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ECONOMIC FORECAST FOR 1980

SUMMARY

National Economy

In 1980:

- Gross National Product will show no increase in real terms.
- Inflation, as measured by the CPI, will average 10 percent.
- Unemployment will average 7.5 percent.
- Prime interest rate will decline to 11 to 12 percent.

Nebraska Economy

In 1980:

- Gross State Product will increase 1.0 percent in real terms.
- Unemployment will average 4.0 percent.
- Personal income will rise 8 to 10 percent in current dollars, 0 to 2 percent in real terms.

The new year has begun in an economic climate marked by the uncertainty that is the economic forecaster's constant companion. A looming recession is foremost in the minds of the public when the legacy of 1979 is discussed. Are we in a recession or not and, if so, who decides and when did it start? Given whatever shortcomings that it may have, the technique of answering these questions is based, at the national level, upon the movement of real Gross National Product (GNP). Two or more successive quarterly declines in real GNP establishes a recessionary period. Through the third quarter, this definition has not yet been satisfied in 1979. Though there was a decline in the second quarter, real GNP in the third quarter showed positive growth. A question then arises as to how we should characterize the situation if real GNP in the fourth quarter declines. Such a development would mean that real GNP had declined in two of the last three quarters but the declines would not be contiguous. Strict application of the above definition would say that a recession had not arrived.

THE NATIONAL ECONOMY

The above confusion on the economy's direction will be swept away if the current consensus opinion of economic forecasters becomes a reality. Most observers, including this writer, predict that the economy will experience declines in real GNP during at least the first two quarters of 1980. Some forecasters extend the recession's duration to include the third quarter of 1980 as well. In any event, real GNP over the entire year will show no growth. Very few expect that the recession will become as drawn out as the 1974 recession, which lasted five quarters in total.

Recent developments in the economy are signaling that the awaited national recession is at hand. First, the Federal Reserve Board undertook a major policy shift in early October 1979. Attention was turned away from specific interest rates as a target of policy and toward growth rates of principal monetary aggregates. The adjustment reaction by the economy took the form of interest rates being pushed to new highs. These high rates will ultimately reduce credit demands and slow the economy. In fact, this desired result is already occurring, as evidenced by recent drops in selected interest rates. Second, real disposable personal income has not grown appreciably since the fourth quarter of 1978. High levels of consumer spending were a major factor in keeping the economy out of a recession through the third quarter of 1979. There does appear to be some evidence that these expenditures are slowing down in real terms. Third, inventories of goods are apparently growing. Production will fall off when firms attempt to work these inventories off.

Other specifics of the anticipated recession include increases in the unemployment rate, with the rate averaging 7.5 percent over 1980. There will be some downward pressure on prices, but double-digit inflation will still plague the economy. Inflation, as measured by changes in the Consumer Price Index, should average about 10 percent and this assumes no radical change in the current price policies of the OPEC oil cartel. The recession should cut energy demands somewhat, but OPEC actions similar to those in 1979 would put more upward pressure on prices. Even though the predicted 10 percent rate sounds high, the 1979 rate will be from 12 to 13 percent

(Continued on page 2)

(Continued from page 1) when the final figures are in.

Interest rates have been a popular topic in recent discussions, and we should see rates declining during 1980. By year's end, the prime rate should be in the 11 to 12 percent range as credit demands soften in light of the economic slowdown. The prime rate and rates on short-term corporate obligations will seldom fall below the public's perceived inflation rate. Housing starts are directly affected by credit conditions, and it came as no surprise when they fell off sharply in the latter half of 1979. Starts will be at depressed levels through at least the first two quarters of 1980, but may possibly show some improvement toward the end of the year once interest rates on mortgage funds decline to acceptable levels.

THE NEBRASKA ECONOMY

Before automatically predicting that Nebraska will have a 1980 recession because the national economy appears headed in that direction, it would be wise to examine the historical evidence of the 1970s. Table 1 contains the growth rates, by quarter, of the broadest measures of economic activity at the national and state level, real GNP and its Nebraska analog, real Gross State Product (GSP). Following the definition of a recession used for the national economy, we will define a state recession as two or more successive quarters in which real GSP declines. Examination of Table 1 clearly shows that movements in the Nebraska economy have been more erratic during the 1970s than those of the U.S. economy. In particular, the agricultural sector of Nebraska is subject to wide swings in output on a quarterly basis, even after applying seasonal adjustment procedures. Recession periods are indicated by "R" in the table, and we see that while the U.S. economy has suffered only one recession, 1974:1-1975:1, Nebraska has had three recessions, 1970:2-1970:4, 1974:1-1974:2, and 1976:2-1976:3. Thus, the only correspondence between U.S. and Nebraska recessions occurred in 1974, when the U.S. recession was unusually severe. Even in that episode, Nebraska's behavior was distinct in that the state recession lasted only two

quarters (the minimum required by our definition), while the U.S. recession extended over five quarters, 1974:1-1975:1. For the entire five-quarter period, the overall percentage decline in the U.S. economy was 5.7 percent, compared to 2.1 percent for the Nebraska economy. Thus, when using the five-quarter span as the frame of reference, Nebraska's economy in the 1974 U.S. recession experienced a smaller decline than the national economy. Nebraska industries which were particularly hard hit in that period included durable and nondurable manufacturing, agriculture, and, to a smaller degree, construction.

It is not certain that broad generalizations concerning the relationship between the U.S. and Nebraska economies can be made on the basis of the data in Table 1. "Rules of thumb" are seldom infallible in economics. (For instance, economists used to think that an inverse relationship between inflation and unemployment was inviolate.) It does not appear that swings in Nebraska's economy are exclusively due to swings in the U.S. economy. Furthermore, a definite lead-lag relationship has not been established and possibly may not exist. Finally, can the common experience of just one recession during the 1970s support a general rule that Nebraska will have a recession when the United States does? Rules are not typically formulated on the basis of one observation. This does not imply that historical patterns are to be ignored, however.

Table 2 contains the economic forecasts for Nebraska in 1980. For each item, the growth rate is calculated between the fourth quarters of 1979 and 1980. According to the forecast of real Gross State Product for 1980, Nebraska's economy will fare a little better than the U.S. economy, showing real growth of 1.0 percent over the year as compared to the no-growth situation for the nation. There will essentially be no real growth from 1979:4 to 1980:1 and a decline from 1980:1 to 1980:2, all figures being seasonally adjusted. This decline should be slight and, although the technical definition of a recession is not satisfied, could be characterized as a "mild" recession. The last two quarters of 1980

Table 1
ANNUALIZED PERCENTAGE RATES OF GROWTH BY QUARTER:
REAL U.S. GROSS NATIONAL PRODUCT AND NEBRASKA GROSS STATE PRODUCT

Quarter	U.S. GNP	Nebr. GSP	Quarter	U.S. GNP	Nebr. GSP	Quarter	U.S. GNP	Nebr. GSP
1970:2	0.2%	-6.2% ^R	1973:2	0.4%	1.2%	1976:2	2.5%	-8.6% ^R
1970:3	2.9	-2.8 ^R	1973:3	1.7	3.3	1976:3	3.1	-5.0 ^R
1970:4	-0.4	-3.3 ^R	1973:4	2.0	5.5	1976:4	3.4	0.3
1971:1	8.9	15.9	1974:1	-4.0 ^R	-7.2 ^R	1977:1	8.6	16.7
1971:2	2.9	1.0	1974:2	-1.9 ^R	-11.3 ^R	1977:2	4.7	11.9
1971:3	2.8	-0.4	1974:3	-2.5 ^R	2.8	1977:3	7.1	3.9
1971:4	3.4	5.9	1974:4	-4.7 ^R	4.1	1977:4	2.2	26.9
1972:1	7.4	10.7	1975:1	-9.4 ^R	3.3	1978:1	1.9	-24.1
1972:2	7.6	4.7	1975:2	6.2	15.9	1978:2	8.0	23.5
1972:3	5.2	-3.7	1975:3	10.1	17.5	1978:3	3.5	-23.8
1972:4	8.2	4.0	1975:4	2.6	-5.0	1978:4	5.5	33.3
1973:1	9.2	3.3	1976:1	10.3	24.8	1979:1	1.1	-4.3

R denotes recession period.

will show renewed real growth but of small magnitude, bringing the yearly growth rate to 1.0 percent.

This pattern of movement in total GSP will not apply uniformly to all Nebraska industries. (Please note that all Nebraska sectors are not separately listed in Table 2.) Durables and nondurables manufacturing will show a decrease in the real value of their outputs over 1980, with the major declines coming in the first three quarters. The construction sector will also experience a decrease in real activity. Working to offset these declines is the projected positive growth in several other sectors. The services and trade sectors will show real growth rates above the state average, although the rates cannot be characterized as spectacular. Activity in the finance, insurance, and real estate sector will show a healthy gain when compared to the state average. Declining interest rates

during 1980 may support a revival of the real estate portion of that sector.

Given the sluggish performance of the state economy in the first two quarters of 1980, the unemployment rate is expected to increase to 4 percent and 4.2 percent in those respective periods. These rates are definitely higher than those posted in 1979, but do not even come close to the projected 7 to 7.5 percent national rate. As was the case with the distribution of real output among Nebraska sectors, some sectors will experience losses in employment during 1980 while others will post gains. Durables manufacturing is expected to be hardest hit, as the number of employed drops by 5 to 6 percent. Construction employment will also fall off compared to 1979 as real activity in that sector declines. On the other hand, (Continued on page 6)

Table 2
NEBRASKA ECONOMIC FORECASTS
QUARTERLY, 1979:4 - 1980:4

	<u>1979:4</u>	<u>1980:1</u>	<u>1980:2</u>	<u>1980:3</u>	<u>1980:4</u>	<u>Growth Rate (percent)</u>
Real Gross State Product - Total (millions of 1972 dollars, SAAR ¹)	10,548.6	10,564.6	10,545.2	10,600.4	10,651.7	1.0
Real GSP - Durables Manufacturing (millions of 1972 dollars, SAAR)	670.2	654.8	645.7	643.8	647.1	-3.4
Real GSP - Nondurables Manufacturing (millions of 1972 dollars, SAAR)	812.1	807.5	802.5	798.9	797.8	-1.8
Real GSP - Construction (millions of 1972 dollars, SAAR)	437.4	427.2	422.6	423.0	426.3	-2.5
Real GSP - Finance, Insurance, Real Estate (millions of 1972 dollars, SAAR)	1,806.8	1,822.5	1,847.6	1,890.0	1,917.5	6.1
Real GSP - Services (millions of 1972 dollars, SAAR)	1,025.8	1,033.6	1,040.3	1,046.7	1,052.5	2.6
Real GSP - Trade (millions of 1972 dollars, SAAR)	1,798.2	1,806.8	1,813.7	1,820.0	1,825.4	1.5
Unemployment Rate, NSA ²	3.1	4.0	4.2	3.6	3.4	---
Employment - Durables Manufacturing (thousands, NSA)	49.7	48.3	47.5	46.3	46.9	-5.6
Employment - Nondurables Manufacturing (thousands, NSA)	45.8	45.1	45.0	45.5	46.1	.7
Employment - Construction (thousands, NSA)	30.3	24.5	30.2	32.0	29.2	-3.6
Employment - Finance, Insurance, Real Estate (thousands, NSA)	41.2	41.6	42.5	43.2	43.3	5.1
Employment - Services (thousands, NSA)	112.3	111.7	115.4	115.8	115.9	3.2
Employment - Trade (thousands, NSA)	161.2	158.2	161.9	163.0	164.3	1.9
Nebraska Personal Income (billions, SAAR)	13.712	13.938	14.132	14.412	14.891	8.6
Net Taxable Retail Sales (millions, NSA)	2,290.4	2,161.6	2,371.8	2,409.1	2,473.9	8.0
Total Housing Starts - Permit and Non-permit Issuing Areas, SAAR	1,249.3	972.7	1,159.7	2,246.1	1,754.2	40.0

¹ SAAR - Seasonally adjusted at annual rates.

² NSA - Not seasonally adjusted.

Review and Outlook

Nebraska's overall economic situation was characterized by mixed developments in September. On the one hand, the state's index of real output increased 2.0 percent from its August level and was 1.7 percent above its value of last year. (This compares favorably to the index for the nation, as output was unchanged relative to August and 1.1 percent higher than September 1978.) On the other hand, declines in several of the major Nebraska indicators may attest to an underlying weakness in the economy.

The August-to-September increase in state economic activity was concentrated in the agricultural sector, where activity rose 16.8 percent. In contrast, nonagricultural output fell 0.2 percent, with only one of the four nonagricultural sectors registering an

increase. The month-to-month percentage changes for the non-agricultural sectors were: government, +2.9 percent; manufacturing, -0.4 percent; construction, -0.6 percent; and distributive, -0.7 percent.

The September drop in the nonagricultural index was a continuation of a downward movement that was begun in June. Since then, the index has fallen four consecutive months and is more than 3 percent below its peak of May 1979. All sectors have exhibited some weakness over this period, but activity in the distributive and construction sectors has consistently declined with their indexes reaching yearly lows in September. If a recession materializes during the next few months, it is likely that the nonagricultural sectors

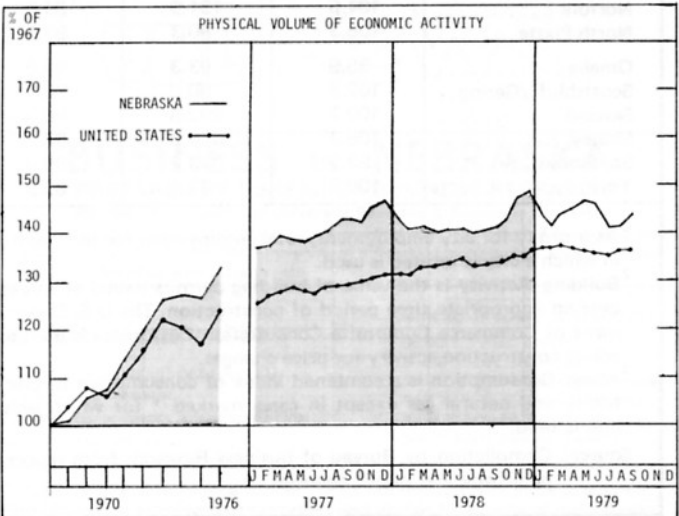
(Continued on page 5)

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.

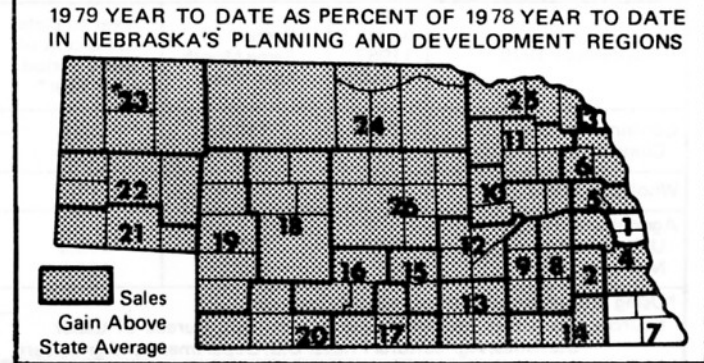
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
September 1979	Current Month as Percent of Same Month Previous Year		1979 Year to Date as Percent of 1978 Year to Date	
	Nebraska	U.S.	Nebraska	U.S.
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	114.4	112.9	114.5	113.3
Agricultural	146.2	109.1	130.1	123.7
Nonagricultural	110.0	113.0	112.3	113.0
Construction	94.3	109.5	100.1	112.3
Manufacturing	116.7	117.2	117.9	117.6
Distributive	109.0	112.5	112.3	112.0
Government	110.5	107.1	108.5	107.4
Physical Volume	101.7	101.1	102.0	102.3
Agricultural	124.9	98.2	105.8	105.7
Nonagricultural	98.6	101.2	101.4	102.2
Construction	83.6	97.1	88.0	98.7
Manufacturing	103.3	103.4	106.0	105.7
Distributive	97.2	100.3	101.4	101.1
Government	103.2	101.2	99.5	100.7

2. CHANGE FROM 1967		
Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	331.6	307.3
Agricultural	351.2	273.4
Nonagricultural	328.2	308.5
Construction	314.5	293.9
Manufacturing	382.1	303.4
Distributive	318.1	319.1
Government	299.8	282.6
Physical Volume	143.9	136.1
Agricultural	142.2	113.9
Nonagricultural	144.2	136.9
Construction	114.8	107.3
Manufacturing	161.1	129.2
Distributive	142.4	142.8
Government	138.9	141.6

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. 1979 as percent of Sept. 1978	Sept. 1979 as percent of Sept. 1978	Year to date '79 as percent of Year to date '78
<i>The State</i>	96.5	97.0	100.8
1 Omaha	90.3	90.1	96.4
Bellevue	70.4		
2 Lincoln	97.4	97.7	101.1
3 So. Sioux City	94.0	89.2	93.3
4 Nebraska City	80.9	93.5	101.6
5 Fremont	96.7	94.5	102.1
Blair	87.0		
6 West Point	84.2	100.2	106.4
7 Falls City	89.7	94.9	100.1
8 Seward	96.8	102.8	103.0
9 York	100.0	101.4	107.5
10 Columbus	100.2	101.9	105.9
11 Norfolk	93.6	96.7	104.4
Wayne	118.9		
12 Grand Island	96.5	97.8	104.2
13 Hastings	93.1	94.8	101.2
14 Beatrice	102.5	100.0	104.2
Fairbury	93.8		
15 Kearney	99.2	100.8	105.5
16 Lexington	92.7	98.5	105.8
17 Holdrege	98.4	100.6	103.5
18 North Platte	88.4	89.0	103.7
19 Ogallala	97.4	96.7	104.4
20 McCook	101.3	99.1	104.0
21 Sidney	98.5	104.9	102.6
Kimball	96.6		
22 Scottsbluff/Gering	99.6	98.5	104.2
23 Alliance	107.9	104.6	103.7
Chadron	98.5		
24 O'Neill	90.5	95.6	110.3
25 Hartington	93.3	93.2	103.2
26 Broken Bow	121.1	102.4	109.6



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 Nebraska Department of Revenue.



(Continued from page 4) will be most affected.

The agricultural sector generally has been a source of strength for the Nebraska economy thus far during 1979. Because of its volatility, however, caution should be exercised when interpreting movement in the state physical volume index as fluctuations in agricultural activity may mask subtle trends in the economy.

In September, seasonally adjusted cash farm marketings reached a record level of \$570 million, up more than \$120 million from the previous month. Seasonally adjusted prices received by Nebraska farmers were 2.9 percent above their August level and were 17.1 percent above their level of September 1978.

On a year-to-date basis, the Nebraska economy appears to be experiencing some growth. Compared to the first nine months of 1978, real output has increased 2.0 percent. Output at the national level was up 2.3 percent over the same period. For both the U.S. and Nebraska economies, manufacturing and agriculture have been the strongest sectors, and construction and government the weakest.

Two additional indicators of an economy's health, employment and retail sales, have added to the confusion of positive and negative signals in the Nebraska economy. A 2.8 percent increase in employment was reported in September 1979, compared to September 1978. The gain in employment was more than 20,000 persons, but it was slightly less than the increase in the labor force so that the number of unemployed also increased. September's unemployment rate of 3.6 percent (seasonally unadjusted), however, was among the lowest in the nation and compares favorably to the national rate of 5.9 percent. Although eighteen of the twenty-six reporting cities registered increases in employment, the four cities in metropolitan counties all experienced decreases.

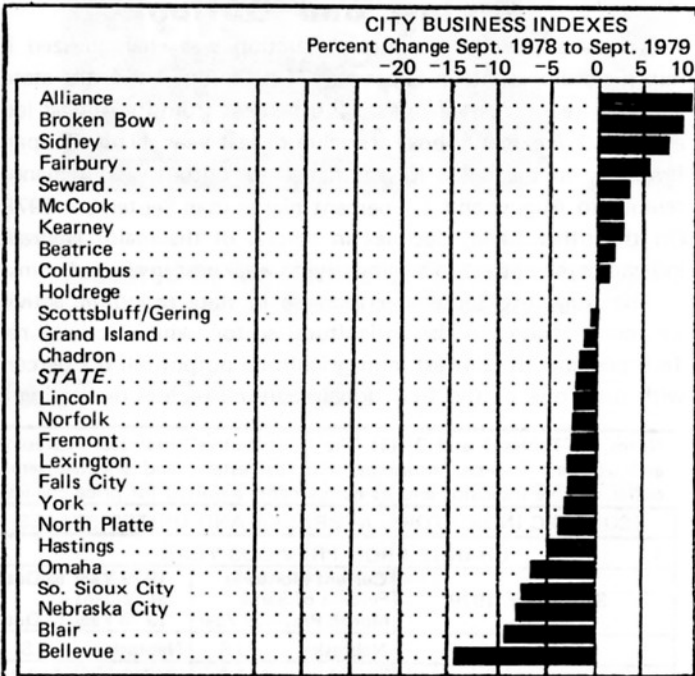
After adjustment for price changes, net taxable retail sales in Nebraska for September were 3.0 percent below the sales of September 1978. Retail sales at the national level recorded a 1.1 percent decline over the same period. The September decrease was felt throughout Nebraska, as sixteen of the state's twenty-six planning regions had total sales below those of last year. Moreover, non-motor vehicle sales in twenty-six of the thirty-two principal trading centers were lower than last September's sales. Broken Bow, Wayne, Alliance, Beatrice, McCook, and Columbus were the only cities reporting increases.

Relative to September 1978, the city business indexes fell an average of 2.0 percent, with only nine of the cities registering gains. Alliance posted the largest gain in activity, with an increase of 9.9 percent. Other communities with September-to-September increases were Broken Bow, Sidney, Fairbury, Seward, McCook, Kearney, Beatrice, and Columbus.

J. A. D.

5. PRICE INDEXES			
September 1979	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	223.4	112.1	110.8
Commodity component	214.1	112.4	111.0
Wholesale Prices	241.7	113.8	111.7
Agricultural Prices			
United States	240.0	111.1	116.9
Nebraska	247.0	117.1	122.6

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



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

4. SEPTEMBER CITY BUSINESS INDICATORS			
The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Employment ¹	Building Activity ²	Power Consumption ³
<i>The State</i>	101.0	91.3	94.0
Alliance	121.4	57.9	105.8
Beatrice	99.8	87.4	114.7
Bellevue	95.9	30.3	92.2
Blair	95.7	57.4	98.9
Broken Bow	100.1	120.8	90.8
Chadron	98.7	48.6	125.8
Columbus	99.0	171.9	93.4
Fairbury	100.5	191.2	150.1
Falls City	100.1	150.4	96.3
Fremont	102.0	70.1	94.9*
Grand Island	104.4	75.3	94.6
Hastings	103.1	54.1	92.1
Holdrege	100.2	176.5	81.0
Kearney	107.4	105.9	97.7
Lexington	102.1	86.2	100.5
Lincoln	98.4	101.3	92.9
McCook	100.9	254.7	77.7
Nebraska City	102.2	101.2	87.1
Norfolk	101.6	131.9	83.0
North Platte	106.3	80.3	93.1
Omaha	95.9	93.3	94.6
Scottsbluff/Gering	102.8	90.0	89.1
Seward	100.7	292.8	98.5
Sidney	108.3	384.3	88.7
So. Sioux City	93.2	73.2	89.9
York	100.3	62.1	89.9

¹ As a proxy for city employment, total employment for the county in which a city is located is used.
² Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
³ Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
Source: Compilation by Bureau of Business Research from reports of private and public agencies.

(Continued from page 3)

employment in some sectors, including services, trade, and finance, insurance, and real estate, will increase as indicated in the table. Those gains will still not be enough to maintain overall state unemployment at the low rates of 1979.

Personal income, in current dollar terms, is expected to grow by almost 9 percent over the year. Growth will be sluggish in the first two quarters of 1980 before picking up in the last two quarters. When assessed in real terms (that is, deflated by a price level), personal income will show little or no real growth over the year. This conclusion depends very much upon the particular price level used for deflating the current dollar magnitude. The Consumer Price Index is quite popular in this regard, although some analysts prefer the Personal Consumption deflator published

by the Department of Commerce. Net taxable retail sales in Nebraska should grow around 8.0 percent in current dollar terms over 1979:4-1980:4, a figure which is in line with the projected growth rate of personal income. As in the case of personal income, deflating the current dollar forecasts by a price index would imply that the real value of retail sales will show little or no growth during 1980.

A final note is in order. The above forecasts have implicitly assumed a stable situation in the agricultural sector of the state during 1980. There is no question that the relatively good farm prices and harvests of 1979 will be instrumental in buffering Nebraska's economy during early 1980. However, unanticipated shocks to that sector or significant changes in inventory-marketing decisions will have a marked impact upon the 1980 economic situation.

J. R. S.

COMPARISON OF 1979 FORECAST WITH ACTUAL

UNITED STATES			NEBRASKA		
Indicator	Actual	Forecast	Indicator	Actual	Forecast
GNP	2% increase ¹	1 to 2% increase	Employment	753,250 ³	760,000
Consumer Price Index	12% increase ²	8% increase	Personal income	13% increase ⁴	8 to 10% increase
Employment	98 million ²	97 million	Real personal income	4.5% increase ⁵	0 to 2% increase
Unemployment rate (average)	5.8% ²	6.5%	Unemployment rate (average)	3.0% ³	3.3%
Food prices	10% increase ²	8 to 10% increase			

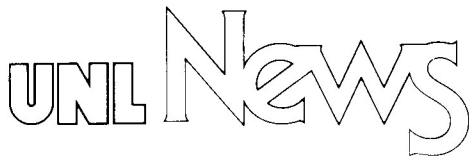
¹ Computed over 1978:3 to 1979:3.

² Through October 1979.

³ Average of 1979 through September 1979.

⁴ Computed over 1978:2 to 1979:2.

⁵ Computed over 1978:2 through 1979:2 using the Personal Consumption Expenditures Deflator.



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