National Growth Continues to Benefit Rural Industries

The rural economy has grown faster than the national economy since the recession of the early 1990's. Growth has been strongest in services industries while employment in some other sectors, such as agriculture and mining, has continued to decline.

Rural industries continue to fare well as the national economy grows following the 1990-91 recession. Employment in most major rural industries increased in the early 1990's. The exceptions were farm and mining employment, which fell, and employment in finance, insurance, and real estate, which held steady. Overall, rural job growth has outpaced urban growth. The earnings gap between urban and rural jobs narrowed in 1993 for the first time since 1979, suggesting that rural earnings may at least be starting to hold their own relative to urban earnings. Population in rural areas has also rebounded as migration from urban to rural locations has overtaken rural-urban migration. The national economy's slower growth during 1995 may have affected rural areas less than urban because of strong exports and durable goods manufacturing, both of which are important to rural areas.

These trends are a change from the 1980's when urban areas held a clear advantage in job, earnings, and population growth. Coming off a prosperous decade in the 1970's, rural areas in the 1980's suffered from the 1980-81 recessions, foreign competition in manufacturing and agriculture, and a farm financial crisis which reduced land values and forced many highly leveraged farmers out of business.

Long-Term Trends Show Growth in Services, Declines in More Traditional Rural Industries

As in the rest of the economy, rural areas have shown the strongest growth in service industries. Broadly defined, services include wholesale and retail trade; transportation and utilities; the finance, insurance, and real estate sector; and a variety of other industries in recreation, food service, education, and health care. Services accounted for 50.7 percent of all rural employment in 1993, compared with 65.1 percent for urban areas. In both metro and nonmetro areas, services have been steadily increasing their share of jobs. Nonmetro employment in services is spread more evenly across the country than is the case for natural resources and manufacturing. Nonmetro counties with unusually high service employment, however, are often those that specialize in providing particular services like tourism, recreation, regional trade, or services related to retirement.

Employment in the relatively high-paying natural resources jobs, including farm proprietors, miners, and forest products workers has continued its downward trend. The change has been especially dramatic in farming. In 1940, farmers accounted for nearly 20 percent of the national labor force, and over half the rural population still lived on farms. Today only 2 percent of the workforce is directly engaged in farming, and farm families make up less than 10 percent of the rural population. Productivity improvements have enabled a much smaller number of farmers to produce more food on an area of land only slightly smaller than it was a half century ago. Moreover, many of the remaining farmers depend on nonfarm jobs for most of their household income. This shift away from farming has done more than any other single factor since World War II to change the makeup of the rural economy. Future job declines in farming are likely to continue but at a slow pace.

Nevertheless, the farm sector and its associated industries remain a vital part of the U.S. economy. Farming and related industries involving the production, processing, and marketing of agricultural products is the subject of two articles in this issue. The many jobs associated with agriculture account for a quarter of rural jobs and nearly a sixth of all jobs nationally. Employment continues to shift from jobs close to the farm to service jobs closer to consumers. The first article, on farm and farm-related employment, uses 1992 County Business Patterns data to show how jobs have dropped in farm production, forestry, fishing, and agricultural inputs while rising sharply in wholesale and retail trade, partly in response to the growing trend to eat away from home and to consumer demand for prepared foods. The second article uses input-output analysis to show the importance that the production, processing, and marketing of farm products has for the national economy. By estimating employment in the food and fiber sector in the States, it becomes clear that this sector is an important contributor of jobs in every part of the country, although of less significance in the Northeast. These two different approaches result in some different employment numbers, but the conclusions are similar: despite the steady decline in farm jobs, the sector as a whole retains a large role in the economy.

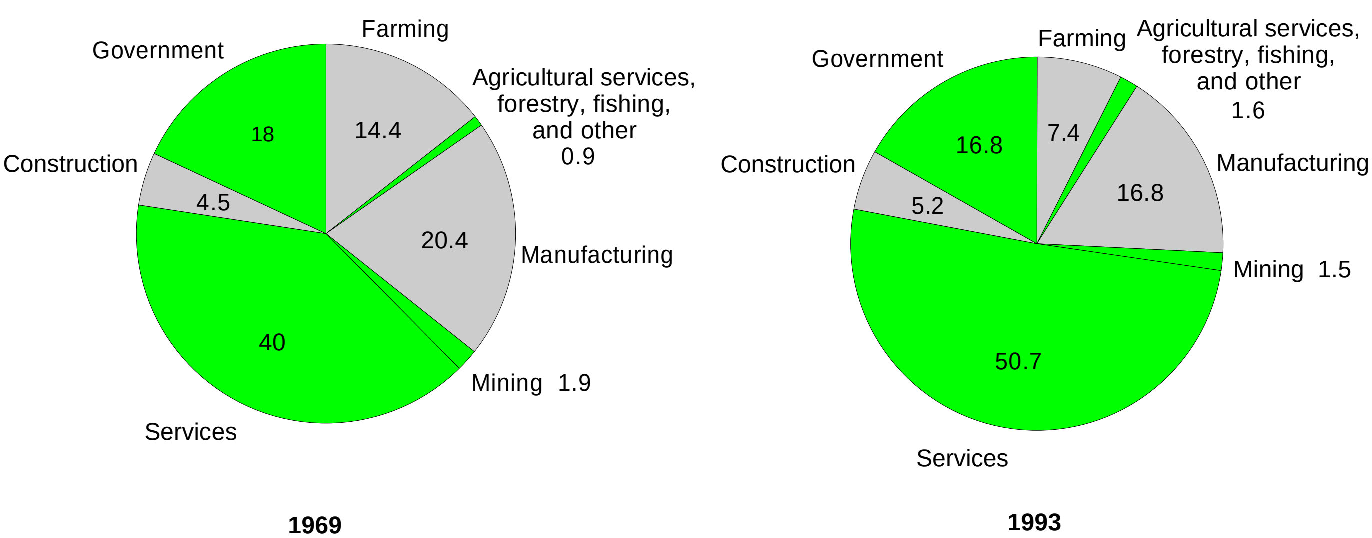
Agricultural exports have long been important to the farm economy, but since the early 1970's production for export has been especially strong. During fiscal year 1995, these exports set a new record of $54.2 billion. Agricultural exports generated about 791,056 jobs in 1994, about a third of them in rural areas. Every region benefits from export-related jobs, especially the Corn Belt and Northern Plains where much of the grain produced for export originates.

Employment in mining and forestry, like in farm production, has sharply dropped. Productivity improvements have enabled mining, oil, and gas companies to reduce their labor forces while increasing output. In forestry, the long-term trend toward mechanization has permitted a smaller number of workers to produce almost twice the output of timber products as the industry did 40 years ago. Because of the geographical concentration of mining and forestry, job losses in these industries have been especially hard on rural communities in West Virginia and the Rocky Mountain States.

Manufacturing employment has grown slightly in rural areas since 1991 in contrast to a decline in urban areas. Much rural manufacturing is routine work performed by workers who are less highly trained and paid than urban manufacturing workers. Rural manufacturers have been affected by inexpensive imports produced in countries with lower labor costs. Companies requiring complex skills have often preferred to locate in urban areas where they can find a larger, more varied pool of trained workers and a higher concentration of services. Nevertheless, manufacturing accounts for almost 17 percent of rural jobs. The spread of advanced technology in rural areas, especially in communications, may make those areas more attractive in the future to companies offering higher wage jobs.

Nonmetro employment by industry

Service industries have increased their share of nonmetro employment over the past quarter century while natural resource industries have decreased their share



Source: Calculated by ERS using data from the Bureau of Economic Analysis.

Jobs in government have been in a long-term upward trend for many years. Government employment is responsible for 16.8 percent of rural jobs. The great majority are State and local jobs, which have grown along with population. The number of Federal employees in rural areas is expected to decline over the next few years as a result of downsizing. Some of the functions currently performed by Federal employees may be handled by State and local employees in the future.

The Future May Bring More Consolidation and Global Competition

Consolidation has been a major industrial trend in rural as well as in urban areas. Farms today average almost three times their 1940 size. The number of firms engaged in mining and forestry has dropped considerably in recent years. Manufacturing and financial service companies are experiencing a wave of mergers and restructurings. In the service area, restaurant and retail chains have made inroads in towns where small, independently owned businesses had been the norm. These changes reflect not only new technologies but the increasing integration of the rural economy with the national economy.

The rural economy is also being affected more than it used to be by global economic developments. Manufacturers have had to compete against the lower wage bases of less developed countries. However, the relatively low value of the dollar has benefited companies and farmers that produce export goods. The recent General Agreement on Tariffs and Trade (GATT) and North American Free Trade Agreement (NAFTA) point to a future of freer trade with more competition as well as new opportunities for rural industries.

Articles in this issue report on current trends in the farm-related industries, mining, manufacturing, retailing, banking, and government. Additional articles discuss recent changes in the general economy which affect rural areas and the significance of international trade to rural areas. Obviously, not all rural industries are covered. Next year's Rural Industries issue will include articles on additional services industries, forestry, and other industries not included in this issue. *[Douglas E. Bowers, 202-219-0484, dbowers@econ.ag.gov]*