Exports Lift Nebraska’s Economic Fortunes

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Executive Summary

A rebound in manufactured exports spurred additional gains in the Nebraska economy during the first quarter. Rising food prices boosted the value of Nebraska’s agricultural and manufactured exports, particularly processed foods. In fact, the value of Nebraska’s manufactured exports jumped 30 percent above year-ago levels in the first quarter. To meet rising production needs, Nebraska’s factories extended overtime hours and hired new workers at their fastest pace in three years. Stronger manufacturing employment helped put more people to work and trimmed Nebraska’s unemployment rate to 4.2 percent in March.

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Nebraska’s service firms also hired more workers in the first quarter. Rising manufacturing activity sparked additional hiring in transportation and wholesale trade industries. In February, shoppers braved severe winter weather and kept retail sales firm. Solid spending supported hiring at retail, leisure and hospitality firms. In contrast, fiscal strains limited hiring at state and local governments and clipped federal government jobs.

Construction activity in Nebraska picked up in the first quarter. Increased demand for rental housing and additional construction for public road and waste-management projects raised construction employment above year-ago levels. During the first three months of the year, Nebraska’s existing home sales strengthened, which helped stabilize home prices. Stronger home sales, however, did not spark a rebound in single-family building permits as the number of homes on the market remained elevated.

Rising exports, low crop and livestock inventories and adverse weather drove agricultural prices higher. With higher farm incomes, Nebraska’s farmland values rose sharply. In particular, Nebraska cropland values jumped 24 percent above year-ago levels. Farmers also used rising incomes to pay off debts and purchase more equipment and machinery this spring.
Employment and Manufacturing

In the first quarter, employment in Nebraska grew at its fastest pace in three years. Nebraska’s job levels rose 1.4 percent above a year ago, building on the solid job gains posted at the end of 2010 (Chart 1). Many rural communities, especially those with close ties to manufacturing, reported lower unemployment rates. A modest drop in initial unemployment insurance claims pushed the state’s unemployment rate down to 4.2 percent in March.

Nebraska’s employment growth was led by the goods-producing sector, where employment rose 1.8 percent above a year ago (Chart 2). In the first quarter, many Nebraska manufacturers expanded production and payrolls in response to rising export demand (Chart 3). The value of non-durable goods exports were almost 40 percent above year-ago levels in the first quarter, driven by a sharp increase in shipments of processed foods. Foreign demand for machinery and transportation equipment helped boost the value of durable goods exports by 20 percent compared to last year. Plant managers strove to meet production schedules with a combination of new hires and increased overtime as the average workweek exceeded 41 hours.

Service sector jobs also rose more rapidly in the first quarter, with jobs up 1.3 percent above a year ago. Professional and business services firms remained the most active in job markets, boosting payrolls by 5 percent year-over-year. Stronger manufacturing production prompted transportation companies to recruit for both freight hauling and warehouse positions. The wholesale trade industry also added jobs at a solid clip, as did health care firms and educational institutions. Government jobs, however, declined in the first quarter as federal payrolls shrunk and the number of jobs at the state and local level held steady.
Retail and Real Estate

Following a strong holiday season, Nebraska’s retail sales remained resilient (Chart 4). Despite severe winter storms and fewer shopping days, February retail sales were on par with January sales. Brisk showroom traffic translated to a 20 percent year-over-year sales increase at Nebraska auto dealers through February. Solid consumer spending kept staff busy at retailers and restaurants and lifted employment slightly above year-ago levels in the retail trade and leisure and hospitality industries.

Commercial construction activity rebounded in the first quarter with more public projects in the works. The value of non-residential construction contracts rose 40 percent from a fourth-quarter low, due in part to road and waste-management projects (Chart 5). Office vacancy rates fell further in Omaha but edged up in Lincoln. With higher office occupancy, Omaha landlords imposed modest rent increases; in contrast, Lincoln leasing agents offered lower rents to attract tenants.

Nebraska’s residential real estate market may be gaining some traction as sales improved (Chart 6). In the first quarter, sales of existing homes rebounded to year-ago levels, which helped stabilize Nebraska’s home prices. The supply of homes, however, remained relativelysteady with stronger sales enticing more people to put their homes up for sale. Elevated supplies weighed on new single-family home construction activity as building permit levels remained weak. In contrast, stronger demand for rental properties spurred development of multifamily housing. For the first time in more than two years, employment in Nebraska’s construction industry was slightly above year-ago levels.
Nebraska’s agricultural economy strengthened further with high commodity prices boosting farm income prospects. Low crop inventories, increased export activity, and intense competition for planted acreage lifted crop prices, while stronger protein demand boosted livestock prices (Chart 7). Higher farm incomes allowed many Nebraska farmers to pay for rising fuel, fertilizer and feed costs with cash instead of debt. Farmers continued to buy machinery and equipment before spring planting.

Nebraska farmland values continued to soar amid rising farm income and strong demand for good-quality acreage. Compared to the first quarter of last year, Nebraska cropland values jumped 24 percent, rivaling the rapid run-up in values from 2007 to 2008 (Chart 8). Stronger profits for livestock operators and increased demand for cattle grazing boosted Nebraska ranchland values 11 percent. With strong farm income prospects, farmland owners negotiated higher cash rental rates that averaged 18 percent more than last year for good-quality, nonirrigated farmland.

**Chart 7: U.S. Crop and Livestock Prices**

Dollars per bushel

Dollars per hundredweight

Source: Commodity Research Bureau

**Chart 8: Nebraska Cropland Value Gains**

(First Quarter)

Percent change from year ago

Source: Federal Reserve Bank of Kansas City

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