Key Factors in the Success of Rural Nebraska's Economic Peers

William Scheideler
Bureau of Business Research (BBR)
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The Bureau of Business Research recently examined both successful and struggling economic peers of nine rural county groups in Nebraska to explore how comparable rural counties across selected Midwest states achieved economic success during the 1990s. The states are Arkansas, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, Oklahoma, South Dakota, and Wisconsin (Figure 1). The county groups are comprised of rural counties that shared industry structure and demographic traits in 1990, and had similar location characteristics. A case study approach was used to examine and identify the fundamental factors of each economic peer’s success or struggle from 1990 to 1999.

Figure 1
Selected Midwest States

Key factors of the success of rural Nebraska’s economic peers included:

- **Radical shifts** in the production mix of agricultural commodities in farm-dependent counties and timely increases in market prices;
- **Location advantages**, including proximity to fast-growing metro counties;
- **Growth of large manufacturing operations**;
- **Two special developments**, a Native American casino and a private prison;
- **Favorable state policies** with respect to taxes and labor unions; and
- **Broadband telecommunications access** may have played a role in attracting large manufacturers.

1 Counties with less than 20,000 urban residents
Job growth in Nebraska’s most rural counties has lagged far behind the state’s metro counties. Over the last three decades, metro Nebraska counties have added jobs nearly 10 times faster than the state’s most rural counties—87 percent job growth in metro counties, compared to 9 percent in the most rural counties. Twenty of Nebraska’s 52 most rural counties reported job losses since 1990. The 32 remaining most rural counties reported employment growth of only 7 percent during the decade. Nebraska’s metro counties increased employment 18 percent. The 35 rural counties with over 2,500 urban residents reported employment growth of nearly 16 percent during the decade. However, growth in earnings per job lagged metro county growth, indicating that these typically were lower-wage jobs.

Slow earnings and employment growth in rural Nebraska counties meant that income levels could not keep pace with metro counties in Nebraska or the U.S. Nebraska’s metro counties have enjoyed per capita personal income levels at or above the national average for the last three decades. With the exception of 1996, the state’s most rural counties have experienced declining per capita income levels from 83 percent of the national average in 1990 to 74 percent in 1998. Low per capita personal income levels also exist in Nebraska’s other rural counties.

The 10 Midwest states were selected according to geographic proximity and economic similarity to Nebraska. After recreation counties were excluded, the counties were sorted by industry employment structure and demographic characteristics such as population per square mile, total population, adult educational attainment, and the level of commuting outside the county in 1990. Location characteristics such as access to an interstate highway and distance from metro counties also were considered. Once the most comparable economic peers outside Nebraska were identified, a case study approach was used to determine which factors led to each peer’s success or struggle. Successful counties were defined for each peer group as those with growth rates in the top quartile in both total employment and private earnings from 1990 to 1999. Struggling counties fell in the bottom quartile on both indicators.

Butler/Saunders County Group

The Butler/Saunders group is located north of the Lincoln and west of the Omaha MSAs, with 1990 industry employment high in farm employment and low in manufacturing employment. Neither of these counties has direct interstate highway access.

The two successful peers of the Butler/Saunders group benefited from their locations adjacent to thriving metro counties. Jackson County, Kansas is adjacent to the Kansas City, MSA and Dodge County, Minnesota is near the Rochester MSA. One of the struggling peers, Green County, Illinois, is next to the slow-growing St. Louis MSA. Although Lyon County, Iowa is near the thriving Sioux Falls MSA, its small size and distance from a large metro county probably limited any spillover economic growth. One of the successful peers enjoyed the economic benefits of a large Native American casino development, while the other benefited from a diverse and growing manufacturing sector.

Gage/Saline/Otoe County Group

The Gage/Saline/Otoe group surrounds the southern half of Lancaster County, and had lower levels of farm and higher levels of manufacturing employment in 1990. The group does not have direct interstate highway access. Peers of the Gage/Otoe/Saline group either succeeded or struggled based on the strength of their manufacturing sectors.

The successful peer, Barton County, Missouri, relied less on the farm sector, and enjoyed the growth of two significant manufacturers. In addition, it is located next to the Joplin MSA where job growth was 27 percent from 1990 to 1999.

The struggling peer, Montgomery County, Iowa, lost a battery manufacturer in the mid-1990s that had provided several hundred jobs in 1990. The struggling peer also lost 17 percent of farm sector jobs over the decade.

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1 Counties with less than 2,500 urban residents that are not adjacent to a metro county
2 Indicates the share of employment in that industry is significantly higher/lower than other Nebraska counties of similar urban population size and metro county proximity

January 2003
Custer County Group

Each of the nine counties in the Custer County Group had an urban population over 2,500 and none is adjacent to a metro county. These counties serve as trade centers for the state’s rural areas and are spread across the state. They are located in sparsely populated areas and had high farm and low manufacturing sector employment shares in 1990 and all lack interstate highway access.

The successful peer for the Custer County group, Swift County, Minnesota, added many jobs in the manufacturing sector when two large farm machinery manufacturers prospered and several other manufacturing firms began operations there over the decade. In addition, Swift County added a private prison facility with capacity for 1,500 that provided 170 jobs in 1996.

Republic County, Kansas, the struggling peer, lost 7 percent of farm jobs during the 1990s. Struggling peers in other groups lost from 15 to 18 percent of farm jobs.

Dawson County Group

The Dawson County group is comprised of 10 scattered counties with urban populations over 2,500. None is adjacent to a metro area. All relied mostly on manufacturing sector employment in 1990. Five have direct interstate highway access.

The successful peer of the Dawson County group, Wadena County, Minnesota, added a significant number of new manufacturing jobs when firms that manufacture metal household furniture, wooden trusses, manufactured homes, rubber products, and industrial molds all thrived. In addition, this successful peer relied less on the swine industry toward the end of the 1990s when swine prices dropped severely. Broadband access may have helped facilitate the manufacturing sector growth.

About 25 percent of the farms in Nobles County, Minnesota, the struggling peer, produced swine. The largest producers increased output from 43,000 to 150,000 animals from 1987 to 1997. When swine prices declined, the impact on Nobles County was severe. With little nonagricultural industry development, employment growth was stagnant.

Dixon County Group

The county has 2,500 urban residents. Dixon County is located next to the Sioux City MSA. Dixon County was the only county out of four in this category that had economic peers in the other selected states.

The successful peer, McDonald County, Missouri, was one of the few farm-dependent peer counties that retained farm jobs, for several reasons. Only 2 percent of farms produced swine in 1997, just before prices plummeted at the end of the decade. Seventy-five percent of farms were engaged in cow-calf operations and this industry remained stable. Also, poultry broiler production tripled from 18 to 54 million, although only about 8 percent of farms in the county produced poultry. Two large poultry slaughtering facilities increased employment levels over the decade, and smaller durables manufacturers grew, as well.

The struggling peer, Prairie County, Arkansas, lost half of its manufacturing jobs in 1993 when two motor vehicle parts manufacturers closed. Fortunately, only about 1 percent of farms produced swine in 1997, mitigating wider economic effects from the market price drop for that commodity. In 1997 this county resembled a typical agricultural county. Two-thirds of farms raised soybeans, 41 percent raised wheat, and 20 percent were involved in cow-calf operations. However, about 60 percent of farms in this county produced rice and these farms increased production from 300 to 450 million pounds from 1987 to 1997. The increased rice production might have had more positive impact on the economy, but the market price for the typical variety of rice grown in the southern U.S. declined 17 percent from the 1996-1997 to the 1998-1999 market year.

Business in Nebraska (BIN) January 2003
McPherson County Group

The McPherson County group comprising 11 counties and, like the next three county groups, has fewer than 2,500 urban residents. None is adjacent to a metro area. The McPherson County group was defined by high levels of farm employment and low levels of services employment in 1990. There also was a marked absence of manufacturing employment. Farm employment was over 40 percent of total employment.

Wichita County, Kansas, the successful peer, participated in the rapid growth of cattle feedlots in southwest Kansas. Ten to 12 feedlots in the county expanded production 30 percent from 1987 to 1997. Production of corn increased 80 percent and soybean production increased 150 percent over the same period.

The struggling peer, Jewell County, Kansas had little nonagricultural employment. From 1992 to 1997 there were nearly 25 percent fewer farms involved in cow-calf operations. This was an anomaly in the selected states.

Boone County Group

Fifteen counties located in the eastern third of the state, primarily west of the three metro areas comprise the Boone County group. Population densities in this group were sparse in 1990, ranging from 7 to 14 persons per square mile. They all had high levels of farm and retail/services employment in 1990 that reflected their roles as trade centers.

Deuel County, South Dakota, the successful peer, enjoyed the growth of three significant manufacturers. Two of these manufacturers are branch plants of firms based in Minneapolis, Minnesota. They may have located just across the South Dakota border to enjoy that state's pro-business policies regarding taxes and union membership.

The struggling peer, Washington County, Kansas, like other struggling peers in the area, suffered when swine prices fell late in the 1990s. The share of manufacturing employment remained in the 2 to 3 percent range throughout the 1990s. There was little other nonagricultural employment growth to offset job losses in the farm sector.

Grant County Group

The 10 counties in the Grant County group are scattered across remote western Nebraska. They all have high farm employment and population densities under 7 persons per square mile.

At least some of the success in Hamlin County, South Dakota may be attributed to a dairy product manufacturer that grew during the decade and offered local dairy farms a nearby market.

The struggling peer, Rawlins County, Kansas suffered a lack of nonagricultural employment and lost some cow-calf operations. Half the farms in the feedlot business and 20 percent of the cow-calf operators left the industry from 1987 to 1997. There were mixed results in grain production in the county during the same period.

Chase/Clay County Group

Twelve counties that are scattered across the state comprise the Chase/Clay County group. All had high farm employment and most had population densities under 7 persons per square mile in 1990.

Hyde County, South Dakota, the successful peer, achieved agricultural success by increasing sunflower production from 5 million pounds in 1987 to 38 million pounds in 1997, while market prices remained high.

Harding County, South Dakota struggled because an oil and gas exploration firm that employed between 20 and 100 workers in 1990 had fewer than 5 workers by 1999. Although there was little shift in commodities produced by Harding County farmers, farm sector jobs generally declined over the period.

Summary

A vibrant and growing manufacturing sector was an important part of economic success for many of Nebraska's rural economic peers. The manufacturers doing well in successful peer counties generally were engaged in durables manufacturing, from medical tools to farm machinery. However, other factors also were important. For example, Deuel
County, South Dakota benefited from its proximity to Minneapolis and favorable state labor and tax policies.

Farm-dependent rural counties only succeeded when an area radically changed its commodity mix and enjoyed favorable commodity prices. In the future other counties likely will succeed if they are producing the right commodities at the right time.

Unfortunately, none of the successful economic peers provided a truly transferable strategy that could be used by Nebraska's rural counties.

Access to broadband telecommunication services may have been an important boost to manufacturers and other businesses that depended on rapid communications in Deuel and Hamlin Counties in South Dakota, as well as Swift and Wadena Counties in Minnesota; however, the direct impact on local business is unclear. This might be a factor when firms consider new plant locations.

There is no easy formula to economic development success over the long term. Many of the rural peers in this study owe their success in the 1990s to a single economic event or factor, for example, the success of one local manufacturer or timely price increases for an important agricultural commodity. Some will look at these results and conclude that all it takes is to recruit one manufacturing plant to the community and the area's economic struggles are over. However, all it would take is for that one firm to relocate or the development to fail and a community likely would join the group of struggling peers.

Long-term economic success depends on a county's location and its local leadership. Leaders must build strong communities with broad economic bases to avoid reliance on a single firm.
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*Does not include motor vehicle sales. Motor vehicle net taxable retail sales are reported by county only.

Source: Nebraska Department of Revenue
## Net Taxable Retail Sales for Nebraska Counties ($000)

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<th>% Chg. vs. YR Ago</th>
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<th>% Chg. vs. YTO</th>
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*Note on Net Taxable Retail Sales*

Users of this series should be aware that taxable retail sales are not generated exclusively by traditional outlets such as clothing, discount, and hardware stores. While businesses classified as retail trade firms account for, on average, slightly more than half of total taxable sales, sizable portions of taxable sales are generated by service establishments, electric and gas utilities, wholesalers, telephone and cable companies, and manufacturers.

Source: Nebraska Department of Revenue
Regional Nonfarm Wage and Salary Employment* 2000 to September** 2002

Note to Readers
The charts on pages 8 and 9 report nonfarm employment by place of work for each region.

Northwest Panhandle

Southwest Panhandle

North Central

West Central

Southwest Central

East Central

January 2003

Business in Nebraska (BIN)
Regional Nonfarm Wage and Salary Employment* 2000 to September** 2002

**By place of work
**Current month data are preliminary and subject to revision
**Previous, other than Nebraska data were included in the Omaha and Sioux City MSA

Note: Monthly data through March 2001 are benchmarked. Data for April-December 2001 are estimates until benchmarked in early 2003. All estimates are the most current revised data available.

Source: Nebraska Department of Labor, Labor Market Information - Kathy Copas
August 2002 Regional Retail Sales ($000)
YTD Change vs Yr. Ago

State Nonfarm Wage & Salary Employment by Industry*

<table>
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<td>260,271</td>
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<td>156,034</td>
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*By place of work
**Transportation, Communication, and Utilities
***Finance, Insurance, and Real Estate
Source: Nebraska Department of Labor, Labor Market Information

Consumer Price Index

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<th>YTD % Change vs Yr. Ago</th>
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*U = All urban consumers
Source: U.S. Bureau of Labor Statistics

State Labor Force Summary*

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<td>Unemployment Rate</td>
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</table>

*By place of residence
Source: Nebraska Department of Labor, Labor Market Information

Note: Monthly data through March 2001 are benchmarked. Data for April-December 2001 are estimates until benchmarked in early 2003. All estimates are the most current revised data available. Labor force data for 2002 will be revised.
County of the Month

Cherry
Valentine - County Seat

License plate prefix number: 66
Size of county: 5,961 square miles, ranks 1st in the state
Population: 6,307 in 2000, a change of -2.5 percent from 1990
Per capita personal income: $20,201 in 2000, ranks 69th in the state
Net taxable retail sales ($000): $80,321 in 2001 a change of 14.2 percent from 2000; $55,110 from January through September 2002, a change of -7.0 percent from the same period the previous year.
Unemployment rate: 1.9 percent in Cherry County, 3.1 percent in Nebraska in 2001

<table>
<thead>
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<td>(wage &amp; salary)</td>
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<td>5.6</td>
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</table>

Agriculture:
Number of farms: 672 in 1997; 767 in 1992; 745 in 1987
Average farm size: 5,777 acres in 1997; 5,751 acres in 1992
Market value of farm products sold: $100.3 million in 1997 ($149,226 average per farm); $101.2 million in 1992 ($149,753 average per farm)

\(^{1}\) By place of work

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue.
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Counting American Business • Charting America’s Progress
www.census.gov/econ2002

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2002 Census of Agriculture


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