

What Policy Actions Would End Economic Malaise? Top 10 Policy Changes

Despite record economic stimuli from the Federal Reserve and the federal government, the U.S economy continues to stumble. The August employment report attests to the failed economic policies. In August 2013, more than 300,000 unemployed Americans became so discouraged that they quit looking for a job. This is the 40th straight month that the number of workers leaving the workforce exceeded the number finding a job. In fact, the percentage of the working age population employed plummeted to its lowest level since August 1978. If all of these discouraged workers once again began looking for a job, the nation's unemployment rate would rise from the current "too high" 7.3 percent to approximately 10.0 percent. Even the biggest booster of past economic intervention must concede that they have not succeeded. But what government/Fed actions would perk up the economy (long and short term): 1. Reduce the incentives for not working. A new Cato Institute study concluded that the myriad of benefits provided the non-working by government including food stamps, federal disability pay, housing assistance, Medicaid and more exceed \$12 per hour. 2. Pass an immigration reform bill. 3. Approve the 19 pending applications for licenses to export LNG (liquefied natural gas). 4. Approve the Keystone XL pipeline application. 5. Allow kids to escape failing schools by providing vouchers (long term). 6. Continue federal spending sequestration. This provides businesses with greater certainty. 7. Raise the debt ceiling without conditions. 8. Begin raising the Social Security retirement age. 9. Reduce the yearly cost-of-living adjustment to Social Security payments. 10. Begin unwinding the Fed's excessive money expansion labeled QE3 this month (again provides businesses with greater certainty). Ernie Goss.

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Rural Mainstreet Economy Grows: Farm Equipment Sales Decline

July Survey Results at a Glance:

- Rural Mainstreet Index indicates rural economy expansion slows slightly.
- Farmland price growth slowed for the eighth time in past nine months.
- Farm equipment sales declined for the first time since 2009 with an August index below growth neutral.
- Approximately one-fifth of farmland sales made to non-farmer investors.
- Almost nine in 10 bankers named Farm Credit as their major competitor for farm loans.

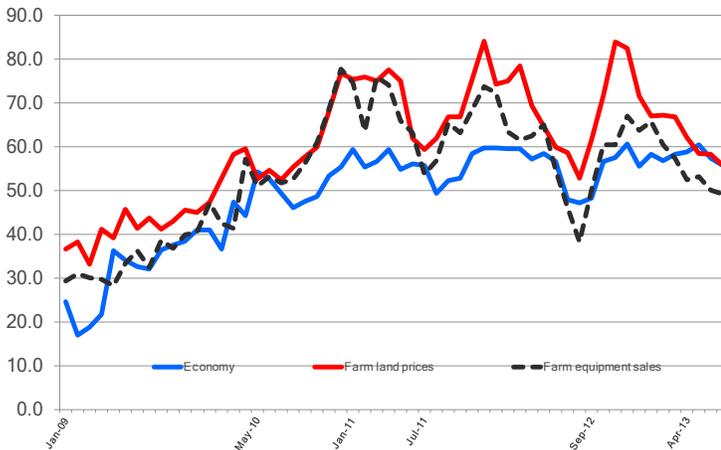
Tables 1 and 2 summarize survey findings. Next month's survey results will be released on the third Thursday of the month, Sept. 19.

| | July 2012 | June 2013 | July 2013 |
|--|-----------|-----------|-----------|
| Area Economic Index | 47.1 | 57.3 | 55.8 |
| Loan volume | 67.6 | 75.7 | 70.5 |
| Checking deposits | 49.1 | 53.7 | 51.7 |
| Certificate of deposits | 33.0 | 42.0 | 43.5 |
| Farm land prices | 52.8 | 58.2 | 55.8 |
| Farm equipment area sales | 38.3 | 50.0 | 49.2 |
| Home sales | 60.2 | 76.6 | 72.5 |
| Hiring in the area | 51.9 | 60.7 | 59.2 |
| Confidence index (area economy six months out) | 45.2 | 53.1 | 52.6 |

Table 2: Rural Mainstreet Economy 2013

| | Percentage of Bankers Reporting | | | |
|--|---------------------------------|---------------------------|----------------------------|---|
| | Stopped by end of 2013 | Stopped by end of 2014 | Reduced or tapered monthly | Continue as is until unemployment rate less than 7% |
| The Fed's \$85 billion bond buying program of \$85 billion monthly should be: | 15.8% | 5.3% | 56.1% | 22.8% |
| | | | | |
| | Percentage of Bankers Reporting | | | |
| | Over 50% | 33% - 50% | 10% - 32% | Less than 10% |
| What percent of agriculture land-sales in your area over the past year have been made to non-farmer investors? | 1.7% | 15.5% | 56.9% | 25.9% |
| | Percentage of Bankers Reporting | | | |
| | Other community banks | Large non-community banks | Farm Credit | Individual or farmer/owner |
| In terms of agriculture lending, which of the following is your major competitor? | 8.3% | 1.7% | 88.3% | 1.7% |

Rural Mainstreet Economy Jan. '09 - August '13



MAINSTREET RESULTS

While growth for the Rural Mainstreet economy remains healthy, it slowed a bit in August, according to the monthly 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, slipped to 55.8 from July's 57.3, but was well ahead of last August's 47.1. Last year at this time the drought was weighing on the Rural Mainstreet Economy. This year, weaker agriculture commodity prices are having a dampening impact on the farm economy and businesses tied to agriculture. Even so, the economy continues to expand at a reasonable pace according to bank CEOs.

Farming: The farmland-price index declined for the eighth time in the past nine months. The August index fell to 55.8 from 58.2 in August. Our farmland-price index has been above growth neutral since February 2010. However, lower farm commodity prices are slowing growth in farmland prices. I expect farmland price growth to continue to weaken as agriculture commodity prices soften.

This month bankers were asked to estimate the share of farmland sales going to nonfarm investors. Banking leaders indicated that approximately one-fifth of sales are going to non-farm investors, the same as this spring when the same question was asked. In some areas of the region, investor purchases are down dramatically. For example, Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Ill., said, "Local farmers have completely driven the nonfarmer investors out of the farmland market by elevating the prices over returns investors demand."

Furthermore, the inventory of available farmland is down significantly. According to Jim Stanosheck, CEO of State Bank of Odell, in Odell, Neb., "There is very little farm real estate available in the area."

Farm equipment sales also softened for August with the index moving below growth neutral for the first time since 2009. The index slumped to 49.2 from 50.0 in July. I am concerned that agriculture equipment dealers may find themselves with higher and higher unsold inventory. The direction we are seeing in agriculture commodity prices, while helpful to livestock producers, is pushing farmers to pullback on their equipment purchases. This trend will begin slowing overall rural growth in the months ahead.

Banking: The loan-volume index remained above growth neutral for the month at 70.5, though it was down from July's 75.7. The checking-deposit index slipped to 51.7 from July's 53.7 while the index for certificates of deposit and other savings instruments increased to a very weak 43.5 from July's 42.0.

This month bankers were also asked when the Federal Reserve should alter or end their \$85 billion per month bond buying program named quantitative easing 3 (QE3). Approximately 15.8 percent think the program should conclude by the end of 2013. Another 5.3 percent support terminating QE3 by the end of 2014, 56.1 percent indicated the Fed should begin tapering purchases next month, and 22.8 percent recommend keeping the program 'as is' until the unemployment rate declines below 7 percent.

Also this month bankers reported on their major competitors for agriculture loans. Almost nine of 10, or 88.3 percent, indicated that Farm Credit was their biggest competitor. Another 8.3 percent of bankers identified other community banks as their chief competitor and 1.7 percent reported large non-community banks as their major competitor and the remaining 1.7 percent said that individual farmer/owners were their biggest competitors.

Many bankers attributed Farm Credit's competitive position to their tax and funding advantages. For example, Pete Haddeland, CEO of the First National Bank in Mahanomen, said, "Farm Credit has an unfair funding advantage over community banks. It is time for Farm Credit to start paying its fair share of taxes as a government-sponsored enterprise."

Hiring: August's hiring index declined to a strong 59.2 from 60.7 in July. Growth in hiring is definitely slowing for the region even though it remains positive. Businesses directly linked to agriculture and energy are either shedding jobs or adding them at a slow pace.

Confidence: The confidence index, which reflects expectations for the economy six months out, fell to 53.4 from 56.6 in July. Weaker agriculture commodity prices and a decline in farm equipment sales pushed the economic outlook lower for the month.

Home and retail sales: The August home-sales index slipped to a still strong 72.5 from July's 76.6. The August retail-sales index declined to 52.6 from July's 53.1. Similar to national trends, rural home sales are continuing to rebound while retail sales continue to grow but at a tepid pace.

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 the 11th straight month, Colorado's Rural Mainstreet Index (RMI) remained above 50.0. The August RMI declined to a still healthy 63.4 from July's 70.5. The farmland and ranchland price index fell to a still strong 70.3 from July's 75.5. Colorado's hiring index for August advanced to 75.3 from 73.0.

ILLINOIS: The RMI for Illinois declined to growth neutral 50.0 from 57.6 in July. The RMI has now remained at or above growth neutral for 11 straight months. Farmland prices expanded to 51.2 from July's 49.1. The state's new-hiring index

dipped to 52.4 from July's 54.3.

IOWA: The August RMI for Iowa sank to 56.9 from 62.3 in July. The farmland-price index slipped to 53.2 from July's 54.6. Iowa's new-hiring index for August declined to 52.4 from July's 58.0.

KANSAS: The Kansas RMI for August decreased to 56.4 from 59.2 in July. The farmland-price index rose to 48.2 from July's 46.6. The state's new-hiring index expanded to 53.7 from 52.7 in July.

MINNESOTA: The August RMI for Minnesota climbed to 54.8 from 53.4 in July. Minnesota's farmland-price index fell to 40.7 from 51.3 in July. The new-hiring index declined to 48.7 from July's much stronger 55.8.

MISSOURI: The August RMI for Missouri declined to a still healthy 61.4 from July's regional high of 81.2. The farmland-price index for August remained vigorous at 85.2, up from July's 78.9. Missouri's new-hiring index sank to 78.4 from July's 84.2.

NEBRASKA: After moving below growth neutral for January, Nebraska's Rural Mainstreet Index has been above growth neutral for seven straight months. The August RMI declined to 56.2 from July's 58.0. The farmland-price index for August slipped to 47.7 from July's 48.5. Nebraska's new-hiring index stood at 53.4 down slightly from July's 53.9.

NORTH DAKOTA: The North Dakota RMI for August fell to 58.9 from 78.4 in July. The farmland-price index declined to 73.2 from July's 82.4. North Dakota's new-hiring index declined to a still very strong 70.4 from July's 76.5.

SOUTH DAKOTA: The August RMI for South Dakota slipped to 56.8 from July's 59.9. The farmland-price index for the state increased to 51.2 from July's 50.8. South Dakota's new-hiring index for August advanced to 55.7 from July's 55.5. According to David Callies, CEO of Miner County Bank in Howard, "Crops look very good. Could use some rain to finish them."

WYOMING: The July RMI for Wyoming expanded to 53.0 from 52.6 in June. The July farmland and ranchland price index grew to 41.9 in July from 40.8 in June. Wyoming's new-hiring index increased to 49.6 from June's 49.4.

THE BULLISH NEWS

- The Case-Shiller home price index advanced by more than two percent for June and was up by more than 12% over the past 12 months. Are we seeing another bubble?
- Both the non-manufacturing and manufacturing ISM numbers were up strongly for August. I do not think the economy is as strong as these two reports indicate.
- Retail sales rose 0.2% month-on-month in July following an upward revision to June to 0.6% from 0.4%. The two-month increase indicates that the U.S. consumer buying.

THE BEARISH NEWS

- The U.S. trade deficit widened in July from a four-year low in June. American consumers bought more for-foreign cars and other imported goods, while U.S. companies exported fewer long-lasting manufactured goods. This will subtract from GDP for the third quarter.
- Annualized GDP growth for the second quarter of 2013 declined to 1.7%. It should be more than double this rate.
- The U.S. trade deficit widened in July from a four-year low in June. American consumers bought more for-foreign cars and other imported goods, while U.S. companies exported fewer long-lasting manufactured goods. This will subtract from GDP for the third quarter.
- Total nonfarm payroll employment increased by 169,000 in August, and the unemployment rate was little changed at

7.3%. Much of the gain in employment was in retail trade and food services, two low wage industries. Furthermore, June and July employment numbers were revised downward.

- The consumer price index has expanded by 0.7% over the past two months. This is too high for the Fed to sit on the economic sidelines.

WHAT TO WATCH

- **PMIs:** On Oct. 1, Creighton University and the Institute for Supply Management will release purchasing management indices (PMI) for September. This is the first economic data for September. Keep an eye on the overall index and the prices-paid index. Any significant upturn will push the Federal Reserve to be more aggressive in its QE3 taper. This will mean higher long-term interest rates.
- **Retail Sales:** On Oct. 11, the U.S. Census Bureau releases its retail sales numbers for September. We will get another read on the strength of the U.S. consumer.
- **Jobs:** On Friday Oct. 4, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for September. A very weak report (jobs under 120,000, unemployment rate up, and 100,000 discourage workers) will factor into a Fed QE3 taper that is very, very slight.

THE OUTLOOK

National Association of Business Economics (August 2013 survey) "An overwhelming majority of the NABE Economic Policy Survey panel believes that the projected deficits over the next few decades represent a principal challenge facing the nation, although there was no consensus among panelists who participate in the NABE Policy Survey regarding the appropriateness of fiscal policy at present," said NABE Policy Survey Committee Chair Jay Bryson, Global Economist at Wells Fargo Securities. "Most panelists favor a mix of policy approaches that includes some form of spending restraint as the best way to address long-term deficits, with a plurality favoring a mixed approach of spending restraint and revenue increases. About half of the panelists believe that the Federal Reserve will begin to wind down its asset purchase program by the end of the year, while the vast majority looks for the Fed to maintain its current target for the fed funds rate through the first half of 2014."

FROM GOSS: 1) Over the next 6 months, I expect inflationary pressures as captured by the consumer price index to move above the Federal Reserve's comfort level of 2.0%. I expect the annual rate to rise to 3.0% by the end of the year. 2) If the U.S. goes to war with Syria and it lasts more than several weeks, oil prices will move significantly higher. Prices could approach \$130 per barrel. This will be another factor contributing to rising inflationary pressures and slower economic growth.

BANKER READING ROOM

Independent Community Bankers of America. Too Big to Fail. "As a result of the megabank induced financial crisis of 2008, our nation and millions of hardworking Americans experienced the most painful economic debacle since the Great Depression. When all was said and done, American taxpayers and citizens were left holding the tab. According to the Government Accountability Office, homeowners lost more than \$9 trillion in equity and lost U.S. economic output associated with the 2007-2009 financial crisis could range from several trillion dollars to over \$10 trillion. That's nearly \$20 trillion in ultimate potential damage inflicted on Americans. Four years after the crisis, the assets controlled by the megabanks have grown by more than \$1 trillion. The growth of these institutions is the gravest threat to the safety and soundness of our financial system today." <http://www.icba.org/files/ICBASites/PDFs/EndTBTFStudy.pdf>