

ECONOMIC OUTLOOK OF NEBRASKA BUSINESSMEN: SURVEY RESULTS

SUMMARY

U.S. economy	slower growth, with recession and wage and price controls unlikely
Nebraska economy	continued growth, although profits of Nebraska firms will remain about the same
Major economic problem	inflation
Prime rate (mid-1979)	9.5 percent
Inflation (June, 1978, to June, 1979).	7.4 percent
Unemployment rate (June, 1978, to June, 1979)	6.7 percent

Economic growth will continue through mid-1979, although at a somewhat slower pace than in the past year. The prime rate will continue to rise, the unemployment rate will increase, and the rate of inflation will remain in the 7 to 8 percent range. Despite these unfavorable trends in the U.S. economy, a recession is unlikely and the possibility of wage and price controls is remote.

The Nebraska economy, which performed well last year, will continue to expand. Profitability of firms in the state, however, will remain at about the same level as that of the preceding twelve months.

These were the major findings of a statewide survey of Nebraska businessmen, conducted by the Bureau of Business Research.¹ The survey was distributed in early June, with 176 of 390 businessmen responding. Answers to individual questions were tabulated by the location and the Standard Industrial Classification (SIC) code of the respondent's business.

Classification of responses by location of the respondent's business was undertaken for the purpose of comparing the views of businessmen located in the state's two major population centers (Omaha and Lincoln) with those of businessmen outside these areas. In subsequent references to these two groups, businessmen whose firms are located in Lancaster, Douglas, or Sarpy counties are designated as LDS businessmen; those whose firms are located outside those three counties, non-LDS businessmen.

CURRENT STATE OF THE U.S. ECONOMY

Most Nebraska businessmen are not optimistic about the current state of economic affairs in the nation. Only 23.9 percent of

responding businessmen assess the current state of the U.S. economy as either good or excellent (see Figure 1, page 2). By way of contrast, more than one-half (54.5 percent) rate economic conditions as either fair or poor. Apprehension about the health of the national economy is widespread, with both LDS and non-LDS businessmen registering concern.

It is not difficult to discern the principal source of uneasiness among Nebraska businessmen with respect to the economy. When asked to choose (from a list of seven issues) the most important economic problem currently facing the country, an overwhelming majority (59.4 percent) cited inflation. None of the other six issues was the choice of even 10 percent of the state's businessmen. The percentage distribution of responses to this question is presented in Table 1 (page 2).

More pessimistic businessmen, that is, those who assess the current state of the economy as either fair or poor, are especially concerned with the specter of inflation. Sixty-seven percent of this group list inflation as the country's number-one problem. While they do not foresee a significantly higher rate of inflation in the next twelve months than do the remainder of the responding businessmen, nearly one-fifth (18.9 percent) anticipate double-digit increases in the price level in the next year.

Although both LDS and non-LDS businessmen consider inflation to be the major problem, the proportion of businessmen located in the state's two principal urban areas who cite inflation as the main problem is significantly higher than it is for non-LDS businessmen. Two-thirds of the respondents from Lancaster, Douglas, and Sarpy counties view inflation as the major issue. Only 53.8 percent of businessmen located outside these counties accord inflation a similar ranking. In these areas, the lower percentage citing inflation is due

(Continued on page 2)

¹ A stratified, systematic sample of Nebraska businesses was constructed from a list of firms made available by the Nebraska Department of Labor. The stratification was based on the Standard Industrial Classification (SIC) of firms.

(Continued from page 1) mainly to the fact that a larger fraction of businessmen outside Lancaster, Douglas, and Sarpy counties feel that excessive government regulation and high federal government taxes are major obstacles to a healthier economic climate. Fourteen percent of non-LDS businessmen rank government regulation as the principal economic problem, while 11.8 percent cite the level of federal government taxes.

There is a lack of agreement concerning the primary cause of inflation. Many, however, feel that sizable federal government deficits contribute significantly to increases in the price level, and that progress toward reducing the inflationary bias in the economy will occur only if these deficits are eliminated.² Nebraska businessmen are not in favor of such remedial action if it means higher taxes. On the other hand, they strongly favor a balanced federal government budget brought about by reduced levels of government spending. When asked if the federal government should balance its budget if it means higher taxes, only 26.3 percent responded affirmatively. Ninety-six percent, however, favor balancing the budget by reducing government expenditure programs.

While considered less important than the problem of inflation, the balance-of-payments deficit, availability of energy and fuel, and the problems of government regulation and high federal taxes cited earlier are also of concern to businessmen in the state. Each of these issues was cited by between 7.5 and 10 percent of responding businessmen as the foremost economic issue facing the nation. Despite the large volume of publicity and considerable public support for limiting (or reducing) state and local government taxes, very few (3.6 percent) Nebraska businessmen perceive this as the major economic issue facing the country. An even smaller proportion consider unemployment to be a major obstacle

²A large number of Nebraska businessmen share this view. In last year's survey (*Business in Nebraska*, August, 1977), nearly one-half of the respondents indicated that deficit spending by the federal government was the principal cause of inflation.

to a better functioning economy; 0.6 percent of responding businessmen rate it at the top of the list of major economic problems.

FUTURE COURSE OF THE ECONOMY

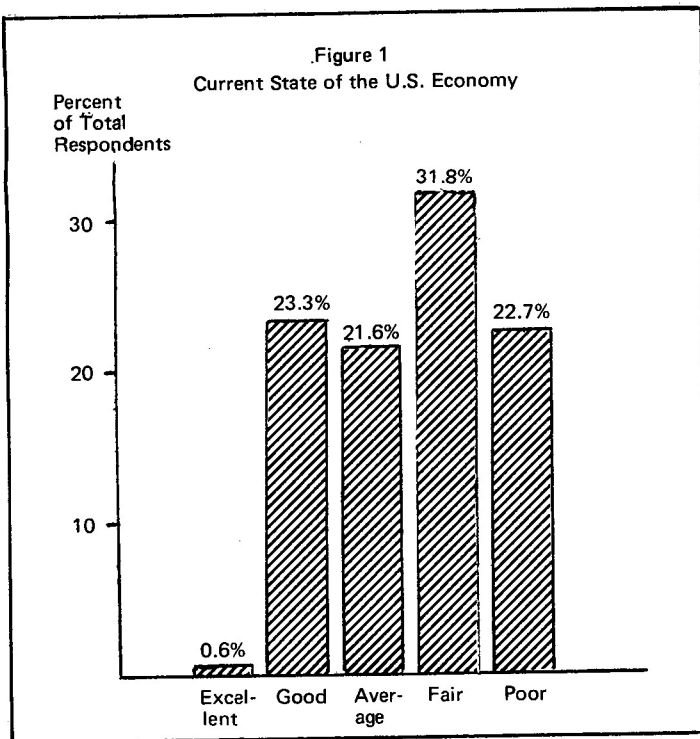
The somewhat guarded outlook of Nebraska businessmen on the state of the U.S. economy is reflected in their expectations for the next year. While nearly one-half (48 percent) expect the national economy to perform about the same as it did in the previous twelve months, the percentage anticipating some deterioration in the performance of the economy is significantly higher than the percentage who foresee improvement (see Figure 2, page 3). Nearly three of eight (37.7 percent) Nebraska businessmen do not feel that the economy will perform as well as it did in the past year. Only 14.2 percent expect it to perform better.

Despite this cautious attitude about the immediate economic future, most Nebraska businessmen do not anticipate a recession in the next year. Wage and price controls are likewise considered unlikely, even though the rate of inflation is expected to continue at its present pace.³

Only 25.0 percent of Nebraska businessmen foresee a downturn in U.S. economic activity prior to mid-1979 (refer to Table 2). More than one-half (51.7 percent), on the other hand, responded negatively when asked if they expected a recession in the next twelve months. The remaining 23.3 percent are uncertain about the future course of the nation's economy.

Omaha and Lincoln area businessmen are more apprehensive about the possibility of recession than are businessmen located in rural areas of the state. While fewer than 20 percent of non-LDS businessmen feel that a reversal in the trend of economic activity will occur, approximately one-third of the businessmen in the Omaha and Lincoln metropolitan areas are expecting a recession.

³The next section discusses in greater detail the price expectations of businessmen in the state.



	Percentage of Respondents ¹		
	All Nebr. Businessmen	LDS Businessmen	Non-LDS Businessmen
Inflation	59.4	66.7	53.8
Balance-of-payments deficit	9.7	9.7	9.7
Federal government taxes	9.7	6.9	11.8
Government regulations	9.1	2.8	14.0
Availability of energy and fuel	7.9	6.9	8.6
State and local government taxes	3.6	5.6	2.2
Unemployment	0.6	1.4	0.0

¹Column totals may not equal 100 percent due to rounding.

	Percentage of Respondents		
	All Nebr. Businessmen	LDS Businessmen	Non-LDS Businessmen
Expecting a recession	25.0	32.9	19.4
Not expecting a recession	51.7	41.1	59.2
Uncertain	23.3	26.0	21.4

Such differences in opinion may reflect the fact that agricultural conditions, rather than the business cycle, have a greater impact on local economic conditions in areas outside the two large population centers. Recent advances in farm prices, it will be recalled, have improved the outlook for the farm sector in many parts of the state.

Table 3 shows the responses of the Nebraska business community to the question of whether wage and price controls will be invoked within the next year. By more than a six-to-one margin, they reject the notion that the 1971-73 experiment will be repeated. Although a higher percentage of non-LDS business-

men are not anticipating controls, such differences in the views of LDS and non-LDS businessmen were not found to be statistically significant.

While they are less sanguine than at the time of last year's survey, Nebraska businessmen are more optimistic concerning the future of the state economy than they are with regard to the future of the national economy. Almost one-half (47.1 percent) anticipate that the Nebraska economy will perform about the same in the next twelve months as it did in the past year. The proportion expecting an improved performance by the state economy, however, is considerably higher than the fraction anticipating a better performance by the U.S. economy. More than one-third (33.9 percent) of the state's businessmen foresee either a moderately or a substantially better performance by the Nebraska economy (relative to its performance in the past twelve months). Fewer than 19 percent expect some deterioration in the performance of the Nebraska economy.

Improved economic conditions are not expected to result in higher profits for Nebraska firms. It is the general assessment of the business community that profits in the next year will remain about the same as they have been in the past twelve months (see Table 4). Although Omaha and Lincoln area businessmen may be more concerned about the possibility of a recession, they do not harbor more pessimistic profit expectations than do their non-LDS counterparts. Slightly more than 40 percent of LDS respondents feel that the profits of their firms will rise, while only 21.6 percent of non-LDS businessmen expect that their firms will experience such an increase.

PRICES, THE PRIME RATE, AND UNEMPLOYMENT

The rate of inflation accelerated sharply during the first half of 1978. From June, 1977, to June, 1978, (Continued on page 6)

Figure 2
Performance of the Economy
in the Next Twelve Months

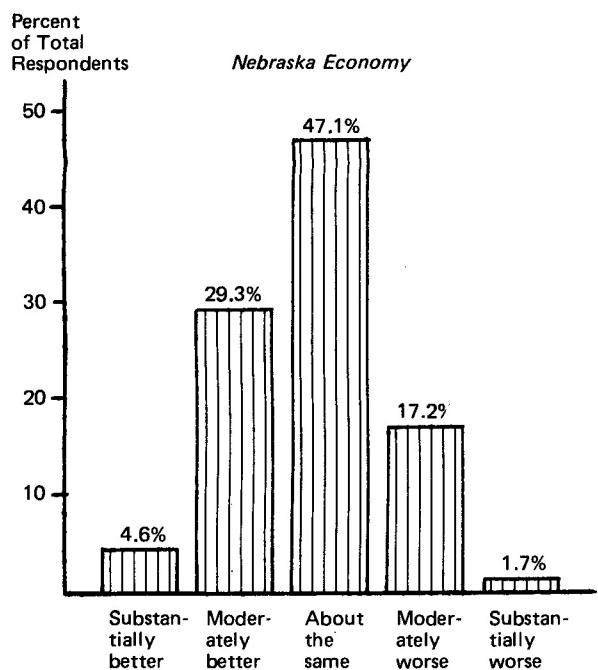
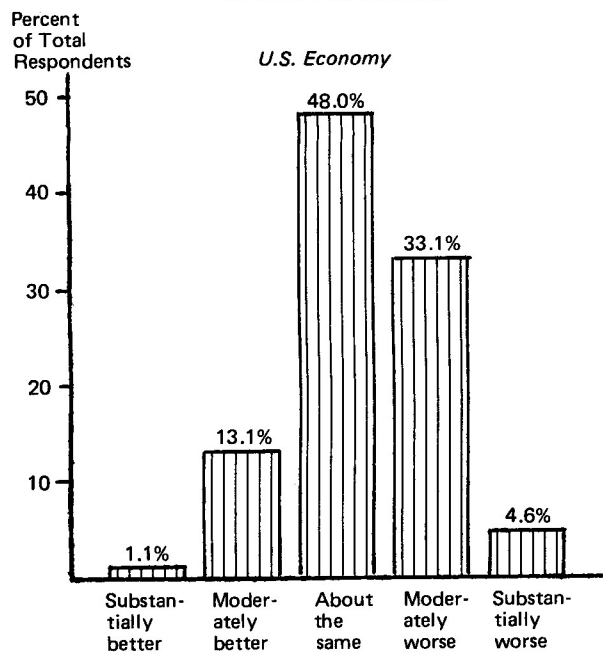


Table 3
Percentage of Nebraska Businessmen
Expecting Wage and Price Controls
in the Next Twelve Months

	Percentage of Respondents		
	All Nebr. Businessmen	LDS Businessmen	Non-LDS Businessmen
Expecting wage and price controls	11.9	15.1	9.7
Not expecting wage and price controls	72.2	67.1	75.7
Uncertain	15.9	17.8	14.6

Table 4
Profit Expectations
of Nebraska Businessmen

	Percentage of Respondents ¹		
	All Nebr. Businessmen	LDS Businessmen	Non-LDS Businessmen
Expect the profits of their firm to increase in the next twelve months	29.3	40.3	21.6
Expect the profits of their firm to decrease in the next twelve months	29.9	33.3	27.5
Expect the profits of their firm to remain about the same in the next twelve months	40.8	26.4	51.0

¹Column totals may not equal 100 percent due to rounding.

Review and Outlook

Real output in Nebraska declined 0.3 percent in May, with the state physical volume index recording a level which was 40.9 percent above its 1967 base-period level (see Table 2). A sharp drop in the volatile agricultural component of the index was mainly responsible for the lower level of economic activity. Three of five sectors in the Nebraska economy recorded gains for the month, with sizable increases in output occurring in the construction and manufacturing sectors where activity levels were up 6.4 percent and 4.6 percent, respectively. Government output in Nebraska rose 0.3 percent in May, while the index for the distributive sector fell 0.2 percent.

Although the Nebraska economy has experienced growth in

the past year, available data indicate considerable deceleration in the rate of expansion. Between May and December of last year, the state physical volume index climbed 6.5 percent. Since then, the general trend in the index has been downward. In May, it was 5.2 percent below its level of last December.

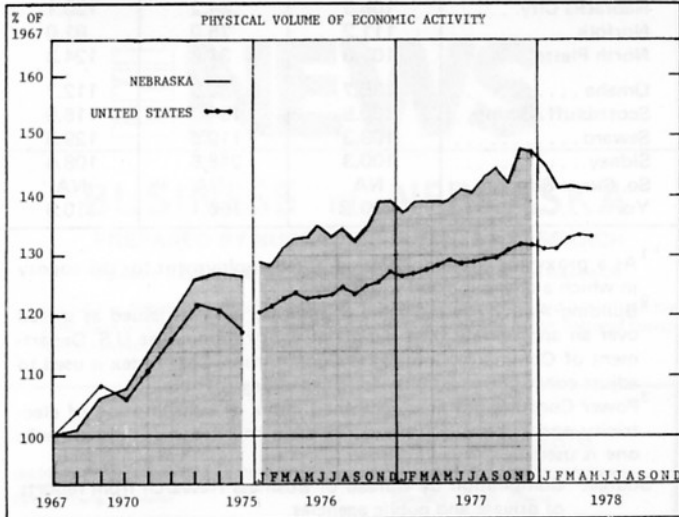
Reductions in agricultural output primarily were responsible for the decline in the state index in 1978. They have not resulted in lower farm income, however, since they were accompanied by increases in prices for agricultural produce. In May, prices received by Nebraska farmers rose for the eighth consecutive month and, after adjustment for seasonal variation, were 22.3 percent above their level of last December. Thus, instead of falling, cash farm marketings in the state increased in (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.

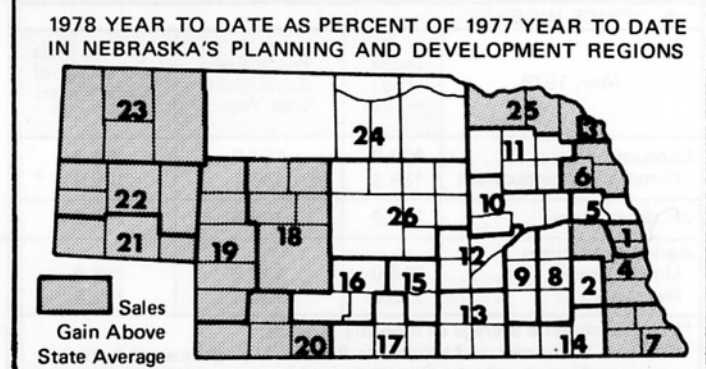
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
May, 1978	Current Month as Percent of Same Month Previous Year		1978 Year to Date as Percent of 1977 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	109.8	110.1	109.7	110.5
Agricultural	110.2	109.5	115.3	108.0
Nonagricultural	109.8	110.1	108.8	110.5
Construction	109.2	114.5	106.2	114.1
Manufacturing	112.6	107.2	111.2	110.0
Distributive	108.8	111.9	108.0	111.3
Government	110.0	107.6	109.8	107.7
Physical Volume	100.9	103.8	101.8	103.9
Agricultural	91.6	98.9	103.3	102.0
Nonagricultural	102.3	103.9	101.6	104.0
Construction	101.0	105.9	97.0	104.2
Manufacturing	105.4	102.5	104.1	103.6
Distributive	101.6	104.6	101.3	104.3
Government	101.4	103.6	101.1	103.3

2. CHANGE FROM 1967		
Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	284.4	260.3
Agricultural	250.6	267.4
Nonagricultural	290.2	260.0
Construction	342.5	247.6
Manufacturing	318.1	241.4
Distributive	276.8	273.1
Government	289.1	254.6
Physical Volume	140.9	133.5
Agricultural	114.4	123.8
Nonagricultural	145.5	133.9
Construction	152.2	110.0
Manufacturing	154.1	121.4
Distributive	143.2	141.3
Government	140.8	141.8

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)			
Region Number ¹ and City	Sales in Region ²		
	May, 1978 as percent of May, 1977	May, 1978 as percent of May, 1977	Year to date '78 as percent of Year to date '77
<i>The State</i>	102.7	104.2	100.4
1 Omaha	101.8	103.4	104.9
Bellevue	103.5		
2 Lincoln	100.3	101.3	96.0
3 So. Sioux City	100.0	106.9	105.3
4 Nebraska City	103.0	114.9	105.4
5 Fremont	103.4	107.8	99.7
Blair	95.4		
6 West Point	107.9	109.4	104.1
7 Falls City	96.2	101.8	101.3
8 Seward	98.7	96.4	94.5
9 York	100.8	94.2	88.4
10 Columbus	104.0	99.9	98.2
11 Norfolk	101.6	104.1	97.0
12 Grand Island	114.0	113.4	96.8
13 Hastings	101.0	105.2	96.2
14 Beatrice	99.7	102.4	97.9
Fairbury	105.3		
15 Kearney	108.2	107.0	96.9
16 Lexington	98.5	97.1	93.5
17 Holdrege	98.0	107.6	99.8
18 North Platte	100.0	102.2	102.7
19 Ogallala	107.0	116.0	101.2
20 McCook	110.2	115.1	102.6
21 Sidney	113.7	113.2	108.3
Kimball	111.8		
22 Scottsbluff/Gering	95.3	102.1	102.6
23 Alliance	120.4	116.4	112.4
Chadron	112.2		
24 O'Neill	85.4	90.6	87.9
25 Hartington	116.8	107.5	105.4
26 Broken Bow	108.4	104.9	95.5



¹See region map below.
²Sales 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 January-May period, and price-adjusted retail sales in many rural areas of the state moved upward (see Table 3 for year-to-date retail sales figures).

While agricultural incomes have not suffered appreciably as a consequence of recent declines in the agricultural index, the remainder of the Nebraska economy has not performed as well as had been expected. Output in the nonagricultural sectors was 0.9 percent lower in May than it was last December. This was due entirely to a drop in the index for the distributive sector, which fell 4.8 percent between December and May.

It is an encouraging sign that reductions in activity levels in the state economy were limited to two sectors. The remaining three sectors have demonstrated considerable strength in 1978. Construction activity was heavy, with the index for this sector rising 12.3 percent between December and May. The May increase, which resulted from a sharp jump in residential construction, was the fifth in the past six months for the sector. Despite the recent surge in residential construction, nonresidential and nonbuilding construction have been responsible for the growth of construction in the state this year. For the first five months of 1978, nonresidential construction was 24.2 percent higher than in the preceding five months. Nonbuilding construction was up 19.7 percent, while residential construction was down by more than 5 percent.

The continued growth of Nebraska manufacturing has been accompanied by rises in manufacturing employment, which reached 93,500 on a seasonally adjusted basis in May. Higher employment levels in this sector have contributed to a reduction in the state unemployment rate. In May, the Nebraska unemployment rate was 2.9 percent, which compares favorably to the seasonally adjusted national rate of 6.1 percent. In Omaha, the heart of manufacturing activity in the state, the unemployment rate was 1.0 percent lower than it was the previous May.

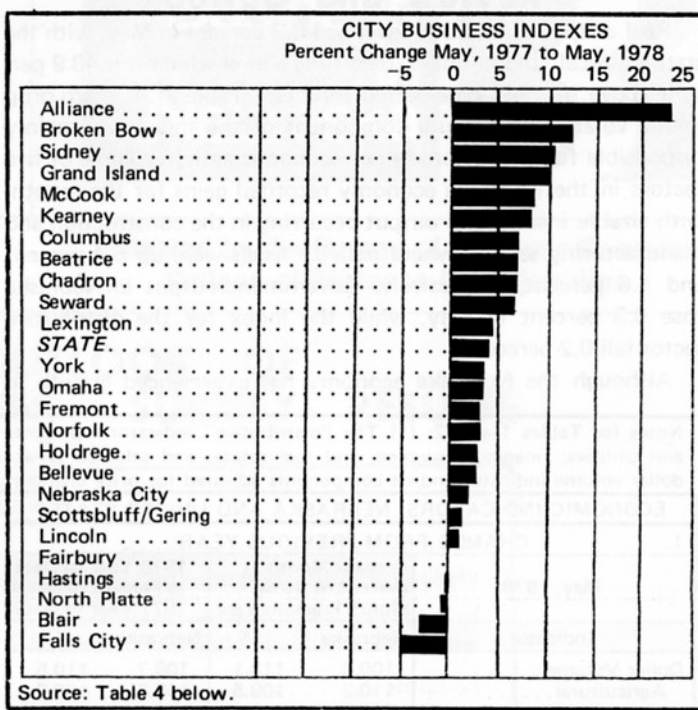
Increases in the index of Nebraska government activity have also been accompanied by a higher level of employment. Seasonally adjusted government employment in the state was 129,800 in May—1.4 percent higher than the year-earlier total for this sector.

The city business indexes did not reflect the slightly slower pace of state economic activity in May. Twenty-one of twenty-five reporting cities experienced increases relative to May, 1977. For the sixth consecutive month, Alliance posted the largest gain. Activity in this Panhandle city was up 22.7 percent. Other Nebraska cities with strong May-to-May growth were Broken Bow (+12.3 percent), Sidney (+10.4 percent), Grand Island (+9.9 percent), McCook (+7.9 percent), and Kearney (+7.7 percent).

W. D. G.

5. PRICE INDEXES			
May, 1978	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	193.3	107.0	106.7
Commodity component	185.5	106.4	105.9
Wholesale Prices	207.9	106.5	106.3
Agricultural Prices			
United States	216.0	110.8	105.9
Nebraska	219.0	120.3	112.3

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



4. MAY CITY BUSINESS INDICATORS			
The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Employment ¹	Building Activity ²	Power Consumption ³
<i>The State</i>	102.9	98.1	117.0
Alliance	107.7	349.0	160.3
Beatrice	100.0	129.1	157.0
Bellevue	105.7	82.9	97.1*
Blair	103.3	46.0	110.8
Broken Bow	103.9	178.0	148.8
Chadron	88.8	81.9	170.2
Columbus	104.8	87.9	139.9
Fairbury	100.7	58.1	99.2*
Falls City	97.9	41.5	111.8
Fremont	100.0	145.8	100.1*
Grand Island	101.0	126.0	129.3
Hastings	98.2	101.9	100.9
Holdrege	103.0	65.2	142.0
Kearney	97.9	149.7	134.7
Lexington	111.5	51.1	133.6
Lincoln	102.3	73.8	110.7
McCook	93.0	104.0	164.4
Nebraska City	108.3	34.2	120.1
Norfolk	111.2	75.0	91.0
North Platte	105.6	31.8	124.3
Omaha	105.7	82.9	112.7
Scottsbluff/Gering	100.5	134.2	115.0
Seward	108.3	119.5	129.5
Sidney	100.3	246.5	108.4
So. Sioux City	NA	NA	NA
York	100.5	156.1	110.9

¹As a proxy for city employment, total employment for the county in which a city is located is used.
²Building 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.
³Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
Source: Compilation by Bureau of Business Research from reports of private and public agencies.

(Continued from page 3) the consumer price index rose 7.4 percent. Recently, month-to-month increases in this index suggest an underlying rate of inflation of approximately 10 percent.

Results from the survey indicate that Nebraska businessmen do not feel that the high rates of inflation recorded in recent months will be sustained. On the average, they foresee the same rise in the price level between mid-1978 and mid-1979 as occurred in the previous year (7.4 percent). Double-digit inflation for this period is anticipated by only one of seven businessmen. The large number of businessmen who view inflation as the number-one economic problem in the country testifies to the seriousness which they attach to inflation rates in the 7 to 8 percent range.

The prime rate has increased 125 basis points since the beginning of the year. The business community expects further tightening in credit markets, with the prime rate reaching 9.5 percent by the middle of 1979. More than one-fourth of survey respondents (27.5 percent) anticipate a "credit crunch" of more severe proportions, and project a prime rate of 10 percent or higher.

Inflation, rising interest rates, and more moderate economic growth are expected to have an unfavorable effect on the nation's unemployment rate. Recently, the proportion of unemployed workers has dipped below 6 percent. Nearly three-fourths (74.9 percent) of the responding businessmen, however, expect the unemployment rate to average between 6 and 8 percent of the labor force for the twelve-month period between June, 1978, and June, 1979.

W. D. G.

NEW DEAN NAMED FOR THE COLLEGE OF BUSINESS ADMINISTRATION

The Board of Regents recently named Dr. Gary Schwendiman Dean of the College of Business Administration at the University of Nebraska-Lincoln. Dr. Schwendiman, who has been Associate Dean of the College since 1974, is a member of the Management faculty.

As Dean, Dr. Schwendiman is responsible for general administration of the College, including personnel matters, budget allocation, and relations with the University administration, the Legislature, and the business community. Departments within the College include Accounting, Economics, Finance, Management, and Marketing, as well as the Bureau of Business Research and the Center for Economic Education.

Dr. Schwendiman has also been involved with research and consulting activities, mainly with financial organizations. He recently completed a survey of the nation's 300 largest banks to determine future directions for the effective management of human resources. He developed the individual assessment profile, which is used in the development of supervisory personnel, and the organization profile, which assesses organizational and management

effectiveness. Dr. Schwendiman is a member of the faculty for the Schools of Banking in Nebraska, Kansas, and Missouri, and has worked extensively with the Farm Credit Banks in developing a nationwide management development system.

A specialist in the area of management psychology, Dr. Schwendiman earned his Bachelor's degree with honors from Washington State University and his Master of Science and Ph.D. degrees from Brigham Young University. In 1969 he joined the faculty of Marshall University in West Virginia, where he taught courses in management and psychology. In 1972 he joined General Motors Institute, the educational and management division of General Motors Corporation. In 1974 he was appointed Associate Dean at the University of Nebraska-Lincoln.

Dr. Schwendiman is a Director of the St. Elizabeth Community Health Center in Lincoln and the Lincoln United Way, a former Director of the Lincoln Chapter of the American Society for Training and Development, and an honorary member of Beta Sigma.

He and his wife, Jill, have five children—Todd, Heidi, Lisa, Wendy, and Julie.

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