

Healthy Job Growth But Unhealthy Economic Growth: More Regulations Contribute to Weak Economy

Without even a hint of irony, President Obama last week sold, and even trumpeted, his administration's economic accomplishments to the national press. But much like Arthur Miller's Willie Loman, or Meredith Wilson's Harold Hill, the sales job stands in stark contrast to reality.

True, government data show that the U.S. unemployment rate stood at healthy 5.2 percent with more than 200,000 jobs created each month over the past two years. On the other hand, government data indicated that the overall economy expanded at an annualized pace of only 1.4% for the final quarter of 2015 and a 0.5% rate for the first quarter of 2016. This seemingly inconsistent data, that is solid job growth and lousy overall economic growth can be reconciled by peeking behind the headline data.

Since the economic recovery began in July 2009, GDP growth has expanded at the slowest pace of any 7-year period since 1947. The healthy job growth has been in part-time, low wage and/or low productivity occupations and industries. For example over the past two years, a reduction in the average hourly work week resulted in effective job losses of almost 420,000. Furthermore, output per worker since the beginning of the economic recovery is roughly one-third the long-term U.S. average. As a result, average percentage gains in compensation are currently approximately 56% of the long term average.

But there has been one area of healthy growth--regulations. According to the Wall Street Journal, the Obama Administration is responsible for six of the top seven years of red-tape creation in the nation's history. Good for economists and lawyers, but not for other workers. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Economy Remains Weak for April: Almost One-Third of Bank CEOs Support April Fed Rate Hike

	Apr 2015	Mar 2016	Apr 2016
Area Economic Index	46.0	40.2	38.0
Loan volume	69.0	70.7	71.8
Checking deposits	50.1	53.3	47.8
Certificate of deposits	38.0	39.1	44.4
Farm land prices	39.4	22.8	26.7
Farm equipment area sales	15.6	6.7	11.1
Home sales	58.2	55.8	58.9
Hiring in the area	54.2	51.2	50.0
Retail Business	44.0	35.6	37.8
Economy 6 months from now	47.0	30.1	34.8

Survey Results at a Glance:

- For an eighth straight month, the Rural Mainstreet Index fell below growth neutral.
- Almost one-third of bankers support an April Federal Reserve short term interest rate hike.
- Farmland prices remained below growth neutral for the 29th straight month.

- Cash farmland rents are down by 7 percent over the past year.
- More than four of ten bankers reported rising regulatory costs are the biggest threat to banking operations over the next five years.

U.S., Mid-America, Rural Mainstreet, Economic Indicators, 2014-16



The Creighton University Rural Mainstreet Index for April fell unexpectedly from March'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: After increasing for two straight months, the Rural Mainstreet Index (RMI), which ranges between 0 and 100, sank to 38.2 from March's 40.2.

This is the eighth straight month the overall index has moved below growth neutral. Even though agriculture and energy commodity prices have increased recently, they remain well below prices 12 months earlier. Compared to 12 months earlier, prices for farm products are down by 16 percent and energy products are 8 percent lower.

Farming and ranching: The farmland and ranchland price index for April rose to 26.7 from 20.2 in March. This is the 29th straight month the index has moved below growth neutral.

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.

Bankers reported an average cash rent per acre for 2016 of \$211 which is down by 7 percent from April of last year. But bankers indicated that there would be significant variation among farmers. Jeffrey Gerhart, chairman of Bank of Newman Grove, Newman Grove, Nebraska, said, "Cash flow is king and will continue to be the difference maker for producers. Those who manage it well will benefit, those who don't manage it well will not."

The April farm equipment-sales index climbed to a frail 11.1 from March's record low 6.7. 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 the agriculture equipment dealers and manufacturers of farm equipment in the region.

Banking: The April loan-volume index dipped to 71.8 from last month's 72.1. The checking-deposit index slipped to 47.8 from March's 53.4, while the index for certificates of deposit and other

savings instruments advanced to 44.4 from 38.6 in March.

This month bankers were asked to identify the greatest challenge facing their banking operations over the next 5 years. More 43.5 percent reported rising regulatory costs was the biggest threat. However, David Steffensmeier, president of the First National Bank in Beemer, Nebraska, said, "Low farm income and plummeting farmland values rank equally (as a threat)."

Hiring: Contrary to other economic indicators, Rural Mainstreet businesses maintained employment levels for the month with an index of 50.0, down from March's 60.3. "Even so, Rural Mainstreet employment is down by 0.7 percent from this time last year. This contrasts to an employment gain of approximately 1.7 percent for urban areas of the region," said Goss.

Confidence: The confidence index, which reflects expectations for the economy six months out, increased to 34.8 from 30.1 in March indicating a continuing pessimistic outlook among bankers. Higher agriculture commodity prices pushed the index up slightly to April's sub-par reading.

Home and retail sales: Home sales remain the bright spot of the Rural Mainstreet economy with an April index of 58.9 from 55.8 in March. The April retail-sales index rebounded to a weak 37.8 from 30.1 last month. Home sales held up for the month, but rural retailers have yet to experience retail sales gains resulting from lower fuel costs.

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) sank to 43.6 from 51.9 in March. The farmland and ranchland-price index expanded to 66.3 from March's 58.8. Colorado's hiring index for April rose to 64.0 from March's 63.8.

ILLINOIS

The April RMI for Illinois was unchanged from March's 37.8. The farmland-price index expanded to 22.2 from March's 16.0. The state's new-hiring index slipped to 47.9 from last month's 48.2.

IOWA

The April RMI for Iowa slumped to 41.2 from March's 50.2. Iowa's farmland-price index for April climbed to 45.6 from 39.1 in March. Iowa's new-hiring index for April dropped slightly to 56.4 from 56.6 in March.

KANSAS

The Kansas RMI for April fell to 34.4 from March's 37.0. The state's farmland-price index for April slumped to 8.9 from March's 12.3. The new-hiring index for Kansas declined to 43.1 from 44.9 in March.

MINNESOTA

The April RMI for Minnesota tumbled to 38.0 from March's 44.7. Minnesota's farmland-price index climbed to 32.9 from 28.8 in March. The new-hiring index for the state declined to 51.8 from last month's 52.8. According to Pete Haddeland, CEO of the First National Bank in Mahanomen, "Land values seem to be holding steady."

MISSOURI

The April RMI for Missouri increased to 27.8 from 25.1 in March. The farmland-price index expanded to 28.7 from March's 15.8. Missouri's new-hiring index declined to 23.6 from March's 32.1.

NEBRASKA

The Nebraska RMI for April sank to 40.5 from 48.9 in March. The state's farmland-price index grew to 42.8 from March's 38.0. Nebraska's new-hiring index climbed to 57.3 from 56.2 in March.

NORTH DAKOTA

The North Dakota RMI for April increased to a regional low of 14.9 from March's 14.7, also a regional low. The farmland-price index increased to 13.4 from 10.7 in March. North Dakota's new-hiring index expanded to 35.6 from March's 33.2.

SOUTH DAKOTA

The April RMI for South Dakota sank to 37.4 from 39.2 in March. The farmland-price index grew to 24.3 from 15.8 in March. South Dakota's new-hiring index plummeted to 37.8 from March's 50.0.

WYOMING

The April RMI for Wyoming declined to 31.4 from March's 34.5. The April farmland and ranchland-price index slipped to 10.5 from 10.7 in March. Wyoming's new-hiring index fell to 37.8 from March's 41.5.

THE BULLISH NEWS

- Year over year U.S. wage growth hit an improving 2.5% in April.
- The Case-Shiller home price index expanded by 5.4% from February 2015 to February 2016.
- The CPI fell 0.2% in February. In the 12 months through March, the CPI increased 0.9% after advancing 1.0% in February.

THE BEARISH NEWS

- The U.S. economy added only 160,000 jobs in April and the number of discouraged workers leaving the labor force expanded.
- Due to a weakening U.S. dollar, U.S. corn prices top \$4 per bushel for the first time since July 2015.

WHAT TO WATCH

- **Housing Prices:** On the last Tuesday of May, S&P will release the Case-Shiller home price index for March. Yearly growth of more than 5% will be more evidence of growing housing price bubbles in some parts of the nation.
- **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.
- **The Jobs Report:** On June 3, the Bureau of Labor Statistics will release the April jobs report. Another very weak report (i.e. less than 100,000 jobs and an increase in the unemployment rate) will push the Federal Reserve to forego raising rates at their June 14-15 meetings.

FROM GOSS:

- I put the likelihood of a June Federal Reserve rate hike at 55%. I also expect the core inflation rate, which excludes food and energy, to move a bit higher in the months ahead. This will push the Fed to raise short term rates two times in 2016. The U.S. financial market will experience rising volatility as the British approach a vote on remaining in the EU (Brexit).

OTHER FORECASTS:

- The Conference Board. "Financial markets calmed down after nervous jitters at the beginning of the year. Fears that the economy was headed to a recession proved premature. But first quarter performance reflected an economy close to stalling out. Consumer spending slowed, especially on cars and other big ticket goods. But the job market remained resilient, supporting consumer confidence and moderate spending power growth going forward. Business investment continues to decline and sentiment is not supportive of significant rebound. Net exports are still a drag, but export growth is recovering a little. The huge drag in the first quarter came from a correction of unintended bloated inventory build last year. The forecast is predicated on an inventory runoff over the next few quarters, as demand benefits from reasonably optimistic sentiment and growth in spending power along with pent-up demand for housing. With wages picking up, but productivity still weak, corporate profit margins are being squeezed. This is now the big issue, with a looming shortage in the talent pool putting upward pressure on wages, which in turn exerts ever more intense pressure on margins. How business responds, and how consumers react, will determine the

growth path for the second half of this year, and flow into the first half of next year. Overall, the U.S. economy should remain on a modest growth track of about 2 percent with low risk of recession in 2016, but growing in 2017."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- After soaking the U.S. taxpayer for \$1.5 billion in tax incentives and loan guarantees, Sun Edison, the world's largest renewable energy firm, filed for bankruptcy last month. Five years earlier, Solendra, another solar energy firm, went belly-up after receiving \$545 million from the U.S. Energy Department. Even with these high profile failures, the federal government continues to provide solar energy producers with the largest subsidies per kilowatt hour than any other form of energy production.

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This month's survey results will be released on the third Thursday of the month, May 19th.