

## U.S. Has Too Many Consumers & Not Enough Producers

The U.S. economic recession ended in July of 2009, but you wouldn't know it from the statistics. In July of 2009, there were 504 workers for every 1,000 Americans. Three years later in July 2012, there were only 494 workers for every 1,000 in population. Thus since the recession ended, approximately 93,000 workers per month left the labor market while slightly more than 38,000 workers per month found jobs. Post recession statistics also show 291,000 per month were added to the food stamp rolls, and 12,000 per month began receiving social security disability pay. With more than 300,000 baby boomers reaching retirement age each month, the question becomes, who will pay the cost of government, including benefits such as social security, Medicare, food stamps, and disability income? As it presently stands, it will certainly not come from income tax payers since almost 50 percent of workers currently pay no income taxes. With the current U.S. federal debt exceeding \$16 trillion, or \$120,000 per worker, the idea that the “rich” can pay while the middle and low income groups escape is not credible. In addition to putting the brakes on federal spending growth, what is needed is a plan that reduces rates, eliminates exemptions (so called loopholes) and broadens the number of Americans paying income taxes. The U.S. has too many individuals in the economic wagon with too few pushing that wagon (and it's getting worse.) Ernie Goss.

## MAINSTREET RESULTS

### Rural Mainstreet Index Declines Again: Drought Pushes Borrowing Higher

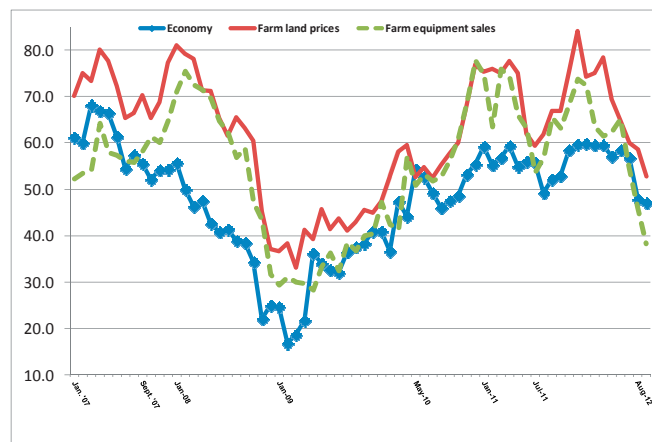
Tables 1 below summarizes the findings from the August survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	Aug. 2011	July 2012	Aug. 2012
Area Economic Index	49.3	47.9	47.1
Loan volume	62.1	65.3	67.6
Checking deposits	55.4	47.9	49.1
Certificate of deposits	40.2	41.7	33.0
Farm land prices	61.9	58.6	52.8
Farm equipment area sales	56.9	46.1	38.3
Home sales	49.3	58.6	60.2
Hiring in the area	49.3	52.8	51.9
Retail Business	47.8	44.4	45.2
Economy 6 months from now	44.0	40.9	39.6

#### August Survey Results at a Glance:

- Rural Mainstreet Index declined for third straight month to its lowest level since April 2009.
- Farmland price index slumps to lowest level since July 2009.
- Farm equipment sales sinks to lowest reading since October 2008.
- Drought pushes farm borrowing higher.

### Rural Mainstreet, Jan. '07 – August '12



Drought conditions continue to weigh on the Rural Mainstreet economy with the monthly index (RMI) reaching its lowest level since April 2009. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100 with 50.0 representing growth neutral, declined for the third straight month to 47.1, from 47.9 in July. According to Jim Eckert, president of Anchor State Bank in Anchor, Ill., “Uncertainty over future tax policy and the costs of Obama Care have many of our farm and commercial customers sitting on the sidelines in borrowing and hiring staff.” The drought is dampening economic activity across the region. Companies with close ties to the farm, such as ethanol, agriculture equipment sellers and food processors, are experiencing pullbacks in growth. Almost one third, or 31 percent, of bankers reported that the drought was negatively affecting business activity in their area for August.

**Farming:** According to surveys for the past several months, farmland price growth has weakened significantly. However, there is a great deal of variance across the region with areas that are irrigated or not hit by the drought continuing to report solid growth. The August farmland price index growth weakened with an August reading of 52.8, down from July's 58.6, reaching its lowest level since July 2009. Even so, this is the 31st consecutive month the index has been above growth neutral. The farm-equipment sales index sank to 38.3, its lowest level since October 2008, and was down from July's 46.1 in July. The drought is putting a dent in farmland price growth and the purchase of agriculture equipment, including trucks.

This month, bank CEOs were asked about the impact of the drought on farm borrowing. Approximately 41 percent reported that the drought has encouraged greater agriculture borrowing. This up significantly from July when only 29 percent of bankers reported an increase in borrowing as a result of the drought. Additionally for August, 46 percent of bankers reported that livestock producers in their area were reducing the size of their herds as a result of the drought. Last month only 13 percent of bankers reported that livestock producers were reducing the size of their herds due to recent severe drought conditions. Bill Hess, CEO of Iowa Savings Bank in Carroll, Iowa, reported that the drought and high grain prices have caused livestock finishers to reduce risk by “cutting numbers.”

**Banking:** Farmers increased their demand for loans with the loan-volume index climbing to 67.6 from July's 65.3. This marks the sixth consecutive month the index has risen. The checking-deposit index advanced to a weak 49.1 from 47.9 in July, while the index for certificates of deposit and other savings instruments slumped to 33.0 from July's higher 41.7. The drought appears to be increasing the cash needs of farmers in the region. We have been tracking a reduction in the percent of farmland and farm equipment cash sales and upturns in the degree of bank financing.

**Hiring:** August's hiring index declined to 51.9 from July's 52.8. “Even though we tracked hiring growth for the month,

the index was down from July. I expect hiring to drift lower with job losses in the months ahead as the impacts of the drought spread.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, sank to 39.6 from July’s 40.9 and June’s much stronger 58.5. The drought has definitely lowered the economic and business confidence of bank CEOs in the area.

**Home and retail sales:** The August home-sales index rose to 60.2 from July’s 58.6. Retail sales declined for August. The August retail-sales index rose to 45.2, still below growth neutral, but up from July’s 44.4. The pace of sales for homes in the area remains positive. On the other hand for a second straight month, drought conditions weakened retail sales.

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, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

## MAINSTREET ON YOUR STREET

### COLORADO

After 19 straight months with a Rural Mainstreet Index (RMI) above growth neutral, Colorado’s RMI plummeted to 25.2 from July’s weak 50.1 and June’s 57.6. The farmland and ranchland price index declined to 44.2 from 61.3 in July. Colorado’s hiring index for August was 43.0, well down from July’s 51.8. Mike Bass, president of the First National Bank of Hugo said, “The drought has not affected tourism/recreational spending in Colorado, but the fires across the state have had a major impact on tourism.”

### ILLINOIS

For a third straight month, the RMI for Illinois remained below growth neutral. The August index slumped to 34.4 from July’s 36.1. Farmland prices remained below growth neutral with a reading of 45.3 for August, down from July’s 50.4. The state’s new-hiring index dipped to 43.7 from July’s 44.6.

### IOWA

Iowa’s RMI for August rose to 49.2 from July’s 48.6. The farmland price index declined to 57.2 from July’s 63.5. Iowa’s new-hiring index for August dipped to 51.6 from 53.3 in July.

### KANSAS

The Kansas RMI for August advanced to 50.1 from July’s 43.2. The farmland price index sank to 53.2 from 58.4 in August. The state’s new-hiring index decreased to 48.9 from 49.9 in July.

### MINNESOTA

The August RMI for Minnesota declined to 52.9 from July’s 54.6. Minnesota’s farmland price index dipped to 60.3 from 66.2 in July. Minnesota’s new-hiring index decreased to 53.7 from July’s 55.1. Minnesota has been spared much of the negative drought impacts. According to Pete Haddeland, CEO of First National Bank in Mahanomen, “Our crops here still look good. We have had the right amount of rain at the right time. The hot summer has had a positive impact on our resorts.”

### MISSOURI

The RMI for Missouri declined to 39.8 from 44.3 in July. The farmland price index for August slipped to 44.6 from 50.2 in July. Missouri’s new-hiring index slumped to 31.6 from 35.8 in July.

### NEBRASKA

For a second straight month, growth in Nebraska’s rural economy moved into negative territory. The August RMI for the state rose to 44.1 from July’s 43.4. The farmland price index slipped to 48.9 from July’s 52.3. Nebraska’s new-hiring index advanced to a weak 46.0 from July’s 45.8.

### NORTH DAKOTA

The North Dakota RMI for August declined, but remained strong with a regional high 72.1, down from July’s 75.6. The farmland price index slipped to 68.9 from 73.6 in July. North Dakota’s new-hiring index rose to 67.8 from 66.4 in August.

### SOUTH DAKOTA

The August RMI for South Dakota expanded to 52.2 from 46.7 in July. The farmland price index dipped to 49.3 from 50.4 in July. South Dakota’s new-hiring index for August increased to a still weak 46.3 from July’s 44.6.

### WYOMING

The August RMI for Wyoming slumped to 36.7 from 39.3 in July. The August farmland and ranchland price index declined to 49.5 from July’s 52.3. Wyoming’s new-hiring index remained below growth neutral but advanced to 46.4 from July’s 45.8.

## THE BULLISH NEWS

- According to the Case-Shiller home price index for June, U.S. home prices (year over year) increased for the first time since September 2010.
- August same-store sales rose 3.6% at retailers tracked by Thomson Reuters I/B/E/S, trumping forecasts for a 2%.
- National and our Mid-America regional PMI remain in the weak zone (but still not in the recession zone).
- The 17 nations of the EuroZone (those using the Euro) got a boost this week with the European Central Bank indicated they would begin buying the debt of troubled nations such as Greece and Spain.

## THE BEARISH NEWS

- The September U.S. jobs report was “lousy” with only 96,000 jobs created. Furthermore, June and July gains were revised down. We need more than 200,000 jobs additions per month to get back on track.recovery.
- The U.S. unemployment rate trimmed down from 8.3% to 8.1% but it was because 400,000 unemployed got discouraged and quit looking for a job and were thus not counted as unemployed.
- The U.S. debt surpassed \$16 trillion or about 100% of GDP. Ultimately, this will push long term interest rates higher but no one knows when.

## WHAT TO WATCH

- **PMI’s:** On Oct. 1, Creighton’s releases its regional leading economic indicators (PMIs) and the national Institute

for Supply Management releases its national PMI. If these indices take a significant dive to less than 45.0, the likelihood of a 2013 recession balloons.

- **Jobs:** On Friday Oct. 5, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for September. Another weak jobs report (less than 100,000) will signal that the U.S. economy needs help.
- **Retail Sales:** On Oct. 16, the U.S. BLS releases its CPI for September. A significant uptick in inflation would be very bearish for bond prices. A monthly increase of more than 0.3% would concern the Fed and most economists.

## THE OUTLOOK

FROM GOSS:

- Unfortunately, the recent weak jobs data is going to push the Federal Reserve to mistakenly launch QE3 (quantitative bond buying intend to bring interest rates lower). Do any economists think the economy is slowing down due to too high interest rates.”
- Do not think for a moment that the ECB has solved Europe’s problems. Just like the U.S., they have simply pushed the day of reckoning to 2013.
- Housing prices, but not new construction, will continue to progress at an improving rate in the months ahead. Inventories are dropping swiftly.

OTHER FORECASTS:

- American Institute of CPAs (Sept. 2012): CPA business executives are becoming more pessimistic about the outlook for the U.S. economy. “The third-quarter Economic Outlook Survey, which polled 1,365 CPAs with executive leadership and senior management positions such as CFOs and controllers in U.S. companies in August, re-vealed growing pessimism for the second consecutive quarter. The hiring outlook at the survey respondents’ companies also dimmed as senior-level CPAs took a more muted perspective on their own companies’ prospects. Senior-level CPAs’ perception of the prospects for their own companies fell to a 12-month low, resulting in a more bearish view on hiring.”
- ICBA: “FDIC Letters Outline Basel III Proposals,” The FDIC released financial institution letters on proposed Basel III capital standards. The rules, proposed by the financial regulators last week, would increase the Tier 1 common equity ratio from 2 percent to 4.5 percent and impose a new capital conservation buffer of 2.5 percent. This would bring the total common equity requirements to 7 percent of risk-weighted assets. The financial institution letters detail key aspects of the proposed rules, as well as a final rule on risk-based capital standards for banking organizations with significant trading activities.  
<http://www.icba.org/publications/NewsletterDetailNWT.cfm?ItemNumber=127864#n447514>

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- While the Federal Reserve (Fed) has yet to launch QE3 (quantitative easing 3), they indicated at their Jackson Hole meetings in August that they were leaning in that direction. I liken this long term bond buying program to getting that first hit of caffeine with your morning coffee. The first cup has an impact, the second less of an effect, and the third is a non-event. QE3 may boost farm commodity prices and stocks temporarily but will have NO impact on the overall economy. The Fed needs to take no action.

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