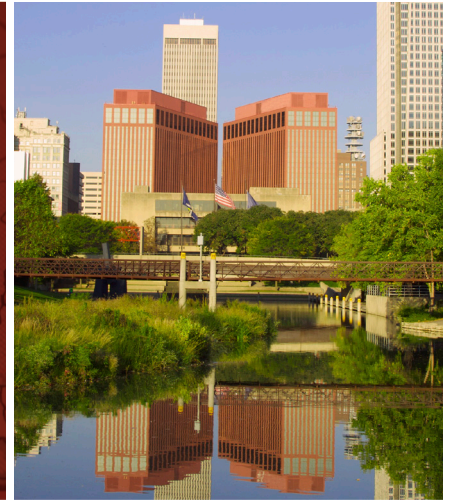


THE *Nebraska* ECONOMIST *Economic information for the Cornhusker State*



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Nebraska's Job Growth Accelerates

by Jason Henderson, Omaha Branch Executive, and Maria Akers, Associate Economist

During the second quarter, an upswing in construction and manufacturing activity fueled Nebraska's strongest employment gains in four years. In contrast to a national slowdown, Nebraska's annual job gains strengthened during the quarter and exceeded year-ago levels by 1.6 percent in June. A rebound in residential and commercial building activity put more construction workers back to work. At the same time, rising exports and continued gains in durable goods manufacturing activity boosted the number of factory workers across the state. With increased hiring, Nebraska's unemployment rate fell below 4.0 percent for the first time since 2008.

Nebraska's service-producing firms also added positions at a steady pace. Wholesale trade firms increased payrolls to support rising manufacturing activity. The leisure and hospitality industry staffed up for the summer vacation season, and professional and business services firms hired more workers. In addition, rising incomes boosted retail sales and propelled retailers to add staff. After shedding jobs throughout 2011, government employment stabilized just above year-ago levels.

The farm economy remained robust in the second

quarter. An early wheat harvest with better-than-expected yields lifted farm income and consumer spending in rural areas. Looking forward, however, the worst U. S. drought since the 1930s will shape farm income expectations for

*“With increased hiring,
Nebraska's unemployment
rate fell further . . .”*

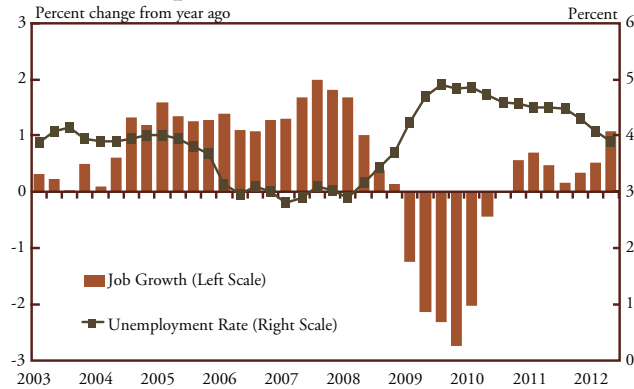
the rest of the year. Crop insurance and high commodity prices were expected to preserve crop incomes, but record-high feed prices have cut profits for livestock producers. Despite intensifying drought conditions, farmland values rose modestly in the second quarter but were expected to hold steady through the fall harvest.



As Omaha Branch executive, Jason Henderson is the Federal Reserve Bank of Kansas City's regional economist and lead officer in the state of Nebraska and is responsible for briefing the Kansas City Fed's president on business activity in the state.

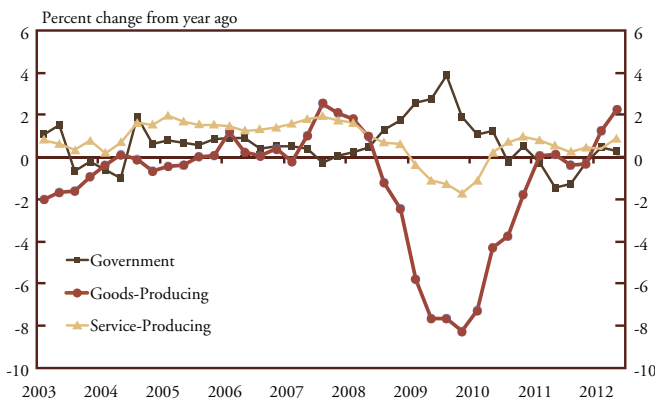


Chart 1: Nebraska Nonfarm Job Growth and Unemployment Rate



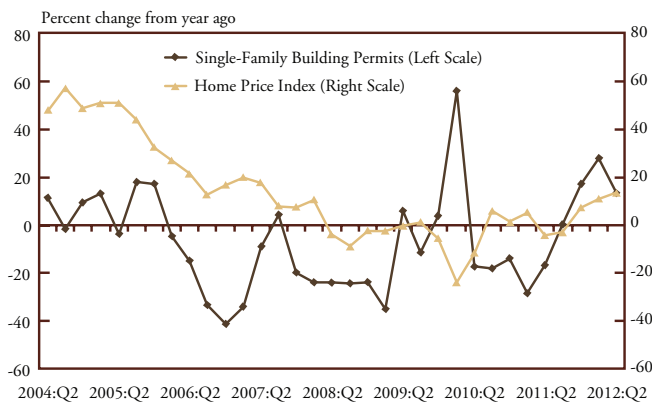
Source: Bureau of Labor Statistics

Chart 2: Nebraska Job Growth by Sector



Source: Bureau of Labor Statistics

Chart 3: Nebraska Residential Real Estate



Sources: Census Bureau and FHFA

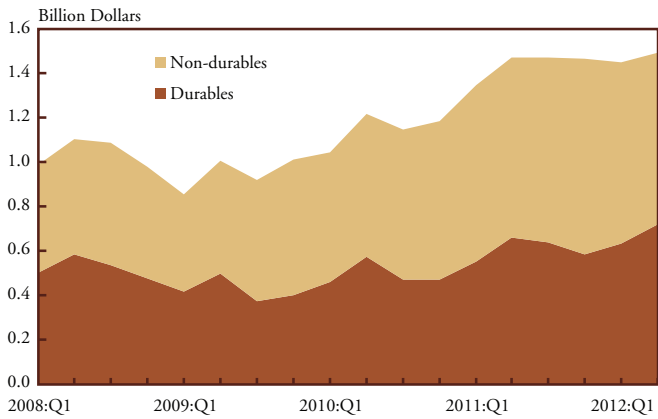
In the second quarter, construction activity continued to fuel Nebraska's job growth. Spurred by strong hiring during June, Nebraska employment grew by more than 1 percent compared with a year ago (Chart 1). With additional hiring, Nebraska's unemployment rate dipped to 3.9 percent and remained the second lowest in the nation. Job gains were spread across the state, with particular demand for workers with vocational skills and agricultural experience in rural areas.

Nebraska's goods-producing sector led hiring gains in the second quarter (Chart 2). Nebraska factories continued to expand payrolls, and a rush of building activity boosted construction employment, lifting the number of goods-producing jobs in the state by 2.3 percent compared with last year. The slower but steady growth in private-service sector jobs continued as employment reached almost 1 percent above year-ago levels. Federal government jobs stabilized, and modest hiring at the state level compensated for slight cutbacks in local government positions.

The turnaround in Nebraska's real estate markets continued with brisk second-quarter building activity. Single-family building permits were 20 percent higher than year-ago levels, and multifamily construction expanded further with strong demand for rental units. With home inventories holding below a six-month supply, home prices trended higher and real estate contacts indicated that sellers were less willing to consider low-ball offers (Chart 3). Following a sharp drop at the start of the year, the value of non-residential construction contracts in Nebraska rebounded. Commercial projects up for bid ranged from large public works for hazardous waste disposal, water treatment and airport improvements, to privately funded projects for schools, churches, medical offices and retail facilities.

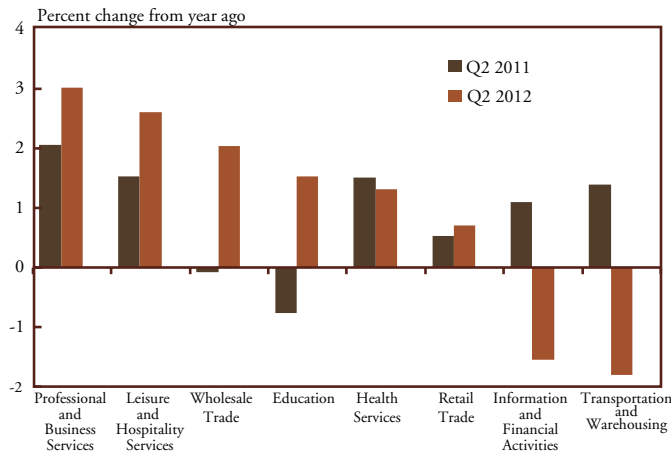


Chart 4: Nebraska Manufactured Exports



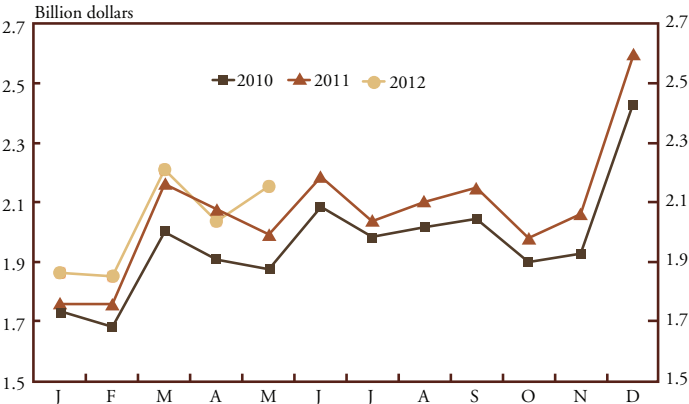
Source: WISERTrade

Chart 5: Nebraska Private-Service Sector Employment Growth



Source: Bureau of Labor Statistics

Chart 6: Nebraska Net Taxable Retail Sales



Source: Nebraska Department of Revenue

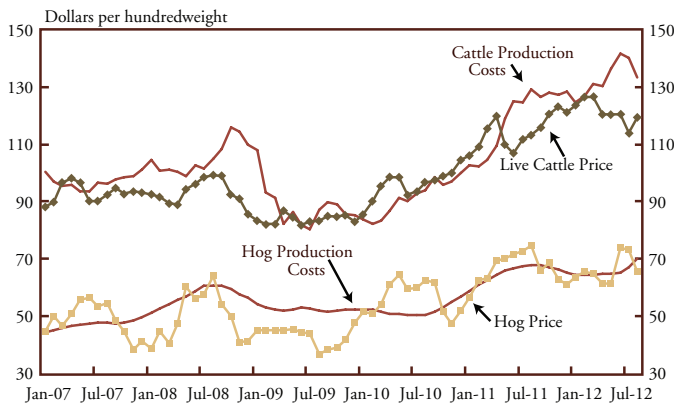
Nebraska’s manufactured exports remained robust in the second quarter with an uptick in durable goods shipments (Chart 4). In particular, foreign orders for agricultural and construction equipment kept Nebraska factories humming. Nebraska durable-goods factories continued to expand payrolls and use overtime to meet busy production schedules. Exports of non-durable goods held at high levels with solid global demand for processed food products.

The private-service sector continued to build on two years of employment gains. Hiring by professional and business services firms more than offset modest declines in employment at financial services and information companies (Chart 5). Leisure and hospitality firms added staff as they geared up for summer travelers. After cutting positions for most of 2011, employment in the education field has risen since the first of the year. The number of healthcare workers climbed, particularly at hospitals and ambulatory care facilities. Hiring at wholesalers helped mitigate a drop in transportation and warehousing jobs.

Consumer spending strengthened with improved labor markets and a robust farm economy. Stronger personal income gains at the beginning of the year spurred brisk sales and additional hirings at many retailers. Nebraska net taxable retail sales year-to-date through May increased almost 4 percent compared with 2011 (Chart 6). Accounting for nearly 15 percent of total retail sales in Nebraska, auto sales have been especially strong, exceeding year-ago levels by 8 percent. Retail sales were particularly strong in rural areas of the state where farmers increased household spending.

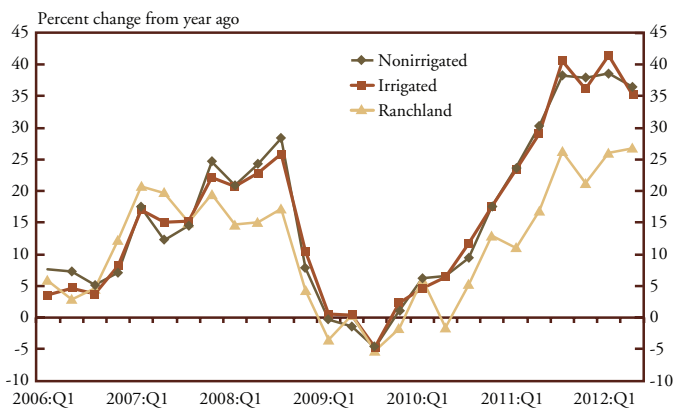


Chart 7: Livestock Prices and Production Costs



Source: USDA and Iowa State University

Chart 8: Nebraska Farmland Value Gains



Source: Federal Reserve Bank of Kansas City

A better-than-expected wheat harvest boosted Nebraska farm income in the second quarter, but expanding drought conditions threatened the outlook for fall crops. After early planting, what looked like a promising corn and soybean crop withered as hot, dry weather parched most of the central United States. Many Nebraska farmers irrigated crops earlier than usual, and reduced stream flows limited pumping in some areas.

Lower corn and soybean production estimates spurred a run-up in crop prices and sent feed costs soaring. Profit margins for livestock producers were hit hard and many cow/calf operators liquidated herds (Chart 7). Although drought will likely cut farm income for the livestock industry, Nebraska farmers may not see much of a drop in income due to revenue protection from crop insurance and record high crop prices that could offset lower yields.

Nebraska farmland prices continued to climb in the second quarter, but gains were expected to slow. Compared with the second quarter of last year, Nebraska cropland values were more than 35 percent higher and ranchland values had increased 27 percent (Chart 8). Looking ahead, however, many agricultural bankers in Nebraska felt that farmland values would plateau for the rest of the growing season.

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