THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

JANUARY 2021

Welcome to Creighton's January Bank CEO Report covering December survey results. December's overall reading from bank CEOs in 10 Rural Mainstreet States rose above growth neutral with improving farmland prices, and expanding farm equipment sales. Ernie

Punishing Success by Raising Taxes: Biden's Bite to Support Government Expansion

President-elect Biden has promised to raise taxes on high income individuals to fund his planned rapid decade-long expansion in federal spending. His approach calls for raising the top income tax rate from 37% to 39.6%, limiting deductions for top earners, and boosting the long-term capital gains tax rate for high earners from 20% to 39.6%.

Table 1 below lists the 10 states with current highest income tax rates on additional income. As presented, a California high wage earner, or self-employed, keeps only $35.85 of every $100 of additional income. Importantly, these rates do not account for other taxes paid primarily by higher income individuals such as capital gains taxes, and do not consider Biden's proposed cap on deductions for high income earners. The rates do include Medicare, and Social Security taxes.

Even before the Biden Bite, the top 5% of earners pay approximately 58% of federal income taxes. Likewise, the increase is ill-timed hitting earners in an economic downturn (i.e. a reverse stimulus). The Keynesians should be properly outraged, but don't count on witnessing it.

In addition to funding a plethora of new government programs, proponents of the Biden Bite argue that these tax hikes will reduce income inequality as measured by the Gini Coefficient. The Gini Coefficient measures income inequality with the coefficient varying from zero (least income inequality) to 1.00 (maximum income equality). Table 2 lists the ten states experiencing the greatest degree on income inequality.

Four states with the highest income inequality are ranked in the top 15 states in terms of income tax rates. Calculating the correlation between top tax rates and the Gini Coefficients for the 50 states and D.C. indicates only a slight association between tax rates and the Gini Coefficients. However, the association is opposite to that argued by the Biden proponents. That is, states with higher tax rates on higher earners experience greater income inequality, not less.

This essay is based on state income tax data presented indicate that increasing the tax rate on higher income has not and will not reduce income inequality, and in fact may increase income inequality. Taxing better educated higher earners will instead further burden high earners which discourages initiative, reduces the motivation to improve human capital via education, and incentivizes tax avoidance and/or tax evasion. Furthermore, raising taxes at this time, offsets some of the positive impacts of stimulating the economy with higher consumer spending fueled by Stimulus I and II.

Table 1: Top tax rates for highest earners (rates are for income tax rates only, and do not include other Biden increases such as capital gains)

	Current Top Income tax rate	Biden addition	New top tax rate
1. California	64.15%	2.60%	66.75%
2. Hawaii	61.85%	2.60%	64.45%
3. New Jersey	61.60%	2.60%	64.20%
4. Oregon	60.75%	2.60%	63.35%
5. Minnesota	60.70%	2.60%	63.30%
6. D.C.	59.80%	2.60%	62.40%
7. New York	59.67%	2.60%	62.27%
8. Vermont	59.60%	2.60%	62.20%
9. Iowa	59.38%	2.60%	61.98%
10. Wisconsin	58.50%	2.60%	61.10%

Notes: Iowa's income tax rate allows the deductibility of federal income taxes and is thus somewhat lower than that listed.

Table 2: Ten states with the greatest income inequality

State	Total Current top tax rate	2018 Gini coefficient
1. District of Columbia	59.80%	0.524
2. New York	59.67%	0.513
3. Connecticut	57.84%	0.501
4. Louisiana	56.85%	0.494
5. California	64.15%	0.491
6. New Mexico	55.75%	0.489
7. Florida	50.85%	0.489
8. Massachusetts	55.85%	0.488
9. Alabama	55.85%	0.486
10. Arkansas	57.45%	0.485

MAINSTREET RESULTS

Rural Mainstreet Farmland Prices Best Growth Since 2013: Farm Equipment Sales Highest Since June 2013

December Survey Results at a Glance:

- Overall index rose to its second highest reading in the past 10 months.
- For the first time since June 2013, the farm equipment sales index rose above growth neutral.
- For the first time since 2013, the farmland price index rose above growth neutral for three straight months.
- Bankers ranked water availability as the top 2021 farm economy issue; farm labor cost/availability was ranked as the second biggest 2021 issue or concern.
- Among ten 2021 farm concerns, farm income and farm liquidity were the two issues of least concern.
- Growth in agriculture income pulled farmer borrowing down for a second straight month.

Tables 3 and 4 summarize the survey findings. Next month's survey results will be released on the third Thursday of the month, January 21.

Rural Mainstreet, Economic Indicators, Jn. 2020 – Dec 2020 (50.0 = growth neutral)

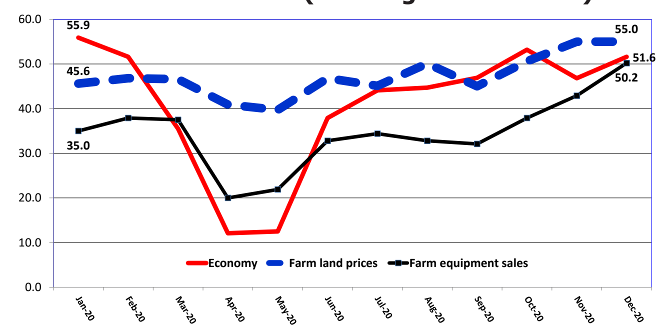

Table 3: Rural Mainstreet Economy Last 2 Months & One Year Ago: (index > 50 indicates expansion)	Dec.-19	Nov. - 20	Dec. - 20
Area economic index	49.1	46.8	51.6
Loan volume	50.0	25.8	43.8
Checking deposits	61.1	87.1	78.1
Certificates of deposit and savings instruments	50.0	46.8	42.2
Farmland prices	52.8	55.0	54.8
Farm equipment sales	27.9	42.9	50.1
Home sales	58.6	73.3	71.0
Hiring	60.0	53.2	50.0
Retail business	51.4	37.9	40.6
Confidence index (area economy six months out)	45.8	50.0	62.9

Table 4: Top 2021 concerns for farming economy (10= most important, 1=not important	
1. Water availability	7.4
2. Farm labor (cost and availability)	7.0
3. Third party financing	6.7
4. Land rents and land values	5.7
5. Uncertainty around tariffs and trade	5.3
6. Covid-19 and its economic impacts	4.9
7. Total leverage	4.5
8. Federal government financial support	4.4
9. Farm income levels	4.3
10. Farmer liquidity (working capital)	3.8

Source: Creighton's December 2020 Rural Mainstreet Survey

THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

JANUARY 2021

MAIN$TREET ON YOUR $TREET

For the second time in the past three months, the Creighton University Rural Mainstreet Index (RMI) climbed above growth neutral. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the index increased to its second highest level in the past 10 months.

Overall: The overall index for December rose to 51.6 from November's 46.8, but down from October's 53.2. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Recent improvements in agriculture commodity prices, federal farm support payments, and Federal Reserve's record low interest rates have underpinned the Rural Mainstreet Economy.

Farming and ranching: For a third straight month, the farmland price index advanced above growth neutral. The December reading was unchanged from November's solid 55.0. This is first time since 2013 that Creighton's survey has recorded three straight months of rising farmland prices.

The December farm equipment-sales index increased to 50.2, its highest level since June 2013, and up from 42.9 in November. After 86 straight months of readings below growth neutral, farm equipment bounced into growth territory for the month.

Banking: Bankers once again reported anemic loan volumes. The December loan volume index expanded to 43.7 from November's record low 25.8. The checking-deposit index dropped to 78.1 from November's record high 87.1, while the index for certificates of deposit, and other savings instruments fell to 42.2 from 46.8 in November.

Hiring: The new hiring index slipped to 50.0 from November's 53.2. Data from the U.S. Bureau of Labor Statistics indicate that nonfarm employment levels for the Rural Mainstreet economy are down by 95,000 (non-seasonally adjusted), or 2.2%, compared to pre-COVID-19 levels, and by 216,000, or 4.8%, from 12 months earlier.

It will take many months of above growth neutral readings to get back to pre-COVID-19 employment levels for the region.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, soared to 62.9 from November's 50.0. Federal farm support payments, improving gain prices, and advancing exports have supported confidence offsetting pessimism from the impact of the pandemic.

Home and retail sales: The home-sales index dipped to a still strong 71.0 from 73.3 in November. The retail-sales index for December increased to a frail 40.6 from 37.9 in November. Higher unemployment and business closures linked to Covid-19 continue to harm the region's retailers.

On the previous page, Table 3 presents indices for each factor, while Table 4 lists bankers top 2021 farming concerns with a 10 indicating most important, and a 1 indicating the least important issue or concern. As scored, bankers expect water availability to be the top 2021 farming issue, and farmer liquidity to be the least important concern. Not surprisingly, with strong 2020 farm income and farm commodity prices, farm financial conditions were of least concern for 2021 as judged by bank CEOS.

Bankers ranked farm labor cost and availability as the second most important 2021 farm concern or issue.

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.

Below are the state reports:

COLORADO

Colorado's Rural Mainstreet Index (RMI) for December improved to 42.9 from November's 40.0. The farmland and ranchland-price index slipped to 50.5 from 52.1 in November. Colorado's hiring index for December sank to 46.7 from November's 50.3. Over the past 12 months, Colorado's Rural Mainstreet economy has lost 7.4% of its nonfarm employment compared to a 3.8% loss for urban areas of the state.

ILLINOIS

The December RMI for Illinois increased to 51.5 from 50.2 in November. The farmland-price index slumped to 54.8 from November's 57.2. The state's new-hiring index sank to 51.0 from 55.5 in November. Over the past 12 months, Illinois' Rural Mainstreet economy has lost 5.3% of its nonfarm employment compared to a 7.1% loss for urban areas of the state.

IOWA

The December RMI for Iowa increased to 50.2 from November's 47.4. Iowa's farmland-price index rose to 54.1 from 53.4 in November. Iowa's new-hiring index for December fell to 50.3 from 54.0 in November. Over the past 12 months, Iowa's Rural Mainstreet economy has lost 5.0% of its nonfarm employment compared to a 4.5% loss for urban areas of the state.

KANSAS

The Kansas RMI for December increased to 52.7 from 52.2 in November. The state's farmland-price index sank 55.4 from November's 58.2. The new-hiring index for Kansas fell to 51.6 from 56.4 in November. Over the past 12 months, Kansas' Rural Mainstreet economy has lost 3.7% of its nonfarm employment compared to a 3.5% loss for urban areas of the state.

MINNESOTA

The December RMI for Minnesota slumped to 46.3 from November's 52.1. Minnesota's farmland-price index dropped to 52.2 from 54.4 in November. The new-hiring index for December fell to 48.3 from November's 52.7. Over the past 12 months, Minnesota's Rural Mainstreet economy has lost 6.6% of its nonfarm employment compared to a 6.2% loss for urban areas of the state.

MISSOURI

The December RMI for Missouri jumped to 60.3 from 57.3 in November while the farmland-price index dipped to 59.2 from 60.8. The state's hiring gauge declined to 55.4 from 59.0 in November. Over the past 12 months, Missouri's Rural Mainstreet economy has experienced an increase in the size of its nonfarm employment by 0.8%, compared to a 4.7% loss for urban areas of the state.

THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

JANUARY 2021

NEBRASKA

The Nebraska RMI for December jumped to 54.2 from 45.1 in November. The state's farmland-price index declined to 56.2 from last month's 58.7. Nebraska's new-hiring index fell to 52.3 from 56.9 in November. Over the past 12 months, Nebraska's Rural Mainstreet economy has lost 2.6% of its nonfarm employment compared to a 2.5% loss for urban areas of the state.

NORTH DAKOTA

The North Dakota RMI for November dropped to 36.8 from October's 42.7. The state's farmland-price index improved to 50.5 from 45.8 in October. The state's new-hiring index sank to 48.7 from October's 50.1. Over the past 12 months, North Dakota's Rural Mainstreet economy has lost 7.4% of its nonfarm employment compared to a 3.8% loss for urban areas of the state.

SOUTH DAKOTA

The December RMI for South Dakota advanced to 57.7 from 55.9 in November. The state's farmland-price index declined to 57.9 from November's 60.1. South Dakota's December hiring index sank to a solid 57.9 from 58.3 in November. Over the past 12 months, South Dakota's Rural Mainstreet economy has lost 1.3% of its nonfarm employment compared to a 4.4% loss for urban areas of the state.

WYOMING

The December RMI for Wyoming improved to 49.4 from November's 41.2. The December farmland and ranchland-price index fell to 53.8 from 56.1 in November. Wyoming's new-hiring index slumped to 49.9 from November's 54.3. Over the past 12 months, Wyoming's Rural Mainstreet economy has lost 4.3% of its nonfarm employment compared to a 4.7% loss for urban areas of the state.

THE BULLISH NEWS

- U.S. listed companies raised a record $167 billion in initial public offerings in 2020 exceeding the former record $107.9 billion in IPOs for 1999.
- The USDA said U.S. stockpiles of corn and soybeans would shrink to their lowest levels since 2014 and the average price for corn and soybeans this marketing year would be the highest since 2013-14.
- The latest Purchasing Management Indices (PMI) for both ISM's national survey and Creighton's Mid-America were in a range indicating healthy manufacturing growth.
- According to the Case-Shiller national home price index expanded at an annual pace of 7.9% in October.

THE BEARISH NEWS

- For the first time in eight months, the U.S. lost jobs, shedding 140,000 non-farm jobs in December as the unemployment rate remained steady at 6.7%
- Since August 2020, the yield on the 10-year U.S. Treasury bond has risen by almost 60 basis points (0.6%). Two factors account for this: higher expected inflation, and lower risk.
- Green energy euphoria has truly set investors up for heartbreak in 2021. For example, Tesla stock is now selling for 1,000 times earnings (i.e. a rate-of-return of 0.001 or 0.1%)
- The U.S. trade deficit climbed to its highest level since 2006. The U.S. budget deficit soared to $572 billion in the first quarter of the fiscal year
-

THE OUTLOOK

Fed Outlook (as shared by Pacific Financial Planners): "The Federal Reserve on Wednesday concluded its last meeting of the Federal Open Market Committee for 2020. Fed officials provided more detail for its monthly bond purchase program and reiterated their commitment to a monthly purchase of $120 billion of Treasury and mortgage-back securities until its inflation and employment goals are met. The Federal Reserve also raised its outlook on the U.S. economy. It revised its September forecast of a 3.7% decline in GDP in 2020 to a 2.4% decline, and increased its 2021 GDP growth forecast from 4.0% to 4.2%. It also expects unemployment at 2020 year-end would fall to 6.7%, substantially lower than its earlier estimate of 7.6%.

"Goss (2021): **The yield on U.S. long-term Treasury bonds, along with mortgage rates, to climb by another ¼ % (25 basis points) by the end of Q1, 2021. **The January job additions will likely be disappointing. **Annualized and seasonally adjusted Q4 2020 GDP growth will range between 1% to 2%.

KEEP AN EYE ON

- **U.S. Retail Sales report.** On Jan. 15 and Feb. 17, the U.S. Census Bureau releases retail and food services sales for December and January, respectively. Look for weaker reports to signal a buying pullback by the U.S. consumer
- **U.S. Jobs Report.** On February 5, the U.S. Bureau of Labor Statistics releases its job numbers for January. Another disappointing report would encourage Congress to expand economic stimulus programs.
- **Creighton's Rural Mainstreet report.** On January 21st, Creighton releases its January survey results of bank CEOs in rural areas of 10 states in the Rocky Mountains and Plains states. Growth in the rural economy has been solid and improving.
- **Yield on 10-year U.S. Treasury bond.** Contemporaneous @ finance.yahoo.com. As inflation expectations rise, so will this yield. A better measure of future infloation than CPI.

STATISTIC OF THE MONTH

$120 billion. At their December meeting, the Federal Reserve's Open Market Committee reaffirmed its commitment to purchase $120 billion in U.S. Treasury bonds and mortgage-backed securities. What does this mean for you? This commits the Fed to inject $120 billion per month into the U.S. economy. This tends to increase the U.S. money supply, reduce the value of the U.S. dollar, hold interest rates down, and stimulate inflation.

GOSS EGGS
(Recent Dumb Economic Moves)

Buyers of Special Purpose Acquisition Companies (SPAC) have not been bitten yet, but they need to beware of elevated risks in 2021. SPACs raised more capital in 2020 than in the previous 10 years. Michael Klausner, a Stanford law professor found that between January 2019 and June 2020, SPACs lost 12% of their value within six months of finding a private firm to take public. The bubble is likely to burst in 2021 as investors learn the truth about SPACs.

BANKER READING ROOM

ICBA pushes PPP expense deductibility "ICBA and more than 500 other groups called on Congress to pass a technical correction amending the CARES Act to explicitly provide that PPP loan-forgiveness funds that cover business expenses are tax deductible. In a joint letter, the groups said that while the CARES Act states that any portion of a PPP loan that qualified for loan forgiveness "shall be excluded from gross income" for tax purposes, the IRS determined that no deduction is allowed. The IRS ruling transforms tax-free loan forgiveness into taxable income, raising the specter of a surprise tax increase of up to 37 percent on small businesses, the groups said. ICBA has repeatedly urged Congress to pass the Small Business Expense Protection Act (S. 3612/H.R. 6821) to make the correction."

FOLLOW ERNIE

Follow Ernie Goss on Twitter www.twitter.com/erniegoss

For historical data and forecasts, visit our website at: www.creighton.edu/economicoutlook/newsletter/

For ongoing commentary on recent economic developments, visit our blog at: www.economictrends.blogspot.com