In a 2011 General Accounting Office study, the authors found unnecessary duplication in 81 areas of the federal government. For example, there were 53 programs to assist entrepreneurs, 15 programs to support unmanned aircraft, and 55 programs to fund freight transportation projects. Not surprisingly, this redundancy has been an important factor in driving federal spending higher. In 1943 in the middle of World War II, federal spending as a percent of the U.S. economy, or gross domestic product (GDP), was 26.5 percent. By 1948, the federal spending to GDP ratio had declined to a low of only 14.4 percent. However, the ratio soared to a post WWII high of 25.5 percent in 2010. How much did unified government, whereby the Congress (both the House and Senate) and the White House are controlled by same party contribute to higher spending growth as generally believed? Since 1943, divided government, or what is often termed gridlock, resulted in federal spending as a percent of GDP growing by 0.11 percentage points per year while having the same party dominating both Congress and the White House produced an expansion of 0.16 percentage points per year. Thus, gridlock did tend to restrain the growth in federal spending. Furthermore during this 69 year period (1943 to 2012), when Democrats controlled Congress and the White House (12 two-year Congressional periods), federal spending as a percent of GDP grew by an average of 0.16 percentage points per year. When Republicans controlled both Congress and the White House (3 two-year periods), federal spending as a percent of GDP expanded by a lower average of 0.10 percentage points per year. Since the end of WWII, the greatest expansion in federal spending as a percent of GDP occurred between 2008, when federal spending as a share of GDP was 21.8 percent, and 2010 when the percent was 25.5 percent, or an annual growth of 1.7 percentage points per year. Contrary to the hypothesis, this was a period of divided government with the Republicans in control of the House, and the Democrats in charge of the White House and the Senate. Ernie Goss.

### MAINSTREET RESULTS

**Rural Mainstreet Index Remains Strong: Farm Income Still Driving the Economy**

Tables 1 below summarizes the findings from the February 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>Feb 2011</th>
<th>Jan 2012</th>
<th>Feb 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>55.3</td>
<td>59.8</td>
<td>59.6</td>
</tr>
<tr>
<td>Loan volume</td>
<td>39.0</td>
<td>45.5</td>
<td>31.2</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>67.8</td>
<td>68.2</td>
<td>64.5</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>50.8</td>
<td>57.8</td>
<td>50</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>75.9</td>
<td>74.3</td>
<td>75</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>63.5</td>
<td>72.3</td>
<td>63.4</td>
</tr>
<tr>
<td>Home sales</td>
<td>44.0</td>
<td>49.2</td>
<td>51.5</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>52.5</td>
<td>51.5</td>
<td>53.7</td>
</tr>
<tr>
<td>Retail Business</td>
<td>47.5</td>
<td>51.5</td>
<td>50</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>70.9</td>
<td>56.1</td>
<td>60.3</td>
</tr>
</tbody>
</table>

- Rural Mainstreet Index declines but still strong.
- Approximately one in 12 bankers expect farmland prices to decline in 2012.
- Twenty-five percent of bankers back keeping federal agriculture support payments as they are.
- Approximately 58 percent of bank CEOs expect a Federal Reserve rate hike in 2013.

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, dipped a bit from January’s very strong level, declining to 59.6 from January’s 59.8. Farm income continues to be the big driver of the Rural Mainstreet Economy. According to Larry Winum, president of Glenwood State Bank in Glenwood, Iowa, “Agriculture had another strong year with all indications that 2012 will continue to be positive for farmers.” Despite the strong February numbers, Creighton University economist Ernie Goss said, “I expect to see a bit slower growth in farm income as a result of somewhat softer agriculture commodity prices and higher input prices. This will dampen growth for the Rural Mainstreet Economy for 2012. However, growth will continue to be healthy but it will not match the 2010 to 2011 expansion.”

**Farming:** After falling in January from December’s record level, farmland prices once again headed higher. The index for February climbed to 75.0 from 74.3 in January and down from December’s 84.1. This is the 25th straight month the index has been above growth neutral. The farm equipment sales index sank to a still robust 63.4 from January’s 72.3. “We have yet to detect any downturn in growth rates for farmland prices and other factors tied to agriculture. I am concerned that any significant slump in agriculture commodity prices or an increase in interest rates could take a lot of the air out of the farmland price bubble,” said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton.

Bankers were asked what their forecast was for farmland prices in 2012. More than one in five bankers, or 21 percent, expect farmland prices to expand by more than 6 percent, while 46 percent forecast farmland price growth between 1 percent and 5 percent. On the other hand, 25 percent anticipate no change in farmland prices for 2012, and 8 percent expect farmland prices to decline. Pete Haddeland, CEO of First National Bank in Mahnomen, Minn., confirmed other banker reports saying, “Land prices and cash rents continue to go up.” Larry Rogers, president of the First Bank of Utica in Utica, Neb., said, “Just heard the most recent sale price for farmland was $12,000 per acre in three different sales.”

In terms of federal deficit reduction, bankers were asked what changes to federal agriculture support payments they would back. Only 10 percent supported eliminating agriculture subsidies in 2012 but 41 percent indicated that they would support a phaseout over five years. One in four, or 25 percent, indicated that there should be no change to the current payment system while another 24 percent supported limiting agriculture subsidies to farms with less than $500,000 in revenues. According to David Steffensmeier, president of the First National Bank in Beemer, Neb., “Any type of support payments should be under the revenue insurance program where the government supports the premiums and this support should phase out over 10 years.” Jim Stanosheck, CEO of State Bank of Odell, Neb., argues that “It is difficult to
continue agricultural subsidies with past and current prices while other programs are being cut. However, there does need to be some type of a program in place when commodity prices fall.”

Banking: Very strong cash balances among farmers continue to weaken loan demand. The loan volume index for February slumped to 31.2 from January’s 45.5 and December’s 50.8. The checking deposit index dipped to a very healthy 64.5 from 68.2 in January, while the index for certificates of deposit and other savings instruments climbed to a tepid 50.0 from January’s weaker 47.8. Contrary to most other bankers, Larry Rogers, president of the First Bank of Utica in Utica, Neb., said, “Our bank had a 20 percent increase in deposits the first three weeks of 2012.”

Hiring: February’s hiring index rose to 53.7 from January’s 51.5. “Year-over-year job growth for Rural Mainstreet communities is almost double that for urban areas of the region,” said Goss.

Confidence: The economic confidence index, which reflects expectations for the economy six months out, rose to 60.3 from January’s 56.1. “Improving national economic reports are clearly and positively affecting the economic outlook of bankers in our survey,” said Goss.

Home and retail sales: For the first time since July of last year, the Rural Mainstreet home sales index climbed above growth neutral with a February reading of 51.5, up from January’s 49.2. The retail sales index for February sank to 50.0 from January’s 51.5. Very healthy farm income has yet to translate into consistent healthy retail sales and home sales for Rural Mainstreet merchants.

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.

### MAIN$TREET ON YOUR $TREET

**COLORADO**

For the 14th straight month, Colorado’s Rural Mainstreet Index (RMI) remained above growth neutral. However, the index for February declined to a still solid 54.7 from January’s 52.7. The farmland and ranchland price index sank to 67.8 from 78.9 in January. Colorado’s hiring index for February was 51.0, down from January’s 56.8. Year-over-year job growth: urban, 0.5 percent; Rural Mainstreet, 4.7 percent.

**ILLINOIS**

The RMI for Illinois remained above growth neutral for the 22nd straight month, though the February RMI sank to 53.9 from January’s 61.1. Farmland prices remained significantly above growth neutral with a reading of 80.1, up from 77.7 in January. The state’s new hiring index dipped to 50.5 from January’s 55.5. Year-over-year job growth: urban, 0.4 percent; Rural Mainstreet, 2.9 percent.

**IOWA**

Iowa’s February RMI advanced to 57.9 from 57.3 in January. The farmland price index dipped to 68.1 from January’s 68.2. Iowa’s new hiring index for February slipped to 51.2 from 51.4 in January. 50.7. Larry Winum, president of Glenwood State Bank in Glenwood, said, “Loan demand and housing activity remain extremely slow.” Year-over-year job growth: urban, 0.5 percent; Rural Mainstreet, 1.3 percent.

**KANSAS**

The Kansas RMI advanced to 55.5 from 52.6 in January. The farmland price index climbed to 68.6 from 62.6 in January. The state’s new hiring index grew to 51.5 from 47.9 in January. However, Dale Bradley, CEO of the Citizens State Bank in Miltonvale, argued, “High oil prices do not bode well for a struggling U.S. economy.” Year-over-year job growth: urban, 1.0 percent; Rural Mainstreet, 0.8 percent.

**MINNESOTA**

The February RMI for Minnesota rose to 56.2 from 49.9 in January. Minnesota’s farmland price index bounced to 69.3 from January 57.8. Minnesota’s new hiring index rose to 52.0 from January’s 45.5. Year-over-year job growth: urban, 1.0 percent; Rural Mainstreet, 0.9 percent.

**MISSOURI**

The Missouri RMI for Missouri jumped to 54.3 from January’s weak 47.8. The farmland price index for February advanced to 67.3 from January’s 52.2. Missouri’s new hiring index inched higher to 50.7 from 50.6 in January. Year-over-year job growth: urban, 0.6 percent; Rural Mainstreet, -3.9 percent.

**NEBRASKA**

The February RMI for Nebraska rose to 61.7 from 58.8 in January. The farmland price index jumped to 79.2 from 73.5 in January. Nebraska’s new hiring index advanced to 55.6 from 53.4 in January. Year-over-year job growth: urban, 1.7 percent; Rural Mainstreet, 0.8 percent.

**NORTH DAKOTA**

The North Dakota RMI for February declined to a still strong 67.0 from January’s regional high 87.2. The farmland price index advanced to 80.1 from January’s 74.2. North Dakota’s new hiring index slipped to 59.2 from January’s 78.7. Year-over-year job growth: urban, 2.9 percent; Rural Mainstreet, 10.3 percent.

**SOUTH DAKOTA**

The February RMI for South Dakota grew to 57.1 from 51.2 in January. The farmland price index bounced to 70.2 from January’s 60.1. South Dakota’s new hiring index for February advanced to 52.6 from 46.7 in January. Year-over-year job growth: urban, 1.3 percent; Rural Mainstreet, 1.7 percent.

**WYOMING**

The February RMI for Wyoming jumped to a regional high of 72.5 from January’s 59.0. The February farmland and ranchland price index bounced to 85.6 from 73.9 in January. Wyoming’s new hiring index advanced to 59.0 from January’s 53.6. Year-over-year job growth: urban, 3.5 percent; Rural Mainstreet, 1.7 percent.

### THE BULLISH NEWS

- GDP growth for quarter IV of last year was revised upward to a meager 3.0 percent. This is not good. We should be growing GDP at double this rate.
- In the week ended Feb. 25, first time claims for unemployment insurance declined to 351,000. This is almost back to pre-recession levels and is a very positive signal.
- Total nonfarm payroll employment rose by 243,000 in January, and the unemployment rate decreased to 8.3 percent. Not bad but still not good enough to get economy back to pre-recession levels anytime soon.
THE BEARISH NEWS

• Data through December 2011, released today by S&P Indices for its Case-Shiller1 Home Price Indices, the leading measure of U.S. home prices, showed that all three headline composites ended 2011 at new index lows.

• The nation’s trade deficit widened slightly more than expected in December, as stronger economic growth lifted imports to the highest level in three and a half years. The report showed that the deficit with China rose last year to a record high $295.5 billion.

• The Consumer Price Index (CPI) increased 0.2% in January. Over the last 12 months, the all items index increased 2.9%. This is well above the Fed’s target and is the result of the Fed’s easy money policy.

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 April 6, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for March. Another decrease in the unemployment rate and job growth above 200,000 will be bearish for bond prices and positive for stocks pushing interest rates higher.

• The CPI: On March 16, the BLS will release the consumer price index for February. Annualized growth above 3.0 percent will begin to frighten the Federal Reserve.

THE OUTLOOK

FROM GOSS:

• Our surveys point to economic growth exceeding that of both the Conference Board and the National Association of Business Economics. I expect GDP growth to top 3.0% for 2012. However, the tax increase slated to go into effect on January 1, 2013 will push the U.S. economy to the brink of a recession in 2013. A lot will depend on the November 2012 elections in terms of the tax increase.

• I still think the inevitable Greek debt default has only been postponed. I expect this to occur some time in 2012. This will tend to raise the value of the dollar and push agriculture commodity prices lower. However, this will be a short-lived upturn in the value of the U.S. dollar.

OTHER FORECASTS:

• National Association of Business Economics (NABE): “Economists responding to the latest NABE Outlook Survey are seeing strength in a number of economic measures and have subsequently increased their expectations for employment, housing starts, and business spending,” said NABE President Gene Huang, chief economist at FedEx. “Despite increases in a number of forecasts, however, economists remain guarded on US economic growth, with the median forecast of respondents calling for inflation adjusted gross domestic product—real GDP—of 2.4% for the year in 2012. Respondents continue to expect consumer spending to grow below trend in 2012 and the federal deficit to increase before it eventually declines. Economists’ expectations for export growth have also weakened over the last four months.

• The Conference Board: “The economic data continue to depict increasingly positive trends in the U.S. economy, amid weakening global economic activity. In particular the acceleration in employment gains and concomitant decline in the unemployment rate are key improvements, which lead to increases in personal income and lend support to consumer spending. However, we believe that the recent pace of 200,000 payroll job gains is likely to slow a bit to 160,000 – 180,000 in coming months. Moreover, even if employment advances do not slow, there is the risk that a trade-off between more jobs and weaker productivity gains will unfold. Such a trade-off would imply little change to overall GDP growth and explains in large part our continued cautious outlook as we expect real growth to stay at 2% on average in 2012. Economists appears to have diminished slightly over the last several months.”

GOSS EGGS
(RECENT DUMB ECONOMIC MOVES)

• President Obama’s Housing Relief Plan for Servicemembers and Veterans: (Note: I am a military veteran who is offended by this latest pandering). According to the Plan, major servicers will be providing significant relief to thousands of servicemembers and veterans. Under the agreement, they will: 1) conduct a review of every servicemember foreclosed upon since 2006. 2) Lending institutions will be required to provide those wrongly foreclosed on with compensation equal to a minimum of lost equity, plus interest and $116,785. Of course improper foreclosure includes practically any bank clerical error. Almost all of these servicemembers had failed to make a payment for more than 12 months. When I was in the military, I was required to take personal responsibility for my actions or inactions; a concept that is being trampled on by the political class.

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Write to us at ernieg@creighton.edu