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FINANCIAL CONDITIONS IN NEBRASKA AGRICULTURE

by
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INTRODUCTION

Agriculture's financial structure has dramatically changed in recent years. Agricultural debt has rapidly expanded here in Nebraska, as well as nationally. It has essentially doubled since 1977. For American farmers, interest charges accounted for about fifteen percent of total production expenses in 1982, compared with 12 percent in 1980 and 7 percent in 1973. [3] Although specific data are not available, a similar pattern could be anticipated for Nebraska.

During the 1970s, assets (particularly real estate) were rapidly appreciating in value. Therefore, farm sector equity was increasing along with expanded debt, and the debt-to-asset ratio for the total sector remained essentially stable at about .16 to .17.

However, during the first part of the 1980s, some deterioration of the United States farming sector's financial position has occurred. Net worth has declined during the past two years, primarily because of falling land values. Simultaneously, the sector has continued to expand its debt holdings, although at a slower rate than that of the 1970s. Consequently, the debt-to-asset ratio for the United States' farm sector, as of January 1983, is forecasted to be .20--highest level in 40 years. [3]

While these changes are some cause for concern, the farming sector's aggregate financial situation still appears quite sound. Few if any other manufacturing industries of the United States economy could boast of a debt-to-asset relationship so low.¹ However, imbedded within this aggregate financial statement is a heterogeneous group of financial conditions comprised of farmers and other ownership groups. Many of these have experienced severe financial stresses in recent years and are not as financially sound as is the sector as a whole. Thus, a more detailed financial analysis is in order.

The purpose here is to focus on the current financial condition of Nebraska's farming sector, and--to the extent possible--divide it into its more meaningful component parts for more detailed analysis. Results of the 1979 Farm Finance Survey will be used extensively for this effort.² In addition, state-level balance sheet statistics from USDA sources will serve as a base point.

THE NEBRASKA SITUATION

A time comparison of balance sheet characteristics reveals rather substantial changes in the financial position of Nebraska's farming sector (see top portion of Table 1). Since early 1977, total farm debt (in current dollar terms) has more than doubled. Largest annual gains in debt were occurring during the late 1970s--a time of rapid asset appreciation and relatively low-cost credit. However, even with reversal of these conditions in the early 1980s, the debt load still grew; the January 1, 1983 preliminary estimate is about twenty-five percent above the 1980 level.

As noted earlier, farm assets (particularly land) were rapidly appreciating during the last half of the 1970s. For the three-year period--January 1, 1977 to January 1, 1980--the Nebraska farming sector's asset value increased more than fifty percent. Because of such gains, the sector's financial position remained quite healthy, even though debt was expanding at the rate of nearly one billion dollars per year. Farm sector equity grew by more than \$10.7 billion during the decade's last three years. As of January 1, 1980, the sector's debt-to-asset ratio remained below .19--a modest, debt encumbrance level. Likewise, debt as a percent of equity (the leverage ratio) was less than .25.

In marked contrast to the late 1970s, 1980-1982 was a period of sharp equity decline, paced by lower land values. Low farm income for three successive years was obviously the major force behind this asset depreciation. Coupled with continued debt expansion, the sector's balance sheet position has deteriorated. While debt expanded nearly two billion dollars, total asset value dropped more than \$1.5 billion from January 1, 1980's level. Thus, the equity or net worth position in current dollar terms, as of January 1, 1983, was more than ten percent below the level at this decade's beginning.³ Correspondingly, current financial ratios also reveal some financial erosion. The debt-to-asset ratio jumped to .246; while, conversely, equity as a percent of assets dropped to .754. Yet, the financial position for Nebraska's farm sector as a whole appears basically sound. The ratio of total assets to debt remains above 4 to 1--which, in terms of debt repayment ability, can generally be regarded as a very solvent position.

It bears repeating, however, that averages for the total sector are only crude representations of the various individuals and groups of individuals which comprise the sector. Therefore, further delineation of the sector into its key component groups is necessary to more fully appraise agriculture's financial health.

BALANCE SHEET CHARACTERISTICS FOR FARM SECTOR, FARM OPERATORS, AND INDEBTED OPERATORS IN NEBRASKA
BEGINNING YEAR ESTIMATES FOR 1977, 1980, AND 1983*

BALANCE SHEET FOR:	JANUARY 1, 1977	JANUARY 1, 1980	JANUARY 1, 1983**
STATE FARM SECTOR			
Total Farm Assets (million \$)	\$26,709.5	\$40,384.3	\$38,838.7
Total Farm Liabilities (million \$)	4,696.3	7,645.6	9,547.1
Equity (million \$)	22,013.2	32,738.7	29,291.6
Financial Ratios:			
Debt/Assets	.176	.189	.246
Debt/Equity	.213	.234	.326
Assets/Debt	5.687	5.282	4.068
Equity/Assets	.824	.811	.754
FARM OPERATORS ONLY			
Total Farm Assets (million \$)	18,296.0	27,663.2	26,604.5
Total Farm Liabilities (million \$)	4,384.0	7,137.2	8,912.2
Equity (million \$)	13,912.0	20,526.0	17,692.3
Financial Ratios:			
Debt/Assets	.240	.258	.335
Debt/Equity	.213	.348	.504
Assets/Debt	4.173	3.876	2.985
Equity/Assets	.760	.742	.665
INDEBTED OPERATORS ONLY			
Total Farm Assets (million \$)	14,087.9	21,300.7	20,538.7
Total Farm Liabilities (million \$)	4,384.0	7,137.2	8,912.2
Equity (million \$)	9,703.9	14,163.5	11,626.5
Financial Ratios:			
Debt/Assets	.311	.335	.434
Debt/Equity	.452	.504	.767
Assets/Debt	3.214	2.985	2.305
Equity/Assets	.689	.665	.566

*State farm sector estimates for 1977 and 1980 are as published in *Economic Indicators of the Farm Sector, State Income & Balance Sheet Statistics, 1981* Economic Research Service, U. S. Department of Agriculture, ECIFS 1-2, October 1972. The statistics for farm operators and indebted operators are derived from sector totals using relative distribution of assets and claims as reported for Nebraska in the Bureau of Census, 1979 Farm Finance Survey.

**A preliminary estimate.

FARM OPERATORS ONLY

A significant proportion of farm assets are not owned by farm operators, but rather by nonfarmer landlords. Therefore, the first logical step of disaggregation is separating the landlord portion and the farm operator portions of the aggregate balance sheet.

The 1979 Farm Finance Survey indicated that some seventy-five thousand nonfarmer landlords own nearly thirty-two percent of all assets in Nebraska's farming sector. As expected, real estate comprises the bulk of their farm asset value; thus, landlords account for approximately forty-four percent of the sector's total real estate asset value.

While their asset position is substantial, landlords tend to have little or no debt (Table 2). In fact, most landlords are debt-free. According to the 1979 Farm Finance Survey, only 12 percent of Nebraska's farm landlords reportedly had agricultural debt. Moreover, the magnitude of debt--where it did occur among this group--was small, relative to debt levels of active farmers. Consequently, the landlord share of total farm sector debt is less than seven percent.

Removal of the landlord portion from the sector's balance sheet leaves a balance sheet for Nebraska's active farm operators only. As indicated in Table 1, this delineation reveals a financial condition for active farmers somewhat different from that of the total sector. More specifically, the financial deterioration since 1980

has been more pronounced; total farmer equity has declined some fourteen percent in nominal terms (approximately twenty-five percent in real terms). The current debt-to-asset ratio for farm operators is nearly .34, while the net capital ratio--total assets to total debt--is at 3. Comparing current conditions with 1977 levels, in terms of equity-to-assets, indicates a clear regression of financial well-being for active farmers; particularly since 1980 has the relative debt encumbrance grown substantially.

However; further delineation is also necessary in our financial conditions analysis.

INDEBTED FARM OPERATORS

While debt is commonly viewed as an economic necessity, a surprising number of Nebraska farmers are debt-free. According to the 1979 Farm Finance Survey, about one-third (34 percent) were debt-free at 1979's conclusion. However, as can be noted in Table 2, these farm operations tend to be smaller than those of operators with debt--less than 60 percent in terms of asset value. Thus, the proportion of operator-owned farm assets held by this debt-free farmer group was only 23 percent.

Nevertheless, removal of this group's asset value leads to a further, sizable adjustment of Nebraska agriculture's financial profile. The residual group, which represents Nebraska's farmers having agricultural debt, is comprised of some 41,600 operators. On

average, this group owned assets valued at about \$494,000 per farm operator on January 1, 1983. However, average claims against those assets exceeded \$214,000, implying a debt-to-asset ratio of .434. Moreover, the ratio of assets-to-debt for indebted farmers is currently 2.3 (most lenders would prefer to avoid a solvency position below 2 to 1).

A time comparison reveals that the financial situation's deterioration has been particularly acute for indebted farm operators. Since January 1980, their equity (net worth) in current dollar terms has declined 18 percent in nominal terms and about thirty-two percent in real terms. In other words, for the years 1980-1982, the indebted farm operator group saw its equity position erode from an average of \$340,500 per operation to \$279,500--a decline of more than \$20,000 per year. Over the same time period, their indebtedness grew 25 percent (an average of \$14,700 per year per operation). Assuming the current average interest rate of 12 percent on debt owed by indebted operators, the current annual interest obligation to creditors averages about \$26,000 per operation! It is, therefore, obvious why problems of cash flow have been so severe during these recent years of short income and high interest rates.

CONCLUSIONS AND IMPLICATIONS

Balance sheet analysis of Nebraska's farming sector reveals substantial changes occurring recently. Asset depreciation occurring over the past two years--coupled with major debt expansion since the mid-1970s--has resulted in some financial deterioration for the sector as a whole. Yet, more grave are financial structural changes occurring among this state's 42,000 indebted farm operators. For this group, which accounts for about two of every three Nebraska

farm operators, creditors' claims are now approaching 45 percent of their asset holdings. If this is the *average* debt-to-asset ratio for all indebted farmer operators, then many of these individual farmers have even higher ratios. Current financial exposure for perhaps as many as one of every six Nebraska farmers is seriously high; i.e., an asset-to-debt ratio falling considerably below 2. Besides severe cash flow problems arising from these heavy debt loads, deteriorating financial solvency becomes a mounting concern.⁴ In the eyes of the typical lender, these farmers' credit-worthiness is in jeopardy. Whether these farmers could sustain another low-income year with further asset depreciation is debatable. Economic survival lies in the balance--a delicate balance indeed.

As for debt-free farmers and most farm landlords, the past few years have certainly been a period of equity erosion. Large capital gains accumulated during the previous decade, but only a few owners realized such gains by selling 'high' their land and other farm assets. Much of what so dramatically appeared as unrealized 'paper wealth' on individual net worth statements has essentially vanished almost as quickly. In fact, farmland--the primary farm asset--was valued in real terms in early 1983 at levels comparable to 1975 values. In short, due largely to recent asset depreciation, virtually no inflation-adjusted capital gains have accrued to Nebraska farmland owners since 1975.

However, while their net worth has declined, debt-free farmer operators and virtually all farm landlords remain financially sound. Unplagued by debt encumbrances, they are usually able to maintain positive cash flows--despite depressed farm income levels. Moreover, there often are sizable income flows from off-farm sources to these owners--particularly landlords. As a consequence, these asset owner groups' economic survival is not an issue.

(Continued on page 6)

Table 2

FINANCIAL PROFILE OF MAJOR OWNER GROUPS COMPRISING NEBRASKA'S FARMING SECTOR: JANUARY 1, 1983*

ITEM	FARM LANDLORDS	DEBT-FREE FARM OPERATORS	INDEBTED FARM OPERATORS
Number of Owners	74,729	21,595	41,595
ASSETS:			
Total Farm Assets \$/owner	\$163,700	\$281,400	\$493,800
Real Estate Assets \$/owner	\$155,400	\$160,300	\$278,100
CLAIMS:			
Total Farm Debt \$/owner	\$ 8,500	----	\$214,300
Real Estate Debt \$/owner	\$ 6,054	----	\$ 85,400
EQUITY:			
\$/owner	\$155,200	\$281,400	\$279,500

*Based upon (1) numbers and relative distribution of assets and claims reported for Nebraska in the Bureau of Census, 1979 Farm Finance Survey and (2) a preliminary estimate of the farm sector balance sheet for January 1, 1983.

Review and Outlook

Nebraska's economy recorded a slight decrease in economic activity in February compared with January 1983. The Bureau of Business Research's net physical volume index declined a scant 0.2 percent. As has been the case in recent months, the agricultural sector moved in one direction, while the nonagricultural sector moved in the opposite direction.

The agricultural component recorded a 0.4 percent increase January-February 1983. February cash receipts were estimated \$587 million, up \$18 million from February 1982. On a seasonally-adjusted basis, cash farm marketings were up 3.2 percent.

Prices received for Nebraska agricultural products were unchanged, when compared with one year previous. On a month-to-

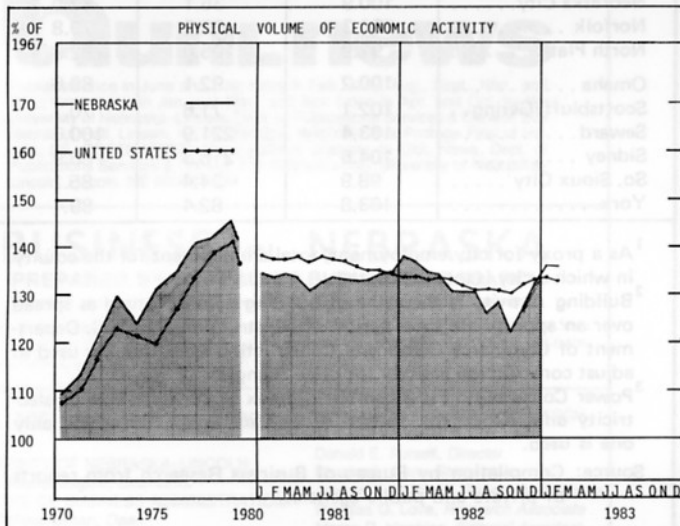
month basis, prices were up 2.1 percent. Nationally, prices received were up 2.6 percent, on a month-to-month basis, but down 0.4 percent, when compared with one year ago.

The economy's nonagricultural component continues to exhibit weakness. The Bureau's net physical volume index dropped 0.4 percent. Construction was down 4.9 percent, on a month-to-month basis. This sector remains very depressed, when compared with previous years, although there is some reason for guarded optimism for the remainder of 1983. Not reflected in the index, at this point, is the slight rise in residential housing starts in Nebraska and the anticipated highway construction growth, following introduction of the five-cents-a-gallon gasoline tax. Construction should provide the state's economy a modest boost in months ahead.

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 1983	Current Month as Percent of Same Month Previous Year		1983 Year to Date as Percent of 1982 Year to Date	
	Nebraska	U.S.	Nebraska	U.S.
Indicator				
Dollar Volume	102.4	102.3	102.3	102.6
Agricultural	114.2	103.9	111.2	102.0
Nonagricultural	100.3	102.2	100.7	102.6
Construction	86.3	112.7	87.0	113.2
Manufacturing	82.1	92.4	82.8	91.8
Distributive	105.1	104.9	105.5	105.8
Government	107.6	105.7	107.6	105.6
Physical Volume	99.1	99.0	98.9	99.2
Agricultural	114.2	104.3	111.2	103.9
Nonagricultural	96.2	98.8	96.6	99.1
Construction	84.8	110.7	85.7	111.6
Manufacturing	81.0	91.8	81.8	91.2
Distributive	101.6	101.4	101.8	102.1
Government	99.3	99.3	99.2	99.2
2. CHANGE FROM 1967				
Indicator	Percent of 1967 Average			
	Nebraska	U.S.		
Dollar Volume	373.4	368.1		
Agricultural	462.4	343.3		
Nonagricultural	359.7	368.9		
Construction	188.4	334.1		
Manufacturing	291.3	279.6		
Distributive	395.3	418.2		
Government	386.6	383.8		
Physical Volume	135.7	132.7		
Agricultural	187.2	142.4		
Nonagricultural	127.8	132.4		
Construction	55.9	99.1		
Manufacturing	120.9	113.4		
Distributive	134.8	142.6		
Government	142.1	146.4		

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES			
Region Number ¹ and City	City Sales ²	Sales in Region ²	
	Feb. 1983 as percent of Feb. 1982	Feb. 1983 as percent of Feb. 1982	Year-to-date '83 as percent of Year-to-date '82
<i>The State</i>	92.8	94.2	100.6
1 Omaha	103.2	104.7	103.4
Bellevue	111.8		
Blair	96.9		
2 Lincoln	93.1	94.5	103.5
3 So. Sioux City	80.6	89.6	103.6
4 Nebraska City	82.2	100.8	105.4
6 Fremont	69.7	81.9	97.9
West Point	97.6		
7 Falls City	94.9	93.1	103.2
8 Seward	87.9	98.8	105.5
9 York	96.8	99.7	106.0
10 Columbus	94.8	96.1	111.6
11 Norfolk	96.0	96.6	111.1
Wayne	104.1		
12 Grand Island	94.3	98.0	108.0
13 Hastings	94.2	95.1	104.4
14 Beatrice	97.9	101.4	109.5
Fairbury	112.4		
15 Kearney	88.4	87.7	103.1
16 Lexington	92.0	92.8	101.4
17 Holdrege	77.3	87.4	102.4
18 North Platte	97.4	101.7	111.5
19 Ogallala	97.6	93.8	101.1
20 McCook	77.9	84.6	98.9
21 Sidney	73.3	74.1	85.0
Kimball	61.0		
22 Scottsbluff/Gering	91.4	90.5	101.4
23 Alliance	74.3	80.7	97.1
Chadron	68.9		
24 O'Neill	88.0	86.7	93.2
25 Hartington	93.6	95.5	100.9
26 Broken Bow	85.3	91.6	101.5

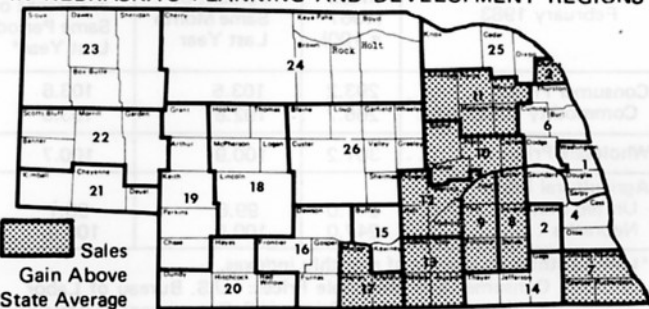


¹ See region map below.

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.

1983 YEAR TO DATE AS PERCENT OF 1982 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



(Continued from page 4)

The manufacturing component of the Bureau's index declined 2.4 percent January-February 1983. The index was estimated at 120.9 in February 1983 (1967=100), its lowest point in the recession. By way of comparison, the manufacturing component of the Bureau's index was 149.3 in February 1982 and 153.6 in February 1981. For manufacturing to provide the state's economy a boost, recall of many furloughed employees would have to occur. Manufacturing employment in Nebraska has declined almost 20,000 jobs since January 1980. March 1983's manufacturing employment was estimated at 79,550. Modest manufacturing employment gains are forecast over 1983.

Nebraska's distributive trade sector recorded a slight 0.2 percent increase, on a month-to-month basis. The distributive trade index was estimated at 134.8 in February 1983 (1967=100). This is slightly ahead of February 1982, when the index was estimated at 132.8, and 1981, when the index was 132.3. The distributive trade sector has weathered the recession better than manufacturing or construction.

Retail sales continued weak in February. Total retail sales were estimated at \$622 million, compared with \$660 million in February 1982. On a dollar volume basis, retail sales fell 5.8 percent in the state. When adjusted for price changes, retail sales dwindled 8.3 percent. Prices were adjusted using the commodity component of the consumer price index which recorded a 2.8 percent increase over the interval February 1982-February 1983. Inflation continues to ease, although increases are anticipated during 1983's latter half.

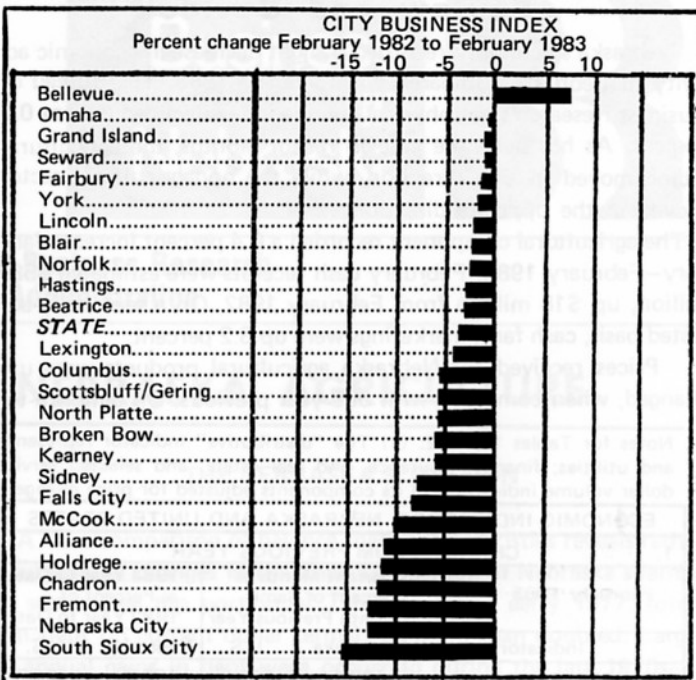
Like the state economy's other components, retail sales exhibited a mixed picture. Motor vehicle sales were the strongest segment, recording a +10.5 percent on a dollar volume basis. Adjusted for price changes, motor vehicle sales rose 7.5 percent.

Nonmotor vehicle sales diminished approximately \$45 million dollars, on a year-to-year basis. Sales totaled \$561 million in February 1983, compared with \$605 million in February 1982. On a dollar volume basis, nonmotor vehicle sales slackened 7.2 percent. When adjusted for price changes, nonmotor vehicle real retail sales were down 9.7 percent.

Statewide, of course, retail sales were down (as noted above), but there are some exceptions to this weakness. Omaha and Bellevue recorded retail sales increases in February 1983, compared with one year previous. Sales were also above year-previous levels in Wayne and Fairbury.

Bellevue led all cities in the Bureau's city business index this month. Building activity, retail sales, and employment were instrumental in pushing Bellevue to the top.

D.E.P.



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

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>	100.4	102.8	86.9
Alliance	101.0	119.4	83.5
Beatrice	100.3	72.4	94.1
Bellevue	100.4	184.1	93.7
Blair	104.6	66.8	80.6
Broken Bow	106.5	74.7	91.4
Chadron	100.4	170.3	84.1
Columbus	99.5	69.2	92.0
Fairbury	100.9	30.1	88.9
Falls City	101.3	39.0	80.6
Fremont	101.6	104.4	77.5*
Grand Island	101.2	154.1	87.5
Hastings	96.9	138.8	81.5
Holdrege	105.3	60.3	86.5
Kearney	103.2	75.7	89.0
Lexington	101.8	83.7	71.0
Lincoln	98.0	175.6	91.3
McCook	108.5	48.0	84.7
Nebraska City	100.9	36.1	87.0
Norfolk	100.3	97.3	79.8
North Platte	91.9	106.0	82.8
Omaha	100.2	92.1	89.6
Scottsbluff/Gering	102.1	71.6	70.1
Seward	103.4	221.9	100.6
Sidney	104.5	218.3	86.9
So. Sioux City	98.9	34.4	85.1
York	103.8	82.4	89.4

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.

February 1983	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	293.2	103.5	103.6
Commodity component	266.7	102.8	103.0
Wholesale Prices	301.2	100.9	100.7
Agricultural Prices			
United States	241.0	99.6	98.1
Nebraska	247.0	100.0	100.0

*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 foregoing carries some implications for farm asset value trends in the near future. Because the major portion of more permanent assets are owned by those not in serious financial straits, widespread asset liquidation is unlikely. Take the case of real estate. In Nebraska, nearly fifty-seven percent of the farm real estate asset value is owned by debt-free farm operators or landlords with little or no farm debt. Therefore, forced liquidation of real estate assets, due to financial pressures, is likely to remain a problem of the minority--not the majority--of real estate owners. In turn, this provides a form of economic buffer for the farmland market--reducing the farmland depreciation effects of chronic low farm income. This is not to say further asset depreciation will not occur; additional declines are certainly possible. However, the magnitude of any nominal decreases in value would probably be reduced because of most owners' financial strength.

On a final note, there is no question that major structural changes are occurring in our nation's economy. Having been so closely tied to the general inflationary and debt-expansion 'mind-set' of the 1970s, the farm sector has not been immune to such changes. The current severity of consequences is probably as much the result of bullish optimism and ill-founded presumptions concerning the future during the 1970s as it is the result of low farm incomes of the 1980s. Of course (as documented in this analysis), the impacts are not evenly distributed; furthermore, it appears that those who--either from necessity or choice--took the greatest economic chances during the past 10 years are now some of those most vulnerable to economic loss and potential foreclosure. Such is the dynamic of any economic system involving a market allocating process.

NOTES

¹Direct comparison of financial ratios with other sectors is not feasible because of different asset valuation bases. The farm sector figures are based on revaluing assets at current prices each year, while those for manufacturing are based on book value or cost at purchase. [2]

²This survey was conducted by the Bureau of the Census as a supplement to the 1978 Census of Agriculture. Information collected reveals the financial profile of farm operators as of December 31, 1979. It should be noted that, because it is a survey, sampling error does exist. Therefore, there is obviously 'underreporting' of total debt; consequently, aggregate estimates are not made from this source, but rather are adopted from series maintained by USDA.

³Of course, in real (inflation-adjusted) terms, the decline has been even greater. On the basis of the GNP Price Deflator, the real decline was about twenty percent.

⁴As to whom constitutes this group, it is somewhat difficult to tell. However, Gessaman and Morris suggest the current financial pressures are particularly severe for operators of producing units who are (a) engaged in intensive (and extensive) cropping practices sustained by borrowed funds, or (b) heavily leveraged with recently-acquired debt at relatively high interest rates, or (c) practicing a level of financial and business management that prevents lenders from continuing or expanding current credit availability. [1]

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