

# Business in Nebraska

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## Nebraska Grows Despite National Recession: Evidence from 1991:III Personal Income Data

John S. Austin

UNL Bureau of Business Research

### Overview

Personal income in Nebraska continued to do well throughout the recession-plagued period of late 1990 and early 1991, according to the U.S. Bureau of Economic Analysis (BEA). Nebraska ranked third in the nation in overall nonfarm income growth, increasing 5.3 percent in 1991:III versus its year ago level. Nebraska's 1991:III growth rate was exceeded only by Utah (6.2 percent) and Idaho (5.7 percent). The U.S. growth rate was 2.9 percent.

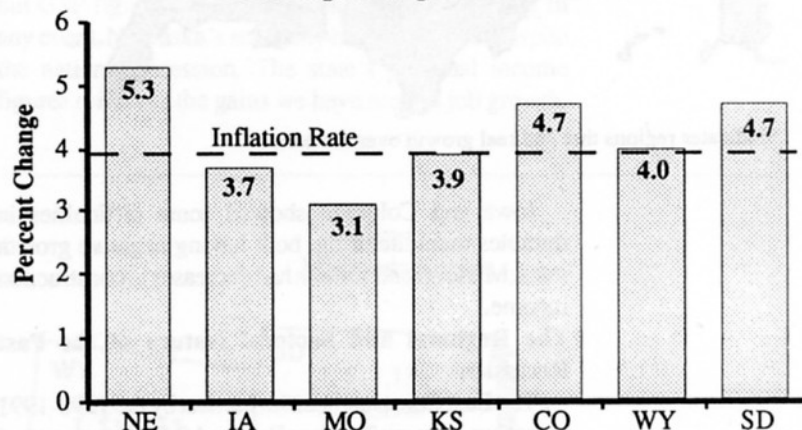
### Nebraska Versus Surrounding States

Nebraska led the Plains states from 1990:III to 1991:III. The Plains states' rate of growth matched the rate of inflation over the period. Figure 1 contrasts Nebraska's nonfarm personal income growth rate with those of surrounding states.

Figure 1 also shows the rate of inflation as measured by the Consumer Price Index (CPI). The CPI is appropriate for measuring inflation effects on personal income. Nebraska's nonfarm personal income grew 5.3 percent, while inflation increased 3.9 percent. The state experienced an inflation-adjusted gain in income of about 1.4 percent. The surrounding states did somewhat better than did the nation as a whole. Only Iowa and Missouri had nominal growth rates below the rate of inflation.

Breaking the wage and salaries part of personal income into various components (Table 1) shows the impact of the recession upon the U.S. and surrounding states. For the nation as a whole, both durables manufacturing and construction decreased. Nebraska grew in all major categories. Growth was especially strong in construction (7.9 percent) and in government (9.4 percent).

Figure 1  
Nonfarm Personal Income Growth for Neighboring Plains States  
Percentage Change 1990:III to 1991:III



Source: U. S. Department of Commerce

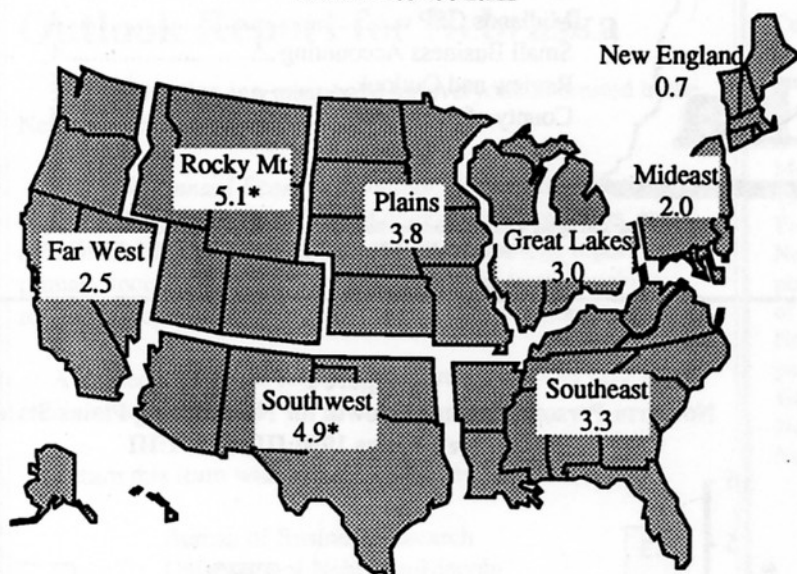
Table 1  
Sources of Change in Personal Income for Selected Plains States  
Wage and Salaries Disbursements  
Percentage Change 1990:III to 1991:III

	Durables Mfg.	Nondurables Mfg.	Construction	Private Service Type	Govt.
Nebraska	2.0	6.4	7.9	5.3	9.4
Iowa	-0.8	3.1	0.6	4.7	5.6
Missouri	0.6	9.7	-3.5	1.7	4.1
Kansas	0.9	7.3	-0.1	3.8	6.3
Colorado	-13.1	5.3	6.9	7.3	6.1
Wyoming	14.2	8.4	7.3	2.4	2.7
South Dakota	9.9	5.9	3.7	5.1	4.2
U.S.	-1.7	2.0	-6.7	2.6	4.5

Note: Private Service Type includes the following categories: Finance, Insurance, Real Estate; Wholesale and Retail Trade; Transportation and Public Utilities; Services.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

**Figure 2**  
**Nonfarm Personal Income Growth Rates for BEA Regions**  
**1990:III to 1991:III**



\*Indicates regions that had real growth over the period

Iowa and Colorado showed some difficulties in durables manufacturing, both having negative growth rates. Missouri and Kansas had decreases in construction income.

#### The Regional and Sectoral Nature of the Past Recession

The East Coast has been hit hardest by the 1990-1991 recession (Figure 2). New England 0.7 percent rate of growth from 1990:III to 1991:III was the slowest of all regions in the country. The Midwest region grew 2.0 percent.

California has joined in some of the recession woes of the Northeast states. From 1990:III to 1991:III California's nonfarm personal income grew 2.0 percent. This growth rate retarded the overall growth rate for the Far West states. The next lowest growth in the Far West was Alaska at 3.3 percent. The difficulties in California have national impact, as the California economy accounts for over 10 percent of total national GDP.

The sector hit hardest by the recession was the durables category. All of the New England states had decreases in both durables manufacturing and construction. Connecticut was the only state in New England not to show a decrease in nondurables manufacturing

All Midwest states except Delaware decreased in both durables and construction. In other regions of the country, patterns were less clear. Some states showed decreases in durables manufacturing income, but not in construction income. Other states showed decreases in construction, but not in durables manufacturing. Fourteen of the remaining states showed decreases in both

categories—California, Michigan, Ohio, and Illinois were among them.

In sharp contrast to the national statistics and those of the Northeast, construction has been a strong point in Nebraska's personal income growth. Wages and salaries in Nebraska's construction sector grew 7.9 percent over the 1990:III to 1991:III period.

Figure 2 shows that only two regions had positive real (inflation-adjusted) gains in personal income: Southwest and Rocky Mountains. Plains states growth was break even, with inflation resulting in a decrease in real personal income of only 0.1 percent over the period. The New England experience looks even worse when we consider inflation. Real income in the region decreased 3.2 percent.

#### Nebraska's Growth by Sector

Table 2 presents growth rates for sectors of Nebraska's personal income. Table 2 is based on earnings, whereas Table 1 is based only on wage and salary disbursements. Earnings include wages and salaries, other labor income (benefits), and proprietors' income.

**Table 2**  
**Nebraska Personal Income Growth\***  
**1990:III to 1991:III**

	(\$Millions)	% Change 1991:III vs. 1990:III
<b>Income*</b>		
Total Personal Income	28,632	4.9
Nonfarm	26,924	5.3
Farm	1,708	-1.4
<b>Earnings by Industry**</b>		
Ag. Services,		
Forestry & Fisheries	158	-0.6
Mining	65	4.8
Construction	1,070	9.2
Manufacturing	2,757	4.8
Nondurable	1,369	7.0
Durable	1,387	2.6
T.C.U.***	1,875	3.6
Wholesale Trade	1,442	-3.5
Retail Trade	1,930	5.9
F.I.R.E.****	1,479	7.2
Services	4,969	9.3
Government	3,857	9.7
Federal, Civilian	605	13.1
Military	427	1.4
State & Local	2,825	10.4

\* All personal income data are seasonally adjusted at annual rates

\*\* Earnings is the sum of wages and salaries, other labor income, and income earned by sole proprietors

\*\*\* Transportation, Communication, & Utilities

\*\*\*\* Finance, Insurance, & Real Estate  
 Source: Bureau of Economic Analysis, U.S. Department of Commerce

A small decrease in farm income from 1990:III to 1991:III offset some of the gains in nonfarm income, resulting in a growth rate for total personal income of 4.9 percent and reducing Nebraska's ranking in the nation to 8th.

Sectors that grew most rapidly in earnings were government (9.7 percent), services (9.3 percent), and construction (9.2 percent).

### Farm Income

Quarterly farm income is difficult to measure. Focusing on nonfarm income provides a clearer comparison of the various state economies.

Difficulties in estimating farm income arise from three major sources. First, farm income is a net concept defined as current period 's receipts less expenditures plus government payments. Errors in estimating any one of these three elements can cause large changes in net farm income estimates.

Second, farm receipts and expenditures do not flow in a steady quarterly stream, but tend to come at specific times of year. The BEA must spread these figures over

the year to give a quarterly pattern. Spreading annual figures can yield poor quarterly estimates.

The third problem, perhaps the biggest problem with the farm income data, results from the BEA having to allocate data on payments to farmers to the quarters of the year. These payments are lumpy, and the timing of government payments to farmers can distort the data.

Farm income is important to Nebraska's economy. But creating accurate quarterly estimates is a difficult task. Perhaps it would be best to use only annual estimates of farm income.

### Summary

Personal income data for the states are estimates. But personal income is one of the few comprehensive measures available. Furthermore, personal income data are relatively current. Gross State Product (GSP) data are the most comprehensive data on the state's economy, but GSP figures are available only with a long lag. In any event, Nebraska's economy has grown well despite the national recession. The state's personal income figures reinforce the gains we have seen in job growth.

## Recent Midlands Gross State Product Change

Charles Lamphear

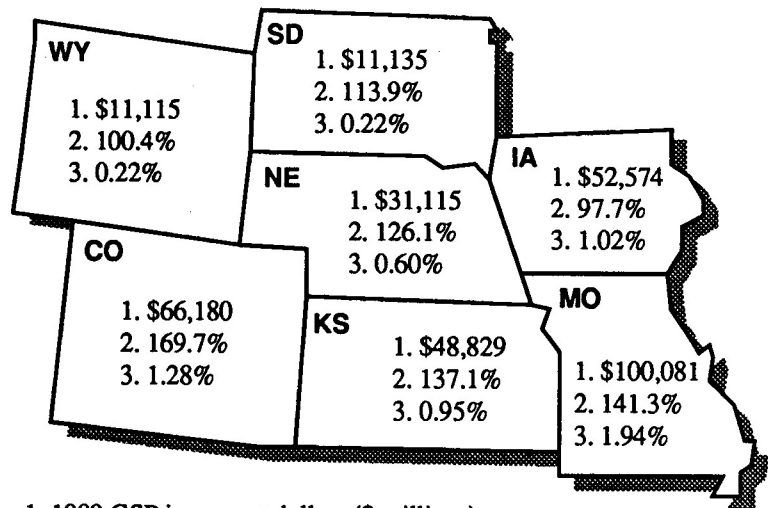
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A recent report on Gross State Product (GSP) by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce shows that Nebraska's GSP grew 126.1 percent in current dollars between 1977 and 1989. That figure gives an average annual rate of growth of 7.0 percent. In 1989 Nebraska's GSP was slightly over \$31 billion. The most recent statistics available for GSP are for 1989.

BEA defines GSP as the gross market value of goods and services attributable to labor and property located in a state. GSP is the state counterpart of Gross Domestic Product (GDP) at the national level. Both GSP and GDP refer to where output is produced and not to where ownership of the factors of production reside. GSP is the total output produced in a state and is that state's contribution to U.S. GDP.

Figure 1 shows midlands region 1989 levels of GSP in current dollars, the growth rates for the 1977-1989 period, and the percent of GSP to U.S. GDP for 1989.

Figure 1  
Midlands Region



1. 1989 GSP in current dollars (\$ millions)
2. Growth in GSP from 1977 to 1989
3. Percent of GSP to U.S. GDP for 1989

Source: Bureau of Economic Analysis, U.S. Department of Commerce

# Accounting Standards Overload?

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*Often it seems that the world of business is growing ever more complex. Even Mom and Pop operations must deal with the burgeoning challenges of regulation, taxation, and credit. For her undergraduate research associate project, Rachel Brinker focused on the accounting problems that small businesses face.*

*The undergraduate research associate program was designed to give junior and senior College of Business Administration students experience in applied research, statistics, and analysis. Rachel completed her project in the 1990-91 academic year.*

*Rachel is a senior accounting major from Omaha, NE.*

*The BBR thanks Professors Robert H. Raymond and Thomas D. Hubbard of the UNL School of Accountancy for their review of the material. Margo Young, staff editor at the Bureau, assisted in preparing the article for publication.*

As April 15 draws closer on the calendar, many Nebraskans find themselves afloat in the sea of forms, statements, and receipts that accompany income tax preparations. For small businesses, this wave of paperwork may be even more overwhelming than it is for the average person.

The volume of accounting work required to meet current standards can swamp the business owner who doubles as the store manager, purchasing agent, or bookkeeper/accountant.

But there are several accounting options for the small firm. The main goal of any accounting system is to provide information that is useful to both the owner/operator and banks and other creditors. Now may be the time to review your firm needs and work with your accountant to establish an accounting system that best fits your business.

## Other Comprehensive Basis of Accounting

Setting accounting standards for small business is a perennial challenge throughout the world. The Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants have studied the problem for years, but have not found a complete solution.

Financial statements are expected to be prepared in accordance with generally accepted accounting principles (GAAP). This means that all of the standards issued by FASB and other standard-setting organizations have been followed.

GAAP provide sound and practical standards for large, publicly held organizations, but sometimes require time and expense that is not justifiable for the small firm, particularly if other statements are already available.

What kinds of alternative statements can a small business use? The key is that these statements must be

based on an other comprehensive basis of accounting (OCBOA). There are four bases that can be used. Using financial statements prepared under an OCBOA may be a beneficial alternative for the closely held, small business. These statements ought to include the information that members of the firm and its bankers and creditors need for decision making.

A sound OCBOA system should be readily convertible to a GAAP system in the future.

- **Income Tax Basis**

One of the most commonly used OCBOAs in Nebraska is the income tax basis. This method reduces the financial burden on the small firm because tax information must be prepared regardless of whether this method is employed. In many situations income tax basis statements may be sufficient for small businesses.

For example, if a firm has loans that are adequately collateralized by the assets of the business and the guarantees of its owners, a bank or other institution may be interested only in a general idea of business operations. Income tax basis financial statements may suffice in this situation.

Income tax basis financial statements should include all transactions used in determining taxable income. These financial statements also include items of income and expense that are not taxable or deductible under specific tax rules. Municipal bond interest is an example. When such items are present, net income will not equal taxable income, but readily can be reconciled to it.

- **Cash Basis**

Cash basis is another widely used method of the OCBOA group. Although theoretically all expenditures would be expensed when made in a pure cash basis, two modifications that are required for income tax purposes

ordinarily are made. The two modifications that are required by the Internal Revenue Service for tax are:

1. Expenditures for equipment and other assets must be capitalized and depreciated.
2. Except for farmers, inventories must be used in determining cost of goods sold.

A well-designed cash basis system ordinarily is easily expandable into a GAAP system. For many small businesses, all that is needed is to split the journals during the first month of the next year and make an adjusting entry based on these journals.

#### • Regulatory Basis

Some businesses must file reports with regulatory agencies. These reports provide data the agencies need, but may not include everything required by GAAP. The reports qualify as OCBOA. If accompanied by the report of an independent CPA, these statements should not be distributed beyond the firm and the regulatory agency.

#### • Other

The fourth OCBOA class is a wide conceptual category with a "definite set of criteria having substantial support that is applied to all material items in the financial statements." Statement on Auditing Standards 62 (SAS 62) provides one example of this category, the general price level basis of accounting.

Financial statements prepared using another country's required standards also could fit this category. For example, a small firm may do business in Canada and be required to prepare statements following Canada's accounting standards. These statements could be used by the firm here as an OCBOA.

Some feel that this category is overly broad, with only vaguely defined parameters. The accountant must determine for each individual case if the small business meets all conditions of the definition.

#### Conclusion

Small businesses may suffer from standards overload. Their needs and staff capabilities differ from those of

## The Audit Question

OCBOA statements can be prepared by the firm itself, or an independent CPA can be asked to help. Small businesses should be aware that CPAs can issue three kinds of reports:

- Compilation
- Review
- Audit.

The difference between the three involves the amount of verification, analysis, and assurance by the accountant.

Compilation involves no independent verification or analysis. A compilation often is done at the same time the tax return is prepared. Nebraska CPAs probably prepare more compilation reports than any other form of report.

A review includes analytical procedures, but little independent verification. It is often sufficient for many small business who need to provide statements to bankers and distant creditors.

An audit requires much more work by the CPA and can be expensive. There is no statutory audit requirement in the U.S. now, except for specific instances such as municipalities and certain regulated industries. In addition, large firms subject to Securities and Exchange Commission regulation are required by the SEC to have audits. Stock exchanges require the audit as a condition of listing.

For many small firms, a review or compilation—instead of a full audit—may provide the best level of service.

the large firm or corporation. The challenge is to find a workable accounting system that is acceptable and useful to financial statement preparers, users, and auditors. One of the OCBOA may be a viable alternative for the small business.

# Review & Outlook

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## The State of the Economy

President Bush delivered his State of the Union address in the midst of a series of reports on the overall weakness in the economy. Let us highlight some of those reports.

- Real Gross Domestic Product (GDP) for the fourth quarter of 1991 increased 0.3 percent. The only major sector to show significant strength was net exports. It is possible that further revisions of the fourth quarter estimates could show a decrease.
- U.S. car and truck sales dropped 11.5 percent from 1990 levels, the worst performance since 1983. January sales rose 3.5 percent from year-ago levels.
- The December/January unemployment rate was 7.1 percent, the highest since June 1986. Of 8.9 million unemployed, one-third have not been employed for over 15 weeks. California and New York claim the unemployed are undercounted by 1.0 million.
- Retail sales were down 0.4 percent in December from November. Sales increased only 0.7 percent in 1991, the smallest annual increase in 30 years.
- Industrial production dropped 0.2 percent in December, the third decrease in a row for this series.
- Consumer confidence, as measured by the Conference Board, stood at 50.4 in January, the lowest reading since May 1980.
- In one of the few positive reports, housing starts increased 2.6 percent in December to 1.1 million units. Even so, 1991 starts at 1.0 million were at the lowest level since 1945.

**Table I**  
Employment in Nebraska

	Revised November 1991	Preliminary December 1991	% Change vs. Year Ago
Place of Work			
Nonfarm	781,244	780,141	4.0
Manufacturing	104,075	103,932	2.8
Durables	50,367	50,342	1.8
Nondurables	53,708	53,590	3.8
Mining	1,824	1,698	6.7
Construction	33,232	32,096	17.1
TCU*	46,221	46,101	-0.4
Trade	196,582	197,133	2.6
Wholesale	51,431	51,529	0.9
Retail	145,151	145,604	3.2
FIRE**	50,160	50,316	3.2
Services	197,349	196,764	6.2
Government	151,801	152,101	3.2
Place of Residence			
Civilian Labor Force	841,203	840,985	0.1
Unemployment Rate	2.8	2.8	

\* Transportation, Communication, and Utilities

\*\* Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Despite all the bad news, the economy technically is not in a recession. Instead, we have had three quarters of positive GDP growth. Nevertheless, the economy is weak. Our huge budget deficits limit the federal government's ability to take large scale measures to cure the economy's current ills.

The President and the Congress currently are negotiating moves. We are on a knife's edge between an economy heading into another recession and one that will grow out of its current malaise. It is likely that government action will come too late to influence the direction of movement the economy will take.

### Let Alan Do It, Revisited

Let's clear the air. The Federal Reserve has made its play in trying to cure recession woes. As a result of Federal Reserve monetary policy, interest rates currently are extremely low. The federal funds rate now stands at 4.0 percent. While a steadily expanding money supply may be an appealing long-run policy, those who now

**Table II**  
City Business Indicators  
October 1991 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	1.2	0.8
Alliance	-2.2	12.3
Beatrice	0.6	1.8
Bellevue	5.0	23.8
Blair	5.0	8.6
Broken Bow	1.0	1.8
Chadron	-5.7	1.7
Columbus	1.6	36.3
Fairbury	4.1	52.4
Falls City	1.1	-11.9
Fremont	-0.9	11.1
Grand Island	2.3	-2.6
Hastings	0.8	-15.1
Holdrege	4.8	0.0
Kearney	2.2	18.5
Lexington	-1.7	-8.5
Lincoln	1.3	13.6
McCook	6.2	5.7
Nebraska City	0.3	8.6
Norfolk	-8.4	-5.0
North Platte	-0.8	5.0
Ogallala	-2.5	-9.3
Omaha	5.0	-2.6
Scottsbluff/Gering	3.1	-18.4
Seward	-0.2	-6.8
Sidney	3.1	-9.9
South Sioux City	2.7	20.2
York	-2.5	18.2

(1) As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

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

Sources: Nebraska Department of Labor and reports from private and public agencies

call upon the Fed to increase the money supply to fix the economy are making a fundamental error. Their error arises from confusing reported M2 data with actual money supply. M2 data result from both money supply and money demand. The Federal Reserve controls the money supply through the banking system. Money demand is the collection of demands by all the money users in our economy. The recession and the no go recovery collapsed money demand. It is the collapse of demand that keeps M2 from growing. The ability of the Fed to lower rates to their current level with virtually no increase in M2 displays just how weak monetary demand is. The Fed easily could lower rates further, but it is unlikely that such reductions would have any further stimulating affects.

#### Nebraska Outlook

The reports on Nebraska's economy continue to show our resistance to the nation's economy ills.

- Jobs expanded 4.0 percent in December versus a year ago.

- Nebraska's unemployment rate of 2.8 percent in December, the same rate it was in November.
- Net taxable retail sales expanded 5.2 percent in October, one of the few solid gains in 1991. On a year-to-date basis, net taxable retail sales increased 2.8 percent through October.
- Nebraska's nonfarm personal income increased 5.3 percent in 1991 third quarter versus year ago.

Bureau economists have analyzed proposals from the State of the Union speech. The stimulus proposals likely will have little impact on our state.

**Table III**  
Price Indices

	December 1991	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	137.9	3.1	4.2
Commodities	127.5	1.2	3.1
Services	148.8	4.6	5.1

**Table IV**  
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2)		October 1991 (000s)	Region Sales (2)	
	October 1991 (000s)	% Change vs. Year Ago		% Change vs. Year Ago	YTD % Change vs. Year Ago
<b>NEBRASKA</b>	952,090	6.9	1,071,564	5.2	2.8
1 Omaha	324,825	7.8	395,428	6.0	2.6
Bellevue	12,183	0.2	*	*	*
Blair	4,605	1.8	*	*	*
2 Lincoln	125,816	7.0	143,435	5.2	1.8
3 South Sioux City	5,962	-3.4	8,267	2.9	-5.3
4 Nebraska City	4,188	1.0	20,370	8.3	5.8
6 Fremont	18,377	9.5	32,510	5.4	3.6
West Point	3,556	17.1	*	*	*
7 Falls City	2,311	-3.9	9,695	0.8	2.9
8 Seward	4,621	5.8	15,391	3.7	-1.0
9 York	7,175	12.2	15,585	4.7	0.9
10 Columbus	18,427	22.4	30,285	7.8	1.9
11 Norfolk	20,401	4.4	35,193	1.5	0.3
Wayne	3,322	14.2	*	*	*
12 Grand Island	34,369	4.4	47,622	0.8	0.7
13 Hastings	16,036	1.8	25,403	3.6	1.6
14 Beatrice	8,093	3.4	18,429	4.8	-0.8
Fairbury	3,380	18.9	*	*	*
15 Kearney	21,186	9.0	29,202	6.1	4.2
16 Lexington	6,290	9.4	16,519	3.3	2.9
17 Holdrege	5,036	11.4	8,596	8.2	1.3
18 North Platte	6,717	5.8	21,146	3.4	5.0
19 Ogallala	5,519	-1.3	11,157	-1.9	-3.9
20 McCook	7,940	0.1	11,413	-0.4	0.2
21 Sidney	5,166	40.8	9,230	21.9	9.1
Kimball	1,645	8.0	*	*	*
22 Scottsbluff/Gering	20,152	14.6	27,920	12.4	5.6
23 Alliance	5,039	3.3	14,037	1.4	2.6
Chadron	2,893	8.6	*	*	*
24 O'Neill	3,893	-13.2	14,358	-3.4	-0.2
Valentine	2,888	5.2	*	*	*
25 Hartington	1,698	-2.5	8,806	-6.1	-0.9
26 Broken Bow	3,618	9.9	11,306	-1.7	-0.2

(1) See Figure II of previous *Business in Nebraska* issues for regional composition

(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales

\*Within an already designated region

Compiled from data provided by the Nebraska Department of Revenue

Available now from the UNL Bureau of Business Research

## The 1992 Annual Economic Outlook Report for Nebraska

This publication is a must-have for everyone interested in the Nebraska economy.

The 1992 Annual Economic Outlook Report provides the reader with an overview of recent demographic, business, and economic conditions for the State of Nebraska. The report's primary focus is economic activity within the state's various regions as reported by persons who live in the regions.

A limited number of copies were printed, so order now to receive your copy.

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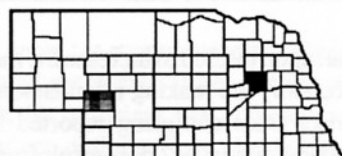
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## County of the Month Platte

Columbus—County Seat



Next County of Month

License plate prefix number: 10

Size of county: 687 square miles, ranks 41st in the state

Population: 29,820 in 1990, a change of +3.4 percent from 1980

Median age: 32.1 years in Platte County, 33.0 years in Nebraska in 1990

Per capita personal income: \$14,665 in 1989, ranks 51st in the state

Net taxable retail sales (\$000): \$237,442 in 1990, a change of +4.6 percent from 1989; \$202,080 during January-October 1991, a change of +3.5 percent from the same period one year ago

Number of business and service establishments: 829 in 1989; 55.6 percent had less than five employees

Unemployment rate: 2.1 percent in Platte County, 2.1 percent in Nebraska for 1990

Nonfarm employment (1990):

	State	Platte County
Wage and salary workers	731,108	14,642
	(percent of total)	
Manufacturing	13.5%	35.5%
Construction and Mining	3.8	4.4
TCU	6.3	3.5
Retail Trade	18.4	17.1
Wholesale Trade	7.2	4.4
FIRE	6.6	3.6
Services	24.4	13.7
Government	19.7	17.8
Total	100.0%	100.0%

### Agriculture:

Number of farms: 1,245 in 1987, 1,237 in 1982

Average farm size: 323 acres in 1987

Market value of farm products sold: \$130.5 million in 1987 (\$104,852 average per farm)

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue

Merlin W. Erickson

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