

Welcome to Creighton's July Bank CEO Report covering June survey results. June's overall reading from bank CEOs in 10 Rural Mainstreet States declined below growth neutral for the first time since September 2020 with very healthy farmland prices, and expanding farm equipment sales. Ernie

California Punishes High Income Earners: Iowa Leads, California Follows in Tax Competitiveness

In a 2022 ballot initiative, California progressives are pushing for passage of their deceptively entitled *Clear Cars and Clear Air Act* in what represents a race to the bottom in economic performance, but to the ceiling in higher income taxes. The initiative raises the state's top income tax rate by 1.75% to a non-competitive 15.1%, surpassing New York City's 14.8%. Despite a \$100 billion 2022 state budget surplus, supporters of the \$3.0 billion - \$4.5 billion tax boost plan to use 80% of the booty to subsidize zero emission vehicles in the state.

Passage of the 2017 federal tax reform bill, which limited the deduction of state and local taxes on federal income returns to \$10,000, made these California and New York taxes prohibitively high and incentivized the migration of individuals from high to low-income tax rate states.

For example, the year after passage of the 2017 federal tax reform bill, real estate mogul, Barry Sternlicht, enhanced his net after tax income, and suntan, by moving operations of his Starwood Capital from high-tax Greenwich, Connecticut to no-tax Miami Beach, Florida. Likewise, Elon Musk, CEO of Tesla, moved company headquarters from high-tax California to no-tax Texas. Contrary to California, other states wasted no time in lowering income tax rates to hold on to workers, and/or encourage entrepreneurs to locate in their states. In the 2022 Iowa legislative session, Governor Kim Reynolds, and the Iowa Legislature, took the bold step of reducing the state's income tax to a flat rate of 3.9%, thus joining 10 other states with some form of flat rate income tax.

For 2021, the 10 highest income tax states, and their top rates were: *California 13.3%, Hawaii 11.0%, New Jersey 10.75%, Oregon 9.9%, Minnesota 9.85%, *District of Columbia 8.95%, New York 8.82%, Vermont 8.75%, Iowa 8.53% and Wisconsin 7.65%. How did these states perform economically compared to all states, and to no-income tax states? Data since passage of the 2017 federal tax reform and 2021 support the wisdom of lowering, not raising the top income tax rate. GDP growth numbers and migration numbers are listed in Table 1. The data show a clear economic advantage for states with a lower top income tax rate.

Table 1: GDP growth rates & net migration according to income tax rates

	Median GDP growth, 2017-21	Median net domestic rates, 2019-21
10 high income tax rate states	+5.0%	-0.35%
9 no income tax states	+7.7%	+0.68%
31 remaining states & D.C.	+5.2%	+0.14%

Sources: U.S. BEA and U.S. Census

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MAINSTREET RESULTS

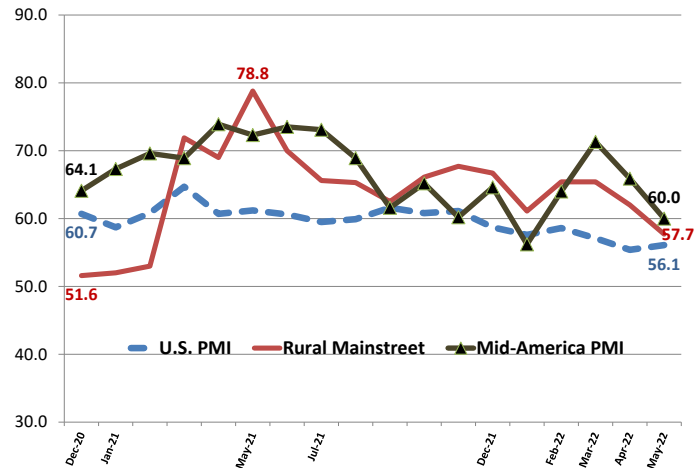
June Rural Mainstreet Economic Index Falls Below Growth Neutral: Recession Risk Above 50%

June Survey Results at a Glance:

- The overall index fell below growth neutral for the first time since September 2020.
- More than 9 of 10 bankers ranked recession risk above 50%.
- On average, bank CEOs expect net farm income for grain farmers to be 12.6% above 2021 levels.
- The region's farmland price index moved higher marking the 21st straight month that the index has moved above growth neutral.
- Escalating costs of farm inputs pushed borrowing up to its highest reading since May 2019.

Tables 2 and 3 summarize the survey findings.

Leading Economic Indicators, last 18 months (50.0 = Growth Neutral)



	June - 21	May 2022	June 2022
Area economic index	70.0	57.7	49.8
Loan volume	54.9	73.0	78.5
Checking deposits	70.0	54.0	57.4
Certificates of deposit and savings instruments	35.0	38.0	35.2
Farmland prices	75.9	72.0	76.8
Farm equipment sales	71.6	66.9	71.4
Home sales	78.3	61.5	55.4
Hiring	71.7	61.5	57.4
Retail business	70.0	50.0	48.2
Confidence index (area economy six months out)	71.7	40.4	33.9

What is the likelihood of a U.S. recession, in the next 12 months?	Percentage of bankers reporting				
	0% to 19%	20% to 49%	50% to 74%	More than 75%	
	0.0%	7.1%	50.0%	42.9%	
Compared to 12 months ago, net farm income for grain farmers in your area will be:	Percentage of bankers reporting				
	Down	Up 0% to 4%	Up 5% to 9%	Up 10% to 20%	Up More than 20%
	0.0%	14.2%	28.6%	39.3%	17.9%

MAINSTREET ON YOUR STREET

The Creighton University Rural Mainstreet Index (RMI) fell from May's solid reading sinking below growth neutral for the first time since September 2020 according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The region's overall reading for June slumped to 49.8, its lowest level since September 2020, and down from May's 57.7. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

This month, bankers were asked their U.S. recession expectations for the next 12 months. Approximately 92.9% rate the likelihood of a U.S. recession above 50%. Only 7.1% rated a recession probability below 50%.

Much like the nation, the growth in the Rural Mainstreet economy is slowing. Supply chain disruptions from transportation bottlenecks and labor shortages continue to constrain growth. Farmers and bankers are bracing for escalating interest rates — both long-term and short-term.

Jon Schmaderer, CEO of Tri-County Bank in Stuart, Neb. reported that, "Fuel prices are starting to have a severe negative impact on rural Nebraska."

Farming and ranching: The region's farmland price index for June advanced to 76.8 from May's 72.0, marking the 21st straight month that the index has moved above growth neutral. Over the past several months, the Creighton survey has registered the most consistent and strongest growth in farmland prices since the survey was launched in 2006.

So far in June, Peoples Company Appraisal Team tracked 32 cropland auctions across 17 Iowa counties. In total, 4,305 acres of cropland sold in auctions for \$57.8 million, or an average of \$13,426 per acre.

On average in June, bank CEOs expect 2022 net farm income for grain farmers to be 12.6% above 2021 levels.

Jim Eckert, president of Anchor State Bank in Anchor, Illinois, reported that "In our area all crops are planted and looking good, but are behind other years due to cool weather and insufficient rains."

Farm equipment sales: The June farm equipment-sales index climbed to 71.4 from May's healthy 66.9. This was the 19th straight month that the index has advanced above growth neutral. Readings over the past several months are the strongest string of monthly readings recorded since the beginning of the survey in 2006.

Banking: The June loan volume index rose to 78.5, its highest reading since May 2019, from last month's 73.0. The checking-deposit index increased to 57.4 from May's 54.0, while the index for certificates of deposit and other savings instruments sank to 35.2 from 38.0 in May. Escalating costs of farm inputs pushed borrowing up to its highest reading since May 2019.

Hiring: The new hiring index fell to 57.4 from 61.5 in May. Labor shortages continue to be a significant issue constraining growth for Rural Mainstreet businesses. Despite labor shortages, Rural Mainstreet expanded non-farm employment by 2.6% over the past 12 months. This compares to a faster 3.3% for urban areas of the same ten states for the same period of time.

Confidence: Surging energy prices, and rocketing agriculture input prices constrained the business confidence index to 33.9, its lowest level since May 2020. This marks the lowest back-to-back readings since the beginning of the pandemic in April and May of 2020.

Home and retail sales: The home-sales index dropped to a solid 55.4 from May's 61.5. The retail-sales index for June sank to 48.2 from May's growth-neutral 50.0. Rising energy prices and higher interest rates reduced home and retail sales on Rural Mainstreet.

The survey represents an early snapshot of the economy of rural agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It provides 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 and launched it in January 2006.

Below are the state reports:

Colorado: Colorado's Rural Mainstreet Index for June sank to 59.4 from May's 72.8. The farmland- and ranchland-price index climbed to 82.3 from 79.5 in May. Colorado's hiring index for June declined to 64.4 from 70.4 in May. Over the past 12 months, Colorado's Rural Mainstreet Economy experienced a 4.5% increase in non-farm employment while urban areas in the state gained 4.8% in non-farm employment.

Illinois: The June RMI for Illinois plummeted to 47.5 from 68.9 in May. The farmland-price index moved down to 77.2 from 78.1 in May. The state's new-hiring index decreased to 58.1 from May's 68.5. Over the past 12 months, Illinois' Rural Mainstreet Economy experienced a 2.7% increase in non-farm employment while urban areas in the state gained 4.4% in non-farm employment.

Iowa: The June RMI for Iowa slumped to 49.1 from 56.7 in May. Iowa's farmland-price index climbed to 77.9 from May's 71.0. Iowa's new-hiring index for June fell to 59.0 from May's 69.8. Over the past 12 months, Iowa's Rural Mainstreet Economy experienced a 2.8% increase in non-farm employment while urban areas in the state gained 2.1% in non-farm employment.

Kansas: The Kansas RMI for June sank to 42.0 from May's 54.4. The state's farmland-price index rose to 74.9 from May's 69.4. The new-hiring index for Kansas dropped to 57.8 from 60.1 in May. Over the past 12 months, Kansas's Rural Mainstreet Economy experienced a 1.2% increase in non-farm employment, while urban areas in the state gained 2.0% in non-farm employment.

Minnesota: The RMI for Minnesota sank to a regional low 39.3 from 49.4 in May. Minnesota's farmland-price index climbed to 73.8 from May's 70.7. The new-hiring index for June declined to 53.8 from May's 59.4. Over the past 12 months, Minnesota's Rural Mainstreet Economy experienced a 0.8% loss in non-farm employment, while urban areas in the state gained 2.8% in non-farm employment.

Missouri: The June RMI for Missouri decreased to a regional-high 78.0 from 91.0 in May. The farmland-price index increased to 90.2 from 86.4 in May. The state's hiring gauge decreased to 74.1 from 78.8 in May. Over the past 12 months, Missouri's Rural Mainstreet Economy experienced an 8.0% gain in non-farm employment while urban areas in the state gained 1.8% in non-farm employment.

Nebraska: The Nebraska RMI for June dropped to 54.1 from May's 59.7. The state's farmland-price index rose to 80.0 from last month's 74.6. Nebraska's new-hiring index sank to 61.6 from 64.2 in May. Over the past 12 months, Nebraska's Rural Mainstreet Economy experienced a 3.5% gain in non-farm employment while urban areas in the state gained a 2.1% in non-farm employment.

North Dakota: The North Dakota RMI for June sank to 58.0 from 60.8 in May. The state's farmland-price index expanded to 81.7 from 75.0 in May. The state's new-hiring index dropped to 63.6 from May's 64.8. Over the past 12 months, North Dakota's Rural Mainstreet Economy experienced a 5.5% gain in non-farm employment while urban areas in the state gained a 1.8% in non-farm employment.

South Dakota: The June RMI for South Dakota slumped to 42.5 from May's 52.3. The state's farmland-price index advanced to 75.1 from 70.4 in May. South Dakota's June hiring index dropped to 55.5 from 59.0 in May. Over the past 12 months, South Dakota's Rural Mainstreet Economy experienced a 1.0% gain in non-farm employment, while urban areas in the state gained a 2.5% in non-farm employment.

Wyoming: The June RMI for Wyoming declined to 52.0 from 59.0 in May. The June farmland- and ranchland-price index decreased to 72.3 from May's 74.3. Wyoming's new-hiring index declined to 60.5 from May's 63.9. Over the past 12 months, Wyoming's Rural Mainstreet Economy experienced a 3.6% gain in non-farm employment, while urban areas in the state gained a 2.0% in non-farm employment.

KEEP AN EYE ON

- On July 28, the U.S. Bureau of Economic Analysis releases its overall growth estimate for Q2, 2022. Another negative like Q1, 2022 would likely push the National Bureau of Economic Analysis to announce the U.S. is officially in a recession.
- **Consumer Price Index.** On August 10, the U.S. Bureau of Labor Statistics releases the CPI for the month of July. The inflation gauge is expected to continue to weaken to a still too high 7.0% by the end of Q4, 2022 (year-over-year). Anything higher than that will be bad for bonds.
- **Yield on 10-Year U.S. Treasury Bond.** Available continuously at <https://finance.yahoo.com/> Current yield of 3.01%, same as one month earlier and up from 1.36% one year earlier. Historically, as inflation ticks upward, the yield will move higher. But as the likelihood of a recession rises, the yield will fall.

STATISTIC(S) OF THE MONTH

8th The latest American Customer Satisfaction Survey found that Chick-fil-A remains America's favorite restaurant for the 8th year in a row. "Progressives made Chick-fil-A a boycott target over the chain's support for conservative cultural causes. Its stores are closed on Sundays, and former company president Dan Cathy was vocal in supporting groups that opposed same-sex marriage. The company has muted its participation in cultural politics in recent years, focusing on, well, chicken. At least dinner hasn't been ruined by politics."

THE BULLISH NEWS

- Total nonfarm payroll employment rose by 372,000 in June, and the unemployment rate remained at 3.6%. Gains were significant in professional services, leisure & hospitality, and health care.
- In May there were 11.25 million job openings with 5.95 million unemployed. Thus, there are 1.9 job openings for every unemployed worker.
- The U.S. trade deficit hit a 2022 low in May as imports rose by 0.6%, but exports climbed an even more impressive 1.2% (a record high).

THE BEARISH NEWS

- In June, 2.1 million workers (up from 1.8 million in May) reported that they had been unable to work because their employer closed or lost business due to the pandemic.
- In June, 610,000 persons (up from 455,000 in May) reported that the pandemic prevented them from looking for work.
- In June, average hourly earnings rose by \$0.10 to \$32.08, or 5.1% over the past 12 and well below the inflation rate of 8.6%.
- The nation's housing affordability index for May fell to its lowest level since July 2006.

THE OUTLOOK

Atlanta Federal Reserve GDP Now. July 7, 2022. The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2022 is -1.9% on July 7, up from -2.1% on July 1. After this week's releases from the Institute for Supply Management, the US Census Bureau, and the US Bureau of Economic Analysis, the nowcasts of second-quarter real personal consumption expenditures growth and real gross private domestic investment growth increased from 0.8% and -15.1%, respectively, to 1.3% and -14.9%, respectively, while the nowcast of the contribution of the change in real net exports to second-quarter GDP growth decreased from 0.38 percentage points to 0.21 percentage points.

GOSS (July 2022): I expect ***the inflation rate to cool in the third quarter of 2022. However, the YOY rate will remain above 7.0%. ***Monthly job additions to fall below 100,000 in Q3 2022. ***The average 30-year mortgage rate to rise from its current value 5.34% to 6.0% by the end of Q3, 2022. ***The prime interest rate to rise from current 4.75% to 5.25% by October 1, 2022.

BANKER READING ROOM

“FDIC Can Rule on Golden Parachutes for Bank Execs, Court Says,” July 5, 2022. “The FDIC can determine whether severance payments to former executives at troubled banks are “golden parachutes” even if the payouts are being disputed by the parties, a federal appeals court ruled. The U.S. Court of Appeals for the D.C. Circuit on Tuesday overturned a lower court ruling that the Federal Deposit Insurance Corp. lacked the authority to determine whether payments to a pair of executives at a bank that ran into trouble during the 2008 financial crisis were excessive.” <https://tinyurl.com/3pm8bzrd>

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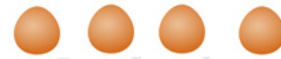
For ongoing commentary on recent economic developments, visit our blog at: <http://www.economicstrends.blogspot.com/>

Goss monthly interview at: <https://bit.ly/MidAmericaBCIMarch2022YouTube>

Next month’s survey results will be released on the third Thursday of the month, July 21, 2022.

GOSS EGGS (Recent Dumb Economic Moves)

President Biden recently promised to continue the policy of Federal Reserve independence. But last week, he endorsed a House bill that would add racial equity to the Fed’s dual mandate of price stability and full employment. The Federal Reserve has plenty of difficulty with only two mandates. Adding another mandate would politicize the Fed and, render it ineffective at managing monetary policy. **4 of 5 Goss Eggs.**



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