Nebraska’s economy cooled in step with national economic trends at the end of 2012. A weaker global economy and a contraction in government spending weighed on the U.S. and Nebraska economies. After a fall surge, hiring at Nebraska firms slowed in the fourth quarter amid heightened uncertainty regarding fiscal policies and economic growth. Still, consumers sustained the state’s economic growth with stronger retail and home sales.

Similar to the nation as a whole, a weaker global economy was a drag on the Nebraska economy. Softer economic growth, especially in developing countries, contributed to flat export activity and slower hiring at Nebraska factories. With limited growth in shipments, wholesalers and transportation companies reduced staff. In addition, local spending cuts translated to fewer jobs in government services and education.

Yet, Nebraska’s economy continued to expand with consumer spending. Employment rose 0.8 percent in the fourth quarter, slower than the 1.5-percent growth in the third quarter. The housing recovery gained further momentum as more people bought homes, which lifted home prices, boosted building activity and spurred hiring in the construction trades. At the same time, rising incomes fueled strong retail sales during the holiday season and store owners and entertainment venues added staff to handle holiday crowds. The healthcare industry continued to expand to meet consumer needs, with the strongest job gains at hospitals and outpatient care facilities.

Despite drought, Nebraska’s farm economy produced stronger incomes and a surge in capital spending. Profits on irrigated cropland with adequate access to water soared, while crop insurance payments compensated for drought-reduced yields on nonirrigated land. A post-harvest decline in crop prices and strengthening cattle and hog prices narrowed losses for the livestock industry. Potential changes in tax policies at year-end prompted a flurry of capital spending. Furthermore, strong demand for farmland drove values higher despite more farmland for sale.
With modest job gains at the end of the year, Nebraska’s unemployment rate fell slightly to 3.7 percent by December (Chart 1). Still, Nebraska’s labor market lost momentum in the fourth quarter. After strengthening during the past year, annual nonfarm job growth in Nebraska tapered to less than 1.0 percent. Some businesses delayed hiring amid uncertainty surrounding potential tax policy changes and imminent federal spending cuts. At the local level, cost reductions trimmed government service jobs and educational staffing (Chart 2). In addition, information and financial activities firms continued to shrink payrolls in the fourth quarter.

Weaker global economic growth, particularly in emerging markets, also dampened economic growth in Nebraska. Since 2010, developing countries have accounted for more than half of Nebraska’s manufactured exports, driven by sales to Mexico and China. After rising sharply in 2011, total export sales leveled off in 2012 (Chart 3). Softer global demand for processed food products led to a slight drop in shipments of nondurable goods compared to last year. Foreign demand for durable goods, however, remained solid with an uptick in sales of machinery and manufactured metal products offsetting a decline in orders for transportation equipment.

With flat export demand, the pace of hiring at Nebraska factories fell below year-ago levels. Durable goods factories were still hiring, particularly for specialized skills, while employment at nondurable goods plants edged down. In addition, wholesalers and transportation firms reduced staff further in 2012, though job losses were not as steep as the year before.
Consumers helped propel Nebraska’s economic growth in the fourth quarter. Rising incomes supported consumer spending and boosted employment in the retail and leisure and hospitality industries. Retailers added staff as retail sales ramped up during the holiday shopping season and eclipsed the previous year’s total by almost 4.0 percent (Chart 4). Auto sales in particular strengthened at year-end, especially in rural areas of the state. Performing arts and sports venues were also hiring in the fourth quarter, as were quick-service restaurants. Healthcare providers continued to fill job openings, primarily at medical centers.

Housing markets in Nebraska improved further during the fourth quarter. The number of building permits issued climbed as home sales strengthened and mild winter weather kept construction sites busy (Chart 5). In fact, hiring by builders and developers pushed construction employment 10 percent higher than year-ago levels. Nebraska home prices rose further and some real estate agents in metro markets noted a shift toward a “seller’s market” as houses typically sold faster. With reduced home inventories, the number of homes for sale in the Omaha and Lincoln markets dropped below a five-month supply. In addition, the number of multifamily housing projects under construction in Nebraska during 2012 jumped 45 percent compared to 2011 with strong demand for rental units.

In contrast, commercial construction activity waned with fewer projects under way at year-end. Though still higher than year-ago levels, the value of commercial construction contracts in Nebraska fell further during the fourth quarter (Chart 6). Existing office and industrial space was readily available for rent with relatively stable vacancy rates in Omaha and Lincoln.
Despite the drought, farm income in Nebraska rebounded in the fourth quarter (Chart 7). With a substantial share of Nebraska farmland under irrigation, farmers with dependable access to water sold bumper harvests at high crop prices. For farmers that relied on scant rainfall to grow a crop, crop insurance payments supplemented farm income. In addition, a post-harvest dip in crop prices provided some relief to the livestock industry by lowering feed costs.

Higher farm income and pending changes to the tax code prompted a wave of farm capital spending before the end of the year. Farm machinery and equipment sales spiked as farmers rushed to take advantage of bonus depreciation allowances originally set to expire at the end of 2012 that were later extended through 2013.

Farmland values surged again at year-end despite more farmland for sale. Irrigated farmland values posted the strongest year-over-year increase at 32 percent, with a 27-percent rise in both the value of nonirrigated acreage and ranchland (Chart 8). The typical upswing in the number of farms placed up for sale at the end of the year was greater than usual due to record-high farmland prices and uncertainty about impending tax changes.

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