



CENTER FOR THE STUDY OF RURAL AMERICA  
*Federal Reserve Bank of Kansas City*

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# *The* Main Street ——— Economist

*Commentary on the rural economy*

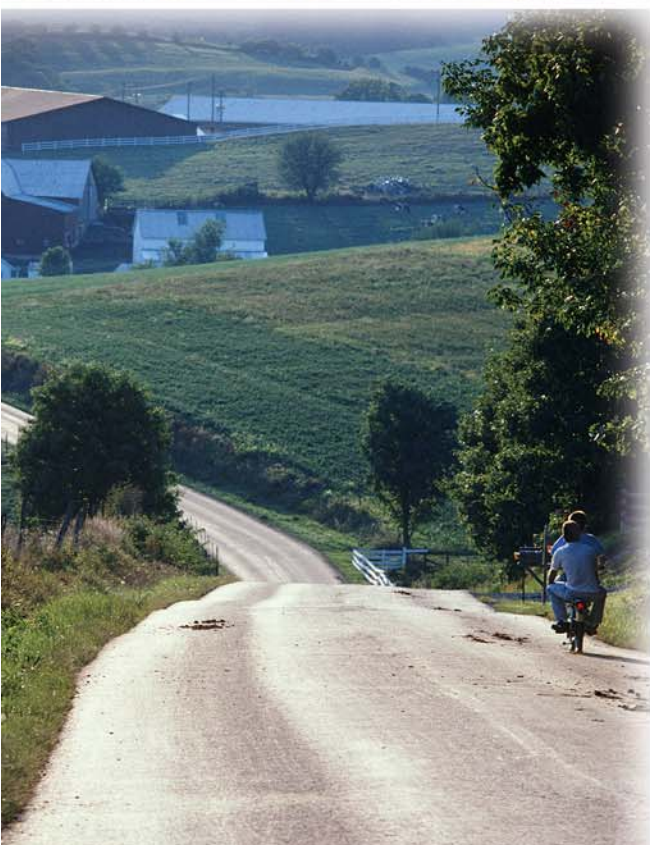


## Building New Competitive Advantages for the 21<sup>st</sup> Century

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Rural America has struggled in the 21st century as a national recession and drought have battered rural and farm economies. Rural businesses, on and off Main Street, are facing stiff competition from a new set of foreign competitors. Many rural stakeholders are now searching for new ways to compete in tomorrow's economy. While the challenges remain daunting, some rural firms and communities are demonstrating that success in the 21st century can be built with a renewed commitment to entrepreneurship and technological innovation.

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*A more detailed assessment of the challenges facing the rural economy and the need for new competitive advantages appears in the first quarter 2003 issue of the Federal Reserve Bank of Kansas City's **Economic Review**.*

### The erosion of rural competitiveness

Traditionally, the success of rural economies was founded principally on low-cost land and labor. Rural businesses often competed with their urban neighbors by being the low-cost producer. Rural firms developed competitive advantages surrounding the availability of these low-cost resources. And, many rural economic developers pursued development strategies that targeted land and labor-intensive industries to take advantage of these assets in their communities.

But globalization has brought new competitors to the rural landscape. Rural manufacturers now compete with foreign factories in addition to factories in U.S. cities. Foreign factories are able to compete effectively with rural manufacturers because they have even lower cost land and labor—a challenge also facing America's farmers.

Signs of rural America's eroding competitive advantage are emerging. Roughly a third of rural factory job losses in 2002 were caused by factory closings (Chart 1). Some of the losses in factory jobs can be attributed to the relocation of branch plants to foreign countries that have lower labor costs. Similarly, U.S. farmers face increased competition from South American producers in global markets. In 2002, South American soybean production outpaced U.S. production for the first time in history, continuing a severe contraction in U.S. market share over the past decade.

### New competitive advantages for the 21st century

To compete in the 21st century, rural industries will need to be innovative in finding business solutions that go well beyond low-cost land and labor. Technical innovation and entrepreneurship will be the hallmarks of rural prosperity. Success will depend on management skills in addition to production capabilities. New products will need to be developed. New technologies will need to be adopted to increase production efficiencies and create a new competitive edge for rural industries.

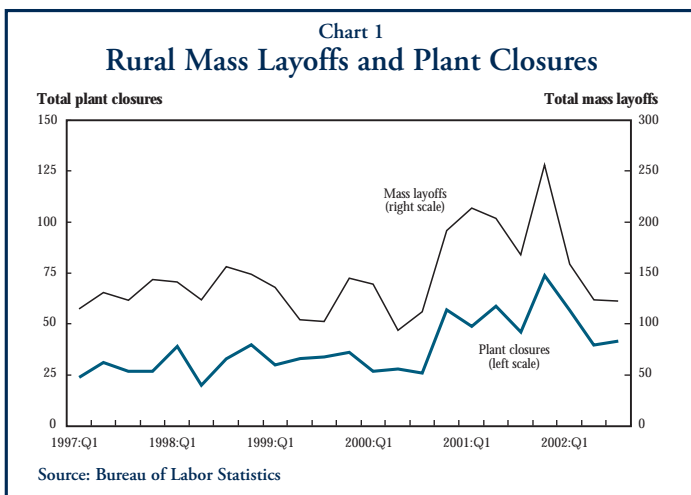
To be sure, technical innovation and entrepreneurship have always been a part of rural America. In the past two centuries, for instance, the time required to produce 100 bushels of corn fell from 82 hours in 1850 to just 2 in 2000. Technical innovations have also driven huge efficiency gains that have boosted rural productivity. Productivity gains were a primary driver of U.S. economic growth in the 1990s. Innovative entrepreneurs are a key channel for capturing the benefits of these gains. Accordingly, the most entrepreneurial countries enjoyed the strongest levels of economic growth heading into the 21st century.

While the challenges to building new sources of competitive advantage are daunting, some rural areas are already finding new ways to prosper using technological innovation. One such example comes from England, Inc., a rural furniture

manufacturer in New Tazewell, Tennessee. England is a custom order furniture manufacturer that produces roughly 11,000 built-to-order sofas and chairs each week. To regain its competitive advantage over foreign competitors, England geared its success to reducing delivery time for its products. By using new technologies and smaller, more flexible production runs, England cut its delivery times to less than a month, a significant reduction from five years ago. Competitors have found it hard to match the shorter delivery schedule. The result has been prosperity for England and job benefits for a very rural community. In 2001, for instance, the U.S. furniture industry as a whole saw both sales and workforce fall by 9.3 percent while England enjoyed an 8.3 percent increase in sales and expanded its workforce by 7.4 percent.

New Tazewell has prospered by delivering existing products in new ways, but other rural communities are also benefiting from firms that create new products from advanced technology. For example, in November 2001, Cargill/Dow LLC opened a processing plant in Blair, Nebraska that turns corn into packaging and other synthetic fibers. Using the latest technology, the facility produces polylactide (PLA) polymers that are used in a variety of fabric products ranging from clothing, upholstery, to diapers. At capacity, the facility is expected to employ over 100 people and use 14 million bushels of corn.

In sum, technological innovations and entrepreneurial firms are helping some rural businesses find new ways to compete in a global economy. Today's global environment means rural America must build new sources of competitive advantage, ones that go beyond low-cost land and labor for its communities. Rural farmers, businesses, and communities will need innovative, entrepreneurial solutions to discover new engines of growth. New technologies will be needed to develop new rural products. New regional partnerships will be needed to build critical mass in the industries of the future. The rural economy appears to be at another turning point in its history, a point where the most innovative and entrepreneurial communities are in the best position to create new opportunities and prosperity in the 21st century.



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## Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City  
September 30, 2002

Highlights from the third quarter survey.

- District farmland values posted solid gains in the third quarter. Annual gains were 6.8% for nonirrigated cropland, 5.0% for irrigated cropland, and 6.2% for ranchland. Gains were strongest in Missouri due to solid nonfarm demand, but gains weakened in the Mountain states as farmland values pulled back from the record highs of previous quarters.
- The district farm commodity price index moved higher in the third quarter. Crop prices rose as drought conditions lowered crop production. Cattle prices were also stronger in the quarter, but hog prices fell. Since September, livestock prices have held steady and soybean prices have come back from harvest lows. Corn and wheat prices have edged down.
- Farm credit conditions continued to weaken in the third quarter. Loan repayment rates slowed while loan renewals or extensions picked up. Collateral requirements have moved higher this year indicating bankers perceive more risk in agriculture.
- Interest rates on new farm loans edged down in the third quarter. At the end of the quarter, interest rates on new farm loans averaged 7.89% for operating loans, 7.94% for machinery and intermediate-term loans, and 7.48% for real estate loans. Since September, interest rates in national money markets have moved lower.
- More than two-thirds of respondents expect lower farm income and capital spending in the upcoming quarter. Three-fourths of respondents indicated that the majority of their farm borrowers are using off-farm income to support their farm operations. And over half require the use of risk management tools, the most popular being crop insurance, contracts, and hedging.

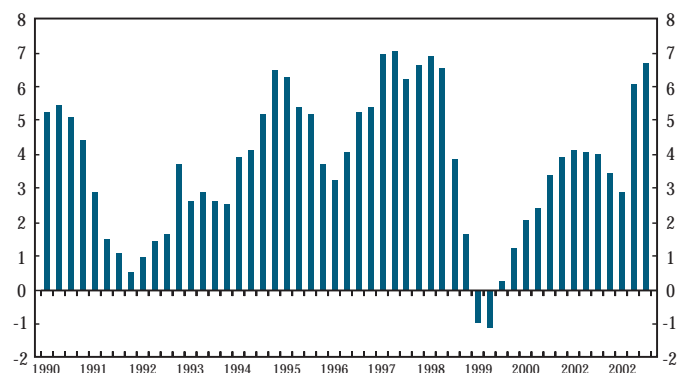
\* Note: 292 banks responded to the third quarter survey.

\* Please refer questions to Nancy Novack, associate economist, at 816-881-2423 or [nancy.l.novack@kc.frb.org](mailto:nancy.l.novack@kc.frb.org).

### Nonirrigated Cropland Values

Tenth District

Sample percent change from last year\*

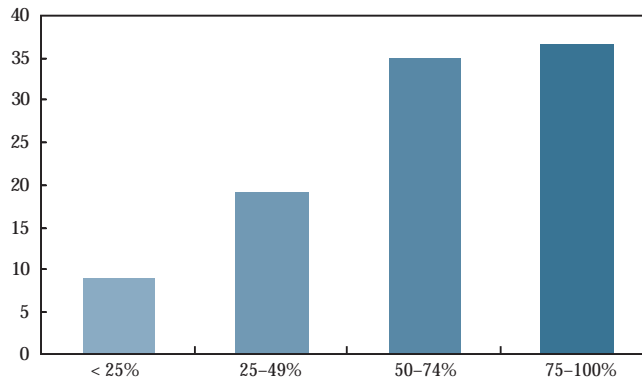


\*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

### Farm Income Supported by Off-Farm Sources

Tenth District

Percent of respondents

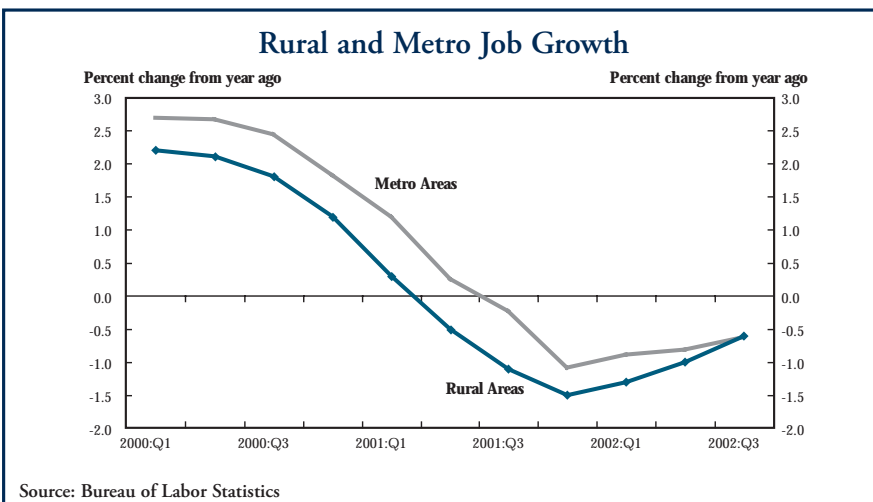


Share of farm borrowers using off-farm income to support farm operations

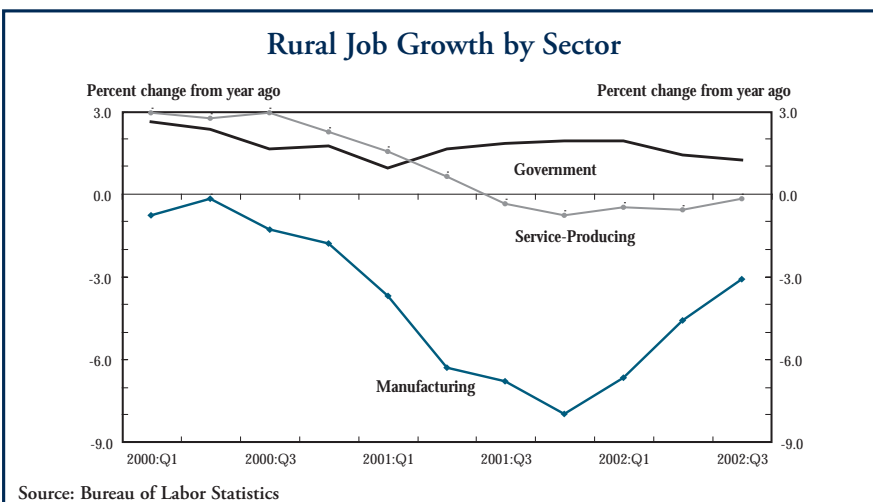
## Summary of Economic Conditions

Highlights from the third quarter.\*

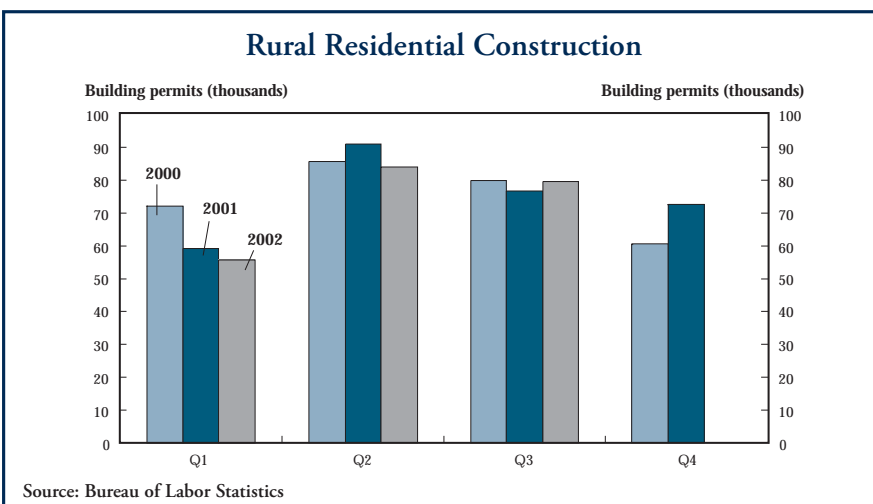
- The rural nonfarm economy continued its slow recovery in the third quarter of 2002. After bottoming at the end of 2001, losses at rural businesses slowed throughout 2002. By the third quarter, job levels rose to 0.7 percent below a year ago. After lagging metro job growth, the gap between rural and metro job growth narrowed.



- Despite the overall improvement, rural manufacturing activity remains weak and job levels remain well below a year ago. In the third quarter, the pace of factory closures and mass layoffs slowed. Rural government job gains slowed over the third quarter as state and local governments face severe budget crises. Jobs in service-producing sectors edged up slightly to year-ago levels.



- Residential construction activity remains robust in rural areas. Low interest rates continue to support home construction and refinancing. Rural building permit levels slowed seasonally in the third quarter but edged above 2001. Single family building activity continues to pace the construction market. The value of new construction remains strong.



\*Please refer questions to Nancy Novack, associate economist, at 816-881-2423.

For more current analysis on the state of the rural farm and nonfarm economies, visit our web site at [www.kc.frb.org](http://www.kc.frb.org).

Note: Data for all tables are not seasonally adjusted.