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*Commentary on the rural economy*



## The Income Divide in Rural America

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The level of income in rural areas affects nearly every element of a community. Higher incomes generate more tax dollars to support schools and build new infrastructure. Higher incomes mean more disposable income to spend in Main Street businesses. Income also helps individuals and the community accumulate capital—often the source of new investments that can spur future growth. And income levels determine if skilled workers will choose to work in a particular area.

This article examines recent trends in rural incomes and the persistent income divide between rural and metro areas. Income growth is also uneven within rural America as the major sources of rural incomes have changed. Incomes in many rural areas that continue to depend on traditional industries are falling behind.

### Rural income growth

Incomes in rural America have climbed steadily over time but have generally trailed those in metro areas. The 1970s were the exception, when rural per capita incomes were fueled by good times in agriculture and energy. The 1980s brought an abundance of economic difficulties in both key industries. And in the 1990s, despite the long economic expansion in the nation, per capita incomes in both rural and metro areas grew less aggressively than in the previous two decades.

Real earnings per worker in past decades have followed a similar growth pattern. Earnings statistics show, however, that growth in rural areas has trailed metro areas by even more than per capita income figures suggest. Rural earnings per worker grew at less than half the rate of metro areas during the 1980s and 1990s. It is important to recognize that per capita income includes transfer payments, which comprised nearly 20 percent of per capita incomes in rural areas in 2000, almost double the share in 1970.

Slower earnings growth in rural America has translated into a wider earnings gap between rural and metro areas. In 2000, real earnings per worker averaged \$23,242 in rural America, nearly \$13,000 less than metro earnings (Chart). Even more striking is how the gap between rural and metro earnings has widened sharply over the years. Two

decades ago, rural earnings trailed metro by less than \$8,000.

The earnings gap appears in all industries. The gap is widest in finance, insurance, and real estate (FIRE) jobs, but rural earnings in mining, wholesale trade, and services have also fallen well below metro levels. Many rural jobs in FIRE industries are low to middle level positions serving the local town or region, whereas most of the high-paying jobs are located in metro areas where the nation's large banks, insurance companies, and brokerage firms are headquartered. In addition, the services provided in rural areas are often lower-valued ones, such as hotel and restaurant businesses. Metro areas, on the other hand, are home to many of the nation's specialized health and legal professionals and other high-value services.

### Rural income sources

An earnings divide also appears to be emerging among rural areas as the distribution of rural earnings by industry has changed over the years. Traditionally dependent on income from farming and mining, rural America is relying increasingly on the services sector.

Farming and mining used to be primary sources of rural earnings. Mining's share of earnings peaked in the early 1980s at 6 percent but stood at just 2 percent in 2000. Farming and farm services accounted for nearly 20 percent of rural earnings in 1970, but this share dropped to less than 8 percent by 2000. Adjusted for inflation, farm and farm service earnings have actually fallen more than 12 percent since 1990.

As the share of rural earnings from farming and mining fell, government and manufacturing remained stable sources of income, and services emerged as a major source of rural incomes. While service jobs tend to pay less than jobs in government, manufacturing, and transportation, communications, and public utilities, the share of total earnings from services has nearly doubled from 11 percent in 1970 to 20 percent in 2000. Moreover, real

earnings per worker in services grew 24 percent over the three decades, with much of those gains coming in the last ten years alone.

These trends in rural earnings by industry help explain why incomes in some rural areas have fared better than others. Per capita incomes in rural counties dependent on farming and mining trail the average for rural areas in general. Agriculture has seen drastic consolidation and weak earnings growth. While mining jobs pay among the highest wages in rural America, areas that depend on the mining industry typically face high unemployment and low per capita incomes. Most rural areas that still rely heavily on traditional industries are searching for economic engines to spark employment opportunities and income growth.

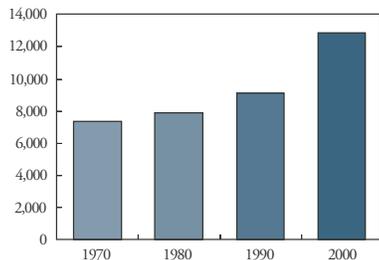
In contrast, rural areas dependent on services generally have the highest per capita incomes. Per capita incomes in counties are strong in areas with diversified economies. In many cases these areas serve as a regional economic hub and provide retail shopping and financial and health care services to communities in the surrounding area. Regional hubs often attract some specialized, higher-paying service jobs, such as business services and the medical and legal professions.

### Summary

Going forward, services will continue to play an increasing role in rural incomes. And, the earnings gap between rural and metro earnings is likely to persist. Clearly, rural America is in short supply of high paying jobs. Rural areas need new economic engines to boost incomes and in turn support improved infrastructure and public services. High paying jobs also attract a more skilled labor force and provide incentive for rural America's young people to return home. Opportunities such as advanced manufacturing and product agriculture could bring higher paying jobs to rural America and help bridge the earnings divide in some rural areas.

### Rural Earnings Trail Metro Earnings

1996 Dollars, metro minus rural earnings



Source: Regional Economic Information System, Department of Commerce

# Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

June 30, 2002

Highlights from the second quarter survey.

- District farmland values remained strong in the second quarter of 2002. Relative to a year ago, nonirrigated and irrigated cropland values rose 6.1% and 5.3%, respectively, while ranchland rose 5.0%. Land values throughout the district benefited from nonfarm buyers seeking investment opportunities outside of the stock market.
- The district farm commodity price index fell in the second quarter. Cattle prices turned sharply lower in the quarter, while prices for hogs and crops posted solid gains. Since June, hog prices have fallen significantly and cattle prices remain weak. Crop prices, however, have moved higher as production prospects were trimmed due to the drought.
- Farm credit conditions weakened in the second quarter. Loan repayment rates slowed and renewals or extension moved up. Demand for new farm loans picked up due to some certainty gained with the passage of the farm bill and low interest rates. Going forward, government payments and crop insurance should reduce some risk for crop producers. Livestock producers and their lenders, however, face a difficult time.
- Despite lower market rates, respondents indicated interest rates on new farm loans edged up in the second quarter as risk increased due to the drought. At the end of the quarter, interest rates on new farm loans averaged 8.05% for operating loans, 8.04% for machinery and intermediate-term loans, and 7.71% for real estate loans. Since June, interest rates in national money markets have moved lower.
- More than half of respondents expect farm income and capital spending to be lower in the third quarter of 2002 compared to the third quarter of 2001. And over a third expect farm household spending to decline. In August, USDA reported that U.S. farm income is forecast to fall 23% in 2002.

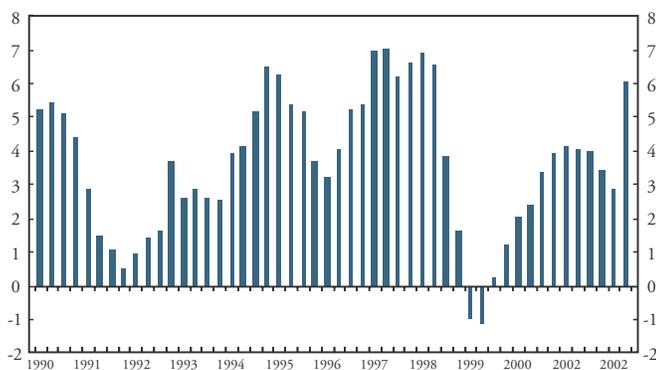
\* Notes: 309 banks responded to the second quarter survey. Comments are based on preliminary estimates. In the second quarter, a revised survey form and expanded sample were used.

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

## Nonirrigated Cropland Values

Tenth District

Sample percent change from last year\*

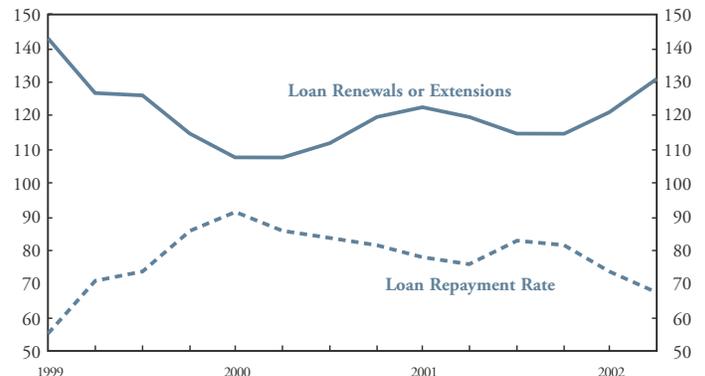


\*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

## Farm 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 stayed on a slow recovery path in the second quarter of 2002. According to a survey of rural households, rural employment was .84% higher than a year ago, roughly the same gain posted in the first quarter. For their part, rural businesses report continued improvement in job growth, but rural jobs remain 1% below year-ago levels.
- Rural businesses indicate that manufacturing jobs lost during the recession are slowly coming back. Jobs in services and finance, insurance, and real estate, however, face pressure as many rural businesses trim costs.
- Low mortgage rates kept rural construction activity firm in the second quarter of 2002. The number of building permits issued was down from the record set a year ago. Despite fewer permits, however, the total value of permits actually moved higher.

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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)

### Household Employment

	(1000s) Q2:2002	Annual percent change	
		Q1:2002	Q2:2002
<b>Rural Areas</b>	25,461.1	.82	.84
Adjacent Rural Areas	14,166.2	.71	.68
(Town population 20,000+)	4,855.6	.80	.54
(Town population 2,500–19,999)	8,063.3	.60	.65
(Town population < 2,500)	1,247.2	1.14	1.42
Nonadjacent rural areas	11,294.9	.96	1.03
(Town population 20,000+)	3,377.0	.97	.91
(Town population 2,500–19,999)	6,271.9	.93	1.05
(Town population < 2,500)	1,646.0	1.03	1.24
<b>Metro Areas</b>	111,413.7	.18	.28
Central city (Population > 1 mil)	63,843.9	-.16	.02
Fringe city (Population > 1 mil)	5,813.2	.07	.23
(Population 250,000–1 million)	30,964.2	.64	.66
(Population < 250,000)	10,792.4	.96	.77

Source: BLS, LAUS (Household) Survey and USDA Classifications

### Industry Jobs

	(1000s) Q2:2002	Annual percent change	
		Q1:2002	Q2:2002
<b>Rural</b>			
Total	25801.0	-1.3	-1.0
Construction and mining	1562.7	-4.3	-2.3
Manufacturing	4307.5	-6.7	-4.6
Trade	6037.0	-.6	-.7
Trans, comm & public utilities	1116.4	-4.0	-4.1
Finance, insurance & real estate	950.4	1.8	-.5
Services	6509.6	-.2	.1
Government	5317.4	1.9	1.4
<b>Metro</b>			
Total	106172.0	-.9	-.8
Construction and mining	5833.6	-0.8	-1.4
Manufacturing	12798.2	-5.2	-3.8
Trade	24285.2	-.7	-.8
Trans, comm & public utilities	5769.1	-3.5	-3.3
Finance, insurance & real estate	6801.3	-.2	-.6
Services	34616.5	-.2	-.1
Government	16068.1	1.6	1.3

Source: BLS, CES (Business) Survey

### Rural Employment by County Type

	(1000s) Q2:2002	Annual percent change	
		Q1:2002	Q2:2002
<b>Typology Codes</b>			
Farming	2,242.9	1.82	1.76
Mining	1,157.4	.64	-.19
Manufacturing	7,849.8	.13	.48
Government	3,185.1	.84	.97
Services	5,310.2	1.43	1.13
Nonspecialized	5,715.7	.88	.83
<b>Policy Codes</b>			
Recreation	4,182.5	1.79	1.59
Retirement	2,926.2	1.63	1.26
Persistent Poverty	4,093.0	.40	1.20
Commuting	3,157.9	.51	.84

Source: BLS, LAUS (Household) Survey and USDA Classifications

### Construction Activity

	(1000s) Q2:2002	Annual percent change	
		Q1:2002	Q2:2002
<b>Rural</b>			
Total permits	84.0	-5.9	-7.4
Single unit	72.5	-2.3	-4.0
Total value (\$)	6970.4	-9.7	2.1
Single unit	9308.4	-6.7	4.3
<b>Metro</b>			
Total permits	387.5	.1	4.3
Single unit	296.0	3.6	4.0
Total value (\$)	48,701.1	4.8	6.2
Single unit	42,480.2	6.1	5.9

Source: Census Bureau

Note: Data for all tables are not seasonally adjusted.