The Regional Economy-Black Swans & Golden Geese: Surveys of Supply Managers & Bank CEOs

(What Happens on the Farm Does Not Stay on the Farm)

Nebraska Mortgage Banking Association
Lincoln, Nebraska
September 18, 2019

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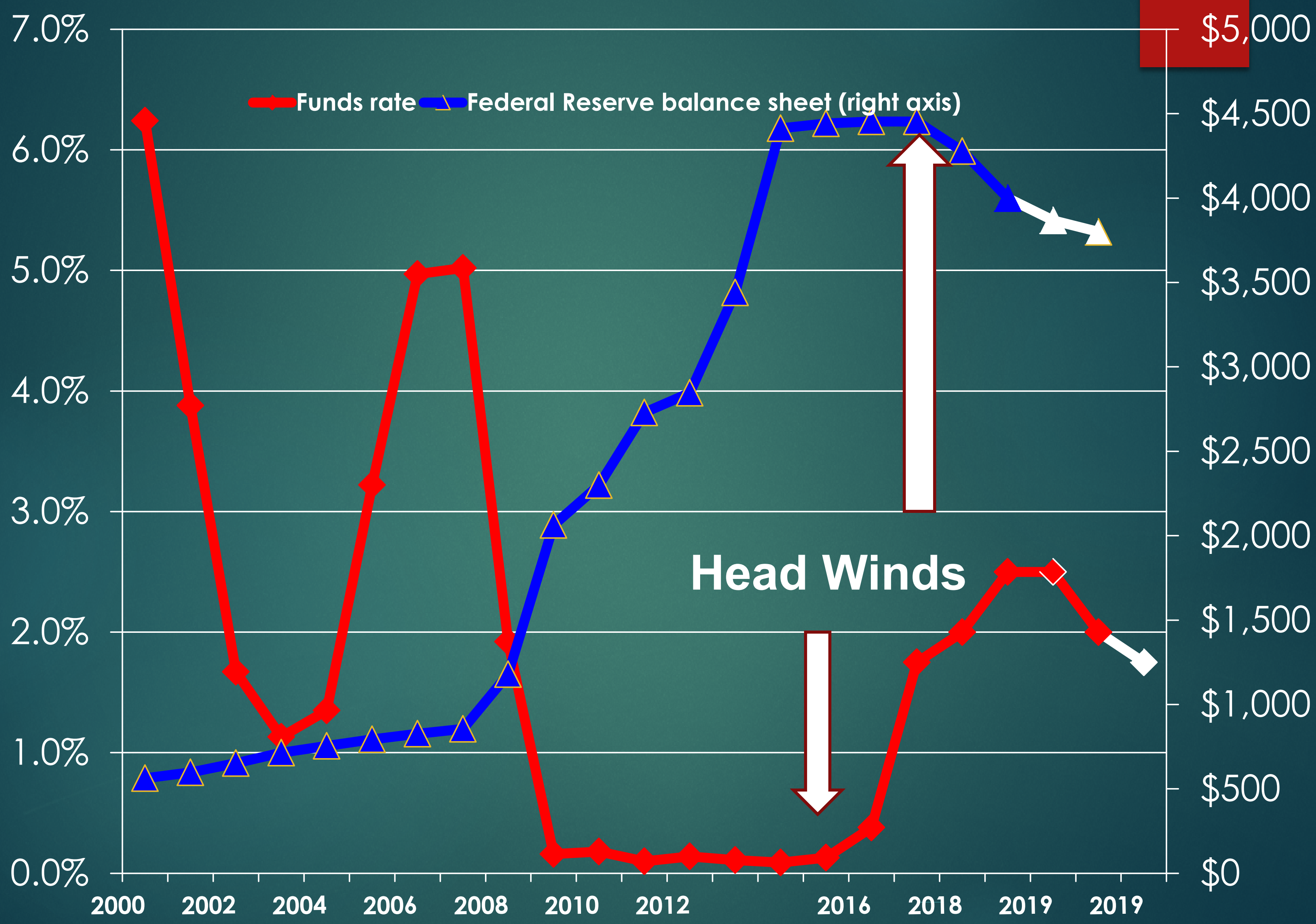
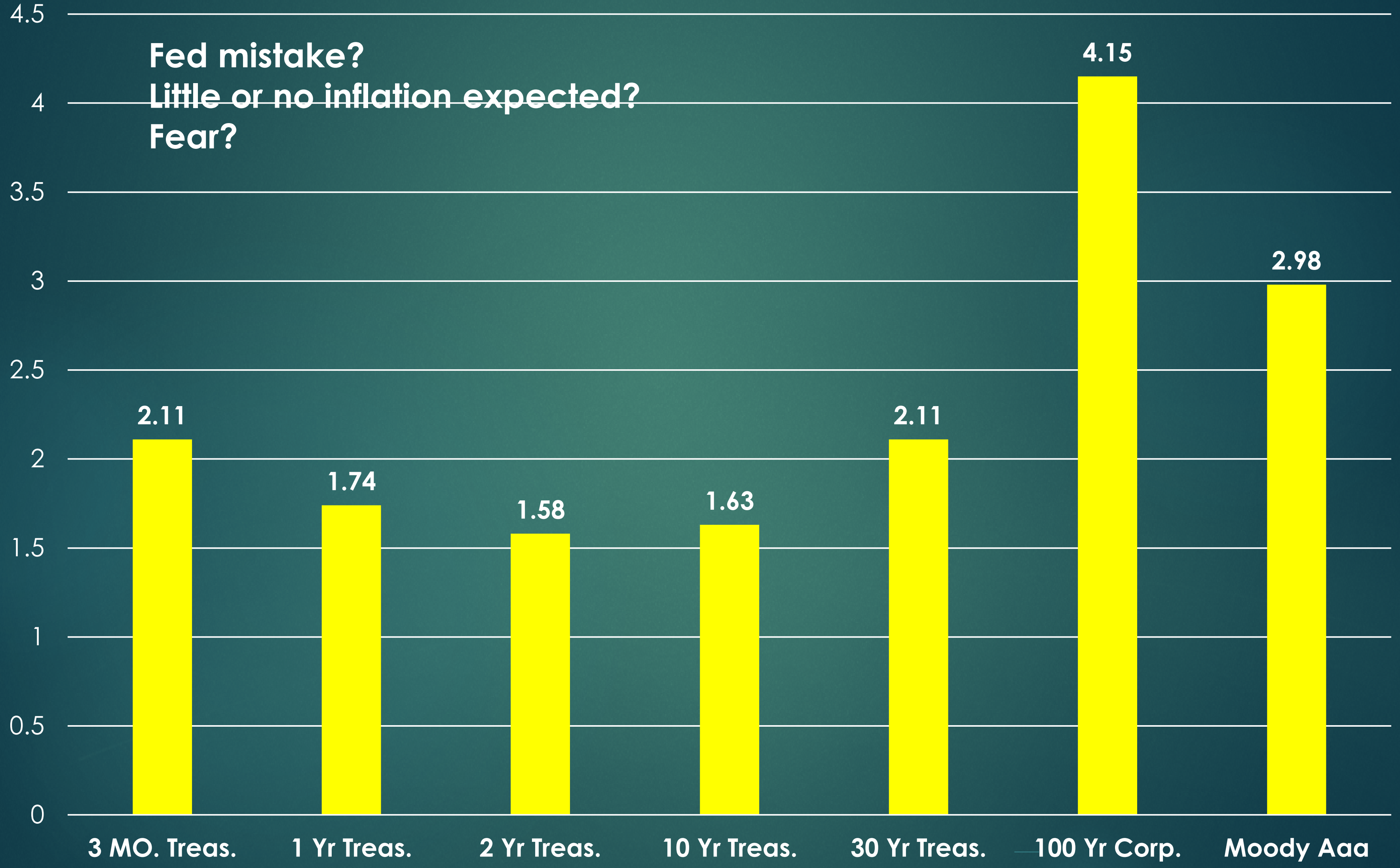
2019-20 Challenges

- Export headwinds
- Weakness in Manufacturing& Agriculture (Housing next?)
- Infrastructure Spending?
- Flood impacts
- Federal Deficit +27% from 2018
- Farm Loan Defaults

Federal Reserve balance sheet vs. Funds Rate, 2000-19



Yields Sept. 9, 2019 (percentages)

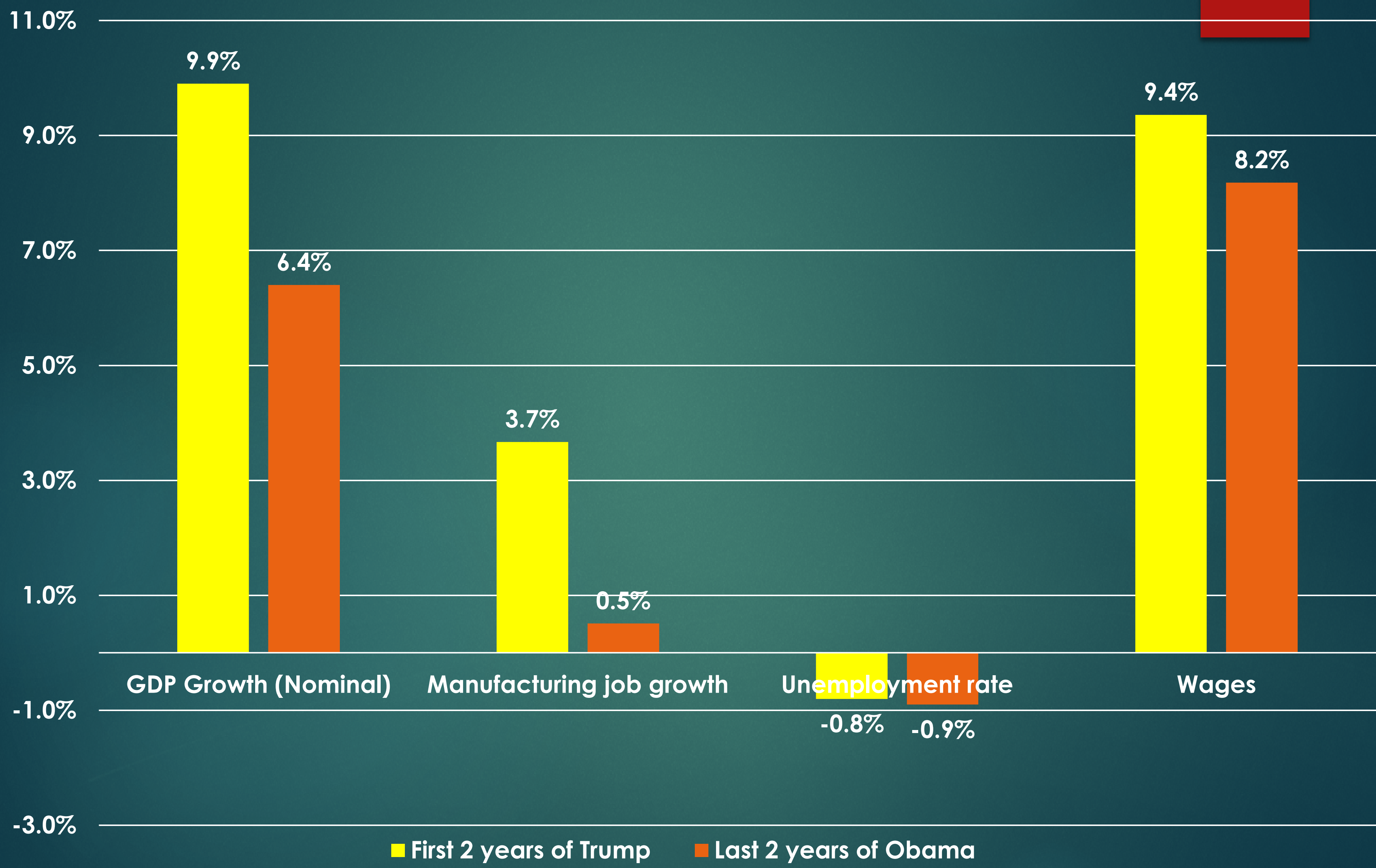


"May you live in interesting times."

- Swiss government bond maturing in 2066:
- Price July 16, 2016; $1,000 (U.S. dollars)
- Yield = -0.02% (2016); +0.70% (today)
- Assuming 1% inflation; Net present value = $607 (at issuance)
- Investors that bought in 2016 made money, ROR = 16.4% (2016-17)
- Greater fool theory? Who Is It?

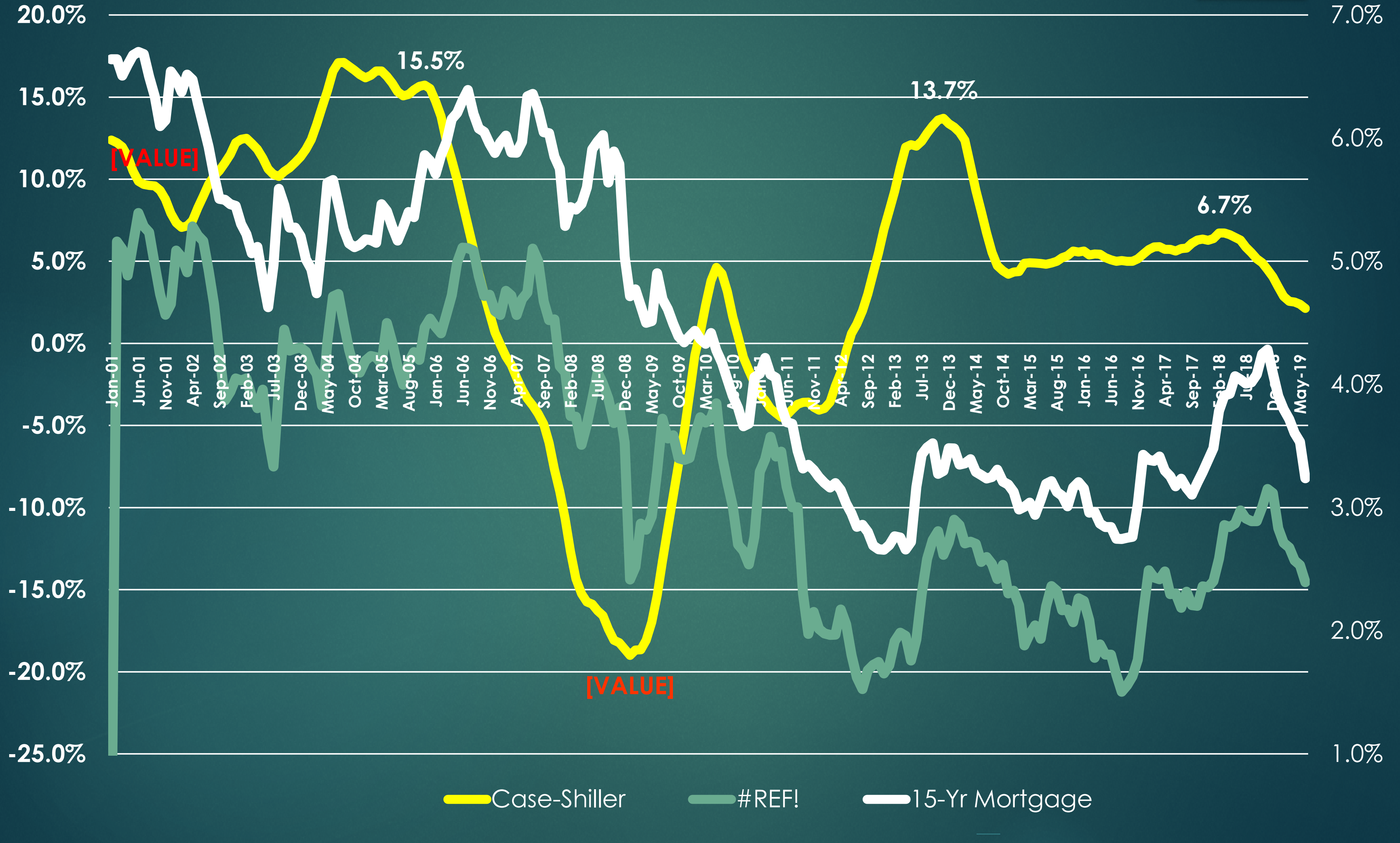
The 2017 Tax Cuts Did Not Work! Wrong, Wrong, Wrong!

Did tax cut work?



I will argue that Trump's election was:
*a rejection of many of these policies that expanded government over-reach
*rejection of political & economic elite (ism)
*a rejection of D.C., New York and Los Angeles solutions
*much like Brexit on June 23, 2016
*much like France's ascendance of Macron & La Penne
*Business community—regulatory & tax reform

Housing metrics, 2001-19 (June)

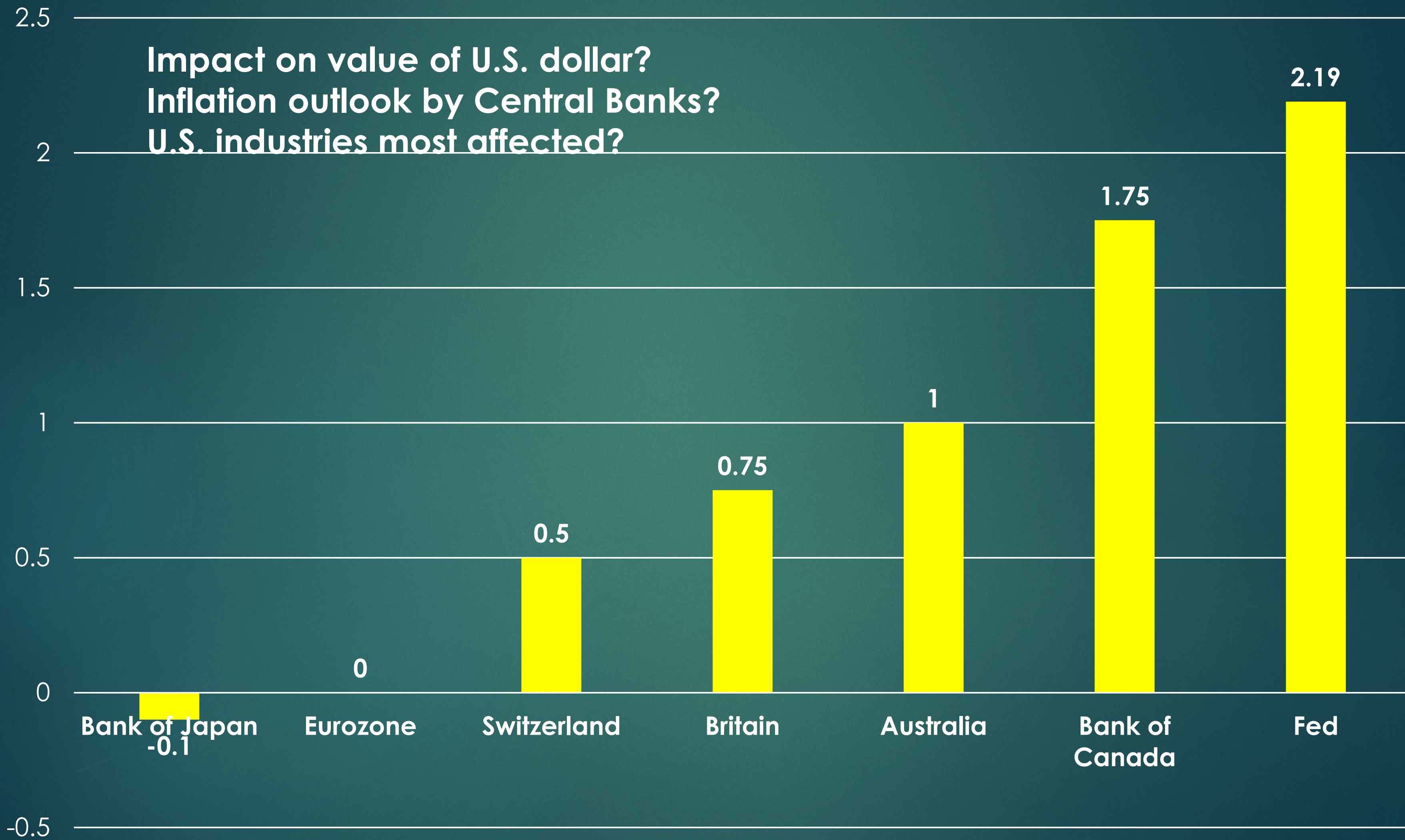


Where Are the Price Bubbles? Black Swans? High prices drive ROR down

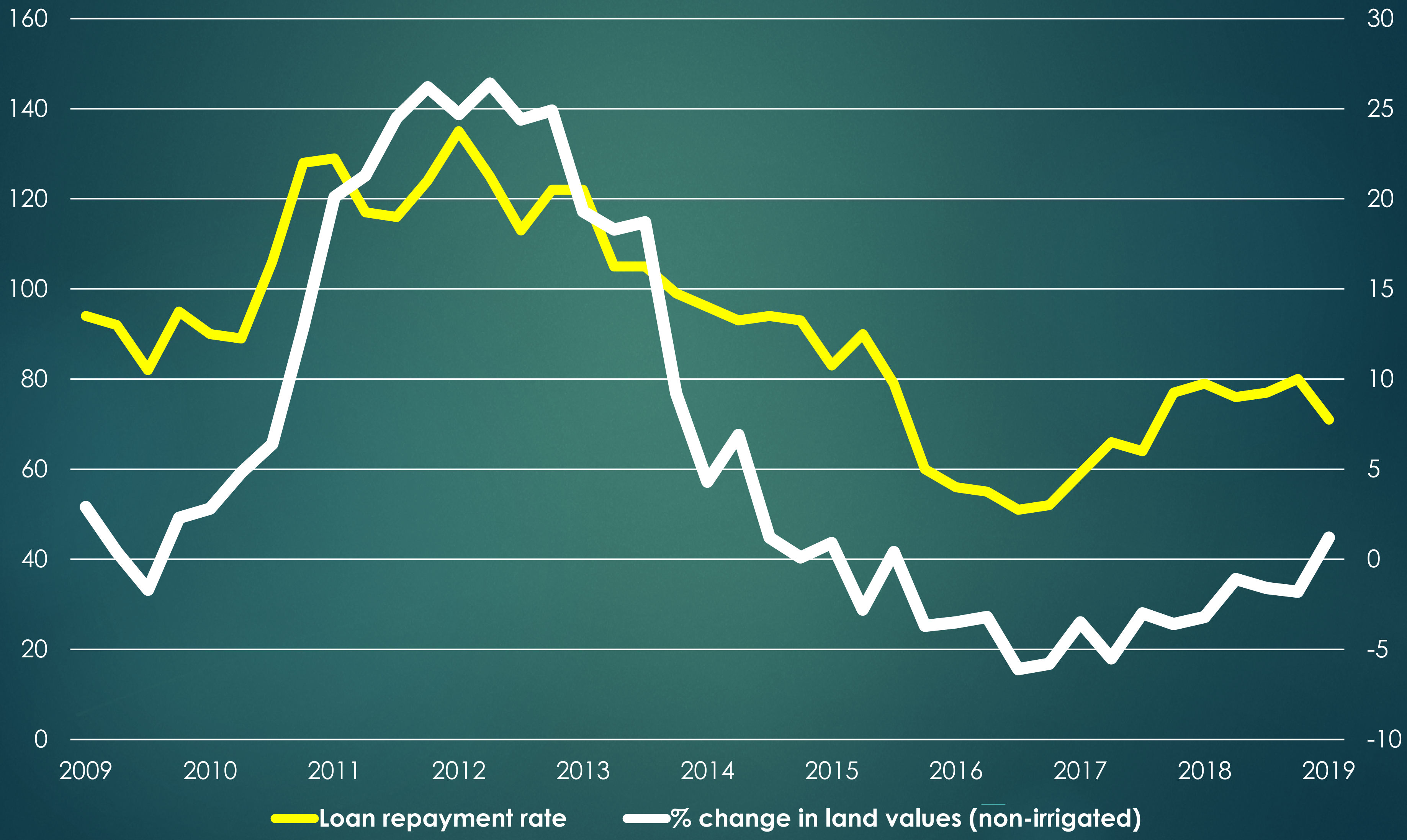
- Bond prices? Rate-of-Return = 1.6%
- Stock prices? ROR (Case-Shiller S&P) = 3.0% to 3.2%
- Farm ETF? MOO = +3.75%
- Ag Land? Price Change = -3.0% next year; -4.0% last year
- Ag Equipment Sales? -7.8%
- Annual growth home prices= 5.7% to 2%
- Bitcoin > $1,000 to 19,000

Policy rates, Sept. 9, 2019 (percentages)

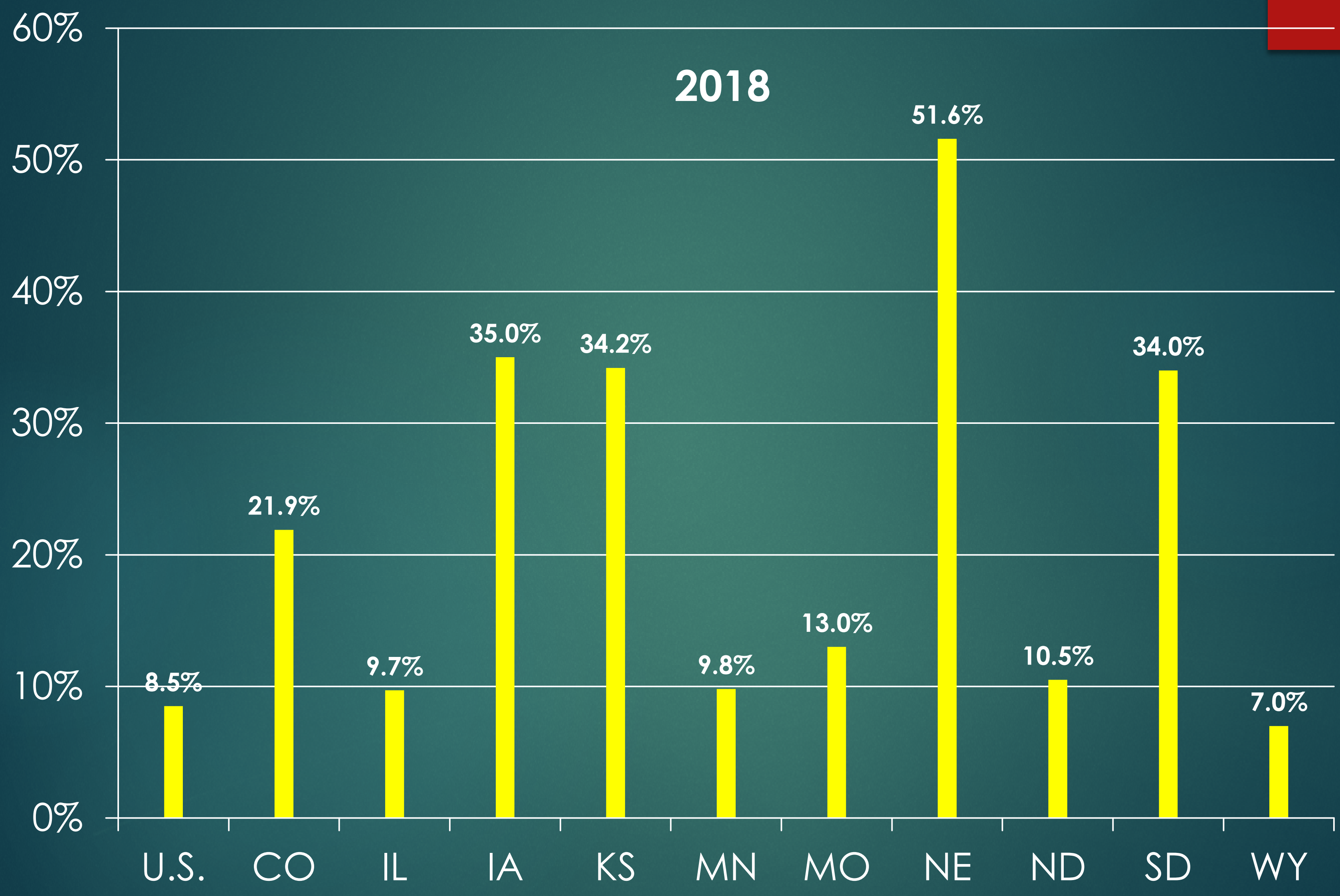
Impact on value of U.S. dollar?
Inflation outlook by Central Banks?
U.S. industries most affected?



Ag conditions, 2009-19 (Source: KC Fed)



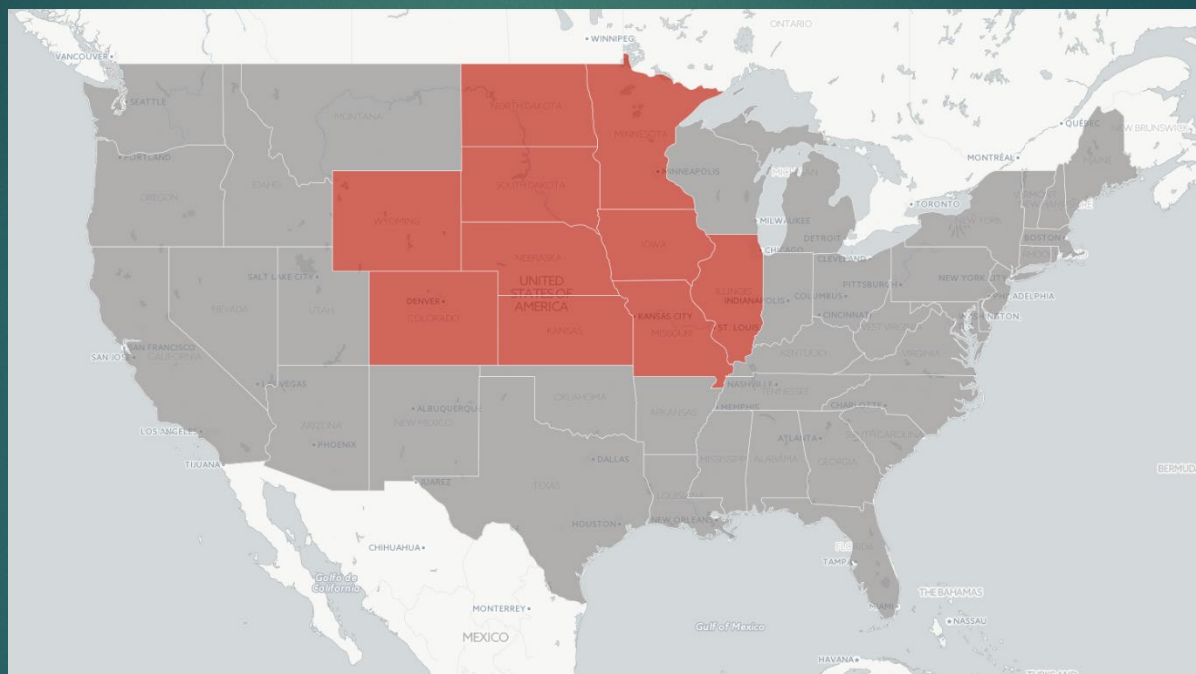
Food as percent of exports, 2018



Rural Mainstreet export comparisons, 2007-14 and 2014-18

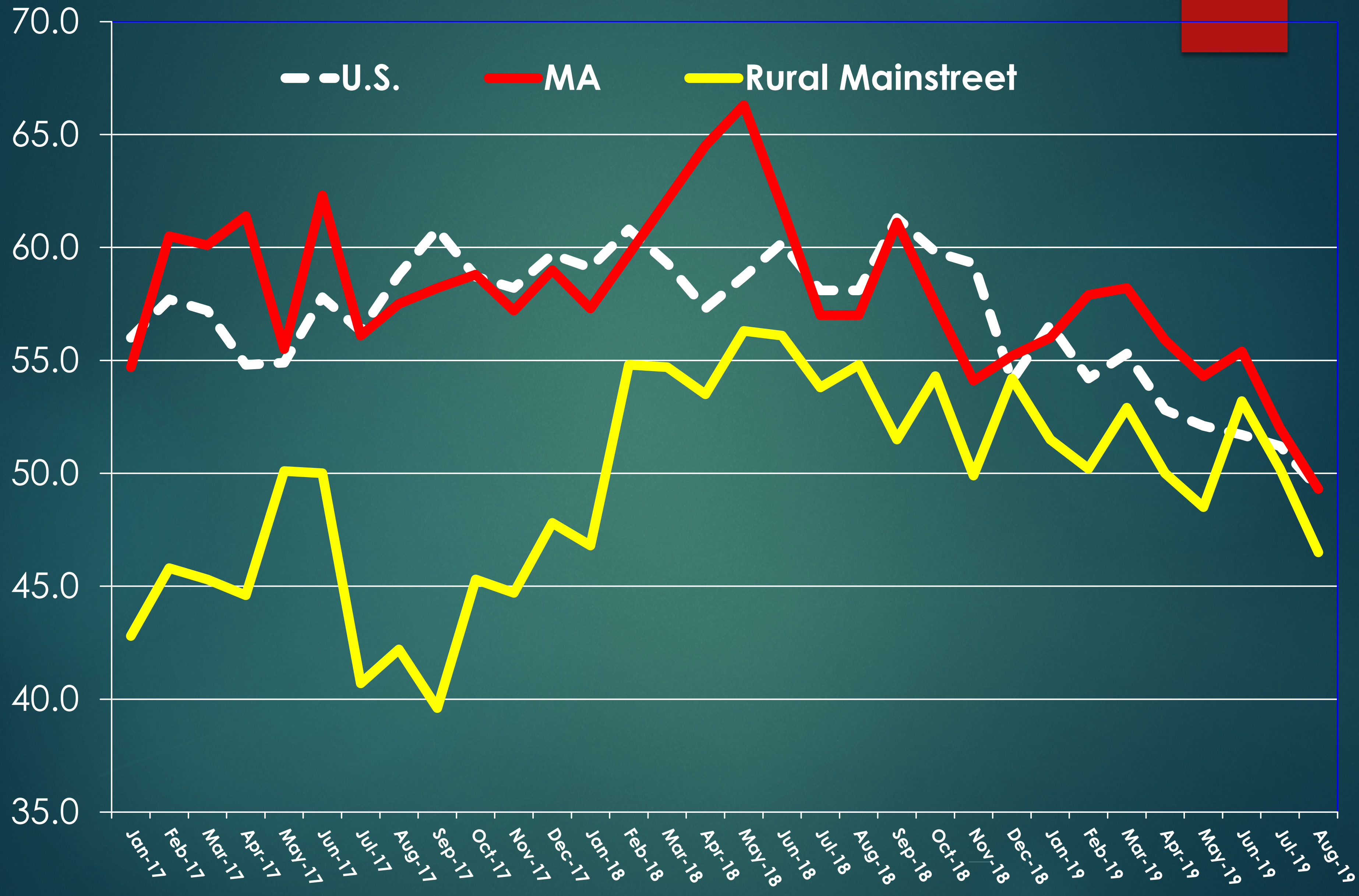
	Ranking	Yearly growth	
	Growth 2007-14	**2007-14 (QE1, QE2, QE3)**	**2014-18 (No QE)**
U.S.	*	**5.9%**	**-1.5%**
Arkansas	18	5.8%	-2.6%
Illinois	20	5.6%	-1.7%
Iowa	13	8.0%	-4.2%
Kansas	40	**2.5%**	**-2.1%**
Minnesota	39	**2.6%**	**-1.2%**
Missouri	48	**0.7%**	**0.0%**
Nebraska	7	12.0%	-2.9%
North Dakota	2	24.1%	-1.1%
Oklahoma	22	5.4%	-4.8%
South Dakota	47	0.8%	-4.6%

The Rural Mainstreet Economy: Survey of Bank CEOs Average Community Size = 1,300



A Partnership Among Creighton and Bank CEOs in 10 States

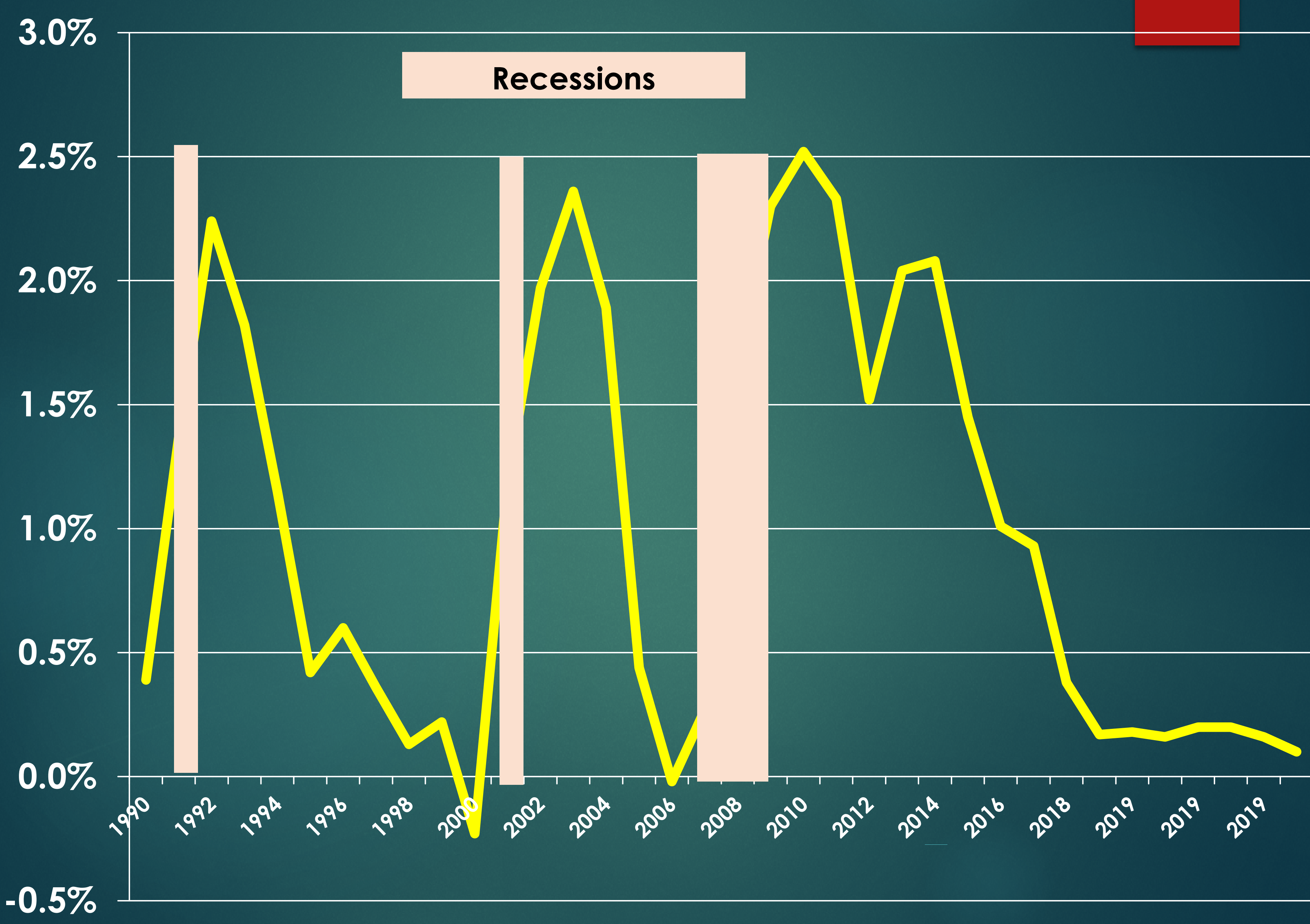
U.S., Mid-America, Rural Mainstreet, Economic Indicators, 2017-19



Bullish on Rural Mainstreet: *Long term*

- **Fast growth for emerging economies (China, India):** Food & energy demand income elastic (e.g. income up 8%, food demand up 12%)
- **Alternative energy production initiative:** wind farms, ethanol (?), anaerobic digestion.
- **Larger farms and aging population place challenge for rural counties.** Medical occupations will play key role.

U.S. Treasury yield curve 1990 – August 23, 2019 (10 yr minus 2 yr)



Indicators to Watch/Risks (Sept. – Oct.)

- **Federal Reserve Meetings Sept. 17-18**
- **ISM readings (Creighton & National (Oct. 1)**
- **Jobs report(Oct. 4) Sept. employment**
- Wages (Oct. 4) Sept. jobs report.
- **Case-Shiller home price index for July on Oct. 24.**
- **Brexit--Oct. 31 (hard Brexit?)**

Questions?
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