

## PROFITABILITY OF NEBRASKA BANKS, 1968-1975: A COMPARISON WITH U.S. BANKS

Bank profits are the returns to investment in the business of banking. They are subject to considerable variability: variability due to the vagaries of the business cycle, differences in bank management and their policies, and differences in bank location and bank size. The purpose of this paper is to examine the profitability of banks in the State of Nebraska in relation to the profitability of banks throughout the United States for the past eight years (1968-1975).

Data for the study were obtained from *Bank Operating Statistics*, an annual publication of the Federal Deposit Insurance Corporation (FDIC). These data cover all banks insured by the FDIC. Last year their number totaled 14,654 out of the 14,923 commercial banks operating in the country. This amounted to more than 98 percent of all commercial banks in the United States. (All of Nebraska's 448 banks were insured by the FDIC.)

Much of the data presented in *Bank Operating Statistics* is in the form of operating ratios (a ratio of one item from a balance sheet or an income statement to another item from a balance sheet or income statement). One such ratio is the rate of bank profit, which is defined as net income divided by total capital accounts.<sup>1</sup> In examining bank profits, this study relies heavily upon additional bank operating ratios. Particular attention is paid to those ratios which relate to the net income of banks.<sup>2</sup>

Banking has been more profitable in Nebraska than in the nation in the past eight years (see Table 1). In only one of the eight years did banks in this state average a lower return on capital than banks throughout the country.<sup>3</sup> That was for the first year of the study, and the difference was rather small (9.48 percent

for U.S. banks vs. 9.13 percent for Nebraska banks). Since then, Nebraska banks have, on the average, consistently outperformed U.S. banks in terms of profitability. Not only have bank profits in Nebraska been higher, but the difference appears to be growing. In the last two years the difference was substantial (16.6 percent and 14.35 percent for banks in this state vs. 12.83 percent and 11.07 percent for banks nationwide).

What factors were responsible for this growth in the relative profitability of Nebraska banks? In examining the components of the rate of bank profits, two factors are prominent. First, capital-asset ratios in Nebraska dropped relative to capital-asset ratios in the United States (Table 2, p. 6). The result was a growth in leverage for Nebraska banks (in absolute terms, as well as relative to U.S. banks). A larger portion of the growth in bank assets within

Table 1  
BANK PROFIT RATES:  
NEBRASKA AND U.S. BANKS, 1968-1975\*

	Nebraska	U.S.
1968	9.13%	9.48%
1969	12.00	11.84
1970	12.92	12.24
1971	12.80	11.84
1972	12.47	11.64
1973	14.73	13.39
1974	16.62	12.83
1975	14.35	11.07

\*These profit rates are the average of individual bank profit rates.  
Source: *Bank Operating Statistics*, Federal Deposit Insurance Corporation.

the state was financed with "other people's money," for example, bank deposits, rather than by the growth of bank capital. Second, while operating expenses as a percentage of bank assets increased for both Nebraska and U.S. banks, the increase was more pronounced for banks outside the state (see Table 2, p. 6).

A standard statistical technique (multiple regression) was employed in an attempt to determine the relative importance of these two factors in explaining the growth of bank profits in Nebraska relative to bank profits in the United States. Due to the high correlation of the difference in capital-asset ratios and the difference in operating expense-asset ratios, no definitive conclusion may be drawn. Collectively, though, these two factors accounted for 91 percent of the variation of the difference between profit rates of Nebraska banks and those for banks in the United States.

A further examination of the data suggests that in the early years of the survey period the drop in capital-asset ratios for Nebraska banks was instrumental in the growth of bank profits in

(Continued on page 6)

<sup>1</sup>In accordance with FDIC data, capital accounts include capital notes and debentures, common and preferred stock, surplus, undivided profits, reserves for contingencies, and other capital reserves. In their assessment of the capital adequacy of banks, regulatory authorities have increasingly viewed capital notes and debentures, technically a liability item, as performing the function of bank capital. Consequently, capital notes and debentures appear in FDIC measures of capital accounts.

<sup>2</sup>Net income is equal to operating revenues minus operating expenses, taxes, and other deductions. Other deductions include net losses on securities (the change in the value of a bank's inventory of securities) and extraordinary gains and losses, for example, the nonrecurring expense associated with closing a branch bank.

<sup>3</sup>In making this comparison, an aggregate operating ratio (return on capital) for Nebraska banks is compared to the same ratio for U.S. banks. The aggregate operating ratios used in this study are an average of individual bank operating ratios. In this case, for example, the profitability of Nebraska banks is computed as the average of the rate of profit of each of the 448 banks in the state last year.

## SOME DEVELOPMENTS IN THE MOTOR VEHICLE INDUSTRY

Nebraskans bought and registered \$585 million worth of new and used motor vehicles that were subject to the state's retail sales tax<sup>1</sup> in 1975 (Table 1). At a tax rate of 2.5 percent, this dollar volume of new registrations produced about \$14.5 million of revenue for the state's coffers. Contributing the major portion of the taxable value were registrations of 57,900 new and used passenger cars and 30,400 new and used trucks (Table 2).

Even so, 1975—as the second of two consecutive years of declining physical volumes of new registrations (Table 2)—was a year of high taxable dollar volume only because of a marked rise in the general level of motor vehicle prices. Indexes of new and used car prices for the United States increased 8.6 and 19.4 percent, respectively (Table 1). Although no indexes are available for Nebraska, there is no reason to expect that the state's pattern of price change differed in any major way from that of the nation, regardless of possible differences in the magnitude of the changes. Rising prices contributed, therefore, the major force that carried the taxable value for 1975 to its highest level since 1968.

During the eight-year, 1968-1975 period, the value of new and used vehicles on which the sales tax is levied at the time of registration has shown an upward movement that was interrupted only in 1970. In addition to rising prices, two factors have contributed to this long-term upward trend in the taxable value: increases in the number of potential car users, and increases in the intensity of car usage. Not only has there been an increase in the population of car buyers, but also there has been a rise in the number of cars per family and/or person. Thus, as seen in Table 2, the number of persons per passenger car has fallen in Nebraska from 2.28 in 1966 to 1.96 in 1975.<sup>2</sup>

<sup>1</sup>Based on the taxable portion of the purchase price on which the Nebraska sales tax is levied at the *point of registration*, which is the county seat of the county in which the purchaser resides.

<sup>2</sup>The number of passenger cars registered in Nebraska at year's end approximated 641,000 in 1966 and 786,700 in 1975, and the estimated populations as of July 1 of the same years were 1,464,600 and 1,543,600.

It has been said that "due to both its relative size and its tendency toward large cyclical fluctuations, the automobile industry has tended to receive a great deal of attention in analyses of current economic conditions." Even so, there has been much interest in the "long-term trend [which over the past 20 years has been] unmistakably upward. In general, each periodic crest and trough has occurred at a higher level than the previous high and low points."<sup>3</sup> That such a long-term national pattern has applied also to the state's automobile industry seems almost certain.

Data available to this writer at this time do not permit an exact determination of the cyclical pattern, on a quarterly or monthly basis, of Nebraska motor vehicle sales. The recent recessionary situation from late 1973 to mid-1975—especially in the automobile industry—is evident, however, in the patterns of new registrations of cars and trucks recorded during the year for the state and the nation (Table 2). Nationally, a high-level year in 1966 was followed by a period of decline through 1968, a comeback in 1969, and then another decline in 1970 with recovery into 1973, which was followed by the well-known decline of 1974 and recovery beginning in 1975. For the most part, the Nebraska experience has been similar to that of the nation, if not as to magnitude at least as to pattern.

Despite the cyclical interruptions and the uncertainties of recent months, a long-term growth has been occurring in total registrations in effect at year's end in Nebraska (Table 2). Each year since 1966 there have been more cars and trucks registered as of year's end, with the total rising from 864,500 to 1,103,000. The growth has been faster for trucks than for passenger cars, with the ratio of cars to trucks falling from 2.9 to 1 to 2.5 to 1. As noted previously, the number of persons per car has also dropped considerably, and with little interruption, indicating in

<sup>3</sup>Quotations in this and following paragraphs are from James E. Turley, "Automobile Sales in Perspective," *Federal Reserve Bank of St. Louis Bulletin*, June, 1976, pp. 11-16.

Table 1  
VALUE OF MOTOR VEHICLES REGISTERED IN NEBRASKA, 1968-1975,  
NEBRASKA PERSONAL INCOME, 1967-1975, AND  
LEVEL OF PRICES OF NEW AND USED CARS IN THE UNITED STATES, 1968-1975

Year	Taxable Value of New and Used Vehicles <sup>1</sup>		Nebraska Personal Income		Index of Retail Prices of:				Index of Car Prices <sup>2</sup> as Percent of the Consumer Price Index	
	Millions of Dollars	Percent of Change	Millions of Dollars	Percent of Change	New Cars <sup>2</sup>		Used Cars <sup>2</sup>		New	Used
					Annual Index	Percent of Change	Annual Index	Percent of Change		
1967	NA <sup>3</sup>	---	4,396	---	100.0	---	100.0	---	100.0	100.0
1968	307.2	NA	4,632	+5.4	102.8	+2.8	102.5 <sup>(E)</sup>	+2.5	98.7	98.4
1969	363.9	+18.4	5,268	+13.7	104.4	+1.6	103.1	+0.6	95.1	93.9
1970	338.7	-6.9	5,638	+7.0	107.6	+3.1	104.3	+1.2	92.5	89.7
1971	399.3	+17.9	5,993	+6.3	112.0	+4.1	110.2	+5.7	92.3	90.9
1972	451.7	+13.1	6,785	+13.2	111.0	-0.9	110.5	+0.3	88.6	88.2
1973	558.0	+23.5	8,050	+18.6	111.1	+0.1	117.6	+6.4	83.5	88.4
1974	577.8	+3.5	8,270	+2.7	117.5	+5.8	122.6	+4.2	79.5	82.9
1975	585.0	+1.2	9,384	+13.5	127.6	+8.6	146.4	+19.4	79.2	90.8

(E) - Estimated; NA - Not available.

<sup>1</sup>Includes sales of all registered new and used vehicles on which Nebraska retail sales tax was paid at the point of registration.

<sup>2</sup>Includes cars, buses, taxis, and trucks.

<sup>3</sup>Includes only passenger cars.

<sup>3</sup>Nebraska's sales tax levy began as of July 1, 1967.

Sources: Taxable value for 1970-1974 taken from various annual reports of the Nebraska Department of Revenue; and for 1968, 1969, and 1975, compilations are made by Bureau of Business Research from special tabulations provided by Nebraska Department of Revenue. Indexes of Retail Prices of New and Used Cars are the New Cars and Used Cars components of the U.S. Bureau of Labor Statistics Consumer Price Index.

Nebraska Personal Income taken from U.S. Department of Commerce, *Survey of Current Business*, August, 1976, Table 1, page 16.

large part that the growth of cars registered, and trucks also, has been at a rate in excess of the population.

Elsewhere it is confirmed that the pattern of cyclical fluctuations of automobile sales and, presumably, registrations, continues to be one in which sales have "generally tended to lead the downturn in aggregate activity by between one and four quarters," and, "during economic expansions auto sales generally begin picking up about the same time as aggregate activity." In 1975, however, the "pick-up" was about two quarters ahead of the economy as a whole.

Turley demonstrates and concludes that in the recent 1973-1976 period "special factors [such as] substantial price boosts posted by the auto manufacturers, uncertainty about the availability and prices of petroleum products generated by the oil embargo, and general consumer resistance to the government-mandated pollution and safety equipment" have *not* caused the "movements in new auto sales in the 1973-1976 period [to appear] to be significantly out of line with the general pattern observed in the three previous recession/recovery periods."

The more "traditional" factors—disposable income adjusted for the effects of inflation, prices of autos relative to the prices of other goods and services, number of potential buyers, and expectations—are still acceptable, therefore, as primary determinants of auto sales.

Comparison of the relative changes in Nebraska's total personal income (which is usually about 15 percent greater than disposable income) with the relative changes in the price indexes of new and used cars indicates that the wherewithal to purchase has grown at rates well above those of prices of autos, with the exception of the 1974 to 1975 increase in used car prices (Table 1). Also, over the eight-year, 1967-1975 period the price indexes of new and used cars have declined as a percent of the price index of all consumer goods and services (Table 1).<sup>4</sup>

<sup>4</sup>Using the Consumer Price Index of the U.S. Bureau of Labor Statistics.

In the case of new cars, the index of car prices has fallen markedly, to a level 79 percent of that of the consumer prices, or to a level 21 points below the equality level existing in 1967. Moreover, there have been no reversals in the downward trend, despite some instances when the declines were negligible. Used car prices have likewise fallen relative to the prices of retail goods and services taken as a group, yet in a pattern much less consistently downward. In some years the ratio increased, as car prices moved upward, by a greater rate than the increases in the consumer prices. Even so, the 1975 ratio of used car price index to the consumer price index is 10 points below the equality level of 1967.

Some preliminary data on taxable value of registrations in Nebraska and reports as to sales in the nation indicate that during the first half of 1976 the automobile sectors in both state and national economies had a distinct tendency to be "bullish," that is, expansionary, at least when compared with the monthly/quarterly levels of the first half of 1975. Complete data on late summer and more recent developments have not as yet become available.

Recent events and conditions being discussed in the various media do suggest, however, that a less than satisfactory market situation exists now for the various automobile producers and dealers. The reported overstocking of certain models and, more recently, the offering of price reductions through "rebates" are evidence of a decline in the "bullishness" of this industry. Some conservatism in expectations and, perhaps, negative reactions to continuing price increases in a period of income uncertainty can be said to exist. Certainly there is evidence that less attention is being paid by potential auto purchasers to the price of petroleum products and the costs being embodied in price as a result of pollution and safety programs. Thus, while long-term growth seems assured, short-run "cyclical" fluctuations remain a matter of considerable concern.

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Table 2  
NEW AND TOTAL CAR AND TRUCK REGISTRATIONS  
IN NEBRASKA AND THE UNITED STATES, 1966-1975

Year	New Registrations during Year				Total Registered in Nebraska at Year's End			Nebraska Persons Per Car July 1
	Passenger Cars		Trucks <sup>2</sup>		Cars (000s)	Trucks <sup>3</sup> (000s)	Total (000s)	
	Nebraska (000s)	U.S. <sup>1</sup> (000s)	Nebraska (000s)	U.S. <sup>1</sup> (000s)				
1966	66.6	8,984.9	19.8	1,576.2	641.0	223.5	864.5	2.28
1967	61.3	8,260.4	18.4	1,486.2	648.8	232.6	881.4	2.26
1968	62.6	8,296.4	19.2	1,736.3	661.3	230.3	891.6	2.23
1969	67.5	9,419.0	23.4	1,877.5	673.9	247.6	921.5	2.19
1970	57.6	8,388.2	19.8	1,790.2	679.7	241.4	921.1	2.19
1971	65.8	9,830.6	22.6	1,993.2	695.6	253.0	948.6	2.17
1972	70.0	10,487.8	26.8	2,519.0	726.7	259.5	986.2	2.10
1973	74.3	11,351.0	35.0	3,029.1	753.9	280.3	1,034.2	2.03
1974	63.0	8,701.1	35.9	2,656.9	772.3	301.4	1,073.7	2.00
1975	57.9	8,261.8	30.4	2,397.4	786.7	316.3	1,103.0	1.96
10-Year Average	64.7	9,323.7	25.1	2,106.2	---	---	---	---
Range from:	57.6	8,260.4	18.4	1,486.2	641.0	223.4	864.5	2.28
to:	74.3	11,351.0	35.9	3,029.1	786.7	316.3	1,103.0	1.96

<sup>1</sup>Excluding Oklahoma, for which new car registrations averaged about 100,000 and new trucks averaged 35,000 prior to 1969, after which data are not available.

<sup>2</sup>Not exactly comparable to Total Registered in Nebraska at year's end, due to differences in definitions and inclusions.

<sup>3</sup>Includes taxis, buses, and trucks classified as Local, A-Plates, 6 Months Commercial, Pro-rated, Straight Commercial, Commercial Tractor, and Local Commercial.

Sources: New Registrations: Automotive News, *Market Data Book*, 1976.

Total Registered in Nebraska: Nebraska Department of Motor Vehicles, *Annual Motor Vehicle Report*, various editions.

# Review and Outlook

Business activity in Nebraska and the nation improved slightly in August from its July level. Both the U.S. and Nebraska indexes edged up a little more than half a percent from their revised July levels, with Nebraska's total output adjusted for price changes showing a 3.5 percent improvement over August, 1975, while national real output rose 5.5 percent above last year's August figure. The increase in output from July for both the state and the nation centered in the distributive sector with retail sales being unusually high, particularly in Nebraska. Manufacturing output also increased slightly in August from the revised estimates for July in both Nebraska and the nation.

Revisions in wage and salary data extending back to 1974 have

caused the year-to-date growth rate of the Nebraska economy to rise slightly from the value previously reported. Total real output for the period extending from January through July of this year was 4.0 percent above the same period last year, compared with the 3.5 percent gain for the same period shown in last month's issue. The greater part of the change occurred in the distributive sector where the year-to-date growth figures for the first seven months of this year were revised upward about one percentage point, causing slightly smaller changes in the nonagricultural and total dollar volume and physical volume indexes. The dollar volume index for the government sector was also revised upward.

The agricultural and government components of both the national and state physical volume (Continued on page 5)

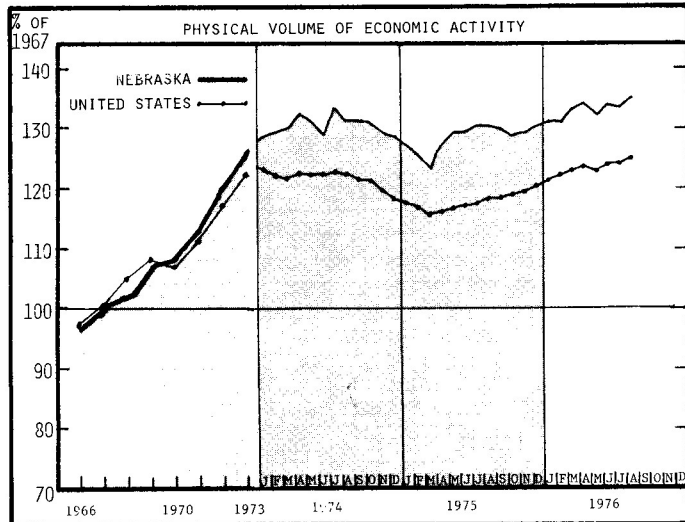
Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume 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				
August, 1976	Current Month as Percent of Same Month Previous Year		1976 Year to Date as Percent of 1975 Year to Date	
	Nebraska	U.S.	Nebraska	U.S.
<b>Indicator</b>				
Dollar Volume	106.4	110.9	109.7	111.2
Agricultural	83.9	99.7	103.0	109.8
Nonagricultural	111.4	111.3	111.0	111.3
Construction	92.4	112.0	90.7	111.0
Manufacturing	108.9	114.2	109.1	113.0
Distributive	113.1	110.6	113.3	111.0
Government	114.8	108.2	111.1	108.7
Physical Volume	103.6	105.5	104.0	105.3
Agricultural	96.4	103.0	100.6	106.0
Nonagricultural	104.9	105.5	104.6	105.3
Construction	85.6	103.7	86.9	106.3
Manufacturing	106.7	109.5	105.8	108.0
Distributive	107.1	104.7	106.9	104.7
Government	99.4	101.8	98.6	102.5

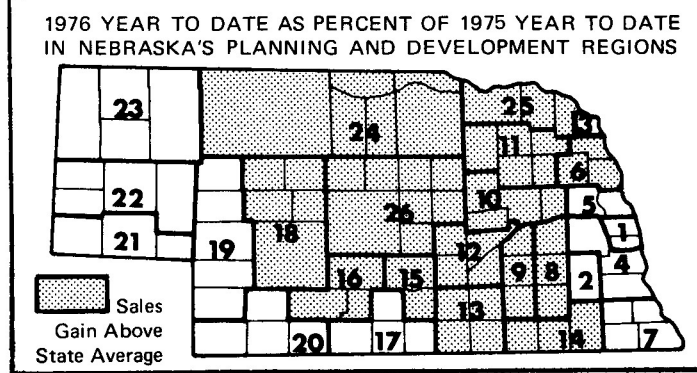
  

2. CHANGE FROM 1967		
Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	238.2	217.5
Agricultural	231.5	224.4
Nonagricultural	239.4	217.2
Construction	186.2	184.6
Manufacturing	250.0	205.4
Distributive	236.8	223.8
Government	256.1	230.1
Physical Volume	134.5	124.4
Agricultural	129.2	122.8
Nonagricultural	135.4	124.4
Construction	91.7	90.9
Manufacturing	138.3	114.3
Distributive	137.7	130.2
Government	138.0	136.9

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)			
Region Number <sup>1</sup> and City	City Sales <sup>2</sup>	Sales in Region <sup>2</sup>	
	August, 1976 as percent of August, 1975	August, 1976 as percent of August, 1975	Year to date '76 as percent of Year to date '75
<i>The State</i>	113.9	115.2	112.5
1 Omaha	105.3	106.6	109.4
Bellevue	93.8		
2 Lincoln	110.7	113.1	110.2
3 So. Sioux City	106.6	107.6	111.9
4 Nebraska City	126.1	121.4	112.2
5 Fremont	109.4	113.6	111.6
Blair	107.9		
6 West Point	133.0	120.5	119.8
7 Falls City	110.8	119.5	107.6
8 Seward	116.3	120.9	117.2
9 York	114.0	136.9	117.2
10 Columbus	116.2	134.7	120.6
11 Norfolk	109.9	118.1	120.4
12 Grand Island	109.5	119.7	113.9
13 Hastings	118.1	119.4	113.3
14 Beatrice	123.1	131.4	116.3
Fairbury	126.4		
15 Kearney	116.5	126.3	119.9
16 Lexington	113.7	123.9	117.8
17 Holdrege	132.3	118.8	108.9
18 North Platte	121.6	123.6	117.1
19 Ogallala	105.6	114.6	105.6
20 McCook	102.9	110.4	109.3
21 Sidney	96.6	111.6	104.0
Kimball	119.9		
22 Scottsbluff/Gering	108.1	103.9	108.3
23 Alliance	106.1	111.2	110.5
Chadron	92.9		
24 O'Neill	112.4	130.2	125.8
25 Hartington	158.9	126.3	118.5
26 Broken Bow	111.7	130.9	121.5



<sup>1</sup>See region map below.  
<sup>2</sup>Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.  
 Compiled from data provided by Nebraska Department of Revenue.





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indexes were little changed from July to August, but a revision in Nebraska government employment will reduce the August physical and dollar volume indexes for the sector a few points from the values given in Tables 1 and 2.

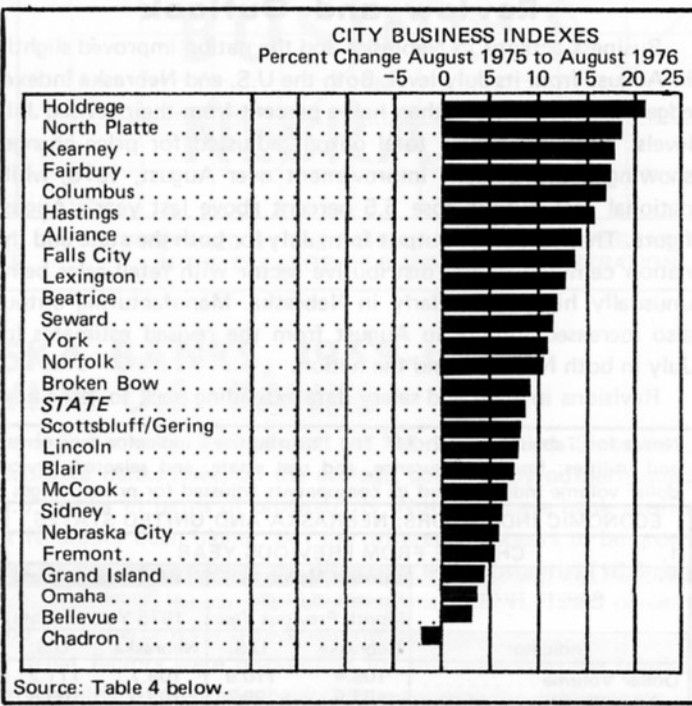
Revised data for Nebraska's manufacturing sector indicate that real output was nearly unchanged for the period from April through July. Preliminary data for August show a small upturn from this plateau. Again using revised data for July and preliminary data for August, real output for the national manufacturing sector rose about 1.5 percent in July from its April-June level, then continued to rise at a slower rate in August. At the end of August, the Bureau's indexes of real output in manufacturing for the state and the nation had recovered all but about 3 percent of their pre-recession level.

Construction output in Nebraska rose about 4.3 percent from July to August after allowing for a 1 percent increase in construction costs for the month. This is somewhat less than the normal gain for the month, however, so the seasonally adjusted index of construction activity shows a 2.4 percent decline from July, returning to a level fractionally lower than in June. Preliminary data indicate that the construction index will improve substantially in September. Alliance, Falls City, Sidney, Chadron, and McCook posted the greatest year-to-date increases in building activity for the January-August period over the same months of 1975; the increases range from 90 percent in McCook up to 361 percent in Alliance.

National construction figures for June, July, and August have been revised upward quite markedly. Prior to the revisions, our index of national construction activity reached a peak in March and then declined each month through July. The revised data produce a second peak in June at approximately the March level, followed by a sharp decline in July to the index's April level, then a moderate increase again in August. The revisions increase the year-to-date growth rate for the sector about 1 percent.

Based upon employment increases in retail trade and communications and especially upon a high level of retail sales, the index of real output in Nebraska's distributive sector rose 1.5 percent from July to August. After adjustment for price changes, total retail sales in August were 15.2 percent above their year-earlier level, topping this year's previous peak in June and coming within only 1.6 percent of matching last December's level. Excluding motor vehicle sales, Nebraska City, West Point, Beatrice, Fairbury, Holdrege, North Platte, and Hartington all had sales increases of at least 20 percent compared with August, 1975.

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Source: Table 4 below.

4. AUGUST CITY BUSINESS INDICATORS			
The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Banking Activity <sup>1</sup> (Adjusted for Price Changes) <sup>4</sup>	Building Activity <sup>2</sup>	Power Consumption <sup>3</sup>
<i>The State</i> .....	108.8	121.3	83.2
Alliance .....	104.6	927.8	105.9
Beatrice .....	107.0	106.7	90.7
Bellevue .....	113.8	109.9	95.3*
Blair .....	112.6	90.1	89.5
Broken Bow .....	106.1	169.9	93.0
Chadron .....	98.7	127.7	101.4
Columbus .....	126.3	100.5	100.8
Fairbury .....	112.3	245.0	79.3*
Falls City .....	122.6	149.6	89.8
Fremont .....	102.2	112.3	99.2*
Grand Island .....	103.8	85.4	100.6
Hastings .....	116.8	130.8	104.6
Holdrege .....	111.6	192.9	105.0
Kearney .....	123.1	130.8	104.4
Lexington .....	105.9	254.9	107.3
Lincoln .....	108.8	127.7	81.3
McCook .....	104.5	181.6	106.2
Nebraska City .....	94.1	73.3	84.8
Norfolk .....	111.2	135.6	107.2
North Platte .....	122.2	174.2	83.6
Omaha .....	103.0	77.1	80.1
Scottsbluff/Gering .....	112.1	113.5	84.4
Seward .....	105.7	200.4	91.4
Sidney .....	104.3	422.9	94.9
So. Sioux City .....	NA	NA	NA
York .....	122.2	45.8	96.3

<sup>1</sup>Banking Activity is the dollar volume of bank debits.  
<sup>2</sup>Building Activity is the value of building permits issued as spread over an appropriate time period of construction.  
<sup>3</sup>Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked \* for which only one is used.  
<sup>4</sup>Banking Activity is adjusted by a combination of the Wholesale Price Index and the Consumer Price Index, each weighted appropriately for each city.

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

5. PRICE INDEXES			
August, 1976	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices .....	171.9	105.6	106.0
Commodity component	166.6	103.9	104.7
Wholesale Prices .....	183.7	104.0	104.9
Agricultural Prices			
United States .....	182.8	96.7	103.7
Nebraska .....	179.2	87.1	103.0

\*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 1)

this state relative to those in the United States. More recently, cost factors tended to dominate. From 1968 to 1972, capital-asset ratios for Nebraska banks dropped significantly, while the same ratio for U.S. banks remained relatively stable. The following year found the capital-asset ratio for Nebraska banks declining still further, while the ratio for U.S. banks increased slightly. In the same year, however, operating expenses for banks outside the state jumped considerably relative to operating expenses for Nebraska banks. This trend continued through 1975. In the last two years of the survey, operating expenses as a percent of bank assets were substantially higher for the average U.S. bank than they were for the average Nebraska bank.

in Nebraska banks and in all U.S. banks declined considerably (7.69 percent per annum for Nebraska banks vs. 6.9 percent per annum for all banks in the country from 1973 to 1975).

The operating ratios indicate that two factors have contributed significantly to the more rapid growth in operating expenses for banks outside the state: interest paid on borrowed money (primarily for federal funds and discounts and advances) and expenses for wages and salaries.<sup>4</sup> While both of these cost factors have increased for Nebraska banks, they have grown much more rapidly for banks outside the state.

Interest paid on borrowed money represented a relatively insignificant cost item for all banks in 1968 (the first year of the study). By 1974, when interest rates reached record highs, they absorbed 1.0 percent of the operating revenues of the average U.S. bank and 0.6 percent of the operating revenues for the average Nebraska bank. The indication is that the smaller reliance upon liability management by banks within the state played an important role in improving their relative profitability.

While outlays for wages and salaries increased for banks throughout the country, they absorbed an increasingly smaller portion of bank operating revenues during the period under consideration. Although the portion of operating revenues absorbed by this cost factor has been consistently higher for Nebraska banks than for U.S. banks, the ratio of wages and salaries to operating revenues dropped dramatically for Nebraska banks from 1968 to 1975. In 1968, wages and salaries accounted for 29.1 percent of operating revenues; in 1975, only 19.4 percent (the comparable figures for U.S. banks are 23.1 percent and 18.0 percent, respectively). The apparent ability of the state's bankers to limit more effectively the growth of this sizable expense item has contributed significantly to the relatively high profit rates for Nebraska banks.

Whether Nebraska banks can continue to out-perform banks outside the state in terms of profitability is problematical. If recent trends continue, the ability of bankers within the state to continue to curb the growth in bank costs will largely determine the answer to this question.

WILLIAM D. GERDES

<sup>4</sup>Interest on borrowed money does not include interest payments on deposit liabilities, which appear as a separate entry in the Consolidated Report of Income filed by commercial banks.

Table 2  
CAPITAL/ASSET RATIOS AND  
OPERATING EXPENSE/ASSET RATIOS:  
NEBRASKA AND U.S. BANKS: 1968-1975\*

	Capital/Assets		Operating Expenses/Assets	
	Nebraska	U.S.	Nebraska	U.S.
1968	9.9	8.4	4.16	4.32
1969	9.4	8.6	4.47	4.73
1970	9.3	8.6	4.81	5.08
1971	9.1	8.4	4.92	5.19
1972	8.6	8.1	4.90	5.17
1973	8.1	8.3	4.93	5.43
1974	8.5	8.7	5.38	6.10
1975	8.5	8.6	5.59	6.25

\*Both ratios are the average of individual bank ratios.  
Source: *Bank Operating Statistics*, Federal Deposit Insurance Corporation.

While FDIC operating ratios provide little information on the reason for the decline in capital-asset ratios of Nebraska banks between 1968 and 1973, aggregate bank data are more revealing. Nebraska banks experienced a significantly higher rate of growth of assets than did U.S. banks from 1968 to 1973, while the growth rate in capital accounts was approximately the same. The principal reason for the more rapid growth of assets in Nebraska banks was a more rapidly expanding deposit base. From 1968 to 1973, deposits in Nebraska banks grew 11.58 percent annually, while deposits at all U.S. banks increased only 9.47 percent per annum. Since that time, the rate of deposit growth in the country decelerated, and the difference between the rate of deposit growth

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