



The Urban & Rural Economies of Mid-America: How Are We Doing?

- Mid-America Development Council, Dec. 7 Meetings
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Investment Climate



**New Jobs,
Inflation,
Interest Rates &
Economic
Growth**

D.C. Uncertainties

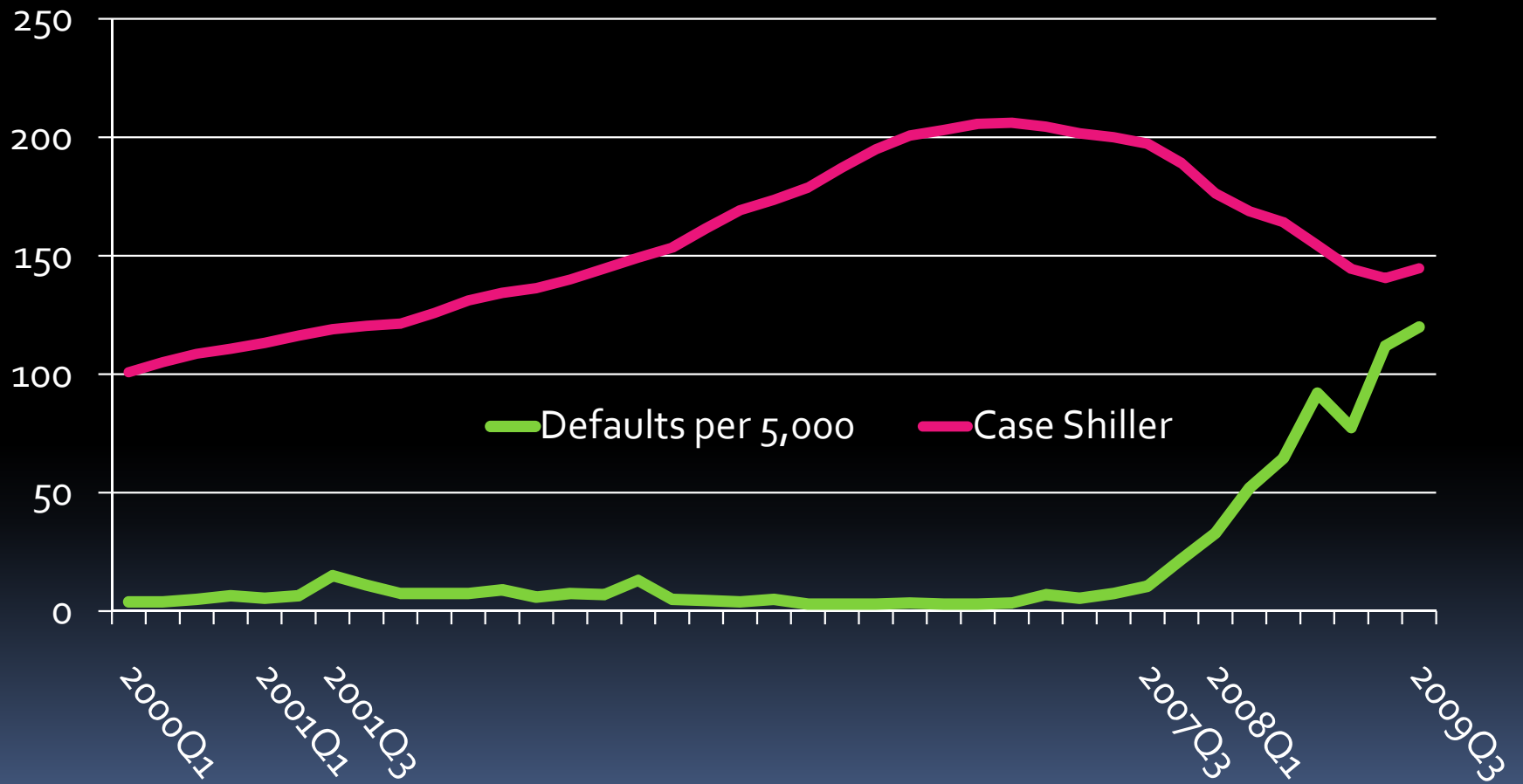
Housing



D.C. Uncertainties

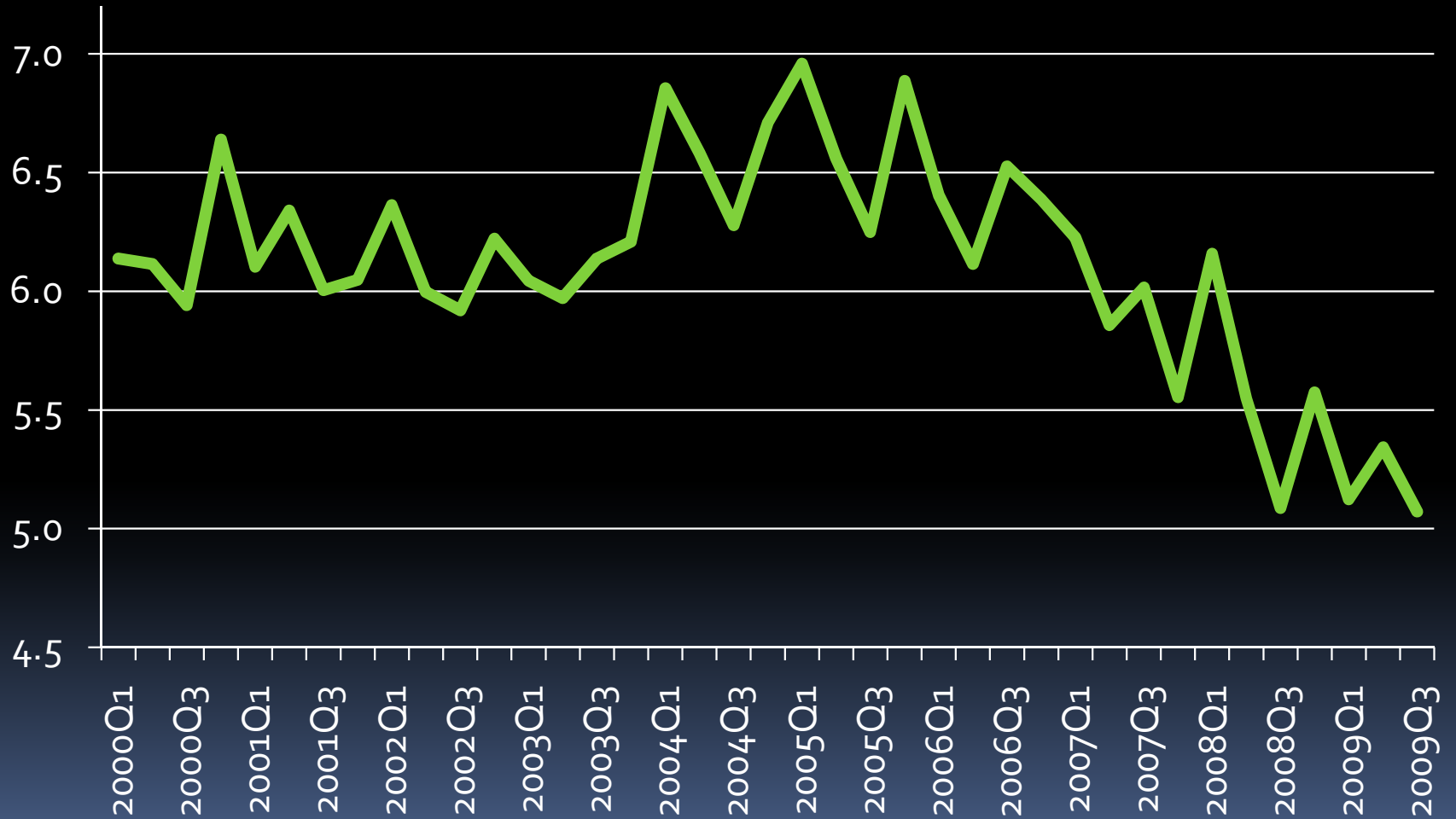
- **Health care reform & taxes to pay for program**
- **Cap & Trade & taxes to pay for program**
- **Making home affordable program**
- **Cash for “clunkers, appliances, caulking, etc.”**
- **Another stimulus program?**
- **Tax hikes to pay for war efforts?**
- **End of 2001 & 2003 tax cuts**
- **2 stimulus packages, TARP, auto bailouts, AIG, etc. = \$2,000 billion - \$3,000 billion**

Housing prices & foreclosures 2000-09



Years of wages to buy a house: Mid-West

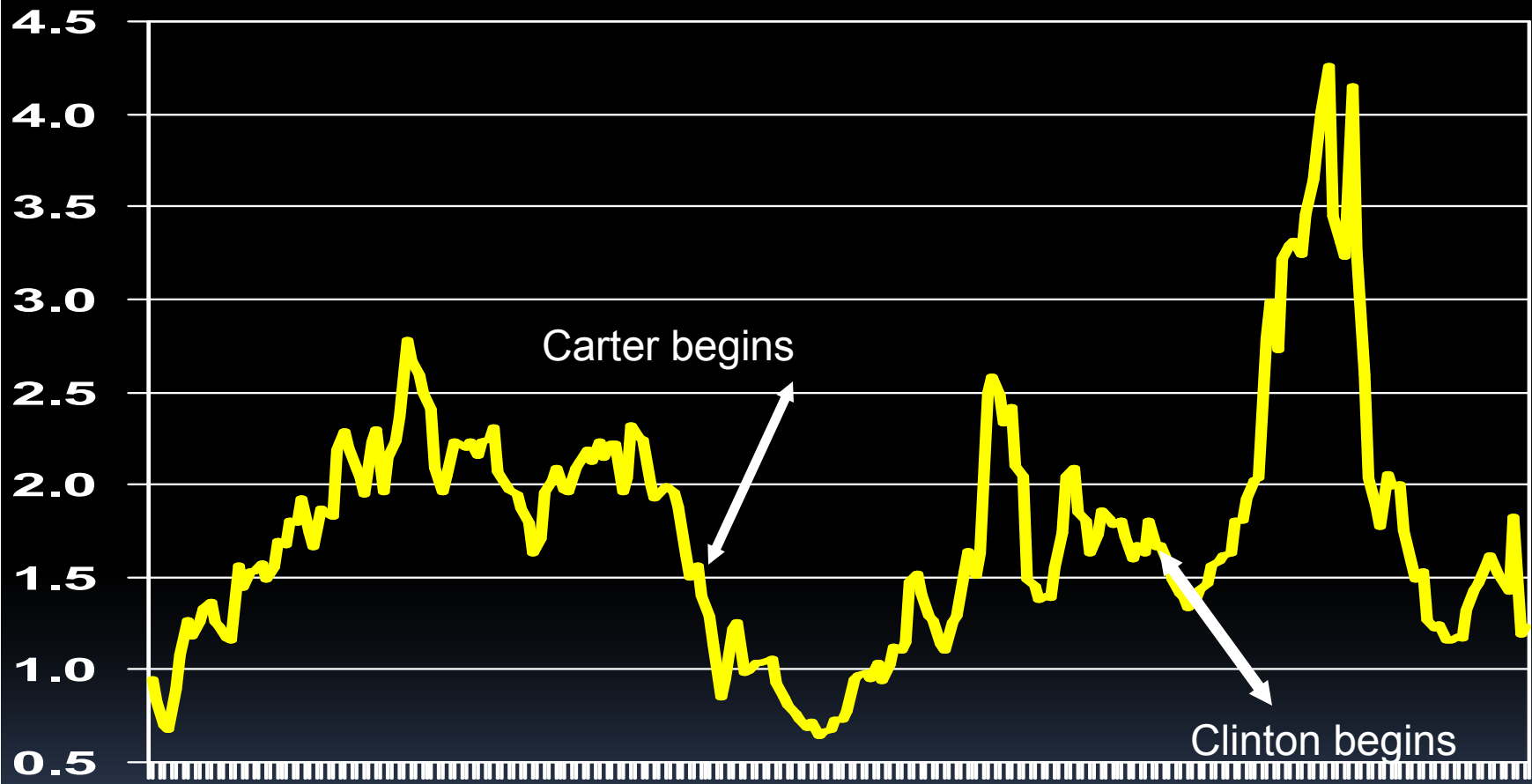
Average # of years of wages to buy house: Iowa = 6.1; Nebraska = 5.9



Conclusions?

- Homeownership rates:
 - 1995 64.8%
 - 2005 68.9% (highest ever)
- Relaxing standards brought 4.5 million new and mostly unqualified buyers into market.
- With no growth in per capita income, housing prices would have to increase by 10.0% to return to historical ratio of housing prices to wages
- These estimates assume no change in housing preferences
- These estimates assume that unemployment rates do not exceed 10.5%.
- These estimates assume no change in the deductibility of home interest

Stock values v. Corp. Profits, 1950-09 (Avg = 1.8; Current =1.2)

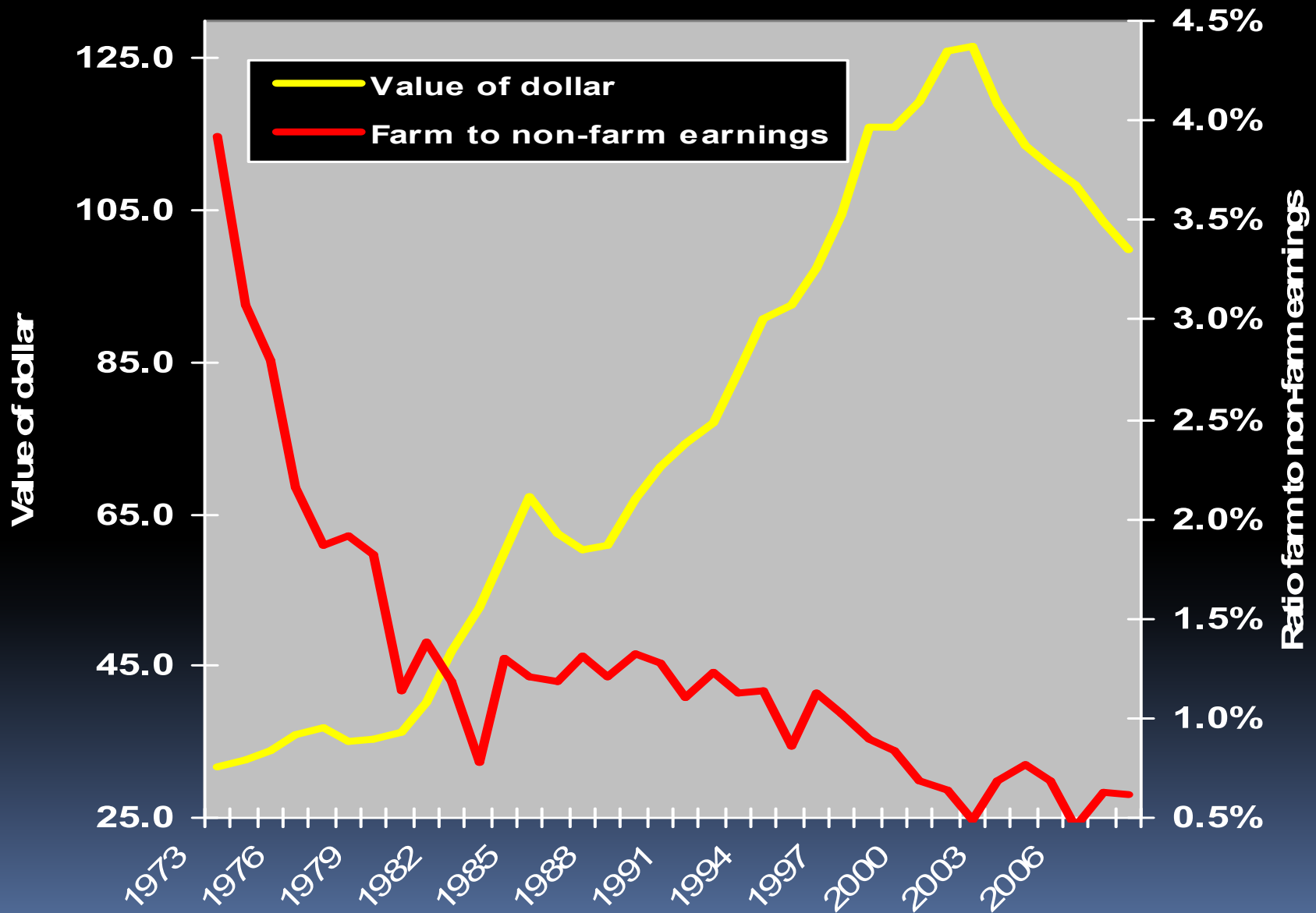


- Graph profiles S&P divided by Corporate Profits in billions

U.S. Recessions since 1950

Date begun	Length-months	Months til jobs added	Months til stocks expand
Aug-53	10	14	3
Aug-57	8	11	8
Apr-60	10	12	6
Nov-69	12	13	8
Nov-73	16	20	14
Jan-80	6	7	3
Jul-81	16	18	13
Jul-90	8	13	4
Mar-01	8	37	32
Dec-07	20	?	15
Median	10	13	8

Value of \$ vs Farm/nonfarm earnings, 1973-2008



Bullish on Agriculture, Energy & Stock Market: Long term

- **Fast growth for emerging economies (China, India):** Food & energy demand income elastic (e.g. income up 8%, food demand up 12%)
- **Cheap value of dollar (makes U.S. food & energy more competitive abroad):** U.S. trade deficit, budget deficit, higher inflation.
- **Biofuels & alternative fuel production:** wind farms, ethanol.
- **S&P will rise by more than 20% (for next 2 years)**
Returning to long term relationship between profits and S&P.

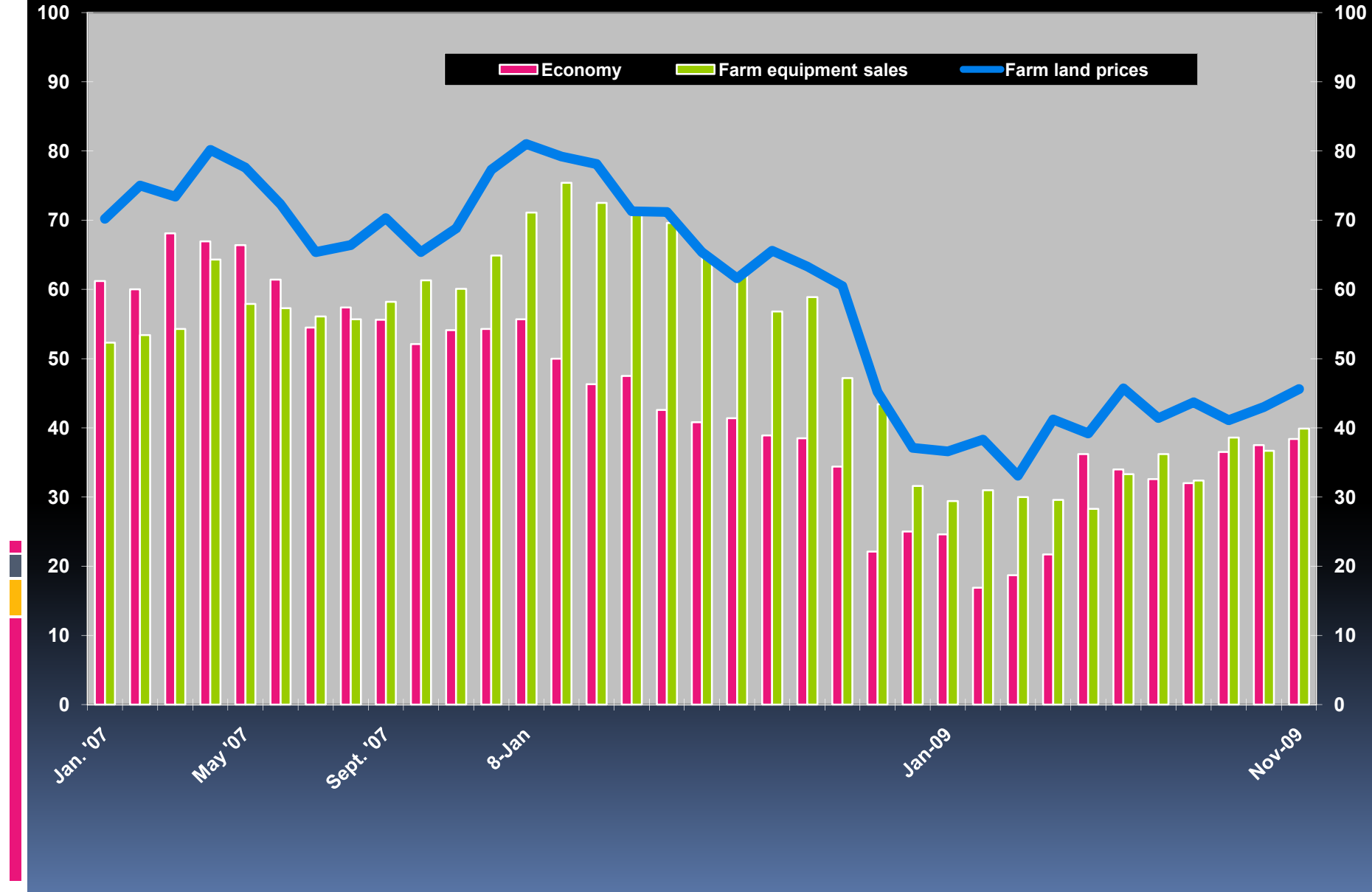
The Mainstreet Economy

- A monthly survey of community bank CEOs
- Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Wyoming
- Intended to gauge the economic conditions in the non-urban areas of region
- Average community size is 1,300 population
- Available at:
 - www.outlook-economic.com
 - www.economicstrends.blogspot.com

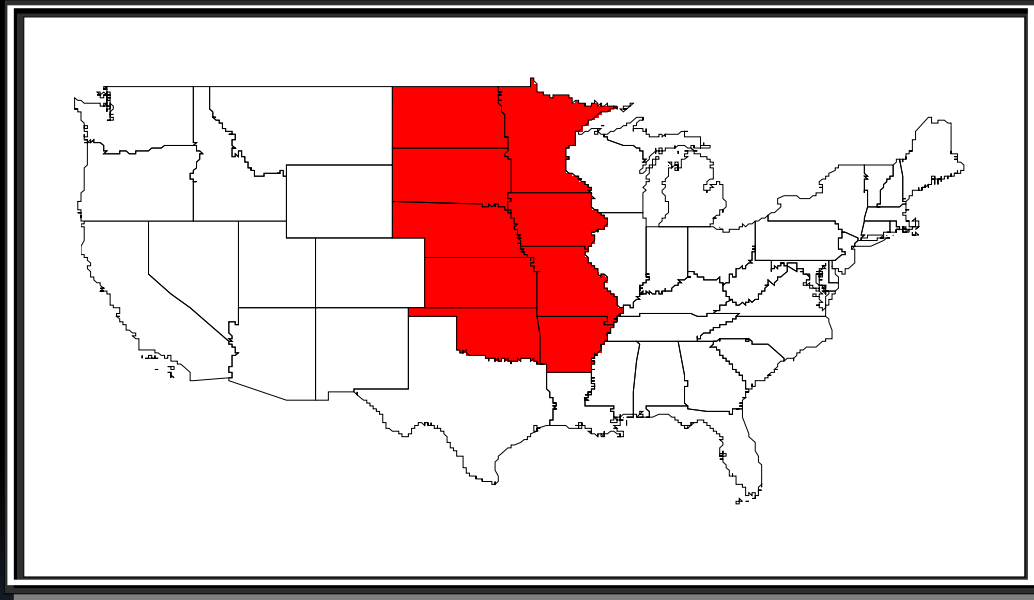
The Rural Mainstreet Economy (index over 50 indicates expansion)

	Nov-08	Oct. 2009	Nov. 2009
Area economic index	22.1	37.5	38.4
Loan volume	46.4	42.4	38.3
Checking deposits	69.1	61.0	66.4
Certificates of deposit	60.9	51.7	50.9
Farmland prices	45.2	43.0	45.6
Farm equipment sales	43.4	36.7	39.9
Home sales	20.6	46.7	43.1
Hiring in area	23.6	35.6	36.3
Retail business	18.6	36.7	38.5
Confidence index	13.0	58.7	50.1

Rural Mainstreet Economy, '07-'09



The Regional Economy: Survey of Purchasing Managers & Business Leaders

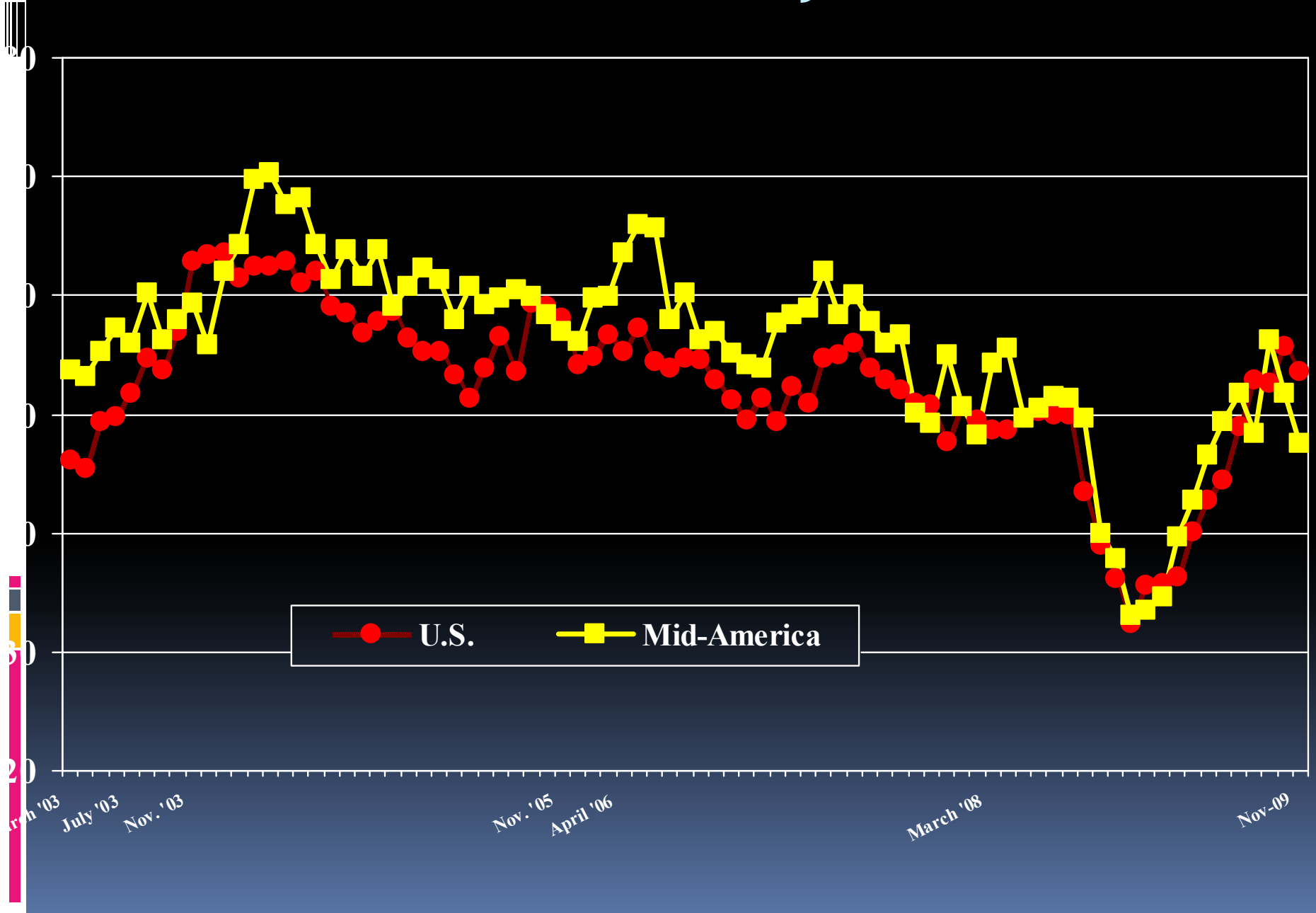


- A Partnership Among Creighton, and State Supply Managers Associations

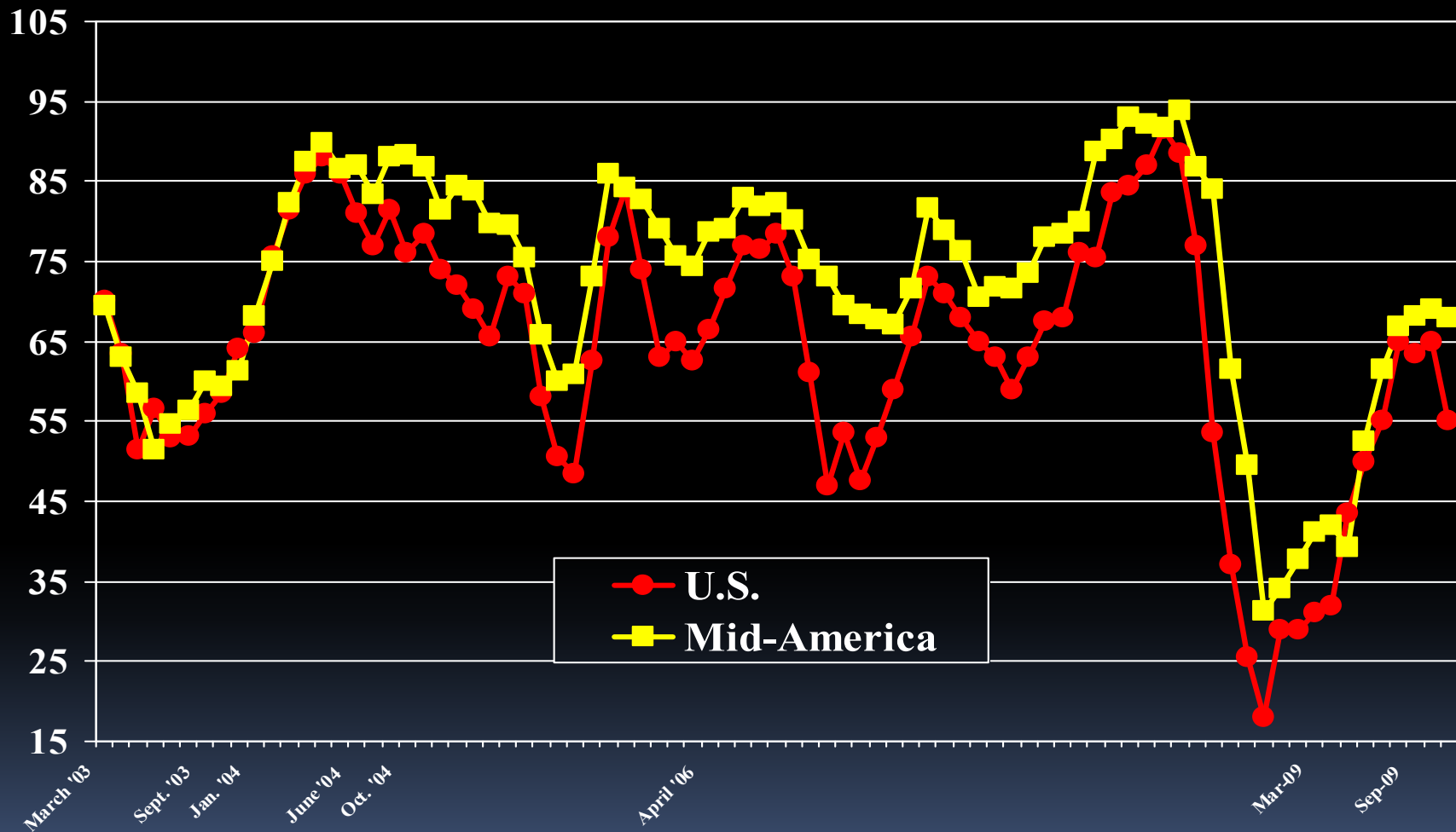
Monthly Survey of Business Conditions

- Leading Economic Indicator
- Released First Business Day of Each Month to Media
- Released Via WWWeb:
- www.outlook-economic.org
- www.ernestgoss.com
- Appears in media throughout U.S.
- Survey of supply managers in over 900 firms

Business Conditions Index, 2003-09



Prices Paid Index, 2003-09



Economic Medicine:

- > Make 2001 and 2003 tax cuts on dividends & capital gains permanent
- > Reduce Gov. spending to less than 20% of GDP
- > Reject lifting the cap on taxable social security wages
- > Artificially supporting the dollar is a losing proposition
- > "Draw a line in the sand" bailouts are over

Important indicators: keep an eye on:

- The employment report for December will be released on Jan. 8th . I expect the report to show job losses (above 165,000) for a 26th straight month and an increase in the unemployment rate by 0.1% (www.bls.gov).
- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims below 475,000 will be bullish (www.doe.gov).
- The first and most important indicator for January will be the Mid-America and U.S. October PMIs released Jan. 3rd (www.outlook-economic.com and www.ism.ws). A drop in the national will be bearish (under 50 will be very, very bearish).
- Keep an eye on the yield for 10-year U.S. Treasuries. If this yield approaches 4.0% within the next month the Fed will be “between a rock and a hard place.” The rapidly rising yields reflect: 1) Concerns regarding the large increases in the U.S. budget deficit, 2) Rising inflation expectations (but not a large factor yet) and 3) Investors reduced the risk perceptions and are pulling money out of treasuries and putting it into equity markets (a good thing) (<http://finance.yahoo.com>).
- Investors will be closely watching retail sales to detect a weak consumer. A weak December reading will be a bad signal for the holiday buying season. Released December 11 (www.census.gov).

Reducing Investment Risk

- Prepare for tax increases-municipal bonds
- Prepare for higher inflation--TIPS
- Prepare for higher interest rates—stocks
- Prepare for slower U.S. growth—foreign stocks
- Prepare for wage & price controls in healthcare
- Prepare for volatility and downturn in the value of the dollar---food & global manufacturers