

Published once in June, July, and Aug., twice in Jan., March, and Nov., three times in Feb., May, Sept., Oct., and Dec., and 4 times in April by the University of Nebraska-Lincoln, Dept. of Publications Services & Control, 209 Nebraska Hall, Lincoln, NE 68588. Second-class postage paid Lincoln, Nebraska.

Prepared by the Bureau of Business Research
College of Business Administration

CRUDE OIL PRODUCTION IN NEBRASKA

Oil has been produced in Nebraska since 1939 when the first well in the state was completed in Richardson County. Production rose rapidly to 1,900,000 barrels by 1941 before decreasing to 290,000 barrels in 1949. Discoveries of new fields in Nebraska's panhandle region during 1949 led to a sustained increase of production during the 1950s. Subsequent discoveries in the southwestern portion of the state helped push state production to its historical peak of 24,884,761 barrels in 1962. Since that time, activity has fallen to a low of 5,862,277 barrels in 1978 before increasing slightly to 6,068,019 barrels in 1979. Production rose again in 1980 to 6,239,652 barrels. The 1980 total represented approximately 0.2 percent of total domestic production of crude oil during 1980.¹ Although state production is small in both absolute and relative terms, the importance of the oil industry to Nebraska, and particularly to the counties where oil is produced, cannot be disregarded. The industry provides a source of income and employment in the areas where production occurs and also generates government revenues via severance taxes, property taxes,

and royalty payments.

Table 1 contains historical data on production, estimated value, and wells in Nebraska since the peak production year of 1962. The data in the table show that state production fell off very rapidly after 1962 and by 1969 stood at only half of the peak production level. This downward trend continued until 1975, with production in that year being only a quarter of the level posted in 1962. Since 1975, production has fluctuated around a plateau of roughly 6,000,000 barrels per year. The total value of Nebraska oil also suffered a precipitous decline during 1962-1973, due to relatively steady prices for oil coupled with the production declines during that time period. Prices increased following the oil embargo and have continued to climb since 1974, causing the value of Nebraska oil to increase rapidly. For example the estimated price per barrel of Nebraska oil in 1979 was \$16.81, which implies a total value of \$102 million for state production in 1979. Comparing this value figure to the 1973 production value of \$28 million illustrates the effect of the price increases during the post-embargo period.

Two broad factors that have contributed to the historical decrease in oil production can be

(continued on page 2)

Table 1
NEBRASKA OIL PRODUCTION, VALUE, AND WELLS, 1962-1980

Year	Oil Production (000s barrels)	Estimated Value (millions \$)	Estimated Price/Barrel	Producing Wells	Barrels/Well	T.A.* or Shut-In Wells
1962	24,885	\$70.4	\$2.83	1,763	14,115	390
1963	21,846	61.8	2.83	1,732	12,613	446
1964	19,114	51.6	2.70	1,711	11,171	468
1965	17,216	45.8	2.66	1,611	10,687	556
1966	13,850	37.7	2.72	1,511	9,166	583
1967	13,373	36.8	2.75	1,430	9,352	609
1968	13,183	36.8	2.79	1,403	9,396	583
1969	12,106	36.1	2.98	1,305	9,277	613
1970	11,451	35.4	3.09	1,244	9,206	646
1971	10,062	34.0	3.38	1,191	8,448	557
1972	8,705	29.4	3.38	1,114	7,814	645
1973	7,240	28.0	3.87	1,107	6,540	550
1974	6,611	45.2	6.83	1,127	5,866	467
1975	6,120	55.1	9.01	1,190	5,143	437
1976	6,182	55.6	8.99	1,291	4,789	390
1977	5,968	62.4	10.46	1,382	4,318	383
1978	5,862	66.8	11.40	1,469	3,990	401
1979	6,068	102.0	16.81	1,551	3,912	394
1980	6,240	NA	NA	1,693	3,686	409

*Temporarily abandoned.

Sources: Nebraska Oil and Gas Conservation Commission; *Minerals Yearbook*, U.S. Bureau of Mines, various annual issues; and independent estimates.

(continued from page 1) identified from the data in Table 1. The first factor is price per barrel, which was relatively constant and hovered in the area of \$3.00 from 1962 until the embargo. If prices had been increasing during this period, there would have been a mitigating effect on the downward movement of production. However, moderate price increases would not have stopped the trend entirely. The second and probably most important factor to be noted is the apparent decline in the production potential of existing oil fields. This effect is apparent when the data on yearly barrels per well are examined. Since 1962, this measure has fallen in a consistent manner from 14,115 barrels per well to 3,686 barrels per well in 1980. Thus, Nebraska wells have become less and less productive over time. Although Nebraska

production has leveled off in the range of 6,000,000 barrels per year since 1975, the number of wells has grown since that year from 1,190 to 1,693 in 1980. In essence, more and more wells have been required to sustain state production at its current plateau. As might be expected in this situation, the majority of wells completed after 1975 have been development wells, that is, wells drilled in fields that are currently producing oil.

Table 2 contains the historical data concerning completions of oil and natural gas wells, the latter being an extremely small component of the total. Figures are given for both the development and wildcat types, the latter being wells drilled outside the boundaries of producing fields. "Success ratios," the ratios of new producing wells to total wells completed, for the two types of wells

Table 2
WELLS COMPLETED AND DRILLING PERMITS ISSUED
IN NEBRASKA, 1962-1980

Year	Wildcat Wells			Development Wells			Drilling Permits	
	Producing	D&A*	Success Ratio	Producing	D&A	Success Ratio	Exploratory	Development
1962	NA	NA	NA	NA	NA	NA	419	240
1963	21	253	.08	127	85	.60	295	222
1964	27	233	.10	118	89	.57	272	217
1965	11	242	.04	79	87	.48	262	165
1966	21	166	.11	64	67	.49	180	142
1967	12	128	.09	40	56	.42	148	115
1968	21	119	.15	45	44	.51	156	98
1969	10	235	.04	40	68	.37	241	109
1970	11	159	.06	32	51	.39	158	84
1971	10	125	.07	42	40	.51	150	96
1972	9	176	.05	44	56	.44	182	99
1973	7	94	.07	31	47	.40	110	71
1974	12	145	.08	40	75	.35	195	129
1975	26	175	.13	55	100	.35	212	160
1976	18	164	.10	53	76	.41	202	144
1977	32	178	.15	94	117	.45	267	237
1978	41	222	.16	107	101	.51	285	205
1979	57	226	.20	112	91	.55	320	255
1980	37	231	.14	146	113	.56	309	311

*Drilled and abandoned.

Source: Nebraska Oil and Gas Conservation Commission.

Table 3
COUNTY OIL PRODUCTION AND WELLS, 1980

County	Oil Production (barrels)	Change from 1979 (barrels)	1980 Rank	Producing Wells (as of Dec. 31)	Barrels/Well	T.A.* or Shut-In Wells
Banner	577,522	-50,618	5	194	2,977	56
Cheyenne	1,248,151	-32,637	2	284	4,395	45
Deuel	108	-430	14	0	108	1
Dundy	166,754	-7,132	7	33	5,053	3
Frontier	99,364	5,572	9	15	6,624	3
Furnas	2,057	-390	13	1	2,057	2
Garden	6,217	-113	12	2	3,109	1
Harlan	25,787	5,175	11	10	2,579	0
Hitchcock	897,679	200,865	4	264	3,400	42
Kimball	1,215,874	125,054	3	337	3,608	108
Lincoln	877	544	15	1	877	0
Morrill	251,849	-14,258	6	62	4,062	21
Red Willow	1,555,410	-63,428	1	424	3,668	94
Richardson	45,286	3,329	10	30	1,510	28
Scotts Bluff	146,717	100	8	36	4,073	5
State Total:	6,239,652	171,633		1,693	3,686	409

*Temporarily abandoned.

Source: Nebraska Oil and Gas Conservation Commission.

are also listed, as are drilling permits issued by year. Table 2 does show that yearly completions of wildcat wells have been higher in the post-embargo period. However, these discoveries of new fields have not yet been able to increase state production significantly. Rather, it would seem that recently completed wildcat wells have merely offset production declines experienced in some of the older, more established fields.

Some appreciation of the intentions of industry members is gained by examining the data on drilling permits presented in Table 2. Issued permits have grown in the post-embargo period, largely in response to past price increases of oil and anticipation of even higher prices in the future. Wildcat permits totaled 309 in 1980, the second highest number since 1962, while development permits reached 311 in 1980, the highest number in the 1962-1980 time span. Although the number of development permits indicates a commitment to sustain production in established fields, the recent growth in wildcat permits is even more encouraging. Current and future prices appear to be stimulating exploration in new areas which may eventually augment production. The most promising development in this regard has been the increased interest in "deep drilling." In Nebraska, such activity refers to wells roughly 7,000 feet or more in depth. Industry members and observers have been optimistic about possible discoveries in these deeper zones.

COUNTY BREAKDOWN OF ACTIVITY

Oil was produced in fifteen counties during 1980, with Red Willow County having the highest total of 1,555,410 barrels. Table 3 reports all county totals for 1980, while Figure 1 is a state map that indicates the counties with oil production in 1980. Cheyenne and Kimball counties also exceeded 1,000,000 barrels during 1980, while Hitchcock and Banner counties reported production totals over 500,000 barrels. After these top five, the production totals of other counties drop off quickly.

On a regional basis, the southern panhandle was the largest producing area in 1980, with a total of 3,446,438 barrels. Counties in this area include Banner, Cheyenne, Deuel, Garden, Kimball, Morrill, and Scotts Bluff. The other major producing area, which is in the southwestern part of the state (excluding Lincoln County), yielded 2,747,051 barrels in 1980. Richardson County

is the only producing area in the eastern part of the state, and the level of activity is very slight in comparison to that in the panhandle and southwestern areas.

ROYALTY AND WORKING INTERESTS IN NEBRASKA OIL

Ownership of the oil and/or gas from a particular lease is divided among holders of working interests, royalty interests, and in some instances, overriding royalty interests. The working interest in a lease is held by the firm that undertakes the drilling, completion, and operation of the lease. More than one firm may be involved in the production activities of the leased property thereby creating a situation of multiple working interests. There may also be multiple holders of royalty interests. When a lease is first negotiated, the landowner (lessor) is usually given a one-eighth, or .125, royalty interest in the property's eventual production. The landowner is free to sell this interest to other parties, such as royalty brokers or even the firm(s) which holds the working interest in the leased property. On occasion, the royalty interest may be broken into several smaller percentages and distributed among family members. Settlements of the estates of landowners will also result in allocation of royalty interests to numerous individuals. In sum, the typical royalty interest in a leased property is dispersed among a number of parties and the current landowner need not have control of the largest portion of the interest.

(continued on page 6)

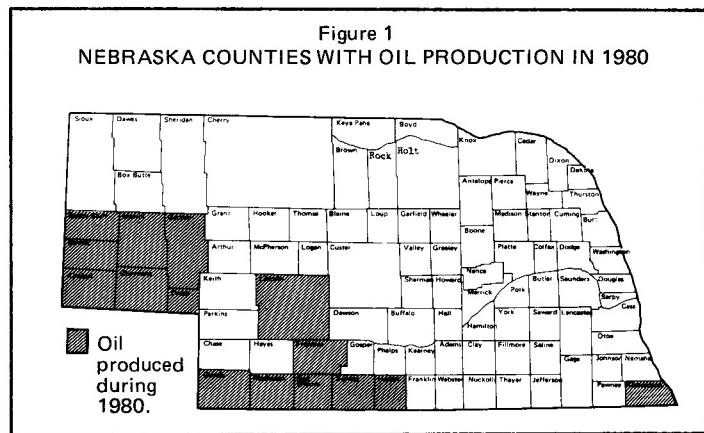


Table 4
ROYALTY AND WORKING INTERESTS IN NEBRASKA OIL
BY COUNTY AND RESIDENCE OF OWNER, 1978

County	Royalty Interests				Working Interests	
	Instate Landowner	Instate Non-Landowner	Outstate Landowner	Outstate Non-Landowner	Instate Firms	Outstate Firms
Banner	.02973	.05412	.00893	.06671	.16647	.67404
Cheyenne	.04043	.04629	.00767	.07241	.04657	.78663
Deuel	.08333	.04167	0	.02000	.85500	0
Dundy	.10755	.00891	.00378	.03924	.04551	.79501
Frontier	.01047	.08958	0	.04210	.05698	.80087
Harlan	.02054	.06129	0	.08002	.11580	.72235
Hitchcock	.04591	.05171	.00595	.03969	.04827	.80847
Kimball	.04149	.03846	.01345	.07543	.17735	.65382
Morrill	.06034	.04046	.00453	.05174	.06684	.77609
Red Willow	.04530	.03691	.00295	.03990	.05255	.82239
Scotts Bluff	.02542	.10044	.00045	.03527	.27202	.56640
Overall (State)	.04185	.04501	.00691	.05745	.09498	.75380

Source: Compiled by author.

Review and Outlook

The Nebraska economy recorded an increase in April, with the physical volume index of the nonagriculture sector increasing 1.7%. Once again, cash farm marketings for Nebraska and the United States were unavailable at the time of publication. Consequently, information regarding the agriculture sector is not included in this report.

Prices received by Nebraska farmers in April 1981 were 17% above those received in April 1980. Nationally, prices received were up 16.3% in April 1981 when compared with one-year previous, while prices paid were up 10.5% over the same interval. Prices received compare favorably in 1981 because of extremely low prices prevailing in April 1980.

Turning to the nonagriculture sector, all areas recorded an advance in April 1981 with the exception of construction. After increasing from the June 1980 trough, the construction index declined 6% in April 1981 from March's level. Output in the construction sector remains under pressure, but the April 1981 level was approximately 30% above the depressed April 1980 output level for this sector.

Manufacturing output recorded a 4.2% increase in April 1981 when compared with month-earlier levels. Although output from Nebraska's manufacturing sector was above year-previous levels by less than 1%, the April increase marks one of the best monthly gains in the manufacturing sector in more than three years.

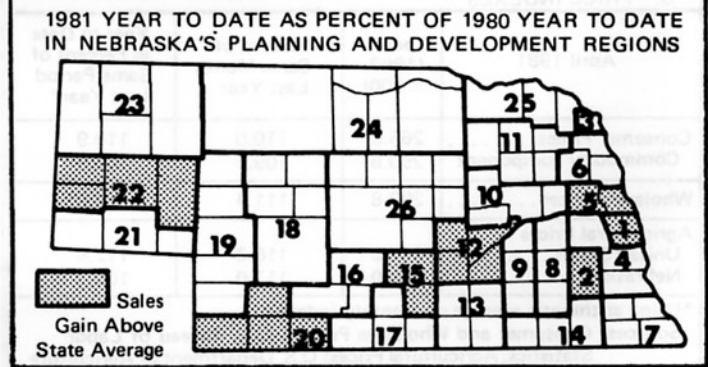
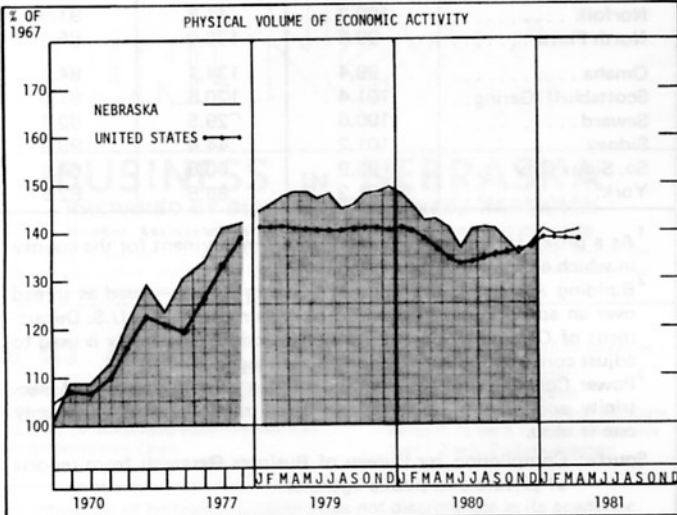
The physical volume of output index (continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
April 1981	Current Month as Percent of Same Month Previous Year		1981 Year to Date as Percent of 1980 Year to Date	
	Nebraska	U.S.	Nebraska	U.S.
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	108.4	111.1	106.3	109.5
Agricultural	NA	NA	NA	NA
Nonagricultural	110.4	111.4	107.7	109.7
Construction	144.9	108.3	130.4	104.2
Manufacturing	110.8	110.0	104.9	107.9
Distributive	109.8	112.8	107.8	111.4
Government	104.1	109.4	105.5	108.5
Physical Volume	97.9	100.4	96.5	99.1
Agricultural	NA	NA	NA	NA
Nonagricultural	100.6	100.9	97.6	99.4
Construction	133.7	100.0	121.6	97.2
Manufacturing	100.6	99.2	95.2	97.5
Distributive	99.8	102.6	97.2	100.4
Government	97.5	98.5	98.5	99.8
2. CHANGE FROM 1967				
Indicator	Percent of 1967 Average			
	Nebraska	U.S.		
Dollar Volume	363.1	349.5		
Agricultural	NA	NA		
Nonagricultural	372.8	350.8		
Construction	312.9	325.7		
Manufacturing	394.3	317.6		
Distributive	378.6	376.8		
Government	359.7	329.4		
Physical Volume	140.4	137.6		
Agricultural	NA	NA		
Nonagricultural	144.3	138.1		
Construction	100.0	104.1		
Manufacturing	169.3	133.0		
Distributive	141.9	141.2		
Government	144.3	150.1		

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)			
Region Number and City	City Sales*	Sales in Region*	
	April 1981 as percent of April 1980	April 1981 as percent of April 1980	Year to date '81 as percent of Year to date '80
<i>The State</i>	98.9	99.8	98.9
1 Omaha	100.6	102.2	102.2
Bellevue	105.4		
2 Lincoln	94.4	95.1	100.2
3 So. Sioux City	106.9	106.6	98.3
4 Nebraska City	89.8	95.0	96.3
5 Fremont	103.1	99.9	99.4
Blair	91.6		
6 West Point	92.5	95.5	91.5
7 Falls City	90.2	90.4	93.3
8 Seward	98.9	96.1	97.3
9 York	88.2	95.0	91.8
10 Columbus	107.9	106.6	95.5
11 Norfolk	108.0	109.5	97.3
Wayne	114.5		
12 Grand Island	103.5	106.7	102.6
13 Hastings	103.5	103.5	99.3
14 Beatrice	87.8	95.3	98.9
Fairbury	89.5		
15 Kearney	111.8	109.5	100.9
16 Lexington	99.6	91.9	93.7
17 Holdrege	113.8	105.9	98.0
18 North Platte	96.9	97.6	95.1
19 Ogallala	95.9	103.0	97.5
20 McCook	109.8	108.7	105.5
21 Sidney	91.8	93.0	99.3
Kimball	85.3		
22 Scottsbluff/Gering	100.8	103.2	99.7
23 Alliance	95.9	96.6	98.8
Chadron	87.4		
24 O'Neill	109.1	110.5	96.5
25 Hartington	116.6	102.6	91.2
26 Broken Bow	101.9	103.0	90.5

*State totals include sales not allocated to cities or regions. The year-to-year ratios for city and region sales may be misleading because of changes in the portion of unallocated sales. Region totals include, and city totals exclude, motor vehicle sales. Sales are those on which sales taxes are collected by retailers located in the state. Compiled from data provided by Nebraska Department of Revenue.



(continued from page 4) for the distributive trade also recorded a sharp increase in April, moving 1.5% above the March 1981 level. The April 1981 reading for the distributive trade sector is approximately the equivalent of that recorded one year ago. Output from the distributive trade sector has moved erratically upward during the past three quarters.

The government sector recorded a 1% increase in output in April 1981. This index was approximately 2.5% below the April 1980 level.

Nebraska's employment picture improved in April when compared with March 1981 and April 1980. Employment in April 1981 was above the year-previous level by more than 1,000. While employment was up in the state in 1980, the number of persons in the labor force had declined by approximately 4,000 compared with year-previous levels, thereby preventing the unemployment rate from looking worse than it actually was. Unemployment, on the other hand, stood at 3.8% in April 1981 compared with 3.6% in April 1980.

Employment in the state's two largest markets remains slightly below year-previous levels. April 1981 employment in Omaha was estimated at 270,700, compared with 273,750 in April 1980. Unemployment was lower in April 1981 in Omaha when compared with one-year previous, but fewer people were in the labor market. Employment in Lincoln was virtually unchanged over the interval April 1980-April 1981, while unemployment was up 0.2% to 3.2%, April 1981.

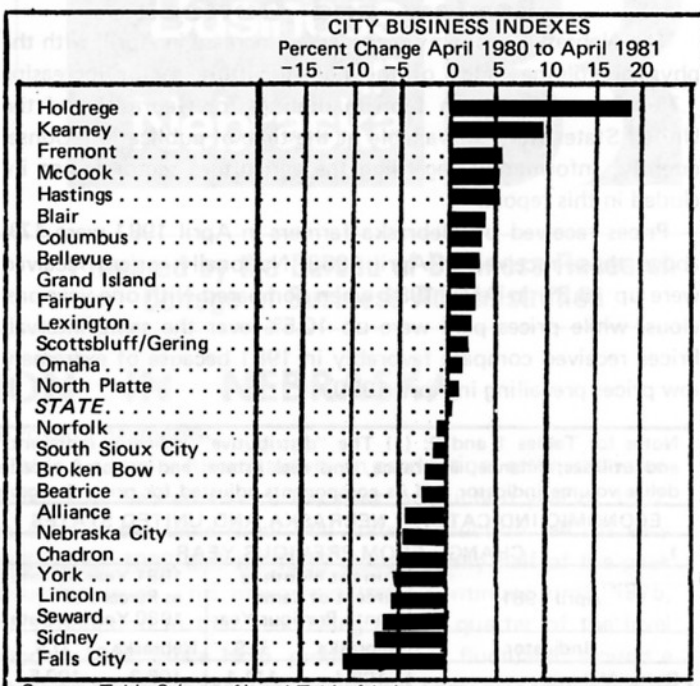
Nebraska dollar-volume retail sales were up 8.9% April 1981 compared with April 1980. Total retail sales were \$771 million in April compared with \$708 million April 1980. Motor vehicle retail sales were up a strong 17.8% on an unadjusted basis over this interval, while nonmotor vehicle retail sales were up 7.9%.

When adjustments are made for price changes, total retail sales in Nebraska were down 0.2%. The commodity component of the Consumer Price Index in April 1981 was 9.1% above year-previous levels. Using this component to deflate retail sales indicates that nonmotor vehicles were down 1.1%, while motor vehicle sales were up 7.9% in price-adjusted terms. The deflator, of course, is only an approximation of price changes.

Fourteen of the state's trade centers, noted in Table 4, recorded increases in activity April 1980 to April 1981. Substantial gains in city business indexes were recorded at Holdrege, 18.7%; Kearney, 9.4%; Fremont, 5.7%; and McCook and Hastings, 5.1%.

Some cities recorded notable sales gains April 1980 to April 1981. Hartington recorded a 16.6% increase in real retail sales, followed by a 14.5% increase at Wayne. Holdrege and Kearney had real increases in retail sales of 13.8% and 11.8%, respectively, and McCook recorded a 9.8% increase.

D. E. P.



Source: Table 3 (page 4) and Table 4 below.

4. APRIL CITY BUSINESS INDICATORS			
The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Employment ¹	Building Activity ²	Power Consumption ³
<i>The State</i>	100.3	109.9	85.2
Alliance	98.8	64.1	85.8
Beatrice	99.9	168.5	76.7
Bellevue	99.4	133.5	100.3
Blair	101.9	403.9	93.9
Broken Bow	100.8	45.3	90.7
Chadron	99.2	121.2	78.3
Columbus	102.0	85.4	81.3
Fairbury	101.7	425.0	80.8
Falls City	101.0	25.3	86.1
Fremont	104.6	161.7	106.6*
Grand Island	101.1	123.8	91.9
Hastings	101.6	178.4	NA
Holdrege	101.3	1060.1	85.1
Kearney	101.3	118.4	89.3
Lexington	102.2	138.5	81.2
Lincoln	98.0	66.6	89.2
McCook	101.1	106.3	79.8
Nebraska City	100.6	88.6	75.4
Norfolk	100.2	41.6	91.9
North Platte	99.5	175.0	85.2
Omaha	99.4	134.1	84.3
Scottsbluff/Gering ..	101.4	120.6	67.0
Seward	100.6	29.5	80.4
Sidney	101.2	44.4	98.6
So. Sioux City	95.9	60.6	64.9
York	101.2	89.5	82.5

¹ As a proxy for city employment, total employment for the county in which a city is located is used.

² Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

³ Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES			
April 1981	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	266.8	110.0	110.9
Commodity component	250.8	109.1	109.8
Wholesale Prices	292.8	111.4	110.9
Agricultural Prices			
United States	257.0	116.3	112.4
Nebraska	261.0	117.0	109.3

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

(continued from page 3)

An overriding royalty is a royalty interest in addition to the basic landowner royalty interest. An interest of this type may be generated from the sale of a lease by the lessee to a third party. For example, firm A leases a property and gives the landowner a .125 interest, the usual royalty interest at the date of the lease award. Firm A now holds the .875 working interest but decides not to undertake the task of exploration on the property. Instead, firm A sells the working interest to firm B but, as part of the payment, retains an interest of, say .05 in the eventual production of the property. This interest does not participate in any exploration and production expenses and thus is like a true royalty interest. Assuming that firm B successfully completes wells on the property, the breakdown of production interests would then be:

landowner:	.125 royalty interest
firm A:	.05 overriding royalty interest.
firm B:	.825 working interest

As in the case of the landowner royalty interests, overriding royalty interests may be traded and sold a number of times, further distributing the overall ownership of production from the property.

An extensive survey of royalty and working interests in oil-producing properties was conducted during the summer of 1979 by the author and research assistants of the Bureau of Business Research. Eleven of the fifteen counties in which oil was produced during 1978 were covered. The four counties excluded were Furnas, Garden, Lincoln, and Richardson, which together accounted for only .8 percent of state oil production in 1978. Property tax statements filed by operators in the county where production occurs provided the working and royalty interest breakdown in most cases. Information from these statements was tabulated for each county, and the current landowners of producing properties were determined from tax rolls maintained at county assessor offices. In this way, the name of the current landowner of a particular property could be checked against the list of royalty holders to see if he or she held a royalty interest. Addresses of interest holders were available in most cases, thereby making it possible to determine whether an interest was held by an instate or outstate party. Some operators did not report a detailed breakdown of interest holders on their property tax

forms. These firms were contacted and asked to supply the information. After all the data had been processed, the interest breakdown for 94.4 percent of state production in 1978 had been determined.

Table 4 (p. 3) reports the breakdown of production among interest types for each of the eleven counties surveyed. To determine the aggregate interest of a specific type in a county, the total number of barrels attributable to that type of interest was divided by total barrels produced. This methodology was also applied to the overall production of the eleven counties. The resulting percentages (the last line in Table 4) can be regarded as a breakdown of the interests in total state production.

The figures of Table 4 are quite revealing. On average, instate landowners (including government) hold only a .04185 royalty interest in state oil production, a share that is substantially below the .125 interest usually given at the time of leasing. The factors noted above which contribute to dispersion of royalty interests certainly operate in Nebraska. Non-landowners hold the highest royalty interests in Nebraska oil, with .04501 going to residents and .05745 to nonresidents. The working interest figures reveal the dominance of outstate firms in controlling Nebraska's oil production. Nebraska operators hold a .09498 interest in total production, while outstate operators hold a .75380 interest. However, these figures may not reflect contractual agreements between outstate firms and Nebraska firms which result in a higher effective percentage for the latter. For example, an instate firm may contract with an outstate firm to drill and complete a well in consideration for a share of the working interest. An agreement of this type may not be reflected on the property tax statements which served as our data source.

More economic content can be given the interest breakdown by multiplying the respective percentages and the value of 1978 state production, \$66.8 million, to give the gross earnings of the respective interests in that year. They are (in millions of dollars):

Instate landowners	\$2.8	Outstate landowners	\$0.5
Instate non-landowners	\$3.0	Outstate non-landowners	\$3.8
Instate firms	\$6.3	Outstate firms	\$50.4

The possible understatement of the interest share of instate firms should be kept in mind when examining these dollar amounts.

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BUSINESS IN NEBRASKA

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No. 443 August 1981

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