Executive Summary

Nebraska’s economy improved modestly during the second quarter, buoyed by stronger manufacturing and housing sectors. Rising employment at Nebraska factories was supported by an upswing in manufactured exports. A jump in foreign shipments, particularly processed foods to Asia, helped lift the total value of Nebraska’s manufactured exports in the second quarter by more than 15 percent compared with last year. To meet increased production needs, plant managers extended overtime hours and hired workers at the fastest pace since the recession.

Residential and commercial real estate activity in Nebraska also picked up after some construction was delayed by a wet spring. Demand for rental units and single-family homes kept contractors busy. During the second quarter, Nebraska’s sales of existing homes strengthened, reducing inventory levels and spurring further home price increases. Public and private nonresidential construction also proceeded at a brisk pace.

Employment at service firms edged up in the second quarter, according to a survey of Nebraska business establishments. Rising manufacturing activity spurred hiring at transportation and wholesale trade companies. Strong retail sales supported jobs at retail, leisure and hospitality firms. The healthcare industry continued to fill open positions and education employment rebounded after shedding jobs for the past year. In contrast, the effects of sequestration cut more federal government jobs. Overall, Nebraska’s nonfarm employment grew 0.7 percent during the second quarter compared with last year. However, a survey of Nebraska households indicated that more people were seeking jobs, nudging the state’s unemployment rate up to 4.2 percent in July.

The outlook for Nebraska’s farm economy dimmed with the ongoing drought and falling crop prices. Reduced farm income boosted demand for farm operating loans and was expected to curtail household and capital spending in rural areas. Despite weaker farm income, the value of Nebraska farmland continued to rise, especially for irrigated cropland.
Goods production ramped up during the second quarter. After holding relatively steady for the past couple of years, exports of Nebraska’s manufactured goods climbed 15 percent, reaching a value of $1.7 billion (Chart 1). Much of this growth was driven by demand for agricultural products. A surge in shipments of processed meat products to Japan and China was accompanied by a jump in orders of agricultural and construction machinery bound for China. Exports to Canada, Nebraska’s largest trading partner, also strengthened with increased demand for agricultural fertilizers and pesticides. With rising exports, the manufacturing sector posted the strongest job gains during the quarter, increasing payrolls by 2.5 percent.

Nebraska’s residential real estate market improved further during the second quarter. Rising home sales in Omaha and Lincoln reduced inventory levels to about a four-month supply, supporting higher home prices and spurring new home starts (Chart 2). Single-family building permits issued in the second quarter surpassed year-ago levels by more than 30 percent and multifamily permits by almost 80 percent. In fact, the upswing in activity had some builders concerned about tighter supplies of developed lots and labor shortages in some skilled construction trades. Although construction employment dipped slightly from a year ago, the number of average hours worked per week rose.

After rebounding at the beginning of the year, commercial construction in Nebraska remained solid. The value of new commercial construction contracts in the second quarter exceeded year-ago levels by 3.0 percent (Chart 3). Private-sector projects were varied, including medical facilities, grocery stores and churches. In addition, numerous public infrastructure projects were under way, particularly road improvements.
Employment and Consumer Spending

A survey of Nebraska businesses reported modest hiring during the second quarter. Annual nonfarm employment expanded 0.7 percent in the second quarter, similar to the 0.6 percent gain in the first quarter of 2013, but slightly weaker than the 1.5 percent growth seen in 2012 (Chart 4). However, a survey of Nebraska households indicated a higher percentage of people in the labor force were seeking a job, pushing the state’s unemployment rate up to 4.2 percent in July. Still, Nebraska’s unemployment rate remained well below the national average of 7.4 percent. Moreover, unemployment rates held below 4.0 percent in many rural communities where attracting workers remained a challenge.

Job gains were fairly broad based across industries, with the strongest employment growth occurring in manufacturing (Chart 5). Wholesale trade and transportation firms increased payrolls to support rising manufacturing activity. Information, financial, professional and business services firms were also recruiting. Healthcare companies continued to add jobs, but at a slower pace. After shedding jobs for most of the past year, education employment bumped up before the school year began. Budget cuts from sequestration trimmed federal government payrolls further, but state and local government jobs in Nebraska generally held steady.

The pace of retail sales in Nebraska picked up during the second quarter despite stagnant earnings. Year-to-date through June, net taxable retail sales exceeded year-ago levels by 5.0 percent (Chart 6). Retail employment firmed and the leisure and hospitality industry staffed up for the summer vacation season. Auto sales across the state also strengthened, particularly in metro areas, further boosting consumer spending in Nebraska.
Agriculture

Agricultural bankers reported a drop in Nebraska farm income in the second quarter, with expectations of further declines (Chart 7). Below-average wheat yields due to drought and freeze damage this spring reduced farm income compared with last year. Looking forward, farmers paid high prices for this year’s crop inputs and faced falling crop prices in view of stronger global production estimates. With cattle prices moving lower and feed prices in Nebraska remaining high, losses persisted for most feedlot operators. Prospects of lower farm income were expected to dampen farm household and capital spending as the year progresses. Still, agricultural banks reported ample funds were available to satisfy increased demand for farm operating loans.

Nebraska farmland values rose further in the second quarter despite lower expectations for farm income. Irrigated farmland posted the strongest annual gains at 23 percent as water availability remained a key concern for buyers, particularly in areas enduring a second year of drought (Chart 8). Nonirrigated cropland values increased 15 percent from a year ago. With high-quality pasture in short supply, ranchland values rose 18 percent compared with last year. While farmland appreciation has slowed somewhat from year-ago levels, demand for prime acreage remained solid, driven in part by high levels of wealth in the farm sector.

Chart 7: Nebraska Farm Income

* 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.

Chart 8: Nebraska Farmland Value Gains

Source: Federal Reserve Bank of Kansas City.