U.S. Economic Competitiveness in Decline: Growing Size of Government at Fault

U.S. economic competitiveness is in decline. Since 2009, the U.S. ranking has dropped from number 15 to 19 of the 144 nations evaluated by the Fraser Institute http://www.freetheworld.com/release.html. The primary factor damaging the U.S. ranking was the escalating size of the federal government with the U.S. federal spending as a percent of the nation’s gross domestic product (GDP) climbing from 21.8 percent in 2008 to 24.1 percent in 2012. Moreover, between 2008 and 2012, overall private employment declined by 2.5 percent while federal employment increased by 1.2 percent. As the size of the federal government rose, the national debt soared from $9.4 trillion in 2008 to $15.9 trillion in 2012, or approximately 70 percent as the overall economy expanded by only 9 percent. As a result of the massive U.S. debt, Standard and Poor’s downgraded U.S. debt in 2011. But delaying “debtageddon,” the U.S. Federal Re-serve can and has turned on the dollar printing presses by buying U.S. debt and risking rampant inflation in the years ahead. Moreover, global investors, afraid to invest in stocks, have put their funds in U.S. bonds driving rates lower even with downgrades and the cheaper dollar. However, with 300,000 baby boomer retiring each month pushing social security spending and Medicare outlays higher, there will be a day of reckoning for the U.S. taxpayer and bond investor, but no economist knows when that is. Howev-er, the sure signal is when bond investors begin abandoning (selling) U.S. debt. This action will send the yield on the 10-year U.S. Treasury bonds skyrocketing. How high could they go? Today’s (selling) U.S. debt. This action will send the yield on the 10-year U.S. Treasury bonds skyrocketing. How high could they go? Today’s

While farm income appears to be holding strong, businesses linked to agriculture continue to experience pullbacks in economic activity according to the latest survey of bank CEOs reporting for the Rural Mainstreet economy. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100 with 50.0 representing growth neutral, was up slightly for September at 48.3, from 47.1 in August and 47.9 in July. However, it was the third straight month the index has been below growth neutral. The drought continues to dampen economic activity for businesses linked to agriculture such as ethanol, and agriculture-equipment sellers. I expect food processors to take a hit later in the year as higher food prices work their way through the system. **Farming:** After declining for three straight months, the farmland-price index moved higher. The September reading climbed to 61.6, its highest level since May of this year, and up from 52.8 in August. Bankers in some parts of the region are reporting farmland prices as high as $20,000 per acre. Despite the drought, farmers continue to put more air into the farmland price bubble. This is the 32nd consecutive month that the farmland-price index has risen above growth neutral. The farm-equipment-sales index rose to growth neutral 50.0 from August’s very weak 38.3. This month, bank CEOs were asked to project farmland price growth for the next year. There was a great deal of variation across the 10-state region with an average gain of approximately 3 percent expected. Areas that suffered the most from the drought were expected to grow the least. Approximately 13 percent of the bankers expect price declines over the next year. This is up from 9 percent this time last when we asked the same question. This year bankers expect harvesting to occur much earlier than normal. Only 9 percent anticipate a normal harvest time while 48 percent expect harvesting to occur one to two weeks early and the remaining 58 percent of bankers anticipating harvesting to take place three to four weeks ahead of schedule. Pete Haddeland, CEO of First National Bank in Mahnomen, Minn., reported the harvest in his area is a month early but yields are great. He expects a record sugar beet harvest. Likewise, Jon Schmaderer, president of Tri-County Bank in Stuart, Neb., indicated that initial yields on irrigated land look promising. **Banking:** Farmers increased their demand for loans with the loan-volume index climbing to 70.2 from 67.6 in August. This marks the seventh consecutive month the index has risen. The checking-deposit index weakened to 48.3 from 49.1 in August, while the index for certificates of deposit and

**MAINSTREET RESULTS**

**Rural Mainstreet Index Below Growth Neutral Again:** More Air in Farmland Price Bubble

Tables 1 below summarizes the findings from the September 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>Sept. 2011</th>
<th>August 2012</th>
<th>Sept. 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>52.2</td>
<td>47.1</td>
<td>48.3</td>
</tr>
<tr>
<td>Loan volume</td>
<td>62.5</td>
<td>67.6</td>
<td>70.2</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>60.3</td>
<td>49.1</td>
<td>48.3</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>41.2</td>
<td>33.0</td>
<td>38.4</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>66.9</td>
<td>52.8</td>
<td>61.6</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>65.4</td>
<td>38.3</td>
<td>50.0</td>
</tr>
<tr>
<td>Home sales</td>
<td>48.5</td>
<td>60.2</td>
<td>58.8</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>54.7</td>
<td>51.9</td>
<td>50.9</td>
</tr>
<tr>
<td>Retail Business</td>
<td>47.1</td>
<td>45.2</td>
<td>42.9</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>50.0</td>
<td>39.6</td>
<td>43.0</td>
</tr>
</tbody>
</table>

September Survey Results at a Glance:
- Rural Mainstreet Index remained below growth neutral for a third straight month.
- Farmland-price index rebounded to highest level in four months. Approximately 13 percent of bankers expect farmland prices to decline in next 12 months.
- On average, Dodd-Frank legislation is expected to increase bank costs by 9 percent.
- More than nine of ten bankers anticipate early harvesting this year.

**Figure:**

![Graph](image)

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other savings instruments rose to an anemic 38.4 from 33.0 in August. As in previous months, the drought appears to be increasing the cash needs of farmers in the region. We have been tracking a reduction in the percent of farmland and farm-equipment cash sales and upturns in the degree of bank financing.

This month we asked bankers about the impact or expected impact of the implementation of the Dodd–Frank Wall Street Reform and Consumer Protection Act on their bank’s costs. Bank CEO’s, on average, expect their bank’s costs to grow by approximately 9 percent as a result of Dodd-Frank. Roughly 6 percent anticipate an increase of more than 15 percent, 36 percent expect an expansion of 10 percent to 15 percent with the remaining 58 percent forecasting an upturn of 2 percent to 9 percent resulting from the implementation of Dodd-Frank.

Michael Flahaven, president of Wenona State Bank in Wenona, Ill., expects QE3, along with current low loan demand and low interest rates into 2015 to “kill” small community banks.

**Hiring:** September’s hiring index declined to 50.9 from 51.9 in August. Even though we tracked hiring growth for the month, the index is trending down. I expect job losses in the months ahead as the impacts of the drought spread to more and more Rural Mainstreet businesses.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, increased to a frail 43.0 from August’s 39.6 and well down from June’s much stronger 58.5. The drought along with a lethargic national economy are negatively affecting the business confidence of bank CEOs in the region. **Home and retail sales:** The September home-sales index slipped to a solid 58.8 from 60.2 in August. As in the national economy, the Rural Mainstreet housing market is improving.

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 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.

### MAINSTREET ON YOUR STREET

**COLORADO**

For a second straight month Colorado’s Rural Mainstreet Index (RMI) moved below growth neutral. The September RMI rose to 45.2 from 25.2 in August. The farmland and ranchland price index increased to 48.4 from August’s 44.2. Colorado’s hiring index for September was 39.8, which was down from 43.0 in August.

**ILLINOIS**

For a fourth straight month, the RMI for Illinois remained below growth neutral. The September index climbed to a weak 48.0 from 34.4 in August. Farmland prices bounced back above growth neutral to 54.6 from August’s 45.3. The state’s new-hiring index increased to 44.0 from August’s 43.7.

**IOWA**

The RMI for Iowa for September slipped to 48.7 from August’s 49.2. The farmland-price index advanced to 62.8 from August’s 57.2. Iowa’s new-hiring index for September dipped to 49.4 from 51.6 in August.

**KANSAS**

The Kansas RMI for September slipped to 49.5 from 50.1 in August. The farmland-price index rose to 62.8 from August’s 53.2. The state’s new-hiring index increased slightly to 49.1 from August’s 48.9.

**MINNESOTA**

The September RMI for Minnesota declined to 51.7 from August’s 52.9. Minnesota’s farmland price index bounced to 71.1 from August’s 60.3. Minnesota’s new-hiring index rose to 54.9 from August’s 53.7.

**MISSOURI**

The RMI for Missouri rose to a regional low of 41.6 but up from August’s 39.8. The farmland price index for September increased to 50.2 from August’s 44.6. Missouri’s new-hiring index advanced to 48.1 from 31.6 in August.

**NEBRASKA**

For a third straight month, growth in Nebraska’s rural economy moved into negative territory. The September RMI rose to 48.8 from 44.1 in August. The farmland-price index advanced to 59.2 from August’s 48.9. Nebraska’s new-hiring index expanded to a weak 47.0 from 46.0 in August. Cameron Mathis with Tilden Bank in Creighton, reported that the harvest was progressing with yields on dryland better than expected and corn yields on irrigated land very good.

**NORTH DAKOTA**

The North Dakota RMI for September declined, but remained strong with a regional high 60.5, down from 72.1 in August. The farmland price index was unchanged from August’s 68.9. North Dakota’s new-hiring index rose slightly to 68.0 from August’s 67.8.

**SOUTH DAKOTA**

The September RMI for South Dakota dipped to 48.3 from 52.2 in August. The farmland price index climbed to 58.1 from August’s 49.3. South Dakota’s new-hiring index for September was unchanged from August’s 46.3.

**WYOMING**

The September RMI for Wyoming expanded to 46.9 from August’s 36.7. The September farmland and ranchland price index expanded to 52.9 from August’s 49.5. Wyoming’s new-hiring index remained below growth neutral with a September reading of 42.9, down from 46.4 in August.

### THE BULLISH NEWS

- The U.S. unemployment rate sank to 8.1% to 7.8%, its lowest level in almost 4 years.
- According to the Case-Shiller home price index for July, U.S. home prices (year over year) increased for a second straight month.
- Due to expanding natural gas supplies from fracking, utility rate payers have saved as much as $3,000 per household over the past year (depending on state and usage).
- The Federal Reserve’s Sept. 13 QE3 has had the impact of supporting and expanding the stock market as measured by the Dow Jones industrial average by 4.4 percent as of Oct. 5.
THE MAINSTREET ECONOMY REPORT
“A monthly survey of community bank CEO’s”

THE BEARISH NEWS

• The October jobs report was not good with only 114,000 jobs created and the manufacturing sector lost 16,000 jobs. We need more than 200,000 jobs additions per month to get back on track.

• A high share of jobs created for September were part-time.

• This week it was announced that the federal budget deficit for fiscal 2012 was over $1 trillion. As a share of GDP, the largest budget deficits since 1947 have been recorded for 2009, 2010, 2011 and now 2012.

• Over the past year, average weekly earnings grew by 1.8% or less than inflation.

WHAT TO WATCH

• PMI’s: On Nov. 1, Creighton’s releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Investors will take another upward as bullish.

• Jobs: On Friday Nov. 2, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for October. This is the last report before the November 6 elections. Another weak jobs report (less than 150,000) will signal that the U.S. economy needs help.

• GDP: On Oct. 26, the U.S. BEA releases third quarter GDP. A growth number above 2.0 percent will be bullish for stocks. A growth number below 1 percent will be bearish.

THE OUTLOOK

FROM GOSS:

• I expect another European financial eruption before the end of 2012. This will help keep U.S. interest rates super low.

• Housing prices, but not new construction, will continue to progress at an improving rate in the months ahead. Case-Shiller index will be up for August.

• The October U.S. unemployment rate will rise as discouraged workers begin looking for seasonal work.

OTHER FORECASTS:

• National Association of Business Economics. “Most respondents consider current monetary policy to be “about right” and three-quarters of the respondents believe that short-term interest rates will remain unchanged over the next 12 months. Note that the survey was conducted before the Federal Reserve announced a third round of quantitative easing (QE) on September 13, and nearly 60 percent of the panelists said that the Fed should not undertake more QE. There was no clearly defined consensus among panelists about the efficacy of the Fed’s announced target for inflation and its projections of the federal funds rate. Two-thirds of the panelists believe that a Volcker-type rule, which would prohibit banks from engaging in trading for their own accounts, should be enacted, and 70 percent of the panelists favor approval of the Keystone pipeline. There is also a widely shared expectation that health-care costs in the United States will account for a larger share of GDP in 10 years than they do at present, assuming that the Affordable Care Act is not repealed. Finally, more than 60 percent of the NABE panel expects that in five years, the European Monetary Union will have less than its current 17 member countries.”

• “Community banks have a lot to fear from the Dodd-Frank financial reforms, which could put half of them out of business, former FDIC Chairman Bill Isaac told CNBC Wednesday. The bigger banks can absorb it, the smaller banks can’t,” Isaac, who is now chairman of Fifth Third Bancorp, told Larry Kudlow. “I would not be surprised to see half of the community banks in this country go out of business if we don’t give some relief from Dodd-Frank for them.” Earlier Wednesday, Federal Reserve Chairman Bernanke said most of the provisions in the 2010 law were aimed at the largest financial institutions and not community banks. “We will work to maintain a clear distinction between the community banks and larger institutions in application of the new regulations,” Bernanke said in prerecorded remarks played at a convention of community bankers.” http://www.cnbc.com/id/46740719/Dodd_Frank_Could_Shutter_Many_Community_Banks_Former_FDIC_Chair

GOSS EGGS

(RECENT DUMB ECONOMIC MOVES)

• This year, the U.S. Commerce Department slapped a tax or tariff on imported Chinese solar panels. This raises the price of solar panels to U.S. consumers and businesses and protects U.S. solar panel producers that cannot compete successfully against their Chinese rivals in terms of price and quality. Protecting and coddling inefficient producers is never good policy.

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