

Washington Economic Group Think: Harvard and MIT Economists Think Big (Government That Is)

Washington has always been quick to trumpet the benefits of diversity--- except in the case of economic thought. This week President Obama replaced the Chairman of the White House Council of Economic Advisors (CEA), Alan Krueger, with Harvard trained economist Jason Furman. Professor Krueger, who earned his Ph.D. at Harvard, heads back to Princeton University to join soon to be ex-Fed Chairman Ben Bernanke who obtained his Ph.D. from MIT. Since the beginning of the millennium, there have been 10 CEA Chairmen with none acquiring his/her doctorate in economics beyond the gates of Harvard or MIT. Thus, the White House appears to value homogeneity of educational experience among its economic policy advisors. Moreover, even the faculty members teaching future economic advisors are drawn heavily from this Cambridge, Massachusetts enclave. Of almost 90 faculty members in the combined economic departments of Harvard and MIT, 64 percent received their doctorates from either Harvard or MIT. In addition to gaining lucrative federal policy advisory positions, these Boston/DC beltway economists have been very effective at landing federal subsidies. For example, more than 95 percent of current Harvard and MIT economics faculty members have received National Science Foundation Grants (NSF). In this economist's view, the White House and the nation suffer by drafting a disproportionate share of economic policy advisors from a 5 mile radius of downtown Boston. **Ernie Goss**

Tables 1 and 2 summarize survey findings. Next month's survey results will be released on the third Thursday of the month, June 20.

	May 2012	April 2013	May 2013
Area Economic Index	58.5	58.3	58.8
Loan volume	56.9	66.0	72.1
Checking deposits	62.9	63.0	54.5
Certificate of deposits	41.7	40.4	42.6
Farm land prices	64.6	66.9	62.1
Farm equipment area sales	65.1	57.3	52.4
Home sales	65.2	70.8	73.9
Hiring in the area	59.2	57.5	59.8
Retail Business	54.7	51.4	52.3
Economy 6 months from now	60.2	56.3	54.5

Area Economic Index	Percentage of bankers reporting			
Loan volume	Low farm commodity prices	Drought	Bursting of the farm land price bubble	Other including change in energy policy
What is the biggest threat to the rural economy for the rest of 2013?	59.1%	16.7%	15.2%	9.0%
	Greater than 10%	5% - 10%	1% - 4%	Down or no change
Over the past year, what has been the change in residential housing prices in your area?	10.9%	20.3%	35.9%	32.9%
	Not at all	Modestly	Significantly	
Thus far, how has the federal sequestration affected your area economy?	77.9%	20.6%	1.5%	

MAINSTREET RESULTS

Rural Mainstreet Economy Advances for Month; Farmland Price Growth Slows

May Survey Results at a Glance:

- Rural Mainstreet Index indicates rural economy continues expansion.
- Farmland price growth slowed for the fifth time in the past six months.
- Rural Mainstreet housing prices rose an average of 4 percent over past year.
- Only 1.5 percent of bank CEOs indicate that federal spending sequestration has had a significant impact on their area economy.

Growth strengthened for the Rural Mainstreet economy over the past month according to the May 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, climbed to 58.8, its highest level since December 2012, and up from April's healthy 58.3.

Bankers reported on the most significant risks to the Rural Mainstreet economy for 2013. Approximately 60 percent reported that low agriculture commodity prices are the greatest threat to the farm-based economy for 2013. Another 16.7 percent indicated that drought is the number one threat to the rural economy for 2013 while 15.2 percent reported that the bursting of the farmland price bubble is the biggest economic threat for the agriculturally dependent economy for 2013.

On a positive note, Charles Helscher, president of Farmers Savings Bank in Keota, Iowa, reported, "The drought appears to be over in southeast Iowa, at least temporarily." However he indicated that excessive rain has delayed planting and some bottom ground may not be planted due to flooding.

Farming: The farmland price index dipped to a still strong 62.1 from 66.9 in April. The farmland-price index has been above growth neutral for more than three years. However, the index has now declined for the fifth time the past six months. The farm-equipment-sales index declined to 52.4 from 57.3 in April. Since the beginning of the year, the U.S. dollar has climbed in value by 5 percent. This has been a factor pushing farm commodity prices downward. For example, corn prices have slumped by almost 10 percent since December of last year. This trend, which I expect to continue in the months ahead, has taken a bit of the air out of farmland price growth and farm-implement-sales growth.

MAIN STREET ON YOUR STREET

Banking: The loan-volume index moved above growth neutral for the month. The index rose to 72.1 from 66.0 in April. The checking-deposit index declined to 54.5 from April's 63.0 while the index for certificates of deposit and other savings instruments advanced to a weak 42.6 from last month's 40.4. We are recording more and more reports of negative economic fallout from Dodd-Frank.

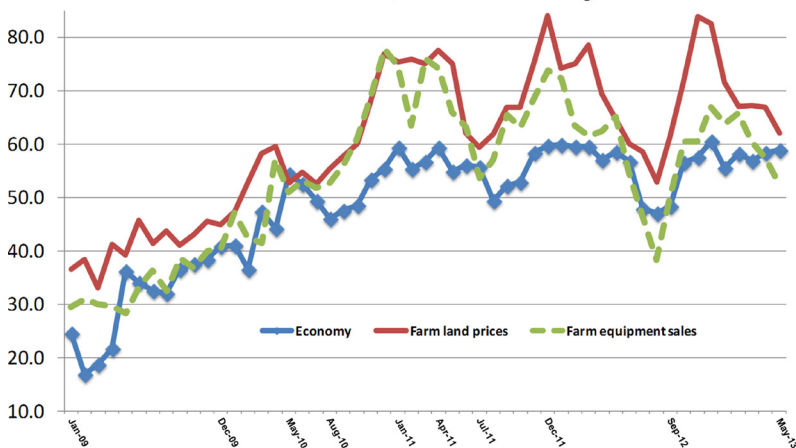
Larry Rogers, president of the First Bank of Utica, Utica, Neb., said, "Dodd-Frank and new regulations from the Consumer Financial Protection Board are strangling us. New regulations are going to cause us to quit making residential real estate loans hurting the people these regulations are supposed to be helping."

Hiring: May's hiring index expanded to 59.8 from April's 57.5. Despite solid job creation across Rural Mainstreet beginning in January 2011, rural areas are still not back to pre-recession employment levels. Government data show that regional employment is off more than 1.2 percent. Bankers pointed to federal policy's negative impact on job creation. Michael Flahaven, president of Wenona State Bank in Wenona, Ill., said, "The Healthcare Reform Act will likely affect employment in this area in the months ahead. The Dodd-Frank regulations will adversely affect community banks."

Confidence: The confidence index, which reflects expectations for the economy six months out, dipped to 54.5 from 56.3 in April. Over the past three months, we asked bankers how the federal spending sequestration was affecting their area economy. Each month, approximately three-fourths of the bank CEOs reported no impact from sequestration. Only 1.5 percent reported significant impacts with the remaining 20.6 percent indicating only modest impacts.

Home and retail sales: For a fourth straight month the home-sales index took a large, positive jump. The May home-sales index advanced to a record 73.9 from April's 70.8. The May retail-sales index rose to 52.3 from April's 51.4. Despite the growth in home sales, bankers reported a modest 4 percent growth in housing prices for Rural Mainstreet over the past year. However, one in 10 bankers indicated that housing prices in their area had expanded by more than 10 percent over the past year.

Rural Mainstreet, Jan. '09 – May '13



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

COLORADO

For an eighth straight month, Colorado's Rural Mainstreet Index (RMI) remained above 50.0. The May RMI declined to a still healthy 59.2 from April's 73.1. The farmland and ranchland price index sank to a strong 80.8 from April's 83.0. Colorado's hiring index for May expanded to 72.5 from April's 68.8.

ILLINOIS

While the RMI for Illinois declined in April it remained above growth neutral for the eighth consecutive month. The index declined to 55.9 from April's 56.7. Farmland prices sank to 52.1 from April's much stronger 63.0. The state's new-hiring index decreased to 53.4 from 55.5 in April.

IOWA

The May RMI for Iowa dipped to 58.1 from April's 62.3. The farmland-price index sank to 60.7 from 70.0 in April. Iowa's new-hiring index for May weakened slightly to 59.1 from 60.2 in March.

KANSAS

The Kansas RMI for May decreased slightly to 61.5 from 61.8 in April. The farmland-price index plummeted to 53.6 from April's much stronger 65.5. The state's new-hiring index declined to 54.4 from 56.6 in April. However, bankers are concerned about recent strong growth. For example, Dale Bradley, CEO of The Citizens State Bank in Miltonvale, said, "The economy is still not stable and the ups and downs will affect farmers as well."

MINNESOTA

The May RMI for Minnesota advanced to 67.2 from 66.7 in April. Minnesota's farmland-price index sank to 65.7 from April's 67.1. The new-hiring index advanced to 62.5 from 61.5 in April.

MISSOURI

The May RMI for Missouri climbed to 77.0 from April's 71.7. The farmland-price index for May expanded to 72.1 from 70.8 in April. Missouri's new-hiring rose to 66.7 from April's 60.7.

NEBRASKA

After moving below growth neutral for January, Nebraska's Rural Mainstreet index has now moved above growth neutral for four straight months. The May RMI expanded slightly to 57.7 from 57.3 in April. The farmland-price index for May sank to 53.9 from April's 65.4.

NORTH DAKOTA

The North Dakota RMI for May advanced to a regional high of 83.7 from 78.8 in April. The farmland-price index climbed to 85.3 from April's 75.6. North Dakota's new-hiring index increased to 83.6 from 61.2 in April.

SOUTH DAKOTA

The May RMI for South Dakota increased to 60.3 from 57.2 in April. The farmland price index grew slumped to 56.6 from April's 67.4. South Dakota's new-hiring index for May expanded to 56.3 from 55.4 in April.

WYOMING

The May RMI for Wyoming dipped to 54.4 from 55.1 in April. The May farmland and ranchland price index decreased to 46.2 from April's 58.0. Wyoming's new-hiring index sank to 49.4 from 53.2 in April.

THE BULLISH NEWS

- The Case-Shiller U.S. home price index rose 10.9 percent over the past year with the index growing at its fastest pace since October 2005. We are seeing housing price bubbles in some parts of the nation again.
- Creighton's surveys of supply managers in Mid-America, the Mountain States and California all indicate that the economy is going to continue to grow, albeit at a slower pace, for the next 3 to 6 months.
- Excluding gasoline, retail spending actually climbed 0.7% in April. Consumers appeared to use some of their savings at the gas pump to boost spending on autos, electronics, clothes and hobby items, among other things.

THE BEARISH NEWS

- The national Purchasing Management Index (PMI) declined to its lowest level since 2009 at the end of the recession (a clear warning signal for some economists—not me just yet).
- GDP growth for quarter one 2013 was revised down to a measly 2.4% annualized. We should be growing at double this rate. May's jobs report was mediocre at best (175,000 jobs?).
- The U.S. trade deficit widened in April as American consumer snapped up foreign cars and cell phones from abroad. But the this is a signal the U.S. consumer is still alive and buying so not an entirely bad thing.

WHAT TO WATCH

- **Purchasing Management Indices:** On July 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI for June. Another decline in the national PMI will be very bearish. This will be a market mover.
- **Jobs:** On Friday July 5, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for June. A reading below 125,000 will be bullish for bonds (high prices, lower yields).
- **Consumer Price Index (CPI):** On June 18 and again on July 16, the U.S. Bureau of Labor Statistics releases the CPI. Creighton's and the BLS's inflation gauges have been trending downward raising concern among some economists about the possibility of deflation. The issue of concern: Is this a signal that the U.S. economy is moving into another recession? I think, not but inflation is coming down.

THE OUTLOOK

FROM GOSS:

- Watch for another European eruption similar to Cyprus 2013. Europe's debt and economic problems remind us of that "bad" brother-in-law that has great investment advice for you, but can't seem to find two nickels to rub together. As in the past, the next "eruption" will tend to lower U.S. interest rates (but only temporarily).
- U.S. housing prices in many parts of the U.S. will continue to expand at rates that are unsustainable and will begin to raise real concerns at the Federal Reserve and in Congress. The Federal Reserve's

"cheap" money policy is going to kick some Americans in the pocketbook. Will it be stock investors, bond buyers, house buyers, farm-land speculators or all of the above? Remember irrational exuberance? Was Greenspan wrong or early?

OTHER FORECASTS:

- **The Conference Board (May 2013 update):** "The global economy has yet to shake off the fallout from the crisis of 2008-2009. Global growth dropped to almost 3 percent in 2012, which indicates that about a half a percentage point has been shaved off the long-term trend since the crisis emerged. This slowing trend will likely continue. Mature economies are still healing the scars of the 2008-2009 crisis. But unlike in 2010 and 2011, emerging markets did not pick up the slack in 2012, and won't do so in 2013. Uncertainty across the regions – from the post-election 'fiscal debate' question in the U.S. to the Chinese leadership transition and reforms in the Euro Area – will continue to have global impacts in sluggish trade and tepid foreign direct investment. Across the advanced economies, the Outlook predicts 1.2 percent growth in 2013, compared to 1.1 percent in 2012. The slight uptick is largely due to Europe, which is expected to return to very slow growth of 0.3 percent after the -0.2 percent contraction in 2012. U.S. growth is expected to fall from 2.2 percent in 2012 to 1.6 percent in 2013."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The European Union's (EU) recent decision to place tariffs on Chinese solar panels shows just how foolish such moves are. The Chinese retaliated by initiating an investigation into the importation of EU wine and the EU's "illegal" subsidy of wine production. In the end, trade sanctions and tariffs make all of use poorer and are particularly vile economic medicine for the agriculture sector.

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BANKER READING ROOM

State Banking Groups Urge Congress To Advance Plan for Prosperity Regulatory Relief Measures. The Independent Community Bankers of America® (ICBA) and 37 state and regional associations representing the community banking industry today called on Congress to advance legislation to ease excessive regulatory burdens on the nation's community banks. In a joint message to members of Congress, the organizations wrote that provisions in ICBA's Plan for Prosperity legislative platform would promote a regulatory environment that will help community banks serve their communities. "ICBA's Plan for Prosperity is a platform of legislative proposals designed to provide much-needed relief for community banks to help them do what they do best—help Main Street communities grow," ICBA President and CEO Camden R. Fine said today. "By relieving the nation's community banks and the communities they serve from crippling regulatory burdens, Congress can make important strides toward boosting the economy and job growth across the nation."

www.icba.org/news/newsreleasedetail.cfm?ItemNumber=162992&sn.ItemNumber=1733&tn