

4TH QUARTER 2010

FEDERAL RESERVE BANK OF KANSAS CITY - OMAHA BRANCH



The Nebraska Economy Forges Ahead

by Jason Henderson, Omaha Branch Executive and Vice President

EXECUTIVE SUMMARY

Nebraska overcame weak residential construction activity and forged stronger economic gains heading into the fourth quarter. Retail and service firms remained the vanguard of the economic recovery through the first 10 months of the year. Nebraska's job gains continued to be led by professional, business, education and health service firms. Retailers added workers heading into the holiday shopping season amid rising sales. The strongest sales gains emerged in rural areas with robust farm equipment and automobile sales.

Stronger rural economies were fueled by booming commodity markets and larger farm incomes. Rising demand and lean global supplies sparked a post-harvest surge in commodity prices. With elevated prices

and bumper crops, Nebraska's crop producers enjoyed strong profitability. Nebraska's cropland values marched higher amid rising crop

goods, wholesale trade and transportation employment held steady.

Nebraska's commercial construction sector perked up heading

“...Retail and service firms remained the vanguard of the economic recovery.”

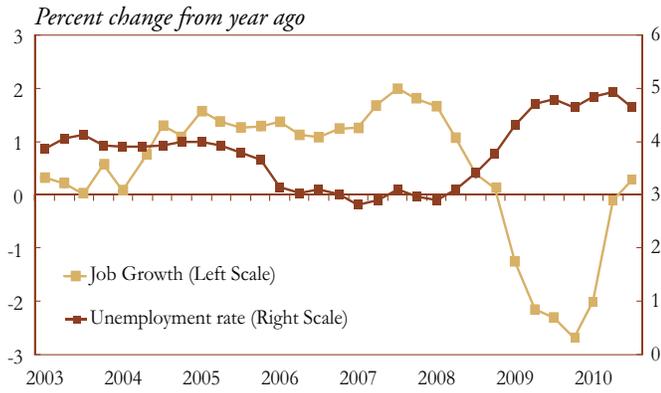
prices and strong farm and nonfarm investor demand. In contrast, cattle and hog feeding operations struggled to post profits with high crop prices boosting feed costs.

Agriculture-related export activity continued to bolster Nebraska's manufacturing base. The number of factory jobs climbed in the third quarter with swelling exports of food processing and transportation equipment. With increased shipments of manufacturing and agricultural

into the fourth quarter, despite a retrenchment in residential activity. With a plateau in vacancy rates and stabilizing prices, the value of commercial building activity jumped this fall, supporting the employment of construction engineers. Residential homes sales, however, wilted without the support of the homebuyer tax credits. Weak home sales hindered the expansion of residential building activity and pushed home prices below year-ago levels.

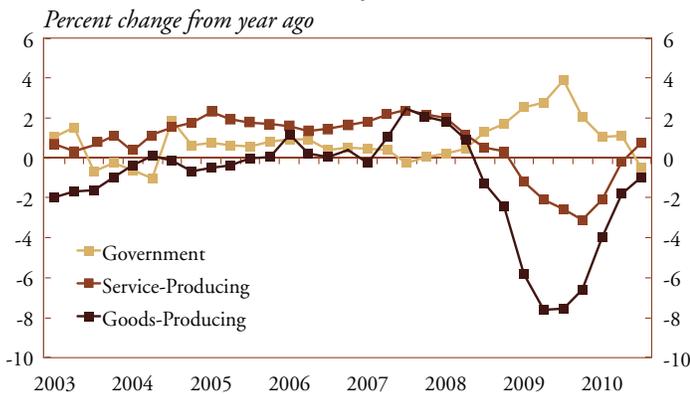


Chart 1:
Nebraska Job Growth and Unemployment Rate



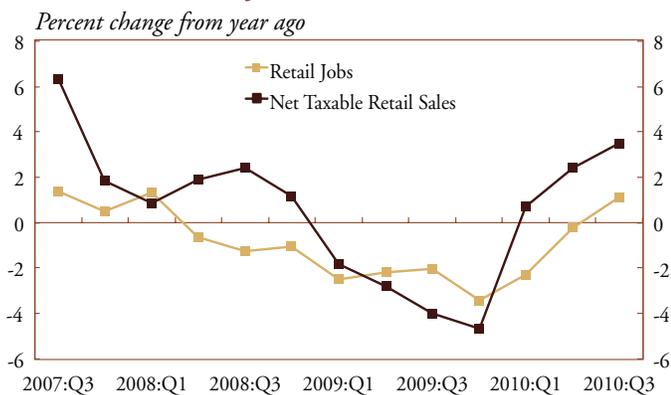
Source: Bureau of Labor Statistics

Chart 2:
Nebraska Job Growth by Sector



Source: Bureau of Labor Statistics

Chart 3:
Nebraska Retail Job and Sales Growth



Source: BLS and Nebraska Dept. of Revenue

EMPLOYMENT

Nebraska's job growth accelerated heading into the fourth quarter, matching stronger gains in the national economy. Nebraska's employment rose 0.3 percent above year-ago levels in the third quarter, led by rural Nebraska (Chart 1). Private companies continued to add jobs at a judicious pace, led by service and retail firms. After edging up to almost 5.0 percent in the second quarter, Nebraska's unemployment rate dipped to 4.6 percent in the third quarter. With stronger labor markets, Nebraska's average weekly earnings jumped 7.0 percent annually during the quarter.

Nebraska's service sectors continue to lead statewide job gains, rising 0.8 percent above year ago levels (Chart 2). Healthy job growth emerged in education and health services as well as professional and business services, while job gains slowed in financial services and information companies. Confronting tight budgets, state and local governments cut jobs, offsetting increases in federal employment. Employment in goods-producing sectors (construction, manufacturing and mining) approached year-ago levels, with job losses concentrated in the construction sector.

Heading into the holiday shopping season, retail trade jobs rose 1.1 percent with stronger retail sales. Nebraska retail sales activity rose 3.5 percent above year-ago levels in the third quarter, with slightly stronger sales in rural Nebraska (Chart 3). Sales strengthened as the quarter progressed, led by gains in Omaha and Lincoln. Automobile sales were flat in the third quarter, with stronger sales in rural communities balancing weaker metro-area sales.



Nebraska Manufacturing Employment and Export Growth

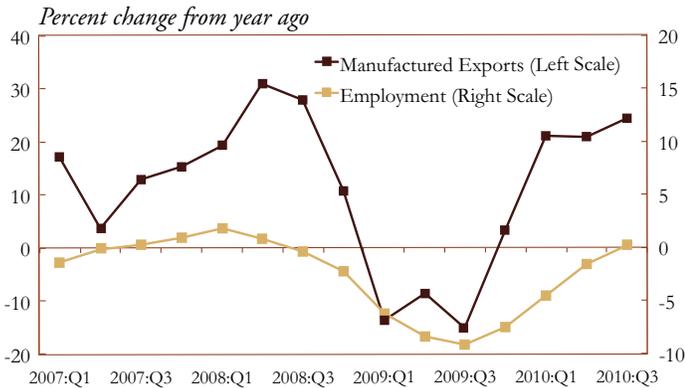


Chart 5: Value of Commercial Construction Contracts

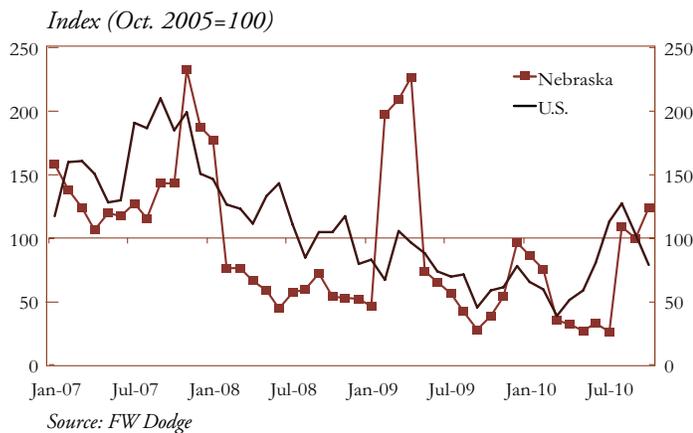
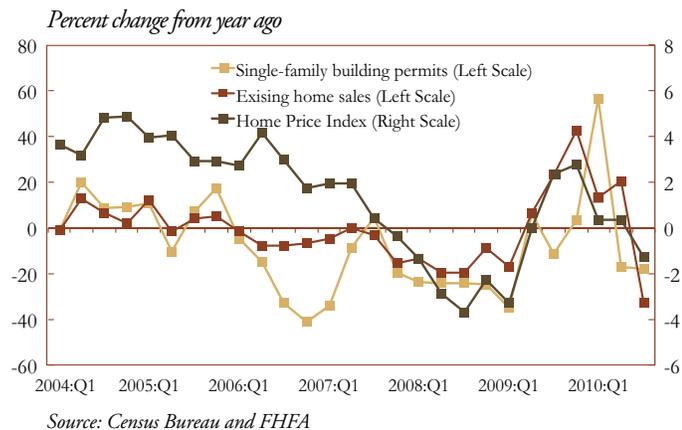


Chart 6: Nebraska Residential Real Estate



MANUFACTURING, CONSTRUCTION AND REAL ESTATE

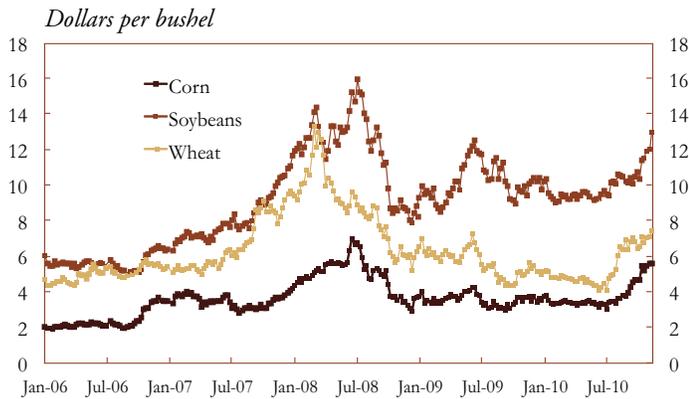
Nebraska enjoyed stronger manufacturing activity and exports in the third quarter. Stronger exports for processed foods and transportation equipment supported both durable and nondurable production activity throughout the state (Chart 4). Manufacturing employment edged up during the quarter, inching 0.2 percent above 2009 levels. Manufacturers also met labor needs with increased overtime, boosting the average work week to 41 hours per week.

Commercial construction activity also rebounded in the third quarter. The value of commercial construction activity spiked in the quarter, rising 84 percent above year-ago levels. Despite recent strength, commercial activity remains historically low, with the value of commercial construction put in place 30 percent below the 2005 to 2007 average. Office and industrial vacancy rates improved further but remained elevated in both the Omaha and Lincoln metro areas (Chart 5). While industrial and office rents stabilized at lower levels, capitalization rates rose as prices declined further.

Nebraska's residential real estate sector slowed with the end of the homebuyer tax credits. After rising in the second quarter, Nebraska existing home sales dropped roughly 30 percent below year-ago levels in the third quarter, leading to higher home inventories (Chart 6). Housing permit activity remained weak. Lower home sales and sluggish building activity kept Nebraska home prices below year-ago levels.

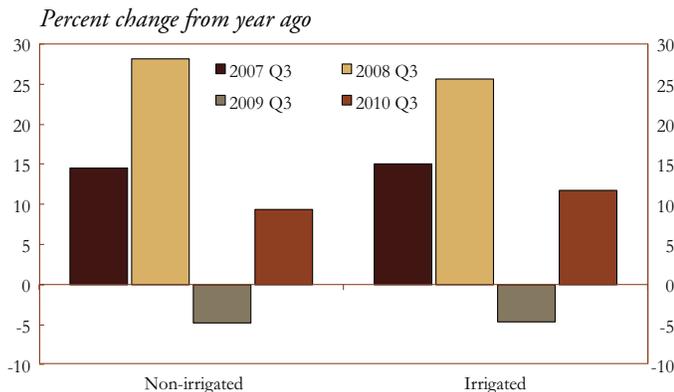


Chart 7:
U.S. Crop Prices



Source: Commodity Research Bureau

Chart 8:
Nebraska Cropland Value Gains



Source: Federal Reserve Bank of Kansas City

AGRICULTURE

High commodity prices sparked a boom in Nebraska's agricultural economy. Farmers harvested bumper fall crops with above-average yields. Strong global demand and smaller global crop production spurred higher crop prices and profits (Chart 7). While stronger protein demand raised livestock prices, even larger feed cost gains trimmed profits for cattle and hog operations.

With stronger incomes, Nebraska farmers boosted their capital spending. In the third quarter, irrigated and non-irrigated cropland values jumped almost 10 percent above year-ago levels, with slight increases in ranchland values (Chart 8). Rising incomes and low farm interest rates led to stronger farm equipment and grain bin sales. Farmers also repaid existing debt.

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