Taxpayers Need to Shine Light on Solar Energy: Carbon Tax a Less Costly Option

In 1982 as a graduate research student at the Department of Energy’s (DOE) Oak Ridge National Laboratory, I worked on solar energy projects. At the time, the goal was to replace fossil fuels with solar energy in the production of electricity. As an infant industry, it was argued that all solar needed was short-term taxpayer subsidies to become competitive with its elder rivals. However after 34 years and massive taxpayer subsidies, the industry still cannot compete cost-wise with rival energy sources in producing electricity.

The latest DOE data show that in 2013 taxpayers showered solar energy with $4.4 billion in subsidies for a mere 19 million megawatt hours (MWH) of electricity production, or one-half of one percent of total electricity usage for the year. That works out to taxpayer support of $23 per MWH when the aver-age retail price for electricity was only $13 per MWH. In addition to these subsidies, the federal government invested in scores of failed solar energy firms including $535 million in Solendra, $1.5 billion in Sun Edison, and even $2.7 billion in Spanish solar energy giant, Agengoa.

Despite the subsidies and excessive costs per MWH, advocates argue that solar energy remains an infant industry that needs taxpayer funds and regulatory coddling. If the goal is to reduce CO2 emissions from coal-fired electricity generation, a better approach is to introduce a carbon tax taking the decision making out of the hands of market meddling politicians, and putting it into the hands of individuals and investors with “skin in the game.” Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Economy Remains Weak for June: Bankers Tighten Farm Loans

Survey Results at a Glance:
- For a tenth straight month, the Rural Mainstreet Index fell below growth neutral.
- Farmland prices remained below growth neutral for the 31st straight month.
- Due to the weak agriculture economy, 73.5 percent of bankers increased collateral requirements, half boosted interest rates, and 35.3 percent rejected a higher percentage of farm loans.
- Rural Mainstreet businesses boosted hiring for the month.

Table 1: The Mainstreet Economy

<table>
<thead>
<tr>
<th>Table 1: The Mainstreet Economy</th>
<th>June 2015</th>
<th>May 2016</th>
<th>June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>50.0</td>
<td>40.9</td>
<td>43.9</td>
</tr>
<tr>
<td>Loan volume</td>
<td>79.9</td>
<td>77.9</td>
<td>73.5</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>48.0</td>
<td>45.5</td>
<td>47.9</td>
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<tr>
<td>Certificate of deposits</td>
<td>38.6</td>
<td>40.9</td>
<td>43.7</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>31.1</td>
<td>28.4</td>
<td>32.3</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>12.5</td>
<td>10.7</td>
<td>12.8</td>
</tr>
<tr>
<td>Home sales</td>
<td>68.1</td>
<td>61.6</td>
<td>64.6</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>61.5</td>
<td>43.2</td>
<td>53.2</td>
</tr>
<tr>
<td>Retail Business</td>
<td>50.0</td>
<td>36.0</td>
<td>40.9</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>45.9</td>
<td>38.4</td>
<td>42.8</td>
</tr>
</tbody>
</table>

The Creighton University Rural Mainstreet Index for May increased from April’s very 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: While remaining very fragile, the Rural Mainstreet Index (RMI) has increased four of the last five months. The index, which ranges between 0 and 100, rose to 43.9 from May’s 40.9.

This is the tenth straight month the overall index has remained below growth neutral. Even though agri-culture and energy commodity prices have increased recently, they remain well below prices 12 months earlier and from their peak levels in 2011. Over the past 12 months, farm prices are down by 9.5 percent, grain prices are off by 4 percent, and livestock are down by 15 percent.

Due to reductions in farm income and agriculture commodity prices over the past three years, bankers have altered their farm lending practices. Almost three of four, or 73.5 percent increased collateral re-quirements, half boosted interest rates, more than one-third, or 35.3 percent rejected a higher percentage of farm loans. Approximately, 17.6 percent of the bankers reported that their banks reduced the average size of farm loans.

Don Reynolds, president of Regional Missouri Bank in Marceline, MO said, “We have managed to fi-nance operations on most of our farm customers, in several cases, we did require additional collateral. In many cases we refinanced last year’s carryover debt over long term to make cash flow work. The current rise in corn and soybean prices make these cash flows look better.”

Farming and ranching: The farmland and ranchland-price index for June climbed to 32.3 from 28.4 in May. This is the 31st straight month the index has languished below growth neutral 50.0.

As in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices, with prices growing in some portions of the region.

Despite declines in farm income, the percentage of farmland cash sales have remained almost unchanged from February 2015 when approximately one-fifth of farmland sales were for cash.

Farming and ranching: The farmland and ranchland-price index for June climbed to 32.3 from 28.4 in May. This is the 31st straight month the index has languished below growth neutral 50.0.

Write to us at ernieg@creighton.edu
THE MAINSTEET ECONOMY REPORT
July 2016

“A monthly survey of community bank CEOs”

THE BULLISH NEWS

- U.S. home prices rose by 5.1% between April 2015 and April 2016. This marked the sixth straight month that growth has exceeded five percent.
- The average 30-year fixed mortgage averaged 3.48% for the week ending June 30, down from 3.56% the previous week.
- U.S. companies added a massive 287,000 jobs in June, well above the expected 180,000.

THE BEARISH NEWS

- Between May 2015 and 2016, the core CPI, which excludes food and energy, rose by 2.2% and has risen above 2.0% (the Fed’s supposed target) for 7 straight months.
- The U.S. trade deficit climbed by $41.1 billion in May compared to April’s $37.5 billion. Exports declined by 2.0% and imports jumped by 1.6%.

WHAT TO WATCH

- The Jobs Report: On Aug. 5, the Bureau of Labor Statistics will release the July jobs report. Another very weak report (i.e., less than 100,000 jobs) will push the Federal Reserve to lower the discount rate.
- GDP: On July 29, BEA releases its advance estimate of GDP for June and July, respectively. Keep an eye on the core CPI (excludes food and energy). The year-over-year growth has been above the Fed target of 2.0% for the past 7 months.

THE OUTLOOK FROM GOSS:

- **The Federal Reserve’s meeting on July 26-27 will be a “non-event”. No rate change and not much guidance except to say, “Any change will be data dependent.” Let’s hope they are data dependent!!** U.S. inflationary pressures will continue to rise gently for the rest of 2016.
- **U.S. mortgage rates will fall to their lowest levels in three decades in the weeks ahead.**

Follow Ernie Goss on Twitter: http://twitter.com/erniegoss

For historical data and forecasts, visit our website at: http://www2.creighton.edu/business/economicoutlook/

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

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

**GOSS EGGS (RECENT DUMB ECONOMIC MOVES)**

- The Venezuelan government continues to enforce price and currency controls even with empty shelves at grocery stores. Coca-Cola has ceased production in this oil-rich nation due to sugar shortages. Prices set by politicians below the equilibrium market price inevitability produce two outcomes: shortages and underground markets. The laws of supply and demand are just that, laws, not good ideas.

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MainStreet Economy Report from 10.7 in May. Weakness in farm in-come and low agriculture commodity prices continue to restrain the sale of agriculture equipment across the region.

Banking: The June loan-volume index dipped to 71.5 from last month’s 71.7. The checking-deposit index increased to 47.9 from May’s 45.5, while the index for certificates of deposit and other savings instruments improved to 43.7 from 40.9 in May.

Hiring: After moving below growth neutral for May, the Rural Mainstreet hiring index rose above the threshold for June. Rural Mainstreet businesses boost employment levels for the month with an index of 35.2 from May’s 35.3. Rural Mainstreet employment is down by almost 1 percent from this time last year. This contrasts to employment gains for urban areas of the region of approximately 1.5 percent for the 12 month period.

Confidence: The confidence index, which relects expectations for the economy six months out, in-creased to 42.8 from 38.4 in May indicating a continuing pessimistic outlook among bankers. Recent im-provements in agriculture commodity prices boosted the index slightly higher than June’s sub-par reading.

Home and retail sales: Home sales remain the bright spot of the Rural Mainstreet economy with a June strong index of 64.6 from 61.6 in May. The June retail-sales index rose to a weak 40.9 from 36.0 last month. Home sales held up for the month, but rural retailers much like their urban counterparts are ex-pecting downturns in sales.

Bank CEOs expect lackluster holiday sales growth from the 2014 season. On average, a one percent increase in retail sales for Rural Mainstreet businesses is expected. The strong dollar, especially against the Canadian dollar, is depressing retail sales among border states. For example, John Marchell, president of the First State Bank Grand Forks, North Dakota, said, “The decrease in the number of Canadian retail customers is noticeable.”

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 Wyom-ing 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 covering 10 regional states, focusing on approximately 200 rural communities and their projected economic outlooks six months ahead. Bankers of America, created the monthly economic survey in 2005.

COLO-RADO

Colorado’s Rural Mainstreet Index (RMI) rose to 51.3 from 46.4 in May. The farmland and ranchland-price index slid to 47.9 from May’s 52.6. Colorado’s hiring index for June advanced to 59.8 from May’s 57.8. Colorado’s job growth over the last 12 months; Rural Mainstreet, 0.9 percent; Urban Colorado, 2.8 percent.

ILLINOIS

The June RMI for Illinois fell to a regional low of 31.8 from May’s 40.7. The farmland-price index sank to 22.7 from May’s 23.7. The state’s new-hiring index increased to 48.9 from last month’s 41.7. Illinois’ job growth over the last 12 months; Rural Mainstreet, 1.5 percent; Urban Illinois, 1.3 percent.

IO-WA

The June RMI for Iowa soared to 59.1 from May’s 40.3. Iowa’s farmland-price index for June climbed to 51.5 from 47.3 in May. Iowa’s new-hiring index for June advanced to 59.4 from 50.3 in May. Iowa’s job growth over the last 12 months; Rural Mainstreet, 1.9 percent; Urban Iowa, 0.9 percent.

KAN-SAS

The Kansas RMI for June slumped to 25.1 from May’s 37.3. The state’s farmland-price index for June increased to 23.5 from 10.7 in May. The new-hiring index for Kansas expanded to a weak 44.9 from 37.0 in May. Kansas’ job growth over the last 12 months; Rural Mainstreet, -2.4 percent; Urban Kansas, 0.8 percent.

MINNESOTA

The June RMI for Minnesota advanced to 44.1 from May’s 40.8. Minnesota’s farmland-price index climbed to 36.9 from 34.6 in May. The new-hiring index for the state expanded to 54.1 from last month’s 45.7. Minnesota’s job growth over the last 12 months; Rural Mainstreet, 0.0 percent; Urban Minnesota 1.3 percent.

MO-UISOR

The June RMI for Missouri increased to 44.2 from 30.7 in May. The farmland-price index expanded to 29.9 from May’s 29.8. Missouri’s new-hiring index advanced to 46.7 from 17.5 in May. Missouri’s job growth over the last 12 months; Rural Mainstreet, -4.7 percent, Urban Missouri 1.7 percent.

NE-BRASKA

The Nebraska RMI for June climbed to a regional high of 63.2 from 43.3 in May. The state’s farmland-price index advanced to 49.7 from May’s 44.5. Nebraska’s new-hiring index rose to 58.8 from 49.3 in May. Nebraska’s job growth over the last 12 months; Rural Mainstreet, 2.4 percent; Urban Nebraska, 1.0 percent.

NO-RTH DAKOTA

The North Dakota RMI for June increased to 36.7 from 17.5 in May. The farmland-price index increased to 28.2 from 14.8 in May. North Dakota’s new-hiring index improved to 38.9 from May’s 35.1. North Dakota’s job growth over the last 12 months; Rural Mainstreet, -9.9 percent; Urban North Dakota, 0.6 percent.

SOUTH DAKOTA

The June RMI for South Dakota sank to 39.7 from 40.3 in May. The state’s farmland-price index grew to 27.7 from 26.1 in May. South Dakota’s new-hiring index expanded to 50.8 from May’s 42.6. South Dakota’s job growth over the last 12 months; Rural Mainstreet, -0.3 percent; Urban South Dakota 1.9 percent.

WYO-MING

The June RMI for Wyoming increased to 41.2 from May’s 34.3. The June farmland and ranchland-price index rose to 24.5 from 12.3 in May. Wyoming’s new-hiring index increased to 389 from May’s 317. Wyoming’s job growth over the last 12 months; Rural Mainstreet, -4.4 percent; Urban Wyoming, 3.4 percent.

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