Nebraska’s economy forged through global economic weakness and strengthened at the end of the third quarter. After strong hiring during the spring, Nebraska experienced a modest decline in employment this summer. The job losses were short-lived as stronger economic activity spurred a rebound in jobs during September. Despite the brief slowdown, employment remained higher than a year ago, with annual growth at its highest level since 2007.

The maturing recovery in home construction fueled Nebraska’s economic growth. Stronger home sales spurred higher home prices and building activity. The housing rebound kept developers, builders and subcontractors busy, and hiring at Nebraska’s construction firms soared. Rising incomes spurred consumer spending outside the housing industry, with retail sales rising solidly in the third quarter. Growing incomes also contributed to higher tax revenues from personal income, corporate income and retail sales, which helped boost employment at state and local governments.

This summer, Nebraska’s agricultural sector weathered one of the worst droughts in history. The drought had minimal impact on crop incomes as crop insurance payments and record-high crop prices compensated for lower yields and crop loss. In contrast, livestock producers lost money as high feed and forage costs cut profit margins for feedlot operators and forced further herd reductions. Rising input costs boosted operating loan demand during the third quarter and trimmed farm capital spending. Drought conditions, however, did not curb demand for farm real estate as farmland prices rose further during the quarter.

Slower global economic growth, however, appears to be creating a headwind for the Nebraska economy. After surging in 2009 and 2010, Nebraska’s manufactured export sales have been flat and declined in the third quarter of 2012. Growth in manufacturing jobs slowed heading into the fourth quarter, reflecting national and regional trends that are pointing to a contraction in manufacturing activity.
After stalling this summer, Nebraska’s employment growth rebounded at the end of the third quarter. Nebraska’s total nonfarm jobs edged down during July and August. Stronger job growth in September helped pull Nebraska’s job gains up 1.5 percent higher than year-ago levels for the quarter (Chart 1). As more job seekers found work, Nebraska’s unemployment rate edged down further to 3.8 percent in October, with even lower unemployment rates in many rural areas of the state. With improved labor markets, third quarter applications for initial unemployment claims fell 10 percent compared with last year, and the number of people receiving continued unemployment benefits plummeted by 20 percent.

The goods-producing sector propelled Nebraska’s job growth during the year (Chart 2). Hiring at factories and construction firms lifted Nebraska’s goods-producing jobs more than 4.0 percent above year-ago levels. Private service-providing jobs rose 1.0 percent annually during the quarter. In addition, the government sector contributed to employment gains for the third straight quarter with an upswing in jobs at the state and local level and steady staffing at federal government offices.

Nebraska factories continued to expand payrolls and production in the third quarter, but economic headwinds for the manufacturing industry may be emerging from outside the state. Manufacturing jobs rose 1.4 percent above 2011 levels, yet a slowdown in global economic growth limited export activity. After holding steady during the previous year, the value of Nebraska’s manufactured exports edged down in the third quarter of 2012 (Chart 3). Durable and non-durable goods exports dipped below year-ago levels with a drop in machinery and equipment and processed-foods shipments.
Nebraska’s real estate industry continued to gain strength. During the third quarter, the value of Nebraska construction contracts, including residential, commercial, and public projects, exceeded year-ago levels by 14 percent (Chart 4). Compared with the previous year, single-family building permits rose 14 percent, and Omaha builders noted a dwindling supply of developed lots. Home inventories in Omaha and Lincoln hovered at a five-month supply, bolstering home prices. Real estate agents observed more interest in higher-priced “move-up” homes. Non-residential construction projects were also plentiful, particularly in rural areas for road and utility work, as well as health care and education facilities. With brisk building activity, construction employment in the state was up more than 10 percent year-over-year, despite labor shortages in some specialized trades.

In the third quarter, Nebraska’s private-service sector firms added jobs at a steady clip. The health care industry hired people into a variety of positions at doctors’ offices, hospitals and outpatient treatment facilities (Chart 5). After trimming payrolls last year, wholesalers and transportation companies added staff in the third quarter. Professional and business services were also hiring but at a slower pace. Educational institutions cut staff and the information and financial sectors continued to shed jobs.

Strong consumer spending in Nebraska drove employment growth in the retail trade and leisure and hospitality industries. Nebraska net taxable retail sales year-to-date through August increased 5 percent compared with 2011 with the strongest gains seen in rural areas of the state (Chart 6). Auto sales remained robust and dealerships were hiring for sales and technical positions. Grocery stores, gas stations and restaurants also added staff, while hotels and bars trimmed payrolls after the summer tourist season.
The severe drought brought wide variation in Nebraska farm income during the third quarter. Crop yields ranged from excellent on irrigated ground to poor on non-irrigated land, depending on the timing and amount of rainfall during the growing season. Even though high crop prices helped offset lower yields for some producers, crop insurance was expected to be a large part of farm income this year. The livestock industry suffered as dry pastures and high feed costs cut livestock incomes and forced further herd liquidations. Lower farm income and rising production costs for both farmers and ranchers boosted short-term borrowing and tempered capital spending in the farm sector (Chart 7).

The drought, however, had little effect on the demand for Nebraska farmland. Farmland values rose further during harvest, though gains were more modest compared with the surge seen during the past year. Non-irrigated farmland values posted the strongest year-over-year increase at 30 percent, with a 23 percent rise in the value of irrigated acreage and 17 percent annual appreciation in ranchland values (Chart 8). The typical upswing in the number of farms sold before year-end was expected to be greater than usual due to record-high farmland prices and impending tax changes.

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**Chart 7: Nebraska Farm Income and Operating Loan Demand**

![Graph showing diffusion index for farm income and operating loan demand](chart7)

Source: Federal Reserve Bank of Kansas City.

*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 percent of bankers who responded “lower” from the percentage who responded “higher” and adding 100.

**Chart 8: Nebraska Farmland Value Gains**

![Graph showing percent change in farmland value from year ago](chart8)

Source: Federal Reserve Bank of Kansas City.

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