

## Is U.S. Adopting Europe’s Anti-Competitive Economic Policies? Import French Wine, Not Economic Policy

Last week, Francoise Hollande, Socialist President of France, recommended that homework be eliminated in French schools. He argued that assigning homework provides an unfair advantage to students with stable home environments. This same type of anti-competitive thinking has produced a social safety net in France and most of Europe that has undermined economic incentives and encouraged workers to remain unemployed or underemployed. For example, the World Bank estimates that the annual cost of the social safety net as a percent of GDP in France is more than twice the size of that in the U.S. <http://tinyurl.com/pdqad>. Not surprisingly over the past decade, France’s unemployment rate averaged 2.6 percentage points higher than the U.S.’s, and the Gaullist nation’s annual GDP growth was approximately one-third that of the U.S. Unfortunately, the Obama Administration’s proposed tax increases currently under deliberation by Congress on the higher income, higher productivity, and more highly educated workers pushes the U.S. in France’s direction. The top five percent of wage earners, or those earning over \$154,000 already pay an average income tax rate that is 11 times that of the bottom 50 percent of U.S. workers. Not only do Obama’s tax rate hikes on the most productive Americans shrink incentives, they reduce the yearly budget deficit by less than ten percent. Instead of diminishing the income of higher wage workers via elevated taxes, U.S. economic policy should be directed at raising the income of lower income workers. The U.S. should import French wines and movies, not French economic policy. Ernie Goss.

## MAINSTREET RESULTS

### Rural Mainstreet Index Climbs Again: Farmland Prices Soar for Month

Tables 1 below summarizes the findings from the November survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

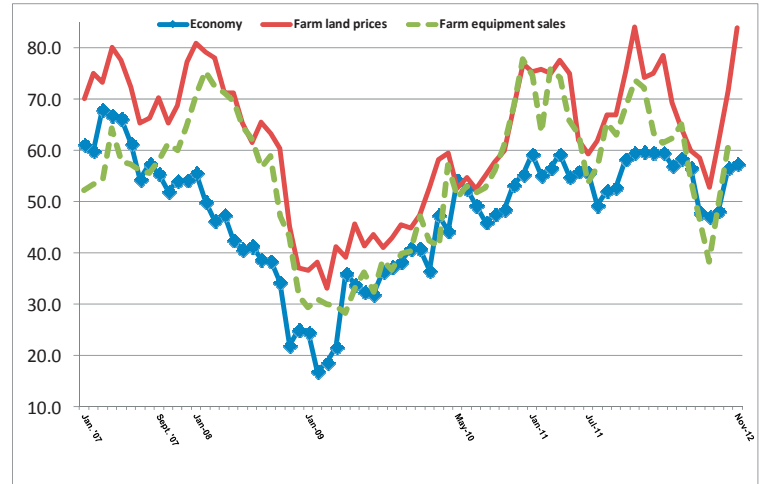
Table 1: The Mainstreet Economy	Nov. 2011	Oct. 2012	Nov. 2012
Area Economic Index	58.4	56.6	57.5
Loan volume	44.2	44.2	47.8
Checking deposits	81.7	66.7	75.1
Certificate of deposits	41.7	42.0	45.5
Farm land prices	75.4	71.7	83.9
Farm equipment area sales	68.4	60.5	60.4
Home sales	46.7	59.8	62.0
Hiring in the area	53.4	51.5	53.0
Retail Business	53.3	48.6	51.5
Economy 6 months from now	57.5	50.7	45.6

#### November Survey Results at a Glance:

- Rural Mainstreet Index climbs for a third straight month to a healthy level.
- Largest one month increase in the farmland price index since initiation of survey in 2005.
- Drought expected to increase 2013 pasture rentals by just over 10 percent.

- More than four in 10 bankers think the wind energy tax credit should end on Dec. 31, 2012.
- Approximately 70 percent of bank CEOs expect high corn prices to be a significant challenge for ethanol producers in 2013.

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



After experiencing negative fallout from drought conditions in June, July and August, the Rural Mainstreet economy expanded for a third consecutive month according to the November 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 a solid 57.5 from October’s 56.6.

Our survey indicates that the Rural Mainstreet businesses are shedding the negative impacts of the 2012 drought. However, given the continuing lack of moisture across much of the region, this economic respite may be short-lived. But national issues are also playing a role. According to Dale Bradley, CEO of The Citizens State Bank, in Miltonvale Kan., “The biggest (economic) issue we face soon is the fiscal crises with a locked up Congress.”

**Farming:** The farmland-price index took its biggest one month jump since we began the survey in 2005. The November reading soared to 83.9 from 71.7 in October. This is the 34th consecutive month that the farmland-price index has risen above growth neutral. Farmland prices and cash rents are soaring at what I believe are unsustainable paces. For example, last month there was an auction of cash rent contracts in southeast Nebraska. Contracts went for a record \$550 per acre per year for non-irrigated land. Right now we are seeing cash rents and farmland priced for perfection. Land prices and cash rents will be heavily dependent on 2013 drought conditions, agriculture commodity prices and interest rates. Any of these three factors could be a significant issue or problem for the Rural Mainstreet economy in the months and years ahead.

This month bankers were asked how much they expected 2013 pasture cash rents to rise as a result of the drought. Overall a 10.1 percent increase is expected. However, 12.5 percent of the bankers anticipate growth of more than 21 percent for 2013.

In terms of the ethanol industry, moreover, 69.7 percent of the CEOs indicated that high corn prices represented the biggest challenge for ethanol producers in the region in the coming year. Another 16.6 percent think government policy toward ethanol represents the industry’s biggest challenge for 2013.

The farm-equipment-sales index slipped to 60.4 from October’s 60.5.

**Banking:** After plummeting for October, the loan-

volume index expanded to a still weak 47.8 from October’s 44.2 but well down from September’s 70.2. The checking-deposit index advanced to 75.1 from October’s 66.7, while the index for certificates of deposit and other savings instruments rose to an anemic 45.5 from 42.0 in October. Despite the 2012 drought, farming and non-farming businesses have remained financially healthy with solid cash balances.

**Hiring:** November’s hiring index expanded to 53.0 from 51.5 in October. Hiring for Rural Mainstreet businesses is improving albeit at a slow pace. The uncertainty surrounding drought conditions and the fiscal cliff are restraining hiring even as the economy expands.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, sank to 45.6 from October’s tepid 50.7. The uncertainty surrounding the national economy including the “fiscal cliff,” the farm bill, and energy policy are negatively affecting the economic outlook of bankers.

The national elections continue to have impacts. As stated by Jeff Bonnett, president of Havana National Bank in Havana, Ill., “There are election blues in this area of the state.”

This month bankers were also asked whether the wind energy tax credit, slated to end on Dec. 31, 2012, should be continued. Approximately 41.8 percent of bank CEOs support ending the tax incentive while 49.2 advocate for renewing it. The remaining 9 percent support increasing the level of the incentive.

**Home and retail sales:** The November home-sales index advanced to a healthy 62.0 from 59.8 in October. The November retail-sales index increased to a tepid 51.5 from October’s even weaker 48.6. Much like the national retail sales numbers that came out this week, Rural Mainstreet businesses are experiencing lackluster sales. At the same time, the Rural Mainstreet housing market is improving rapidly with record low interest rates and a slowly improving job market.

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

## MAINSTREET ON YOUR STREET

### COLORADO

For a second straight month, Colorado’s Rural Mainstreet Index (RMI) moved above 50.0. The November RMI slipped to 51.8 from 53.0 in October. The farmland and ranchland price index increased to 63.1 from 52.4 in October. Colorado’s hiring index for November was 38.9, down from 49.8 in October.

### ILLINOIS

For a second straight month, the RMI for Illinois moved above growth neutral. The November index climbed to 65.9 from October’s 56.5. Farmland prices bounced higher with a November reading of 79.5, up from October’s 65.1. The state’s new-hiring index increased to a still weak 49.8 from 45.8 in October. Jim Eckert, president of Anchor State Bank in Anchor, said, “Most of my customers are in a ‘funk’ over the election results and expect the recession to get worse in the coming years.”

### IOWA

The RMI for Iowa for November advanced to 61.3 from 57.0 in October. The farmland-price index expand-ed to 80.1 from October’s 70.2. Iowa’s new-hiring index for November increased to 50.2 from October’s 49.1.

### KANSAS

The Kansas RMI for November climbed to 63.1 from October’s 57.3. The farmland-price index rose to 82.3 from October’s 71.7. The state’s new-hiring index increased slightly to 51.7 from 50.2 in October. On the other hand, Dale Bradley, CEO of The Citizens State Bank, in Miltonvale said, “Drought in Kansas is increasing (in impact).”

### MINNESOTA

The November RMI for Minnesota rose to 63.0 from 57.2 in October. Minnesota’s farmland-price index bounced to 84.6 from 76.3 in October. Minnesota’s new-hiring index was unchanged for November at 53.2. Pete Haddeland, CEO of First National Bank in Mahanomen, said, “Our economy is doing very well after a normal crop with great prices.”

### MISSOURI

The RMI for Missouri climbed to 55.5 from 53.9 in October. The farmland-price index for November increased to 56.7 from 51.2 in October. Missouri’s new-hiring sank to 34.6 from October’s 48.5.

### NEBRASKA

For a second consecutive month, Nebraska’s rural economy moved into positive territory. The November RMI rose to 57.7 from October’s 56.1. The farmland-price index rocketed to 86.2 from a much lower 66.5 in October. Nebraska’s new-hiring index increased to a weak 51.3 from 46.6 in October. Rod Cornelius, president of Pinnacle Bank of Grant, said, “No changes noted in pasture rent, unless Southwest Nebraska receives some moisture, there probably will not be any grass to graze.”

### NORTH DAKOTA

The North Dakota RMI for October advanced to a regional high 86.7 from 67.1 in October. The farmland-price index expanded to 89.5 from October’s 82.3. North Dakota’s new-hiring index rose to 88.3 from 77.5 in October.

### SOUTH DAKOTA

The November RMI for South Dakota increased to 57.7 from 56.5 in October. The farmland price index climbed to 85.6 from 68.4 in October. South Dakota’s new-hiring index for November rose to a still weak 48.0 from 47.9 in October.

### WYOMING

The November RMI for Wyoming expanded to 60.6 from 57.8 in October. The November farmland and ranchland price index expanded to 79.2 from 68.6 in October. Wyoming’s new-hiring index remained below growth neutral with a November reading of 49.6, up from 48.1 in November.

## THE BULLISH NEWS

- The nation added 136,000 jobs for the month of November and the unemployment rate declined to 7.7% from 7.9%. However, 350,000 unemployed, discouraged workers left the labor market.
- According to the Case-Shiller home price index for

September, U.S. home prices (year over year) increased for a fourth straight month.

## THE BEARISH NEWS

- U.S. retail and food services sales for October declined by 0.3% from the previous month and were only 3.8%, above October 2011, or only slightly above inflation.
- Both the national ISM index (the PMI) and Creighton’s regional PMI slumped below growth neutral for November.
- Annualized U.S. GDP growth was only 2.7% for the third quarter. Additionally, The growth in real GDP primarily reflected upturns in private inventory and in federal government spending. Consumers not spending and business-es not capital spending.
- U.S. manufacturers shed jobs in November.

## WHAT TO WATCH

- **PMI’s:** On Jan. 2, Creighton’s releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Additional declines will be very bearish for the economy.
- **Jobs:** On Friday Jan. 4, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for December. An addition of more than 200,000 jobs is needed but will not be forthcoming. This report will be like its predecessors, lackluster. Focus on manufacturing jobs which have been declining.
- **Retail Sales:** On Jan. 15, the U.S. Census Bureau releases its retail sales estimate for December. An increase of less than 0.1% will be a real warning signal of the rising likelihood of a recession.

## THE OUTLOOK

### FROM GOSS:

- I expect U.S. annualized Quarter 4 GDP growth to be less than 1%.
- U.S. unemployment rates will begin to rise in the first quarter of 2013.
- The U.S. trade deficit will grow significantly in the months ahead due to declining U.S. exports resulting from much slower global growth (e.g. Europe’s recession and Canada’s slower growth). The deficit subtracts from U.S. GDP growth.

### OTHER FORECASTS:

- National Association of Business Economics (October survey results). “About 20% of the panelists reported that the prices charged by their firms over the past three months have risen, which is an increase over the 9% of panelists reporting rising prices in the July survey. This suggests the potential for slightly higher inflationary pressures in the economy relative to the prior survey. The panelists continue their stable outlook concerning employment over the next six months. About 55% of the panelists suggest

that their employment is likely to remain unchanged, while 28% suggest that their firm’s employment is likely to increase. About 14% of the panelists suggest that the firm’s employment will decrease through attrition and 3% suggest that it will decrease through significant layoffs.”

- **ICBA Testifies:** Exempt Community Banks from Basel III. “The Independent Community Bankers of America (ICBA) today detailed in congressional testimony why policymakers should exempt the nation’s community banks from proposed Basel III regulatory capital standards. Testifying before the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity and on Financial Institutions and Consumer Credit, ICBA Chairman-Elect William A. Loving Jr. said that the guidelines should not apply to U.S. financial institutions with consolidated assets of \$50 billion or less.” “Basel III was meant to apply only to the very largest, internationally active institutions,” said Loving, who is also president and CEO of Pendleton Community Bank in Franklin, W.Va. “Community banks, with their simple capital structures and transparent and conservative lending, have little in common with these larger institutions. Applying the same capital rules, in addition to the many other new and far-reaching regulations that are soon becoming effective, will only undermine the viability of thousands of community banks.”

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The state of Mississippi awarded Twin Creeks Solar plant with \$27 million in state money and incentives to build a manufacturing plant in Senatobia. But a couple of years later, the company is selling off equipment, and the promise of hundreds of high-tech jobs vanished. Nationwide “green” energy companies are being supported, not by production and sales, but by U.S. and state tax incentives.

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