

## Red States Raid Blue States for Jobs: It's a Texas Two-Step Versus an Illinois Slow Waltz

### Economic Recovery Stronger in Red States

Governor Rick Perry of Red State Texas, took a June Blue State tour visiting New York and Connecticut, courting and wooing companies in an area of the country that hasn't voted Republican in a national election in the last two decades. Are the economic stars dancing the Texas two-step or the New York Lindy Hop? Have Red States, those that voted Republican in every presidential election for the past two decades, economically out-performed Democrat voting Blue states, as well as Purple states that divided their electoral votes between Demo-crat and Republicans in the same time period? Do Red states, which are viewed as more pro-business and tax friendly, experience superior economic performance compared to Blue states that are seen as more pro-government and tax burdensome? From the beginning of the economic recovery in the third quarter of 2009 through the first quarter of 2013, personal income growth was 14.6 percent for Blue States, 14.9 percent for Pur-ples states and 17.3 percent for Red states. Furthermore, May 2013 Red state unemployment rates were a full one percentage point lower than Blue state jobless rates, and one-half of one percentage point lower than the rate of joblessness among Purple states. Since July 2009, employment has grown by 1.7 percent in Red states, a much slower 1.3 percent in Purple states, and an anemic 1.1 percent in Blue states. Thus, approximately 500,000 jobs shifted from Blue and Purple states to Red states during the recovery. Data like this are apt to encourage Red state governors to mimic Governor Perry's efforts and recruit workers and companies from Blue states like Illinois with its slow waltzing economy. Ernie Goss. Details of the analysis can be accessed at: [www.economicstrends.blogspot.com](http://www.economicstrends.blogspot.com)

## MAINSTREET RESULTS

### Rural Mainstreet Economic Growth Climbs: Bank CEOs Recommend Ending QE3

Tables 1 below summarizes the findings from the June survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

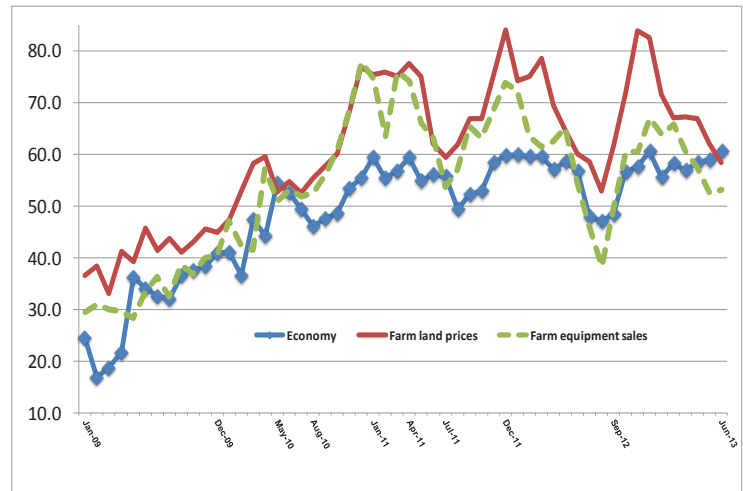
Table 1: The Mainstreet Economy	July 2012	June 2013	July 2013
Area Economic Index	56.7	56.7	60.5
Loan volume	64.2	72.1	66.7
Checking deposits	55.3	69.4	48.5
Certificate of deposits	38.9	42.6	33.6
Farm land prices	60.0	62.1	58.4
Farm equipment area sales	54.7	52.4	53.2
Home sales	66.4	73.9	78.1
Hiring in the area	59.1	59.8	61.4
Retail Business	54.6	52.3	53.9
Economy 6 months from now	58.5	54.5	60.0

June Survey Results at a Glance:

- Rural Mainstreet Index indicates rural economy expansion improves.

- Approximately 55.6 percent of bankers recommend tapering the Fed's bond buying program (QE3) over the next 6 months beginning immediately.
- Almost one-fifth of bankers think QE3 has been unsuccessful at stimulating economic growth.
- Farmland price growth slowed for the sixth time in the past seven months.

### Rural Mainstreet, Jan. '09 – June '13



Growth for the Rural Mainstreet economy strengthened to its highest level since December of last year according to the June survey of bank CEOs in a 10-state area. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100 with 50.0 representing growth neutral, climbed to 60.5 from May's 58.8. This year's healthy rainfall for much of the area has boosted growth over the past several months compared to the same period last year.

Jeffrey Gerhart, Chairman of the Bank of Newman Grove in Newman Grove, Neb., reported, "Corn and soybeans are in and growing without the assistance of irrigation in our area. What a difference one year makes."

**Farming:** The farmland price index declined for the sixth time in the past seven months. The index decreased to 58.4 from 62.1 in May. Our farmland price index has been above growth neutral since February 2010. However we are tracking a clear downward trend in the growth in farmland price growth. I expect that growth to continue to fall as the U.S. dollar strengthens and agriculture commodity prices weaken. This downward trend in agriculture commodity prices has softened the growth in both farmland prices and farm equipment sales.

After expanding by almost 9 percent for 2012, farm product prices have been flat for 2013 and while the farm equipment sales index expanded for June to 53.2 from May's 52.4, sales are softer than earlier in the year.

**Banking:** The loan-volume index moved above growth neutral for the month. However, the index dropped to a healthy 66.7 from 72.1 in May. The checking-deposit index declined to 48.5 from May's 54.5 while the index for certificates of deposit and other savings instruments sank to 33.6 from May's 42.6.

This month bankers were asked about the Federal Reserve's \$85 billion monthly bond buying program, Quantitative easing (QE3). Approximately 55.6 percent of bankers recommend tapering or reducing the Fed's bond buying program (QE3) over the next six months beginning immediately. Furthermore, almost one of five bankers, or 19.4 percent, think QE3 has been

unsuccessful at stimulating economic growth and 43.3 percent of bankers indicated that the program has put excessive air in asset price bubbles such as farmland prices.

**Hiring:** June's hiring index expanded to 61.4 from May's 59.8. For two and one-half years, the Rural Mainstreet economy has been adding jobs. However, the region's employment level is still 2.3 percent below its pre-recession level.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, increased to 60.0 from 54.5 in May. Consistent and positive growth in the national economy, along with improving crop conditions, are boosting bankers' economic outlook. The Senate Farm bill cuts about \$4.1 billion in food stamps over the next decade. According to our June survey, 56.6 percent of bank CEOs think the cuts are too small.

**Home and retail sales:** For a fifth straight month the homes-sales index took a large, positive jump. The June home-sales index advanced to a record 78.1 from May's 73.9. The June retail-sales index rose to 53.9 from 52.3 in May. Just as the national housing market consistently moves higher so does the Rural Mainstreet housing sector.

Each month, community bank presidents and CEOs in nonurban, agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included.

This survey represents an early snapshot of the economy of rural, agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, president of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

## MAINSTREET ON YOUR STREET

### COLORADO

For a ninth straight month, Colorado's Rural Mainstreet Index (RMI) remained above 50.0. The June RMI soared to 81.2 from May's robust 59.2. The farmland and ranchland price index sank to a very strong 80.3 from 80.8. Colorado's hiring index for June expanded to 75.7 from May's 72.5.

### ILLINOIS

The RMI for Illinois rose above growth neutral for the ninth straight month. The index advanced to 61.6 from May's 55.9. Farmland prices sank to 49.4 from 52.1 in May. The state's new-hiring index increased to 55.2 from 53.4 in May.

### IOWA

The June RMI for Iowa expanded to 62.2 from 58.1 in May. The farmland-price index sank to 49.6 from 60.7 in May. Iowa's new-hiring index for June weakened to a still solid 55.3 from May's 59.1.

### KANSAS

The Kansas RMI for June decreased slightly to 60.5 from 61.5 in May. The farmland-price index sank to 49.6 from 53.6 in May. The state's new-hiring index climbed to 56.7 from 54.4 in May. However, more and more bankers are concerned about recent strong growth. Dale Bradley, CEO of The Citizens State Bank, in Miltonvale, said, "Still watching for a bubble in our markets!"

### MINNESOTA

The June RMI for Minnesota tumbled to a healthy 59.7 from May's 67.2. Minnesota's farmland-price index fell to 58.5 from 65.7 in May. The new-hiring index declined to 61.2 from last month's 62.5.

### MISSOURI

The June RMI for Missouri declined to 59.2 from May's 77.0. The farmland-price index for June surged to 81.5 from 72.1 in May. Missouri's new-hiring rose to 76.7 from 66.7 in May.

### NEBRASKA

After moving below growth neutral for January, Nebraska's Rural Mainstreet index has now moved above growth neutral for five straight months. The June RMI slipped slightly to 56.5 from last month's 57.7. The farmland-price index for June advanced to 59.2 from 53.9 in May. Nebraska's new hiring index stood at 53.7, down from May's 53.9.

### NORTH DAKOTA

The North Dakota RMI for June dipped slightly to a regional high of 81.8 from 83.7 in May. The farmland-price index climbed to 87.6 from May's 85.3. North Dakota's new-hiring index declined to a very robust 80.6 from May's 83.6.

### SOUTH DAKOTA

The June RMI for South Dakota increased to 60.5 from 60.3 in May. The farmland price index slumped to 51.5 from May's 56.6. South Dakota's new-hiring index for June expanded to 56.5 from 56.3 in May.

### WYOMING

The June RMI for Wyoming dipped to 52.6 from 54.4 in May. The June farmland and ranchland price index decreased to 40.8 from May's 46.2. Wyoming's new-hiring index was unchanged from May's 49.4.

## THE BULLISH NEWS

- Total non-farm employment increased by 195,000 in June with April and May numbers revised upward.
- Over the past year, average hourly earnings have risen by 2.2 percent (a bit above inflation).
- The national ISM leading economic index (the PMI) moved above growth neutral for June after declining to its low-est level since 2009 in May.
- The Case-Shiller U.S. home price index rose 12 percent over the past year ending in April. From March to April of this year, the Case-Shiller index grew at its fastest pace ever (another bubble?).
- Retail sales rose by 0.6 percent in April reflecting a consumer that continues to spend.

## THE BEARISH NEWS

- Restaurants added jobs over the past three months at the fastest pace in 18 years---a signal that employers have begun reducing hours of workers and adding more part-timers. This allows firms to avoid mandated health insurance coverage for workers averaging more than 30 hours.

- The U.S. trade deficit for May increased to its highest level in six months as exports weakened.
- The number of long-term unemployed remained unchanged for June (4.5 million!!).

## WHAT TO WATCH

- **Purchasing Management Indices:** On August 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI for July. Another increase in the national PMI will be bullish for the economy.
- **Jobs:** On Friday August 2, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for July. A reading below 200,000 will be bearish for long bonds (lower prices, higher yields). This would almost guarantee a Federal Reserve QE3 reduction in its QE3 bond buying program in Sept. 2013.
- **Consumer Price Index (CPI):** On July 16, and on August 15, the U.S. Bureau of Labor Statistics releases the CPI. Annualized readings above 2.0% will "seal the deal" of a Federal Reserve reducing its QE3 stimulus program beginning in September 2013.

## THE OUTLOOK

### FROM GOSS:

- I am backtracking. I now think the Federal Reserve will begin tapering or reducing its bond purchases (QE3) beginning at their Sept. 17-18 meeting. Thus, long-term interest rates will continue to move higher for the rest of 2013. I do think the interest rate increases will be modest since the Federal Reserve can increase bond buying if needed. Rates will likely advance by another three quarters of a percentage point by year's end.
- I expect the Fed to maintain its funds rate at essentially zero. This will mean that short term interest rates will remain at record low levels while long term rates such as mortgage rates will continue to rise.

### OTHER FORECASTS:

- National Association of Business Economics (May 2013 survey). "NABE panelists estimate 2.4% growth in real GDP from the fourth quarter of 2012 to the fourth quarter of 2013 and suggest an improvement in real GDP growth to 3% in 2014," said Dr. Nayantara Hensel, Chair of the NABE Outlook Survey and Professor of Industry and Business at National Defense University. "Nevertheless, the panelists suggest an even stronger decline in government spending this year relative to last year, which could negatively impact GDP growth. Although the panelists suggest that government spending will decline by 2.3% for 2013, they estimate that it will only decline by 0.9% in 2014. The panelists are more upbeat regarding consumer spending in 2013 and 2014 relative to 2012."

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The City Council of Washington D.C. voted 8-5 to require certain "big" retailers to pay workers a minimum of \$12.50 per hour despite the city's current unemployment rate which is one percentage point higher than the U.S. average. They intend to enforce this "living wage" for retailers with more than 75,000 square feet and \$1 billion in parent company revenues but exempt retailers with a collective bargaining agreement. Say hello to Safeway and Giant and good bye to Target, Home Depot and Wal-Mart. This is bad deal for the unemployed of DC.

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