Bailout of GM Costly for Taxpayer: “Too Big to Fail” Is Failure

In 2009 the Obama Administration awarded General Motors (GM) with a $50 billion bailout. It was argued by both the Bush and Obama Administrations that GM, with 202,000 employees in 157 counties, was “too big to fail.” Not only did the bailout generate what we economists call “moral hazard,” (investors taking on too much risk due to federal government backing), it also cost taxpayer billions. Emerging from bankruptcy in November 2010, GM stock was initially sold to investors (Initial Public Offer) at a price of $35. Last Friday the stock closed at a price of $22.36. Thus at this point in time, the U.S. taxpayer has sustained a loss of $18 billion. During this period that GM stock dropped by 36 percent, the overall stock market expanded by 18 percent. So not only is the federal government investing public money in private businesses, it is doing it poorly. GM shares have fallen to less than half the $53 price that the government needs to break even. Much of GM’s difficulties can be traced to federal meddling and requiring GM to produce vehicles that Americans have shunned. For example since it went on sale, the GM hybrid, the Volt, at a sales price of $41,000 and a U.S. federal tax credit of $7,500, has cost U.S. citizens $250,000 for each unit sold according to the Mackinac Center for Public Policy. Thankfully GM suspended produc-tion of the Volt in March 2012. For the sake of GM and the U.S. taxpayer, the U.S. Treasury should sell its stake in GM and “get out of the way.” Ernie Goss.

The Rural Mainstreet Index (RMI) for April dipped from March’s very strong reading. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, declined to 57.1 from March’s strong 59.8. According to Dale Bradley, CEO of Citizens State Bank of Miltonvale, Kan., “The farm economy looks good to date, but the overall national economy is still fragile.” We are seeing some signs across the Rural Mainstreet economy that higher energy and fuel prices are slowing growth for areas dependent on agriculture. Furthermore, somewhat slower global growth has negatively affected some portions of the rural and agriculturally de-pendent economy.

- **Rural Mainstreet Index Declines for April:** Farmland Price Growth Slows

Tables 1 below summarizes the findings from the April 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>April 2011</th>
<th>March 2012</th>
<th>April 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>59.4</td>
<td>59.8</td>
<td>57.1</td>
</tr>
<tr>
<td>Loan volume</td>
<td>58.1</td>
<td>48.4</td>
<td>52.8</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>65.5</td>
<td>69.4</td>
<td>72.6</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>48.5</td>
<td>48.4</td>
<td>53.5</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>77.6</td>
<td>78.7</td>
<td>69.4</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>74.2</td>
<td>61.5</td>
<td>62.4</td>
</tr>
<tr>
<td>Home sales</td>
<td>55.2</td>
<td>60.0</td>
<td>60.8</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>56.9</td>
<td>64.8</td>
<td>59.3</td>
</tr>
<tr>
<td>Retail Business</td>
<td>50.1</td>
<td>53.4</td>
<td>52.9</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>61.0</td>
<td>63.0</td>
<td>60.6</td>
</tr>
</tbody>
</table>

- Rural Mainstreet Index declines but remains strong.
- Rural Mainstreet jobs expand for the month.
- Bankers report that approximately 29 percent of farmland sales were for cash.
- Approximately one fifth of farmland sales were made to nonfarm investors.
- Land being redeveloped for farmland purposes.
- Farmland prices continue to increase according to bankers. However, that growth slowed for April as the index slumped to 69.4 from 78.7 in March. This is the 27th straight month the index has been above growth neutral. The farm equipment sales index rose to 62.4 from 61.5 in March. The Federal Reserve’s cheap money and low interest rate policies continue to support the agriculture sector, including farmland and farm equipment. However, higher energy prices and somewhat slower global growth are taking some of the air out of the farm sec-tor.
- This month bank CEOs were asked to estimate the share of farmland sold to nonfarm investors and the proportion of farmland sold for cash. Bankers indicated that more than one in five, or 21 percent, of sales were to nonfarm investors. Bankers also reported that approximately 29 percent of farmland sales were for cash. It is clear that nonfarm investor interest in purchasing farmland is growing. Furthermore, some land not previously used for farming is being converted to farmland. For example, John Schmaderer, president of Tri-County Bank in Stuart, Neb., said, “We are again experiencing a rush of land being developed, or redeveloped in some cases, for farming purposes.” DeWayne Streyle, CEO of United Community Bank of North Dakota reported, “Nonfarmer and recreation investors are driving the farm land valuations (higher).”
- Banking: Farmers increased their demand for loans with the loan volume index climbing to 52.8 from March’s weak 48.4 and February’s frigid 31.2. The checking deposit index expanded to a very healthy 72.6 from 69.4 in March, while the index for certificates of deposit and other savings instruments advanced to 53.5 from March’s 48.4.
- Hiring: April’s hiring index slipped to a strong 59.3 from 60.0 in March. Our survey data along with govern-ment job data indicate that year-over-year job growth is now much stronger in the metropolitan and urban areas of the region than on Rural Mainstreet. Again, some of the air is coming out of the agriculture bubble, and that is not a bad thing.
- Confidence: The economic confidence index, which reflects expectations for the economy six months out, dipped to 60.6 from 63.0 in March. Home and retail sales: For only the
third time since July of last year, the Rural Mainstreet home sales index climbed above growth neutral with an April reading of 60.8, up from 60.0 in March. The retail sales index for April remained above growth neutral but slipped to 52.9 from March’s 53.4. 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. Goss and Bill McQuillan, CEO of CNB Com-munity Bank of Greeley, Neb., created the monthly economic survey in 2005. 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 16th straight month, Colorado’s Rural Mainstreet Index (RMI) remained above growth neutral. The index for April expanded to 70.0 from 63.1 in March. The farmland and ranchland price index sank to a still robust 70.0 from March’s 78.0. Colorado’s hiring index for April was 63.9 which was down from March’s 65.7. Rural Mainstreet year-over-year job growth is almost double that of the state’s urban areas.

ILLINOIS
The RMI for Illinois remained above growth neutral for the 24th straight month. The April RMI slipped to 51.8 from March’s 53.2. Farmland prices remained significantly above growth neutral with a reading of 59.0 for April but down from 65.5 in March. The state’s new hiring index dipped to 53.4 from March’s 57.4. Both urban areas and Rural Mainstreet areas are adding jobs on a year-over-year basis at an almost equal, but slow pace.

IOWA
Iowa’s April RMI dipped slightly to 58.3 from 58.5 in March. The farmland price index declined to a still strong 65.1 from 71.3 in March. Iowa’s new hiring index for April decreased to 57.4 from March’s 61.3. Rural Mainstreet year-over-year job growth is approximately one and one-half times that of the state’s urban areas.

KANSAS
The Kansas RMI for April slumped to 49.1 from March’s healthier 54.9. The farmland price index declined to 65.0 from 74.9 in March. The state’s new hiring index declined to 57.4 from 63.7 in March. Rural Mainstreet year-over-year job growth and urban job growth in the state have both slowed significantly in the past few months.

MINNESOTA
The April RMI for Minnesota rose to 63.1 from March’s 60.0. Minnesota’s farmland price index advanced to 75.4 from 70.2 in March. Minnesota’s new hiring index rose to 61.5 from March’s 60.5. According to Pete Haddeland, CEO of the First National Bank in Mahnomen, “Farmland prices continue to be strong. Some small grains have been planted. Great conditions for planting.” Rural Mainstreet year-over-year job growth is more than triple that of the state’s urban areas.

MISSOURI
The RMI for Missouri inched forward to 50.9 from 50.3 in March. The farmland price index for April sank to 51.6 from 55.6 in March. Missouri’s new hiring index dipped to 49.5 from 51.3 in March. Rural Mainstreet year-over-year job growth has turned negative while the state’s urban areas continue to add jobs.

NEBRASKA
The April RMI for Nebraska slipped to 52.2 from March’s 52.4. The farmland price index declined to 54.9 from 64.1 in March. Nebraska’s new hiring index tumbled to 50.7 from 56.5 in March. Rural Mainstreet year-over-year job growth has slowed to the point that urban areas in the state are adding jobs at a much faster pace than Rural Mainstreet.

NORTH DAKOTA
The North Dakota RMI for April soared to 91.2 from March’s supercharged 84.3. The farmland price index advanced to 93.2 from 82.3 in March. North Dakota’s new hiring index dipped to 84.3 from March’s 88.5. Rural Mainstreet year-over-year job growth is more than triple that of the state’s urban areas.

SOUTH DAKOTA
The April RMI for South Dakota declined to 51.3 from March’s 53.2. The farmland price index slumped to 57.4 from March’s much stronger 79.3. South Dakota’s new hiring index for April sank to 52.3 from March’s 57.4. Rural Mainstreet year-over-year job growth is almost nil while the state’s urban areas are adding jobs at a solid pace.

WYOMING
The April RMI for Wyoming slumped to a solid 54.5 from March’s 56.4. The March farmland and ranchland price index tumbled to 53.6 from 79.8 in March. Wyoming’s new hiring index sank to 53.6 from March’s 59.0. Year-over-year urban job growth in the state is now significantly outpacing that of Wyoming’s Rural Mainstreet.

THE BULLISH NEWS

• Both our regional PMI (purchasing management index) and the national PMI stood above growth neutral for April and point to improving growth in the months ahead.

• After three straight weeks of elevated readings, first-time jobless claims fell by a much bigger-than-expected 27,000 last week to 365,000.

• Oil prices dropped to their lowest level in nearly six months to $98.49.

THE BEARISH NEWS

• U.S. home prices stumbled again in February, with the Case-Shiller making fresh cycle lows in its 10- and 20-city measures. Nine of the major metropolitan areas in the report were down again in February.

• The U.S. added only 115,000 jobs in April and the unemployment rate declined as a result of the unem-ployed leaving the labor force, termed discouraged workers. We need to see 250,000 + jobs to feel good.

• France elected Socialist Hollande as the new president. This is bad news for the Euro economy is likely to result in the downgrade of French debt in 2012 or 2013.

• The European Central Bank (ECB) has spent $1.31 trillion trying to suppress bond yields in the Eurozone. Despite this ECB buying, Spanish bond yields rose above 6 percent.

• U.S. GDP grew by an annualized 2.2 percent in the first quarter 2012. This is half what it should be coming out
of a deep recession.

**WHAT TO WATCH**

- PMI's: On June 1 we release our regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Keep an eye on the inflation gauge which is trending downward. It is indicating a slowing global economy.

- Jobs: On Friday June 1, 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, if it is not due to discouraged workers.

- Spanish bond yields: If yields or rates approach 7 percent, this could drag U.S. growth lower as the value of the dollar rises and cuts into U.S. exports. Watch for another downgrade of Spanish debt by S&P or Moody’s.

**THE OUTLOOK**

**FROM GOSS:**

- The value of the U.S. dollar is likely to strengthen in the weeks and months ahead as the instability of the Eurozone economy remains a fixture of concern. This will tend to put downward pressures on agriculture and energy commodity prices. It will also tend to hurt U.S. exporters. 0

- The Facebook IPO will be over-hyped and over purchased. This is a losing bet as long as Zuckerberg is CEO.

- The uncertainty surrounding the record tax increase slated for January 1, 2013 will continue to hurt U.S. economic growth.

- Greece will leave the Eurozone sometime in 2012 and re-adopt the Drachma as their currency.

**OTHER FORECASTS:**

- National Association of Business Economics (NABE): “About two-thirds of NABE Industry Survey panelists expect that real GDP will grow at a rate exceeding 2% between the fourth quarter of 2011 and the fourth quarter of 2012. Over 80% of respondents reported unchanged or rising sales and profit margins. The survey results also suggest greater stability in prices. Nearly all respondents expect that non-labor input prices will remain unchanged or rise by 5% or less. Over 70% of respondents reported that wages and salaries have remained unchanged. The share of respondents reporting unchanged prices charged (78%) is the highest share in recent surveys and almost all respondents expect either no change in prices or minor price increases by their companies of 5% or less. Materials costs rose for 31% of respondents and were unchanged for 59% of them, which suggests a continued trend toward greater stability in materials prices.”

- “We expect employment and economic activity to reaccelerate moderately in the second half of the year, with real growth picking up to around 2.5%. Underlying economic fundamentals are improving, albeit slowly. Compared to last year, consumer sentiment and spending are stronger this year, and housing is less of a drag on economic growth. Going forward, wage growth may become more critical than job growth. Sustained moderate job gains and any pickup in wages will put a floor beneath consumer sentiment and spending that could, in turn, fuel moderate employment gains in “core” services (which excludes health and education). Nevertheless, this remains a weak economy, and the job counts in March and April — which have come in at considerably below 200,000 per month — may perhaps continue right through the summer.”

**G O S S  E G G S  (R E C E N T  D U M B  E C O N O M I C  M O V E S )**

- French voters elected Francois Hollande as their first Socialist president in two decades. This is likely to mean that the French government continues on its spending binge paying pension benefits that are borne by the nation’s youth. Just as in the U.S., baby boomers continue to drain resources from the young via overly generous pensions and health care benefits. This “free lunch” will end before Hollande exits the presidency.

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