

MEASUREMENT OF INFLATION

It is hoped that this mini-lesson in the measurement of inflation meets the needs of some of our readers. The academic or business economist does not need it. From questions we have received, however, we think it may be useful. We plan to present similar articles in the future to help our readers understand the data used to describe our business and economic situations.

Sometime during the last week of November many of us heard or read that the Consumer Price Index (CPI) had climbed by 0.9 percent in October to a level 12.1 percent above that of a year ago. [Subsequent to the writing of this article, we have heard that the CPI advanced another 0.7 percent from October to November to a level of 154.3 or 12.1 percent above November of 1973.] References were made to the October CPI as standing at a level of 153.2. A few references might have been made to the "cost of living" index as indicating that \$153.20 was now required to purchase a market basket of goods and services that would have cost \$100.00 in 1967. Some might have added that the base year for the CPI was 1967, which means that for that year the index was 100.00.

Probably no one said or wrote that the index measures average changes in prices of retail goods and services usually bought by *urban wage earners and clerical workers only* and, therefore, does not measure price changes of goods and services purchased by many of us. Salaried persons and nonwage income recipients, such as professionals, self-employed, retired persons, and those living on farms, are not represented in the index.

Newspaper and TV reporters alike would not have had the time nor felt obliged to point out that the index is based upon

prices of about 400 goods and services which are selected to represent the movement of prices of all goods and services purchased by the wage-earner and clerical-worker group. Nor would it have been pointed out that these prices are weighted by factors that represent their relative importance in the total expenditures of this group of purchasers. Thus, for example, food items as a group get a weight of about 25 and transportation items as a group about 13. For statistical reasons these weights are held constant for several years—with only slight modifications they currently reflect spending patterns of a sample of wage earners in the early 1960s—and, therefore, may be less than truly representative of current spending patterns.

To say, as some do, that the CPI measures the "cost of living" is, therefore, erroneous. It measures *only* the cost of purchasing at retail a certain predetermined and fixed combination of goods and services. A "cost of living" index would measure current spending and would reflect changes in spending patterns which in turn depend upon incomes, attitudes toward spending and saving, family structure—as well as current costs (prices) of goods and services—and, most important, expectations with regard to all the preceding. To reiterate, the CPI measures what it would cost if one were to purchase a certain plane (Continued on page 2)

Table 1
SELECTED CONSUMER PRICE INDEXES

| Time Period | All Items | Food ¹ | Commodities | Services | Services less Rent | Rent | Fuel and Utilities |
|------------------------------------|-----------|-------------------|-------------|----------|--------------------|-------|--------------------|
| 1967 = 100.0 | | | | | | | |
| 1967 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1968 | 104.2 | 103.6 | 103.7 | 105.2 | 105.7 | 102.4 | 101.3 |
| 1969 | 109.8 | 108.9 | 108.4 | 112.5 | 113.8 | 105.7 | 103.6 |
| 1970 | 116.3 | 114.9 | 113.5 | 121.6 | 123.7 | 110.1 | 107.6 |
| 1971 | 121.3 | 118.4 | 117.4 | 128.4 | 130.8 | 115.2 | 115.0 |
| 1972 | 125.3 | 123.5 | 120.9 | 133.3 | 135.9 | 119.2 | 120.1 |
| 1973 | 133.1 | 141.4 | 129.9 | 139.1 | 141.8 | 124.2 | 126.9 |
| First 10 months² | | | | | | | |
| 1973 | 132.1 | 139.5 | 129.8 | 138.1 | 140.8 | 123.8 | 125.5 |
| 1974 | 146.5 | 160.3 | 144.3 | 150.5 | 154.3 | 129.6 | 148.6 |
| Percent Change | +10.9 | +14.9 | +11.2 | +9.0 | +9.6 | +4.7 | +18.4 |
| October | | | | | | | |
| 1973 | 136.6 | 148.4 | 133.8 | 142.2 | 145.2 | 125.9 | 128.6 |
| 1974 | 153.2 | 166.1 | 151.1 | 157.3 | 161.9 | 132.2 | 155.2 |
| Percent Change | +12.1 | +11.9 | +12.9 | +10.6 | +11.5 | +5.0 | +20.7 |

¹Includes food away from home. ²Average of monthly indexes.

Source: *Economic Indicators*, Council of Economic Advisors, November, 1974; and *News*, U.S. Department of Labor, various issues.

(Continued from page 1) of living and this plane is not necessarily the one actually being purchased.

Most newspaper readers and TV viewers do not know that the prices for these items are obtained in urban portions of 39 major metropolitan areas and 17 smaller cities, which were chosen to represent all urban places in the United States. Some of the prices are obtained every month; some, every three months. Also, short-term sale prices do not count. No prices are collected in Nebraska cities, so no particular index is available for Nebraska or any of its towns or cities. Thus, the best we can do is use the national index, since the indexes for, say, St. Louis or Kansas City are no more appropriate for Nebraska than the U.S. index.

There are several indexes available for measuring developments in different sectors of the economy. Many of these have the same base year, 1967. Also, the CPI has several component indexes, each of which represents a particular group of retail goods or services. This makes it easy to compare the percentage changes in price levels of retail product categories such as commodities and services, and, particularly, such subgroups as rents, fuel and utilities, and medical care services. A similar set of indexes is available for products sold at wholesale, such as farm products, processed foods, and crude materials which manufacturers and processors transform into intermediate or finished goods. This latter set of indexes is known as the Wholesale Price Index (WPI), and quite often receives as much attention as the CPI. Since in this article we are interested in costs of goods and services at retail, and how changes in these measure the purchasing power of our dollars, we will discuss only the CPI.

Some of the indexes dealing with consumer prices are presented in Table 1 (page 1). We will use these to discuss what has happened to consumer prices in general and compare the developments of some of the categories that make up the overall index.

One fact, probably known by all but worthy of repeating, is that *all prices do not change at the same rate* (or in the same direction sometimes). The CPI All Items Index, which is representative of all the products and services purchased by an "average" urban wage earner or clerical worker, rose to 153.2 in October, 1974. The index for Food stood at 166.1; Rent was at 132.2; and Fuel and Utilities was at 155.2. In percentage terms, for example, the October, 1974, CPI All Items Index had risen 53.2 percent since 1967, or to a level 153.2 percent of its 1967 level. From September to October the All Items Index rose 1.3 index points for a percentage increase of 0.9. The percentage change is calculated as 153.2 minus 151.9, divided by 151.9, multiplied by 100.

Thus in terms of all the retail goods and services it will buy, the September, 1974, dollar is worth only two-thirds [\$1.00 divided by 153.2, multiplied by 100] of the 1967 dollar, or 65 cents. On the other hand, the dollar spent on rent is worth three-fourths [\$1.00 divided by 132.2, multiplied by 100] of the 1967 dollar, or 76 cents. To say the dollar is not worth as much as it used to be is generally true, but its worth has declined more or less depending upon what it is being used to buy.

Why might it be that the dollar spent for rent is worth more than the dollar spent for, say, food? Or, to put it another way, why has the price of rental shelter not gone up as rapidly as the prices of other consumer goods and services in general? It is a fact that over the past seven years the prices paid for the services of plumbers, painters, electricians, carpenters, and others involved

in construction have risen more than 50 percent, as have the prices of many of the materials that they use in construction of rental properties. Why then the lag in rental prices? One factor is an excess of supply over demand, particularly in apartment rentals. Investors have simply overestimated the growth in demand for rentals. Also, newer properties have to compete with older ones, which were built before the higher costs of construction. Especially important is the cost of financing. Those units with fixed, relatively low, 5 to 8 percent interest rates on their mortgages compete with the later built, higher mortgage cost units to hold down rental prices. Also, the proprietor with the older mortgage is paying off a mortgage with depreciated 1967 dollars. The proprietor who has a twenty-year-old mortgage is retiring it today with dollars worth only half as much as the dollars he borrowed twenty years ago when the 1967-based CPI stood at 80.5. There is, therefore, less pressure to raise rents as a means of maintaining profits. Of course rising prices of "fuel and utilities" and taxes act as pressure to raise rentals, but the supply-demand and low-financing cost factors tend to mitigate the pressure on price. Comparison of the Rent Index with the Fuel and Utilities Index in Table 1 reveals that this has been the case.

Other indexes can be used to evaluate the value of the dollar used in purchasing commodities in general and services in general. The CPI Services-less-Rent Index, for example, shows a rise of 61.9 index points, or 61.9 percent, from 1967 to October, 1974, while the Commodities Index rose 51.1 index points, or 51.1 percent. This means that prices paid for household, transportation, medical care, and other services have risen faster *as a group* than prices on, say, nondurable commodities (such as food, apparel, gasoline and motor oil, and alcoholic beverages) and durable commodities (such as household appliances and new and used cars). Likewise a comparison can be made of the change from 1973 to 1974. Comparing the first ten-month period of 1974 with that of 1973, Services-less-Rent rose 13.5 index points, or 9.6 percent, while Commodities rose 14.5 index points, or 11.2 percent. Comparing October, 1974, with October, 1973, the percentage changes were 11.5 and 12.9 respectively. Three facts emerge from this comparison: (1) Commodities prices have risen less since 1967 than Services-less-Rent prices. (2) Commodities prices have risen faster since 1973 than Services-less-Rent prices. (3) Both Commodities and Services-less-Rent prices rose faster from October, 1973, to October, 1974, than from the first ten months of 1973 to the first ten months of 1974, thus prices of both groups were accelerating during late 1974.

Food prices are receiving much attention. Expenditures on food is one of the largest components of the urban wage-earner group's spending, and "groceries" are shopped for most often with price changes being readily apparent. Food prices are, therefore, of constant interest both to the income producer(s) of the family and to its income spender(s) who must allocate the income in some combination to the goods and services purchased and, if possible, to savings.

There may be some income available for discretionary uses after such basic purchases as food, housing, and transportation are made. For some there may be a surplus, and then comes the question as to what use to put such a surplus. Of course, inflationary, higher prices on items bought require greater portions of the income and, hence, leaves lesser amounts of surplus income. Inflation, with its accompanying decline in the value of the dollar,

also works to the disadvantage of savers. Only if the rate of return on income saved is greater than the rate of inflation does it make economic sense to save income. Consider the case of \$1,000 left with a savings and loan bank at, say, 6 percent in October, 1973, when the CPI stood at 136.6, and withdrawn plus accumulated interest in October, 1974, when the CPI stood at 153.2. The \$1,000 would have grown to \$1,060, which, if taken into the market place to buy those goods and services represented by the CPI, would fall short of the \$1,120 needed. With the CPI increasing 12 percent (153.2 minus 136.6, divided by 136.6, multiplied by 100), the rate of interest return falls short of the rate of the price level increase. No wonder savings and loan banks are finding it hard to get us to leave our surplus income with them to meet the mortgage-money needs of homebuilders and home buyers!

Continuing, pervasive inflation has been with us for many years. Only twice since 1947—in 1949 and 1955—has the CPI declined. Why then has it become such an issue in 1974? The answer is, in part, that the increases in prices in recent months have exceeded increases in income. Our concern reflects the extent to which our income's real purchasing power declines as a result of general price-level rises. Table 2 compares increases in the CPI with increases in Per Capita (per person) Disposable (after taxes) Income for the same periods. In 1973 the CPI was at a level 33.1 percent above its 1967 level. Per Capita Disposable Income had risen 56 percent (\$4,295 minus \$2,749, divided by \$2,749, multiplied by 100, equals 56) over the same period. Thus, although prices were rising steadily during the seven-year period, income—after taxes—was rising even faster. On the average, therefore, income receivers were enjoying a rise in income which more than offset the rise in the CPI. Economically speaking, the average person's position was improving.

average income after taxes, and those whose incomes rose only the average or less felt the pinch—especially at the grocery store and when paying utility bills. Table 1 shows the price indexes for food and fuel and utilities rising even faster than the overall price index. Also, there was a notable upturn in the price levels. From 1967 through 1973, the CPI rose at an annual rate of 5.5 percent. Over the first three quarters of 1974 the index rose 9.1 percent, or half again as much as the 6.2 percent rise of all of 1973 over 1972. Or, since the index rose nearly 6 percent for the first six months as compared to a 6.2 percent for all of 1973, the annual rate of price rise nearly doubled during the first six months of 1974. Moreover, the third-quarter rate of inflation was even higher than that of the two previous quarters. Income did some catching up in the third quarter, but not enough to overcome the impact of the developments of previous quarters.

Inflation probably does not worry us too much as long as the economy is healthy and growing, and our income is staying ahead of prices. It is when the rate of increase in prices jumps suddenly, or exceeds the rate of increase of our income, that we become vocal about inflation. Or, perhaps, when government policy makers start giving the "problem" of inflation priority over the "problem" of unemployment and we are among the unemployed!

EDWARD L. HAUSWALD*

*The author wishes to acknowledge a similar article by A. W. Carney, Associate Director of the Center for Business and Economic Research at the University of Alabama, from which many of the ideas found in this article originated.

OMAHA FOREIGN TRADE ZONE

It has been reported that "Omaha may have a foreign trade zone by next summer."¹ If an application now being considered by the U.S. Foreign Trade Zone Board is approved, such an operation may first exist in a warehouse in the Omaha dock area. Later the zone could become a part of the Riverfront Development Industrial Park.

A foreign trade zone allows storing, assembling, processing, or repackaging of goods imported from other countries, with payment of the import duty (which is set at the time of import) delayed until the goods leave the zone for markets in the United States. Since the zone is not subject to quota limitations, importers may use it to take advantage of seasonal prices or of favorable quantity-buying practices. Storing excess goods in the zone until it becomes appropriate to move them into the domestic markets permits hedging against inflation.

Zone rules also permit manufacturers to combine domestic parts or components with foreign parts or components as though the operations were outside the United States—as long as the full output is shipped to foreign markets. This privilege would permit a Nebraska manufacturer to take advantage of foreign-source price advantages and, with custom costs also eliminated on domestic components involved, gain an advantage on competitors in overseas markets.

There are currently only about 200 worldwide trade zones, of which 15 have been approved in the United States. Should Omaha gain such a zone, Nebraska would become one of 11 states having a foreign trade zone.

¹*Nebraska Now*, Nebraska Department of Economic Development, October, 1974.

Table 2
Consumer Prices and Disposable Income Per Person

| Time Period | CPI - All Items | | Disposable Income | |
|-------------|--------------------|---------------------|----------------------------|---------------------|
| | Index 1967 = 100.0 | Percent of Increase | Per Person Current Dollars | Percent of Increase |
| 1967 | 100.0 | --- | \$2,749 | --- |
| 1968 | 104.2 | 4.2 | 2,945 | 7.1 |
| 1969 | 109.8 | 5.4 | 3,130 | 6.3 |
| 1970 | 116.3 | 5.9 | 3,376 | 7.9 |
| 1971 | 121.3 | 4.3 | 3,605 | 6.8 |
| 1972 | 125.3 | 3.3 | 3,843 | 6.6 |
| 1973 | 133.1 | 6.2 | 4,295 | 11.8 |
| Quarterly | | | | |
| 1973 - I | 128.7 | --- | 4,143 | --- |
| - II | 131.5 | 2.2 | 4,244 | 2.4 |
| - III | 134.4 | 2.2 | 4,339 | 2.2 |
| - IV | 137.6 | 2.4 | 4,452 | 2.6 |
| 1974 - I | 141.4 | 2.8 | 4,497 | 1.0 |
| - II | 145.6 | 3.0 | 4,565 | 1.5 |
| - III | 150.1 | 3.1 | 4,681 | 2.5 |

Source: *Economic Indicators*, Council of Economic Advisors, November, 1974.

Now what about 1974? During 1973 the quarterly percentage increases in Per Capita Disposable Income either equalled or exceeded those of the CPI. There was still reason for concern on the part of those whose incomes were either not rising or rising at a lower rate than prices, but such was not the general case. In 1974, however, the quarterly percentage increases of the CPI outran those of the PCDI by wide margins, 2.8 to 1.0, 3.0 to 1.5, and 3.1 to 2.5. Suddenly, therefore, prices were rising faster than

Review and Outlook

We resume the presentation of all the usual figures this month. The latest data available are for September. October and especially November figures, when available, will be particularly interesting for those watching the development of the recession. Already in September, however, signs were beginning to appear of a coming slump in business. The general economic indicators in Tables 1 and 2 were still running higher than last year, except for the physical volume of business in the United States. They were not, however, as much higher compared to a year ago as they were for August. For Nebraska manufacturing continued to be a bright spot. The state does not seem to have a preponderance of those industries most affected by the current downturn.

The dollar volume of agricultural production, especially in Nebraska, was considerably lower than in September, 1973, although the physical volume was up. This was because agricultural prices (Table 5) have dropped from last year, more in Nebraska than in the nation as a whole.

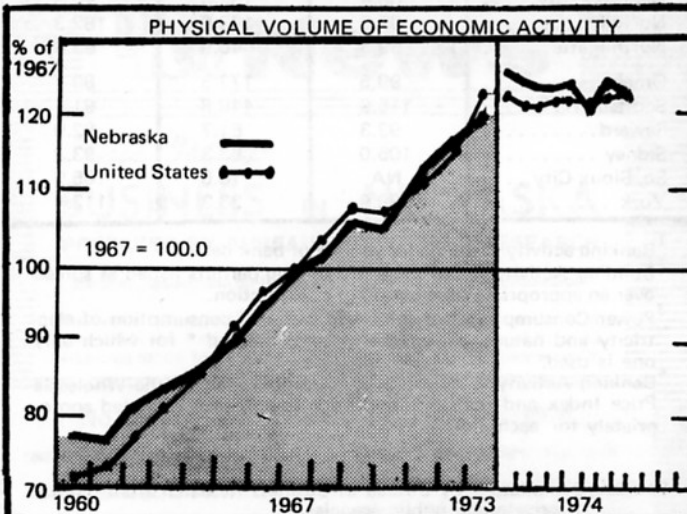
One weak spot appears in the production data. This was in distribution, and was even more evident in the state than in the nation. Part, at least, of the explanation appears in Table 3. Retail sales, deflated for price changes, were down almost 5 percent—slightly more in the city figures, which do not include motor vehicle sales, than in the area figures, which do include them. In data which are not price adjusted, motor vehicle sales in September were 12.7 percent above a year ago, (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 | | | | |
| September, 1974 | Current Month as Percent of Same Month Previous Year | | 1974 Year to Date as Percent of 1973 Year to Date | |
| | Nebraska | U.S. | Nebraska | U.S. |
| Indicator | | | | |
| Dollar Volume | 108.4 | 112.1 | 111.9 | 111.0 |
| Agricultural | 92.1 | 98.9 | 109.0 | 106.5 |
| Nonagricultural | 112.2 | 112.6 | 112.5 | 111.2 |
| Construction | 99.5 | 97.2 | 95.1 | 99.7 |
| Manufacturing | 131.5 | 123.3 | 125.6 | 119.5 |
| Distributive | 108.2 | 109.7 | 111.5 | 108.7 |
| Government | 109.0 | 107.9 | 107.4 | 108.5 |
| Physical Volume | 100.8 | 99.1 | 102.4 | 99.3 |
| Agricultural | 111.9 | 106.4 | 109.4 | 97.2 |
| Nonagricultural | 99.1 | 98.9 | 101.2 | 99.3 |
| Construction | 87.2 | 85.1 | 84.5 | 88.6 |
| Manufacturing | 107.6 | 100.6 | 106.4 | 101.3 |
| Distributive | 96.5 | 97.9 | 100.7 | 98.2 |
| Government | 104.1 | 104.0 | 102.9 | 103.6 |

| 2. CHANGE FROM 1967 | | |
|---------------------|-------------------------|-------|
| Indicator | Percent of 1967 Average | |
| | Nebraska | U.S. |
| Dollar Volume | 193.7 | 189.7 |
| Agricultural | 186.5 | 202.7 |
| Nonagricultural | 195.1 | 189.2 |
| Construction | 211.6 | 169.9 |
| Manufacturing | 220.7 | 193.6 |
| Distributive | 185.0 | 187.9 |
| Government | 196.6 | 189.9 |
| Physical Volume | 121.4 | 121.4 |
| Agricultural | 109.1 | 113.4 |
| Nonagricultural | 123.9 | 121.7 |
| Construction | 118.9 | 95.5 |
| Manufacturing | 131.7 | 119.2 |
| Distributive | 121.8 | 123.7 |
| Government | 123.5 | 127.8 |

| 3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes) | | | |
|---|---------------------------------------|---------------------------------------|---|
| Region Number ¹ and City | City Sales ² | Sales in Region ² | |
| | Sept., 1974 as percent of Sept., 1973 | Sept., 1974 as percent of Sept., 1973 | Year to Date '74 as percent of Year to Date '73 |
| <i>The State</i> | 95.4 | 95.9 | 101.5 |
| 1 Omaha | 89.6 | 91.4 | 97.6 |
| Bellevue | 102.7 | | |
| 2 Lincoln | 94.1 | 94.9 | 101.6 |
| 3 So. Sioux City | 100.6 | 101.1 | 99.9 |
| 4 Nebraska City | 89.4 | 88.6 | 99.4 |
| 5 Fremont | 92.3 | 92.8 | 100.6 |
| Blair | 95.0 | | |
| 6 West Point | 71.5 | 81.6 | 96.4 |
| 7 Falls City | 71.7 | 84.0 | 95.9 |
| 8 Seward | 78.6 | 87.7 | 101.6 |
| 9 York | 92.4 | 103.4 | 107.8 |
| 10 Columbus | 99.0 | 92.4 | 100.7 |
| 11 Norfolk | NA | NA | NA |
| 12 Grand Island | 97.7 | 99.3 | 105.7 |
| 13 Hastings | 100.6 | 103.4 | 106.5 |
| 14 Beatrice | 93.9 | 89.3 | 101.8 |
| Fairbury | 87.9 | | |
| 15 Kearney | 101.2 | 100.1 | 105.1 |
| 16 Lexington | 102.7 | 113.3 | 107.2 |
| 17 Holdrege | 119.7 | 108.2 | 106.4 |
| 18 North Platte | 90.9 | 91.3 | 97.9 |
| 19 Ogallala | 107.6 | 108.8 | 115.9 |
| 20 McCook | 95.5 | 98.6 | 109.7 |
| 21 Sidney | 105.1 | 104.2 | 110.1 |
| Kimball | 108.9 | | |
| 22 Scottsbluff | 102.6 | 102.7 | 106.0 |
| 23 Alliance | 108.2 | 101.7 | 104.6 |
| Chadron | 99.4 | | |
| 24 O'Neill | 88.3 | 98.7 | 103.7 |
| 25 Hartington | 90.7 | 92.1 | 97.9 |
| 26 Broken Bow | 89.3 | 93.6 | 100.1 |

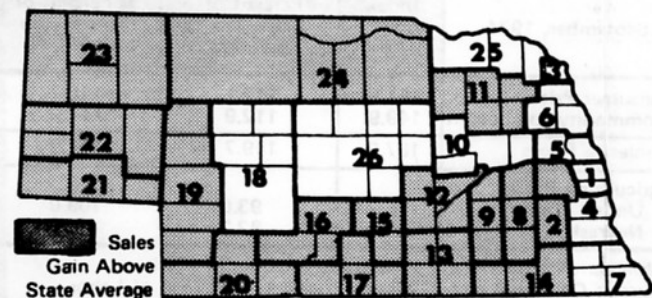


¹ See region map below.

² 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 the Nebraska Department of Revenue.

1974 YEAR TO DATE AS PERCENT OF 1973 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



(Continued from page 4) and for the year to date, 7 percent above. Since we do not have an index for this commodity we do not know whether this is more or less than the price rise for motor vehicles, but it does not indicate any real slump in motor vehicles sales here as late as September.

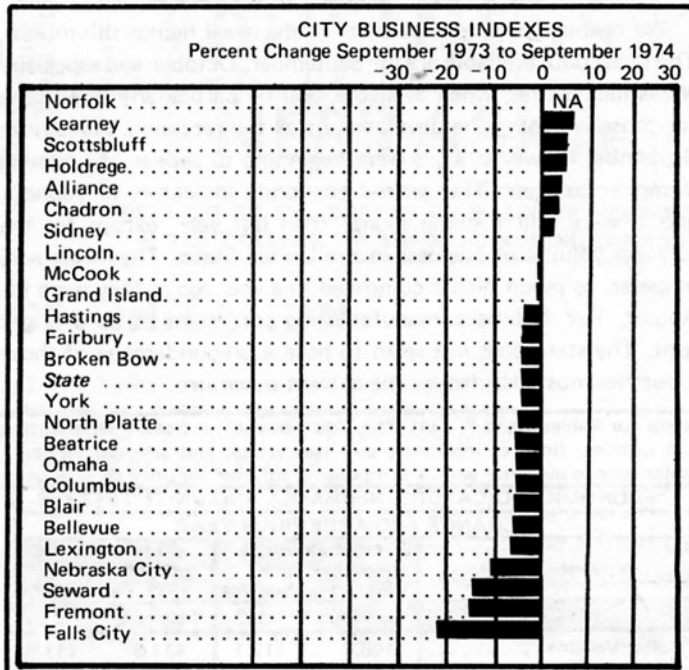
The drop in all retail sales *in price adjusted figures* was especially serious in the areas and cities along the northern and eastern borders of the state, such as the cities of Hartington, O'Neill, Blair, Omaha, Nebraska City, and Falls City. South Sioux City and Bellevue registered slight gains. Other cities, especially those along Interstate 80, had declines in real volumes of retail sales from last year, including Lincoln, Seward, York, Grand Island, and North Platte. Other cities south of the Interstate, such as Beatrice, Fairbury, and McCook, also declined, as did Broken Bow to the north. On the other hand, Norfolk¹ is still prospering, as well as cities along the western part of the Interstate: Ogallala, Sidney, and Kimball. The Lexington area did better than the city itself, which could mean that the cities of Cozad and Gothenburg did well.

In Table 4 we show city data other than retail sales, the latter being relegated to Table 3. Banking activity is down in the state from 1973, on a price adjusted basis. This has been true in the state ever since June. Bellevue, Columbus, Fremont, Lexington, Seward, and York show declines from last year of more than 5 percent. On the other hand, Chadron, Kearney, and Scottsbluff show an increase of more than 10 percent. Norfolk, despite large increases in all the other indicators, shows a decline of 3 percent in banking activity.

Strangely enough, building activity appears to be holding up, especially in Blair, Alliance, Falls City, Holdrege, Norfolk, and Scottsbluff. Power consumption is down almost 8 percent from last year. The declines in some cities are quite remarkable. Beatrice, Blair, Bellevue, Columbus, Falls City, Fremont, Hastings, Omaha, and Seward all dropped more than 10 percent.

The chart above Table 4 is again based upon three series, after a period when we were compelled to use banking activity alone. The series are banking activity (weight .4), power consumption (weight .2), and retail sales (weight .4). Norfolk still moves along at the top of the list; however, only seven cities are better off (on this combined index) than they were a year ago. The cities of Beatrice, North Platte, and Seward are below a year ago on all the business indicators shown, including building activity. E. Z. P.

¹Retail Sales figures for Norfolk, although indicating growth, are not sufficiently exact to warrant publication of an index number in Table 3.



Source: Table 4 below.

4. SEPTEMBER CITY BUSINESS INDICATORS

| The State and Its Trading Centers | Percent of Same Month a Year Ago | | |
|-----------------------------------|---|--------------------------------|--------------------------------|
| | Banking ¹ (Adjusted for Price Change) | Building Activity ² | Power Consumption ³ |
| The State | 97.7 | 126.9 | 92.2 |
| Alliance | 98.6 | 366.1 | 106.7 |
| Beatrice | 97.4 | 93.0 | 84.8 |
| Bellevue | 90.8 | 80.7 | 76.9* |
| Blair | 95.6 | 343.0 | 84.0 |
| Broken Bow | 100.3 | 12.7 | 100.2 |
| Chadron | 113.4 | 96.8 | 92.8 |
| Columbus | 92.2 | 156.6 | 83.9 |
| Fairbury | 101.5 | 223.5 | 101.1* |
| Falls City | 79.7 | 210.5 | 89.8 |
| Fremont | 89.5 | 121.4 | 58.2* |
| Grand Island | 97.5 | 170.5 | 105.0 |
| Hastings | 95.4 | 128.4 | 89.7 |
| Holdrege | 96.4 | 250.5 | 92.9 |
| Kearney | 113.3 | 78.6 | 104.1 |
| Lexington | 79.3 | 114.7 | 94.7 |
| Lincoln | 106.0 | 155.9 | 96.8 |
| McCook | 103.8 | 119.5 | 97.6 |
| Nebraska City | 88.4 | 132.8 | 90.3 |
| Norfolk | 97.0 | 193.0 | 162.3 |
| North Platte | 99.5 | 40.9 | 93.6 |
| Omaha | 99.5 | 177.5 | 89.1 |
| Scottsbluff | 115.9 | 440.8 | 91.7 |
| Seward | 93.3 | 61.7 | 82.9 |
| Sidney | 105.0 | 63.3 | 93.3 |
| So. Sioux City | NA | 16.0 | 105.9 |
| York | 89.9 | 33.3 | 112.4 |

¹Banking activity is the dollar volume of bank debits.
²Building Activity is the value of building permits issued as spread over an appropriate time period of construction.
³Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
⁴Banking 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.

| September, 1974 | Index (1967 = 100) | Percent of Same Month Last Year | Year to Date as Percent of Same Period Last Year* |
|-------------------------------|--------------------|---------------------------------|---|
| Consumer Prices | 151.9 | 112.1 | 110.7 |
| Commodity component | 149.9 | 112.9 | 111.9 |
| Wholesale Prices | 167.2 | 119.7 | 117.9 |
| Agricultural Prices | | | |
| United States | 178.7 | 93.0 | 109.0 |
| Nebraska | 171.0 | 82.3 | 98.1 |

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

THE UNEMPLOYMENT SITUATION

On the national scene the unemployment rate increased during the summer, followed by a sharp rise in September to 5.8 percent of the civilian labor force. Latest reports now place the rate at 6.5 percent. Although this important measure is now clearly on the uptrend, there was a period of stability earlier in the year that was surprisingly at variance with the weakening of the economy. The stability period seems to have ended, however, and the rise in the unemployment rate is now believed by most business economists as likely to continue into 1975.

Although the number of jobs is still increasing, the upward movement is too slow to absorb the usual increase in the number of persons seeking jobs. The growth of the labor force—persons with jobs plus those actively seeking work—has been more rapid than the growth of employment. In recent months job layoffs have also been contributing significantly to the rise in unemployment. The growth in the labor force may even decline in coming months, but it is likely to stay ahead of the increase in employment, thus boosting unemployment.

For the third quarter as a whole the unemployment rate averaged 5.5 percent. The recent low was 4.7 percent in the second half of 1973. Then, because of the basic economic slowdown and also because of the oil boycott, employment growth slowed and the unemployment rate jumped rather sharply—to above 5 percent—early this year. Surprisingly, the unemployment rate then stabilized for some months, largely because growth in the labor force came to a virtual halt. For a combination of reasons, fewer persons than usual entered the labor force. Younger persons and females are more susceptible to business conditions and more likely to stay out of the labor force when jobs are becoming more difficult to find. This has been the case especially during the current recessionary situation. If the labor force had been increasing at anything like a normal pace, unemployment would have mounted even faster.

On the Nebraska scene unemployment in the state in September was reported at 24,800, down from the 27,400 in August, and up from the 20,200 in September, 1973. The ratio of unemployed to the labor force decreased from 3.8 percent in August to 3.5 percent in September, compared with 2.9 percent for September, 1973. The September year-to-year increase in unemployment in Nebraska was due, for the most part, to a rise in the number of

workers who lost jobs, rather than an increase in new workers and re-entrants into the labor market.

It was reported that unemployment was expected to hold at about the same level in October as in September, which is a normal situation. Later reports put the October rate at 3.2 percent and the November rate at 4.1 percent. Although November unemployment was expected to rise some as a result of weather conditions, the extent of the rise now reflects also the recessionary conditions of the economy.

It appears that levels of employment in nonagricultural industries would have held steady if only seasonal factors had been involved. Usually changes occur in trade, with the addition of temporary workers for the holiday season and the layoff in construction as contracts are completed or work is reduced because of inclement weather. The employment declines that occur seasonally in manufacturing, services, mining and transportation, communication, and utilities will now be accompanied by the cyclical declines now occurring in various sectors of the state's economy. Whether these declines will be to the same degree as those occurring on the national scene is yet to be determined.

E. L. H.

NEW PUBLICATION

A new publication in the Economic and Business Report series entitled *Impact Analysis of Irrigated Agriculture on Nebraska's Economy, 1967-1970* has been published by the Bureau. The bulletin describes the detailed analysis used in estimating various types of economic impacts of irrigated agriculture on the state's economy. Much of this analysis is based on input-output models of the Nebraska economy constructed for the years 1967 and 1970. Authors of the bulletin are Dr. F. Charles Lamphear and Dr. Theodore W. Roesler, Professors in the Department of Economics of the University of Nebraska-Lincoln.

An article based on the new bulletin will appear in a future issue of *Business in Nebraska*. Copies of the bulletin are available at \$3.00 per copy from the Bureau of Business Research, 200 CBA Building, University of Nebraska-Lincoln, Lincoln, Nebraska 68508.

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The University of Nebraska - Lincoln

209 Nebraska Hall
901 North 17th St.
Lincoln, NE 68508

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