Nebraska Profits from the Farm Boom
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Executive Summary

A booming farm economy fueled economic gains in Nebraska during the third quarter. Nebraska farmers harvested bumper crops, boosting farm income despite a modest slide in crop prices. In addition, livestock prices climbed higher, driven by strong export demand. Rising farm income spurred record year-over-year farmland value gains across the state. In fact, cropland values surged approximately 40 percent compared to the third quarter of last year, and ranchland values jumped 26 percent.

With the farm economy heating up, rural areas of Nebraska enjoyed stronger sales, from Main Street merchants to farm equipment dealers. Nebraska’s manufacturers also benefited from rising demand for farm-related products. Led by agricultural equipment sales, Nebraska’s durable goods exports rose further. Moreover, strong foreign appetites for U.S. food products kept food processing plants busy. Nebraska’s manufacturers met production schedules with a combination of new hires and overtime shifts.

Residential real estate activity in Nebraska showed some modest signs of improvement in the third quarter, while commercial construction held steady. A spurt in home sales during the quarter prompted an uptick in building permits. Yet, home prices languished, remaining below year-ago levels. With vacancy rates for existing commercial properties holding firm, there was little demand for new office or industrial space.

Nebraska’s job growth held at a healthy pace nearly 2.0 percent above year-ago levels, almost double the national rate. Private sector job creation continued to drive Nebraska’s employment growth as government positions declined further. With a 5.0 percent increase in retail sales compared to last year, store managers and leisure and hospitality firms ramped up hiring before the holiday shopping season. Nebraska’s labor markets remained tight as the state’s unemployment rate held at 4.2 percent, half national levels.
Agriculture and Manufacturing

Strong commodity prices and bumper crops boosted farm incomes in Nebraska during the third quarter. Ample rainfall during the summer produced above-average crop yields and green pastures across the state. Hearty global demand for food and biofuels products amid tight supplies underpinned historically high crop prices. Rising export demand also strengthened cattle and hog prices, although livestock operators continued to pay high input costs. After seeing a surge of more than 20 percent above year-ago levels in the first half of the year, Nebraska’s agricultural bankers reported an uptick in farm income during the third quarter, which farmers used to pay off operating loans (Chart 1).

Nebraska farmland values reached record highs as rising farm income fueled robust demand for farmland. Compared to the third quarter of last year, Nebraska crop-land values soared approximately 40 percent higher and ranchland values jumped 26 percent (Chart 2). Moreover, many agricultural bankers felt that Nebraska farmland values had yet to peak and anticipated cash rental rates would rise further. Strong farm income also prompted some capital spending on equipment and machinery.

Foreign demand for Nebraska’s manufactured goods promoted production at both durable and non-durable goods plants (Chart 3). During the third quarter, the value of durable goods exports surged 37 percent above year-ago levels, driven by a sharp increase in agricultural machinery shipments. Growing demand for processed food products in East Asia spurred a 23 percent year-over-year increase in the value of non-durable goods exported in the third quarter. Robust factory activity supported a 3.4 percent jump in manufacturing employment, with additional hiring at railroad companies and specialized trucking firms.

* 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 that responded "lower" from the percent that responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City

Source: WISERtrade
Employment and retail

Nebraska’s workforce continued to swell in the third quarter, rising almost 2.0 percent above year-ago levels (Chart 4). Brisk job growth in metro areas was matched by strong hiring in larger rural communities that serve as regional economic hubs. In addition, various industries reported a shortage of skilled workers, particularly for highly specialized or technical positions. A year of solid job growth across the state kept Nebraska’s unemployment rate one of the lowest in the country at 4.2 percent in the third quarter.

Private sector firms accounted for all of Nebraska’s job gains (Chart 5). Manufacturing plants expanded payrolls in the third quarter, boosting the number of goods-producing jobs 2.1 percent higher than year-ago levels even with a slight dip in construction employment. The number of service sector jobs also grew by nearly 2.0 percent in the third quarter compared with last year. Professional and business services firms filled job openings at a rapid pace, increasing staff by almost 9 percent. In contrast, government jobs declined 1.0 percent as further losses at the federal and local level overwhelmed a slight uptick in state government positions.

Stronger labor markets and a robust farm economy lifted consumer spending in Nebraska (Chart 6). In fact, year-to-date net taxable retail sales exceeded 2010 levels by 5.2 percent through August. Retailers reported solid back-to-school spending and were optimistic about the upcoming holiday shopping season. Year-to-date sales at Nebraska auto dealers were up almost 9 percent, with sales growth in rural communities nearly double that of metro areas. Brisk consumer spending boosted third quarter employment in the retail trade and leisure and hospitality industries by 2.0 percent compared with last year.
Nebraska’s residential housing market improved slightly in the third quarter as a summer rebound in home sales prompted a modest upswing in building permits (Chart 7). Reduced prices and low interest rates encouraged home purchases, and real estate contacts reported more sales in higher-priced residential neighborhoods. Home inventories in both Omaha and Lincoln eased from their spring peaks, and marketing times shortened slightly. Year-to-date single-family building permits in Nebraska surpassed year-ago levels for the first time since the end of the government tax credit program, and construction of multifamily properties strengthened further.

Commercial construction activity in Nebraska stabilized at a fairly low level in the third quarter (Chart 8). There was very little demand for new office and industrial space in Omaha and Lincoln as vacancy rates for existing properties held steady. Business contacts in rural areas reported few new commercial developments, but noted an increase in renovation projects along Main Street. Most large construction projects up for bid were related to highway improvements or school bond issues.

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