Federal Subsidies Fuel College Costs: Up 5 Times the Rate of Inflation

Since 1981, U.S. Bureau of Labor Statistics data show that college tuition and fees have soared by 714.3 percent while all other items consumed by the average household increased by a more moderate 141.0 percent. Reacting to this shocking trend, President Obama, in his State of the Union ad-dress, threatened higher educational institutes with sanctions if they continued to raise tuition at this alarming rate. But recent actions by the President only worsen the problem. Since 2009, the federal government has increased federal financial assistance to college students by almost 20 percent thus permitting colleges to grow their tuition and fees even more with taxpayers picking up the tab. Moreover the President recently outlined his plan to boost taxpayer support, or subsidization, of higher education even more by: 1) Allowing borrowers to cap their student loan payments at 10 percent of discretionary income and waiving any loan balance remaining after 20 years. 2) Doubling the number of work-study jobs available. 3) Implementing the American Opportunity Tax Credit which provides up to $10,000 for four years of college. 4) Asking Congress to subsidize record low student loan interest rates. Data show that colleges have used federal government support to underwrite a disproportionate growth in funds for non-academic spending. For example, despite rapidly rising federal support, colleges have increased the share of courses taught by part-time faculty from 34 percent in 1981 to 49 percent in 2009. Furthermore, colleges raised average faculty salaries by a scant 2.7 percent per year over the past six years. During this same time period, the growth rate in outlays for student services (e.g. athletics, counseling) was almost double that of expenditures for instruction. Research has shown that there is a strong correlation over time between federal support for higher education and rapidly rising tuitions. Similar to housing, the federal government is putting air in another bubble—this time it is higher education. Ernie Goss.

Rural Mainstreet Index Remains Strong: Some Bankers Expect 2012 Farm Input Costs to Rise by More than 10%

Tables 1 below summarizes the findings from the January 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>Jan 2011</th>
<th>Dec 2011</th>
<th>Jan 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>59.3</td>
<td>59.7</td>
<td>59.8</td>
</tr>
<tr>
<td>Loan volume</td>
<td>33.9</td>
<td>50.8</td>
<td>45.5</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>66.2</td>
<td>68.9</td>
<td>68.2</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>52.5</td>
<td>37.0</td>
<td>57.8</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>75.4</td>
<td>84.1</td>
<td>74.3</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>74.6</td>
<td>73.8</td>
<td>72.3</td>
</tr>
<tr>
<td>Home sales</td>
<td>44.1</td>
<td>46.2</td>
<td>49.2</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>52.5</td>
<td>54.6</td>
<td>51.5</td>
</tr>
<tr>
<td>Retail Business</td>
<td>53.4</td>
<td>61.6</td>
<td>51.5</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>63.4</td>
<td>61.8</td>
<td>56.1</td>
</tr>
</tbody>
</table>

- Rural Mainstreet Index at highest level since June 2007.
- On average agriculture input costs expected to rise by 7.2 percent for 2012.
- Almost one in 10 bank CEOs expect the end of the blender’s tax credit to have significant negative impacts.
- More than one in four bankers indicated that a decline in agriculture commodity prices is the biggest economic challenge for 2012.
- The Rural Mainstreet Index (RMI) rose in January and is at its highest level since June 2007. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, advanced to 59.8 from 59.7 in December. Fred Bauer, president of Farmers Bank in Ault, Colo, typified responses from bankers reporting, “Oil and ag income continue to push our area economy up.” This month bankers were asked what they expected to be the biggest economic challenge for 2012. More than one fourth, or 26 percent, indicated that a decline in agriculture commodity prices represented the largest Rural Mainstreet threat. Another 25 percent and 15 percent indicated that a shortage of jobs and a lack of skilled workers were the greatest 2012 threats, respectively.

We are detecting a leveling off in the growth of the Rural Mainstreet economy. While slower global economic growth, higher energy costs, and softer agriculture commodity prices will mean somewhat slower growth for the first few months of 2012, our surveys continue to show healthy growth for the area. Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005. According to Pete Haddeland, CEO of the First National Bank in Mahnomen, Minn., “Higher fuel costs have a bigger impact on rural communities than urban areas. The double whammy of high gas costs and high heating fuel cost is being felt.”

Farming: After rising to a record level for December, the farmland price index fell to a still healthy reading for January. The index for January sank to 74.3 from 84.1 in December. This is the 24th straight month the index has been above growth neutral. The farm equipment sales index slipped to 72.3 from 73.8. Very healthy farm income has encouraged farmers to purchase new equipment and to expand operations. This has pushed up farm land prices at rates that are, in my judgment, unsustainable in the long run. Air will come out of the farmland price bubble when agriculture commodity prices soften in the months ahead. Kathy Thuman, president of Farmers State Bank in Maywood, Neb. “Our bank is monitoring land sales carefully, aware that another real estate bubble may be forming, and concerned that it may burst.”

Bankers reported on likely outcomes from the end of the blender’s tax credit for corn-based ethanol at the end of 2011. Almost one in 10, or 9 percent, expect the termination of the credit to have significant negative impacts on the Rural Mainstreet economy. However, a majority, 51 percent, anticipate that the ending of the tax credit will have a modest negative economic impact. The remaining 40 percent expect only slight or no negative impacts. None of the bankers reported a positive impact due to the expiration of the credits.

Banking: The loan volume index for January slumped to 45.5 from December’s 50.8. The checking deposit index dipped to 68.2 from December’s 68.9, while the index for certificates of deposit and other savings instruments moved to a weak 47.8 from 37.0 in December. Farmers have used their very strong 2011 earnings to pay...
down loans. This has been and will continue to be both a negative and a positive. For example, Thuman, president of Farmers State Bank in Maywood, Neb., reported, Farmers are using their profits to pay down debt, which is what we’ve been advising them to do. On the other hand, Larry Rogers, president of the First Bank of Utica in Utica, Neb., said, “Community Bank earnings are affected by loan volume. If farmers pay down debt substantially, which might happen, some community banks could suffer.” Rogers points out that this action could have a negative impact on the community.

Hiring: January’s hiring index declined to 51.5 from 54.6 in December. Year over year job growth for Rural Mainstreet communities is approximately 1 percent compared to 0.8 percent for urban areas of the region.

Confidence: The economic confidence index, which reflects expectations for the economy six months out, sank to 56.1 from December’s 61.8. Difficulties in Europe and potential conflicts with Iran combined to push economic confidence lower. However, global economic volatility continues to influence the outlook. For example, Dale Bradley, CEO of Citizens State Bank in Miltonvale, Kan., reported that both state and national economies remain unstable and volatile.

Home and retail sales: For a sixth straight month, the Rural Mainstreet home sales index stood below growth neutral at 49.2, though it was up from December’s weak 46.2. The retail sales index for January plummeted to 51.5 from December’s record high 61.6. Very healthy farm income has not produced any significant upturn in retail sales as Rural Mainstreet retailers see only modest upturn.

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.

**COLORADO**

For the 13th straight month, Colorado’s Rural Mainstreet Index (RMI) remained above growth neutral. The index for January slipped to a still strong 72.7 from December’s 74.6. The farmland and ranchland price index sank to 78.9 from 88.5 in December. Colorado’s hiring index for January was up significantly to 65.8 from December’s 50.8.

**ILLINOIS**

The RMI for Illinois remained above growth neutral for the 21st straight month. The January was unchanged from December’s 61.1. Farmland prices remained significantly above growth neutral with a reading of 77.7, down, from 85.7 in December. The state’s new hiring index dipped to 55.5 from December’s 58.3.

**IOWA**

Iowa’s January RMI advanced to 57.3 from 56.3 in December. The farmland price index declined to 68.2 from December’s 77.1. Iowa’s new hiring index for January rose to 51.4 from December’s 50.7.

**KANSAS**

The Kansas RMI inched higher for the month to 52.6 from 52.5 in December. The farmland price index declined to a still solid 62.6 from 70.3 in December. The state’s new hiring index dropped to 47.9 from December’s 50.7.

**MINNESOTA**

The January RMI for Minnesota fell to 49.9 from 55.8 in December. Minnesota’s farmland price index sank to 57.8 from 76.2 in December. Minnesota’s new hiring index slumped to 45.5 from December’s 53.6.

**MISSOURI**

The RMI for Missouri sank below growth neutral to 47.8 from December’s 50.3. The farmland price index for January was unchanged to December’s 52.2. Missouri’s new hiring index dipped to 50.6 from 51.6 in December.

**NEBRASKA**

The January RMI for Nebraska fell to 58.8 from 60.5 in December. The farmland price index declined to 73.5 from December’s 84.6. Nebraska’s new hiring index slipped to 78.7 from 83.9 in December.

**NORTH DAKOTA**

The North Dakota RMI for January remained at a regional high but declined to 87.2 from December’s lofty 89.8. The farmland price index slumped to 74.2 from December’s 88.9. North Dakota’s new hiring index slipped to 78.7 from 83.9 in December.

**SOUTH DAKOTA**

The January RMI for South Dakota sank to 51.2 from December’s 51.9. The farmland price index declined to 60.1 from 69.4 in December. South Dakota’s new hiring index for January fell to 46.7 from 50.2 in December.

**WYOMING**

The January RMI for Wyoming dipped to 59.0 from 60.3 in December. The January farmland and ranchland price index declined to 73.9 from 84.3 in December. Wyoming’s new hiring index declined to 53.6 from 57.7 in December.

**THE BULLISH NEWS**

- For January U.S. employment expanded by 243,000 jobs and the unemployment rate declined to 8.3 percent.
- The consumer price index was unchanged in December due to a decline in gasoline prices. From Dec. 2011 and Dec. 2012, the CPI rose by 3.0 percent.
- The output of all U.S. goods and services (GDP) climbed by 2.8 percent (annualized and inflation adjusted) in the Q’4 2011. However, much of the growth was due to an increase in inventories. This may subtract from Q’1 2012 when companies draw down on inventories rather than increasing production.
- Between Dec. 2010 and Dec. 2010, U.S. retails grew by 6.5 percent. However, recent growth has been weaker. Excluding motor vehicles, retail sales actually declined between Nov. and Dec. 2011.

**THE BEARISH NEWS**

- Average hourly wage growth for U.S. workers for January was a weak 0.2 percent. Over the last year, wages have expanded by 1.9 percent. With inflation above 2.5 percent, workers inflation adjusted wages continue to decline.
- Even with January’s job additions, the nation’s has 5.5 million fewer jobs now than when the recession began.
- The Case-Shiller home price index declined by 1.3 percent between October and November. Compared to one year earlier, housing prices are down by 3.7 percent.
WHAT TO WATCH

- Retail sales: The U.S. Census Bureau releases retail sales for March on February 14. Another weak reading will point to a very slow start to 2012 and very bearish for stock.

- Jobs: On Friday March 4, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for February. Another decrease in the unemployment rate will be bearish for bond prices and positive for stocks pushing interest rates higher.

- The CPI: Around the third week of each month, the BLS releases the consumer price index for the previous month. Annualized growth above 3.0 percent will begin to push long-term interest rates higher even as the Federal Reserve attempts to hold rates down.

THE OUTLOOK

FROM GOSS:
Contrary to what I think is appropriate, the Federal Reserve’s interest rate setting committee announced last month that it would keep current interest rates at their current record low rates. This action if maintained will have several significant impacts:

- The value of the dollar will weaken more significantly than I indicated in previous newsletters. This will mean higher commodity prices including agriculture and energy

- Inflation as measured by the CPI will bounce higher forcing the Fed to abandon their pledge and raise rates before the end of 2013

- Growth will wane in the second half of 2012 for U.S. as the U.S. taxpayer faces that mammoth tax increase on Jan. 1, 2013

OTHER FORECASTS:

- National Association of Business Economics (NABE): About two-thirds of the companies surveyed said the European debt crisis would have little impact on their sales over the first half the year, while 27% of respondents said they expected to see a decline in sales of 10% or less. NABE found that 65 percent of the respondents in the January 2012 survey expect real GDP to grow at a rate exceeding 2 percent between the fourth quarter of 2011 and the fourth quarter of 2012. This compares to only 16% who forecast over 2% growth in 2011 in the October survey.

- William Greiner, CFA, President Scout Investments. “What we call The Long, Hard Slog continues and will do so over the foreseeable future. We see slower than normal economic growth continuing due to ever-aging population bases and unsustainably high levels of debt hampering growth opportunities in the developed world. Does this mean the world in total will see slower-than-normal growth rates over the long term? In a word, “no”. But, over the short term, the world will continue to focus its attention on those “balance sheet” items, primarily in Europe and the U.S. as the peoples of those areas continue to decide what they want/need from their governmental systems.”

GOSS EGGS
(RECENT DUMB ECONOMIC MOVES)

- The Federal Reserve’s decision to maintain current record low interest rates until 2014 is at best meaningless and at worst counterproductive. Meaningless: The Fed’s track record in forecasting economic activity has been abysmal. If the U.S. economy continues to grow as it did in January, the Fed will be forced to increase rates before the end of 2013. Counterproductive: Discourages home buying since purchasers see no reason to buy now since housing prices are dropping and the Fed is promising continued low interest rates.

BANKER READING ROOM

ICBA Dodd-Frank Act Implementation. ICBA seeks the following outcomes in the agency rulemaking that will implement the Dodd-Frank Wall Street Reform and Consumer Protection Act:

*Regulations implementing the too-big-to-fail provisions must effectively rein in large banks and financial firms, particularly with respect to higher capital and liquidity requirements for the large banks. The Financial Stability Oversight Council’s process for determining which nonbank financial institutions should be considered systemically risky should be a sufficiently broad inquiry to include as many large or interconnected nonbank financial firms as possible. The contingency resolution plans required of large banks and financial firms under the Act must be tough and effective such that they provide a tool for forced downsizing where appropriate.

*ICBA supports the FDIC’s proposed rule implementing the Dodd-Frank changes to the assessment base. The new rates and the change in the assessment base will save community banks $4.5 billion during the next three years beginning the second quarter of 2011. We will seek effective implementation of the “hold harmless” provision of Dodd-Frank that shields banks under $10 billion in assets from premium increases that will result from increasing the reserve ratio. *ICBA adamantly opposes the Federal Reserve’s proposed rule implementing the Dodd-Frank Act provisions which impose government price controls on debit card interchange rates. ICBA is steadfastly working on the legislative and regulatory fronts to blunt the damage this defective law and proposed rule will inflict on the debit card payment system. (more) http://www.icba.org/advocacy/index.cfm?ItemNumber=31891&sn.ItemNumber=1709

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