

October 2004



The Main Street ———
Economist
Commentary on the rural economy




Beyond Cows and Corn: Rural America in the 21st Century

Jason Henderson
Economist

Stephan Weiler
Vice President & Economist

The Center For the Study of Rural America



Despite the accelerating economic diversification of rural areas, many outside observers and policymakers still believe that rural America is synonymous with agriculture. While agriculture will always be a cornerstone of the rural economy, the prosperity of rural regions in the new century will depend crucially on their ability to produce more than cows and corn.

While the changes were more evolutionary than revolutionary, rural America's economic landscape shifted significantly over the 20th century. Technological innovations boosted farm productivity and allowed rural America to spawn new economic opportunities. While some of these opportunities emerged from agriculture, many came in manufacturing and service industries. Rural America does not often receive credit for the evolutions it has undergone and the growth it has produced over the last century. To be sure, challenges still remain for many rural places. But by expanding its economic base, rural America has begun positioning itself for success in the 21st century.

The changing face of rural America

The rural economy changed substantially last century. The primary catalysts for these changes occurred in agriculture. Innovative technologies, such as tractors and hybrid seed corn, led to an explosion in farm productivity. For example, average U.S. corn yields jumped from 28 bushels per acre in 1901 to almost 160 bushels per acre today. Productivity gains mean that fewer people are needed in ag production. Today, less than two hours of labor produces 100 bushels of corn, a direct testimony to the success of U.S. agriculture.

Rising agricultural productivity has allowed other sectors to grow in rural America by freeing up labor for nonfarm employment. While some workers migrated to metro centers, many found jobs in nonfarm industries in nearby rural communities, which developed into dynamic new centers of growth. Many of the first off-farm migrants took blue-collar jobs in factories. By 1970, rural factories accounted for 20% of rural employment (Chart 1). More recently, growth has shifted from blue-collar jobs in manufacturing to white-collar jobs in service industries.

Over the past three decades, services clearly emerged as a vital and vibrant segment of the rural economy, accounting for almost half of all rural jobs in 2000. Robust services growth led to a shrinking share of jobs in manufacturing. But the declining share hides the reality that rural areas added factory jobs between 1970 and 2000, in stark contrast to the net loss of factory jobs in metro areas.

Rural America often does not get credit

for its economies' dynamic responses to changing eras. Faster growing areas "graduate" to nonrural classifications, as successful rural communities tend to become more urbanized. More than 500 rural counties have been reclassified as metro counties since 1970. These formerly rural (nonmetro) counties grew 80% in population from 1970 to 2000, dramatically outpacing the 32% growth in already established metro counties. In 2000, an additional 674 counties were designated as "micropolitan" to reflect the rising economic importance of small cities.

New foundations for rural America

Looking forward, globalization offers rural America a new set of challenges and opportunities. Rural America's agricultural and manufacturing past was predicated on its ability to produce commodities with abundant, inexpensive land and labor. Today, other areas of the world produce commodities even more cost effectively. Rural communities must thus continue to seize new opportunities, such as those emerging from product agriculture and high-skilled nonfarm industries.

As rural America diversifies its economic portfolio, agriculture will remain part of its diversity. Yet agriculture's contribution to the rural economy will continue to evolve. Commodity production will be the focus of the largest farms that can take best advantage of their scale economies. In contrast to this cost-oriented approach, other ag producers will increasingly adopt value-oriented product agriculture as their niche. These products

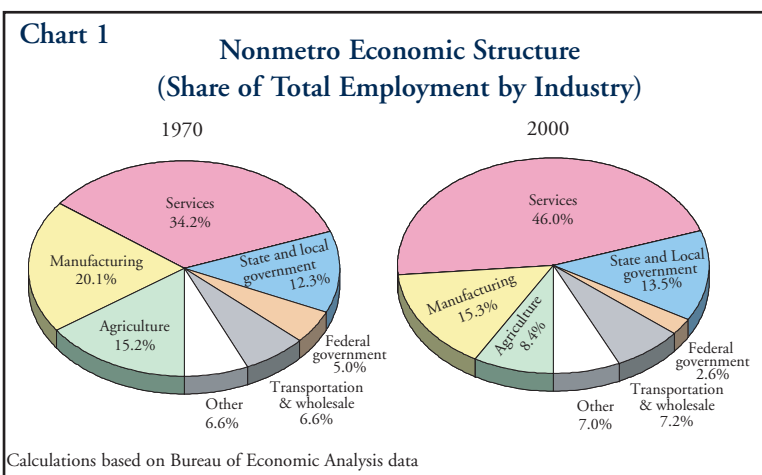
for the specific demands of a nearby urban populace. In this sense, the agricultural landscape will become more regional as urban customers help shape U.S. agriculture.

Rural America's nonfarm sectors must continue their transformations as well, moving toward the especially promising opportunities in high-skilled manufacturing and services. Earnings in high-skilled producer services rose the fastest (3.5% per year) from 1970 to 2000. Earnings in lower-skilled consumer services rose only 1.9%. In manufacturing, earnings in high-tech industries rose 1.4% per year from 1970 to 2000. In contrast, earnings grew 1.2% per year in lower-skilled routine and value-added manufacturing.

Product agriculture and high-skilled activity require a new set of economic foundations that are much more diverse than simply abundant land and labor. Entrepreneurship is vital, as small business formation and the value these businesses create are key drivers of economic prosperity. Enhancing labor force skills and expanding the technological capabilities of rural firms are essential in maintaining the innovative momentum that distinguishes successful businesses. Rural places must continue to capitalize on quality-of-life attributes to capture high-skilled activities. Rural areas with considerable natural amenity assets, such as the Rocky Mountains, upper New England, and Florida, have been best able to leverage their scenic settings to attract and retain high-quality individuals. Rural communities in other areas can draw on these useful lessons by packaging varying natural, social, and cultural amenities across broader regional partnerships.

Rural America produces much more than cows and corn. Rising agricultural productivity has allowed rural places to seek economic opportunities beyond the farm gate. Rural industries are orienting themselves toward the dynamism of high-skilled activity. Rural communities are beginning to think regionally to seize the opportunities of globalization and exploit high-value niche markets in agriculture, manufacturing, and services. These fresh and exciting new directions for rural America will inevitably dislodge the myth of its commodity agricultural base, further helping to propel rural economies toward their potential in this new century.

target a well-specified market that is willing to pay a premium for high-quality farm goods. Such an orientation may naturally lead to productive rural/urban linkages, as farmers produce ultra-fresh grain, produce, and meat products



Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

June 30, 2004

Highlights from the second quarter survey*

- Strong gains in district farmland values continued in the second quarter of 2004. Ranchland values averaged double digit gains of 10.0% over the previous year. Gains in ranchland values were especially strong in Nebraska and Missouri. District cropland values also posted healthy gains, with annual increases of 7.1% in nonirrigated and 4.8% in irrigated cropland values. Bankers and district contacts continue to cite nonfarm demand, such as recreation, and tax advantages as reasons for increases in farmland values.
- District farm credit conditions were solid in the second quarter. The index of farm loan repayment rates moved slightly lower, due to fewer respondents reporting higher repayment rates and more reporting no change relative to recent quarters. In response to a special survey question, more than 80% of respondents indicated that at least three-fourths of their farm loan portfolio had no repayment problems, up from 69% of respondents a year ago. Requests for renewals and extensions edged up, also due to more respondents reporting no change in requests. Still, only 13% of respondents reported an increase in renewals or extensions, which is well below previous years. District bankers' assessment of farm income remains positive, but the farm income index edged down, likely due to lower crop prices in the quarter and rising input costs.
- Strong livestock prices pushed the district farm commodity price index higher in the second quarter. Compared to the previous quarter, hog prices moved up and cattle prices made a healthy rebound from the first quarter drop in prices that resulted from the Mad Cow incident. Crop prices, however, were below first quarter levels due in part to the prospect for large fall crops. Still, prices for all crops and livestock were much stronger than the previous year.
- Interest rates on new farm loans inched higher in the second quarter. At the end of the quarter, interest rates on new farm loans averaged 7.08% for operating loans, 7.13% for machinery and intermediate-term loans, and 6.79% for real estate loans. Since the end of June, most interest rates in national money markets have inched lower.

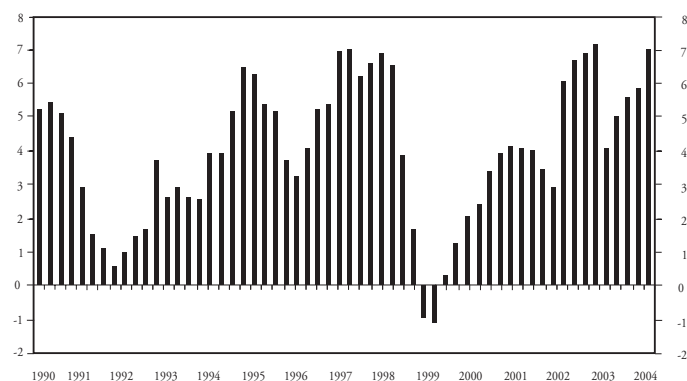
*Note: 289 banks responded to the second quarter Survey of Agricultural Credit Conditions in the Tenth Federal Reserve District—an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri.

*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*

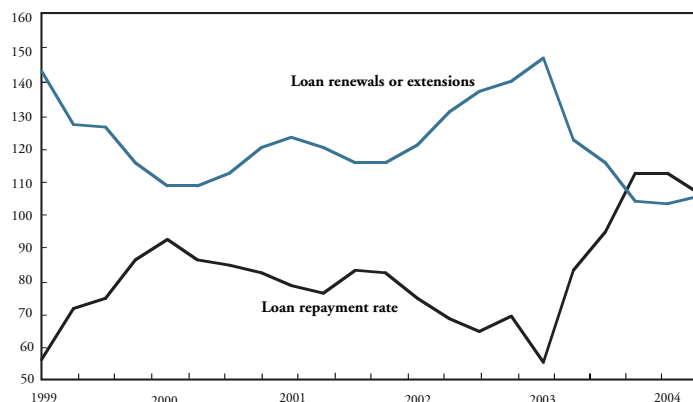


*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Farm Credit Conditions

Tenth District

Diffusion index*



*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

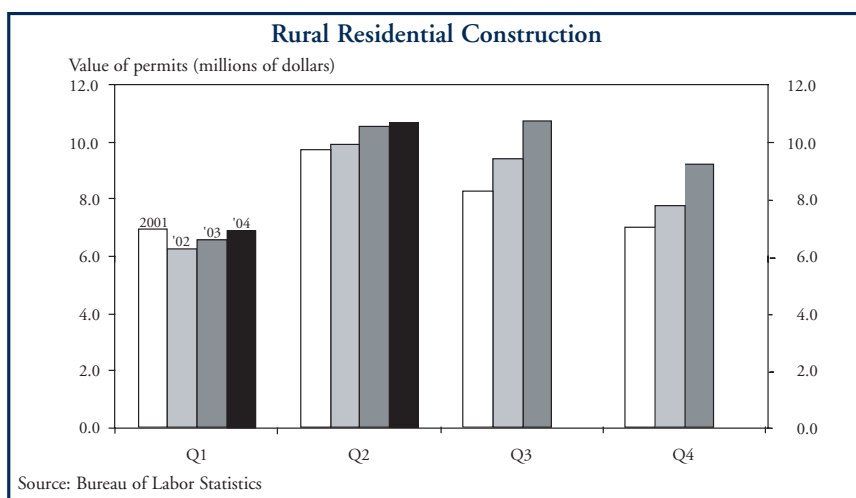
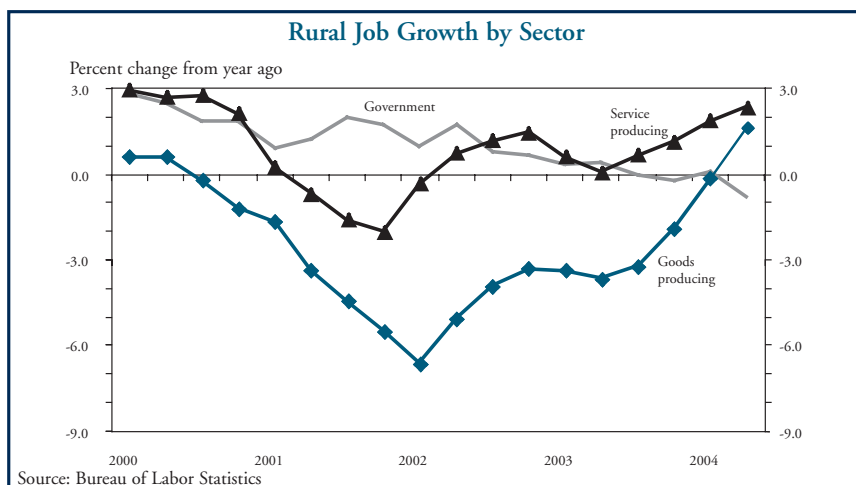
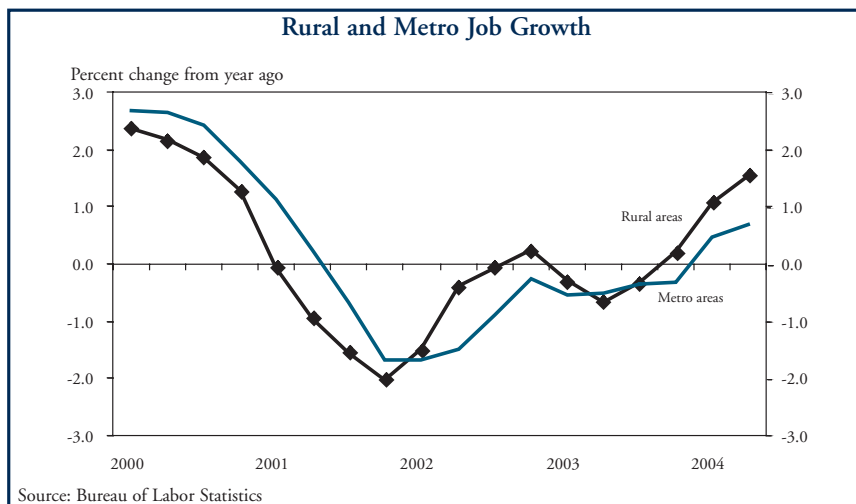
Summary of Economic Conditions

Highlights from the second quarter*

- The rural nonfarm economy further strengthened in the second quarter of 2004. Rural job levels rose nearly 1.6 percent above a year ago as the national economy continued to emerge from a jobless recovery. Metro job growth slowed during this period, widening the gap between rural and metro employment growth.

- Growth in rural employment continued to be led by the service-producing and goods-producing sectors. In contrast, the government jobs level fell below a year ago. The goods-producing sector moved significantly higher in the second quarter, nearly reaching the robust growth rate of the service-producing sector. The rebound in the goods-producing sector is attributable to a rise in manufacturing job levels above a year ago as well as brisk growth in construction employment.

- Rural construction activity remained relatively strong in the second quarter. The rapid rise in building permits during the first quarter moderated somewhat during this period. Despite lower growth in total permits and elevated interest rates, the value of rural building permits surpassed the second quarter numbers in each of the last three years.



*Please refer questions to Sean Moore, research associate, at 816-881-4766 or sean.moore@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.