Executive Summary

Nebraska’s economy expanded modestly during the first quarter of 2013. Despite economic headwinds from government spending cuts, many Nebraska firms were still hiring, particularly in the goods-producing sector. In fact, Nebraska’s unemployment rate edged down to 3.7 percent in April and remained the second-lowest in the nation. With the value of manufactured exports increasing for the second straight quarter, Nebraska factories hired additional workers. Shipments of processed food products, Nebraska’s leading manufactured export, jumped after Japan relaxed trade restrictions on U.S. beef.

Nebraska’s housing recovery strengthened further, and commercial construction rebounded in the first quarter. Brisk home sales lowered inventories and lifted home prices. Strong demand for rental units fueled multifamily construction. Builders and developers ramped up hiring with a surge in home starts and more commercial construction projects under way.

Employment expanded at private service-sector firms, but at a slower pace than last year. The healthcare industry added the most positions, followed by hiring at wholesalers and retailers. However, mandatory furloughs and automatic spending cuts due to budget sequestration lowered government employment and funding for educational programs and social services. Retail sales growth eased gradually toward the end of the quarter as consumers acclimated to higher payroll taxes and relatively flat wages.

Nebraska’s farm economy remained solid in the first quarter but the outlook for farm income softened. High crop prices and crop insurance payments supported farm income at the beginning of the year; however, a potential drop in crop prices and rising production costs dampened farm income expectations for this fall’s harvest. High feed and forage costs continued to pressure profit margins in the livestock sector. Despite weaker income prospects, Nebraska farmland values rose further, though at a slower pace than last year.

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Manufacturing and Real Estate

Goods production underpinned Nebraska’s economic growth during the first quarter. The manufacturing sector continued to add jobs at a solid pace, increasing payrolls by slightly more than 2.0 percent (Chart 1). Exports of manufactured goods rose to match year-ago levels, but the first part of 2013 saw a shift in the rankings of Nebraska’s largest export partners. Canada still claimed the top spot, but Japan and China moved up to No. 2 and No. 3, respectively, pushing Mexico to No. 4. This shuffling was primarily due to an increase in processed food shipments after Japan relaxed trade restrictions on U.S. beef in February 2013.

Nebraska’s real estate market gained momentum during the first quarter. Robust building activity boosted construction jobs by more than 2.0 percent compared with last year. Multi-family housing permits accounted for a quarter of all building permits issued during the first quarter due to persistent demand for rental units. Furthermore, the number of single-family building permits issued rose more than 40 percent for the second straight quarter and kept developers busy preparing new lots for residential construction (Chart 2). In fact, the brisk pace of sales in the Omaha and Lincoln markets reduced the number of home for sale to about a four-month supply. Lower home inventories supported additional gains in home prices.

Commercial construction activity rebounded at the beginning of the year. After waning at the end of 2012, the value of commercial construction contracts in Nebraska jumped during the first quarter (Chart 3). Projects up for bid ranged from hospitals and retirement facilities to office and retail spaces. Office vacancy rates in Omaha dropped below 10 percent for the first time since 2008 and industrial vacancy rates fell to a new low at 8 percent.
Employment and Consumer Spending

Nebraska’s workforce expanded modestly in the first quarter, but growth moderated somewhat from a year ago. Modest job gains kept Nebraska’s unemployment rate below 4.0 percent for the third straight quarter, and the number of initial unemployment insurance claims in the state fell further. Annual nonfarm employment growth, however, slipped to 0.6 percent in the first quarter of 2013, compared with 1.7 percent in 2012. Some of the first quarter weakness in job growth was due to annual revisions from the Bureau of Labor Statistics that showed stronger job gains during early 2012 than previously reported, making growth in early 2013 somewhat less by comparison.

Government job losses were the primary drag on the state’s employment growth in the first quarter, with the steepest declines at the state level (Chart 5). As part of the Budget Control Act of 2011, automatic government spending cuts due to budget sequestration took effect at the beginning of March. Not only did scheduled administrative furloughs of unpaid leave affect the wages of many government workers across the state, reduced government funding also affected education budgets and social programs. Some private service-sector firms were still hiring, most notably healthcare providers, and payrolls expanded modestly compared with last year.

Retail sales growth in Nebraska started the year strong but pulled back toward the end of the first quarter (Chart 6). Average hourly earnings in the first quarter flattened compared with 2012, and less take-home pay due to higher payroll taxes may have curbed discretionary spending for some Nebraskans. Still, retailers continued to hire workers though leisure and hospitality firms trimmed staff.
Agriculture

Nebraska farm income held firm at the beginning of the year but was expected to weaken later in 2013 (Chart 7). Historically high crop prices and crop insurance payments supported farm income in early 2013. However, rising crop production costs, particularly for fertilizer and seed, kept income growth subdued. The likelihood of a poor winter wheat harvest and declining crop prices due to an anticipated rebound in corn and soybean production this fall also dampened farm income expectations. Lower crop prices, however, could improve profits in the livestock and ethanol sectors where persistently high input costs have challenged margins. Still, weaker overall farm income prospects were expected to reduce farm household and capital spending in coming months.

Nebraska farmland values climbed further in the first quarter, but less rapidly than in the past two years. Non-irrigated cropland values rose 17 percent year-over-year, half the pace of 2012 annual gains (Chart 8). Irrigated cropland posted annual value gains of more than 20 percent during the year as drought conditions lingered across much of the state, but the gains were still far less than the 41 percent annual appreciation seen in 2012. Ranchland values rose 17 percent compared with last year despite continued losses in the livestock sector.

* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded “lower” from the percentage that responded “higher” and adding 100.

Source: Federal Reserve Bank of Kansas City