

Legal Marijuana's Impact on the Mile High State: Munchie Industry Soars, Others Not So Much

Since 2013 when recreational marijuana use was legalized in the state, Coloradans have toked up, tuned in, and chowed down. Between 2013 and 2017, Colorado has increased employment by 9.2%, well above the nation's 6.4%. On the other hand, Colorado's wages expanded at approximately three percentage points less than that of the U.S. since 2013.

Two factors account for Colorado's stronger job, but weaker growth. Colorado added jobs in lower wage industries, and Coloradans cut their average work week. For the two years following legalization, per capita spending in the low wage food and beverage industry expanded by 3.4% for the U.S., but almost double that for Colorado at 6.7%. Additionally between 2013 and 2017, the average hourly work week fell by 3.9% for Colorado, but climbed by 1.5% for the U.S. To support greater spending on food and beverages with fewer work hours, and lower wage growth, per capita welfare benefits in Colorado climbed by approximately ten percent versus 7.8% for the U.S. following marijuana legalization.

But despite mixed economic impacts from recreational cannabis legalization, Colorado's growth in tax revenues from the pot trade from \$52.6 million the year after legalization, to \$85.3 million in 2015, to \$120 million in 2016 is likely to encourage even more states, beyond the current eight, to legalize marijuana. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Experiences Biggest Fall in Almost Nine Years: Drought Conditions Weighing on Region's Farms

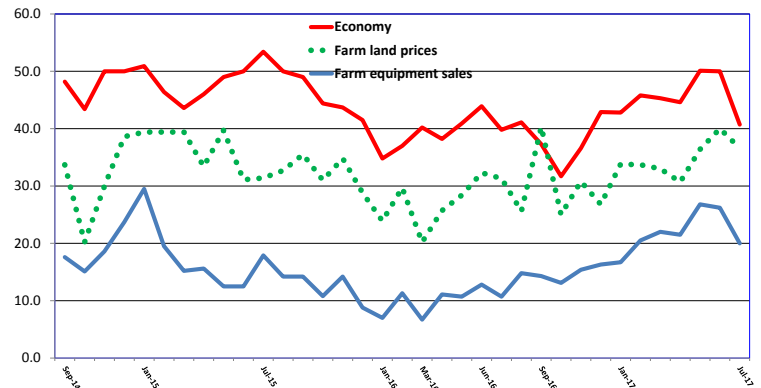
	Jul 2016	Jun 2017	Jul 2017
Area Economic Index	39.8	50.0	40.7
Loan volume	67.4	78.3	81.5
Checking deposits	49.0	48.9	51.2
Certificate of deposits	43.9	41.4	45.3
Farm land prices	31.3	40.0	36.6
Farm equipment area sales	10.7	26.2	20.0
Home sales	61.5	58.8	60.8
Hiring in the area	49.0	58.9	53.6
Retail Business	37.8	41.3	43.1

Survey Results at a Glance:

- The overall index experienced it's largest one-month decline since November 2008.
- On average, bankers expect 15.1 percent of grain farmers to suffer negative cash flows for 2017.
- Loan volumes rise to second highest reading in survey history.
- On average, bankers estimated loan defaults of 4.9 percent over next 12 months, down from the 5.4 percent predicted last year at this time.

- Approximately 55.9 percent of bank CEOs say the Federal Reserve should raise interest rates at least one more time in 2017.

Rural Mainstreet, Economic Indicators, Sept. 2014 – August 2017
(50.0 = growth neutral)



After rising to growth neutral for two straight months, the Creighton University Rural Mainstreet Index fell below the 50.0 threshold for July according to the latest monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, which ranges between 0 and 100, tumbled to 40.7, its lowest level since November of last year, and down from 50.0 in June.

This is the largest one-month decline we have recorded since November 2008, or in the middle of the national recession. Drought conditions in portions of the region, combined with weak grain prices, negatively affected economic conditions, and the economic outlook for a large share of bank CEOs this month.

Scott Tewksbury, president of Heartland State Bank in Edgeley, North Dakota, reported, "As of July 15, this is the third driest year since 1901. Crop conditions are poor and economic activity is weaker than it would be otherwise."

But in neighboring Minnesota, Pete Haddeland, CEO of the First National Bank in Mahanomen, said, "Our crops look good here. The wheat is great."

Farming and ranching: The farmland and ranchland-price index for July sank to 36.6 from June's 40.0. This is the 44th straight month the index has fallen below growth neutral 50.0.

This month, and in July 2016, bank CEOs were asked to project the percentage of grain farmers likely to experience negative cash flows for 2017. On average, bankers expect 15.1 percent of grain farmers to suffer negative cash flows for 2017. This is an improvement from last year when 19.1 percent anticipated negative cash flows for 2016.

The July farm equipment-sales index fell to 20.0 from 26.2 in June. This marks the 47th consecutive month the reading has dropped below growth neutral 50.0.

Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Illinois, reported that, "Crop conditions in NW Illinois are such that I expect yields well below the recent trendline."

Banking: Borrowing by farmers was very strong for July as the loan-volume index climbed to 81.5, the second highest reading on record, and up from 78.3 in June. The checking-deposit index was 51.2, up from June's 48.9, while the index for certificates of deposit and other savings instruments increased to 45.3 from 41.3 in June.

This month, as in July of last year, bankers were asked to project loan defaults for the next 12 months. On average, bankers estimated loan defaults of 4.9 percent which was down from the 5.4 percent predicted last year at this time.

Approximately 55.9 percent of bank CEOs say the Federal Reserve should raise interest rates at least one more time in 2017.

Hiring: The job gauge dropped to 53.6 from June's healthy 58.9. Rural Mainstreet businesses not linked to agriculture increased hiring for the month as businesses tied to the farm experienced layoffs.

Confidence: The confidence index, which reflects expectations for the economy six months out, slumped to a weak 38.4 from 48.9 in June, indicating a continued pessimistic outlook among bankers. While farm commodity prices have improved, they remain weak and below breakeven for a large share of grain farmers. This combined with drought conditions in portions of the region dented economic confidence.

Home and retail sales: Home sales moved higher for the Rural Mainstreet economy for July. The July reading rose to 60.8 from June's 58.8. The July retail-sales index inched upward to a weak 43.1 from 41.3 in June. Much like their urban counterparts, Rural Mainstreet retailers are experiencing significant pullbacks in sales.

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. 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 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) slumped to 39.1 from 50.2 in June. The farmland and ranchland-price index fell to 35.5 from June's 40.1. Colorado's hiring index for July sank to 49.2 from June's 62.1.

ILLINOIS

The July RMI for Illinois plummeted to 40.2 from 50.6 in June. The farmland-price index declined to 36.3 from June's 40.4. The state's new-hiring index dropped to 54.2 from last month's 64.0.

IOWA

The July RMI for Iowa tumbled to 41.7 from 50.5 in June. Iowa's farmland-price index for July dipped to 37.3 from 40.5 in June. Iowa's new-hiring index for July remained healthy at 60.7, though it was down from June's 64.3.

KANSAS

The Kansas RMI for July sank to 39.4 from June's 47.6. The state's farmland-price index slipped to 35.8 from 39.2 in June. The new-hiring index for Kansas declined to 50.6 from 55.9 in June.

MINNESOTA

The July RMI for Minnesota slumped to 42.8 from June's regional high of 51.7. Minnesota's farmland-price index dipped to 38.0 from 41.1 in June. The new-hiring index for the state declined to a still strong 65.5, down from last month's 68.1.

MISSOURI

The July RMI for Missouri fell to 42.2 from 51.6 in June. The farmland-price index improved to 42.3 from June's 41.0. Missouri's new-hiring index declined to a still strong 62.8 from 68.1 in June.

NEBRASKA

The Nebraska RMI for July sank to 42.1 from June's 51.4. The state's farmland-price index declined to 37.5 from 40.9 in June. Nebraska's new-hiring index stood at a strong 62.5, but down from 67.4 in June.

NORTH DAKOTA

The North Dakota RMI for July 41.5 from June's 48.7. The state's farmland-price index inched higher to 41.0 from June's 40.9. North Dakota's new-hiring index jumped to 59.9 from 55.4 in June.

SOUTH DAKOTA

The July RMI for South Dakota fell to 38.9 from June's 47.2. The farmland-price index slumped to 35.4 from June's 38.1. South Dakota's new-hiring index slipped to 48.1 from June's 48.9.

WYOMING

The July RMI for Wyoming tumbled to 40.0 from June's 48.1. The July farmland and ranchland-price index dipped to 36.1 from June's 38.7. Wyoming's new-hiring index improved slightly to 53.0 from 52.7 in June.

THE BULLISH NEWS

- The nation added 209,000 jobs for July and the unemployment rate sank to 4.3%.
- The Case-Shiller home price index for the U.S. rose 5.6% in May from one year earlier, but is still 3.7% below its 2006 high.
- The U.S. trade deficit fell sharply in June as exports increased to their highest level in 2½ years, a positive development for the economy. The trade gap decreased 5.9% to \$43.6 billion, the lowest level since October 2016.

THE BEARISH NEWS

- Worker wages rose only 2.4 % in July from one year earlier. This is not significantly above the inflation rate.

- The U.S. economy expanded at an annualized 2.1% rate in the second quarter of 2017. This at least one percent below expectations for a healthy economy.

WHAT TO WATCH

- **Jobs Report on September 1:** The Bureau of Labor Statistics will release its employment report for August. Another reading above 200,000 added for the month will likely push the Federal Reserve to raise rates by another 25 basis points (¼%) in 2017 and as early as Sept. 20.
- **Consumer Price Index on September 14:** Stability is desired by all (1.5% - 2.0% Year-over-year) will be a positive signal.
- **Federal Reserve meetings on May 20:** The interest rate setting committee of the Federal Reserve meets on Sept. 19-20. There is a 40% likelihood of a short term rate hike but watch for their announcement regarding the sale of their \$4.5 trillion bond portfolio. This sale will tend to raise long-term bond yields (rates).

THE OUTLOOK

FROM GOSS:

- I expect **one Federal Reserve rate hike in the fourth quarter of 2017. **The Fed to begin reducing its \$4.5 trillion portfolio of U.S. Treasury bonds and mortgage backed securities in September. This will tend to put slight upward pressures on long-term U.S. interest rates. **Home price growth to cool a bit in the months ahead. Even so, year-over-year price growth will remain in the 4.5%-5.0% range, on average.

OTHER FORECASTS:

- **Conference Board:** "The US economy remains on a steady growth trend but consumption and investment growth are failing to show the type of gains that more robust confidence indicators signal. For growth to move into a higher gear, wage acceleration will have to commence. Faster inflation too could help drive investment by making it easier for firms to raise prices and boost profits. Should current trends persist, growth for 2017 will be just above 2 percent."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Californians got a new cap-and-trade program last month. Whether one agrees or disagrees with this approach to limiting toxic emissions, these programs insure that Californians will continue to pay more for gasoline, food, cement and other goods – to finance the state's fight against climate change through 2030. State and city approaches to air emissions standards cannot be effective without regional and national co-operative agreements.

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This month's survey results will be released on the third Thursday of the month, August 17.