THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

January 2018

Who Benefits from 2017 Tax Reform? Workers Gain More from Rapidly Expanding Economy

Republicans argue that implementation of the recently passed tax reform bill will stimulate eco-nomic growth which will benefit the middle class, primarily by boosting wages and salaries. Democrats, on the other hand, contend that the benefits of any growth will flow mainly to the "rich" via higher corpo-rate profits. Does empirical data support the Republican or Democrat position assuming that the package, as advertised, raises GDP growth from 2016's 2.1% to 3.1%, or even 4.1%.

In 2016, the U.S. economy ended the slowest eight years of economic growth since the end of the Truman Administration in 1952. During this period of slow GDP growth, wages and salaries as a share of GDP dropped from 44.5% to 43.5%, but profits as a percentage of GDP climbed from 9.4% to 11.5%. Thus, superficially, slow growth had more of a negative impact on workers via lower wage and salary growth.

In the accompanying table are listed GDP, wage & salary, and profit growth from 1947 to 2016. During this period, when GDP growth moved from an average of 2.4% to 4.6%, wage and salary growth advanced from 4.1% to 8.2%, but profit growth fell from 6.4% to 5.1%. Calculating correlation coeffi-cients for the data indicate a clear positive correlation between growth rates of GDP and wages & salaries (+0.74), but a negative association between growth rates of GDP and profits (-0.29). Theoretically, this empirical finding is consistent with the likelihood that businesses are required to bid up wages during pe-riods of rapid growth with the result of lower profits. To quote British economist David Ricardo, "There can be no rise in the value of labour without a fall of profits." Ernie Goss.

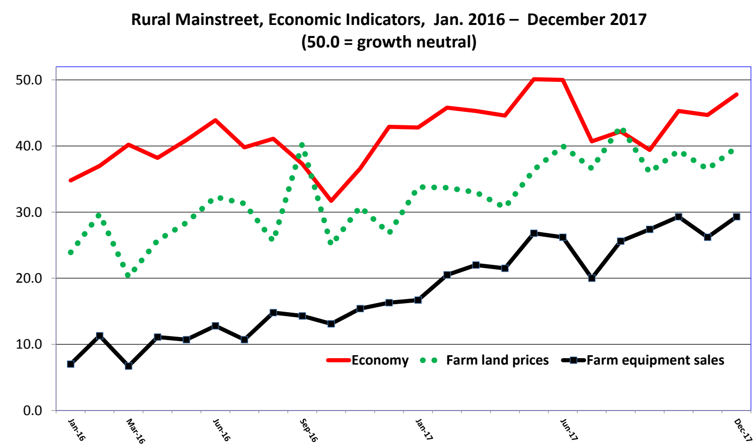
	Compound annual growth		
	Inflation adjusted	Not inflation adjusted	
Time period	GDP	Wages & salaries	Profits
1947-52	4.8%	8.6%	4.8%
1953-60	2.7%	4.6%	3.2%
1961-70	4.5%	7.8%	5.4%
1971-80	3.2%	10.0%	12.3%
1981-90	3.4%	6.8%	4.3%
1991-2000	3.8%	6.2%	6.3%
2001-2008	2.3%	4.0%	10.4%
2009-16	2.1%	3.7%	5.6%
Below 3% GDP growth	2.4%	4.1%	6.4%
3% - 4% GDP growth	3.5%	7.7%	7.7%
Above 4% GDP growth	4.6%	8.2%	5.1%

Rural Mainstreet Index Improves for December: Retail Sales Soar to Highest December Reading Since 2014

Table 1: The Mainstreet Economy	Dec 2016	Nov 2017	Dec 2017
Area Economic Index	36.6	45.3	44.7
Loan volume	52.4	67.9	49.1
Checking deposits	67.1	54.8	59.4
Certificate of deposits	46.4	44.1	44.8
Farm land prices	30.8	39.3	36.5
Farm equipment area sales	15.4	29.3	26.2
Home sales	58.8	52.5	56.6
Hiring in the area	52.5	57.3	57.6
Retail Business	37.8	39.3	40.7

Survey Results at a Glance:

- The overall index expanded from November's weak reading, but remained below growth neutral. Over the past year, the overall index is up by 11 percent.
- Retail sales unexpectedly soared for the month.
- Bankers reported an average yearly cash rent per acre of $205 which is down by approximately 10 percent from two years earlier.
- Only slightly more than one-fifth, or 20.4 percent, of bankers reported that their local economy was expanding.
- Approximately one in three bankers reported a decline in bank-financed farmland purchases over the past two to five years. This continues a downward trend in bank-financed farmland purchases.



The Creighton University Rural Mainstreet Index dipped from October's weak and remained below growth neutral, according to the latest monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, like all indices in the survey, ranges between 0 and 100 with 50.0 representing growth neutral, expanded to 47.8 from 44.7 in November. While the overall index remained below growth neutral, it is up approximately 11.4 percent from December, 2016.

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While the overall Rural Mainstreet Index (RMI) for December remained below growth neutral, this is the highest December reading that we have recorded since 2014. Clearly, based on our recent surveys, the negatives are getting less negative.

Only one-fifth, or 20.4 percent, of bank CEOs reported that their local economy was expanding. While this indicator remains bearish, it is well up from the 8.7 percent reporting an expanding local economy in February 2016.

Farming and ranching: The farmland and ranchland-price index for December rose to 39.8 from 36.5 in November. This is the 49th straight month the index has fallen below growth neutral 50.0.

The December farm equipment-sales index improved to 29.3 from November's 26.2. This marks the 52nd consecutive month the reading has dropped below growth neutral, 50.0.

Bankers reported an average yearly cash rent per acre of $205 which is down by approximately 10 percent over the past two years.

Banking: Borrowing by farmers climbed for December as the loan-volume index stood at 67.1, up from November's 49.1. The checking-deposit index fell to 47.8 from November's 59.4, while the index for cer-tificates of deposit and other savings instruments slumped to 42.1 from 44.8 in November.

Approximately one in three bankers reported a decline in bank financed farmland purchases over the past two to five years. This continues a downward trend in bank-financed farmland purchases.

Hiring: The employment gauge climbed to 59.6 from November's 57.6. Rural Mainstreet businesses not linked to [redacted]

Confidence: The confidence index, which reflects expectations for the economy six months out, in-creased to 51.2 from 40.6 in November, indicating an improvement in the economic outlook among bank-ers. Concerns about trade, especially current NAFTA negotiations, and low agriculture commodity prices continue to restrain bankers' economic outlook.

Home and retail sales: The home-sales index moved lower for the Rural Mainstreet economy for De-cember, falling to a solid 53.5 from November's 56.6. The December retail-sales index improved signifi-cantly to 52.4 from 40.7 in November. This is the highest December retail index recorded since 2014.

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. The survey is supported by a grant from Security State Bank in Ansley, Neb.

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.

COLORADO
Colorado's Rural Mainstreet Index (RMI) jumped to 50.3 from 44.8 in November. The farmland and ranchland-price index fell to 40.5 from November's 49.5. Colorado's hiring index for December climbed to 64.9 from November's 58.0.

ILLINOIS
The December RMI for Illinois advanced to 46.7 from 44.8 in November. The farmland-price index rose to 39.9 from 36.5 in November. The state's new-hiring index slipped to a healthy 57.5 from last month's 58.1.

IOWA
The December RMI for Iowa rose to 48.0 from 45.1 in November. Iowa's farmland-price index for December increased to 39.8 from November's 36.6. Iowa's new-hiring index for December expanded to 60.0 from November's 58.7.

KANSAS
The Kansas RMI for December climbed to 43.3 from November's 39.2. The state's farmland-price index increased to 38.4 from 34.8 in November. The new-hiring index for Kansas rose to 50.7 from November's 46.8.

MINNESOTA
The December RMI for Minnesota expanded to 45.4 from 44.2 in November. Minnesota's farmland-price index climbed to [redacted]

MISSOURI
The December RMI for Missouri declined to 55.4 from 56.8 in November. The farmland-price index slipped to 40.1 from 40.9 in November. Missouri's new-hiring index soared to 78.0 from 61.2 in November.

NEBRASKA
The Nebraska RMI for December advanced to 48.3 from November's 45.6. The state's farmland-price index dipped to 35.8 from last month's 36.8. Nebraska's new-hiring index stood at a strong 60.6, up from 59.6 in November.

NORTH DAKOTA
The North Dakota RMI for December increased to 52.2 from November's 50.5. The state's farmland-price index moved higher to 41.1 from 38.2 in November. North Dakota's new-hiring index dipped to 68.4 from 69.3 in November.

SOUTH DAKOTA
The December RMI for South Dakota increased to 41.2 from 39.6 in November. The state's farmland-price index climbed to 37.8 from 35.0 in November. South Dakota's new-hiring index slumped to 46.5 from November's 47.7.

[redacted]
November. The December farmland and ranchland-price index jumped to 39.1 from 36.0 in November. Wyoming's new-hiring index climbed to 55.5 from November's 54.2.

- The U.S. non-farm payroll expanded by 148,000 in December and the unemployment rate remained at 4.1%, a 16-year low.

- From December 2016 to December 2017, average hourly wages grew by 2.5% to $26.63 per hour. Not great, but trending a bit higher.

- Passage of a tax reform bill, low interest rates and an expanding global economy pushed the Dow Jones Industrial average over 25000 for the first time ever.

THE BEARISH NEWS

- Driven by a rapidly improving global economy, crude oil prices surged to a 3-year high in January.

- Business loan growth fell to its lowest level since the 2008-09 financial crisis.

- NAFTA negotiations are currently on hold. A new agreement needs to be approved and soon. While Canada and Mexico may benefit more from NAFTA, the U.S. has also been a big winner. Trade is not a zero-sum endeavor.

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for January on . An annualized increase above 2.5% will be bullish for stock prices and bearish for bond prices (rising yields, falling prices).

- **GDP Growth**: On January 26, the U.S. Bureau of Economic Analysis releases Gross Domestic Product growth for Q4 of 2017. For the first time since 2004-05, the nation's economy likely expanded by more than 3.0%. Good for stocks, bearish for bonds.

- **Home Price. On the last Tuesday of the month, January 30**: S&P Corelogic will release its Case-Shiller home price index for November. Home prices have been rising by over 5.0% (annualized) since November 2015. Air will continue to inflate this bubble.

FROM GOSS:

- I expect **four more Federal Reserve rate hikes by the end of 2018 (1.0% or 100 basis points); **the nation's consumer prices to expand by 2.8% in 2018; wage growth to pick up in 2018 with hourly wages growing by 3.2% in 2018. ***the nation's trade deficit to worsen for all of 2018. A rapidly expanding U.S. economy boosts imports more than exports.

OTHER FORECASTS:

- **The Conference Board January 2017:** ""The passage of tax plans through both houses of Congress means that some form of fiscal stimulus is likely to arrive early in 2018. Business confidence is already high, so an additional acceleration in investment is possible. Because the economy is already operating near full capacity and the plan creates large new debt obligations, the Federal Reserve is likely to tighten monetary policy more quickly, muting both the short- and long-term effects of the tax measures on the economy."

- **Travel to Mars in Elon Musk's spaceship**. I think not!! Tesla investors boosted Tesla's share price by 47.0% in 2017 despite the firm losing money every year since incorporation in 2003. Tesla's market value of $53 billion exceeds rival Ford Motor Company disregarding the fact that last year Ford earned $1.10 per share and Tesla lost $8.66. Tesla investors apparently see in CEO Musk a Henry Ford, or Alan Shepard. In reality, he is more of 21st Century Harold Hill.

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This month's survey results will be released on the third Thursday of the month, January 18th.