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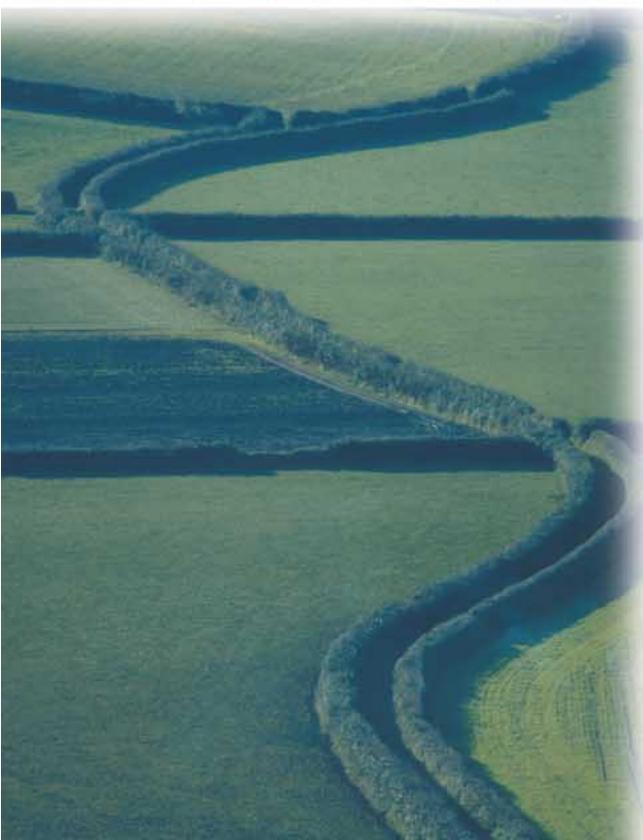
The Main Street ——— Economist

Commentary on the rural economy



Has Main Street Shared in the Nation's Economic Boom?

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This month, the nation's economic expansion claims a new prize, becoming the longest in the nation's history. The economic boom began in March 1991, amid swirling doubts about the economy and concerns over war in the Mideast. Since then, it has proven highly resilient, and has now lasted 107 months. The surging economy has put millions more people to work, lifted incomes, and spurred a record-setting run on Wall Street.

But how have people on Main Street fared? Has the economic boom resonated in rural hamlets throughout the land? The answer is mixed. Some parts of rural America have enjoyed a growth surge, but other parts have struggled to keep up. In short, the nation's record-setting economic expansion has been a tale of two booms throughout rural America.

An impressive run of U.S. economic gains

Since the current expansion began, the nation has added 19.4 million people to its job rolls. Per capita personal incomes have risen sharply, about 25 percent on an inflation-adjusted basis. And the gains in employment and income have helped spark an unprecedented bull run on Wall Street, lifting the Dow Jones Index from 2920 when the expansion began to 10,941 at the end of January 2000.

How well has rural America fared in capturing these gains? Rural data are not available for all economic and financial indicators. However, extensive employment data provide a good barometer of overall rural gains during the expansion. In particular, the data help answer four key questions. How have rural areas fared overall? Where have the biggest gains occurred in rural America? How have isolated rural areas fared relative to those nearer the nation's metropolitan areas? And how have farming areas fared?

Rural America has fared quite well overall

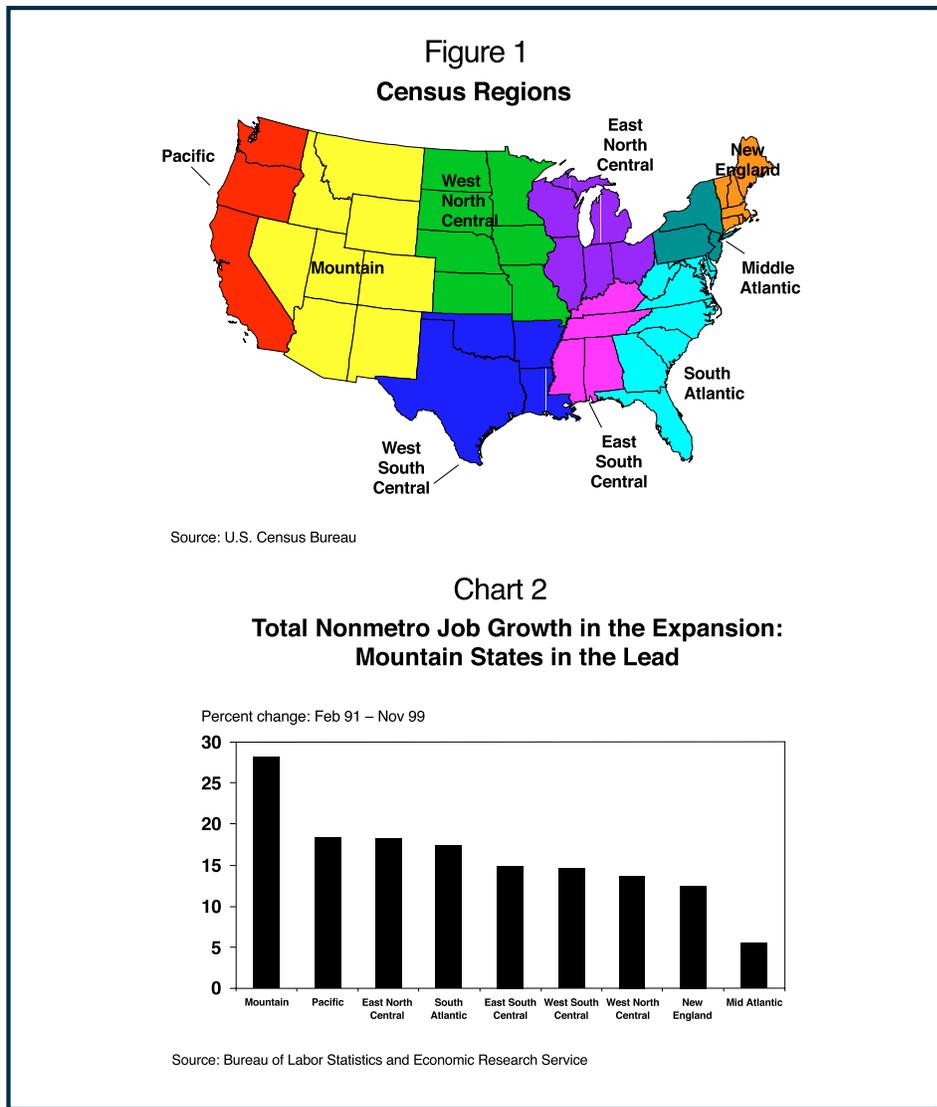
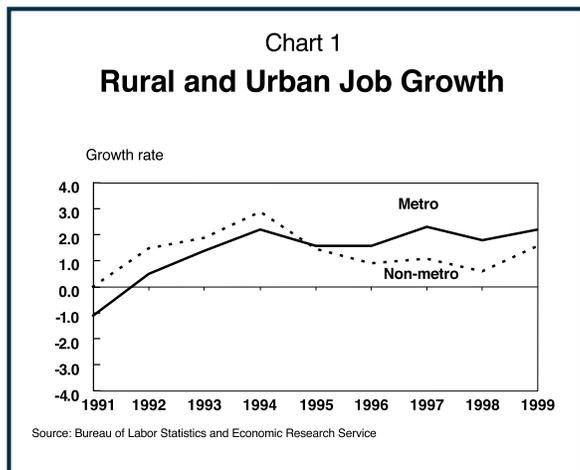
In the aggregate, rural America has been a hearty participant in the nation's expansion. While the nation's job rolls have jumped about a sixth (16.7 percent) since the expansion began, those gains have been fairly well balanced between metro and rural areas (16.8 vs. 16.2

percent). Rural and metro employment data are analyzed from February 1991 through November 1999, the last month for which rural data are currently available.

But the growth has not been evenly balanced throughout time. Urban areas were hard hit by the 1990-91 recession, with manufacturing firms and many large companies undergoing a wave of "downsizing." Rural areas were hurt much less, helped by a budding recovery in the farm economy. Thus, the early years of this expansion were characterized by faster job

growth in rural areas (Chart 1).

More recently, the momentum has swung dramatically toward metro areas. With the economy posting strong GDP growth of more than 4 percent a year the past three years, metro areas have seen a sharp rise in jobs. Rural areas have added new jobs, too, but the growth has been more moderate. In short, there was a sizable gap in economic performance between rural and urban areas as the new millennium began. The recent downturn in the farm economy is part of the explanation, but other factors are also at work. These include rural America's struggle to participate fully in the fastest growing segments of the economy, such as high-technology, and a more sluggish shift to service



industries in rural areas.

Rural growth is fastest in the Intermountain West

Comparing rural job gains across regions shows widely divergent performance. When the nation is divided into the nine regions used by the Census Department (Figure 1), the fastest rural job growth—by a wide margin—has been in the Mountain states, where rural employment has jumped 28 percent during the expansion (Chart 2). The rapid gains were driven by a strong influx of population and businesses as millions of new residents sought scenic lifestyles in the Intermountain West. Communities like Sheridan, Wyoming, and Durango, Colorado, discovered that the mountains in their backyard attracted footloose businesses and also spurred a boom in residential and commercial real estate development. While rural areas in the Mountain states benefited from the wave of economic activity, booming metropolitan areas in those states grew even faster, posting a 38 percent surge in job rolls.

A similar wave of amenity-driven development helped many rural places in the Pacific states. Mounting congestion in major West Coast cities led many people and businesses to find rural havens rich with amenities, pushing rural jobs up 18 percent. That was more than 2 percentage points faster than job gains in the region's metro areas, which were especially hard hit by the lingering effects of the 1990–91 recession. The rural gains in the Pacific states also reflect the ongoing growth of the region's many large metroplexes, whose economic influence continues to spread to surrounding areas.

In the central part of the nation, rural performance was more mixed. Growth was strong in the Great Lakes states comprising the East North Central region. In these states, manufacturing has a strong presence in many rural communities, and heavy industry has clearly been a strong engine for rural growth. In fact, rural communities in this region have generally grown faster than their city cousins (18 percent vs. 16 percent).

Further west, rural growth has been weaker in the West North Central region. Rural communities in this part of the nation remain more dependent on farming than states to the east, and also have fewer factories to broaden their economic base. With agriculture consolidating at a fairly rapid pace in the 1990s, many farm-dependent communities have posted only meager job gains even when farm incomes were relatively strong in the mid-1990s.

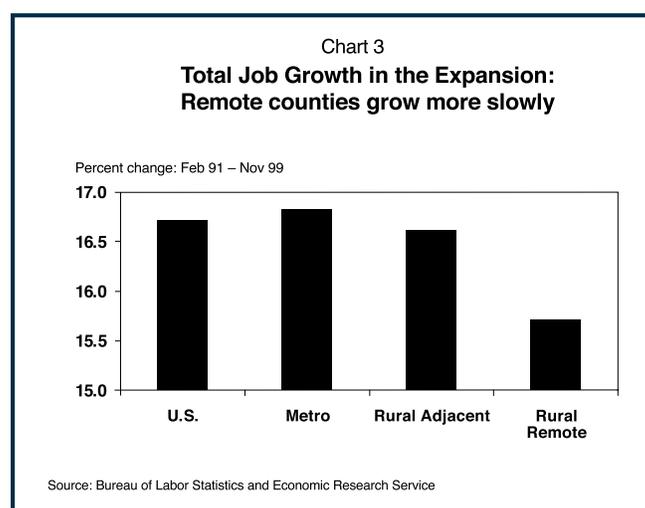
In the southern part of the nation, rural areas have generally lagged behind during the nation's current expansion. The fastest growth in the South has been in the South Atlantic states, where rapid growth in the region's dynamic metro areas has readily transferred to many rural communities. Atlanta and the research triangle in North Carolina, for instance, have sparked economic activity well beyond the urban core and the suburbs. Moreover, the region has benefited from the continued spread of manufacturing to rural communities. This trend is also evident in the East South Central and West South Central regions, where the Saturn plant in rural Tennessee offers a prime example of new manufacturing activity spurring broader rural job gains.

Nevertheless, job growth in the other two southern regions has trailed the nation as a whole in the current expansion. Rural communities in the East South Central and West South Central regions have clearly posted economic gains in the expansion. Nevertheless, parts of the two regions contain some of the poorest rural communities in the nation, notably rural counties scattered along the Mississippi Delta. Thus, at least some of the gains were made from an already low base.

Finally, rural portions of New England and the Mid-Atlantic regions have had the weakest job gains in the current expansion.

In part, this reflects weaker performance more generally; the metro areas in these two regions have also had weaker job gains in the expansion than those in any other part of the nation. Broadly speaking, economic activity in the United States has moved south and west for more than a decade, leaving many northeastern places—urban and rural alike—searching for new economic engines. For rural communities, that quest continues but apparently with only moderate success.

In sum, a survey of rural growth



around the nation shows rural places in the Intermountain West doing extremely well, with their scenic amenities attracting a new flood of economic activity. To a lesser degree, the same story holds in Pacific states. In the Great Lakes and Southeast, rural areas are doing quite well, building on a fairly dense web of healthy metro areas. Elsewhere, rural areas appear to be lagging behind the rest of the nation.

Remote rural areas are lagging behind

A hallmark of the nation's current boom has been an explosion in technology that has made e-commerce a new way of doing business. Indeed, technical innovation has fueled a surge in productivity generally throughout the economy.

A critical issue for rural America going forward is whether the digital revolution opens new horizons to a brighter rural

future or merely gives people and businesses more reasons to move to the nation's burgeoning cities. While the jury is still out on this issue, an analysis of the current economic boom suggests that remote rural places are lagging behind.

Employment gains in the current boom reveal a disparity between remote rural areas and those near metro areas. Rural counties next to metro areas are faring quite well, nearly matching the job gains in the nation's cities (Chart 3). More remote places, on the other hand, are not keeping up. Jobs have risen less than 16 percent in remote rural counties, more than a percentage point less than in the nation's cities.

Moreover, gains have been even weaker in the remotest counties. Jobs have increased just 13 percent in counties removed from metro areas and where the largest town has fewer than 2,500 people. Counties with bigger towns fared substantially better. Counties not next to metro areas but with towns between 2,500 and 20,000 in population saw their job rolls rise 16 percent in the expansion.

In sum, despite the steady march of telecommunications, remoteness has been a liability to much of rural America during the current boom. This reflects the general lack of digital infrastructure in many parts of rural America. In other cases, it may reflect the lack of entrepreneurs or a skilled workforce to take advantage of new opportunities in the economy. In either case, how remote rural places fare in highly dynamic economy remains one of the most important questions facing rural America in the new century.

Farm-based rural areas also lag behind

Another important measure of rural performance in the current boom is how well farming areas have fared. While agriculture is no longer an economic tide that lifts all of rural America, it is the leading

source of income to about a quarter of all rural counties. How have these counties been doing?

Farm-dependent counties have been among the weakest in creating new jobs in this expansion. Total employment growth in these counties has been just 13.4 percent, or nearly 3.5 percentage points less growth than in the nation's cities (Chart 4). Only mining-dependent counties fared worse, with job growth half as much as farming counties. Mining counties appear to be growing slowly due to weak energy prices throughout much of

farming communities in the nation's Heartland continue to search for economic engines that can broaden and strengthen their local economy. For many farm communities, the next ten years may well be a defining period.

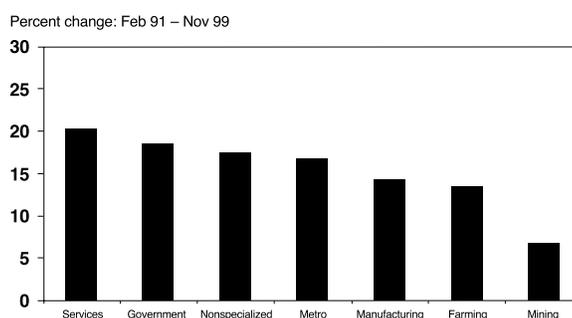
Summary

Main Street has fared quite well overall in the longest expansion in the nation's history. Job gains in rural America have been about half a percentage point less than for the nation's metro areas.

Within rural America, scenic rural areas have been the biggest winners. In places like the Intermountain West, the boom on Wall Street has been matched by a boom on Main Street. Rural areas next to the nation's cities have also been quite strong.

The weakest rural gains have been in the more remote corners of rural America, including many farm-dependent communities, raising questions about whether remote rural places are fully participating in the digital era that now serves as one distinctive hallmark of the nation's longest economic boom.

Chart 4
Total Job Growth in the Expansion:
Farming and mining counties lag behind



Source: Bureau of Labor Statistics and Economic Research Service

the 1990s and the continued shift to production methods that use more capital equipment and fewer workers.

Meanwhile, rural counties whose economies are based primarily on services and government posted strong gains, as did so-called "nonspecialized" counties. In many cases, these rural counties are emerging rural trade centers with a diversified base built on retail, financial services, and health care.

Lagging job formation in farming counties underscores the economic dilemma many such counties face. Technological change is the steady companion of the U.S. farm economy; each year farmers grow more with fewer inputs. While beneficial to the U.S. economy overall, impressive gains in farm productivity do not by themselves spark strong job growth on Main Street. Thus, many

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