

## Recreational Marijuana's Impact on the Economy (Mile-High State Revisited): More Growth, More Government

As of October 2018, 31 states and D.C. have legalized marijuana in some form. Alaska, California, Colorado, D.C., Maine, Massachusetts, Nevada, Oregon, Vermont, and Washington have adopted the most liberal laws for recreational use of marijuana. To gauge economic impacts, Colorado, the first state to legalize recreational use, represents the best case for analysis. Since 2013, when marijuana was legalized in the state, how has the Colorado economy performed relative to the nation?

**Jobs and GDP:** Between 2013 and 2018, Colorado experienced a 19.7% boost to inflation-adjusted GDP compared to a much lower 12.1% for the rest of the U.S. On a per capita basis, Colorado expanded inflation-adjusted GDP by 10.8% versus a lower 7.5% for the nation. In terms of job gains for the same period of time, Colorado grew its jobs by 14.7% compared to a much lower 10.0% for the U.S.

**The Size of Government:** Per 1,000 in population between 2013 and 2018, Colorado added 6.1 state and local government workers, while all other states kept state and local government as a share of the population flat. Had Colorado expanded state and local government at the same pace as the nation, the state would have had 34,204 fewer government employees in 2018.

**Crime Rates:** Between 2015 and 2016 per 100,000 inhabitants, Colorado reported an increase in violent crimes of 24.2 compared to the nation's 12.5. During this same time period per 100,000 inhabitants, Colorado's robberies climbed by 2.9, while the U.S rate rose by a lower 1.1.

Colorado's growth in tax revenues from the pot trade rose from \$67.6 million, for the year after legalization, to \$247.4 million in 2017. This rapid tax revenue growth has motivated other states to legalize or consider the legalization of the recreational use of marijuana. This narrow examination of economic data from Colorado suggests a mixed picture of the economic impact of such an expansion. Ernie Goss.

## MAINSTREET RESULTS

### Rural Mainstreet Index Expands for October: Bankers Expect Farmland Prices to Continue Decline

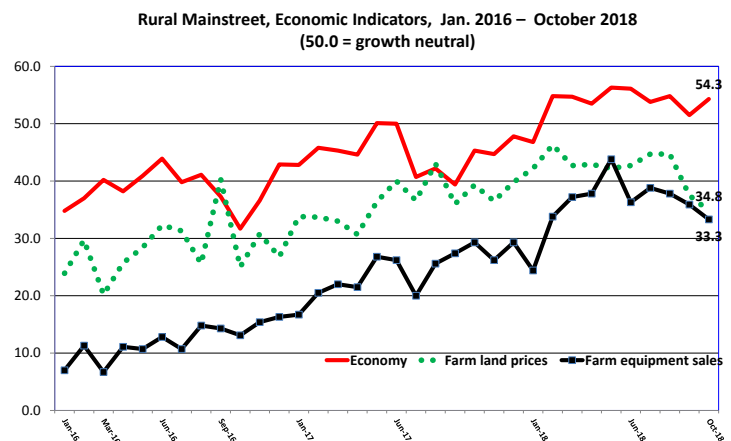
October Survey Results at a Glance:

- For a ninth straight month, the overall index rose above growth neutral.
- On average, bankers estimated that farmland prices declined by 4.0 percent over the past 12 months and expect farmland prices to fall by another 3.2 percent over the next 12 months.
- Approximately one-fifth of bank CEOs expect low farm income and falling farmland prices to present the greatest challenge to banking operations over the next 5 years.
- Loan demand by farmers remains strong.

The Creighton University Rural Mainstreet Index climbed above growth neutral in October for a ninth straight month, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

**Overall:** The overall index expanded to 54.3 from 51.5 in September. The index ranges between 0 and 100 with 50.0 representing growth neutral.

	Sept 2017	Sept 2018	Oct 2018
Area Economic Index	39.6	51.5	54.3
Loan volume	73.2	65.3	60.0
Checking deposits	51.2	39.4	45.7
Certificate of deposits	46.6	45.5	42.9
Farm land prices	36.0	37.5	34.8
Farm equipment area sales	27.4	35.9	33.3
Home sales	56.0	54.7	54.3
Hiring in the area	55.9	65.3	65.7
Retail Business	41.9	48.4	51.4



Our surveys over the last several months indicate that the Rural Mainstreet economy is expanding outside of agriculture. However, the negative impacts of tariffs and low agriculture commodity prices continue to weaken the farm sector.

James Brown, CEO of Hardin County Savings Bank in Eldora, Iowa said, "Deteriorating crop conditions and the late harvest are the overriding concerns with our farmers."

**Farming and ranching:** The farmland and ranchland-price for October sank to 34.8 from 37.5 in September. This is the 59th straight month the index has fallen below growth neutral 50.0.

Bank CEOs were asked to estimate the change in farmland prices over the past 12 months and for the next 12 months. On average, bankers estimated that farmland prices declined by 4.0 percent over the past 12 months and expect farmland prices to fall by another 3.2 percent over the next 12 months.

According to Fritz Kuhlmeier CEO of Citizens State Bank in Lena, Illinois, "More than ever, farmland values are extremely dependent upon quality, and location, location, location."

The October farm equipment-sales index fell to 33.3 from September' 35.9. This marks the 62nd consecutive month that the reading has moved below growth neutral 50.0.

**Banking:** Borrowing by farmers contracted for October as the loan-volume index declined to 60.0 from 65.3 in September. The checking-deposit index increased to 45.7 from September's 39.4, while the index for certificates of deposit and other savings

instruments fell to 42.9 from 45.5 in September.

**Hiring:** The employment gauge climbed to 65.7 from September's strong 65.3. The Rural Mainstreet economy is now experiencing healthy job growth. Over the past 12 months, the Rural Mainstreet economy added jobs at a 1.6 percent pace compared to a lower 1.5 percent for urban areas of the same 10 states.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, sank to a very weak 42.6 from September's 49.5, indicating a pessimistic economic outlook among bankers.

Just as last month, tariffs, trade tensions, and weak agriculture commodity prices diminished the economic outlook of bank CEOs. However, the Trump Administration's decision to support expansion of ethanol usage is expected to have a positive impact but in the long term.

James Brown, CEO of Hardin County Savings Bank in Eldora, Iowa said, "The ethanol boost may help our commodity prices eventually but probably not short term."

**Home and retail sales:** The home-sales index decreased to a still solid 54.3 from 54.7 in September. Retail sales sank for the month with an index of 54.3, up sharply from September's 48.3. Consumers are clearly more optimistic about the economy as they spent more heavily in October.

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, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

## MAINSTREET ON YOUR STREET

### COLORADO

Colorado's Rural Mainstreet Index for October fell to 54.6 from September's 56.1. The farmland and ranchland-price index slumped to 35.1 from 38.0 in September. Colorado's hiring index for October slipped to 65.7 from September's 68.1. Colorado's Rural Mainstreet economy added jobs at a 1.2 percent pace over the past 12 months.

### ILLINOIS

The October RMI for Illinois climbed to 54.8 from 52.4 in September. The farmland-price index sank to 35.2 from September's 45.5. The state's new-hiring index rose to 66.7 from last month's 65.9. Illinois's Rural Mainstreet economy added jobs at a 2.0 percent pace over the past 12 months.

### IOWA

The October RMI for Iowa improved to 53.5 from September's 51.2. Iowa's farmland-price index for October sank to 34.6 from

September's 37.3. Iowa's new-hiring index for October dipped to 59.8 from September's 61.1. Iowa's Rural Mainstreet economy added jobs at a 0.8 percent pace over the past 12 months.

### KANSAS

The Kansas RMI for October expanded to 55.5 from September's 53.2. The state's farmland-price index sank to 35.5 from 38.1 in September. The new-hiring index for Kansas climbed to 69.7 from 69.0 in September. Kansas's Rural Mainstreet economy added jobs at a 2.2 percent pace over the past 12 months.

### MINNESOTA

The October RMI for Minnesota expanded to 53.9 from September's 50.0. Minnesota's farmland-price index slumped to 34.8 from 37.2 in September. The new-hiring index for October advanced to 63.2 from September's 58.8. Minnesota's Rural Mainstreet economy added jobs at a 0.8 percent pace over the past 12 months.

### MISSOURI

The October RMI for Missouri expanded to 54.5 from 52.7 in September 56.4. The farmland-price index for the state sank to 35.1 from September's 37.9. Missouri's new-hiring index for October declined to 65.6 from September's 67.1. Missouri's Rural Mainstreet economy added jobs at a 1.7 percent pace over the past 12 months.

### NEBRASKA

The Nebraska RMI for October rose to 54.2 from 52.0 in September. The state's farmland-price index fell to 34.9 from last month's 37.6. Nebraska's new-hiring index increased to 64.5 from 64.2 in September. Nebraska's Rural Mainstreet economy added jobs at a 1.2 percent pace over the past 12 months.

### NORTH DAKOTA

The North Dakota RMI for October advanced to 53.9 from September's 50.5. The state's farmland-price index moved higher to 36.7 from 35.4 in October. The state's new-hiring index increased to 63.0 from 58.4 in September. North Dakota's Rural Mainstreet economy added jobs at a 1.7 percent pace over the past 12 months.

### SOUTH DAKOTA

The October RMI for South Dakota remained above growth neutral improving to 55.5 from September's 52.8. The state's farmland-price index declined to 35.4 from September's 38.0. South Dakota's new-hiring index bounced to 69.6 from 67.5 in September. South Dakota's Rural Mainstreet economy added jobs at a 2.8 percent pace over the past 12 months.

### WYOMING

The October RMI for Wyoming climbed to 56.3 from September's 53.5. The October farmland and ranchland-price index moved lower to 35.8 from September's 38.4. Wyoming's new-hiring index expanded to a very healthy 72.8 from 70.4 in September. Wyoming's Rural Mainstreet economy added jobs at a 3.8 percent pace over the past 12 months.

## THE BULLISH NEWS

- U.S. GDP expanded by 3.5% for Q3 of 2018. This compares very favorably to the 2.0% average since 2000.
- In October, the U.S. economy added 250,000 jobs, the unemployment rate stood at 3.7% and hourly wages increased by 3.1% from October of last year.

- Both Creighton's and the national surveys of manufacturers shows slower but still solid growth.

## THE BEARISH NEWS

- The U.S. trade deficit increased to \$54 billion in September. The trade gap with China widened to \$40.2 billion despite tariffs on Chinese goods into the U.S.
- The U.S. federal budget deficit rose in fiscal 2018 to the highest level in six years as spending climbed by \$127 billion and revenues climbed by \$14 billion.
- In August, annual home-price gains slid below 6% for the first time in a year to 5.8% (this is good news for some).

## WHAT TO WATCH

- **Consumer Price Index for October:** The U.S. Bureau of Labor Statistics will release the CPI for October on November 14. Year-over-year growth above 2.5% will be bearish for bonds and stocks.
- **Inverted yield:** Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently 30 basis points (0.30%), and too low from comfort.
- **Wage Data for July:** On December 9<sup>th</sup>, the U.S. Bureau of Labor Statistics will release wage data for November. Another year-over-year growth above 3.0% will be a strong inflation signal and push the Fed to raise short-term interest rates at their December 19 meeting.

## STATISTIC OF THE MONTH

- 23.4%. Weekly wages for U.S. high school dropouts have risen by 23.4% compared to 14.4% for college educated.

## THE OUTLOOK

### FROM GOSS:

- I expect **\*\***the Federal Reserve to raise rates on December 19 (0.25% or 25 basis points) 90% likelihood; **\*\***GDP growth to slow in the second half of 2018, but remain above 3.3% annualized. **\*\*\***annualized growth in the consumer price index (CPI) to exceed 2.6% in Q4, 2018.

### OTHER FORECASTS:

- **Conference Board (Oct. 10, 2018):** *"High Growth Environment Now, but Slowing Ahead."* "How long will business and consumer confidence remain strong? The Conference Board's Consumer Confidence Index remains at its highest level since 2000 and while our CEO Confidence Index declined in the third quarter, it remains solidly in positive territory. Strong sentiment and continued support from tax cuts will drive growth to 3.8 percent in the second half of the year and is helping to generate other positive signals. Labor markets show strong job growth and modestly accelerating wage growth. Profits reached record highs on a before- and after-tax basis in the second quarter and should remain elevated based on strong consumer demand. Growth

will encounter more headwinds in 2019 especially with the Federal Reserve set to raise interest rates three or four more times by the end of next year. Businesses with plans to invest can move those activities forward to take advantage of lower interest rates and still high consumer demand. The withdrawal of stimulus support and the effect of higher capital costs will lower GDP growth to 2.2 percent by the end of 2019."

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The Young Socialists of America chapter at Southern Illinois University launched a petition drive to make college tuition "free." According to the backers in a Tweet, "More jobs and more students means more money circulating the local economy." If anything, this drive makes the case for more economics classes and fewer classes in "Tree Climbing." At Cornell University, students can take a one-credit class in Tree Climbing which will "teach you how to get up into the canopy of any tree." I suppose this is the prerequisite for Cornell's "Getting Down from a Tree."

## BANKER READING ROOM

### S. 2155 | Regulatory Relief for Community Banks.

"The Economic Growth, Regulatory Relief and Consumer Protection Act is a carefully crafted bipartisan bill that includes common-sense improvements to the nation's financial rules that will allow community banks to better serve their customers and communities. It will open doors for more creditworthy borrowers and businesses, and it will contribute to local economic growth and job creation nationwide. Supported by thousands of community bankers and based on years of dedicated attention by ICBA, S. 2155 represents a significant breakthrough in regulatory relief for the nation's community banks."

<https://www.icba.org/news/press-releases/2018/09/10/media-advisory-icba-releases-s.2155-implementation-tracker>

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