

# Business in Nebraska

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## Structural Changes in the U.S. Pork Industry: Implications for Nebraska

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The U.S. pork industry currently is undergoing dramatic structural changes that will have important impacts on Nebraska producers and the state's economy. Hog production has been shifting from small, independent producers to fewer and larger operations, many of which produce hogs under contract for processors. There has been a concurrent general decline in production in the Midwestern states, which historically have been the largest suppliers of hogs, accompanied by rapid growth in production in other areas.

The shift of production from the Midwest to other states can be attributed to a number of factors. Some of the shift is due to the enactment of state laws that restrict the agricultural production activities of nonfamily corporations. These corporate farming laws, which were written to protect small producers and family farms, have forced new pork production and processing facilities into other states.

### Structural Changes in the Pork Industry

Although total pork production has been increasing, the number of hog farms in the United States has dropped from about 900,000 to 250,000 during the past two decades. This trend toward fewer and larger farms has accelerated in recent years. Experts predict a continued decline to 100,000 farms by the end of the current decade.

The restructuring of the industry has been driven by increased consumer demands regarding health, nutrition, and convenience, coupled with technological advances that have improved production efficiency, consistency, and quality. Technological advances include genetically enhanced breeding stock that enable producers to raise leaner hogs more quickly and with

less feed, climate-controlled buildings that ensure optimal production regardless of weather, computer information systems that allow constant monitoring of herd performance and health, and veterinary products based on the latest biotechnology research. As a result of these advances, modern producers have the ability to produce hogs that are almost identical in size, shape, and quality. Adopting of these new technologies requires substantial capital investments. Consequently, the greatest cost savings are earned by large producers, some capable of producing more than a half million hogs annually.

Faced with fewer, larger producers, processors have begun to rely more on contract production and vertical integration to ensure steady supplies of hogs and to coordinate product characteristics with consumer preferences. Under contract production, a processor or the owner of a farrowing operation typically owns the pigs and pays the farmer a flat fee plus performance incentives to feed the pigs to slaughter weight according to its specifications. The farmer provides the land, labor, buildings, and equipment; the processor provides the pigs, feed, veterinary supplies, management services, and, in some cases, financing.

Under contract production, much of the control over the production process is transferred from the farmer to the processor. In vertical integration, the processor assumes even greater control over production through ownership of all facilities and equipment. The role of the farm producer is replaced by employees of the processing firm.

The shift to contract production and vertical integration further threatens the survival of smaller,

independent producers. As more of the industry's processing capacity is met by contract production and vertical integration, the market access of independent producers will be reduced. Because of strong competition from other meats (particularly poultry), some of the efficiency gains in the pork industry will be passed to consumers in the form of lower prices. As prices fall, more of the smaller, less efficient producers will fail.

#### State Corporate Farming Restrictions

Some livestock-producing states have tried to protect small producers by restricting corporate farming or regulating contract production and vertical integration. Nine Midwestern states have enacted some form of corporate farming law, including seven of the twelve largest—pork producing states—Iowa, Kansas, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin (Table 1). Although the provisions of these laws vary widely, they generally restrict the farming or land-holding activities of corporations. They also may prohibit the contract production of livestock.

Because of these restrictions, large pork firms have been forced to establish new production and processing facilities in states with more hospitable legal climates. Recent growth in pork production has occurred in the South, Southwest, and West, including near-by Colorado, Oklahoma, and Wyoming, where historically pork production has been almost nonexistent.

Nowhere has recent growth been more rapid than in North Carolina. Since 1990 North Carolina producers have added about 280,000 animals to their breeding herds. The combined breeding herds of the rest of the country decreased by 122,000 animals during the same period. The expansion in North Carolina breeding herds

during this three year period exceeds the total size of the breeding herds in five of the twelve largest hog-producing states. Since 1990 North Carolina has moved from seventh to third in the nation in total hog and pig inventories, passing Nebraska in 1993 (Figure 1). Current projections indicate North Carolina will be second only to Iowa in total inventories by the end of 1994. North Carolina's remarkable growth is due to a number of factors, including the existence of an environment favorable to corporate farming.

#### Other Factors Affecting Industry Expansion

In addition to corporate farming restrictions, several other factors are important considerations for firms locating new pork production and processing facilities. Although the availability of abundant supplies of feed grains is the major reason for the Midwest's historical predominance in hog production, it appears that this advantage is becoming less important. Other costs of production, such as the costs of construction, financing, labor, energy, waste disposal, and transportation also must be considered. States like North Carolina have an advantage over Midwestern states in the transportation of finished pork products because they are closer to large East Coast consumer markets.

Environmental considerations are becoming increasingly important. Although all states are subject to federal statutes, state environmental laws and enforcement vary. Oklahoma, for example, has attempted to attract livestock by rewriting its environmental laws. Producers in all states are subject to changes in federal policy—for example, more stringent enforcement of the Clean Water Act by the U.S. Environmental Protection Agency. The importance of environmental concerns also is influenced by climatic differences among states. Drier climates generally pose fewer water quality problems, but they may make it more difficult for producers to acquire adequate supplies of water.

Existing concentrations of livestock and human populations also are becoming more important. States with low concentrations of livestock may welcome growth, while areas with high concentrations of people may not. Conflicts between hog producers and neighbors frequently take the form of nuisance lawsuits and land use disputes. To deal with these conflicts, some states have amended their right-to-farm laws to include generally accepted agricultural practices. Other states have created livestock enterprise zones to isolate production. Incentives offered by states include tax abatements on new livestock structures and tax incentives for new job creation.

Finally, the type of farming enterprises that currently predominate in a region may affect the growth of new pork production activities. Midwestern cash grain farmers are often reluctant to become involved in hog farrowing operations because of the time commitment.

**Table 1**  
**Twelve Largest Hog Producing States by Total Inventory**  
**December 1 of 1983 and 1993**

State	1983		1993		Increase (percent)
	Rank	Inventory (thousands)	Rank	Inventory (thousands)	
Iowa	1	15,000	1	14,600	-3
Illinois	2	5,400	2	5,300	-2
North Carolina	7	2,350	3	5,250	123
Minnesota	3	4,400	4	4,600	5
Nebraska	5	4,000	5	4,250	6
Indiana	4	4,200	6	4,150	-1
Missouri	6	3,600	7	2,950	-18
South Dakota	9	1,730	8	1,750	1
Ohio	8	2,200	9	1,630	-26
Kansas	10	1,650	10	1,330	-19
Michigan	13	1,250	11	1,200	-4
Wisconsin	12	1,280	12	1,170	-9
<b>12 States</b>		<b>47,060</b>		<b>48,180</b>	<b>2</b>
<b>United States</b>		<b>56,694</b>		<b>56,798</b>	<b>0</b>

Source: U.S. Department of Agriculture

On the other hand, North Carolina farmers concerned about the future of the tobacco industry have been eager to enter livestock production contracts, which provide them a means to continue farming with small land bases. In addition, because of the extensive use of production contracts in the poultry industry, farmers in that region quickly have accepted the use of contracts in pork production.

#### Importance of Hog Production to Nebraska's Economy

Hog production is an important industry in Nebraska. Nebraska currently ranks fifth in the country in total hog and pig inventories and is one of only four states among the twelve largest hog-producing states to show an increase in inventories over the past ten years (Table 1). In 1992 Nebraska farmers marketed 7.7 million head of hogs, accounting for \$777 million in cash receipts. This figure represented 9 percent of the state's total of \$8.8 billion in cash receipts from farm marketings.

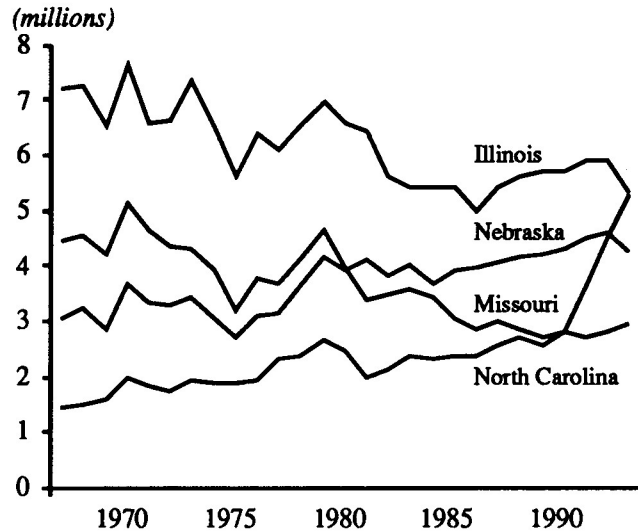
Although these figures represent a sizable amount of economic activity, they represent only a portion of the total economic activity attributable to hog production. In addition to cash receipts from marketings, the hog industry generates a large impact on the state economy through the purchase of supplies and services used by hog producers and further value-added activities occurring beyond the farm gate, such as pork processing and transportation. Although this impact is concentrated in agricultural industries, personal income earned in these industries is spent in the rest of the economy, stimulating a wide range of service and trade businesses in urban areas.

A recent Iowa study estimated that every \$1 million of hog production created \$1.94 million in total industry output, \$0.61 million in personal income, and 18 jobs in the state. Every \$1 million of hogs slaughtered in the state produced an additional \$2.32 million in industry output, \$0.39 million in personal income, and 13 jobs. Although these figures cannot be applied directly to Nebraska, they demonstrate that the value of Nebraska's pork industry greatly exceeds the cash receipts from hog marketings.

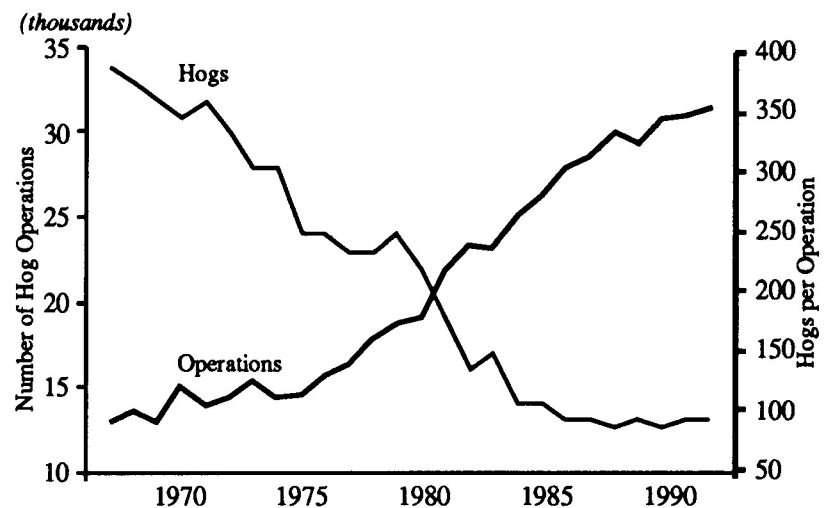
#### Increased Concentration in Nebraska Hog Production

The national trend toward greater concentration in the hog industry is evident in Nebraska, as demonstrated in Figure 2. In 1967 there were 34,000 hog producers in the state, but by 1992 the number of producers had dropped to 13,000. During the same 25 year period the average number of hogs per farm had increased from 90 to 354.

**Figure 1**  
Number of Hogs and Pigs, Selected States



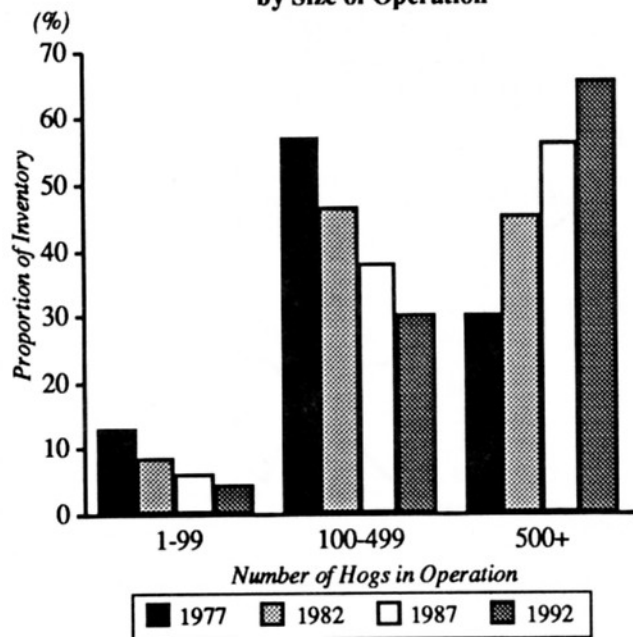
**Figure 2**  
Number of Hog Operations  
and Hogs per Operation, 1967 to 1992



This increased concentration is apparent in Figure 3, which shows the proportion of the state's total inventory of hogs and pigs by size of operation. Both the number of hog operations with more than 500 head and the proportion of the state's total inventory held by these operations have been increasing steadily. Since 1977 the proportion of the state's total hog inventory held by operations with more than 500 head has increased from 30 percent to 66 percent. Meanwhile, both the number of smaller hog operations and the proportion of the state's hog inventory held by those operations have been declining.

Like other Midwestern states, Nebraska has taken action to protect small producers and family farms. In 1982 Nebraska voters authorized a constitutional amendment, commonly known as Initiative 300, that prohibits nonfamily farm corporations and limited partnerships from acquiring interests in agricultural land and from farming or ranching. Farming and ranching includes the ownership, keeping, or feeding of animals for the production of livestock or livestock products. General partnerships and nonprofit corporations are exempt from Initiative 300's restrictions. The latter may include farmer cooperatives organized as

**Figure 3**  
Proportion of Hog Operations  
by Size of Operation



nonprofit corporations, although this never has been tested in court.

Initiative 300 has been successful in deterring corporate farming in Nebraska. It also has prohibited Nebraska hog producers from entering contract production with processors and other corporations and from jointly investing in large scale farrowing facilities for supplying their finishing operations with low cost, genetically enhanced feeder pigs. Although Initiative 300 has not prevented the continuing decline in the number of hog operations in the state, Nebraska's hog and pig inventories have shown modest growth during the past ten years. During the same period total hog and pig inventories in the rest of the Midwest generally have declined.

Much of Nebraska's growth in hog numbers can be attributed to an abundance of inexpensive corn and to the fact that many of the state's hog producers operate aging facilities. Because their capital expenses are low, these producers may be able to compete with larger, more efficient producers in the short term. As these facilities become unusable, however, their owners may not be able to afford replacing them with modern ones.

#### The Pork Industry's Future in Nebraska

Experts expect current trends in the pork industry to continue, resulting in fewer and larger hog producers with closer ties to processors. As small, inefficient hog operations continue going out of business, they must be replaced with larger, more capital-intensive operations if Nebraska is to maintain or improve its share of U.S. hog production. Yet it is unclear to what extent independent producers will be able to make the investments in large scale, high technology operations necessary to be competitive while remaining outside the contract production system. Meanwhile, processors that cannot engage in contract production with Nebraska producers have begun to look elsewhere for hog supplies and locations for new farrowing and processing facilities in order to coordinate product characteristics and cost savings with producers.

Although the intent of corporate farming restrictions has been to preserve the traditional structure of agricultural production, states with these restrictions are powerless to shape the policies of other states. As other states create climates favorable to contract production and vertical integration, the pork industry in these states is growing. Given the relative decline in Midwest hog numbers, it may be appropriate for Nebraska to reexamine whether it is doing all that it can to create an environment in which the pork industry will continue to thrive.

## Will There be Enough Nebraska Workers to Fill Future Jobs?

John S. Austin

Two recent issues of *Business in Nebraska* and the BBR's *Annual Report for 1994* present projections for Nebraska's economy and conditional projections for Nebraska's population. The reports indicate that the Nebraska economy will continue to produce more jobs and higher real income; however, if the state's future net migration follows the patterns of the 1980s, we will see a decrease in population, particularly in rural areas. If both projections are accurate, the issue becomes whether there will be enough workers in Nebraska to fill future jobs.

### Background

The February 1994 issue of *Business in Nebraska*, presented projections of the Nebraska population under the assumption that the migration of the 1980s will persist. Under this assumption, the Nebraska population will decrease 0.7 percent over the decade of the 1990s and will decrease 0.9 percent between the years 2000 and 2010. This projection is discussed fully and detailed county projections are made in BBR's *1994 Annual Report*.

In the November/December 1993 issue of *Business in Nebraska* the short-term forecast indicated that jobs would continue to grow this year and next. Using this forecast and assumptions of future growth by industry from the *1994 Annual Report*, we conclude that total employment on a jobs basis will grow 14.9 percent from 1990 to 2000.

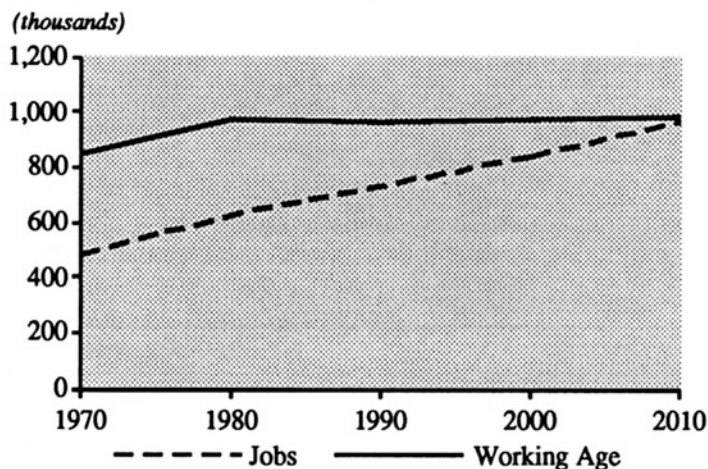
Job growth is far outpacing population growth. Figure 1 demonstrates a closing gap between jobs and the working age population, defined for our purposes as individuals age 16 to 64. We recognize that many persons continue to work beyond age 65; however, participation rates for those over 65 are well below those in the 16 to 64 category. In order to match our employment forecast to our population forecast in the first decade of the next century, we elect to use the same rate of growth for that decade as we used for the 1990s. By the end of the forecast period the number of jobs and the number of working age persons virtually is identical, implying that nearly everyone of working age will be working.

### The Lessons of the Past

In the 1970s both the number of jobs and the number of working age individuals increased. While the rate of increase in the number of jobs was somewhat faster than the increase in population, these jobs were absorbed by individuals willing and able to work.

During the 1980s a pattern similar to the one predicted for the 1990s and beyond developed. Jobs grew rapidly, but the working age population did not. During

Figure 1  
Jobs and the Working Age Population, \* Nebraska



\*Working age is defined here as persons ages 16 to 64

the 1980s total jobs grew 16.3 percent. The population between the ages of 16 and 64 decreased 0.5 percent.

There are four explanations for the phenomena of the 1980s. First, the labor force itself grew—more persons of working age were willing to work. The labor force grew 10 percent from 1980 to 1990. Second, the unemployment rate dropped over the decade—a larger share of the labor force became employed. The unemployment rate stood at 4.1 percent in 1980 and fell to 2.1 percent in 1990. Third, some of the growth in the number of jobs was due to a growth in part-time employment. We estimate that in 1980 the average hours worked in the state's nonfarm industries was 35.8 per week. By 1990 the average had fallen marginally to 34.9 hours. Fourth, the number of multiple job holders grew. Can the record of the 1980s be repeated?

### Future Participation

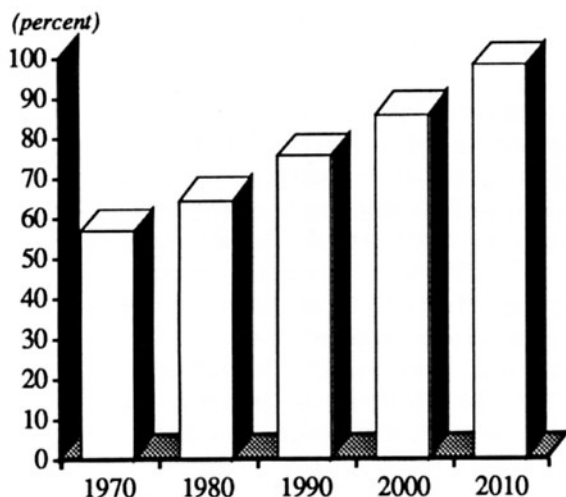
The forecasts suggest that an even larger percentage of those of working age will hold jobs. That leads us to question whether there is an upper limit to worker participation. Obviously no more than 100 percent of working age individuals can work. As a practical matter, the upper limit is less than 100 percent because some of those in the working ages are not able or willing to work. There are economic and practical limits to participation. If the increase in net income obtained by an adult entering the job market is only marginally above the costs of child care, for example, then that adult may choose to stay home and provide child care. Some of those of working age elect to improve their job skills by studying full time while not working. Others may be prevented from working for health reasons.

To display the impact of our forecasts on workers, we present participation ratios. These ratios are simply the total numbers of jobs compared to the total numbers

of persons of working age. The ratios from 1970 to 2010 are displayed in Figure 2. The ratios increase in stairstep fashion over the decades. By the year 2010 the ratio has grown to 98 percent, a virtual impossibility. Perhaps a rate of 85 percent of those of working age would be a practical upper limit for our participation ratio. If our forecasts come true, this limit will be reached by the end of this century.

One peculiarity of the forecasts is that while there is a decrease in overall population, the working age group from 16 to 64 increases modestly as the children of the baby boom generation continue to enter the working age category. Note that the working age group contin-

**Figure 2**  
Participation Ratios—Total Jobs as a Percent  
of Working Age Population,\* Nebraska



\*Working age population defined here as persons age 16 to 64

**Table I**  
Employment in Nebraska

	Revised December 1993	Revised January 1994	% Change vs. Year Ago
Place of Work			
Nonfarm	772,699	756,302	2.7
Manufacturing	104,404	103,531	2.2
Durables	49,774	49,654	5.2
Nondurables	54,630	53,877	-0.5
Mining	1,389	1,309	7.8
Construction	31,241	28,331	15.4
TCU*	47,079	47,031	0.7
Trade	197,370	192,103	3.4
Wholesale	51,899	51,195	1.5
Retail	145,471	140,908	4.1
FIRE**	50,467	50,365	2.1
Services	188,468	185,209	2.2
Government	151,598	148,423	1.4
Place of Residence			
Civilian Labor Force	NA	890,734 p	NA
Unemployment Rate	NA	2.5 p	

NA = Not available due to rebenchmarking

p = preliminary

\* Transportation, Communication, and Utilities

\*\* Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

ues to increase into the first decade of the next century. It is not until 2010 and beyond that the baby boomers begin to retire in large numbers and the working age group decreases.

Some argue that the growth in jobs in Nebraska largely has been in part-time jobs. To obtain the impact of part-time jobs on the total, we convert the data to full-time equivalences (FTEs). We find that there is little qualitative difference in the results. FTE job growth is only marginally lower than total job growth and far outpaces the growth in future working population.

### Resolving the Dilemma

The result of the employment projections and the conditional population projections is that either employment is growing too fast, working age population is growing too slow, or some combination of the two. Thus, our dilemma. What will happen in the next decades?

**Table II**  
City Business Indicators  
Nov. 1993 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA		32.2
Alliance		60.8
Beatrice		0.9
Bellevue		30.2
Blair		224.8
Broken Bow		12.5
Chadron		416.5
Columbus		74.3
Fairbury		-10.8
Falls City		-31.4
Fremont		50.2
Grand Island		-0.8
Hastings		156.4
Holdrege		-2.7
Kearney		32.9
Lexington		105.8
Lincoln		-17.0
McCook		-2.7
Nebraska City		298.9
Norfolk		113.1
North Platte		126.7
Ogallala		2.4
Omaha		59.2
Scottsbluff/Gering		-56.4
Seward		-33.7
Sidney		-23.0
South Sioux City		-21.3
York		177.6

Not available due to rebenchmarking

(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

A solution that is not available to us as a practical matter is that of lowering the unemployment rate. Nebraska's unemployment rate is already very low. The chances of lowering it further are slim.

One solution would be to encourage older workers to delay retirement. That would increase the labor force directly.

Perhaps the ultimate solution is to promote reversal of the outmigration of the 1980s. One concept is that jobs will attract people. If a state is able to expand jobs rapidly, then it will become an attractive state for migrants. Put in a positive light, the labor force of the future is already here. They are in our schools. If attractive, challenging, competitively compensated jobs can be created, the exodus of young, well-educated grads from the state's institutions of higher education will slow.

## Coming Soon!

# NU ONRAMP

(See next month's issue of *Business in Nebraska* for more information)

**Table III**  
Price Indices

	January 1994	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	146.2	2.5	2.5
Commodities	132.0	1.2	1.2
Services	160.7	3.5	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)		Region Sales (2)		Year to Date % Change vs. Year Ago
	November 1993 (000s)	% Change vs. Year Ago	November 1993 (000s)	% Change vs. Year Ago	
<b>NEBRASKA</b>	1,050,336	10.0	1,197,284	12.5	5.7
1 Omaha	368,695	10.3	455,282	12.7	6.8
Bellevue	13,812	3.2	*	*	*
Blair	5,369	18.2	*	*	*
2 Lincoln	153,442	20.0	176,155	22.2	9.5
3 South Sioux City	7,065	9.6	9,606	11.6	8.0
4 Nebraska City	4,423	11.8	21,677	18.5	8.2
6 Fremont	19,856	13.8	33,654	13.2	1.6
West Point	3,222	5.2	*	*	*
7 Falls City	2,381	7.6	9,647	6.5	1.2
8 Seward	4,726	-6.2	16,010	8.7	4.5
9 York	7,445	8.2	15,522	13.3	0.8
10 Columbus	18,159	3.9	30,272	5.9	-0.4
11 Norfolk	24,187	12.7	39,928	13.6	4.2
Wayne	3,301	6.5	*	*	*
12 Grand Island	42,674	14.9	57,246	14.2	4.9
13 Hastings	18,779	8.2	38,655	10.7	3.1
14 Beatrice	9,193	5.7	19,730	5.8	4.5
Fairbury	3,192	-4.5	*	*	*
15 Kearney	23,614	10.3	32,115	13.6	5.7
16 Lexington	7,057	6.5	18,427	14.7	1.1
17 Holdrege	4,867	2.9	8,557	8.9	-1.2
18 North Platte	19,182	10.6	24,188	13.3	3.6
19 Ogallala	4,445	15.7	9,927	8.9	-8.4
20 McCook	8,778	9.5	12,658	19.9	2.1
21 Sidney	5,860	18.0	10,346	17.1	9.1
Kimball	1,7233	4.8	*	*	*
22 Scottsbluff/Gering	22,194	16.7	29,918	16.3	4.4
23 Alliance	5,047	1.9	14,558	10.3	4.4
Chadron	2,942	13.0	*	*	*
24 O'Neill	3,882	12.0	14,679	10.5	1.3
Valentine	2,978	5.9	*	*	*
25 Hartington	1,841	15.4	8,746	21.7	3.8
26 Broken Bow	3,847	5.0	11,880	2.3	0.7

(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

## IMPORTANT NOTICE TO OUR READERS

For over 50 years, BBR has been dedicated to filling each issue of *Business in Nebraska* with informative features on the state's economy and timely data that is a staple of the publication. We look forward to expanding our coverage of business conditions in the state in the near future.

Beginning with the July/August issue, a \$10 annual subscription fee for *Business in Nebraska* will be instituted to offset mounting production costs.

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County of the Month

## McPherson



Tryon—County Seat

■ Next County of Month

License plate prefix number: 90

Size of county: 860 square miles, ranks 23rd in the state

Population: 546 in 1990, a change of -7.9 percent from 1980

Median age: 36.8 years in McPherson County, 33.0 years in Nebraska in 1990

Per capita personal income: \$17,670 in 1991, ranks 27th in the state

Net taxable retail sales (\$000): \$867 in 1992, a change of -10.6 percent from 1991; \$823 during Jan.-Oct. 1993, a change of +9.2 percent from the same period one year ago

Number of business and service establishments: 6 in 1991; 50 percent had less than five employees

\*Employment data not available  
because of disclosure suppression

#### Agriculture:

Number of farms: 146 in 1987, 138 in 1982

Average farm size: 2,915 acres in 1987

Market value of farm products sold: \$10.3 million in 1987  
(\$70,600 average per farm)

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

Merlin W. Erickson

#### 1994 Annual Economic Outlook Report

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