The Nebraska economy ended the summer strong as firms continued to add jobs and the unemployment rate edged down. Businesses reported gains in employment have strengthened since the beginning of the year, especially in consumer service industries such as retail trade, leisure and hospitality, and healthcare. Continued strength in the manufacturing sector and robust exports also prompted hiring at some Nebraska factories. In contrast, government jobs were little changed in the third quarter as an uptick in state and local positions offset losses at the federal level.

However, notable changes in the labor force also partly explain the recent fluctuations in Nebraska’s unemployment rate. According to a survey of Nebraska households, a jump in the number of people looking for work this summer pushed up the unemployment rate from 3.8 percent in May to 4.2 percent in August. Since then, the labor force participation rate has fallen with fewer people seeking jobs, pulling the unemployment rate back down to 3.9 percent in October. Still, even with these shifts in the makeup of the labor force, Nebraska’s unemployment rate has consistently been one of the lowest in the nation since the end of the recession.

Nebraska real estate markets remained strong heading into the fall. Solid demand for housing boosted year-over-year building permits for both single-family and multifamily properties. Robust sales lifted home prices and pushed down home inventories in Omaha and Lincoln to their lowest levels since 2005. The value of new commercial construction contracts eased somewhat during the third quarter but ongoing projects kept construction employment steady.

Despite a better-than-expected harvest in Nebraska, farm income was expected to fall short of last year’s high levels due to a sharp drop in corn prices. With some producers holding crop inventories and waiting for higher prices, Nebraska bankers anticipated an upswing in demand for short-term operating loans but a decline in loans for capital investments.

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Employment

Labor markets in Nebraska have fluctuated in recent months, particularly in the number of unemployed workers. According to a household survey, Nebraska’s labor force had increased at a fairly steady pace in the past several years but recently has fallen (Chart 1). From January to July 2013, the labor force rose 0.6 percent then declined 1.0 percent from July to October. The downturn can be attributed to both a slight decrease in the number of employed workers and a sharp drop in the number of unemployed workers looking for jobs.

Sharp fluctuations in the labor force participation rate have generated significant swings in Nebraska’s unemployment rate. While some unemployed workers may have found employment, current data suggest a larger share of unemployed workers simply has been moving in and out of the labor force. From May to August, an influx of workers looking for a job pushed up the unemployment rate to 4.2 percent; conversely, a drop in the number of job seekers in September and October helped drive the unemployment rate back down to 3.9 percent.

Still, according to a survey of Nebraska businesses, hiring improved as the year progressed. In the third quarter, Nebraska firms increased payrolls by just over 1 percent from a year ago, with additional gains in October (Chart 2). Consumer-driven industries underpinned a significant share of total job growth, filling openings at retailers, leisure and hospitality firms, and healthcare providers (Chart 3). Professional and business services and financial firms also added positions and manufacturers continued to hire at a relatively steady pace. Transportation companies stepped up hiring, particularly at warehouse facilities and specialized freight trucking companies.

1The U.S. Bureau of Labor Statistics defines the civilian labor force as all workers either employed, including self-employed, or unemployed and currently looking for a job.

2October employment data was preliminary and revisions may include a more precise accounting of furloughed workers during the government shutdown.
Manufacturing, Real Estate and Retail Activity

Strong exports contributed to the strength of the manufacturing sector in Nebraska. Following a second-quarter spike, the value of Nebraska's manufactured exports grew 8 percent compared with the third quarter last year (Chart 4). An increase in the value of food and beverage exports more than offset a drop in foreign shipments of machinery, transportation equipment and chemicals. China has been the largest growth market this year for Nebraska's manufactured exports, primarily for processed meat products.

Real estate markets in Nebraska remained solid during the third quarter. Strong residential sales continued into the fall, shortening marketing times and lifting average home prices about 3 percent (Chart 5). In fact, existing home inventories in both Omaha and Lincoln have hovered near a four-month supply for most of the year. With solid demand for housing, single-family building permits issued in Nebraska during the third quarter exceeded year-ago levels by 21 percent; multifamily building permits were up 43 percent since the beginning of the year. The value of new commercial construction contracts in Nebraska tapered during the third quarter but projects undertaken year-to-date remained almost 50 percent higher than 2012 levels.

Retail sales in Nebraska leveled off over the summer but held well above year-ago levels (Chart 6). During the third quarter, Nebraska net taxable retail sales excluding motor vehicles were almost 9 percent higher than last year and more than double the national average of 4 percent. In addition, auto sales strengthened across the state, particularly in metro areas. Year-to-date, combined retail and auto sales were 5 percent higher than last year.
Agriculture

Though Nebraska corn and soybean yields were better than anticipated, third quarter farm income was not expected to rival last year’s profitability (Chart 7). Corn prices fell sharply at harvest with a rebound in global production, tempering income expectations for Nebraska farmers. In fact, some producers were holding grain inventories and hoping for an eventual rise in prices. In general, profits for livestock operators improved with lower feed costs, but high feeder cattle prices kept profit margins tight for feedlot operators.

With weaker income prospects, agricultural bankers reported the number of requests for loan renewals and extensions edged up and demand for short-term farm operating loans rose. In addition, farm household and capital spending was expected to slow through the end of the year.

Nebraska cropland values rose at a slightly slower pace in the third quarter. Irrigated and nonirrigated cropland values increased 20 percent and 18 percent, respectively, since last year (Chart 8). In contrast, gains in ranchland values strengthened, rising almost 20 percent from year-ago levels. Most agricultural bankers expected farmland values would hold firm heading into 2014.

* 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.

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