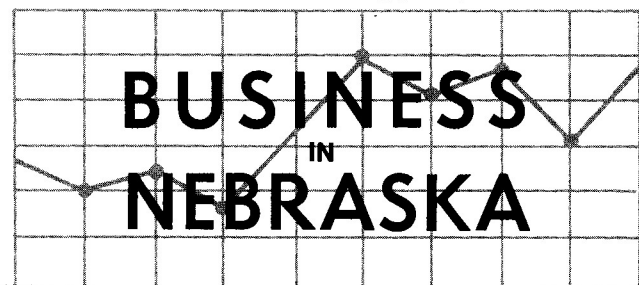


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FARM REAL ESTATE WEALTH APPRECIATION IN NEBRASKA, 1950-1975

Nebraska farmland values have risen dramatically in recent years. Between March, 1972, and February, 1976, values more than doubled, averaging a compound annual rate of 21 percent.¹ Over the 10-year period ending in February, 1976, farmland values rose at an average compound rate of 11 percent per year.

Such a trend has significantly influenced the agricultural sector and the total economy of the state. Farm owner-operators have experienced rapid buildup of their asset and wealth positions. Many have used the increased value of their land base as collateral for production loans and loans for purchasing additional farmland. Some have sold their land realizing capital gains, while others have relied on continued capital appreciation as a source of unrealized future income. The impact of recent land value trends, however, is not viewed by everyone as being totally positive. For example, many potential farmland buyers have found themselves being "priced out" of the market in recent years. Lending institutions, concerned about repayment capacity in relation to equity levels for agricultural loans, also are keeping a watchful eye on these trends. Then too, there are those who view the rapid appreciation of real estate as being windfall gains to a relatively few, which should be recovered for the public good.

In light of these consequences and concerns of past and present farm real estate wealth appreciation, it is important to consider this phenomenon in greater detail. What is the magnitude of real wealth appreciation accruing to owners of farmland? To what degree has this contributed to the economic well-being of the farming sector? The objective of this paper is to analyze the capital appreciation of Nebraska farmland in "real" dollar terms for the 26-year period, 1950-1975.² Special emphasis is placed on the component of appreciation accruing to farmer-owners, with comparisons of annual rates of appreciation made to annual farm income levels.³

NEBRASKA FARM REAL ESTATE WEALTH APPRECIATION, 1950-1975

Total value of Nebraska farm real estate increased sixfold from \$2,767 million in 1950 to \$16,325 million in 1976 (first column, Table 1 - p. 2). With the exception of 1953 and 1956, the dollar

value of farmland increased each year over the period. However, annual increases have varied from \$26 million in 1955 to a phenomenal gain of \$3,429 million during 1975.

The change in real estate value adjusted for annual net investment yields estimates of accrued nominal change in real estate wealth measured in annual dollars. Since the annual net investment component has been relatively small over the years, accrued nominal changes closely parallel total dollar value changes.

A comparison of accrued nominal changes with real changes reveals the impact of inflation on real estate value increases in a given year. Increases in nominal terms occurred in 24 of the 26 years, while real increases occurred in 20 of the 26 years. Declines in real wealth accrued to Nebraska farmland owners in 1953, 1960, 1962, 1968, 1969, and 1970. The real accrued loss in 1953 was due to a decline in total land values accompanied by a decline in the price level. Declines in the other years were due primarily to the rate of inflation, as measured by the Index of Prices Paid by Farmers, exceeding the annual rate of increase in real estate values.

The importance of the price index adjustment is particularly evident in years of high inflation. For example, in 1973 and 1974 very large nominal gains were recorded; yet in real terms the accrued gains were only 28 percent and 23 percent, respectively, of the nominal estimate due to substantial inflation.

Analysis of accrued real changes in real estate wealth over extended periods of time was accomplished by selecting a base period (1967) and valuing real estate wealth for each year in terms of base-period dollars. Table 2 (p. 3) shows the farmer-owned share of real wealth changes for the 26-year period was just over \$3.0 billion in 1967 dollars. Prior to 1970, real wealth appreciation in constant dollars was highest from 1955-1959 and lowest from 1950-1954. From 1971-1974 accrued real wealth appreciation was actually less than accrued gains for the years 1964-1967. These results would not be evident from nominal value data in Table 1, which shows the increase in 1971-1974 to be more than three times as large as the nominal gain in 1964-1967.

It is evident from Table 2 that there is wide year-to-year variability of accrued real changes in real estate wealth. The largest annual gain of \$886 million accrued during 1975, and represented more than 28 percent of the total 26-year real wealth increase. In contrast, annual real wealth losses occurred as recently as 1970.

A comparison of farmer-owned accrued real wealth and net farm income is made for selected time periods in Table 3 (p. 3). For the 26-year period, accrued real appreciation amounted to 25 percent of net farm income. In other words, for every four dollars of conventional net farm

(Continued on page 3)

¹U.S. Department of Agriculture, Economic Research Service, *Farm Real Estate Market Developments*, CD-81, July, 1976.

²"Real" dollar terms refers to adjustment of "nominal changes" for the declining purchasing power of the dollar. The real increase in real estate value therefore represents that additional volume of consumption of goods and services which the owner could purchase with his assets.

³Estimating real changes in farm real estate wealth required complex statistical calculations. A thorough explanation of these methods is available upon request from the authors.

Table 1
**FARM REAL ESTATE VALUE, NET INVESTMENT IN FARM REAL ESTATE, AND
 ESTIMATED NOMINAL AND REAL CHANGES IN FARM REAL ESTATE WEALTH FOR NEBRASKA
 1950-1975**
 (millions of dollars)

Year	Total value of farmland and buildings, January 1 ¹	Change in value		Net investment in real estate ²	Total accrued change (annual dollars)		Total accrued change to current farmer owners (annual dollars)	
		Nominal	Real ⁴		Nominal ³	Real ⁴	Nominal	Real
1950	\$ 2,767							
1951	3,065	\$ 298		\$15	\$ 283	\$ 18	\$ 175	\$ 11
1952	3,369	304		14	290	137	180	85
1953	3,526	157		14	143	223	89	138
1954	3,366	-160		12	-172	-129	-107	-80
1955	3,446	80		10	70	70	44	44
1956	3,472	26		11	15	61	9	39
1957	3,457	-15		10	-25	139	-16	86
1958	3,735	278		9	269	186	169	117
1959	4,035	300		8	292	160	184	101
1960	4,238	203		15	188	188	116	116
1961	4,297	59		17	42	-6	26	-4
1962	4,515	218		16	202	154	125	95
1963	4,607	92		19	73	-27	45	-17
1964	4,944	337		20	317	317	197	197
1965	5,252	308		19	289	235	173	141
1966	5,637	385		19	366	196	220	117
1967	6,107	470		18	452	276	271	166
1968	6,575	468		22	446	323	268	194
1969	6,892	317		17	300	-25	180	-15
1970	7,053	161		15	146	-244	92	-154
1971	7,188	135		17	118	-211	74	-133
1972	7,753	565		15	550	182	347	115
1973	8,752	999		8	991	298	624	188
1974	10,870	2,118		21	2,097	595	1,321	375
1975	12,896	2,026		30	1,996	463	1,257	292
1976	16,325	3,429		23	3,406	2,542	2,146	1,602

¹Based on dollar value series maintained by Economic Research Service, U.S. Department of Agriculture, and published annually in *Farm Real Estate Market Developments*.

²Adjustment in total value change reflecting (1) estimated value of annual net change in farmland acreage for the state, and (2) estimated annual net investment in structures and other land improvements (excluding operators' dwellings).

³Change in total value less net investment.

⁴Change in total value less adjustment for price level change during the year less net investment.

⁵Total accrued change multiplied by the percentage of farmland owned by farm operators.

Table 2
FARMER-OWNER ACCRUED REAL CHANGES IN FARM REAL ESTATE WEALTH FOR NEBRASKA
IN CONSTANT (1967) DOLLARS, 1950-1975 AND SELECTED PERIODS

Annual	Total accrued change to farmer owners (millions of 1967 dollars) ¹	Annual	Total accrued change to farmer owners (millions of 1967 dollars)
1950	\$ 15	1967	\$ 194
1951	104	1968	-14
1952	164	1969	-141
1953	-100	1970	-117
1954	54	1971	96
1955	48	1972	149
1956	106	1973	256
1957	139	1974	173
1958	117	1975	866
1959	133	Period	
1960	-5	1950-54	237
1961	108	1955-59	543
1962	19	1960-64	491
1963	216	1965-69	332
1964	153	1970-75	1,426
1965	124		
1966	169	1950-75	3,029

¹The price deflator used for adjustment from current to constant dollars was the Index of Prices Paid by Farmers for Production and Family Living Items, Wages, Interest, and Taxes.

(Continued from page 1) income received by Nebraska farmers, this group accrued one dollar in the form of real wealth gain. The relative magnitude, however, was quite sporadic, ranging from 8.3 percent of net farm income during the years 1950-1954, up to 43.4 percent for the period 1970-1975. In the latter period, the relative size of real wealth component was particularly influenced by the change in 1975, when farmer-owner real wealth gain was 133 percent of annual net farm income.

Real wealth changes were found to fluctuate in the aggregate much more than net farm income.⁴ Real changes in farmland value are influenced by factors affecting net farm income and investors' evaluation of farmland as an inflation hedge against other investment alternatives. Consequently, while wealth gains may produce a significant addition to total income levels, instability for the farm sector as a whole is increased.⁵ Because of greater instability and uncertainty in realizing wealth gains, the

⁴The standard deviation of the 1950-1975 data for accrued real wealth changes was \$184.1 million, as compared with \$146.8 million for net farm income. The coefficient of variation on wealth change was five times greater than that of net farm income.

real wealth component is not a dollar-for-dollar substitute for conventional income.

IMPLICATIONS OF REAL WEALTH GAINS FROM NEBRASKA FARM REAL ESTATE

It is recognized that findings of this study are crude approximations of a nonconventional income source. Data limitations preclude a high degree of added refinement in making real wealth estimates. Nevertheless, the findings provide a basis for drawing the following implications.

First, the increased real wealth accruing to Nebraska farmland owners has improved the financial position and, therefore, economic well-being of the farm sector. The importance of real wealth gains has been further enhanced by equity leverage associated with credit financing. From an investment standpoint, landowners with farm real estate debt

(Continued on page 6)

⁵Similar conclusions were drawn from a Canadian study which analyzed real capital gains in Canadian agriculture for the 1946-66 period. See H. B. Huff and T. J. Cusack, *Capital Gains in Canadian Agriculture*, Publication AE/7211 (Guelph, Ontario, Canada: School of Agriculture Economics and Extension Education, University of Guelph, January, 1972).

Table 3
COMPARISON OF FARMER-OWNER ACCRUED REAL CHANGES IN FARM REAL ESTATE WEALTH
WITH NET FARM INCOME FOR NEBRASKA, SELECTED PERIODS

Period	Farmer-owner accrued appreciation (millions of 1967 dollars)	Total net farm income in Nebraska (millions of 1967 dollars) ¹	Farmer-owner accrued appreciation as a percentage of net farm income
1950-54 Total	\$ 237	\$ 2,850	8.3%
Annual average	47	570	
1955-59 Total	543	1,958	27.7
Annual average	109	392	
1960-64 Total	491	1,677	29.3
Annual average	98	335	
1965-69 Total	332	2,197	15.1
Annual average	66	439	
1970-75 Total	1,426	3,284	43.4
Annual average	238	546	
1950-75 Total	3,029	11,965	25.4
Annual average	116	460	

¹Based on data presented in *State Farm Income Statistics*, Supplement to Statistical Bulletin No. 557, published by Economic Research Service, U.S. Department of Agriculture, August, 1976.

Review and Outlook

Nebraska's economic performance improved markedly in February, with all sectors except manufacturing showing gains when compared with January. The state's index of real output, which had been declining slowly since November, rose nearly 1.5 percent from its January level and was 6.5 percent above its year-earlier value.

The Nebraska agricultural index rose sharply after declining for five months, but generally lower farm prices this year minimized farmers' dollar gains. On a seasonally-adjusted basis, prices received by Nebraska farmers in February were 7.3 percent lower than February, 1976, prices. Thus the state's agricultural dollar volume index rose only 1.5 percent above February, 1976, while

the physical volume was up 9.5 percent.

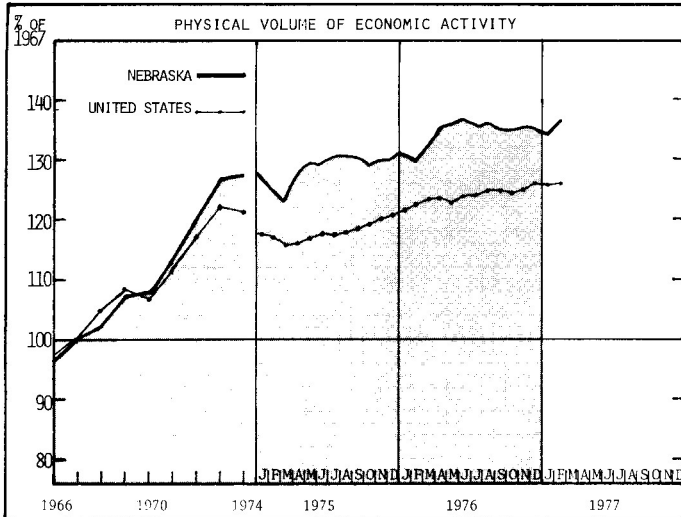
Following a pause in January, construction activity resumed its trend of rapid expansion which began last August. Residential and non-building construction were primarily responsible for raising construction activity nearly 49 percent above its February, 1976, level. Among the state's principal cities, Sidney, Holdrege, Lexington, and North Platte showed the greatest gains in construction compared with February of 1976. Nebraska's manufacturing activity declined slightly in February from January's revised level, but real output was nearly 7 percent higher than last year. Declines from January's levels were concentrated in the food processing industries, where preliminary estimates place employment losses at some 1,100 workers. (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.

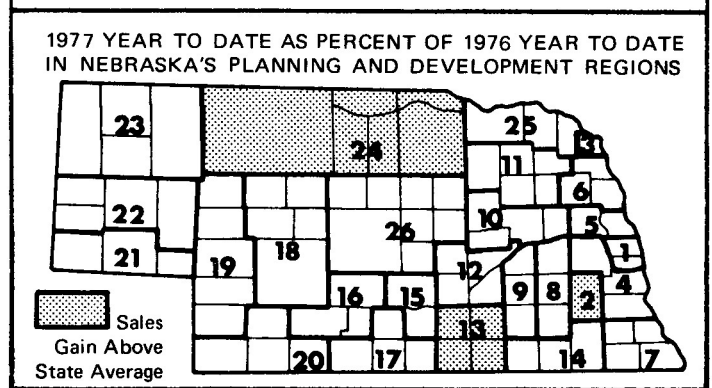
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
February, 1977	Current Month as Percent of Same Month Previous Year		1977 Year to Date as Percent of 1976 Year to Date	
	Nebraska	U.S.	Nebraska	U.S.
Indicator				
Dollar Volume	111.3	109.8	110.2	110.0
Agricultural	101.5	96.3	97.5	102.1
Nonagricultural	112.9	110.4	112.2	110.3
Construction	158.1	108.3	154.7	104.3
Manufacturing	112.6	110.5	112.7	110.9
Distributive	111.3	111.1	110.3	110.9
Government	107.0	107.9	107.0	108.0
Physical Volume	106.5	103.9	105.6	104.3
Agricultural	109.5	96.3	104.7	103.0
Nonagricultural	106.1	104.1	105.7	104.3
Construction	148.9	101.9	145.6	98.2
Manufacturing	106.9	104.8	107.7	105.4
Distributive	105.0	104.8	104.4	105.1
Government	98.4	100.9	97.8	100.9

2. CHANGE FROM 1967		
Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	249.0	228.3
Agricultural	209.7	217.9
Nonagricultural	255.8	228.7
Construction	281.3	187.6
Manufacturing	269.8	213.9
Distributive	249.1	238.1
Government	254.9	240.1
Physical Volume	136.5	126.4
Agricultural	117.8	114.7
Nonagricultural	139.8	126.9
Construction	137.2	91.5
Manufacturing	144.7	115.5
Distributive	140.7	134.4
Government	129.7	135.7

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	
	Feb. 1977 as percent of Feb. 1976	Feb. 1977 as percent of Feb. 1976	Year to date '77 as percent of Year to date '76
<i>The State</i>	107.4	105.4	100.1
1 Omaha	100.4	100.0	99.0
Bellevue	106.6		
2 Lincoln	150.5	144.5	122.1
3 So. Sioux City	104.6	96.1	98.7
4 Nebraska City	120.6	102.5	95.8
5 Fremont	111.4	106.0	96.4
Blair	102.7		
6 West Point	105.0	95.5	94.9
7 Falls City	125.0	106.8	97.8
8 Seward	89.8	98.0	95.2
9 York	97.9	102.2	99.4
10 Columbus	112.4	101.6	94.4
11 Norfolk	102.5	102.3	98.9
12 Grand Island	107.0	104.7	95.0
13 Hastings	106.3	106.2	100.9
14 Beatrice	107.2	105.2	98.4
Fairbury	104.5		
15 Kearney	105.5	104.3	98.7
16 Lexington	111.6	105.4	91.5
17 Holdrege	95.5	89.4	85.4
18 North Platte	98.6	98.0	97.8
19 Ogallala	103.5	94.8	92.0
20 McCook	99.8	95.0	93.0
21 Sidney	98.7	97.1	91.3
Kimball	113.1		
22 Scottsbluff/Gering	93.3	91.8	92.7
23 Alliance	105.6	100.7	99.7
Chadron	110.3		
24 O'Neill	119.9	101.3	108.1
25 Hartington	97.2	91.8	90.6
26 Broken Bow	112.0	101.1	93.7



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)

The index of activity in the government sector regained the nearly constant level it has held since September, with the exception of January's abrupt, but apparently temporary, decline in state and local government employment. Based on government employment in Nebraska at all levels, including federal, government activity in the state was down 1.6 percent from February, 1976.

Real output in Nebraska's distributive sector was up from its year-earlier level, but the 5 percent improvement shown in Table 1 may slightly overstate the increase. Employment and retail sales are both above last year's figures, but since the retail sales figure reported for Lincoln is remarkably high, a downward adjustment in case an error is found could have a substantial effect upon state totals. Thus the 5.4 percent increase in the state's total retail sales reported for February, compared with the same month in 1976, may prove to be some 3 percentage points too high, and the 7.4 percent increase in sales excluding motor vehicles may be in the neighborhood of 3.5 percentage points high.

After adjustment for price changes, 16 of the state's 26 planning regions had total retail sales equal to or above their levels in February, 1976, and there were only 4 regions in which total sales were less than 95 percent of the previous February's level. Sales in 23 of the 31 principal trading centers were higher than last year. Lincoln, Falls City, Nebraska City, and O'Neill had increases of 20 percent or more, and Kimball, Columbus, Broken Bow, Lexington, Fremont, and Chadron all posted increases exceeding 10 percent.

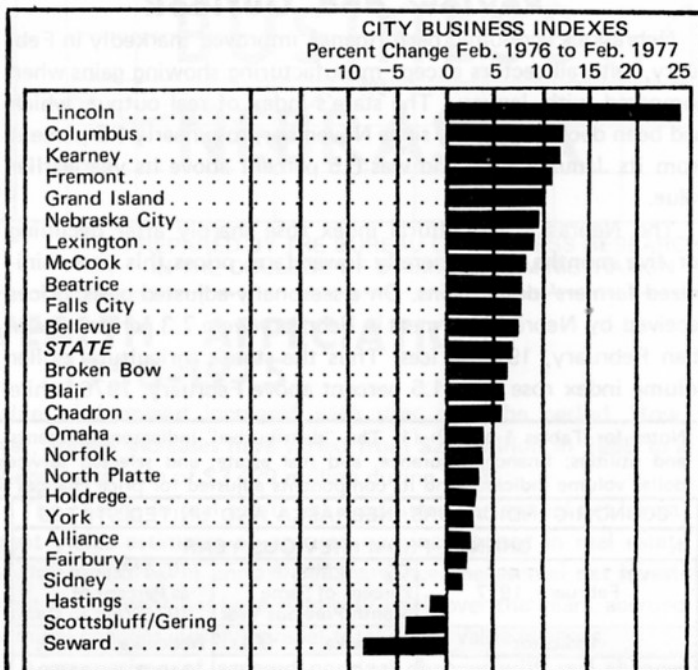
Compared with February, 1976, the city business indexes rose an average of 7 percent, and only three cities sustained losses. In both January and February, Lincoln, Columbus, Kearney, and Fremont were at the top of the city business index rankings. In February they were joined by Grand Island and Nebraska City. Most of the cities achieved their high rankings from broadly based increases from the previous February's levels for banking activity, retail sales, energy consumption, and construction activity. Nebraska City's large increase in retail sales more than offset its slight loss in banking activity, and Lincoln's and Kearney's lower levels of construction activity were offset by high levels of retail sales and banking activity, respectively.

The index of real output for the nation rose only fractionally in February from its revised January mark, and registered a 3.9 percent improvement over February, 1976, while the Nebraska index moved up 6.5 percent. At the national level, the construction, manufacturing, and distributive sectors showed gains from January levels, while the agricultural and government indexes declined.

DUANE HACKMANN

5. PRICE INDEXES			
February, 1977	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	177.1	106.0	105.6
Commodity component	170.9	105.3	104.6
Wholesale Prices	190.0	106.0	105.4
Agricultural Prices			
United States	190.0	100.0	99.2
Nebraska	178.0	92.7	93.1

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



Source: Table 4 below.

4. FEBRUARY CITY BUSINESS INDICATORS			
The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Banking Activity ¹ (Adjusted for Price Changes) ⁴	Building Activity ²	Power Consumption ³
<i>The State</i>	106.8	128.7	102.3
Alliance	94.2	142.3	108.4
Beatrice	109.3	149.6	94.9
Bellevue	102.5	131.4	125.5*
Blair	105.4	125.8	115.2
Broken Bow	104.3	89.4	101.7
Chadron	97.4	175.2	98.6
Columbus	109.2	187.8	106.7
Fairbury	98.4	131.9	96.1*
Falls City	109.0	25.3	101.9
Fremont	104.8	146.2	130.5*
Grand Island	107.7	197.2	111.6
Hastings	94.4	63.1	100.7
Holdrege	97.1	356.1	110.9
Kearney	122.6	92.0	110.2
Lexington	93.8	327.7	119.1
Lincoln	111.7	82.6	103.9
McCook	111.4	240.6	102.8
Nebraska City	98.6	123.8	110.4
Norfolk	104.3	188.4	85.9
North Platte	95.4	323.5	110.0
Omaha	110.9	99.8	98.1
Scottsbluff/Gering	102.1	67.3	90.5
Seward	87.6	86.3	104.8
Sidney	89.7	418.8	100.2
So. Sioux City	NA	NA	NA
York	101.7	194.8	102.7

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.

(Continued from page 3) have experienced periods of quite high rates of return to their equity. The magnitude of real wealth changes in recent years suggests that it should be considered along with conventional income flows in analyzing the economic welfare of the farm sector.

It is emphasized, however, that real wealth gains accruing to farm real estate owners should not simply be added to their annual income flows when analyzing their economic well-being.⁶ These gains are only "paper profits" until realized. Realization of wealth gains can occur from selling land or using the increase of asset value as credit collateral. Selling land is an infrequent event, with less than 3 percent of Nebraska farmland transferring ownership in any given year. Because of its futuristic nature, the possibility of wealth gains by transfer is subject to uncertainty and is discounted accordingly. Obtaining an additional real estate mortgage to finance production or consumption expenses is a more frequent method of realizing wealth gains. It provides for consumption for asset gains sooner than land sales and is more comparable to conventional income. However, it too is not a dollar-for-dollar substitute for conventional income. Real changes in farmland value are related to investors' expectations of future farm income levels and its performance against alternative income-earning assets. When farm income expectations are not realized, land value increases can temporarily outpace the income earning capacity of the resource. Under these circumstances, cash flow restrictions and inadequate debt repayment capacity can limit further extension of credit. Lending policies of mortgage lenders may also be altered, with greater emphasis on cash flows and a lower allowable ratio of debt to asset value. For these and other reasons, research is needed on appropriate methods of integrating real wealth changes and conventional income into an overall analysis of farm sector economic well-being.

A second implication arises in the area of taxation. Present capital gains tax provisions have increased the value of income from disposal of asset wealth relative to conventional income flows, especially for landowners in the upper income tax brackets. Results of this study suggest that increases in capital gains tax rates or other changes in capital gains tax provisions would have a

⁶H. B. Huff and T. G. MacAulay, "Summing Components of Real Capital Gains," *American Journal of Agricultural Economics* 55, No. 1 (February, 1973).

substantial effect on the agricultural sector. Any proposed policy changes in capital gains taxation should be carefully examined from the standpoint of farmland owners.

SUMMARY

The dollar value of Nebraska's farm real estate increased six-fold from January, 1950, to January, 1976. The net impact of real estate appreciation on the wealth position and economic well-being of landowners can be assessed by adjusting dollar changes in farm real estate value for (1) net investment in farmland and improvements, and (2) purchasing power changes in the dollar. This study estimated *real* wealth change accruing to owners of farm real estate in Nebraska from 1950 through 1975.

Additions to real wealth occurred in 20 of the 26 years studied with considerable year-to-year fluctuations. More than 28 percent of the total 26-year real wealth increase occurred in 1975. Losses occurred, however, as recently as 1970.

About three-fifths of the real wealth change accrued to farmer-owners. This nonconventional income component of economic well-being averaged 25 percent of net farm income over the 26-year period. For the period 1970-1975, however, real wealth change averaged 43 percent of net farm income, reflecting record appreciation rates in land values.

Real wealth increases can be realized by sale of the property or by using these asset gains as credit collateral. In neither case is the wealth component a dollar-for-dollar substitute for conventional income. Further research is needed on integrating this component into a welfare measure of the farm sector.

Overall, Nebraska farm real estate has been an effective inflation hedge from 1950 to 1976, with considerable annual variation in real wealth change. As for the future, it appears that price inflation will continue to be a persistent problem, and the gap between nominal and real changes in the value of farmland will remain. Analysis based solely on market value changes will create greater confusion than understanding for the farmland investor, the lender, the researcher, and the policy maker. More refined monitoring of real wealth changes in the farm sector is justified if an improved understanding of economic well-being is to be achieved.

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