

Does the U.S. Federal Debt Really Matter? Interest Rates Fall as Debt Load Soars

The three largest global economies, the U.S., China and Japan currently have federal debt loads as a percent of gross domestic product (GDP) of 108%, 248% and 236%, respectively. At the same time, interest rates on long term government bonds in each of the three global powers are 2.1% in the U.S., 3.1% in China, and minus 0.1% in Japan. We economists teach in our classes that as the government competes with consumers and businesses for investment dollars, interest rates rise. Are our models wrong, or have they lost relevance.

Noting the seeming disconnect between public debt and interest rates, several candidates for the Democrat presidential nomination have called for the passage of massive spending programs from Medicare for All to the Green New Deal (GND). Democrat representative Aleandria Ocasio-Cortez (AOC), too young to be a presidential candidate, but too old to remember anything from her Boston University economics classes, argues that the \$40 trillion GND can be paid for with \$8 trillion in taxes on the wealthy. She implies that the other \$32 trillion would come from debt, or the dollar printing press. Again, no recognition of the link between size of the debt and interest rates.

Look to Greece for economic parallels. Over the past 200 years, Greece has reneged seven times on the repayment of its national debt. And in 2017, Greece once again teetering on default but, by agreeing to austerity measures, was bailed out by the European Central Bank (ECB) and the International Monetary Fund (IMB). What has, and will, bail the U.S. government out of its overspending and debt accumulation problem.

First, the U.S. dollar is, and will continue to be, the global reserve currency. This means that foreign investors remain willing to lend to the U.S. despite the heavy debt load and current rock bottom interest rates. Second, the U.S. Federal Reserve stands ready to buy U.S. government bonds regardless of the size of the debt. This Fed action boosts the money supply, increases inflationary pressures, and reduces the size of the inflation-adjusted debt. Third, the U.S. Treasury can always open the dollar spigot to pay interest and principal on maturing notes, again adding to inflationary pressures and diminishing the size of the inflation-adjusted debt load. Finally, the federal government can raise federal taxes to cover government over-spending. The outcome from each of these actions for a younger generation will be a combination of higher interest rates, greater inflation and higher taxes. When will this happen? To quote economist Herbert Stein, former chairman of the Council of Economic Advisors, in 1976 in testimony before Congress, "If something cannot go on forever, it will stop."

MAINSTREET RESULTS

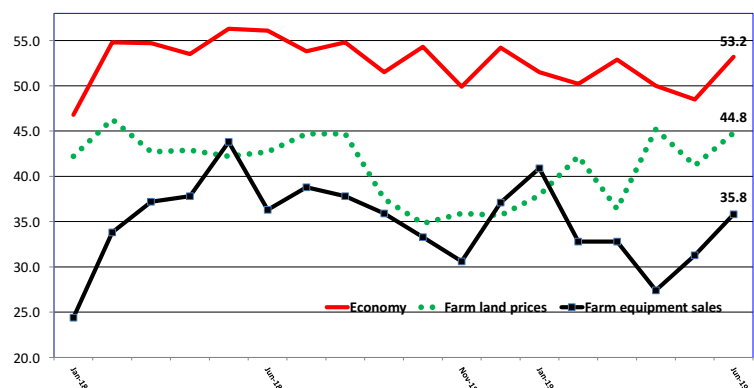
Rural Mainstreet Index Slumps Below Growth Neutral: Farm Loan Defaults Expected to Double from 2017 Rates

May Survey Results at a Glance:

- For the sixth time in the past seven months the Rural Mainstreet Index climbed above growth neutral.
- More than one in four bank CEOs reported rising loan defaults due to farmer financial woes.
- Almost half of bankers reported that due to crisis level farm income, farmers in their area have responded by selling the farm, or otherwise leaving the farm.
- Almost seven of 10 bank CEOs support continuing or raising current tariff levels.

	June 2018	May 2019	June 2019
Area Economic Index	56.1	48.5	53.2
Loan volume	76.3	79.7	72.6
Checking deposits	41.7	42.4	50.0
Certificate of deposits	47.6	51.5	51.6
Farm land prices	42.7	41.2	44.8
Farm equipment area sales	36.3	31.3	35.7
Home sales	60.7	63.2	69.4
Hiring in the area	58.0	61.8	64.5
Retail Business	47.6	44.1	58.1
Economy 6 months from now	48.8	38.2	53.3

Rural Mainstreet, Economic Indicators, Jan. 2018 – June 2019
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index (RMI) for June rose above growth neutral for the month. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the RMI for June indicated positive growth for the region.

Overall: The overall index climbed to 53.2 from 48.5 in May. This is the sixth time in the past seven months that the index has risen above growth neutral. The index ranges between 0 and 100 with 50.0 representing growth neutral, and an RMI below the growth neutral threshold, 50.0, indicating negative growth for the month.

Higher agriculture commodity prices and rebuilding from recent floods boosted the Rural Mainstreet Index (RMI) for the month. Furthermore, despite the negatives from the trade war, 69.4 percent of bankers support either raising, or continuing current tariffs.

Jeff Bonnett, president of Havana National Bank in Havana, Illinois, said it has been estimated that anywhere from 15 to 20 million acres were not planted in corn. According to Bonnett, "Based upon this information, corn prices should be in the \$5.75 to \$6 (or more) a bushel range. What are we missing? Will the true corn acres planted be revealed after the required certification through FSA due by July 15th?"

Farming and ranching: The farmland and ranchland-price index for June improved to a still weak 44.8 from May's 41.2. This is the 67th straight month the index has remained below growth neutral 50.0.

The June farm equipment-sales index increased to 35.7 from

May's 31.3. This marks the 70th straight month the reading has fallen below growth neutral 50.0.

Banking: Borrowing by farmers for June remained very strong. The borrowing index fell to a strong 72.6 from May's 79.7 and April's record high 81.3. The checking-deposit index rose to 50.0 from May's 42.4, while the index for certificates of deposit and other savings instruments rose slightly to 51.6 from 51.5 in May.

Hiring: The employment gauge climbed to a very strong 64.5 from May's 61.8. Despite tariffs and flooding over the past several months, Rural Mainstreet businesses continue to hire at a solid pace.

Over the past 12 months, the Rural Mainstreet economy added jobs at a 0.2 percent pace compared to a higher 1.3 percent for urban areas of the same 10 states. Rural areas in four Rural Mainstreet states, Iowa, Missouri, Nebraska and Illinois, lost jobs over the past 12 months.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, expanded to 53.3 from May's abysmal 38.2, indicating a positive, but somewhat weak economic outlook among bankers.

Home and retail sales: The home-sales index increased to a very strong 69.4 from May's healthy 63.2. The retail sales index for June advanced to a healthy 58.1 from May's 44.1. It appears that the region is experiencing a rebound from recent low retail sales resulting from floods for several states in the region.

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, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

MAINSTREET ON YOUR STREET

COLORADO

Colorado's Rural Mainstreet Index (RMI) for June rose to 54.2 from 49.6 in May. The farmland and ranchland-price index climbed to 45.0 from 41.3. Colorado's hiring index for June climbed to 70.7 from May's 61.3. Dale Leighty, CEO and Chairman of the First National Bank of Las Animas said, "Land values are up because of demand for hemp/marijuana production in Colorado."

ILLINOIS

The June RMI for Illinois increased to 51.0 from May's 46.3. The farmland-price index rose to 44.1 from 40.5 in May. The state's new-hiring index fell to 49.5 from last month's 52.7. Jim Eckert, president of Anchor State Bank in Anchor, Illinois reported, "Planting is mostly complete in our area, but areas north and south of us are significantly behind in planting."

IOWA

The June RMI for Iowa expanded to 51.1 from May's 46.5 Iowa's farmland-price index sank to 44.1 from May's 47.2. Iowa's new-hiring index for June slumped to 48.9 from 53.1 in May. According to James Brown, CEO of Hardin County Savings Bank in Eldora, "If our farmers take advantage of improved corn prices, it will be a much better year for our customers. That will certainly vary region to region depending on planting conditions and ultimate yields."

KANSAS

The Kansas RMI for June climbed to 51.6 from May's 48.9. The state's farmland-price index grew to 44.3 from 40.7 in May. The new-hiring index for Kansas advanced to 56.8 from 54.4 in May.

MINNESOTA

The June RMI for Minnesota climbed to 53.8 from May's 52.3. Minnesota's farmland-price index rose to 44.8 from 41.2 in May. The new-hiring index for June expanded to 68.9 from May's 60.6. Daniel Otten, chairman and CEO of Farmers State Bank in Albert Lea, reported that, "Our specific area within 30-mile radius did not experience the spring rains and all crops are planted and in 80% good to excellent condition. Far better than the rest of cornbelt."

MISSOURI

The June RMI for Missouri climbed to 48.0 from 43.3 in May. The farmland-price index for the state increased to 43.3 from May's 39.7. Missouri's new-hiring index for June rose to 47.1 from May's 44.7.

NEBRASKA

The Nebraska RMI for June expanded to 50.6 from May's 45.9. The state's farmland-price index increased to 44.0 from last month's 40.4. Nebraska's new-hiring index declined to 49.5 from May's 51.5.

NORTH DAKOTA

The North Dakota RMI for June improved to 55.7 from May's 51.0. The state's farmland-price index increased to 45.4 from 41.7 in May. The state's new-hiring index soared to 67.7 from 65.2 in May.

SOUTH DAKOTA

The June RMI for South Dakota remained above growth neutral, and climbed to 54.9 from May's 50.2. The state's farmland-price index improved to 45.1 from May's 41.5. South Dakota's new-hiring index advanced to 65.4 from 63.0 in May.

WYOMING

The June RMI for Wyoming expanded to 55.4 from May's 50.7. The June farmland and ranchland-price index increased to 45.3 from May's 41.6. Wyoming's new-hiring index expanded to 66.8 from 64.3 in May.

THE BULLISH NEWS

- U.S. nonfarm payrolls expanded by 224,000 in June with wage growth registering a solid 3.1% advancement over the last 12 months.
- The nation's unemployment rate rose to a very positive 3.7% for the right reason—more individuals encouraged by a strong job market entered the labor market and began looking for a job, thus counted as unemployed.

THE BEARISH NEWS

- Growth in national home prices continues to wane with 3.5% year-over-year advancement down from 3.7% in March according to the CoreLogic Case-Shiller home price index. This is the weakest value in 7 years.
- The U.S. budget deficit soared by 39% in first 8 months of fiscal year.
- Despite higher tariffs, the U.S. trade deficit jumped to a five-month high in May as imports of goods increased, likely as businesses restocked ahead of an increase in tariffs on Chinese merchandise, eclipsing a broad rise in exports.

WHAT TO WATCH

- **Case-Shiller Home Price Index for May:** Released by S&P Corelogic on July 30. Year-over-year price growth below 3.0% will be another bearish signal for the housing market.
- **ISM and Creighton's PMIs for July:** On August 1, the Institute for Supply Management and Creighton University release their surveys of supply managers in the U.S. and Mid-America, respectively. This is an early reading of manufacturing growth. The U.S. number is trending downward and could break below growth neutral 50.0 for the month.
- **10-Year U.S. Treasury bond yields:** Currently 2.06% (immediate value at <https://finance.yahoo.com>). A move to, and hold below 2.0%, is a real warning of rising economic risks and slower economic growth.

STATISTIC OF THE MONTH

- 1.3 million to 3.7 million. The Congressional Budget Office estimates that raising the national minimum wage to \$15 will cost 1.3 million to 3.7 million U.S. jobs.

THE OUTLOOK

FROM GOSS:

- I expect **Annualized GDP growth of 1.9% for Q2, 2019.
- **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 3.0% in Q3 (and to continue to drop).
- **The Federal Reserve Open Market Committee (FOMC) to reduce short-term interest rates by ¼ % (25 basis points) at July 30-31 meetings.

OTHER FORECASTS:

The Conference Board Economic Forecast for the U.S. Economy (July 2019): "Weaker US Economic Data Point to Slower Growth and a Possible Rate Cut in 2019." The US Economy encountered turbulence in May. Renewed trade tensions with Mexico and China have given businesses further pause in setting future investment plans. Even before these events, spending on capital equipment and business confidence had slowed. Growth for the rest of the year should settle right around its long-term two-percent trend. At the same time, low inflation provides the Federal Reserve with room to cut rates in order to boost both prices and growth. Increased uncertainty points to slowing economic growth, not rising recession risks. As the expansion is projected

to continue, labor market conditions will continue to tighten while signs of increased productivity will support future growth

GOSS EGGS
(RECENT DUMB ECONOMIC MOVES)

Organizers of Afrofuturis music festival planned for Detroit proposed to charge white attendees \$20 admission compared to \$10 for "people of color." Will dark-skinned Caucasians and light skinned African Americans be charged \$15? After receiving pushback from the public, organizers reversed course now charging attendees of all color, \$20, though there will be "a suggested donation for white people."

BANKER READING ROOM

ICBA Policy Resolution: Tax-Exempt Credit Unions * "CBA urges Congress to end the unwarranted federal tax subsidy of the credit union industry. *ICBA opposes expanded powers for credit unions, whether pursued by legislation or regulation, as long as credit unions remain exempt from taxation and the Community Reinvestment Act (CRA). These include expanded commercial lending, field of membership, and supplemental capital powers. *ICBA supports applying CRA requirements to credit unions comparable to and with the same asset size distinctions as banks and thrifts. *ICBA urges states to prohibit the placement of public deposits in tax-exempt credit unions. Public entities should not support tax-exempt institutions that erode the tax base on which these entities depend. *ICBA supports the right of credit unions to convert to commercial banks without excessive regulatory hurdles. It should be no more difficult, from a regulatory perspective, for a bank to purchase a credit union than for a credit union to purchase a bank. ICBA encourages credit unions seeking bank-like powers to convert to bank or thrift charters." Read More at: <https://tinyurl.com/y5dla3ar>

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