

THE TENTH DISTRICT ECONOMY IN A CHANGING WORLD

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The Tenth District economy has always been as resilient as the tough-minded people who conquered the prairies and mountains to make this a vital part of our nation. Yet the district economy has never faced such a sweeping set of forces more likely to change it.

Headed into the 21st century, the district is changing how it does business, who it does business with, and what businesses it is in. The scope and speed of the changes now under way and in prospect are remarkable. In future years these changes may well be viewed as the mark of a new era for the region's economy.

Three changes will define this new era. First, the district's financial markets are being reborn, with interstate banking and consolidation redrawing the banking industry. Second, the district is sharing in a wave of new technologies that are revolutionizing the region's mainstay industries while bringing a whole new breed of businesses into the district. And third, the globalization of markets is opening new gateways to countries hungry for the food and wares produced by people in the Heartland.

A NEW BANKING INDUSTRY

The district's financial industry is undergoing sweeping changes. The most obvious change is a sharp decline in the number of financial institutions. Closings in the 1980s and continued consolidation have winnowed the ranks to the strong and the survivors.

The number of financial institutions in the district has fallen more than a third since 1980. Moreover, within commercial banks, control has been shifting to the larger banks. Banks under \$500 million in deposits held fully 70 percent of total district deposits in 1980, but just 50 percent in 1996.

In short, the district banking industry has become more bipolar. Once dominated by smaller banks, financial assets today are increasingly held by large institutions, in many cases institutions with national reach. On the other hand, the district is still home to a large number of small banks.

What do these changes mean for the district economy? The emergence of larger institutions, along with the advent of interstate banking, clearly puts district businesses in touch with broader money markets. This should provide substantial

long-term dividends to a region that has often wondered if the capital would be sufficient to fuel the region's economy. These benefits come at a price, however, as the district has less control over its financial institutions. The share of deposits held by out-of-district companies has leaped from 3 percent in 1980 to more than 30 percent today. Still, with a great number of strong community banks, the district may be able to find the best of both worlds: a ready pipeline to capital markets, yet the personal service that many small businesses need to survive.

NEW TECHNOLOGY

A more pervasive force shaping the district economy is the wave of new technology. This wave is manifest in so many ways in our district that it defies generalization. Information technology, biotechnology, telecommunications technology, industrial technology, medical technology all are part of the mix. While a name is lacking, the impact is not. Technology is having three potent effects on the district economy. It is creating new industries. It is making other industries better. And it is creating footloose industries that are putting down roots in our region for the first time.


“High tech” is often the starting point in any discussion of technology and the economy. Indeed, high technology has had a powerful impact on the district, among other things creat-

ing a high-tech corridor that now stretches from Fort Collins to Albuquerque. But the impact is not confined to the Rocky Mountains. Many other parts of the district have sprouted new high-tech businesses of one kind or another.

Concentrated mainly in computer and other electronic equipment, the high-tech industry has grown rapidly in the district during the 1990s. Since the late 1980s, a growing stream of investments by high-tech companies has led to burgeoning sales, both domestically and abroad. The job gains in this capital intensive industry have not been huge, but other results have been. For instance, district high-tech exports have quadrupled since 1987 versus a doubling for exports by firms in the nation as a whole.

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Impressive as it has been, the emergence of a high-tech industry has not been the biggest impact of technology on the district economy. The biggest impact has come in the myriad ways in which a host of new technologies—computers being just one—have made all district industries more efficient. These impacts are extremely difficult to quantify. Yet in the aggregate, we can begin



to appreciate how impressive the gains have been. One measure of the gains in productivity afforded by technology is the additional value added per worker. Since the early 1980s, the value added per employee has jumped 55 percent. Of note, the gains have been broadly shared across durable and nondurable industries.

The final impact of technology in the district has been through the emergence of footloose companies. Telecommunication and information technologies have made it possible for firms like telemarketers and Internet companies to locate just about anywhere. Increasingly, that anywhere includes the wide open spaces of the Tenth District. Historically, the long distances separating many parts of the district from the nation's urban centers had been a deterrent to firms thinking about locating here. But the new technologies make distance moot. Omaha, for example, has made a strong foothold in the computer service industry, doubling the number of such firms since 1987.

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GLOBALIZATION

Technology is also a contributor to the final force driving the district into the 21st century—globalization. Much of the information beaming

into the district comes from the four corners of the earth, literally. As never before, a global market beckons to district firms. And as never before, the region is answering that call.

Globalization defines the integration of national markets into global markets for goods and services. The emergence of world markets is aided and abetted by telecommunication technology, including the Internet, which instantly puts district sellers in touch with global buyers. An equally important component, however, is the mounting appetite of consumers for world-class products. We in the United States are long accustomed to the luxury of choice, but many in the world are just now acquiring the wherewithal and the stores to buy at will. The combination of rapid population gains and rising incomes in regions like Southeast Asia and Latin America have created the potential for dramatic growth in global demand for food and many other products grown in the region.

District firms are opening more and more gateways to this new world of customers. Sales are being made via the Internet. Joint ventures are being struck with foreign partners to gain entree to foreign markets. New subsidiaries are being formed. Underlying this general expansion of contacts is a trade and regulatory environment that makes it easier to conduct commerce globally. The North American Free Trade

Agreement (NAFTA), for example, has been a significant boon to district trade with Mexico. The Telecommunications Act of 1996, which deregulated the phone industry, has fostered a new round of global business partnerships in the industry.

Once in the global market, district firms find their products highly competitive. In the case of manufacturing, the district now sells in world markets everything from computer chips to pharmaceuticals to steel grain bins. Added together, manufactured exports from the district surged more than 230 percent from 1988 to 1996. Equally impressive has been a rising tide of farm products flowing to world consumers. Though good data on agricultural exports by state are not available, the district has clearly shared in the 1990s boom in food sales abroad, especially through a rapid rise in meat exports.

Looking ahead, global markets offer great promise for the district economy. U.S. farm exports, for instance, are projected to climb by one-third by 2005 and, if realized, the district will be a major supplier of the added sales. In agriculture and elsewhere, district firms are increasingly investing in Asia and Latin America, markets where economic growth is likely to surpass that in Europe and North America. While these emerging markets will no doubt continue to have occasional downturns, as Mexico did in 1995

and as Southeast Asia is now encountering, the fundamentals point to bright, long-term prospects for district firms.

THE DISTRICT ECONOMY IN THE NEW CENTURY

The ultimate effect of the forces reshaping the district economy is far from certain. Still, a handful of effects merit watching as the new century dawns.

Looking ahead, global markets offer great promise for the district economy.

First, the district economy is likely to perform somewhat more like the nation in the future. Historically, the district economy has performed in almost a counter-cyclical way, mainly due to the strong presence of agriculture and energy. Since the twin recessions in those industries in the mid-1980s, however, the district has been diversifying its economic base. The new technologies will only hasten that broadening.

Second, the district has a growing stake in the world market and in policies that promote its growth. The region's farmers have long appreciated the benefits of free trade, but they are joined today by a long list of compatriots. The district has a huge stake in seeing additional trade negotiations that free world trade, raise world incomes, and boost the demand for Heartland products.



Finally, technology and globalization will place new demands on a wide array of public institutions. In a very real sense, business is becoming more complex while moving faster. Thus, businesses are listing staffing as job one to meet these bigger challenges. The region's educational institutions—from primary and secondary schools to universities—are going to be held to a higher standard to produce workers in the next century.

While uncertainty is always the companion of change, the district economy seems likely to adapt well to the new era, and indeed, its prospects in the new century may be the brightest it has known.

In addition, there will be an ongoing debate on the role of public versus private research. Everyone agrees that technology will drive the economy of the next century, but no one agrees on who should pay for it. And as the globe shrinks, the role of the public in supporting market

information and expansion will no doubt be discussed. In the case of agriculture, there was broad support for past programs that helped farmers sell more commodities abroad. But with bigger companies controlling more of the trade, the public role has become harder to define.

While uncertainty is always the companion of change, the district economy seems likely to adapt well to the new era, and indeed, its prospects in the new century may be the brightest it has known. The new financial industry brings our district in touch with more capital, always the lifeblood of economic progress. The new technology will make our region more attractive as a business location while keeping our businesses world class. With bountiful horizons of countries with growing populations and rising incomes, consumers throughout the world seem likely to buy more and more of our products.

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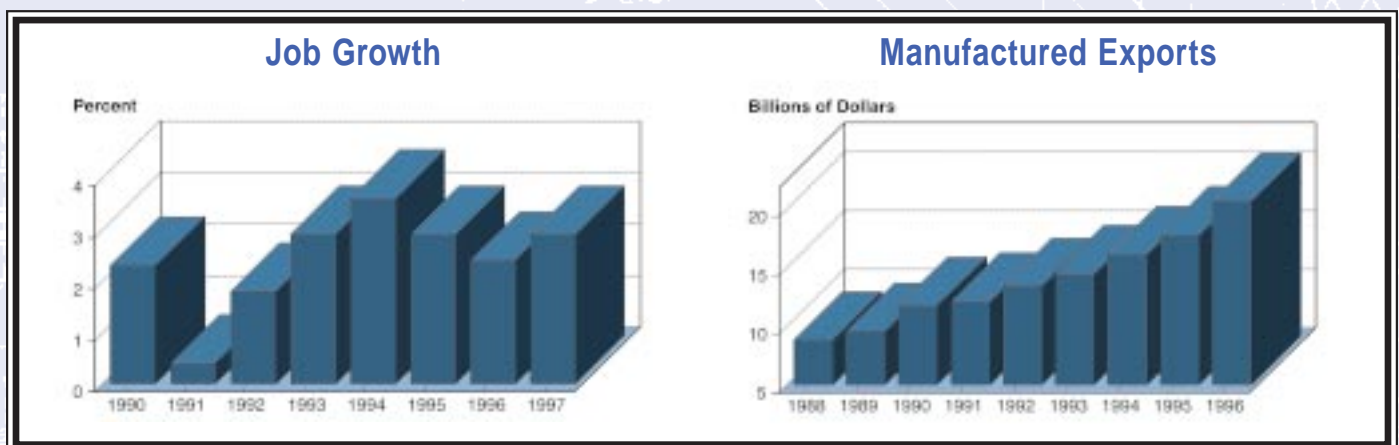
THE DISTRICT ECONOMY'S RECENT PERFORMANCE

The district economy remains strong, extending its healthy run of recent years. For all of 1997, district employment grew 2.9 percent, somewhat faster than the previous year. The solid performance marked the 10th straight year that job growth in the district outpaced the nation.

The continued strength of the district economy reflects both its diversity and the strong demand for the goods and services produced here. The district's diverse economic character continues to boost growth. The service sector is booming, manufacturing and agriculture are strong, construction activity is healthy, and the energy sector continues a steady upward climb. The good economic times have led to the tightest job markets in recent memory. Indeed, the biggest challenge facing most businesses in our region is finding enough qualified workers.

Another feature of the recent string of good news is that the growth is reasonably well-balanced across the seven states of the district. Colorado, Nebraska, and Kansas all grew at a strong pace in 1997. Growth was moderate in Oklahoma, Missouri, and New Mexico. Growth was slow in Wyoming, which still searches for another engine of growth besides energy.

Looking ahead, the district economy promises to remain strong. Manufacturing has slowed slightly in recent months, but district plants are essentially running at full capacity, and continued growth in the U.S. economy may offset weaker demand from Asian countries. District agriculture had strong earnings in 1997, and a solid outlook for the livestock industry should maintain profits into next year. Finally, strong consumer spending throughout the region should maintain the healthy momentum present in the service and construction sectors.



Job growth in the Tenth District peaked at 3.6 percent in 1994 and has remained strong in recent years. As another sign of strength in the district economy, manufactured exports surged more than 230 percent in the eight years from 1988 to 1996.