July/August 1994 Vol. 49 No. 592

Business in Nebraska

This Issue

Prepared by the Bureau of Business Research, College of Business Administration, University of Nebraska-Lincoln, 114 CBA, Lincoln, NE 68588-0406, 402/472-2334

Retail Trade: A Base Industry for Nebraska's Rural Trade Centers

R.G. Taylor and Charles Lamphear

The most recent *1987 Census of Retail Trade* reported that Nebraska's metropolitan counties of Douglas, Sarpy, and Lancaster contributed 53 percent to the state's total gross retail sales. The six counties in which Nebraska's main rural trade centers are located constituted 22 percent of the state's total retail sales. The remaining 25 percent of retail sales occurred in smaller communities throughout the state. 1987 represents the most recent year for which retail trade census reports are available from the U.S. Department of Commerce.

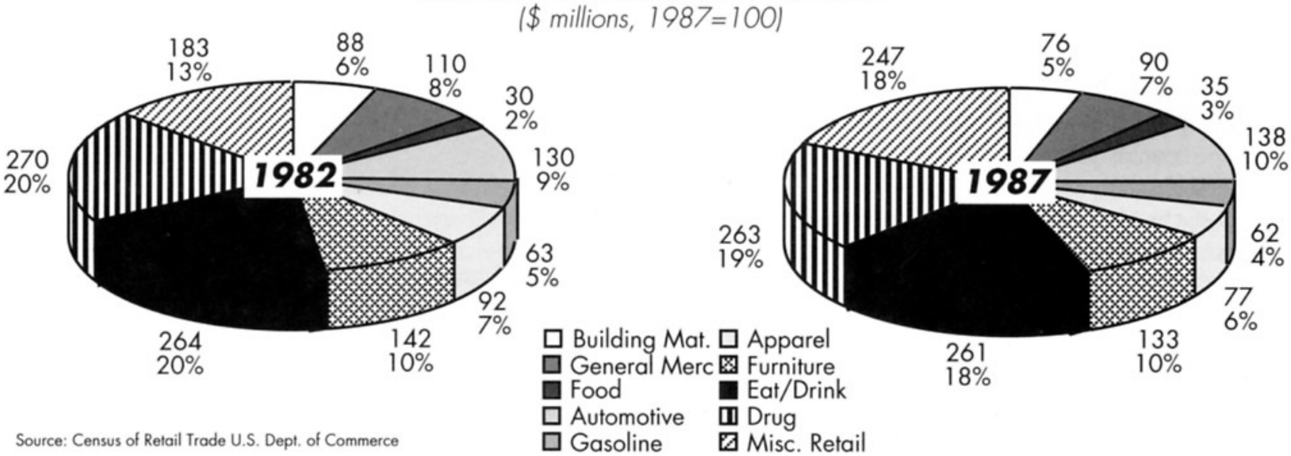
Retail trade is an important export base for Nebraska's rural trade centers. A *base industry* is defined as an industry that exports a sizable portion of its products or services. While retail trade is not considered a base industry for large regions that contain metropolitan areas, it is a major part of the export base for rural trade centers. Other export base industries in rural economies are agriculture, tourism, petroleum, and light manufacturing.

Using this definition, Nebraska has six major rural retail trade centers: Columbus, Grand Island, Kearney, North Platte, Norfolk, and Scottsbluff/Gering.[1] The purpose of this article is to examine both the past and future trends in retail trade for these rural trade centers.

In 1987 sales of motor vehicles, food, and general merchandise constituted 56 percent of total gross retail sales in the rural trade centers (see Figure 1). The most significant change between 1982 and 1987 in the rural trade centers was the growth in general merchandise sales. General merchandise sales increased over one third during the 1982-1987 period. Sales at rural trade center shopping malls and discount stores flourished in the 1980s while sales at other stores lanquished or were static. This development attracted customers in neighboring communities away from their small home-town stores.

[1]Beatrice and Fremont are rural retail trade centers but are aligned so closely with the economies of Omaha and Lincoln, respectively, that the trade does not reflect a broader retail trade pattern for a rural region. Hastings also may be included, but its proximity to Grand Island disrupts the trade center.

Figure 1
Real Gross Retail Sales
Six Nebraska Rural Trade Centers
($ millions, 1987=100)



Source: Census of Retail Trade U.S. Dept. of Commerce

Local trends in retail trade can be determined by examining retail sales data compiled by the Nebraska Department of Revenue. The Nebraska Department of Revenue maintains a monthly and annual data series on net taxable nonmotor vehicle sales. This series excludes sales to tax exempt organizations; hence, the series is called net taxable retail sales. It also excludes motor vehicle sales, because the retail sales tax on motor vehicle sales is paid in the buyer's county of residence rather than in the county of purchase. Finally, food purchases were removed from the sales tax base in October 1983. The downward movement in net taxable nonmotor retail sales (hereafter referred to as net taxable sales) since 1983 is due, in part, to the loss of food from the tax base.

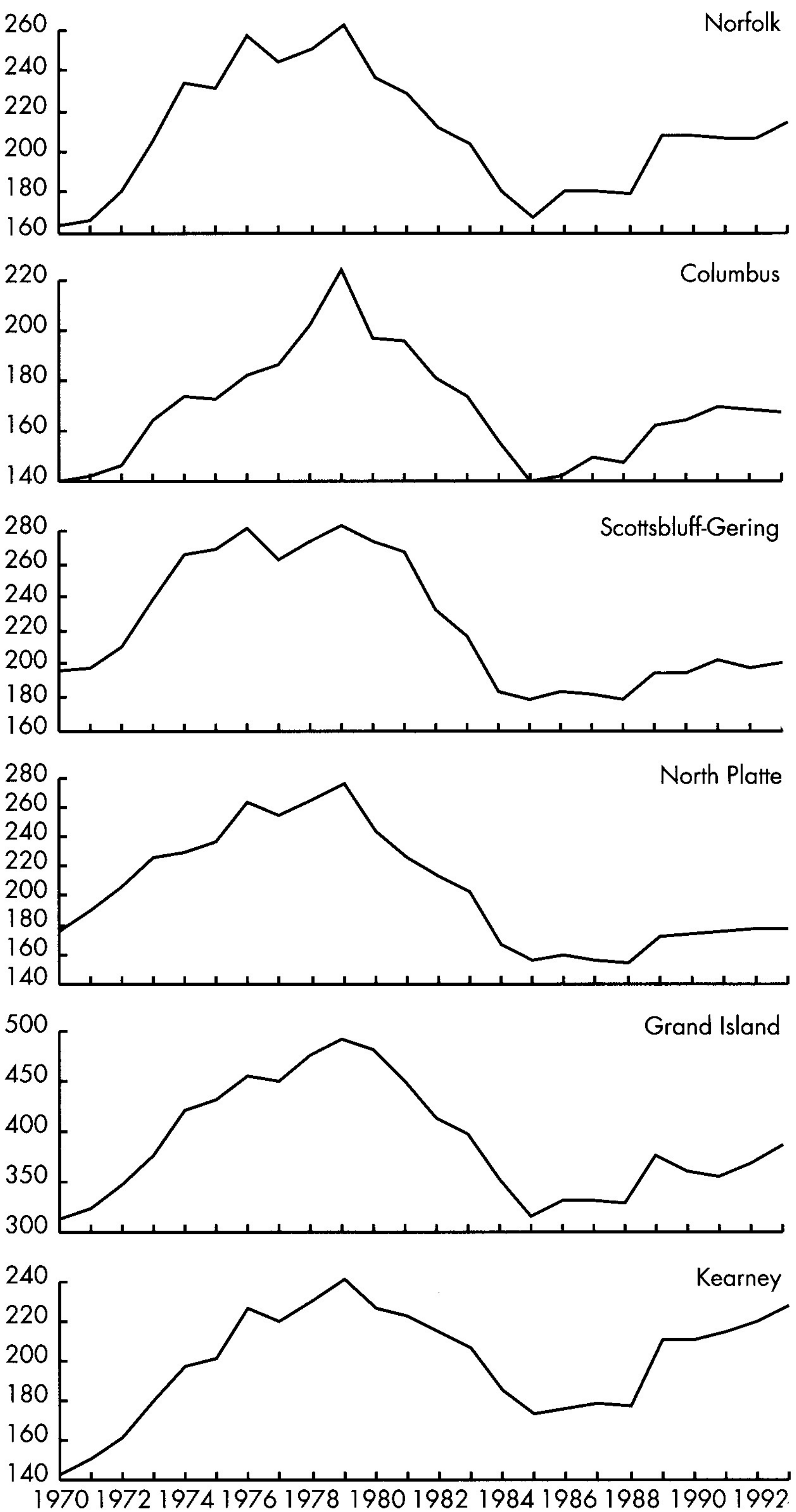
Despite these data limitations, Nebraska Department of Revenue net taxable sales data are an invaluable indicator of trends in retail trade. For the period 1970 to 1993 the six rural trade centers exhibited about the same trend in net taxable sales (see Figure 2). With the exception of Grand Island, net taxable sales for the remaining five centers are of the same magnitude. Grand Island is almost double the sales of any of the other five centers. This suggests that the five smaller trade centers serve similar trade areas in terms of population.

The six rural trade centers experienced substantial growth in the 1970s. That growth, although somewhat erratic in Norfolk and Scottsbluff/Gering, continued through the late 1970s. The annual growth rate for the combined trade centers was 4 percent. For each trade center, net taxable sales, adjusted for inflation, peaked in 1979. Even more rapid than the 1970s' increase was the early 1980s' decrease. From the peak in 1979 to the low point in 1985 total net taxable sales for the combined trade centers, adjusted for inflation, dropped nearly 40 percent.[2] The annual rate of decline was over 5 percent. The decline was particularly acute in North Platte, where the compound rate of decrease was over 9 percent per year.

After the low point in 1985 net taxable sales began to increase gradually. North Platte, however, dipped again in 1987. The average annual growth rate from 1985 to 1993 for the combined trade centers was 2.3 percent. Since 1985 growth has been particularly slow for Scottsbluff/Gering and North Platte, with annual rates of 1.5 and 1.7 percent, respectively. Kearney's growth pattern deviates slightly from the group. Kearney started at a lower level, but by 1993 Kearney had regained most of the early loss, even after the elimination of the food tax in 1983.

To summarize past trends, the net taxable sales patterns for all six trade centers are virtually coincident.

Figure 2
Real Retail Sales, Nonmotor Vehicle Net Taxable
($millions, 1987=100)



[2]The removal of food from taxable sales exacerbated this trend.

General economic and social forces in rural areas explain this coincidence. The significance of retail trade as a base industry for rural trade centers is tied to the economic well-being of the surrounding areas. The 1970s were relative boom years for rural America. Farm income reached highs, and light manufacturing fled high cost urban areas, in search of the lower costs in rural areas. The national recession in 1981 was exacerbated by the agricultural depression in rural Nebraska.

Rural trade centers have been recovering slowly from the mid-1980s' rural depression, but trade has not rebounded to the level of the 1970s. Underlying causes for the slow recovery can be categorized into supply and demand factors for retail goods in rural Nebraska.

On the demand side are rural demographic patterns that have become more acute in the 1980s and early 1990s. There are fewer customers with less income in rural Nebraska. Between 1980 and 1990 the population loss for Nebraska's nonmetropolitan counties was 6 percent. The loss for many rural counties was even greater. In the 1980s incomes in nonmetro Nebraska were 10 to 25 percent lower than incomes in metro Nebraska.

Two demographic changes have affected rural retail sales. Nebraska's aging rural population means fewer high consumption customers. The average age of rural residents in Nebraska increased from 31 years to 33 years over the period 1980 to 1990. The outmigration from rural Nebraska has been particularly acute among professional occupations in the 20-30 year old group. The general lack of high paying career track opportunities in rural areas has led to a rural brain drain. Increasing percentages of rural jobs are low skill and low wage.

More disturbing than the changing demographic patterns, which are outside the control of local retailers, is the loss of a customer base. The simple location quotient analysis illustrates this point. The *location quotient* is defined as the ratio of an area's retail sales to its income. The chart that displays the composite location quotient for the six rural trade centers, shows that the composite location quotient for the group has dropped over 20 percentage points since the late 1970s (Figure 3). The current location quotient for the group is approximately 40 percent. What this drop means is that rural trade centers have slipped in their ability to capture local income in local retail trade.

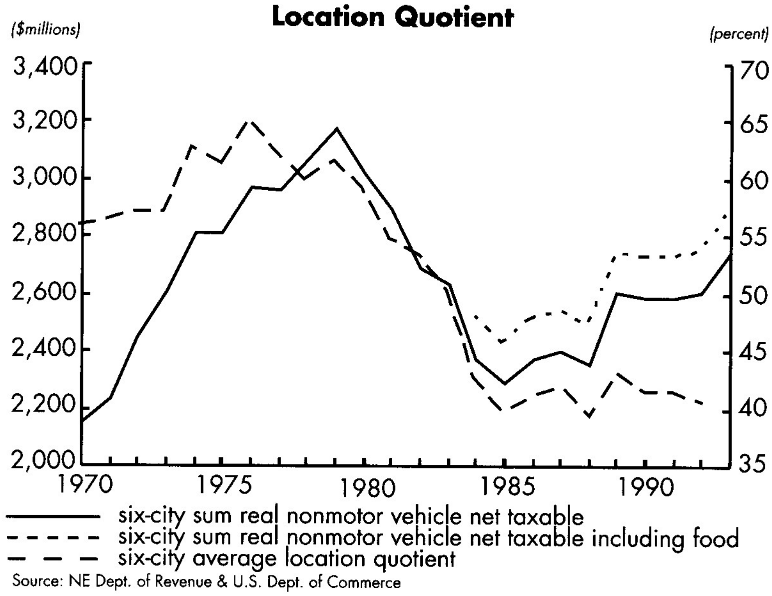
One cause for this slippage is alternative shopping opportunities. Rural customers are shopping elsewhere. The market for rural trade centers has eroded because of changes in demand. There is a heightened awareness among customers to shop for price and quality. Rural customers continue to become more mobile. Shopping is a form of recreation for rural residents, providing a reason to travel for an outing. Finally, the increase in nonstore retailing (e.g., mail order catalogs) is having an adverse effect on traditional retailing in rural areas.

Business purchases also are important to local rural retailers, but local businesses are also shifting to alternative suppliers. In the case of agriculture, there is an inverse relationship between farm size and local purchases. Larger, more specialized farm operations tend to purchase a higher percent of inputs from specialized suppliers that typically are located outside the area.

Supply factors also may be causing the slow recovery in rural retail sales. The marginal or specialized retailers lost in the rural recession of the 1980s have not been replaced. Rural entrepreneurs have been reluctant or unable to reenter narrow or thin rural retail markets because of financing or other reasons. Retailing is subject to scale and agglomeration economies that are difficult to achieve in rural communities.

The state's main retail trade centers are recovering slowly from the 1980s' rural recession. The rural population decline, the rural-urban income disparity, and the aging rural population are factors that likely will keep the recovery slow. These factors, however, are outside the control of retailers. A concerning factor, and one over which retailers may exert some control, is the apparent inability to rebuild the customer base that was lost during the 1980s. A challenge to retailers in rural trade centers is to make it attractive for residents to shop locally. The growth of general merchandise stores in rural trade centers demonstrates that retailing can prosper in spite of discouraging rural economic and demographic trends.

Figure 3
Nebraska's Rural Trade Centers
Real Retail Sales
Location Quotient



Source: NE Dept. of Revenue & U.S. Dept. of Commerce

Property Taxes—Percentages vs. Percentage Points

John S. Austin

Recently the State Board of Equalization and Assessment ruled that residential and commercial property should average between 87 and 95 percent of fair market value for each county in Nebraska. The instant response from the public was that the revaluation will raise taxes. While "…it ain't necessarily so", there likely will be increases in some cases.

Hiding tax increases under the veil of increases in valuation is an old fandango. Some local taxing authorities have hidden tax increases under the notion that they haven't raised taxes because they haven't raised the tax rate. But increased values have brought extra revenues (tax receipts) from the same tax rate (tax levee).

The real issue is that total spending by a governmental unit will determine the amount of taxes needed. If spending is up 10 percent, taxes will need to be increased 10 percent.

Suppose that revaluation takes the average assessment from 75 percent of fair market value to 90 percent. Is this an increase of 15 percent? No, it is an increase of 15 percentage points, but 15 percentage points on a base of 75 percentage points is an increase of 20 percent (15/75 = .20, converted to percent = 20 percent).

If a local government chooses to keep spending the same as the year before despite an increase in valuations, what would be the correct percentage reduction in the tax rate? Suppose again that the valuation went up 20 percent. Would tax revenues be maintained at the old level with a decrease of 20 percent? No, that would result in a shortfall. The way to set up the calculation is to think of what percent of the 120 percent of old valuation is needed to get 100 percent of the old revenue? (120 * X = 100). The answer is 83 1/3 percent, implying that the rate can be lowered by 16 2/3 percent to maintain revenues.

That is not to say that taxes can or should remain the same. Some increase will be needed for inflation (about 3 percent if the national rate of inflation applies) and for new or expanded programs. Cuts can be implemented for reductions in services due to program elimination or population losses.

Will some local governmental units take advantage of the windfall resulting from revaluation? Most likely some will, especially those running on tight budgets.

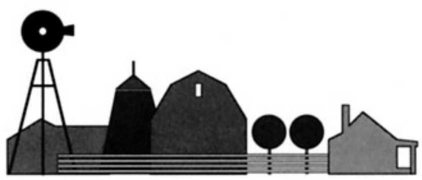
Fairness Issue

The motive for revaluation arises from a fairness issue. Taxpayers with a house of the same market value as that of a neighbor in the same tax district should pay the same taxes. A problem arises when a tax district, such as a school district, crosses a county border. If properties on one side of the county border are valued on average 75 percent of fair market while those on the other side are valued at 90 percent, then the citizens across the border will not pay a fair share of taxes in that particular tax district.

Practical Issue

It takes time to assess property properly. Some county assessors already have in place programs to reassess properties in their counties. These programs may take a few years to complete, especially in populous counties.

A quick solution is simply to raise all assessments by a fixed amount in order to get the county average into the proper range that is not, however, a long-term solution. The same inequities that were in place before the fixed increase will be in place after the increase. Those undervalued before will continue to pay less than their fair share.



NAFTA, The Queretaro Agreement, and Nebraska Business Opportunities

Robert McGeorge and Charles Lamphear

Because of the important value of the Queretaro-NAFTA services to Nebraska businesses, we are rerunning this announcement that first appeared in the June issue of Business in Nebraska.

The May issue of *Business in Nebraska* (*BIN*) announced the signing of the Queretaro Agreement in Queretaro, Mexico, on April 15, 1994. The Queretaro Agreement was signed by representatives of the Center for International Trade Policy at the University of Nebraska-Lincoln (UNL), the Bureau of Business Research at UNL, and the Export Development Center (CENDEX) at the Monterrey Institute of Technology (Queretaro campus).

The purpose of the Queretaro Agreement is to provide assistance to businesses in taking advantage of opportunities created by NAFTA.

U.S. business executives are beginning to recognize that NAFTA is changing the competitive environment in which they operate dramatically. Recent surveys, for example, indicate that more than half of the business firms that responded plan to investigate opportunities for increasing sales to, or investments in, Mexico.

These changes will be positive for many businesses at least for those firms that recognize and take advantage of the opportunities created by the agreement. When Mexico dropped its import duty rates on hundreds of U.S. products from over 10 percent on December 31, 1993 to zero percent on January 1, 1994 pursuant to the NAFTA agreement, U.S. businesses' opportunities to penetrate Mexico's markets were increased substantially.

NAFTA also creates significant investment opportunities. Although much of the debate over the agreement has focused on the establishment of facilities in Mexico to produce goods for the U.S. market, the most significant investment provisions of the agreement are those that create opportunities to invest in Mexican industries (that formerly were reserved for Mexican ownership) to serve the Mexican market.

Other U.S. businesses may face new competitive challenges as a result of the agreement, as the United States reduces its import duties on competing Mexican and Canadian products. Producers in Mexico and Canada who formerly were priced out of U.S. markets may take advantage of changes in their competitive environments by mounting extensive export campaigns.

As indicated in the May issue of *BIN*, UNL's Bureau of Business Research and Center for International Trade Policy are developing several programs to assist Nebraska businesses to prepare for the opportunities and challenges created by NAFTA. Although the Bureau and the Center—and our counterparts at the Monterrey Institute of Technology—have worked out the basic concepts for these programs, we want input from Nebraska businesses before we finalize these programs.

We have developed a three-page survey on issues and trade information related to NAFTA. Participants are asked to complete the survey on the basis of whether they think their firm could benefit from proposed data and consulting services. The survey can be completed in five minutes or less.

If you are willing to participate in the survey, complete the following form and return it by June 30, 1994. Use one of the return addresses given at the bottom of the form.

We thank you in advance for participating in this important survey.

Yes, I will participate in the NAFTA issues and trade information survey. My mailing address is indicated below.

Name: ______________________________

Address: ______________________________

____

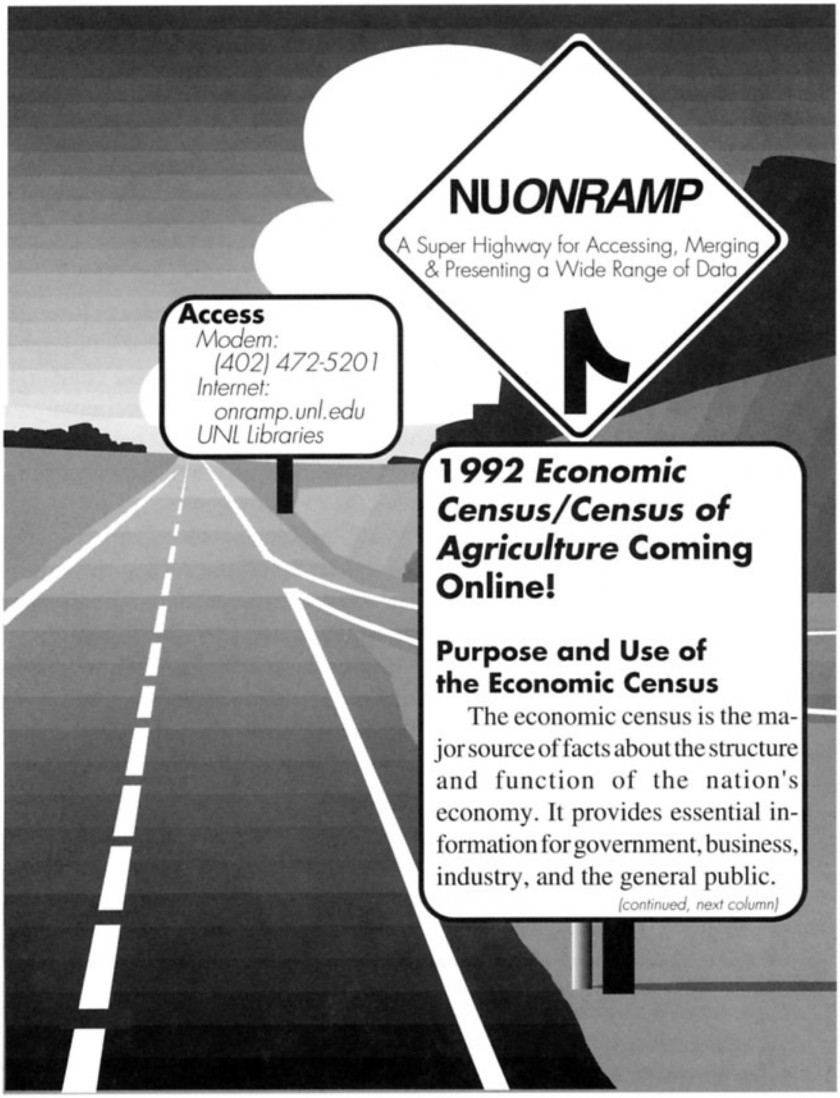
City, State, Zip: ______________________________

Mail to:

Charles Lamphear, Director
Bureau of Business Research
P.O. Box 880406
University of Nebraska-Lincoln
Lincoln, NE 68588-0406
Fax: (402) 472-3878

or

Robert McGeorge, Exec. Director
Center for International Trade Policy
213 College of Law
University of Nebraska-Lincoln
Lincoln, NE 68588-0902
Fax: (402) 472-5185



1992 Economic Census/Census of *Agriculture* Coming Online!

Purpose and Use of the Economic Census

The economic census is the major source of facts about the structure and function of the nation's economy. It provides essential information for government, business, industry, and the general public.

(continued, next column)

1992 Economic Census

(cont'd)

The economic census furnishes an important part of the framework for such composite measures as the gross domestic product, input/output measures, production and price indexes, and other statistical series that measure short-term changes in economic conditions.

Policy making agencies of the federal government use the data, especially in monitoring economic activity and providing assistance to business.

State and local governments use the data to assess business activities and tax bases within their jurisdictions and to develop programs to attract business.

Trade associations study trends in their own and competing industries and keep their members informed of market changes.

Individual businesses use the data to locate potential markets and to analyze their own production and sales performance relative to industry or area averages.

Table I
Employment in Nebraska

	Revised April 1994	Preliminary May 1994	% Change vs. Year Ago
Place of Work			
Nonfarm	768,625	777,790	1.0
Manufacturing	103,473	103,648	1.8
Durables	50,143	50,713	5.3
Nondurables	53,330	52,935	-1.4
Mining/Construction	33,292	35,719	3.2
TCU*	46,973	47,609	0.9
Trade	192,819	193,537	0.3
Wholesale	140,167	140,937	0.2
Retail	52,652	52,600	0.5
FIRE**	50,336	50,315	0.0
Services	190,632	191,404	1.4
Government	151,100	155,558	0.9
Place of Residence			
Civilian Labor Force	879,666	886,568	3.9
Unemployment Rate	2.7	2.8	

* Transportation, Communication, and Utilities
** Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Table II
City Business Indicators
April 1994 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	3.6	28.6
Alliance	2.8	211.2
Beatrice	4.6	35.0
Bellevue	2.7	-4.1
Blair	2.8	776.8
Broken Bow	4.6	-41.7
Chadron	4.2	-3.4
Columbus	6.1	-55.3
Fairbury	4.0	15.7
Falls City	4.8	133.8
Fremont	4.2	116.2
Grand Island	4.9	-2.8
Hastings	4.7	35.4
Holdrege	4.9	1,263.7
Kearney	4.4	38.5
Lexington	4.5	-13.7
Lincoln	2.7	21.5
McCook	4.4	-9.6
Nebraska City	4.3	618.5
Norfolk	4.4	130.0
North Platte	3.8	116.4
Ogallala	4.8	279.2
Omaha	2.7	27.5
Scottsbluff/Gering	4.5	-19.0
Seward	5.4	-17.3
Sidney	4.6	-24.5
South Sioux City	4.3	25.4
York	4.8	8.1

(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

Authority and Scope

The Census Bureau is required by law to take the economic census every 5 years, covering years ending in 2 and 7. The *1992 Economic Census* consists of the following:

Census of Retail Trade
Census of Wholesale Trade
Census of Service Industries
Census of Finance, Insurance, and Real Estate Industries
Census of Transportation, Communications, and Utilities
Census of Manufactures
Census of Mineral Industries
Census of Construction Industries

Special programs also cover enterprise statistics and minority-owned and women-owned businesses. The 1992 Census of Agriculture and 1992 Census of Governments are conducted separately. The next economic census is scheduled to be taken in 1998 covering 1997.

Table III
Price Indices

	June 1994	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	148.0	2.5	2.4
Commodities	133.5	1.6	1.1
Services	162.8	3.2	3.5

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics

Table IV
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number	and City (1)	City Sales (2 April 1994 (000s)	City Sales % Change vs. Year Ago	Region Sales (2) April 1994 (000s)	Region Sales % Change vs. Year Ago	Year to Date % Change vs. Year Ago
	NEBRASKA	1,034,572	4.4	1,191,372	4.7	9.5
1	Omaha	364,400	5.0	456,153	6.0	10.2
	Bellevue	13,851	2.2	*	*	*
	Blair	5,731	1.1	*	*	*
2	Lincoln	139,674	2.5	164,000	5.0	10.7
3	South Sioux City	6,773	-0.2	10,361	10.8	14.5
4	Nebraska City	4,236	3.6	21,238	-4.9	6.4
6	Fremont	19,507	4.0	33,292	2.3	8.8
	West Point	2,872	2.1	*	*	*
7	Falls City	2,278	0.0	9,432	-1.9	5.4
8	Seward	4,522	7.3	15,112	-5.0	1.5
9	York	7,235	-0.7	15,702	-2.3	3.4
10	Columbus	18,260	13.0	30,221	7.4	8.5
11	Norfolk	22,180	3.1	37,959	1.6	8.6
	Wayne	3,174	-0.3	•	*	*
12	Grand Island	41,476	6.7	56,540	5.2	12.9
13	Hastings	19,399	3.5	29,235	2.6	5.2
14	Beatrice	8,847	1.6	19,372	-9.6	0.3
	Fairbury	2,728	-42.3	*	*	*
15	Kearney	24,737	9.8	33,125	4.3	9.6
16	Lexington	6,492	-0.5	17,728	-0.7	5.4
17	Holdrege	4,345	-7.9	8,126	-2.6	1.7
18	North Platte	18,310	7.0	23,600	7.2	11.1
19	Ogallala	4,531	4.6	9,949	0.2	4.7
20	McCook	8,187	2.5	11,428	-1.4	5.0
21	Sidney	5,125	6.2	9,660	7.1	7.3
	Kimball	1,799	10.8	*	*	*
22	Scottsbluff/Gering	19,602	1.9	27,381	0.8	5.4
23	Alliance	4,978	0.7	13,942	0.2	4.5
	Chadron	2,929	10.2	*	*	*
24	O'Neill	3,709	-0.4	13,272	-2.6	3.5
	Valentine	2,744	3.7	*	*	*
25	Hartington	1,677	10.5	8,165	-9.9	3.4
26	Broken Bow	3,893	5.9	11,353	-3.4	1.7

(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

Availability of the Data

The results of the economic census, census of agriculture, and census of government, are made available via NU *ONRAMP* on a flow-basis.

What's New in 1992

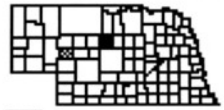
The *1992 Economic Census* covers more of the economy than any previous census. New for 1992 are data on communications, utilities, finance, insurance, and real estate, as well as coverage of more transportation industries. The economic, agriculture, and governments censuses now collectively cover nearly 98 percent of all economic activity.

Among other changes, new 1992 definitions affect the boundaries of nearly a third of all metropolitan areas. Also, the Survey of Women-Owned Businesses has now been expanded to include large corporations.

For further information about this and other online data residing on the NU *ONRAMP*, contact David DeFruiter: e-mail: ddefruiter@unl.edu
voice: (402) 472-7927

County of the Month

Blaine



Next County of Month

Brewster—County Seat

License plate prefix number: 86
Size of county: 714 square miles, ranks 36th in the state
Population: 675 in 1990, a change of -22.1 percent from 1980
Median age: 37.2 years in Blaine County, 33.0 years in Nebraska in 1990
Per capita personal income: $20,600 in 1992, ranks 12th in the state
Net taxable retail sales ($000): $2,039 in 1993, a change of 6.9 percent from 1992; $706 during January-April 1993, a change of 1.6 percent from the same period one year ago
Number of business and service establishments: 10 in 1991; 70 percent had less than five employees
Unemployment rate: 3.5 percent in Blaine County, 2.9 percent in Nebraska for 1993
Nonfarm employment (1993):

	State	Blaine County
Wage and salary workers	762,703	112
	(percent of total)	
Manufacturing	13.5%	(D) %
Construction and Mining	4.3	(D)
TCU	6.2	(D)
Retail Trade	18.4	(D)
Wholesale Trade	6.8	(D)
FIRE	6.6	(D)
Services	24.6	(D)
Government	19.6	56.3
Total	100.0%	100.0%

(D) Disclosure Suppression

Agriculture:
Number of farms: 129 in 1987, 141 in 1982
Average farm size: 3,307 acres in 1987
Market value of farm products sold: $18.8 million in 1987 ($145,535 average per farm)

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

David DeFruiter

July/August 1994, Volume 49 No. 592

University of Nebraska-Lincoln—Graham Spanier, *Chancellor*
College of Business Administration—Gary Schwendiman, *Dean*