

## June 2012 Bankers’ Economic Newsletter

### Which President Best for Job Market, 1948-2012

Americans place a president’s impact on the job market as one of the most important factors governing the chief executive’s successful tenure. Since 1948 the U.S. labor market has added jobs at its highest pace in 1978 during the Carter Administration, and suffered its worst job creation during the first year of the Obama Administration.

In terms of reductions in the nation’s jobless rate, the U.S. experienced its best year in 1951, the fourth year of the Truman presidency and its worst year in 1979, the third year of the Carter Administration.

Overall, the job creation and unemployment reduction rankings of the presidents from top to bottom from 1948 to 2012 are listed in the accompanying table. In each case, the president is judged from the time of taking office until leaving office, or the latest month of employment data for President Obama. Ernie Goss.

Overall	Rank		President
	Jobs	Unemployment	
1	2	2	Johnson
2	5	1	Clinton
3	1	6	Carter
4	4	3	Reagan
5	6	4	Kennedy
6	7	5	Truman
7	3	10	Nixon
8	9	9	Ford
9	10	8	Bush Sr.
10	12	7	Obama
11	8	12	Eisenhower
12	11	11	Bush Jr.

## MAINSTREET RESULTS

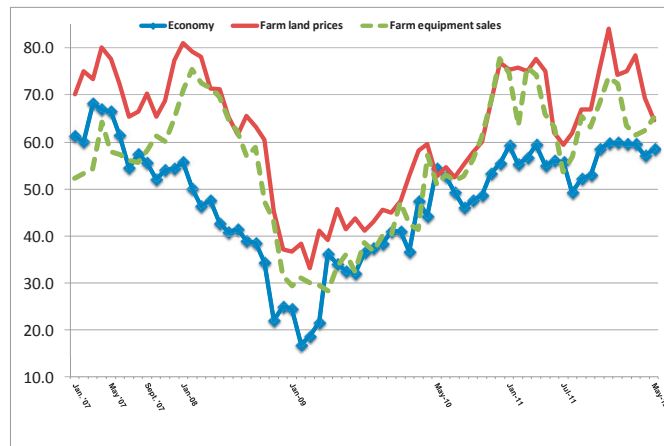
### Rural Mainstreet Economy Bounces Up for Month and Year; Financing of Farmland Purchases Declines

Tables 1 below summarizes the findings from the May 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	May 2011	April 2012	May 2012
Area Economic Index	54.9	57.1	58.5
Loan volume	55.5	52.8	56.9
Checking deposits	58.2	72.6	62.9
Certificate of deposits	44.6	53.5	41.7
Farm land prices	75.0	69.4	64.6
Farm equipment area sales	65.9	62.4	65.1
Home sales	54.3	60.8	65.2
Hiring in the area	54.2	59.3	59.2
Retail Business	50.1	52.9	54.7
Economy 6 months from now	63.7	60.6	60.2

- Rural Mainstreet Index dips to a still strong level.
- Rural home sales expand at a record pace in May.
- Farmland prices continue to grow but at a slower pace.
- Approximately one-fourth of bank CEOs report record-low, loan-to-deposit ratios.
- More than one-third of bankers indicate the percentage of farmland purchases financed has declined over the past year with only one in 10 reporting an increase.

### Rural Mainstreet, Jan. '07 – May '12



The Rural Mainstreet Index (RMI) for May climbed to very healthy level for May. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100 with 50.0 representing growth neutral, rose to 58.5 from April’s healthy 57.1. As indicated by Jeff Bonnett, president of Havana National Bank in Havana, Illinois, “Our bank is encouraged with the agriculture environment at this time” with early planting and great early growing conditions. Even though downturns in energy prices are a positive for the Rural Mainstreet economy, I expect softer agricultural commodity prices and slower global economic growth to restrain growth in the months ahead.” Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

**Farming:** Farmland prices continue to head higher, according to bankers surveyed. However, for a second straight month, farmland price growth softened with the May index dipping to 64.6 from April’s healthy 69.4 and March’s robust 78.7. This is the 28th consecutive month the index has been above growth neutral. The farm-equipment sales index rose to 65.1 from 62.4 in April. Economic growth among countries importing U.S. food, along with the Federal Reserve’s cheap money policies, continue to boost farm income and support higher prices for agricultural land and increasing sales of farm equipment.

This month, bank CEOs were asked about the trend in the financing of farmland over the past year. More than one-third, or 34 percent, indicated the percentage of farmland sales financed has declined over the past year; only 11 percent reported that the percentage had increased over the past 12 months. Very strong farm income has allowed farmers to pay cash for their farmland purchases. Bankers were also asked about the percentage of crop planting that had been completed in the area. On average bankers across the region reported that 64.5 percent of the crop planting had been completed by the mid-May. Bryan Grove, CEO of American State Bank in Grygla, Minn., summarized what many bankers reported for the month, “Farmers in our area have had a nice spring. Small grains are all in and look great. Soybean planting is going well and should be wrapped up within a week.”

**Banking:** Farmers increased their demand for loans with the loan-volume index climbing to 56.9 from April’s 52.8. This marks the third consecutive month the index has risen. The checking-deposit index sank to a still healthy 62.9 from April’s 72.6, while the index for certificates of deposit and other savings instruments slumped to 41.7 from 53.5 in April. For May, bank CEOs were asked to report their loan-to-deposit ratios. On average, bank-ers reported a loan-to-deposit ratio of approximately 64 percent. That is, \$0.64 of loans for every \$1.00 of deposits. More than one fourth, or 26 percent, indicated that their ratios were at a record low, while another 41 percent said their banks’ loan-to-deposit ratios were the lowest since the beginning of the recession. This month, there was

much discussion on JP Morgan’s recently announced loan losses. For example, Larry Winum, president of Glenwood State Bank in Glenwood, Iowa said, “As former Kansas City Fed Chairman Tom Hoenig and others have been saying, these ‘too-big-to-fail’ institutions need to be downsized to a level where they are no longer a systemic risk to our economy. When are we going to learn?”

**Hiring:** May’s hiring index dipped slightly to a strong 59.2 from 59.3 in April. Job growth across the Rural Mainstreet economy is showing a lot of variation with areas with significant energy exposure performing much better than more agriculturally dependent areas. For example, rural areas of Colorado and North Dakota experienced much better job growth than Missouri and Nebraska.

**Confidence:** The economic-confidence index, which reflects expectations for the economy six months out, dipped to 60.2 from April’s 60.6. Even with the negatives coming out of Europe and U.S. economic questions surfacing, Rural Mainstreet bankers remain very optimistic about the economic future of their local economies.

**Home and retail sales:** For only the fourth time since July 2011, the Rural Mainstreet home-sales index climbed above growth neutral with May’s record-high reading of 65.2 from April’s 60.8. The retail-sales index for May expanded to 54.7 from April’s 52.9. Once again, bankers in some areas of the region such as North Dakota and Wyoming are reporting quick turnover of houses on the market and a shortage of housing.

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.

## MAINSTREET ON YOUR STREET

### COLORADO

For the 17th straight month, Colorado’s Rural Mainstreet Index (RMI) remained above growth neutral. The index for May declined to a still strong 65.2 from 70.0 in April. The farmland and ranchland price index bounced to 77.9 from April’s 70.0. Colorado’s hiring index for May was 65.3, up from 63.9 in April. Very timely rains have helped the grass and winter wheat. According to Mike Bass, CEO of First National Bank of Hugo, “Because of the warmer-than-normal winter/spring, crops are weeks ahead (of normal), so we are expecting an early harvest.”

### ILLINOIS

The RMI for Illinois remained above growth neutral for the 25th consecutive month. The May RMI slipped to 50.4 from 51.8 in April. Farmland prices remained above growth neutral with a reading of 56.0, but they down from April’s 59.0. The state’s new-hiring index dipped to 50.6 from 53.4 in April.

### IOWA

Iowa’s May RMI advanced to 60.2 from 58.3 in April. The farmland price index increased to a strong 68.7 from April’s 65.1. Iowa’s new-hiring index for May rose to 59.1 from April’s 57.4. According to Charles Helscher, president of Farmers Savings Bank in Keota, “Corn is about 70 percent in but some of the early planted (corn) will need to be replanted due to washout from heavy rains. Beans are just getting started, but favorable weather is forecast and we could be done (planting) in 10 days or so, if there are no more rain delays.”

### KANSAS

The Kansas RMI for May roared to 62.1 from April’s weak 49.1. The farmland price index climbed to 70.9 from April’s 65.0. The state’s new-hiring index rose to 60.5 from 57.4 in April. Dale Bradley, CEO of Citizens State Bank in Miltonvale said, “Crops at this point are excellent in our area, but we are beginning to dry out and need rain soon. The overall economy is still very fragile.”

### MINNESOTA

The May RMI for Minnesota slipped to 59.8 from April’s 63.1. Minnesota’s farmland price index declined to 71.6 from April’s 75.4. Minnesota’s new-hiring index dipped to 60.5 from April’s 61.5. According to Pete Haddeland, CEO of First National Bank in Mahanomen, “Almost all crops are in, but some beans are yet to be planted. Land sales are still strong.”

### MISSOURI

The RMI for Missouri expanded to a tepid 51.8 from April’s 50.9. The farmland price index for April grew to 52.5 from 51.6 in April. Missouri’s new-hiring index rose to 52.3 from 49.5 in April.

### NEBRASKA

Growth in the state’s rural economy, while still positive, continues to weaken. The May RMI for Nebraska slipped to 50.1 from 52.2 in April. The farmland price index slipped to 54.2 from 54.9 in April. Nebraska’s new-hiring index slumped to 49.4 from April’s 50.7.

### NORTH DAKOTA

The North Dakota RMI for May climbed to 91.5 from 91.2 in April. The farmland price index slipped to 88.5 from 93.2 in April. North Dakota’s new-hiring index soared to 92.2 from 84.3 in April. North Dakota is benefiting from very positive farm income and record income from energy production.

### SOUTH DAKOTA

The May RMI for South Dakota declined to growth-neutral 50.0 from 51.3 in April. The farmland price index dipped to 57.2 from 57.4 in April. South Dakota’s new-hiring index for May sank to 51.4 from April’s 52.3.

### WYOMING

The May RMI for Wyoming slumped to 52.3 from 54.5 in April. The May farmland and ranchland price index expanded to 58.8 from April’s 53.6. Wyoming’s new-hiring index sank to 52.5 from 53.6 in April.

## THE BULLISH NEWS

- Both our regional PMI (purchasing management index) and the national PMI stood above growth neutral for May. However, both readings are moving lower. Next month’s releases will be very important.
- The number of Americans lining up for new jobless benefits fell last week for the first time since April, a hint that a slowdown in hiring last month may only be temporary.
- Creighton’s monthly wholesale inflation gauge declined to its lowest level since the recession. On the mi-nus side, the cooling economy is responsible for the downturn.
- The U.S. dollar has been increasing in value which would normally be a positive indicator. However, the dollar is simply winning the “ugly contest.” Investors are shedding their currencies for dollars in order to buy U.S. debt. Imagine that, a nation with a \$16 trillion debt (the U.S.) is viewed the best place to park your money.

## THE BEARISH NEWS

- U.S. home prices fell in March, ending the first quarter at the lowest levels since the housing crisis began in mid-2006, according to Standard & Poor’s Case-Shiller home-price indexes.
- The U.S. is currently running an annual trade deficit of \$600 billion. This is a significant drag on the U.S. economy as Americans buy from abroad instead of spending at-home.
- The U.S. labor market created only 69,000 jobs in May and the unemployment rate rose to 8.2%. We need to see consistent job gains of 225,000 to 275,000 before we can say that this recovery is “for real.”
- U.S. GDP grew at an annualized pace of 1.9 percent in Q1, 2012. We should be recording growth in the range of 3%-5% range.

## WHAT TO WATCH

- PMI’s: On July 2 Creighton’s releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. These are the first releases for July and significant declines (below 50.0) for either or both will be very bearish signals.
- Jobs: On Friday July 6, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for June. Another weak employment reading (less than 150,000 jobs added) will be bearish for equity markets and bullish for bond markets. Also an increase in the unemployment rate will be further evidence that growth is slowing, and quite dramatically.
- European bond yields: Yields or rates approach 7 percent for Spanish or Italian bonds will foreshadow slower growth in the U.S. as a result of a stronger dollar. A strong U.S. dollar makes U.S. goods, especially agriculture and manufactured goods, less competitively priced abroad.

## THE OUTLOOK

### FROM GOSS:

- I am a bit more bearish than most government economists. I expect annualized GDP growth below 1.5% for the second and third quarters of 2012. This is too slow to create the number of jobs that the U.S. needs to reduce the unemployment rate by any meaningful amount.
- I expect the very healthy past growth for the farm economy to slump in the months ahead. Recent boosts in the value of the dollar and cooling global economic growth are hurting U.S. agriculture sales abroad.
- Both long term and short term interest rates will remain near current record lows as long as Europe’s economic problems remain unsolved (which I expect).

### OTHER FORECASTS:

- National Association of Business Economics (NABE):

“Economists responding to the latest NABE Outlook Survey expect moderate growth in the near-term with improvement coming in the post-election year,” said NABE Outlook Survey Chair Shawn DuBravac, chief economist at the Consumer Electronics Association. “While several forecasts have weakened slightly, there are also some signs of improvement. Expectations for housing, vehicle sales, employment, and industrial production all improved in the current survey. However, expectations for overall economic growth as measured by inflation-adjusted gross domestic product, business investment, and consumer spending remain below historical norms.” The NABE Outlook panel of 54 forecasters maintain modest expectations for inflation-adjusted (real) gross domestic product (GDP) growth through 2013. The outlook for employment growth continues to brighten. In the current survey, panelists raised their anticipated average monthly job change for 2012 to 188,000 (nonfarm payrolls), up from the 170,000 anticipated in the previous survey. Consumer spending improves. Panelists currently believe that consumer spending will increase marginally—by 2.2 percent—this year and by 2.5 percent in 2013.

- The Congressional Budget Office (June 2012): “Under current law, the federal budget deficit will fall dramatically between 2012 and 2013 owing to scheduled increases in taxes and, to a lesser extent, scheduled reductions in spending—a development that some observers have referred to as a “fiscal cliff. CBO projects a \$1.1 trillion federal budget deficit for fiscal year 2012 if current laws remain unchanged. Measured as a share of the nation’s output (gross domestic product, or GDP), that shortfall of 7.0 percent is nearly 2 percentage points below the deficit recorded in 2011, but still higher than any deficit between 1947 and 2008. Over the next few years, projected deficits in CBO’s baseline decline markedly, dropping to under \$200 billion and averaging 1.5 percent of GDP over the 2013–2022 period.”

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Economist Paul Krugman’s continuing rant against so-called austerity measures by European nations is making less and less sense. Look no further than Germany, with their austerity/restructuring programs of 2004-2007 (Hartz concept), and Greece with its “spending for prosperity” to understand the bankruptcy of Krugman’s economic positions.

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