

Trans Pacific Partnership (TPP) A Winner for U.S.: Politicians, Left and Right, Are Wrong

When politics and economics collide, economics is roadkill. Take the case of the Trans Pacific Partnership (TPP). More than 99 percent of economists support this trade pact, yet 100 percent of individuals still in the race for the U.S. presidency are opposed to opening up Asian markets to U.S. manufacturers, businesses and farmers via TPP.

In October 2015 in Atlanta, the Obama Administration reached agreement with Japan, Vietnam and nine Pacific Rim nations to reduce trade barriers to produce the largest trade pact in the nation's history. Due to reductions in trade restrictions, the USDA estimates that implementation of TPP will expand U.S. sales abroad by \$130 billion annually. According to my calculations, if agriculture accounts for its historic share of U.S. exports, TPP would boost agricultural sales by \$8.4 billion, and U.S. net farm income by approximately \$1.0 billion in one year alone.

However, the deal requires Congressional approval and both Democrats and Republicans have finally found something they agree on---rejection of TPP, economic jingoism, or what I will call "economic tomfoolery." In 2015, the U.S. was the second largest exporting nation, behind only China. And in that same year, the U.S. worker was the most productive on the face of the earth. Slinking into protectionism by rejecting fair and free trade agreements only subsidizes the less productive, and slows overall economic prosperity. Ernie Goss.

MAINSTREET RESULTS

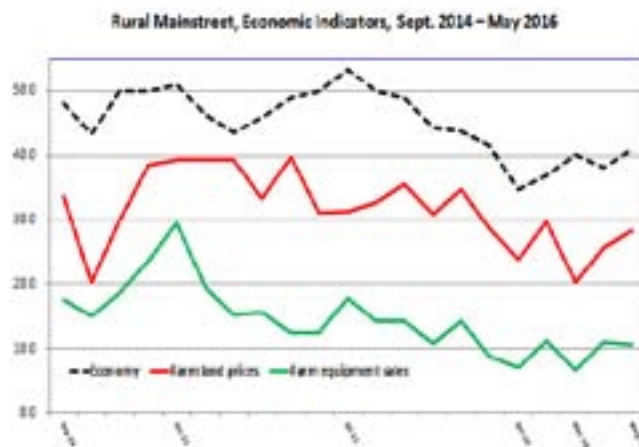
Rural Mainstreet Economy Remains Weak for May: Job Losses for First Time in Five Years

Table 1: The Mainstreet Economy	May 2015	Apr 2016	May 2016
Area Economic Index	49.0	38.0	40.9
Loan volume	79.6	71.8	77.9
Checking deposits	43.8	47.8	45.5
Certificate of deposits	39.7	44.4	40.9
Farm land prices	39.4	26.7	28.4
Farm equipment area sales	12.5	11.1	10.7
Home sales	66.0	58.9	61.6
Hiring in the area	61.5	50.0	43.2
Retail Business	49.0	37.8	36.0
Economy 6 months from now	41.5	34.8	38.4

Survey Results at a Glance:

- For a ninth straight month, the Rural Mainstreet Index fell below growth neutral.
- Almost one-third of bank CEOs see slow or negative rural economic growth as the biggest economic threat to their bank over the next five years.
- Approximately nine of ten bankers see low agriculture commodity prices as the greatest challenge to the rural economy for 2016.

- Farmland prices remained below growth neutral for the 30th straight month.
- From their peak levels in 2011, agricultural commodity prices are down by 17 percent, and grain prices are off by 49 percent.



The Creighton University Rural Mainstreet Index for May increased from April's very weak reading, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: While remaining very fragile, the Rural Mainstreet Index (RMI) has increased three of the last four months. The index, which ranges between 0 and 100, rose to 40.9 from April's 38.2.

"This is the ninth straight month the overall index has remained below growth neutral. Even though agriculture and energy commodity prices have increased recently, they remain well below prices 12 months earlier and from their peak levels in 2011. Farm prices are down by 17 percent and grain prices are off by 49 percent.

Farming and ranching: The farmland and ranchland-price index for May climbed to 28.4 from April's 26.7. This is the 30th straight month the index has moved below growth neutral.

When asked to identify the biggest threat to the Rural Mainstreet economy for 2016, more than 9 of 10 bank CEOs named low agriculture commodity prices as the greatest challenge to the Rural Mainstreet economy.

As in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices, with prices growing in some portions of the region.

The May farm equipment-sales index sank to a dismal 10.7 from 11.1 in April. Weakness in farm income and low agriculture commodity prices continue to constrain the sale of agriculture equipment across the region. Reductions in farm prices have negatively affected local agricultural equipment dealers and regional manufacturers of farm equipment.

Banking: The May loan-volume index jumped to 77.9 from last month's 71.8. The checking-deposit index slipped to 45.5 from April's 47.8, while the index for certificates of deposit and other savings instruments slumped to 40.9 from 44.4 in April.

This month bankers were asked to identify the greatest

challenge facing their banking operations over the next five years. Approximately 30 percent named rising regulation, and an equal 30 indicated slow or negative economic growth as the biggest threat or challenges.

According to Pete Haddeland, CEO of the First National Bank in Mahanomen, Minnesota, “Regulatory costs continue to go up. We think this will become a bigger portion of our budget each year.”

Hiring: For the first time in almost five years, the Rural Mainstreet hiring index sank below growth neutral. Rural Mainstreet businesses reduced employment levels for the month with an index of 43.2, down from April’s 50.0. Rural Mainstreet employment is down by almost 1 percent from this time last year. This contrasts to employment gains for urban areas of the region.

Confidence: The confidence index, which reflects expectations for the economy six months out, increased to 38.4 from 34.8 in April indicating a continuing pessimistic outlook among bankers. Higher agriculture commodity prices boosted the index slightly higher to May’s sub-par reading.

Home and retail sales: Home sales remain the bright spot of the Rural Mainstreet economy with a May index of 61.6 from 58.9 in April. The May retail-sales index fell to a frail 36.0 from a weak 37.8 last month. Home sales held up for the month, but rural retailers much like their urban counterparts are experiencing downturns in sales.

Bank CEOs expect lackluster holiday sales growth from the 2014 season. On average, a one percent increase in retail sales for Rural Mainstreet businesses is expected. The strong dollar, especially against the Canadian dollar, is depressing retail sales among border states. For example, John Marchell, president of the First State Bank Grand Forks, North Dakota, said, “The decrease in the number of Canadian retail customers is noticeable.”

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. The survey is supported by a grant from Security State Bank in Ansley, Neb.

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, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

MAINSTREET ON YOUR STREET

COLORADO

Colorado’s Rural Mainstreet Index (RMI) rose to 46.4 from 43.6 in April. The farmland and ranchland-price index expanded to 68.0 from April’s 66.3. Colorado’s hiring index for May fell to 57.8 from April’s 64.0. Colorado’s Rural Mainstreet job growth over the last 12 months was 2.8 percent.

ILLINOIS

The May RMI for Illinois climbed to 40.7 from April’s 37.8. The

farmland-price index expanded to 23.7 from April’s 22.2. The state’s new-hiring index slumped to 41.7 from last month’s 47.9. Illinois’s Rural Mainstreet job growth over last 12 months was minus 0.1 percent.

IOWA

The May RMI for Iowa slumped to 40.3 from April’s 41.2. Iowa’s farmland-price index for May climbed to 47.3 from 45.6 in April. Iowa’s new-hiring index for May dropped to 50.3 from 56.4 in April. Iowa’s Rural Mainstreet job growth over the last 12 months was 1.6 percent.

KANSAS

The Kansas RMI for May expanded to 37.3 from April’s 34.4. The state’s farmland-price index for May increased to 10.7 from 8.9 in April. The new-hiring index for Kansas declined to 37.0 from 43.1 in April. Kansas’ Rural Mainstreet job growth over the last 12 months was minus 1.8 percent.

MINNESOTA

The May RMI for Minnesota advanced to 40.8 from April’s 38.0. Minnesota’s farmland-price index climbed to 34.6 from 32.9 in April. The new-hiring index for the state declined to 45.7 from last month’s 51.8. Minnesota’s Rural Mainstreet job growth over the last 12 months was 0.0 percent.

MISSOURI

The May RMI for Missouri increased to 30.7 from 27.8 in April. The farmland-price index expanded to 29.8 from April’s 28.7. Missouri’s new-hiring index declined to 17.5 from 23.6 in April. Missouri’s Rural Mainstreet job growth over the last 12 months was minus 5.1 percent.

NEBRASKA

The Nebraska RMI for May grew to 43.3 from 40.5 in April. The state’s farmland-price index advanced to 44.5 from April’s 42.8. Nebraska’s new-hiring index fell to 49.3 from 57.3 in April. According to Jeffrey Gerhart Chairman of the Bank of Newman Grove in Newman Grove said, “Regulatory burden, low commodity prices and tight margins for farmers will continue to negatively impact our community.” Nebraska’s Rural Mainstreet job growth over the last 12 months was 1.2 percent.

NORTH DAKOTA

The North Dakota RMI for May increased to a regional low of 17.5 from April’s 14.9, also a regional low. The farmland-price index increased to 14.8 from 13.4 in April. North Dakota’s new-hiring index sank to 35.1 from April’s 35.6. North Dakota’s Rural Mainstreet job growth over the last 12 months was minus 11.7 percent.

SOUTH DAKOTA

The May RMI for South Dakota advanced to 40.3 from 37.4 in April. The farmland-price index grew to 26.1 from 24.3 in April. South Dakota’s new-hiring index expanded to 42.6 from April’s 37.8. South Dakota’s Rural Mainstreet job growth over the last 12 months was minus 0.3 percent.

WYOMING

The May RMI for Wyoming increased to 34.3 from April’s 31.4. The May farmland and ranchland-price index rose to 12.3 from 10.5 in April. Wyoming’s new-hiring index fell to 31.7 from April’s 37.8. Wyoming’s Rural Mainstreet job growth over the last 12 months was minus 3.3 percent.

THE BULLISH NEWS

- Year over year U.S. wage growth hit a stable 2.5% in May.
- The Case-Shiller home price index expanded by 5.4% from March 2015 to March 2016.
- U.S. consumer prices rose 0.4% in April. (this is good news if you are looking for a bit of upward price pressure).

THE BEARISH NEWS

- The 38,000 jobs created in May fell well short of consensus expectations of around 160,000. In addition, the Bureau of Labor Statistics revised its estimates for prior months downwards by 59,000.
- The unemployment rate declined to 4.7% but primarily due to discouraged unemployed workers leaving the workforce.
- Involuntary part-time workers rose by 468,000 to 6.4 million.
- The U.S. trade deficit increased to \$37.4 billion in April.

WHAT TO WATCH

- **The Jobs Report:** On July 8, the Bureau of Labor Statistics will release the June jobs report. Another very weak report (i.e. less than 100,000 jobs) will push the Federal Reserve to forego raising raise rates at their July 26-27 meetings.
- **Brexit:** On June 23, British citizens will vote to exit or remain in the European Union. A majority vote to exit will result in a spiking of global financial volatility. This will push global investors into “safe haven” investments including U.S. Treasury bonds. This move will drive U.S. interest rates lower, the value of the dollar higher and agriculture commodity prices lower.
- **Gold Prices:** It has been a long time since I paid much attention to gold prices but I will in the next several months as investors attempt to hedge against rising risk (Brexit) and higher consumer inflation (CPI).

THE OUTLOOK

FROM GOSS:

- I now put the likelihood of a June Federal Reserve rate hike at less than 10%. A July rate hike will depend HEAVILY on the BLS jobs report on July 8. If the July 8 jobs report indicates fewer than 100,000 added to June payroll, I put the likelihood of a July Fed rate increase at less than 10%. I also expect the core inflation rate, which excludes food and energy, to continue to move a bit higher in the months ahead. The U.S. financial market will experience rising volatility as the British approach a vote on exiting the EU (Brexit).

OTHER FORECASTS:

- **Janet Yellen, Head of Federal Reserve (March 2016).** “Today the Federal Open Market Committee decided to maintain the target range for the federal funds rate at ¼ to ½ percent. Our decision to keep this accommodative policy stance reflects both our assessment of the economic outlook and the risks associated with that outlook. The Committee’s baseline expectations for economic activity, the labor market, and inflation have not changed much since December: With appropriate monetary policy, we continue to expect moderate economic growth, further labor market improvement, and a return of inflation to our 2 percent objective in two to three years. However, global economic and financial developments continue to pose risks. Against this backdrop, the Committee judged it prudent to maintain the current policy stance at today’s meeting. The Committee’s inflation outlook rests importantly on its judgment that longer-run inflation expectations remain reasonably well anchored.”

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The Consumer Financial Protection Bureau (CFPA) unleashed 1,300 pages of rules for 20,000 U.S. payday lenders. Just as regulatory zealotry is killing the coal mining industry, add payday lenders to the list of casualties from the “we know what is good for you” crowd. Payday lenders are the only source of borrowing for these borrowers, most of whom are low income and do not have access to traditional bank loans.

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This month’s survey results will be released on the third Thursday of the month, Jun. 16.