Nebraska’s Key Industries Drive Growth

By Nathan Kauffman, Omaha Branch executive, and Maria Akers, associate economist

Hiring in strategic industries propelled most of Nebraska’s job gains in 2013. Nebraska industries employing a higher concentration of workers than the national average ramped up hiring in the fourth quarter and helped boost nonfarm payroll employment 1 percent above 2012 levels. Stronger job growth also pushed Nebraska’s unemployment rate to a five-year low of 3.6 percent in December. While annual wages were relatively flat compared with 2012, some companies offered other forms of compensation, including incentive programs tied to performance, enhanced benefits packages and flexible work arrangements.

Nebraska’s highly concentrated industries added jobs at twice the pace of other industries in 2013. These strategic industries for the state include manufacturing, agriculture, construction, transportation, wholesale and retail trade, data processing and insurance. Increased employment in these industries was a reversal of earlier trends and could be important to further employment growth in Nebraska due to potential spillover effects.

Business activity in several key sectors of the Nebraska economy was also on the upswing in the fourth quarter. Residential and commercial construction remained elevated and low home inventories supported higher selling prices. Foreign demand for processed food products and machinery underpinned modest growth in manufactured goods exports. Holiday sales came on strong in December and retail sales closed the year 6 percent above 2012 levels.

Nebraska’s farm economy, however, lost momentum in the fourth quarter following a sharp drop in crop prices at harvest. Despite fairly strong corn and soybean yields, farm income fell from the high levels of 2012 due to lower prices. Furthermore, expectations that prices would remain relatively low, and concerns about persistently high input costs, clouded prospects for farm income in 2014. Profits for livestock operators, however, have improved with stronger hog and cattle prices and lower feed costs.

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Stronger job growth in Nebraska’s strategic industries drove employment gains in 2013 (Chart 1). In fact, Nebraska’s highly concentrated industries—those with a location quotient greater than 1.0—accounted for five of the six fastest-growing industries in the fourth quarter (Chart 2). Prior to 2013, less concentrated industries were driving a larger share of employment gains. Nebraska industries with a location quotient greater than 1.0 include agriculture, manufacturing, construction, transportation, wholesale and retail trade, data processing and insurance. These industries tend to export goods or services, and by bringing in revenue from outside areas they may stimulate growth in other local industries through a multiplier effect.

The manufacturing industry is an economic engine in rural areas of Nebraska where employment is twice as concentrated as metro areas. Furthermore, in a year when most firms held wages flat, manufacturing was one of the few sectors that increased average hourly earnings. Factory activity remained elevated in the fourth quarter with 5 percent year-over-year growth in the value of Nebraska’s manufactured exports (Chart 3). For example, processed food shipments to major markets in Asia rose 15 percent and machinery shipments to Canada rose 17 percent.

Overall employment in Nebraska continued to rise in the fourth quarter. Gains in private and public sector jobs lifted Nebraska’s total nonfarm employment 1.1 percent above year-ago levels. Additional hiring lowered the unemployment rate to 3.6 percent in December as the state’s labor force participation rate held steady.

A location quotient is calculated by dividing the ratio of industry jobs to total jobs in a region with the same ratio for the nation. When an industry employs a higher percentage of the region’s workforce compared with the national average, the location quotient for that industry is greater than 1.0. Conversely, a location quotient below 1.0 indicates those jobs are less prevalent in the region compared with the rest of the nation.
Agriculture and Consumer Spending

Nebraska’s farm economy began to slow in late 2013 following several years of exceptionally strong gains in income and farmland values. Farm income fell from 2012 highs as better-than-expected yields were not enough to offset a sharp drop in crop prices at harvest. In fact, some producers chose to hold grain inventories rather than sell at reduced prices. Farm income was expected to weaken further in 2014 if crop prices remain relatively low and input costs do not adjust (Chart 4). In contrast, lower crop prices reduced feed costs for livestock operators and tight supplies of cattle and hogs were expected to support higher prices in 2014.

Farmland value gains in Nebraska moderated from the rapid pace of recent years. In the fourth quarter, the value of nonirrigated cropland increased 5 percent year-over-year, far less than the gains of 38 percent and 27 percent in 2011 and 2012, respectively (Chart 5). The price of irrigated cropland rose an average of 7 percent while demand for quality pasture ground supported a 10-percent increase in ranchland values. While most agricultural bankers in Nebraska thought farmland values would stabilize in 2014, some anticipated a modest decline in prices.

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Consumer spending rallied at the end of 2013 capping another year of strong retail sales in Nebraska. During the fourth quarter, real net taxable retail sales excluding motor vehicles jumped almost 6 percent as shoppers filled stores during the holidays (Chart 6). In addition, fourth-quarter auto sales surpassed 2012 levels by 4 percent. Sales gains, however, were not evenly spread across the state. Fourth-quarter sales receipts at metro-area merchants grew 7 percent, up from 2.4 percent the year before, while sales growth in rural areas more dependent on farm income was just over 3 percent, down from 4.4 percent in 2012.

**Chart 4: U.S. Corn Price and Crop Input Costs**

Index (1990-1992=100) vs. Dollars Per Bushel

**Chart 5: Nebraska Farmland Value Gains**

Percent Change From Year Ago

**Chart 6: Nebraska Real Net Taxable Retail Sales**

2013 Constant Dollars (Billions)
Real Estate

Strong construction activity and rising home prices buoyed residential real estate markets in the fourth quarter. After bottoming out in 2011, single-family building permits issued in Nebraska have increased more than 20 percent each of the past two years (Chart 7). Home prices have also been on the upswing, gaining almost 4 percent since last year. With brisk sales, home inventories at the end of the year fell to a four-month supply in Omaha and the number of homes for sale in Lincoln approached a three-month supply.

Following three years of tepid activity, the value of new commercial construction contracts rebounded in 2013 (Chart 8). Strong growth in the first half of the year pushed volumes higher than the 10-year average for the first time since 2007. Furthermore, a decline in office vacancy rates nudged rental rates higher in the Omaha area. Major privately funded projects under construction in 2013 included multifamily housing projects, medical and assisted living facilities and retail space.