

Cutting Coal Electricity Generation: More Costly for Red States

This month under provisions of the Clean Air Act, signed by Richard Nixon in 1970, President Obama proposed new carbon limits on electricity generation. The goal of his initiative is a 30 percent reduction of carbon emissions from electricity plants by 2030, three-fourths which come from coal usage. The latest data from the Energy Information Agency show that residential electricity customers in the 25 states generating electricity from coal pay 20 percent less per kilowatt hour than customers in the 26 states and DC that use no coal in the production of electricity. Furthermore, 11 of the 12 highest electricity cost states use no coal in the making of electricity. Data indicate that reducing coal's share of electricity production from a national average of 28.3 percent to 20.0 percent by expanding the share produced by re-newable energy will increase the cost of electricity by approximately 19 percent. This increase in cost however, will not be shared evenly. Blue states, those that placed their electoral votes for the Democrat presidential candidate in each of the last four elections, paid electricity prices 43.2 percent higher than states that voted Republican in the same four elections. Not surprisingly, 16 of the nation's 19 Blue states used no coal for electricity creation, while only 5 of 22 Red states used no coal for electricity production. Purple states, those that split their electoral votes between Democrat and Republican presidential candidates, paid 23.3 percent more for electricity production than Red states, and 5 of the 10 Purple states use no coal in the generation of electricity. Thus in addition to environmental and health concerns, one can see potential political motives behind the President's decision. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Economy Strengthens in May: 90 Percent of Bank CEOs Support Keystone XL Pipeline

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

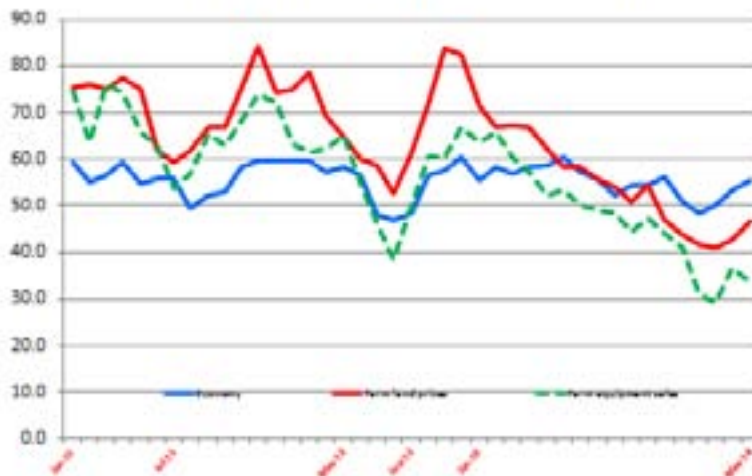
Table 1: The Mainstreet Economy	May 2013	April 2014	May 2014
Area Economic Index	58.8	53.2	55.6
Loan volume	72.1	73.1	75.4
Checking deposits	54.5	65.1	54.8
Certificate of deposits	42.6	42.0	40.3
Farm land prices	62.1	42.9	46.7
Farm equipment area sales	52.4	36.7	33.6
Home sales	73.9	63.8	63.9
Hiring in the area	59.8	64.0	64.0
Retail Business	52.3	50.0	51.7
Economy 6 months from now	54.5	54.0	51.6

Survey Results at a Glance:

- Rural Mainstreet Index rises for a third straight month indicating modest growth.
- Farmland prices decline for sixth straight month.

- More than 90 percent of bank CEOs support completion of construction of the Keystone XL pipeline
- Almost half the bankers indicated that the lack of fast broadband access for businesses in their area was constraining growth.

Rural Mainstreet Economy January '11 – May '14



After moving below growth neutral for February, the Rural Mainstreet economy has moved above the 50.0 threshold for three straight months, according to the May 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, increased to 55.6 from 53.2 in April.

The overall index for the Rural Mainstreet Economy indicates that economic conditions of the areas of the nation highly dependent on agriculture and energy are improving. Recent gains in agriculture commodity prices are boosting the farm/rural economy.

Bankers were asked three specific questions this month. First, did they support construction of the northern portion of the Keystone XL pipeline? More than 90 percent were supportive of pipeline construction.

According to DeWayne Streyle, CEO of Unity Community Bank of North Dakota in Leeds, N.D., "Farmer's have shouldered the cost of inadequate access to rail cars due to increasing oil car shipments. The Keystone XL pipeline would benefit agriculture and energy independence."

Jeffrey Gerhart, chairman of the Bank of Newman Grove, in Newman Grove, Neb., indicated that the pipeline should be built.

However other bankers offered conditional support for the pipeline. For example, Terry Engelken, CEO of Federation Bank in Washington, Iowa, said, "I support the Keystone Pipeline if the United States is using the oil. If it is all being exported, then I do not support it."

The second question asked for May: Was the lack of fast broadband access restraining business growth in their area? Almost half, or 49.2 percent, indicated that this was a factor slowing business expansion.

However, several bank CEOs indicated that their broadband access was supportive of businesses in the area. Scott Tewksbury, president of Heartland State Bank in Edgeley, N.D., said, "Our rural telephone cooperative, Dickey Rural, has upgraded almost their entire network to fiber optic including rural farm homes. Broadband speeds are better than many urban areas of Fargo, N.D., so no economic impact here." Added Michael Johnson, CEO of Swedish-American State Bank

in Courtland, Kan., "We have excellent broadband in Courtland. A real plus for business and development."

The third select question for the month: Do you expect the expansion of Vermont's recently passed law re-quiring labeling of genetically modified food to other states to affect the Rural Mainstreet economy? Slightly less than half, 49 percent, expect this action to have negative economic consequences for the Rural Mainstreet economy.

Jim Shafer, CEO of the First National Bank in Tremont, Ill., summarized much of the banker sentiment saying, "Over-regulation always has a negative impact on all of us."

Farming and ranching: The farmland and ranchland-price index for May advanced to 46.7 from 42.9 in April. This is the sixth straight month that the farmland and ranchland-price index has moved below growth neutral. Stronger farm commodity and grain prices over the last several months should put a floor under farmland prices in the months ahead. I expect the index to move above growth neutral before Labor Day.

Farm-equipment sales remained below growth neutral for the 11th straight month. The May index sank to 33.6 from April's 36.7. Propelled by rising farm income, farm equipment manufacturers in the region have experienced healthy growth since 2009. However agriculture equipment and implement dealers in the region are experiencing very weak sales to farmers in the region even as the farm equipment manufacturers are experiencing positive growth due to healthy sales abroad.

Banking: The loan-volume index advanced to a robust 75.4 from 73.1 in April. The checking-deposit index declined to 54.8 from April's 65.1, while the index for certificates of deposit and other savings instruments dipped to 40.3 from April's 42.0.

Hiring: Rural Mainstreet businesses continue to hire at a solid pace. The May hiring index was unchanged from April's very strong 64.0. Currently the Rural Mainstreet economy is adding jobs at a pace well above the long-term average. Furthermore, the region's employment has returned to pre-recession levels.

Confidence: The confidence index, which reflects expectations for the economy six months out, fell to 51.6 from last month's 54.0. International tensions and threats to agriculture exports reduced confidence among bankers for the month.

Home and retail sales: The May home-sales index expanded slightly to 63.9 from 63.8 in April. The May retail-sales index rose to 51.7 from 50.0 in April. Improving weather encouraged an upturn in home purchases and growth in an increase in the retail sales index.

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

After moving below growth neutral for February, Colorado's Rural Mainstreet Index (RMI) for May inched above the 50.0 threshold for three straight months advancing to 56.3 from April's 54.1. The farmland and ranchland-price index expanded to 55.4 from April's 50.6. Colorado's hiring index for May rose to 70.1 from 68.9 in April.

ILLINOIS

For a second straight month Illinois' RMI increased, rising to 55.8 from April's 53.3. The Illinois farmland-price index rose to 42.3 from April's 36.2. The state's new-hiring index improved to 59.6 from April's 57.4.

IOWA

The May RMI for Iowa expanded to 55.8 from April's 53.5. The farmland-price index for May advanced to a weak 44.1 from April's 41.4. Iowa's new-hiring index for May dipped to 61.1 from 61.6 in April.

KANSAS

The Kansas RMI for May climbed to 56.3 from 53.8 in April. The farmland-price index for May increased to 52.2 from April's 46.3. The state's new-hiring index advanced to 67.5 from April's 65.4. Dan Coup, of First National Bank in Hope, said, "Dry weather is a concern in our area for our crop producers and also cattlemen planning on grazing cattle this summer. The wheat crop in the area is heading and in poor condition, I anticipation the yields to be the poorest in years."

MINNESOTA

The May RMI for Minnesota rose to 56.4 from April's 54.1. Minnesota's farmland-price index for May increased to 55.2 from April's 50.0. The new-hiring index for the state grew to 69.9 from 65.7 in April. Bryan Grove, CEO of American State Bank of Grygla reported, "Northwest Minnesota needs warm weather and sunshine. We've had an extended period of cold, rainy weather that has prevented any spring fieldwork. Farmers are anxious to get to work."

MISSOURI

The May RMI for Missouri jumped to 57.2 from April's 51.3. The farmland-price index for May soared to 68.4 from April's 42.3. Missouri's new-hiring index skyrocketed to 80.5 from 55.5 in April.

NEBRASKA

Nebraska's RMI expanded to 55.3 from April's 53.0. The farmland-price index for May advanced to a very weak 37.1 from 35.8 in April. Nebraska's new-hiring index dipped to a solid 55.4 from April's 57.1. Several bankers reported negative fallout from bad weather. For example, Larry Rogers, executive vice-president of First Bank of Utica said, "We have heard 120 pivots from Cordova to Seward will have to be replaced as a result of the Sunday tornados. (It) will hurt our area economy."

NORTH DAKOTA

The North Dakota RMI for May dipped to 57.8 from April's 59.4. The farmland-price index grew to 71.8 from April's 64.5. North Dakota's new-hiring index expanded to 83.2 from April's 80.0.

SOUTH DAKOTA

The May RMI for South Dakota expanded to 55.7 from April's

53.4. The farmland-price index for May increased to 41.9 from 38.1 in April. South Dakota's new-hiring index advanced to 59.3 from April's 58.9.

WYOMING

The May RMI for Wyoming increased to 56.0 from 53.6 in April. The May farmland and ranchland-price index grew to a 47.4 from April's 40.9. Wyoming's new-hiring index for May improved to 63.8 from April's 61.1.

THE BULLISH NEWS

- From the May surveys of supply managers, Creighton University's and the national's point to improving growth through the third quarter of 2014.
- U.S. employers added 217,000 non-farm jobs in May and the unemployment rate remained steady at 6.3%.
- While the housing market has slowed, automobile sales have moved back to their pre-recession level and are at their highest level in 9 years.

THE BEARISH NEWS

- While the overall May unemployment rate was 6.3%, it was 11.5% for Blacks, 19.2% for teenagers, and 7.7% for Hispanics.
- The number of long termed unemployed for May was unchanged at a "too high" 3.4 million.
- In May, average hourly earnings for all employees on private nonfarm payrolls rose by 5 cents to \$24.38. Over the past 12 months, average hourly earnings have risen by a puny 2.1% and only slightly above inflation.

WHAT TO WATCH

- **Retail Sales:** On June 12, the U.S. Census Bureau will release retail sales numbers for May. An increase of more than 1% from April's retail sales will be bullish for the economy, but bearish for bonds as the threat of inflation rises.
- **Jobs:** On Friday July 4, the U.S. Bureau of Labor Statistics (BLS) will release employment report for June. Another strong report (job additions above 200,000) will result in long term interest rates rising more quickly.
- **CPI:** On June 17, the Bureau of Labor Statistics releases consumer price indices for May. Monthly increases of more than 0.2% will encourage the Fed to maintain and potentially reduce its monthly bond buying program. It will point to higher long-term interest rates and could even encourage the Fed to raise short-term interest rates before the end of Quarter 1, 2014.

THE OUTLOOK

FROM GOSS:

- The U.S. 2014 budget deficit to decline by to roughly \$500 billion, or 2.8% of GDP.
- The U.S. trade deficit to remain unacceptably high as

many of our global trading partners experience slower economic growth thus buying less from us.

- U.S. housing price growth to slow to a more sustainable annual growth rate of 4% - 6%.

OTHER FORECASTS:

- National Association of Business Economics (June 2014) SUMMARY: "NABE's June 2014 Outlook Survey panelists expect stronger economic growth for the balance of this year than they did three months ago," said NABE President Jack Kleinhenz, chief economist of the National Retail Federation. "The consensus forecast is that real GDP will advance at a strong 3.5% annualized clip in the second quarter of 2014, bolstered by activity that was postponed due to adverse weather conditions earlier in the year. The March survey called for a 2.8% second-quarter gain. Growth expectations for the third and fourth quarters of 2014, at 3.1% and 3.2%, respectively, have also been revised upward. The majority view is that the Federal Reserve will terminate its long-term asset purchase program by the end of 2014 and begin to raise the federal funds rate in 2015.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Once again Congressional Democrats and Republicans are bonding to advance bailouts for some of the nation's biggest corporations. This time it is funding for the Depression era relic, the Export-Import bank. The bank hands out loans, capital and credit insurance to support U.S. firm's sales abroad. Last year, the bank's authorizations exceeded \$27 billion. Why should the U.S. taxpayers guarantee loans that private lenders reject?

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