state. Compared to 2010, Nebraska retailers staffed up by 3 percent in the fourth quarter and full-service restaurants hired 2 percent more workers. In addition, an 8 percent spike in fourth quarter motor vehicle sales lifted employment at Nebraska auto dealers.
Manufacturing and Real Estate

Nebraska’s manufacturing activity and exports remained robust through the end of the year. With rising global food demand, particularly in Asian countries, the value of Nebraska’s processed food shipments surged almost 30 percent in 2011 (Chart 4). Exports of durable goods also strengthened during the year, in large part due to a 27 percent jump in foreign sales of machinery and transportation equipment. Canada and Mexico claimed the top spots on the list of Nebraska’s trading partners in 2011, followed by Japan, China and South Korea.

Nebraska’s residential real estate activity showed signs of improvement in the fourth quarter. A fall upswing in sales helped lower home inventories and shorten marketing times. In fact, residential real estate agents indicated there was less than a six-month supply of existing homes for sale in Omaha and Lincoln markets at year-end. With stronger sales, Nebraska home prices edged up from year-ago levels (Chart 5). More home builders took out construction permits in the fourth quarter, marking the healthiest rebound in new construction plans since the end of the homebuyers’ tax credit program in early 2010.

Commercial construction activity slowed in the fourth quarter and remained well below year-ago levels. The annual value of commercial construction contracts in Nebraska plunged 25 percent compared to 2010 with fewer projects under way at the end of the year (Chart 6). Still, business contacts anticipated more public projects would become available with warmer weather. Despite year-end rent reductions, office and industrial vacancy rates edged up in Omaha. Lower office rental rates in Lincoln, however, supported leasing activity, and industrial vacancy rates fell further.
Agriculture

A year of high crop and livestock prices, rising export demand and favorable growing conditions strengthened Nebraska’s farm economy. Tight supplies and strong global food demand supported high food commodity prices during 2011 (Chart 7). In addition, timely rains and mild weather in Nebraska aided crop and pasture growth. Farm profits rose despite higher input prices for fertilizer, fuel and feed. Higher farm incomes and a change in tax depreciation rules stimulated capital spending in the fourth quarter, especially for construction of farm buildings and grain storage facilities. Farmers also used elevated incomes to pre-pay for 2012 crop inputs and reduce debt.

Another year of strong farm income and rising demand for farmland drove Nebraska farmland values to record highs in many areas. Compared to the fourth quarter of last year, Nebraska cropland values surged more than 36 percent and ranchland values climbed 21 percent (Chart 8). In addition, cash rental rates jumped close to 25 percent for both nonirrigated and irrigated acreage. Top-dollar prices enticed more landowners to sell, particularly absentee owners. Even with more farmland coming up for auction, heated bidding from both farmers and nonfarm investors spurred prices higher.

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