Even with Government Backing, Elon Musk Is No Thomas Edison

Without an emoticon for bizarre or laughable, CNBC favorably compared Elon Musk, founder of Tesla Motors, to Thomas Edison. If nothing else, Musk should receive the chutzpah award for naming his company after Nikola Tesla, creator of modern alternating current (AC) electricity systems. But after 12 years of operations and $4.9 billion of taxpayer subsidies, as calculated by the Los Angeles Times, Tesla Motors will produce only 45,000 vehicles for all of 2015 compared to Ford and GM which will sell 225,000 and 246,000 vehicles, respectively, for July 2015 alone.

Matching Tesla’s underachievement in sales, investors in Tesla stock will earn 1% every $80 of investor cash in 2015. Alternatively, investors can purchase $1 of earnings from Ford and GM for less than $8. In other words, the rate-of-return for investors is 1% for Tesla and almost 15% for Ford and GM. Furthermore, the only reason Tesla is earning a 1% rate-of-return is taxpayer subsidies of almost $5 billion. Think of what Thomas Edison could have done with billions of dollars of taxpayer subsidies. He would not produce fewer than 50,000 vehicles per year that have a range of less than 270 miles. Only Hollywood celebrities can afford a $125,000 vehicle that cannot transport them beyond the award ceremonies in Las Vegas. I did not know Thomas Edison-he grew up in New Jersey and I in Georgia-but I think I can safely say that, “Elon Musk, you are no Thomas Edison.” Ernie Goss.

MAINSTREET RESULTS

Rural Economy Improves to Growth Neutral: No Spread in Negative Impact of Avian Flu

<table>
<thead>
<tr>
<th>Table 1: The Mainstreet Economy</th>
<th>Jun 2014</th>
<th>May 2015</th>
<th>Jun 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>53.6</td>
<td>49.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Loan volume</td>
<td>74.6</td>
<td>79.6</td>
<td>79.9</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>50.9</td>
<td>43.8</td>
<td>48.0</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>39.4</td>
<td>39.7</td>
<td>38.6</td>
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<tr>
<td>Farm land prices</td>
<td>49.1</td>
<td>39.4</td>
<td>31.1</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>35.0</td>
<td>12.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Home sales</td>
<td>66.1</td>
<td>66.0</td>
<td>68.1</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>63.2</td>
<td>61.5</td>
<td>61.5</td>
</tr>
<tr>
<td>Retail Business</td>
<td>51.8</td>
<td>49.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>55.5</td>
<td>41.5</td>
<td>45.9</td>
</tr>
</tbody>
</table>

Survey Results at a Glance:

- The Rural Mainstreet Index improved to growth neutral, highest since January of this year.
- Farmland prices declined for the 19th straight month, but with wide variations across the region.
- Almost one in five bankers, the same as in May, reported negative fallout from the avian flu outbreak.
- More than one-third of bankers think the Federal Reserve should wait until 2016 to raise interest rates.
- Home sales soared for the month.

The Creighton University Rural Mainstreet Index for June rose slightly from May’s 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: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, climbed to growth neutral 50.0 from May’s 49.0.

This is the third straight month the index has risen and that indicates economic conditions are improving in the region, though they remain weak by historical standards. The strong dollar is weighing on agricultural commodity prices and farm income for the Rural Mainstreet economy.

Farming and ranching: The farmland and ranchland-price index for June declined to its lowest level since November of last year. The index declined to 31.1 from May’s 39.7. This is the 19th straight month the index has moved below growth neutral. But, as in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices.

The June farm equipment-sales index matched May’s record low 12.5, which was down from April’s 15.6. The index has been below growth neutral for 23 straight months. “With farm income expected to decline for a second straight year, farmers remain very cautious regarding the purchase of agricultural equipment.

Banking: The June loan-volume index declined to 79.9 from 79.6 in May. The checking-deposit index rose to 48.0 from May’s 43.8, while the index for certificates of deposit and other savings instruments fell to 38.6 from May’s 39.7.

This month bank CEOs were asked when should the Federal Reserve begin raising short term interest rates and when will the Fed begin boosting short term interest rates. Approximately 12.8 percent of bankers said the Fed should immediately begin raising rates. On the other hand, more than 34 percent of bankers recommend that the Fed wait until 2016 to push rates higher.

However in terms of expected rate increases by the Fed, almost one-third anticipate a rate hike by the Fed’s September 2015 meeting. Approximately 40.4 percent expect an interest rate increase in the fourth quarter of 2015. Approximately 27.7 percent expect the Fed to delay a rate increase until 2016.
THE MAINSTREET ECONOMY REPORT
"A monthly survey of community bank CEOs"

July 2015

Hiring: Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and energy, Rural Mainstreet businesses continue to hire additional workers. While the rate of new hiring is healthier in urban areas of each state, Rural Mainstreet communities are growing jobs at a solid annual pace of approximately 1 percent.

Confidence: The confidence index, which reflects expectations for the economy six months out, expanded to a weak 45.9 from 41.5 in May. The avian flu combined with low agricultural commodity prices have had negative impacts on bankers’ economic outlook.

For the last two months, we have asked bankers about the fallout from the avian flu outbreak. Little changed between May and June with almost one in five of the bankers, or 18.8 percent, reporting negative impacts from the outbreak.

But according to Pete Haddeland, CEO of the First National Bank in Mahomet, Minn. “The Bird Flu has been tough on Minnesota.”

Home and retail sales: The June home-sales index jumped to 68.1 from May’s 66.0. The June retail-sales index increased to a weak 50.0 from 49.0 in May. “We have yet to measure any significant upturn in retail sales stemming from the downturn in fuel prices,” said Goss.

Each month, community bank presidents and CEOs in nonurban, agriculturally and energy-dependent portions of the nation give regional 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 supporting 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.

COLORADO
After rising above growth neutral for 11 straight months, Colorado’s Rural Mainstreet Index (RMI) has fallen below the 50.0 threshold for the last five months. The RMI did improve from May’s 47.7 to 48.6 for June. The farmland and ranchland-price index tumbled to 29.1 from 50.5 in May. Colorado’s hiring index for June declined to 56.0 from May’s 62.4.

ILLINOIS
The RMI for Illinois rose to 49.7 from 49.2 in May. The farmland-price index slumped to 41.4 from May’s 42.9. The state’s new-hiring index decreased to 58.5 from May’s 59.2.

IOWA
The June RMI for Iowa slipped to 51.8 from May’s 52.1. Iowa’s farmland-price index for June fell to 44.3 from May’s 52.3. Iowa’s new-hiring index for June dipped to 62.6 from May’s 62.9.

KANSAS
The Kansas RMI for June rose to 48.2 from May’s 47.5. The state’s farmland-price index for June slumped to 26.5 from May’s 33.9. The new-hiring index dipped to 53.4 from 55.6 in May.

MINNESOTA
The June RMI for Minnesota rose to 52.6 from May’s 50.1. Minnesota’s farmland-price index declined to 40.5 from 42.0 in May. The new-hiring index for the state climbed to 61.0 from 58.8 in May. According to Mark Hewitt, CEO of Northwoods Bank in Park Rapids, “Slow recovery from the recession continues. We are not yet back to pre-2007 growth levels. Loan demand continues to be weak.”

MISSOURI
The June RMI for Missouri grew to 49.9 from 48.0 in May. The farmland-price index for June declined to 35.0 from May’s 36.2. Missouri’s new-hiring index advanced to 58.8 from May’s 56.5.

NEBRASKA
The Nebraska RMI for June increased to 48.8 from 47.8 in May. The state’s farmland-price index fell to 29.5 from 39.0 in May. Nebraska’s new-hiring index dipped to 56.6 from May’s 57.6.

NORTH DAKOTA
The North Dakota RMI for June decreased to 52.6 from May’s 53.9. The farmland-price index fell to 56.0 from 74.9 in May. North Dakota’s new-hiring index declined to 67.2 from May’s 72.0.

SOUTH DAKOTA
The June RMI for South Dakota expanded to 52.2 from May’s 50.5. The farmland-price index decreased to 42.1 from May’s 44.5. South Dakota’s new-hiring index rose to 61.7 from 59.8 in May.

WYOMING
The June RMI for Wyoming advanced to a weak 49.2 from last month’s 48.2. The June farmland and ranchland-price index slumped to 32.7 from May’s 42.3. Wyoming’s new-hiring index dipped to 57.9 from May’s 59.2.

THE BULLISH NEWS
• U.S. payroll employment expanded by 223,000 in June.
• Investors are being replaced by family buyers of homes. Approximately 24.9% of single family home buyers were all-cash purchases in May down from 30.4% a year earlier.
• U.S. home prices rose 4.2% in April from one year earlier according to the Case-Shiller home price index.

THE BEARISH NEWS
• In June, the U.S. unemployment rate declined to 5.3% but it fell due to 432,000 discouraged unemployed workers abandoning their job search efforts and leaving the workforce.
• U.S. job gains for April and May of this year were revised downward by 60,000.

THE OUTLOOK

FROM GOSS:
• I expect Greece to leave the 19-nation Eurozone by the end of the year. Three years ago, I predicted that Greece would leave the Eurozone. Was I early or wrong? You be the judge.
• I expect a bit higher inflation readings will push the Federal Reserve to raise its short term interest rates in September of this year.
• Short term interest rates will begin to rise even as long-term interest rates remain low.

OTHER FORECASTS:
• “EPA Broadens Clean Water Regulation,” “The Obama administration expanded federal protection of U.S. waterways and drinking water supplies Wednesday, issuing a rule through the Environmental Protection Agency that also clarifies which rivers, streams, ponds and wetlands may be covered by the Clean Water Act. The measure, known as the Clean Water Rule, has attracted intense opposition from fertilizer companies, the agriculture sector, energy producers and conservative lawmakers in Congress, who describe it as a “federal overreach” that will hamper economic growth and drive up costs for farmers and chemical producers. The rule was proposed jointly last spring by the EPA and Army Corps of Engineers, which were expected to release additional details Wednesday afternoon. It has previously been referred to public comment by the United States”

THE BULLISH NEWS
• The consumer price index climbed 0.4% last month, the largest such increase since February 2013. It is looking more and more like a Federal Reserve rate hike in September of this year.

WHAT TO WATCH
• GDP: On July 30, the U.S. BEA will release the preliminary reading for quarter two growth. Any annualized inflation rate adjusted below 2% will be a big disappointment and will be bullish for bond prices (pushing interest rates lower and bond prices higher).
• PMIs: On August 3, the first business day of August, Creighton and the National Institute for Supply Management will release regional and national PMIs for July. After expanding for June, declines would be bearish for U.S. stocks.
• Consumer Price Index: On July 22, the U.S. Bureau of Labor Statistics (BLS) will release the CPI for June. Another healthy expansion (e.g. above 0.3%) will seal the deal for a Federal Reserve rate hike at their September meetings.

GOSSIP EGGS
(RECENT DUMB ECONOMIC MOVES)
• This month’s prize goes to Greek Prime Minister Alexis Tsipras for calling on Greek voters to reject a referendum that called upon cuts to Greek pension plans and higher value-added taxes to avoid debt default. Greek elected officials, much like their U.S. counterparts, continue to believe that they can spend more and tax less and someone else will pay the bills. If you are a gambler, bet on Merkel and against the gaggle of Holland, Krugman and Stiglitz.

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For ongoing commentary on recent economic developments, visit our blog at: www.economictrends.blogspot.com

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

Write to us at ernieg@creighton.edu