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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.

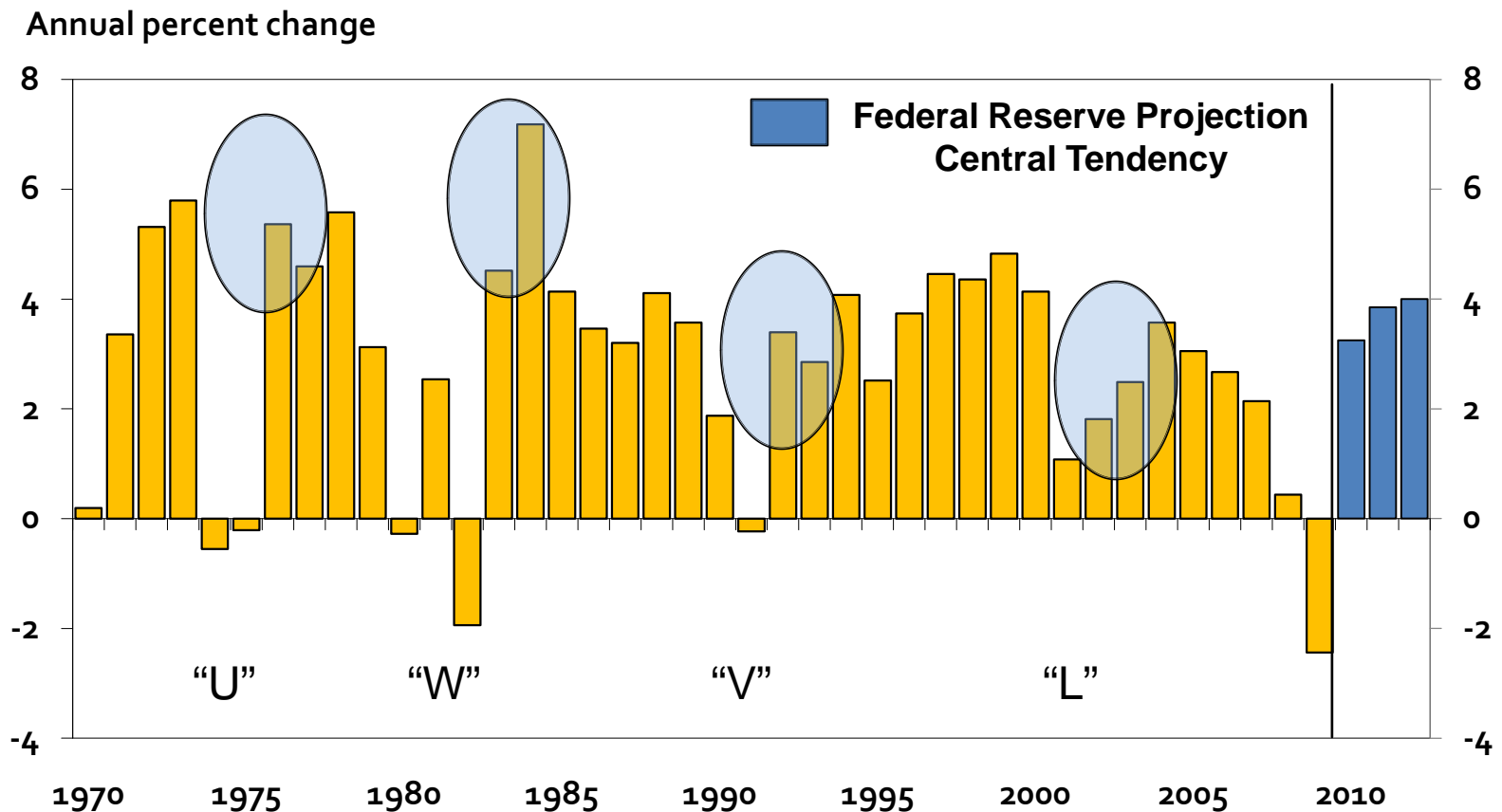
Seizing Opportunities in the Recovery

- 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

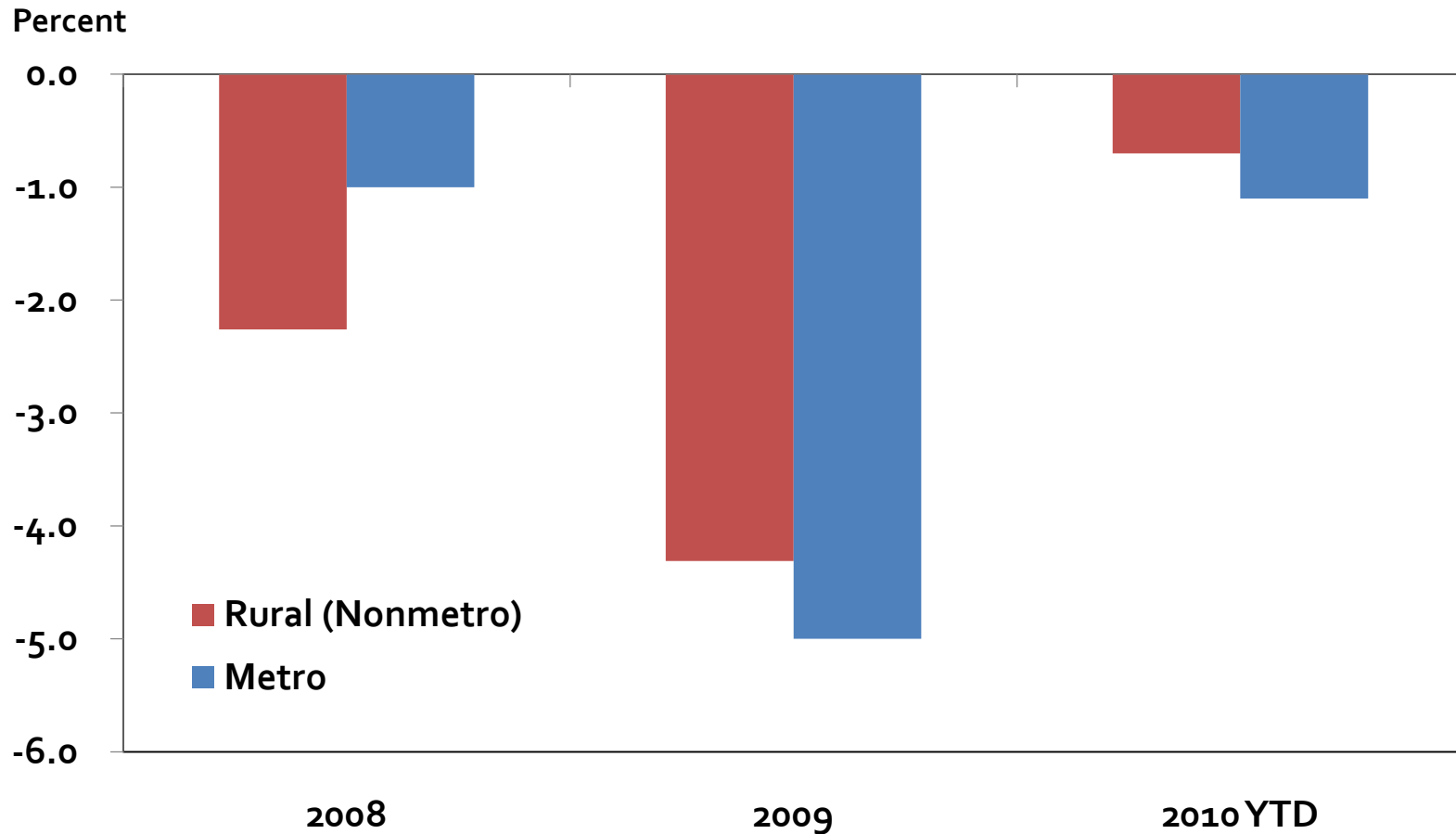


Source: Bureau of Economic Analysis Federal Reserve Board of Governors



Rural Illinois has held up better than their metro peers.

Illinois Job Growth by Metro and Rural Counties

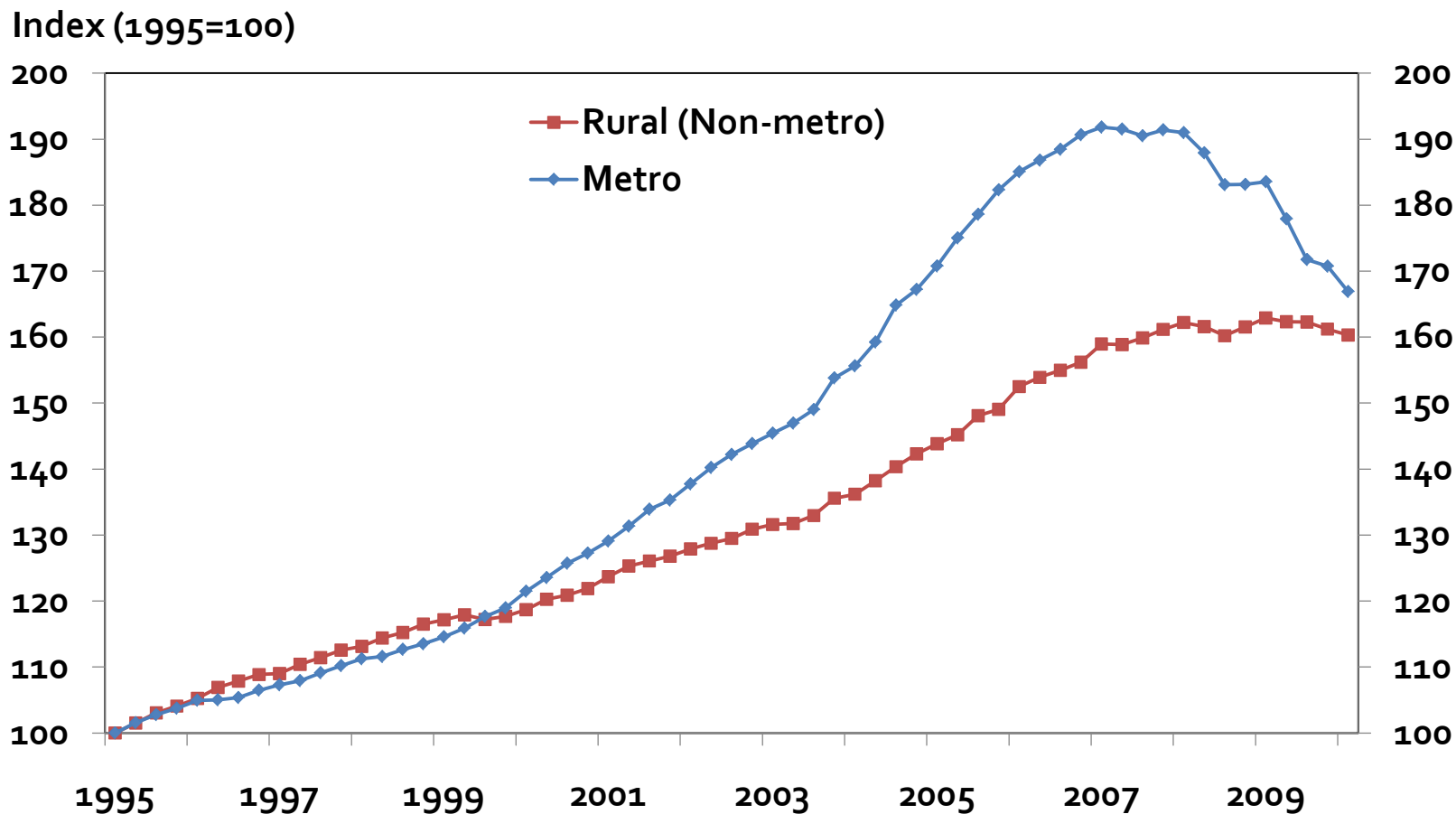


Source: BLS data through June



Rural Illinois home values have held up better than metro home values.

Illinois Home Values by Metro and Rural Areas



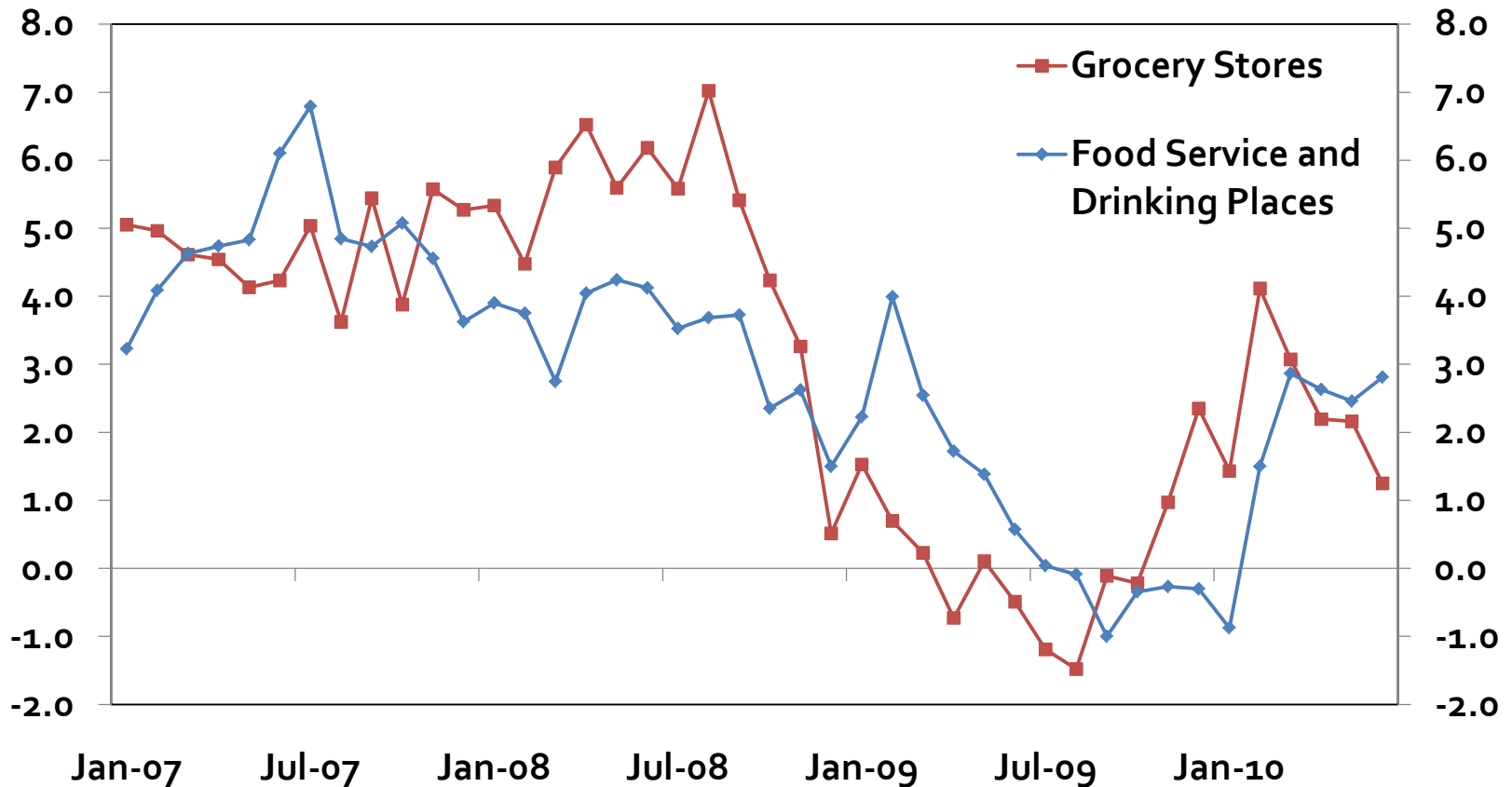
Source: FHFA



U.S. food expenditures have rebounded.

U.S. Retail Sales at Grocery Stores and Restaurants

Percent change from year ago



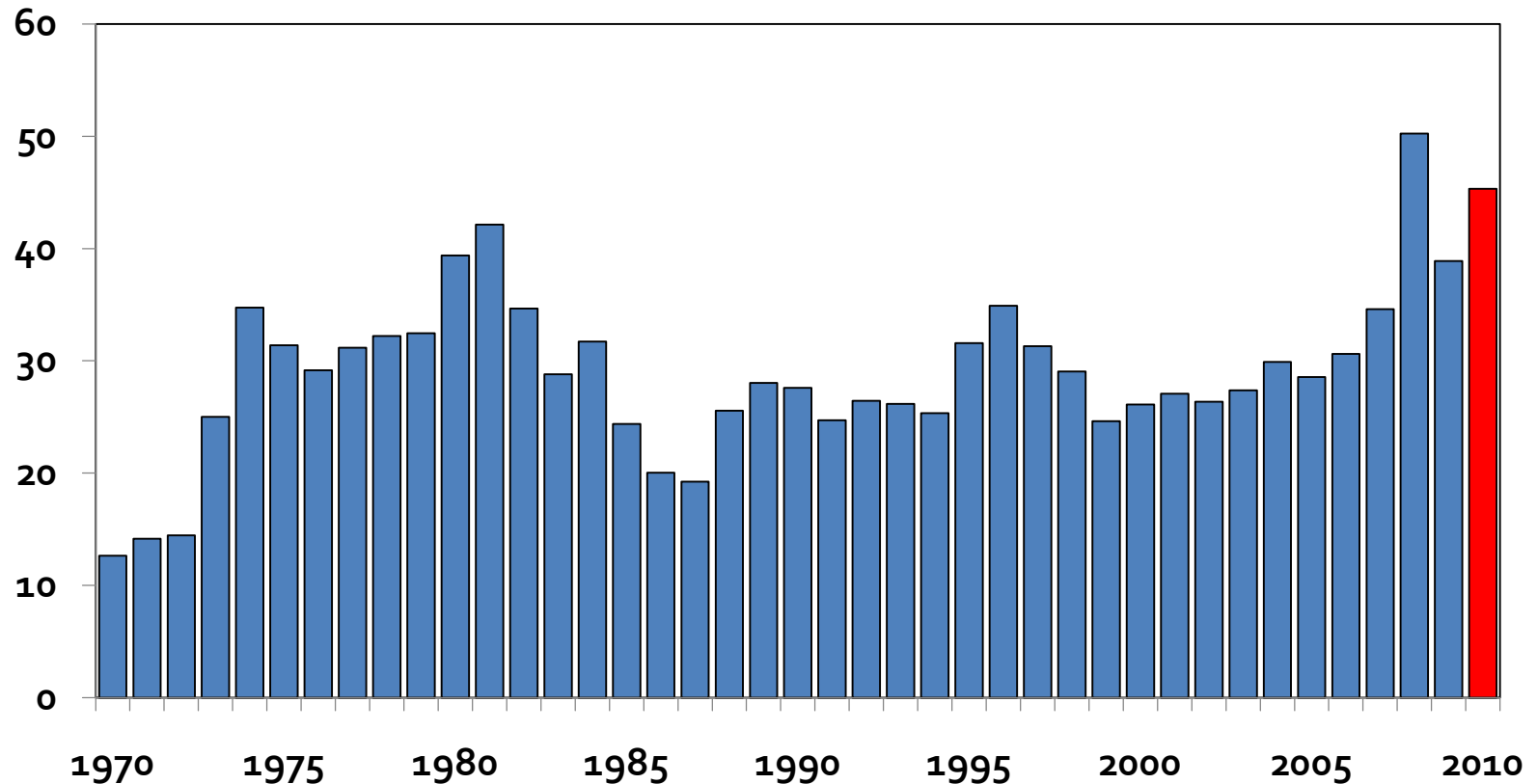
Source: USDA



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

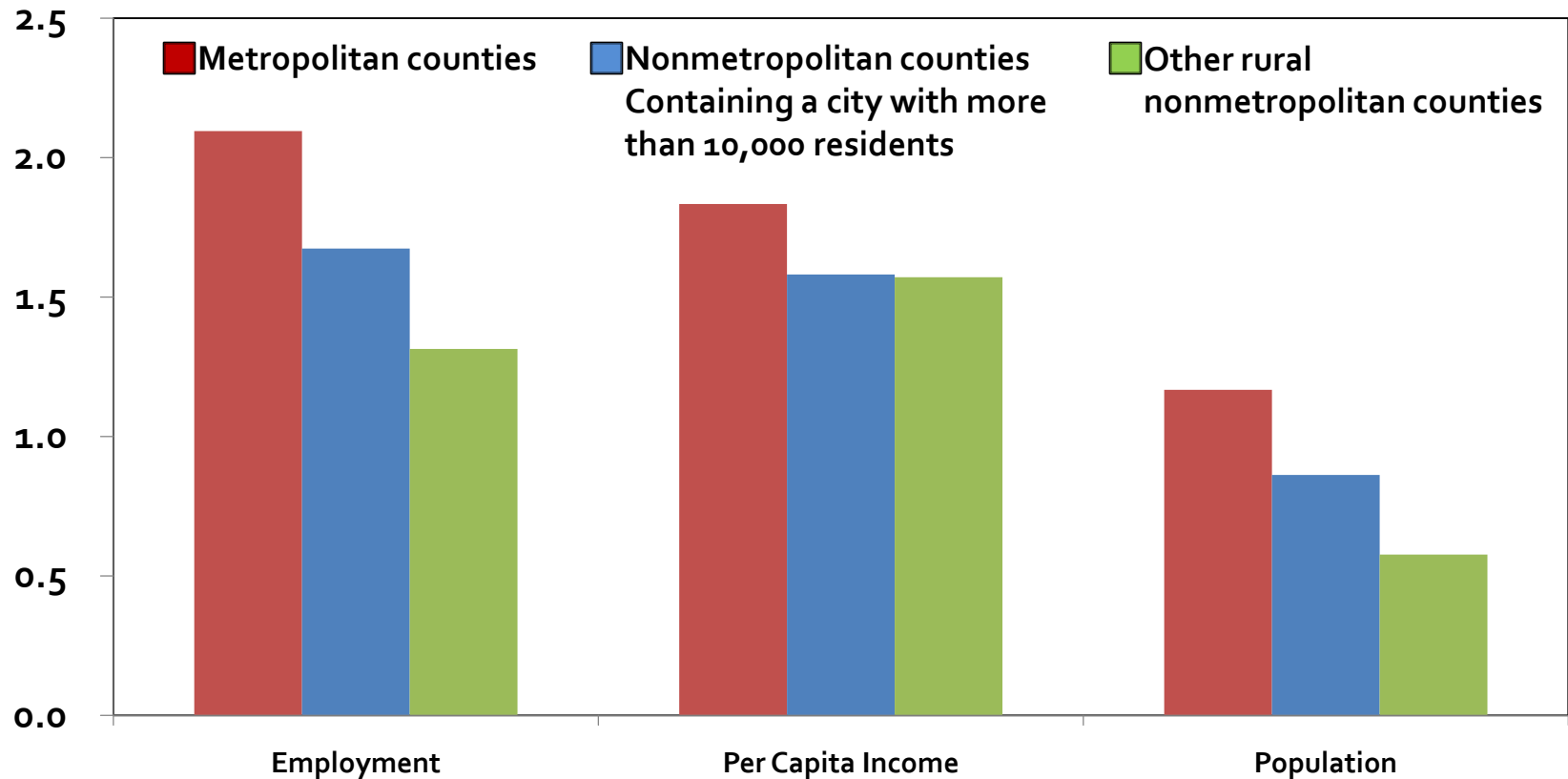
- Today's Roadmap
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 - Rural America faces some long-term challenges.



Rural economic gains lag their metro peers.

U.S. Population, Employment, and Income Growth (1970 to 2000)

Annual percent change



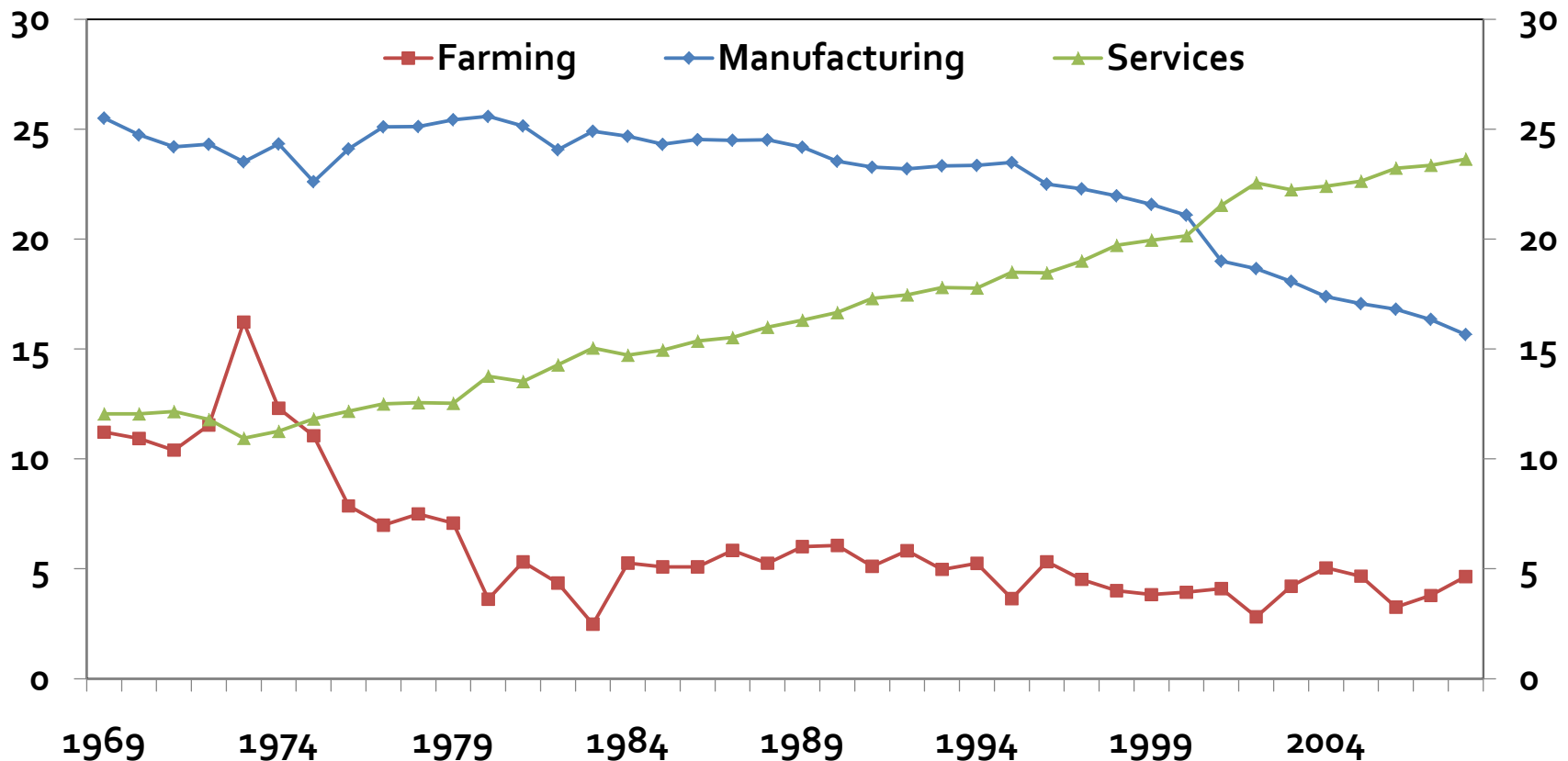
Calculations based on Bureau of Economic Analysis Data



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



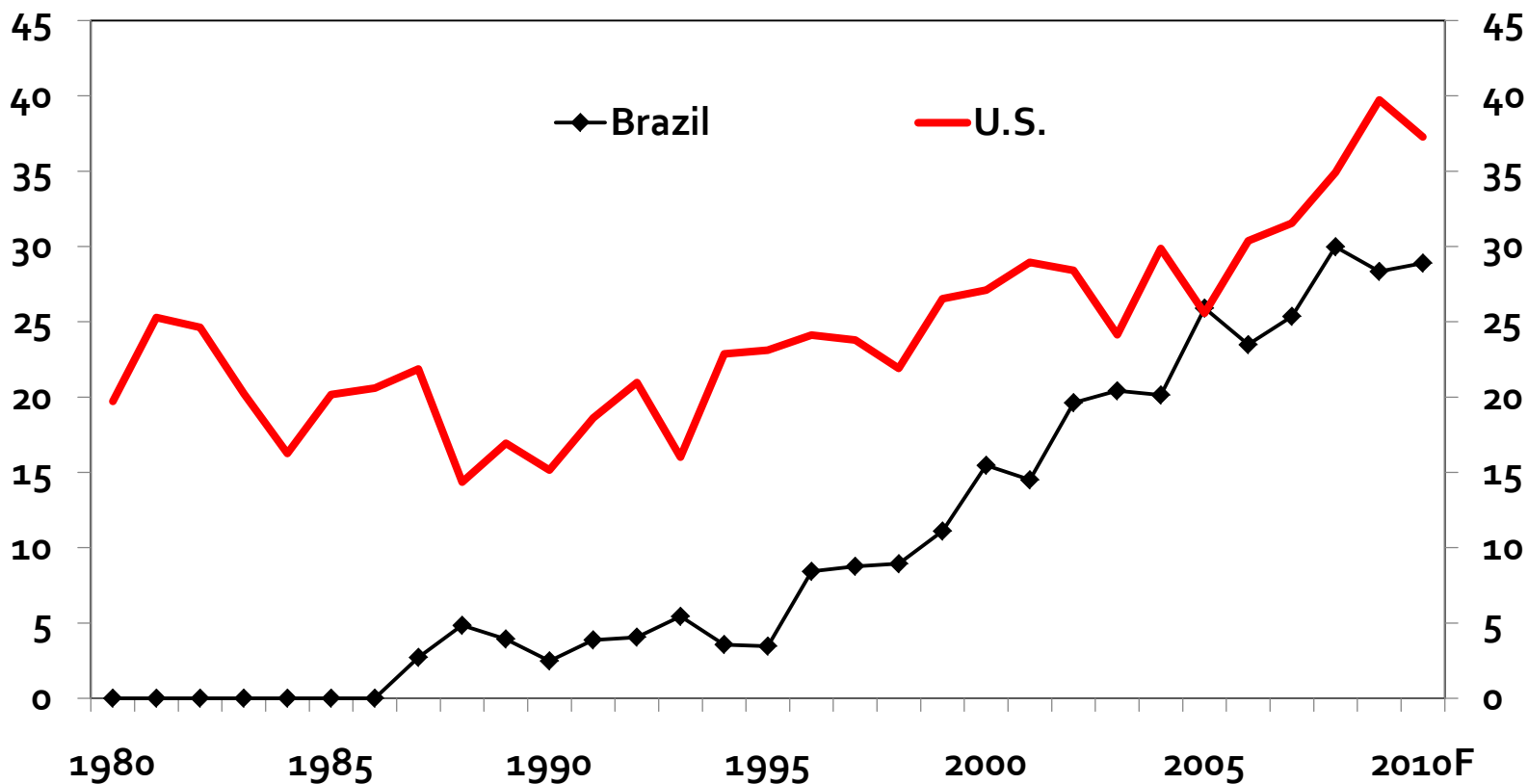
Source: USDA



Rural America operates in a global marketplace.

Brazil and U.S. Soybean Exports

Million metric ton



Source: USDA



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1) A New Economy is Built on Adding Value

Productivity

$$\begin{array}{ccccc} \text{Value} & & \text{Value} & & \text{Output} \\ \text{per} & = & \text{per} & \times & \text{Per} \\ \text{Input} & & \text{Output} & & \text{Input} \end{array}$$

- **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.

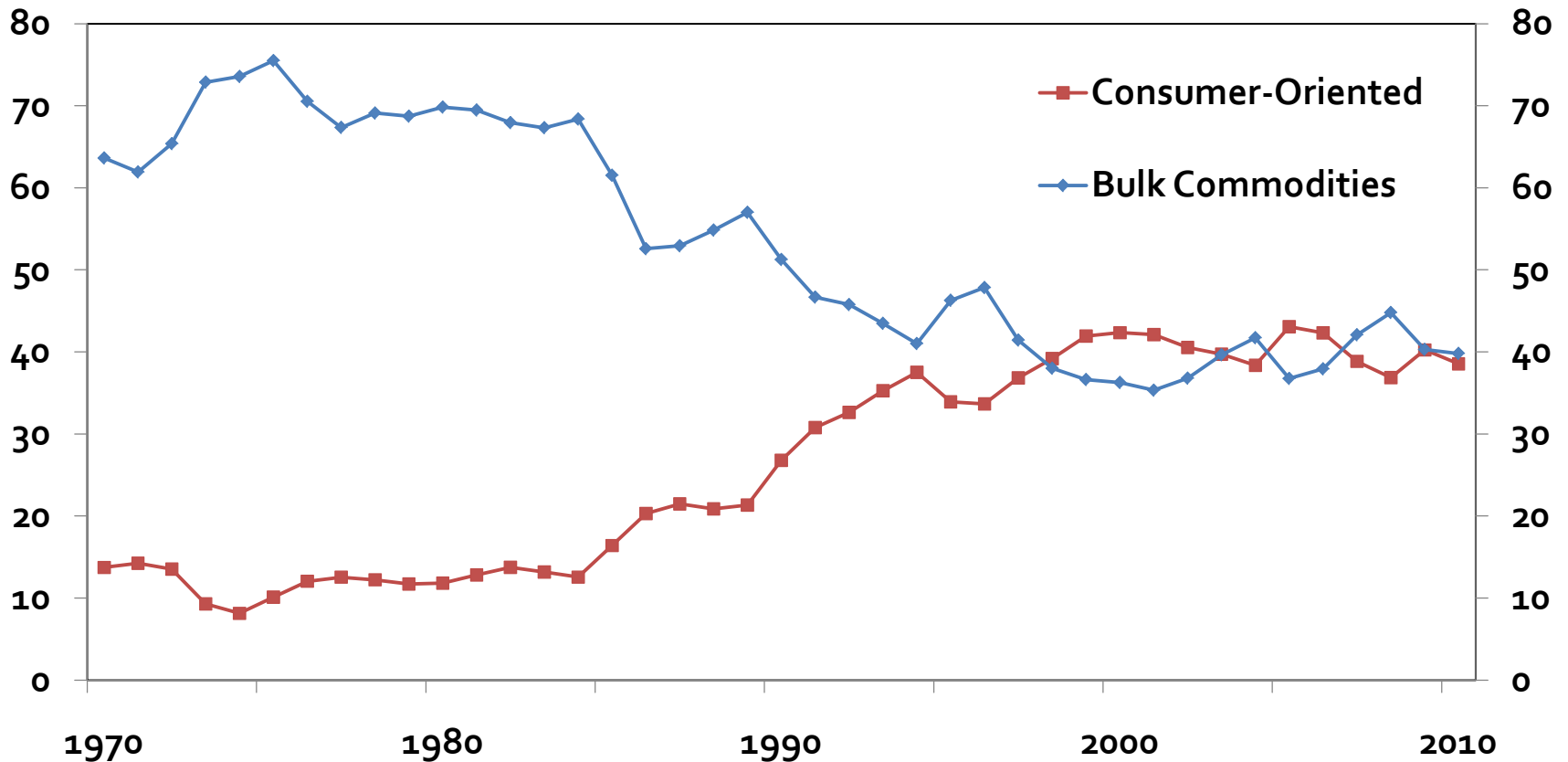
***Which part of productivity does
Rural America struggle with?***



Agriculture is transitioning from a commodity to a value-added economy.

U.S. Agricultural Exports

Percent of U.S. Agricultural Exports



Source: USDA

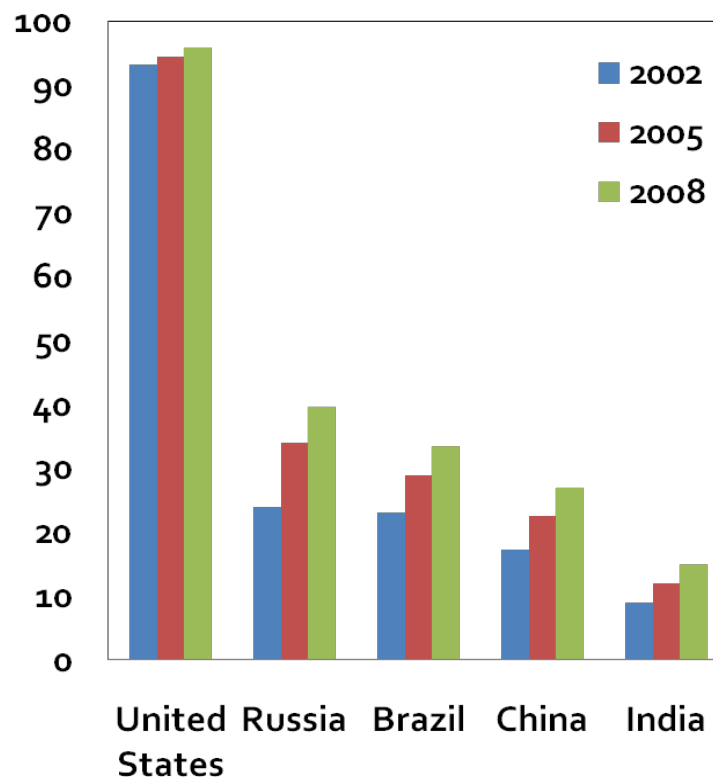


What are the opportunities emerging from developing countries?

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
Percent



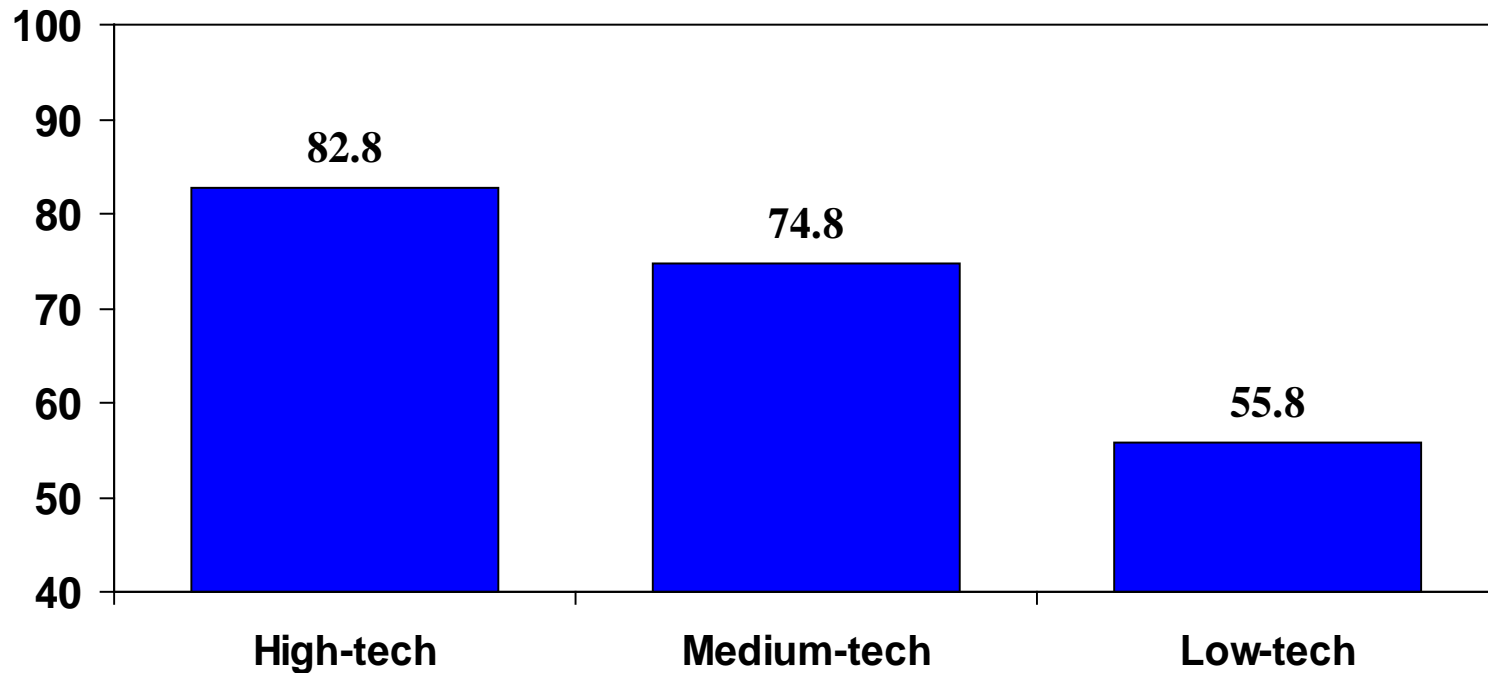
Source: USDA



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

Self-employed Income by Manufacturing Industry

Thousand dollars



Calculations based on BLS, Current Population Survey data and Wojan (2005) categories



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

Wages for Software Developers

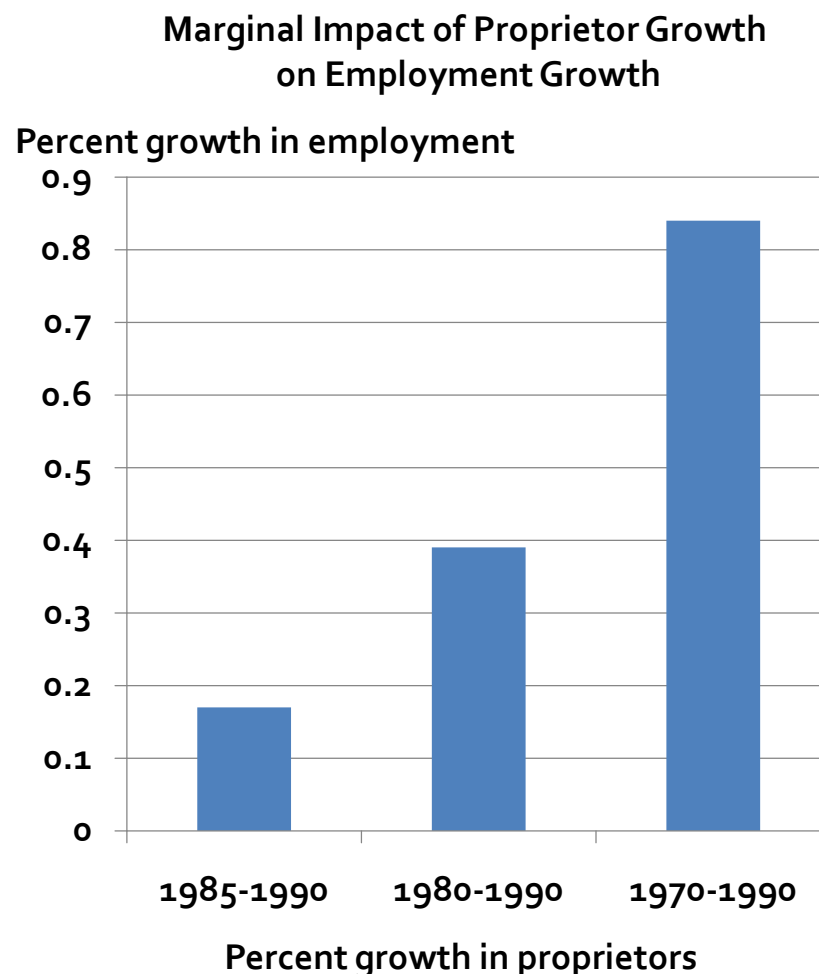


Source: Hall (2005)



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.

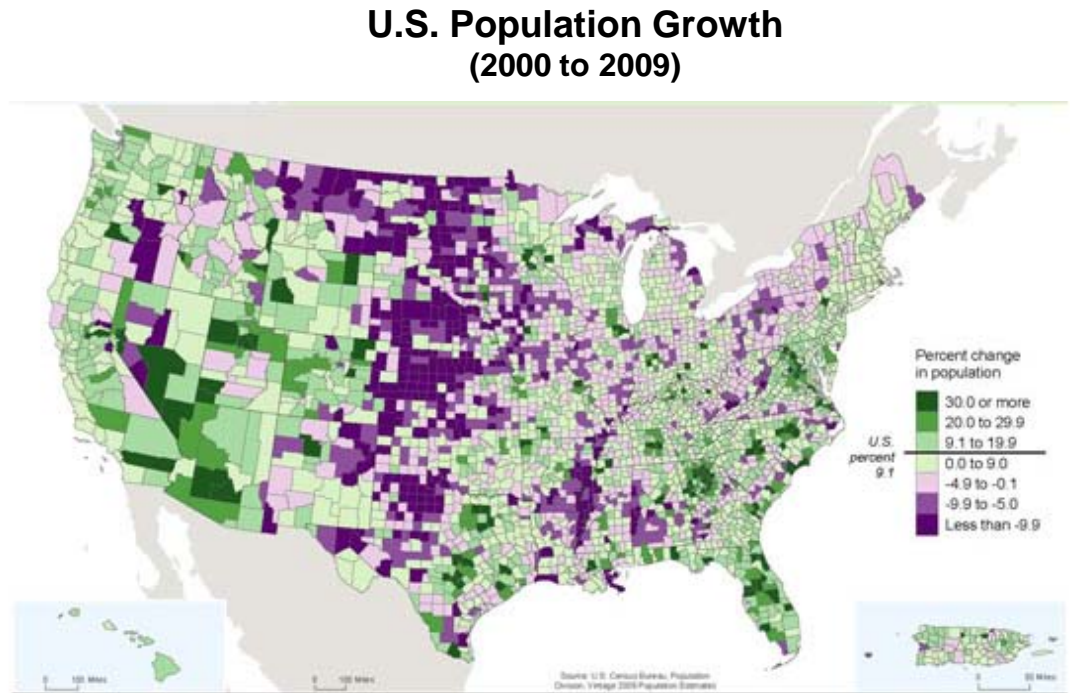
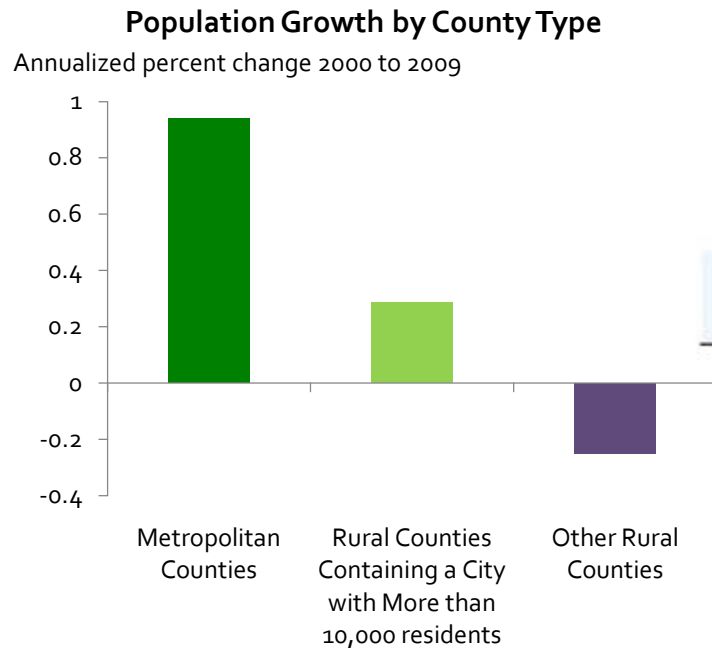


Calculations based on Henderson and Weiler (2010)



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?*

Calculations based on U.S. Census data



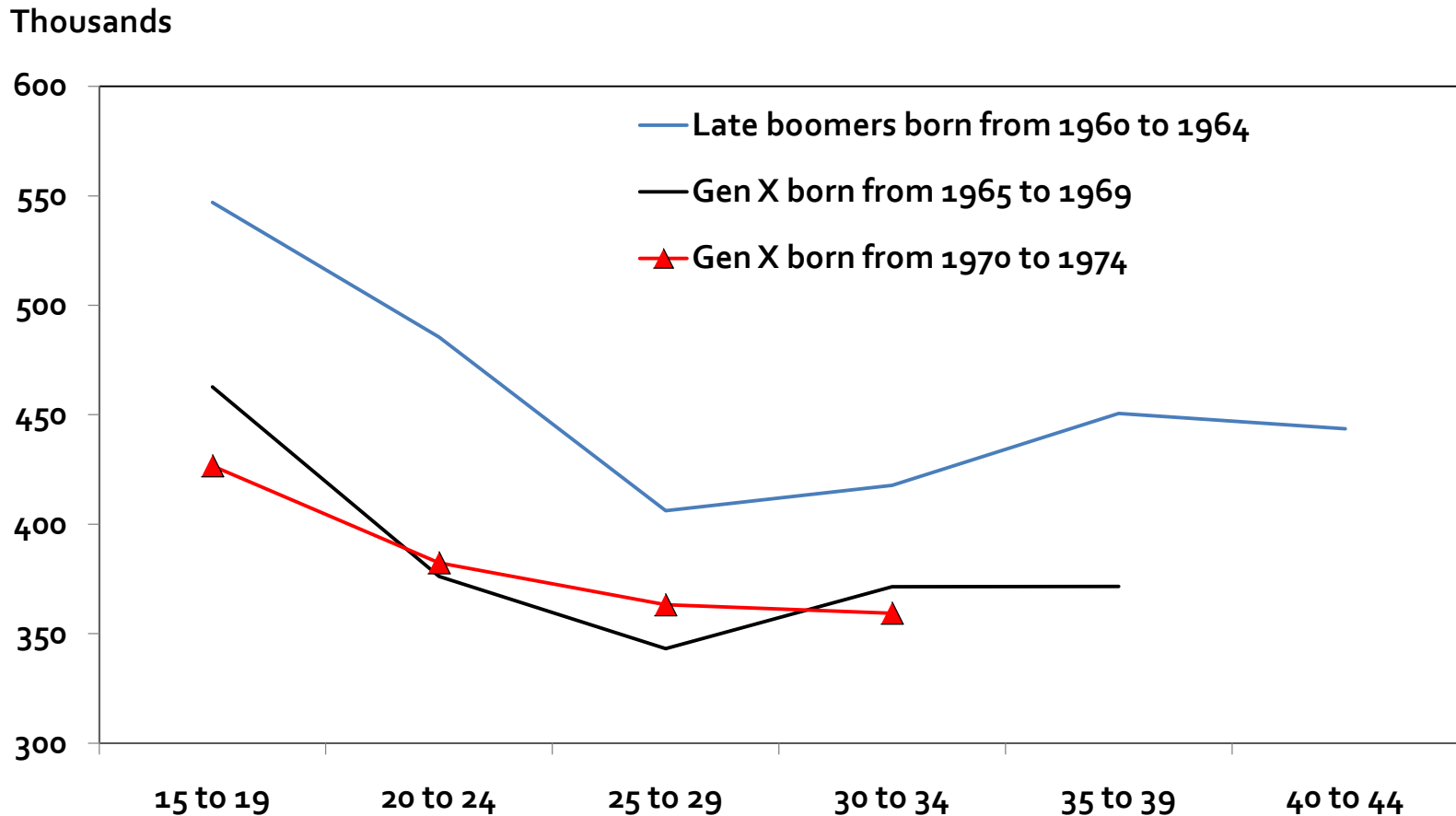
4) Personal Amenities are Crucial to Attracting People.

- 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?

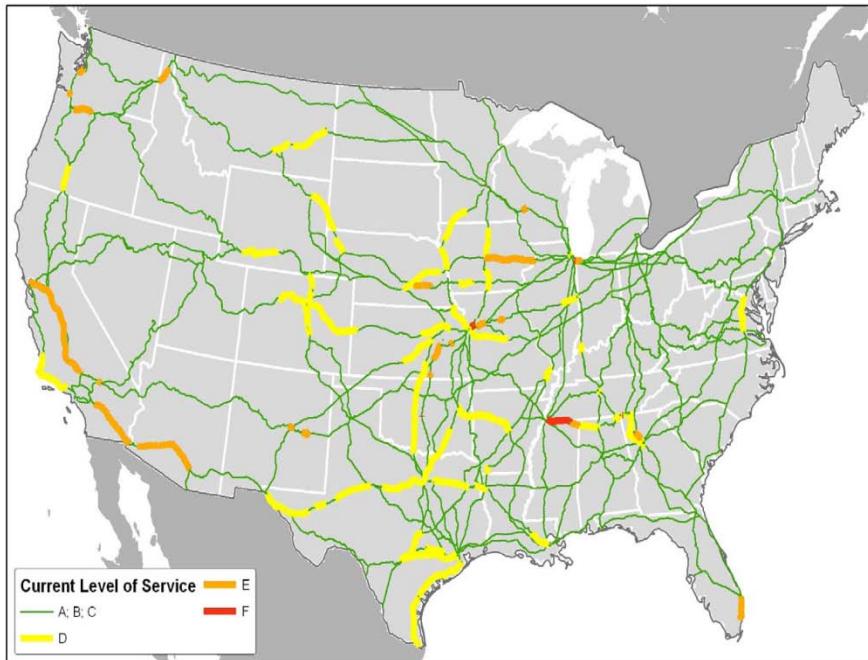
Rural Tenth District Population by Birth Cohort



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

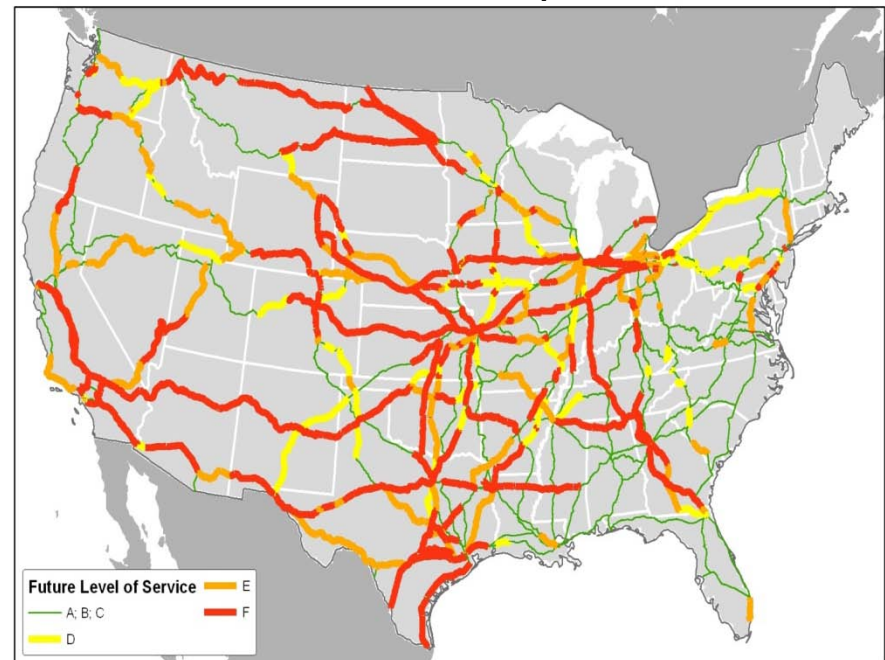
Railroad Capacity

2007



Below capacity Near capacity

2035 – without improvements



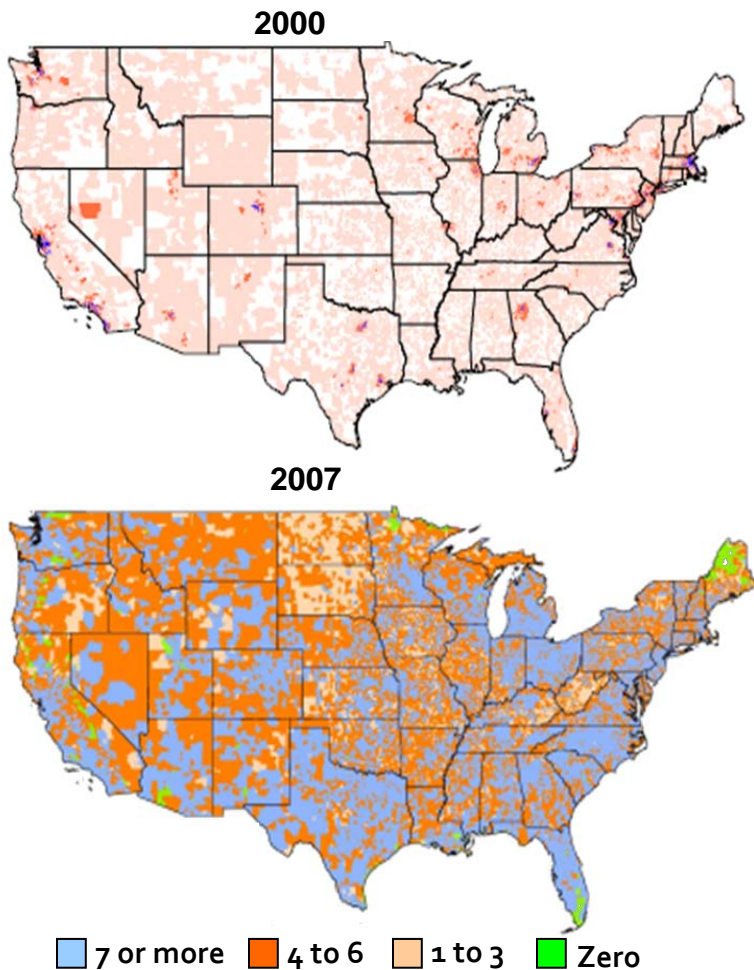
At capacity Above capacity

Source: U.S. Dept. of Transportation



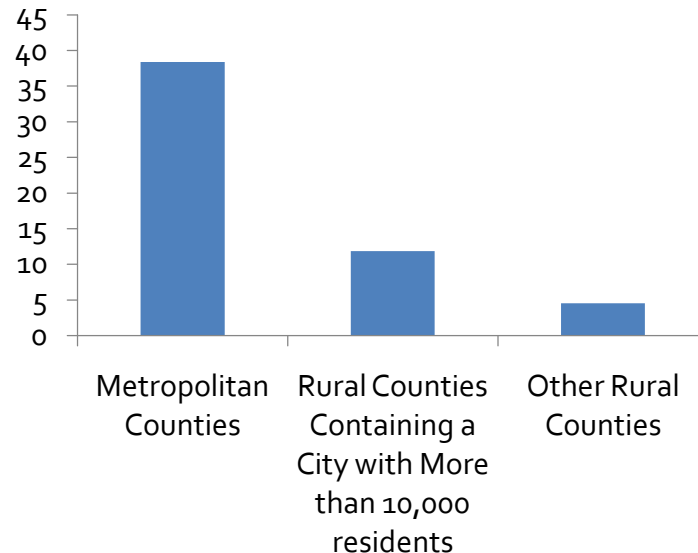
Despite increasing access, rural connections to broadband still lag metro areas.

Broadband Providers



Broadband Connections

Percent of counties with more than 60% of their households with fixed residential high-speed connections



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**

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