Is the U.S. the Next Greece?
No, California and Illinois Are

Just one month ago, Greece defaulted on its debt as the size of the Hellenic nation’s sovereign debt obligations rose to more than 170 percent of 2011 gross domestic product (GDP). With the U.S. debt climbing to more than 90 percent of GDP in 2012, Standard and Poor’s downgraded U.S. debt last year. But contrary to the case of our European brethren of Portugal, Italy, Greece and Spain, often referred to as the PIGS, investors actually unloaded debt of the PIGS and bought more taint U.S. debt. It has been said that the U.S. debt won the “ugly” contest. U.S. debt is ugly, European debt is even uglier. So why is U.S. debt less ugly? The fact is no European nation can print more money (Euros) in order to repay debt with depreciated currency. The European Central Bank controls the Euro value and has said emphatically “no” to this indirect rescue which also has the added impact of stimulating exports. On the other side of the Atlantic, the U.S. Federal Reserve (Fed) can, and has, turned on the printing presses reducing the value of the dollar and diminishing the burden of the U.S.’s inflation adjusted debt. Investors understand this and expect the Fed to continue this dollar depreciation “program.” In summary, investors recognize that debt obligations are significantly more burdensome to governments that have no control over their money supply. States like California and Illinois with pension obligations of $240 billion and $139 billion, respectively, are the Yankee version of Greece. Unless they secede from the U.S. and adopt their own currency, they will either tax their citizens more heavily, default on their bonds, renegotiate the pension obligations, or seek a federal solution (bailout). Just as Germany and France bailed out the PIGS, Iowa, Nebraska, North Dakota and South Dakota, with relatively small future pension obligations, will likely bail out their more profligate spending neighbors in the years ahead. Ernie Goss.

**MASTREEDT RESULTS**

Rural Mainstreet Economy Remains Strong: Cash Ag Land Rents Grow by 8 percent

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

<table>
<thead>
<tr>
<th>Table 1: The Mainstreet Economy</th>
<th>Mar 2011</th>
<th>Feb 2012</th>
<th>Mar 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>56.7</td>
<td>59.6</td>
<td>59.8</td>
</tr>
<tr>
<td>Loan volume</td>
<td>47.1</td>
<td>31.2</td>
<td>48.4</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>68.7</td>
<td>64.5</td>
<td>69.4</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>45.5</td>
<td>50.0</td>
<td>48.4</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>75.0</td>
<td>75.0</td>
<td>78.7</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>75.9</td>
<td>63.4</td>
<td>61.5</td>
</tr>
<tr>
<td>Home sales</td>
<td>52.3</td>
<td>51.5</td>
<td>60.0</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>56.0</td>
<td>53.7</td>
<td>64.8</td>
</tr>
<tr>
<td>Retail Business</td>
<td>53.0</td>
<td>50.0</td>
<td>53.4</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>65.2</td>
<td>60.3</td>
<td>63.0</td>
</tr>
</tbody>
</table>

- Rural Mainstreet Index dips to a still strong level.
- Rural Mainstreet businesses add workers for month.
- Almost four of ten bankers report cash farmland rents growth of more than 10 percent for past year.
- Almost half of bank CEOs report that high corn prices pose biggest challenge for ethanol in 2012.
- High corn prices are biggest threat to ethanol industry for 2012.

The Rural Mainstreet Index (RMI) was unchanged from February’s strong reading of 59.6. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, was unchanged from February’s strong 59.6. While the index is at a healthy level there continues to be uncertainty among bankers. According to Jim Eckert, president of Anchor State Bank in Anchor, Ill., “Farmers and local businesses are reluctant to expand due to high fuel costs, increasing regulations, and uncertain economic situation.” Higher energy and fuel prices have not slowed growth in the farm economy. Compared to this time last year, the Rural Mainstreet economy is expanding at a faster pace with almost all economic dimensions stronger. Exports continue to be an important driver of growth.

Farming: Farmland prices continue to head higher according to bankers. The farmland price index for March climbed to 78.7 from 75.0 in February. This is the 26th straight month the index has been above growth neutral. The farmland price index sank to a still healthy 61.5 from February’s 63.4 and January’s 72.3. Record low interest rates and very healthy agriculture commodity prices continue to bolster farmland prices. In my judgment, farmland prices cannot continue on this growth path. While I expect trade numbers to remain very healthy, some-what higher interest rates and softer agriculture commodity prices will take some of the air out of the farmland price bubble as early as mid-year.

Jeffrey Gerhart, CEO of Bank of Newman Grove, in Newman Grove, Neb., was likewise guarded, “Crop and livestock cash flows will need to remain very good for these land prices to stay where they are. Bankers and farm-ers need to be careful not to take on more debt than they can handle.” Larry Rogers, president of First Bank of Utica in Utica, Neb., said, “I don’t know when this land will stop increasing in value. So far, no lending institutions are getting stupid and using current grain prices for cash flows in order to pay for the most expensive land in over 30 years.”

This month and in May 2010, we asked bankers to assess the change in cash rent prices for agriculture land over the past 12 months. There has been a substantial increase in year-over-year increases from 1.4 percent in May 2010 to 7.8 percent this month. For March 2012, 39 percent reported cash rents growing by more than 10 percent. In May 2010, only 3 percent of the bank CEOs indicated growth above 10 percent for cash rents over the previous year.

Banking: Very strong cash balances among farmers continue to weaken loan demand. However, the loan vol-ume index for March did increase to a still weak 48.4 from February’s 31.2. The checking deposit index expanded to a very healthy 69.4 from 64.5 in February, while the index for certificates of deposit and other savings instru-ments sank to a weak 48.4 from 50.0 in February.

Hiring: March’s hiring index rose to 60.0 from 53.7 in February. “Job growth for Rural Mainstreet communities has strengthened over the past several months after many months of stagnation,” said Goss. Confidence: The economic confidence index, which

Write to us at ernieg@creighton.edu
reflects expectations for the economy six months out, rose to 63.0 from February’s 60.3. “Improving national economic reports along with very healthy exports are clearly and positively affecting the economic outlook of bankers in our survey,” said Goss.

Home and retail sales: For only the second time since July of last year, the Rural Mainstreet home sales index climbed above growth neutral with a March reading of 60.0, well up from 51.5 in February. The retail sales index for March advanced to 53.4 from February’s growth neutral 50.0,” said Goss.

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

COLORADO
For the 15th straight month, Colorado’s Rural Mainstreet Index (RMI) remained above growth neutral. The index for March expanded to 63.1 from 54.7 in February. The farmland and ranchland price index grew to 78.0 from February’s 67.8. Colorado’s hiring index for March was 65.7, up from February’s 51.0. Bryan Grove, CEO American State Bank in Glygle, said, “Most farmland sales in our area of Northwest Minnesota, outside of the Red River Valley, have ranged from $1,000 to $1,500 per acre. There have been a few sales approaching $2,000 and some recent listings over $2,500. These prices appear unsustainable in the long run.”

ILLINOIS
The March RMI for Illinois remained above growth neutral for the 23rd straight month though it slipped to 53.2 from February’s 53.9. Farmland prices remained significantly above growth neutral with a reading of 65.5, down from 80.1 in February. The state’s new hiring index advanced to 57.4 from 50.5 in February. According to Jim Ashworth, president of Carlinville National Bank in Carlinville, said, “Area grain farmers are looking for a break in the now four-year trend of excess precipitation during the normal planting season. A good planting season should help improve the local economy.”

IOWA
Iowa’s March RMI advanced to 58.5 from February’s 57.9. The farmland price index climbed to 71.3 from 68.1 in February. Iowa’s new hiring index for March bounced to 61.3 from 51.2 in February.

KANSAS
The Kansas RMI for March slipped to a healthy 54.9 from 55.5 in February. The farmland price index climbed to 74.9 from 68.6 in March. The state’s new hiring index advanced to 63.7 from February’s much softer 51.5. However according to bankers in the state, uncertainty remains. As summarized by Dale Bradley, CEO of The Citizens State Bank in Miltonvale, said, “The Economy is still not on solid footing.”

MINNESOTA
The March RMI for Minnesota rose to 60.0 from February’s 56.2. Minnesota’s farmland price index advanced to 70.2 from 69.3 in February. Minnesota’s new hiring index rose to a much stronger 60.5 from February’s 52.0. According to Pete Haddeland, CEO of the First National Bank in Mahnomen. “We continue to see land prices increase. Sugar beet ground seems to be going up the fastest.”

MISSOURI
The RMI for Missouri dipped to 50.3 from 54.3 in February. The farmland price index for March sank to 55.6 from February’s 67.3. Missouri’s new hiring index inched higher to 51.3 from 50.7 in February.

NEBRASKA
The March RMI for Nebraska tumbled to 52.4 from February’s much stronger 61.7. The farmland price index declined to 64.1 from February’s 79.2. Nebraska’s new hiring index advanced to 56.5 from 55.6 in February. Bill McQuillan, CEO of CNB Community Bank of Greeley, said, “Irrigated farm ground and pasture prices continue to escalate at a rate of 15 percent to 25 percent year-over-year. The big question is how long is this sustainable?”

NORTH DAKOTA
The North Dakota RMI for March soared to 84.3 from 67.0 in February. The farmland price index advanced to 82.3 from 80.1 in February. North Dakota’s new hiring index rocketed to 88.5 from 59.2 in February.

SOUTH DAKOTA
The March RMI for South Dakota declined to 53.2 from February’s 57.1. The farmland price index bounced to 79.3 from February’s 70.2. South Dakota’s new hiring index for March advanced to 57.4 from March’s 52.6.

WYOMING
The March RMI for Wyoming slumped to a still healthy 56.4 from February’s 72.5. The March farm-land and ranchland price index declined to 79.8 from 85.6 in February. Wyoming’s new hiring index was unchanged from February’s 59.0.

THE BULLISH NEWS
- Both our regional PMI (purchasing management index) and the national PMI stood above growth neutral for March and point to improving growth in the months ahead.
- The number of U.S. jobs waiting to be filled totaled 3.5 million in February.
- First time claims for unemployment insurance hit four-year low last week.
- Natural gas prices dropped to their lowest level in more than 10 years. This is very good news for heavy manufacturing users.

THE BEARISH NEWS
- March’s U.S. jobs report showed job gains of a very weak 120,000. Likewise the nation’s unemployment rate declined to 8.2% due to discouraged, unemployed workers leaving the workforce.
- The Case-Shiller home price index dropped 0.8% in January and was 3.8% lower than January 2011.
- Gasoline prices continue to grow and slow growth for the U.S. economy. Prices last week were $3.92 per gallon, below 2011’s high of $3.99 and July 2008’s record high $4.11.

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WHAT TO WATCH

• PMI’s: On May 1 we release our regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Increases from March readings will be very bullish for the U.S. and regional economies.

• Jobs: On Friday May 4, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for April. Another weak employment reading (less than 150,000 jobs added) will be bearish for equity markets and bullish for bond markets. On the other hand, a reduction of the unemployment rate below 8% would be a major plus.

• The CPI: On April 13 and May 15, the BLS will release the consumer price index for March and April. Annualized growth in the core CPI above 2.8 percent will begin to frighten the Federal Reserve.

THE OUTLOOK

FROM GOSS:

• Our surveys point to higher inflation than that predicted by the Federal Reserve. I expect core CPI to advance by an annualized 3% rate by the end of 2012. This is well above the Fed’s comfort zone.

• As a result of rising inflationary pressures, I expect the Fed to begin raising short term interest rates no later than the first quarter of 2013.

• Gridlock in Washington will mean that U.S. taxpayers will get hit with a record tax increase on January 1, 2013. However a new president or a Democrat controlled Senate would remedy this after January 20, 2013.

OTHER FORECASTS:

• National Association of Business Economics (NABE): “The NABE Outlook Panel of 45 forecasters continues to predict moderate real GDP growth through 2012. Economists expect the economy to grow 2.4 percent in 2012, with GDP growth slightly stronger in the second half of the year than in the first. Employment growth brightens. Panelists increased their anticipated average monthly job change to 170,000 in 2012, which would result in an average annual unemployment rate of 8.3 percent. NABE forecasters expect stronger job growth in 2013 with the unemployment rate falling an additional half percentage point to 7.8 percent. Consumer spending to remain subdued. Even with higher employment forecasts, real consumer spending is forecast to increase only 2.1 percent this year and 2.3 percent in 2013. This rate remains below the historical norm of 2.8 percent and is consistent with a positive but below-trend recovery. Light vehicle sales are anticipated to grow at a solid pace of 14 million units this year and 14.6 million units in 2013, up from 12.7 million units in 2011.”

• The Conference Board: “Economic forecasters, the average American consumer, even investors are all turning less cautious, less nervous, and beginning to believe that the economy is finally gaining some traction. That underlying strength is reflected in the latest readings from The Conference Board’s Leading Economic Index®, Consumer Confidence Index®, Measure of CEO ConfidenceTM, and Employment Trends IndexTM. There are at least four specific reasons why the economy is strengthening. First, more new jobs are beginning to open up in the manufacturing and service sectors, even in construction, (though a little more slowly in March). Second, partly related to the first, the housing market is finally poised to show some improvement. Third, also related to the first two, state and local government cutbacks have slowed. Finally, the threat from problems associated with ongoing financial and fiscal distress in Europe seems to have eased a little since December, though tension is rising due to Spain’s recent announcement that its deficit would exceed previous targets.”

GOSS EGGS
(RECENT DUMB ECONOMIC MOVES)

• The Commerce Department said last week that it would impose tariffs on solar panels imported from China after concluding that the Chinese government provided illegal export subsidies to manufacturers. On May 17, the Commerce Department will release a second decision that could place even steeper tariffs on some Chinese-made solar products. These “taxes” on imports punish U.S. consumers and risk a trade war with China.

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