

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

925 Grand Boulevard • Kansas City, MO 64198 • Phone: 816.881.2683

FOR IMMEDIATE RELEASE
March 26, 2007

CONTACT: Tim Todd
816/881-2308
timothy.todd@kc.frb.org

WILL ENERGY MARKETS REFUEL THE RURAL ECONOMY?

The rural economy as a whole slowed in 2006. Production costs increased, construction activity cooled, severe drought limited production and higher energy prices cut profits. However, as the year progressed, some rural communities were able to harness the power of high energy prices by taking part in energy production. Rising crop prices fueled by ethanol production kindled optimism for new economic engines in rural America.

In “Will Energy Markets Refuel the Rural Economy?” Jason Henderson, Branch executive at the Federal Reserve Bank of Kansas City’s Omaha Branch, and Maria Akers, assistant economist, review the state of the rural economy in 2006 and discuss its prospects for the year ahead. The article appears in the first quarter edition of the Bank’s Economic Review.

Henderson and Akers first discuss the slower, but steadier, expansion on rural America’s Main Streets, which was buoyed by strong activity in energy and high-skilled services. The slower, solid pace of job growth left rural labor markets in an extremely tight condition, spurred a rise in rural incomes and continued to push rural unemployment rates to the lowest level in six years.

Next, the authors examine the conditions of the 2006 farm economy, which overall remained healthy despite persistent drought in the Great Plains. The drought resulted in lowered production in some crop sectors, such as wheat, and falling profit margins for most livestock producers as feed costs rose 40 percent. The farm sector ended 2006 on a more optimistic note as crop prices spiked with the surge in ethanol production.

Finally, Henderson and Akers explore rural prospects for 2007 and discuss the influences of robust energy activity on the rural economy. The authors find that the rural economy appears poised to enjoy another year of solid economic growth with energy markets again being key. Going forward, uncertainty remains regarding energy markets and whether they will fuel another round of economic prosperity in rural America.

