Seizing Opportunities in the Economic Recovery

The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Seizing Opportunities in the Recovery

Today’s Roadmap

- Rural America’s economic recovery is underway.
- Rural America faces some long term challenges.
- What is needed to sustain a rural recovery?
The U.S. economy is projected to rebound in 2010.

Real GDP Growth

Annual percent change

Source: Bureau of Economic Analysis Federal Reserve Board of Governors
Rural Illinois has held up better than their metro peers.

Illinois Job Growth by Metro and Rural Counties

Source: BLS data through June
Rural Illinois home values have held up better than metro home values.

Illinois Home Values by Metro and Rural Areas

Index (1995=100)

Source: FHFA
**U.S. food expenditures have rebounded.**

**U.S. Retail Sales at Grocery Stores and Restaurants**

Percent change from year ago

Source: USDA
U.S. agricultural exports have rebounded.

Real U.S. Agricultural Exports
(January to May data)

Billion dollars (constant 2009=100 dollars)

Source: USDA
Seizing Opportunities in the Recovery

Today’s Roadmap
- Rural America’s economic recovery is underway.
- Rural America faces some long-term challenges.
Rural economic gains lag their metro peers.


Annual percent change

Metropolitan counties
Nonmetropolitan counties
Containing a city with more than 10,000 residents
Other rural nonmetropolitan counties

Calculations based on Bureau of Economic Analysis Data
Rural economies are being transformed into a service-based economy.

Rural Earnings from Farming, Manufacturing, and Service Sectors

Percent of total earnings in nonmetropolitan counties

Source: USDA
Rural America operates in a global marketplace.

Brazil and U.S. Soybean Exports

Million metric ton

Source: USDA
Today’s Roadmap

- Rural America’s economic recovery is underway.
- Rural America faces some long term challenges.
- What is needed to sustain a rural recovery?
1) A New Economy is Built on Adding Value

**Productivity**

\[
\text{Value per Input} = \text{Value per Output} \times \text{Per Input Output Input}
\]

- **Efficiency**: Output per Input
  
  *The ability to create more things with fewer inputs.*

- **Value**: Value per Output
  
  *The ability to create things of higher value.*

Which part of productivity does Rural America struggle with?
Agriculture is transitioning from a commodity to a value-added economy.

**U.S. Agricultural Exports**

Percent of U.S. Agricultural Exports

- **Consumer-Oriented**
- **Bulk Commodities**

Source: USDA
Robust population and income gains underpin demand.

- World GDP growth strongest in developing countries.
- In 2008, almost half of the world’s population earns less than $2.50 per day.
- At $2.50 per day, most hunger problems are solved and people start eating processed foods.
- Household amenities, such as microwave ovens, also shift food demand.

Households Owning a Microwave Oven

- Source: USDA
In manufacturing, adding value is often a high-tech strategy.

Self-employed Income by Manufacturing Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Income (Thousand dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-tech</td>
<td>82.8</td>
</tr>
<tr>
<td>Medium-tech</td>
<td>74.8</td>
</tr>
<tr>
<td>Low-tech</td>
<td>55.8</td>
</tr>
</tbody>
</table>

Value-added also emerges in the service sector. “Homeshoring” high-skilled service jobs to rural America.

Source: Hall (2005)
2) Entrepreneurship and Innovation are the Foundations for Revitalization.

- Communities with stronger entrepreneurial activity have stronger economic growth.
- Entrepreneurship is “creative destruction”. A business closing is not a failure, if it is replaced by a new business.
- Rural communities have entrepreneurial activity, but they have more difficulty producing high-growth businesses.
- Rural businesses do create innovations, but they tend to be in mature technologies.
- Entrepreneurship is a long-term development strategy.

![Marginal Impact of Proprietor Growth on Employment Growth](image)

Calculations based on Henderson and Weiler (2010)
3) Attracting and Retaining Labor is Key.

The most rural counties struggle to maintain population levels, which limits labor availability and local demand.

The quality of local labor pools is also a concern. How do rural communities attract and retain the best and brightest?

Population Growth by County Type

Annualized percent change 2000 to 2009

- Metropolitan Counties
- Rural Counties Containing a City with More than 10,000 residents
- Other Rural Counties

Calculations based on U.S. Census data
4) Personal Amenities are Crucial to Attracting People.

- The question:
  Do jobs follow people or do people follow jobs?

- Increasingly, research is finding that jobs follow people.

- People want ...
  - Great schools,
  - Access to high-quality health care,
  - Arts and cultural amenities and an active social scene,
  - Scenic views and recreational activities,
  - Affordable housing, and
  - Safe communities.
How can rural America bring home their middle-age offspring?

Rural Tenth District Population by Birth Cohort

Thousands

- Late boomers born from 1960 to 1964
- Gen X born from 1965 to 1969
- Gen X born from 1970 to 1974

5) **Infrastructure Investments are needed to connect rural America to the global economy.**

### Railroad Capacity

**2007**

- Below capacity: Green
- Near capacity: Yellow

**2035 – without improvements**

- At capacity: Orange
- Above capacity: Red

**Source:** U.S. Dept. of Transportation
Despite increasing access, rural connections to broadband still lag metro areas.

Source: FCC
Conclusions

- Rural America is facing a global economic transformation from ...
  - A goods-producing to a service-producing economy, and
  - A commodity to value-added economy.

- To compete globally, Rural America must be ...
  - Entrepreneurial and innovative,
  - Provide the infrastructure for businesses to thrive, and
  - Home to great communities where people want to live, work, and play.

“It is not the strongest of the species that will survive, nor the most intelligent, but the most responsive to change.”

Charles Darwin
Federal Reserve Bank of Kansas City
Omaha Branch

The Main Street Economist:
a bi-monthly publication discussing agriculture and rural America

Agricultural Credit Survey:
a quarterly survey of agricultural credit conditions in the Tenth Federal Reserve District

Coming this fall - Agricultural Finance Databook:
a quarterly summary of national agricultural finance conditions

For Additional Information on Agricultural and Rural Issues

www.kansascityfed.org/omaha