

## Passage of Tran-Pacific Trade Pact Will Increase U.S. Capital Spending and Economic Growth

Since the beginning of the U.S. economic recovery in July 2009, the nation's gross domestic product (GDP) has grown by a puny pace even though employment growth has been fairly strong. Offsetting the job expansion has been lethargic capital spending and productivity growth. Since 2009, GDP per hour worked (productivity) expanded at a compound annual rate of 0.7% which is one-third that in a typical recovery, and less than one-half of the annual pace since 1964. Tom Duesterberg of the Aspen Institute argues that the collapse of U.S. export leadership has contributed to this decline. He finds that the U.S. is party to just two of the more than 400 regional free trade agreements that have come into effect since 1995. Additionally, data from the World Bank, and Eurostat show that the U.S. share of global exports has sunk from 14% in 2000 to approximately 9% in 2013. Have exports contributed to differentials among productivity growth for the states? Since 2009, the top 25 productivity growing states experienced export growth at almost twice that of the slowest 25 productivity growth states. Over this period of time, North Dakota, the top productivity growth state, expanded exports by 34.5% during, while the bottom productivity growth state, Florida, grew exports by only 13.1%. Additional statistical analysis show a strong positive association among export growth, capital spending and productivity gains at both the state and national levels. Data provide solid support for Congress, in order to boost the nation's capital spending, economic competitiveness and productivity growth, to immediately provide President Obama with fast track trade authority so that the Tran-Pacific Partnership trade pact could be implemented. Ernie Goss.

## MAINSTREET RESULTS

### April Rural Mainstreet Index Remains Negative: Farmland Prices Decline Again

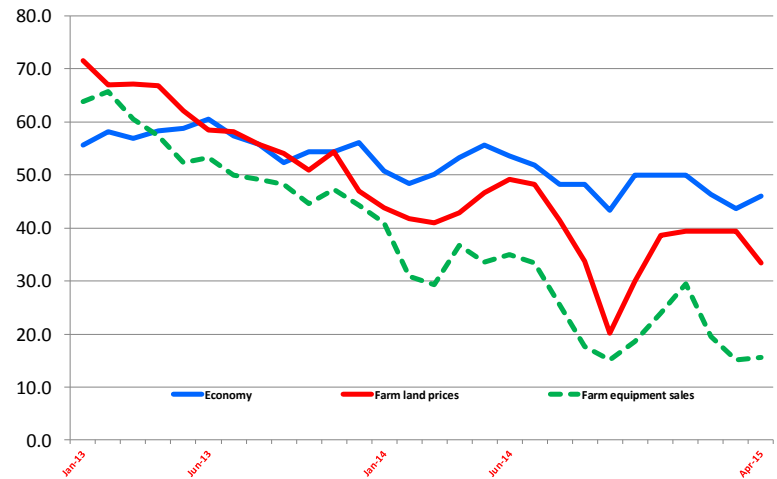
Table 1: The Mainstreet Economy	Apr 2014	Mar 2015	Apr 2015
Area Economic Index	53.2	43.6	46.0
Loan volume	73.1	64.9	69.0
Checking deposits	65.1	56.4	50.1
Certificate of deposits	42.0	44.7	38.0
Farm land prices	42.9	39.4	39.4
Farm equipment area sales	36.7	15.2	15.6
Home sales	63.8	55.5	58.2
Hiring in the area	64.0	52.2	54.2
Retail Business	50.0	40.4	44.0
Economy 6 months from now	54.0	47.8	47.0

#### Survey Results at a Glance:

- The Rural Mainstreet Index remained below growth neutral for April, signaling pullbacks in economic activity
- More than one-third of bankers reported that the strong dollar is having negative impacts on their local economy.
- Farmland prices declined for the 17th straight month.
- Agriculture equipment sales were very weak, but up slightly from March's record low.

- Approximately 75 percent of bank CEOs reported that Farm Credit represented the greatest competitive threat to their operations.

### Rural Mainstreet Economy January '13 – April '15 Creighton University



While the Creighton University Rural Mainstreet Index for April rose slightly from March's weak reading, it remains below growth neutral, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100, climbed to 46.0 in April from 43.6 in March.

The stronger U.S. dollar continues to be a drag on the Rural Mainstreet economy. This month more than one-third, or 34.0 percent of the bank CEOs reported that the strong U.S. dollar was having a negative impact on their local economy. Gains in the U.S. dollar have made U.S. goods, especially agricultural and energy products, less competitively priced abroad.

**Farming and ranching:** The farmland and ranchland-price index for April sank to 33.4 from March's very weak 39.4. Even though crop prices have stabilized, demand for farmland was weak, pulling agricultural land prices down again. This is the 17th straight month the index has moved below growth neutral.

Even though farmland prices continue to decline, expected cash rents for non-irrigated agricultural land continued to rise. In January of this year, bankers estimated that average 2015 cash rents would be \$214. This month an average of \$227 was recorded.

According one survey participant, "With GPS-based yield mapping, we are seeing some of the smarter operators starting to figure out which land is making them money and which is not. So far when someone walks away from some poorer ground, there still seems to be a greater fool ready to step up and rent it."

The April farm-equipment sales index increased to a frail 15.6 from March's record low of 15.2. The index has been below growth neutral for 21 straight months. With farm income expected to decline for a second straight year, farmers have become very cautious regarding the purchase of agricultural equipment.

**Banking:** The April loan-volume index soared to 69.0 from March’s 64.9. The checking-deposit index sank to 50.1 from March’s 56.4, while the index for certificates of deposit and other savings instruments fell to 38.0 from March’s 44.7.

According to Pete Haddeland, CEO of the First National Bank in Mahanomen, Minn, “Cash rents are starting to come down. Most of our Farmers are still in good shape, but they are borrowing more this year.”

This month, bank CEOs were asked to identify the greatest competitive threat for 2015. More than three-fourths, or 76.6 percent, of the bankers surveyed named Farm Credit as their chief competitive threat. Only 10.6 indicated that other commercial banks represented their greatest competitive threat. Over the last two years, the percentage of bankers identifying credit unions as their major competitor has risen from negligible to 12.8 percent this month.

**Hiring:** Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and energy, Rural Mainstreet businesses continue to add workers to their payrolls. The April hiring index improved to a solid 54.2 from March’s 52.2. We have yet to measure any significant decline in employment for the energy sector in the region and for businesses linked to agriculture. I expect that to change in the months ahead as lower energy and agricultural prices work their way through the economy.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, dipped to 47.0 from 47.8 in March. The negative trend in farmland prices, agricultural equipment sales, and oil prices have negatively affected the outlook of Rural Mainstreet bank CEOs.

**Home and retail sales:** The April home-sales index climbed to 58.2 from March’s 55.5. The April retail-sales index increased to a frail 44.0 from 40.4 in March. Much like in urban areas, retail sales remain very weak even with the reduction in fuel prices.

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

After rising above growth neutral for 11 straight months, Colorado’s Rural Mainstreet Index (RMI) has moved below the 50.0 threshold for the last three months. While the April RMI rose to 45.1 from March’s 40.6, it remains below growth neutral. The farmland and ranchland-price index increased to 40.3 from

March’s 35.6. Colorado’s hiring index for April advanced to 54.2 from 48.6 in March.

### ILLINOIS

The RMI for Illinois plunged to 45.7 from 60.5 in March. The Illinois farmland-price index fell to 38.7 from March’s much healthier 53.2. The state’s new-hiring index dipped slightly to 52.9 from 53.4 in March. Jim Ashworth, president of Carlinville National Bank in Carlinville reported that, “Wet conditions have stalled spring preparation and planting for grain farmers, who are concerned about not being able to apply anhydrous ammonia in the fall, and now the demand may exceed the infrastructure to deliver it efficiently.”

### IOWA

The April RMI for Iowa advanced to a weak 43.8 from March’s 43.0. The state’s farmland-price index for April sank to 32.7 from March’s 42.1. Iowa’s new-hiring index for April slumped to 48.2 from March’s 53.8. James Brown, CEO of Hardin County Savings Bank in Eldora, said, “The average cash rent in our area is close to \$300.”

### KANSAS

The Kansas RMI for April climbed to a tepid 50.0 from March’s 46.8. The state’s farmland-price index for April jumped to 59.1 from March’s 57.1. The new-hiring index for Kansas climbed to 69.2 from 65.8 in March.

### MINNESOTA

The April RMI for Minnesota jumped to 45.6 from March’s 26.8. Minnesota’s farmland-price index improved to 36.1 from 33.2 in March. The new-hiring index for the state expanded to 50.9 from March’s 48.8. Brian Nicklason, CEO of Woodland Bank in Remer, reported, “The local economy appears resilient despite several recent announcements related to the mining industry in northeast Minnesota. Job Layoffs are being announced that will likely have some impact on the economy over the next 12 months. This could be offset by hiring in other segments of the local economy and/or a good summer tourist season.”

### MISSOURI

The April RMI for Missouri declined to 39.2 from 39.4 in March. The farmland-price index for April fell to 15.5 from March’s 16.3. Missouri’s new-hiring index rose to 34.4 from March’s 33.2.

### NEBRASKA

The Nebraska RMI for April increased to 46.2 from 43.3 in March. The state’s farmland-price index advanced to 40.3 from 33.3 in March. Nebraska’s new-hiring index grew to 54.2 from March’s 51.3.

### NORTH DAKOTA

The North Dakota RMI for April climbed to 46.6 from March’s 45.4. The farmland-price index fell to 48.3 from March’s 51.3. North Dakota’s new-hiring index decreased to 60.6 from March’s sank to 61.2.

### SOUTH DAKOTA

The April RMI for South Dakota expanded to 45.0 from March’s 41.7. The farmland-price index for April decreased to 33.3 from last month’s 35.3. South Dakota’s new-hiring index rose to 48.7 from 45.8 in February.

### WYOMING

The April RMI for Wyoming advanced to a weak 43.6 from last month’s 41.9. The April farmland and ranchland-price index sank

to 31.6 from March’s 34.1. Wyoming’s new-hiring index declined to 47.2 from March’s 47.4

## THE BULLISH NEWS

- The nation added 223,000 for April and the unemployment rate fell to 5.4%.
- From February 2014 to February 2015 according to the Case-Shiller home price index advanced by 4.2%, a very healthy reading.
- The number of persons employed part time for economic reasons (sometimes referred to as involuntary part-time workers) was down by 880,000 from a year earlier.

## THE BEARISH NEWS

- U.S. job gains for were revised down from the original 126,000 to 85,000.
- The Creighton and National purchasing management indices (PMIs) for April were in a range indicating only modest gains in economic activities for the next 3-6 months.
- The U.S. trade deficit for March jumped to a 6½ high of \$51.4billion.
- Retail and food services sales for March were only 1.3% higher over March 2014. The gain should be above 2.5% to be considered healthy.
- The nation’s consumer price index declined by 0.1% between March 2014 and March 2015. This indicates that merchants have little pricing power.

## WHAT TO WATCH

- **Greek and Puerto Rico bond defaults:** The next month or two will be crucial for these high risks bonds. A default by either, especially Greek bonds, would push the U.S. dollar higher and slow U.S. exports and overall U.S. growth. However, it would push U.S. interest rates lower.
- **PMIs:** On June 1, Creighton and the National Institute for Supply Management will release regional and national PMIs for May. Readings below 50.0 will be very bearish economic signals. Readings above April’s tepid indices will be bullish.
- **Wage data:** On Friday May 8, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another healthy monthly gain, above 0.2%, will “seal the deal” for a Federal Reserve rate hike this June.

## THE OUTLOOK

FROM GOSS:

- I expect reports from supply managers on June 1 to indicate slower growth in the months ahead.
- I expect the nation’s trade deficit to continue to deteriorate as U.S. exports decline.

- Retail trade numbers, though still not strong, to improve a bit as consumers begin to spend some of their energy savings.
- I expect a U.S stock market downward adjustment in the months ahead as somewhat weaker profits, a stronger U.S. dollar and slightly higher interest rates put downward pressures on price/earnings multiples.

OTHER FORECASTS:

- The Conference Board. (May 2015): Global Growth Is Not Gaining Much Traction: Volatility Will Prevail. “The last two months have been increasingly challenging for the global economy, leading to some significant adjustments in The Conference Board Global Economic Outlook. The changes are to a large extent the result of greater volatility and uncertainty, and they present a higher risk for the global economy in 2015. The rapid decline in oil prices, quick adjustments in exchange rates (with the US dollar appreciating and weakening of most other currencies, notably the euro), and the new quantitative easing program of the ECB are just a few examples of the economic factors at play. In addition, there is increased geopolitical uncertainty related to the Russia-Ukraine and Middle East conflicts, as well as increased concern about the economic and political future of the Euro Area and European Union. As a result, we made some significant adjustments to the global economic outlook for 2015 released in November. While the overall global real GDP growth average is projected to be 3.3 percent – remaining slightly below the 3.4 percent we projected last November –, the global average reflects a combination of upsides and downsides.”

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Senator Rob Portman (R) from Ohio jettisoned economic principles in favor of reelection politics by campaigning against giving the President “fast track” trade authority. He is insisting on an amendment that adds currency manipulation as an excuse to trigger economic protection via tariffs. By this reckoning, our own Federal Reserve should be found guilty of managing or manipulating the U.S. dollar.

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This month’s survey results will be released on the third Thursday of the month, May 21.