

## President Obama Focusing on the Wrong Goal

President Obama has made reducing income inequality a major policy goal for the remainder of his administration. While it is correct that U.S. income inequality, as measured by Gini coefficients, has expanded each year of the Obama Administration reaching its highest level in 50 years at 47.7 in 2011, evidence from the 50 states and DC indicates that President Obama is focusing on the wrong goal. A Gini Coefficient is a number based on household income which ranges between 0 and 1 with 0 representing perfect income equality, and 1 representing perfect income inequality. The five states with the lowest 2011 Gini coefficients (i.e. least income inequality) Wyoming, Alaska, Utah, Hawaii, Vermont and Idaho, experienced median GDP growth of 70.1 percent and job growth of 13.1 percent between 2000 and 2010. The five states with the greatest income inequality New York, Connecticut, Louisiana, New Mexico and California suffered the lowest median GDP growth at 6.1 percent and job growth at 11.5 percent for the same period of time. In fact, correlation coefficients for the 50 states and DC show a negative relationship between Gini Coefficients and the two measures of growth from 2000 and 2010. But does higher growth generate greater income equality, or does greater income equality produce higher growth? It is found that 1999 Gini Coefficients had no statistical relationship or association with 2000 to 2010 growth. However 2000 to 2010 growth was negatively related to 2011 Gini coefficients, indicating less income inequality. Thus, recent data indicate that President Obama should focus on growing the economy which will then produce less income inequality. Ernie Goss

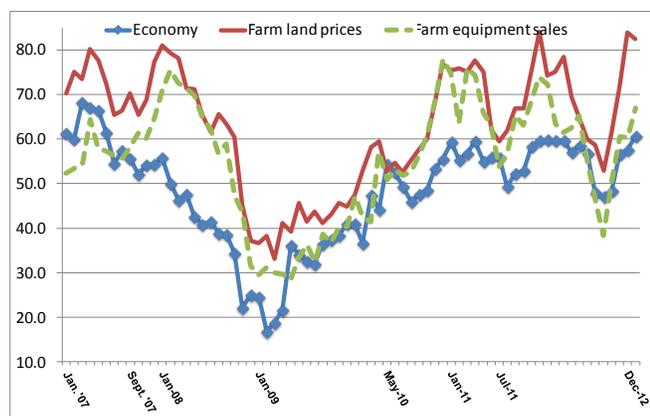
## MAINSTREET RESULTS

### Rural Mainstreet Economy Healthy for December: Farmland Price Index Lowest in 4 Years

December Survey Results at a Glance:

- Rural Mainstreet Index indicates rural economy expands at a healthy pace.
- Farmland price index sinks to lowest level in four years.
- Bank CEOs see rising regulatory costs as biggest threat to community banks for 2014.
- Agriculture equipment sales decline for sixth straight month.
- Bankers say low agriculture commodity prices are the biggest risk for the 2014 rural economy.

Rural Mainstreet, Jan. '07 – Dec. '12



Growth for the Rural Mainstreet economy climbed, according to the December survey of bank CEOs in a 10-state area. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, with 50.0 representing growth neutral, rose to 56.1 from November's moderate 54.3. The overall index for the Rural Mainstreet Economy continues to indicate that the areas of the nation highly dependent on agriculture and energy continue to expand at a healthy pace. This month we asked bankers to name the biggest threat to the rural economy for 2014. Approximately 80.6 percent named lower agriculture prices to be the greatest economic threat in the next year while 10.6 percent said the Affordable Care Act was the biggest economic challenge for 2014.

**Farming:** The farmland-price index plunged to 47.0, its lowest level since December 2009, and was down from November's 54.3. This is the first time in four years that the farmland-price index has moved below growth neutral. As agriculture commodity prices have moved lower, so have farmland prices. According to David Callies, CEO of Miner County Bank in Howard, S.D., "Continued increases in ag real estate prices and cash rents, along with lower crop prices, are a major concern for community banks.

Farm equipment sales remained below growth neutral for the sixth straight month. The December index sank to a weak 44.3, the lowest reading since August 2012 and down from 47.3 in November. Over the past year, grain prices have declined by roughly 35 percent. This has significantly reduced farmers' willingness to purchase agriculture equipment.

Bankers expect 2014 cash rents for non-irrigated crop land to average approximately \$252 per acre. However, 3.2 percent of bankers forecast 2014 cash rents above \$500 per acre. Additional declines in agriculture commodity prices will present a real challenge for a significant share of farmers who are cash renting.

Jeff Bonnett, president of Havana National Bank in Havana, Ill., reported, "2014 will be interesting, as input costs have not come down in relation to commodity prices. Fasten your chin straps firmly and hold on, it may be an interesting ride."

**Banking:** The loan-volume index climbed to 66.7 from 56.9 in November. The checking-deposit index fell to 66.0 from 72.0 in November, while the index for certificates of deposit and other savings instruments slumped to 37.2 from November's frail 44.8.

This month bankers were also asked to name the biggest threat facing community banks in 2014. More than half, or 55.9 percent, expect soaring regulatory costs to be the greatest threat to the community banking industry. Another 23.5 percent indicated that low loan demand was the chief challenge to community banks for 2014 while 14.7 percent reported that rising competition from Farm Credit represented the prime threat to community banks. No other issue rose above 10 percent.

Jim Ashworth, president of Carlinville National Bank in Carlinville, Ill., said, "Continued low interest rates in a stagnant economy drive competitive pressures among community banks, with net margins continuing to shrink."

**Hiring:** December's hiring index expanded to 56.9 from 54.4 in November. Rural companies are adding jobs but at a pace below that of their metropolitan counterparts," said Goss.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, slipped to 47.0 from November's weak 48.3. Despite the recent federal

budget agreement, the lack of a farm bill and lower agriculture commodity prices pushed economic confidence even lower. Dale Bradley, chairman of the Citizens State Bank in Miltonvale, Kan., reported, "Much will depend on the new (federal) budget and deficits for 2014. Hopefully we will get a good farm bill."

**Home and retail sales:** The December home-sales index declined to 53.1 from November's stronger 56.2. The December retail-sales index improved to 54.7 from 47.4 in November. Higher mortgage rates cooled the growth for the Rural Mainstreet housing market for December. According to Michael Flahaven, president of Wenona State Bank in Wenona, Ill. "Community banks are being forced out of residential real estate loans. As this happens I expect small banks and their communities to suffer."

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, president of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

## MAINSTREET ON YOUR STREET

**Colorado:** For the 15th straight month, Colorado's Rural Mainstreet Index (RMI) remained above 50.0, although it slipped to a still solid 55.6 from November's 58.8. The farmland and ranchland price index expanded to 69.4 from November's 68.0. Colorado's hiring index for December fell to a still healthy 58.7 from November's 63.5.

**Illinois:** The RMI for Illinois slipped to 54.1 from November's 54.5. The RMI has remained at or above growth neutral for 15 straight months. The state's farmland price index rose to a weak 47.3 from 46.0 in November. The state's new-hiring index expanded to a frail 48.9 from 48.8 in November.

**Iowa:** The December RMI for Iowa advanced to 55.3 from November's 53.9. The farmland-price index for December sank to 52.3 from November's 53.5. Iowa's new-hiring index for December was unchanged from November's 53.9.

**Kansas:** The Kansas RMI for December dipped to 53.6 from November's 53.8. The farmland-price index for December declined to 48.2 from November's 48.6. The state's new-hiring index slipped to 50.2 from 50.6 in November. Dale Bradley, chairman of the Citizens State Bank in Miltonvale, reported, "Good Fall crops in our area and Kansas overall."

**Minnesota:** The December RMI for Minnesota fell to 53.6 from 53.9 in November. Minnesota's farmland-price index for December plunged to 40.9 from November's 48.3. The new-hiring index sank to 44.7 from November's 44.7.

**Missouri:** The December RMI for Missouri climbed to a healthy 59.0 from 58.5 in November. The farmland-price index for December declined to a strong 75.4 from November's 81.3. Missouri's new-hiring index advanced to 78.2, up from 72.4 in November.

**Nebraska:** After moving below growth neutral for January, Nebraska's Rural Mainstreet Index has been above growth neutral for 11 straight months. The December RMI slipped to 54.4 from 54.8 in November. The farmland-price index for December dipped to 48.0 from November's 48.3. Nebraska's new-hiring index stood at 50.1, which was down from November's 50.4.

**North Dakota:** The North Dakota RMI for December declined to 56.3, down from November's 57.7. The farmland-price index declined to 66.3 from 70.2 in November. North Dakota's new-hiring index fell to 61.0 from November's 65.1.

**South Dakota:** The December RMI for South Dakota increased to 55.8 from 55.6 in November. The farmland-price index for December sank to 51.6 from 52.6 in November. South Dakota's new-hiring index for December declined to 53.3 from 55.7 in November.

**Wyoming:** The December RMI for Wyoming sank to 54.5 from November's 55.1. The December farmland and ranchland price index was unchanged from November's 46.4. Wyoming's new-hiring index moved lower to 49.0 from November's 49.2.

Tables 1 and 2 summarize 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 1: The Mainstreet Economy	Dec. 2012	Nov. 2013	Dec. 2013
Area Economic Index	60.6	54.3	56.1
Loan volume	62.1	56.9	66.7
Checking deposits	75.8	72.0	66.0
Certificate of deposits	49.2	44.8	37.2
Farm land prices	82.5	54.3	47.0
Farm equipment area sales	67.0	47.3	44.3
Home sales	61.3	56.2	53.1
Hiring in the area	53.5	54.4	56.9
Retail Business	59.0	47.4	54.7
Economy 6 months from now	55.5	48.3	47.0

## THE BULLISH NEWS

- First time claims for unemployment insurance are now at their pre-recession levels.
- Home prices expanded by 13.6% between October 2012 and October 2013 or the fastest pace since just February 2006. Housing bubbles are forming across the U.S.
- December purchasing management indices (PMIs) from the national survey of supply managers slipped to a healthy 57.0 and while Creighton's regional survey improved for December.
- Third quarter GDP (revised) expanded by a solid annualized 4.1%, the highest since the final quarter of 2011.

Area Economic Index	Percentage of bankers reporting				
What do you expect to be the biggest economic challenge for community banks for 2014?	Rising regulatory costs	Low loan demand	Competition from Farm Credit	Rising loan defaults	Other
	55.9%	23.5%	14.7%	1.5%	4.4%
What do you expect to be the biggest economic challenge for your area economy for 2014?	Low agriculture commodity prices	ACA costs and uncertainties	Overly aggressive EPA	Downturn in Ethanol Industry	Other
	80.6%	10.4%	4.5%	1.5%	3.0%
What is your estimate of the average per acre cash rent for non-irrigated crop land (not pasture) in your area for 2014?	Over \$800	\$500 - \$800	\$300 - \$499	\$200 - \$299	Below \$200
	1.7%	1.5%	27.0%	36.5%	33.3%

## THE BEARISH NEWS

- As a result of Federal Reserve tightening threats, the value of the dollar continues to rise putting downward pressures on agriculture commodity prices. Grain prices, for example, have declined by almost 40% over the past 12 months.

## WHAT TO WATCH

- CPIs:** On January 16 and February 20, the Bureau of Labor Statistics releases consumer price indices for December and January. Average monthly growth of 0.1%, or less, will force the Fed to maintain its monthly bond buying program at a level above current expectations thus keeping long-term interest rates low.
- GDP:** On January 30, the Bureau of Economic Analysis will release the advance estimate for fourth quarter GDP growth. Another annualized gain of more than 4.0% will push the Federal Reserve to begin more aggressively scaling back their monthly bond buying program with higher long-term interest rates to follow. A reading of less than 2% will push the Fed to continue bond buying at \$75 billion per month with lower long-term interest rates to follow.
- Jobs:** On Friday Jan. 10 and Friday Feb. 7, the U.S. Bureau of Labor Statistics (BLS) will release employment reports for December and January, respectively. Very positive job reports such as job growth above 250,000 will push interest rates higher and faster than most economists, including the Fed, now expect.

## OUTLOOK

FROM GOSS:

I expect 1) long term interest rates, including mortgage rates to rise by one percentage point by the fourth quarter of 2014. 2) the federal deficit and debt to begin rising more quickly in the second half of 2014 even as tax collections grow more swiftly. 3) U.S. housing price growth to slow considerably in 2014.

OTHER FORECASTS:

The Conference Board (December 2013). "Despite the upwardly revised GDP growth performance in Q3 to annualized 3.6% pace and healthy back-to-back monthly increases in employment over 200,000 posted in October and November, we look for GDP growth to struggle to get to register annualized 0.9% rate in Q4. While the recent headline employment gains are solid and the unemployment rate recorded another swift decline, falling to 7%, average hourly wage growth remains moribund at a 2.2% annual growth rate leaving those working with modest gains in personal income to spend during the Q4

holiday shopping season. This reality underpins the cautious sentiment reflected in the weak readings of The Conference Board's Consumer Confidence Survey as well as our annual survey of holiday gift spending intentions. During the holiday season consumers will continue to seek bargains and incentives and keep a tight hold on their wallets. In addition, much of the upward revision to Q3 GDP growth came from an even larger unintended build in inventories reported that will result in a pull-back in business orders, shipments, and industrial production as companies strive to actively manage down their inventory levels in Q4. This will weigh negatively on Q4 GDP growth and restrain it to a paltry 0.9% annualized pace."

## BANKER READING ROOM

The Financial Crisis: Why Have No High-Level Executives Been Prosecuted? By Jed S. Rakoff. "Five years have passed since the onset of what is sometimes called the Great Recession. While the economy has slowly improved, there are still millions of Americans leading lives of quiet desperation: without jobs, without resources, without hope. Who was to blame? Was it simply a result of negligence, of the kind of inordinate risk-taking commonly called a "bubble," of an imprudent but innocent failure to maintain adequate reserves for a rainy day? Or was it the result, at least in part, of fraudulent practices, of dubious mortgages portrayed as sound risks and packaged into ever more esoteric financial instruments, the fundamental weaknesses of which were intentionally obscured?" continued at: <http://www.nybooks.com/articles/archives/2014/jan/09/financial-crisis-why-no-executive-prosecutions>.

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

**Bailout of Health Insurance Companies.** Just before Christmas, the Obama Administration decreed that people with canceled individual and family insurance policies will not be subject to the individual mandate in 2014. Combined with a plethora of other exemptions, this means that those covered by the Affordable Care Act in 2014 will be older and less healthy. By covering the less healthy, and without bailouts and other subsidies, health insurance companies will sustain mammoth losses, pushing many into bankruptcy. Democrats and Republicans must resist another round of business bailouts rivaling those of 2008-11. Two wrongs don't make a right.

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