

July 2004



The Main Street ——— Economist

Commentary on the rural economy



Defining “Rural” America

Jason Henderson
Economist

Stephan Weiler
Assistant Vice President & Economist

Center for the Study of Rural America

Why are many people unsure about rural America’s direction as it enters the 21st century? Perhaps one cause for confusion is a recent report that the population in rural counties dropped 4.2 percent from 1990 to 2000, while it rose 9 percent in nonmetropolitan counties. Aren’t nonmetro areas rural?

Current definitions of rural America muddle the understanding of rural communities and can perpetuate troublesome myths. The Census Bureau defines rural places as those with fewer than 2,500 residents. Thus, towns like Soda Springs, Idaho (pop. 3,381), Orange City, Iowa, (pop. 5,582), and Wahoo, Nebraska (pop. 3,491), are not considered rural—although most residents there probably still identify themselves as rural. In short, the definitions available to rural analysts have simply failed to recognize rural diversity.

Following the 2000 Census, the Office of Management and Budget (OMB) created a new “micropolitan” designation to help sharpen the definition of rural. This article describes the new micropolitan term and explains how researchers can



use it to improve our understanding of the rural economy. This new understanding can provide a clearer perspective for both private and public decision-makers and help regions better assess their economic opportunities.

Most rural analysts have chosen to overcome the limitation of the Census Bureau's rural definition by simply ignoring it and defining "rural" according to a county's metropolitan status. Thus, rural communities were those in nonmetropolitan counties. A county perspective is valuable because rich arrays of data are available more frequently at the county level. For example, county employment data are available monthly with a fairly short lag.

OMB classifies metro areas as those counties with a core urban area of 50,000 or more inhabitants. A metro county includes additional outlying counties if commuting flows between counties are significant. All other counties are considered nonmetro. In this context, then, nonmetro is synonymous with rural.

The designation of nonmetro counties as rural has been less than ideal because of the diversity in local assets and economic performance. The nonmetro designation has supported the myth of rural homogeneity, repeatedly belied by research. For example, USDA has identified rural counties according to their size and proximity to metro areas. Past assessments of jobs, income, and population growth have shown that larger rural (nonmetro) counties and those adjacent to metros grow faster than other rural areas.

Recognizing the variation among nonmetro counties, OMB decided to split the previously homogeneous lump of nonmetro counties into two categories, those based on a small core city, and those based on yet smaller towns. As the name suggests, the micropolitan classification is still based on a city. Micropolitan areas feature a core city or cities with a population of 10,000 to 50,000 inhabitants versus the metro cities of 50,000 or more. The micropolitan area itself includes a central county that contains the core city or cities, along with any coun-

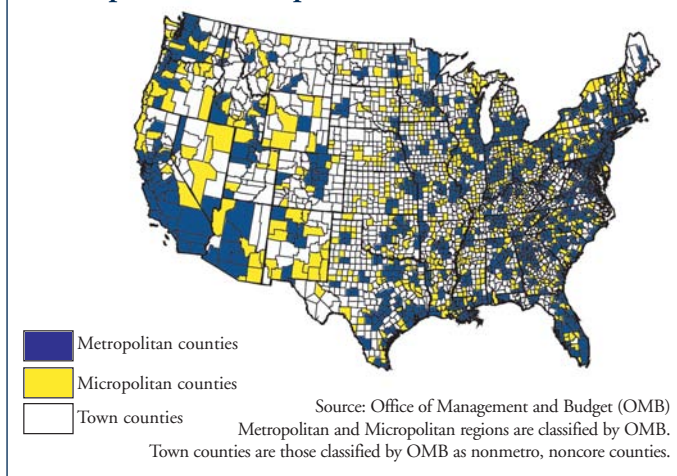
ties that have substantial commuting flows to or from the central county. The newly designated 674 micropolitan counties are home to 10 percent of the nation's population.

The remaining 1,378 nonmetro counties that are too small to be classified as micropolitan are classified *nonmetro noncore* by OMB. These counties, with towns of less than 10,000 inhabitants, might also be called *town counties*.¹ Together, the three classes of communities give analysts a simple yet revealing spectrum of county typologies based on core city size.

In part, the new classification system became necessary because many rural counties with small cities perform a widening variety of functions for their more rural neighbors. Better roads and cars have let people in outlying counties work and shop in micropolitan areas.

The new classification system should also dispel another stubborn myth about rural America—that rural places lack new job opportunities. Nonmetro areas in general—and micropolitan areas in particular—have in fact been remarkably vibrant. Rural labor markets recovered more quickly in the two recent "jobless recoveries" of 1991 and 2001. In March 1993, two years after the end of the 1991 recession, nonmetro job levels had risen 2% compared to 1.2% in metro areas. Using the latest available data from March 2002 through March 2004, nonmetro employment growth was again slightly higher than metro employment growth. The finer detail afforded by the micropolitan classification suggests that these regions were, in fact, the principal

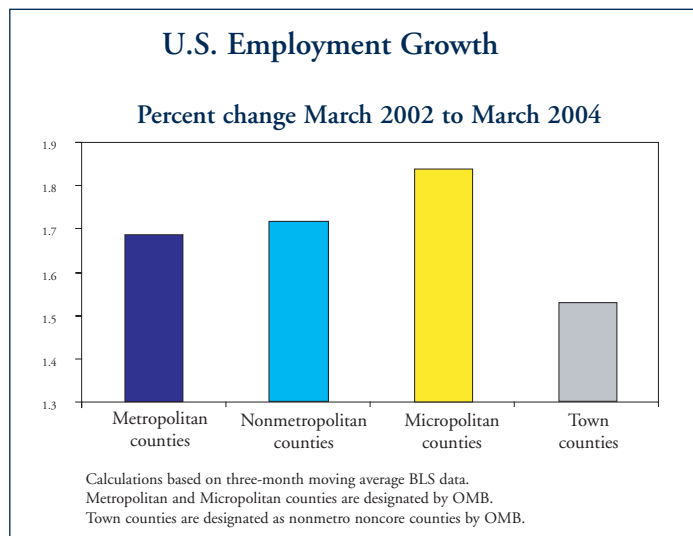
Metropolitan, Micropolitan, and Town Counties



drivers of rural job growth. In the first two years of the current recovery, micropolitan counties have paced national employment growth, rising 1.85%, compared to 1.69% in metro counties and 1.53% in town counties.

The new classification system invites analysts to reconsider a variety of rural myths. Traditional misconceptions, such as those regarding employment and population, can handicap rural areas as they seek new paths to economic growth. This new tool, however, should help shed a brighter light on what's actually happening in rural America.

¹ It is worthwhile noting that this newly designated classification of rural counties is defined by what the counties are *not*—namely, nonmetro noncore—rather than by what they are. Comments on the OMB's new classification system, are summarized at www.whitehouse.gov/omb/infocore/metro2000.pdf.



Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

March 31, 2004

Highlights from the first quarter survey*

- District farmland values continued to post healthy gains in the first quarter of 2004. Ranchland values posted the strongest gains at 9.4% over the previous year. Nebraska and Kansas had particularly strong gains in ranchland values, supported by resilient cattle prices and strong demand for farmland for recreational purposes. Annual gains in cropland values were 5.9% for nonirrigated and 3.4% for irrigated. Gains in irrigated cropland values have slowed due to lingering drought conditions in western portions of the district and high energy costs.
- District farm credit conditions remained strong in the first quarter. The index of farm loan repayment rates was slightly above the previous quarter and well above a year ago. Requests for renewals and extensions moved lower in the quarter as only 15.7% of bankers reported an increase in requests, down from 48% last year.
- The district farm commodity price index inched higher in the first quarter as soybean prices reached record levels. Compared to the previous quarter, prices for hogs and major crops were higher, while cattle prices fell below the record prices of the previous quarter after the Mad Cow incident. Prices for all crops and livestock were stronger than the previous year.
- Although cattle prices fell after the Mad Cow incident of late December 2003, district bankers indicated that initially the impacts appear to be limited. Thirty percent of bankers expect the Mad Cow incident to have no effect on overall farm income in their area, while 60% expect a 1-10% reduction in farm income. One-sixth of respondents indicated that the Mad Cow incident delayed expansion of cattle herds in their area, while the remaining bankers indicated the incident had no impact on ranchers' production plans.
- Interest rates on new farm loans inched lower in the first quarter. At the end of the quarter, interest rates on new farm loans averaged 7.04% for operating loans, 7.08% for machinery and intermediate-term loans, and 6.67% for real estate loans. Since March, interest rates in national money markets have moved higher.

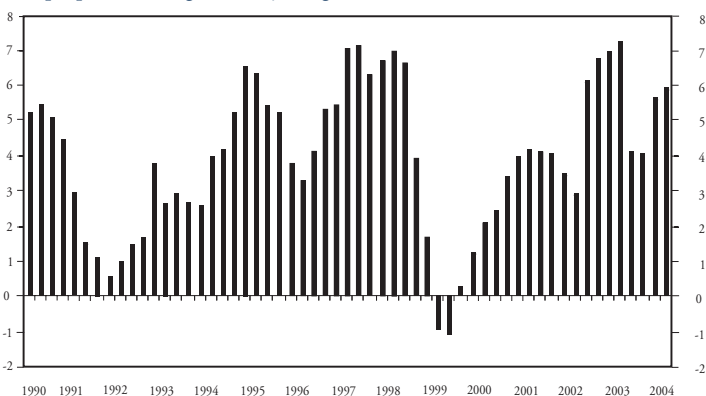
Note: 287 banks responded to the first quarter Survey of Agricultural Credit Conditions in the Tenth Federal Reserve District—an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri.

*Please refer questions to Nancy Novack, associate economist, at 816-881-2423 or nancy.l.novack@kc.frb.org.

Nonirrigated Cropland Values

Tenth District

Sample percent change from a year ago*

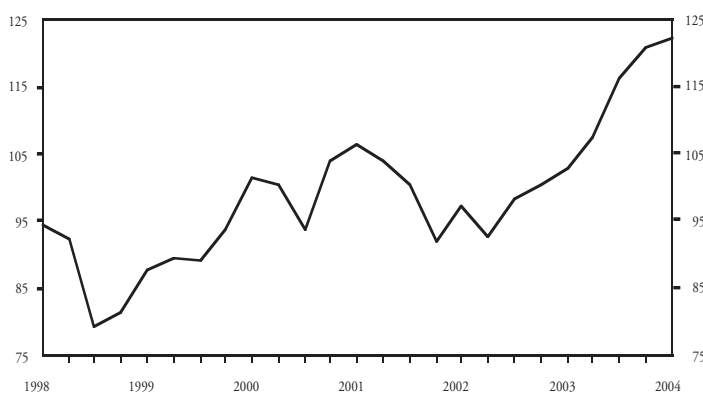


* Percent changes are calculated using responses only from those banks reporting in both the past and current quarter.

Farm Commodity Price Index

Tenth District

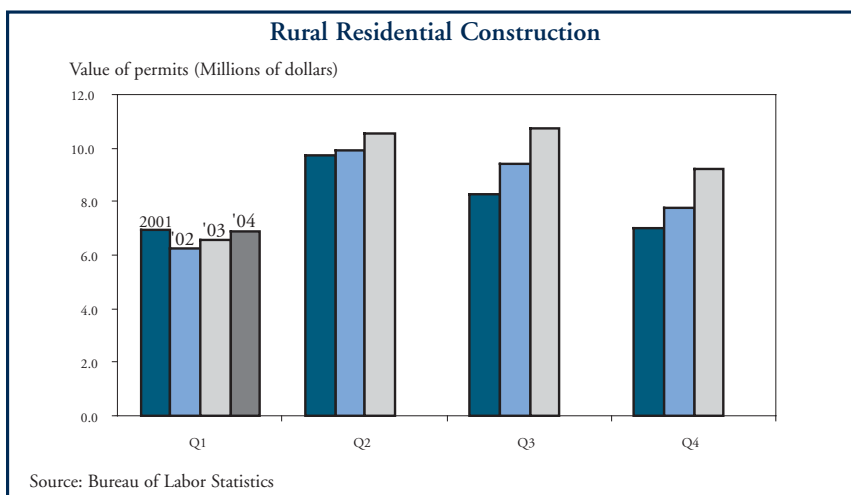
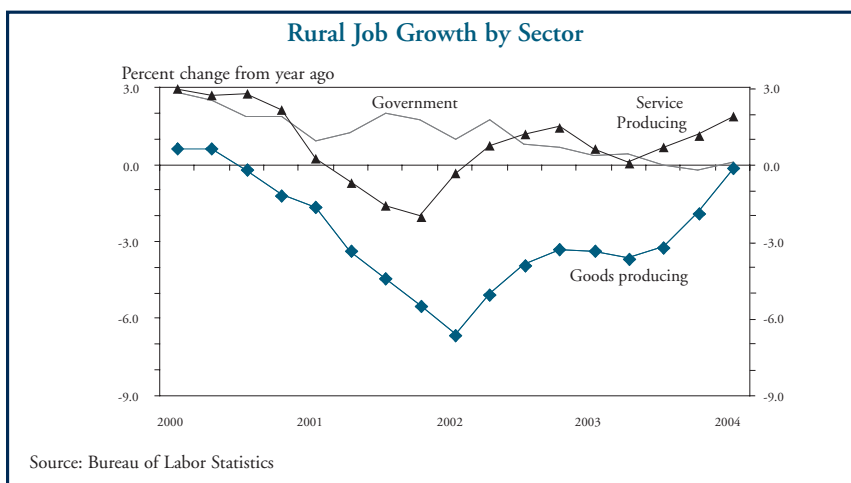
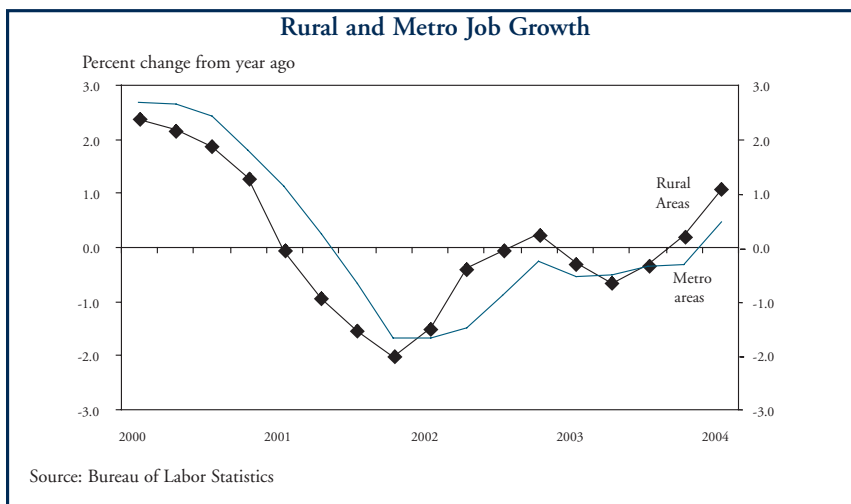
Index



Summary of Economic Conditions

Highlights from the first quarter*

- The rural nonfarm economy continued to strengthen in the first quarter of 2004. Rural job levels rose to 1 percent above a year ago as the national economy continued to emerge from a jobless recovery. Rural job growth continued to outpace growth in metro places. Growth was strongest in micropolitan areas, those rural communities with populations between 10,000 and 50,000 people.
- Service-producing and goods-producing sectors combined to drive the improvement in rural labor markets. Service-producing sectors, led by financial and recreation industries, continued to lead the rural recovery. Job gains in mining sectors and fewer job losses in rural factories pushed up goods-producing jobs to year-ago levels.
- The rural construction activity was robust in the first quarter. Despite higher mortgage rates and a seasonal slowdown, the value of rural building permits remained above year-ago levels. The number of rural building permits remained strong, led by healthy single-unit construction activity. Construction jobs remained above a year ago.



*Please refer questions to Nancy Novack, associate economist, at 816-881-2423 or nancy.l.novack@kc.frb.org.

For more current analysis on the state of the rural farm and nonfarm economies, visit our website at www.kansascityfed.org/ruralcenter.

Notes: Data for all tables are not seasonally adjusted. Job data were revised and reclassified in January 2003.