

2009-2010

Building Communities Educational Series

Community Development in a Difficult Economy ... Readying for the Rebound



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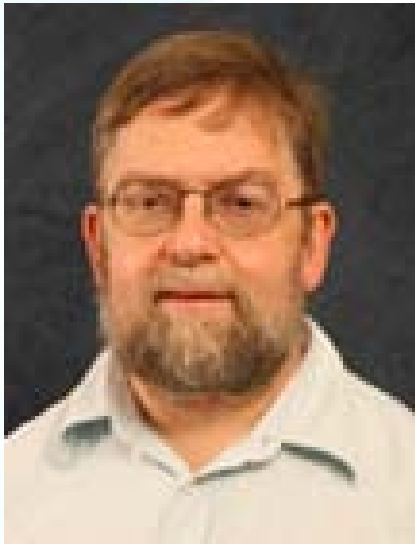
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Today's Presenters

Lorin Kusmin

Economist



Lorin Kusmin has been at ERS since 1990. He is an economist in the Farm and Rural Household Well-Being Branch in ERS's Resource and Rural Economics Division, with a research focus on rural labor markets. His research areas include: relative earnings in urban and rural labor markets; factors associated with earnings growth in rural areas; changing skill levels and the returns to skills in rural labor markets; and employment and unemployment trends in rural areas.

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Today's Presenters

Russ Kashian

Interim Director, Fiscal and Economic Research Center
Economics Department



Professor Kashian's major fields of research are regional planning and regional financial institutions. Much of Dr. Kashian's research focuses on public finance policy and the relationship between public development policy and economic outcomes. Upcoming issues relate to the evolution of Sarbanes-Oxley and its impact on community banks in Wisconsin. He has also been involved with numerous applied research projects pertaining to business and economic development in Wisconsin. For example, he has conducted studies to evaluate the economic impact of Fort Atkinson Memorial Health Services on the Jefferson and Walworth regional economy.

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The U.S. Economy Today and the Post-Recession Prognosis

November 17, 2009

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Rural America at a Glance, 2009

- A Nonmetro Perspective on Recent Economic Developments
- Web Presentation for University of Wisconsin Extension Building Communities Series
- Presented by Lorin David Kusmin, Economic Research Service, U.S. Department of Agriculture

Objectives of this presentation

- Brief description of the recent recession
- Discuss impacts of recent recession on nonmetro areas and metro areas
- Discuss selected longer-term pre-recession trends in nonmetro areas and metro areas

Topics to be covered

- Macroeconomic description of recent recession
- Employment trends
- Unemployment trends
- Housing trends
- Poverty trends (prior to recession)
- Population trends

Macroeconomic overview

The U.S. economy moved into a recession in late 2007

- Declines in housing construction
- Declines in related industries including financial services
- High energy costs

- Mitigating factors in nonmetro areas
 - High commodity prices throughout much of 2008 boosted incomes in farming and mining.
 - Nonmetro areas less vulnerable to the tightening financial sector.

In late 2008 and early 2009, the recession deepened

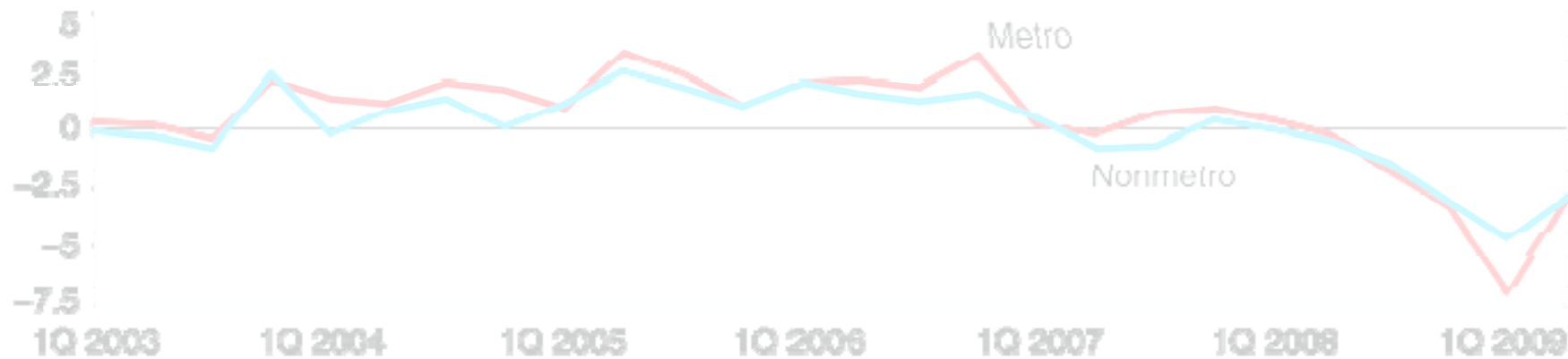
- National GDP fell sharply
 - annual rate of decline was 6.2 percent.
- Commodity prices also fell.
- Employment fell markedly.
- Unemployment rose.

- Employment declines steepest in the first quarter of 2009
- Abated in the second quarter
- ERS is still processing data from the third quarter

Employment trends

Metro and nonmetro employment change, first quarter 2003 to second quarter 2009

Annualized percent change



Q = Quarter.

Source: Seasonally adjusted by ERS using data from the Bureau of Labor Statistics.

- Recession impact varied across industries.
 - A few sectors played leading roles in the period of steepest decline from 2Q 2008 to 2Q 2009.

- Two large sectors were major factors in metro areas
 - manufacturing (-11.1 percent)
 - construction (-10.1 percent).

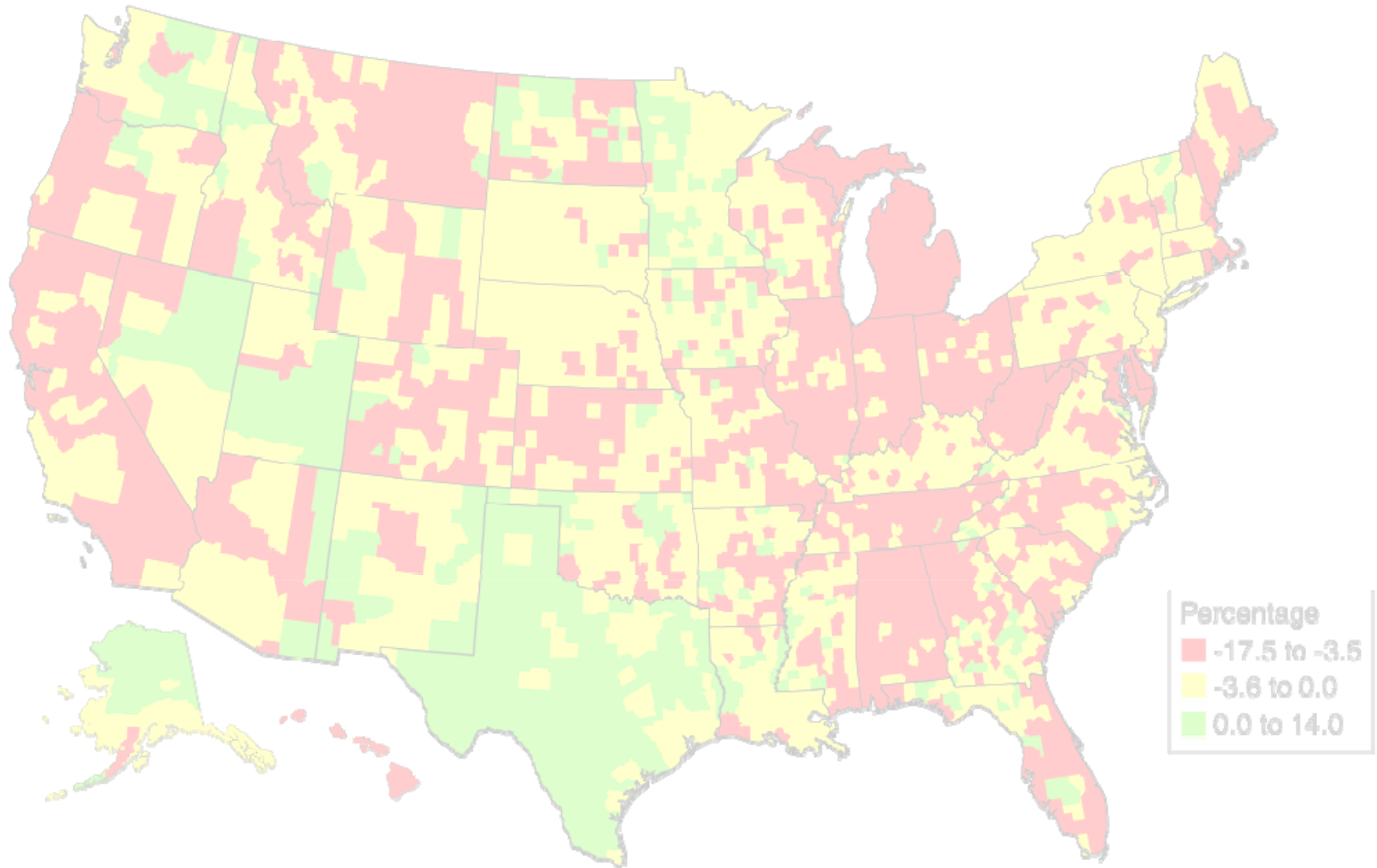
- Five other metro sectors saw declines over 5 percent
 - professional and business services
 - financial activities
 - transportation and utilities
 - information
 - mining.

- Large employment declines were widespread across industries in nonmetro areas during this period.
- Largest absolute job losses in same sectors most affected in metro areas
 - manufacturing (-9.8 percent)
 - construction (-13.3 percent).

- Other sectors with large absolute nonmetro job losses included:
 - transportation and utilities (-11.8 percent)
 - wholesale and retail trade (-2.7 percent)
 - financial activities (-8.2 percent)
 - professional and business services (-5.2 percent).

- Most nonmetro counties lost employment during this period.
 - But employment losses varied considerably across the map

Employment change, second quarter 2008 to second quarter 2009



Source: USDA, Economic Research Service analysis using data from the Bureau of Labor Statistics.

- Recession impact on jobs seen across a wide range of manufacturing industries:
 - Long-running decline continued in many nondurable manufacturing industries including apparel, textiles, paper products, and printing.
 - More abrupt decline of many durable manufacturing industries in autumn 2008 after 4 years of relative stability.

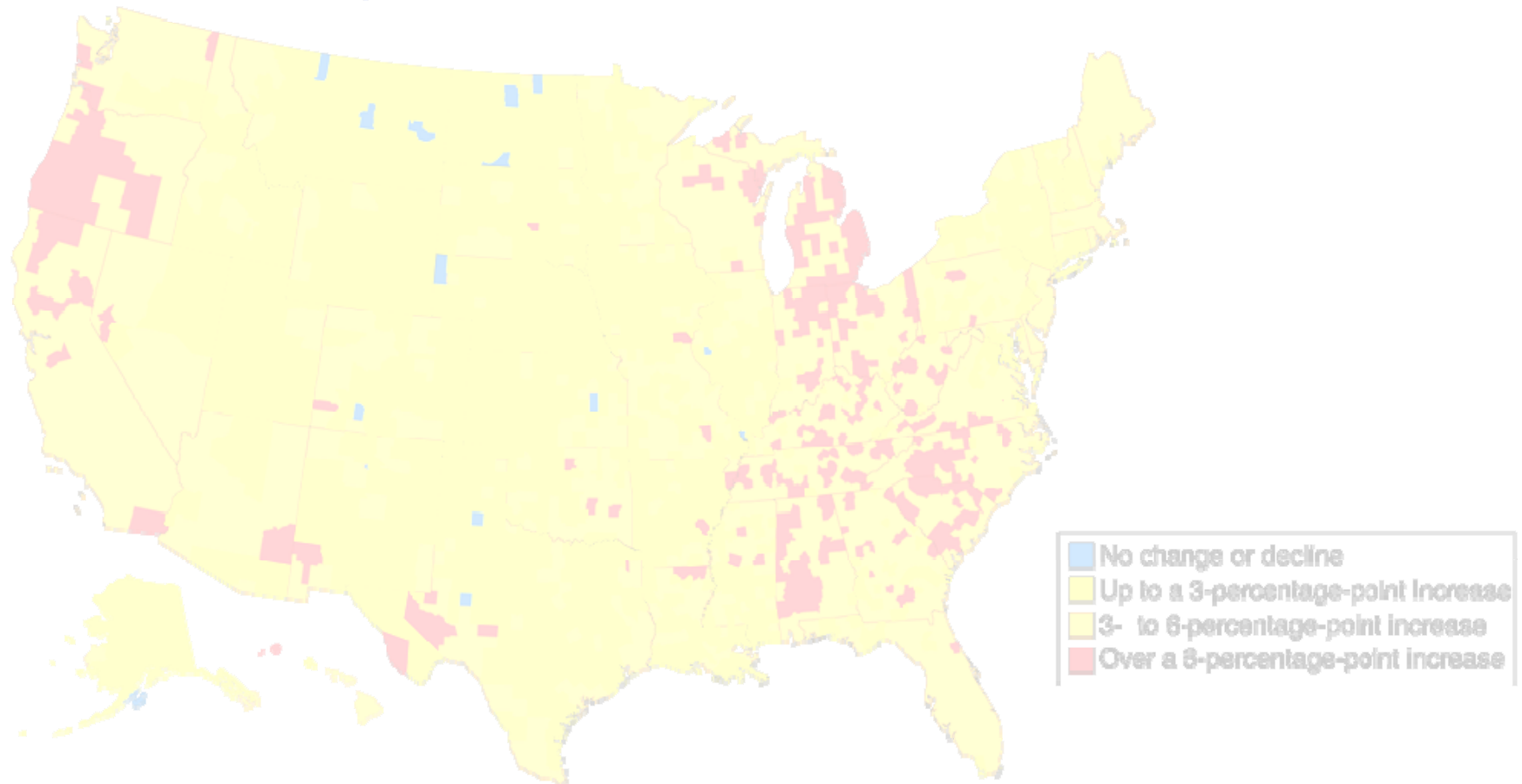
- Altogether more than 300,000 nonmetro manufacturing jobs lost in one year.

- Some of the sharpest manufacturing employment declines in first half of 2009 were in motor vehicles, machinery, and fabricated metal products.
 - These are industries where nonmetro share of national employment had grown in recent years.
 - Hence nonmetro areas were especially vulnerable to these declines.

Unemployment trends

- Large recession impact on unemployment rates
 - The nonmetro unemployment rate rose to 9.2 percent in the second quarter of 2009 from 5.2 percent a year earlier.
 - The highest second-quarter nonmetro unemployment rate since 1983
 - Metro unemployment rose from 5.3 percent to 9.1 percent.

Change in unemployment rates, second quarter 2008 to second quarter 2009



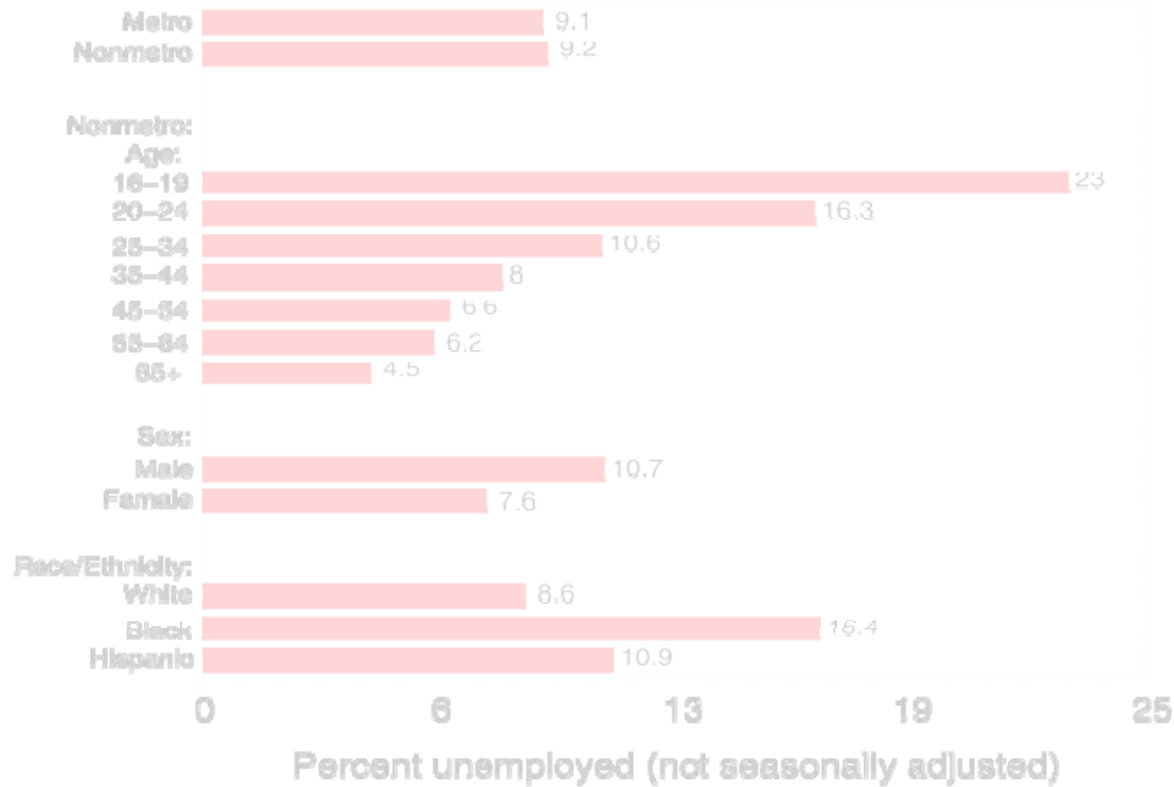
Source: USDA, Economic Research Service analysis using data from the Bureau of Labor Statistics.

- The impact of the recession is also evident in adjusted unemployment figures.
 - The adjusted unemployment rate counts those who are not working or actively seeking work, but who want to work and are available.
 - It also counts those who work part-time because they cannot find full-time work.

- The nonmetro adjusted unemployment rate increased from 9.6 to 16.3 percent between the second quarters of 2008 and 2009.
 - In the same period, the metro adjusted rate increased from 9.5 to 16.0 percent.

- Economic downturns such as the recent recession affect demographic subgroups differently:
 - Men are more likely than women to work in industries sensitive to business cycles.
 - Reflecting this difference, the nonmetro unemployment rate for men increased by 5.3 percentage points while the rate for women increased by only 2.7 percentage points between the second quarters of 2008 and 2009.

Nonmetro unemployment, second quarter 2009



Source: USDA, Economic Research Service using data from Bureau of Labor Statistics, Current Population Survey.

Housing trends

- Housing sector developments played a key role in pre-conditions for the recent recession.
 - After more than a decade of steady growth, the rate of homeownership across the Nation peaked in 2004 at 69 percent.
 - In nonmetro areas, the homeownership rate reached a high of 76.3 percent in 2004, declining to 75.2 percent in 2008.

- Homeownership growth in the early 2000s was accompanied by a rise in the subprime mortgage market and an increase in high-cost loans.
- These are believed to have contributed to the recent mortgage and foreclosure crisis.
 - High-cost loans are those with interest rates 3 to 5 percentage points higher than the typical rate for a low-risk loan.

- High-cost loans comprised 27.7 percent of conventional housing loans to nonmetro residents between 2004 and 2006, compared with 24.4 percent for metro residents.
- The subprime share of the mortgage market reached a record high of 13.5 percent in 2006, at the start of the mortgage crisis.

- A sharp increase in home foreclosures played a major role in the recent recession.
 - Aggregate metro and nonmetro foreclosure rates from the start of January 2007 to mid-2008 were identical, 4.8 percent, according to HUD data.
 - Foreclosure rates represent the estimated number of foreclosures begun during the period divided by the estimated number of outstanding mortgages in 2006.

- Foreclosure problems appear to have been more widely distributed in nonmetro areas.
 - 56.1 percent of nonmetro counties had foreclosure rates higher than the average value, compared with 38.3 percent of metro counties.

- According to a foreclosure risk index developed by HUD, the risk of future foreclosure and abandonment at the start of 2009 was greater in nonmetro areas than in metro areas.
 - This index reflects past or current rates of foreclosure, vacancy, unemployment, housing price decline, and high-cost loans.

- In 2009, 28.3 percent of nonmetro counties had a very high risk of foreclosure or abandonment.
 - Another 24.9 percent were at high risk.
- In comparison, metro areas with very high and high foreclosure risks made up 18.8 percent and 25.3 percent of all metro counties.

- Compared with other nonmetro counties, nonmetro counties at the highest risk for foreclosure are more likely:
 - To be persistently poor
 - To be dependent on manufacturing employment
 - To have low levels of employment and education.

- The very-high-risk counties are concentrated in the South and Midwest.
 - 42.6 percent of Southern nonmetro counties and 21.7 percent of Midwestern nonmetro counties are at very high risk.
 - Less than 10 percent of nonmetro counties in the West and the Northeast are in this category.

Poverty trends leading into the recession

- The national poverty rate was 12.5 percent in 2007 compared with 11.7 percent in 2001.
 - This was despite 6 consecutive years of economic growth.
 - This marks the first time on record that poverty has increased during a relatively long economic expansion.
 - Poverty was defined in 2007 as an annual income of less than \$21,027 for a household with two adults and two children.

- Poverty rate increase between 2001 and 2007 was greater for nonmetro areas.
 - 1.2 points for nonmetro areas (from 14.2 percent to 15.4 percent)
 - 0.8 points for metro areas (from 11.1 percent to 11.9 percent)

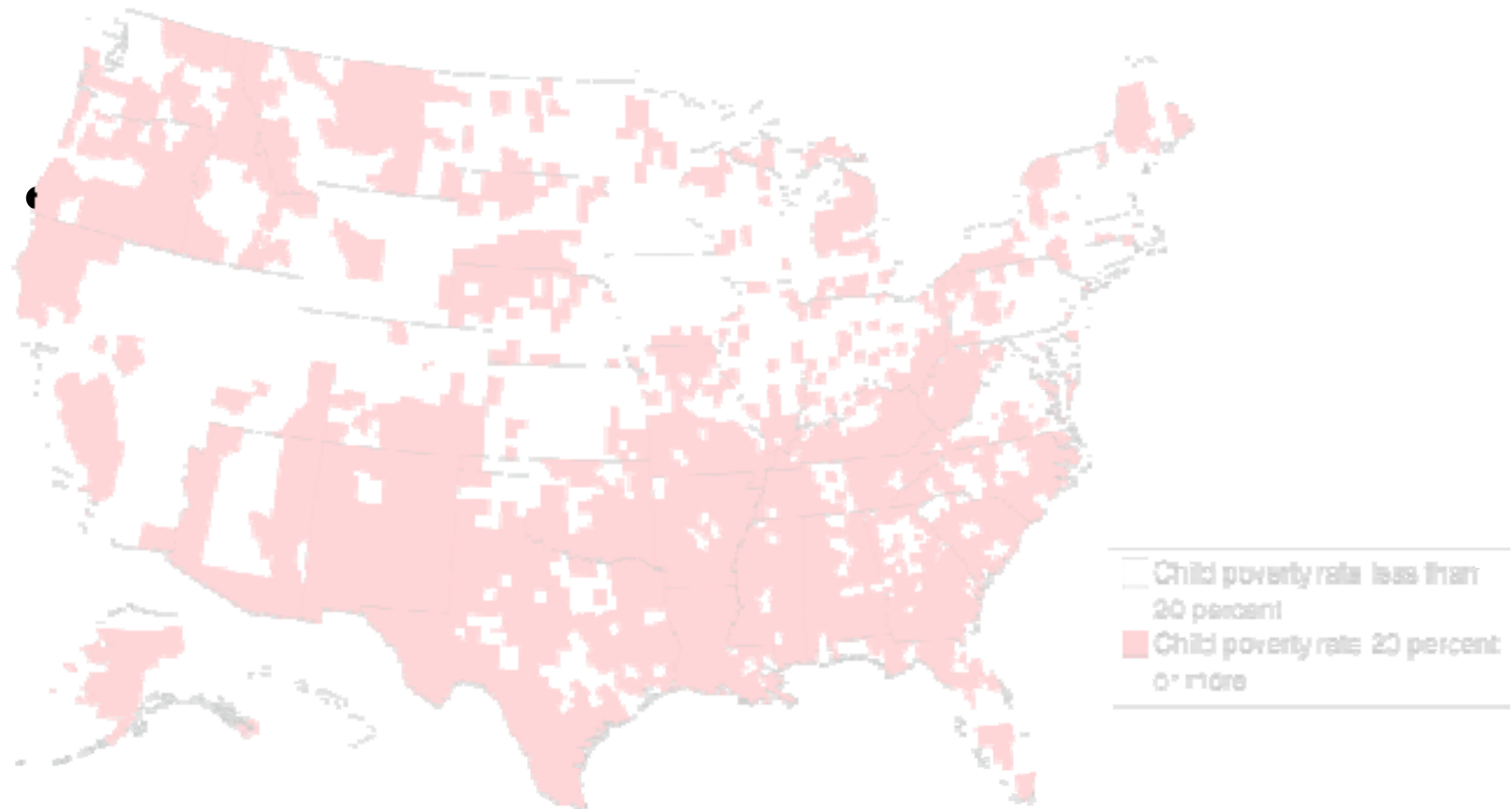
- We do not yet have data that fully reflects the impact of the recent recession on poverty rates.
 - However, the recently reported 2008 national poverty rate was 13.2 percent.

- Those most likely to be poor are children.
 - In 2007, 18.0 percent of children below age 18 were poor
 - This was up nearly 2 points from 16.1 percent in 2001.
 - The 2007 child poverty rate reflects an upward trend since 2000.
 - It is the highest child poverty rate since 1998, when the rate was 18.9 percent.

- Over the same period, the poverty rate for people 18 to 64 years old rose from 10.1 percent to 10.9 percent.
 - During this period, the poverty rate for people 65 and older fell from 10.1 percent to 9.7 percent.

- The nonmetro child poverty rate was 22.5 percent.
 - This was higher than the metro rate of 17.2 percent.
 - Child poverty was also more pervasive in nonmetro than in metro counties.
 - In 2007, 58.9 percent of all nonmetro counties had child poverty rates of 20 percent or more, up from 46.0 percent in 2001.
 - The share of metro counties with high child poverty rates also grew, from 22.4 percent in 2001 to 33.7 percent in 2007, but remained lower than the nonmetro share.

Child poverty rates, 2007



Source: USDA, Economic Research Service analysis using data from the U.S. Census Bureau's Small Area Income and Poverty Estimate Program.

Population trends

- Population growth trends in the U.S. favor the relative growth of metro areas.
 - Metro areas have generally grown in population at twice the rate of nonmetro areas since 2000.
 - This pattern was interrupted by a period of increased migration to nonmetro areas in mid-decade.
 - From 2006 to 2008, nonmetro counties grew by 0.4 percent per year compared with 1 percent for metro counties.

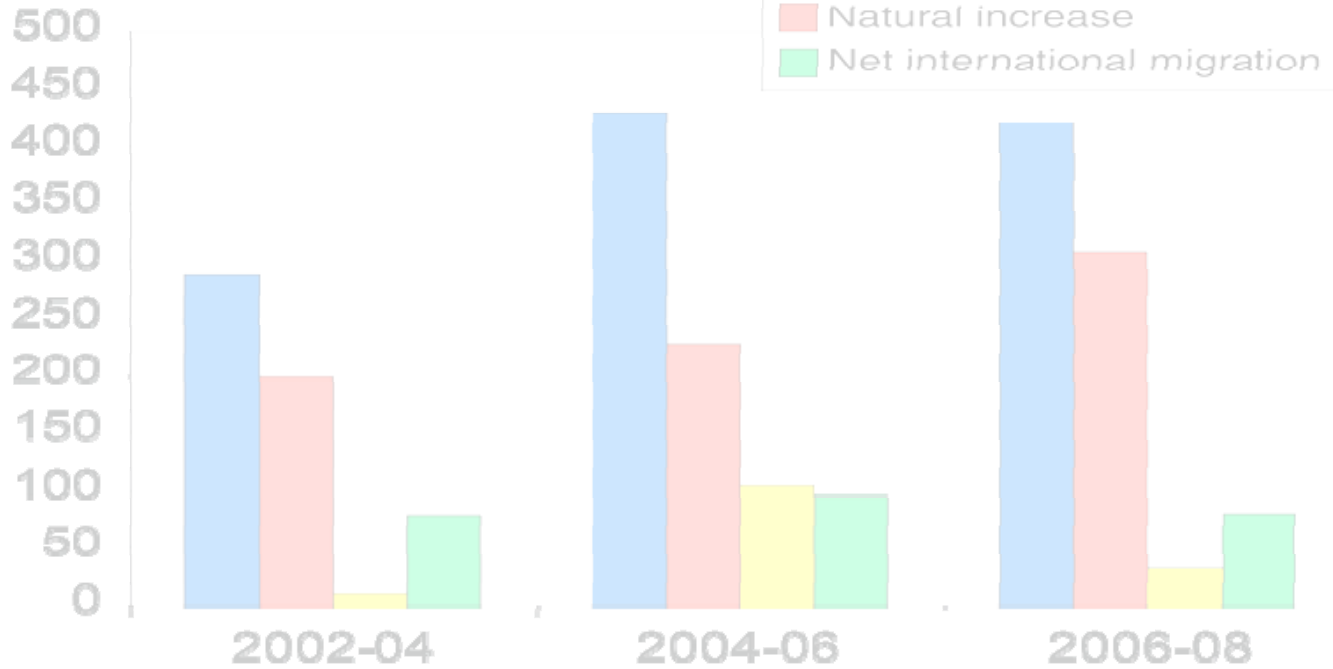
- Two factors were key in the faster growth of metro areas:
 - Metro counties received a disproportionate share of international immigrants.
 - Metro counties also had higher rates of natural increase.

- Between July 2006 and July 2008, the nonmetro population grew by 423,000.
 - This was comparable to the gain for the previous 2 years (432,000).

- However, the composition of nonmetro population growth shifted substantially between the two periods.
 - Population growth from domestic net migration dropped sharply between 2004-06 and 2006-08.
 - This was offset by a rise in natural increase.

Components of nonmetro population change, 2002-08

Population (thousands)



Source: USDA, Economic Research Service using data from the U.S. Census Bureau.

- The years 2004-06 saw a substantial increase in net migration into nonmetro areas.
 - 104,000 more people moved from metro to nonmetro areas than moved in the opposite direction.
 - This upward trend likely reflected the aging of baby boomers into stages of life in which migration to nonmetro areas increases.

- However, net migration into nonmetro areas slowed after July 2006.
 - Net migration in the following 2-year period was just 34,000 migrants.

- This change appears to correspond with the mortgage foreclosure crisis that began in late 2006 and the onset of the recession in late 2007.
 - Net migration rates dropped most sharply in counties with the highest foreclosure rates.

- The recent rise in nonmetro natural increase reflects a nationwide rise in births.
 - This rise is fueled by the coming of age of the so-called “baby boom echo” cohort.
 - International immigration has also contributed to the rise in births.

- The number of births increased by 8 percent between 2004 and 2008 in nonmetro areas.
 - At the same time, the number of counties experiencing natural decrease (more deaths than births) fell for the first time in decades.

- However, the metro rate of natural increase remains twice as high as the rate in nonmetro areas.
- U.S. births overall will likely resume their long-term downward trend as the baby boom echo cohort ages.

Questions?

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Next session

January 19, 2010 – Broadband and E-Commerce: Putting the “E” in Community and Business

Community Development Specialist Andy Lewis, University of Wisconsin-Extension Center for Community & Economic Development and Business & Community Development Educator Connie Hancock, University of Nebraska-Lincoln Extension, Kimball-Banner-Cheyenne Counties

Historically communities developed along important waterways, then roads and highways. Why? Access to markets. Where is the nearest on-ramp to the world-market—the Internet (and how many lanes does it have and what is the speed limit)? Successful businesses in the next years will be those that tap into this huge potential. Successful communities will be those that bring this essential infrastructure to their community. Learn about why broadband matters and how to foster a vibrant community network.

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